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MARKET SIGHT LINES

First Quarter Earnings Season: Insights Into Forward Guidance

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2024 has started off on a positive note, fueled by optimism around the potential for artificial intelligence. The economy remains strong, and year-to-date equity market performance has been good. But given sticky inflation and the prospect of higher interest rates for longer, we're watching for a slowdown. Earnings season, where companies report results for the previous quarter, provides views into recent results and company management's forward guidance, or view, as we look forward. In this week's Sight|Lines, we share a brief update as the first quarter 2024 earnings season begins.

THE TAKEAWAY: EARNINGS FORECASTS HAVE FALLEN BUT REMAIN POSITIVE

Optimism is focused on the "Magnificent Seven" (M7) – Google parent Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla – but we're seeing mixed results there and in the broader market. In summary:

- First quarter results are expected to be better for the M7, but the remaining companies in the S&P 500 are expected to show an overall year-over-year earnings decline in the first quarter.
- These first quarter results are influencing the full-year estimates positively for the M7 and negatively for the rest of the S&P 500.
- 21% of the financials sector has reported so far, with results mixed but better than expected, influenced by improved investment banking and trading revenue.
- One notable member of the financials sector, JPMorgan, reported positive results but more muted forward guidance.
- M7 members Tesla and Apple, expected to report earnings on April 23 and May 2, respectively, have had negative 2024 share price performance in the wake of mixed-to-negative news.

IN-DEPTH: SINCE THE BEGINNING OF THE YEAR, S&P 500 EARNINGS FORECASTS HAVE FALLEN SOME, BUT REMAIN POSITIVE

The emergence of artificial intelligence has boosted optimism on the M7, but looking beyond those seven companies, results are expected to be weaker than originally forecasted by analysts. Going deeper:

- First quarter earnings growth results are expected to be mixed, with the S&P 500 companies beyond the M7 turning into negative territory. The first quarter earnings growth (year over year) for:
    - The S&P 500 is now forecast to be 1.0%, compared to 5.5% as we started the year;
    - The M7 is now forecast to be 35.9%, up from an estimate of 29.2%; and
    - The S&P 500, excluding the M7, is -5.1%, compared to 1.4% as we started 2024.
- These first quarter results are influencing the estimates for full-year 2024 results. The 2024 earnings growth (year over year) for:
    - The S&P 500 is now forecast to be 10.2%, compared to 10.8% at the start of the year;
    - The M7 is now forecast to be 23.6%, up from an estimate of 17.8%; and
    - The S&P 500, excluding the M7, is 7.2%, compared to 9.2% as we began 2024.
- 21% of the financials sector has reported so far, with results mixed but better than expected. For example:
    - JPMorgan, Citigroup, and Wells Fargo each reported lower net interest income, but with improvements in investment banking and trading results, earnings increased.
    - Loan balances fell in each case, indicating the potential for the need to lower interest rates to spur loan demand, which may put more downward pressure on net interest income.
    - JPMorgan's essentially unchanged guidance for net interest income (NII) appeared to disappoint investors, some of whom expected it to rise.
- M7 members Tesla and Apple will report over the coming couple of weeks, and each has had negative 2024 share price performance:
    - With Tesla, shares have declined 37% this year, as EV car sales have slowed and the company announced it will lay off about 10% of its workforce.
    - With Apple, shares are down 12% year to date, as iPhone sales slow and its car project was canceled. Investors are waiting for the potential announcement of its artificial intelligence strategy later this year.

CONCLUSION

Optimism around the potential for artificial intelligence has fueled a strong start to 2024, with the economy growing and year-to-date equity market performance quite positive. But given the prospect of higher interest rates for longer, we're watching for a slowdown, and first quarter earnings season will provide insights related to the forward guidance from corporate executive leadership and any evidence of a slowdown.

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