

# 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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