MARKET MINUTE
WITH McGAREL

Dave McGarel, CFA, CPA
Chief Investment Officer

April 2024

In a market that has been driven significantly by momentum and speculation this year, investors still have an eye on what matters in the end. Earnings! And if that focus continues, future earnings forecasts suggest a further broadening of the market is in order.

The performance of the Magnificent 7 stocks in 2023 was stunning. The basket accounted for 58% of the 26.23% gain in the S&P 500 Index and the 7 stocks increased by an average of 76% for the year. Earnings growth for the Magnificent 7 was incredible for several reasons. NVIDIA had a massive increase in profits as a result of its Artificial Intelligence (AI) semiconductor chips. Apple, Google, and Microsoft had solid earnings growth, although Tesla saw earnings decline. The real earnings stars though were Meta and Amazon. Both saw huge earnings increases in 2023 as a result of significant cost cutting and easy comparisons to the disastrous earnings both companies reported for 2022. Meta increased earnings by nearly 70% in 2023 after seeing a 37% decline in earnings the prior year. Amazon actually lost money in 2022 after earning over $30 billion in 2021. This past year they again earned over $30 billion. Both companies rebounded and earnings growth was off the charts compared to 2022 declines.

The charts below show the quarterly earnings growth from the Magnificent 7 and also the Tech+ (dominated by the Mag 7) basket for each quarter in 2023 and the forecast for each quarter in 2024. While first quarter earnings are expected to still be dominated by the Mag 7 and Tech+, what's most notable is earnings growth rates for those names are anticipated to slow this year while the rest of the market is expecting an increase in earnings growth. By the 4th quarter of 2024, the rest of the market is expected to be growing as fast as the Mag 7 and the Tech+ group.

If investors keep their focus on earnings, we believe stocks with similar earnings growth and much better valuations will get their attention long before the first earnings announcements in 2025. We expect the market to continue to broaden as earnings drive stocks throughout the rest of the year.

Chart 1: S&P 500 Index Stocks Quarterly EPS Growth Year-Over-Year – Magnificent 7 vs. Remaining 493

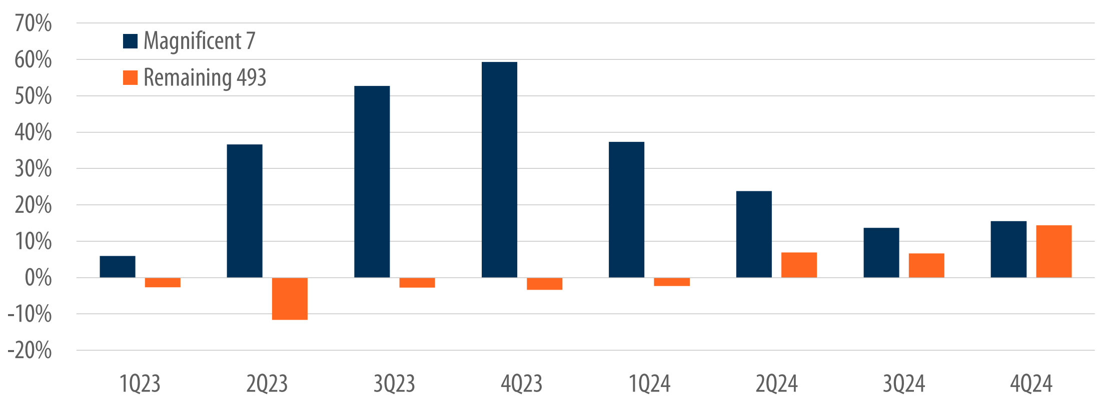
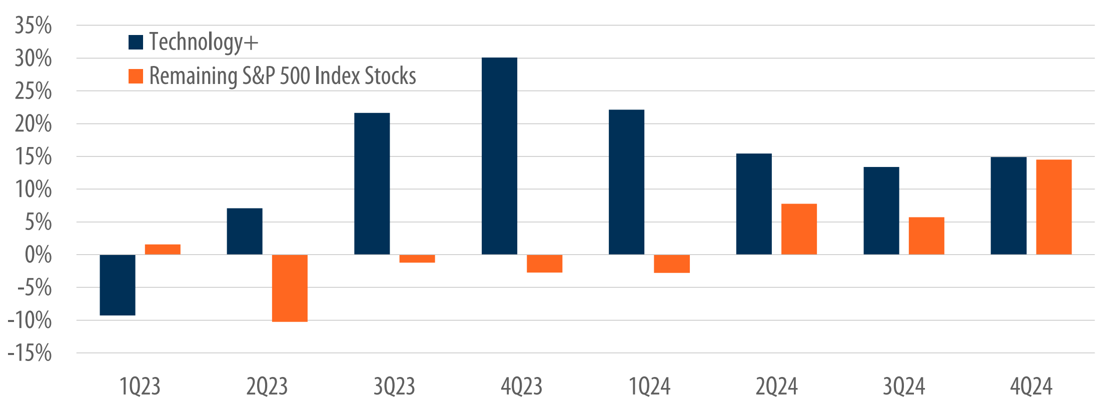


Chart 2: S&P 500 Index Stocks Quarterly EPS Growth Year-Over-Year – Technology+ vs. Remaining S&P 500 Index Stocks



Source for Charts: S&P Capital IQ. Data as of 3/28/24. There is no assurance any forecasts will be achieved.

Past performance is no guarantee of future results.

The **S&P 500 Index** is an index of 500 companies used to measure large-cap U.S. stock market performance.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

Magnificent 7 (Mag 7): AAPL: Apple Inc. MSFT: Microsoft Corporation. NVDA: NVIDIA Corporation. GOOGL: Alphabet Inc. AMZN: Amazon.com, Inc. META: Meta. TSLA: Tesla, Inc.

Technology+ (Tech+): Companies within the Information Technology sector in addition to companies within the Interactive Media & Services, Interactive Home Entertainment and Transaction & Payment Processing Services industries.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

Indices are unmanaged and investors cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

There can be no assurance past trends will continue or projections realized.