Market Commentary Blog

Cash Flow *and Carey*

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S&P 500 Index Earnings & Revenue Growth Rate Estimates

S&P 500 & Sector Indices

Estimated Y-O-Y Earnings & Revenue Growth Rates as of 2/24/23

	2023 Earnings Est.	2024 Earnings Est.	2023 Revenue Est.	2024 Revenue Est.
S&P 500 Index	-1.8%	11.6%	1.9%	4.5%
Communication Services	11.1%	17.8%	5.6%	5.1%
Consumer Discretionary	6.6%	21.7%	5.6%	6.7%
Consumer Staples	-0.3%	7.2%	5.3%	3.8%
Energy	-19.3%	-4.5%	-11.5%	-3.2%
Financials	8.8%	11.8%	5.6%	4.8%
Health Care	-9.4%	9.2%	2.8%	5.2%
Industrials	7.1%	13.7%	3.7%	4.8%
Information Technology	-5.7%	15.4%	0.5%	8.0%
Materials	-18.0%	7.2%	-3.9%	-0.1%
Real Estate	3.8%	6.1%	2.8%	7.4%
Utilities	7.8%	7.8%	-5.7%	3.4%

Source: Bloomberg. Consensus estimates using fiscal year revenue from each company.

View from the Observation Deck

On February 24, 2023, the S&P 500 Index closed the trading session at 3,970.04, which was 17.23% below its all-time closing high of 4,796.56 on January 3, 2022, according to Bloomberg. From 1928-2022 (95 years) the S&P 500 Index posted an average annual total return of 9.40%. For the market to trend higher, we believe that corporate earnings will need to grow, and perhaps the best catalyst for growing earnings is to increase revenues.

When it comes to earnings growth rate estimates, there's bad news and there's the potential for good news.

Bad news first. When we wrote about this topic on November 3, 2022 (Click here to view that post), prevailing estimates suggested a 4.4% increase in earnings in 2023. Earnings estimates have declined recently, however, and the earnings growth rate for the S&P 500 Index is now expected to be -1.8% in 2023. Not good. That said, 2024 offers the potential for good news. As we look further ahead, we observe that earnings estimates for 2024 imply a healthy rebound in profitability that may (or may not!) occur next year. As we like to say, stay tuned.

Revenue growth rate estimates reveal a similar pattern.

As you might have expected, the decline in earnings estimates for the 2023 calendar year was paired with a decline in the consensus expected revenue growth rate. In our previous post on this topic, the forecasted revenue growth rate for companies in the S&P 500 Index stood at 3.7%. Since then, revenue growth rate estimates have declined by 1.8 percentage points and now stand at 1.9%. While it is true that 2023 revenue growth rate estimates fell, revenue growth projections for 2024 reveal the opposite trend. As of February 24, 2023, they stood at 4.5%, representing an increase from 4.3% as of the last time we posted, reflecting easier comparisons.

Takeaway

Suffice it to say, earnings estimates for 2023 may indicate a difficult year could be in store for equity investors. Notably, the sectors that contributed the most to the record earnings for the S&P 500 Index last year are not forecast to repeat that performance in 2023. For example, Energy, Industrials, Materials and Technology saw year-over-year earnings growth rates of 264.7%, 44.0%, 21.5% and 15.3%, respectively in 2022. As the table above shows, none of those four sectors are estimated to come close to last year's earnings numbers. In addition, recent economic data may provide a signal to the Federal Reserve that more rate hikes are necessary. Higher rates could add pressure to the margins of corporations in the S&P 500 Index and slow consumer activity. We will continue to update on this topic as new data becomes available.