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 2/23/24)

	2024 Earnings Est.	2025 Earnings Est.	2024 Revenue Est.	2025 Revenue Est.
S&P 500 Index	9.5%	13.9%	4.7%	5.9%
Communication Services	17.6%	14.0%	6.3%	7.1%
Consumer Discretionary	10.0%	15.7%	5.1%	7.1%
Consumer Staples	5.2%	7.9%	3.2%	3.5%
Energy	-6.2%	9.4%	-2.1%	2.4%
Financials	4.5%	11.2%	4.5%	5.1%
Health Care	13.8%	12.4%	7.0%	6.4%
Industrials	10.1%	13.9%	4.9%	5.5%
Information Technology	17.1%	21.8%	7.1%	11.9%
Materials	-4.0%	14.6%	-0.2%	2.7%
Real Estate	6.6%	6.5%	11.6%	3.5%
Utilities	8.8%	7.6%	4.4%	3.3%

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

View from the Observation Deck

As we near the end of the fourth quarter earnings season, we thought it would be timely to provide an update regarding estimated 2024 and 2025 earnings and revenue growth rates for the companies comprising the S&P 500 Index ("Index"). On February 23, 2024, the Index closed at a record-high of 5,088.80, representing an increase of 19.51% on a price-only basis from when it stood at 4,258.19 on October 5, 2023 (the last time we posted on this topic), according to data from Bloomberg. For comparison, from 1928-2023 (96 years) the Index posted an average annual total return of 9.56%. When we wrote about earnings estimates in October (click here to view that post), we wrote that increased revenues could boost earnings and provide the catalyst for higher equity valuations going forward. We believe that the Index's notable surge over the past months is reflective, in part, of that scenario playing out.

Current estimates generally reveal favorable earnings growth over the next several years.

As today's table shows, the earnings for the companies that comprise the S&P 500 Index are expected to increase by a combined 9.5% and 13.9%, respectively, on a year-over-year (y-o-y) basis in 2024 and 2025. Keep in mind that estimates for 2024 reflect favorable comparisons to 2023's earnings. As of February 23, 2024, Bloomberg data shows that full-year 2023 earnings are expected to decline by 2.8% (not in table). In 2024, earnings are estimated to decline in just two of the eleven sectors that comprise the Index (Energy and Materials). While negative earnings are never favorable, the Energy and Materials sectors' 2024 earnings estimates show substantial improvement from 2023, when they are estimated to have contracted by 30.6% and 22.7%, respectively, on a y-o-y basis.

Notably, revenue growth rate estimates continue to reveal a similar pattern.

Echoing our last post on this topic, the increase in earnings estimates for the 2024 and 2025 calendar years are paired with rising revenue growth rate expectations. As of February 23, 2024, the estimated revenue growth rate for companies in the Index stood at 4.7% and 5.9%, respectively, in 2024 and 2025. Nine of the eleven sectors that comprise the Index reflect positive y-o-y revenue growth rate estimates for 2024 with five of them estimated to surpass 5.0%.

Takeaway

As many investors may be aware, most traditional equity markets are forward-looking discounting mechanisms. Practically speaking, the price of an efficient market should reflect the sum-effect of present and future (expected) events. We think the recent surge in the S&P 500 Index, which rose by 19.51% on a price-only basis between October 5, 2023 (our last post on this topic) and February 23, 2024, can be explained, in part, by the expected earnings and revenue growth rates revealed in today's table. Additionally, expectations that the Federal Reserve ("Fed") could cut interest rates early this year also played a large part in the Index's growth, in our opinion. That said, information flows quickly, and estimates are subject to constant revision. Recent economic data and Fed commentary lend support to the idea that interest rates may not come down as quickly as expected. Time will ultimately reveal the accuracy of these forecasts, but we maintain that higher revenues in the coming year could be the best catalyst for growing earnings, and in turn, increasing equity valuations.