

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 9/6/24)

	2024 Earnings Est.	2025 Earnings Est.	2024 Revenue Est.	2025 Revenue Est.
S&P 500 Index	9.5%	14.5%	4.9%	6.0%
Communication Services	22.5%	14.0%	6.9%	7.3%
Consumer Discretionary	13.0%	14.5%	5.0%	6.2%
Consumer Staples	3.4%	6.9%	2.2%	4.1%
Energy	-12.6%	14.9%	-0.5%	2.1%
Financials	10.4%	8.1%	6.4%	4.8%
Health Care	5.2%	20.8%	7.1%	6.0%
Industrials	1.0%	15.1%	2.6%	5.6%
Information Technology	18.8%	20.9%	10.9%	12.8%
Materials	-4.5%	14.3%	-1.6%	2.3%
Real Estate	4.2%	4.8%	6.2%	6.1%
Utilities	15.4%	7.9%	0.8%	6.1%

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

View from the Observation Deck

With the second quarter earnings season behind us, we thought it would be timely to provide an update regarding estimated 2024 and 2025 earnings and revenue growth rates for the companies that comprise the S&P 500 Index (“Index”). On September 9, 2024, the Index closed at 5,471.05, representing an increase of 14.70% on a price-only basis from when it closed at 4,769.83 on December 29, 2023, according to data from Bloomberg. For comparison, from 1928-2023 (96 years) the Index posted an average annual total return of 9.56%. In our post on this topic from October 2023 (click here), 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 reveal favorable earnings growth expectations.

As today’s table shows, the earnings for the companies that comprise the S&P 500 Index are estimated to increase by a combined 9.5% and 14.5%, respectively, on a year-over-year (y-o-y) basis in 2024 and 2025. These figures are higher than when they stood at 9.4% and 13.8%, respectively, the last time we posted on this topic (click here). Keep in mind that estimates for 2024 reflect favorable comparisons to 2023’s earnings which declined by 0.9% in 2023 (not in table). In 2024, earnings are estimated to decline in just two of the eleven sectors that comprise the Index (Energy and Materials). The Energy sector’s 2024 earnings estimates declined substantially since our last post, falling from -5.4% to -12.6%. From our perspective, the decline in earnings estimates is likely reflective of plummeting oil and gas prices. The price of WTI crude oil stood at \$68.71 per barrel on September 9, 2024, down 21.48% on a year-over-year (y-o-y) basis, according to data from Bloomberg. The price of natural gas stood at \$2.17 per million BTUs as of the same date, down 16.70% y-o-y.

Revenue growth rate estimates for 2024 and 2025 are also favorable.

As of September 6, the estimated revenue growth rate for companies in the Index stood at 4.9% and 6.0%, respectively, in 2024 and 2025. These figures have increased since our last post (they were 4.5% and 5.7%, respectively, in 2024 and 2025, at that time). Nine of the eleven sectors that comprise the S&P 500 Index reflect positive y-o-y revenue growth rate estimates for 2024 with five of them estimated to surpass 5.0%.

Takeaway

We think the recent surge in the S&P 500 Index, which increased by 15.82% on a total return basis year-to-date through September 9, can be explained, in part, by the expected earnings and revenue growth rates revealed in today’s table. Additionally, it appears highly likely that the Federal Reserve will initiate multiple cuts to the federal funds rate before the end of this year. A lower discount rate could translate into higher equity valuations. That said, information flows quickly, and these estimates are subject to constant revision. Time will ultimately reveal their accuracy, but we maintain that higher revenues in the coming years could be the best catalyst for growing earnings, and in turn, lead to higher equity valuations.