Market Commentary Blog

Cash Flow *and Carey*

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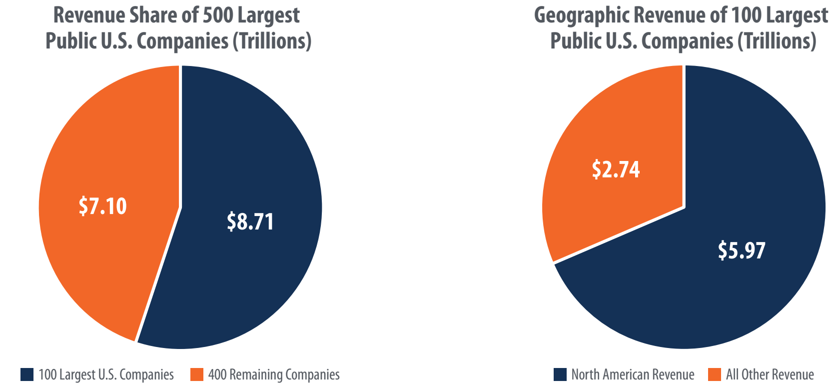
Recession? Don't Ask The Equity Markets…

Revenue Breakdown of 500 Largest Public U.S. Companies



Source: FactSet Research Systems. Top 500 Public Companies by market cap. Data as of 4/28/23.

View from the Observation Deck

If the U.S. is heading towards an economic recession, the equity markets don't appear to have noticed, in our opinion. From 9/30/22 to 5/8/23, the S&P 500 Index ("Index") experienced a total return of 16.54%, according to data from Bloomberg. All eleven of the sectors that comprise the Index are positive over the period. Information Technology, Communication Services, and Industrials have each posted total returns in excess of 20%. In several of our recent posts (Sector Performance Via Market Cap and The Only Constant Is Change to name two) we offered insights as to why we think this may be occurring. In today's post we provide a geographic breakdown of the revenues of the top 500 public U.S. companies by market cap to see if the data provides further context.

The 100 largest public U.S. corporations receive a significant percentage of their revenues from outside of North America (see charts above).

Perhaps unsurprisingly, the bigger companies in today's chart account for a larger portion of overall revenues. The top 20% of companies by size generate 55.1% of the revenues of all the companies represented. Interestingly, 31.4% of the revenues generated by the top 20% come from outside North America.

In a break from long-term trends, international equities have significantly outperformed their U.S. counterparts in recent months.

International companies, as measured by the MSCI World (ex U.S.) Index, posted average annual total returns of 5.25% over the 10-year period ended 5/8/23. For comparison, the average annual total returns of U.S. stocks, as measured by the S&P 500 Index were 11.85% over the same period. Recently, the tables appear to have turned. From 9/30/22 to 5/8/23, the MSCI World (ex U.S.) Index posted a total return of 30.36% compared to the S&P 500 Index's 16.54%.

Global GDP growth may not decline as much as U.S. GDP growth in 2023.

In the April edition of the *World Economic Outlook*, the International Monetary Fund (IMF) projected that the GDP growth in advanced economies is projected to fall from 2.7% in 2022 to 1.3% in 2023. The IMF forecasts that the GDP growth rate for Emerging Market and Developing Economies could fall from 4.0% in 2022, to 3.9% in 2023. On a nation-state level, U.S. GDP is projected to fall from 2.1% in 2022 to 1.6% in 2023. For comparison, boosted by the recent re-opening from COVID lockdowns, China's GDP is expected to grow from 3.0% in 2022 to 5.2% in 2023.

Takeaway

From 9/30/22 to 5/8/23, international stocks, as measured by the MSCI World (ex U.S.) Index, significantly outperformed their U.S. counterparts (as measured by the S&P 500 Index). As today's charts show, the largest public U.S. companies receive a significant portion of their revenues from international sources. In our view, this international revenue stream may help explain the outperformance large cap stocks have enjoyed when compared to their mid and small-cap peers. Furthermore, we think international revenue could provide ballast to larger U.S. companies moving forward. According to projections from the IMF, GDP growth rates in emerging and developing economies are not forecast to slow at the same rate as the U.S. China, for example, will benefit from strong comparisons this year as the country re-opens from COVID lockdowns that stretched into the beginning of 2023. That said, Brian Wesbury, Chief Economist at First Trust Portfolios, LP continues to expect an economic recession to hit the U.S. economy at some point this year, and the IMF notes that risks to their outlook are squarely to the downside. Should recession occur, investors may benefit from the geographically diverse revenue streams that larger public U.S. companies offer, in our opinion.