Market Commentary Blog

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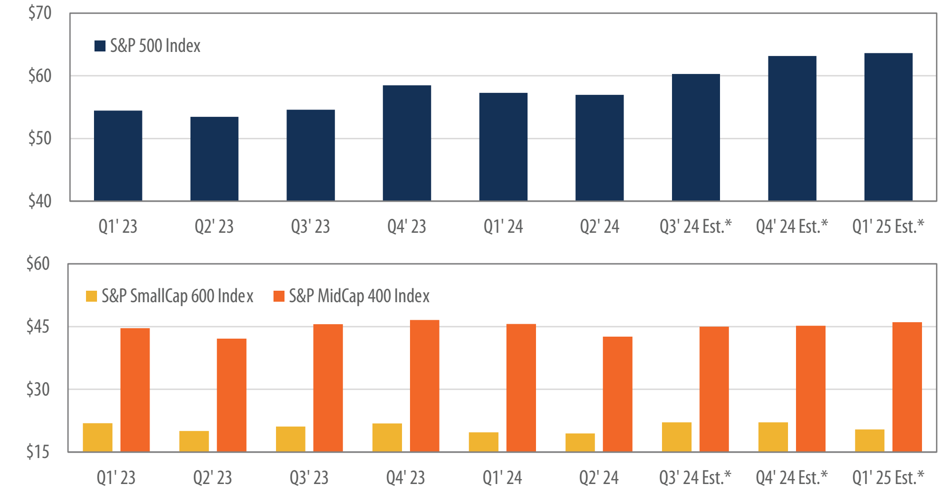
Corporate Earnings Estimates Signal Strength Ahead

Major U.S. Equity Index Earnings + Estimates (Quarterly)



Source: Bloomberg. Data as of 10/23/24. *Represents consensus estimates for each index constituent.
Past Performance is no guarantee of future results.

View from the Observation Deck

Today's charts are intended to give investors a visual perspective on where equity analysts think earnings are headed. The charts cover the quarterly earnings per share (EPS) for 2023 and the first half of 2024, as well as Bloomberg's estimated EPS for the next several quarters. For comparison, we included results and estimates from the S&P 500 Index ("LargeCap Index"), the S&P MidCap 400 Index ("MidCap Index") and the S&P SmallCap 600 Index ("SmallCap Index").

As anticipated in our previous post on this topic (click here to view), each of the Indices in today's charts saw earnings decline on a quarter-over-quarter basis in Q1 and Q2 of 2024. That said, the early year contraction is expected to be short-lived, with year-over-year (y-o-y) comparisons reflecting favorably for each of the three Indices in Q1'25.

SmallCap Index earnings declined by 9.91% y-o-y in Q1'24 but are estimated to increase by 3.53% y-o-y in Q1'25. Earnings for the MidCap Index declined by 5.15% y-o-y in Q4'23 but are expected to increase by 0.94% y-o-y in Q1'25. For comparison, the broader S&P 500 Index is estimated to see earnings increase by 11.09% y-o-y in Q1'25.

Yearly EPS estimates for each of the Indices for the 2024 and 2025 calendar years and their respective totals are as follows (not in the charts): S&P 500 Index ($241.35 and $274.53); S&P MidCap 400 Index ($175.23 and $201.61); S&P SmallCap 600 Index ($81.86 and $96.25).

Earnings per share for the LargeCap Index are estimated to increase to record-highs in 2024 and 2025 consecutively, while the MidCap Index is expected to see record EPS in 2025. Full-year EPS estimates for the SmallCap Index total $96.25 in 2025, just below its record high of $97.53 set in 2022.

Takeaway

In our September post on earnings and revenue growth (click here to view it), we voiced our opinion that the recent surge in the S&P 500 Index can be attributed, in part, to expected earnings growth for the companies that comprise the Index. For today's publication, we wanted to provide an alternative look at the data that informs this thought process, as well as an extended view into the mid and small-cap segments of the market. We believe that corporate earnings drive the direction of stock prices over time, especially when the major indices are trading at or near record highs. As the data shows, EPS are expected to trend higher across each of these indices over the next several quarters, with full year estimates reaching record-highs for the LargeCap and MidCap Indices in 2025. As always, these are estimates and are subject to change (and have changed since our last post). That said, we trust today's publication provides a unique perspective on what we view as a major catalyst of the recent surge in equity valuations.