Your Weekly Investment
Insights
October 21, 2024

Key Takeaways:

- 3Q24 earnings season kicks off with financials.
- Major banks lead financial sector earnings growth.
- Four "Magnificent 7" constituents among top 10 contributors to S&P 500 earnings.
- Nvidia expected to be the largest contributor to sector and index earnings growth.
- Analysts finally begin revising 2025 earnings estimates lower.

Earnings Season is in Full-Swing

It is still early in 3Q24 earnings season (~14% of S&P 500 companies have reported), but investors got a first glimpse of earnings as the major financial firms announced 3Q24 earnings last week. In aggregate, analysts are expecting a lower S&P 500 earnings growth rate today (+3.4%) relative to the end of the 2Q24 (+4.3%). If earnings growth remains positive, it would be the fifth straight quarter of positive earnings growth. However, at 3.4% (YoY) it would be the lowest growth since 2Q23. In this weekly, we provide an overview of what to monitor as earnings season continues.

- **Banks are off to a strong start:** Financial companies are exceeding expectations for year-over-year earnings for the third consecutive quarter. Major banks, including JPMorgan, Bank of America, and Goldman Sachs (among others) reported earnings above analyst expectations. Investment banking revenues were an area of strength as firms reported an increase in deal flow on prospects for lower interest rates. Provisions for loan losses were mixed, as JPMorgan reported a higher-than-expected value, but Wells Fargo and Bank of America reported lower-than-expected values. JPMorgan stated the increase in reserves was to reflect their growing book of credit card loans. However, they believe the consumer is "fine and on strong footing." [1]
- **Diving deeper into the "Magnificent 7":** Four constituents that make up the "Magnificent 7" (Nvidia, Alphabet, Amazon, and Meta) are projected to be among the top 10 contributors to overall earnings growth for the index. In aggregate, the "Magnificent 7" constituents are projected to report year-over-year earnings growth of 18%. According to FactSet, if you exclude these seven companies, the earnings growth rate for the S&P 500 would dip to +0.1% (YoY).
- **Nvidia driving information technology earnings… again:** The information technology sector is expected to report the highest year-over-year earnings growth rate of all S&P 500 sectors (+15.6% YoY). According to FactSet, Nvidia is expected to be the largest contributor to the sector, as well as the largest contributor to the S&P 500 index. If Nvidia were excluded from the information technology sector, year-over-year earnings growth would be lower (8% YoY).
- **Analysts (finally) start revising earnings estimates lower:** According to FactSet, analysts have started to lower earnings estimates for 2024 and 2025. The typical downward revisions to earnings figures have largely been avoided up to this point. Even with the downward revision, the current 2025 earnings estimate (~$275.50) reflects a 15% growth rate from current levels.

The Bottom Line:

This earnings season we are watching what companies are saying about inflation and the economy. In addition, their view on interest rates, especially if the Fed cannot be as aggressive as the market is pricing in at this point. It is good to see analysts getting realistic about 2025 earnings growth. However, at 15% earnings growth, we believe it is still too optimistic given the expectation for slower economic growth in 2025.

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Weekly Economic Recap –

Consumer Spending Remains Robust

U.S. import prices fell for the second consecutive month and by the most since December 2023 (-0.4%) in September. Imported prices of petroleum led the losses (-7.1%). Excluding fuel, import prices increased 0.1% for the third straight month.

Retail sales increased faster than expected in September (+0.4%). The increase in spending was driven by store retailers, which increased at the fastest pace since September 2023. Sales at gas stations fell amid a decline in gasoline prices. The control group, which excludes volatile items, increased at the fastest pace since June.

Homebuilder sentiment, as tracked by the NAHB Housing Index, increased to a four month high. All three components of the index increased, but the outlook for the next six months increased to the highest level since April on the prospect for lower mortgage rates.

Construction of new homes decreased on an annualized basis in September. Multifamily construction fell by the most in four months. Single family construction, however, climbed at the strongest pace in five months.

The European Central Bank (ECB) cut interest rates for the third time this year by 25 bps to 3.25%. The ECB's Governing Council called the process of disinflation "well on track" in its post decision statement. ECB President Christine Lagard stated, "economic activity has come in a bit lower than anticipated" and "inflation will return to target in a timely manner" during the press conference.

Key Takeaways:

- Consumer spending surprisingly resilient.
- Homebuilder optimism increases to four-month high.
- ECB cuts rates by 25bps for third time this year.
- Small-caps lead performance in the U.S.
- Treasury yields relatively unchanged on mixed data.
- Crude oil posts worst performance since March '23.

Weekly Market Recap –

Small-Caps Lead U.S. Equity Performance as Bond Yields Remain Relatively Unchanged

Equities: The MSCI AC World Index was higher for the second straight week. Major U.S. averages ended the week higher, with the S&P 500 and Dow Jones Industrial Average closing at fresh record highs. The Russell 2000 small-cap Index was the best perfoming index in the U.S. Mainland Chinese equities were a drag on global equity performance on the lack of clarity around stimulus.

Fixed Income: The Bloomberg Barclays Aggregate Index was slightly higher for the first time in five weeks. Bond yields were relatively flat for the week as investors digested mixed economic data and Fed commentary. Municipal bonds, emerging market bonds and high yield corporate bonds were the best performing areas of fixed income.

Commodities/FX: The Bloomberg Commodity Index was lower for the second straight week . Crude oil prices fell by the most since March 2023 as data showed slowing economic growth in China and a mixed outlook for the Middle East. Gold prices ended the week above the key $2,700/oz. level on escalating geopolitical tensions.

Spending Remains Strong Driven by Sales at Retailers

Footnotes: Data is as of September 2024.
Data Source: FactSet Research Systems, Verdence Capital Advisors.

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Global Equities Rally Led by the U.S.

U.S. Equities

	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	43,276	1.0%	4.3%	6.9%	31.1%	16.5%
S&P 500	5,865	0.9%	4.5%	6.1%	37.9%	24.3%
Russell 1000 Growth	3,856	0.7%	5.1%	5.4%	42.5%	27.0%
Russell 1000 Value	1,906	1.1%	4.0%	7.6%	31.5%	19.0%
Russell Midcap	3,601	1.4%	4.2%	8.0%	33.7%	17.1%
Russell 2000	2,276	1.9%	3.3%	3.9%	33.6%	13.5%
Nasdaq	18,490	0.8%	5.2%	3.6%	40.0%	23.9%

International Equities

	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	857	0.5%	3.8%	5.2%	32.7%	19.4%
MSCI EAFE (USD)	2,409	-0.4%	0.4%	1.7%	23.5%	10.3%
MSCI Europe ex UK (USD)	2,689	-0.6%	-0.3%	1.6%	24.8%	9.1%
MSCI Japan (USD)	3,980	-1.0%	0.9%	-1.6%	19.9%	9.5%
MSCI UK (USD)	1,297	1.0%	0.2%	3.4%	22.5%	14.0%
MSCI EM (USD)	1,155	-0.4%	6.3%	5.0%	25.6%	15.3%
MSCI Asia ex Japan (USD)	753	-0.5%	8.1%	6.8%	28.0%	19.7%

Fixed Income

	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.5%	0.1%	-1.7%	2.2%	12.1%	3.0%
U.S. Govt/Credit	4.4%	0.1%	-1.6%	2.2%	11.5%	2.9%
U.S. 10 Year Treasury	4.1%	0.1%	-2.6%	1.9%	11.0%	1.4%
U.S. TIPS (1-10YR)	4.1%	-0.1%	-0.4%	2.0%	8.9%	4.3%
U.S. High Yield	7.2%	0.3%	0.3%	3.6%	17.4%	7.9%
EM Bonds (USD)	6.4%	0.2%	-0.4%	3.9%	18.2%	7.5%
Municipal Bonds	3.4%	0.2%	-0.3%	1.6%	10.5%	2.0%

Commodities

	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	235	-2.5%	1.5%	0.5%	-2.2%	3.9%
Crude Oil (USD/bbl)	$70.4	-4.6%	-1.5%	-9.7%	-18.3%	-1.2%
Gold ($/oz)	$2,721.5	3.3%	4.4%	14.0%	38.1%	32.7%
Copper	$438.5	0.3%	3.2%	4.8%	24.1%	13.6%
Wheat	$572.8	-2.1%	0.8%	0.9%	-15.1%	-14.3%
U.S. Dollar	103	0.3%	2.9%	-0.8%	-2.4%	2.2%
VIX Index	18.0	-11.9%	-1.1%	13.2%	-6.2%	44.8%

Footnotes: Data is as of October 18, 2024.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

[1]https://www.cnbc.com/2024/10/11/jpmorgan-chase-jpm-earnings-q3-2024.html

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