Weekly Market Flash

Mixed Bag and a High Bar for Earnings

October 27, 2023

The third quarter earnings season is in full swing, with a bevy of tech companies in the spotlight this week along with the tail end of the financial institutions that got things rolling two weeks ago. The results so far? The stock market's unimpressive performance since the Q3 season got underway suggests a less than rosy view among analysts and investors. The S&P 500 is down almost ten percent from its year-to-date high on July 31, flirting with that psychologically meaningful threshold for a technical correction (though we may get a reprieve today if the market manages to hold onto its opening gains). From what we have seen so far, though, it's not that the numbers coming in are uniformly bad – it's that there are some hits and some misses, but there is also a high expectations bar.

Inflation, Sales and Profits

One of the big themes keeping that expectations bar high is, ironically, the fact that inflation is coming down. Take the case of Procter & Gamble, the consumer goods behemoth. P&G's standard-issue formula for making money boils down to how much it can sell and at what price. Lately the first part of that formula has been lackluster, with unit volumes flattish in most segments. The price component, though, has been robust as the company's relentless focus on brand differentiation has enabled it to pass on higher prices to its customers. In its latest management call, though, company executives noted that the runway for major price increases is growing short, with a near-term reversion likely to a more balanced relationship between volume, price and product mix. Partly this is due to the fact that overall inflation continues to trend down, and partly due to expectations widely held among management teams in similar situations to P&G that consumers are becoming more frugal and are likely to spend less than they have been in the past couple years.

This trend seems to be causing the analysts who cover these companies to lower their forward expectations. The outlook still looks good for the third quarter, with the expected overall growth rate in S&P 500 earnings per share now standing at 2.45 percent, up from what the same analysts had been predicting a few months ago. But their outlook for the fourth quarter has come down from high single digit growth to low single digit growth, according to FactSet, a market data research firm.

Upside Surprises Keep a-Coming

Might those analysts be underestimating things? After all, 2023 has been a year of one upside surprise after another in the US economy. Most recently, the initial third quarter GDP report that came out yesterday showed real GDP growth of 4.9 percent, far exceeding economists' consensus estimate and well above what is considered to be the national economy's baseline growth capacity. The GDP surprise is in line with the continued resilience in the jobs market, consumer spending trends and even somewhat better than expected recent numbers in housing sales. The dramatic rise in interest rates over the past year and a half was supposed to cool the economy by much more than it has so far. That much hoped for soft landing the Fed has been trying to engineer may actually come to pass. If so, the current wobbles in equity markets may prove to be temporary and revert to a more seasonally typical upswing as the holiday season gets under way. We will get a better sense of this later in the earnings season when the bulk of consumer-facing retail companies come out with their reports. For now, though, the expectations bar remains high.

Masood Vojdani
President & CEO

Katrina Lamb, CFA
Head of Investment Strategy & Research

Investment Advisory Services offered through MV Capital Management, Inc., a Registered Investment Advisor. MV Financial Group, Inc. and MV Capital Management, Inc. are independently owned and operated.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by MV Capital Management, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from MV Capital Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MV Capital Management, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.