Weekly Market Flash

Earnings Will Matter in 2024

December 29, 2023

It's the last trading day in 2023, and it's fair to say that the year turned out better than most of the pundits had predicted. Now, of course, the pundits are busy with their prognostications for the year ahead, including specific calls for US equities and other asset classes that will likely reach their sell-by date well ahead of December 2024. While it is always wise not to put much stock into a single prediction (you might as well go ahead and try to guess who will win the World Series next year), it can be useful to see the range of scenarios envisioned by the market pros. At least one of them, after all, is likely to be close to reality, from a combination of disciplined analytical reasoning and dumb luck.

So what do the experts see as they stare into their crystal balls? Well, JPMorgan Chase doesn't expect to be popping any Champagne. Their call for the S&P 500 at 2024 year end is 4,200, about a 12 percent decline – yes, decline – from the 4,783 close on December 28. At the other end of the spectrum, Goldman Sachs predicts a market close of 5,100 a year from now, representing a tidy but not barnstorming gain of 6.7 percent from yesterday's close. According to the FactSet data compilation from whence these estimates come, the median estimate from the pros is for the blue chip US equity benchmark to register a 6.0 percent gain next year. That's a pretty safe call. Of course, a year ago those same mavens were predicting a troubled 2023 for US equities and look what we got instead – a nice little gain of 25 percent thanks to a combination of no recession, AI mania and Jay Powell's Christmas present of a Fed pivot on December 13.

We generally refrain from putting a hard number out there ourselves, because in our experience even getting the fundamentals right (the economy, earnings, monetary policy) doesn't ensure a predictable market outcome. And getting the fundamentals right is notoriously difficult, as most experts found out in 2023 (see: The Recession of 2023, inverted yield curve etc.). What we do think is going to matter a great deal next year, though, is corporate sales and earnings performance. Now, it may sound facile to state that "earnings will matter" – but much of the time they don't matter much from a stock price performance standard; or they matter, but other things matter more to the collective mind of the market.

Next year, though, businesses will likely be facing two distinct challenges to their financial prospects. First, the economy is likely to be growing at a considerably slower pace than the roughly three percent real GDP growth in the cards for 2023. Slower end-user demand implies lighter sales volumes. Second, the continued good news in slowing inflation means weaker pricing power for businesses. When both volume and price are weaker, the logical outcome is…well, lower sales. Already, during the Q3 earnings season, we have seen consumer-facing companies lower their forward guidance in light of expected "macro uncertainty" – corporate earnings call-speak for weaker consumer demand.

Sell-side analysts have been taking note of the downbeat guidance. The consensus outlook for Q4 earnings per share growth, according to FactSet, is 1.38 percent. That is down from a consensus outlook of 8.08 percent as of September 30, a sizable decline. Much will depend on companies' ability to employ productivity measures to improve profit margins. Improvement at operating profit levels can offset weakness in top line sales – but the efficiencies will have to come from somewhere. Maybe all that AI hype from this year can translate into tangible productivity – but that is still more conjecture than clearly demonstrated use cases.

So earnings will matter. We will leave you with that as our parting observation. Meanwhile, we wish all of you a very Happy New Year and a joyful and healthy start to the year ahead.

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