Weekly Market Flash

Earnings Exceeding Expectations

May 24, 2024

The market has had another week of indecision, trying to make up its mind whether to cheer another blowout earnings quarter by Nvidia, the darling of one-day options punters, or worry itself into a corner over comments by Fed officials speculating about possible rate hikes if inflation fails to come down more. Maybe this day-to-day uncertainty explains why, according to a recent poll, half the country is convinced the US stock market is actually down for the year to date (it is in fact up more than ten percent for the year thus far and 27 percent since last October, but what does actual reality matter if some bewitching Tik Tok influencer tell you otherwise? That same poll has a near-majority of our fine and informed citizens believing that the unemployment rate is at a 50-year high, which would have it at 15 percent as opposed to the 3.9 percent level currently prevailing here on Earth One).

Businesses Navigate the Slowdown

In all fairness, there is a lot of conflicting macroeconomic data out there to process. By one important metric, though, we should be finding more reason to be upbeat than nervous. With the first quarter earnings season winding down, the financial performance of US businesses has more than met analysts' expectations. And no, it's not just Nvidia and other beneficiaries of the market's infatuation with AI. Earnings per share for the S&P 500 grew at a six percent rate for the quarter, with 96.2 percent of companies having reported. That is higher than the 5.3 percent growth rate projected by those same analysts back in January. And the outlook for the full year has also gone up slightly, with earnings expected to have grown by 11 percent when December 31 comes around.

This week a handful of retailers gave a jolt of confidence to investors worried about the impact of a consumer slowdown. TJX, Ross Stores, Macy's, Ralph Lauren and Deckers were among the companies that demonstrated resilience amid increasing signs of pocketbook-conscious households. TJX, for one, saw a three percent increase in comparable store sales for the first quarter, at the high end of its prior guidance, and raised its outlook for sales and pretax profit margins for the remainder of the year. This was particularly welcome news as it came on the heels of a disappointing report earlier by Target, which announced that it would be cutting prices on around 5,000 popular items in its stores to increase sales (would seeing lower prices at Target convince the American public that inflation is actually not increasing at a record pace, as most of them seem to believe, or is that asking too much?).

Valuations in Check

Sales and earnings are, of course, important not only as a measure of economic health but as a check on valuations. Currently, the forward price-earnings (P/E) ratio of the S&P 500 is 20.8. That is not cheap, but it is not as expensive as the market was near the end of its last major rally in late 2021. Higher earnings growth – the "E" of the P/E ratio – has kept valuations from moving into bubble territory. We will see in July whether this optimism carries into the second quarter earnings season, but for now the takeaway is that companies are doing better in an uncertain environment than many observers thought they would a few months ago.

Oh, and a final call-out to the 56 percent of Americans in that earlier-cited poll who believe that we are currently in a recession: No, we're not.

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