

Weekly Commentary

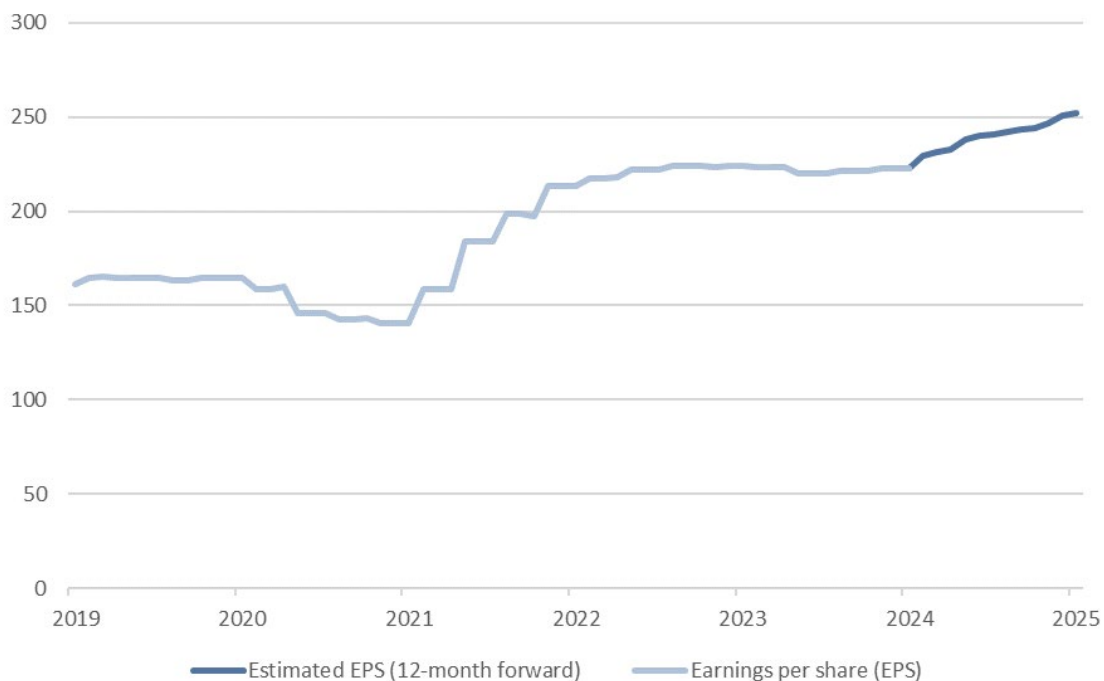
Strong Earnings Expectations for US Large Cap Equities

US equity market returns have been strong over the last 18 months, but US corporate profit growth has been anemic over that period (Fig. 1). However, in a reflection of the persistently strong US economy, equity analysts expect S&P 500 corporate profit growth of 13% over the next 12 months.

It's worth noting that viewing earnings growth expectations for the entire US market muddles the overall picture. Equity analysts underestimated 2023 Mag 7 earnings by a significant margin, but now seem determined to avoid the same error in 2024 by forecasting 32% earnings growth for those seven stocks over the next 12 months. Such highly optimistic earnings expectations, coupled with already high valuations, present a risk to that segment of the equity market should companies fail to deliver.

However, the other 493 companies in the S&P 500 index have a significantly easier expected earnings hurdle to meet: 9.8% earnings growth over the next twelve months. While the overall outlook for equities is positive this year, it's possible that too much good news has been priced into the Mag 7 and mega cap growth equities in general whereas market participants remain milquetoast about everything else.

Fig. 1: S&P 500 Earnings Per Share



Source: Bloomberg, Mill Creek. Data as of 4/24/2024.

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