

Early earnings calls indicate a resilient US economy

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Earnings season begins

As of Oct. 11, 30 companies in the S&P 500 Index reported third-quarter earnings, showing some positive trends in the making.

Consumer strength

Company comments indicate that the US economy appears to be in good shape, powered by higher income consumers and strong corporate balance sheets.

Sector differences

There are significant differences in the expectations for specific sectors, so we'll be watching closely to see how the earnings trends evolve.

Earnings season has just begun, with 6% of the companies in the S&P 500 Index having reported earnings so far. S&P 500 earnings growth for the third quarter is currently expected to be 4.1%. However, there are significant differences between sectors — technology earnings growth expectations are 14.9%, while earnings growth for the materials and energy sectors are forecast to be negative.¹ In addition to the financial data being reported, the transcripts from earnings calls are giving us some interesting insights into the economy as corporate executives share their observations and outlooks.

It's important to note that most S&P 500 companies have beaten expectations in previous quarters. In fact, the actual earnings growth rate for the index has exceeded the estimated earnings growth rate in 37 of the last 40 quarters.¹ FactSet Research anticipates this will happen again this quarter, and that earnings growth will likely end up being around 7% year-over-year after actual earnings are reported for all index companies, well above the current estimate of 4.1%.¹ This should be supportive of stocks.

Of course, I'm also interested in earnings season for what it can tell me about the strength of the economy (or lack thereof), risks to the economy, different sectors in the economy, different consumer segments, as well as the outlook for the near term. I went through the earnings call transcripts of a number of companies — both in the S&P 500 and outside it — that reported earnings last week. Here are some learnings from those calls:

- The US economy remains in good shape, with a soft landing likely. As one major financial services company explained, "These results are consistent with a soft landing. That's pretty consistent with this kind of Goldilocks economic situation."²
- In general, consumers are healthy. As the same major financial services company explained: "So overall, we see the spending patterns as being sort of solid, consistent with the narrative that the consumer is on solid footing and consistent with a strong labor market."² Another financial services company shared, "We continue to look for changes in consumer health, but we have not seen meaningful changes in trends when looking at delinquency statistics across our consumer credit portfolios."³ However, in general consumers are continuing to be price conscious; several companies described them as "discerning"⁴ and other companies described them as seeking "value."⁵
- Higher income consumers seem to still be powering the US economy. As a major airline carrier explained on its earnings call, "Consumers are continuing to prioritize premium experiences, and our core customer base is in a healthy financial position with travel remaining a top spend category."⁶ It seems that higher income consumers are compensating for weakness among lower income consumers. As explained on a financial services earnings call, "We continue to see more pronounced stress in certain customer segments with lower deposit and asset levels, where inflation has partially offset strong employment and wage growth."⁷ This makes sense, given that higher income consumers are a smaller portion of the population but are generally considered responsible for the majority of US consumer spending.

- The labor market seems to be the key to the health of the consumer. As one financial services company articulated, “Overall, customers in our US consumer businesses continue to hold up relatively well, benefiting from a strong labor market and wage growth.”⁸ Companies that have seen some consumer weakness attribute it to the labor market. One consumer beverage company explained, “...ongoing macroeconomic headwinds, particularly rising unemployment, have led to a recent deceleration in the rate of growth of consumer demand for our products...”⁹
- Corporations are in good shape as well. As explained on a financial services company earnings call, “Company balance sheets are strong, contributing to both consumption and investment in the economy...”¹⁰ Companies seem to be feeling optimistic about next year. As the airline carrier explained, “Corporate travel continues to improve...”¹¹ Their recent corporate survey showed 85% of respondents expect their travel spend to increase in 2025.¹¹
- We can’t forget the economic risk created by a rise in trade wars. One industrial company shared that one reason for pressure on its margins was an increase in trade barriers, “...certain countries have raised import duties, lifting the cost to us of moving product across borders.”¹²

All in all, these initial earnings calls have offered some confirmation of the resilience we’ve been seeing in recent US economic data — and a reminder of some of the risks.

More details emerge on China’s stimulus plan

In other news, I’ve been talking about the great potential impact of the stimulus package Chinese policymakers announced several weeks ago. At a press conference over the weekend, we got more details from the Chinese Ministry of Finance about their plans to use the Ministry’s balance sheet to support longer-term growth. While the specific amount of the new stimulus package wasn’t provided, the plan calls for an increase in government debt to help local governments’ balance sheets, re-capitalize state-owned banks, support the property market, and deliver financial support to groups of people in need. This is a comprehensive plan, and our initial take is that it’s likely to benefit the economy and markets in the medium and longer term with the intention of making positive structural changes.

Looking ahead

This week will bring more earnings reports and some key data including US retail sales and US industrial production — which mean more insight into the strength of the US economy. In addition, we’ll get reports on Canada and UK inflation as well as eurozone economic sentiment among other data releases.

As I read the earnings call transcripts, I will be focused on any guidance around job cuts. As I mentioned above, it seems the strength of the US consumer going forward will be dictated by the strength of the labor market. Despite some recent positive economic data, I am ever more vigilant in looking for cracks in the US economy, the epicenter of which would likely be a weakening in the labor market. With initial US jobless claims spiking last week to the highest level in more than a year, I will be looking for any signs of weakening in the labor market — since it arguably holds the key to the health of the US consumer, which in turn holds the key to the health of the US economy

Dates to watch

Date	Report	What it tells us
Oct. 14	China New Loans	Measures the change in the total value of outstanding bank loans issued to consumers and businesses.
Oct. 15	Japan Industrial Production	Indicates the economic health of the industrial sector.
	France Consumer Price Index	Tracks the path of inflation.
	Eurozone Industrial Production	Indicates the economic health of the industrial sector.
	ZEW Eurozone Economic Sentiment	Measures economic sentiment in the eurozone for the next six months
	Canada Consumer Price Index	Tracks the path of inflation.
	Korea Unemployment Rate	Indicates the health of the job market.
Oct. 16	UK Consumer Price Index	Tracks the path of inflation.
	UK Producer Price Index	Measures the change in prices paid to producers of goods and services
	UK House Price Index	Indicates the health of the housing market.
	Canada Housing Starts	Indicates the health of the housing market.
	Australia Unemployment Rate	Indicates the health of the job market.
Oct. 17	Eurozone Consumer Price Index	Tracks the path of inflation.
	European Central Bank Monetary Policy Decision	Reveals the latest decision on the path of interest rates.
	US Retail Sales	Indicates the health of the retail sector.
	US Industrial Production	Indicates the economic health of the industrial sector.
	NAHB US Housing Market Index	Indicates the health of the housing market.
	Japan Consumer Price Index	Tracks the path of inflation.
	China Fixed Asset Investment	Tracks total spending on non-rural capital investments such as factories, roads, power grids, and property.
	China Gross Domestic Product	Measures a region's economic activity
	China Industrial Production	Indicates the economic health of the industrial sector.
	China Retail Sales	Indicates the health of the retail sector.
	China Unemployment Rate	Indicates the health of the job market.

Date	Report	What it tells us
Oct. 18	UK Retail Sales	Indicates the health of the retail sector.
	US Building Permits	Provides insights into the future activity in the construction industry.
	US Housing Starts	Indicates the health of the housing market.

Notes

¹Source: FactSet Earnings Insight, Oct. 11, 2024

²Source: JP Morgan Chase earnings call, Oct. 11, 2024

³Source: Wells Fargo earnings call, Oct. 11, 2024

⁴Source: Tilray Brands earnings call, Oct. 10, 2024, and MTY Food Group earnings call, Oct. 11, 2024

⁵Source: Conagra brands earnings call, Oct. 2, 2024, and Domino's earnings call, Oct. 10, 2024

⁶Source: Delta earnings call, Oct. 10, 2024

⁷Source: Wells Fargo earnings call, Oct. 11, 2024

⁸Source: Wells Fargo earnings call, Oct. 11, 2024

⁹Source: Constellation Brands earnings call, Oct. 3, 2024

¹⁰Source: Wells Fargo earnings call, Oct. 11, 2024

¹¹Source: Delta earnings call, Oct. 10, 2024

¹²Source: Fastenal earnings call, Oct. 11, 2024

Important information

All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

Investments cannot be made directly in an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

Investments in companies located or operating in Greater China are subject to the following risks: nationalization, expropriation, or confiscation of property, difficulty in obtaining and/or enforcing judgments, alteration or discontinuation of economic reforms, military conflicts, and China's dependency on the economies of other Asian countries, many of which are developing countries.

Businesses in the energy sector may be adversely affected by foreign, federal, or state regulations governing energy production, distribution, and sale as well as supply-and-demand for energy resources. Short-term volatility in energy prices may cause share price fluctuations.

The profitability of businesses in the financial services sector depends on the availability and cost of money and may fluctuate significantly in response to changes in government regulation, interest rates and general economic conditions. These businesses often operate with substantial financial leverage.

Many products and services offered in technology-related industries are subject to rapid obsolescence, which may lower the value of the issuers.

Inflation is the rate at which the general price level for goods and services is increasing.

The S&P 500® Index is an unmanaged index considered representative of the US stock market.

The opinions referenced above are those of the author as of **Oct. 14, 2024**. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.