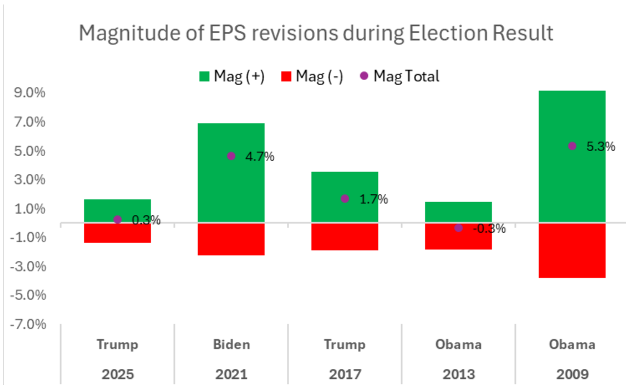
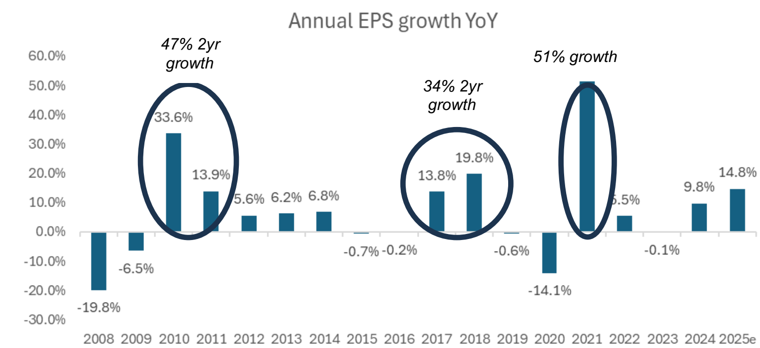
S&P 500 Q3 2024 Quarterly Earnings Analysis

Consello

Muted Revisions, Lofty Goals: Balancing Risks and Rewards in FY’25 Growth

Exiting the third quarter and following the 2024 election, market optimism remains high, with FY’25 EPS for the S&P 500 projected to grow 14.8%, after an estimated 9.8% increase in FY’24.[1] At the same time, following the election, we have observed only limited revisions thus far to FY’25 EPS estimates (+0.3%), which is among the smallest adjustments seen in recent comparable periods following presidential elections. This dynamic of both potential uncertainty and high growth expectations amidst a complex macro and political backdrop leaves companies seeking to meet a potentially elevated bar for outperformance headed into 2025.





Source: Factset.

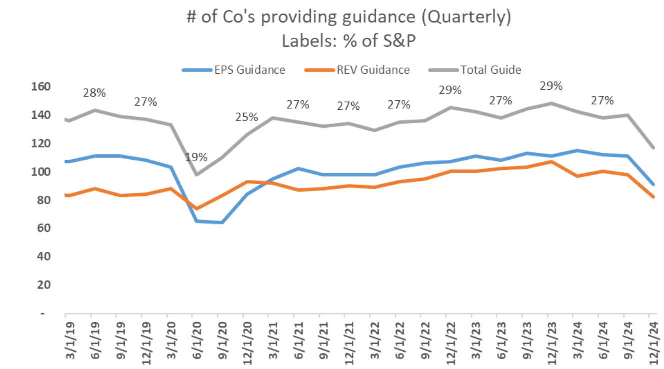
While Q4 guidance trends reflect potential corporate resilience (or forward optimism) — with 74% of companies raising their outlooks — the growth story is heavily concentrated in a few tech mega-caps, including the “*Magnificent 7*”. Excluding these, quarterly S&P revenue growth in Q3 YoY was just 1.1%, and EPS growth was only 2.9%. This concentration, coupled with EPS and revenue beats lower than the historical average, suggests potentially high expectations across broader market participants.

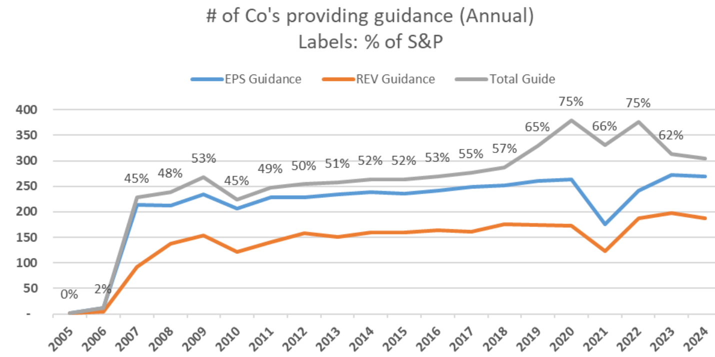
With markets near all-time highs and sell-side estimates modeling growth acceleration, yet minimal clarity on potential policy shifts or macro risks post-election, the stakes are high for consistent execution and prudent expectation management. In Q3, companies missing expectations saw their stocks significantly penalized, while earnings beats received muted rewards,[2] underscoring the high bar shaping current market dynamics ahead of a pivotal year for growth and investor sentiment.

Key Q3’2024 Insights

- **Earnings:** For Q3’2024 (with 93% of S&P 500 companies reporting actual results), 77% of S&P 500 companies reported a positive EPS surprise and 59% of S&P 500 companies reported a positive revenue surprise.
- **Earnings trends YoY:** For Q3’2024, the blended (YoY) earnings increase for the S&P 500 was 9.0%. The blended (YoY) revenue increase for the S&P 500 was 10.3%.
  - Excluding the Magnificent 7, YoY growth for the broader index was 2.9% for EPS and 1.1% for revenue.
- **Earnings trends QoQ:** For Q3’2024, the blended (QoQ) earnings increase for the S&P 500 was 4.8% (vs. Q2’24: +0.9%). The blended (QoQ) revenue increase for the S&P 500 was 1.0% (vs. Q2’24: -10.5%).
- **Guidance:** Guidance trends have highlighted resilience in corporate earnings. For Q4’2024, 91 companies have provided guidance, with 67 (74%) raising their outlooks and just 22 (24%) lowering them — the percentage lowering was well below the five-year and ten-year averages of 58% and 62%, respectively.[3]
  - Looking at full-year guidance, 275 companies have provided FY’24 EPS outlook, with 107 (39%) raising their annual guidance after Q3 and 51 (19%) lowering it.
  - The total number of companies providing quarterly guidance (23% of the S&P for Q4’2024) is below prior quarters (28-30%), while annual guidance (currently 66% of the S&P) is more in line with the 5yr average (~69% of S&P).

[1] Data gathered from top-down S&P 500 consensus estimates from Factset as of 11/22/24.
[2] Compared to longer-term averages and stock reactions seen in previous quarters.
[3] Factset.





Source: FactSet.[4]

Q3'24 Select Economic Highlights

This section examines several key indicators and events shaping the current economic landscape.

Resilient Consumer Spending Amidst Inflationary Pressures

The U.S. economy continues to show signs of resilience into Q4, supported by stronger-than-expected consumer spending in October (consumer spending rose by 0.4%), following an upwardly revised 0.6% increase in September, driven largely by demand for services such as healthcare, housing, utilities, and recreation. Adjusted for inflation, spending edged up 0.1%, aligning with an annualized growth rate of 2.5% in Q3 compared to 3.5% in Q2. The Atlanta Fed forecasts GDP growth of 2.7% for Q4, slightly below the previous quarter's 2.8% pace.

While inflation has moderated, progress toward the Federal Reserve's 2% target has slowed. Core PCE inflation, a key Fed metric, increased 2.8% year-over-year in October, up from 2.7% in September, with goods prices declining but services costs rising. The potential for higher tariffs under the incoming Trump administration could add 0.9% to core PCE inflation according to Goldman Sachs,[5] further complicating the Fed's ability to ease monetary policy.

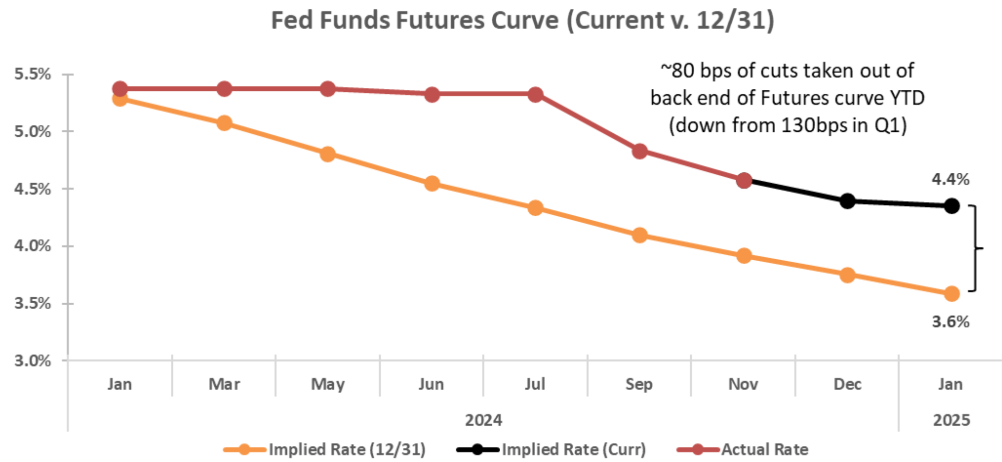
Labor Market Conditions and Implications for Fed Policy

The labor market remains tight, with initial unemployment claims falling to their lowest levels since April (in November, claims fell to a seasonally adjusted 213,000). However, continuing claims increased between October and November, suggesting challenges for laid-off workers in securing new employment. The unemployment rate has held steady at 4.1% for two months, but the November jobs report will be crucial for the Fed's upcoming rate decision.

Despite solid consumer spending and a resilient labor market, there is debate among economists whether lingering slack in the job market could temper inflation concerns in the short term. The central bank is expected to deliver a third consecutive 25 bps rate cut at its December meeting, reducing the benchmark rate to the 4.25% - 4.50% range. However, with a divided Fed and rising inflation risks from tariffs, the likelihood of further rate cuts in 2025 is less certain.

[4] Total Guide represents the sum of companies that guided at least one of the following metrics: EPS, Revenue, EBITDA, Net Income, CapEx, Free Cash Flow, SS NOI, and Net Interest Income.

[5] CNBC (*Goldman Sachs*)



Source: Factset.

Inflation, Tariffs, and Policy Uncertainty

Core inflation remains elevated, fueled by rising costs in housing, utilities, and transportation, while select goods prices have declined. Debate remains whether President-elect Donald Trump's newly proposed tariffs on imports from Mexico, Canada, and China could reverse this trend, driving up goods costs and potentially spilling over into higher service sector prices.

While financial markets are pricing in a December rate cut, analysts caution that the Fed may pause its easing cycle in early 2025 to assess the impact of geopolitical and fiscal policy changes. As policymakers navigate these uncertainties, the balance between maintaining growth and controlling inflation will remain critical.

Date	Metric	Actual	Survey	Surprise	Prior
10/30/24	GDP	2.8	2.8	In-Line	2.8
11/01/24	Manufacturing Surveys	46.5	47.6	Miss	46.5
11/05/24	ISM Services	56	53.8	Beat	56
11/12/24	NFIB Small Business Optimism	93.7	92	Beat	93.7
11/13/24	CPI	3.3	3.3	In-Line	3.3
11/14/24	PPI	0.2	0.2	In-Line	0.2
11/15/24	Retail Sales	0.4	0.3	Beat	0.4
11/15/24	Consumer Spending	0.4	0.3	Beat	0.4
11/19/24	Housing Starts	1311	1334	Miss	1311
11/27/24	Jobless Claims - continuing	1907	1902	Miss	1907
11/27/24	Core PCE MoM	0.3	0.3	In-Line	0.27
11/27/24	Core PCE YoY	2.8	2.8	In-Line	2.8
12/05/24	Jobless Claims - initial	213	215	Beat	213

Source: Bloomberg.

Q3'24 Insights

Earnings Beats Hold Steady, but Surprises Lag Long-Term Averages

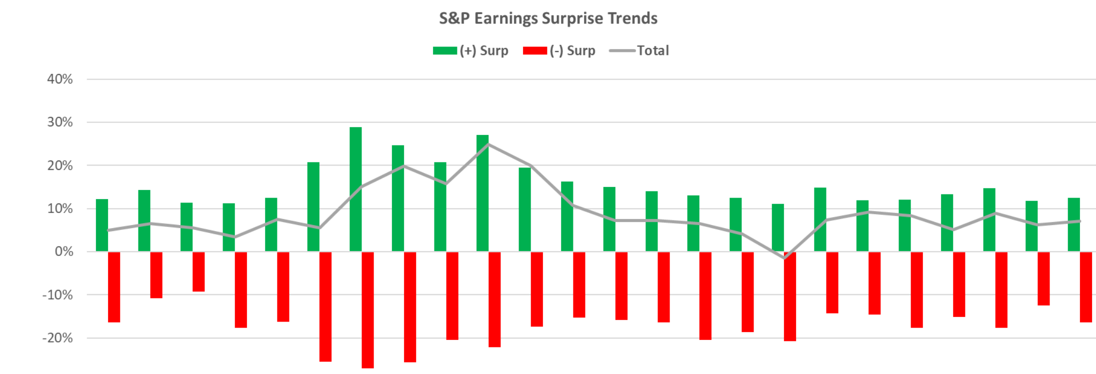
As of November 22, 77% of companies reporting Q3 results thus far have beat EPS estimates, which is in line with the five-year and ten-year averages of 77% and 75%, respectively.[6]

At the sector level, Technology (86%), Health Care (84%) and Communication Services (84%) have the highest percentage

[6] *Ibid.*

of companies who reported EPS above estimates. On the contrary, Real Estate (52%), Materials (52%) and Utilities (70%) saw the lowest positive earnings surprises this quarter.

On average, S&P companies have reported EPS 7.0% higher than estimates, which is below the five-year average (+8.5%) and in line with the ten-year average (+6.8%). Energy companies saw an average earnings surprise of +11.7% followed by Technology (+9.5%) and Financials/Banks (+10.4%). On the contrary, Utilities and Materials saw the only negative EPS surprises out of the eleven sectors.



		2019				2020				2021				2022				2023				2024		
(+) Surp	12%	14%	11%	11%	12%	21%	29%	25%	21%	27%	19%	16%	15%	14%	13%	12%	11%	15%	12%	12%	13%	15%	12%	12.5%
(-) Surp	-16%	-11%	-9%	-18%	-16%	-25%	-27%	-26%	-20%	-22%	-17%	-15%	-16%	-16%	-21%	-19%	-21%	-14%	-15%	-18%	-15%	-18%	-12%	-16.4
Total	5%	7%	6%	3%	8%	6%	15%	20%	16%	25%	20%	11%	7%	7%	6%	4%	-1%	7%	9%	8%	5%	8.9%	6.3%	7.0%

Source: Factset.

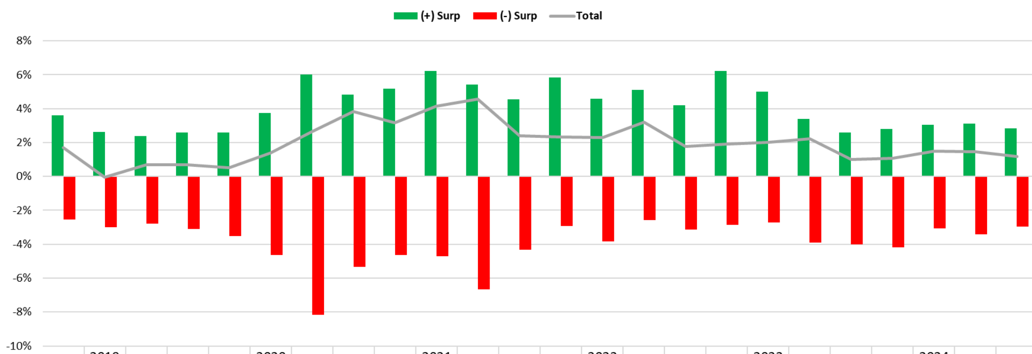
In the third quarter earnings season, while stock market volatility has increased following the U.S. Election, market reaction to negative EPS earnings surprises has been slightly more muted than previous quarters. Companies missing EPS estimates saw a -2.2% weighted average one-day decline following their earnings announcements, while companies beating saw an average 2.3% tick up. Meanwhile, companies missing EPS expectations saw a -2.1% five-day stock reaction (above the five-year weighted average of -2.3%) following their announcements, while companies beating on EPS saw a +2.9% stock reaction (below the five-year weighted average of +3.8%) five days after their announcements. All companies reporting saw a five-day weighted average move of +0.8%, which is slightly below the five-year average of +1.0%.

S&P Sales Growth Falling Short of Historical Averages, Skewed by "Magnificent 7" Impact

59% of companies reporting Q3 results have beat sales estimates, which is below the one-year average (62%), five-year average (69%), and ten-year average (64%). The Technology (82%) Health Care (78%) and Real Estate (74%) sectors saw the highest percentage of companies who reported sales above estimates. On the contrary, the Materials (32%), Utilities (39%) and Industrials (47%) sectors saw the lowest positive sales surprises this quarter.

On average, S&P companies have reported sales 1.2% higher than estimates, which is below the one-year average (+1.4%), five-year average (+2.0%), and ten-year average (+1.4%). At the sector level, Health Care once again saw the largest revenue beat (+2.1% on average), followed by Technology (+1.2%). Alternatively, the Utilities sector reported the largest negative sales surprise (-2.2% on average).

S&P Sales Surprise Trends

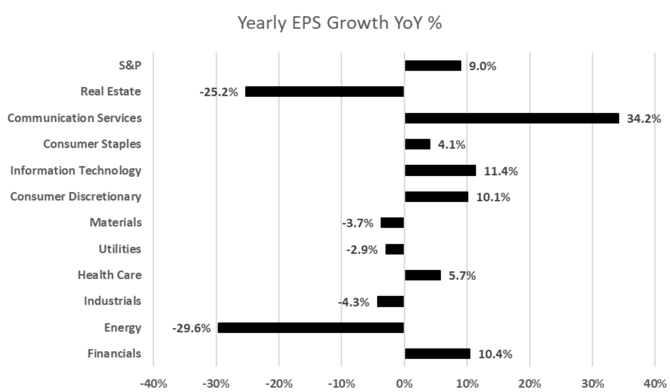


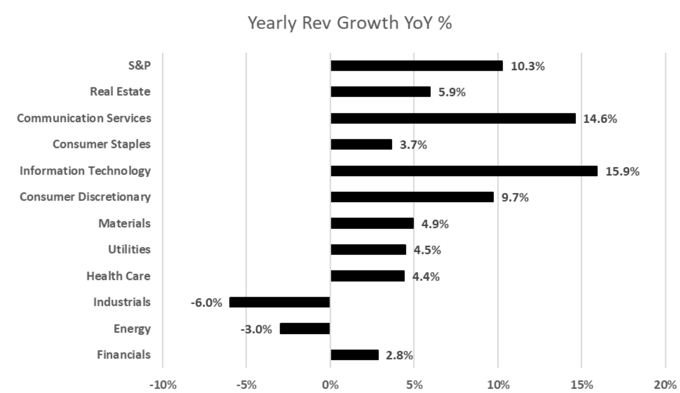
		2019				2020				2021				2022				2023				2024		
(+) Surp	4%	3%	2%	3%	3%	4%	6%	5%	5%	6%	5%	5%	6%	5%	5%	4%	6%	5%	3%	3%	3%	3%	3%	3%
(-) Surp	-3%	-3%	-3%	-3%	-4%	-5%	-8%	-5%	-5%	-5%	-7%	-4%	-3%	-4%	-3%	-3%	-3%	-3%	-4%	-4%	-4%	-3%	-3%	-3%
Total	1.7%	0.0%	0.7%	0.7%	0.5%	1.4%	2.6%	3.8%	3.2%	4.1%	4.6%	2.4%	2.3%	2.3%	3.2%	1.8%	1.9%	2.0%	2.2%	1.0%	1.1%	1.5%	1.4%	1.2%

Source: FactSet.[7]

YoY sales for reporting companies increased by 10.3% on average for Q3'24, significantly higher than both the +3.4% seen in Q2 and below the five-year average of +6.7%. The Technology sector saw the largest weighted average quarterly revenue growth YoY (+15.9%), followed by Communication Services and Consumer Discretionary.

As has been the case for much of the last two years, if the tech-laden Magnificent 7 companies[8] are excluded, the S&P's Q3 sales growth increased by only 1.1% using our weighted average methodology.[9]





Source: FactSet.[10 & 11]

Guidance Trends: Positive Signals Amid Slight EPS Growth Revisions

With 93% of S&P 500 companies having reported, 23% have issued Q4 guidance, which is in line with previous quarters. For Q4, 22 companies (24%) have issued negative EPS guidance (well below the five-year and ten-year averages of 58% and 62%, respectively), and 67 (74%) have issued positive EPS guidance. 13 S&P 500 companies have issued negative revenue guidance, and 68 have issued positive revenue guidance.

[7] Earnings surprises broken down by positive and negative surprises for all 11 S&P sectors.

[8] The Magnificent 7 includes Microsoft, Amazon, Nvidia, Alphabet, Google, Tesla, and Meta.

[9] After taking out the Magnificent 7 (~33% of the S&P by weight as of November 22), we re-weighted the other constituents of the S&P.

[10] Weighted average EPS and revenue growth.

[11] Some companies have outsized impacts on these weighted growth metrics. For example, Meta and Alphabet make up ~31% of the sector by weight, and saw EPS growth of 31% and 73%, respectively. As a result, the two companies contributed ~64% of the sector's 46% YoY EPS growth.

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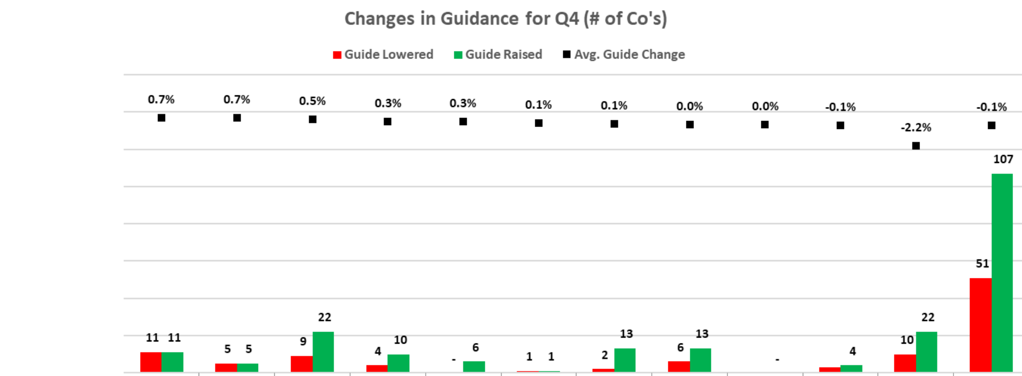
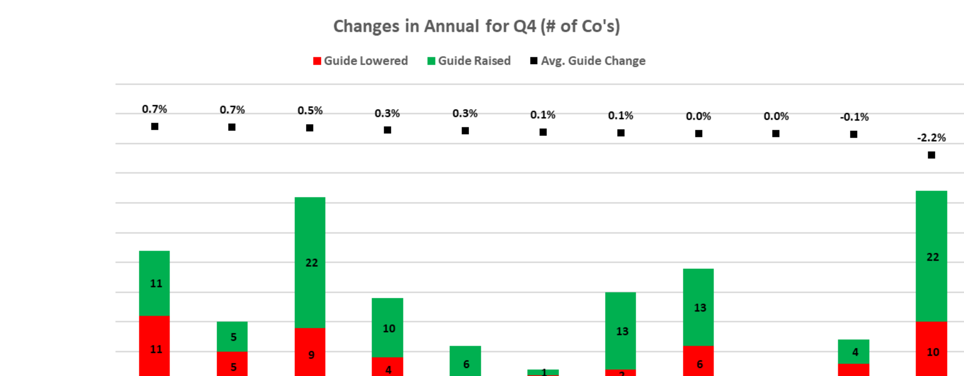


	Real Estate	Cons. Staples	Industrials	Utilities	Financials	Energy	Tech	Cons. Disc	Comm. Services	Materials	Health Care	S&P
Guide Lowered	11	5	9	4	-	1	2	6	-	3	10	51
Guide Raised	11	5	22	10	6	1	13	13	-	4	22	107
Avg. Guide Change	0.7%	0.7%	0.5%	0.3%	0.3%	0.1%	0.1%	0.0%	0.0%	-0.1%	-2.2%	-0.1%

Source: FactSet.

For the full year, 309 companies[12] (61% of the S&P) have provided any sort of guidance, while 275 companies (55% of the S&P) have provided FY'24 EPS guidance;[13] throughout this quarter, 107 companies (39%) raised their full year EPS outlook (led by the Health Care and Industrial sectors with 22 companies each), and 51 (19%) have lowered (Real Estate and Health Care with 11 and 10 EPS reductions). For revenue, 65 companies (32%) provided higher YoY revenue guides and 45 (22%) revised revenue guides down (with Health Care (16) and Consumer Discretionary / Industrials (14 each) seeing the largest number of increased annual guidance, and Industrials (16) and Health Care (11) also seeing the largest number of negative annual guides).



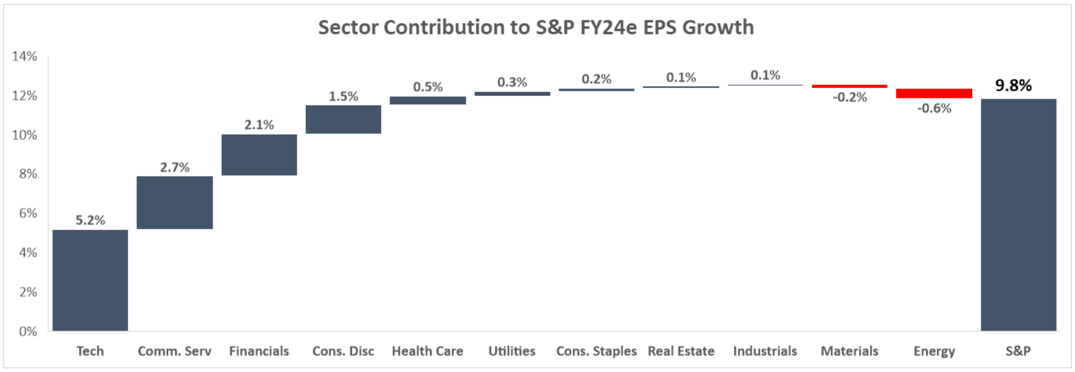
	Real Estate	Cons. Staples	Industrials	Utilities	Financials	Energy	Tech	Cons. Disc	Comm. Services	Materials	Health Care
Guide Raised	11	5	22	10	6	1	13	13	-	4	22
Guide Lowered	11	5	9	4	-	1	2	6	-	3	10
Avg. Guide Change	0.7%	0.7%	0.5%	0.3%	0.3%	0.1%	0.1%	0.0%	0.0%	-0.1%	-2.2%

Source: FactSet.

Overall, consensus Q4 S&P 500 EPS growth is now projected at 11.7%, down from 16.7% in June. This growth is expected to be driven by the Financials, Communication Services and Tech sectors, following blended year-over-year quarterly EPS increases of 9.6%, 10.1%, and 5.9%, respectively. This adjustment results in a revised FY'24 EPS growth estimate of 9.8%, down from 10.6% in June.

[12] As of 11/22/24 using our own methodology with data from Factset. These include a total of 503 companies within the S&P, and factor in companies that do not provide any guidance (in addition to companies with unchanged, positive/raised, and negative/lowered guidance).

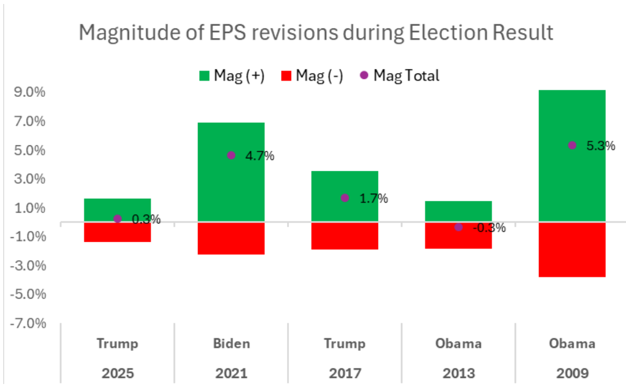
[13] For overall metrics, we consider whether a company gives guidance for either EPS, revenue, EBITDA, net income, net operating income, or net interest income. However, for the more detailed analysis, we only look at EPS and revenue figures.

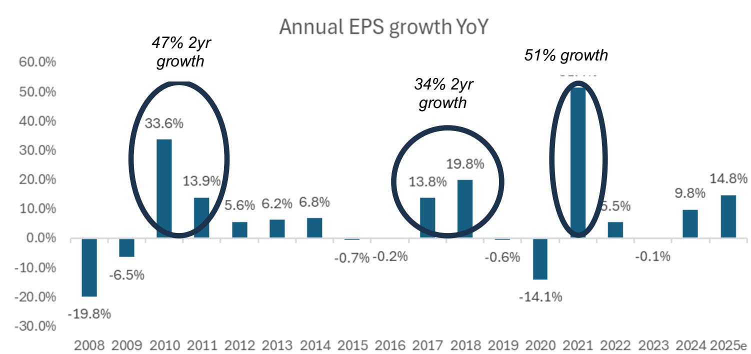


Source: Factset.

The Growth Paradox Cont'd: High Bars Amid Modest EPS Revisions Post-Election

Taking a closer look at the data, we have found FY'25 EPS estimates have undergone only slight revisions following the election and the magnitude of these changes remains minimal. Trump's second term has seen an average EPS revision of just +0.3%, which is among the smallest changes in the last five presidential terms – trailing Biden '21 (4.7%), Trump '17 (1.7%), and Obama '09 (5.3%), and slightly ahead of Obama '13 (-0.3%). Despite this, FY'25 EPS for the S&P 500 is projected to grow by 14.8% following an estimated 9.8% increase in FY'24; this would rank as one of the highest growth years in the millennium, exceeded only by 2017-2018 (34%), 2010-2011 (47%) and 2021 (51%), all of which followed EPS declines the prior year.[14]



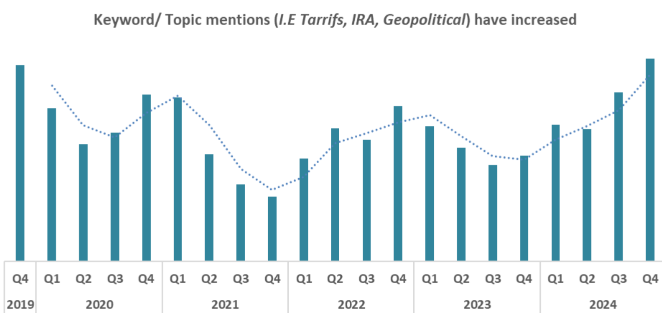


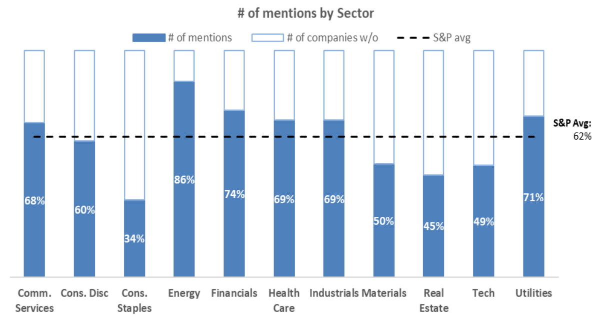
Source: Factset.

Furthermore, 2024 guidance trends further highlight resilience in corporate earnings. For Q4, 91 companies have provided guidance, with 67 (74%) raising their outlooks and just 22 (24%) lowering them – well below the five-year and ten-year averages of 58% and 62%, respectively. On a full-year basis, 275 companies have provided FY'24 EPS guidance, with 39% raising their outlooks after Q3 and just 19% lowering guidance.

The concentration of growth within a handful of mega-cap tech companies – the "Magnificent 7" – further skews the market narrative. Excluding these companies, annualized EPS growth for the broader S&P 500 stands at just 2.9%, with revenue growth at a modest 1.1%. Thus far, 77% of companies reporting Q3 results have exceeded EPS estimates, aligning with the five-year and ten-year averages of 77% and 75%, respectively. However, the average EPS beat of +7.0% falls below the five-year average of +8.5%, indicating a modest slowdown. Revenue surprises were even more subdued, with results exceeding estimates by just 1.2%, on average.

[14] Data gathered from top-down S&P 500 consensus estimates from Factset as of 11/22/24





Overall, investors are grappling with a range of potential factors, such as possible corporate tax cuts, infrastructure spending, and deregulatory measures, which could stimulate demand. At the same time, uncertainties around tariffs, inflation, and pricing pressures remain unresolved. Notably, these dynamics do not yet appear to be significantly reflected in sell-side estimates, as the relatively muted EPS revisions suggest that analysts are still waiting for greater clarity on policy and market conditions.

Additionally, the trends observed in Q3 reflect the high stakes for companies navigating this environment. Stocks of companies missing expectations were significantly penalized, while earnings beats saw more muted rewards,[15] highlighting the increasingly unforgiving market dynamics. This dynamic underscores the elevated bar companies must clear to maintain investor confidence.

Heading into 2025, these factors collectively emphasize the need for steady execution and prudent expectation management. With growth heavily concentrated in select sectors and market expectations already high, companies face a pivotal year in shaping investor sentiment and delivering on projections amid a complex and evolving macroeconomic landscape.

Update on EPS Surprises Driving Market Reactions in a Rate Cutting World:

In the second quarter of 2024, we observed a subtle but notable shift in market reactions to post-earnings reports. Stock movements were increasingly influenced by positive EPS surprises relative to Street consensus and revised EPS guidance, even as fewer companies achieved revenue beats over consensus and by smaller margins. This quarter highlighted persistent revenue pressures driven by a challenging macroeconomic environment, including softened consumer demand, a U.S. housing shortage, labor cuts, elevated interest rates, and underwhelming economic performance in parts of the EU and China. We analyzed whether this heightened focus on EPS, rather than revenue, aligns with historical trends observed in the quarters leading up to and following previous Fed rate cuts.

Our prior analysis examined all 14 instances of rate cuts since 2000, comparing market reactions during the quarter of the rate cut with those in the subsequent quarter. On a weighted average, share price reactions were consistent with long-term trends, showing a marginal difference of -0.1% (+0.3% during the rate-cut quarter versus +0.2% afterward). Additionally, we observed slightly stronger five-day post-earnings reactions in the quarter following rate cuts (+0.4% compared to +0.2% during the rate-cut quarter).

Contrary to expectations that lower interest rates would drive higher revenues, growth rates, and larger revenue beats versus consensus, sales growth actually decelerated in the quarter following rate cuts (+1.2% during the rate-cut quarter vs. +1.0% afterward). Specifically, companies reporting positive revenue growth saw an improvement from +2.6% to +3.0%, while those with revenue declines experienced deeper misses, moving from -1.4% to -2.0%. In contrast, EPS growth showed a more pronounced acceleration, increasing by 2.2% compared to the periods prior to the Fed cuts (+4.3% vs. +2.2%).

This quarter, 59% of companies reporting Q3 results beat sales estimates – a figure that falls below the one-year, five-year, and ten-year averages. Additionally, the magnitude of sales beats was smaller compared to long-term norms. Similarly, the magnitude of EPS beats also trailed historical averages.

While revenues and EPS estimates grew faster year-over-year in Q3 than in Q2, share price reactions on earnings day were more muted. Companies that beat estimates saw weighted average share price increases of +2.3% (compared to +2.7% last quarter), while those missing estimates experienced declines of -2.2% (vs. -2.5% in Q2), aligning closer to longer-term averages. Overall, one-day average reactions were +0.1%. Over five days, stocks of companies that beat estimates rose by +2.9% (vs. +3.5% in Q2), while those missing estimates declined by -2.1% (vs. -3.2% in Q2). Overall five-day average reactions were +0.8%.

[15] Compared to longer-term averages and stock reactions seen in previous quarters.

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