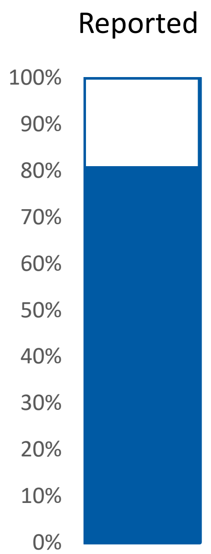
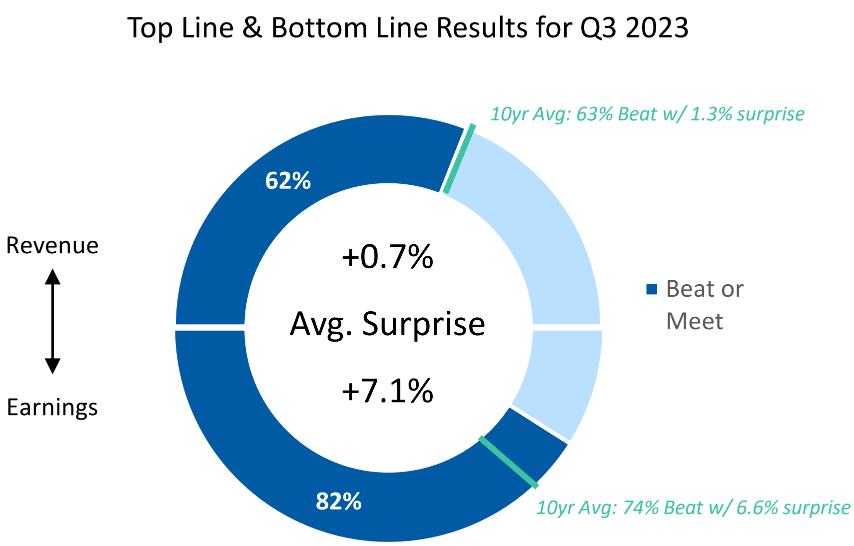
Morgan Stanley

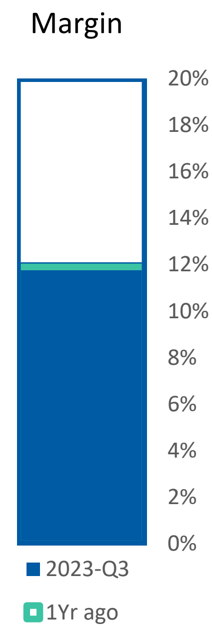
The Balog Group at Morgan Stanley

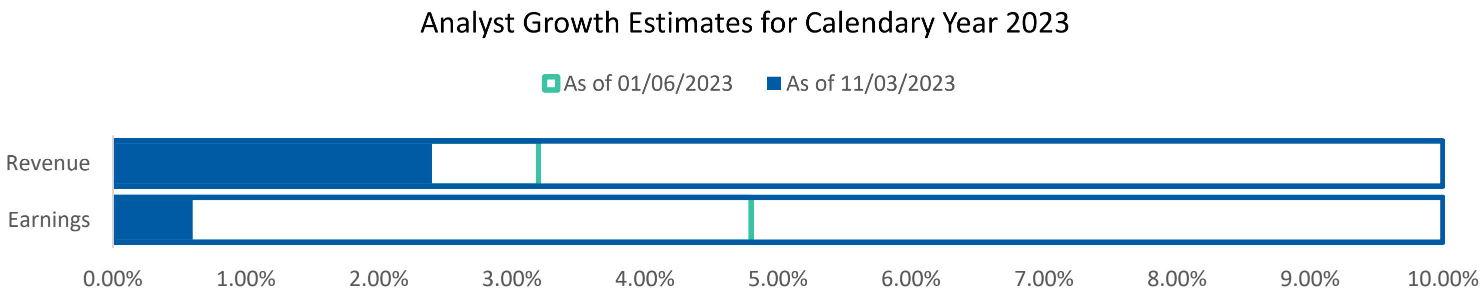
Earnings Insight – Q3 2023

As of last Friday, 81% of S&P 500 companies have announced their Q3 earnings. From what we gathered; the results aren't as bad as we had feared…but not as good as we had hoped. Bottom line results have been impressive as earnings have healthily beaten expectations, partially thanks to improving profit margins. However, on the flip side revenues have disappointed. It appears many companies have gotten through the challenge of rising COGS (cost of goods sold), but it may have come at the cost of their overall sales targets. It makes sense as companies raise prices of their products, their margins per sale increases, but consumers may pull back on purchases if they cost too much. Earlier in the year we saw the opposite problem where top line sales were coming in hot, but at the cost of lower margins. Below you can see some of the details from these announcements. Investors in general have been more pessimistic on misses than in the past (see chart 2 on next page), and analysts while lowering their 2023 estimates have kept 2024 targets lofty (see chart 3 on next page).









Source: Factset

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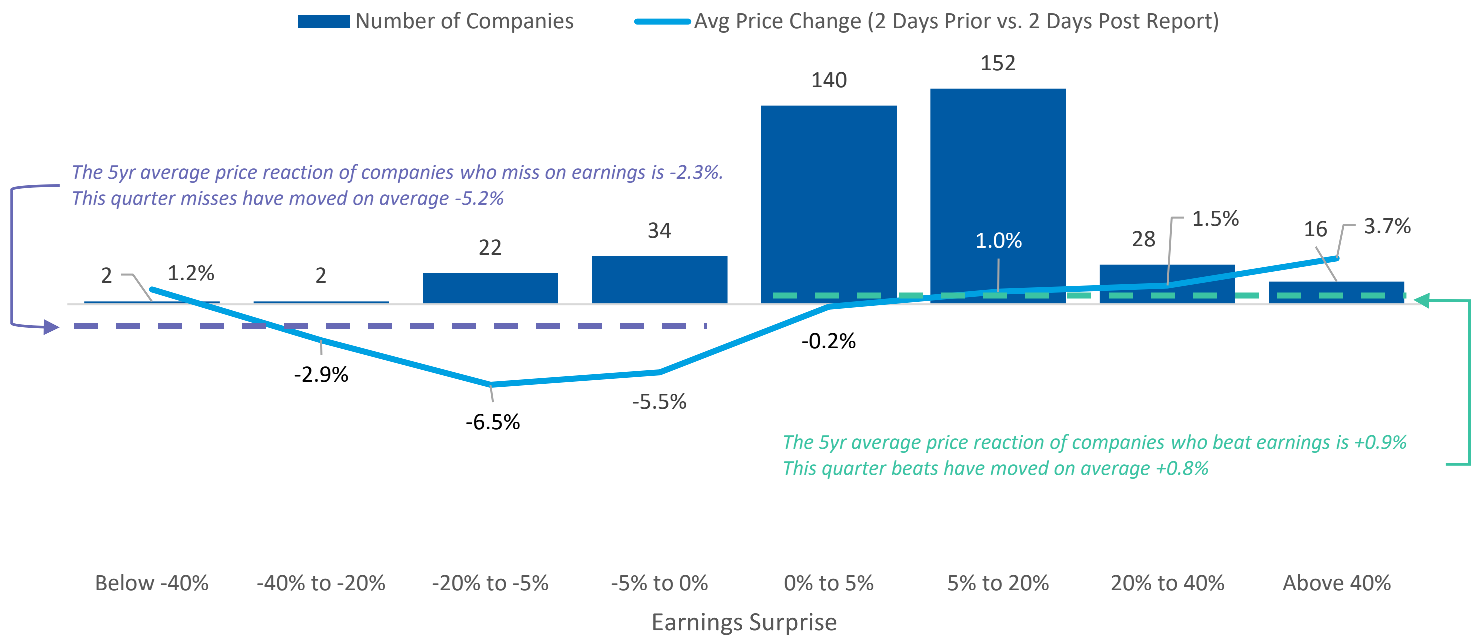
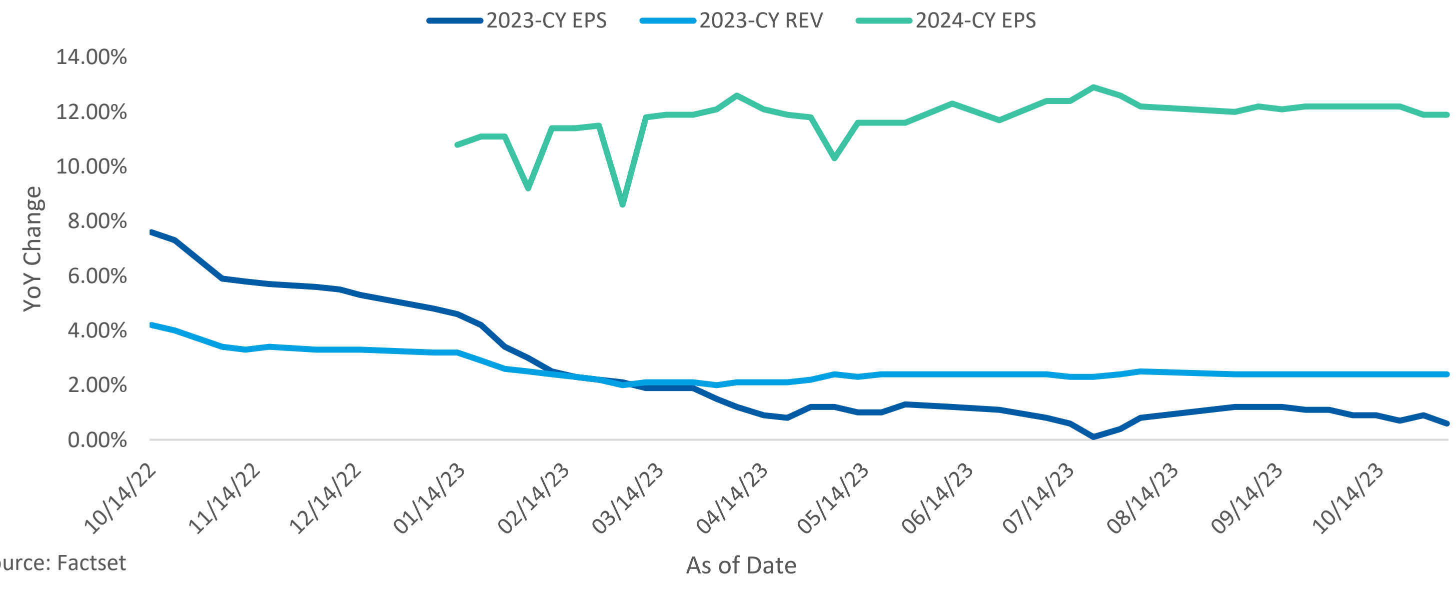
S&P 500 EPS Surprise vs. Price Reaction from Q3 Announcements in Q4 2023:

Investors are punishing those who miss far more than they typically do.



2023 & 2024 S&P 500 Growth Estimates From Analysts:

Earnings estimates have been dropping faster than revenue estimates and are now hovering close to zero growth for the year. Q3 Results however are coming in better than expected and analysts are much more optimistic of 2024 as those numbers are showing double digit figures as of now.



Source: Factset

Sources:

1. Factset – Earnings Insight

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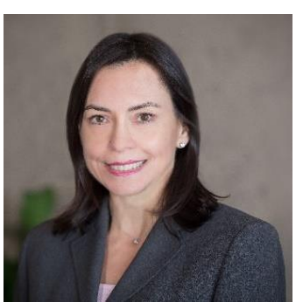

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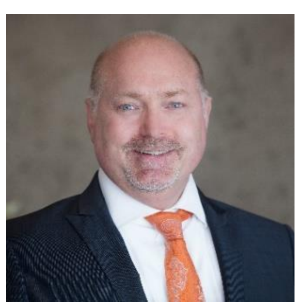

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