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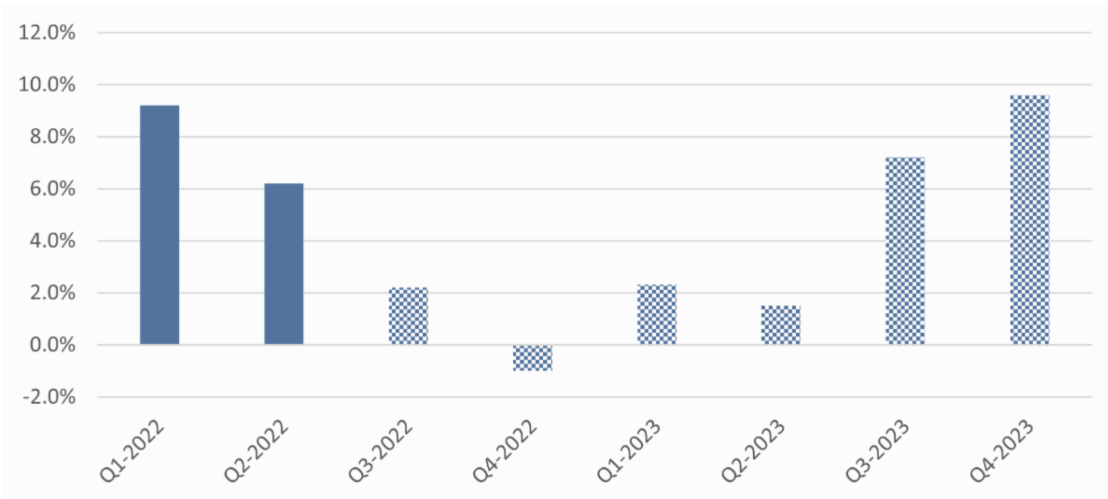
WEEKLY UPDATE
November 14, 2022

MARKET COMMENTARY

Fig 1: Weaker earnings growth may continue to weigh on market sentiment



Source: FactSet, Mill Creek.

As the third-quarter earnings season concludes, there are two key takeaways: 1) earnings growth remains modestly positive, supported by strong growth from the energy sector, and 2) analysts have revised their expectations for the S&P 500 into negative territory for the fourth quarter as all eleven sectors are expected to report lower earnings than previously forecasted.

On a year-over-year basis, the S&P 500 is reporting its lowest earnings growth of +2.2% since the third quarter of 2020. The energy sector is reporting significant earnings growth of nearly +140% year-over-year as the average price for a barrel of oil is nearly $20 higher versus the same period one year ago. Without the support of the energy sector, the S&P 500 would be reporting an earnings decline of -5.4% rather than +2.2%. The energy sector’s success has masked some of the pain felt throughout the rest of the market. For instance, earnings from insurance companies are taking a hit due to the impact of Hurricane Ian. Meanwhile, consumers and companies continue to rein in their spending on non-essential items and advertising, respectively.

As the effects of higher inflation and higher interest rates take hold, company management teams are lowering expectations for the fourth quarter and the full year of 2023. In turn, analysts now expect the S&P 500 to produce negative earnings growth of -1.0% in the fourth quarter due to significant declines in earnings growth from the technology, consumer discretionary, and communications services sectors. In the meantime, full-year 2023 expectations have already been lowered to +5.9% growth from +8.1% and that figure could easily go lower or negative if a recession materializes as many are now forecasting. This year prices have fallen quickly while earnings have held up, but now the story has shifted as earnings growth is falling while prices could still fall further. We expect market volatility to persist and have thus shifted our positioning within equities to be more defensive as markets try to find a bottom.

QUICK LINKS

- Higher for Longer
- November Update: A Market-Led Fed Pivot?
- Taking Advantage of Higher Bond Yields
- Preparing for a Recession with Low Volatility Equities

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