



All Cap Index & Sectors: 1Q22's Soaring Economic Earnings Aren't Sustainable (Free, Abridged)

[Economic earnings](#) increased year-over-year (YoY) for all but two sectors through the trailing-twelve-months (TTM) ended 1Q22 for the NC 2000¹, our All Cap Index.

This report is an abridged and free version of [All Cap Index & Sectors: 1Q22's Soaring Economic Earnings Aren't Sustainable](#), one of our quarterly reports on [fundamental market and sector trends](#).

The full version of this report analyzes the economic earnings² (which adjust for [unusual items](#) on both the income statement and balance sheet) and GAAP earnings of the NC 2000 and its sectors. This report is available to those with a [Pro or higher](#) membership or can be purchased below.

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Economic earnings provide a more accurate picture of the true underlying cash flows of a business than GAAP earnings. Reports on the drivers of economic earnings are [here](#).

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)³ fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

Economic Earnings Nearly Doubled in 1Q22

Economic earnings for the NC 2000 rose from \$563.4 billion in 1Q21 to \$1.0 trillion in 1Q22, while GAAP Earnings rose from \$1.3 trillion to \$2.1 trillion over the same time. Economic and GAAP earnings are only slightly below calendar 2021 levels – the highest since 1998, which is the earliest our analysis is available.

However, the NC 2000's soaring economic earnings are likely to reverse trend soon, as we detail in [All Cap Index & Sectors: Inflation Inflates ROICs for 1Q22](#).

Indeed, a major headwind facing economic earnings is a rising WACC, which in the TTM ended 1Q22 added \$104.1 billion to the cost of capital. The start of rapid inflation artificially boosts GAAP earnings as profits on current sales are calculated using historic inventory costs. Once inflation cools, the process is reversed, and GAAP earnings become artificially depressed. However, investors can protect themselves from such false signals by utilizing economic earnings, which accounts for expected inflation as reflected in the firm's WACC.

See Figure 1 in the [full version](#) of our report for the chart of Economic Earnings vs. GAAP earnings for the NC 2000 from December 1998 through 1Q22.

Key Details on Select NC 2000 Sectors

While all sectors saw a YoY rise in GAAP earnings, economic earnings for the Real Estate and Basic Materials sectors fell in 1Q22.

The Energy sector saw the largest YoY improvement, \$158.0 billion, in economic earnings, which rose from -\$112.1 billion in 1Q21 to \$45.8 billion in 1Q22.

The Technology sector generates the most economic earnings of any sector and grew economic earnings by 30% YoY in 1Q22. On the flip side, the Real Estate sector has the lowest economic earnings and saw a \$1.3 billion YoY decline in economic earnings in 1Q22.

Below, we highlight the Industrials sector which saw economic earnings improve by \$54.9 billion YoY in 1Q22.

¹ The NC 2000 consists of the largest 2000 U.S. companies by market cap in our coverage. Constituents are updated on a quarterly basis (March 31, June 30, September 30, and December 31). We exclude companies that report under IFRS and non-U.S. ADR companies.

² This report is based on the latest audited financial data available, which is the 1Q22 10-Q in most cases. Price data as of 5/16/22.

³ Our research utilizes our more of reliable fundamental data, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).

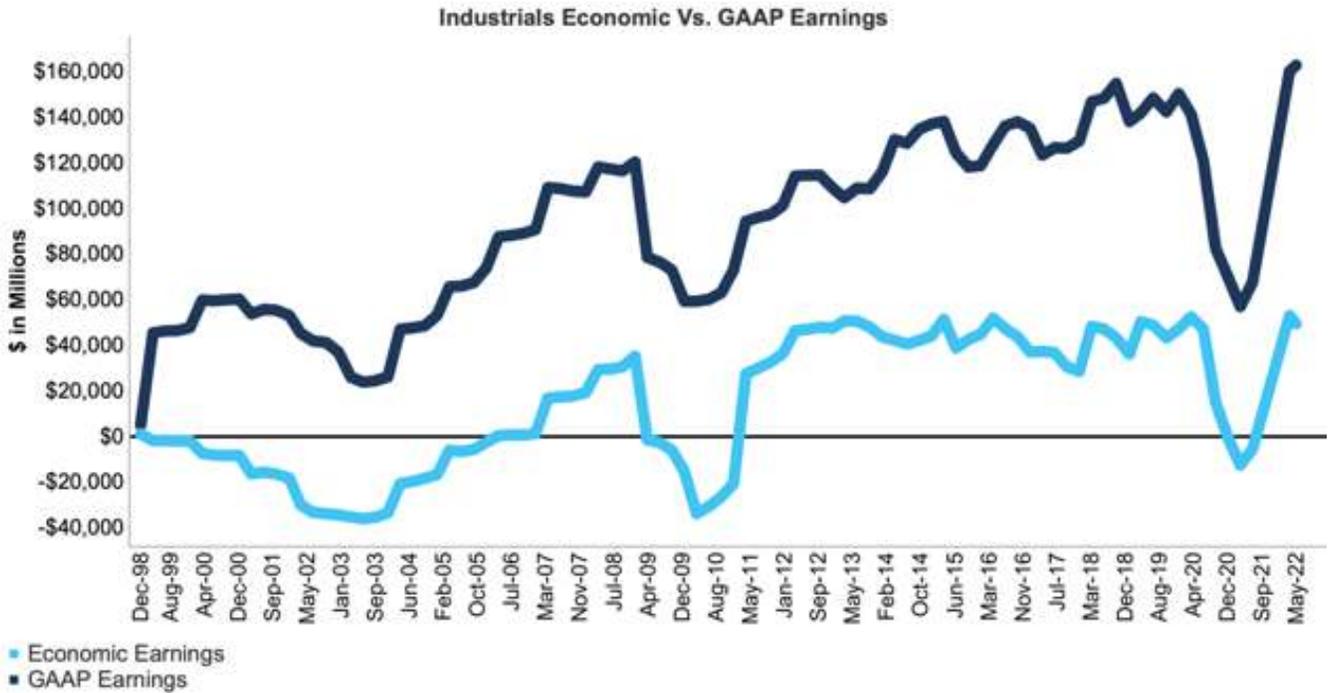


The full version provides the same details for every sector as this report does for the Industrials Sector.

Sample Sector Analysis: Industrials

Figure 1 shows economic earnings for the Industrials sector rose from -\$5.5 billion in 1Q21 to \$49.4 billion in 1Q22, while GAAP earnings rose from \$67.7 billion to \$162.8 billion over the same time.

Figure 1: Industrials Economic Earnings Vs. GAAP: 1998 – 1Q22



Sources: New Constructs, LLC and company filings.
Our economic earnings analysis is based on aggregated TTM data for the sector constituents in each measurement period.
The May 16, 2022 period incorporates the financial data from calendar 1Q22 10-Q, as this is the earliest date for which all the calendar 1Q22 10-Qs for the NC 2000 constituents were available.

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Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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Appendix: Calculation Methodology

We derive the economic earnings and GAAP earnings metrics above by summing the Trailing Twelve-Month individual NC 2000 constituent values for economic earnings and GAAP earnings in each sector for each measurement period. We call this approach the “Aggregate” methodology.

The Aggregate methodology provides a straightforward look at the entire sector, regardless of market cap or index weighting and matches how S&P Global (SPGI) calculates metrics for the S&P 500.



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Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
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Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms’ data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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