



S&P 500 Economic Earnings: Downward Trend Continues In 3Q22 (Free, Abridged)

[Economic earnings](#) for the S&P 500 dropped quarter-over-quarter (QoQ) in 3Q22, a trend that began in 1Q22. Economic earnings decreased QoQ for every sector except Energy through the trailing-twelve-months (TTM) ended 3Q22.

This report is an abridged and free version of [S&P 500 Economic Earnings: Downward Trend Continues In 3Q22](#), one of our quarterly series on [fundamental market and sector trends](#). The full reports are available to those with our new [Professional](#) (previously known as [Unlimited](#)) and [Institutional](#) membership or can be purchased below.

The full version of this report analyzes the economic earnings¹ (which adjust for [unusual items](#) on both the income statements and balance sheets) and GAAP earnings for the S&P 500 and its sectors (last quarter's analysis is [here](#)).

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Economic earnings provide a more accurate measure of the true underlying cash flows of businesses 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](#)² fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

Economic Earnings Fall in 3Q22

Economic earnings for the S&P 500 fell from \$858.5 billion in 2Q22 to \$785.9 billion in 3Q22, while GAAP Earnings fell from \$1.74 trillion to \$1.69 trillion over the same time. Despite falling in the quarter, economic and GAAP earnings remain near record highs and have not fallen to anywhere near pre-pandemic levels.

The S&P 500's soaring economic earnings have fallen quarter-over-quarter in each of the past three quarters, a trend we noted was likely in our 1Q22 report [S&P 500 Economic Earnings Set Records, but WACC Is a Drag](#). Indeed, a major headwind facing economic earnings is a rising WACC. Inflation boosts GAAP earnings, but these gains are erased in economic terms by a higher cost of capital. Investors can protect themselves from such false signals by paying closer attention to economic earnings, which accounts for the effects of expected inflation on a firm's WACC.

See Figure 1 in the [full version](#) of our report for the chart of Economic Earnings vs. GAAP earnings for the S&P 500 from December 2004 through 3Q22.

Key Details on Select S&P 500 Sectors

GAAP Earnings overstate the decline in profits, relative to Economic Earnings, for the Financials, Healthcare, and Consumer Non-cyclicals sectors. On the flip side, GAAP Earnings overstate the increase in profits, relative to Economic Earnings, for the other eight sectors.

Only the Energy sector saw QoQ improvement, \$30.5 billion, in economic earnings, which rose from \$76.3 billion in 2Q22 to \$106.8 billion in 3Q22.

The Technology sector generates the most economic earnings of any sector, but its economic earnings fell by 7% QoQ in 3Q22. On the flip side, the Utilities sector has the lowest economic earnings and was one of ten sectors that destroyed shareholder value in 3Q22.

¹ This report is based on the latest audited financial data available, which is the 3Q22 10-Q in most cases. Price data as of 11/25/22.

² 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](#).

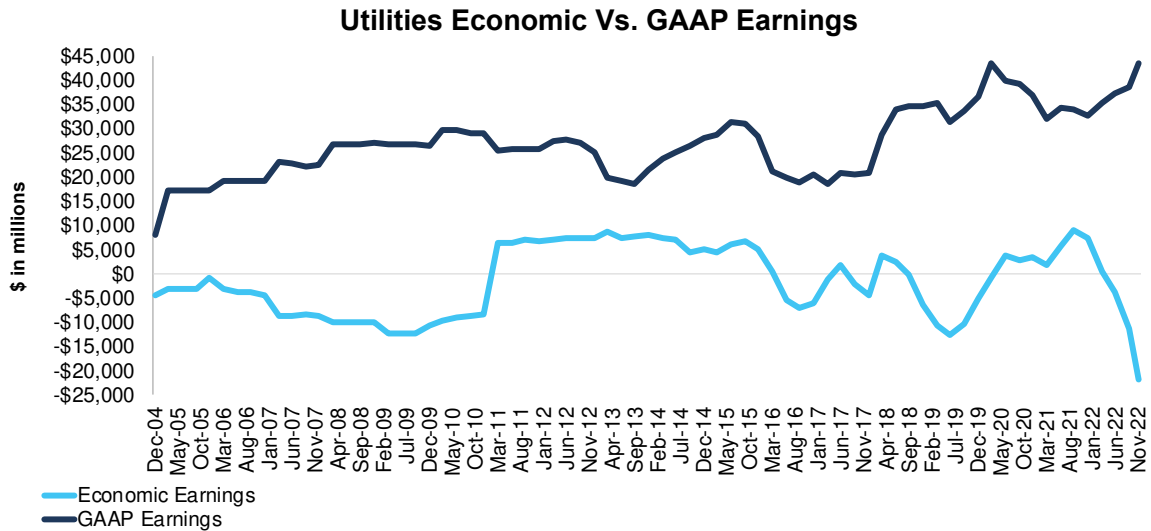


Below, we highlight the Utilities sector, one of the sector's which saw the largest difference between the QoQ change in economic earnings and GAAP earnings in 3Q22.

Sample Sector Analysis³: Utilities

Figure 1 shows economic earnings for the Utilities sector fell from -\$11.3 billion in 2Q22 to -\$21.8 billion in 3Q22, while GAAP earnings rose from \$38.5 billion to \$43.4 billion over the same time.

Figure 1: Utilities Economic Earnings Vs. GAAP: 2004 – 3Q22



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 November 25, 2022 measurement period incorporates the financial data from calendar 3Q22 10-Q, as this is the earliest date for which all the calendar 3Q22 10-Qs for the S&P 500 constituents were available.

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

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³ The full version of this report provides analysis for every sector like what we show for this sector.



Appendix: Calculation Methodology

We derive the economic earnings and GAAP Earnings metrics above by summing the Trailing Twelve Month individual S&P 500 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.



It's Official: We Offer the Best Fundamental Data in the World

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.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Economic Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Economic 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 Economic 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.

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