



All Cap Index & Sectors: Economic Earnings Continue to Fall in 4Q22

Trailing-twelve-months (TTM) [Economic Earnings](#) for the NC 2000¹, our All Cap Index, have been falling quarter-over-quarter (QoQ) since 1Q22. TTM Economic Earnings in 4Q22 were lower than 3Q22 TTM levels for all but two sectors: Energy and Financials.

At the sector level, there are mixed signals to be sure. Some sectors are seeing Economic Earnings go up while others see it go down – and to varying degrees.

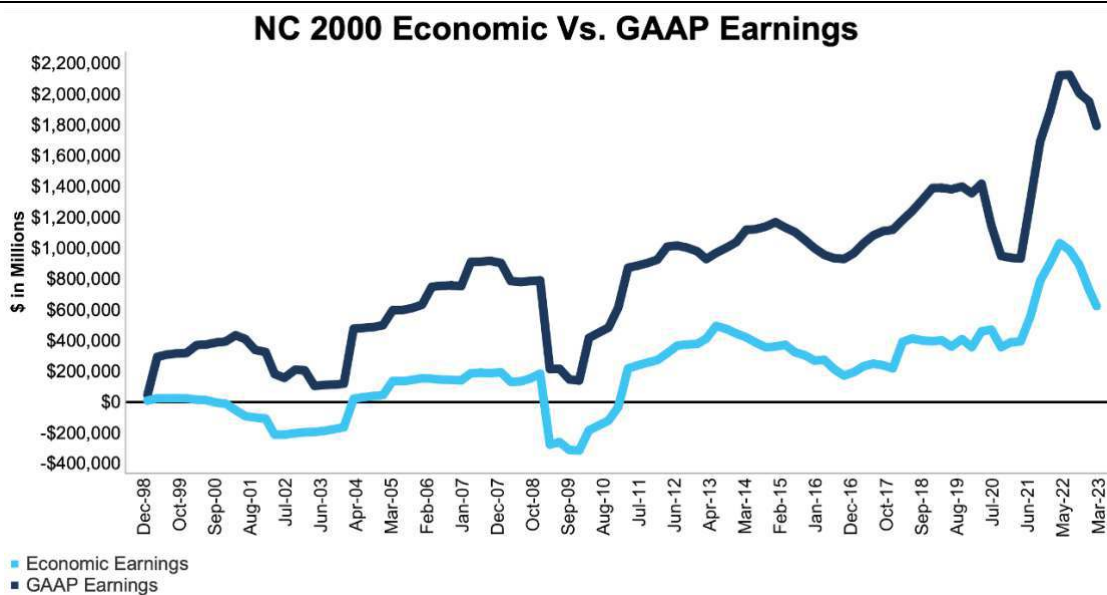
This report analyzes the TTM Economic Earnings² (which adjust for [unusual items](#) on the income statements and balance sheets) and GAAP earnings of the NC 2000 and its sectors. Economic Earnings provide a more accurate measure of the true underlying cash flows of businesses than GAAP earnings.

Last quarter's version of this report is [here](#). You can find the same analysis on other key metrics [here](#).

Economic Earnings Fall Further in 4Q22

Figure 1 shows TTM Economic Earnings for the NC 2000 fell from \$731.0 billion in 3Q22 to \$624.6 billion in 4Q22, while TTM GAAP Earnings fell from \$1.9 trillion to \$1.8 trillion over the same time. Despite falling in the quarter, Economic and GAAP earnings remain near record highs and well above pre-pandemic levels.

Figure 1: NC 2000 Economic Earnings Vs. GAAP: 4Q98 – 4Q22



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 March 8, 2023 period incorporates the financial data from calendar 2022 10-Ks, as this is the earliest date for which all of the calendar 2022 10-Ks for the NC 2000 constituents were available.

The NC Economic Earnings have fallen quarter-over-quarter in each of the past four quarters, a trend we noted was likely in our 1Q22 report [All Cap Index & Sectors: 1Q22's Soaring Economic Earnings Aren't Sustainable](#). Indeed, a major headwind facing Economic Earnings is a rising weighted-average cost of capital ([WACC](#)). WACC for the NC 2000 sits at 6.9% in 4Q22, which is up from 6.4% in 3Q22 and 5.0% in 4Q21. Investors can

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 2022 10-K in most cases. Price data as of 3/8/23.



protect themselves by paying closer attention to Economic Earnings, which accounts for the effects of high inflation on a firm's WACC.

Ranking the Sectors by GAAP Vs. Economic Earnings Changes

Figure 2 compares the QoQ change in TTM Economic Earnings and TTM GAAP earnings from 3Q22 to 4Q22³ for the NC 2000 and all eleven NC 2000 sectors. The Financial sector's decline in GAAP earnings understates the increase in the sector's Economic Earnings the most. On the flip side, the Industrials sector's increase in GAAP earnings overstates the decline in Economic Earnings the most.

Figure 2: 4Q22 TTM Economic Earnings & GAAP Earnings QoQ Change (\$ Billions)

Sector	GAAP Earnings QoQ Change	Economic Earnings QoQ Change	Difference
Financials	(\$67.7)	\$13.5	\$81.3
Telecom Services	(\$30.3)	(\$12.9)	\$17.4
Consumer Cyclical	(\$33.9)	(\$25.4)	\$8.6
Healthcare	(\$13.5)	(\$8.9)	\$4.5
Consumer Non-cyclical	(\$9.8)	(\$8.4)	\$1.4
Technology	(\$30.7)	(\$31.3)	(\$0.6)
Energy	\$23.2	\$16.2	(\$7.0)
Utilities	(\$7.6)	(\$16.4)	(\$8.7)
Basic Materials	(\$3.7)	(\$16.8)	(\$13.1)
Real Estate	(\$0.2)	(\$13.9)	(\$13.7)
Industrials	\$15.2	(\$2.3)	(\$17.6)
NC 2000	(\$167.1)	(\$106.4)	\$60.7

Sources: New Constructs, LLC and company filings.

Our economic earnings analysis is based on aggregated TTM data for the sector constituents.

The Energy sector saw the largest QoQ improvement in TTM Economic Earnings, \$16.2 billion, which rose from \$118.7 billion in 3Q22 to \$134.9 billion in 4Q22.

Despite being the sector with the highest TTM Economic Earnings, the Technology sector's TTM Economic Earnings fell by 10% QoQ in 4Q22. On the flip side, the Utilities sector has the lowest TTM Economic Earnings and was one of nine sectors that destroyed shareholder value in 4Q22.

Details on the 11 NC 2000 Sectors

Figures 3 through 13 compare the Economic Earnings and GAAP earnings trends for every NC 2000 sector since 4Q98.

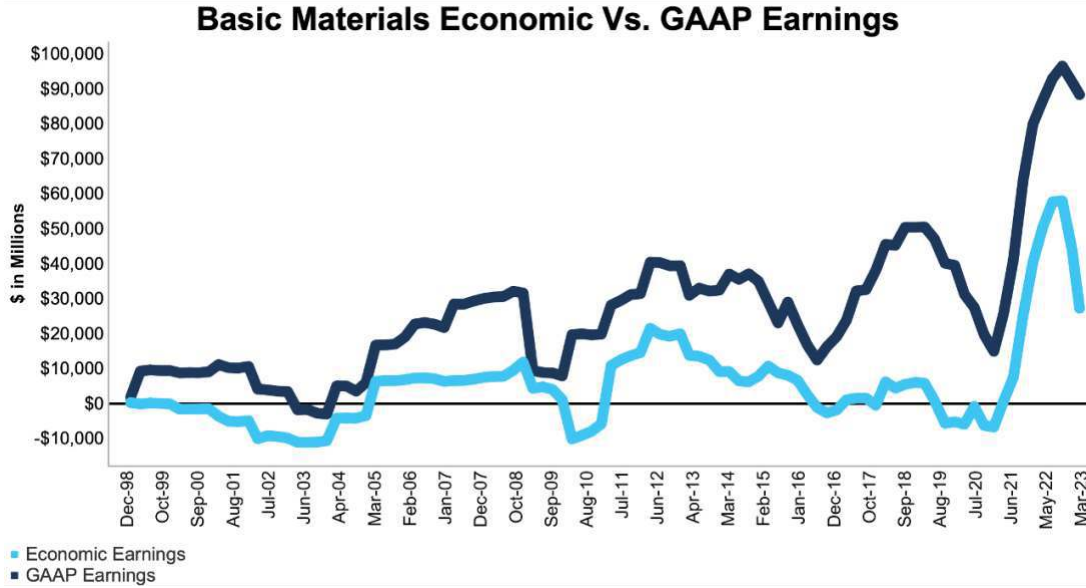
³ March 8, 2023, is earliest date for which all of the calendar 2022 10-Ks for the NC 2000 constituents were available.



Basic Materials

Figure 3 shows Economic Earnings for the Basic Materials sector, at \$27.3 billion, fell 38% QoQ in 4Q22, while GAAP earnings, at \$88.4 billion, fell 4% over the same time.

Figure 3: Basic Materials Economic Earnings Vs. GAAP: 4Q98 – 4Q22



Sources: New Constructs, LLC and company filings.

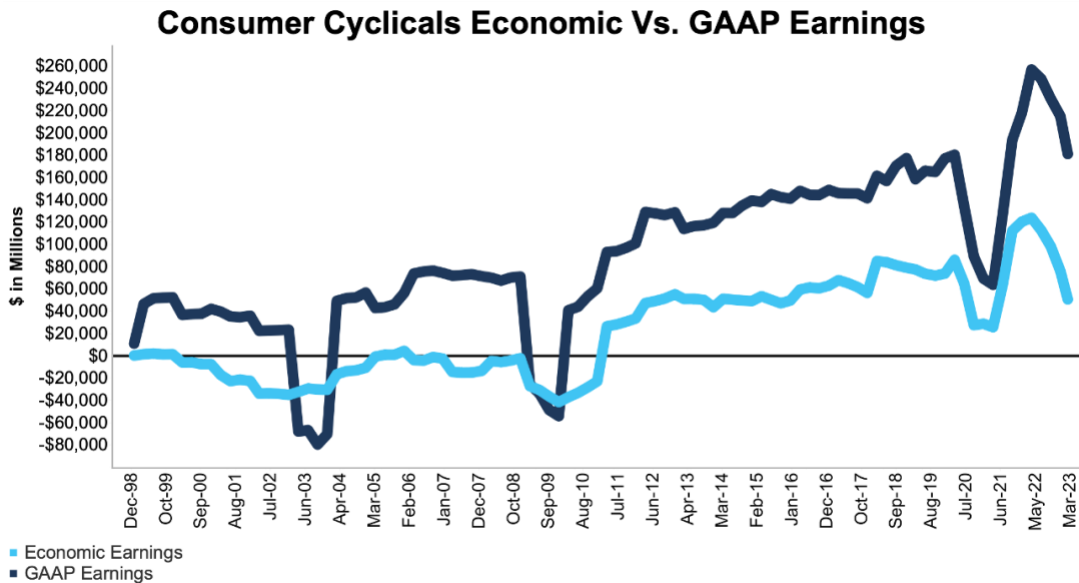
Our economic earnings analysis is based on aggregated TTM data for the sector constituents in each measurement period.

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Consumer Cyclicals

Figure 4 shows Economic Earnings for the Consumer Cyclicals sector, at \$50.6 billion, fell 33% QoQ in 4Q22, while GAAP earnings, at \$181.1 billion, fell 16% over the same time.

Figure 4: Consumer Cyclicals Economic Earnings Vs. GAAP: 4Q98 – 4Q22



Sources: New Constructs, LLC and company filings.

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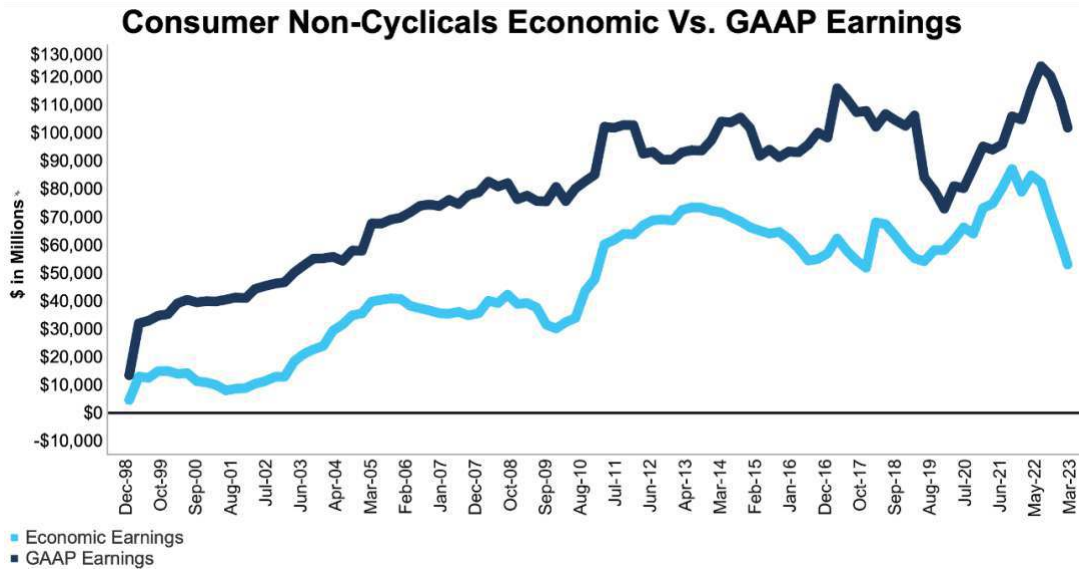
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Consumer Non-cyclicals

Figure 5 shows Economic Earnings for the Consumer Non-cyclicals sector, at \$53.1 billion, fell 14% QoQ in 4Q22, while GAAP earnings, at \$102.0 billion, fell 9% over the same time.

Figure 5: Consumer Non-cyclicals Economic Earnings Vs. GAAP: 4Q98 – 4Q22



Sources: New Constructs, LLC and company filings.

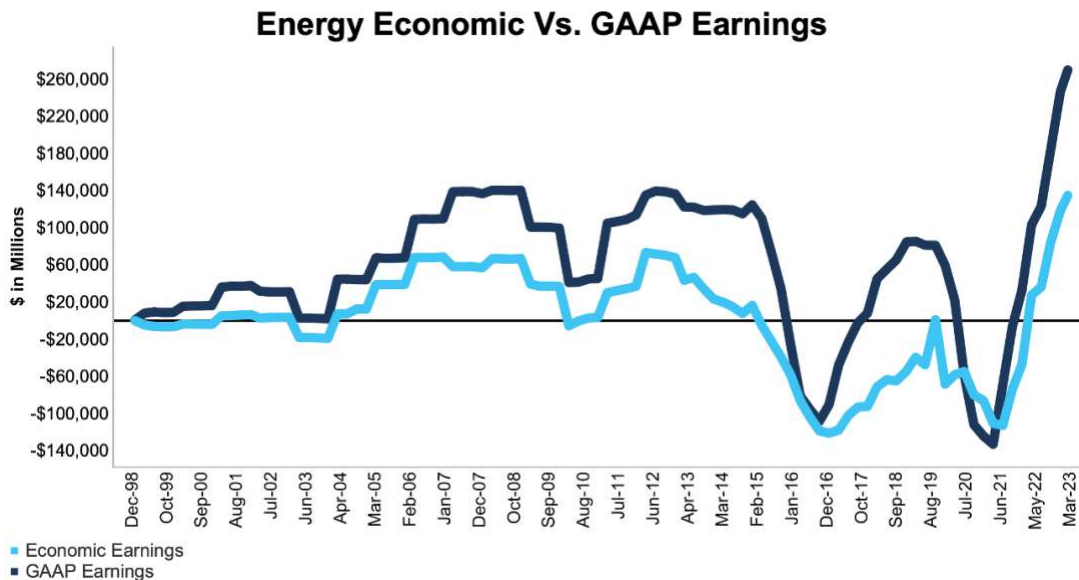
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Energy

Figure 6 shows Economic Earnings for the Energy sector, at \$134.9 billion, rose 14% QoQ in 4Q22, while GAAP earnings, at \$270.0 billion, rose 9% over the same time.

Figure 6: Energy Economic Earnings Vs. GAAP: 4Q98 – 4Q22



Sources: New Constructs, LLC and company filings.

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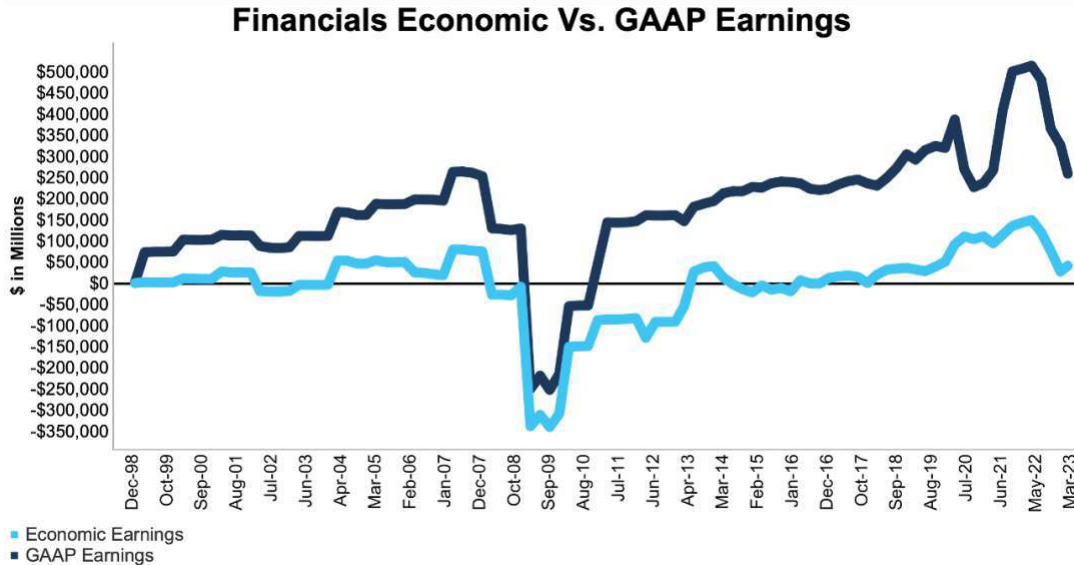
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Financials

Figure 7 shows Economic Earnings for the Financials sector, at \$41.8 billion, rose 48% QoQ in 4Q22, while GAAP earnings, at \$259.6 billion fell 21% over the same time.

Figure 7: Financials Economic Earnings Vs. GAAP: 4Q98 – 4Q22



Sources: New Constructs, LLC and company filings.

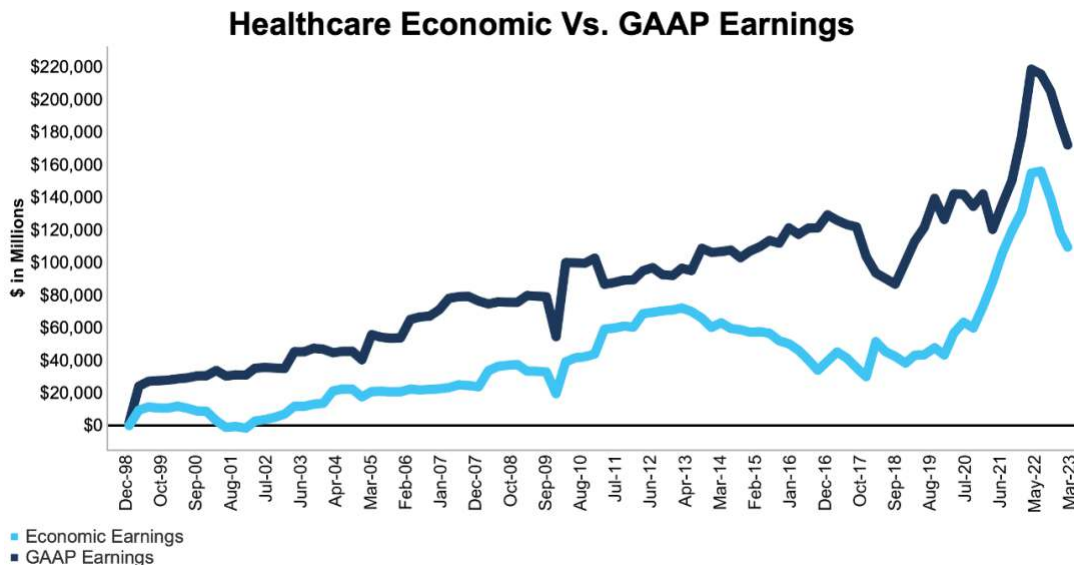
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Healthcare

Figure 8 shows Economic Earnings for the Healthcare sector, at \$109.5 billion, fell 8% QoQ in 4Q22, while GAAP earnings, at \$172.3 billion, fell 7% over the same time.

Figure 8: Healthcare Economic Earnings Vs. GAAP: 4Q98 – 4Q22



Sources: New Constructs, LLC and company filings.

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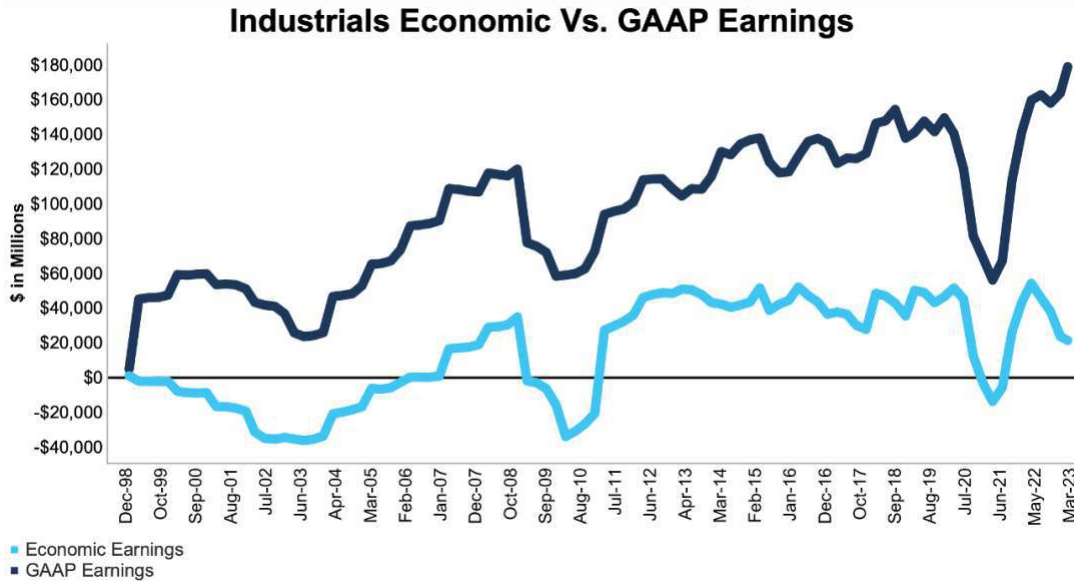
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Industrials

Figure 9 shows Economic Earnings for the Industrials sector, at \$21.5 billion, fell 10% QoQ in 4Q22, while GAAP earnings, at \$179.1 billion, rose 9% over the same time.

Figure 9: Industrials Economic Earnings Vs. GAAP: 4Q98 – 4Q22



Sources: New Constructs, LLC and company filings.

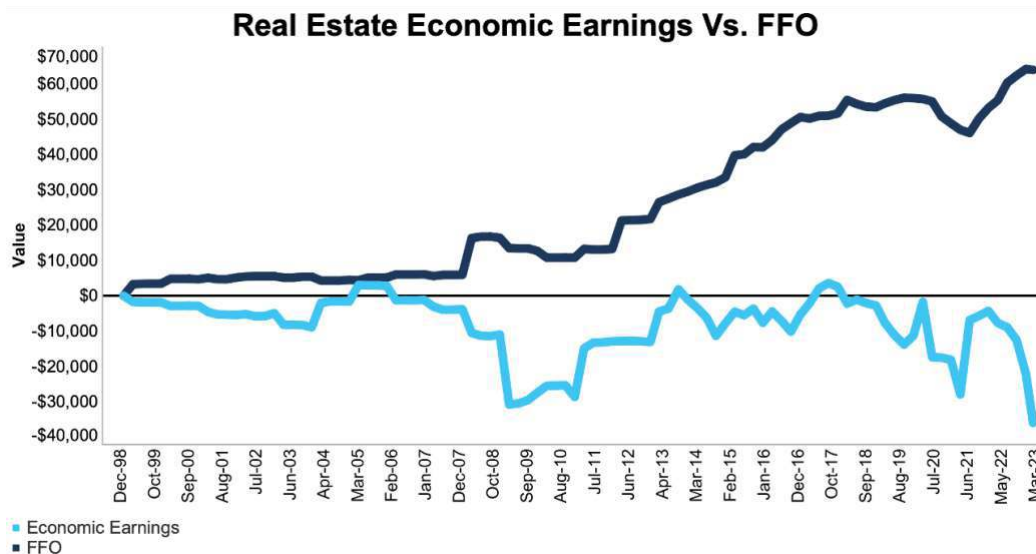
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Real Estate

Figure 10 shows Economic Earnings for the Real Estate sector fell from -\$22.1 billion in 3Q22 to -\$36.0 billion in 4Q22, while funds from operations rose from \$64.2 billion to \$64.0 billion over the same time. Funds from operations add back depreciation and amortization, which can materially impact reported results.

Figure 10: Real Estate Economic Earnings Vs. FFO: 4Q98 – 4Q22



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.

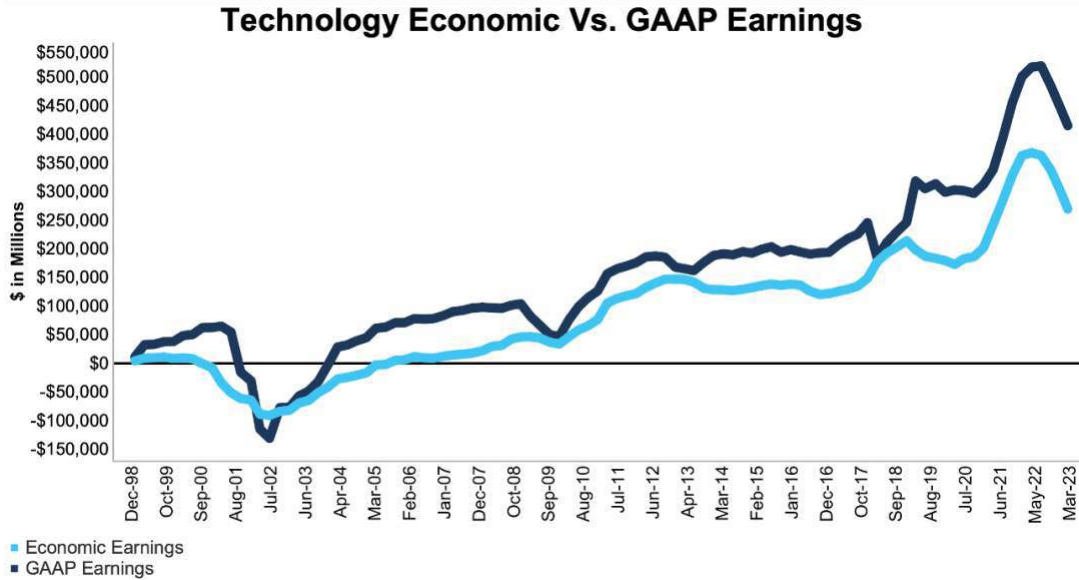
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Technology

Figure 11 shows Economic Earnings for the Technology sector, at \$269.6 billion, fell 10% QoQ in 4Q22, while GAAP earnings, at \$415.6 billion, fell 7% over the same time.

Figure 11: Technology Economic Earnings Vs. GAAP: 4Q98 – 4Q22



Sources: New Constructs, LLC and company filings.

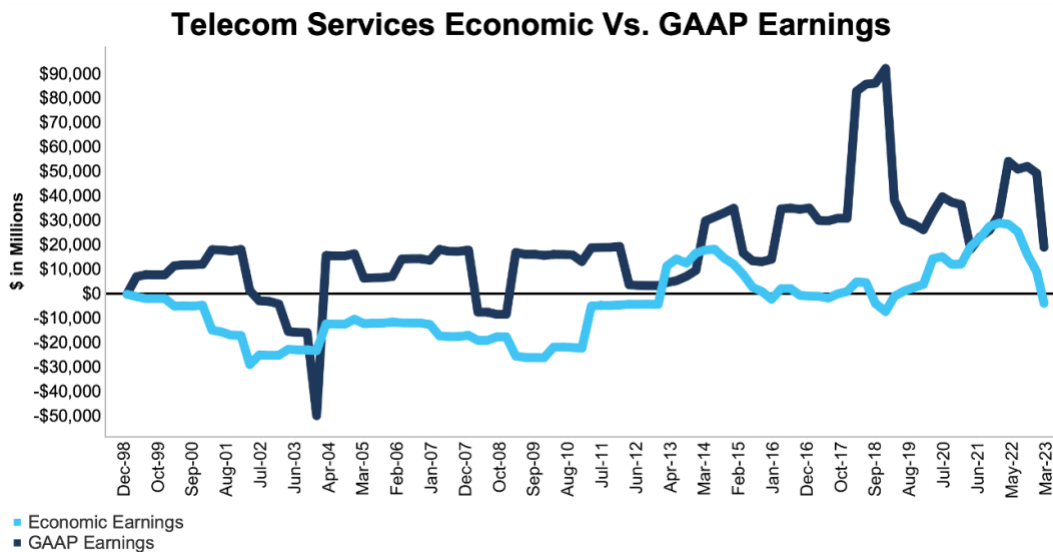
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Telecom Services

Figure 12 shows Economic Earnings for the Telecom Services sector fell from \$9.0 billion in 4Q22 to -\$3.9 billion in 4Q23, while GAAP earnings fell from \$49.3 billion to \$19.0 billion over the same time.

Figure 12: Telecom Services Economic Earnings Vs. GAAP: 4Q98 – 4Q22



Sources: New Constructs, LLC and company filings.

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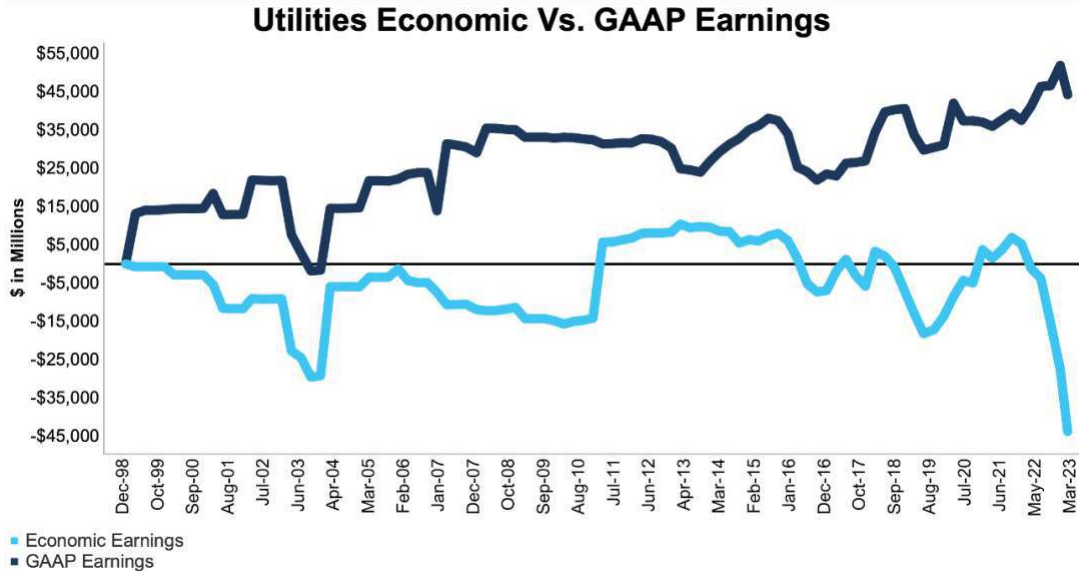
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Utilities

Figure 13 shows Economic Earnings for the Utilities sector fell from -\$27.5 billion in 3Q22 to -\$43.8 billion in 4Q22, while GAAP earnings fell from \$51.9 billion to \$44.3 billion over the same time.

Figure 13: Utilities Economic Earnings Vs. GAAP: 4Q98 – 4Q22



Sources: New Constructs, LLC and company filings.

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Disclosure: David Trainer, Kyle Guske II, and Italo Mendonça 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 up 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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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.

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