



S&P 500 Economic Earnings: Downward Trend Continues In 2Q23 (Free, Abridged)

Trailing-twelve-months (TTM) [Economic Earnings](#) for the S&P 500 have been falling quarter-over-quarter (QoQ) since 1Q22. 2Q23 was no different.

At the sector level, there are mixed signals to be sure. Economic earnings are rising for some sectors, and falling in others, and the magnitude varies by a wide margin. Trailing TTM Economic Earnings in 2Q23 were lower than 1Q23 TTM levels for six of eleven sectors.

This report is an abridged and free version of [S&P 500 Economic Earnings: Downward Trend Continues In 2Q23](#), one of our quarterly series on [fundamental market and sector trends](#). The full reports are available to our [Professional](#) and [Institutional](#) members 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 2Q23

See Figure 1 in the [full version](#) of our report for the chart of Economic Earnings vs. GAAP earnings for the S&P 500 and each of its eleven sectors from December 2004 through 2Q23.

The S&P 500's falling Economic Earnings are the continuation of a trend we foresaw 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. WACC for the S&P 500 sits at 7.1% in 2Q23, which is down from 7.3% in 1Q23, but well above the 5.7% in 2Q22 and 4.7% in 2Q21.

Investors can protect themselves by paying closer attention to Economic Earnings, which account for the effects of changes to WACC.

Key Details on Select S&P 500 Sectors

The Financials sector saw the largest QoQ improvement in TTM Economic Earnings, which rose from -\$21.3 billion in 1Q23 to \$10.4 billion in 2Q23.

The Technology sector's TTM Economic Earnings fell by 2% QoQ in 2Q23, though it generates the highest TTM Economic Earnings of any sector. On the flip side, the Utilities sector has the lowest TTM Economic Earnings of any sector and was one of six sectors that destroyed shareholder value in 2Q23.

Below, we highlight the Financials sector, which saw the largest QoQ improvement in TTM Economic Earnings in 2Q23.

¹ This report is based on the latest audited financial data available, which is the 2Q23 10-Q in most cases. Price data as of 8/15/23.

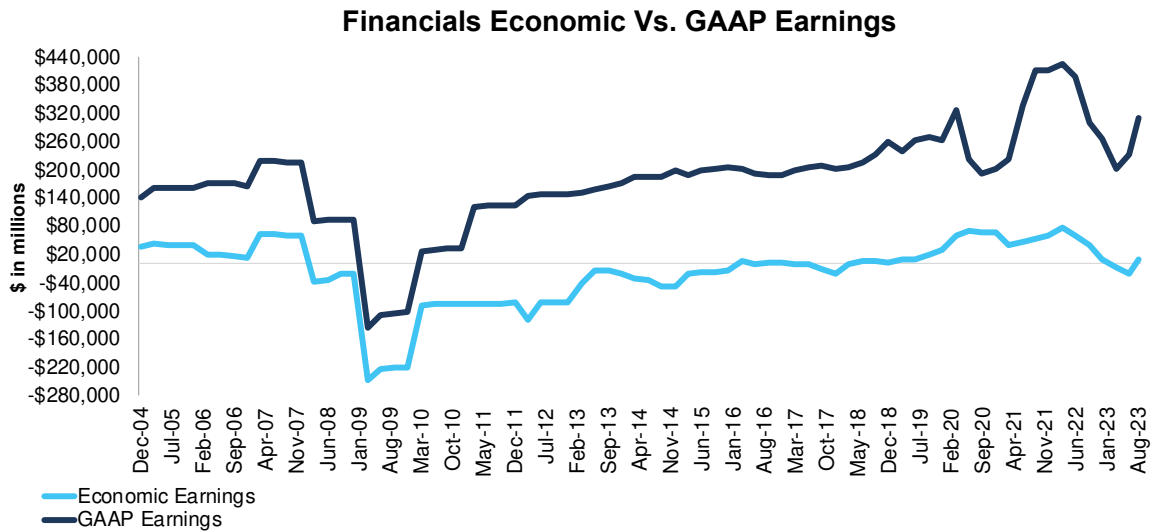
² Our research utilizes our more of reliable fundamental data, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).



Sample Sector Analysis³: Financials

Figure 1 shows Economic Earnings for the Financials sector rose from -\$21.3 billion in 1Q23 to \$10.4 billion in 2Q23, while GAAP earnings rose from \$231.3 billion to \$310.3 billion over the same time.

Figure 1: Financials Economic Earnings Vs. GAAP: 2004 – 2Q23



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 August 15, 2023 measurement period incorporates the financial data from calendar 2Q23 10-Qs, as this is the earliest date for which all the calendar 2Q23 10-Qs for the S&P 500 constituents were available.

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

Questions on this report or others? Join our [Society of Intelligent Investors](#) and connect with us directly.

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.

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