All Cap Index & Sectors: ROIC Update for 1Q24 (Free, Abridged)

We have updated the trailing-twelve-month (TTM) return on invested capital (ROIC) for the NC 2000 and all sectors for 1Q24.

Over the last several quarters, we are seeing a clear trend that ROIC peaked in a while ago. Beneath the surface, performance by sector is all over the map. Per Figure 2 in the full report, some sectors saw ROIC rise while others saw it fall. Digging deeper and looking at the drivers of ROIC, NOPAT margins and invested capital turns, we see wildly different results in different sectors.

Six out of eleven NC 2000 sectors saw a QoQ rise in ROIC in 1Q24

This report is an abridged and free version of All Cap Index & Sectors: ROIC Update For 1Q24, one of our quarterly reports on fundamental market and sector trends. The full reports are available to our Institutional members or can be purchased below.

The full version of this report analyzes[1,2] the drivers of economic earnings [ROIC, NOPAT margin, invested capital turns, and weighted average cost of capital (WACC)] for the NC 2000, our All Cap Index, and each of its sectors (last version of this analysis is 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.

Buy the Full Version of This Report

NC 2000 ROIC Analysis for 1Q24

Figure 1 in the full report shows the NC 2000's ROIC every quarter over the last twenty years. We provide the same analysis for the NC 2000 and its eleven sector's NOPAT margin and invested capital turns.

Key observations:

In our a prior report, we wrote that the "record" return on invested capital was a mirage and that the bullish rise in ROIC would reverse soon. Recent results continue to support our thesis. NOPAT margins have fallen QoQ in two consecutive quarters but are still much higher than historical averages. However, companies are getting more efficient with their balance sheet as invested capital turns have improved QoQ in seven of the past ten quarters. Should companies continue to report that margins remain under pressure, we could see ROIC fall further. Note that inflation can help invested capital turns more than margins because inflation can drive up revenues while having little to no effect on invested capital.

WACC for the NC 2000 rose QoQ again, with 1Q24 representing the eleventh QoQ increase in the past 12 quarters. With uncertainty regarding when the Fed may lower rates, WACC may remain high for quite some time. The high cost of capital undermines the ability of many weaker companies to fund poor business models with cheap capital.

See Figure 1 in the full version of our report for the chart of ROIC and WACC for the NC 2000 from December 1998 through 5/1624.

Sneak Peak on Select NC 2000 Sectors

The Financials sector performed best in the first quarter of 2024 as measured by change in ROIC. The biggest loser in the first quarter was the Energy sector.

---

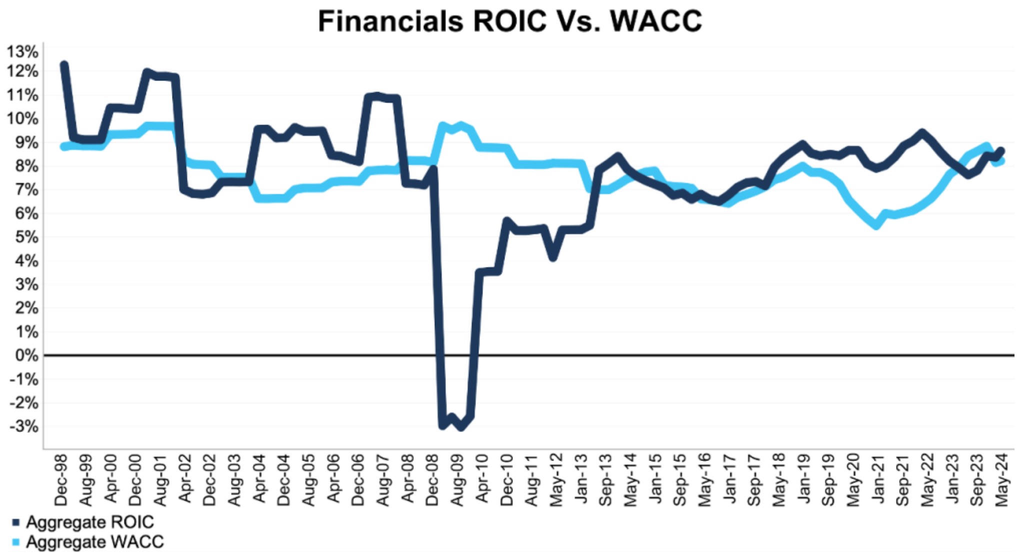
[1] Calculated using SPGI's methodology, which sums up individual NC 2000 constituent values for NOPAT and invested capital. See Appendix III for more details on this "Aggregate" method and Appendix I for details on how we calculate WACC for the NC 2000 and each of its sectors.
[2] This report is based on the latest audited financial data available, which is the 1Q24 10-Q in most cases. Price data as of 5/16/24.
[3] Our research utilizes our Core Earnings, a more reliable measure of profits, 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 Financials sector, which had the largest QoQ increase in ROIC in 1Q24.

Sample Sector Analysis[4]: Financials

Figure 1 shows the Financials sector's ROIC rose from 8.4% in 4Q23 to 8.6% in 1Q24. The Financials sector's NOPAT margin rose from 12.7% in 4Q23 to 12.8% in 1Q24, while invested capital turns rose from 0.66 to 0.68 over the same time.

Figure 1: Financials ROIC vs. WACC: Dec 1998 – 5/16/24

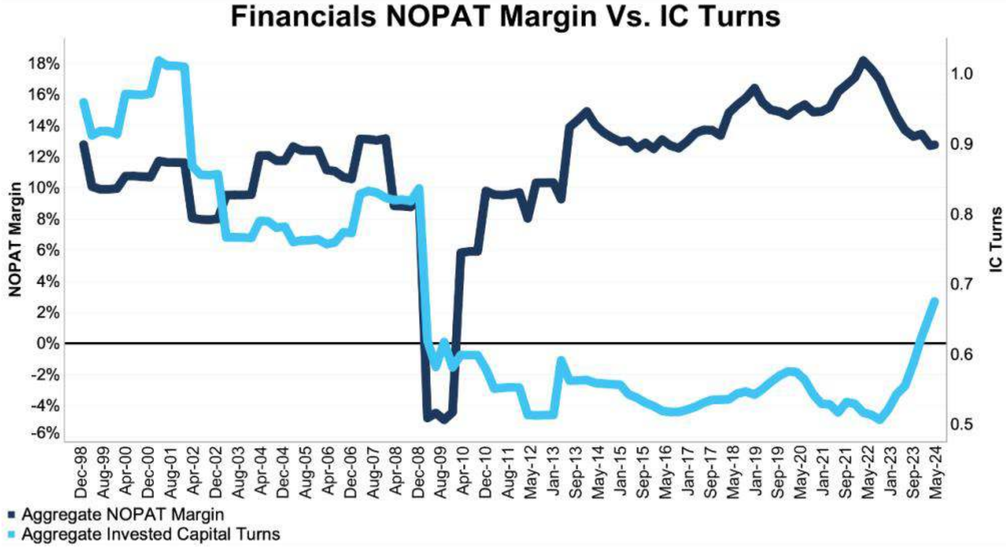


Sources: New Constructs, LLC and company filings.
The May 16, 2024 measurement period uses price data as of that date for our WACC calculation and incorporates the financial data from 1Q24 10-Qs for ROIC, as this is the earliest date for which all of the 1Q24 10-Qs for the NC 2000 constituents were available.

Figure 2 compares the trends in NOPAT margin and invested capital turns for the Financials sector since December 1998. We sum up the individual NC 2000/sector constituent values for revenue, NOPAT, and invested capital to calculate these metrics. We call this approach the "Aggregate" methodology.

[4] The full version of this report provides the same analysis for all eleven sectors.

Figure 2: Financials NOPAT Margin and IC Turns: Dec 1998 – 5/16/24



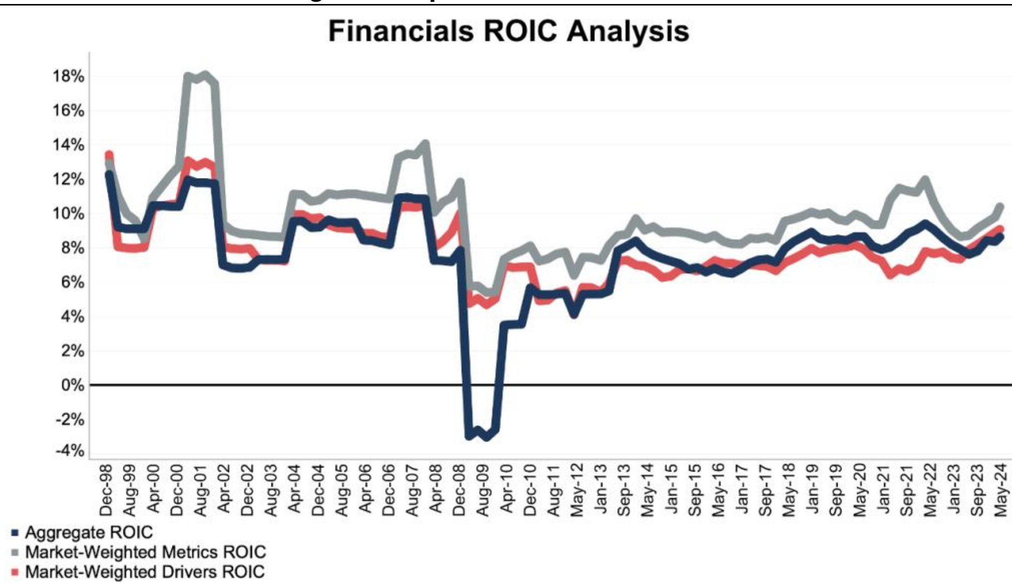
Sources: New Constructs, LLC and company filings.
The May 16, 2024 measurement period uses price data as of that date for our WACC calculation and incorporates the financial data from 1Q24 10-Qs for ROIC, as this is the earliest date for which all of the 1Q24 10-Qs for the NC 2000 constituents were available.

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.

For additional perspective, we compare the Aggregate method for ROIC with two other market-weighted methodologies: market-weighted metrics and market-weighted drivers. Each method has its pros and cons, which are detailed in the Appendix.

Figure 3 compares these three methods for calculating the Financials sector's ROICs.

Figure 3: Financials ROIC Methodologies Compared: Dec 1998 – 5/16/24



Sources: New Constructs, LLC and company filings.
The May 16, 2024 measurement period uses price data as of that date for our WACC calculation and incorporates the financial data from 1Q24 10-Qs for ROIC, as this is the earliest date for which all of the 1Q24 10-Qs for the NC 2000 constituents were available.

This article was originally published on [June 13, 2024](#).

Disclosure: David Trainer, Kyle Guske II, 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.

Appendix: Analyzing ROIC with Different Weighting Methodologies

We derive the metrics above by summing the individual NC 2000/sector constituent values for revenue, NOPAT, and invested capital to calculate the metrics presented. 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.

For additional perspective, we compare the Aggregate method for ROIC with two other market-weighted methodologies:

1. **Market-weighted metrics** – calculated by market-cap-weighting the ROIC for the individual companies relative to their sector or the overall NC 2000 in each period. Details:
    a. Company weight equals the company's market cap divided by the market cap of the NC 2000/its sector
    b. We multiply each company's ROIC by its weight
    c. NC 2000/Sector ROIC equals the sum of the weighted ROICs for all the companies in the NC 2000/each sector
2. **Market-weighted drivers** – calculated by market-cap-weighting the NOPAT and invested capital for the individual companies in the NC 2000/each sector in each period. Details:
    a. Company weight equals the company's market cap divided by the market cap of the NC2000/its sector
    b. We multiply each company's NOPAT and invested capital by its weight
    c. We sum the weighted NOPAT and invested capital for each company in the NC 2000/each sector to determine the NC 2000/sector's weighted NOPAT and weighted invested capital
    d. NC 2000/Sector ROIC equals weighted NC 2000/sector NOPAT divided by weighted NC 2000/sector invested capital

Each methodology has its pros and cons, as outlined below:

Aggregate method

Pros:

- A straightforward look at the entire NC 2000/sector, regardless of company size or weighting.
- Matches how S&P Global calculates metrics for the S&P 500.

Cons:

- Vulnerable to impact of by companies entering/exiting the group of companies, which could unduly affect aggregate values despite the level of change from companies that remain in the group.

Market-weighted metrics method

Pros:

- Accounts for a firm's size relative to the overall NC 2000/sector and weights its metrics accordingly.

Cons:

- Vulnerable to outsized impact of one or a few companies. This outsized impact tends to occur only for ratios where unusually small denominator values can create extremely high or low results.

Market-weighted drivers method

Pros:

- Accounts for a firm's size relative to the overall NC 2000/sector and weights its NOPAT and invested capital accordingly.
- Mitigates potential outsized impact of one or a few companies by aggregating values that drive the ratio before calculating the ratio.

Cons:

- Can minimize the impact of period-over-period changes in smaller companies, as their impact on the overall sector NOPAT and invested capital is smaller.

It's Official: We Deliver 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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

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

Ernst & Young 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 Harvard Business School. 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.

DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first two days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.