



## S&P 500 Economic Earnings: Update For 1Q24 (Free, Abridged)

This report updates the trailing-twelve-months (TTM) [Economic Earnings](#) for the S&P 500 and all sectors as of 5/16/24.

Economic earnings are rising for some sectors and falling in others, and the magnitude of change varies by a wide margin. Trailing TTM Economic Earnings in 1Q24 were lower than 4Q23 TTM levels for seven of eleven sectors.

This report is an abridged and free version of [S&P 500 Economic Earnings: Update For 1Q24](#), one of our quarterly series 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 the economic earnings<sup>1</sup> (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 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](#)<sup>2</sup> fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

### Economic Earnings Update For 1Q24

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 1Q24.

The S&P 500's 1Q24 Economic Earnings continue to follow the trend we foresaw in our 1Q22 report [S&P 500 Economic Earnings Set Records, but WACC Is a Drag](#). Indeed, one of the headwinds facing Economic Earnings is a rising WACC. 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 Technology sector saw the largest QoQ improvement in TTM Economic Earnings.

The Technology sector's TTM Economic Earnings rose in 1Q24. On the flip side, the Utilities sector has the lowest TTM Economic Earnings of any sector and was one of seven sectors that destroyed shareholder value in 1Q24.

Below, we highlight the Technology sector, which saw the largest QoQ improvement in TTM Economic Earnings in 1Q24.

### Sample Sector Analysis<sup>3</sup>: Technology

Figure 1 shows Economic Earnings for the Technology sector rose 3% QoQ in 1Q24, while GAAP earnings rose 5% over the same time.

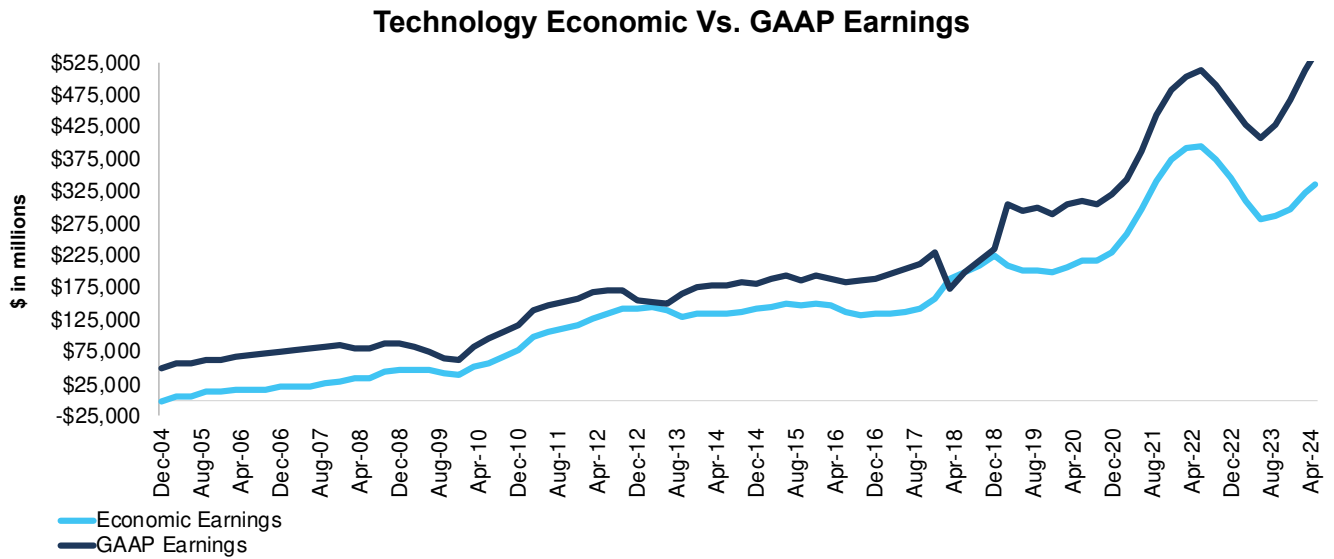
<sup>1</sup> This report is based on the latest audited financial data available, which is the 1Q24 10-Q in most cases. Price data as of 5/16/24.

<sup>2</sup> 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](#).

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



**Figure 1: Technology Economic Earnings Vs. GAAP: 2004 – 1Q24**



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, 2024 measurement period incorporates the financial data from calendar 1Q24 10-Qs, as this is the earliest date for which all the calendar 1Q24 10-Qs for the S&P 500 constituents were available.

*This article was originally published on [June 5, 2024](#).*

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

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## ***Appendix: Calculation Methodology***

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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 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, 1<sup>st</sup> 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, 2<sup>nd</sup> 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, 5<sup>th</sup> 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, 2<sup>nd</sup> 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, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> 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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