



## S&P 500 & Sectors: GAAP vs Core Earnings Update for 2Q24 (Free, Abridged)

Movement in Core Earnings and GAAP earnings were quite different again this quarter and raises red flags about the quality of reported earnings. These results underscore the more stable nature of Core Earnings. Because we remove unusual gains and losses, Core Earnings are not as volatile as GAAP Earnings.

This report is an abridged and free version of [S&P 500 & Sectors: GAAP vs Core Earnings Update for 2Q24](#), one of our quarterly series of reports on [fundamental market and sector trends](#). The full reports are available to [Institutional](#) members.

The full version of the report analyzes [Core Earnings](#)<sup>1,2</sup> and GAAP earnings for the S&P 500 and each of its sectors (last analysis is [here](#)) from 2004 to present.

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)<sup>3</sup> fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

Buy the Full Version of This Report

### GAAP Earnings Are Again Misleading in 2Q24

Our superior fundamental data protects investors from being fooled by misleading trends in GAAP Earnings. The recent rise in GAAP Earnings understates the rise in Core Earnings for the S&P 500.

When GAAP earnings and Core Earnings diverged last quarter, we thought we might see the [kitchen sink effect](#) accentuate that divergence. So, this quarter's results are even more interesting. See Figure 1 in the [full report](#).

### GAAP Earnings<sup>4</sup> Understate Core Earnings for Over Half of the S&P 500 (by Market Cap)

58% of the companies in the S&P 500 reported GAAP Earnings that are lower than Core Earnings for the TTM ended 2Q24.

When GAAP Earnings understate Core Earnings, they do so by an average of 77%, per Figure 1.

**Figure 1: S&P 500 GAAP Earnings Understated by 77% On Average**

Understated GAAP Earnings	Understated by >10%	Average Understatement %
288 companies	146 companies	77%

Sources: New Constructs, LLC and company filings.

We use Funds from Operations (FFO) for Real Estate companies rather than GAAP Earnings.

The 288<sup>5</sup> companies with understated GAAP Earnings make up 51% of the market cap of the S&P 500 as of August 15, 2024. Companies with understated GAAP earnings made up 55% of the S&P 500 market cap in as of May 16, 2024 (last quarter's report).

<sup>1</sup> [The Journal of Financial Economics](#) features the superiority of our Core Earnings in [Core Earnings: New Data & Evidence](#).

<sup>2</sup> Based on the latest audited financial data, which is the calendar 2Q24 10-Q in most cases. Price data as of 8/15/24.

<sup>3</sup> 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](#).

<sup>4</sup> Overstated companies include all companies with Earnings Distortion >0.1% of GAAP earnings.

<sup>5</sup> For reference, 296 companies reported GAAP Earnings below Core Earnings in the TTM ended 1Q24.

**Figure 2: Understated Earnings as % of Market Cap: 2012 through 8/15/24**

Sources: New Constructs, LLC and company filings.

### Key Details on Select S&P 500 Sectors

Six of eleven sectors saw a QoQ rise in Core Earnings through the TTM ended 2Q24.

The Technology sector saw the largest QoQ improvement in Core Earnings.

The Technology sector also generates the most Core Earnings. On the flip side, the Real Estate sector has the lowest Core Earnings.

To give you a sense of what we show in the full report, we provide a snippet on the Consumer Cyclical sector, below.

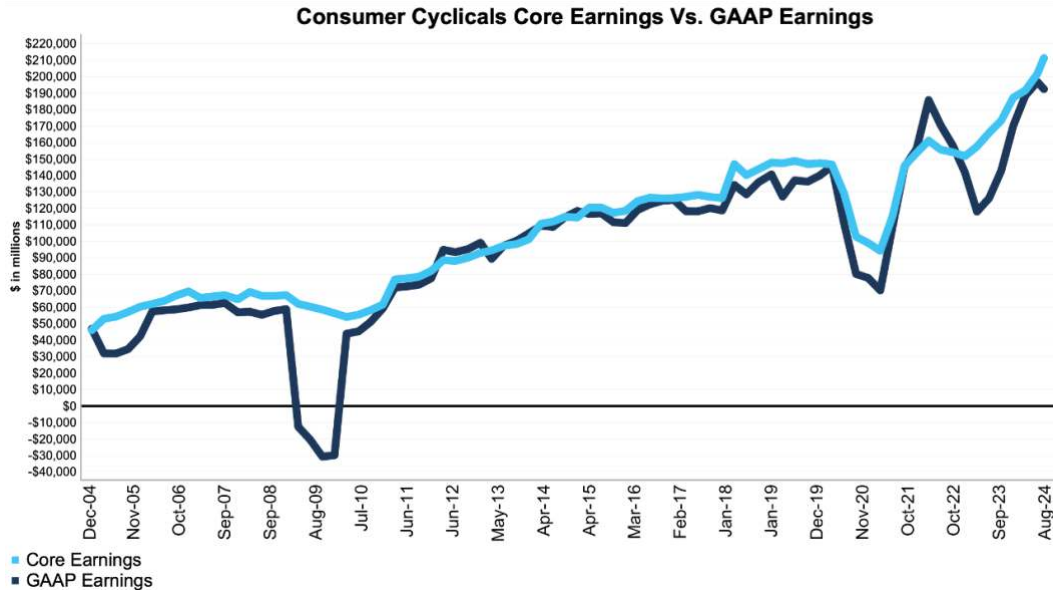
### Sample Sector Analysis<sup>6</sup>: Consumer Cyclical Sector

Figure 3 shows Core Earnings for the Consumer Cyclical sector rose 5% QoQ in 2Q24, while GAAP earnings fell 3% over the same time. The full report provides these details and charts on the S&P 500 and all sectors.

<sup>6</sup> The full version of this report provides analysis for all eleven sectors.



**Figure 3: Consumer Cyclical Core Earnings Vs. GAAP: 2004 – 2Q24**



Sources: New Constructs, LLC and company filings.

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

The August 15, 2024 measurement period incorporates the financial data from calendar 2Q24 10-Qs, as this is the earliest date for which all the calendar 2Q24 10-Qs for the S&P 500 constituents were available

*This article was originally published on [August 28, 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 [online community](#) and connect with us directly.*



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

---

We derive the Core Earnings and GAAP Earnings metrics above by summing the Trailing Twelve Month individual S&P 500 constituent values for Core 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](#).



## ***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.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs. Copyright New Constructs, LLC 2003 through the present date. All rights reserved.