



All Cap Index & Sectors: ROIC Update for 2Q24 (Free, Abridged)

We have updated the trailing-twelve-month (TTM) return on invested capital ([ROIC](#)) for the NC 2000 and all sectors for 2Q24.

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 – per Figures 17-28 in the full report.

Five out of eleven NC 2000 sectors saw a QoQ rise in ROIC in 2Q24

This report is an abridged and free version of [All Cap Index & Sectors: ROIC Update For 2Q24](#), 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](#).

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NC 2000 ROIC Analysis for 2Q24

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:

The NC 2000's NOPAT margin remains well above the historical average since 2004. Balance sheet efficiency may have stalled, as invested capital turns have remained stable in each of the past eight quarters. We have to look back to late 2014 to find a time when invested capital turns were higher than current levels. In other words, to drive ROIC higher, companies must drive invested capital turns up past record levels and/or drive NOPAT margins back near the post-COVID record levels.

WACC for the NC 2000 rose QoQ again in 2Q24, the eleventh QoQ increase in the past twelve quarters. With expectations for rate cuts in the coming months, WACC could see some easing, but we expect it to remain high for the foreseeable future. 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 8/15/24. See Figures 16-17 in the full reports for analysis of NOPAT margins and invested capital turns for the NC 2000 and all eleven sectors.

Sneak Peak on Select NC 2000 Sectors

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

The full report provides these details and charts on the S&P 500 and all sectors.

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 2Q24 10-Q in most cases. Price data as of 5/16/24.

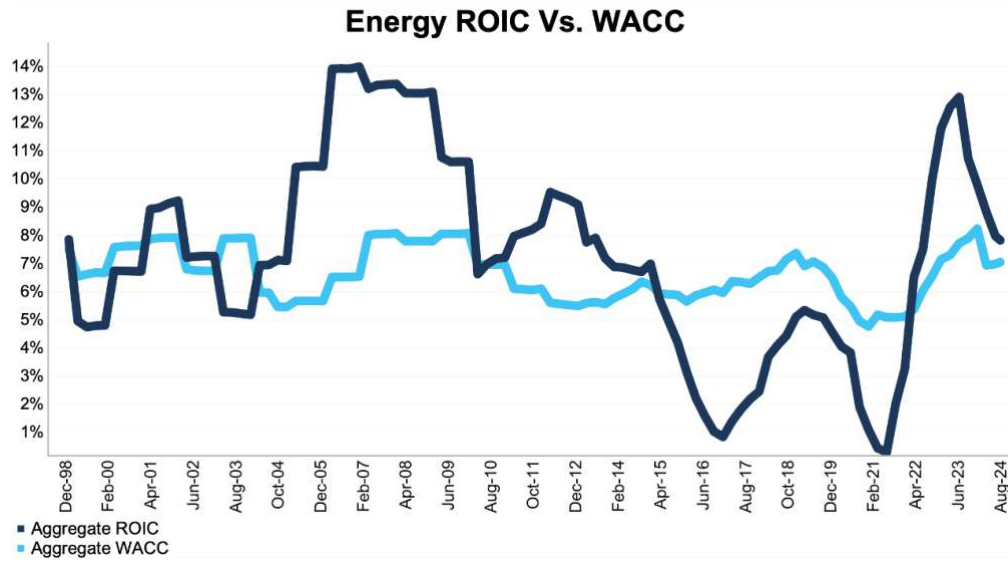
³ Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).



Sample Sector Analysis⁴: Energy

Figure 1 shows the Energy sector's ROIC fell from 8.0% in 1Q24 to 7.8% in 2Q24. The Energy sector's NOPAT margin fell from 11.5% in 1Q24 to 11.0% in 2Q24, while invested capital turns rose from 0.70 to 0.71 over the same time.

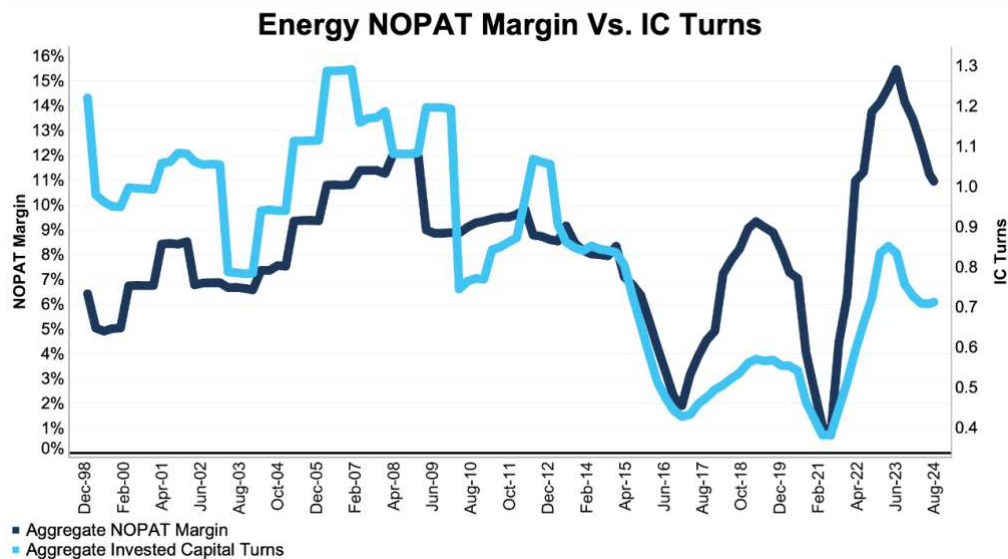
Figure 1: Energy ROIC vs. WACC: Dec 1998 – 8/15/24



Sources: New Constructs, LLC and company filings.
The August 15, 2024 measurement period uses price data as of that date for our WACC calculation and incorporates the financial data from 2Q24 10-Qs for ROIC, as this is the earliest date for which all of the 2Q24 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.

Figure 2: Energy NOPAT Margin and IC Turns: Dec 1998 – 8/15/24



Sources: New Constructs, LLC and company filings.
The August 15, 2024 measurement period uses price data as of that date for our WACC calculation and incorporates the financial data from 2Q24 10-Qs for ROIC, as this is the earliest date for which all of the 2Q24 10-Qs for the NC 2000 constituents were available.

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

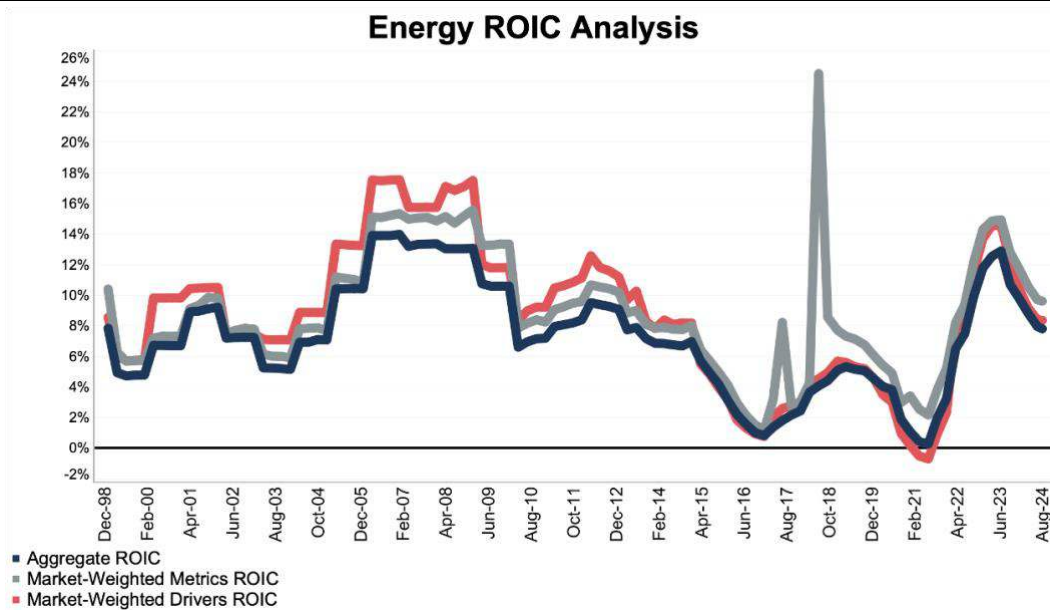


The Aggregate methodology provides a straightforward look at the entire sector, regardless of market cap or index weighting and matches how S&P Global (SPGI) calculates metrics for the S&P 500.

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 Energy sector's ROICs.

Figure 3: Energy ROIC Methodologies Compared: Dec 1998 – 8/15/24



Sources: New Constructs, LLC and company filings.

The August 15, 2024 measurement period uses price data as of that date for our WACC calculation and incorporates the financial data from 2Q24 10-Qs for ROIC, as this is the earliest date for which all of the 2Q24 10-Qs for the NC 2000 constituents were available.

This article was originally published on [September 6, 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: 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.



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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.

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