**MORNING BRIEFING**
**October 25, 2023**

## Earnings Here & There

*Check out the accompanying chart collection.*

**Executive Summary:** The global economy is still growing despite geopolitical and monetary policy headwinds, though the pace of growth is slow, which October's global PMI data confirm. … Looking at stock market data globally, we find strong forward revenues, earnings, and profit margin data for the All Country World MSCI, mostly attributable to the US MSCI; the data for Emerging Markets MSCI aren't as strong. … In the US, record-high weekly forward revenues and forward earnings suggest the same for Q3's results. … Also: Joe reports that analysts' estimate revisions reflect equal numbers of rising and falling estimates.

**Global Economy I: October PMIs Weak.** In yesterday's *Morning Briefing*, we concluded that the latest batch of global economic indicators shows that the global economy is still growing but limping rather than running forward. Today's batch of flash purchasing managers indexes (PMIs) compiled by S&P Global for October confirms that assessment (*Fig. 1*).

In the US, the M-PMI (for manufacturing industries) is 50.0 and the NM-PMI (nonmanufacturing) is 50.9. Those are lackluster readings. The latest M-PMI reading is in line with similar readings since the start of this year, while the latest NM-PMI reading is lower than those during the summer months.

The Eurozone's flash M-PMI fell to 43.0 during October from a 2023 high of 48.8 during January. The region's manufacturing sector remains depressed. The NM-PMI for the Eurozone was above 50.0 this year from January through July. It's been down since then and fell to 47.8 this month.

Japan's M-PMI has been mostly below 50.0 since November 2022 (*Fig. 2*). That weakness probably reflects slowing exports to China's economy, which was depressed by lockdowns late last year and a lackluster recovery this year. During September, China's M-PMI and NM-PMI were 50.2 and 51.7 (*Fig. 3*).

**Global Economy II: MSCI Forward Metrics Weak.** Joe and I monitor the forward metrics of the various global MSCI stock market indexes to keep track of the global economy—

"forward" meaning the time-weighted average of analysts' consensus expectations for earnings, revenues, and by extrapolation profit margins for the current year and following one.

Here is what we are seeing for the All Country World (ACW) MSCI, with and without the US, all in local currency:

(1) *Revenues*. The forward revenues of the ACW MSCI rose to a new record high during the October 20 week (*Fig. 4*). It has been doing so since September 23, 2022. Of course, that's partly because the global economy has been growing over this period and partly because higher inflation around the world has also been boosting revenues.

Interestingly, forward revenues growth has been essentially flat over the past year for the Developed World ex-US MSCI (*Fig. 5*). The same can be said about the forward revenues of the Emerging Markets MSCI. In other words, all the upward momentum in the forward revenues of the ACW MSCI has been attributable to the United States!

(2) *Earnings*. The forward earnings of the ACW MSCI declined during most of last year (*Fig. 6*). It has been recovering since the start of the year, hitting new record highs in recent weeks. The same can be said about the forward earnings of the US MSCI (*Fig. 7*). The same metric for the Developed World ex-US has been flat at a record high for the past year, while the one for Emerging Markets fell last year and stopped doing so this year.

(3) *Profit margins*. The forward profit margin of the ACW MSCI fell from a record high of 11.0% during the week of May 12, 2022 to 10.3% during the week of March 30 (*Fig. 8*). It rose to 10.6% during the October 19 week. The same story can be told about the US MSCI forward profit margin, which was 12.4% during the October 19 week (*Fig. 9*). The Developed World ex-US forward profit margin hasn't recovered from last year's dip, remaining stalled around 10.0%. The Emerging Markets MSCI forward profit margin peaked at 8.2% during 2021, fell to a low of 6.8% at the start of this year, and managed to recover to just 7.1% recently.

(4) *Bottom line.* The global economy is growing, albeit at a slow pace. It is doing so notwithstanding the tightening of monetary policies around the world since early last year and despite the geopolitical tensions and conflicts that are challenging globalization.

**Earnings I: Still Moving Forward.** Here in the US, S&P 500 forward revenues are also up to a record high through the week of October 19 (*Fig. 10*). This suggests that S&P 500 revenues per share rose to a new record high during Q3. The same can be said about S&P forward earnings and Q3's earnings per share. Here's more on forward earnings:

(1) *Quarterly consensus estimates.* The Q3 earnings season has started. So far, there has been no upward "earnings hook" for the quarter through the October 19 week (*Fig. 11*). We are still expecting one. However, industry analysts did lower their Q4 estimate this week. At the same time, they slightly raised their Q1-Q3 estimates for 2024 (*Fig. 12*).

(2) *Annual consensus estimates.* S&P 500 forward earnings per share rose to a new record high of $241.69 during the October 19 week (*Fig. 13*). The consensus annual earnings-per-share estimates for 2023, 2024, and 2025 were lowered a touch to $219.74, $246.91, and $276.80. We are still forecasting $225, $250, and $270 (*Fig. 14*).

**Earnings II: Revisions Activity Weakening as Analysts Await Q3 Results.** Early this week, Refinitiv released its October snapshot of the monthly consensus earnings estimate revision activity over the past month. While the company provides raw data for all its polled measures, we focus primarily on the revenues and earnings forecasts, captured in our *Stock Market Indicators: Net Revenue & Earnings Revisions By Sectors* report. There, the analysts' estimate revisions activity is indexed by the number of upward revisions in forward earnings less the number of downward ones, expressed as a percentage of total forward earnings estimates. We look at this activity over the past three months because that timespan encompasses an entire quarterly reporting cycle. Since analysts' tendency to revise their estimates differs at different points in the cycle, three-month data are less volatile—and misleading—than a weekly or monthly series would be.

October's reading comes at the beginning of the Q3 earnings reporting cycle, when analysts' revisions lighten as they wait and see how much their companies beat their quarterly forecasts before revising their annual estimates. They've mostly been raising their revenues forecasts during 2023 following the Q4-2022 season and the earnings forecasts after Q2-2023. While the y/y quarterly revenue growth rates have remained positive this year and earnings growth is expected to turn positive in Q3, analysts now appear to be less bullish about earnings and a tad bearish on revenues, based on their latest NERI (net earnings revisions index) and NRRI (net revenues revisions index) readings.

Joe highlights what's most notable about the October crop of revisions data below:

(1) *S&P 500 NERI still on positive footing, but barely.* The S&P 500's NERI index, which measures the revisions activity for earnings forecasts, was positive for a fifth month but

weakened to a five-month low of 0.6%. A zero reading indicates that an equal number of estimates were raised as were lowered over the past three months. October's release is up from a 30-month low of -15.6% in December and is well above the average reading of -2.2% seen since March 1985 when the data were first calculated.

(2) *Less than half of sectors now have positive NERI.* Five S&P 500 sectors had positive NERI in October, unchanged from the September count and down from a 13-month high of seven sectors during July. Three sectors improved m/m, the fewest since last December.

That's a far cry from all 11 improving m/m, as happened in May; but that month was unusual, as analysts then were scrambling to raise forecasts after Q1 earnings reports revealed broad-based strength. In fact, Q1 marked the broadest earnings improvement among the sectors in two and a half years, since Q3-2020.

To highlight standouts among sectors in October's NERI readings, Energy's NERI was at a 13-month high, turning positive for the first time in 11 months, and Financials' was at a 16-month high. However, Financials' negative NERI streak has now stretched to 16 months, the longest of all sectors' and just ahead of Materials' 15-month negative streak.

Here's how NERI ranked for the 11 sectors in October: Energy (12.3%, 13-month high), Consumer Discretionary (5.2), Information Technology (4.3), Communication Services (4.0), S&P 500 (0.6, five-month low), Industrials (0.1, six-month low), Health Care (-2.4), Financials (-2.5, 16-month high), Utilities (-3.5, five-month low), Consumer Staples (-4.4, 10-month low), Real Estate (-5.8, six-month low), and Materials (-6.0).

(3) *S&P 500 NRRI index for revenues is negative now.* The NRRI index, which measures the analysts' revisions activity in their revenue forecasts, dropped for the S&P 500 to -0.1% in October from 1.2% in September and is down from a 12-month high of 5.0% in July. October's negative reading is its first in nine months and is barely above the average -0.2% reading since it was first compiled in March 2004.

(4) *NRRI index still positive for seven sectors.* NRRI's m/m performance was generally weaker than that of the NERI index by all measures but one: Seven sectors had positive NRRI readings versus five with positive NERI.

Looking at m/m NRRI improvement, only two sectors cleared that bar: Energy and Materials. Consumer Staples' and Utilities' NRRIs dropped to their lowest readings in 40 months and 20 months, respectively. Energy's was at an 11-month high.

Here's how the sectors' NRRIs ranked in October: Health Care (6.3%, nine-month low), Industrials (5.2, nine-month low), Energy (3.8, 11-month high), Utilities (1.4, 20-month low), Real Estate (1.3, 6-month low), Consumer Discretionary (1.2, nine-month low), Financials (0.6), S&P 500 (-0.1, nine-month low), Information Technology (-1.8, six-month low), Communication Services (-7.6), Consumer Staples (-9.5, 40-month low), and Materials (-14.6).

(5) *Energy's positive revisions boosting S&P 500's NRRI and NERI again.* Without the Energy sector, the S&P 500's October NRRI reading for revenues falls to -0.4% from 1.2% in September (*Fig. 15*). Looking at the NERI reading for earnings, the S&P 500 without Energy was negative in October for the first time in six months, dropping to -0.1% from 2.2% in September (*Fig. 16*).

Materials and Energy—the only sectors to show m/m improvement in NRRI during October—were also the only ones to hit another mark we monitor: showing m/m improvement in NERI.

There are several possible reasons for the recent weakness in the remaining sectors' revisions data. The impact of higher interest rates may now be starting to be reflected in estimate revisions. Also, waning inflation may be lowering revenues as well as impacting companies' pricing power and ultimately their earnings.

A zero reading for NRRI and NERI indicates equal numbers of estimates rising and falling. The fact that October's readings are so close to that mark—and only edging down m/m rather than collapsing—suggests that analysts collectively are generally satisfied with their forecasts for now. That takeaway has all the earmarks of a nice, gentle soft-landing.

## Calendars

**US: Wed:** New Home Sales 680k; MBA Mortgage Applications; Crude Oil Inventories & Gasoline Production; Powell; Bullock. **Thurs:** GDP & Price Index 4.2%/2.5%; Durable Goods Orders Headline & Nondefense Good Orders Ex Aircraft 1.5%/0.3% Goods Kansas City Fed Manufacturing Index; Trade Balance -$85.5b; Wholesale Inventories 0.1%; Initial & Continuous Jobless Claims 209k/1.72m; Pending Home Sales -1.3%; Natural Gas Storage; Waller. (FXStreet estimates)

**Global: Wed:** Germany Ifo Business Climate Index, Current Assessment, and Expectations

85.9/88.5/83.3; Japan Leading & Coincident Indicators; BoC Interest Rate Decision 5.00%; Macklem; Lagarde. **Thurs:** ECB Interest Rate Decision & Deposit Facility Rate 4.50%/4.00%; Spain Unemployment Rate 11.5%; UK CBI Distributive Trade Survey -16; EU Leaders Summit; Lagarde; Cunliffe. (FXStreet estimates)

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## Strategy Indicators

**S&P 500 Earnings, Revenues, Valuation & Margins** (*link*): The S&P 500's forward profit margin ticked down 0.1pt w/w to 12.6% during the October 19 week, and is now 0.2pt below its 11-month high of 12.8% during the September 21 week. That's up from a 24-month low of 12.3% during the March 30 week, but is down 0.8pt from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.3pts above its seven-year low of 10.3% during April 2020. Forward revenues rose less than 0.1% w/w to a new record high. Forward earnings ticked down 0.2% w/w to 1.1% below its record high during the September 21 week, which had been its first since the June 16, 2022 week nine months ago. Both had been steadily making new highs from the beginning of March 2021 to June 2022; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth was unchanged at an 11-month high of 4.6% and is now up 2.3pts from its 33-month low of 2.3% during the February 23 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth rose 0.4pt w/w to a 24-month high of 10.8%, and is now 7.3pts above its 31-month low of 3.5% in mid-February. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010, and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 2.2% in 2023 (unchanged w/w) and 4.9% in 2024 (unchanged w/w) compared to a revenues gain of 12.4% in 2022. They expect an earnings gain of 0.5% in 2023 (down 0.5pt w/w) and a 12.0% rise in 2024 (up 0.4pt w/w) compared to an earnings gain of 7.3% in 2022. Analysts expect the profit margin to fall 0.2ppt y/y to 11.9% in 2023 (down 0.1pt w/w), compared to 12.1% in 2022, and to rise 0.8ppt y/y to 12.7% in 2024 (down 0.1pt w/w). The S&P 500's weekly reading of its forward P/E fell 0.2pt w/w to 18.1 and is down from a 17-month high of 19.8 during the July 20 week. That's still up from a 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio was down 0.4pt w/w to 2.28 and compares to a 15-month high of 2.46 during the July 27 week. That's up from a 31-month low of 1.98 in October 2022 and compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

**S&P 500 Sectors Earnings, Revenues, Valuation & Margins** (*link*): Looking at the S&P 500 sectors, the October 19 week saw consensus forward revenues rise for four of the 11 sectors and forward earnings rise for three sectors. The forward profit margin moved higher for three sectors. Two sectors have forward revenues at post-pandemic or record highs this week: Communication Services and Utilities. Among the remaining nine sectors, only Energy and Financials have forward revenues more than 5.0% below their post-pandemic highs, while Materials is nearly falling into that doghouse. Communication Services is the only sector with forward earnings at a record high this week, as these four sectors have eased from that mark over the past several weeks: Consumer Discretionary, Industrials, Information Technology, and Utilities. Among the remaining six sectors, only Energy and Materials have forward earnings down more than 10.0% from their post-pandemic highs, while Financials exited that club in early October. Among the 11 sectors, only Industrials has weathered a broad margin retreat from post-pandemic or record highs. Now nearly all of the sectors are showing signs of recovering from their early 2023 lows. None of the sectors had a forward profit margin at a record high this week. That’s down from these three sectors in that club in early October: Consumer Discretionary, Industrials, and Information Technology. The forward profit margins of Communication Services, Consumer Discretionary, Industrials, and Information Technology remain close to their post-pandemic highs. Energy is surging higher now off its low in July, but Consumer Staples and Health Care remain at or close to their record lows. Energy and Industrials were the only two sectors to have their profit margins improve y/y for full-year 2022. The forward profit margin is expected to be flat y/y in 2023 for Consumer Staples, but these six sectors are expected to see them improve: Communication Services, Consumer Discretionary, Financials, Industrials, Information Technology, and Utilities. Here’s how the sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (25.2%, down from its 25.7 record high in September), Financials (18.2, down from its 19.8 record high in August 2021), Real Estate (17.0, down from its 19.2 record high in 2016), Communication Services (16.3, down from its 17.0 record high in October 2021), Utilities (13.0, down from its 14.8 record high in April 2021), S&P 500 (12.6, down from its record high of 13.4 achieved intermittently in 2022 from March to June), Energy (11.4, down from its 12.8 record high in November), Materials (11.0, down from its 13.6 record high in June 2022), Industrials (10.7, down from its record high 10.8 in September), Health Care (9.1, a record low and down from its 11.5 record high in February 2022), Consumer Discretionary (8.2, down from its 8.4 record high a week earlier), and Consumer Staples (6.8, down from its 7.7 record high in June 2020).

**S&P 500 Q3 Earnings Season Monitor** (*link*): With the Q3-2023 earnings season now nearly 24% complete, the early indications from the companies that have reported so far suggest a similar earnings surprise compared to Q2-2023 but a weaker revenues surprise. During Q4-2022, the earnings surprise was the lowest since Q4-2008, and the revenue surprise the smallest since Q1-2020. Furthermore, the earnings surprise failed to outpace the revenue surprise in Q4-2022 for the first time since we began tracking that data in Q1-2009. With 118 of the S&P 500 companies finished reporting for Q3-2023, revenues are ahead of the consensus forecast by 0.7% and earnings have exceeded estimates by 7.3%. At the same point during the Q2 season, revenues were 1.3% above forecast and earnings had beaten estimates by 7.6%. Just 59% of the 118 Q3 reporters that have reported so far through mid-day Tuesday has reported a positive revenues surprise, while 81% has reported an earnings beat. That's on pace for the weakest revenues surprise reading since Q1-2020; but the percentage with positive earnings surprises would be the highest since Q3-2021 if it holds to the end of the season. The early reporters' aggregate y/y revenues and earnings growth rates have ticked down from their Q2-2023 readings: to 4.0% from 8.1% for revenues growth and to 2.6% from 7.8% for earnings growth. Over the past 58 quarters through Q2-2023, y/y earnings growth has trailed y/y revenues growth in only 16 quarters and for six straight quarters, but earnings growth is ultimately likely to outpace revenue growth in Q3-2023 as the Energy sector becomes less of a drag on overall results. Slightly fewer companies have been reporting positive y/y earnings growth in Q3 (58%) than positive y/y revenues growth (63%). These figures will continue to change as more Q3-2023 results are reported in the coming weeks. While we expect y/y revenues growth rates to remain positive yet again in Q3, earnings growth will be positive on a y/y basis for the first time in four quarters.

## US Economic Indicators

**Regional M-PMIs** (***link***): Three Fed districts so far have reported on manufacturing activity for October—New York, Philadelphia, and Richmond—and collectively they show a contraction in manufacturing during the month. *Manufacturing activity* (to -3.5 from -2.2) continued to decline, as the New York (-4.6 from 1.9) measure moved from expansion to contraction, while Philadelphia's (-9.0 from -13.5) declined at a slower pace, and Richmond's (3.0 from 5.0) held steady. *New orders* (-1.2 from –0.7) held around the breakeven point between expansion and contraction this month, as billings in the Philadelphia (4.4 from -10.2) area posted a 14.6-point swing back into expansionary territory, while the New York (-4.2 from 5.1) and Richmond (-4.0 from 3.0) measures recorded negative 9.3-point and negative 7.0-point swings, respectively, back into contractionary territory. *Employment* (4.7 from -0.5) showed factories are slow to hire, bouncing around zero for the past few months, as factories in the New York (3.1 from -2.7), Philadelphia (4.0 from -5.7), and Richmond (unchanged at 7.0) regions all hired at a sluggish pace. Looking at prices-paid indexes, the Philadelphia (23.1 from 25.7) measure held steady this month, though is up from April's 8.2 reading—which was its lowest since mid-2020—while New York's (25.5 from 25.8) measure also showed little change this month. The Richmond (30.2 from 40.6) measure continued to ease from its record high of 152.9 last May. *Prices-received* indexes saw New York's (11.7 from 19.6) gauge slow a bit, though was up from July's three-year low of 3.9, while Philadelphia's (14.6 from 14.8) measure barely budged again this month, though did ease from May's 23.0. Meanwhile, Richmond's (20.7 from 30.6) gauge continues to ease from its record high of 106.3 last June. New York's gauge was at a record high of 56.1 in March 2022, while Philadelphia's reached its record high of 65.8 in November 2021. (Note: The New York and Philadelphia measures are diffusion indexes, while Richmond's measures are average annualized inflation rates—which we multiply by 10 for easier comparison to the other regional measures.)

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## Global Economic Indicators

**US PMI Flash Estimates** (*link*): "US private sector growth edges higher while inflationary pressures ease in October," according to October's flash estimate report. The *C-PMI* climbed to a three-month high of 51.0 in October, after slowing the prior four months from 54.3 in May to 50.2 in September, with the *NM-PMI* accelerating to 50.9 after easing from 54.9 in May to 50.1 in September. The *M-PMI* climbed to the breakeven point of 50.0 this month, after remaining below 50.0 during 10 of the prior 11 months. According to the report, the return to growth in October is good news, as "the S&P Global PMI survey has been among the most downbeat economic indicators in recent months. Future output expectations have also turned up despite rising geopolitical concerns and domestic political tensions." Price pressures are easing: *Input* cost inflation fell sharply to the lowest since October 2020 despite higher oil prices, while average *selling prices* for goods and services posted the smallest monthly rise since June 2020.

**Eurozone PMI Flash Estimates** (*link*): The Eurozone economic downturn accelerated in October, declining at the steepest rate since November 2020, according to flash estimates—and contracted at the steepest rate in over a decade if the pandemic-affected months are excluded. The services sector fell at the sharpest rate in 32 months, while manufacturing activity was at a three-year low. The Eurozone's *C-PMI* fell for the fifth time in six months, by 7.6 points (to 46.5 from 54.1), with the *NM-PMI* declining 8.4 points (47.8

from 56.2) over the comparable period. The *M-PMI* deteriorated for the eighth time in nine months, by 5.8 points (to 43.0 from 48.8), and has been below the breakeven point of 50.0 for 16 straight months. Looking at the two largest Eurozone economies, *Germany's C-PMI* fell for the fifth time in six months, from 54.2 in April to 45.8 in October, while the *NM-PMI* declined for the fourth time in five months by 9.2 points (to 48.0 from 57.2). Meanwhile, *Germany's M-PMI* climbed for the third successive month to 40.7 after falling for six straight months from 47.3 in January to 38.8 by July. Meanwhile, France recorded another steep contraction in October. The *C-PMI* did tick up to 45.3 this month, after falling the prior six months by 8.6 points (44.1 from 52.7); while the contraction softened in October, it was still the second largest decline in close to three years. *France's NM-PMI* ticked up to 46.1 in October after falling the prior five months from 54.6 in April to a 34-month low of 44.4 in September. *France's M-PMI* was in contractionary territory for the 13th time in 14 months, sinking to 42.6 this month—the lowest since May 2020. The *rest of the region* fell at its steepest rate in a year, reflecting a steepening manufacturing downturn and a renewed fall in services activity. Looking at *pricing* in the Eurozone, despite upward pressure from higher oil prices, the rate of inflation moderated slightly this month, down to its lowest since February 2021. The report noted: "[A]n ongoing sharp fall in manufacturing selling prices was accompanied by a moderation in service sector selling price inflation."

**Japan PMI Flash Estimates** (*link*): "Private sector growth stagnates" was the headline of this month's report. The private sector in October lost growth momentum, falling back below the breakeven point of 50.0 for the first time since December 2022, according flash estimates, with the *C-PMI* falling from a recent high of 54.2 in May to 49.9 this month, according to flash estimates. The *NM-PMI* dipped for fourth time in five months to 51.1 in October from 55.9 in May, while the *M-PMI* hasn't increased since May, easing from 50.6 in May to 48.5 in October—though this month's reading was unchanged from September's. It was below 50.0 for the ninth time this year. According to the report, firms were the least upbeat since January, reflecting less optimism about future output. As for pricing, firms across both the manufacturing and service sectors faced reduced cost pressures, causing overall *output* prices within the Japan's private-sector economy to rise at the slowest rate since February 2022.

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Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848

Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102