Earnings Almanac

An overview of the S&P 500 earnings season

Prepared by: *Phil Segner*

Double Beats Rare In Q3

The S&P 500's estimated bottom-up operating EPS shrank 2% during the first month of Q3 reporting (Chart 1). A similar, slighter larger drop in the EPS estimate was experienced in July, as results were tallied for Q2's first month of reporting. That initial Q2 deficit was recouped over the next two months and actual results eventually ended higher than what was projected at the beginning of earnings season. To maintain this year's strong earnings streak, where results match estimates (not common), we'll need another "spring-back" scenario at the back end of Q3.

This quarter's biggest story is the relatively low number of firms beating both EPS and sales estimates (Chart 2). The percentage landing in our double-beat box (blue, upper left) sits just barely above 50%—a multi-year low. As we've seen over the past year, weakness in the top-line continues to be the culprit. More companies than average are landing on the right side of the grid (sales misses), and the price impact for residing outside of the double-beat box has been more severe than the five-year median.

As mentioned, Q3 has (so far) posted the lowest percentage of firms beating both top- and bottom-line estimates since 2020 (Chart 3). With twenty years of history one can see a notable upward bias of firms besting the street estimates in both metrics. What was a decent double-beat percentage in 2015 is now downright terrible. This is a testament to the growing influence companies have over sell-side analysts to get the numbers down to a level that management teams think they can beat.

For those firms lucky enough to exceed estimates, the quality of their Q3 beats is coming in just below the long-term average, both for earnings and sales (Chart 4).

Up to now, this year's S&P 500 earnings have kept pace with estimates, which is rare. To keep that trend, we'll need to see some improvement in Q3, like we saw in Q2.

Chart 1

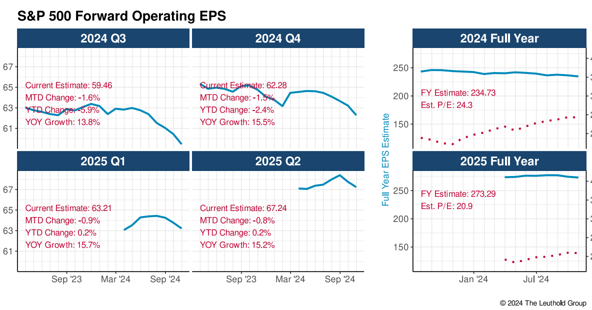

Chart 2

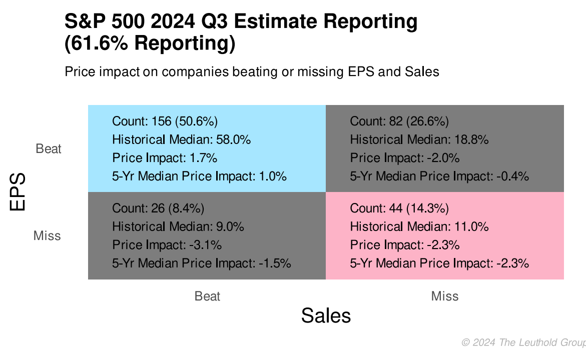

Chart 3

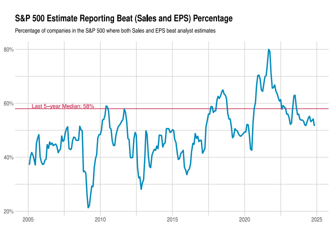

Chart 4