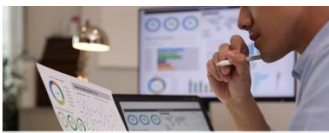




Ravinsky Wealth Management Group

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Global Insight Weekly

The push and the pull of U.S. earnings

We examine these opposing forces, how the Magnificent 7 narrative may change in coming quarters, and how to calibrate equity exposure in this unique period.



Global Insight

Interest rate mood swings

April brought the usual spring showers, but it also brought some adjusted central bank rate cut expectations. We examine the what and why of the revisions and explain how investors should proceed.

Market Insights

Global equity markets finished the month of April a bit lower as they digested the gains made since last October. Markets largely spent the month grappling with sticky inflation and diminishing prospects for interest rate cuts in the U.S. In the past week, policymakers at the U.S. central bank acknowledged these challenges, contrasting with other regions where officials continue to telegraph upcoming rate cuts. Below, we offer insights from the first quarter earnings season.

Overall, corporate earnings results have been solid. The first quarter earnings in the U.S. are on track to grow by nearly 5% year-over-year, surpassing expectations. Management commentary has been predictably mixed. Some leaders have highlighted resilient consumer demand, strong backlogs, and tailwinds from reshoring activity. Others have pointed to higher interest rates, geopolitical tensions, sluggish growth in China, and a strong U.S. dollar as key challenges.

As in recent quarters, most of the U.S. earnings growth has been driven by some of the largest stocks. Prior to earnings season, the “Magnificent Seven” group of technology-related stocks were expected to see earnings-per-share (EPS) growth just shy of 40%, while the rest of the S&P 500 was projected to see an earnings decline. On average, the large tech companies have exceeded expectations but experienced muted stock price reactions in response to the results. This reflects a combination of above average valuations that already reflect elevated enthusiasm and higher than expected capital expenditures largely tied to artificial intelligence-driven efforts.

Interestingly, earnings momentum is expected to shift as we move through the rest of the year and into 2025. The earnings growth rate from the tech heavyweights is projected to decelerate, from levels that exceeded 30-40% recently, to the mid-teens. A slowing in earnings growth does not necessarily imply weaker stock prices. After all, the lower growth rates are still impressive in absolute terms. But investors may need patience as earnings grow more slowly and take more time to catch up to valuations.

Meanwhile, the “rest” of the market is expected to see an acceleration in earnings growth. Outside of tech, earnings have been suppressed over the past year by cyclical factors such as higher costs, borrowing rates, and economic uncertainty among other things. However, with growing conviction in the resilience and strength of the U.S. economy, forecasts suggest earnings will accelerate, and in certain areas, outpace the tech sector for the first time in a while.



Global Insight Monthly

Perspectives from the
Global Portfolio Advisory
Committee



First Home Savings Account



Online Services



David Ravinsky



Alex Tsapekis



Jo-Anne MacKenzie

We welcome the potential for a broadening of earnings growth and would see it as a healthy development for the equity market. Nevertheless, a shift in earnings momentum between tech and everything else could potentially lead to some changes in market leadership and bouts of higher volatility, even if temporary. Whether that transpires or not, our clients' equity portfolios remain well-diversified, making us confident in their ability to perform, regardless of which sector or group of stocks leads the way.

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We appreciate the opportunity to serve you and look forward to continuing to help you accomplish your long-term financial goals.

Should you have any questions, please feel free to reach out to us.

Sincerely,

The Ravinsky Wealth Management Group

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