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A TIAA Company

**CIO Weekly Commentary**

15 July 2024

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

# What to look for this earnings season

## Bottom line up top

**Yearning for earnings growth.** As the pace of companies reporting second-quarter financial results picks up in earnest this week, investors will start seeing whether earnings growth can propel the U.S. equity market even higher. Analysts, according to FactSet, currently forecast 2Q earnings per share (EPS) growth of 9.3% year-over-year for the S&P 500 Index. For 2024 as a whole, analysts foresee EPS growing 11.2%, improving to 15.2% in 2025.

This optimism hinges in part on continued economic resilience and cooling inflation to drive positive earnings revisions during the reporting cycle. Last week's release of the Consumer Price Index (CPI) for June was a step in the right direction, with annual headline and core CPI decelerating to their lowest levels since 2021 — likely paving the way for the U.S. Federal Reserve to start cutting rates in September. We do see some caveats in the global macro backdrop, though:

**Political and geopolitical issues.** Recent voting in a number of countries around the world has brought unexpected results and uncertain impacts on a host of economic, regulatory and governance fronts. In the U.S., policy proposals by both candidates in the November presidential election may prove unsettling for investors. Meanwhile, with no end in sight to the Russia/Ukraine or Israel/Hamas wars, the risk of heightened market volatility remains.

**Cracks in the foundation of consumer strength.** While U.S. consumers appear to be holding up well overall, rising delinquencies and record-high credit card balances are concerning, especially since consumer spending drives roughly 70% of U.S. GDP growth.


**Saira Malik, CFA**

*Chief Investment Officer*

*On behalf of Nuveen's Global Investment Committee*


As Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

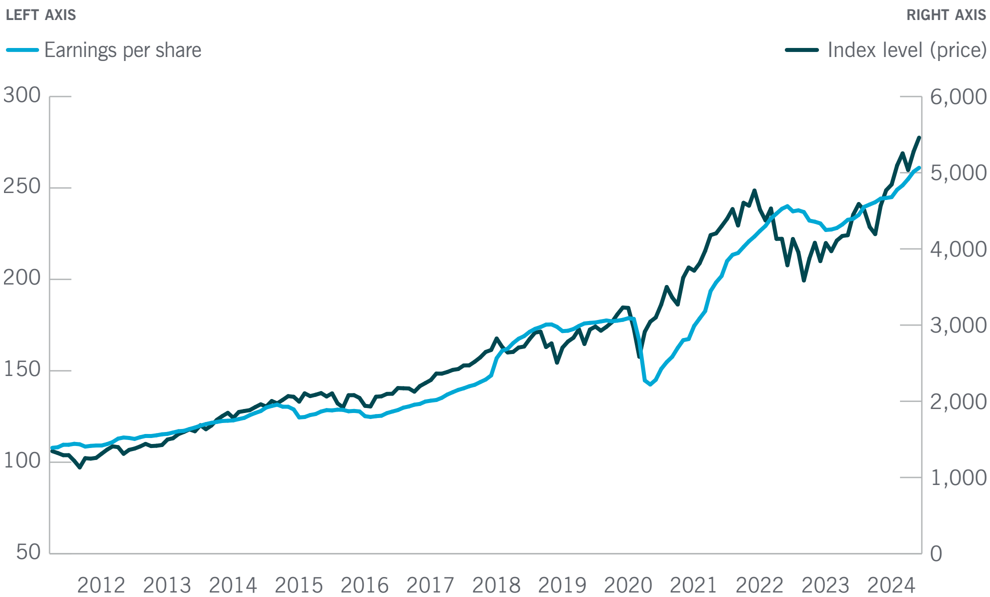
**Possible speed bumps in the artificial intelligence (AI) fast lane.** AI will remain a dominant theme for the economy and markets for many years, but AI spending could slow in the near term as companies integrate the technology and gauge its success at boosting productivity.

As for the U.S. equity market itself, with the S&P 500 again very close to all-time highs (Figure 1), any signs of weakness this earnings season could cause stocks to give back some of their gains in the near-to-medium term.

***Optimism hinges in part on continued economic resilience and cooling inflation to drive positive earnings revisions during the reporting cycle.***

**FIGURE 1: EARNINGS GROWTH EXPECTATIONS ARE DRIVING EQUITIES HIGHER**

*S&P 500 Index*




Data source: FactSet, 31 May 2011 to 30 Jun 2024. **Performance data shown represents past performance and does not predict or guarantee future results.** EPS reflects forward estimates of trailing 12-month earnings per share.

# Portfolio considerations

**Where to go when you reach the fork in the road.** The U.S. equity market rally remains bifurcated, with the megacap Magnificent Seven stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) responsible for the bulk of the S&P 500's advance in 2024, while almost 40% of the index is in negative territory. As a result, the market cap-weighted S&P 500 is up +18.0% year-to-date through mid-July, versus just +6.9% for the equal-weighted version of the index. Some market participants may be content to stay put on the narrow path of information technology dominance, but there are risks in relying on such a concentrated approach.

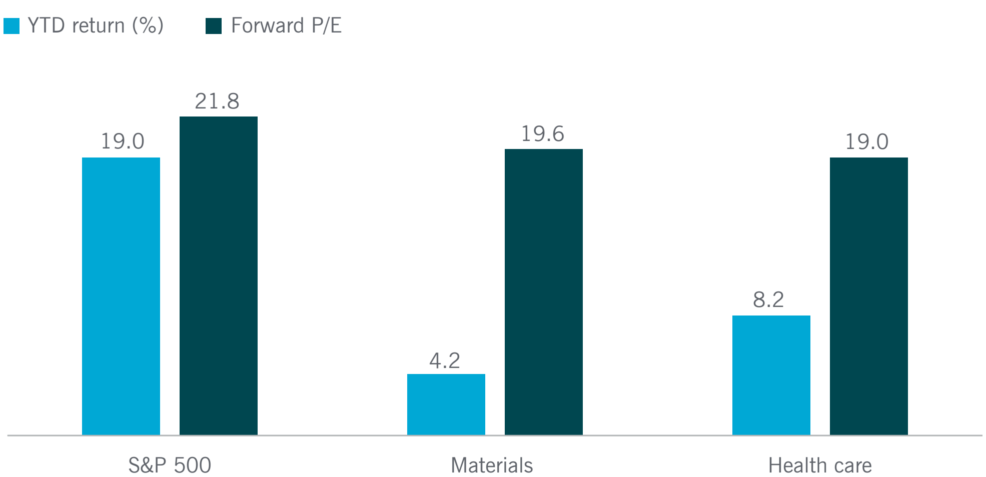
*There's value to be found by allocating to certain sectors that have missed out on much of the year's big gains and could be due for a recovery.*

In our view, there's value to be found by allocating to other sectors that have missed out on much of the year's big gains and may be due for a recovery. These include materials and health care, both of which offer more attractive valuations than the broader market (Figure 2).

- The **materials** sector is expected to post negative earnings growth for the second quarter before rebounding in the back half of 2024. U.S. chemical rail shipments are up 4% to 5% year-to-date amid strong export demand. And while most companies in this sector have forecasted flat to modestly higher volumes in Q2 compared to Q1, we expect levels to rise later in the year. Demand for fine fragrance chemicals looks favorable, reflecting the strength of higher-end consumers. We anticipate robust spending levels from this cohort will continue. Additionally, chemicals prices, which skyrocketed during Covid, peaking at a 68% rise, have since receded by roughly 28% — a positive for the materials sector as a whole.
- Within **health care**, our two favorite subsectors are medical technology (medtech) and managed care. Medtech has seen business accelerate due to soaring demand for elective procedures since the pandemic. This earnings season we'll pay close attention to companies' perspective on how sustainable this trend may be, but in the short-to-medium term it should have a positive effect on medtech earnings. As for managed care, companies have healthy cash levels and should see an improvement in operating earnings in Q2 reports. During the first half of 2024, higher utilization caused managed care stocks to underperform. We expect lower utilization rates going forward, however, which should provide a boost to that industry.

**FIGURE 2: MATERIALS AND HEALTH CARE OFFER ATTRACTIVE RELATIVE VALUATIONS**

*Returns and valuations*




Data source: Bloomberg, L.P., 10 Jul 2024. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: S&P 500:** S&P 500 Total Return Index; **materials:** S&P 500 Materials Sector Total Return Index; **health care:** S&P Healthcare Sector Total Return Index.

## About Nuveen's Global Investment Committee

*Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets.*

*Regular meetings of the GIC lead to published outlooks that offer:*

- macro and asset class views that gain consensus among our investors
- insights from thematic "deep dive" discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

**For more information, please visit nuveen.com.**

### Endnotes

**Sources**

All market and economic data from Bloomberg, FactSet and Morningstar.

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