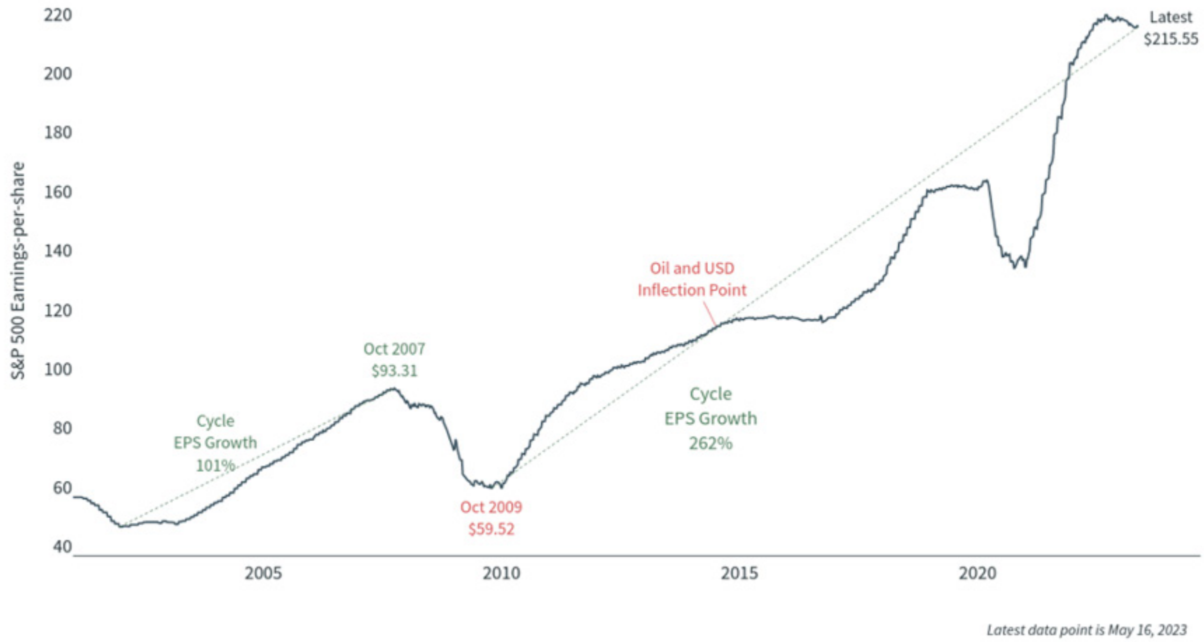
Week in Review

MAY 19, 2023

Corporate Earnings Season is Better than Anticipated but growth trends are negative...

Corporate earnings season is largely complete and overall came in better than expected. On March 31st, prior to the reporting season, earnings for the S&P 500 were expected to decline year-over-year by 6.7%. With over 90% of S&P 500 companies reporting, the blended decline is 2.5%. So, while the trailing earnings for the S&P 500 are down, the decline is less than feared and lower expectations for the rest of the year have stabilized.

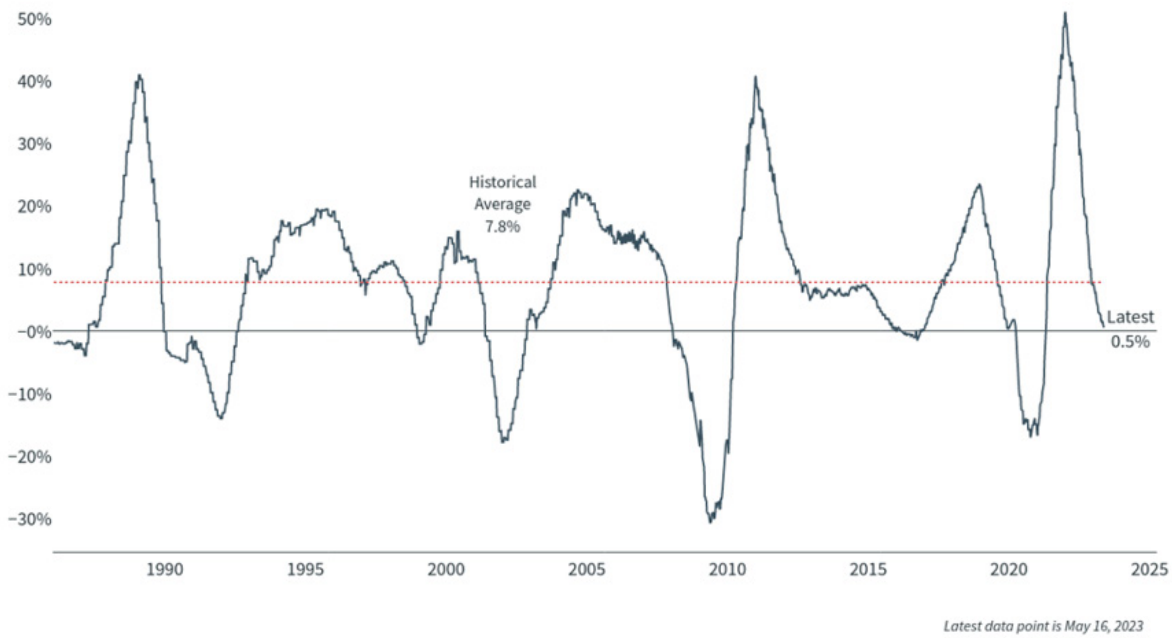
S&P 500 TRAILING 12 -MONTH EARNING PER SHARE



Source: Clearnomics

On a trailing 12-month basis, earnings are still slightly positive, but should drop into negative territory in the coming quarters. Relative to history, negative earnings growth will be reflective of slower economic growth and likely at least a shallow recession.

S&P 500 TRAILING 12 -MONTH EARNING PER SHARE GROWTH



Source: Clearnomics

However, historical trends have shown that periods of negative earnings growth have been relatively brief and marked by rapid recovery with the notable exception of 1990-1992, which saw a double dip.

At Pallas Capital, we believe that stock prices ultimately follow long-term earnings per share growth. While we expect near-term earnings growth to fall into negative territory, stock prices tend to recover in anticipation of an earnings rebound.

Overall, the current earnings season has come in better than expected. While the near-term trend in earnings is still down, longer term we expect earnings growth will once again inflect positively, driving a broader market recovery.

CRN23_13