

PALLAS PERSPECTIVE

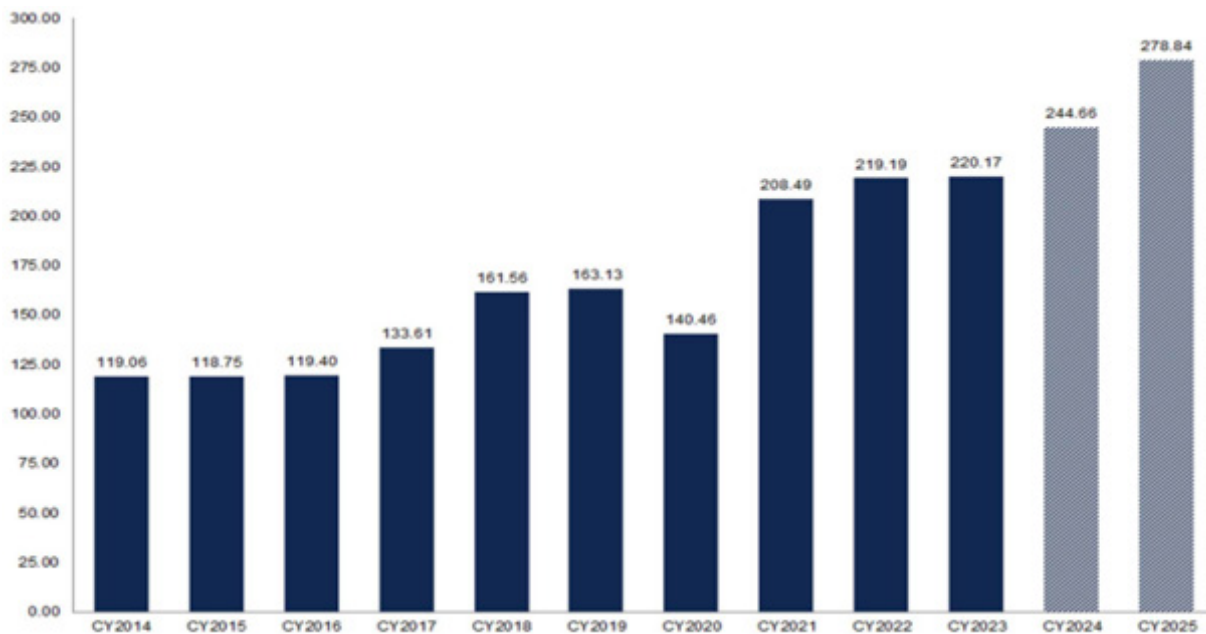
MAY 31, 2024

POSITIVE CORPORATE EARNINGS HAVE BEEN SUPPORTIVE OF EQUITIES

At this late stage of the first quarter earnings season for 2024, S&P 500 companies continue to perform well compared to expectations, resulting in both attractive year-over-year growth and increased earnings expectations for the calendar years 2024 and 2025. On a year-over-year basis, the S&P 500 is reporting a quarterly earnings growth rate of 6%, which is the highest earnings growth rate since Q2 2022 (9.4%). For the remainder of the year, growth is expected to accelerate, with calendar 2024 earnings for the S&P 500 projected to be 11% above 2023, and 2025 is expected to see further growth of 13% over 2024.

S&P 500 CALENDAR YEAR BOTTOM-UP EPS ACTUALS & ESTIMATES

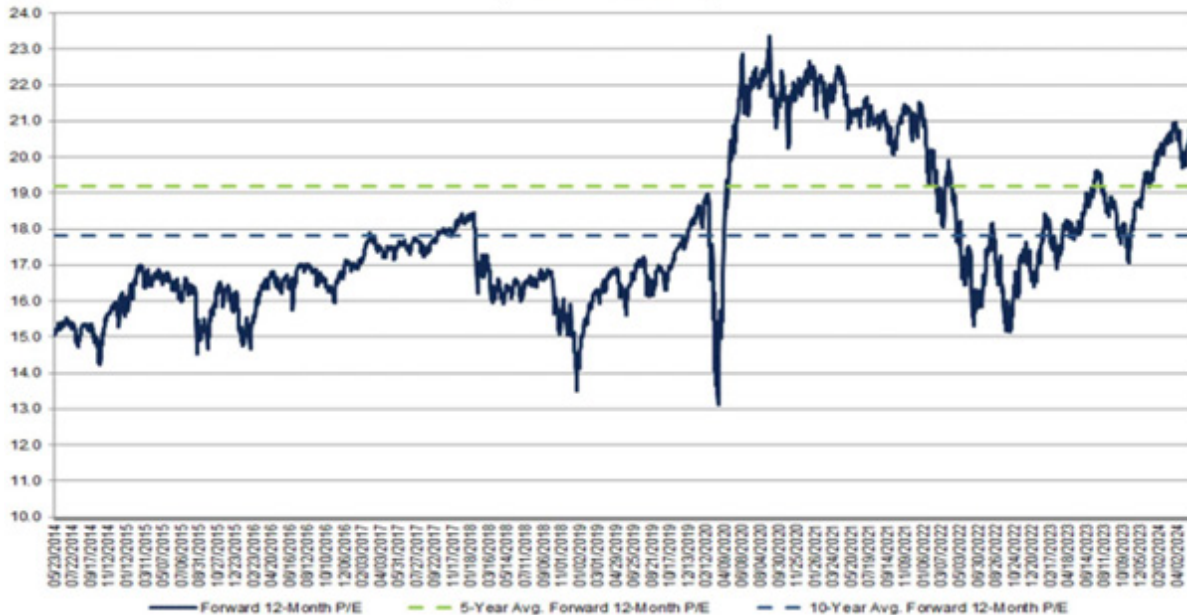
SOURCE: FACTSET



The acceleration of earnings growth, both in absolute terms and relative to expectations, has been the key driver of equity market performance in 2024. This trend is consistent with the relationship that stock prices tend to follow earnings growth. However, in a year when interest rates have remained relatively high compared to recent history and substantially higher than forward-looking rate expectations at the beginning of the year, valuation multiples remain above long-term averages. The forward 12-month price/earnings ratio for the S&P 500 is 20.5, which is above the 5-year average (19.2) and the 10-year average (17.8).

S&P 500 FORWARD 12-MONTH P/E RATIO: 10 YEARS

SOURCE: FACTSET



The overall strength in corporate earnings has clearly supported the positive movement in the market on a year-to-date basis. However, elevated valuation metrics compared to historical averages suggest that the positive fundamental backdrop for equities may largely be priced in, at least at the aggregate market level. A diversified approach within equity selection, as well as in asset allocation, remains warranted in the current environment.

At Pallas Capital Advisors, we will continue to monitor business fundamentals and valuation levels with a focus on maintaining well-diversified investment portfolios to preserve and grow capital over the long term.

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