

Q2 EARNINGS REVIEW: PUNTING TO THE FALL

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Second-quarter earnings gave ammunition to both bulls and bears. Let's review a few of the main takeaways of reporting season.

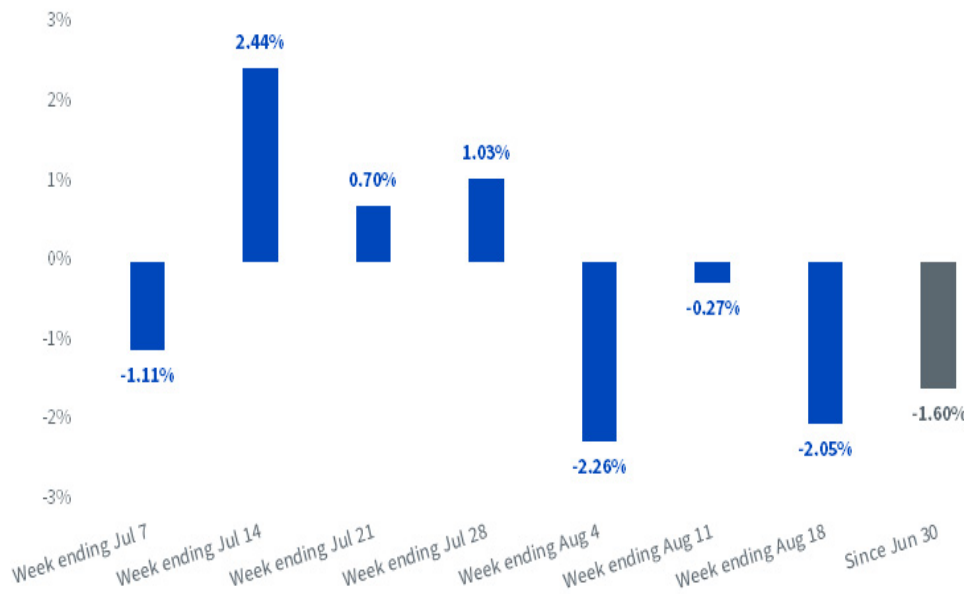
Index Returns

To start, returns have been mixed over the last several weeks.

Returns jumped higher over a three-week stretch ending on July 28. Banks, which generally report earlier in the earnings calendar and are viewed as a key bellwether for the economy, got the earnings season off to a strong start.

When the calendar turned to August, sentiment shifted. The [S&P 500 Index](#) entered a three-week losing streak to start the month, tilting S&P 500 returns negative for the quarter.

S&P 500 Total Returns



Sources: WisdomTree, Standard & Poor's, as of 8/18/23. You cannot invest directly in an index. Past performance is not indicative of future returns.

Q2 2023: Surprise

Arguably the negative returns in August had more to do with the spike higher in [interest rates](#) than earnings.

Earnings (with over 90% of the index reporting) beat analyst expectations by nearly 8% in aggregate and across every sector. If you looked no further than this data point, earnings season would be viewed as a home run.

But taking some of the shine off the rosy earnings picture was the lackluster sales surprise. The sales surprise was a modest 1.5%, meaning companies had beaten earnings by

controlling costs—a potentially trickier playbook for earnings growth in quarters ahead.

S&P 500 Q2-2023 (As of 08/21/23)					
EARNINGS SURPRISE	COUNT	WEIGHT		SURPRISE	
		REPORTED/TOTAL	% WEIGHT REPORTED	% WEIGHT OF INDEX	SALES
Index	475 / 500	93.1%	100.0%	1.5%	7.8%
Communication Services	20 / 20	100.0%	8.7%	0.8%	6.3%
Consumer Discretionary	48 / 53	95.3%	10.5%	2.6%	22.6%
Consumer Staples	31 / 37	95.4%	6.6%	0.4%	6.5%
Energy	23 / 23	100.0%	4.5%	-0.6%	3.1%
Financials	72 / 72	100.0%	12.6%	3.8%	7.3%
Health Care	62 / 65	97.3%	13.6%	2.7%	4.8%
Industrials	73 / 75	98.4%	8.5%	1.6%	8.5%
Information Technology	56 / 65	79.7%	27.7%	1.2%	7.7%
Materials	29 / 29	100.0%	2.5%	-2.2%	7.2%
Real Estate	31 / 31	100.0%	2.4%	1.7%	2.8%
Utilities	30 / 30	100.0%	2.5%	-4.7%	8.4%

Sources: WisdomTree, FactSet. Q2-2023 refers to companies with financial reporting periods between 05/16/23 and 08/15/23. You cannot invest directly in an Index.

Q2 2023: Growth

Year-over-year earnings declined by 4.6%, with sales effectively flat.

Though earnings growth was negative, the actual results were an improvement from the -7% earnings growth that was expected on June 30.

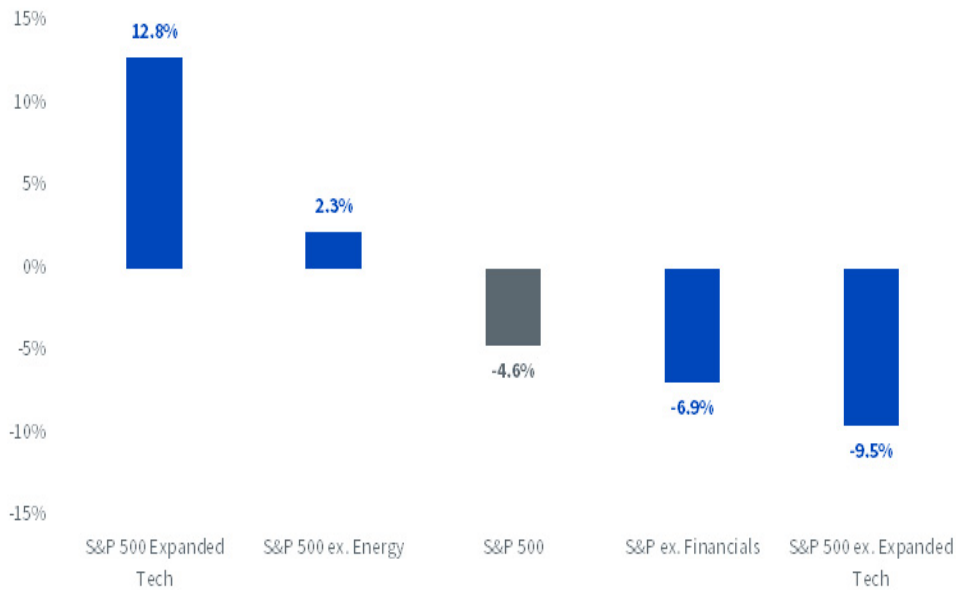
Eight of the 11 sectors had positive earnings growth, with Energy (-52%), Materials (-29%) and Health Care (-28%) the outliers.

S&P 500 Q2-2023 (As of 08/21/23)					
GROWTH (ALL)	COUNT	WEIGHT		GROWTH	
		TOTAL	% WEIGHT OF INDEX	SALES	EARNINGS
Index	500	100.0%	0.8%	-4.6%	
Communication Services	20	8.7%	3.3%	18.0%	
Consumer Discretionary	53	10.5%	9.7%	53.5%	
Consumer Staples	37	6.6%	3.3%	6.1%	
Energy	23	4.5%	-28.9%	-51.5%	
Financials	72	12.6%	11.4%	7.0%	
Health Care	65	13.6%	5.3%	-27.6%	
Industrials	75	8.5%	4.2%	13.4%	
Information Technology	65	27.7%	-0.5%	1.4%	
Materials	29	2.5%	-12.7%	-29.2%	
Real Estate	31	2.4%	4.8%	9.3%	
Utilities	30	2.5%	-1.6%	0.1%	

Sources: WisdomTree, FactSet. Q2-2023 refers to companies with financial reporting periods between 05/16/23 and 08/15/23. You cannot invest directly in an Index.

Excluding the volatile earnings from the Energy sector, S&P 500 earnings grew by 2.3%. S&P 500 Expanded Tech grew by nearly 13% with S&P 500 ex. Expanded Tech earnings declining by 9.5%.

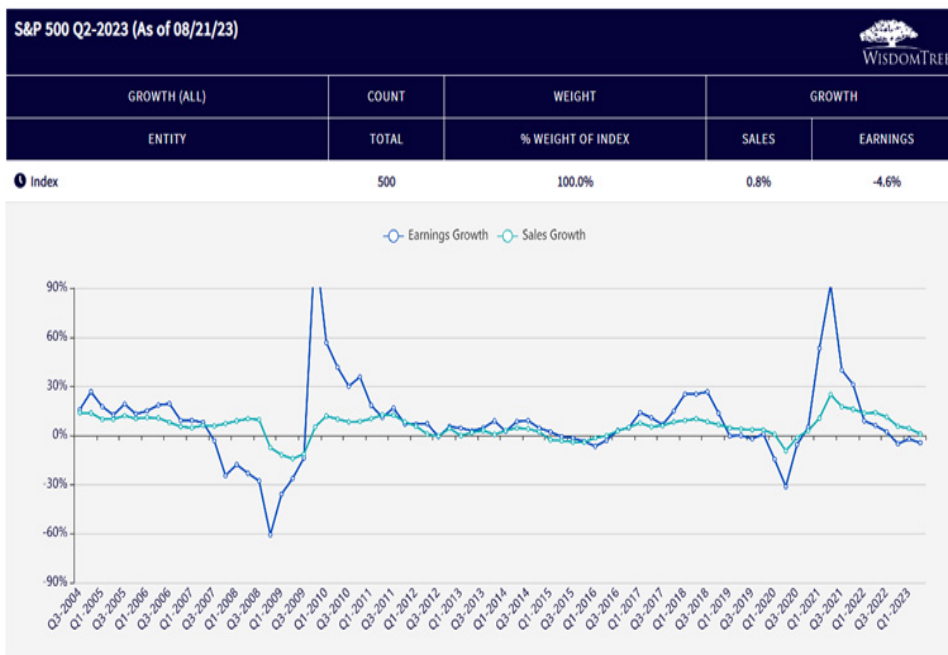
Q2 2023 Year-over-Year Earnings Growth



Sources: WisdomTree, FactSet. Q2-2023 refers to companies with financial reporting periods between 05/16/23 and 08/15/23. You cannot invest directly in an Index. Expanded Tech includes the Information Technology sector, Interactive Home Entertainment subindustry, Interactive Media & Services subindustry, Amazon, E-Bay, Etsy and Netflix. Ex-Tech excludes Expanded Tech.

The negative 4.6% earnings growth for the quarter marks the third consecutive quarter of negative earnings growth—the longest stretch since the pandemic-induced earnings [recession](#) from Q1 2020 through Q3 2022.

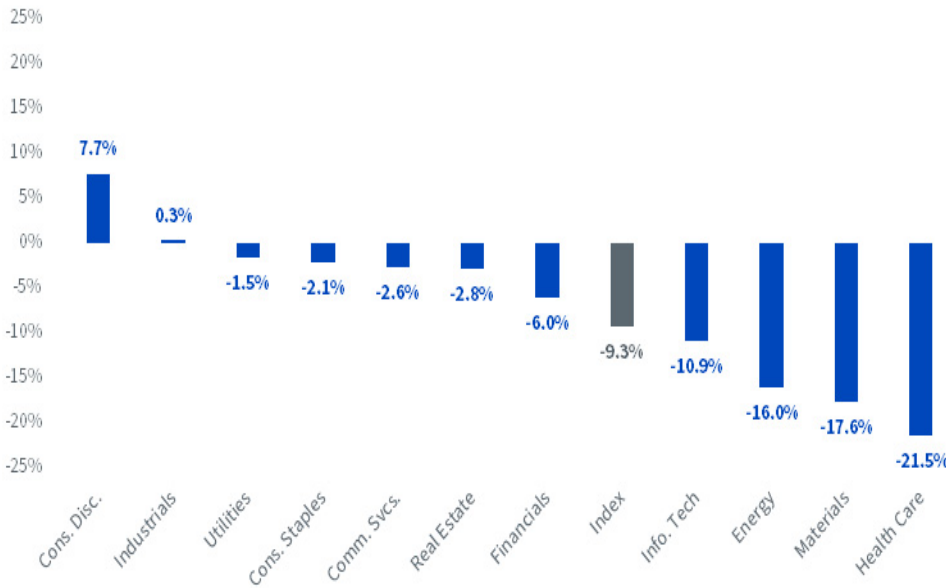
Historical Timeseries: Sales and Earnings Growth



Sources: WisdomTree, FactSet. Q2-2023 refers to companies with financial reporting periods between 05/16/23 and 08/15/23. You cannot invest directly in an Index.

Over the last year, the goalposts had come in significantly on analyst expectations for Q2 2023. Reported earnings growth of -4.6% was 9% below the positive 4.7% growth that was estimated for earnings at the end of July 2022. Energy, Materials and Health Care had the biggest reductions in earnings versus year-ago estimates.

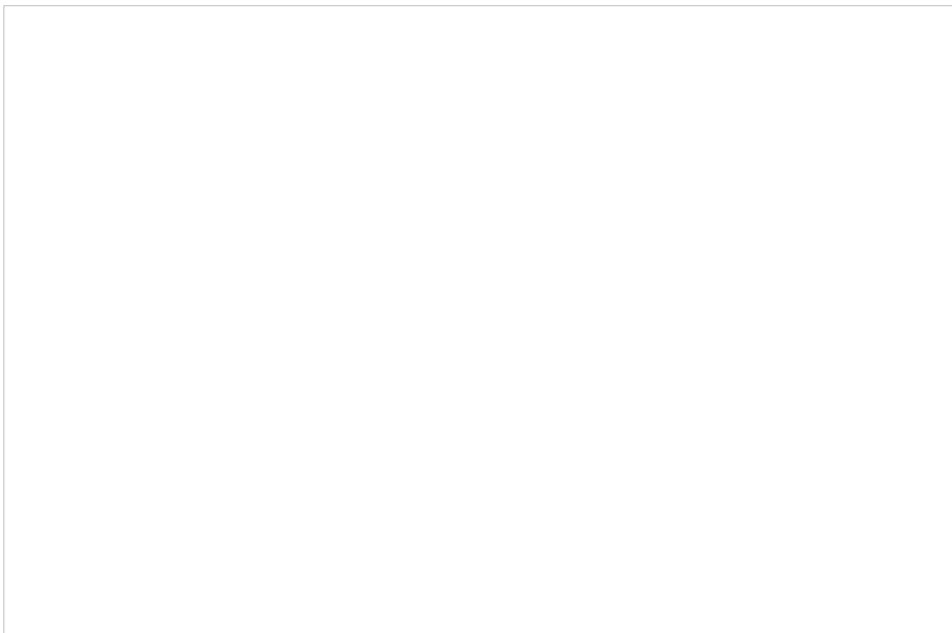
Q2 23 Actual Earnings vs. July 2022 Expectations



Source: WisdomTree, FactSet. Q2-2023 refers to companies with financial reporting periods between 05/16/23 and 08/15/23. July 2022 expectations were median analyst estimates for Q2 23 on 7/31/22. You cannot invest directly in an Index.

Forward 12-month earnings per share estimates peaked in June 2022 at \$241 and troughed at \$224 in January 2023 as analysts steadily revised estimates down.

S&P 500 Index Price Level and Forward 12-Month Earnings per Share



The [earnings revisions ratio](#), which trended negatively for most of last year and into this year, has shown a distinctly positive trend in recent months, mirroring the optimism in equity prices through most of this year.

S&P 500 Index Earnings Revisions Ratio



Looking Ahead

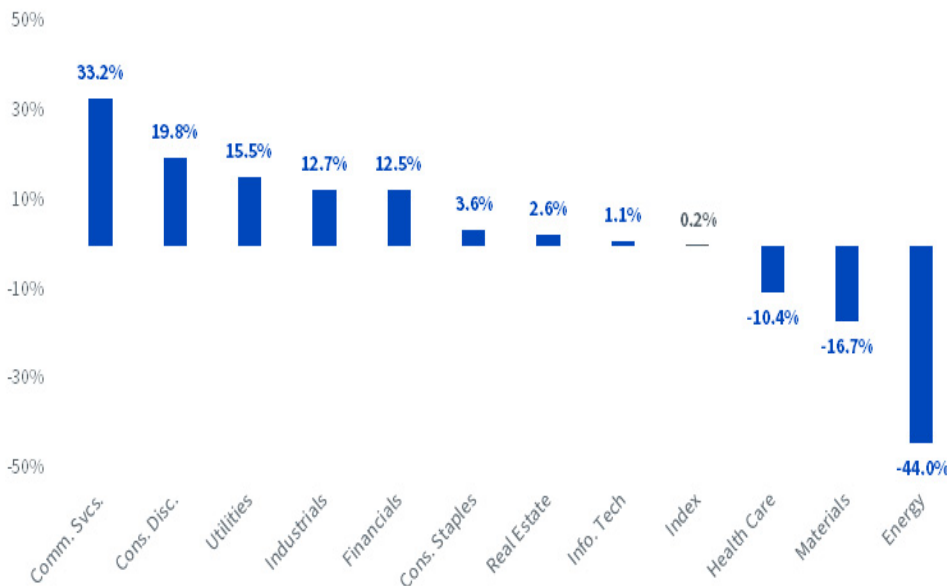
The bar for earnings to beat next quarter is relatively low. Analyst estimates are for Q3 2023 earnings to be roughly unchanged versus the year-ago period.

With just 0.2% earnings growth expected for the index, disappointing earnings could lead to the fourth consecutive quarter of negative growth. That would be longest stretch of negative earnings growth since the five-quarter stretch between Q2 2015 and Q2 2016.

Any surprise to the [upside](#) could mean another positive catalyst for equity prices in the second half of the year.

To stay up to date on the latest on earnings, visit the [Earnings Path Tool](#) on the WisdomTree website.

Q3 23 Earnings Growth Estimates



Sources: WisdomTree, FactSet. Q3-2023 refers to companies with financial reporting periods between 08/16/23 and 11/15/23. You cannot invest directly in an Index.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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DEFINITIONS

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Recession: two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

Earnings revisions ratio: the ratio of earning upgrades to downgrades

Upside: Currency appreciation.