



To reach CIO's upside outcome of 5,300 by the end of 2024, we would need to see further positive signs on inflation, Fed policy, and growth, including from data and earnings releases this week. (UBS)

US profit growth better than forecast

12 February 2024, 2:51 pm CET, written by UBS Editorial Team

With each passing week of the US earnings season, the numbers keep getting better. We had originally expected 4–5% earnings growth in the fourth quarter (excluding nonrecurring charges for the banks, mostly related to replenishing the FDIC bailout fund).

With results now in from 80% of the S&P 500 market cap, growth is pacing to be greater than 7%.

And while some mega-cap growth companies are reporting exceptionally strong numbers, even the median company in the S&P 500 should produce growth of about 6%. In terms of breadth, 77% of companies are beating earnings per share estimates, and 65% are beating on revenues. Both are better than average.

This has been supporting a continued rally in US equities, with the S&P 500 hitting another all-time high on Friday to finish above 5,000 for the first time. The index has now gained ground in 14 of the last 15 weeks. We believe the rally has been well-supported by healthy economic fundamentals and profit growth. But we will be looking for further evidence of slowing US inflation and resilient growth before concluding markets should price in a “Goldilocks” scenario, rather than a soft landing.

Inflation data this week could help determine whether market confidence in the health of the US economy should mount further. There is no denying the recent strength of US growth data, from an above-expectations expansion of GDP and rising real disposable income to rapid employment growth. A “Goldilocks” economic outcome, however, will also require inflation to continue falling smoothly. Further guidance on whether this is happening will be delivered this week in the January CPI release. The consensus is for the annual rate of inflation to slow to 2.9%, the first reading below

3% since March 2021. The core rate, which excludes volatile food and energy prices, is expected to decline to 3.8%. By contrast, any interruption in the pace of improvement in inflation has the potential to disappoint investors.

Investors will be looking for signs that Federal Reserve officials will be open to a swift series of rate cuts this year. Our base case remains for 100 basis point of rate reductions from the US central bank over 2024, most likely starting in May. In a "Goldilocks" scenario, however, reassuring inflation data could allow the Fed to trim rates by 150 basis points, even frontloading reductions ahead of the US election in November to avoid any hint of political bias. Recent comments from the Fed have been cautious, in line with the median forecast from top officials for 75 basis points of easing this year. The minutes of the Fed's last meeting stressed they would need "greater confidence that inflation is moving sustainably toward 2%" before it would be appropriate to cut rates. Against this backdrop, investors will be scrutinizing comments from a wide range of Fed speakers this week for any shift in tone.

Continued strength on the consumer side of the economy will be crucial in reinforcing recent optimism. In addition to the inflation data, investors will also be looking to retail sales for January for assurance that American shoppers remain upbeat. The 0.8% monthly rise in December for the control measure—which feeds into the calculation of economic growth—topped expectations. The consensus view remains for a still solid 0.4% gain in January on this measure, based on a Reuters survey. The corporate earnings season will also provide guidance on this front. So far, a number of consumer staples companies are exceeding profit margin expectations as costs continue to improve. Auto manufacturers are also expecting a solid year of demand. Again, further resilience in consumer-facing companies could highlight the potential that the US is headed for a "Goldilocks" outcome.

So, as the rally has continued, markets are pricing in plenty of good news. The MSCI US is trading on 19.8 times 12-month forward earnings, a 20% premium to the 15-year average. The S&P 500 is now trading close to the 5,000 level where we would expect it to end the year in the event of a soft landing. To reach our upside outcome of 5,300 by the end of 2024, we would need to see further positive signs on inflation, Fed policy, and growth, including from data and earnings releases this week.

Main contributors – Solita Marcelli, Mark Haefele, David Lefkowitz, Nadia Lovell, Christopher Swann, Jennifer Stahmer, Daniel J. Scansaroli

Read the original report : [US profit growth better than forecast, 12 February 2024.](#)

Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. This document and the information contained herein are provided solely for your information and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.** Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Additional Disclaimer relevant to Credit Suisse Wealth Management

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse to any registration or licensing requirement within such jurisdiction. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can opt out from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by Credit Suisse AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Credit Suisse AG is a UBS Group company.

Please visit [<https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html>] to read the full legal disclaimer applicable to this material.

© UBS 2024. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.