

2024 earnings: The likely convergence of the “haves and have nots”

Kelly Bogdanova – San Francisco

Soon all eyes will be on Q1 earnings results. We think the full-year earnings growth trajectory is more important. Growth rates for the Magnificent 7 and non-Mag 7 stocks are expected to converge—a positive sign. But there are some lingering second-half earnings risks to keep in mind.

The U.S. equity market is approaching the start of Q1 earnings season following one of the strongest five-month rallies in history. With the S&P 500 up 26.6 percent since the October low, a lot of good news has been baked in.

We think this has established a higher hurdle for Q1 earnings results, and when this happens, some high-profile companies usually stumble trying to clear the bar.

Coming together

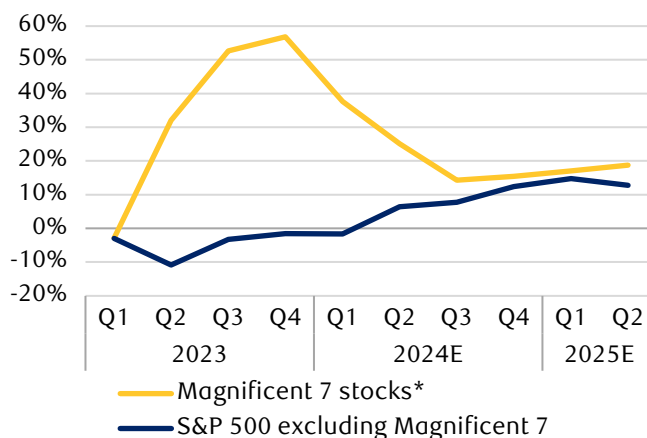
Regardless of the Q1 earnings results and the market’s reaction, we think the full-year 2024 earnings trajectory is more important to long-term investors. And here a notable, positive shift is taking place.

The consensus forecast expects earnings growth for the technology-oriented Magnificent 7 stocks (the “haves” for over a year in terms of earnings growth and share price performance) to decline meaningfully in 2024 mainly due to very challenging year-over-year comparisons. This is not a negative development—it’s common following ultra-strong growth.

In contrast, earnings growth for non-Magnificent 7 stocks (the “have nots” for much of 2023) is expected to pick up—finally.

Magnificent 7 versus the rest: Earnings growth rates expected to converge

Year-over-year earnings growth and consensus estimates (%)



* Magnificent 7 stocks are Apple, Microsoft, Alphabet, Amazon.com, NVIDIA, Tesla, and Meta Platforms.

Source - Bloomberg Intelligence, RBC Wealth Management; data as of 4/3/24; 2023 actual results, Q1 2024 onward Bloomberg consensus estimates (E)

The two growth rates should nearly converge to around 14 percent by Q4 2024, according to Bloomberg consensus estimates, which would be well-above average.

For perspectives on the week from our regional analysts, please see [pages 3–4](#).

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Priced (in USD) as of 4/3/24 market close (unless otherwise stated). Produced: 4/4/24 16:48 ET; Disseminated: 4/4/24 17:00 ET

This lends credence to the fact that market performance has broadened since late October 2023.

Prior to that time, the Magnificent 7 stocks within the Information Technology, Communication Services, and Consumer Discretionary sectors dominated in share price performance. These stocks and sectors rallied sharply as earnings growth prospects and results surged.

However, since the October low, five S&P 500 sectors that don't include any Magnificent 7 stocks have climbed 17 percent or more and all 11 sectors have risen by double digits.

In other words, the market has been anticipating the earnings growth convergence between the haves and have nots, and this has been reflected by the broad rally over the past five months.

Vulnerabilities remain

When it comes to 2024 earnings estimates, the challenge is that consensus expectations are still back-end loaded. Estimates for S&P 500 earnings in the second half of the year look lofty to us.

We think the 2024 earnings growth trajectory is highly dependent on GDP growth staying resilient, near or above the 2.6 percent long-term average and without negative inflation or employment developments. While this scenario is possible, economic vulnerabilities linger, and recession risks should not be ignored.

Earnings estimates also seem to be assuming that Federal Reserve policy will turn dovish with multiple interest rate cuts.

Among S&P 500 sectors, we have strong doubts that the Health Care sector will meet the 2024 consensus forecast. Earlier this week negative Medicare reimbursement rate news dented earnings prospects for managed care companies, and further estimate markdowns could occur during the Q1 reporting season. Therefore, we expect Health Care's 15.1 percent consensus growth forecast to come down, potentially notably, given this forecast was issued just prior to the Medicare reimbursement news.

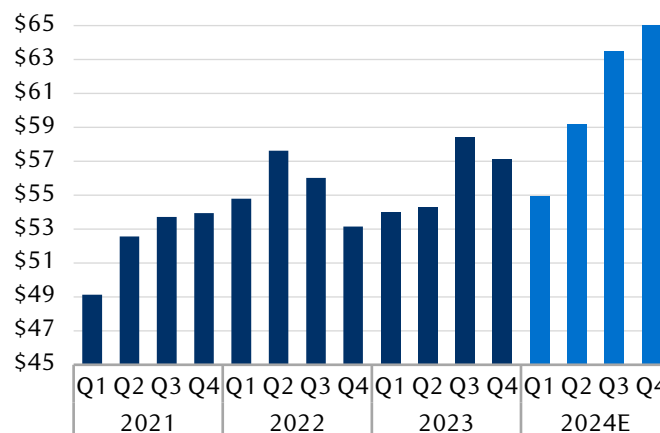
Less robust Health Care growth could be balanced out by other sectors. We think the full-year 2024 consensus growth estimates look undemanding for Financials, Industrials, Energy, and Materials; they seem achievable or beatable to us.

We still see scope for further market gains this year as long as the economy remains resilient, and the Fed is inclined to cut rates. But it would not be unusual for the market to take a breather or pull back at some point following such a strong run. Corrections of around 10 percent tend to happen more often than not in any given year.

We would maintain Market Weight positions in U.S. equities to balance the risks and opportunities. For more thoughts on the market, see [this article](#).

Earnings forecasts for second-half 2024 seem lofty

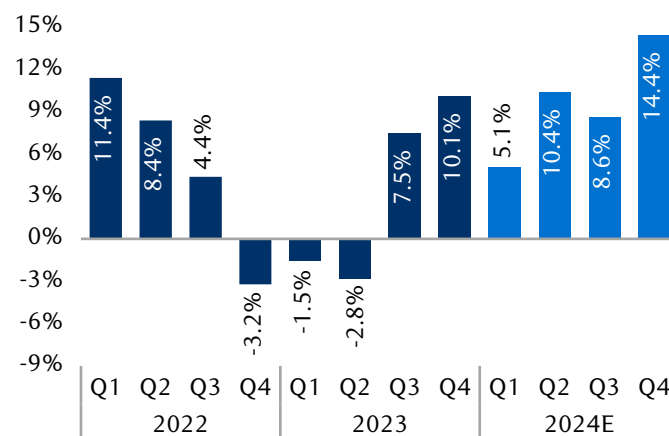
S&P 500 quarterly earnings per share (dark blue are actual data; light blue are consensus estimates)



Source - LSEG I/B/E/S, FactSet, RBC Wealth Management; data as of 3/28/24

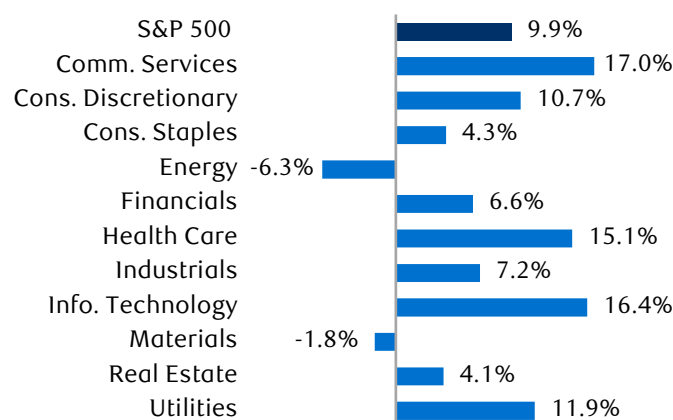
Year-over-year comparisons tougher in second-half 2024

S&P 500 earnings growth year over year (dark blue are actual data; light blue are consensus estimates)



Source - LSEG I/B/E/S, FactSet, RBC Wealth Management; data as of 3/28/24

S&P 500 and sector consensus earnings growth estimates for full-year 2024



Source - LSEG I/B/E/S, RBC Wealth Management; data as of 3/28/24

UNITED STATES

Michael Roedl – Minneapolis

■ **U.S. Treasury bond prices have faced significant selling pressure this week, with yields up 10–15 basis points throughout the curve.** Economic reports released earlier in the week highlighted strength in manufacturing and labor market data, underpinning resilient economic growth that appears to be gaining momentum this year. As a result, the combination of sticky inflation and resilient labor market conditions has caused investors to scale back their expectations for the timing and extent of interest rate cuts. Markets are currently pricing in about 65 basis points of rate reductions in 2024, compared to the Federal Reserve's median estimate of 75 basis points at its March meeting.

■ **On Wednesday, Fed Chair Jerome Powell signaled that policymakers are waiting to see more signs of disinflation before deciding interest rate cuts are appropriate.** Other members of the Federal Open Market Committee have said repeatedly they're in no hurry to cut rates at this point. Nonetheless, we're still forecasting rate cuts in the pipeline for 2024 given increased pressure in certain areas of the economy, such as greater distress in commercial real estate, rising delinquencies on leveraged and private loans, and U.S. credit card debt at all-time highs.

■ **U.S. municipal bonds are under pressure so far in April, after heavy redemptions and limited supply in recent months helped cushion price volatility.** Muni/Treasury yield ratios, which indicate relative value in the

market, narrowed last month to the tightest valuations in over a year as municipals outperformed Treasuries. Even though new-issue municipal supply remains light this week, we think the dynamic is about to change in favor of upcoming buyers. Bloomberg projects new issuance for April and May could outpace redemptions by nearly \$10 billion, and we think this could give muni yields and ratios a much-needed boost in the months ahead.

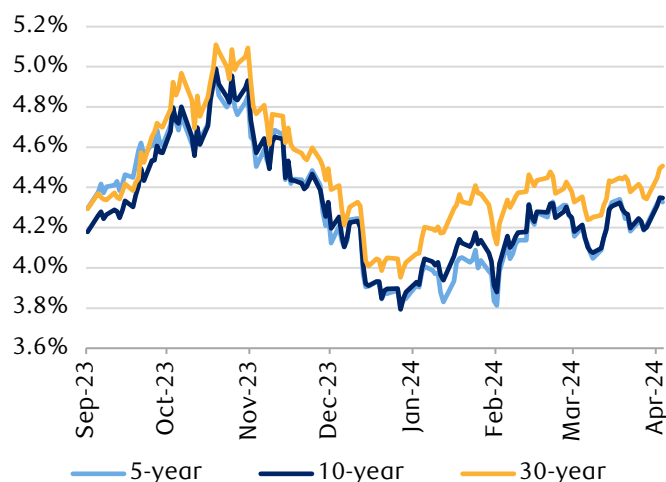
CANADA

Matt Altro & Jonathan Laser, CFA – Toronto

■ **The Bank of Canada has released its Business Outlook Survey, with the broad consensus pointing towards sluggish business conditions given a weakening consumer backdrop.** The data indicates there seems to be a shift in weakness from the capacity constraints (labour shortages, supply chain issues) towards more demand-oriented factors driven by consumer health and purchasing behaviours. Overall cost pressures have eased substantially, resulting in further normalization of pricing behaviour, as fewer businesses are planning for significant price hikes this year. However, wage gains remain elevated and input costs are in some cases still catching up to past inflation, which together are squeezing profit margins. Inflation expectations have eased, but businesses are still working on the assumption of an above-target inflation reading for the remainder of the year and into 2025. RBC Economics expects both inflation and wage growth to trend lower in the year ahead, and stands by its projection of rate cuts in the second half of 2024.

■ **Federal government efforts to limit non-permanent resident arrivals are expected to reduce economic growth by 0.5% by the end of 2025, according to RBC Economics.** However, these immigration policies are likely to have little effect on per-person output, according to RBC Economics, which has declined for six consecutive quarters. Given that 80% of temporary residents are under the age of 35, reducing the number of non-permanent residents would likely cause Canada's population to age more quickly. An older population translates to lower labour force participation and, therefore, lower tax revenues to help fund social programs. Slower population growth could ease pressure on housing, but it will likely not be enough to resolve the long-run supply challenges in Canada. While these measures may reduce short-term demand for housing, they will likely also take away potential labour supply for construction and building activities that help build more houses.

U.S. Treasury yields reach new highs on the year



Source - RBC Wealth Management, Bloomberg; data through 4/3/24

EUROPE

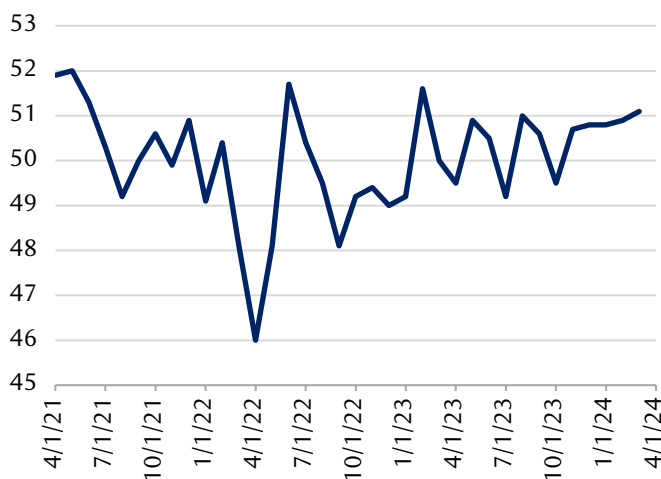
Rufaro Chiriseri, CFA – London

■ **The data this week does little to derail our view of European Central Bank (ECB) interest rate cuts commencing in June.** On the inflation front, preliminary headline price growth fell to 2.4% y/y in March from 2.6% y/y in February, leaving inflation tracking close to the ECB's Q1 staff forecasts. Services inflation, which acts as a gauge for domestic inflation, remained sticky at 4% y/y, and unchanged for a fifth consecutive month.

■ **The labour market also remains tight** as unemployment has remained unchanged at 6.5% since March 2023, and still at an all-time low since 1999. More importantly, key wage negotiations data from Q1 will be released at the end of April. **As recently stated by ECB President Christine Lagarde, the central bank will “know a little more in April, but we will know a lot more in June.”** Furthermore, the ECB's March meeting minutes revealing that policymakers will have “significantly more data and information by the June meeting, especially on wage dynamics” tips the scales in favour of no cuts when they meet next week, in our view.

■ Markets have assigned an 89% probability of a 25 basis points (bps) cut in June, but more notably, expectations for 2024 have been dialled back from around 100 bps of cumulative cuts to 90 bps. This is likely due to the final revision of economic activity indicators for March, which showed an improvement into expansionary territory, boosting the market's optimism for economic growth. **Our base case calls for the first interest rate cut to occur in June and for the deposit rate to reach 3.25% by year's end.**

Caixin China Manufacturing PMI at 1-year high



Source - RBC Wealth Management, Bloomberg; monthly data through 3/31/24

■ In the UK, persistent wage growth and inflation have been a concern for the Bank of England (BoE). Therefore, **the BoE's recent Decision Maker Panel survey will add to the central bank's confidence regarding cuts in August, in our view.** The survey, which examines the views of chief financial officers on inflation and wage growth, showed that they expect prices to rise, albeit by the lowest amount since October 2021. In addition, for the first time since August 2023, the results showed expectations of wage growth easing in the next year.

ASIA PACIFIC

Nicholas Gwee, CFA – Singapore

■ **The Asia Pacific equity market traded mixed during the week.** Greater China led the region, while Japan continues to face profit-taking after a very strong start to the year. The Shanghai Shenzhen CSI 300 Index is up approximately 15% from its February low and is testing the resistance level at 3600. The Caixin/S&P Global China Manufacturing Purchasing Managers' Index (PMI) reached 51.1 in March, its highest level in more than a year, a sign to us that economic growth in China is stabilizing. Separately, Caixin's Services PMI for China edged up to 52.7 in March from 52.5 in February, the 15th consecutive monthly expansion. Taken together with the Manufacturing PMI, the Caixin/S&P Composite PMI rose to 52.7, the highest level since May 2023.

■ **TSMC (2330 TT), the world's largest semiconductor foundry, will be resuming operations in Taiwan after a 7.4 magnitude earthquake struck the country's east coast early Wednesday.** Later that day, TSMC said it had brought 70% to 80% of machinery back online within 10 hours after the earthquake hit and highlighted that there was no damage to its critical tools. There were a small number of tools damaged at some facilities, and TSMC is deploying available resources to effect a full recovery.

■ **Major Chinese banks reported Q4 and full-year 2023 earnings, with modest profit growth coming in broadly within market expectations.** However, revenue and net interest margin pressures were evident. Asset quality was largely mixed-to-manageable, with a stable level of nonperforming loans (NPL) but modestly lower NPL coverage ratios. Agricultural Bank of China (1288 HK) delivered the highest earnings growth among the state-owned banks. Bank of China's (3988 HK) Q4 results were mixed, with overall earnings meeting consensus expectations. Q4 results at China Construction Bank (939 HK), China Merchants Bank (3968 HK), and Industrial and Commercial Bank of China (1398 HK) met expectations.

MARKET Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	5,211.49	-0.8%	9.3%	26.4%	14.6%
Dow Industrials (DJIA)	39,127.14	-1.7%	3.8%	16.4%	12.4%
Nasdaq	16,277.46	-0.6%	8.4%	33.5%	14.1%
Russell 2000	2,076.20	-2.3%	2.4%	15.2%	-0.7%
S&P/TSX Comp	22,112.46	-0.2%	5.5%	9.0%	0.7%
FTSE All-Share	4,326.83	-0.3%	2.2%	3.6%	3.0%
STOXX Europe 600	510.02	-0.5%	6.5%	11.4%	11.3%
EURO STOXX 50	5,069.25	-0.3%	12.1%	17.6%	29.4%
Hang Seng	16,725.10	1.1%	-1.9%	-18.1%	-24.1%
Shanghai Comp	3,069.30	0.9%	3.2%	-6.9%	-6.5%
Nikkei 225	39,451.85	-2.3%	17.9%	40.0%	42.6%
India Sensex	73,876.82	0.3%	2.3%	25.0%	24.6%
Singapore Straits Times	3,222.66	0.0%	-0.5%	-1.8%	-5.7%
Brazil Ibovespa	127,318.39	-0.6%	-5.1%	25.4%	4.7%
Mexican Bolsa IPC	57,519.89	0.3%	0.2%	6.7%	1.6%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.347%	14.7	46.8	93.6	196.5
Canada 10-Yr	3.593%	12.5	48.3	74.4	115.9
UK 10-Yr	4.056%	12.3	51.9	62.6	244.8
Germany 10-Yr	2.395%	9.7	37.1	14.0	184.0
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.96%	-0.8%	-1.6%	0.4%	-3.7%
U.S. Investment-Grade Corp	5.42%	-1.0%	-1.4%	2.9%	-2.2%
U.S. High-Yield Corp	7.84%	-0.5%	0.9%	10.2%	7.0%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	2,298.71	3.1%	11.4%	15.8%	19.4%
Silver (spot \$/oz)	27.10	8.5%	13.9%	13.0%	10.0%
Copper (\$/metric ton)	8,888.06	1.4%	5.0%	-0.3%	-14.1%
Oil (WTI spot/bbl)	85.15	2.4%	18.8%	5.9%	-14.2%
Oil (Brent spot/bbl)	89.49	2.3%	16.2%	5.4%	-14.3%
Natural Gas (\$/mmBtu)	1.85	5.0%	-26.3%	-11.7%	-67.6%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	104.2680	-0.2%	2.9%	2.1%	5.7%
CAD/USD	0.7390	0.1%	-2.1%	-0.7%	-7.5%
USD/CAD	1.3531	-0.1%	2.2%	0.7%	8.1%
EUR/USD	1.0834	0.4%	-1.9%	-0.6%	-1.9%
GBP/USD	1.2651	0.2%	-0.6%	1.9%	-3.5%
AUD/USD	0.6563	0.6%	-3.7%	-3.3%	-12.4%
USD/JPY	151.7000	0.2%	7.6%	14.5%	23.8%
EUR/JPY	164.3600	0.6%	5.5%	13.8%	21.5%
EUR/GBP	0.8564	0.2%	-1.2%	-2.5%	1.7%
EUR/CHF	0.9784	0.5%	5.3%	-1.7%	-4.3%
USD/SGD	1.3482	-0.1%	2.1%	1.6%	-0.6%
USD/CNY	7.2332	0.1%	1.9%	5.2%	13.7%
USD/MXN	16.5376	-0.1%	-2.6%	-8.4%	-16.7%
USD/BRL	5.0402	0.5%	3.8%	-0.5%	8.2%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.73 means 1 Canadian dollar will buy 0.73 U.S. dollar. CAD/USD -2.1% return means the Canadian dollar fell 2.1% vs. the U.S. dollar year to date. USD/JPY 151.70 means 1 U.S. dollar will buy 151.70 yen. USD/JPY 7.6% return means the U.S. dollar rose 7.6% vs. the yen year to date.

Source - Bloomberg; data as of 4/3/24

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			Count	Percent
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Sell [Underperform]	46	3.15	4	8.70

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