



MARKET REVIEW

WEDNESDAY, MAY 8, 2024

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MARKET COMMENTARY

First quarter earnings season in the U.S. is drawing to a close, and it has been one of the strongest reporting periods in nearly two years. Not since the second quarter of 2022 has year-over-year earnings growth been this strong. With over 80% of S&P 500 companies having now reported, earnings are up 5.0% while revenues have grown 4.1%. Furthermore, 77% of the companies that have reported results so far have beat consensus expectations.

It is this earnings outperformance that has powered the recent rebound in the markets. With U.S. inflation numbers remaining stubbornly high, markets have been pricing in fewer rate cuts from the Federal Reserve this year. In turn, this has been putting downward pressure on equity valuations. The next U.S. CPI reading on May 15th should help inform whether this downward pressure will continue. With earnings growth continuing to look strong, a lower CPI number could be cause for a prolonged rebound in equities.

Looking back over the past 12 months, investors concerns have evolved considerably. In 2023, a hard landing was top of mind for investors; now, concerns revolve around the cost of capital. In both situations we have been most comfortable holding the same types of companies: those that are of high quality with strong balance sheets.

Alexander MacDonald, CFA, P.Eng.