Thus far, the US fourth-quarter earnings season has been mixed with a number of high-profile beats and misses. (UBS)

US earnings season: A promising start despite mixed results

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It is still early in the US fourth-quarter earnings season but there have been some consistent positive trends. Our preference for small-caps over large-caps remains due to appealing relative valuations and the fact that rate cuts could be more helpful for smallcaps.

Just over 27% of the S&P 500 constituents by market cap announced fourth-quarter results through 26 January. The season so far has been mixed, with a number of high-profile beats and misses. Over the course of the second full week of updates, some teams spoke of deteriorating business trends for autos and industrial companies since orders face tough comparisons, distribution channels are destocking shorter-cycle products and backlogs are declining. However, there were some consistent positive trends. Managers overall highlighted the resilience of consumers, as well as expressing optimism that PC, smartphone, and server end-markets may be troughing. Nearly 80% of the companies that have reported so far beat earnings per share estimates, by 4.4% in aggregate. Revenues have been 0.7% higher than expected.

Another 106 S&P 500 companies will report during the week of 29 January, including five of the "Magnificent 7."

- **Our base case:** We look for a soft landing in the US and expect the Fed to pivot to rate cuts, possibly starting in May. We believe earning growth should accelerate this year for large-caps and small caps. In 2024, we expect 8% earnings growth to USD 240 for the S&P 500 index and low-double-digit earnings growth for the S&P 600 small-cap index.
- **Our preferences:**
  - Our preference for small-caps over large-caps remains due to appealing relative valuations and the fact that rate cuts could be more helpful for small caps (nearly half of the debt within the Russell 2000 small-cap index prices on floating rates, compared to around 10% for large-cap companies).

- Within the S&P 500 index, we remain most preferred on consumer staples, energy, and information technology, while we maintain a least preferred view on real estate and utilities.

For more information, please read the full blog "**S&P 500 EPS: Mixed, but good**" published 26 January 2024.