



2/22/2023

FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

Investors have been busy digesting a raft of Q4 2022 earnings reports over the past few weeks. This earnings season has been in particular focus as many felt it would be the beginning of what could be a notable decline in corporate earnings, the first one since the pandemic-induced pullback in 2020.

To date, 82% of S&P 500 constituents have reported their Q4 results. On aggregate, the results can best be described as subpar, with only 68% of companies reporting earnings above expectation. While this figure may not sound deficient, it falls below the 5-year average of 77% and the 10-year average of 73%. If current results hold, we are likely looking at a quarterly earnings decline of close to 5% when all is said and done. A figure that is meaningful but certainly not extreme. In fact, there have been nine occurrences of a quarterly decline greater than 5% in the past ten years. This week, the primary focus has been on retail giants Walmart and Home Depot, who reported on Tuesday morning. Markets were honing in on these reports as proxies for the health of the U.S. consumer, which has largely remained resilient in the face of elevated inflation. The results echoed just that, with both companies handily beating earnings expectations and Home Depot beating revenue expectations. The outlook from the retailers, however, wasn't as optimistic. CEOs from both highlighted the fact that to this point, consumers have continued to spend, albeit showing increasing signs of price sensitivity. Still, they believe the days of the free-spending consumer could soon be in the rearview. "There's still a lot of trepidation and uncertainty with the economic outlook. Balance sheets are continuing to get thinner, savings rate is roughly half of what it was at a pre-pandemic level and we've not been in a situation like this where the Fed is raising at the rate that it does, so, that makes us cautious on the economic outlook because we simply don't know what we don't know." Said Walmart CFO David Rainey.

None of what we are seeing should come as a surprise. When put in the context of where the data has been in recent years, the slowdown in corporate earnings and the likely slowdown in consumer spending is to be expected and lends itself to the consensus idea of an overall slowdown in economic growth. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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