Home > Insights > Market views

Market View
Quarterly earnings – noise or news?

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At a glance

- We prioritise the sustained performance of a company's core business over quarterly fluctuations, recognising that stock price volatility often reflects temporary events rather than true long-term value.

- Healthcare, IT and communication services led the way in Q3, showing strong earnings growth. Meanwhile, lower oil prices impacted the energy sector, but overall, sales across all 11 sectors were positive.
- With companies like Nvidia, Amazon and Alphabet continuing to drive growth and set performance benchmarks, the tech sector remains a powerhouse.

Speak to almost any business manager and they will tell you that attempting to predict their business accurately on a 12-month basis is very hard, and over a quarter is nearly impossible. Hurricanes, typhoons, cold snaps, heatwaves, or even just a lot of rain, not to mention sporting events, political elections and manmade disasters, or just the normal variability of life, can knock or boost sales. This is why we do not obsess over quarterly earnings 'misses' or 'beats' at LGT Wealth Management and we definitely do not go in for the hyperbole surrounding how share prices move on these events.

Noise or information?

Over the long term, it is how a company's operating business performs, and specifically how it compounds away, that drives its share price. As analysts, however, quarterly earnings are an opportunity to monitor how the business is performing and whether our thesis for owning the shares is playing out, always with the caveat that noise might be masquerading as information.

So, what to make of the third quarter given 455 of the S&P 500 Index have reported their earnings? Firstly, sales rose 5% over the year, the same as the second quarter and way better than the 1% eked out a year ago. Earnings per share rose a solid 7% over the year. If compounded, that's exactly what you need for anything to double over ten years.

Healthcare leads the way

Scratch beneath the surface, and apart from a sales decline in the energy sector on the lower oil price, all 11 sectors were positive, with health care leading the way and IT and communication services not far behind. Even better news was that earnings per share rose 15%, 10% and 25% for the three sectors respectively as costs rose much less than sales. Eli Lilly, the obesity drug behemoth and the world's largest pharmaceutical company going from a small net loss to nearly $1 billion in quarterly profit was a big factor.

Nvidia

In tech land, we await AI chip colossus (and now the world's largest company) Nvidia's Q3 earnings next Wednesday, but with Q2 net profit soaring from $6 billion to $16 billion, they will inevitably be much higher than a year ago. And while an awful lot of virtual ink will be wasted on how the shares perform on the day of earnings (spoiler alert: they will go up or down by a lot or not much), it's the future that's most relevant for the share price. Can Nvidia maintain their near monopoly on AI chips? Can they keep prices so high that for every dollar of sales they make 50 cents or net profit compared to 35 cents only two years ago?

Tech giants grow

Double digit revenue growth continues for Amazon, Alphabet and Microsoft, showing that elephants really can gallop. It was noticeable though, that the portion of credit cards in arrears – the amount of money overdue or unpaid – is at the highest level in a decade at JP Morgan and Bank of America. Despite this, management does not seem overly concerned about customers, arguing that the last decade was unusual and that customer behaviour is still indicating a fairly healthy US economy. The reality is, only in coming quarters and years will we really know how any business has been doing, which is why it's important to parse the noise from the news.