



# MOE'S MARKET WRAP MINUTE

WEEK OF **MAY 23, 2023**

## MOE'S MARKET MENTIONS

- Despite slower economic growth, 1Q23 S&P 500 earnings have surprised to the upside, as economic momentum at the beginning of the year supported an expansion in profit margins. With over 90% of the S&P 500's market cap having been reported, profit margins currently stand at 11.8%, a level of profitability that had only been eclipsed once in the pre-pandemic period.
- Earnings continue to find support in consumer spending, which accelerated to a q/q gain of 3.7% (SAAR) in 1Q23 due to increases in both goods and services. The strength in services demand has particularly buoyed earnings, with the travel and food services-related industries within consumer discretionary and industrials recording significant growth in profits.
- Additionally, while the decrease in private inventory investment dragged on real GDP growth in 1Q23, this was positive for earnings, as it confirms companies are successfully working their way through bloated inventories.
- Elsewhere, higher interest rates drove an increase in net interest margins in the financial sector, which despite the ongoing turmoil with regional banks, had a strong earnings season.
- Lastly, the cost side of the profit story has also improved. Many of the large tech companies, which are among the index's largest constituents, are now focused on managing headcount and optimizing capital expenditures, with both initiatives providing downside protection to earnings.
- Year-to-date, gains in the equity market have been driven by multiple growth due to the market's expectations for rate cuts by the end of the year. However, looking ahead, if such expectations prove to be too dovish, any further gains in equities will be dependent on earnings.

## CHART OF THE WEEK

S&P 500 Index earnings printed better than feared in 1Q, with both sales and earnings exceeding consensus forecasts.

The level of expected profit margins rose in 9 of the 11 sectors, reflecting the first sequential increase in margins in over a year, and is now back at pre-COVID levels.

Slowing economic growth remains a downside risk to margins, though we believe resilient revenues and slowing input cost inflation will be supportive of earnings in coming quarters.

**S&P 500 profit margin**  
Operating earnings/sales



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1801 Dove Street  
Newport Beach, CA 92660  
(800) 388-9700  
[www.Compak.com](http://www.Compak.com)



Moez Ansari is the President, Chief Investment Officer, and founder of Compak Asset Management. With over 35 years of investment experience, Moez evaluates the markets using industry-leading technical and fundamental analysis.

His professional experience includes options trading, portfolio optimization, futures trading, mutual fund selection modeling and financial risk management. He is a nationally sought speaker and has conducted numerous financial seminars since the 1980s.

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