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Earnings Tracker

Week 1: better than expected, credit cycle contained so far

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Equity and Quant Strategy
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90% beat on EPS so far (vs. 54% last quarter)

Following a light Week 1, 30 S&P 500 companies (including early reporters) comprising 10% of earnings have reported. Results have been solid: 90% of companies beat on EPS, 73% on sales, and 67% on both, well above last quarter's 54%/83%/46% post-Week 1 and historical average of 67%/64%/48%. Fueled by bank beats, 1Q EPS is tracking a 30bp surprise. We forecast an in-line quarter but expect more downward guidance and some commentary around changes in cash use if credit conditions deteriorate (see 1Q preview).

Financials: big banks deliver, non-banks benefit

Big banks' solid results (JPM, C, WFC beat on revenue and EPS) despite March's bank scare helped performance. JPM saw increased deposits vs. peers declining 3% in 1Q23 but warned on outflows from here. Other non-banks benefited from March's regional outflows – e.g. mega-cap Blackrock saw $40B+ inflows into cash-management products. Banks may be tightening credit standards, but larger ones are operating with excess capital vs. prior crises. JPM/WFC bought back stock in 1Q and expect to continue in 2023, an increasingly scarce positive amid potentially slowing buybacks in general.

GFC redux? No. Credit hitting real economy? Yes.

A massive, systemic financial confidence shock appears to have been averted, but tighter credit is manifesting in the real economy: Fastenal, an industrial bellwether, cited softer March sales especially in manufacturing, and consumption slowed in March across income cohorts (Bank of America Institute report). Capex, usually hit hard by a credit cycle, has remained robust and could buck trend given multiple secular tailwinds (Exhibit 9). Tech capex and stock buybacks may be more at risk, where Tech, Communication Services, and Health Care have been the biggest beneficiaries.

Half-full view: early cycle chirps, looking past '23

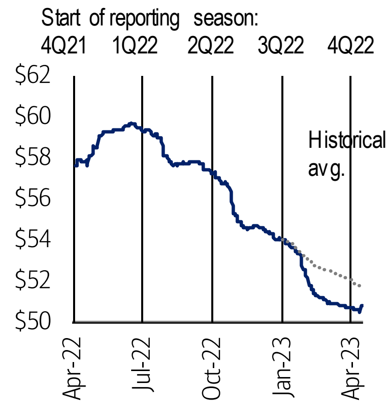
Our 2023 EPS forecast ($200 vs. $220 consensus) could be too low if March's events prove to be idiosyncratic and temporary. The recent decline in rates has catalyzed some early cycle leadership like housing, where demand is recovering (see Homebuilders note). But even if 1Q YoY growth flat-lined through year-end, 2023 EPS would be just ~$203. Does 2023 matter if 2024 EPS recovers quickly to 2022 levels, as history would suggest (Exhibit 12)? Longer-term, automation capex bodes well for productivity (earnings positive) and mega-caps' newfound discipline around supply, cash return and capacity rationalization argue for more earnings stability (market multiple positive).

Up next: 26% of earnings from 10 sectors

Results broaden out to all sectors except Utilities this week as 26% of earnings report. By the end of the week, 60% of Financials earnings should be in. We're listening for key topics like demand outlook, margins, and credit impacting cash use (capex, buybacks).

Also see Equity Derivative team's report: Navigating Earnings with Options.

Exhibit 1: 1Q EPS is tracking a slight beat
Revision to consensus S&P 500 1Q EPS



Source: FactSet, BofA US Equity & Quant Strategy
*Note: Historical average indexed to the estimate as of the beginning of last earnings season
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Exhibit 2: S&P 500 qtrly EPS forecasts
Bottom-up consensus vs. our estimates

	Btm-up analysts	YoY	BofA Strategy	YoY
1Q22	54.80	12%	54.80	12%
2Q22	57.59	10%	57.59	10%
3Q22	56.02	4%	56.02	4%
4Q22	53.15	-1%	53.15	-1%
2022	**$218**	**5%**	**$218**	**5%**
1Q23E	50.82	-8%	50.70	-7%
2Q23E	54.15	-6%	52.50	-9%
3Q23E	56.85	1%	49.00	-13%
4Q23E	58.32	10%	48.00	-10%
2023E	**$220**	**1%**	**$200**	**-8%**

Source: FactSet, BofA US Equity & Quant Strategy
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1Q23 Earnings: Week 1

90% of companies beat on EPS so far

Best beat rate after Week 1 since at least 2012.

Following a light Week 1, 30 S&P 500 companies (including early reporters)/10% of earnings have reported. Results are solid: 90% of companies beat on EPS, 73% on sales, 67% on both, well above last quarter's 54%/83%/46% and historical avg. 67%/64%/48%. Fueled by beats from banks, 1Q EPS is tracking a 30bp beat. We forecast an in-line quarter, but 1Q is not about 1Q. Guidance and tighter credit are paramount (see our 1Q preview).

Exhibit 3: Consensus expects a 7% decline YoY in 1Q
S&P 500 consensus earnings and sales growth expectations by sector based on current constituents

	Earnings		Sales	
Sector	YoY%	QoQ%	YoY%	QoQ%
Consumer Disc.	33.0%	(8.5%)	6.7%	(10.7%)
Consumer Staples	(6.6%)	(7.8%)	4.5%	(4.6%)
Energy	10.7%	(15.7%)	(5.3%)	(11.1%)
Financials	3.5%	11.2%	8.3%	3.3%
Health Care	(20.4%)	(5.2%)	1.8%	(2.3%)
Industrials	12.2%	(16.4%)	5.0%	(6.7%)
Technology	(14.9%)	(15.4%)	(4.2%)	(8.5%)
Materials	(35.8%)	(8.5%)	(8.0%)	(0.5%)
Real Estate	(20.5%)	18.5%	4.7%	(1.3%)
Communication Services	(18.5%)	41.5%	1.3%	(7.2%)
Utilities	(9.1%)	41.7%	(2.4%)	(2.6%)
S&P 500	(7.3%)	(1.8%)	2.1%	(5.2%)
ex. Financials	(9.7%)	(4.6%)	1.2%	(6.3%)
ex. Energy	(8.8%)	(0.3%)	2.8%	(4.6%)
ex. Fins & Energy	(11.8%)	(3.0%)	2.0%	(5.8%)

Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 4: % of S&P 500 companies beating consensus expectations on 1Q23 EPS and sales
Results from companies that have reported 1Q earnings

Sector	Total companies	Number Reported	% with EPS beat	% with Sales beat	% EPS & Sales beat
Cons. Disc.	53	6	100%	100%	100%
Cons. Staples	37	7	100%	57%	57%
Energy	23	0	N.A.	N.A.	N.A.
Financials	73	7	86%	71%	57%
Health Care	65	1	100%	100%	100%
Industrials	73	5	80%	80%	60%
Tech	66	4	75%	50%	50%
Materials	29	0	N.A.	N.A.	N.A.
Real Estate	30	0	N.A.	N.A.	N.A.
Comm. Svcs.	21	0	N.A.	N.A.	N.A.
Utilities	30	0	N.A.	N.A.	N.A.
S&P 500	500	30	90%	73%	67%
ex. Financials	427	23	91%	74%	70%

Source: FactSet, BofA US Equity & Quant Strategy

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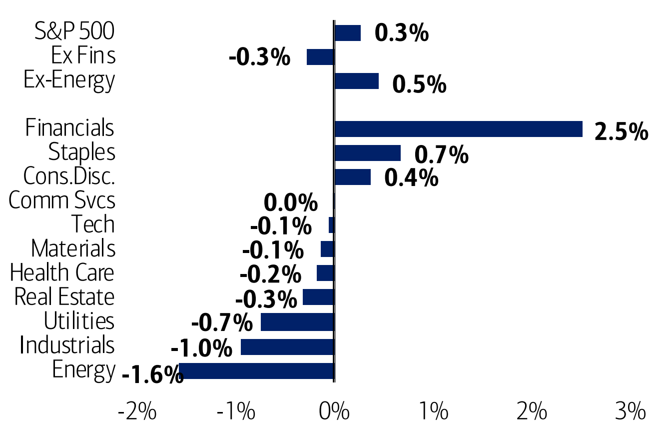
Exhibit 5: Earnings are tracking a slight beat, driven by Financials
Revision to consensus 1Q23 earnings since start of April



Source: FactSet, BofA US Equity & Quant Strategy

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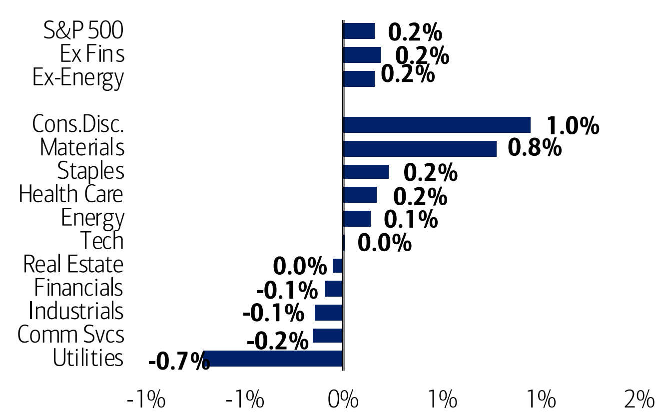
Exhibit 6: Sales are tracking a slight beat
Revision to consensus 1Q23 sales since start of April



Source: FactSet, BofA US Equity & Quant Strategy

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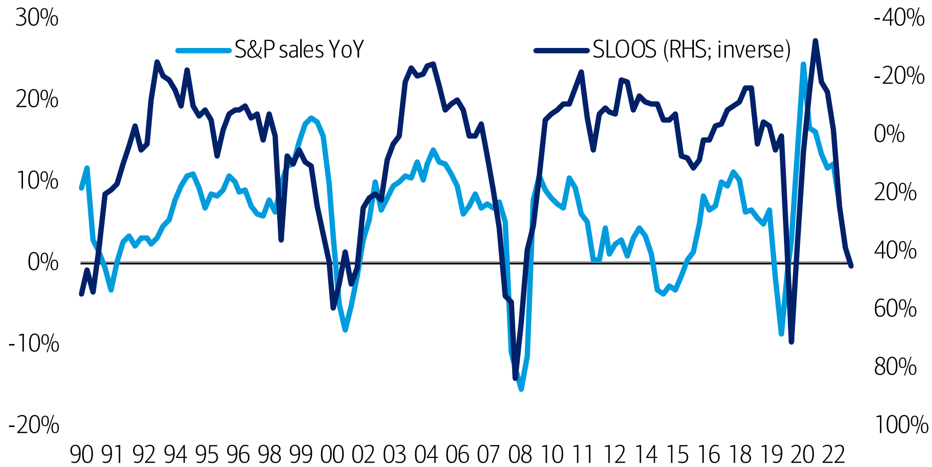
Tighter credit: impact may be different this time

Credit conditions have tightened and could tighten more. Historically, credit conditions have led S&P sales growth by about two quarters, arguing for decelerating sales growth from here. Durable goods and capex beneficiaries have seen the biggest hit from tighter credit, whereas defensive and select retail sectors saw limited impact (Exhibit 8). The past cycle has seen the leading relationship shift to more of a coincident relationship suggesting that if credit conditions don't deteriorate further, sales growth may hold up better than expected.

Exhibit 7: Credit standards have historically led S&P sales growth by about two quarters
S&P sales growth (2-qtr lag) vs. % banks tightening C&I loans to large firms (1990-4Q22)



Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy

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Exhibit 8: Capex-related industries have seen the biggest impact from tighter credit conditions historically
Industry sales lagged by two quarters vs. % banks tightening C&I loans to large firms (1990-4Q22)

Bottom 10 industries	**Corr.**	**Top 10 industries**	**Corr.**
Industrials - Trading Companies & Distributors	(62%)	Consumer Staples - Tobacco	13%
Information Technology - Communications Equipment	(57%)	Health Care - Health Care Equipment & Supplies	13%
Consumer Discretionary - Distributors	(52%)	Utilities - Multi-Utilities	9%
Industrials - Machinery	(47%)	Consumer Discretionary - Internet & Direct Marketing Retail	8%
Industrials - Road & Rail	(46%)	Communication Services - Entertainment	7%
Industrials - Electrical Equipment	(46%)	Consumer Discretionary - Specialty Retail	6%
Information Technology - Software	(44%)	Consumer Staples - Food Products	3%
Materials - Construction Materials	(41%)	Health Care - Biotechnology	2%
Consumer Discretionary - Household Durables	(40%)	Industrials - Commercial Services & Supplies	(2%)
Information Technology - Semiconductor Equipment & Products	(39%)	Health Care - Pharmaceuticals	(6%)

Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy

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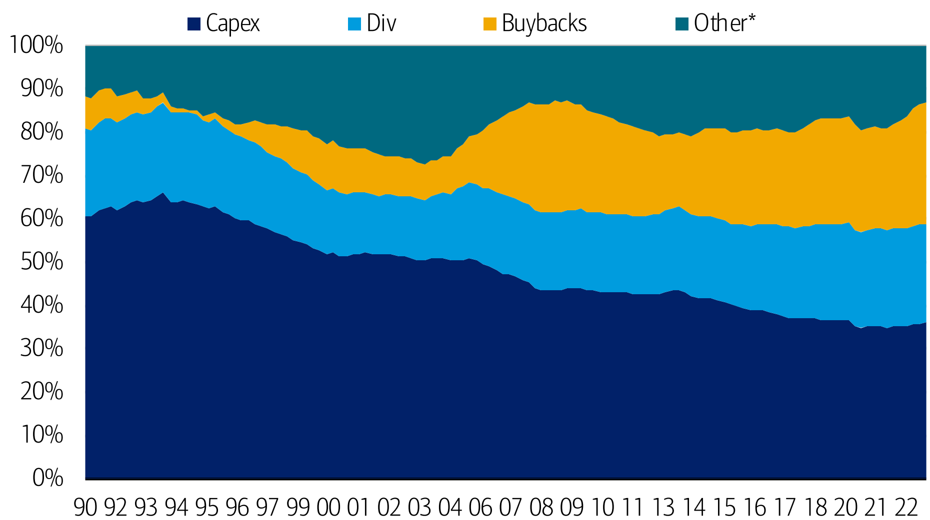
What's different today? Although capex beneficiaries have seen an outsized impact from tighter credit, today, capex sensitivity to constrained credit is likely lower for several reasons. Companies underspent on capex over the past 10 years relative to history. Since the GFC, for every dollar generated through operation or borrowed, 38c was spent on capex (vs. 52c pre-GFC), 21c on dividends (vs. 17c) and 24c on buybacks (vs. 13c). Second, companies shifted from spending on manufacturing and structures to spending on Tech over the last 20 years. Finally, Industrials spent most of the post-GFC period paying down debt, suggesting limited debt-driven PP&E investment. Fiscal stimulus, re-shoring and green goals are secular forces that could bolster capex in spite of cyclical headwinds – see URI's view on the infra bill offsetting a typical non-res recession on page 8 of the Machinery, E&C and Waste report .

Credit risks more acute for buybacks and Tech spend. The last decade of cheapening capital and falling hurdle rates incented companies to buy back shares. Historically, Tech, Industrials and Financials were net issuers of equity, but shifted to net buyers following the GFC. For risks around Tech spend, see *Tech tailwinds turn to headwinds* section, and in particular Exhibit 17.

Exhibit 9: Companies didn't spend much on capex over the past 10 years, but rather on buybacks
Use of rolling 5-yr operating cash flow + debt issued (4Q85-4Q22)



Source: FactSet, BofA US Equity & Quant Strategy *Other uses of cash can include cash build, acquisitions, etc.
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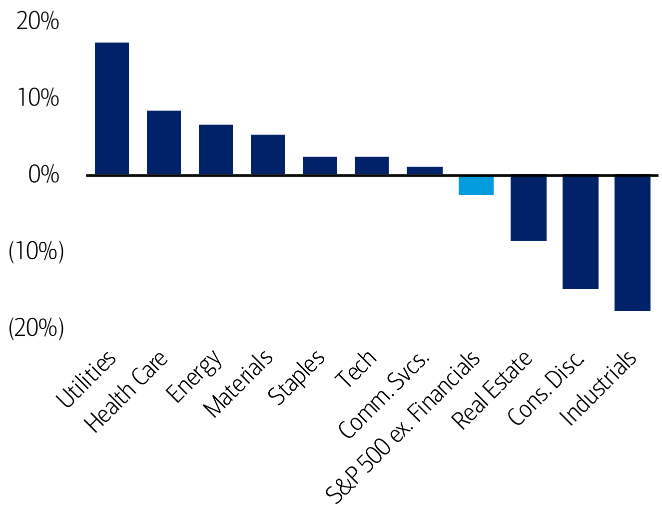
Exhibit 10: Industrials de-levered the most since GFC, which suggests limited debt-driven PP&E capex over the past 10 years
Change in total debt to market cap (ppt) since 2006



Source: FactSet, BofA US Equity & Quant Strategy
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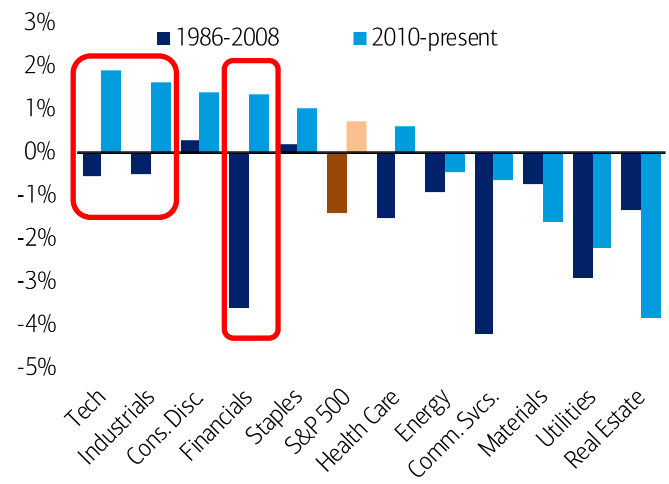
Exhibit 11: Tech, Industrials, and Financials historically issued stocks pre-GFC, but benefitted the most from buybacks post-GFC
S&P 500 average buyback yield by sector pre- vs. post-GFC



Source: FactSet, BofA US Equity & Quant Strategy
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Half full view: looking past 2023

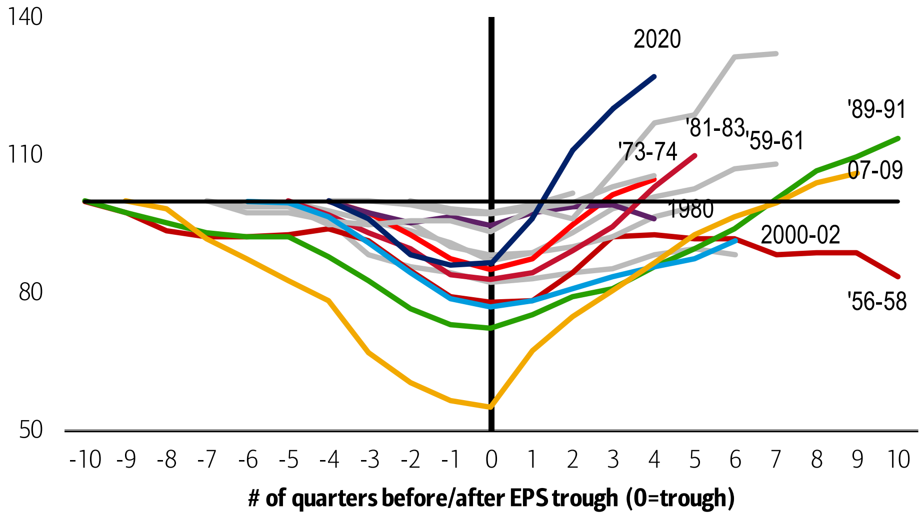
2024 earnings outpace economy, consensus still too high

Earnings are likely to outpace the economy in 2024, as the earnings downturn began earlier than the economic downturn this cycle. Earnings also recover stronger than they fall (Exhibit 12), as downturns usually remove excess capacity, resulting in leaner cost structure and improved margin profiles.

But consensus 2024 EPS of $247 (+12% YoY) looks ambitious to us, especially if full-year GDP remains largely flat YoY (BofA house view).

Exhibit 12: Earnings typically recover stronger than they fall

S&P 500 TTM EPS before/after earnings troughs (same number of quarters leading to the trough and following the trough; 100=pre-recession peak; 1950-present)



Source: BofA US Equity & US Quant Strategy, FactSet, Haver Analytics

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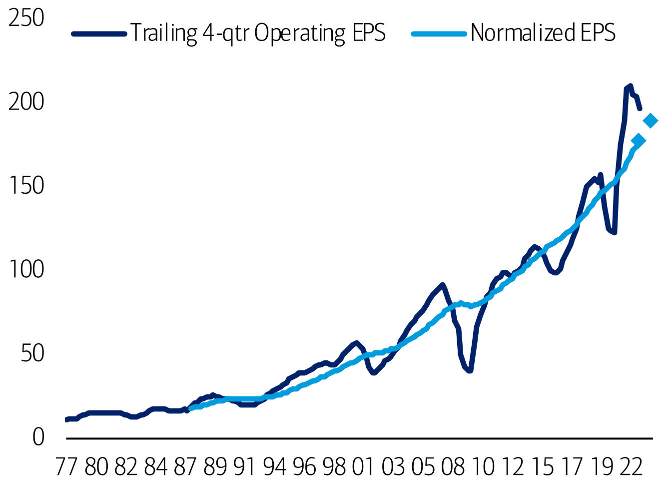
Keep in mind, we're exiting best earnings era since WW2

Actual earnings vs. cyclically adjusted earnings argue for no growth for the next two years (Exhibit 13). Thus we see a recovery back to 2022 EPS of $218 as a good starting point for 2024 estimates. But note that our normalized earnings estimate assumes that the more sticky tailwinds from the last 20 years (globalization, lower taxes and import costs and labor) continue rather than reverse, and many factors (national security risks, geopolitical risks, rate risk and supply chain shifts) argue for a meaningful reversal.

Exhibit 13: Cyclically adjusted earnings imply no earnings growth through 2024
Trailing 12-mo. actual EPS vs. normalized EPS (1977-3Q22; dots = 2022 and 2023 normalized EPS)



Source: BofA US Equity & Quant Strategy, Haver Analytics. GAAP EPS used prior to 1977
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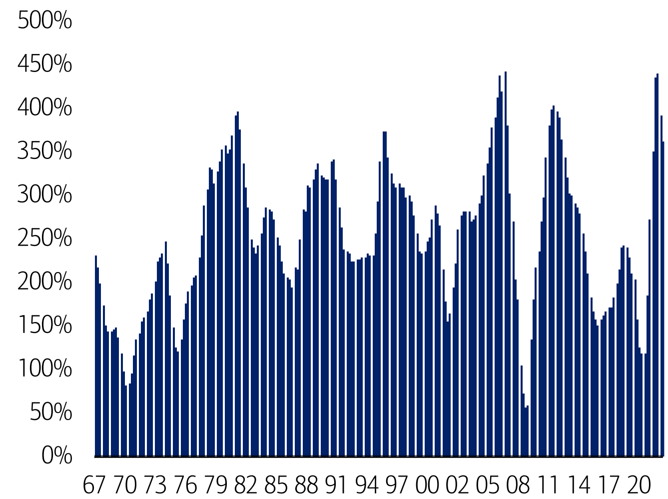
Exhibit 14: Record 20-yr EPS growth in post-WW2 history suggests slower earnings growth ahead
20yr growth rate of S&P 500 EPS (1967-present)



Source: BofA US Equity & Quant Strategy, Haver Analytics. GAAP EPS used prior to 1977. Operating EPS used thereafter
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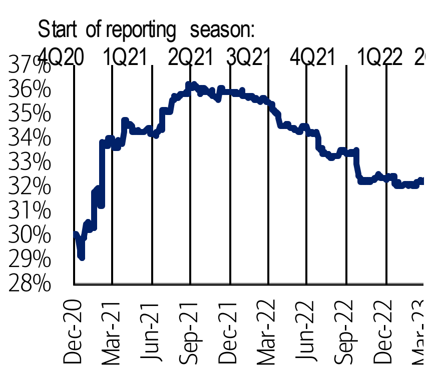
Tech tailwinds turn to headwinds

Tech growth is just as cyclical as secular. Investors cast Tech as being insulated from an economic downturn given its secular growth drivers. But we have noted that for the past 1.5 years, consensus earnings for the Nasdaq 100 have lagged those of the S&P 500 (Exhibit 15). Historically, Tech has been more cyclical than the S&P 500 based on frequency of sales declines (Exhibit 16). A pull forward in demand during COVID and a potential reversal of globalization cost savings suggest Tech earnings may be both cyclically and secularly challenged. About 20% of IT spend is estimated to be derived from financial services companies, now under pressure to shore up capital. Moreover, the demand pull-forward amid COVID was at least as extreme as the Y2K demand pull-forward , after which Tech sales fell by 28% over the next six quarters. Today, analysts forecast a much shallower decline in sales from here through 2024 (Exhibit 17).

Exhibit 15: Nasdaq 100 earnings have been lagging S&P 500 earnings for 1.5 years
NDX 2023E earnings as % of SPX 2023E earnings (12/31/20-4/06/23)



Source: FactSet, BofA US Equity & Quant Strategy
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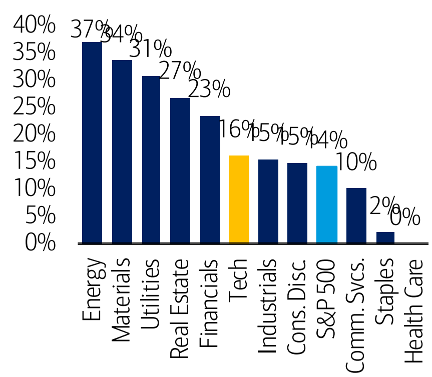
Exhibit 16: Tech has historically been slightly more cyclical than the S&P 500
Probability of YoY quarterly sales declines (4Q85-4Q22)



Source: FactSet, BofA US Equity & Quant Strategy
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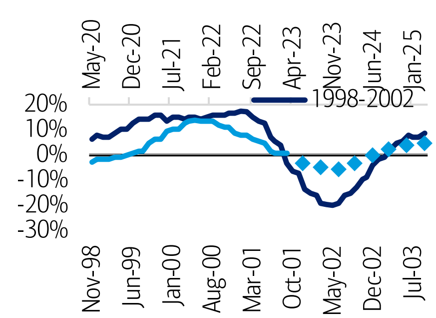
Exhibit 17: Demand pull-forward during COVID was just as strong as heading into the Tech Bubble, but analysts expect just a mild drop in Tech sales
S&P 500 Tech YoY sales growth today vs. Tech Bubble (dots = consensus forecast)



Source: FactSet, BofA US Equity & Quant Strategy
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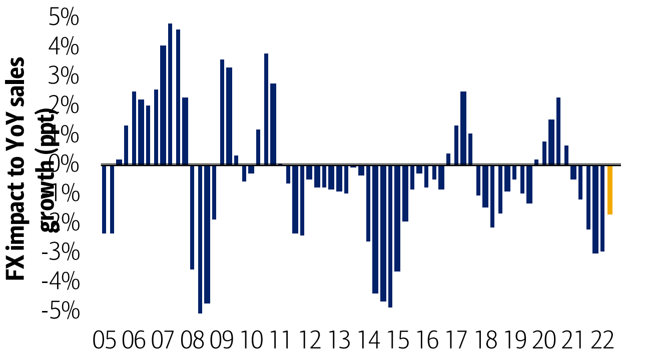
FX a headwind, albeit a smaller one

FX remained a headwind in 1Q amid a 4% rally in the USD YoY, which we translate into an estimated 2ppt hit to sales from currency translation (vs. -3ppt hits over the prior two quarters). Comps get easier from here, and FX could flip to a tailwind as the USD fell 2% from 2Q22. Tech and Materials saw bigger impacts given high foreign exposure.

Exhibit 18: FX was a 2ppt headwind in 1Q, moderating from -3ppt over the past two quarters
Estimated currency impact (in ppt) to S&P 500 quarterly YoY sales growth, 4Q05-1Q23



Source: FactSet, BofA US Equity & Quant Strategy

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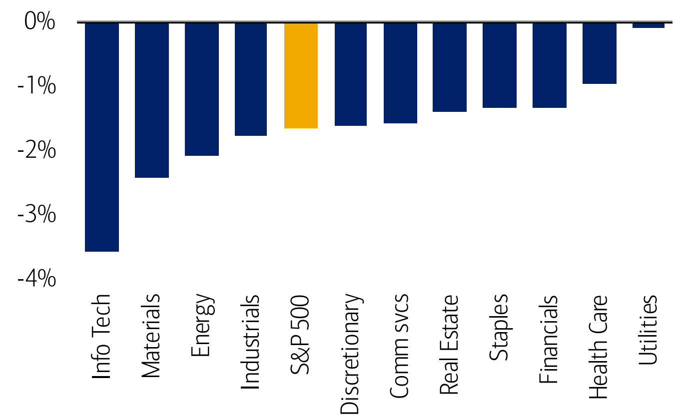
Exhibit 19: Tech and Materials saw the biggest FX impact in 3Q
Estimated FX impact (in ppt) to quarterly YoY sales growth by sector in 1Q23



Source: FactSet, BofA US Equity & Quant Strategy

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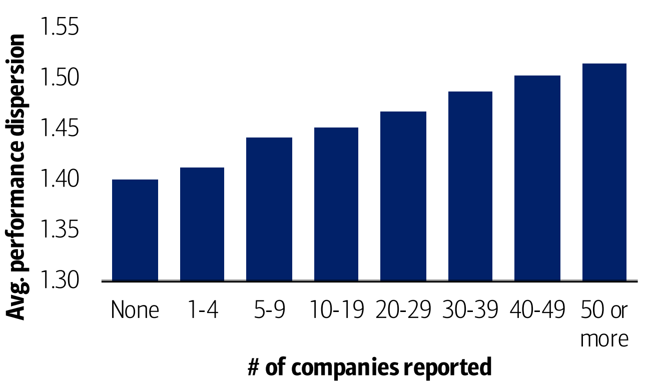
Earnings season is a good time to be a stock-picker

For short-term investors, stock differentiation is heightened during earnings season, particularly the busiest reporting days. Below we show the average dispersion (standard deviation) of daily stock returns based on the number of companies reporting by day since 2009 (Exhibit 20). This reveals that dispersion is consistently higher for busier reporting days. This quarter, the busiest days fall the week of April 24-28 (Exhibit 21).

Exhibit 20: Wider performance dispersion on busy earnings days
# of S&P 500 companies reporting daily vs. avg. performance dispersion (standard deviation of daily returns), 2009-present



Source: FactSet, BofA US Equity & Quant Strategy

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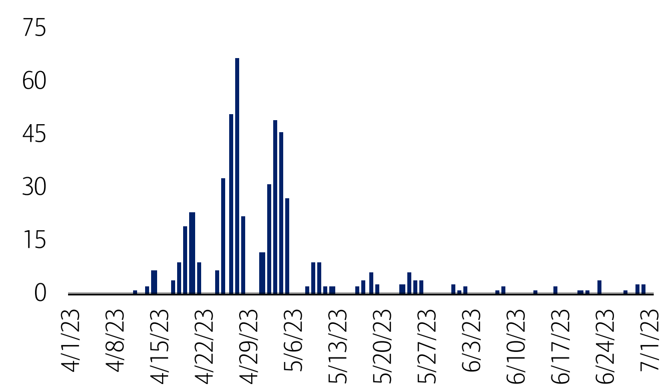
Exhibit 21: S&P 500 3Q22 reporting frequency by day
# of companies reporting each day



Source: Bloomberg, BofA US Equity & Quant Strategy

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S&P 500 companies reporting in Week 2

Below we list confirmed/tentative dates for S&P 500 companies reporting this week.

Exhibit 22: S&P 500 companies slated to report 4Q results in Week 2 (mega caps highlighted in blue)
Week 2 schedule

Report Date	Ticker	Company Name	Sector	Market Cap ($B)	Status	Week
4/17/2023	SCHW	SCHWAB (CHARLES) CORP	Financials	93	Confirmed	2
4/17/2023	STT	STATE STREET CORP	Financials	27	Confirmed	2
4/17/2023	MTB	M & T BANK CORP	Financials	19	Confirmed	2
4/17/2023	JBHT	HUNT (JB) TRANSPRT SVCS INC	Industrials	18	Confirmed	2
4/18/2023	JNJ	JOHNSON & JOHNSON	Health Care	430	Confirmed	2
4/18/2023	BAC	BANK OF AMERICA CORP	Financials	236	Confirmed	2
4/18/2023	NFLX	NETFLIX INC	Communication Services	150	Confirmed	2
4/18/2023	LMT	LOCKHEED MARTIN CORP	Industrials	124	Confirmed	2
4/18/2023	GS	GOLDMAN SACHS GROUP INC	Financials	117	Confirmed	2
4/18/2023	PLD	PROLOGIS INC	Real Estate	110	Confirmed	2
4/18/2023	ISRG	INTUITIVE SURGICAL INC	Health Care	93	Tentative	2
4/18/2023	BK	BANK OF NEW YORK MELLON CORP	Financials	37	Confirmed	2
4/18/2023	OMC	OMNICOM GROUP	Communication Services	19	Confirmed	2
4/18/2023	UAL	UNITED AIRLINES HOLDINGS INC	Industrials	14	Confirmed	2
4/19/2023	TSLA	TESLA INC	Consumer Discretionary	583	Confirmed	2
4/19/2023	ABT	ABBOTT LABORATORIES	Health Care	180	Confirmed	2
4/19/2023	MS	MORGAN STANLEY	Financials	145	Confirmed	2
4/19/2023	IBM	INTL BUSINESS MACHINES CORP	Information Technology	116	Confirmed	2
4/19/2023	ELV	ELEVANCE HEALTH INC	Health Care	115	Confirmed	2
4/19/2023	LRCX	LAM RESEARCH CORP	Information Technology	67	Tentative	2
4/19/2023	CCI	CROWN CASTLE INC	Real Estate	56	Confirmed	2
4/19/2023	USB	US BANCORP	Financials	54	Confirmed	2
4/19/2023	LVS	LAS VEGAS SANDS CORP	Consumer Discretionary	44	Confirmed	2
4/19/2023	KMI	KINDER MORGAN INC	Energy	40	Confirmed	2
4/19/2023	TRV	TRAVELERS COS INC/THE	Financials	39	Confirmed	2
4/19/2023	BKR	BAKER HUGHES CO	Energy	29	Confirmed	2
4/19/2023	NDAQ	NASDAQ INC	Financials	27	Tentative	2
4/19/2023	DFS	DISCOVER FINANCIAL SERVICES	Financials	26	Confirmed	2
4/19/2023	EFX	EQUIFAX INC	Industrials	24	Confirmed	2
4/19/2023	STLD	STEEL DYNAMICS INC	Materials	18	Confirmed	2
4/19/2023	CFG	CITIZENS FINANCIAL GROUP	Financials	14	Confirmed	2
4/19/2023	SYF	SYNCHRONY FINANCIAL	Financials	13	Confirmed	2
4/19/2023	FFIV	F5 INC	Information Technology	8	Confirmed	2
4/19/2023	ZION	ZIONS BANCORP NA	Financials	4	Tentative	2
4/20/2023	PM	PHILIP MORRIS INTERNATIONAL	Consumer Staples	154	Confirmed	2
4/20/2023	T	AT&T INC	Communication Services	142	Confirmed	2
4/20/2023	AXP	AMERICAN EXPRESS CO	Financials	121	Confirmed	2
4/20/2023	UNP	UNION PACIFIC CORP	Industrials	121	Confirmed	2
4/20/2023	MMC	MARSH & MCLENNAN COS	Financials	85	Confirmed	2
4/20/2023	CSX	CSX CORP	Industrials	62	Confirmed	2
4/20/2023	TFC	TRUIST FINANCIAL CORP	Financials	44	Confirmed	2
4/20/2023	NUE	NUCOR CORP	Materials	37	Confirmed	2
4/20/2023	DHI	DR HORTON INC	Consumer Discretionary	34	Confirmed	2
4/20/2023	PPG	PPG INDUSTRIES INC	Materials	32	Confirmed	2
4/20/2023	GPC	GENUINE PARTS CO	Consumer Discretionary	23	Confirmed	2
4/20/2023	FITB	FIFTH THIRD BANCORP	Financials	18	Confirmed	2
4/20/2023	HBAN	HUNTINGTON BANCSHARES INC	Financials	16	Confirmed	2
4/20/2023	WRB	WR BERKLEY CORP	Financials	16	Confirmed	2
4/20/2023	STX	SEAGATE TECHNOLOGY HOLDINGS	Information Technology	13	Confirmed	2
4/20/2023	POOL	POOL CORP	Consumer Discretionary	13	Confirmed	2
4/20/2023	SNA	SNAP-ON INC	Industrials	13	Confirmed	2
4/20/2023	KEY	KEYCORP	Financials	11	Confirmed	2
4/20/2023	CMA	COMERICA INC	Financials	6	Confirmed	2
4/20/2023	ALK	ALASKA AIR GROUP INC	Industrials	5	Confirmed	2
4/21/2023	PG	PROCTER & GAMBLE CO/THE	Consumer Staples	355	Confirmed	2
4/21/2023	HCA	HCA HEALTHCARE INC	Health Care	75	Tentative	2
4/21/2023	SLB	SCHLUMBERGER LTD	Energy	75	Confirmed	2
4/21/2023	FCX	FREEPORT-MCMORAN INC	Materials	61	Tentative	2
4/21/2023	RF	REGIONS FINANCIAL CORP	Financials	17	Confirmed	2

Source: Bloomberg, BofA US Equity & US Quant Strategy

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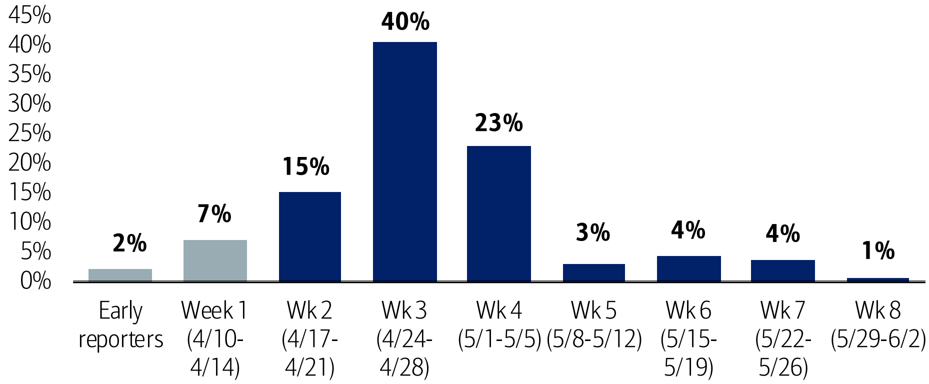
1Q23 Reporting by Week

Exhibit 23: S&P 500 1Q23 Earnings Reporting by Week
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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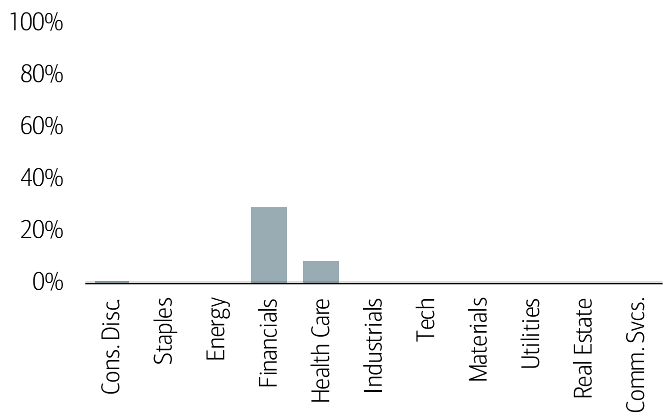
Exhibit 24: Week 1: % 1Q earnings reported by sector
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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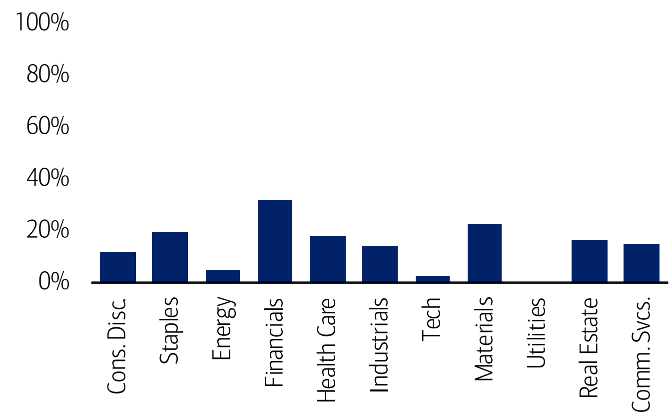
Exhibit 25: Week 2: % 1Q earnings reported by sector
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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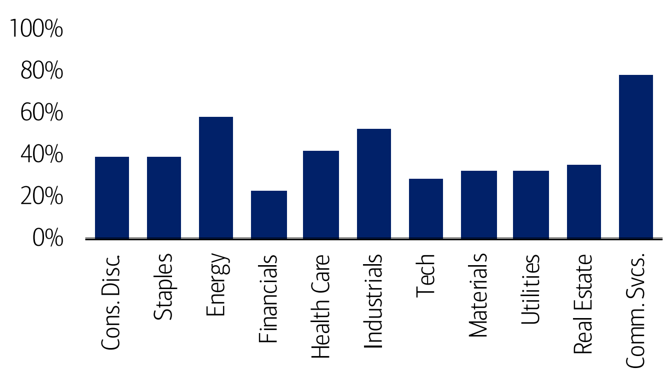
Exhibit 26: Week 3: % 1Q earnings reported by sector
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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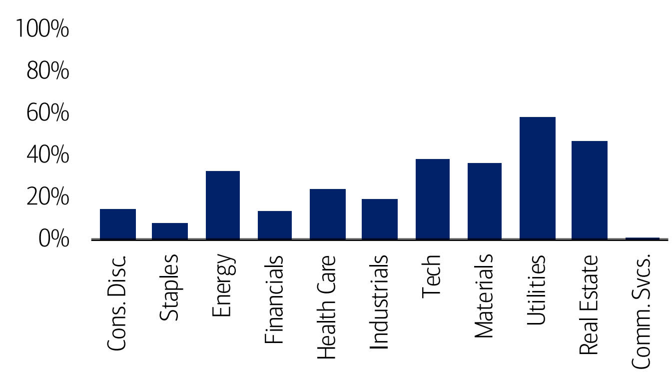
Exhibit 27: Week 4: % 1Q earnings reported by sector
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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Small cap 1Q23 earnings update

- So far, 17 S&P 600 companies have reported. Earnings and sales forecasts are roughly in-line at the start of the season.
- Communication Services, Health Care, Consumer Staples are the top three sectors that have seen upward EPS revisions while Real Estate, Materials and Energy have seen the largest downward EPS revisions since the start of Apr.
- So far, 88% of companies beat on EPS, 59% beat on sales, and 59% beat on both.
- Analysts are forecasting 1Q small cap earnings to be -22% YoY (-12% for the median company) on sales -1% YoY (+3% median).

Exhibit 28: Small cap 1Q23 growth expectations and proportion of beats so far
S&P 600 consensus 1Q23 earnings and sales growth and % positive surprises

Sector	Total Companies	Number Reported	Earnings YoY%	Median earnings YoY%	Sales YoY%	Median sales YoY%	% With EPS Beat	% With Sales Beat	Both Beat %
Comm Svcs	18	0	-77.3%	-30.0%	-8.7%	3.1%	N.A.	N.A.	N.A.
Cons. Disc.	84	1	-43.1%	-22.3%	-5.7%	-1.0%	100%	100%	100%
Cons. Staples	25	4	26.5%	-5.3%	5.1%	2.4%	100%	100%	100%
Energy	30	0	167.8%	-7.1%	5.4%	11.0%	N.A.	N.A.	N.A.
Financials	105	0	2.4%	-0.5%	5.2%	16.9%	N.A.	N.A.	N.A.
Health Care	75	2	-91.2%	-7.4%	-8.2%	3.3%	50%	0%	0%
Industrials	90	7	-29.6%	-9.5%	0.8%	3.3%	100%	57%	57%
Technology	66	2	-24.5%	-10.8%	0.0%	0.3%	100%	50%	50%
Materials	31	1	-17.8%	-20.8%	-1.5%	1.8%	0%	0%	0%
Real Estate	43	0	-105.5%	-32.4%	-6.9%	3.3%	N.A.	N.A.	N.A.
Utilities	9	0	-4.4%	6.1%	-0.8%	3.4%	N.A.	N.A.	N.A.
S&P 600	**576**	**17**	**-22%**	**-11.6%**	**-1.2%**	**3.3%**	**88%**	**59%**	**59%**
Ex-Financials	471	17	-29.6%	-13.3%	-1.7%	2.4%	88%	59%	59%
Ex-Energy	546	17	-28.6%	-11.6%	-1.9%	3.1%	88%	59%	59%
Ex-Energy&Financials	441	17	-38.9%	-13.3%	-2.5%	2.3%	88%	59%	59%

Source: FactSet, BofA US Equity & US Quant Strategy

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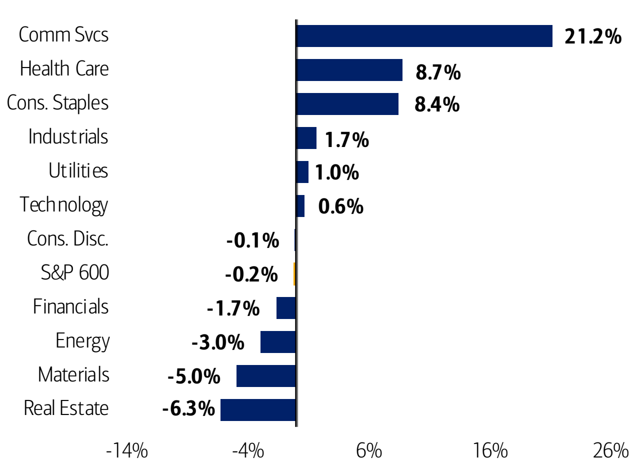
Exhibit 29: Earnings estimates down 0.2% vs. start of April
1Q23 earnings revisions since the start of reporting on 04/01/23



Source: FactSet, BofA US Equity & Quant Strategy

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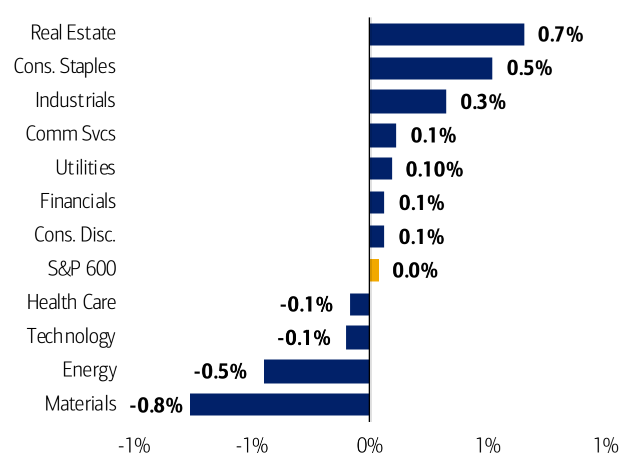
Exhibit 30: Sales estimates flat vs. start of April
1Q23 sales revisions since the start of reporting on 04/01/23



Source: FactSet, BofA US Equity & Quant Strategy

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Mid cap 1Q23 earnings update

- So far, 11 S&P 400 companies have reported. Earnings estimates are 0.4% lower since the start of earnings season while sales forecasts are flat.
- Communication Services and Materials have seen upward EPS revisions since the start of April, while Consumer Staples and Energy have seen the most negative earnings revisions. Materials has seen the most positive sales revisions while Technology has seen the most negative.
- So far, 91% of companies beat on EPS, 73% beat on sales and 64% beat on both.
- Earnings are expected to be -21% YoY (+6% for the median company) while sales are expected to be flat YoY (+4% for the median company).

Exhibit 31: Mid cap 1Q23 growth expectations and proportion of beats so far
S&P 400 consensus 1Q23 earnings and sales growth and % positive surprises

Sector	Total Companies	Number Reported	Earnings YoY%	Median earnings YoY%	Sales YoY%	Median sales YoY%	% With EPS Beat	% With Sales Beat	Both Beat %
Comm Svcs	10	0	-35.6%	-21.0%	1.0%	-0.5%	N.A.	N.A.	N.A.
Cons. Disc.	63	1	-15.9%	-4.1%	-1.0%	2.1%	100%	100%	100%
Cons. Staples	17	0	0.7%	4.7%	6.4%	7.9%	N.A.	N.A.	N.A.
Energy	16	0	-5.7%	-3.4%	0.5%	10.1%	N.A.	N.A.	N.A.
Financials	62	1	2.7%	4.0%	8.5%	12.3%	100%	100%	100%
Health Care	39	1	-25.0%	-9.9%	5.1%	9.1%	100%	0%	0%
Industrials	75	3	-15.2%	-0.3%	-3.8%	4.8%	67%	67%	33%
Technology	42	2	-12.2%	-5.3%	0.1%	1.3%	100%	50%	50%
Materials	26	3	-63.6%	-31.1%	-13.2%	-8.0%	100%	100%	100%
Real Estate	31	0	-55.5%	-29.0%	34.5%	6.3%	N.A.	N.A.	N.A.
Utilities	15	0	-16.9%	-4.2%	-2.8%	0.6%	N.A.	N.A.	N.A.
S&P 400	**396**	**11**	**-20.5%**	**-5.9%**	**-0.1%**	**4.2%**	**91%**	**73%**	**64%**
Ex-Financials	334	10	-26.3%	-8.1%	-1.0%	3.4%	90%	70%	60%
Ex-Energy	380	11	-21.5%	-5.9%	-0.2%	4.2%	91%	73%	64%
Ex-Energy&Financials	318	10	-28.1%	-8.1%	-1.1%	3.4%	90%	70%	60%

Source: FactSet, BofA US Equity & Quant Strategy

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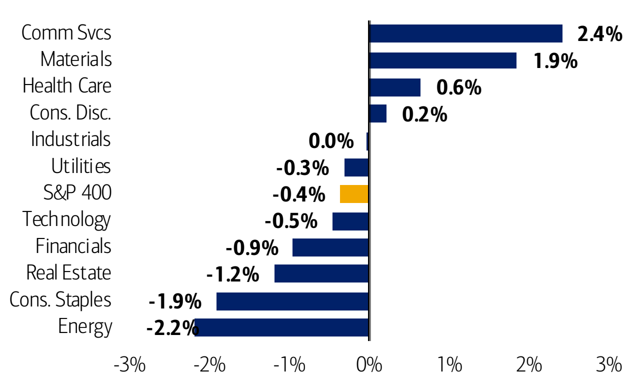
Exhibit 32: Earnings estimates are down 0.4% since start of April
1Q23 earnings revisions since the start of reporting on 04/01/23



Source: FactSet, BofA US Equity & Quant Strategy

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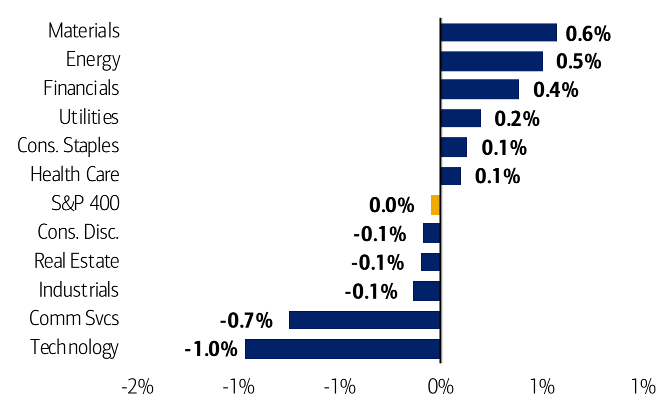
Exhibit 33: Sales estimates are flat since start of April
1Q23 sales revisions since the start of reporting on 04/01/23



Source: FactSet, BofA US Equity & Quant Strategy

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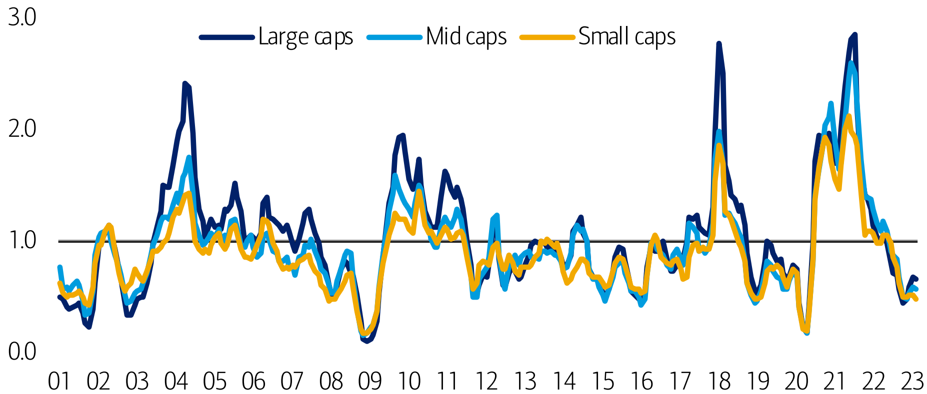
More est. cuts; guidance weakest in small, best in large

- Earnings revision trends have generally been deteriorating across the board, where the earnings revision is below 1.0 (more cuts than raises to estimates) in all three size segments (and weakest in small caps).
- Guidance trends have weakened in small caps – where earnings typically decline more during recessions. The 3-month ratio of above- vs. below-consensus guidance fell to 0.4x (below the long-term average of 0.9x); it bottomed at 0.4x during COVID and 0.2x during the GFC. Mid caps guidance ratio fell from 1.0x last quarter to 0.7x (below the long-term average of 0.9x); the large cap guidance ratio fell from 0.8x last quarter to 0.6x (below the long-term average of 0.8x).
- Small cap earnings typically fall 50% in the average recession (70% during the GFC), and we expect the earnings recession in 2023 to be milder than average. While estimates need to come down further (consensus S&P 600 growth for 2023 is -1% YoY), small caps are currently pricing in a GFC-like earnings decline.

Exhibit 34: Revision trends deteriorating across the board; trends weakest for small caps
3m earnings revision ratio (ERR) for S&P small, mid and large cap indices as of 3/31/2023



Source: Bloomberg, BofA US Equity & US Quant Strategy

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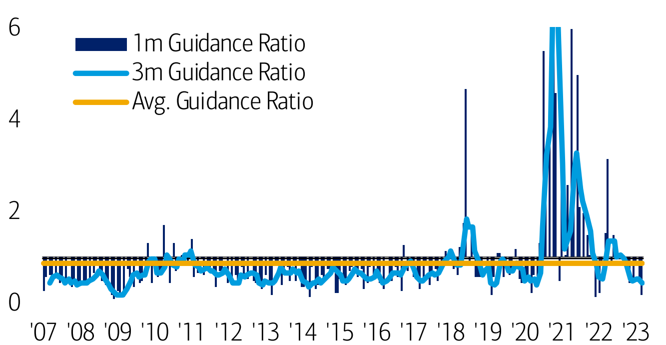
Exhibit 35: Small cap earnings guidance is below average on a 3m basis
S&P 600 management guidance ratio (# above- vs. below-consensus) as of 3/31/22



Source: Bloomberg, BofA US Equity & US Quant Strategy

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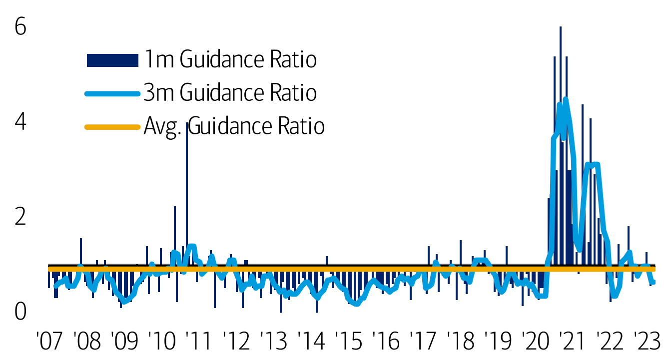
Exhibit 36: Mid cap earnings guidance is below average on a 3m basis
S&P 400 management guidance ratio (# above- vs. below-consensus) as of 3/31/22



Source: Bloomberg, BofA US Equity & US Quant Strategy

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Methodology

Guidance Ratios

Earnings guidance: We track the number of instances of above- vs. below-consensus management guidance for earnings over the last three months for S&P 500 companies. If a company issues changes to its outlook more than once in a one-month period, we incorporate all instances of guidance into our aggregate number. The ratio also includes all instances of above- or below-consensus earnings guidance issued by a company (for example, if they issue both quarterly and annual guidance). The one-month and three-month revision ratios are calculated as they are for estimate revision ratios. The data source is Bloomberg. For companies that provide both GAAP and Operating guidance, or for REITs that provide both EPS and FFO guidance, we remove one data point if both data points provide the same guidance direction, otherwise both data points are used.

Capex guidance: We track the number of instances of above- vs. below-consensus management guidance for planned capex over the last three months for S&P 500 companies, calculated the same way as above; data source is FactSet.

Methodology: Earnings Calls Sentiment

With the help of BofA's Predictive Analytics team, we parsed through earnings calls transcripts to calculate sentiment for the S&P500 universe of companies that have reported since 31st March 2020. We use the Loughran McDonald's financial dictionary to calculate sentiment scores as per the definition below.

Sentiment score = No. of Unique positive words – No. of unique negative and uncertainty words

The sentiment score is computed with three different filters: the full transcript, management discussion and answers of CEO/CFO from Q/A section. Calculated scores were then averaged on the Sector level. Loughran-McDonald Sentiment and Uncertainty:

1. **Loughran-McDonald Sentiment:** Examples of positive words include ***accomplish, achieve, outperform, stabilize, strength*** and negative words such as ***abandon, abnormal, downturn, evade, failing, stagnate.*** In total, the lexicon has 2,355 negative words and 354 positive words.

2. **Loughran-McDonald Uncertainty**: Examples of uncertain words include ***almost, ambiguity, hidden, fluctuate, doubts, unclear.*** In total, the lexicon has 297 words.

Note that the charts show the sentiment score multiplied by (- 1) and after applying the natural log to normalize the data on the same scale. Our Predictive Analytics team is currently researching more advance modeling approaches including Deep Learning so please stay tuned for future enhancements.

BofA Corporate Misery Indicator methodology

The Corporate Misery Indicator is our macro-based predictor of the profits cycle and is based on the CPI, Average Hourly Earnings, and the Coincident Indicators. Our theory is that corporate profits are a function of how many units a company sells and their margin per unit. Implicitly, these factors incorporate productivity because enhanced productivity will result in either better margins or more units sold for the same inputs.

We use the YoY change in the Coincident Indicators as a proxy for units, because the Coincident Indicators are a proxy for Real GDP, a measure of unit growth. We use the spread between the YoY change in the CPI and the YoY change in Average Hourly Earnings to approximate margins. When the indicator declines, it implies that profits are being squeezed. This has historically coincided with a decelerating profits cycle.

Corporate Misery Indicator *= CPI (YoY) – Average Hourly Earnings (YoY) + Coincident Indicators (YoY).*

Special Disclosures

BofA Securities is serving as Financial Advisor to Equifax Inc in connection with their offer to potentially acquire Boa Vista Servicos SA which was announced December 19, 2022.

The proposed transaction is subject to approval by shareholders of Equifax and Boa Vista Servicos SA.

This research report is not intended to provide voting advice, serve as an endorsement of the proposed transaction, or result in the procurement, withholding or revocation of a proxy.

Disclosures

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R1]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R1] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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