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Earnings Tracker

4Q preview: Conservatism baked in

Consensus points to deceleration; we expect a 3% beat

3Q marked the beginning of an earnings recovery, with EPS growing 4% YoY. But consensus expects deceleration to +3% in 4Q despite easier comps (-1% YoY in 4Q22 vs. +4% in 3Q22). EPS typically accelerates in the second quarter into an earnings recovery (11 out of 14 times since the 1950s). Sales are expected to accelerate to +3% (vs. +2% in 3Q), which we believe should lead to EPS accelerating, not decelerating. We forecast EPS accelerating to +6% YoY, or $56.50, implying a 3% beat.

Conservative 4Q margin outlook: -100bps q/q

Consensus 4Q EPS was cut by 6% since Sept. vs. a typical 4% cut into earnings, reflecting some conservatism baked in. Our Corporate Misery Indicator (macro gauge of profit environment) ticked down in 4Q and corporate sentiment weakened. 4Q is seasonally a weaker margin quarter (-30bps q/q on avg.), but analysts are already penciling in a much bigger decline of -100bps q/q to the lowest margins since 4Q20.

Weaker guidance in 1Q is not a reason to sell stocks

Bears say consensus 2024 EPS is too high and estimate cuts are coming. While we agree and expect 4% downside to consensus EPS for 2024, we do not think it's a compelling reason to be bearish equities. Historically, FY2 EPS has come in 4% below where consensus has stood at this point of the year and got cut 2% in 1Q on average (Exhibit 17). But of the nine non-recessionary years since 2001 with estimate cuts, the S&P 500 posted positive returns in seven years. Top-down consensus EPS of $233 (5% downside) also suggests downside risk in bottom-up consensus EPS is firmly consensus.

Watch goods/manufacturing inflection

Companies' real sales growth is expected to remain negative (-0.5% YoY), hurt by the goods/manufacturing downturn (50% of S&P earnings). But there are early signs of inflection – e.g. Korea exports, rail carloads, PMI new orders/inventories. Margins already inflected higher without a demand boost, and will likely jump when demand recovers.

Magnificent *Six* expected to drive 4Q growth

NVDA, AMZN, META, GOOGL, MSFT and AAPL are the biggest drivers of EPS growth in 4Q (+56% YoY) – TSLA is -39%. The rest of market is expected to see EPS fall 6%, but earnings breadth (# of companies with positive EPS growth) is expected to improve for the third straight quarter (66% vs. 64% in 3Q). And in 1Q, consensus sees the rest of the market's earnings accelerating to +3% YoY, while Mag. 6 earnings decelerate to +33%.

Heard on the 16th floor: proprietary bottom-up read

Our analyst survey into 2024 painted a goldilocks scenario for stocks: higher margins, led by efficiency gains and alleviating non-labor cost pressure, with positive pricing and volume – see our Year Ahead (note). Our analysts' one-liners into 4Q earnings suggest the goldilocks scenario is well intact. While risks remain, fundamentals are improving and analysts sound more optimistic than they did in 3Q – see pg. 16-21 for full compilation.

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Equity and Quant Strategy
United States

Ohsung Kwon, CFA
Equity & Quant Strategist
BofAS
+1 646 855 1683
ohsung.kwon@bofa.com

Savita Subramanian
Equity & Quant Strategist
BofAS
+1 646 855 3878
savita.subramanian@bofa.com

See Team Page for List of Analysts

Exhibit 1: 4Q EPS -6% since 3Q
Revision to consensus S&P 500 4Q EPS

Source: FactSet, BofA US Equity & Quant Strategy
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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
1Q23	53.08	-3%	53.08	-3%
2Q23	54.29	-6%	54.29	-6%
3Q23	58.41	4%	58.41	4%
4Q23E	54.74	3%	56.50	6%
2023E	**$220**	**1%**	**$222**	**2%**
1Q24E	56.28	6%	57.00	7%
2Q24E	60.06	11%	58.00	7%
3Q24E	63.60	9%	61.00	4%
4Q24E	64.28	17%	59.00	4%
2024E	**$244**	**11%**	**$235**	**6%**

Source: FactSet, BofA US Equity & Quant Strategy
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NVDA = NVIDIA
AMZN = Amazon.com
META = Meta Platforms
GOOGL = Alphabet A
MSFT = Microsoft
AAPL = Apple Inc.

4Q23 Earnings Preview

Key quotes from analysts:

We highlight key quotes from our analysts on their 4Q earnings outlook. For full compilation, see Heard on the 16th floor.

Ebrahim Poonawala, Banks – "EPS resilience will be in focus as investors try to handicap downside risks due to Fed rate-cuts. Additionally, confirmation that credit remains manageable (normalizing not cratering) could see stocks move higher on the back of building optimism for an economic soft-landing."

Michael Feniger, Machinery, Engineering & Construction – "Management teams likely to remain cautious into 2024 given macro uncertainties (China, higher rates, pricing moderating, inventory optimization) yet not overly bearish as underlying activity remains stable."

Ken Hoexter, Transportation – "Transport results for 4Q will still reflect the elongated freight recession, but should offer hints of the start of a rebound."

Justin Post, Online advertising – "Channel checks have suggested further acceleration in ad spend in 4Q, with breadth beyond the largest platforms."

Alkesh Shah & Brad Sills, Software – "Better than expected results from the large enterprise application vendors (ServiceNow, Salesforce and Workday) are perhaps a leading indicator for improving software spend across the group."

Vivek Arya, Semis – "Expect Q1 demand in cloud/AI to remain strong, but for other areas to decline either seasonally (PC, smartphone, enterprise) or due to ongoing inventory correction (industrial, autos, telco)."

Robby Ohmes, Broadlines & Food Retail – "…shoppers continue to be hyper focused on value & affordability, which favors greater response to entry level price points."

Rafe Jadrosich, Homebuilders & Building Products – "New home demand slowed during 4Q23 as a spike in mortgage rates pressured sales early in the quarter; however, rates fell in December and demand appears to be stabilizing into 2024."

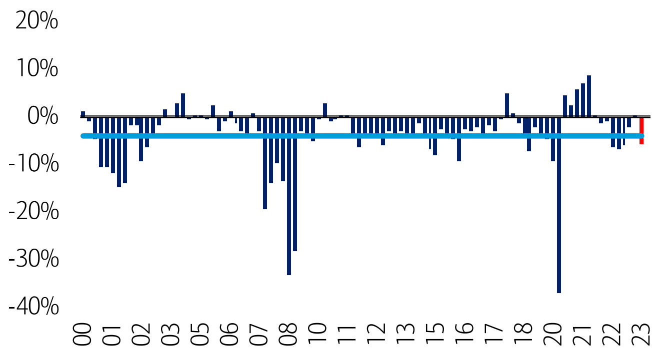
Consensus points to deceleration; we expect a 3% beat

S&P 500 4Q consensus EPS has been cut by 6% over the past three months, more than the typical pre-season 4% cut. But excluding Pfizer and Merck, with COVID sales and acquisition-related costs, the cut was 4%, in line with the historical average.

Consensus expects growth decelerating to +3% YoY (vs. +4% in 3Q) despite easier comps (4Q22 was -1% YoY vs. +4% in 3Q22). EPS typically accelerates in the second quarter into an earnings recovery (11 out of 14 times since the 1950s). The three instances when EPS decelerated in the second quarter into a recovery were in 3Q81 (into a double-dip recession), 2Q87 and 1Q10 (down to +54% YoY from +200% post-GFC). Sales are expected to accelerate to +3% (vs. +2% in 3Q), which we believe should lead to EPS accelerating, not decelerating. We forecast EPS accelerating to +6% YoY, or $56.50, implying a 3% beat.

Exhibit 3: 4Q EPS was cut by 6% over the last three months (vs. -4% historical average), but -4% ex. PFE & MRK

Bottom-up S&P 500 EPS revision by quarter in 3mos. before reporting season, 2000-4Q23



Source: FactSet, BofA US Equity & Quant Strategy

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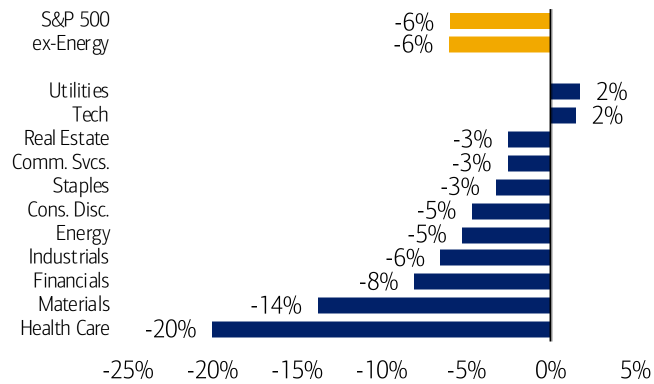
Exhibit 4: Cuts were led by Health Care (but -7% ex. PFE & MRK) and Materials

Revision to consensus 4Q23 earnings estimates over the last 3 months



Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 5: Consensus expects 2% earnings growth in 4Q

S&P 500 consensus earnings and sales growth expectations by sector based on current constituents

	Earnings		Sales	
Sector	**YoY%**	**QoQ%**	**YoY%**	**QoQ%**
Consumer Disc.	23.4%	(27.3%)	3.5%	3.5%
Consumer Staples	(0.7%)	(7.7%)	2.7%	1.0%
Energy	(27.7%)	(9.5%)	(5.4%)	(0.8%)
Financials	(1.8%)	(16.3%)	6.2%	(2.2%)
Health Care	(19.7%)	(8.9%)	3.9%	0.2%
Industrials	(2.8%)	(5.6%)	1.6%	0.8%
Technology	15.5%	9.9%	6.1%	10.4%
Materials	(21.0%)	(15.5%)	(5.5%)	(2.7%)
Real Estate	2.6%	(0.5%)	6.4%	1.9%
Communication Services	46.6%	35.7%	5.0%	6.3%
Utilities	33.3%	(21.4%)	5.6%	7.3%
S&P 500	**2.1%**	**(3.9%)**	**3.0%**	**2.0%**
ex. Financials	**3.0%**	**(1.1%)**	**2.6%**	**2.6%**
ex. Energy	**5.5%**	**(3.4%)**	**3.8%**	**2.2%**
ex. Fins & Energy	**7.2%**	**(0.3%)**	**3.5%**	**2.9%**

Source: FactSet, BofA US Equity & Quant Strategy

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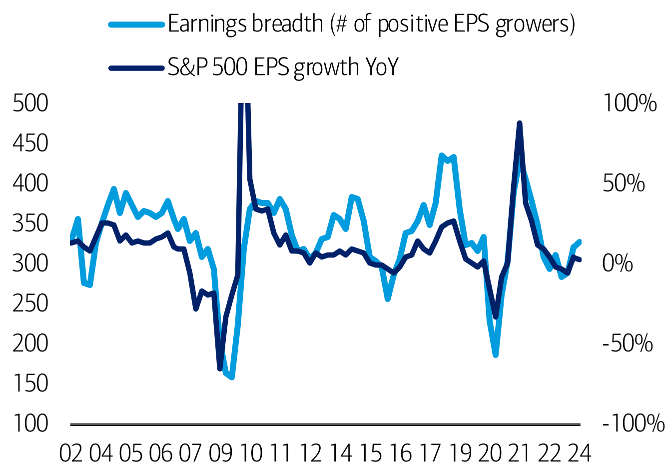
Exhibit 6: Earnings breadth expected to improve again in 4Q

S&P 500 earnings breadth & quarterly EPS growth YoY (2002-4Q23E)



Source: BofA US Equity & Quant Strategy, FactSet

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Exhibit 7: Only four of 11 sectors are expected to see earnings accelerating in 4Q, but seven sectors are expected to see acceleration in 1Q24

S&P 500 sectors' quarterly earnings growth YoY

	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	Direction q/q	1Q24E	Direction q/q
Comm. Svcs.	42%	23%	6%	(8%)	(19%)	(21%)	(19%)	(3%)	47%	▲	20%	▼
Cons. Disc.	74%	41%	4%	1%	4%	10%	20%	31%	23%	▼	15%	▼
Staples	11%	7%	2%	0%	(2%)	(2%)	0%	2%	(1%)	▼	3%	▲
Energy	2370%	3219%	550%	273%	165%	92%	12%	(18%)	(28%)	▼	(14%)	▲
Financials	56%	23%	(1%)	(9%)	(12%)	(8%)	(3%)	3%	(2%)	▼	4%	▲
Health Care	26%	24%	19%	11%	6%	(5%)	(13%)	(18%)	(20%)	▼	(0%)	▲
Industrials	65%	83%	41%	27%	26%	25%	21%	19%	(3%)	▼	8%	▲
Tech	38%	29%	18%	7%	(2%)	(6%)	(7%)	(3%)	15%	▲	19%	▲
Materials	82%	73%	42%	19%	4%	(11%)	(23%)	(24%)	(21%)	▲	(11%)	▲
Real Estate	6%	6%	7%	6%	6%	4%	3%	3%	3%	▼	2%	▼
Utilities	9%	11%	7%	2%	1%	(10%)	(10%)	(3%)	33%	▲	23%	▼
S&P 500	**27%**	**12%**	**10%**	**4%**	**(1%)**	**(3%)**	**(6%)**	**4%**	**2%**	▼	**7%**	▲

Source: FactSet, BofA US Equity & Quant Strategy

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4Q: Macro data point to another upside surprise

Macro data generally came in stronger than expected, suggesting another upside surprise in earnings (Exhibit 9). Both the manufacturing and services PMI continued to recover on a YoY basis, and early reporters largely beat consensus expectations.

So far, 21 companies (primarily "early reporters" with February quarter-end) have reported 4Q results. Early reporters are concentrated in Consumer, Tech and Industrials, but can often give a read on the full quarter's results: since we began tracking in 2012, we've found a 70% correlation (49% R^2) between the proportion of early reporter beats on EPS and sales and the proportion of full-quarter beats on EPS and sales.

86% of early reporters have beaten on EPS, 57% on sales and 52% on both, compared to the historical average beat of 70%/64%/49% and last quarter's 76%/67%/57%. The median EPS beat so far has been 3% (vs. last quarter's 2% and the historical average of 4%).

Exhibit 8: % of S&P 500 companies beating consensus expectations on 4Q23 EPS and sales
Results from early reporters

Sector	Total companies	Number Reported	% with EPS beat	% with Sales beat	% EPS & Sales beat
Cons. Disc.	53	6	100%	50%	50%
Cons. Staples	38	6	100%	50%	50%
Energy	23	0	N.A.	N.A.	N.A.
Financials	72	1	0%	100%	0%
Health Care	64	0	N.A.	N.A.	N.A.
Industrials	78	3	33%	33%	33%
Tech	64	5	100%	80%	80%
Materials	28	0	N.A.	N.A.	N.A.
Real Estate	31	0	N.A.	N.A.	N.A.
Comm. Svcs.	19	0	N.A.	N.A.	N.A.
Utilities	30	0	N.A.	N.A.	N.A.
S&P 500	**500**	**21**	**86%**	**57%**	**52%**

Source: FactSet, BofA US Equity & US Quant Strategy

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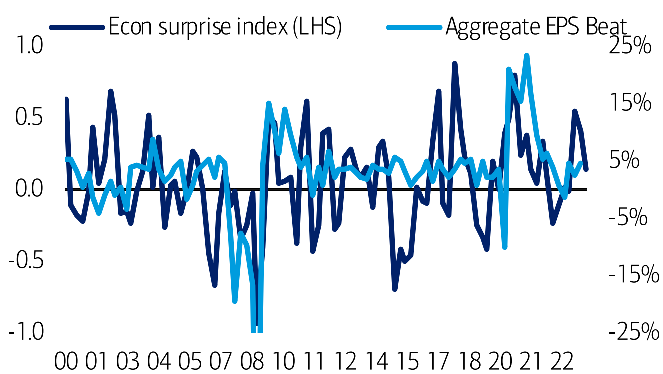
Macro data generally point to a beat

Exhibit 9: Economic Surprise Index remains positive, pointing to a 4% EPS beat this quarter based on the historical relationship
Bloomberg ECO US surprise index vs. S&P 500 EPS beat (2000-present)



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

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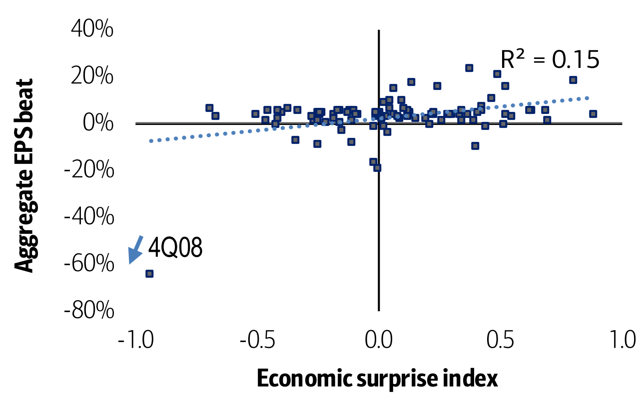
Exhibit 10: 15% r-sq between Economic Surprise Index vs. aggregate EPS beat
Bloomberg ECO US surprise index vs. S&P 500 EPS beat (2000-present)



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

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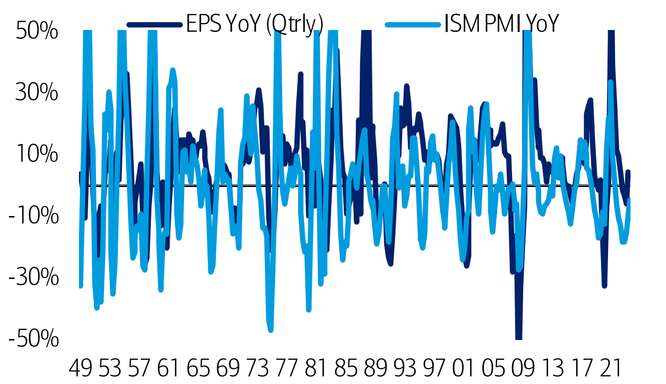
Exhibit 11: A 4% drop in the ISM manufacturing PMI suggests 5% YoY growth in 4Q EPS, or a 2% beat
ISM Manufacturing PMI YoY vs. S&P 500 quarterly EPS YoY (1949-present)



Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy; dotted = consensus forecast
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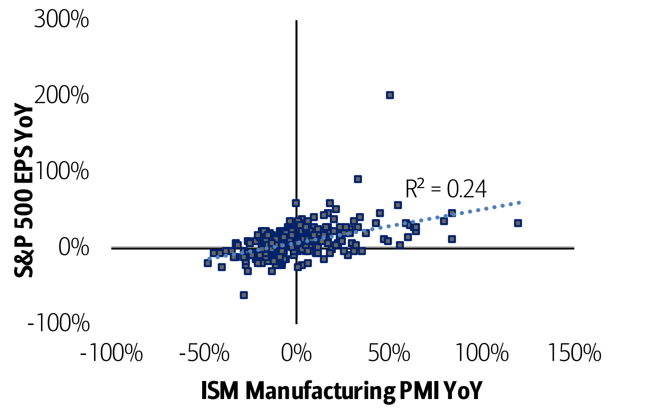
Exhibit 12: 24% r-sq between ISM Manufacturing PMI YoY vs. S&P 500 quarterly EPS YoY
ISM Manufacturing PMI YoY vs. S&P 500 quarterly EPS YoY (1949-present)



Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy
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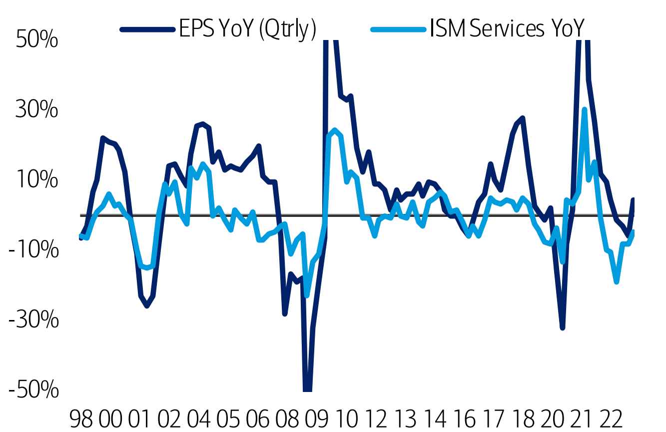
Exhibit 13: A 3% decline in the ISM Services PMI suggests +3% YoY in 4Q EPS, in line with consensus
ISM Services PMI YoY vs. S&P 500 quarterly EPS YoY (1998-present)



Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy; dotted = consensus forecast
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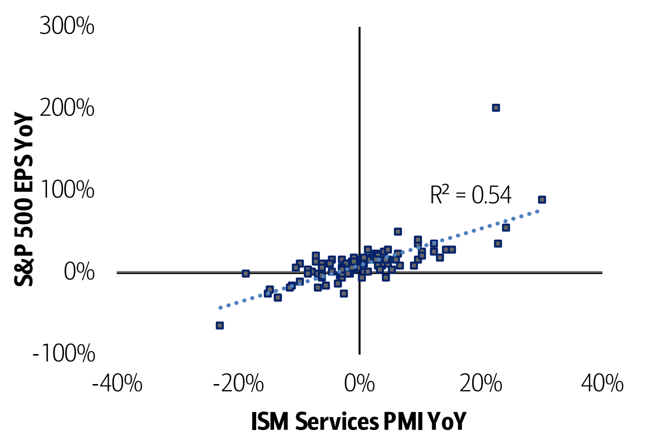
Exhibit 14: 54% r-sq between ISM Services PMI YoY vs. S&P 500 quarterly EPS YoY
ISM Services PMI YoY vs. S&P 500 quarterly EPS YoY (1998-present)



Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy
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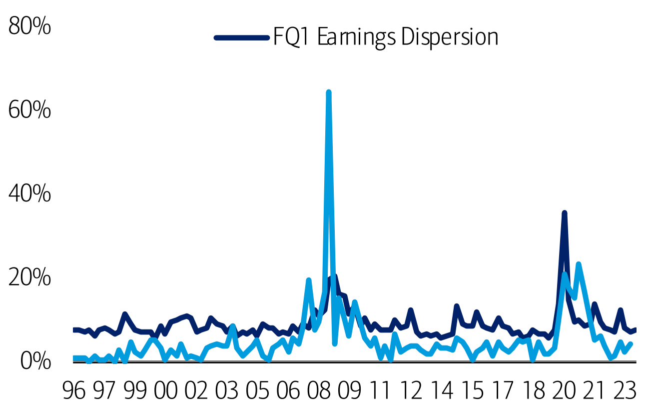
Exhibit 15: Estimate dispersion widened in 4Q, pointing to a 4% surprise (positive or negative)
FQ1 earnings dispersion vs. magnitude of EPS surprise (1996-present)



Source: FactSet, Bloomberg, BofA US Equity & Quant Strategy
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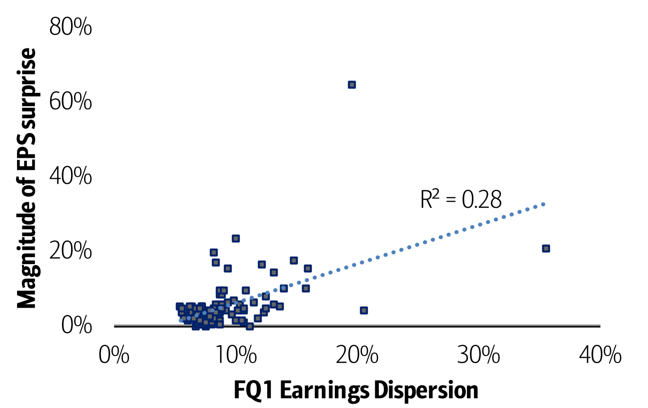
Exhibit 16: 28% r-sq between FQ1 earnings dispersion vs. magnitude of EPS surprise
FQ1 earnings dispersion vs. magnitude of EPS surprise (1996-present)



Source: FactSet, Bloomberg, BofA US Equity & Quant Strategy
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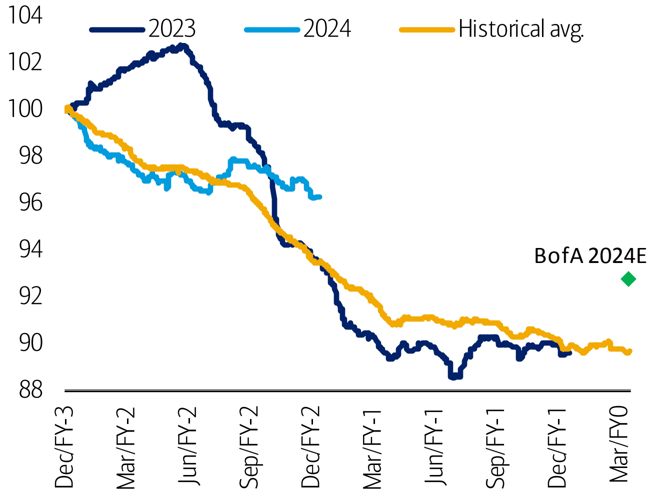
Don't be surprised by guidance/estimate cuts in 1Q

Bears say consensus 2024 EPS is too high and estimate cuts are coming. While we agree and expect 4% downside to consensus EPS for 2024, we do not think it's a compelling reason to be bearish equities. Historically, FY2 EPS came in 4% below where consensus stood at this point of the year and got cut 2% in 1Q on average (Exhibit 17). Outside of recession years, EPS cuts have not been a negative catalyst for equities. Of the nine non-recessionary years since 2001 with estimate cuts, the S&P 500 posted positive returns in seven years. Top-down consensus EPS of $233 (5% downside) also suggests downside risk in bottom-up consensus EPS is firmly consensus.

Exhibit 17: Consensus EPS typically gets cut through March FY-1
S&P 500 historical FY2 EPS revisions vs. 2023-24 consensus EPS (2023-24 as of 1/3/24)



Source: BofA US Equity & Quant Strategy, FactSet; Note: historical average based on 2001-2022
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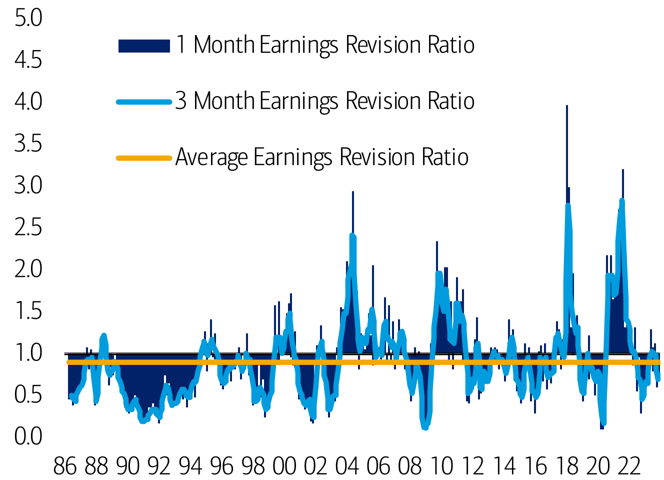
Exhibit 18: Our 1-mo. earnings revision ratio improved to 0.9x in December from 0.7x in November
S&P 500 earnings estimate revision ratio, 1/86-12/23



Source: BofA US Equity and Quant Strategy, FactSet
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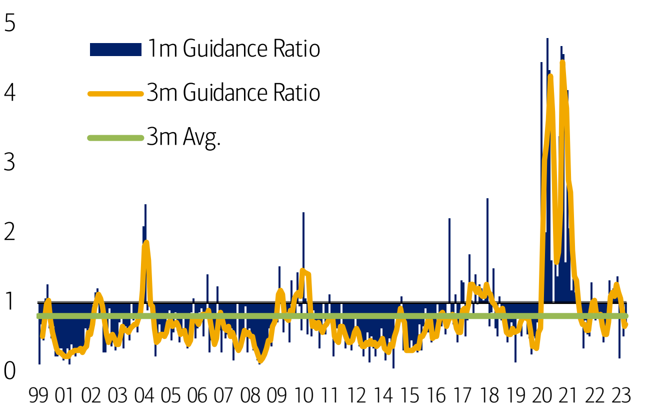
Exhibit 19: Our 3-mo. guidance ratio improved to 0.7x, but remains below the historical average of 0.8x
S&P 500 guidance ratio (# above vs. below consensus) – 1999-2023



Source: BofA US Equity and Quantitative Strategy
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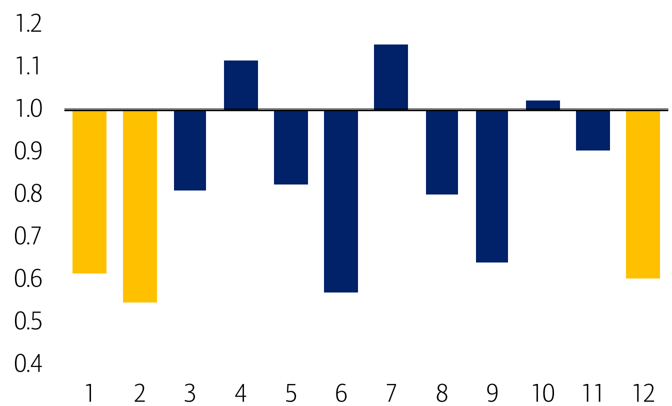
Exhibit 20: Dec-Feb is seasonally the weakest period for guidance
Avg. 1-mo. guidance ratio by month (1999-2023)



Source: Bloomberg, BofA US Equity & Quant Strategy
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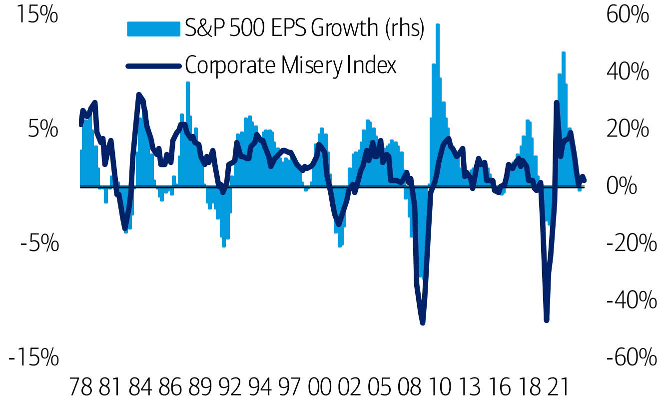
Corporate Misery Indicator ticked down in 4Q

Our Corporate Misery Indicator, our macro gauge of profit cycle, ticked down in 4Q, after improving in 3Q for the first time since 3Q22. Faster deceleration in CPI (pricing) than wages (cost) drove the downtick. However, analysts are already penciling in the lowest net margin (ex-Fins) since 4Q20, which we believe is too conservative.

Exhibit 21: Our Corporate Misery Indicator ticked down in 4Q
BofA Corp. Misery Indicator (lower=more miserable) 4Q78-4Q23 (as of 11/23)



Disclaimer: The indicator identified as BofA Corporate Misery Indicator above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark. Note: see Appendix for full details/methodology.
Source: BofA US Equity & Quant Strategy, Conference Board, BLS

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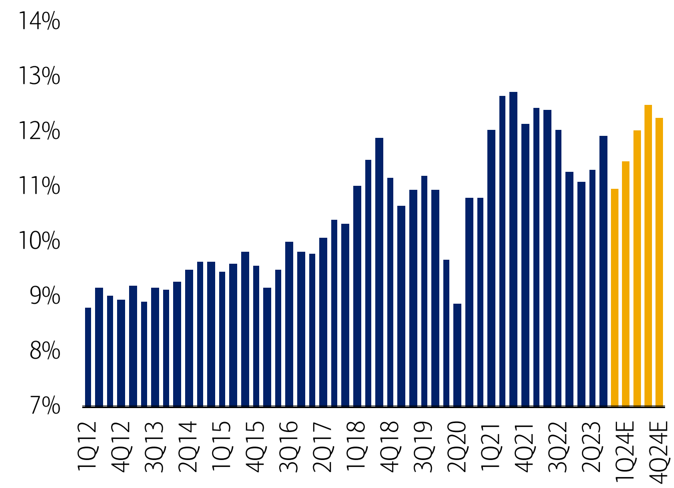
Exhibit 22: Analysts are penciling in the lowest margin since 4Q20
S&P 500 quarterly net margins ex-Financials (2012-4Q24E)



Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 23: 4Q23 margin expectations may be too conservative
S&P 500 quarterly net margins by sectors

Sector	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E
Consumer Discretionary	7.8%	8.0%	7.4%	6.2%	6.5%	6.3%	7.0%	5.7%	6.8%	8.6%	10.1%	7.2%	7.5%	8.8%	9.8%	8.3%
Consumer Staples	6.9%	7.2%	7.1%	6.6%	6.7%	6.7%	6.6%	6.3%	6.1%	6.4%	6.3%	5.9%	6.3%	6.7%	6.7%	6.2%
Energy	4.5%	6.5%	9.0%	11.1%	10.7%	14.7%	14.4%	13.0%	12.6%	10.0%	10.8%	9.9%	10.6%	11.0%	11.1%	10.7%
Financials	23.0%	21.1%	19.6%	17.5%	18.3%	17.0%	15.0%	15.9%	18.4%	17.6%	18.9%	16.1%	18.6%	18.3%	18.4%	18.8%
Health Care	11.6%	11.5%	11.6%	11.4%	11.8%	11.1%	10.7%	9.5%	9.3%	7.6%	8.0%	7.3%	8.8%	8.9%	9.1%	8.9%
Industrials	7.0%	9.4%	9.4%	8.2%	8.1%	10.3%	9.6%	9.8%	9.5%	11.4%	10.2%	9.5%	9.6%	11.1%	11.2%	10.8%
Information Technology	25.0%	25.7%	25.9%	24.5%	25.2%	23.9%	24.0%	24.4%	22.8%	24.0%	25.4%	25.3%	24.6%	24.8%	26.0%	27.1%
Materials	11.8%	14.9%	13.7%	13.0%	13.6%	14.4%	11.3%	10.5%	11.2%	11.9%	10.1%	8.8%	10.0%	11.6%	10.8%	10.3%
Real Estate	36.3%	37.5%	36.0%	35.3%	37.1%	36.1%	37.1%	36.1%	36.0%	37.1%	35.5%	34.7%	35.1%	35.2%	35.1%	35.0%
Communication Services	18.7%	18.8%	17.8%	16.2%	16.8%	14.3%	12.9%	12.1%	13.9%	16.1%	17.6%	16.3%	16.5%	17.6%	18.0%	17.9%
Utilities	13.0%	15.0%	18.1%	14.2%	15.2%	11.9%	13.5%	9.1%	10.4%	12.2%	15.8%	11.5%	13.0%	12.3%	15.2%	12.5%
S&P 500 ex. Financials	**12.1%**	**12.7%**	**12.7%**	**12.1%**	**12.5%**	**12.4%**	**12.0%**	**11.3%**	**11.1%**	**11.3%**	**11.9%**	**11.0%**	**11.5%**	**12.0%**	**12.5%**	**12.3%**
S&P 500	**13.4%**	**13.7%**	**13.5%**	**12.7%**	**13.1%**	**12.9%**	**12.4%**	**11.8%**	**12.0%**	**12.1%**	**12.8%**	**11.6%**	**12.4%**	**12.8%**	**13.2%**	**13.0%**
ex. Fins & Energy	**12.7%**	**13.2%**	**13.1%**	**12.2%**	**12.7%**	**12.1%**	**11.7%**	**11.1%**	**10.9%**	**11.5%**	**12.0%**	**11.1%**	**11.6%**	**12.1%**	**12.6%**	**12.4%**
ex. Energy	**14.0%**	**14.3%**	**13.9%**	**12.9%**	**13.4%**	**12.7%**	**12.1%**	**11.6%**	**12.0%**	**12.3%**	**13.0%**	**11.7%**	**12.5%**	**12.9%**	**13.4%**	**13.2%**

Source: FactSet, BofA US Equity & Quant Strategy

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Demand recovery still missing, but it's coming

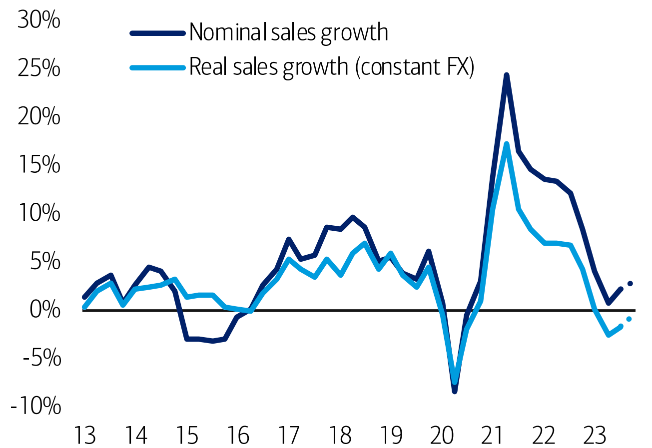
Despite the first earnings growth seen in 3Q (+4% YoY), sales growth remains muted, -2% YoY adjusted for inflation and FX. Mentions of weak demand also remains elevated and ticked up in 3Q.

The main reason for tepid sales despite robust GDP growth in 3Q was the mix between goods and services. The goods/manufacturing economy remained weak, which represents 50% of S&P 500 earnings but just 20% of GDP.

But we see early signs of the goods/manufacturing recession coming to an end, including Korea exports, freight demand (see Trucking Survey), and PMI new orders vs. inventories. We expect the bottoming process in goods, followed by a recovery in the near-term, should result in earnings outpacing GDP in 2024. Margins have increased for the second straight quarter in 3Q without a sales recovery, pointing to companies' lower cost profile now. A demand recovery ahead should result in margins potentially surprising to the upside.

Exhibit 24: Real sales growth remains negative

S&P 500 sales growth and real growth (constant FX) – 2013-4Q23E



Source: FactSet, BofA US Equity & Quant Strategy

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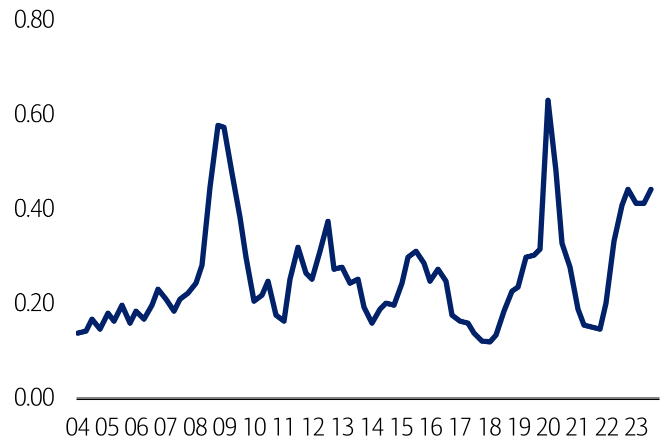
Exhibit 25: Mentions of weak demand remains elevated

Avg. mention of weak demand per co. for Consumer sectors ('03-3Q23)



Source: BofA Global Research

Note: mentions include "lower," "softer," "moderating," "weaker"

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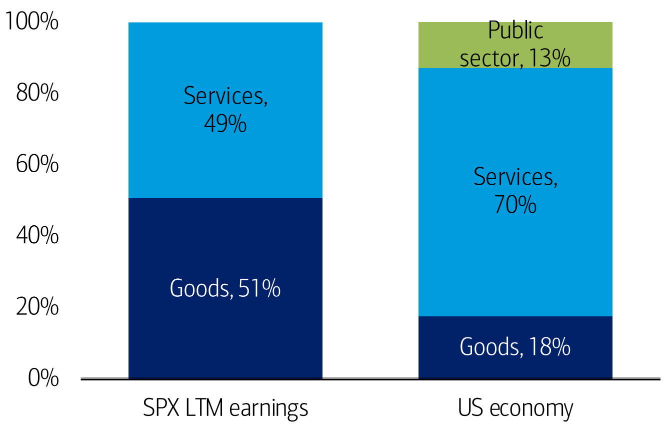
Exhibit 26: S&P 500 is more geared towards goods than the economy

Our estimate for Goods vs. Services exposure of S&P 500 based on industry breakout of 2Q23 earnings vs. % goods/services for US economy (based on gross value added by industry, 2022)



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

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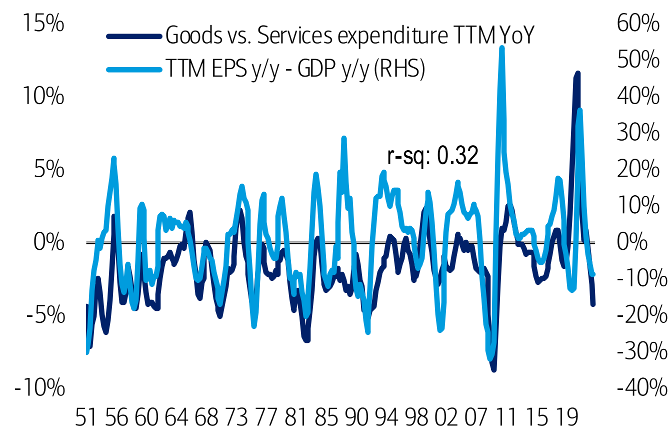
Exhibit 27: Goods outpacing services has historically been a tailwind for earnings vs. GDP

Goods vs. Services consumption TTM YoY vs. EPS vs. GDP TTM YoY (1951-3Q23)



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

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Exhibit 28: Korea exports rebounded recently, pointing to a manufacturing recovery
Korea exports YoY vs. ISM Manufacturing PMI (1997-12/23)

Source: Bloomberg, BofA US Equity & Quant Strategy

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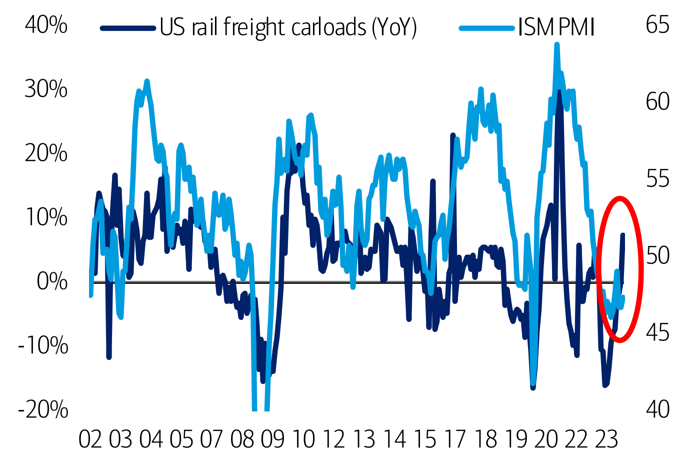
Exhibit 29: Rail freight carloads also sharply rebounded, pointing to a manufacturing recovery
US rail freight carloads YoY vs. ISM Manufacturing PMI (2002-12/23)



Source: Bloomberg, BofA US Equity & Quant Strategy

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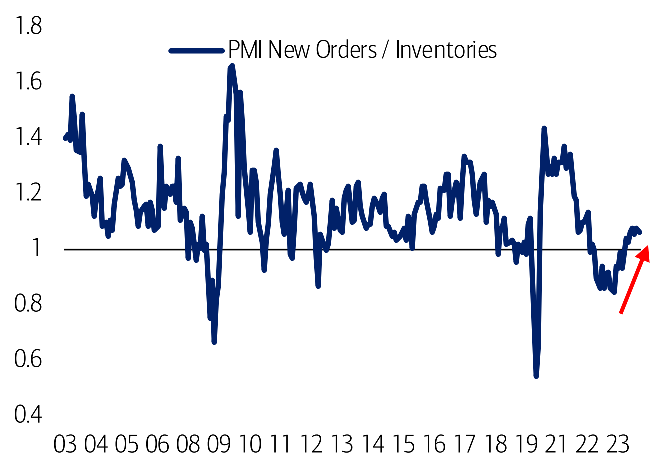
Exhibit 30: Manufacturing new orders remain stronger than inventory levels – i.e. re-stocking
ISM Manufacturing PMI new orders / inventories (2003-12/23)



Source: Bloomberg, BofA US Equity & Quant Strategy

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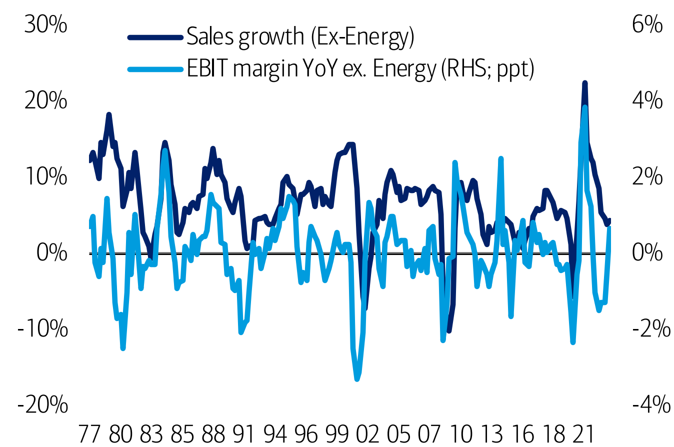
Exhibit 31: Margins already inflected higher without sales boost
S&P 500 ex. Energy & Financials sales growth YoY vs. EBIT margin YoY (1977-3Q23)



Source: FactSet, BofA US Equity & Quant Strategy

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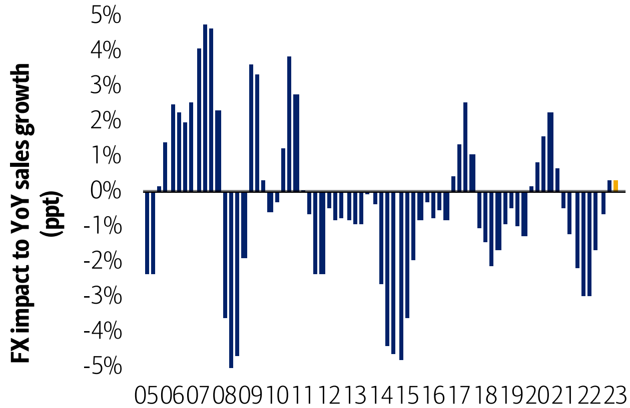
FX adds ~30bps to growth

We calculate that FX was a 30bp tailwind in 4Q, similar to 3Q. Materials, which has the biggest foreign exposure, is expected to see the biggest benefit, followed by Consumer Discretionary. In general, we estimate every 10% rise in the USD translates to a 3% hit to EPS, all else equal.

Exhibit 32: FX was a 30bp tailwind in 4Q
Estimated currency impact (in ppt) to S&P 500 quarterly YoY sales growth, 4Q05-4Q23



Source: FactSet, BofA US Equity & Quant Strategy

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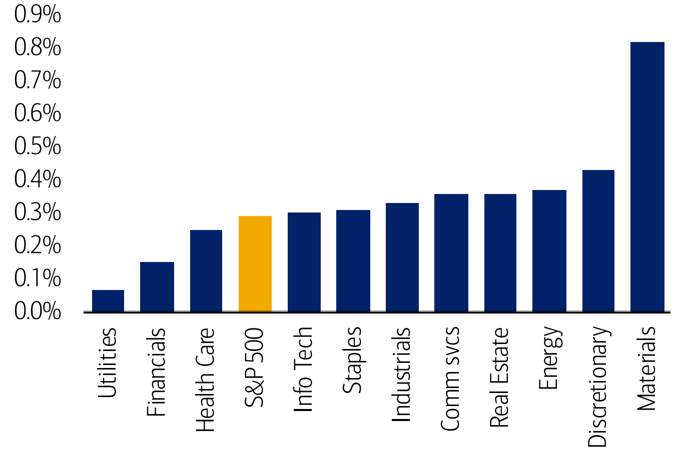
Exhibit 33: Materials is expected to see the biggest FX benefit
Estimated FX impact to YoY sales growth in 4Q23 by sector



Source: FactSet, BofA US Equity & Quant Strategy

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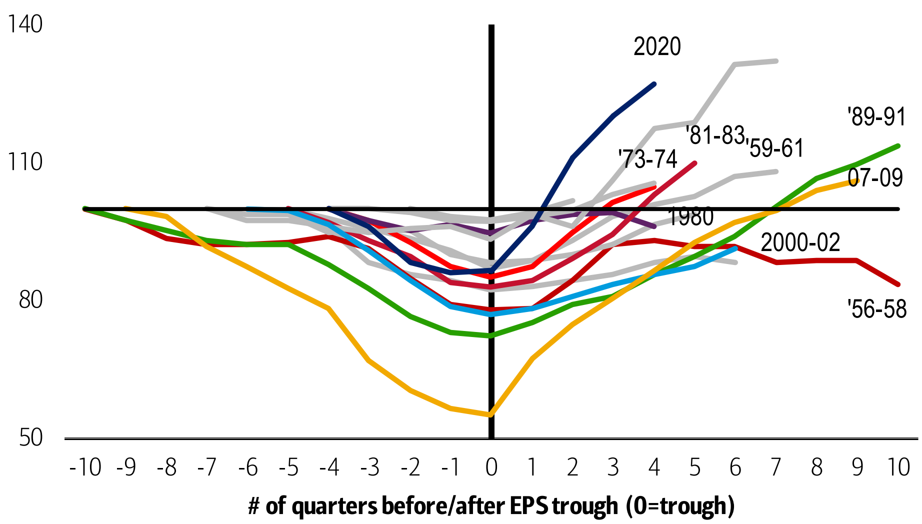
Earnings recover stronger than they fall

History suggests earnings typically recovery stronger than they fall (Exhibit 34), as downturns usually remove excess capacity, resulting in leaner cost structure and improved margin profiles. On average, S&P 500 TTM EPS exceeded prior peak levels by 5% after the same number of quarters into recovery as those into a downturn. This implies a projected TTM EPS of $233 by mid-2024, compared to our estimate of $235 for the full-year 2024.

Exhibit 34: 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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Tech and Industrials rank best for 4Q earnings

Historically, we have found that sectors with strong EPS/sales revisions and guidance have been more likely to have a greater number of earnings beats than misses in the subsequent earnings season. Also, given that positive surprises tend to persist, sectors with a higher ratio of positive to negative surprises in the prior quarter may be more likely to enjoy similar results in the current quarter. Based on these measures, for this earnings season Tech and Industrials screen as most likely to surprise to the upside, while Utilities and Staples screen weakest.

Exhibit 35: Sector ranks for 4Q23 earnings season – Tech and Industrials rank best; Utilities and Staples rank worst
Based on average ranking of EPS & sales revision ratios, guidance ratios and last quarter's surprise results

Sector	Overall Attractiveness	Guidance 3m Ratio	Estimate Revision 3m Ratio	Sales Revision 3m Ratio	Last Qtr. Surprise Ratio (Beats/Misses)
Information Technology	1	1.61	0.91	0.88	8.13
Industrials	2	2.08	0.91	1.29	2.49
Financials	3	N/A	0.88	1.05	2.52
Energy	4	N/A	0.73	1.72	2.03
Consumer Discretionary	6	0.85	0.72	0.77	4.64
Real Estate	6	1.09	0.45	1.50	2.75
Health Care	7	0.79	0.56	1.05	3.36
Communication Services	8	N/A	0.72	0.47	3.29
Materials	9	0.50	0.82	0.47	1.68
Consumer Staples	10	0.91	0.66	0.42	2.40
Utilities	11	0.25	0.53	1.02	0.85
S&P 500		1.06	0.73	0.93	2.66

Source: FactSet/First Call, BofA US Equity & Quant Strategy
Note: Surprise ratio based on avg of EPS Beat/Miss ratio and Sales Beat/Miss ratio. Guidance ratio is not counted in calculating the average rank if a sector had <10 instances of guidance over the last 3 months.
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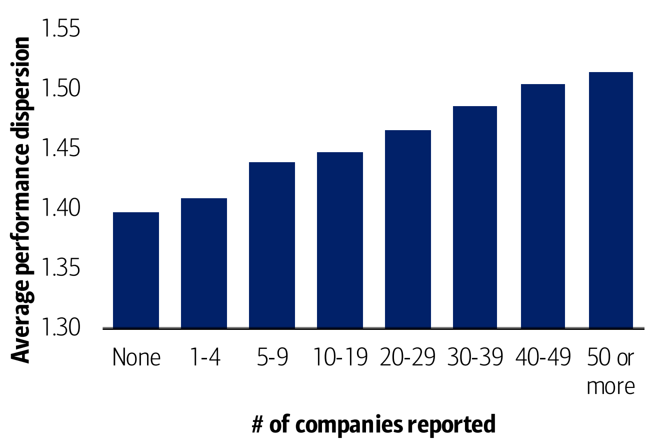
Earnings season is a good time to be a stock-picker

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 36). This reveals that dispersion is consistently higher for busier reporting days. This quarter, the busiest days fall the week of Jan 29-Feb 2 (Exhibit 37).

Exhibit 36: 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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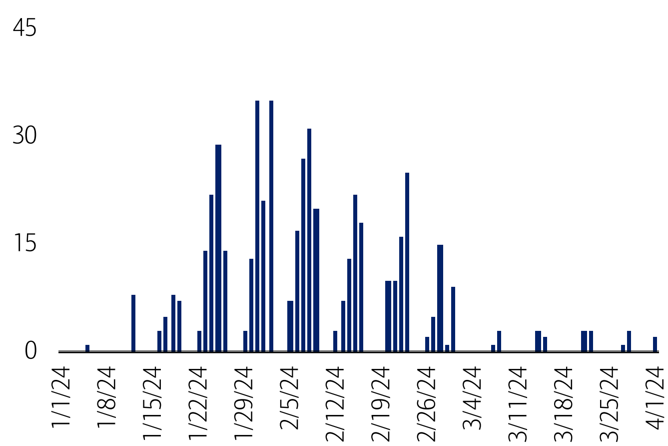
Exhibit 37: S&P 500 4Q23 reporting frequency by day
# of companies reporting each day



Source: Bloomberg, BofA US Equity & Quant Strategy
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Screens for top & bottom line beats & misses

We screened the S&P 500 for stocks under BofA coverage that, based on the following screening criteria, are most likely to beat (miss) expectations:

- **BofA vs. Consensus**: BofA EPS and sales above (below) consensus ex-BofA. (Note: Z-score in the tables represents the number of standard deviations that our analyst's estimate is above (below) consensus ex-BofA.)
- **Last quarter's results:** Company beat on both EPS and sales during last quarter's reporting season (for positive surprise screen) or missed on either earnings or sales during last quarter's earnings season (for negative surprise screen).
- **Fundamental Opinion:** We screen for stocks with a BofA rating of Buy (Positive Surprise Screen) or Underperform (Negative Surprise Screen).

We also flag stocks on the positive surprise screen which are underweight by active funds and stocks on the negative surprise screen which are overweight by active funds.

Exhibit 38: 4Q23 Positive Surprise Screen (with underowned stocks by fund managers highlighted in blue)
Stocks that are most likely to beat expectations

Ticker	Company Name	Sector	Industry	Expected Report Date	BofA vs. Consensus EPS: Z-Score	BofA vs. Consensus Sales: Z-Score	Last Qtr: EPS/Sales Surprise	Price	BofA Rating	Rel. Wgt. (vs. S&P 500) in fund holdings
DRI	Darden Restaurants, Inc.	Consumer Discretionary	Hotels Restaurants & Leisure	3/22/2024	1.2	2.0	Beat/Beat	161.60	BUY	2.0
ACGL	Arch Capital Group Ltd.	Financials	Insurance	2/14/2024	0.8	1.3	Beat/Beat	76.15	BUY	0.4
CMCSA	Comcast Corporation Class A	Communication Services	Media	1/25/2024	1.6	3.2	Beat/Beat	43.28	BUY	1.6
OXY	Occidental Petroleum Corporation	Energy	Oil Gas & Consumable Fuels	2/26/2024	2.0	2.0	Beat/Beat	57.46	BUY	2.1
BK	Bank of New York Mellon Corp	Financials	Capital Markets	1/12/2024	0.6	1.4	Beat/Beat	52.95	BUY	1.2
MTB	M&T Bank Corporation	Financials	Banks	1/18/2024	0.1	6.3	Beat/Beat	136.50	BUY	0.3
PGR	Progressive Corporation	Financials	Insurance	1/24/2024	0.5	1.6	Beat/Beat	166.67	BUY	1.5
EG	Everest Group, Ltd.	Financials	Insurance	2/7/2024	1.7	1.9	Beat/Beat	368.51	BUY	0.0
AVGO	Broadcom Inc.	Information Technology	Semiconductors & Semiconductor Equipment	3/1/2024	0.8	0.4	Beat/Beat	1082.49	BUY	1.6
TDG	TransDigm Group Incorporated	Industrials	Aerospace & Defense	2/7/2024	0.9	1.1	Beat/Beat	1000.12	BUY	2.9

Source: BofA US Equity & Quant Strategy, FactSet. Note: Closing prices and ratings as of close 1/9/24
This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decision.

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Exhibit 39: 4Q23 Negative Surprise Screen (with overowned stocks by fund managers highlighted in blue)
Stocks that are most likely to miss expectations

Ticker	Company	Sector	Industry	Expected Report Date	BofA vs. Consensus EPS: Z-Score	BofA vs. Consensus Sales: Z-Score	Last Qtr: EPS/Sales Surprise	Price	BofA Rating	Rel. Wgt. (vs. S&P 500) in fund holdings
CPB	Campbell Soup Company	Consumer Staples	Food Products	3/8/2024	-2.4	-1.0	Beat/Miss	44.80	UNDERPERFORM	0.0
ILMN	Illumina, Inc.	Health Care	Life Sciences Tools & Services	2/8/2024	-0.7	-0.9	Beat/Miss	139.74	UNDERPERFORM	1.1
AVY	Avery Dennison Corporation	Materials	Containers & Packaging	2/2/2024	-1.4	-1.0	In-line/Miss	195.40	UNDERPERFORM	0.9

Source: BofA US Equity & Quant Strategy, FactSet. Note: Closing prices and ratings as of close 1/9/24
This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decision.

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S&P 500 companies reporting in Week 1-2

Below we list confirmed/tentative dates for S&P 500 companies reporting in the first two weeks of earnings.

Exhibit 40: S&P 500 companies slated to report 4Q results in Week 1-2 (mega caps highlighted in blue)
Week 1-2 schedule

Report Date	Ticker	Company Name	Sector	Market Cap ($B)	Status	Week
1/12/2024	UNH	UNITEDHEALTH GROUP INC	Health Care	502	Confirmed	1
1/12/2024	JPM	JPMORGAN CHASE & CO	Financials	498	Confirmed	1
1/12/2024	BAC	BANK OF AMERICA CORP	Financials	269	Confirmed	1
1/12/2024	WFC	WELLS FARGO & CO	Financials	180	Confirmed	1
1/12/2024	BLK	BLACKROCK INC	Financials	117	Confirmed	1
1/12/2024	C	CITIGROUP INC	Financials	103	Confirmed	1
1/12/2024	BK	BANK OF NEW YORK MELLON CORP	Financials	40	Confirmed	1
1/12/2024	DAL	DELTA AIR LINES INC	Industrials	26	Confirmed	1
1/16/2024	MS	MORGAN STANLEY	Financials	152	Confirmed	2
1/16/2024	GS	GOLDMAN SACHS GROUP INC	Financials	129	Confirmed	2
1/16/2024	PNC	PNC FINANCIAL SERVICES GROUP	Financials	61	Confirmed	2
1/17/2024	SCHW	SCHWAB (CHARLES) CORP	Financials	122	Confirmed	2
1/17/2024	PLD	PROLOGIS INC	Real Estate	120	Tentative	2
1/17/2024	USB	US BANCORP	Financials	67	Tentative	2
1/17/2024	DFS	DISCOVER FINANCIAL SERVICES	Financials	28	Confirmed	2
1/17/2024	CFG	CITIZENS FINANCIAL GROUP	Financials	15	Tentative	2
1/18/2024	TFC	TRUIST FINANCIAL CORP	Financials	49	Confirmed	2
1/18/2024	FAST	FASTENAL CO	Industrials	36	Confirmed	2
1/18/2024	PPG	PPG INDUSTRIES INC	Materials	34	Confirmed	2
1/18/2024	MTB	M & T BANK CORP	Financials	23	Confirmed	2
1/18/2024	JBHT	HUNT (JB) TRANSPRT SVCS INC	Industrials	19	Confirmed	2
1/18/2024	NTRS	NORTHERN TRUST CORP	Financials	17	Tentative	2
1/18/2024	KEY	KEYCORP	Financials	13	Confirmed	2
1/19/2024	SLB	SCHLUMBERGER LTD	Energy	74	Confirmed	2
1/19/2024	TRV	TRAVELERS COS INC/THE	Financials	44	Confirmed	2
1/19/2024	STT	STATE STREET CORP	Financials	24	Confirmed	2
1/19/2024	FITB	FIFTH THIRD BANCORP	Financials	23	Confirmed	2
1/19/2024	HBAN	HUNTINGTON BANCSHARES INC	Financials	18	Confirmed	2
1/19/2024	RF	REGIONS FINANCIAL CORP	Financials	18	Confirmed	2
1/19/2024	CMA	COMERICA INC	Financials	7	Tentative	2

Source: Bloomberg, BofA US Equity & US Quant Strategy

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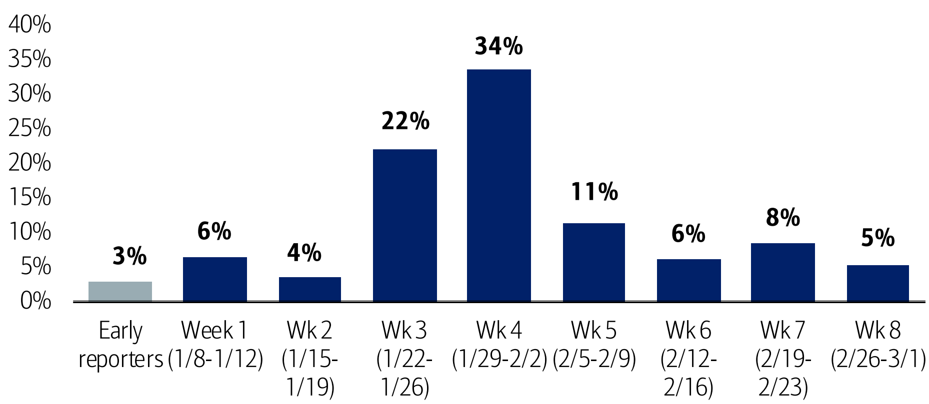
4Q23 Reporting by Week

Exhibit 41: S&P 500 4Q23 Earnings Reporting by Week
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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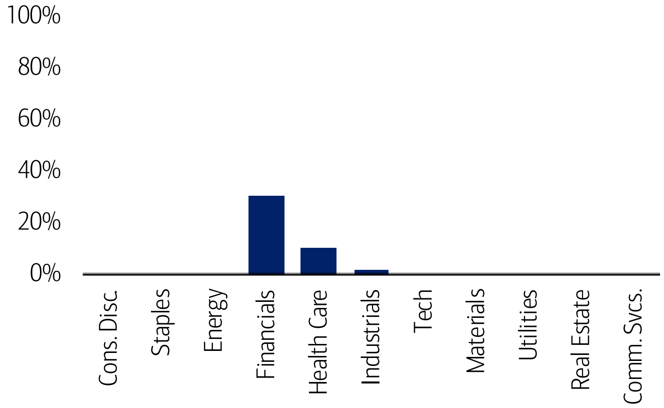
Exhibit 42: Week 1: % 4Q earnings reported by sector
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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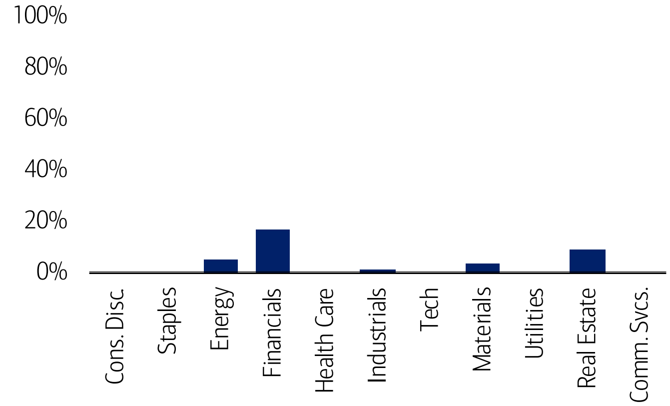
Exhibit 43: Week 2: % 4Q earnings reported by sector
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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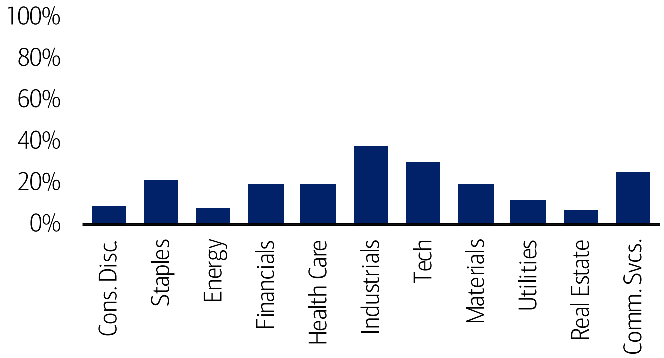
Exhibit 44: Week 3: % 4Q earnings reported by sector
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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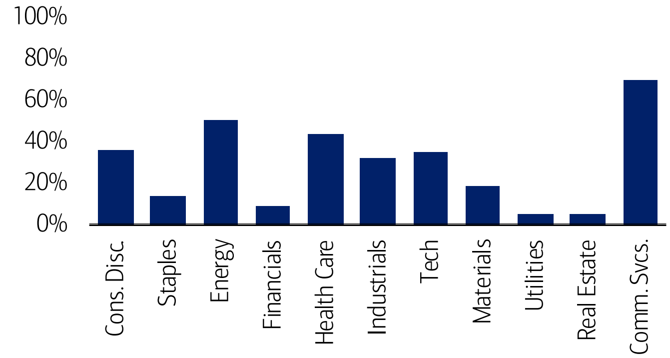
Exhibit 45: Week 4: % 4Q earnings reported by sector
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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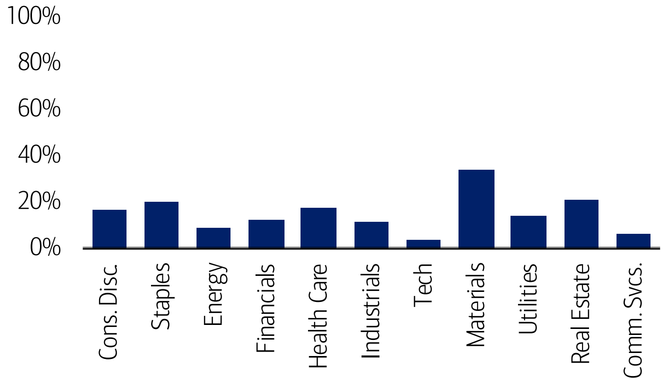
Exhibit 46: Week 5 % 4Q earnings reported by sector
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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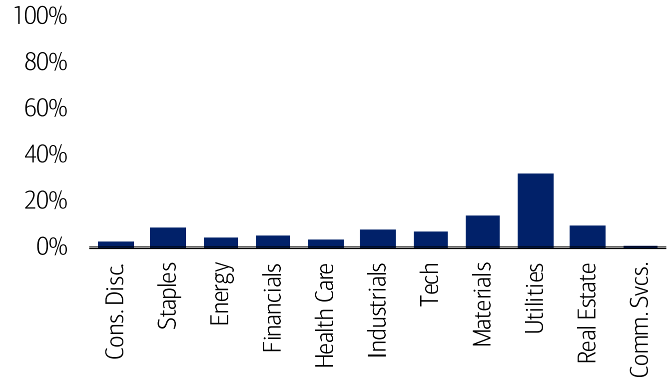
Exhibit 47: Week 6: % 4Q earnings reported by sector
% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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Heard on the 16th floor

Communication Services

On watch: Ad growth, capex, rates, data demand

Justin Post, Online advertising – "Online media channel checks have suggested further acceleration in ad spend in 4Q, with breadth beyond the largest platforms. Marketplace advertising spend on eCommerce platforms has been highlighted as especially strong in a competitive 4Q."

David Barden, Telecom – "The momentum shift in favor of fiber/wireless telecom over cable will become more evident and a stock moving theme in 2024."

David Barden, Communication Infrastructure – "2024 guidance may put a floor under tower stocks but data center fundamentals are powering higher. Rates will be a big determinant of single stock performance outside results."

Jessica Reif Ehrlich, Media & Cable – "**Media:** Earnings in 4Q will be pressured by shorter-term factors including continued cyclical advertising headwinds and high restart costs/less content following the writers/actors strikes, as well as secular challenges relating to linear subscribers/affiliate fees. Theme parks/live entertainment should continue to be a bright spot and a positive driver for earnings.

Cable: With expectations for cable broadband net losses already built-in (CHTR and ATUS have guided towards net losses and Comcast has highlighted the challenging environment), focus will shift toward mobile results, 2024 capex plans, and the broadband competitive environment moving forward including updates regarding broadband subsidy programs."

Consumer

On watch: consumption trend, holiday season, lower rate impact

Justin Post & Michael McGovern, eCommerce– "Holiday season data points were mixed, suggesting relatively less top-line upside vs. already soft revenue/GMV (gross merchandise value) guidance across most of eCommerce industry."

Robby Ohmes, Broadlines & Food Retail – "For 4Q23, we see discount stores (WMT & TGT) and warehouse clubs (COST & BJ) gaining share as shoppers continue to be hyper focused on value & affordability, which favors greater response to entry level price points (including lower price point, higher-margin private label items) as consumers are still adjusting to grocery prices that are up 25%+ vs. 2019. Same-store sales for conventional grocers (incl. KR, ACI and GO) likely slowed sequentially in 4Q23 as food inflation continues to ease (particularly in perishables)."

Alex Perry, Leisure Brands & Retailers – "We expect demand remained resilient for leisure entertainment in 4Q given a more favorable Holiday calendar and weather vs. last year. Key question will be how does a potential moderating rate environment impact the appetite for big ticket spend & unit growth in 2H."

Bryan Spillane – Consumer Staples – "Read across from recent off-cycle earnings reports is heightened volatility risk during season, more quality than absolute. Most focus on '24 outlook and distinguishing companies with organic sales growth."

Jason Haas, Retailing-Hardlines – "We expect to continue to see trade down as consumers favor value and need-based products, and discretionary demand will still be under pressure. Car wash continues to be resilient, while home improvement and home furnishing still show softness."

John Murphy, Autos – "Global auto production remained strong in 4Q, which may benefit results. However, the UAW strike (which began Sept. 15) added some disruption for OEMs and suppliers at the beginning of 4Q, which will create some risk and volatility to reporting (this is relatively well known). Dealers are likely to continue to post strong results in 4Q23 as auto pricing remains resilient and execution is still strong. The most material near-term risk for auto stocks will be conservative 2024 outlooks in the face of uncertainty around the election in the US, the slowing rate of change in EV volumes, and a still depressed consumer (as measured by U Mich and Conference Board consumer sentiment measures)."

Lorraine Hutchinson, Department Stores and Specialty Softlines – "We think holiday met expectations, but that many companies will guide below consensus as sales continue to trend below medium-term algorithms and gross margin tailwinds are mostly exhausted."

Sara Senatore, Restaurants – "Despite month-to-month volatility in restaurant sales trends - driven primarily by still normalizing trends around seasonality, channel mix (off prem vs on) and per person spending trends ("revenge spending") - underlying consumer demand has remained healthy. With input costs (commodities/labor) also proving more predictable, stock performance will be driven by company specific initiatives, and better-than-expected results will be well received, especially among companies where valuation is below historical averages."

Rafe Jadrosich, Homebuilders & Building Products – "New home demand slowed during 4Q23 as a spike in mortgage rates pressured sales early in the quarter, however, rates fell in December and demand appears to be stabilizing into 2024. Homebuilders continue to offer incentives to buyers, which is supporting demand relative to the resale market. Building product and renovation revenue likely declined YoY in 4Q due to tough comparisons, weaker consumer spending and higher rates."

Energy

On watch: Commodity prices, cash flow, M&A

Doug Leggate, US Oil & Gas – "The impact of 4Q23 earnings is again impacted by early year commodity weakness that now points to sequential earnings declines in 2024 based on the current forward curve. With this backdrop our positioning is defensive, favoring rate of change in free cash flow where we expect momentum from recent M&A to differentiate relative performance with catalysts to release value such as cost reduction, portfolio hi-grading, asset sales and debt reduction as a route to transfer value in a backward oil curve.

For 2024, we see then best risk / reward in the major oils where defensive exposure also combines with momentum in FCF. Amongst sub-sectors we continue to view US natural gas equities with the momentum and line of sight towards changing dynamics of domestic natural gas markets to continue to reset market expectations of value for gas E&Ps."

Saurabh Pant, Oil Services – "After a year and a half of first espousing our pivot to Int'l/Offshore and away from North America (NAM), we're convinced this is the right strategy. NAM is held back by ample (and growing) OPEC spare capacity, and thus we don't see any meaningful call on US oil production over the next 2-3 years. Thus, NAM likely remains a no/slow growth hydrocarbon basin. Int'l, on the flip side, is set to continue to grow nicely in 2024-25 in support of Middle-East and an increasingly global

Offshore growth push. Our best ideas in Oil Services are all levered to this strengthening Int'l & Offshore opportunity."

Financials

On watch: Earnings in cutting cycle, credit conditions, consumer

Ebrahim Poonawala, Banks – "EPS resilience will be in focus as investors try to handicap downside risks due to Fed rate-cuts. Additionally, confirmation that credit remains manageable (normalizing not cratering) could see stocks move higher on the back of building optimism for an economic soft-landing."

Jason Kupferberg, Payments – "We believe holiday season spending trends were relatively solid, and anticipate most earnings reports to be at least in-line with consensus. For many of our companies, initial 2024 guidance will be the primary focus on upcoming earnings calls, and we think this could be somewhat of a mixed bag."

Craig Siegenthaler, Diversified Financials – "We expect mixed financial results from the diversified financials in 4Q23 but estimate strong LT EPS revisions for the asset managers given rebounding markets versus lower revisions for the brokers given the decline in interest rates. See our 2024 Year Ahead."

Health Care

On watch: 2024 guidance, utilization, GLP-1

Kevin Fischbeck, Managed Care & HC Facilities/Hospitals: "MCO (managed care organization) sentiment remains low given a number of overhangs (trend, MA rates, redeterminations, elections, falling interest rates, etc), lowering the bar for positive reactions to Q4 results/guidance. We expect a stable MLR (medical loss ratios)/trend commentary (high but stable) and initial guidance for 2024 to be reaffirmed. With trend stable, and a reasonable, rebased 2024 outlook, MCOs should perform well through the year as the overhangs get addressed.

For hospitals, Q4 utilization looks to decelerate on tougher comps but remain strong relative to historical growth. Despite concerns about tough comps for 2024, utilization should remain above average (but decelerate vs 2023 growth) as utilization still is 3% below the 2019 trend-line. Volumes slightly above average, slowly improving labor and entering year 2 of a 3-year repricing cycle should set the stage for another year of strong growth."

Derik De Bruin & Michael Ryskin, Life Sciences & Diagnostic Tools – "Expectations (and stock prices) have moved much higher in recent weeks as 2024 is largely seen as a recovery year. But we remain slightly more cautious, and think it's too early to turn constructive. Tools shares could see a pull-back if mgmt. commentary and 2024 guides are more restrained and 2H-weighted."

Travis Steed, Medical Supplies & Devices – "Q4 fundamentals likely remain strong with utilization coming in at least as expected but Q4 beats not typically rewarded as focus remains more on tough 1H24 comps and 2024 messaging."

Allen Lutz, Healthcare Technology & Distribution – **"Pharma Supply Chain:** Utilization and script volumes likely to remain steady driving in-line/outperformance for the pharma supply chain group with distributors benefiting from GLP-1s and biosimilars.

Dental: Expect mixed results and 2024 outlooks due to a confluence of macro pressures and potential one-time market share shifts challenging visibility. "

Industrials

On watch: Demand outlook, China, de-stocking, fiscal stimulus

Michael Feniger, Machinery, Engineering & Construction – "Stable demand with some signs of incremental pressure (Europe, farm equipment, destocking) is likely expected in Q4. Management teams likely to remain cautious into 2024 given macro uncertainties (China, higher rates, pricing moderating, inventory optimization) yet not overly bearish as underlying activity remains stable. Key topic will be the project pipeline into 2024 - if secular tailwinds from fiscal stimulus and mega projects continue to offset cyclical pressures in rate sensitive areas."

Ken Hoexter, Transportation – "Transport results for 4Q will still reflect the elongated freight recession, but should offer hints of the start of a rebound. The last week of the year, our BofA Truck Shipper Survey moved above 50 for the first time since Nov 3, and only 5th time in past 20 issues, while truck spot rates have moved to $1.44 this week from a $1.21 trough in Aug-Oct. Rail carloads ended the quarter inflecting positive for 7 of the past 10 weeks (after 38 of 43 down weeks). In the interim, FedEx's weak results at the end of December remain a harbinger for the freight market pressure on near term results."

Andrew Didora, Airlines – "Airlines continue to see higher than normal cost inflation from labor and maintenance, and we have noted in our airline bookings notes that international has been tending weaker than domestic. Any updates on these themes will the main investor focus."

Michael McGovern, Gig Economy – "Travel demand remains stronger in the US than Europe, supporting rideshare bookings. Improving driver supply should support take rates and margins across rideshare and food delivery. Consumer concerns, student loan payments, and food costs remain risks for food delivery bookings."

Materials

On watch: Supply/demand, volume, de-stocking, fiscal stimulus

Steve Byrne, Chemicals – "Some Chemical end markets are continuing to weaken, while others are recovering, and thus we have relative rankings within each of the 6 chemical verticals."

George Staphos, Paper & Packaging – "Easier comparisons on volumes and earnings should help C4Q and C1Q reported results, though a significant volume rebound remains elusive. Margins should benefit from past cost trends, though this could turn negative in 2Q or beyond. Watch for companies potentially announcing price increases in anticipation of inflation, to preserve margins, etc."

Lawson Winder, Metals & Mining – "Demand for the metals remains steady while supply remains constrained (with few exceptions). Expect miners that can deliver production to perform well. On the steels, the outlook for flat rolled steel pricing will be key as pricing sits around last year's highs."

Real Estate

On watch: 2024 guidance

Jeff Spector, Real Estate – "We expect meets & beats in 4Q. While we'll be focused on data points and trends from 4Q results, all eyes will be on 2024 guidance. We mainly see risk to 2024 guidance disappointing after the melt-up in REIT stock prices during 4Q. REIT fundamentals lag the economy which is expected to slow in 2024 regardless of a soft vs. hard landing. This means REIT management teams might be extra conservative with initial guides than in the past, plus they may provide wider than usual ranges. Sectors most at risk are Apartments, Office and Self-Storage, in our view. We remain most positive on Industrial, Retail, SF Rentals and Senior Housing."

Tech

On watch: Cloud/AI, inventory levels, order trends and backlog

Alkesh Shah & Brad Sills, Software – "Better than expected results from the large enterprise application vendors (ServiceNow, Salesforce and Workday) are perhaps a leading indicator for improving software spend across the group. Infrastructure and consumption driven businesses reported healthy beat and raise quarters with incremental strength coming from AI/ML related workloads. Results from SMB (small and midsize business) software vendors suggest that macro pressure, which began early 2023, have not eased. We expect some improvement in SMB discretionary software spend as we move through the year. Margin and productivity remained a focus across the broader software group, with companies taking a prudent stance on hiring. This generated healthy margin and FCF upside across the group."

Vivek Arya, Semis – "Expect Q1 demand in cloud/AI to remain strong, but for other areas to decline either seasonally (PC, smartphone, enterprise) or due to ongoing inventory correction (industrial, autos, telco)."

Tal Liani*, *Networking – "We expect that 4Q trends will reflect a combination of weak orders and depleted backlog levels that can no longer offset the underlying weakness in the environment. Service providers are cutting spending, hyperscalers and cloud providers are slowing orders on absorption and implementation of previously placed orders, and enterprises remain budget-conscious. We believe the weakness will continue into 1H24 and therefore continue to flag risks to the 2024 consensus estimates of most vendors across the networking sector."

Tal Liani, Cybersecurity – "Cybersecurity remains a bright spot for IT spending and we expect many of the larger platform vendors to continue exhibiting strength this quarter. In particular, we believe the key SaaS-based vendors should have improving visibility and better market conditions. On the other hand, appliance-based vendors are still dealing with high backlog drawdowns and weaker orders, though solid underlying demand should help the order environment recover over the next few quarters. Lastly, we flag continued risk of weak billings across cyber, which mainly stems from sales cycle elongation, increased scrutiny on procurement, and worsening deal durations."

Utilities

On watch: Interest rates, long-term EPS guidance, and IRA

Julien Dumoulin-Smith, Utilities, Power, & Clean Energy – "The outlooks of many regulated utilities have notably improved from October-November earnings season as interest rates have moderated, reducing interest expense drags. We still see select stories with adverse EPS rebases ahead but utilities are generally better positioned – and the stock valuations reflect that. For clean energy, the key question is whether companies can see margins stabilize and volumes recover, particularly residential solar. The question will be how much visibility companies have into 1H24 outlooks."

3Q23 recap: First growth quarter in a year

S&P 500 3Q23 EPS came in at $58.41 (+4% YoY), marking the first positive EPS growth in a year. EPS came in 4% above consensus heading into the earnings season, double the historical average beat. Sales beat by 1%. The beat was led by Growth sectors (Consumer Discretionary, Tech, and Communication Services) and Financials, while Health Care saw the biggest miss due to COVID-related sales from Pfizer and Moderna.

74%/58%/49% beat on EPS/sales/both, better than the historical average of 59%/59%/40%.

Exhibit 48: S&P 500 earnings grew 6% YoY, first positive quarter in a year

S&P 500 3Q earnings and sales growth by sector

	Earnings		Sales	
Sector	**YoY%**	**QoQ%**	**YoY%**	**QoQ%**
Consumer Disc.	44.0%	17.2%	7.5%	1.5%
Consumer Staples	5.1%	3.1%	3.5%	4.5%
Energy	(36.8%)	20.6%	(15.5%)	11.4%
Financials	19.0%	6.7%	6.4%	(0.4%)
Health Care	(19.4%)	6.8%	6.2%	1.0%
Industrials	12.2%	(9.3%)	2.2%	(1.0%)
Technology	14.2%	11.4%	2.8%	3.8%
Materials	(19.9%)	(19.1%)	(10.3%)	(5.1%)
Real Estate	3.7%	(2.9%)	8.0%	1.9%
Communication Services	44.2%	55.5%	6.1%	2.2%
Utilities	11.0%	47.0%	(4.9%)	14.2%
S&P 500	**5.9%**	**12.4%**	**2.2%**	**2.5%**
ex. Financials	**3.3%**	**13.7%**	**1.7%**	**2.9%**
ex. Energy	**11.7%**	**11.8%**	**4.2%**	**1.7%**
ex. Fins & Energy	**10.1%**	**13.1%**	**3.9%**	**2.0%**

Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 49: % of S&P 500 companies beating consensus expectations on 3Q23 EPS and sales

Results from companies that have reported 3Q earnings

Sector	**Total companies**	**Number Reported**	**% with EPS beat**	**% with Sales beat**	**% EPS & Sales beat**
Cons. Disc.	53	53	81%	68%	58%
Cons. Staples	38	38	74%	45%	37%
Energy	23	23	65%	61%	48%
Financials	72	72	72%	64%	54%
Health Care	64	64	77%	63%	55%
Industrials	78	78	76%	56%	51%
Tech	64	64	88%	67%	63%
Materials	28	28	68%	39%	32%
Real Estate	31	31	48%	68%	39%
Comm. Svcs.	19	19	84%	53%	53%
Utilities	30	30	53%	27%	17%
S&P 500	**500**	**500**	**74%**	**58%**	**49%**
ex. Financials	**428**	**428**	**74%**	**57%**	**48%**

Source: FactSet, BofA US Equity & Quant Strategy

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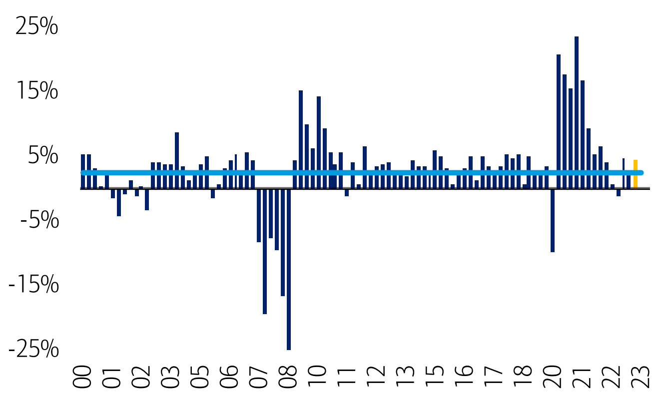
Exhibit 50: EPS beat by 4.5%

S&P 500 EPS beat vs. consensus estimate at start of the qtr., 1Q00-3Q23



Source: FactSet, BofA US Equity & Quant Strategy

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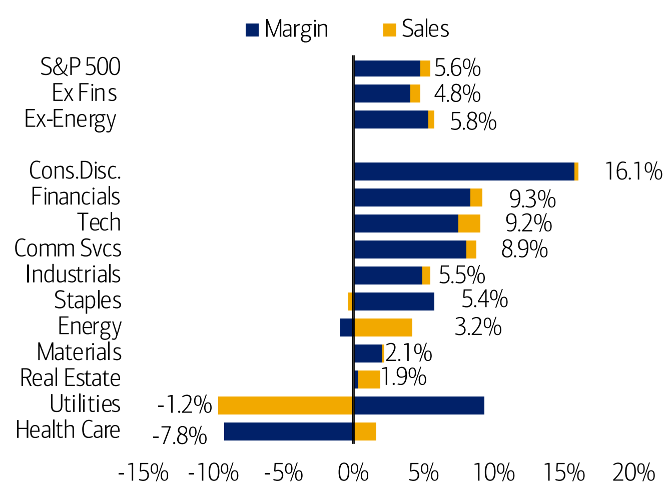
Exhibit 51: Margins did the work in 3Q

S&P 500 3Q23 earnings beat by sector, decomposed into sales vs. margin beat



Source: FactSet, BofA US Equity & Quant Strategy

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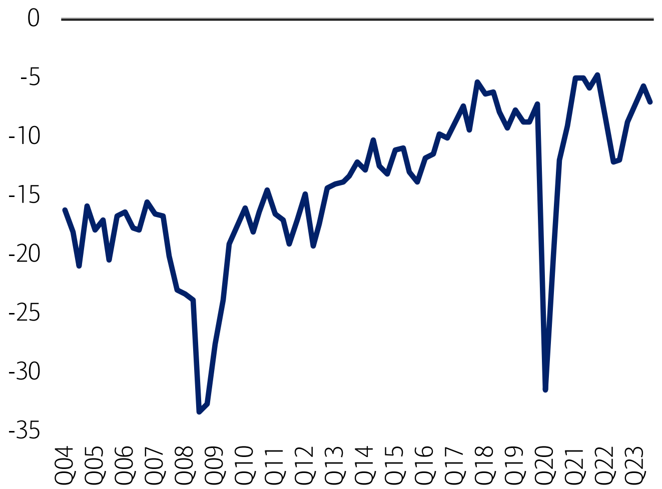
Corporate sentiment dipped in 3Q, but set to improve

BofA's Predictive Analytics team helped analyze earnings transcripts using Loughran McDonald's financial dictionary to calculate sentiment scores (see Appendix for full methodology). Corporate sentiment slipped in 3Q after improving for the third straight quarter. The sentiment score is now back to the 1Q23 level. Despite the drop, we expect companies to sound more positive in 4Q as rate pressure has eased. The YoY change in corporate sentiment has been highly correlated with quarterly EPS YoY with a one quarter lead, pointing to a continued earnings recovery ahead.

Exhibit 52: Corporate sentiment dipped in 3Q amid macro uncertainty
Avg. negative sentiment score for S&P 500 companies (2004-3Q23)



Source: BofA Global Research, FactSet

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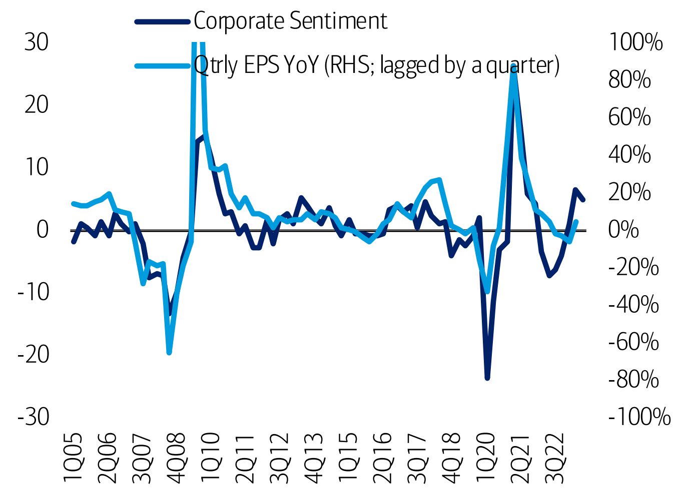
Exhibit 53: ...but still points to positive earnings growth ahead
S&P 500 avg. negative sentiment score YoY vs. quarterly EPS YoY with a quarter lag (r-sq=50%; 1Q05-3Q23)



Source: BofA Global Research, FactSet

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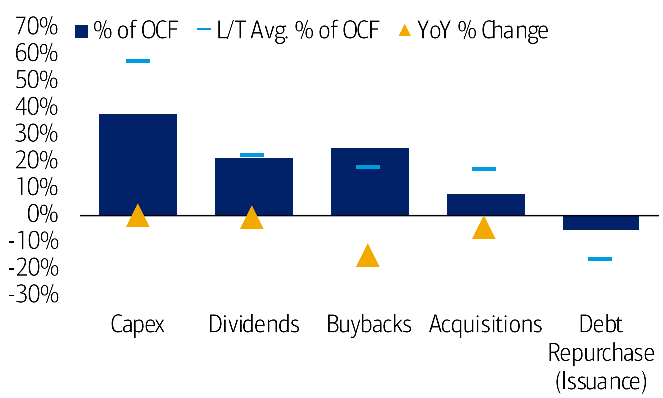
How did companies spend their cash in 3Q?

Exhibit 54: Buybacks fell the most YoY but remain above the historical average as % of OCF
3Q23 use of OCF vs. long-term avg. and YoY % change



Note: long-term average % of OCF is since 1986; Debt issuance +256% y/y
Source: FactSet, BofA US Equity & Quant Strategy

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Companies chose capex over buybacks

While capex slowed to just +2% YoY (the lowest growth rate since 2Q21) amid rate pressure, buybacks fell much more, -15% YoY. We continue to believe that higher rates will be a bigger hit to buybacks than capex. As a percentage of operating cash flow, capex still remains well below the historical average (38% in 3Q vs. 57% long-term avg.), while buybacks remain above the average (25% in 3Q vs. 18% long-term avg.).

Capex: pause in 4Q, resumption in 2024

Capex slowed in 3Q to +2% YoY (lowest since 2Q21) and likely further slowed in 4Q. But with easing rate pressure, earnings upcycle and new 2024 budgets, we expect capex resumption in 2024. Secular forces after 10+ years of domestic underinvestment and re-shoring should drive a strong and prolonged capex cycle going forward.

Exhibit 55: Capex slowed to just +2% YoY in 3Q, but remained healthy at +7% excluding Growth stocks
S&P 500 3Q23 capex growth by sector

Sector	YoY	Contribution to Agg. chg,
Consumer Discretionary	-2%	-16%
Consumer Staples	12%	39%
Energy	4%	23%
Financials	10%	24%
Health Care	4%	12%
Industrials	8%	34%
Information Technology	-7%	-44%
Materials	22%	37%
Real Estate	14%	6%
Communication Services	-11%	-89%
Utilities	11%	74%
S&P 500	2%	
ex. Tech + Mag. 7	7%	

Source: FactSet, BofA US Equity & Quant Strategy

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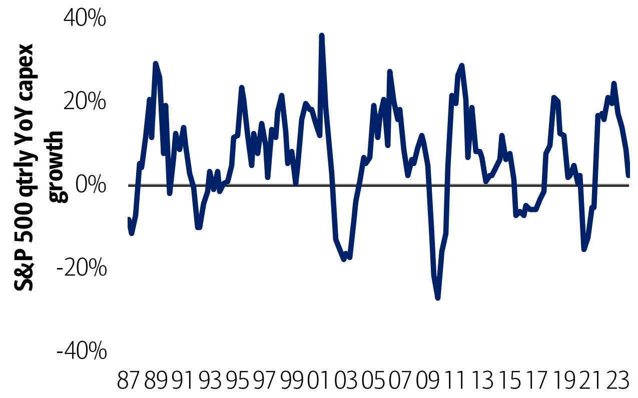
Exhibit 56: Capex growth moderated, but remains positive for the 10th straight quarter
S&P 500 quarterly YoY capex growth, 1987-3Q23



Source: FactSet, BofA US Equity & Quant Strategy

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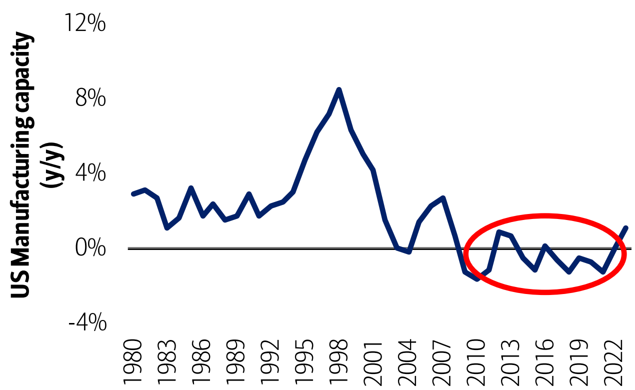
Exhibit 57: Coming out of 10+ years of underinvestment in US manufacturing
US manufacturing capacity YoY (1980-11/2023)



Source: Federal Reserve, BofA Global Research

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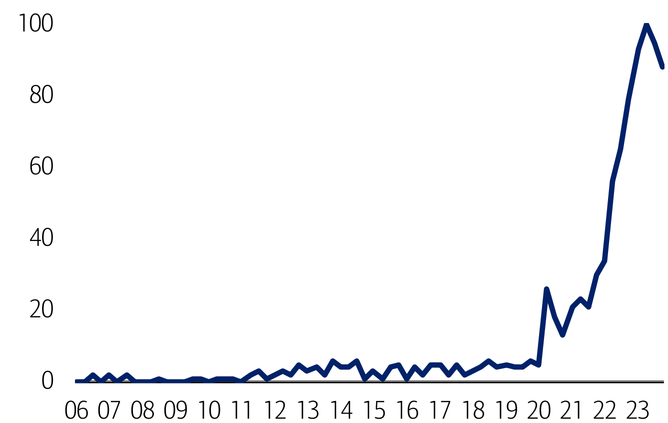
Exhibit 58: Mentions of re-shoring skyrocketed over past year
Companies mentions of re-/near-/on-shoring (100=max; 2006-12/23)



Source: AlphaSense, BofA Global Research

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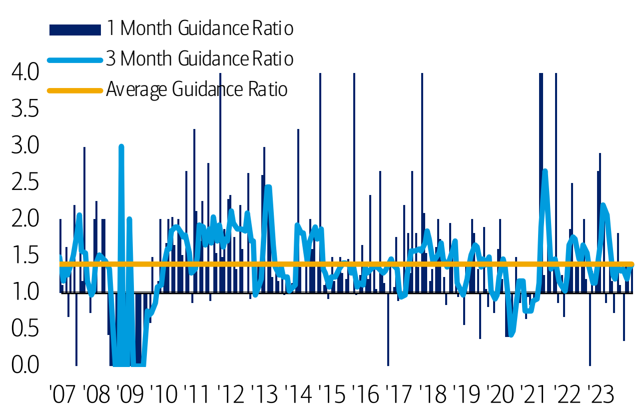
Exhibit 59: 37% more companies have guided above consensus on capex than below over the past 3 months
S&P 500 capex guidance ratio (2007-12/23)



Source: FactSet, BofA US Equity & Quant Strategy

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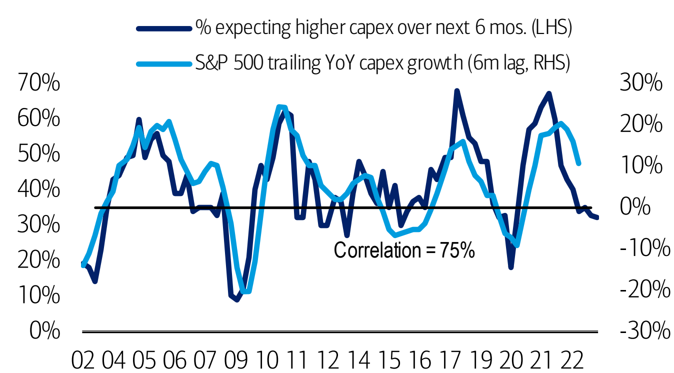
Exhibit 60: Risk: fewer CEOs expect higher capex over the next six months
Business Roundtable CEO Survey: % expecting higher capex over the next 6 mos. vs. S&P 500 TTM YoY capex with a 6-mo lag (4Q02-3Q23)



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

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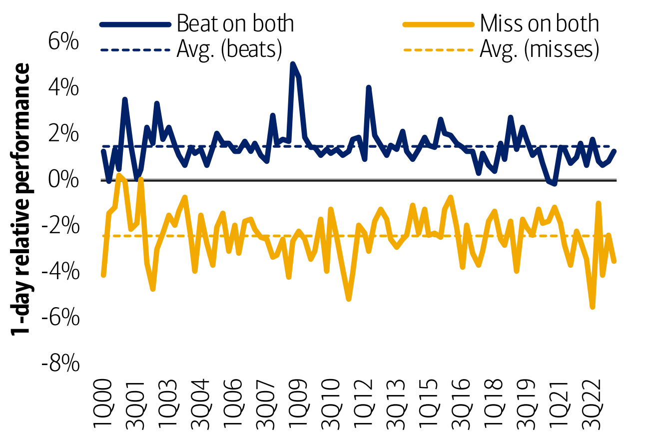
Healthy rewards for beats; misses got punished

In 3Q, companies that beat on both sales and EPS outperformed the S&P 500 by 130bps the next day, the biggest alpha for beats since 3Q22 but slightly below the historical average (+147bps). On the other hand, companies that missed underperformed by 353bps, much more than a typical -241bps.

Exhibit 61: Average reaction to beats, but bigger reactions to misses
Rel. 1-day post-reporting performance (vs. S&P 500) on EPS & sales surprise (1Q00-3Q23)



Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 62: Relative performance of reported companies vs. S&P 500
3Q23 earnings reactions based on surprise

	1 day	5 day	Start of reporting season to 1 day after reporting	Start of reporting season to 5 days after reporting
EPS Beat	0.8%	0.5%	-1.0%	-1.5%
EPS Miss	-2.6%	-3.1%	-5.6%	-6.1%
EPS In-Line	-1.4%	-2.3%	-4.1%	-5.1%
Sales Beat	1.0%	0.6%	-0.5%	-1.1%
Sales Miss	-1.4%	-1.8%	-4.4%	-5.0%
Sales In-Line	-2.2%	-1.0%	-3.3%	-2.4%
Both Beat	**1.3%**	**0.9%**	**-0.1%**	**-0.6%**
Both Miss	**-3.5%**	**-4.1%**	**-6.6%**	**-7.2%**

Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 63: Relative performance by sector vs. S&P 500
3Q23 earnings reactions based on surprise by sector

	At the open (+1D)		Intraday (+1D)		1 day after reporting		5 days after reporting	
Sector	**Beat on both**	**Missed on both**	**Beat on both**	**Missed on both**	**Beat on both**	**Missed on both**	**Beat on both**	**Missed on both**
Cons. Disc.	0.7%	-7.3%	-0.6%	-1.1%	0.1%	-8.4%	0.7%	-11.0%
Staples	1.5%	0.3%	-0.5%	-2.8%	1.0%	-2.5%	0.4%	0.7%
Energy	-0.5%	-0.2%	1.5%	1.8%	0.9%	1.5%	-4.5%	-2.2%
Financials	1.4%	-3.0%	0.3%	-1.5%	1.8%	-4.4%	0.9%	-5.5%
Health Care	0.7%	-9.1%	1.2%	-1.5%	1.8%	-10.5%	0.7%	-11.3%
Industrials	1.7%	-1.8%	0.2%	-0.6%	2.0%	-2.4%	1.9%	-3.4%
Tech	0.7%	-0.8%	0.2%	0.2%	0.9%	-0.8%	1.7%	2.6%
Materials	1.1%	-4.5%	-0.6%	2.6%	0.4%	-2.8%	0.3%	-4.5%
Real Estate	1.4%	-2.4%	0.5%	-1.1%	2.0%	-3.5%	1.0%	-2.8%
Comm. Svcs.	0.9%	-4.0%	-0.2%	-2.8%	0.7%	-6.5%	1.9%	-2.9%
Utilities	2.0%	-0.9%	-0.1%	0.6%	1.9%	-0.4%	0.3%	-2.0%
S&P 500	**1.0%**	**-2.9%**	**0.2%**	**-0.6%**	**1.3%**	**-3.5%**	**0.9%**	**-4.1%**

Source: FactSet, BofA US Equity & Quant Strategy

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SMID cap 4Q23 earnings preview

Small caps

- Analysts expect small cap 4Q earnings to be -14% YoY (an improvement from -17% last quarter) with ex-Financials earnings -17% YoY vs -32% last quarter. The median small cap is to see earnings -13% YoY (vs -9% last quarter).
- Comm. Svcs. and Staples are slated to see the biggest YoY earnings declines.
- Sales are expected to fall 2% YoY vs -3% last quarter and median sales YoY are expected to be flat.
- 71% of earlier reporters beat on EPS, 43% on sales and 12% on both, better than this time last quarter.

Exhibit 64: Small cap 4Q23 growth expectations and proportion of beats so far
S&P 600 consensus 4Q23 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	23	1	-76.2%	-46.8%	-7.5%	-6.6%	0%	0%	0%
Cons. Disc.	85	2	3.5%	-8.9%	-2.3%	-1.0%	50%	100%	50%
Cons. Staples	30	6	-43.3%	-21.8%	-2.5%	0.9%	50%	0%	0%
Energy	28	0	-14.8%	-8.1%	-4.9%	1.5%	N.A.	N.A.	N.A.
Financials	118	5	-6.6%	-15.5%	10.5%	0.2%	N.A.	N.A.	0%
Health Care	67	3	12.9%	-1.8%	0.6%	5.5%	0%	100%	0%
Industrials	95	9	-22.5%	-6.3%	-1.4%	0.1%	100%	38%	33%
Technology	62	0	-27.9%	-14.7%	-7.4%	-3.3%	N.A.	N.A.	N.A.
Materials	32	2	-18.4%	-10.4%	-3.9%	-3.0%	N.A.	N.A.	0%
Real Estate	51	4	-30.6%	-23.1%	-2.6%	-0.8%	N.A.	N.A.	0%
Utilities	11	1	20.3%	6.5%	8.7%	8.2%	N.A.	N.A.	0%
S&P 600	**602**	**33**	**-14.1%**	**-12.7%**	**-2.0%**	**-0.1%**	**71%**	**43%**	**12%**
Ex-Financials	484	28	-16.7%	-11.6%	-3.0%	-0.3%	71%	43%	14%
Ex-Energy	574	33	-14.1%	-12.8%	-1.6%	-0.2%	71%	43%	12%
Ex-Energy&Financials	456	28	-16.9%	-11.9%	-2.8%	-0.4%	71%	43%	14%

Source: FactSet, BofA US Equity & US Quant Strategy

BofA GLOBAL RESEARCH

Mid caps

- Mid cap earnings are expected to be -5% YoY in 4Q (-3% for the median company) vs -12% last quarter.
- Energy and Tech are slated to see the biggest YoY earnings declines while Health Care and Utilities are slated to see positive growth.
- Sales are expected to be -1% YoY (+1% for the median company).

Exhibit 65: Mid cap 4Q23 growth expectations and proportion of beats so far
S&P 400 consensus 4Q23 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	9	0	-19.0%	-5.5%	-0.5%	0.2%	N.A.	N.A.	N.A.
Cons. Disc.	65	2	4.4%	5.5%	1.0%	0.5%	N.A.	N.A.	100%
Cons. Staples	17	1	11.3%	6.2%	5.5%	6.3%	N.A.	N.A.	100%
Energy	20	0	-29.2%	1.0%	-19.6%	-4.3%	N.A.	N.A.	N.A.
Financials	65	3	1.3%	-9.2%	4.3%	0.2%	N.A.	N.A.	100%
Health Care	36	0	20.9%	1.6%	7.5%	8.3%	N.A.	N.A.	N.A.
Industrials	74	0	-7.3%	-0.1%	1.4%	4.5%	N.A.	N.A.	N.A.
Technology	41	0	-21.1%	-19.7%	-10.9%	-8.2%	N.A.	N.A.	N.A.
Materials	27	3	-14.7%	-18.1%	-5.4%	-3.3%	100%	100%	67%
Real Estate	31	0	-9.7%	-7.6%	37.7%	2.5%	N.A.	N.A.	N.A.
Utilities	16	2	13.3%	-7.0%	-9.8%	-1.9%	N.A.	N.A.	100%
S&P 400	**401**	**11**	**-5.0%**	**-2.6%**	**-1.1%**	**1.4%**	**100%**	**100%**	**91%**
Ex-Financials	336	8	-7.1%	-1.4%	-1.7%	1.4%	100%	100%	88%
Ex-Energy	381	11	-2.1%	-3.4%	0.6%	1.6%	100%	100%	91%
Ex-Energy&Financials	316	8	-3.3%	-1.5%	0.2%	1.6%	100%	100%	88%

Source: FactSet, BofA US Equity & US Quant Strategy

BofA GLOBAL RESEARCH

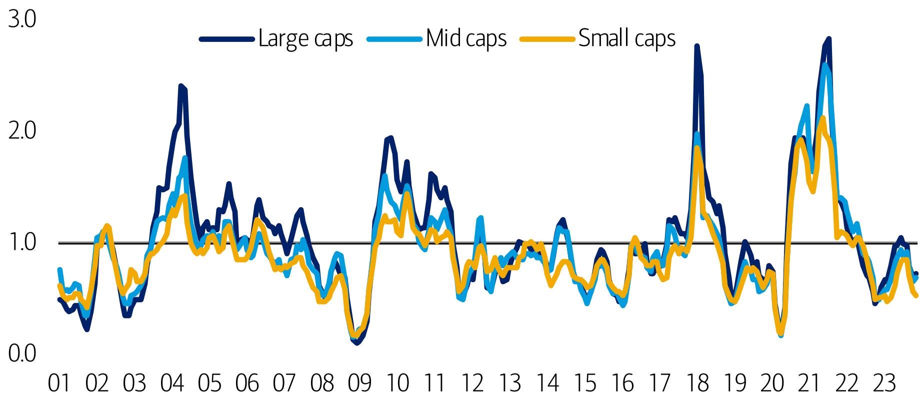
Estimates still coming down; recent guidance improvement

- Earnings revision trends weakened across the board over the last three months and revision ratios are still below 1.0 (more cuts than raises to estimates) in all three size segments (and weakest in small caps). But, large and mid caps saw slight improvement from last month while small caps continued to deteriorate.

- For small caps, the 3-month ratio of above- vs. below-consensus guidance fell in December to 0.7 from 1.1 last quarter (below the long-term average of 0.9x and in-line with the current 3m guidance ratio for large caps); it has been declining since October. But the one month guidance ratio has been rising for the past quarter

- Mid caps' 3m guidance ratio rose to 1.0x from 0.7x last quarter (above the long-term average of 0.9x), while guidance in December is typically more sparse, the one month guidance ratio jumped to a 6.0X or highest since Sept. 2020.

Exhibit 66: Revision trends weakened across the board since October, weakest in small caps
3m earnings revision ratio (ERR) for S&P small, mid and large cap indices as of 12/31/2023



Source: Bloomberg, BofA US Equity & US Quant Strategy

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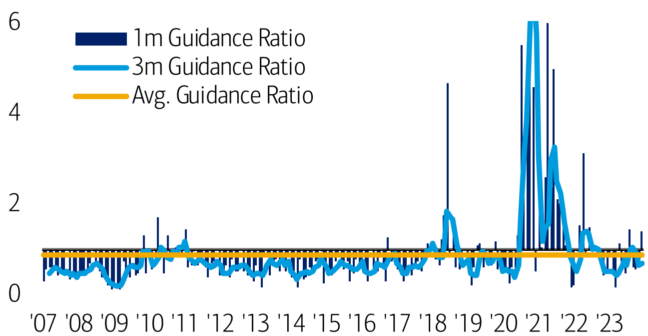
Exhibit 67: Small cap earnings guidance is below average on a 3m basis
S&P 600 management guidance ratio (# above- vs. below-consensus) as of 12/31/23



Source: Bloomberg, BofA US Equity & US Quant Strategy

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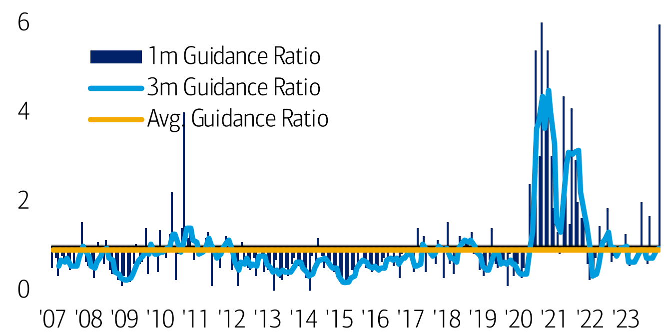
Exhibit 68: Mid cap earnings guidance is slightly above average on a 3m basis
S&P 400 management guidance ratio (# above- vs. below-consensus) as of 12/31/23



Source: Bloomberg, BofA US Equity & US Quant Strategy

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SMID caps: 3Q23 recap

- Small cap 3Q earnings were -17% YoY with sales -3% YoY. 32% of co's beat on EPS and sales, led by Comm. Svcs. and Energy.
- Mid cap earnings were -12% YoY with sales -3% YoY. 37% of companies beat on EPS and sales, with the most beats in Health Care.

Exhibit 69: Small cap 3Q23 growth expectations and proportion of beats
S&P 600 consensus 3Q23 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	23	23	-100.3%	-24.1%	-7.8%	-4.4%	57%	65%	48%
Cons. Disc.	83	83	-17.5%	-15.4%	-2.6%	-0.9%	53%	37%	28%
Cons. Staples	29	28	-17.4%	-1.8%	-3.9%	-0.2%	42%	46%	18%
Energy	28	28	-16.0%	-4.9%	-13.7%	1.5%	54%	64%	43%
Financials	118	118	49.5%	-8.7%	4.3%	-0.2%	63%	37%	27%
Health Care	67	66	-79.9%	-1.4%	0.7%	5.6%	59%	55%	35%
Industrials	93	93	-20.4%	-2.2%	-1.9%	0.0%	71%	51%	41%
Technology	63	63	-41.3%	0.0%	-5.3%	-5.7%	67%	51%	41%
Materials	30	30	-9.0%	-8.0%	-4.9%	-3.5%	54%	21%	10%
Real Estate	51	51	-183.7%	-44.6%	1.2%	2.0%	38%	67%	22%
Utilities	9	9	6.0%	9.0%	2.7%	0.4%	44%	44%	33%
S&P 600	**594**	**592**	**-16.8%**	**-8.7%**	**-3.4%**	**0.4%**	**59%**	**47%**	**32%**
Ex-Financials	476	474	-31.9%	-8.7%	-4.2%	0.5%	57%	50%	33%
Ex-Energy	409	407	-16.9%	-8.9%	-2.1%	0.3%	59%	46%	43%
Ex-Energy&Financials	316	314	-33.9%	-9.4%	-2.9%	0.4%	58%	49%	46%

Source: FactSet, BofA US Equity & US Quant Strategy

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Exhibit 70: Mid cap 3Q23 growth expectations and proportion of beats
S&P 400 consensus 3Q23 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	9	9	-34.3%	-40.0%	-0.1%	-0.3%	44%	33%	33%
Cons. Disc.	65	64	-24.3%	-4.8%	-0.2%	2.0%	67%	52%	42%
Cons. Staples	17	16	18.7%	14.8%	3.4%	3.5%	69%	44%	25%
Energy	20	20	-24.9%	-11.4%	-21.3%	-6.8%	65%	70%	50%
Financials	62	60	9.0%	-0.7%	7.0%	3.4%	63%	43%	33%
Health Care	37	37	-0.9%	8.3%	7.9%	10.8%	73%	59%	54%
Industrials	75	75	-15.0%	11.2%	0.6%	4.7%	69%	44%	37%
Technology	42	42	-19.7%	-9.5%	-7.3%	-2.7%	83%	40%	38%
Materials	27	26	-24.4%	-8.7%	-10.2%	-9.5%	69%	27%	19%
Real Estate	30	30	-5.6%	-26.7%	0.0%	4.2%	40%	67%	33%
Utilities	16	15	0.5%	3.9%	-17.4%	-6.0%	53%	20%	13%
S&P 400	**400**	**394**	**-12.1%**	**-0.4%**	**-2.8%**	**2.5%**	**66%**	**47%**	**37%**
Ex-Financials	338	334	-16.9%	0.0%	-3.8%	2.4%	67%	48%	37%
Ex-Energy	380	374	-10.7%	0.0%	-1.1%	2.7%	66%	46%	36%
Ex-Energy&Financials	318	314	-15.8%	0.0%	-2.0%	2.6%	67%	46%	37%

Source: FactSet, BofA US Equity & US Quant Strategy

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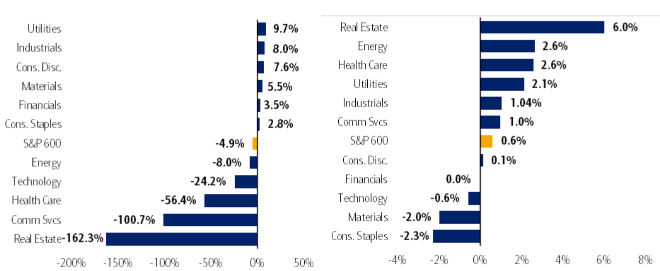
Exhibit 71: Magnitude of 3Q23 EPS & sales surprise: small caps
S&P 600 earnings beat (left) and sales beat (right) vs. consensus on 11/1/23



Source: FactSet, BofA US Equity & US Quant Strategy

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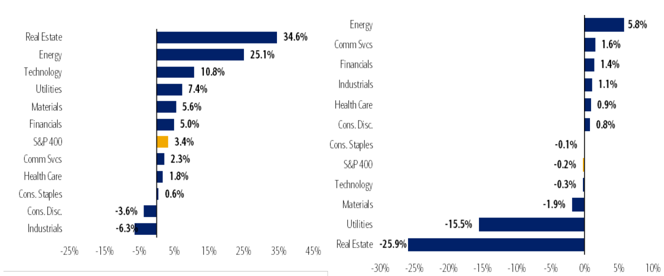
Exhibit 72: Magnitude of 3Q23 EPS & sales surprise: mid caps
S&P 400 earnings beat (left) and sales beat (right) vs. consensus on 11/1/23



Source: FactSet, BofA US Equity & US Quant Strategy

BofA GLOBAL RESEARCH

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).*

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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Research Analysts

Savita Subramanian
Equity & Quant Strategist
BofAS
+1 646 855 3878
savita.subramanian@bofa.com

Ohsung Kwon, CFA
Equity & Quant Strategist
BofAS
+1 646 855 1683
ohsung.kwon@bofa.com

Jill Carey Hall, CFA
Equity & Quant Strategist
BofAS
+1 646 855 3327
jill.carey@bofa.com

Alex Makedon
Equity & Quant Strategist
BofAS
+1 646 855 5982
alex.makedon@bofa.com

Victoria Roloff
Equity & Quant Strategist
BofAS
+1 646 743 6339
victoria.roloff@bofa.com

Nicolas Woods
Equity & Quant Strategist
BofAS
+1 646 556 4179
nicolas.woods_barron@bofa.com