

# ***The Canary In The Coal Mine Of Q3 Reporting Season***

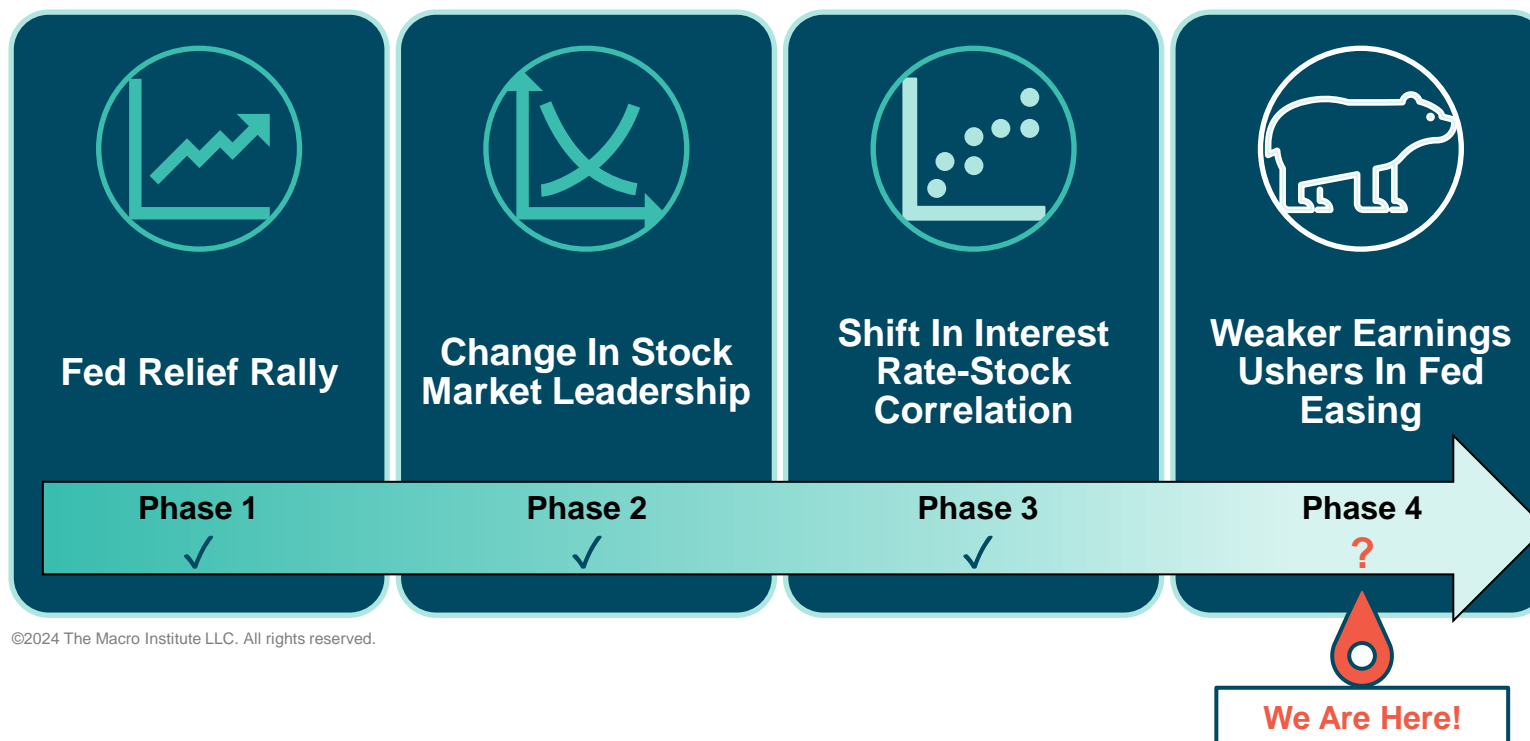
**Francois Trahan**

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**October 2024**

## A Fairly Normal Peak In The Fed Funds Rate From The Market's Perspective

### The Four Phases Of A Typical Peak In The Fed Funds Rate

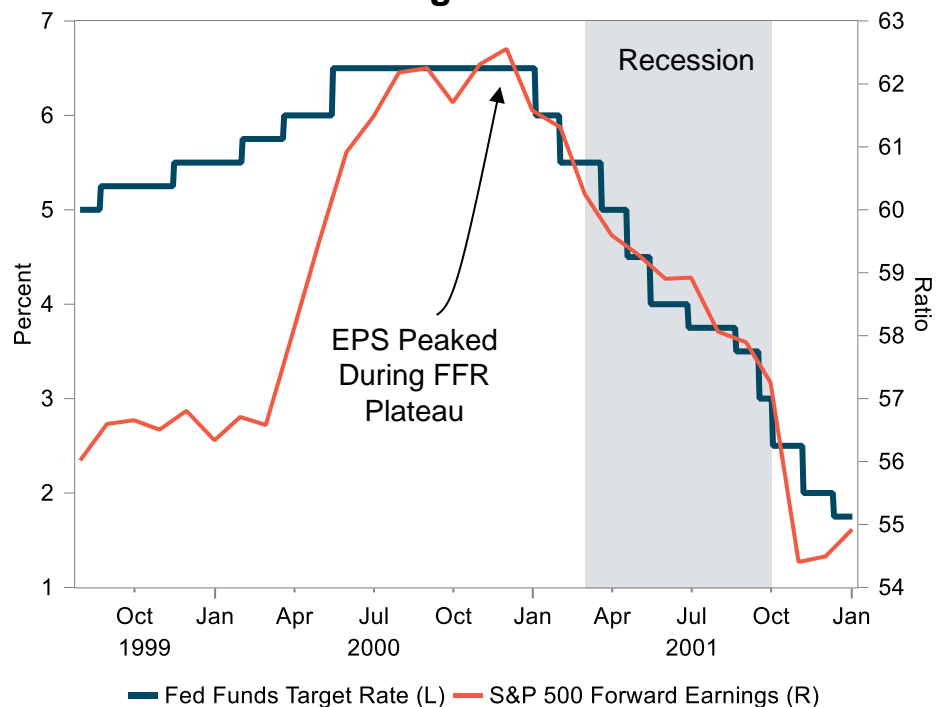


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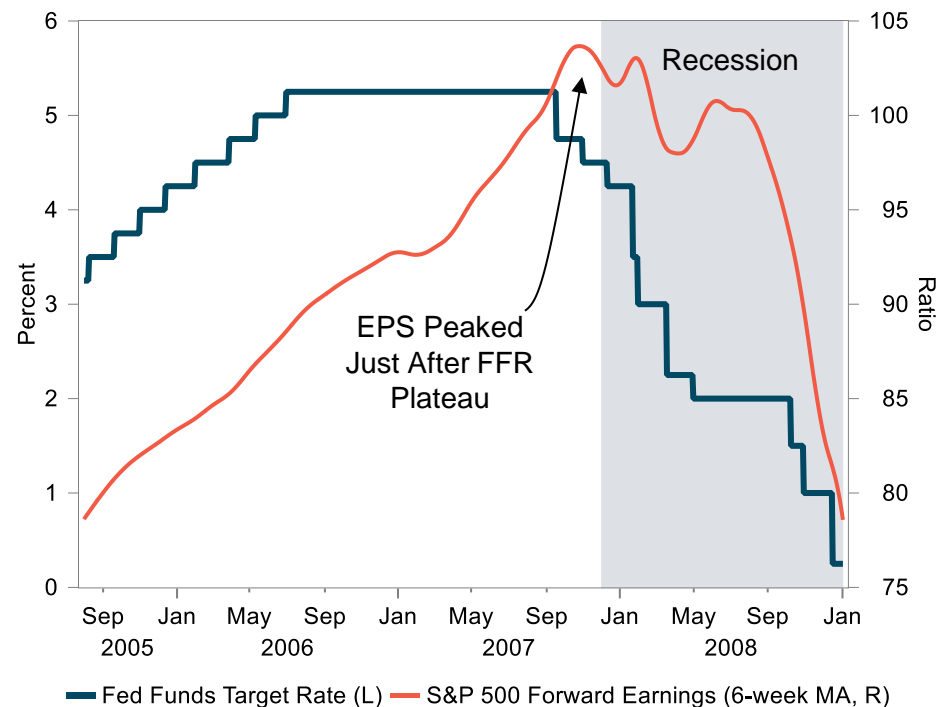
## Phase 4: Weaker Earnings Usher In A Bear Market

### EPS Peaked During FFR Plateau In 2000



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### EPS Peaked At End Of FFR Plateau In 2007

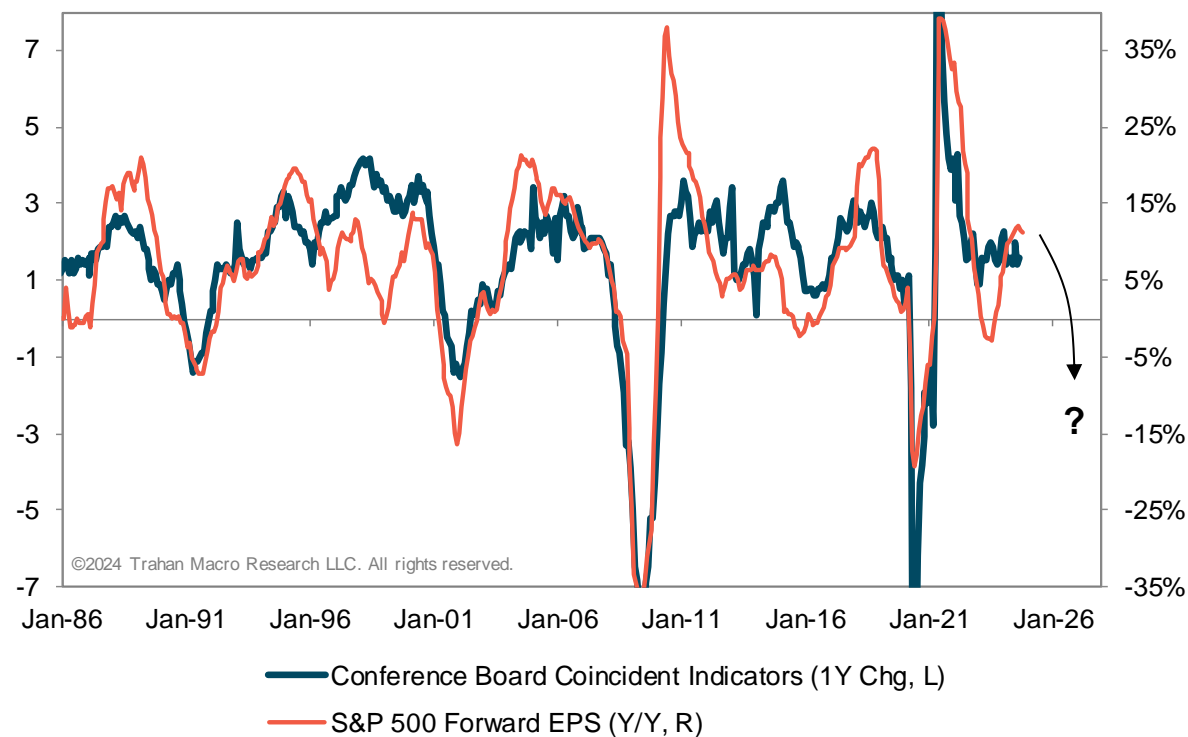


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## Introduction: The Backdrop Is Primed For EPS Deterioration

### History Warns Of Potential Earnings Risk Ahead

#### S&P 500 Earnings And U.S. Economic Trends One And The Same



#### EPS Recession To Come?

Start Of Tightening	ISM Fell Below 50	EPS Recession	GDP Recession
1954	Yes	Yes	Yes
1958	Yes	Yes	Yes
1961	Yes	Yes	Yes
1967	Yes	Yes	No
1972	Yes	Yes	Yes
1977	Yes	Yes	Yes
1980	Yes	Yes	Yes
1983	Yes	Yes	No
1988	Yes	Yes	Yes
1994	Yes	No	No
1999	Yes	Yes	Yes
2004	Yes	Yes	Yes
2015	Yes	Yes	Yes
2022	Yes	?	?
Frequency	14/14	12/13	10/13

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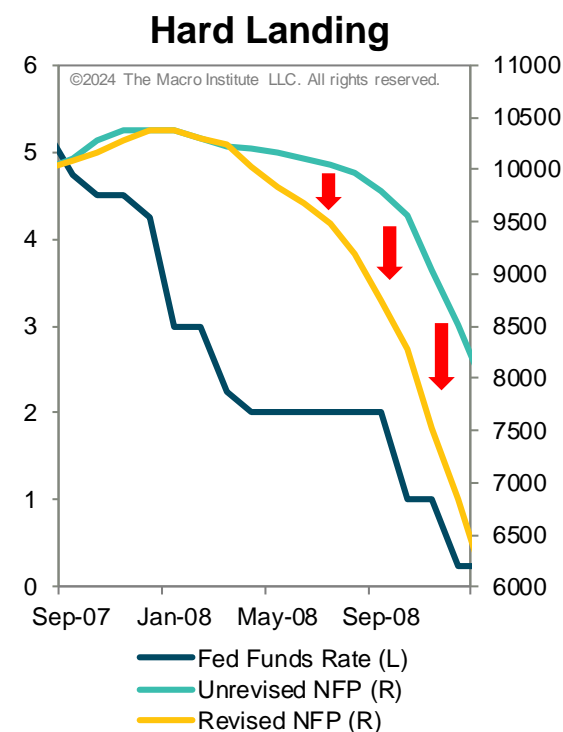
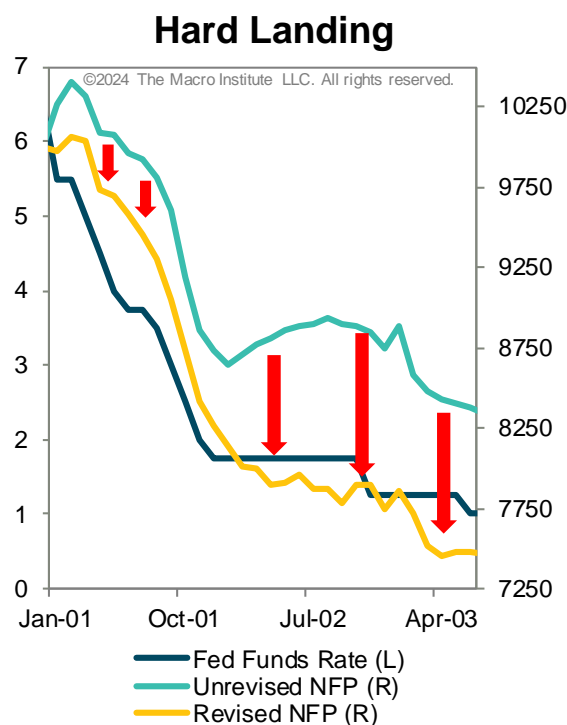
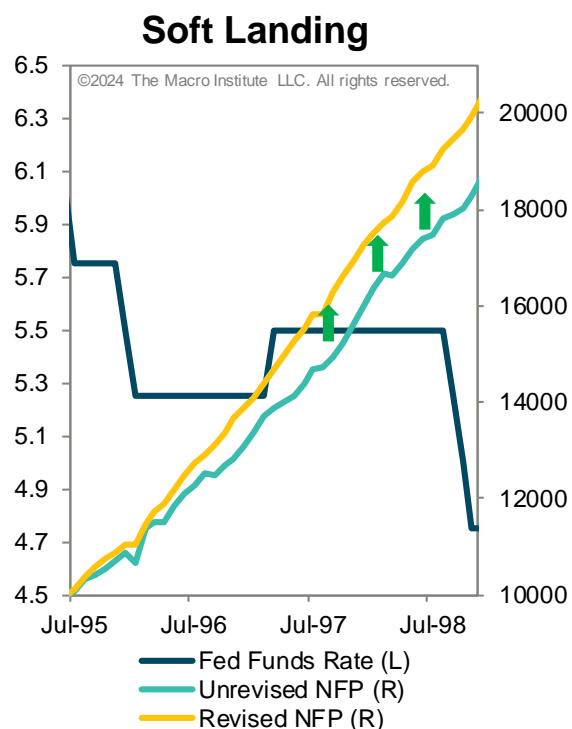
92%!

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## Section 1: Weaker Employment A Threat To S&P 500 Earnings

### Are Payroll Revisions This Cycle Normal Or Unusual?



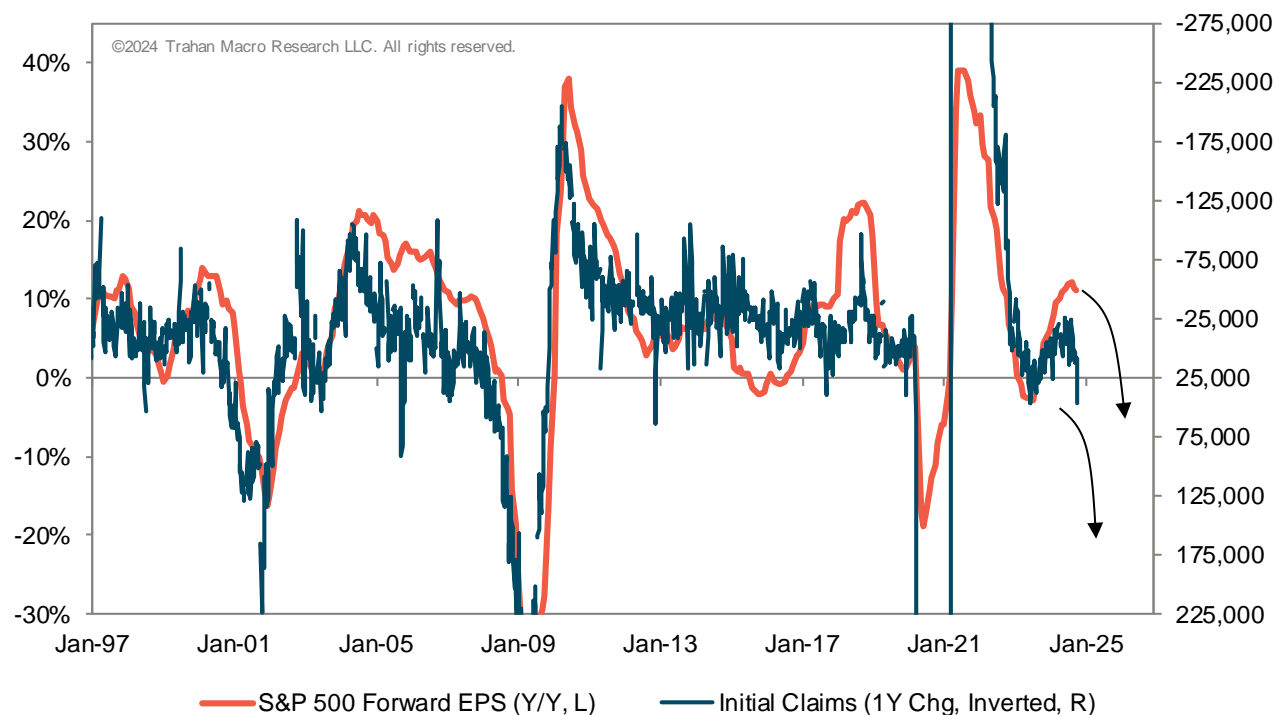
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### When It Comes To EPS Risk, It's All About Employment

#### Earnings Expectations & Employment Go Hand In Hand



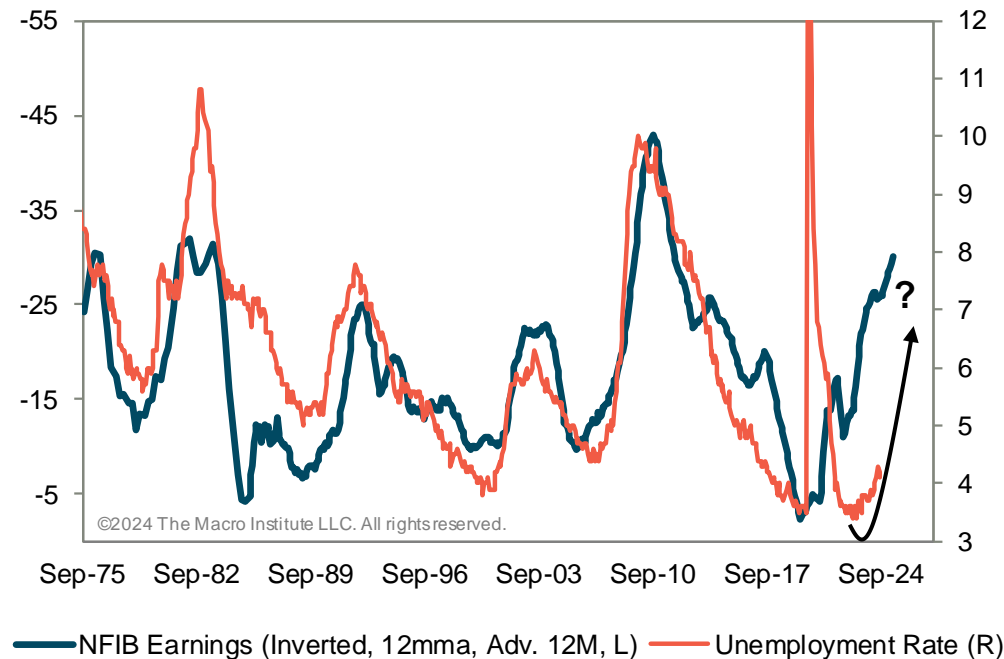
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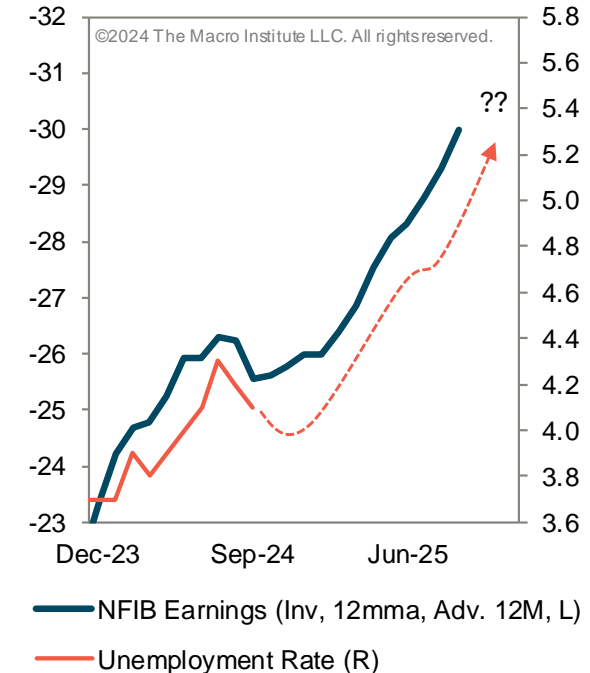
## Section 1: Weaker Employment A Threat To S&P 500 Earnings

### Small Business Earnings Are A Key Driver Of Labor Markets

#### Earnings Concerns To Push Unemployment Higher

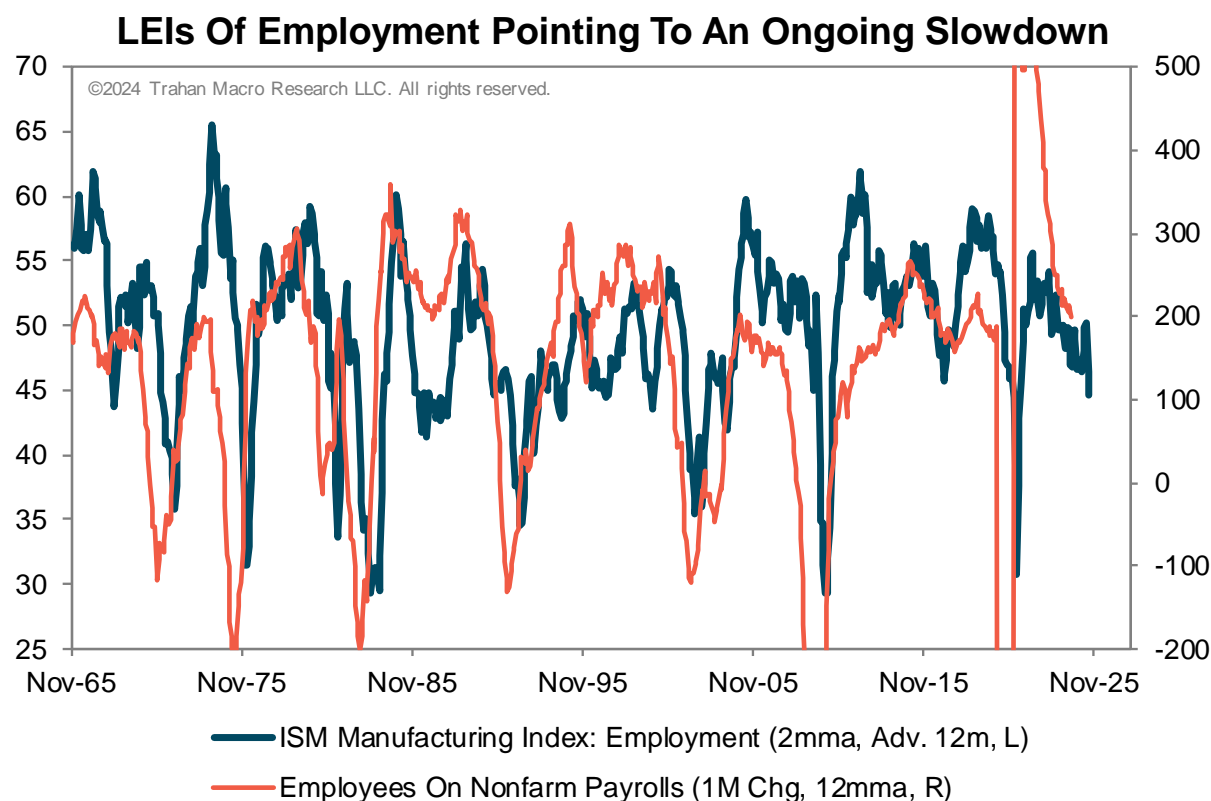


#### UR Headed Higher?



## Section 1: Weaker Employment A Threat To S&P 500 Earnings

### Higher Unemployment Is Associated With Several Economic Developments



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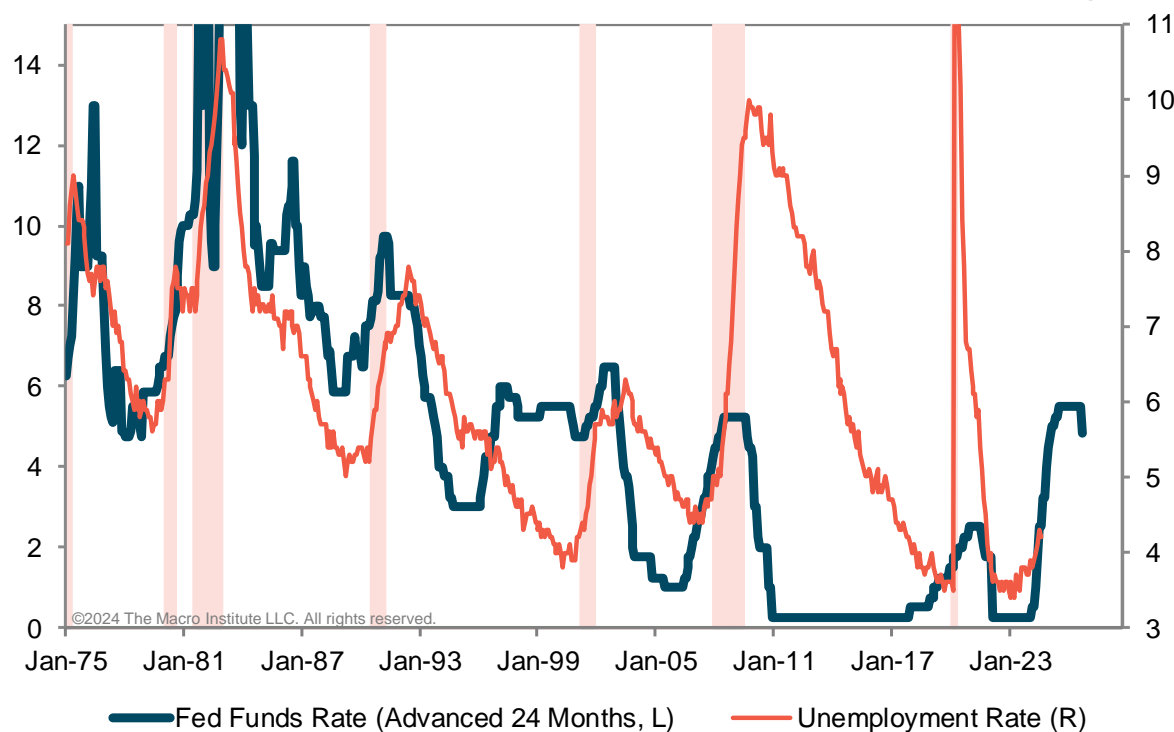
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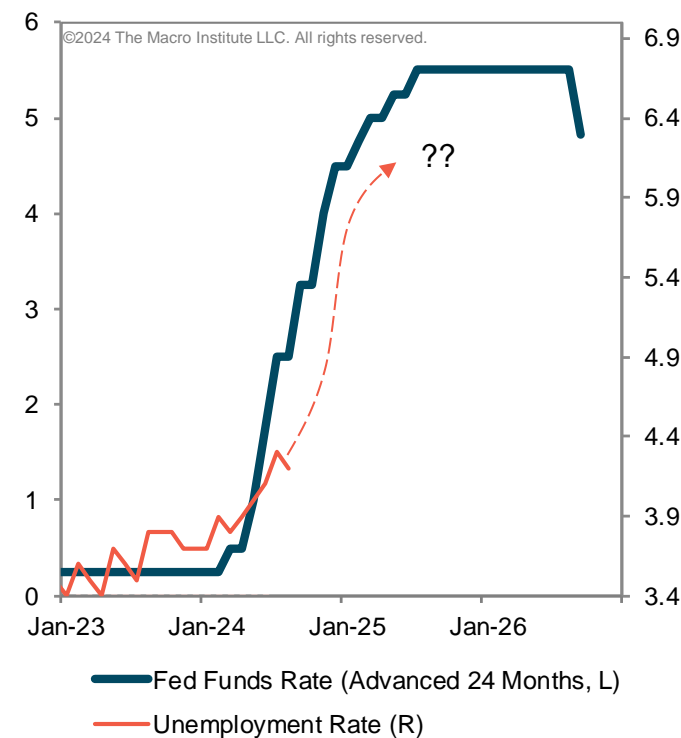
## Section 1: Weaker Employment A Threat To S&P 500 Earnings

### Monetary Policy Impacts Employment ... With A Long Lag!

Trends In Employment Follow Rates With A 24-Month Lag



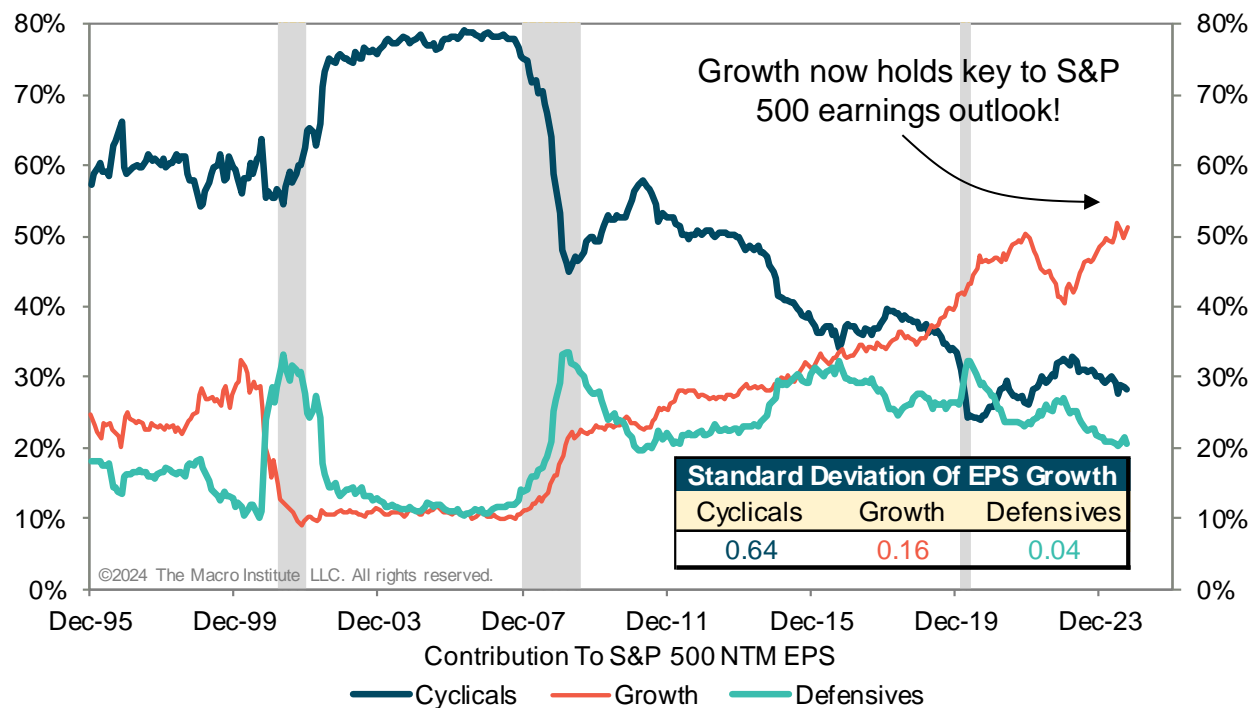
Unemployment Set To Rise Further



## Section 2: Leading Indicators Of EPS Signal Deterioration

### S&P 500 EPS Are Just No Longer All That Cyclical

#### Growth Stocks Now Account For Over 50% Of S&P 500 Earnings



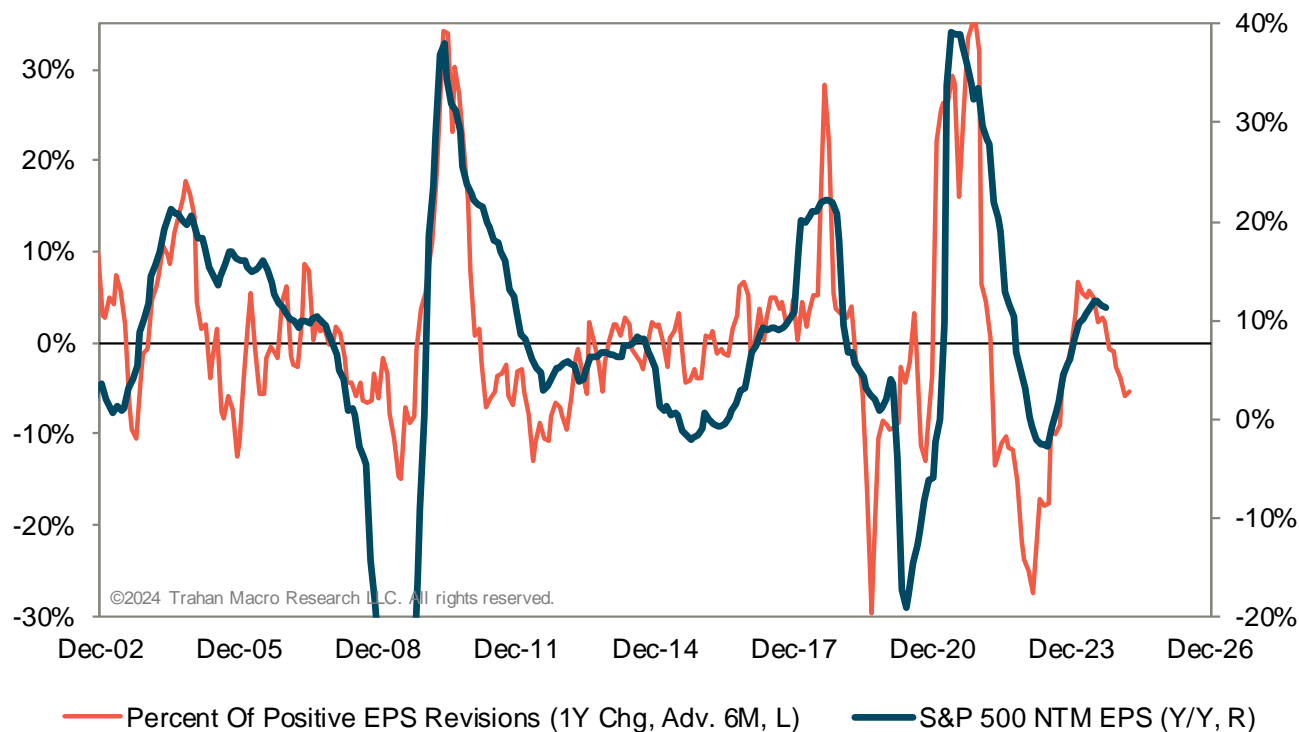
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## Section 2: Leading Indicators Of EPS Signal Deterioration

### Lower Revisions = Slower EPS Growth

**Analyst Revisions Suggest Forward Earnings Growth Will Continue To Slow**



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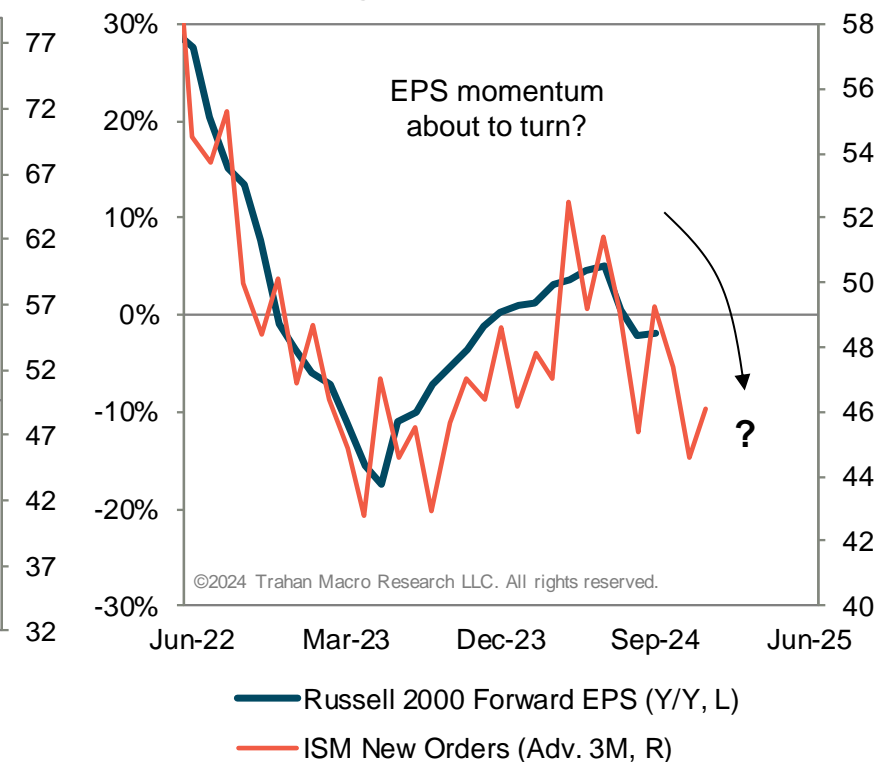
## Section 2: Leading Indicators Of EPS Signal Deterioration

### Leading Indicators Like ISM New Orders Highlight Earnings Risk Ahead

#### Small Cap Earnings Growth Trends Alongside LEIs



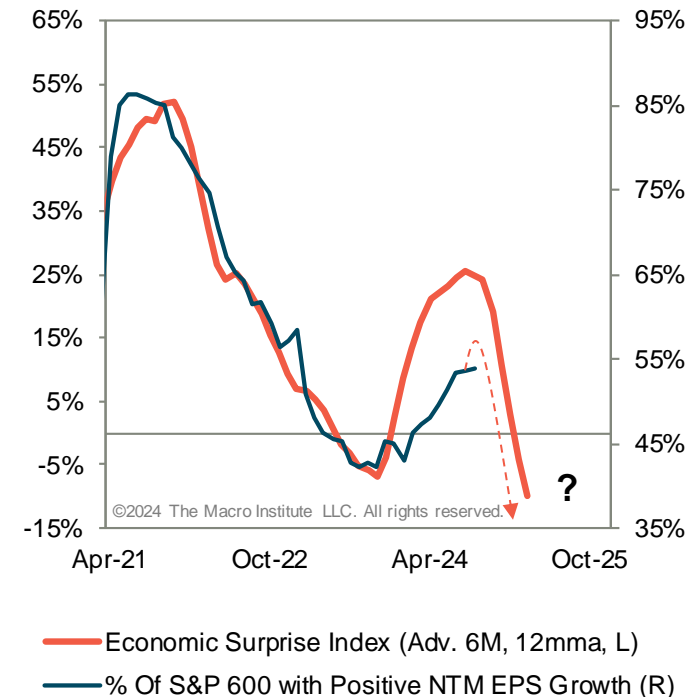
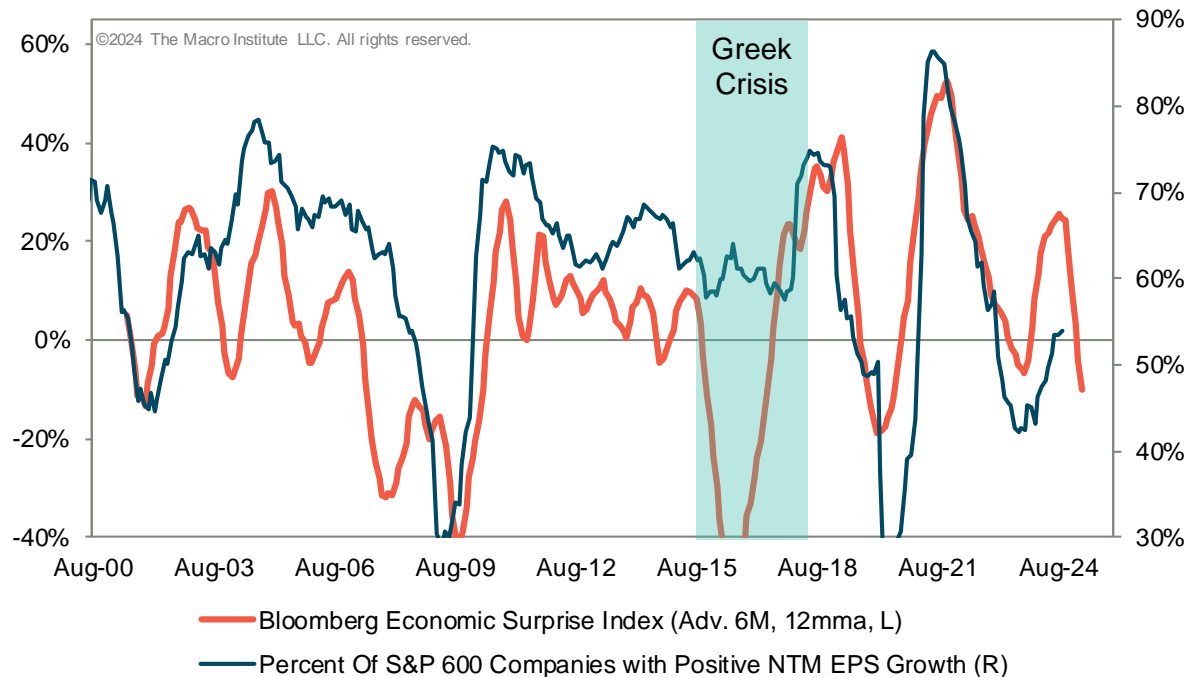
#### Earnings Contraction Ahead?



## Section 2: Leading Indicators Of EPS Signal Deterioration

### Meltdown In Economic Surprise Index Highlights Earnings Risk Ahead

#### Economic Data Disappointments $\cong$ Eventual EPS Disappointments



## Conclusion: Where To Look For Signs Of Slower Earnings?

### Canaries In The Q3 Earnings Season Coal Mine

Attributes Of Companies Whose Earnings Have Peaked Before The Overall Index

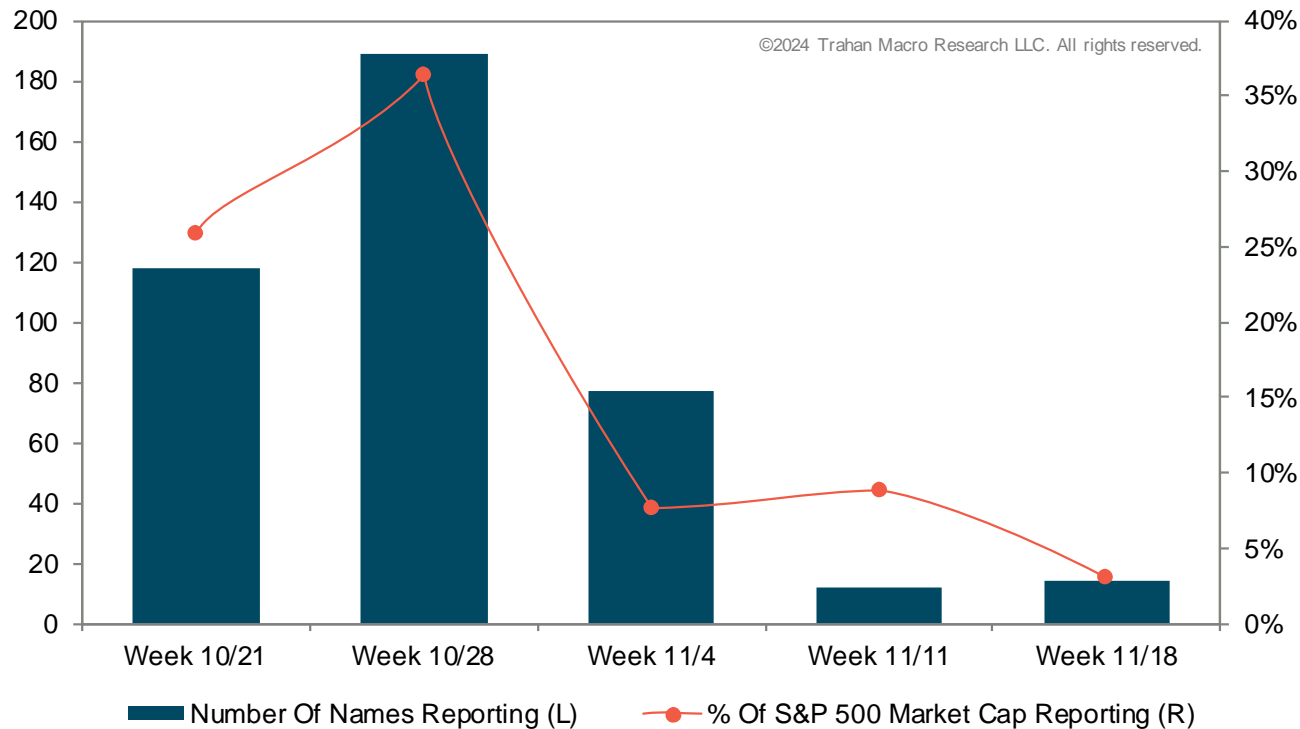
EPS Peak Date	High Earnings Dispersion	High Price Dispersion	Low Momentum	Low Interest Coverage	High Book Yield	Small Size
2000	52%	N/A	52%	32%	41%	28%
2007	51%	44%	52%	43%	48%	40%
2014	55%	47%	55%	44%	44%	44%
2022	50%	39%	47%	41%	34%	39%

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## Conclusion: Where To Look For Signs Of Slower Earnings?

### Q3 Earnings Season Just Getting Underway

#### The Last Week Of October Is The Peak For Q3 Earnings Reports



#### When Do Canaries Report?

Week	Number Of EPS Canaries Reporting
10/21/2024	19 Canaries
10/28/2024	44 Canaries
11/4/2024	35 Canaries
11/11/2024	9 Canaries
11/18/2024	2 Canaries

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## Conclusion: Where To Look For Signs Of Slower Earnings?

### A Stock Screen For Identifying Potential EPS Canaries

#### Attributes Of Companies That Have Seen Their Earnings Peak Before The Overall Index

 <b>TRAHAN</b> MACRO RESEARCH Universe: S&P 1500 TMR EPS Canary										
Lower Values Rank Better In All Categories										
Ticker	Name	EPS Canary	EPS Dispersion	Momentum	Book Yield	Size	Price	Market Cap	Sector	Industry
DAR	Darling Ingredients Inc	Canary	1	1	1	2	\$ 36.74	5842.5	Consumer Staples	Food Products
GTLS	Chart Industries, Inc.	Canary	1	1	1	2	\$ 127.40	5453.5	Industrials	Machinery
AL	Air Lease Corporation Class A	Canary	1	2	1	2	\$ 44.40	4945.1	Industrials	Trading Companies & Distributors
ASH	Ashland Inc.	Canary	2	2	1	2	\$ 87.07	4251.8	Materials	Chemicals
TXNM	TXNM Energy, Inc.	Canary	2	1	2	2	\$ 43.49	3922.8	Utilities	Electric Utilities
SR	Spire Inc.	Canary	2	2	1	2	\$ 65.26	3768.8	Utilities	Gas Utilities
TEX	Terex Corporation	Canary	1	1	2	2	\$ 55.39	3705.6	Industrials	Machinery
HGV	Hilton Grand Vacations, Inc.	Canary	1	1	1	2	\$ 35.59	3612.3	Consumer Discretionary	Hotels Restaurants & Leisure
MAN	ManpowerGroup Inc.	Canary	2	2	1	2	\$ 72.27	3429.1	Industrials	Professional Services
NWE	NorthWestern Energy Group, Inc.	Canary	2	2	1	1	\$ 55.60	3408.3	Utilities	Multi-Utilities
IPGP	IPG Photonics Corporation	Canary	1	1	2	2	\$ 76.22	3370.9	Information Technology	Electronic Equipment Instruments & Components
PTEN	Patterson-UTI Energy, Inc.	Canary	1	1	1	2	\$ 8.25	3242.7	Energy	Energy Equipment & Services
HAYW	Hayward Holdings, Inc.	Canary	1	1	1	2	\$ 18.04	3132.1	Financials	Building Products
BXMT	Blackstone Mortgage Trust, Inc. C	Canary	1	1	1	2	\$ 18.04	3132.1	Financials	Mortgage Real Estate Investment Trusts (REITs)
GNW	Genworth Financial, Inc.	Canary	1	1	1	2	\$ 18.04	3132.1	Financials	Insurance

For complete list, different benchmark, or monthly model updates:

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## Conclusion: Where To Look For Signs Of Slower Earnings?

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