



## S&P 500 Economic Earnings Set Records, but WACC Is a Drag (Free, Abridged)

[Economic earnings](#) increased year-over-year (YoY) for all but one sector through the trailing-twelve-months (TTM) ended 1Q22.

This report is an abridged and free version of [S&P 500 Economic Earnings Set Records, but WACC is a Drag](#), one our quarterly series on [fundamental market and sector trends](#), available to [Pro and higher members](#).

The full version of this report analyzes the economic earnings<sup>1</sup> (which adjust for [unusual items](#) on both the income statement and balance sheet) and GAAP earnings for the S&P 500 and its sectors. This report is available to those with a [Pro or higher](#) membership or can be purchased below.

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Economic earnings provide a more accurate picture of the true underlying cash flows of a business than GAAP earnings. Reports on the drivers of economic earnings are [here](#).

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)<sup>2</sup> fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

### Economic Earnings Rise to New Highs in 1Q22

Economic earnings for the S&P 500 rose from \$537.5 billion in 1Q21 to \$933.7 billion in 1Q22, while GAAP Earnings rose from \$1.2 trillion to \$1.8 trillion over the same time. Economic and GAAP earnings are at their highest levels since 2004, which is the earliest our analysis is available.

However, the S&P 500's soaring economic earnings are likely to reverse trend soon, as we detail in [S&P 500 & Sectors: ROIC Hits New Peak, but Can It Last?](#).

Indeed, a major headwind facing economic earnings is a rising WACC, which in the first quarter added \$84.5 billion to the cost of capital. Inflation tends only to boost GAAP earnings, and investors can protect themselves from such false signals by paying closer attention to economic earnings. This measure accounts for expected inflation, as reflected in the firm's WACC.

See Figure 1 in the [full version](#) of our report for the chart of Economic Earnings vs. GAAP earnings for the S&P 500 from December 2004 through 1Q22.

### Key Details on Select S&P 500 Sectors

Ten of eleven S&P 500 sectors saw a YoY improvement in economic earnings.

The Energy sector saw the largest YoY improvement, \$138.6 billion, in economic earnings, which rose from - \$93.1 billion in 1Q21 to \$45.6 billion in 1Q22.

The Technology sector generates the most economic earnings of any sector and grew economic earnings by 31% YoY in 1Q22. On the flip side, the Utilities sector has the lowest economic earnings and was the only sector to see a YoY decline in economic earnings in 1Q22.

Below, we highlight the Healthcare sector which saw economic earnings improve by \$54.2 billion YoY in 1Q22.

<sup>1</sup> This report is based on the latest audited financial data available, which is the 1Q22 10-Q in most cases. Price data as of 5/16/22.

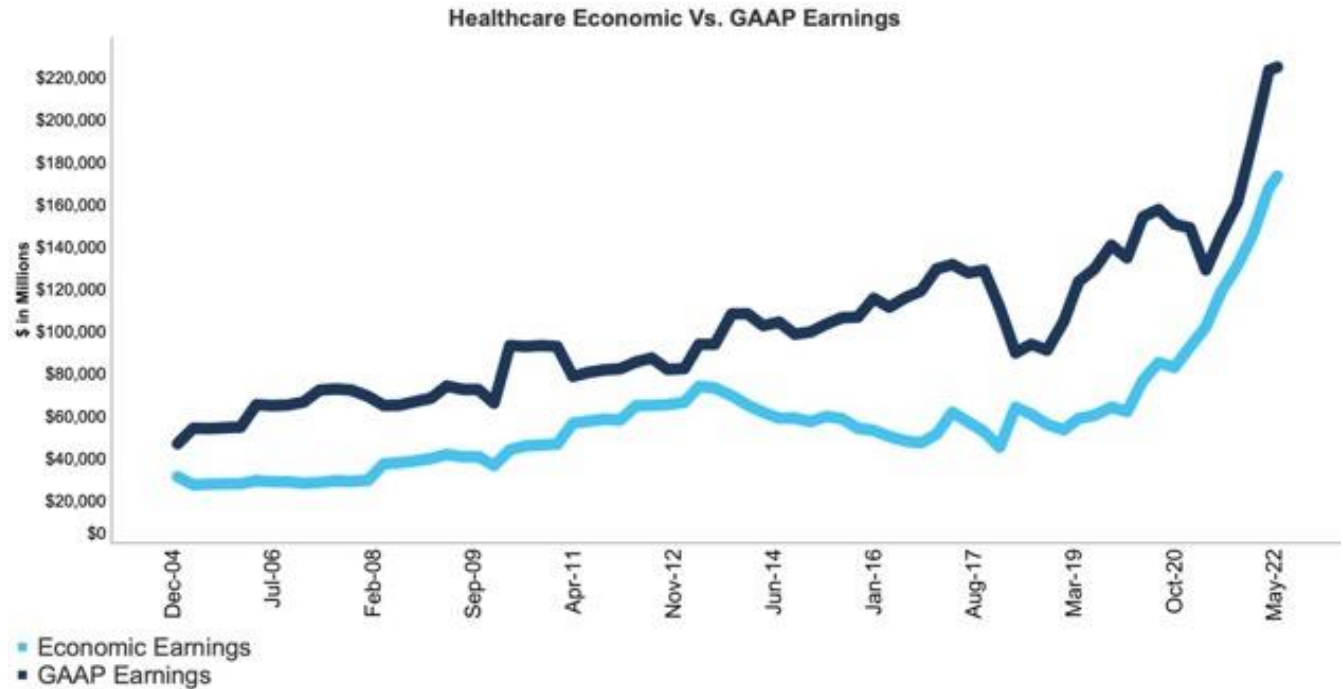
<sup>2</sup> Our research utilizes our more of reliable fundamental data, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).



**Sample Sector Analysis<sup>3</sup>: Healthcare**

Figure 1 shows economic earnings for the Healthcare sector, at \$173.9 billion, rose 45% YoY in 1Q22, while GAAP earnings, at \$225.4 billion, rose 54% over the same time.

**Figure 1: Healthcare Economic Earnings Vs. GAAP: 2004 – 1Q22**



Sources: New Constructs, LLC and company filings.  
Our economic earnings analysis is based on aggregated TTM data for the sector constituents in each measurement period.  
The May 16, 2022 measurement period incorporates the financial data from calendar 1Q22 10-Q, as this is the earliest date for which all the calendar 1Q22 10-Qs for the S&P 500 constituents were available.

*This article originally published on [June 2, 2022](#).*

*Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.*

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<sup>3</sup> The full version of this report provides analysis for every sector like what we show for this sector.



## ***Appendix: Calculation Methodology***

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We derive the economic earnings and GAAP Earnings metrics above by summing the Trailing Twelve Month individual S&P 500 constituent values for economic earnings and GAAP Earnings in each sector for each measurement period. We call this approach the “Aggregate” methodology.

The Aggregate methodology provides a straightforward look at the entire sector, regardless of market cap or index weighting and matches how S&P Global (SPGI) calculates metrics for the S&P 500.



## *It's Official: We Offer the Best Fundamental Data in the World*

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Economic Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

### **Best Fundamental Data in the World**

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Economic Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms’ data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1<sup>st</sup> para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing Economic Earnings.” – pp. 16, 2<sup>nd</sup> para.

### **Superior Models**

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [ as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5<sup>th</sup> para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2<sup>nd</sup> para.

### **Superior Stock Ratings**

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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