



## S&P 500 & Sectors: Free Cash Flow Yield Update for 3Q23 (Free, Abridged)

This report updates our analysis of the S&P 500's free cash flow ([FCF](#)) yield through 11/14/23.

At the sector level, there are mixed signals. Five sectors saw FCF yields go up while six saw them decline – and to varying degrees.

Over the last several quarters, we are seeing reduced volatility in the S&P 500's FCF yield, which reflects, in our opinion, an economy that is not too hot and not too cold.

This report is an abridged and free version of [S&P 500 & Sectors: Free Cash Flow Yield Update for 3Q23](#), one of our quarterly series on [fundamental market and sector trends](#). The full report is available to [Professional](#) and [Institutional](#) members.

The full version of this report analyzes<sup>1,2</sup> FCF, [enterprise value](#), and the trailing FCF yield for the S&P 500 and each of its sectors (last quarter's analysis is [here](#)).

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)<sup>3</sup> fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

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### Trailing FCF Yield Analysis in 3Q23

Figure 1 in the [full version](#) of our report shows the FCF Yield for the S&P 500 from December 2004 through 11/14/23. The full report provides the same details on FCF and Enterprise value for the S&P 500 and each of its eleven sectors.

Only five S&P 500 sectors saw an increase in trailing FCF yield from 8/15/23 to 11/14/23.

### Sneak Peak on Select S&P 500 Sectors

Investors are getting the highest FCF for their investment dollar in the Energy sector as of 11/14/23. On the flip side, the Real Estate sector has the lowest trailing FCF yield of all S&P 500 sectors.

Five other sectors each saw an increase in trailing FCF yield from 8/15/23 to 11/14/23.

Below, we highlight the Consumer Non-cyclicals sector, which saw no change in FCF yield through 11/14/23.

### Sample Sector Analysis<sup>4</sup>: Consumer Non-cyclicals

Figure 1 shows the trailing FCF yield for the Consumer Non-cyclicals sector fell from 8/15/23 to 11/14/23.

<sup>1</sup> We calculate these metrics based on [S&P Global](#)'s (SPGI) methodology, which sums the individual S&P 500 constituent values for free cash flow and enterprise value before using them to calculate the metrics. We call this the "Aggregate" methodology.

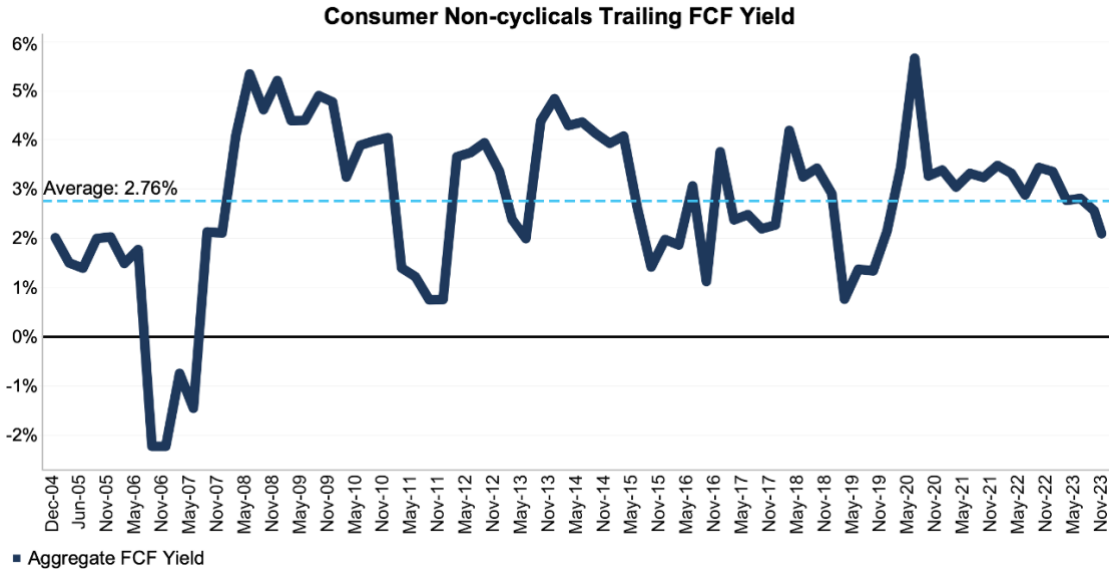
<sup>2</sup> This report is based on the latest audited financial data available, which is the 3Q23 10-Q in most cases. Price data is as of 11/14/23. QoQ analysis is based on the change since [last quarter's report](#).

<sup>3</sup> Our research utilizes our [Core Earnings](#), a more reliable measure of profits, 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](#).

<sup>4</sup> The full version of this report provides analysis for every sector like what we show for this sector.



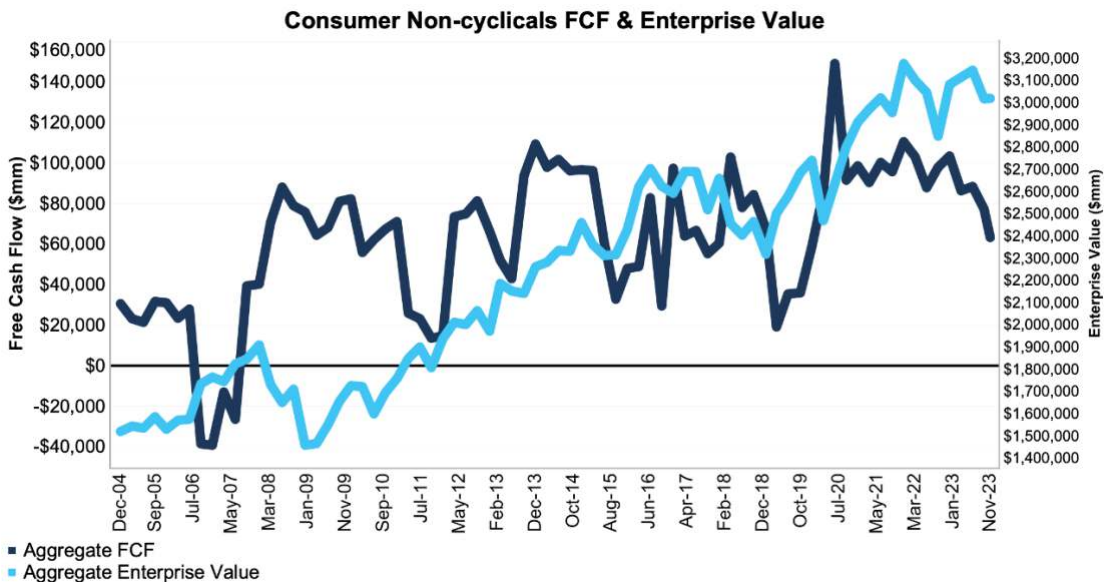
**Figure 1: Consumer Non-cyclicals Trailing FCF Yield: Dec 2004 – 11/14/23**



Sources: New Constructs, LLC and company filings.  
 The November 14, 2023 measurement period uses price data as of that date and incorporates the financial data from 3Q23 10-Qs, as this is the earliest date for which all the 3Q23 10-Qs for the S&P 500 constituents were available.

Figure 2 compares the trends in FCF and enterprise value for the Consumer Non-cyclicals sector since 2004. We arrive at these numbers by adding up the individual S&P 500/sector constituents' free cash flow and enterprise value. We call this approach the "Aggregate" methodology, and it matches S&P Global's (SPGI) methodology for these calculations.

**Figure 2: Consumer Non-Cyclicals FCF & Enterprise Value: Dec 2004 – 11/14/23**



Sources: New Constructs, LLC and company filings.  
 The November 14, 2023 measurement period uses price data as of that date and incorporates the financial data from 3Q23 10-Qs, as this is the earliest date for which all the 3Q23 10-Qs for the S&P 500 constituents were available.

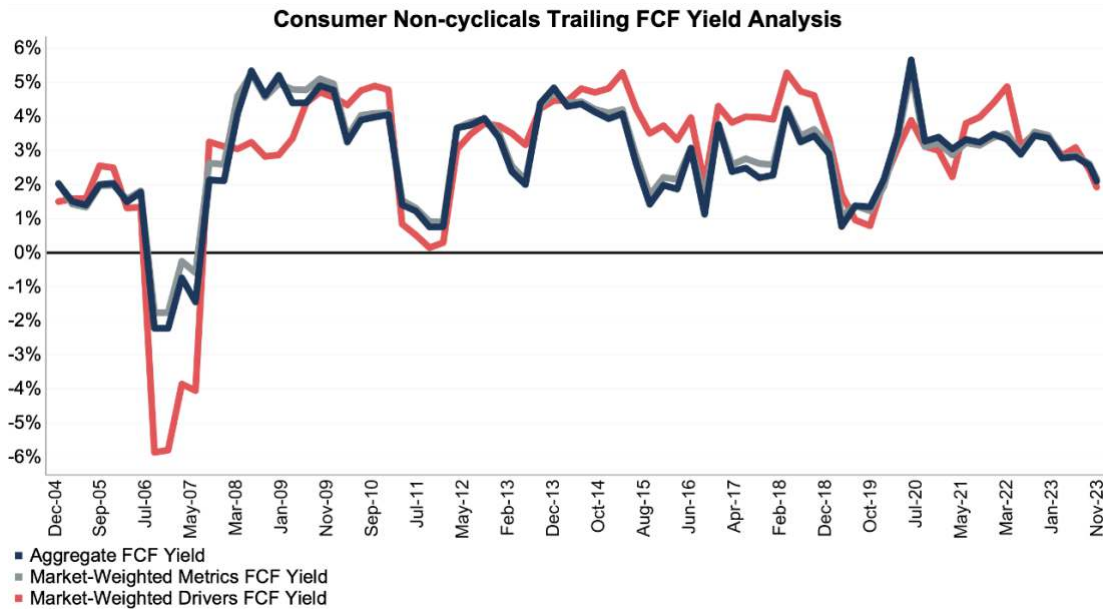
The Aggregate methodology provides a straightforward look at the entire S&P 500/sector, regardless of market cap or index weighting, and matches how S&P Global (SPGI) calculates metrics for the S&P 500.

For additional perspective, we compare the Aggregate method for free cash flow with two other market-weighted methodologies: market-weighted metrics and market-weighted drivers. Each method has its pros and cons, which are detailed in the Appendix.



Figure 3 compares these three methods for calculating the Consumer Non-cyclicals sector’s trailing FCF yields.

**Figure 3: Consumer Non-cyclicals Trailing FCF Yield Methodologies Compared: Dec 2004 – 11/14/23**



Sources: New Constructs, LLC and company filings.  
The November 14, 2023 measurement period uses price data as of that date and incorporates the financial data from 3Q23 10-Qs, as this is the earliest date for which all the 3Q23 10-Qs for the S&P 500 constituents were available.

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*Disclosure: David Trainer, Kyle Guske II, Italo Mendonça, and Hakan Salt receive no compensation to write about any specific stock, style, or theme.*

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## ***Appendix: Analyzing Trailing FCF Yield with Different Weighting Methodologies***

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We derive the metrics above by summing the individual S&P 500/sector constituent values for free cash flow and enterprise value to calculate trailing FCF yield. We call this approach the “Aggregate” methodology.

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

For additional perspective, we compare the Aggregate method for free cash flow with two other market-weighted methodologies. These market-weighted methodologies add more value for ratios that do not include market values, e.g. ROIC and its drivers, but we include them here, nonetheless, for comparison:

1. **Market-weighted metrics** – calculated by market-cap-weighting the trailing FCF yield for the individual companies relative to their sector or the overall S&P 500 in each period. Details:
  - a. Company weight equals the company’s market cap divided by the market cap of the S&P 500/ its sector
  - b. We multiply each company’s trailing FCF yield by its weight
  - c. S&P 500/Sector trailing FCF yield equals the sum of the weighted trailing FCF yields for all the companies in the S&P 500/sector
2. **Market-weighted drivers** – calculated by market-cap-weighting the FCF and enterprise value for the individual companies in each sector in each period. Details:
  - a. Company weight equals the company’s market cap divided by the market cap of the S&P 500/ its sector
  - b. We multiply each company’s free cash flow and enterprise value by its weight
  - c. We sum the weighted FCF and weighted enterprise value for each company in the S&P 500/each sector to determine each sector’s weighted FCF and weighted enterprise value
  - d. S&P 500/Sector trailing FCF yield equals weighted S&P 500/sector FCF divided by weighted S&P 500/sector enterprise value

Each methodology has its pros and cons, as outlined below:

### **Aggregate method**

Pros:

- A straightforward look at the entire S&P 500/sector, regardless of company size or weighting.
- Matches how S&P Global calculates metrics for the S&P 500.

Cons:

- Vulnerable to impact of companies entering/exiting the group of companies, which could unduly affect aggregate values. Also susceptible to outliers in any one period.

### **Market-weighted metrics method**

Pros:

- Accounts for a firm’s market cap relative to the S&P 500/sector and weighs its metrics accordingly.

Cons:

- Vulnerable to outlier results disproportionately impacting the overall trailing FCF yield.

### **Market-weighted drivers method**

Pros:

- Accounts for a firm’s market cap relative to the S&P 500/sector and weighs its free cash flow and enterprise value accordingly.
- Mitigates the disproportionate impact of outlier results from one company on the overall results.

Cons:

- More volatile as it adds emphasis to large changes in FCF and enterprise value for heavily weighted companies.



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Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core 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 core 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.

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