



### Earnings, the Ultimate Driver of Price

For company shareholders, there are many factors to consider when assessing investment feasibility. One metric stands out as the ultimate measure of value over time: **Earnings Growth**.

A diversified portfolio of quality companies has a high probability of producing earnings growth year after year, which is advantageous for investors. However, the constant barrage of negative sensational news headlines often deters potential investors who fear that these macro events will stifle company earnings over the long term. And my, we have been inundated with negative news over the last few years.

The reality is that the steadily growing earning stream of a portfolio of companies is unlikely to make headline news anytime soon. But when we do have the inevitable sharp collapse in prices or earnings, it will dominate news screens.

The US S&P500 (Standard and Poor’s 500 index), one of the most widely tracked and investable indices globally and comprising some of the world’s top companies, is currently up some 18.5% this year and is producing some interesting and positive statistics.

- To date, 92% of these top 500 companies have reported their quarter 3 (Q3) results, with 81% reporting a positive EPS (earnings per share) surprise.
- The year-on-year growth rate in earnings is 4.1%, marking the first year-on-year growth since the third quarter (Q3) of 2022.
- Analysts expect the annual growth rate in earnings to pick up to 6.7%, and then to 10.5% by the end of the first quarter (Q1) and second quarter (Q2) of 2024, respectively.

**Chart 1 : Long Term S&P500 Earnings**



Chart 1 (above) illustrates the long-term log chart of historical and one year forward earnings. It’s very clear that in recessions (shaded areas), earnings, in aggregate, decline - sometimes sharply. It is also typically at these inflexion points where analyst’s forecasts fall short.

Yet, the resilience of businesses to add value is evident in the upward trajectory of earnings over an extended period.

**Over time, the higher earnings translate into higher prices for the patient investor.**



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