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# Equities: The unknown income statement & losses in the US financial sector

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Abstract

Everyone knows the profit and loss accounts of companies. Not everyone knows the statement of comprehensive income. Behind it are sums running into the billions that investors should not ignore.

Zusammenfassung

Jeder kennt die Gewinn- und Verlustrechnung von Unternehmen. Nicht jeder kennt die Gesamtergebnisrechnung. Dahinter verbergen sich milliardenschwere Beträge, die Investoren nicht ignorieren sollten.

"If you're in a chronically leaky boat, the energy associated with changing ships is probably more productive than the energy required to fix leaks." It is not known exactly what Warren Buffett, either the Oracle of Omaha, investment legend or stock market veteran, means by a "chronically leaky boat". What is certain is that he is referring to companies with smaller or larger holes in one place or another - in their balance sheets, profit calculations or overview of cash flows. Buffett argues that if there are regular gaps, it is better to completely rethink your investment than to hope for improvement.

The number of leaks within a balance sheet can be as high as you like. It is almost always worth taking a look at the annual reports, which are often several hundred pages long - especially in times when a global recession has become more likely. Because even without any intention to cover up, there is information in one place or another that shows leaks.

## 1. profit is not equal to total comprehensive income

Not everyone is aware that there is an alternative, extended calculation of income in addition to the generally known income statement: the statement of comprehensive income. Between the income statement and this rather little-known statement of comprehensive income lies the "other comprehensive income" (OCI). OCI extends the familiar income statement to include additional gains and losses from changes in the value of certain balance sheet items of a company within a period (quarter or financial year) that are not recognised in the income statement. The bottom line is comprehensive income.

Companies also report accumulated other comprehensive income (AOCI) in their annual reports. As the name suggests, this is the sum of all historical changes in the value of OCI as at the reporting date plus the OCI result for the period just ended. AOCI is deducted from equity (in the case of negative AOCI) or added to it (in the case of positive AOCI), thus reducing or increasing it (Figure 1).

**Figure 1: Where other comprehensive income (OCI, AOCI) is found**

| | Profit and Loss Statement | | Balance |
|---|---|---|---|
| | Profit or Loss | | Equity capital |
| + | **Other Comprehensive Income (OCI)** | + | Accumulated earnings |
| = | *Comprehensive Income* | + | **Accumulated OCI (AOCI)** |
| | | = | *Total Equity* |

Source: Flossbach von Storch Research Institute

In addition to the statement of changes in equity, information on OCI and AOCI can be found in the notes and footnotes of the companies' annual reports.

The sums involved are not insignificant: at the end of the year 2024, the AOCI of all companies in the world's most important index, the S&P 500, was minus 805 billion dollars. The low point of AOCI at minus 968 billion dollars fell in autumn 2022, at a time when the yield on ten-year US government bonds had exceeded the four per cent mark for the first time since 2010 (Figure 2).

The correlation: the rapid rise from the low yield of 0.51 per cent in 2020 had a negative impact on asset items on balance sheets. This is because higher interest rates mean falling asset prices. Some of these negative changes in value can be found in OCI. Any investor who has ever held a bond in their portfolio will be familiar with this: if market interest rates rise, bond prices fall and their current market value decreases. If, on the other hand, yields fall, interest-bearing securities such as bonds record price gains.

In the case of pension provisions that are recognised on the financing (liabilities) side of the balance sheet and discounted at market interest rates, rising yields lead to a reduction in the item. This relieves the balance sheet.

**Figure 2: Accumulated other comprehensive income in the S&P 500 and yield on ten-year US government bonds**


Source: Bloomberg, annual reports, Flossbach von Storch Institute, as at March 2025.

It is true that hopes of several interest rate cuts by the US Federal Reserve have recently returned to the markets. However, there is no official word on this. Raphael Bostic, President of the Atlanta Fed, for example, expects only one interest rate easing this year.

It therefore makes sense to pay particular attention to the financial sector when analysing the OCI in the S&P 500 below, as this is where a particularly high volume of interest rate-sensitive investments are held.

## 2. earnings volatility should be avoided

OCI was introduced in the United States Generally Accepted Accounting Principles (US GAAP) in 1997, initially as "Reporting Comprehensive Income". The International Financial Reporting Standards (IFRS) developed in Europe introduced OCI in 2007 and developed it further in 2009 and 2011.

The purpose of OCI is, on the one hand, to provide a more accurate reflection of equity as at the balance sheet date, for example to more accurately reflect changes in value, some of which were previously only found in the footnotes of annual reports. It also smoothes the companies' annual results. Their profit would fluctuate more strongly including the changes in value to be found in OCI.

This approach can be confirmed in practice. OCI is volatile. On a quarterly basis from the end of 2014 to the end of 2024, it fluctuated by an average of 930 million dollars for the S&P 500 companies, according to an analysis of Bloomberg data. New York-based MetLife Insurance had the largest difference during the ten-year period, with an amplitude of 30 billion dollars.

As the profit reported by the companies follows the requirements of US GAAP accounting regulations, the OCI fluctuations can only be found in total comprehensive income. Of course, it is not impossible, albeit unlikely, that comprehensive income will one day be included in the traditional income statement.

Profit is a matter of definition. There have long been accusations that international accounting standards record "unrealised profits unsystematically" (see Antonakopoulos 2010, Knappstein and Hüttermann 2014). This is another reason why companies like to present so-called non-GAAP or non-IFRS figures, which sometimes deviate considerably from the generally applicable requirements.

## 3. early warning function of other comprehensive income

OCI has an early warning function. This is because some of the changes in value shown there may be reflected in the income statement later (in technical jargon: recycling). Only then will the public become aware of them.

However, this does not happen on a 1:1 basis, as there is a time lag between recognition in OCI and later in the income statement - and the recognised values can change in the meantime.

Investors can therefore read from OCI how strongly companies could be affected by unrealised profits or losses in the future. This makes OCI a risk indicator. High fluctuations in OCI can be a sign of future earnings volatility. This requires a detailed individual analysis of each company. As OCI changes equity, it has a direct impact on dependent key figures such as the debt ratio or return on equity.

OCI does not play a role for every company but is generally useful for analysing a company. This is because the items recognised there often run into the billions for corporations

One of a total of six exceptions in the S&P 500 is the logistics group Old Dominion Freight Line, which has no balance sheet changes in terms of OCI. Here, net profit corresponds to comprehensive income.

### 4. assets and pensions

OCI refers to changes in the value of important balance sheet items. Under US GAAP, companies must recognise revaluations of assets, pension obligations (including actuarial gains and losses), differences from currency translation, changes in fair value, unrealised gains and losses from available-for-sale (AFS) debt securities and cash flow hedges in OCI

Negative OCI from pension obligations, for example, could indicate increasing future liabilities and thus a possible future outflow of liquidity. The current market-based actuarial interest rate applicable to pension obligations is the parameter with the greatest influence on the pension obligations in the balance sheet. As a rule of thumb, if market yields rise by one percentage point, this reduces pension obligations by around ten per cent, and vice versa.

### 5. mostly negative values in the S&P 500

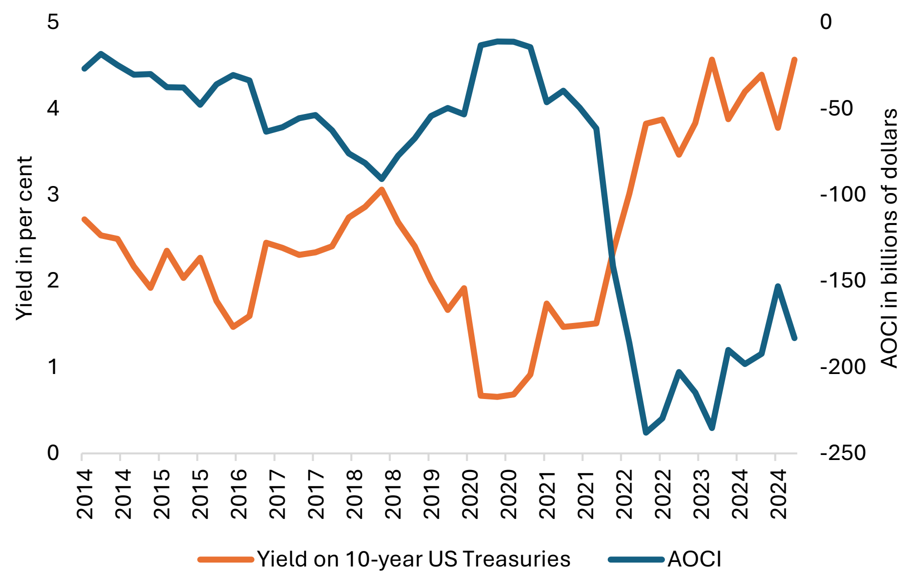
In the 2024 financial year, OCI, the difference between net profits and total comprehensive income, was a rounded minus 4.5 billion dollars in the S&P 500. Only 172 companies out of a total of 502 S&P 500 companies had a positive OCI in 2024. By comparison, the OCI in 2022 was minus 325 billion dollars. This was due to the rapid, steep turnaround in interest rates (see Figure 2).

In total, the accumulated OCI (AOCI) at the end of 2024 in the S&P 500 was minus 805 billion dollars (also Figure 2) - minus 27 billion dollars more than at the previous year's reporting date (some companies' financial years differ from the calendar year).

65 companies have positive accumulated OCI (AOCI) in their balance sheets totalling 6.3 billion dollars. For 150 companies, the value is more than minus one billion dollars. The remaining companies are in between or have no OCI (such as Old Dominion Freight Line).

Companies from the financial sector (banks, insurance companies, brokers, asset managers) play the largest role. The 26 financial services providers in the S&P 500 alone reported a total negative AOCI of 183 billion dollars, or around 23 per cent of the total accumulated negative OCI in the S&P 500 (Figure 3).

**Figure 3: Accumulated other comprehensive income in the financial sector of the S&P 500 and yield on ten-year US government bonds**

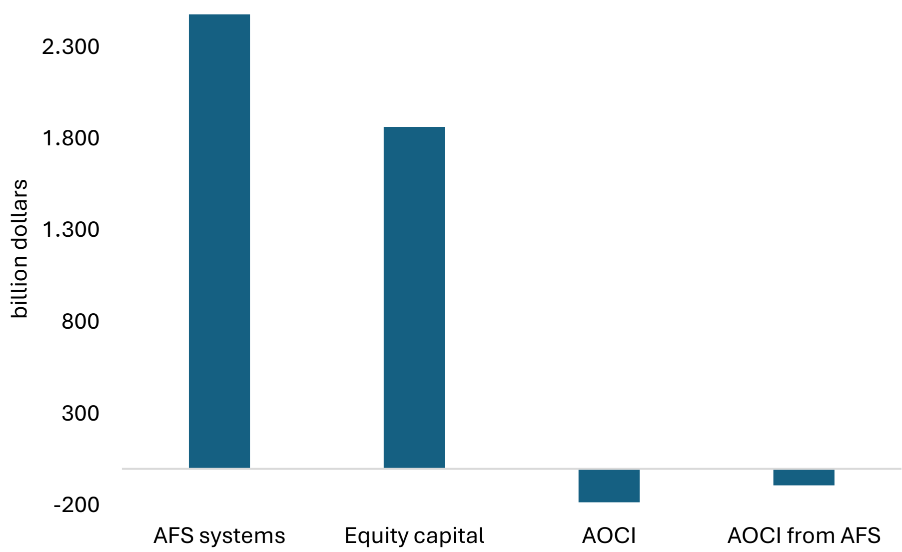



Source: Bloomberg, annual reports, Flossbach von Storch Institute, as at March 2025.

Changes in the value of securities from a special category play a significant role here. Just under 90 billion dollars, or almost half of the AOCI of the financial services providers in the S&P 500, comes from changes in the value of debt instruments (usually bonds) that are recognised on the assets side of the balance sheet under the available-for-sale (AFS) category and that are not hedged.

In total, AFS investments at the 26 financial service providers recently totalled just under 2.5 trillion dollars. They therefore exceed their equity of just under 1.9 trillion dollars (Figure 4).

**Figure 4: AFS investments, equity, AOCI and AOCI from AFS at US financial services providers in the S&P 500**




Source: Bloomberg, annual reports, Flossbach von Storch Research Institute, as at March 2025.

In a scenario of higher rather than lower US capital market interest rates, which could materialise in the absence of stronger interest rate cuts by the US Federal Reserve and due to credit rating issues, AFS investments harbour an increased risk for the US financial services sector. For example, risk premiums on loans in the US commercial property sector have risen in recent years, and investors could now demand higher interest rates from companies burdened by tariffs. In extreme cases, banks could be threatened with loan defaults.

A negative change in the value of AFS investments of ten per cent would reduce the equity of financial service providers by 13 per cent. In addition - assuming a sale of securities or losses at maturity - a further minus 248 billion dollars would be recognised in the income statement in addition to the recent minus of 90 billion dollars in AOCI and would depress earnings accordingly.

## Conclusion

An increase in interest rates would presumably push the accumulated OCI of all S&P 500 companies even deeper into the red. Only companies for which changes in the value of pension obligations account for the majority of OCI would benefit as in the past three years, their equity would be relieved.

In the financial sector, high negative changes in value are recognised in OCI, which could also appear in the income statement sooner or later. This is where an increase in interest rates would have the most significant negative impact.

Depending on the company, there are relevant items in OCI and AOCI whose future changes are relevant for the book value (per share) and which can increase the forecast quality of future results.

Investors should not ignore the sheer volume of changes in value recognised in AOCI.

## Literature

Antonakopoulos, Nadine (2010), "Erfolgsquellenanalyse nach IFRS auf Basis des Gesamterfolgs (total comprehensive income)" in KoR 03/2010, 121-129

Knappstein, Janina, Hüttermann, Kai (2014), "Presentation and significance of other comprehensive income" in KoR 12/2014, 586-593

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