January 18th 2021

The 4Q corporate earnings reporting season

The 4Q corporate earnings reporting season began this week in the United States (with Europe to follow at the end of January).

The positive surprises recorded during the previous reporting season prompted analysts to improve their forecasts for 4Q, that nonetheless remained cautious, allowing room for further surprises.

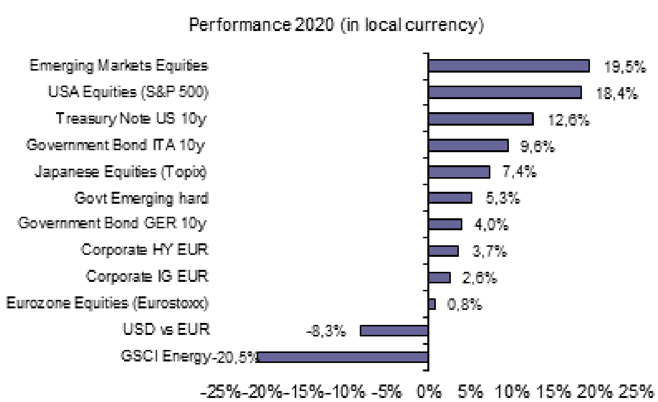
In light of the new restrictive measures put in place to contain the spreading of the virus over the winter months, analysts expect a modest reduction of earnings on a quarterly basis, that would keep the year-on-year change negative, at close to -9% in the US.

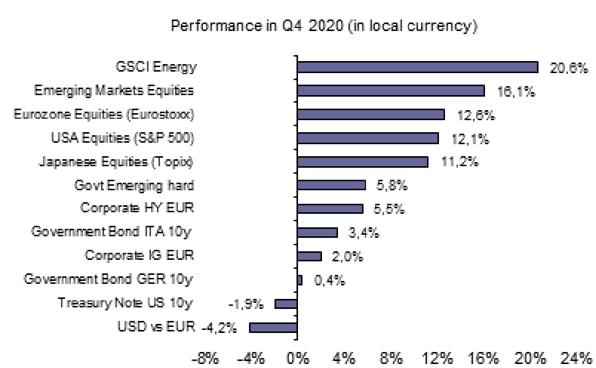
Market performances in 4Q and in 2020

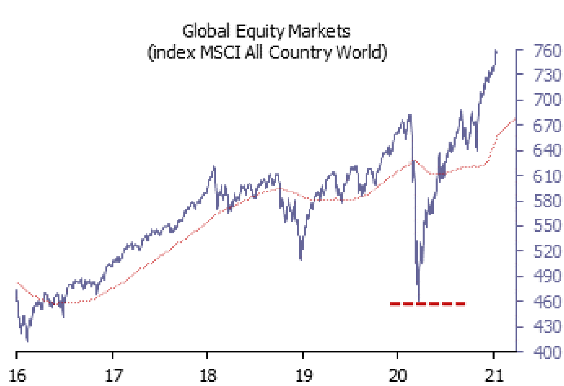
In the closing quarter of 2020, the major global stock markets accelerated the uptrend observed since the end of March, **hitting new all-time highs.** This took place despite the loss of momentum of macro data, due to the spreading of the virus.

The upswing of the markets was accompanied by evident sector rotation to the advantage of cycle-sensitive themes, supported by expectations that the new fiscal stimulus measures, and the advancement of the vaccination campaigns, may result in a solid recovery in the second half of 2021. In the closing three months of the year, the best performances were achieved by the countries, industries, and management styles (namely Europe, energy and financials, small caps), that had lagged behind in the first stages of the recovery, which had been driven by the secular trends of technology and pharmaceuticals.

In the year of overriding uncertainty tied to the pandemic, the financial markets (after the most short-lived bear market in history), posted markedly positive results almost across investment instruments: **bonds** thanks to the commitment of central banks to keep rates low at length, and **stocks** via the growth of multiples, grazie to the support offered by monetary and fiscal policies, and to expectations for a new recovery phase of the global economy.







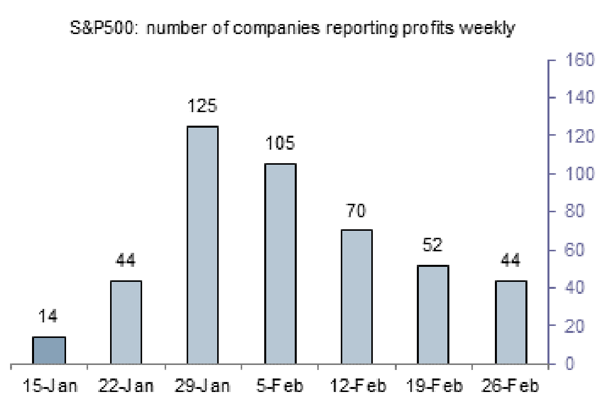
Corporate earnings reporting season: 4Q 2020

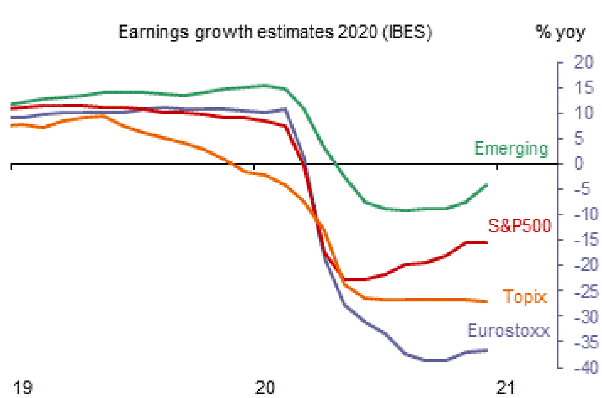
The **4Q corporate earnings reporting season began this week in the United States,** with the main banks leading the way. The round of earnings reports will climax at the end of January (when European companies will also start to disclose their results).

Analysts expect a new, albeit modest, contraction of earnings (-4% compared to 3Q), that would leave the year-on-year change in negative territory, at close to -9% (-6% non-energy). Analysts believe performances by sector will continue to prove very mixed: negative changes (in quarterly terms) are expected for discretionary consumer goods, financials, and utilities, as opposed to positive forecast numbers for energy, technology, and industrials.

While these forecasts have been revised up in the past two months, they still seem rather conservative. Nonetheless, upward revisions in proximity of the opening of the reporting season are rare (this is only the fourth such instance since 2009). When considering 2020 as a whole, however, we note that earnings forecasts, after having been cut sharply in 2Q, have effectively been improved, but only **modestly in relation to the acceleration of macro data,** to the point that, in 3Q as well, estimates had been revised up, only to then be then beaten by far by excellent corporate results.

Furthermore, consensus forecasts point to weaker earnings due to the rise of new infections, and to the new restrictive measures, that are holding back the recovery. However, macro data indicate that **the recovery continues,** albeit at a slower pace, especially in the sectors less exposed to anti-Covid measures.





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Medium-term forecasts

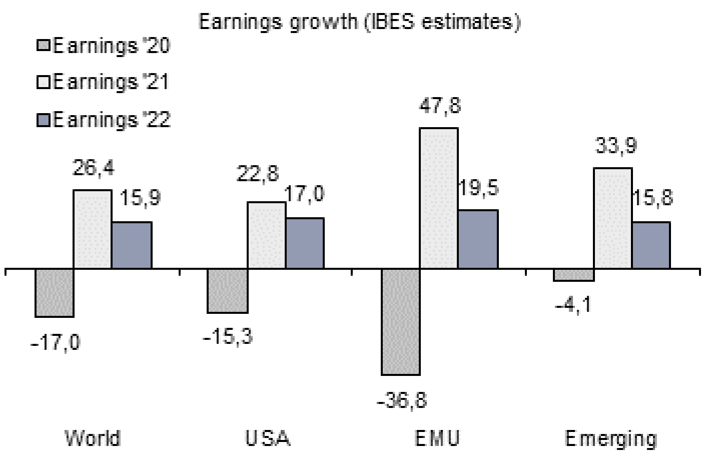
After a negative final quarter in 2020, analysts are forecasting a return to positive earnings growth starting in 1Q this year, with the recovery picking up momentum in the central quarters of 2021, thanks to the effects of the vaccination campaigns.

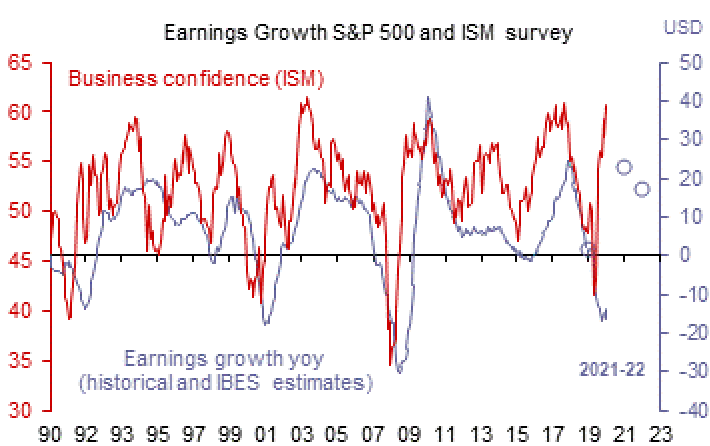
In 2021 as a whole, analysts expect a strong recovery of earnings in year-on-year terms, by over 20% in the US, and close to 50% for the EuroStoxx. These are exceptional numbers when considered in overall terms, but on closer inspection, they are simply correcting the record-breaking contraction of 2020.

The recovery of earnings should then continue at a stronger pace in 2022.

Overall, forecasts indicate that **analysts remain rather cautious for what concerns the near-term outlook, allowing for positive surprises from corporates results.**

In the course of 2021, and in 2022 in particular, it will be essential for medium- and long-term estimates to then be confirmed by a recovery of earnings.





From multiples to the recovery of profits

For what concerns the stock markets, unlike in 2020, **the uptrend in 2021 should be supported more by a recovery of earnings and less by stronger multiples.** The markets mostly scored gains on expectations for a recovery, while earnings stayed below the levels recorded at the beginning of 2020. This resulted in historically high valuations entering 2021, for the S&P500 in particular, but also for the Eurostoxx.

Therefore, focus should be on corporate results, earnings surprises, and in particular on guidance. The indications provided by businesses on future performance will tell us whether at the beginning of the year the slowdown induced by restrictive anti-Covid measures will prevail, or if, by contrast, the positive effects of the fiscal stimulus measures will have the upper hand, probably confirming strong dispersion among the different sectors of business.

Important indications may also come from **profit margins,** which rose in 3Q, and are now placed under pressure by the recent rise in costs. Lastly, investors will seek to detect any signs of a reversal of the investment trend, in light of the positive evolution of manufacturing activity and orders.