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ASSET MANAGEMENT

Q1: Corporate results are among the best recorded in the past 10 years

11th May 2021

The 1Q 2021 reporting season is coming to an end in the US and in the Eurozone. Corporate results are among the best recorded in the past 10 years, thanks not only to strong year-on-year earnings growth (+45% and +50% respectively per S&P500 and EuroStoxx), driven by a statistical comparison effect, but also to a number of earnings surprises at their highest for the fourth consecutive quarter. In addition, the outlook for the remainder of the year, as outlined by businesses, is for a further improvement.

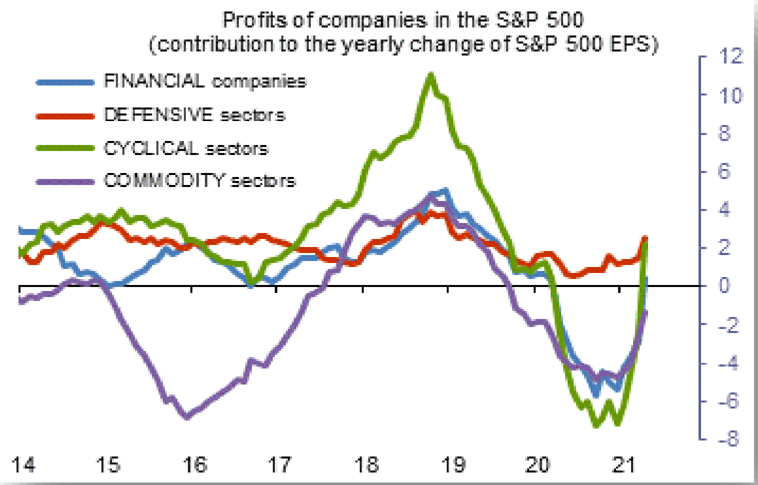
1Q corporate results

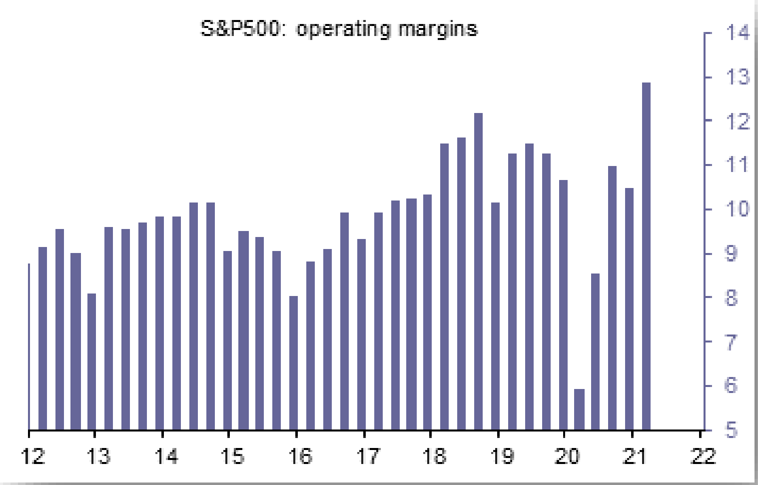
The earnings reporting season is coming to an end both in the US and in the Eurozone.

In the US, an impressive 87% of companies beat earnings growth forecasts, and 72% of European stocks did the same: record-breaking levels, as was also the case over the previous three seasons, that follow the excessive lowering of consensus forecasts a year ago.

US corporate earnings are now at higher levels than before the pandemic, posting year-on-year growth of close to 45% (as opposed to a consensus forecast of 24% at the beginning of the season) and quarterly growth of 11%. Revenues were by up 10% and, despite the increase of prices paid by businesses (for raw materials and forwarding), profit margins are on the rise. The price increase thee is affecting in particular the basic materials, consumer, and industrial sectors. Positive earnings surprises were driven by the technology, financial, discretionary consumer goods, and telecommunications sectors.

In the Eurozone, strong positive surprises were recorded in the financial and basic materials sectors, as well as by companies strongly exposed to the US (the opposite was true for companies exposed to the emerging countries). Annual earnings growth of around 50% was amplified by the comparison effect the opening quarter of 2020, already weaker than in the United States, although the results released are prompting ongoing upward revisions of future earnings estimates.





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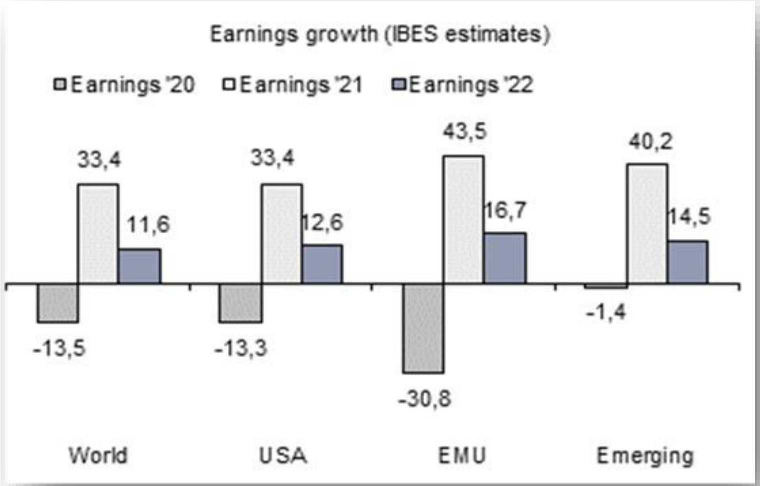
Future earnings forecasts

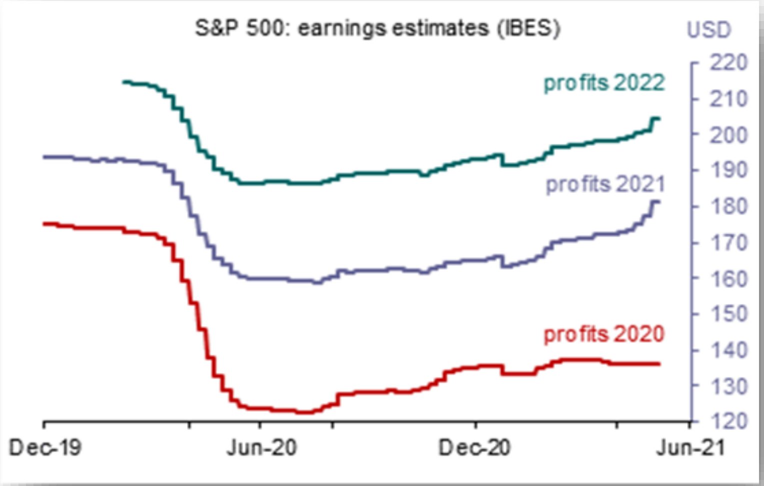
Strong upside surprises on earnings and revenues were accompanied by markedly optimistic guidance from businesses, that have resumed enjoying increasing visibility on future earnings over the coming quarters.

All the above has prompted analysts to raise earnings growth forecasts for the major global stock markets, for both 2Q and 2021 as a whole.

On the S&P500, in April alone upward revisions of 2Q estimates were among the strongest seen in the past 20 years, and fuelled the upswing of stock indices in the course of the month. Year-on-year earnings growth should peak in 2Q (even only due to comparison effects), estimated at close to 56% for the S&P500, with forecasts staying in double-digit territory for the remaining two quarters of the year as well.

For 2021 as a whole, analysts are forecasting strong earnings growth in year-on-year terms, by 33% in the US and over 40% in the Eurozone and the emerging economies. In the US, analysts expect earnings to strengthen thanks to fiscal stimulus measures and to reopenings, whereas in the Eurozone the acceleration of the vaccination campaign should result in a recovery in terms of relative performance, narrowing the wide gap built up last year. However, both in the US and in the Eurozone, even after the recent upward revisions, forecast earnings in 2021 are still below the levels that were being estimated before the pandemic.





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Markets performance during the reporting season

Despite earnings growth and the record-breaking number of upside surprises, the markets reacted in similar fashion to last year to the release of corporate results, staying rather cautious on positive reports, and penalising the negative ones. This would seem to indicate that, despite the high number of upside surprises compared to analyst forecasts, most of the improvement of earnings has already been priced in.

The recovery of the US and European stock markets accelerated starting at the beginning of April, supported by strong upward revisions of future earnings forecasts, as well as by the consolidation of US yields. On the other hand, emerging country stock markets, more sensitive to the increase of US yields (that materialised in 1Q 2021), are lagging behind, held back by the prospect of a slowdown of the Chinese economy.


Equity markets: USA, Eurozone, Emerging
(local curreny indexes)
S&P500
Emerging
Eurostoxx
205
195
185
175
165
155
145
135
125
115
105
95
85
75
16
17
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19
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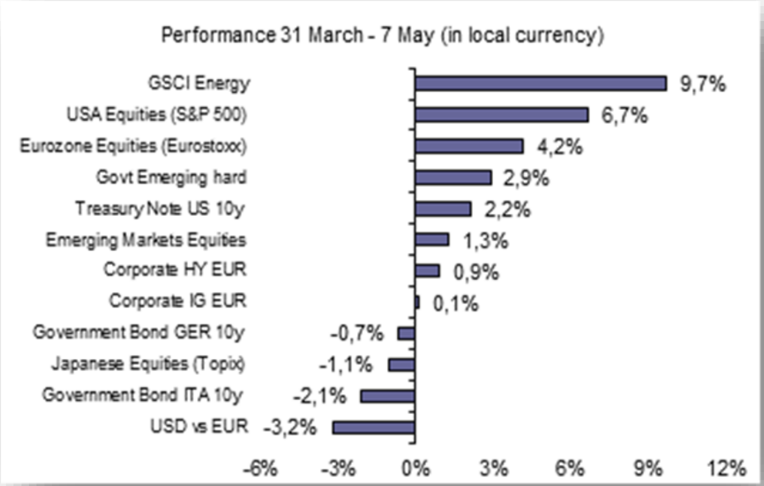
21


Performance 31 March - 7 May (in local currency)
GSCI Energy 9,7%
USA Equities (S&P 500) 6,7%
Eurozone Equities (Eurostoxx) 4,2%
Govt Emerging hard 2,9%
Treasury Note US 10y 2,2%
Emerging Markets Equities 1,3%
Corporate HY EUR 0,9%
Corporate IG EUR 0,1%
Government Bond GER 10y -0,7%
Japanese Equities (Topix) -1,1%
Government Bond ITA 10y -2,1%
USD vs EUR -3,2%
-6%
-3%
0%
3%
6%
9%
12%

Earnings revision momentum

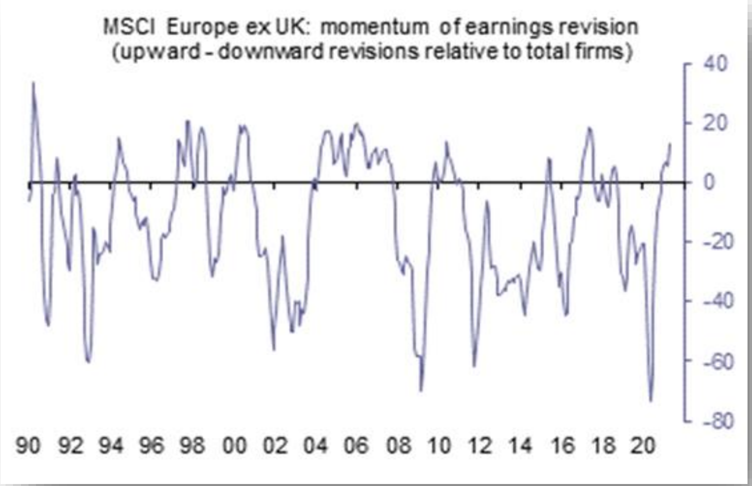
Confirmation of solid earnings growth and the upward revision of future growth forecasts are supportive for the stock markets, that in the course of 2021 should continue to be fuelled by recovering earnings (as opposed to persistently high multiples).

However, the upward momentum of earnings revisions, that has supported the uninterrupted upswing of the markets over the past 12 months, seems close to peaking at historically high levels (in the US in particular), strengthening the view that the market has by now largely priced in the exceptionally positive news flows received over the past few months, and that it is viewing the outcome of the reporting season more as confirmative evidence of the recovery than as a reason to go higher.

In a medium-term perspective the stock markets continue to hold appeal, with the recovery on track (whereas risk premiums on bonds are still high).

Furthermore, the improvement of corporate balance sheets and of visibility on future earnings point to a strengthening of investment spending, that will benefit productivity in the medium period.


MSCI USA: momentum of earnings revision
(upward - downward revisions relative to total firms)
60
40
20
0
-20
-40
-60
-80
95 97 99 01 03 05 07 09 11 13 15 17 19 21


MSCI Europe ex UK: momentum of earnings revision
(upward - downward revisions relative to total firms)
40
20
0
-20
-40
-60
-80
90 92 94 96 98 00 02 04 06 08 10 12 14 16 18 20

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