



Q2 business profits reporting season in the U.S. and Europe

9th July 2021

Mid-July, in the U.S. and Europe, the company profit reporting season for Q2 will start. Analysts revised again in an upward trend the esteems of profit growth, basing their assumptions on the **record data in the yearly profit growth** (above 60% for the S&P500) **and revenues** (almost at 20% for the S&P500). Esteems on quarterly growth remain modest instead.

The recovery of business profits is the main strength driving stock markets in the medium run, but the sharp increase in quotes from the last months already deducts a good portion of the economic improvement and the good corporate fundamentals.

Market's performance in 2021's Q2

The quarter is positive again for the world's main stock markets, which are benefitting from a strong economic recovery and re-openings, made possible by the acceleration in vaccination campaigns.

The American index S&P500 (+8.5%) reached new absolute highs, followed by the Eurostoxx which reported returns equal to 6%. **Emerging stock markets are lagging behind**, where the vaccination pace is slower and China now over its re-acceleration peak and more and more on the downward slope.

American ten-year rates, after almost reaching pre-covid levels because of the increase of inflation, **have retraced part of its increase from the previous quarter**, following the Fed's wake which sees the increase in prices as temporary, and not structural. This rate movement is favorable for **spread bonds which had positive returns**, especially the emerging ones.



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Profit season in the Q2

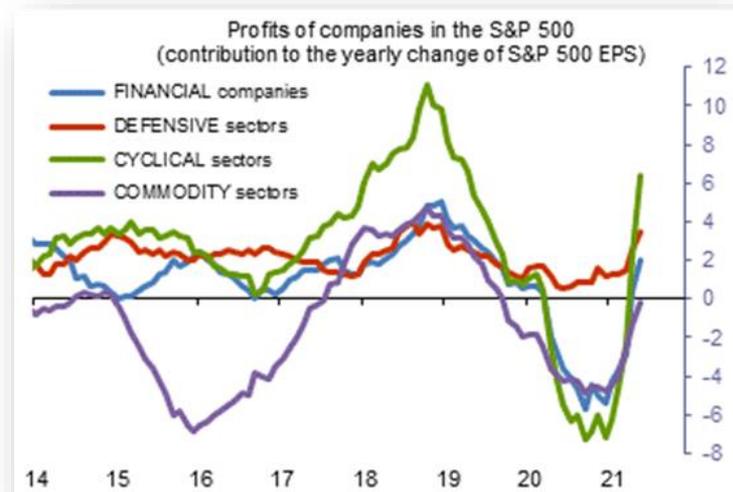
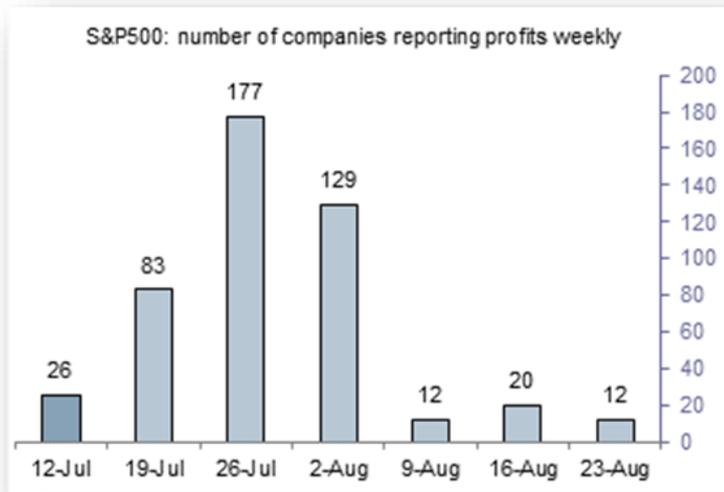
In July's middle week will begin the communication regarding **business profits from the 2nd quarter in the U.S. and Europe**, which will get more important at the end of the month.

It is predicted it will be a record season for company profits. Analysts forecast an exceptional yearly growth for profits (around 60% in the U.S., even more in Europe), amplified by its comparison effect with the lockdown's quarter from 2020. **The estimated growth on quarterly basis is way more modest** (below 2% in the U.S.).

Analysts, in Q2, revised in an upward fashion the estimates on profit growth (for the 4th consecutive quarter). **In the U.S. this is the highest upward estimates revision in the last 20 years** (+7%) and especially regarded cyclical and financial sectors, where majority of yearly profit growth will take place.

The reason behind this record revision? It is a mix of increased growth prospects, upward correction of the excessive estimation cuts that analysts caused in spring 2020, **increase in the price of raw materials** (particularly oil) and **more and more optimistic profit anticipations by society**.

In addition to company results, stock markets will also evaluate the companies' capacity to transfer the increase of end prices, verifying the businesses' ability in retaining **profit margins**.



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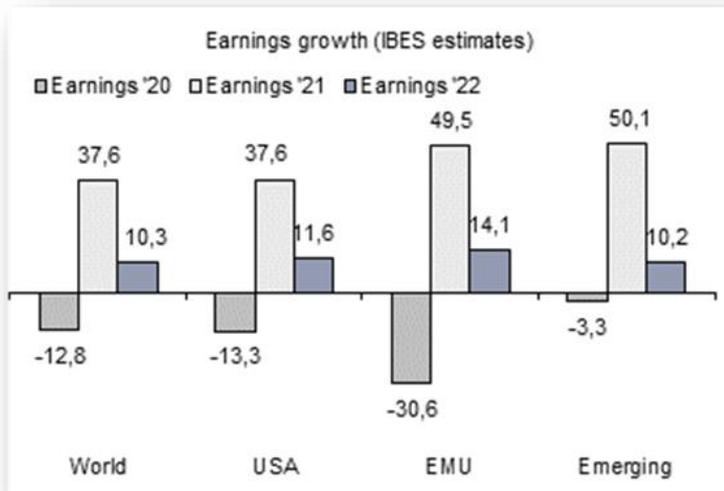
Medium-term estimates

On top of estimates from the 2nd quarter, **analysts also amply revised expectations for the whole of 2021 for all main stock markets.**

After 202's contraction, analysts forecast a robust profit growth in 2021, which will correct the record contraction from 2020, but also shows the strengthening of an economic recovery which is becoming more and more synchronized across the globe.

For the U.S. the increase in 2021's estimates (of above 8%) is the highest in 25 years. Ample upward revisions were also made for the Eurozone stocks, which benefits from the improvement of domestic demand caused by re-openings and an accommodating behavior by the ECB. 2021's profits have been upwardly revised in emerging markets too, only after a drop in estimates about next year (including the slow reduction of stimulus, starting with China)

In all sectors, profits recovery is expected to continue in 2022 and 2023 at a strong pace, but less intense than 2021's (between 10% and 14%).



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Corporate fundamentals are very good, but partially in prices

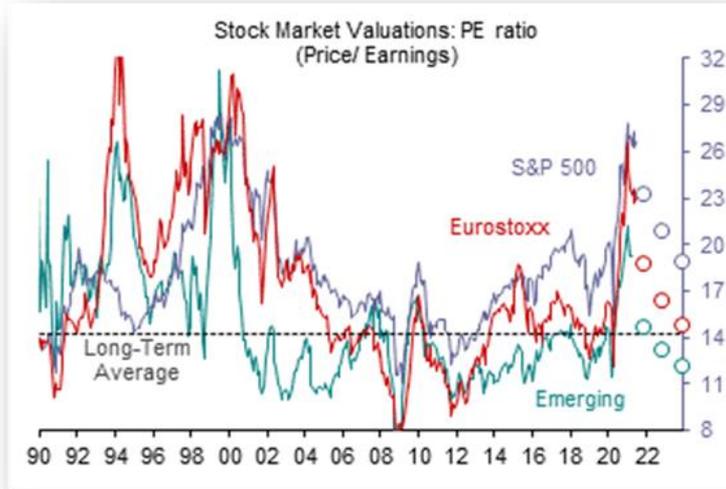
Stock markets appear to be interested in the medium term, in the economic recovery context, ample fiscal and monetary stimulus and low rates on the long run.

The recovery of business profits is the main driving factor for stock markets in the medium term, but the sharp increase in quotations from last months deducts part of the economic recovery and of corporate fundamentals. In the two previous seasons a rather cautious reaction by markets was observed, even with good business results and better expectations, showing that **markets already started the process of discounting increasing profits.**

This is especially true in the U.S., where valuations are elevated and esteem revisions reached record levels, difficult to surpass in a context of non-accelerated macro recovery.

It remains more favorable instead, in terms of valuation and momentum in profit estimates, **the situation for European businesses.**

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