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Earnings growth and upside surprises at record-breaking levels in 2Q 2021 as well.

10th August 2021

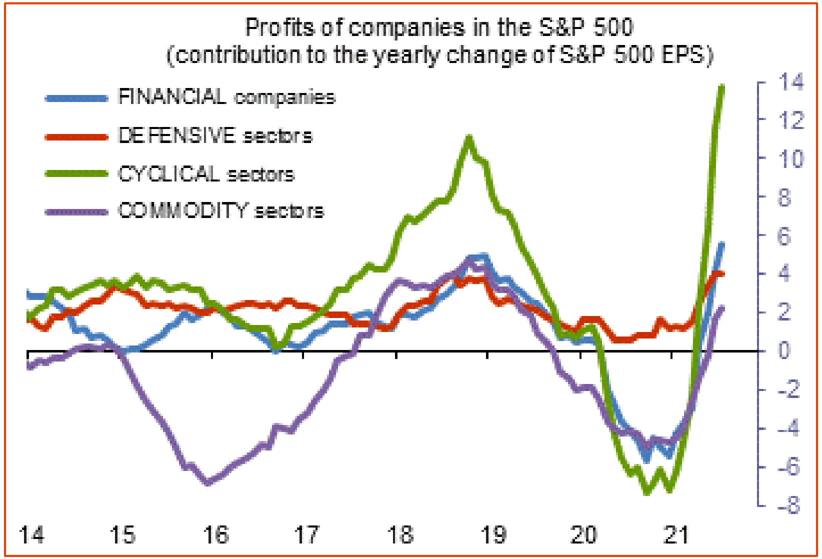
The 2Q reporting season is close to its completion in the US and in the Eurozone. Again, results were exceptionally strong: earnings growth, upside surprises, and company margins all grew at record-breaking rates.

Excellent corporate results have prompted analysts to further revise up their forecasts for future earnings growth both in the US and in Europe.

2Q corporate results

Yet another record-breaking corporate result reporting season is close to completion both in the United States and in Europe, where respectively 87% and 65% of companies beat earnings estimates. Still extraordinary numbers, considering that the bar to clear, i.e. analyst forecasts, had been raised significantly ahead of the disclosure of results.

Annual earnings growth amounted to 84% in the US (as opposed to a consensus forecast at the start of the season of 60%), and revenues were up by 27%.
While the figures were amplified by the direct comparison with the 2020 crash, quarterly growth was in anu case solid, with **corporate earnings in the US levelling off well above pre-pandemic levels,** thanks to business reopenings and to an acceleration of activity.

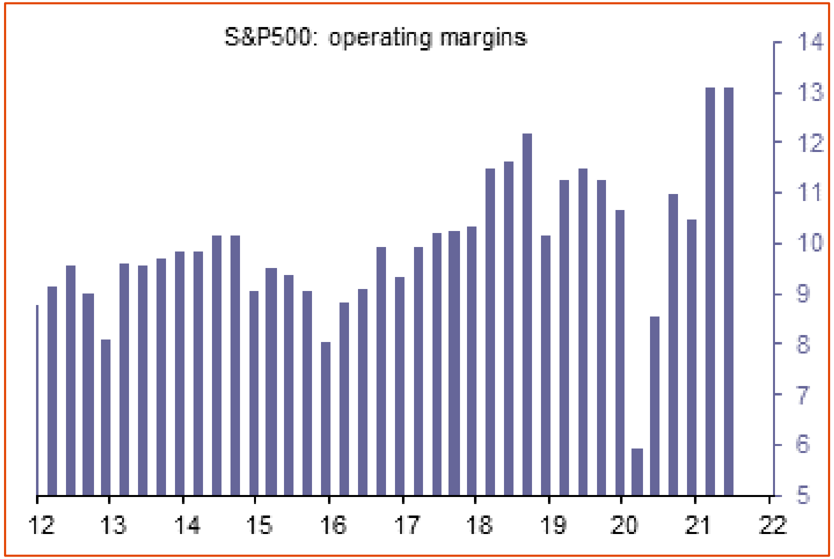


2Q corporate results

Furthermore, company profit margins stayed at close to the high levels reached in the previous quarter, thanks to the ability of businesses in transferring cost increase to final prices. Upside earnings surprises were most numerous in cycle-sensitive sectors, basic materials, and financials.

In Europe, earnings growth beat the 70% mark, driven by the strong contribution made by the energy sector, followed by cycle-sensitive sectors. Revenues grew by around 30%.

On top of the excellent results posted in both geographical regions, companies significantly revised up their future earnings forecasts for the next few quarters.



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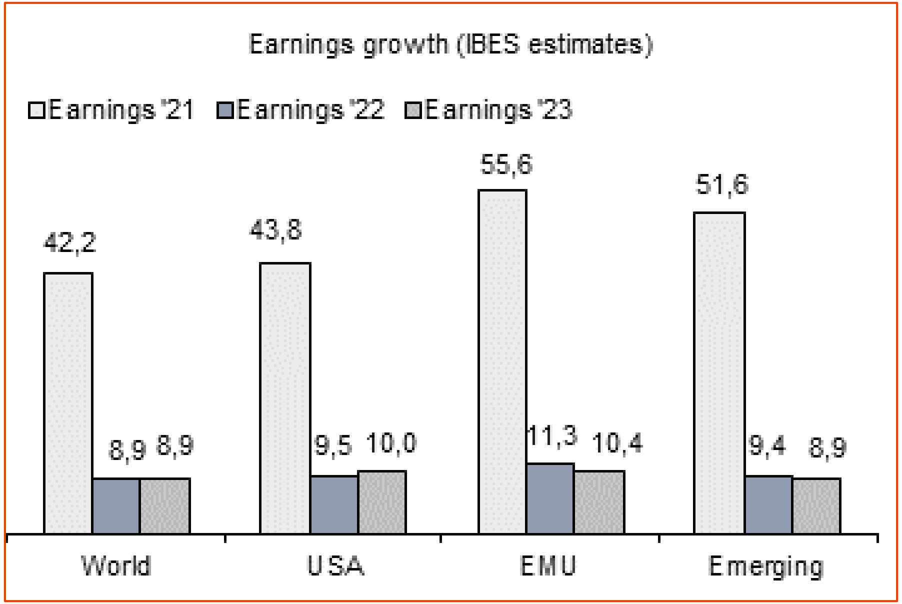
Future earnings outlook

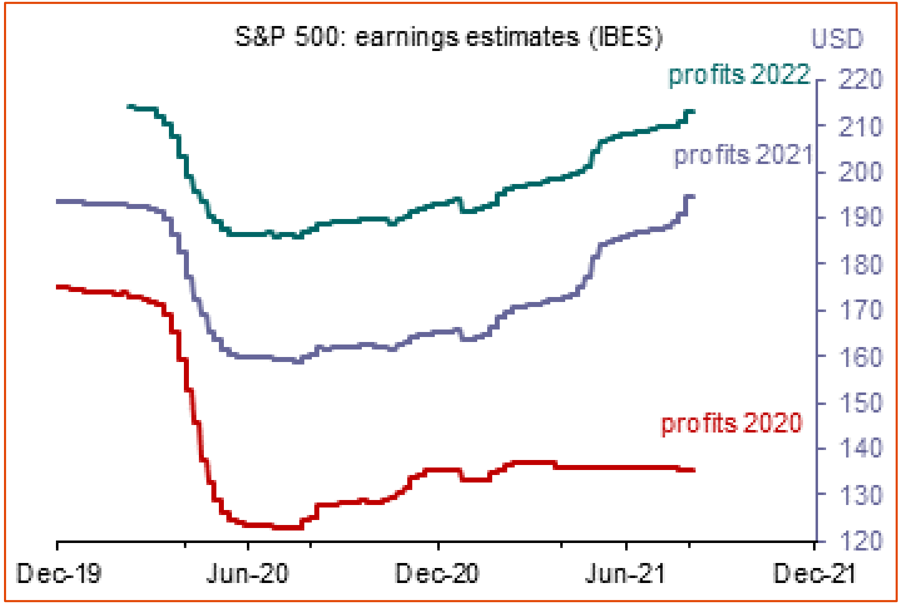
During the reporting season, analysts continued to raise their estimates for both 3Q 2021 (prompted by the favourable guidance offered by businesses) **and for the year as a whole.**

On the S&P500, in July alone, **upward revisions of 3Q earnings forecasts were the most substantial seen in the past 20 years** (albeit smaller than the upward revisions for 2Q), to the benefit of stock market performances in the course of the month.
Forecasts for the present quarter remain in double-digit growth territory in year-on-year terms, albeit essentially as a result of the comparison with 2020. Despite the upward revisions, forecast growth in quarterly terms is neutral, as it prices in the risks tied to the spreading of the Delta variant and to the reduction of households purchasing power caused by rising inflation.

For 2021 as a whole, analysts are forecasting strong earnings growth in annual terms, by almost **44% for the US and over 50% for the Eurozone and the emerging countries**, whereas **in 2022 earnings growth is expected to normalise inside the 9-11% range** in all the main regions of the world.

Future earnings outlook





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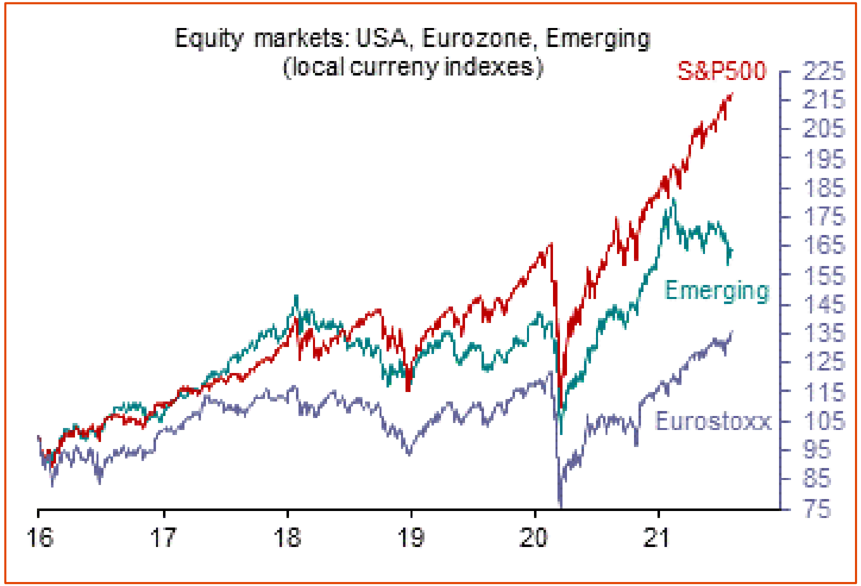
Market performances during the reporting season

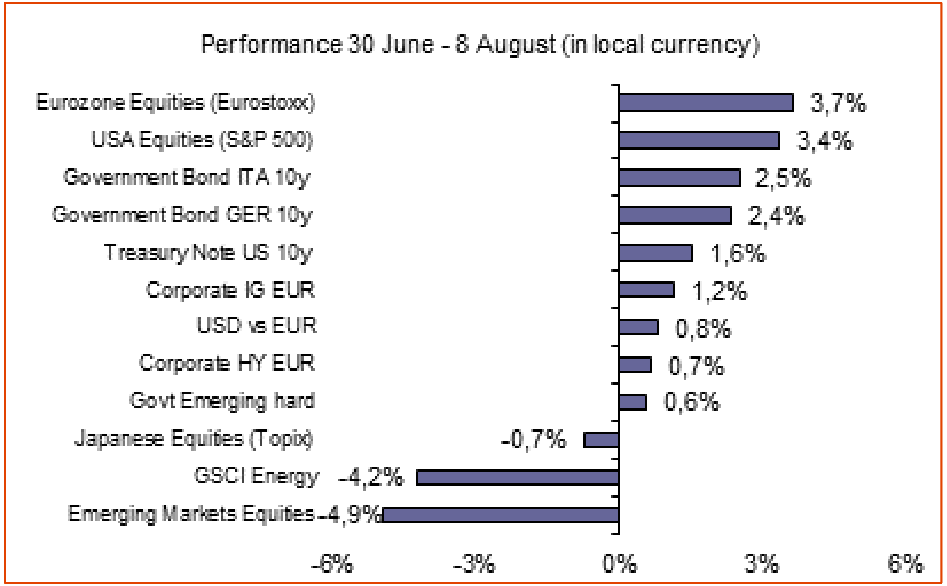
On the equity front, **the upswing of the US and European stock indices continued, whereas some profit taking was recorded on the emerging markets,** prompted by the ongoing tightening of credit conditions in China.

In the advanced countries the stock markets benefited from the support offered by earnings growth and by the decline of long-term yields. However, as had been the case with the previous reporting seasons, **the markets' reaction to corporate results was rather cautious, despite the strong figures and the beating expectations by far:** this indicates that earnings growth is already largely priced into market quotations.

The decline of bond yields, while supporting equity market valuations on the one hand, is reason for investor concern on the other as it raises questions on the solidity of global economic growth, in light of the new risk factors (Delta variant, inflation, Chinese tightening and the prospect of a less accommodative Fed).

Market performances during the reporting season





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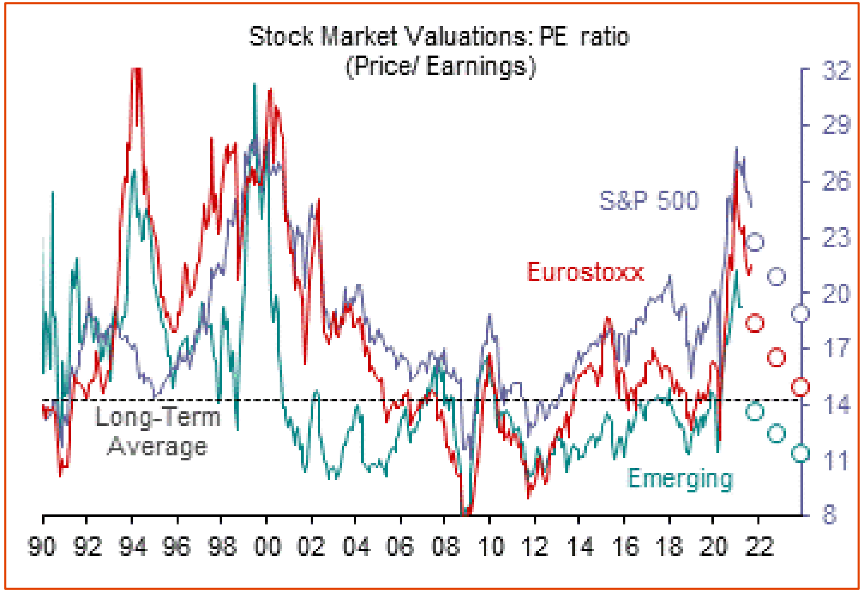
Market valuations

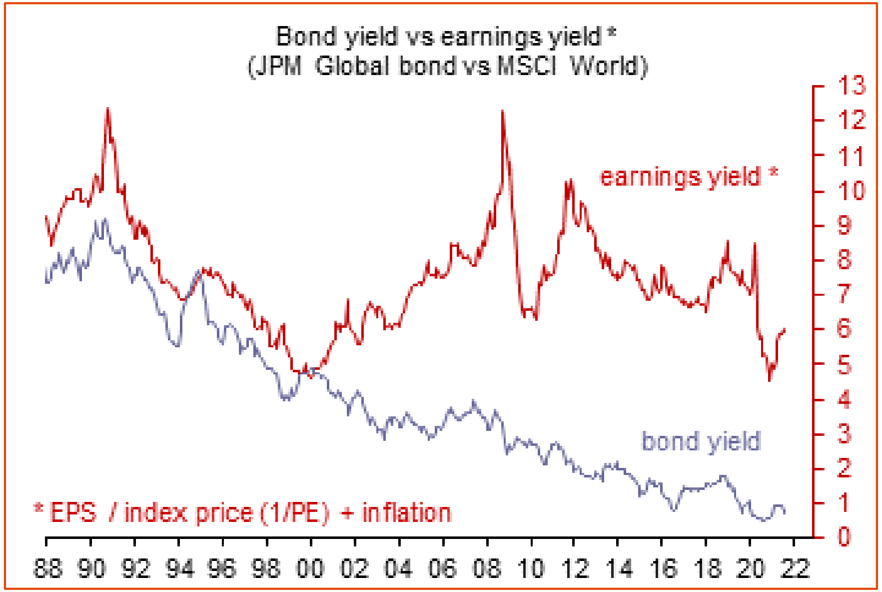
In the course of the summer months bond yields decreased and stock indices rose, but not at the same pace as corporate earnings. Lastly, analysts have stepped up their future earnings forecast for 2021 in particular, but also for 2022.

What are the consequences for stock market valuations?
Market multiples (price/earnings ratio) decreased. While still high, P/E ratios have dropped below the peak marked at the beginning of the year.
This means that **the stock markets remain expensive overall, but less so than over the past few months.**
Valuations in particular have become more appealing in relative terms compared to a deteriorating bond coupon flow. **The premium offered to hold stocks has in fact increased over the summer months.**

In a medium term perspective, the stock markets therefore continue to hold appeal, against a background of an ongoing recovery, profit growth, and interesting risk premiums.

Market valuations





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