

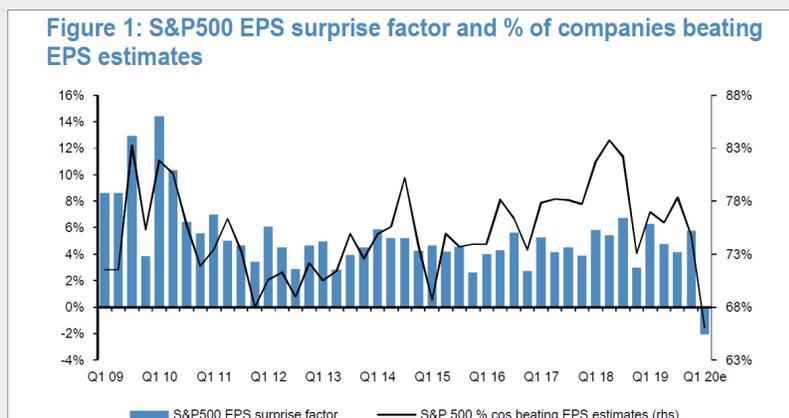
Global Equity - Earnings Review Q1 2020

Investors Look Ahead To Future Earnings Growth

First quarter earnings results around the globe provided an initial litmus test for gauging the extent of COVID-19's disruption. In the U.S., Europe, Japan and the emerging markets, year-over-year EPS growth declined -13%, -33%, -10% and -19%, respectively. Despite the weak results, investor interest has instead focused on forward guidance, liquidity and the runway for EPS growth. The extent to which the reopening of western economies is a fragmented versus a smooth line will be a key catalyst for earnings revisions going forward with risk tilted to the downside.

United States:

In the U.S., consensus estimates for S&P 500 earnings per share have consistently been too conservative at the start of each quarter, with final earnings coming in stronger. This quarter broke the trend with earnings surprising to the downside by 2% due to double-digit negative earnings growth in the energy, financial and consumer discretionary sectors. On the flipside, the technology, healthcare and consumer staples sectors generated positive earnings growth. 2Q20 earnings expectations have now deteriorated from -10.5% at the end of March to a recent projection of -42.8%. 2020e EPS is currently expected to decline 19.7% before rebounding 27.1% in 2021.



Source: J.P. Morgan May 2020

Europe:

Results in Europe experienced the largest declines with a 33% drop in year-over-year EPS growth during 1Q20. On a sector basis, results were similar to the U.S. with the energy, consumer discretionary and financial sectors suffering the largest declines. Healthcare, utilities and real estate were the only bright spots. 2Q20 and 3Q20 earnings have deteriorated from -30% expected declines in April to -43% and -38% year-over-year, respectively. While earnings revisions suggest further downgrades ahead, there has been some stabilization at extreme levels. 2020e EPS is currently expected to decline 20.9% before rebounding 29.0% in 2021.



Source: MSCI, IBES, Morgan Stanley Research

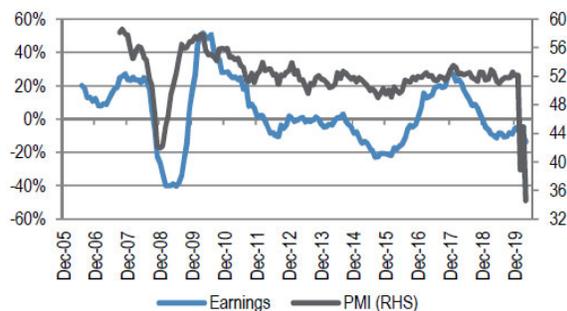
Japan:

The story in Japan was essentially the same as in the U.S. with 1Q20 year-over-year earnings growth declining 10%. The most cyclical sectors generated the bulk of the declines, while the defensives provided some buffer. On a positive note, the proportion of companies beating EPS and sales estimates have risen back to the historical median. 2020e EPS is currently expected to decline 30.9% before rebounding 29.9% in 2021.

Emerging Markets:

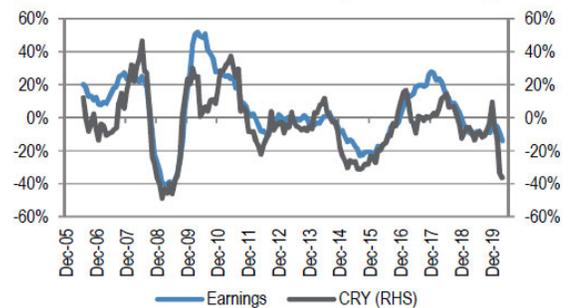
Earnings results were particularly weak in the emerging markets for 1Q20 declining 19% on a year-over-year basis. On a regional basis, EM Asia earnings came in stronger than consensus, yet still declining 12%. Latin America and CEEMEA (which comprises 80 countries in Central/Eastern Europe, the Middle East and Africa) generated the bulk of the earnings decline with 67% and 57% year-over-year declines, respectively. Similar to the rest of the world, emerging market earnings were most vulnerable in the cyclical oriented sectors and less so in the defensive areas. The trend for EM PMI and oil prices will be key drivers in emerging market earnings results over the coming quarters. 2020e EPS is currently expected to decline 6.5% in 2020 and a further 3.6% decline for 2021, which is a material improvement from February expectations of -21.5% and -14.3% for 2020 and 2021

Figure 8: EM consensus forward earnings (yoy) and EM PMI



Source: Bloomberg, MSCI and J.P. Morgan.

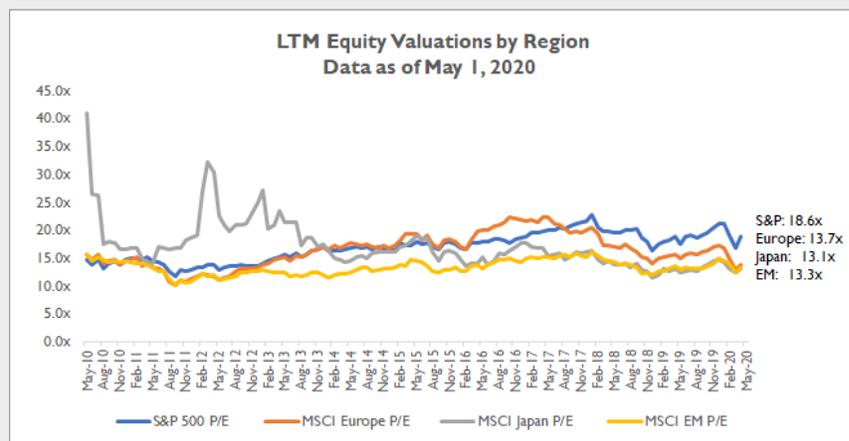
Figure 9: EM consensus forward earnings and commodity index



Source: Bloomberg, MSCI and J.P. Morgan.

Valuation:

While investors have largely written off the bad news of 2020, the magnitude of the downturn and the path of earnings recovery are key variables in determining 2021 valuations. With recent gains across global equity markets, valuations appear full in light of further earnings downgrades that may be necessary as well as the probability of declining dividends and stock buybacks.



Source: Factset

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