

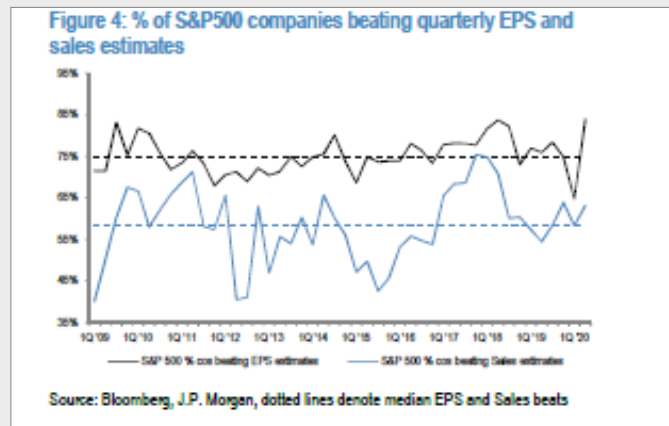
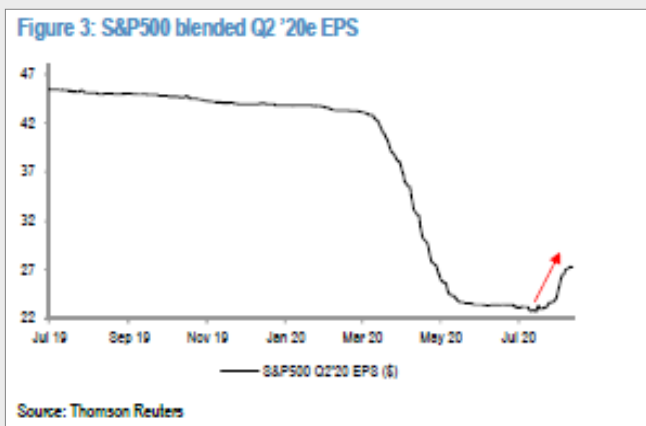
Global Equity - Earnings Review Q2 2020

Investors Look Ahead To Future Earnings Growth

Second quarter earnings results around the globe exceeded expectations as the uncertain impact of COVID-19 created a low bar for companies to positively surprise. Despite the positive results, investors remain focused on forward guidance, liquidity and the runway for EPS growth. While market sentiment reached peak levels coinciding with better than expected earnings results, sustainability could very well be challenged as uncertainty looms about a second wave of the virus in the back half of the year.

S&P 500:

Earnings results for the S&P 500 were better than expected in the second quarter with EPS surprises of 20%+, despite a (-33%) decline in YOY in EPS growth. As shown on Figures 3 and 4 below, the blended S&P 500 Q2 EPS (combines actual results for companies that have reported and estimated results for companies that have yet to report) has inflected higher, while the proportion of U.S. companies beating EPS estimates reached a new high. Improving manufacturing data and a very low hurdle rate contributed to the strong earnings beats. While analysts cut CY 2020 S&P EPS expectations during 1H 2020 by 28.7% (from \$177.81 to \$126.86), as of June 30, the CY 2020 bottom-up EPS estimate has increased by 3.5% (from \$126.86 to \$131.30)*. *Source: Factset Insights



Commentary from management teams was mixed with some warning of virus-related uncertainty impacting their ability to provide a clear forecast. Others noted their recovery would be reliant on additional stimulus from Congress. On the other side of the spectrum, management teams highlighted healthy growth in business activity and consumer demand in June and July, but expressed some concern about future weakness due to additional virus outbreaks.

It's no surprise the technology sector was a clear winner with 92% of companies beating profit estimates and the best rate of forward-looking upward earnings estimate revisions. Software and Semi's delivered double digit positive growth, while IT Services showed a decline in profits. Cloud computing and Software as a Service continue to drive momentum in the space. The Healthcare sector also delivered strong results; however, growth trends showed a wide YOY gap between Providers/Services (+59%) and Biotech (+2%) and Pharmaceuticals (-5%) and Equipment/Supplies (-45%). Finally, Utilities were another strong group with EPS up (+6%) YOY and positive across all groups. The Industrials sector generated strong earnings surprise across most groups, yet YOY EPS is still expected to contract by (-83%).

The consumer related sectors were a mixed bag. Within consumer staples, 95% of companies beat EPS estimates yet are expected to decline (-8%) YOY. Change in consumer habits due to COVID-19 was a boon to Household/Personal Products (+4%) YOY, while Retailing collapsed (-25%) YOY. Autos, Internet and Retail delivered robust beats in the consumer discretionary sector, yet EPS guidance remains weak and is expected to decline (-76%) YOY.

In the financial sector, asset managers were the only positive group for the sector with broad based declines in credit cards, regional banks and insurance. Investment banks did deliver positive surprise due to robust trading and capital markets activity, while regional banks and credit cards missed on higher loan loss provisions. The energy sector saw the largest declines in revenues (-55%) and EPS growth (-169%) due to lower oil prices and falling demand. Upstream companies beat on stronger international activity, while Integateds missed on lower supply due to COVID-19 lockdowns.

MSCI EAFE:

For the second quarter, EAFE EPS growth declined (-51.9%) YOY, a much sharper decline than in the U.S. This is largely due to the underweight positions of Technology and Healthcare stocks in EAFE vs. the S&P 500. While the U.S. outperformed EAFE by the widest spread in Consumer Discretionary, Technology and Utilities, EAFE delivered better results in the Financial and Industrial sectors.

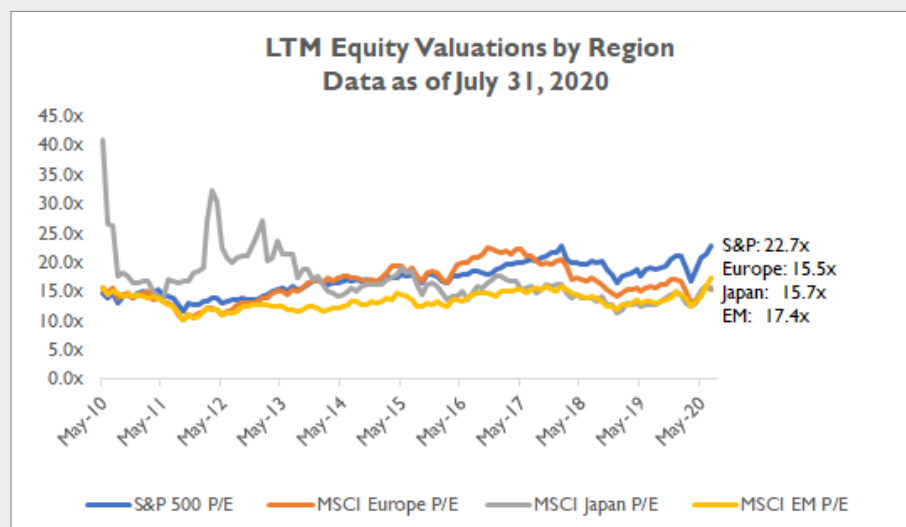
Specific to Europe, 65% of companies beat EPS estimates by 23% giving a strong net beat of 30%, which is an indication that consensus expectations were too low coming into reporting season. However, profits were the worst on record declining (-26%) YOY brought on by unfavorable business conditions due to COVID-19. Consensus expectations for EPS growth remained unchanged, a sign of a trough for 2020 profits. That being said, there have not been a meaningful number of EPS upgrades. However the cyclicals have seen relative upgrades versus defensives for the first time in over two years. In Japan, 59% of companies beat EPS estimates with growth declining (-15%) YOY, which is a 5% drop from the first quarter with Communication Services being the only sector to deliver positive growth.

MSCI Emerging Markets:

Earnings results also declined in the emerging markets with a (-2%) USD decline YOY; however, results showed a (+17%) USD YOY improvement from last quarter. EM Asia earnings came in stronger than consensus estimates and outperforming other EM regions. CEEMEA (Central/Eastern Europe, the Middle East and Africa) is running below consensus estimates, while LatAm is significantly below estimates with lower commodity prices and currency depreciation taking a toll on 2Q20 results. Among sectors, Information Technology and Health Care beat consensus by more than 5 percentage points and surpassed EM YOY EPS growth. Conversely, Materials and Industrials produced an earning miss in excess of 5 percentage points and underperformed the MSCI Emerging Markets Index. 2020e EPS is currently expected to decline 13% in 2020 and materially improve in 2021 with estimates ranging from (+22% - +32% USD) YOY.

Valuation:

Equity market valuations around the globe continue to rise due to multiple expansion despite double-digit declines in forward EPS forecasts for the first half of the year and modest to no improvement for the balance of the year. As hurdle rates for earnings comparisons come off very low levels, the trajectory of the earnings recovery will likely play an increasingly larger role in equity market valuations.



Source: Factset

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