



2023 Q1 CORPORATE EARNINGS MONITOR HIGHLIGHTS

- **Global corporate earnings in 2023 Q1 came in above expectations. However, EPS forecasts had been heavily revised down ahead of the start of the reporting season.** Nevertheless, projected EPS remains strong across most geographies somewhat contradicting calls of a potential recession in 2023-24.
- **Mean aggregate EPS revisions were mixed across regions.** The Euro Area saw strong upwards revisions while optimism has faded slightly around the re-opening of the Chinese economy. In aggregate, forecasts for the United States do not show upgrades despite almost 70% of S&P 500 companies beating EPS estimates.
- **Profits margins have continued to contract across most major regions as companies reported concerns about increases in labor and input costs (raw materials)** pressuring the outlook for this year.
- **The outperformance of the S&P has been mostly driven by a small number of large cap companies, which have also seen a strong re-rating reflecting investors expectations for higher earnings in the future.** The equal-weighted S&P 500 on the other hand is broadly unchanged.
- During Q1 earnings calls, **managers continued to express their concerns about the persistence of inflation while the possibility of a recession has receded somewhat compared to Q4.** After the collapse of a few regional banks, the banking sector's health has become top of mind for investors as shown by the increase in the number of times the word "banks" was mentioned in the S&P 500 earnings calls. Additionally, the mentioning of AI has reached an all-time high, following a spark in AI technology over the past few months.
- **After the March turmoil, the banking sector earnings season was heavily scrutinized by market participants with a particular focus on deposits and broader liquidity dynamics.** In the US, the picture was mixed. Large banks mostly beat EPS expectations while regional banks were split. A differentiation approach emerged among investors as concerns shifted to potential distress coming from uninsured deposits, deposit outflows, FHLB advances, and CRE exposure.

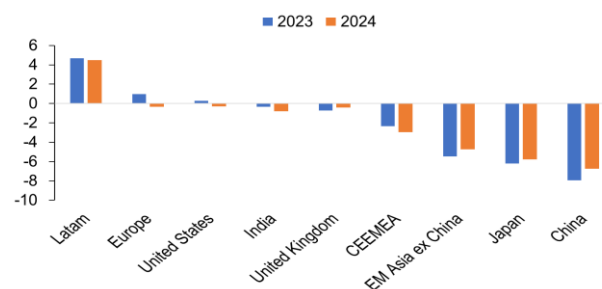
Global EPS growth forecast remain strong despite generalized expectations of moderation and large cuts going into results season.

1. Actual and Projected Global EPS Growth by Country (Year-over-year percent change)

	EPS Growth		
	2022	2023e	2024e
Latam	27.90	-8.85	10.46
Europe	-10.30	33.38	7.18
United States	5.20	3.59	13.56
India	-0.35	20.97	18.06
United Kingdom	20.80	-1.40	7.21
CEEMEA	43.45	-14.99	9.15
EM Asia ex China	7.75	8.64	9.96
Japan	-3.15	0.87	10.00
China	-8.35	17.04	21.67

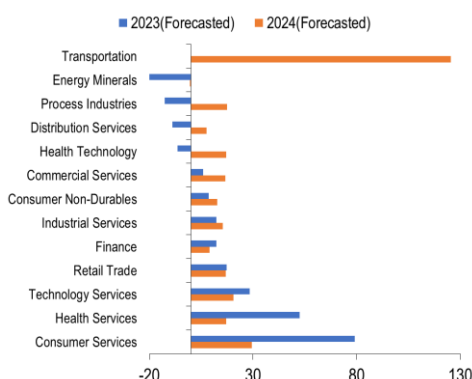
EPS was revised upwards in Europe while beats to consensus in the USA were not reflected in 2023-24 forecasts. China saw strong negative revisions.

2. EPS Revisions Since March 31, 2023 (Percent change, aggregate EPS)



Global EPS forecasts by sector show little signs of earnings recession across main industries in 2023 or 2024.

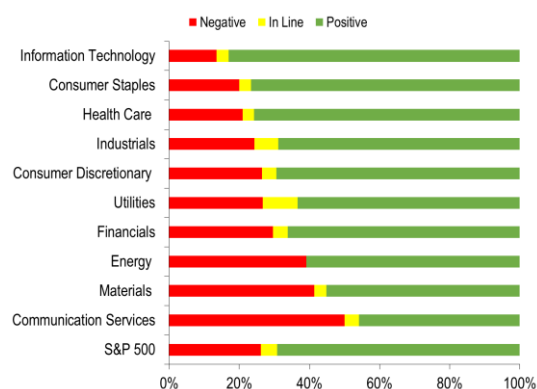
3. Projected Global EPS Growth by Sector (Percent change, year-over-year)



- Consumer, health and technology services stand out as displaying a robust growth profile in the coming years.
- Analyst expect a strong turn-around in the transportation sector while commodity and industrial related industries continue to lag.

In the US, 70% of S&P 500 companies reported positive earnings surprises

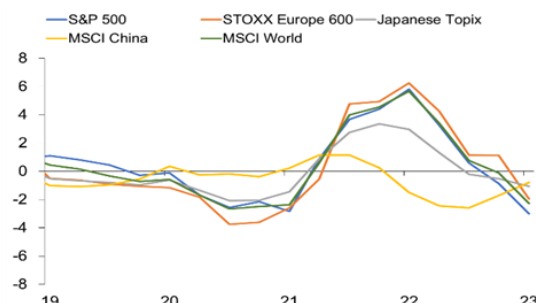
5. S&P 500 2023Q1 Surprises by Sector (Percent of firms)



- Earnings positively surprised at about 70% of S&P 500 firms, broadly in line with last quarter.
- The biggest negative surprises remain driven by the communications sector followed by materials and energy.

Amid stubbornly high inflation, profit margins have continued to deteriorate during the quarter.

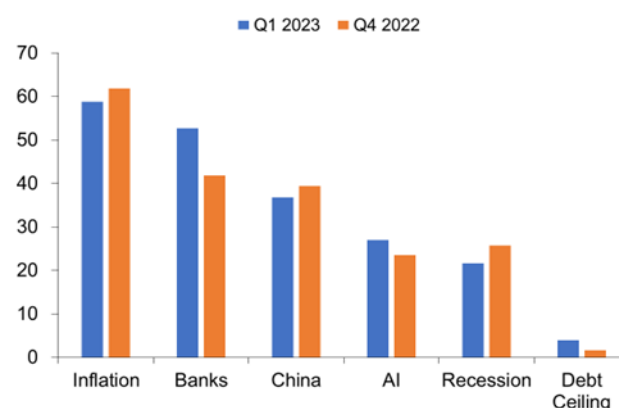
4. Profit Margins (Percentage points, four-quarter change)



- Companies struggled to sustain margins across developed and emerging markets as higher input costs strain profitability.
- Abnormally strong 2022 margins set a high bar for year-on-year comparisons.

In the first quarter inflation remained a key focus. Bank developments and AI attracted increased attention.

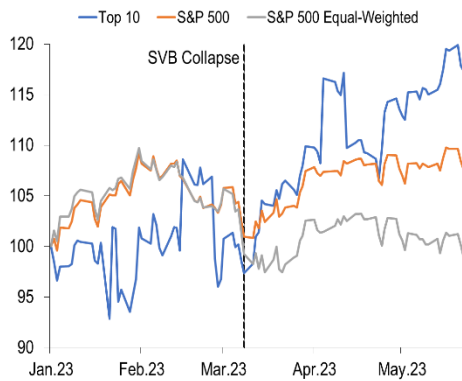
6. Percentage of Earnings Disclosures Key Words Are Used for S&P 500 Companies (Percent)



- 1Q earnings calls, transcripts, and presentations continue to show a strong focus by management on inflation, potential recession and China.
- Concerns around the banking sector turmoil and AI disruption increased quarter-on-quarter.
- A potential breach of the debt ceiling was not a prominent concern in Q1 earnings disclosures.

The largest companies are driving the S&P 500 since the start of the banking turmoil...

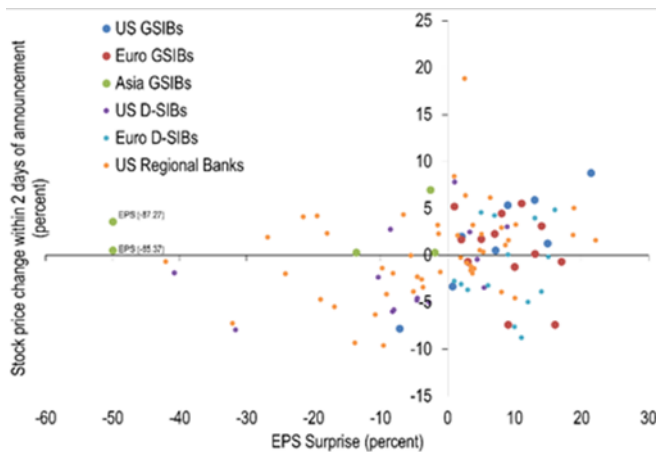
7. S&P 500, Top 10 and S&P 500 Equal Weighted (Prices, Indexed, Jan 3, 2023 = 100)



- The S&P 500 is up around 8% year-to-date driven in part by the top 10 companies by market cap which have outperformed since the collapse of SVB.
- The equal-weighted index of the S&P 500 is unchanged since January.

The banking sector turmoil took the center stage during 1Q23 earnings season

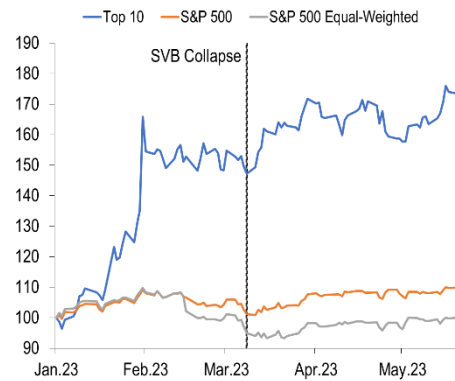
9. Bank EPS Surprise and Stock Price Reaction (Percent)



- The correlation between EPS beat and positive stock price reaction broadly held true for bank stocks during 1Q23.
- Regional banks were outliers as investors focus shifted to potential vulnerabilities regardless of EPS performance in the quarter
- The majority of US and Euro GSIBs beat EPS expectations, while all Asia GSIBs missed.

...as their Price-to-Earnings ratios expand dramatically compared to the Equal-Weighted S&P 500

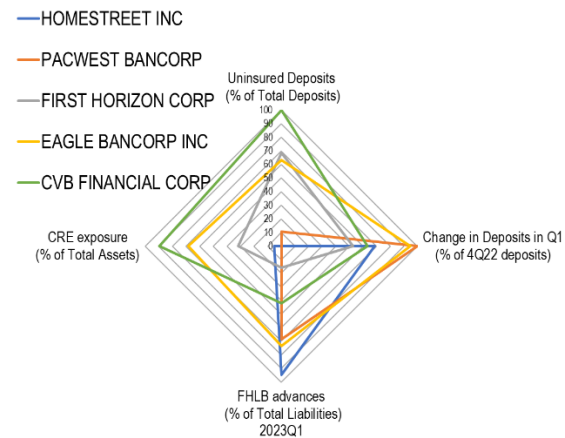
8. S&P 500, Top 10 and S&P 500 Equal Weighted (P/E ratio, Indexed, Jan 3, 2023 = 100)



- Price-to-earnings ratio have expanded by nearly 80% for the top 10 companies by market cap.
- The S&P 500 has also re-rated by 8% to close to 19x P/E but is still below the 5-year average of 21x.
- The P/E for Equal-Weighted S&P 500 on the hand has decreased by 3% further reflecting the divergence.

...US regionals significantly declined YTD from perceived vulnerabilities

10. Relative characteristics of 5 biggest underperformers based on stock price YTD (Percentile, relative to US Regional Banks)



- Relative to US Regional Bank peers, 4/5 of the worst performers were in the 90th percentile for at least one of the perceived vulnerabilities
- The stock price for the top 5 underperformers have dropped at 53 - 81% year-to-date
- KBW Regional Banking Index has lost 28% of its market capitalization year-to-date, showing contagion to broader regional banks

Sources: Bloomberg Finance L.P.; FactSet; MSCI; NABE; Refinitiv Eikon Datastream IBES; and IMF staff calculations.
Note: The analysis pertains to large, publicly traded firms.