GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Corporate Earnings Monitor

WEDNESDAY, OCTOBER 9, 2024

Corporate Earnings Monitor Highlights: Q2 2024

- **Major global equity indices have gained since the start of the year**, despite being interrupted by a severe, but ultimately transitory, sell off in early August.
- **Corporate earnings were better than expected in most regions** for Q2 2024, with advanced economies generally outperforming emerging market economies.
- **The greatest improvement in profit margins were seen in Japan, the US, and Asia ex Japan**. In contrast, profit margins fell the most in Latin America and Europe.
- **Year-over-year EPS (earnings per share) growth is projected to be positive in most regions over the next two years,** despite downward revisions throughout 2024; however, with significant cross-country heterogeneity. From a sectoral perspective, revisions were generally negative, except for the Health Services, Transportation, Utilities, and Tech Services sectors.
- **Policy rate cuts from major central banks have led investors to rotate capital into more rate-sensitive sectors**, expanding the breadth of the equity rally. Companies with higher debt and fixed costs, such as real estate and small capitalization stocks, tend to benefit relatively more from lower interest rates.
- **Analysts expect small cap stocks to outperform their large cap counterparts in terms of profitability over the next year.**
- **Valuations remain highly conditional on earnings growth, especially in Tech**. Valuation metrics for the S&P are elevated by historical standards (above the 90th percentile since 2000).
- **Estimates based on 200+ [in house] asset pricing/DDM models reveals equity risk premium is at historically compressed levels**, providing support to the current rally.
- **AI and inflation continue to be major topics mentioned by S&P 500 managers during earnings disclosures**. Additionally, disclosures reveal managers remain cognizant of geopolitical risks.
- **Asset Managers and Investment Funds have continued to increase long positions in US equities since the end of 2022.**

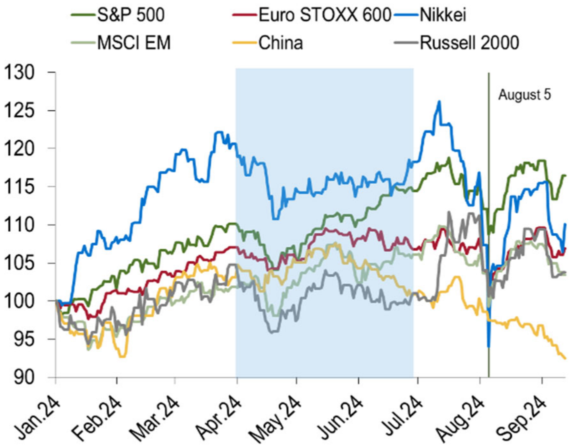
Major global equity indices have gained since the start of the year, despite being interrupted by a severe, but transitory, sell off in early August.

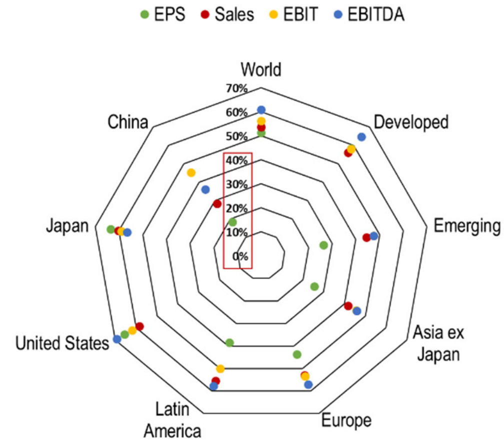
1. Performance of Selected Indices (Prices indexed, December 31, 2023 = 100)

Corporate earnings were better than expected in most regions, with more than 50 percent of companies beating consensus in most metrics, across regions.

2. Percentage of Companies Beating Expectations for Selected Regions (Percent)

This Monitor was prepared by Harrison Kraus and Gonzalo Fernandez Dionis.



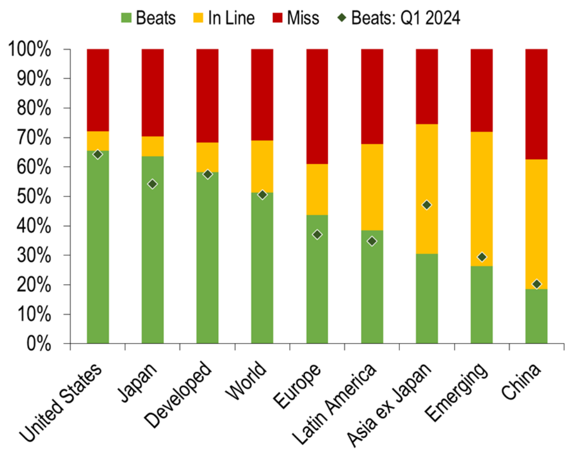


Notes: In chart 1, the shaded blue region highlights the performance of equity indices over Q2.

Positive EPS surprises in Q2 2024 were relatively similar to the preceding quarter.

3. 2Q24 EPS Surprises for Selected Regions

(Percent)

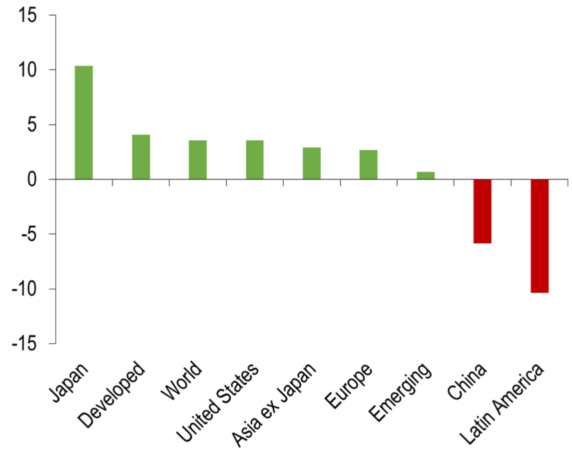


- Companies in US and Japan had the largest share of EPS beats.
- China experienced the lowest share of companies beating EPS expectations, with emerging markets closely following.
- Q2 2024 had a smaller share than Q1 2024 of companies beating EPS expectations in Asia ex Japan, emerging markets, and China.

Reported EPS, in aggregate, was above consensus forecasts, except for Latin America and China.

4. 2Q24 EPS Surprise Magnitude for Selected Regions

(Percent)

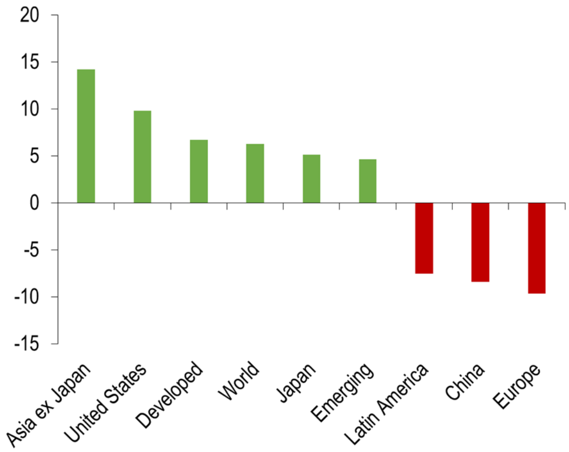


- The magnitude of EPS surprises ranged from -10% in Latin America to +10% in Japan.
- Latin America posted extreme negative surprises in Electronic Technology and Communications sectors.
- The large positive magnitude for Japan can be attributed to the better-than-expected performance of Health Technology.

Notes: In chart 3, the dark green marker represents the percentage of companies beating EPS expectations in Q1 2024. 'Magnitude,' in chart 4, is percent of net income above/below estimated value before reported results.

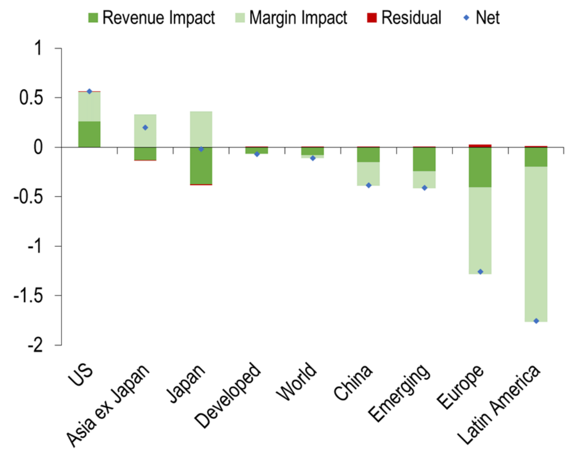
Aggregate net income growth, was positive except for Europe, China, and Latin America.

5. Year-over-year Net Income Growth (Percent)



A decomposition of EPS growth reveals changes can mostly be attributed to variation in profit margins across regions, especially on the downside.

6. EPS Decomposition (Quarter-over-Quarter EPS change)



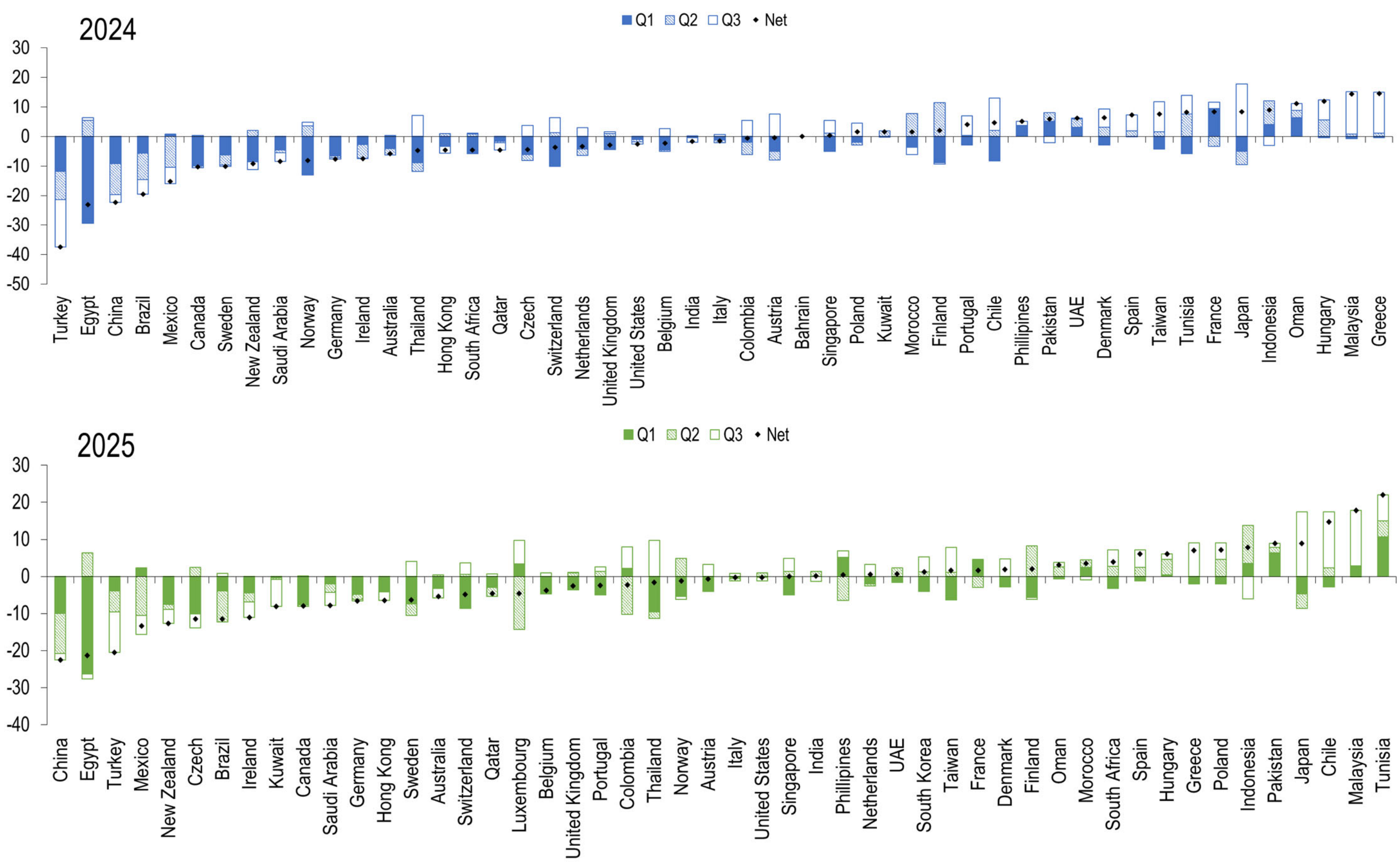
- Asia ex-Japan and the US experienced the largest growth in net income year-over-year.
- Advanced economies generally experienced larger net income growth than emerging market economies.
- European net income was dragged down by negative growth in non-energy minerals and electronic technology sectors.

- The US saw the largest increases in EPS quarter-over-quarter, driven by improvements in profit margins and revenues.
- Other regions experienced declines in EPS, primarily driven by a drop in profit margins (light green in Figure 6).

Notes: In chart 6, Revenues and Profit Margin data are cummulative for the last 12 months. The chart show quarterly change in last 12 month data.

During Q2, more countries experienced positive, rather than negative EPS revisions for year-end 2024 and 2025, although year-to-date revisions are still negative in most countries.

7. EPS Revisions by Country (Percent change, aggregate EPS)



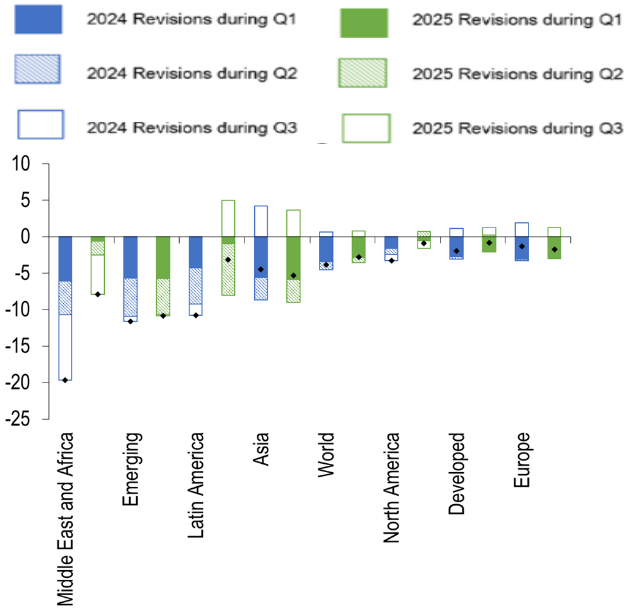
- Most countries experienced positive EPS revisions for year-end 2024 and 2025 during Q2, reversing the negative trend in Q1.
- Despite most countries experiencing positive revisions during Q2, and thus far in Q3, year-to-date analysts have expected lower EPS for year-end 2024 and 2025 relative to the start of the year in most countries.

Notes: Blue bars are aggregate analyst revisions to year end 2024 EPS expectations for each country. Green bars are aggregate analyst revisions to year end 2024 EPS expectations for each country. Solid bars are revisions during Q1, shaded bars are revisions during Q2, and white bars are revisions during Q3 thus far.

Regionally, expected year-end EPS for 2024 and 2025 is lower compared to the start of the year.

8. EPS Revisions by Region

(Percent change, aggregate EPS)



- The Middle East and North Africa have experienced the largest negative revision for 2024 potentially driven by macro and geopolictical economic pressures.
- Emerging markets revisions have generally been lower realtive to their advanced economy counterparts.

Despite this, analysts continue to expect mostly positive EPS growth in 2024-25.

9. Actual and Projected Global EPS Growth by Region

(Year-over-year growth)

	2023	2024e	2025e
World	-2.87	12.40	14.35
Developed	-0.45	13.75	13.96
Emerging	-7.38	8.26	17.45
North America	1.64	9.99	16.67
Europe	5.43	13.15	10.48
Asia	-7.11	19.87	14.23
Latin America	-15.33	6.58	20.32
Middle East and Africa	-9.37	-4.27	32.32
Selected Countries:			
United States	2.81	10.32	16.85
Japan	-0.18	26.45	8.92
Italy	24.03	-3.37	4.53
United Kingdom	-6.88	4.86	10.15
Brazil	-8.55	-2.48	21.25
India	27.74	14.09	17.71
China	-7.97	3.68	20.71

- After most regions experienced negative EPS growth in 2023, analysts are expecting a global rebound over the next 2 years.
- Japan is expected to experience the highest EPS growth in 2024, amid robust macroeconomic backdrop.

Notes: Blue bars are aggregate analyst revisions to year end 2024 EPS expectations for each region. Green bars are aggregate analyst revisions to year end 2024 EPS expectations for each region. Solid bars are revisions during Q1, shaded bars are revisions during Q2, and white bars are revisions during Q3 thus far. Table shows actual and blended (combinations of actual and expected results) year-over-year EPS growth by region and selected countries. Colors schemes are relative to growth based on region and countries respectively. “e” = expected.

Global Sectors

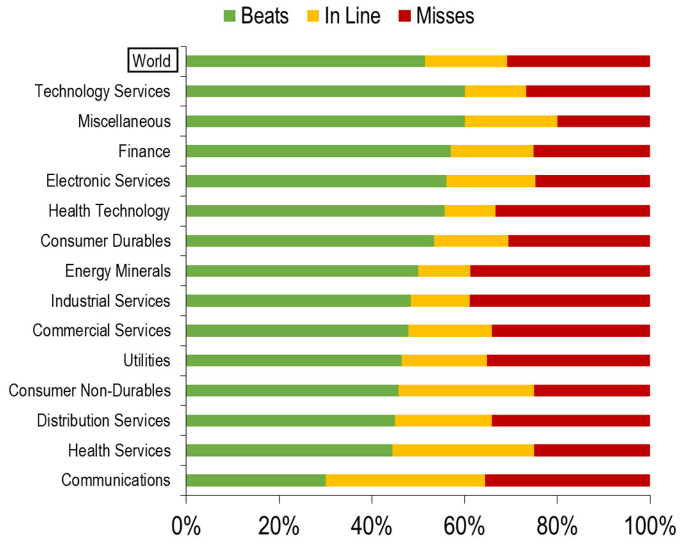
Sectoral performance shows Tech and Energy have lagged since June, while Real Estate and Utilities have generally outperformed.

10. Sector Performance by Index (Percent change since June)

Change Since June	Index	Materials	Industrials	Consumer Staples	Energy	Information Tech	Consumer Discretionary	Communication Services	Financials	Health Care	Utilities	Real Estate
S&P 500	3.16	5.62	7.33	9.77	-5.53	-2.17	3.33	-3.09	9.24	7.46	15.34	17.44
MSCI AE	3.50	3.36	6.08	9.08	-5.47	-1.35	2.68	-2.02	7.39	7.11	14.09	16.63
MSCI EM	-0.36	-4.28	0.02	2.79	-5.28	-5.81	1.04	1.01	3.81	14.50	0.69	-1.71
Canada	8.35	10.88	3.51	5.97	-0.75	8.89	4.81	9.16	13.77	11.77	14.50	21.56
MSCI Europe	0.63	-1.78	1.78	4.58	-8.74	-12.27	-5.76	7.89	4.37	2.65	12.08	13.64
Japan	-7.58	-9.18	-9.46	-0.55	-14.09	-12.79	-12.34	-4.52	-14.14	0.97	-11.75	0.92
MSCI Latin America	3.20	-4.95	8.57	-1.21	-1.91	-0.76	15.01	3.65	8.70	18.53	11.96	-2.33
MSCI EMEA	2.11	-3.09	-6.63	1.81	-3.54	11.31	-0.26	10.20	3.38	-2.74	4.61	9.17
MSCI Asia	-1.07	-4.49	-0.52	4.35	-6.63	-5.88	0.98	-0.19	3.31	15.89	-2.77	-6.22
China	-8.74	-14.23	-8.39	-14.61	-16.28	-11.95	-3.77	-10.02	-3.36	-5.43	-9.32	-8.37
MSCI World	3.11	2.00	5.66	8.54	-5.45	-1.79	2.49	-1.69	6.89	7.33	12.46	15.27

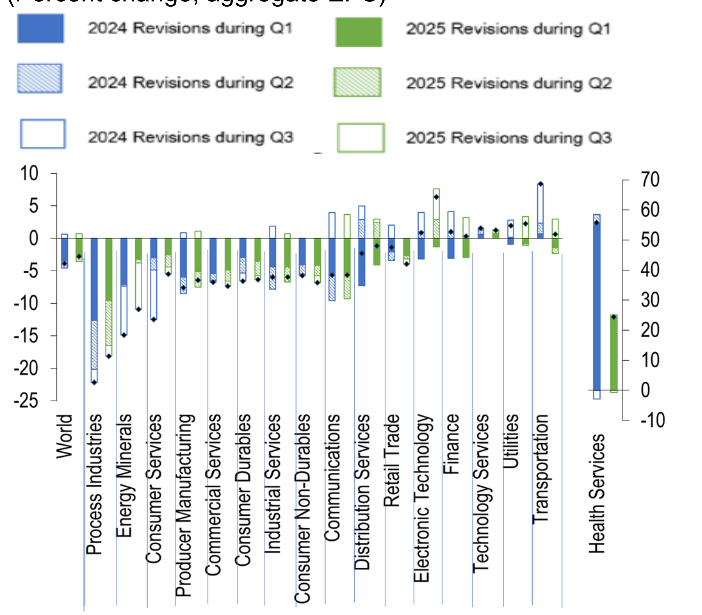
Just over 50 percent of companies beat revenue estimates in Q2 2024, globally, led by the Technology Services and Miscellaneous sectors.

11. Global 2Q24 EPS Surprises by Sector
(Percent of firms)



EPS revisions since the start of 2024 were generally negative, except for Health Services, Transportation, Utilities, and Tech Services sectors.

12. Global EPS Revisions by Sector
(Percent change, aggregate EPS)



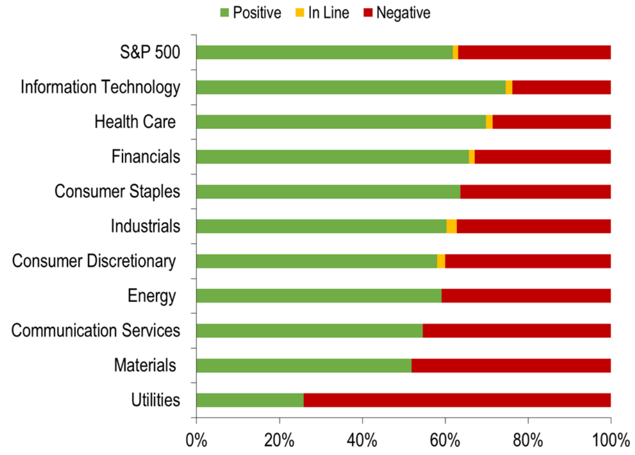
- Just over 50% of companies worldwide beat earnings expectations in Q2 2024, in line with Q1 2024.
- Technology Services had the highest percentage of companies beat EPS while Communications had the lowest share.
- Health Services saw major upward revisions to estimated EPS since the start of 2024 due to previous major downward revisions for the sector in Q4.
- Expected EPS for global sectors remain lower relative to the start of the year.

Notes: Chart 10 shows stock price performance since June 2024. Color scheme is relative to entire table. In chart 12, blue bars are aggregate analyst revisions to year end 2024 EPS expectations for each global sector. Green bars are aggregate analyst revisions to year end 2024 EPS expectations for each global sector. Solid bars are revisions during Q1, shaded bars are revisions during Q2, and white bars are revisions during Q3 thus far. Health Services revisions are on right scale.

United States: S&P 500

Just under 62 percent of companies in the S&P 500 beat revenue estimates in Q2 2024, led by the Information Technology and Health Care sectors,…

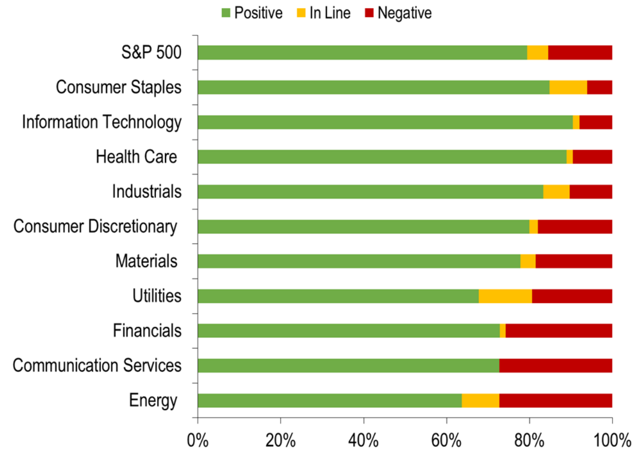
13. S&P 500 2Q24 Revenue Surprises by Sector
(Percent of firms)



- 62 percent of companies beat revenue expectations, which is lower than 66 percent in Q1 2024.
- S&P 500 revenue surprises were led by Information Technology and Health Care.
- Utilities, Materials, and Communication Services experienced the most negative suprises for the quarter.

… while around 79 percent of companies reported positive earnings surprises.

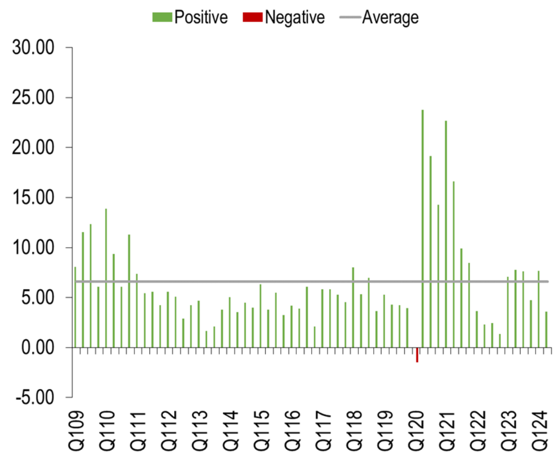
14. S&P 500 2Q24 EPS Surprises by Sector
(Percent of firms)



- 79 percent of S&P 500 companies reported positive EPS surprises, higher than the 5 year average of 77 percent.
- Larger share of EPS beats compared to revenues signals better than expected margin performance during the quarter.
- Positive EPS surprises in Q2 2024 were larger than in Q1 2024, which stood around 75 percent.

In aggregate, S&P 500 companies earnings surprised to the upside by 3.6 percent, albeit below the 15-year average.

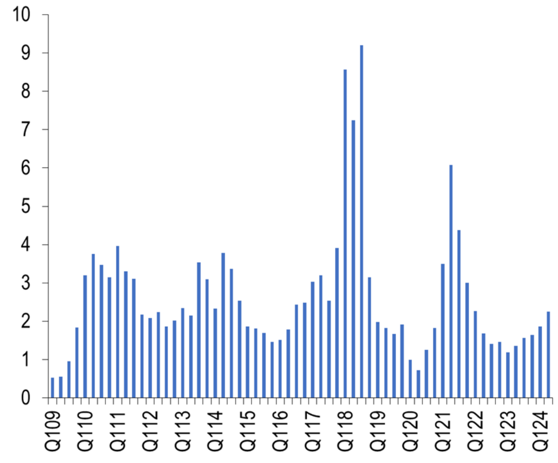
15. Magnitude of S&P 500 EPS Surprises
(Percentage points over estimated)



- The magnitude of earnings surpises in Q1 was the lowest since Q4 2022.
- Q2 surprises were below the 2009-2024 average of 6.6 percent.

The ratio of S&P 500 companies with positive to negative year-over-year earnings growth has steadily increased since Q3 2022.

16. Companies with Positive vs Negative Year-over-Year EPS Growth (Ratio)

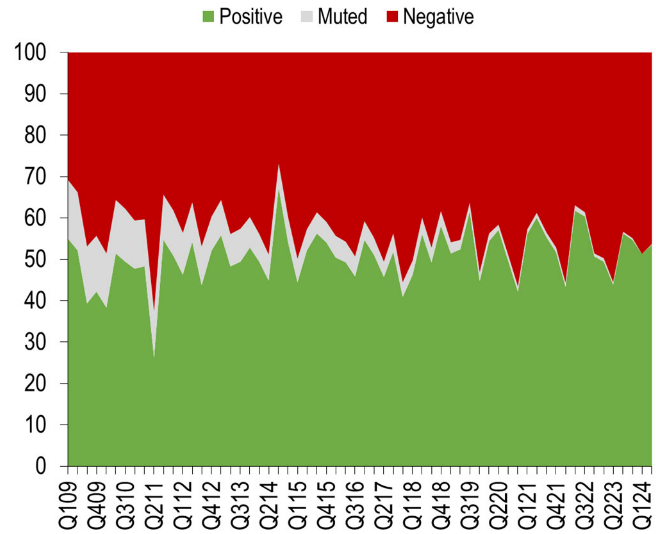


- The ratio of postive to negative year-over-year earnings growth in Q1 2024 was above 2.3.
- The Q2 2024 ratio is lower than the average ratio since 2009 of 2.6.

Notes: 'Magnitude' in chart 15 is percent of net income above/below estimated value before results. Grey line is the average since Q1 2019. Ratio in chart 16 is the number of companies with positive earnings growth divided by the number of companies with negative earnings growth.

Over 53 percent of S&P 500 companies had positive stock price reactions following earnings disclosures.

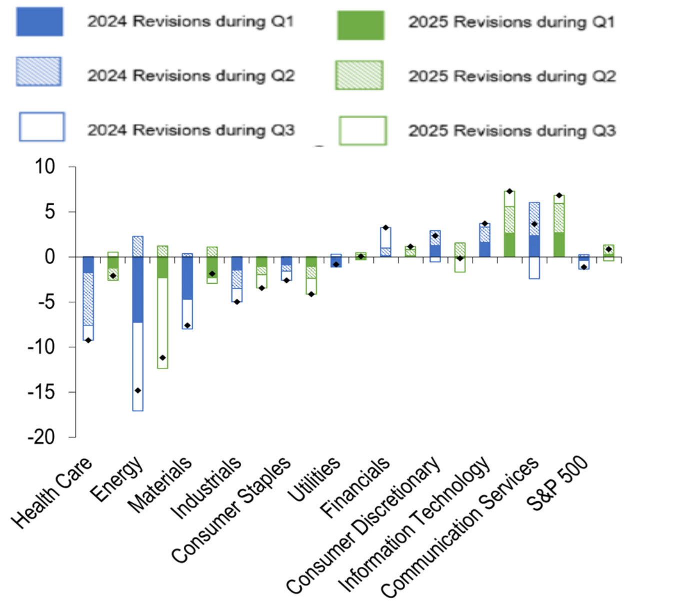
17. Stock Price Impact after Earnings Release
(Percent of S&P 500 companies)



- 53 percent of S&P 500 companies had positive price reactions to earnings disclosure, above the average (since 2009) of 50.7 percent.
- Percentage of companies with positive price reactions has rebounded since the trough in Q2 2023.

The S&P 500 has experienced negative 2024 EPS revisions since the last monitor.

18. S&P 500 EPS Revisions by Sector
(Percent change, aggregate EPS)

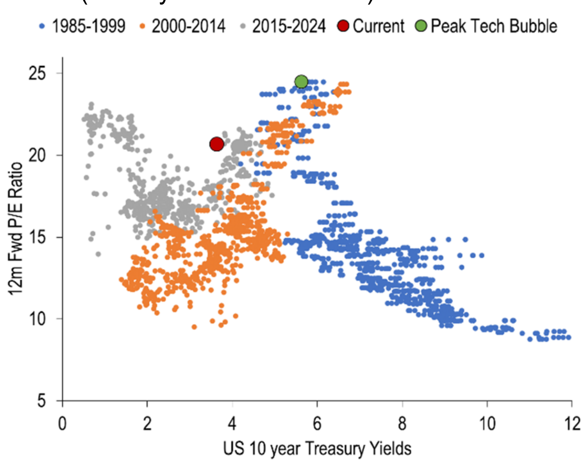


- S&P 500 revisions for 2024-25 since the start of the year are in slight contrast to the borader US index seen in chart 7 above, suggesting divergence between large and small capitalization companies.
- Communication Services and Information Technology saw the greatest upward revisions, as markets adjust forecasts for future earnings performance.

Notes: S&P 500 and US revisions are different due to number of firms aggregated, exposure to different industries, and average market cap of the firms.

S&P 500 12m forward price to earnings (P/E) ratios remain within historical range compared to UST 10-year yields.

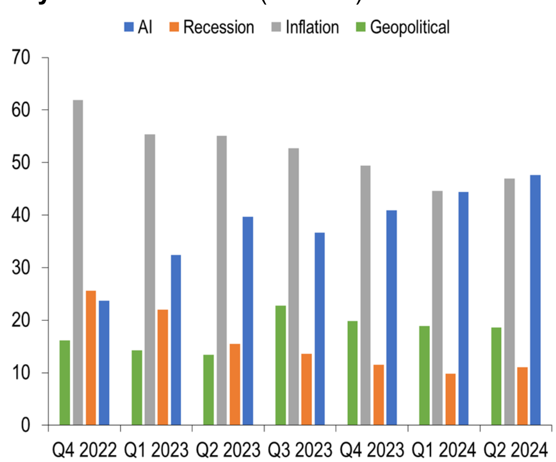
19. Historical Comparison of 12-month Forward P/E Ratios (Weekly 12m forward P/E)



- S&P 500's current 12m forward P/E ratio is just above 20, compared to slightly under 25 seen at the peak of the tech bubble.
- The ratio remains within the historical range when valuation metrics are compared relative to the risk-free rate.
- Negative relationship between valuation and 10-year yields shows reversal in trends since 2000.

Artificial Intelligence continues to be a major topic on S&P 500 earnings disclosures.

20. Percentage of S&P 500 Earnings Disclosures Where Key Words are Used (Percent)



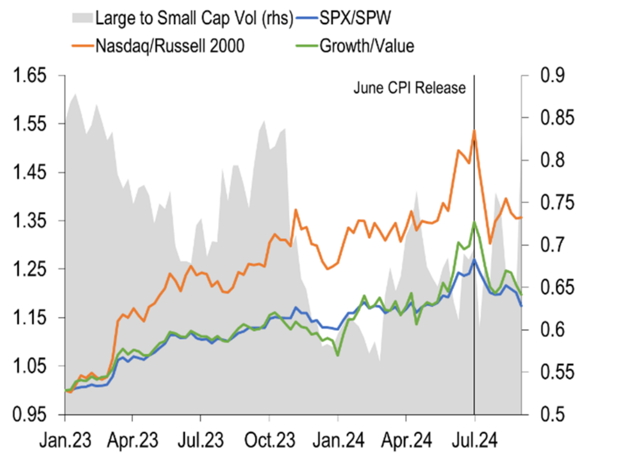
- Along with AI, inflation continues to be a major topic for managers in Q2 earnings disclosures.
- Managers remain cognizant of heightened geopolitical risk.
- Mentions of AI during earnings disclosures reached an all-time high.
- "Recession" cited in disclosures marginally increased after several quarters of declines.

Notes: Chart 20 illustrates the percentage of S&P 500 company earnings disclosure that use each word – does not indicate sentiment.

Selected Topics 2024 Q2: Rotation, Balance Sheet Strength, and Compensation to Shareholders

Since the lower-than-expected June CPI release, there has been a broad rotation out of large cap Tech stocks into more rate sensitive sectors of the market such as real estate and small cap stocks.

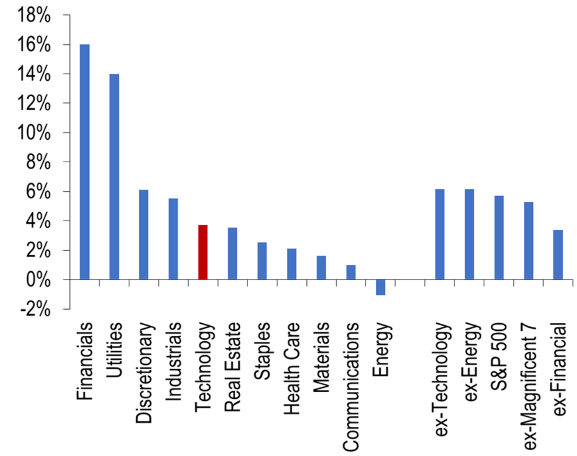
21. Equity Market Rotation (Ratio of Weekly Returns)



- Large Cap Tech stocks greatly outperformed during the first half of the year, before investors started rotating holdings to rate sensitive sectors like small cap stocks.
- The lower than expected CPI print led investors to increase their bets of upcoming rate cuts, which benefits comparatively more the earnings profile of rate sensitive sectors.

…with earnings results further supporting the rotation.

22. Earnings per Share Growth Surprises (Percent)

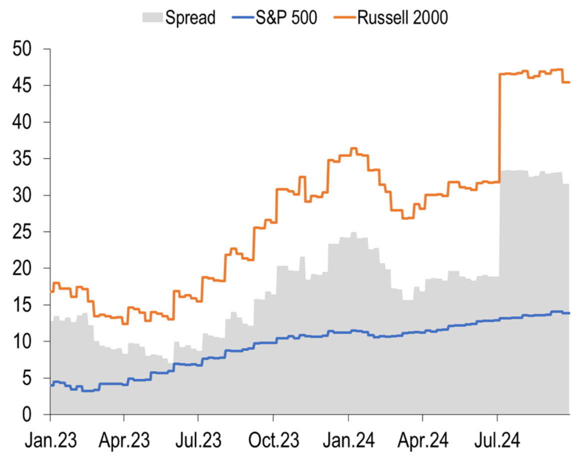


- Financials and Utilities had the largest EPS growth surprises in Q2 2024.
- Technology finished in the middle of the pack in terms of EPS growth surprises.
- S&P 500 ex-Tech and S&P 500 ex-Magnificent 7 had realtively similar EPS growth surprises to the overall index.

Notes: In chart 21, ratios are based on weekly returns. In chart 22, EPS growth surprise is the difference between actual EPS growth and estimated EPS growth.

Expected EPS growth rates in the Russell 2000 has jumped significantly since the last monitor.

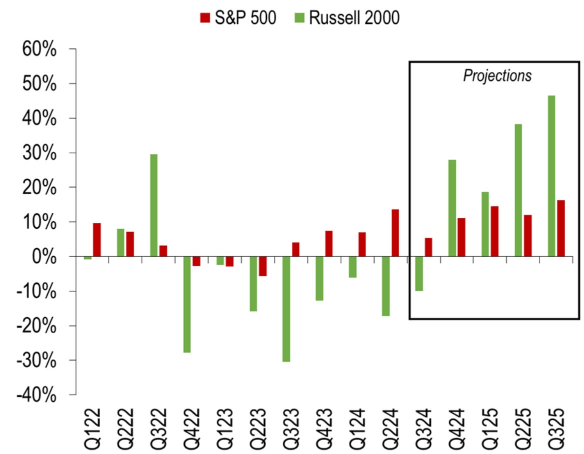
23. Expected 12 month ahead EPS Growth
(Expected growth rate)



- The expected EPS growth rate in the Russell 2000 has jumped signficiantly since the last monitor.
- The spread of growth rates between the Russell 2000 and S&P 500 has increased since the last monitor.

…as analysts are expecting earnings growth to turn positive in Q4 of this year.

24. Net Income Growth year-over-year
(Percent)

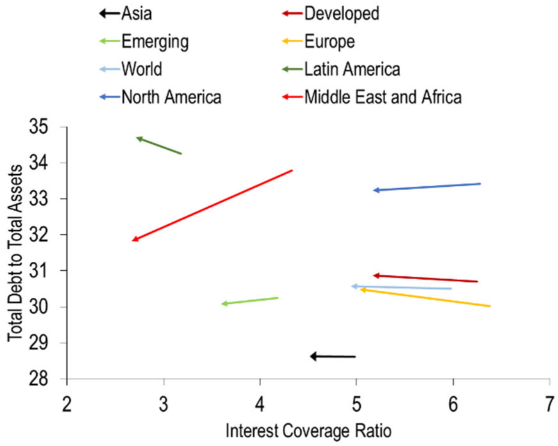


- The Russell 2000 experienced negative earnings growth in Q2 2024.
- Analysts are projecting earnings growth of the Russell 200 to outpace the S&P 500 over the next year.

Notes: In chart 23, growth rate refers to expected year-over-year percent change EPS. The shaded region is the expected growth rate of Russell 2000 minus S&P 500.

Most regions experienced a decrease in the interest-coverage-ratio (ICR), while changes in leverage were mixed.

25. Year-over-Year change in Coverage and Leverage Ratios (Change in Ratios, last 12 months)

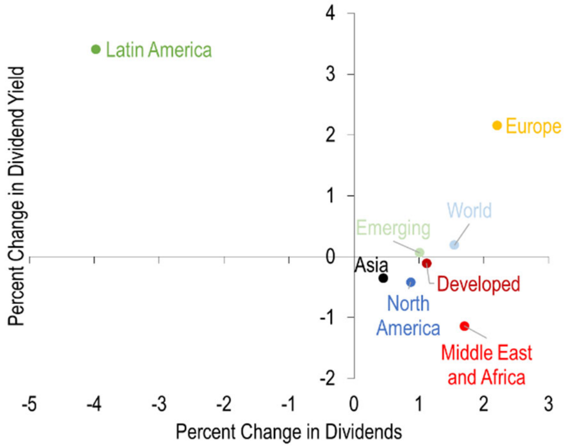


- With companies needing to refinance at higher rates than before, Interest Coverage Ratios have declined in most regions due to higher interest expenses.
- The Middle East and Africa, North America, and emerging markets experienced a decrease in leverage year-over-year.

Dividends per share (DPS) increased in most regions, except for Latin America.

26. Dividend Yield by Region

(Percentage change quarter-over-quarter, last 12 months)



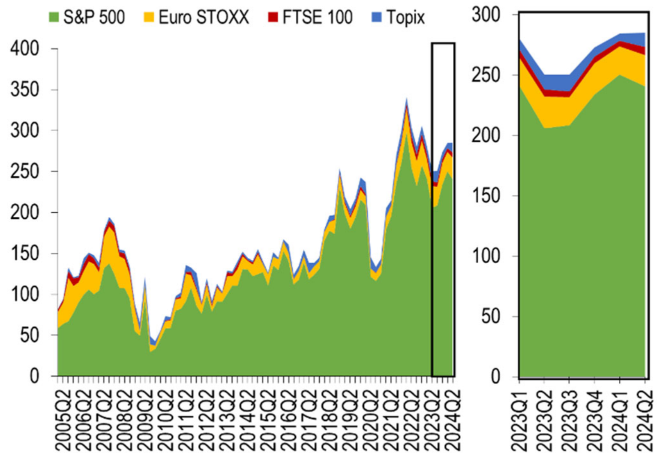
- Most regions experienced an increase in aggregate dividends during Q2, although stock price changes were mixed.
- Asia, advanced economies, North America, and Middle East and Africa had stock prices increase faster than dividends.
- Globall, aggregate dividends increased at a faster rate than stock prices.

Notes: Chart 25 shows the year-over-year change in ratios using last 12-month data. Chart 26 shows the quarter-over-quarter percent change using last 12-month data.

Share buybacks have increased compared to Q1 2024 for the Euro STOXX and FTSE 100 but decreased for the S&P 500 and TOPIX.

27. Share Buybacks by Index

(Billions USD)

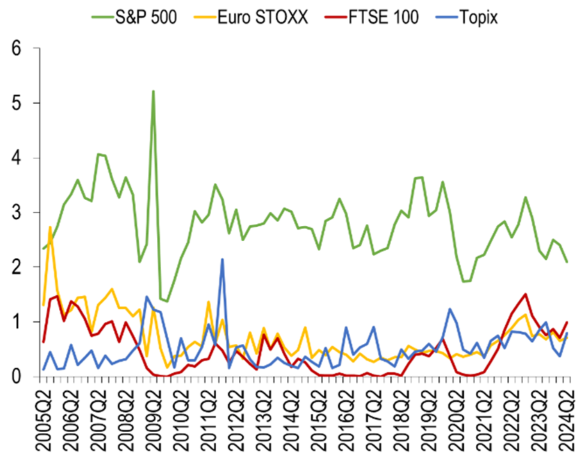


- Total share buybacks in USD marginally increased in Q2 for these indices.
- S&P 500 and Topix companies cut total buyback amount in USD.
- In contrast, management teams from the Euro STOXX and FTSE 100 increased buybacks in the quarter signaling their belief that stocks were undervalued in the current environment.

Buybacks as a percent of market cap have declined in the S&P 500, but increased in the Euro STOXX, FTSE 100 and TOPIX.

28. Share Buybacks to Market Cap of Index

(Annualized, percent)

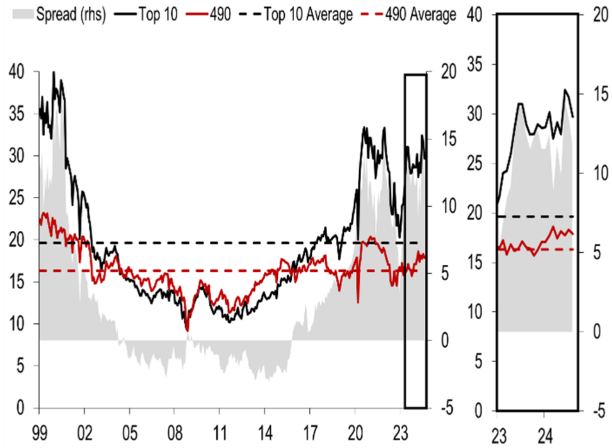


- Buybacks as a percent of market cap declined in the S&P 500 during Q2.
- Buybacks in the Euro STOXX, FTSE 100, and Topix, have rebounded in Q2 after falling in Q1.

Valuation, Sentiment, and Positioning

The spread between S&P 500's top 10 companies and bottom 490 12-month forward P/E ratios narrowed since the previous monitor.

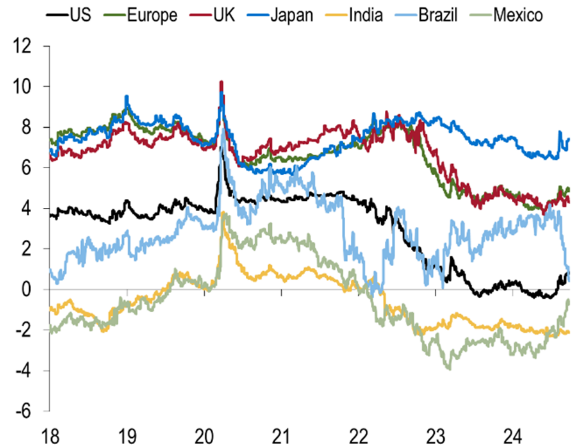
29. S&P 500 12-month forward P/E Ratio
(Ratio)



- The top 10 companies experienced a decrease in their 12-month forward P/E ratios since the previous monitor while the rest of the S&P increased.
- The narrowing of the spread illustrates the breadth of the equity rally is expanding, along with the current rotation out of tech.
- Forward P/E ratios of the top 10, 490, and spread between both categories remain below the levels seen during the tech bubble and COVID rebound.

Implied 1-year premiums have increased in most regions as central banks cut interest rates, except Brazil after a recent hike.

30. Implied 1-year premium
(Annualized, Percent)

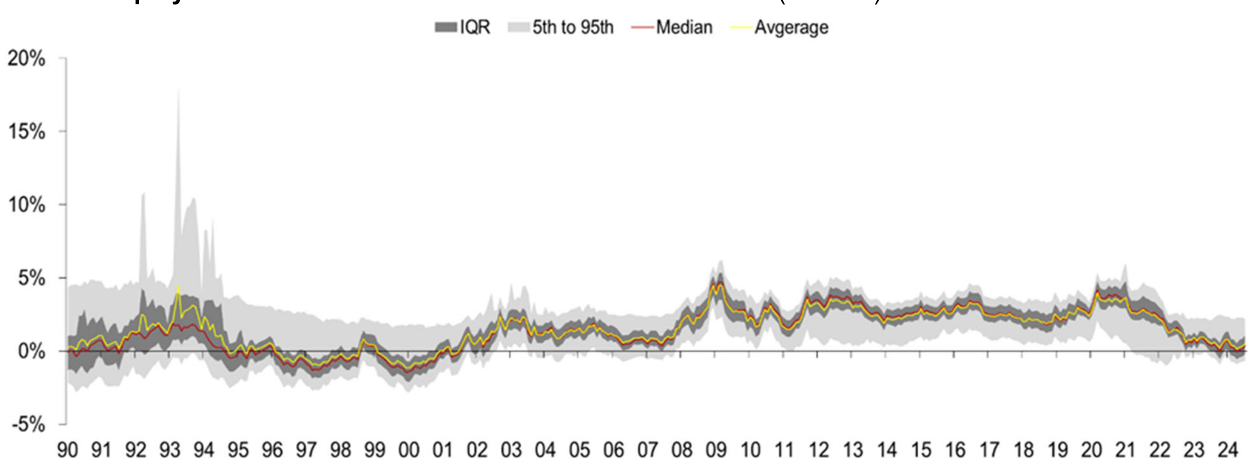


- Short term government yields greater than the 1-year forward earnings yield suggests cash remains an attractive investment.
- S&P 500 1-year forward earnings yield has surpassed the 12-month treasury.
- Implied 1-year premiums remain positive in advanced economies.

Notes: Chart 29 shows the 12-month forward P/E ratio for the top 10 stocks based on market cap in the S&P 500 and remaining 490 on a monthly frequency. P/E ratios are calculated as weighted average harmonic mean of P/E ratios. In chart 30, implied 1-year premiums calculated as 1-year forward earnings yield of country/regions main equity index minus 12m government bond. India, Brazil, and Mexico calculations use 1 year swap yield. Earnings yield = 12-month forward Expected EPS / Stock Price.

Estimates reveal equity risk premium is at historically compressed levels, contributing to the equity rally over the past few years.

31. S&P 500 Equity Risk Premium: Distribution Across 200+ Models (Percent)



Notes: Distribution of equity risk premium is based on estimated from 224 dividend discount models. Time series includes monthly data up until September 30, 2024.

Based on trailing fundamentals, the S&P 500, Nikkei, and Indian Sensex show valuations are highly conditional on expected profitability growth, relative to their own past values.

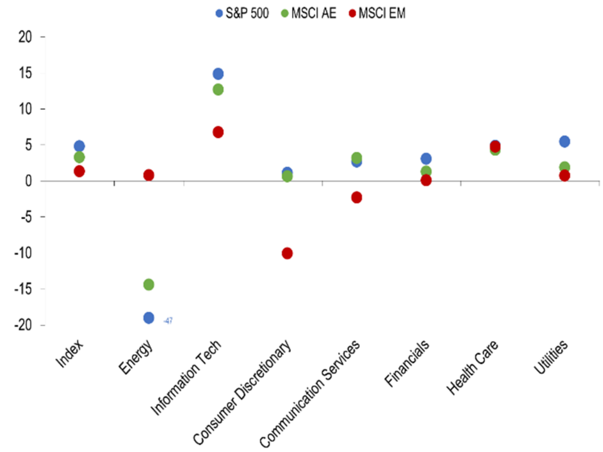
32. Fundamentals Heatmap (Percentile)

	P/E	P/CF	P/Sales	P/B
S&P 500	90.7	93.8	94.8	98.9
Euro STOXX	37.7	71.9	93.3	73.3
UK	44.3	62	68.1	63.6
Japan	79.4	97.5	98.7	88.7
Mexico	25.8	41.5	21.3	19.1
India	78.5	80.9	79.7	83.3
Brazil	14.1	14.2	8.4	23.9
China	27.6	10.1	23.6	1.3

- Stock prices in Brazil and China are trading at historically lower multiples when compared to other regions.
- The S&P 500, Nikkei, and Sensex are trading at historical highs based on fundamentals.

Globally, information technology appears most stretched in terms of P/E ratios relative to a 10-year average.

33. P/E Ratio (Deviation from 10-year average)

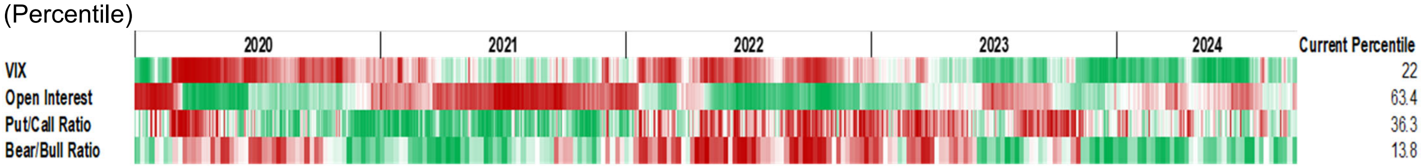


- Valuations remain highly conditional on earnings growth, especially in Tech.
- The prices of energy firms have fallen after a huge rally in 2022, as volatility in energy markets remains.

Notes: In chart 32, percentiles are based on own quarterly values since 2000. Color scheme is relative to entire table. In chart 33, deviations is the current P/E ratio minus average P/E ratio of last 10 years.

Equity volatility has increased since the last monitor, as more investors are buying downside protection – indicated by increased open interest.

34. Volatility and Sentiment Heatmap
(Percentile)



- Equity Volatility (VIX) and AII Bear/Bull ratio are low based on historical standards.
- Open Interest has increased since the last monitor despite the decrease in Put/Call Ratio.

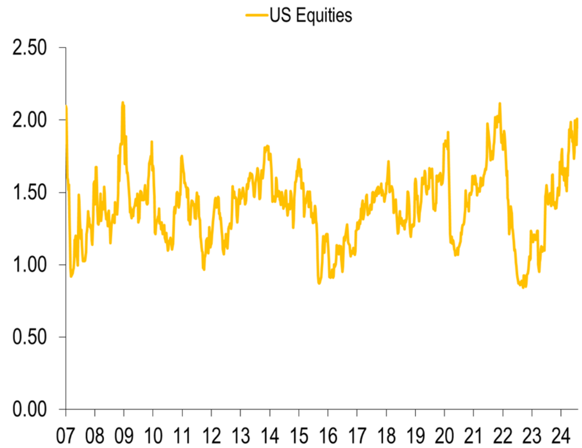
Note: Percentiles are based on time series since January 2020. Open interest is the number of puts options divided by the number of call options outstanding for the S&P 500. Put-Call ratio measures the ratio between investors buying downside protection compared to those buying upside exposure for US equities. Bear/Bull is from the AAII US Investor Sentiment Surveys which reflect the negative/positive sentiment of investors towards the stock market over the next six months.

Asset Managers and Investment Funds have continued to increase long exposure since the end of 2022 through futures and options, despite volatility of open interest and Put/Call seen in chart 34.

35. Ratio of Long to Short Futures and Options in US Equities (Ratio)

CTA Funds have experienced a decline in returns since early July.

36. Returns of CTA Hedge Funds
(Index)



- Long positioning of Asset Managers and Investment Funds in the S&P 500 is at its highest point since 2022.
- Asset Managers and Investment Funds have continued to increase long exposure since the end of 2022 through futures and options despite volatility of open interest and Put/Call seen in chart 34.
- Positioning represents CFTC data on E-Mini Futures for S&P 500, Nasdaq and Dow Jones Industrial Average.

- Commodity Trading Advisors (CTAs) are funds that use a managed futures strategy*.
- CTA performance had been strong during the first half of the year but has suffered a sharp reversal since the middle of 2Q24 as volatile rates and FX environment has driven losses.

Sources: Bloomberg Finance L.P.; FactSet; MSCI; NABE; Refinitiv Eikon Datastream IBES; and IMF staff calculations.