GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Corporate Earnings Monitor

MONDAY, NOVEMBER 14, 2022

2022 Q3 CORPORATE EARNINGS MONITOR HIGHLIGHTS

- **Global corporate earnings in Q3 2022 met or slightly beat expectations, but 2023 earnings growth projections continued to be cut.** Fewer firms provided positive earnings guidance and more firms exhibited caution towards the economic outlook. **In the US, earnings surprised on the upside at over 70 percent of S&P 500 firms** relative to analysts' expectations, down from closer to 80 percent in recent quarters, with **analysts' noting S&P 500 earnings growth would be negative when excluding the energy sector.**

- **Despite the gloomy economic background and the deteriorating business and consumer sentiment in Europe, foreign exchange moves continue to support European corporates[1], especially large-cap international corporates with high US sales exposure.** The gap in sales surprises between Europe and the US has been widening in favor of Europe for the second quarter in a row due to a weaker euro. The sharp fall in the currency continues to provide some earnings tailwind to European companies against their US peers, especially related to topline sales, supporting better profit margin growth.

- **As a result of elevated input costs and slowing demand in some countries and sectors**, **profit margins have contracted** across most major regions, further pressuring the outlook for earnings into next year.

- **Outside the US and Europe, 2023 corporate earnings have been downgraded in most major economic areas**, affected by a broad growth slowdown as well as country- and sector-specific challenges.

- **Sector-wise, a broad-based recovery in earnings has continued in 2022, but analysts are expecting a pullback in 2023, especially in commodity-linked sectors.** Earnings in other cyclical sectors such as transportation and consumer non-durables are still expected to grow at a faster pace than 2022, when compared to pre-pandemic levels, as COVID concerns ease.

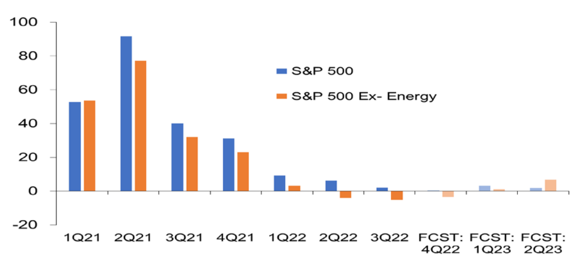
- Going forward, in earnings calls, **managers have frequently voiced concerns about the same factors: higher interest rates, energy, labor, and supply-side costs as well exchange rate effects.** Expectations of more severe economic headwinds appear to be on the minds of most executives with rising recession fears.

- **Through the first half of the year, a delayed reopening in China has negatively affected large firms in Japan, US, and Europe that derive substantial revenues from China**. However, news of an easing in China's COVID polices has boosted sentiment, especially the tech sector that is highly exposed to the region.

US earnings growth has slowed and turned negative ex-energy…

1. US EPS Growth

(Year-over-year growth rate, percent)



…while Europe was boosted by a weaker euro and performed better on earnings and sales growth

2. US and European 2022Q3 Results

(Percent)

Q3 2022	Euro Stoxx	S&P 500
EPS Growth % y/y	27.6%	4.5%
Sales Growth % y/y	28.4%	10.9%
% companies beating on EPS	57%	73%
% companies beating on sales	78%	66%

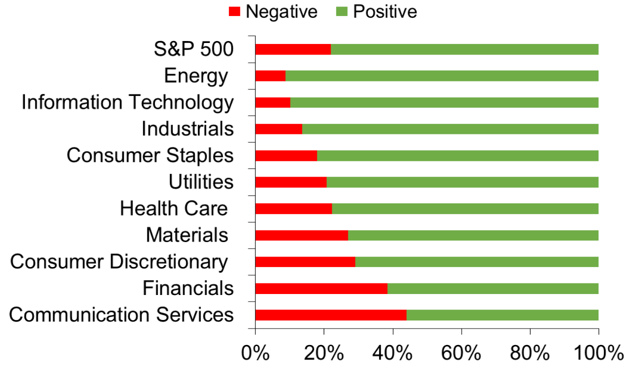
[1] For example, about 25% of the sales revenue of the MSCI Europe index derives from North America, around 20% from Asia-Pacific, around 5% from Africa and Middle East, and 50% from Europe.

This Monitor was prepared by Harrison Kraus and Thomas Piontek.

Positive Earnings Surprises Slowed in Q3 Alongside FX Impacts and Margin Pressures

In Q3, US positive earnings surprises were milder than recent quarters, with the energy sector still outperforming

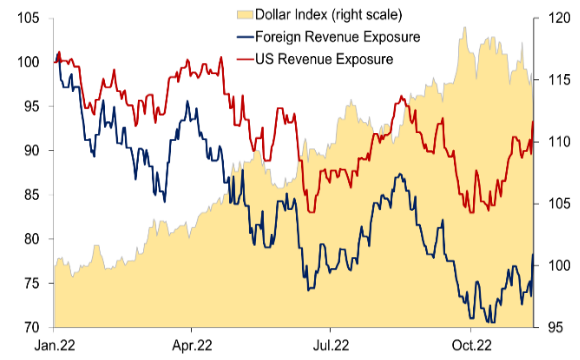
3. US 2022Q3 EPS Surprises by Sector
(Percent of firms)



- Earnings positively surprised at about 70% percent of US S&P 500 firms, down from closer to 80% in recent quarters
- The biggest negative surprises have come from economically sensitive sectors such as consumer discretionary, while financials struggled due to increased loan-loss provisioning that hit banking sector earnings

US dollar strength dented earnings of internationally exposed firms leading to equity market underperformance

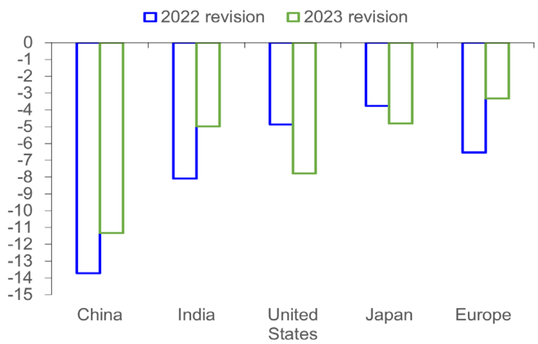
4. S&P 500 Equity Price Performance by Foreign and Domestic Revenue Exposure
(Index 100 = Jan 1, 2022)



- Multinational US firms cited dollar strength as negatively affecting sales and margins, prompting firms to revise guidance downwards and hedge their exposure
- The outperformance of domestic versus international facing S&P 500 companies has tracked USD strength year-to-date

Globally, corporate earnings forecasts have been cut with headwinds from slowing demand and rising costs…

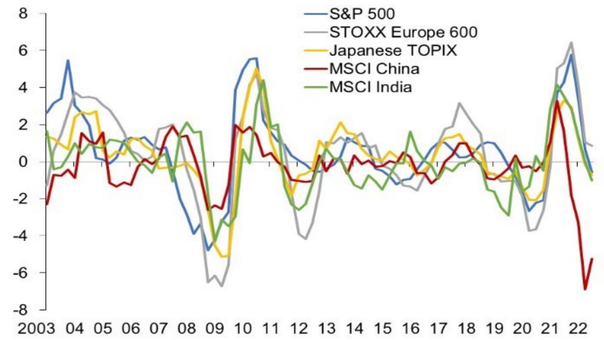
5. Revisions to EPS Growth Projections
(Change since start of Q3 2022 in percent)



- Analysts' EPS growth estimates have come down across most major regions for 2022 and 2023 since the start of Q3
- Worries about the global economic outlook and persistent margin pressures from higher costs and now slowing demand have weakened profitability

…which have also hit profit margins that have started to contract across most regions

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



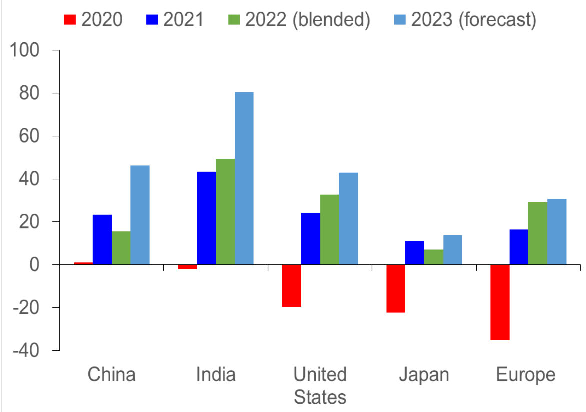
- Margin pressures have increased due to cost inflation
- Overall, companies reported less optimism than in Q2 about maintaining their high level of profitability, with more firms expecting margins to shrink incrementally going forward

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

Going Forward, Key Risks are Higher Interest Rates and Input Costs, and Recession Fears

Global earnings are expected to exceed pre-pandemic levels and grow further, especially in Asia

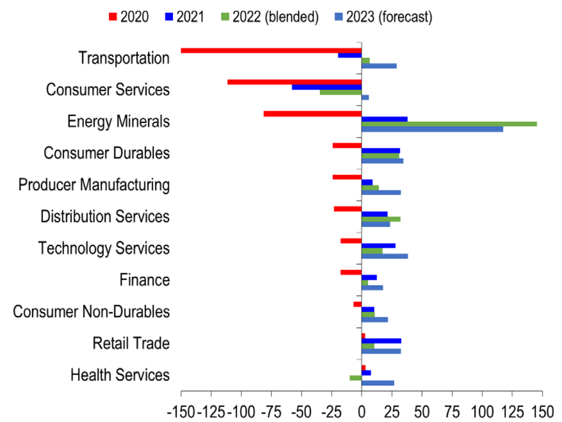
7. Actual and Projected Global EPS Growth by Country
(Cumulative percent change since 2019)



- Most major economic areas are expected to see 2022 annual earnings above pre-pandemic levels as the effects of the pandemic fade
- Growth in earnings is expected to continue in 2023, but at a slower pace compared to the immediate boost from the initial economic reopening

Recovery from the pandemic continued with earnings in all sectors expected to be above 2019 levels next year

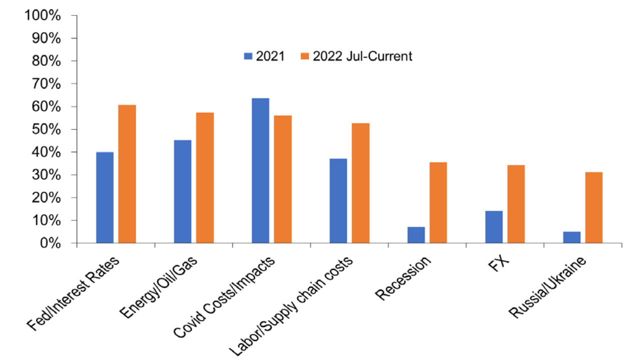
8. Actual and Projected Global EPS Growth by Sector
(Cumulative percent change since 2019)



- Most sectors are expected to surpass pre-pandemic earnings levels this year and next year
- While the energy sector has notably exceeded 2019 profits on the back of high commodity prices, this is expected to start subsiding in 2023
- Transportation and services sectors are expected to sustain the momentum of the post-pandemic recovery

Managers have increasingly raised concerns about the Fed, input costs and a potential recession

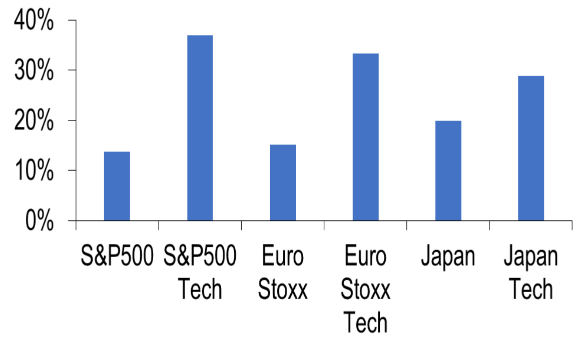
9. Percentage of Times Key Words Are Used In US Earnings Calls



- Q3 earnings calls have been focused on Fed tightening and recessions, while concerns about FX headwinds have also picked up
- Higher input costs related to labor and supply chains continued to be a key concern for corporates
- Elevated energy prices are still seen as a major constraint going forward

Global revenues could rebound due to exposures to China's potential easing in COVID restrictions

10. Share of Revenues Derived from China
(Share of firms with revenues from China above 10 percent of total revenues)



- Firms are cautious on the global economic outlook and a slower recovery in China remains a key risk to forward earnings
- However, recent news of an easing in China's COVID restrictions has triggered a rally in tech sector equities and could bring broader boosts to earnings forecasts

Sources: Bloomberg Finance L.P.; FactSet; MSCI; and IMF staff calculatons.
Note: The analysis pertains to large, publicly traded firms