



MONDAY, JUNE 17, 2024

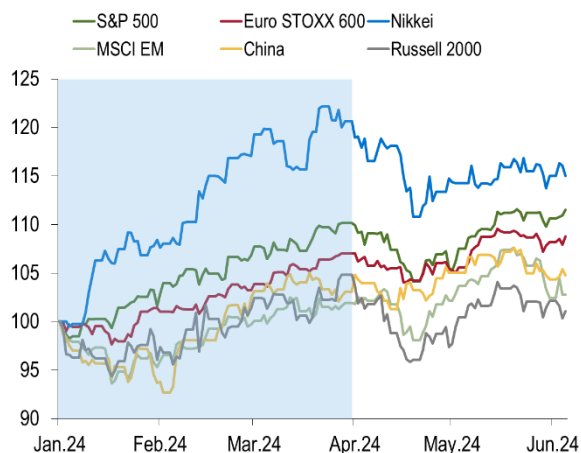
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Corporate Earnings Monitor Highlights: Q1 2024

- Major equity indices, globally, have gained since the start of the year, with major advanced economies reaching all-time highs, and corporate earnings coming in better than expected in most regions.
- Changes in profit margins had major implications for earnings-per-share (EPS) this quarter.** India and the Euro Area saw the greatest improvement in profit margins, and correspondingly the largest increase in EPS. Profit margins fell marginally in the US, while many other advanced economies experienced more notable declines, leading to lower EPS.
- Year-over-year EPS growth is projected to be positive over the next two years, in all regions,** despite downward revisions throughout Q1 2024 and Q2 2024 and large country heterogeneity. From a sectoral perspective, revisions were generally negative, except for the Health Services, Transportation, Miscellaneous, and Tech Services sectors.
- Artificial Intelligence is becoming an increasingly important topic** mentioned during earnings disclosures.
- The equity rally has broadened to small cap stocks,** supported by improved earnings prospects during Q1 2024. That said, the **Magnificent 7 stocks continued to significantly outperform** the rest.
- Valuations remain highly conditional on earnings growth, especially in Tech.** A falling spread between valuation of the top 10 stocks in the S&P 500 and S&P 490 suggests expansion in breadth of the rally.

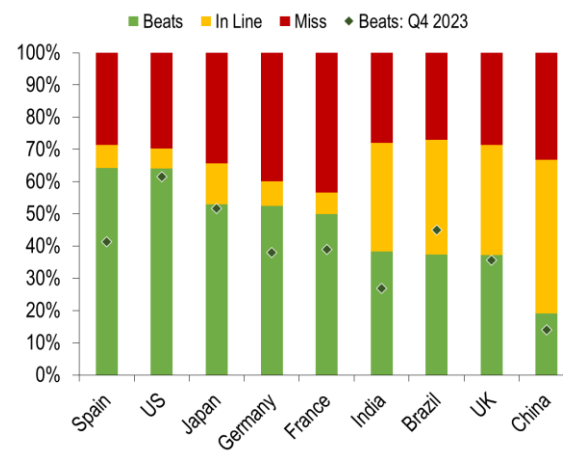
Major stock indices, globally, have gained since the start of 2024, despite a small correction in Q2.

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



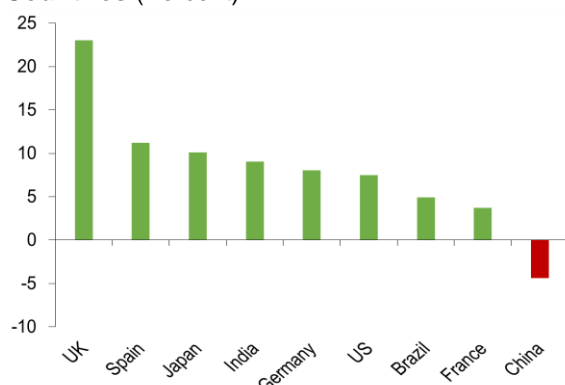
Q1 2024 saw a larger share of positive EPS surprises compared to Q4 2023 across all regions except Brazil.

2. 1Q 2024 EPS Surprises for Selected Countries (Percent)



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

3. 1Q24 EPS Surprise Magnitude* for Selected Countries (Percent)



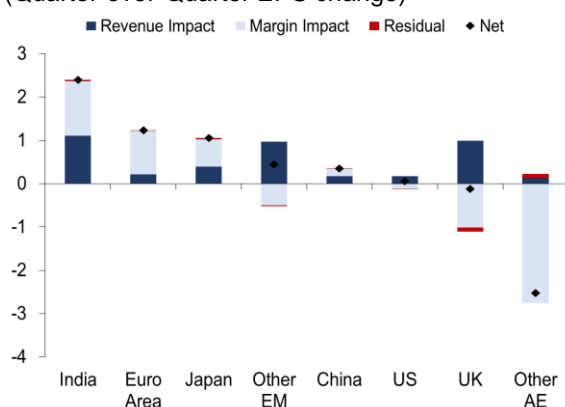
- The magnitude* of EPS surprises ranged from -4.4% in China to 23% in the UK.
- China posted extreme negative surprises in Consumer Services, Distribution Services, and Electronic Technology.
- The large positive magnitude for the UK can be attributed to the better-than-expected performance of Financials, Consumer Durables, and Transportation.

*Note: 'Magnitude' here is percent of net income above/below estimated value before results.

A decomposition of EPS growth reveals changes can mostly be attributed to variation in profit margins across regions.

5. EPS Decomposition

(Quarter-over-Quarter EPS change)

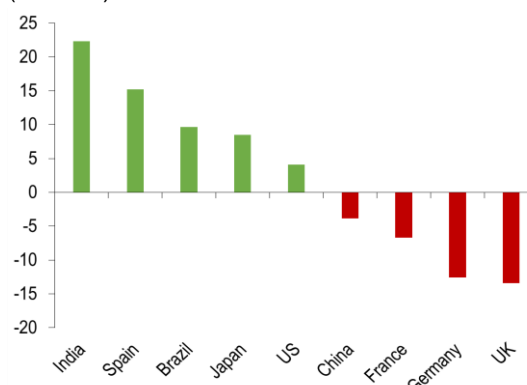


- India, the Euro Area, and Japan saw the largest increases in EPS quarter-over-quarter, primarily driven by improvements in profit margins.
- Other advanced economies and the UK experienced the largest declines in EPS quarter-over-quarter, driven by huge drops in profit margins.

*Note: Regions are GDP weighted. Revenues and Profit Margin data are cumulative for the last 12 months.

Year-over-year earnings growth is mixed across the globe.

4. 1Q24 Year-over-year Earnings Growth (Percent)

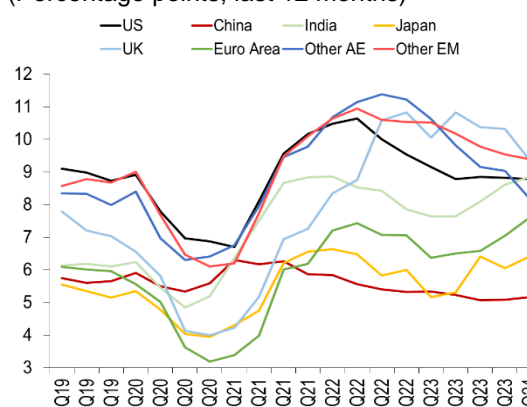


- India's earnings profile topped the rest of the regions, led by the year-over-year growth in the Retail Trade, Transportation, and Consumer Durables sectors.
- UK's underperformance was driven by EPS declines in the Communications and Non-Energy Minerals sectors.

India and the Euro Area saw large margin increases contributing to higher EPS. In the US, profit margins fell marginally, while many other AEs experienced more notable declines, in turn dragging down EPS.

6. Net Margin by Region

(Percentage points, last 12 months)



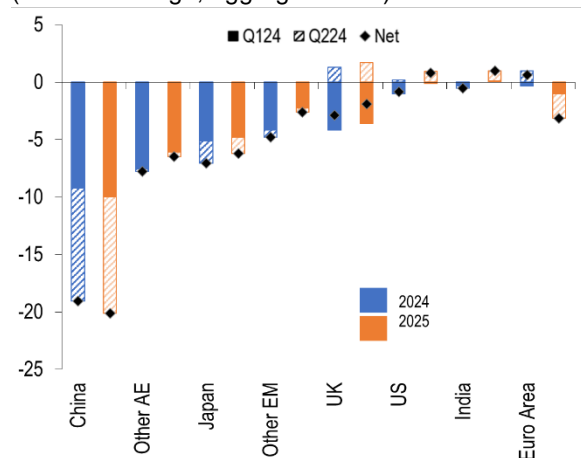
- Companies in the India and the Euro Area were able to improve profit margins.
- Profit margins in the US have continued to decline, although at a slower pace since their 2Q22 peak.
- Other AEs and the UK experienced large declines despite falling inflation suggesting deterioration in pricing power.

*Note: Regions are GDP weighted.

EPS revisions since the start of the year were broadly negative for 2024 and 2025

7. EPS Revisions by Region

(Percent change, aggregate EPS)



- China's expected 2024 and 2025 EPS experienced the largest negative revision as negative sentiment persists.
- Globally, analysts are lowering expected EPS forecasts for the coming years.

*Note: Regions are GDP weighted.

Despite this, analysts continue to expect relatively strong EPS growth in 2024-25, except for the Euro Area.

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

	2022	2023	2024e	2025e
US	5.35	1.85	12.38	15.91
China	-8.31	-8.02	8.21	19.34
India	-0.13	27.69	15.46	17.34
Japan	-3.14	-0.46	8.35	9.41
UK	19.46	8.61	15.28	3.87
Euro Area	21.13	16.94	2.61	5.88
Other AE	4.86	-15.85	24.79	13.58
Other EM	10.06	0.61	13.78	10.63

Note: Red means negative growth revision. Green means positive growth revision.

- Expected EPS growth for 2024 and 2025 increased the most in the UK compared to the last Corporate Earnings Monitor.
- The US is expected to post double-digit EPS growth in 2024-25

*Note: Regions are GDP weighted.

Sectoral performance shows Tech and Communication Services leading the way as Real Estate and Materials lag.

9. Sector Performance by Index

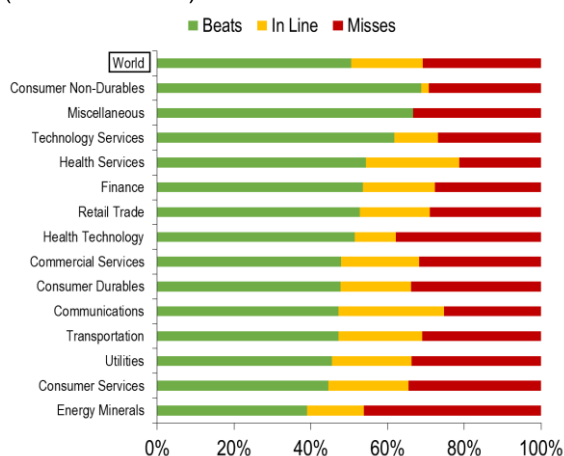
(Percent change YTD)

YTD Change	Index	Materials	Industrials	Consumer Staples	Energy	Information Tech	Consumer Discretionary	Communication Services	Financials	Health Care	Utilities	Real Estate
S&P 500	11.83	4.83	7.24	8.38	6.49	21.19	1.20	22.52	9.10	6.62	12.17	-4.99
MSCI AE	8.98	1.08	7.81	5.14	5.08	16.26	1.75	17.83	9.33	6.30	8.11	-4.36
MSCI EM	2.76	-7.71	1.37	-6.12	4.34	9.58	5.82	8.49	0.16	-8.99	6.92	-4.14
Canada	5.26	14.69	6.50	8.49	12.33	-5.94	3.61	-8.41	3.39	-5.93	1.00	-4.37
MSCI Europe	7.93	3.55	11.28	0.59	2.49	15.03	5.72	7.26	11.35	11.27	-1.26	2.78
Japan	15.02	3.57	24.98	9.44	34.45	16.98	14.04	12.73	-40.64	9.98	23.84	9.95
MSCI Latin America	-14.59	-15.76	-16.44	-15.17	-8.32	-23.27	-16.90	-10.12	-15.38	-17.83	-14.45	-24.11
MSCI EMEA	-2.95	-5.39	5.12	0.10	-7.88	-2.29	8.96	-10.45	-3.94	4.07	7.65	-3.04
MSCI Asia	5.80	-5.49	4.29	-3.42	12.07	9.72	5.92	12.22	4.74	-9.64	14.87	-2.25
China	4.77	12.91	6.71	-0.53	25.42	-5.83	10.59	8.34	8.14	-13.56	23.79	-8.77
MSCI World	8.32	-0.52	7.37	4.08	4.99	15.58	2.24	16.66	7.98	5.77	7.95	-4.35

Just over 50 percent of companies beat revenue estimates in Q1 2024, globally, led by the Consumer Non-Durables and Miscellaneous sectors.

10. Global 1Q24 EPS Surprises by Sector

(Percent of firms)

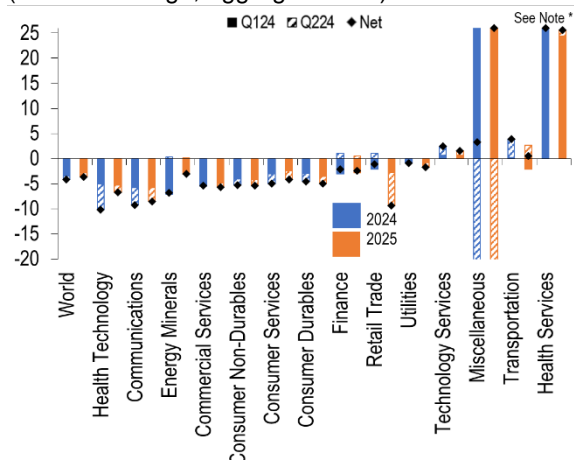


- Just over 50% of companies worldwide beat earnings expectations in Q1 2024, above the 45% experience in Q4 2023.
- Consumer Non-Durables had the highest percentage of companies beat EPS while Energy Minerals had the lowest share.

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

11. Global EPS Revisions by Sector

(Percent change, aggregate EPS)



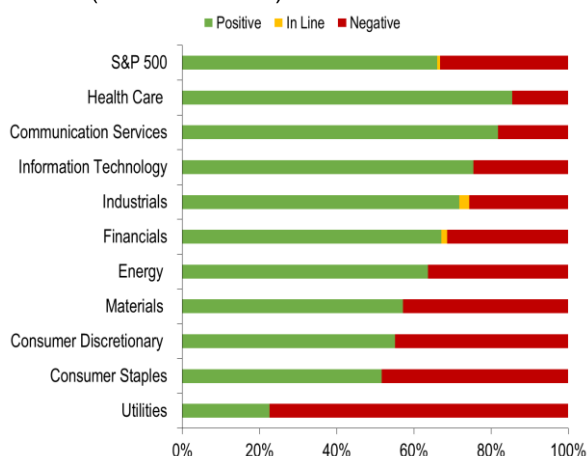
- Health Services saw major upward revisions to estimated EPS since the start of 2024 due to previous major downward revisions for the sector in Q4
- EPS of Miscellaneous received major upward revisions during Q1, which were partially offset by major downward revisions during Q2.

*Note: 2024 Health Services net equals 59.

United States: S&P 500

Just over 65 percent of companies beat revenue estimates in Q1 2024, led by the Health Care and Communication Services sectors...

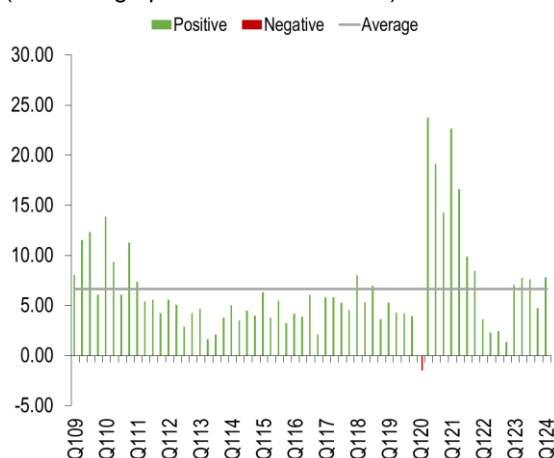
12. S&P 500 Q1 2024 Revenue Surprises by Sector (Percent of firms)



- S&P 500 revenue surprises were led by Health Care and Communication Services.
- Utilities, Consumer Staples, and Consumer Discretionary experienced the most negative surprises for the quarter.
- 65 percent of companies beat revenue expectations, which is higher than 60 percent in Q4 2023.

In aggregate, S&P 500 companies earnings surprised to the upside by 7.8%, above the 15-year average.

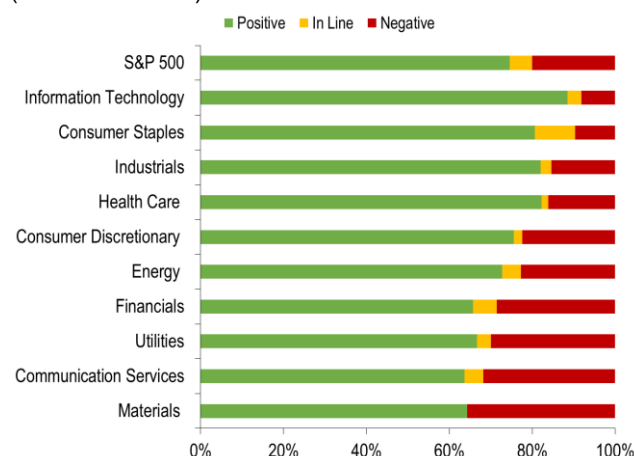
14. Magnitude of S&P 500 EPS Surprises (Percentage points over estimated)



- The magnitude of earnings surprises in Q1 was the largest since Q4 2021.
- Q1 surprises were above the 2009-2024 average of 6.6%.

... while around 75 percent of companies in the S&P 500 reported positive earnings surprises.

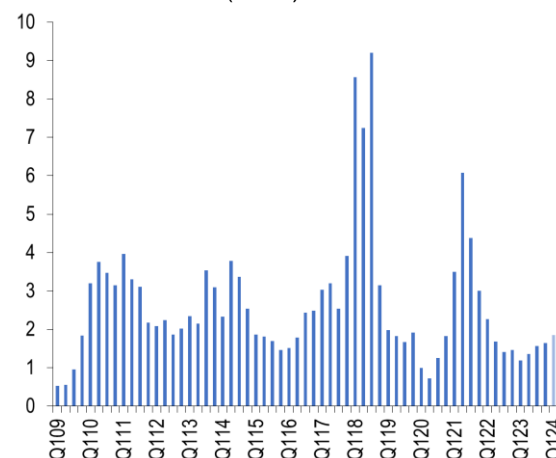
13. S&P 500 Q1 2024 EPS Surprises by Sector (Percent of firms)



- 75 percent of S&P 500 companies reported positive EPS surprises, the lowest percentage since Q1 2023.
- Larger share of EPS beats compared to revenues signals better than expected margin performance during the quarter.
- Materials saw the largest negative surprises.

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

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

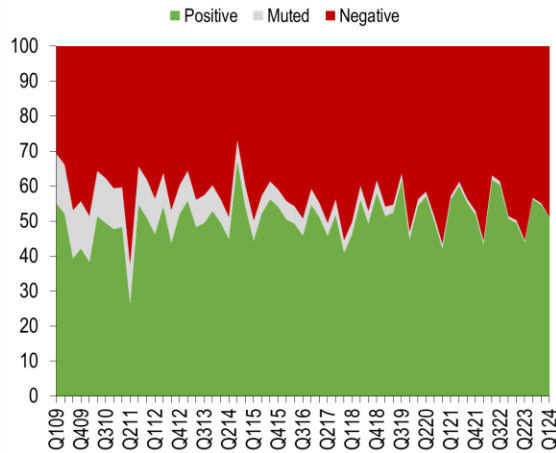


- The ratio of positive to negative year-over-year earnings growth in Q1 2024 was above 1.8.
- The Q1 2024 ratio is lower than the average ratio since 2009 of 2.6.

**Note: Ratio is the number of companies with positive earnings growth divided by the number of companies with negative earnings growth.*

Over 50% of S&P 500 companies had positive stock price reactions following earnings disclosures.

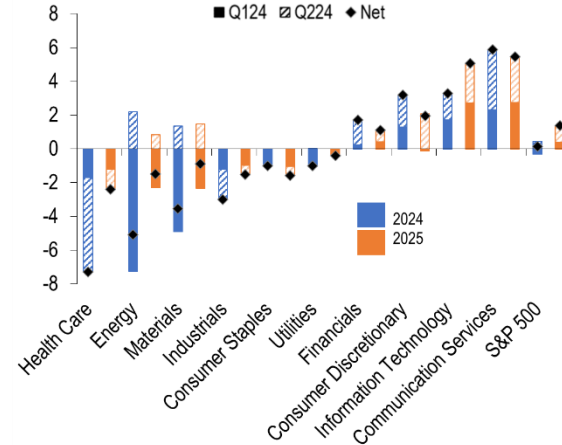
16. Stock Price Impact after Earnings Release (Percent of S&P 500 companies)



- 51% of S&P 500 companies had positive price reactions to earnings disclosure, just slightly above the average (since 2009) of 50.7%.
- Percentage of companies with positive price reactions has steadily declined over the past three quarters.

The S&P 500 has experienced positive 2024 and 2025 EPS revisions.

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

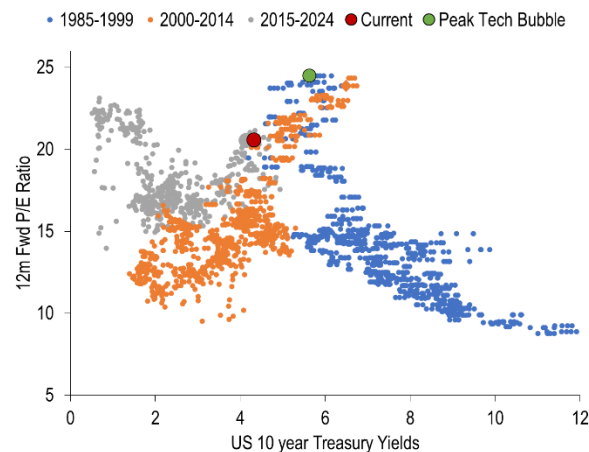


- S&P 500 revisions were positive for 2024-25 since the start of the year in contrast to the broader US index seen in chart 7, suggesting divergence between large and small capitalization companies.
- Communication Services and Information Technology saw the greatest upward revisions, as markets adjust forecasts for recent outperformance.

*Note: 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 P/E ratios remain within historical range compared to UST 10-year yields.

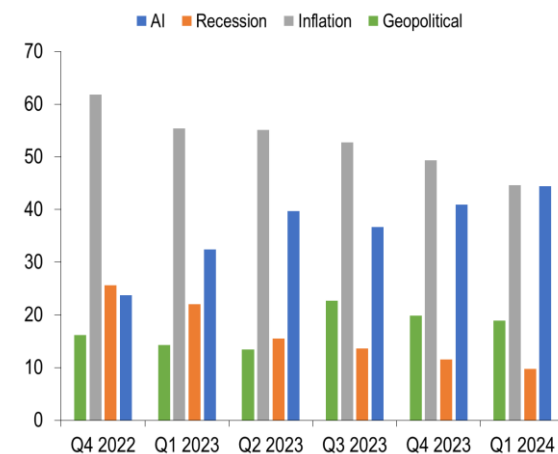
18. Historical Comparison of 12 month Forward P/E Ratios (Weekly 12m forward P/E)



- 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.

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



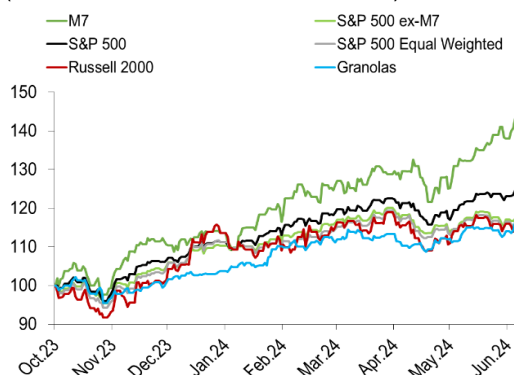
- Q1 earnings calls, transcripts, and presentations continue to show that inflation is still a top concern for management, and geopolitical risk also remains elevated.
- Mentions of AI during earnings disclosures reached an all-time high.
- Recession fears continue to fade on earnings calls as probability of a "no landing" scenario increase.

Selected Topics 2024 Q1: Breath of Rally, Balance Sheet Strength, and Compensation to Shareholders

The equity rally since October 2023 was fairly broad based till April 2024, after which the Magnificent 7 significantly outperformed the rest.

20. Breath of Stock Rally

(Prices indexed, 100 = Oct 1, 2023)

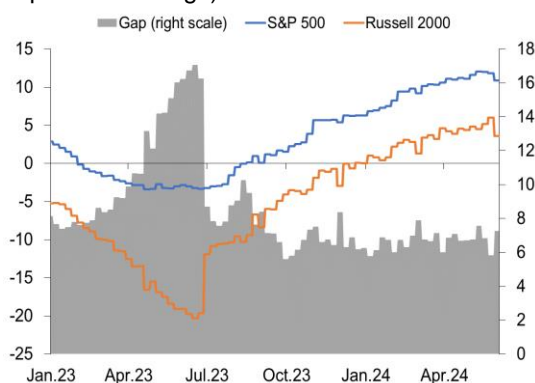


- The US equity rally was fairly broad based until April 2024, with the Russell 2000 up over 15% since October 2023.
- Since April, the Magnificent 7 greatly outperformed the rest of US stocks, helping drive the S&P 500 higher.
- The Granolas have underperformed other categories since the October 2023 lows.
- *Note: "Magnificent Seven" stocks consist of Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla. "Granolas" stocks consist of GSK, Roche Holding, ASML Holding, Nestle, Novartis, Novo Nordisk, L'Oreal, LVMH Moët Hennessy Louis Vuitton, AstraZeneca, SAP, and Sanofi.

Growth rates in expected 12-month forward EPS for the Russell 2000 have increased faster than the S&P 500.

22. 12-month Forward EPS Growth

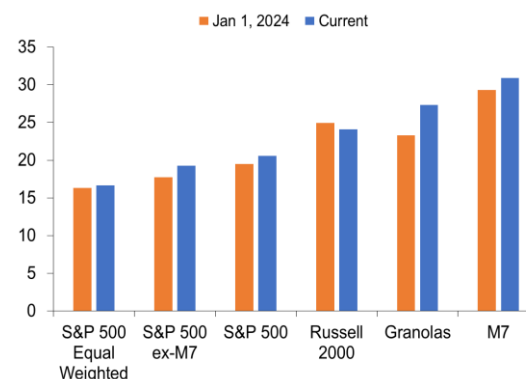
(Year-over-Year growth rate in 12m forward expected earnings)



- After a sharp increase in July 2023, the growth rate in expected 12-month forward EPS has steadily increased for the Russell 2000.
- The spread of growth rates between the S&P 500 and Russell 2000 has narrowed significantly since the peak in June 2023.

12-month forward P/E ratios have increased since the start of the year for large cap stocks.

21. 12-month Forward P/E Ratio (Ratio)

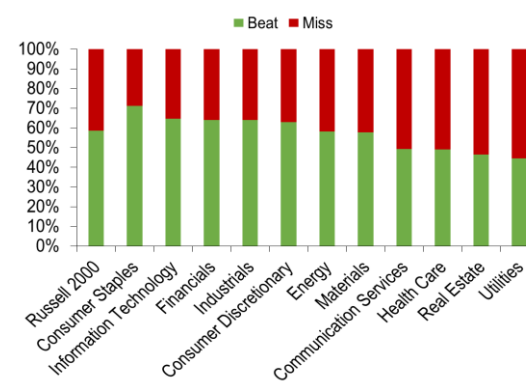


- Prices have increased faster than expected future earnings for large cap stocks.
- Granolas had the largest increase in 12-month forward P/E since the start of the year.
- 12-month forward P/E ratio for the Russell 2000 has decreased, indicating that expected future earnings have risen faster than stock prices.

*Note: P/E Ratios are calculated using Weighted Average Harmonic Mean

Almost 60 percent of companies in the Russell 2000 beat EPS estimates in Q1 2024, led by the Consumer Staples and Information Technology sectors.

23. Russell 2000 2024Q1 EPS Surprises by Sector (Percent of firms)

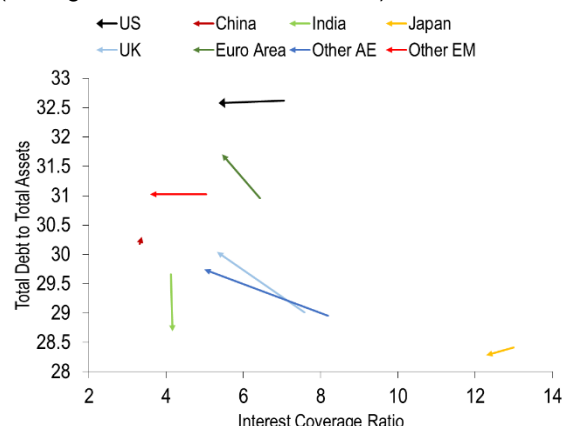


- Small caps had a smaller percentage of companies with positive EPS surprises compared to large caps.
- Consumer Staples and Information Tech had the largest percentage of companies beating EPS expectations for both large and small caps.

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

24. Year-over-Year change in Coverage and Leverage Ratios

(Change in Ratios, last 12 months)



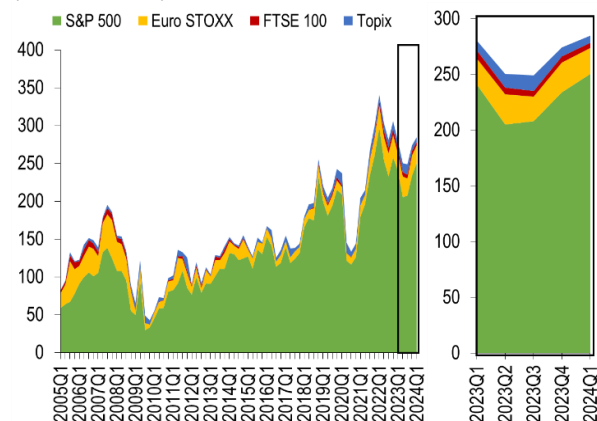
- With companies needing to refinance at higher rates than before, Interest Coverage Ratios have decline in most regions due to higher interest expenses.
- Companies in China, the Euro Area, UK, and other AEs experienced an increase in leverage, while US, India, Japan, and other EMs saw a decrease.

*Note: Regions are GDP weighted

Share buybacks have increased compared to Q4 2023 for the S&P 500, but decreased for Euro STOXX, FTSE 100, and Topix.

26. Share Buybacks by Index

(Billions USD)

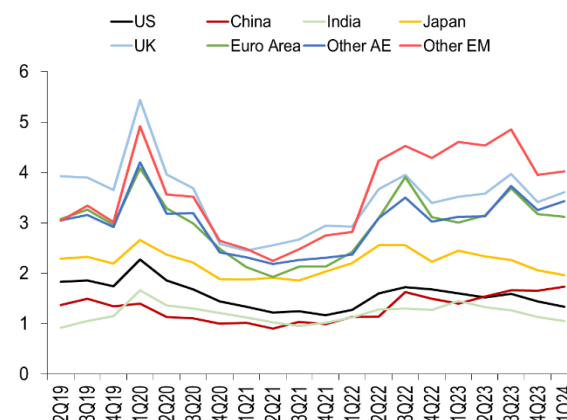


- Total share buybacks in USD have reached the highest level since Q4 2022.
- Euro STOXX, FTSE 100, and Topix companies cut total buyback amount in USD.
- In contrast, management teams from the S&P 500 increased buybacks in the quarter signaling their belief that stocks were undervalued in the current environment.

Dividends per share (DPS) decline was somewhat offset by lower prices compared to previous quarters.

25. Dividend Yield by Region

(Percentage points, last 12 months)



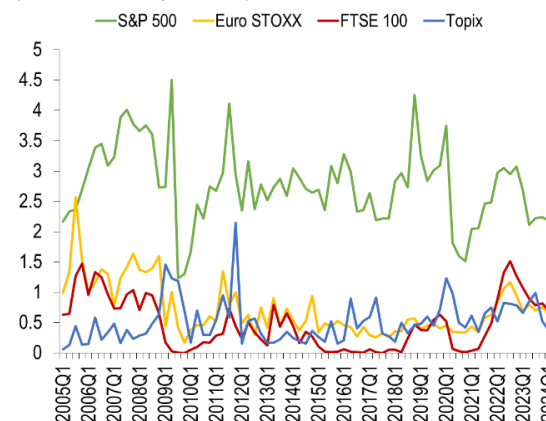
- Regions with declining dividend yields were due to the decrease in companies DPS.
- The UK was the only country to increase DPS, driving the increase in its dividend yield.
- Other countries with increasing dividend yields resulted from prices retrating faster than DPS.

*Note: Regions are GDP weighted

While buybacks as a percent of market cap have declined due to recent equity rally across geographies.

27. Share Buybacks to Market Cap of Index

(Annualized, percent)

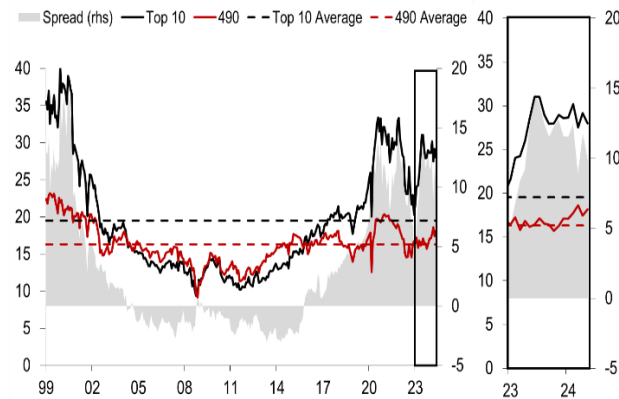


- All 4 indices have reached an all-time high in Q1 2024, amplifying the decline in buybacks as a percent of market cap.
- In the UK, the ratio fell to its lowest level since Q4 2021.
- Buybacks as a share of market cap in the US has leveled off after a slight uptick last quarter.

Valuation and Sentiment

The spread between S&P 500's top 10 companies and bottom 490 12-month forward P/E ratios narrowed in 2024.

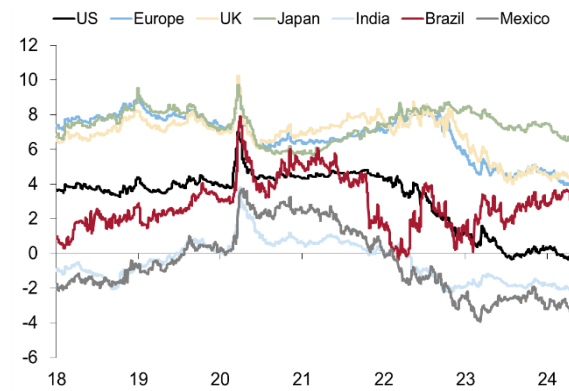
28. S&P 500 12-month forward P/E Ratio (Ratio)



- The top 10 companies experienced an increase in their 12-month forward P/E ratios in the beginning of 2023 while the rest of the S&P remained stable around the long-term average.
- The rest of the S&P later followed suit towards the end of 2023 while the top 10 stabilized, narrowing the spread between the two.
- Forward P/E ratios of the top 10, 490, and spread between both categories remain below the levels seen during the tech bubble.

Yields on short term government debt has surpassed the 1-year forward earnings yield in Mexico, India, and the US.

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



- Short term government yields greater than the 1-year forward earnings yield suggests cash as an attractive investment.
- US 12m treasury yields continue to battle with S&P 500 earnings yields.
- Implied 1-year premiums remain positive in Mexico, the UK, Europe, and Brazil.
- *Note: 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

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

30. Fundamentals Heatmap

(Percentile)

	P/E	P/CF	P/Sales	P/B
S&P 500	88.5	92.7	94.7	96.8
Euro STOXX	40.4	62.5	93.2	76.4
UK	40.2	24.4	56.3	52.8
Japan	89.6	98.7	100	97.4
Mexico	46.5	62.5	39.7	32.9
India	71	75.9	75.9	81.9
Brazil	14.2	28.9	8.5	29.4
China	18.6	20.5	24	6.6

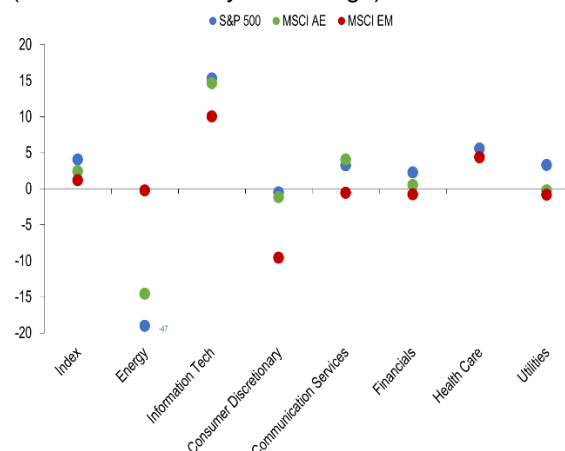
- Stock prices in Brazil and China are trading at historically lower multiples when compared to other regions.
- The S&P 500 and Nikkei are trading at historical highs based on fundamentals.

*Note: Percentiles are based on quarterly values since 2000.

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

31. 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.

Equity volatility and Bull/Bear remains quite low while Put/Call ratio is in the top 20th percentile.

32. Volatility and Sentiment Heatmap

(Percentile)

	2020	2021	2022	2023	2024	Current Percentile
VIX	Green	Green	Green	Green	Green	4.2
Open Interest	Green	Green	Green	Green	Green	57.6
Put/Call Ratio	Red	Red	Red	Red	Red	81.7
Bear/Bull Ratio	Green	Green	Green	Green	Green	37.6

- Equity Volatility (VIX) and All Bear/Bull ratio are lower than those seen before the pandemic.
- Put/Call ratio is in the top 20th percentile, highlighting investors purchasing downside protection as uncertainty about the future path of equities is high.

*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. Put-Call ratio measures the ratio between investors buying downside protection compared to those buying upside exposure. 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.

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.