



## 2023 Q2 CORPORATE EARNINGS MONITOR HIGHLIGHTS

Despite the tightening of financial conditions and ongoing concerns over inflation, global corporate earnings came in above expectations providing support for the “soft landing” narrative. However, investor sentiment is now more focused on potential headwinds coming from a “higher for longer” scenario which led to downwards revisions in EPS across most geographies and sectors for 2023-24.

**Downwards revisions continue despite large heterogeneity.** For 2023, expected EPS for the US, China, Japan, and the UK are lower compared to Q1 2023 Corporate Earnings Monitor, while expected EPS for India and the Euro Area have been revised upwards. **There are disparities across sectors as well.** Utilities, Tech, and certain Consumer Segments are viewed as able to navigate the current economic environment better and analysts posted upward 2023 EPS revisions, while expected EPS for the coming year were cut for Real Estate, Energy Minerals and Communication Services.

**Profits margins have continued to contract in most regions but remain above pre-Covid levels while dividend yields grow as payout ratios expand.** Most companies face challenges to pass increased costs to consumers, leading to continued aggregate declines in profit margins since the end of 2022. Increased dividend yields reflect the growth in dividend per share has outpaced the generalized increase in stock prices over the quarter with the exception of the US.

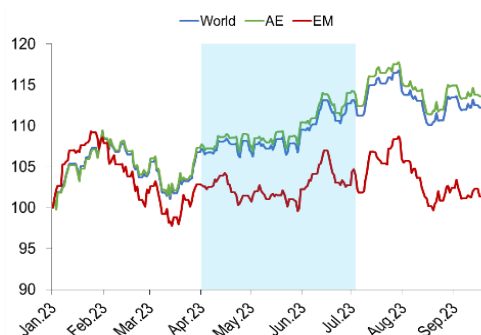
**Share buybacks as a percentage of market capitalization have increased in Europe and Japan compared to previous quarter.**

**The persistence of inflation remains the main concern of corporate managers in company earnings disclosures while recession fears have receded over the past few quarters.** There have been declining mentions of China in 2Q23 while the prevalence of AI is increasing across companies.

**In the US, the Tech sector has continued to exhibit strong results boosted by AI, with a remarkable performance of NVIDIA.**

*Advanced economies equities outperformed emerging markets over 2Q23 (+4.7% vs 0.2%).*

### 1. Performance of Selected MSCI Indices (Prices, Indexed, Jan 3, 2023 = 100)



*Global EPS growth expectations for 2023e have been revised down in most regions while 2024e shows a mixed picture.*

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

|           | 2022  | 2023e | 2024e |
|-----------|-------|-------|-------|
| US        | 5.18  | 3.17  | 14.07 |
| China     | -8.32 | 5.04  | 24.01 |
| India     | -0.35 | 24.54 | 18.78 |
| Japan     | -3.13 | -0.13 | 9.89  |
| UK        | 20.98 | -3.86 | 6.98  |
| Euro Area | 6.11  | 44.01 | 3.51  |
| Other AE  | 24.31 | -2.58 | 15.55 |
| Other EM  | 18.06 | 4.41  | 10.96 |

Red = revised downwards from 1Q23; Green = revised upwards from 1Q23

*Analysts cut 2023 forecasts ahead of 2Q results and further revised EPS downwards post results except for the Euro-Area.*

### 3. EPS Revisions by country

(Percent change, aggregate EPS)



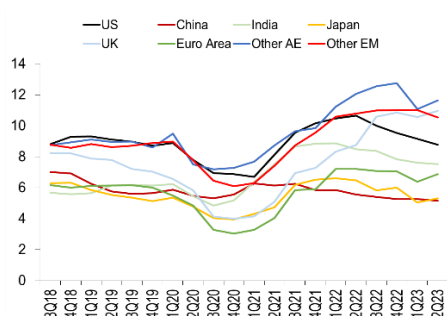
Amid concerns about the property sector and the economic slowdown, China has experienced the biggest decline in EPS expectations.

The Euro Area has seen the greatest increase in EPS estimates for 2023, partly due to the better than expected economic resilience despite the latest energy shock.

*Amid stickier than expected core inflation, profit margins have been trending downwards in most regions...*

### 5. Net margin by Country

(Percentage points, last 12 months)



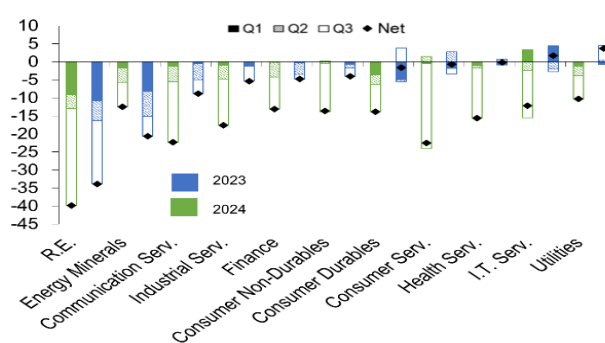
Companies struggled to pass increased costs to consumers, leading to continued aggregate declines in profit margins since the end of 2022.

Despite this, margins remain above their pre-Covid levels providing some support across most geographies.

*Global EPS estimates by sector have declined significantly since the start of 2Q except for Utilities, Tech and certain Consumer segments.*

### 4. EPS Revision by Sectors

(Percent change, aggregate EPS)



2Q23 only saw upwards revisions for Utilities and Consumer Durables.

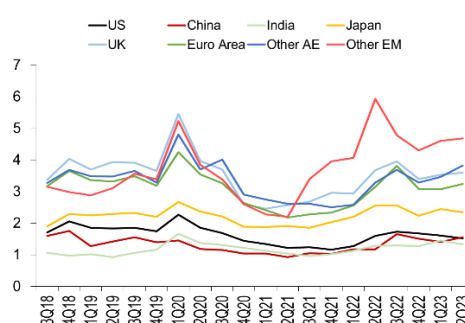
In aggregate, EPS for Utilities, Tech, and certain Consumer Segments has still been revised upwards since the beginning of the year.

Real Estate Development, Energy Minerals, and Communication Services have seen large EPS cuts for 2023-24

*...despite this, dividend yields are growing as higher interest rates are discouraging firms from investing in growth opportunities, leading to higher payout ratios.*

### 6. Dividend Yield by Country

(Percentage points, last 12 months)



Increased dividend yields reflect the growth in dividend per share has outpaced the generalized increase in stock prices over the quarter.

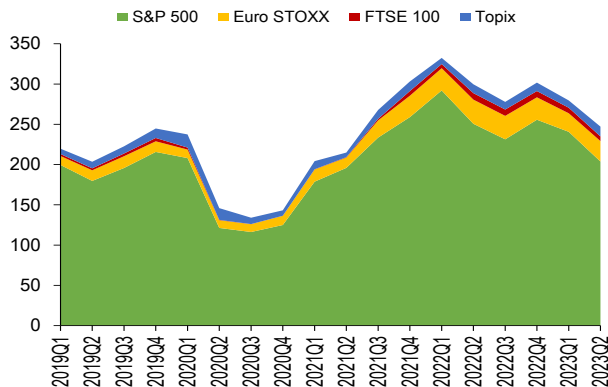
A notable exception is the US, where dividend yields have been declining throughout 2023 driven by dilution effect from increase in share prices.

Dividend yields in EMs are growing much faster than in other geographies.

*Note: Dividend Yield = Dividend per share / Share price*

Share buybacks have decreased the last few quarters towards pre-COVID levels.

## 7. Share buybacks by Index (Billions USD)

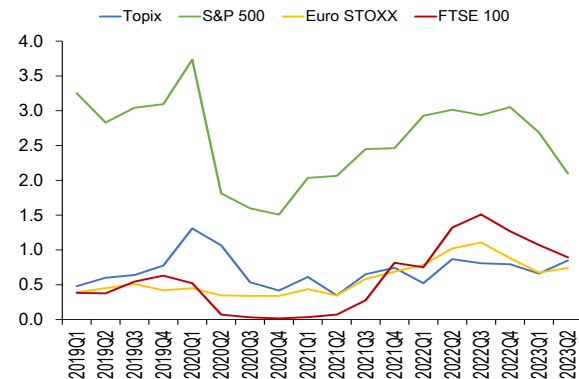


Total share buybacks have started to stabilize amidst the global equity rally.

Companies in the S&P 500 and FTSE 100 have cut back on share repurchases while companies in the Topix and Euro Stoxx have increased in terms of USD.

Buybacks as a percent of market cap have declined sharply in the US and UK but increased in Japan and Europe.

## 8. Share buybacks to Market Cap of Index (Annualized, Percent)



In terms of market cap, S&P 500 has seen a major decline in buybacks since 4Q22.

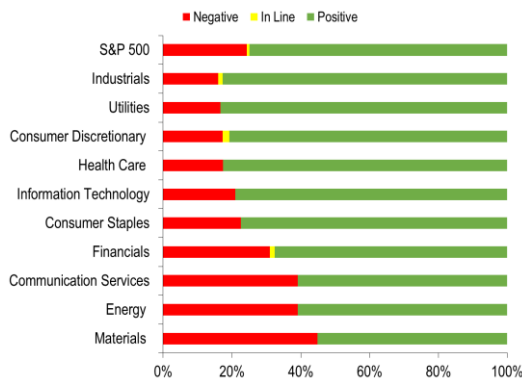
Companies in the Topix have steadily been buying back shares at an increasing rate since 2Q21.

## United States:

## S&P 500

75% of companies beat revenue estimates in 2Q 2023, led by the Health Care and Utilities sectors...

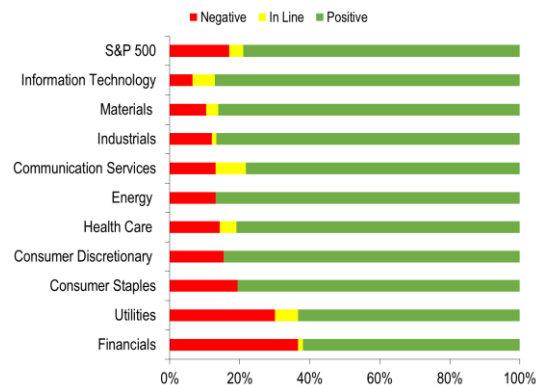
## 9. S&P 500 2023Q2 Revenue Surprises by Sector (Percent of firms)



S&P 500 revenue surprises were led by Health Care, Utilities, and Information Technology. Materials, Energy, and Consumer services experienced the most negative surprises for the quarter. Industrials and Utility companies outperformed market expectations with over 80% revenue beats.

... while nearly 80% of companies in the S&P 500 reported positive earnings surprises

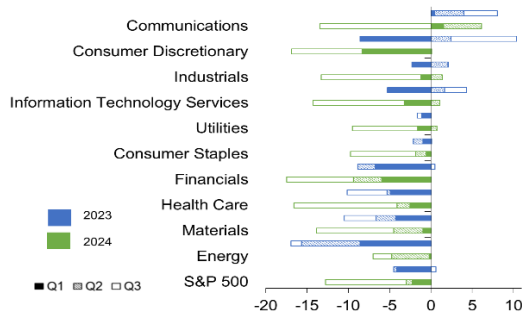
## 10. S&P 500 2023Q2 EPS Surprises by Sector (Percent of firms)



Nearly 80% of S&P 500 companies reported positive EPS surprises, about 10% higher than Q1 2023. Larger share of EPS beats compared to Revs signals better than expected margin performance during the quarter. Financials had the largest negative surprises as current interest rate environment weighs on profitability

Full year 2023 and 2024 EPS revisions have been trending downwards for the S&P 500, and across most sectors.

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



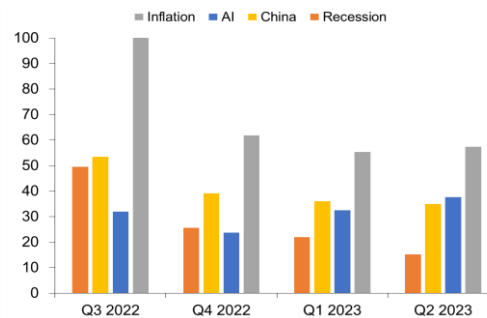
Consumer Discretionary, Communication and Tech see the greatest upward revisions for 2023, partly due to the major outperformance of large cap stocks.

All Sectors have experienced a major decline in EPS expectations for 2024.

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.

Inflation remains one of the main topics discussed in S&P 500 earnings calls, and AI publicity boom continues.

### 12. Percentage of S&P 500 Earnings Disclosures Where Key Words Are Used. (Percent)



2Q earnings calls, transcripts, and presentations continue to show a strong focus by management on inflation, AI, and China.

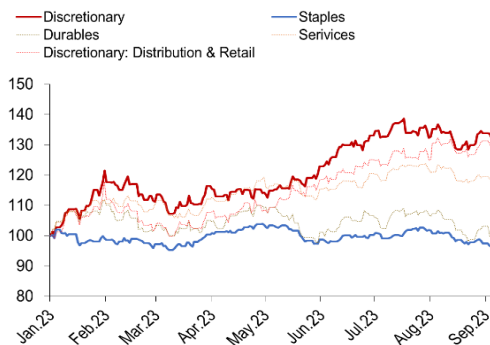
Recession concerns have receded; the percentage of earnings disclosures using the word "recession" has dropped from over 50% in Q3 2022 to less than 20% this past quarter.

Over the past 4 quarters, AI has been cited more in earnings calls after the release of Chat GPT.

## Selected Topics 2023 2Q

Consumer Discretionary stocks continue to outperform Consumer Staples.

### 13. S&P 500 Consumer Discretionary and Staples (Prices, Indexed, Jan 3, 2023 = 100)

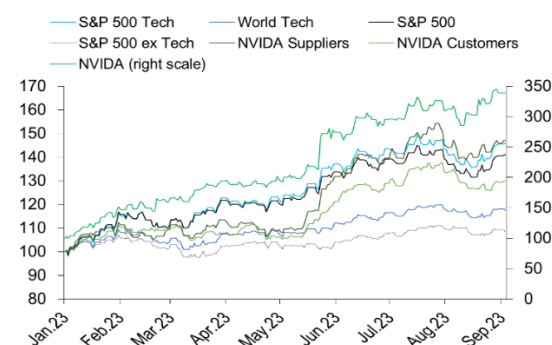


Confirming the resilience of US consumption despite the tightening of financial conditions, consumer discretionary outperformance relative to staples increased in 2Q23

Within consumer discretionary, services, distribution and retail have gained more than 20% year-to-date

NVIDIA continues to soar amidst AI buzz and better than expected EPS.

### 14. NVIDIA, Suppliers, and Customers (Prices, Indexed, Jan 3, 2023 = 100)



NVIDIA, has seen a surge in their stock price year-to-date from the AI buzz and major outperformance highlighted in their Q2 earnings report.

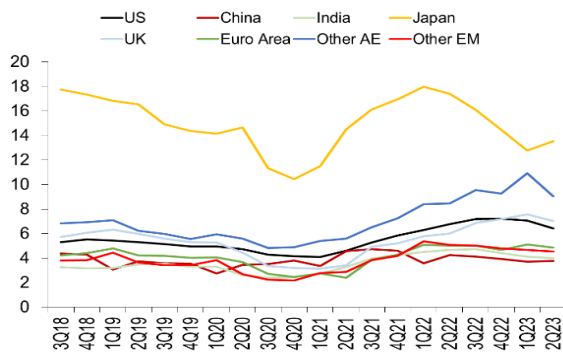
Despite this their suppliers and customers are not experiencing the same rally.

Suppliers are performing relatively well, while majority of their customers have underperformed the market.

Note: Suppliers and Customers refers to companies within the NVIDIA supply chain as identified by Factset

*Interest Coverage ratios are deteriorating, although they remain above pre COVID levels...*

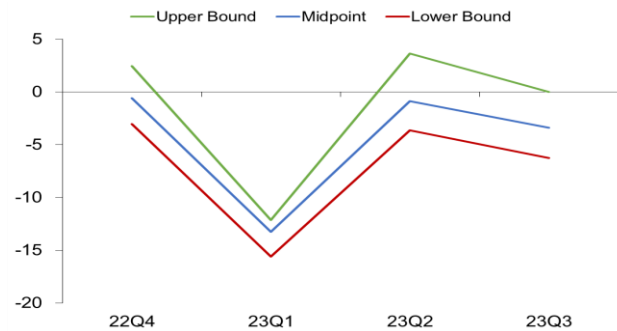
### 15. Interest Coverage Ratio by Country (Percentage points, last 12 months)



Interest Coverage ratios are deteriorating quarter over quarter but remain above pre-COVID levels. Japan and other AE have experienced the largest deterioration but started from highest ICR levels. On aggregate, ICR remains well above 2x across all geographies.

*... while EPS guidance for S&P companies paints a gloomy picture for next quarter.*

### 16. Company Issued EPS Guidance (Quarter-over-quarter growth, 50<sup>th</sup> percentile)



According to Bloomberg, about 1/5 of S&P 500 companies issued forward EPS guidance for Q2 2023.

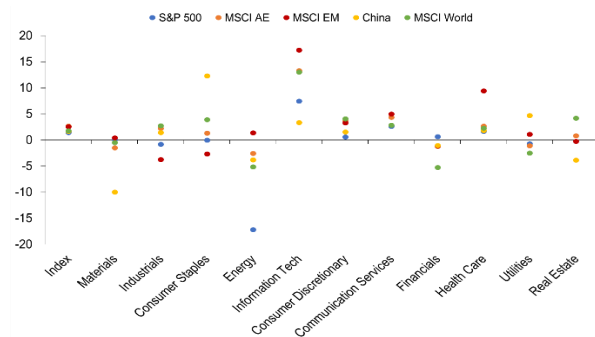
About half of these companies are expecting negative quarter-over-quarter EPS growth even when looking at the upper bound of their EPS range.

*Note: Growth is actual EPS from previous quarter to following quarter EPS guidance. Upper and lower bounds are the upper and lower range of company issued EPS guidance.*

## Valuation 2023 2Q

*Globally, most sectors forward looking P/E ratios are higher than their 10-year average...*

### 17. 12 month Forward Looking P/E Ratio (Deviation from 10-year average)

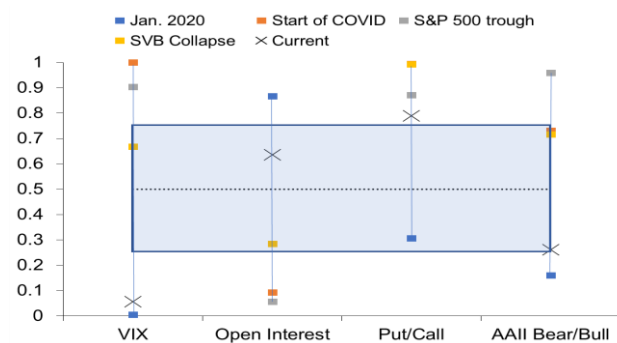


The AI led tech rally has caused P/E ratios to be increasingly demanding of earnings for the information technology sector.

The prices of energy firms have fallen after a huge rally in 2022, due to the lower than expected energy demand.

*After the recent peak, equity volatility has subsided and remains relatively low while sentiment indicators are giving mixed signals.*

### 18. Volatility and Sentiment (Percentile rank, Jan 2020 to Present)



Equity Volatility (VIX) has remained near historic lows despite the uptick in August.

Put/Call ratio is at relatively high levels while Bear/Bull ratio is around its 25th percentile since January 2020, illustrating mixed views about the economy.<sup>ii</sup>

Open interest is within its interquartile range as options volume has receded in the past months.

*Note: Blue box represents the interquartile range.*

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.

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<sup>i</sup> [“Data-driven methods to identify companies involved in Artificial Intelligence”](#), Hiroko Miyahara. Factset Companies and Markets Blog August 16, 2023

<sup>ii</sup> Put/Call ratio is the ratio of open put options divided by call options compiled by the Chicago Board Options Exchange. Bear/Bull ratio reflects the responses to the American Association of Individual Investors survey on market sentiment. Open interest is the total number of outstanding derivative contracts for the S&P 500 at a point in time.