GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Corporate Earnings Monitor

TUESDAY, DECEMBER 12, 2023

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2023 Q3 CORPORATE EARNINGS MONITOR HIGHLIGHTS

- **Global corporate earnings came in above expectations on average, supported by the "soft landing" narrative and expectations that central banks will pivot in 2024. However, downward revisions dominate for 2023**. From a sector perspective, only consumer services and Utilities are viewed as able to better navigate the current economic environment while the Healthcare sector experienced a major shift downwards in earnings expectations.

- **Profits margins have continued to contract in the US and most EMs but expanded in other AEs in contrast to broad expansion of dividend yields.**

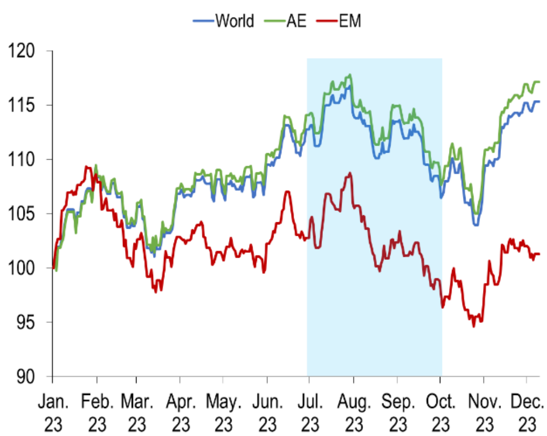
- **Share buybacks as a percentage of market capitalization have increased in Japan and the US compared to the previous quarter.**

- **While the persistence of inflation remains an important focus for corporate managers geopolitical risks concern have increased sharply.**

- **In the US, the "Magnificent 7" have carried the S&P 500 to double digit gains year-to-date even as the rest of the index was little changed.**

Global stock markets cooled down in the third quarter of 2023 affected by the higher-for-longer rate environment but have rebounded strongly since then.

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	5.28	2.64	13.26
China	-8.31	-0.10	24.95
India	-0.21	24.59	18.68
Japan	-3.14	0.22	9.83
UK	20.82	-4.95	6.52
Euro Area	6.11	18.54	2.74
Other AE	24.31	-4.57	16.29
Other EM	18.05	6.97	12.50

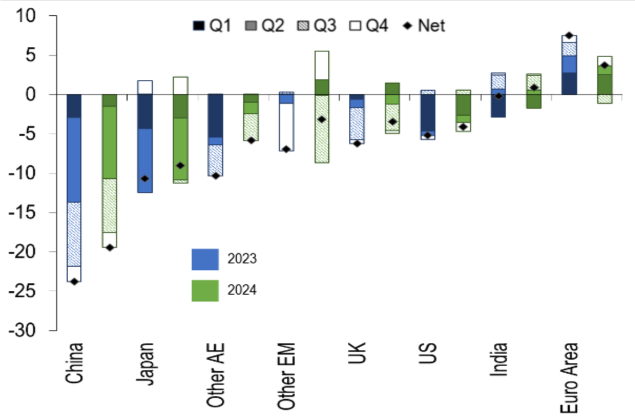
Red = revised downwards from 2Q23; Green = revised upwards from 2Q23

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

Analysts cut 2023 forecasts ahead of 3Q results in most regions.

3. EPS Revisions by country

(Percent change, aggregate EPS)

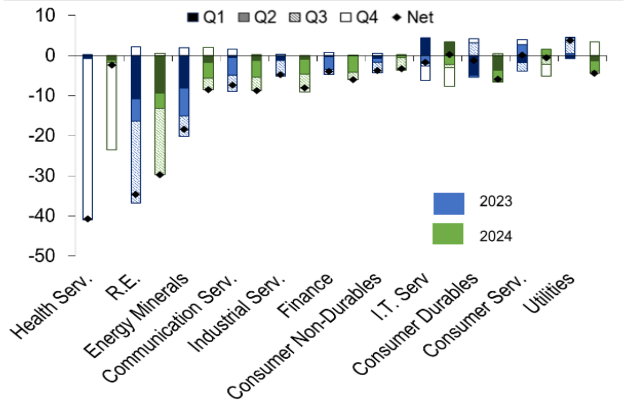


- Amid concerns about the property sector and the economic slowdown, China has experienced the biggest decline in EPS expectations.
- The Euro Area continues to see postive EPS revisions despite weak macroeconimic data.

Global EPS estimates by sector show a similar picture. Health Services, Real Estate, and Energy & Minerals have seen the largest cuts year-to-date.

4. EPS Revision by Sectors

(Percent change, aggregate EPS)

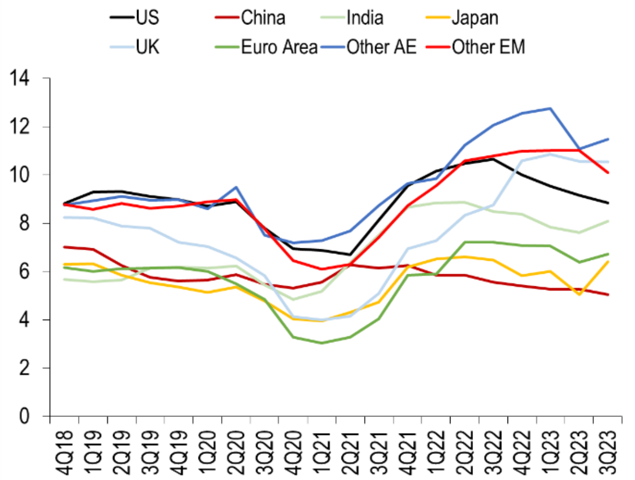


- 3Q23 saw 2023 upwards revisions for Consumer Durables and Utilities.
- Health Services, Real Estate, and Energy & Minerals have seen large EPS cuts for 2023-24

Profit margins continue to decline in the US. In contrast, 3Q23 shows improvement in margins in other advanced economies, especially in Japan…

5. Net margin by Country

(Percentage points, last 12 months)

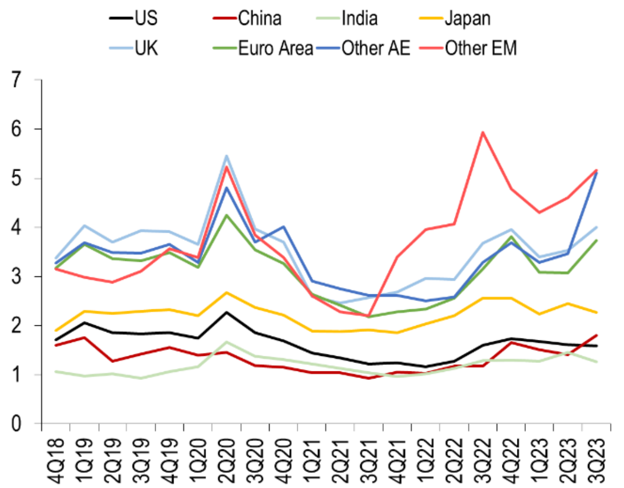


- Profit margins in the US have continued to decline, although at a slower pace.
- Companies in other Advanced Economies and India were able to improve profit margins.
- Other EM and Chinese companies continued to struggle passing higher input costs to consumers, amid weakening currencies against the dollar during the quarter.

…while dividend yields have shown a strong improvement during 3Q23 across most geographies.

6. Dividend Yield by Country

(Percentage points, last 12 months)



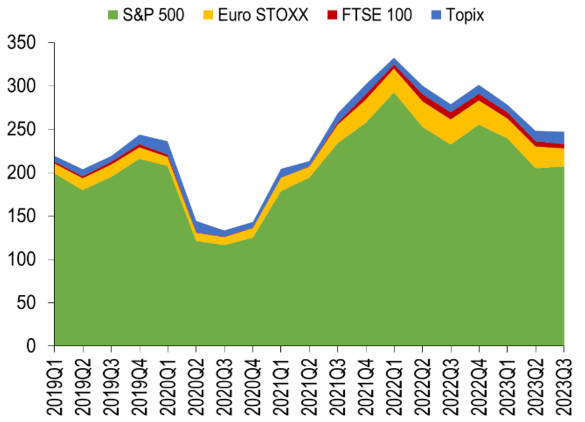
- The sharp increase in dividend yields reflect the combination of growth in dividend per share with declining stock prices over the quarter.
- Notable exceptions is the US, Japan, and India, where dividend yields have been declining q/q.
- Dividend yields in Other AEs had the greatest increase q/q.

Note: Dividend Yield = Dividend per share / Share price

Share buybacks have declined slightly compared to 2Q23, driven by a decrease from Euro Area companies.

7. Share buybacks by Index

(Billions USD)

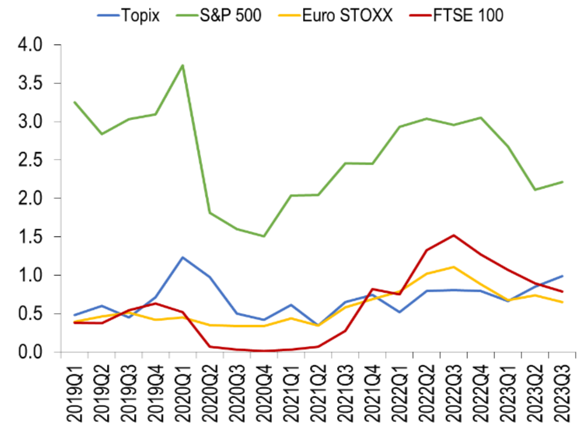


- Total share buybacks in USD have broadly stabilized since 2022Q1 peaks.
- Euro STOXX and FTSE 100 companies cut total buyback amount in USD.
- In contrast, management teams from the S&P 500 and Topix increased buybacks in the quarter signaling their belief that stocks were undervalued in the current environment.

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

8. Share buybacks to Market Cap of Index

(Annualized, Percent)

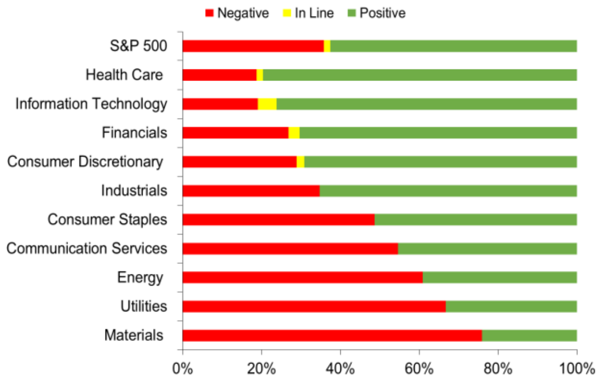


- In terms of market cap, the TOPIX has seen the largest increase in buybacks since the start of 2023.
- In the UK, the ratio continues to decline despite the rate slowing q/q
- Buybacks as a share of market cap appear to have stabilized in the US.

United States: S&P 500

63% of companies beat revenue estimates in 3Q 2023, led by the Health Care and Tech sectors…

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

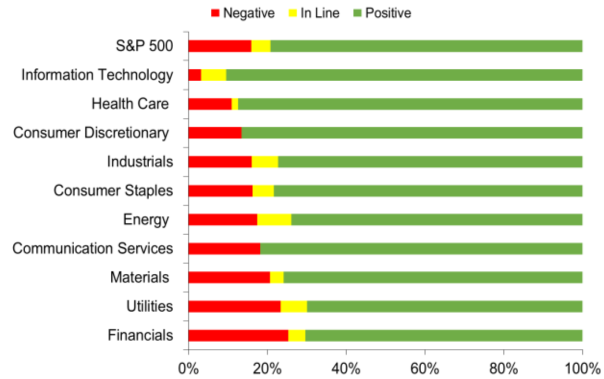


- S&P 500 revenue surprises were led by Health Care, Information Technology, and Financials.
- Materials, Utilities, Energy, and Consumer services experienced the most negative suprises for the quarter.
- 63% of companies beat revenue expectations, which is lower than 75% of companies that beat last quarter.

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

10. S&P 500 2023Q2 EPS Surprises by Sector

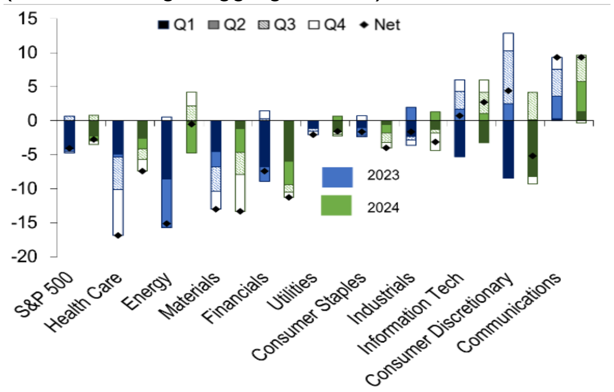
(Percent of firms)



- Nearly 80% of S&P 500 companies reported positive EPS surprises, about the same as Q2.
- 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.

Information Tech, Consumer Discretionary, and Communications experienced positive 2023 EPS revisions during the 3Q a trend that continued post results (4Q).

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

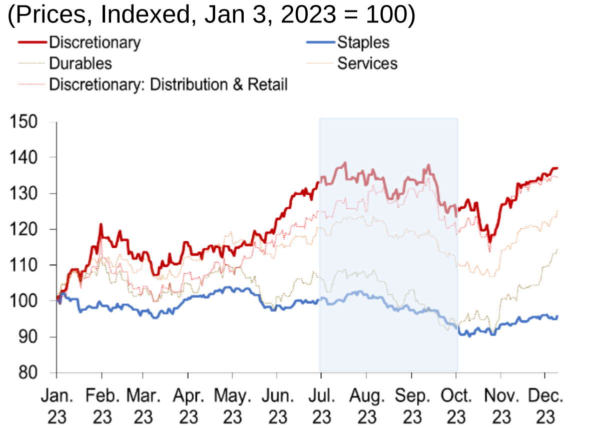


- Information Tech, Consumer Discretionary, and Communications saw the greatest upward revisions for 2023, partly due to the major outperformance of large cap stocks.
- The remaining sectos have seen net negative revisions for both 2023 and 2024 this year.

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.

Concerns about the strength of US consumer weighed on consumer discretionary stocks during the quarter but have since then faded.

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



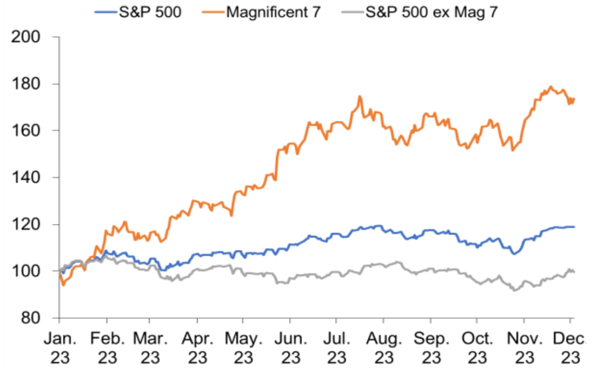
- Concerns about the strengh of the US consumer weighed on both discretionary and staple stocks during the quarter.
- Concerns have faded since 3Q results driving a reversal in the trend since late October.
- Within consumer discretionary, services, distribution and retail have gained more than 15% year-to-date

Selected Topics 2023 Q3

The strong performance of the S&P 500 has been in most part driven by 7 stocks…

13. Magnificent 7

(Prices, Indexed, Jan 3, 2023 = 100)



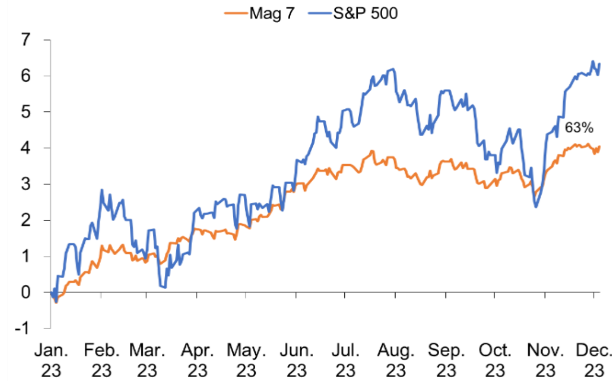
- The S&P 500 has gained 19% year to date.
- The outperformance of 7 large cap stocks, which represent around 30% of the index has been the main driver, with an increase of 73% this year.
- The other 493 stocks in the index are nearly flat ytd

Note: "Magnificent Seven" stocks consist of Alphabet, Amazon, Apple , Meta Platforms, Microsoft, Nvidia and Tesla.

The market cap of these stocks as a percent of the S&P 500 has increased to 26% from around 18% at the start of 2023.

14. Magnificent 7 Cumulative Market Cap Change

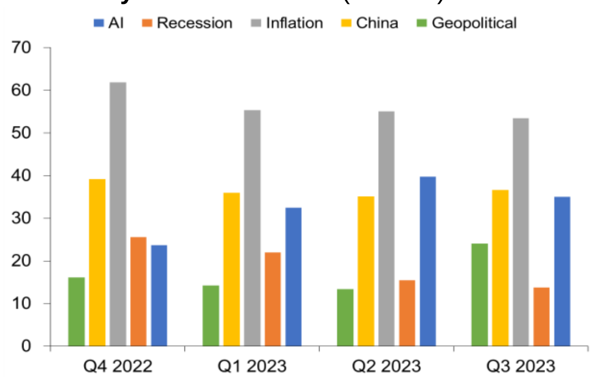
(Percent of S&P 500 Market Cap)



- Year-to-date 63% of the increase in S&P 500's market cap can be attributed to the market cap increase in the Mag 7.
- The S&P 500 market cap has increase by about $6.3 tn while the Mag 7 accounted for about $4 tn of the increase.

S&P 500 earnings calls show that managers are more concerned about geopolitical risks despite inflation remaining the key topic.

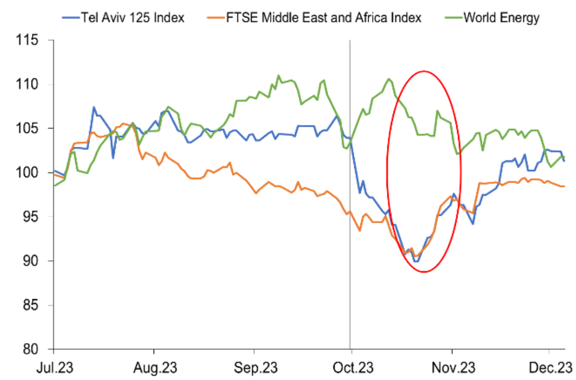
15. Percentage of S&P 500 Earnings Disclosures Where Key Words are Used (Percent)



- 3Q earnings calls, transcripts, and presentations continue to show that management are more concerned about the rise of the geopolitical risk. However, inflation, AI, and China remain also important in the range of risks cited.
- Recession concerns retreated as the word "recession" used in earnings disclosures fell below 15%, while the "geopolitical" rose to 24%.
- AI continues to be top of mind since the beginning of 2023.

Indices related to the war in Israel experienced large movements quickly after the invasion before returning to levels seen in August.

16. Performance of Selected Indices related to the war in Israel



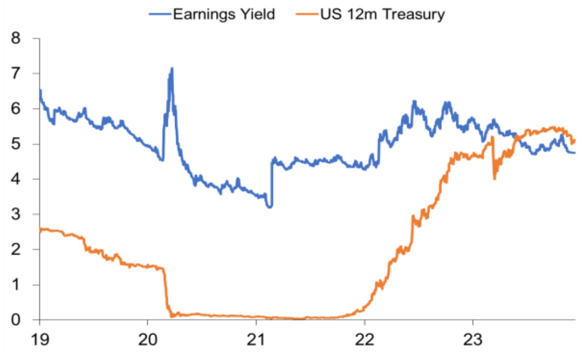
- Tel Aviv's equity index dropped 13% over 3 weeks following the start of the war, while the broader Middle East and Africa Index fell 5%.
- The World Energy Index rallied 4% over the same period.
- Indices returned to October levels as the risk of a broader regional conflict continue to decline in the eyes of investors.

Valuation and Sentiment

US 12m Treasury yields have surpassed expected 1 year forward earnings yields for the S&P 500.

17. Cash Yield

(Percent)



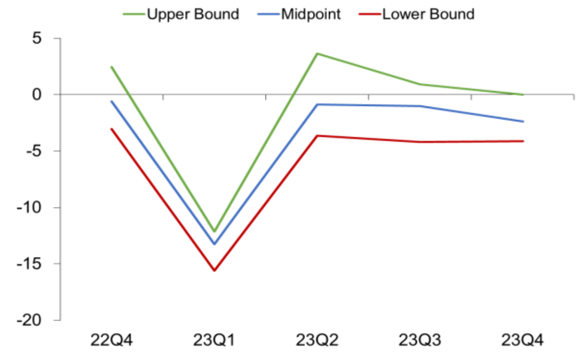
- S&P 500 earnings yield has steadily declined since October 2022, as price rally was not supported by equivalent increase in EPS.
- US 12m treasury yields have surpassed 5%, overtaking the S&P 500 earnings yields since the end of May this year

Note: Earnings Yield = 1 Year Forward Expected EPS / Stock Price

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

18. Company Issued EPS Guidance

(Quarter-over-quarter growth, 50th percentile)



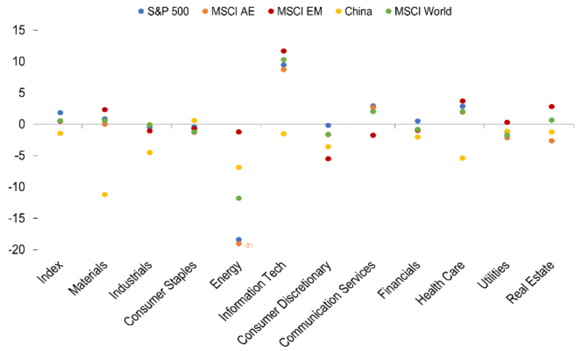
- According to Bloomberg, about 1/5 of S&P 500 companies issued forward EPS guidance for Q4 2023.
- About half of these companies are expecting negative quarter-over-quarter EPS growth even when looking at the upper bound of their EPS range.

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.

Globally, Tech and Health Care are most overvalued in terms of P/E ratios relative to their 10 year average.

19. 12 month Forward Looking P/E Ratio

(Deviation from 10-year average)

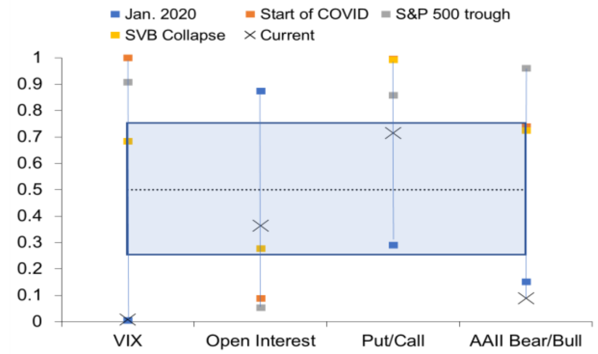


- The AI led tech rally has caused P/E ratios to be increasingly demanding of earnings for the information technology sector across the globe.
- The prices of energy firms have fallen after a huge rally in 2022, due to the lower-than-expected demand.

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

20. Volatility and Sentiment

(Percentile rank, Jan 2020 to Present)



- Equity Volatility (VIX) and AII Bear/Bull ratio are at their lowest levels since Jan 2020.
- Put/Call ratio is near the top of its interquartile range as low VIX provides cheap hedging prices for put options.
- Open interest on the S&P 500 has receded over the past months as investors have increased call volumes relative to puts.

Note: Percentiles are based on time series since January 2020.

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