



GLOBAL MARKETS ANALYSIS

Monetary and Capital Markets

Corporate Earnings Monitor

WEDNESDAY, MARCH 20, 2024

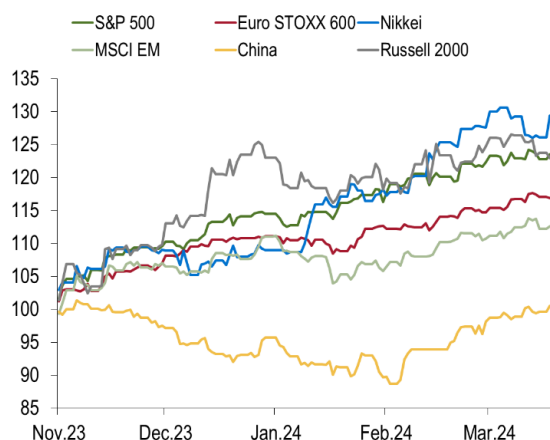
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2023 Q4 CORPORATE EARNINGS MONITOR HIGHLIGHTS

- Global equity indices, with the exception of China, have rallied since October, with corporate earnings coming in above expectations, led by the Information Technology sector on the back of AI.
- The equity rally has also broadened to small cap stocks, supported by improved earnings prospects.
- Year over year earnings per share (EPS) growth is projected to be positive over the next two years, in all regions, despite downward revisions throughout Q4 2023 and Q1 2024. From a sectoral perspective, downward revisions were generally minimal, except for Healthcare.
- Profits margins in the US fell marginally, but many other AEs and also numerous EMs saw more notable declines. Conversely, the Euro Area and India saw large margin increases. The equity rally depressed dividend yields, but sparked increase in total share buybacks (quarter over quarter) for main AE equity indices, except Japan.
- Valuations remain highly conditional on earnings growth, especially in Tech. 12m forward price to earnings (P/E) ratios are well below those seen at the peak of the tech bubble. Moreover, a falling spread between the 95th and 5th percentile forward P/E suggests certain expansion in the breadth of the rally.
- Magnificent 7 (tech) stocks have outperformed GRANOLAS by around +110 percentage points (in comparing medians for both) since the start of 2023; the latter being a widely cited comparator basket of European high quality growth stocks, which represent about 20 percent of the EuroSTOXX 600.

Major stock indices globally have rallied since October 2023.

1. Performance of selected Stock Indices (Prices Indexed, October 31, 2023 = 100)



Analysts are expecting strong EPS growth in 2024–25, with the UK being an exception.

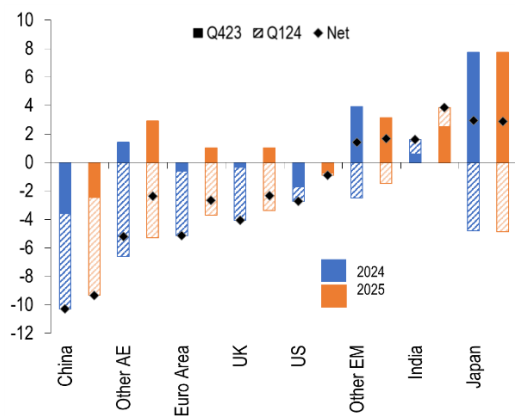
2. Actual and Projected Global EPS Growth by Region (Year-over-year percent change)

	2022	2023	2024e	2025e
US	5.20	2.09	12.15	15.05
China	-8.31	-8.21	25.23	20.44
India	-0.23	27.67	17.27	15.98
Japan	-3.14	-0.58	10.97	8.49
UK	19.48	15.40	4.53	3.30
Euro Area	21.13	19.84	0.24	10.95
Other AE	4.84	-13.47	24.06	13.61
Other EM	8.32	0.40	11.17	8.78

EPS revisions since October 2024, however, were generally negative, except for Japan and India.

3. EPS Revisions by Region

(Percent change, aggregate EPS)

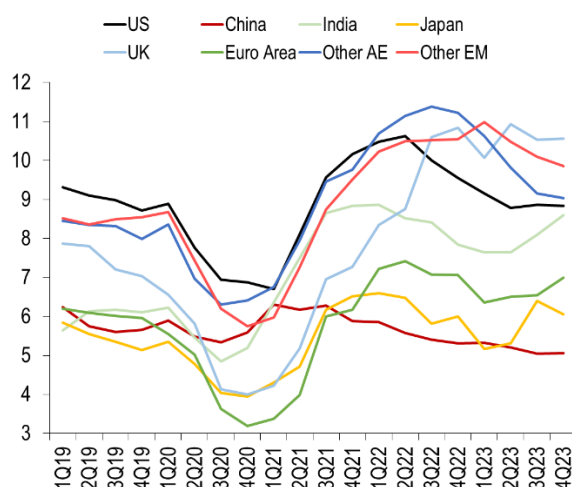


- Amid concerns about the property sector and the economic slowdown, China's EPS continue to see large declines.
- Japan is experiencing positive momentum on the back of economic data.
- EPS have been revised upwards in other EMs as optimism prevails about strong growth and falling inflation.

Profits margins in the US fell marginally, but many other AEs, and also numerous EMs, saw more notable declines. Conversely, the Euro Area and India saw large margin increases.

5. Net Margin by Region

(Percentage points, last 12 months)



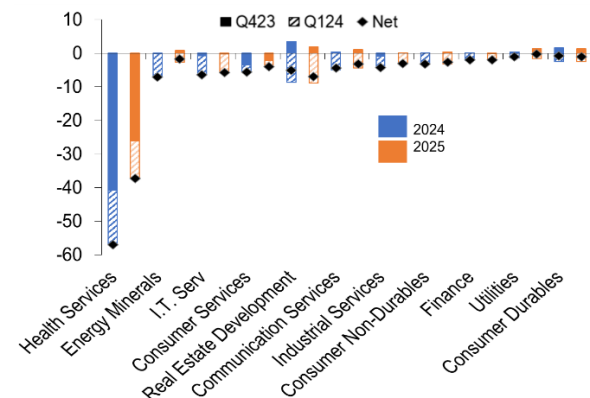
- Profit margins in the US have continued to decline, although at a slower pace since their 2Q22 peak.
- Companies in the Euro Area and India were able to improve profit margins.
- Other AEs and EMs experienced large declines despite falling inflation suggesting deterioration in pricing power.

*Note: Regions are GDP weighted

EPS estimates by sector, globally, show a similar picture, with Health Services seeing the largest downward revisions.

4. EPS Revision by Sectors

(Percent change, aggregate EPS)

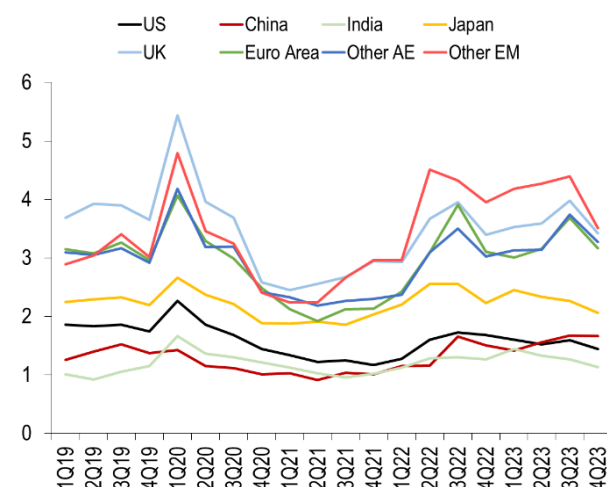


- 3Q23 saw 2023 small upwards revisions for Consumer Durables and Utilities.
- Health Services, Real Estate, and Energy & Minerals have seen large EPS cuts for 2023–24.
- IT services sector saw small declines in estimates as analyst fine-tune their ambitious expectations.

Dividend yields declined in all regions, as dividends per share (DPS) growth could not match strong price appreciation.

6. Dividend Yield by Region

(Percentage points, last 12 months)



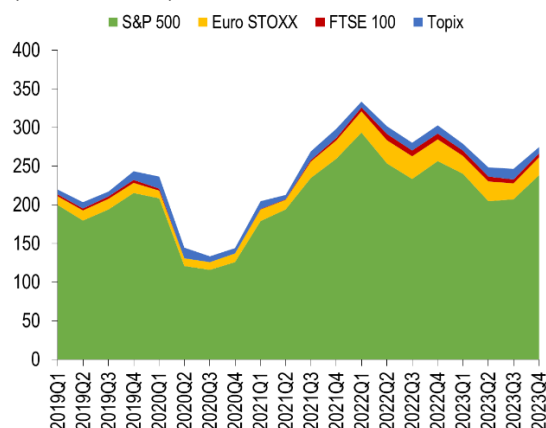
- The sharp decrease in dividend yields reflect the growth in prices outpacing growth in dividend per share.
- Other EMs experienced the largest drop in dividend yield due to some countries experiencing negative dividend per share growth.

*Note: Dividend Yield = Dividend per share / Share price.
Regions are GDP weighted

Share buybacks have increased compared to 3Q23 for the S&P 500, Euro STOXX, and FTSE 100, partially offset by a decrease in Topix.

7. Share Buybacks by Index

(Billions USD)

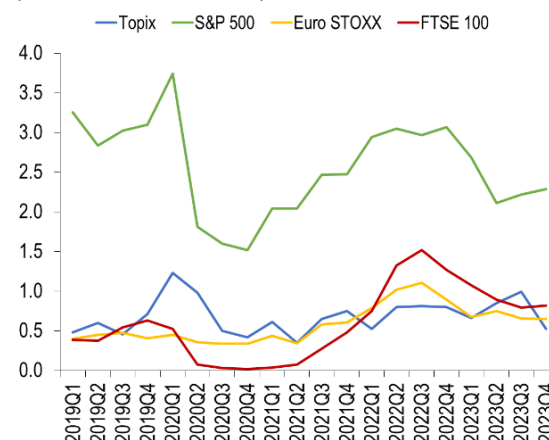


- Total share buybacks in USD have started to rebound for the first time in a year.
- Euro STOXX and Topix companies cut total buyback amount in USD.
- In contrast, management teams from the S&P 500 and FTSE 100 increased buybacks in the quarter signaling their belief that stocks were undervalued in the current environment.

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

8. Share Buybacks to Market Cap of Index

(Annualized, Percent)

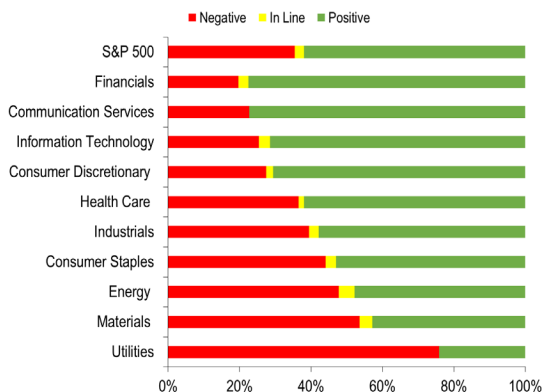


- In terms of market cap, the TOPIX has seen the largest decrease in buybacks since Q3 2020.
- In the UK, the ratio saw an increase for the first time since Q3 2022.
- Buybacks as a share of market cap has started to rebound in the US.

United States: S&P 500

Just over 60 percent of companies beat revenue estimates in 4Q 2023, led by the Financials and Communication services sectors,

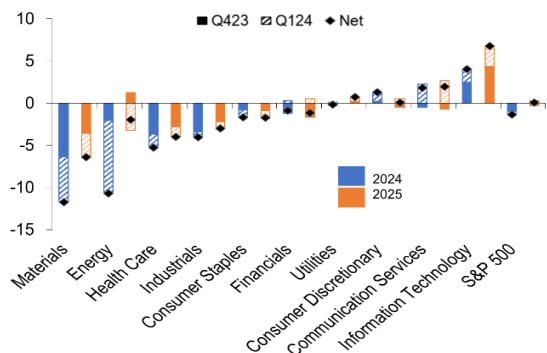
9. S&P 500 2023Q2 Revenue Surprises by Sector (Percent of firms)



- S&P 500 revenue surprises were led by Financials, Communication Services, and Tech.
- Utilities, Materials, and Energy experienced the most negative surprises for the quarter.
- 61 percent of companies beat revenue expectations, which is slightly lower than the 63 percent in Q3 2023.

Information Tech, Communication Services, and Consumer Discretionary experienced positive 2024 and 2025 EPS revisions.

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

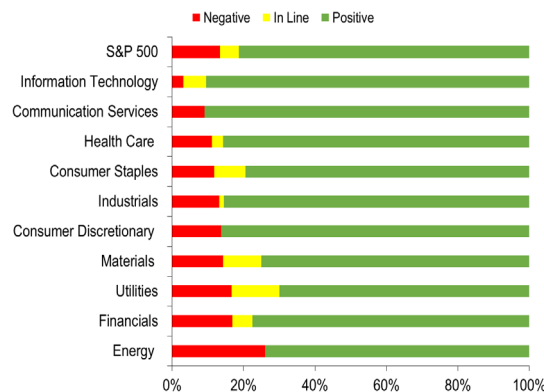


- S&P 500 revisions were marginal for 2024–25
- Information Tech, Communication Services, and Consumer Discretionary saw the greatest upward revisions, as markets adjust forecasts for recent outperformance.
- The remaining sectors have seen net negative revisions for both 2024 and 2025.

**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.*

... while around 80 percent of companies in the S&P 500 reported positive earnings surprises.

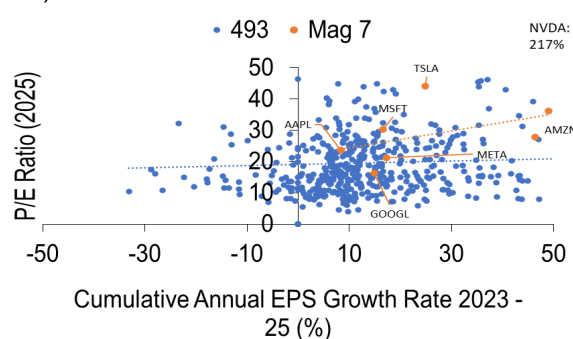
10. S&P 500 2023Q2 EPS Surprises by Sector (Percent of firms)



- 81 percent of S&P 500 companies reported positive EPS surprises, slightly above the previous two quarters.
- Larger share of EPS beats compared to Revs signals better than expected margin performance during the quarter.
- Energy had the largest negative surprises

Magnificent 7 valuations are supported by growth in expected future earnings per share.

12. Expected EPS growth and P/E Ratio (x axis percent; y axis P/E Ratio, 2025 expected EPS)



- Magnificent 7 valuations are showing stronger correlation with expected earnings growth than the remaining 493 companies.
- NVDA has an expected cumulative annual EPS growth rate of 217 percent.

Selected Topics 2023 Q3: Magnificent 7, GRANOLAS, and the breadth of the recent rally

Magnificent 7 tech stocks greatly outperformed GRANOLAS since the start of 2023 by 110 percentage points.

13. Magnificent 7 vs GRANOLAS

(Comparison Table)

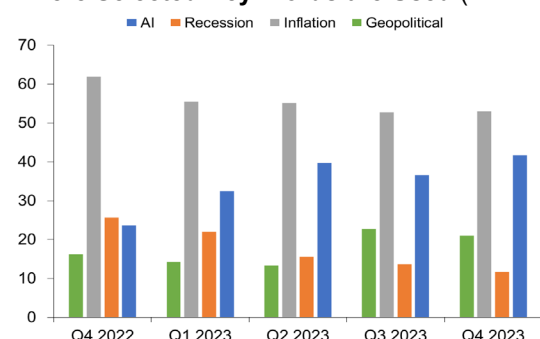
	Magnificent 7	GRANOLAS
Market Cap (\$tn)	13.4	3.1
Percent of Index	29.7	21.0
Performance since Jan 2023 (%)	137.6	26.6
12m Fwd P/E Ratio	30.3	25.7

- Mag 7 stocks have appreciated almost 140 percent since 2023 compared with 27 percent from GRANOLAS.
- Mag 7 stocks have a market cap over 4x GRANOLAS, while the percent of index is roughly 9pp more.
- GRANOLAS are trading at lower 12m forward P/E ratio than Mag 7.

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. Series are market cap weighted.

S&P 500 earnings calls show that managers are still concerned about geopolitical risks and the future of AI.

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

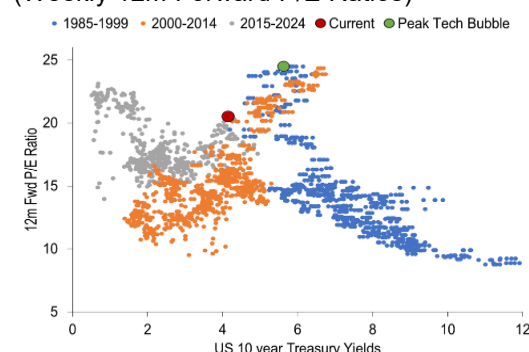


- 4Q earnings calls, transcripts, and presentations continue to show that management are still concerned about the rise of the geopolitical risk. However, inflation, and AI remain also important in the range of risks cited.
- As the probability of a soft landing is now generally considered the baseline scenario, the fears of recession appear to have faded based on evidence from earnings calls.

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

14. Find the Bubble?

(Weekly 12m Forward P/E Ratios)

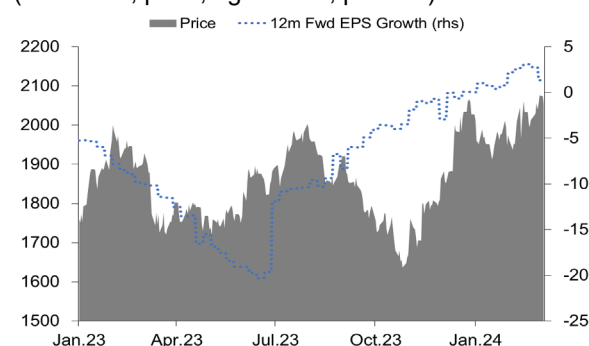


- S&P 500's current 12m forward P/E ratio is just above 20, compared to slightly under 25 seen at the peak of the tech bubble.
- The ratio remains within the historical range when compared to valuation metrics relative to the risk-free rate.
- Relationship between valuation and 10-year yields shows clear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

Small Cap stocks, like those found in the Russell 2000, are riding the broad equity rally on improved earnings prospects.

16. Small Cap Stocks See Bright Spot

(Left scale, price; right scale, percent)

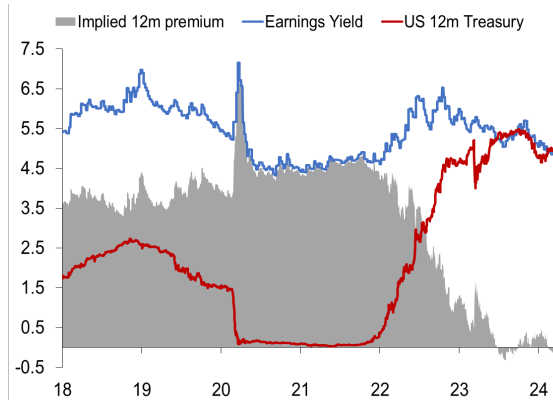


- The Russell 2000 has not quite reached its all-time highs but continues to advance as the equity rally broadens.
- Year on year growth in 12m expected EPS has turned positive in 2024, providing support to appreciating prices.

Valuation and Sentiment

US 12m Treasury yields have surpassed expected 1-year forward earnings yields for the S&P 500, suggesting cash remains an attractive investment.

17. Cash Yield (Percent)

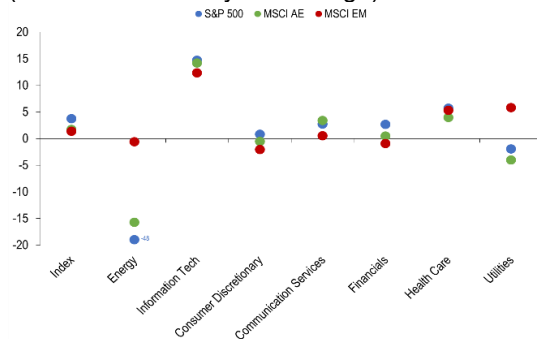


- S&P 500 earnings yield has steadily declined since October 2022.
- US 12m treasury yields have been battling with S&P 500 earnings yields since May 2023.
- Implied 12m Equity Risk Premium has hovered around zero for almost a year.

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

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

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

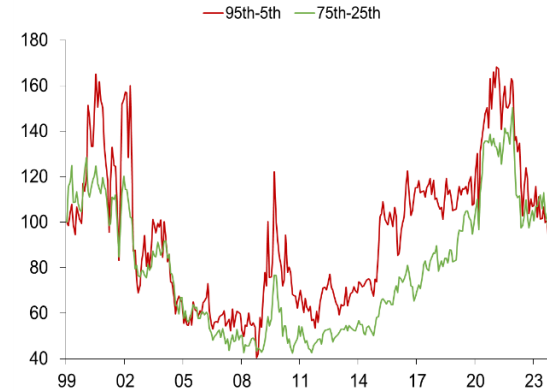


- Valuations remain highly conditional on earnings growth, especially in Tech.
- The prices of energy firms have fallen after a huge rally in 2022, as volatility in energy markets remains.

The breadth of the rally has expanded as the spread between the 95th and 5th percentile forward P/E has fallen.

18. 12m Forward P/E Ratio Spreads

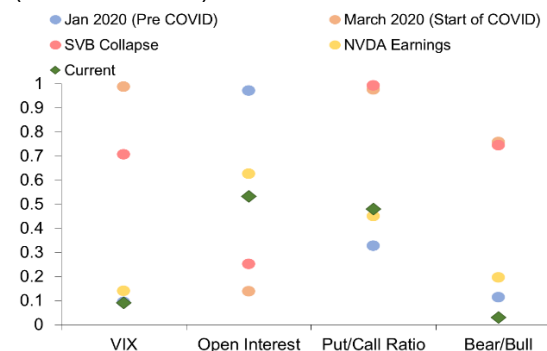
(Spread between percentiles, P/E ratios, Indexed: Jan 1999 = 100)



- The spread between the 95th and 5th percentile of 12m forward P/E ratios has declined since 2021 and is much lower than the level before the Tech bubble.
- This suggests that equity rally is broadening as dispersion between the highest (95 pct.) and lowest (5 pct.) P/E stocks is falling.
- Although the spread between the 75th and 25th remains wide compared to history.

Equity volatility remains low while the Bear/Bull Ratio is near period minimum, suggesting buoyant market sentiment.

20. Volatility and Sentiment (Percentile Rank)



- Equity Volatility (VIX) and All Bear/Bull ratio are lower than those seen before the pandemic.
- Put/Call ratio is slightly above the median of the distribution as recent rally and cheapness of puts saw investors buy downside protection.

**Note: Percentiles are based on time series since January 2020. Bear/Bull is from the AAI US Investor Sentiment Surveys which reflect the negative/positive sentiment of investors towards the stock market over the next six months. Put-Call ratio measures the ratio between investors buying downside protection compared to those buying upside exposure.*

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.