



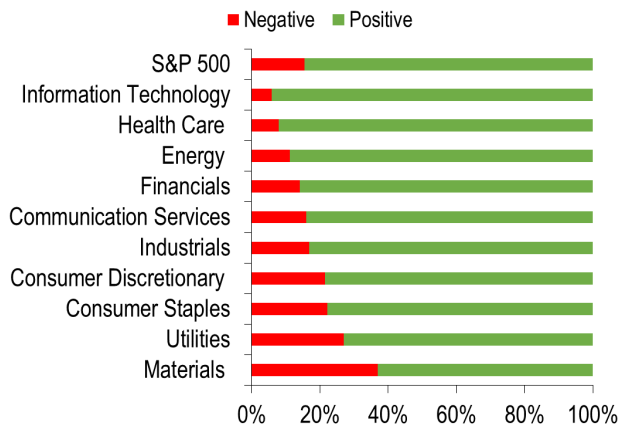
## Q3 EARNINGS MONITOR HIGHLIGHTS

- **Global corporate earnings in Q3 were remarkably strong** despite concerns about the virus, inflation, supply-chain issues, labor costs, energy prices, and policy normalization. **In the US, earnings surprised on the upside at over 80 percent of S&P 500 firms** relative to analysts' expectations, and positive surprises were widespread across major sectors. While the impact of Omicron, new infections, and central banks' actions will take days or weeks to be fully incorporated into earnings forecasts, **analysts' projections of US earnings over the next few quarters have so far been revised up since early October.**
- **Many large S&P 500 firms have been able to push through higher input costs to maintain margins.** So far, this has worked as managers pointed to **healthy consumer balance sheets and pent-up demand**, alongside ample fiscal transfers that have boosted income and consumption for lower-wage households, and strong wage growth have helped keep their incomes above pre-pandemic trends.
- On the supply chain and labor challenges, **managers pointed to an acceleration in digitalization and automation** to combat these inflationary headwinds. Managers have commented on the deflationary power of technology and automation which were expected to become increasingly valuable as concerns linger over persistent inflation. Firms that are asset- and labor-efficient are well positioned to outperform if labor tightness continues. In addition, **the continued shift in consumer behavior towards a more digital world was evident in Q3.** For example, managers in consumer sectors highlighted the increasing usage of apps for digital orders. These companies are investing to facilitate the digital evolution.
- **Outside the US, future corporate earnings have been upgraded in most major economic areas** as well, except in China—affected by a broad growth slowdown and sector-specific challenges
- As a result, **global earnings are expected to expand and substantially exceed pre-pandemic levels this year and to continue to grow strongly next year**, with the highest pace of profit growth anticipated in India.
- **Sector-wise, a broad-based recovery in earnings has continued, and earnings are expected to surpass pre-pandemic levels this year or next year in all sectors, including the sectors affected by the pandemic**—with the same caveat that Omicron may yet put a dent in earnings, especially in the sectors linked to international travel
- Going forward, in earnings calls, **managers have frequently voiced concerns about the same factors: labor, inflation, and supply-side constraints**
- **A broad growth slowdown in China is another major risk because large firms in Japan, US, and Europe derive substantial revenues from China**, and the technology sector which has some of the highest valuation metrics also has the greatest exposure to China
- **The Q3 earnings season had a substantial, positive impact on global equity markets**, partly alleviating investors' concerns about Delta, inflation, and supply-side constraints, with equity prices having risen 6 percent globally and 9 percent in the US between early October and late November
- **The emergence of Omicron led to losses in equity markets in late November**—especially in sectors linked to international travel and in the energy sector—but **markets have recovered** in most sectors since early December—buttressed by strong corporate earnings

## Q3 Earnings Surprises Were Large and Broad-Based Leading to Upward Revisions in Forecasts

*In Q3, US positive earnings surprises were historically large and widespread across sectors*

### 1. US 2021Q3 EPS Surprises by Sector (percent of firms)

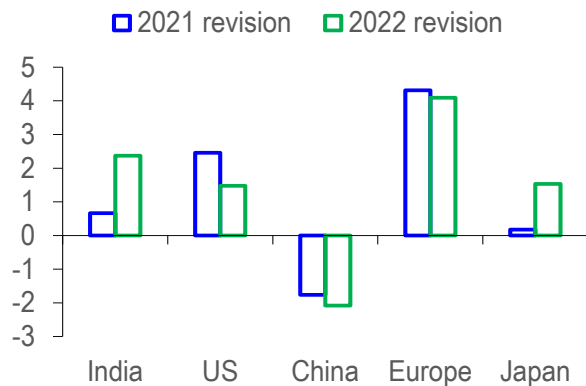


- Earnings positively surprised at over 80 percent of US S&P 500 firms
- Healthcare and IT sectors saw more positive surprises relative to other sectors, which further boosted their prices

*Globally, corporate earnings forecasts have been revised up in most regions*

### 3. Revisions of EPS Projections

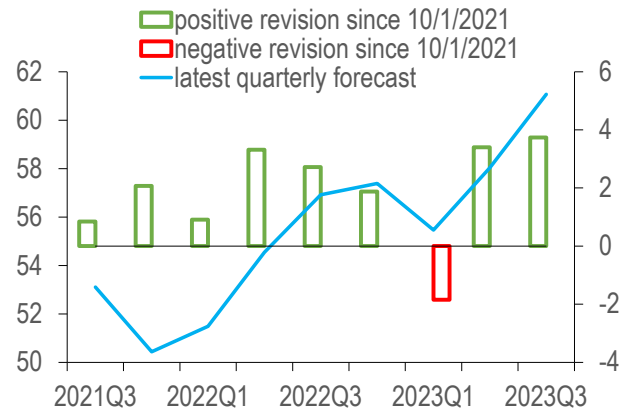
(change between 10/1 and 11/26 in percent)



- Most major economic areas saw positive earnings revisions in 2021 and 2022
- In China, earnings revisions for this and next year were negative, driven by a broader slowdown and sector-specific challenges

*US earnings forecasts have been upgraded, with earnings expanding further in 2022-23*

### 2. US Quarterly EPS Projections and Revisions (index on LHS and change in index on RHS)

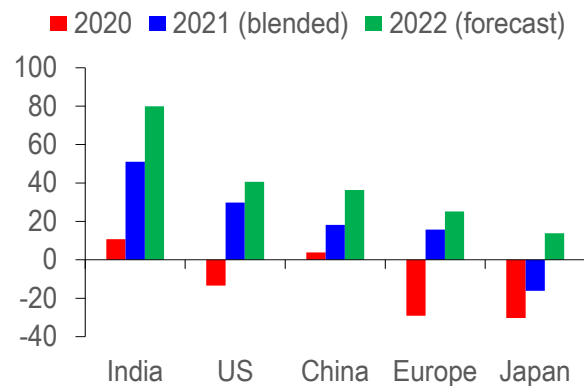


- Revisions have been mostly positive
- The largest upward revisions have been for the outer years
- The overall trend in EPS over the next 2 years is expected to be positive

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

### 4. Global EPS Growth Projections by Country

(cumulative percent change since 2019)



- Most major economic areas (except Japan) are expected to see 2021 annual earnings above pre-pandemic levels
- Growth in earnings is expected to continue in 2022

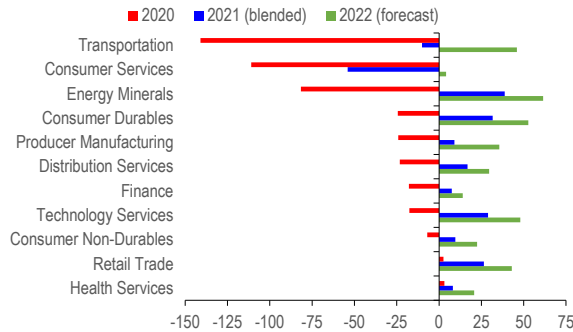
Sources: Bloomberg L.P.; FactSet; Refinitiv Eikon Datastream IBES; and IMF staff calculations.

Note: The analysis pertains to large, publicly traded firms.

## Going Forward, Risks are Mainly Related to Omicron, Inflation, Labor, and Supply-Chain Issues

*All sectors are recovering, with expected earnings above 2019 levels next year even in the affected sectors*

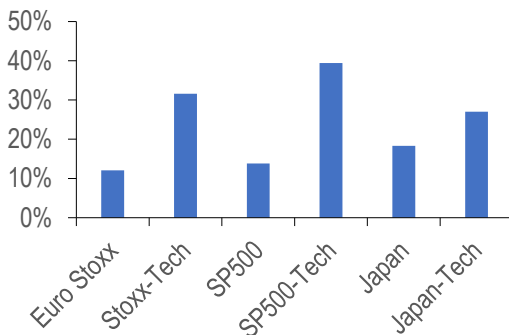
### 5. Global EPS Projections by Sector (cumulative percent change since 2019)



- Most sectors are expected to surpass pre-pandemic levels this year
- Among the affected sectors, the energy sector has already exceeded 2019 profits on the back of high energy prices
- Transportation and consumer services are expected to exceed pre-pandemic levels next year

*Global revenues and market prices could be considerably affected by a broad slowdown in China*

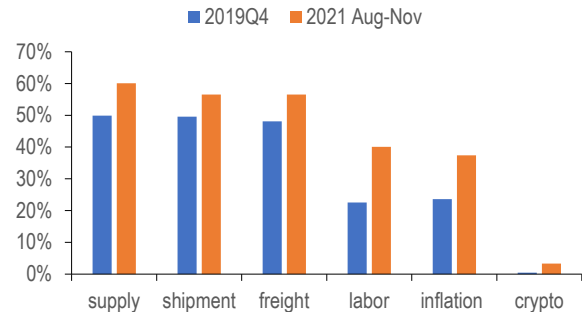
### 7. Share of Revenues Derived from China (Share of firms with revenues from China above 10 percent of total revenues)



- A broad growth slowdown is another key risk—in addition to the aforementioned global factors and China-specific issues in the real estate and high-yield sectors
- The global technology sector has both some of the highest valuation metrics and the largest exposure to China
- Japan has more exposure to China, and Europe has less relative to the US

*Managers have increasingly raised concerns about labor costs, inflation, and supply-side constraints*

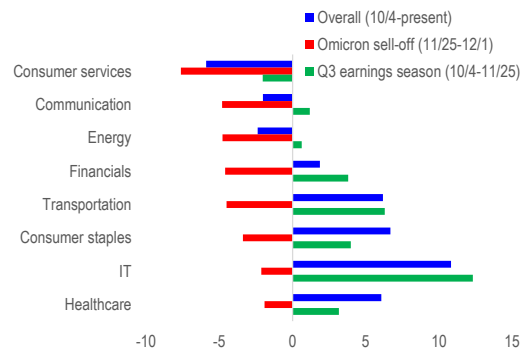
### 6. Percentage of Times Key Words Are Used In US Earnings Calls



- A record number of US firms mentioned inflation and supply chain issues during Q3 earnings calls
- The largest increases in the frequency of key words relative to 2019 pertained to inflation, labor, and supply chain challenges

*Omicron, new infections, and worries about inflation and central bank actions have stalled the rally for now*

### 8. Global Equity Markets (Cumulative price changes in percent)



- Sectors related to international travel, such as consumer services and transportation, saw some of the steepest initial declines since 11/25
- Energy stocks have fallen on lower energy prices
- Financials have been affected by the flattening of the yield curve
- Most sectors have recovered since early December

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