



# CAN THE PROFIT BOOM LAST?



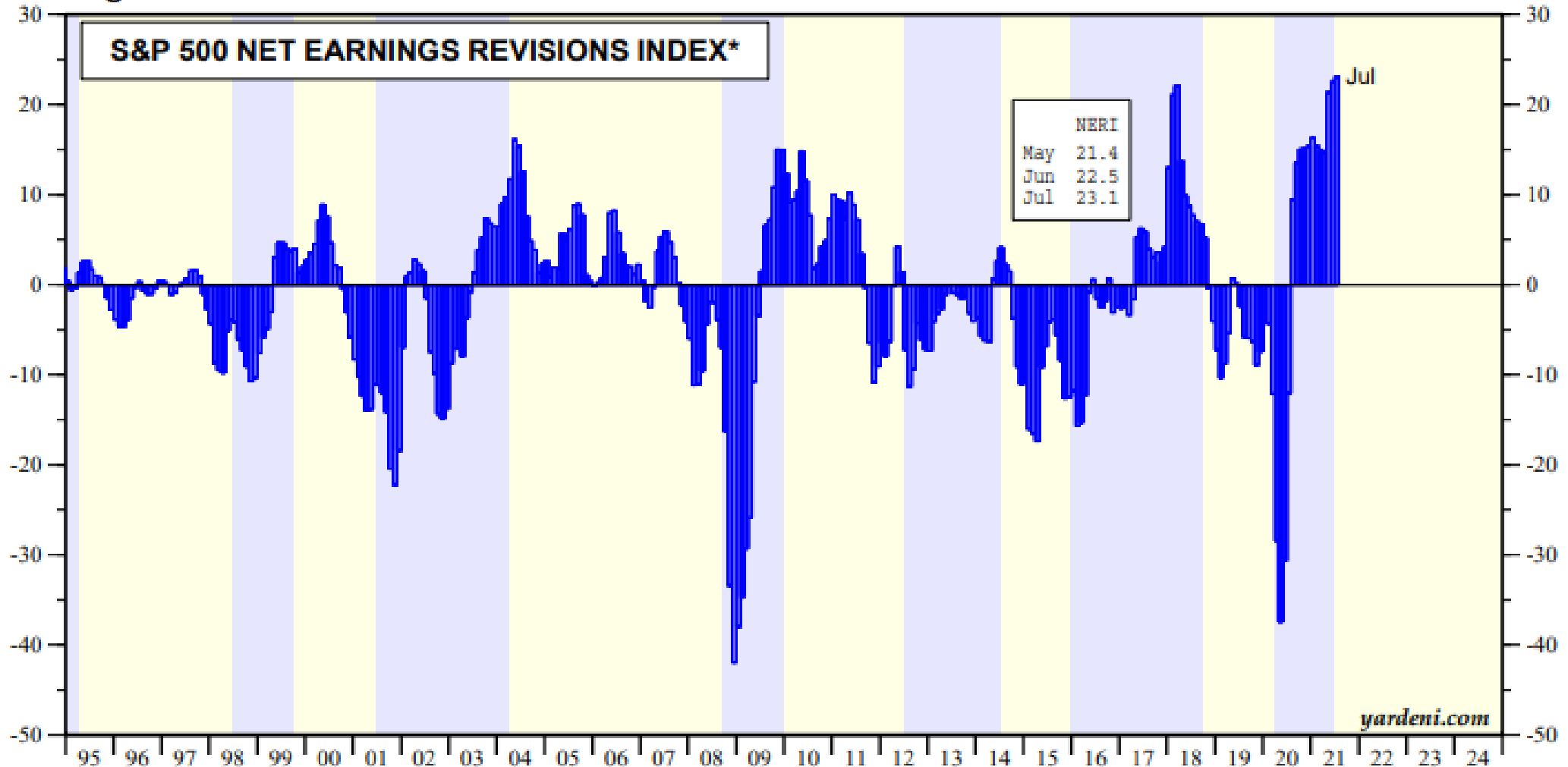
# Agenda: Will the earnings boom continue

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- Top down US Earnings
- Regional Earnings
- Sector earnings
- Inflation
- Individual stocks
- Investment outlook

# Upgrades - longer term perspective

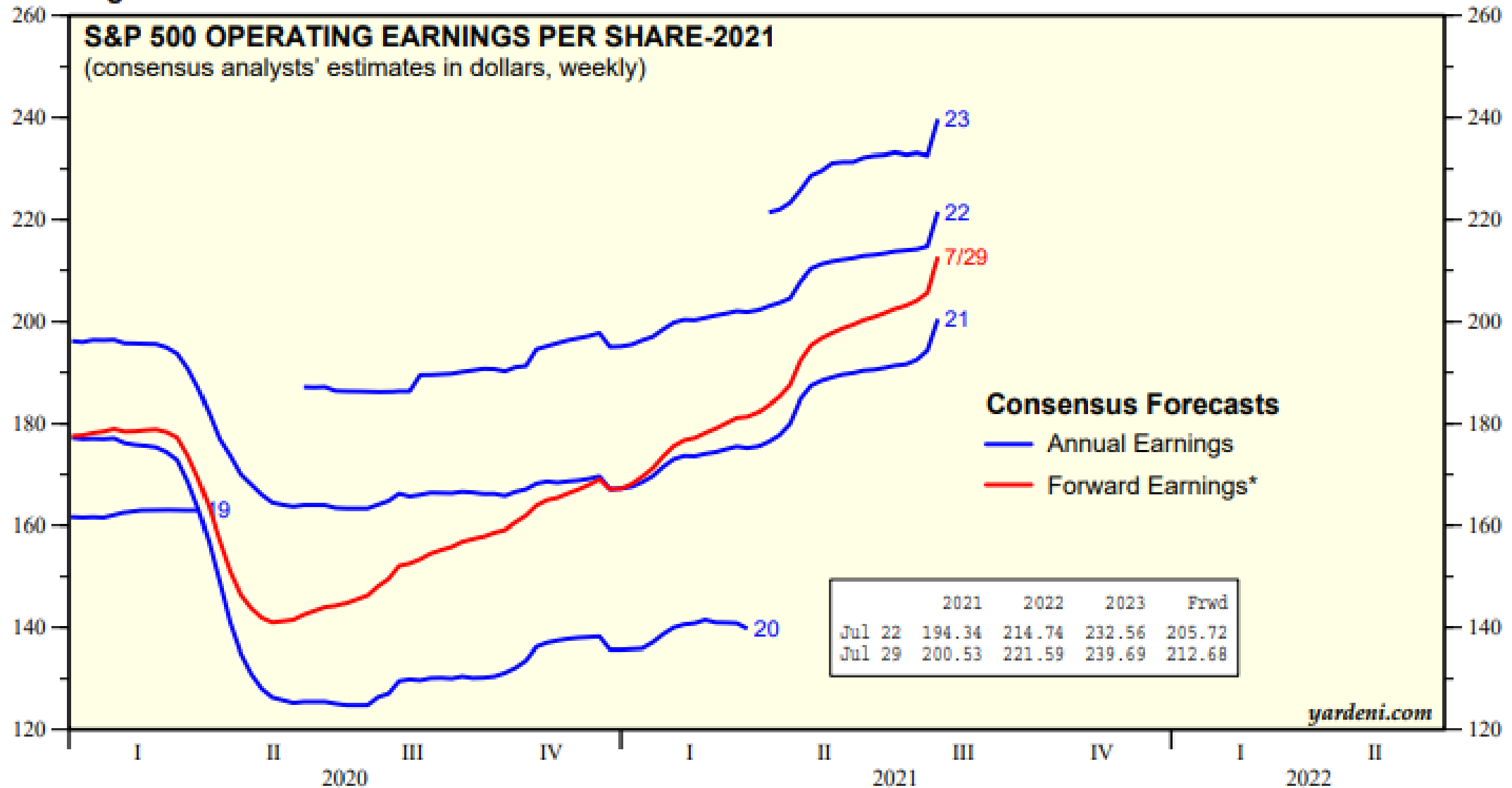
Figure 5.



\* Three-month moving average of the number of forward earnings estimates up less number of estimates down, expressed as a percentage of the total number of forward earnings estimates.  
Note: Shaded areas are trough-to-peak S&P 500 operating earnings growth cycles.  
Source: I/B/E/S data by Refinitiv.

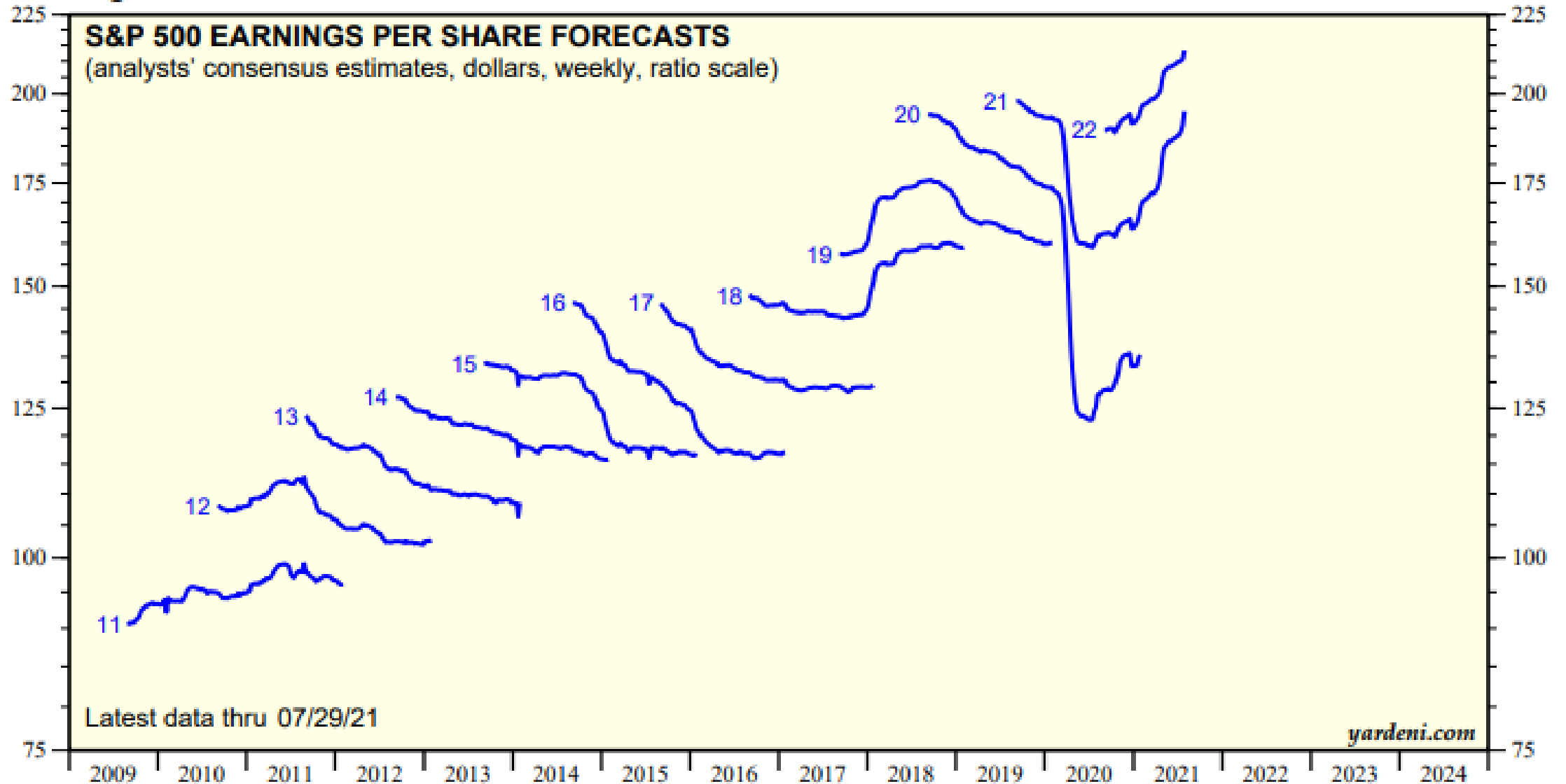
# Upgrades - recent

Figure 3.



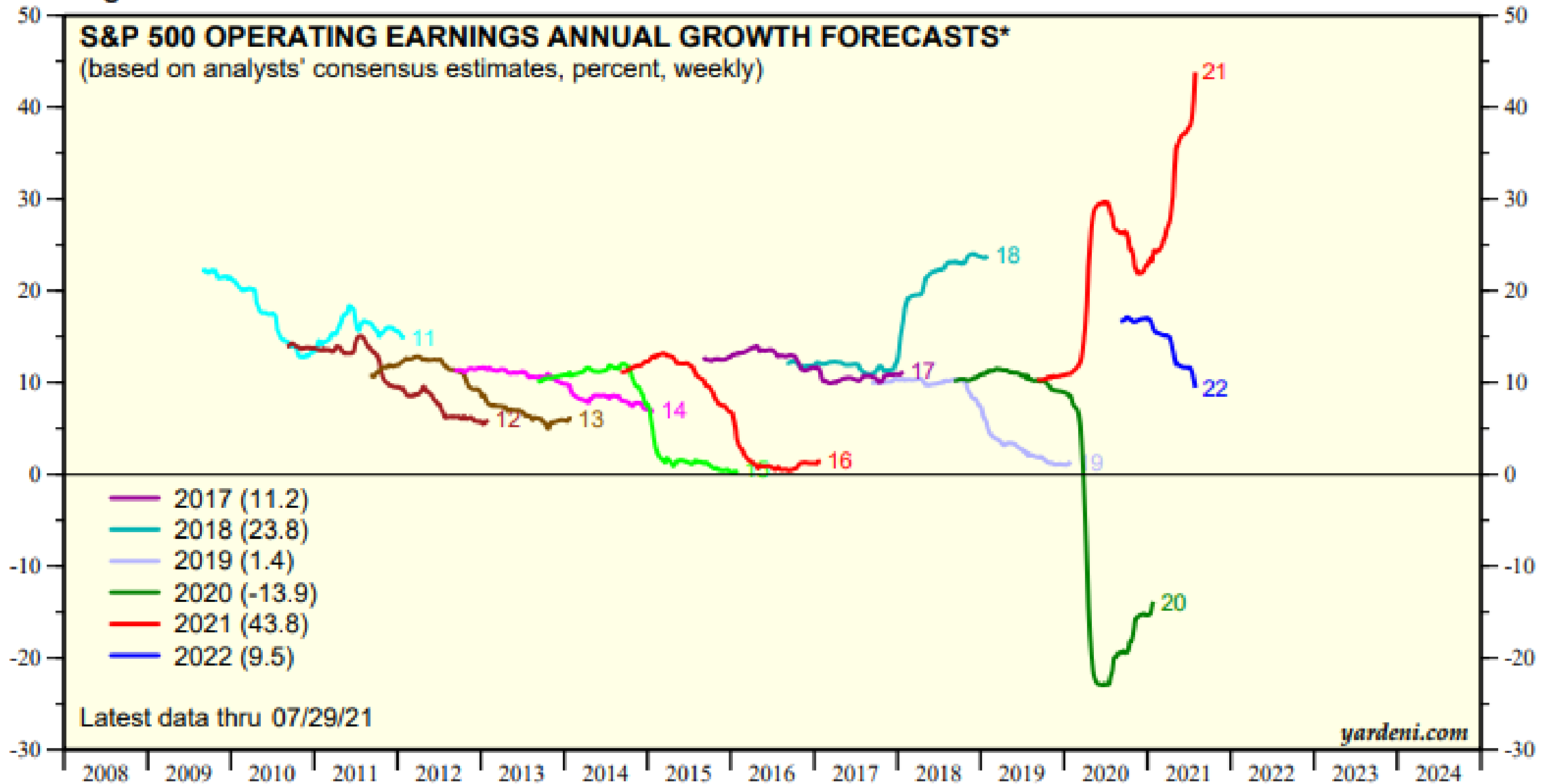
\* Time-weighted average of the consensus estimates for current and next year.  
Source: I/B/E/S data by Refinitiv.

# Upgrades - recent



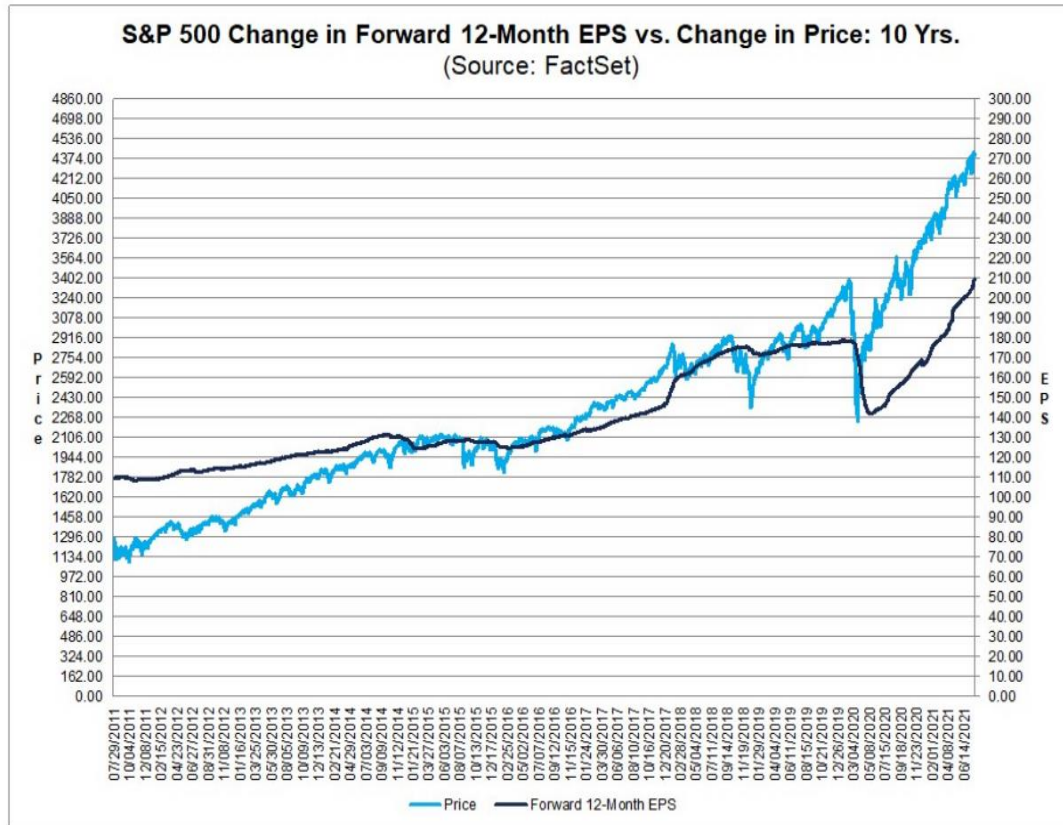
Source: I/B/E/S data by Refinitiv.

# Upgrades - future is here early



Source: I/B/E/S data by Refinitiv.

# Trend is your friend ?



Earnings have outpaced price growth, so markets are becoming less expensive.



The big question is : Do we continue to move up in parallel or do we converge?? and if so, which line moves?

# Regional Earnings

- 2Q distorted by base effects
- Earnings surprise shows upgrades

Percentile	US & Canada	Europe	Developed Asia
<b>2Q 2020 to 2Q 2021 Growth</b>			
10%	-4%	-15%	-16%
25%	15%	21%	21%
50%	47%	80%	88%
75%	129%	211%	213%
90%	313%	563%	694%
<b>2Q Surprise vs 1 month prior</b>			
10%	-3%	-21%	-14%
25%	3%	-1%	-1%
50%	12%	9%	18%
75%	25%	32%	61%
90%	64%	85%	96%



# Regional Earnings

- Much stronger earnings upgrades than usual
- Even worst stocks

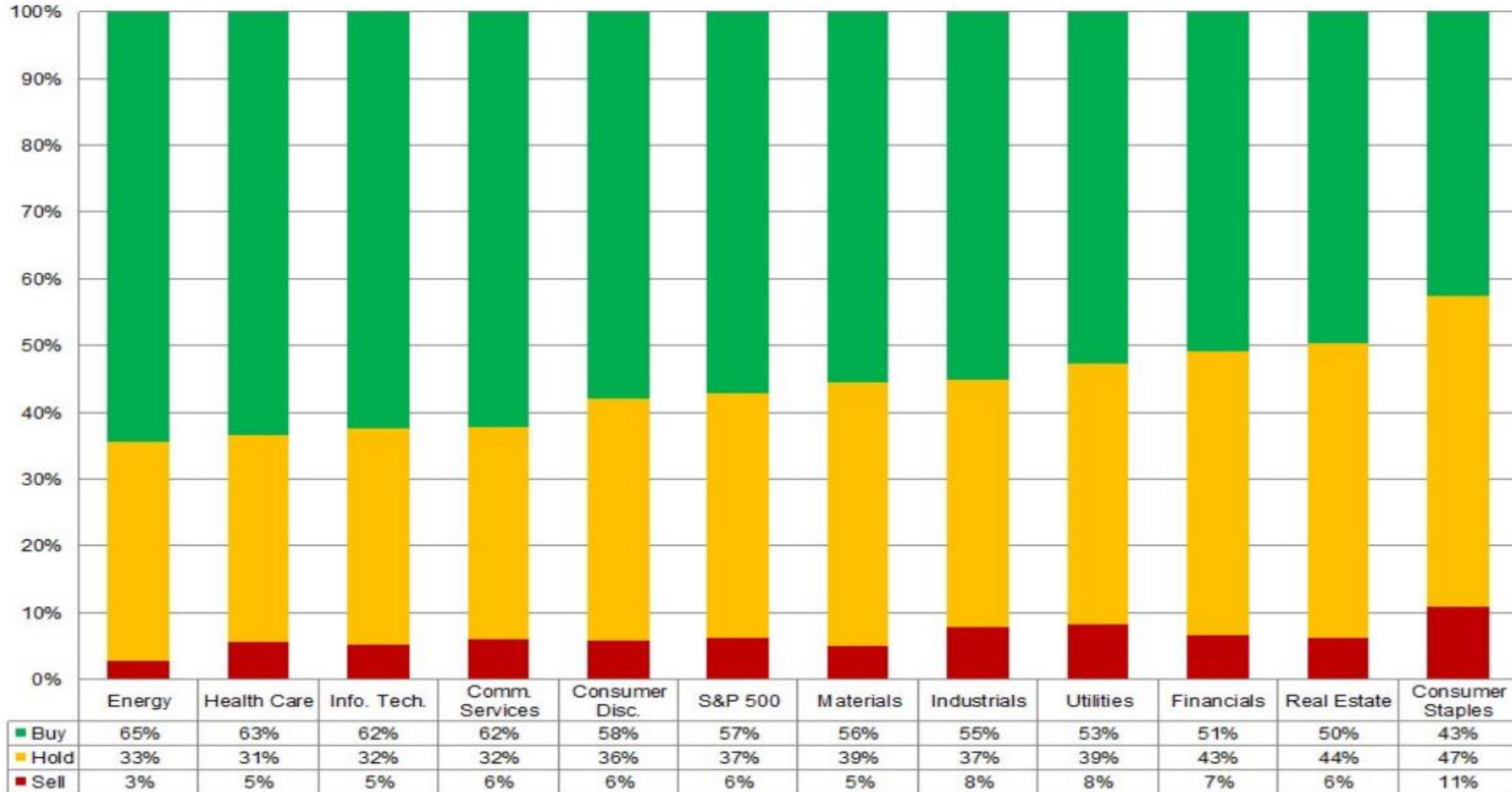
Percentile	US & Canada	Europe	Developed Asia
Next Twelve Month Forecast: Now vs 1 month ago			
10%	-1%	-1%	-2%
25%	1%	2%	1%
50%	5%	5%	4%
75%	10%	10%	8%
90%	20%	17%	23%
2022 Forecast: Now vs 1 month ago			
10%	-3%	-2%	-3%
25%	0%	0%	-1%
50%	2%	1%	0%
75%	5%	4%	3%
90%	9%	9%	7%

# Sector Earnings

%tile	Energy	Materials	Cons. Discret.	Cons. Staples	Health Care	Industrial	IT	Financials	Real Estate	Comm. Services	Utilities
2Q Surprise vs 1 month prior											
10%	-39%	-7%	-5%	-15%	-7%	-11%	-2%	-1%	-16%	-3%	-22%
25%	-11%	0%	10%	2%	2%	2%	4%	8%	9%	7%	-6%
50%	12%	8%	26%	6%	9%	9%	11%	24%	34%	17%	3%
75%	25%	23%	68%	16%	20%	22%	19%	51%	103%	84%	14%
90%	41%	33%	111%	42%	41%	64%	50%	82%	274%	270%	31%
Next Twelve Month Forecast: Now vs 1 month ago											
10%	-1%	-1%	-1%	-2%	-4%	0%	-1%	0%	-5%	-3%	-2%
25%	4%	2%	2%	0%	1%	3%	2%	2%	0%	1%	0%
50%	15%	6%	8%	2%	4%	6%	5%	5%	4%	4%	1%
75%	24%	10%	14%	5%	8%	10%	10%	8%	8%	11%	3%
90%	28%	19%	40%	8%	14%	42%	15%	14%	20%	19%	7%
2022 Forecast: Now vs 1 month ago											
10%	-3%	-2%	-5%	-4%	-3%	-3%	-2%	-1%	-3%	-4%	-2%
25%	1%	0%	0%	-1%	0%	0%	0%	0%	-1%	-1%	0%
50%	5%	4%	2%	0%	1%	2%	2%	2%	0%	1%	0%
75%	15%	7%	5%	2%	3%	4%	5%	4%	2%	4%	1%
90%	23%	11%	9%	4%	7%	7%	8%	6%	8%	11%	3%

# Buy / Sell / Hold

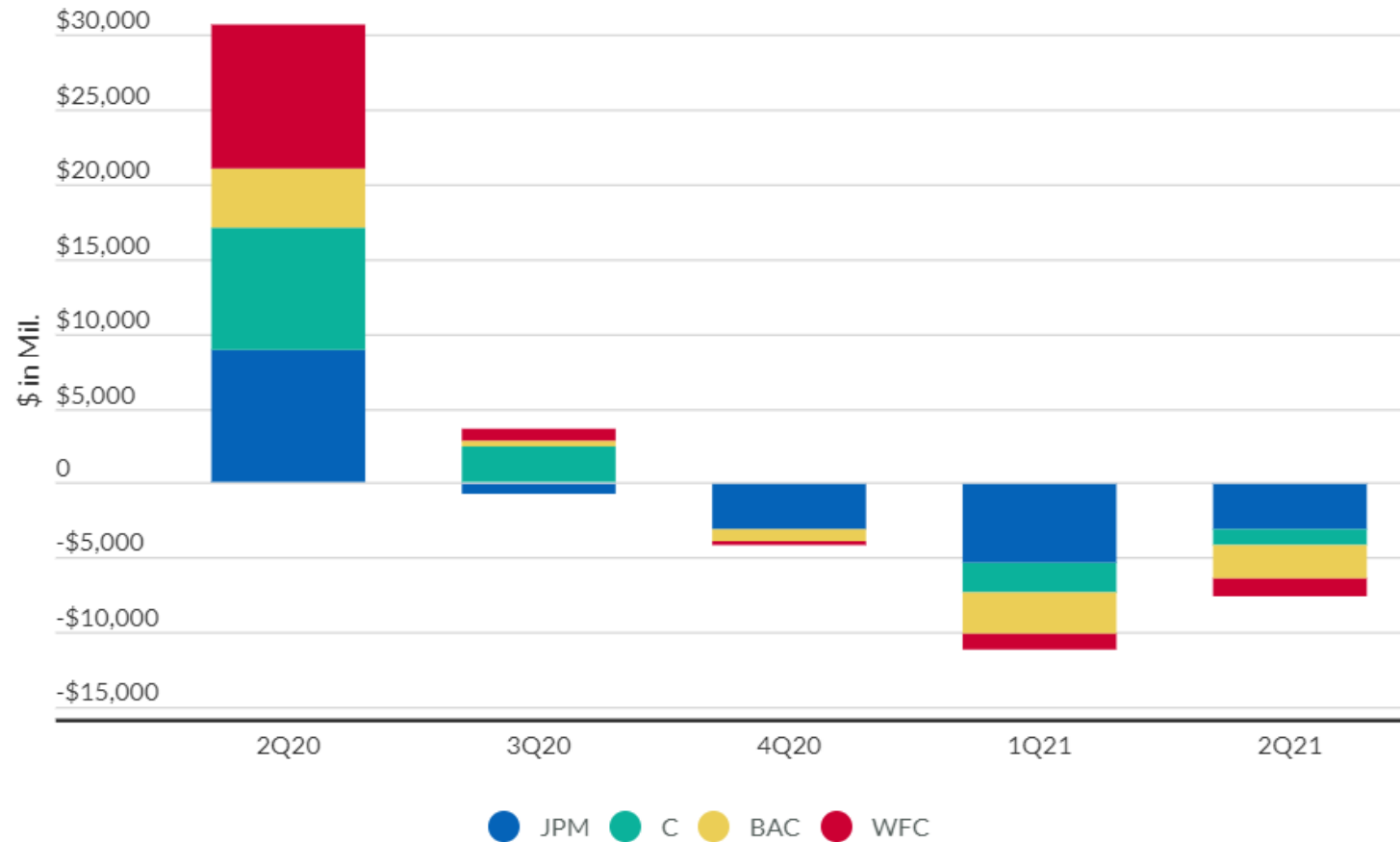
**S&P 500: Percentage of Buy, Hold, and Sell Ratings**  
(Source: FactSet)



# Banks - negative provisioning offsets Revenue pressure

## U.S. Banks Quarterly Reserves Build/(Release)

2Q21 Negative Provisioning Fell from 1Q21 Levels



# Consumer Staples - spectre of inflation looms

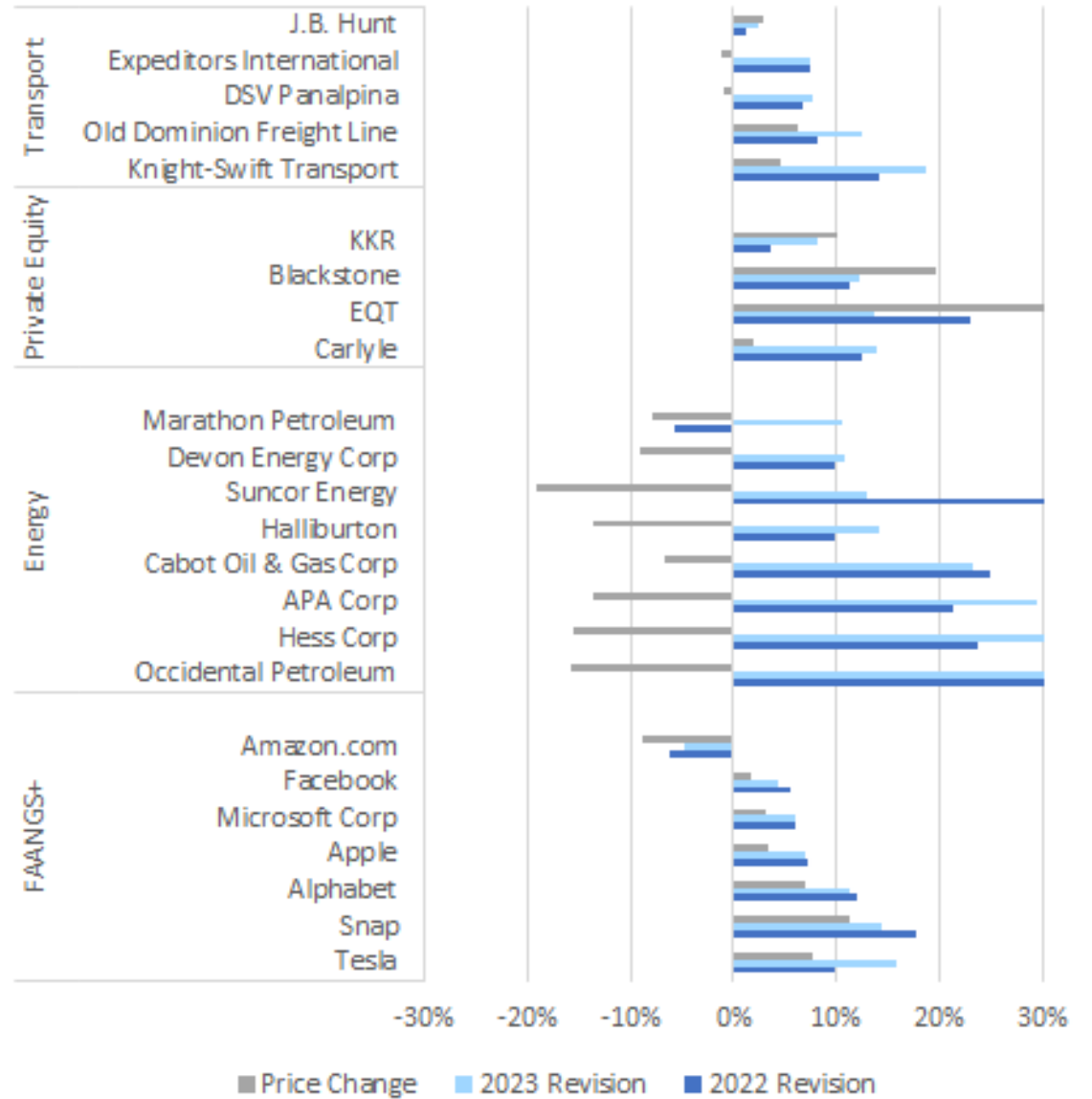
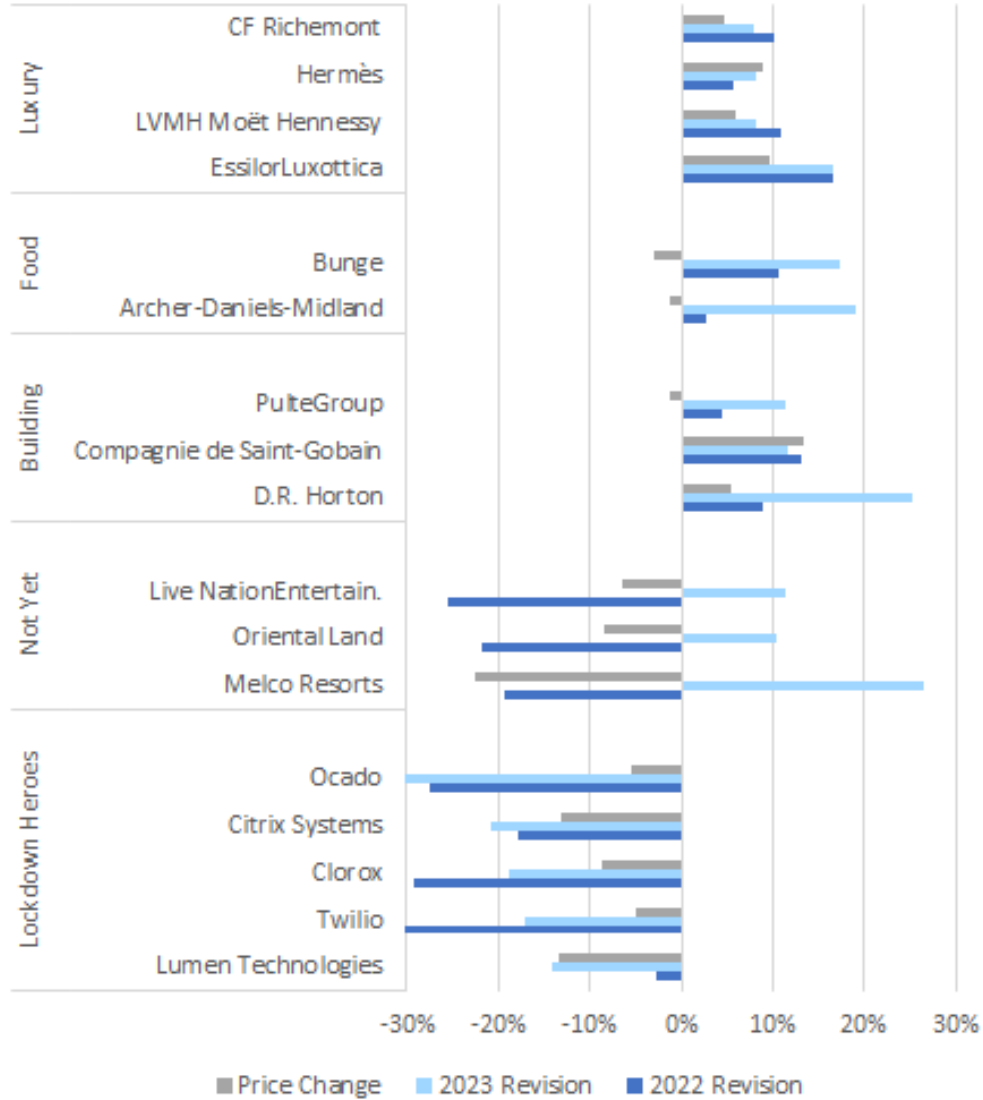
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"It's pulp, it's paper, it's anything involving oil. Plastic packaging is going up. Trucking costs have gone up significantly. Ocean freight has gone up significantly. You are seeing it in a wide range of cost areas...It's inevitable we will see an increase in inflation. How much? I don't know." -David Taylor, chief executive of **Procter & Gamble**

**Unilever** Finance chief Graeme Pitkethly said that since the company issued its guidance in the first quarter, crude oil prices had risen 12%, soy bean oil 21%; while freight and transportation costs had risen and 4% and 7%, respectively.

"We are facing significantly higher input costs and a reversal in consumer tissue volumes from record growth in the year ago period," warned **Kimberly Clark** CEO Mike Hsu.

# Big Upgrades / Downgrades



# Investment Outlook

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MARKETS ARE SUPPORTED BY CENTRAL BANKS AND GOVERNMENT STIMULUS. NUMBER 1 RISK = POLICY ERROR

## **Scenario 1: Grind Higher**

- Valuations stay elevated
- Strong earnings make the market fairly valued

## **Scenario 2: Growth hole, not enough support**

- Inventory supercycle
- China slowing
- Gap in the US between consumer stimulus and infrastructure spending
- Central banks / governments too slow to react

**Viewer question of the week:**

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**Will the earnings boom last?**

**Drop your answers in the comments**



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