



IS COST INFLATION BEGINNING TO BITE?

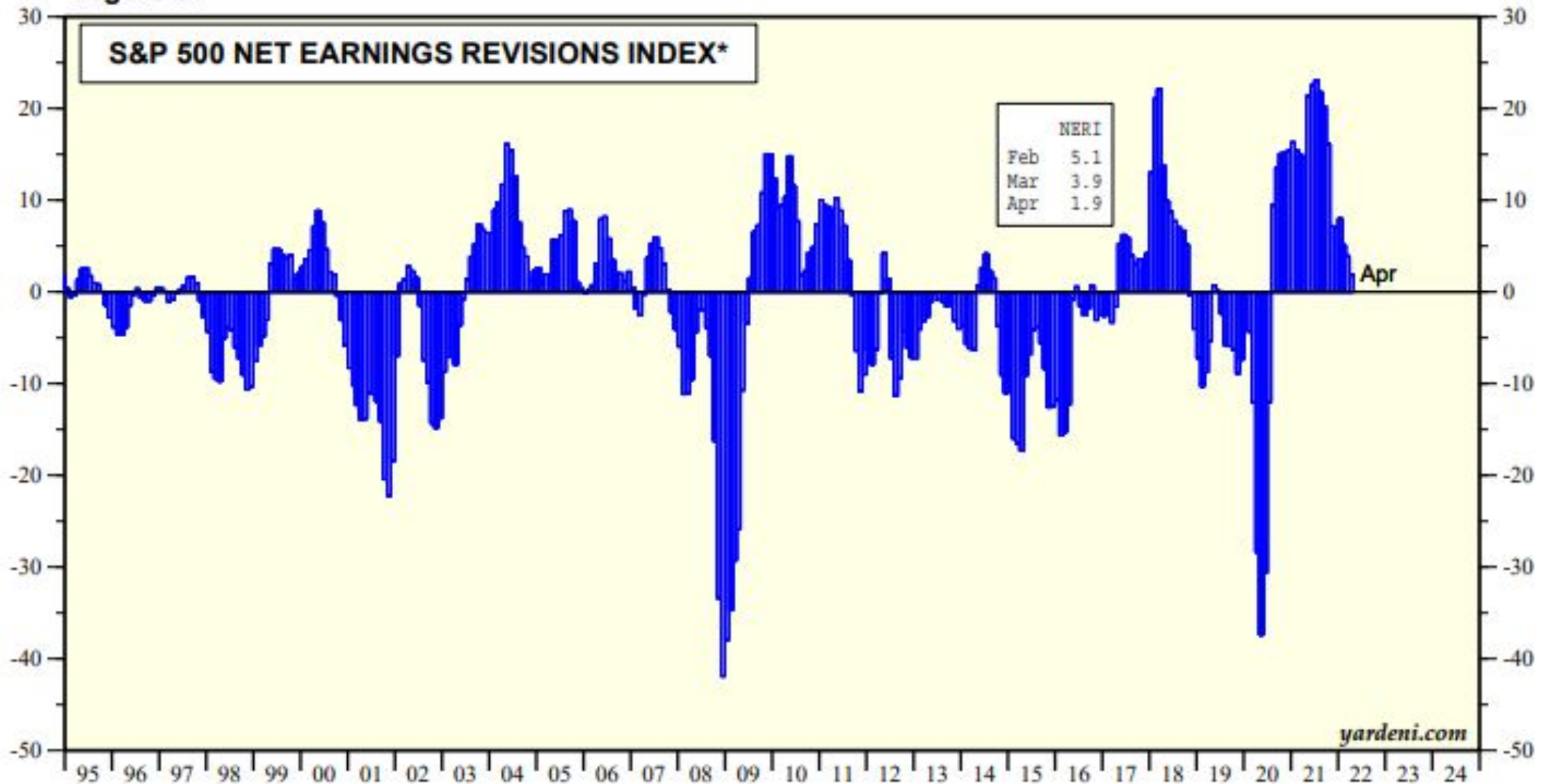
FRUIT & VEGETABLES
PRICES



Agenda: Will the earnings boom continue

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

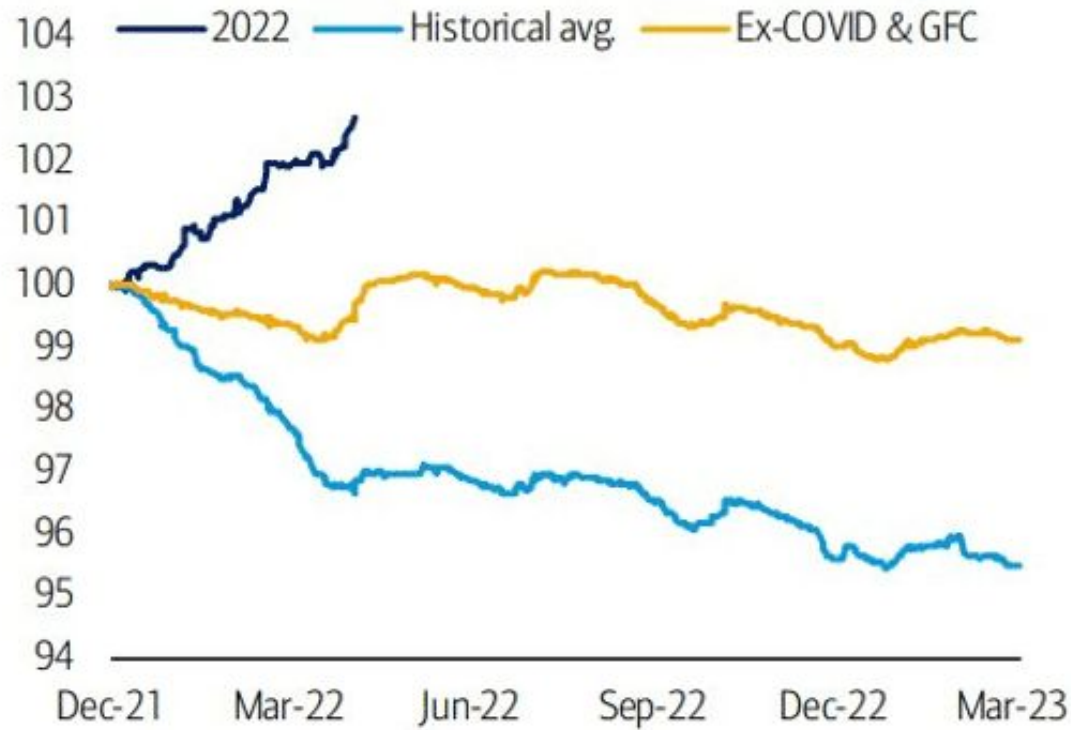
Upgrades - longer term perspective



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

Earnings Revisions

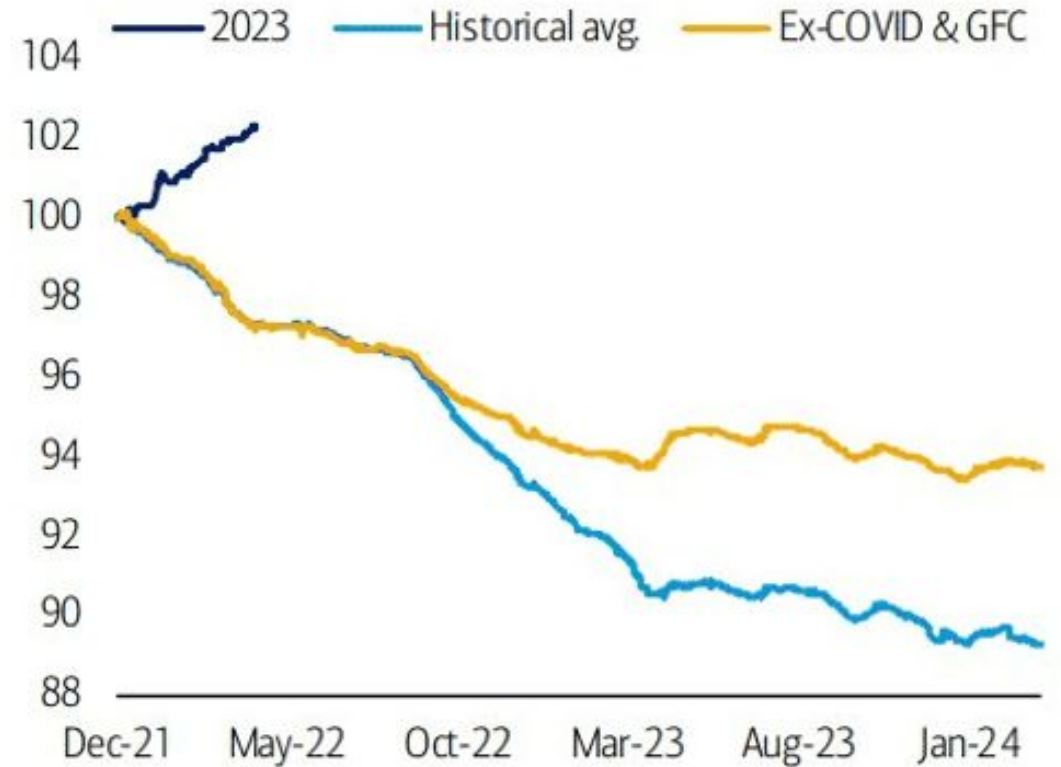
Exhibit 10: Consensus EPS has historically been revised down throughout the year, implying downside risks to 2022 EPS
Historical trend of consensus FY1 EPS (Dec 31, -1Y= 100, 2001-2022 EPS)



Source: FactSet, BofA US Equity & US Quant Strategy

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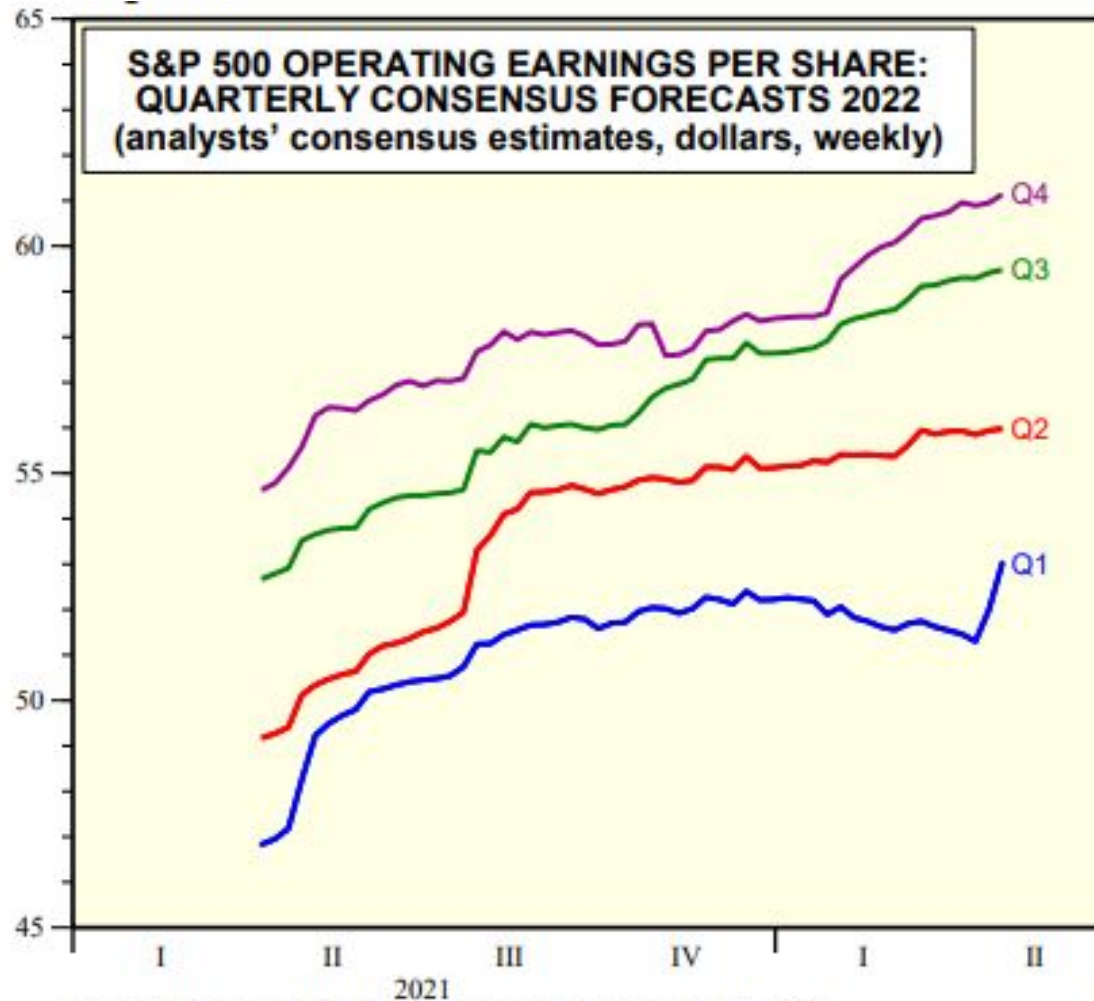
Exhibit 11: ...and to consensus 2023 EPS
Historical trend of consensus FY1 EPS (Dec 31, -2Y= 100, 2001-2023 EPS)



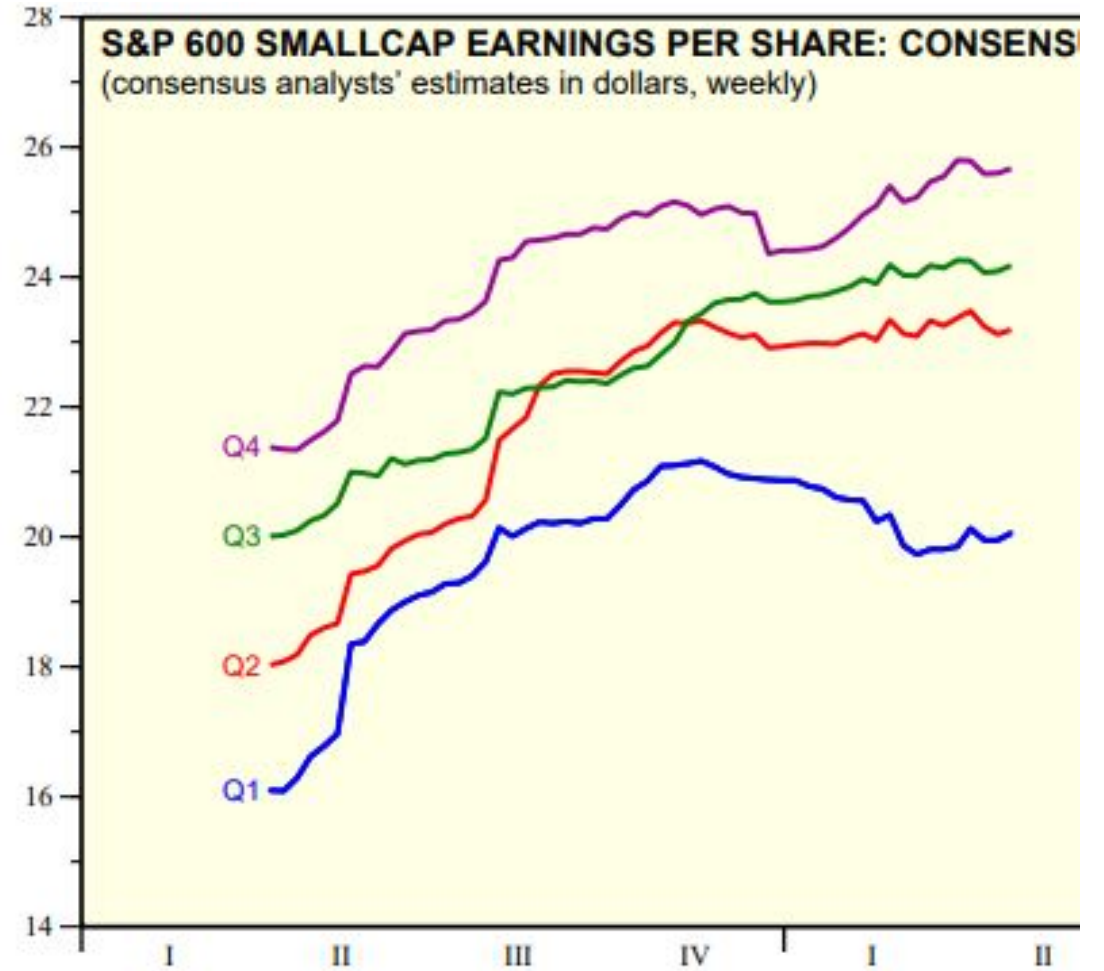
Source: FactSet, BofA US Equity & US Quant Strategy

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Upgrades - small cap early warning signs?

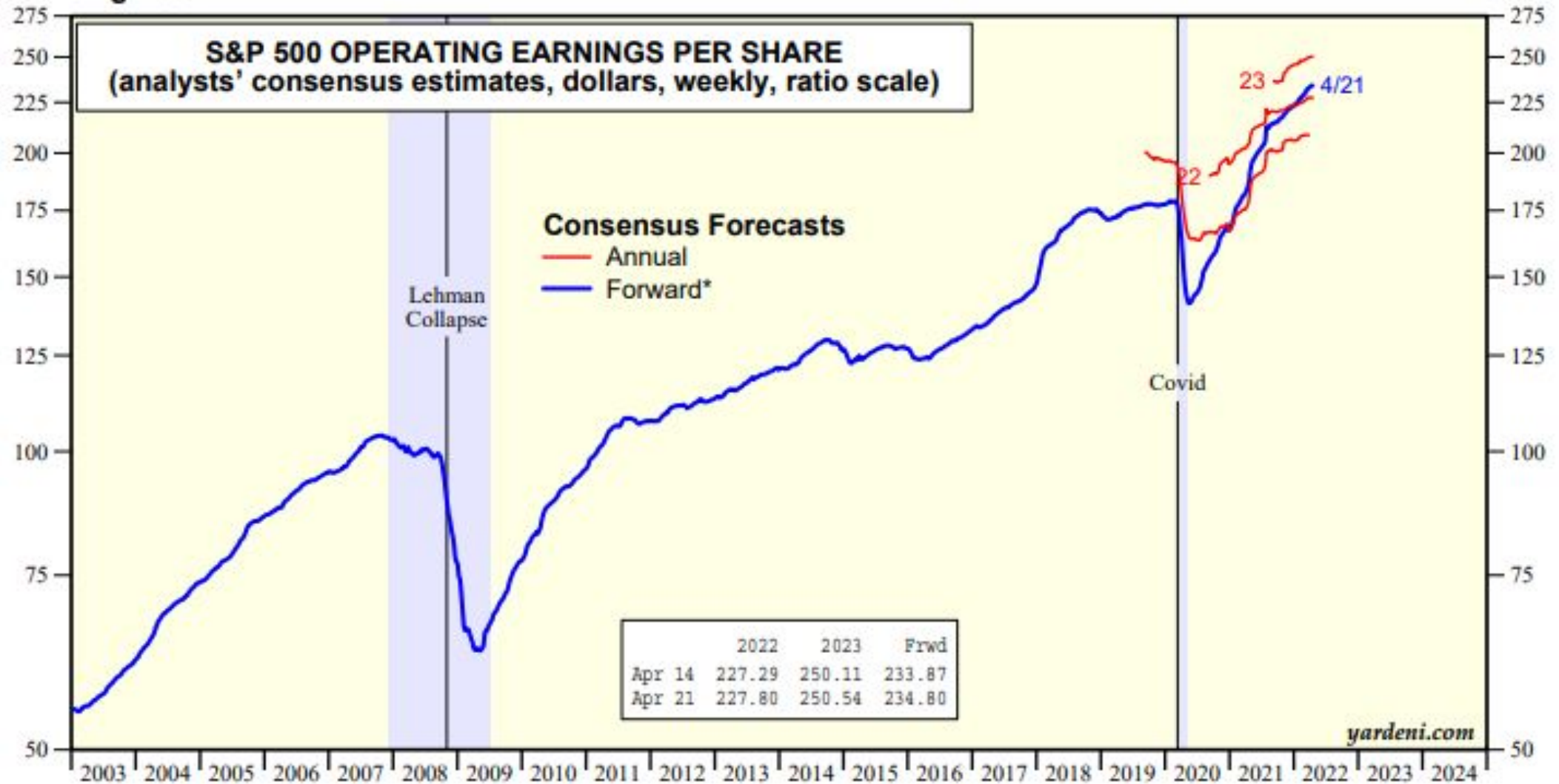


Note: COVID-19 = WHO declares global pandemic on 3/11/2020.
Source: I/B/E/S data by Refinitiv.



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

Upgrades - recent



* Time-weighted average of analysts' consensus estimates for S&P 500 operating earnings for current year and next year.

Note: Shaded areas are recessions according to the National Bureau of Economic Research.

Note: Lehman collapsed 9/15/2008. COVID-19 = WHO declares global pandemic on 3/11/2020.

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

Upgrades - same as ever?



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

Regional Earnings

- More consistent across the globe than usual
- Positive earnings surprise
- But upgrades limited

| Percentile | US & Canada | Europe | Developed Asia |
|--|-------------|-----------|----------------|
| 1Q Surprise vs 1 month prior | | | |
| 10% | -9% | -36% | -39% |
| 25% | 0% | -6% | -15% |
| 50% | 6% | 9% | 3% |
| 75% | 16% | 25% | 28% |
| 90% | 33% | 48% | 153% |
| Next Twelve Month Forecast: Now vs 1 month ago | | | |
| 10% | -6% | -4% | -7% |
| 25% | 0% | 0% | -1% |
| 50% | 2% | 3% | 2% |
| 75% | 6% | 7% | 9% |
| 90% | 14% | 13% | 34% |
| 2022 Forecast: Now vs 1 month ago | | | |
| 10% | -6% | -6% | -4% |
| 25% | -1% | -1% | -1% |
| 50% | 0% | 1% | 0% |
| 75% | 2% | 4% | 0% |
| 90% | 11% | 10% | 2% |
| 2023 Forecast: Now vs 1 month ago | | | |
| 10% | -5% | -3% | -12% |
| 25% | -1% | -1% | -3% |
| 50% | 0% | 0% | 0% |
| 75% | 2% | 2% | 1% |
| 90% | 7% | 4% | 4% |

Sector Earnings - it is mostly energy

| %tile | Energy | Materials | Cons. Discret. | Cons. Staples | Health Care | Industrial | IT | Financials | Real Estate | Comm. Services | Utilities |
|--|------------|------------|----------------|---------------|-------------|------------|-----------|------------|-------------|----------------|-----------|
| 1Q Surprise vs 1 month prior | | | | | | | | | | | |
| 10% | -4% | -8% | -31% | -22% | -21% | -26% | -9% | -14% | -24% | -32% | -8% |
| 25% | 4% | 1% | -7% | 0% | -1% | 0% | 1% | -3% | -3% | 0% | 0% |
| 50% | 12% | 10% | 3% | 8% | 5% | 7% | 7% | 4% | 15% | 8% | 3% |
| 75% | 29% | 24% | 19% | 19% | 16% | 15% | 12% | 14% | 68% | 26% | 14% |
| 90% | 51% | 36% | 49% | 38% | 24% | 30% | 29% | 33% | 158% | 164% | 28% |
| Next Twelve Month Forecast: Now vs 1 month ago | | | | | | | | | | | |
| 10% | 2% | -5% | -10% | -2% | -8% | -4% | -5% | -5% | -2% | -12% | -2% |
| 25% | 8% | 1% | -1% | 0% | -1% | 1% | 0% | 0% | 0% | -4% | 0% |
| 50% | 17% | 4% | 1% | 2% | 2% | 3% | 3% | 3% | 3% | 0% | 1% |
| 75% | 26% | 8% | 8% | 5% | 4% | 7% | 7% | 7% | 8% | 5% | 3% |
| 90% | 46% | 15% | 17% | 8% | 8% | 19% | 15% | 9% | 29% | 13% | 21% |
| 2022 Forecast: Now vs 1 month ago | | | | | | | | | | | |
| 10% | -2% | -1% | -17% | -4% | -4% | -6% | -5% | -6% | -2% | -15% | -2% |
| 25% | 6% | 0% | -6% | -2% | -1% | -1% | -1% | -1% | 0% | -3% | 0% |
| 50% | 15% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 75% | 21% | 10% | 1% | 2% | 1% | 1% | 2% | 2% | 8% | 1% | 0% |
| 90% | 35% | 24% | 8% | 6% | 5% | 6% | 7% | 5% | 27% | 3% | 3% |

Sector Earnings

Figure 36: Estimates excluding Energy and pandemic-impacted companies are down by about -1.2%...



Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 30: Aggregate margins declined slightly from the last quarter but remain very elevated



Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

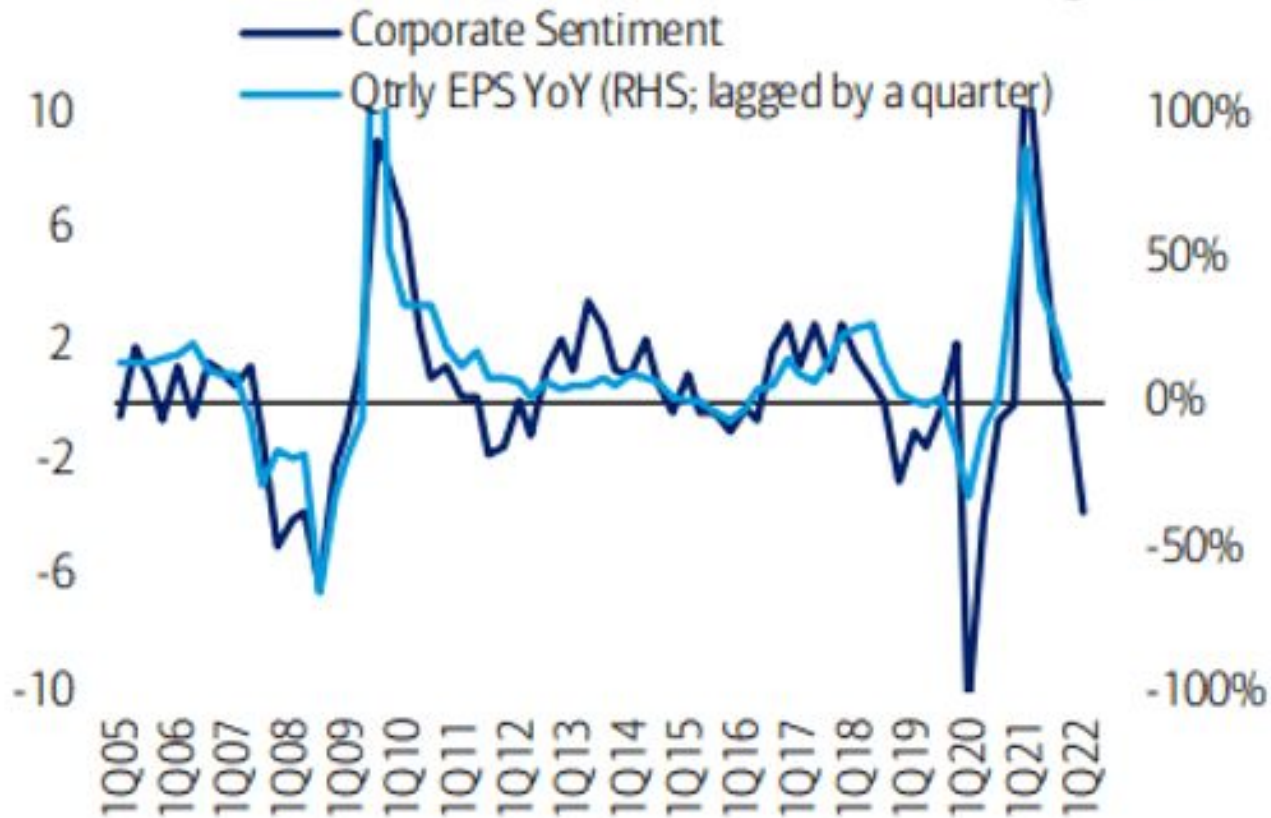
Sentiment

Exhibit 13: Big sentiment drops points to earnings downside risk

S&P 500 avg. negative sentiment score YoY vs. quarterly EPS YoY with a quarter lag (r-sq=53%; 1Q05-1Q22)

The Daily Shot
03-May-2022

@SoberLook



Source: BofA Global Research, FactSet

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Viewer question of the week:

Will the earnings boom last?

Drop your answers in the comments

Investment Outlook

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

- Inverted yield curve signalling recession
- Stocks very expensive given declining earnings prospects
- Inflation has lowered level of Fed “put” and needs a commodities bust
- DXY bull market to make it worse. AUD to keep falling
- Further capitulation of stocks
- Australian long-end to roll as RBA and Fed hike

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