THEMATIC

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Q3 quarterly results: not so bad, after all

Q3 2020 reporting season surprised on the positive side

Q4 visibility has shrunk as new lockdown put at risk the recovery. EPS rebound should resume in 2021 given the base effect, the ramp-up of stimulus and a potential easing of containment measures alongside the progress made to curb the pandemic.

As of 17 November, 93% of the S&P 500 has now reported. Q3 20 earnings are seen down -7.3%, which is a clear departure from the -30.6% in Q2. According to FactSet, 85% of companies have surpassed consensus EPS expectations, well above the 73% one- and five-year averages.

In aggregate, **S&P 500 companies have reported earnings 19.1% above expectations,** much better than the 8.0% and 5.6% of the one- and five-year average positive surprise rates.

These strong achievements were overshadowed by renewed coronavirus concerns and higher bar exigencies. The coronavirus concerns are a problem for industries leveraged to the reopening narrative, while the higher bar is more of an issue for the big pandemic winners. Despite beating expectations, YoY growth is still negative, mainly due to the detrimental impact of Covid-19 on some sectors. The quarter is expected to close with a YoY decline in earnings of -7%(source: FactSet).

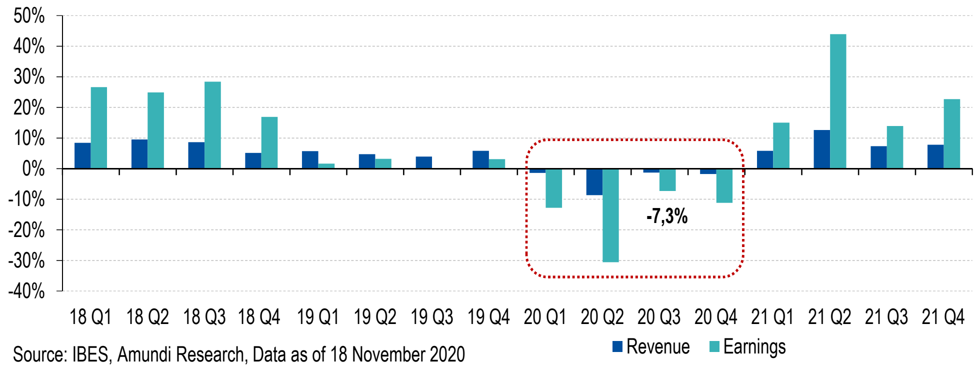
In Europe, Q3 20 revenue (-10.9%) and profits (-23.6%) for the Stoxx 600 continued to fall but made a clear improvement versus Q2 (respectively -20.1% and -50.8%), which should mark a trough. Q3 profits surprised on the upside (65% of results above expectations and +19% surprise factors), with the best earnings beats in years. In a typical quarter since 2011, 50% of companies beat estimates. However, with the re-instalment of lockdowns Q4 prospects look much more worrying; Q4 forecasts have been revised down 3% in the last two weeks. Having said that, we remain impressed by the fact that the **earnings fell less during this Covid-recession than during the GFC,** while the current recession is much more brutal. This relative resistance can be explained by financials, which, on the one hand, didn't fall into the red this time and, on the other, now account for only 15% of the index in Q2 20, vs. 24% in Q2 09.

Q4 expectations look too demanding, particularly in Europe as, on top of current headwinds, EPS could be distorted by non-recurring items, such as restructuring, write-offs of goodwill or deferred tax assets. However, from Q1 21 onwards, or Q2 at the latest, the EPS rebound should resume, given the base effect, the ramp-up of stimulus, and a potential easing of containment measures alongside the progress made to curb the pandemic

We are the end of the **reporting season in GEM** as well. As of 19 November, about 83% of MSCI EM constituents had reported (source Capital IQ). Till now Q3 2020 net income YoY growth has been positive (+13%) in local currency (+4% in USD). YoY results are negative in Latin America, and more on the positive side in Asia with the exception of Indonesia, the Philippines and Thailand. Surprises have been positive in GEM: the average percentage surprise on all the companies is close to 21%. Countries with negative average percentage surprises are mainly the Philippines, Indonesia, the United Arab Emirates and Chile. 60% of the companies in the MSCI EM index had positive surprises. At the sector level the results have been particularly positive for consumer staples and healthcare. Trailing (last-12-month) **MSCI EM EPS growth is bottoming out and is currently about -19%.** Our expectations for 2021 have been revised up to a double-digit growth (+13% in USD).The profits growth in the first half of 2021 will be more concentrated in emerging Asia, which is much more advanced in the recovery and more and more linked to booming e-commerce profits. The laggards, like Latam and EMEA, are unlikely to return to positive YoY numbers until the second half of 2021.

Finalised on 20/11/2020

1/ **S&P 500 YoY Growth Rates**



Source: IBES, Amundi Research, Data as of 18 November 2020

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