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Debora DELBO',
Senior EM Macro Strategist

Ibra WANE,
Senior Equity Research Strategist

The consensus 2022 looks shy

Q3 earnings season: results better than expected but doubts remain about next year

Q3 21 results were generally well above expectations, which was not taken for granted given the bottlenecks and higher input costs. However, the 2022 consensus remained very cautious, with EPS forecasts at best equivalent to nominal GDP growth! Good surprises cannot therefore be ruled out.

Since most companies have released their third quarter results by now, it is a good time to review the situation. With publications coming out well above expectations across all regions, things are looking good. After the economic halt suffered in 2020, the comparison bases were without doubt easy. But given the congestion of freight, the surge in commodity prices, wage pressures and bottlenecks in several sectors due to the shortage of semiconductors, the increases recorded were by no means in the bag. That said, the consensus forecasts for next year's earnings remain very cautious, with EPS expected to reach +7.3% in the US and +6.5% in Europe, at best equivalent to nominal GDP growth! After a rapid catch-up in 2021, economic momentum will undoubtedly slow down, but real growth in developed countries is likely to remain well above potential in 2022. The usual relationship therefore between GDP growth and earnings would suggest EPS growth in the region of 16% in the US and 20% in Europe. Two very different visions but the real figures probably lie somewhere in between. As the pandemic seems like it could become endemic, the bottlenecks are easing only very slowly, and inflationary pressure looks relatively entrenched, growth of around 10% in both the US and Europe seems more realistic in our view. In all cases, in an environment in which inflation is set to be more prevalent, depending on the sector or company, the key to differentiating will more than ever be pricing power.

S&P 500: a record high quarterly performance

By 19 November, nearly 95% of S&P 500 companies had already published their 2021 Q3 results. At USD53.75 in Q3, S&P 500 EPS set a **new quarterly record**. Despite the doubts that emerged in September, these results managed to **significantly beat expectations once again.** At the last check, they showed growth of **+42%,** well above what was expected at the start of the earnings season on 1 October (+29%). They are all the more impressive as they also show a sharp increase in relation to Q3 2019 (+33%), a period that was not impacted by Covid. Despite this upswing in Q3, the consensus for Q4 has remained stable overall (+22%, as on 1 October), leading therefore to just a **modest upward revision to the consensus for the full year** (+49% for 2021 vs. +46% on 1 October). What's more, this limited upward revision for 2021 is **to the detriment of 2022**, for which the consensus forecast has been revised down from +9.2% to +7.7% since 1 October.

While the consensus of sell side analysts usually tends to be overly optimistic, this time **we feel it is rather conservative**. True, the peak of the recovery is behind us and comparison bases next year will be much more difficult. Similarly, wage pressures and higher input costs will impact results. Nevertheless, companies that have pricing power should be able to neutralise a significant proportion of inflation. In particular, if US GDP growth is largely above 3% next year (Amundi's central scenario is +3.7%), EPS growth of only +7.7% would be unusual as it would be scarcely higher than average EPS growth over the long term for much higher GDP. In fact, between 2000 and 2019, S&P 500 GDP and EPS rose by an average of +2.1% and 6.9% respectively per year. But since one additional point of GDP would lead to an additional 6% of EPS, all other things being equal, with +3.7% growth in US GDP expected next year, S&P 500 EPS would be expected to increase by +16%, which is twice the consensus estimate (+7.7%). In the end, to maintain a margin of security given the unforeseeable nature of the pandemic, the bottlenecks and the ability to pass on price increases, we feel **a midway increase in US EPS of around 10% next year** is realistic.

The growth in earnings by sector is also instructive. While all major sectors showed growth, the levels varied considerably. Over the full year, the three sectors with the highest EPS growth were **energy** (+1461% in 2021e), **materials** (+89%) and **manufacturing** (+88%). Concerning energy and manufacturing, in addition to the recovery, they enjoyed an easy comparison base after a heavy fall in their results last year. For materials, however, which showed very good resilience in 2020, the sector's sharp growth this year is primarily thanks to the surge in commodity prices. **In bottom position, unsurprisingly, are defensive sectors** such as utilities (+4%) and consumer staples (+10%); the beverages and food retailer segments continue to be penalised.

Over two years (2019-2021), then, to compare with **the situation before the pandemic**, the six sectors for which EPS growth should be higher than average (+30% for the S&P) are :materials (+78%), IT (+50%), energy (+44%), communication services (+39%), healthcare (+38%) and financials (+35%). With the

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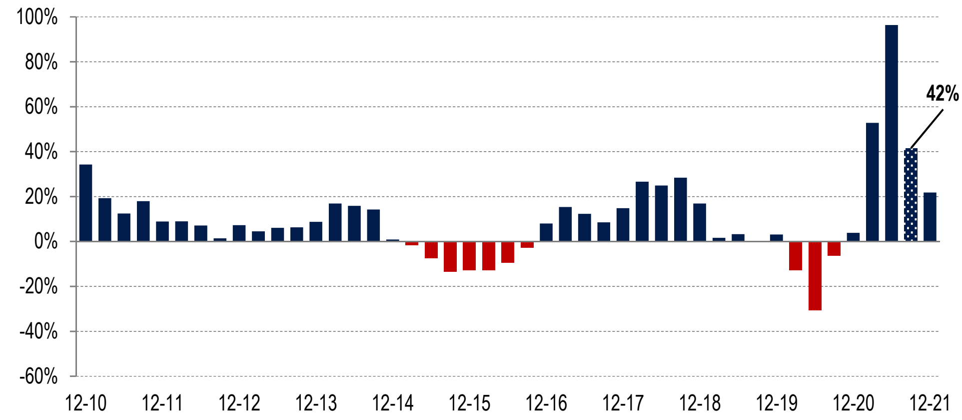
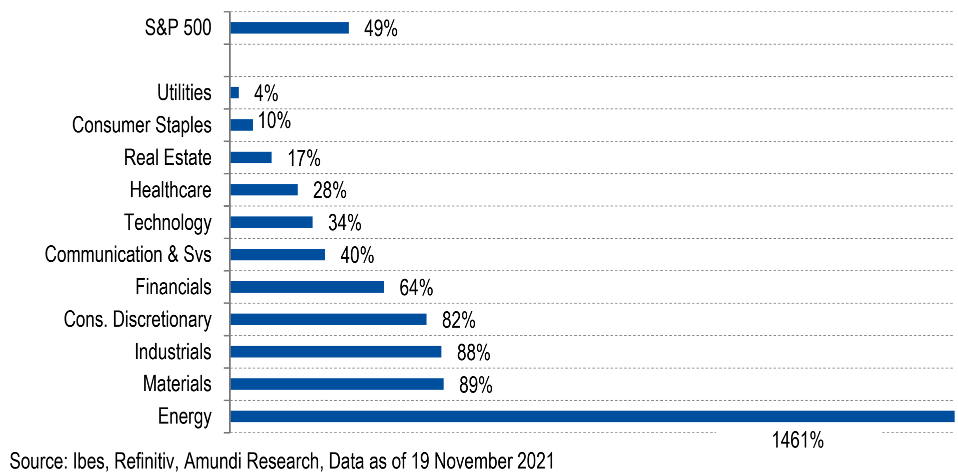
Both in the US or Europe...

1/ S&P 500: Quarterly results (YoY, %)



Source: Ibes, Refinitiv, Amundi Research, Data as of 19 November 2021

2/ S&P 500: FY 2021e earnings (% chge YoY)



Source: Ibes, Refinitiv, Amundi Research, Data as of 19 November 2021

... a 10% 2022 EPS increase looks doable

exception of healthcare, underpinned by the health situation, these sectors are mainly cyclical, linked to commodities or to Gafam (IT & communication services) or are benefiting from the improvement in the general economic outlook, such as financials. On the other hand, **defensive sectors** such as consumer staples (+14%) and utilities (+5%) remain well below the average. Finally, by contrast with the other cyclical sectors, manufacturing (-17%), which is being penalised by the bottlenecks and the rise in commodity prices, is still a long way from its 2019 level.

Stoxx 600: a much higher rebound in earnings than in the US

On 23 November, the Stoxx 600 **earnings publication season also came to a close** with 89% of companies having published their Q3 2021 numbers. **Even more so than the US, the European results surprised on the upside** with growth of **+59%** versus 46% expected on 1 October. Unlike the US, this very good Q3 caused a substantial upward revision for both Q4 (+52% vs. +39% on 1 October) and for full-year 2021 (+65% vs. +58%).

However, like the US, analyst expectations for 2022 seem conservative in view of the expected growth in GDP (Amundi's scenario is +4.1% in the Eurozone and +4.3% in the UK). The consensus forecasts +8.0% for EPS in the Eurozone and +2.5% in the UK (penalised by very high base effects in 2021), i.e. **+6.5% for all of Europe**.

Historically, over the long term (2000-2019), EPS growth in Europe (+3.6%) is clearly weaker than in the US (+6.9%). However, GDP growth in Europe over the period under consideration was only +1.6% while it is expected to surpass 4% next year. Consequently, given the sensitivity of EPS in Europe to GDP, **such a level of growth should, all other things being equal, give rise to an increase in EPS of +20%**. Here also, like in the US, a margin of security is needed given the various risks already mentioned. But given the economic gap between the two regions and the strength of the dollar, which should both benefit Europe, EPS growth of +10% in Europe, of which +12% in the Eurozone and +5% in the UK, seems plausible.

In Europe, the growth in earnings by sector is also instructive. Generally speaking, in 2021 there **will be an even bigger contrast than in the US between defensive sectors**

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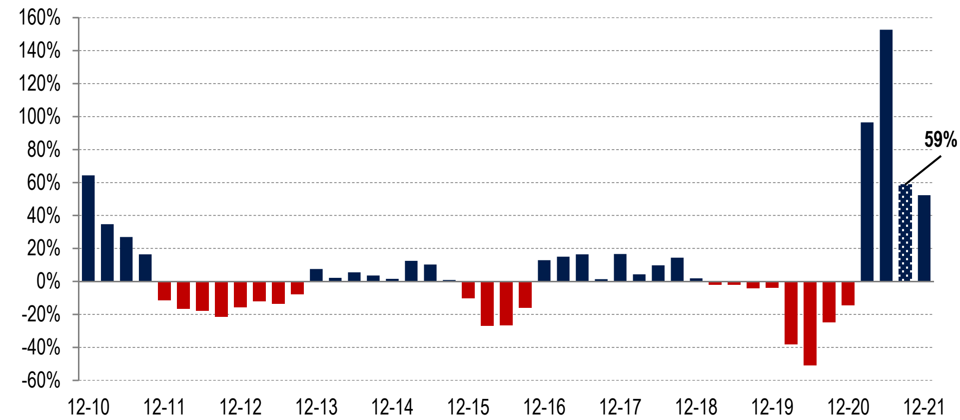
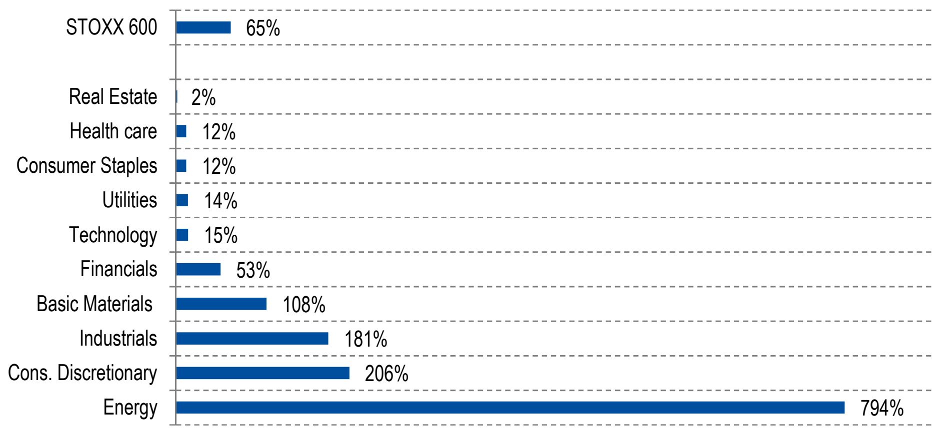
3/ **Stoxx 600: Quarterly results (YoY, %)**



Source: Ibes, Refinitiv, Amundi Research, Data as of 23 November 2021

4/ **Stoxx 600: FY 2021e earnings (% chge YoY)**



Source: Ibes, Refinitiv, Amundi Research, Data as of 23 November 2021

on the one hand (healthcare +12%, consumer staples +12%, utilities +14%) **and cyclical sectors** on the other (IT +15%, financials +53%, commodities +108%, manufacturing +181%, consumer cyclicals +206%). However, **specific features** will impact sectors depending on the region. For instance, energy in Europe is less integrated upstream, hence a smaller decline in 2020, but also a smaller rebound in 2021. Similarly, IT and healthcare in Europe are weak in relation to the US, while the reverse is the case for industrials.

Finally, despite the economic lag in Europe versus the US, EPS in Europe has also broadly surpassed pre-crisis levels. EPS in 2021 is set to be 14% higher than in 2019, a feat due largely to the sharp rebound in commodities (basic materials +86%, energy +69%); while the other sectors are expected to increase by no more than 4% on average versus 2019.

Emerging markets: Good results overall in 2021 despite China; will China take the lead in 2022?

After a lacklustre year for GEM in 2021…

The earnings season for emerging countries is also nearing an end, with 82% of companies having released their figures by 22 November. **Here also there was a significant rebound in Q3 2021** with MSCI EM EPS up **+32%** in USD, or +55% in local currency, i.e. +20% above initial forecasts. China bucked the general trend, with EPS growth of just +2%. However, due to the semiconductor and commodities effect, EPS growth (in local currency) was stronger in Taiwan (+60%), South Korea (+70%), Saudi Arabia (+130%), Brazil (+162%) and Chile (+237%).

Naturally, in sequential terms, growth was slightly less than at the start of the year, reflecting a certain slowdown in growth in those countries that experienced a particularly strong recovery in the recent period. This is notably the case for LATAM (Mexico, Brazil and Colombia in particular), several ASEAN countries (Philippines, Thailand and Malaysia) and China. China saw both a slowdown and a rebalancing of its domestic economy.

While the **surprises** were mainly on the upside for the twenty countries in our sample (+20% in local currency), this was not the case for China (-1%), Thailand (-2%) or the Philippines (-3%). Similarly, the percentage of companies that surpassed expectations fell (50%) and is

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...will China recover in 2022?

now lower than that of Europe (64%) and, it goes without saying, the US (81%).

By sector, **the MSCI EM results were**, like in Europe, **particularly positive for cyclical sectors** (consumer discretionary > 1000%, manufacturing +272%) **and commodities** (energy +285%, basic materials > 1000%).

The IBES consensus forecasts a **+6% increase in MSCI EM EPS in 2022,** of which **-6% for LATAM**, which is set to suffer the payback of its high results this year (+204%), but **+8% for Emerging Asia**, which is set to benefit from the recovery in China (+16%) after a lacklustre year in 2021 following a negative performance in consumer discretionary and real estate.

To conclude

By region, the results for Q3 21 and more broadly for the full year were very good, but they have not completely dispelled doubts about next year. This is because the easy comparison base will automatically disappear, stimulus is likely to be moderated, input costs will increase and uncertainties around the health situation will be ongoing. That said, while analysts' earnings forecasts are usually broadly optimistic, we believe that this time they hold the potential for an upward revision. Less advanced than the other regions in its recovery cycle and capable of taking advantage of a strong dollar, Europe, and the Eurozone in particular, will probably play a good hand next year.

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