



## GIAM Macro & Market Research - Market Commentary

October 28, 2019

**Q3 earnings' results look decent vs reduced expectations. 2020 forecasts remain optimistic but dovish Central Banks and early signs of an economic trough help. Remain positive on equities.**

- The Q3 reporting season has advanced to cover about 40% in the US and Europe. At the index level in the US, both the earnings and sales' yearly growth dropped (to -0.5% and +3.7%) compared to the previous quarter: Energy and Materials suffered. Sharply reduced analysts' expectations have been beaten for both earnings and sales.
- Ex-Energy & Materials, US yearly growth is in positive territory: at 4.9% and 6.3% for earnings and sales, respectively.
- While the earnings growth in Europe (-2.4%) has likewise decreased, the EA's one has experienced a turnaround (from -6.9% to 2.5%) – largely due to unusually positive results in Health Care and Utilities. The sales growth has somewhat increased (to 2.4% and 3.9%, for Europe and the EA respectively).
- While risks linked to Brexit and US-China frictions have diminished, the capacity utilization remains weak and confidence indicators for manufacturers stay at a cyclical bottom.
- For these reasons, while we see a relatively good continuation of the Q3 reporting seasons, we still expect 2020 estimates to be reduced further.
- That said, global dovish monetary policies and early signs of a stabilization in the most cyclical sectors of the economy should continue to support equities.

**US results look decent after sharply reduced expectations.**

Sector	S&P earnings growth, yoy: Q3 2019	Stoxx	Euro Stoxx	S&P sales growth, yoy: Q3 2019	Stoxx	Euro Stoxx
Energy	-12.7%	-42.3%	-40.1%	-7.8%	-12.9%	-9.2%
Materials	-21.8%	-20.5%	-32.1%	-12.6%	0.0%	-0.8%
Industrials	0.7%	1.2%	-3.8%	0.7%	3.4%	5.9%
Cons. Discretionary	-0.6%	13.7%	16.6%	11.4%	8.0%	7.7%
Consumer Staples	4.9%	47.3%	46.6%	6.3%	1.6%	0.8%
Health Care	6.7%	22.6%	199.9%	7.5%	8.8%	35.3%
Financials	-1.8%	-12.9%	17.2%	3.4%	0.0%	6.6%
IT	-6.8%	-1.9%	1.5%	1.3%	7.4%	7.7%
Comm. Services	11.3%	25.7%	44.8%	9.1%	1.9%	11.8%
Utilities	12.7%	100.5%	100.5%	8.0%	5.0%	5.0%
Real Estate	6.7%	-14.5%	-	4.0%	-21.2%	-28.4%
Market	-0.5%	-2.4%	2.5%	3.7%	2.4%	3.9%
<b>Median (all sectors)</b>	0.7%	1.2%	16.9%	4.0%	1.9%	5.9%
<b>Median, ex. Energy &amp; Materials</b>	4.9%	13.7%	31.0%	6.3%	3.4%	6.6%

Sector	earnings surprise: Q3 2019			sales surprise: Q3 2019		
	S&P	Stoxx	Euro Stoxx	S&P	Stoxx	Euro Stoxx
Energy	4.0%	-9.7%	-18.6%	3.2%	-6.6%	-6.9%
Materials	8.5%	4.1%	5.8%	-1.2%	-0.2%	0.8%
Industrials	1.7%	3.0%	-4.4%	-0.2%	1.9%	2.5%
Cons. Discretionary	4.2%	3.4%	3.4%	3.0%	1.2%	1.2%
Consumer Staples	4.2%	-2.3%	-4.0%	0.3%	-0.9%	-0.8%
Health Care	4.5%	10.2%	68.4%	1.6%	5.2%	16.5%
Financials	3.7%	-17.1%	-45.4%	2.0%	0.2%	1.1%
IT	7.7%	7.3%	8.3%	1.7%	1.6%	1.7%
Comm. Services	4.5%	19.9%	54.2%	0.1%	-4.2%	3.1%
Utilities	5.1%	2.2%	2.2%	-3.4%	1.3%	1.3%
Real Estate	2.5%	5.0%	-	3.6%	0.5%	0.0%
Market	4.4%	-0.7%	0.2%	1.3%	0.0%	0.4%
<b>Median (all sectors)</b>	4.2%	3.4%	2.8%	1.6%	0.5%	1.2%
<b>Median, ex. Energy &amp; Materials</b>	4.2%	3.4%	2.8%	1.6%	1.2%	1.3%

For the **median US stock**, the earnings growth is nearly 6.5% while that of sales is 3.6%. Surprises are +3.5% for earnings and +0.5% for sales. For Europe and the euro area the median stock's results are good, too.

#### Analysis of the median stock: Q3 2019 reporting season

Median stock	Earnings Growth		Sales Growth		availability
	Q2 2019	Q3 2019	Q2 2019	Q3 2019	Q3 2019
	S&P	6.11 %	6.46 %	3.23 %	3.60 %
Stoxx	6.03 %	3.97 %	5.24 %	5.27 %	38.6%
Euro Stoxx	6.90 %	7.89 %	5.13 %	6.08 %	32.6%

Median stock	Earnings Surpr		Sales Surpr		availability
	Q2 2019	Q3 2019	Q2 2019	Q3 2019	Q3 2019
	S&P	2.68 %	3.51 %	0.25 %	0.47 %
Stoxx	2.52 %	1.29 %	0.56 %	0.63 %	38.6%
Euro Stoxx	6.29 %	0.85 %	1.04 %	0.77 %	32.6%

For the **median sector**, the earnings growth is 0.7% and that of sales is 3.7%, showing a decreasing margin momentum. **At the index level results look weaker due to the negative contributions of energy and materials.**

**S&P**

209 reported 201 reported

Sector	earnings growth, yoy		sales growth, yoy	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019
Energy	-20.2%	-12.7%	-3.8%	-7.8%
Materials	-15.2%	-21.8%	-7.7%	-12.6%
Industrials	2.2%	0.7%	2.7%	0.7%
Consumer Discretionary	1.9%	-0.6%	10.1%	11.4%
Consumer Staples	-0.7%	4.9%	2.0%	6.3%
Health Care	14.6%	6.7%	8.4%	7.5%
Financials	3.5%	-1.8%	3.3%	3.4%
Information Technology	-1.5%	-6.8%	0.6%	1.3%
Communication Services	12.4%	11.3%	18.0%	9.1%
Utilities	11.9%	12.7%	0.0%	8.0%
Real Estate	13.9%	6.7%	11.5%	4.0%
<b>S&amp;P</b>	<b>3.7%</b>	<b>-0.5%</b>	<b>5.0%</b>	<b>3.7%</b>
Median (all sectors)	2.2%	0.7%	2.7%	4.0%
Median, ex. Energy & Materials	3.5%	4.9%	3.3%	6.3%

**S&P**

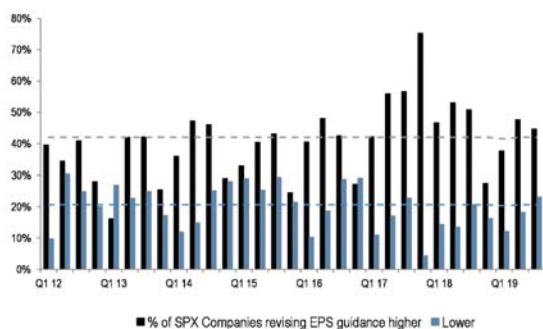
209 reported 201 reported

Sector	earnings surprise %		sales surprise %	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019
Energy	4.6%	4.0%	8.1%	3.2%
Materials	0.9%	8.5%	-2.0%	-1.2%
Industrials	5.1%	1.7%	0.5%	-0.2%
Consumer Discretionary	-0.2%	4.2%	3.5%	3.0%
Consumer Staples	4.9%	4.2%	0.4%	0.3%
Health Care	5.9%	4.5%	0.9%	1.6%
Financials	3.8%	3.7%	1.4%	2.0%
Information Technology	9.2%	7.7%	1.7%	1.7%
Communication Services	4.5%	4.5%	0.8%	0.1%
Utilities	6.3%	5.1%	-4.2%	-3.4%
Real Estate	2.1%	2.5%	3.5%	3.6%
<b>S&amp;P</b>	<b>4.9%</b>	<b>4.4%</b>	<b>1.4%</b>	<b>1.3%</b>
Median (all sectors)	4.6%	4.2%	0.9%	1.6%
Median, ex. Energy & Materials	4.9%	4.2%	0.9%	1.6%

**Number of firms beating estimates is also satisfactory: 82% in the US and 59% in Europe.**

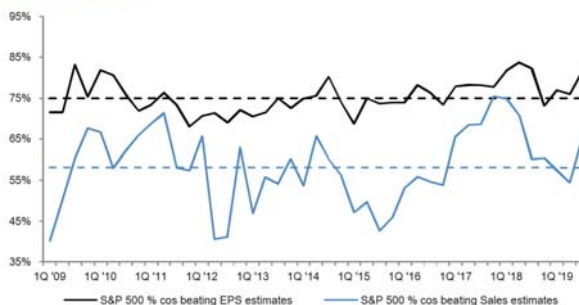
The US **guidance** and the earnings pre-announcements are weaker than in Q2 but still OK compared to history.

Figure 14: % of S&P500 companies guiding EPS higher/lower



Source: J.P. Morgan, Bloomberg

Figure 4: % of S&P500 companies beating quarterly EPS and sales estimates



Source: Bloomberg, J.P. Morgan, dotted lines denote median EPS and Sales beats

**Lower US positive earnings preannouncements vs Q2:**

**Exhibit 9. Earnings Pre-Announcements**

Type	3Q2019		3Q2018		2Q2019	
	Total #	Total %	Total #	Total %	Total #	Total %
Positive	33	26.8%	38	30.2%	23	18.5%
In-Line	11	8.9%	10	7.9%	13	10.5%
Negative	79	64.2%	78	61.9%	88	71.0%
Total	123		126		124	
N/P Ratio	2.4		2.1		3.8	

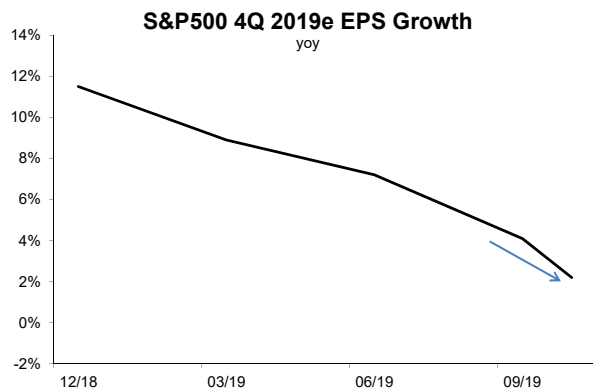
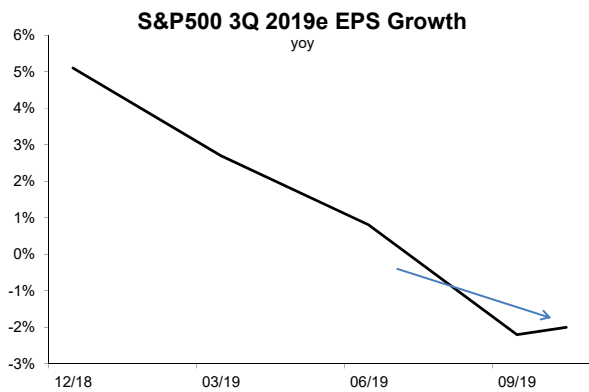
Source: I/B/E/S data from Refinitiv

**Huge profit estimate reduction in the last months helped companies to beat analysts' expectations:**

**Exhibit 15. Blended (Reported & Estimated) Quarterly Earnings Growth for 2019Q3**

Sector	Today	1 Oct	1 Jul	1 Apr	1 Jan	1 Oct
Consumer Discretionary	-0.4%	1.5%	6.8%	9.8%	9.9%	18.8%
Consumer Staples	1.7%	-0.6%	1.6%	2.8%	4.4%	7.7%
Energy	-38.8%	-29.8%	-13.6%	-15.5%	-3.8%	23.2%
Financials	3.1%	4.1%	6.8%	7.6%	9.2%	12.2%
Health Care	4.5%	2.4%	3.3%	4.7%	5.9%	10.0%
Industrials	1.8%	1.3%	6.0%	10.6%	11.2%	13.2%
Materials	-11.8%	-9.9%	-12.0%	-0.2%	3.0%	7.4%
Real Estate	4.7%	3.2%	3.4%	4.0%	4.8%	7.5%
Technology	-4.6%	-7.5%	-6.4%	-3.5%	1.0%	9.9%
Communication Services	-0.1%	-0.6%	1.0%	1.3%	1.9%	13.3%
Utilities	3.7%	2.2%	3.7%	3.9%	2.9%	6.5%
<b>S&amp;P 500</b>	<b>-2.0%</b>	<b>-2.2%</b>	<b>0.8%</b>	<b>2.7%</b>	<b>5.1%</b>	<b>12.1%</b>

Source: I/B/E/S data from Refinitiv



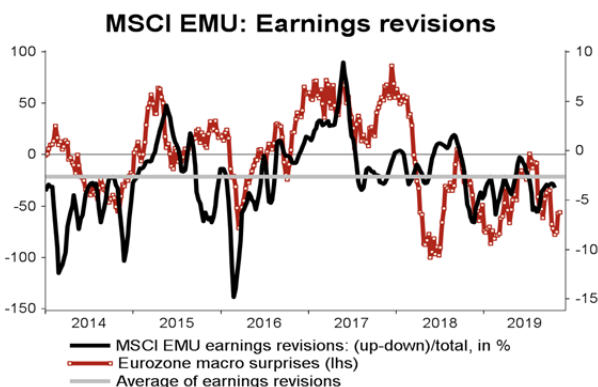
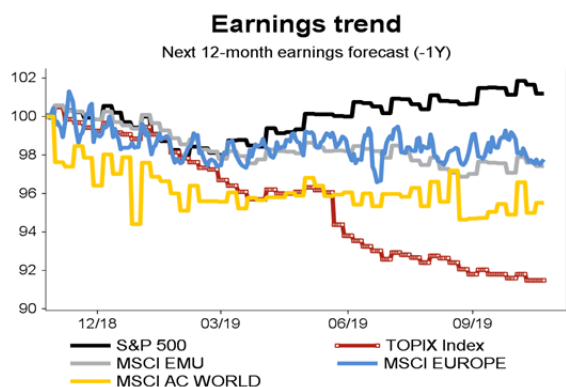
Since the end of July, 2019 estimates have on average declined by 2%.

26/07/19 - 25/10/19					
Consensus eps estimates: (IBES)	changes (%) since 26/07/19				
	2018	12m fwd eps	2019	2020	2021
MSCI AC WORLD	-0.1%	0.2%	-1.8%	-2.4%	-2.0%
MSCI WORLD	0.2%	0.4%	-1.4%	-2.1%	-1.7%
S&P 500 COMPOSITE	-0.4%	0.8%	-1.1%	-2.0%	-1.5%
FTSE-100 INDEX	-1.7%	-4.0%	-5.4%	-5.6%	-5.4%
TOPIX	0.4%	-1.0%	-2.4%	-2.8%	-2.3%
SWISS MARKET INDEX	0.1%	2.9%	0.8%	0.5%	0.4%
MSCI EUROPE	-0.1%	-0.5%	-2.6%	-2.6%	-2.5%
MSCI EMU	0.0%	-0.1%	-2.5%	-2.4%	-2.3%
STOXX 50 (EURO)	-2.6%	-0.9%	-2.9%	-3.1%	-3.2%
EURO STOXX 50 E	-0.7%	0.2%	-2.4%	-2.2%	-2.4%
MSCI USA IT	1.3%	3.2%	1.1%	0.2%	0.6%
MSCI EM	-2.0%	-1.6%	-4.7%	-4.7%	-3.9%

26/07/19 = our last update on the earnings season

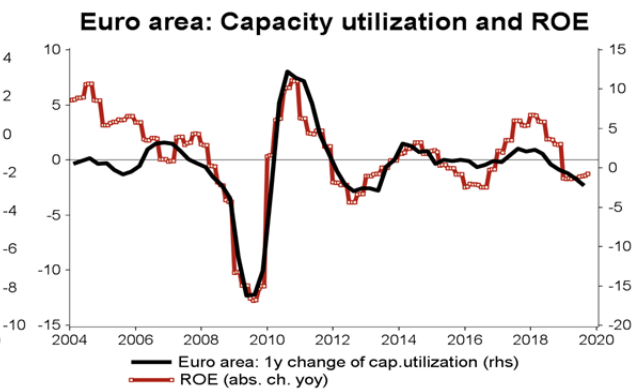
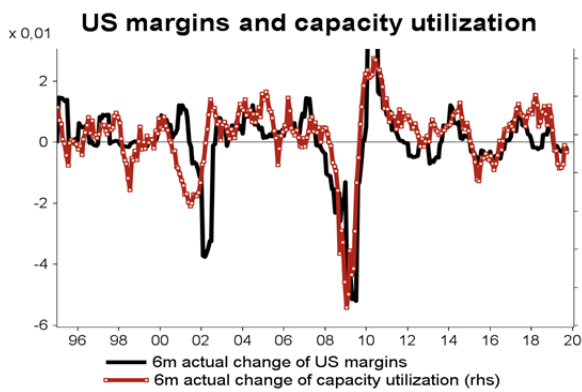
Notwithstanding the earnings reduction so far, earnings growth estimates for 2020 and 2021 remain sanguine and are at risk, as still low firms' confidence indicators keep manufacturing and export-oriented sectors' estimates in doldrums:

World Markets: Forecast Earnings Growth (IBES Consensus)				
25-Oct-2019				
	A12FE vs 2018	2019/2018	2020/2019	2021/2020
MSCI AC WORLD	9.3%	0.8%	10.0%	9.9%
MSCI WORLD	8.8%	0.8%	9.3%	9.4%
S&P 500 COMPOSITE	10.2%	1.4%	9.8%	10.6%
FTSE-100 INDEX	3.6%	-2.5%	7.6%	5.7%
TOPIX	6.6%	2.7%	6.1%	7.7%
SWISS MARKET INDEX	15.0%	6.7%	9.4%	7.9%
MSCI EUROPE	8.3%	0.3%	9.6%	7.4%
MSCI EMU	9.0%	0.1%	10.5%	8.3%
STOXX 50 (EURO)	9.2%	1.6%	8.9%	7.3%
EURO STOXX 50 E	11.4%	2.1%	10.8%	7.7%
MSCI USA IT	9.5%	0.6%	8.2%	14.1%
MSCI EM	12.6%	1.2%	14.1%	12.9%

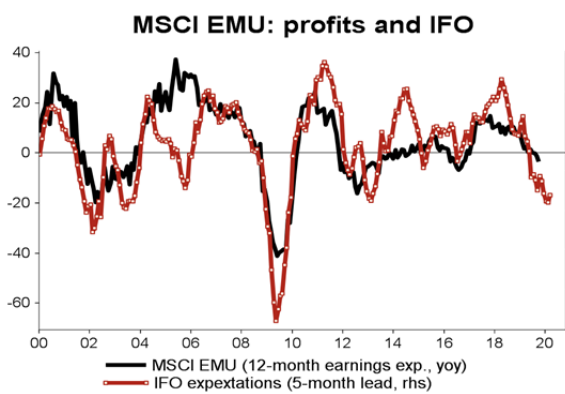




Capacity utilization's momentum is at a cyclical low. Therefore, margins and profitability (ROE) are low, too (both in the US and the EA).



That said, we see the first signs of a cyclical stabilization (IFO index and global export orders, s. below), which could induce earnings revisions to limit their downward trend. In particular, should trade frictions and Brexit risks continue to mitigate, the early and still fragile stabilization that we see in global export surveys could eventually improve, helping to stabilize the negative earnings revisions.



In the longer run, should the EUR/USD appreciate from current levels (as we forecast) we could expect US earnings' results to gain momentum vs EU ones.

Figure 13: % of companies beating sales estimates in US vs Europe and EUR/USD



Source: J.P. Morgan, Bloomberg

EU results are decent, too, but only when energy and materials are excluded.

Stoxx 600

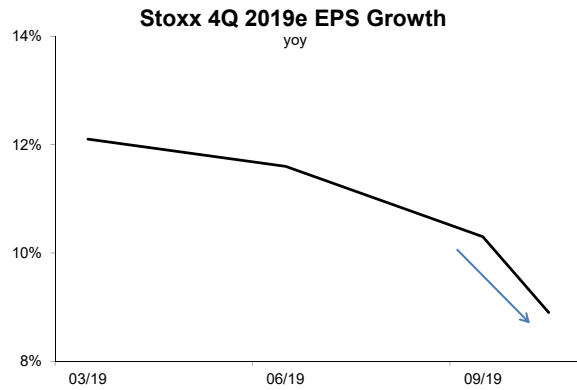
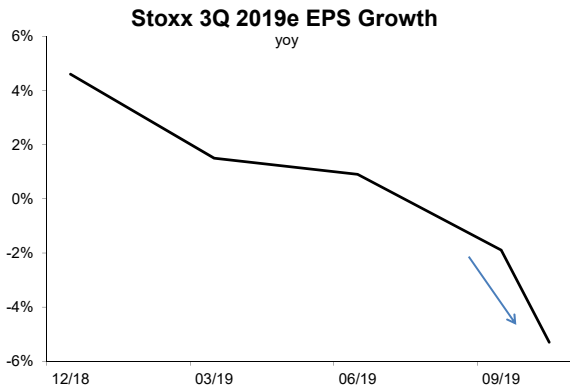
187 reported 170 reported

Sector	earnings growth, yoy		sales growth, yoy	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019
Energy	-18.7%	-42.3%	0.1%	-12.9%
Materials	-39.1%	-20.5%	-6.1%	0.0%
Industrials	18.8%	1.2%	6.0%	3.4%
Consumer Discretionary	-9.8%	13.7%	4.8%	8.0%
Consumer Staples	15.5%	47.3%	-5.7%	1.6%
Health Care	9.2%	22.6%	3.8%	8.8%
Financials	4.3%	-12.9%	5.3%	0.0%
Information Technology	-11.7%	-1.9%	7.0%	7.4%
Communication Services	4.5%	25.7%	1.9%	1.9%
Utilities	57.9%	100.5%	-4.8%	5.0%
Real Estate	46.9%	-14.5%	10.6%	-21.2%
<b>Stoxx 600</b>	<b>-1.5%</b>	<b>-2.4%</b>	<b>1.9%</b>	<b>2.4%</b>
Median (all sectors)	4.5%	1.2%	3.8%	1.9%
Median, ex. Energy & Materials	9.2%	13.7%	4.8%	3.4%
Median, ex. Fin.	6.8%	7.4%	2.8%	2.6%

Stoxx 600

Sector	earnings surprise		sales surprise	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019
Energy	0.2%	-9.7%	8.4%	-6.6%
Materials	2.2%	4.1%	-1.6%	-0.2%
Industrials	5.0%	3.0%	-0.3%	1.9%
Consumer Discretionary	8.2%	3.4%	2.0%	1.2%
Consumer Staples	7.5%	-2.3%	-3.7%	-0.9%
Health Care	15.8%	10.2%	2.5%	5.2%
Financials	5.1%	-17.1%	1.6%	0.2%
Information Technology	4.2%	7.3%	2.9%	1.6%
Communication Services	24.6%	19.9%	0.5%	-4.2%
Utilities	9.5%	2.2%	-11.6%	1.3%
Real Estate	20.9%	5.0%	-2.1%	0.5%
<b>Stoxx 600</b>	<b>7.0%</b>	<b>-0.7%</b>	<b>0.8%</b>	<b>0.0%</b>
Median (all sectors)	7.5%	3.4%	0.5%	0.5%
Median, ex. Energy & Materials	8.2%	3.4%	0.5%	1.2%
Median, ex. Fin.	7.8%	3.7%	0.1%	0.8%





**EURO STOXX**

93 reported 92 reported

Sector	earnings growth, yoy		sales growth, yoy	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019
Energy	-11.9%	-40.1%	1.2%	-9.2%
Materials	-44.0%	-32.1%	-7.7%	-0.8%
Industrials	9.4%	-3.8%	4.5%	5.9%
Consumer Discretionary	-13.2%	16.6%	4.4%	7.7%
Consumer Staples	16.8%	46.6%	-7.5%	0.8%
Health Care	53.4%	199.9%	9.7%	35.3%
Financials	-7.1%	17.2%	1.5%	6.6%
Information Technology	-14.4%	1.5%	5.8%	7.7%
Communication Services	24.7%	44.8%	1.8%	11.8%
Utilities	57.9%	100.5%	-4.8%	5.0%
Real Estate	45.3%	-	3.2%	-28.4%
<b>Total</b>	<b>-6.9%</b>	<b>2.5%</b>	<b>1.0%</b>	<b>3.9%</b>
Median (all sectors)	9.4%	16.9%	1.8%	5.9%
Median, ex. Energy & Materials	16.8%	31.0%	3.2%	6.6%
Median, ex. Fin.	13.1%	16.6%	2.5%	5.4%

**EURO STOXX**

Sector	earnings surprise		sales surprise	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019
Energy	2.6%	-18.6%	11.0%	-6.9%
Materials	2.3%	5.8%	-0.5%	0.8%
Industrials	1.5%	-4.4%	0.0%	2.5%
Consumer Discretionary	9.9%	3.4%	2.2%	1.2%
Consumer Staples	9.8%	-4.0%	-4.5%	-0.8%
Health Care	21.4%	68.4%	1.9%	16.5%
Financials	3.2%	-45.4%	1.9%	1.1%
Information Technology	5.6%	8.3%	2.9%	1.7%
Communication Services	N.M.	54.2%	1.0%	3.1%
Utilities	9.5%	2.2%	-11.6%	1.3%
Real Estate	0.0%	-	0.0%	0.0%
<b>Total</b>	<b>8.0%</b>	<b>0.2%</b>	<b>1.0%</b>	<b>0.4%</b>
Median (all sectors)	4.43%	2.78%	1.00%	1.16%
Median, ex. Energy & Materials	7.6%	2.8%	1.0%	1.3%
Median, ex. Fin.	5.6%	3.4%	0.5%	1.3%



**In sum, Q3 earnings' results and guidance look decent vs sharply reduced expectations. Margins are weaker and 2020 profit expectations remain optimistic. That said, dovish Central Banks and early signs of an economic trough are to compensate for earnings risk. We remain positive on equities.**

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