

QUARTERLY EARNINGS AREN'T WHAT'S DRIVING STOCKS

Don't be too impressed by earnings "beats". Quarterly earnings are down year-on-year and 2020 forecasts are being cut further. Hope seems to be driving markets for now.

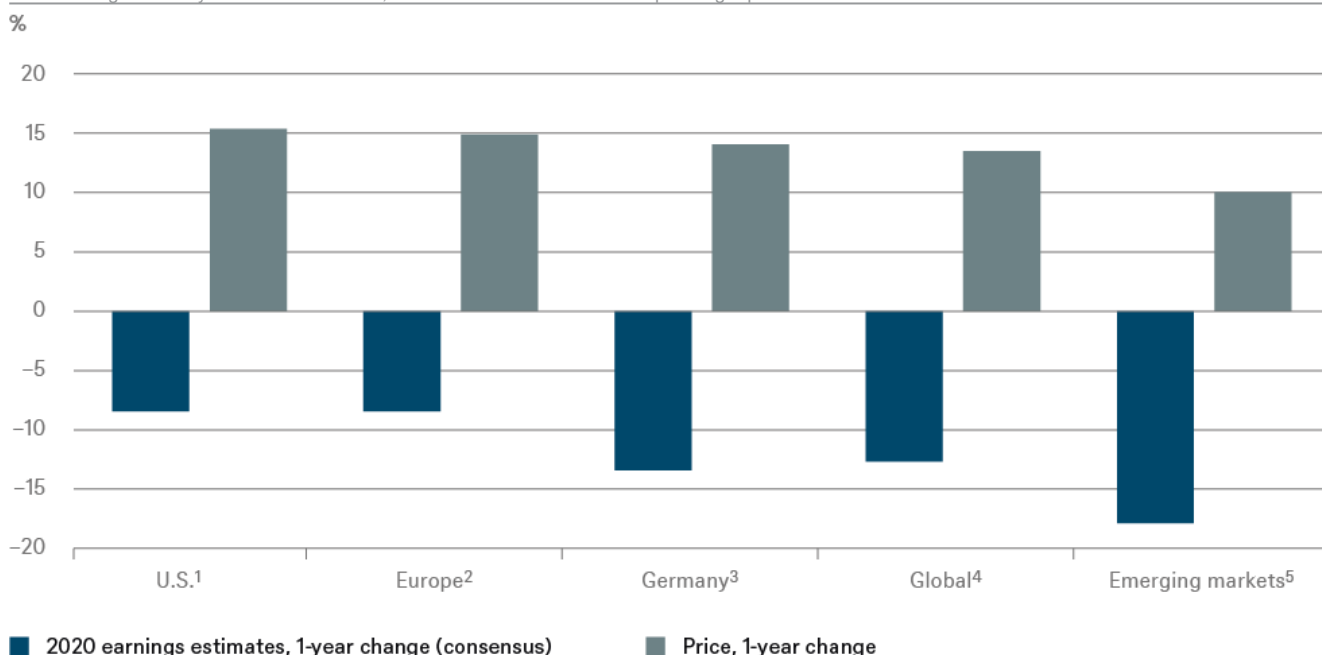
As the quarter ends investors will naturally find that many of their questions have been answered. And yet a big one remains: were the figures really good enough to justify the strong stock-price moves of recent weeks?

The good news is that companies are not complaining that the macro and political situation has worsened. Nor have politicians created any fresh uncertainties. But there isn't any talk of a noticeable turnaround either. And though politicians have not made trade and other tensions worse, they have not solved the disputes either. Quantitatively there is also scope for interpretation – depending on how the comparisons are made. Compared to the previous year, the profits of U.S. companies fell by 1.9%.¹ That's not so good. But compared to expectations? It's hard to say, since these have regularly been revised down in the run-up to reporting. This helps to explain the many positive "beats". Annual profits may have been down, but 80% of S&P 500 companies again surpassed themselves.

How little this achievement means can be seen in the further earnings revisions for 2019 and 2020. As our "Chart of

the Week" shows, global earnings estimates have fallen by over 13% compared to the estimates of a year ago, and by 8.6% for the S&P 500. In cyclical, export-oriented markets such as Germany (Dax) and emerging markets, consensus estimates have fallen still further. Yet, as the chart also shows, this disappointment has not affected stock prices at all. Why? For one thing, despite the earnings revisions, consensus is still expecting an earnings jump of around 10% for the S&P 500 for 2020 compared to 2019 earnings. We forecast only 4%. Another factor is that the reporting season does not take place in a vacuum. Compared to the beginning of the year, central banks are much more expansive, many leading indicators are no longer in free fall, and the atmosphere in the U.S.-Chinese tariff dispute seems to be a little more conciliatory. European cars might also be spared U.S. customs duties. Is all that enough to justify the optimism? "Earnings estimates have been revised down for over a year now, with almost frightening consistency. The reporting season has not changed this and 2020 estimates are being further reduced. This is not the basis for a sustained stock-market rally," says Thomas Bucher, DWS equity strategist.

¹ Bloomberg L.P. analysis as of November 4, with 80% of S&P 500 market cap having reported.



Sources: Refinitiv, DWS Investment GmbH as of 11/6/19

¹ S&P 500, ² STOXX Europe 600, ³ Dax, ⁴ MSCI AC World, ⁵ MSCI Emerging Markets

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Source: DWS Investment GmbH

GLOSSARY

A **central bank** manages a state's currency, money supply and interest rates.

The **Dax** is a blue-chip stock-market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

The **MSCI AC World Index** captures large- and mid-cap companies across 23 developed- and 24 emerging-market countries.

The **MSCI Emerging Markets Index** captures large- and mid-cap representation across 23 emerging-market countries.

The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

The **Stoxx Europe 600** is an index representing the performance of 600 listed companies across 18 European countries.

APPENDIX: PERFORMANCE OVER THE PAST 5 YEARS (12-MONTH PERIODS)

	10/14 - 10/15	10/15 - 10/16	10/16 - 10/17	10/17 - 10/18	10/18 - 10/19
S&P 500	5.2%	4.5%	23.6%	7.3%	14.3%
Stoxx Europe 600	15.0%	-6.5%	20.4%	-5.4%	13.9%
Dax	16.3%	-1.7%	24.0%	-13.5%	12.4%
MSCI AC World Index	-2.0%	-0.1%	20.8%	-2.4%	10.3%
MSCI Emerging Market Index	-14.5%	9.3%	26.5%	-12.5%	11.9%

Past performance is not indicative of future returns.

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 11/7/19

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