



Daily Macro Insights: The earnings gift that keeps giving

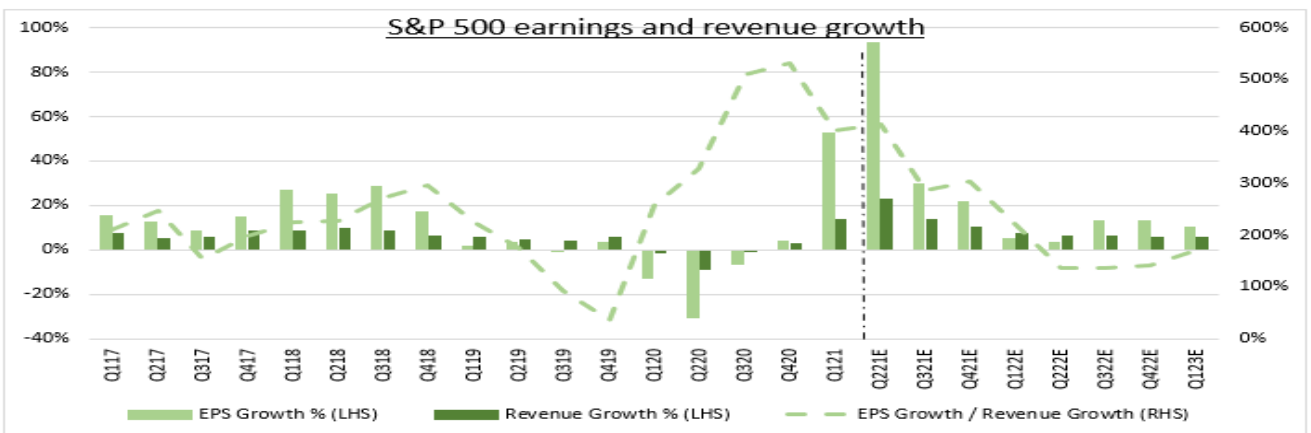
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MUCH MORE TO GO: Analysts are dramatically underestimating the recovery in company profits underway globally. They have hugely underestimated the earnings rebound for three quarters in a row, and we think they continue to do so. S&P 500 earnings soared 90% in Q2 with across-the-board strength from higher revenues, wider margins, and international growth recovery. This compared to analysts expectations for only 65% growth six weeks ago. Growth was even higher in markets like Europe and Canada. These continued profits growth surprises are the single most important driver of more market upside, and a gift that we see continuing.

TOO CAUTIOUS: Analysts remain far too cautious on the earnings recovery. 1) Consensus US earnings are seen *falling* for the next three quarters, despite the strong Q2 profit 'beats' just reported. 2) Full year 2022 earnings growth forecasts are only for single-digit *9% growth*, despite nominal GDP growth seen near 7%. We see profits growth as likely at least twice that.

THREE DRIVERS: We are a lot more positive on profits growth as 1) the GDP outlook keeps improving, with [IMF](#) the latest to raise growth forecasts. Consensus stands at 6.6% growth this year and 4.1% for next. These are already high numbers, 2-3x the Fed's 1.9% estimate of long-term US growth. 2) Companies are regaining confidence, as vaccinations rise in the US and globally. US positive earnings pre-announcements are running up 50% compared to last quarter. 3) Earnings leverage is underestimated. The ratio between US earnings growth and revenue growth has averaged 2.8x in recent years but analysts are now forecasting only 1.6x.

TODAY: Forecasts are for another fall in the ZEW economic sentiment indicator for Europe and Germany, as the virus saps the economic outlook. We look for some stabilization to support the recent new all-time-high for the EuroStoxx 600 equity index, and +140% surge in Q2 earnings.



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