GLOBAL LONG-TERM UNCONSTRAINED

Monthly Market Update

MARTIN CURRIE
A Franklin Templeton Company

MAY 2023 For professional and wholesale Investors only

A positive surprise

Reviewing the Q1 results season

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Q1 results season

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The Q1 2023 results season is getting close to an end with a generally supportive picture from developed markets, and consensus estimates for 2023 getting closer to our top-down estimates.

Generally, we have seen the proportion of companies beating expectations increasing compared to the last 4-6 quarters. In our May market insights, we look at the key aspects at both a regional and sector level.

Key points – a supportive picture for developed markets

A stronger picture coming from Europe compared to the US

European results season was supportive with consensus beats on both sales and earnings, and posting strong year-on-year earnings growth. But the US was less with companies posting negative year-on-year earnings growth.

Growth achieved in both Europe and the US has been stronger than expected, with year-on-year sales growth of +3.9% and +4.3% respectively, although there is more contrast on earnings growth, with +16% and -4% for Europe and US respectively.

Japan's result season was supportive with strong growth, whereas Asia had more mixed growth, but with strong positive surprises coming through.

Source: Martin Currie and FactSet as at 14 May 2023.

US 'Big Tech' beating on both sales and earnings

Big tech companies in the US have been beating on both sales and earnings, providing some support to the sector in general. Some noticeable cyclical companies have also been posting strong results across geographies.

In contrast, Energy, Utilities and Materials companies have generally been weighed down during the results season by commodities and energy prices rolling over.

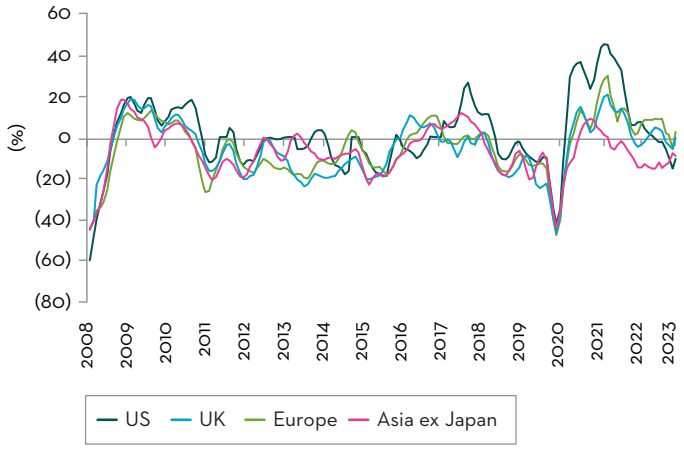
Signs of a supportive inflection in earnings revisions

Earnings momentum has remained negative ahead of the results season, although downgrades pre- and post-results season have been less marked than in the previous twelve months, showing signs of stabilisation and/or inflection. It is too early to call this stabilisation or inflection a trend at this stage, given the ongoing potential downside risks to the economic climate. Europe and UK in particular are now seeing positive earnings revisions. Consensus is now expecting +1% on Global earnings growth year-on-year, +0% for North America, +4% for Europe, and 0% for Asia. Our top down estimates remain unchanged; we continue to forecast 2023 earnings growth of +0% at the Global level, -1% for the US, -5% for Europe, and +5% for Asia.

Source: Martin Currie and FactSet as at 14 May 2023.

Earnings momentum of given equity markets

Changes in estimates of following year earnings to 30 april 2023



Source: Martin Currie and FactSet as at 30 April 2023.

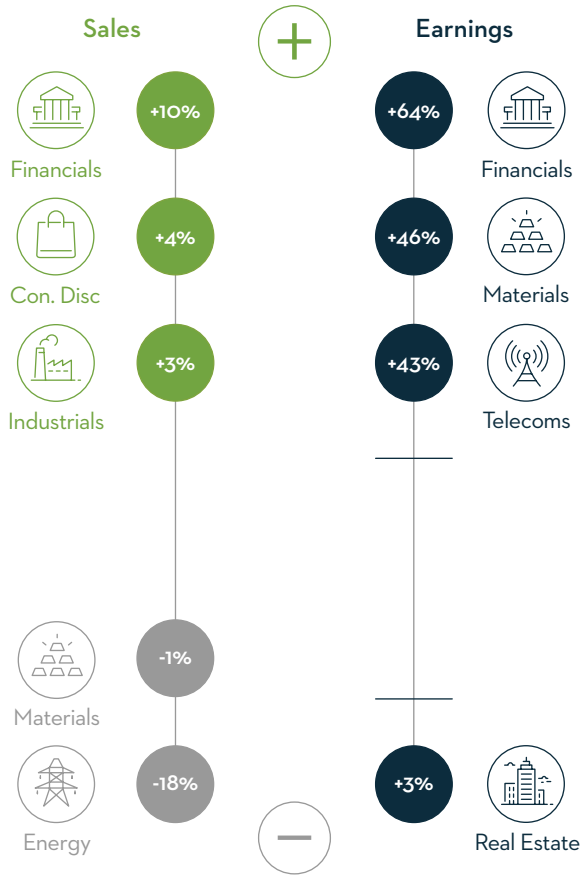
Europe

Strongest postive earnings surprise since 2020

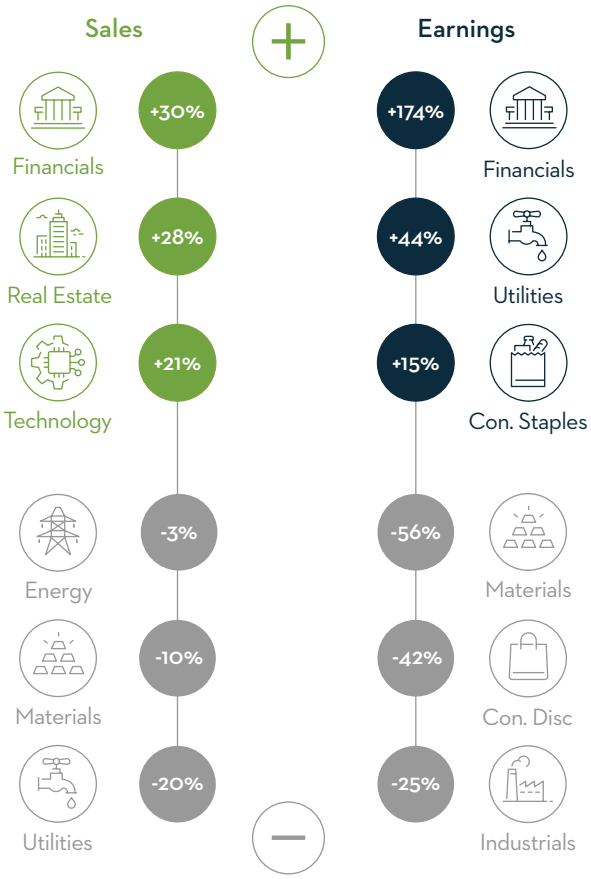
The +29% earnings surprise is Europe's strongest since 2020, with 74% of companies beating consensus estimates, no single sector overall reported a negative earnings surprise although Real Estate was the weakest (+3%). Overall earnings growth was +16%.

Sales growth was weaker on the top line (+3.9%), with negative growth from Utilities, Materials, and Energy. In our view this was as a result of the rollover in commodities and energy prices weighing on those sectors' earnings.

Number of companies reported (%) MSCI Europe	85	
	Sales	**Earnings**
Surprise (%)	+2.6	+29.1
Year on year growth (%)	+3.9	+16.0
% of companies reporting positive surprises	+68	+74



Europe



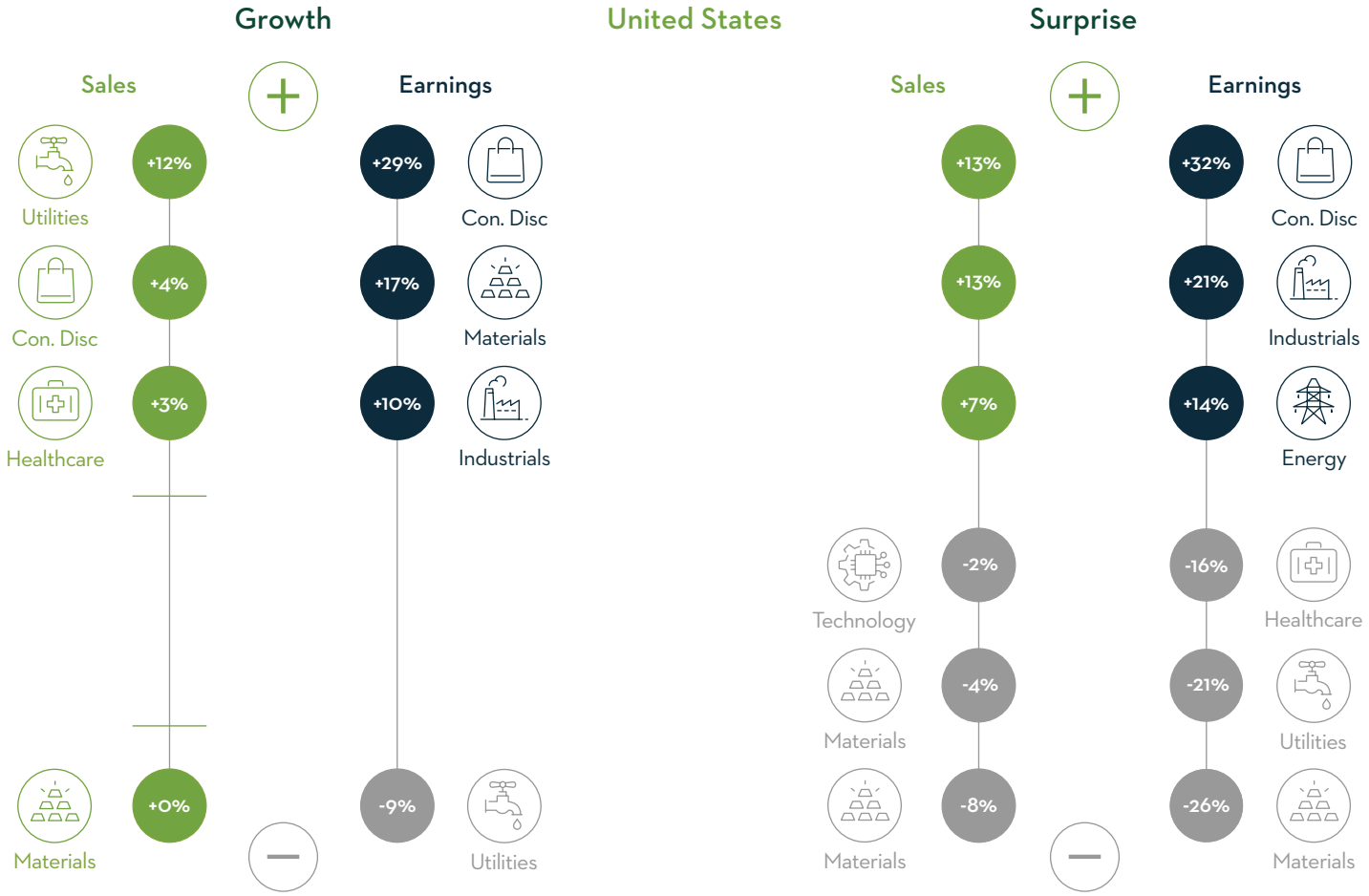
Source: Martin Currie and FactSet as at 14 May 2023.

United States

Postive on both earnings and surprises

Although less supportive than Europe, this was the most positive US reporting season since Q3 2021 in terms of earnings surprises. US companies overall beat on both earnings and sales, although the average beat of 6.5% is significantly less pronounced than Europe. As with Europe the negative earnings growth from Materials and Energy is related to year-on-year commodity price declines. The key highlight from Q1's reporting season is the 'Big Tech' companies coming through with beats on both sales and earnings, although top line sales growth for the whole sector was slightly negative.

Number of companies reported (%) S&P 500	91	
	Sales	**Earnings**
Surprise (%)	+2.7	+6.5
Year on year growth (%)	+4.3	-3.9
% of companies reporting positive surprises	+68	+77



Source: Martin Currie and FactSet as at 14 May 2023.

Japan

Strong growth

Generally, the results season in Japan was more supportive than in any of the reporting season in 2022. Growth was very strong, with +16% growth on sales, and +31% on earnings, helped by the supportive currency effects to some extent.

Number of companies reported (%) Topic	81	
	Sales	Earnings
Surprise (%)	+9.0	+3.0
Year on year growth (%)	+16	+31
% of companies reporting positive surprises	+49	+54

Japan

+228%

Utilities

Utilities' **earnings surprised by 228%**, followed by Energy +82%, Telecoms had the most negative surprises, -63%. The strongest sales growth came from Industrials, and Utilities and Financials in terms of earnings growth. In contrast Financials posted negative sales growth of -11%, and Energy was the weakest for earning growth with -51%.

Asia

Earnings most supportive since 2020

In the same way as for Europe, with earnings surprise of +19% this was the most supportive in terms of surprise since 2020. only four sectors posted negative surprises, Utilties, Energy, Healthcare and Consumer Staples.

Number of companies reported (%) Topix	70	
	Sales	Earnings
Surprise (%)	+24	+19
Year on year growth (%)	+9.7	-12.6
% of companies reporting positive surprises	+48	+26

Asia ex Japan

+48%

Real Estate

In terms of sales 48% of companies posted a positive surprise. This was driven by two sectors, Real Estate (+99%) and Financials (+43%). All other sectors were neutral or negative.

As shown in the table, sales growth was positive but earnings where negative. Sales growth was led by Real Estate (+98%) and Industrials (+51%). Negative earnings growth came from Materials (-83%) and Consumer names (Staples -58%, Discretionary -52%).

Source: Martin Currie and FactSet as at 14 May 2023.

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