GLOBAL **LONG-TERM UNCONSTRAINED**

Q3 results season update

MARTIN CURRIE

31 OCTOBER 2022 **For professional investors only**

A more supportive results season than expected – but company warnings highlight the need to be stock specific

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Key points

- A more supportive Q3 results season generally for both Europe and the US compared to expectations
- Whilst profit warnings have been coming through, they have not been as plentiful as both we and the market expected
- Results were supported by the outsized growth reported by the Energy sector in both Europe and US, and Utilities in Europe
- The European results season was stronger relative to the US, notably helped by FX tailwinds, with an estimated c.17% positive impact from US$ appreciation vs Euro
- Earnings revisions have inflected at the Global, European and (to a lesser extent) US levels post results season, but in a large part supported by outsized growth in the Energy sector
- Notable profit warnings and/or disappointing guidance during the period came from Amazon, Alphabet, Meta, Target, Tesla, Walt Disney, Warner Bros Discovery, Nike, Nvidia and Microsoft in the US, and Adidas, Volvo, VW, H&M, and Roche in Europe

Europe

Strong reporting season, helped by currency tailwinds and outsized growth from Energy and Utilities

- Strong growth in **Energy** (+57% sales, +130% earnings) and **Utilities** (+48% sales and earnings) helped by **higher energy prices**
- Growth flattered by **euro weakness versus US$** – we estimate a **c.17% tailwind** from US$ alone, on sales and earnings growth during the quarter

US

Solid results season, even if weaker than previous trends – supported by the outsized growth achieved in Energy sector

- Strong growth in **Energy** (+50% sales, +149% earnings) supported by **higher oil price**
- Lower earnings due to **headwinds** from input costs, wage inflation and US$ strength

Asia

Results season more mixed compared to US or Europe

- The aggregate surprise on both sales and earnings was **skewed by industrials** (+6.9% sales and +49.8% earnings surprise)
- **Earnings growth** achieved was only +2.8%, supported by financials (+83%), Consumer, Telecoms and Real Estate all posted > -40% earnings surprises

The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any of the securities discussed here were, or will prove to be, profitable.

Source: Martin Currie and FactSet as at 31 October 2022.

Below, we review in more detail the reporting season for each of the main geographies globally, specifically, Europe, US and Asia. at this stage in the cycle.

	Europe	US	Asia
Sales % of companies posting positive surprises	73%	59%	53%
Aggregate results Q3			
Surprise	4.2%	2.6%	4%
Year on year growth	26%	12%	20.8%
Most significant surprise by sector (aggregate %)	+ +68% Real Estate; +65% Utilities; +7% Industrials; − -7% Energy	+ +16% Energy; +9% Utilities; +7% Financials; − -/+0% Telecoms; Real Estate; Industrials	+ +28% Financials; +10% Energy; +7% Industrials; − -49% Health Care; -16% Real Estate
Earnings % of companies posting positive surprises	62%	69%	36%
Aggregate results Q3			
Surprise	6.2%	2.9%	(10.6%)
Year on year growth	25%	3%	2.8%
Most significant surprise by sector (aggregate %)	+ +20% Utilities; +11% Energy; +7% Industrials; − -7% Real Estate; +11% Con. Disc.; +7% Materials	+ +16% Energy; +9% Health Care; +7% Con. Staples; − -/+0%	+ +50% Industrials; − >-40% Con. Staples; Real Estate; Telecoms; Con. Disc.

Notable Profit warnings and downgrades to guidance

Adidas	Meta	Roche	VW
Alphabet	Microsoft	Target	Walt Disney
Amazon	Nike	Tesla	Warner Bros Discovery
H&M	Nvidia	Volvo	

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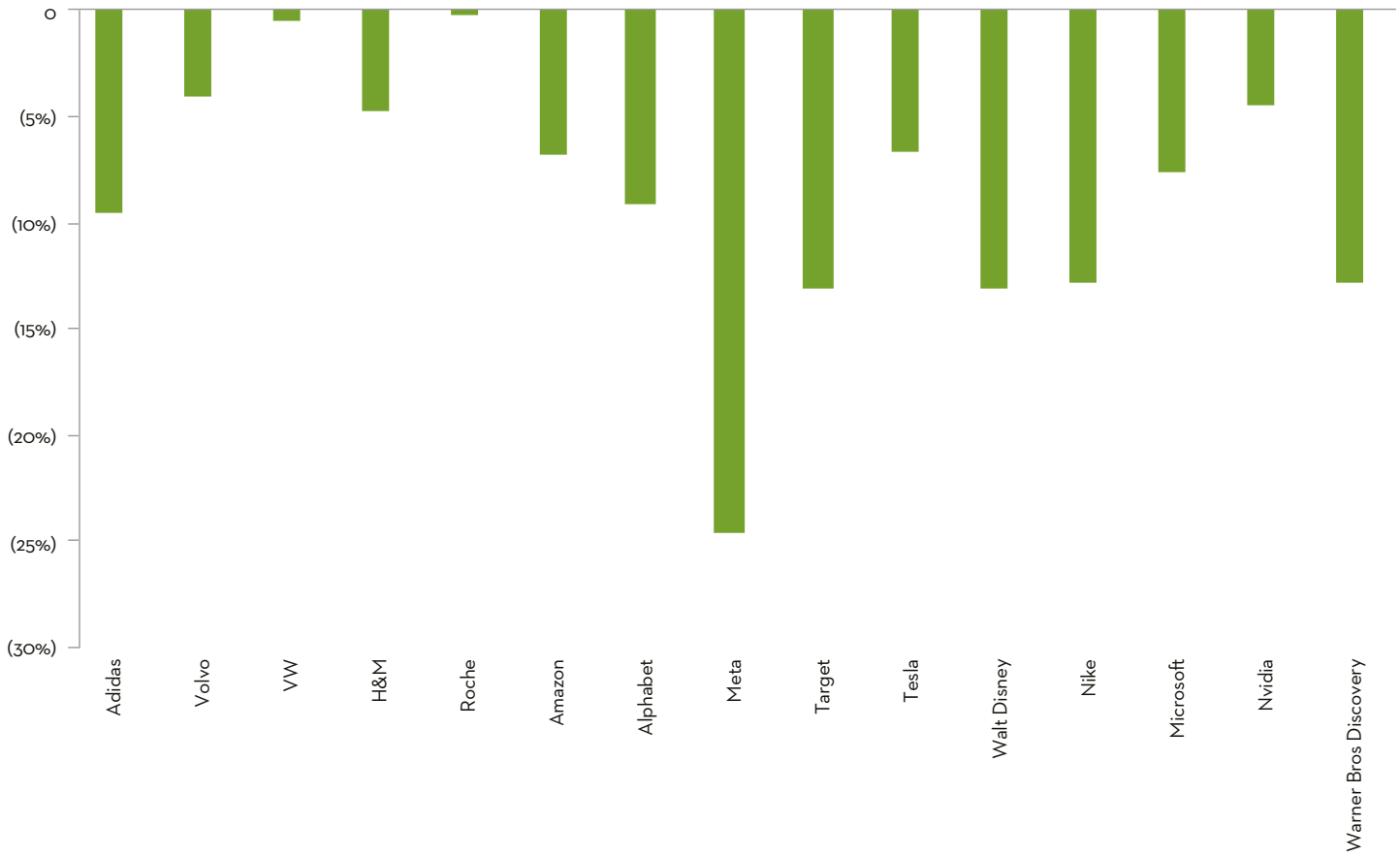
Source: Martin Currie and FactSet as at 31 October 2022.

The Q3 reporting season was generally more supportive in both the US and in Europe, compared to expectations, including our own. European results season was relatively stronger than in the US, helped by the strong FX tailwinds for companies, notably the euro weakness versus the US$. Whilst there have been a string of notorious profit warnings during the quarter, the number of warnings was overall not as elevated as we had expected given the deteriorating macro-economic momentum, and the stronger input cost pressures that corporates had to face during the quarter. As always, some of this will have been related to both ongoing negative earnings revisions from analysts, and overall consensus prior to the results season kicking off.

As a result of the positive sales and earnings revisions during the Q3 reporting season, at the Global level, the downward revisions in consensus earnings we have been seeing since Q1 2022 has started to inflect, with consensus earnings growth year-on-year now moving up to +2.2%, from +0.9% at the end of October. This reversal was in large part supported by the outsized growth achieved in the Energy sector, because of the higher year on year (YoY) oil prices.

For Europe, the consensus YoY earnings growth for the full year now stands at +7.5%, also improving from +3.3%. This was helped in part by more favourable FX tailwinds, but also strongly supported by outsize growth achieved in the Energy and Utilities sectors.

Day 1 share price reaction from selected list of companies with profit warnings and/or weaker guidance



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