MARTIN CURRIE
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Q4 2023 RESULTS SEASON

Wrap and highlights

A mixed reporting for markets, skewed by theMagnificent Seven

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The Q4 2023 reporting season has come towards its end. The US and Japan are 100% complete, with Europe and Emerging Markets, 75% and 64% complete respectively. We review the key highlights from this round of reporting below.

Mixed reporting season overall

Overall, the reporting season has been mixed in terms of sectors, with 'Big Technology' (i.e. the Magnificent Seven) being a key area of support. Although even within that sector, there has been some element of disparity in the outcomes. Consumer Discretionary and Financials have been posting positive earnings surprises across many geographies. Utilities, Telecoms and Real Estate were the sectors with most consistently negative earnings. But Telecoms was the one sector showing the strongest earnings growth across most geographies.

Geographically, the US has seen strong reporting at the headline level, but this has been driven by only a handful of sectors, led by Technology (Tech). Japan has also seen a positive reporting season, somewhat helped by the Yen weakness. In contrast, Europe experienced a weak reporting reason, with ongoing earnings downgrades as a result, and negative year-on-year growth. Emerging Markets (EM) results were even weaker than Europe, notably dragged down by China.

In terms of margins, the US and Japan have exhibited margin improvements at the headline level, although for the US, this has been in large part driven by the Tech sector. Europe and EM experienced margin erosion, the latter in an even more pronounced way.

In terms of earnings momentum, we continue to see downside risk to US and Global earnings growth expectations for 2024. Whilst in Europe, with earnings estimates having come down, these are now closer to our top-down estimates.

We continue to forecast pedestrian earnings growth this year, with our top-down estimates remaining unchanged (from December 2023), as shown below.

Region	Martin Currie 2024 Earnings Growth estimates (%)	Consensus 2024 Earnings Growth estimates (%)
US	+6	+10
Global	+5	+10
Europe	+3	+4
Asia ex Japan	+5	+17
Japan	+6	+11

Source: Martin Currie and Bloomberg as at 26 March 2024.

Consensus estimates at risk of further downgrades

In the table above, we have also compared our estimates with consensus. The estimates for the Global, US and European consensus are all from the back end of last year. Whilst the Asia and Japan estimates have been increasing.

Q4 2023	US (SPX)	Magnificent Seven	Europe (SXXP)	Eurozone (SXXE)	Japan (Topix)	EM (Bloomberg EM Index)
% of companies that reported	100%	100%	75%	82%	100%	64%
% companies that beat on sales	55.7%	85.7%	38.3%	34.1%	49.5%	45.1%
Sales surprise	1.2%	1.9%	(2.6%)	(4.7%)	2.1%	0.4%
% companies that beat on earnings	76.0%	85.7%	44.3%	47.3%	55.6%	43.5%
Earnings Surprise	7.2%	6.9%	2.8%	5.9%	10.5%	(8.0%)
Sales growth YoY	3.9%	15.0%	(6.1%)	(5.2%)	3.1%	(0.5%)
Earnings growth YoY	8.0%	56.1%	(11.1%)	(0.1%)	42.3%	(21.1%)

Source: Bloomberg as at 26 March 2024. SPX is S&P 500, SXXP is Euro Stoxx 600, SXXE is Euro Stoxx. Magnificent Seven are: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Telsa.

Europe

Mixed reporting season, margin erosion, and negative growth on sales and earnings

The reporting season in Europe has been weak, with a c.-2.6% negative sales surprise, and a +2.8% positive earnings surprise. Earnings growth showed a decline of -11% year-on-year (yoy), on sales decline of -6%, pointing to weakening margins. Of the 75% companies that reported, only 38% beat on sales, and only 44% beat on earnings.

Number of companies reported (%)	75	
	Earnings	Sales
Year on year growth (%)	-11	-6
Surprise (%)	+3.2	-6.4
% of companies reporting positive surprises	+44	+38

Source: Bloomberg as at 26 March 2024.

Sectors

Strongest positive earnings surprise came from Consumer Discretionary (+14%), Industrials (+9%), and Financials (+4%), whilst weakest earnings surprise came from Telecoms (-73%), Real Estate (-7%), and Consumer Staples (-3%). Strongest yoy growth in earnings came from Consumer Discretionary (+19%), Healthcare (+11%), and Real Estate (+7%). Most negative earnings growth was posted by Telecoms (-69%), Materials (-53%) and Utilities (-31%).

Negative overall earnings growth confirms our prediction of an earnings recession in 2023 to Our prediction of an earnings recession in 2023 was confirmed by overall negative earnings growth.

US

Strong reporting season, margin increase and positive growth, although strongly helped by the Magnificent Seven companies

The US reporting season was strong at the headline level, with reporting a +8% positive earnings surprise, and a sales surprise of +4%. Sales growth came in at +4% yoy, with earnings growth at +8% yoy, pointing to an increase in margins. Of the 100% companies that reported, 56% beat on sales, whilst 76% beat on earnings.

Number of companies reported (%)	100	
	Earnings	Sales
Year on year growth (%)	+8	+4
Surprise (%)	+8	+4
% of companies reporting positive surprises	+76	+56

Source: Bloomberg as at 26 March 2024.

The beat and positive growth was driven by the outsized growth achieved by the majority of the Magnificent Seven. With Alphabet achieving +51% yoy growth in earnings, Amazon +304%, Apple +13%, Meta +197%, Microsoft +26%, and Nvidia +489%. At -40%, Tesla was the only negative amongst the names. If you exclude the Magnificent Seven, the S&P 500 earnings growth would have been -2%.

Sectors

Strongest positive surprises on earnings came from Consumer Discretionary (+14%), Financials (+10%), and Energy (+10%). The weakest surprises came from Utilities (-2%), Real Estate (+1%) and Materials (+4%).

Strongest growth on earnings came from Telecoms (+49% yoy), Utilities (+43%) and Consumer Discretionary (+29%). Energy, Materials and Healthcare all showed a decline (-25%, -21% and -16% respectively).

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 security transactions discussed here were, or will prove to be, profitable.

Japan

Strong reporting season and supportive growth

100% of companies reported in Japan, with a 10% positive earnings surprise, and a +2% sales surprise. Sales growth came in at +3%, with earnings growth of +42%, implying a similarly positive margin trend as the US. The beat/miss ratio was more balanced, 50% of companies beat on sales, and 56% on earnings.

Number of companies reported (%)	100	
	Earnings	Sales
Year on year growth (%)	+42	+3
Surprise (%)	+10	+2
% of companies reporting positive surprises	+56	+50

Source: Bloomberg as at 26 March 2024.

Sectors

The highest positive earnings surprise came from Utilities (+160%), Telecoms (+35%), and Consumer Staples & Industrials (both +30%). On the other side the most negative surprises came from Healthcare (-10%), Real Estate (-4%) and Materials (-4%).

Strongest earnings growth was posted by Telecoms (+656%), Consumer Discretionary (+39%), and Financials (+33%). Highest negative earnings growth was reported by Healthcare (-24%), Utilities and Energy (both 0%).

Emerging Markets

Weak reporting season, with margin pressure and negative growth

64% of companies have reported in EM, with a sales surprise of 0.4%, and a negative earnings surprise of -8%. Sales growth was flat, whilst earnings growth was -21%, implying a similarly negative pressure on margins to what we have seen in Europe, but bigger in magnitude. Similarly to Europe, only 44% of companies beat on sales, and only 43% beat on earnings.

Number of companies reported (%)	64	
	Earnings	Sales
Year on year growth (%)	-21	+0
Surprise (%)	-8	+0.4
% of companies reporting positive surprises	+43	+33

Source: Bloomberg as at 26 March 2024.

Sectors

The highest positive earnings surprise came from Utilities (+13%), Consumer Discretionary (+11%) and Technology (+1%), whilst most negative earnings surprises came from Telecoms (-48%), Materials (-44%), and Consumer Staples (-21%).

Strongest earnings growth was posted by Real Estate (+45%), Consumer Discretionary (+36%), and Healthcare (+35%). Most negative earnings growth was reported by Industrials (-82%), Materials (-40%) and Technology (-37%).

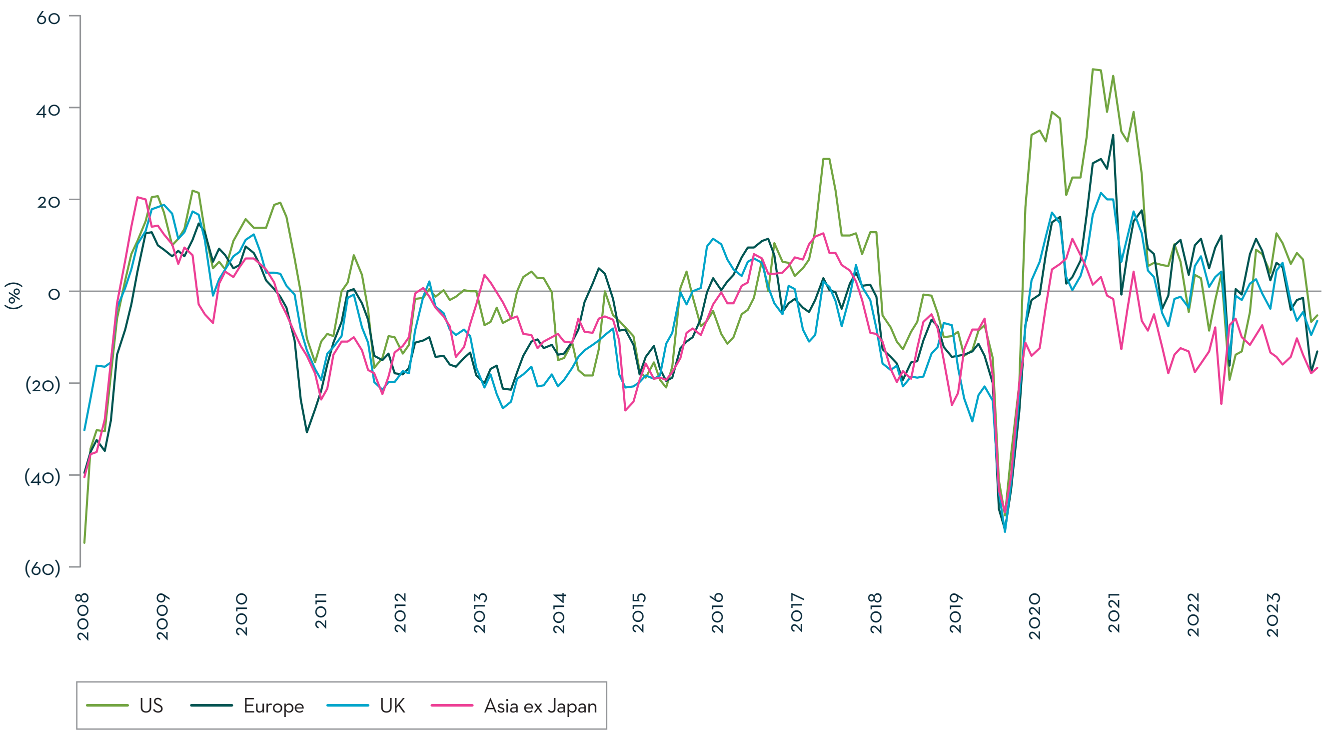
Negative earnings momentum continues across geographies

With the Q4 reporting season largely over, it is worth flagging that consensus estimates have continued to steadily come down.

This can be seen in the chart below. Consensus is moving closer to our top-down estimates across most geographies, this is shown on the table on page 2.

Earnings momentum of given equity markets

Changes in estimates of following year earnings



Source: FactSet and MSCI. Earnings momentum data as at 29 February 2024.

In contrast our Long-Term Unconstrained strategies have had a strong reporting season

Our Long-Term Unconstrained strategies have had a strong reporting season across the board.

They have delivered superior growth both on sales and earnings, as well as margin expansion. This means they have either bucked the trend of the local indices that have shown margin erosion or have demonstrated a stronger margin expansion.

We have been tracking these trends in our strategies on a quarterly reporting basis, however this is first time we have reported them externally. Going forward, we will provide these, as way of comparison to the broader market results season.

Stronger growth and margin expansion than the market

A summary is shown in the table below. All these figures are based on median, rather than averages, which are significantly skewed upwards as a result of a few sizeable Tech growers. We provide further details in this report.

Strategy	Sales growth yoy (%)	Earning growth yoy (%)
Global	+9	+12
International (ex US)	+8	+12
Europe	+6	+9
US	+12	+18

Source: Martin Currie, 26 March 2024. Representative Global, International, Europe and US Long-Term Unconstrained accounts shown.

Global Long-Term Unconstrained

Year-on-year, our global strategies (GLTU) achieved a +9% growth on sales, and a +12% growth on earnings, on a median basis. The weighted average figures were +32% and +55% respectively. Margins expanded by +63bps on a median basis, and by +334bps on a weighted average basis.

As way of comparison, the Bloomberg World Index (74% of companies reported) showed a reporting season that achieved a +0.8% growth on sales and +3.6% on earnings.

Source: Martin Currie and Bloomberg as at 26 March 2024. Representative Martin Currie Global Long-Term Unconstrained account and Bloomberg World Index shown.

International Long-Term Unconstrained

Our international strategies achieved a +8% growth on sales, and a +12% growth on earnings on a median basis. On a weighted average basis, the growth was +6% and +8% respectively. Margins expanded by +68bps on a median basis, and +59bps on a weighted average basis. For comparison, the FTSE World ex-USA index (96% of companies reported) achieved a +2.8% growth on sales, and a +6.5% growth on earnings.

Source: Martin Currie and Bloomberg as at 26 March 2024. Representative Martin Currie International Long-Term Unconstrained account and FTSE World ex-USA Index shown.

European Long-Term Unconstrained

Our European strategies grew sales at +6%, and earnings at +9% on a median basis. On a weighted average basis, growth was +4% and +7% respectively. This compares to the European market posting a -6% decline on sales, and a -11% decline on earnings. Margins for our European strategies showed an expansion of +36bps on a median basis, and +76bps on a weighted average basis.

Source: Martin Currie and Bloomberg as at 26 March 2024. Representative Martin Currie European Long-Term Unconstrained account and Euro Stoxx 600 index shown.

US Long-Term Unconstrained

Our US strategies posted a +12% growth on sales, and a +18% growth on earnings on a median basis. On a weighted average basis, sales growth was +35%, whilst earnings growth was +236%, significantly skewed by the outsized growth achieved by Amazon. This compares to the US market growth of +4% on sales and +8% on earnings. Margins for our US strategies showed an expansion of +131bps on a median basis, and +426bps on a weighted average basis.

Source: Martin Currie and Bloomberg as at 26 March 2024. Representative Martin Currie US Long-Term Unconstrained account shown.

Investment implications of the results season

As a result of the ongoing negative earnings momentum, and the margin pressures experienced in Q4, we continue to focus on companies with:

- earnings resilience – companies that can resist the downgrades,
- pricing power – to protect from margin pressures,
- solid balance sheets – in case of slowing macroeconomic momentum, and;
- exposure to structural growth opportunities – given the lack of growth at the overall market level).

All data quoted in text unless otherwise specified is from Bloomberg as at 26 March 2024.

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