

2020 Earnings Wrap and 2021 Outlook: Cyclical Sectors Poised to Accelerate



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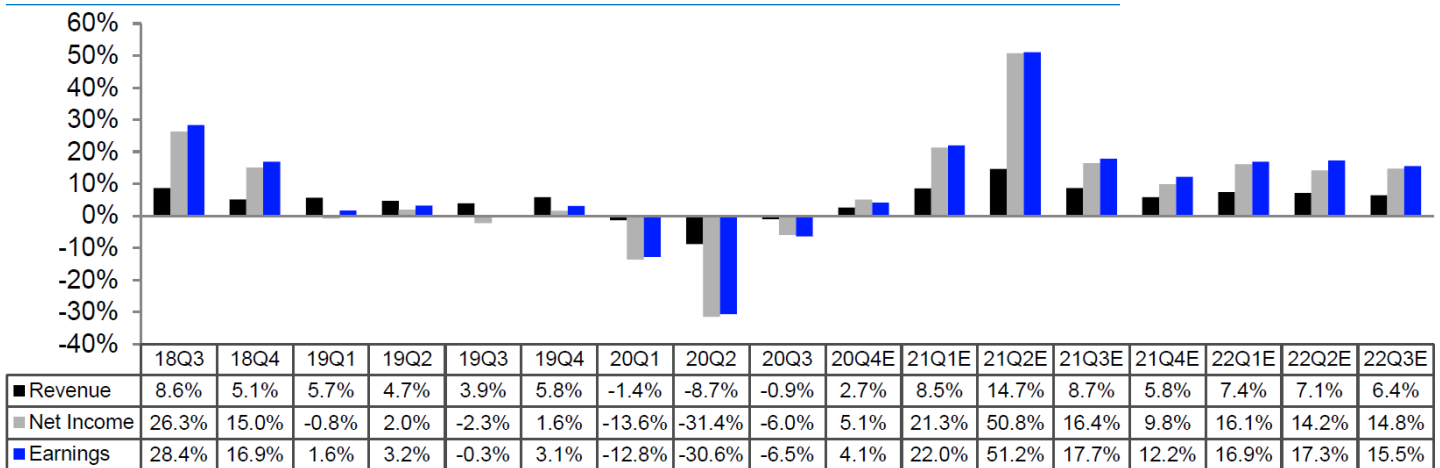
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S&P 500 earnings for Q4 2020 finished with positive growth of around 4% (see the chart below). This represents the first quarter of year-over-year positive earnings growth since the pandemic began. The level of positive earnings surprises also points to momentum in the economy. According to Refinitiv, about 79% of S&P 500 constituents posted positive EPS surprises in Q4 and earnings were nearly 16% above consensus. Putting that in context, a typical quarter has earnings surprises coming in between 3% and 4% above consensus.

Looking ahead, Wall Street consensus estimates call for EPS growth of 23.9%, to over \$174 per share. The estimated earnings growth rate in the first quarter of 2021 is expected to be 22.0% while the Q2, Q3, and Q4 growth rates are currently pegged at 51.2%, 17.7%, and 12.2%. The P/E ratio for the S&P 500 based on estimated 2021 EPS is about 22.0x, which is high relative to the historical average but the impact of low interest rates leads to higher P/E ratios in equilibrium. [\(Chart 1\)](#)

Chart 1: S&P 500 Revenue and Earnings Growth Rates



Source: I/B/E/S data from Refinitiv

As the economy rebounds in 2021, the sectors which were hardest hit by the pandemic are generally expected to see the strongest earnings growth. Energy, Industrials, Consumer Discretionary, and Financials top the list of sectors likely to benefit most from the economic reopening in 2021. Energy earnings are expected to grow a whopping 753%, followed by Industrials and Consumer Discretionary at 72% and 55%, respectively. Consumer Discretionary and Financials are forecasted to grow earnings by 50% and 23%, respectively, after falling 30% and 18% in 2020.

The traditional growth sectors – Info Tech and Communication Services -- maintained strong growth in 2020, but that growth is expected to moderate in 2021 to “only” the mid-teens range.

[\(Chart 2\)](#)

Looking ahead, analysts have been raising estimates for the March quarter and full-year 2021 and nearly three times as many companies have issued positive estimate guidance revisions as those providing negative outlooks (per FactSet). That same economic growth that is fueling earnings is also being reflected in rising long-term interest rates and inflation pressures. On an absolute basis, the current interest rate levels are not concerning but if the trend continues to be aggressively upward then more volatility and bouts of market digestion would likely be in store.

Chart 2:

S&P 500 Sector Metrics		EPS Growth		Sector Returns		
		CY'21 Est	CY'20 Est	YTD	Rel to S&P	2020
Cyclical Sectors	Energy	752.6%	-110.0%	38.8%	37.1%	-33.7%
	Industrials	72.1%	-54.5%	6.2%	4.5%	11.1%
	Discretionary	49.8%	-30.1%	-3.6%	-5.3%	33.3%
	Materials	34.3%	-5.7%	4.9%	3.2%	20.7%
	Financials	23.1%	-17.8%	15.4%	13.7%	-1.8%
Growth Sectors	Info Tech	15.1%	11.5%	-3.7%	-5.4%	43.9%
	Comm Svcs	13.8%	-0.3%	5.6%	3.9%	23.6%
Defensive Sectors	Health Care	14.1%	7.4%	-1.0%	-2.7%	13.4%
	Real Estate	6.9%	-10.6%	1.1%	-0.6%	-2.2%
	Staples	5.0%	3.6%	-4.7%	-6.4%	10.7%
	Utilities	5.0%	1.4%	-4.2%	-5.9%	0.5%
S&P 500		23.9%	-12.0%	1.7%	-	18.4%

Source: Refinitiv



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