



Q2 2021 Earnings Preview: Favorable outlook but high expectations

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Equities are near all-time highs, but growth expectations are similarly high. According to FactSet, Earnings Per Share (EPS) guidance revisions for Q2 have positive revisions outstripping negative ones by almost 2-to-1. In a typical year, that relationship is reversed. This trend bodes well and economic momentum remains strong. Cost and wage pressures for companies are real, but we expect margins to hold up in aggregate.

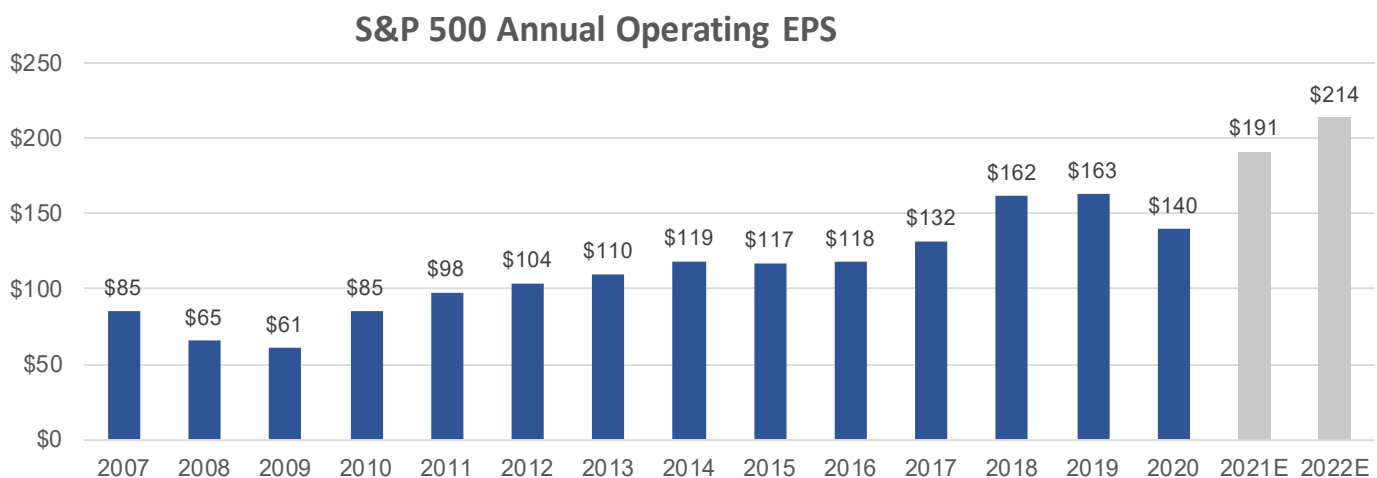
For Q2, earnings are expected to grow 66% from a year ago, up from the 54% projected on April 1st, and the 46% projected at the beginning of the year (per Refinitiv). For the full year, S&P 500 earnings are now pegged to grow 37%, to \$191 per share (*Exhibit 1*), versus the prior estimates near mid-20%.

Not surprisingly, the S&P 500 sectors which were hardest hit by the pandemic are expected to generate the strongest growth in the second quarter. Those include Industrials (+571% anticipated EPS growth), Consumer Discretionary (+273%), Energy (+224%), Materials (+116%) and Financials (+103%).

The small number of companies with May-ending quarters have seen a high rate of earnings beats. The big banks -- JP Morgan, Wells Fargo, Goldman Sachs, Citigroup, and Bank of American -- also just reported and posted strong earnings but had muted stock price reactions to the news, on average. That's an early indication that expectations are high, and earnings beats are generally expected.

Looking further out, bottom-up Wall Street estimates are calling for EPS growth of 23% and 17% for Q3 and Q4, respectively. However, analysts have been trimming forecasts for 2022 reflecting uncertainty around taxes, stimulus, and economic momentum. Three months ago, 2022 earnings growth expectations hovered around 15%, whereas now are down to 12%. A healthy earnings season is welcome and expected this quarter, but much of the good news appears to be already priced in.

Exhibit 1: Strong earnings growth, but moderating into 2022



Source: I/B/E/S

Past performance is not a guarantee of future results.

S&P 500 Index is a float-adjusted market capitalization weighted index that measures the large-cap U.S. equity market. It is not possible to invest directly in an index.



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