

In the Markets Now

Another big quarter

We believe in the old saying: a picture is worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

PWM Equity & Fixed Income Research

Ross Mayfield, CFA
Investment Strategy Analyst

February 2021

CORPORATE PROFITS AND YET ANOTHER BLOWOUT EARNINGS SEASON

Amid all the chatter about bubbles, stimulus, and vaccines, it's underdiscussed just how well US companies have been doing lately. Case in point: we're currently in "earnings season," a period where major US companies report their financial results for the most recent quarter, and despite the ultra-challenging pandemic backdrop, the results have been remarkable.

This is key because, in the end, earnings are lifeblood of stock prices. While stocks may gyrate wildly in the near- and even medium-term, they tend to do a pretty decent job of reflecting company fundamentals over the long haul. Is a firm profitable? Are they growing? Are they innovating? Though it may not always feel like it, the long-term performance of a stock is inextricably linked to its performance as a company. Below, we compare the S&P 500 to its one-year earnings outlook.



And while the forward data above is an aggregate estimate (and thus, may or may not bear out fully), there's plenty of strength to be found from already-reported earnings, including the strong 4Q20 results. As a sampling:

- With more than 75% of companies reporting, 4Q20 earnings growth is expected to be +3%. This might not seem like much, but it's a significant increase compared to the -10% originally estimated on January 1 (per Strategas).
- Projections for 2021 earnings growth are rising as well, now up to +24% (per FactSet).
- Measured by how much earnings are beating forecasts, this is the 2nd best quarter in at least 23 years (per Goldman Sachs).
- Overall, earnings are coming in 17%+ above estimates, well above the long-term average of just 4% (per Strategas).
- Seven sectors are reporting year-over-year earnings growth, led by the Materials, Financials, and Information Technology sectors. This is year-over-year data from 4Q19, so comparing to pre-pandemic results. (per FactSet).

The stock market's tremendous rally over the last ~11 months is due in no small part to resilient corporate earnings and a strong forward outlook. While short-term noise can often obscure the relationship between company results and stock prices, it's worth revisiting time and again. Reach out to your Baird Advisor to discuss this or anything else on your mind.

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