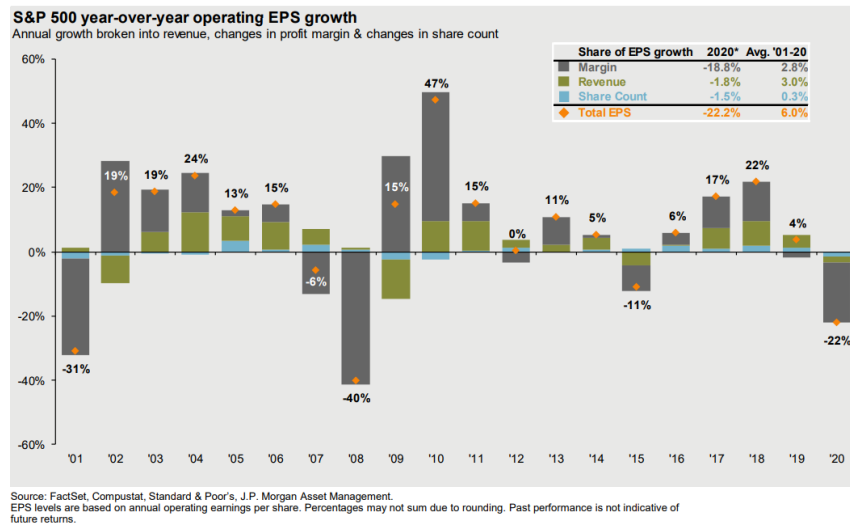


As the COVID-19 pandemic upended economic growth and in turn, corporate earnings, it is no surprise that earnings growth for the S&P 500 was considerably negative for the full year of 2020, down -22%. However, using history as a guide, periods of significantly negative earnings growth have tended to be followed by strong earnings during the next year. In 2001, earnings growth was down -31% followed by earnings growth of 19% in 2002. In 2008 earnings growth was -40% followed by earnings growth of 15% in 2009.¹ This gives us optimism that we could see a similar bounce back in 2021.



Wall Street appears to agree with our optimism. According to FactSet, For Q1 2021, the blended estimated earnings growth rate for the S&P 500 is 33.8%. If 33.8% is the actual growth rate for the quarter, it will mark the highest year-over-year earnings growth rate reported by the index since the third quarter of 2010 (34.0%).²

In a typical quarter, analysts usually reduce earnings estimates during the quarter. Over the past five years (20 quarters), earnings estimates have fallen by 4.2% on average during a quarter. Over the past fifteen years, (60 quarters), earnings estimates have fallen by 5.1% on average during a quarter. This quarter appears to be reversing that trend; analysts increased earnings estimates for companies in the S&P 500 in aggregate for Q1 2021. On a per-share basis, estimated earnings for the first quarter increased by 6.5% from December 31 to March 31. In fact, the first quarter of 2021 marked the largest increase in the bottom-up EPS estimate during a quarter since FactSet began tracking the quarterly bottom-up EPS estimate in Q2 2002. The previous record was 5.4%, which occurred in Q1 2018 after tax reform was passed. Similarly, more S&P 500 companies have issued positive EPS guidance for Q1 2021 than average as well. At this point in time, 96 companies in the index have issued EPS guidance for Q1 2021. Of these 96 companies, 35 have issued negative EPS guidance and 61 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 64% (61 out of 96), which is well above the 5-year average of 35%. If 61 is the final number for the quarter, it will mark the highest number of S&P 500 companies issuing positive EPS guidance for a quarter since FactSet began tracking this metric in 2006.³

While the earnings picture is flush with positive outlooks, we do acknowledge the potential shock to earnings due to a hike in the corporate tax rate. According to Goldman Sachs, the S&P 500 could experience a -3% to -9% hit to earnings if corporate taxes are increased.⁴ However, this impact will most likely not show up in earnings until 2022. Thus, we expect robust earnings over the coming quarters, which will be a welcome counterweight to currently elevated valuations. With earnings catching up to prices we believe this is another catalyst to push stocks higher.

¹ <https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/market-insights/guide-to-the-markets/mi-guide-to-the-markets-us.pdf>

² https://www.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_042321B.pdf

³ https://www.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_040921.pdf?hsCtaTracking=31d0f488-5c02-4193-b93b-f1708067f4fa%7Cb994622e-6b82-4c98-ad34-76c848088314

⁴ <https://www.marketwatch.com/story/heres-what-tax-hikes-could-mean-for-the-stock-market-as-biden-pushes-infrastructure-plan-11616790374>



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2021 Earnings Rebound

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