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First quarter 2021 results: a far better-than-expected rebound that augurs well for the full year

Corporate results rebounded in Q1 2021 to a surprising extent everywhere and are likely to continue doing so beyond 2021. This could mean a new, earnings-driven phase in the equity market rally. In the shorter term, however, the markets could be tentative in the wake of their strong gains, but probably without casting any doubt on their favourable outlook nine to 12 months out, particularly regarding value stocks.

Corporate results rebounded to a surprising extent everywhere in Q1 and are likely to continue doing so beyond 2021. In the medium term, a new phase in the equity markets rally is looming – less strong but based more on fundamentals, in which earnings growth would play a more decisive role. In the shorter term, however, many flags of a recovery are nearing their peaks, and the markets could become more tentative in the wake of their strong gains, but probably without casting any doubt on their favourable outlook nine to 12 months out. Amidst a likely generalised reopening, it is probably worth sticking to a rather pro-cyclical bias, particularly with regards to value stocks. Likewise, stock-picking will become increasingly decisive. In short, alpha is likely to take over from beta.

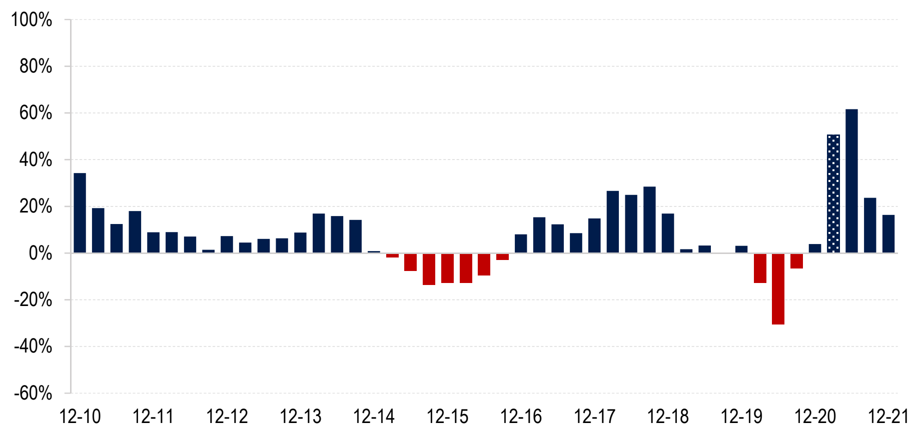
S&P 500: An impressive Q1 on both top and bottom lines!

As of 14 May, 91% of S&P 500 companies had reported. Reporting companies beat forecasts by far. In revenue terms, first of all, after declining by 1% last year, they soared by +13% in Q1 2021, far ahead of the +9% forecast as of 1 April, i.e., at the start of reporting season. Likewise, earnings skyrocketed by +51% in Q1, much higher than the +16% the consensus was forecasting in early January and the +24% it was looking at on 1 April. This is all the more impressive as Q1 2020 results (-13%) had not yet borne the full brunt of the Covid-19 impact. So Q1 results are not only better than last year's but 31% higher than the pre-Covid results of Q1 2019. Given that the US economy has just returned to its pre-Covid levels, the strength of the S&P's Q1 2021 rebound in revenues (+13%) and earnings (+51%) is therefore simply astounding.

That being said, trends varied widely from one sector to another. Financials and consumer discretionaries, for example, not only stood out, soaring, respectively, by +138% and +191%, they also fared better than had been expected in early April (+69% and +99%, respectively). Conversely, and unsurprisingly, utilities (-1%), real estate (+6%) and consumer staples (+7%) brought up the rear. More surprisingly, healthcare, a defensive sector, again rose very strongly in Q1 2021 (+27%), on top of its strong performance last year (+7%). Industry, however, disappointed. Cyclicals, whose results had dropped in Q1 2020 (-33%) had not yet managed to take off again in Q1 2021 (+1%).

Lastly, the famous GAFAMs once again put on a display. Taken together, results of Google (+166%), Apple (+119%), Facebook (+93%), Amazon (+215%) and Microsoft (+39%) more than doubled (+104%), whereas the consensus was forecasting less than half that just before results were

1/ **S&P 500 quarterly results (YoY, %)**



Source: Refinitiv IBES data, Amundi Research, Data as of 14 May 2021

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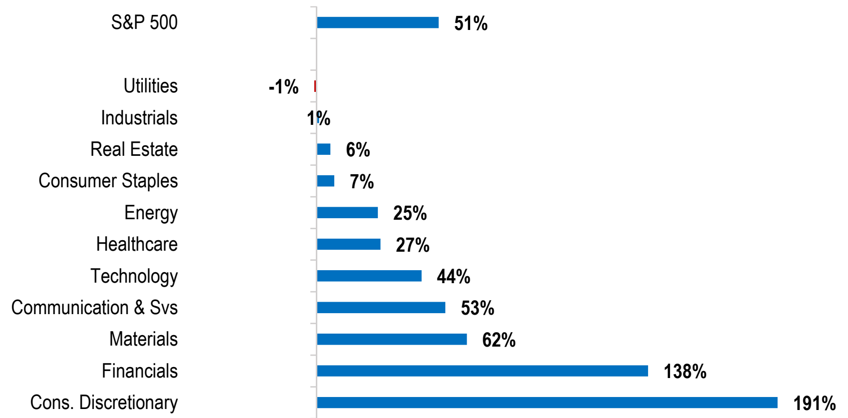
released (+48%). Even so, the market was less than impressed. While Google and Facebook performed well, GAFAMs had underperformed on average by 1% two weeks after their reporting dates. Indeed, between the generalisation of the economic recovery and the upward pressure on interest rates, enthusiasm for growth and quality stocks has receded and could shift over to cyclicals, value stocks and financials.

As a result of this excellent first quarter, the full-year S&P 500 consensus was raised from +26% to +35%. Because of base effects and the respective weights of the various quarters, this assumes increases of +61% in Q2, +24% in Q3 and +16% in Q4. Given the strength of the US recovery and the upcoming stimulus packages, these forecasts are likely not only to be reached but probably exceeded, barring any change in tax rates[1].

As a result of this excellent Q1, the full-year S&P 500 EPS consensus was raised from +26 to +35%

[1] *The Biden administration plans to raise the corporate tax rate from 21% to 28%, vs. 35% prior to the Trump reform, and to impose a minimum rate of 15%. The consensus expects this to lower the S&P 500's aggregate EPS by about 5-7%. However, there is still some uncertainty over the exact tenor of these reforms, and their effective date could be postponed to 2022 or even later.*

2/ **S&P 500: Q1 2021 earnings (% chge YoY)**



Source: Refinitiv IBES data, Amundi Research, Data as of 14 May 2021

Stoxx 600: a very robust rebound in Q1 results but so far due mainly to the receding in risks and to cost-cutting

Reporting season is also almost over in Europe, where 81% of Stoxx 600 companies had reported by 18 May. As in the United States, the rebound was surprisingly strong, at +93% in Q1, almost double what was being forecast at the start of reporting season (+47% on 1 April) and far ahead of forecasts being put out just three weeks ago (+71% on 27 April).

However, and unlike the US S&P 500, Stoxx 600 revenues were almost flat (+3% vs. +13%). As the starting point in this area in Q1 2020 is relatively near (-3% for the Stoxx 600 and -1% for the S&P), this is revealing of the widening gap between the two regions on both the macro (stimulus, lockdowns, vaccination, etc.) and microeconomic (sector weightings, pricing power, etc.) levels. Likewise, this suggests that the take-off in company results in Europe is, for the moment, due more to cost-cutting and lower risk provisions than to true leverage on sales.

Defensives which had stood out early in the pandemic are last in line this year

By sector and generally speaking, defensives, which had stood out early in the pandemic, such as healthcare and utilities, are last in line this year. Conversely, cyclical sectors, which had been hit the worst last year, are those that have rebounded the most this time, including consumer discretionary, energy, financials and industrials. Lastly, basic materials, which were driven initially by Chinese demand and, then gradually, by the reopening of other economies, are the only sector that has managed to fare better than average in both Q1 2020 and Q1 2021.

In light of base effects and the improvement in the health and economic environment, Stoxx 600 results should continue to improve and rebound strongly on a full-year basis, at +45%, according to the IBES consensus, including +93% in Q2, +32% in Q3 and +27% in Q4. Between the belated roll-out of vaccinations in Europe and the extension of lockdowns, the take-off expected for Q2 could be postponed in part to the second half of 2021 and early 2022. Be that as it may, although the acceleration of European economies is likely to be postponed by a few months, it is likely to happen eventually. That's why at this stage of the cycle, rather than growth stocks, defensives or large caps, it is worth overweighting value stocks, cyclicals and SMIDs.

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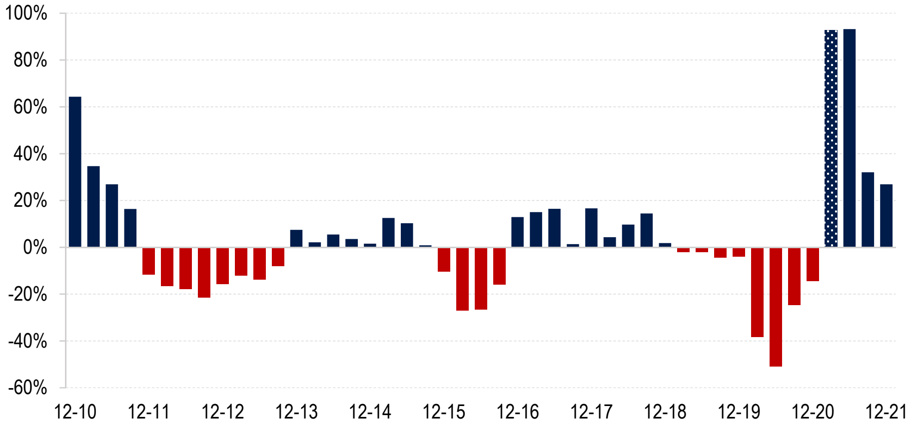
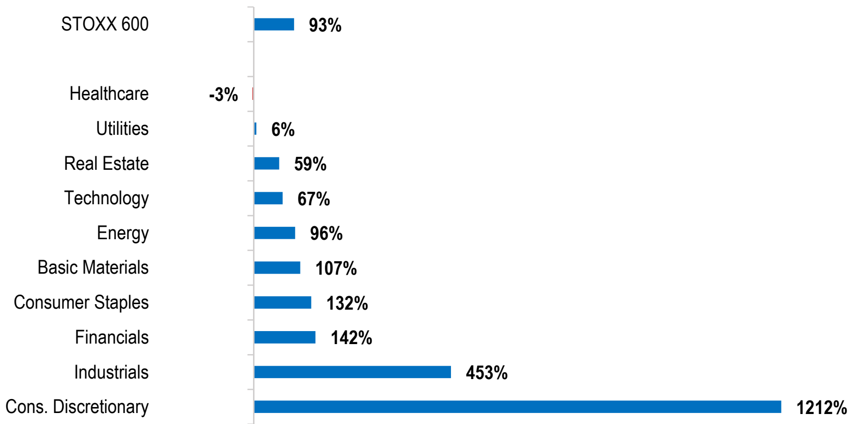
3/ Stoxx 600 quarterly results (YoY, %)



Source: Refinitiv IBES data, Amundi Research, Data as of 18 May 2021

4/ Stoxx 600: Q1 2021 earnings (% chge YoY)



Source: Refinitiv IBES data, Amundi Research, Data as of 18 May 2021

With 19 countries out of 21, emerging markets results bounced back on a wide front

Emerging markets also fared very well

Reporting season is also well along in emerging markets. As of 14 May, 74% of MSCI EM companies had already reported their first quarter numbers (source: Capital IQ). Riding a favourable base effect – the Q1 2020 EPS having dropped by 34% with the almost total shutdown of economies early in the pandemic – and a very robust rebound in revenues early in the year (+21% in Q1 2021), emerging market earnings staged a true take-off, soaring by +87% in dollars (USD) and even more in local currencies weighted by the size of the various markets.

Of the 21 countries in our sample, Q1 2021 results fell in only two, Indonesia (-6%) and Argentina (-40%), while most others achieved not only double-digit, but triple-digit growth! Some 63% of emerging market companies have beaten the consensus, but the extent of the good surprises is also impressive, at +19% above initial forecasts. Just one country, India (-1%) has undershot forecasts, but its results were still up sharply (+62%). By sector, gains were, unsurprisingly, especially strong in healthcare, basic materials and industry.

On a 12-month rolling basis, as of the end of March 2021, emerging markets results have moved back into positive territory (+4%), thanks mainly to the semiconductor-driven markets of Taiwan and Korea. Those regions still lagging behind on a 12-month rolling basis, such as Latin America and Russia within EMEA, are expected, in turn, to move back into positive territory in the coming quarters, while remaining volatile, due to base effects.

In reaction to these very good Q1 2021 numbers, we have raised our full-year EPS forecasts in emerging markets (in USD terms) from +24% at end-March to +34%.

In conclusion: beyond short-term doubts, a new phase in the market rally is looming – less strong but based more on fundamentals

Q1 2021 results rebounded to a surprising extent everywhere, with gains of about 50% in the US and 90% in Europe and in emerging markets, all of which benefited from a more favourable base effect. This bolsters consensus forecasts of a very

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A new phase looks probable, in which earnings growth would play key role

strong rebound in full-year EPS, with +35% for the MSCI World AC. The rebound is likely to continue beyond 2021, with further growth of 12% in 2022 and 10% 2023.

So, after last year's rerating, a new phase looks probable, in which earnings growth would play a key role in market performance. In the shorter term, however, as many flags of a recovery, such as inflation expectations, ISM data and earnings net-up, are nearing their peaks, equity markets could become more tentative in the wake of their strong gains since March 2020.

But this is unlikely to cast any doubt on their favourable outlook nine to 12 months out, as phases of outperformance by cyclicals generally last more than two years. Although their second derivative reading is receding, ISM and earnings forecasts are likely to remain very solid. Lastly, between rising interest rates and inflation, real rates are likely to remain quite moderate.

Amidst a likely generalised reopening of both developed and emerging economies, and in a context where bond yields should continue to move back to normal, it is probably worth sticking to a rather pro-cyclical bias, in value stocks in particular, rather than defensives and growth stocks. However, as the recovery matures, stock-picking is expected to become more selective. In sort, relative value will take over from value, and alpha will take over from beta.

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