View as Webpage

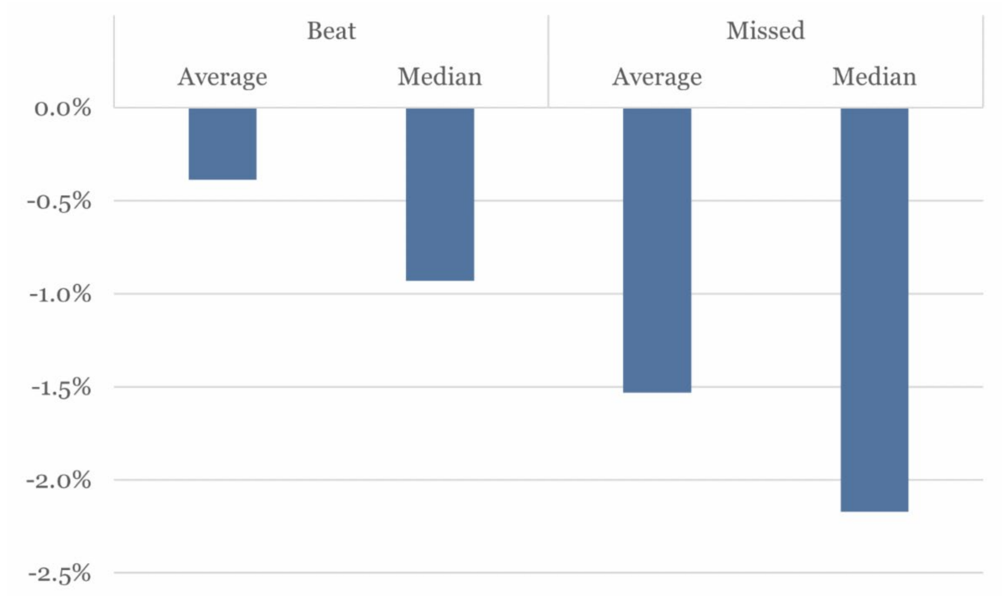
Market Comment:

Earnings season: Great, but not great enough

We are about 75% of the way through the Q4 2020 earnings season. Overall, the news is genuinely positive. Before earnings season started the consensus, estimate was for a -8.8% year-over-year decrease in earnings per share (EPS) for the S&P 500. Instead, earnings appear to have grown year-over-year, which means the corporate earnings recession will end a quarter earlier than forecasted in the US. Furthermore, a near-record 78% of firms have beaten their earnings expectations.

While it is good to receive confirmation that the corporate sector continues to heal rapidly and strongly, the market's reaction to the earnings season is perhaps more interesting. Earnings results might be beating analyst expectations, but they have lagged market expectations. The median one-day relative price change for the companies that have beaten their earnings forecast has been -0.93%. The median one-day relative price change for companies that have missed their earnings forecast has been -2.2% (Fig. 1). In other words, this earnings season had been fully priced in, plus a little more, before it even started.

Fig. 1: One day relative performance following earnings announcement



Source: Bloomberg, Mill Creek; Performance calculated relative to the S&P 500.

Updated Benchmark Performance:

Benchmark Performance by Asset Class	Week-to-Date	Month-to-Date	Year-to-Date
U.S. Large Cap Equities	1.56%	6.55%	5.68%
U.S. Small Cap Equities	2.54%	10.45%	16.01%
International Developed Equities	2.09%	4.90%	3.78%
Emerging Markets Equities	2.41%	7.49%	10.78%
Global Equities	1.76%	6.16%	5.67%
U.S. Bonds	-0.13%	-0.52%	-1.23%
Intermediate Municipal Bonds	0.16%	0.22%	0.60%
High Yield Bonds	0.30%	1.01%	1.34%
Oil	4.74%	12.90%	20.03%
Gold	0.56%	-1.46%	-4.00%
Key Rates	**2/12/2021**	**12/31/2020**	**2/12/2020**
U.S. 2 Year Treasury Note	0.11	0.13	1.44
U.S. 10 Year Treasury Note	1.44	0.93	1.62

Week in Review:

Economic forecasters are lifting their expectations for economic growth and inflation this year. However, they have remained more cautious about the recovery in the labor market.

- A new Wall Street Journal survey showed economists expecting US gross domestic product to grow by almost 4.9% this year. Economists noted vaccine distribution and fiscal stimulus from Washington as reasons for optimism. In a similar survey last month, economists were expecting 4.3% GDP growth this year.
- The economists polled lowered their expectations for job growth this year from 5 million down to 4.8 million as new strains of the coronavirus are becoming a cause for concern.
- Average inflation expectations for June of this year, from a year earlier, increased to 2.8% from the 2.5% increase that was being projected last month. The Labor Department also announced that its Consumer Price Index was up 1.4% in January from a year earlier.

The Special Purpose Acquisition Vehicle frenzy has continued into 2021 with SPACs raising almost $46 billion year to date, more than they raised in all of 2019. By comparison, approximately $20 billion has been raised through the traditional IPO process in 2021. However, a new rule recently approved by the Securities and Exchange Commission regarding direct listings could cut demand for both SPACS and traditional IPOs. Companies have always been able to list directly on a stock exchange without a traditional IPO process, though they have not been able to raise new capital in the process – until now. The new rule will allow companies to raise cash from retail investors and by selling existing shares. “Everyone’s on a level playing field,” NYSE President Stacey Cunningham said regarding the change. “What’s great about it is it democratizes access to that public listing on the exchange on that first day of trading.”

Economic Calendar:

- Retail Sales – Wednesday, February 17th
- Housing Market Index – Wednesday, February 17th
- Housing Starts – Thursday, February 18th
- Existing Home Sales – Friday, February 19th

This week’s contributors: Michael Crook, CAIA and Dusko Jankovic, CFA, CAIA

Indices Used: U.S. Large Cap equities: Russell 1000 Index, U.S. Small Cap Equities: Russell 2000 Index, International Developed Equities: MSCI EAFE Index, Emerging Market Equities: MSCI Emerging Markets Index, U.S. Bonds: Barclays Aggregate Bond Index, U.S. 10 Year Treasury Note: Bloomberg 10 Yr. Treasury Note, Municipal Bonds: Barclays Intermediate Municipal Bond Total Return Index, High Yield Bonds: Barclays U.S. High Yield Total Return Index, Oil: Bloomberg WTI Crude Sub-Index Total Return Index, Gold: Bloomberg Gold Sub-Index Total Return Index