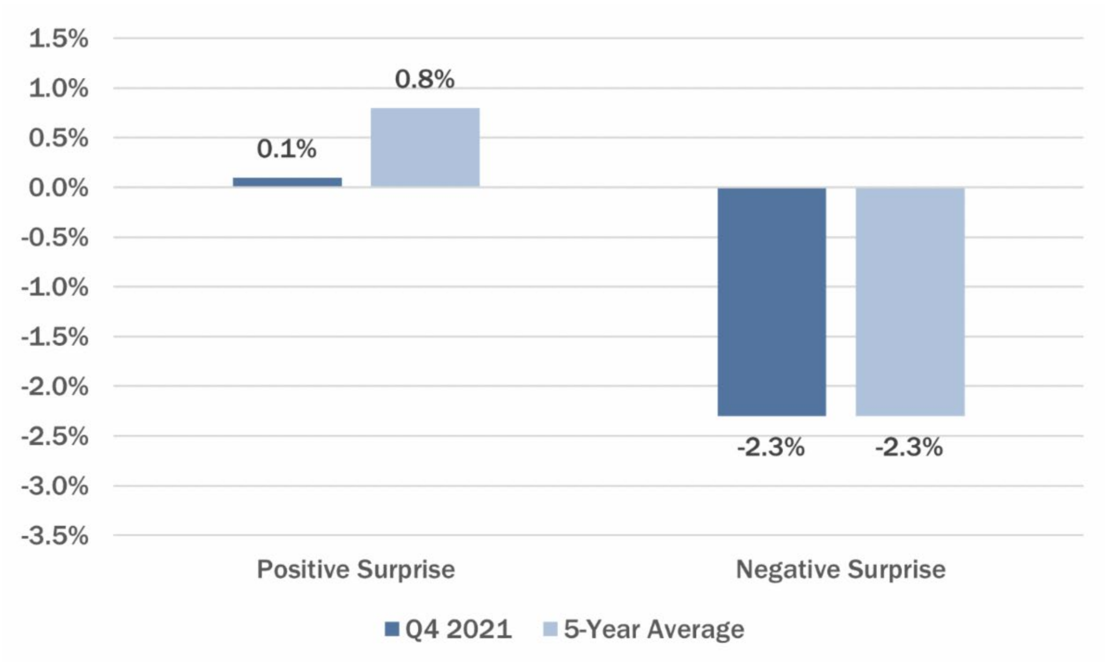
MARKET COMMENTARY

Fig. 1: S&P 500 earnings beats rewarded less while misses have been the same



Sources: FactSet, Mill Creek.

At the beginning of the reporting period, the market anticipated above-average earnings growth of approximately 20%. Over 95% of companies have reported to date, and aggregate growth has exceeded expectations coming in at 31%. Results for 2022 are expected to decelerate significantly from 2021 but remain solid, nevertheless coming in around 8%. Approximately half of companies providing full-year guidance have guided below consensus which has contributed to a surge in single stock volatility and downside of about 200 basis points on the date of announcement, according to data compiled by Goldman Sachs and FactSet.

Of the companies reporting thus far, 76% have beat consensus expectations which equals the 5-year average. However, the price action around earnings reports has been quite different than in recent quarters. The market has not been rewarding earnings beats as much on average, while earnings misses have been punished the same as the long-term average. Over the last six quarters, the market has been quite ebullient rewarding beats with above-average performance while punishing misses less severely. Stock price action is often a leading indicator. The most likely explanation for the recent moves is the simple fact that the market is pricing in the changing environment of higher expected interest rates and significantly decelerating earnings growth coupled with above-average valuations.

QUICK LINKS

- March Market Update
- "If you hear missiles flying..."
- The "Hurry Up" is over
- 2022 Monitor Risk: Equity Valuations
- 2022 Monitor Risk: Rising Interest Rates

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