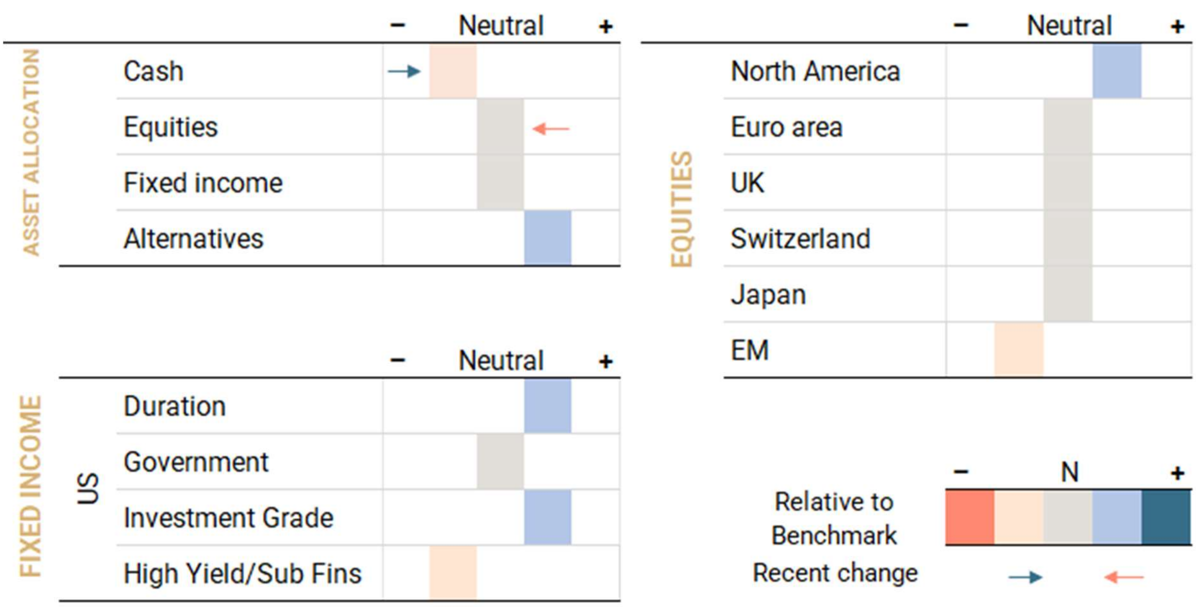
EARNINGS SEASON ANALYSIS – Q4 2024

FEBRUARY 14, 2025

Executive Summary

- With earnings season drawing to a close, of the 384 S&P 500 index members that reported, 78% beat EPS estimates by an average of 6.5%, a healthy level that is in line with the recent past but well above the historical average of 5%. Sales also fared better than expected, beating by 1.1%. Overall, an excellent earnings season with earnings up more than 12% YoY, and sales up 5% YoY;
- In terms of impact on prices, the market's focus seems to have shifted elsewhere this year, namely on the new US administration's economic policies. On average, share prices barely moved after earnings publications. We offer a new section in this publication to guide our clients on key Trump-related risks;
- At a sector level, the biggest positive surprises come from financials (+10.6%) and consumer discretionary (+15.5%). Negative surprises, in the order of 1.5%, from utilities and industrials;
- The performance of equity indices is solid so far in 2025, with Europe leading the way. Earnings are also doing well in Europe, but the performance is due to a repricing of multiples, which were at a discount at the end of 2024. In the US, technology is suffering (11% YoY earnings growth, 3.5% above expectations, but the problems come from positioning and other factors);
- Looking ahead, for the first time in the last 18 months we notice a slight decline in earnings growth expectations in the US. Nothing of concern since it is normal in a cycle to see some volatility also in earnings expectations, not only in equity prices (but certainly a variable to monitor in a market with high multiples).



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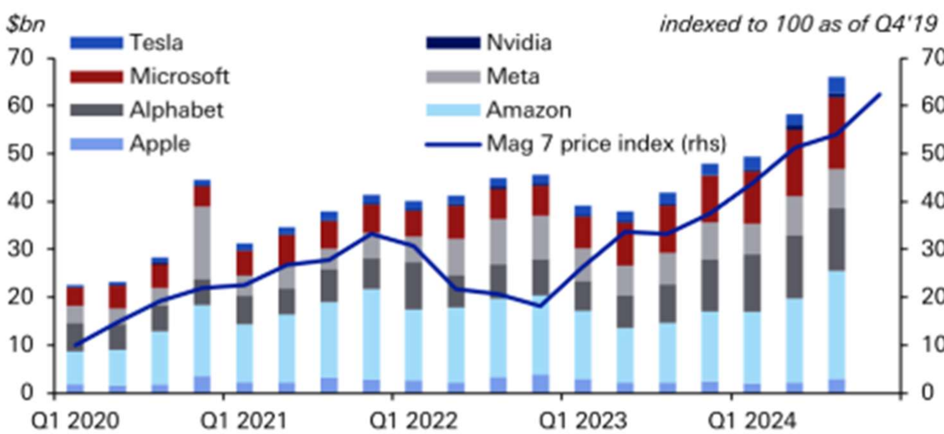
	Y-t-Date	2024		Y-t-Date	2024
MSCI World	3.9%	17.0%	S&P 500 Info Tech	-0.1%	35.5%
S&P 500	3.1%	23.3%	S&P 500 Comm. Serv	6.9%	48.4%
S&P 500 Eq. Weighted	3.1%	10.9%	S&P 500 Health Care	6.0%	6.9%
Mag 7 Index	-0.3%	67.3%	S&P 500 Financials	5.9%	36.0%
Russell 2000	2.3%	10.0%	S&P 500 Cons Disc.	0.1%	29.3%
Euro Stoxx 50	10.2%	8.3%	S&P 500 Energy	6.2%	8.7%
SMI Index	9.5%	4.2%	S&P 500 Real Estate	3.3%	5.1%
CSI 300 Index	-1.3%	14.7%	S&P 500 Materials	6.4%	4.5%
Hang Seng Index	6.2%	17.7%	S&P 500 Industrials	5.1%	21.5%
Nikkei 225	-2.7%	19.2%	S&P 500 Cons Staples	4.5%	17.0%
MSCI EM	3.1%	5.1%	S&P 500 Utilities	4.1%	24.5%

Table 1: Key Indices performances, as of 12.2.2

Although 2025 is off to a good start, with the MSCI World up 3.9% after six weeks, it is interesting to analyse the different compositions of gains, compared to 2024. In 2024, technology led the way, with the Mag 7 gaining 67%, underpinning the performance of the S&P 500 market cap weighted, which was more than double the performance of the equal-weighed S&P 500 index (23.3% vs. 10.9%). Europe, on the other hand, disappointed in 2024, while China posted all its gains within a month between September and October.

This year, on the other hand, Europe leads (+9%), while the US seems fatigued, mainly because of technology stocks. The DeepSeek news seems to be weighing on the Mag 7's huge investments in AI. In Graph 1 (from Deutsche Bank) we see that the Mag 7 are maintaining a high level of investments, fuelled by the race to excel in AI: the top four have announced capex increases of about 50% on average, amounting to $300bn in 2025. The high multiples could make them vulnerable to repricing, if the returns on these investments are not as expected. And the advent of DeepSeek has cast the first doubts on the possible profitability of these expenditures, should competition squeeze margins.

Graph 1: Capital expenditure by Mag 7 vs share price index



Among the S&P 500 sectors, Information Technology is negative (-0.1%), while financials and banks are up over 6%.

Given the changing dynamics, it is important to see how the performance of the indices is composed since the beginning of the year, separating earnings (*expected, for the next 4 quarters*) and multiples (1-year forward PE).

Table 2: Composition of the Y-t-D returns in major equity indices

S&P 500	Last	End 2024	(% change)
Index Level	6'066.44	5'881.63	3.1%
EA 1 yr forward	273.75	271.87	0.7%
Forward PE	22.16	21.63	2.4%

MSCI China	Last	End 2024	(% change)
Index Level	69.66	64.71	7.6%
EA 1 yr forward	6.58	6.50	1.3%
Forward PE	10.58	9.96	6.3%

Euro Stoxx 50	Last	End 2024	(% change)
Index Level	5'378.25	4'895.98	9.9%
EA 1 yr forward	362.30	358.28	1.1%
Forward PE	14.80	13.67	8.3%

Japan TOPIX	Last	End 2024	(% change)
Index Level	2'733.01	2'784.92	-1.9%
EA 1 yr forward	188.10	186.65	0.8%
Forward PE	14.53	14.92	-2.6%

France CAC	Last	End 2024	(% change)
Index Level	8'026.86	7'380.74	8.8%
EA 1 yr forward	547.40	546.34	0.2%
Forward PE	14.63	13.51	8.3%

Ita FTSEMIB	Last	End 2024	(% change)
Index Level	37'416.91	34'186.18	9.5%
EA 1 yr forward	3'514.81	3'525.62	-0.3%
Forward PE	10.61	9.70	9.4%

From Table 2 we clearly see that the driver of European indices' gains is the expansion of multiples. The starting point of 13.67 for the Euro Stoxx 50 (compared to 21.6 for the S&P 500, thus a 36% discount), combined with extreme sentiment and positioning, played into the reversal of fortunes. On the other hand, it is interesting to see the negative numbers for the Topix, which is suffering from the strength of the JPY this year and rates hikes. All losses are caused by a compression of multiples, which are at an intermediate level between Europe and America (14.5 forward PE).

The expansion of European multiples is supported by the good sales performance of companies in Europe. Table 3 shows that sales surprises have been solid, above 2% so far, supporting an economic performance that is finally recovering slightly from the middle part of 2024 (on the verge of recession).

Table 3: Sales and Earnings surprises for Euro Stoxx 50 companies

Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	17 / 50	2.03%	5.48%
12) > Materials	0 / 3		
13) > Industrials	1 / 7	2.00%	
14) > Consumer Staples	2 / 5	1.07%	
15) > Energy	1 / 2	-0.73%	2.24%
16) > Technology	4 / 4	3.50%	9.19%
17) > Consumer Discretionary	2 / 10	2.35%	15.00%
18) > Communications	0 / 2		
19) > Financials	6 / 12	3.98%	5.77%
20) > Health Care	1 / 3	1.46%	-1.97%
21) > Utilities	0 / 2		

For the S&P 500 on the other hand, we see better surprises on earnings (6.5% above expectations), but less so on sales (+1.1%)

Table 4: Sales and Earnings surprises for S&P 500 companies

Sector (BICS)	Reported	Sales Surprise	Earnings Surprise
11) All Securities	384 / 500	1.08%	6.46%
12) > Materials	22 / 28	-0.62%	2.49%
13) > Industrials	65 / 72	0.16%	-0.95%
14) > Consumer Staples	27 / 38	0.46%	4.08%
15) > Energy	13 / 24	3.73%	7.55%
16) > Technology	44 / 64	1.21%	3.50%
17) > Consumer Discretionary	32 / 50	1.38%	15.60%
18) > Communications	21 / 24	0.65%	7.80%
19) > Financials	74 / 77	1.92%	10.63%
20) > Health Care	50 / 61	1.28%	5.44%
21) > Utilities	15 / 31	-9.53%	-0.04%
22) > Real Estate	21 / 31	2.40%	2.73%

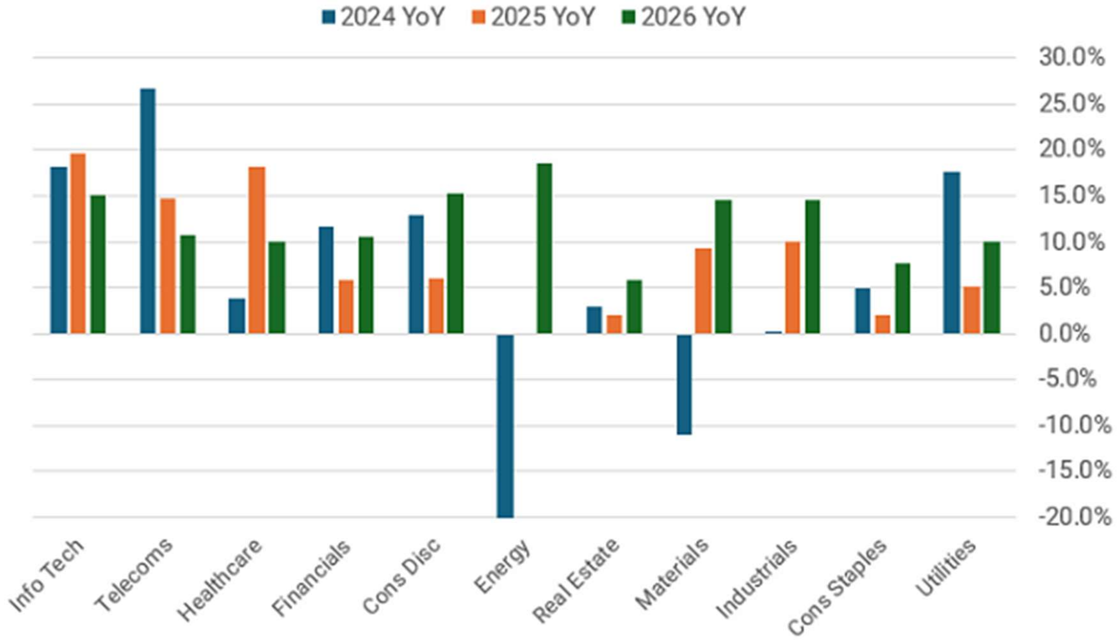
Overall, a very good earnings season in the US, considering that the 12% YoY growth is negatively impacted by a 21% decline in the energy sector. In summary table no. 5, we see the aggregated numbers year-on-year, and introduce the expectations for 2026. It is interesting to note a convergence towards 2026, between the Mag 7 and the rest of the market, but also between geographic areas. High numbers, with a two-year period of over 10% growth for the S&P 500.

	2023 YoY	2024 YoY	2025 YoY	2026 YoY
S&P 500	1.0%	9.1%	10.7%	12.5%
Mag 7	53.8%	48.5%	22.1%	14.9%
Euro Stoxx 50	9.4%	-2.9%	5.6%	10.3%
Topix	22.5%	13.3%	0.9%	9.2%

Table 5: YoY expected earnings growth for key equity indices

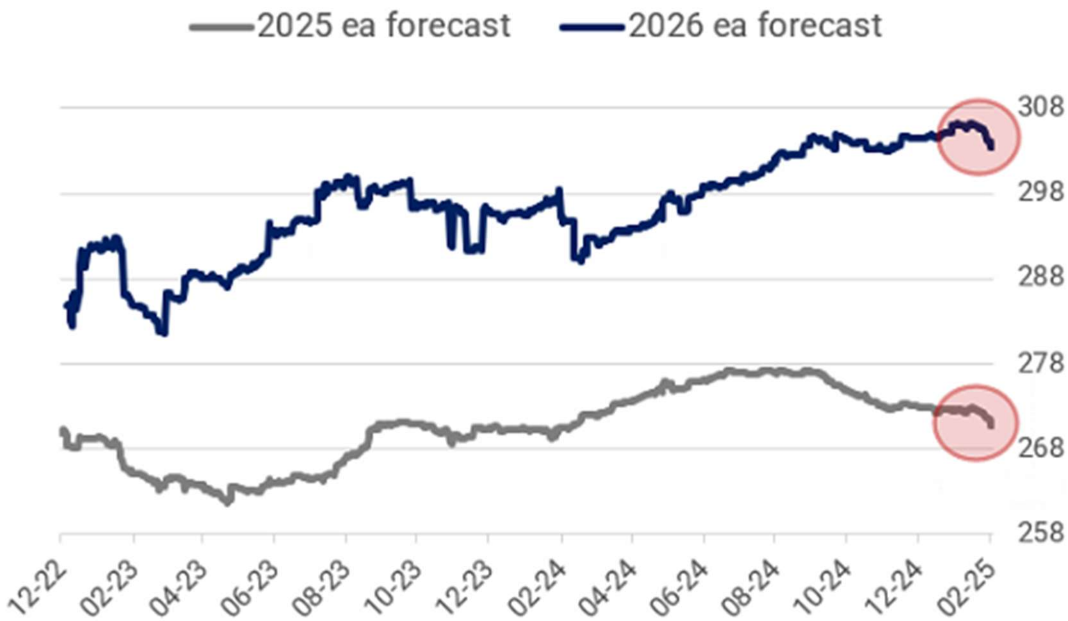
At the sector level, as seen in Table 6, we note that the materials and energy sectors should see a stabilisation in earnings before finally rebounding in 2026. The favourable trend in commodities that we are witnessing could provide positive surprises already this year. Financials, which have performed very well, look solid.

Table 6: YoY expected earnings growth for key S&P 500 sectors



Looking at the coming quarters, we will have to monitor closely, since for the first time in many months we notice a moderate drop in expectations for the next two years. It is no coincidence that some of the Mag 7 have disappointed and suffered during the current season. Nothing to worry about for the time being, as the drop is relatively small.

Graph 2: slightly declining forward earnings for 2025 and 2026 – S&P 500



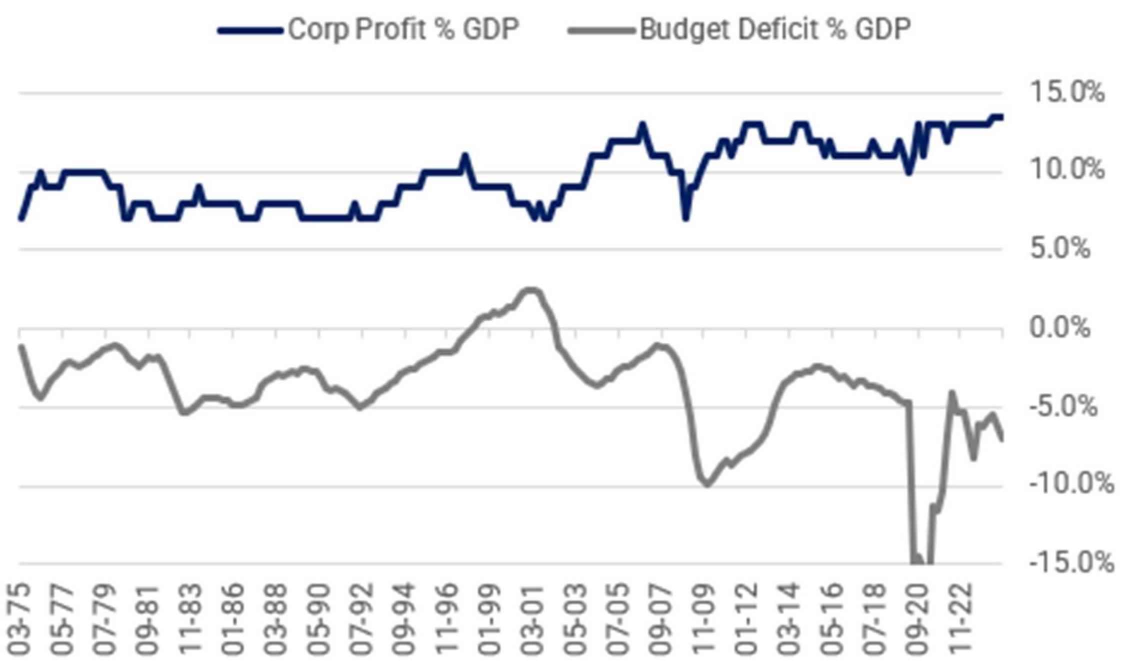
The bright earnings picture we have described will be a strong supportive element for markets over the next two years. Our central view is that, barring an unpredictable shock, it is unlikely that equity indices will experience more than a temporary correction, given the strength of the economy and the profitability of companies. If there is a risk, between too much or too little growth, we think the former is prevalent. Strong growth, in a context of inflation still well above the 2% Fed's target and the risk of a tariff war, could push the Fed once again (as it did in 2018) to keep rates elevated, and strangle markets (the S&P 500 lost 17.5% between October and December of that year, before Powell's infamous U-turn).

It is therefore useful to analyse the characteristics of Trump's policies, and the main risks to monitor.

We identify Trump's pillars: (I) Deregulation - (II) Tariffs - (III) Tax Cuts (financed by the DOGE programme).

From what we are witnessing, the balance of the impact on markets is positive. On deregulation there are no doubts about the market impact being favorable. Tariffs seem for the moment to be a powerful tool for negotiating and achieving results (all the countries under threat have given in for the time being, with the exception of China on which only 10% tariffs have been imposed). Tax cuts are still to come, but the administration seems strict about compensating for lower revenues with major budget cuts. The risk on this front could be that they will cut costs aggressively, and that the fiscal tightening potentially damaging employment and the labor market. The paradox is that normalising the budget deficit abruptly could damage corporate profits. As we see in Graph 3, it is quite clear that profit growth as a % of US GDP over the last 50 years correlates well with the expansion of the government deficit.

Graph 3: US corporate profits and the budget deficit



In summary table 7, we have summarised what we consider to be the main risks arising from Trump's policies; we have then assigned a level of probability of realisation, and the impact this would have on the market. This will guide us in focusing on the risks appropriately, and to continue to outperform our clients on time.

Theme	Probability	Market Impact	Novum Comment
Tariffs	**Medium**	**High**	Tariff war would damage the global economy. US stronger than rest-of-world, but strong USD would hit corp profits
DOGE Cost Cuttings	**High**	**Medium**	Too aggressive and efficient implementation could bring underappreciated negative surprises to the economy and profits
Pressure on the Fed for lower rates	**Low**	**Medium**	Trump has hinted that rates should be lower. Increased pressure on the Fed could steepen the curve with long rates rising dangerously
Immigration Policy	**High**	**Low**	Difficult implementation beyond symbolic numbers
Aggressive towards M.E.	**Medium**	**Low**	A spike in the price of Oil is the least desired option This should limit "max pressure" on Iran
EV Credit Cancellation	**High**	**Low**	Combined with cuts to government spending, further job losses in the manufacturing sector would hit consumption

Table 7: Trump-related risks

Novum Trades History