

European Earnings Season

Q4 preview: another quarter of negative EPS growth

Consensus expects -16% year-on-year EPS growth in Q4, the weakest since Q3'20: the Q4 earnings season is set to kick off in the second half of January, with more than 10% of European companies expected to report by the end of the month, rising to nearly 50% by mid-February. Sell-side analysts expect year-on-year growth in Stoxx 600 Q4 EPS to decelerate to -16%, the weakest since Q3'20, following growth of -11% and -12% in the previous two quarters. Energy (-8ppts) is expected to be the major negative contributor to EPS growth, followed by industrials (-4ppts), while financials (+2ppts) are expected to be the main bright spot. Q4 EPS expectations have been revised down by a meaningful 6% since the start of the Q3 earnings season in October, but deeply negative economic surprises in the Euro area during Q4 nonetheless imply EPS beats will come in below 50%, compared to a long-term average of 54%.

Stoxx 600 2024 and 2025 EPS expectations have faded since early Q3: consensus expectations for Stoxx 600 2024 EPS have seen downward revisions of around 3% since early October, leaving them at the lowest in nearly three years, while those for 2025 EPS have seen a pullback of around 2.5%. Downgrades to energy have been the major drag on index earnings since early Q3, along with cuts in healthcare and basic resources. Meanwhile, the support from banks to index earnings has weakened, and we expect it to fade further in response to the end of the ECB hiking cycle. Energy's contribution is also unlikely to turn up materially, given our expectation for downside in oil price on weakening global growth.

We expect more than 15% downside for Stoxx 600 12-month forward EPS by year-end: Stoxx 600 12-month forward EPS remains close to the record-high in October, even as the global PMI points to the start of a downgrade cycle, with the gap explained by the order backlog-driven robustness in global GDP growth relative to PMIs. We expect global growth to slow in response to the fading support from backlog liquidation, a weak credit cycle and diminished support from US fiscal stimulus, implying more than 15% downside for the Stoxx 600 12-month forward EPS by the end of the year.

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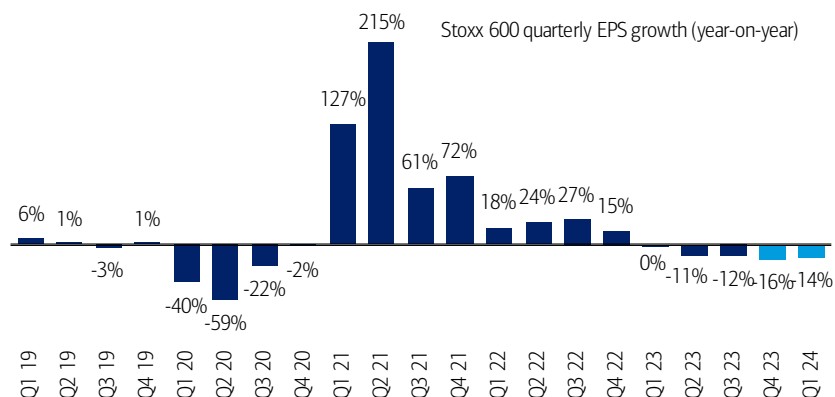
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Stoxx 600 Q4'23 earnings season preview: consensus expects -16% EPS growth in Q4

Exhibit 1: Stoxx 600 quarterly EPS growth expectations

Sell-side analysts expect Stoxx 600 EPS growth to turn more negative in Q4, at -16% year-on-year, which would be the weakest quarterly growth rate since Q3 2020, following -11% and -12% growth in Q2 and Q3, respectively

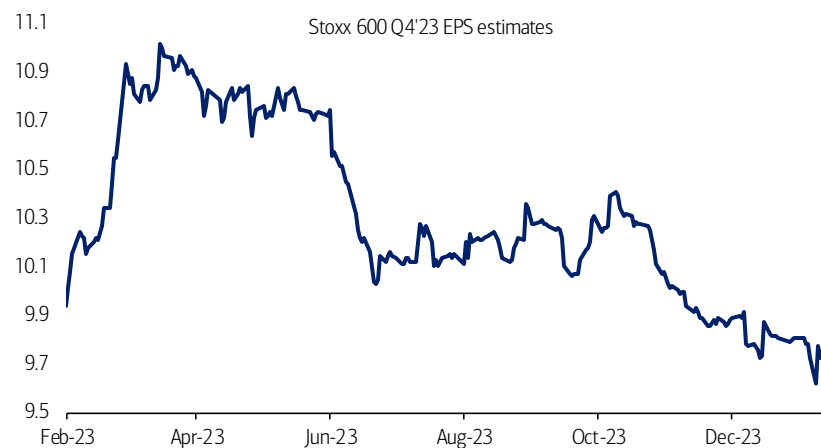


Source: BofA European Equity Quant Strategy, Factset
Based on companies reporting on quarterly frequency

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Exhibit 3: Consensus estimates for Stoxx 600 Q4'23 EPS

Consensus estimates for Stoxx 600 Q4 EPS have been revised down by 6% since early Q3

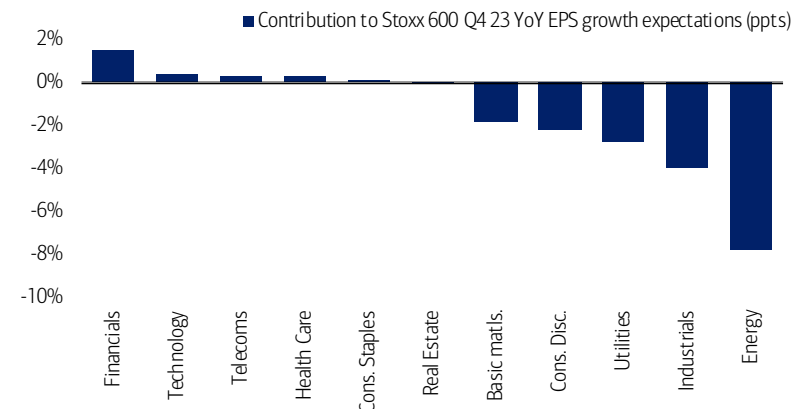


Source: BofA European Equity Quant Strategy, Factset

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Exhibit 2: Sector contributions to Stoxx 600 Q4 year-on-year EPS growth

Consensus expects energy (-8ppts) and industrials (-4ppts) to be the largest negative contributors to the -16% Stoxx 600 EPS growth expected in Q4, while financials are projected to be the largest positive contributor (+2ppts)



Source: BofA European Equity Quant Strategy, Factset
Based on companies reporting on quarterly frequency

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Exhibit 4: Stoxx 600 EPS beats versus Euro area economic surprises

Euro area economic surprises were deeply negative in Q4, implying EPS beats below 50%, well below the long-term average of 54% and below the 51% seen in Q3



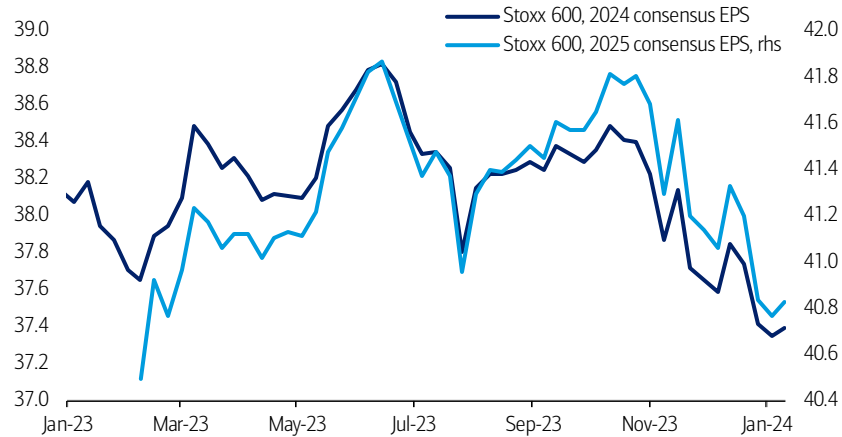
Source: BofA European Equity Quant Strategy, Bloomberg, Datastream

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Stoxx 600 2024 and 2025 consensus EPS are down by more than 2% since early Q3

Exhibit 5: Consensus expectations for Stoxx 600 EPS in 2024 & 2025

Stoxx 600 2024 and 2025 consensus EPS expectations have seen pullbacks of around 3% and 2.5%, respectively, since early October, reversing the upgrades seen during in Q3 and leaving them 4% and 2% below their respective peaks in June

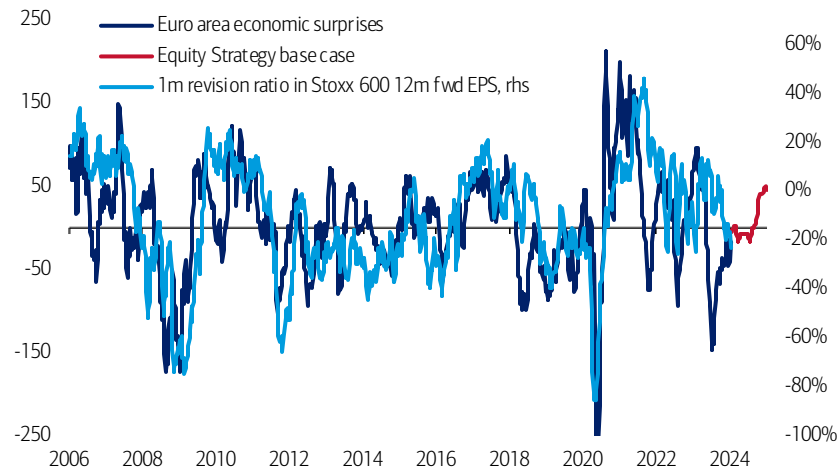


Source: BofA Global Research, IBES, Datastream

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Exhibit 7: Euro area economic surprises versus 1m revision ratio in Stoxx 600 12m fwd EPS

The 1-month earnings revision ratio has faded into negative territory to a one-year low, in line with the weak run-rate implied by Euro area economic surprises

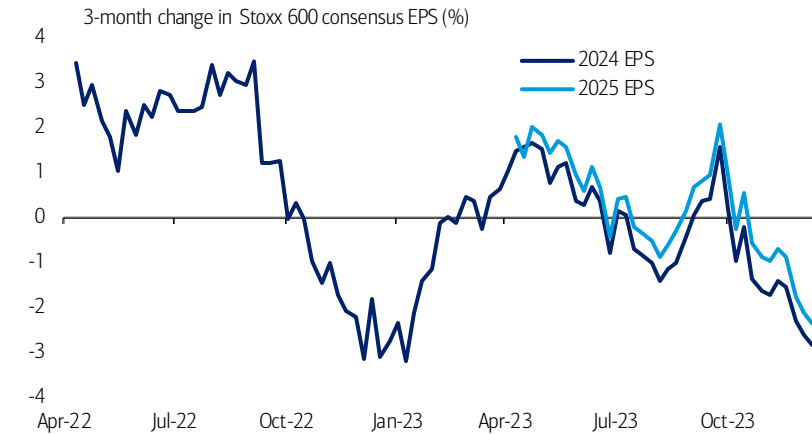


Source: BofA Global Research estimates, IBES, Datastream

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Exhibit 6: 3-month change in Stoxx 600 consensus EPS in 2023 & 2024

Stoxx 600 earnings momentum, defined as the 3-month change in 2024 and 2025 consensus EPS, has fallen sharply into negative territory

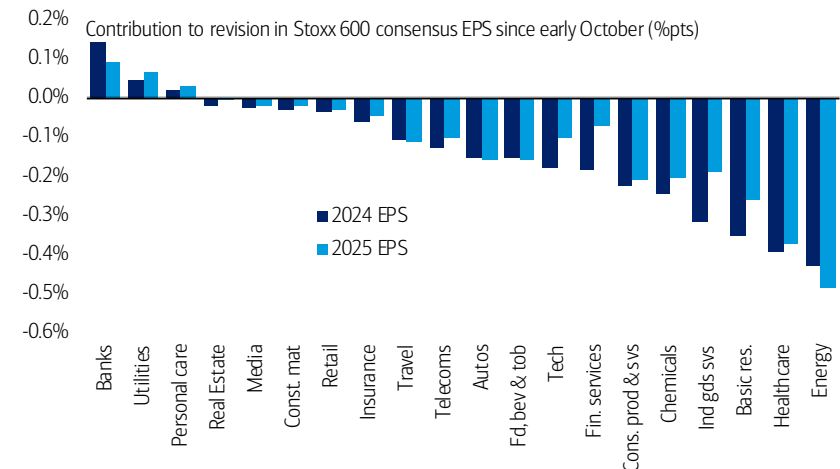


Source: BofA Global Research, IBES, Datastream

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Exhibit 8: Contribution to revisions in Stoxx 600 consensus EPS in 2024 & 2025 since October

Downgrades in resource sectors, healthcare and industrials have been the major drags on Stoxx 600 EPS expectations since early October, while banks have been the primary positive contributor



Source: BofA Global Research, IBES, Datastream

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Earnings momentum likely to fade for banks and stay weak for energy

Exhibit 9: 3-month change in banks 12-month forward EPS momentum

Banks earnings momentum (the 3-month change in 12-month forward EPS) has faded to 2%, around the lowest since May 2022 and down from a peak of 12% in April last year

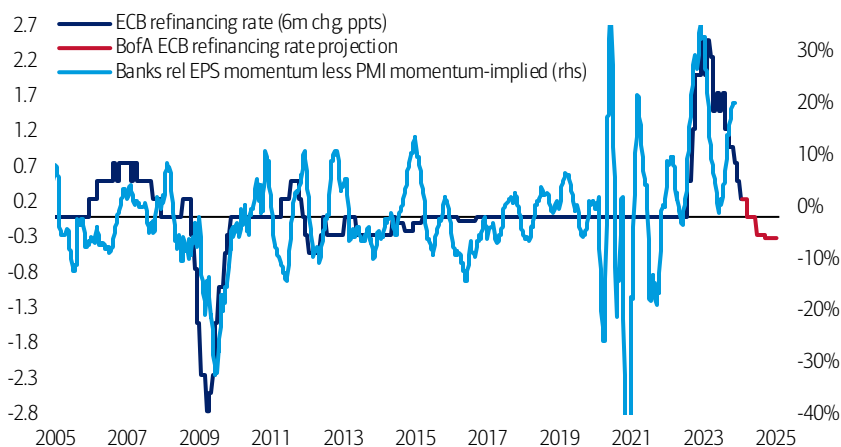


Source: BofA Global Research, Datastream

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Exhibit 11: Banks relative EPS momentum less PMI momentum versus ECB refinancing rate

Banks' relative EPS momentum overshoots the PMI momentum-implied trajectory when ECB rates increase, however the ECB hiking cycle has likely ended

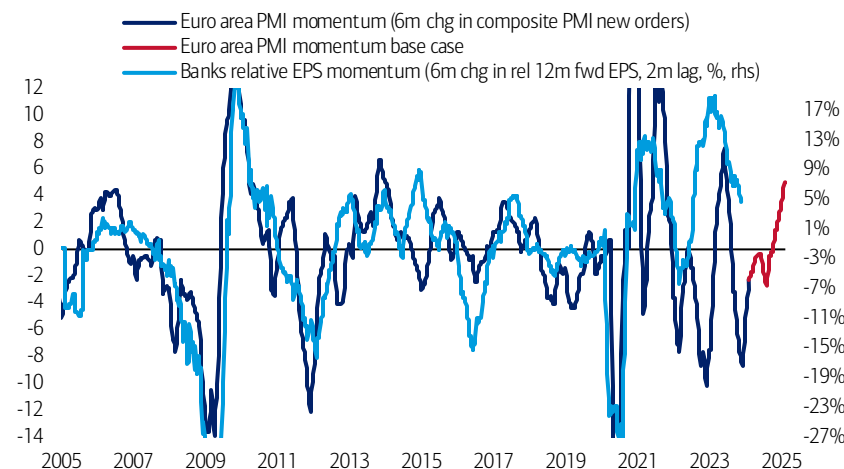


Source: BofA Global Research estimates, IBES estimates, Datastream

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Exhibit 10: Banks relative 12-month forward EPS momentum versus Euro area PMI momentum

Banks' 12-month forward EPS momentum relative to market, typically declines when Euro area growth momentum deteriorates

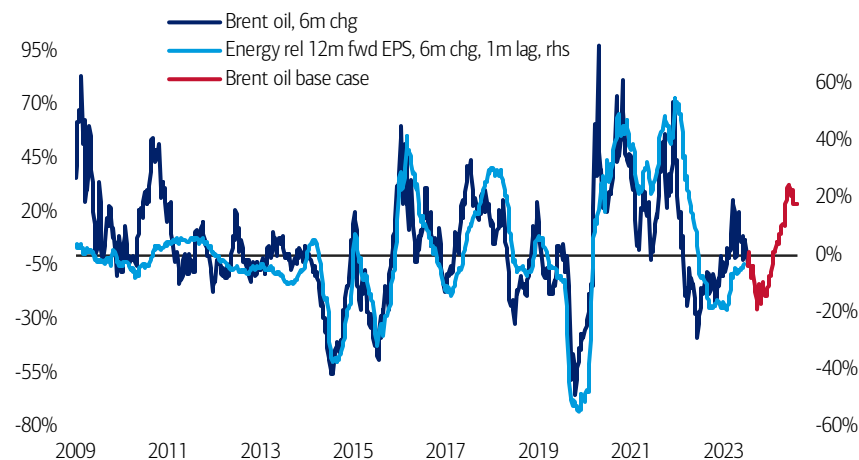


Source: BofA Global Research estimates, IBES, Datastream

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Exhibit 12: Energy relative 12-month forward EPS versus Brent oil

Our expectations for oil price weakness in response to deteriorating global growth momentum points to negative momentum for the energy sector's relative EPS over the coming months



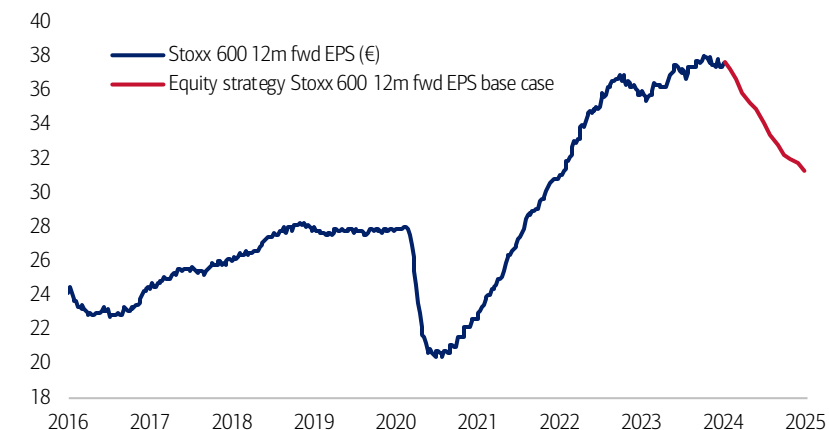
Source: BofA Global Research estimates, IBES, Datastream

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We expect the Stoxx 600 12-month forward EPS to fall by more than 15% by year-end

Exhibit 13: Stoxx 600 12-month forward EPS

Our macro projections imply more than 15% downside for the Stoxx 600 12-month forward EPS by the end of 2024, following a rise of more than 85% from the 2020 trough

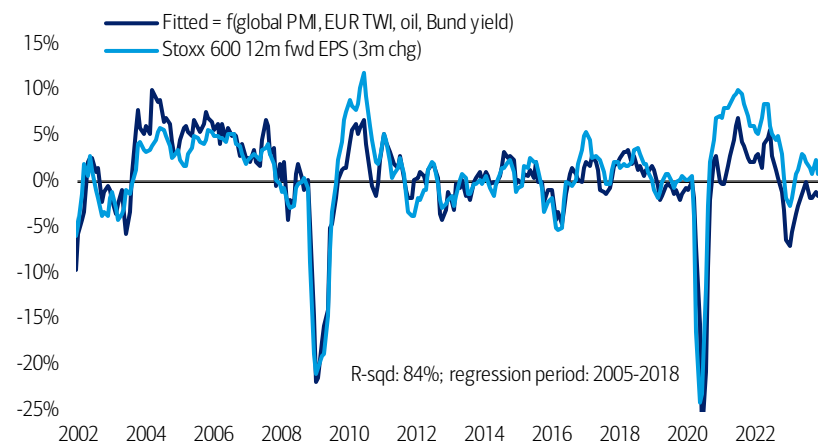


Source: BofA Global Research estimates, Datastream

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Exhibit 15: Stoxx 600 12-month forward EPS analysis

Our Stoxx 600 EPS analysis is based on the level of the global PMI and changes in the EUR trade-weighted index, the oil price and the Bund yield

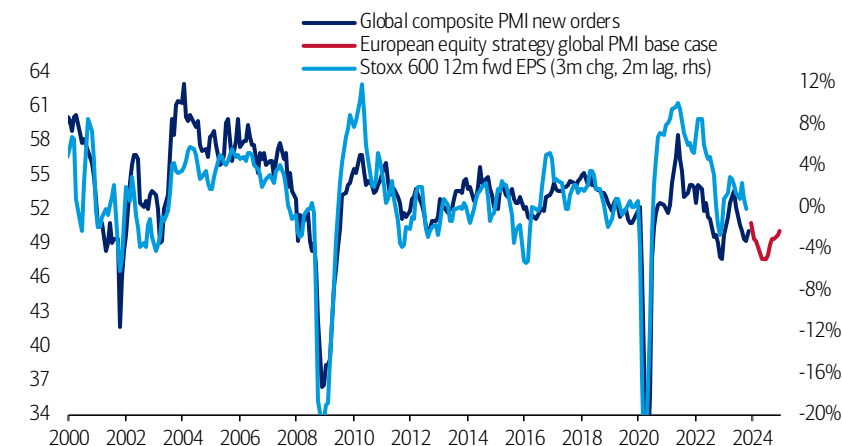


Source: BofA Global Research, Datastream, Haver; the fitted line uses sensitivities derived from 2005 to 2018. It represents the analysis output using input factors available at the time and does not reflect any forecast.

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Exhibit 14: Stoxx 600 12-month forward EPS versus the global composite PMI new orders

We expect a weak run-rate of global growth to translate into a renewed softening in EPS momentum this year



Source: BofA Global Research estimates, Datastream, Haver

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Exhibit 16: Stoxx 600 EPS vs global GDP growth-adjusted global composite PMI new orders

The robustness of GDP growth relative to the PMI has allowed European EPS to remain close to the historical peak, even as PMI weakness would be consistent with the start of an EPS downgrade cycle



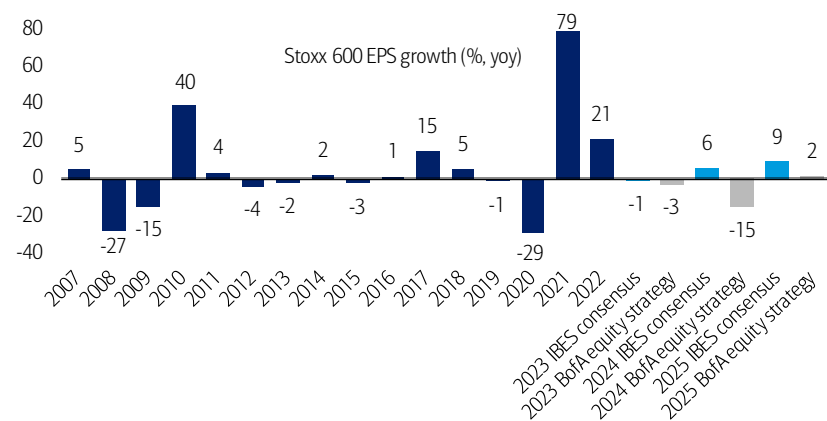
Source: BofA Global Research, Datastream, Haver

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We expect the Stoxx 600 12-month forward EPS to fall by more than 15% by year-end

Exhibit 17: Stoxx 600 EPS growth projections

Our macro projections are consistent with -15% year-on-year EPS growth in 2024 and 2% growth in 2025, both below bottom-up consensus expectations

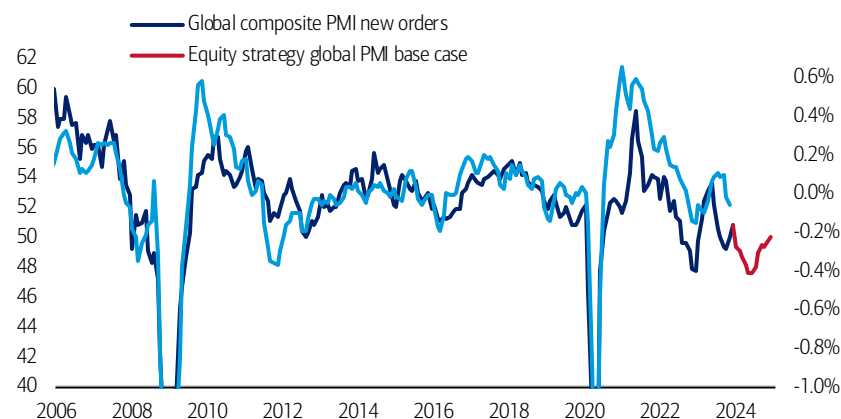


Source: BofA Global Research, Datastream

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Exhibit 18: Stoxx 600 12-month forward margin versus global composite PMI new orders

The global PMI is the primary driver of swings in Stoxx 600 12-month forward margins, and our expectation for further decline in global PMIs over the coming months is consistent with margin compression

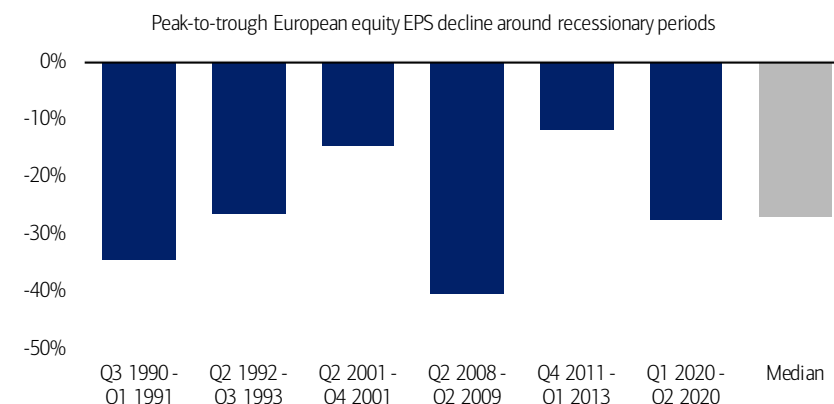


Source: BofA Global Research estimates, Haver, Datastream

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Exhibit 19: Peak-to-trough change in European equities' 12-month fwd EPS around recessions

Around Euro area or US recessions over the past 30 years, the median decline in European equities' 12-month forward EPS was 27%



Source: BofA Global Research, Datastream

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Exhibit 20: Stoxx 600 12-month forward margin projections

Our global PMI projections are consistent with a decline in Stoxx 600 12-month forward margin expectations from the current level of 9.8% to around 7.8% by end-2024



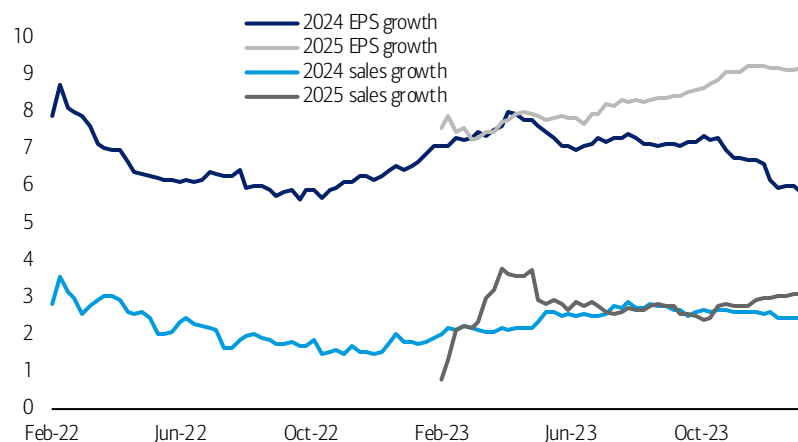
Source: BofA Global Research estimates, Datastream

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Consensus expects 6% Stoxx 600 EPS growth this year and 9% growth next year

Exhibit 21: Consensus expectations for Stoxx 600 EPS and sales growth

Consensus expectations for 2024 Stoxx 600 EPS growth have been cut to 5.9%, down from 7.3% in early Q3 last year, while those for 2025 EPS growth stand at 9.2%

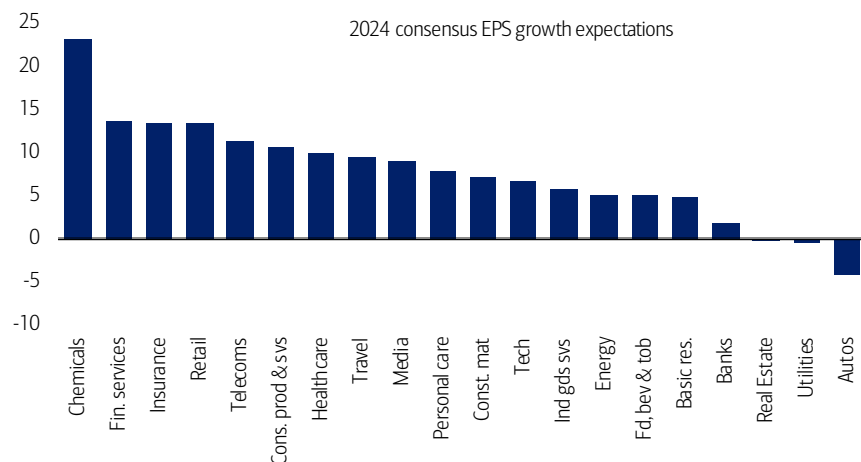


Source: BofA Global Research, IBES, Datastream

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Exhibit 23: 2024 EPS growth expectations for European sectors

Autos and utilities are the only sectors expected to see negative EPS growth next year, while chemicals, financial services and insurance are expected to see the strongest growth

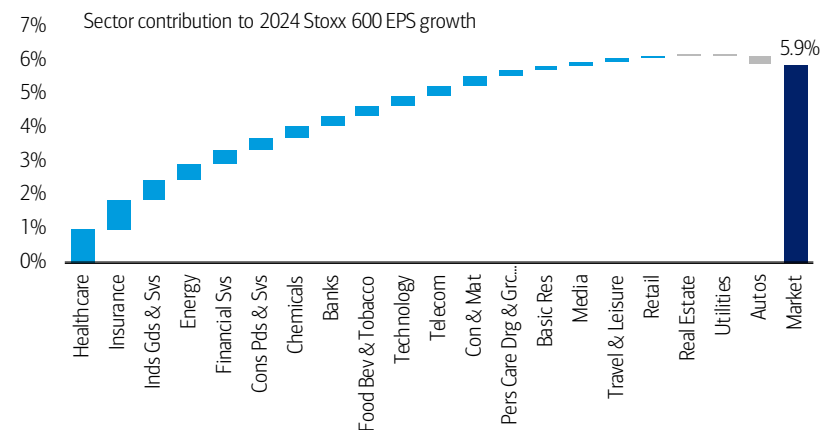


Source: BofA Global Research, IBES, Datastream

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Exhibit 22: Sector contribution to 2024 EPS growth expectations for the Stoxx 600

Consensus expects banks and insurance to be the largest positive contributors to Stoxx 600 EPS growth this year, while energy and basic resources are expected to be the biggest drags

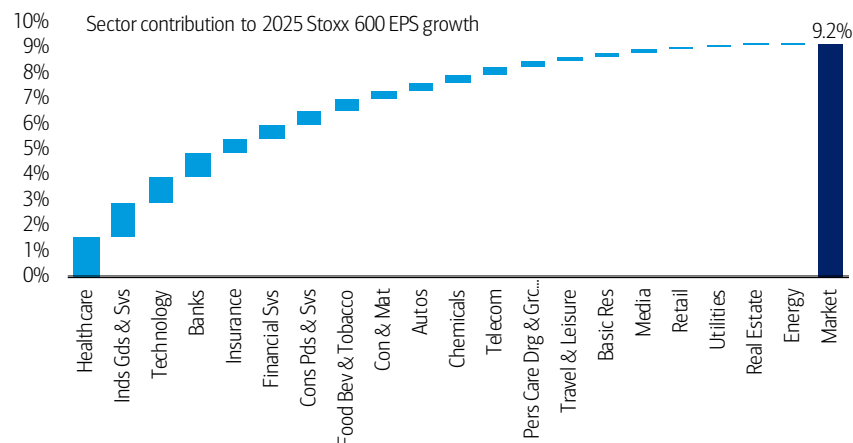


Source: BofA Global Research, IBES, Datastream

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Exhibit 24: Sector contribution to 2025 EPS growth expectations for the Stoxx 600

Consensus expects healthcare and industrials to be the largest positive contributors to Stoxx 600 EPS growth this year



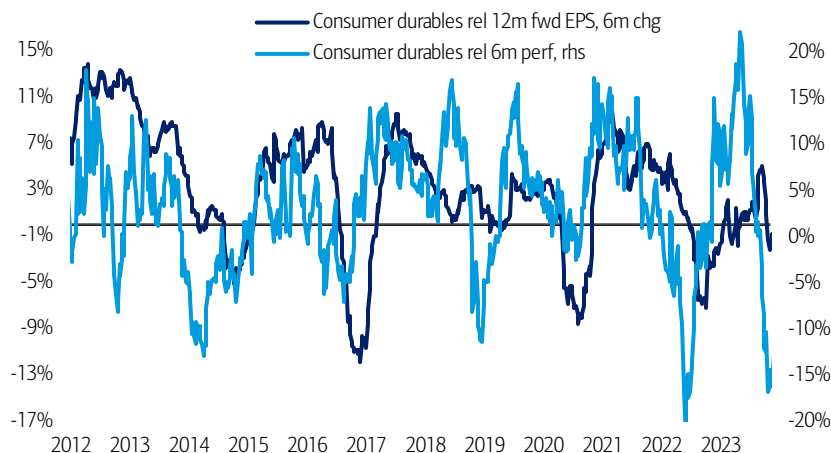
Source: BofA Global Research, IBES, Datastream

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Luxury is priced for relative EPS weakness, while chemicals is priced for better EPS ahead

Exhibit 25: European consumer durables' relative performance versus relative EPS

Luxury goods' relative price momentum has fallen near record lows, leading it to significantly undershoot its relationship with relative EPS momentum

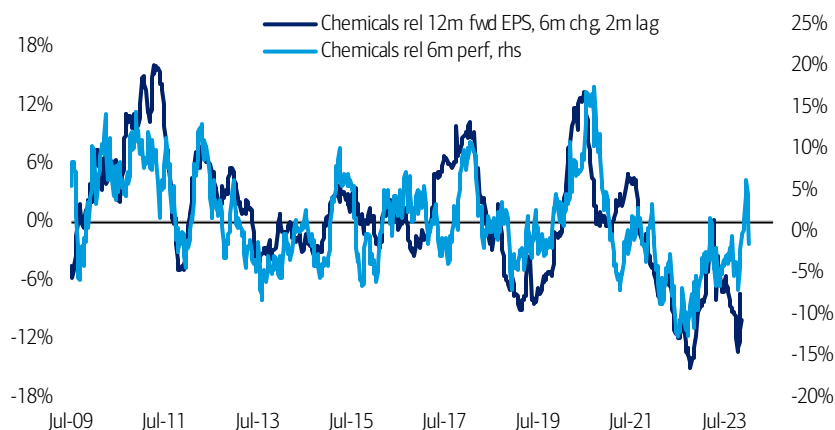


Source: BofA Global Research estimates, Datastream

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Exhibit 27: European chemicals relative performance versus relative EPS

Chemicals' 6-month price momentum has sharply overshot its relationship with relative earnings momentum which remains in deeply negative territory

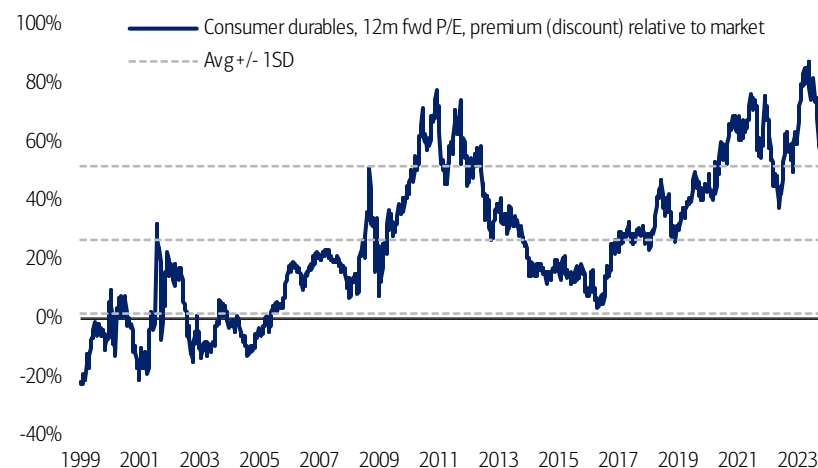


Source: BofA Global Research, Datastream

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Exhibit 26: Consumer durable 12-month forward P/E relative to market

Luxury goods' relative 12-month forward P/E premium has come down from 90% in May to 53% now, though this still leaves it well above the long-run average

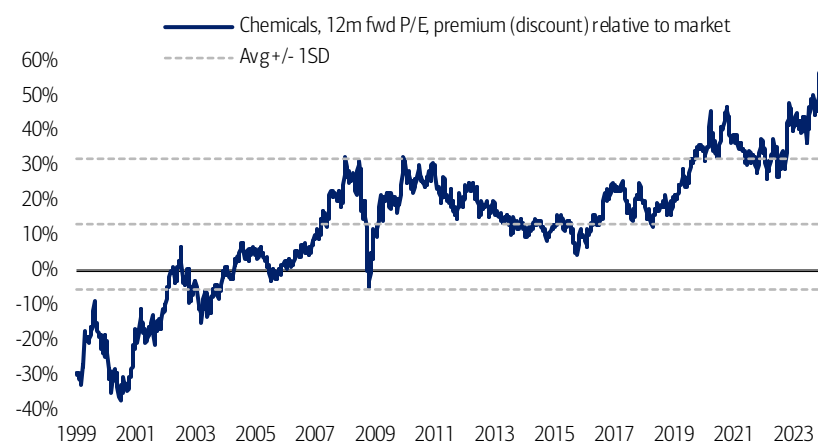


Source: BofA Global Research estimates, Datastream, Bloomberg

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Exhibit 28: Chemicals 12-month forward P/E relative to market

Chemicals' relative 12-month forward P/E stands at around a 60% premium to the market, hovering around a record high, up from 35% in June



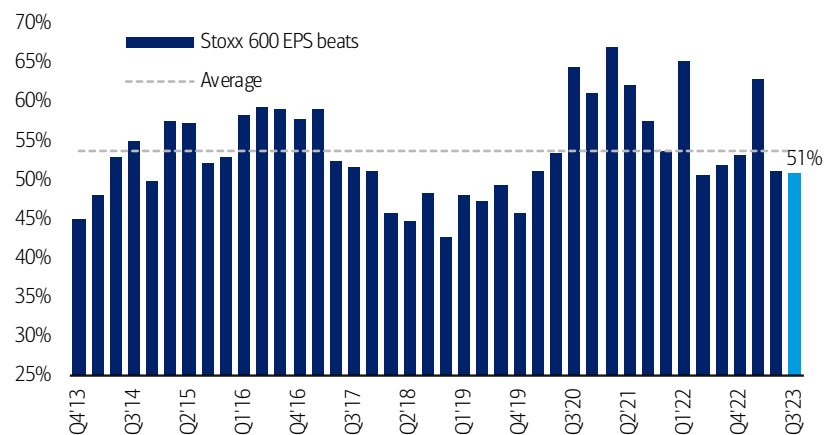
Source: BofA Global Research, Datastream, Bloomberg

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Appendix: recap of the Stoxx 600 Q3'23 earnings season

Exhibit 29: Stoxx 600 EPS beats (% of companies)

51% of companies beat EPS expectations in the Q3 2023 earnings season, below the historical average of 54% but inline with the previous quarter



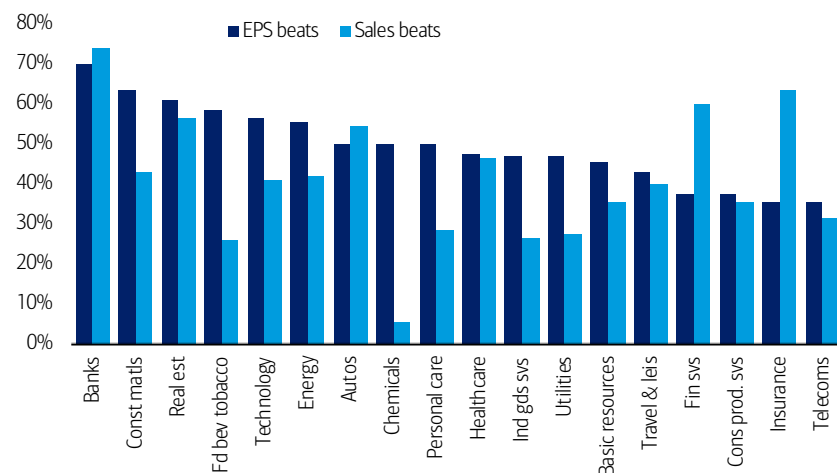
Source: BofA European Equity Quant Strategy, Bloomberg

Note: EPS beats show the proportion of companies that are beating on EPS

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Exhibit 30: Q3 2023 EPS & sales beats by sectors

Banks, construction materials and real estate achieved the strongest EPS beats in Q3 2023, while telecoms, insurance and consumer products & services saw the weakest

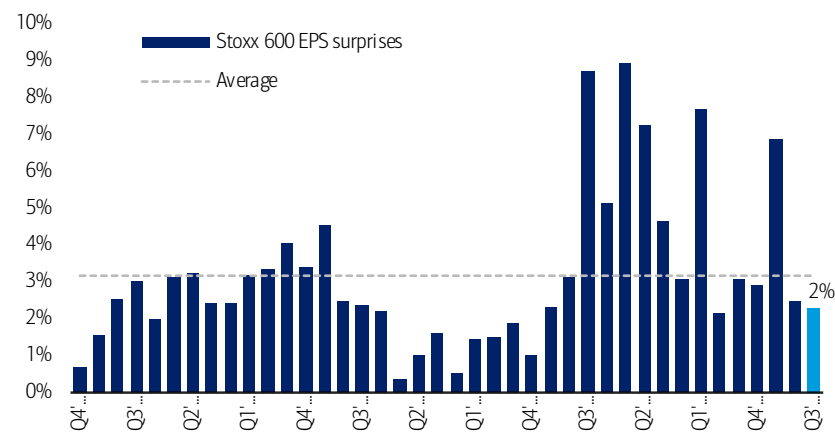


Source: BofA European Equity Quant Strategy, Factset

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Exhibit 31: Stoxx 600 EPS surprises

Stoxx 600 EPS surprises for Q3 came in at 2%, below the historical average of 3% and at the lowest level since Q2 2022



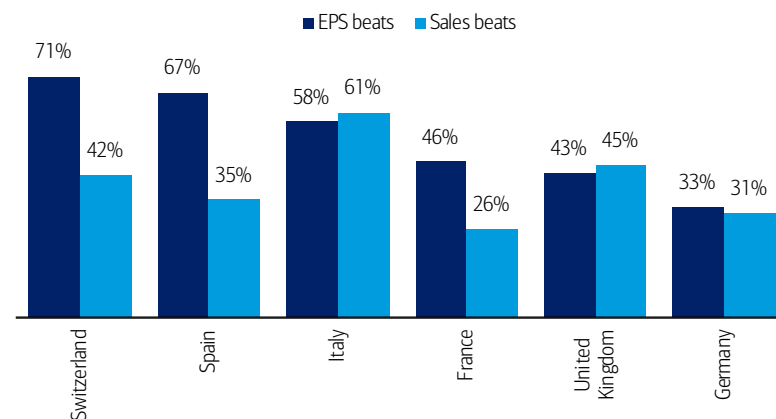
Source: BofA European Equity Quant Strategy, Bloomberg

Note: EPS surprises show the median of the company level surprises based on estimates at the time of reporting

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Exhibit 32: Q3 2023 EPS & sales beats by countries

Switzerland and Spain saw the strongest EPS beats in Q3 2023, while Germany and the UK had the weakest



Source: BofA European Equity Quant Strategy, Bloomberg

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Appendix: companies reporting & methodology

Exhibit 33: Number of companies reporting in each week of the Q4 2023 earnings season

More than 100 companies are expected to have reported Q4 earnings by early February

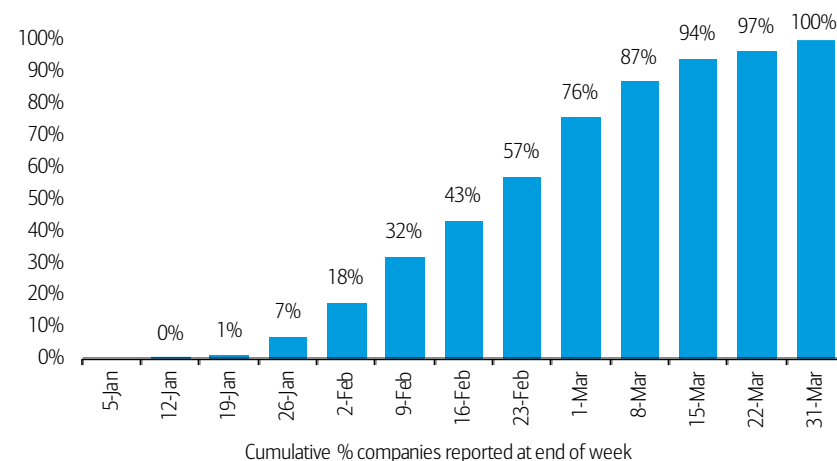


Source: BofA European Equity Quant Strategy, Bloomberg

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Exhibit 34: Cumulative % reported by week in Q4 2023 earnings season

Around 20% of European companies are expected to have reported earnings by early February, rising to nearly 50% by mid-February



Source: BofA European Equity Quant Strategy, Bloomberg

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Surprise factor: how it works

EPS surprise is where the actual reported data is $>/<$ than 2% from Bloomberg BEst analysts' consensus forecasts.

Sales surprise is where the actual data is greater or less than 0.5% from Bloomberg BEst analysts' consensus forecasts.

The surprise factor is the median of the magnitude of beats/hit/miss at EPS and sales level.

We include companies with differing reporting frequencies here to make the breadth of coverage broader (i.e. annual, semi-annual and quarterly), and use the highest frequency reported in the current earnings season (i.e. quarterly data if company reports all three frequencies).

The source for all the earnings season related tables is Bloomberg and calculations by BofA European Equity Quant Strategy. Surprise factor at aggregated level for market, sector, country, exposure basket or size cap is median of surprise factors of all the underlying stocks. Stock level EPS surprise factor is calculated as $(\text{Actual} / \text{Estimated} - 1)$ and the same for sales.

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