BlackRock

Earnings bolster markets amid macroeconomic uncertainty

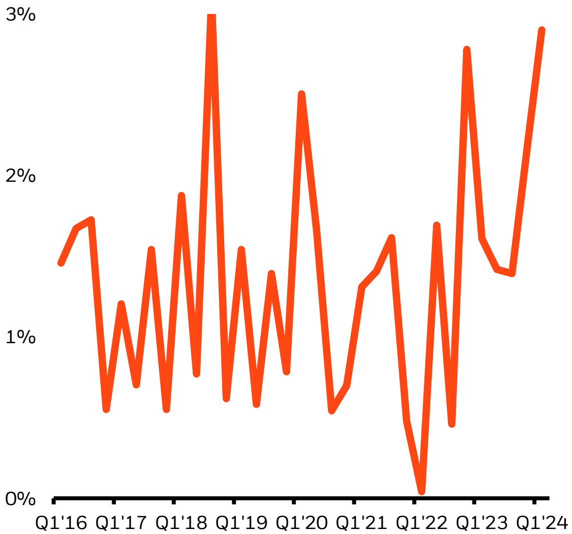
A Q1 earnings review from BlackRock Fundamental Equities, May 2024


Helen Jewell
Chief Investment Officer, BlackRock Fundamental Equities, EMEA

Divyang Patel
Investor, Strategic Equity Team, BlackRock Fundamental Equities

Earnings mattered to markets

Median relative price reaction gap for earnings-per-share beats vs. misses in Europe



Source: Barclays Research, Bloomberg, May 2024. The chart shows the difference in market price reaction between companies in the STOXX Europe 600 index that beat EPS expectations versus those that missed.

[1] Barclays Research, May 2024

[2] World Green Building Council, September 2021

[3] All views are from BlackRock Fundamental Equities as of May 15, 2024

Earnings to the rescue

Equity markets slipped off record highs in the second quarter, amid sticky inflation and reduced expectations of central bank rate cuts. Yet earnings came to the rescue. A solid set of first-quarter numbers overall helped bolster stock markets even as macroeconomic conditions continued to cause volatility.

U.S. earnings outshone those in Europe. European Q1 earnings dropped 8.5% year on year, while earnings in the U.S. grew 3%.[1] Yet Europe still came in ahead of expectations, and earnings estimates continue to rise for both regions.

One interesting observation of this earnings season has been the difference in market reaction between those companies that beat expectations, versus those that missed. In Europe, the gap is at a historic peak. See the chart. We believe the market's strong reaction to earnings results highlights the importance of fundamental research and stock selection in this new era of higher inflation and rates. Equity markets can perform well when rates are at these levels, but earnings increasingly matter, in our view. We believe this calls for an emphasis on quality companies able to deliver on earnings, regardless of what central banks decide to do with interest rates.

Defining quality

There are many definitions of "quality," but we believe companies should meet various criteria to earn the quality label, including: high return on capital, opportunities to deploy capital at high levels of incremental return, good profitability, excellent management teams and conservative leverage. We believe these attributes give companies the potential to consistently beat market expectations for their earnings – and may mean that valuations don't reflect that long-term potential.

Long-term growth, short-term efficiency

Many of the companies globally that delivered strong earnings numbers in Q1 benefit from long-term earnings drivers – or mega forces – and at the same time have found ways to cut costs and improve margins. This is evident in the technology sector, where many quality companies are investing to capitalize on the rise of artificial intelligence (AI), and are also improving operating efficiency and paying dividends for the first time.

Building a more efficient future

The transition to a low-carbon economy is another mega force that's set to power earnings long into the future – and the Q1 results showed this is also a theme for now. Buildings account for 40% of global carbon emissions, with three-quarters of this driven by heating, cooling and lighting.[2] Some of the quality companies that provide energy efficiency solutions in these areas performed well in Q1 – and are well placed to deliver strong earnings over the long term as governments and companies race to hit net-zero targets. Any improvement in global economic growth may provide a further near-term boost.

Timeless delivery

Not all quality companies are linked to an identifiable mega force. Some of the best consumer companies have developed their own long-term growth drivers – timeless brands that don't go out of fashion. Some of the highest-quality luxury car and fashion companies in Europe – with prestige brands and order books that are full well into the future – managed to grow both revenues and profits in Q1, even as overall luxury spending softened. We believe this makes their earnings resilient even during periods of weaker economic growth.

The Q1 earnings season highlighted the importance of selectivity, in our view, with "quality" companies showing that they can deliver – even if rates remain elevated – while also investing for future growth.[3]

Fundamental Equities

Expert insight

People

Purpose

Perspective

Performance

Learn more at blackrock.com

For Italy: This document is marketing material: Before investing please read the Prospectus and the PRIIPs KID available on www.blackrock.com/it , which contain a summary of investors' rights.

Risk warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Important information

This document is marketing material

In the UK and Non-European Economic Area (EEA) countries: this is Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 02020394. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

In the European Economic Area (EEA): this is Issued by BlackRock (Netherlands) B.V. is authorised and regulated by the Netherlands Authority for the Financial Markets. Registered office Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 –549 5200, Tel: 31-20-549-5200. Trade Register No. 17068311 For your protection telephone calls are usually recorded.

In Italy: For information on investor rights and how to raise complaints please go to https://www.blackrock.com/corporate/compliance/investor-right available in Italian.

In South Africa: Please be advised that BlackRock Investment Management (UK) Limited is an authorised Financial Services provider with the South African Financial Services Board, FSP No. 43288.

Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

FOR MORE INFORMATION: blackrock.com