

Chart of the Day

Fed taper and tightening have been front and center for markets in recent weeks. However, while the bond markets have been increasingly focused on supply chain disruptions, rising inflation, a Fed behind the curve, and a potentially shorter business cycle, **equity investors have been taking their cue from impressive corporate earnings.**

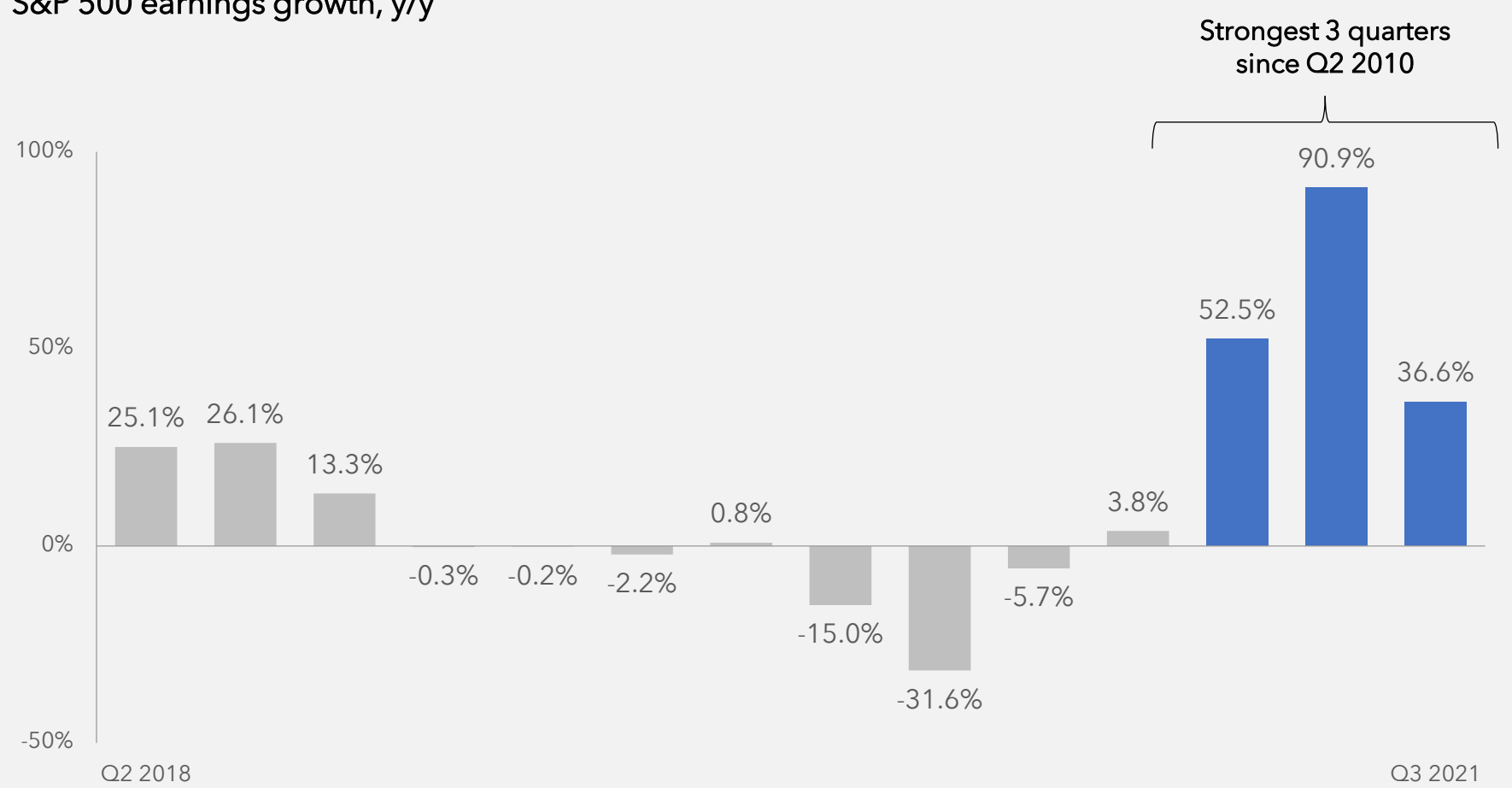
For much of the last year, markets have consistently underestimated the very impressive manner in which large multi-national global corporations have adjusted business strategy to drive higher earnings and margins in the face of the COVID-19 global pandemic, supply chain dislocations and rising inflation.

The proof, of course, is in the numbers. As of this morning, **335 (or 2/3) of S&P 500 companies had reported Q3 earnings, with an impressive 85% recording positive earnings surprises (vs a 5 year average of 76%), and over 75% recording a positive revenue surprise (vs a 5 year average of 67%).** In aggregate, companies have reported Q3 earnings that are 10.3% above estimates (vs a 5 year average of 8.4%). **Critical to this outperformance has been profit margins, where S&P 500 companies have been adept in passing on higher costs, with Q3 setting another record on margins.**

Thus far, the aggregate growth rate for Q3 2021 S&P 500 earnings is 36.6%, the third-highest (year-over-year) earnings growth rate for the index since Q2 2010, trailing only the two prior quarter growth rates, and well above the 27.4% expectations just one month ago.

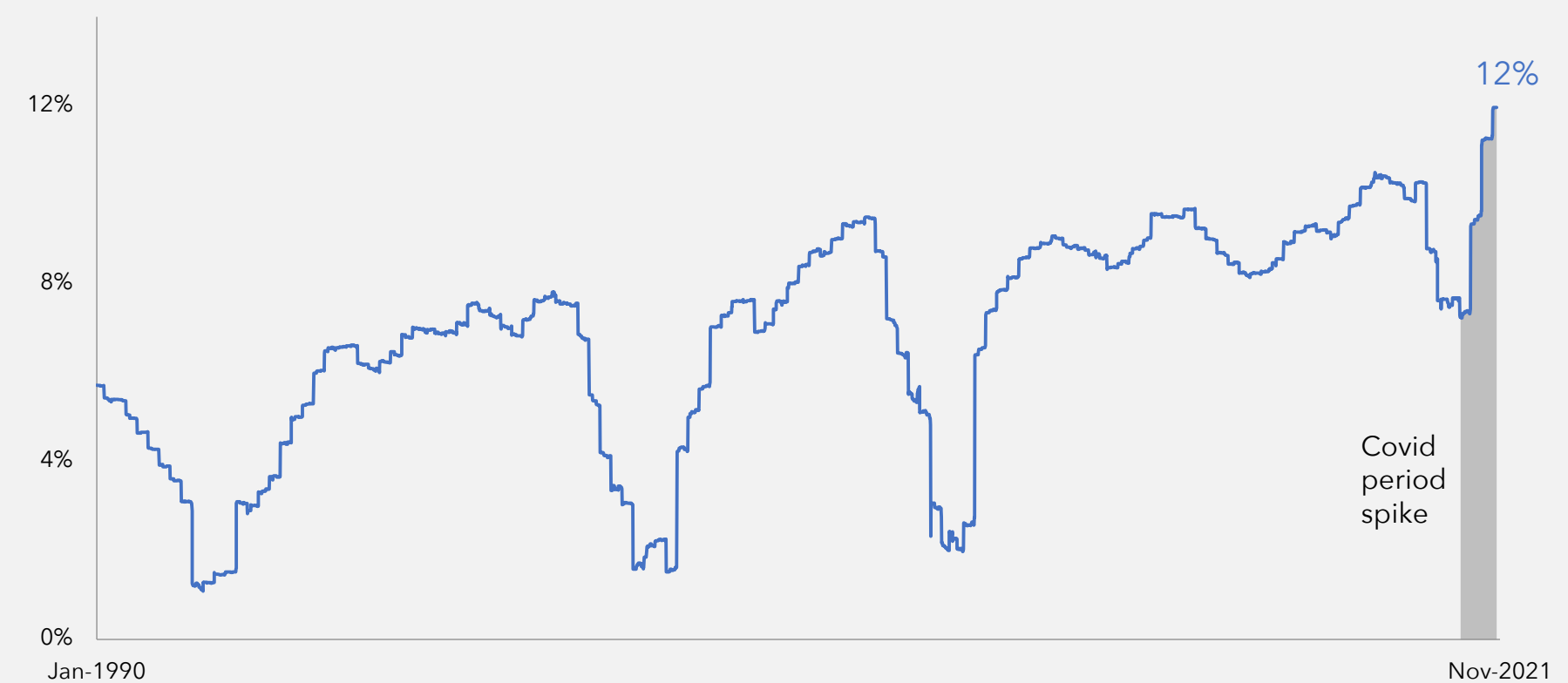
With 335 companies reporting, Q3 S&P 500 earnings growth has been 37%, the third-highest (year-over-year) earnings growth rate since Q2 2010

S&P 500 earnings growth, y/y



Q3 set another new record for corporate profit margins, demonstrating that companies have been adept in passing on higher costs while also maintaining above average revenue growth

S&P 500 trailing 12-month profit margin



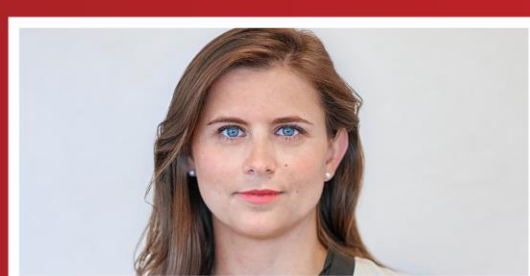
Source: (1) FactSet, Earnings Insight (October 29, 2021) (2) Bloomberg "The Earnings Rally Was Great. Shame It's Over" (John Authers). Data as of November 3, 2021.

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