



Weekly Letter:

Can Q1 earnings provide the final push to the upside?

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Carlsquare

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- The US earnings season has already started on a positive note. With indices trading range-bound, we expect earnings to trigger another strong move. Perhaps the last push before the summer lull?
- Geopolitically, Ukraine has launched a campaign for a spring offensive against Russia. From a fundamental point of view, the liberation of Ukraine will not have a significant impact on the markets, but from a psychological point of view, it can and should have a positive impact.
- This week, the focus is on US inflation figures (CPI and PPI), but interest seems low as all eyes are on the Fed meeting in May. There could still be another rate hike. We hope it is the last one in this cycle.

This week will see the first Q1 2023 reports from some major US companies, with three large banks (Citigroup, JP Morgan, and Wells Fargo) providing an early indication on Friday, 14th April.

For Q1 2023, the estimated earnings decline for the S&P 500 is -6.8%. From 31 December 2022 to 31 March 2023, analysts have lowered their estimates by 6.2% for Q1 2023 and 3.8% for FY 2023. The estimated sales growth for Q1 2023 is 1.8%, down from the estimated sales growth of 3.4% on 31 December 2022.



Source: Factset Earnings Insight, Carlsquare.

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The estimated sales growth of 1.8% is below the historical average. In the two previous quarters, analysts lowered their earnings estimates by 6.8% for Q3 2022 and 6.6% for Q4 2022. For Q1 2022 and Q2 2022, the revisions were minor. From Q2 2023, analysts expect a gradual improvement in S&P 500 earnings and revenue growth, as shown in the chart above.

78 S&P 500 companies have already issued negative earnings guidance for Q1 2023, while only 28 have issued positive guidance.

Even though the official earnings season has not yet started, with 20 S&P 500 companies reporting so far, the earnings scorecard looks very good, with 19 companies delivering positive earnings and 14 delivering positive revenue surprises.

The following page lists some of the major US companies that have reported quarterly results since 21 March, along with the actual and expected earnings per share, the percentage deviation and the share price movement after the report was released.



Accenture, for example, delivered a great report that triggered a massive share price movement. We don't recommend speculation in companies that report. It is better

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to stay away. But companies with positive reports usually trend upward until the next report day, and companies with bad reports usually have the opposite share price development.

The average earnings per share surprise were 13.1%, and the median was 6.6% for the reporting companies in the table below. The share price movements following these quarterly reports were also positive but significantly lower than the earnings surprises (2.4% on average and 3.0% on median).

<u>Company</u>	<u>Report Date</u>	<u>EPS estimate</u>	<u>EPS reported</u>	<u>Surprise</u>	<u>Price Change</u>
Accenture	23-Mar-23	2,49	2,69	8,0%	7,3%
BioN Tech	27-Mar-23	8,04	9,46	17,7%	-3,6%
Cintas Corporation	29-Mar-23	3,01	3,14	4,3%	4,9%
Constellation Brands	06-Apr-23	1,86	1,98	6,5%	-6,1%
Darden Restaurants	24-Mar-23	2,24	2,34	4,5%	-0,4%
General Mills	23-Mar-23	0,91	0,97	6,6%	2,9%
Jefferies Financial Group	28-Mar-23	0,48	0,55	14,6%	3,1%
McCormick & Co	28-Mar-23	0,49	0,59	20,4%	9,6%
Micron Technology	28-Mar-23	-0,66	-1,91	n.m.	7,2%
Nike	21-Mar-23	0,52	0,79	51,9%	-4,9%
Paychex	29-Mar-23	1,24	1,29	4,0%	6,5%
Walgreen Boots Alliance	28-Mar-23	1,10	1,16	5,5%	2,7%
Average (including interim reports since 21 March 2023)				13,1%	2,4%
Median (including interim reports since 21 March 2023)				6,6%	3,0%

Source: Zacks Research.

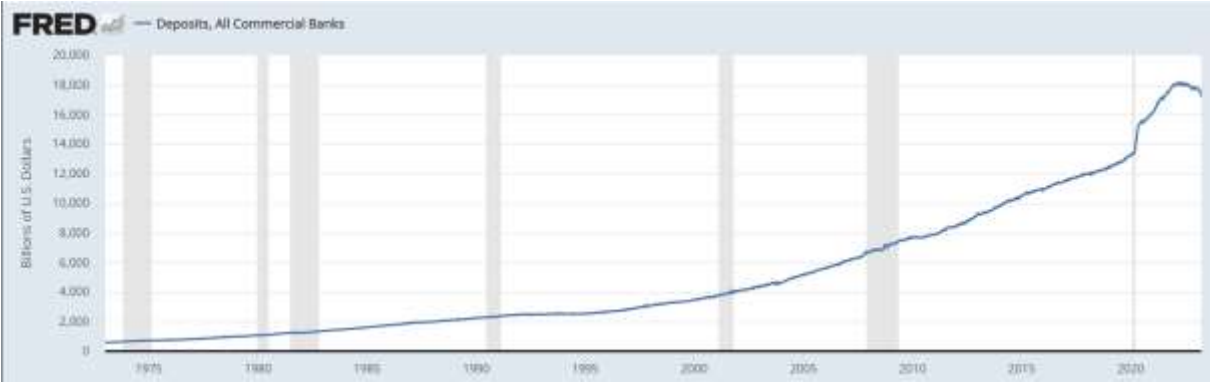
If this trend continues, we could have a strong quarter, starkly contrasting with the broader economy, which is deteriorating rapidly.

But as we say every week, pay attention to liquidity.

As we have shown, the Fed is now pumping liquidity back into the system as the central bank rescued the banks in San Francisco.

But the Fed's liquidity is one thing. Another source of liquidity is the creation of credit by commercial banks.

Can Q1 earnings provide the final push to the upside?



Above are deposits at all commercial banks in the US. The story is that banks fear a collapse in real estate, both commercial and residential. To avoid the risk, they are lending less, which will have an immediate cooling effect on the economy.



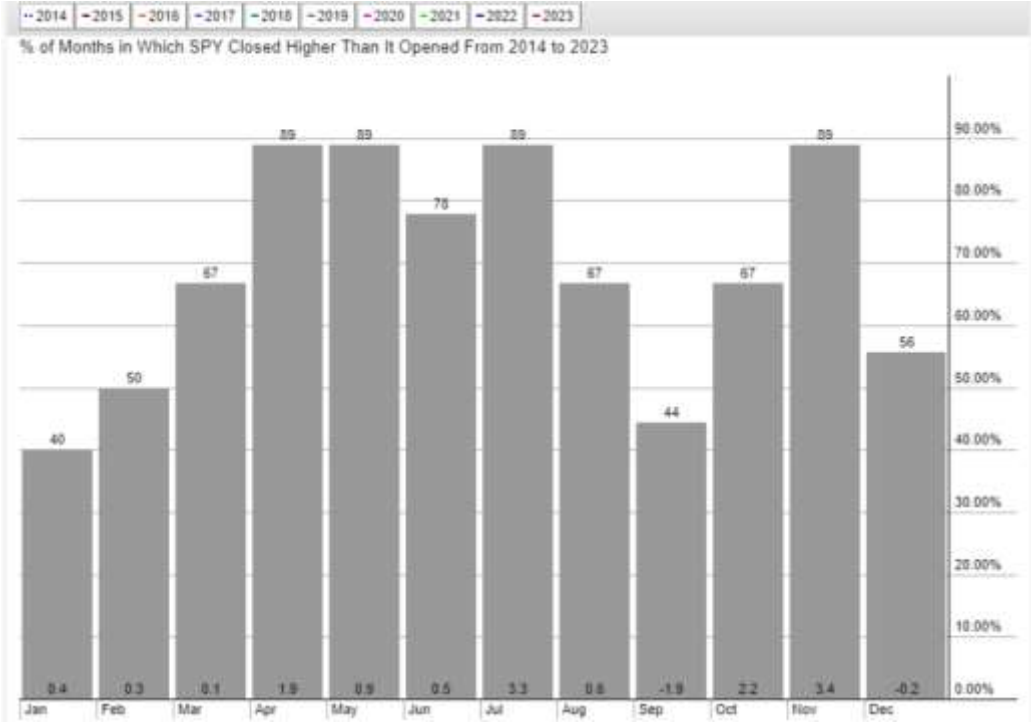
If you look at the same data but at the growth rate, the graph shows a negative development for the first time since 1994.

We don't know if this will affect the stock market in the short term, but in the long term, everything is connected, so please play it safe.

Regarding timing, the positive seasonality usually peaks in April and ends in May. This year it may coincide with the Fed meeting on 2-3 May.

The stock market (S&P500) moves in cycles.

Can Q1 earnings provide the final push to the upside?



March-April and even May are statistically the best months for the stock market, but the summers can be challenging. Sell in May and go away is the old saying.

The quarterly season can provide a final push to the upside, as it seems optimistic.



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S&P 500 is trading in a distinct wedge. Energy is building ahead of a big move. It is impossible to say which direction, but with the Fed in rescue mode and the USD weakening, the odds favour a breakout to the upside.



On the 2-hour chart, we can see a bullish channel forming. A retest of the lower part of the channel or the MA200 could be on the cards. A breakout, either way, will give a strong message to the overall market.

Looking at the price of risk in the market, the VIX (fear index) is now back at the lower levels, meaning it is relatively cheap to buy protection on the downside.

Can Q1 earnings provide the final push to the upside?



This week’s focus will be on CPI and PPI in the US, which can be market triggers. We are also awaiting Ukraine's move in the war against Russia, as Ukraine is running an extensive sysop campaign that will soon start a spring offensive. Hopefully, they can clear the country of the invaders in the coming months.

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Week Ahead

Below is a list of upcoming Q1 2023 US earnings reports with expected EPS.

EARNINGS CALENDAR	
Date	EPSe Q1 2023 (USD)
12-Apr Infosys	0,19
13-Apr Delta Air Lines	0,32
13-Apr The Progressive	1,46
13-Apr Fastenal	0,49
14-Apr JP Morgan	3,40
14-Apr UnitedHealth Group	6,25
14-Apr CitiGroup	1,67
14-Apr Wells Fargo	1,16
14-Apr BlackRock	7,90
17-Apr Charles Schwab	0,91
18-Apr Intuitive Surgical	0,93
18-Apr Netflix	2,81
18-Apr Bank of America	0,80
18-Apr Johnson & Johnson	2,50
18-Apr Lockheed Martin	6,13
18-Apr Goldman Sachs	8,53
18-Apr ProLogis	1,21

Source: Zacks.com

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Reports and events on Wednesday, 12 April: Infosys, SAS
Traffic figures for March.

In the afternoon, the Bank of Canada will announce an interest rate announcement. We will get the US's March CPI and weekly oil inventories (DOE) statistics. The Fed will also release the minutes of its 21-22 March meeting.

Reports on Thursday, 13 April: ACQ Bure, Chr.Hansen, Delta Airlines, The Progressive, Fastenal and Fast Retailing.

China will release its March trade balance at 5.00 CET. The UK will publish its February GDP and industrial production at 8.00 CET, while Germany will release its March CPI at the same time. From the Eurozone, there will be industrial production for February. OPEC will also release its monthly oil report. After lunch, we get the US PPI for March and the weekly jobless claims.

Reports on Friday, 14 April: Atrium Ljungberg, Black Rock, Citigroup, JP Morgan, UnitedHealth Group and Wells Fargo.

On Friday morning, March CPI from Sweden, Spain and France and March wholesale prices from Germany will be released. The IEA will also release its monthly oil report before lunch. After lunch, the US will release retail sales, import prices and industrial production for March and the Michigan index for April.

Can Q1 earnings provide the final push to the upside?

Reports on Monday, 17 April: TF Bank, Creades, DSV, Charles Schwab.

On Monday morning, we will get the Italian CPI for March. In the afternoon, the US will release the Empire Manufacturing Index and the NAHB Housing Market Index for April.

Reports on Tuesday, 18 April: Ericsson, HMS Networks, Öresund, Profilgruppen, Aligro, Nilörn, OEM, Bank of America, Goldman Sachs, Johnson&Johnson, Netflix, and Lockheed Martin.

On Tuesday morning at 4:00 CET, we will get first-quarter GDP, industrial production, retail sales, unemployment, and March gross fixed gross capex. Four hours later, the UK unemployment rate for February will be released. We will see the February Euro-zone trade balance and the April German ZEW index at 11.00 CET. Canada's CPI for March is due at 14.30 CET. From the US, we get March housing starts, weekly Redbook retail sales, and weekly oil inventories (API).

Valuation Tables, Swedish Equities

Lowest P/E-ratio

Bolag	Price	P/E NTM
Maha Energy AB	9,5	1,8x
Tethys Oil AB	56,0	2,8x
Bonava AB	21,4	3,8x
Serneke Group AB	22,8	4,1x
Humana AB	14,9	4,6x
Bong AB	1,0	5,2x
Wästbygg Gruppen AB	32,8	5,7x
Catella AB	35,8	5,7x
ITAB Shop Concept AB	12,0	5,7x
Resurs Holding AB	23,1	6,0x

Source: S&P Capital IQ/Carlsquare

Highest Yield

Bolag	Price	Yield, %
Intrum AB	117,0	10,5
Tethys Oil AB	56,0	10,5
Aktiebolaget Fastator	7,6	9,8
Cibus Nordic Real Estate AB	113,1	9,5
Samhällsbyggnadsbolaget i Norden AB	13,0	9,5
Svenska Handelsbanken AB	89,6	9,2
Bonava AB	21,4	8,6
Nordic Paper Holding AB	45,2	8,4
Resurs Holding AB	23,1	8,4
Wästbygg Gruppen AB	32,8	8,2

Source: S&P Capital IQ/Carlsquare

Lowest priced Net Asset Value

Bolag	Price	P/B
Oscar Properties Holding AB	1,2	0,1x
BHG Group AB	8,9	0,2x
Serneke Group AB	22,8	0,3x
Humana AB	14,9	0,3x
Bonava AB	21,4	0,3x
Corem Property Group AB	8,0	0,3x
Cint Group AB	13,0	0,3x
Vivesto AB	0,3	0,3x
VNV Global AB	21,2	0,3x
K2A Knaust & Andersson Fastighete	11,7	0,3x

Source: S&P Capital IQ/Carlsquare

Lowest priced NAV on a debt-free basis

Bolag	Price	EV/tB
Oscar Properties Holding AB	1,2	0,1x
BHG Group AB	8,9	0,2x
Serneke Group AB	22,8	0,2x
Humana AB	14,9	0,2x
Bonava AB	21,4	0,3x
Aktiebolaget Fastator	7,6	0,3x
Cint Group AB	13,0	0,3x
Q-linea AB	6,5	0,3x
Hoist Finance AB	24,6	0,4x
Midsona AB	8,3	0,4x

Source: S&P Capital IQ/Carlsquare

Lowest priced earnings growth

Bolag	Price	PEG
Nordisk Bergteknik AB	34,8	0,1x
Volvo Car AB	42,6	0,2x
RVRC Holding AB	32,2	0,2x
TF Bank AB	142,2	0,2x
Netel Holding AB	31,0	0,3x
Embracer Group AB	45,3	0,3x
New Wave Group AB	190,3	0,3x
H & M Hennes & Mauritz AB	152,9	0,4x
Intrum AB	117,0	0,5x
Truecaller AB	31,0	0,5x

Source: S&P Capital IQ/Carlsquare

Top priced earnings growth

Bolag	Price	PEG
Tele2 AB	105,5	82,7x
Hufvudstaden AB	140,4	54,8x
Getinge AB	258,8	9,2x
AB Electrolux	125,7	7,3x
Svenska Cellulosa Aktiebolaget SCA	134,3	5,5x
Thule Group AB	256,5	5,5x
Axfood AB	263,3	4,5x
Telefonaktiebolaget LM Ericsson	61,6	4,1x
Inwido AB	106,8	3,6x
Atlas Copco AB	128,5	3,2x

Source: S&P Capital IQ/Carlsquare

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