



Global Economics

The US corporate estimate-beating results hard to last

Overview

With the global economy gaining steam, many companies surprised the investors with better-than-expected earnings in Q2 and Q3. 73% of S&P 500 companies beat Wall Street's earnings expectation by a wide margin in Q2 and the number reached 80% in Q3. Dow Jones total index reached 10,000 for the first time in a year on October 14.

Profit is the difference between the industrial revenues and the cost. The US corporate boosted the earnings in Q2 and Q3 by aggressively cutting the cost while the industrial sales have remained weak. In other words, the rebound in profits in the recent months is hard to last without restarting the sales growth engine, as the room for cost cutting is limited. A sustained US corporate earnings growth depends ultimately on rising consumption and recovering economy.

We also show the link between the profit cycle and growth cycle in the US. We believe that the sectors that have strong sales growth will outperform the market going forward. Three sectors – health care, energy and technology – are identified as the winners of the new profit-cycle. These sectors, characterized by high levels of cash position and strong support from the government, will benefit from new opportunities in a fast changing business environment.

CITIC Securities Research

Yifan Hu
(o) 852-22379116
yifanhu@citics.com.hk

Alexis Garatti
(o) 852-22379117
alexisgaratti@citics.com.hk