

FROM THE DESK OF OUR INVESTMENT POLICY COMMITTEE:

Corporate Earnings – Now and Later

Through February 21st, with 87% of the S&P 500 companies having now reported 4th quarter earnings, it is highly likely that we will end up with the first quarter of positive year-over-year growth since Q4 2018. As of December 31, the earnings estimate for Q4 was for a -1.7% decline. However, so far, 70% of companies have reported a positive earnings per share surprise, leading to the positive growth rate.

As a result of the positive earnings season, the S&P 500 index continued its string of all-time high closes; finishing at 3386.15 on February 19, 2020. This price level also represented the highest forward P/E ratio (19.0) for the index since 2002. The earnings surprises have led to a combined \$8.5 billion net increase in earnings for the index relative to their December 31 estimates.

Earnings surprises

Apple (\$4.99B vs. \$4.55B)
Microsoft (\$1.53B vs. \$1.32B)
Alphabet (\$15.35B vs. \$12.49B)
Amazon.com (\$6.47B vs. \$4.04B)
Intel (\$1.52B vs. \$1.25B)

What a difference a week makes!

So far, the week of February 24th has been the worst week for the stock market since the financial crisis in 2008. As news about the Coronavirus out of China has accelerated, stocks have dropped 10% from their recent highs. This is an extraordinary move in such a short period of time.



The Coronavirus Outbreak

Not only is the health situation getting worse, with the spread to more than 30 countries on six continents, but the actual impact on companies is growing. Dozens of companies have issued warnings about their future earnings due to the effects of the coronavirus. Some warnings have been to reduce previous earnings guidance, but many companies are simply removing guidance with statements like “We have no idea what the impact will be on our business.”

The uncertainty comes from both the supply and the demand side for companies. Can we get enough product to sell? or the parts needed to complete our manufacturing? – are questions on the supply side. But there are also questions about total consumption in the economy when millions of people across the globe are quarantined and millions/billions of others are reducing travel, not going to work, and not spending at normal levels.

While the current uncertainty about the virus is very real and very warranted; we are also quite certain that this will pass. These periods in the market provide a reminder to review your asset allocation and make sure it still matches your personal risk tolerance and time horizon. If you have questions about your current portfolio; give the investment team at Missouri Trust & Investment Company a call.



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Raymond leads the investment management team at Missouri Trust & Investment Company and advises institutional, retirement plan and individual clients on portfolio management, strategic and tactical asset allocation, and financial planning and wealth management strategies