

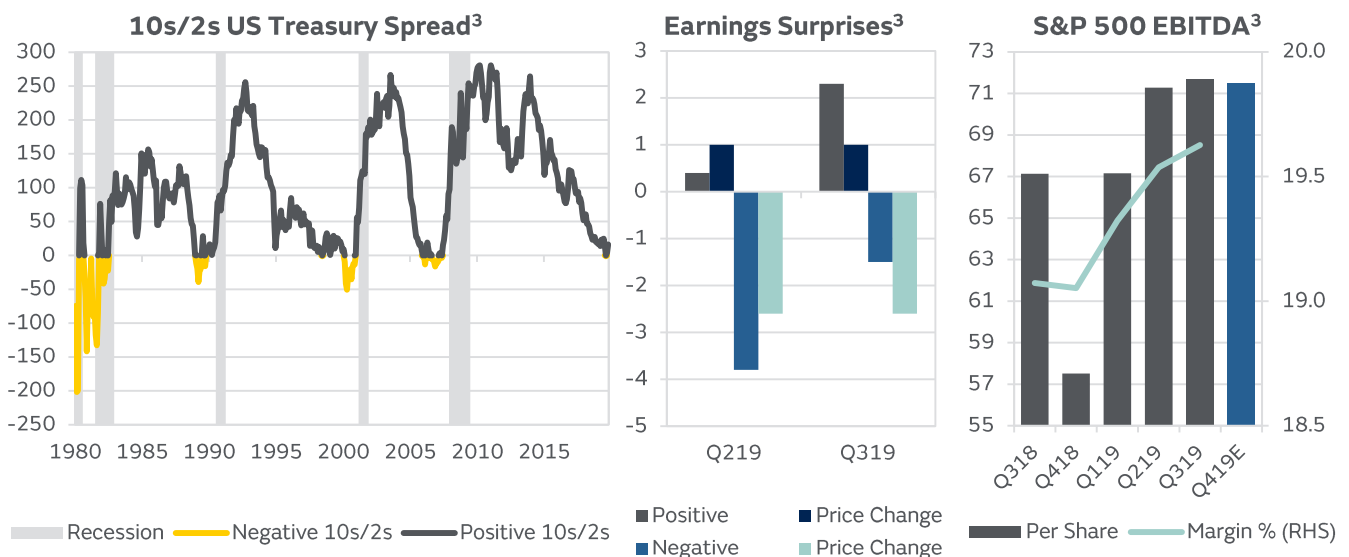
The Earnings Season Reality

As we continue churning higher, further extending the longest bull-run in history we pause to reflect recent hysteria posturing an imminent recession. A quick Google search on “recession” highlights a media frenzy complicit in click bait paranoia.

Today, investors have countless indicators at their disposal to measure economic health – some of which are reasonably sound leading indicators to predict an upcoming recession.¹ An obvious example is the 10s/2s treasury spread which over the summer experienced an inversion. Pair this with an above average number of companies issuing negative EPS guidance for Q3 and markets braced for an imminent recession.² This was evident in market prices as broad indices became stagnant, instead waiting for the data to be released. Using market returns as a barometer for future economic growth – the S&P 500 was down 0.5% in Q2 earnings season (May 16 – August 15)³.

Then Q319 earnings happened and 78% of companies beat earnings estimates.² Markets shrugged off recession concerns and markets rose 8.5% in Q3 earnings season (August 16 – November 15).³ Company earnings still matter and once investors realized this recession talk all but subsided.

While valuations are on the higher range historically, we believe this doom and gloom mantra leading up to Q319 earnings season was overdone. The history is clear – economists have an awful track record at predicting recessions.⁴ Yet, regardless of when we experience a recession, it is important for investors to make prudent, data driven investment decisions – starting with a balanced approach which should insulate investors from any news “evidence” which materializes into a recession.



	Recession in Actual and Consensus Forecasts					
	Consensus Forecasts Apr (t-1)			Consensus Forecasts Oct (t)		
	Non-Recession	Recession	Total	Non-Recession	Recession	Total
Non-Recession	1,145	8	1,153	1,120	33	1,153
Actual Recession	148	5	153	35	118	153
Total	1,293	13	1,306	1,155	151	1,306

Source: IMF Working Paper – How Well Do Economists Forecast Recessions? (March 2018)

Note: Apr (t-1) represents a forecast one year ahead, Oct (t) represents current year expectations. Table examines 29 advanced economies and 34 emerging economies from 1992 through 2014.

1 <https://fivethirtyeight.com/features/economists-are-bad-at-predicting-recessions/>
 2 Factset – Earnings Insight August 30, 2019 and November 15, 2019
 3 Bloomberg. Earnings Surprises chart is of the S&P 500 constituency
 4 IMF Working Paper – How Well Do Economists Forecast Recessions? (March 2018)

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