Weekly Market Recap

U.S. | October 26, 2020

The week in review

- Housing starts at 1,415K
- Initial claims at 787K

The week ahead

- 3Q20 real GDP
- Personal income and expenditure
- Durable goods orders
- New/pending home sales

Thought of the week

The third quarter earnings season is in full swing, and with ~20% of S&P 500 companies having reported, current estimates point to a 15.8% y/y decline in S&P 500 operating earnings per share (EPS), after a 33% decline in Q2 and a 49% decline in Q1. Thus far, earnings have generally surprised to the upside, with more than 83% of companies beating expectations and 76% beating on revenues. Pandemic trends like stay-at-home arrangements and business closures continue to be reflected in results: Health care and Technology earnings are beating expectations due to robust activity in biotech/pharmaceuticals and software investment, while the banks are taking smaller loan loss provisions and seeing significant growth in trading and capital markets revenue. In contrast, energy companies continue to struggle with the collapse in oil demand, and consumer discretionary earnings remain under pressure as service businesses struggle to remain open. All things considered, the risk to 2020 earnings appears to be to the upside, as the combination of a manufacturing rebound, weaker U.S. dollar and low interest rates suggests profits should continue to recover. However, consensus estimates for 2021 operating EPS of $164, or +44% y/y, feel too optimistic. Altogether, investors looking at equity markets today should strike a balance between secular growth and cyclicality, which will allow for participation if markets rally, but also protect on the downside if virus conditions worsen.

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Unless otherwise stated, all data is as of October 26, 2020 or as of most recently available.