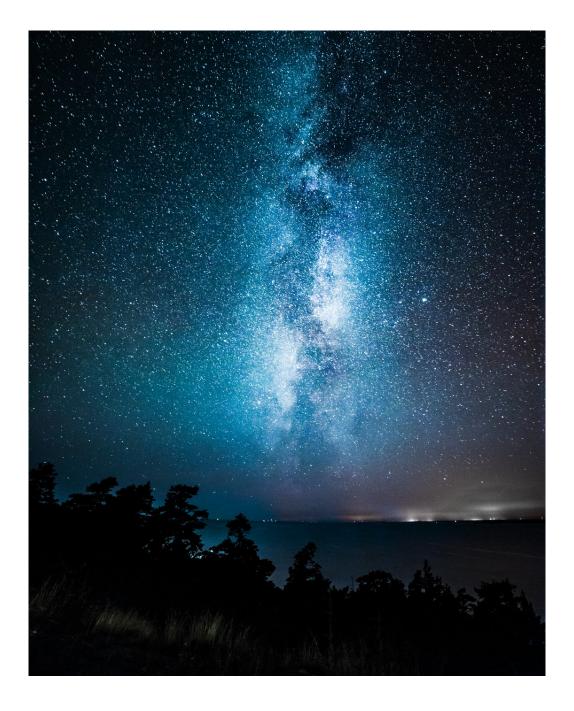


January 14, 2019

US Earnings Preview: A lower, but more affordable, orbit



The sky is not falling but Q4 earnings growth on the S&P 500 is expected to slow from the stellar pace of around 25%, achieved in the first three quarters of 2018.

On Monday, Citigroup will unofficially launch the US earnings season, with JP Morgan and Wells Fargo set to follow suit on Tuesday. Dimming prospects for future global growth, coupled with unabated trade tensions, have driven analysts to cut their expectations for earnings-per-share (EPS) growth from 16.7% at the start of the fourth quarter to 11.4% at the beginning of 2019, according to data compiled by FactSet. Nonetheless, if 11.4% is the actual growth rate for the quarter, it will mark the fifth straight quarter of double-digit earnings growth for the index.

The stakes are quite high after a painful December and investors need to see some positive numbers – especially given that earnings are a key driver of stock market performance. Our equity specialists note that with a lower hurdle in terms of expectations, there is some scope for surprises on the upside. It is also hoped that guidance for 2019 delivered on the accompanying earnings calls will be more in tune with economic reality, in contrast to the bearish sentiment on markets.

The ominous mood was further magnified by Apple's profit warning at the onset of the year in which it cut its revenue outlook by \$9 billion, citing falling iPhone sales in China on the latest three models. This gave the bears something more to chew on, adding to concerns about an overall slowdown in the Chinese economy as well as trade war fears. After the announcement, the estimated EPS growth rate for the fourth quarter was revised down by 1% for the aggregated US equity market measured via the S&P500. However, upon closer analysis, our equity analysts see some signs that this in fact could be an idiosyncratic issue caused by price elasticity problems affecting the price milestone (above \$1,000) on the latest generation of iPhones.

Amidst the negative sentiment which could easily curb enthusiasm for equities, we must not lose focus of the fundamental picture which is still quite robust and implies that the US is in a 'slowdown' rather than a 'contraction'. The economy is still expanding, just not at the breakneck speed enjoyed on the back of Trump's massive fiscal stimulus program, namely tax cuts. Consensus forecasts show US GDP growth at 2.6% for 2019 and we rarely see margin contraction when this figure is over 2%. In addition, consumer sentiment is robust, and the latest jobs report was solid with 312k jobs added while previous months were significantly upward revised. At the same time, the Federal Reserve has pledged to be flexible on monetary policy and said it is in no rush to raise interest rates. The prospect of rising rates is a source of concern for equity investors since they induce higher bond yields, eroding the relative attractiveness of stocks and the present value of future cash-flows. The US 10- year Treasury yield has in fact come down recently from around 3.2% to 2.7%.

With these factors, amongst others considered, we maintain a positive stance on US equities ahead of earnings season – particularly on late cyclicals, quality, low beta and large cap stocks.

Over the longer term, a lot will depend on how US/ China trade negotiations play out. Due to the interconnected nature of the world economy, if the two don't find common ground, it is very unlikely that any economy will come out unscathed and this could put a dent in corporate profitability.

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeless of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent,- subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of- date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch I L-2953 Luxembourg I RCS Luxembourg B-6307 I Tel. +352 4590 6699 I www bil com

