

LISTED COMPANIES' EARNINGS EXPECTATIONS SINCE THE ONSET OF THE COVID-19 CRISIS

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The impact of the COVID-19 crisis on stock market indices has been uneven across geographical regions. Market indices in the euro area countries and, in particular, in Spain have trended less favourably than their US counterparts. This performance has largely reflected the different impact investors expect the crisis to have on the future profits of listed companies in these regions and their levels of uncertainty.¹ A further conditioning factor has been the weight of the different economic sectors in stock market indices. Specifically, the banking industry has a greater relative weight in the IBEX 35 and is among those that have posted the biggest declines and those whose earnings expectations have most sharply diminished.

As Chart 1 shows, the level that analysts² on the whole expected the earnings per share of companies listed on the S&P 500, the EURO STOXX 50 and the IBEX 35 to reach in 2022 fell by around 5% from early February to late March 2020, essentially as a result of the global spread of the pandemic. In the following months, faced with the worsening health crisis, analysts continued revising these expectations downwards. The process was much more pronounced in the case of the companies comprising the IBEX 35, largely reflecting the relatively greater economic impact of the crisis on Spain and on the countries to which listed Spanish companies are exposed.³

Whereas expected earnings in 2022 for S&P 500 companies began to rise from mid-July, there was no such parallel process in Europe and in Spain until early November, following the announcement of effective vaccinations against the virus. Since then, the improvement in earnings expectations ahead of 2022 has been relatively modest. Indeed, profits are expected to be at levels around 20% and 30% lower than those expected

in February 2020 for EURO STOXX 50 and IBEX 35 companies, respectively. The more favourable performance of expected earnings for S&P 500 companies would be in line with the brighter prospects of a US economic recovery when compared with the euro area. In any event, analysts on the whole expect the adverse impact of the pandemic on listed companies' profits in 2022 to be smaller than it will be in 2021. That would be consistent with a gradual recovery in business activity throughout the forecasting horizon, and with a somewhat sharper pick-up in the case of listed Spanish firms.

As Chart 2 shows, uncertainty over profit forecasts in 2022, proxied by the coefficient of variation of analysts' estimates, increased across the board early in the pandemic and has only lessened gradually in recent months. This increase in uncertainty has proven more acute and persistent in the case of the IBEX 35 companies compared with what has happened to companies in the other two indices. In any event, in the three markets analysed, the level of uncertainty over earnings forecasts is greater for 2021 than for 2022. Once again, this suggests that investors expect the business landscape to progressively normalise over the coming quarters. In relative terms, this normalisation is expected to move at a swifter pace in the case of listed Spanish companies.

The impact of the pandemic on corporate earnings expectations has also been uneven across economic sectors. Chart 3 tracks the changes in earnings expectations for 2022 of the companies included in the sectoral sub-indices of the FTSE SPAIN⁴ since the start of the COVID-19 crisis. In line with the greater impact of the crisis on certain segments of economic activity, in the early months of the pandemic earnings expectations diminished more markedly in the energy and banking

1 According to equity valuation models, long-term earnings expectations are, along with investor risk aversion and the foreseeable course of the risk-free interest rate, fundamental determinants of the stock market price of the different companies. See, for example, Durham (2013), "Which component of treasury yields belongs in equity valuation models? An application to the S&P 500", *The Journal of Portfolio Management*, 39 (4), pp. 80-90.

2 The earnings expectations have been extracted from the I/B/E/S database.

3 Changes in the earnings expectations of the companies included in these indices may not be representative of the changes shown by these countries' overall companies (listed and unlisted alike). For example, the IBEX 35 only includes the biggest Spanish companies by market capitalisation. Given that, in the main, these companies are large international groups, whose earnings may be influenced by the course of economic activity not only in Spain but also in other world regions (in particular in Latin America), their economic dynamics may differ – sometimes substantially – from those of other, less international Spanish companies.

4 As sector-by-sector information on the earnings expectations of the Ibx 35 companies is not available, we have used the FTSE Spain. This index includes a broader set of companies as it also incorporates small and medium-sized firms in terms of their market capitalisation. For the same reason, in the case of the euro area we have used the EURO STOXX, which is a sub-set of the STOXX Europe 600 index, made up only of euro area companies.

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sectors.⁵ Admittedly, since early November the announcement of effective vaccinations has helped stabilise expected profits in these sectors, with the

prospects for banking even improving somewhat. That said, expectations remain far below the pre-crisis level. This sectoral heterogeneity can also be seen in euro area

Chart 1
LISTED COMPANIES' EARNINGS PER SHARE (EPS) EXPECTATIONS (a)

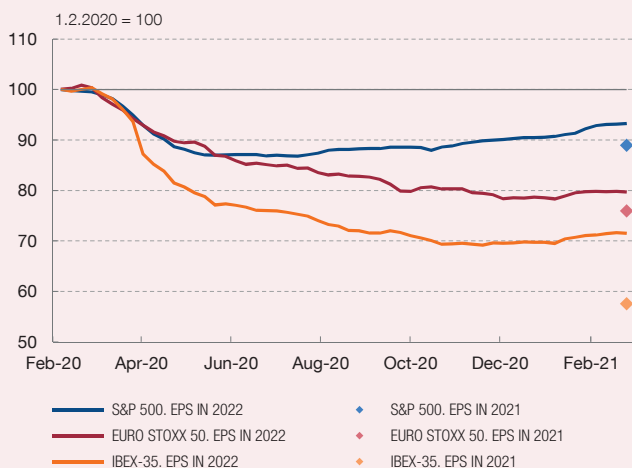


Chart 2
DISPERSION OF LISTED COMPANIES' EARNINGS PER SHARE EXPECTATIONS (b)

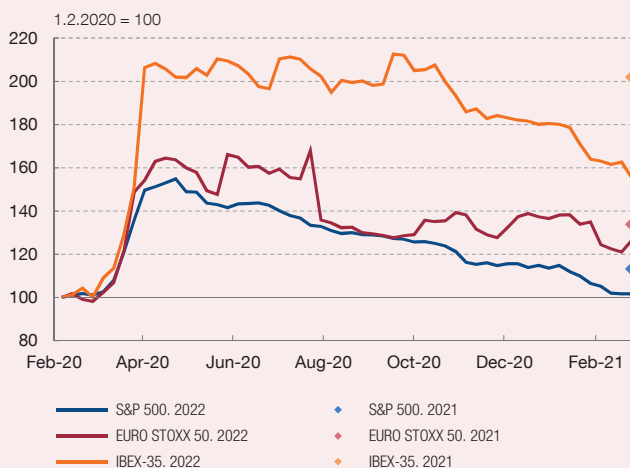


Chart 3
SPANISH LISTED COMPANIES' EARNINGS PER SHARE EXPECTATIONS FOR 2022, BY SECTOR (a) (c)

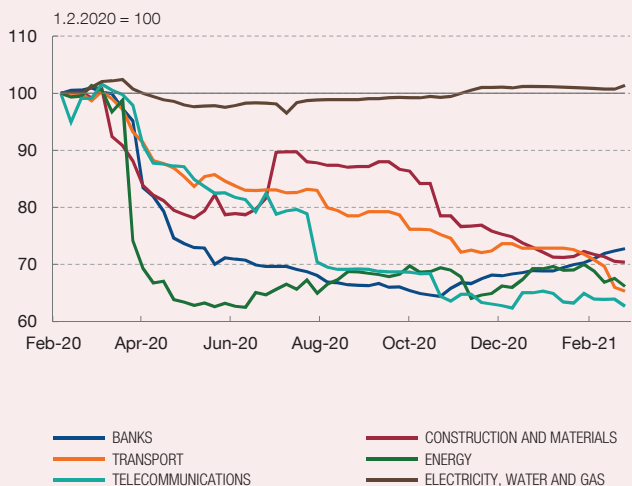
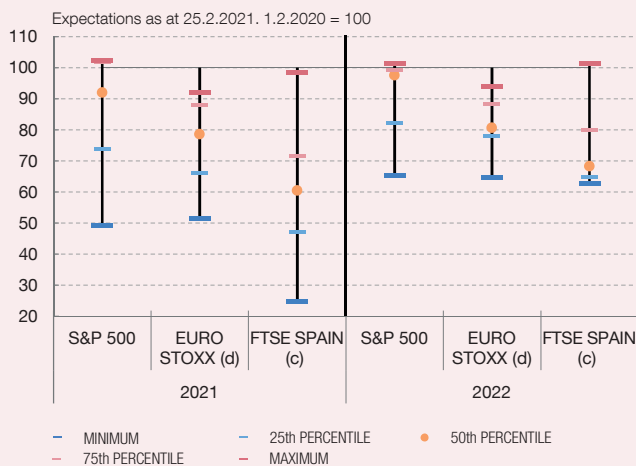


Chart 4
DISTRIBUTION BY SECTOR OF LISTED COMPANIES' EARNINGS PER SHARE EXPECTATIONS (a)



SOURCE: I/B/E/S Thomson Reuters Datastream.

- a Average of analysts' estimates.
- b Coefficient of variation of analysts' estimates.
- c See footnotes 4 and 5 to the box.
- d See footnote 4 to the box.

5 There is no information available on earnings expectations for certain sectors, such as real estate and commercial goods and services. Classified under the latter sector are tourism and leisure, whose earnings expectations will have been most adversely affected by the pandemic.

and US listed companies. In this connection, Chart 4 shows the distribution of expected earnings, at the cut-off date for this box, for 2021 and 2022 of the companies included in the sectoral indices of the S&P 500, the EURO STOXX and the FTSE SPAIN, comparing them with

the levels forecast in early 2020. An across-the-board reduction can also be seen in cross-sectoral dispersion in 2022 compared with 2021, especially in the case of the Spanish index, owing essentially to the better expectations for next year in the sectors most affected by the pandemic.