Wall St awaits historic surge in corporate America’s earnings

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Big US companies are expected to reveal a mammoth rebound in profits during second-quarter earnings season, underscoring the scale of the recovery in corporate America’s fortunes since the depths of the pandemic.

Groups listed on the blue-chip S&P 500 index are forecast to post year-on-year earnings-per-share growth of almost 63 per cent for the three months to the end of June, following an increase of 52.5 per cent in the first quarter of 2021, according to FactSet data. If the second-quarter data match Wall Street’s expectations, it would mark the largest increase since the immediate wake of the 2008-09 financial crisis.

Earnings season, which kicks off this week with big banks like JPMorgan Chase, Bank of America and Citigroup reporting their financial results, will take on particular importance since the S&P 500 is trading near a record high after rallying almost 16 per cent since the start of this year.

The forecast recovery in profits, following a deep earnings recession in the first three quarters of last year triggered by the coronavirus crisis, is expected to be led by banks and other economically-sensitive groups, said Jonathan Golub, chief US equity strategist at Credit Suisse.

Shares in these “cyclical” companies have performed well this year as investors expect the world’s biggest economy to post vigorous growth after last year’s 3.5 per cent drop in output.

Energy shares, which have benefited from a rally in commodities prices, have led the way this year, with the S&P 500 index tracking the sector up by more than a third this year. Financials, a grouping that includes banks, is up by about a fifth since the end of 2020.

Golub added that expectations of a big rise in earnings have been a key reason for this year's increase in equity prices. It has meant that even as the S&P 500 has jumped to a historic peak, key measures of valuations have remained mostly stable. The index is currently priced at 21.6 times expected earnings over the next year, compared with 22.16 at the end of December, according to FactSet data.

Still, Rupert Thompson, chief investment officer at Kingswood Group, sounded a note of caution.

"I think we're at the peak for absolute levels of growth," he said. "I'm not saying it's going to turn negative, but the idea that earnings are going to remain as big a support as they have over the past six months to a year [is dubious]."

Geir Lode at Federated Hermes echoed this sentiment, warning that earnings season represented a "potential hiccup" for markets, which "may prove challenging for many companies as they struggle to meet such high expectations following a strong first quarter".