

Outstanding earnings prospects

Overview

Benchmark equity indices, both in Europe and the US, went on to set new records last week on the back of superb quarterly earnings figures and upbeat macroeconomic news – offsetting fears of coronavirus variants impacting economic output.

New records on benchmark European and US equity indices

In the US, the non-manufacturing PMI shot up in July, staging its fastest monthly rise since 1997 to strengthen to 64.1 – considerably above the estimated 60.5 – as the business activity, new orders, prices and employment component each gained, responding to the demand spurt from the lifting of pandemic-related restrictions. Since services occupy for close to 80% of the US workforce, this is obviously good news for jobs and GDP growth.

Eagerly awaited job stats testified to the impetus of the US economic upswing, with additions surging to 943,000 in July whereas the consensus forecast was 845,000. Admittedly, the forecast range at between 350,000 and 1.2 million was huge – a sign of the current uncertain times. Furthermore, job creation in June was revised up to 938,000 while, in July, the unemployment rate tumbled to 5.4%. Wages were up 0.4% month over month, which was faster than expected. Similarly, initial jobless claims ebbed further, declining to 385,000.

Job stats testified to the impetus of the US economic upswing

Investors are busy trying to guess what the Fed will do next. It might announce tapering starting in 2022 when next meeting in September, a prospect that has stoked fears and nudged the 10-year yield to 1.3%. In our view, that would be too early. The Fed has always stated that it would not withdraw monetary stimulus so long as the job market is not back on its feet again. Pandemic-induced job attrition, relative to February 2020, still stands at 5.7 million.

Corporate earnings publications for the second quarter have blasted through estimates, and the uptrend in guidance revisions continues – not only for the next two quarters but also for 2022 as well. Amid European firms, earnings growth stood at 159%, which was 32 percentage points higher than the consensus estimate. This earnings trend is providing vital support to equity market performance in the face of the expanding delta variant and the shockwave from tighter Chinese regulations. Dividend payouts and share buybacks are currently all the rage. In the US, over 70% of S&P 500 members have reported their figures. Earnings and sales have shown record increases of 86% and 21%, respectively. Guidance indicates earnings growth of 40% and 10% for 2021 and 2022, respectively.

Even though higher production costs could eat into margins and shares are already expensively priced, we believe that equity markets still have some upside.





Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.92	1.08	12'176.30	4'174.54	15'761.45	6'816.96	7'122.95	4'436.52	14'835.76	27'820.04	1'292.53
Trend	➡	➡	➡	⬆	⬆	⬆	⬆	⬆	⬆	➡	⬇
YTD	3.37%	-0.48%	13.76%	17.51%	14.89%	22.80%	10.25%	18.12%	15.11%	1.37%	0.10%

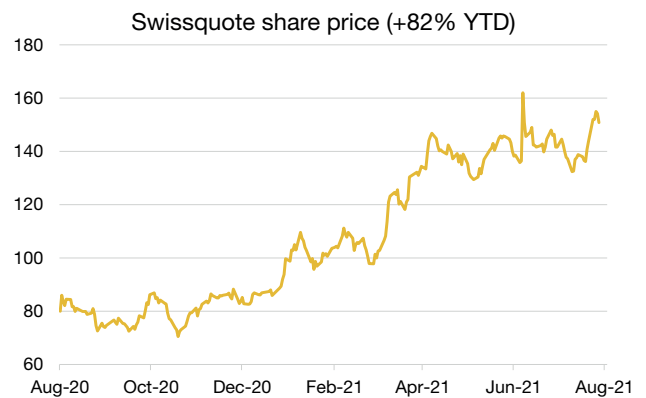
(values from the Friday preceding publication)

Swissquote's meteoric rise

Online bank Swissquote last Friday reported H1 2021 financials that, as expected, were out of this world, propelled upwards by unprecedented trading activity, new clients, the febrile mood surrounding cryptocurrencies and record-breaking markets. Longstanding income sources, namely brokerage (+10.9%) and forex commissions (+4.9%), underpinned the record numbers, which stemmed mainly from income tied to cryptocurrencies. Indeed, cryptoassets yielded 12 times more revenue than in the prior-year period. Swissquote is one of the European leaders in this segment, offering more than 20 cryptocurrencies and holding CHF 1.9 billion in cryptoassets on deposit.

New inflows of funds amounted to CHF 4.9 billion, and close to 50,000 new accounts were opened in the first six months of 2021.

Despite loftier operating costs resulting from higher overheads and personnel costs, EBIT shot up by 130.4% to CHF 134.6 million on revenue growth of 63.7%. Encouraged by these results, the group revised up its guidance figures and now projects revenue of CHF 465 million (up from CHF 365m previously) and EBIT of CHF 210 million (vs. CHF 130m). Momentum is bound to slow in the second half of the year but Swissquote is well placed to continue gaining from the rising popularity of e-trading as well as its new mortgage partnership with the Lucerne Cantonal Bank.



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