

Key Questions

What Should Investors Expect from Q1 Earnings?

April 6, 2020

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Forward guidance will matter more than the results of first quarter earnings.

It feels as if we have lived a thousand lives over the past quarter. Being a market participant in the current environment is as exciting as it is nerve-racking. When we examine what to expect from companies in the first quarter, it is important to remember that the COVID-19 pandemic only began to be taken seriously by many investors in the first couple of weeks of March.

Given this, less than a third of the quarter was impacted by various lockdown orders across the globe. In fact, we think that the first quarter largely does not and will not matter to markets as earnings season ramps up this week.

What matters more, in our view, is forward guidance. However, we think that the situation is so unpredictable at this point that companies will mostly remove any guidance that they still have. Your view on markets will likely be better informed by asking yourself: Do you think things will be back to normal by 2021? Thus, the following remarks will not include much in the way of quarterly forecasts but rather take more of a qualitative view of the current macroeconomic backdrop and intermediate-term considerations.

Starting with the economy, there have been nearly 10 million jobless claims filed over the last two weeks, with likely many more to come. In our view, consumer spending — the largest share of the GDP pie — will decline almost instantly with such

an acute loss of jobs. Consensus expectations are that second quarter GDP will contract 20% or 30%. Will it rebound in the third or fourth quarter?

A recent Harris poll examined consumer behavior expectations and revealed that, for some, resumption of normal activities such as going to the office or out to dinner could take a full year after the US government declares there is a flattening of the spread of COVID-19. Other activities such as taking a cruise, booking a flight, or staying in a hotel were viewed as even less likely to have returned to normal in twelve months. In other words, the knock-on economic impacts of COVID-19 could last longer than many hope.

In sum, we think that first quarter earnings will largely not show the full impact of COVID-19. With some companies' fiscal years not aligned with the calendar year, there will be a lumpy cadence in the tone of earnings reports throughout the quarter. From everything that we have heard from the private sector, it was business as usual until the second week in March; after that, activity declined precipitously. Because of this, we do not think that first quarter results will impact the market much, and we instead consider guidance to be more important. Looking forward, while stocks have already sold off, we believe there is likely more economic pain to come.

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