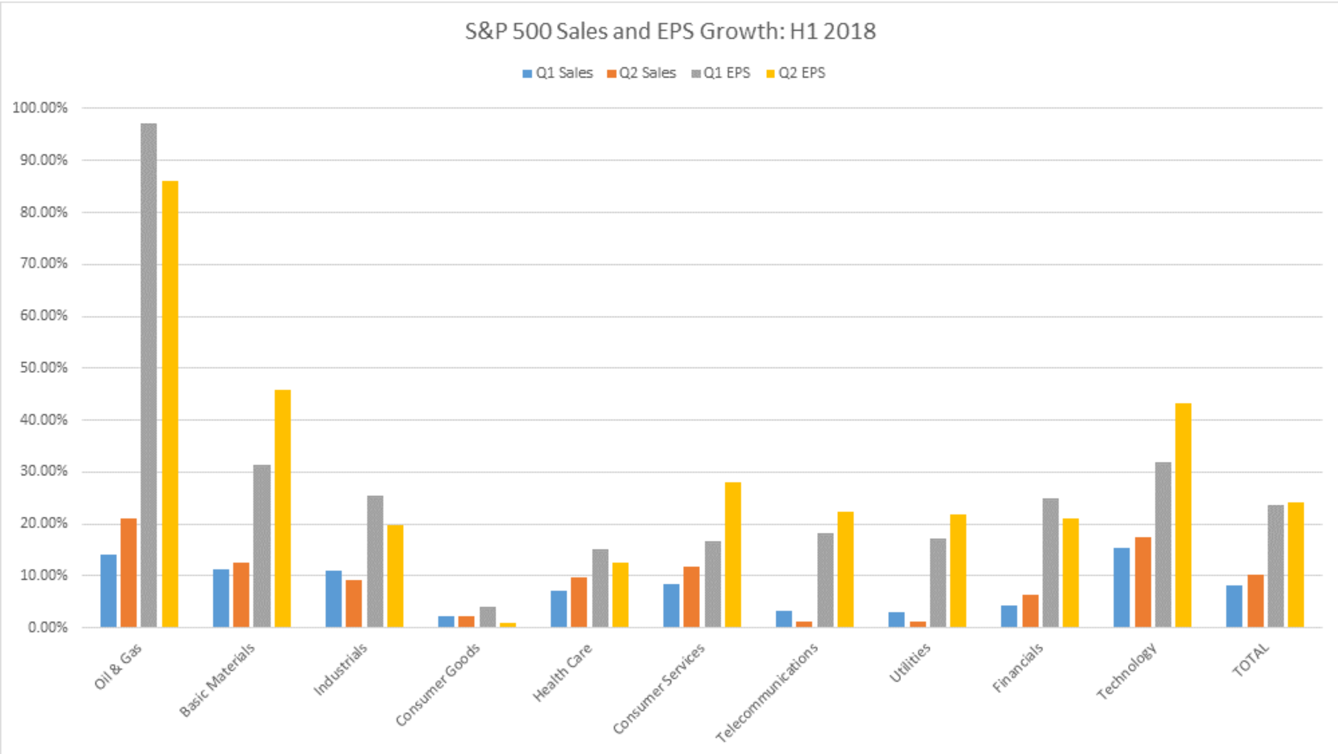
LGT Vestra Snapshot

Q2 US earnings – companies continue to post strong results

1 August 2018

Just over half the S&P 500's constituents have reported for Q2 and 83% have exceeded earnings expectations. Looking at the 277 of the 497 companies by sector, 7 out of the 10 sectors have posted higher Q2 sales growth than Q1, with an average Q2 sales growth of over 10% versus Q1 sales growth of 8.2%.

It is pleasing to see that the very strong EPS growth that was experienced in Q1, boosted mainly by Trump's tax reform has continued. 8 out of 10 of sectors have experienced higher EPS growth in Q2 than Q1.



This paints a picture of strengthening growth with corporate earnings beating expectations. However, YTD this has not translated to stock market performance due to worries about the global trade war, concerns over the impact of interest rate rises and asset price appreciation over the past 9 years.

However, since the recent meeting between Juncker and Trump and the resuscitation of the NAFTA talks, the risks surrounding trade wars have abated to some extent. With regard to concerns over the interest rate hiking cycle, data released last week showed that US GDP grew at an annualised rate of 4.1% for the second quarter. The real year-on-year growth of 2.8% was the strongest figure since 2015, demonstrating that the underlying trend remains strong. And finally addressing the valuation point, equities still look attractive relative to bonds, so when allocating client capital in a portfolio we still believe there is value being overweight in equities, particularly US equities at this point. These are three key pieces of evidence supporting the case for investing in US equities and we are using an active US manager, Morgan Stanley US Advantage fund to get exposure to the sector in the model portfolios and Volare funds.