



Scott Wren
Senior Global Market Strategist

Last Week's S&P 500 Index: +1.4%

Will earnings season yield useful information?

Key takeaways

- Earnings season begins in earnest this week as the busiest part of the reporting season begins.
- We look for more conviction in overall company guidance as the economic skies have cleared dramatically from the year-ago period.

As the economy has jumped out of a very deep but short recession with assistance from COVID-19 vaccinations, massive stimulus spending, and easy, low-interest-rate-driven monetary policy from the Federal Reserve, businesses both large and small have had the opportunity to adapt to the current environment and earn revenues. Did they do it? And how well did they play the hand that was dealt to them? This week, and for the next three weeks, the bulk of companies in the S&P 500 will report first-quarter results. So, finally, the absolute last step in the business process, the actual reporting of results, will be cast upon investors in a big way over a short time period.

In “normal” times, earnings reporting season is typically more of a confirmation process. Analysts make economic projections and derive profit estimates based on the expected level of activity (gross domestic product, or GDP, growth). Individual companies also do their best to estimate revenues and profits in the economic environment they anticipate. Historically, the consensus estimate has generally been at least somewhat near the correct level of economic growth and companies have reported earnings that have largely been in line with guidance previously passed along to analysts covering their companies and the investing public. There are always big beats and big misses on an individual company basis relative to expectations, but for the overall market, usually has not been so much. On average, over time, 65% to 70% of companies have produced results in excess of the consensus estimate because individual companies have tended to give conservative guidance, especially in uncertain times.

So for strategists, the most important piece of the earnings reporting season puzzle is the outlook companies are willing to give as they assess their prospects looking forward (not backward, as reported earnings do). What lies ahead in the near-to-intermediate future is what investors are paying attention to and what can carry stocks forward (or hold them back) in coming quarters. Is earnings guidance in line with the robust economic expectations we and the Wall Street consensus carry for this year? We are about to find out. That question will largely be answered in the coming weeks but thus far first quarter results have come in well ahead of guidance.

It appears the economy is now well on its way to recovery. Still, earnings guidance early in the current reporting season appears to lean more conservative than our economic projections suggest. With strong growth ahead, many of these companies are likely trying to decide how optimistic their guidance to the “Street” will be. Our \$190 earnings estimate for the S&P 500 this year shatters the previous \$163 record result set in 2019 and reflects our optimistic outlook. We will see if companies issue guidance that yields useful information and reflects this positive view.

Investment and Insurance Products: NOT FDIC Insured ► NO Bank Guarantee ► MAY Lose Value

Risk Considerations

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. CAR 0421-02638