

U.S. Equity Strategy

1Q21 Earnings Preview: The Reopening Begins

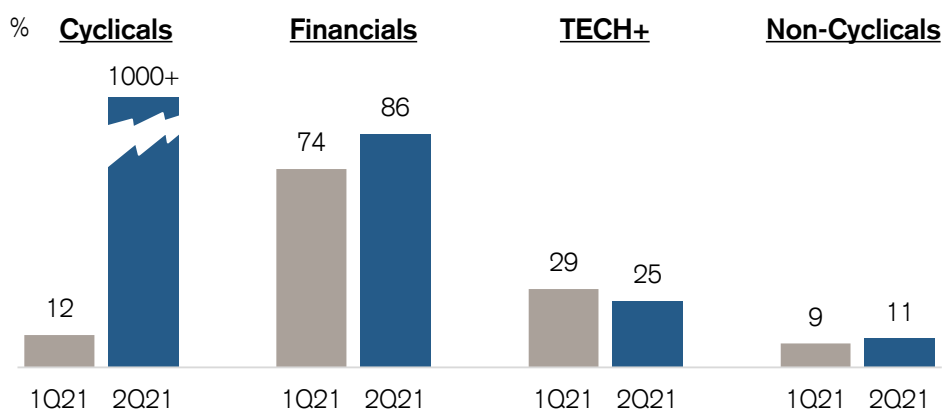
Strategy | Economics and Strategy

1Q21 earnings season kicks off on April 14 with results from several large Banks. 1Q EPS is projected to grow 21%, compared to 1% last quarter and 51% next. Easy comps, economic reacceleration, and a rebound in commodity prices are driving this unprecedented surge in profits, which reaches its apex in 2Q21. The ISM and other economic readings point to continued outsized beats.

Key Observations for 1Q21 Earnings Season

- **Cyclicals: Discretionary** EPS is forecasted to grow (100%+), the most of any sector, on a rebound in Autos (500%+), Softline Retail (200%+) and Durables & Apparel (100%+). Gaming, Lodging & Leisure remains a sore spot (-200%+). EPS for **Materials** is projected to grow 45%, but is expected to contract for **Energy** and **Industrials** (largely due to Airlines), before jumping sharply in 2Q as the reopening kicks into full gear.
- **Financials:** Delivered the highest EPS surprises (24%) among sectors in 4Q20. Banks are projected to grow EPS at 150% on higher interest rates, stronger investment banking and trading, and improving credit conditions.
- **TECH+:** All subgroups are expected to deliver double-digit EPS growth, with Internet Retail (85%) the strongest and Software (15%) the weakest. However, TECH+ is the only group expected to witness decelerating earnings growth into 2Q.
- **Non-Cyclicals:** Health Care is the only bright spot with EPS growth of 18%.

Figure 1: Consensus 1Q21 & 2Q21 EPS Growth: S&P 500



Source: Standard & Poor's, Refinitiv, FactSet and Credit Suisse

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Figure 2: Historical Revision to Annual S&P 500 EPS Estimates

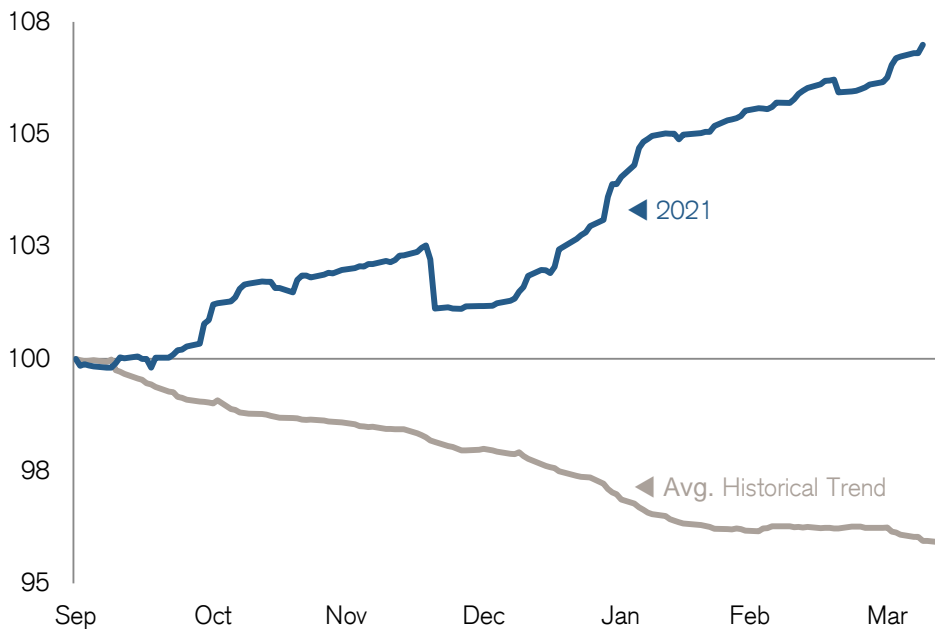


Estimates tend to rise coming out of an economic downturn

2018 was an exception due to tax changes

Note: EPS indexed at 100 on 9/30 of prior year
 Source: Standard & Poor's, Refinitiv, FactSet, Credit Suisse

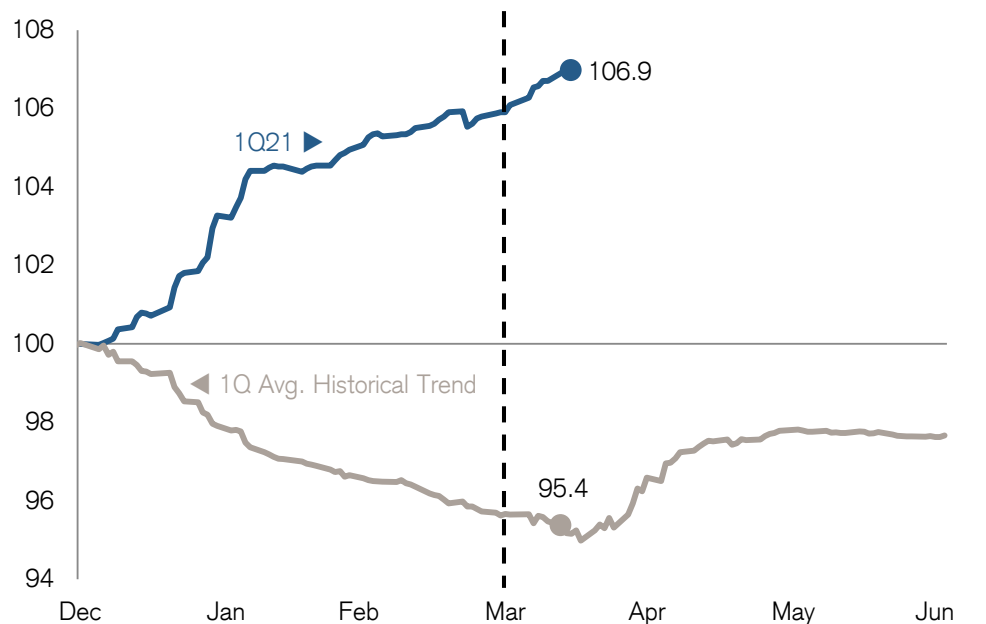
Figure 3: Path of 2021 Bottom-Up Consensus S&P 500



2021 estimates have been rising over the past 9 months

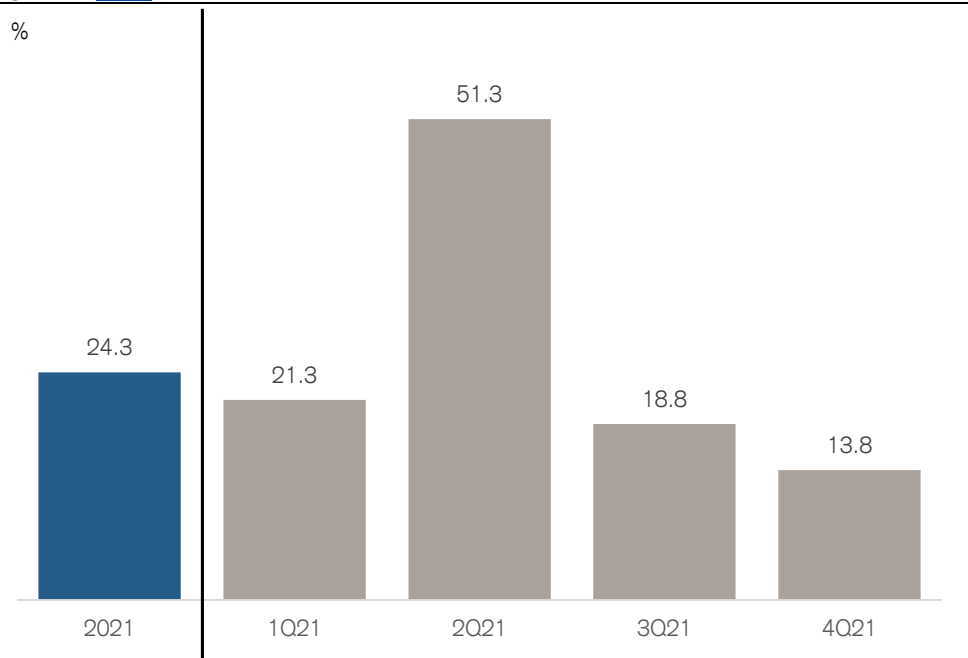
Note: Historical trend based on estimates from 2011-19. 2021 EPS Indexed at 100 on September 30, 2020
 Source: Standard & Poor's, Refinitiv, FactSet, Credit Suisse

Figure 4: Path of 1Q21 Bottom-Up Consensus S&P 500



Note: Historical trend based on estimates from 2011-19. 2021 EPS Indexed at 100 on December 31, 2020
 Source: Standard & Poor's, Refinitiv, FactSet, Credit Suisse

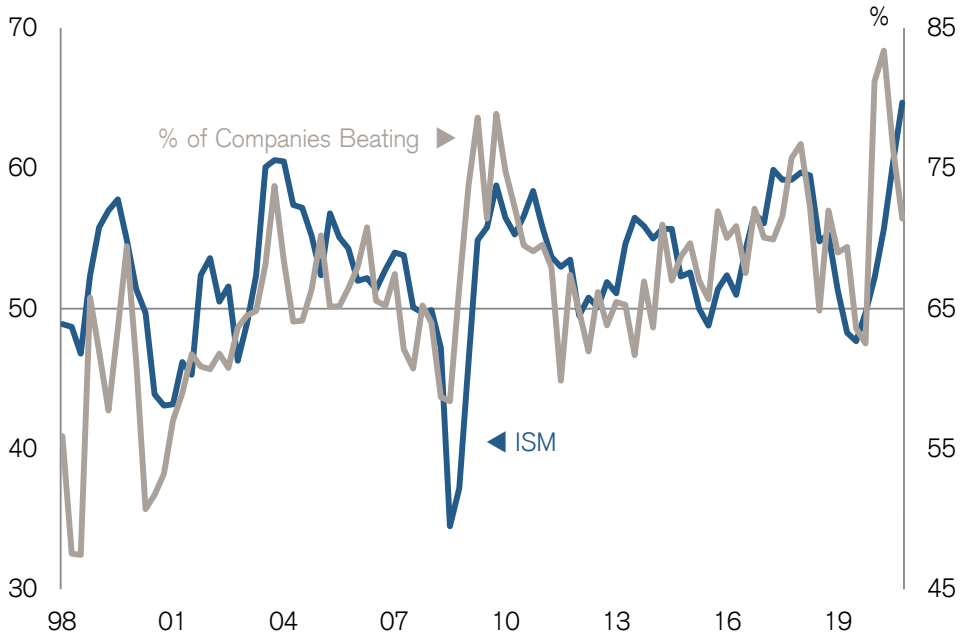
Figure 5: 2021 EPS Growth: S&P 500



Earnings are expected to surge in 2Q21

Source: Standard & Poor's, Refinitiv, FactSet and Credit Suisse

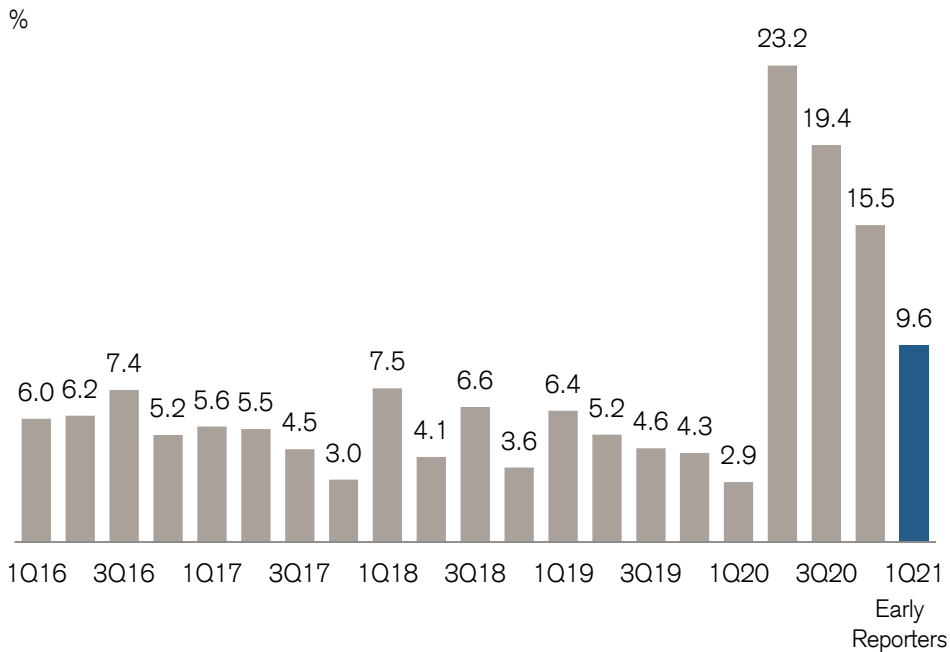
Figure 6: ISM Manufacturing vs. % of Companies Beating Earnings



ISM readings are highly correlated with EPS beats. March ISM hit a cycle high 64.7, and bodes well for 1Q earnings surprises

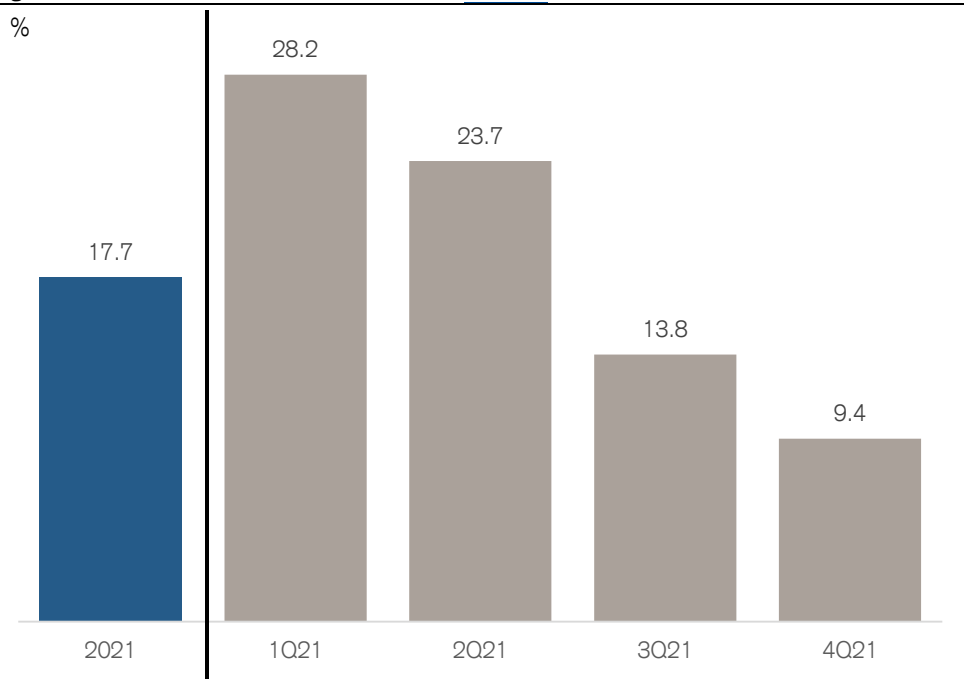
Note: ISM is 3-Month Moving Average with last data point actual. Latest ISM represents March reading
 Source: Institute for Supply Management, Standard & Poor's, Refinitiv, Haver Analytics®, FactSet, Credit Suisse

Figure 7: Historical EPS Surprise



Note: 1Q21 based on consensus estimates
 Source: Standard & Poor's, Refinitiv, FactSet, Credit Suisse

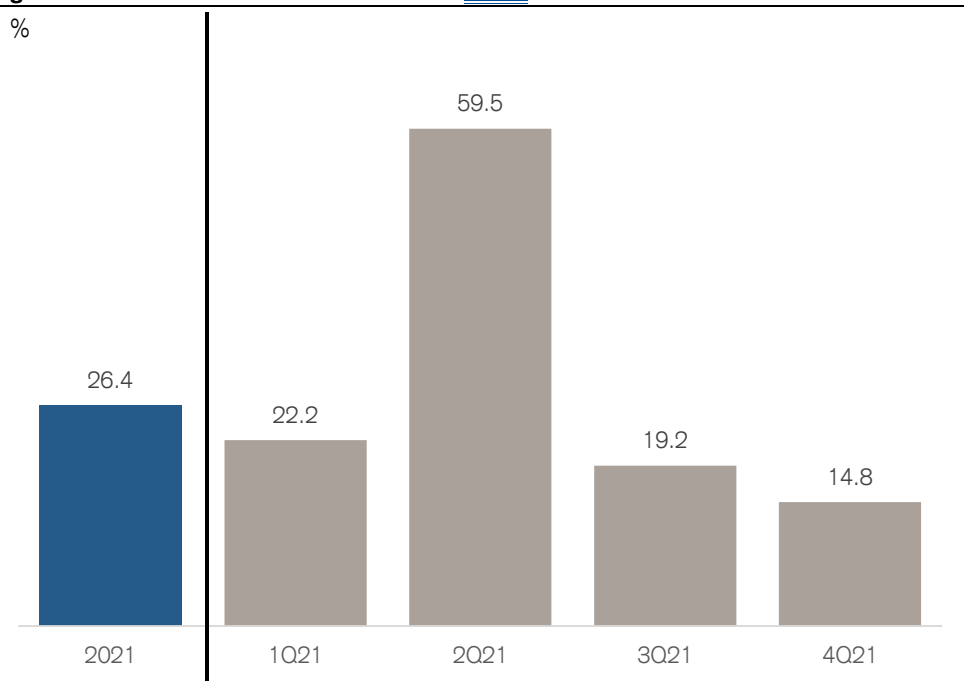
Figure 8: 2021 EPS Growth: Russell 1000 [Growth](#)



EPS Growth for the Growth benchmark is expected to decelerate throughout 2021

Source: Russell, Refinitiv, FactSet and Credit Suisse

Figure 9: 2021 EPS Growth: Russell 1000 [Value](#)



EPS growth for the Value benchmark is expected to surge in 2Q21

Source: Russell, Refinitiv, FactSet and Credit Suisse

Figure 10: [1Q21](#) Consensus Growth Dashboard

	Weighted Growth YoY (%)				
	Revenue	Margins	Earnings	Buybacks	EPS
S&P 500	6.4	14.4	20.8	0.6	21.3
Energy	-9.2	3.8	-5.4	-4.1	-9.6
Materials	9.3	35.8	45.1	-0.1	45.1
Industrials	-3.2	-15.7	-18.9	-0.1	-19.0
Capital Goods	-0.3	5.7	5.4	-6.6	-1.1
Business Services	0.6	9.0	9.6	1.0	10.6
Transportation	-10.9	-184.1	-195.0	N.M.	-259.7
Discretionary	14.7	67.0	81.8	N.M.	99.6
Automobiles & Components	10.6	640.3	650.9	N.M.	583.7
Durables & Apparel	14.9	101.6	116.5	-1.3	115.2
Consumer Services	-26.4	-184.3	-210.7	N.M.	-325.7
Hardline Retail	13.2	35.6	48.8	3.3	52.2
Internet Retail	38.2	44.6	82.8	2.2	85.0
Softline Retail	34.8	200.8	235.6	3.6	239.2
Technology	15.8	5.8	21.5	2.9	24.4
Software & Services	9.4	3.9	13.2	1.4	14.6
Technology Hardware	21.0	12.6	33.6	6.0	39.6
Semiconductors	19.7	3.6	23.3	2.7	26.0
Comm Svcs	9.2	1.1	10.3	-0.9	9.4
Telecommunication Services	5.1	-9.0	-3.9	-1.2	-5.1
Internet Svcs & Home Ent	26.1	19.7	45.8	-0.3	45.5
Media & Entertainment	-1.5	-12.2	-13.7	-0.5	-14.2
Financials	4.8	71.8	76.6	1.1	77.7
Investment Banks	9.0	141.0	149.9	-5.9	144.0
Regional Banks	-0.2	163.1	162.8	3.8	166.6
Diversified Financials	9.1	63.4	72.5	-6.3	66.1
Insurance	6.3	-2.5	3.8	3.2	7.0
Staples	2.4	-2.2	0.2	0.8	1.0
Food & Staples Retailing	1.4	-10.8	-9.4	2.6	-6.8
Food Beverage & Tobacco	3.6	0.4	4.0	-0.1	3.9
Household & Personal Products	4.8	-4.1	0.7	1.0	1.7
Health Care	9.4	10.1	19.5	-1.5	18.0
HC Equipment & Services	7.8	19.3	27.1	1.0	28.1
Pharma, Biotech, & Life Sci	15.9	-1.0	14.9	-2.8	12.1
Utilities	5.1	-0.2	4.9	-2.1	2.7
REITs	0.0	0.0	0.0	-2.1	-2.1
TECH+	20.8	5.7	26.5	2.6	29.1
S&P 500 ex-TECH+	3.7	19.0	22.7	-0.2	22.5
Cyclicals	0.3	9.4	9.7	1.3	10.9
S&P 500 ex-Cyclicals	9.5	17.4	26.9	0.4	27.3
Non-Cyclicals	6.4	3.5	9.9	-1.1	8.8

Discretionary and Financials are expected to deliver robust growth in 1Q21

Note: Blend of actuals where available and estimates

Source: Standard & Poor's, Refinitiv, FactSet, Credit Suisse

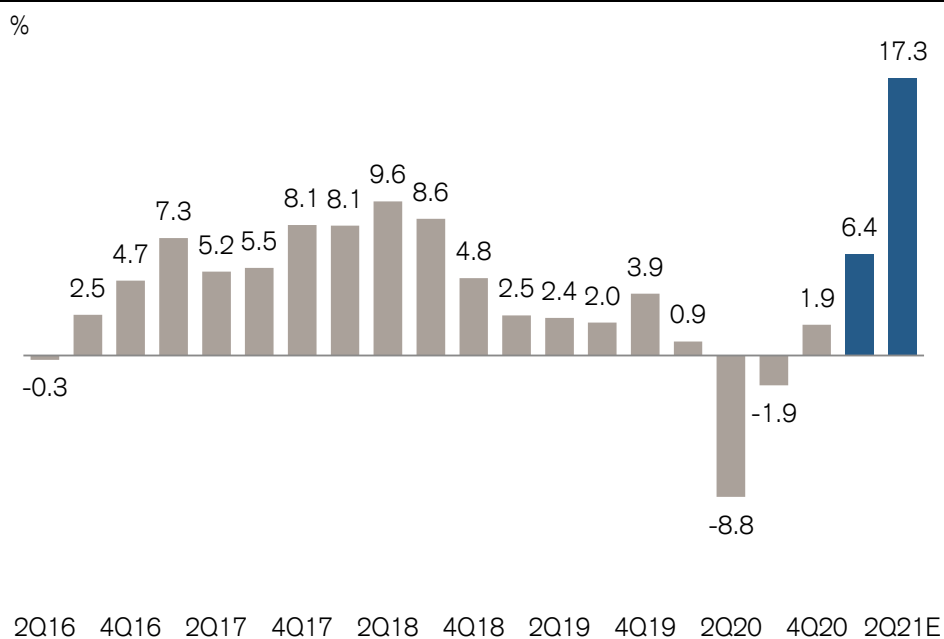
Figure 11: [2Q21](#) Consensus Growth Dashboard

	Weighted Growth YoY (%)	
	Revenue	EPS
S&P 500	17.3	51.3
Energy	80.5	205.2
Materials	29.9	80.2
Industrials	21.7	821.1
Capital Goods	16.6	106.2
Business Services	6.8	13.8
Transportation	40.4	134.7
Airlines	268.0	69.6
Road & Rail	25.2	55.4
Discretionary	29.1	235.1
Automobiles & Components	110.7	281.0
Durables & Apparel	33.5	287.9
Consumer Services	93.6	100.8
Gaming, Lodging & Leisure	222.3	63.2
Restaurants	48.1	1896.6
Hardline Retail	2.7	4.3
Internet Retail	20.8	4.3
Softline Retail	50.2	307.4
Technology	12.6	20.8
Software & Services	10.9	14.3
Technology Hardware	11.9	24.9
Semiconductors	17.6	28.2
Comm Svcs	18.9	34.2
Telecommunication Services	5.4	13.6
Internet Svcs & Home Ent	32.0	55.1
Media & Entertainment	12.6	8.1
Financials	1.9	86.5
Investment Banks	-8.8	97.7
Regional Banks	-0.9	173.9
Diversified Financials	8.1	62.2
Insurance	4.8	51.4
Staples	5.0	8.5
Food & Staples Retailing	3.9	13.4
Food Beverage & Tobacco	6.0	8.0
Household & Personal Products	8.2	5.8
Health Care	15.1	14.0
HC Equipment & Services	13.1	6.4
Pharma, Biotech, & Life Sci	21.8	19.1
Utilities	7.1	2.4
REITs	6.9	4.0
TECH+	17.0	24.6
S&P 500 ex-TECH+	17.4	76.6
Cyclicals	33.7	1182.3
S&P 500 ex-Cyclicals	10.3	28.2
Non-Cyclicals	10.2	10.7

Cyclicals are expected to rebound in 2Q21

Source: Standard & Poor's, Refinitiv, FactSet, Credit Suisse

Figure 12: Historical Revenue Growth

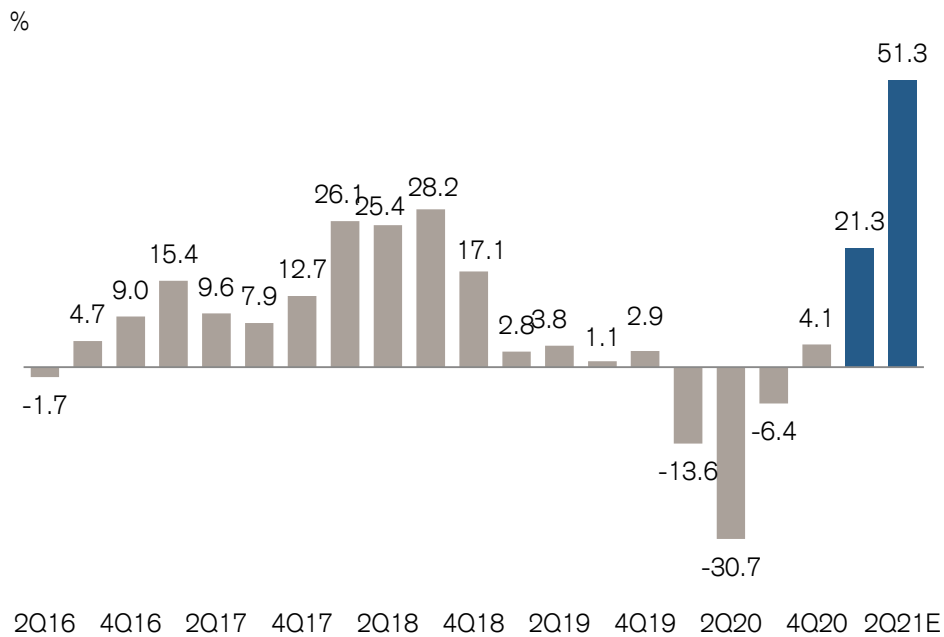


Revenue and EPS growth are expected to accelerate in 1Q-2Q21

Note: 1Q21 based on consensus estimates

Source: Standard & Poor's, Refinitiv, FactSet, Credit Suisse

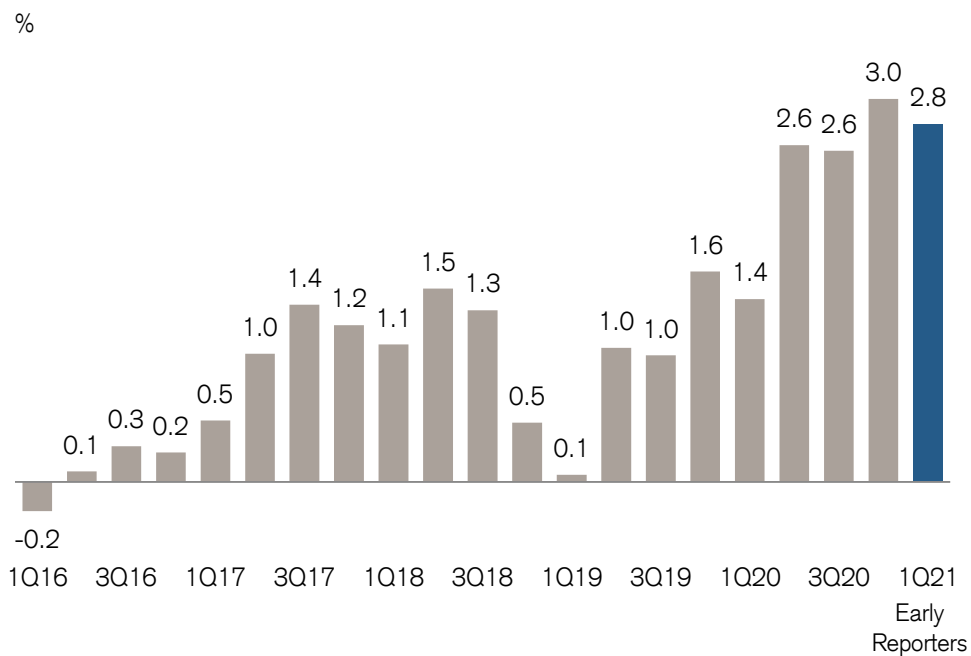
Figure 13: Historical EPS Growth



Note: 1Q21 based on consensus estimates

Source: Standard & Poor's, Refinitiv, FactSet, Credit Suisse

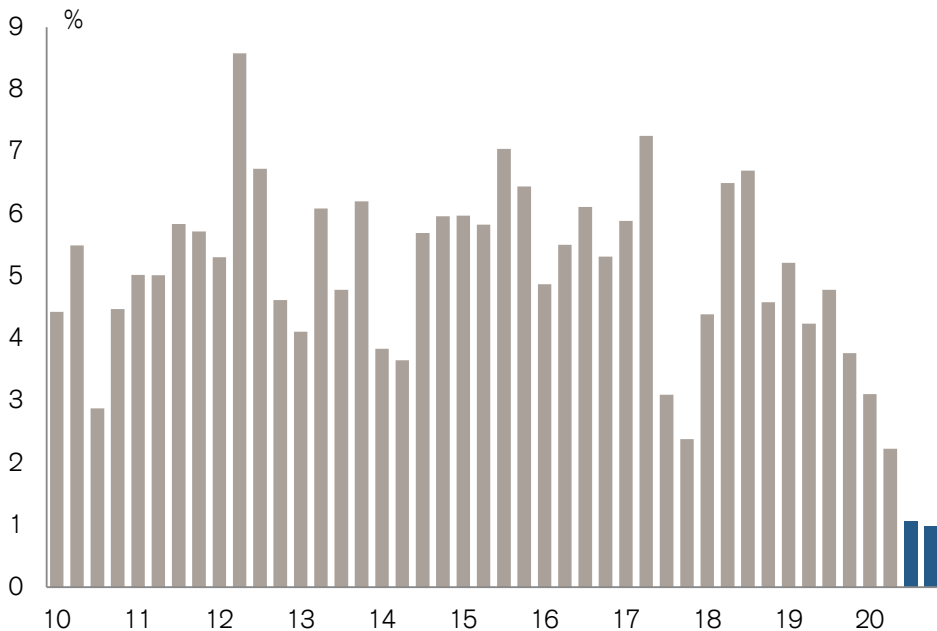
Figure 14: Historical Revenue Surprise



Early reporters have delivered strong surprises on both revenue and EPS

Note: 1Q21 based on consensus estimates
 Source: Standard & Poor's, Refinitiv, FactSet, Credit Suisse

Figure 15: Price Response to Revenue and EPS Beats and Misses



Despite strong surprises, stocks had little reaction in 3Q/4Q20

Source: Standard & Poor's, Refinitiv, FactSet, Credit Suisse

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