



ARIA | CAPITAL

# INVESTMENT INSIGHT

A weekly look inside the investment world.

“ *We're a bit too quick to come up with explanations for things we don't really have an explanation for.* ”  
*Malcolm Gladwell*

Friday, 8 May 2020

## In this week's Investment Insight

### *A tale of two quarters*

Last week we looked at how, based on their Q1 earnings reports, the fortunes of companies in the S&P 500 had contrasted, noting that it wasn't by any means doom and gloom across all sectors. While that theme will continue into Q2, in the interests of balance we thought it was worthwhile to examine what analysts expect for the second quarter. In *The Inside Track* we take a look.

### *Printing money*

The US is in the fortunate position of being able to open the printing presses and issue a seemingly endless supply of greenbacks without the consequence that one might expect: currency debasement and/or hyperinflation. If you're the biggest bully in the playground, sometimes you get to make up the rules. Not everybody is so fortunate. In this week's *Pic of the Week* we compare the US's situation with Argentina's, which serves as a timely reminder that, for some, chickens come home to roost.

### *News wire*

Some interesting nuggets from this week's newswires.

### *Market view*

A visual snapshot of recent market performance.

## The Inside Track: A tale of two quarters

*Data published by Factset this week lets us look at Q2 expectations for the S&P 500.*

During the month of April the bottom-up Q2 EPS estimate (which is an aggregation of the median EPS estimates for all the companies in the index) declined by 28.4%. This marked the largest decline in the quarterly EPS estimate over the first month of a quarter since FactSet began tracking this data almost twenty years ago. The previous record was -20.6%, which occurred in the first month of Q1 2009 as the global financial crisis unfolded.

Unlike the Q1 earnings outturns that we examined last week, there aren't any sectoral escapees from the swathe of declining estimates. All 11 sectors recorded a decline in estimates, led by the Energy (-

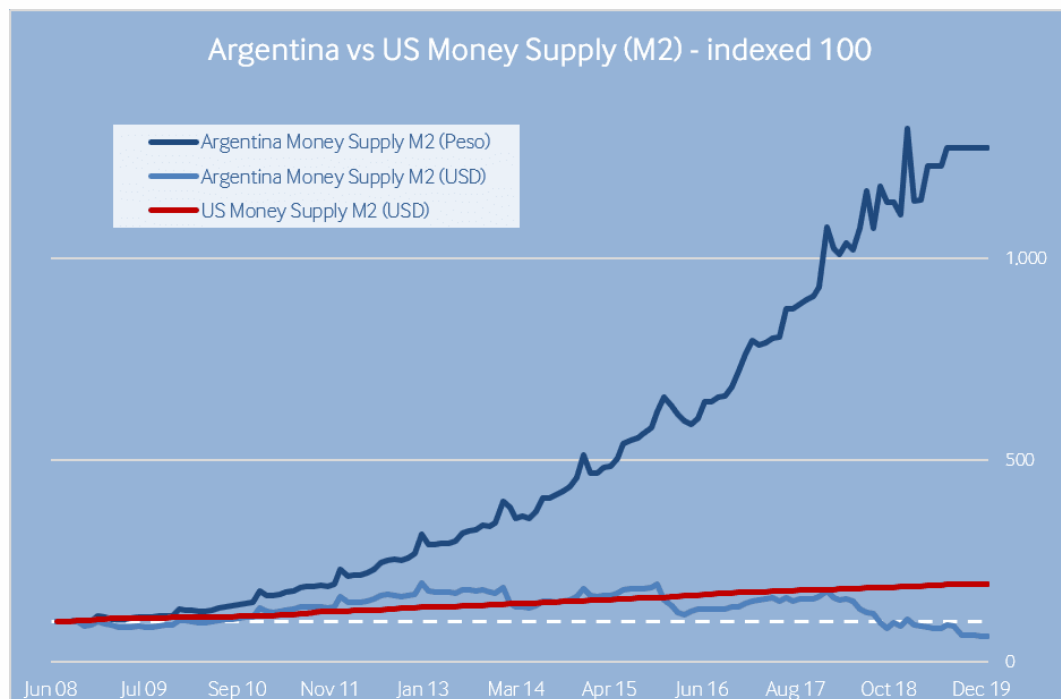
471.9%), Consumer Discretionary (-78.8%), and Industrials (-61.9%) sectors. Overall, 10 sectors recorded a larger decrease in their bottom-up EPS estimate relative to their five, ten and fifteen-year averages. In fact, seven of the 11 sectors recorded the largest decline in their quarterly EPS estimate over the first month of a quarter since FactSet began tracking this data in 2002.

It is worth noting that it is common for EPS estimates to be revised downwards (analysts are frequently over-optimistic). Over an extended timeframe, there have been downward revisions for almost all sectors. What is different on this occasion is the quantum of these revisions, with Covid-19 and oil prices combining to cause them.

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### Pic of the Week: Printing money

The extraordinary expansion of the US money supply which has almost doubled in just ten years should, one might think, lead to greater inflation, currency devaluation, or both. Such are the interdependencies and linkages to the US and its currency within the global financial system that it has avoided these consequences. Contrast its relatively near neighbour: Argentina. The triumph of almost a century of political and financial corruption over an abundance of natural resources, has left Argentina in a parlous state. Tragically, the consequences have caused great hardship for many of its citizens. As the chart illustrates, it too has had the money printing presses working overtime, in fact to a far greater extent than the US. Sadly, as the comparison of its money supply in Argentine Pesos to US Dollars illustrates, and a timely reminder to a growing global cohort of "spend now, worry never" theorists, the "normal rules" do apply to some.



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### Newsire

#### ...on Monday

Airline shares dropped sharply after Warren Buffett said he sold off his large stakes in four US air carriers at significant losses.

#### ...on Tuesday

Norwegian Cruise Line raises substantial doubt about its ability to continue as a going concern.

#### ...on Wednesday

ADP and Moody's Analytics reports a fall of 20.2 million in US private payroll numbers in March, the worst decline in the data series' history.

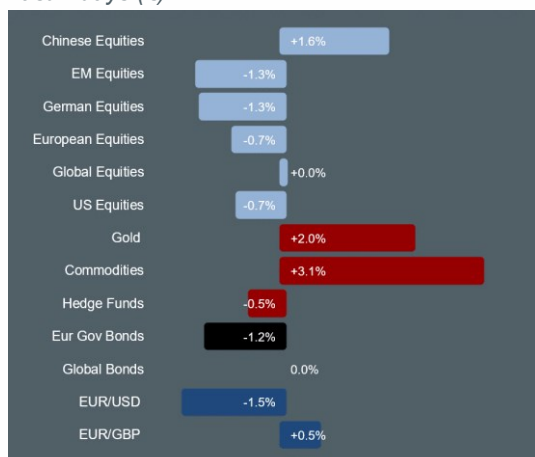
#### ...on Thursday

China reports a 3.5% increase (in USD) in April exports compared to the same month last year.

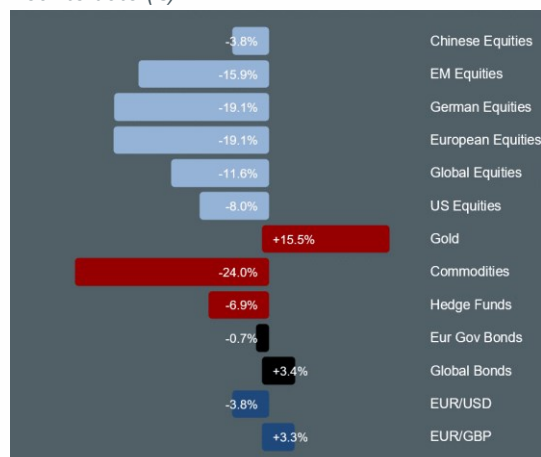
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## Market View

Last 7 days (€)



Year to date (€)



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