



Why you should pay attention to analysts despite wrong forecasts



Who doesn't know the crux of weather forecasting? Although the quality of the forecast has improved greatly in recent years, it is still occasionally „wrong“. Some apps or news services seem to be more accurate than others. iPhone users in particular swear by the forecast quality of their weather app.

The same applies to the earnings estimates of financial analysts. Financial analysts and their forecasts of listed companies' earnings and sales figures always come to the fore at the time of the reporting season. And similar to the weather, we continue to look at the forecasts even after „misjudgements“



Performance of the S&P 500 and Stoxx 600 in the period from Feb. 15, 2019 to Feb. 12, 2021, Both indices track the 500 and 600 largest companies in the U.S. and eurozone, respectively (measured by market capitalization). Source: Teletrader

Earnings season: U.S. and Europe very positive so far

The „earnings season“, i.e. the period in which companies present their business figures for the past quarter (and this time also a summary of the year 2020) as well as their outlook for the coming quarters, is drawing to a close. An initial summary shows a consistently positive picture and equally optimistic forecasts for the current stock market year. The reported figures are always set in relation to analysts' forecasts, as these forecasts shape investors' expectations.

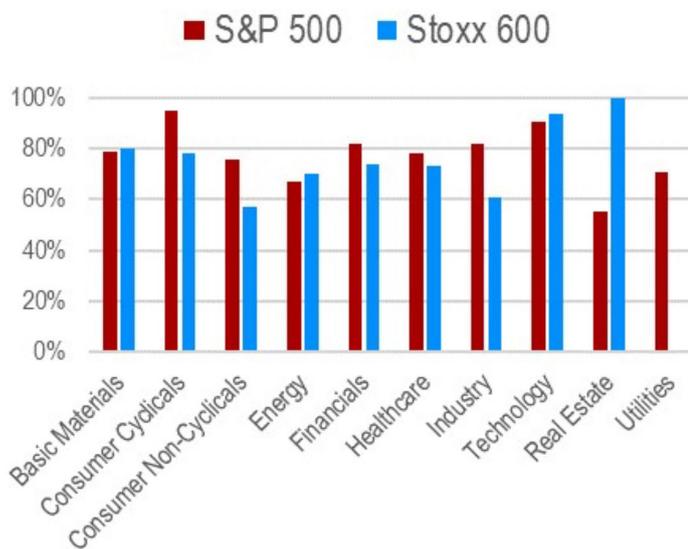
In the USA, this is particularly evident from the S&P 500 share index: around 74% of all companies represented in the index have presented their figures for the past quarter (as of February 12, 2021). 80% of them have even exceeded analysts' earnings expectations and are well above the average of the last five years.

This means that the third best reporting season since 2008 is on the horizon. However, not only earnings but also sales show similar results. 78% of all companies in the S&P 500 have also clearly exceeded not only expectations, but also the five-year average. This is the second-highest figure since 2008

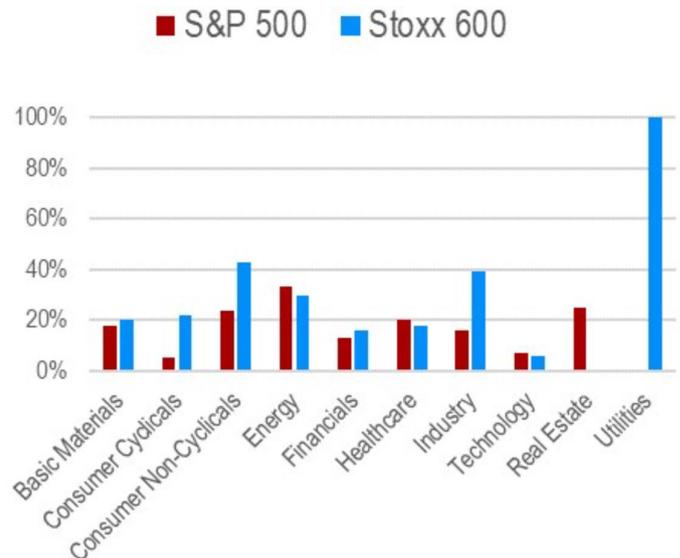
As of 09 February, the European counterpart to the S&P 500, the STOXX 600, has reported just under one-fifth of all earnings reports, of which 72.4% exceeded expectations, setting a new record for the first time since 2011. Sales show a different picture. Of the sales reports submitted to date, only slightly more than half (56%) of all companies exceeded expectations.



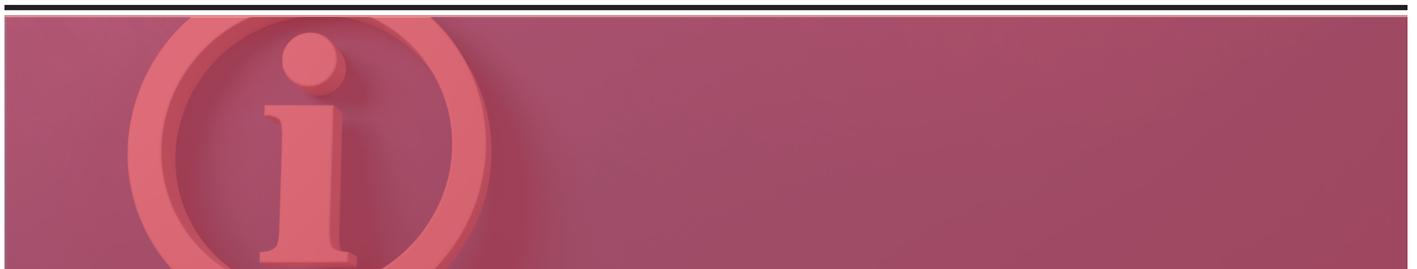
Sectors which beat estimates (Q4 2020)



Sectors which disappoint estimates (Q4 2020)



Source: Refinitiv and Factset, retrieved on 15.02.2021
Taking the example of the consumer cyclical sectors (everything that does not count as a staple, e.g. cars), we can see that just under 80% of the companies represented in the Stoxx 600 exceeded expectations with their earnings and sales, while around 20% fell short.



The best „weather forecast“

Although analysts' estimates are not always one hundred percent accurate, they are considered a barometer of sentiment and are often used by the market as a benchmark when presenting results. If actual results exceed expectations (i.e. analysts' estimates), share prices often rise; if they fall short, share price losses are not uncommon.

However, similar to weather apps, there are also analysts who are more accurate than others and Kathrein Privatbank takes advantage of this. In our Kathrein US Equity [ISIN: AT0000779665 (A); AT0000779673 (T)] and in our Kathrein European Equity [ISIN: AT0000779749 (A); AT0000779756 (T)] only the estimates of the best analysts are included, i.e. those who have delivered the most accurate forecasts in the past.

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