

INVESTMENT STRATEGY

Sell in May and go away? Not this year

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Earnings Season in Focus

Key Points

- **The Big Picture:** Q1 earnings season is well underway, with 60-75% of companies having reported in Europe and in the US. Encouragingly, the spread between US and European EPS growth is narrowing, consistent with the rollover in their relative PMI momentum. This is supportive of our positive view of European equities vs the US. Additionally, US vs Europe sales beats seem to have turned lower, in line with the move in FX.
- **78% of S&P 500 companies** that have reported beat EPS estimates. EPS growth for these companies is at +4% y/y, surprising positively by 9%. Commodity sectors and Healthcare are down on a yoy basis, while Discretionary, Tech and Communications Services are seeing robust earnings growth. Topline growth is printing at +4% y/y, surprising positively by 1%.
- **Of the STOXX 600 companies** that have reported so far, 56% beat EPS estimates, rising above its historical median. Q1 EPS growth is at -10% y/y, surprising positively by 4%. Commodity sectors and Cyclical are a drag on overall growth, where ex-Energy EPS growth stands at -3% y/y.
- **56% of Topix companies** beat EPS estimates, with overall EPS growth at +5% y/y. Revenue growth is at +1% y/y.

Main recommendations

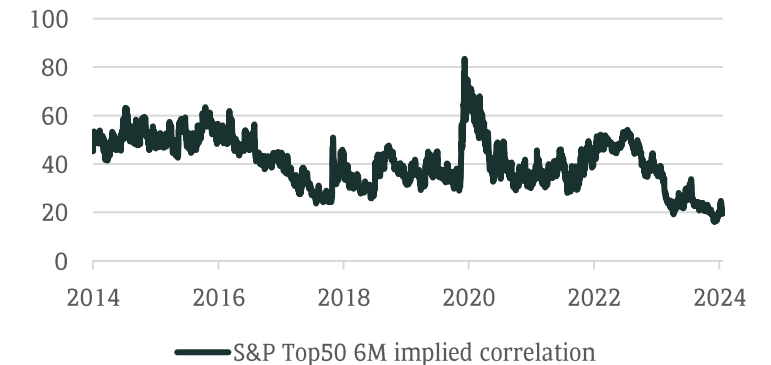
- ➔ **Buy the dip in copper mining stocks.** A combination of stronger global end-demand and restricted supply has fueled the surge in the copper price. According to the Blackrock World Mining Fund, the copper price would need to rise further to \$12,000/ton in order to trigger large-scale investment in new mines. Since those would become operative only after 5-10 years, supply remains inelastic. Thus, the outlook remains bright for copper producers.
- ➔ **We upgraded EU Small Caps to positive on the back of appealing valuations and an improving economic backdrop.**
- ➔ **Remain selective within Chemicals:** the sector should benefit if the uptick in the manufacturing cycle in Europe proves to be sustainable. But although demand could be picking up, supply from China is for sure in many areas. We prefer Industrial Gases within the sector
- ⚠ **The key risks** are that the US Federal Reserve or the ECB could be forced to further push out rate cuts or even shift back to a hawkish rhetoric should inflation surprisingly pick up again

EARNINGS SEASON SNAPSHOT

	S&P 500	Stoxx 600	Topix
% cos reported	72%	61%	24%
% cos beating EPS	78%	56%	56%
EPS % yoy	4%	-10%	5%
% cos beating Sales	56%	45%	51%
Sales % yoy	4%	-4%	1%

Source: BNP Paribas, Bloomberg, Data as of 3rd of May 2024

A STOCKPICKER'S MARKET: CORRELATION IS EXPECTED TO STAY LOW



Source: BNP Paribas, Bloomberg



Focus on

—
Sell in May and go away?

—
Index & Macro Observations

—
Asian Equity View

—
Sector Views

Sell in May and go away?

DEBUNKING THE MOST COMMON SEASONALITY WISDOM

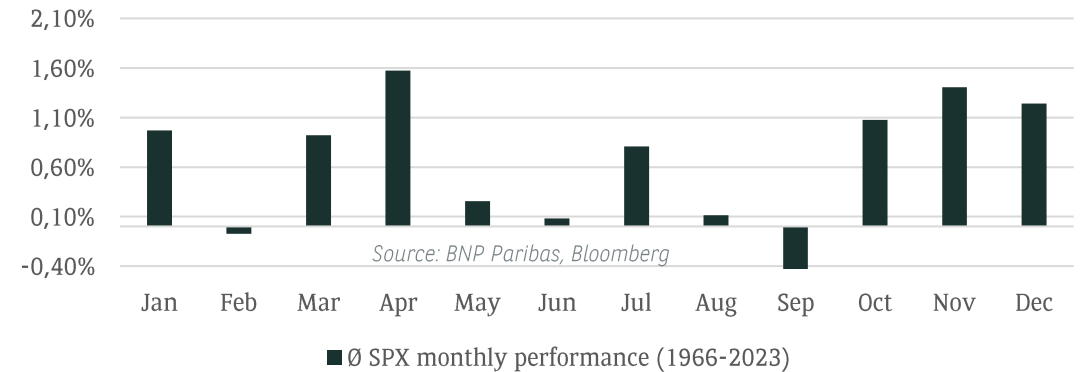
Sell in May and go away is probably the most commonly know wisdom about investing. Its origins are going back to the Georgian Era in England, recommending that British investors, aristocrats, and bankers should sell their shares in May, relax and enjoy the summer months while escaping the London heat, and return to the stock market in the autumn. Thus, the second, less know part of the phrase goes "come back on St. Ledger's Day", a referral to a widely popular horse race which usually takes place in September.

So much for the history. But is this centuries old advice still valid? Looking at data on the S&P 500 since 1966 we can conclude that the period between May and September indeed shows below average returns. In fact, it even includes the only month showing on average a negative monthly performance. However, showing sub-par returns is still different to negative returns, which would indeed justify to sell a position. As we can see from the chart though, returns may not be stellar during summertime. However, the overall performance during that period is till positive. If at all, investors would rather want to sell in September. Ironically though, this would be exactly the time the old wisdom advises to come back.

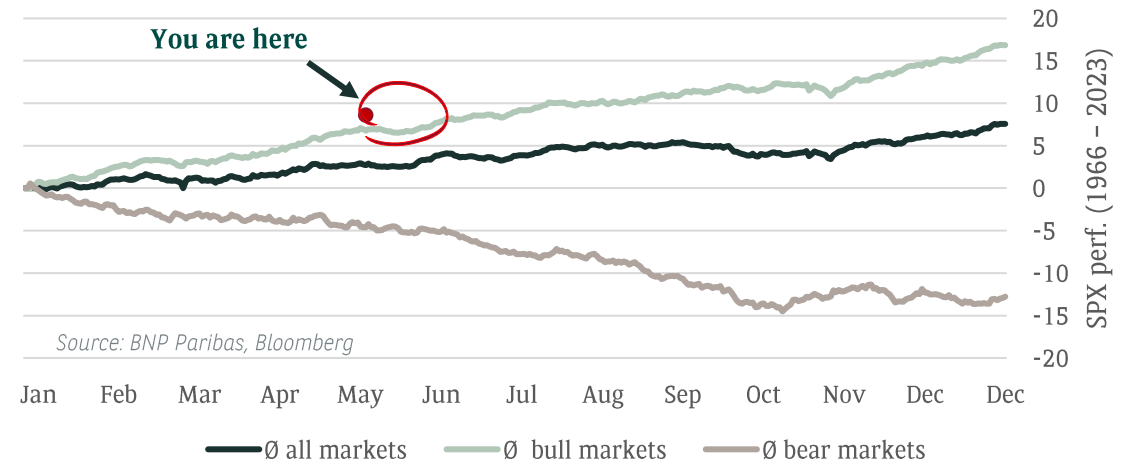
Just a fairy tale? Looking at what we saw so far it's indeed fair to conclude that, generally speaking, selling in may is not the best advice. However, if we distinguish the market in bull (year was positive) and bear (year was negative) markets, an interesting pattern can be observed. During bear markets, summertime seems indeed a particularly bad time to hold equities since the drawn down often accelerated during this period. Luckily, this year locks to be none of those years, though

Summer is not necessarily bad for stocks

Summer yields below average returns, BUT...



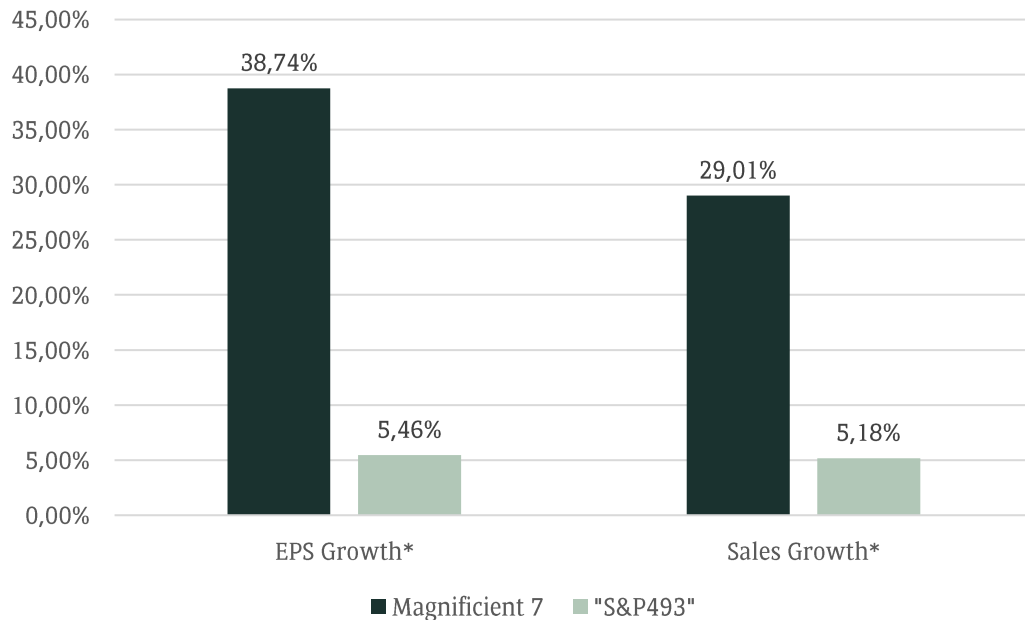
... the performance is still positive except for bear markets



US Mega Cap Tech growth outperformance

HOW LONG CAN IT LAST?

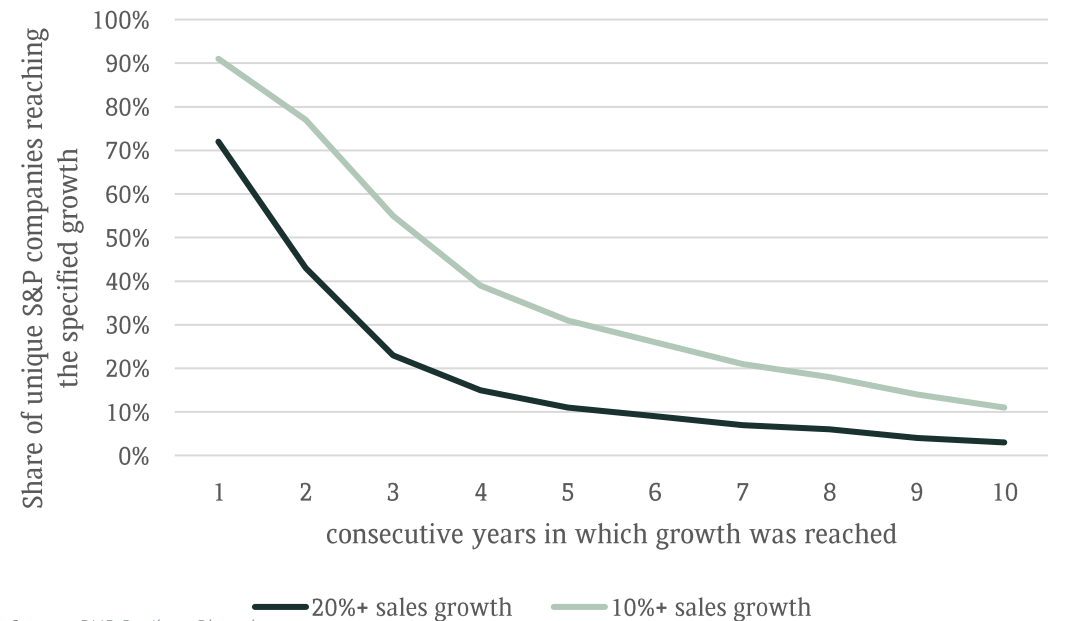
THE MAGNIFICENT 7 SHOWED SIGNIFICANT OUTPERFORMANCE OF GROWTH DURING THE LAST 5 YEARS



Source: BNP Paribas, Bloomberg

* = CAGR since 2019

HISTORY SUGGESTS THAT SUCH STRONG OUTPERFORMANCE IS HARD TO MAINTAIN IN THE LONG RUN

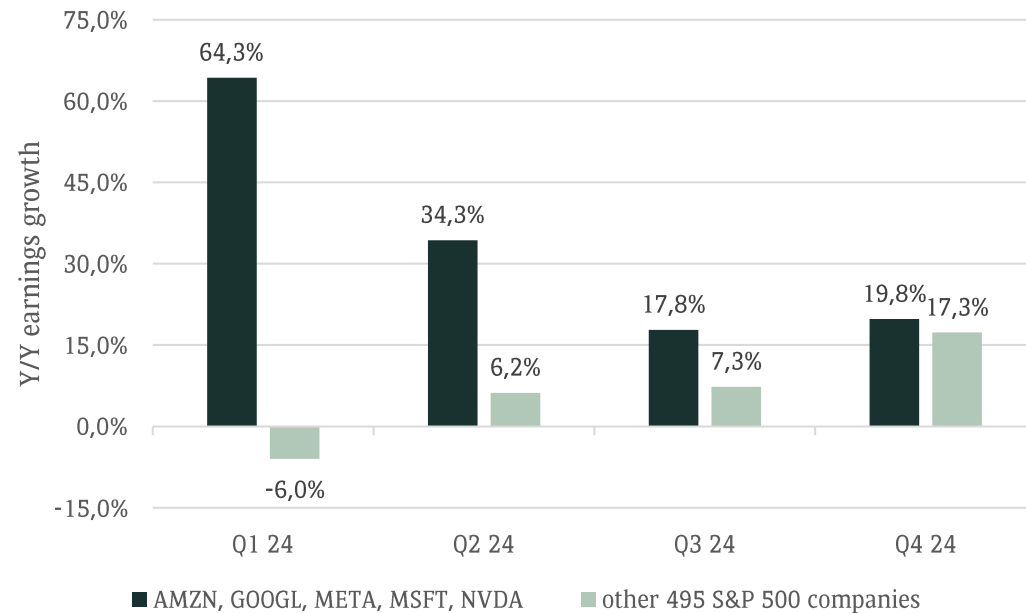


Source: BNP Paribas, Bloomberg

The US Mega Cap Tech valuation premium

IS IT JUSTIFIABLE WITHOUT STRONG OUTPERFORMANCE IN GROWTH?

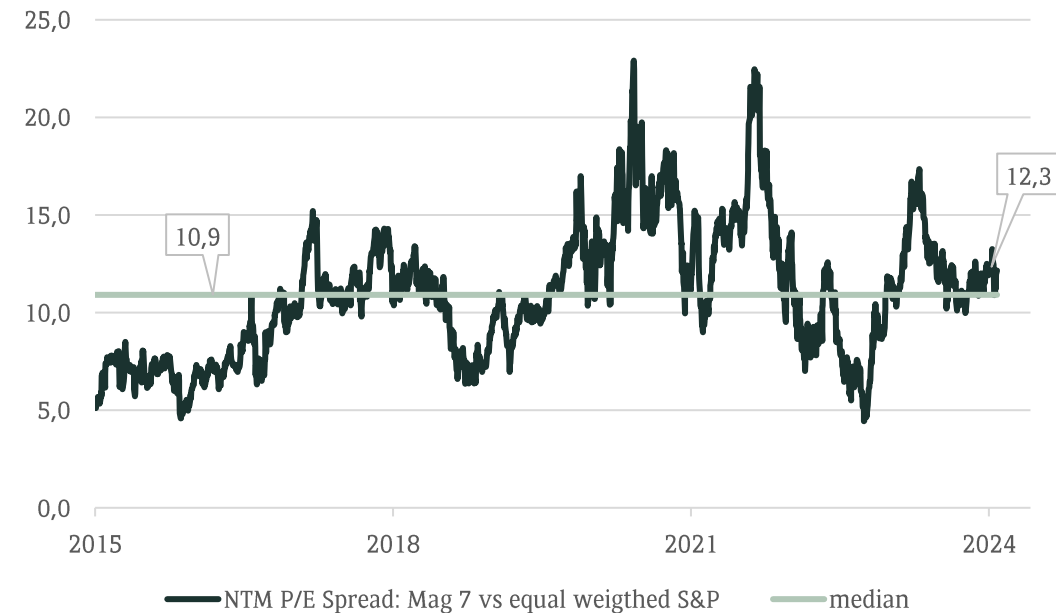
EARNINGS GROWTH IS EXPECTED TO SLOW SUBSTANTIALLY WITH THE REST OF THE MARKET CATCHING UP



Source: BNP Paribas, Bloomberg

* = CAGR since 2019

A SLOWDOWN IN EARNINGS GROWTH IN CONJUNCTION WITH A DELAYED CUTTING CYCLE BY THE FED COULD JUSTIFY A VALUATION RERATING

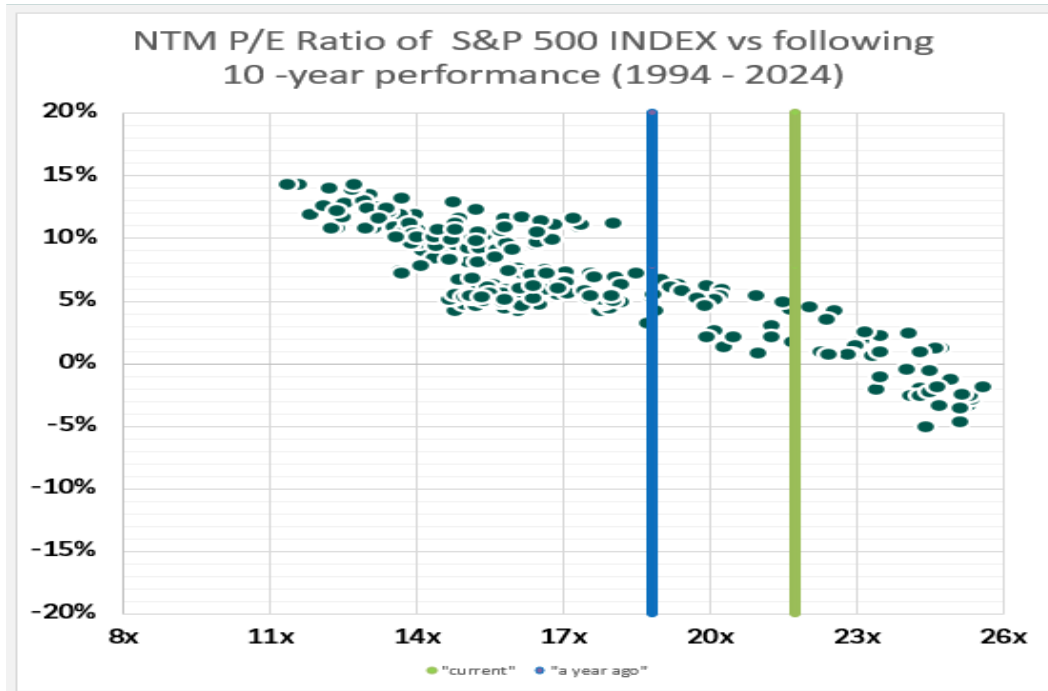


Source: BNP Paribas, Bloomberg

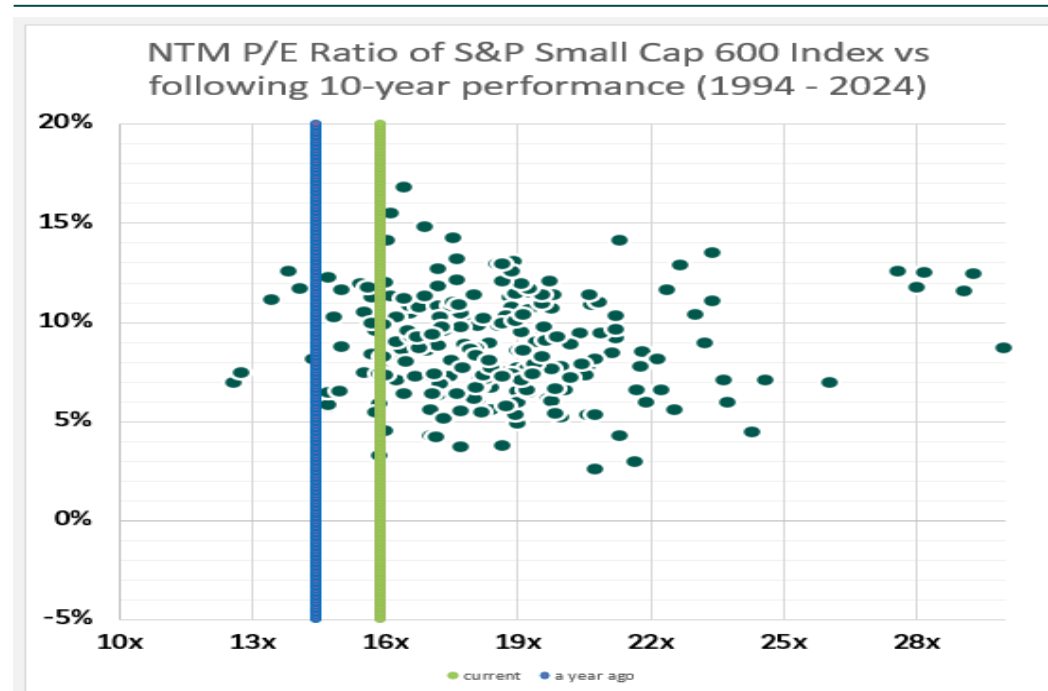
Valuations vs expected forward returns

VALUATIONS FOR LARGE CAPS ARE POINTING TO BELOW AVERAGE RETURN EXPECTATIONS

THE P/E RATIO LOOKS HIGH BY HISTORIC STANDARDS WHICH HAD NEGATIVE IMPACTS ON RETURNS IN THE PAST



VALUATIONS FOR SMALL CAPS ARE LOOKING MUCH MORE BENIGN ALBEIT THEIR IMPACT ON FUTURE RETURNS IS LESS STRICT



Source (both graphs): BNP Paribas, Bloomberg

Performance after a rebound in manufacturing

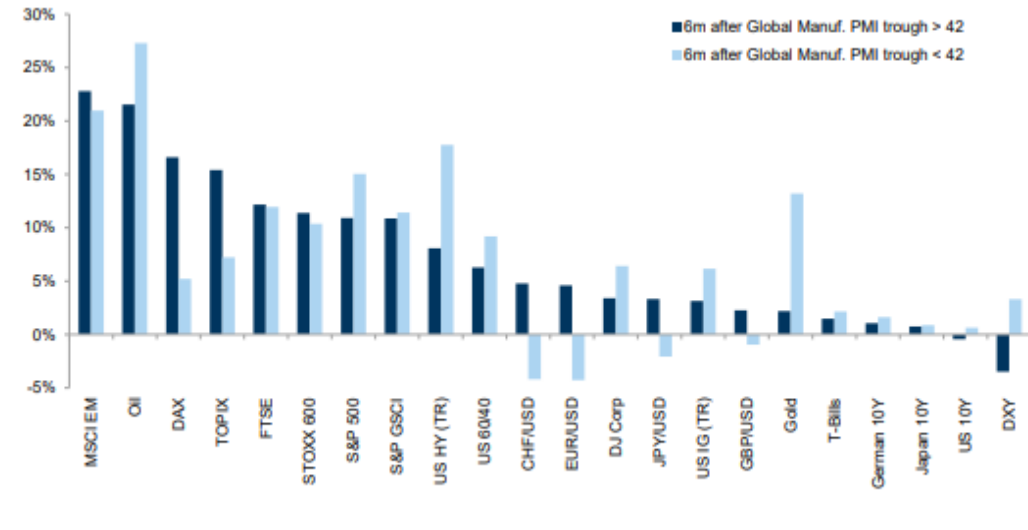
USING ISM DATA AS A PROXY FOR GLOBAL ACTIVITY, WE CAN CONCLUDE THAT WE MAY HAVE SEEN THE THROUGH

MANUFACTURING PMIS ARE SUGGESTING THAT ACTIVITIES ARE RECOVERING AND THAT WE PASSED THE THROUGH



Source: BNP Paribas, Bloomberg

THE RECOVERY POTENTIAL IS USUALLY HIGHER FOR MORE CYCLICAL PARTS OF THE MARKETS, SUPPORTING OUR RELATIVE REGIONAL CALLS

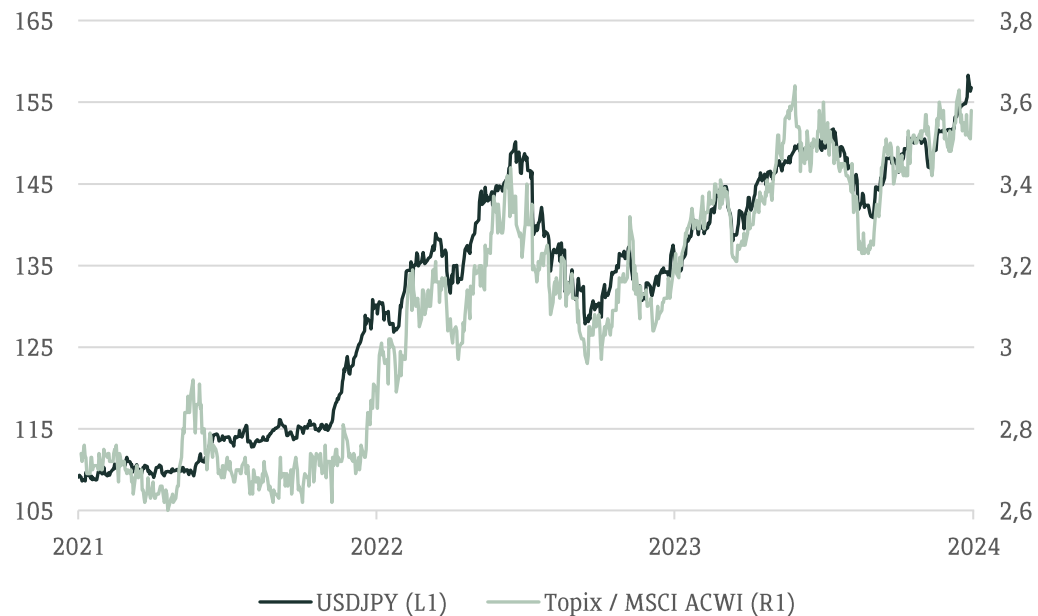


Source: Haver Analytics, Datastream, Goldman Sachs Global Investment Research

Japan – the impact of a weaker Yen

THE WEAKER YEN IS PROVIDING SOME TAILWINDS FOR EPS GROWTH

THE MARKET BENEFITTED FROM THE ONGOING WEAKNESS IN THE JPY, WHICH RECENTLY ACCELERATED FURTHER



Source: BNP Paribas, Bloomberg

THE CURRENT USD/JPY LEVEL IS POINTING TO A MATERIAL UPSIDE FOR EPS GROWTH

USD / JPY	130	135	140	145	150	152	155	160
FY24 EPS growth	3,2%	5,2%	7,1%	9,0%	11,0%	11,8%	12,9%	13,9%
FY24 EPS (¥)	174	177	180	183	187	188	190	192

Source: BNP Paribas, Goldman Sachs

Japan – calculating potential index targets

WHAT IS THE INDEX TARGET BASED ON VARYING INPUT PARAMETERS

12 MONTH TOPIX PRICE TARGET MATRIX

		USD/JPY							
		130	135	140	145*	150	152	155***	160
NTM P/E Ratio	13	2262	2301	2340	2379	2431	2444	2470	2496
	13,5	2349	2390	2430	2471	2525	2538	2565	2592
	14	2436	2478	2520	2562	2618	2632	2660	2688
	14,5	2523	2567	2610	2654	2712	2726	2755	2784
	15	2610	2655	2700	2745	2805	2820	2850	2880
	15,2	2645	2690	2736	2782	2842	2858	2888	2918
	15,3*	2662	2708	2754	2800	2861	2876	2907	2938
	15,5	2697	2744	2790	2837	2899	2914	2945	2976
	16	2784	2832	2880	2928	2992	3008	3040	3072
	16,3**	2836	2885	2934	2983	3048	3064	3097	3130

* Current consensus estimates

** P/E high during Abenomics

*** current FX market level

Source: BNP Paribas, Bloomberg

Index Valuations

Index	Level	1yr Range	Forward														Composite		
			EPS	5yr Z-Score	EPS change 4 weeks (%)	PE Ratio	5yr Z-Score	PB Ratio	5yr Z-Score	Div Yield	5yr Z-Score	ROE	5yr Z-Score	Earnings Yield	5yr Z-Score	Equity Risk Premium	5yr Z-Score	vs. ACWI	5yr Z-Score
MSCI ACWI	766		42,53		-0,47	17,92		2,79		2,07		14,55		5,56		0,93		n.a.	n.a.
MSCI World	3347		177,30		-0,44	18,81		3,05		1,97		15,07		5,30		0,67		1,06	
MSCI Emerging Markets	1051		82,62		-0,64	12,61		1,57		2,97		12,15		7,86		3,23		0,68	
S&P 500	5116		242,61		-0,05	21,09		4,26		1,46		18,60		4,74		0,11		1,22	
S&P 500 Equal Weighted	6635		383,18		-0,31	17,32		2,76		2,08		14,41		5,78		1,15		0,97	
Russell 2000	2016		76,16		-1,03	26,47		1,58		2,32		2,77		3,78		-0,85		1,35	
NASDAQ 100	17783		683,10		-0,57	26,03		6,56		0,88		21,52		3,84		-0,79		1,57	
MSCI USA Growth	21660		388,28		0,95	29,63		9,37		0,46		29,34		1,79		-2,84		1,88	
MSCI USA Value	13131		217,82		-0,30	16,36		2,72		2,47		15,05		1,66		-2,97		0,92	
STOXX Europe 600	507		35,89		0,14	14,16		1,89		3,41		12,56		7,08		4,53		0,77	
STOXX Europe Mid 200	529		39,01		-0,03	13,58		1,51		3,77		10,31		7,38		4,82		0,73	
STOXX Europe Small 200	335		24,77		0,67	13,53		1,13		3,31		7,76		7,40		4,84		0,71	
DAX	18043		1381,15		0,30	13,12		1,55		3,15		10,74		7,65		5,10		0,71	
FTSE 100	8184		683,63		-0,02	11,92		1,77		3,92		13,99		8,35		4,04		0,66	
CAC 40	8045		574,20		-0,47	14,05		1,89		3,17		12,99		7,14		4,58		0,77	
FTSE MIB	34190		3710,21		-0,01	9,24		1,28		5,28		13,97		10,85		8,30		0,51	
Nikkei 225	38406		1732,81		-0,58	21,89		2,11		1,77		9,48		4,51		3,64		1,16	
Hang Seng	17763		2011,67		-0,14	8,82		0,97		4,27		10,52		11,33		9,02		0,47	

Source: BNP Paribas, Bloomberg, Data as of 28th April 2024

Sector Allocations – Overview

European Sector View	
Overweight	Underweight
STOXX Europe 600 Technology (SX8P Index) STOXX Europe 600 Insurance (SXIP Index) STOXX Europe 600 Health Care (SXDP Index) STOXX Europe 600 Banks (SX7P Index) STOXX Europe 600 Financial Services (SXFP Index) STOXX Europe 600 Real Estate (SX86P Index) STOXX Europe 600 Industrial Goods & Services (SXNP Index) STOXX Europe 600 Basic Resources (SXPP Index) STOXX Europe 600 Construction & Materials (SXOP Index)	STOXX Europe 600 Chemicals (SX4P Index) STOXX Europe 600 Personal Care (S600PDP Index) STOXX Europe 600 Food, Bev. & Tobacco (S600FOP Index) STOXX Europe 600 Consumer Products (S600CPP Index) STOXX Europe 600 Telecommunications (SXKP Index)
Neutral	
STOXX Europe 600 Automobiles & Parts (SXAP Index) STOXX Europe 600 Retail (SXRPP Index) STOXX Europe 600 Energy (S600ENP Index) STOXX Europe 600 Utilities (SX6P Index)	STOXX Europe 600 Travel & Leisure (SXTLP Index) STOXX Europe 600 Media (SXMP Index) STOXX Europe 600 Financial Services (SXFP Index)
US Sector View	
Overweight	Underweight
S&P 500 Health Care Sector GICS Level 1 Index S&P 500 Industrials Sector GICS Level 1 Index S&P 500 Materials Sector GICS Level 1 Index	S&P 500 Consumer Staples Sector GICS Level 1 Index S&P 500 Consumer Discretionary Sector GICS Level 1 Index
Neutral	
S&P 500 Financials Sector GICS Level 1 Index S&P 500 Utilities Sector GICS Level 1 Index S&P 500 Energy Sector GICS Level 1 Index	S&P 500 Communication Services Sector GICS Level 1 Index S&P 500 Information Technology Sector GICS Level 1 Index S&P 500 Real Estate Sector GICS Level 1 Index

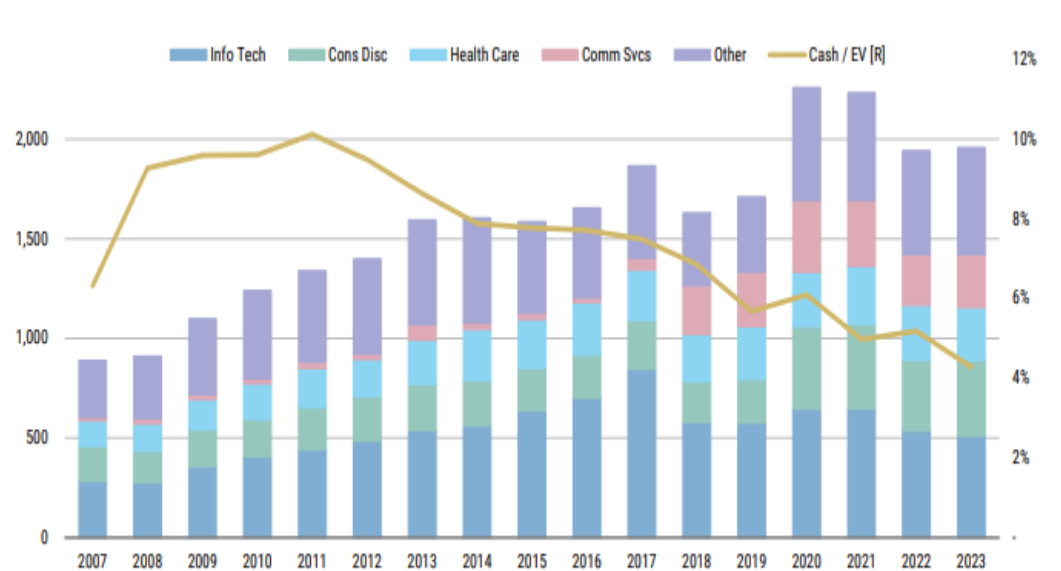


We have changed our Sector approach as we switch to Stoxx Sector indices in Europe while focussing on GICS Level 1 Sectors in the US. As those sectors offers the most popular and liquid product suites, the new methodology makes it easier to follow our sector views and transforming them in actual positions.

What to do with all the money?

WITH CASH LEVELS STILL ELEVATED, WHAT IS THE MARKET'S REACTION ON DIFFERENT TYPE OF CASH USAGE?

ON AGGREGATE, RUSSEL 1000 COMPANIES ARE SITTING ON ~ \$2.0 TRILLION OF CASH



Note: Russell 1000 universe, excluding Financials, Real Estate, and Utilities sectors.
Source: FactSet and Morgan Stanley Research.

BUYBACKS, DIVIDENDS, AND LOW CAPEX-TO-SALES ARE GENERALLY PERCEIVED WELL ALBEIT SOME SECTOR DISPERSION EXISTS

Performance since 2000	1) Stocks with Buybacks Outperform Stocks without Buybacks?	2) Dividend Payers Outperform Non-Payers?	3) Low vs High Capex Outperforms?*
Top 1000	Green	White	Green
Cons. Discretionary	Green	Red	Red
Cons. Staples	Green	White	Red
Energy	Green	White	Red
Financials	Green	White	White
Health Care	Green	White	White
Industrials	Green	White	Green
Tech	Green	White	Red
Materials	Red	Green	Green
Real Estate	Green	White	White
Comm	Green	White	Red
Utilities	Green	Green	White

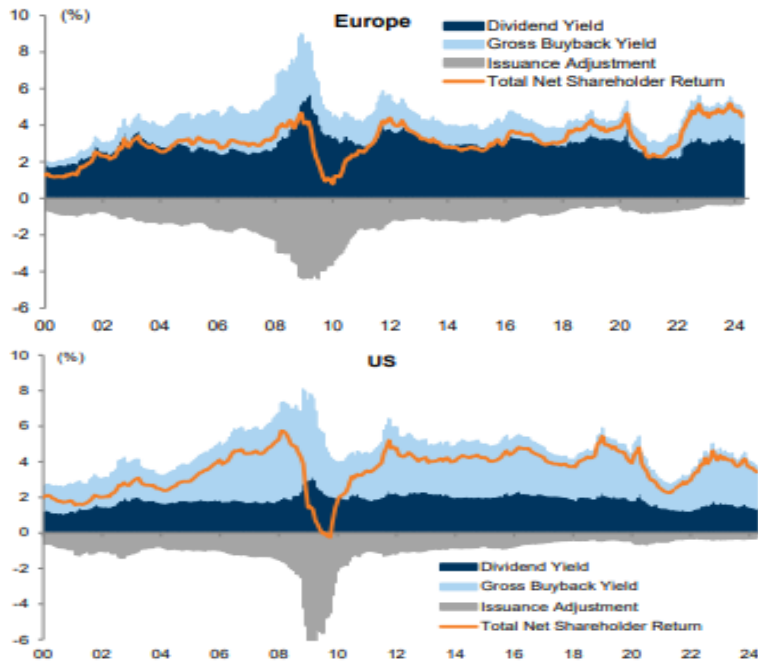
Note: Shading represents relative performance of top quintile vs bottom quintile rankings within each column. Green represents high outperformance while red represents underperformance. *Since 2003.

Source: Compustat, Bloomberg, Morgan Stanley Research

Shareholder yields: Europe vs US

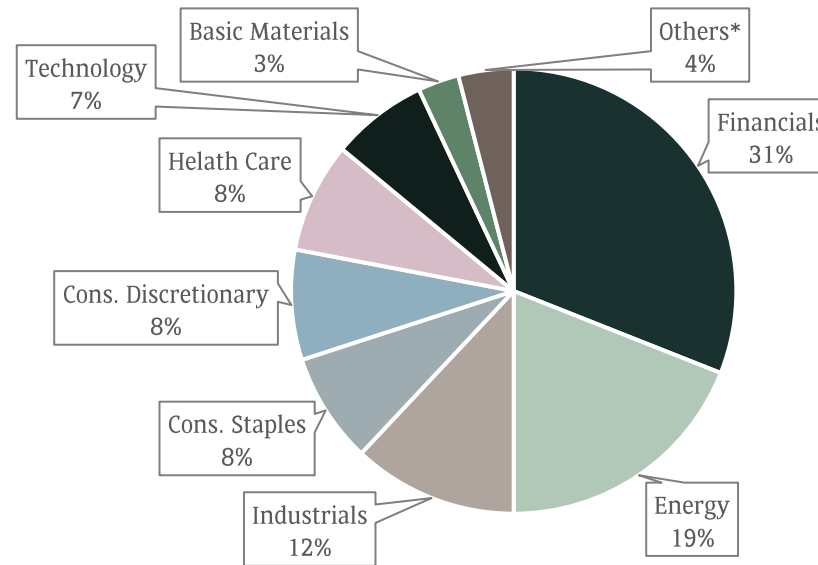
EUROPE IS OFFERING CLOSE TO RECORD YIELDS THANKS TO ENERGY AND FINANCIALS

THE SPREAD IN SHAREHOLDER YIELD BETWEEN EUROPE AND THE US IS CLOSE TO A RECORD HIGH



Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

FINANCIALS AND ENERGY ACCOUNT FOR 50% OF ALL EUROPEAN BUYBACKS



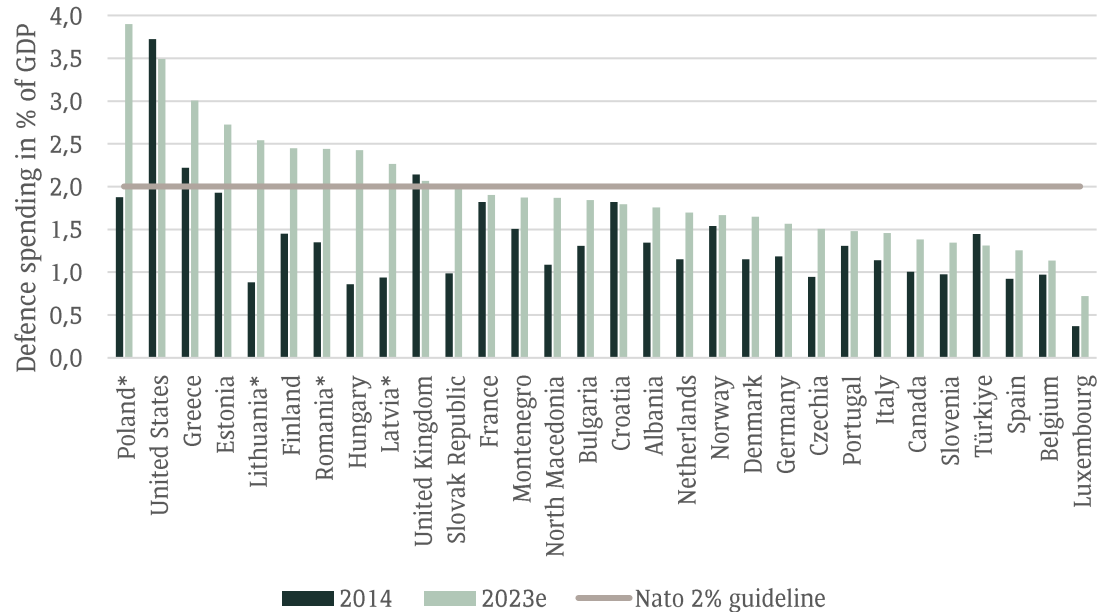
Source: BNP Paribas, Bloomberg

* Others = Telecom, Utilities, Real Estate

European Defense Stocks

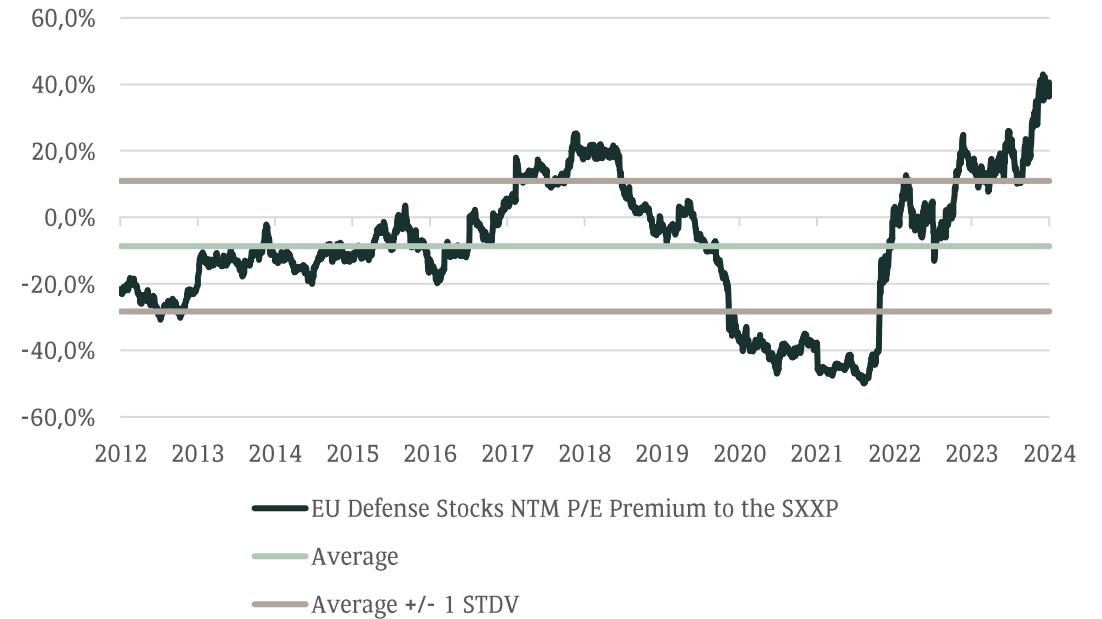
THE EXPECTED GROWTH IN DEFENCE SPENDING LOOKS WELL REFLECTED IN THE PRICE

BASED ON 2023 ESTIMATES, AN ADDITIONAL \$72BN IN DEFENCE SPENDING WOULD BE REQUIRED TO MEET NATO'S 2% TARGET



Source; BNP Paribas, NATO

DEFENSE STOCKS ARE ALREADY TRADING AT RECORD VALUATION PREMIUMS, POTENTIALLY CAPPING FURTHER ROOM TO OUTPERFORM



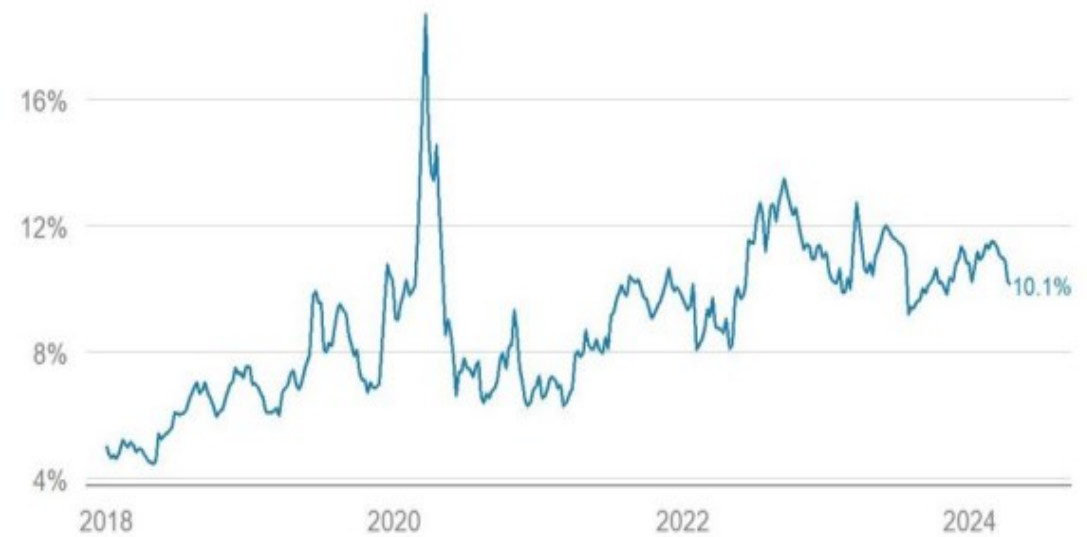
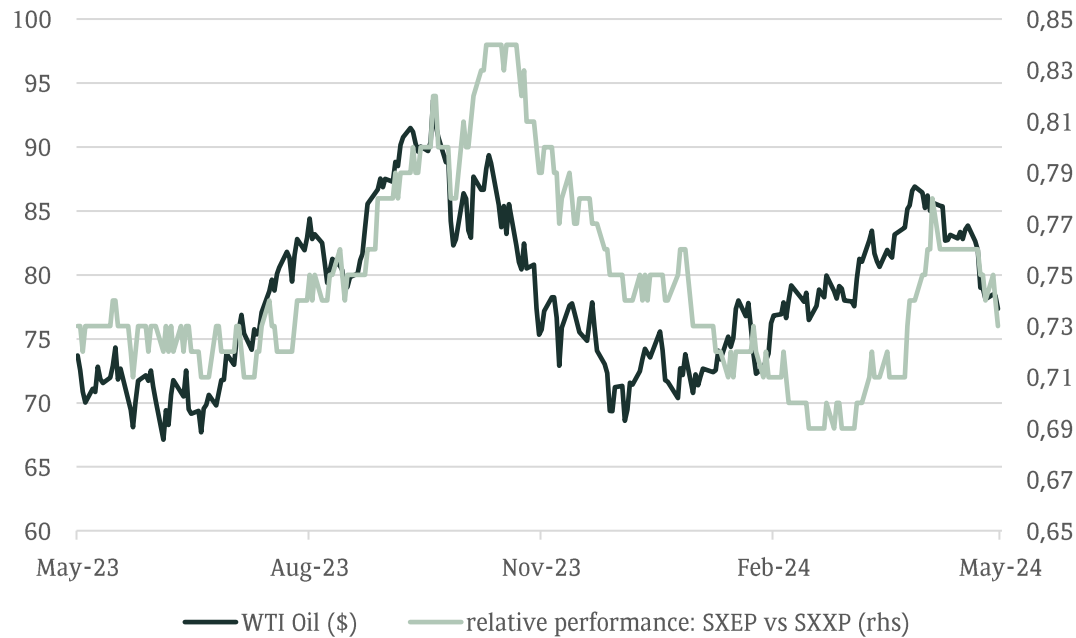
Source; BNP Paribas, Bloomberg

EU Energy Stocks - Outperformance fades with falling oil prices

WE STAY NEUTRAL, BUT ACKNOWLEDGE THE ATTRACTIVENESS OF HIGH SHAREHOLDER RETURNS

BASED ON 2023 ESTIMATES, AN ADDITIONAL \$72BN IN DEFENCE SPENDING WOULD BE REQUIRED TO MEET NATO'S 2% TARGET

THE SECTOR STILL OFFERS A DOUBLE-DIGIT DISTRIBUTION YIELD WHICH MAY SCREEN ATTRACTIVE FOR INCOME FOCUSED INVESTORS



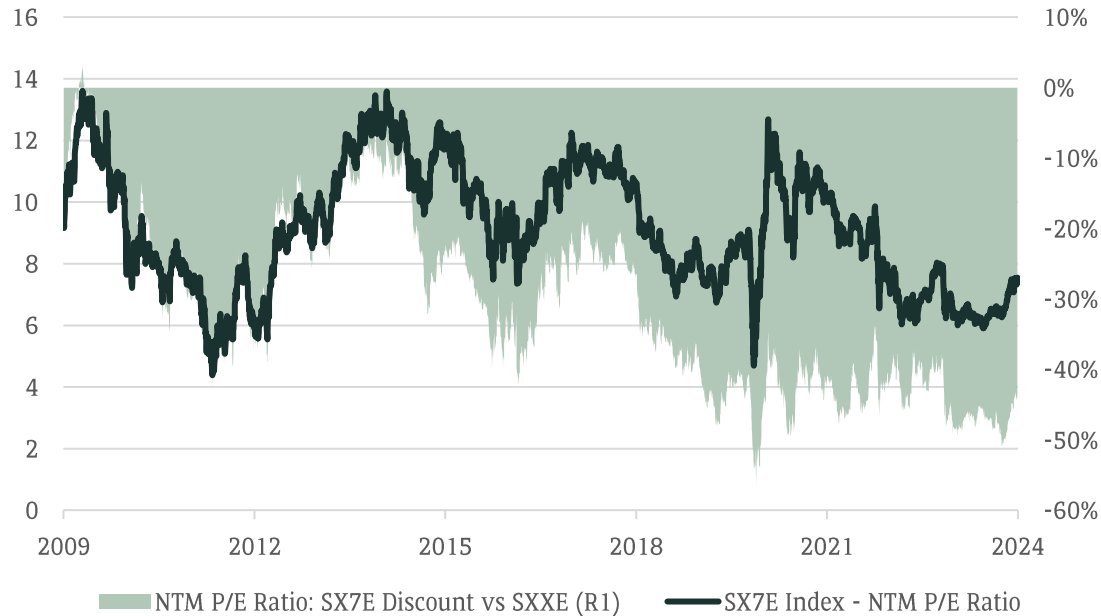
Note: chart based on Shell, BP, TotalEnergies, Eni and Equinor
Source: Bloomberg, Visible Alpha, Morgan Stanley Research

Source: BNP Paribas, Bloomberg

EU Banks – Better for longer

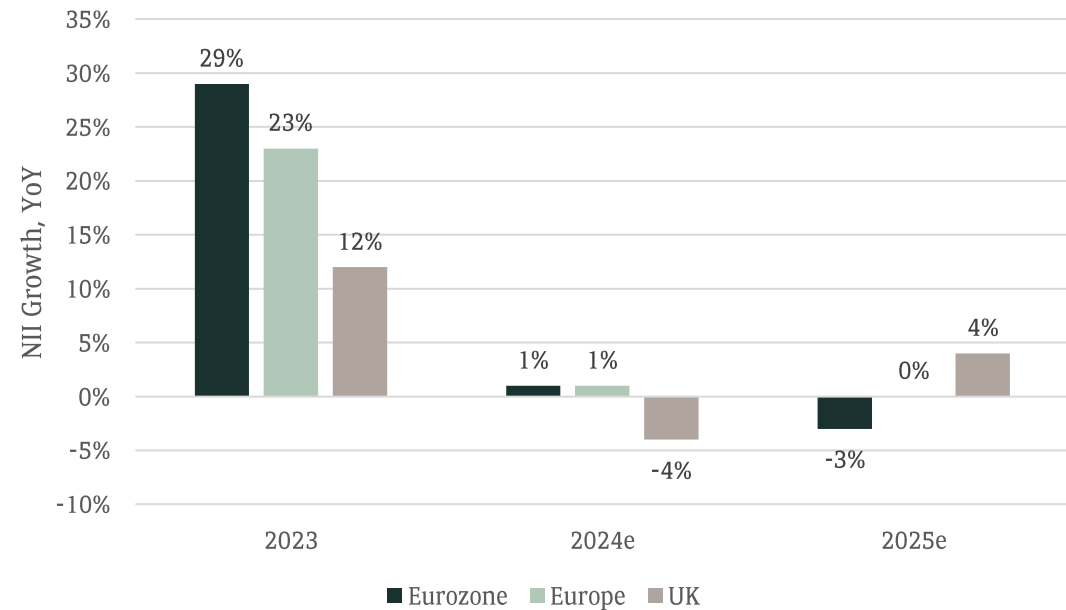
MORE THAN JUST RATES: VOLUME TAILWINDS & HIGHER FEES ARE FURTHER TAILWINDS

BANKS ARE STILL TRADING WITH A 44% P/E DISCOUNT VS THE BROADER MARKETS WHILE THE P/E RATIO REMAINS BENIGN



Source: BNP Paribas, Bloomberg

WE EXPECT NO SUBSTANTIAL HEADWIND FROM FALLING RATES TO THE NII

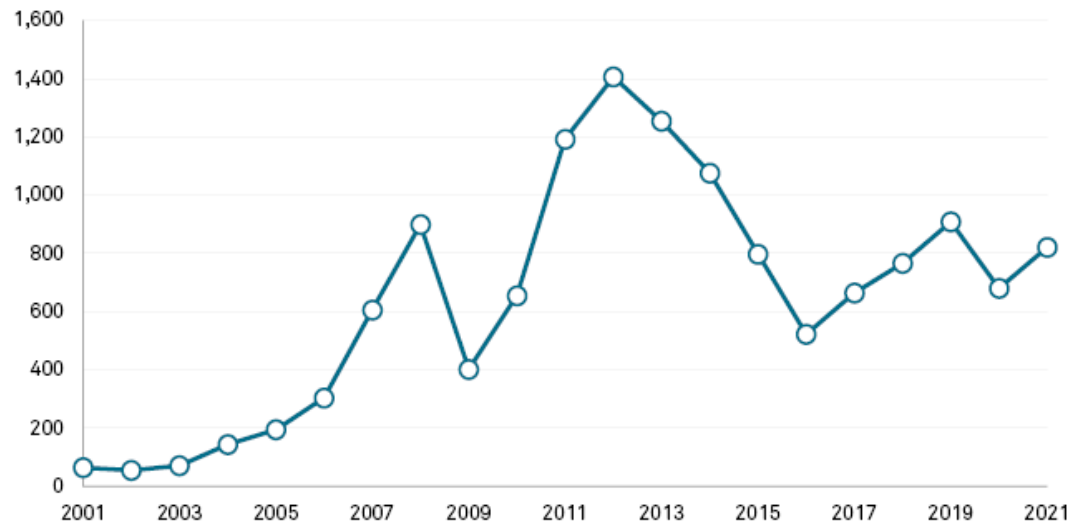


Source: BNP Paribas, Bloomberg

Copper Miners – strong long term perspectives

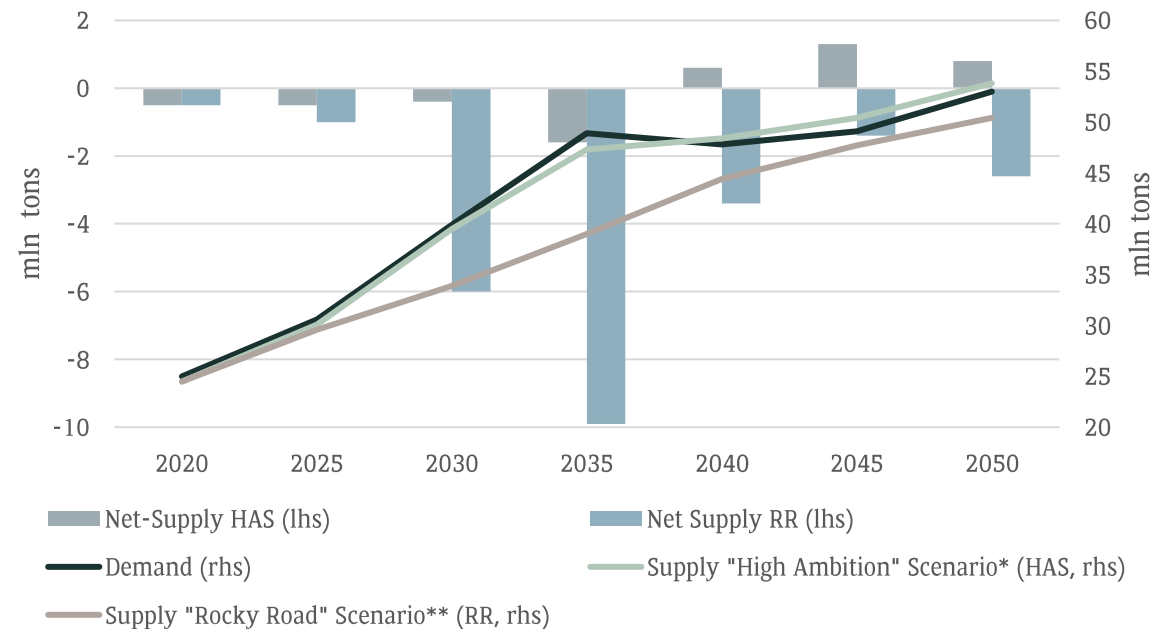
COPPER IS A KEY ELEMENT FOR AN INCREASINGLY ELECTRIFIED WORLD

LOW EXPLORATION BUDGETS (IN \$M) ARE CONTRIBUTING – ALONG SIDE GEOPOLITICAL FACTORS – TO A RATHER UNELASTIC SUPPLY



Data compiled July 22, 2022.
Source: S&P Global Market Intelligence

A LONG TERM SUPPLY DEFICIT SHOULD SUPPORT COPPER PRICES AND THUS MINERS EARNINGS

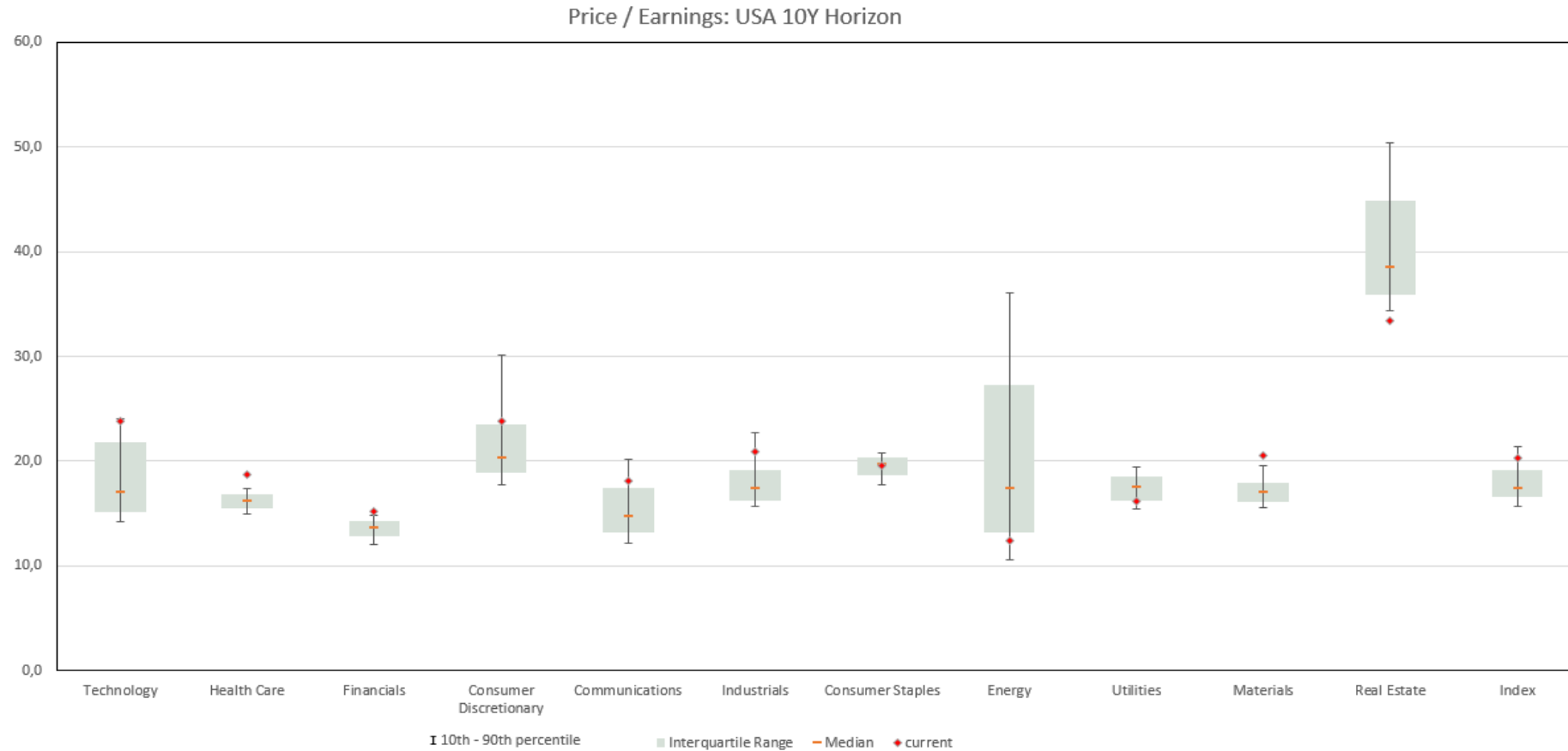


Source: BNP Paribas, S&P Global // * ** Please [see here](#) for a detailed scenario description

Sector Valuations: Europe



Sector Valuations: USA





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