A transatlantic gap in terms of earnings

The third-quarter earnings season is drawing to a close, with 95% of companies in the United States having published their results and 75% in Europe. As has been the case since the start of the year, these results show a clear divergence between the two regions: strong growth and positive surprises in the US, slightly negative growth and more mixed surprises in Europe. We remain overweight in these two markets, given the strength of companies' results for the former and the low valuations for the latter.

Earnings continue to perform well in the United States. US companies continued to outperform analysts' expectations, with 70% of them posting sales growth ahead of market forecasts (66% for earnings). More importantly, growth in sales and earnings remained robust (+5% and +8% respectively), albeit slightly down compared with the previous quarter.

Unsurprisingly, the information and technology (IT) and communications sectors are in pole position, with earnings growth of around 20% this quarter, closely followed by the consumer discretionary sector. The energy sector continued to suffer (-23% year-on-year this quarter).

A very different situation in Europe. Firstly, positive surprises accounted for only around 40% of the total in terms of sales volume and 55% in terms of profits.

Secondly, earnings growth, which was already weak in the second quarter, deteriorated slightly, falling by more than 1% over the quarter. As a result, the outperformance of the US corporate earnings over European's observed since mid-2023 has accelerated (chart 1).

Finally, the sector hierarchy is different from that in the US: the IT and communications sectors have seen a marked fall in earnings growth (respectively -10% and -14%). Earnings in the energy sector fell sharply (-30%), but it was consumer discretionary dropped the most, by -50%, suffering from sluggish domestic demand as well as that of the Chinese economy.

A two-speed year in 2024 between the United States and Europe. As chart 2 shows, since the start of the year, the US equity markets have clearly outperformed their European peers, with total returns up 25% in the US and 7% in Europe.

This outperformance can be explained both by a much more dynamic growth in corporate earnings and by a more pronounced re-rating (increased in valuation levels). The first factor is likely to continue, given the strength of the US economy, but the second could benefit the European markets.

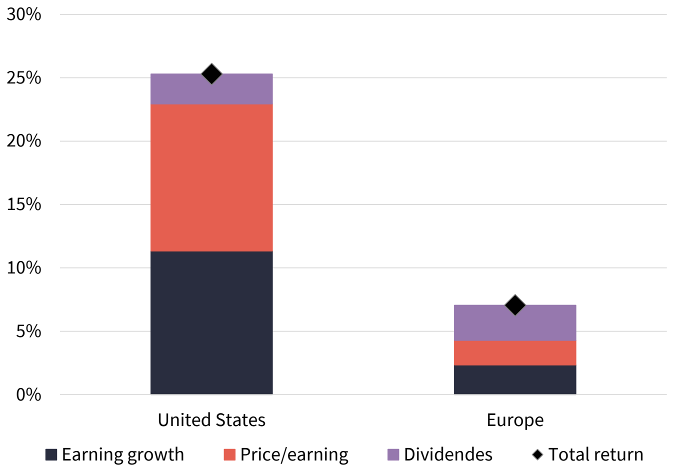
Remaining overweight developed markets. The strength of the US economy and the expansionary fiscal policy of the new Trump administration should continue to support US companies. The robust earnings performance of US companies seems to us to justify their high valuation.

Given that the US accounts for around a quarter of European companies' sales, European companies could also benefit from the strong US growth, particularly large caps. Moreover, with the price/earnings ratio back to where it was 5 years ago, the valuation of the European market looks relatively attractive.

RELATIVE PERFORMANCE OF US VS EUROPEAN EARNINGS (100=31/12/2020)

Sources: Société Générale Investment Solutions, Macrobond, Macrobond 21/11/2024

TOTAL EQUITY PRICE RETURN BREAKDOWN
(2024, year-to-date)



Sources : Société Générale Investment Solutions, Bloomberg

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SOCIETE GENERALE
Private Banking

Events of the week

United Kingdom: higher-than-expected inflation calls for caution

After falling below, the 2% target in September for the first time since 2021, inflation in the United Kingdom bounced back to 2.3% year-on-year in October, slightly higher than expected. The main reason for this rebound is the rise in electricity prices.

This level (highest in 6 months), the persistence of services inflation (5% over one year), the good performance of domestic activity and the lesser drag on growth from fiscal policy should encourage the Bank of England to be cautious. Markets are only anticipating 2 rate cuts by June 2025, the next one only in February.

Euro area : weak PMIs on both sides of the Rhine

The PMI business surveys published in France and Germany were disappointing. The German PMI Composite reached its lowest level for 9 months (47.3), marked by persistent weakness in manufacturing, and services, which fell slightly to 49.4, lowest level since last February. In France, the composite indicator contracted for the 3rd month in a row, to 44.8, with of particular importance a marked fall in new orders. It must be noted that the INSEE business climate index fell more slightly.

THE WEEK IN DATA

Country	Data	Actual	Last	Forecast
United Kingdom	Inflation Rate october	2,30%	1,70%	2,10%
	Gfk Consumer Confidence november	-18	-21	-24
United States	Building Permits october	1,416M	1,425M	1,460M
	Initial Jobless Claims	213K	217K	224K
France	Composite PMI november	44,8	48,1	48,2
Germany	Composite PMI november	47,3	48,6	48,7

Source: Macrobond, 22 November 2024. The colors in the 'Actual' column correspond to the difference from the forecast

KEY EVENTS NEXT WEEK

Monday

Germany Ifo Business climate November

Wednesday

Germany -Gfk Consumer Confidence December

United States -Durable goods orders October

-GDP Growth Rate Q3

Thursday

Germany Inflation Rate November

Friday

France Inflation Rate November

Germany -Retail sales October

-Unemployment Rate November

Switzerland -Retail sales October

-GDP Growth Rate Q3

MARKET PERFORMANCES

Interbank rates

%	20/11/2024	22/10/2024	22/08/2024	01/01/2024	22/11/2023
US SOFR	4.743	4.86	5.35	5.34	5.33
Euro area €ster	3.167	3.42	3.66	3.88	3.90
UK SONIA	4.700	4.95	4.95	5.19	5.19
Switzerland SARON	0.956	0.95	1.21	1.70	1.70
Japan TONAR	0.227	0.23	0.23	-0.04	-0.01

10Y Government rates

%	21/11/2024	22/10/2024	22/08/2024	01/01/2024	22/11/2023
US Treasuries	4.43	4.20	3.86	3.88	4.42
France OAT	3.09	3.04	2.95	2.55	3.12
Germany Bund	2.31	2.31	2.24	2.02	2.56
Italy BTP	3.56	3.46	3.61	3.70	4.25
Spain Bonos	3.03	3.02	3.05	2.98	3.55
Switzerland	0.41	0.47	0.40	0.66	0.93
UK Gilts	4.43	4.16	3.99	3.60	4.24
Japan JGB	1.06	0.95	0.87	0.62	0.70

Credit

%	21/11/2024	22/10/2024	22/08/2024	01/01/2024	22/11/2023
United States IG	5.25	5.06	4.94	5.06	5.76
United States HY	7.23	7.27	7.39	7.59	8.64
Europe IG	3.49	3.46	3.65	3.72	4.43
Europe HY	5.80	6.02	6.41	6.80	7.98
Emerging FX	6.30	6.25	6.45	6.77	7.52

Equity indices

21/11/2024 vs	-1w	-1m	-3m	01/01/2024	-1y
World	1.10	0.99	5.24	20.52	26.56
United States	1.66	2.60	8.02	25.74	33.26
Euro area	-0.71	-3.34	-1.73	6.84	11.54
France	-0.85	-4.35	-3.89	-1.43	2.82
Germany	-0.58	-1.87	3.26	12.35	17.96
United Kingdom	0.97	-1.84	-1.51	8.61	12.90
Japan	-1.09	1.09	1.32	15.70	15.49
Emerging	0.14	-3.65	0.14	12.49	16.62
China USD	0.67	-4.51	12.80	17.80	12.61
India USD	-0.69	-4.76	-7.57	13.07	24.50
Latin America USD	-0.71	-4.82	-8.42	-19.31	-12.38

Foreign exchange rates

	21/11/2024	22/10/2024	22/08/2024	01/01/2024	22/11/2023
EUR/USD	1.05	1.08	1.11	1.11	1.09
GBP/USD	1.26	1.30	1.31	1.27	1.25
EUR/CHF	0.93	0.94	0.95	0.93	0.96
USD/JPY	154.42	150.97	146.29	141.03	149.67
USD/CNY	7.24	7.12	7.14	7.08	7.16

Commodity prices

	21/11/2024	22/10/2024	22/08/2024	01/01/2024	22/11/2023
Brent, USD/BL	74	75	77	77	82
Copper, USD/Metric ton	8,946	9,491	9,061	8,476	8,296
Gold, USD/Troy oz	2,670	2,749	2,485	2,063	1,990
Silver, USD/Troy oz	31	34	30	24	24
Palladium, USD/Troy oz	1,028	1,077	949	1,136	1,066
Platinium, USD/Troy oz	960	1,016	959	1,000	931

Source : Bloomberg on 22 November 2024, 1W = 1 week change, 3M = 3 month change, 12M = 12 mont change, YTD = year to date change, Equities; total return in local currency . Government bonds = 10 year returns. Figures are rounded..

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