WEEKLY UPDATE

Equity markets: the earning season shows why we prefer the US to Europe

The United States economy grew strongly in Q3, in sharp contrast with the euro area's GDP growth contraction. Corporate results tell a similar story, in turn helping explain why US stock markets have outperformed their European peers by more than 1.5 times year to date, gaining around 15% compared to 9%. True, US stocks may look expensive and their European peers more attractive, particularly on 12-month forward price-to-earning ratio. Nevertheless, we think the US market will continue to outperform as long as the growth gap favours the United States.

Healthy growth in the United States, sluggish in Europe. The most striking illustration of the yawning gap between US and European economies is their respective economic growth rates. The United States expanded at an annualised rate of nearly 5% in Q3 2023 (1.2% quarter-on-quarter). In the same period the euro area economy shrank by 0.4% annualised (-0.1% quarter-on-quarter).

Data for Q4, mainly business sentiment surveys, point to a slowdown in the US and hence suggest some convergence between the two countries. But the US still has a better growth momentum. Consensus growth forecasts show the US easily outstripping Europe at full-year 2023, with growth of 2.3% compared to 0.5%, and outperforming again in 2024, with 1.0% vs. 0.7%.

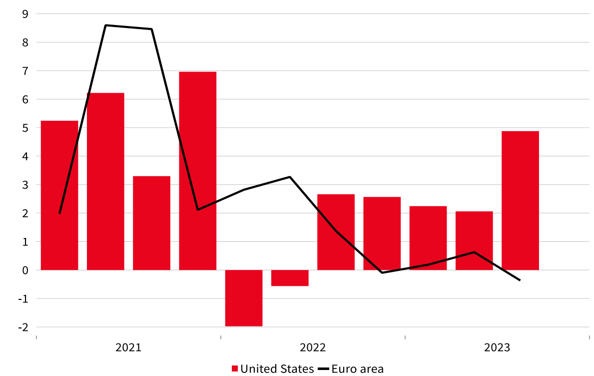
Company fundamentals are solid in the United States and pretty good in Europe. The strong growth of the US economy has boosted companies' volume sales and helped keep profit margins at historical highs. But this is not the only reason American firms are doing well. Many firms are financed at fixed-rate borrowings at long maturities, insulating their margins against recent rate hikes, for the moment. In Europe, while lower, margins have also been sustained at historical highs as firms have used the cover provided by inflation to raise their selling prices *(greedflation),* at least in some sectors.

Positive earning season in the US but generally disappointing in Europe. Small wonder, then, that the Q3 results season shows US listed companies to be on a better track than their European counterparts. Earnings per share have continued to grow at a modest 2.5% year-on-year in the United States but have slumped by 13.5% in Europe. That said, the drop in European earnings is largely down to a few underperforming sectors – commodities, industrial, energy and utilities sectors saw profits plummet by 25% to 55%.

What is more, of the 90% of US firms to report so far, more than 80% beat the consensus' earnings per share estimates, a strong performance repeated across all sectors. In contrast, in Europe, where 84% of firms have now reported, the story is more mixed. Barely half beat their earnings estimates while as many firms surprised negatively as positively in terms of sales (39%). **These figures tend to reinforce our equity positioning: globally Neutral with a preference for US markets.**

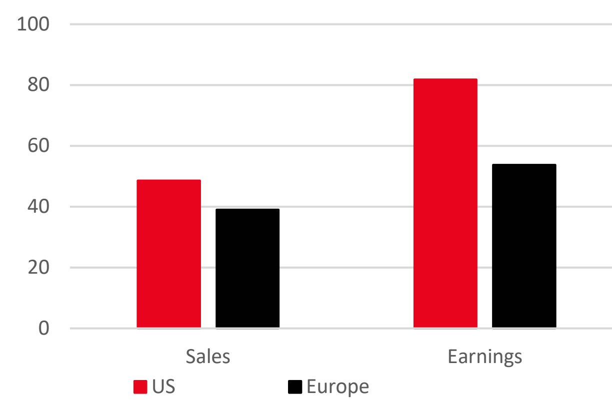
Real GDP Growth

Annualised quarterly rate



Sources: SGPB, Macrobond, BEA, Eurostat, S&P Global 2023 Q3

Third-quarter earnings releases: percentage of companies exceeding analysts' consensus expectations



Sources : SGPB, Bloomberg

SOCIETE GENERALE
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OUR MACRO COMMENTS

Events of the week

China's trade balance data were disappointing in October, with the trade surplus down $20 billion on September, or almost -30%. This was the weakest trade balance since February. This was due to weak external demand, which pushed exports down by more than 6%, and an unexpected 3% rise in imports. In the United States, September's trade balance data also disappointed, with the trade deficit widening by almost 5% on August, due to rising imports despite buoyant exports.

Chinese inflation slipped back into negative territory in October. It fell by 0.2% year-on-year, driven down by the fall in food prices (-4% year-on-year, with pork prices down by 30.1%). Core inflation (excluding energy and food) is also slowing, from 0.8% year-on-year to 0.6%. In addition, producer prices fell for the 13th consecutive month, dropping by 2.6% following a 2.5% fall in September.

The price of oil continued to drop, erasing its summer gains. The price of a barrel of Brent ended the week at 80 USD/bl, down 17% on its September peak. This drop was mainly due to signs of a slowdown in demand.

Figures of the week

	Actual	Forecast	Last
Factory orders (September, YoY)	0.2%	-1%	1.9%
Industrial production (September, YoY)	-1.4%	-0.1%	-0.1%
HCOB services PMI (October)	51.1	49.3	50.5
HCOB services PMI (October)	47.7	48.5	49.9
Exportations (October, YoY)	-6.4%	-3.3%	-6.2%
Inflation (October, YoY)	-0.2%	-0.1%	0%
GDP Growth (2023 Q3, QoQ)	0%	-0,1%	0,2%

Sources : Macrobond, November 10th, 2023.

The week ahead

Monday

OPEC Monthly Report

Tuesday

Unemployment Rate (September)

Unemployment Rate (2023 Q3)
ZEW Economic Sentiment Index (November)

Inflation (October)

Wednesday

GDP Growth (2023 Q3)

Unemployment rate (October)
Retail sales (October)

Unemployment Rate (2023 Q3)

Inflation (October)

Friday

Retail sales (October)

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,90	3,90	3,65	1,91	1,40
USD SOFR O/N	5,32	5,32	5,30	4,30	3,78
JPY TONAR O/N	-0,01	-0,02	-0,07	-0,02	-0,06
GBP SONIA O/N	5,19	5,19	5,18	3,43	2,93
CHF O/N	1,70	1,70	1,75	0,80	0,68

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	79,67	-6,1%	-8,8%	-7,3%	-13,8%
Or, USD/oz	1 950	-1,6%	1,9%	6,8%	14,3%
Copper, USD/metric ton	8 170	0,6%	-3,0%	-2,7%	2,0%
Platinium, USD/oz	884	-4,4%	-2,1%	-17,0%	-11,8%
Palladium, USD/oz	1 018	-9,2%	-16,1%	-43,1%	-47,2%
Silver, USD/oz	22,44	-1,0%	-1,2%	-6,3%	5,3%

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,20	3,37	3,03	2,98	2,68
10Y Bund	2,62	2,75	2,50	2,44	2,17
10Y BTP	4,42	4,65	4,14	4,55	4,27
10Y JGB	0,87	0,94	0,60	0,41	0,25
10Y Bonos	3,66	3,83	3,52	3,51	3,22
10Y Swiss	1,16	1,12	0,93	1,57	1,10
10Y Gilt	4,32	4,57	4,37	3,66	3,44
10Y USTnote	4,49	4,77	4,00	3,88	4,12

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,07	1,3%	-2,7%	-0,1%	6,3%
EUR/CHF	0,96	0,3%	-0,1%	-2,5%	-2,5%
USD/GBP	0,81	-1,4%	3,6%	-2,0%	-7,4%
USD/JPY	150,85	-0,1%	5,0%	15,3%	3,1%
USD/BRL	4,89	-2,6%	-0,3%	-8,4%	-5,3%
USD/CNY	7,28	-0,5%	1,0%	5,5%	0,5%
USD/RUB	91,97	-1,0%	-5,2%	26,0%	49,7%

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,44	3,54	3,27	3,12	3,19
EUR Corporate Baa	4,61	4,70	4,45	4,65	4,69
GBP Corporate Baa	5,02	5,29	5,32	4,59	4,52
USD Corporate Aaa	5,14	5,37	4,76	4,62	4,98
USD Corporate Baa	6,26	6,48	5,80	5,70	6,23
USD EM aggregate	8,02	8,29	7,46	7,52	8,37

Equity indices	-1W	-3M	YTD	-12M
Developped markets	1,8%	-4,6%	-0,9%	3,4%
Euro area	2,1%	-3,2%	8,4%	12,1%
Germany	2,1%	-3,9%	8,2%	11,4%
France	1,5%	-3,9%	6,7%	9,4%
United Kingdom	0,8%	-2,4%	-0,7%	1,4%
Switzerland	0,9%	-4,4%	-1,3%	-2,8%
United States	3,4%	-1,9%	14,1%	16,9%
Japan	-0,2%	1,0%	21,9%	18,3%
Brazil	3,6%	0,6%	12,0%	4,9%
Hong Kong	2,7%	-8,7%	-11,2%	7,4%
India	2,2%	-1,5%	6,2%	6,5%
China	1,1%	-9,0%	-6,7%	-2,8%

Source: Bloomberg, on November 9th , 2023.
-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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