Cooler Heads Prevailing
As The Fed Starts To Ease

Martello
ASSET MANAGEMENT

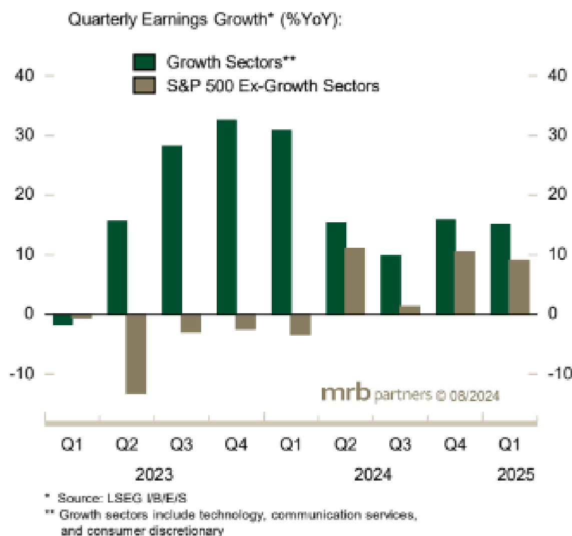
In May we discussed the outlook for global earnings following a strong first quarter where earnings growth was 3.3% above the corresponding period in 2023. Could earnings sustain their growth trend and support the performance of equity indices prior to the anticipated rate easing cycle, due to commence in the second half of the year?

The results for the second quarter proved to be broadly strong, despite some underwhelming (relative) results from some members of the Magnificent 7 and weaker guidance from a number of consumer-facing companies, mainly in the luxury goods sub-sector.

Focusing on the S&P500, year-on-year earnings growth for the quarter was approximately 13%, on revenue growth of more than 5%. Earnings growth improved from the 8% pace recorded in Q1 and was above the consensus forecast of 10% at the beginning of April. The improving profit cycle, which bottomed in Q2 of 2023 is intact, and shows improving momentum (see chart above).

At the sector level, the most important feature of Q2 earnings was the shift to more balanced growth across sectors, with healthcare, industrials and financials having the widest breadth of companies topping earnings forecasts.

In summary, a convergence in earnings growth between 'growth sectors' and the rest of the market is now evident, and this is reflecting in the leadership pattern of the market since the late July correction, brought about by a 'panic sell-off' linked to slightly weaker payrolls data and a more hawkish tone from the Bank of Japan. Global equities have since established new highs whilst many stocks in our equity model have made all-time highs as well (notably, very few in the investment technology sector). Further narrowing of this gap should continue to be a feature of the coming quarters, whilst estimates for 2025 and 2026 have also been nudged higher (see charts below).



With the final quarter of the year just around the corner, markets have received a further, timely boost as the FOMC has started the rate-cutting cycle in the US with a bang, and provided dovish guidance through to the end of 2025. This further monetary assistance should prove reflationary for the US economy, at a time when weaker housing and consumer sentiment data were increasing the risk of economic drag.

This suggests that the current path ahead for equity (and credit) markets is relatively clear – the Fed and other DM central banks will be cutting rates for an extended period *unless* economic growth meaningfully inflects higher (which in turn would further boost employment hiring plans and ultimately, corporate earnings). The implications of this are that not only will global economic expansion persist, but that the risks will tilt to better than expected growth during 2025, and that this will continue to broaden on a geographic and sector basis.

Gary Hill – CIO Martello Asset Management.

This document is for information purposes only and is not intended as an offer or solicitation to buy or sell securities. Martello Asset Management Limited (“Martello”) does not make any warranties, express or implied, that any products or services referred to are available in your jurisdiction. You must be aware that prices may fall as well as rise and that all investments are subject to risk, including the risk that you may lose all the money that you have invested. Income can fluctuate and is not guaranteed, and past performance is no guarantee of future performance. Where investment is made in currencies other than the investor’s base currency, exchange rates may have an independent impact on the value of investments, which may be favourable or unfavourable.

If it is prohibited to promote or make the products or services available in your jurisdiction (by reason of nationality, residence or otherwise) such services are not directed at you. Investment advice should be taken from an appropriately qualified independent investment adviser in all instances. Martello does not offer tax advice and this document does not constitute or imply any tax advice, which should be sought elsewhere. The information contained within this document is believed to be correct at the time of release but cannot be guaranteed and opinions constitute the judgment of Martello which are subject to change. Martello is licensed (Reg No: 127947) and regulated by the Jersey Financial Services Commission (Licence No’s: IB0313 & FSB2324) and is authorised as a Financial Services Provider in South Africa by the Financial Sector Conduct Authority (License No: 51164).

Further information about Martello Asset Management Limited can be found at www.martello-am.com. Our registered and business office is at First Floor, International Finance Centre 5, The Esplanade, St Helier, Jersey JE2 3BY. Redistribution or publication of the material contained in this document without permission is strictly prohibited. All rights reserved.