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US earnings season gets off to a positive start, Netflix with record figures

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On the world's stock exchanges, earnings season in the USA is being followed with great interest. During this period, almost all major listed US companies report on their past financial quarter and give an outlook for the coming year.

According to analysts, the quarterly season could well provide some pleasant surprises, as expectations have been quite low after the crisis year of 2020. Following the slump during the pandemic's escalation, US companies generally managed to exceed analysts' expectations over the past two quarters. In fact, the majority of companies reporting so far are showing strong results: More than 86% of the companies listed in the index of the 500 largest publicly traded companies in the US have surprised on the upside.

Bank results mixed, investment banks booming

The big US banks traditionally kicked off the reports, with results being very mixed and finding rather negative reception on the stock markets. While online securities trading boomed and investment banking also did well, the retail banking business of some banks performed poorly.

Investment banks Goldman Sachs and JP Morgan, both of which are heavily involved in securities trading, reported strong profit increases. The US's largest bank, JP Morgan, for example, increased its earnings by 42 per cent in Q4 and wrote a record profit of USD 12.1bn. The bank also benefited from the fact that part of the provisions for loans in danger of default could be reversed in view of the improved economic outlook.

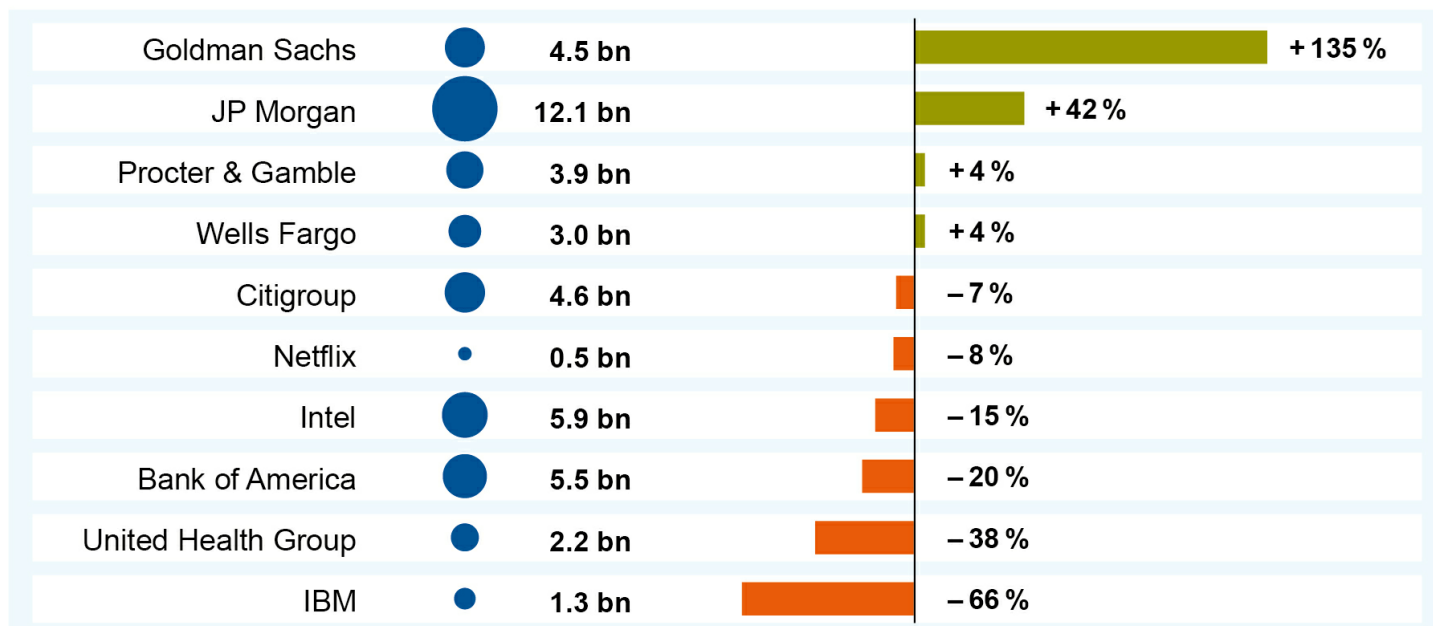
Increasing earnings even more by an impressive 135 per cent to USD 4.5bn, Goldman Sachs exceeded market expectations. Revenue rose across all business lines, with equity trading booming in particular. The investment bank benefitted from the fact that it traditionally does not have a large retail business with high loan losses.

The quarter was different for banks heavily active in retail banking. Bank of America's net profit dropped by a good 20 per cent to USD 5.5bn. Citigroup's profit also fell by 7 per cent to USD 4.6bn. For the entire year of 2020, the bank reported a 41 per cent drop in profits. According to its report, the large bank Wells Fargo also suffered from the pandemic, but was able to increase its profit by 4 per cent to USD 3.0bn.

Quarterly Figures for Major US Corporations

● Reported Earnings, 4th Quarter 2020, in USD

■ YOY Change in %



Contracted by: Erste Asset Management, source: APA

APA-contract chart

Netflix writing record figures

Netflix' reported figures were received with great enthusiasm on the stock exchanges. The streaming service known for its hit tv series continues to benefit from the lockdowns and the streaming trend, increasing the number of its subscribers in Q4 by 8.5 million to almost 204 million and thus exceeding the 200-million-user mark for the first time. Profit fell by around 8 per cent to USD 542m; however, revenue rose by 20 per cent to 6.6bn.

The figures significantly exceeded market expectations, with Netflix shares climbing 17 per cent to a new all-time high on the day of publication alone. User figures show that the growing number of streaming services does not lead to cannibalisation, analysts explained, as evidently users are willing to pay for parallel use of multiple video services. The share buyback programme announced by Netflix was also received positively.

Consumer goods manufacturer Procter & Gamble has also benefited from the crisis and the lockdowns, with laundry, cleaning and health products being in particular demand against the background of the pandemic: Q4 turnover exceeded analysts' expectations, increasing by 8 per cent to USD 19.7bn; net profit increased by 4 per cent to USD 3.9bn. Health insurance provider UnitedHealth also made gains in the year of the pandemic. In Q4, net income dropped by 38 per cent to USD 2.2bn, for the year as a whole, however, the company increased its profit by 11 per cent to USD 15.4bn.

Figures reported by IT heavyweights IBM and Intel received mixed reactions. IBM had reported a surprisingly strong drop in profits of 66 per cent to USD 1.3bn in the final quarter. A shrinking profit had been expected, but the drop in turnover of more than 6 per cent disappointed investors, who had expected more from the booming cloud business in particular.

The figures from Intel were received positively. Although the IT manufacturer reported a 15 per cent drop in profits to USD 5.9bn, a quarterly turnover of USD 20bn exceeded the numbers previously forecast. Intel is thus likely to have benefited further from the expansion of data centres catering to the trend towards home office.

Airlines with massive losses

The airline business naturally performed poorly in the pandemic year. The crisis-induced travel restrictions led to a heavy loss of USD 1.9bn for United Airlines in Q4, where the carrier had still made a profit of 641 million in Q4 of 2019. For the full year 2020, United Airlines suffered a loss of USD 7.1bn. Delta Airlines' annual loss was even greater at USD 12bn, and the airline is thus still dependent on state support to survive the crisis.

Conclusion: The reporting season in the USA has started on a positive note. The vast majority of companies surprised with higher-than-expected earnings. While the lockdown winners presented good figures, the figures for banks were mixed.

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