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US earnings season in full swing

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US earnings season showing strong figures particularly for banks

The US earnings season is back in full swing, with companies presenting figures for Q3 of 2018. The first results are promising, particularly in the banking sector, where things are going well thanks to higher US interest rates, the US tax reform, and a healthy economy. JPMorgan, Citigroup, and Wells Fargo each reported profits in the billions for Q3, with growth rates of 12 to 33 per cent compared with the same quarter of the previous year. Morgan Stanley and Goldman Sachs also reported billion-dollar profits, exceeding analysts' expectations.

Technology shares have presented a mixed picture so far, but the results of several major industry players such as Apple, Amazon, and Google parent Alphabet are still pending. While Netflix was able to acquire nearly seven million new users in the last quarter alone, increasing its revenue by around a third, tech giant IBM's figures disappointed with both lower revenue and profits.

In the healthcare sector, the full-year forecasts showed promise above all. US health insurance company UnitedHealth raised its profit forecast for the fourth time this year. US pharmaceutical and consumer goods group Johnson & Johnson (J&J) also raised its annual targets following an unexpectedly strong increase in earnings in the third quarter.

Robust economy generates profits

One reason for the largely promising figures and the continuing optimism is the strong US economy, which again saw a fair increase in the second quarter. According to data from the Washington Department of Commerce, the world's largest economy grew by a projected 4.2 per cent year-on-year between April and June, marking the strongest growth since Q3 of 2014, i. e. in the last four years.

The sentiment in the manufacturing sector also remains positive. The purchasing managers' index, provided by the Institute for Supply Management (ISM), stood at 59.8 points in September, remaining clearly above the growth threshold of 50 points. However, this also constitutes a significant retrace from August, where the barometer stood at 61.3 units. The ISM index, an important lead indicator for economic activity in the USA, is derived by polling US corporate managers.

The data currently still paints a robust picture, but corporate concerns about an economic downturn are increasing further. While the risk factors are primarily geopolitical, all eyes also remain firmly on the international trade wars. One of JPMorgan CEO Jamie Dimon's major concerns is inflation: having dropped to 2.4 per cent year-on-year in September – from 2.7 per cent in August – it still lies well above the target of around two per cent set by the US Federal Reserve.

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A blog post by APA Finance together with Erste AM Communications.