

Early Take on the Australian Reporting Season

- Negative sector trend remains with some reversals
- The Top 10 positive earnings surprises
- Quality outperforms and no short squeeze



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Sector Themes - Sanguine Trend Remains With Some Trend Changes

At the end of July, a number of earnings trends were in place for the S&P/ASX 300 Index (the Index). As shown in Figure 1 below, expectations for earnings for the next 12 months was -6.4% ¹. Fast forward to 25 August and with reporting season largely completed, the Index posted only a minor deterioration in earnings of -0.1% . While the next aggregate change has been a small negative, some of the sector trends have changed.

The positive trends in Industrials, Consumer Staples, Communications Services and Real Estate turned negative, whilst the previously negative trends in Energy and Materials turned positive.

Figure 1: Earnings Per Share (EPS) Trends - YTD and During August 2023 Reporting Season

	Earnings Trend YTD ² (Prior to August 2023)	Reporting season Earnings Trend (31 July 2023 to 25 August 2023)	Change in Earnings Trend
S&P/ASX 300 Index	-6.4%	-0.1%	
Utilities	33.3%	4.5%	
Industrials	14.1%	-0.9%	Yes
Health Care	7.1%	1.9%	
Consumer Staples	3.8%	-3.3%	Yes
Consumer Discretionary	3.4%	0.7%	
Communication Services	1.6%	-1.8%	Yes
Real Estate	1.5%	-0.7%	Yes
Financials	-3.6%	-0.6%	
Materials	-8.4%	0.8%	Yes
Energy	-33.9%	0.1%	Yes
Information Technology	-43.8%	-2.4%	

Source: FactSet, State Street Global Advisors as at 25 August 2023. The underlying earnings data is sourced from FactSet and represents market cap weighted returns and EPS for the representative indexes. EPS trends YTD (Prior to August 2023) represent the % change in forecast EPS estimates for the next 12 months from 31 December 2022 to 31 July 2023. The Reporting season earnings trend represents the % change from 31 July 2023 to 25 August 2023. Change in trend reflects a change in sign of the EPS trends between these two periods. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

The Most Positive Earnings Reactions Were Diverse

Figure 2 below highlights some of the biggest reactions to the earnings announcements in August 2023. We calculate an “earnings return” for the stock from 1-day before the earnings announcement to 2-days after the earnings announcement. This measure is designed to capture the market assessment of all the information contained in the earnings release. Other key items beyond earnings may include company forward guidance, comments from management about the operating environment, competition, cash flow, dividends etc. It is also designed to capture the extent to which the market was surprised by the result.

Companies with the largest positive surprises during reporting season came from a wide range of sectors and exhibited many different financial characteristics

Figure 2: Top 10 Positive Earnings Surprises During August 2023 Reporting Season

Earnings Return % (% change E-1 to ED+2)	Company	Sector (GICS)	Market capitalisation (\$ millions)	Return on Equity last 5 year average	NET DEBT / EBITDA	3 year Beta (historical)	Price earnings ratio (NTM)	Long term Growth (LTG)	Short Interest % of ADV
30.7	Altium	Information Technology	6,114	15.5	-3.0	1.0	56.9	20.5	3.3
15.3	James Hardie Industries	Materials	19,304	23.8	0.6	1.2	19.2	20.0	1.9
13.8	IDP Education	Consumer Discretionary	6,482	10.3	-1.7	1.1	50.4	50.1	15.5
13.4	Goodman Group	Real Estate	42,235	18.7	2.4	1.0	25.1	11.2	2.2
13.2	AMP Limited	Financials	3,484	-6.1		1.1	10.8	10.6	3.5
8.7	Carsales.Com	Communication Services	10,399	21.3	-0.8	1.2	28.1	13.9	1.6
8.2	Qube Holdings	Industrials	4,768	-1.3	5.9	1.1	28.5		4.5
7.7	Domino's Pizza	Consumer Discretionary	4,279	46.4	2.8	0.6	34.7	15.8	13.0
7.6	Cochlear	Health Care	17,475	21.0	-0.8	1.0	46.2	15.5	4.5
5.3	Northern Star Resources	Materials	12,081	20.4	0.1	0.6	23.7		2.6

Source: FactSet, State Street Global Advisors as at August 2023. We calculate an “earnings return” the return for the stock from 1 day before earnings announcement to 2 days after the earnings announcement. This information should not be used or construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security. Past performance is not a reliable indicator of future performance. The stocks mentioned are not necessarily holdings invested in by SSGA. References to specific company stocks should not be construed as recommendations or investment advice. The statements and opinions are subject to change at any time, based on market and other conditions.

Key Themes

Quality Outperformed in August

To explore the performance of various financial themes during reporting season, we expand the analysis to the full S&P/ASX 300 universe. In Figure 3, we examine the S&P/ASX 300 universe to explore the themes that dominated during reporting season. We calculate average performance of various sectors to see if any stand out.

Many of the characteristics we observed in August were consistent with investor preferences during down markets. Larger capitalised stocks outperformed smaller capitalised stocks and higher risk stocks underperformed lower risk stocks. Quality as measured by higher return on equity for the last 5 years and lower net debt / EBITDA outperformed in August.

Companies with higher long term growth expectations outperform companies with lower long term growth expectations. More expensive companies as measured by the price-to-earnings ratio outperform cheaper more “value” companies in August.

No Short Squeeze This Reporting Season

In past reporting seasons, we sometimes observed the most shorted securities outperforming the least shorted. We did not observe this during the August period. Figure 3 highlights the average return for highest short interest securities underperforming (-2.7%) the least shorted interest securities (-1.9%) as a % of average daily volumes.

Figure 3: Thematic Performance During August 2023 Reporting Season

Themes	Description	Average return for top 20%	Average return for bottom 20%	Return spread (Top - Bottom)
Larger Size	Market capitalisation	-3.8%	-7.0%	3.2%
Higher ROE	Return on Equity - last 5 years	-1.4%	-5.6%	4.2%
Higher Debt/ EBITDA	Net Debt / EBITDA	-3.7%	-1.3%	-2.4%
Higher Risk (Beta)	3 year Beta (historical)	-6.6%	-3.4%	-3.2%
Higher Price Earnings	Price earnings ratio (NTM)	-1.4%	-6.2%	4.8%
Higher Long Term Growth	Long term Growth (LTG)	-4.4%	-5.6%	1.2%
Higher Short Interest	Short Interest % of ADV	-2.7%	-1.9%	-0.8%

Source: FactSet, State Street Global Advisors. Methodology: for each characteristic we sort from largest to smallest and calculate the average return for the top quintile (20%) of the stocks and the average return for stocks in the bottom quintile. The difference between top/bottom quintiles is shown in the last column. For example, we calculated the average return during August for the top 20% of stocks by market capitalisation (-3.8% for large cap), the average return for the bottom 20% (-7.0% for small cap), and the difference (+3.2%). On average, larger capitalised stocks outperformed smaller capitalised stocks. We apply this ranking and return calculations across the various financial metrics displayed. Past performance is not a reliable indicator of future performance.

Bottom Line

The August reporting season has seen a wide range of results with some key trend reversals. Of the two largest index components Financials remained marginally negative while Materials saw a small positive reversal in August. Most of the intra-market themes have been influenced by the negative market environment in August.

Footnotes

¹ Source: FactSet, State Street Global Advisors. Data from 31 December 2022 to 31 July 2023.

² Earnings season is always a rich source of information for investors. While many focus on the reported results we are more interested in company forward guidance. As companies update investors on their operating environment and provide some guidance the investment analyst community adjust their forecasts for the company's future earnings. We can capture the changes in these trends by looking at the changes in the 12 month earnings per share forecasts.

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