NAVIGATING EARNINGS SEASON: THE COMING OUTLOOKS

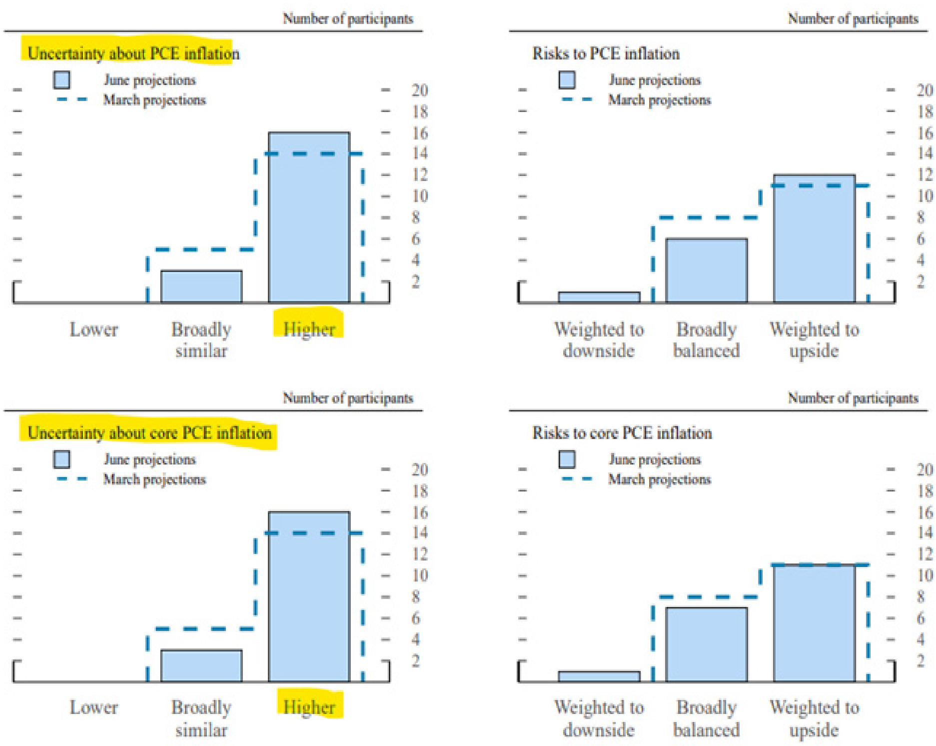
Samuel Rines – Macro Strategist, Model Portfolios
07/11/2024

Welcome to our new weekly blog series, “Navigating Earnings Season.” In this series, I will dive into the world of earnings reports from major companies, spanning giants like JP Morgan and Pepsi, as well as niche players in various sectors. As the earnings season unfolds, these corporate outlooks offer real-world insights that often contrast sharply with the uncertainty emanating from the Federal Open Market Committee (FOMC).

This is in sharp contrast to the “maybe, possibly, and certainly uncertain” outlook from the FOMC. One of the few consistent messages from Powell & Co has been the need for more certainly about the inflation outlook. But—according to the FOMC’s Summary of Economic Projections—that has not been the case in 2024. The opposite has happened. Uncertainty has increased in its outlook for personal consumption expenditures (PCE), its preferred inflation measure.

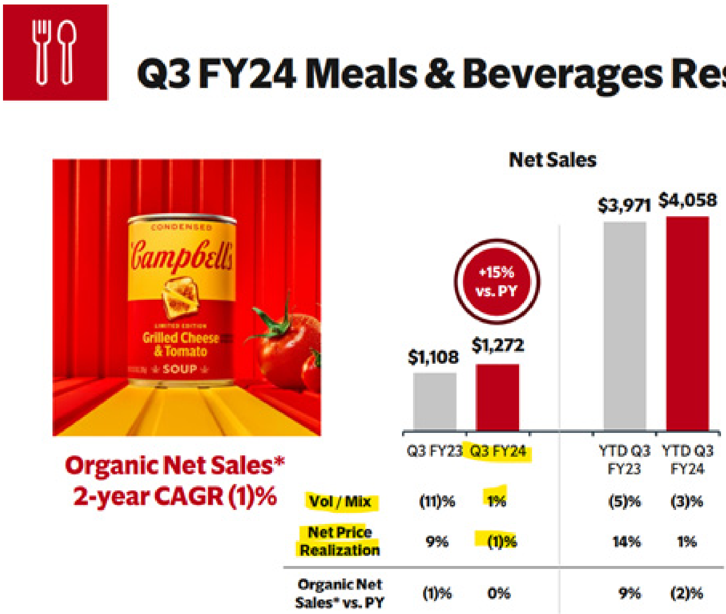
These outlooks are set to collide in the coming weeks. To level set between the noise and the signal, it is useful to have a rough guide to the potentially competing outlooks for inflation and pricing.

FOMC participants’ assessments of uncertainty and risks around their economic projections



Source: FOMC Summary of Economic Projections, June 2024.

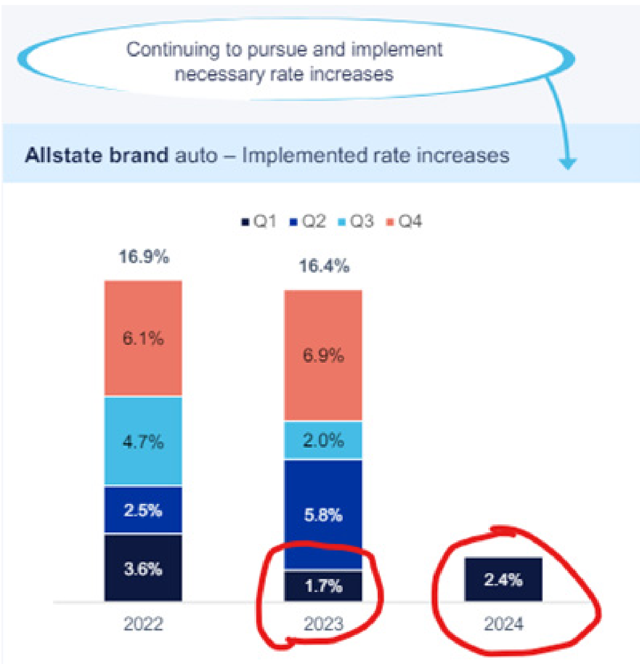
Has the FOMC gained confidence that PCE is moving sustainably to the 2% target? *Maybe*. Given the first half of 2024 saw a deterioration in confidence, it would be quite the pivot for the FOMC to suddenly find the incoming data sufficient to justify altering its stance.



Source: Campbell's Investor Relations (for fiscal Q3, ending 4/28/24).

Are companies seeing pricing power wane? *Tentative yes*. When it comes to the grocery aisle, the pricing power of '21 through mid-'23 appears to have run its course and may even be reversing at the margin. Campbell's releases its earnings relatively late in the cycle, and it may be a harbinger of more consumer staples companies showing pricing power has stalled.

Unfortunately for the FOMC, this emerging trend of staples stalling or losing their pricing power does not matter. Their preferred "core" measure eliminates food and energy from the calculation. And there are other stickier parts of the inflation calculation that are worth taking note of as well.



Source: Allstate Investor Presentation.

Are those stickier portions of inflation set to move lower? *Not this quarter*. Take the insurance industry as a prime example. Auto insurance is one of the stickier parts of the inflation picture. Yes, the rate implementations (pricing) are set to slow. But it is not going to slow to a level that alleviates the existing inflation pressures.

There will be many other narratives to emerge from earnings season. Not all industries or sectors are going to see the economy in the same light. And that is part of the reason why the outlooks matter. Cruise lines and airlines may have differing views on pricing power and the consumer. That is okay, and it is valuable, incremental information for markets to digest.

It is difficult not to get caught up in the noise of the outlooks. There is a lot of it. But the actionable signals underneath is worth the effort it takes.

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