

Are stocks about to grow into their multiples?

Equity Strategy Special Edition

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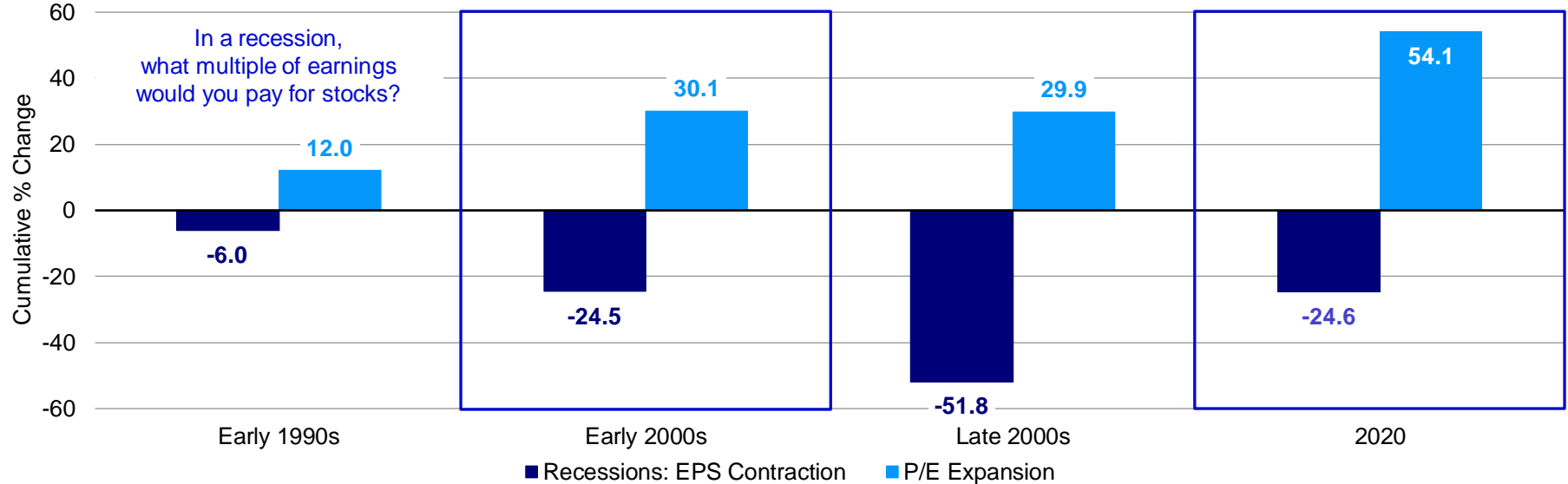
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1. What happened to earnings and multiples in past economic recessions?

Like clockwork, earnings fell and multiples rose during each of the last 3 recessions, and this one was no exception.

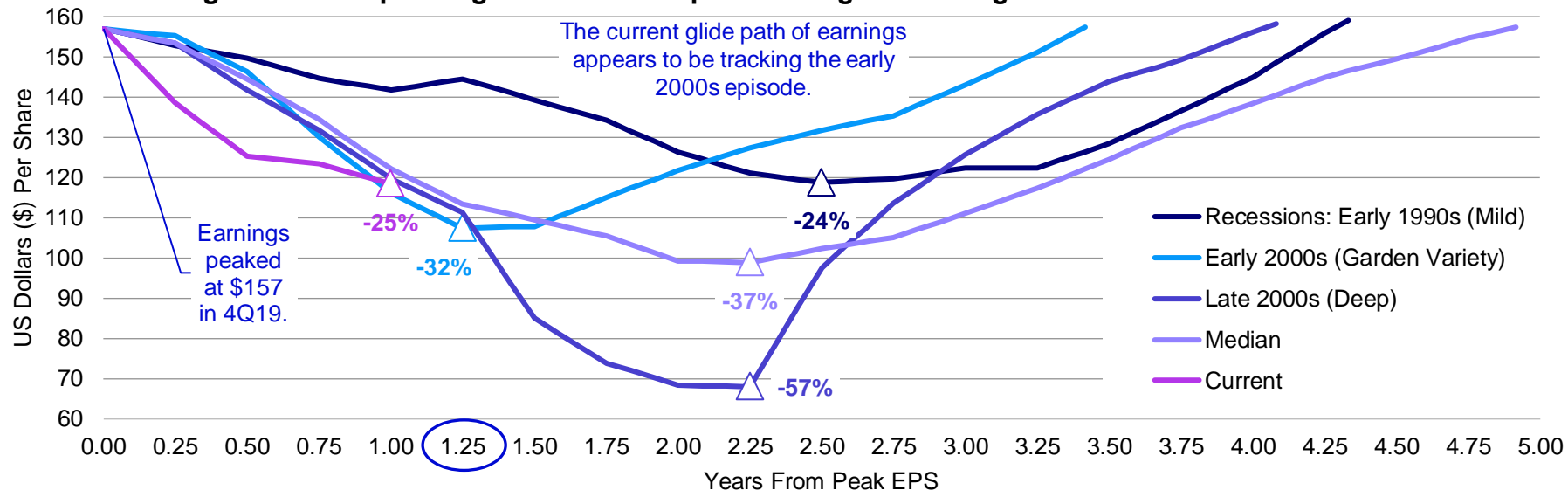
S&P 500 trailing 12-month operating EPS contraction and P/E expansion during economic recessions



Sources: Bloomberg L.P., Standard & Poor's, Invesco, 03/31/21. **Notes:** Operating EPS = Income from products (goods and services), excluding corporate (M&A, financing, layoffs) and unusual items. EPS = Earnings per share. P/E = Price-to-earnings ratio or multiple of EPS. Economic recessions are defined by the National Bureau of Economic Research (NBER). An investment cannot be made in an index. **Past performance does not guarantee future results.**

2. What was the peak-to-trough decline in earnings and how long did it take? History warned that earnings could fall at least 20%, which happened over the past year.

S&P 500 trailing 12-month operating EPS “round trips” entering and exiting different recession scenarios

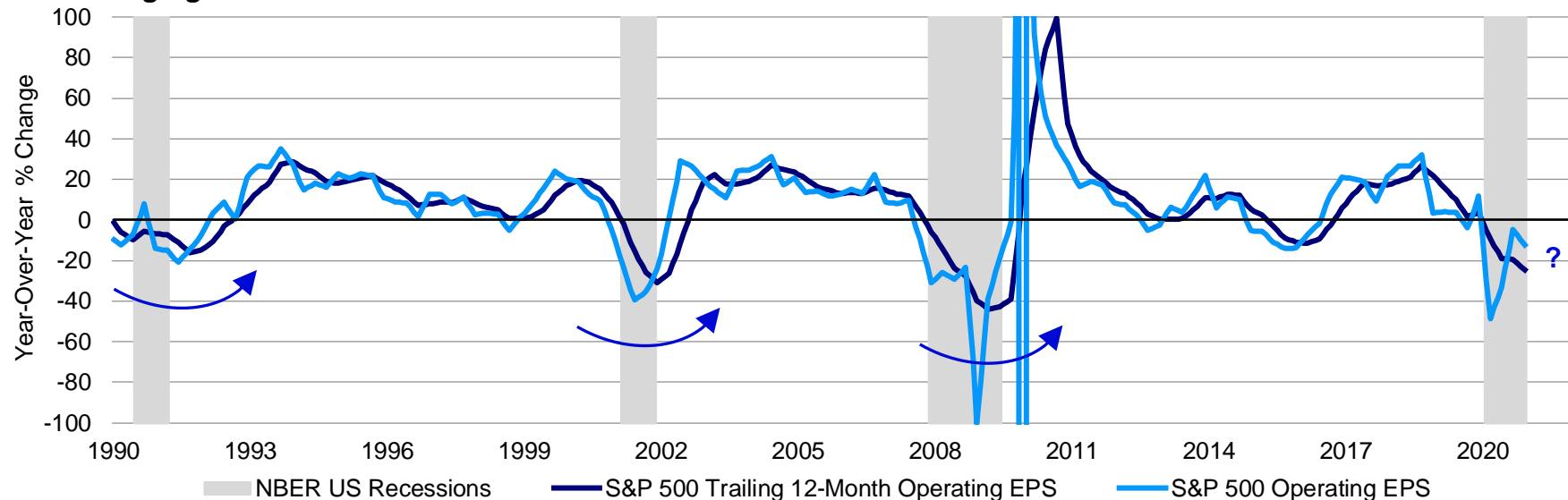


Sources: Standard & Poor's, Invesco, 03/31/21. Notes: An investment cannot be made in an index. Past performance does not guarantee future results.

3. Are corporate profits at a major turning point?

As expected, earnings fell over 20%—a typical recessionary experience. Now, business fundamentals are showing signs of bottoming.

US earnings growth and economic recessions since 1990

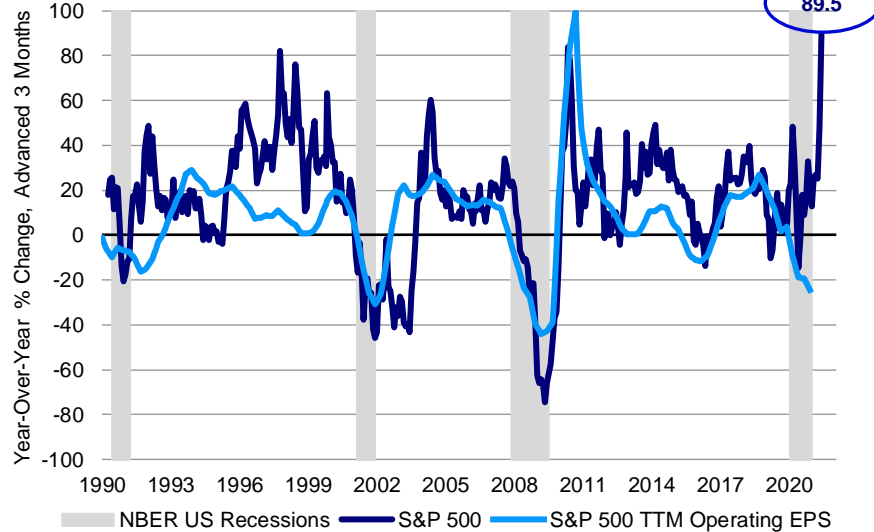


Sources: Standard & Poor's, Invesco, 03/31/21. Notes: Shaded areas denote NBER-defined US economic recessions. An investment cannot be made in an index. Past performance does not guarantee future results.

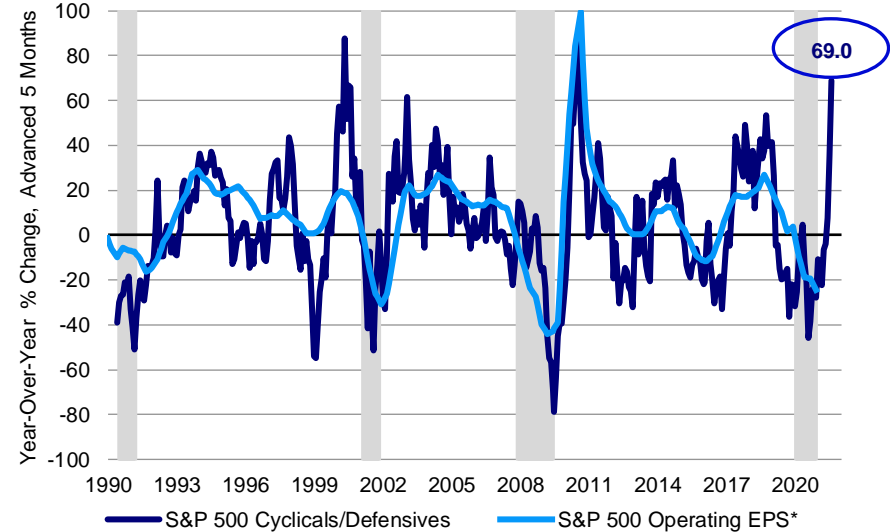
4. What kind of earnings growth are stocks pricing in?

Robust stock market returns over the past year suggest at least 20% earnings growth this year.

US stock market returns (pushed forward 3 months) and earnings growth since 1990



US cyclical relative to defensive sector returns (pushed forward 5 months) and earnings growth since 1990

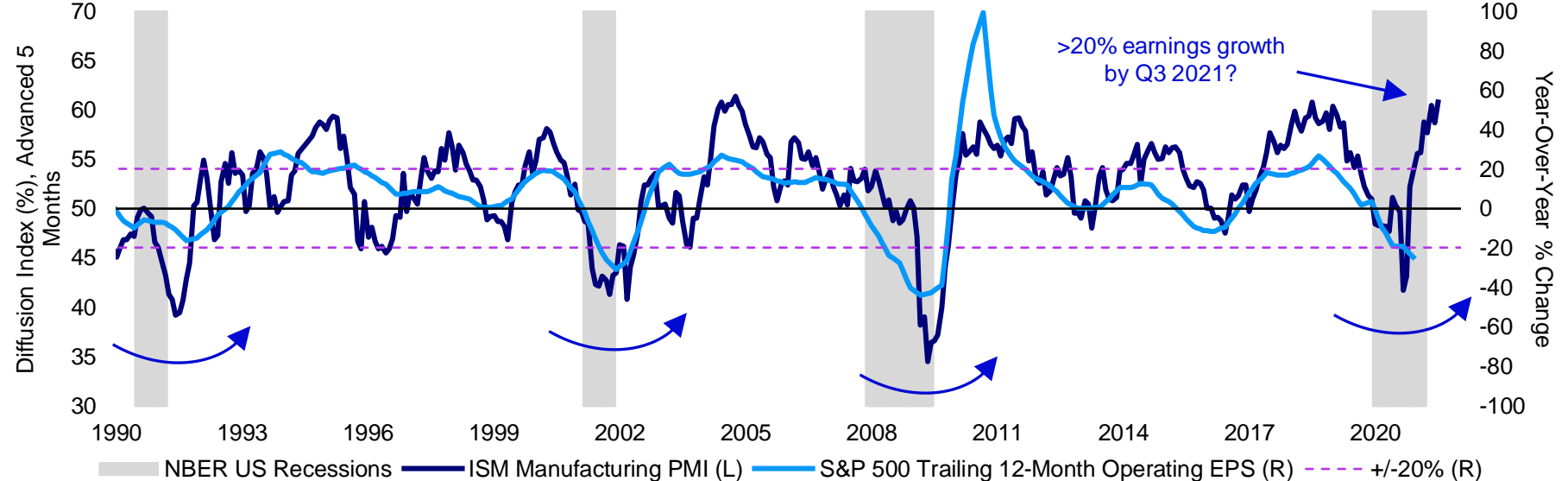


Sources: Bloomberg L.P., Standard & Poor's, Invesco, 03/31/21. **Notes:** In the left and right charts, equity returns have been multiplied by factors of 1.67 and 2.50, respectively, to show both series on the same scale as earnings growth. *Trailing 12 month (TTM). There is no guarantee that forecasts will come to pass. An investment cannot be made in an index. **Past performance does not guarantee future results.**

5. What do other leading indicators suggest?

Manufacturing activity signals that a rebound in corporate profits may be imminent. In fact, earnings could enjoy a V-shaped recovery, which would be far from unusual.

US manufacturing activity (pushed forward half a year) and earnings growth (up/downside thresholds) since 1990

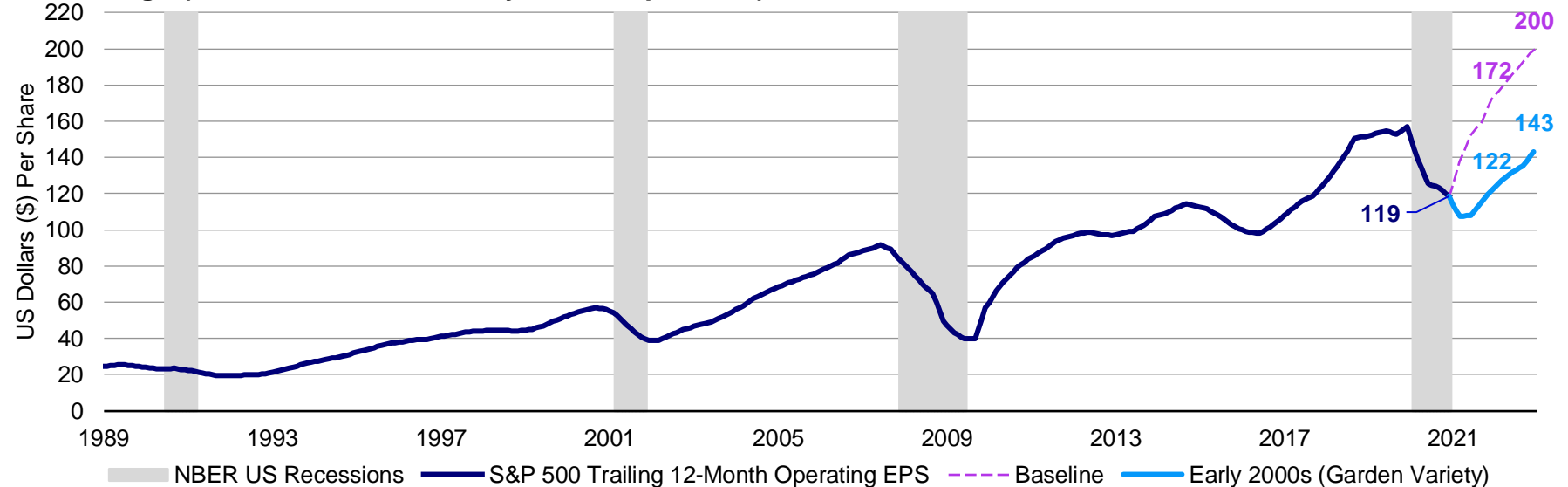


Sources: Bloomberg, Institute for Supply Management, Standard & Poor's, Invesco, 03/31/21. **Notes:** PMI = Purchasing Managers Index. Correlation coefficient = 0.7. An investment cannot be made in an index. **Past performance does not guarantee future results.**

6. What level of earnings seems reasonable this year and next?

The early 2000s experience implies earnings of \$122 in 2021 and \$143 in 2022. That would be an improvement from \$119 in 2020 but far below the baseline.

US earnings (baseline versus the early 2000s experience) since 1989

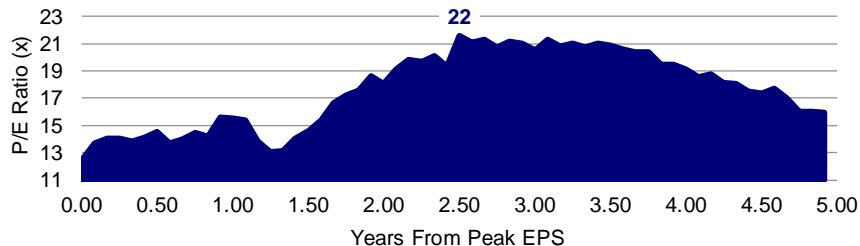


Sources: Capital IQ, Standard & Poor's, Invesco, 03/31/21. **Note:** The baseline comes from specific issues, built from the bottom up to the index level. There is no guarantee that forecasts will come to pass. An investment cannot be made in an index. **Past performance does not guarantee future results.**

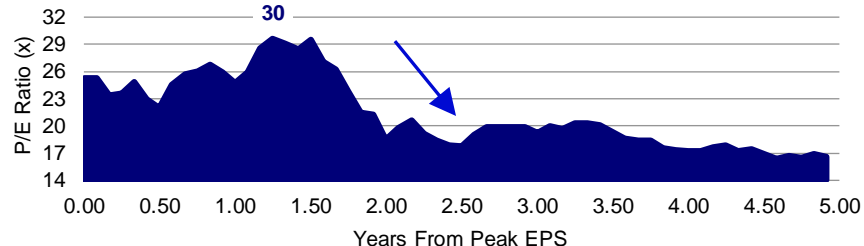
7. So, earnings fell and multiples expanded. Now what?

Stocks may be on the verge of growing into their multiple, which they did after each recession since the early 1990s.

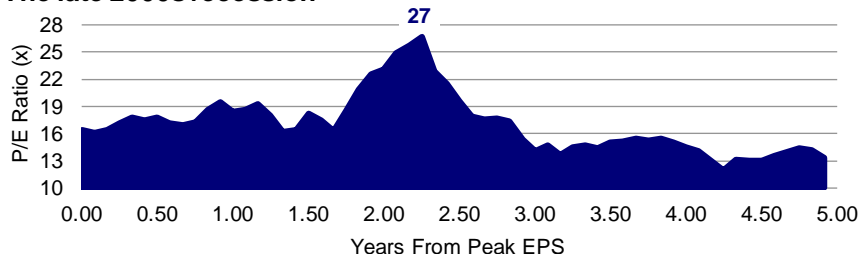
S&P 500 P/E* entering and exiting: The early 1990s recession



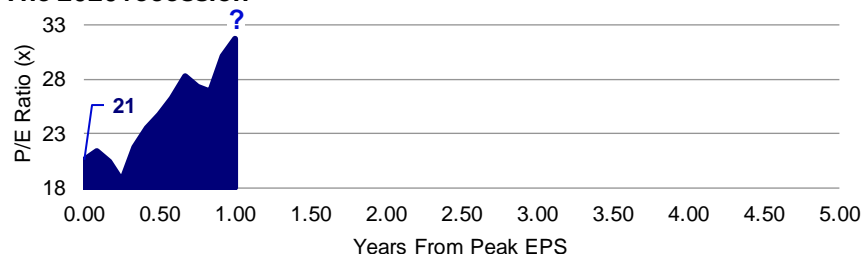
The early 2000s recession



The late 2000s recession



The 2020 recession

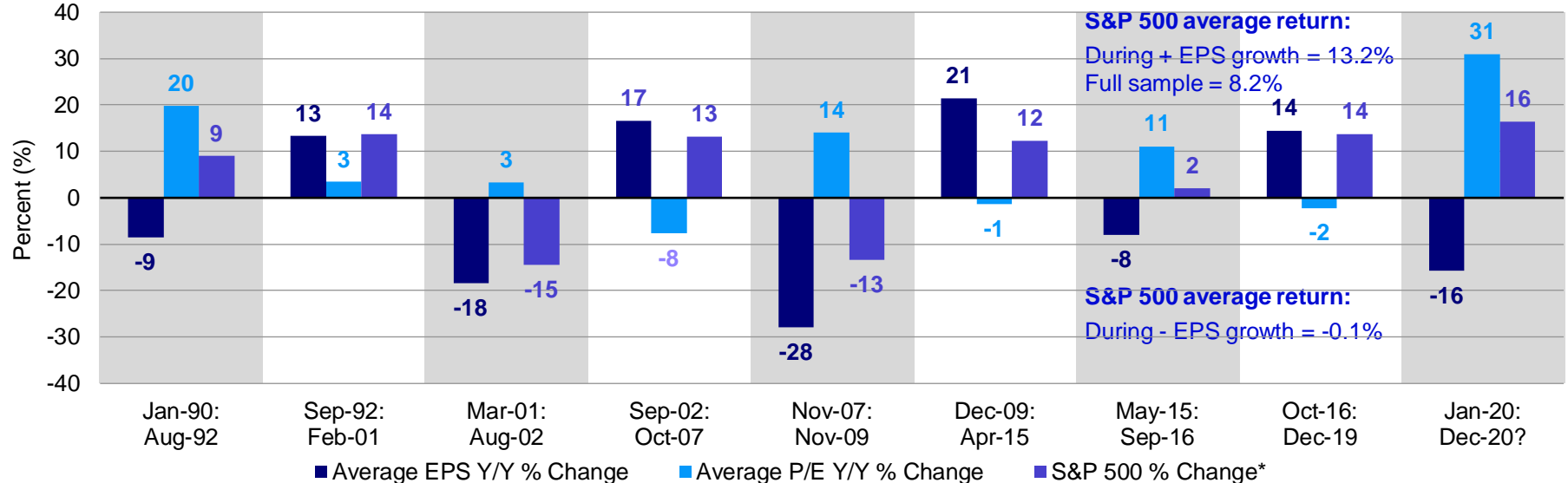


Sources: Bloomberg L.P., Standard & Poor's, Invesco, 03/31/21. **Notes:** *Trailing 12-month operating. An investment cannot be made in an index. **Past performance does not guarantee future results.**

8. What's better for stocks? Multiple expansion or earnings growth?

Multiple expansion helps, but stocks did best during periods of positive earnings growth, regardless of what multiples did.

US stock market returns during periods of positive (white) and negative (gray) earnings growth since 1990



Sources: Bloomberg L.P., Standard & Poor's, Invesco, 03/31/21. Notes: Y/Y = Year-over-year. *S&P 500 % change = Compound annual growth rate (CAGR). An investment cannot be made in an index. Past performance does not guarantee future results.

Global Thought Leadership

Author's biography



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Talley Léger is the Senior Investment Strategist for the Global Thought Leadership team. In this role, he is responsible for formulating and communicating macro and investment insights, with a focus on equities. Mr. Léger is involved in macro research, cross-market strategy and equity strategy.

Mr. Léger joined Invesco when the firm combined with OppenheimerFunds in 2019. At

OppenheimerFunds, he was the equity strategist. Prior to OppenheimerFunds, he was the founder of Macro Vision Research and held strategist roles at Barclays Capital, ISI, Merrill Lynch, RBC Capital Markets and Brown Brothers Harriman. Mr. Léger has been in the industry since 2000.

He is the co-author of the revised second edition of the book, *From Bear to Bull with ETFs*.* Mr. Léger

has been a guest columnist for *The Big Picture* and *Data Watch* on *Bloomberg Brief Economics*, as well as a contributing author on Seeking Alpha (seekingalpha.com). He has been quoted in *Associated Press*, *Barron's*, *Bloomberg*, *Business Week*, *Dow Jones Newswires*, *The Financial Times*, *MarketWatch*, *Morningstar* magazine, *The New York Times* and *The Wall Street Journal*. Mr. Léger has appeared on Bloomberg TV, Canada's BNN

Bloomberg, CNBC, Reuters TV, TD Ameritrade, The Street and Yahoo! Finance, and has spoken on Bloomberg Radio.

Mr. Léger earned a Master of Science in Financial Economics and a Bachelor of Music from Boston University. He is a member of the Global Interdependence Center (GIC) and holds the General Securities Representative registration.

*From *Bear to Bull with ETFs* (2nd ed.), by David R. Kotok and Talley Léger, published by Cumberland Advisors Publishing (2014).

Definitions

Earnings Per Share (EPS) are a company's earnings or profits divided by its number of shares outstanding.

Operating EPS are income from products (goods and services), excluding corporate (M&A, financing, layoffs) and unusual items.

Trailing 12-month operating EPS are the sum of actual, historical earnings over the past year.

The price-to-earnings (P/E) ratio is a valuation metric that compares a company's current share price to its EPS.

The Institute for Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI) is a direct measure of expectations captured by business surveys of production and the general economic climate.

A compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning value to its ending value, assuming the profits were reinvested at the end of each year of the investment's lifespan.

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