Deutsche Bank
Research

Global

Strategy
Asset Allocation

Date
7 August 2019
Strategy Update

Four Stark Divides Across Companies

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- Despite escalating trade tensions, looming Brexit and a continued slowing in macro growth, companies in the US and Europe delivered surprisingly in-line earnings in Q2. Growth was respectable in the mid-single digits. Sales were better than expected and margins rose sequentially to just below last year's record highs.
- Four stark divides were clearly evident in results across companies: cyclically exposed companies fared poorly, dragging down headline growth; earnings of manufacturing companies shrank while those of services companies grew robustly; ditto for producer- vs consumer-facing businesses; and in the US for foreign- vs domestic-exposed firms.
- What companies saw: high uncertainty and low visibility; perplexing and conflicting signals on the state of the economy. But managements remained cautiously optimistic this was a "slowing window" not the end of the cycle, expecting trade frictions to subside and monetary policy easing to support growth. A view that is being tested severely over the last week.
- Companies have been pressing the obvious levers to protect margins: raising productivity, raising prices, and reducing growth in labor and other fixed costs. This is now widespread enough that it is evident in the macro data. More firms are raising prices even as input price inflation has slowed. Labor cost growth has fallen to a 7-year low as wage and employment growth have both slowed. The latter is close to zero in the aggregate over the last 6 months and already significantly negative in manufacturing, with both remaining on declining trajectories.
- We stay defensive in our asset allocation, both across and within asset classes. Within equities, overweight the US, the most defensive market; defensive sectors over cyclicals; services over manufacturing; and domestic- over foreign-exposed firms within the US.

Four Stark Divides Across Companies

In-line mid-single-digit Q2 earnings with better sales and higher margins

- **In-line beats.** We expected earnings to disappoint globally given ongoing trade tensions and slowing macro growth but only modest downgrades. In the event, beats were in line with history, arguably a positive surprise relative to what we expected. Close to 90% of the way through earnings, in the US 76% of companies beat (73% historically); they beat by 5.1% in the aggregate while the median company beat by 3.3% (3.4% historically). Outside the US, the breadth of beats – as is typically the case – was smaller, at 51% in Europe, 50% in Japan and 51% in EM (all around 50% historically); as was the median size of the beat at 1.4%, 0.1% and 0.3% respectively.
- **Mid-single-digit earnings growth in the US and Europe.** In the US, blended growth is running at 3.7% in Q2, only modestly lower than that in Q1. Median company earnings growth is running at 6.4% in the US, 5.2% in Europe, -13.8% in Japan where quarter-to-quarter volatility tends to be high, and 0.6% in Emerging Markets.
- **Better-than-expected sales, higher margins.** In the US, 57% of companies beat on sales with an aggregate beat of 0.7%, modestly above the typical 0.3%. Aggregate sales growth looks set to come in at 4.4%. In Europe, sales have come in 0.5% above consensus, broadly in line with the historical average. Margins in the US, at 11.9%, beat by a solid 50bps and rose sequentially to only slightly (20 bps) below the record high reached in Q3 2018. In Europe margins also beat, by 13bps.
- **Across sectors and countries.** In the US, Real Estate (14%), Health Care (10%), Financials (8%) and Communication Services (8%) were the biggest drivers of growth, while Materials (-12%) and Energy (-10%) the biggest drags. Similarly in Europe, Real Estate (30%), Industrials (12%) and Health Care (11%) are expected to grow the most, while Materials (-9%), Communication Services (-9%) and Energy (-10%) have been the biggest drags. Across countries, Italy (14%) and Switzerland (11%) are expected to post the strongest earnings growth, the UK (+3%) and Germany (-9%) the weakest.

Four stark divides evident across companies

- **Cyclicals dragged down the headline.** Cyclicals (58% of S&P 500) reported earnings growth of 1.4%, while defensive (22%) and idiosyncratic (20%) companies saw 3.1% and 10.6%, respectively. A similar divide is evident in Europe, Japan and in EM.
- **Earnings of manufacturing companies shrank, while those of services companies grew robustly.** Manufacturing company earnings (46%) fell -1.6%, while those of services companies (54%) grew at a strong 8.1%.
- **Ditto for producer- vs consumer-facing businesses.** The contrast is similarly evident in sectors whose top line is exposed to other companies (42%) which reported a -0.3% decline in earnings; while those directly exposed to consumers (58%) saw solid growth of 6.5%.
- **And for foreign- vs domestic-exposed firms.** Earnings for the top quintile of companies by domestic sales exposure in the US grew by 5.5%, while those of foreign-exposed companies shrank -3.0%.

What companies saw: high uncertainty and low visibility; perplexing and conflicting signals on the state of the economy. But managements remained cautiously optimistic this was a "slowing window" and not the end of the cycle

- **High uncertainty and low visibility.** Management commentary across a variety of companies highlighted heightened uncertainty emanating from a number of factors, but primarily the trade conflict. In line with the earnings numbers, this was more prevalent in manufacturing and commercial-oriented businesses, while service- and consumer-focused businesses spoke of more resilient conditions. BASF pointed out that they are "operating in an environment with high uncertainty and very low visibility" while Fastenal said "activity in the end markets we serve slowed as we stepped into the quarter." Delta Airlines in contrast pointed to the "highest quarterly result" in their history and that "momentum continues to build," while Paychex is "not seeing any signs of necessarily a slowdown."

- **Puzzled and cautious but optimistic: companies consider the current period a "slow window" but not yet the end of the cycle.** While most companies acknowledged the growth slowdown and tougher conditions, they and their customers nevertheless still seemed to be optimistic about the second half. CSX said that the "present economic backdrop is one of the most puzzling" yet of "customers who, despite the recent downtime/ slowdown, remain cautiously optimistic about the second half." Bank of America said their corporate customers "are all sanguine…they all feel good." The drivers of that optimism were varied but "ongoing trade talks, Central Bank policy decisions and Chinese stimulus" were recurrent themes. Several companies, like Winnebago Industries, were optimistic because of a still-resilient consumer and "the prospects of growth in wages and levels of employment are tailwinds that we believe will keep consumer sentiment levels stable." Lincoln Electric Holdings summarized it as "we certainly see this as a slow window. But quite frankly, we still believe that this is not, from my perspective, signals that we would normally see and we'd be talking about end of cycle."

Companies have been pressing the obvious levers to protect margins

US companies managed not only to defend their margins in the face of slowing growth but in fact to raise them. S&P 500 margins rose on a sequential basis from 11.6% in Q1 to 11.9% in Q2. Indeed margins are only a touch below the record 12.1% reached in Q3 2018. As Citi put it, "when we see that softness…we pulled levers" and Sonoco Products has "been quietly implementing several fixed cost restructuring actions." Data as well as anecdotal evidence points to corporates pressing all 3 of the levers available to them to protect margins: raising productivity, raising prices and reducing growth in labor and other fixed costs.

- **Companies focused on raising productivity.** Management commentary points to companies remaining extremely focused on raising productivity.

- **Raising prices even as input price inflation slows.** For over a year companies have been pointing to their efforts to raise prices to offset tariff and other cost increases, and those efforts are now bearing fruit. The latest Markit PMI data as well as the small business survey shows sharp increases in output prices even as input price inflation has been falling.

- **Labor cost growth is at a 7-year low as wage and employment growth have both slowed.** To control costs, companies are tackling both the price and quantity of labor. Survey as well as payrolls data show that companies have sharply reduced both the pace of wage growth and the quantity of labor input, i.e., the total hours worked. Various measures of labor input growth are at lows for the cycle. The 6-month change in total private hours is close to zero; in manufacturing it is shrinking at an annual rate of -1.1%, more than it did during the 2015-2016 dollar and oil shocks or the European financial crisis in 2012; in services, growth has fallen from 2.5% to below 1% and remains on a downward trajectory. The combination of slower wage and employment growth has sent the growth in labor costs to its lowest levels since the European financial crisis, helping support corporate margins.

We stay defensive in our asset allocation, both across and within asset classes. Within equities, overweight the US, the most defensive market; defensive sectors over cyclicals; services over manufacturing; and within the US, domestic over foreign companies

- **Overweight defensives across and within asset classes.** Two weeks ago we argued that a growth slowdown was not being priced in across and within asset classes (DB: What's Priced In? No Further Slowing In Growth? Jul 2019). Despite the recent sharp drops in equities and bond yields over the past week, we think there is further room to the downside. In our view, the S&P 500 was about 10% too high relative to levels implied by growth (2700) and so could see a further selloff. Bond yields have now fallen below levels implied by current growth, but are arguably now just in line with leading indicators which continue to weaken. Historically, bond yields have not bottomed until the Fed indicated it was done easing (DB: The Fed Is Cutting But … Jul 2019).

- **Overweight US equities relative to the rest of the world.** US equities have steadily outperformed those in the rest of the world trend for the last 9 years and we see the trend continuing as: a) US equities tend to be the most defensive globally and outperform in a growth slowdown; b) we believe the current slowdown emanates from the trade war, which should and is already having a more negative impact on RoW growth; c) the RoW has a higher relative share of Manufacturing companies which are in a secular downtrend relative to Service ones, and directly hurt by the escalating trade war.

- **Defensive sectors over cyclicals.** Defensives have delivered stronger earnings growth relative to cyclicals but have underperformed this year, leaving them well below levels implied even by current growth, let alone if it weakens further.

- **Services stocks over Manufacturing.** Services-oriented stocks have been outperforming Manufacturing-oriented ones since 2012, with the trend interrupted only for brief periods when macro growth is bottoming from the lows. The current slowdown stems primarily from the manufacturing-focused global trade war and has shown no signs of a bottom yet. We stay overweight Services stocks over Manufacturing until there is a credible trade deal or growth clearly bottoms.

- **US domestic exposure over foreign.** Over the last 9 years, US companies with high foreign exposure relative to those with domestic exposure have exhibited large out- and underperformance cycles tied to global growth. For example they underperformed around the European financial crisis in 2011-2012 but rallied after Draghi's "whatever it takes" comments until the US dollar/global growth shock hit in mid-2014, then underperformed until global growth bottomed in early 2016 and then rallied until the escalation of the trade war in March 2018. They then underperformed through 2018 but have mostly outperformed this year, albeit with large gyrations, leaving them vulnerable to the continuing trade war escalation.

Figure 1: In-line earnings in the US but with stark divides

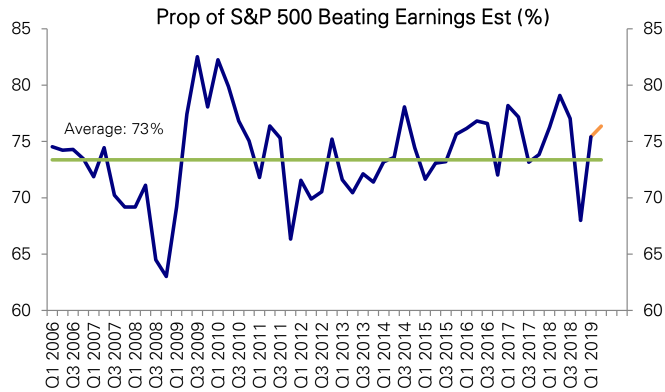
S&P 500 Q2 2019 Earnings Season Summary

					EPS						Sales				Margins			
			Reported		Beats		Growth (%)				Beats		Growth (%)		Beats		Growth (bps)	
Sectors	Earnings Wt (%)	Total # of cos	#	% (mkt cap)	Prop (%)	Size (%)	Rptd	Blended	Buyback impact (%)	EPS growth	Prop (%)	Size (%)	Rptd	Blended	Prop (%)	Size (bps)	Rptd	Blended
S&P 500	**100.0**	**500**	**427**	**89.6**	**76**	**5.1**	**3.7**	**1.5**	**2.1**	**3.7**	**57**	**0.7**	**5.0**	**4.4**	**77**	**50.4**	**-24.2**	**-32.0**
ex Fin & RE	**80.6**	**406**	**329**	**87.9**	**77**	**5.9**	**2.5**	**1.0**	**1.6**	**2.5**	**55**	**0.7**	**5.5**	**4.7**	**79**	**53.9**	**-31.8**	**-38.2**
ex Energy	**94.8**	**476**	**399**	**89.1**	**77**	**5.0**	**4.4**	**2.1**	**2.3**	**4.4**	**58**	**0.7**	**5.9**	**5.1**	**78**	**51.5**	**-27.4**	**-34.5**
ex-FREM	**72.5**	**349**	**275**	**86.9**	**78**	**5.8**	**4.0**	**2.2**	**1.8**	**4.0**	**58**	**0.9**	**7.1**	**5.9**	**80**	**54.5**	**-31.8**	**-38.6**
FREM	**27.5**	**156**	**152**	**98.6**	**73**	**3.6**	**2.7**	**-0.3**	**2.9**	**2.7**	**55**	**0.2**	**0.3**	**0.3**	**72**	**40.6**	**-4.9**	**-6.4**
Financials	18.1	67	66	98.6	76	2.1	8.4	3.5	4.7	8.4	63	0.7	2.5	2.5	69	23.6	26.4	17.2
Real Estate	1.2	32	32	100.0	72	9.9	13.6	9.3	-1.8	13.6	66	0.7	4.2	4.2	75	136.4	87.7	76.1
Energy	5.2	29	28	99.1	71	7.2	-9.9	-8.4	-1.7	-9.9	50	0.3	-2.1	-2.1	64	39.0	-39.5	-41.8
Materials	3.0	28	26	96.5	69	5.8	-12.3	-13.3	1.1	-12.3	27	-2.1	-2.9	-2.8	85	72.2	-139.2	-117.0
Industrials	10.2	68	65	97.1	72	5.6	5.4	2.5	2.9	5.4	46	0.2	1.5	1.5	82	50.9	8.2	9.5
Tech	19.3	68	49	83.1	82	7.6	-2.0	-6.9	5.3	-2.0	69	1.1	-0.3	-0.3	82	131.7	-126.0	-145.6
Comm Serv	9.8	26	16	95.4	75	4.4	8.0	8.2	-0.2	8.0	53	0.3	15.7	14.1	75	57.7	-89.6	-77.3
Cons Disc	8.2	63	40	73.1	83	4.2	3.3	2.4	0.9	3.3	68	2.7	6.5	4.9	78	9.6	-9.6	-17.5
Cons Staples	6.8	33	23	73.3	78	3.9	2.0	0.7	1.3	2.0	57	0.1	2.6	2.0	78	31.7	-6.7	-7.5
Health Care	15.4	62	56	94.2	95	6.7	10.0	9.8	0.1	10.0	71	1.5	15.0	13.6	89	53.9	-7.3	-36.2
Utilities	2.6	28	25	95.3	44	3.4	0.1	3.1	-2.9	0.1	28	-2.6	-0.2	0.4	60	72.1	10.3	32.2
Cyclicals	58.0	274	247	91.9	75	5.0	1.4	-2.1	3.6	1.4	55	0.7	0.6	0.6	77	52.0	-25.2	-36.2
Defensives	21.6	126	108	89.0	71	4.7	3.1	1.9	1.1	3.1	56	0.1	2.7	2.2	74	60.0	16.0	-2.8
Idiosyncratic	20.4	104	71	85.7	87	6.1	10.6	11.5	-0.8	10.6	66	1.2	17.4	13.6	83	42.3	-16.3	-16.2
Manufacturing	45.9	222	190	89.2	79	7.2	-1.6	-4.2	2.8	-1.6	55	0.8	-0.5	-0.6	82	76.1	-29.4	-48.4
Services	54.1	282	236	89.8	74	3.6	8.1	6.4	1.6	8.1	59	0.6	9.1	7.7	74	33.0	-15.4	-12.9
Industrial	41.5	270	246	90.0	75	6.8	-0.3	-2.3	2.0	-0.3	53	0.7	0.0	0.1	78	67.8	-18.2	-30.1
Consumer	58.4	234	180	89.2	78	4.1	6.5	4.2	2.2	6.5	62	0.7	8.6	7.1	76	38.9	-29.1	-28.7
US-exposed (quintile*)	20.2	170	148	88.9	68	4.2	5.5	4.5	0.9	5.5	53	0.4	8.7	7.9	67	34.3	-25.9	-28.9
Foreign-exposed (quintile*)	21.7	97	84	91.2	80	7.5	-3.0	-5.6	2.8	-3.0	60	0.3	-3.5	-3.4	80	92.3	-19.0	-33.4
US-exposed (half*)	44.7	278	230	84.3	72	5.0	6.3	4.9	1.4	6.3	54	0.6	9.1	7.5	73	44.0	-22.7	-23.3
Foreign-exposed (half*)	55.3	227	197	93.4	82	5.3	1.5	-1.1	2.7	1.5	61	0.8	1.1	0.9	82	56.8	-14.8	-28.4

* Summary stats for current S&P 500 members; FREM: Financials, Real Estate, Energy & Materials; *quintiles and halves based on foreign sales exposure of companies
* Blended growth assumes cos that are to report beat at historic beat rate of 3.4%; index EPS growth incorporates chg in shares

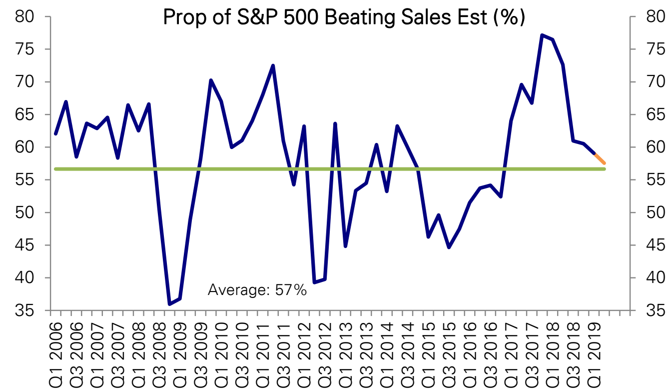
Source :Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 2: Share of earnings beats is a little above historical average



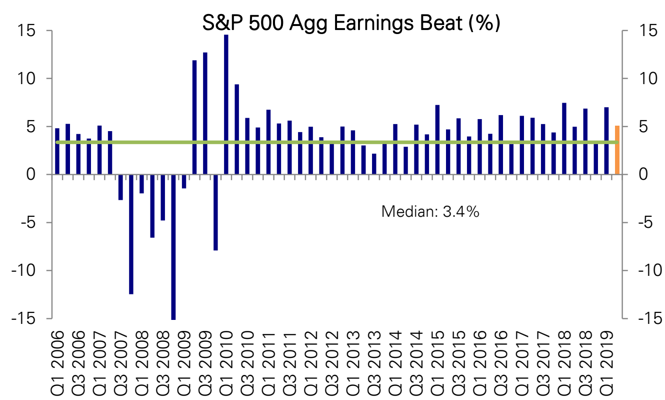
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 3: Share of sales beats is near the historical average



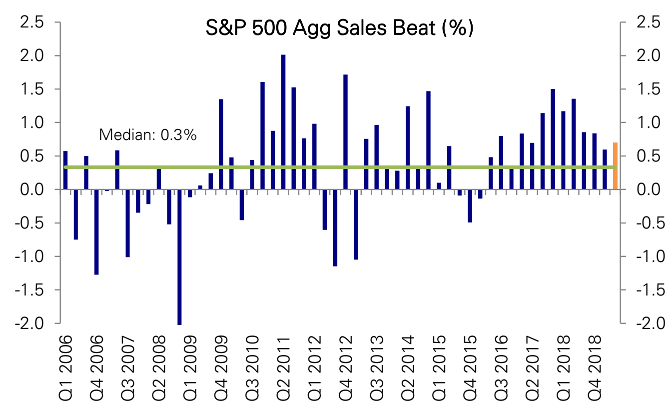
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 4: The size of the aggregate beat is also a little above average for earnings …



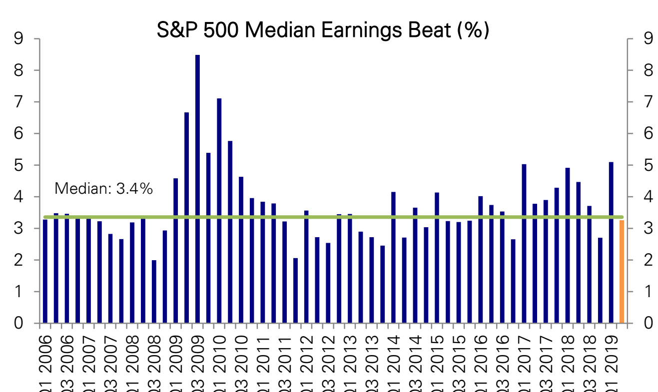
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 5: .. .as well as for sales



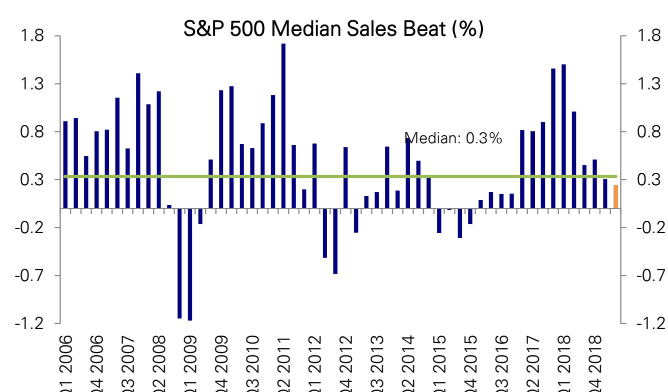
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 6: The size of the median beat is about average for earnings …



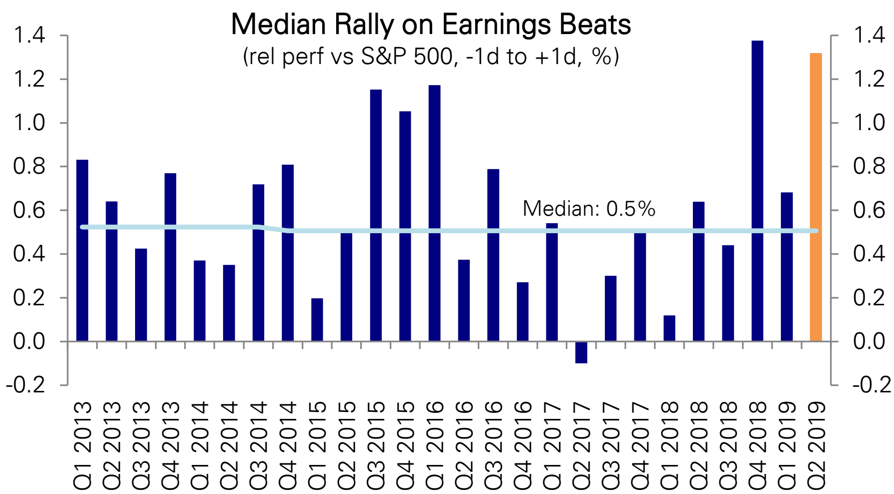
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 7: … as well as for sales



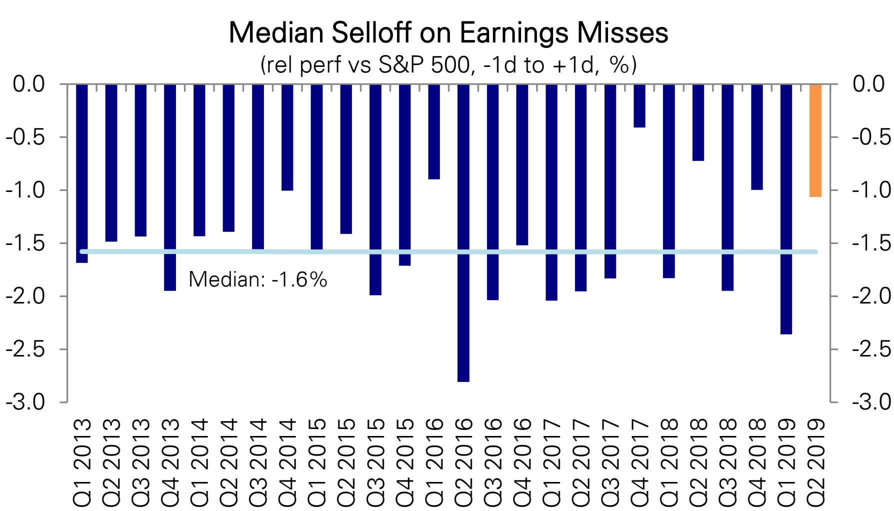
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 8: Companies that beat are outperforming strongly ...



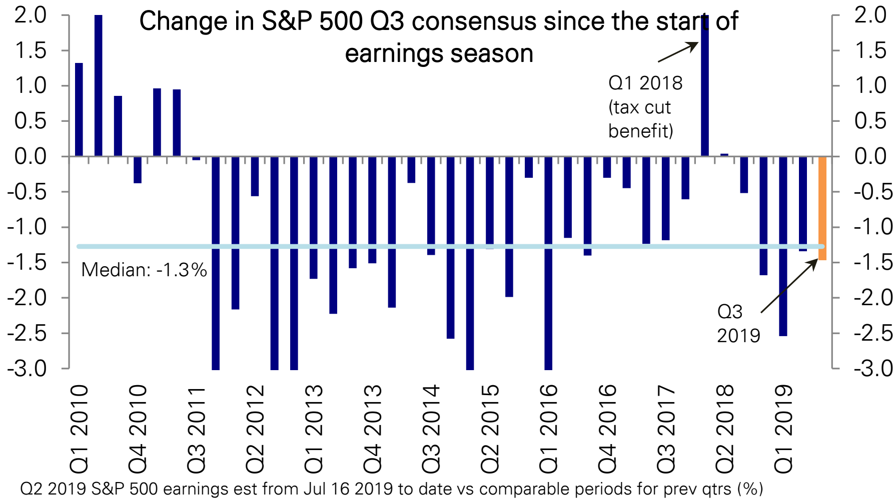
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 9: … and those that missed have not been punished as severely



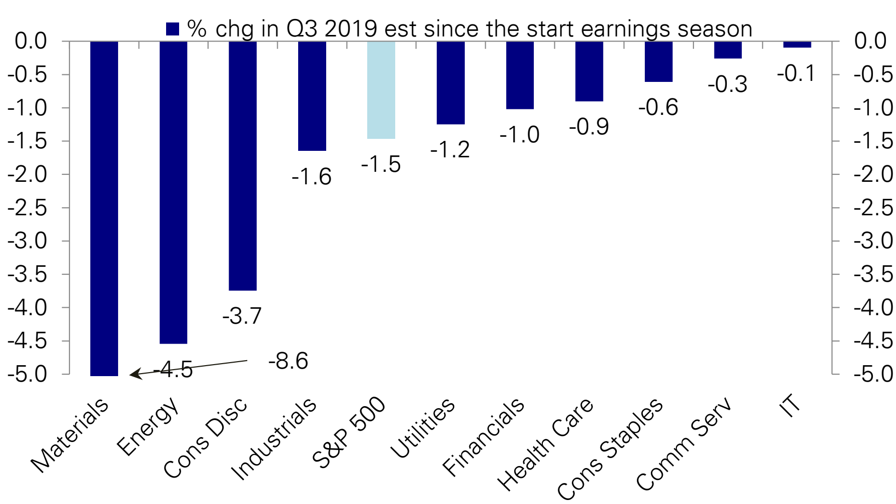
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 10: Estimates for Q3 EPS have been cut by -1.5% so far, in line with history



Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 11: The largest cuts are in Materials and Energy, while estimates for Tech, Communication Services and the defensive sectors have fallen by less



Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 12: European earnings are also in line with stark divides

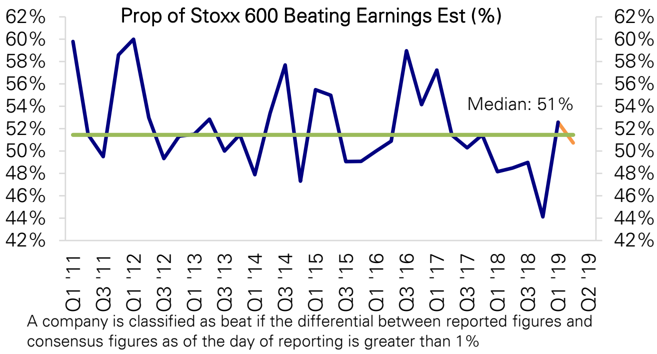
Stoxx 600 Q2 2019 Earnings Season Summary

	Reported cos.		Cos. with data		Surprises			Agg. EPS growth		Median EPS growth	
	# cos	Mkt cap%	# cos	Mkt cap%	% of total	Agg. size	Median size	Reported	Blended	Reported	Blended
Stoxx 600	404	84%	375	79%	51%	1.3%	1.4%	4.0%	3.9%	4.6%	5.2%
Stoxx 600 ex financials	323	84%	302	80%	46%	-0.3%	0.0%	2.5%	3.0%	5.2%	5.9%
Stoxx 600 ex resources	349	83%	325	79%	51%	2.8%	1.5%	7.1%	6.3%	5.2%	5.8%
Stoxx 600 ex fin & res	268	84%	252	80%	45%	1.3%	0.0%	6.6%	6.3%	6.0%	6.3%
Sectors											
Consumer Discretionary	40	84%	35	76%	30%	0.9%	-3.0%	-3.5%	-3.0%	-3.8%	-2.2%
Consumer Staples	27	90%	27	90%	46%	0.5%	0.4%	6.3%	6.1%	7.5%	7.5%
Energy	19	98%	19	98%	53%	-10.7%	4.0%	-10.1%	-10.3%	-5.6%	-13.4%
Financials	81	82%	73	75%	74%	6.9%	7.4%	8.3%	6.2%	1.2%	2.1%
Health Care	31	83%	28	81%	62%	6.2%	4.4%	12.8%	11.4%	7.4%	4.9%
Industrials	86	82%	82	80%	42%	0.0%	-0.8%	10.8%	12.4%	8.4%	9.4%
Information Technology	23	93%	23	93%	50%	-1.8%	0.9%	5.9%	6.3%	11.5%	11.9%
Materials	36	81%	31	72%	43%	-1.1%	-1.9%	-13.1%	-8.7%	-4.0%	3.3%
Real Estate	15	71%	15	71%	64%	17.9%	2.0%	42.9%	30.2%	19.4%	19.4%
Communication Services	26	66%	23	47%	43%	-8.1%	-0.6%	-14.2%	-8.8%	1.5%	1.5%
Utilities	20	82%	19	75%	47%	-3.0%	0.6%	14.2%	9.4%	5.1%	4.6%
Countries											
Germany	52	78%	46	71%	55%	-0.7%	2.4%	-12.2%	-8.5%	3.1%	4.6%
France	68	87%	64	82%	50%	-0.8%	0.7%	4.4%	5.0%	7.5%	7.7%
Italy	29	97%	27	89%	57%	14.7%	4.4%	13.6%	14.0%	5.5%	5.8%
Spain	27	100%	27	100%	63%	5.1%	3.0%	6.2%	6.2%	5.1%	5.1%
United Kingdom	75	82%	65	73%	51%	2.2%	2.2%	4.3%	3.4%	3.2%	3.0%
Switzerland	29	83%	25	82%	55%	6.2%	4.5%	13.1%	11.0%	8.5%	7.6%
Cyclical	254	85%	233	80%	53%	1.1%	2.0%	0.7%	1.3%	3.4%	5.8%
Defensives	106	84%	102	81%	46%	1.7%	0.4%	8.5%	6.9%	7.1%	4.9%
Idiosyncratic	44	76%	40	71%	49%	1.2%	0.4%	13.2%	12.4%	3.3%	4.9%
Manufacturing	189	86%	174	83%	48%	0.6%	0.3%	2.1%	2.8%	5.6%	6.5%
Services	215	81%	201	74%	53%	2.5%	1.9%	6.7%	5.3%	3.4%	3.5%
Industrial	219	85%	204	81%	49%	-0.6%	0.6%	-2.7%	-0.9%	5.1%	6.6%
Consumer	185	83%	171	78%	53%	2.7%	1.9%	8.5%	6.9%	3.5%	3.2%

**Blended numbers assume companies that are to report meet expectations*
Mkt cap % represents share of market cap of companies relative to the total market cap of companies reporting in this season

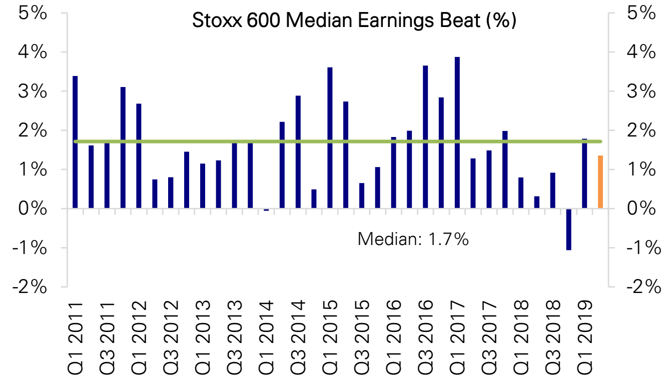
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 13: Share of earnings beats is near average



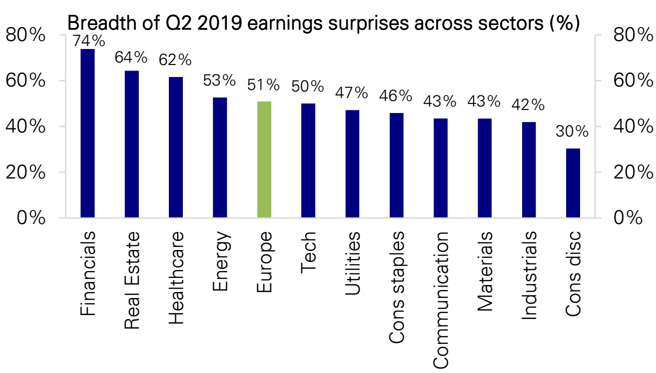
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 14: The size of the median earnings beat is close to its historical average



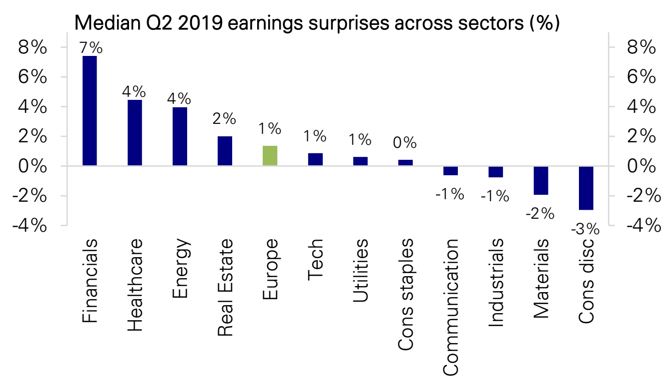
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 15: Share of earnings beats across European sectors



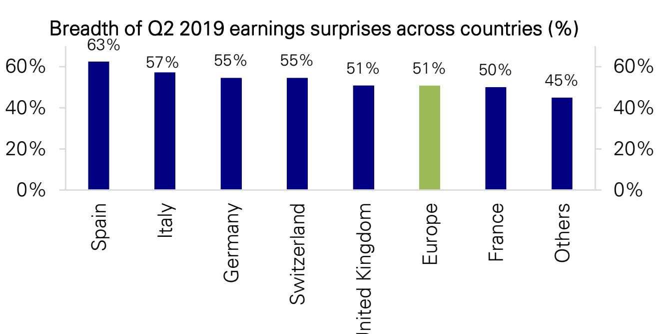
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 16: Median earnings surprises across European sectors



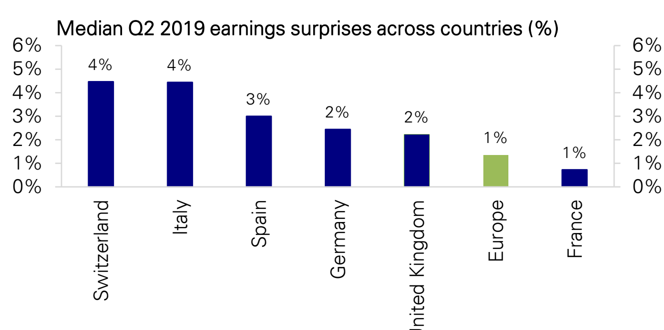
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 17: Share of earnings beats across European countries



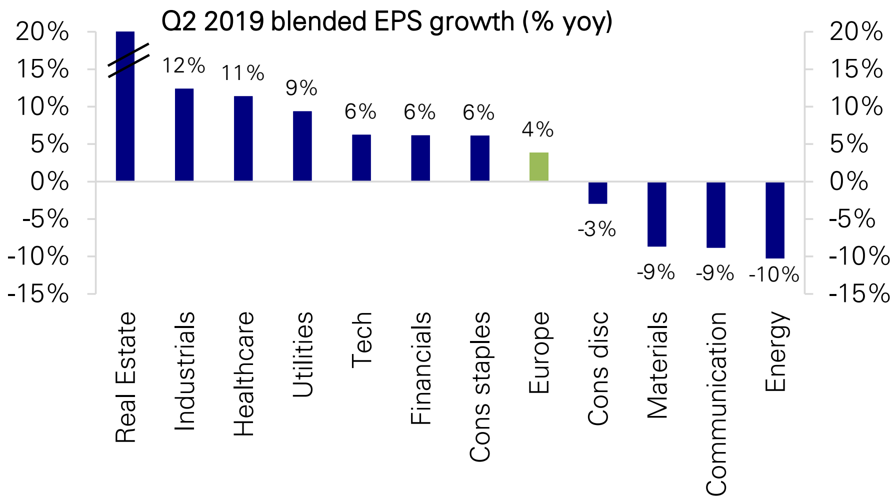
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 18: Size of median earnings surprises across European countries



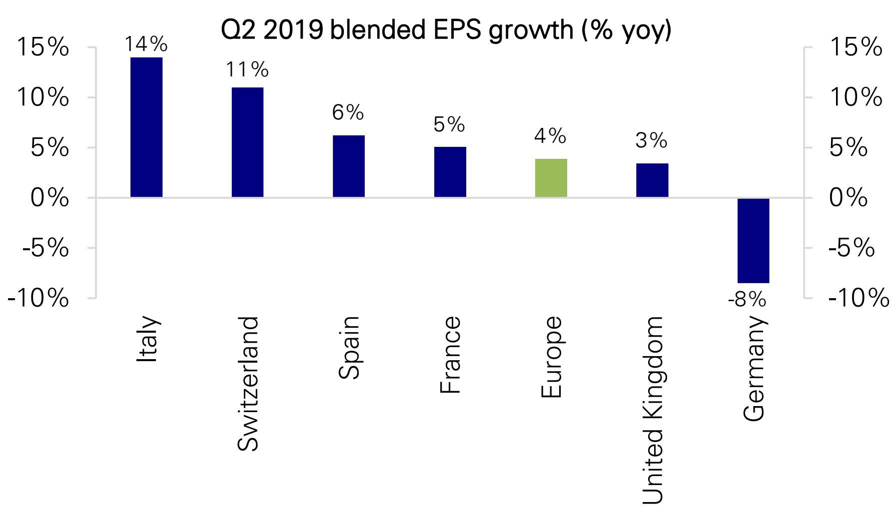
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 19: Earnings growth across European sectors



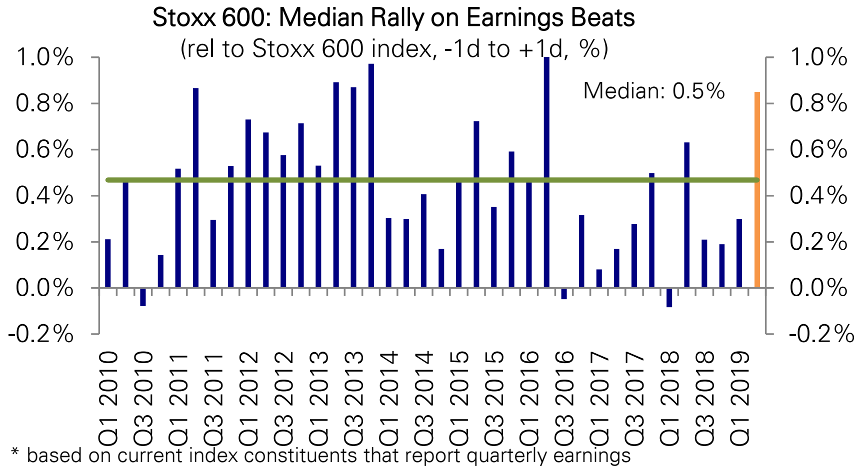
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 20: Earnings growth across European countries



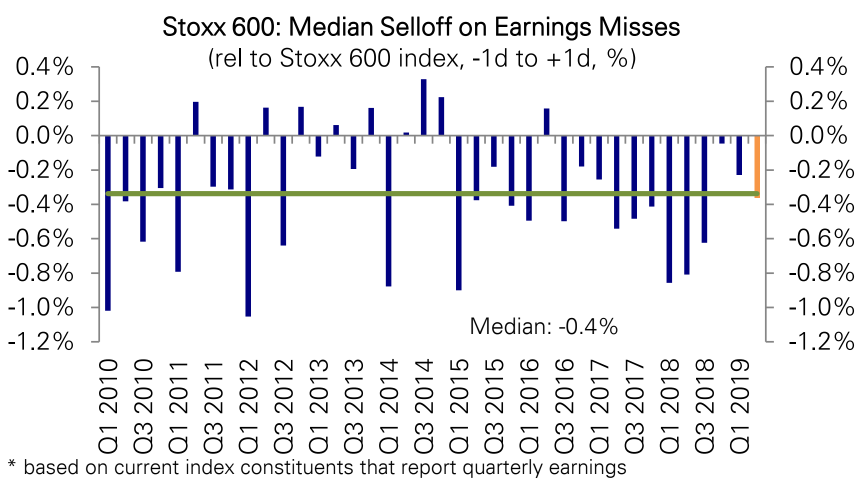
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 21: European companies that beat are outperforming strongly



Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 22:Underperformance for those that missed is in line with history



Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 23: Summary of earnings season in Japan

Nikkei 225	% of total market cap	% of mkt cap reported	Breadth of beat (%)	Size of beat (%)	Reported cos growth (%)	Blended growth (%)	Rel perf on reporting day (pp)	Rel perf on beats (pp)	Rel perf on misses (pp)
Headline	100	85.0	50.0	0.1	-16.9	-13.8	0.1	0.4	0.0
Financials	11.6	63.6	69.2	16.8	0.8	-1.7	-0.1	-0.1	0.1
Real Estate	2.8	60.0	50.0	18.6	-3.7	-1.2	-0.1	-0.4	0.4
Energy	1.1	42.4	0.0	-77.6	-87.7	-56.2	-1.3	NA	-1.3
Materials	5.8	81.2	64.3	6.7	-36.9	-35.7	-0.1	-0.4	0.1
Industrials	20.5	89.2	47.2	-0.3	-20.9	-19.5	-0.1	0.0	-0.2
Information Technology	8.4	88.2	33.3	-24.6	-42.4	-39.0	0.5	0.9	0.4
Communication Services	11.9	99.2	25.0	-5.2	-6.4	-6.8	-0.4	-0.3	-0.4
Consumer Discretionary	19.7	89.9	42.1	-6.2	-23.3	-17.1	0.0	0.7	-0.5
Consumer Staples	7.9	89.3	53.3	6.5	-5.0	-7.9	0.4	0.4	0.3
Health Care	8.6	80.7	75.0	20.5	12.1	4.2	1.5	2.3	-1.3
Utilities	1.6	100.0	80.0	20.4	83.1	83.1	1.3	1.3	NA
Cyclical	61.1	80.3	47.0	-1.9	-27.5	-24.9	0.1	0.1	0.0
Defensives	33.3	77.0	60.0	8.9	-0.5	-0.5	0.5	0.6	0.2
Idiosyncratic	5.6	71.9	44.4	-7.1	-8.2	-9.5	-0.3	0.4	-0.8
Manufacturing	53.8	80.2	44.9	-5.9	-29.7	-25.5	0.2	0.7	-0.2
Services	46.2	77.0	58.2	8.9	0.7	-1.4	-0.1	-0.2	0.2
Industrial	50.5	77.0	47.0	-1.8	-28.9	-25.5	-0.3	-0.4	0.0
Consumer	49.5	80.5	54.1	6.5	-4.0	-4.9	0.4	0.6	-0.2

*Median used for size of beat, growth and performance measures

Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

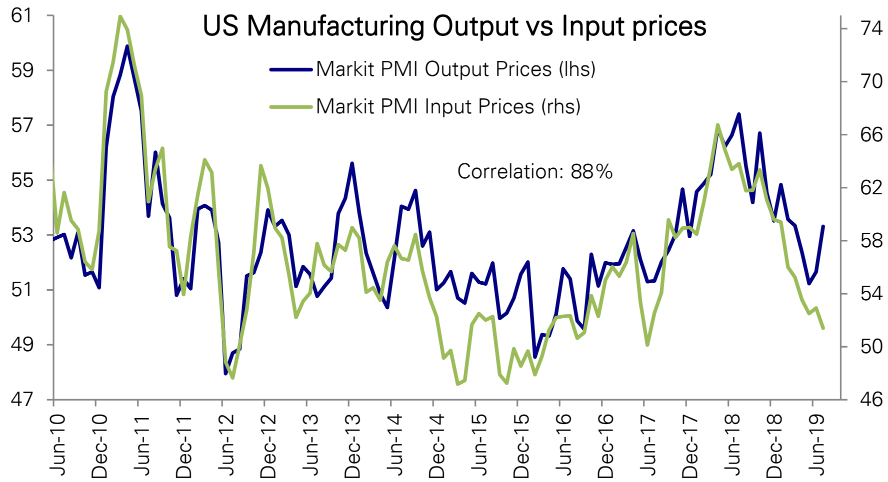
Figure 24: Summary of earnings season in EM

MSCI Emerging Markets	% of total market cap	% of mkt cap reported	Breadth of beat (%)	Size of beat (%)	Reported cos growth (%)	Blended growth (%)	Rel perf on reporting day (pp)	Rel perf on beats (pp)	Rel perf on misses (pp)
Headline	100	34.2	51.1	0.3	-0.6	0.6	0.0	0.0	-0.2
Financials	33.2	24.2	49.0	-0.9	2.9	6.2	-0.5	0.3	-1.3
Real Estate	3.3	18.4	57.1	4.9	-1.1	24.1	-1.1	-0.2	-3.1
Energy	9.8	29.2	54.5	2.5	-11.3	-16.0	-0.3	0.1	-0.4
Materials	6.7	54.9	43.6	-6.8	-39.4	-25.9	0.1	0.6	-0.2
Industrials	7.1	18.5	53.3	1.1	4.0	4.0	-0.5	0.1	-0.7
Information Technology	8.0	71.3	86.2	5.4	3.4	-9.6	0.5	0.5	-0.3
Communication Services	8.6	33.3	44.0	-2.2	-16.4	-9.4	0.2	-0.7	0.7
Consumer Discretionary	9.2	15.7	40.9	-4.3	10.5	4.6	-1.3	-1.3	-0.6
Consumer Staples	7.9	59.7	50.0	-0.2	14.0	13.3	-0.2	-0.4	0.3
Health Care	2.9	12.4	37.5	-3.3	-24.5	5.6	1.1	1.8	0.5
Utilities	3.2	22.0	25.0	-14.5	18.7	11.5	0.2	0.0	1.8
Cyclical	68.6	23.1	55.8	1.7	-2.6	-1.4	-0.3	0.2	-0.8
Defensives	20.9	34.8	46.3	-1.6	8.7	9.1	0.0	-0.2	0.2
Idiosyncratic	10.5	6.5	26.7	-5.5	-6.0	4.2	0.6	-1.3	0.7
Manufacturing	39.6	33.6	53.6	1.5	-8.1	-5.7	-0.2	0.0	-0.2
Services	60.4	17.4	48.4	-1.0	3.3	5.7	0.0	0.1	0.0
Industrial	39.4	26.0	56.0	1.9	-7.7	-3.4	-0.1	0.1	-0.8
Consumer	60.6	22.4	46.7	-2.0	3.4	4.2	0.0	-0.2	0.2

*Median used for size of beat, growth and performance measures

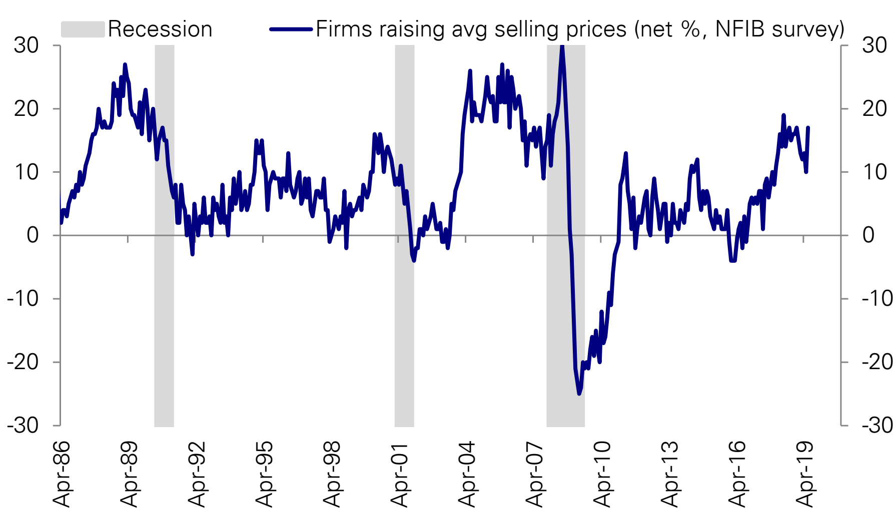
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 25: Companies have been raising prices, even as input price inflation has been falling



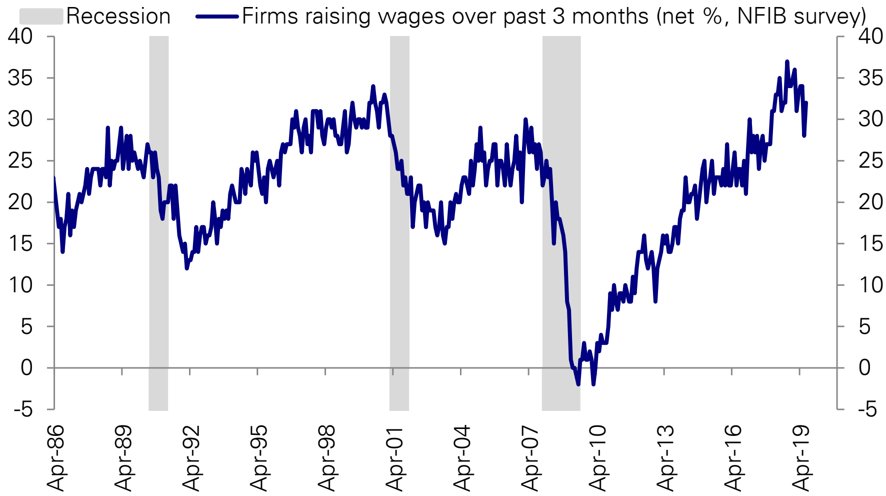
Source : Markit, Haver, Deutsche Bank Asset Allocation

Figure 26: Survey data confirms that more companies have been raising prices recently



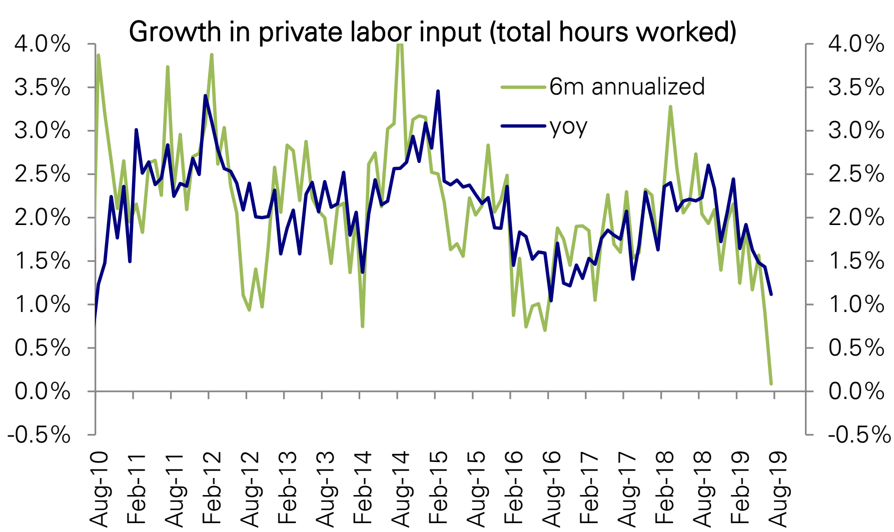
Source : NFIB, Haver, Deutsche Bank Asset Allocation

Figure 27: Meanwhile, the number of firms raising wages has been falling



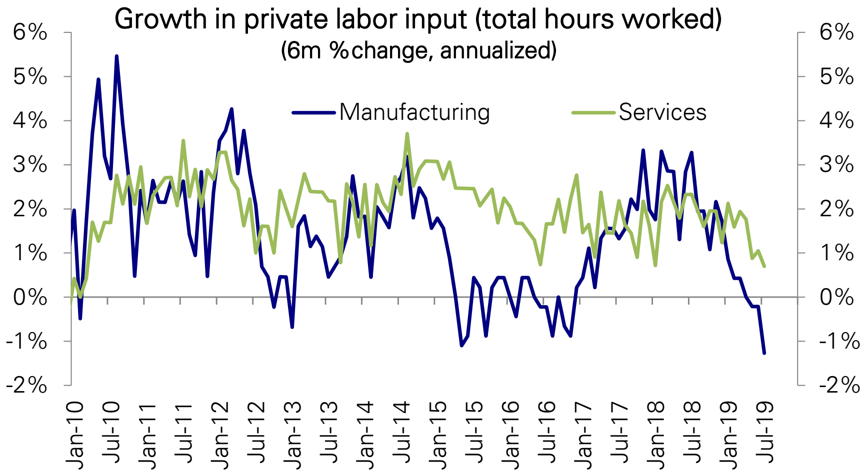
Source : NFIB, Haver, Deutsche Bank Asset Allocation

Figure 28: Growth in labor input (total hours worked) has collapsed to near zero, and is the slowest in this cycle



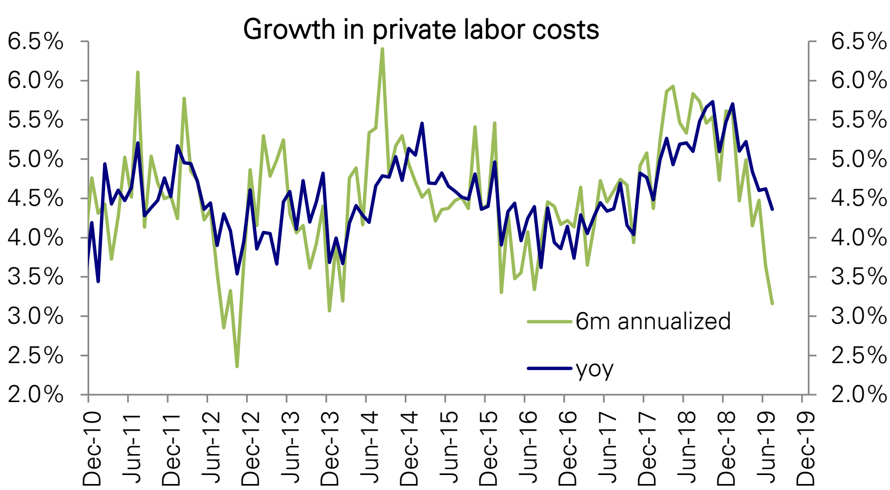
Source : BLS, Haver, Deutsche Bank Asset Allocation

Figure 29: Manufacturing labor input is already contracting significantly



Source : BLS, Haver, Deutsche Bank Asset Allocation

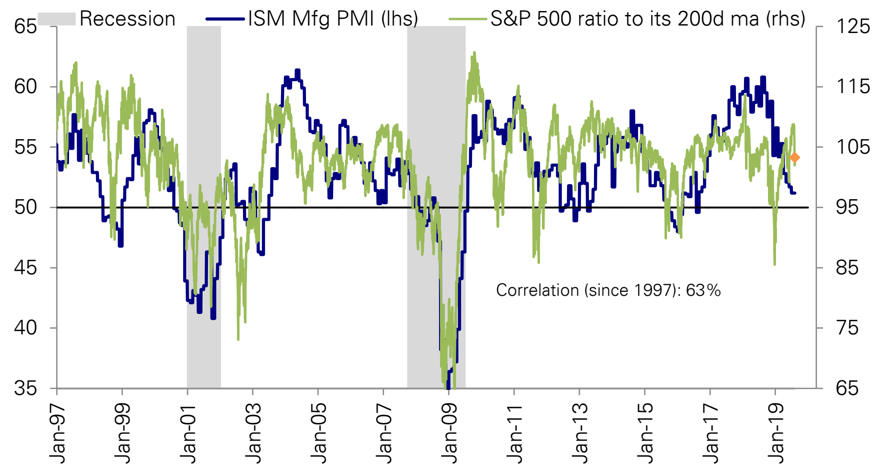
Figure 30: Labor cost growth is at a 7-year low



Total labor cost = Average hourly earnings times total hours worked

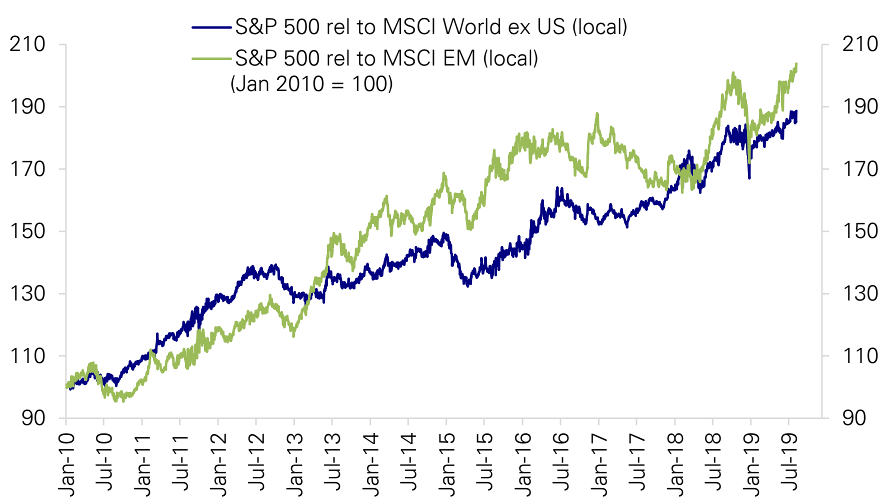
Source : BLS, Haver, Deutsche Bank Asset Allocation

Figure 31: The S&P 500 is still overpriced relative to growth



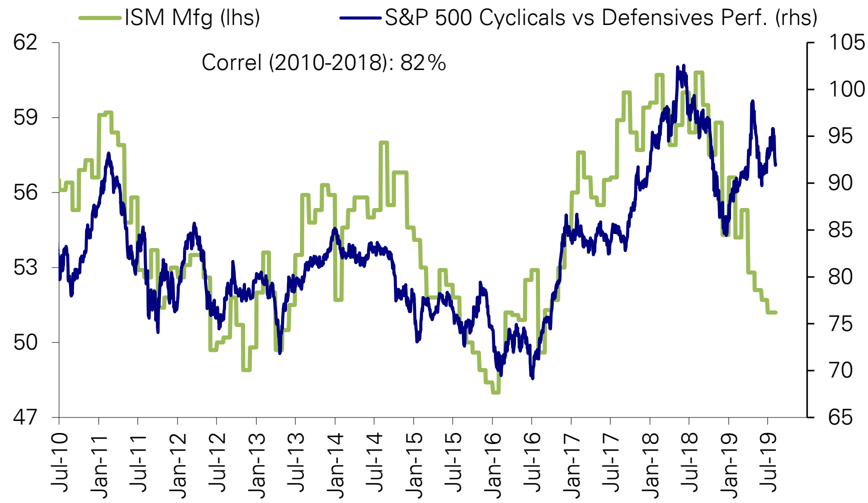
Source : ISM, Haver, Deutsche Bank Asset Allocation

Figure 32: US equities have steadily outperformed the rest of the world all through this cycle



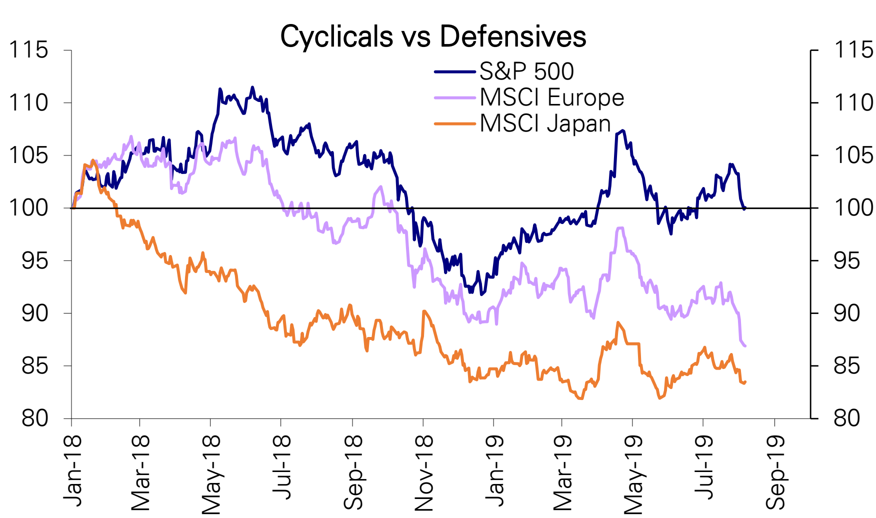
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 33: US cyclicals have sharply outperformed defensives this year and are well above levels implied by growth



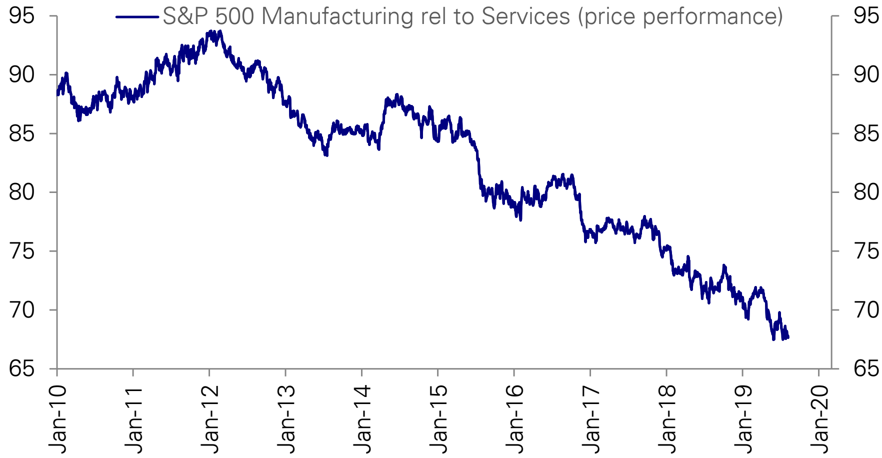
Source : ISM, Haver, Bloomberg Finance LP, Deutsche Bank Asset Allocation

Figure 34: However, cyclicals have underperformed defensives in Europe and Japan



Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

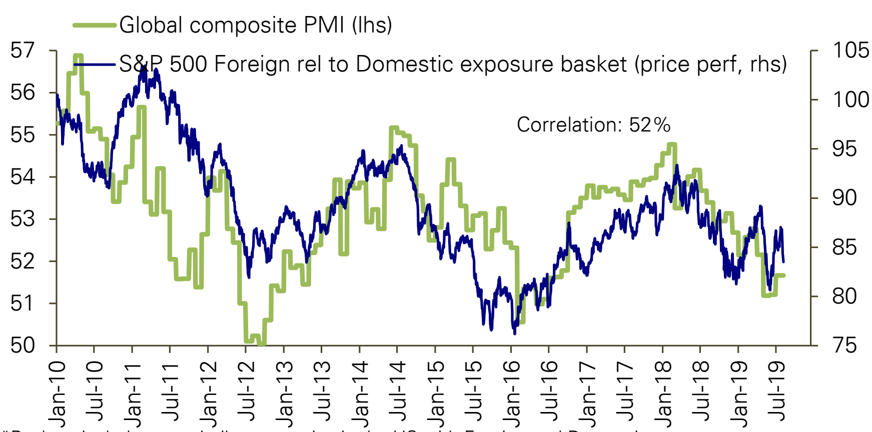
Figure 35: Manufacturing-oriented companies have steadily underperformed Services-oriented ones since 2012



*Mfg and services indices aggregated at GICS industry level (level 3) to get composites

Source : Haver, Deutsche Bank Asset Allocation

Figure 36: The performance of companies with high foreign exposure relative to domestic has been closely tied to global growth



*Baskets include top quintile companies in the US with Foreign and Domestic exposure

Source : Markit, Datastream, Bloomberg Finance LP, Deutsche Bank Asset Allocation

Appendix 1

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*Other information available upon request

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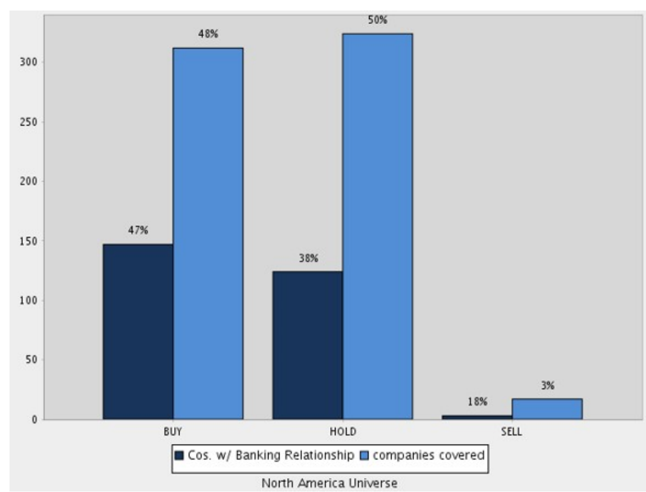

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