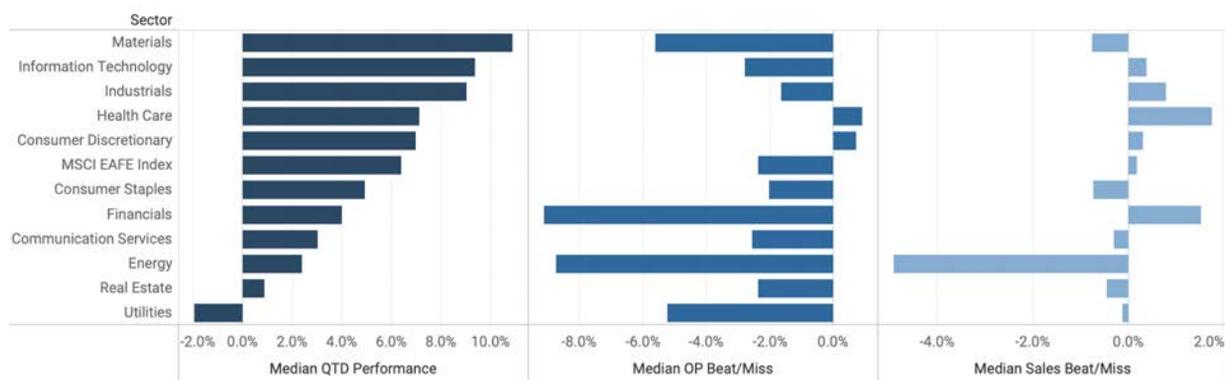


# Mid-Quarter Earnings Delta Analysis

Blackcrane Capital's investment philosophy and process focus on a historically proven source of alpha in global equities markets, which may be extracted when an investor can consistently and accurately identify the gaps between perception (Wall Street consensus estimates) and reality (reported results) in a company's quarterly earnings and sales. Here we analyze median earnings (operating profits) and median sales surprises by sector, alongside each sector's median quarter-to-date (QTD) performance. We include QTD data as of November 15, 2019, when a majority of companies (77%) within the MSCI EAFE Index have published their financial reports for the previous quarter. The analysis comprises the 479 companies in the index that had reported both sales and operating profits (OP) results by mid-4Q19 and for which there existed consensus estimates for both metrics.

## MSCI EAFE QTD Performance vs. Earnings/Sales Deltas

As of November 15, 2019



Source: Bloomberg Professional. Past performance does not guarantee future results. Investors cannot invest directly in an index.

In aggregate, the median stock performance was +6.39%, with a median operating profit surprise of -2.36%, and a median sales surprise of +0.19%.

Materials and Technology posted the best median stock performances at +10.86% and +9.37% respectively, but their median operating profit surprises both trailed that of the aggregate. Consumer Staples had a slightly worse median stock performance than the aggregate, but its median operating profit surprise was slightly better.

Of the five sectors which had better median stock performances than the aggregate, three of them also posted superior median operating profit surprises. And of the six sectors which had worse median stock performances than the aggregate, five of them posted worse median operating profit surprises.

This is generally an unsurprising result, with most sectors that posted relatively poor operating profit surprises being punished by underperforming the aggregate. Notable, however, is the fact that the two of those sectors (Materials and Technology) managed to top the list in terms of median stock performance. While fundamental surprises have largely translated into corresponding alpha this quarter, some sector rotation dynamics have also played a role, benefiting cyclical sectors like Materials in a broad risk rally.

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## How We Define Earnings Delta

At Blackcrane, we define the term “earnings delta” as the degree to which any given name (or sector) beats or misses consensus earnings estimates. In our investment process, which targets a 10% forecasted earnings beat for each name in our portfolio, we tend to use operating profits (OP) to measure the deltas; however, in some sectors, such as Financials, we instead focus on divergences between consensus estimates and reported earnings per share.

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