

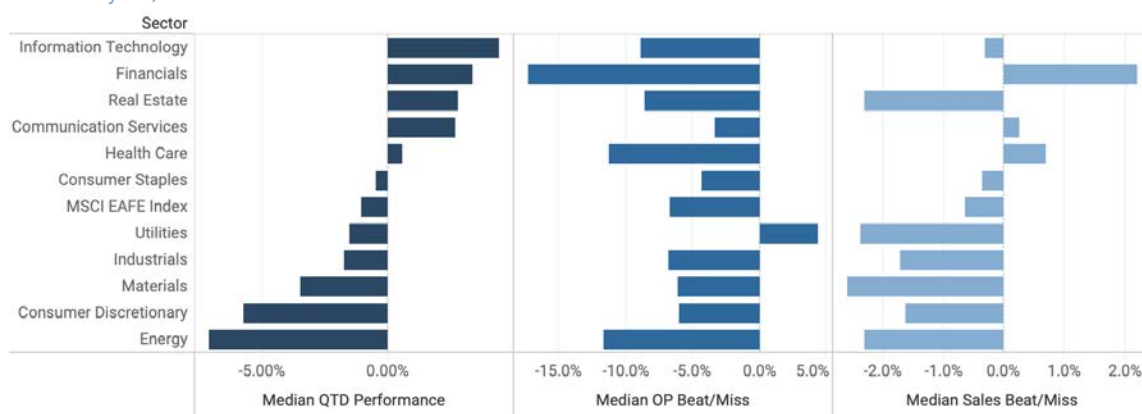


Mid-Quarter Earnings Delta Analysis

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 February 15, 2020, when a majority of companies (70%) within the MSCI EAFE Index have published their financial reports for the previous quarter. The analysis comprises the 407 companies in the index that had reported both sales and operating profits (OP) results and for which there existed consensus estimates for both metrics.

MSCI EAFE QTD Performance vs. Earnings/Sales Deltas

As of February 15, 2020



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

In aggregate, the median stock performance was -1.1%, with a median sales surprise of -0.6%, and a median operating profit surprise of -6.7%.

Technology, Financials, Real Estate, Communications, Health Care, and Consumer Staples posted median stock performances above the aggregate. Of these six sectors, only two posted median operating profit surprises above the aggregate (Communications and Consumer Staples).

Energy, Consumer Discretionary, Materials, Industrials, and Utilities posted median stock performances below the aggregate. Of these five sectors, only two posted median operating profit surprises below the aggregate (Energy and Industrials).

These results indicate that earnings surprises have not been a significant driver of stock price performance in the quarter-to-date. Likely due to the impact of coronavirus, stocks seem to have been driven by a broad sector rotation out of those exposed to consumption and manufacturing, and into those with more resilient stock narratives uncorrelated to these themes.

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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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