Wall St earnings overshadow virus, growth fears

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An upbeat earnings season on Wall Street has proved to be an effective antidote to concerns a rise in new COVID-19 infections linked to the delta strain will stall the global economic recovery.

Strong results across the board, including from the banks, consumer businesses and tech stocks, drove investor confidence through the week, pushing the three major US indices close to record highs.

“The results season has been good,” agreed Munro Partners chief investment officer Nick Griffin. “The economy is recovering and companies have cut out a lot of costs during the pandemic and that’s led to nicely expanding margins on the recovery.”

The market sold-off aggressively on Monday, shaken by the sharp rise in new COVID-19 cases reported in advanced economies, but strong results through the week from some of the world’s largest enterprises seemed to soothe those fears.

“When COVID rears its ugly head, muscle memory kicks in and people panic a bit,” said Mr Griffin. “These earnings just remind us how well some of these companies did during the pandemic.”

All four of the large US consumer banks posted bumper profits, driven by an increase in consumer spending, improving credit quality, and a rise in savings and investments.

“The pace of the global recovery is exceeding earlier expectations and, with it, consumer and corporate confidence is rising,” Citigroup chief executive Jane Fraser said.

Many CEOs also flagged they would be increasing spending, surprising many analysts, in a bid to retain staff and invest in technology to shore-up their businesses from increasing competition.

“It’s clear the banks are under sustained pressure, and that’s coming from fintechs,” said Swell Asset Management chief investment officer Lachlan Hughes. “The moat around the large banks is beginning to shrink.”

Swell Asset Management's Lachlan Hughes. **James Brickwood**

The results for consumer-facing stocks were also strong, as Americans released from lockdowns put to work the money they had saved.

“They key standout for me is that the consumer is in very good shape, which is a positive,” said Mr Hughes.

On Thursday, shares in Chipotle, Starbucks and Domino’s hit fresh highs after the pizza marker’s second-quarter earnings and revenue beat the street’s expectations.

Same-store sales growth rose by more than 3 per cent despite the company having to cycle tough comparisons to beat last year’s soaring performance in the middle of the pandemic.

Chipotle also thumped expectations, as revenue topped pre-pandemic levels with a return to dine-in eating and a strong bump in digital sales. Mr Griffin said it was great seeing "not only how well they did through the pandemic but how they’ve accelerated after, too".

“The things they learned through the pandemic have actually made them better through the recovery.”

Union Pacific, the largest publicly traded railroad, topped analysts’ profit expectations, as did AT&T.

One of the biggest surprises of the earnings season was the pace of growth many large digital businesses were able to maintain, even as lockdowns ended and states began to reopen.

“Digital advertising was strong through the COVID period and it has maintained that strength,” said Mr Hughes. “This is a strong trend which is continuing, and we saw that in Twitter and Snapchat’s results.”

Twitter posted its fastest revenue growth since 2014 during the second quarter, again beating analysts expectations. Revenue rose 74 per cent year-on-year, as the company lapped a weak second quarter of 2020. The number of "monetisable" daily active users rose by 11 per cent.

Snap enjoyed a similar spike, reporting a 116 per cent increase in revenue in the second quarter compared with a year ago.

“Our second quarter results reflect the broad-based strength of our business, as we grew both revenue and daily active users at the highest rates we have achieved in the past four years,” said Snap chief executive Evan Spiegel.

Netflix was somewhat of an exception, with earnings per share coming in below consensus. Fund managers were more upbeat, however.

“Neftlix was an outstanding result. In terms of subscriber numbers, they showed growth in what is seasonably a tough quarter for them,” said Mr Hughes. “There’s real opportunity there and their movement into gaming, will just be another way to offer more value to their customers.”

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