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Market Ethos

The latest market insights from Richardson Wealth

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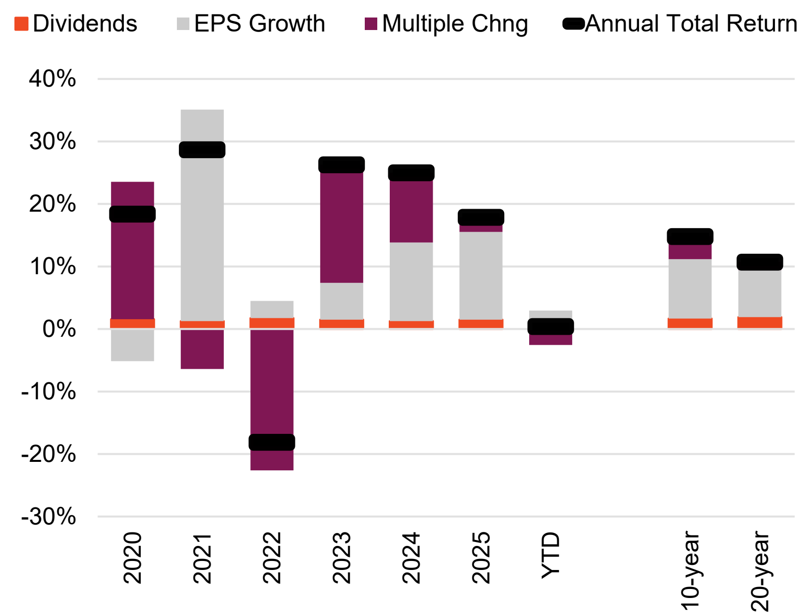
Earnings going global

Markets oscillate on many factors — from interest rates and risk appetite, to headline news and the economy. But in the end, it comes down to earnings. The easiest way to visualize this is by breaking down market returns into the underlying components. In the short term, multiple expansion or contraction is often the biggest driver, including the past year. However, over the long term it is earnings growth that dominates as a driver of market returns. The chart below shows the return decomposition for the S&P broken down into dividends, earnings growth and multiple expansion for calendar years and then on the right over the past 5 and 10 years. Note how the grey bars dominate long term.

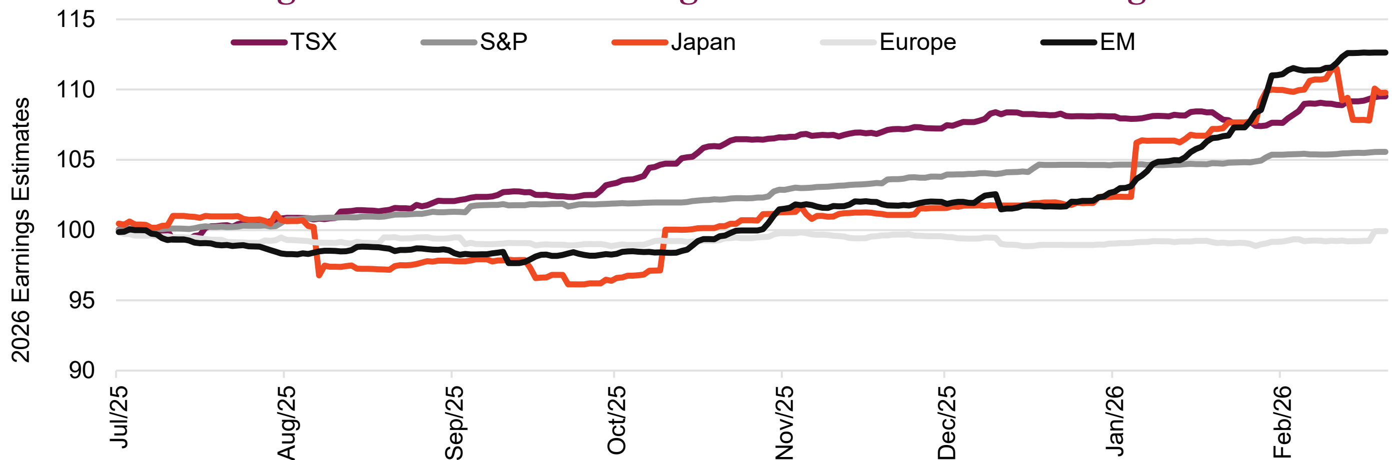
Long term, it's earning growth that matters



Source: Bloomberg, Purpose Investments, S&P 500

It's anyone's guess if risk appetites will rise or fall in the coming months, though they're more likely to fall given they do appear decently high right now. However, on an encouraging note earnings continue to improve. Estimates for 2026 calendar year earnings have risen by 12% for emerging markets (EM) since the summer of last year. TSX and Japan have also enjoyed strongly positive earnings revisions. And guess what are the best performing markets so far in 2026? Yep, Japan is at the top, followed by emerging markets and then the TSX. Europe and the US are the laggards, still up but not nearly as much.

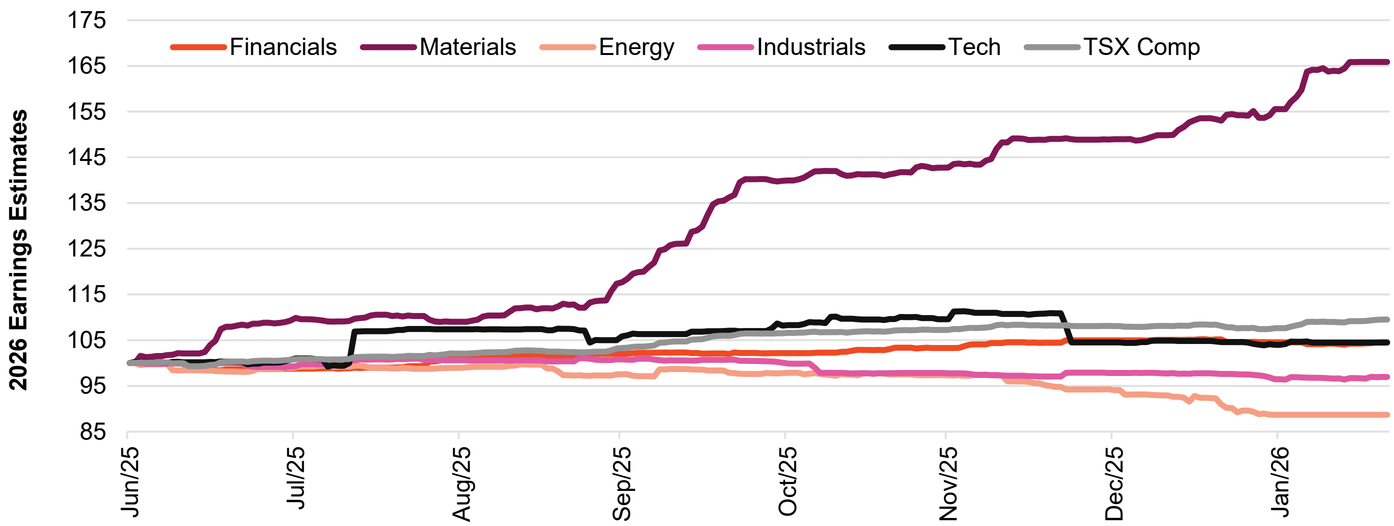
The good news? 2026 earnings continue to be revised higher



Source: Bloomberg, Purpose Investments

So is the place to be in 2026 Japan, emerging markets and the TSX? We would agree with the first two, but we are a little less enthusiastic about the TSX, largely because of where that earnings growth is coming from. The chart below includes the overall TSX's 2026 earnings revisions and as you can see it is 'ALL' coming from materials, led by gold. No question, gold companies are printing a lot of cashflow. But the market may not pay up much for such volatile earnings.

Don't get too excited about the TSX's earnings growth



Source: Bloomberg, Purpose Investments

Interestingly, the U.S. market has one big star as well from an earnings revision perspective: technology. And lately, more sectors are seeing improving revisions as well. It's certainly worth noting, especially considering the tech space has been a bit soft of late.

Final thoughts

Good earnings growth that is now more global compared to years past is a very good news story. And recent trends in revisions have been positive, helping this market — which has been struggling with headlines of late — show some resilience.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

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*This report is authored by Craig Basinger, Chief Market Strategist at Purpose Investments Inc. Effective September 1, 2021, Craig Basinger has transitioned to Purpose Investments Inc.