



Basis Points – September 13, 2022

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Above the Fold

Corporate Predictions Murky, but Not All Negative

Every quarter, thousands of publicly traded companies release their earnings results for the previous three-month period and often make predictions on how the next three months and full fiscal year is likely to shake out. These guidance trends can help investors and economists better predict and prepare for the future as this data tends to be useful given that corporate leaders obviously know their businesses well.

During this last quarter, we've seen a large number of corporate leaders revise their forecasts lower, citing recession risks, rising inflation and other factors like the energy crisis in Europe. During the Q2 earnings season, 129 S&P 500 companies revised their annual revenue or earnings per share forecasts, 50% more revisions than the same period in 2021. Many of these revisions include a widening of earnings targets, which gives companies a little more "wiggle room" in their performance predictions. Put simply, corporate America continues to temper investors' expectations, and so far, markets are dealing with the changes well.

On the flip side, analysts themselves also make their earnings predictions, which have been trending lower. Since June 30, analysts have cut their estimates for third-quarter S&P 500 earnings growth by 5.5%. The +1.4% earnings growth expected for the S&P 500 Index in the third quarter is down +7.2% from just three months ago. Excluding the Energy sector, Q3 earnings are expected to be down -5.3% at present, a significant decline from +2.1% at the beginning of July.

Despite this, stocks have remained resilient overall and there are certainly opportunities for investors who are ready to increase their risk appetite. Rising interest rates and the threat of a deeper-than-expected recession remain the two biggest known risks at this time.

Three Things

China Inks Deal to Buy Russian Gas at a Major Discount

As Europe and others work to band together to secure energy from Russia without further fueling its war machine, the consortium's potential deal was just dealt a huge blow. Russia's Gazprom and China's state-run National Petroleum Corp finalized a deal where China will buy Russian natural gas at a 50% discount to spot price for the remainder of the year. Natural gas is shipped via the Power of Siberia pipeline and through maritime shipments of liquefied natural gas. In 2021, China imported 582 billion cubic feet of gas from Russia. Exports to China were up nearly 30% in the first half of 2022 alone, and with a new pipeline nearly finished, Gazprom expects net gas exports to China to see a significant increase.

A Tough Year for Crypto Miners

The combination of plunging crypto prices and soaring electricity bills has taken a massive toll on crypto "farms" and miners in general. In 2021, when Bitcoin was at its peak, miners were pulling a collective \$60 million per day in profits; that number has dropped below \$19 million now. The

effects are rippling as many of these companies borrowed heavily to finance their ultra-powerful hardware “rigs.” So, while their income has been sliced by 78%, the prices for the latest generation of hardware have also dropped by 68%, and there aren’t many buyers for the older hardware innovations. Ethereum (Ether) is planning to upgrade its software and will no longer require miners or their powerful machines. Experts see a flood of mining hardware hitting the market, while those who can’t or won’t sell their computers shift capabilities to machine learning.

Deere Sees Future in Robo-Farming

The American farm industry could see major changes in its operation and efficiency. In fact, many companies, like John Deere, see software guided, precision farming as the future. Deere, which has led the sector with its machinery and hardware, is investing billions in smart equipment like self-driving tractors and AI-equipped crop sprayers to help the overburdened industry. Automation has helped keep farmers’ costs down as the costs of fertilizer, energy, water, land and just about everything associated with farming continue to rise. Other agribusiness companies such as Corteva Inc., CNH Industrial, Agco Corp and Bayer AG are also working to offer improved global farm solutions to improve and better predict crop yields.

In the Know

Think Our Utility Bills Are Bad?

While Americans grapple with higher energy prices, Europe, which has a heavy dependence on Russian natural gas, is dealing with a real energy crisis. German baseload power, the European electricity price benchmark, has rocketed to more than 1,400% above the trailing 10-year average. Customers in the Eurozone paid more than €700 per megawatt hour of electricity in August, while Americans average around \$140 per megawatt. Both natural gas and electricity prices are trading more than 1,000% higher than the typical range in the 2010 to 2020 decade, which is a key risk for a deep recession in Europe if a solution isn’t found.

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