Market View
Investing through the noise: from the perspective of the equity analyst

from George Harper Research Analyst

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At a glance

With geopolitical risks and trade policy shifting daily, analysts must go beyond the numbers to assess business resilience and investment potential.

Long-term fundamentals matter more than short-term sentiment in stock markets.

Q1 earnings season has started, but likely analysts won't get clarity until Q2 given evolving trade tensions.

Benjamin Graham, known as the father of value investing and mentor to Warren Buffett, famously said, "In the short run, the market is a voting machine but in the long run, it is a weighing machine." What Graham meant is that in the short-term, share prices can move around based on the constantly evolving sentiment of financial markets, whereas in the long-term, share price performance will ultimately follow the underlying performance of the business. In the equity research team at LGT, we focus on the latter, namely what fundamental factors we believe will contribute to the underlying performance of the business over the medium- to long-term.

While the above sounds simple in theory, the practical application and discipline of equity analysis relies on our ability to see through the constant noise that accompanies financial markets. Of late, this has been easier said than done. There is no shortage of news flow and commentary, not least because we live in a time where it has never been easier to be distracted by headlines and other forms of 'clickbait' from the media. After all, one of the key objectives of the media and journalism is to grab our attention, so it's helpful for analysts to have a healthy dose of scepticism.

This has recently been amplified due to the ongoing geopolitical tensions following President Trump's 'reciprocal' tariffs announced earlier this month. Sudden changes to trade policies, which are happening day to day, have resulted in significant gyrations in both equity and bond markets as investors attempt to process (and second guess) the immediate implications for economies and companies. Tariffs do present a very real and immediate threat to company profitability, but it is also important not to get swept up in the emotional turmoil.

Despite the heightened levels of market volatility, the equity research team are currently in the midst of an earnings season, a time when companies present their latest financial statements, comments and forecasts to markets. For US companies, we are presented with a full set of financial statements every quarter, whereas typically for British and European companies, we only receive a full set of financial statements twice a year.

The first step in the process, which applies for all companies we analyse, is to input the latest figures from those statements into our financial models. For each company, there will be an array of metrics that we follow closely to best understand what is driving the fundamental performance of that business. Where appropriate, we produce graphs and charts to visually illustrate this historic performance to gain context and perspective. At this stage, we will begin formulating our own views on how the business has performed, which often raises more questions than answers.

In addition to receiving the financial statements, the respective management teams will also host an earnings call, where a mix of analysts and investors can ask questions. The line of questioning will vary for each business, but given the current geopolitical backdrop, we can expect a lot of questions about how the business will be impacted by tariffs and how they might respond. Last week we learnt that Delta Airlines has pulled its forward guidance due to economic uncertainty. While not unheard of - Delta removed its forward guidance in 2020 due to the pandemic - this is highly unusual. Another company from the US, namely Walmart, recently walked away from their previous operating profit guidance. The figures presented from the first quarter are not going to be particularly instructive in terms of the impact of tariffs. Given that tariffs were only brought into effect earlier this month, the next set of results are much more likely to reveal the financial impact across businesses and sectors.

Best foot forward

We know company management teams will put their ‘best foot forward’ as it is part of their remit to positively portray their business. It is our job as analysts to cut through their sales pitch and gather meaningful insights to make our forecasts as accurate as possible. We are ultimately truth-seekers. The quantitative analysis we do is therefore supported by an equally rigorous qualitative review. Can we explain why margins have changed? Why has revenue risen ahead of competitors? Is the business investing sufficiently for the future? Have new competitors emerged? The answers to these questions feed into our view and ultimately the score we assign to companies.

Joining the dots

The culmination of our analysis during an earnings season results in a note being prepared for each approved company. These notes, which are prepared for the portfolio and investment managers, summarise key metrics and commentary, ending with a clear conclusion. Within this conclusion, the analyst will comment on the valuation and the relative attractiveness of the investment against the thesis.

The ongoing trade war and shifting geopolitical dynamics have added a new layer of complexity to analysts' roles. Cutting through the noise has always been part of an analysts' job, but the rapid pace of policy changes and unpredictability of tariffs have made our jobs even more complicated and challenging, as well as interesting and dynamic. The tariff impacts and constantly changing narrative now requires analysts to have a deeper understanding of geopolitical risks and even more focus on long-term fundamentals. In an environment dominated by noise and uncertainty, staying grounded in the fundamentals remains our strongest guide.

About the author

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George is an Equity Research Analyst in the Research Team at LGT covering global equities. Prior to this, George was an Investment Manager looking after client portfolios at LGT and before that, RBC Brewin Dolphin. After graduating from Durham University with a Master's degree in Finance, George has since completed the CISI's Chartered Wealth Manager qualification and the CFA programme. George is a Fellow of the Chartered Institute for Securities & Investments and a CFA charter holder.