FedEx Miss Is Worst Deutsche Bank Analysts Have Seen in 20 Years

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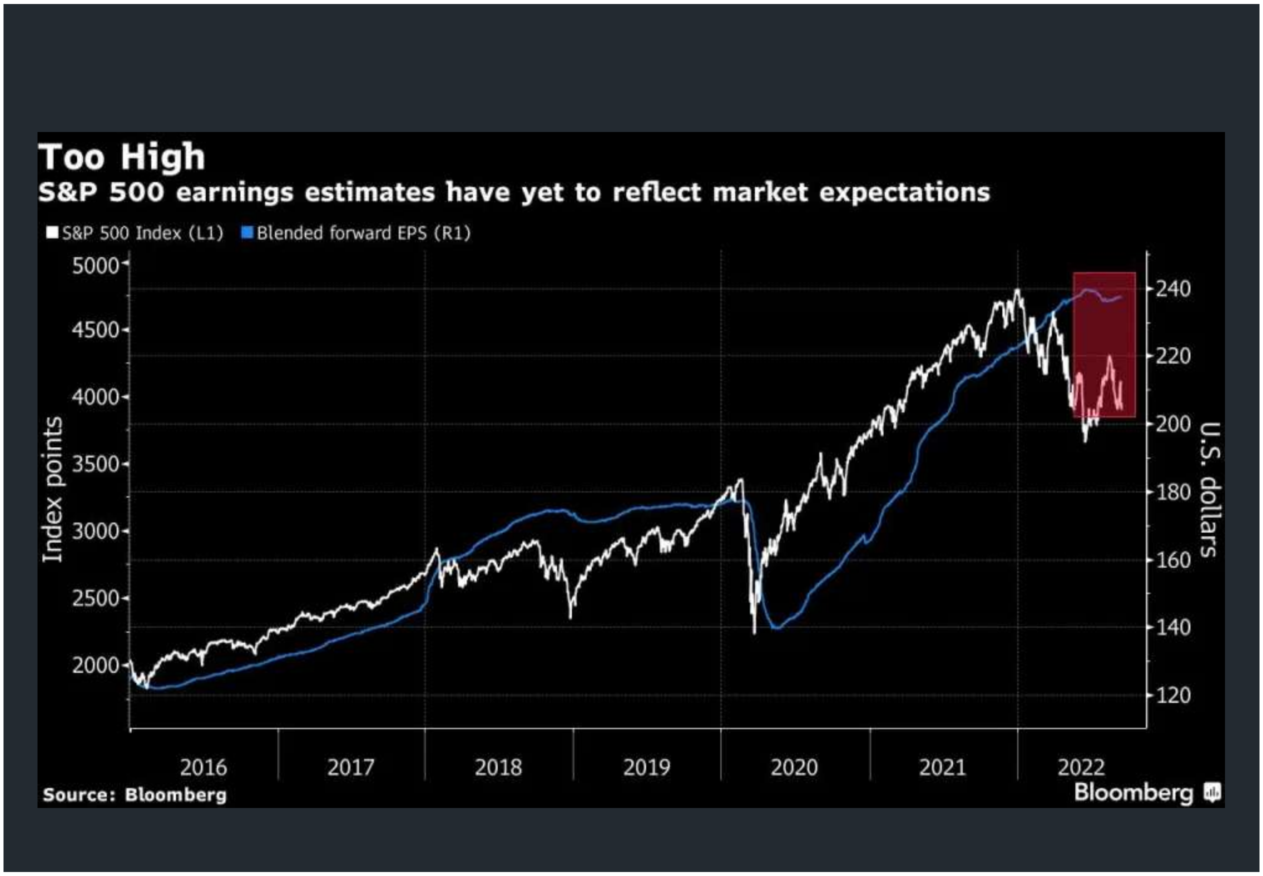
Fri, September 16, 2022 at 1:42 PM·4 min read



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(Bloomberg) -- Wall Street analysts didn't mince words in discussing FedEx Corp.'s forecast for the current quarter -- which missed by a landslide -- and its withdrawal of full-year guidance. It's really bad.

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To researchers at Deutsche Bank AG it's the worst report they've seen in two decades.

"FedEx preannounced last night the weakest set of results we've seen relative to expectations in our ~20 years of analyzing companies," the bank's analysts including Amit Mehrotra said in a note to clients.

The package delivery giant said in a statement Thursday night that it expects first-quarter earnings, excluding some items, to be $3.44 per share, or roughly 33% below the average analyst estimate of $5.10. In addition, FedEx withdrew its earnings forecast for 2023, saying macroeconomic trends have "significantly worsened," both internationally and in the US, and are likely to deteriorate further, fueling fears of a broad-based earnings decline.

At least four sell-side analysts covering the stock lowered their recommendations on FedEx Friday, as the stock sank as much as 24% before finishing the day down 21%. Robert W. Baird & Co. analyst Garrett Holland summed up the opinions, calling it an "ugly quarter." The bleak outlook pushed shares of rival United Parcel Service Inc., e-commerce giant Amazon.com Inc. and European delivery companies well into the red.

"The FedEx warning came as a slap. It's a solid sign that the economy started slowing," said Ipek Ozkardeskaya, a senior analyst at Swissquote. "This is certainly the first in a series of warnings that we may see for the quarters to come."

Some strategists were already cautious on the earnings outlook before FedEx's warning. Bank of America Corp.'s Michael Hartnett said in a note Friday that an earnings recession will likely drive US stocks to new lows, while Deutsche Bank strategists have said that company profits are set to drop, putting the S&P 500 at risk of a much deeper selloff.

FedEx isn't the only company making a warning that the macroeconomic backdrop is likely to impact the bottom line. General Electric Co.'s finance chief said on Thursday that supply-chain challenges are weighing on its third-quarter performance, while some of Wall Street's biggest banks expect deep declines in investment-banking fees for the current quarter with investors still spooked by inflation, rate hikes and possible recession.

In Europe, the profit warnings have already begun to trickle in. UK conglomerate Associated British Foods Plc warned that profit in the next fiscal year will be lower as rising energy costs and a stronger dollar weigh on its Primark clothing business, while Swedish appliance maker Electrolux AB said earnings would decline "significantly" in the third quarter amid rapidly accelerating inflation and low consumer confidence.

These ominous signs have already prompted analysts to moderate expectations, with weekly earnings downgrades outpacing upgrades for about four months in the US, according to a Citigroup Inc. index. But there may still be a long way to go to reset expectations -- analysts' earnings estimates for US companies are near record highs, despite an 18% slump for the S&P 500 benchmark this year.

To hedge against the myriad headwinds facing companies, some strategists suggest being selective about regional exposures heading into the earnings season.

"The weakness in FedEx earnings is centered in Asia and Europe, where indeed we are seeing the biggest economic challenges, while US activity is reasonably strong," said Marija Veitmane, a senior strategist at State Street Global Markets. "This fits with our broader assessment of the macro conditions at the moment. Indeed, the US is our favorite market."

Goldman Sachs Group Inc. strategists agree, saying US firms that do most of their business at home will fare better than those exposed to Europe, where a recession is all but guaranteed. In dollar terms, the Stoxx Europe 600 has lagged the S&P 500 this year, while a Goldman basket of US firms with 100% domestic sales has outperformed one tracking those with high exposure to Europe.

(Updates closing price for FedEx shares.)

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