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Are you ready for the volatility?

How do stock price outcomes differ when earnings miss or beat estimates during rising vs. falling volatility?

KEY TAKEAWAYS

1. Earnings misses during rising volatility led to **larger stock price drawdowns compared to falling volatility.**

2. During rising volatility, corporates missing earnings estimates perform on average **1.25% worse** than their counterparts that beat forecasts. Conversely, when volatility is falling, **the gap falls to below 0.5%.**

3. **Stock price outcomes following an earnings miss become wider and more left-tailed**, amid increasing volatility.

4. **Consider hedging solutions** to tackle volatility spikes.

Earnings misses led to bigger drawdowns when VIX was rising

Average 7-day excess return versus S&P500, rising volatility periods.

Period	If earnings miss	If earnings beat
Sep – Dec 2018	-0.97%	0.96%
Jun – Aug 2019	-0.79%	1.93%
Aug – Oct 2020	-0.06%	0.93%
Aug – Sep 2021	0.53%	0.46%
Nov – Dec 2021	-1.10%	-0.34%
Jan – Mar 2022	0.00%	0.82%
Apr – May 2022	-0.59%	0.78%
Aug – Oct 2022	-3.07%	-0.38%
Sep – Oct 2023	-1.38%	-0.29%
Feb – Mar 2025	-1.42%	-1.03%

Source: Bloomberg

VERSUS

Earnings misses had less obvious effects when VIX was falling

Average 7-day excess return versus S&P500, falling volatility periods.

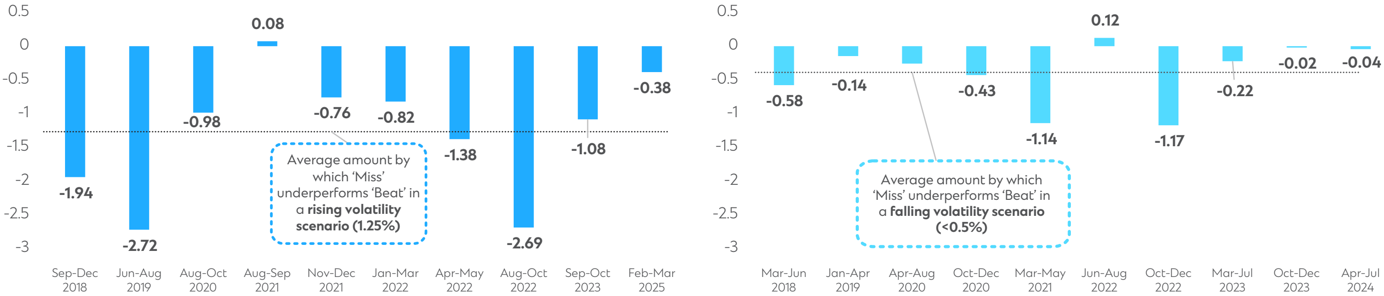
Period	If earnings miss	If earnings beat
Mar – Jun 2018	-1.30%	-0.72%
Jan – Apr 2019	0.90%	1.05%
Apr – Aug 2020	-1.11%	-0.85%
Oct – Dec 2020	1.18%	1.61%
Mar – May 2021	-0.25%	0.89%
Jun – Aug 2022	-0.15%	-0.27%
Oct – Dec 2022	1.16%	2.33%
Mar – Jul 2023	-0.94%	-0.72%
Oct – Dec 2023	-1.48%	-1.47%
Apr – Jul 2024	-1.41%	-1.37%

*S&P500 performance across the same 7-day period.

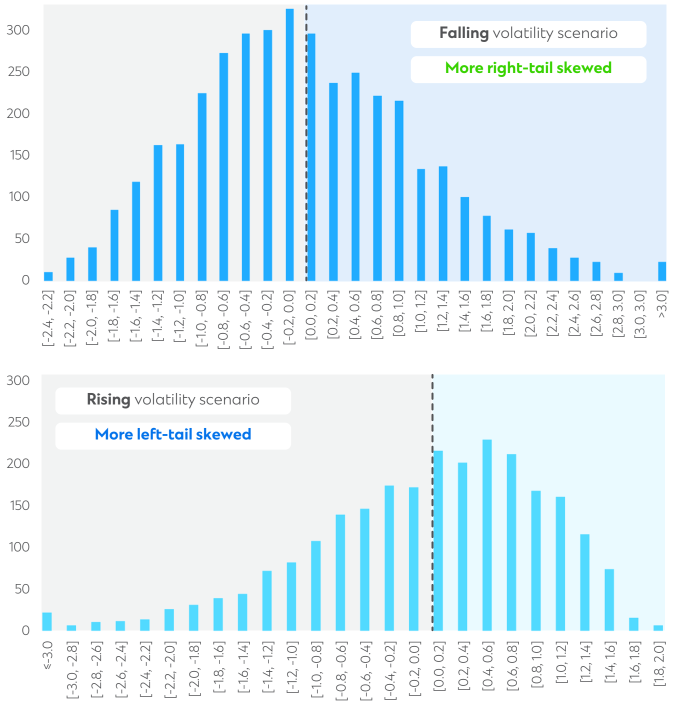
Source: Bloomberg

When volatility is rising, losers perform on average 1.25% worse than winners; when volatility is falling, the gap shrinks to below 0.5%

Average difference in 7-day % performance between winners and losers; rising volatility scenario (LHS) versus falling volatility scenario (RHS)



Source: Bloomberg



The distribution of potential stock price outcomes following an earnings miss becomes **wider** and **more left-tailed**, when volatility is increasing.

Statistically speaking, the range of potential outcomes is both

- asymmetric to the downside, and
- centred around a lower mean

When volatility is rising, there is a higher likelihood of an extreme outcome following an earnings miss, i.e., a **black swan event**.

Source: Bloomberg

Takeaway: Explore hedging solutions

Cash Flow/Revenue Hedging	Net Investment Hedging	Opportunistic Hedging	Structured Solutions	Yield Enhancement