



## 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

### 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%

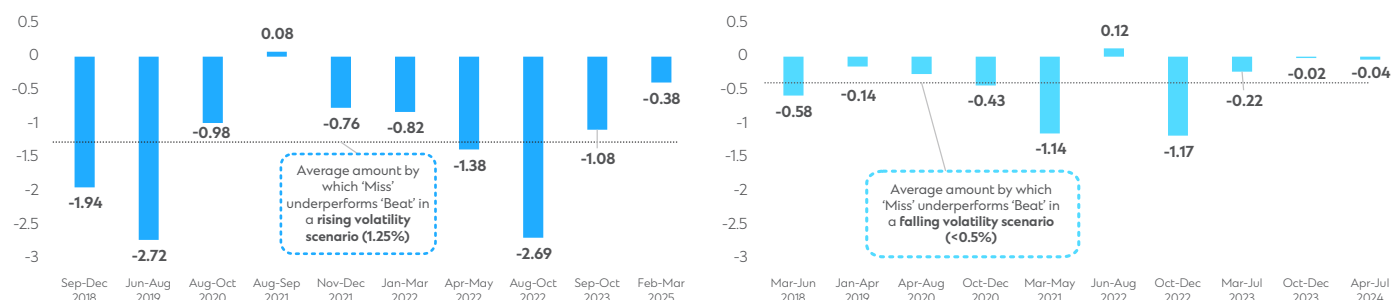
\*S&P500 performance across the same 7-day period.

Source: Bloomberg

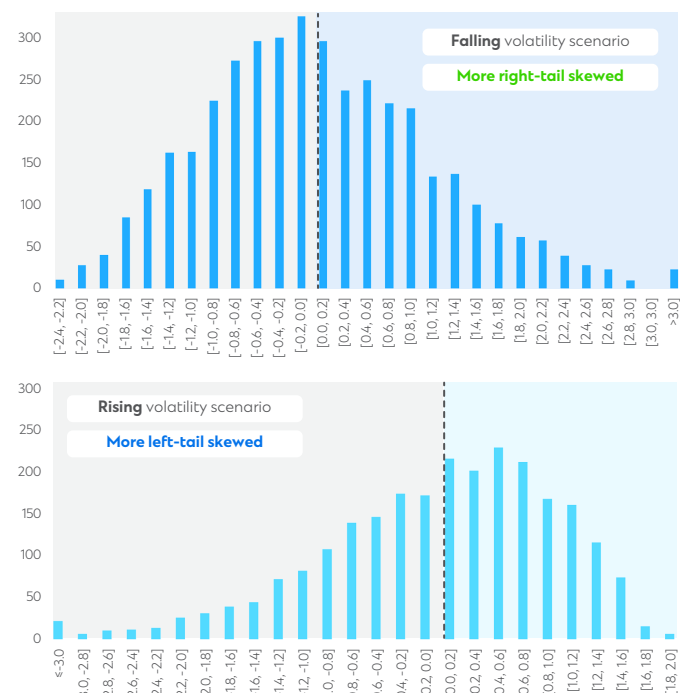
V E R S U S

## 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



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**.

## Takeaway: Explore hedging solutions

Cash Flow/Revenue Hedging



Net Investment Hedging



Opportunistic Hedging



Structured Solutions



Yield Enhancement



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