

## S&P 500 Earnings Intellect

### Trend Analysis from S&P Global Market Intelligence

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#### Recent Moves in EPS Growth: Sustainable or Misleading?

##### Current Consensus Growth Expectations Are Set To Rebound

Consensus expectations for calendar year 2016 S&P 500 earnings are finally beginning to show improvement, but should investors be skeptical? Over the past month analysts have increased aggregate S&P 500 earnings expectations by nearly 50 basis points (bps), raising 2016 expected earnings growth to 0.4% today from the slightly negative growth seen at the start of May. Based on our analysis, the driving factor of the movement is unclear and may even just be typical behavior for the index.

A mix of positive and negative factors has influenced earnings expectations over the past month. Housing related data has generally been a bright spot, consumer spending habits and sentiment have remained firm, and a recent report on industrial production was encouraging. Oil prices have been on the rise, and the decline in the dollar has provided some relief from earlier disappointments. However, consumer confidence has stopped improving and has even backtracked by some measures in recent months, and the last two employment reports were downright disappointing, although wage growth remains a silver lining. Turning to corporate earnings, first quarter S&P 500 results ended up being better than expected, but the 5.4% decline in profitability was the third consecutive quarter of decline, and the beat rate of nearly 260 bps was well below the historical average of 400-450 bps. Furthermore, forward earnings guidance from corporate management was mostly downbeat relative to prior existing estimates.

Yet, consensus expectations for second, third and fourth quarter S&P 500 earnings have all improved since May 1. The third and fourth quarters have seen the largest increases of 35 bps and 50 bps, respectively. While these may not be large gains from a historical perspective, this is the first sustained reversal in the trend of deteriorating calendar year 2016 expected earnings seen since the start of this year.

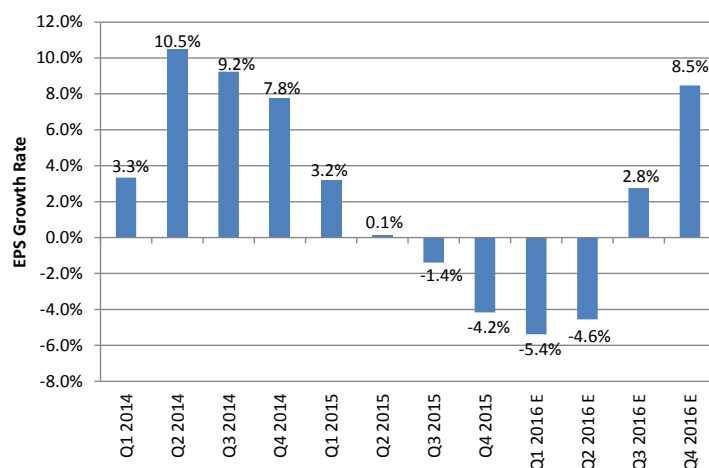
**Table 1: Quarterly S&P 500 EPS Growth Estimates**

	<u>1-Jan</u>	<u>1-Apr</u>	<u>1-May</u>	<u>6-Jun</u>
Q2 2016	4.1%	-2.5%	-4.7%	-4.6%
Q3 2016	9.1%	4.8%	2.4%	2.8%
Q4 2016	15.2%	9.4%	8.0%	8.5%
<b>CY 2016</b>	<b>7.5%</b>	<b>1.5%</b>	<b>-0.1%</b>	<b>0.4%</b>

Source: S&P Global Market Intelligence.

The prospect of a rebound in second half earnings would mean that the trough in earnings was recorded in the first quarter. This would be encouraging since a bottom for quarterly earnings was previously supposed to occur in each of the last three quarters, but was then pushed out yet another quarter after each season provided reduced guidance relative to earlier expectations. The anticipated second quarter 2016 decline of 4.6% is an improvement over the 5.4% decline in first quarter results, and should mark the final quarter of negative earnings growth. The last time that the S&P 500 index reported four consecutive quarters of declining growth was in 2009. Combined, these developments provide a glimmer of hope that we may now have finally turned the corner with regards to the corporate earnings growth momentum.

**Chart 1: S&P 500 Growth Estimates by Quarter**



Source: S&P Global Market Intelligence.

Reviewing earnings trends dating back to 2012, full-year earnings estimates tend to bottom at or around the start of May, then increase for a few additional weeks, and then return to a downward trajectory heading into the start of third quarter earnings season at mid-July. The trend for the remainder of the year has been to the downside with growth expectations for the current year on December 31 typically lower than where it bottomed earlier in May (remember that fourth quarter results are not reported until January/February). This suggests that the recent improvement in S&P 500 calendar year earnings-per-share could be temporary in nature.

While we still believe the second half of 2016 will provide positive earnings growth results, it may not be enough to significantly improve the overall market outlook for full-year 2016 prospective earnings.

Longer-term changes and developments in earnings growth expectations are displayed in Table 2. During periods of extreme economic stress, as experienced in 2008 and 2009, earnings estimates can move erratically. Even in the period following the years of the Great Recession, earnings growth has been difficult to predict given the subpar economic growth experienced. This has led to reductions in earnings over each quarter except one since 2012.

**Table 2: Basis Point Change in S&P 500 EPS Growth**

	Q1	Q2	Q3	Q4	CY	YTD**
2000	-105	-27	-235	-242	-610	-62
2001	-1,105	-651	-669	-383	-2,808	-1,469
2002	-23	-233	-477	-245	-979	-157
2003	78	36	130	97	340	141
2004	92	531	105	126	854	506
2005	41	66	282	-117	273	88
2006	-77	137	39	50	148	16
2007	-277	153	3	-755	-875	-159
2008	-186	-662	-904	-1,479	-3,279	-668
2009	-2,035	-113	190	73	-1,934	-2,496
2010	68	513	207	168	957	598
2011	70	216	-22	-103	161	306
2012	-100	-77	-157	-65	-399	-69
2013	-278	-108	-15	-124	-525	-342
2014	-203	68	-94	-59	-294	-128
2015	-677	-38	-95	3	-821	-696
2016	-597					
<b>Average</b>	<b>-313</b>	<b>-12</b>	<b>-107</b>	<b>-191</b>	<b>-612</b>	<b>-287</b>

Source: S&P Global Market Intelligence. Numbers in chart represent the basis point change in growth from the start of the quarter to the end of the quarter. \*\* As of May 31.

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