MADISON PARK
CAPITAL ADVISORS

WEEKLY MARKET UPDATE

May 8, 2017

Fundamentally sound

The French elections have come and gone, the expected candidate won, and all is right with the world. Except that the "far right" candidate of upheaval received about 35% of the vote. In France. The dissatisfaction of the working class is an issue that is not going away any time soon.

So, you may be asking, now what? We would suggest that, since earnings ultimately move markets, and with major political uncertainty out of the way for the moment, now might be a good time to take stock of first quarter ("Q1") earnings, courtesy of Zacks Investment Research. With Q1 results from 358 of the 500 S&P members that combined account for 78.2% of the index's total market capitalization reporting thus far:

- **Total earnings for these 358 S&P 500 members are up +12.9% from the same period last year on +7.9% higher revenues,** with 74.3% beating EPS estimates and 65.9% beating revenue estimates.

- These results represent a notable improvement over what we have been seeing from the same group of 358 index members in the recent past. Not only is the growth pace of both earnings and revenues tracking above other recent periods, but **the proportion of companies beating estimates, particularly revenue estimates, is notably tracking above other recent periods.**

- For the Technology sector, we now have Q1 results from 74.4% of the sector's total market cap in the S&P 500 index. Total earnings for these Technology companies are up +14.4% from the same period last year on +5.7% higher revenues, with 80.6% beating EPS ("earnings per share") estimates and 77.8% beating revenue estimates.

- **For Q1 as a whole,** combining the actual results from the 358 S&P 500 members that have reported with estimates from the still-to-come 142 companies, t**otal earnings are expected to be up +11.9% on +6.2% higher revenues,** with Finance, Technology, Industrial Products, Basic Materials, and Business Services on track to achieve double-digit earnings growth.

- As is typically the trend, estimates for the current period (2017-Q2) have started coming down, but the magnitude of negative revisions nevertheless compares favorably to other recent periods.

We particularly like the fact that **the positive**

Q1 results are broad-based and not narrowly concentrated. Sectors that are beating revenue estimates at a proportion higher than the average for the S&P 500 index (which, as previously noted, is itself tracking above historical periods) include Autos (90% beat revenue estimates), Industrial Products (84.2% beating revenue estimates), Conglomerates (83.3%), Basic Materials (76.5%), and Technology (77.8%).

Finally, the Q1 growth pace has been steadily improving as the reporting cycle has progressed, with companies coming out with better than expected year-over-year growth. This would follow the +7.4% growth in 2016-Q4 earnings on +4.8% higher revenues, the best growth pace of the index in almost two years.

So, in summary, Q1 earnings growth is already tracking above the preceding quarter's pace, which itself was a big improvement over the quarter before that (2016-Q3). Currently, Q1 results represent an acceleration in earnings growth, which current consensus estimates project to continue in the coming periods as well. In weeks to come we will look at valuations, trying to decipher whether all this good news is already baked into prices.

It looks like spring has arrived belatedly in Seattle. Have a great week! Lest we may have forgotten, that yellow orb in the sky is called "the sun."

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