MADISON PARK
CAPITAL ADVISORS

WEEKLY MARKET UPDATE

July 17, 2018

Q2 Earnings Season Preview

Before we start with the weekly commentary, we want to draw your attention to our Quarterly Market Commentary that we posted to the Blog on Friday. This piece takes a quick look back at what we've seen as the year hit the 50-yard line, and touches a bit on our approach as we look ahead over the latter half of the year. **Click here to enjoy**. As for the weekly notes…

In the "2018 is going by fast" department, we are embarking upon yet another quarterly earnings reporting season this week. There have been a few (22, to be exact) early responders out of the gate at this point. Total earnings for those 22 S&P 500 members that have reported thus far are up 29% on 12.5% higher revenues. They have come bearing good news, as the proportion of these 22 companies beating EPS (Earnings per share) and revenue estimates is tracking above other recent periods. Specifically, 91% of these companies are beating EPS estimates and over 86% are beating revenue estimates.

To provide context, for the S&P 500 index as a whole, total Q2 earnings are expected to be up about 19% from the same period last year on over 8% higher revenues. It is not totally surprising that Q2 estimates have only moved up modestly since the quarter got underway, in contrast to the very strong positive revisions trend witnessed ahead of the start of the Q1 earnings season.

Down the cap scale, expectations are for continued strength in smaller company earnings. For the small-cap S&P 600 index, total Q2 earnings are expected to be up an impressive 27% on over 8% higher revenues, which would follow 24% earnings growth on 8.6% revenue growth in the first quarter of the year.

Overall, for full-year 2018, total earnings for the S&P 500 index are expected to be up over 20% on over 6% higher revenues. For 2019 and 2020, total earnings are expected to be up just shy of 10% in both years, continuing the trend of strong earnings growth. Revenues for the index are expected to increase by nearly 5% in both years. Markets would be quite happy with those results should they come to pass.

For the math geeks among us (this writer raises his hand), the "implied EPS" for the index, calculated using the current 2018 Price/Earnings ("P/E") of 17.6 times, is

$156.51 per "index share". Using the same methodology, the implied EPS works out to $171.78 for 2019, with a P/E ratio of 16 times. The numbers for 2020 are $188.34 implied EPS and a P/E of 14.6 times. **If earnings come through as expected (always a big if), these are not dangerous multiples, and it is hard to consider the market grossly overvalued when all is said and done.**

Why do we harp on all of this with such regularity? It is because we believe that earnings drive the market over the long-term. Looking deeply at these numbers helps us move forward in the midst of the "noise" of things like geopolitics that can trump earnings in effecting prices (and emotions) over the short-run.

It is very early in the quarter, and we will have more to say about Q2 earnings in the coming days and weeks ahead. In the meantime, we wish all of our readers a healthy, happy and restful summer season.

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