MADISON PARK
CAPITAL ADVISORS

WEEKLY MARKET UPDATE

February 20, 2018

Q4 Earnings Progress Report

We hope you enjoyed the long weekend, or for you parents and educators amongst us – we hope you are enjoying mid-winter break. Now that you are done cringing over replays of Fergie's rendition of the National Anthem, let's turn your attention to something of a brighter note – the very encouraging earnings reports being seen this quarter on Wall Street.

As of this writing, 341 (68%) of the S&P 500 companies have reported results so far, and the results are very encouraging. Total earnings are up 14.7% from the same period last year on 9.3% higher revenues. Nearly 80% of those companies have exceeded earnings per share (EPS) estimates, and 77% have exceeded revenue estimates. These are historically solid results. **Additionally, the proportion of companies beating both EPS and revenue estimates is 64%.**

Looking ahead, if we combine the actual results from the 341 index members that have already reported with estimates from the still-to-report 164 companies, total earnings are expected to be up 14.1% from the same period last year on 8.2% higher revenues. This would follow 6.7% earnings growth in Q3 2017 on 5.8% revenue growth. **If the rest of Q4 comes through as currently expected, Q4 would represent the highest quarterly growth rate in years.** Further cheering the markets, earnings estimates for the current quarter continue to rise meaningfully.

It appears that the recent market selloff was mostly technical in nature, arising from automated sell strategies linked to algorithmic trading. These strategies have attracted a considerable amount of new assets over the last decade or so, and when sell signals are triggered so abruptly it can lead to a liquidity squeeze on the other side of the trade. T**he fundamental economic and earnings data that ultimately matters most did not change over the last few weeks,** and earnings have been coming in strong relative to past periods and expectations.

We will continue to monitor the leading economic data for signs of a slowdown, but for the time being we believe the economic coast is clear. Per previous MPCA commentary, markets were due for a return to normal volatility after the extraordinary calm of the past couple of years. As always, if and when the facts on the ground begin to shift in a negative direction, we will temper portfolio risk accordingly.

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