



# WEEKLY MARKET UPDATE

March 5, 2018



## Q4-17 Earnings Final Report

**Earnings for the final quarter of last year are mostly in the books, and as we have been reporting, the market aced the fourth quarter final exams.** With impressive revenue momentum, positive earnings surprises and estimate revisions for the first quarter and the rest of 2018 leading the way, investors have reason to believe the bull market still has room to run.

With 470 of the S&P 500 members reporting, representing 97% of index market capitalization, **earnings are up 14% from Q42016 on 8.5% higher revenues.** A full 77% of companies beat their EPS (Earnings per Share) estimates, and 76% beat revenue estimates. These results are historically positive relative to similar metrics in quarters past.

**We are heartened by results for smaller companies as well, justifying MPCA portfolio exposure in that space.** For the small-cap S&P 600 index, with 80% of companies reporting, earnings are up 18% on 9% higher

revenues, with positive EPS and revenue surprises at 67% and 72%, respectively.

As previously reported in these quarterly updates, **earnings estimates for the current quarter and 2018 in general have been rising meaningfully, with tax law changes as the major catalyst.** The upgrades are broad-based, with most major sectors up over the last few weeks. **In a development that would have been unthinkable even six months ago, S&P 500 index earnings are expected to be up over 20% in 2018 and almost 10% in 2019.**

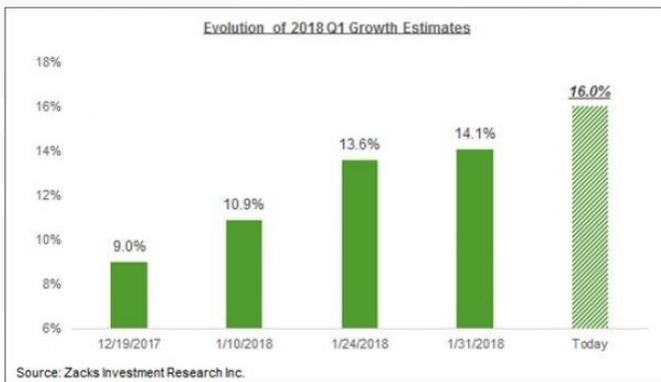
The charts below, courtesy of our friends at Zacks Research, tell the story in pictures. First, take a look at the impressive revenue momentum driving these fantastic results, both in top-line growth as well as the proportion of positive top-line surprises



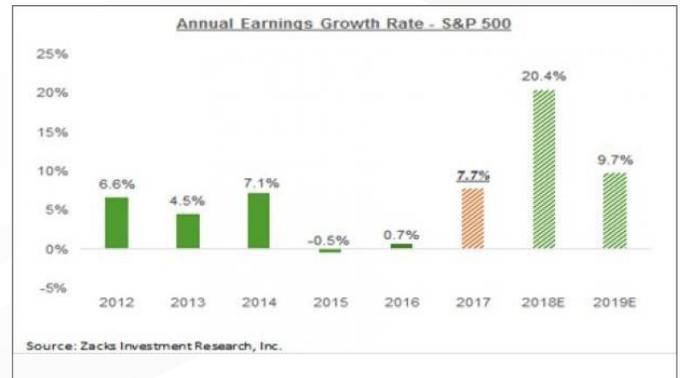
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tracking above historical periods. **Revenue growth is vital to sustaining earnings growth, as cost-cutting can only take the market so far** before investors catch on that growth is slowing.

Since upward earnings revisions drive market cycles, **we thought we would highlight the positive effect of strong revenue growth on 2018 Q1 earnings expectations** (since just December of last year!) in the chart below. Again, most but not all of the credit goes to the recently passed tax cuts. We have been at this for a long time, and we strain to recall such a paradigm shift in earnings estimates.



One more chart before we wrap this up. **Pulling back from quarterly results and zooming out to the growth trajectory on an annual basis, earnings growth resuscitated in 2017 after flat-lining in 2015 and 2016,** with total S&P 500 earnings on track to increase nicely in 2017 before hitting overdrive in 2018 and 2019.



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