

May 20, 2019

- After stabilizing in March and April, S&P 500 profit expectations are taking a slight turn to the south this month as figures from the escalating trade conflict are starting to become slightly more real. This, and Trump tweeting about destroying Iran, are sending stock futures lower this morning.
- We had been showing how stocks had become slightly overvalued relative to their sustainable earnings expectation trends and that any negative news item could have triggered a pullback. No one should be surprised stocks have declined in May.
- These are self-inflicted wounds from policy. They can be fixed. This is why we are not bearish on stocks.

### The forward 12 month PE multiple for the S&P 500 has expanded in 2019 but not last week

Date	*P/E 12 mth EPS Est	S&P 500	
5/20/2019	16.42x	2,859.53	• Last week, the S&P 500 fell -0.76% and 2019 EPS growth estimates declined. The forward 12-month PE multiple also declined to 16.42x from 16.53x. At the beginning of the year, the multiple was 13.92x.
1/1/2019	13.92x	2,485.74	
5/21/2018	16.70x	2,712.97	
5/19/2014	16.17x	1,877.86	

\*All periods use comparable forward 12 month EPS estimates

Source: The Earnings Scout

### 2019 S&P 500 EPS growth expectations have come down in May as trade tensions escalate

Date	1Q19E EPS Growth	2Q19E EPS Growth	3Q19E EPS Growth	4Q19E EPS Growth
12/1/2018	6.26%	5.67%	5.19%	11.77%
1/1/2019	5.54%	5.00%	4.91%	11.65%
2/1/2019	2.29%	2.77%	3.06%	11.05%
3/1/2019	0.07%	2.32%	3.21%	10.08%
4/1/2019	-0.66%	2.04%	3.44%	9.82%
5/1/2019	2.29%	1.47%	3.38%	9.91%
5/13/2019	4.42%	0.52%	2.84%	9.38%
5/20/2019	4.57%	0.28%	2.55%	9.28%

Source: The Earnings Scout

---

Nick Raich, CFA®  
Chief Executive Officer  
The Earnings Scout  
312.391.6805  
[nick.raich@earningscout.com](mailto:nick.raich@earningscout.com)  
[www.EarningsScout.com](http://www.EarningsScout.com)  
[@EarningsScout](https://twitter.com/EarningsScout)

- The key over the next several weeks will be how much 2Q 2019 EPS growth estimates will come down.
- It will be bullish if the 2Q 2019 EPS growth estimate “only” falls to -1% to -2%. This is the likely scenario.
- If the 2Q 2019 EPS growth estimates falls below -4%, which is unlikely, look out.



Chart 1: The rate(s) of change to overall S&P 500 EPS expectations the past three years

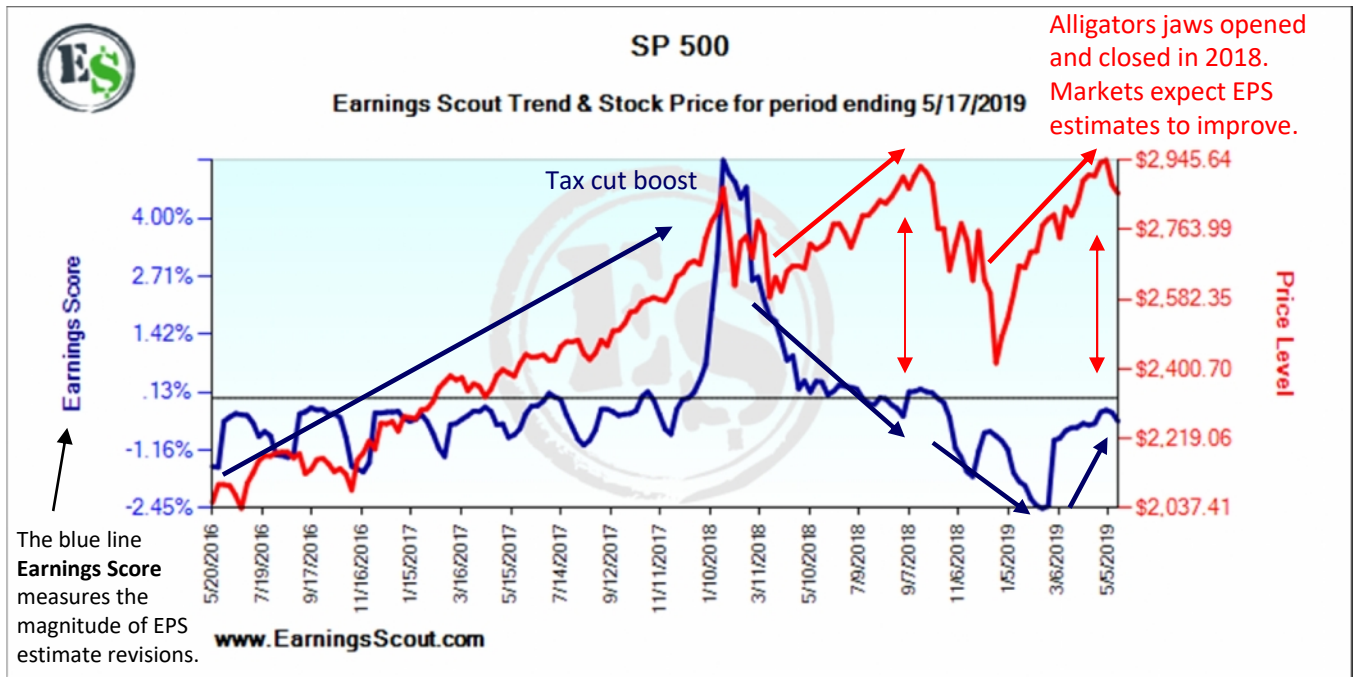
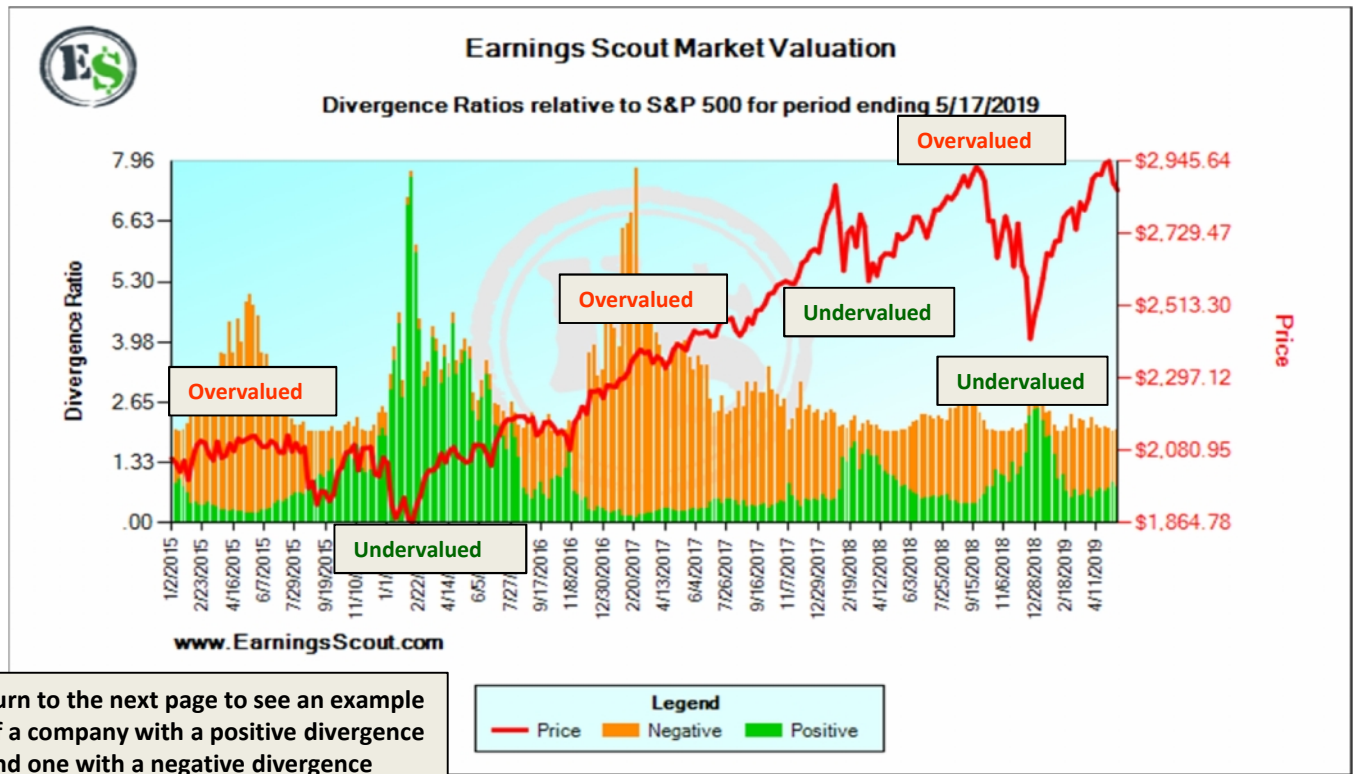


Chart 2: The ratio(s) of positive & negative earnings to price divergences

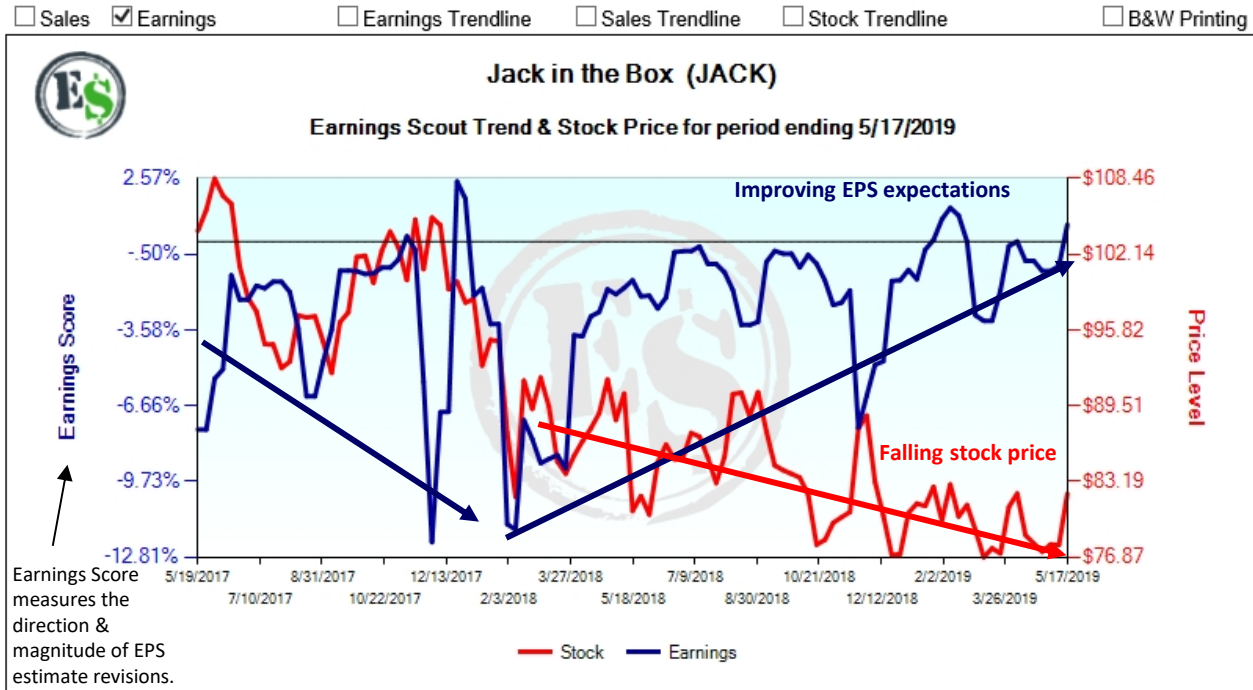


Turn to the next page to see an example of a company with a positive divergence and one with a negative divergence



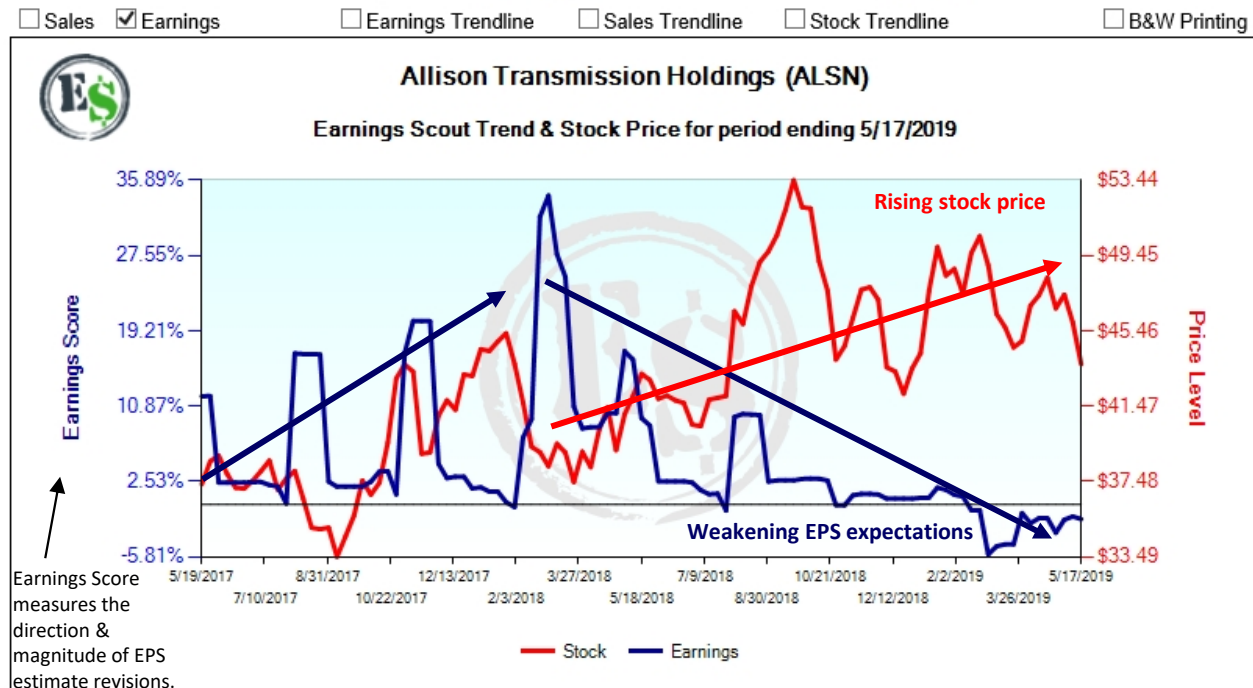
**Example of a company with a positive earnings estimate trend to price divergence**

Stock Return: <b>-21.05%</b>	Earnings Rating: <b>Buy</b>	Market Cap(mil): <b>\$2,121</b>
Stock Price: <b>\$82.17</b>	Earnings Indicator: <b>93</b>	Dividend Yield: <b>1.95%</b>
ES Correlation: <b>-0.230</b>	Earnings Indicator Chg: <b>2</b>	PE F1 Est: <b>19.34</b>
	Earnings Trend: <b>Improving</b>	Est 3-5 Year EPS Growth: <b>12.08%</b>
	Earnings Volatility: <b>Below Average</b>	Beta: <b>0.51</b>
	Sales Indicator: <b>94</b>	
	Sales Indicator Chg: <b>-1</b>	
	Sales Trend: <b>Improving</b>	
	Sales Volatility: <b>Volatile</b>	



**Example of a company with a negative earnings estimate trend to price divergence**

Stock Return: <b>17.01%</b>	Earnings Rating: <b>Sell</b>	Market Cap(mil): <b>\$5,474</b>
Stock Price: <b>\$43.69</b>	Earnings Indicator: <b>16</b>	Dividend Yield: <b>1.37%</b>
ES Correlation: <b>-0.384</b>	Earnings Indicator Chg: <b>1</b>	PE F1 Est: <b>9.39</b>
	Earnings Trend: <b>Weakening</b>	Est 3-5 Year EPS Growth: <b>10.00%</b>
	Earnings Volatility: <b>Average</b>	Beta: <b>1.36</b>
	Sales Indicator: <b>16</b>	
	Sales Indicator Chg: <b>2</b>	
	Sales Trend: <b>Weakening</b>	
	Sales Volatility: <b>Average</b>	



**2Q 2019 EPS Guidance Scorecard by Sector, as of May 17, 2019**

Sector	*2Q19 EPS Est Chg	Raise	Maintain	Lower	Reported	% Reported	**May Return	**YTD
Energy	2.71%	52%	17%	31%	29	100%	-4.32%	10.41%
Financials	-0.12%	36%	19%	45%	67	100%	-4.18%	12.53%
Real Estate	-0.81%	9%	63%	28%	32	100%	1.49%	17.69%
Utilities	-1.02%	32%	18%	50%	28	100%	-0.27%	10.55%
Health Care	-1.03%	28%	15%	57%	60	97%	-1.10%	2.07%
Consumer Discretionary	-2.04%	30%	7%	63%	43	68%	-3.42%	17.67%
Communication Services	-2.42%	45%	14%	41%	22	100%	-1.63%	18.72%
Industrials	-2.52%	22%	16%	62%	69	99%	-4.35%	16.08%
Materials	-2.58%	12%	12%	77%	26	100%	-4.95%	8.02%
Consumer Staples	-3.26%	30%	15%	56%	27	82%	-0.02%	13.72%
Information Technology	-3.96%	28%	12%	60%	57	84%	-4.46%	21.31%
<b>S&amp;P 500</b>	<b>-1.67%</b>	<b>29%</b>	<b>18%</b>	<b>53%</b>	<b>460</b>	<b>92%</b>	<b>-2.93%</b>	<b>14.07%</b>

Source: The Earnings Scout

\*Aggregate 2Q19 EPS estimate change for the 460 S&P 500 companies that have reported 1Q19 earnings results

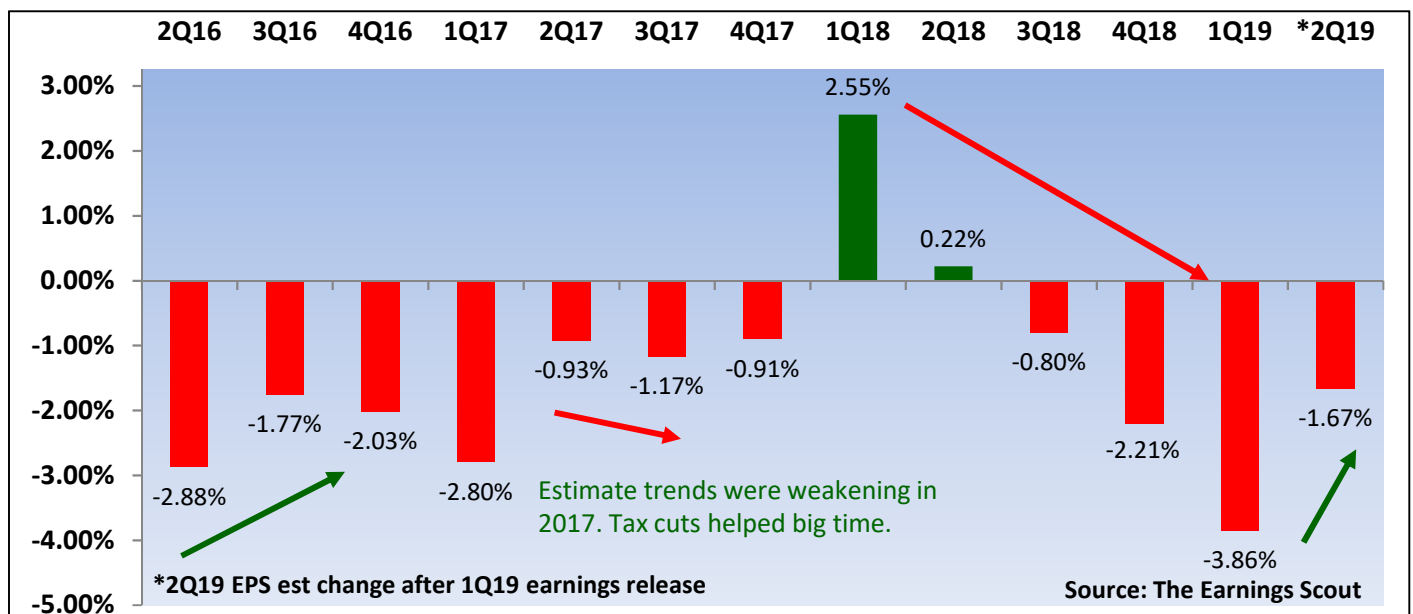
\*\*Price change through May 17, 2019

**How 2Q 2019 EPS ests are changing as co's report 1Q 2019 & how the revisions compare**

Period	Average Guidance	Raise	Maintain	Lower
<b>*2Q 2019</b>	<b>-1.67%</b>	<b>29%</b>	<b>18%</b>	<b>53%</b>
1Q 2019	-3.86%	23%	13%	64%
4Q 2018	-2.21%	25%	16%	59%
3Q 2018	-0.80%	36%	14%	49%
2Q 2018	0.22%	38%	16%	46%
1Q 2018	2.55%	56%	12%	31%
<b>3 Yr Average</b>	<b>-1.38%</b>	<b>32%</b>	<b>16%</b>	<b>52%</b>

- 460 S&P 500 companies have reported 1Q 2019 results. 53% of those companies had their 1Q 2019 EPS estimates cut after reporting, on average, by -1.67%.
- This is actually an improvement from last earnings season when 64% of companies had their next quarter EPS estimates cut by -3.86%.

Source: The Earnings Scout

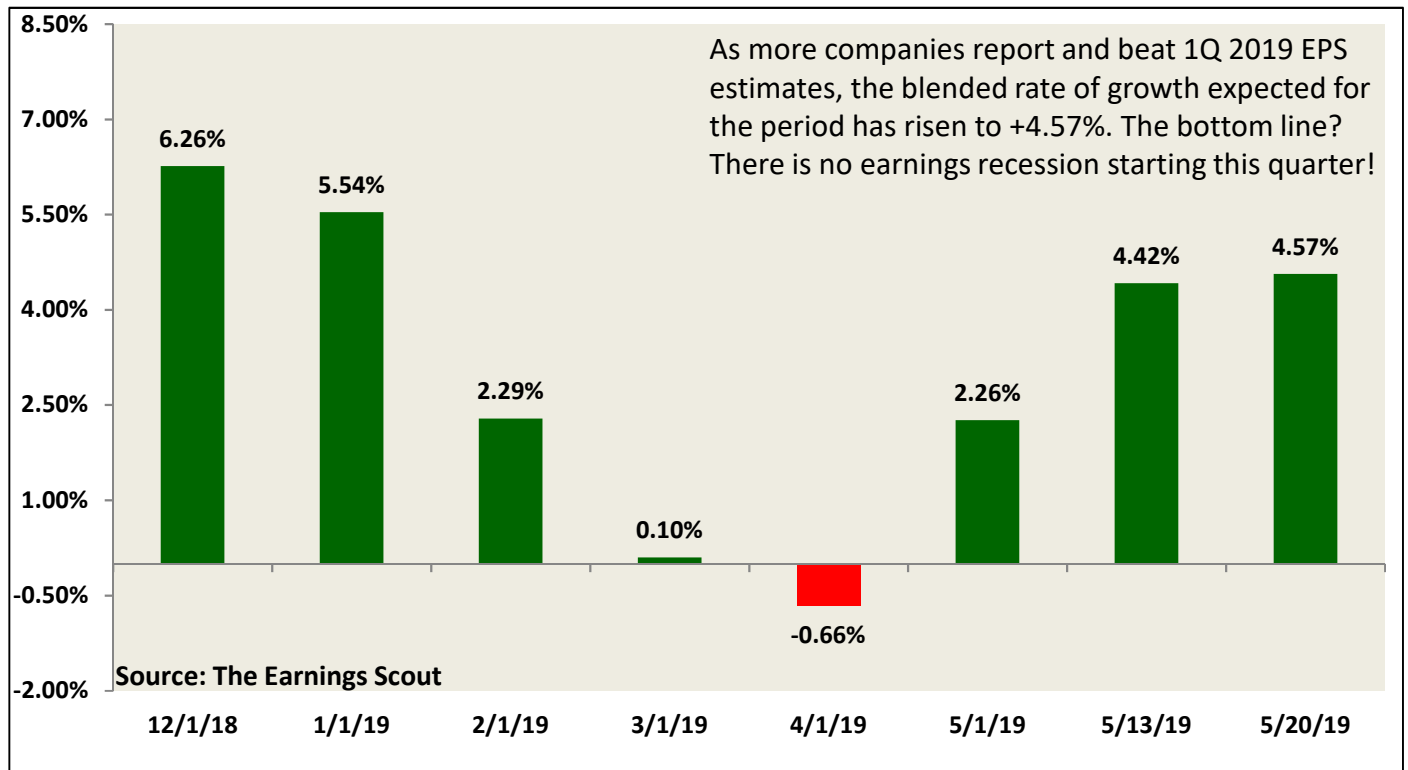


Here is how overall 1Q 2019 S&P 500 EPS growth expectations have changed by sector

Sector (1Q19)	1-Dec-18	1-Jan-19	1-Feb-19	1-Mar-19	1-Apr-19	1-May-19	13-May-19	20-May-19
Communication Services	5.95%	5.13%	3.86%	-2.00%	-1.55%	-0.26%	6.87%	8.31%
Consumer Discretionary	6.55%	6.43%	3.80%	1.96%	0.24%	4.29%	5.11%	5.28%
Consumer Staples	4.90%	4.54%	1.92%	-0.06%	-1.40%	-1.24%	0.35%	0.70%
Energy	51.78%	35.47%	-3.87%	-8.09%	-14.36%	-21.73%	-15.97%	-15.97%
Financials	4.55%	3.73%	0.93%	0.12%	-0.81%	2.87%	6.51%	6.51%
Health Care	7.33%	7.28%	6.26%	5.34%	4.25%	5.86%	9.84%	9.83%
Industrials	10.01%	10.36%	8.61%	7.53%	6.48%	9.65%	11.32%	11.27%
Information Technology	-2.24%	-3.50%	-7.69%	-11.14%	-10.86%	-10.24%	-7.37%	-6.91%
Materials	9.07%	8.90%	3.75%	-2.28%	-3.94%	-4.87%	-0.30%	-0.30%
Real Estate	6.03%	5.91%	5.39%	5.42%	5.44%	5.80%	5.19%	5.19%
Utilities	4.73%	5.24%	8.30%	6.74%	4.31%	5.10%	6.48%	6.48%
<b>S&amp;P 500</b>	<b>6.26%</b>	<b>5.54%</b>	<b>2.29%</b>	<b>0.10%</b>	<b>-0.66%</b>	<b>2.26%</b>	<b>4.42%</b>	<b>4.57%</b>

Source: The Earnings Scout

How 1Q 2019 S&P 500 EPS growth expectations have changed

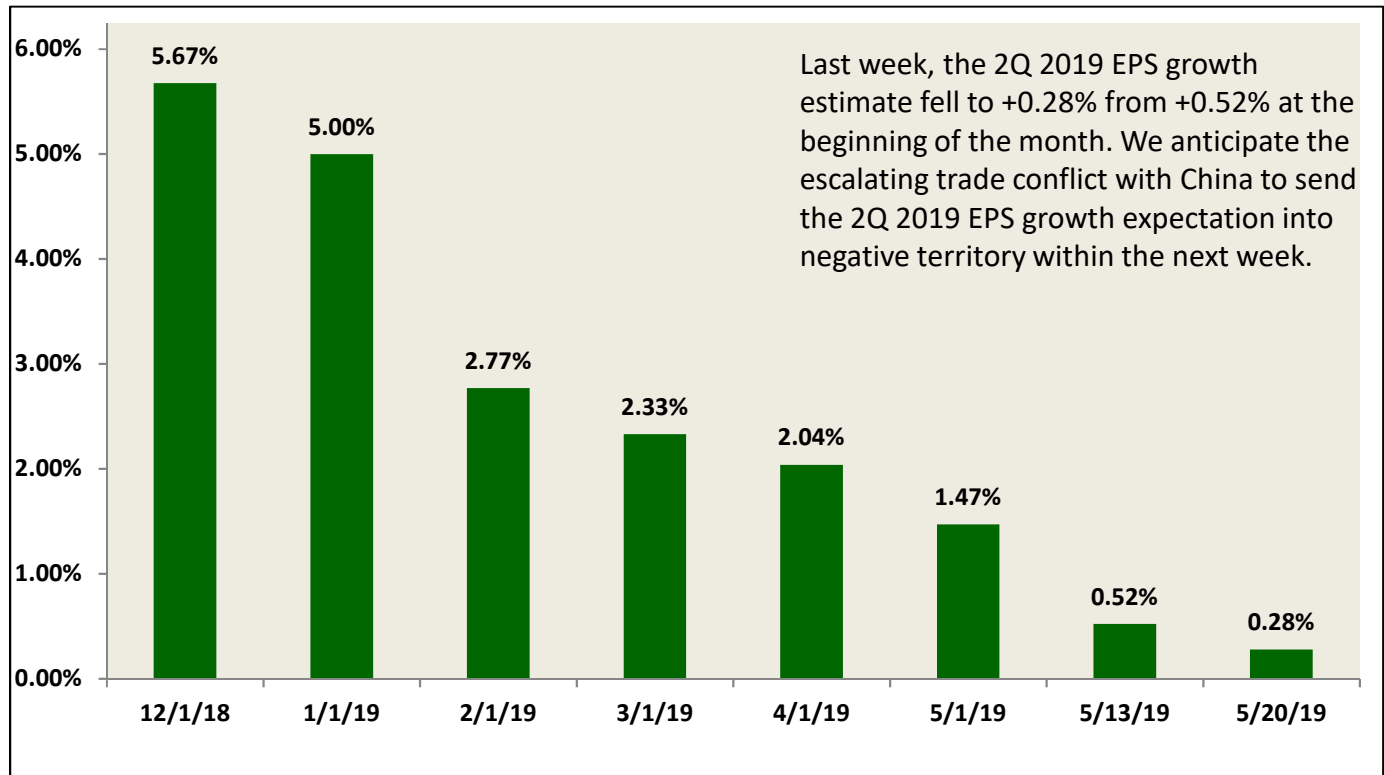


Here is how overall 2Q 2019 S&P 500 EPS growth expectations have changed by sector

Sector (2Q19)	1-Dec-18	1-Jan-19	1-Feb-19	1-Mar-19	1-Apr-19	1-May-19	13-May-19	20-May-19
Communication Services	4.51%	4.17%	2.86%	0.46%	0.91%	-0.30%	0.60%	-0.95%
Consumer Discretionary	8.47%	8.59%	7.58%	7.35%	7.11%	7.08%	5.29%	5.37%
Consumer Staples	5.29%	4.33%	3.33%	2.49%	1.68%	0.39%	-1.08%	-0.99%
Energy	25.97%	14.65%	-9.92%	-12.71%	-9.17%	-3.02%	3.26%	2.70%
Financials	11.07%	10.55%	8.00%	7.75%	7.75%	8.29%	7.18%	7.38%
Health Care	0.49%	0.89%	-0.39%	0.67%	0.49%	0.67%	0.09%	-0.71%
Industrials	10.16%	10.03%	9.43%	9.14%	8.36%	5.97%	3.81%	3.63%
Information Technology	-4.27%	-5.29%	-9.73%	-10.21%	-11.47%	-11.83%	-13.45%	-13.52%
Materials	4.16%	3.29%	1.70%	0.91%	1.00%	-0.84%	-4.09%	-4.45%
Real Estate	6.70%	6.46%	6.13%	5.94%	5.70%	5.41%	4.87%	4.65%
Utilities	-2.16%	-1.99%	2.74%	3.92%	2.83%	1.83%	2.01%	1.66%
<b>S&amp;P 500</b>	<b>5.67%</b>	<b>5.00%</b>	<b>2.77%</b>	<b>2.33%</b>	<b>2.04%</b>	<b>1.47%</b>	<b>0.52%</b>	<b>0.28%</b>

Source: The Earnings Scout

How 2Q 2019 S&P 500 EPS growth expectations have changed



**Blended Growth Rates**

**Actual & Estimated Quarterly S&P 500 Earnings Growth (as of May 20, 2019)**

<b>Sector</b>	<b>1Q18A</b>	<b>2Q18A</b>	<b>3Q18A</b>	<b>4Q18A</b>	<b>1Q19E</b>	<b>2Q19E</b>	<b>3Q19E</b>	<b>4Q19E</b>	<b>1Q20E</b>
Communication Services	22.47%	30.04%	44.12%	26.51%	8.31%	-0.95%	1.65%	7.38%	12.07%
Consumer Discretionary	24.06%	29.13%	20.06%	22.02%	5.28%	5.37%	10.97%	8.39%	15.17%
Consumer Staples	14.99%	12.50%	12.55%	5.26%	0.70%	-0.99%	1.05%	4.23%	6.92%
Energy	222.13%	204.28%	137.54%	88.16%	-15.97%	2.70%	-8.44%	-0.40%	100.44%
Financials	25.40%	23.44%	83.51%	-8.47%	6.51%	7.38%	1.59%	32.16%	6.43%
Health Care	20.19%	25.93%	16.91%	16.18%	9.83%	-0.71%	5.26%	8.09%	7.27%
Industrials	26.44%	26.78%	29.99%	26.53%	11.27%	3.63%	5.83%	7.92%	5.41%
Information Technology	34.91%	30.82%	21.09%	8.32%	-6.91%	-13.52%	-8.09%	0.32%	12.98%
Materials	30.41%	34.54%	27.47%	11.02%	-0.30%	-4.45%	3.76%	11.45%	10.58%
Real Estate	11.99%	5.01%	4.99%	7.28%	5.19%	4.65%	2.47%	5.49%	1.50%
Utilities	11.39%	7.86%	18.33%	-5.47%	6.48%	1.66%	2.09%	13.16%	4.08%
<b>S&amp;P 500</b>	<b>25.89%</b>	<b>27.10%</b>	<b>29.75%</b>	<b>13.54%</b>	<b>4.57%</b>	<b>0.28%</b>	<b>2.55%</b>	<b>9.28%</b>	<b>9.97%</b>

Source: The Earnings Scout

**Actual & Estimated Quarterly S&P 500 Earnings Growth**

