

Zacks Earning Trends

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Soft Start to Q1 Earnings Season

The Q1 earnings season has gotten off to a relatively soft start. But it appears that expectations had come down enough that investors are able to find some reassuring aspects to otherwise underwhelming reports. That said, it is still too early to pass any definitive judgement on this earnings season.

No major surprises from the Finance sector results thus far, which dominate the early going every reporting cycle. Low interest rates continue to weigh on the profitability of the banks' core lending operations. With the Fed widely expected to delay the start of interest-rate normalization process following the recent run of weak economic readings, net interest margin trends are not expected to improve in the near term.

On the positive side, the strong investment banking and trading revenues from J.P. Morgan (JPM) likely has relevance for the pure-play brokers and the steady gains in loans at both J.P. Morgan and Wells Fargo (WFC) will likely get replicated from the regional operators as well. Reserve releases are starting to fade, but energy-sector exposure is becoming an issue for many banks' loan portfolios.

The table below shows the Q1 earnings scorecard for the component (medium level) industries in the Finance sector. As you can see, the earnings season is quite further along for the Major Banks industry, with 69.4% of the industry's total market capitalization already reported Q1 results.

Finance Sector Industries	% Reported of Total		Earnings		Revenues	
	Companies	Market Cap	Growth Rate	Beat Ratio	Growth Rate	Beat Ratio
Banks-Major	33.3%	69.4%	31.2%	60.0%	0.1%	20.0%
Banks & Thrifts	0.0%	0.0%	NRPT	NRPT	NRPT	NRPT
Finance	0.0%	0.0%	NRPT	NRPT	NRPT	NRPT
Insurance	4.5%	1.8%	12.3%	100.0%	4.0%	0.0%
Invest Bkrs/Mgrs	8.3%	10.1%	-7.4%	0.0%	3.2%	0.0%
Real Estate	0.0%	0.0%	NRPT	NRPT	NRPT	NRPT
Finance Sector	8.4%	27.1%	29.9%	57.1%	0.4%	14.3%

Source: Zacks Investment Research, Inc.

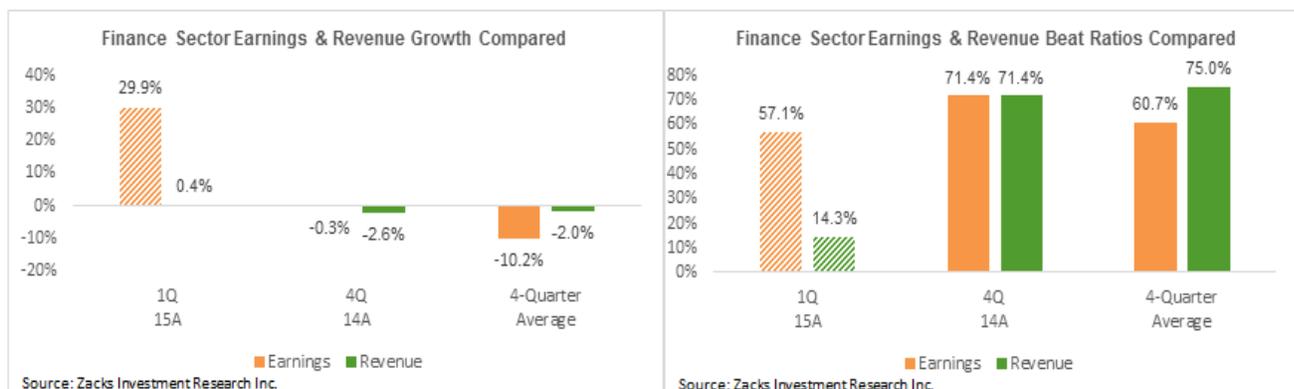
Data as of:

April 15, 2015

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As you can see, total earnings for the 27.1% of the Finance sector's market cap that has reported results are up +27.1% on +0.4% higher revenues, with 57.1% of the sector's companies beating EPS estimates and only 14.3% coming ahead of top-line expectations. As you can see in the comparison chart below, this is better growth

performance than we have seen from the same cohort of Finance sector companies in other recent quarters, though the beat ratios are notably on the weaker side.



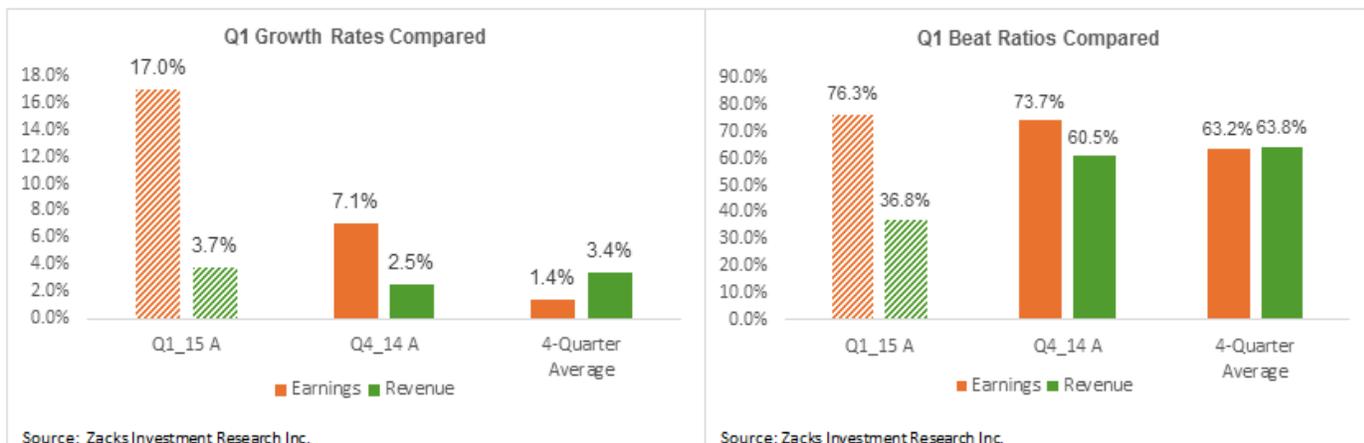
The strong reported growth for the Finance sector at this stage (+29.9%) is primarily due to easy comparisons at Bank of America (BAC). Exclude Bank of America from the results and the growth number drops in a big way.

Q1 Scorecard (as of April 15th, 2015)

Including this morning’s earnings reports, we now have Q1 results from 38 S&P 500 members that combined account for 12.5% of the index’s total market capitalization. Total earnings for these 38 companies are up +17% on +3.7% higher revenues, with 76.3% beating EPS estimates and 36.8% coming ahead of top-line expectations.

In terms of growth rates and beat ratios, this is better performance than we have seen from this same group of companies in other recent quarters. The sole exception is the revenue beat ratio, which is weaker than what we have been seeing in other recent periods.

The chart below compares the growth rates and beat ratios for these 38 companies with other recent quarters.



The composite (or blended) growth rate for the quarter, combining the actual results from these 38 companies with estimates for the still-to-come 462 index members is for earnings decline of -2.9% on -5.1% lower revenues.

As we have been discussing at length here in recent weeks, estimates for Q1 feel really hard as the quarter unfolded and something similar took place for Q2 estimates. With Q2 estimate currently at a decline of -5.4%, it will be interesting to see how much more they have to fall as companies provide updated guidance on the Q1 calls.

The revisions trend has been negative for more than two years now, with the trend gaining pace over the last few months under the combined effect of Energy sector weakness, dollar strength, and global growth worries. This earnings season will most likely further accelerate the revisions process.

Report in Detail

The 2015 Q1 earnings season has gotten underway, with results from 38 S&P 500 companies already out. Total earnings for these 38 companies are up +17% from the same period last year, with 76.3% beating expectations. Total revenues for these companies are up +3.7%, with a below-average 36.8% beating revenue expectations.

The table below provides a Scorecard for the 38 companies that have reported results, as of Wednesday April 15th, 2015.

Zacks Sectors	2015 Q1 SCORECARD							
	% Reported		Earnings			Revenues		
	Total Companies	Total Market Cap	Growth YoY	Beat Ratio	Median Surp. %	Growth YoY	Beat Ratio	Median Surp. %
Cons. Staples	12.1%	5.7%	8.1%	100.0%	9.5	-4.1%	50.0%	-0.1
Cons. Discretionary	5.7%	11.2%	38.3%	100.0%	64.1	4.1%	0.0%	-1.7
Retail/Wholesale	19.5%	13.7%	24.1%	87.5%	5.4	14.2%	37.5%	-0.4
Medical	1.9%	10.2%	-0.2%	100.0%	1.3	-4.1%	100.0%	0.4
Autos	0.0%	0.0%	NRPT	NRPT	NM	NRPT	NRPT	NM
Basic Materials	9.5%	13.8%	0.7%	50.0%	2.8	-2.4%	0.0%	-5.1
Industrial Products	4.0%	2.2%	18.7%	100.0%	7.6	-1.9%	0.0%	0.0
Construction	7.7%	7.4%	47.2%	100.0%	11.1	20.6%	100.0%	10.0
Conglomerates	0.0%	0.0%	NRPT	NRPT	NM	NRPT	NRPT	NM
Technology	11.1%	16.6%	0.2%	71.4%	2.5	1.0%	57.1%	0.0
Aerospace	0.0%	0.0%	NRPT	NRPT	NM	NRPT	NRPT	NM
Oil/Energy	0.0%	0.0%	NRPT	NRPT	0.0	NRPT	NRPT	0.0
Finance	8.4%	27.1%	29.9%	57.1%	2.3	0.4%	14.3%	0.0
Utilities	0.0%	0.0%	NRPT	NRPT	NM	NRPT	NRPT	NM
Transportation	25.0%	27.2%	31.9%	66.7%	2.3	3.9%	0.0%	-1.1
Business Services	8.7%	11.4%	3.1%	50.0%	0.5	5.3%	100.0%	1.2
S&P 500	7.6%	12.5%	17.0%	76.3%	4.3	3.7%	36.8%	-0.3
ex Finance	7.4%	9.7%	7.2%	80.6%	N/A	5.4%	41.9%	0.0

Source: Zacks Investment Research, Inc.

Data as of: April 15, 2015 www.zacks.com

Note: Here are few key points to keep in mind while reading this report.

- All the earnings analysis in this report pertains to the S&P 500 index, a handy proxy for the entire business world.
- We divide the corporate world into 16 sectors compared to the official S&P 10 GICS. We have stand-alone sectors like Autos, Construction, Conglomerates, Aerospace, Transportation and Business Services that provide for a better understanding of trends in these key areas of the economy.
- All references to 'earnings' mean 'total earnings' and not 'mean or median EPS'.

- d. *We make adjustments to reported GAAP earnings to account for non-recurring or one-time items, but we do consider employee stock options (ESOs) as a legitimate business expense. Unlike Zacks, Wall Street and all other data vendors don't treat ESO's as a recurring business expense.*

Overall expectations for the quarter remain fairly low, having fallen sharply over the last three months. The negative revisions trend has been in place for more than two years now, but the magnitude of negative revisions that Q1 suffered has been the highest that we have seen in recent quarters. Not only the growth rate for the quarter is very low, but the estimates for aggregate earnings for the quarter is also the lowest we have seen compared to other recent periods.

Expectations for Q1

Total earnings in Q1 are expected to be down -2.9% from the same period last year, on -5.1% lower revenues and modestly lower margins. Estimates have been steadily coming down as the quarter unfolded, with the current expected -2.9% decline down from +4.9% growth in mid-December 2014.

The table below provides a summary view of the expectations for 2015 Q1.

Zacks Sectors	Year-over-Year Growth					
	Earnings		Revenue		Margins	
	1Q 15E	4Q 14A	1Q 15E	4Q 14A	1Q 15E	4Q 14A
Cons. Staples	-5.6%	2.2%	-9.2%	-2.2%	0.38%	0.45%
Cons. Discretionary	-2.3%	7.8%	0.4%	4.4%	-0.26%	0.35%
Retail/Wholesale	5.6%	5.3%	5.2%	5.2%	0.02%	0.00%
Medical	10.6%	23.1%	9.1%	11.8%	0.14%	0.90%
Autos	32.4%	41.8%	-0.5%	-1.4%	1.13%	1.71%
Basic Materials	-10.3%	3.0%	-6.3%	-2.0%	-0.41%	0.41%
Industrial Products	-11.6%	2.8%	-5.9%	-2.4%	-0.50%	0.45%
Construction	10.4%	18.6%	6.8%	5.5%	0.15%	0.70%
Conglomerates	-1.5%	6.1%	0.9%	-1.1%	-0.24%	0.86%
Technology	1.5%	13.7%	3.1%	7.8%	-0.26%	1.04%
Aerospace	-7.3%	14.4%	3.2%	4.5%	-0.79%	0.65%
Oil/Energy	-64.1%	-17.5%	-40.7%	-13.6%	-3.22%	-0.33%
Finance	13.2%	-1.0%	-4.2%	-13.6%	2.54%	2.11%
Utilities	2.3%	11.6%	-4.2%	5.5%	0.65%	0.45%
Transportation	36.8%	28.5%	3.2%	9.3%	2.11%	1.40%
Business Services	8.4%	10.6%	1.0%	3.1%	1.00%	1.01%
S&P 500	-2.9%	6.7%	-5.1%	-0.1%	0.22%	0.66%
ex Finance	-6.7%	8.6%	-5.3%	1.8%	-0.14%	0.59%

Source: Zacks Investment Research, Inc.

Data as of: [April 15, 2015](#) www.zacks.com

The 2015 Q1 weakness is broad-based, with 7 of the 16 Zacks sectors expected to experience earnings decline from the year-earlier period. That said, Energy is the biggest drag on the aggregate earnings picture, with total earnings for the sector expected to be down -64.1% from the same period last year on -40.7% lower revenues. The growth picture improves a bit once the Energy drag is excluded from the aggregate numbers, with total earnings for the S&P 500 companies outside of the Energy sector expected to be up +5.3% on +0.7% higher revenues.

Of the major sectors with notably weak growth profiles include Basic Materials (total earnings down -10.3% year over year), Industrial Products (-11.6%), Consumer Staples (-5.6%) and Consumer Discretionary (-2.3%).

The Finance sector is big growth contributor in Q1, with total earnings for the sector expected to be up +13.2% from the same period last year, which compares to effectively flat growth for the sector in 2014 Q4. The Q1 growth is primarily a function of easy comparisons for Bank of America, which had a number of big charges in the year-

earlier period. Excluding Bank of America, the sector's growth picture is a lot less impressive.

We have something similar in play with the strong growth for the Medical sector, where Gilead Sciences is driving most of the growth. The Medical sectors expected Q1 earnings growth of +10.6% drops to +4.0% once Gilead and Actavis are excluded from the sector's growth picture.

For the Technology sector, total earnings are expected to be up +1.5% from the same period last year, with another strong quarter from Apple expected to carry the day for the sector. Excluding Apple, total earnings for the Tech sector would be actually down from the same period last year.

The Context for Growth Expectations

Let's take a look at how consensus earnings expectations for 2015 Q1 compare to what companies earned in the last few quarters and what they are expected to earn in the coming quarters.

Table 2 below presents the year over year earnings growth rates - expectations for Q1 and the following two quarters. It also shows consensus earnings growth expectations for 2014 and 2015. Table 3 presents the same data for revenues.

Table 2 – Earnings Growth Context

Zacks Sectors	Earnings Growth (YoY)									
	1Q 16E	4Q 15E	3Q 15E	2Q 15E	1Q 15E	4Q 14A	3Q 14A	Annual 2014A	Annual 2015E	Annual 2016E
Cons. Staples	10.3%	-2.5%	-3.7%	-4.2%	-5.6%	2.2%	4.1%	2.0%	-2.8%	8.8%
Cons. Discretionary	16.2%	8.0%	2.7%	-0.5%	-2.3%	7.8%	11.1%	4.1%	10.4%	15.8%
Retail/Wholesale	14.7%	-0.6%	12.1%	-1.1%	5.6%	5.3%	1.7%	1.7%	7.1%	12.9%
Medical	-15.7%	9.1%	9.3%	6.4%	10.6%	23.1%	15.1%	13.6%	9.5%	10.8%
Autos	28.2%	-1.0%	26.1%	19.7%	32.4%	41.8%	-21.6%	-6.1%	27.3%	13.9%
Basic Materials	13.8%	1.4%	-6.0%	-2.1%	-10.3%	3.0%	17.6%	1.7%	-0.5%	20.1%
Industrial Products	5.2%	-7.6%	-10.6%	-9.5%	-11.6%	2.8%	5.6%	-1.2%	-3.1%	8.8%
Construction	11.5%	10.1%	14.6%	12.1%	10.4%	18.6%	17.2%	9.6%	18.2%	17.6%
Conglomerates	12.3%	3.6%	15.8%	-1.0%	-1.5%	6.1%	6.9%	2.5%	5.4%	6.9%
Technology	10.9%	1.2%	4.6%	-0.5%	1.5%	13.7%	6.3%	4.6%	6.4%	11.4%
Aerospace	14.6%	1.6%	-1.4%	-5.6%	-7.3%	14.4%	9.1%	3.7%	1.0%	10.7%
Oil/Energy	35.4%	-42.3%	-58.2%	-65.7%	-64.1%	-17.5%	7.6%	-0.5%	-57.1%	40.4%
Finance	6.2%	17.2%	10.7%	3.0%	13.2%	-1.0%	3.9%	-0.4%	13.3%	10.2%
Utilities	-10.1%	6.7%	3.2%	3.4%	2.3%	11.6%	9.3%	14.1%	3.3%	4.3%
Transportation	4.5%	17.4%	27.5%	21.4%	36.8%	28.5%	26.0%	20.5%	30.1%	6.4%
Business Services	14.0%	13.9%	13.6%	10.9%	8.4%	10.6%	10.1%	13.4%	7.9%	13.0%
S&P 500	6.7%	2.2%	0.0%	-5.4%	-2.9%	6.7%	7.1%	4.2%	1.2%	12.1%
ex Finance	6.9%	-1.0%	-2.4%	-7.4%	-6.7%	8.6%	7.9%	5.3%	-1.6%	12.6%

Source: Zacks Investment Research, Inc.

Data as of: April 15, 2015

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Table 3 – Revenue Growth Context

Zacks Sectors	Revenue Growth (YoY)								
	4Q 15E	3Q 15E	2Q 15E	1Q 15E	4Q 14A	3Q 14A	Annual 2014E	Annual 2015E	Annual 2016E
Cons. Staples	-8.0%	-10.5%	-10.5%	-9.2%	-2.2%	-0.3%	-0.1%	-9.3%	2.8%
Cons. Discretionary	4.4%	4.1%	4.7%	0.4%	4.4%	5.3%	5.0%	4.3%	5.9%
Retail/Wholesale	-0.4%	7.7%	4.7%	5.2%	5.2%	5.8%	4.7%	6.5%	6.4%
Medical	6.3%	7.0%	6.8%	9.1%	11.8%	12.1%	10.6%	7.0%	6.3%
Autos	0.2%	-0.3%	-0.1%	-0.5%	-1.4%	0.9%	1.0%	0.3%	3.5%
Basic Materials	-4.2%	-3.6%	-5.1%	-6.3%	-2.0%	2.6%	0.8%	-3.0%	6.2%
Industrial Products	-1.2%	-5.3%	-5.4%	-5.9%	-2.4%	-0.2%	-0.4%	-5.5%	2.1%
Construction	6.3%	9.9%	9.5%	6.8%	5.5%	4.5%	2.3%	8.4%	6.4%
Conglomerates	10.5%	4.1%	0.4%	0.9%	-1.1%	-0.3%	2.9%	-2.4%	1.1%
Technology	8.3%	7.7%	7.9%	3.1%	7.8%	7.6%	5.2%	4.7%	5.0%
Aerospace	-0.8%	0.6%	1.9%	3.2%	4.5%	2.5%	1.7%	1.2%	1.7%
Oil/Energy	-23.8%	-34.5%	-41.4%	-40.7%	-13.6%	-2.6%	-3.3%	-34.0%	19.0%
Finance	15.8%	-1.5%	-3.5%	-4.2%	-13.6%	4.8%	1.5%	-20.9%	5.2%
Utilities	-1.0%	3.5%	-0.4%	-4.2%	5.5%	4.0%	5.4%	0.2%	2.0%
Transportation	4.3%	4.2%	3.2%	3.2%	9.3%	12.5%	11.0%	3.3%	5.4%
Business Services	3.0%	0.6%	-1.1%	1.0%	3.1%	5.6%	4.6%	1.0%	5.6%
S&P 500	0.5%	-2.5%	-4.8%	-5.1%	-0.1%	4.2%	3.2%	-5.6%	6.2%
ex Finance	-1.4%	-2.6%	-5.0%	-5.3%	1.8%	4.1%	3.4%	-3.2%	6.4%

Source: Zacks Investment Research, Inc.

Data as of: April 15, 2015 www.zacks.com

The next two tables present the same data in a different format – instead of year-over-year growth rates, we have the dollar level of total earnings and revenues for each of these quarters.

Table 4 – Total Quarterly earnings

Zacks Sectors	Quarterly Earnings (billion dollars)								
	1Q 16E	4Q 15E	3Q 15E	2Q 15E	1Q 15E	4Q 14A	3Q 14A	2Q 14A	1Q 14A
Cons. Staples	17.2	18.6	18.8	18.4	15.6	19.0	19.6	19.2	16.5
Cons. Discretionary	12.0	14.1	14.4	12.9	10.4	13.0	14.0	12.9	10.6
Retail/Wholesale	22.4	19.4	20.4	17.4	19.6	19.5	18.2	17.6	18.5
Medical	29.4	38.5	38.1	37.4	34.9	35.3	34.8	35.2	31.6
Autos	6.2	6.2	6.6	6.5	4.9	6.3	5.3	5.4	3.7
Basic Materials	8.8	7.2	6.8	8.3	7.7	7.1	7.2	8.4	8.6
Industrial Products	5.6	5.9	6.8	6.6	5.3	6.4	7.6	7.3	6.0
Construction	1.3	1.9	2.3	1.9	1.1	1.8	2.0	1.7	1.0
Conglomerates	8.3	10.8	9.9	8.6	7.4	10.4	8.6	8.7	7.5
Technology	50.5	61.9	47.9	47.3	45.5	61.2	45.8	47.5	44.8
Aerospace	4.7	5.1	4.6	4.5	4.1	5.1	4.7	4.8	4.4
Oil/Energy	15.0	13.6	13.0	10.9	11.1	23.6	31.0	31.8	30.9
Finance	59.7	59.7	58.3	57.3	56.2	50.9	52.7	55.6	49.7
Utilities	14.6	13.7	18.3	14.8	16.2	12.9	17.7	14.3	15.8
Transportation	6.1	7.9	9.4	9.1	5.9	6.8	7.3	7.5	4.3
Business Services	7.7	8.3	7.7	7.4	6.8	7.2	6.8	6.7	6.3
S&P 500	269.6	292.9	283.3	269.2	252.6	286.6	283.3	284.5	260.2
ex Finance	209.8	233.3	225.0	211.9	196.3	235.7	230.6	228.9	210.5

Source: Zacks Investment Research, Inc.

Data as of: April 15, 2015

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Table 5 – Total Quarterly Revenues

Zacks Sectors	Quarterly Revenues (billion dollars)								
	1Q 16E	4Q 15E	3Q 15E	2Q 15E	1Q 15E	4Q 14A	3Q 14A	2Q 14A	1Q 14A
Cons. Staples	156.2	171.2	163.9	165.4	154.4	186.2	183.0	184.9	170.0
Cons. Discretionary	114.5	121.9	118.6	113.8	109.8	116.7	113.9	108.7	109.4
Retail/Wholesale	470.7	446.4	445.0	425.7	417.6	448.4	413.4	406.8	396.8
Medical	338.6	381.7	369.4	365.3	348.4	359.0	345.4	342.2	319.5
Autos	111.8	112.0	110.7	114.2	107.7	111.7	111.0	114.3	108.3
Basic Materials	87.4	80.3	83.2	87.1	83.0	83.9	86.3	91.7	88.6
Industrial Products	66.7	70.7	72.3	73.3	68.6	71.5	76.4	77.4	72.9
Construction	25.8	29.1	30.8	28.5	24.9	27.4	28.0	26.0	23.3
Conglomerates	69.5	91.1	81.3	80.1	74.6	82.4	78.1	79.8	73.9
Technology	286.0	330.6	285.4	280.8	265.3	305.2	264.9	260.4	257.3
Aerospace	56.5	66.0	62.6	61.9	59.1	66.6	62.3	60.7	57.2
Oil/Energy	292.2	254.6	253.0	233.0	225.6	334.0	386.1	397.6	380.2
Finance	292.9	354.9	355.6	350.9	340.5	306.5	361.1	363.7	355.4
Utilities	156.6	157.0	165.2	149.0	156.3	158.6	159.5	149.6	163.1
Transportation	72.4	75.0	76.1	75.1	68.4	71.9	73.1	72.8	66.3
Business Services	43.8	50.2	47.8	47.3	46.0	48.7	47.5	47.8	45.5
S&P 500	2641.6	2792.7	2720.9	2651.3	2550.2	2778.7	2789.9	2784.5	2687.8
ex Finance	2348.8	2437.8	2365.3	2300.4	2209.7	2472.2	2428.8	2420.8	2332.3

Source: Zacks Investment Research, Inc.
Data as of: April 15, 2015 www.zacks.com

It may be obvious, but it's still useful to explain what we mean by total earnings.

This means the sum total of aggregate earnings for all the companies in the S&P 500. For historical periods through 2014 Q4 (the 'E' for the Q4 column is solely because we still have one report to come), we have taken the total earnings (not EPS) for each company in the S&P 500 and added them up to arrive at the sector and index level totals (we do adjust reported GAAP earnings for non-recurring items, but consider employee stock options as a legitimate business expense).

For the coming quarters, including Q1, we have taken the Zacks Consensus EPS for each company in the index, multiplied that by the corresponding share count (from the last reported quarter) to arrive at the total earnings for each company. And then we aggregated them to arrive at the totals for each sector and the index as a whole. The lack of accuracy in real-time share count notwithstanding, this gives us a fairly accurate view of the total earnings picture.

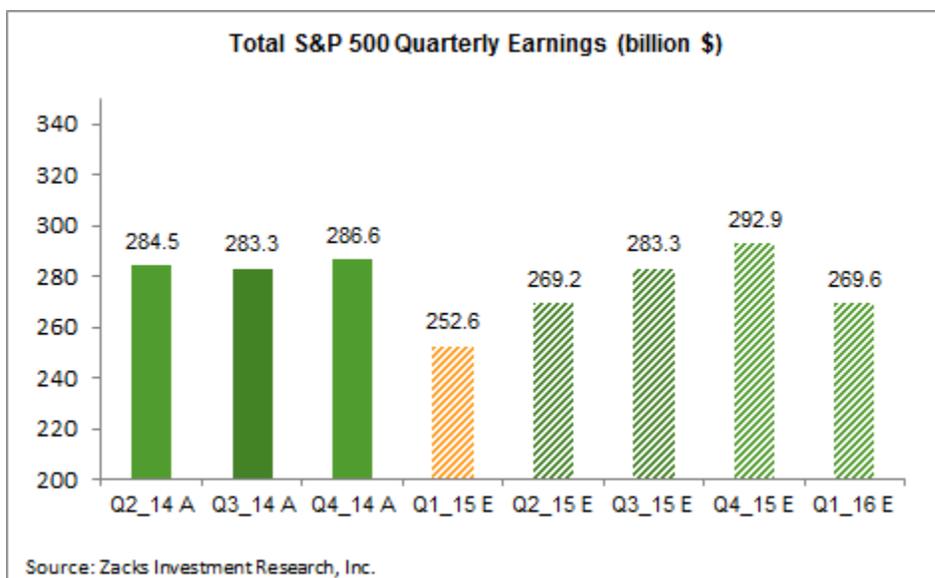
In plain language, what Table 4 tells us is that companies in the S&P 500 are expected to earn \$252.6 billion in 2015 Q1 vs. \$286.6 billion in 2014 Q4 and \$260.2 billion in 2014 Q1.

The overall level of total earnings has been very high in recent quarters. In fact, the 2014 Q4 tally was a new all-time quarterly record, surpassing the records reached in each of the preceding two quarters.

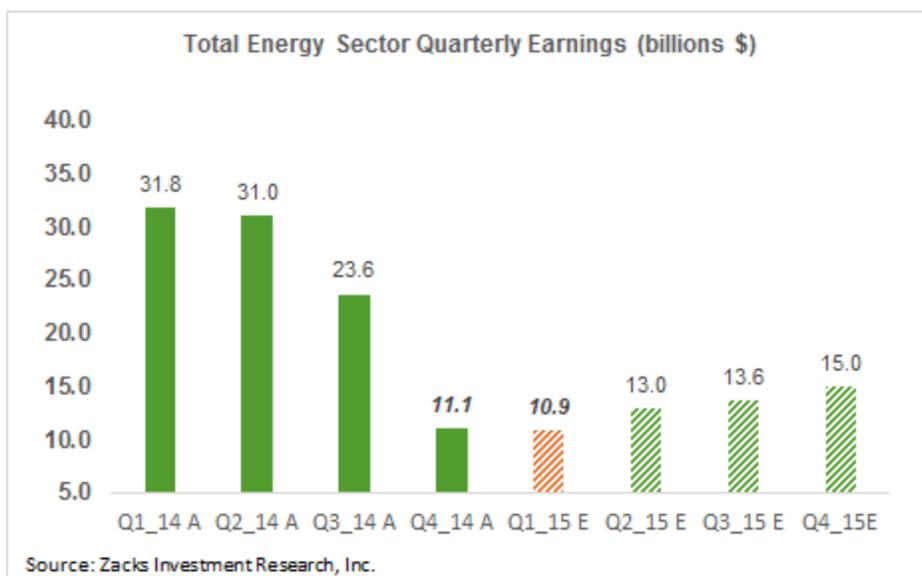
Will Q1 be the Low Point for Aggregate Earnings?

As referred to earlier, not only is the growth rate for Q1 very low, but the quarter is also expected to bring in the lowest tally of aggregate earnings in two years. This will end the run of record aggregate earnings in recent quarters, with each of the preceding three quarters bringing in all-time record earnings for the S&P 500 index.

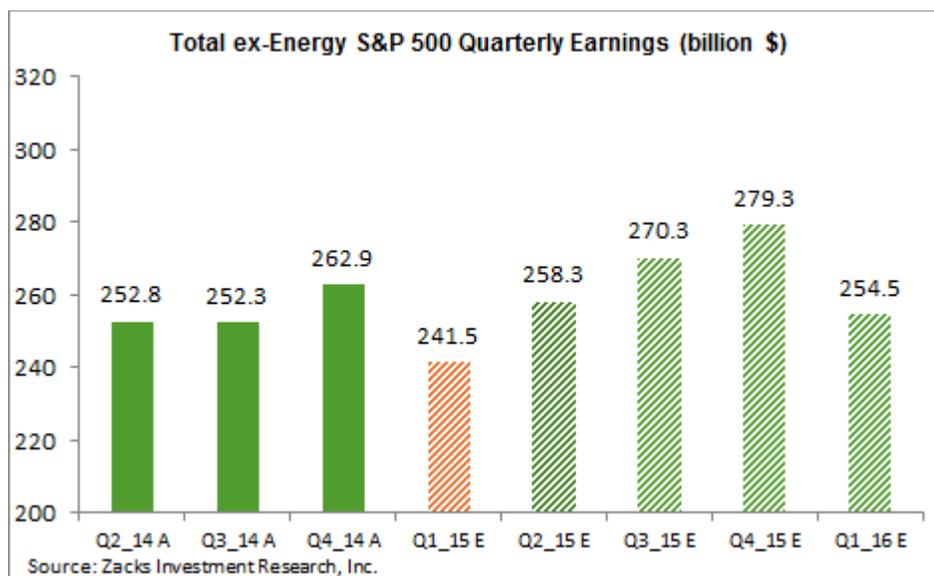
The chart below graphically shows what was presented in table 4 earlier



We know that a big part of the drag in Q1 is from the Energy sector. The chart below shows how the Energy sector's fortunes have changed in recent months. The sector earned \$23.6 billion in 2014 Q4, but is expected to earn less than half of that in Q1.



The chart below shows the aggregate earnings totals for the S&P 500 on an ex-Energy basis. As you can see, aggregate Q1 earnings outside of the Energy sector will also be the lowest since 2014 Q1.



The Margins Picture

Net margins (total earnings/total revenues) are expected to be down in 2015 Q1, both year over year as well as sequentially. The table below shows net margin expectations for Q1 in the context of where they have been and where they are expected to go in the coming quarters.

Table 6: Quarterly Net Margins

Zacks Sectors	Quarterly Margins							
	4Q 15E	3Q 15E	2Q 15E	1Q 15E	4Q 14A	3Q 14A	2Q 14A	1Q 14A
Cons. Staples	10.8%	11.5%	11.1%	10.1%	10.2%	10.7%	10.4%	9.7%
Cons. Discretionary	11.5%	12.2%	11.3%	9.4%	11.2%	12.3%	11.9%	9.7%
Retail/Wholesale	4.3%	4.6%	4.1%	4.7%	4.3%	4.4%	4.3%	4.7%
Medical	10.1%	10.3%	10.2%	10.0%	9.8%	10.1%	10.3%	9.9%
Autos	5.6%	6.0%	5.7%	4.5%	5.6%	4.7%	4.8%	3.4%
Basic Materials	9.0%	8.2%	9.5%	9.3%	8.5%	8.4%	9.2%	9.7%
Industrial Products	8.4%	9.4%	9.0%	7.7%	8.9%	9.9%	9.5%	8.2%
Construction	6.6%	7.4%	6.7%	4.6%	6.4%	7.1%	6.5%	4.5%
Conglomerates	11.8%	12.2%	10.8%	9.9%	12.6%	11.0%	10.9%	10.1%
Technology	18.7%	16.8%	16.8%	17.2%	20.1%	17.3%	18.2%	17.4%
Aerospace	7.8%	7.4%	7.3%	6.9%	7.6%	7.6%	7.9%	7.7%
Oil/Energy	5.4%	5.1%	4.7%	4.9%	7.1%	8.0%	8.0%	8.1%
Finance	16.8%	16.4%	16.3%	16.5%	16.6%	14.6%	15.3%	14.0%
Utilities	8.7%	11.1%	9.9%	10.4%	8.1%	11.1%	9.5%	9.7%
Transportation	10.6%	12.3%	12.1%	8.6%	9.4%	10.0%	10.3%	6.5%
Business Services	16.5%	16.1%	15.7%	14.8%	14.9%	14.3%	14.0%	13.8%
S&P 500	10.5%	10.4%	10.2%	9.9%	10.3%	10.2%	10.2%	9.7%
ex Finance	9.6%	9.5%	9.2%	8.9%	9.5%	9.5%	9.5%	9.0%

Source: Zacks Investment Research, Inc.

Data as of: 4/15/15 10:08 AM www.zacks.com

The table 7 below shows net margins on a trailing four-quarter basis. So, the 10.2% net margin for 2015 Q1 reflects estimates for Q1 and actuals for the preceding three quarters, and so on.

Zacks Sectors	Net Margins - Trailing 4 Quarters									
	1Q 16E	4Q 15E	3Q 15E	2Q 15E	1Q 15E	4Q 14A	3Q 14A	2Q 14A	1Q 14A	4Q 13A
Cons. Staples	11.1%	10.9%	10.7%	10.5%	10.3%	10.3%	10.1%	10.0%	9.9%	9.8%
Cons. Discretionary	11.4%	11.1%	11.0%	11.1%	11.2%	11.3%	11.2%	11.0%	10.8%	10.6%
Retail/Wholesale	4.5%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.5%	4.5%	4.6%
Medical	9.9%	10.2%	10.1%	10.0%	10.1%	10.0%	9.8%	9.7%	9.6%	9.7%
Autos	5.7%	5.5%	5.5%	5.2%	4.9%	4.6%	4.2%	4.5%	4.7%	4.9%
Basic Materials	9.2%	9.0%	8.9%	8.9%	8.8%	9.0%	8.8%	8.6%	8.5%	8.6%
Industrial Products	8.8%	8.6%	8.8%	8.9%	9.0%	9.1%	9.0%	8.9%	8.8%	8.6%
Construction	6.5%	6.4%	6.4%	6.2%	6.2%	6.2%	6.0%	5.8%	5.6%	5.4%
Conglomerates	11.7%	11.2%	11.4%	11.1%	11.1%	11.2%	11.0%	10.8%	10.7%	10.9%
Technology	17.5%	17.4%	17.8%	17.9%	18.3%	18.3%	18.0%	18.1%	17.8%	17.8%
Aerospace	7.7%	7.4%	7.3%	7.4%	7.5%	7.7%	7.5%	7.4%	7.2%	7.1%
Oil/Energy	5.1%	5.0%	5.6%	6.5%	7.3%	7.8%	7.9%	7.7%	7.5%	7.6%
Finance	17.4%	16.5%	16.5%	16.0%	15.7%	15.1%	14.6%	14.6%	14.7%	14.9%
Utilities	9.8%	10.0%	9.9%	9.9%	9.8%	9.6%	9.5%	9.4%	9.2%	9.0%
Transportation	10.9%	10.9%	10.7%	10.1%	9.6%	9.1%	8.8%	8.5%	8.0%	7.8%
Business Services	16.4%	15.8%	15.4%	14.9%	14.5%	14.2%	14.0%	13.8%	13.7%	13.6%
S&P 500	10.3%	10.2%	10.2%	10.1%	10.2%	10.1%	9.9%	9.9%	9.8%	9.8%
ex Finance	9.3%	9.3%	9.3%	9.3%	9.4%	9.4%	9.2%	9.1%	9.0%	9.0%

Source: Zacks Investment Research, Inc.
Data as of: 4/15/2015 www.zacks.com

Margins follow a cyclical pattern. They expand as the economy comes out of a recession and companies use existing resources in labor and capital to drive business. But eventually capacity constraints kick in, forcing companies to spend more for incremental business. At that stage, margins start to contract again.

We may not be at the contraction stage yet, but we do need to buy into fairly optimistic assumptions about productivity improvements for current consensus margin expansion expectations to pan out.

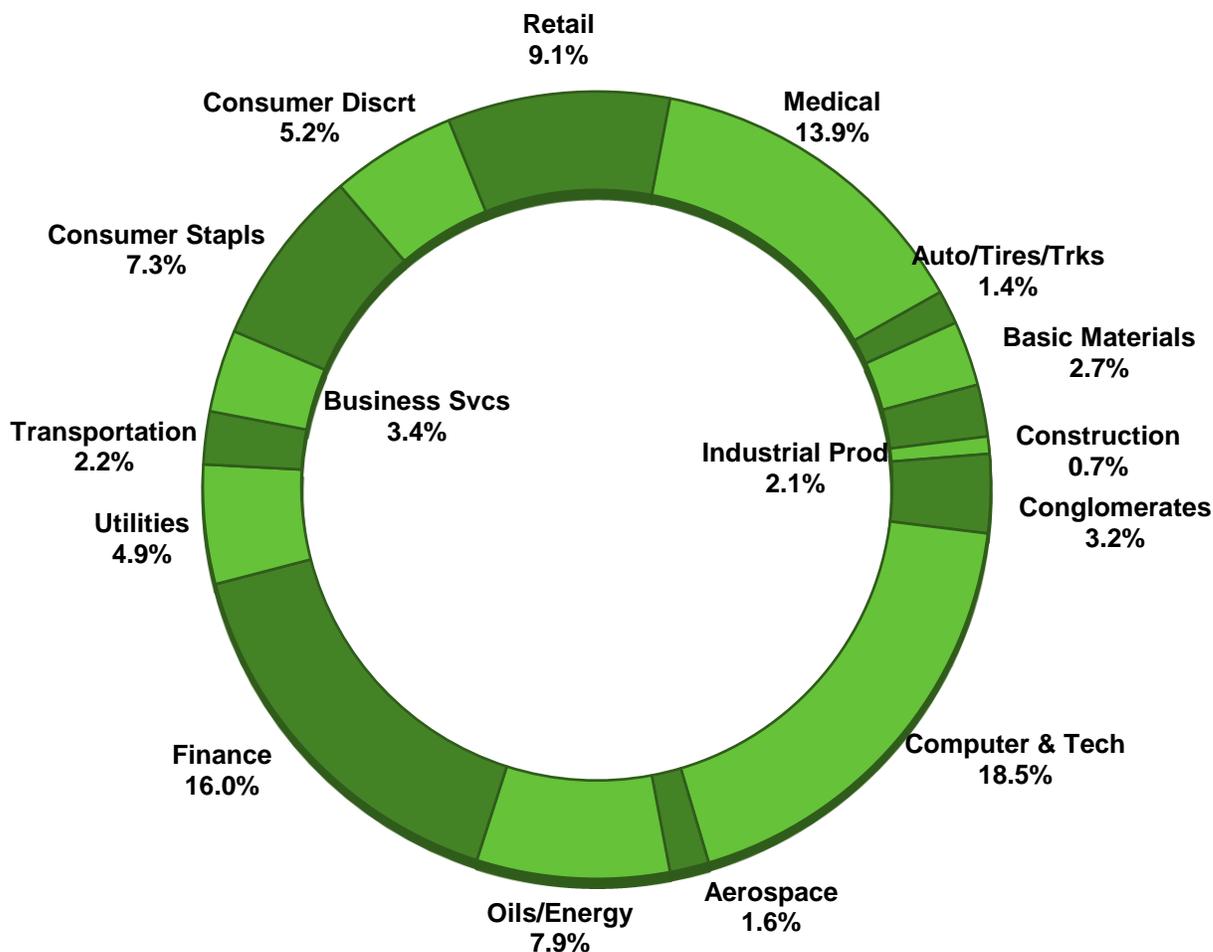
Market Cap vs. Total Earnings

The charts below show the share of total earnings for 2014 as well as the share of total market capitalization for each of the 16 Zacks sectors. Since the S&P 500 is a market-cap weighted index, each sector's market cap share is also its index weight.

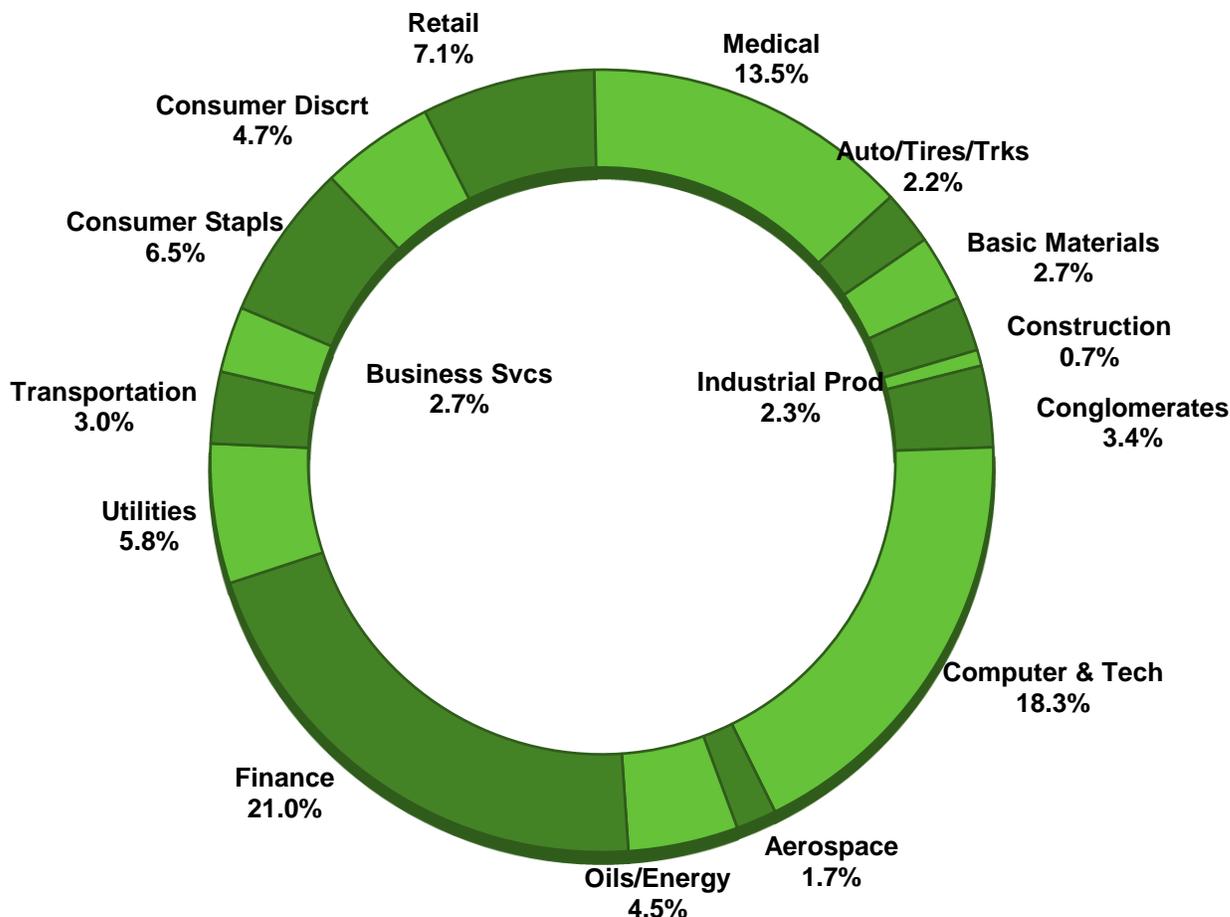
Finance has regained its leadership position in the index in terms of earnings contribution, though it still remains significantly below its record 27% share of the index earnings in 2007. The sector lost its leadership position to Technology in the wake of the global financial crisis, but got it back in 2013 and remains on track to retain the position this year and next.

The Finance sector is an even bigger contributor to the S&P 600 index, expected to bring in 26.5% of the small-cap index's total earnings in 2014. And unlike the S&P 500 where the Technology sector has the larger market cap, Finance is the biggest market cap contributor to the S&P 600 index.

% Share of Mkt Cap



Share of 2014 Income



Want more information about this report or about Zacks Investment Research?

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