

Zacks Earning Trends

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Are Weak Earnings Here to Stay?

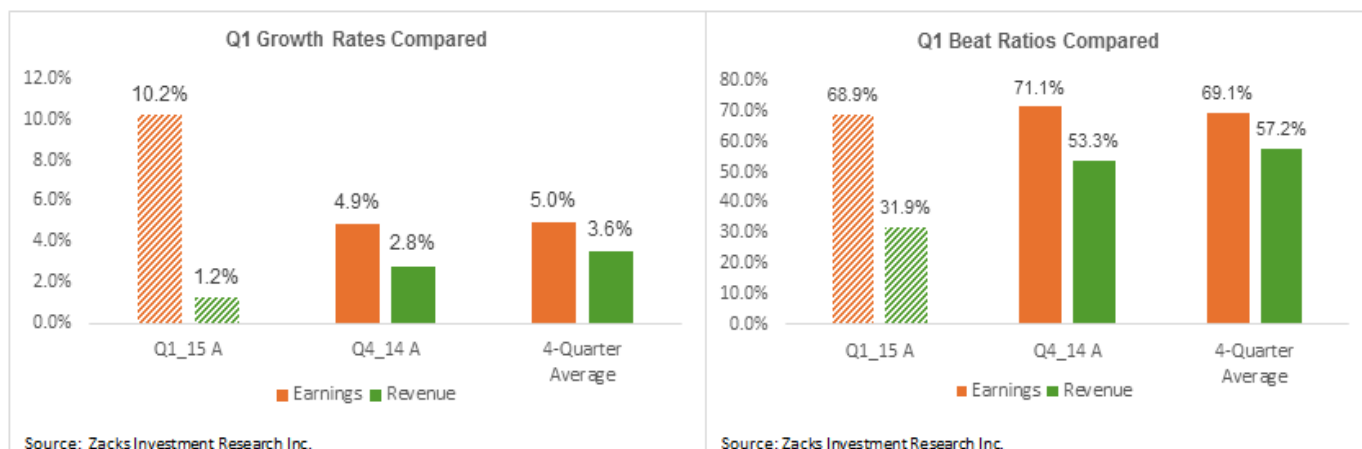
With results from more than one-third of the S&P 500 index's total market capitalization already on the books, we have a representative enough sample in hand to evaluate the Q1 earnings season. The actual numbers will evolve over the coming days as more companies report results, but the overall theme emerging from the results thus far will likely carry through to the end.

This common theme pertains to broad-based top-line weakness. Not only are revenue growth rates very low, but an unusually large proportion of companies are missing consensus revenue estimates. We knew that growth rates would be challenged this earnings season following the unusually sharp cuts to estimates ahead of the reporting cycle, but the very low revenue beat ratios are nevertheless a standout element of this earnings season.

Q1 Scorecard (as of April 22nd, 2015)

We now have Q1 results from 135 S&P 500 members that combined account for 35.2% of the index's total market capitalization. Total earnings for these 135 companies are up +10.2% on +1.2% higher revenues, with 68.9% beating EPS estimates and only 31.9% coming ahead of top-line expectations. This is weak performance compared to what we have seen from the same group of 135 S&P 500 members in other recent periods.

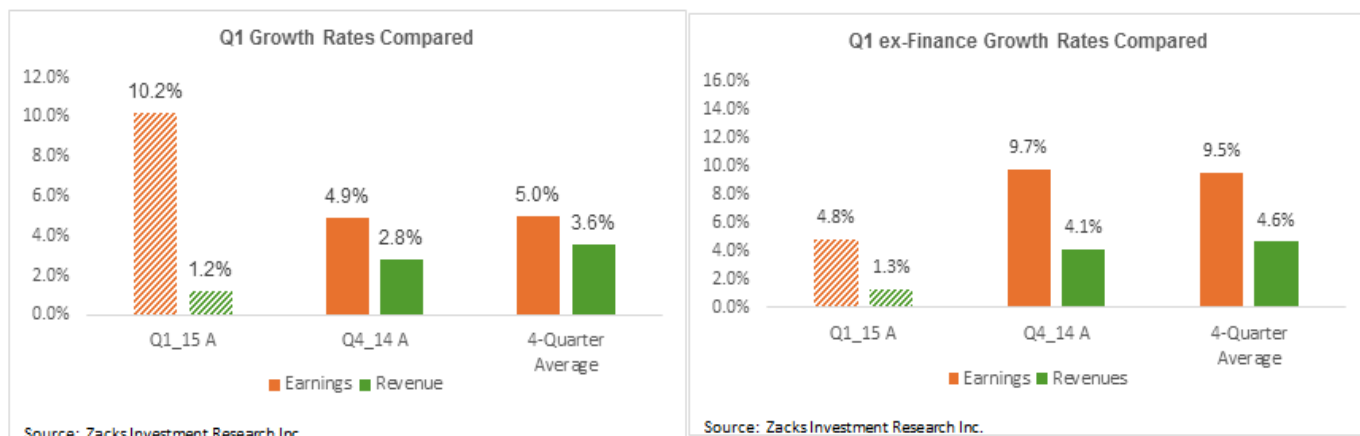
The two side-by-side charts below give a historical context to the results thus far – by comparing the Q1 earnings & revenue growth rates (left-hand side chart) and earnings & revenue beat ratios (right-hand side chart) with what these same companies achieved in the preceding quarter as well as the 4-quarter average.



Three things stand out as we look at the results thus far

First, the revenue weakness is very notable. We knew that growth will be problematic in Q1, so the weak revenue growth rate of +1.2% compared to other recent periods isn't that surprising. But the very low proportion of companies beating revenue estimates is surprising and likely indicative that the growth backdrop has been even weaker than what was reflected in consensus estimates.

Second, the earnings growth rate (+10.2%) compares favorably to what we saw from the same group of companies in 2014 Q4 and the 4-quarter average. But the favorable growth rate comparison is solely due to the Finance sector. Exclude Finance from the result and the growth comparison shifts in the other direction, as the right hand-side chart below shows.

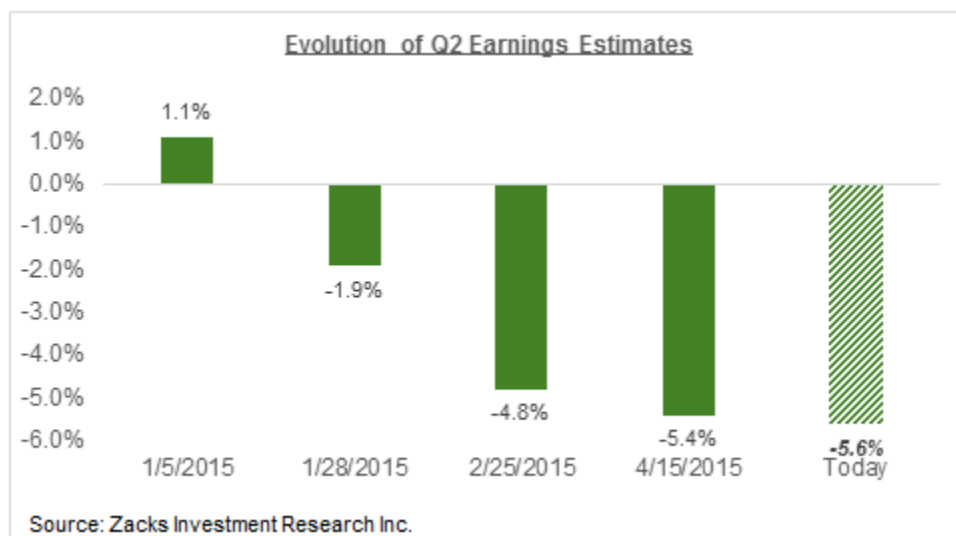


The Finance sector has been a big growth contributor this earnings season, with total earnings for the sector up +21.3% on +1% higher revenues, with 53.1% of the sector companies beating EPS estimates and 40.6% beating revenue expectations.

The roughly \$3.6 billion year over year positive swing in Bank of America's (BAC) total earnings is a big contributor to the sector's strong growth numbers. But it will be unfair to credit Bank of America for all of Finance's growth thus far. Others like J.P. Morgan (JPM), Goldman Sachs (GS) and Citigroup (C) showed genuine earnings growth on the back of improved capital markets businesses even though the interest rate backdrop continues to be challenging. The regional banks have been unable to show the same growth momentum that we saw from the bulge-bracket firms.

Third, as has been the norm in recent quarters, management teams continue to guide lower for the current and following quarters. As a result, estimates for the current quarter, which had fallen quite a bit already in solidarity with the Q1 estimate cuts, have

started coming down even more. The chart below shows how earnings growth estimates for Q2 have evolved since the beginning of the year.



The dollar issue has added to the Energy sector's woes and some concerns about the U.S. economic picture in bringing down this year's estimates. Current consensus estimates show earnings growth for the S&P 500 to be in the negative for the first three quarters of the year, with the growth rate for the full-year now modestly in the negative. The expectation is that the growth picture starts improving in the last quarter of the year, with the growth pace ramping up to double-digit rates in 2016.

Report in Detail

We are in the thick of the 2015 Q1 earnings season, with results from 135 S&P 500 companies already out. Total earnings for these 135 companies are up +10.2% from the same period last year, with 68.9% beating expectations. Total revenues for these companies are up +1.2%, with a below-average 31.9% beating revenue expectations.

The table below provides a Scorecard for the 135 companies that have reported results, as of Wednesday April 22nd, 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	30.3%	34.6%	3.5%	100.0%	9.1	-2.1%	60.0%	0.6
Cons. Discretionary	17.1%	16.3%	33.4%	83.3%	27.0	3.7%	50.0%	-0.2
Retail/Wholesale	39.0%	29.7%	11.1%	93.8%	7.5	11.1%	25.0%	0.0
Medical	17.3%	27.0%	10.8%	88.9%	2.2	5.3%	33.3%	0.0
Autos	30.0%	18.0%	16.1%	66.7%	2.4	8.6%	0.0%	-3.1
Basic Materials	23.8%	32.3%	-4.5%	60.0%	1.5	-3.4%	20.0%	-3.0
Industrial Products	20.0%	20.0%	-4.1%	40.0%	0.0	-5.7%	0.0%	-1.9
Construction	30.8%	40.9%	26.2%	75.0%	6.8	18.2%	50.0%	0.2
Conglomerates	50.0%	72.4%	-0.3%	100.0%	3.3	-9.4%	0.0%	-3.7
Technology	34.9%	38.7%	0.6%	50.0%	1.6	-1.1%	31.8%	0.0
Aerospace	22.2%	53.2%	1.5%	100.0%	9.7	3.7%	0.0%	-0.5
Oil/Energy	12.2%	18.3%	-15.9%	80.0%	0.0	-10.0%	20.0%	0.0
Finance	38.6%	53.4%	21.3%	53.1%	1.4	1.0%	40.6%	0.0
Utilities	5.7%	38.6%	13.6%	50.0%	3.7	2.0%	0.0%	-0.5
Transportation	41.7%	31.3%	28.1%	60.0%	2.3	3.4%	0.0%	-0.5
Business Services	26.1%	21.4%	6.0%	66.7%	1.1	5.4%	50.0%	0.2
S&P 500	26.9%	35.2%	10.2%	68.9%	3.4	1.2%	31.9%	-0.4
ex Finance	24.6%	31.8%	4.8%	73.8%	N/A	1.3%	29.1%	0.0

Source: Zacks Investment Research, Inc.

Data as of: April 22, 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 in the run up to the start of the reporting season. The negative revisions trend has been in place for more than two years now, but the magnitude of negative revisions that Q1 suffered was 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.

Composite Expectations for Q1

Combining the actual results from the 135 S&P 500 members with estimates for the remaining 365 index members, total earnings in Q1 are expected to be down -1.3% from the same period last year, on -5.3% lower revenues and modestly higher margins.

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	-2.5%	2.2%	-2.4%	-2.2%	-0.01%	0.45%
Cons. Discretionary	-1.9%	7.8%	0.4%	4.4%	-0.22%	0.35%
Retail/Wholesale	6.9%	5.3%	5.3%	5.2%	0.07%	0.00%
Medical	12.4%	23.1%	9.4%	11.8%	0.27%	0.90%
Autos	32.6%	41.8%	-0.4%	-1.4%	1.13%	1.71%
Basic Materials	-9.9%	3.0%	-6.7%	-2.0%	-0.33%	0.41%
Industrial Products	-12.2%	2.8%	-6.4%	-2.4%	-0.51%	0.45%
Construction	12.0%	18.6%	7.2%	5.5%	0.20%	0.70%
Conglomerates	1.5%	6.1%	-7.1%	-1.1%	0.93%	0.86%
Technology	2.0%	13.7%	2.8%	7.8%	-0.15%	1.04%
Aerospace	-2.9%	14.4%	1.8%	4.5%	-0.36%	0.65%
Oil/Energy	-65.4%	-17.5%	-45.6%	-13.6%	-2.96%	-0.33%
Finance	17.8%	-1.0%	-2.0%	-13.6%	2.83%	2.11%
Utilities	4.0%	11.6%	-4.3%	5.5%	0.84%	0.45%
Transportation	37.2%	28.5%	3.0%	9.3%	2.15%	1.40%
Business Services	8.7%	10.6%	1.1%	3.1%	1.03%	1.01%
S&P 500	-1.3%	6.7%	-5.3%	-0.1%	0.41%	0.66%
ex Finance	-5.8%	8.6%	-5.9%	1.8%	0.00%	0.59%

Source: Zacks Investment Research, Inc.
Data as of: April 22, 2015 www.zacks.com

The 2015 Q1 weakness is broad-based, with 6 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 -65.4% from the same period last year on -45.6% 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 +7.3% on +1.3% higher revenues.

Of the major sectors with notably weak growth profiles include Industrial Products (total earnings down -12.2% year over year), Basic Materials (-9.9%), Aerospace (-2.9%), and Consumer Staples (-2.5%).

The Finance sector is big growth contributor in Q1, with total earnings for the sector expected to be up +17.8% from the same period last year, which compares to effectively flat growth for the sector in 2014 Q4. Easy comparisons at Bank of America and stronger earnings from J.P. Morgan, Goldman Sachs, Citigroup and others account for most of the sector's strong growth.

For the Technology sector, total earnings are expected to be up +2% 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	8.0%	-2.7%	-3.6%	-4.2%	-2.5%	2.2%	4.1%	2.0%	-2.5%	8.8%
Cons. Discretionary	15.8%	8.2%	2.3%	-1.1%	-1.9%	7.8%	11.1%	4.0%	10.3%	15.8%
Retail/Wholesale	12.7%	-0.8%	11.5%	-1.6%	6.9%	5.3%	1.7%	1.5%	7.0%	13.0%
Medical	-14.8%	9.3%	8.3%	6.3%	12.4%	23.1%	15.1%	13.6%	9.5%	10.9%
Autos	27.9%	-0.7%	24.7%	19.4%	32.6%	41.8%	-21.6%	-6.1%	27.2%	13.7%
Basic Materials	17.9%	1.3%	-6.4%	-2.4%	-9.9%	3.0%	17.6%	1.7%	-0.9%	20.3%
Industrial Products	2.5%	-8.5%	-11.2%	-10.6%	-12.2%	2.8%	5.6%	-1.3%	-3.7%	8.8%
Construction	9.1%	9.8%	14.4%	12.0%	12.0%	18.6%	17.2%	9.6%	17.7%	18.2%
Conglomerates	2.3%	-0.6%	8.8%	0.7%	1.5%	6.1%	6.9%	2.5%	2.8%	7.9%
Technology	0.6%	0.9%	4.5%	-0.4%	2.0%	13.7%	6.3%	4.6%	6.6%	10.8%
Aerospace	9.4%	1.9%	-1.8%	-5.9%	-2.9%	14.4%	9.1%	3.7%	0.9%	10.8%
Oil/Energy	29.3%	-44.4%	-60.1%	-66.4%	-65.4%	-17.5%	7.6%	-0.7%	-58.5%	40.1%
Finance	1.9%	16.7%	10.0%	2.8%	17.8%	-1.0%	3.9%	-0.4%	13.6%	9.9%
Utilities	-10.4%	6.9%	3.2%	3.5%	4.0%	11.6%	9.3%	14.1%	3.3%	4.3%
Transportation	3.3%	17.8%	27.9%	19.9%	37.2%	28.5%	26.0%	20.3%	29.8%	6.0%
Business Services	13.6%	13.8%	13.5%	10.5%	8.7%	10.6%	10.1%	13.4%	7.8%	13.0%
S&P 500	3.0%	1.8%	-0.8%	-5.6%	-1.3%	6.7%	7.1%	4.2%	1.0%	11.9%
ex Finance	3.3%	-1.5%	-3.3%	-7.7%	-5.8%	8.6%	7.9%	5.3%	-1.9%	12.5%

Source: Zacks Investment Research, Inc.

Data as of: April 22, 2015

www.zacks.com

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	-8.1%	-10.5%	-10.6%	-2.4%	-2.2%	-0.3%	-0.1%	-9.4%	3.0%
Cons. Discretionary	4.3%	3.9%	4.5%	0.4%	4.4%	5.3%	5.0%	4.2%	6.0%
Retail/Wholesale	-0.4%	7.6%	4.5%	5.3%	5.2%	5.8%	4.7%	6.4%	6.4%
Medical	6.5%	6.8%	6.7%	9.4%	11.8%	12.1%	10.7%	7.0%	7.0%
Autos	0.1%	-0.1%	0.4%	-0.4%	-1.4%	0.9%	1.0%	-0.1%	3.5%
Basic Materials	-4.4%	-3.8%	-5.4%	-6.7%	-2.0%	2.6%	0.8%	-3.3%	6.3%
Industrial Products	-1.7%	-5.5%	-5.6%	-6.4%	-2.4%	-0.2%	-0.5%	-5.6%	2.0%
Construction	6.2%	9.8%	9.3%	7.2%	5.5%	4.5%	2.3%	8.4%	6.5%
Conglomerates	7.4%	0.6%	-4.2%	-7.1%	-1.1%	-0.3%	2.9%	-5.0%	1.5%
Technology	7.9%	7.4%	7.6%	2.8%	7.8%	7.6%	5.2%	4.5%	5.1%
Aerospace	-0.8%	0.6%	1.9%	1.8%	4.5%	2.5%	1.7%	1.2%	1.7%
Oil/Energy	-27.9%	-38.0%	-45.1%	-45.6%	-13.6%	-2.6%	-3.3%	-35.1%	18.7%
Finance	15.3%	-1.8%	-3.8%	-2.0%	-13.6%	4.8%	1.5%	-21.1%	5.1%
Utilities	-0.2%	3.3%	0.1%	-4.3%	5.5%	4.0%	5.4%	0.2%	2.3%
Transportation	4.1%	4.0%	2.7%	3.0%	9.3%	12.5%	11.0%	3.1%	5.4%
Business Services	2.9%	0.5%	-1.3%	1.1%	3.1%	5.6%	4.6%	0.9%	5.7%
S&P 500	-0.2%	-3.2%	-5.5%	-5.3%	-0.1%	4.2%	3.2%	-5.9%	6.3%
ex Finance	-2.1%	-3.4%	-5.8%	-5.9%	1.8%	4.1%	3.4%	-3.6%	6.5%

Source: Zacks Investment Research, Inc.
Data as of: April 22, 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	17.4	18.5	18.9	18.4	16.1	19.0	19.6	19.2	16.5
Cons. Discretionary	12.0	14.1	14.4	12.8	10.4	13.0	14.0	12.9	10.6
Retail/Wholesale	22.3	19.3	20.3	17.3	19.8	19.5	18.2	17.6	18.5
Medical	30.2	38.6	37.7	37.4	35.5	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	9.1	7.2	6.8	8.2	7.7	7.1	7.2	8.4	8.6
Industrial Products	5.4	5.9	6.7	6.5	5.2	6.4	7.6	7.3	6.0
Construction	1.3	1.9	2.3	1.9	1.2	1.8	2.0	1.7	1.0
Conglomerates	7.8	10.4	9.3	8.8	7.6	10.4	8.6	8.7	7.5
Technology	46.0	61.7	47.8	47.3	45.7	61.2	45.8	47.5	44.8
Aerospace	4.7	5.1	4.6	4.5	4.3	5.1	4.7	4.8	4.4
Oil/Energy	13.8	13.2	12.4	10.7	10.7	23.6	31.0	31.8	30.9
Finance	59.6	59.4	58.0	57.2	58.5	50.9	52.7	55.6	49.7
Utilities	14.8	13.8	18.3	14.8	16.5	12.9	17.7	14.3	15.8
Transportation	6.1	8.0	9.4	9.0	5.9	6.8	7.3	7.5	4.3
Business Services	7.7	8.2	7.7	7.4	6.8	7.2	6.8	6.7	6.3
S&P 500	264.4	291.6	281.0	268.5	256.8	286.6	283.3	284.5	260.2
ex Finance	204.8	232.2	223.1	211.4	198.2	235.7	230.6	228.9	210.5

Source: Zacks Investment Research, Inc.
Data as of: April 22, 2015 www.zacks.com

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	156.9	171.1	163.8	165.3	166.0	186.2	183.0	184.9	170.0
Cons. Discretionary	114.3	121.8	118.4	113.7	109.8	116.7	113.9	108.7	109.4
Retail/Wholesale	470.8	446.4	444.7	424.9	417.7	448.4	413.4	406.8	396.8
Medical	344.3	382.2	369.0	365.2	349.6	359.0	345.4	342.2	319.5
Autos	112.0	111.8	110.9	114.8	107.8	111.7	111.0	114.3	108.3
Basic Materials	87.0	80.1	83.0	86.8	82.7	83.9	86.3	91.7	88.6
Industrial Products	66.3	70.3	72.1	73.1	68.3	71.5	76.4	77.4	72.9
Construction	26.1	29.1	30.8	28.4	24.9	27.4	28.0	26.0	23.3
Conglomerates	63.6	88.5	78.6	76.4	68.7	82.4	78.1	79.8	73.9
Technology	285.7	329.4	284.4	280.3	264.6	305.2	264.9	260.4	257.3
Aerospace	55.8	66.0	62.6	61.9	58.3	66.6	62.3	60.7	57.2
Oil/Energy	268.0	240.8	239.5	218.2	207.0	334.0	386.1	397.6	380.2
Finance	283.0	353.5	354.7	349.9	348.3	306.5	361.1	363.7	355.4
Utilities	157.6	158.2	164.9	149.8	156.2	158.6	159.5	149.6	163.1
Transportation	72.2	74.9	75.9	74.8	68.3	71.9	73.1	72.8	66.3
Business Services	43.8	50.1	47.7	47.2	46.0	48.7	47.5	47.8	45.5
S&P 500	2607.4	2774.3	2701.0	2630.5	2544.0	2778.7	2789.9	2784.5	2687.8
ex Finance	2324.4	2420.8	2346.3	2280.6	2195.7	2472.2	2428.8	2420.8	2332.3

Source: Zacks Investment Research, Inc.

Data as of: April 22, 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, 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).

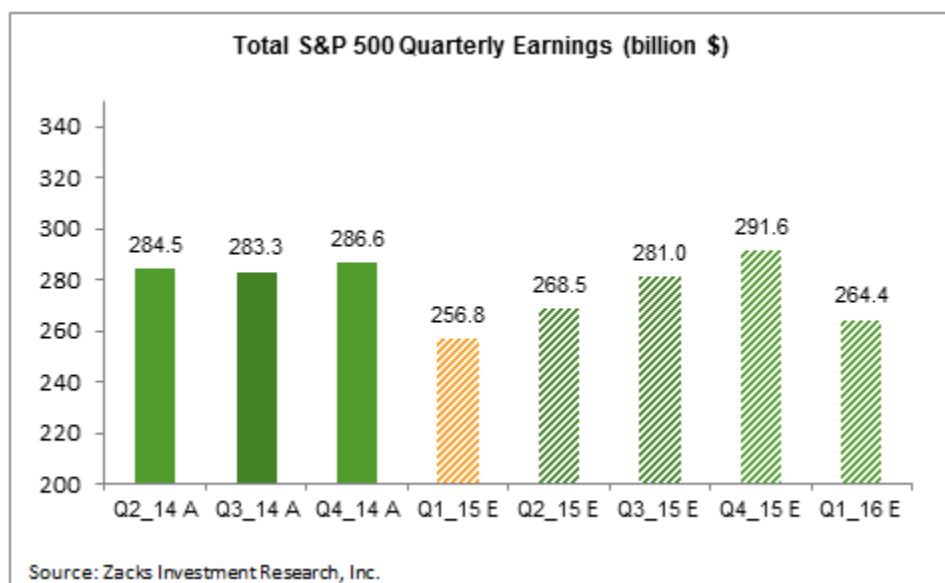
For the coming quarters, including Q1, we have taken the Zacks Consensus EPS for each company in the index, multiplied that by the corresponding share count (from the last reported quarter) to arrive at the total earnings for each company. And then we aggregated them to arrive at the totals for each 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 \$256.8 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?

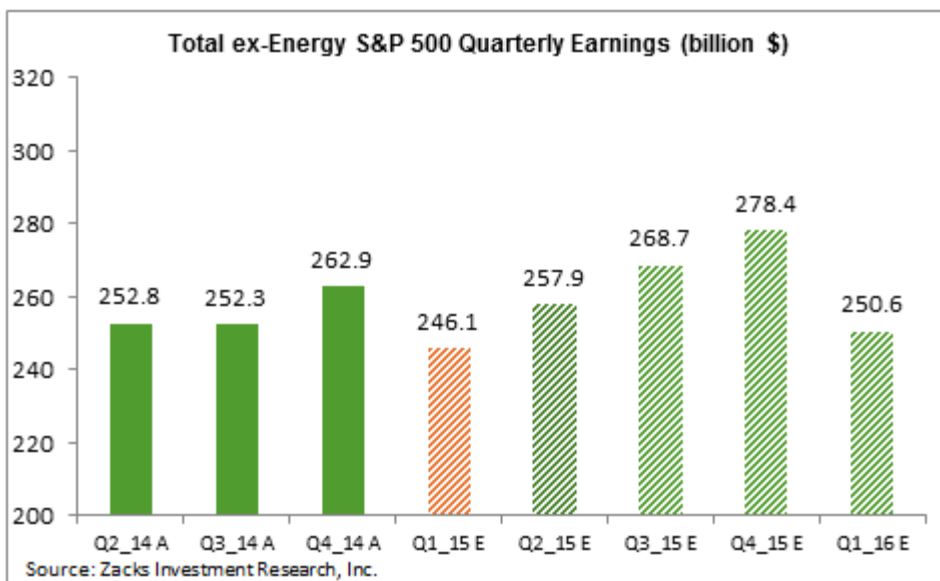
As referred to earlier, not only is the growth rate for Q1 very low, but the quarter is also expected to bring in the lowest tally of aggregate earnings in two years. This will end the run of record aggregate earnings in recent quarters, with each of the preceding three quarters bringing in all-time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

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%	9.7%	10.2%	10.7%	10.4%	9.7%
Cons. Discretionary	11.6%	12.1%	11.2%	9.5%	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%	10.2%	10.2%	10.2%	9.8%	10.1%	10.3%	9.9%
Autos	5.6%	5.9%	5.7%	4.5%	5.6%	4.7%	4.8%	3.4%
Basic Materials	9.0%	8.1%	9.5%	9.4%	8.5%	8.4%	9.2%	9.7%
Industrial Products	8.3%	9.3%	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	11.7%	11.9%	11.5%	11.1%	12.6%	11.0%	10.9%	10.1%
Technology	18.7%	16.8%	16.9%	17.3%	20.1%	17.3%	18.2%	17.4%
Aerospace	7.8%	7.4%	7.3%	7.4%	7.6%	7.6%	7.9%	7.7%
Oil/Energy	5.5%	5.2%	4.9%	5.2%	7.1%	8.0%	8.0%	8.1%
Finance	16.8%	16.3%	16.3%	16.8%	16.6%	14.6%	15.3%	14.0%
Utilities	8.7%	11.1%	9.9%	10.5%	8.1%	11.1%	9.5%	9.7%
Transportation	10.6%	12.4%	12.0%	8.6%	9.4%	10.0%	10.3%	6.5%
Business Services	16.5%	16.1%	15.6%	14.8%	14.9%	14.3%	14.0%	13.8%
S&P 500	10.5%	10.4%	10.2%	10.1%	10.3%	10.2%	10.2%	9.7%
ex Finance	9.6%	9.5%	9.3%	9.0%	9.5%	9.5%	9.5%	9.0%
Source: Zacks Investment Research, Inc.								
Data as of:	4/22/15 4:14 PM				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%	10.8%	10.6%	10.4%	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	4.4%	4.4%	4.4%	4.4%	4.5%	4.4%	4.4%	4.5%	4.5%	4.6%
Medical	9.9%	10.2%	10.1%	10.1%	10.1%	10.0%	9.8%	9.7%	9.6%	9.7%
Autos	5.7%	5.4%	5.4%	5.1%	4.9%	4.6%	4.2%	4.5%	4.7%	4.9%
Basic Materials	9.3%	9.0%	8.9%	8.9%	8.9%	9.0%	8.8%	8.6%	8.5%	8.6%
Industrial Products	8.7%	8.6%	8.7%	8.9%	9.0%	9.1%	9.0%	8.9%	8.8%	8.6%
Construction	6.4%	6.4%	6.4%	6.3%	6.2%	6.2%	6.0%	5.8%	5.6%	5.4%
Conglomerates	11.8%	11.5%	11.8%	11.6%	11.4%	11.2%	11.0%	10.8%	10.7%	10.9%
Technology	17.2%	17.5%	17.8%	17.9%	18.3%	18.3%	18.0%	18.1%	17.8%	17.8%
Aerospace	7.7%	7.5%	7.4%	7.4%	7.6%	7.7%	7.5%	7.4%	7.2%	7.1%
Oil/Energy	5.2%	5.2%	5.7%	6.6%	7.3%	7.8%	7.9%	7.7%	7.5%	7.6%
Finance	17.5%	16.6%	16.5%	16.1%	15.8%	15.1%	14.6%	14.6%	14.7%	14.9%
Utilities	9.8%	10.1%	9.9%	9.9%	9.8%	9.6%	9.5%	9.4%	9.2%	9.0%
Transportation	10.9%	11.0%	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%	10.3%	10.3%	10.2%	10.2%	10.1%	9.9%	9.9%	9.8%	9.8%
ex Finance	9.3%	9.4%	9.3%	9.3%	9.4%	9.4%	9.2%	9.1%	9.0%	9.0%

Source: Zacks Investment Research, Inc.
Data as of: 4/22/2015 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

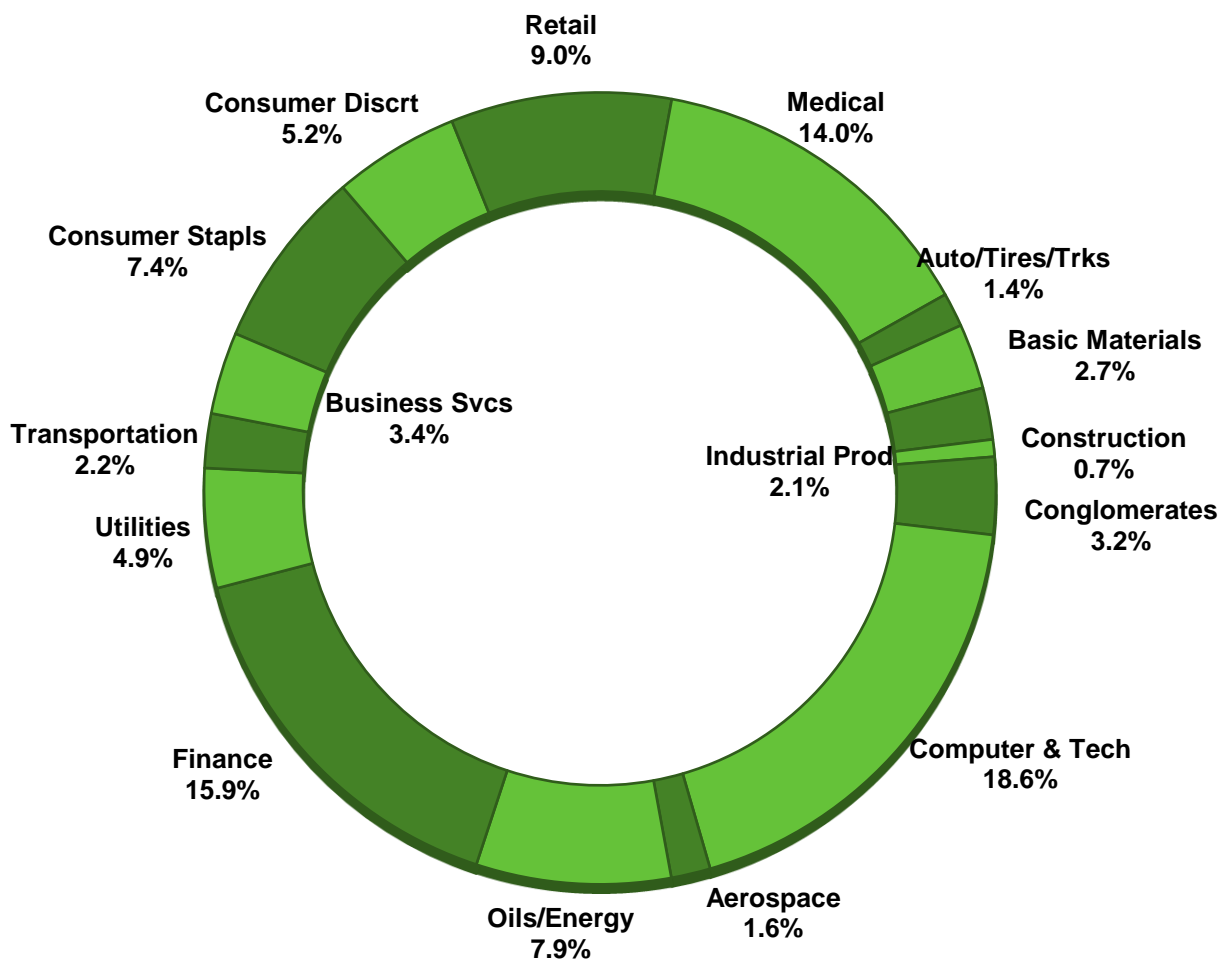
The charts below show the share of total earnings for 2014 as well as the share of total market capitalization for each of the 16 Zacks sectors. Since the S&P 500 is a market-cap weighted index, each sector's market cap share is also its index weight.

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

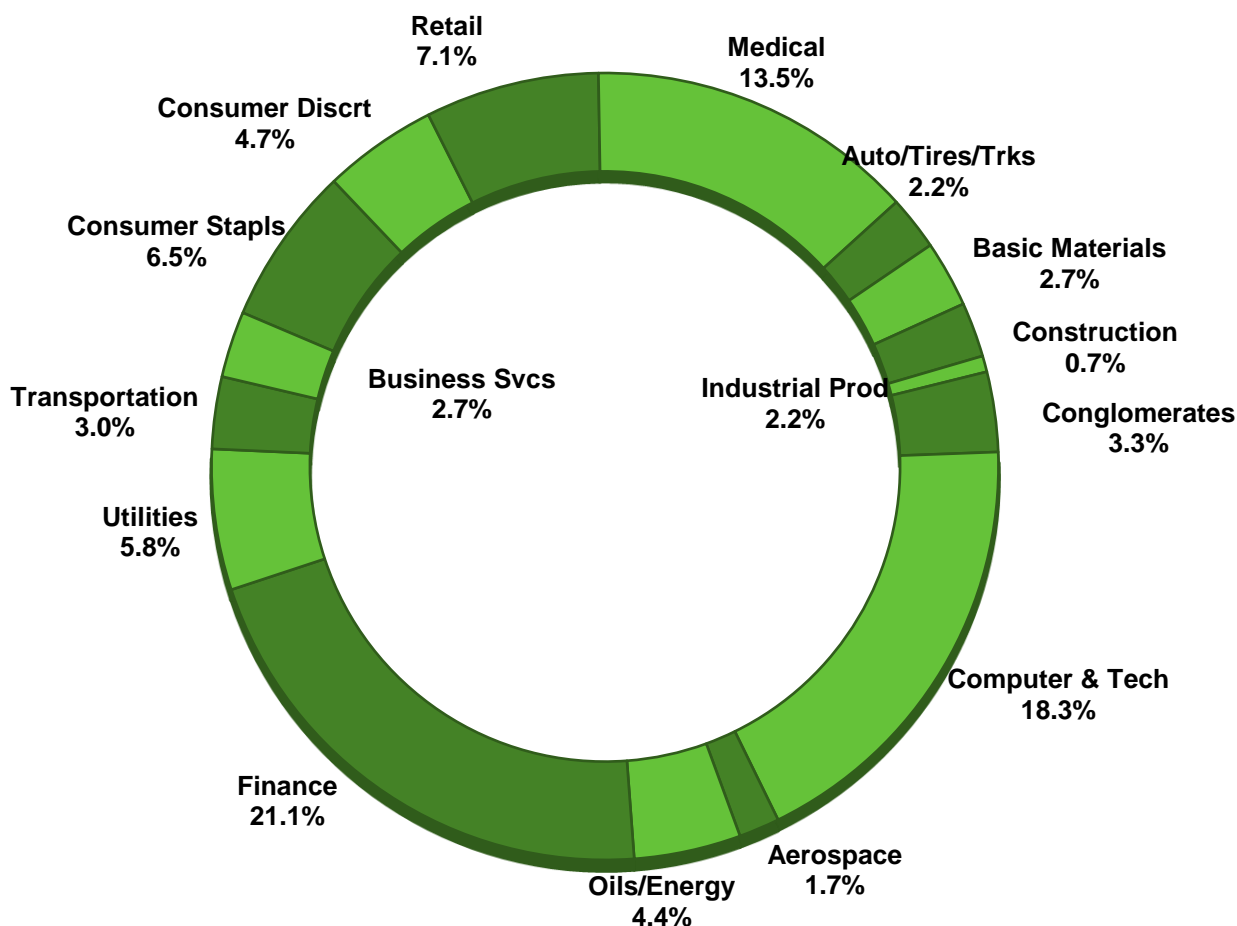
the global financial crisis, but got it back in 2013 and remains on track to retain the position this year and next.

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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