

Zacks Earning Trends

Sheraz Mian

SMian@Zacks.com

Are We in an Earnings Recession?

We are still more than a week away from the end of the September quarter, but the 2015 Q3 earnings season has already gotten underway. We have seen results from 11 S&P 500 members and the tally will reach 19 by the end of the month. Please note that all of these early reports are from companies with fiscal quarters ending in August; we count all of these as part of our Q3 tally.

The actual results from these early reporters appear good enough in terms of growth rates and beat ratios. All in all, 10 of the 11 companies have come out with positive earnings surprises and 7 of the 11 beating top-line expectations. But investors seem unimpressed with the results thus far. The 'price impact' column in the summary table below for the 11 S&P 500 members clearly shows investors' disappointment with the result thus far, particularly for ConAgra (CAG), CarMax (KMX), Lennar (LEN), and FedEx (FDX).

Name	Ticker	EPS Beat	Rev Beat	Price Impact * (%)	
				3Q15	2Q15
Carnival Corp	CCL	Yes	Yes	-2.75	-0.16
Conagra Foods	CAG	Yes	No	-6.77	2.69
Lennar Corp	LEN	Yes	Yes	-4.44	4.98
Darden Restaurants	DRI	Yes	Yes	-0.24	2.1
CarMax	KMX	Yes	No	-6.29	-5.46
Red Hat Inc	RHT	Yes	Yes	2.34	1.33
Fedex Corp	FDX	No	Yes	-2.93	-2.05
Oracle Corp	ORCL	Yes	No	-3.29	-4.26
Adobe Systems	ADBE	Yes	Yes	0.89	-1.25
General Mills	GIS	Yes	No	0.83	2.39
AutoZone	AZO	Yes	Yes	0.34	-1.23

Source: Zacks Investment Research, Inc.

Data as of:

September 23, 2015

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**Price Impact' is the price change from 1 day before to one day after, if available, else intraday price.*

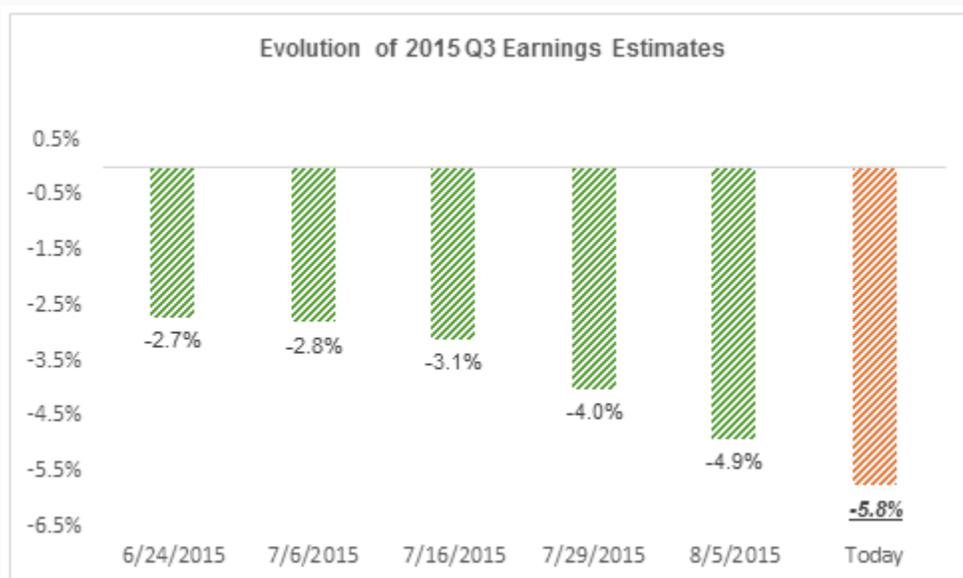
As we all know, the last earnings season was quite weak, with growth rates in the negative and top-line weakness notably standing out. Unfortunately, the picture is unlikely to improve in the Q3 earnings season either, with total earnings for the S&P 500 index expected to be in the negative again. If two back-to-back quarters of GDP growth is the definition of an economic recession, then two quarters in a row of earnings declines would have to qualify as an earnings recession. But irrespective of whether we

call the current earnings backdrop as a recession or not, there is no escaping the fact that the earnings picture is very weak.

Estimates for the Quarter

Total Q3 earnings for the S&P 500 index are expected to be down -5.8% from the same period last year on -3.9% lower revenues. This would follow earnings decline of -2.1% on -3.4% lower revenues in the preceding quarter. Driving this sub-par growth picture is a combination of global growth challenges, the oil weakness and the strong U.S. dollar.

The chart below shows how earnings growth estimates for Q3 have evolved since the beginning of the quarter.



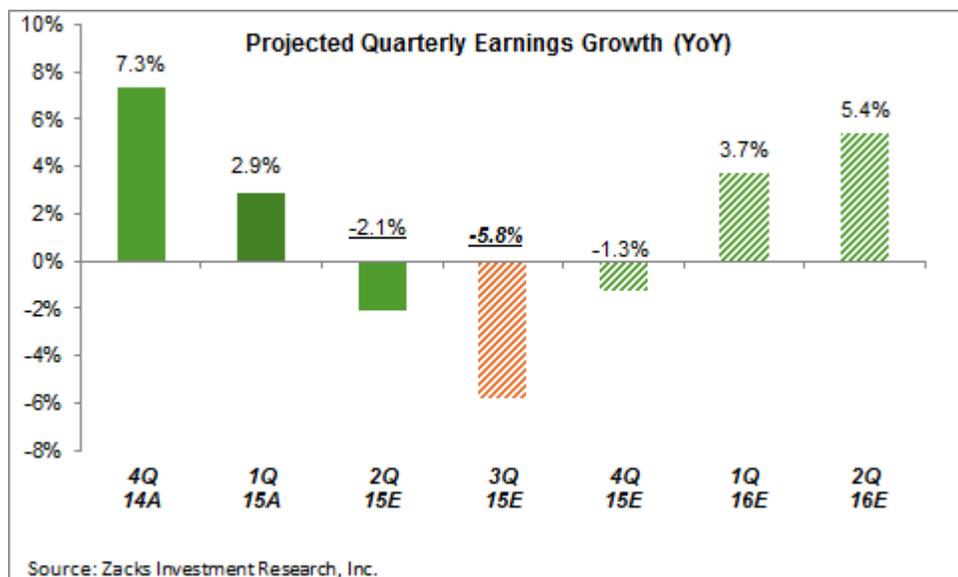
Please note that while the overall trend of negative estimate revisions is in-line with what we have been seeing in other recent quarters as well. But the magnitude of negative revisions to Q3 estimates since the start of the period has been lower than what we have been seeing the comparable periods in other recent quarters. In other words, estimates for the quarter came down. But they fell less than what we saw in the last few quarters.

Energy remains the biggest drag in Q3, as has been the trend in recent quarters, with total Energy sector earnings expected to be down -65.3% on -37.2% lower revenues. Excluding this Energy sector drag, earnings growth for the remainder of the S&P 500 index would be up +1.5% on +1.4% revenues.

Energy is no doubt a big drag, but there isn't much growth momentum in other sectors aside from Finance and Medical, with earnings growth for 9 of the 16 Zacks sectors

expected to be in the negative. Finance is expected to have another positive quarter, with total earnings for the sector expected to be up +8.6% from the same period last year. Excluding the contribution from the Finance sector, total earnings for the S&P 500 index would be down -9.0% from the year-earlier period. Keep in mind however that while the Medical sector growth is broad-based, Finance’s favorable growth numbers are mostly due to easy comparisons at Bank of America (BAC).

There is not much growth expected in the last quarter of the year either. The chart below shows current consensus earnings growth expectations for the coming quarters contrasted with what is expected for Q3 and what was actually achieved in Q2. As you can see, this year has effectively been washed out, with growth expected to resume early next year and accelerate from there onwards. Total earnings for the S&P 500 index are effectively flat this year, but are expected to be up strong next year.

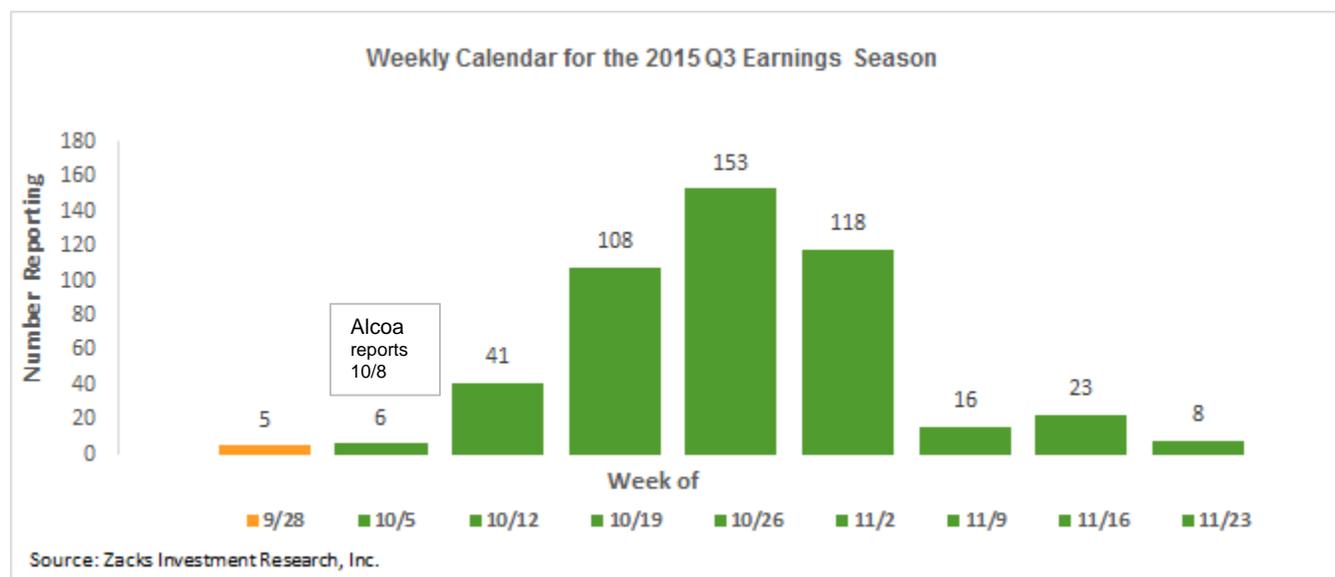


It is reasonable to be skeptical of next year’s optimistic looking expectations given how the 2015 estimates evaporated in front of our eyes over the last two quarters. We know that sell-side analysts start out with optimistic projections for the outer periods.

Q3 Earnings Season Gets Underway

We are about two weeks away from the Alcoa report, generally considered as the (unofficial) starting point of each earnings reporting cycle. But we will have officially counted earnings reports from roughly two dozen S&P 500 members as part of the Q3 tally by then – 11 index members have already reported results, as indicated earlier. These early reporters are coming out with results for their fiscal quarter ending in August, which we count as part of our Q3 reports.

The chart below provides the weekly calendar for the Q3 earnings season



As discussed earlier, estimates for Q3 fell as the quarter has unfolded, a trend that has been in place for quite some time. Total earnings in Q3 are expected to be down -5.8% on -3.9% lower revenues.

The table below provides a summary comparison of what is expected in Q3 with what was actually achieved in Q2.

Zacks Sectors	Year-over-Year Growth					
	Earnings		Revenue		Margins	
	3Q	2Q	3Q	2Q	3Q	2Q
	15E	15A	15E	15A	15E	15A
Cons. Staples	-4.5%	-0.3%	-0.4%	-6.7%	-0.44%	0.70%
Cons. Discretionary	-12.9%	2.2%	1.3%	2.1%	-1.72%	0.02%
Retail/Wholesale	-0.1%	4.3%	3.4%	5.5%	-0.15%	-0.05%
Medical	8.0%	14.9%	9.0%	8.8%	-0.09%	0.57%
Autos	21.2%	25.3%	-2.4%	-3.0%	1.15%	1.39%
Basic Materials	-13.3%	3.7%	-8.1%	-9.9%	-0.48%	1.40%
Industrial Products	-24.8%	-16.0%	-11.3%	-9.8%	-1.47%	-0.64%
Construction	8.5%	6.7%	3.9%	2.1%	0.31%	0.29%
Conglomerates	-15.6%	-8.0%	-11.2%	-6.4%	-0.54%	-0.18%
Technology	2.6%	2.5%	8.8%	3.0%	-0.93%	-0.08%
Aerospace	-7.9%	-9.4%	0.8%	4.6%	-0.66%	-1.05%
Oil/Energy	-65.3%	-60.3%	-37.2%	-31.5%	-3.58%	-3.35%
Finance	8.6%	7.2%	-4.6%	1.5%	1.99%	0.86%
Utilities	-4.6%	4.8%	2.5%	-5.3%	-0.80%	0.91%
Transportation	17.3%	12.6%	-0.4%	-2.0%	1.78%	1.50%
Business Services	1.5%	8.7%	0.5%	-0.5%	0.14%	1.30%
S&P 500	-5.8%	-2.1%	-3.9%	-3.4%	-0.20%	0.14%
ex Finance	-9.0%	-4.3%	-3.8%	-4.2%	-0.52%	-0.02%
ex Oil/Energy	1.5%	5.2%	1.4%	1.3%	N/A	N/A

Source: Zacks Investment Research, Inc.

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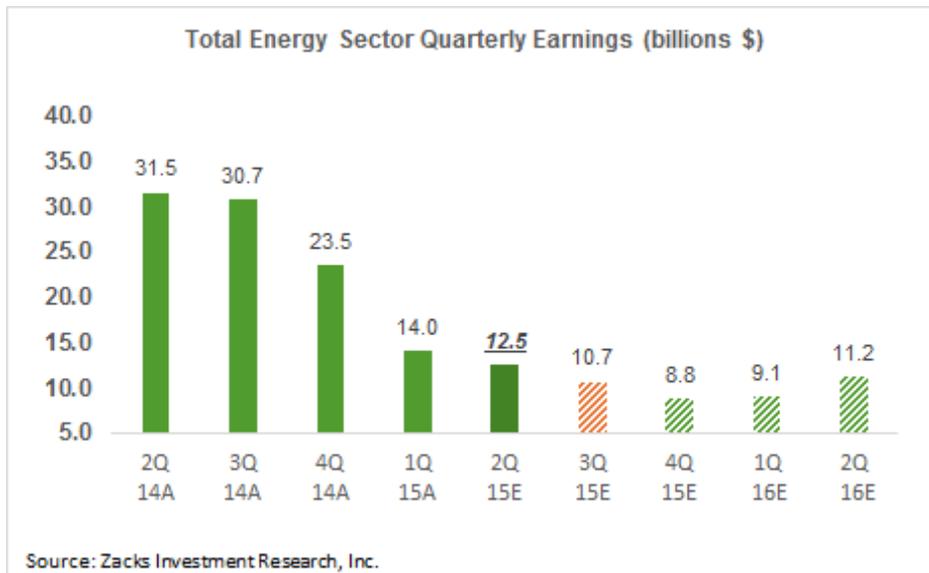
Note: Here are few key points to keep in mind while reading this report.

- 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'.*
- 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.*

The Energy Drag

Energy stands out for the wrong reasons, again in Q3. The last row of the above summary table shows the growth aggregates on an ex-Energy basis. Total earnings for the S&P 500 index would be up +1.5% on +1.4% higher revenues if Energy were excluded from the index.

The chart below spotlights the Energy sector's loss of earnings power as a result of the oil price decline.



Other Standout Sectors

- 9 out of the 16 Zacks sectors are expected to see earnings decline from the same period last year.
- Sectors with double-digit earnings declines in Q3 include, besides Energy, Industrial Products (-24.8%), Basic Materials (-13.3%), and Consumer Discretionary (-12.9%).
- The Industrial sector's weakness is fairly broad-based and largely reflects the sector's exposure to global growth uncertainty. Total earnings for Caterpillar are expected to be down -53% from the same period last year while Deere & Co. earnings are expected to be down more than -60%.
- On the positive side, Transportation and Construction are the only sectors with double-digit growth in Q3, while the growth rates for Finance and Medical are strong among the big sectors.
- We should note however that the Finance sector's strong growth (+8.6% earnings growth expected) is largely due to easy comparisons at Bank of America.

The Context for Growth Expectations

Let's take a look at how consensus earnings expectations for 2015 Q3 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 quarterly earnings growth rates – actuals as well as estimates. Table 3 presents the same data for revenues.

Table 2 – Earnings Growth Context

Zacks Sectors	Earnings Growth (YoY)								
	2Q 16E	1Q 16E	4Q 15E	3Q 15E	2Q 15E	1Q 15A	4Q 14A	3Q 14A	2Q 14A
Cons. Staples	4.1%	6.3%	-6.0%	-4.5%	-0.3%	1.1%	1.8%	3.8%	11.7%
Cons. Discretionary	18.2%	10.2%	2.2%	-12.9%	2.2%	1.5%	10.2%	12.0%	20.5%
Retail/Wholesale	12.8%	8.0%	5.7%	-0.1%	4.3%	5.0%	7.0%	3.0%	15.8%
Medical	4.5%	5.8%	8.5%	8.0%	14.9%	20.2%	23.1%	15.1%	17.1%
Autos	11.9%	26.7%	-0.1%	21.2%	25.3%	26.4%	41.8%	-21.6%	-7.7%
Basic Materials	-3.9%	3.5%	11.4%	-13.3%	3.7%	-2.1%	3.2%	17.1%	22.8%
Industrial Products	4.9%	-5.6%	-11.1%	-24.8%	-16.0%	-6.0%	-0.7%	5.0%	2.8%
Construction	17.8%	25.6%	-5.5%	8.5%	6.7%	4.1%	18.6%	17.2%	24.0%
Conglomerates	14.1%	-1.7%	-3.2%	-15.6%	-8.0%	4.7%	7.0%	7.7%	7.9%
Technology	7.5%	7.3%	-0.8%	2.6%	2.5%	7.4%	16.5%	8.4%	26.1%
Aerospace	14.5%	3.1%	-3.1%	-7.9%	-9.4%	0.7%	14.4%	9.1%	10.7%
Oil/Energy	-10.4%	-35.2%	-62.6%	-65.3%	-60.3%	-54.3%	-17.3%	7.9%	13.2%
Finance	2.4%	4.1%	15.1%	8.6%	7.2%	16.5%	-1.0%	4.0%	1.4%
Utilities	3.6%	-1.6%	-3.5%	-4.6%	4.8%	4.8%	1.3%	1.8%	2.0%
Transportation	0.1%	7.8%	13.3%	17.3%	12.6%	71.2%	29.7%	30.9%	52.8%
Business Services	4.5%	8.9%	1.4%	1.5%	8.7%	6.9%	10.3%	10.0%	27.3%
S&P 500	5.4%	3.7%	-1.3%	-5.8%	-2.1%	2.9%	7.3%	7.5%	13.8%
ex Finance	6.2%	3.6%	-4.8%	-9.0%	-4.3%	-0.3%	9.3%	8.3%	17.3%
ex Oil/Energy	6.1%	5.8%	4.2%	1.5%	5.2%	10.6%	10.3%	7.4%	13.9%

Source: Zacks Investment Research, Inc.

Data as of: September 23, 2015 www.zacks.com

Table 3 – Revenue Growth Context

Zacks Sectors	Revenue Growth (YoY)								
	2Q 16E	1Q 16E	4Q 15E	3Q 15E	2Q 15E	1Q 15A	4Q 14A	3Q 14A	2Q 14A
Cons. Staples	-6.3%	3.9%	0.7%	-0.4%	-6.7%	-4.0%	-2.4%	-0.4%	7.6%
Cons. Discretionary	6.3%	5.2%	4.1%	1.3%	2.1%	0.9%	4.8%	5.7%	15.3%
Retail/Wholesale	8.8%	6.7%	7.1%	3.4%	5.5%	5.0%	5.5%	6.1%	23.3%
Medical	6.9%	7.8%	9.4%	9.0%	8.8%	11.1%	11.9%	12.1%	12.7%
Autos	0.8%	2.5%	-2.6%	-2.4%	-3.0%	-4.5%	-1.4%	0.9%	2.9%
Basic Materials	6.7%	9.0%	-3.1%	-8.1%	-9.9%	-10.7%	-2.1%	2.5%	8.6%
Industrial Products	-0.7%	-2.6%	-7.5%	-11.3%	-9.8%	-6.3%	-2.5%	-0.3%	-0.8%
Construction	6.8%	5.6%	-2.5%	3.9%	2.1%	2.1%	5.5%	4.5%	6.2%
Conglomerates	3.1%	2.4%	-6.3%	-11.2%	-6.4%	-7.1%	2.2%	0.6%	4.7%
Technology	5.4%	5.4%	7.3%	8.8%	3.0%	4.9%	7.7%	6.6%	11.6%
Aerospace	0.2%	1.5%	-0.9%	0.8%	4.6%	2.7%	4.5%	2.5%	-0.7%
Oil/Energy	-7.0%	-5.0%	-24.8%	-37.2%	-31.5%	-34.7%	-13.6%	-2.6%	3.0%
Finance	-16.0%	-0.9%	-3.2%	-4.6%	1.5%	2.0%	0.9%	5.8%	2.5%
Utilities	-4.3%	-3.1%	0.3%	2.5%	-5.3%	-3.4%	6.8%	4.5%	2.5%
Transportation	4.0%	3.8%	0.4%	-0.4%	-2.0%	1.7%	8.2%	11.3%	32.3%
Business Services	5.3%	6.3%	2.1%	0.5%	-0.5%	0.8%	3.1%	5.6%	30.6%
S&P 500	0.5%	3.2%	-0.4%	-3.9%	-3.4%	-3.1%	2.0%	4.4%	9.7%
ex Finance	3.1%	3.9%	0.0%	-3.8%	-4.2%	-3.9%	2.1%	4.2%	10.8%
ex Oil/Energy	1.3%	4.1%	2.9%	1.4%	1.3%	2.1%	4.4%	5.6%	10.8%

Source: Zacks Investment Research, Inc.

Data as of: [September 23, 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)								
	2Q 16E	1Q 16E	4Q 15E	3Q 15E	2Q 15E	1Q 15A	4Q 14A	3Q 14A	2Q 14A
Cons. Staples	19.6	17.5	17.6	18.5	18.8	16.4	18.7	19.3	18.9
Cons. Discretionary	14.7	13.5	14.3	12.6	12.4	12.2	14.0	14.5	12.1
Retail/Wholesale	22.0	18.9	23.4	18.0	19.5	17.5	22.1	18.0	18.7
Medical	42.2	40.1	38.1	37.3	40.4	37.9	35.1	34.5	35.2
Autos	7.6	5.9	6.3	6.4	6.8	4.6	6.3	5.3	5.4
Basic Materials	8.5	8.8	8.0	6.4	8.8	8.5	7.2	7.3	8.5
Industrial Products	6.2	5.5	5.2	5.4	5.9	5.8	5.9	7.2	7.0
Construction	2.1	1.4	1.7	2.2	1.8	1.1	1.8	2.0	1.7
Conglomerates	9.2	7.7	10.1	7.3	8.0	7.9	10.4	8.6	8.7
Technology	58.2	60.0	66.2	53.4	54.1	55.9	66.7	52.0	52.8
Aerospace	5.0	4.6	4.9	4.3	4.3	4.4	5.1	4.7	4.8
Oil/Energy	11.2	9.1	8.8	10.7	12.5	14.0	23.5	30.7	31.5
Finance	61.2	60.4	58.6	57.3	59.8	58.0	51.0	52.8	55.8
Utilities	7.6	9.2	6.6	10.2	7.4	9.4	6.8	10.7	7.0
Transportation	9.6	7.1	8.3	10.0	9.6	6.6	7.3	8.5	8.5
Business Services	7.5	7.2	7.3	6.8	7.2	6.6	7.2	6.7	6.6
S&P 500	292.4	276.8	285.3	266.6	277.4	267.0	288.9	282.9	283.3
ex Finance	231.2	216.4	226.6	209.3	217.6	209.0	238.0	230.1	227.5

Source: Zacks Investment Research, Inc.

Data as of: September 23, 2015 www.zacks.com

Table 5 – Total Quarterly Revenues

Zacks Sectors	Quarterly Revenues (billion dollars)								
	2Q 16E	1Q 16E	4Q 15E	3Q 15E	2Q 15E	1Q 15A	4Q 14A	3Q 14A	2Q 14A
Cons. Staples	159.9	167.7	185.0	180.1	170.6	161.4	183.8	180.8	182.7
Cons. Discretionary	122.1	120.2	126.4	119.0	114.8	114.2	121.5	117.5	112.5
Retail/Wholesale	468.4	446.2	482.6	429.1	430.6	418.4	450.5	414.9	408.2
Medical	397.2	381.4	390.5	374.2	371.6	353.9	356.8	343.1	341.4
Autos	111.7	105.9	108.9	108.3	110.8	103.4	111.7	111.0	114.3
Basic Materials	88.5	86.5	81.5	79.7	82.9	79.3	84.2	86.7	92.1
Industrial Products	67.3	64.7	64.3	65.8	67.8	66.5	69.5	74.2	75.2
Construction	28.4	25.1	26.7	29.1	26.6	23.7	27.4	28.0	26.0
Conglomerates	76.8	70.4	79.7	69.7	74.5	68.7	85.1	78.5	79.6
Technology	343.1	347.5	393.8	348.0	325.4	329.8	367.0	320.0	315.9
Aerospace	63.7	59.6	66.0	62.8	63.5	58.8	66.6	62.3	60.7
Oil/Energy	251.7	234.7	250.1	241.6	270.7	247.1	332.4	384.4	395.4
Finance	310.3	356.3	349.4	348.7	369.3	359.7	360.9	365.5	363.7
Utilities	74.8	89.2	88.6	94.5	78.1	92.0	88.4	92.2	82.5
Transportation	86.3	80.7	83.2	84.9	83.0	77.7	82.8	85.2	84.7
Business Services	49.2	47.9	48.9	46.9	46.8	45.1	47.9	46.7	47.0
S&P 500	2699.3	2683.9	2825.6	2682.2	2687.1	2599.8	2836.6	2790.9	2781.8
ex Finance	2389.0	2327.6	2476.3	2333.5	2317.8	2240.1	2475.6	2425.4	2418.2

Source: Zacks Investment Research, Inc.

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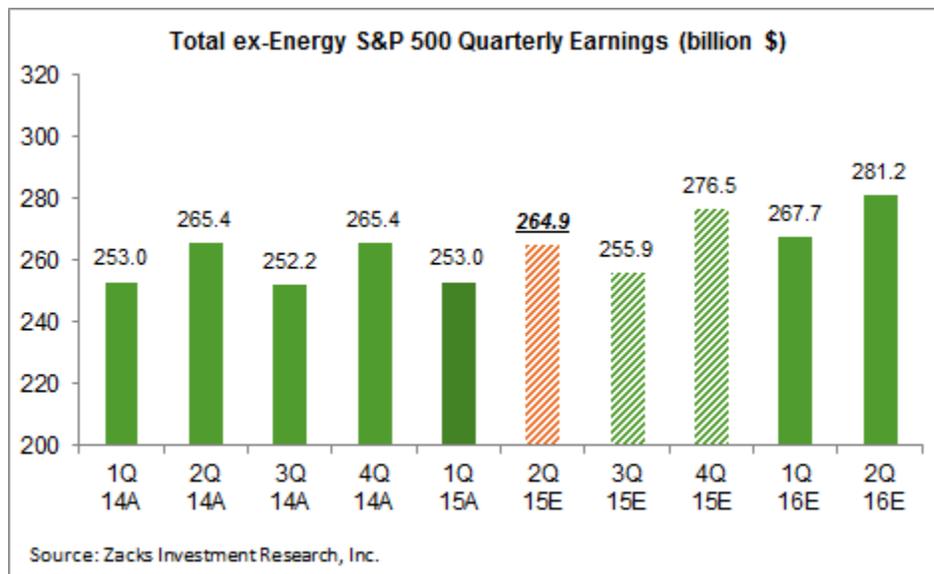
It may be obvious, but it's still useful to explain what we mean by total earnings.

This means the sum of net income for all companies in the S&P 500. For historical periods through 2015 Q2, we have taken the total earnings (net income, 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 Q3, 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 earned \$277.4 billion in 2015 Q2 vs. \$267.0 billion in 2015 Q1 and \$288.9 billion in 2014 Q4. 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.

Had it not been for the Energy sector drag, the tally in 2015 Q2 would be right in the vicinity of the all-time record 2014 Q4 quarter, as the chart below shows.



The next table shows the PEs and 'EPS' for the index. As you can see, the index is expected to earn 'EPS' of \$114.86 this year on a bottom-up basis and \$119.26 on a top-down basis.

Zacks Sectors	P/E Ratios			Price Change	
	F0	F1	F2	YTD	52-Weeks
Cons. Staples	19.6	20.2	18.5	3.2%	9.9%
Cons. Discretionary	21.2	19.6	16.9	-0.7%	4.7%
Retail/Wholesale	23.5	22.5	19.8	-0.6%	13.3%
Medical	19.1	17.2	15.7	1.8%	11.3%
Autos	12.2	9.5	8.4	-14.6%	-6.6%
Basic Materials	14.2	14.3	12.5	-16.9%	-19.7%
Industrial Products	14.1	15.3	14.5	-13.4%	-10.1%
Construction	21.1	19.1	15.7	-0.6%	2.3%
Conglomerates	16.2	17.9	15.7	-8.9%	-4.8%
Technology	17.3	15.9	14.5	-7.4%	-3.2%
Aerospace	16.7	16.6	14.8	-2.5%	6.3%
Oil/Energy	10.6	26.0	23.7	-20.1%	-32.5%
Finance	14.7	12.6	11.7	-7.3%	-0.6%
Utilities	15.8	15.8	15.1	-13.7%	-4.0%
Transportation	15.0	11.8	11.5	-15.7%	-1.1%
Business Services	23.8	21.9	19.4	1.1%	10.7%
S&P 500	16.9	16.6	15.2	-6.5%	-0.9%
Bottom-up Index					
'EPS' (Implied)	\$ 117.25	\$ 118.95	\$ 130.52	-	-
Bottom-up Index					
'EPS' (Calculated)	\$ 114.38	\$ 114.86	\$ 125.96		
Top-down Index					
'EPS'	\$ 114.98	\$ 119.26	\$ 130.18	-	-
<i>Note: F0 is the last completed year; F1 is the current year and F2 is next year; the P/E ratios represent 'total market cap' over 'aggregate earnings' for each sector as well as the index; the bottom-up EPS has been backed out of current market values, using the last closing value for the index and the P/E value(s) here</i>					

The Margins Picture

The table below shows net margin expectations for Q3 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							
	1Q 16E	4Q 15E	3Q 15E	2Q 15E	1Q 15A	4Q 14A	3Q 14A	2Q 14A
Cons. Staples	10.4%	9.5%	10.3%	11.0%	10.2%	10.2%	10.7%	10.3%
Cons. Discretionary	11.2%	11.3%	10.6%	10.8%	10.7%	11.5%	12.3%	10.8%
Retail/Wholesale	4.2%	4.8%	4.2%	4.5%	4.2%	4.9%	4.3%	4.6%
Medical	10.5%	9.7%	10.0%	10.9%	10.7%	9.8%	10.1%	10.3%
Autos	5.6%	5.8%	5.9%	6.2%	4.5%	5.6%	4.7%	4.8%
Basic Materials	10.1%	9.9%	8.0%	10.6%	10.7%	8.6%	8.4%	9.2%
Industrial Products	8.5%	8.1%	8.2%	8.7%	8.7%	8.4%	9.7%	9.3%
Construction	5.4%	6.2%	7.4%	6.8%	4.5%	6.4%	7.1%	6.5%
Conglomerates	11.0%	12.6%	10.4%	10.8%	11.5%	12.2%	11.0%	10.9%
Technology	17.3%	16.8%	15.3%	16.6%	16.9%	18.2%	16.3%	16.7%
Aerospace	7.7%	7.4%	6.9%	6.8%	7.6%	7.6%	7.6%	7.9%
Oil/Energy	3.9%	3.5%	4.4%	4.6%	5.7%	7.1%	8.0%	8.0%
Finance	17.0%	16.8%	16.4%	16.2%	16.1%	14.1%	14.4%	15.3%
Utilities	10.4%	7.4%	10.8%	9.4%	10.2%	7.7%	11.6%	8.5%
Transportation	8.9%	10.0%	11.8%	11.5%	8.5%	8.9%	10.0%	10.0%
Business Services	15.1%	14.9%	14.5%	15.3%	14.7%	15.0%	14.4%	14.0%
S&P 500	10.3%	10.1%	9.9%	10.3%	10.3%	10.2%	10.1%	10.2%
ex Finance	9.3%	9.2%	9.0%	9.4%	9.3%	9.6%	9.5%	9.4%
ex Oil/Energy	10.9%	10.7%	10.5%	11.0%	10.8%	10.6%	10.5%	10.5%

Source: Zacks Investment Research, Inc.

Data as of: 9/23/15 10:12 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 Q3 reflects estimates for Q3 and actuals for the preceding three quarters, and so on.

Zacks Sectors	Net Margins - Trailing 4 Quarters									
	2Q 16E	1Q 16E	4Q 15E	3Q 15E	2Q 15E	1Q 15A	4Q 14A	3Q 14A	2Q 14A	1Q 14A
Cons. Staples	10.6%	10.3%	10.2%	10.4%	10.5%	10.3%	10.2%	10.1%	10.0%	9.9%
Cons. Discretionary	11.3%	11.0%	10.9%	10.9%	11.3%	11.3%	11.3%	11.2%	11.0%	10.9%
Retail/Wholesale	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.6%
Medical	10.2%	10.3%	10.3%	10.3%	10.4%	10.2%	10.0%	9.8%	9.7%	9.6%
Autos	6.0%	5.8%	5.6%	5.6%	5.3%	4.9%	4.6%	4.2%	4.5%	4.7%
Basic Materials	9.4%	9.7%	9.8%	9.5%	9.6%	9.2%	9.0%	8.9%	8.6%	8.4%
Industrial Products	8.5%	8.4%	8.4%	8.5%	8.9%	9.1%	9.1%	9.0%	8.9%	8.8%
Construction	6.7%	6.5%	6.3%	6.4%	6.3%	6.2%	6.2%	6.0%	5.8%	5.6%
Conglomerates	11.5%	11.2%	11.4%	11.3%	11.4%	11.4%	11.1%	11.0%	10.8%	10.7%
Technology	16.6%	16.5%	16.4%	16.8%	17.0%	17.1%	17.0%	16.6%	16.5%	16.1%
Aerospace	7.4%	7.2%	7.2%	7.2%	7.4%	7.6%	7.7%	7.5%	7.4%	7.2%
Oil/Energy	4.1%	4.1%	4.6%	5.6%	6.5%	7.3%	7.8%	7.9%	7.7%	7.5%
Finance	17.4%	16.6%	16.4%	15.7%	15.2%	15.0%	14.5%	14.6%	14.6%	14.7%
Utilities	9.7%	9.5%	9.5%	9.6%	9.8%	9.5%	9.3%	9.5%	9.5%	9.5%
Transportation	10.5%	10.6%	10.5%	10.2%	9.7%	9.4%	8.6%	8.2%	7.8%	7.4%
Business Services	14.9%	15.0%	14.9%	14.9%	14.9%	14.5%	14.3%	14.1%	13.9%	14.0%
S&P 500	10.3%	10.2%	10.2%	10.2%	10.2%	10.2%	10.0%	9.9%	9.8%	9.7%
ex Finance	9.3%	9.2%	9.2%	9.3%	9.5%	9.5%	9.4%	9.2%	9.1%	9.0%

Source: Zacks Investment Research, Inc.
Data as of: 9/23/2015 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.

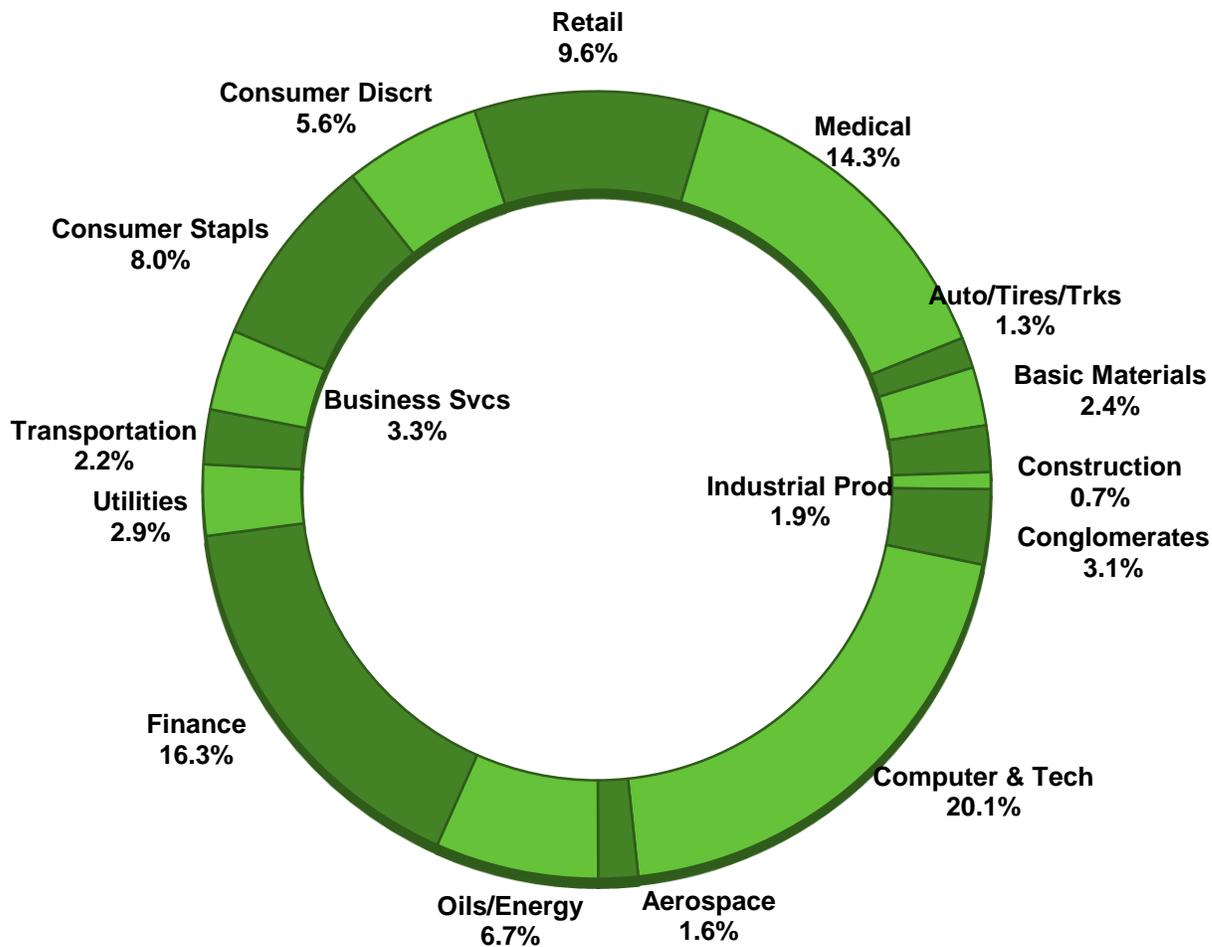
We may not be at the contraction stage yet, but we do need to buy into fairly optimistic assumptions about productivity improvements for current consensus margin expansion expectations to pan out.

Market Cap vs. Total Earnings

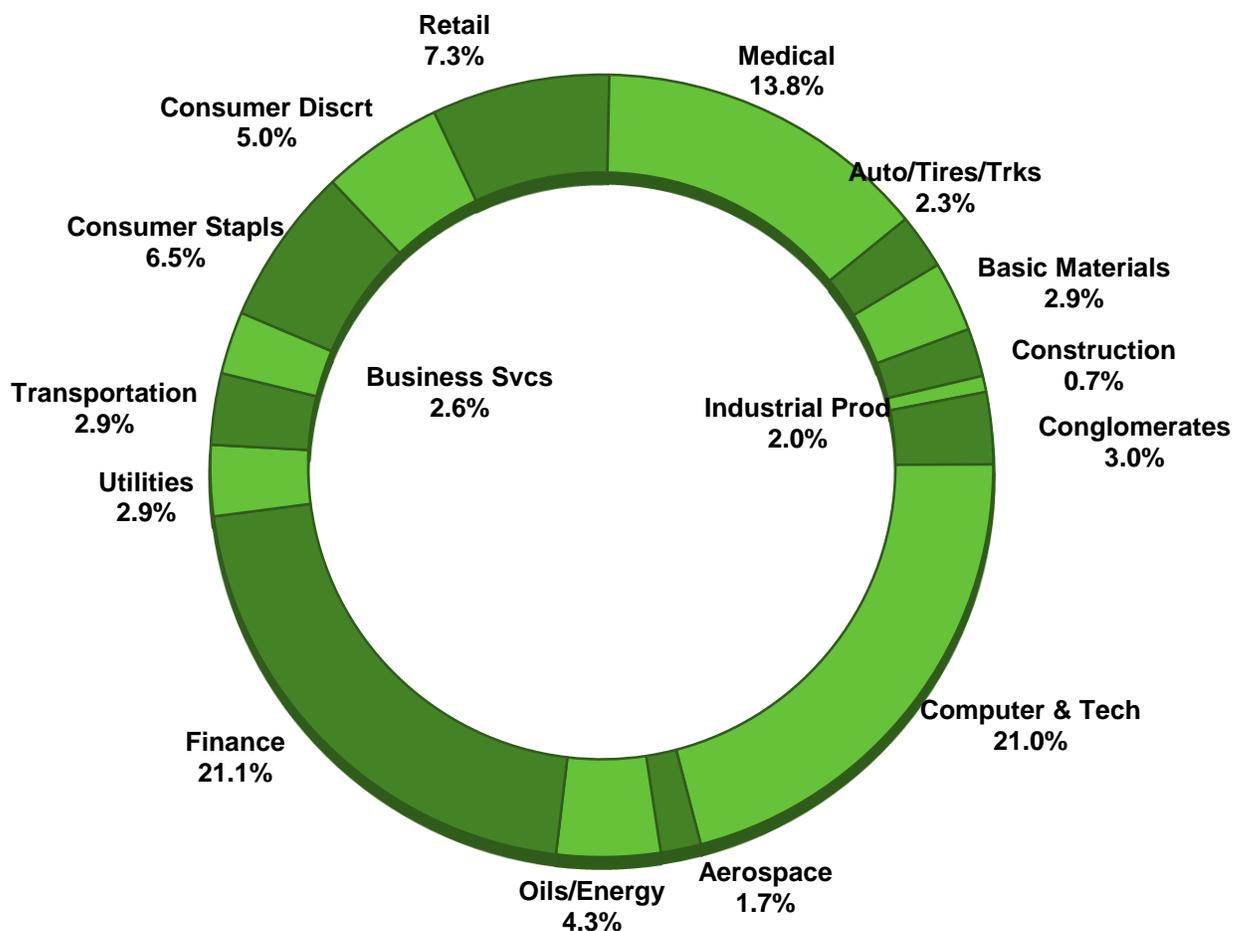
The charts below show the share of estimated total earnings for 2015 as well as the share of total market capitalization for each of the 16 Zacks sectors. Since the S&P 500 is a market-cap weighted index, each sector's market cap share is also its index weight.

The Finance sector is about even with the Technology sector in terms of earnings contribution even though it carries a smaller weight in the index. Unlike the S&P 500, the Finance sector is biggest market cap and earnings contributor to the Russell 2000 index.

% Share of Mkt Cap



Share of 2015 Income



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

Contact Terry Ruffolo at 312-265-9213 or at truffolo@zacks.com

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