

## Zacks Earning Trends

Sheraz Mian

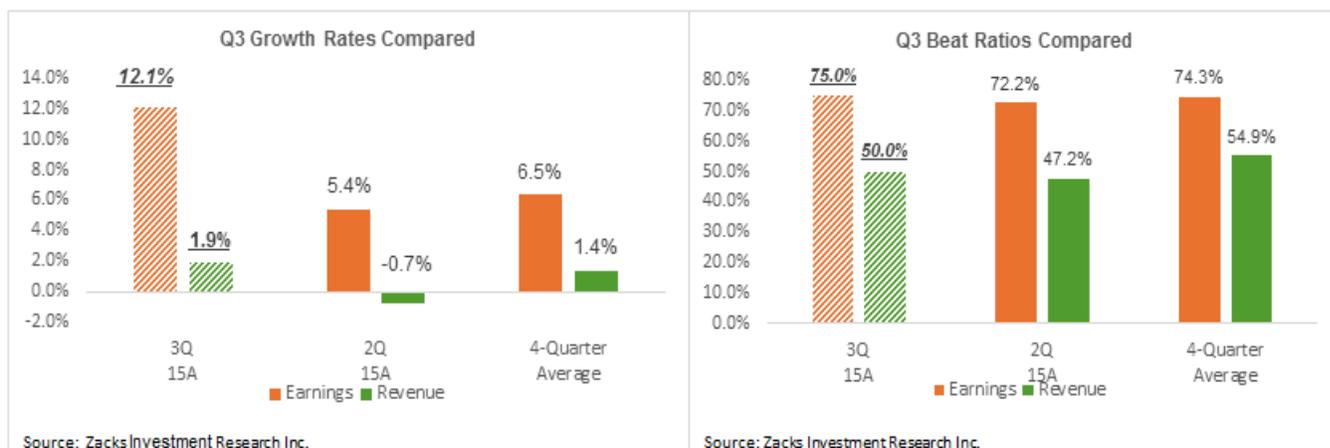
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### Early Read on the Q3 Earnings Season

We haven't seen any major surprises in the Q3 earnings season thus far, though the bulk of the reports are still to come and the sample of reports at this stage is weighted towards the Finance sector. Growth remains challenged, with a combination of a strong U.S. dollar and a tough macroeconomic backdrop weighing on revenue growth. That said, positive revenue surprises are somewhat more numerous this time around relative to comparable periods in other recent reporting cycles. But this seemingly positive development could very well be a function of the very small sample size at this stage (only 7% of S&P 500 members have reported Q3 results).

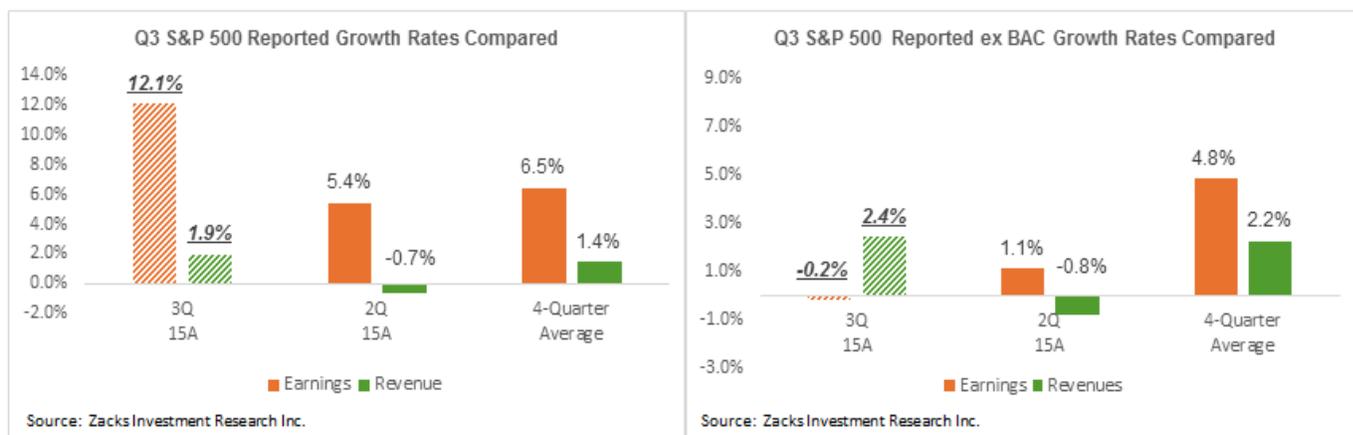
Including this morning's reports, we now have Q3 results from 36 S&P 500 members that combined account for 11.7% of the index's total market capitalization. Total earnings for these 36 index members are up +12.1% from the same period last year on +1.9% higher revenues, with 75% beating EPS estimates and 50% coming ahead of top-line expectations.

This is a better performance than we have seen from the same group of companies in other recent periods, in terms of growth rates and beat ratios. The two side-by-side charts below compare the growth rates and beat ratios for these 36 companies with what these same companies reported in 2015 Q2 as well as the 4-quarter average (the average is for the four quarters through Q2).



Before we get overly excited about the emerging favorable growth picture from the results thus far, please keep in mind that easy comparisons at Bank of America (BAC) are playing a big role in boosting the growth pace at this stage. Bank of America had overall positive results this quarter, more so than what we saw from J.P. Morgan (JPM), but BAC's year-earlier quarter was held down by one of its 'big bath' charges – those

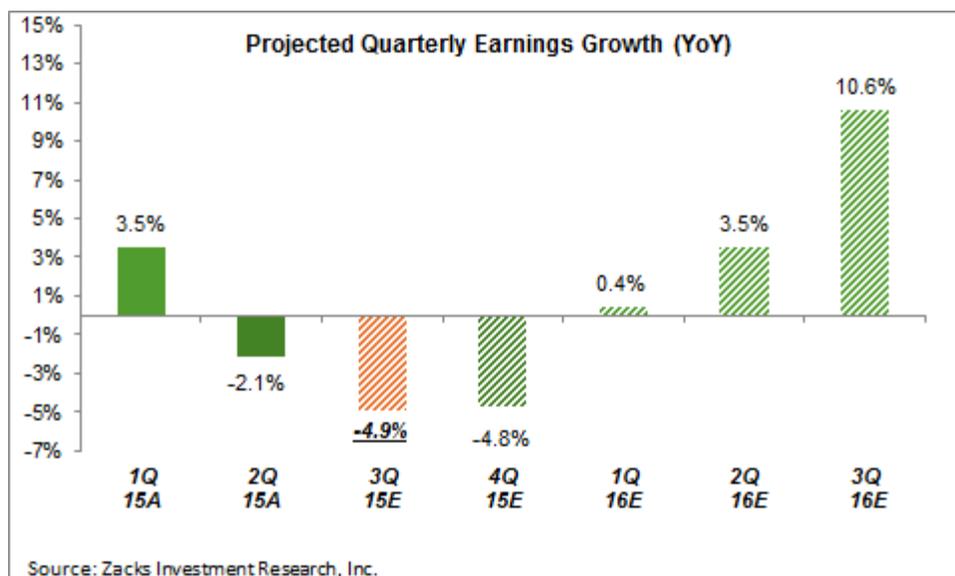
charges have been far more numerous with Bank of America in recent years than with any of its other peers. The Q3 earnings growth picture becomes a lot less impressive once Bank of America is excluded from the results thus far. The charts below show this BAC effect in the results thus far – the left-hand chart includes BAC, the right-hand chart excludes it. As you can see, the exclusion of Bank of America totally deflates the earnings growth rate.



Looking at Q3 as a whole, total earnings for the S&P 500 index are expected to be down -4.9% from the same period last year on an equal decline in revenues. This would follow the -2.1% decline in earnings on -6.4% lower revenues in the preceding quarter. Driving this sub-par growth picture is a combination of global growth challenges, Energy sector weakness, and the strong U.S. dollar.

As indicated earlier, the Energy sector remains the biggest drag in Q3, with total earnings for the sector expected to be down -64.0% on -36.6% lower revenues. Excluding this Energy sector drag, total earnings for the remainder of the S&P 500 index would be up +2.3% on -0.6% revenues.

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 Ramps Up

The Q3 earnings season has gotten underway, with results from 36 S&P 500 members already on the books. The reporting cycle ramps up in a big way in the coming days, with more than 120 index members reporting Q3 results next week.

Total earnings for the 36 S&P 500 members that have reported results already are up +12.1% from the same period last year on +1.9% higher revenues, with 75.0% beating EPS estimates and 50.0% coming ahead of revenue estimates.

The table below provides the updated Scorecard for the companies that have reported results already:

Zacks Sectors	2015 Q3 SCORECARD							
	% Reported		Earnings			Revenues		
	Total Companies	Total Market Cap	Growth YoY	Beat Ratio	Median Surp. %	Growth YoY	Beat Ratio	Median Surp. %
Cons. Staples	15.6%	15.3%	4.6%	80.0%	14.5	-6.1%	60.0%	0.4
Cons. Discretionary	4.9%	10.7%	16.0%	100.0%	10.0	2.8%	100.0%	2.3
Retail/Wholesale	16.3%	9.0%	22.6%	71.4%	3.2	22.8%	28.6%	-1.1
Medical	2.0%	10.4%	-2.8%	100.0%	3.5	-7.4%	0.0%	-1.8
Autos	0.0%	0.0%	NRPT	NRPT	NM	NRPT	NRPT	NM
Basic Materials	9.5%	11.8%	-91.0%	0.0%	-925.0	-10.6%	0.0%	-10.1
Industrial Products	4.5%	2.8%	15.3%	100.0%	3.3	8.8%	100.0%	2.1
Construction	7.7%	8.1%	25.6%	100.0%	21.5	23.7%	100.0%	3.2
Conglomerates	0.0%	0.0%	NRPT	NRPT	NM	NRPT	NRPT	NM
Technology	9.4%	10.5%	-15.7%	66.7%	5.3	-2.1%	66.7%	0.3
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	5.9%	24.9%	31.9%	80.0%	6.7	-1.9%	40.0%	-0.3
Utilities	0.0%	0.0%	NRPT	NRPT	NM	NRPT	NRPT	NM
Transportation	28.6%	27.3%	20.9%	75.0%	2.4	0.8%	25.0%	-1.1
Business Services	8.7%	12.8%	6.0%	100.0%	2.8	1.7%	100.0%	2.0
<b>S&amp;P 500</b>	<b>7.1%</b>	<b>11.7%</b>	<b>12.1%</b>	<b>75.0%</b>	<b>3.5</b>	<b>1.9%</b>	<b>50.0%</b>	<b>0.0</b>
ex Finance	7.4%	9.2%	0.0%	74.2%	N/A	3.5%	51.6%	0.0

Source: Zacks Investment Research, Inc.

Data as of: October 14, 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 use the index's current membership as the basis for all period comparisons, meaning that even historical periods reflect the index's current membership.
- 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.

As mentioned earlier, this is better performance than we have seen from the same group of 36 S&P 500 members in other recent periods, with the earnings growth pace getting a helpful hand from easy comparisons at Bank of America.

For the Finance sector, we currently have Q3 results from 5 of the sector's 85 members in the S&P 500 index. But these 5 carry a lot of weight – they account for almost quarter

of the sector's total market cap in the index. The reason for that is that these 5 include 3 of the big 4 – J.P. Morgan, Wells Fargo and Bank of America. Total earnings for these 5 Finance sector companies are up +31.9% from the same period last year on -1.9% lower revenues, with 80% beating EPS estimates and 40% beating revenue estimates. Excluding Bank of America, earnings growth drops to a decline of -0.5% on -1.5% decline in revenues.

We know it was a tough period for these banks with modest gains in their core loan portfolios offset by soft capital markets activities in a backdrop of persistently low interest rates that has been keeping their net interest margins under pressure. As a result, bank revenues are down, with cost cuts accounting for all of the bottom-line growth.

### **Q3 as a Whole**

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 -4.9% on -5.6% 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 15E	2Q 15A	3Q 15E	2Q 15A	3Q 15E	2Q 15A
Cons. Staples	-4.5%	-0.4%	-12.9%	-6.7%	1.03%	0.70%
Cons. Discretionary	-2.2%	0.9%	-13.6%	-14.6%	1.56%	2.10%
Retail/Wholesale	2.6%	5.0%	7.3%	5.3%	-0.20%	-0.01%
Medical	8.6%	14.9%	8.5%	8.8%	0.01%	0.57%
Autos	20.1%	25.3%	-2.5%	-3.0%	1.10%	1.39%
Basic Materials	-23.6%	3.7%	-9.6%	-9.9%	-1.31%	1.40%
Industrial Products	-23.7%	-14.8%	-11.6%	-9.8%	-1.36%	-0.52%
Construction	7.4%	6.7%	1.7%	2.1%	0.40%	0.29%
Conglomerates	-15.4%	-8.4%	-11.5%	-10.2%	-0.48%	0.22%
Technology	2.3%	1.9%	3.7%	2.1%	-0.22%	-0.03%
Aerospace	-7.4%	-9.4%	1.0%	4.6%	-0.63%	-1.05%
Oil/Energy	-64.0%	-60.3%	-36.6%	-31.6%	-3.46%	-3.34%
Finance	9.6%	7.2%	-3.7%	-14.2%	2.02%	3.82%
Utilities	-4.2%	4.8%	-2.1%	-5.7%	-0.24%	0.96%
Transportation	18.8%	12.6%	-0.9%	-2.0%	1.98%	1.50%
Business Services	0.7%	9.1%	1.3%	-0.4%	-0.09%	1.34%
<b>S&amp;P 500</b>	<b>-4.9%</b>	<b>-2.1%</b>	<b>-5.6%</b>	<b>-6.4%</b>	<b>0.07%</b>	<b>0.47%</b>
ex Finance	-8.2%	-4.4%	-5.8%	-5.3%	-0.24%	0.09%
ex Oil/Energy	2.3%	5.0%	-0.6%	-2.3%	0.31%	0.80%

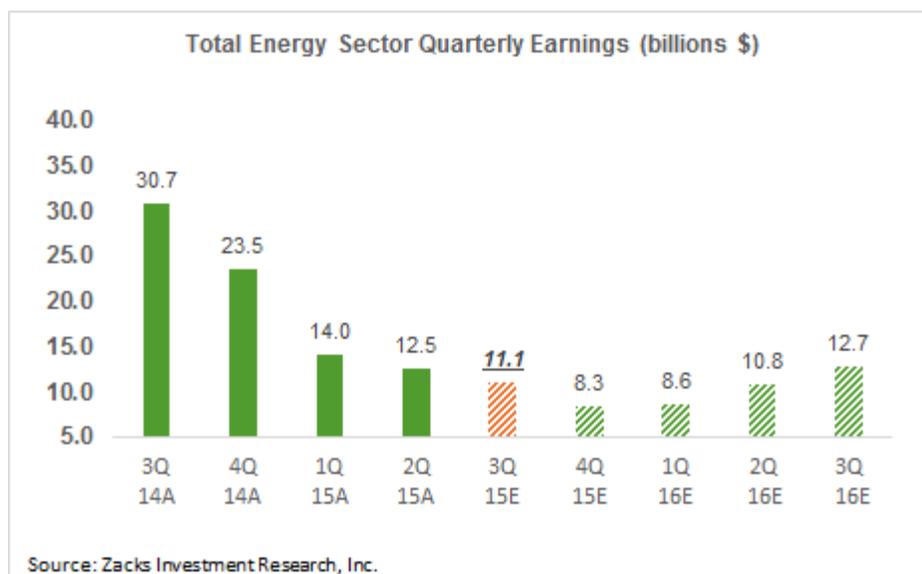
Source: Zacks Investment Research, Inc.

Data as of: October 14, 2015 [www.zacks.com](http://www.zacks.com)

## 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 +2.3% on -0.6% 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.



You can see from the above chart how tough the sector's year-over-year comparisons are at present. But you can also see here that the comparisons issue loses its bite in the second half of 2016.

### Other Standout Sectors

- 8 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 (-23.7%), Basic Materials (-23.6%), and Conglomerates (-15.4%).
- 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 Autos 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 (+9.6% earnings growth expected) is largely due to easy comparisons at Bank of America.
- Earnings for the Technology sector are expected to be up +2.3% from the same period last year. Excluding Apple, the sector's growth turns negative. (Please note that the Zacks Technology sector also includes the Telecom players like AT&T and Verizon that are expected to have strong growth in Q3). Excluding Apple, AT&T and Verizon, total Tech sector earnings would be down -7.3% from the same period last year.

## 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)								
	3Q 16E	2Q 16E	1Q 16E	4Q 15E	3Q 15E	2Q 15A	1Q 15A	4Q 14A	3Q 14A
Cons. Staples	9.2%	3.8%	5.7%	-5.2%	<b>-4.5%</b>	-0.4%	1.1%	1.8%	3.9%
Cons. Discretionary	0.3%	-4.7%	-7.1%	-12.7%	<b>-2.2%</b>	0.9%	4.1%	10.8%	12.0%
Retail/Wholesale	20.2%	4.7%	21.1%	-13.5%	<b>2.6%</b>	5.0%	6.2%	6.1%	3.4%
Medical	13.1%	4.9%	-7.0%	8.2%	<b>8.6%</b>	14.9%	20.2%	23.2%	15.1%
Autos	13.2%	11.6%	25.4%	-0.4%	<b>20.1%</b>	25.3%	26.4%	41.8%	-21.6%
Basic Materials	25.7%	3.4%	2.3%	-16.1%	<b>-23.6%</b>	3.7%	-2.1%	3.2%	17.1%
Industrial Products	10.4%	1.0%	-8.5%	-17.9%	<b>-23.7%</b>	-14.8%	-6.2%	2.1%	5.1%
Construction	12.8%	15.1%	20.1%	0.0%	<b>7.4%</b>	6.7%	4.1%	18.6%	17.2%
Conglomerates	20.9%	8.7%	1.2%	-6.1%	<b>-15.4%</b>	-8.4%	0.6%	10.0%	6.9%
Technology	11.7%	8.8%	4.7%	-0.8%	<b>2.3%</b>	1.9%	9.9%	14.3%	8.2%
Aerospace	16.8%	14.4%	2.3%	-3.2%	<b>-7.4%</b>	-9.4%	0.7%	14.4%	9.1%
Oil/Energy	14.9%	-13.7%	-38.4%	-64.6%	<b>-64.0%</b>	-60.3%	-54.3%	-17.3%	7.9%
Finance	7.3%	1.2%	2.6%	13.9%	<b>9.6%</b>	7.2%	16.5%	-1.0%	4.0%
Utilities	2.9%	1.6%	-8.5%	-4.2%	<b>-4.2%</b>	4.8%	4.8%	1.3%	1.8%
Transportation	-4.9%	-0.6%	3.5%	14.4%	<b>18.8%</b>	12.6%	71.2%	29.7%	30.9%
Business Services	16.3%	5.0%	6.9%	2.8%	<b>0.7%</b>	9.1%	7.0%	10.4%	9.9%
<b>S&amp;P 500</b>	<b>10.6%</b>	<b>3.5%</b>	<b>0.4%</b>	<b>-4.8%</b>	<b>-4.9%</b>	<b>-2.1%</b>	<b>3.5%</b>	<b>7.1%</b>	<b>7.5%</b>
ex Finance	11.5%	4.1%	-0.2%	-8.7%	<b>-8.2%</b>	-4.4%	0.4%	9.0%	8.3%
ex Oil/Energy	10.4%	4.3%	2.5%	0.5%	<b>2.3%</b>	5.0%	11.2%	9.9%	7.4%

Source: Zacks Investment Research, Inc.

Data as of: October 14, 2015

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Table 3 – Revenue Growth Context

Zacks Sectors	Revenue Growth (YoY)								
	3Q 16E	2Q 16E	1Q 16E	4Q 15E	3Q 15E	2Q 15A	1Q 15A	4Q 14A	3Q 14A
Cons. Staples	4.0%	-4.1%	-4.9%	-7.9%	<b>-12.9%</b>	-6.7%	-4.0%	-2.5%	-0.4%
Cons. Discretionary	7.0%	8.5%	-11.9%	-10.5%	<b>-13.6%</b>	-14.6%	1.0%	4.1%	5.8%
Retail/Wholesale	8.1%	2.1%	13.2%	-2.0%	<b>7.3%</b>	5.3%	4.8%	5.4%	5.9%
Medical	6.8%	7.1%	5.7%	9.3%	<b>8.5%</b>	8.8%	11.1%	11.9%	12.1%
Autos	3.8%	0.9%	2.5%	-2.7%	<b>-2.5%</b>	-3.0%	-4.5%	-1.4%	0.9%
Basic Materials	9.9%	8.8%	5.7%	-7.0%	<b>-9.6%</b>	-9.9%	-10.7%	-2.1%	2.5%
Industrial Products	-0.9%	-3.6%	-11.4%	-6.4%	<b>-11.6%</b>	-9.8%	-6.2%	-2.3%	-0.3%
Construction	6.8%	4.8%	-6.4%	0.9%	<b>1.7%</b>	2.1%	2.1%	5.5%	4.5%
Conglomerates	5.6%	3.4%	0.2%	-6.8%	<b>-11.5%</b>	-10.2%	-7.5%	2.7%	-0.3%
Technology	4.4%	6.5%	4.4%	7.9%	<b>3.7%</b>	2.1%	4.8%	7.7%	6.6%
Aerospace	1.2%	0.2%	1.4%	-1.3%	<b>1.0%</b>	4.6%	2.7%	4.5%	2.5%
Oil/Energy	-36.2%	-45.0%	-48.4%	-25.6%	<b>-36.6%</b>	-31.6%	-34.7%	-13.6%	-2.6%
Finance	3.2%	15.6%	-1.9%	-3.8%	<b>-3.7%</b>	-14.2%	1.6%	1.5%	4.8%
Utilities	-9.4%	-7.8%	-11.9%	0.8%	<b>-2.1%</b>	-5.7%	-2.8%	5.5%	4.7%
Transportation	4.1%	4.3%	3.2%	0.1%	<b>-0.9%</b>	-2.0%	1.7%	8.2%	11.3%
Business Services	6.0%	5.8%	5.9%	2.5%	<b>1.3%</b>	-0.4%	0.9%	3.2%	5.6%
<b>S&amp;P 500</b>	1.1%	<b>-0.1%</b>	<b>-2.6%</b>	<b>-3.3%</b>	<b>-5.6%</b>	<b>-6.4%</b>	<b>-3.1%</b>	2.0%	4.2%
ex Finance	0.8%	-2.2%	-2.7%	-3.2%	<b>-5.8%</b>	-5.3%	-3.8%	2.0%	4.2%
ex Oil/Energy	4.9%	5.0%	2.2%	-0.3%	<b>-0.6%</b>	-2.3%	2.0%	4.4%	5.4%

Source: Zacks Investment Research, Inc.

Data as of: [October 14, 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)								
	3Q 16E	2Q 16E	1Q 16E	4Q 15E	3Q 15E	2Q 15A	1Q 15A	4Q 14A	3Q 14A
Cons. Staples	20.1	19.5	17.4	17.7	18.4	18.8	16.5	18.7	19.3
Cons. Discretionary	16.9	15.5	13.4	15.1	16.8	16.2	14.4	17.3	17.2
Retail/Wholesale	22.7	20.0	22.4	18.2	18.9	19.1	18.5	21.0	18.4
Medical	42.4	42.4	35.3	37.9	37.5	40.4	37.9	35.1	34.5
Autos	7.2	7.6	5.8	6.3	6.3	6.8	4.6	6.3	5.3
Basic Materials	7.0	9.1	8.6	6.1	5.6	8.8	8.5	7.2	7.3
Industrial Products	6.1	6.1	5.0	5.0	5.5	6.0	5.4	6.1	7.3
Construction	2.4	2.1	1.3	1.8	2.1	1.8	1.1	1.8	2.0
Conglomerates	8.8	8.7	7.6	10.1	7.2	8.0	7.5	10.8	8.6
Technology	59.3	59.6	57.7	65.7	53.1	54.8	55.1	66.3	51.9
Aerospace	5.1	4.9	4.5	4.9	4.4	4.3	4.4	5.1	4.7
Oil/Energy	12.7	10.8	8.6	8.3	11.1	12.5	14.0	23.5	30.7
Finance	62.1	60.5	59.5	58.1	57.9	59.8	58.0	51.0	52.8
Utilities	10.5	7.5	8.6	6.5	10.2	7.4	9.4	6.8	10.7
Transportation	9.6	9.5	6.9	8.4	10.1	9.6	6.6	7.3	8.5
Business Services	8.0	7.7	7.2	7.5	6.9	7.3	6.7	7.3	6.8
<b>S&amp;P 500</b>	<b>301.0</b>	<b>291.5</b>	<b>269.9</b>	<b>277.5</b>	<b>272.1</b>	<b>281.7</b>	<b>268.8</b>	<b>291.4</b>	<b>286.0</b>
ex Finance	238.9	231.0	210.4	219.5	214.2	221.9	210.8	240.4	233.2

Source: Zacks Investment Research, Inc.

Data as of: October 14, 2015

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Table 5 – Total Quarterly Revenues

Zacks Sectors	Quarterly Revenues (billion dollars)								
	3Q 16E	2Q 16E	1Q 16E	4Q 15E	3Q 15E	2Q 15A	1Q 15A	4Q 14A	3Q 14A
Cons. Staples	163.8	163.6	153.4	169.4	<b>157.5</b>	170.6	161.4	183.8	180.8
Cons. Discretionary	134.6	129.6	125.2	133.6	<b>125.7</b>	119.4	142.0	149.3	145.5
Retail/Wholesale	471.1	449.4	472.3	441.7	<b>436.0</b>	440.2	417.3	450.8	406.3
Medical	397.6	397.9	373.9	390.1	<b>372.4</b>	371.6	353.9	356.8	343.1
Autos	112.3	111.8	106.0	108.7	<b>108.2</b>	110.8	103.4	111.7	111.0
Basic Materials	86.2	90.2	83.8	78.3	<b>78.5</b>	82.9	79.3	84.2	86.7
Industrial Products	64.0	64.6	58.2	64.4	<b>64.6</b>	67.0	65.7	68.8	73.1
Construction	30.4	27.8	22.2	27.7	<b>28.5</b>	26.6	23.7	27.4	28.0
Conglomerates	73.1	74.1	68.5	79.8	<b>69.2</b>	71.7	68.4	85.6	78.1
Technology	346.6	345.5	344.3	393.4	<b>331.9</b>	324.5	329.7	364.8	320.0
Aerospace	63.7	63.6	59.6	65.7	<b>62.9</b>	63.5	58.8	66.6	62.3
Oil/Energy	155.5	148.9	127.3	247.4	<b>243.6</b>	270.7	246.8	332.4	384.4
Finance	360.5	361.9	355.5	347.6	<b>349.1</b>	313.2	362.4	361.3	362.5
Utilities	82.4	71.5	80.1	89.3	<b>91.0</b>	77.5	91.0	88.6	93.0
Transportation	87.9	86.6	80.2	82.9	<b>84.5</b>	83.0	77.7	82.8	85.2
Business Services	50.6	50.0	48.2	49.6	<b>47.8</b>	47.3	45.5	48.4	47.2
<b>S&amp;P 500</b>	<b>2680.3</b>	<b>2637.0</b>	<b>2558.9</b>	<b>2769.5</b>	<b>2651.3</b>	<b>2640.5</b>	<b>2627.1</b>	<b>2863.3</b>	<b>2807.2</b>
ex Finance	2319.9	2275.1	2203.3	2422.0	<b>2302.2</b>	2327.3	2264.7	2502.0	2444.7

Source: Zacks Investment Research, Inc.  
Data as of: [October 14, 2015](#) [www.zacks.com](http://www.zacks.com)

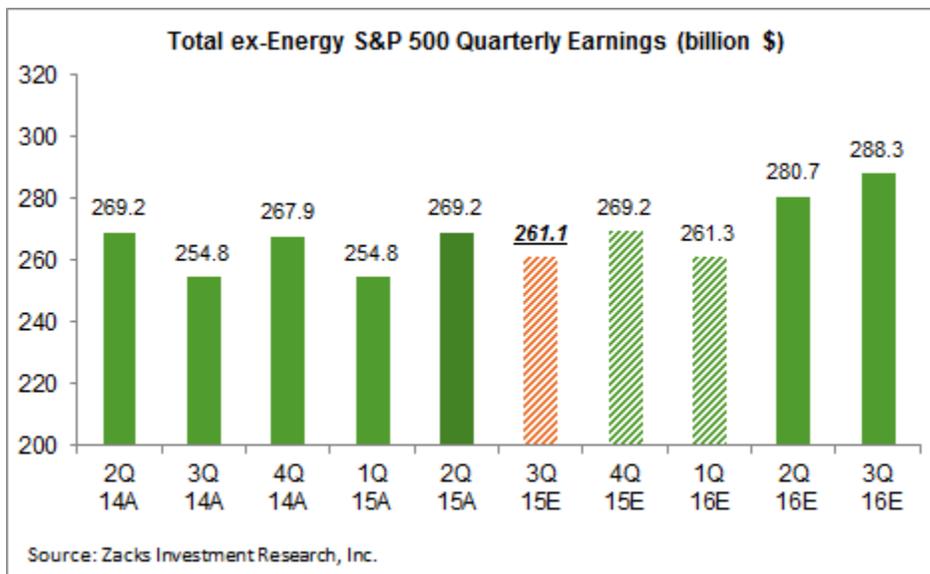
It may be obvious, but it's still useful to explain what we mean by total earnings.

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 \$281.7 billion in 2015 Q2 vs. \$268.8 billion in 2015 Q1 and \$291.4 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 \$115.31 this year on a bottom-up basis and \$119.69 on a top-down basis.

Zacks Sectors	P/E Ratios			Price Change	
	F0	F1	F2	YTD	52-Weeks
Cons. Staples	20.6	21.2	19.4	7.9%	16.1%
Cons. Discretionary	21.1	19.6	16.9	1.2%	14.8%
Retail/Wholesale	23.9	22.9	20.2	0.0%	17.7%
Medical	18.5	16.7	15.3	-1.7%	11.9%
Autos	12.8	10.0	8.9	-10.1%	7.2%
Basic Materials	14.8	15.7	13.7	-12.5%	-7.3%
Industrial Products	14.6	15.8	15.1	-8.8%	3.2%
Construction	20.7	19.1	15.8	0.6%	13.0%
Conglomerates	17.5	19.4	17.0	-3.7%	9.1%
Technology	16.8	16.2	15.2	-3.2%	10.5%
Aerospace	17.4	17.3	15.4	1.8%	16.3%
Oil/Energy	11.5	28.5	26.6	-15.2%	-16.6%
Finance	15.0	12.9	12.1	-4.7%	5.3%
Utilities	16.6	16.6	15.9	-9.3%	-1.2%
Transportation	15.6	12.3	12.2	-13.3%	8.3%
Business Services	24.5	22.4	19.8	7.2%	22.7%
<b>S&amp;P 500</b>	<b>17.1</b>	<b>17.1</b>	<b>15.7</b>	<b>-3.7%</b>	<b>7.7%</b>
<b>Bottom-up Index</b>					
'EPS' (Implied)	\$ 116.92	\$ 117.04	\$ 127.51	-	-
<b>Bottom-up Index</b>					
'EPS' (Calculated)	\$ 114.35	\$ 115.31	\$ 125.50		
<b>Top-down Index</b>					
'EPS'	\$ 114.98	\$ 119.69	\$ 130.18	-	-
<p>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</p>					

## 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							
	2Q 16E	1Q 16E	4Q 15E	3Q 15E	2Q 15A	1Q 15A	4Q 14A	3Q 14A
Cons. Staples	11.9%	11.4%	10.4%	<b>11.7%</b>	11.0%	10.2%	10.1%	10.7%
Cons. Discretionary	11.9%	10.7%	11.3%	<b>13.4%</b>	13.6%	10.1%	11.6%	11.8%
Retail/Wholesale	4.4%	4.7%	4.1%	<b>4.3%</b>	4.3%	4.4%	4.7%	4.5%
Medical	10.7%	9.4%	9.7%	<b>10.1%</b>	10.9%	10.7%	9.8%	10.1%
Autos	6.8%	5.5%	5.8%	<b>5.8%</b>	6.2%	4.5%	5.6%	4.7%
Basic Materials	10.1%	10.3%	7.7%	<b>7.1%</b>	10.6%	10.7%	8.6%	8.4%
Industrial Products	9.4%	8.6%	7.8%	<b>8.6%</b>	9.0%	8.3%	8.9%	10.0%
Construction	7.5%	5.8%	6.3%	<b>7.5%</b>	6.8%	4.5%	6.4%	7.1%
Conglomerates	11.7%	11.1%	12.7%	<b>10.5%</b>	11.1%	11.0%	12.6%	11.0%
Technology	17.3%	16.8%	16.7%	<b>16.0%</b>	16.9%	16.7%	18.2%	16.2%
Aerospace	7.8%	7.6%	7.4%	<b>6.9%</b>	6.8%	7.6%	7.6%	7.6%
Oil/Energy	7.3%	6.8%	3.4%	<b>4.5%</b>	4.6%	5.7%	7.1%	8.0%
Finance	16.7%	16.7%	16.7%	<b>16.6%</b>	19.1%	16.0%	14.1%	14.6%
Utilities	10.5%	10.7%	7.3%	<b>11.2%</b>	9.5%	10.3%	7.7%	11.5%
Transportation	11.0%	8.6%	10.1%	<b>12.0%</b>	11.5%	8.5%	8.9%	10.0%
Business Services	15.3%	14.9%	15.1%	<b>14.4%</b>	15.4%	14.8%	15.1%	14.5%
<b>S&amp;P 500</b>	<b>11.1%</b>	<b>10.5%</b>	<b>10.0%</b>	<b>10.3%</b>	<b>10.7%</b>	<b>10.2%</b>	<b>10.2%</b>	<b>10.2%</b>
ex Finance	10.2%	9.5%	9.1%	<b>9.3%</b>	9.5%	9.3%	9.6%	9.5%
ex Oil/Energy	11.3%	10.7%	10.7%	10.8%	11.4%	10.7%	10.6%	10.5%

Source: Zacks Investment Research, Inc.

Data as of: 10/14/15 9:32 AM www.zacks.com

The table 7 below shows net margins on a trailing four-quarter basis. So, the 10.3 % 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									
	3Q 16E	2Q 16E	1Q 16E	4Q 15E	3Q 15E	2Q 15A	1Q 15A	4Q 14A	3Q 14A	2Q 14A
Cons. Staples	11.5%	11.3%	11.1%	10.8%	<b>10.8%</b>	10.5%	10.3%	10.2%	10.1%	10.0%
Cons. Discretionary	11.6%	11.8%	12.2%	12.0%	<b>12.1%</b>	11.7%	11.3%	11.2%	11.0%	10.8%
Retail/Wholesale	4.5%	4.4%	4.4%	4.3%	<b>4.4%</b>	4.5%	4.5%	4.5%	4.5%	4.5%
Medical	10.1%	10.0%	10.0%	10.3%	<b>10.4%</b>	10.4%	10.2%	10.0%	9.8%	9.7%
Autos	6.1%	6.0%	5.8%	5.6%	<b>5.5%</b>	5.3%	4.9%	4.6%	4.2%	4.5%
Basic Materials	9.1%	8.9%	9.0%	9.1%	<b>9.3%</b>	9.6%	9.2%	9.0%	8.9%	8.6%
Industrial Products	8.8%	8.6%	8.5%	8.4%	<b>8.7%</b>	9.0%	9.2%	9.2%	9.1%	8.9%
Construction	7.0%	6.9%	6.7%	6.4%	<b>6.4%</b>	6.3%	6.2%	6.2%	6.0%	5.8%
Conglomerates	11.9%	11.6%	11.4%	11.4%	<b>11.4%</b>	11.5%	11.4%	11.2%	11.0%	10.8%
Technology	17.0%	16.7%	16.6%	16.6%	<b>17.0%</b>	17.0%	17.0%	16.9%	16.6%	16.5%
Aerospace	7.7%	7.4%	7.2%	7.2%	<b>7.2%</b>	7.4%	7.6%	7.7%	7.5%	7.4%
Oil/Energy	6.0%	5.1%	4.6%	4.5%	<b>5.6%</b>	6.5%	7.3%	7.8%	7.9%	7.7%
Finance	16.9%	16.7%	17.2%	17.0%	<b>16.4%</b>	15.8%	15.0%	14.5%	14.6%	14.6%
Utilities	10.2%	9.9%	9.7%	9.6%	<b>9.7%</b>	9.8%	9.6%	9.4%	9.5%	9.5%
Transportation	10.2%	10.4%	10.6%	10.6%	<b>10.3%</b>	9.7%	9.4%	8.6%	8.2%	7.8%
Business Services	15.3%	14.9%	15.0%	14.9%	<b>14.9%</b>	15.0%	14.6%	14.4%	14.2%	14.0%
<b>S&amp;P 500</b>	10.7%	10.5%	<b>10.4%</b>	<b>10.3%</b>	<b>10.3%</b>	<b>10.3%</b>	<b>10.2%</b>	<b>10.0%</b>	<b>9.9%</b>	<b>9.8%</b>
ex Finance	9.8%	9.5%	9.4%	9.3%	<b>9.4%</b>	9.5%	9.5%	9.4%	9.2%	9.1%

Source: Zacks Investment Research, Inc.  
Data as of: 10/14/2015 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.

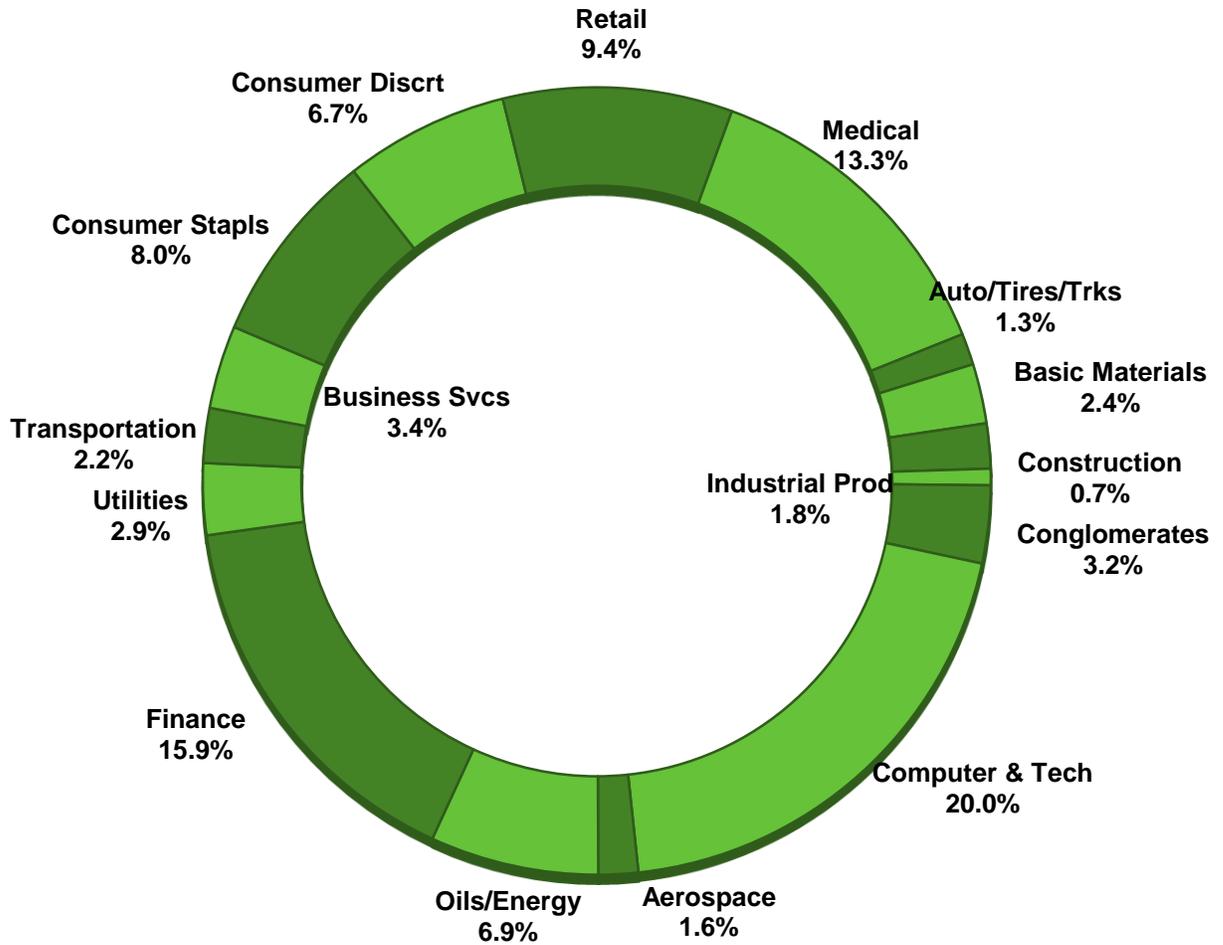
We may not be at the contraction stage yet, but we do need to buy into fairly optimistic assumptions about productivity improvements for current consensus margin expansion expectations to pan out.

### Market Cap vs. Total Earnings

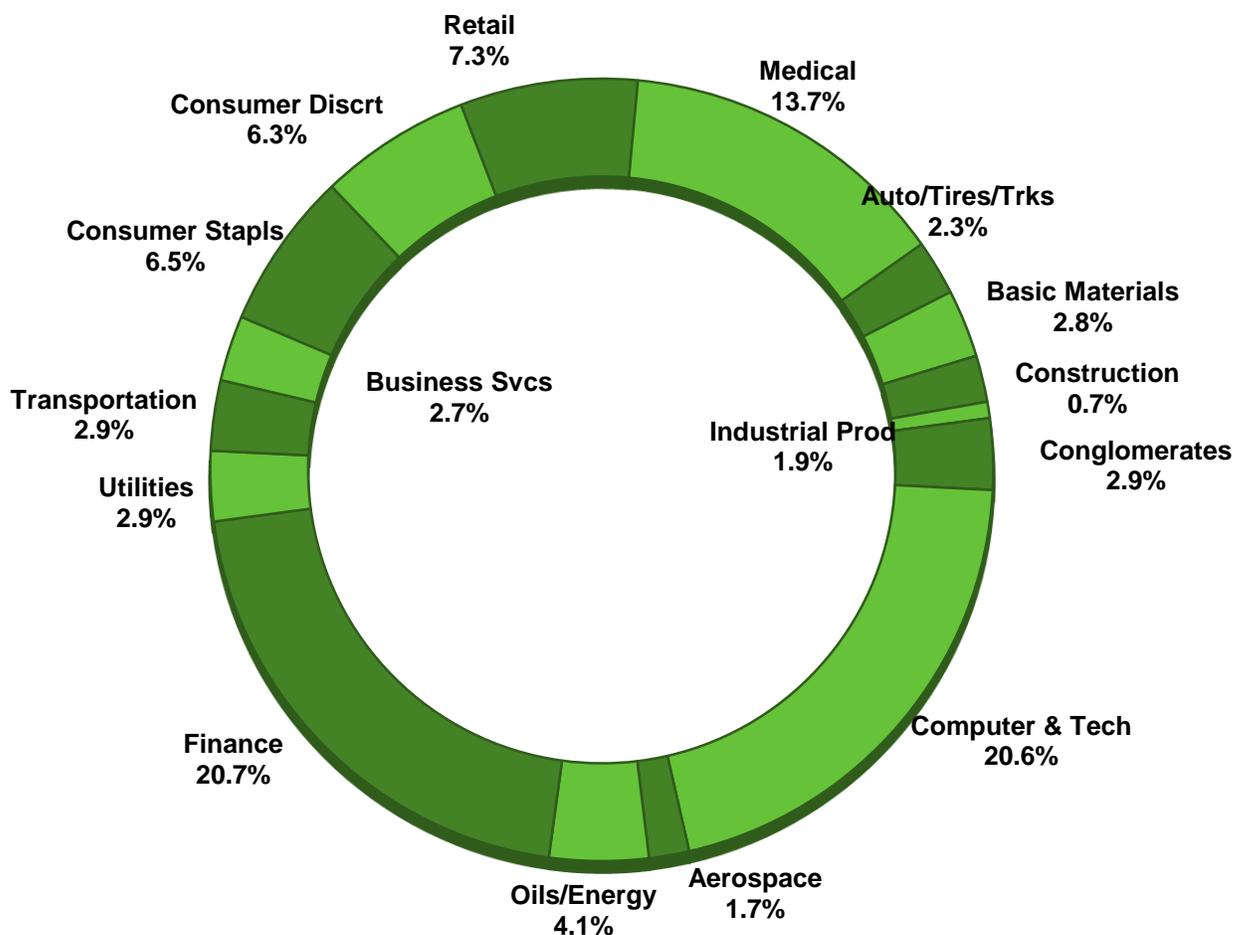
The charts below show the share of estimated total earnings for 2015 as well as the share of total market capitalization for each of the 16 Zacks sectors. Since the S&P 500 is a market-cap weighted index, each sector's market cap share is also its index weight.

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



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