



3Q results will once again highlight a divergence between a sharp profit recession at Energy, Industrials, Materials, but decent EPS growth elsewhere. 3Q won't be great for Banks ex. litigation. But Health Care, most of Consumer Discretionary and consumer exposed Tech will be good. Because of this ongoing divergence in EPS growth and also shareholder distribution coverage, we advocate a LIFO strategy, meaning that stocks last into the correction will likely be first out, as opposed to a FIFO or YTD momentum reversal strategy.

Figure 5: S&P 500 quarterly EPS & Sales growth and Net Margins by sector (3Q15 is blended with actual for reported and consensus for the rest)

EPS growth (y/y)	2011				2012				2013				2014				2015			
	10Q1	2011	3011	4Q11	1012	2012	3012	4Q12	1013	2013	3013	4Q13	1014	2014	3Q14	4Q14	1015	2015	3Q15	
S&P 500	18.4%	12.3%	17.8%	9.9%	10.5%	8.2%	8.2%	7.3%	8.7%	8.2%	8.8%	10.4%	5.2%	8.2%	10.0%	6.7%	2.8%	1.7%	-4.4%	
S&P 500 ex. Financials	21.1%	19.2%	19.8%	11.6%	9.3%	2.2%	-0.2%	5.9%	3.1%	1.3%	7.2%	7.5%	6.5%	13.5%	9.5%	9.1%	-0.3%	-1.7%	-7.0%	
S&P 500 ex. Energy	15.9%	8.0%	11.9%	9.4%	11.8%	12.7%	6.1%	6.4%	5.5%	8.3%	7.7%	13.3%	5.9%	8.2%	10.8%	10.6%	11.1%	9.4%	3.2%	
S&P 500 ex. Tech	17.1%	9.9%	19.0%	7.5%	8.8%	8.2%	3.2%	8.8%	6.4%	8.3%	5.0%	10.2%	4.5%	7.7%	10.9%	3.4%	1.8%	0.3%	-6.0%	
S&P ex. Energy & Financials	18.4%	15.2%	13.1%	11.3%	10.7%	5.9%	2.4%	4.5%	3.2%	3.0%	10.0%	10.0%	7.7%	12.7%	9.3%	14.4%	9.7%	7.4%	2.1%	
S&P ex. Energy, Financials, Healthcare	20.4%	16.7%	13.2%	11.3%	12.9%	5.9%	2.4%	5.0%	3.3%	2.4%	10.2%	10.8%	7.0%	11.5%	8.0%	12.9%	7.7%	6.0%	1.2%	
Consumer Discretionary	18.1%	7.8%	29.7%	13.5%	11.3%	-0.1%	8.1%	13.7%	8.1%	14.2%	21.6%	7.1%	7.3%	7.6%	-1.5%	15.7%	9.3%	12.3%	0.9%	
Mobile & Specialty Retail	15.7%	16.4%	18.6%	14.9%	24.5%	9.2%	13.1%	13.2%	8.6%	17.2%	13.9%	6.2%	4.9%	7.7%	11.4%	22.0%	17.2%	17.2%	12.0%	
Auto, Disc. ex. Auto & Home Builders	12.7%	21.9%	19.9%	17.4%	18.9%	8.5%	17.2%	11.1%	11.8%	17.1%	13.5%	5.1%	14.4%	17.0%	12.3%	14.0%	8.2%	7.7%	5.3%	
Consumer Staples	8.5%	11.3%	10.3%	6.4%	7.6%	3.9%	1.4%	9.9%	-2.5%	2.4%	6.0%	4.2%	4.0%	7.4%	6.5%	0.3%	4.8%	0.9%	-2.3%	
Energy	36.0%	41.0%	62.7%	13.2%	2.7%	-14.2%	-11.9%	13.3%	2.3%	-7.0%	-7.4%	-8.9%	0.0%	18.0%	10.9%	-24.9%	-57.0%	-56.1%	-64.0%	
Energy Equipment & Services	-2.8%	19.0%	28.8%	28.1%	34.9%	15.7%	8.8%	-4.9%	-1.9%	2.0%	10.7%	18.5%	15.9%	20.9%	18.7%	22.2%	22.3%	44.8%	-60.0%	
Oil Gas & Consumable Fuels	42.6%	44.5%	66.3%	11.2%	-0.3%	-17.2%	-14.6%	16.9%	2.9%	-1.1%	-10.4%	-12.2%	-2.4%	18.2%	9.7%	-33.6%	-63.2%	-58.3%	-65.0%	
Financials	6.3%	-23.9%	6.6%	0.9%	16.0%	54.4%	23.3%	15.4%	14.0%	30.6%	-8.9%	24.7%	-3.4%	-1.6%	-6.5%	17.0%	-3.4%	16.2%	17.3%	7.4%
Financials ex. BAC, C&JM	10.8%	3.5%	8.9%	0.8%	25.1%	16.8%	42.5%	13.3%	11.3%	27.4%	17.6%	22.2%	7.3%	8.7%	11.8%	3.9%	7.7%	3.9%	-1.0%	
Health Care	10.0%	8.0%	12.5%	11.2%	5.4%	7.0%	2.2%	1.9%	2.7%	5.0%	8.8%	9.7%	10.9%	18.2%	15.8%	22.5%	18.4%	13.3%	8.2%	
Industrials	28.7%	16.2%	17.0%	18.0%	19.3%	16.8%	5.0%	-3.0%	5.7%	2.3%	8.8%	20.5%	3.0%	14.0%	14.9%	14.0%	10.3%	-0.1%	-3.0%	
Industrial ex. Defense	25.2%	17.7%	19.0%	19.5%	19.8%	18.2%	8.2%	-2.9%	8.4%	2.8%	8.8%	22.0%	2.2%	15.8%	14.7%	17.2%	17.8%	-1.5%	-3.7%	
Information Technology	23.9%	23.3%	11.5%	18.5%	17.5%	8.7%	3.5%	2.4%	0.0%	-2.2%	9.2%	10.9%	8.1%	17.0%	10.5%	18.2%	10.4%	7.9%	2.9%	
Software, IARS & GOOG	12.1%	11.8%	5.2%	3.0%	3.7%	8.8%	0.0%	1.7%	5.0%	2.7%	11.9%	12.8%	5.1%	15.0%	7.8%	9.1%	2.8%	-0.2%	-4.9%	
Materials	16.9%	8.3%	23.6%	-16.9%	-3.0%	-13.2%	-21.9%	13.8%	0.1%	-3.4%	9.8%	17.5%	-1.2%	10.4%	20.0%	3.4%	2.1%	8.2%	-15.1%	
Telecommunication Services	-8.0%	-3.0%	3.7%	-19.2%	9.9%	13.2%	12.9%	3.7%	10.4%	5.4%	8.9%	23.6%	15.7%	10.4%	3.6%	7.3%	0.8%	9.7%	11.4%	
Utilities	5.5%	8.9%	1.4%	-1.3%	-6.8%	-6.5%	-7.9%	9.0%	1.9%	-2.8%	2.1%	-4.9%	22.4%	0.4%	1.8%	9.4%	2.4%	4.2%	-2.3%	

Sales growth (y/y)	2011				2012				2013				2014				2015		
	10Q1	2011	3011	4Q11	1012	2012	3012	4Q12	1013	2013	3013	4Q13	1014	2014	3Q14	4Q14	1015	2015	3Q15
S&P 500	10.2%	12.9%	12.1%	8.6%	8.7%	2.2%	1.9%	5.2%	1.7%	2.9%	3.7%	2.1%	3.8%	4.9%	4.3%	1.4%	-3.2%	-3.7%	-3.4%
S&P 500 ex. Financials	12.3%	15.1%	13.7%	10.4%	7.3%	2.1%	1.2%	3.5%	1.4%	2.6%	4.2%	3.6%	3.8%	5.2%	4.1%	1.7%	-4.2%	-4.4%	-4.4%
S&P 500 ex. Energy	7.8%	9.2%	9.1%	7.1%	6.2%	3.9%	2.7%	6.6%	3.4%	3.8%	3.9%	2.8%	3.8%	5.3%	5.8%	4.7%	1.2%	1.1%	2.4%
S&P 500 ex. Tech	9.8%	12.7%	12.3%	8.0%	6.3%	1.7%	1.0%	5.0%	1.4%	3.0%	3.8%	1.8%	3.2%	4.5%	3.0%	0.5%	-4.2%	-4.5%	-3.9%
S&P ex. Energy & Financials	9.9%	11.1%	10.0%	8.0%	6.9%	4.0%	2.9%	4.6%	3.3%	3.7%	4.6%	4.3%	4.5%	5.9%	5.7%	5.9%	1.8%	1.2%	2.1%
S&P ex. Energy, Financials, Healthcare	10.0%	12.0%	10.9%	9.2%	7.1%	3.2%	2.3%	3.9%	2.6%	3.3%	3.8%	3.7%	3.6%	4.8%	4.4%	4.1%	0.9%	-0.4%	0.8%
Consumer Discretionary	10.2%	9.7%	11.5%	8.9%	7.1%	1.6%	2.6%	3.9%	3.0%	6.7%	5.9%	4.6%	4.5%	4.7%	4.1%	3.7%	0.5%	2.1%	4.2%
Mobile & Specialty Retail	3.8%	5.5%	4.8%	5.2%	8.7%	3.7%	2.2%	3.4%	1.6%	5.1%	4.4%	7.3%	3.2%	5.6%	5.5%	5.5%	4.0%	3.9%	5.3%
Auto, Disc. ex. Auto & Home Builders	11.0%	10.4%	12.3%	10.1%	8.7%	5.9%	3.4%	2.7%	3.9%	6.8%	5.0%	3.9%	3.2%	5.2%	5.2%	4.6%	7.8%	2.6%	3.9%
Consumer Staples	8.1%	10.2%	12.8%	9.9%	8.3%	4.1%	3.8%	3.4%	2.6%	2.9%	2.5%	3.2%	1.4%	3.3%	2.8%	1.4%	1.8%	0.7%	1.5%
Energy	24.7%	34.8%	29.7%	19.3%	9.1%	-5.9%	-5.4%	-1.6%	-7.1%	-2.2%	2.3%	-0.9%	0.6%	2.3%	-3.5%	-10.4%	-34.0%	-31.7%	-36.9%
Energy Equipment & Services	30.8%	34.4%	36.6%	28.2%	25.7%	17.9%	17.2%	18.9%	4.7%	9.3%	8.9%	4.4%	7.2%	3.2%	7.0%	8.9%	-10.3%	-24.8%	-30.8%
Oil Gas & Consumable Fuels	24.2%	34.8%	30.0%	18.7%	7.7%	-1.6%	-8.9%	-3.4%	8.2%	-3.4%	7.6%	-0.9%	-0.2%	1.2%	-4.7%	-20.9%	-37.8%	-32.8%	-37.4%
Financials	-1.4%	0.0%	2.0%	-0.9%	2.7%	3.2%	2.3%	17.8%	3.7%	4.4%	0.3%	-6.1%	-0.1%	2.5%	6.7%	-1.1%	3.0%	0.7%	4.1%
Financials ex. BAC, C&JM	3.8%	8.6%	7.9%	0.3%	8.1%	3.3%	8.8%	23.6%	4.9%	3.3%	-0.9%	-8.9%	7.0%	4.0%	6.7%	-10.2%	14.0%	8.9%	8.2%
Health Care	5.3%	6.9%	8.1%	5.4%	5.6%	6.1%	5.3%	8.5%	7.1%	5.5%	9.2%	8.8%	8.9%	11.6%	11.7%	13.6%	9.1%	6.1%	7.9%
Industrials	12.6%	10.2%	11.1%	8.3%	6.6%	6.1%	1.5%	1.9%	0.3%	1.0%	1.8%	2.5%	1.6%	3.7%	4.5%	3.9%	-2.3%	-3.5%	-5.4%
Industrial ex. Defense	15.9%	12.8%	13.6%	7.9%	7.6%	6.9%	1.2%	2.7%	8.7%	5.6%	12.8%	3.9%	2.3%	4.8%	8.9%	13.9%	12.4%	-4.9%	-6.1%
Information Technology	14.7%	14.9%	13.2%	11.7%	10.9%	6.7%	4.6%	7.0%	4.3%	1.5%	4.2%	5.5%	3.7%	8.5%	7.9%	6.2%	5.5%	7.5%	1.4%
Software, IARS & GOOG	8.9%	8.3%	8.2%	3.2%	4.0%	3.7%	-8.3%	3.7%	1.8%	0.8%	6.1%	4.9%	3.7%	8.8%	8.2%	2.9%	8.2%	-3.2%	-3.9%
Materials	29.1%	33.0%	18.5%	6.0%	4.6%	-2.6%	-5.9%	3.8%	0.3%	1.0%	6.1%	3.5%	1.5%	3.2%	2.4%	-1.7%	-9.2%	-9.5%	-8.9%
Telecommunication Services	2.5%	7.8%	6.0%	18.2%	8.0%	2.7%	2.2%	2.1%	0.6%	2.2%	1.8%	2.1%	3.7%	3.1%	3.0%	5.2%	2.8%	2.4%	15.0%
Utilities	-2.7%	8.3%	1.8%	6.3%	-3.3%	-2.4%	0.8%	5.1%	5.6%	8.8%	1.5%	2.7%	18.8%	3.1%	4.7%	9.1%	-2.9%	-4.6%	3.1%

Net margin	2011				2012				2013				2014				2015			
	10Q1	2011	3011	4Q11	1012	2012	3012	4Q12	1013	2013	3013	4Q13	1014	2014	3Q14	4Q14	1015	2015	3Q15	
S&P 500	8.7%	9.5%	9.6%	9.3%	9.0%	9.8%	9.9%	9.4%	10.0%	10.1%	10.0%	10.0%	10.1%	10.4%	10.5%	10.4%	10.5%	10.8%	10.8%	10.5%
S&P 500 ex. Financials	9.3%	9.6%	9.6%	9.0%	9.1%	8.4%	9.3%	9.1%	9.3%	9.2%	9.5%	9.3%	9.4%	9.7%	9.8%	9.8%	9.6%	9.6%	9.6%	
S&P 500 ex. Energy	9.9%	9.6%	10.0%	9.7%	10.2%	10.2%	10.2%	9.6%	10.3%	10.6%	10.4%	10.4%	10.4%	10.7%	10.8%	10.8%	11.1%	11.4%	11.4%	
S&P 500 ex. Tech	8.6%	8.5%	8.8%	8.0%	8.7%	8.8%	8.9%	8.2%	9.0%	9.2%	9.0%	8.7%	9.0%	9.4%	9.5%	8.9%	9.4%	9.8%	9.4%	
S&P ex. Energy & Financials	9.4%	9.7%	9.7%	9.3%	9.5%	9.7%	9.5%	9.1%	9.4%	9.5%	9.8%	9.6%	9.6%	10.0%	10.1%	10.2%	10.3%	10.5%	10.2%	
S&P ex. Energy, Financials, Healthcare	9.2%	9.6%	9.5%	9.3%	9.4%	9.6%	9.4%	9.3%	9.3%	9.5%	9.9%	9.6%	9.5%	10.0%	10.1%	10.2%	10.0%	10.4%	10.9%	
Consumer Discretionary	6.5%	7.1%	6.7%	6.2%	6.3%	6.8%	6.9%	6.6%	6.3%	7.1%	7.8%	6.9%	6.4%	7.1%	7.1%	7.2%	6.7%	7.5%	7.9%	
Mobile & Specialty Retail	4.9%	5.6%	4.6%	6.8%	5.2%	5.7%	4.7%	8.1%	6.5%	6.0%	4.9%	6.6%	4.9%	6.8%	5.8%	6.2%	5.3%	6.0%	5.3%	
Auto, Disc. ex. Auto & Home Builders	8.6%	7.3%	7.2%	7.3%	8.7%	7.3%	7.5%	7.8%	7.9%	7.8%	7.4%	7.4%	7.4%	7.9%	8.8%	7.9%	7.4%	6.0%	8.4%	
Consumer Staples	6.4%	7.1%	6.9%	6.5%	6.2%	6.9%	6.													