



3Q EPS Tracker

479 S&P 500 companies comprising 98% of S&P earnings have reported. 62% of companies beat on EPS with a weighted average beat of 3.9% (5.3% ex Fin). 33% of companies beat on sales with a weighted average miss of -0.4% (-0.5% ex Fin).

Big banks posted soft profits to start the earnings season, on moderate loan growth, a still challenging rate environment and lulls in trading and capital markets. Industrials companies reported weak results and guidance. Sizable beats from Tech giants GOOG, MSFT & AMZN brightened 3Q earnings season. Health Care companies (PFE, BMY, GILD, BAX) had large beats on both EPS and sales. Large Oil & Gas companies (XOM, CVX, MPC, VLO) had big beats on EPS on very low bars. Retailers (M, JWN, FOSL) reported weak results.

The blended (actual for reported and estimate for remaining) bottom-up 3Q EPS is \$30.02. Less litigation charges vs. a year ago at JPM, BAC, C, and GS is \$0.60 tailwind to 3Q15 EPS, adding 2% to 3Q S&P EPS y/y growth.

We think 3Q EPS will finalize around **\$30.00**, flattish y/y, with sales down ~4%, margins up ~3%, and ~1% from share count shrink.

Analysts continue to cut 4Q15 EPS and btm-up 4Q EPS is **\$29.72** now, down from \$31.21 on 9/1/2015. Our 4Q EPS estimate is \$30.25, essentially flat y/y. We think 4Q growth will be slow: (1) FX will be a smaller drag; (2) Oil still a negative; (3) Mfg, exports, and capex continue to deteriorate; (4) Low interest rates continue to challenge NIM of Banks; (5) Less bank litigations is a positive; (6) Slower buybacks a smaller contribution to EPS growth; (7) Fair value pension charges at year end hit 4Q operating EPS. (8) Oct Mfg. ISM is 50.1, weakest since Dec 2012. Latest core capital goods new orders are -5.8% y/y, worst since Dec 2009. Mfg. IP ex Auto growth is weak.

Analysts have cut 2015 S&P 500 EPS by 1.2% since June end, led by the 6.8% and 7.9% cuts in Energy and Materials earnings, on renewed worries of lower for longer oil and commodity prices. The consensus 2015 btm-up EPS is **\$118.63**, about \$0.35 lower than our estimate of \$119.

Blended EPS y/y growth is -0.2% for S&P 500, 7.0% ex. Energy, and 6.4% ex. Energy & Financials. Blended sales y/y growth is -4.1% for S&P, 1.3% ex. Energy, and 1.6% ex. Energy & Financials.

Blended sales growth is strongest at Health Care (9.2%) again, followed by Cons. Disc. (3.8%). All other sectors (except Telecom) have sales decline or low single digit sales growth. Tech sales growth is 0.5% y/y (-4.7% ex AAPL & GOOG) due to continuing weak enterprise spending. There is significant revenue recession at Energy (-36.5%), Materials (-13.3%) and Industrials (-5.3%).

Blended EPS y/y growth is strongest at Cons. Disc. (17.1%), followed by Telecom (15.3%), Health Care (13.9%), Financials (9.2%) and Tech (7.5%). Tech ex AAPL & GOOG EPS is -0.1% y/y. There is significant profit recession at Energy (-57.0%) and Materials (-16.6%). Industrials EPS is flat y/y.

S&P net margins remains at historic highs. Blended net margin is 10.8% for S&P 500, 11.3% ex. Energy, and 10.5% ex. Energy & Financials. Margins at Cons. Disc. expanded to 7.8%, its highest during this cycle. Health Care (10.6%) and Tech (19.4%) margins continued to hold up well. As sectors with