



4Q EPS Tracker ("In defense of Banks," starts on page 9)

317 S&P 500 companies comprising 79% of S&P earnings have reported. 59% of companies beat on EPS with a weighted average beat of 1.3% (2.1% ex Energy, 3.6% ex Energy & Fin). 33% of companies beat on sales with a weighted average miss of -0.4% (-0.5% ex Energy, -0.6% ex Energy & Fin).

Banks reported decent EPS growth on cost cuts and less litigation, but slow revenue growth. Higher credit costs and weaker capital markets revenue will be the two main sources of downside to bank EPS. Health Care (including PFE, MRK, BSX and GILD) continues to post strong EPS results, although PFE (given strong dollar) and MRK gave cautious 2016 guidance which disappointed. Tech giants Google and SYMC beat on EPS. Meanwhile large Oil & Gas companies (XOM, COP, TSO) missed on EPS even on lowered estimates and Energy blended EPS is down 74% y/y.

The blended (actual for reported and estimate for remaining) bottom-up 4Q S&P EPS is now **\$29.25**. This includes a \$0.32 hit from litigation charges at JPM, BAC, C, and GS. This compares to the \$0.49 litigation hit to S&P EPS in 4Q14. Lower litigation is a \$0.17 tailwind to 4Q15 EPS, reducing 4Q S&P EPS y/y decline by 0.5%. We think 4Q EPS will finalize around \$29.25, down 3-4% y/y, with sales down 2-3%, margins down slightly (mostly Energy), and 1% share count shrink.

Analysts continue to cut 1Q16 EPS; btm-up 1Q EPS is \$27.44 now, down from \$29.55 on 12/1/2015. Our 1Q estimate is \$28.00, down 2% y/y.

Analysts have cut 2016 S&P EPS by 4.3% since 12/1/2015. Based on companies that have reported 4Q, Health Care is faring the best among major sectors, with no cut to 2016 EPS since 12/1. All other sectors apart from Telecom, especially Energy (-42.1%) and Materials (-9.0%), have seen substantial cuts.

The blended 4Q EPS y/y growth is -3.7% for S&P 500, 2.3% ex. Energy, and 2.4% ex. Energy & Financials. Blended 4Q sales y/y growth is -2.0% for S&P, 2.3% ex. Energy, and 2.3% ex. Energy & Financials.

Blended sales growth at major sectors is strongest at Health Care again, 17.7% y/y, followed by Cons. Disc. (4.3%). All other sectors except Telecom have sales decline or low single digit sales growth. Tech sales growth is disappointing at -1.6% y/y (-4.0% ex AAPL & GOOG). There is significant revenue recession at Energy (-33.3%), Materials (-15.1%) and Industrials (-7.6%).

Blended EPS y/y growth is strongest at Telecom (19.3%), followed by Cons. Disc. (9.7%) and Health Care (9.0%). Tech EPS is 1.1% y/y or -3.7% ex AAPL & GOOG. There is significant profit recession at Energy (-74.2%) and Materials (-19.7%). Industrials EPS is -2.0% y/y.