

July 31, 2018

# Q2 earnings season: Past the halfway mark



At the time of print, 53% of companies in the S&P 500 had reported actual results for Q2 2018. Key highlights are as follows:

- A record-high percentage of S&P 500 companies are beating EPS estimates (83%).
- For Q2 2018, the blended earnings growth rate for the S&P 500 is 21.3%. If this is the actual growth rate for the quarter, it will mark the second highest earnings growth since Q3 2010 (34.1%).
- 77% of S&P 500 companies have reported a positive sales surprise. On aggregate, companies are reporting sales that are 0.9% above estimates, which is above the five-year average.

The underlying message since our [last bulletin on Q2 earnings](#) remains the same: Corporate America's collective bottom line is proving to be in great shape, as Republican tax cuts stoke the economy. Up until now, most S&P 500 companies have not yet felt a significant negative impact resulting from trade tariffs. This bodes well for our tactical allocation which is overweight US

equities, focused on **Energy, Financials** and **IT**.

## Reported Earnings

To date, 53% of the companies in the S&P 500 have reported actual results for Q2 2018. 83% of those have reported have recorded a positive EPS surprise - if this is the final number, it will mark the highest percentage since FactSet began tracking this metric in Q3 2008.

All 11 sectors are reporting positive year-on-year earnings growth and in 8 of these, the pace has hit double-digits. The **Energy** sector is enjoying the strongest earnings growth (+124.3% year-on-year) as a results of a ballooning oil price as well as the fact that earnings were unusually low in Q2 2017.[\[1\]](#) The **Materials, Telecom Services**, and **IT** sectors also enjoyed strong earnings growth.

For Q2 2018, the blended earnings growth rate (which combines reported results with estimated results for companies who have not yet reported) for the S&P 500 is 21.3%. This is higher than the 19.9% estimate reported 2 weeks ago when the earnings season was in its early days.

## Reported Sales

As we highlighted earlier in the year, top line growth – a figure that isn't skewed by cost-cutting or buy-backs - has been and continues to be strong.

In terms of sales, more companies (73%) are reporting actual sales above estimates compared to the 5-year average. On aggregate, the size of the surprise is about 0.9% above estimates, which is above the 5-year average.

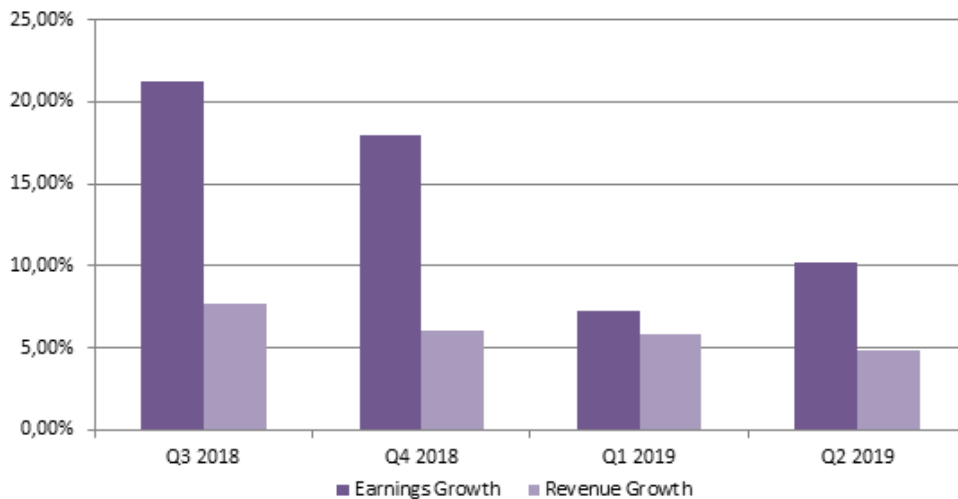
All 11 sectors are reporting year-over-year growth in revenues. Four sectors are reporting double-digit growth in revenues led by the **Materials** sector which is reporting the highest (year-over-year) revenue growth of all at 24.3%. The other sectors relishing double-digit revenue growth are: **Energy, IT** and **Real Estate**.

The blended, year-over-year sales growth rate for the second quarter is 9.3% and if this comes to fruition, this would mark the highest revenue growth since Q3 2011.

## Earnings Guidance

Looking at ahead, analysts currently project earnings growth to continue at a pace of around 20% through the remainder 2018, bolstering our hypothesis that we should see equity prices grind up further still on the back of the burgeoning US economy. Thereafter, consensus estimates foresee lower growth in the first half of 2019.

### Analyst Forecasts for S&P 500 Firms



Source: FactSet, BIL

### Corporate America somewhat unfazed by tariffs

A well-documented risk for US corporates and a source of heightened market volatility is the ongoing trade spat between the US and key trading partners. From the onset we have resisted any urge to react to headlines and rather, we have stayed fixated upon hard data and fundamentals, managing risk based on known information rather than on threats (which at times did not materialise) and assumptions. This has proved to be beneficial thus far as we are seeing that tariffs have yet to have a tangible impact on US firms...

In order to try and assess the impact of trade tensions on American firms, FactSet scanned company earnings calls for any mention of the word 'tariffs'. 70 companies discussed tariffs on their calls, but the majority of these (61%) saw little to no impact on their earnings in the second quarter or anticipated little to no impact in future quarters from tariffs. The Industrials sector has witnessed the highest number of companies (24) discussing "tariffs" on earnings calls.

### Disparity in Tech earnings

Another notable phenomenon this earnings season has been the disparity in results within the Tech sector, with select names suffering from heavy outflows. Earnings from the so-called FAANG collective (Facebook, Apple, Amazon, Netflix and Google), have elicited the most market

reaction, even as most of the companies in the group topped forecasts. Whilst one or two of our Tech picks were hit by negative outflows following their earnings delivery, our diversified allocation within the sector meant that overall, our sectoral allocation has had a positive earnings season thus far.

Facebook outpaced earnings estimates by 2 cents per share and narrowly missed on revenue. However, investors were spooked by the company's warning about increasing costs and the stock lost a record \$119 billion from its market value. Netflix too, was hit hard by weaker subscriber numbers and the prospect of rising costs, even as earnings beat estimates by 6 cents per share and revenues grew.

On the other hand, Amazon leapt over its second quarter estimate with earnings, as did Alphabet (Google's parent company). All eyes are now on Apple which will report Tuesday.

## Summary

If analyst predictions are accurate, 2018 is poised to be a fine vintage in terms of earnings and our portfolios are heavily tilted towards US equities in order to benefit from strong earnings whilst they persist. Not only are earnings themselves key, but also how the market reacts to them. Fortunately for our tactical bets, FactSet finds that the market is rewarding positive earnings surprises more than average and punishing negative earnings surprises less than average at the moment. During the upcoming week, 140 S&P 500 companies are scheduled to report results for the second quarter.

Data source: FactSet

---

[1] The average price of oil in Q2 2018 (\$67.91) was 41% higher than the average price of oil in Q2 2017 (\$48.15). Source: FactSet

## Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeliness of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent,- subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of- date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch | L-2953 Luxembourg | RCS Luxembourg B-6307 | Tel. +352 4590 6699 | [www.bil.com](http://www.bil.com).