

May 8, 2019

- On our client portal, and each Monday in our “earnings guidance update” reports, we show the ratio of companies in our database with positive earnings divergences to those with negative divergences.
- This proprietary indicator has been rather uncanny at highlighting when the market is ready to rally or ripe for a pullback over the past ten years.
- There is no opinion from us in the positive to negative earnings divergences ratios we track. It is all based on math and it follows a quite logical approach to when stocks get expensive or cheap.

How do we define a positive earnings divergence?

- **We flag a company with a positive earnings divergence when it has consistently improving EPS expectations, on a rate of change basis, that has had its stock price decline over the past year.**
- Out of 4,000+ companies, there are only 77 companies in our database that have had consistently improving earnings expectations and a falling stock price over the past year. That is just 1.9% of the companies we track.

How do we define a negative earnings divergence?

- **We flag a company with a negative earnings divergence when it has consistently weakening EPS expectations, on a rate of change basis, that has had its stock price rise over the past year.**
- Out of 4,000+ companies, there are only 101 companies in our database that have had consistently weakening earnings expectations and a rising stock price over the past year. That is just 2.5% of the companies we track.

Current ratio of positive to negative divergences in The Earnings Scout database

- Our current ratio of companies with a positive to negative divergence stands at 0.76 (77/101)
- Looked at another way, there are 1.31 companies in our database with weakening EPS expectations, on a rate of change basis, and rising price for every company with improving EPS expectations and a falling share price.
- When there are more companies with a negative earnings divergence, it indicates stocks as whole have become overvalued.

Nick Raich, CFA®
Chief Executive Officer
The Earnings Scout
312.391.6805
nick.raich@earningscout.com
www.EarningsScout.com
[@EarningsScout](https://twitter.com/EarningsScout)

- Turn to page 5 of today’s report to see how these positive to negative earnings divergence ratios have changed over time and how they have been effective at predicting when the market is ready to rally or set to pull back.



S&P 500 EPS growth expectations came down more overnight

<u>Date</u>	<u>1Q19E EPS Growth</u>	<u>2Q19E EPS Growth</u>	<u>3Q19E EPS Growth</u>	<u>4Q19E EPS Growth</u>
9/1/2018	8.45%	6.66%	7.46%	12.55%
10/1/2018	8.79%	6.47%	7.21%	12.75%
11/1/2018	7.94%	6.23%	6.12%	12.03%
12/1/2018	6.26%	5.46%	5.19%	11.77%
1/1/2019	5.54%	5.00%	4.91%	11.65%
2/1/2019	2.29%	2.77%	3.06%	11.05%
3/1/2019	0.07%	2.32%	3.21%	10.08%
4/1/2019	-0.66%	2.04%	3.44%	9.82%
5/1/2019	2.29%	1.47%	3.38%	9.91%
5/8/2019	4.31%	0.73%	2.98%	9.44%

Source: The Earnings Scout

S&P 500 companies reporting quarterly results today

<u>Company</u>	<u>ES Rating</u>	<u>**ES Indicator</u>	<u>ES Volatility</u>	<u>Actual</u>	<u>Estimate</u>	<u>EPS Surp</u>	<u>Sales Surp</u>	<u>***YTD</u>
CBRE Group	Hold	68	Below Average	\$0.79	\$0.60	31.67%	0.62%	24.95%
Coty	Hold	77	Average	\$0.13	\$0.12	8.33%	-2.76%	86.74%
Microchip Technology	Hold	30	Average	\$1.48	\$1.40	5.71%	-0.54%	30.91%
McKesson	Buy	87	Stable	\$3.69	\$3.66	0.82%	-1.87%	13.77%
Marathon Petroleum	Sell	12	Average	(\$0.09)	\$0.06	-250.00%	-1.60%	0.71%
*Albemarle	Hold	52	Stable	-	\$1.22	-	-	-1.58%
*CenturyLink	Hold	42	Average	-	\$0.27	-	-	-24.69%
*Cimarex Energy	Hold	32	Average	-	\$1.28	-	-	7.09%
*Energys	-	-	-	-	\$0.40	-	-	1.48%
*Nektar Therapeutics	Sell	6	Volatile	-	(\$0.68)	-	-	-2.40%
*Perrigo	Hold	55	Average	-	\$0.94	-	-	26.30%
*Twenty-First Cent Fox	Buy	98	Volatile	-	\$0.67	-	-	-22.57%
*Walt Disney	Hold	24	Average	-	\$1.59	-	-	21.70%
S&P 500						6.30%	0.41%	15.05%

*Reports after the bell

**ES Indicator (1-100, 1= Worst, 100 = Best)

***YTD price change through May 7, 2019

Source: The Earnings Scout



1Q 2019 Earnings Scorecard, as of 9:30 AM ET on May 8, 2019

<u>Sector</u>	<u>EPS Growth</u>	<u>Avg EPS Surprise</u>	<u>Exceeded</u>	<u>Matched</u>	<u>Missed</u>	<u>Reported</u>	<u>% Reported</u>
Consumer Discretionary	14.44%	12.12%	81%	3%	17%	36	57%
Industrials	11.62%	6.22%	72%	6%	22%	67	96%
Health Care	10.94%	4.12%	85%	2%	13%	54	87%
Communication Services	10.31%	10.26%	75%	13%	13%	16	73%
Utilities	6.71%	2.53%	54%	8%	38%	24	86%
Financials	6.51%	6.12%	75%	10%	15%	67	100%
Real Estate	5.19%	3.65%	72%	16%	13%	32	100%
Consumer Staples	2.56%	5.43%	77%	0%	23%	26	79%
Materials	-0.70%	5.25%	71%	8%	21%	24	92%
Information Technology	-4.42%	6.54%	85%	4%	11%	53	78%
Energy	-14.03%	10.62%	68%	11%	21%	28	97%
S&P 500	6.30%	6.17%	75%	7%	18%	427	85%

Source: The Earnings Scout

1Q 2019 Sales Scorecard, as of 9:30 AM ET on May 8, 2019

<u>Sector</u>	<u>Sales Growth</u>	<u>Sales Surprise</u>	<u>Exceeded</u>	<u>Missed</u>	<u>Reported</u>	<u>% Reported</u>	<u>Tax Rate</u>
Health Care	15.38%	0.66%	67%	33%	54	87%	12.23%
Communication Services	12.45%	-0.56%	50%	50%	16	73%	19.34%
Real Estate	5.03%	1.40%	78%	22%	32	100%	10.08%
Consumer Discretionary	4.62%	1.42%	61%	39%	36	57%	12.17%
Industrials	4.48%	0.55%	49%	51%	67	96%	19.17%
Financials	3.82%	1.74%	67%	33%	67	100%	19.14%
Consumer Staples	3.10%	1.14%	65%	35%	26	79%	20.07%
Utilities	0.97%	0.79%	75%	25%	24	86%	24.81%
Energy	0.50%	-2.70%	50%	50%	28	97%	30.99%
Information Technology	-0.41%	0.62%	66%	34%	53	78%	15.67%
Materials	-3.77%	-1.12%	29%	71%	24	92%	21.56%
S&P 500	5.45%	0.41%	60%	40%	427	85%	15.01%

Source: The Earnings Scout

How do the results of the 1Q 2019 reporters compare to prior periods?

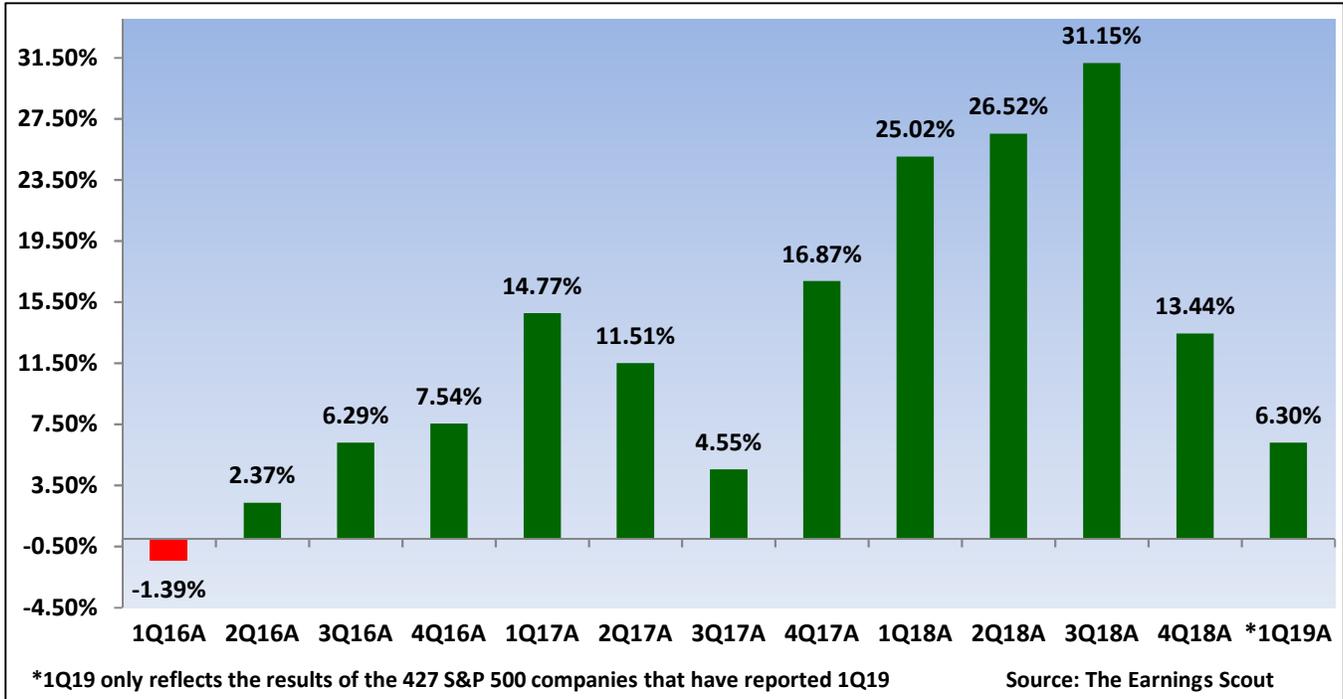
<u>Period</u>	<u>EPS Growth</u>	<u>Sales Growth</u>	<u>Avg EPS Surprise</u>	<u>Exceeded</u>	<u>Matched</u>	<u>Missed</u>	<u>Sales Beats</u>	<u>Sales Misses</u>
*1Q19A	6.30%	5.45%	6.30%	75%	7%	18%	60%	40%
4Q18A	13.44%	5.89%	3.87%	68%	8%	24%	61%	39%
3Q18A	31.15%	8.78%	6.63%	79%	8%	13%	63%	37%
2Q18A	26.52%	10.31%	6.62%	81%	5%	15%	75%	25%
3 Yr Avg.	13.22%	5.77%	5.26%	73%	9%	18%	64%	36%

Source: The Earnings Scout

*1Q19 period only reflects the results of the 427 S&P 500 co's reporting 1Q19 results



Quarterly S&P 500 EPS growth over the past 3 years



Quarterly S&P 500 Sales growth over the past 3 years

