

Earnings Season Update

As of Thursday's market close, we are just about halfway through the third quarter earnings season. Every earnings season is important, but this time around it is being scrutinized even more to get a gauge on the health of the U.S. equity markets.

It is no secret that the S&P 500 is not cheap by any metric. Based on the forward price-to-earnings ratio (NTM P/E) the market is trading at a multiple of 21.12x compared to the 5-year average of 18.66x. That coupled with the fact that the index is basically at its all-time high (green line on the chart), has caused some investors to question if stocks have run up too much.

Before we can answer that question, we have to consider that the P/E ratio has two components: price and earnings. We know the price of the S&P 500 is at all-time highs, but when we look at earnings, we can see that companies are generating more earnings and are expected to continue to do so. That has caused the price-to-earnings ratio to decrease from where it was 12 months ago (blue line on the chart). As a result, even though the P/E ratio is higher than the 5-year average, the S&P 500 is more attractive today than where it was at the start of the year.



Turning to earnings season in more detail, so far 48% of the S&P 500 companies have reported third quarter earnings. Of those companies that have reported, 81% have beat analyst expectation, which is above the 5-year average of 76%ⁱ. Taking it one step further, the companies that have beat expectations, have done so by an average of 10.25% compared to the 5-year average of 8.4%ⁱⁱ.

At the sector level, Financials have posted great results. With 80% of this sector already reported, 87% have beat analyst expectations and of those that have beat, they have done so by 18.6%. The worst sector so far is Utilities. The details of the other sectors are in the table below.

Name	% Cos Reported	Surprise (%)	% Pos Surprise
S&P 500	48.51	10.25	81.44
+ Communication Services	37.04	10.20	90.00
+ Consumer Discretionary	42.86	7.29	76.67
+ Consumer Staples	53.13	4.21	76.47
+ Energy	28.57	2.77	33.33
+ Financials	80.00	18.63	87.04
+ Health Care	37.50	12.75	90.00
+ Industrials	65.75	7.82	82.00
+ Information Technology	40.00	7.40	82.35
+ Materials	42.86	2.59	69.23
+ Real Estate	48.28	4.76	92.86
+ Utilities	17.86	0.67	50.00

Source: Factset Estimates

We will continue to watch how things develop, but it appears it will be a good earnings season and that supports the current elevated level of the S&P 500. The markets will turn their attention to the Federal Reserve meeting that is scheduled next week. All year inflation and Fed policy have been market movers. In our [Quarterly Commentary](#), we discussed our views on inflation and we will keep you up to date as things progress.

ⁱ Source: FactSet

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