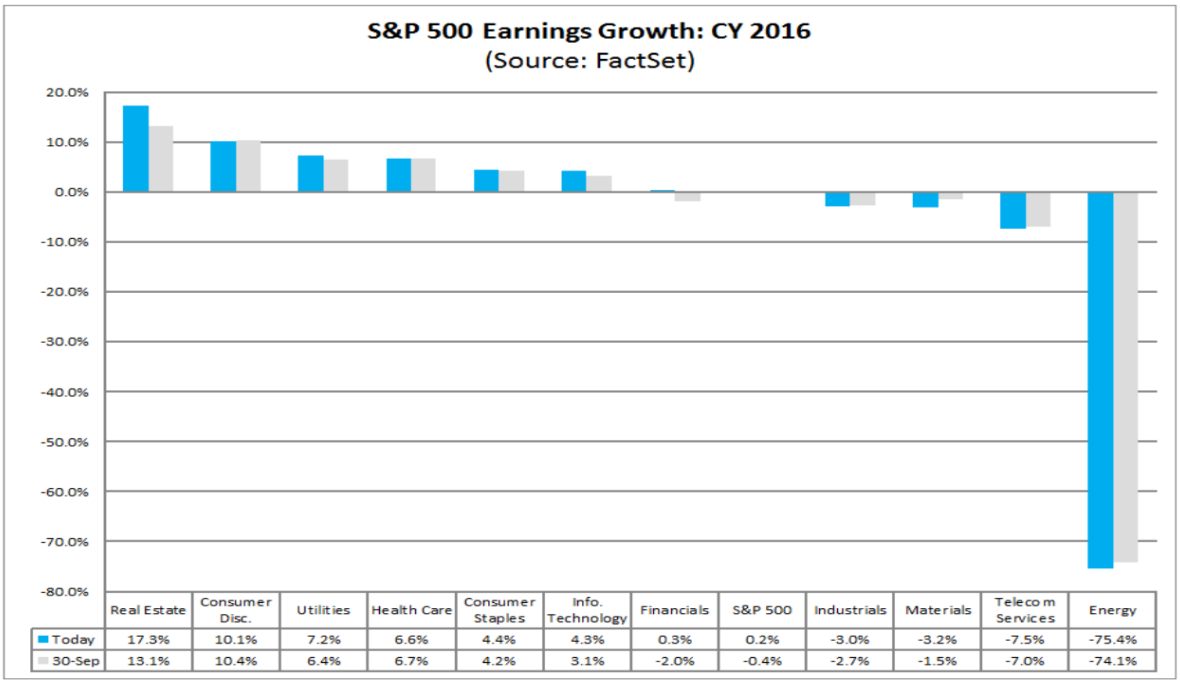
S&P 500 Returns to Earnings Growth After Worst Streak Since Great Recession

The third quarter of 2016 was expected to mark the S&P 500's sixth straight quarter mired by declining earnings growth. Surprisingly, this streak would have exceeded the recent high of five consecutive quarters which occurred during the heart of the Great Recession, between Q3 '08 and Q3 '09. The magnitude of this year's declines pale in comparison to the severe deterioration of profitability companies experienced during the days of the credit crisis. Not to mention the breadth of the recent earnings recession, driven almost solely by the energy sector, is very weak when compared to 2008's downturn. Due to the severe economic recession, all sectors of the economy were impacted the last time around.

This year, **earnings for the energy sector are estimated to decline a stunning 75% YoY** while eight of the remaining eleven S&P 500 sectors are expected to report positive earnings growth. The energy sector represents almost 8% of the S&P 500. The chart below, provided by FactSet, illustrates the sizable impact it has on overall S&P 500 earnings growth.



	Real Estate	Consumer Disc.	Utilities	Health Care	Consumer Staples	Info. Technology	Financials	S&P 500	Industrials	Materials	Telecom Services	Energy
Today	17.3%	10.1%	7.2%	6.6%	4.4%	4.3%	0.3%	0.2%	-3.0%	-3.2%	-7.5%	-75.4%
30-Sep	13.1%	10.4%	6.4%	6.7%	4.2%	3.1%	-2.0%	-0.4%	-2.7%	-1.5%	-7.0%	-74.1%

But as of Monday morning (11/7/16), with **85% of S&P 500 companies' Q3 earnings in the books and 7 out of 10** of them having **beat expectations**, the index is actually on track to report positive earnings growth. The S&P 500 is now slated to post a blended **earnings growth rate of 2.7%** this quarter, a big upside surprise compared with the -2.2% decline estimated at the end of Q3 (As of September 30th, according to FactSet research).

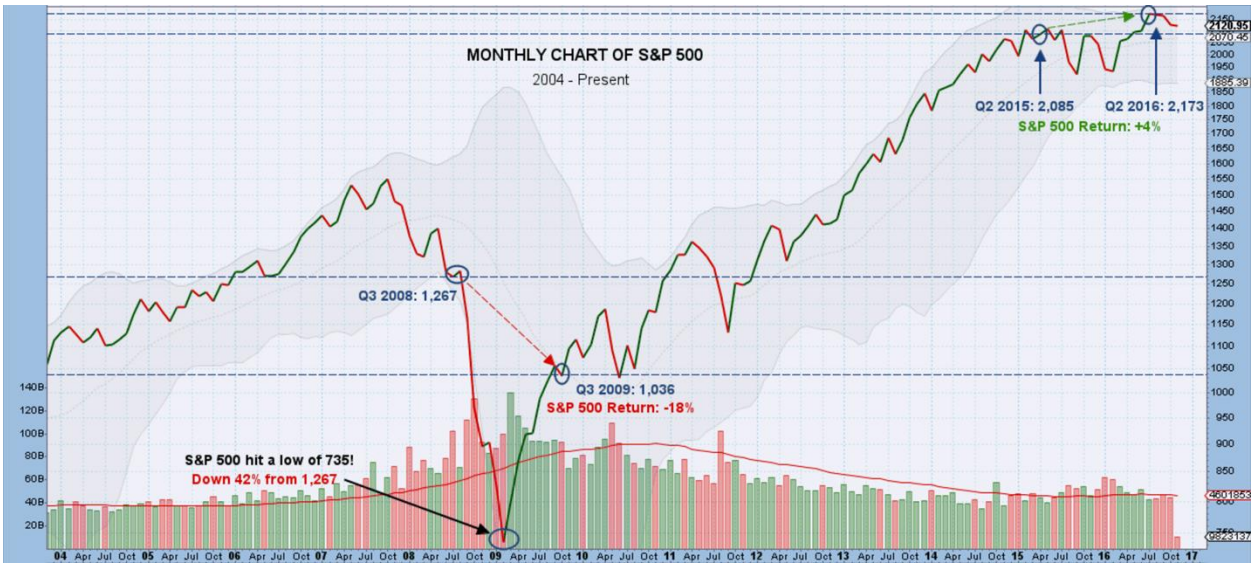
So with just a handful of companies left to report, it appears this quarter will mark the first time the S&P 500 returns to positive YoY earnings growth since Q1 of 2015. Yet despite what would seem like excellent news for markets, the S&P 500 has declined over 3% during a historic streak

of nine straight down days ending November 4th (last time the S&P 500 was down nine consecutive days was in 1980).

How Has the S&P 500 Performed During Earnings Recessions?

But all things considered, from a longer term perspective the market has been very good to investors during this recent earnings slump. While it was a very different economic backdrop during the earnings recession of 2008, the recent downturn in corporate profits has not seemed to upset markets much at all. The **S&P 500 returned a positive 4% over the course of the five quarters of EPS declines ended June 30, 2016** (Q2). When compared with a return of **negative 18% during the five quarters ended September 30th 2009** I would say investors have fared pretty well this time around.

Still not convinced? Let me remind you, during the previous earnings recession the S&P 500 declined up to 42% to extreme lows of almost 700, a figure almost unfathomable to investors today. Have a look for yourself.



Sources

https://www.factset.com/websitefiles/PDFs/earningsinsight/earningsinsight_11.4.16

http://us.spindices.com/indices/equity/sp-500