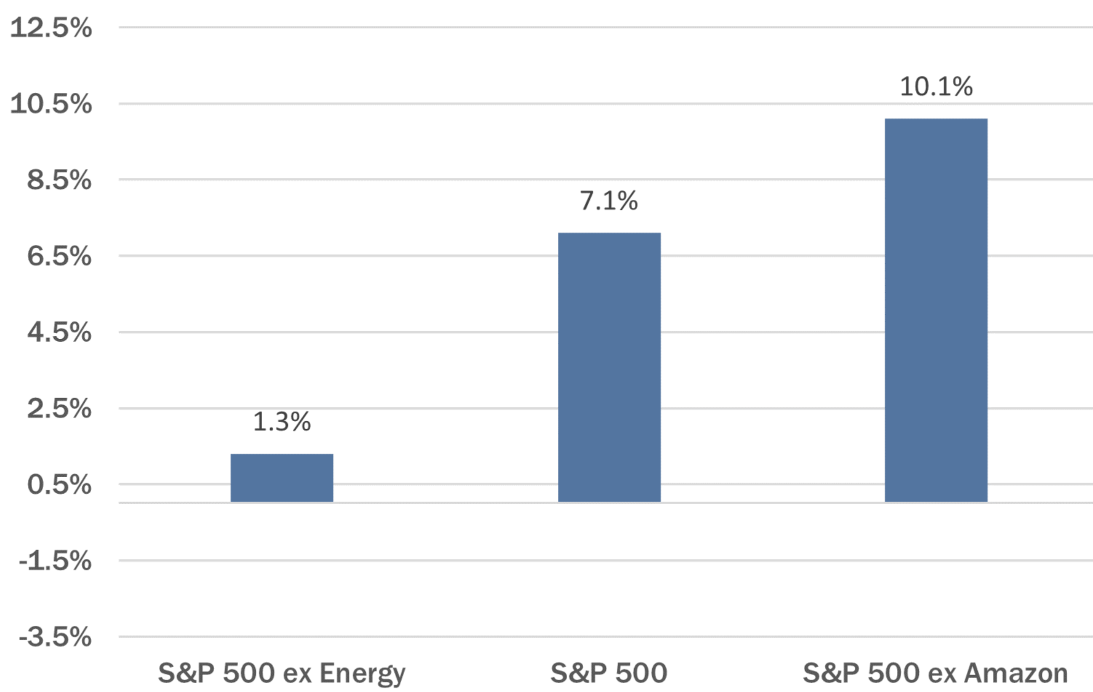
MARKET COMMENTARY

Fig. 1: S&P 500 Q1 earnings growth benefits from energy but is hurt by consumer discretionary



Source: Factset, Mill Creek.

At the mid-point of the first-quarter earnings season, the results, in aggregate, have been better than expected but more mixed at the company or sector level. Consensus estimates at the beginning of the quarter were for earnings growth of about 5% but with positive earnings surprises and upward revisions, the S&P 500 is currently on pace for about 7% EPS growth year-over-year and 10% for the full calendar year based on current projections. As expected, earnings growth has slowed significantly but as prices have declined and earnings have increased, the forward P/E ratio is now approximately 18x, which is a much more attractive entry point for investors putting money to work today relative to the 24x multiple at the end of 2021.

Earnings season has been better than expected as analysts forecasted a very difficult comparison period versus the first quarter of 2021 and several ongoing macroeconomic headwinds. Amazon and Netflix, two widely owned consumer discretionary names, faced difficult comps after being two of the biggest beneficiaries during the pandemic. Their earnings reports were disappointing, and both stocks sold off aggressively. Conversely, the energy sector, which had been beaten down during the pandemic as demand collapsed, has been a huge beneficiary of surging oil prices. Year-over-year, oil prices are up over 60% averaging about $95 per barrel in the first quarter versus $58 per barrel one year ago. The move higher in oil prices has contributed to earnings growth of over 250% for the sector!

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