Corporate Earnings Look Poised To Rebound After Q1’15 Dip

View from the Observation Deck

1. The S&P 500 and S&P MidCap 400 indices closed the 6/24/15 trading session 1.04% and 0.98%, respectively, below their all-time highs, according to Bloomberg. The S&P SmallCap 600 Index closed at its all-time high.

2. Today’s chart is intended to give those investors concerned about stock indices trading at or near their record highs, factoring in the dip in Q1’15 earnings, some visual perspective on where equity analysts think earnings are headed.

3. One of the primary reasons cited by companies for the dip in Q1’15 earnings was the stronger U.S. dollar. The U.S. Dollar Index (DXY) was up 8.96% in Q1’15, according to Bloomberg. It is down 3.17%, however, in Q2’15, as of 6/24/15.

4. A secondary reason cited for weaker earnings, at least at an index level, was the ongoing slide in crude oil prices. The price of a barrel of oil fell 10.64% in Q1’15, according to Bloomberg. It is up 26.60%, however, in Q2’15, as of 6/24/15.

5. We believe that corporate earnings drive the direction of stock prices over time, especially when the major indices are trading at or near record highs.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. There can be no assurance that any of the projections cited will occur. Investors cannot invest directly in an index. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance. The S&P MidCap 400 Index is a capitalization-weighted index that tracks the mid-range sector of the U.S. stock market. The S&P SmallCap 600 Index is a capitalization-weighted index that tracks U.S. stocks with a small market capitalization.