

SECOND QUARTER EARNINGS OBSERVATIONS

Below are the Quarterly S&P Earnings since 2010. The YRE Column is the Trailing Year or four Quarter's Earnings. P/E is the S&P Price divided by Trailing Year Earnings. The current P/E ratio based on data through the second quarter earnings estimate is 23.30. I have the average P/E since 1950 at 18.20, but in those 69 quarters when Tbills were less than 2.0%, the average P/E was 23.3, which based on Friday's S&P close is exactly where we stand. Conversely, fyi, when Tbills were 7% or higher, the average P/E was 10.85. Some fundamentalist would point out that first quarter earnings were at record levels and the trend appears headed higher. We are beginning second quarter earnings announcement season. According to the Standard & Poor's website, 30 companies have reported with 24 beating expectations. Three have met and 3 have missed. Historically about two thirds of company's beat expectations. The picture may be a bit more clear by next weekend as some 73 more S&P companies will release second quarter earnings this week. In terms of disclosure, I have never found a system for consistently forecasting the direction of the S&P based on trailing earnings levels, trailing earnings trends, or a combination thereof. Conversely, the trailing S&P direction does have some correlation to forward earnings and economy and is one of the ten members of the Conference Boards, Leading Economic Indicators LEI. But back to the prospects for the S&P, I think it is safe to observe, Stocks are not cheap, but Valuation doesn't appear to be a problem.

Quarterly S&P Earnings Since 1970

YRQTR	S&P	TBILL	QTR E	YRE	P/E
1003	1169.43	0.15	17.48	60.93	19.19
1006	1030.71	0.17	19.68	67.10	15.36
1009	1141.20	0.16	19.52	71.86	15.88
1012	1257.64	0.12	20.67	77.35	16.26
1103	1325.83	0.09	21.44	81.31	16.31
1106	1320.64	0.01	22.24	83.87	15.75
1109	1131.42	0.01	22.63	86.98	13.01
1112	1257.60	0.00	20.64	86.95	14.46
1203	1408.47	0.06	23.03	88.54	15.91
1206	1362.16	0.08	21.62	87.92	15.49
1209	1440.67	0.09	21.21	86.50	16.66
1212	1426.19	0.04	20.65	86.51	16.49
1303	1569.16	0.06	24.22	87.70	17.89
1306	1606.28	0.04	24.87	90.95	17.66
1309	1681.55	0.00	24.63	94.37	17.82
1312	1848.36	0.06	26.48	100.20	18.45
1403	1872.34	0.03	24.87	100.85	18.57
1406	1960.23	0.02	27.14	103.12	19.01
1409	1972.29	0.01	27.47	105.96	18.61
1412	2058.90	0.04	22.83	102.31	20.12
1503	2067.89	0.03	21.81	99.25	20.84
1506	2063.11	0.01	22.80	94.91	21.74
1509	1920.03	0.00	23.22	90.66	21.18
1512	2043.94	0.15	18.70	86.53	23.62
1603	2059.73	0.19	21.72	86.44	23.83
1606	2098.86	0.25	23.28	86.92	24.15
1609	2168.27	0.26	25.39	89.09	24.34
1612	2238.83	0.48	24.16	94.55	23.68
1703	2362.72	0.74	27.46	100.29	23.56
1706	2459.27	0.99	28.52	105.53	23.30

** through July 14, 2017