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Half Way To An Earnings Recession?

The latest compilation of analyst earnings projections by FactSet shows that Wall Street is expecting earnings for the companies in the Standard & Poor's 500 to drop by 0.8% year-over-year in the first quarter of 2019. That is down from late January projections of 0.7% earnings growth for the first quarter.

It is likely that, when all the earnings are counted, the quarter will show some growth. Analysts typically lower their forecasts for a quarter at about this point in the cycle, and companies typically wind up beating the analyst forecast by anywhere from 2% to 3%.

Of course, it could be different this time.

The drop in projected earnings for the first quarter of 2019 from the September projection of 6.7% is above the historical average, and the drop in earnings estimates during the first month of a quarter is the largest since the first quarter of 2016.

There are a lot of tough-to-predict factors out there that could hurt first quarter earnings. A tough-to-predict path for the dollar: Will it be up? Will it be down? When? These could wind up taking a bite out of revenue and earnings for the quarter. Another government shutdown–with the deadline for heading that off of February 15–would not help. No one is quite sure what the effect of the uncertainty stemming from the U.S.-China trade war will do to earnings and revenue.

However, the trend is not a good one. Fourth quarter 2018 earnings are expected to show a 12.4% year-over-year rate of growth, so even if the first quarter winds up being mildly positive, it will still be a step down from the worst quarter of 2018.

FactSet is, at the moment, calculating just one quarter of negative earnings growth for 2019 but the positive numbers are not all that positive with just 1.6% year-over-year growth for the second quarter and 2.7% year-over-year growth in the third quarter. The fourth quarter, which not so long ago looked likely to see a resumption of double-digit year-over-year growth, now is projected to show 9.9% growth.

You would be right to lay a major portion of the drop in earnings growth to the tough comparisons with 2018 when the December 2017 tax cuts added, according to Credit Suisse, about 7% to 8% to 2018 earnings. Not only do companies face tough comparisons to that one-time 2018 jump in earnings, but the reversal of some one-off deductions for 2018 is expected to knock about 1% off earnings in 2019, Credit Suisse calculates. Since market valuations reflect the boost to earnings from that tax cut, I don't think that explanation carries much comfort.

If, by analogy to the economy, its takes two down quarters in earnings growth to qualify as an earnings recession then, so far, we are no more than half way there–if the negative projections for the first quarter hold up.

Remember that the stock market, as we know from the experience of the end of 2018, is quite capable of scaring itself into a major sell-off on fears of something that has not and maybe will not come true.

At the end of 2018, that fear, and the sell-off, was about the possibility of an economic recession. That still has not materialized with even the pessimists/realists at the Congressional Budget Office projecting that the economy will grow by 2.3% in 2019. (That is down from the prior projection of 3.1% growth from the CBO.)

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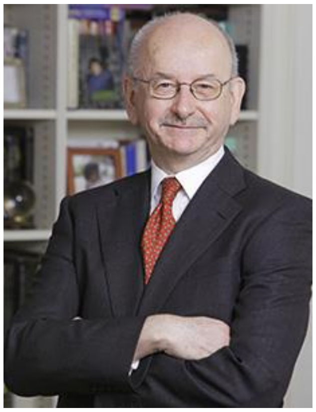
BW: See "About the Author" on the next page.

About the Author



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BW: here is an excerpt from Jim's WELCOME message on his website

After twelve years with MSN Money, I am excited at being on my own. The move gives me a chance to bring you, my readers, more and better ideas for profitable investing. Each week the folks at the MoneyShow.com and MSN Money will publish seven of my posts from this blog on their sites. That is already an increase in your weekly dose of Jubak from the days when I wrote Jubak's Journal twice a week. But you will also find another 18 or so posts a week on my JubakPicks.com blog that do not appear on either of those two sites. (Although they have appeared as much as three days ago and as little as a few minutes ago, if they are really important) on my new subscription site at http://jubakam.com/)

Here I am aiming for five posts a day five days a week. I won't always get to those numbers. Some posts just take longer to research and write and sometimes, like everyone else, I run out of gas and need to take a break. But my goal isn't some arbitrary number of posts, anyway. The goal is to bring you the best market intelligence that I can on a schedule that keeps you at least one step ahead of the market.

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