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PEAK CAPITAL MANAGEMENT

Professional Investment Management

**BLOG POST**

Roundtable
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**Earnings season started strong with better-than-expected results from banks. Are initial results going to be reflective of the broad market's earnings for the remainder of 2019?**

**Let's start with the statistician.**

**Sam Stovall:** I think so. The S&P 500's actual results ended up outpacing end-of-quarter estimates in each of the last 30 quarters, with the average beat rate being close to four percentage points. This quarter, consensus estimates called for a 3.8% decline, so should history repeat (and there's no guarantee it will) we may be able to poke our heads above water.

**Your expectations, John?**

**John DeTore:** Earnings are not going to be a problem for us. Last year, earnings benefitted from very substantial corporate tax relief and deregulation. This will continue for several years, but the benefit is front-loaded, and the tailwind will ease off.

We fall into the trap of looking at year-over-year EPS growth to judge the strength of our public companies. They are earning good money! Profits are not being driven down by any undue systematic force. Even if they don't grow fast, they are still quite profitable.

**Clint Pekrul:** We're flirting with record highs on the S&P 500 with broad support beyond the banks. According to FactSet, 78% of companies reporting earnings thus far (roughly 38%) have beaten expectations. So the backdrop is set so far for a rational move higher in equities.

**Now let's get to a question that readers are hoping will get asked. Looking out 12 months, just prior to the 2020 election, do you believe the stock market will be higher, lower, or generally flat from today's level?**

**John DeTore:** The market assumes Trump will win and very much will want Trump to win, if only to avoid the painful experiment with far-left policies of the current Democratic candidates. You would think Trump would be unbeatable given the success of the economy and a democratic candidate pool that is oddly positioned to the left of the Democratic party in general.

But there really is Trump Derangement Syndrome (TDS) in the country today . . . don't remember there ever being a President with such venomous negatives since Nixon . . . right before his resignation. So, we can't assume. And Hillary might get in the race which will cause the market to take off if only for the entertainment value. The answer to the question is that I am biased to the market being higher. If it looks like Trump will probably lose, the market will have a hard time with this and could be off quite a bit.

**What does your crystal ball suggest Clint?**

**Clint Pekrul:** I really have no idea. We build our portfolios based on the assumption that long-term, you need exposure to equities. I think equity prices in general (based on an index like the S&P) will be higher twenty years from now, but to what degree is unknowable. My assumption is that a Trump administration is more favorable for markets than say, a Warren or Biden presidency in the short run. Of course, short-term performance can swing elections (think 2008), which in turn can drive the markets, so there's a feedback loop. But looking out a year from now and telling you where the markets will be isn't something I can prescribe with any degree of confidence.

**Care to take a stab, John?**

**John Mauldin:** I would expect it to be lower and we are going into a recession, we've had the inverted yield curve. You look out 12 to 18 months, and you start seeing the economy roll over, but the market anticipates that. Historically speaking, I would expect it to be lower. How much? I do not know.

**Finally, Sam, what is your forecast?**

**Sam Stovall:** I think the S&P 500 will be higher, because we foresee an 8% increase in S&P 500 operating EPS, while inflation is projected to remain tame. Therefore, we see "fair value" for the 500 as being close to 3200. That said, should it look like the President's reelection possibility is getting increasingly vulnerable, the three-months ending October 31, 2020 should be lower.