Second-Quarter Earnings Season Underway for SSR Portfolio

This week the second-quarter earnings season kicked off for the stocks in the SSR tracking portfolio. This marks the period when companies report their earnings for operations that fell primarily within the second calendar quarter of the year, although not all companies are reporting results for their second fiscal quarter.

Only two of the 36 stocks currently in the portfolio reported earnings this week. So far for this brief earnings season, the SSR tracking portfolio stocks have posted a median earnings surprise of +12.0% and median year-over-year earnings growth of 12.7%.

Next week, seven earnings announcements are on the docket from SSR stocks.
Visit **StockSuperstars.com** for the companies that are reporting and announcement dates.

On Wednesday, CFRA reported that the S&P 500 index is expected to report earnings growth of 6.0% for the second quarter. This compares to the first-quarter year-over-year increase in S&P 500 operating earnings of 15.5%, which was the largest increase since the third quarter of 2011. The estimated earnings growth rate for the second quarter has fallen from 8.7% as of March 31. According to CFRA, six of the 11 sectors are expected to report earnings growth for the second quarter, according to FactSet. Energy is expected to lead the way with 387% year-over-year earnings growth, while utilities are expected to lag with an estimated 8.4% year-over-year decline in earnings. For the first quarter, only one of the S&P sectors—telecommunication services—experienced a year-over-year decline in earnings.

Furthermore, an **article** published on MarketWatch.com this week highlighted four sectors worth watching this earnings season: energy, technology, financials and retail.

According to the article, the energy sector is expected to post earnings growth of 387% for the quarter, and sales growth of 17%, according to FactSet. The sector will benefit from a difficult 2016 (and 2015), which will boost year-over-year earnings growth. The article adds, however, that results will be uneven across the various segments of the market. Major integrated oil companies and refiners are expected to enjoy the biggest gains, while results from oilfield services companies are expected to be more subdued.

Technology has enjoyed a strong run since the end of the Great Recession. However, the downturn in tech stock last month has some sector watchers wondering if the momentum is running out. This earnings season will also go a long way toward determining if tech stocks deserve their high prices. According to the MarketWatch article, the sector could be facing its most important earnings season for Silicon Valley since the dot-com bust. According to FactSet, the information technology projections are for year-over-year earnings growth of more than 10% and sales gains of 12%. The results from the so-called FAANG grouping: Facebook Inc. (**FB**), Apple Inc. (**AAPL**), Amazon.com Inc. (**AMZN**), Netflix Inc. (**NFLX**) and Alphabet Inc.'s Google (**GOOGL**) will drive tech stock prices in the coming weeks.

The financial sector is expected to show earnings-per-share growth of 5.5% from a year ago, according to FactSet, which currently puts it in third place among the 11 S&P 500 sectors, behind energy and information technology. However, the earnings growth estimate for financials fell sharply during the quarter, from a consensus of 8.6% growth as of March 31. The article also points out that earnings per share growth for the sector has been boosted by aggressive share buybacks and not necessarily actual net income growth.

Lastly, according to the article, retail is expected to be the weakest sector by far this earnings season. FactSet is expecting the consumer discretionary sector to show a decline of 2.2% in earnings, but a rise of 3.9% in sales. As of mid-June, chain retailers have announced 5,321 store closings, a 218% increase from 2016, according to data provided by Fung Global Retail and Technology. Ten major retailers have filed for bankruptcy, more than all of last year. Faced with growing competition from online retailers such as Amazon.com, companies are trying to differentiate and, in some cases, reinvent themselves in order to survive.

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