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January 18, 2019

## First Look at Earnings, Thumbs Up

During the first three weeks of December, the S&P 500 lost 16% of its value. The magnitude and velocity felt like a crash. The cause of the sudden loss in value was ascribed to both technical and fundamental factors.

### S&P 500 December Decline



With the fourth quarter 2018 earnings reporting season beginning last Friday, we are getting a first look at company fundamentals. Earnings reports and management outlooks should help us understand if the December crash was the beginning of a downward trend or an aberration caused by unusually high technical selling pressure in a low-liquidity time of year.

The fourth quarter S&P 500 earnings growth estimate is 10.6%. Estimates were revised lower over the past month from a growth expectation of about 16%.

Ninety percent of the companies that have reported so far have reported positive earnings surprises and 65% have beaten revenue estimates. The major banks (Bank of America, Citigroup and JPMorgan) have all rebounded strongly from their December lows. Large freight haulers CSX (railroad) and JB Hunt (trucking) posted strong

fundamental results. CSX announced it authorized the repurchase of \$5 billion worth of stock. Alcoa – aluminum manufacturer selling products into aircraft, automobile and other significant manufacturing sectors – areported upside.

The first look suggests fundamentals were not as bad as some feared. Stocks continued to rally this week and the S&P 500 is back to the lows of October and November. For the first time since mid-December, the CBOE volatility index (VIX – fear gauge) remained below 20 for the week. Low volatility reflects rising investor confidence.

Given how early we are in the earnings season, we would expect to see the percentage of companies beating estimates to decline as energy and technology sector companies report. The price of oil fell -40% in the fourth quarterBut it may not matter. It appears the bad news is priced into stock valuations.

The market received the ultimate disappointment when the formerly largest company in the world, Apple, lowered its revenue guidance after market hours on January 3 for the first time in 16 years. From the January 4 low, Apple is 10% higher.

The market sell-off in late December may have been a case of shoot first, aim later. Since 1950, the S&P 500 has experienced 13 instances of 10-20% drawdowns (current drawdown high to low if December 24 is the low is -19.8%). On average, the stock trading days of decline were 98. The average days to full recovery (back to previous high) was 71.

The most recent market peak occurred on September 21. Stocks reached their lows (assuming we have seen the low) 65 trading days later. We are 15 trading days into the recovery. If the averages hold, we are 56 trading days (almost three months) away from a new high.

### **Give Us a Call Today**

We invite you to give us a call at **(415) 249-6337**, visit [www.deltaim.com](http://www.deltaim.com) or email us at [info@deltaim.com](mailto:info@deltaim.com) if you have questions about how we can assist you in managing your investment accounts.



## Delta Stock Market Dashboard

MARKET SENTIMENT IS

**BEARISH**

THIS WEEK'S NUMBER IS

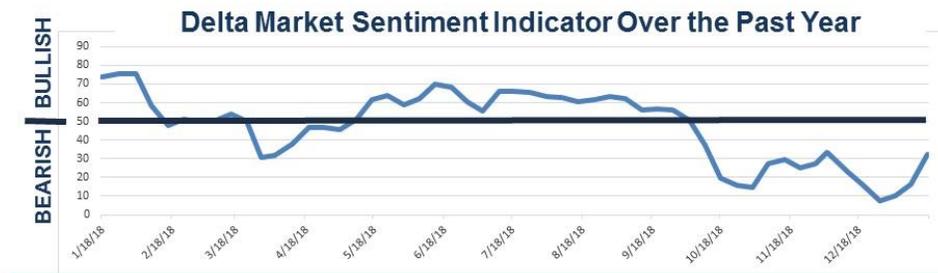
**32.4**

Our technical indicator increased  
this week from 16.4 to 32.4

### INDICATOR STATISTICS

Consecutive Bearish Weeks:	15
Cycle Inception Date:	10/11/2018
Range:	7.5 - 37.4
Mean:	22.4
Bullish Weeks YTD:	0
Bearish Weeks YTD:	3
*S&P 500	-5.9%
*DJIA	-5.5%
*NASDAQ	-5.0%

\* Percentage change during current cycle



(Delta MSI is published every week in *Barron's*)

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