

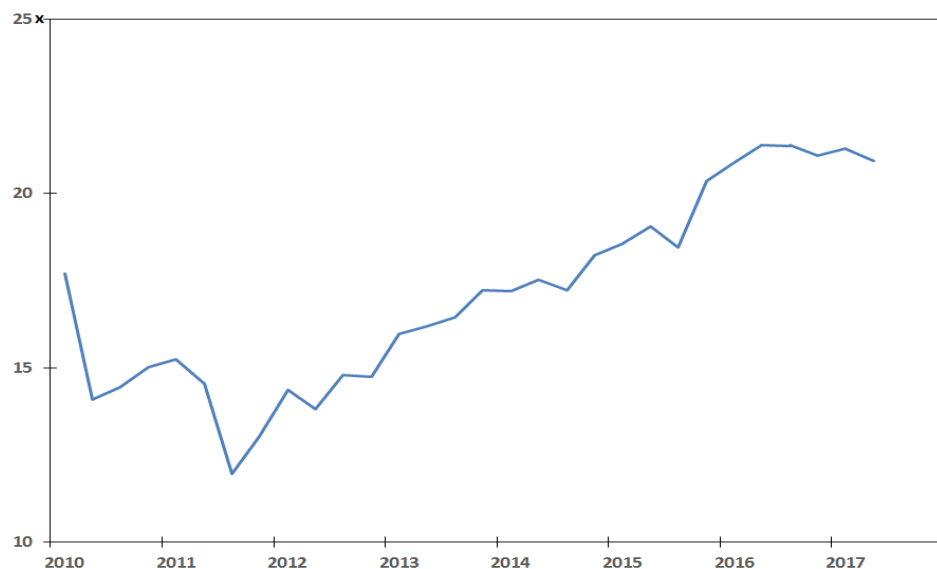
## Equity Outlook: US Equities on Track for More Gains in 2017



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- **Accelerating Earnings Growth.** With earnings reporting season about to begin, Q2 2017 S&P 500 operating earnings are forecast to rise 19% from year-ago levels, an *acceleration* from the 13% rate of growth in Q1 2017.
- **Stable Earnings Expectations.** Consensus 2017 S&P 500 estimates have been relatively stable — in contrast to the trend in most years, in which earnings expectations are ratcheted down steadily — and have declined only 4% over the past year. A significant majority of companies have been exceeding earnings expectations.
- **A Decline in P/Es.** Given steadily accelerating corporate profit growth, the Price-to-Earnings multiple of the S&P 500 has actually *declined*, so that valuations are not as stretched as they were one year ago.
- **Revising Expectations Upward.** Reflecting the highly favorable combination of accelerating profit growth and improved valuations, we are revising upward our expectations for 2017, and now expect a mid-teens gain in US stock prices, as compared to our previous expectation for a high-single-digit gain.

**Figure 1: A Declining S&P 500 P/E Multiple**  
*Earnings Growth Has Been Exceeding Stock Price Gains*



Source: S&P, Cornerstone Capital Group



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