Cornerstone Capital Group

Equity Strategy

June 5, 2017

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Global Equity Outlook:
A Global Earnings Rebound

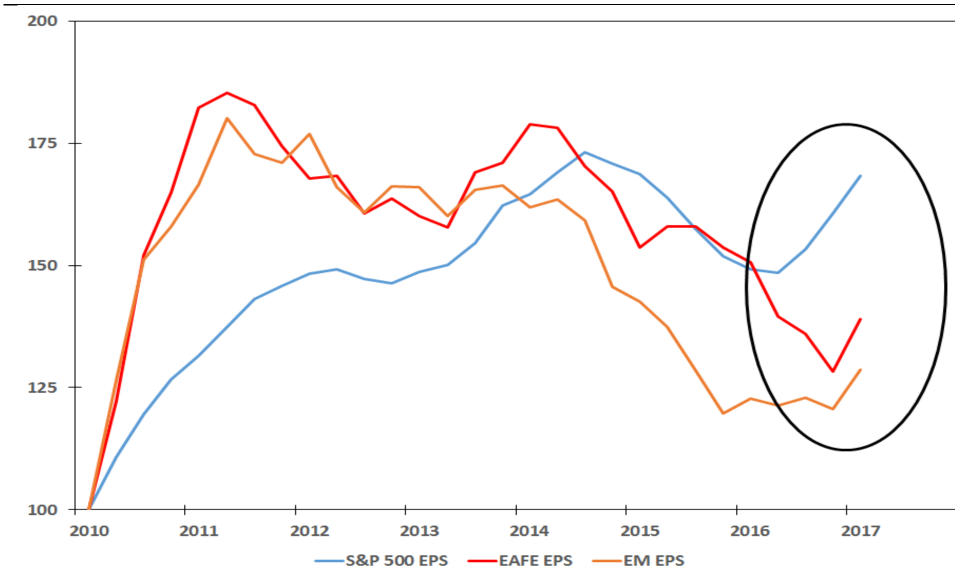
- **Climbing Out of the Trough.** In the US, the Europe/Australasia/Far East (EAFE) region and in Emerging Markets, earnings seem on track to keep climbing out of the 2016 trough.

- **Regional Preferences.** Developed Markets look more attractive than Emerging Markets. Within Developed Markets, the EAFE region — and Europe in particular — looks more attractive than the US.

- **Sector Outlook.** In the US, the Information Technology and Financials sectors are expected to remain the largest contributors to S&P 500 earnings in 2017. The Energy sector is currently forecast to materially increase its contribution to S&P 500 EPS. Key risks for the Financials and Energy sectors: interest rates (10-year Treasury) and oil prices (WTI), which have been trending lower since the start of the year.

- **A Single-Digit Gain in US Equity Markets Seems Plausible.** Since 2010, the start-of-the-year expectation for US EPS has, on average, been too high by 11%. If the current estimate of 2017 earnings declined by the average 11%, that would imply a 9% gain in 2017 earnings. If P/E multiples remain stable, US stock prices could also rise by a single digit amount in 2017.

Figure 1: Index of Earnings for Three Regions (2010 = 100)



Source: S&P, MSCI, Cornerstone Capital Group

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