

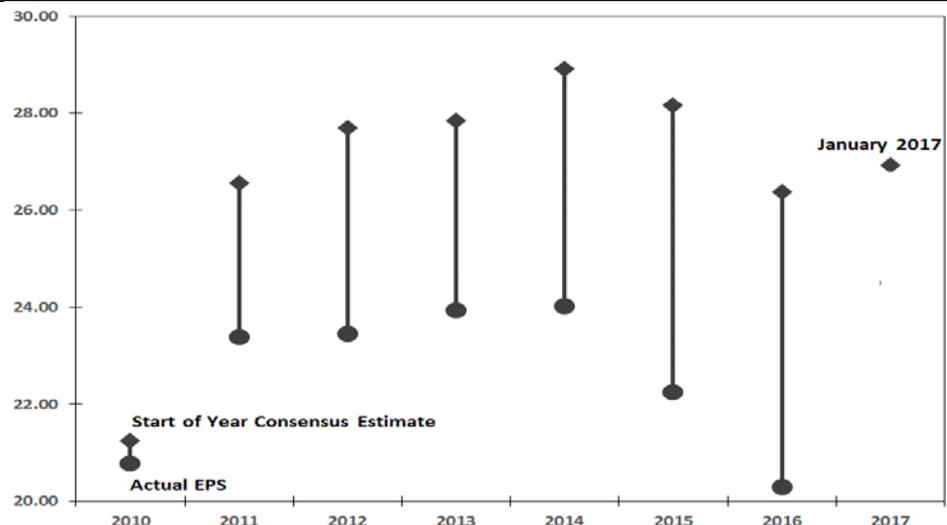
## Global Earnings Synthesis: Earnings Growth Likely to Determine the Direction of Stock Prices in 2017



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- **2017 Estimates Still Seem Overly Optimistic.** While the initial estimate of 2015 earnings was *below* the initial estimate of 2014 earnings, and the initial 2016 estimate was below the initial 2015 estimate, the initial consensus estimate for 2017 EPS is materially *above* the initial estimate for 2016. Consensus estimates currently imply a 34% gain in global earnings in 2017. Annual earnings growth has not exceeded 13% in any of the past six years.
- **Bottom-Up Estimates Also Seem Too Optimistic.** Driven by interest rate and oil price movements, the Financials and Energy sectors had the biggest declines in earnings in 2016. (The yield on the 10-year U.S. Treasury *declined* in H1 2016; oil prices spent most of 2016 below \$50.) The consensus estimate is for those two sectors to have the biggest earnings *gains* in 2017, which seems dependent on a further steepening of yield curves and materially higher oil prices.
- **A Single-Digit Gain in 2017 Seems Plausible.** Since 2010 the start-of-the-year expectation for MSCI ACWI EPS has, on average, been too high by 15%. If the current estimate of 2017 earnings declined by the average 15%, that would imply a 14% gain in 2017 earnings. However, with estimates likely to continue falling, actual earnings growth in 2017 could well be in the single digits. If P/E multiples remain stable, global stock prices could also rise by a single digit amount in 2017.

Figure 1: MSCI ACWI EPS – Start-of-Year Consensus Estimate and Actual Year-End EPS



Source: MSCI, Cornerstone Capital Group



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