

US Equity and Derivatives Comment

2Q 2015 Weekly Earnings Summary: July 27th

Equity Strategy

Americas

Weekly Earnings Summary

This weekly report, published during earnings season, provides an overview of S&P 500 earnings results. We aim to summarize recent announcements and take a broader look at themes for the coming week by leveraging the views of our US fundamental sector analysts and combining it with our own Strategy observations. For our daily summary of S&P 500 earnings, please use the following link: [2Q 2015 S&P 500 Earnings Summary](#)

The Week Ahead

In the week of July 27-31, 152 companies (24% of S&P 500 market cap) are expected to report results. Industrials (i.e. DD, F, CHRW, ROK, ETN, WY) and Energy (i.e. APC, HES, XOM, CVX) are features. Much has changed since 2Q'14; a stronger dollar and lower oil have cast a pall over 2Q earnings and revenue growth expectations for Industrials, trending at around -4.7% and -3.5%, and -63% and -38%, respectively for Energy. We expect earnings announcement reactions from these two beleaguered groups will be very informative in light of the "Growth Scare" messaging from lower commodity prices coming at a time when the Fed is expected to reinforce its intention to raise rates in 2015. Higher volatility and yet another downside test of the S&P 500's compacted 2015 range (1,980 – 2,135) would appear to be in store.

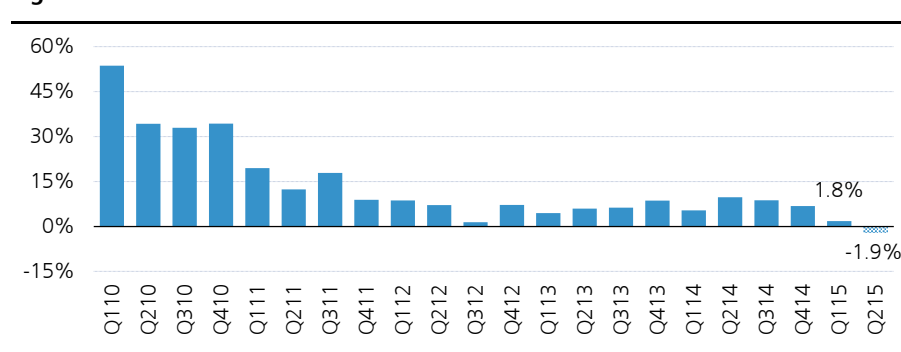
Thoughts on the Week Past

Last week, 126 S&P 500 companies (representing 30% of the index's market cap) reported. It was a busy week across the board, but Financials and Technology led the way. In one of the more notable announcements, Amazon (AMZN) announced earnings and revenue well above expectations. Despite trading up 10% on the back of their results, broader action remained weak as the S&P 500 lost 2.3% for the week.

Q2 2015 Recap

Approximately 51% of the S&P 500 index has already announced results. Reported earnings and revenue growth of 4.6% and 0.8%, respectively, has been ahead of estimates despite the initial expectation for negative earnings growth. 68% of companies have beat earnings expectations (vs. an average of 69% since '09) while 41% of companies have beat revenue expectations (vs. 47% since '09). Turning to guidance, 43 of 73 companies have delivered above-consensus outlooks for the FY. On average, FY guidance is 0.8% below consensus estimates, while quarterly guidance for Q3 is 2.6% below consensus.

Figure 1: S&P 500 Historical EPS Growth



Source: FactSet, UBS Research

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Our Quantitative Research colleagues publish a weekly summary of global market and factor returns available in the Quantitative section of our Research portal under the name Global Quantitative Monitor.

We would like to thank Abhijat Singh, employee of Cognizant Group, for his assistance in preparing this research report. Cognizant staff provides research support services to UBS.

The Week Ahead

In the week of July 27-31, 152 companies (24% of S&P 500 market cap) are expected to report results. Industrials (i.e. DD, F, CHRW, ROK, ETN, WY) and Energy (i.e. APC, HES, XOM, CVX) are features.

Figure 2: Upcoming Earnings Announcements (next 5 days)

Sector	# of co's	% of index	Expected Growth (y/y)	
			Earnings	Revenue
Consumer Discretionary	16	1.5%	-1.2%	0.8%
Consumer Staples	6	2.1%	-0.8%	-8.0%
Energy	17	4.9%	-59.0%	-39.9%
Financials	31	4.2%	8.0%	-0.6%
Health Care	20	5.0%	1.1%	5.2%
Industrials	23	2.0%	0.3%	-0.3%
Information Technology	15	2.5%	6.9%	6.2%
Materials	9	0.6%	0.5%	-2.3%
Telecommunication Services	1	0.1%	172.5%	27.9%
Utilities	14	1.2%	1.4%	1.3%
S&P 500	152	24.1%	-17.4%	-15.9%
S&P 500 ex-Financials	121	19.9%	-21.6%	-17.1%
S&P 500 ex-Energy	135	19.3%	2.8%	1.4%
Cyclicals (ex-financials)	80	11.5%	-34.4%	-26.6%
Non-cyclicals	41	8.4%	1.1%	2.4%

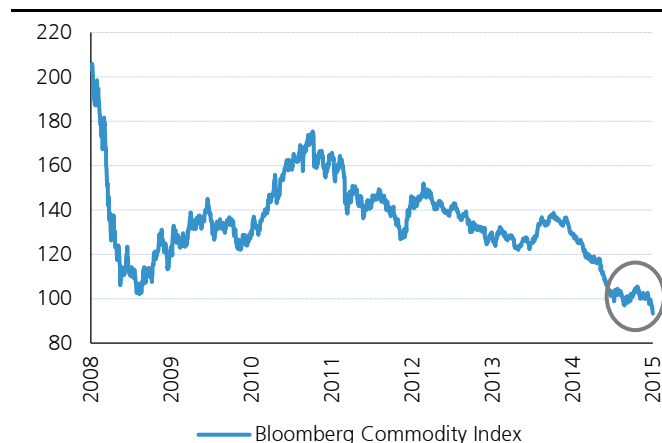
Source: FactSet, UBS Research

Ideas for the Week Ahead

We think earnings announcement returns (EAR) to Industrials and Energy in the week ahead will be critical in gauging the broad market's overall health.

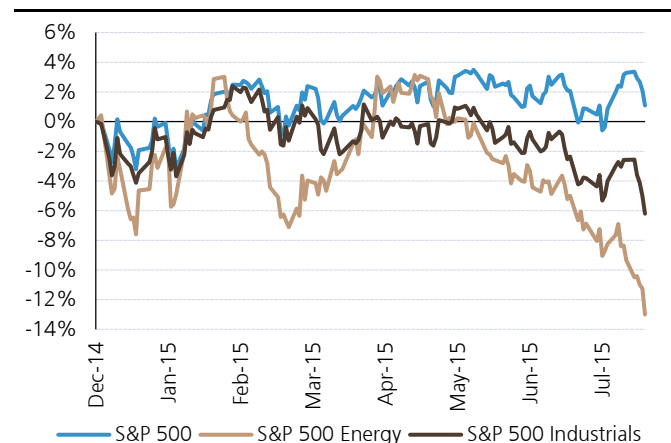
The signs are not encouraging, in our view, particularly when considering Friday's market slide despite AMZN's significant rally in the face of a stellar report (see Eric Sheridan, 7/24, Amazon.com, "Prime Time Performance") combined with the steep commodity market plunge that has brought prices decisively through the depths of the Financial Crisis lows (Figure 3). And yet, it is fair to ask, given the underperformance of both Industrial and Energy shares in 2015 (Figure 4), is the worst priced into equities?

Figure 3: Growth Score Ahead?



Source: Bloomberg, UBS (Note: Bloomberg Commodity Index)

Figure 4: S&P 500, Energy, Industrials YTD Performance



Source: Bloomberg, UBS

The question is all the more relevant when considering that there is as yet no concrete evidence of an economic slowdown globally (UBS 2016 GDP forecasts remain 2.8%, 6.5% and 2.0% for the US, China and Eurozone, respectively) and in fact, the trend of reported global economic data has surprised to the upside in recent weeks (Figure 5).

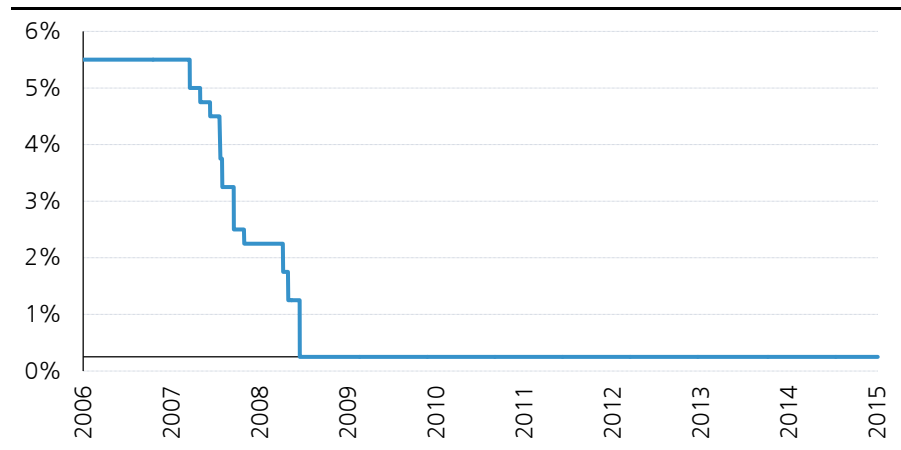
Figure 5: Do Commodities Know Something the Economy Doesn't?



Source: Bloomberg, UBS (Note: UBS Global Economic Growth Surprise Index)

Markets (and investors) abhor uncertainty. The doubt about underlying conditions that the commodity price plunge has spawned are intersecting an FOMC meeting on Wednesday where Fed Chair Yellen is expected to reinforce the intention to raise rates in 2015 – UBS believes the rate hike cycle will begin at the September 17th meeting. The Fed is in a precarious position (Figure 6). Reinforce rate hike plans and nervous markets may perceive the possibility of a policy error given commodity weakness, or downplay its intentions and leave the markets wondering if the Fed "knows something that commodities do but that investors don't".

Figure 6: Fed Funds – Should I Stay or Should I Go Now?



Source: Federal Reserve, Bloomberg, UBS

For equity markets, we believe the likely outcome is higher volatility (Figure 7) and a test of the downside of 2015's range (S&P 500 1,980 – 2,135).

Figure 7: VIX: Line Holds, Turbulence Ahead?

Source: Bloomberg, UBS

In this light, Transports analyst Tom Wadewitz is below consensus on both 2Q EPS (\$0.83 vs. \$0.86 cons.) and revenue (\$3.6B vs. \$3.7B) estimates for Sell rated CH Robinson Worldwide (CHRW), which reports after market close (AMC) on 7/28. Given the fact that CHRW shares have had positive EAR in only 2 of the past 16 quarters, underperformance could result in the event that Wadewitz's estimates prove correct.

In the next week, the table below highlights the 15 largest companies by S&P 500 index weight expected to announce results.

Figure 8: Top 15 Companies Reporting Next Week (by Index weight, %)

Ticker	Name	Sector	Report Date	S&P Weight	Market Cap (\$Bil)
XOM	Exxon Mobil Corp	Energy	7/31/2015	1.9%	334
BRK/B	Berkshire Hathaway Inc-Cl B	Financials	7/30/2015	1.4%	173
PG	Procter & Gamble Co/The	Consumer Staples	7/30/2015	1.2%	218
PFE	Pfizer Inc	Health Care	7/28/2015	1.1%	211
CVX	Chevron Corp	Energy	7/31/2015	1.0%	170
FB	Facebook Inc	Information Technology	7/29/2015	1.0%	218
GILD	Gilead Sciences Inc	Health Care	7/28/2015	0.9%	167
AMGN	Amgen Inc	Health Care	7/30/2015	0.6%	121
MA	Mastercard Inc-Class A	Information Technology	7/29/2015	0.5%	107
COP	Conocophillips	Energy	7/30/2015	0.4%	64
MDLZ	Mondelez International Inc	Consumer Staples	7/30/2015	0.4%	68
ESRX	Express Scripts Holding Co	Health Care	7/28/2015	0.4%	67
MET	Metlife Inc	Financials	7/29/2015	0.3%	63
OXY	Occidental Petroleum Corp	Energy	7/30/2015	0.3%	52
CL	Colgate-Palmolive Co	Consumer Staples	7/30/2015	0.3%	61

Source: FactSet, UBS Research

Earnings Season Summary

The section below provides a broad perspective on Q2 2015 earnings to date. For a detailed look at the data, please refer to our Daily Earnings Season Summary file (updated daily): [2Q S&P 500 Earnings Summary](#)

Thoughts on the Week Past

Thus far, 187 companies have reported results and, on aggregate, companies have beat on earnings and revenue by 3.6% and 0.3%, respectively. Looking ahead, consensus expectations for Q2 remain generally disappointing, as earnings and revenue are expected to decline 3.3% and 4.3%, respectively. Ex-energy, the outlook isn't quite as dreary, with our blended figures showing modest growth of 4.5% and 1.6% for earnings and revenue.

Generally, we continued to believe Q2 is likely to represent an earnings trough in the near/medium term, particularly as year-over-year comparables in the US dollar and oil prices become easier into the second half of the year.

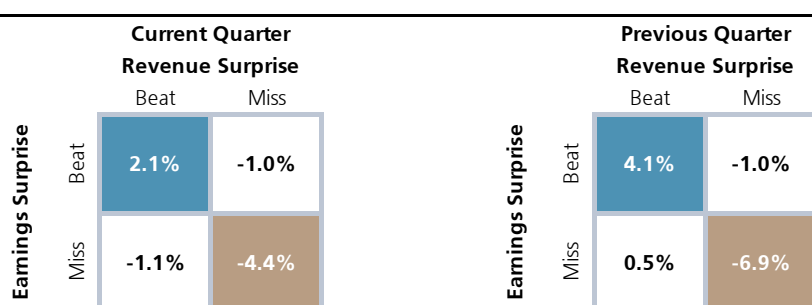
Perhaps the most notable announcement over the past week came from Amazon.com (AMZN), which reported earnings on Thursday and handily beat earnings and revenue expectations. The beat was driven by strong international revenue growth and increasing gross margins. We believe Amazon looks set to continue a pattern of strong revenue growth in Amazon Web Services and North American eCommerce. Yet despite the positive EAR (shares closed up 10% on Friday), the broader market failed to rally, with the S&P 500 dropping 22.5 points to close the week down 2.3%.

General Motors (GM) also reported on Thursday, beating earnings but coming in below expectations on revenue. GM's beat was driven by growth in Europe and North America and an EBIT margin tied with its highest in the "new GM" history.

On the downside, TripAdvisor (TRIP) missed on earnings and revenue. While commentary surrounding Instant Booking Inventory and adoption trends by hoteliers were encouraging, weaker international trends also led to a disappointing FY guidance revision.

Looking at price action thus far, the market has continued to reward companies that have beat on both earnings and revenue ("Double Winners"). On the other hand, companies that have missed on both earnings and revenue have underperformed.

Figure 9: Price Action – Current vs. Previous Quarter



Source: FactSet, UBS Research

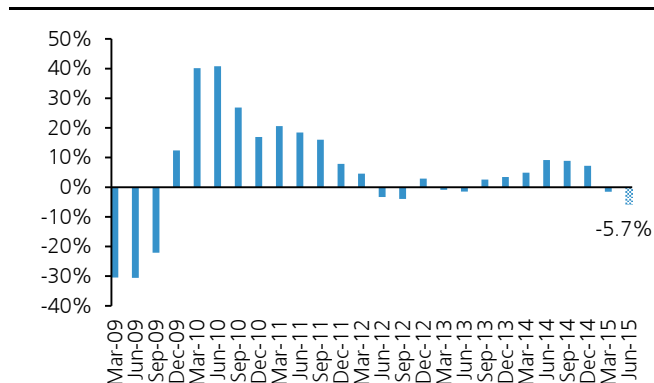
Earnings

Figure 10: 2Q2015 Earnings Growth & Surprise

Sector	Rptd	Total	Growth (y/y)			Surprise		
			Rept	Unrept	Blnded	Beat	Miss	%
Consumer Discretionary	31	84	19.8%	1.4%	7.4%	74%	19%	7.8%
Consumer Staples	12	37	-1.4%	-1.4%	-1.4%	83%	8%	5.8%
Energy	8	41	-45.6%	-65.3%	-62.9%	38%	63%	7.6%
Financials	43	88	8.5%	4.4%	7.2%	60%	28%	3.7%
Health Care	16	55	13.2%	8.3%	10.1%	94%		7.0%
Industrials	31	65	-3.8%	-6.7%	-4.7%	61%	19%	-2.1%
Information Technology	32	66	4.0%	3.8%	4.0%	69%	28%	2.8%
Materials	9	29	5.6%	2.5%	3.6%	67%	33%	8.7%
Telecommunication Services	2	5	12.0%	-2.4%	11.0%	100%		5.1%
Utilities	3	30	6.1%	2.2%	2.5%	33%	67%	0.1%
S&P 500	187	500	4.6%	-11.7%	-3.3%	68%	24%	3.6%
S&P 500 ex-Financials	144	412	3.3%	-13.9%	-5.7%	70%	22%	3.6%
S&P 500 ex-Energy	179	459	6.0%	2.5%	4.5%	69%	22%	3.6%
Cyclicals (ex-financials)	111	285	1.3%	-24.6%	-11.5%	66%	26%	2.5%
Non-cyclicals	33	127	8.0%	4.0%	5.7%	85%	9%	6.1%

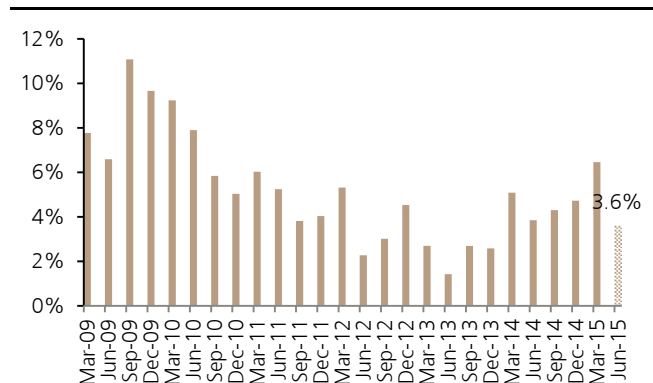
Source: FactSet, UBS Research

Figure 11: Historical Earnings Growth (ex-financials)



Source: FactSet, UBS Research

Figure 12: Historical Earnings Surprise (ex-financials)



Source: FactSet, UBS Research

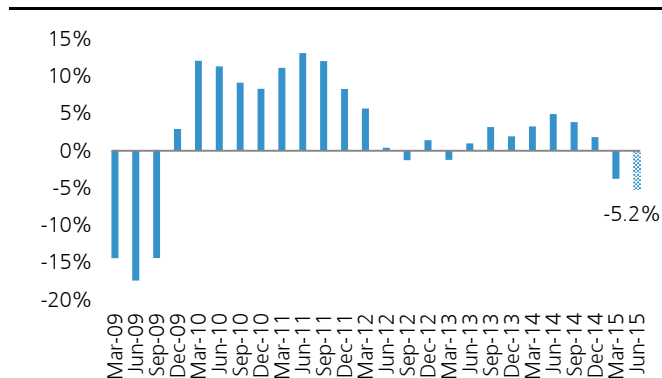
Revenue

Figure 13: 2Q2015 Revenue Growth & Surprise

Sector			Growth (y/y)			Surprise		
			Rept	Unrept	Blnded	Beat	Miss	%
Consumer Discretionary	31	84	3.6%	0.7%	1.8%	42%	35%	-0.5%
Consumer Staples	12	37	6.3%	0.1%	1.7%	33%	42%	-0.8%
Energy	8	41	-24.2%	-39.3%	-38.0%	38%	38%	-1.7%
Financials	43	88	1.8%	6.3%	3.4%	60%	26%	1.4%
Health Care	16	55	5.9%	7.4%	6.9%	63%	13%	1.0%
Industrials	31	65	-4.2%	-2.3%	-3.5%	26%	55%	1.5%
Information Technology	32	66	3.6%	0.4%	2.5%	38%	41%	0.4%
Materials	9	29	-8.1%	-9.6%	-8.9%	11%	89%	-2.2%
Telecommunication Services	2	5	1.8%	7.6%	2.4%		50%	-0.6%
Utilities	3	30	-8.4%	-0.3%	-1.1%		100%	-5.4%
S&P 500	187	500	0.8%	-7.9%	-4.3%	41%	40%	0.3%
S&P 500 ex-Financials	144	412	0.6%	-8.9%	-5.2%	35%	44%	0.1%
S&P 500 ex-Energy	179	459	1.6%	1.5%	1.6%	41%	40%	0.4%
Cyclicals (ex-financials)	111	285	-1.4%	-17.1%	-10.5%	33%	47%	0.2%
Non-cyclicals	33	127	4.7%	3.0%	3.6%	42%	33%	-0.1%

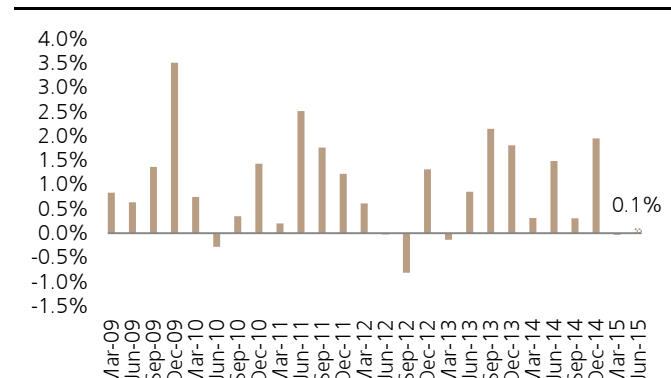
Source: FactSet, UBS Research

Figure 14: Historical Revenue Growth (ex-financials)



Source: FactSet, UBS Research

Figure 15: Historical Revenue Surprise (ex-financials)



Source: FactSet, UBS Research

Price Action

The section below provides an overview of price action and guidance for companies who have reported first quarter earnings.

Price action is defined as the performance of the stock from one day prior to one day post announcement. Although still early, companies, to date, beating on both earnings and revenue (double winners) have substantially outperformed stocks missing on both earnings and revenue by 6.5% (2.1% vs. -4.4%, respectively).

Figure 16: Price Action – Current vs. Previous Quarter

		Current Quarter Revenue Surprise		Previous Quarter Revenue Surprise	
		Beat	Miss	Beat	Miss
Earnings Surprise	Beat	2.1%	-1.0%	4.1%	-1.0%
	Miss	-1.1%	-4.4%	0.5%	-6.9%

Source: FactSet, UBS Research

Figure 17: Price Action – Sector Summary

Sector	Rptd	Total	EPS Beat With		EPS Miss with	
			Rev Beat	Rev Miss	Rev Beat	Rev Miss
Consumer Discretionary	31	84	3.1%	1.5%	-2.8%	-4.1%
Consumer Staples	12	37	0.4%	1.7%		
Energy	8	41	5.0%		-1.3%	-2.4%
Financials	43	88	1.4%	2.3%	-1.4%	-0.9%
Health Care	16	55	2.9%			
Industrials	31	65	0.2%	-5.4%	0.9%	1.5%
Information Technology	32	66	3.3%	-1.4%	-0.1%	-6.9%
Materials	9	29		-4.8%	-2.8%	-12.0%
Telecommunication Services	2	5		-2.8%		
Utilities	3	30				
S&P 500	187	500	2.1%	-1.0%	-1.1%	-4.4%
S&P 500 ex-Financials	144	412	2.4%	-1.5%	-0.9%	-5.4%
S&P 500 ex-Energy	179	459	2.1%	-1.0%	-1.1%	-4.6%
Cyclicals (ex-financials)	111	285	2.8%	-2.1%	-0.9%	-5.4%
Non-cyclicals	33	127	1.7%	0.8%		

Source: FactSet, UBS Research

Company Guidance

For guidance, we track both quarterly and full-year guidance reports at the company level. To date, 32 companies in the S&P 500 have issued quarterly guidance for the third quarter while 73 companies have guided for the full year. On average, quarterly guidance has been 2.6% below consensus expectations. On the other hand, full-year guidance has been 0.8% below consensus estimates and 0.5% below prior guidance.

Figure 18: Quarterly Guidance – 3Q 2015

Sector	Rptd	Total	Provide Guid	vs. Consensus Estimates		
				Higher	Lower	Diff %
Consumer Discretionary	31	84	5	2	3	6.7%
Energy	8	41	0	0	0	-
Industrials	31	65	7	2	5	-1.9%
Materials	9	29	1	0	1	-7.4%
Information Technology	32	66	12	4	8	-7.1%
Financials	43	88	1	0	0	-
Consumer Staples	12	37	0	0	0	-
Health Care	16	55	6	2	4	-1.2%
Telecommunication Services	2	5	0	0	0	-
Utilities	3	30	0	0	0	-
S&P 500	187	500	32	10	21	-2.6%
S&P 500 ex-Financials	144	412	31	10	21	-2.6%
S&P 500 ex-Energy	179	459	32	10	21	-2.6%
Cyclicals (ex-financials)	111	285	25	8	17	-2.9%
Non-cyclicals	33	127	6	2	4	-1.2%

Source: FactSet, UBS Research

Figure 19: Full Year Guidance vs. Prior Guidance & Consensus – 2015

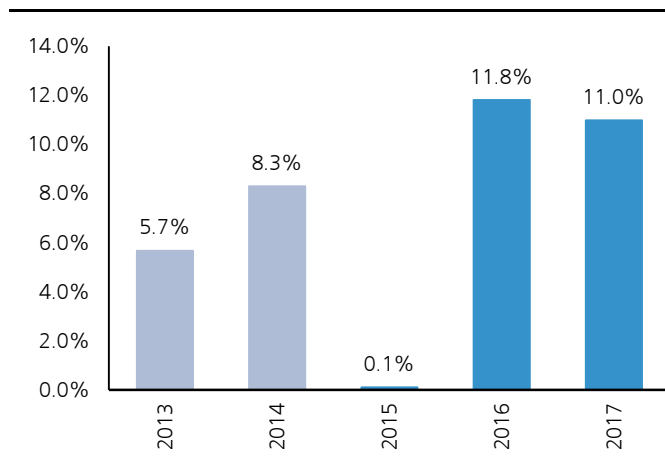
Sector	Rptd	Total	Provide Guid	vs. Prior Guidance			vs. Consensus Estimates		
				Higher	Lower	Diff %	Higher	Lower	Diff %
Consumer Discretionary	31	84	5	2	1	0.1%	3	2	1.6%
Energy	8	41	0	0	0	-	0	0	-
Industrials	31	65	21	10	6	-0.8%	14	7	-0.5%
Materials	9	29	2	0	1	-0.9%	1	1	-1.2%
Information Technology	32	66	14	4	5	-3.5%	7	7	-3.5%
Financials	43	88	6	3	0	1.7%	4	2	-0.9%
Consumer Staples	12	37	7	5	1	1.0%	3	4	0.2%
Health Care	16	55	15	10	1	0.7%	9	6	0.0%
Telecommunication Services	2	5	0	0	0	-	0	0	-
Utilities	3	30	3	2	0	1.6%	2	1	0.8%
S&P 500	187	500	73	36	15	-0.5%	43	30	-0.8%
S&P 500 ex-Financials	144	412	67	33	15	-0.7%	39	28	-0.8%
S&P 500 ex-Energy	179	459	73	36	15	-0.5%	43	30	-0.8%
Cyclicals (ex-financials)	111	285	42	16	13	-1.7%	25	17	-1.3%
Non-cyclicals	33	127	25	17	2	0.9%	14	11	0.1%

Source: FactSet, UBS Research

S&P 500 Consensus Estimates

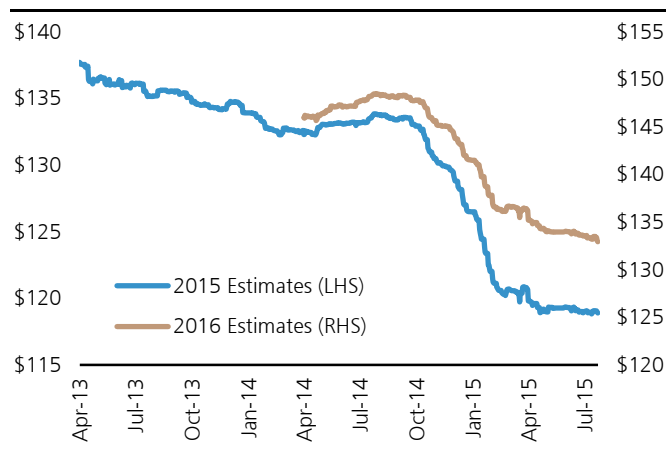
With better-than-expected earnings results, combined with recent strength in oil and weakness in the dollar, the trend towards lower consensus EPS estimates has appeared to find a floor (for the moment). Current estimates now imply a growth rate of 0.1% for 2015 S&P 500 EPS, with a recovery in 2016 of 11.8% growth.

Figure 20: Annual S&P 500 EPS Growth Expectations



Source: S&P, Compustat, First Call, IBES, Worldscope, FactSet and UBS Research

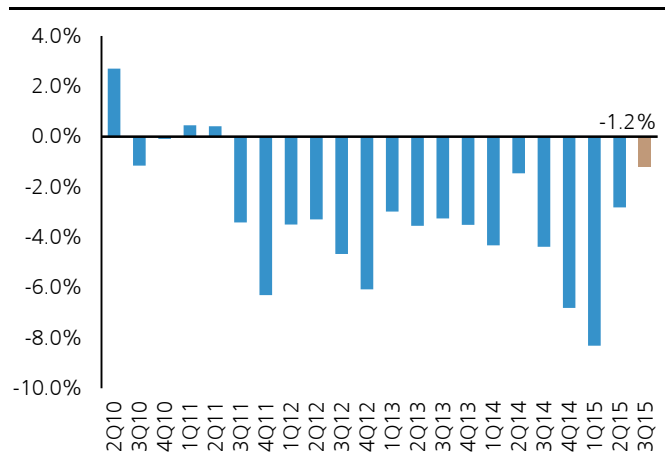
Figure 21: Consensus Estimates – 2015 & 2016



Source: S&P, Compustat, First Call, IBES, Worldscope, FactSet and UBS Research

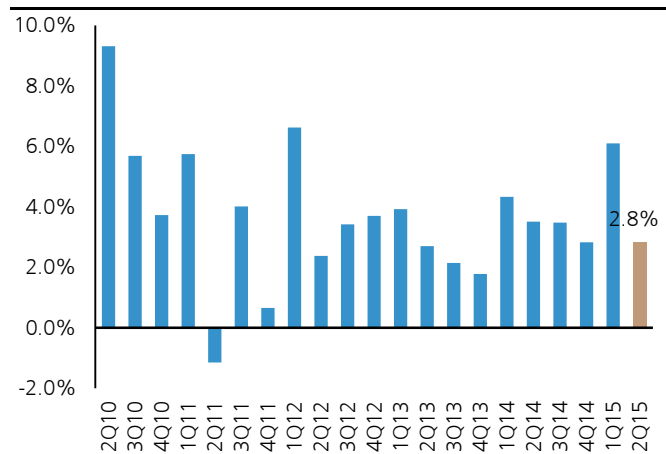
In the 3 months prior to quarter end (6/30), 2Q'15 S&P 500 EPS estimates were revised down 2.8%. Since quarter end, 2Q estimates have been revised up 2.8% as companies have beaten the low bar set by expectations prior to the start of earnings season. Looking forward, 3Q'15 estimates are down 1.2%.

Figure 22: Change EPS Estimates Prior to Quarter End



Source: S&P, Compustat, First Call, IBES, Worldscope, FactSet and UBS Research

Figure 23: Change in EPS Estimates Since Quarter End



Source: S&P, Compustat, First Call, IBES, Worldscope, FactSet and UBS Research

Statement of Risk

Past performance is not indicative of future returns. Investing in equities globally poses country, industry and company-specific risks. Valuations can be impacted by changes in the macroeconomic landscape as well as financial market stability.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	45%	36%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2015.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Julian Emanuel; Omar Elangbawy; Sibi Gnanasundaram; Sebastian Lancetti, CFA.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Amazon.com ^{16, 18a}	AMZN.O	Buy	N/A	US\$529.42	24 Jul 2015
C.H. Robinson Worldwide, Inc. ¹⁶	CHRW.O	Sell	N/A	US\$64.31	24 Jul 2015
General Motors Company ^{4, 6a, 6b, 6c, 7, 16, 18b}	GM.N	Buy	N/A	US\$31.06	24 Jul 2015
TripAdvisor ¹⁶	TRIP.O	Neutral	N/A	US\$80.86	24 Jul 2015

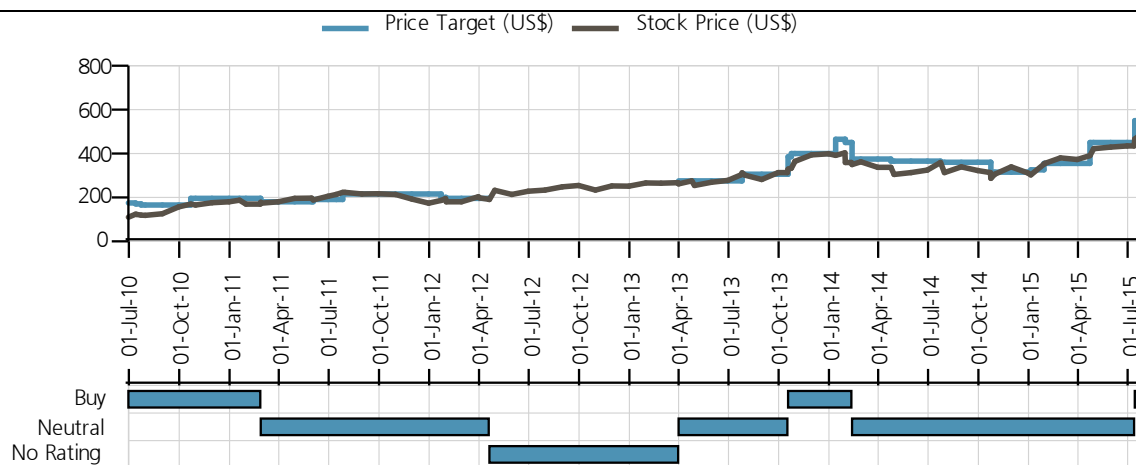
Source: UBS. All prices as of local market close.

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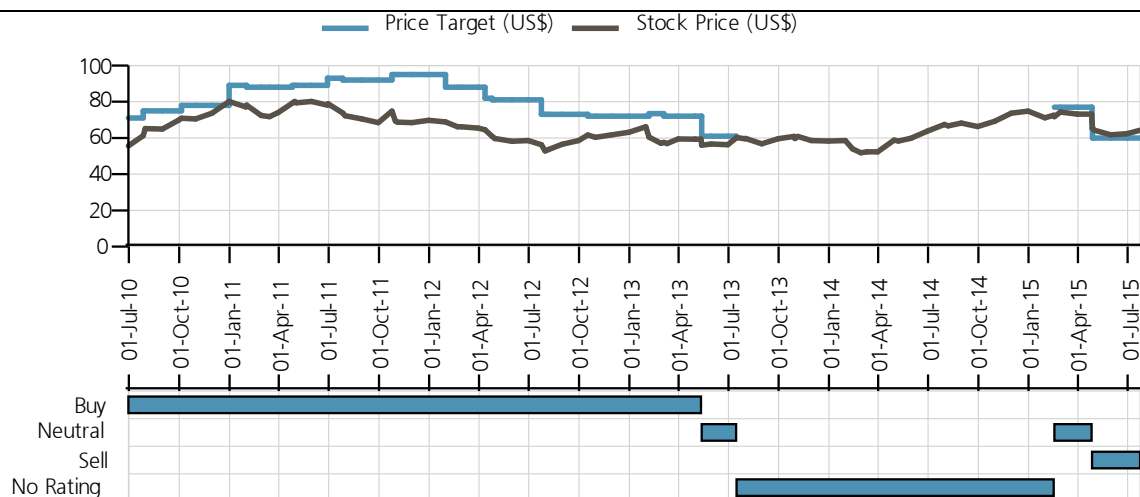
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Amazon.com (US\$)



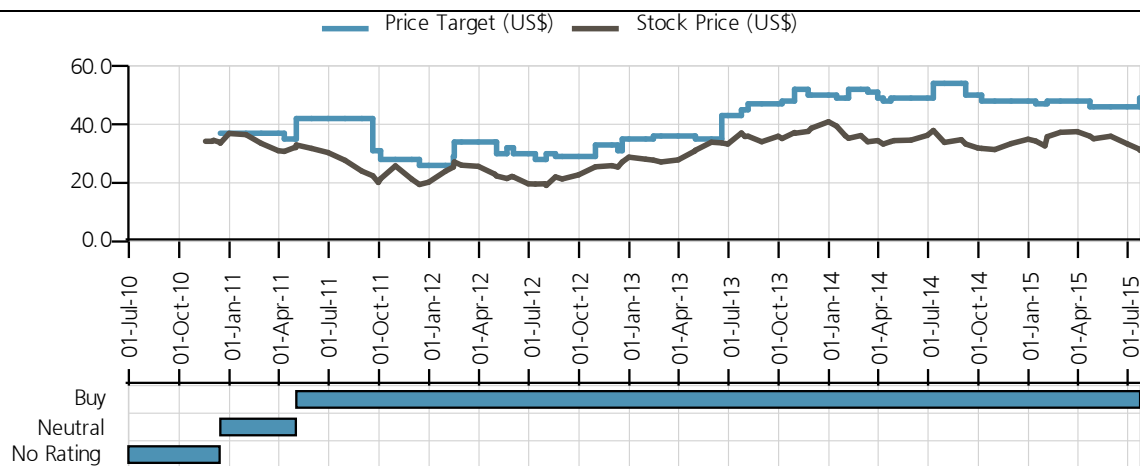
Source: UBS; as of 24 Jul 2015

C.H. Robinson Worldwide, Inc. (US\$)



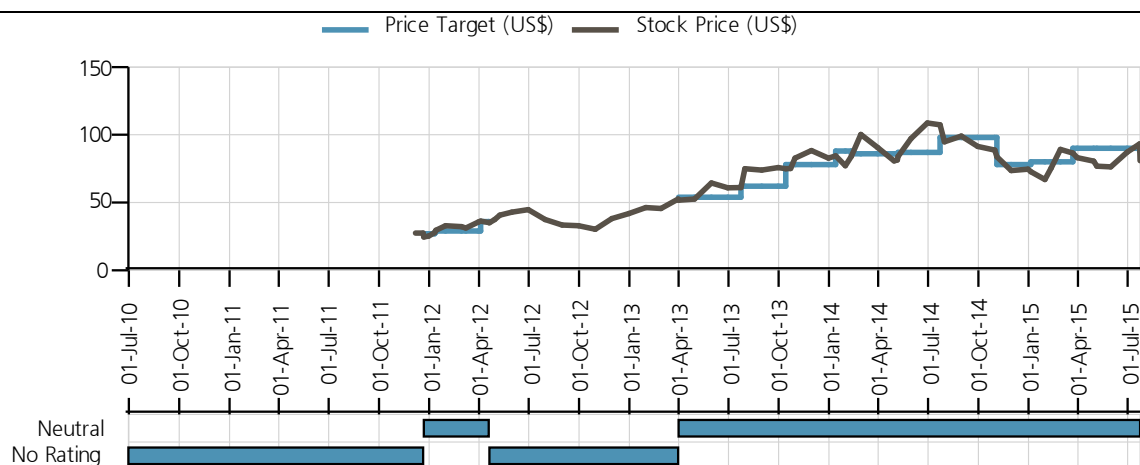
Source: UBS; as of 24 Jul 2015

General Motors Company (US\$)



Source: UBS; as of 24 Jul 2015

TripAdvisor (US\$)



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