Will Earnings Lift Stock Prices Higher?

There is an old saying on Wall Street that *earnings are the lifeblood of the market.* Stocks are apt to follow earnings, both up and down. As the chart below illustrates, operating earnings during the dark days of the *great recession* plummeted to $39.61. This sent the broad market index spiraling downward to 676, its lowest level since 1996. Massive fiscal and monetary policy was implemented to stall and reverse the calamity. It worked; the subsequent quarterly earnings decline reversed course and grew once more. Earnings advanced year-over-year the next 5 years, until peaking in Q3-2014. At this point, corporate profits fell into contractionary mode, an *earnings recession*. Stocks have sputtered along during this period – trading as low as 1,829 in February this year, to as high as 2,175 on July 22nd. The average price for the S&P 500 has been 2,033 over the course of this period. Stocks have trended within 10% and 7% of their low-high range respectively. There have been ample causes to the earnings decline, but the real culprit has been energy prices, which have fallen by greater than 50%. The green bars in the graph show consensus view projected earnings in the quarters to come, which indicate better days ahead for earnings prospects. Let's hope these estimates are accurate, because therein lies the answer to higher stock prices, dividends and wealth for shareholders amass.