

S&P 500 Leading Earnings Indicator

Sample Case Study

Use the Leading Earnings Indicator to Forecast Key Turning Points in the U.S. Profit Cycle & Position Investment Portfolios in Advance

2008 – Predicting the Earnings Collapse

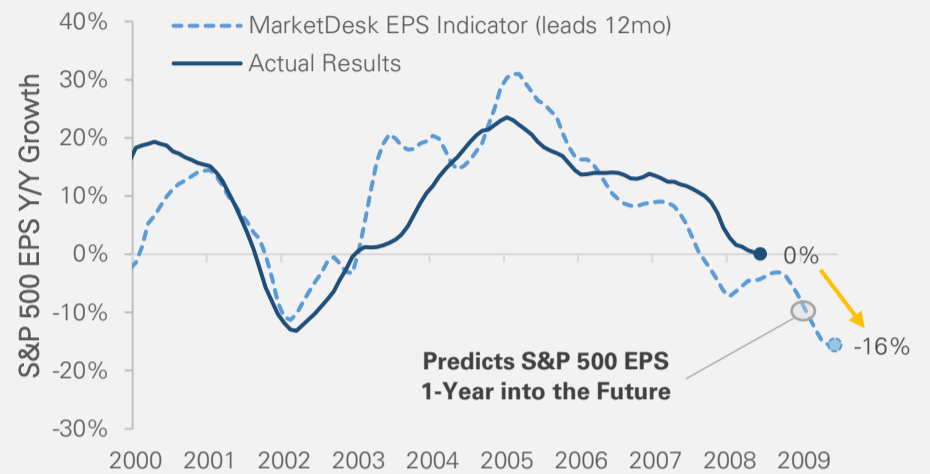
Indicator's Forecast (June 2008): -16% EPS growth over next 12 months

Actual Results (June 2009): -26% EPS Growth

Market Performance: The S&P 500 Index declined -28%

Key Takeaway: The indicator accurately forecasted the 2008-2009 negative earnings trend. This timely information provided the ability to manage portfolio risk by positioning more defensively. The indicator protected capital during a large market drawdown and, as shown in the full chart below, accurately forecasted both the 2009 earnings trough and subsequent earnings rebound.

Note – The indicator is a data-driven tool built to forecast the directional change in earnings growth over the next 12 months. It is not designed to predict with absolute precision (i.e. -16% vs -26%), but that is typically not necessary as rising/falling earnings trends are enough to guide portfolio construction.



2021 – Accurately Forecasted Higher Earnings

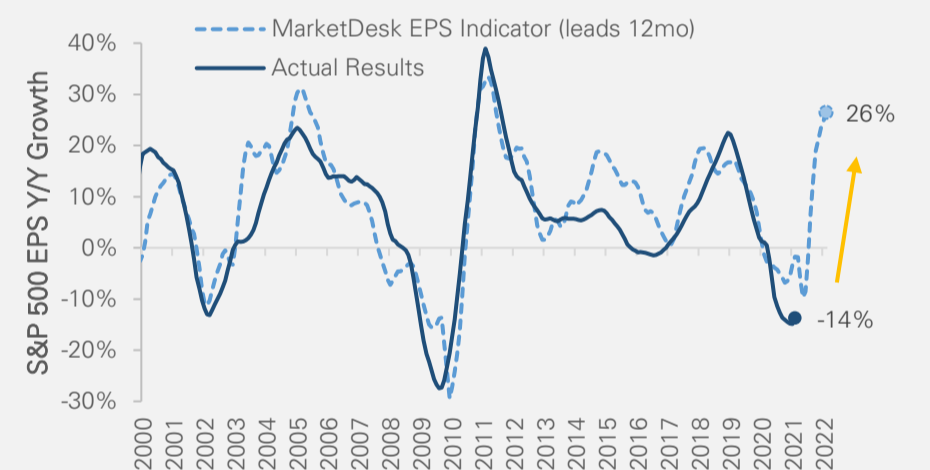
Indicator's Forecast (February 2021): +26% EPS growth over next 12 months

Actual Results (February 2022): +40% EPS Growth

(Note – U.S. Stimulus checks, zero interest rates, and the Fed's +\$4.5T balance sheet expansion powered EPS higher than the model's macro forecast).

Market Performance: The S&P 500 Index returned +15%

Key Takeaway: The indicator accurately forecasted both the bottoming of EPS in early 2021 and the rapid earnings rebound during 2021 and early 2022. This information offered investors the opportunity to add cyclical exposure and position portfolios for strong earnings growth and an equity market rally.



What is the Indicator Forecasting for 2023/2024?

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