

Profits Continue Their Recovery

As second-quarter earnings reports finished up last month, a comparison of overall S&P 500 earnings over the past several years shows encouraging performance. On a trailing four-quarter basis, S&P 500 earnings are up 26.6% from the similar period last year, bouncing back from the sharp decline in earnings in 2020 that resulted from lockdowns during the COVID-19 pandemic. Even more impressive, earnings are up 11.7% from the similar period in 2019 before the onset of COVID-19.

The recovery has been reasonably broad, with roughly two-thirds of individual S&P 500 companies

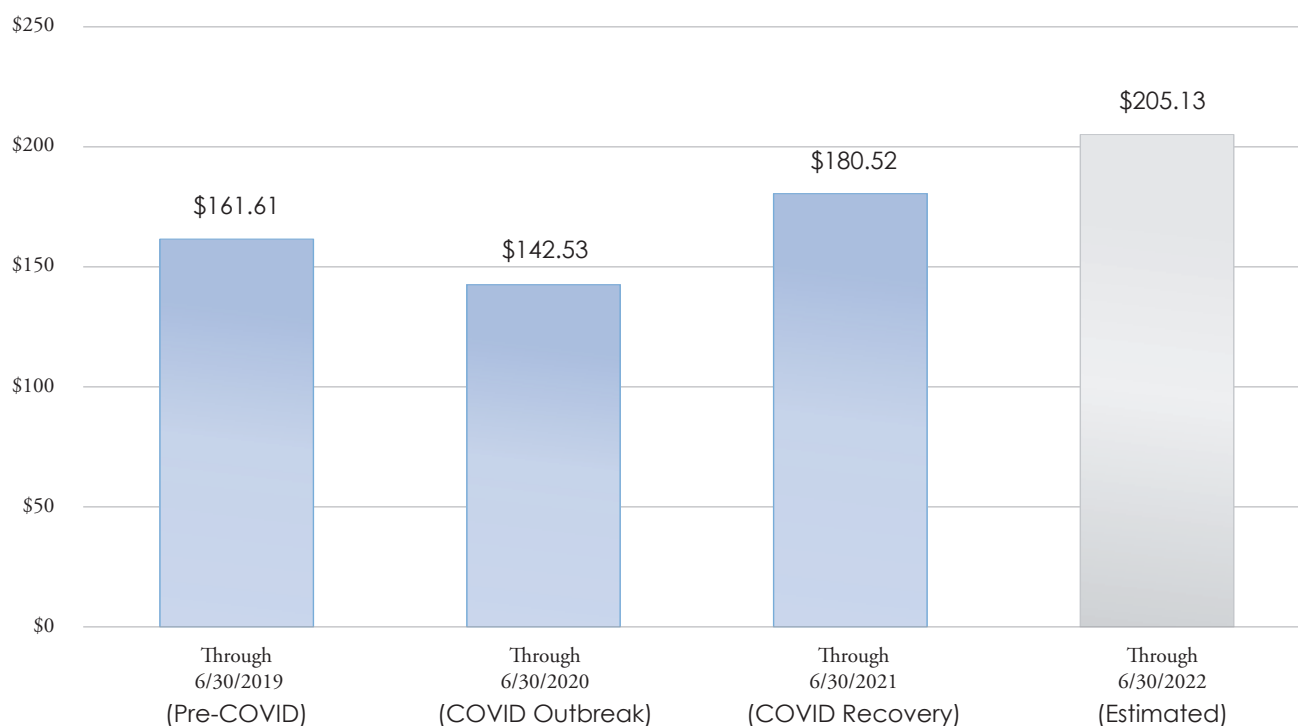
reporting higher profits over the past four quarters relative to the similar period in 2019. Of course, this also means that about one-third of companies still have not seen profits recover to mid-2019 levels, but consensus estimates for earnings over the next several quarters suggest that profits will continue to rise overall. Earnings are expected to rise 13.6% from current levels through mid-2022.

Along with the profit recovery, cash holdings among S&P 500 companies have recovered from pre-pandemic levels. According to Dow Jones Market Data and The Wall Street Journal, cash and short-term investment holdings

among S&P 500 companies increased 30% to just over \$2 trillion from the end of 2019's third quarter through today. These cash reserves allow significant financial flexibility to initiate capital spending projects, dividend increases, or stock buyback programs.

The S&P 500 sells at roughly 22x estimated earnings over the next 12 months, which is at the higher end of its historical range. Yet, given strong earnings momentum, continued low interest rates, and the bulging levels of cash on corporate balance sheets, we believe that stocks continue to be attractive for long term investors.

TRAILING FOUR-QUARTERS EARNINGS PER SHARE S&P 500 STOCK INDEX



Source: FactSet

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REFERENCED INDEX

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S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.