It's Time For Earnings To Back-up The New US Growth Story

July 8th the JOBS/Unemployment number roared back to life with the US economy showing a net add of 287,000 jobs – much stronger than anticipated given the weak number only one month earlier.

However, now it’s time for Q2 corporate earnings to back-up or disavow the strong economic numbers of late.

Q2 corporate earnings reporting is in full swing. So far, big banks fared better than expected given their weak operating situation. They continue to suffer from over regulation and low interest rates which won’t allow their “net interest margins” to expand.

Oil companies are once again expected to detract from overall SP earnings with continued losses due to the recent oil price slump.

Essentially, the market is anticipating another down quarter for US earnings. These down earnings quarters are driving the SP P/E ratio to uncomfortably high levels, especially for dividend producing stocks in the consumer staples and utilities sectors.

But after the July 8th jobs number, the mood on Wall Street began to shift from negative to one that can only be described as “maybe things won’t be as bad as we thought?”.

Warren Financial will be looking for strong continued growth numbers from the likes of Under Armor (UA), A.O. Smith (AOS), Global Payments (GPN), Edwards Life Sciences (EW), and others. We will be expecting upside surprises from the larger companies including Google (GOOG), Amazon (AMZN), Facebook (FB), Boeing (BA), Altria (MO), and Comcast (CMCSA). We continue to expect the biotech sector to post large positives while the oil sector posts weak numbers or even losses which will detract from overall SP P/E ratios. The energy company drag on SP numbers causes the overall P/E ratio of the SP500 to look artificially too high by historic valuation.

Warren Financial will be looking to see if some beaten down companies can continue their rebound, such as materials and mining stocks (VALE, CLF, AKS, and others).

What could go wrong?

1. The Fed could spoil the party by continuing to threaten to raise rates this year in the face of a slow global economy and strong dollar
2. US earnings may not confirm the recently strong economic numbers from the US job market

3. Oil companies began to drill again when oil hit $50/bbl and supply is rising again which could cause lower oil prices and more losses for oil companies who are already dragging down overall SP earnings with their losses. Rig counts have risen for 8 straight weeks.

Overall, we are bullish and constructive on US equities while skittish on international stocks. The primary reasoning behind our view is summed up in one word, “growth”. The US has some growth and the rest of the world has no growth. For the US to hit 4 or 5% GDP growth we will need some help from the rest of the world, especially China and Europe.

Disclosures: *Warren Financial has long positions in some of the stocks mentioned in this article both for our clients and our own portfolios. We may be starting new long positions in some of these companies in the future. The fact that a company is mentioned is not a recommendation or offer to buy or sell that stock or bond. Investors should always seek advice from an advisor that knows their particular financial situation and not assume that general information such as the information in this article will always apply directly to their portfolio. Investing includes the risk of loss.For more information on how to protect your investments from volatility, visit www.WarrenFinancial.com and make sure to investigate our volatility strategies*