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EQUITIES TO JOIN RATES AND THE US DOLLAR IN THE ANTI-REFLATION TRADE? WATCH US EARNINGS AND US GDP FOR CLUES

S&P will remain highly over-valued, and at risk of deep corrections, unless earnings do really move higher in line with expectations and GDP comes out strong.

Quick reminder of S&P valuation metrics as of now:

› Market Cap on GVA (Corporate Gross Value Added): ~1.70x (only ever higher in 2000)
› Market Cap on GNP (Buffett indicator): ~1.70x (only ever higher in 2000)
› Market Cap on GDP: ~1.10x vs 0.58x historical average
› Market Cap on Gold: ~1.90x vs 1.55x historical average
› Market Cap on Oil: ~44x vs 23x historical average
› CAPE Shiller Adj P/E multiples: ~30x (only ever higher in 1929 and 2000)
› CAPE Shiller Adj P/E multiples relative to 10yr GDP growth: ~35% above historical levels
› Price on Book Value: > 3x (only ever higher in 2000)
› S&P 500 Price / EBITDA: higher than in 2000 and 2007
› EV / EBITDA small caps in Russell 2000: almost 30x (from average 15x in last 30 yrs)
› Net Debt / EBITDA: > 2x (from 1x in 2007)
› Median Price / Revenue Ratio for S&P components: > 2.5x
› S&P relative to Velocity of M2 Money Supply: double the levels in 2007 and 2000
› NYSE Margin Debt at a 85 years high

Expectations for earnings are high, with analysts forecasting 9.7% growth in S&P 500 earnings for the March quarter and 12% for the full year. **Expectations are high for the real economy in general, after a powerful rise in soft data in recent time, which is not matched by hard data as yet.**

Therefore, in connecting soft and hard data on the economy, **it will be important to see where corporate earnings and US Q1 GDP come out. Earnings season starts this Thursday** (with Alcoa, JPM, Citi, Wells Fargo), and **90% of companies will have reported by May the 5th. GDP will be released on April the 28th.**

See below a **few interesting notes regarding US earnings**:

› **John Mauldin reminds us that analysts have historically been too optimistic in their earnings forecasts**. Case in point 2016, where EPS dropped to $94.55, which is indeed lower than for 2013 and 2014, while initial forecast for 2016, 24 months ago, was for earnings to be $124.20.
› **Morgan Stanley makes the bullish case for earnings**, opening the way for the S&P to start ascending into 2700 (15% upside): ''by August, the forward 12-month EPS for the S&P 500 should be close to $142 with a P/E of 19x consistent with a lower Equity Risk Premium (ERP) and 2.75% 10yr Treasury''
› **Zero Hedge analyses the deep disconnect between Hard Data and Soft Data in the US**
› **Bloomberg observes that Nobody Is Saying Anything About How U.S. Earnings Season. Record-low number of companies giving financial guidance.** The number of firms speaking is down 35% from a year ago.
› **The FT says analysts expect profits for S&P companies to have jumped 9.4% you in Q1**, according to data from FactSet. That would mark the swiftest earnings growth since 2011. Led by a trio of sectors: Energy, Financials, Technology.

Let's see.

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