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Circulation: 68,200
Ad Rate: 2,050

Section: Business/Business
Date: Tuesday 7 February 2017
Volume: 42 **No:** 55037 **Page:** 4B(Top)
Col.Inch: 35.96 **Ad Value:** 73,718 **PRValue (x3):** 221,154 **Clip:** Full Color
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BIZ INSIGHT

S&P 500 expected to stay bullish for 2017

SPECIAL TO THE NATION

COMING OFF a healthy third quarter when earnings grew by 3.8 per cent year on year, fourth-quarter 2016 earnings results are in the hunt to continue the bullish momentum of the S&P 500 market.

Fourth-quarter earnings are expected to increase by roughly 5 per cent, and total S&P 500 earnings are anticipated to surge in the range of 10-12 per cent in 2017.

That being said, investors should be ecstatic investing in the S&P 500 going forward as many companies can benefit from corporate-tax reform, which could be a mammoth catalyst along with US equities remaining the most credible around the world.

US President Donald Trump has made it clear that he will drop the corporate tax rate from 35 per cent to within the 15-20-per-cent range, and is also demanding a corporate-tax holiday on foreign-owned cash.

Moreover, S&P 500 companies are holding US$2 trillion in profits in overseas bank accounts, because if they repatriated the money now they would be forced to pay a hefty 35-per-cent tax. On the positive side, S&P 500 companies can use the cash to invest in jobs and enhance growth, or even offer higher dividends and colossal share buybacks.

Furthermore, the two sectors that the S&P 500 have been riding on are information technology and financials, while energy has the brightest outlook. The fourth-quarter 2016 earnings growth rate for the IT sector is 7.2 per cent. Likewise, the financial sector is reporting the second-highest year-on-year earnings growth of all at 18.8 per cent, which is not surprising considering that all banking equities are still riding on higher interest rates.

That being said, companies such as Goldman Sachs, JPMorgan Chase and Bank of America were the main contributors within that sector. Goldman Sachs reported earnings per share of $5.08 in the fourth quarter of last year, compared with $1.27 in the same quarter of 2015. JPMorgan Chase reported EPS of $1.71 compared with $1.32 a year earlier, and Bank of America reported EPS of $0.40 compared with $0.28.

Last, high growth has been predicted for the energy sector due to higher expected oil prices. Analysts forecast that the oil price will surge 27 per cent year on year and in terms of earnings, the sector will earn roughly $46.8 billion in 2017 in contrast to $7.9 billion in 2016.

A victor in this sector is Halliburton, which reported adjusted EPS of $0.10, beating estimates by $0.04. For the first quarter of 2017, Halliburton predicts EPS of $0.13, motivated by higher North American revenues with improving margins.

All in all, the S&P 500 still has room to grow, with analysts forecasting 2017's earnings growth rate of 11.6 per cent and revenue growth of 5.8 per cent, along with a forward price-to-earnings ratio of 17.2, which is above the 10-year average of 14.4.

In conclusion, the energy sector has a forward P/E ratio of 31.5, which is encouraging as investors look forward to making up for the losses of the past several years.

For those who are interested in US equity investment but do not have direct access or time to monitor the market conditions before making an initial investment and making profits, it is recommended that they take advantage of the bullish S&P 500 by choosing mutual funds that invest in the S&P 500 Index and are professionally managed by experienced fund managers.

Investment entails risk. The investor should thoroughly study prospectuses, product features, expected returns and risk before investing.

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