J.P.Morgan

Equity Strategy and Quantitative Research
29 April 2019

US Equity Strategy

Above-Trend Revenue Growth, Better Than Expected Margins and Record Buybacks

S&P 500 companies should deliver 4-5% earnings surprise on better than feared margins. This should result in positive 2-3% EPS growth this quarter vs. consensus expectation of negative 2% (~$39 EPS vs. consensus of $37.43). The above-trend revenue growth of 5% is indicative of healthy demand while lower margins are largely due to temporary factors (e.g., 4Q18 collapse in oil prices, US/China trade headwinds, normalizing effective tax rate after having undershoot in 2018). The Street expects net income margin to compress by -104bp y/y and -70bp q/q, which we view as too pessimistic. We believe the margin drags should fade into year-end with recovering global growth and reflationary policies. As for performance, we expect equities to remain resilient during the reporting season as results should hint at a global growth recovery at a time when investor positioning and sentiment remains relatively low (a similar setup to last earnings season when companies delivered a strong excess return even though earnings growth was underwhelming). More broadly, we reiterate our S&P 500 price target of 3,000 and expect corporate guidance to be supportive of the ongoing cyclical recovery. At the sector level, we remain overweight cyclical sectors (Tech, Cons Disc, Industrials, and Energy). We continue to view Energy as the sector with the best risk-reward (see Energy de-coupled from Oil) and anticipate positive guidance to help reverse the sector's earnings momentum (2019 consensus Energy EPS growth estimate has been revised down sharply to -8% from +26% last October).

Companies across sectors should provide stronger growth outlook. We expect fundamentals to improve on the back of stronger global growth (up-tick in US and Asia QMIs and global cycle, see pages 3-4) and reflationary policies. Also central to our growth view, we expect some margin recovery as transient drags fade and capacity continues to tighten. We maintain this positive view on growth with the assumption that the largest 4Q drags will ultimately prove to be temporary (trade escalation and oil weakness). For example, S&P 500 companies with high China exposure have seen disproportionately larger negative revisions to margins and earnings (see Figure 35). Consequently, sectors that have seen the sharpest negative revisions in recent quarters should deliver better than expected results in 2019. Also, consensus estimate revisions for Energy and Materials have trailed commodity price recovery (i.e., 2019 Energy EPS growth estimate is near the low at -8% and Materials is at -13%, see Figure 3). Similarly, stronger global growth and progress in trade have yet to translate into stronger growth for cyclically-sensitive sectors such as Tech and Industrials where 2019 EPS growth has been revised down by -6% and -5%, respectively.

- **Consensus margin expectations particularly low for 1Q.** While we expect some margin pressure during 1Q, net income margin estimates are too conservative. The recent margin compression is not related to late-cycle dynamics (i.e., falling demand, rising input costs, declining pricing power). Instead, the margin compression is driven by temporary drags that should begin to fade starting in 2Q. For example, stabilization and possibly, based on global QMIs, a pickup in global growth would be most beneficial for Tech/Communication Services and Financials. A reduction in trade tension and tariffs should be a significant positive for Industrials/Consumer Discretionary. Energy and Materials should benefit from rising commodity prices and reflationary policies. However, after a sharp rise in oil (+45% YTD) and more broadly S&P GSCI (+20%), input cost concerns could resurface for goods producers, especially Staples (e.g., Food Retail, Food and Beverage, Household Products) in the coming months.

US Equity Strategy
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Figure 1: US and Asia Cycles in Recovery

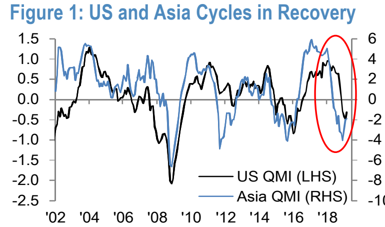


Figure 2: Net Analyst Revisions Turning Positive, a Leading Signal for EPS Revisions

Figure 3: 1Q and 2019 EPS Estimates too Low after Sharp Negative Revisions YTD

	1Q19 EPS Growth			2019 EPS Growth		
	01/2019	Current	Delta	01/2019	Current	Delta
Discretionary	2.3%	-2.9%	-5.2%	9%	7%	-2.2%
Staples	2.5%	-0.7%	-3.2%	5%	1%	-3.9%
Energy	18.0%	-27.5%	-45.5%	11%	-8%	-18.5%
Financials	7.5%	6.3%	-1.2%	10%	9%	-0.7%
Healthcare	9.2%	5.1%	-4.1%	7%	6%	-1.7%
Industrials	9.0%	3.5%	-5.5%	11%	7%	-4.6%
Materials	3.9%	-15.6%	-19.5%	6%	-13%	-19.3%
Real Estate	4.1%	3.0%	-1.1%	5%	4%	-1.4%
Technology	1.9%	-6.1%	-8.0%	4%	-2%	-5.5%
Communication Svcs	-1.9%	-4.6%	-2.7%	7%	3%	-3.6%
Utilities	0.6%	-0.5%	-1.1%	5%	4%	-0.4%
S&P 500	5.3%	-1.3%	-6.6%	7.3%	3.0%	-4.3%

See page 10 for analyst certification and important disclosures.

- **Input costs concerns should shift from tariff compliance to higher raw material and transportation costs.** While tariffs will remain an ongoing risk, there has been a noticeable tick down in focus based on textual analysis of company reports (see report), suggesting the market is now better versed on this risk. After an uptick in trade/tariff discussion among Tech Hardware, Household & Personal Products, Retailing, Capital Goods, and Auto companies last quarter, there should be fewer negative tariff-related surprises during this reporting season. While trade and tariffs remains a headwind for margins, companies are softening the drag by raising prices where possible, idling and shifting production to geographies unaffected by tariffs, and/or passing cost to suppliers. If a trade deal were to materialize, it could be a source of positive revisions (mainly through margins) since this catalyst is mostly not in consensus numbers. Goods producers will increasingly highlight rising commodity prices as a risk; however, we expect the majority of the headwind to be passed down to end users given expanding labor markets and reaccelerating global growth.

- **Effective tax rate normalization a drag on margins, while lower rate is a smaller incremental benefit.** The effective tax rate overshot to the downside last year was partially driven by earlier recognition of benefits compared to delayed recognition of costs (i.e., Treasury/IRS guidance on section 965 related to undistributed earnings of foreign subsidiaries was not finalized until January 2019). As shown in Figure 6, the median effective tax rate is expected to rise to 21.5% in 2019 from 20.7% in 2018. As for interest expense, we expect the S&P 500 implied interest rate to now remain flat at ~4% this year on the back of more a dovish Fed. In our view, the larger driver of interest expense this year will be M&A activity. Overall, large-cap balance sheets remain healthy given companies' ability to service debt has improved over the cycle and balance sheet cash remains elevated at ~$1.5t ex-financials.

- **Reinvestment activity to remain robust.** Contrary to popular narratives, we expect S&P 500 companies to continue reinvesting at a strong pace during this quarter and the rest of the year. The drivers include above-trend revenue growth, tighter capacity, higher commodity prices, and robust tech spending cycle (cloud/data centers, big data/ML/AI, 5G, etc.). In fact, reinvestment activity remained resilient throughout 4Q18 when market volatility was severe (capex was up 12% and R&D was up 11%). We expect reinvestment activity to remain robust throughout this year at an annualized rate of ~$1 trillion. A trade resolution could trigger additional investment given it will remove policy uncertainty and could create incremental demand for US exports over multiple years.

- **Record buyback activity should provide EPS upside.** As discussed above, companies are likely to continue reinvesting in new growth opportunities, but we expect the majority of incremental profits to flow to buybacks. After a record year for buybacks in 2018, this year should be even higher at ~$850b, which would alone drive EPS growth of ~2%. This view is supported by record buyback announcements YTD of $213b led by Tech ~$46b and Industrials ~$40b. Also, the existing cumulative buyback authorizations that have not been realized yet have grown to ~$700b as of 4Q. Lastly, corporates still have excess capital (cash balance of ~$1.5tn ex-Financials) while payout ratio of ~75% is still relatively low (adjusted for cash repatriation). We expect capital return to remain predominantly funded by operating cash flow and excess cash during 1Q (debt-funded buybacks peaked at 34% in 2017 and since have fallen to ~14%).

Figure 4: Above-Trend Sales Growth

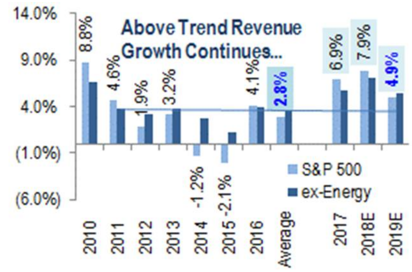


Figure 5: Margin Expectation Low, Drag to Fade

Net Income Margin Change, Y/Y

	4Q/18	1Q/19	2Q/19	3Q/19	4Q/19
Energy	307bp	-130bp	15bp	-62bp	-3bp
Materials	42bp	-176bp	-100bp	-30bp	42bp
Industrials	146bp	-40bp	2bp	22bp	40bp
Discretionary	63bp	-59bp	-19bp	7bp	35bp
Staples	5bp	-40bp	-31bp	-21bp	-13bp
HealthCare	24bp	-85bp	-88bp	-79bp	-12bp
Financials	90bp	-63bp	-19bp	-26bp	149bp
Technology	80bp	-216bp	-231bp	-189bp	-37bp
Communicatio	223bp	-246bp	87bp	-160bp	-83bp
Utilities	-95bp	-40bp	2bp	-41bp	184bp
S&P 500	**89bp**	**-104bp**	**-48bp**	**-62bp**	**15bp**

Figure 6: Effective Tax Rate

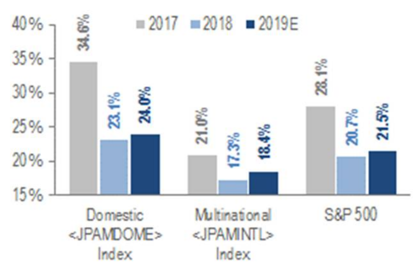
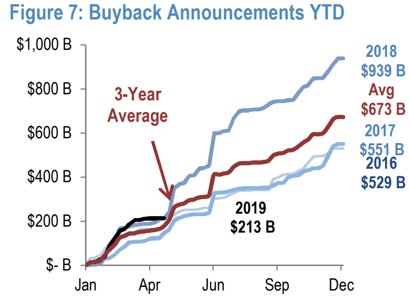


Figure 7: Buyback Announcements YTD



Source for all: J.P. Morgan US Equity Strategy and Quantitative Research

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US and Asia Business Cycles in Recovery

Figure 8: US Quantitative Macro Index Ticked Up

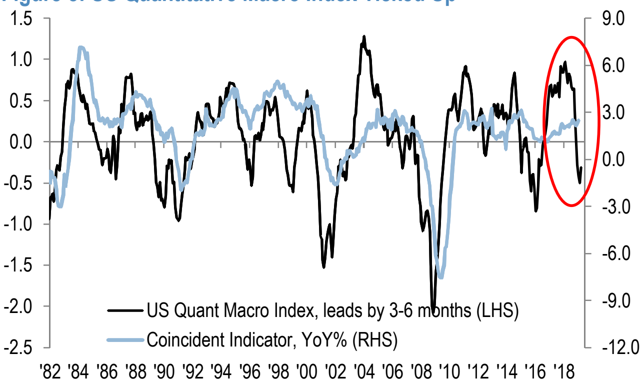


Figure 9: Asia Quantitative Macro Index also Turning Up

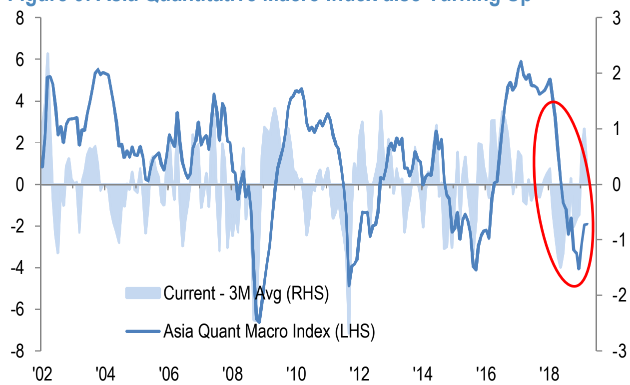


Figure 10: US Growth QMI

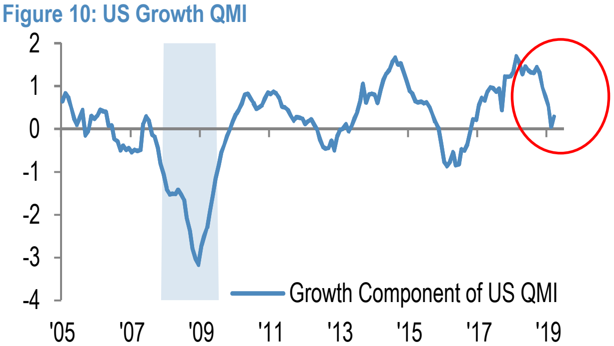


Figure 11: US Liquidity QMI

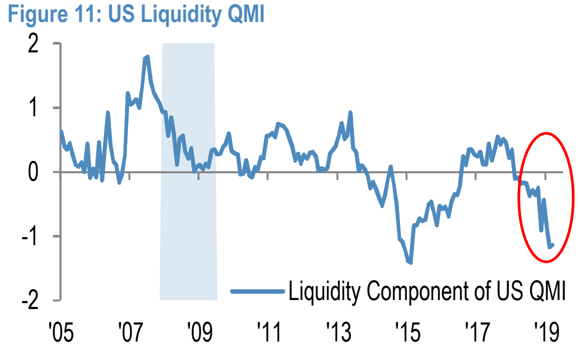


Figure 12: US Sentiment QMI

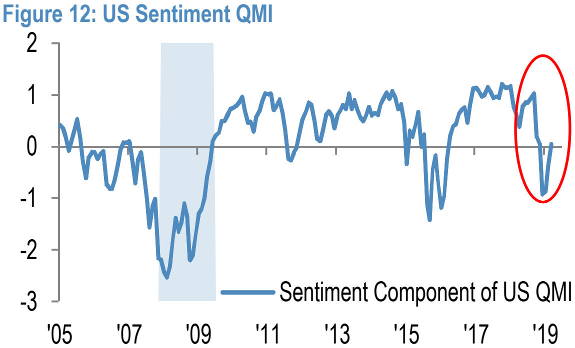
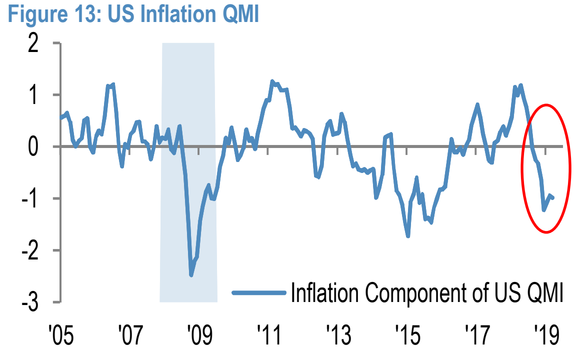


Figure 13: US Inflation QMI



Source for all: J.P. Morgan US Equity Strategy and Quantitative Research

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Global Macro Stabilizing/Recovering

Figure 14: Global Economic Momentum Reversing

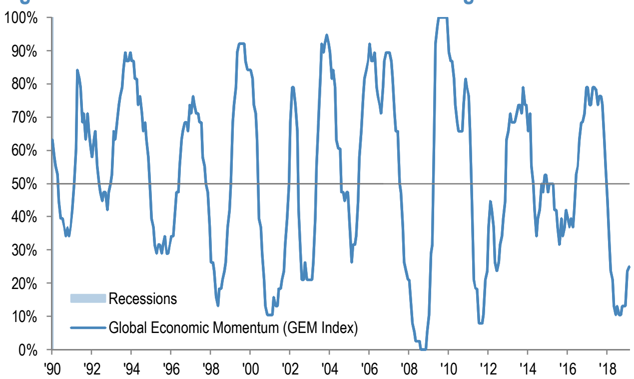


Figure 15: Commodity Complex Rebounding

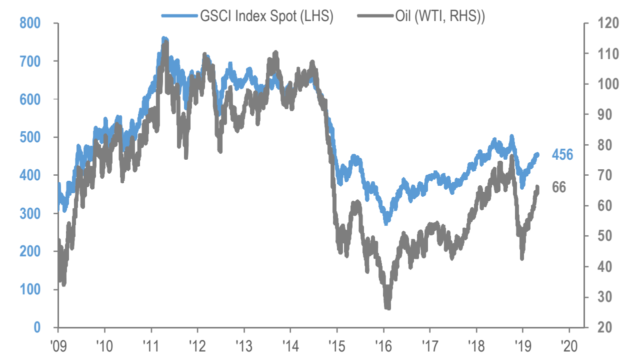


Figure 16: US PMI Stabilizing, while Semis at a Record

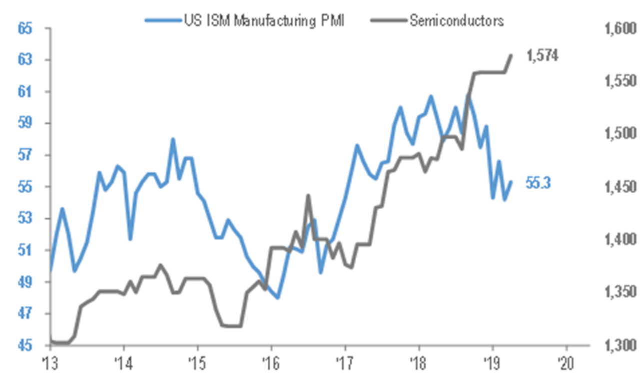
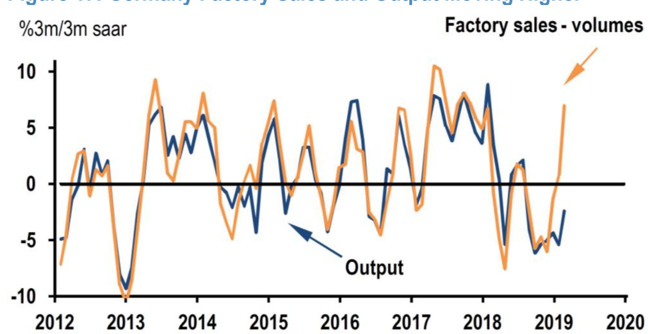


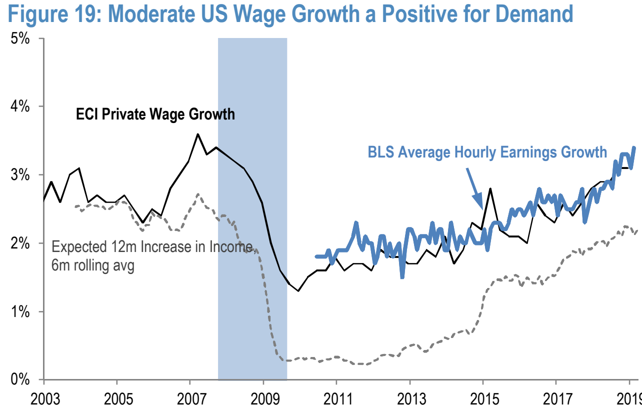
Figure 17: Germany Factory Sales and Output Moving Higher



Source: Destatis, J.P. Morgan

Figure 18: China New Export Orders Rebounding

Figure 19: Moderate US Wage Growth a Positive for Demand



Source for all (unless otherwise specified): J.P. Morgan US Equity Strategy and Quantitative Research

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Earnings Growth Expectation Low for 1Q19 and 2019

Figure 20: Sales Growth Still Healthy after Revisions

YTD Change

	1Q19 Sales Growth			2019 Sales Growth		
	01/2019	Current	Delta	01/2019	Current	Delta
Discretionary	4.8%	**3.6%**	-1.2%	5.9%	**4.8%**	-1.1%
Staples	2.9%	**2.5%**	-0.4%	3.2%	**3.1%**	-0.1%
Energy	16.9%	**-0.1%**	-17.0%	5.8%	**0.1%**	-5.7%
Financials	5.8%	**4.7%**	-1.1%	2.5%	**5.0%**	2.5%
Healthcare	8.6%	**13.0%**	4.4%	12.3%	**11.9%**	-0.4%
Industrials	5.5%	**2.6%**	-2.9%	4.8%	**3.6%**	-1.2%
Materials	10.5%	**3.2%**	-7.3%	7.3%	**-5.5%**	-12.8%
Real Estate	4.4%	**4.7%**	0.3%	4.3%	**4.3%**	0.0%
Technology	3.1%	**-1.2%**	-4.3%	2.8%	**1.0%**	-1.8%
Communication Svcs	12.6%	**11.8%**	-0.8%	9.9%	**11.5%**	1.6%
Utilities	2.4%	**3.9%**	1.5%	3.4%	**4.3%**	0.9%
S&P 500	**7.0%**	**4.8%**	**-2.2%**	**6.0%**	**4.9%**	**-1.1%**

Source: J.P. Morgan US Equity Strategy and Quantitative Research

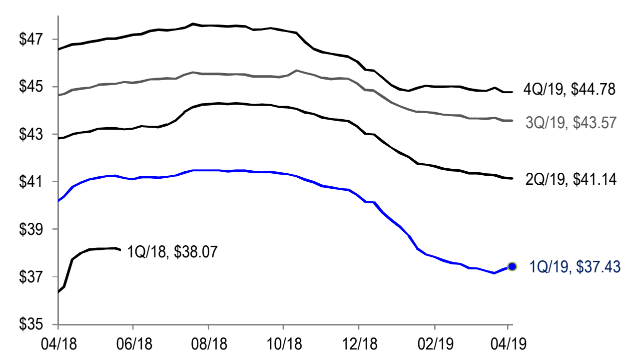
Figure 21: …while EPS Growth Revised Down Sharply on Conservative Margin Assumptions

YTD Change

	1Q19 EPS Growth			2019 EPS Growth		
	01/2019	Current	Delta	01/2019	Current	Delta
Discretionary	2.3%	**-2.9%**	-5.2%	9%	**7%**	-2.2%
Staples	2.5%	**-0.7%**	-3.2%	5%	**1%**	-3.9%
Energy	18.0%	**-27.5%**	-45.5%	11%	**-8%**	-18.5%
Financials	7.5%	**6.3%**	-1.2%	10%	**9%**	-0.7%
Healthcare	9.2%	**5.1%**	-4.1%	7%	**6%**	-1.7%
Industrials	9.0%	**3.5%**	-5.5%	11%	**7%**	-4.6%
Materials	3.9%	**-15.6%**	-19.5%	6%	**-13%**	-19.3%
Real Estate	4.1%	**3.0%**	-1.1%	5%	**4%**	-1.4%
Technology	1.9%	**-6.1%**	-8.0%	4%	**-2%**	-5.5%
Communication Svcs	-1.9%	**-4.6%**	-2.7%	7%	**3%**	-3.6%
Utilities	0.6%	**-0.5%**	-1.1%	5%	**4%**	-0.4%
S&P 500	**5.3%**	**-1.3%**	**-6.6%**	**7.3%**	**3.0%**	**-4.3%**

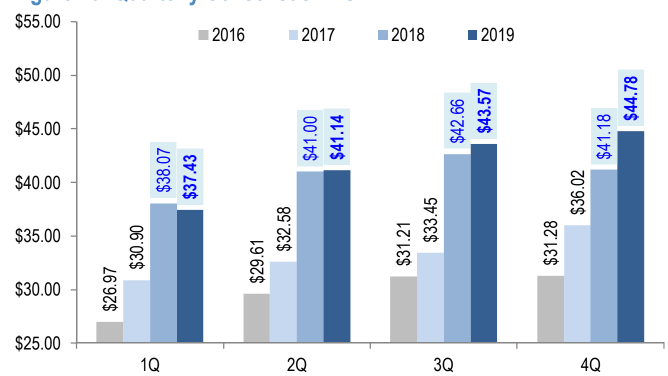
Source: J.P. Morgan US Equity Strategy and Quantitative Research

Figure 22: 1Q19 EPS Lower than 1Q18 despite strong revenue growth and buybacks



Source: J.P. Morgan US Equity Strategy, Thomson IBES

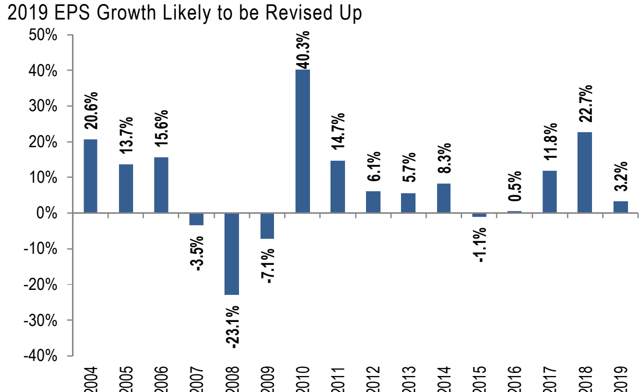
Figure 23: Quarterly Consensus EPS



Source: J.P. Morgan US Equity Strategy, Thomson IBES

Figure 24: 2019 EPS Growth Low but No Earnings Recession

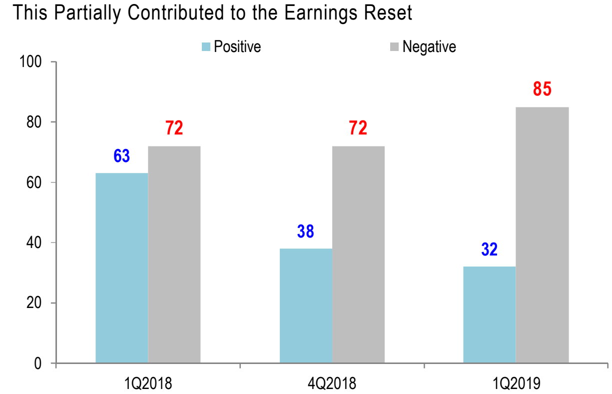
2019 EPS Growth Likely to be Revised Up



Source: J.P. Morgan US Equity Strategy and Quantitative Research

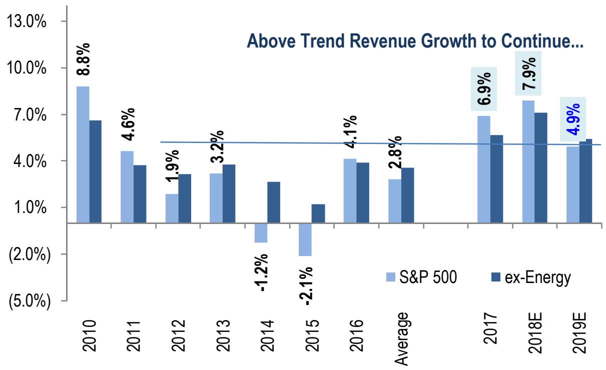
Figure 25: Higher Pre-Announcements This Quarter

This Partially Contributed to the Earnings Reset



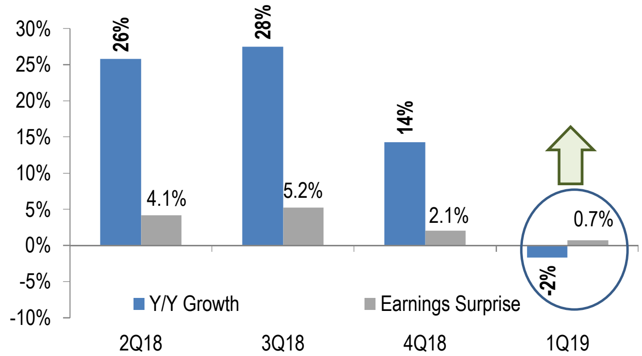
Source: J.P. Morgan US Equity Strategy and Quantitative Research

Figure 26: Revenue Growth Implies Healthy Demand



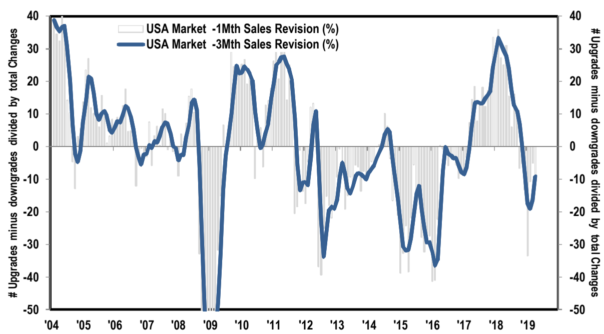
Source: J.P. Morgan US Equity Strategy

Figure 27: 1Q EPS Estimates Low, Expecting Strong Surprises



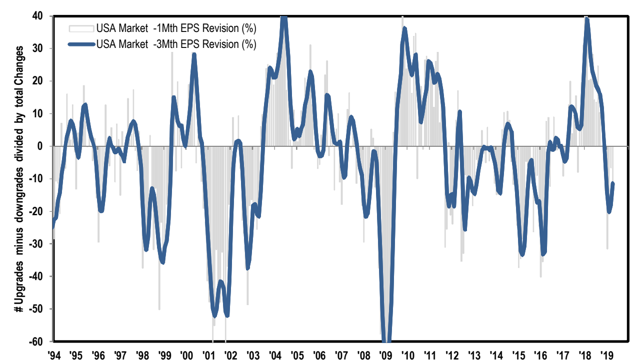
Source: J.P. Morgan US Equity Strategy, Thomson IBES

Figure 28: Net Analyst Sales Revisions (Upgrade Less Downgrades)



Source: J.P. Morgan US Equity Strategy, Thomson IBES

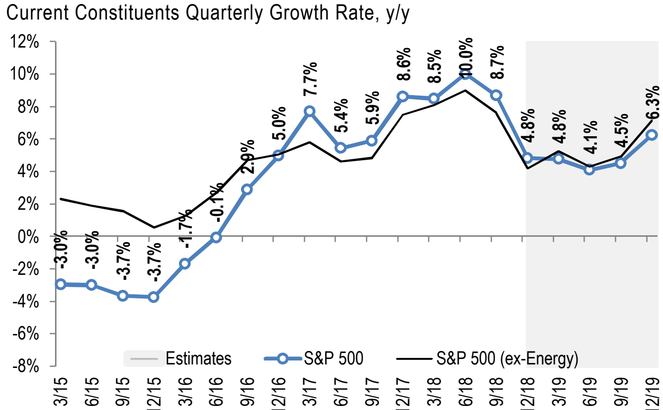
Figure 29: Net Analyst EPS Revisions (Upgrade Less Downgrades)



Source: J.P. Morgan US Equity Strategy, Thomson

Figure 30: Consensus Bottom-Up Sales Growth

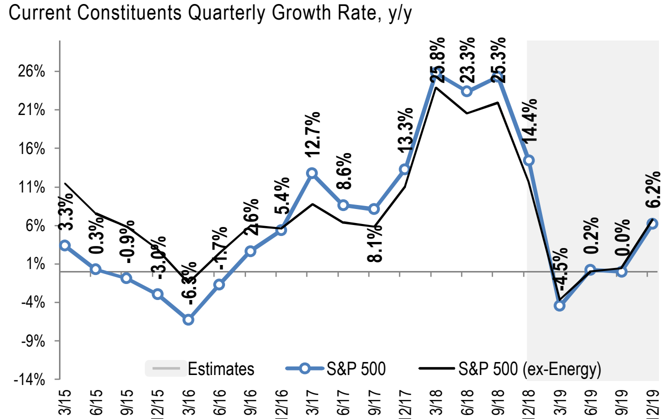
Current Constituents Quarterly Growth Rate, y/y



Source: J.P. Morgan US Equity Strategy, FactSet

Figure 31: Consensus Bottom-Up Net Income Growth

Current Constituents Quarterly Growth Rate, y/y



Source: J.P. Morgan US Equity Strategy, FactSet

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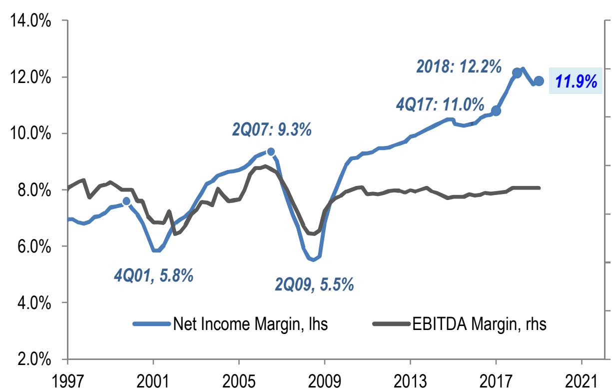
Figure 32: Net Income Margin vs. Operating Margin

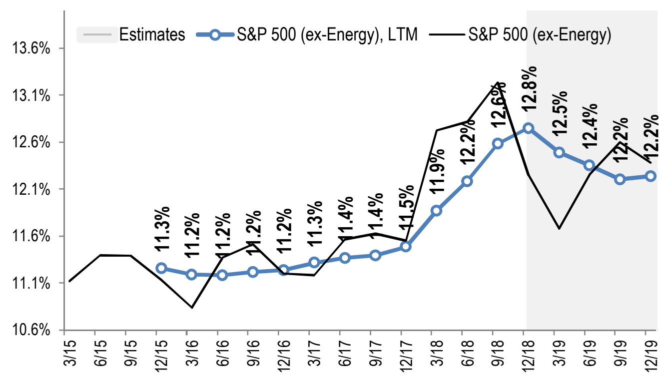
Operating EPS



Source: J.P. Morgan, FactSet

Figure 33: Net Income Margin LTM: S&P 500 ex-Energy

Operating Non-GAAP



Source: J.P. Morgan, FactSet

Figure 34: Net Income Margin by Sector, Quarterly

	Actual Net Income Margin							Consensus Bottom-up Estimate			
	2017/2C	2017/3C	2017/4C	2018/1C	2018/2C	2018/3C	2018/4C	2019/1C	2019/2C	2019/3C	2019/4C
Energy	3.5%	4.4%	4.5%	6.3%	6.5%	7.9%	7.5%	5.0%	6.6%	7.3%	7.5%
Materials	9.8%	9.2%	9.4%	10.7%	12.2%	10.8%	9.8%	9.0%	11.2%	10.5%	10.2%
Industrials	9.6%	9.2%	8.2%	9.1%	10.3%	10.1%	9.6%	8.7%	10.4%	10.3%	10.0%
Discretionary	7.0%	7.4%	6.5%	6.9%	7.8%	8.4%	7.1%	6.3%	7.6%	8.5%	7.4%
Staples	6.7%	6.8%	6.8%	6.6%	7.1%	7.2%	6.8%	6.2%	6.8%	7.0%	6.7%
HealthCare	10.4%	10.4%	9.9%	11.0%	11.3%	11.1%	10.1%	10.1%	10.4%	10.3%	10.0%
Financials	17.4%	15.7%	17.4%	20.9%	20.0%	20.0%	18.3%	20.3%	19.8%	19.7%	19.8%
Technology	20.6%	21.3%	22.8%	22.9%	23.4%	24.0%	23.6%	20.8%	21.1%	22.1%	23.2%
Communicatior	13.2%	14.7%	14.2%	17.2%	14.4%	17.2%	16.4%	14.7%	15.3%	15.6%	15.6%
Utilities	11.1%	13.7%	10.0%	13.0%	12.1%	15.5%	9.1%	12.6%	12.1%	15.0%	10.9%
S&P 500	**10.9%**	**11.0%**	**10.9%**	**12.1%**	**12.2%**	**12.7%**	**11.8%**	**11.1%**	**11.7%**	**12.1%**	**12.0%**
ex-Energy	**11.6%**	**11.6%**	**11.6%**	**12.7%**	**12.8%**	**13.2%**	**12.2%**	**11.7%**	**12.3%**	**12.6%**	**12.4%**

Incremental Net Margin — YoY Change in BP

	2017/2C	2017/3C	2017/4C	2018/1C	2018/2C	2018/3C	2018/4C	2019/1C	2019/2C	2019/3C	2019/4C
Energy	252bp	241bp	222bp	245bp	296bp	353bp	307bp	-130bp	15bp	-62bp	-3bp
Materials	-278bp	-17bp	231bp	260bp	241bp	157bp	42bp	-176bp	-100bp	-30bp	42bp
Industrials	26bp	-43bp	-79bp	98bp	73bp	84bp	146bp	-40bp	2bp	22bp	40bp
Discretionary	-13bp	-9bp	-2bp	42bp	71bp	102bp	63bp	-59bp	-19bp	7bp	35bp
Staples	11bp	-1bp	25bp	31bp	41bp	41bp	5bp	-40bp	-31bp	-21bp	-13bp
HealthCare	16bp	18bp	50bp	72bp	87bp	68bp	24bp	-85bp	-88bp	-79bp	-12bp
Financials	97bp	-128bp	35bp	342bp	261bp	423bp	90bp	-63bp	-19bp	-26bp	149bp
Technology	244bp	226bp	195bp	274bp	278bp	267bp	80bp	-216bp	-231bp	-189bp	-37bp
Communicatior	-326bp	38bp	-49bp	302bp	117bp	251bp	223bp	-246bp	87bp	-160bp	-83bp
Utilities	6bp	-11bp	142bp	190bp	97bp	172bp	-95bp	-40bp	2bp	-41bp	184bp
S&P 500	**32bp**	**22bp**	**43bp**	**160bp**	**134bp**	**173bp**	**89bp**	**-104bp**	**-48bp**	**-62bp**	**15bp**
ex-Energy	**20bp**	**11bp**	**35bp**	**154bp**	**125bp**	**161bp**	**70bp**	**-104bp**	**-56bp**	**-64bp**	**13bp**

Source: J.P. Morgan, FactSet

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Figure 35: S&P 500, Domestic, Multinational, Europe, and China Earnings

Current Constituents

S&P 500	Net Income Margin, Annual			Net Income Margin, 1Q			Net Income Margin, 1Q Change in Estimate		
Sector	2017	2018	Delta	1Q18	1Q19 (Est.)	Delta	BoY	Today	Delta
Information Technology	21.3%	23.5%	2.2%	22.9%	20.8%	(2.2%)	21.7%	20.8%	(1.0%)
Consumer Discretionary	6.8%	7.5%	0.7%	6.9%	6.3%	(0.6%)	6.6%	6.3%	(0.4%)
Industrials	8.8%	9.8%	1.0%	9.1%	8.7%	(0.4%)	8.9%	8.7%	(0.2%)
Energy	4.1%	7.1%	3.0%	6.3%	5.0%	(1.3%)	7.2%	5.0%	(2.2%)
Materials	9.1%	10.9%	1.8%	10.7%	8.9%	(1.8%)	10.1%	8.9%	(1.2%)
Communication Services	14.1%	16.3%	2.2%	17.2%	14.7%	(2.5%)	15.2%	14.7%	(0.5%)
Financials	17.0%	19.8%	2.8%	20.9%	20.3%	(0.6%)	20.6%	20.3%	(0.3%)
Consumer Staples	6.7%	6.9%	0.3%	6.6%	6.2%	(0.4%)	6.5%	6.2%	(0.3%)
Real Estate	19.9%	19.0%	(0.9%)	18.6%	15.1%	(3.6%)	15.3%	15.1%	(0.2%)
Utilities	11.5%	12.5%	0.9%	13.0%	12.6%	(0.5%)	12.8%	12.6%	(0.3%)
Health Care	10.2%	10.9%	0.6%	11.0%	10.1%	(0.9%)	10.9%	10.1%	(0.8%)
S&P 500	**10.8%**	**12.2%**	**1.4%**	**12.2%**	**11.1%**	**(1.1%)**	**11.7%**	**11.1%**	**(0.6%)**

Domestic (JPAMDOME)	Net Income Margin, Annual			Net Income Margin, 1Q			Net Income Margin, 1Q Change in Estimate		
Sector	2017	2018	Delta	1Q18	1Q19 (Est.)	Delta	BoY	Today	Delta
Information Technology	10.1%	12.2%	2.1%	19.6%	19.7%	0.1%	20.6%	19.7%	(0.8%)
Consumer Discretionary	6.7%	7.7%	1.0%	7.4%	6.8%	(0.6%)	7.4%	6.8%	(0.5%)
Industrials	9.1%	10.8%	1.7%	9.8%	10.0%	0.1%	9.9%	10.0%	0.0%
Communication Services	11.5%	14.2%	2.7%	14.1%	14.0%	(0.1%)	14.2%	14.0%	(0.2%)
Financials	19.7%	22.9%	3.3%	22.7%	22.6%	(0.1%)	22.6%	22.6%	(0.1%)
Consumer Staples	5.9%	6.6%	0.7%	5.8%	5.6%	(0.2%)	6.0%	5.6%	(0.4%)
Real Estate	9.4%	12.4%	3.1%	9.0%	9.8%	0.8%	9.9%	9.8%	(0.1%)
Utilities	13.2%	14.0%	0.8%	14.8%	13.9%	(0.9%)	14.0%	13.9%	(0.0%)
Health Care	3.4%	4.1%	0.7%	4.2%	4.2%	(0.0%)	4.4%	4.2%	(0.2%)
Domestic (JPAMDOME)	**9.6%**	**11.2%**	**1.6%**	**11.2%**	**10.7%**	**(0.5%)**	**10.9%**	**10.7%**	**(0.2%)**

Multinationals (JPAMINTL)	Net Income Margin, Annual			Net Income Margin, 1Q			Net Income Margin, 1Q Change in Estimate		
Sector	2017	2018	Delta	1Q18	1Q19 (Est.)	Delta	BoY	Today	Delta
Information Technology	25.9%	29.5%	3.6%	29.4%	24.4%	(5.0%)	25.9%	24.4%	(1.5%)
Consumer Discretionary	11.1%	11.3%	0.2%	8.7%	7.6%	(1.2%)	8.7%	7.6%	(1.1%)
Industrials	8.6%	10.1%	1.5%	9.5%	9.7%	0.2%	9.8%	9.7%	(0.1%)
Communication Services	12.6%	14.6%	2.0%	12.4%	10.2%	(2.3%)	12.9%	10.2%	(2.7%)
Financials	19.3%	21.4%	2.1%	22.5%	21.5%	(1.0%)	22.4%	21.5%	(0.9%)
Consumer Staples	14.6%	15.6%	0.9%	14.4%	14.6%	0.2%	15.1%	14.6%	(0.5%)
Real Estate	9.3%	8.0%	(1.2%)	6.9%	8.4%	1.5%	8.5%	8.4%	(0.1%)
Utilities	7.7%	11.0%	3.3%	10.5%	8.2%	(2.3%)	8.2%	8.2%	0.0%
Health Care	16.8%	17.3%	0.5%	16.2%	16.3%	0.1%	16.8%	16.3%	(0.6%)
Multinationals (JPAMINTL)	**15.8%**	**17.3%**	**1.5%**	**16.5%**	**14.9%**	**(1.5%)**	**15.8%**	**14.9%**	**(0.9%)**

Europe (Top 40 by Revenue Exposure)	Net Income Margin, Annual			Net Income Margin, 1Q			Net Income Margin, 1Q Change in Estimate		
Sector	2017	2018	Delta	1Q18	1Q19 (Est.)	Delta	BoY	Today	Delta
Information Technology	19.9%	21.2%	1.3%	21.1%	18.1%	(2.9%)	20.1%	18.1%	(2.0%)
Consumer Discretionary	11.1%	11.5%	0.4%	8.1%	7.4%	(0.8%)	7.5%	7.4%	(0.1%)
Industrials	9.2%	10.2%	0.9%	9.5%	10.4%	0.8%	10.5%	10.4%	(0.2%)
Materials	12.6%	13.6%	1.0%	12.9%	13.5%	0.6%	13.7%	13.5%	(0.2%)
Communication Services	29.6%	32.0%	2.4%	32.5%	26.0%	(6.5%)	26.6%	26.0%	(0.6%)
Financials	27.1%	28.9%	1.8%	29.2%	27.8%	(1.4%)	28.1%	27.8%	(0.3%)
Consumer Staples	14.9%	15.3%	0.5%	14.5%	15.0%	0.5%	15.3%	15.0%	(0.3%)
Real Estate	5.3%	7.2%	1.9%	5.2%	8.7%	3.5%	8.8%	8.7%	(0.1%)
Health Care	25.4%	27.3%	1.9%	27.0%	26.8%	(0.2%)	27.4%	26.8%	(0.6%)
Europe (Top 40 by Revenue Exposure)	**19.4%**	**20.9%**	**1.5%**	**20.4%**	**18.8%**	**(1.5%)**	**19.8%**	**18.8%**	**(1.0%)**

China (Top 40 by Revenue Exposure)	Net Income Margin, Annual			Net Income Margin, 1Q			Net Income Margin, 1Q Change in Estimate		
Sector	2017	2018	Delta	1Q18	1Q19 (Est.)	Delta	BoY	Today	Delta
Information Technology	23.9%	26.5%	2.5%	26.0%	21.5%	(4.5%)	23.5%	21.5%	(1.9%)
Consumer Discretionary	9.8%	9.6%	(0.2%)	10.9%	9.1%	(1.8%)	9.8%	9.1%	(0.7%)
Industrials	7.7%	9.3%	1.7%	8.7%	7.9%	(0.8%)	6.2%	7.9%	1.7%
Materials	17.1%	18.6%	1.5%	17.5%	18.6%	1.1%	18.4%	18.6%	0.2%
Consumer Staples	16.7%	16.9%	0.2%	16.3%	16.7%	0.5%	17.0%	16.7%	(0.3%)
Health Care	17.1%	17.9%	0.8%	16.7%	17.3%	0.6%	17.5%	17.3%	(0.2%)
China (Top 40 by Revenue Exposure)	**18.8%**	**20.7%**	**1.9%**	**20.3%**	**17.3%**	**(3.0%)**	**18.3%**	**17.3%**	**(1.0%)**

Source: J.P. Morgan US Equity Strategy and Quantitative Research

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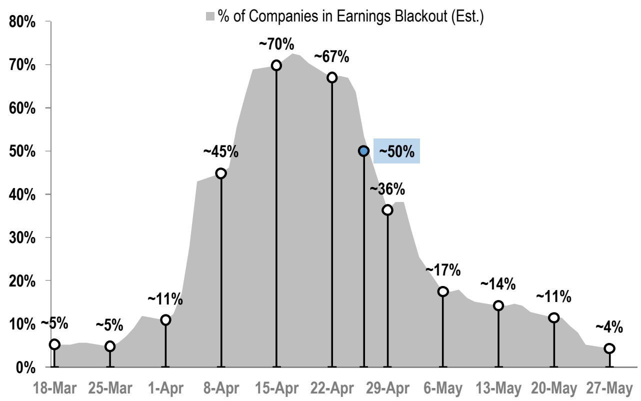
Buybacks to Accelerate

Figure 36: Earnings Blackout Period (1Q19)

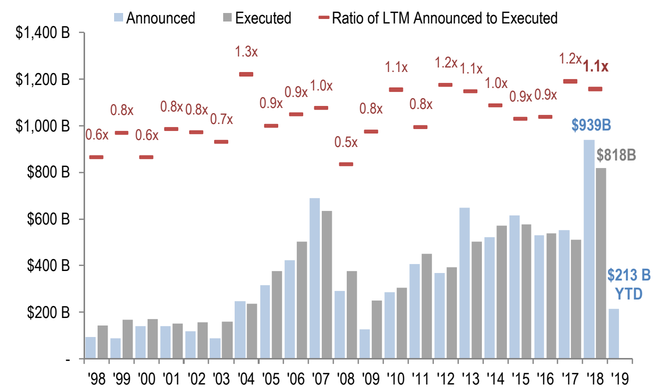
% of companies blackout



Source: J.P. Morgan US Equity Strategy and Quantitative Research

Figure 37: Announced vs. Realized Buybacks

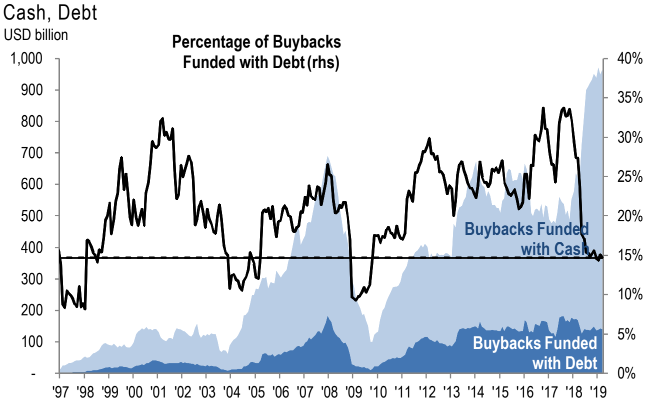
S&P 500 Companies



Source: J.P. Morgan US Equity Strategy and Quantitative Research

Figure 38: Source of Funding for Buybacks

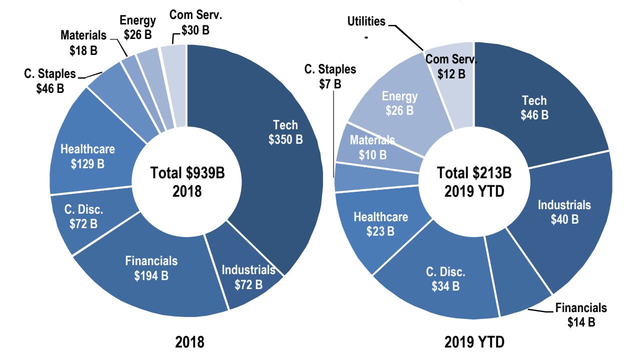
Cash, Debt



Source: J.P. Morgan US Equity Strategy and Quantitative Research, Bloomberg

Figure 39: Repurchase Landscape Led by Tech and Industrials

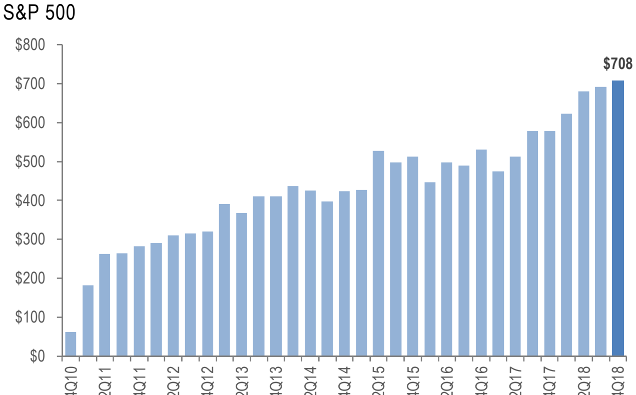
Comparison of 2018 and 2019 YTD announcements by sector



Source: J.P. Morgan US Equity Strategy and Quantitative Research, Bloomberg

Figure 40: Buyback Potential Under Existing Programs

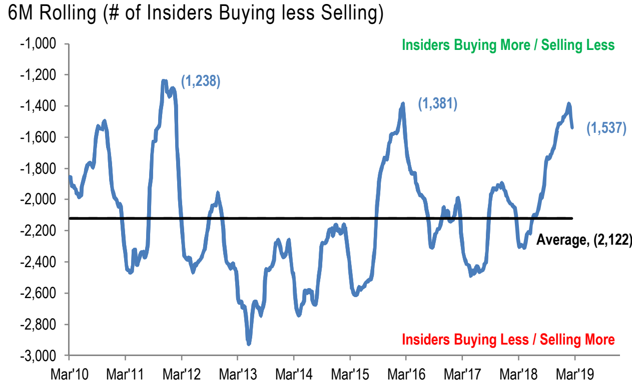
S&P 500



Source: J.P. Morgan US Equity Strategy and Quantitative Research, Bloomberg

Figure 41: Insider Net Buying Still Near Highs

6M Rolling (# of Insiders Buying less Selling)



Source: J.P. Morgan US Equity Strategy and Quantitative Research, Bloomberg

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