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In this commentary we discuss third quarter earnings results. With the great majority of S&P 500 companies having reported their numbers, 83% have exceeded Wall Street's earnings estimates. The breadth of the upside surprises have been impressive, as all 10 economic sectors (as defined by S&P) posted aggregate earnings which were greater than analysts' consensus expectations. While on a year over year basis earnings fell 14% during the quarter, this is materially better than the 25% decline that analysts had been looking for.

Turning to revenues, 58% of companies posted top line numbers that exceeded analysts' estimates. While this does not appear as robust as the earnings numbers referenced above, consider that for the second quarter only 23% of companies were able to report positive revenue surprises. Revenues are still down on a year over year basis, but the 11% decline was an improvement over the second quarter's drop of just over 14%. Encouragingly, revenues actually increased 3% from the second quarter to the third quarter.

So what does this tell us? Clearly these results are not emblematic of a strong economy. However, they do give credence to the idea that the recovery is moving from an initial phase of stabilization towards a period of growth, albeit moderate and from low levels. It is also encouraging to see the breadth and magnitude of corporate earnings surprises relative to analysts expectations. Simply put, this tells us that while business fundamentals might not be robust, they are better than many believed them to be. In a paradigm in which it is not absolute numbers that tend to move markets, but numbers relative to market expectations, we take the third quarter earnings season to be a positive indicator.

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