

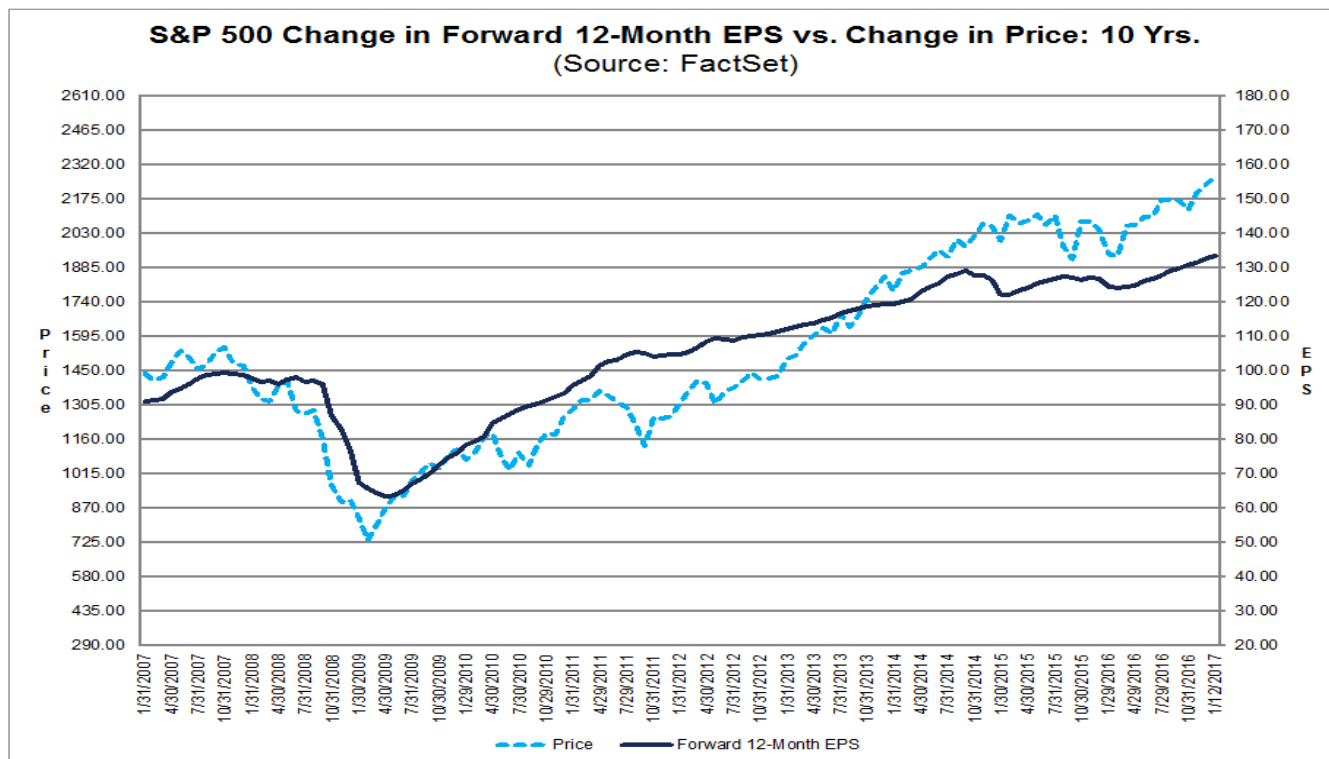
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Key Metrics

- Earnings Growth:** For Q4 2016, the blended earnings growth rate for the S&P 500 is 3.2%. If the index reports earnings growth for Q4, it will mark the first time the index has seen year-over-year growth in earnings for two consecutive quarters since Q4 2014 and Q1 2015.
- Earnings Revisions:** On December 31, the estimated earnings growth rate for Q4 2016 was 3.0%. Four of the eleven sectors have higher growth rates today (compared to December 31) due to upside earnings surprises and upward revisions to earnings estimates, led by the Financials sector.
- Earnings Guidance:** For Q4 2016, 78 S&P 500 companies have issued negative EPS guidance and 34 S&P 500 companies have issued positive EPS guidance.
- Valuation:** The forward 12-month P/E ratio for the S&P 500 is 17.0. This P/E ratio is based on Thursday's closing price (2270.44) and forward 12-month EPS estimate (\$133.49).
- Earnings Scorecard:** As of today (with 6% of the companies in the S&P 500 reporting actual results for Q4 2016), 70% of S&P 500 companies have beat the mean EPS estimate and 33% of S&P 500 companies have beat the mean sales estimate.



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Topic of the Week:

With Average Upside Surprises, S&P 500 Could Report Earnings Growth of 6% for Q4 2016

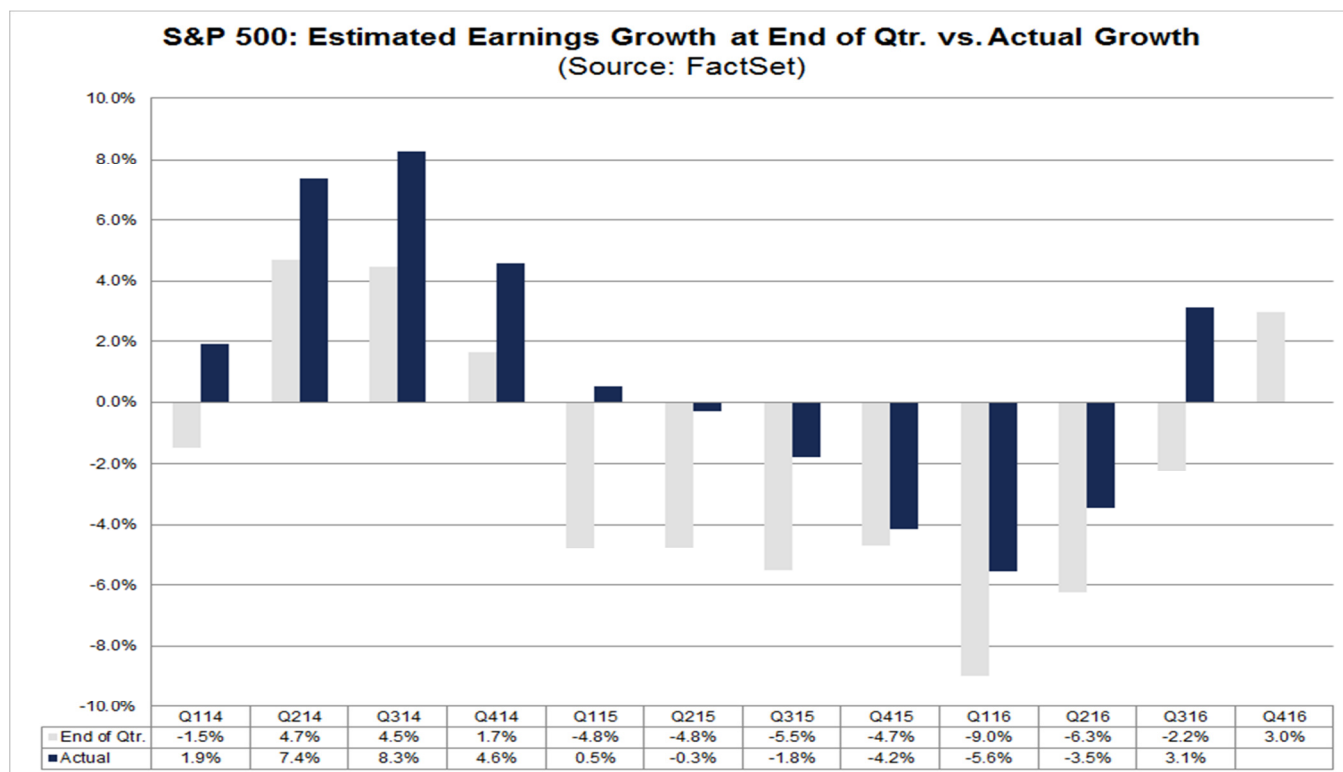
As of today, the S&P 500 is expected to report earnings growth of 3.2% for the fourth quarter. What is the likelihood the index will report an actual earnings increase of 3.2% for the quarter?

Based on the average change in earnings growth due to companies reporting actual earnings above estimated earnings, it is likely the index will report earnings growth of more than 3.2% for the fourth quarter.

When companies in the S&P 500 report actual earnings above estimates during an earnings season, the overall earnings growth rate for the index increases because the higher actual EPS numbers replace the lower estimated EPS numbers in the calculation of the growth rate. For example, if a company is projected to report EPS of \$1.05 compared to year-ago EPS of \$1.00, the company is projected to report earnings growth of 5%. If the company reports actual EPS of \$1.10 (a \$0.05 upside earnings surprise compared to the estimate), the actual earnings growth for the company for the quarter is now 10%, five percentage points above the estimated growth rate (10% - 5% = 5%).

Over the past five years on average, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 4.5%. During this same time frame, 67% of companies in the S&P 500 have reported actual EPS above the mean EPS estimates on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has typically increased by 3.1 percentage points on average (over the past 5 years) due to the number and magnitude of upside earnings surprises.

If this average increase is applied to the estimated earnings growth rate at the end of Q4 (December 31) of 3.0%, the actual earnings growth rate for the quarter would be 6.1% (3.0% + 3.1% = 6.1%). If the index does report growth of 6.1% in earnings for Q4 2016, it will mark the highest earnings growth reported by the S&P 500 since Q3 2014 (8.3%).



Q4 2016 Earnings Season: By The Numbers

Overview

To date, 6% of the companies in the S&P 500 have reported actual results for Q4. In terms of earnings, more companies (70%) are reporting actual EPS above estimates compared to the 5-year average. In aggregate, companies are reporting earnings that are 5.9% above the estimates, which is also above the 5-year average. In terms of sales, fewer companies (33%) are reporting actual sales above estimates compared to the 5-year average. In aggregate, companies are reporting sales that are 1.2% below estimates, which is also below the 5-year average.

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) year-over-year earnings growth rate for Q4 2016 is 3.2% today. Six sectors are reporting or are predicted to report year-over-year earnings growth, led by the Utilities and Financials sectors. One sector (Consumer Discretionary) is reporting flat earnings (0.0%) compared to last year. Four sectors are reporting or are projected to report a year-over-year decline in earnings, led by the Telecom Services, Energy, and Industrials sectors.

The blended sales growth rate for Q4 2016 is 4.6%. Ten sectors are reporting or are projected to report year-over-year growth in revenues, led by the Utilities sector. The only sector predicted to report a year-over-year decline in revenues is the Telecom Services sector.

Looking at future quarters, analysts currently project earnings growth to continue through 2017.

The forward 12-month P/E ratio is now 17.0, which is above the 5-year average and the 10-year average.

During the upcoming week, 33 S&P 500 companies (including 5 Dow 30 components) are scheduled to report results for the fourth quarter.

Scorecard: More Companies Beating EPS Estimates but Missing Revenue Estimates

Percentage of Companies Beating EPS Estimates (70%) is Above 5-Year Average

Overall, 6% of the companies in the S&P 500 have reported earnings to date for the fourth quarter. Of these companies, 70% have reported actual EPS above the mean EPS estimate, 7% have reported actual EPS equal to the mean EPS estimate, and 23% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is below the 1-year (71%) average but above the 5-year (67%) average.

At the sector level, the Health Care (100%), Information Technology (100%), and Materials (100%) sectors have the highest percentages of companies reporting earnings above estimates, while the Industrials (0%) sector has the lowest percentage of companies reporting earnings above estimates.

Earnings Surprise Percentage (+5.9%) is Above 5-Year Average

In aggregate, companies are reporting earnings that are 5.9% above expectations. This surprise percentage is above the 1-year (+5.0%) average and above the 5-year (+4.5%) average.

The Materials (+2264%) sector is reporting the largest upside aggregate difference between actual earnings and estimated earnings. This unusually high surprise percentage in this sector is due to Monsanto, which reported actual EPS of \$0.21 for Q4 2016 compared to the mean EPS estimate of \$0.01.

Percentage of Companies Beating Revenue Estimates (33%) is Below 5-Year Average

In terms of revenues, 33% of companies have reported actual sales above estimated sales and 67% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is below the 1-year average (52%) and below the 5-year average (53%).

At the sector level, the Health Care (100%) and Materials (100%) sectors have the highest percentages of companies reporting revenues above estimates, while the Consumer Staples (0%) and Financials (0%) sectors have the lowest percentages of companies reporting revenue above estimates.

Revenue Surprise Percentage (-1.2%) is Below 5-Year Average

In aggregate, companies are reporting sales that are 1.2% below expectations. This surprise percentage is below the 1-year (+0.1%) average and below the 5-year (+0.5%) average.

The Financials (-3.0%) and Consumer Staples (-1.4%) sectors are reporting the largest downside aggregate differences between actual sales and estimated sales.

Slight Increase in Blended Earnings Growth This Week Due to Financials

Slight Increase in Blended Earnings Growth This Week Due to Financials

The blended earnings growth rate for the fourth quarter is 3.2% this week, which is slightly higher than the earnings growth rate of 2.8% last week. Upside earnings surprises reported by companies in the Financials sector were mainly responsible for the small increase in the overall earnings growth rate for the index during the past week.

In the Financials sector, the upside earnings surprises reported by JPMorgan Chase (\$1.71 vs. \$1.42) and Bank of America (\$0.40 vs. \$0.38) were the largest contributors to the small increase in the overall earnings growth rate for the index during the past week. As a result, the blended earnings growth rate for the Financials sector increased to 16.2% from 13.7% during this period.

Financial Sector Has Seen Largest Increase in Earnings since December 31

The blended earnings growth rate for Q4 2016 of 3.2% is slightly higher than the estimate of 3.0% at the end of the fourth quarter (December 31). Four sectors have recorded an increase in earnings growth since the end of the quarter due to upside earnings surprises and upward revisions to earnings estimates, led by the Financials (to 16.2% from 14.4%) sector. One sector (Health Care) has seen no change in earnings growth (3.9%) since December 31. Six sectors have recorded a decrease in earnings growth during this time due to downside earnings surprises and downward revisions to estimates, led by the Energy (to -7.6% from -4.6%) sector.

Guidance: Negative EPS Guidance (70%) for Q4 below Average

At this point in time, 112 companies in the index have issued EPS guidance for Q4 2016. Of these 112 companies, 78 have issued negative EPS guidance and 34 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 70% (78 out of 112), which is below the 5-year average of 74%.

In the Information Technology sector, more companies have issued positive EPS guidance (17) than negative EPS guidance (15).

For more details on guidance for Q4, please see our FactSet Guidance Quarterly report at the following link:

http://insight.factset.com/hubfs/Guidance%20Quarterly/Guidance_Dec16.pdf

Earnings Growth: Second Straight Quarter of Year-Over-Year Earnings Growth (3.2%)

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) earnings growth rate for Q4 2016 is 3.2%. If the index reports earnings growth for Q4, it will mark the first time the index has seen year-over-year growth in earnings for two consecutive quarters since Q4 2014 (4.6%) and Q1 2015 (0.5%). Six sectors are reporting or are projected to report year-over-year growth in earnings, led by the Utilities and Financials sectors. One sector (Consumer Discretionary) is reporting flat earnings (0.0%) compared to last year. Four sectors are reporting or are projected to report a year-over-year decline in earnings, led by the Telecom Services, Energy, and Industrials sectors.

Utilities: Three Companies Lead Growth

The Utilities sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 19.5%. Overall, 21 of the 28 companies (75%) in the sector are projected to report EPS growth for the quarter. However, three companies are driving the earnings growth for the entire sector: NRG Energy, PG&E, and Dominion. The mean EPS estimate for NRG Energy for Q4 2016 is -\$0.35, compared to year-ago EPS of -\$1.35. The mean EPS estimate for PG&E for Q4 2016 is \$1.35, compared to year-ago EPS of \$0.50. The mean EPS estimate for Dominion for Q4 2016 is \$1.01, compared to year-ago EPS of \$0.70. If these three companies are excluded, the estimated earnings growth rate for the Utilities sector would drop to -0.1% from 19.5%.

Financials: Four Companies Lead Growth

The Financials sector is reporting the second highest (year-over-year) earnings growth of all eleven sectors at 16.2%. At the industry level, three of the five industries in this sector are reporting or are predicted to report earnings growth, led by the Insurance (45%) and Capital Markets (29%) industries. At the company level, AIG, Goldman Sachs, JPMorgan Chase, and Bank of America are the largest contributors to earnings growth for this sector. The mean EPS estimate for AIG for Q4 2016 is \$1.20, compared to year-ago EPS of -\$1.10. The mean EPS estimate for Goldman Sachs for Q4 2016 is \$4.74, compared to year-ago EPS of \$1.27. JPMorgan Chase reported actual EPS of \$1.71 for Q4 2016, compared to year-ago EPS of \$1.32. Bank of America reported actual EPS of \$0.40 for Q4 2016, compared to year-ago EPS of \$0.28. If these four companies are excluded, the blended earnings growth rate for the Financials sector would drop to 1.3% from 16.2%.

Telecom Services: Level 3 Communications Leads Decline on Comparison to High Year-Ago EPS

The Telecom Services sector is expected to report the largest (year-over-year) earnings decline of all eleven sectors at -28.2%. Overall, 3 of the 5 companies (60%) in the sector are projected to report a decrease in EPS for the quarter. The one company that is driving the earnings decline for this sector is Level 3 Communications. However, the EPS decrease for this company is exacerbated by a comparison to unusually high earnings in Q4 2015. The mean EPS estimate for Level 3 Communications for Q4 2016 is \$0.44, compared to year-ago EPS of \$9.24. In the company's earnings release from Q4 2015, Level 3 Communications stated (regarding EPS for the quarter), "This includes a non-cash benefit to the fourth quarter Income Tax Expense of approximately \$3.3 billion related to the release of the company's valuation allowance against U.S. federal and state deferred tax assets..." If this company is excluded, the estimated earnings decline for the Telecom Services sector would drop to -0.7% from -28.2%.

Energy: Wide Variations in Growth Among Sub-Industries

The Energy sector is expected to report the second largest (year-over-year) earnings decline of all eleven sectors at -7.6%. At the sub-industry level, three of the six industries in this sector are predicted to report an earnings decline: Oil & Gas Drilling (-101%), Oil & Gas Equipment & Services (-76%), and Oil & Gas Refining & Marketing (-63%). On the other hand, three sub-industries in this sector are expected to report earnings growth: Oil & Gas Exploration & Production (N/A), Integrated Oil & Gas (30%), and Oil & Gas Storage & Transportation (28%).

Industrials: Airlines Industry Leads Decline

The Industrials sector is reporting the third largest (year-over-year) earnings decline of all eleven sectors at -7.4%. At the industry level, six of the twelve industries in this sector are reporting or are predicted to report an earnings decline, led by the Airlines (-43%), Industrial Conglomerates (-13%), and Electrical Equipment (-11%) industries. The Airlines industry is also the largest contributor to the year-over-year decline in earnings for this sector. If this industry is excluded, the blended earnings decline for the Industrials sector would drop to -1.9% from -7.4%.

Revenues: Second Straight Quarter of Year-Over-Year Earnings Growth (4.6%)

The blended revenue growth rate for Q4 2016 is 4.6%. If the index reports revenue growth for Q4, it will mark the first time the index has seen year-over-year growth in sales for two consecutive quarters since Q3 2014 (4.6%) and Q4 2014 (0.5%). Ten sectors are reporting or are projected to report year-over-year growth in revenues, led by the Utilities sector. The only sector projected to report a decline in revenues is the Telecom Services sector.

Utilities: Broad-Based Growth

The Utilities sector is expected to report the highest (year-over-year) revenue growth of all eleven sectors at 20.8%. At the industry level, all four industries in the sector are predicted to report sales growth. Three of these four industries are expected to report double-digit sales growth: Independent Power & Renewable Energy Producers (54%), Multi-Utilities (22%), and Electric Utilities (16%). At the company level, 27 of the 28 companies (96%) in the sector are projected to report sales growth for the quarter. NRG Energy (53.6%) and AES Corporation (53.4%) are projected to report the highest growth rates for the quarter.

Telecom Services: Verizon Leads Decline

The Telecom Services sector is expected to report the largest (year-over-year) sales decline of all eleven sectors at -1.3%. Overall, 2 of the 5 companies in the sector (40%) are projected to report a decline in sales for the quarter. Verizon is expected to report the largest decline (-6%) in the sector.

Looking Ahead: Forward Estimates and Valuation

Guidance: Negative EPS Guidance (43%) for Q1 below Average

At this point in time, 7 companies in the index have issued EPS guidance for Q1 2017. Of these 7 companies, 3 have issued negative EPS guidance and 4 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 43% (3 out of 7), which is below the 5-year average of 74%.

Growth Expected to Continue in 2017

For the fourth quarter, companies are reporting earnings growth of 3.2% and revenue growth of 4.6%. For all of 2016, companies are reporting earnings growth of 0.2% and revenue growth of 2.0%.

Analysts currently expect earnings and revenue growth to continue in 2017.

For Q1 2017, analysts are projecting earnings growth of 11.0% and revenue growth of 7.7%.

For Q2 2017, analysts are projecting earnings growth of 10.6% and revenue growth of 5.8%.

For all of 2017, analysts are projecting earnings growth of 11.4% and revenue growth of 6.0%.

Valuation: Forward P/E Ratio is 17.0, above the 10-Year Average (14.4)

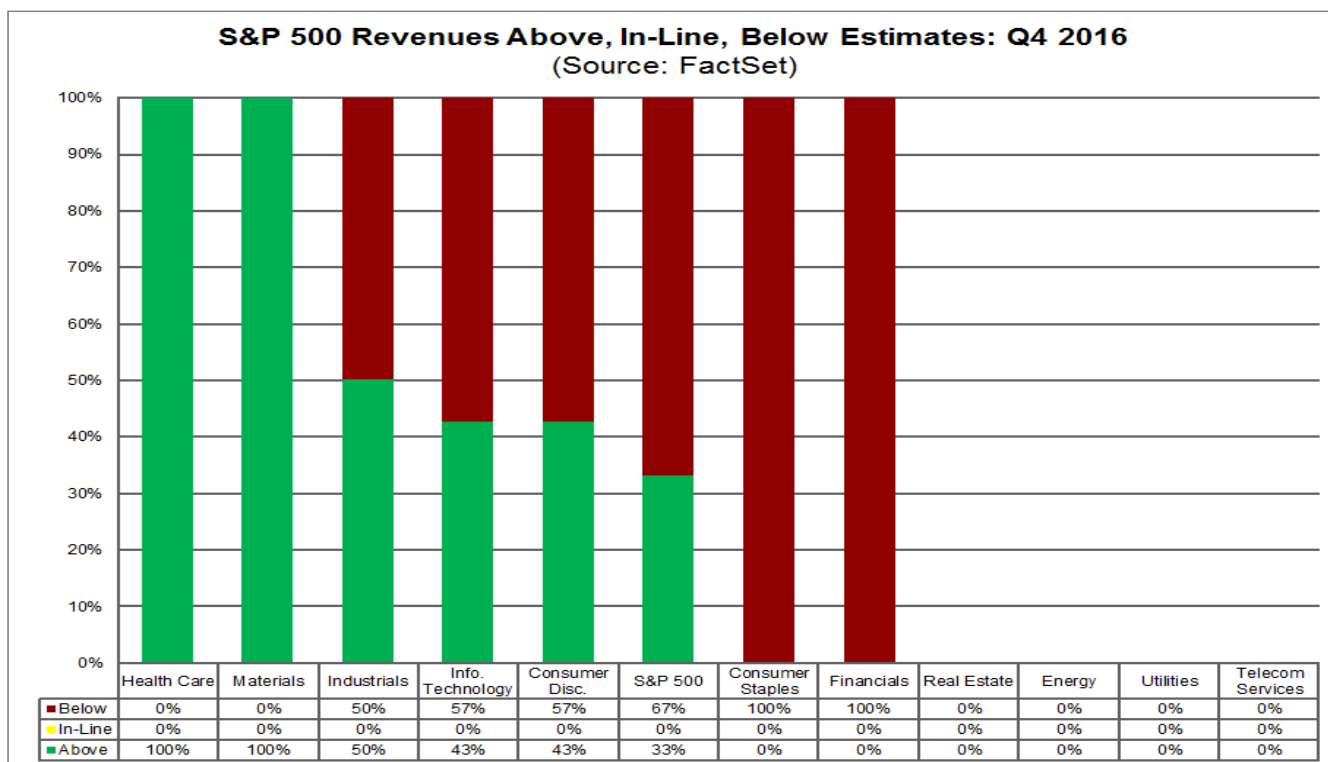
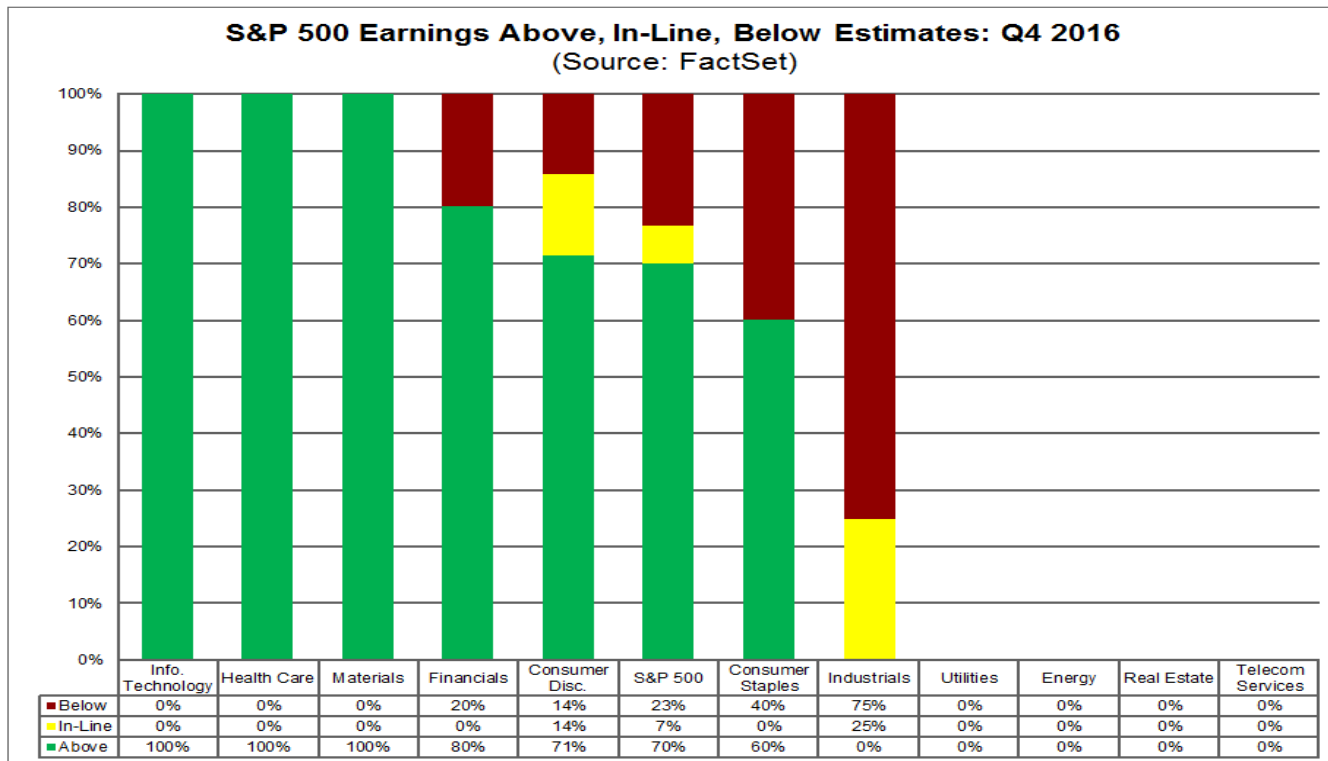
The forward 12-month P/E ratio is 17.0. This P/E ratio is based on Thursday's closing price (2270.44) and forward 12-month EPS estimate (\$133.49). It is above the 5-year average of 15.1, and above the 10-year average of 14.4. It is also above the forward 12-month P/E ratio of 16.9 recorded at the start of the first quarter (December 31). Since the start of the first quarter, the price of the index has increased by 1.4%, while the forward 12-month EPS estimate has increased by 0.5%.

At the sector level, the Energy (31.6) sector has the highest forward 12-month P/E ratio, while the Telecom Services (13.7) sector has the lowest forward 12-month P/E ratios. Nine sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (31.6 vs. 17.9) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (13.7 vs. 14.6). Historical averages are not available for the Real Estate sector.

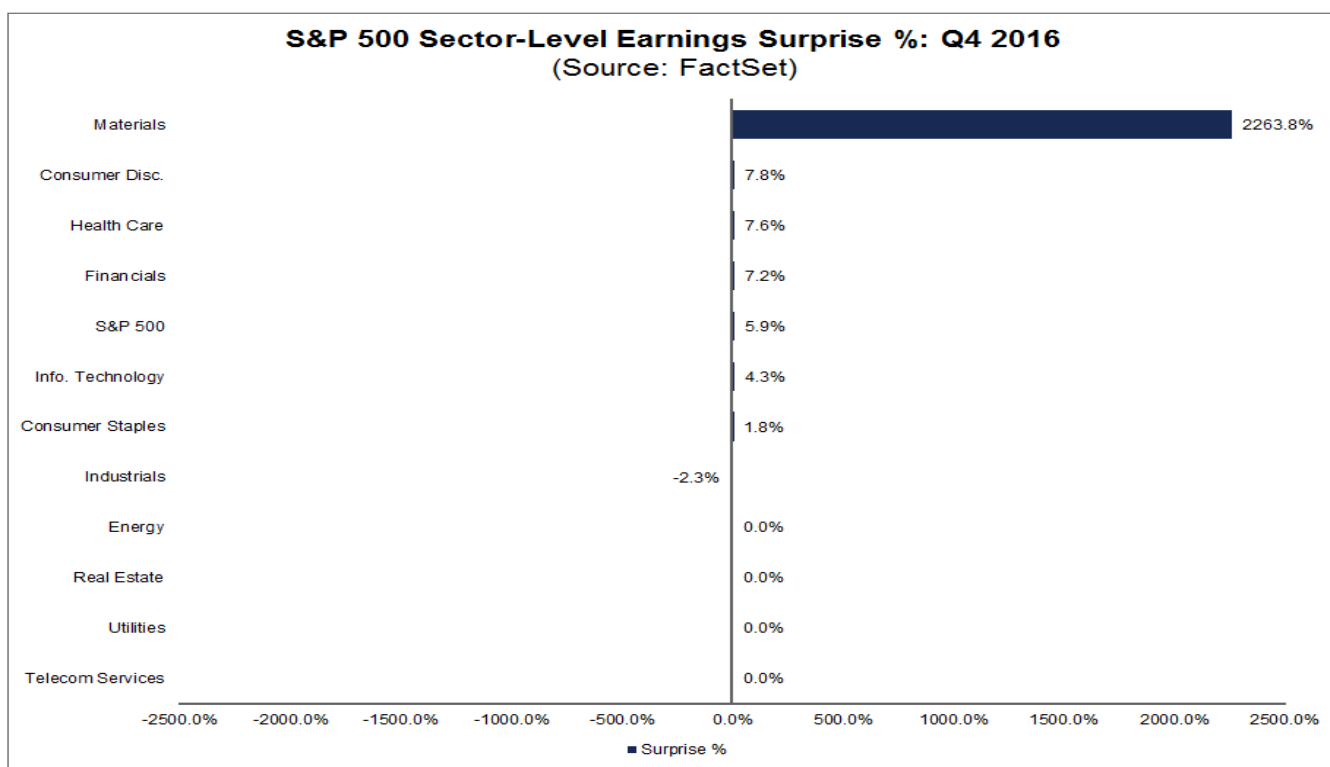
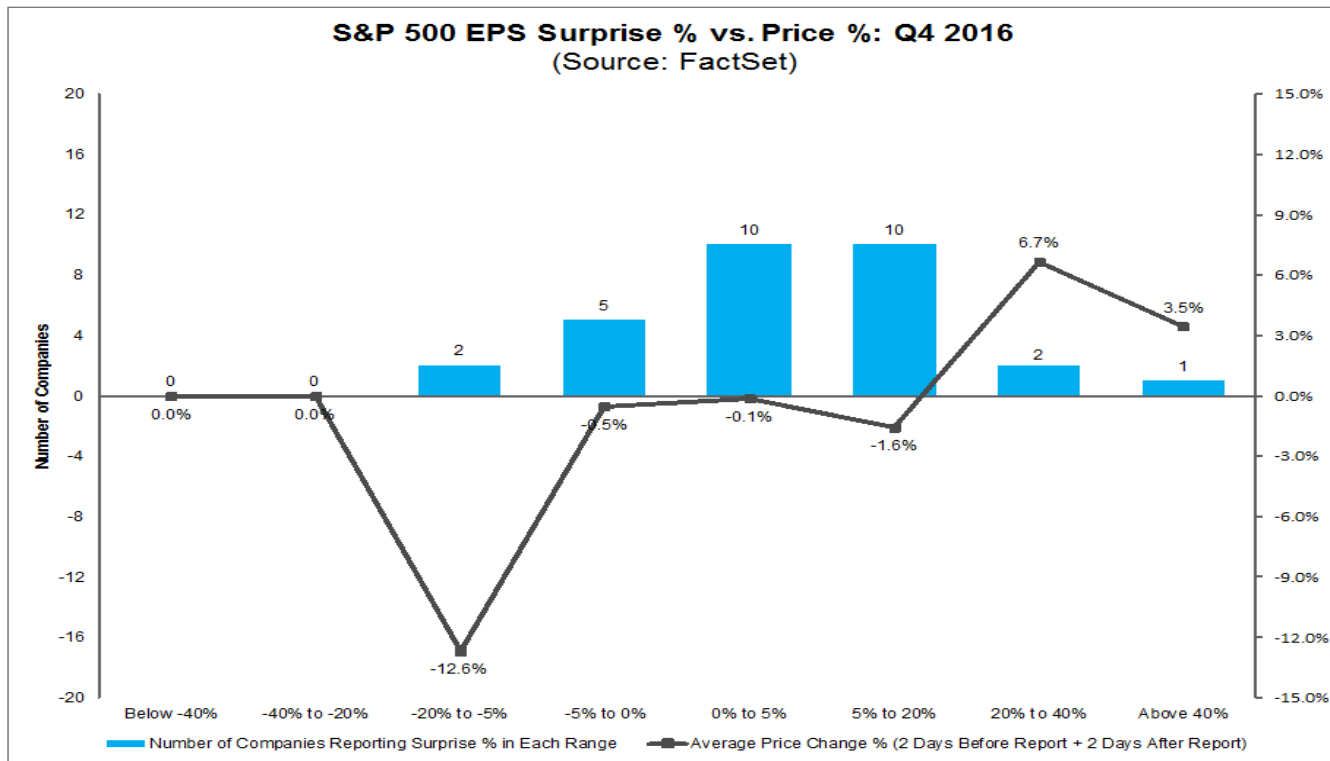
Companies Reporting Next Week: 33

During the upcoming week, 33 S&P 500 companies (including 5 Dow 30 components) are scheduled to report results for the fourth quarter.

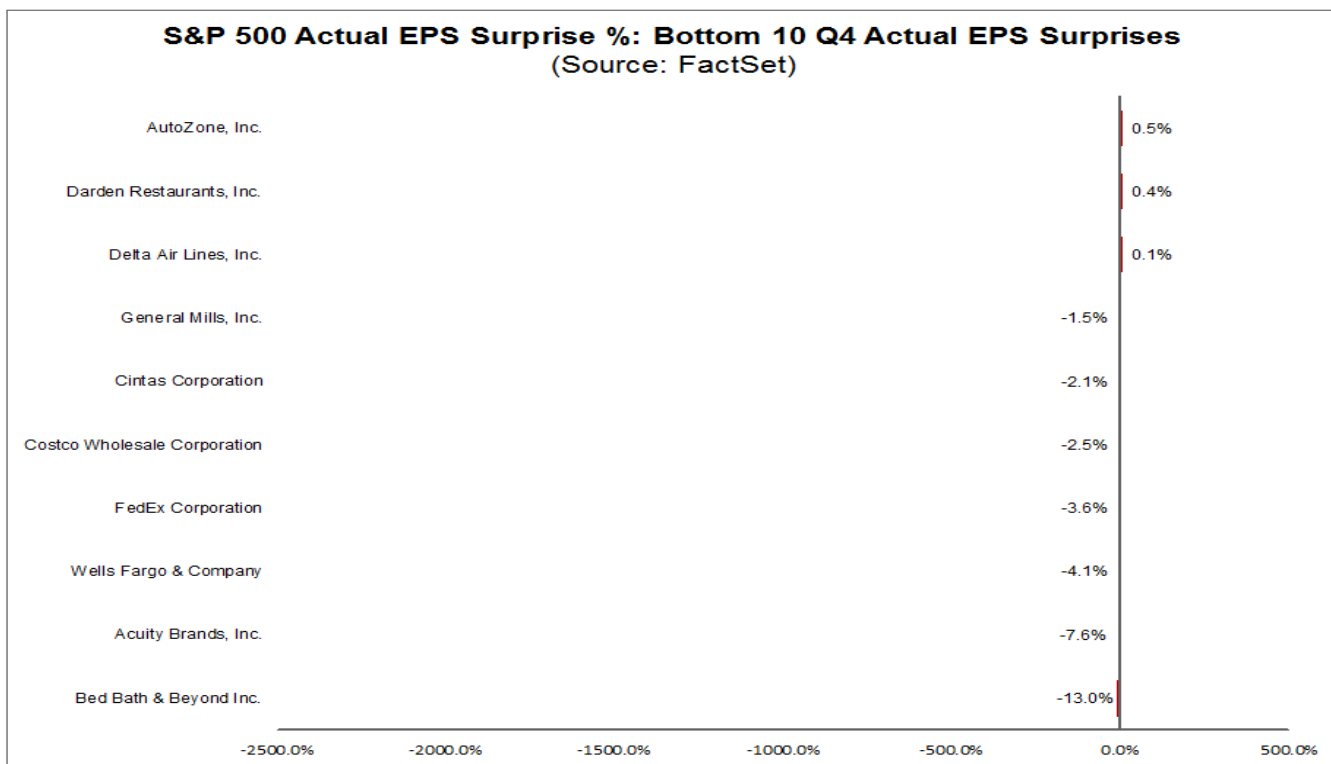
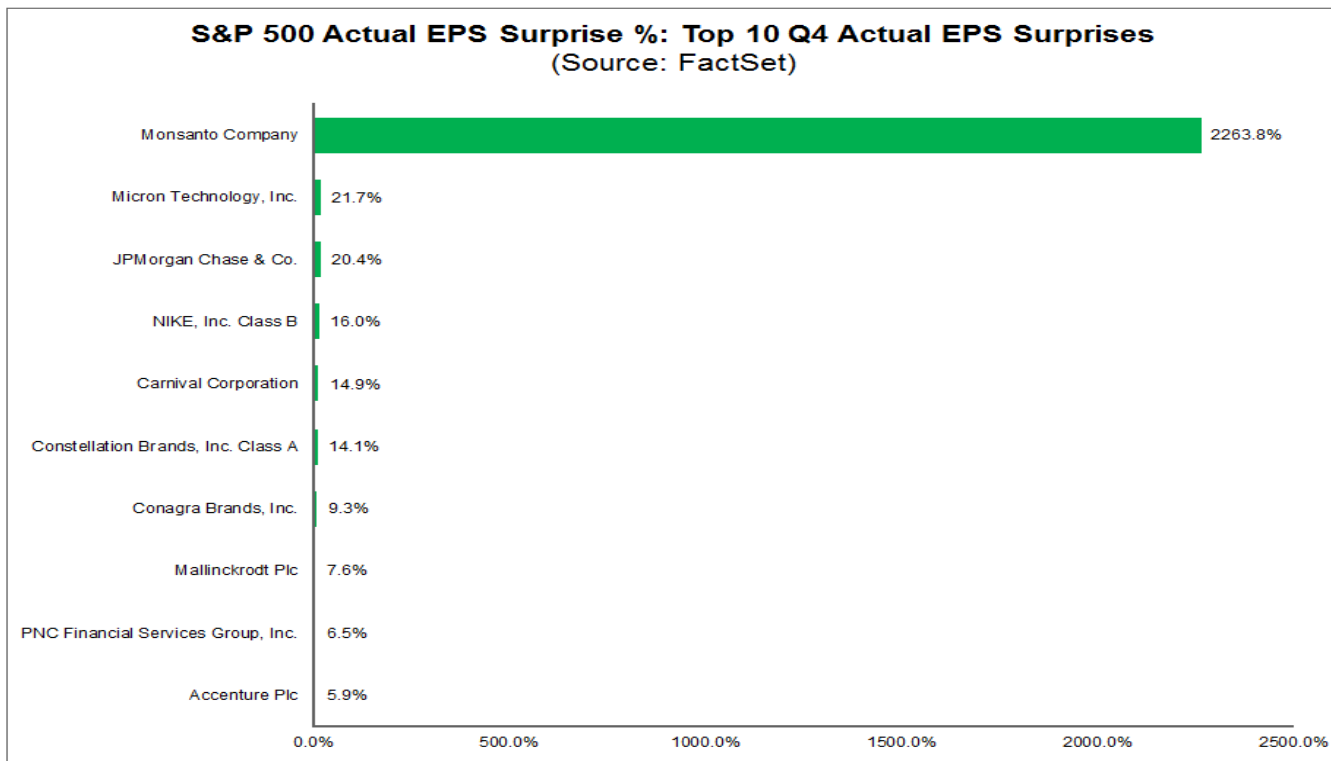
Q4 2016: Scorecard



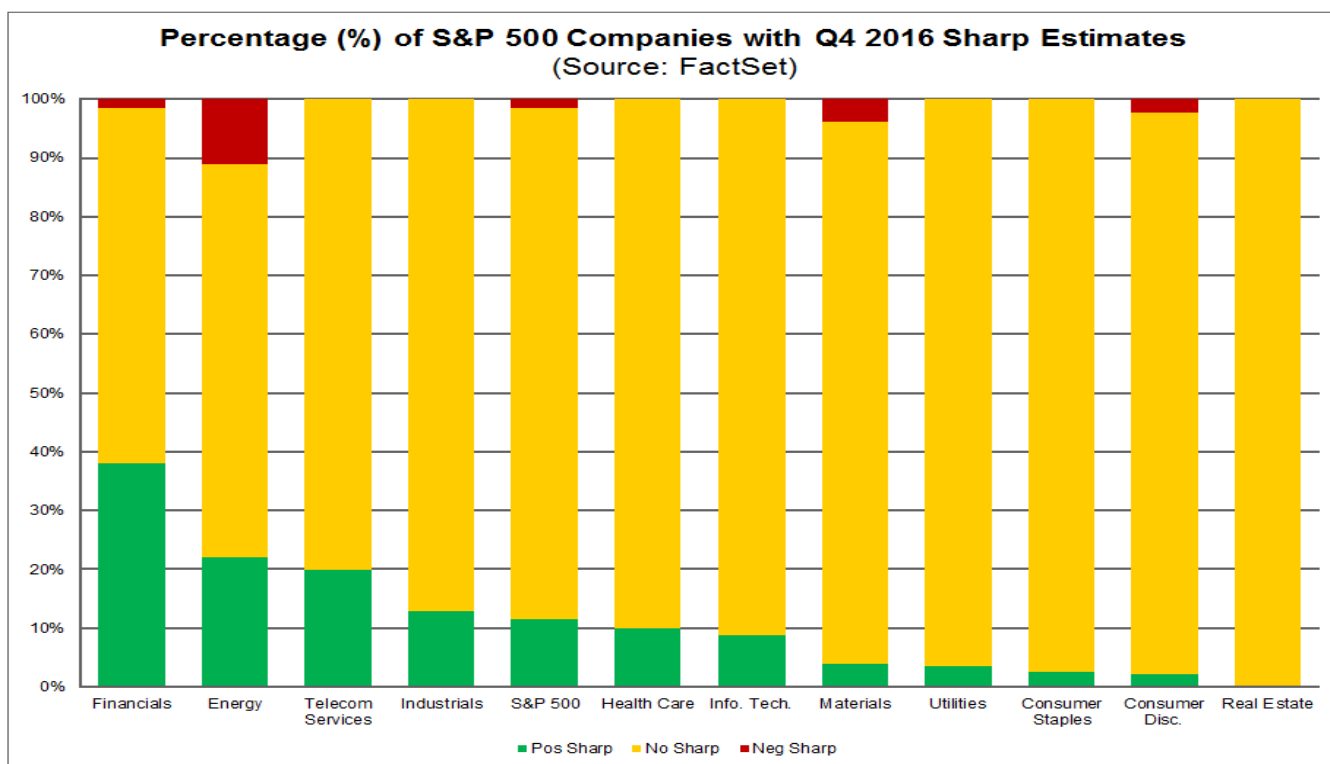
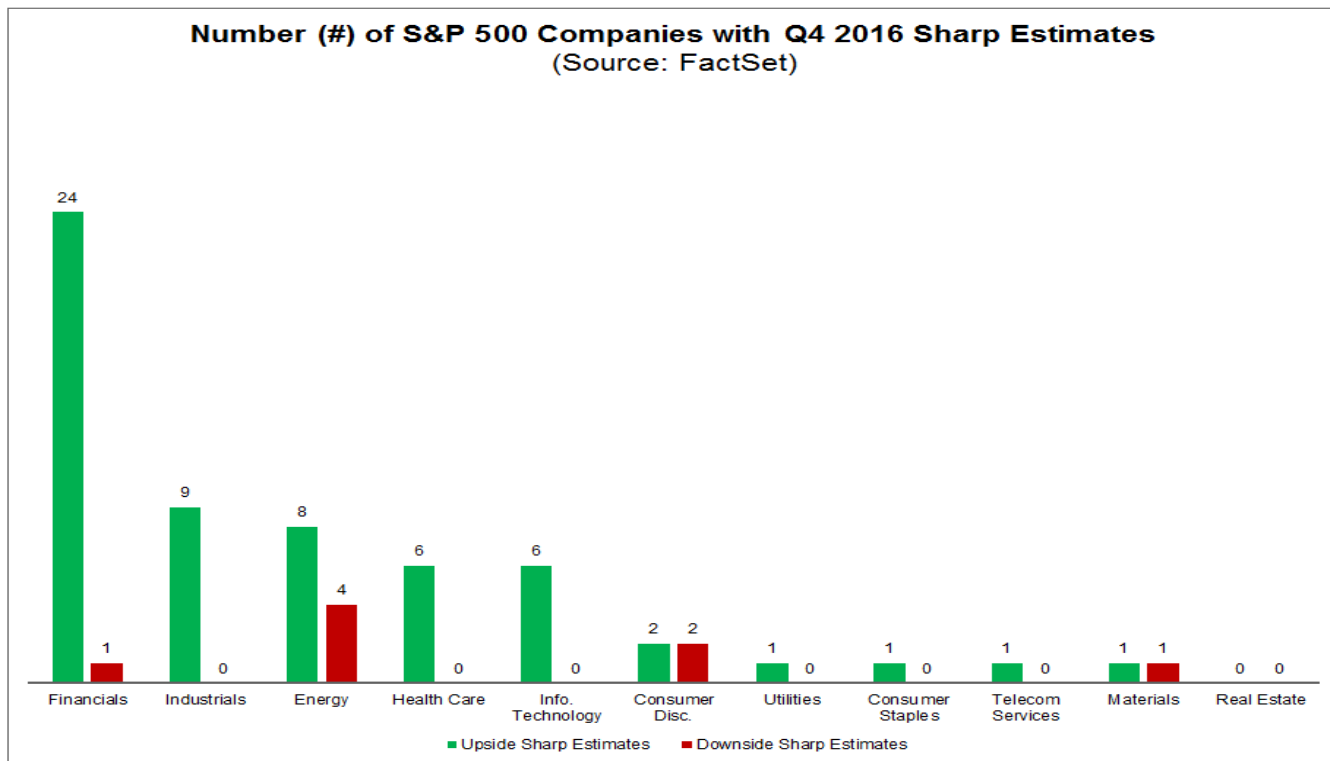
Q4 2016: Scorecard



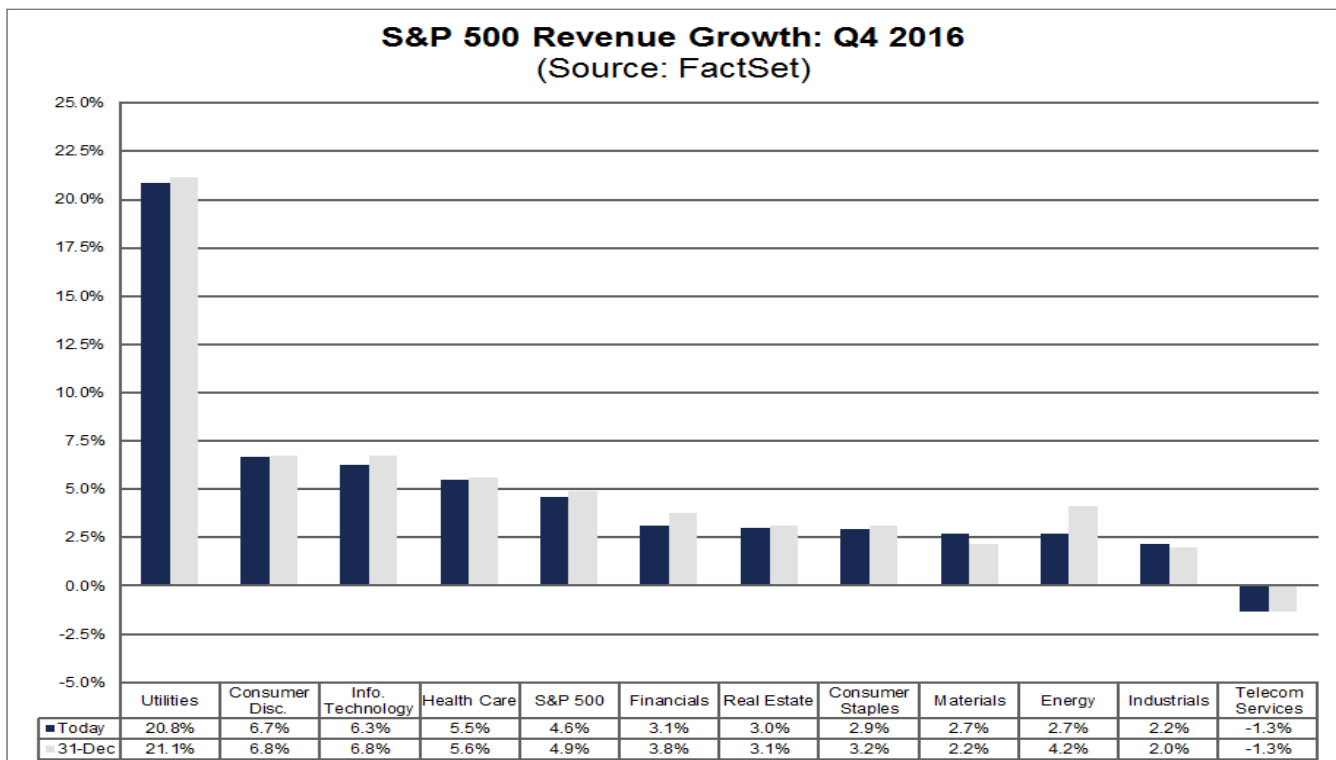
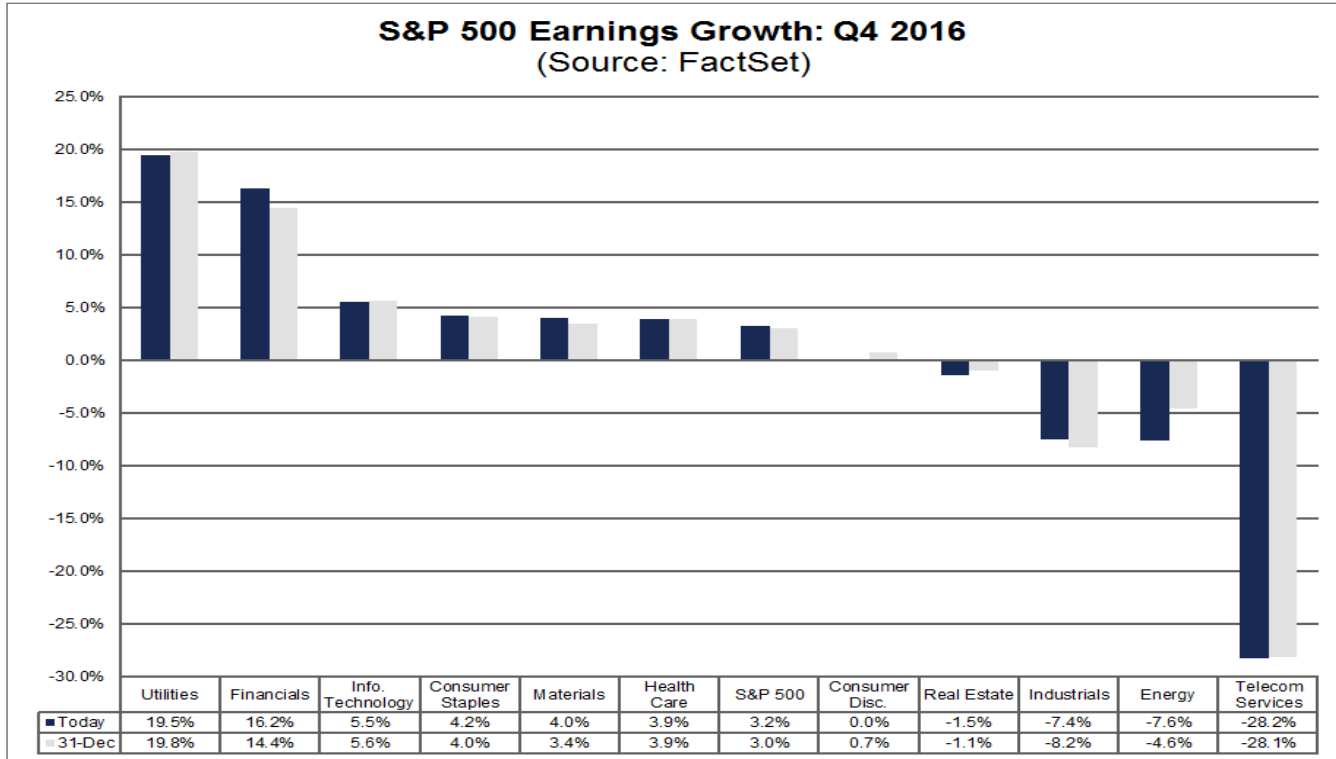
Q4 2016: Scorecard



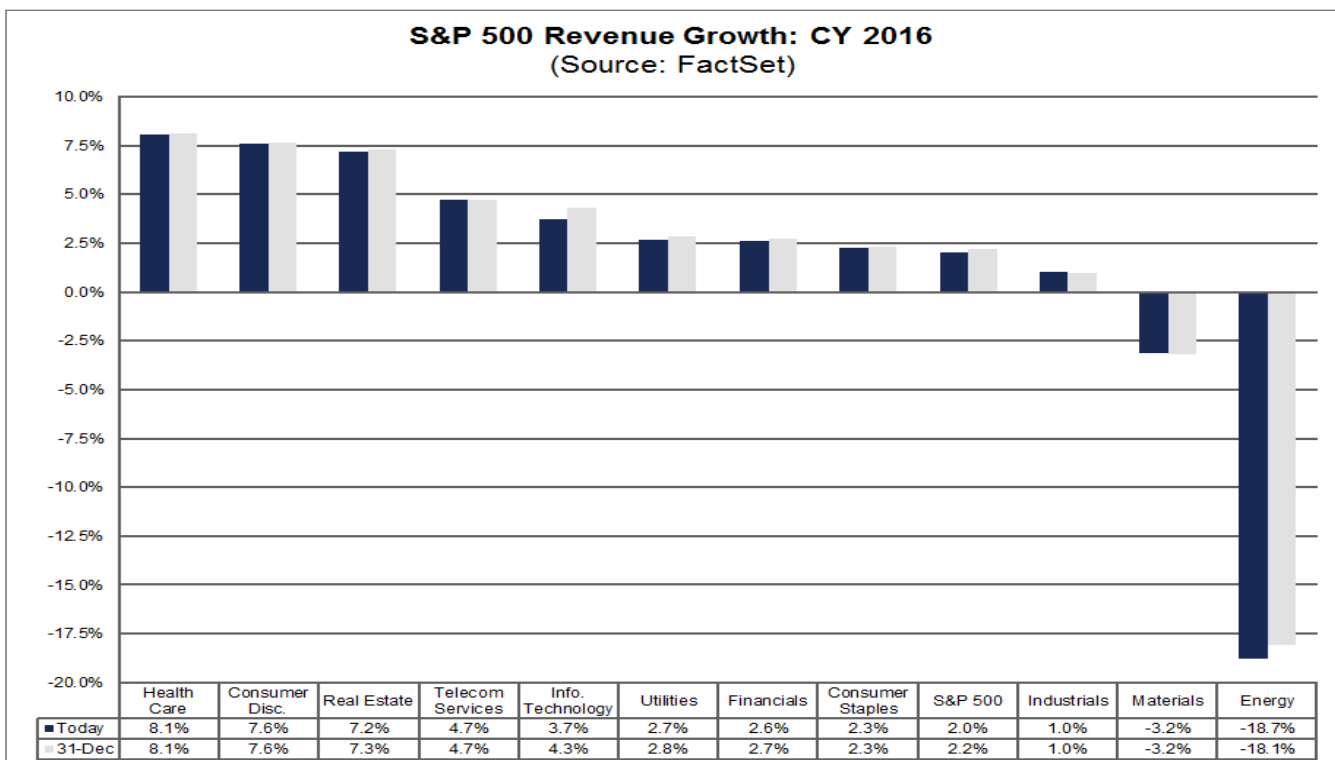
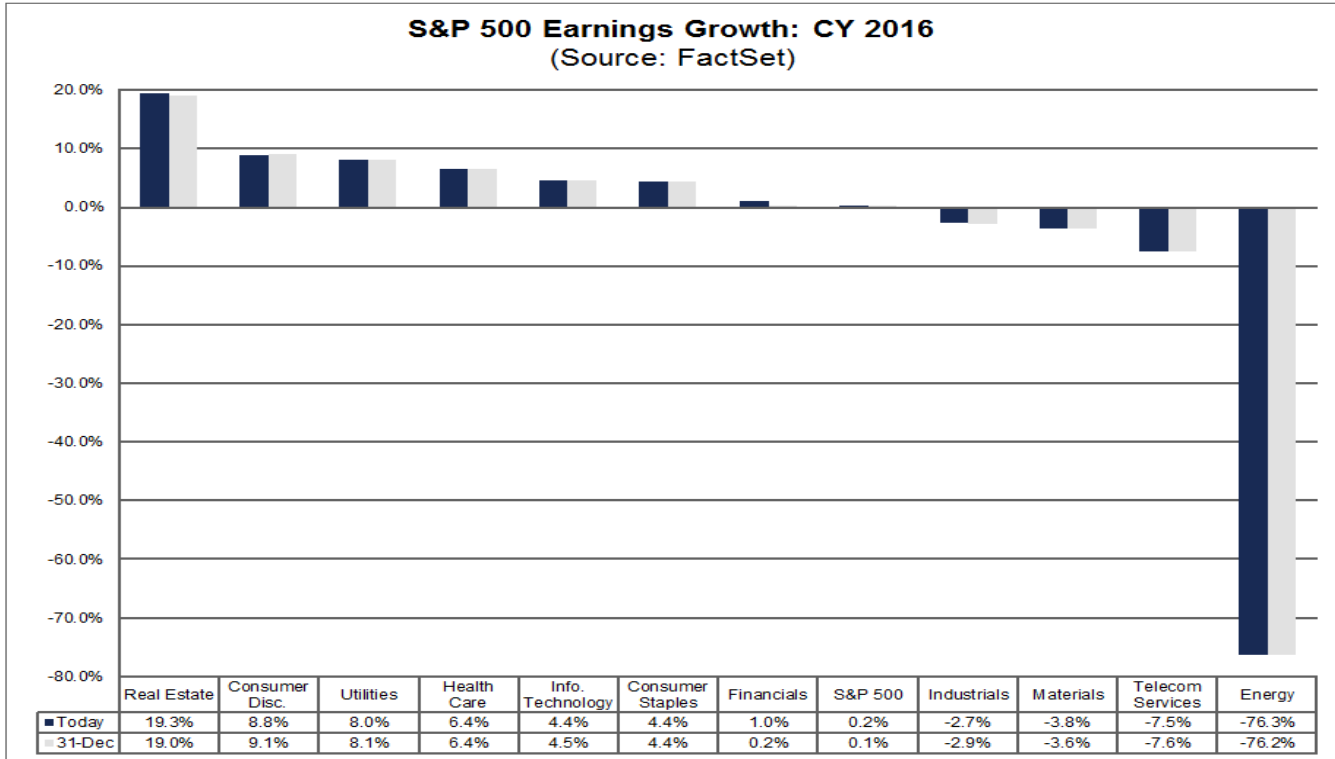
Q4 2016: Projected EPS Surprises (Sharp Estimates)



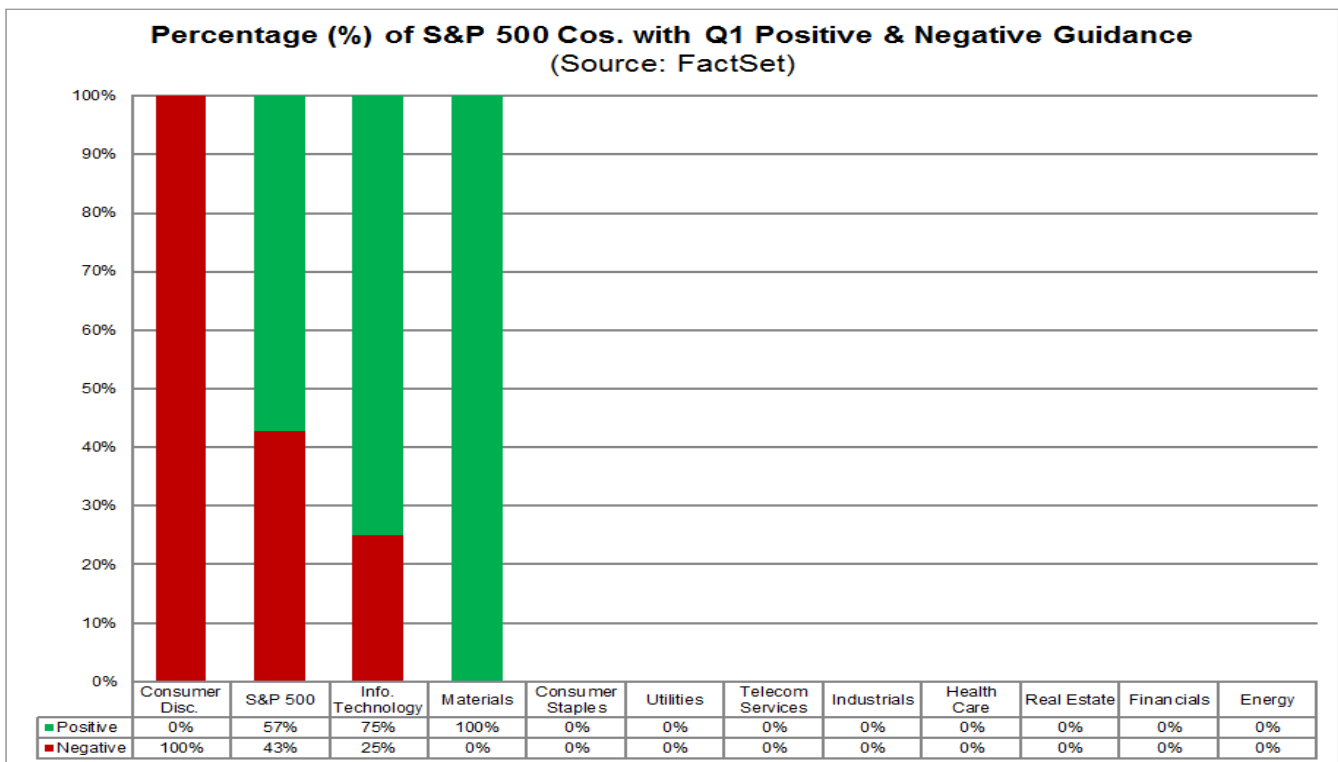
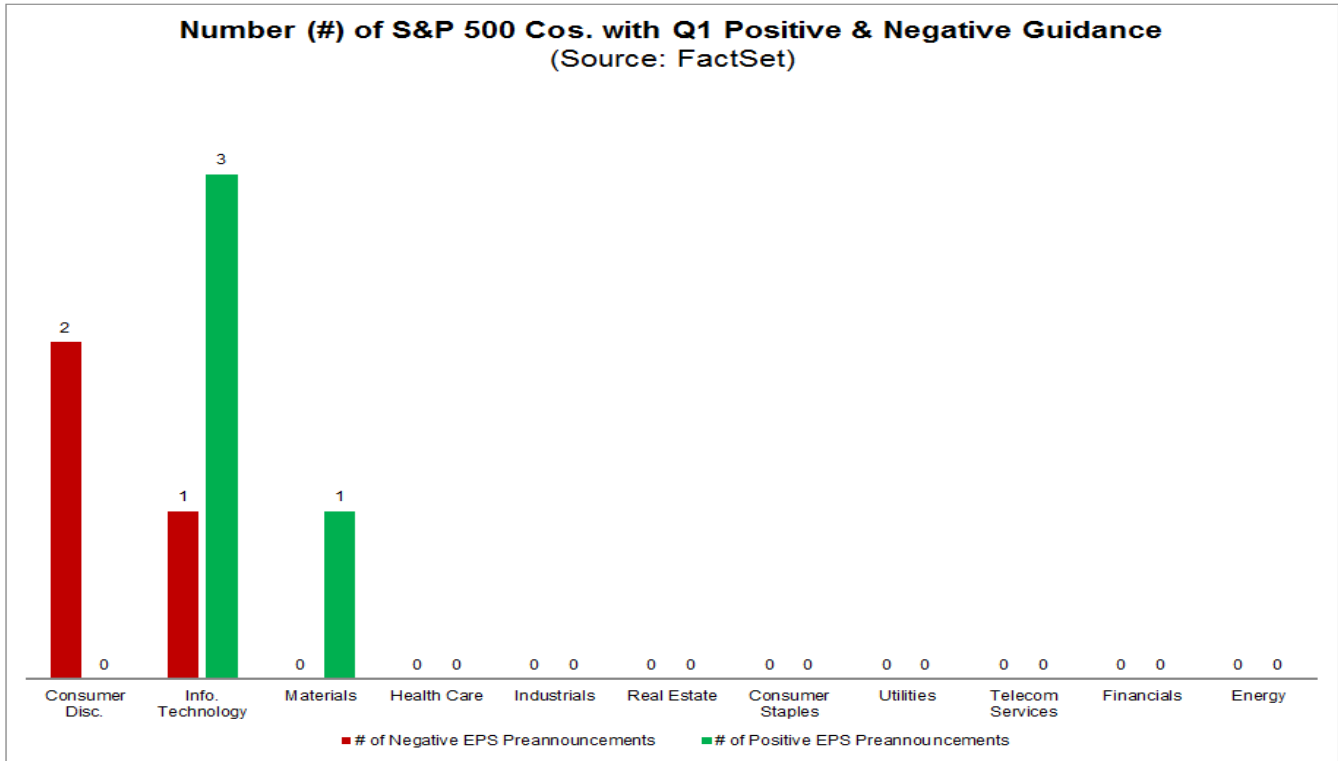
Q4 2016: Growth



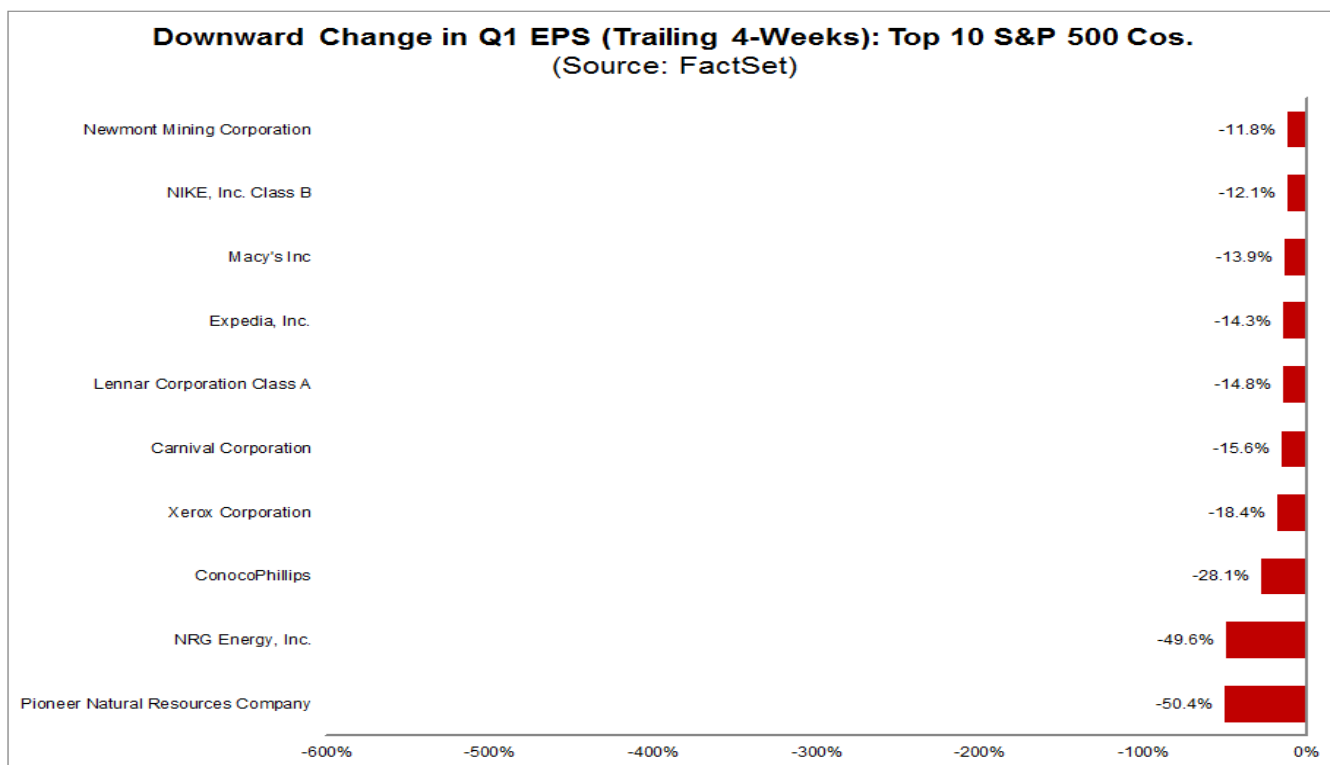
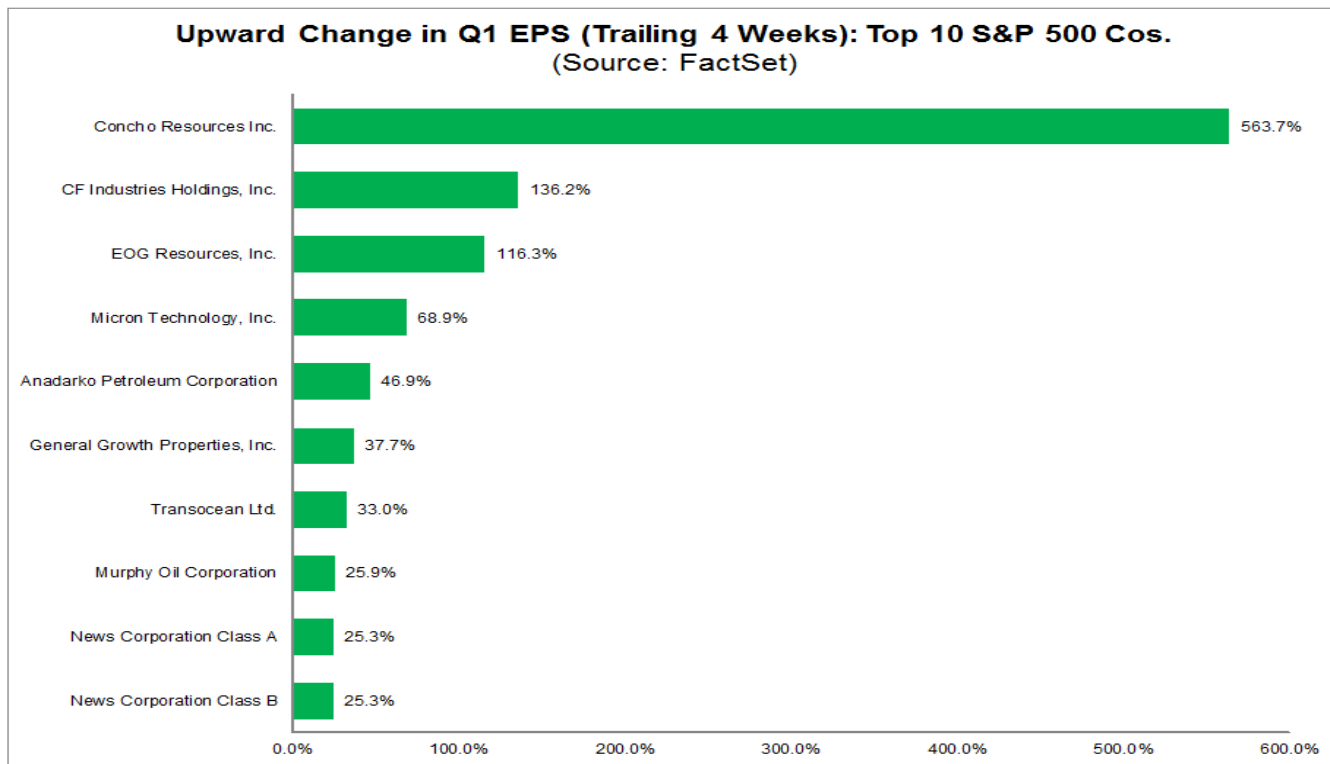
CY 2016: Growth



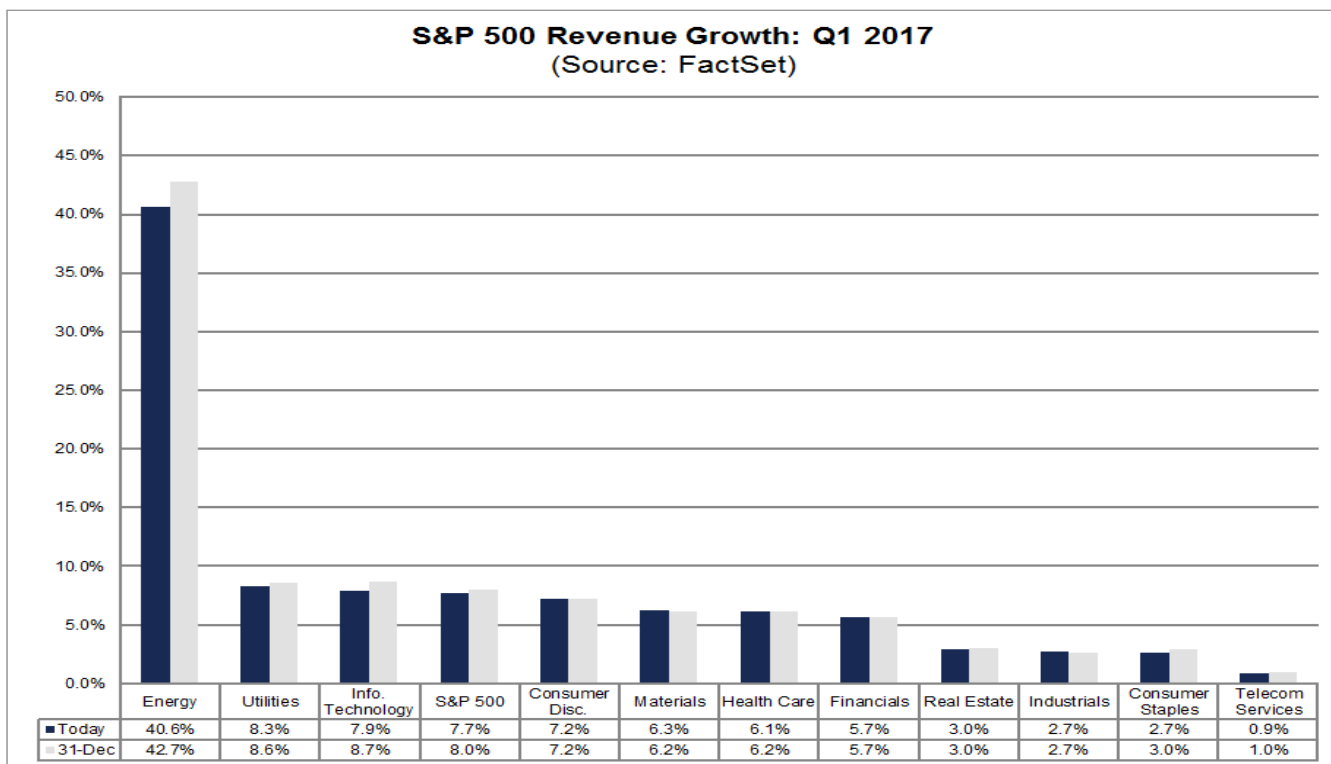
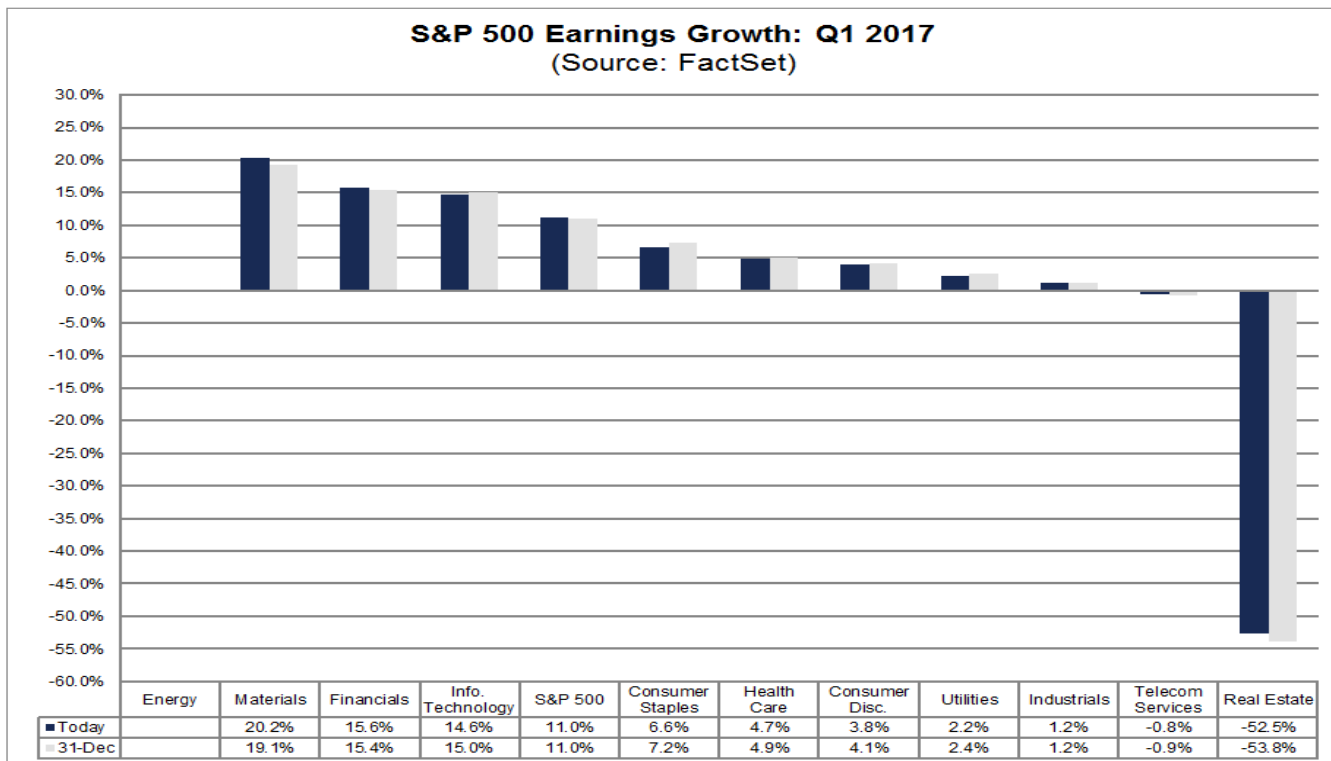
Q1 2017: Guidance



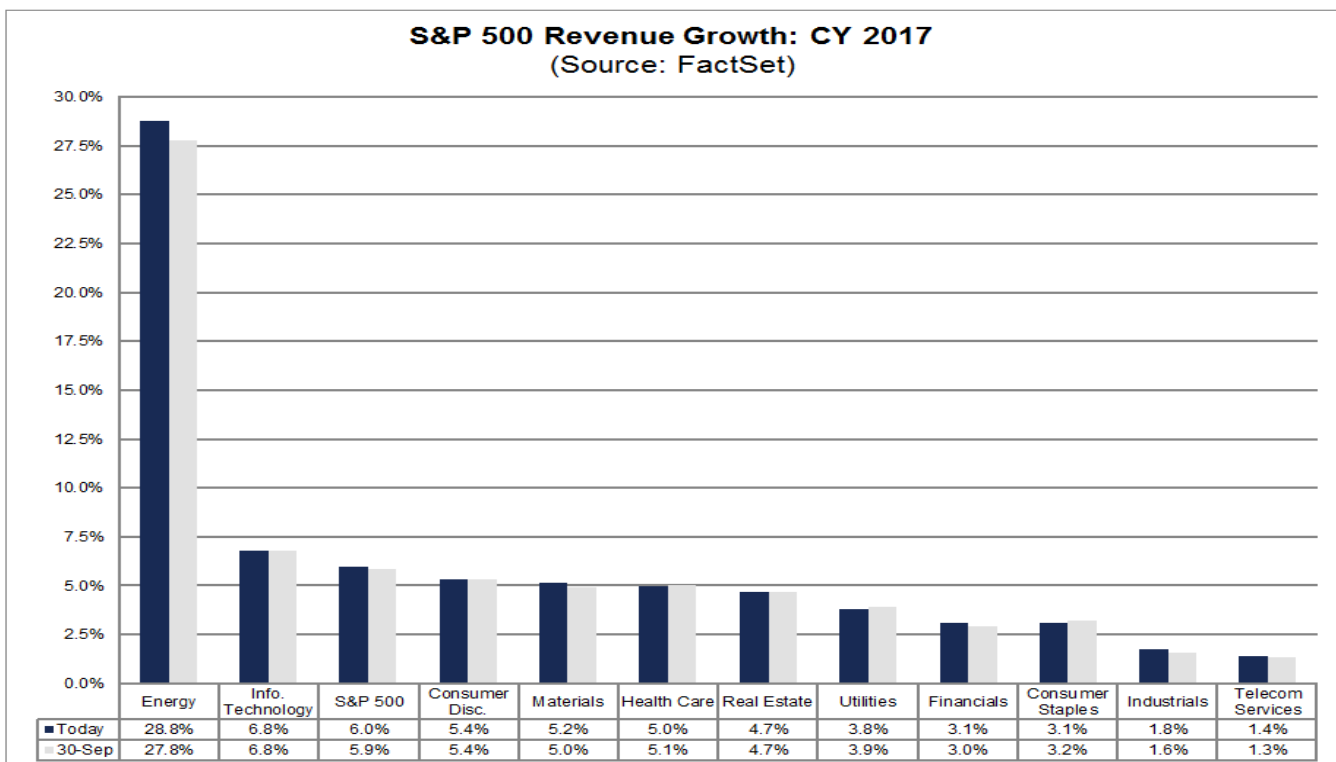
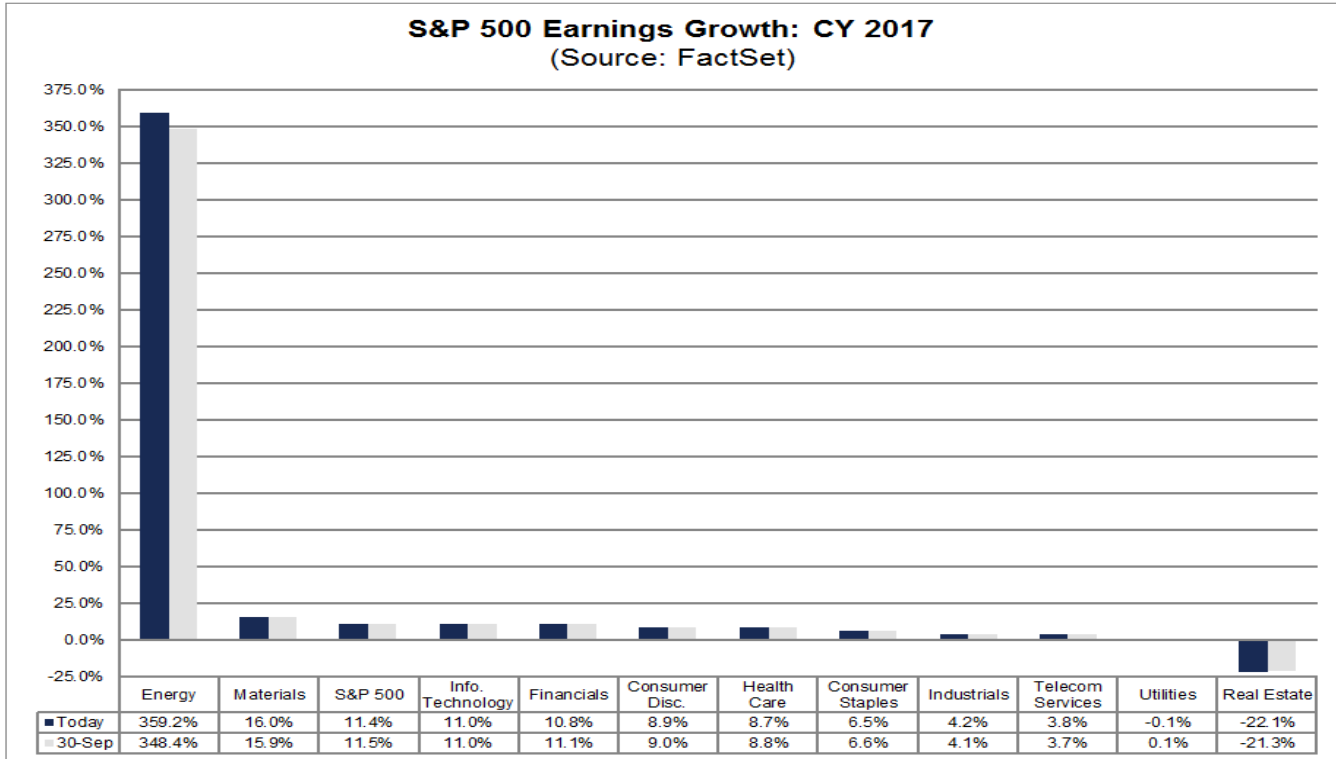
Q1 2017: EPS Revisions



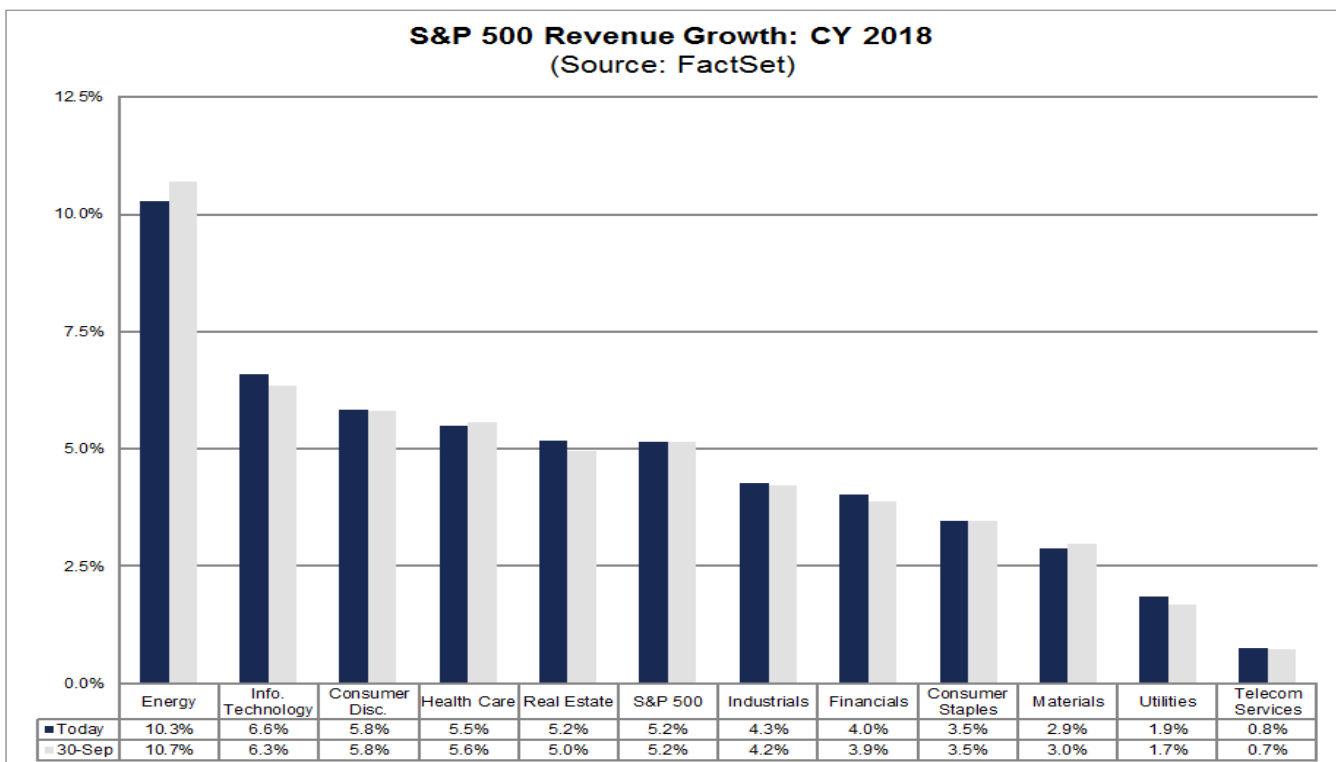
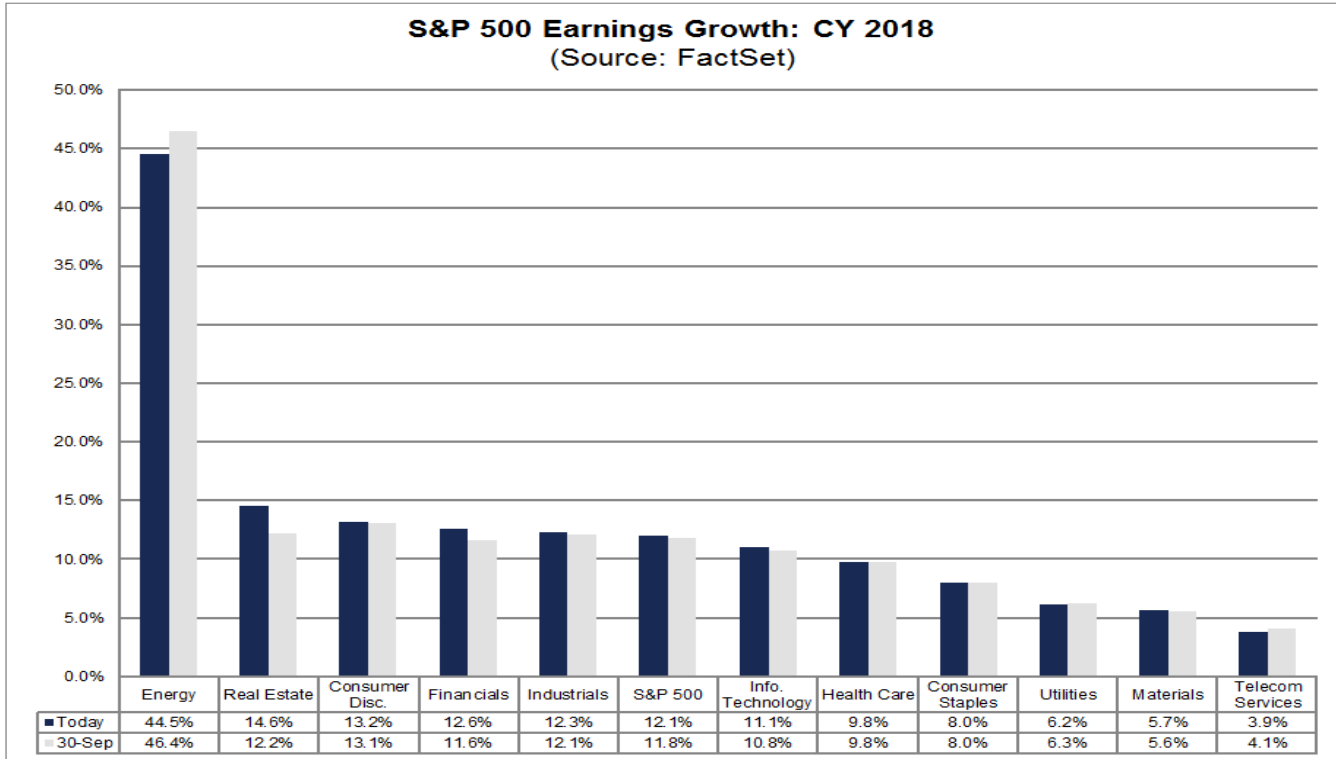
Q1 2017: Growth



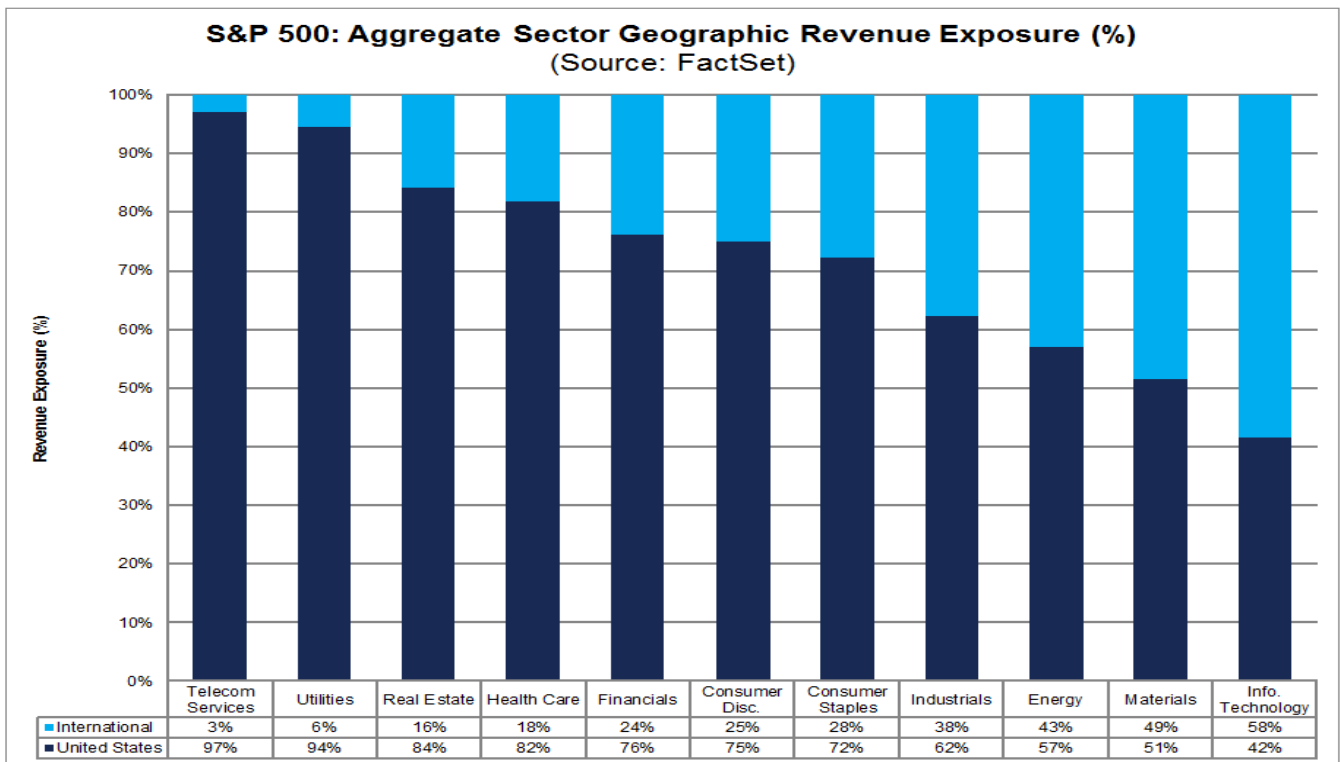
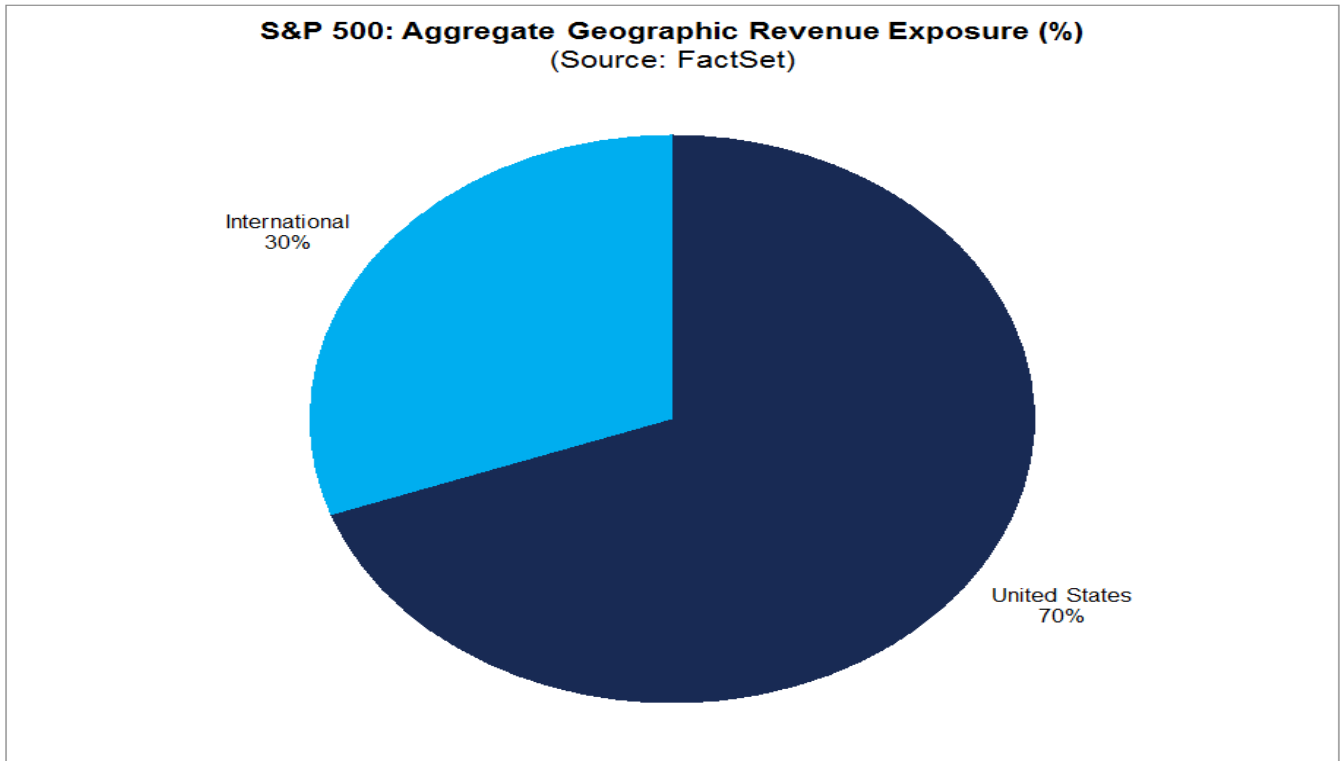
CY 2017: Growth



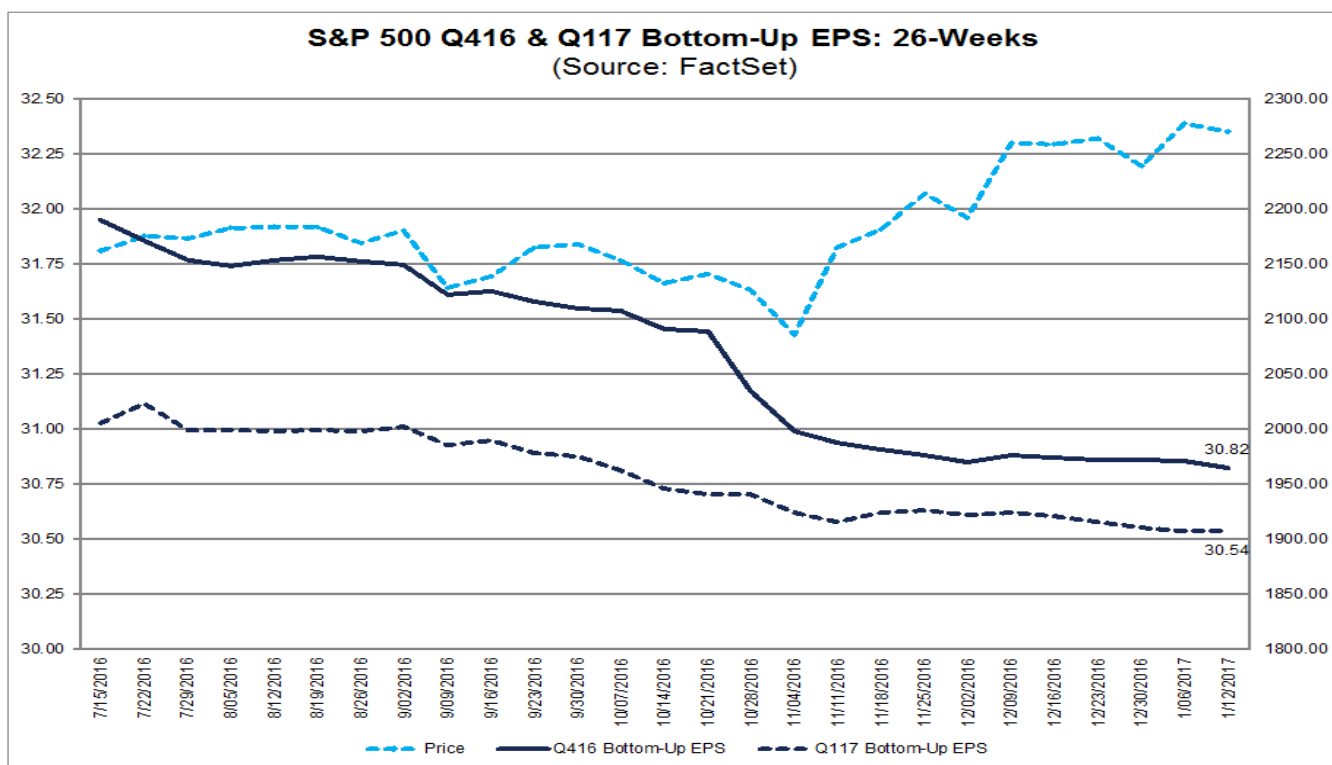
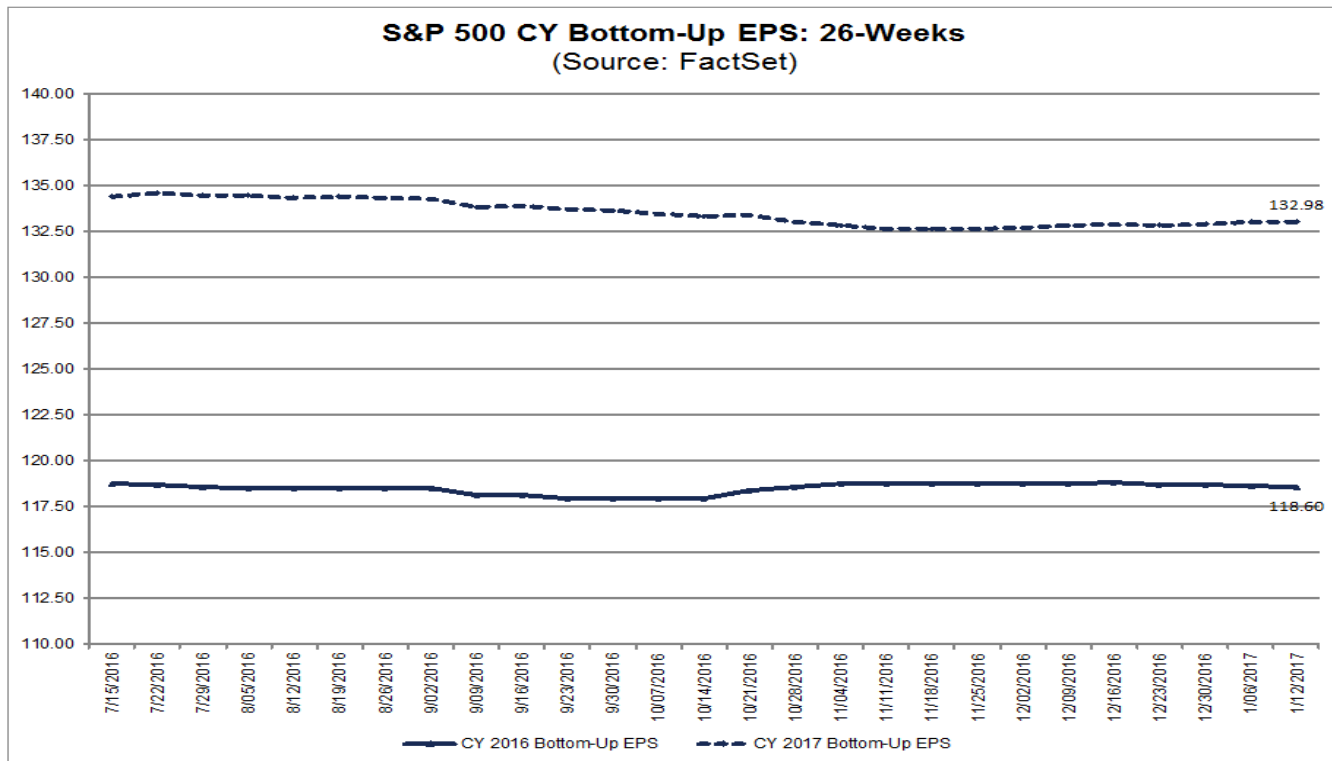
CY 2018: Growth



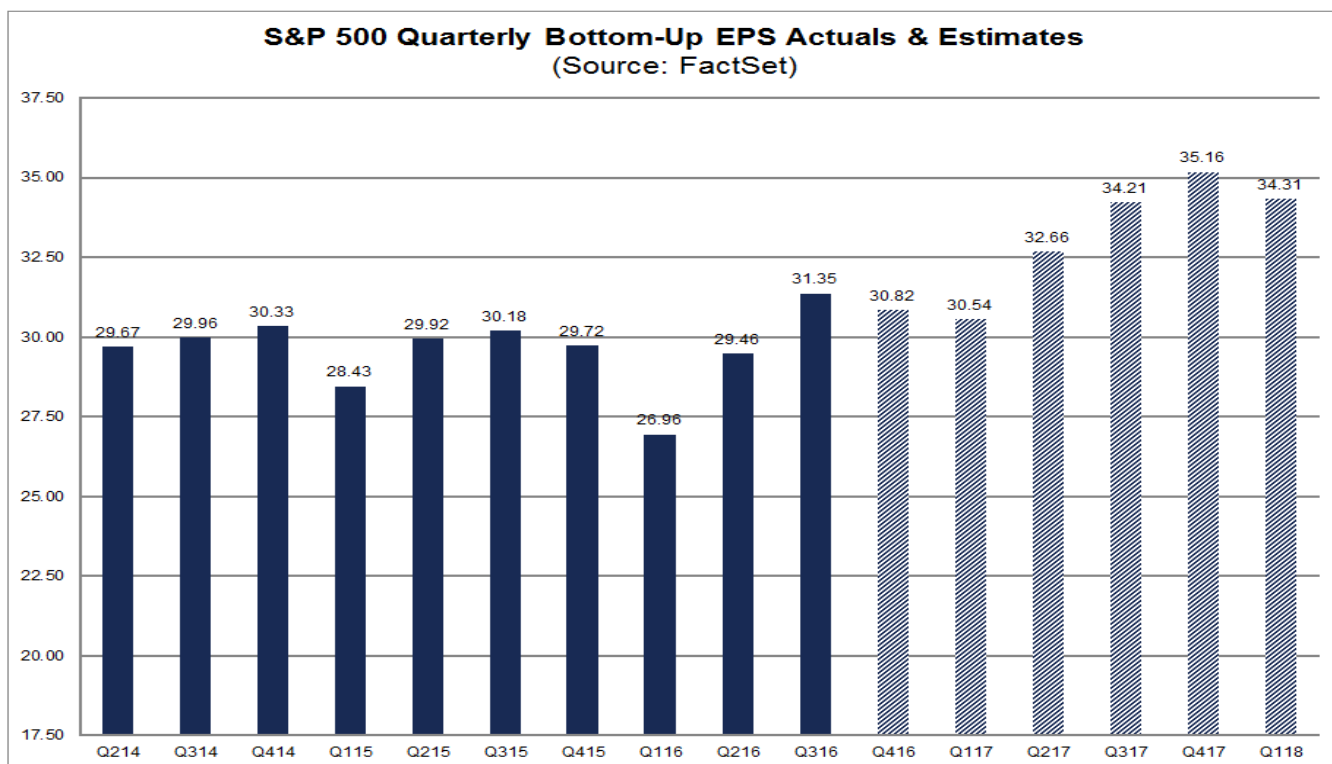
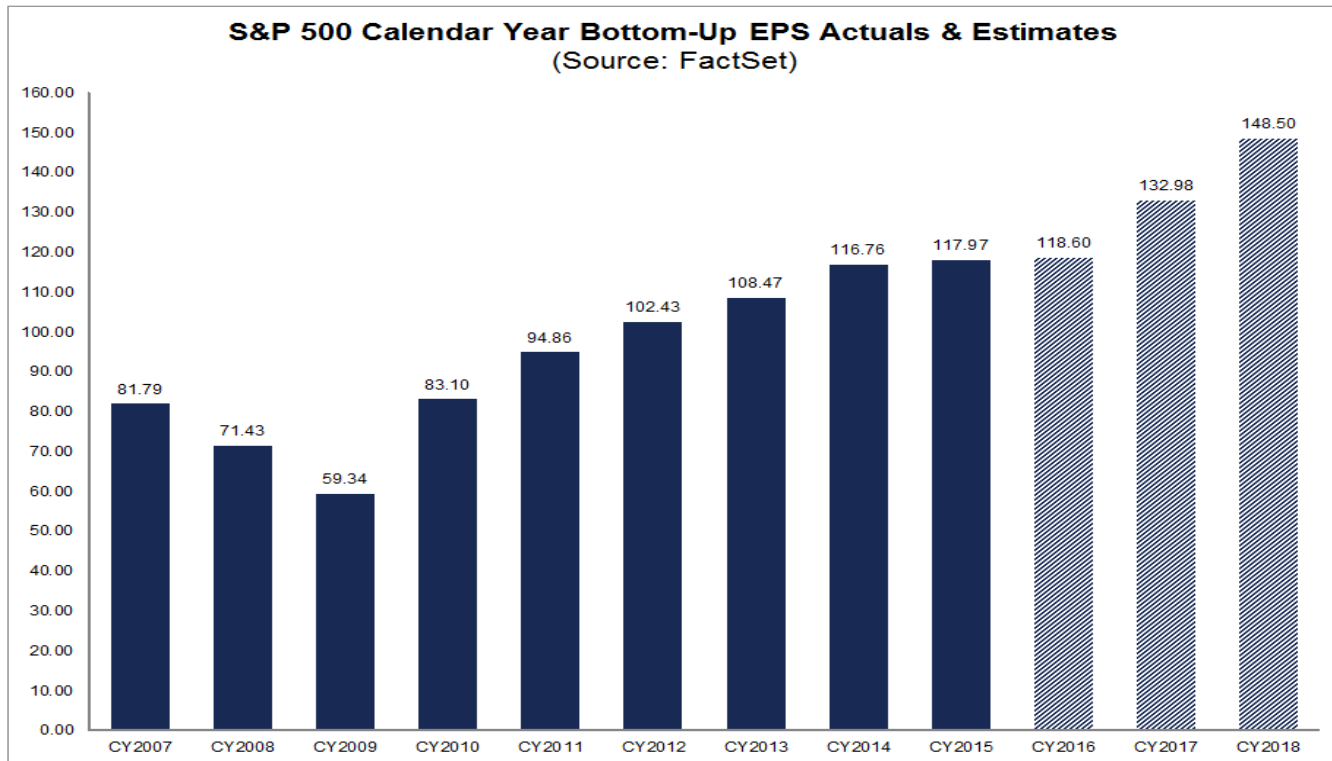
Geographic Revenue Exposure



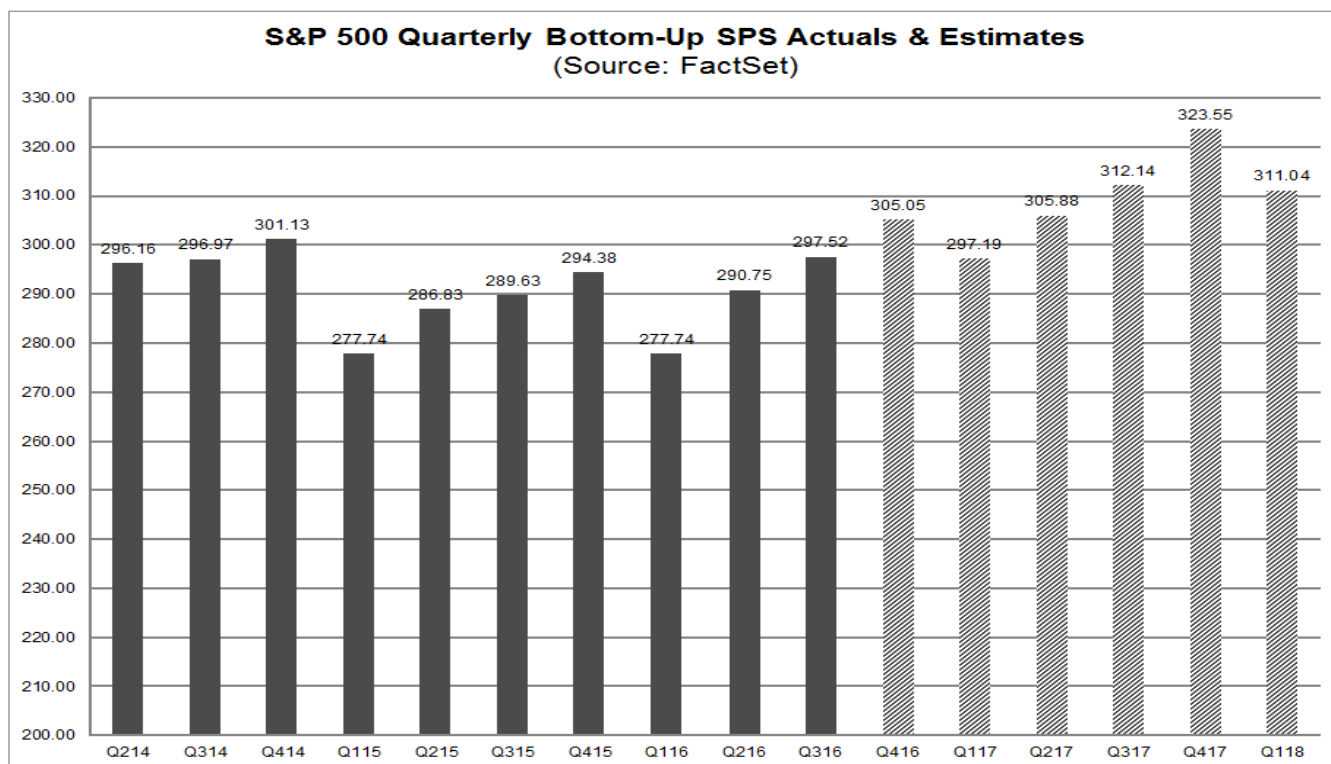
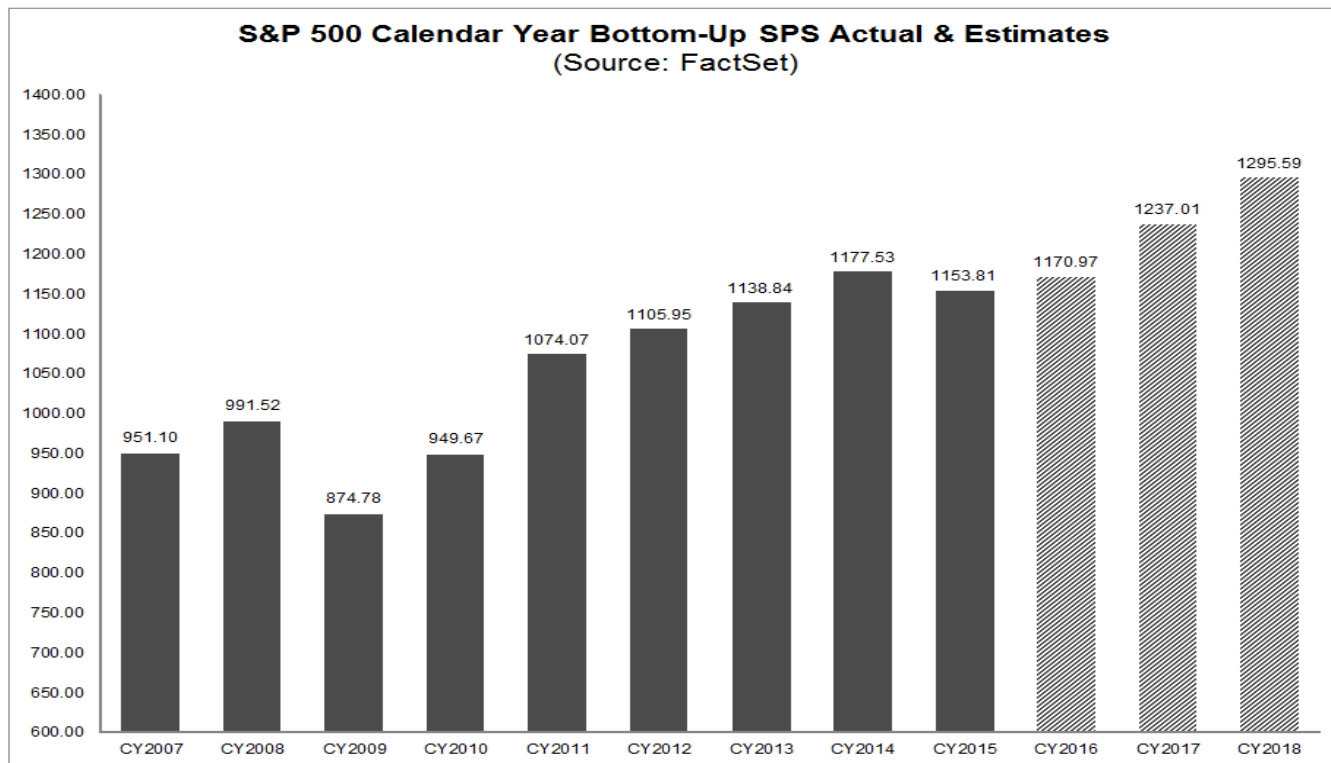
Bottom-up EPS Estimates: Revisions



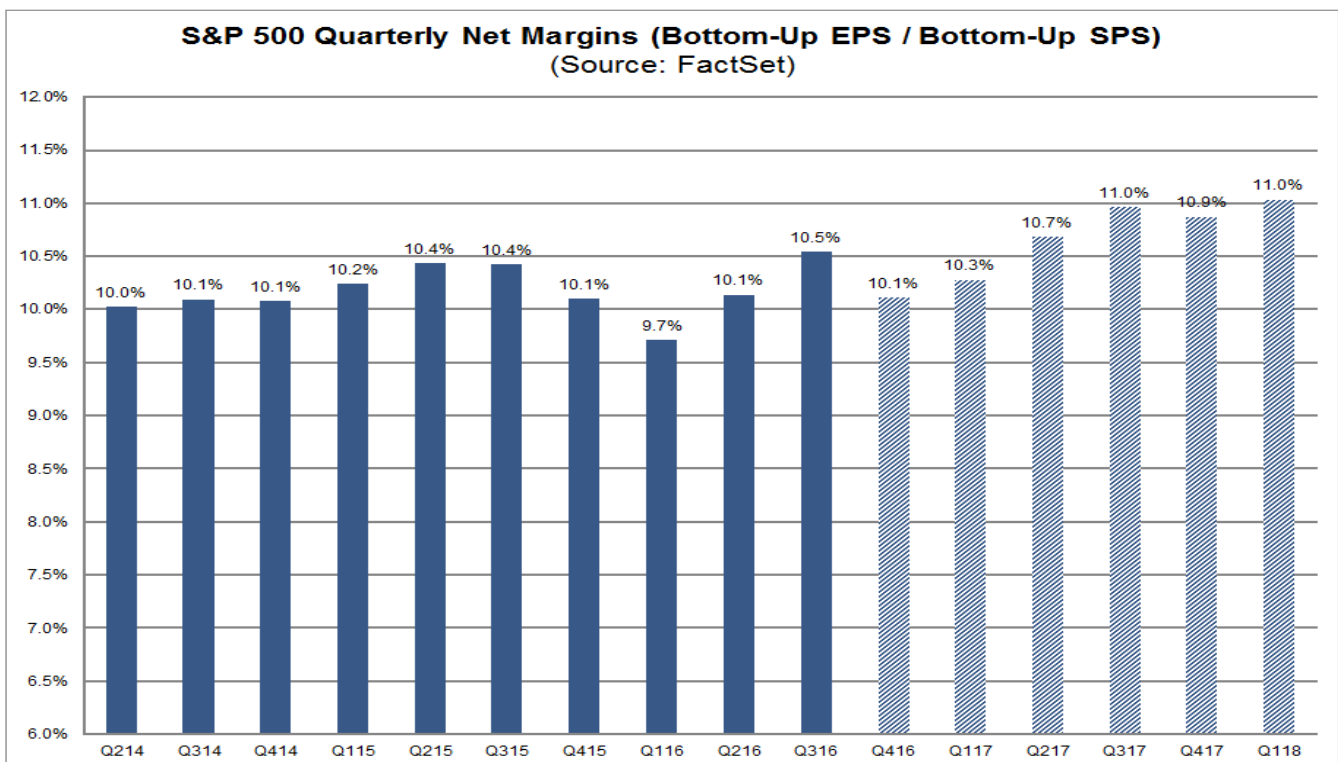
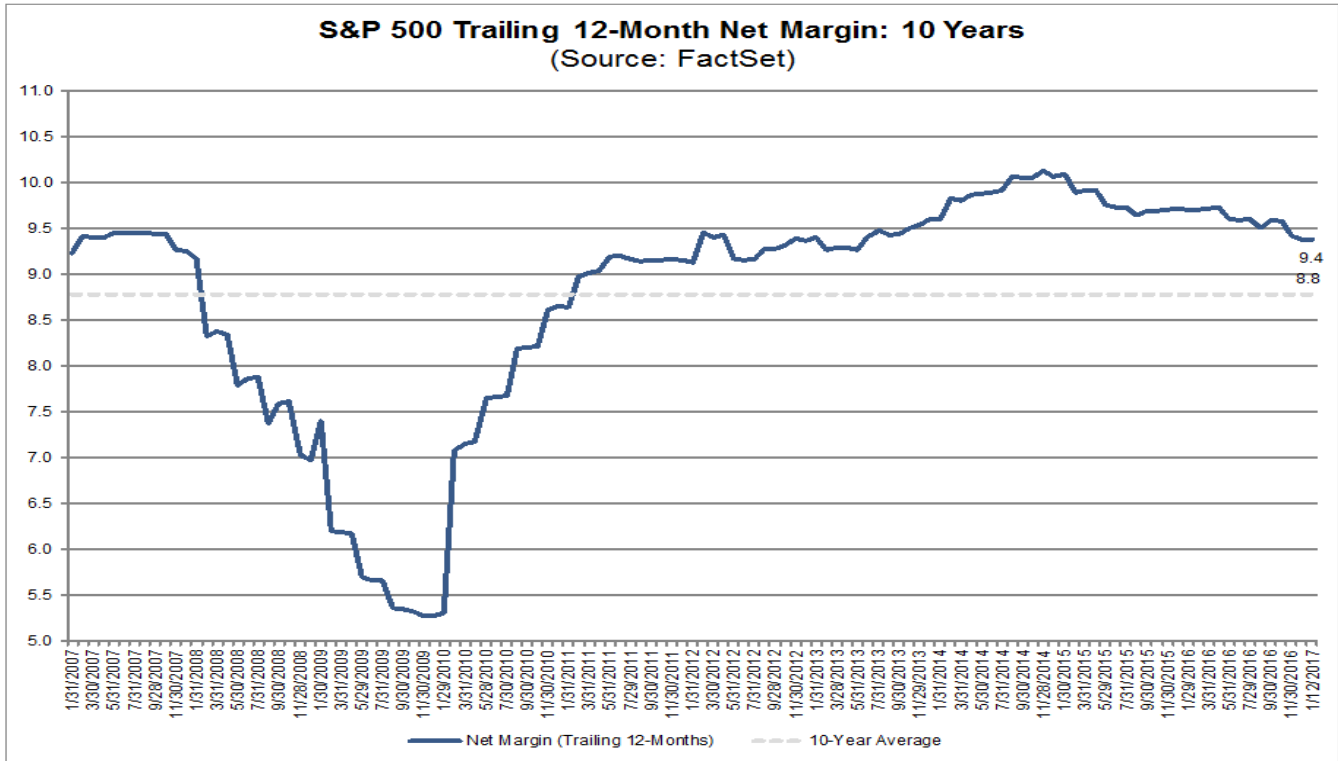
Bottom-up EPS Estimates: Current & Historical



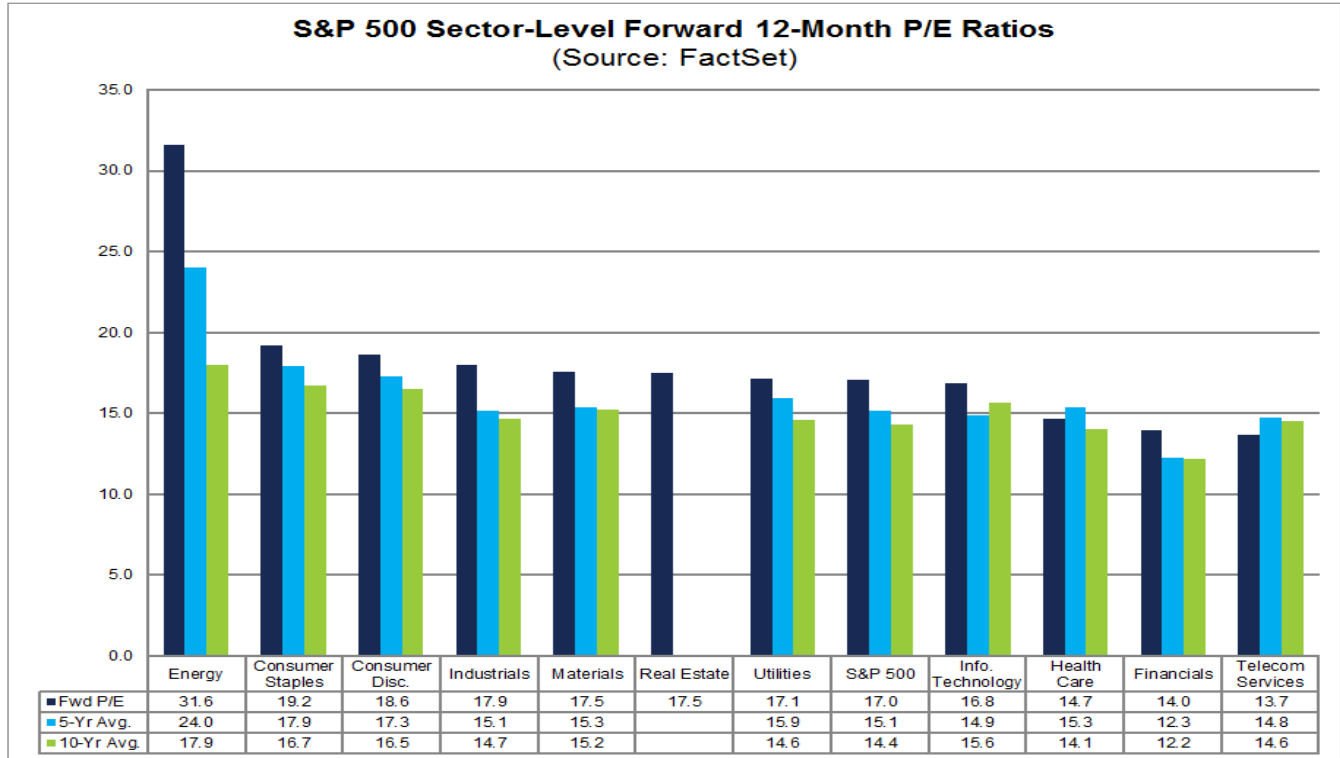
Bottom-up SPS Estimates: Current & Historical



Net Margins: Current & Historical

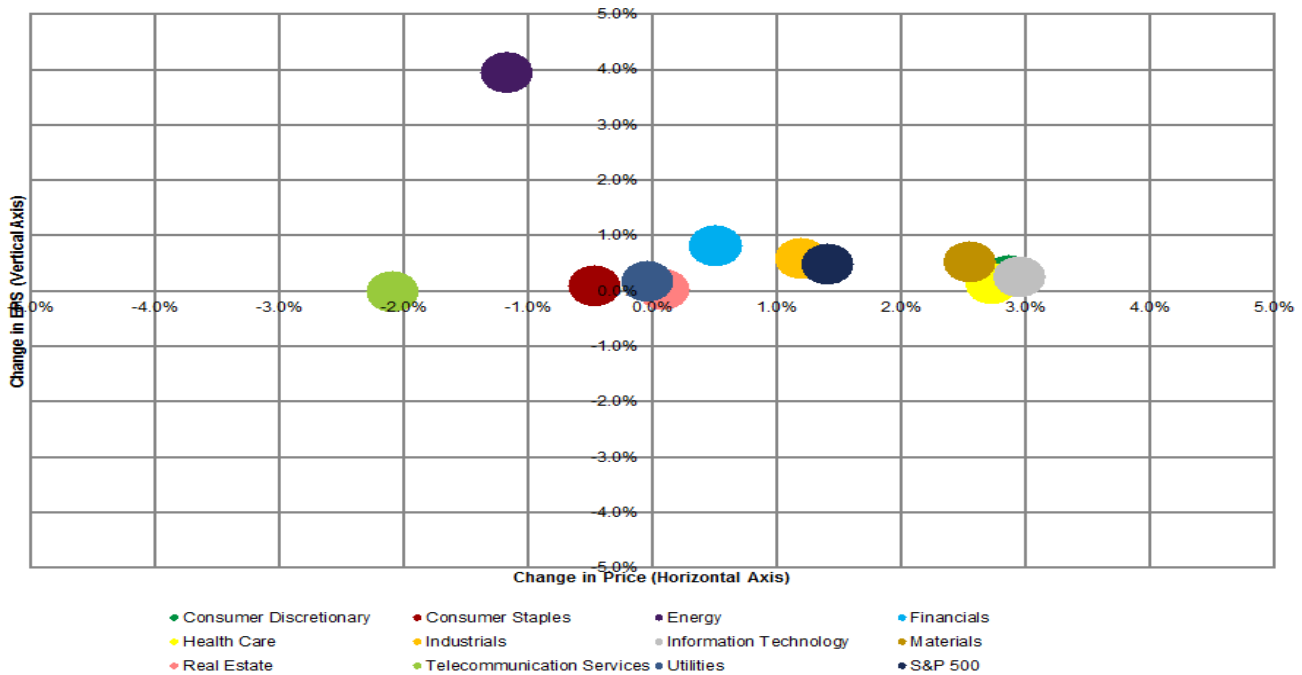


Forward 12M P/E Ratio: Sector Level

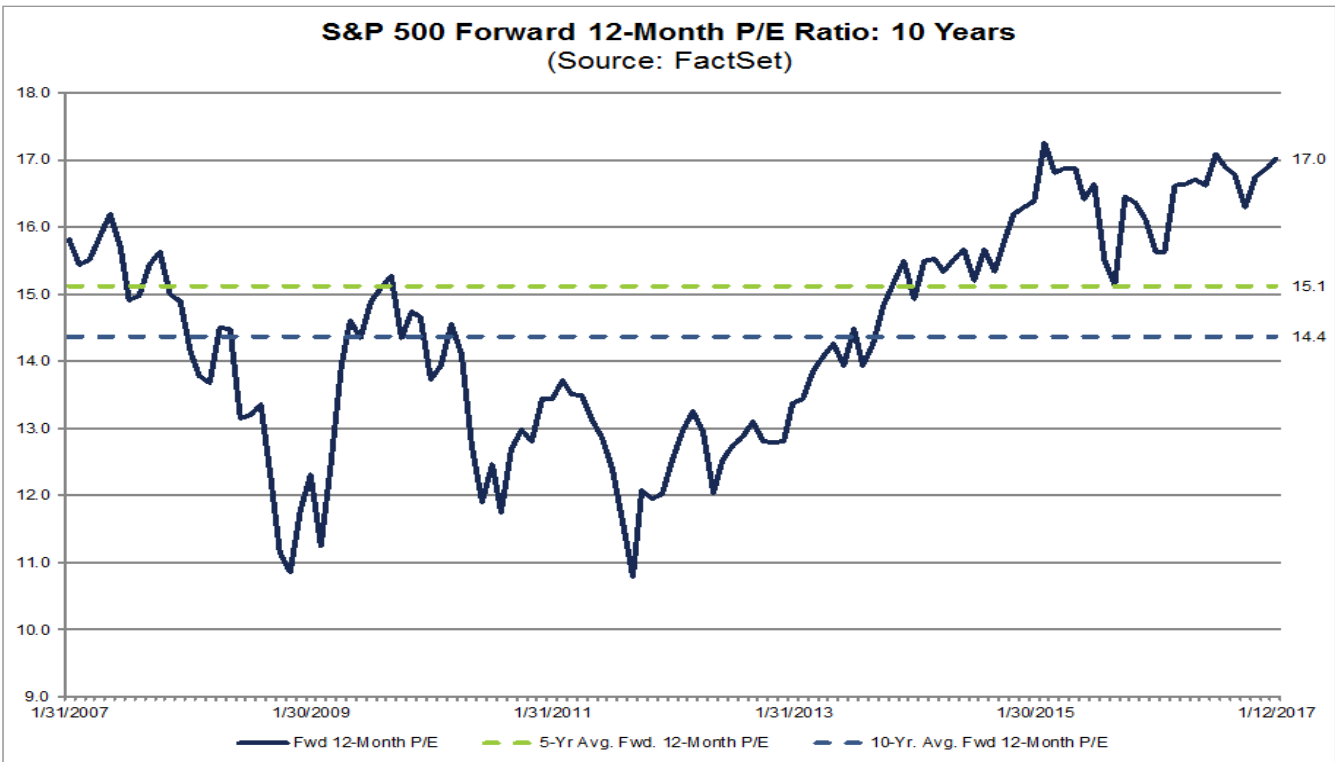
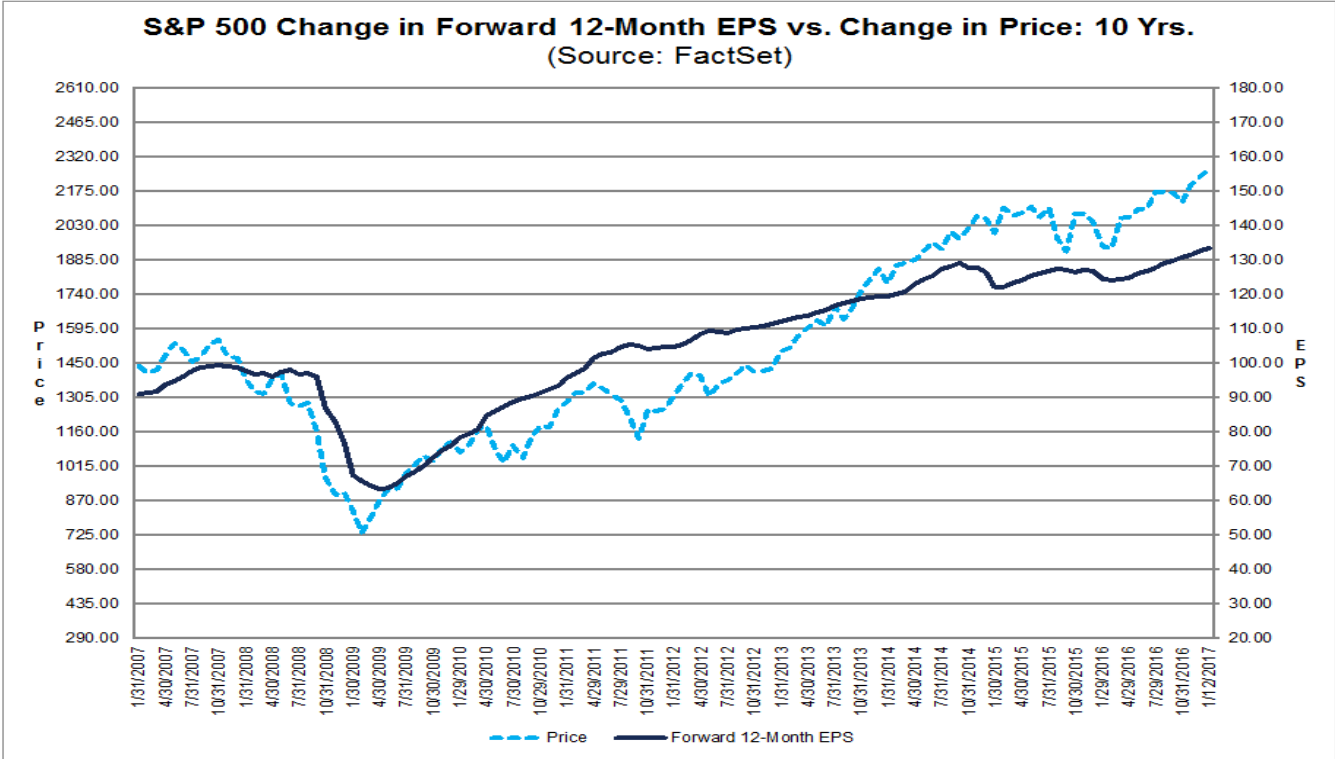


Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Dec. 31

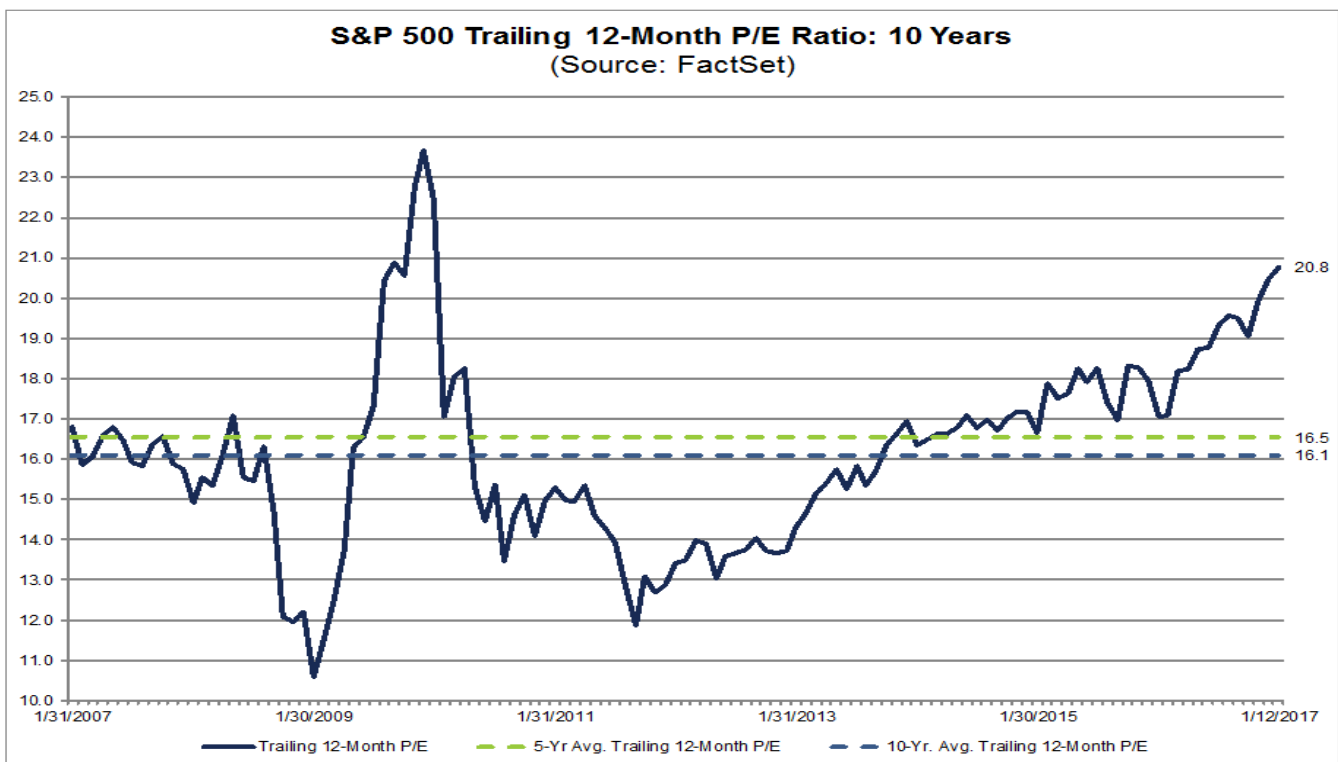
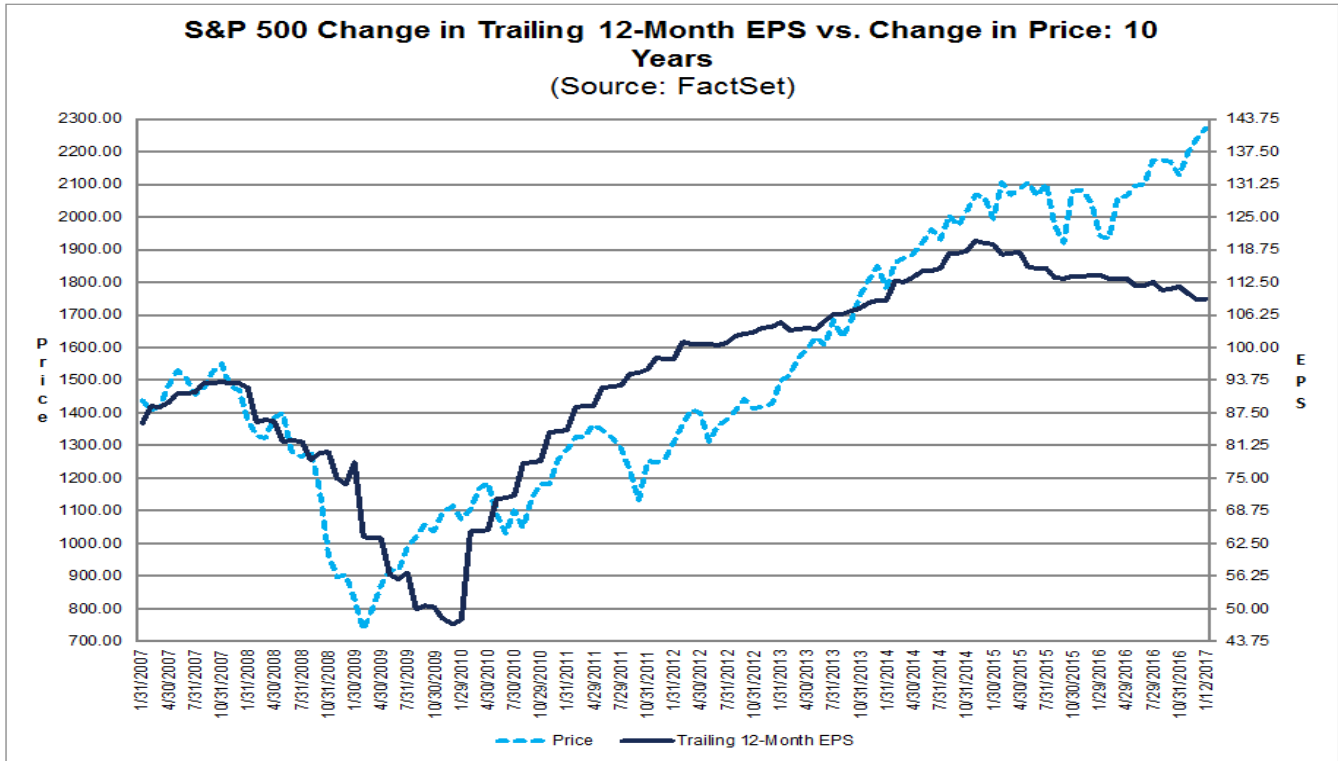
(Source: FactSet)



Forward 12M P/E Ratio: Long-Term Averages



Trailing 12M P/E Ratio: Long-Term Averages



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