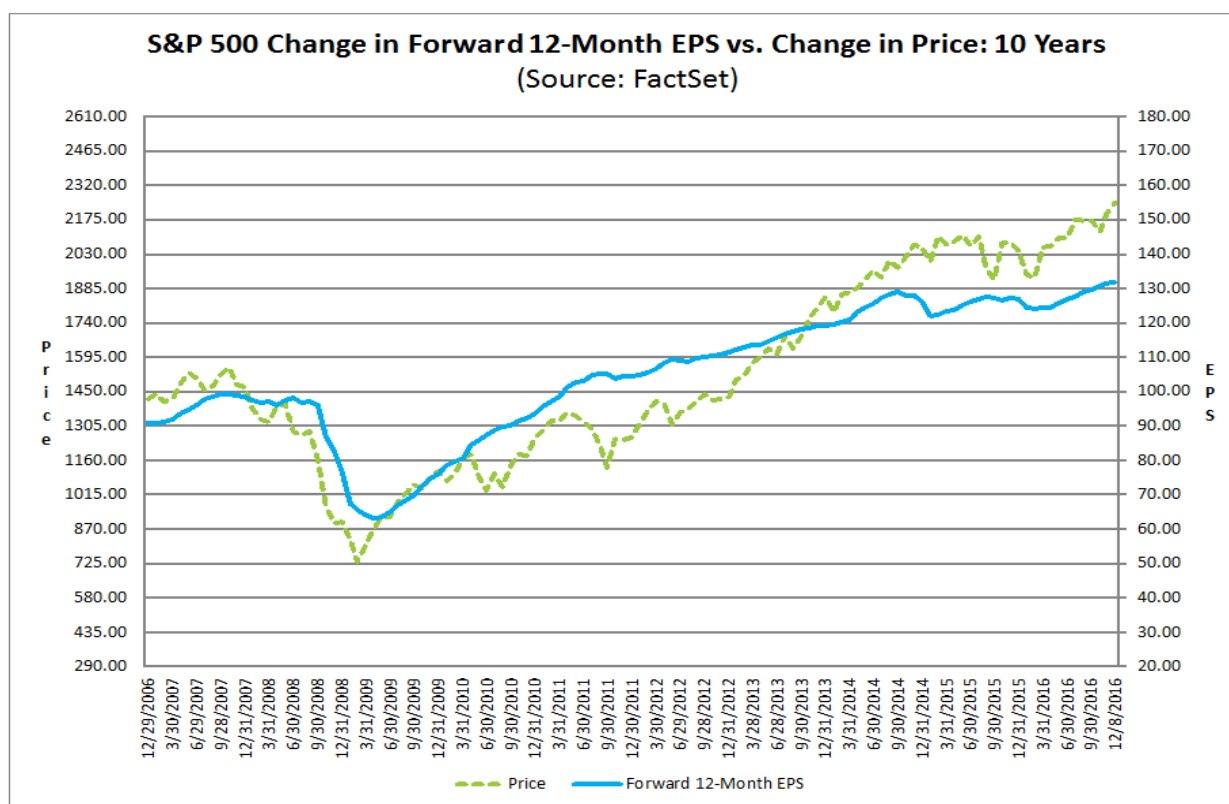


Key Metrics

- **Earnings Growth:** For Q4 2016, the estimated earnings growth rate for the S&P 500 is 3.0%. 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 September 30, the estimated earnings growth rate for Q4 2016 was 5.2%. Eight of the eleven sectors have lower growth rates today (compared to September 30) due to downward revisions to earnings estimates, led by the Materials sector.
- **Earnings Guidance:** For Q4 2016, 75 S&P 500 companies have issued negative EPS guidance and 35 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 17.1. This P/E ratio is above the 5-year average (15.0) and the 10-year average (14.4).
- **Earnings Scorecard:** As of today (with 3 companies in the S&P 500 reporting earnings for Q4 2016), 2 S&P 500 companies have reported earnings above the mean estimate and 1 S&P 500 company has reported sales above the mean estimate.



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Topic of the Week:

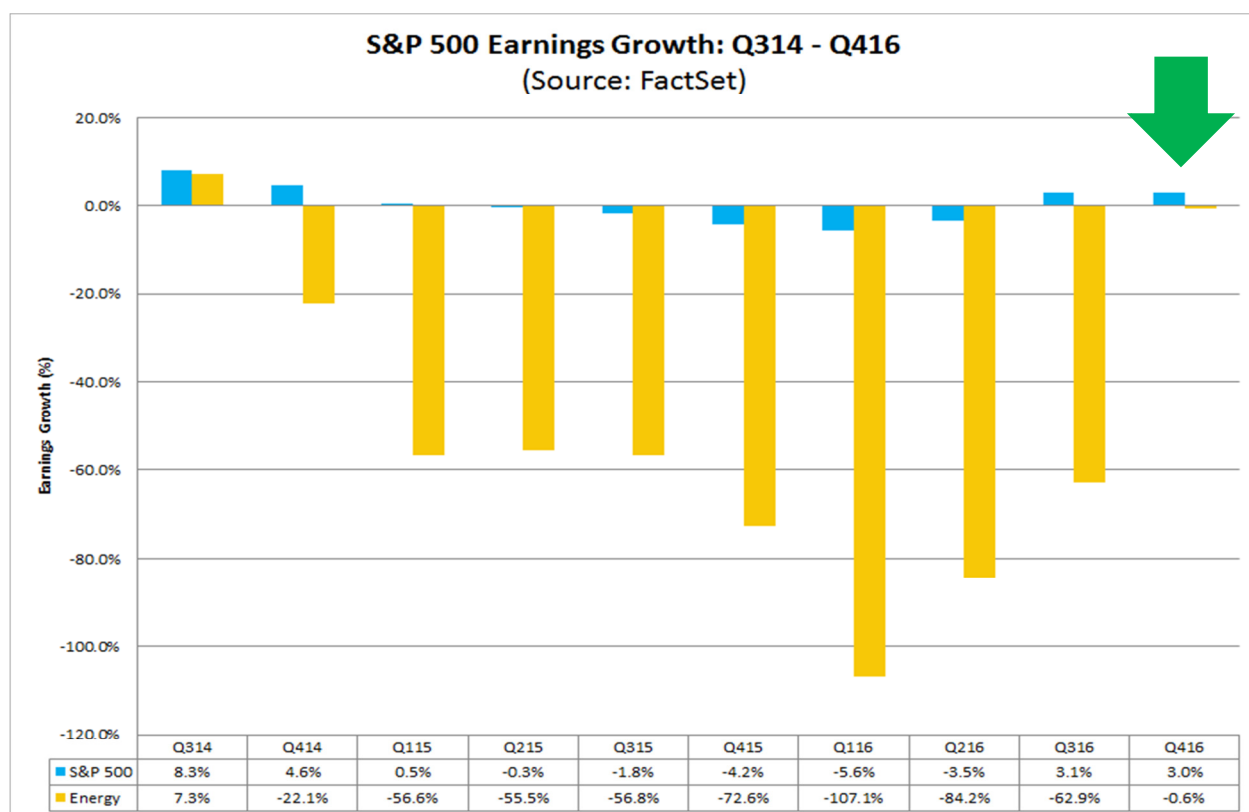
Will Energy Sector Be the Largest Drag on S&P 500 Earnings Growth for Q4?

For Q4 2016, the estimated earnings growth rate for the S&P 500 is 3.0%. 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. Over the past eight quarters (Q4 2014 – Q3 2016), the Energy sector has reported a year-over-year decline in earnings. During this same time frame (Q4 2014 – Q3 2016), the Energy sector has also been the largest detractor to earnings growth of all eleven sectors in the index. Since September 30, the price of crude oil has increased by 5.4% (to \$50.84 from \$48.24). Given this increase, is the Energy sector projected to report a year-over-year decline in earnings for Q4? Is the sector projected to be the largest detractor to earnings growth for Q4?

The answer to the first question is yes. The Energy sector is projected to report an earnings decline of -0.6% for Q4 2016. If -0.6% is the actual earnings decline for the quarter, it will mark the smallest earnings decline reported by the Energy sector over the past eight quarters. At the sub-industry level, three of the six sub-industries in this sector are expected to report earnings growth for the quarter: Oil & Gas Exploration & Production (N/A), Integrated Oil & Gas (34%), and Oil & Gas Storage & Transportation (28%). At the company level, 22 of the 36 companies in this sector are projected to report EPS growth for the quarter.

However, the answer to the second question is no. While the Energy sector is predicted to be a small detractor to earnings growth for the S&P 500, it is not expected to be the largest detractor. Overall, the index is projected to report earnings growth of 3.0%. If the Energy sector is excluded from the index, the growth rate for the remaining ten sectors would improve slightly to 3.1%. However, the Industrials and Telecom Services sectors are expected to be the largest detractors to earnings growth for the index in Q4 2016. If the Industrials sector is excluded, the growth rate for the remaining ten sectors would improve to 4.5%. If the Telecom Services sector is excluded from the index, the growth rate for the remaining ten sectors would improve to 4.4%.

It is interesting to note that Energy sector is expected to report a smaller decline in earnings today (-0.6%) compared to the estimated decline at the start of the quarter (-1.3%). Overall, 20 of the 36 companies in this sector (56%) have seen an increase in their mean EPS estimate to date. Of these 20 companies, 13 have recorded an increase in their mean EPS estimate of 10% or more, led by Apache (to 0.08 from \$0.03), Halliburton (to \$0.01 from -\$0.04), and Devon Energy (to \$0.18 from \$0.10).



Q4 2016 Earnings Season: By the Numbers

Overview

In terms of estimate revisions for companies in the S&P 500, analysts have made smaller cuts than average to earnings estimates for Q4 2016 to date. On a per-share basis, estimated earnings for the fourth quarter have fallen by 2.2% since September 30. This percentage decline is smaller than the trailing 5-year average (-3.4%) and the trailing 10-year average (-3.9%) for the first two months of a quarter.

In addition, a smaller percentage of S&P 500 companies have lowered the bar for earnings for Q4 2016 relative to recent averages. Of the 110 companies that have issued EPS guidance for the fourth quarter, 75 have issued negative EPS guidance and 35 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 68% (75 out of 110), which is below the 5-year average of 74%.

As a result of the downward revisions to earnings estimates, the estimated year-over-year earnings growth rate for Q4 2016 is 3.0% today. On September 30, the expected earnings growth rate was 5.2%. Eight sectors are predicted to report year-over-year earnings growth, led by the Utilities and Financials sectors. Three sectors are projected to report a year-over-year decline in earnings, led by the Telecom Services and Industrials sectors.

As a result of downward revisions to sales estimates, the estimated sales growth rate for Q4 2016 is 5.0%. On September 30, the expected revenue growth rate was 5.3%. Ten sectors 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 17.1, which is above the 5-year and 10-year averages.

During the upcoming week, five S&P 500 companies are scheduled to report results for the fourth quarter.

Earnings Revisions: Materials Sector Has Recorded Largest Drop in Expected Earnings Growth

No Change in Estimated Earnings Growth Rate for Q4 This Week

The estimated earnings growth rate for the fourth quarter is 3.0% this week, which is unchanged from the estimated earnings growth rate of 3.0% last week.

Overall, the estimated earnings growth rate for Q4 2016 of 3.0% today is below the estimated earnings growth rate of 5.2% at the start of the quarter (September 30). Eight sectors have recorded a decline in expected earnings growth since the beginning of the quarter due to downward revisions to earnings estimates, led by the Materials, Industrials, Consumer Discretionary, Utilities, and Real Estate sectors. Three sectors have recorded an increase in expected earnings growth since the start of the quarter due to upward revisions to earnings estimates, led by the Information Technology and Energy sectors.

Materials: Largest Decline in Expected Earnings Growth since September 30

The Materials sector has recorded the largest decrease in expected earnings growth since the start of the quarter (to 4.8% from 19.4%). Overall, 21 of the 25 companies in this sector (84%) have seen a decline in their mean EPS estimate to date. Of these 21 companies, 11 have recorded a decrease in their mean EPS estimate of more than 10%, led by CF Industries Holdings (to -\$0.03 from \$0.27) and Monsanto (to \$0.00 from \$0.18). However, Freeport-McMoRan (to \$0.31 from \$0.46) is the largest contributor to the decrease in earnings growth for this sector since September 30. Despite the decline in estimated earnings, the Materials sector has witnessed an increase in price of 7.5% since the start of the quarter.

Industrials: 2nd Largest Decrease in Expected Earnings Growth, Led by Delta Air Lines

The Industrials sector has recorded the second largest decrease in expected earnings growth since the start of the quarter (to -8.7% from -2.9%). Overall, 55 of the 69 companies in this sector (80%) have seen a decline in their mean EPS estimate to date. Of these 55 companies, 14 have recorded a drop in their mean EPS estimate of more than 10%, led by Delta Air Lines (to \$0.74 from \$1.27) and Caterpillar (to \$0.67 from \$1.02). Delta Air Lines and Caterpillar are also the largest contributors to the decrease in the expected earnings growth rate for this sector since September 30. Despite the overall decrease in estimated earnings, the Industrials sector has witnessed an increase in price of 8.5% since the start of the quarter.

Consumer Discretionary: 3rd Largest Decrease in Expected Earnings Growth, Led by Amazon

The Consumer Discretionary sector has recorded the third largest decrease in expected earnings growth since the start of the quarter (to 0.4% from 6.1%). Overall, 66 of the 82 companies in this sector (80%) have witnessed a decline in their mean EPS estimate to date. Of these 66 companies, 14 have recorded a decrease in their mean EPS estimate of more than 10%, led by Chipotle Mexican Grill (to \$1.02 from \$2.08), Amazon.com (to \$1.40 from \$2.13), and Viacom (to \$0.84 from \$1.19). Amazon.com is also the largest contributor to the decrease in the expected earnings growth rate for this sector since September 30. Other significant contributors to the drop in earnings growth are Ford Motor (to \$0.35 from \$0.40) and Walt Disney (to \$1.50 from \$1.60). Despite the overall decrease in estimated earnings, the Consumer Discretionary sector has witnessed an increase in price of 4.8% since the start of the quarter.

Utilities: 4th Largest Decrease in Expected Earnings Growth

The Utilities sector has recorded the fourth largest decrease in expected earnings growth since the start of the quarter (to 20.2% from 25.9%). Overall, 20 of the 28 companies in this sector (71%) have seen a decline in their mean EPS estimate to date. Of these 20 companies, 8 have recorded a drop in their mean EPS estimate of more than 10%, led by Entergy (to \$0.16 from \$0.58), CMS Energy (to \$0.29 from \$0.43), and DTE Energy (to \$0.86 from \$1.23). The Utilities sector has witnessed a decrease in price of 3.8% since the start of the quarter.

Real Estate: 5th Largest Decrease in Expected Earnings Growth

The Real Estate sector has recorded the fifth largest decrease in expected earnings growth since the start of the quarter (to 1.0% from 6.2%). Overall, 21 of the 29 companies in this sector (72%) have seen a decrease in their mean EPS estimate to date. Of these 21 companies, 9 have recorded a decrease in their mean EPS estimate of more than 10%, led by SL Green Realty (to 0.09 from \$0.33) and HCP (to \$0.20 from \$0.39). The Real Estate sector has witnessed a decrease in price of 5.7% since the start of the quarter.

Information Technology: Largest Increase in Expected Earnings Growth

The Information Technology sector has recorded the largest increase in expected earnings growth since the start of the quarter (to 5.7% from 4.4%). Overall, 33 of the 66 companies in this sector (50%) have seen an increase in their mean EPS estimate to date. Of these 33 companies, 9 have recorded an increase in the mean EPS estimate of 10% or more, led by Micron Technology (to 0.23 from \$0.09), Western Digital (to \$2.09 from \$1.25), and NVIDIA (to \$0.83 from \$0.56). These three companies, along with Apple (to \$3.24 from \$3.18) and Facebook (to \$1.30 from \$1.24) are the largest contributors to the increase in the projected earnings growth rate for this sector since September 30. The Information Technology sector has witnessed an increase in price of 0.8% since the start of the quarter.

Energy: 2nd Largest Increase in Expected Earnings Growth

The Energy sector has recorded the second largest increase in expected earnings growth since the start of the quarter (to -0.6% from -1.3%). Overall, 20 of the 36 companies in this sector (56%) have seen an increase in their mean EPS estimate to date. Of these 20 companies, 13 have recorded an increase in their mean EPS estimate of 10% or more, led by Apache (to 0.08 from \$0.03), Halliburton (to \$0.01 from -\$0.04), and Devon Energy (to \$0.18 from \$0.10). However, Baker Hughes (to -\$0.11 from -\$0.35) is the largest contributor to the decrease in the projected earnings decline for this sector since September 30. The Energy sector has witnessed an increase in price of 6.9% since the start of the quarter.

Index-Level (Bottom-Up) EPS Estimate: Below Average Decline to Date

Downward revisions to earnings estimates in aggregate for the fourth quarter to date have been below recent averages. The Q4 bottom-up EPS estimate (which is an aggregation of the earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) has fallen by 2.2% (to \$30.86 from \$31.55) since September 30. This decline in the EPS estimate for Q416 is below the trailing 1-year (-3.8%) average, the trailing 5-year (-3.4%), and the trailing 10-year average (-3.9%) for the bottom-up EPS estimate through approximately the first two months of the quarter.

Guidance: Negative EPS Guidance (68%) for Q4 Below Average

At this point in time, 110 companies in the index have issued EPS guidance for Q4 2016. Of these 110 companies, 75 have issued negative EPS guidance and 35 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 68% (75 out of 110), 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).

Earnings Growth: Second Straight Quarter of Year-Over-Year Earnings Growth (3.0%)

The estimated earnings growth rate for Q4 2016 is 3.0%. 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%). Eight sectors are projected to report year-over-year growth in earnings, led by the Utilities and Financials sectors. Three sectors are projected to report a year-over-year decline in earnings, led by the Telecom Services and Industrials sectors.

Utilities: NRG Energy, PG&E, & Dominion Lead Growth

The Utilities sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 20.2%. Overall, 20 of the 29 companies in the sector (69%) are projected to report EPS growth for the quarter. However, three companies are driving the earnings growth for this sector: NRG Energy, PG&E, and Dominion. The mean EPS estimate for NRG Energy for Q4 2016 is -\$0.29, compared to year-ago EPS of -\$1.35. The mean EPS estimate for PG&E for Q4 2016 is \$1.33, 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 0.6% from 20.2%.

Financials: AIG and Goldman Sachs Lead Growth on Comparisons to Low Year-Ago EPS

The Financials sector is expected to report the second highest (year-over-year) earnings growth of all eleven sectors at 14.2%. At the industry level, four of the five industries in this sector are predicted to report earnings growth, led by the Insurance (44%) and Capital Markets (27%) industries. At the company level, AIG and Goldman Sachs are the largest contributors to earnings growth for this sector. However, the EPS growth for both companies is benefitting from comparisons to unusually low earnings in Q4 2015. The mean EPS estimate for AIG for Q4 2016 is \$1.17, compared to year-ago EPS of -\$1.10. In the company's earnings release for Q4 2015, AIG noted, "The fourth quarter operating loss was primarily due to adverse prior year loss reserve development, and lower returns on alternative investments." The mean EPS estimate for Goldman Sachs for Q4 2016 is \$4.56, compared to year-ago EPS of \$1.27. In the company's earnings release from Q4 2015, Goldman Sachs noted, "During the fourth quarter of 2015, the firm recorded provisions for the settlement with the RMBS Working Group of \$1.80 billion (\$1.54 billion after-tax), which reduced diluted earnings per common share by \$3.41 and annualized ROE by 8.1 percentage points." If these two companies are excluded, the estimated earnings growth rate for the Financials sector would drop to 5.0% from 14.6%.

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 -28.0%. Overall, 3 of the 5 companies in the sector (60%) 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 -0.4% from -28.0%.

Industrials: Airlines Industry Leads Decline

The Industrials sector is expected to report the second largest (year-over-year) earnings decline of all eleven sectors at -8.7%. At the industry level, six of the twelve industries in this sector are predicted to report an earnings decline, led by the Airlines (-51%), Industrial Conglomerates (-13%), and Electrical Equipment (-11%) industries. The Airlines industry is also the largest contributor to the projected year-over-year decline in earnings for this sector. If this industry is excluded, the estimated earnings decline for the Industrials sector would drop to -1.8% from -8.7%.

Revenues: Highest Estimated Revenue Growth (5.0%) Since Q1 2012

The estimated revenue growth rate for Q4 2016 is 5.0%. 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%). If 5.0% is the actual revenue growth rate for the quarter, it will mark the highest year-over-year revenue growth reported by the index since Q1 2012 (5.3%). Ten sectors are projected to report year-over-year growth in earnings, 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 19.5%. 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 (55%), Multi-Utilities (21%), and Electric Utilities (14%). At the company level, 25 of the 28 companies in the sector (89%) are projected to report sales growth for the quarter. NRG Energy is expected to report the highest growth on a dollar-basis (+1.8 billion) and on a percentage-basis (+61%) in the sector.

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 on a dollar basis (-2.1 billion) and on a percentage basis (-6%) in the sector.

Looking Ahead: Forward Estimates and Valuation

Growth Expected to Continue in 2017

For the fourth quarter, analysts are projecting earnings growth of 3.0% and revenue growth of 5.0%. For all of 2016, analysts are projecting earnings growth of 0.1% and revenue growth of 2.2%.

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

For Q1 2017, analysts are projecting earnings growth of 11.3% and revenue growth of 8.1%.

For Q2 2017, analysts are projecting earnings growth of 10.5% and revenue growth of 5.8%.

For all of 2017, analysts are projecting earnings growth of 11.4% and revenue growth of 5.8%.

Valuation: Forward P/E Ratio is 17.1, above the 10-Year Average (14.4)

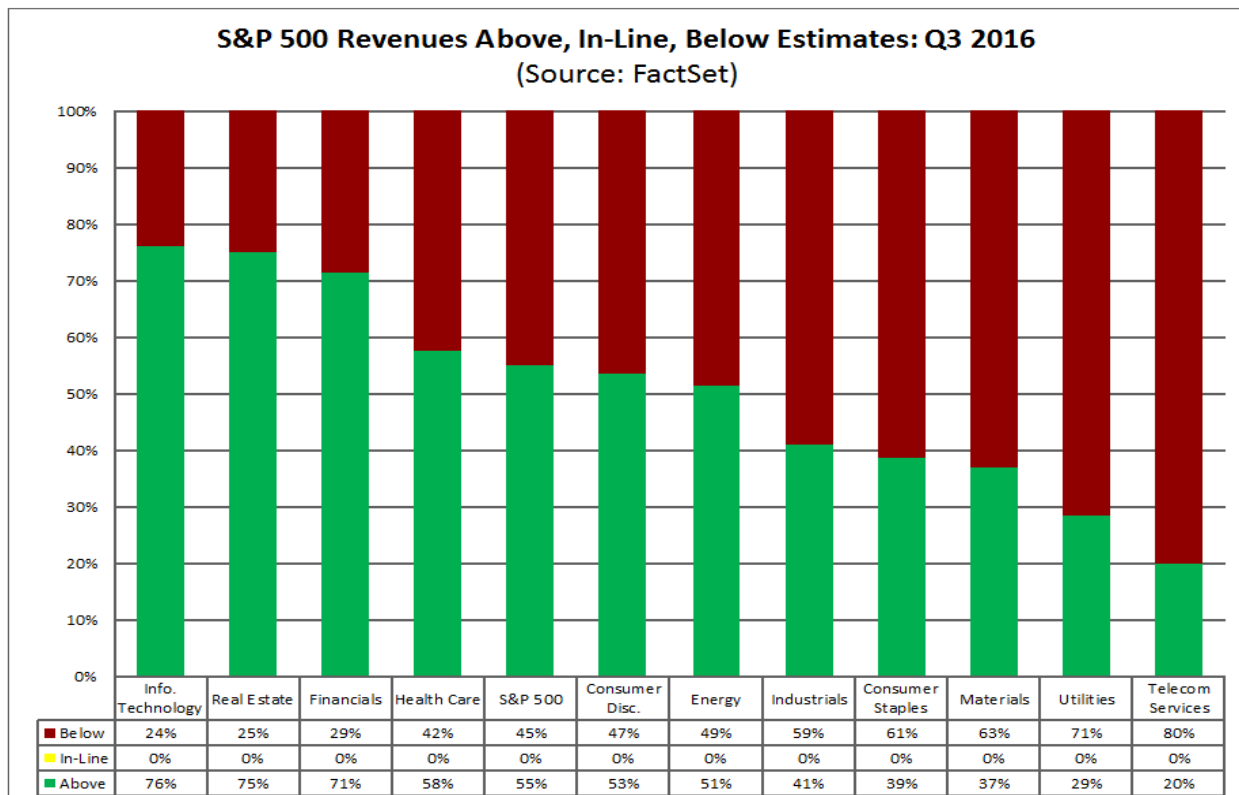
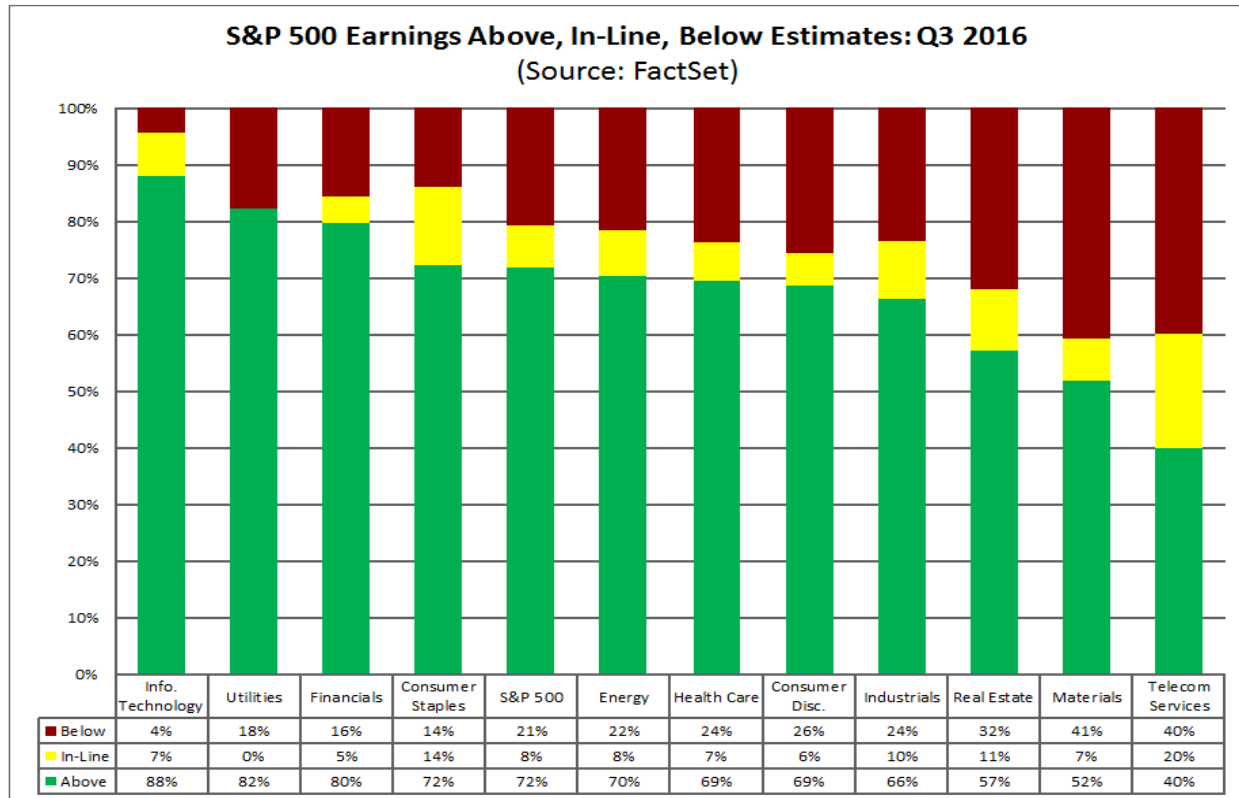
The forward 12-month P/E ratio is 17.1. This P/E ratio is above the 5-year average of 15.0, and above the 10-year average of 14.4. It is also above the forward 12-month P/E ratio of 16.8 recorded at the start of the fourth quarter (September 30). Since the start of the fourth quarter, the price of the index has increased by 3.6%, while the forward 12-month EPS estimate has increased by 1.6%.

At the sector level, the Energy (41.3) sector has the highest forward 12-month P/E ratio, while the Telecom Services (13.5) sector has the lowest forward 12-month P/E ratio. Nine sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (41.3 vs. 17.7) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (13.5 vs. 14.6). Historical averages are not available for the Real Estate sector.

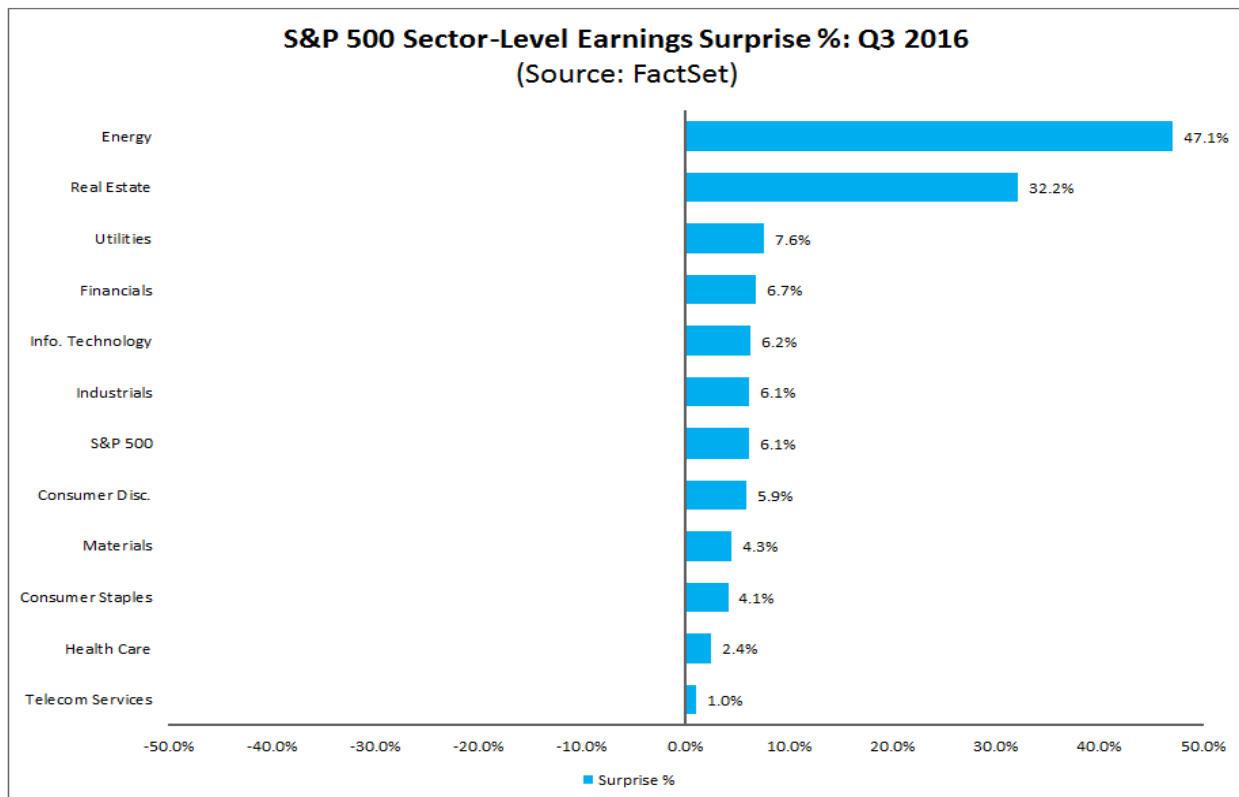
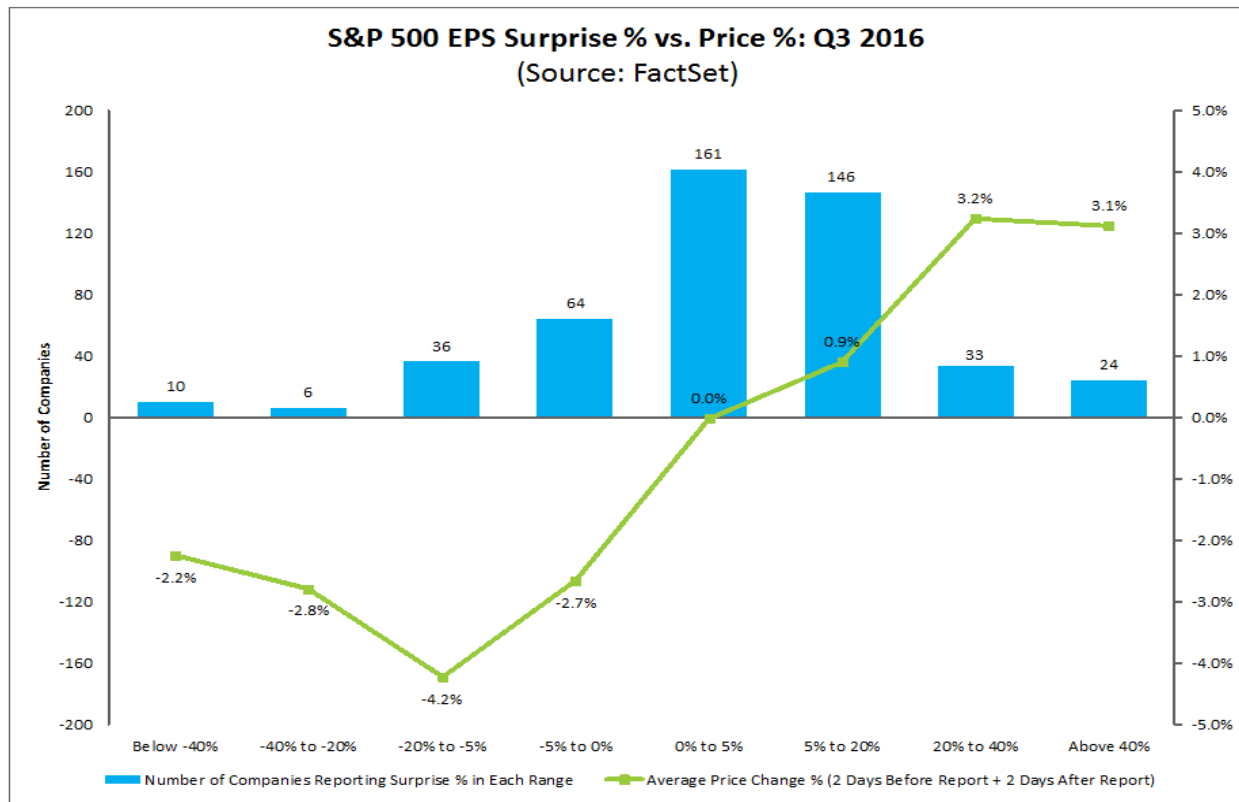
Companies Reporting Next Week: 5

During the upcoming week, five S&P 500 companies are scheduled to report results for the fourth quarter.

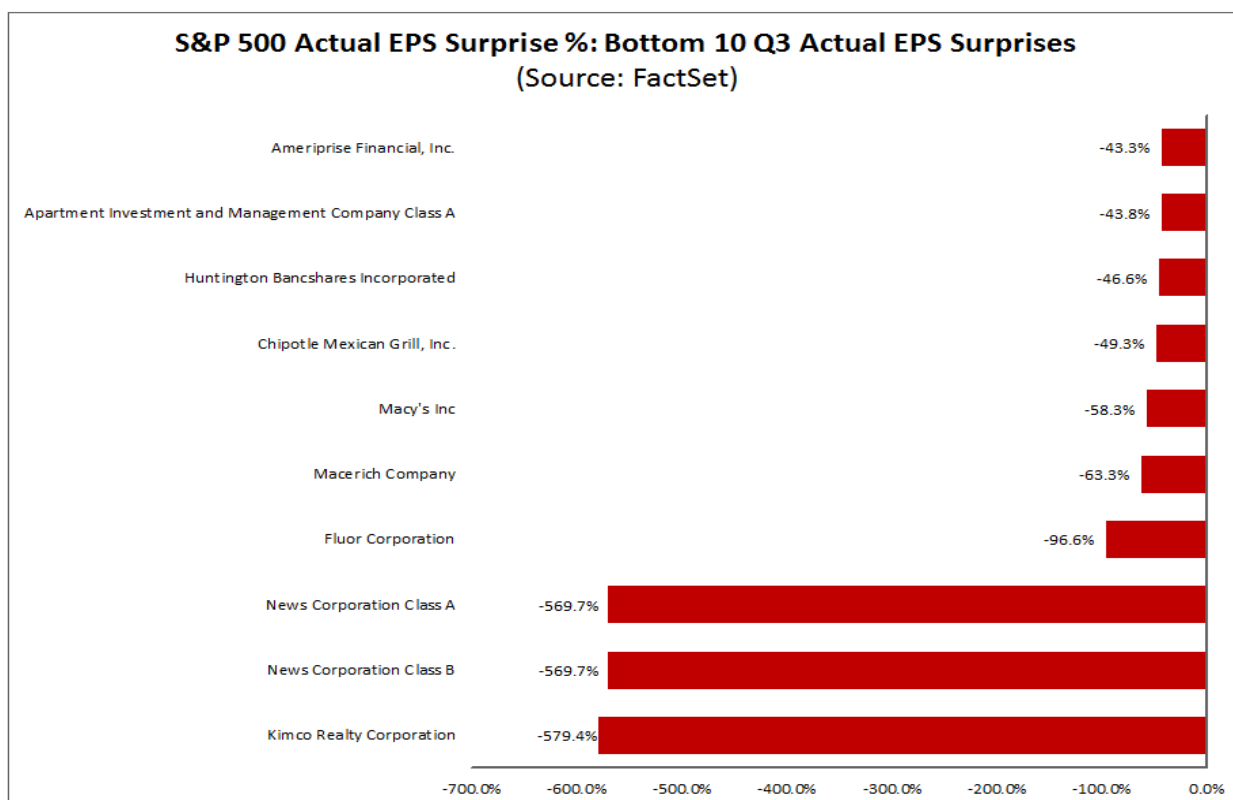
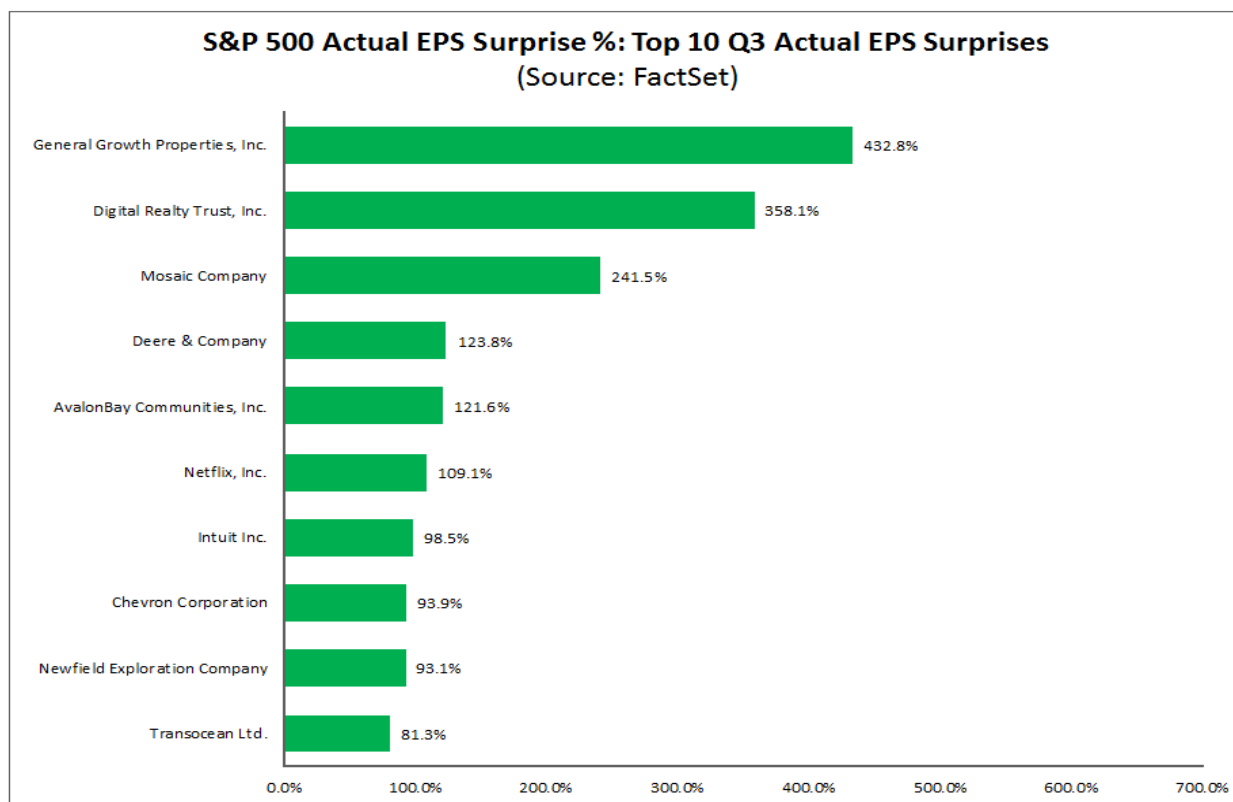
Q3 2016: Scorecard



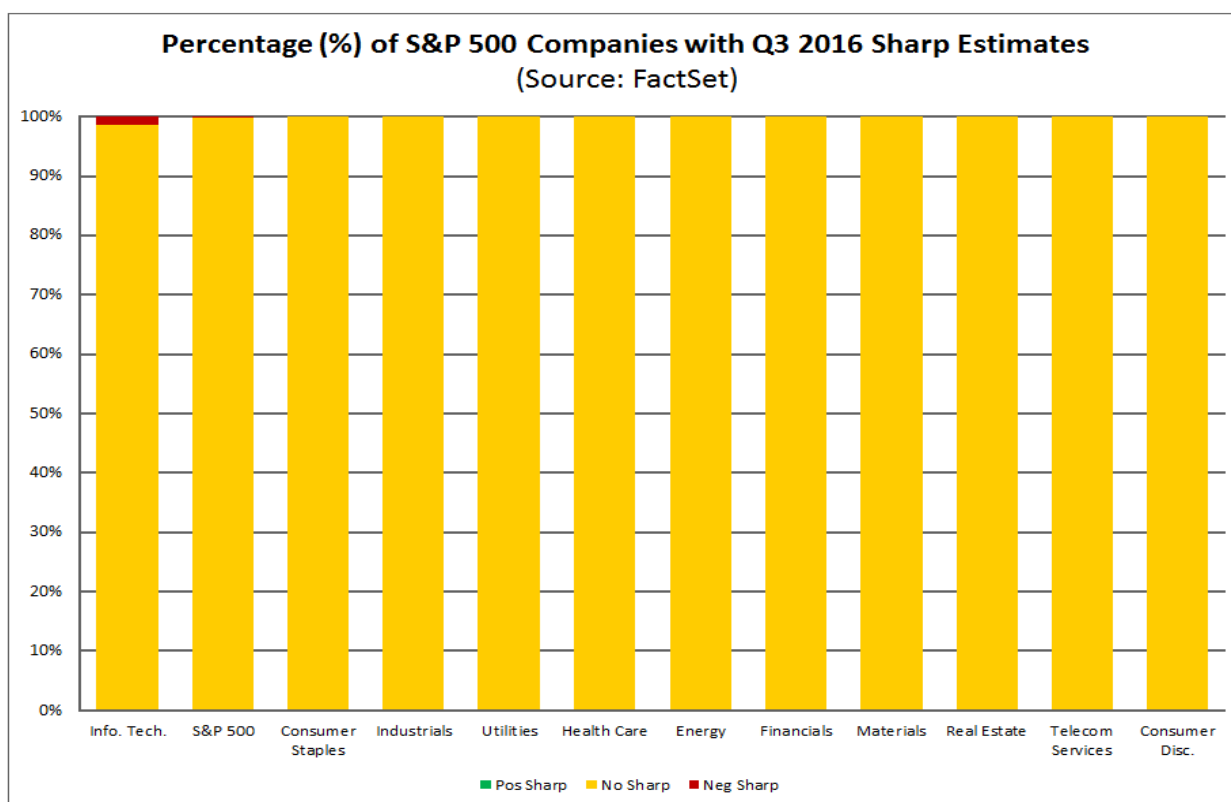
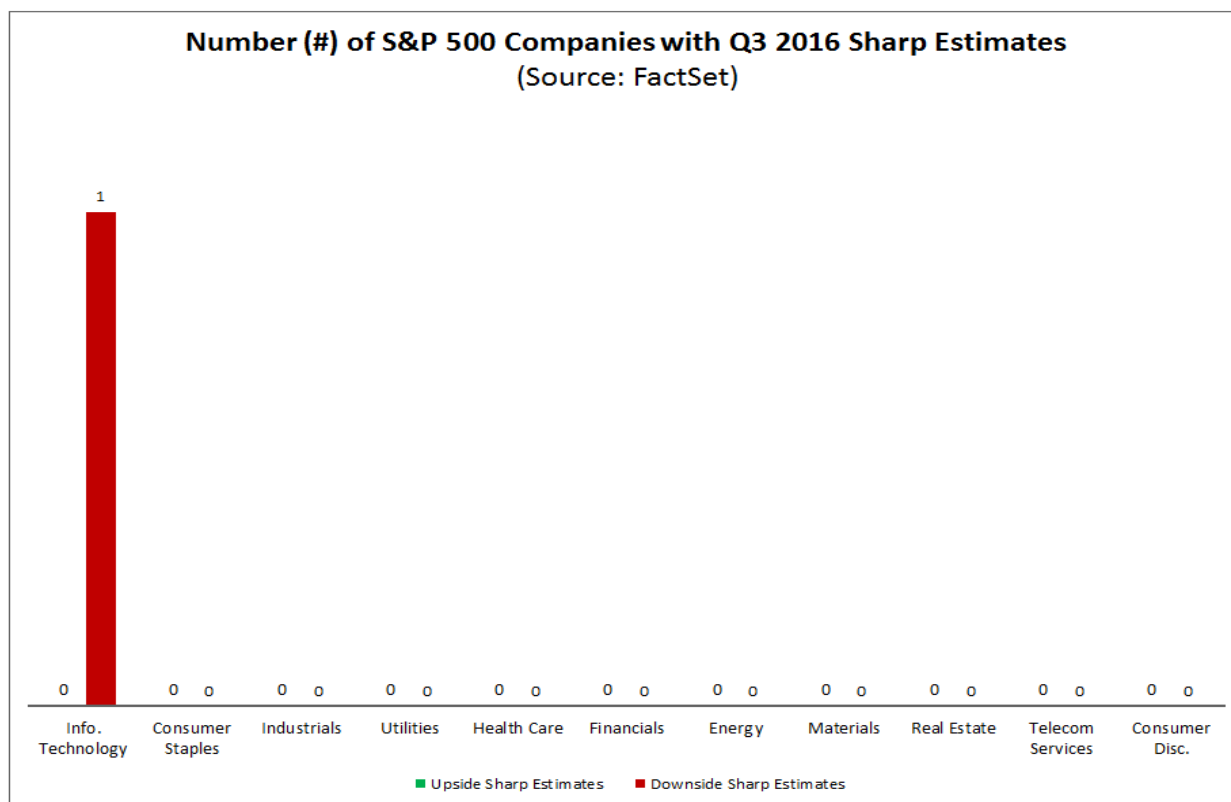
Q3 2016: Scorecard



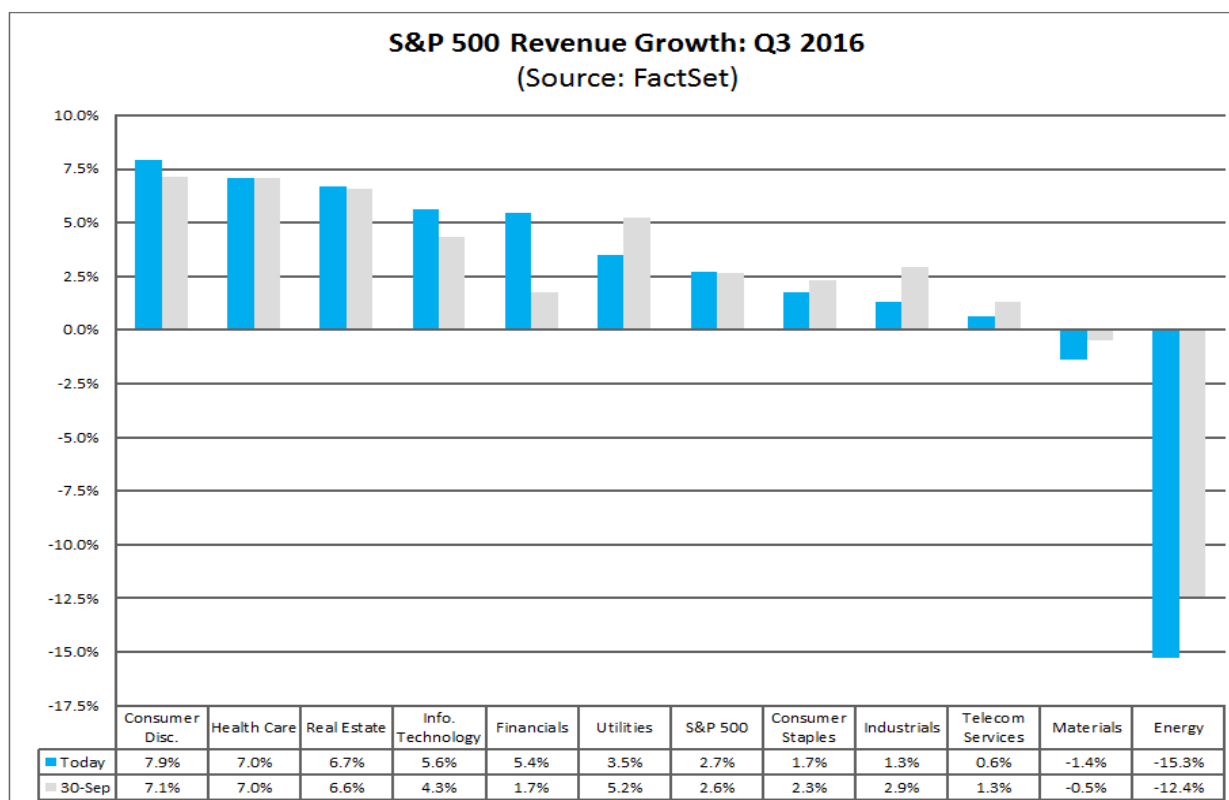
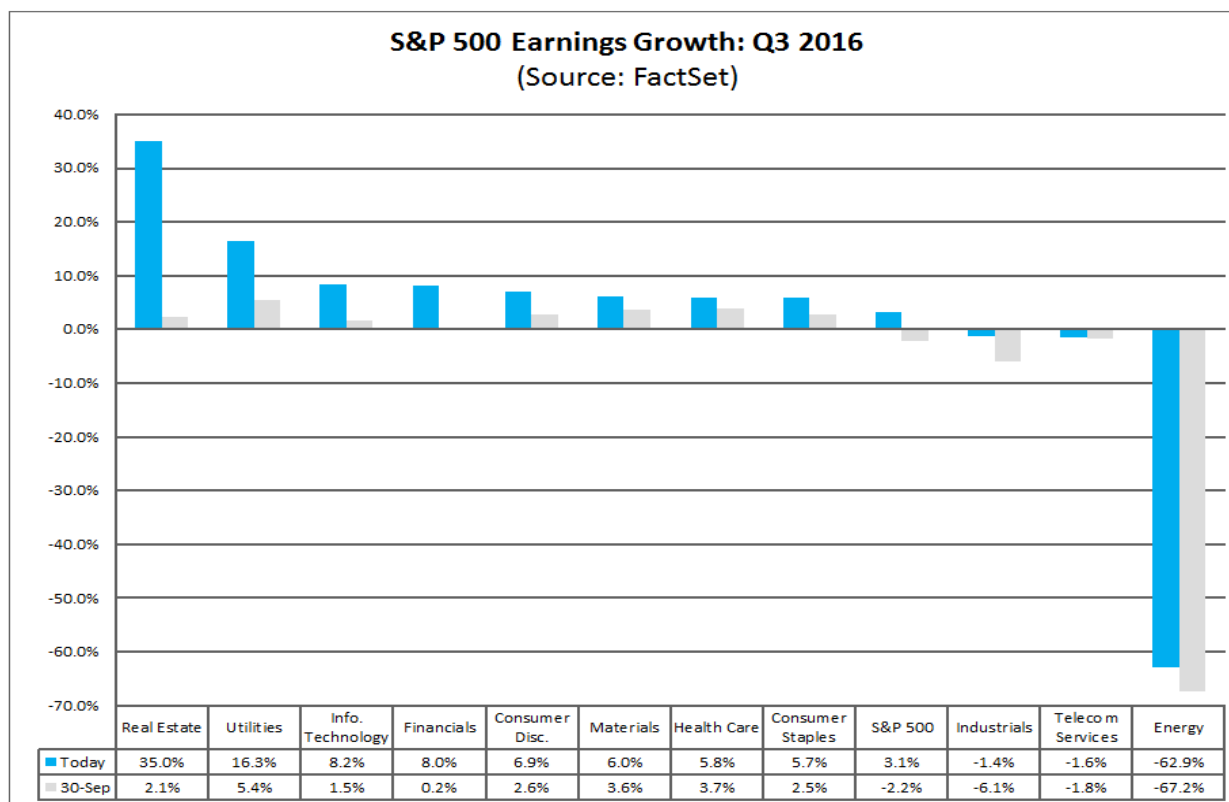
Q3 2016: Scorecard



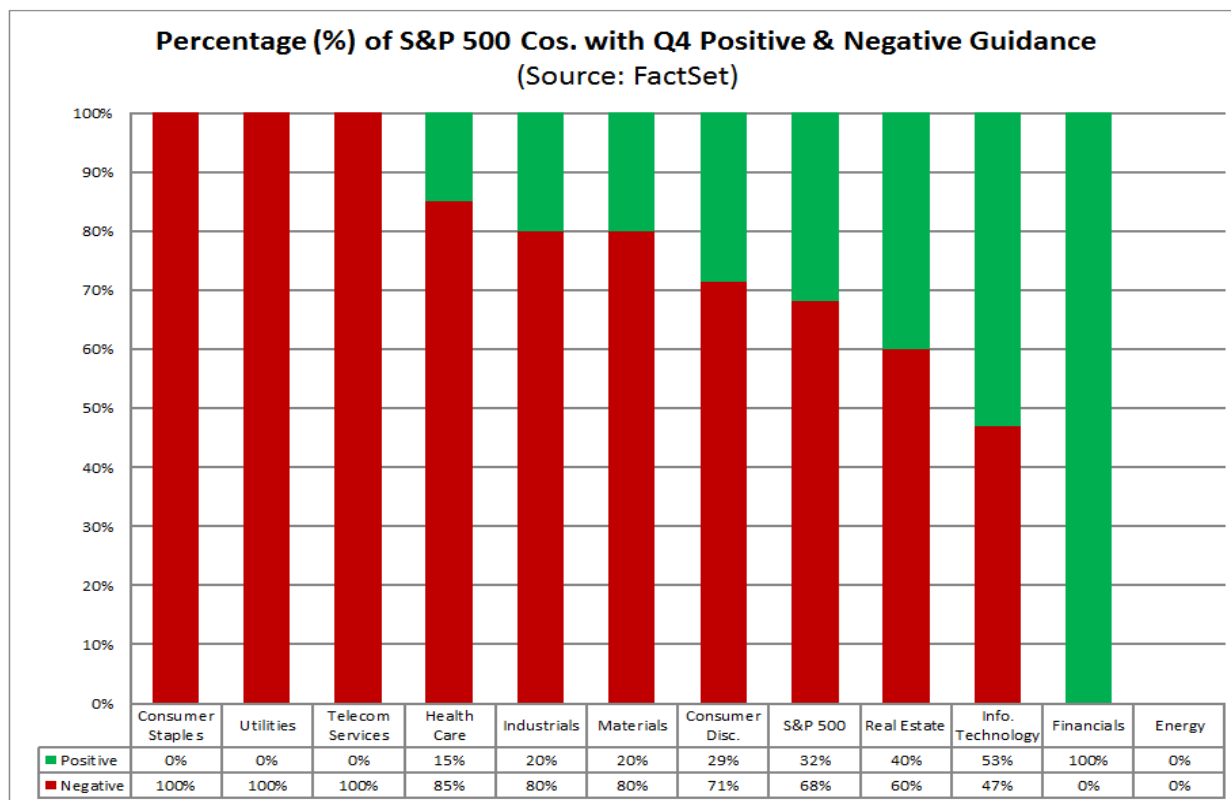
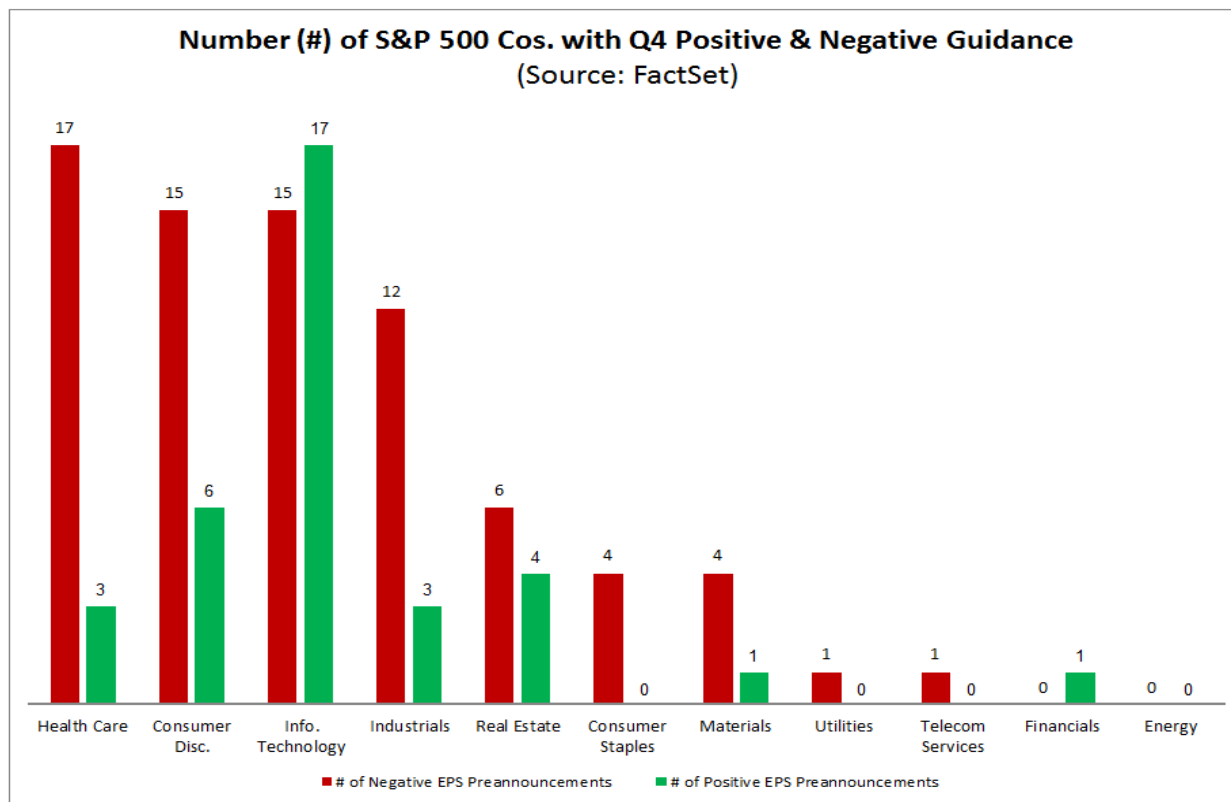
Q3 2016: Projected EPS Surprises (Sharp Estimates)



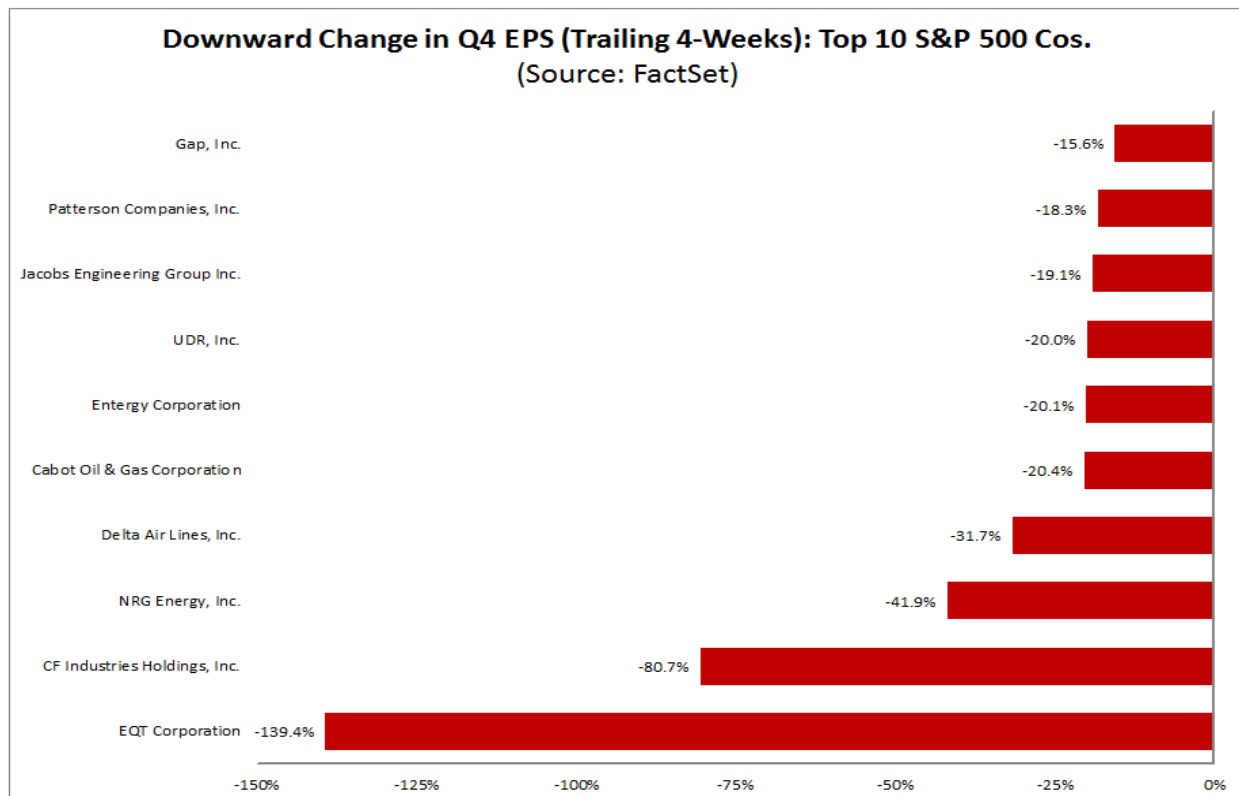
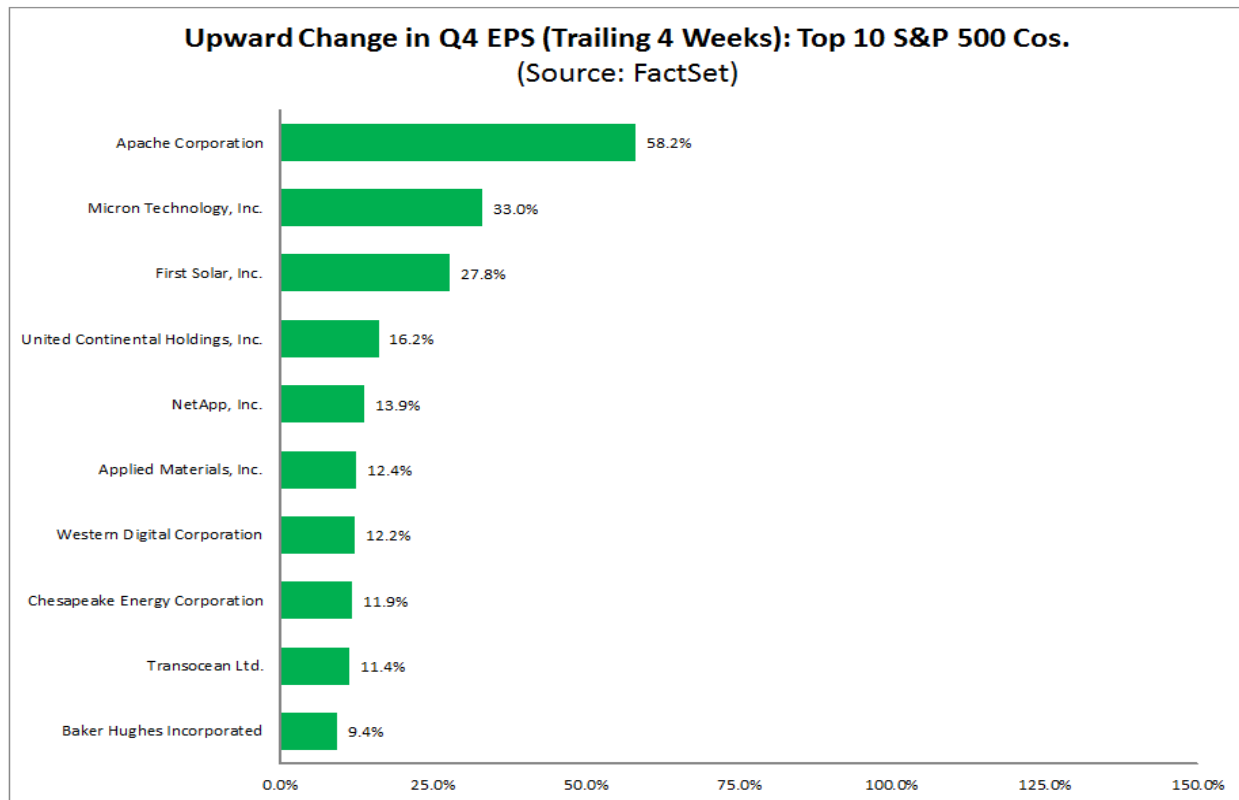
Q3 2016: Growth



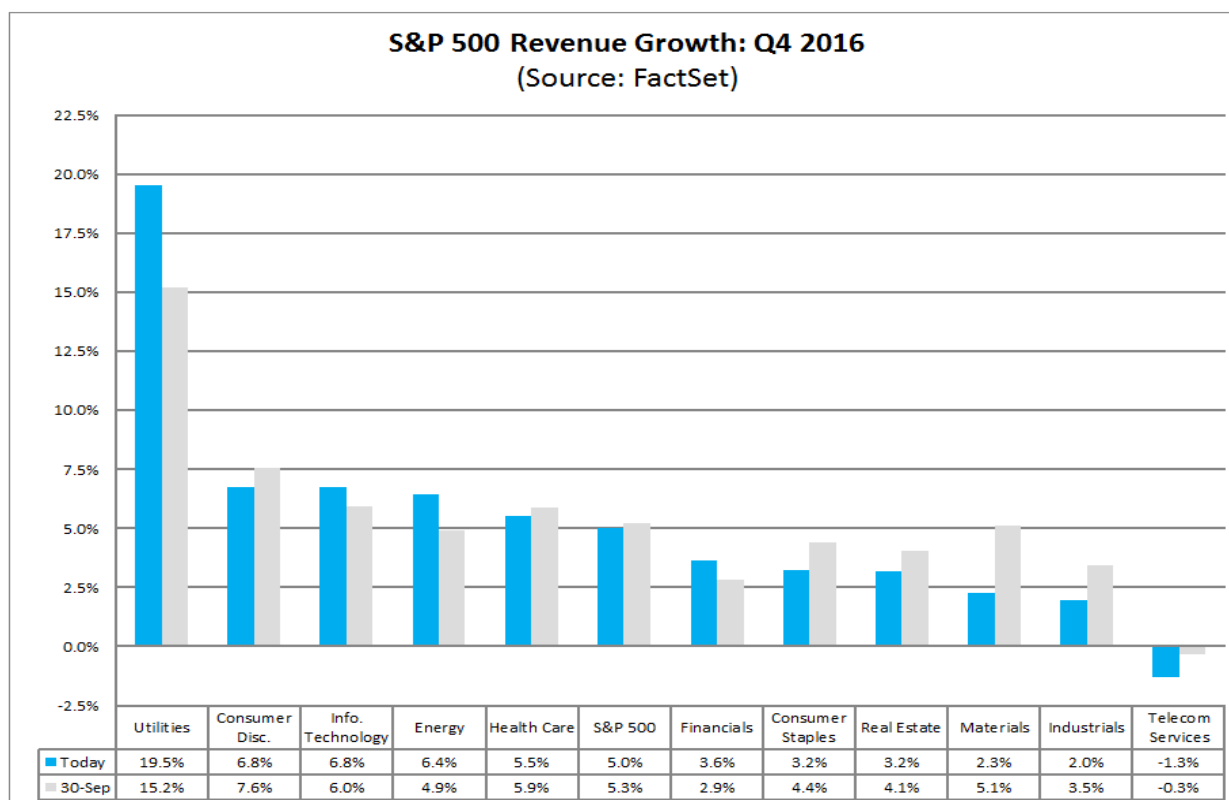
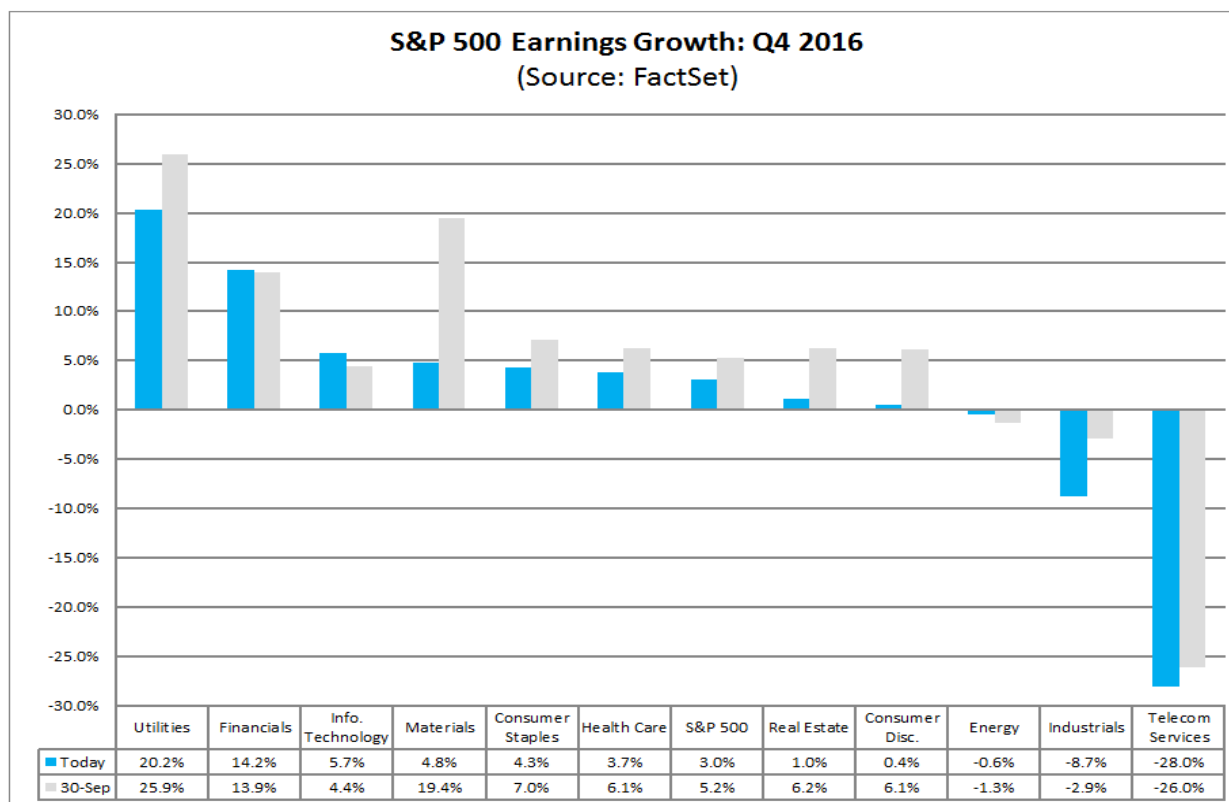
Q4 2016: EPS Guidance



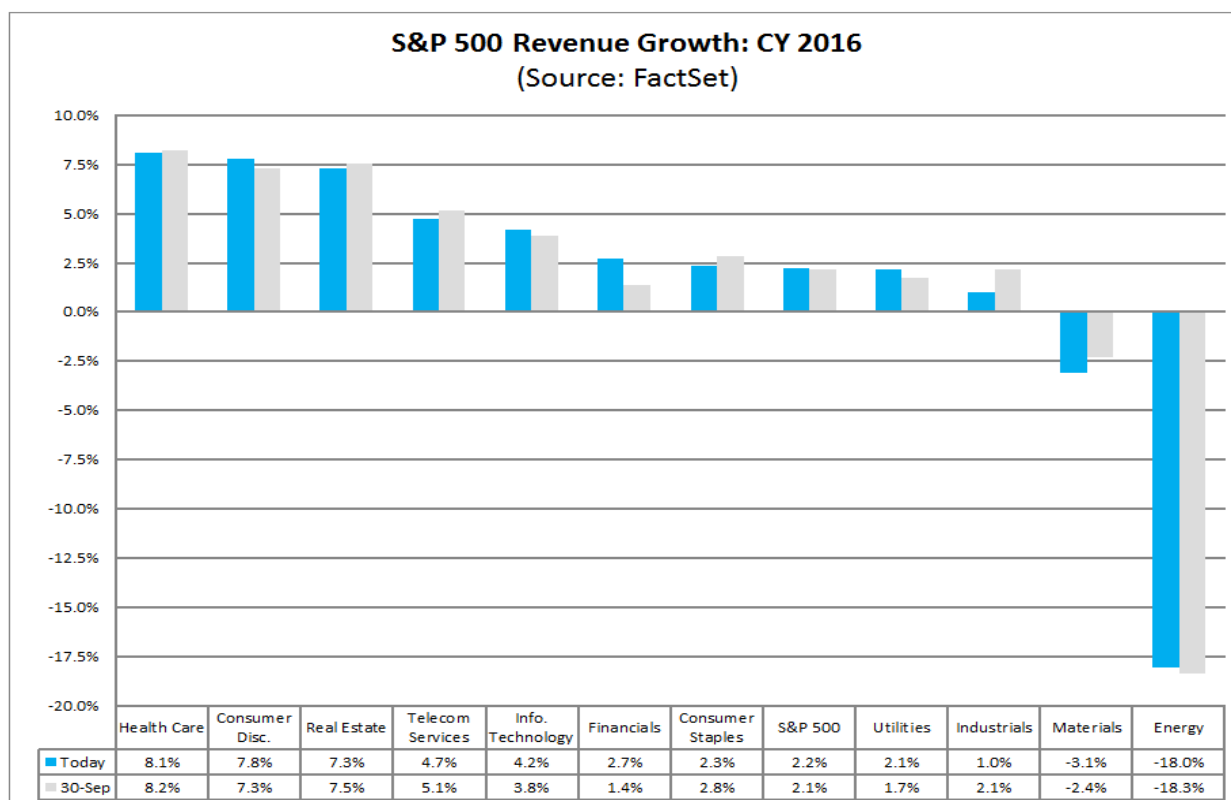
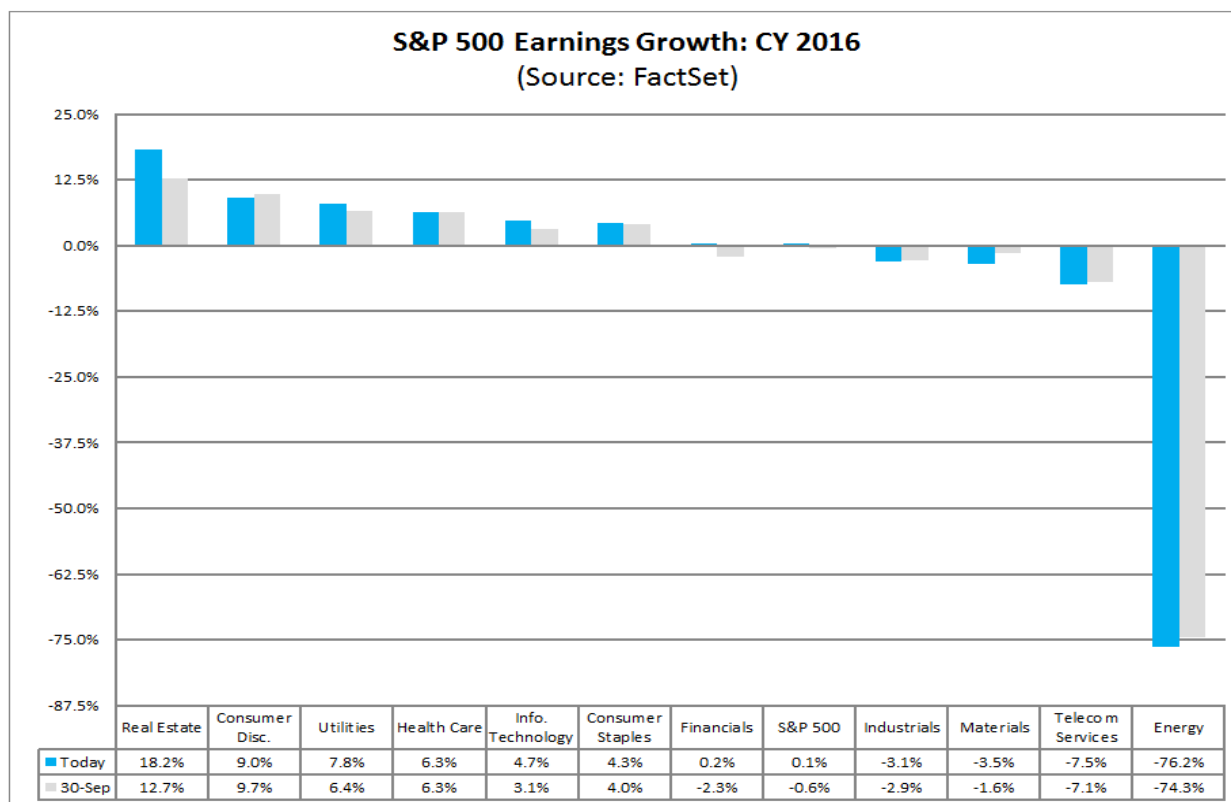
Q4 2016: EPS Revisions



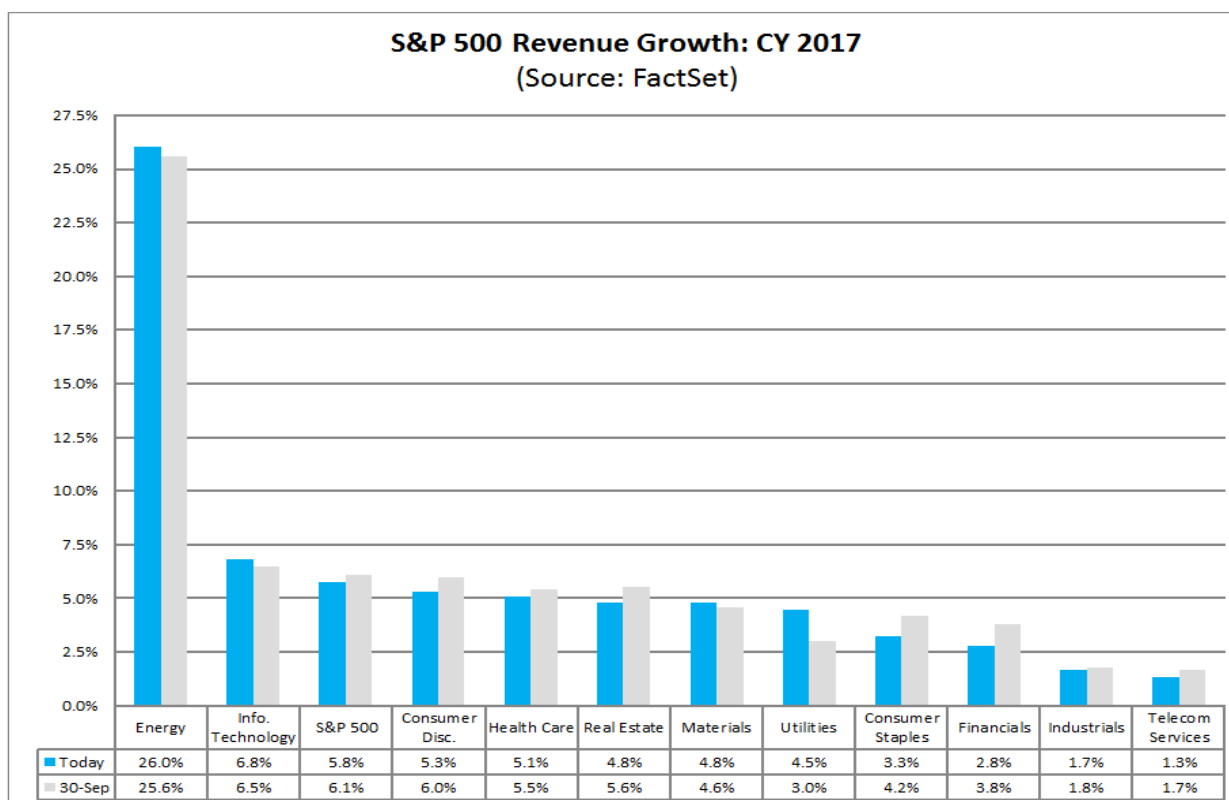
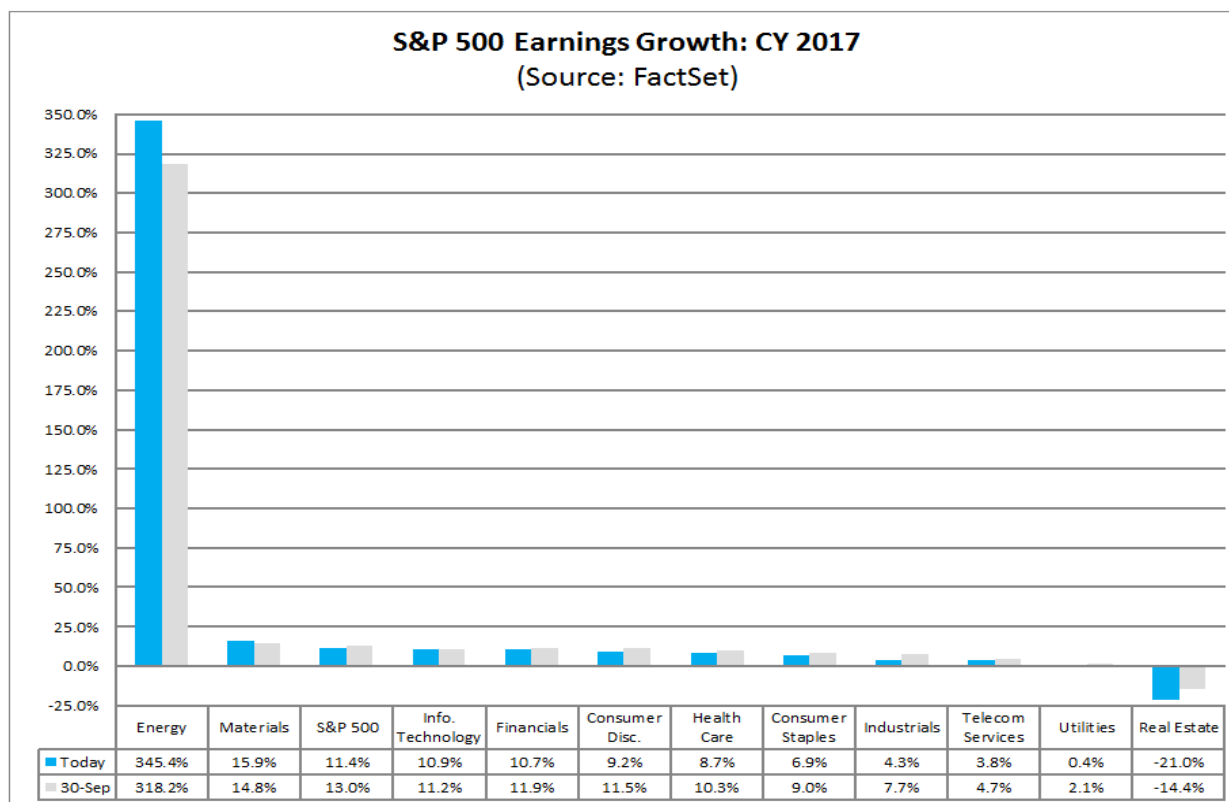
Q4 2016: Growth



CY 2016: Growth

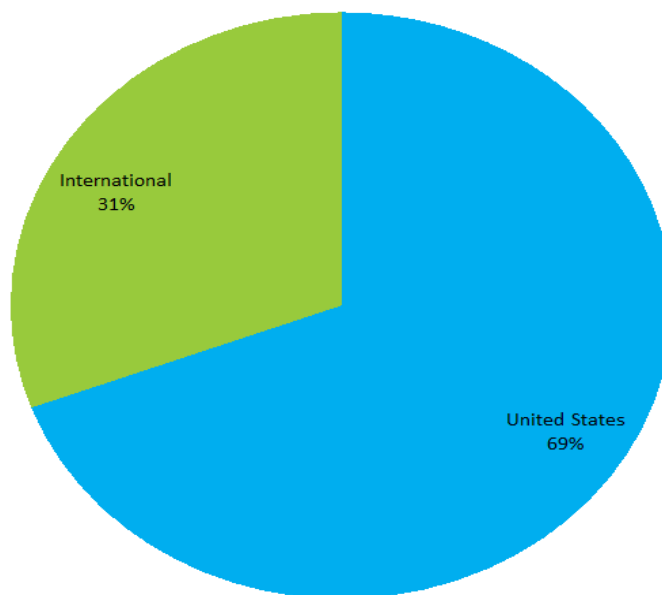


CY 2017: Growth

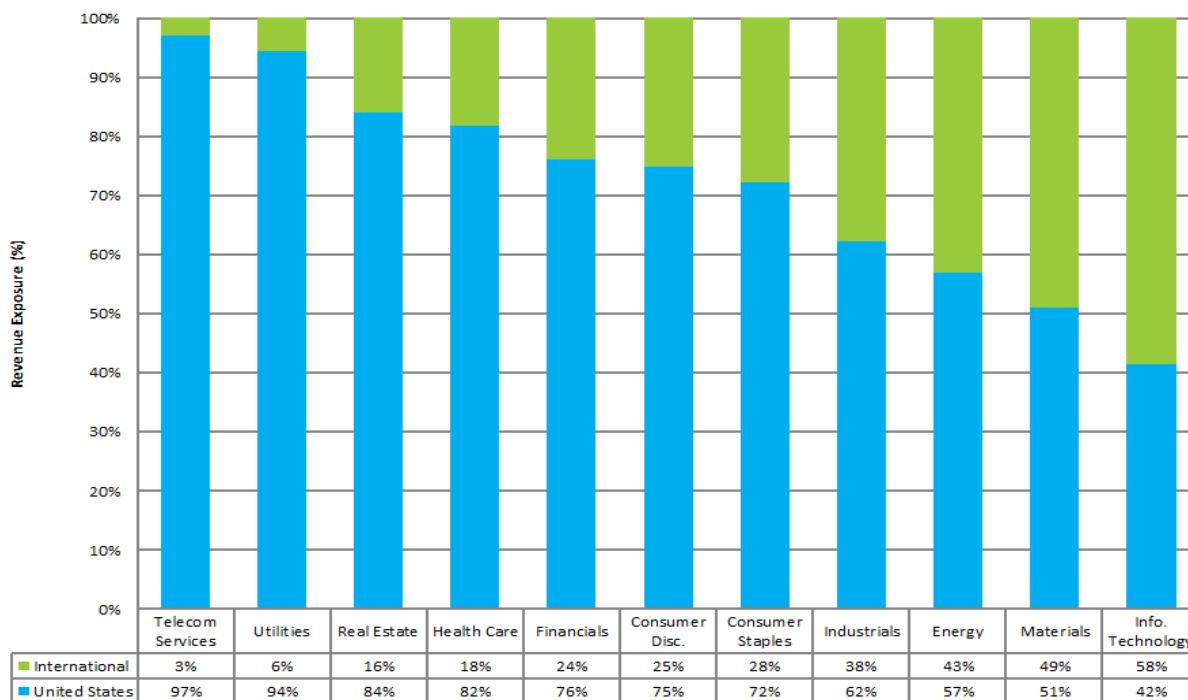


Geographic Revenue Exposure

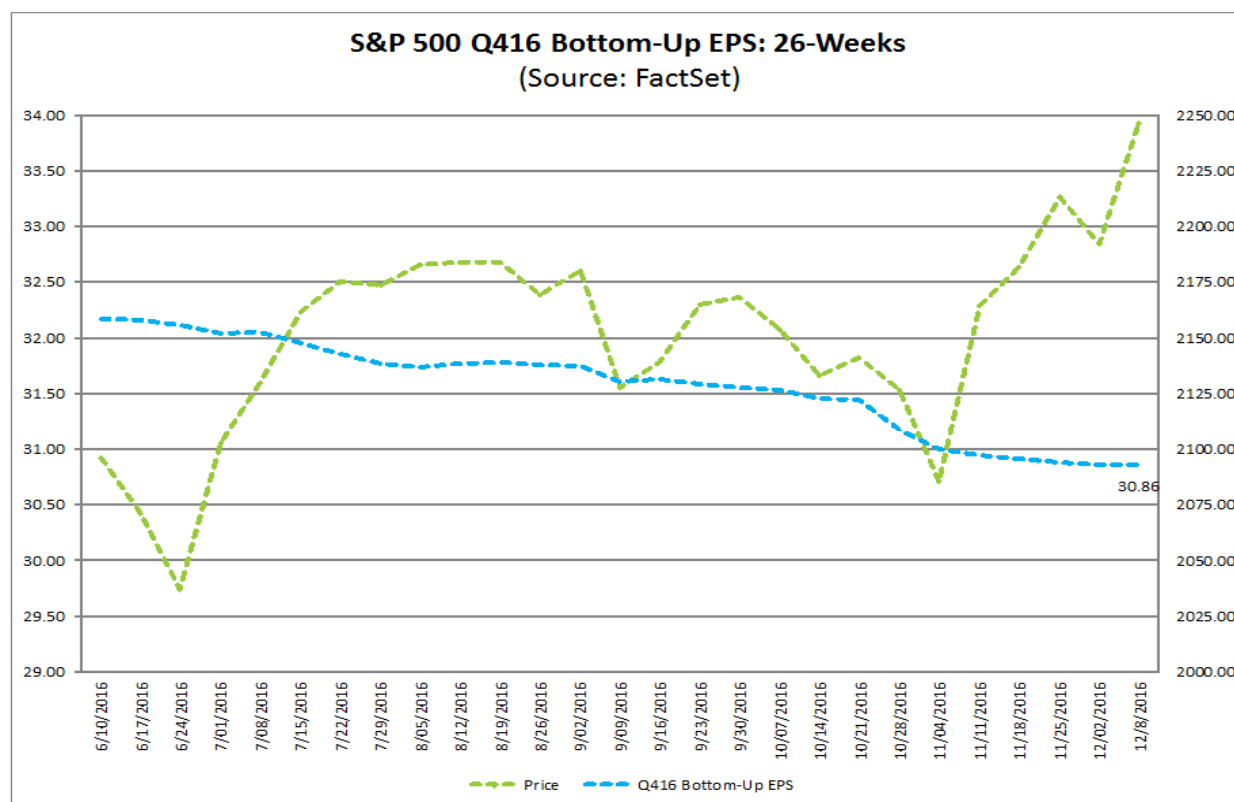
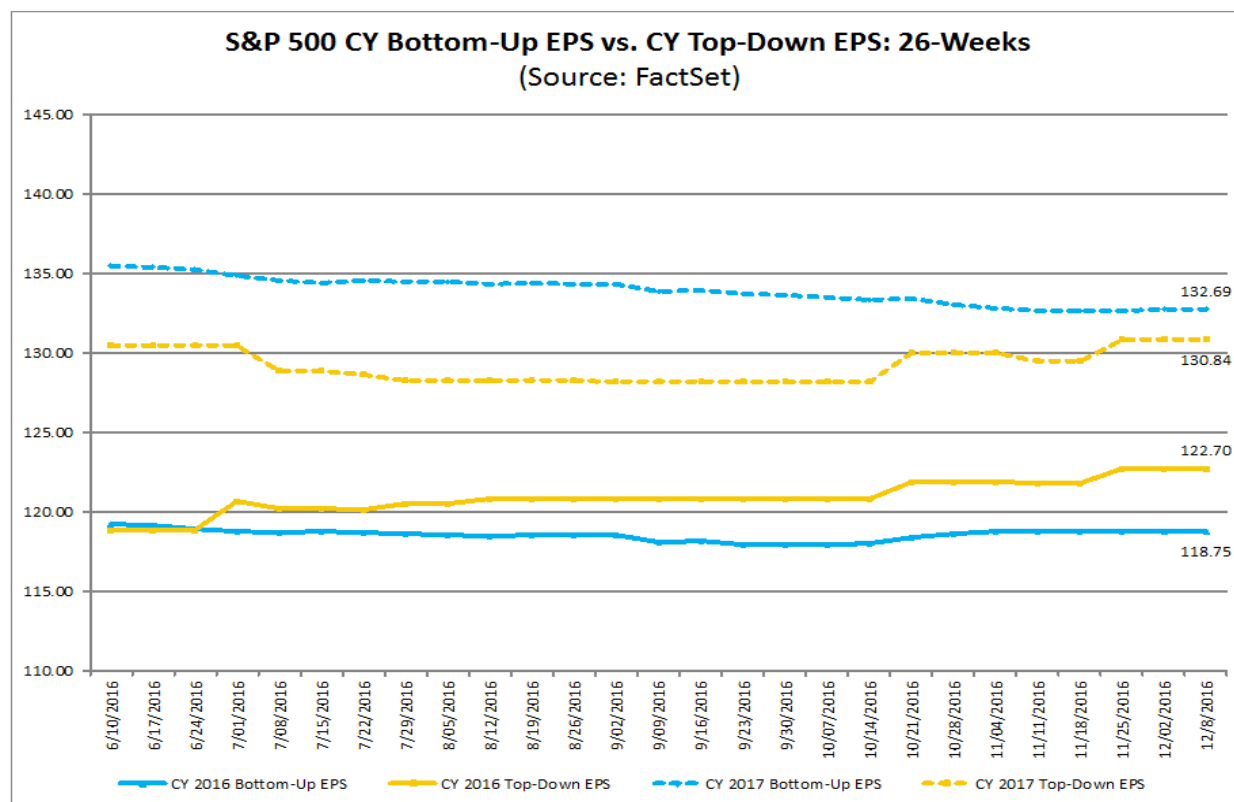
S&P 500: Aggregate Geographic Revenue Exposure (%)
(Source: FactSet)



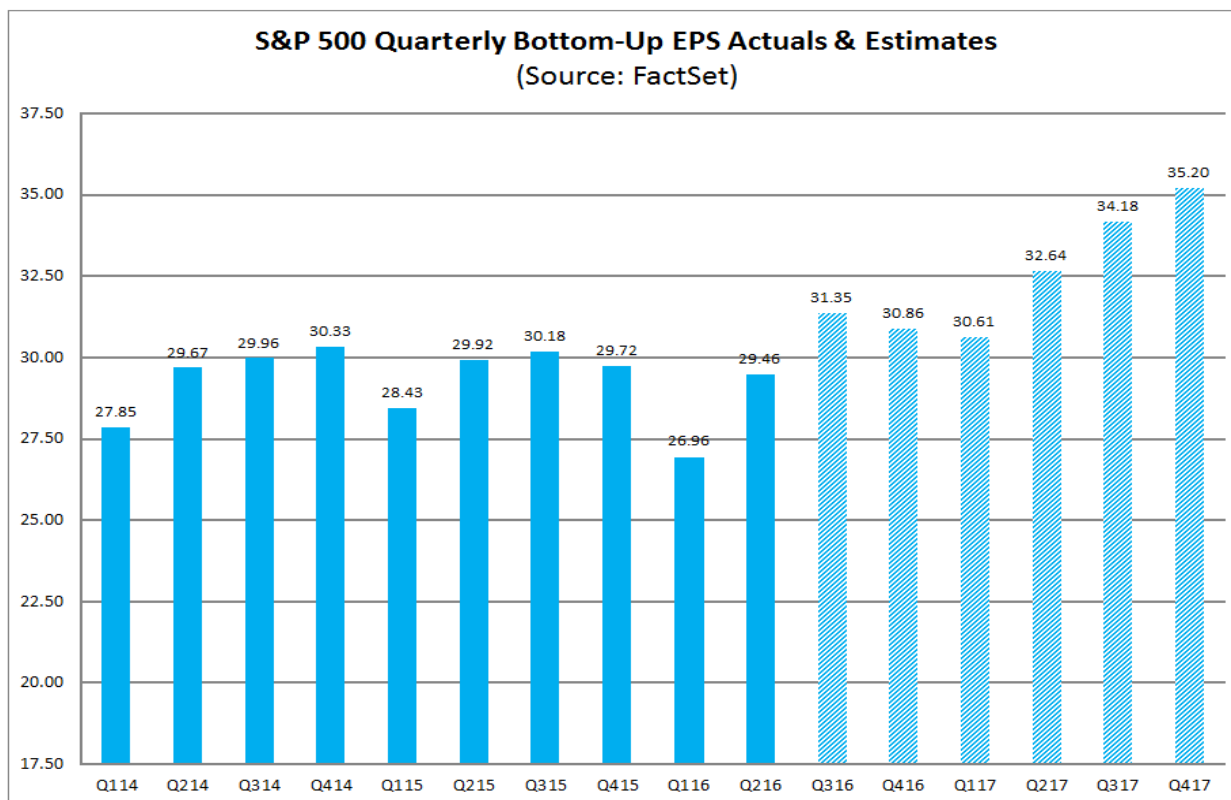
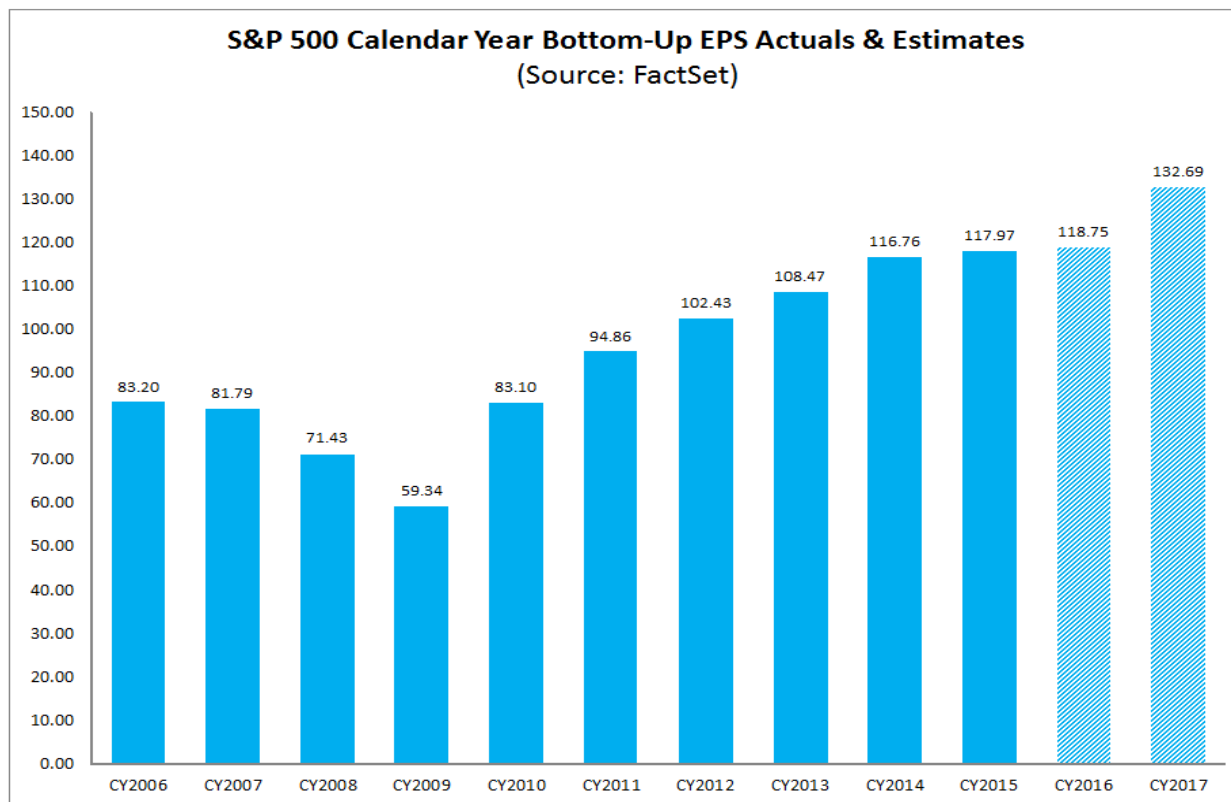
S&P 500: Aggregate Sector Geographic Revenue Exposure (%)
(Source: FactSet)



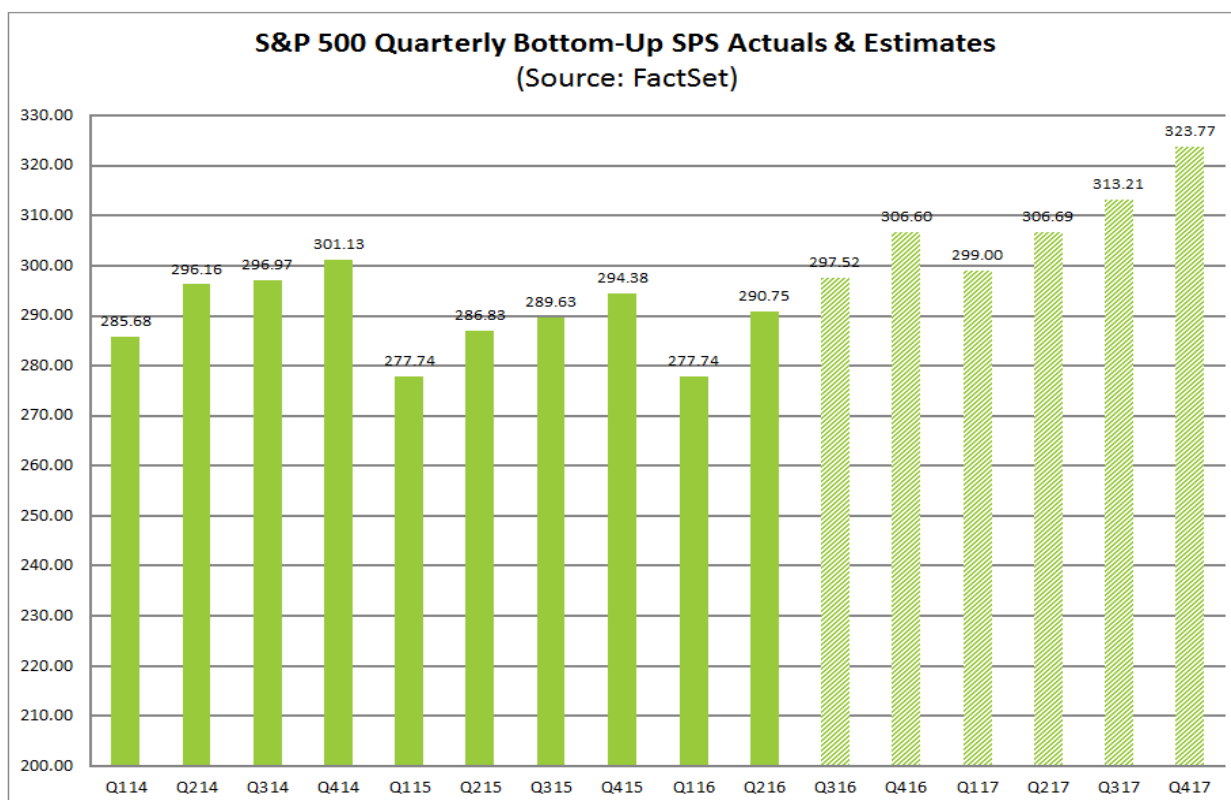
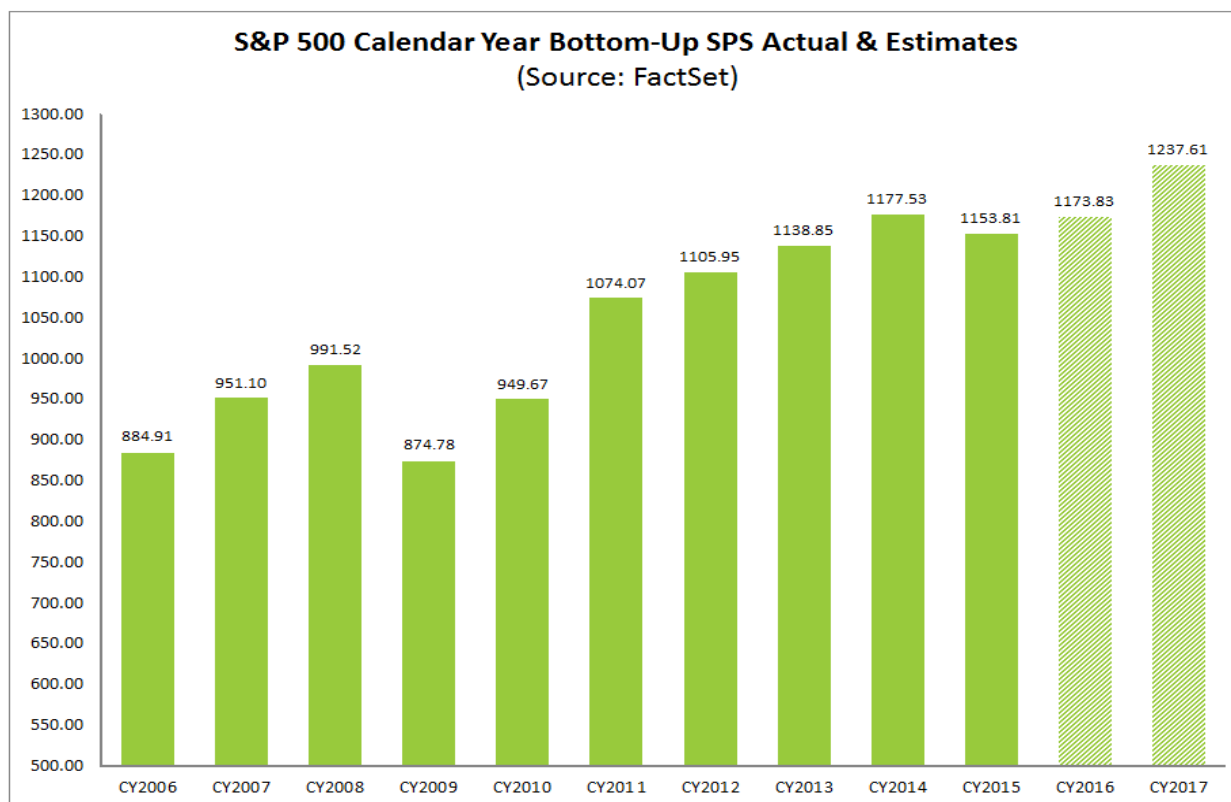
Bottom-Up EPS Estimates: Revisions



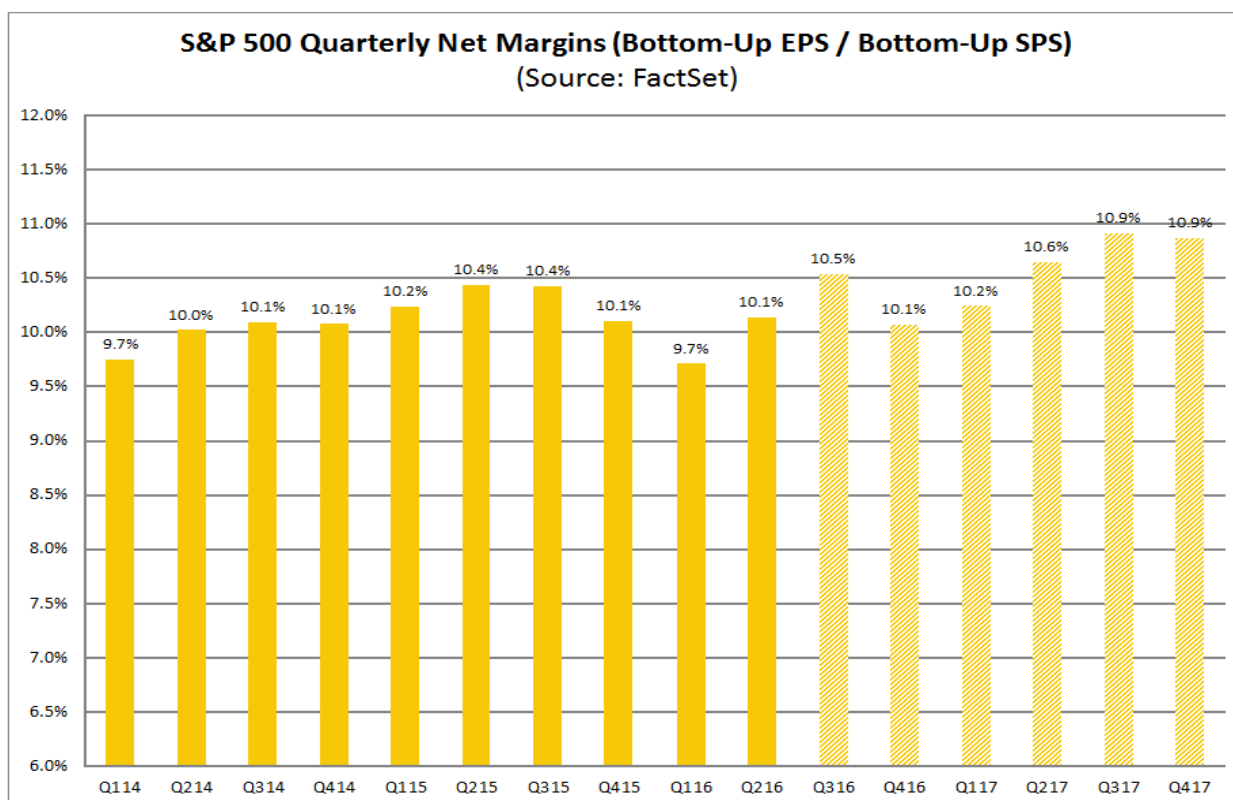
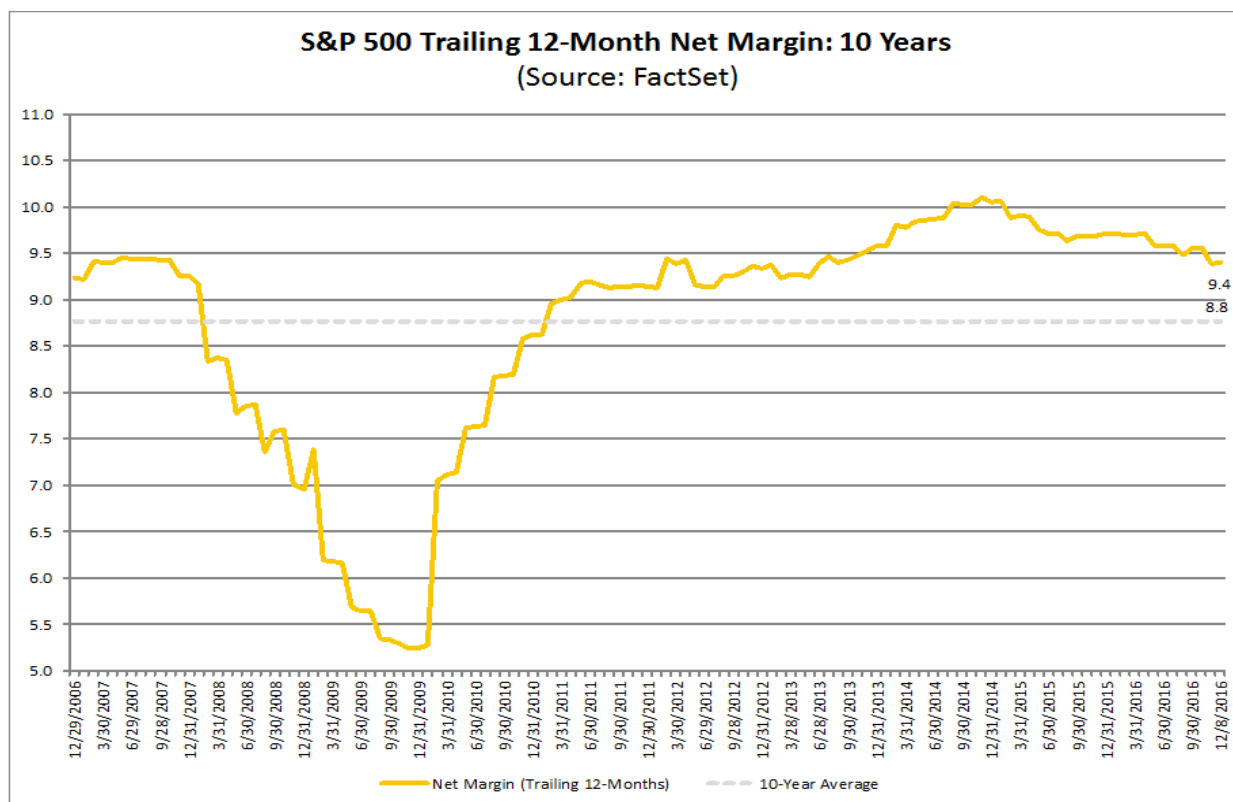
Bottom-Up EPS: Current & Historical



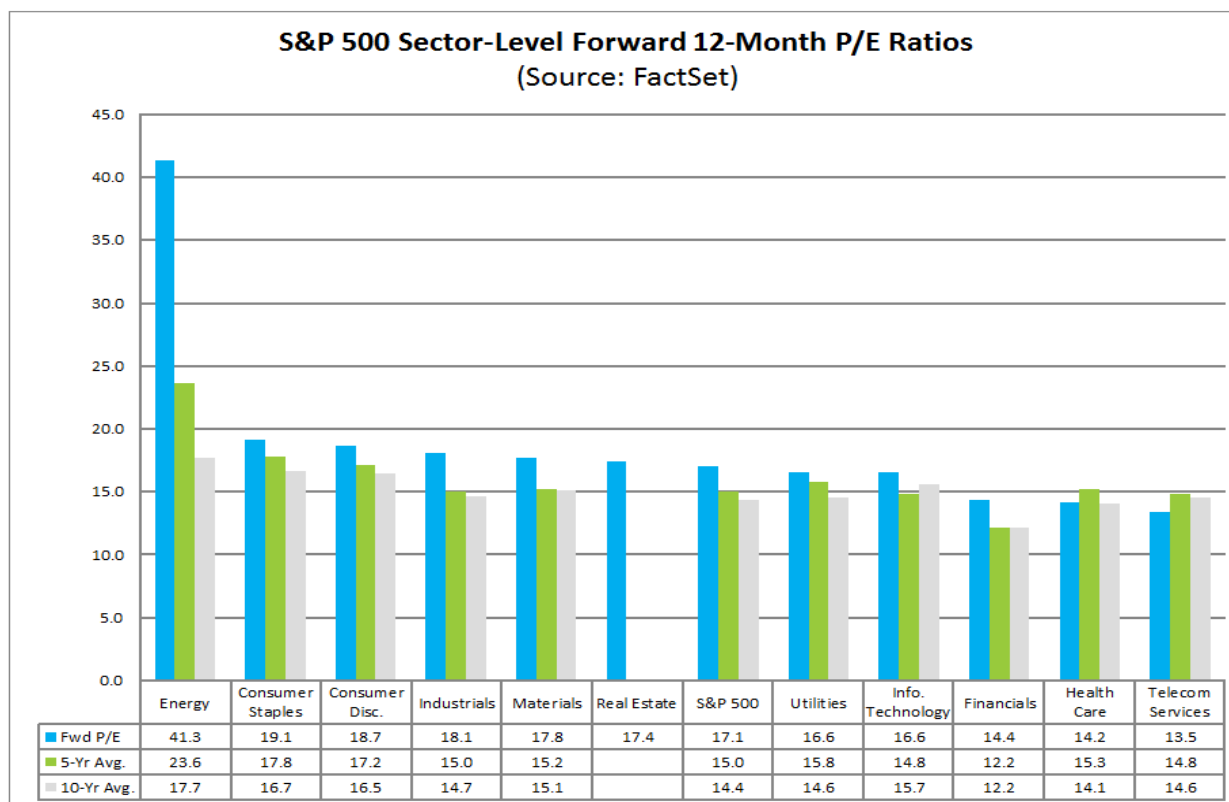
Bottom-Up SPS: Current & Historical



Net Margins: Current & Historical

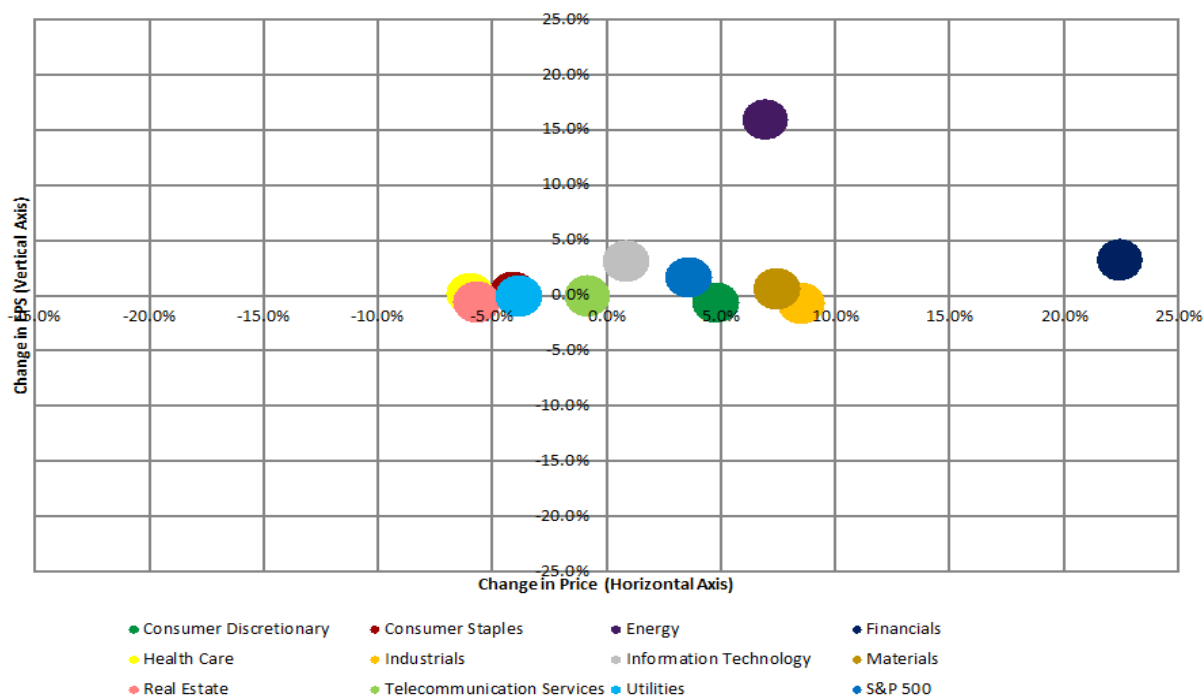


Forward 12M Price / Earnings Ratio: Sector Level

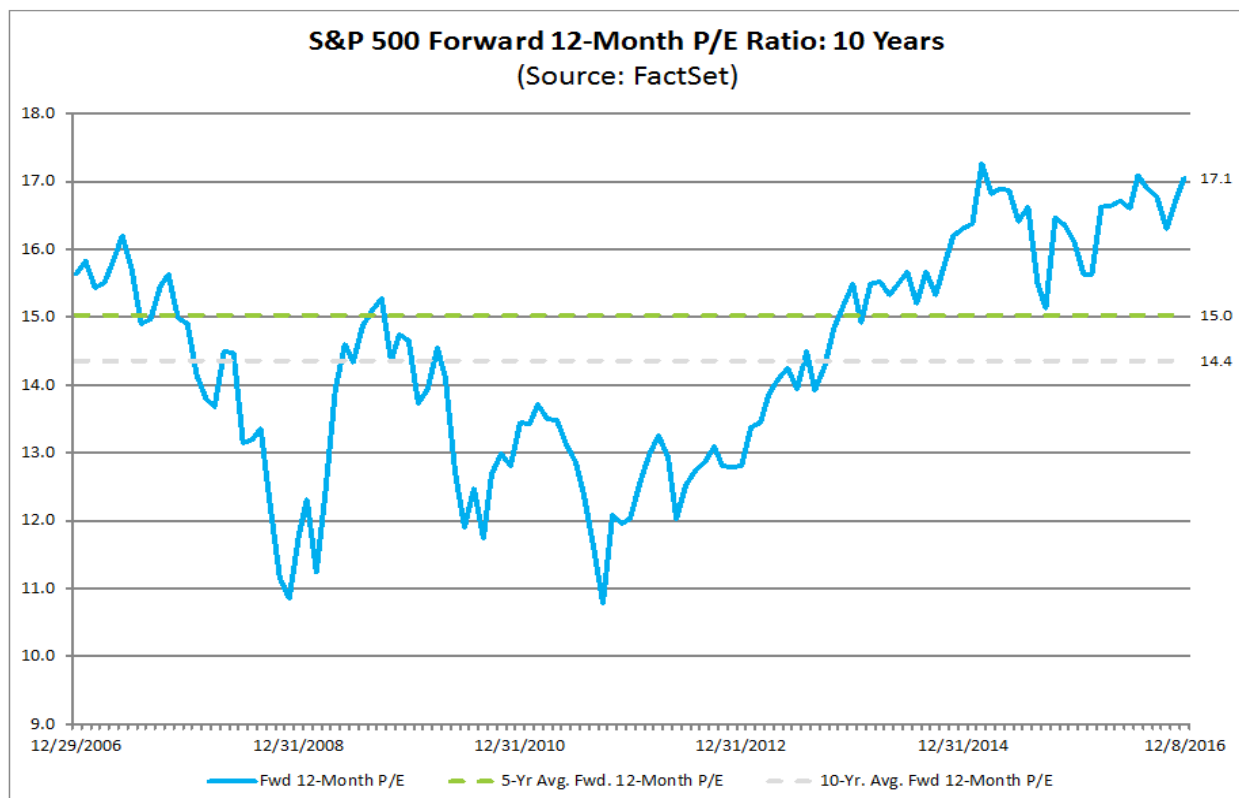
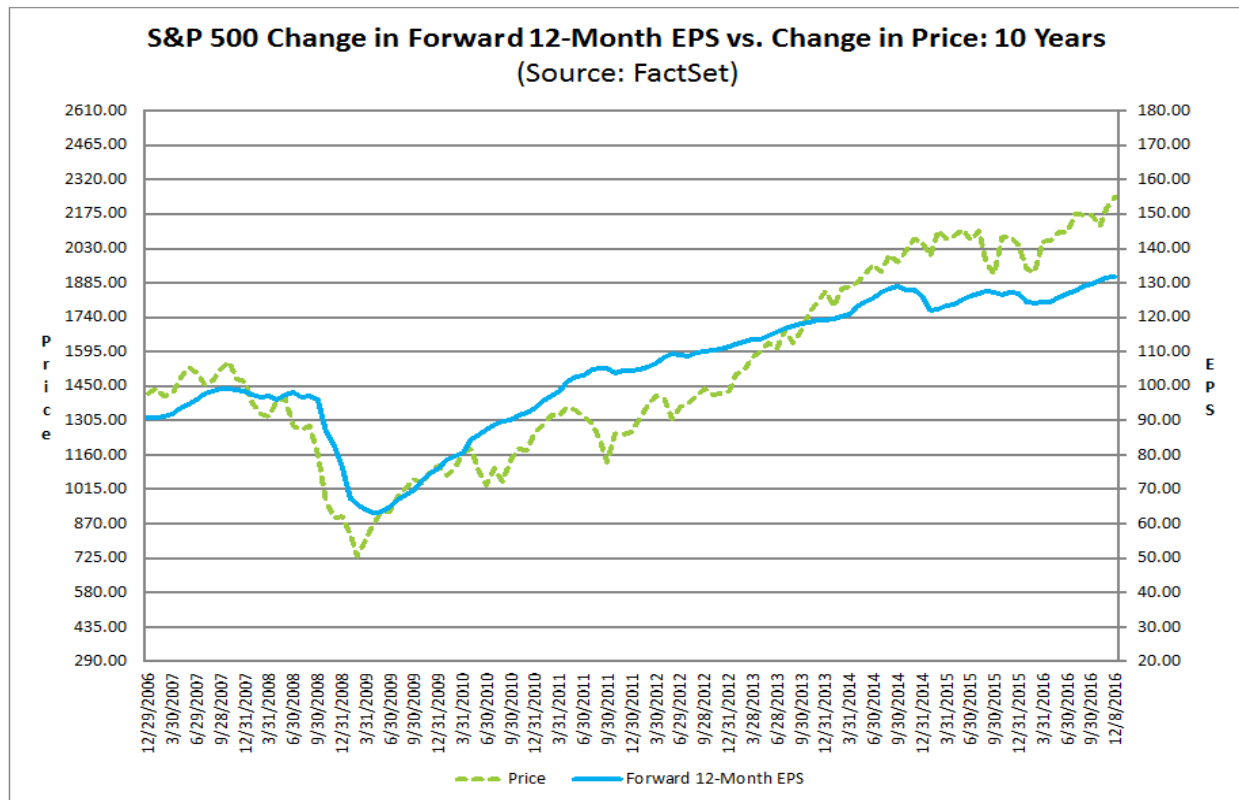


Sector-Level Change in Forward 12-Month EPS vs. Price: Since Sep. 30

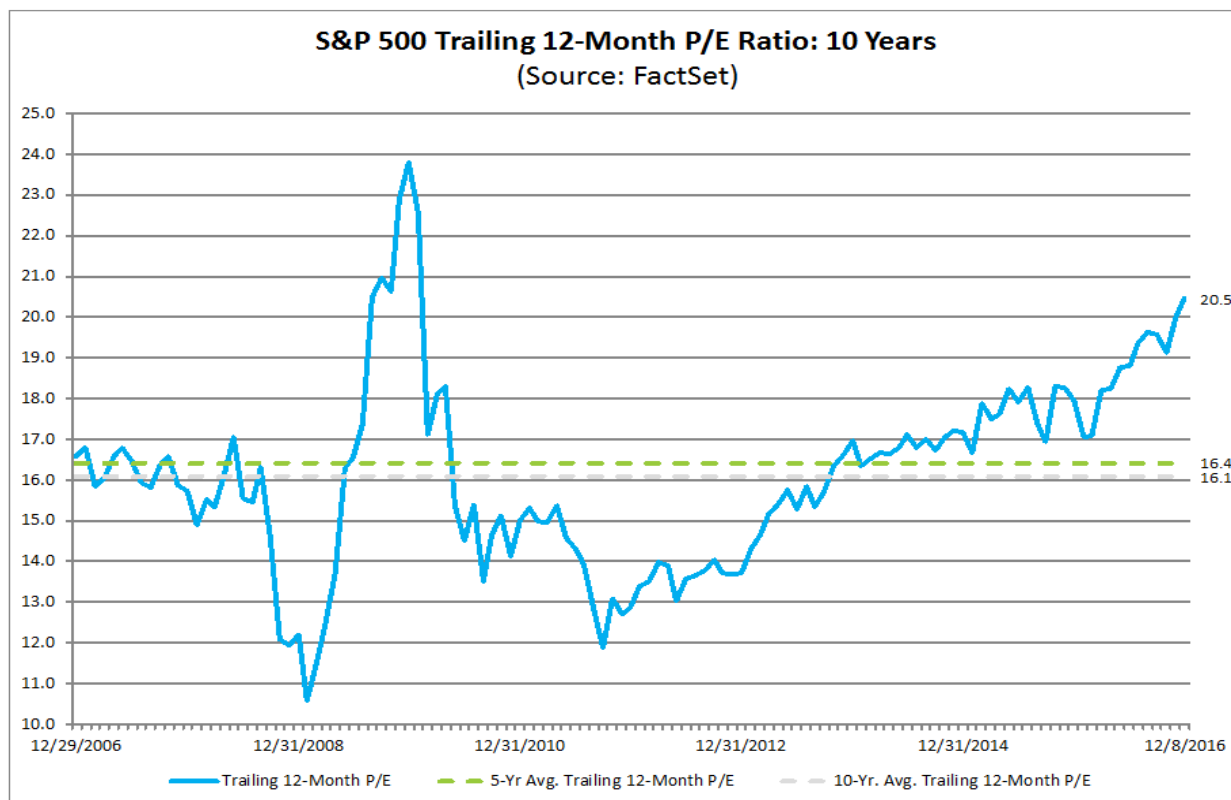
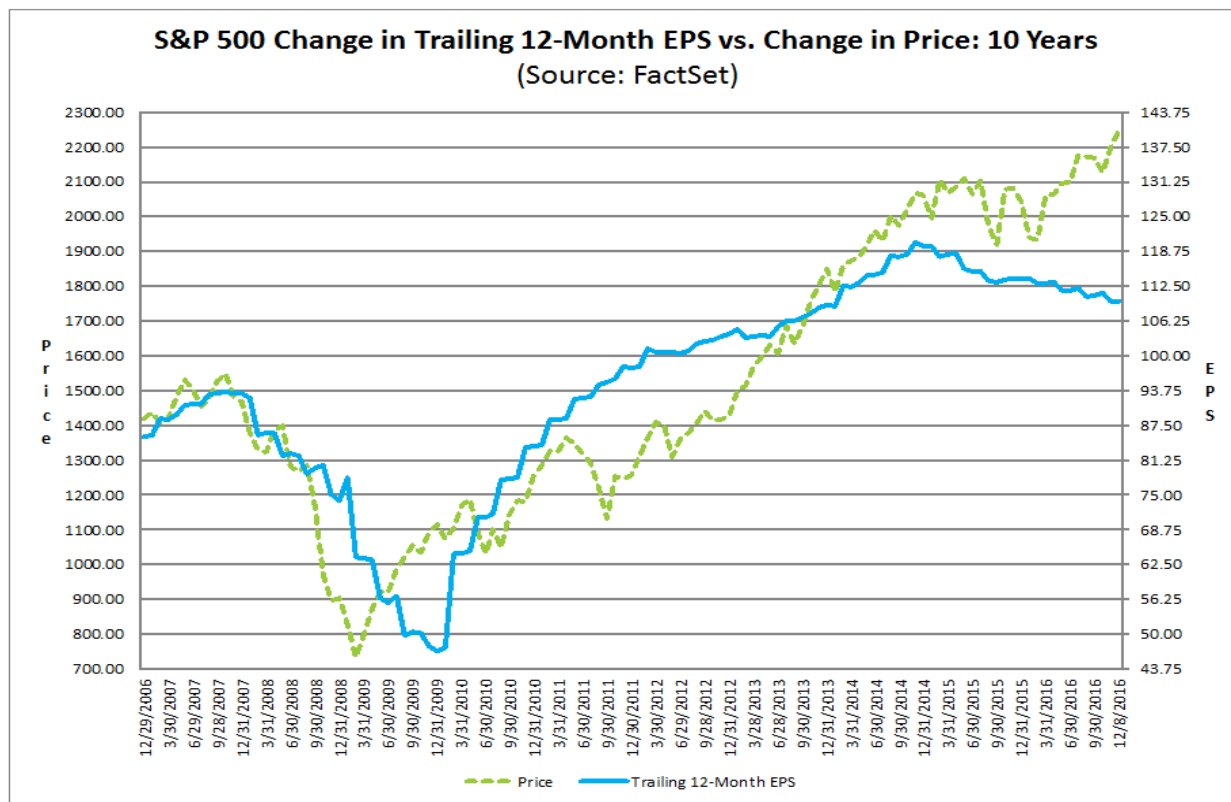
(Source: FactSet)



Forward 12M Price / Earnings Ratio: Long-Term Averages



Trailing 12M Price / Earnings Ratio: Long-Term Averages



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