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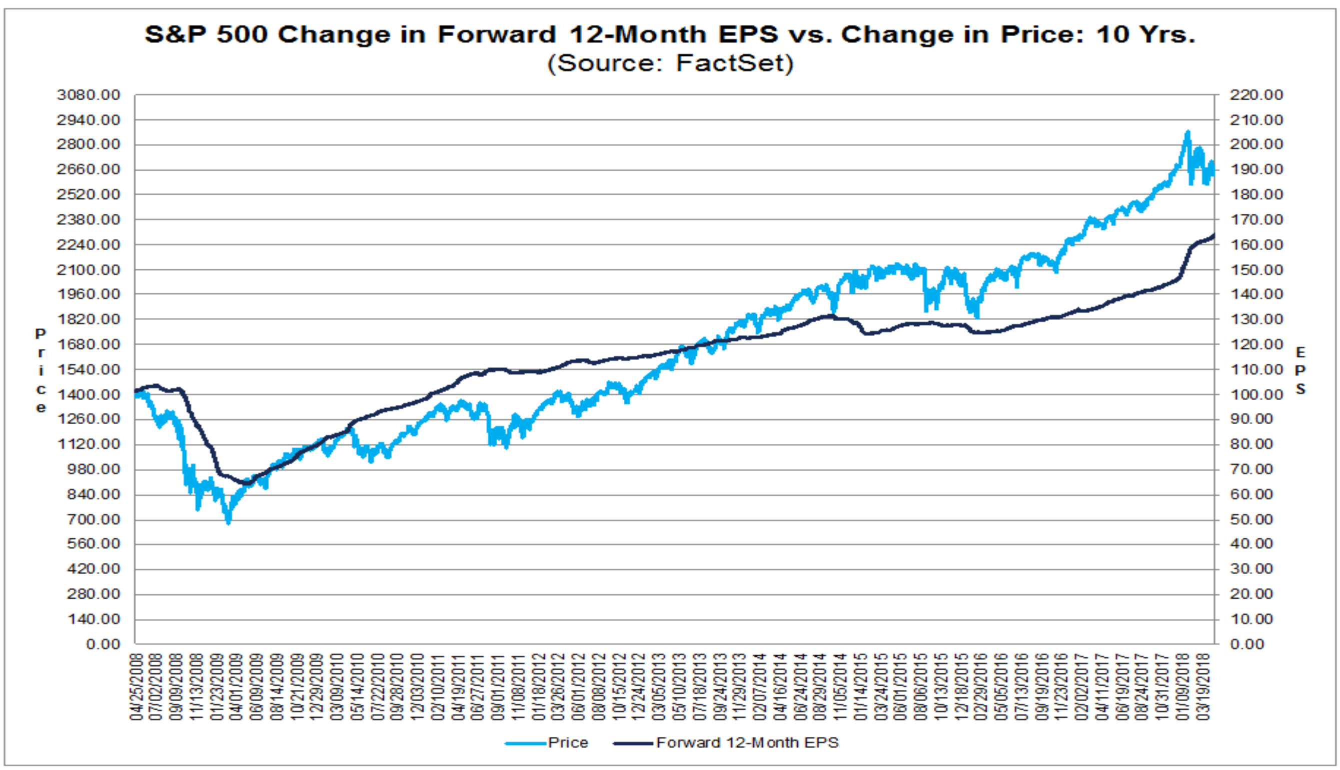
Key Metrics

- **Earnings Scorecard:** For Q1 2018 (with 53% of the companies in the S&P 500 reporting actual results for the quarter), 79% of S&P 500 companies have reported a positive EPS surprise and 74% have reported a positive sales surprise. If 79% is the final number for the quarter, it will mark the highest percentage since FactSet began tracking this metric in Q3 2008
- **Earnings Growth:** For Q1 2018, the blended earnings growth rate for the S&P 500 is 23.2%. If 23.2% is the actual growth rate for the quarter, it will mark the highest earnings growth since Q3 2010 (34.0%).
- **Earnings Revisions:** On March 31, the estimated earnings growth rate for Q1 2018 was 17.1%. All eleven sectors have higher growth rates today (compared to March 31) due to positive earnings surprises.
- **Earnings Guidance:** For Q2 2018, 26 S&P 500 companies have issued negative EPS guidance and 21 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.3. This P/E ratio is above the 5-year average (16.1) and above the 10-year average (14.3).



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Topic of the Week:

Are S&P 500 Companies Discussing “Tariffs” on Q1 Earnings Calls?

“The President is exercising his authority to impose a 25 percent tariff on steel imports and a 10 percent tariff on aluminum imports in order to protect our national security.” – The White House (Mar. 8)

“In light of China’s unfair retaliation, I have instructed the USTR to consider whether $100 billion of additional tariffs would be appropriate under section 301 and, if so, to identify the products upon which to impose such tariffs.” – President Trump (Apr. 5)

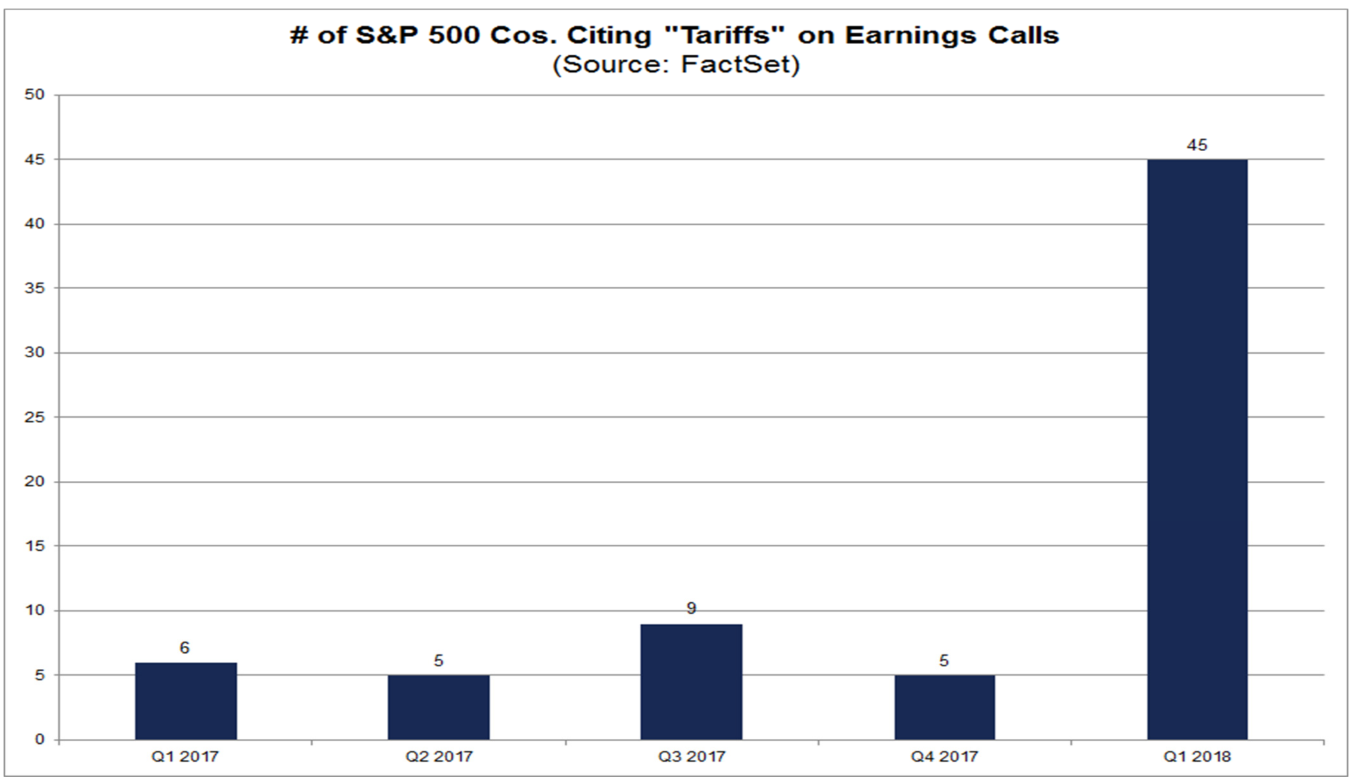
During each corporate earnings season, it is not unusual for companies to comment on subjects that had an impact on their earnings and revenues for a given quarter, or may have an impact on earnings and revenues for future quarters. Through Wednesday (April 25), approximately 36% of the companies in the index (181 companies) had reported earnings results for the first quarter. Given the recent focus on tariffs by the Trump administration, have companies in the S&P 500 commented on “tariffs” during their earnings conference calls for the first quarter?

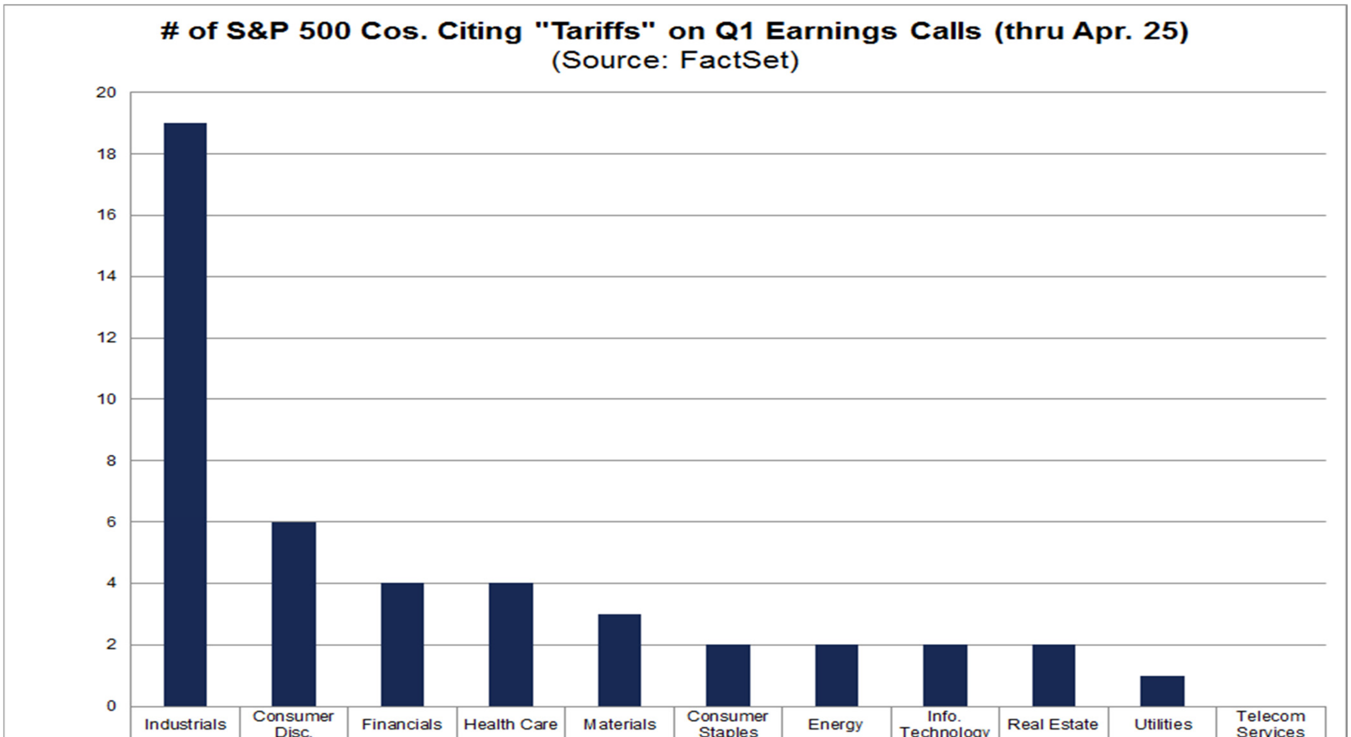
To answer this question, FactSet searched for the term “tariffs” in the conference call transcripts of the 162 S&P 500 companies that had conducted first quarter earnings conference calls through April 25.

Of these 162 companies, 45 (or 28%) cited the term “tariffs” during the call. This number is well above the numbers for the previous four quarters (through the same point in time in the earnings season). At the sector level, the Industrials sector has witnessed the highest number of companies (19) discussing “tariffs” on earnings calls of all eleven sectors.

Broadly speaking, slightly more than half (25) of the companies that have discussed tariffs on their earnings calls saw little to no impact on their earnings in the first quarter or anticipated little to no impact in future quarters. However, slightly less than half (19) also expressed concerns about the potential for tariffs to have negative impacts on customers, inflation, and the overall economy in future quarters. About one quarter (12) of the companies discussed the uncertainty surrounding the implementation or impact of future tariffs. The number of companies do not add to 45, as some companies made comments in multiple categories (e.g. no impact in Q1 but uncertainty in future), while other companies made comments about tariffs that did not fit any of these categories.

Specific comments on “tariffs” from companies in the Industrials sector can be found on the next four pages.





	Industrials	Consumer Disc.	Financials	Health Care	Materials	Consumer Staples	Energy	Info. Technology	Real Estate	Utilities	Telecom Services
# of Cos.	19	6	4	4	3	2	2	2	2	1	0

Industrials Sector – "Tariff" Comments

"So Ben, we have not seen any quantifiable shipper behavior change based on recent developments in the U.S. trade policy. As I mentioned earlier, rebound in trade in 2017 drove the best air cargo growth since 2010. But all that being said, as the Chairman just mentioned, we do continue to advocate against any move towards protectionist trade policies that could slow economic growth and undermine all the positive impacts from the tax reform legislation." – FedEx (Mar. 20)

"We're not seeing things from our customers yet. That's too early to tell. Certainly, we do have some things that we source out of China. We're keeping our eyes on it and how they may be affected by the list of things that may have a tariff. But I think it's too early to tell, because we really don't know what's on and what's not quite yet. So too early to tell." – Cintas (Mar. 22)

"Outside of that, volatility is something that financial markets like, it creates activity. So, a few of the geopolitical and kind of political posturing, tariffs, a whole bunch of things that are driving some volatility in marketplaces make markets interesting and therefore more active." – IHS Markit (Mar. 27)

"So, Ricky, what is known, right, is the fact of steel and aluminum and we know that that has not really had an impact on any of us when it comes to the specific componentry. I think that we're evaluating some of those things that – again, we have a robust supply chain." – Acuity Brands (Apr. 4)

"As it relates to tariffs, however, if you think about Section 232, the increase in steel and aluminum, it's – that would primarily have a direct impact on our manufacturing business which does source that. If I think about the Section 301s…which is 4% or 5% of our revenue on the manufacturing. If I think about the Section 301 tariffs, we looked into what products are captured in that, and there are some. I think we've identified about $11 million or $12 million in annual COGS that would be affected directly by that. There's no doubt there'll be some others that come through in – through masters. But we're talking about metal nuts, we're talking about pallet jacks and a few other items. And so, there really was no impact on tariffs in Q1 in our business. Most of what would be affected directly seems fairly modest. I think our bigger question is what impact does it have on our customers at the end of the day. And as I said, in Q1,

there really was nothing there. To the extent that it contributes to either a more inflationary environment, we'll have to respond to that, as we talked about. To the extent that it creates issues for our customers, we'll have to respond to that, but no impact yet. And I think that the – it's sort of a wait-and-see kind of situation." – Fastenal (Apr. 11)

"No. I keep being asked to become an expert on tariffs, and I'm not. And so right now, everybody, yes, everybody – it depends on what day it is as to whether or not this is viewed as a good thing or a bad thing. Anecdotally, we're looking at moving some more pet coke and we're looking at some steel mills on our railroad opening up. So that's just anecdotally. So I'm sure as things play out, if anything does come to be, there'll be negatives and positives in it. And it's too early to try and guess what those might be." – CSX (Apr. 17)

"So now let's move to the topic of tariffs which we have been following closely. This is a very fluid topic which makes my comments informative in nature, so you have an understanding about how we are thinking about the news flow and its impact to our business. For a background, steel spend represents about 5% of sales, and most is sourced from North America. While the direct impact of Section 232 tariffs are minimal to us, we've seen indirect impacts via higher steel prices from our suppliers, up approximately 30% this year. In addition, our team has gone through the recently published Chinese tariffs, and we do not believe to be a material impact to our business in their current form." – Pentair (Apr. 19)

"So I don't know what effect the tariffs will have in the long term. Maybe no effect on U.S. steel, maybe some slight effect. But we generally think we can price for visible inflation and I think we've demonstrated that over time; the other effects of any kind of other tariffs or so on. Generally, we're making the markets in which we sell in terms of finished goods, sometimes we're importing components. But if those components get tariffs on them, we'll just source someplace else. " – Snap-on (Apr. 19)

"Yeah. So we have looked at it. We will continue to look at it. It's a little bit unclear yet the impact that's going to have on some of the categories we participate in. We look at it two ways. One is understanding the financials, the other is making sure that we've got the right decision on sourcing. And depending on certain tariffs, we may move suppliers as well. So we don't have a conclusion. Obviously, certain tariffs would be very inflationary for the market and others might not and so we're looking at the specifics to understand what we need to do." – W.W. Grainger (Apr. 19)

"Before we get into our second quarter and full year outlook, I wanted to provide some information on how the recently announced tariffs will affect Honeywell, as well as the proactive actions we're taking to address these items… Regarding the Section 232 steel and aluminum tariffs, based on what has been enacted as of today, our exposure is relatively minimal, less than $10 million of gross tariff impact. Our direct Tier 1 and indirect Tier 2 spend in these categories across Honeywell is small, and the imported portion of that spend is even smaller. The more significant impact is the secondary effect from the price inflation on non-imported steel and aluminum. Here, we've put in place aggressive mitigation strategies that largely offset any impact to Honeywell. Regarding the China tariffs, this is clearly a fluid situation. We continue to assess our exposure while also actively developing mitigation plans. The proposed tariffs do not take effect until May, and the U.S. and China intend to negotiate in the interim. We suspect the scope of impacted products and tariffs is likely to change, but we'll be prepared either way and update you as we learn more. As Darius mentioned, the impact of anything that has been enacted as of today, so the Section 232 tariffs has been considered in our full-year outlook." – Honeywell (Apr. 20)

"The end-market data we see is encouraging. We probably haven't seen any more optimism as a group, as we went through our Q1 reports and talked about forecast for the balance of the year. I think there's a mature level of optimism as opposed to euphoria. I think people feel really good about not being impacted by any of these geopolitical issues or tariff issues or cost push inflation on material because our cost of goods sold is so low and material is so much less a component of our cost structure." – Roper Technologies (Apr. 20)

"Now, let's shift to tariffs. First, I will address steel and aluminum tariffs under Section 232, which is included in our guidance released this morning. We now expect an annual impact from these tariffs of less than $3 million. This impact has been reduced from our previous comments on this topic, as the country exclusions from Canada and Europe mitigated a majority of this potential impact; good news on that front. As we look at our exposure for the initial $50 billion of tariffs imposed under Section 301, we estimate a maximum annual headwind of approximately $40 million to $50 million, if implemented. These tariffs could potentially impact componentry and some finished goods imported to

support the U.S. market. However, there is significant uncertainty as to how this will play out. But at this stage, we believe these risks are at a manageable level for our company." –Stanley Black & Decker (Apr. 20)

"With regard to tariffs, the primary commodity here is glass. And then, on the steel side, we really, at this point, haven't seen any tariffs because it's not – tariffs aren't targeted or being levied towards value-added products. So far we're in good shape there. And I would tell you that when you look at the decorative lighting fixture industry, it follows a very similar model. So, should there be any price – or excuse me, cost pressures, we'd be in the soup with all of our competition." – Masco (Apr. 24)

"But we have seen no impact on any of the businesses, CCS or Otis, in terms of potential tariffs. And keep in mind, we manufacture in China for the Chinese market, right? We're not a big exporter out of China back to the U.S. And so, any of this tariff, these discussions back and forth really don't have a terribly big impact on the business." – United Technologies (Apr. 24)

"Yeah, Sam, as you might guess, this is something we're keeping a very close eye on. This is daily actions and daily vigilance on this topic. We're engaged with governments around the world. Obviously one of the hot topics right now is the U.S.-China trade relationship. We know aerospace is very important to both countries, and while some initial statements have been made about potential tariffs, none of those severe actions have been implemented. And we're frankly encouraged by the continuing dialogue. And we've heard from leadership in both countries that both are seeking to find negotiated positions that will be productive for both countries. The fact that the administration just announced a senior-level trip to China next week to have negotiations and continue the engaging dialogue I think is another positive indicator. So we're staying very engaged on that front. We know trade policy is very important. But this is not a surprise to us. We operate in a global environment. We have to deal with these kind of issues continuously, and we're going to stay very close to our customers and the governments as we proceed. But we're hopeful for a positive outcome from the discussions between the U.S. and China. More broadly on some of the other matters you mentioned, material costs, titanium supply chain, aluminum and so on, again we're not seeing anything there that's material effect right now." – Boeing (Apr. 25)

"The reports from our people who attended the Asian Business Aviation Air Show were that the talk of Chinese tariffs on business jets was more of a media discussion. It has not caused any deal discussions to stop. In fact, it may have stimulated some near-term activity. The Chinese customers believe that the question of tariffs will be resolved. Other than that note of caution, we are optimistic about the market and our sales activity." – General Dynamics (Apr. 25)

"Moving on to our topics of interest section, we have one topic to cover that we know are on the minds of investors and worth addressing in our prepared remarks. Tariffs. I think the most important takeaway for the market is that we follow an in-region, for-region sourcing and manufacturing strategy. More than 95% of our products sold in the U.S. are sourced from the U.S. Net, the direct impact from U.S. tariffs on foreign imports should be relatively small. Additional tariffs have been proposed by the U.S. and other countries, but the details of those tariffs and the likelihood of their implementation is uncertain and negotiations are ongoing. So it's unclear how that will play out. We continue to watch this space closely. Over the long term, we are in an industry that recovers cost increases through price. To us, there are a lot of wildcards out there, inflation being one, but tariffs and trade wars is also something that's I think on a lot of people's minds. And we're seeing that, frankly, on larger industrial projects, decisions being made by customers there, where in that particular customer set, I think it's more concern about tariffs and the cost of input and the location of plants or lines that they would be thinking about either expanding in the U.S. or somewhere else as opposed to tax reform. So where in the transportation markets, our trucking customers have taken advantage of tax reform, as an example, not as worried about tariffs. We're seeing a little different response with our Industrial customers, I think delaying some actions." – Ingersoll-Rand (Apr. 25)

"Before I turn to guidance, let me make a couple of comments about the recently announced tariffs, some of which have little to no impact on our business and some of which we're still reviewing. With regards to Section 232 tariffs on steel and aluminum enacted in March 2018, we do not buy large quantities of commodities including steel or aluminum. While we have seen increases in the price of steel and aluminum in anticipation of these tariffs, the impact of these tariffs on our input costs is immaterial to our overall results. Similarly, the tariffs implemented by China in early April do not impact our products. The other group of tariffs relate to certain goods imported into the U.S. from China that have been proposed by the U.S. following the Section 301 investigation as well as the additional tariffs that China has proposed on U.S. goods imported into China. As you know, these tariffs have not been enacted yet and there remains

a lot of uncertainty about the particulars of what may be implemented including any exemptions. We're analyzing the potential implications to our business including opportunities that may be available to mitigate impacts of these tariffs, should they get enacted. Given the fluid nature of the matter, however, it is too soon to discuss any specifics." – Rockwell Automation (Apr. 25)

The term "tariff" was also discussed on the earnings call of Norfolk Southern. However, the term was mentioned as part of an analyst's question on broad economic conditions, and the company did not specifically address tariffs in the answer. As a result, Norfolk was included in the total count for "tariff" citations for companies in the Industrials sector (19), but there are no specific comments to include in this section.

Q1 2018 Earnings Season: By the Numbers

Overview

To date, 53% of the companies in the S&P 500 have reported actual results for Q1 2018. In terms of earnings, more companies are reporting actual EPS above estimates (79%) compared to the 5-year average. If 79% is the final percentage for the quarter, it will mark the highest percentage of S&P 500 companies reporting actual EPS above estimates since FactSet began tracking this metric in Q3 2008. In aggregate, companies are reporting earnings that are 9.1% above the estimates, which is also above the 5-year average. In terms of sales, more companies (74%) are reporting actual sales above estimates compared to the 5-year average. In aggregate, companies are reporting sales that are 1.7% above estimates, which is also above the 5-year average. If 1.7% is the final percentage for the quarter, it will mark the largest revenue surprise percentage since FactSet began tracking this metric in Q3 2008.

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 the first quarter is 23.2% today, which is higher than the earnings growth rate of 18.5% last week. Positive earnings surprises reported by companies in multiple sectors (led by the Information Technology sector) were responsible for the increase in the earnings growth rate for the index during the past week. All eleven sectors are reporting year-over-year earnings growth. Nine sectors are reporting double-digit earnings growth, led by the Energy, Materials, Information Technology, and Financials sectors.

The blended, year-over-year sales growth rate for the third quarter is 8.4% today, which is higher than the growth rate of 7.6% last week. Positive revenue surprises reported by companies in multiple sectors were responsible for the increase in the revenue growth rate for the index during the past week. Ten sectors are reporting year-over-year growth in revenues. Three sectors are reporting double-digit growth in revenues: Energy, Materials, and Information Technology.

Looking at future quarters, analysts currently project earnings growth to continue at double-digit levels through 2018.

The forward 12-month P/E ratio is 16.3, which is above the 5-year average and the 10-year average.

During the upcoming week, 142 S&P 500 companies (including five Dow 30 components) are scheduled to report results for the first quarter.

Scorecard: Record-High Percentage of Companies Beating EPS Estimates

Record-High Percentage of Companies Beating EPS Estimates (79%)

Overall, 53% of the companies in the S&P 500 have reported earnings to date for the first quarter. Of these companies, 79% have reported actual EPS above the mean EPS estimate, 6% have reported actual EPS equal to the mean EPS estimate, and 15% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is above the 1-year (74%) average and above the 5-year (70%) average.

If 79% is the final percentage for the quarter, it will mark the highest percentage of S&P 500 companies reporting actual EPS above estimates since FactSet began tracking this metric in Q3 2008.

At the sector level, the Health Care (96%) and Information Technology (91%) sectors have the highest percentages of companies reporting earnings above estimates, while the Telecom Services (50%) and Real Estate (63%) sectors have the lowest percentages of companies reporting earnings (FFO for Real Estate) above estimates.

Highest Earnings Surprise Percentage (+9.1%) Since Q4 2010

In aggregate, companies are reporting earnings that are 9.1% above expectations. This surprise percentage is above the 1-year (+5.1%) average and above the 5-year (+4.3%) average.

If 9.1% is the final percentage for the quarter, it will mark the highest earnings surprise percentage since Q4 2010 (10.4%).

At the sector level, the Information Technology (+16.8%), Consumer Discretionary (+15.8%), and Industrials (11.9%) sectors are reporting the largest upside aggregate differences between actual earnings and estimated earnings. In the Information Technology sector, Alphabet ($13.33 vs. $9.28) and Facebook ($1.69 vs. $1.35) have reported the largest upside differences between actual EPS and estimated EPS. In the Consumer Discretionary sector, Amazon.com ($3.27 vs. $1.24) has reported the largest upside difference between actual EPS and estimated EPS. In the Industrials sector, Textron ($0.72 vs. $0.48) and Boeing ($3.64 vs. $2.57) have reported the largest upside differences between actual EPS and estimated EPS.

Market Not Rewarding Earnings Beats and Not Punishing Earnings Misses

To date, the market is rewarding upside earnings surprises less than average and punishing downside earnings surprises less than average.

Companies that have reported upside earnings surprises for Q1 2018 have seen an average price increase of 0.4% two days before the earnings release through two days after the earnings. This percentage increase is well below the 5-year average price increase of +1.1% during this same window for companies reporting upside earnings surprises.

Companies that have reported downside earnings surprises for Q1 2018 have seen an average price decrease of -1.5% two days before the earnings release through two days after the earnings. This percentage decrease is much smaller than the 5-year average price decrease of -2.4% during this same window for companies reporting downside earnings surprises.

Percentage of Companies Beating Revenue Estimates (74%) is Above 5-Year Average

In terms of revenues, 74% of companies have reported actual sales above estimated sales and 26% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is above the 1-year average (70%) and well above the 5-year average (57%).

At the sector level, the Information Technology (91%) and Industrials (84%) sectors have the highest percentages of companies reporting revenues above estimates, while the Utilities (44%) and Telecom Services (50%) sectors have the lowest percentages of companies reporting revenues above estimates.

Record-High Revenue Surprise Percentage (+1.7%)

In aggregate, companies are reporting sales that are 1.7% above expectations. This surprise percentage is above the 1-year (+1.1%) average and above the 5-year (+0.6%) average.

If 1.7% is the final percentage for the quarter, it will mark the highest revenue surprise percentage since FactSet began tracking this metric in Q3 2008.

The Information Technology (+2.8%), Industrials (+2.7%), and Financials (2.4%) sectors are reporting the largest upside aggregate differences between actual sales and estimated sales, while the Telecom Services (-1.1%) and Utilities (-1.1%) sectors are reporting the largest aggregate downside difference between actual sales and estimated sales.

Increase in Blended Earnings Growth This Week Due to Technology

Increase in Blended Earnings Growth This Week Due to Technology

The blended, year-over-year earnings growth rate for the first quarter is 23.2% today, which is higher than the earnings growth rate of 18.5% last week. Positive earnings surprises reported by companies in the multiple sectors, led by the Information Technology sector, were responsible for the increase in the earnings growth rate for the index during the past week.

In the Information Technology sector, the positive earnings surprises reported by Alphabet ($13.33 vs. $9.28), Facebook ($1.69 vs. $1.35), Microsoft ($0.95 vs. $0.85), and Intel ($0.87 vs. $0.72) were significant contributors to the increase in the overall earnings growth rate for the index during the past week. As a result, the blended earnings growth rate for the Information Technology sector increased to 31.8% from 24.8% during this period.

Increase in Blended Revenue Growth This Week

The blended, year-over-year sales growth rate for the third quarter is 8.4% today, which is higher than the growth rate of 7.6% last week. Positive revenue surprises reported by companies in the multiple sectors were responsible for the increase in the revenue growth rate for the index during the past week.

Industrials, Tech, and Energy Sectors Have Seen Largest Increases in Earnings Growth since March 31

The blended, year-over-year earnings growth rate for Q1 2018 of 23.2% is above the estimate of 17.1% at the end of the first quarter (March 31). All eleven sectors have recorded an increase in earnings growth since the end of the quarter due to upward revisions to earnings estimates and positive earnings surprises, led by the Industrials (to 23.5% from 13.3%), Information Technology (to 31.8% from 22.0%), and Energy (to 89.1% from 79.5%) sectors.

Industrials Sector Has Seen Largest Increase in Revenue Growth since March 31

The blended, year-over-year sales growth rate for Q1 2018 of 8.4% is above the estimate of 7.3% at the end of the first quarter (March 31). Nine sectors have recorded an increase in sales growth since the end of the quarter due to upward revisions to revenue estimates and positive revenue surprises, led by the Industrials (to 9.8% from 7.4%) sector. Two sectors have recorded a decrease in sales growth during this time due to downward revisions to revenue estimates and negative revenue surprises, led by the Utilities (to -0.2% from 1.9%) sector.

Highest Earnings Growth (23.2%) Since Q3 2010

The blended (year-over-year) earnings growth rate for Q1 2018 is 23.2%. If 23.2% is the final growth rate for the quarter, it will mark the highest earnings growth reported by the index since Q3 2010 (34.0%). It will also mark the fourth time in the past five quarters that the index has reported double-digit earnings growth. All eleven sectors are reporting year-over-year growth in earnings. Nine sectors are reporting double-digit earnings growth, led by the Energy, Materials, Information Technology, and Financials sectors.

Energy: Highest Earnings Growth on Easy Comparison to Low Year-Ago Earnings

The Energy sector is reporting the highest (year-over-year) earnings growth of all eleven sectors at 89.1%. At the sub-industry level, all six sub-industries in the sector are reporting earnings growth for the quarter: Oil & Gas Drilling (N/A due to year-ago loss), Oil & Gas Exploration & Production (3,203%), Oil & Gas Equipment & Services (81%), Oil & Gas Refining & Marketing (60%), Oil & Gas Storage & Transportation (54%), and Integrated Oil & Gas (41%).

The unusually high growth rate for the sector is due to both a significant year-over-year increase in oil prices and a comparison to unusually low earnings in the year-ago quarter. The average price of oil in Q1 2018 ($62.89) was 21.5% higher than the average price of oil in Q1 2017 ($51.78). On a dollar-level basis, the Energy sector is reporting earnings of $15.1 billion in Q1 2018, compared to earnings of $8.0 billion in Q1 2017. The only sector with lower dollar-level earnings in the year-ago quarter is the Materials sector ($7.3 billion).

Materials: DowDuPont Leads Growth on Easy Comparison to Standalone EPS for Dow Chemical

The Materials sector is reporting the second highest (year-over-year) earnings growth of all eleven sectors at 41.4%. At the industry level, three of the four industries in the sector are reporting earnings growth: Metals & Mining (76%), Chemicals (39%), and Containers & Packaging (36%).

At the company level, DowDuPont is predicted to be the largest contributor to earnings growth for the sector. However, the estimated earnings for Q1 2018 ($2.6 billion) reflect the combined DowDuPont company, while the actual earnings for Q1 2017 ($1.3 billion) reflect the standalone Dow Chemical company. This apple-to-orange comparison is the main reason DowDuPont is projected to be the largest contributor to earnings growth for the sector. If this company were excluded, the blended earnings growth rate for the sector would fall to 28.3% from 41.4%.

Information Technology: 5 of 7 Industries Reporting Double-Digit Earnings Growth

The Information Technology sector is reporting the third highest (year-over-year) earnings growth of all eleven sectors at 31.8%. At the industry level, all seven of the industries in this sector are reporting earnings growth. Five of these seven industries are reporting double-digit earnings growth: Internet Software & Services (64%), Semiconductor & Semiconductor Equipment (41%), Software (28%), Technology Hardware, Storage, & Peripherals (24%), and IT Services (21%).

Financials: All 5 Industries Reporting Double-Digit Earnings Growth

The Financials sector is reporting the fourth highest (year-over-year) earnings growth of all eleven sectors at 26.5%. At the industry level, all five industries in this sector are reporting double-digit growth in earnings: Consumer Finance (38%), Diversified Financial Services (35%), Banks (30%), Capital Markets (29%), and Insurance (12%).

Highest Revenue Growth (8.4%) Since Q3 2011

The blended (year-over-year) revenue growth rate for Q1 2018 is 8.4%. If 8.4% is the final growth rate for the quarter, it will mark the highest revenue growth reported by the index since Q3 2011 (12.5%). Ten sectors are reporting year-over-year growth in revenues. Three sectors are reporting double-digit growth in revenues: Materials, Energy, and Information Technology.

Materials: DowDuPont Leads Growth on Easy Comparison to Standalone Revenue for Dow Chemical

The Materials sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 21.1%. At the industry level, all four industries in this sector are reporting or are expected to report revenue growth, led by the Chemicals (26%) and Metals & Mining (26%) industries.

At the company level, DowDuPont is predicted to be the largest contributor to revenue growth for the sector. However, the estimated revenues for Q1 2018 ($21.4 billion) reflect the combined DowDuPont company, while the actual revenues for Q1 2017 ($13.2 billion) reflect the standalone Dow Chemical company. This apple-to-orange comparison is the main reason DowDuPont is projected to be the largest contributor to revenue growth for the sector. If this company were excluded, the blended revenue growth rate for the sector would fall to 12.5% from 21.1%.

Energy: 5 of 6 Sub-Industries Reporting Double-Digit Growth

The Energy sector is reporting the second highest (year-over-year) revenue growth of all eleven sectors at 16.8%. At the sub-industry level, all six sub-industries in the sector are reporting revenue growth: Oil & Gas Drilling (42%), Oil & Gas Refining & Marketing (32%), Oil & Gas Equipment & Services (29%), Oil & Gas Storage & Transportation (13%), Integrated Oil & Gas (10%), and Oil & Gas Exploration & Production (9%).

Information Technology: 6 of 7 Industries Reporting Double-Digit Growth

The Information Technology sector is reporting the third highest (year-over-year) revenue growth of all eleven sectors at 15.8%. At the industry level, all seven industries in this sector are reporting revenue growth. Six of these seven industries are reporting double-digit revenue growth: Internet Software & Services (27%), Semiconductor & Semiconductor Equipment (18%), IT Services (17%), Software (12%), Electronic Equipment, Instruments, & Components (12%), and Technology Hardware, Storage, & Peripherals (12%).

Looking Ahead: Forward Estimates and Valuation

Earnings Guidance: Negative EPS Guidance For Q2 2018 is Below Average

The term “guidance” (or “preannouncement”) is defined as a projection or estimate for EPS provided by a company in advance of the company reporting actual results. Guidance is classified as negative if the estimate (or mid-point of a range estimates) provided by a company is lower than the mean EPS estimate the day before the guidance was issued. Guidance is classified as positive if the estimate (or mid-point of a range of estimates) provided by the company is higher than the mean EPS estimate the day before the guidance was issued.

At this point in time, 47 companies in the index have issued EPS guidance for Q2 2018. Of these 47 companies, 26 have issued negative EPS guidance and 21 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 55% (26 out of 47), which is well below the 5-year average of 74%.

Double-Digit Earnings Growth Expected For All of 2018

For the first quarter, companies are reporting earnings growth of 23.2% and revenue growth of 8.4%. Analysts currently expect earnings to grow at double-digit levels for the remainder 2018.

For Q2 2018, analysts are projecting earnings growth of 19.1% and revenue growth of 8.2%.

For Q3 2018, analysts are projecting earnings growth of 21.2% and revenue growth of 7.0%.

For Q4 2018, analysts are projecting earnings growth of 17.1% and revenue growth of 6.0%.

For all of 2018, analysts are projecting earnings growth of 19.4% and revenue growth of 7.2%.

Valuation: Forward P/E Ratio is 16.3, above the 10-Year Average (14.3)

The forward 12-month P/E ratio is 16.3. This P/E ratio is above the 5-year average of 16.1 and above the 10-year average of 14.3. However, it is below the forward 12-month P/E ratio of 16.4 recorded at the start of the second quarter (March 31). Since the start of the second quarter, the price of the index has increased by 1.0%, while the forward 12-month EPS estimate has increased by 1.4%.

At the sector level, the Energy (20.5) and Consumer Discretionary (19.9) sectors have the highest forward 12-month P/E ratios, while the Telecom Services (10.3) and Financials (12.9) sectors have the lowest forward 12-month P/E ratios. Eight sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Information Technology (17.7 vs. 14.5) sector. The Telecom Services (10.5 vs. 14.1) sector is the only sector with a forward 12-month P/E ratio below its 10-year average. The forward 12-month P/E ratio for the Consumer Staples sector (16.4) is equal to its 10-year average.

Targets & Ratings: Analysts Project 15% Increase in Price Over Next 12 Months

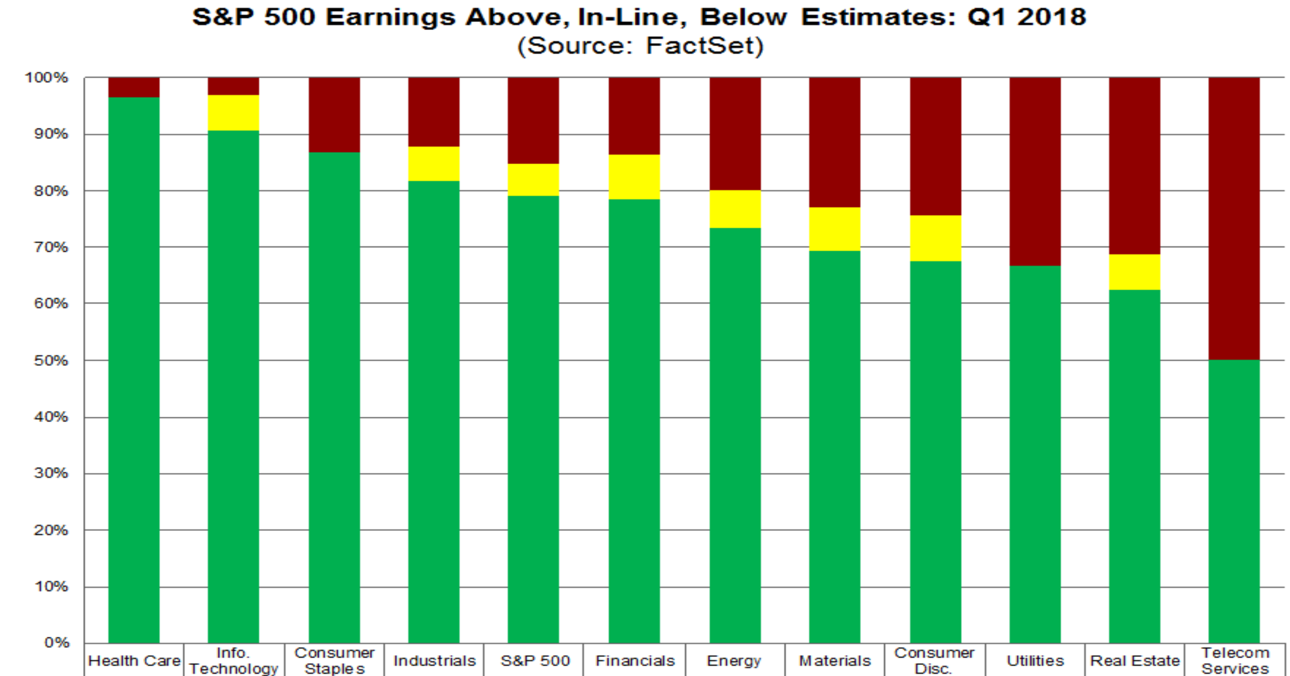
The bottom-up target price for the S&P 500 is 3069.77, which is 15.1% above the closing price of 2666.94. At the sector level, the Information Technology (+17.1%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Utilities (+4.6%) sector is expected to see the smallest price increase, as this sector has the smallest upside difference between the bottom-up target price and the closing price.

Overall, there are 11,141 ratings on stocks in the S&P 500. Of these 11,141 ratings, 53.0% are Buy ratings, 42.3% are Hold ratings, and 4.7% are Sell ratings. At the sector level, the Information Technology (61%), Energy (59%), and Health Care (59%) sectors have the highest percentages of Buy ratings, while the Telecom Services (37%) and Utilities (41%) sectors have the lowest percentages of Buy ratings.

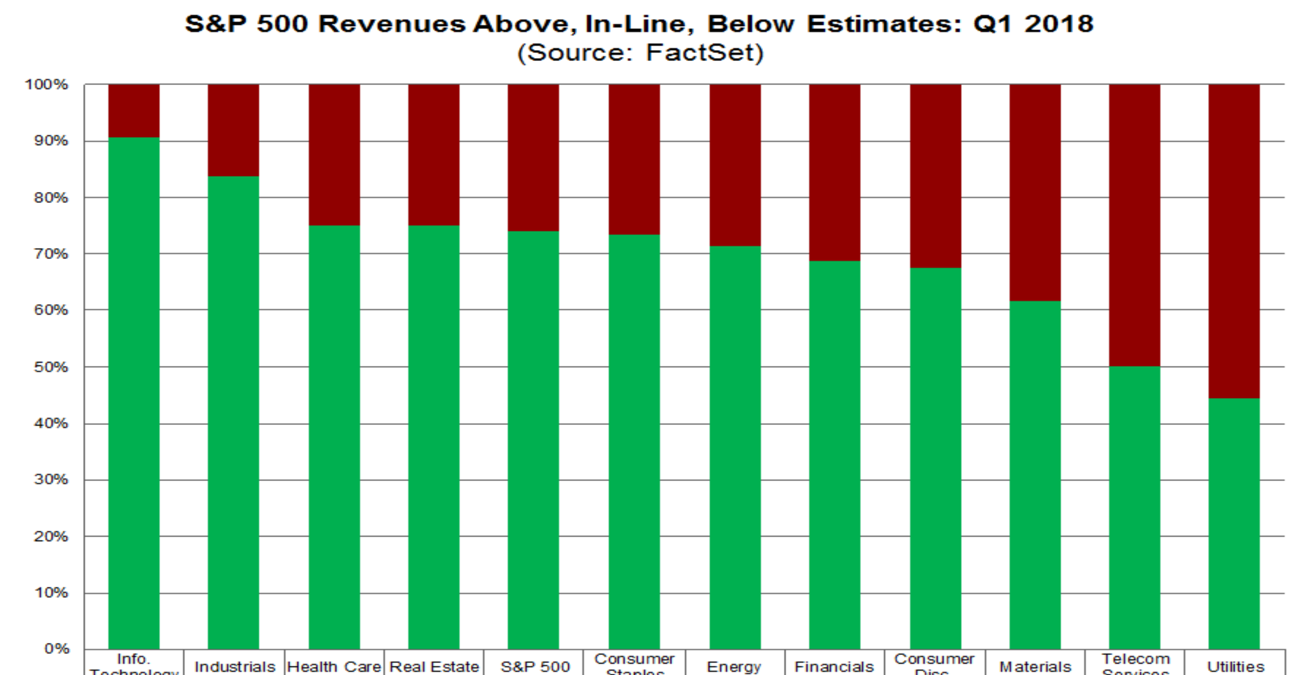
Companies Reporting Next Week: 142

During the upcoming week, 142 S&P 500 companies (including five Dow 30 components) are scheduled to report results for the first quarter.

Q1 2018: Scorecard

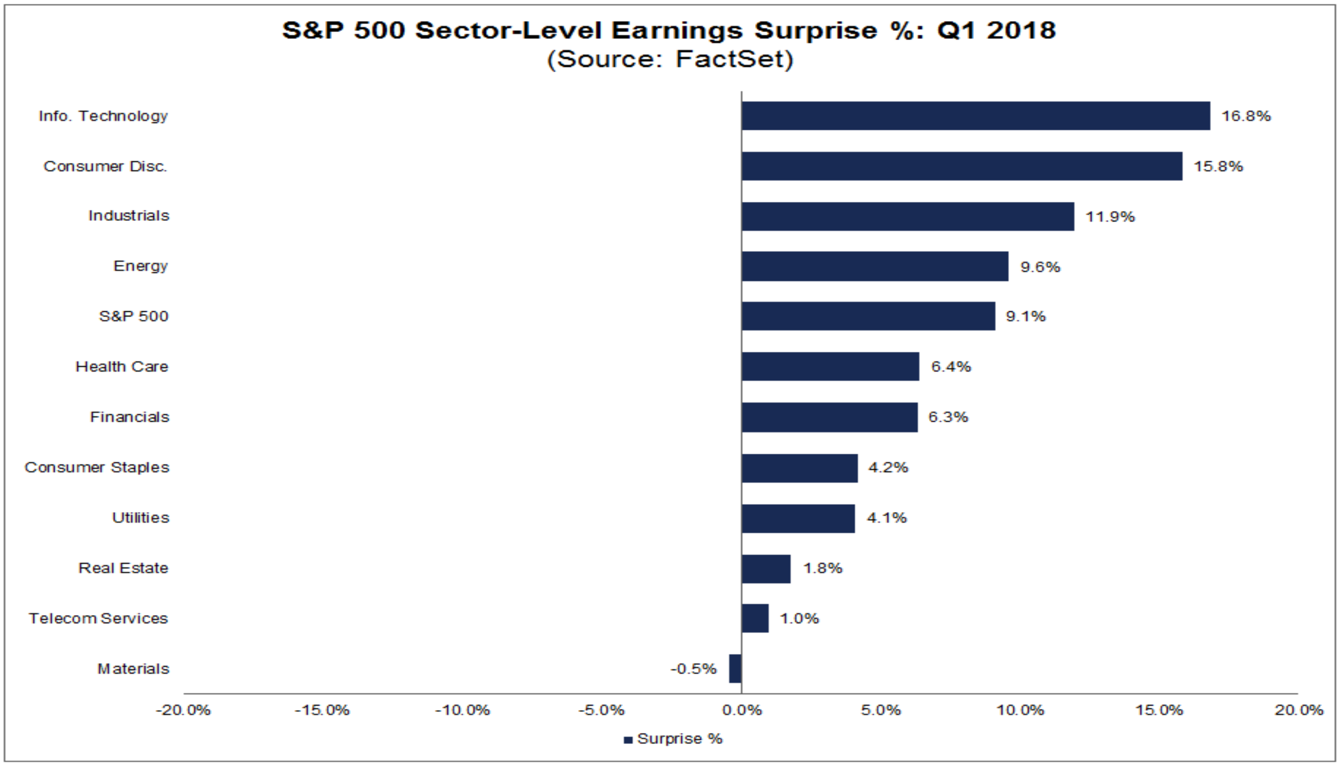


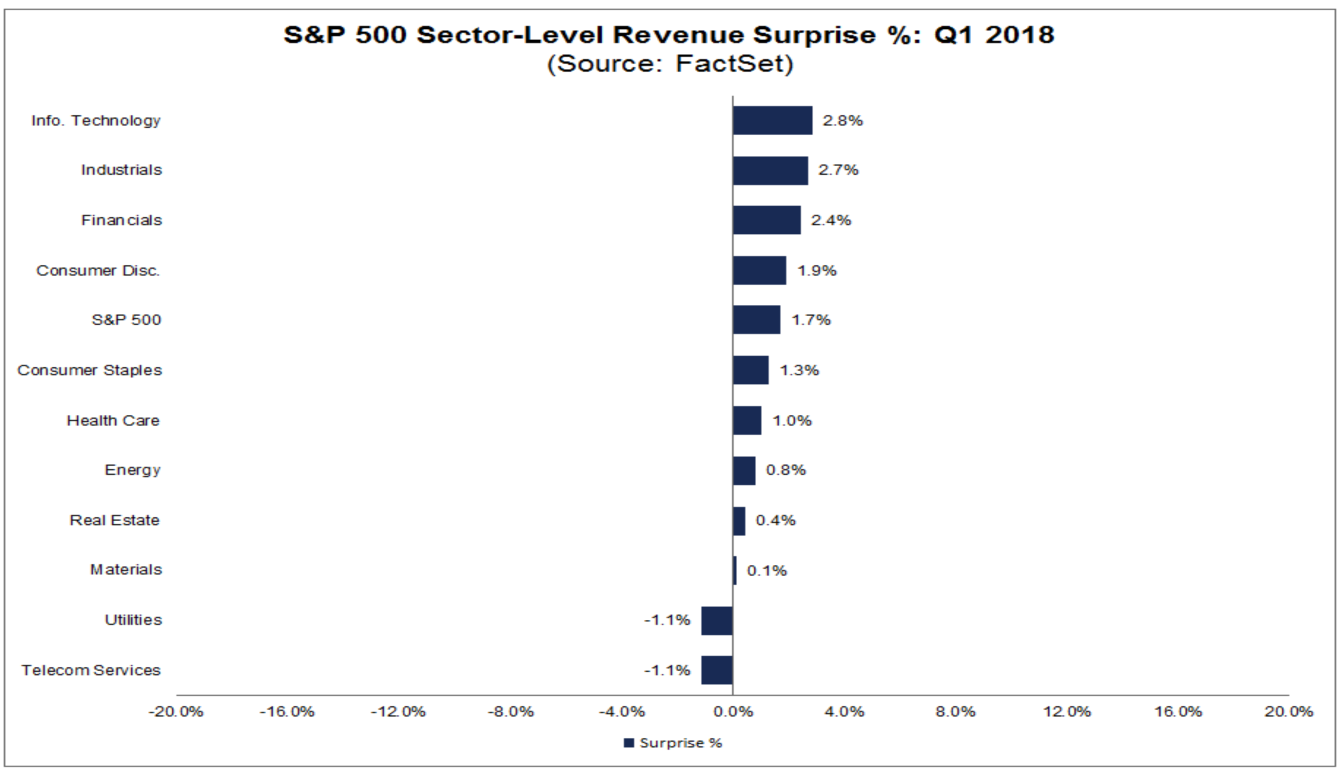
	Health Care	Info. Technology	Consumer Staples	Industrials	S&P 500	Financials	Energy	Materials	Consumer Disc.	Utilities	Real Estate	Telecom Services
Below	4%	3%	13%	12%	15%	14%	20%	23%	24%	33%	31%	50%
In-Line	0%	6%	0%	6%	6%	8%	7%	8%	8%	0%	6%	0%
Above	96%	91%	87%	82%	79%	78%	73%	69%	68%	67%	63%	50%



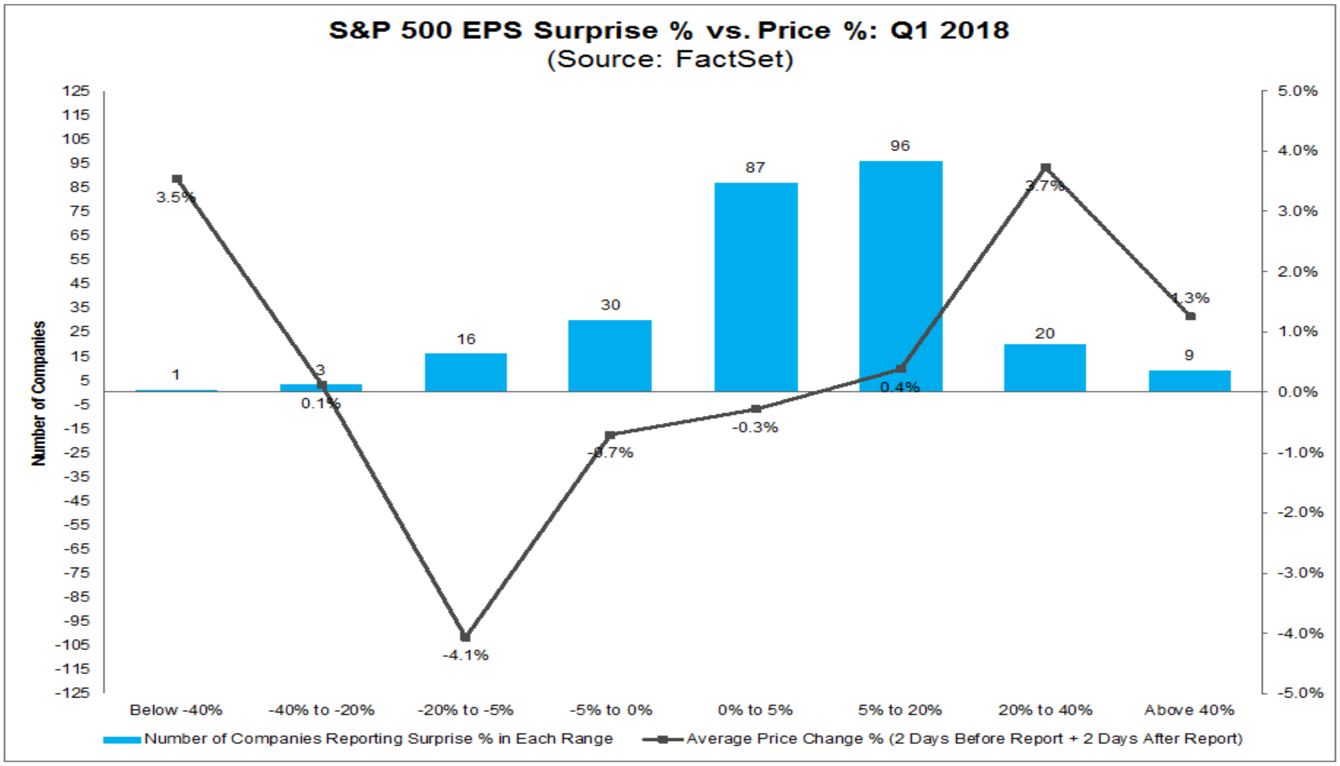
	Info. Technology	Industrials	Health Care	Real Estate	S&P 500	Consumer Staples	Energy	Financials	Consumer Disc.	Materials	Telecom Services	Utilities
Below	9%	16%	25%	25%	26%	27%	29%	31%	32%	38%	50%	56%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	91%	84%	75%	75%	74%	73%	71%	69%	68%	62%	50%	44%

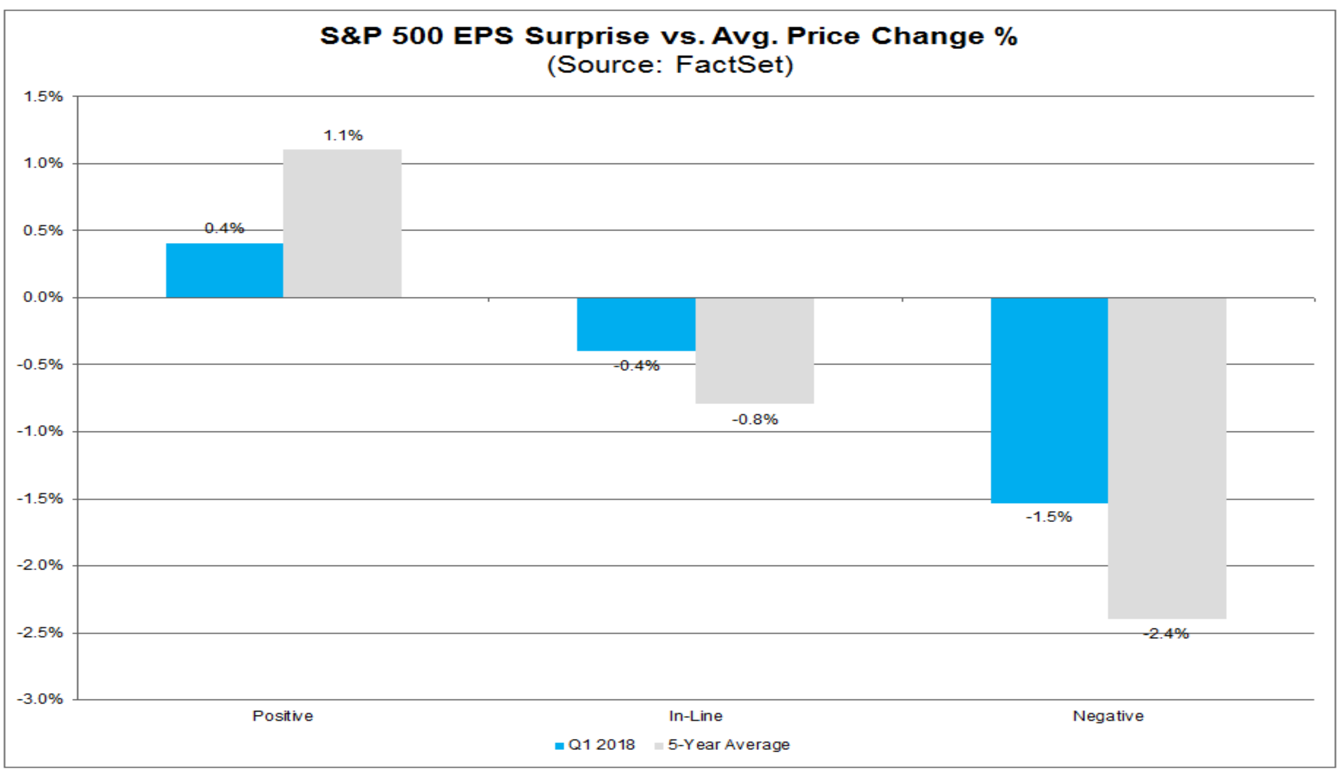
Q1 2018: Scorecard



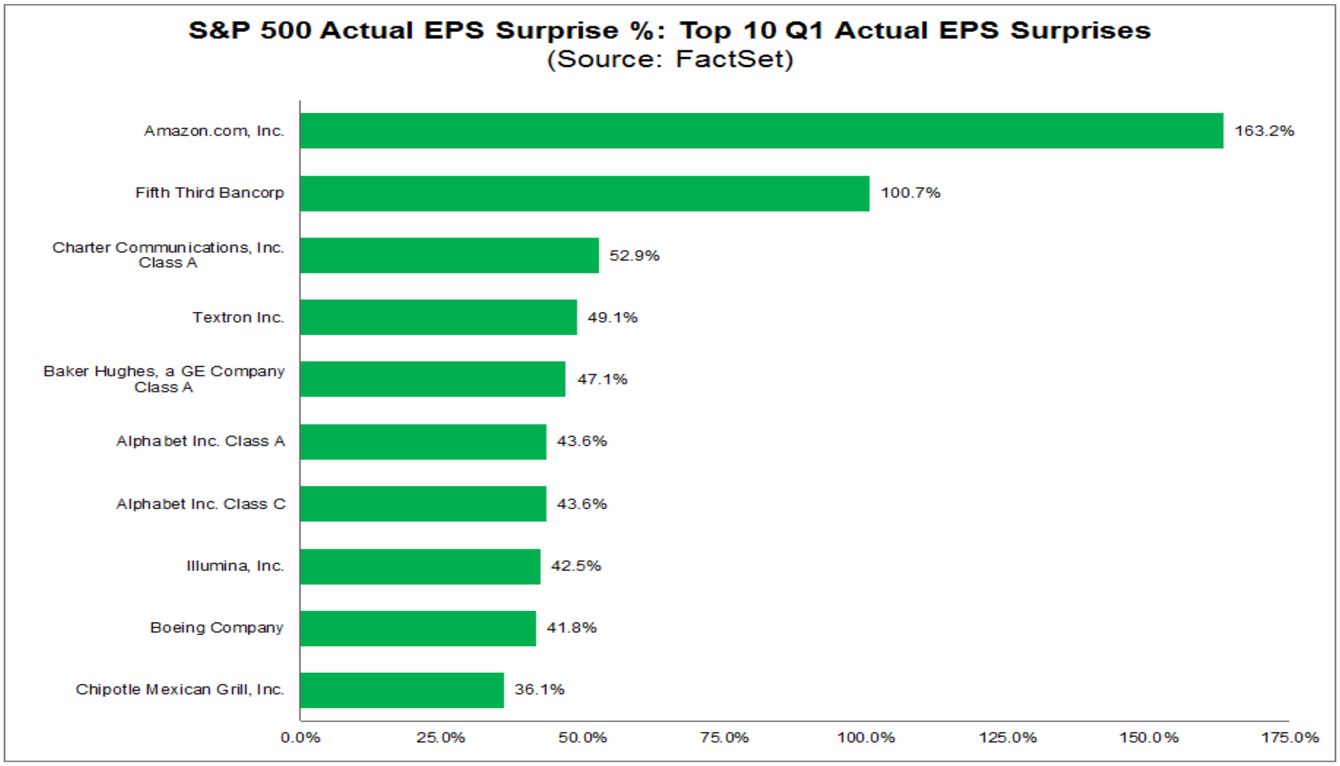


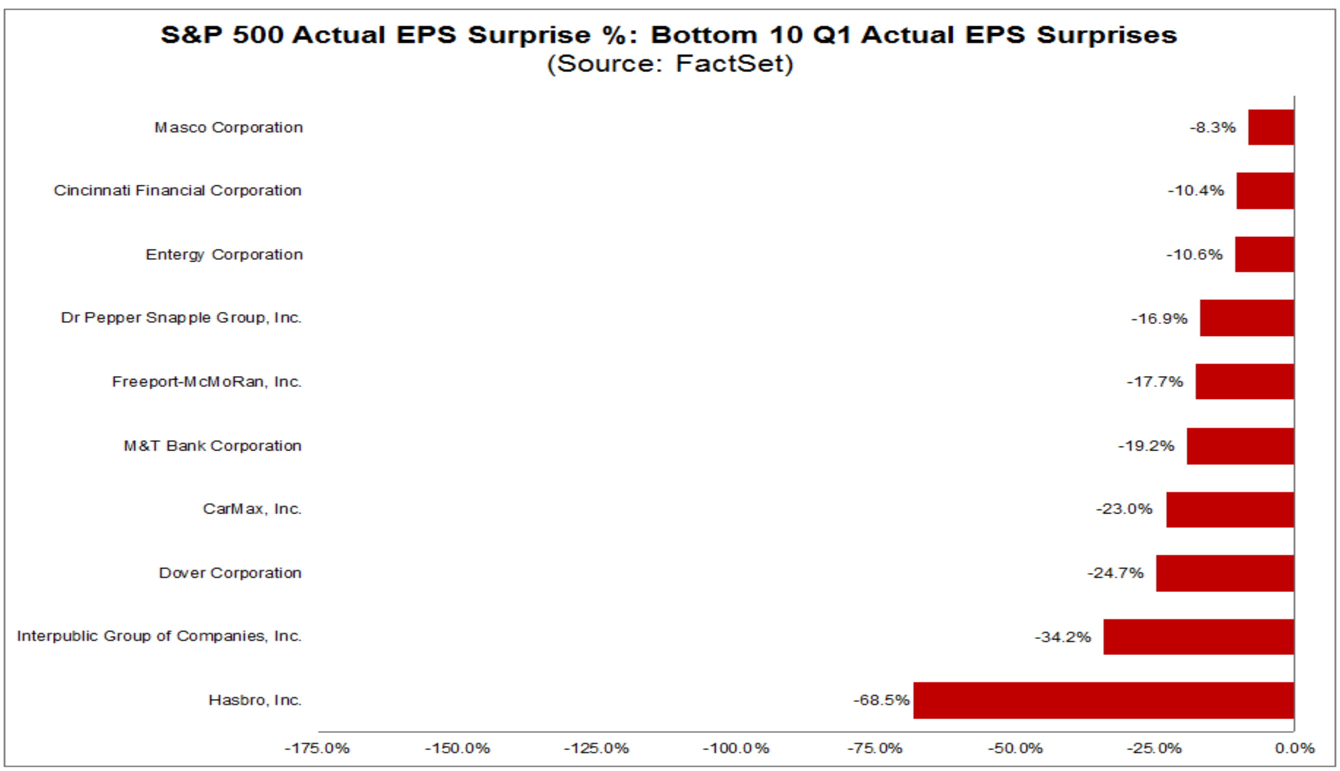
Q1 2018: Scorecard



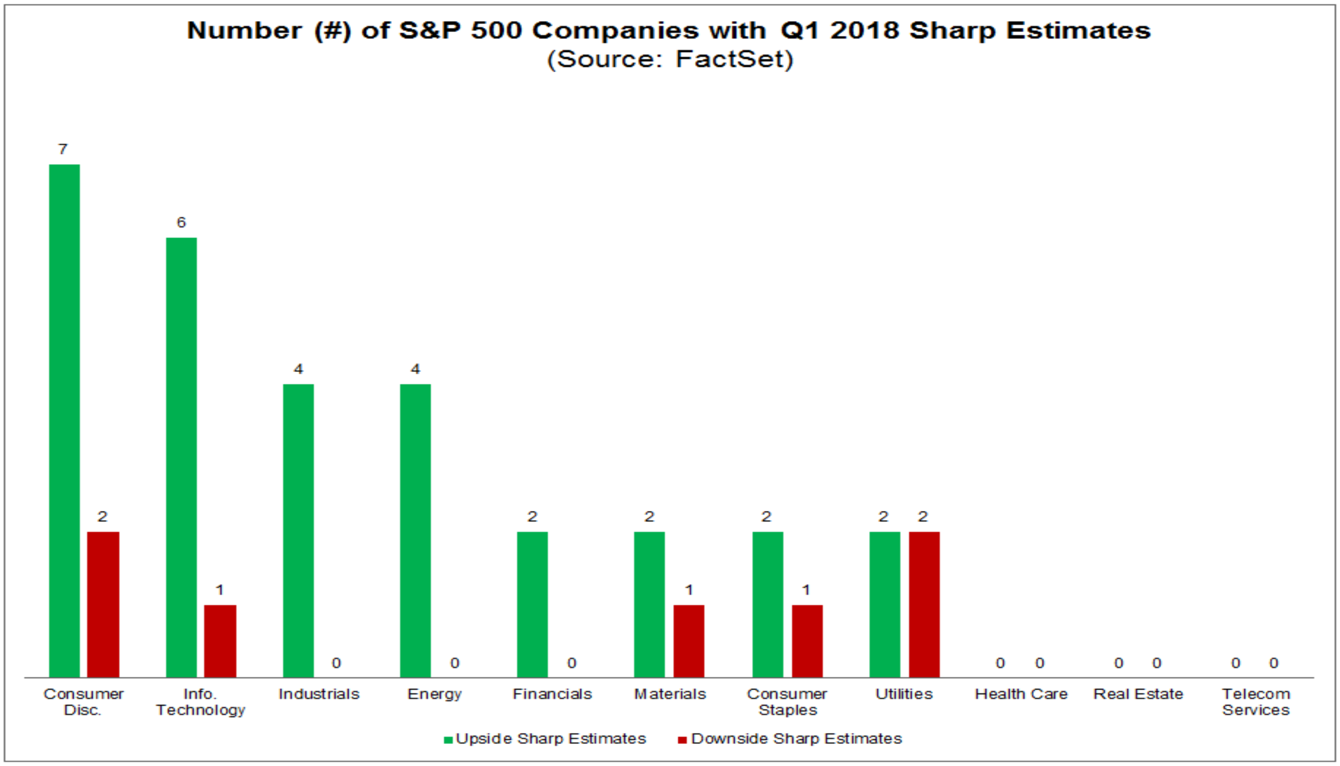


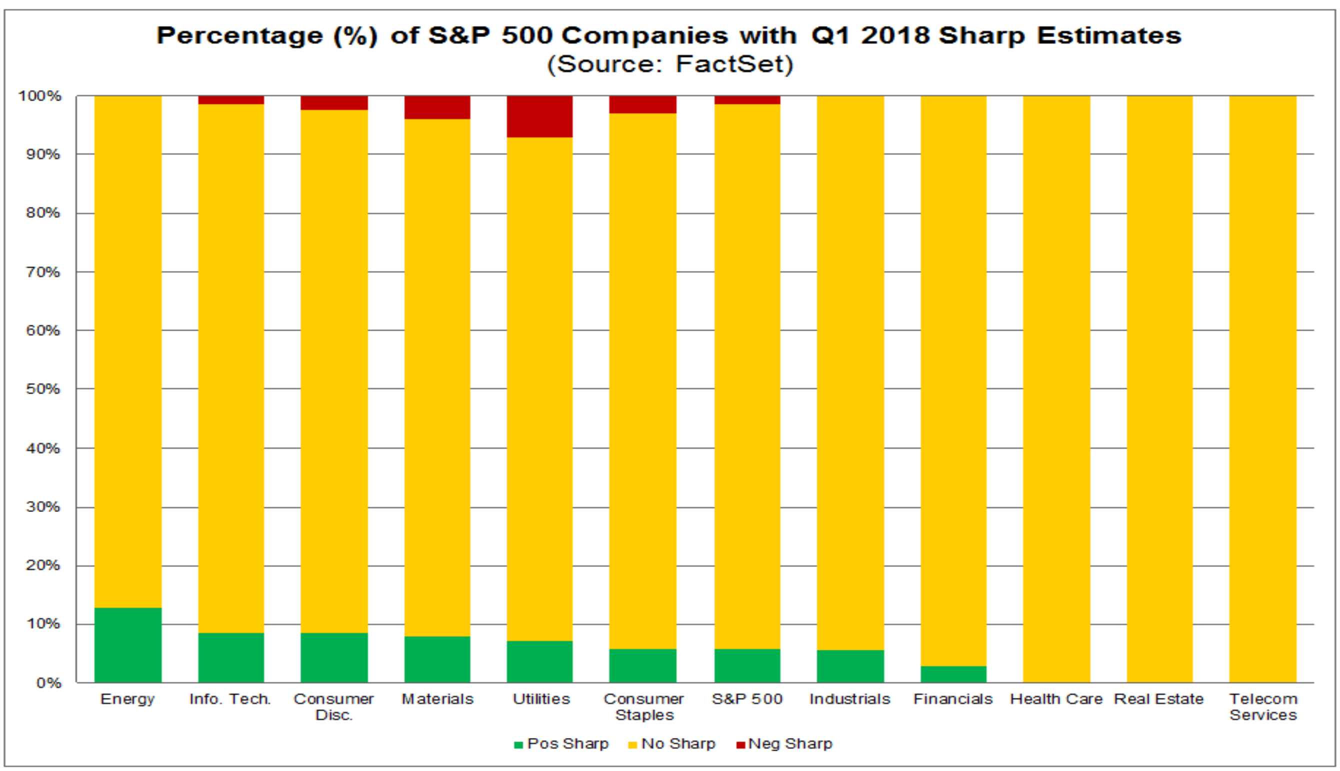
Q1 2018: Scorecard



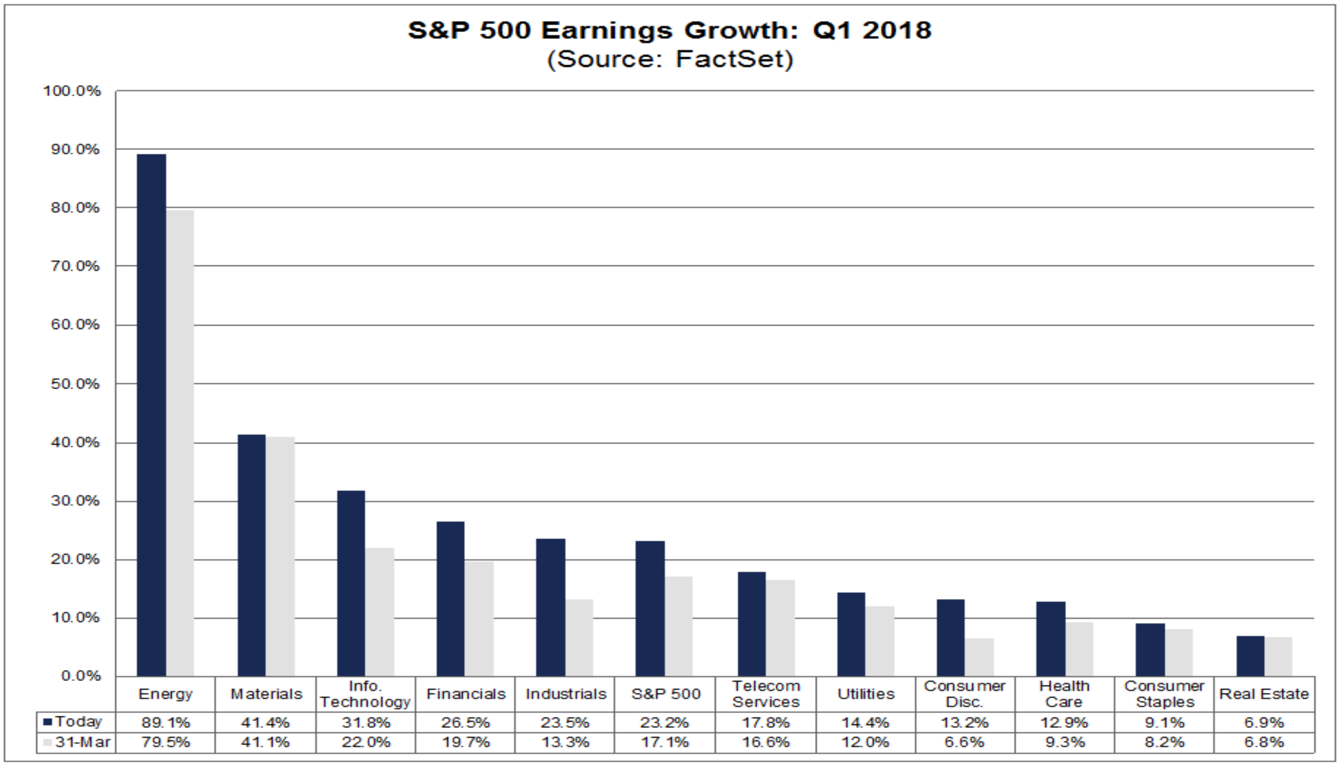


Q1 2018: Projected EPS Surprises (Sharp Estimates)

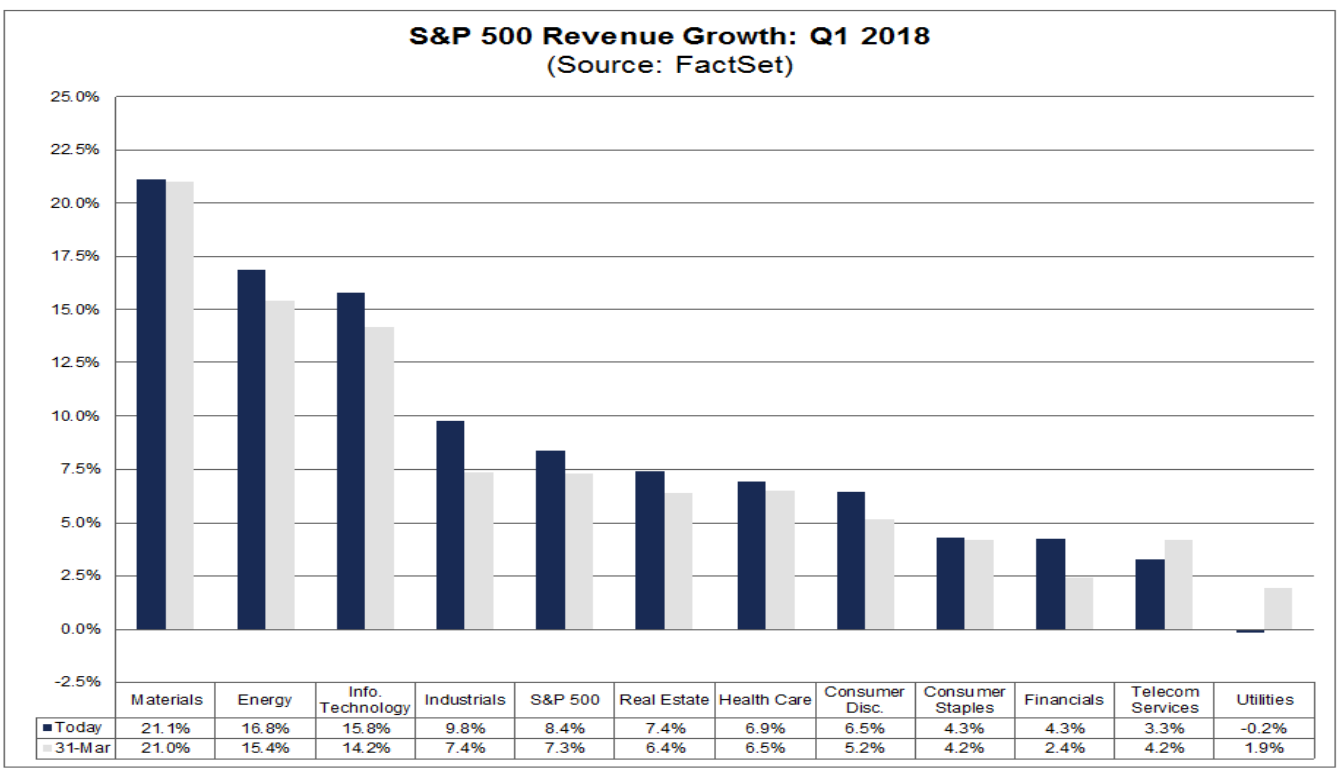




Q1 2018: Growth

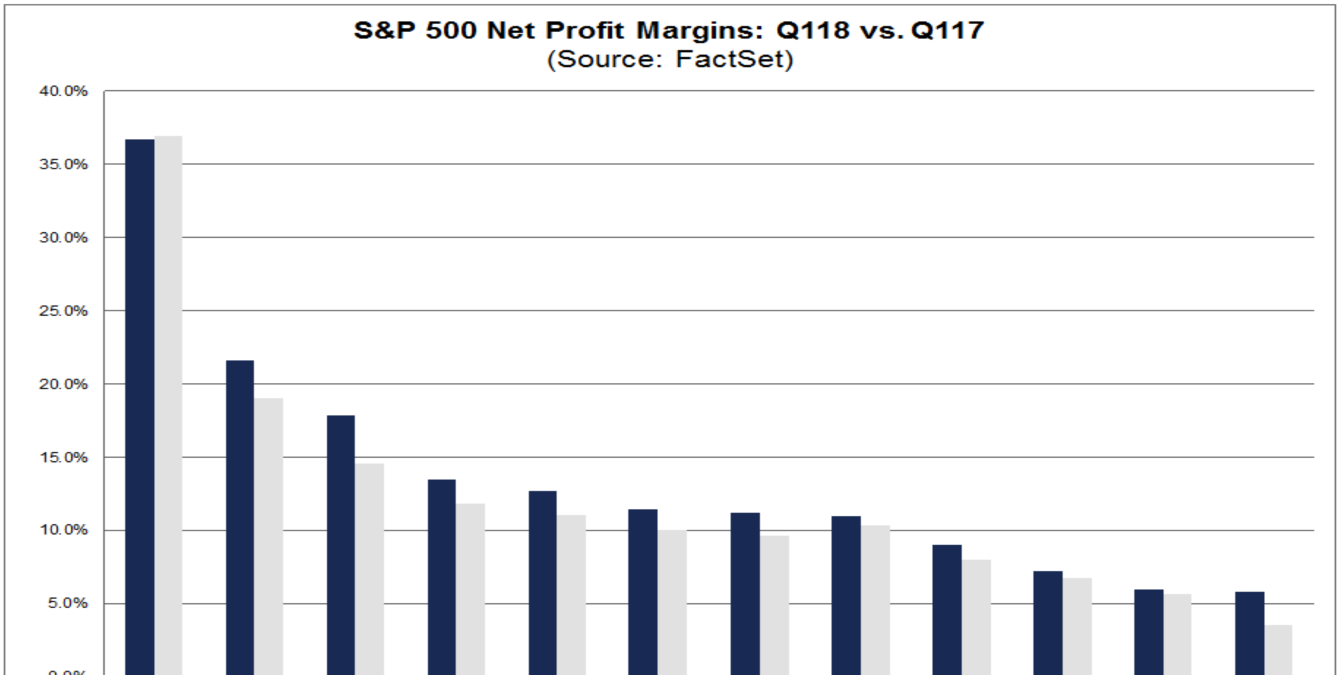


	Energy	Materials	Info. Technology	Financials	Industrials	S&P 500	Telecom Services	Utilities	Consumer Disc.	Health Care	Consumer Staples	Real Estate
Today	89.1%	41.4%	31.8%	26.5%	23.5%	23.2%	17.8%	14.4%	13.2%	12.9%	9.1%	6.9%
31-Mar	79.5%	41.1%	22.0%	19.7%	13.3%	17.1%	16.6%	12.0%	6.6%	9.3%	8.2%	6.8%

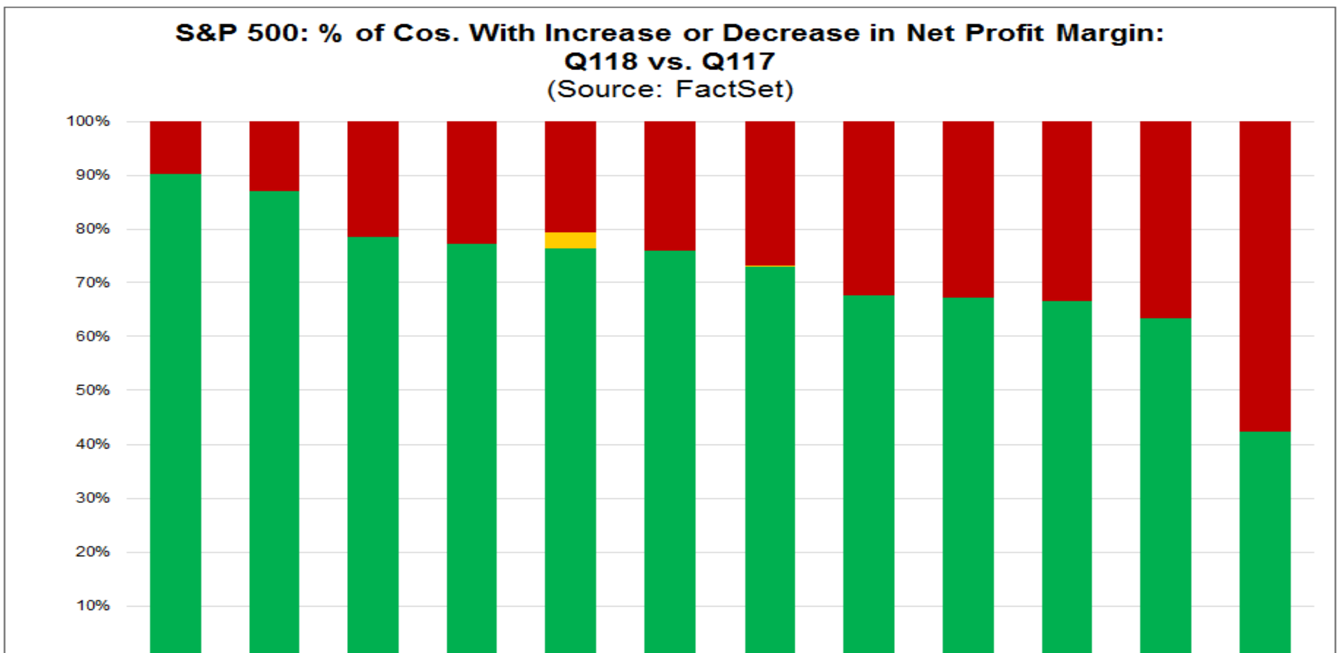


	Materials	Energy	Info. Technology	Industrials	S&P 500	Real Estate	Health Care	Consumer Disc.	Consumer Staples	Financials	Telecom Services	Utilities
Today	21.1%	16.8%	15.8%	9.8%	8.4%	7.4%	6.9%	6.5%	4.3%	4.3%	3.3%	-0.2%
31-Mar	21.0%	15.4%	14.2%	7.4%	7.3%	6.4%	6.5%	5.2%	4.2%	2.4%	4.2%	1.9%

Q1 2018: Net Profit Margin

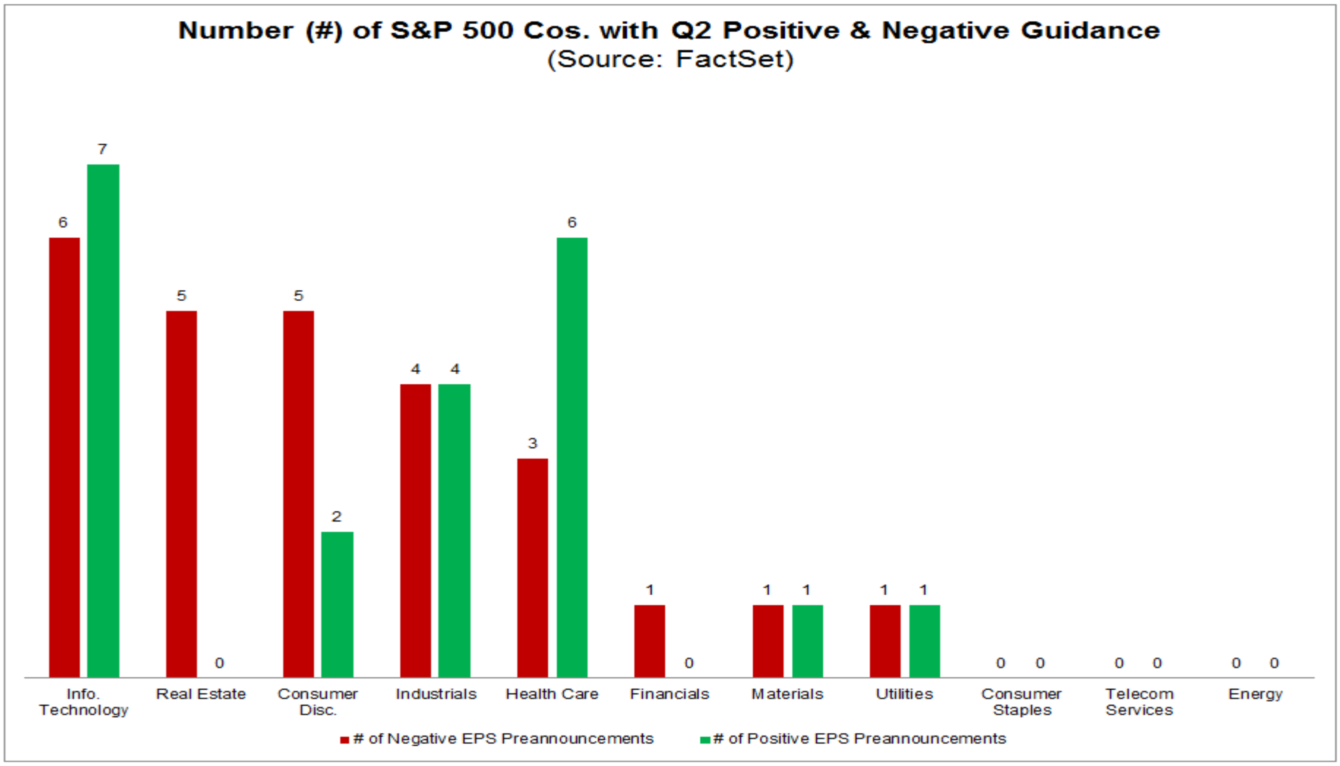


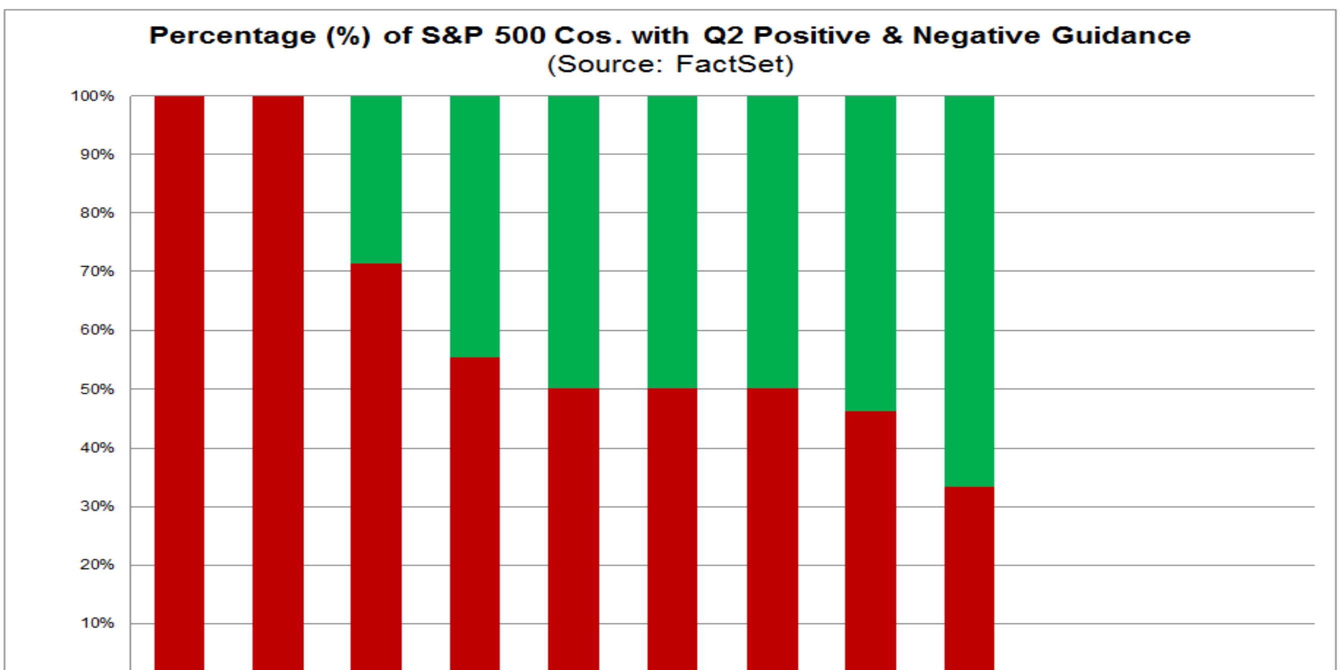
	Real Estate	Information Tech	Financials	Telecom Services	Utilities	S&P 500	Materials	Health Care	Industrials	Consumer Disc.	Consumer Staples	Energy
Q118	36.7%	21.6%	17.9%	13.5%	12.7%	11.5%	11.3%	11.0%	9.0%	7.2%	6.0%	5.8%
Q117	36.9%	19.0%	14.6%	11.9%	11.1%	10.1%	9.6%	10.4%	8.0%	6.8%	5.7%	3.6%



	Energy	Information Tech.	Utilities	Industrials	Financials	Materials	S&P 500	Consumer Staples	Health Care	Telecom Services	Consumer Disc.	Real Estate
Down %	10%	13%	21%	23%	21%	24%	27%	32%	33%	33%	37%	58%
None %	0%	0%	0%	0%	3%	0%	0%	0%	0%	0%	0%	0%
Up %	90%	87%	79%	77%	76%	76%	73%	68%	67%	67%	63%	42%

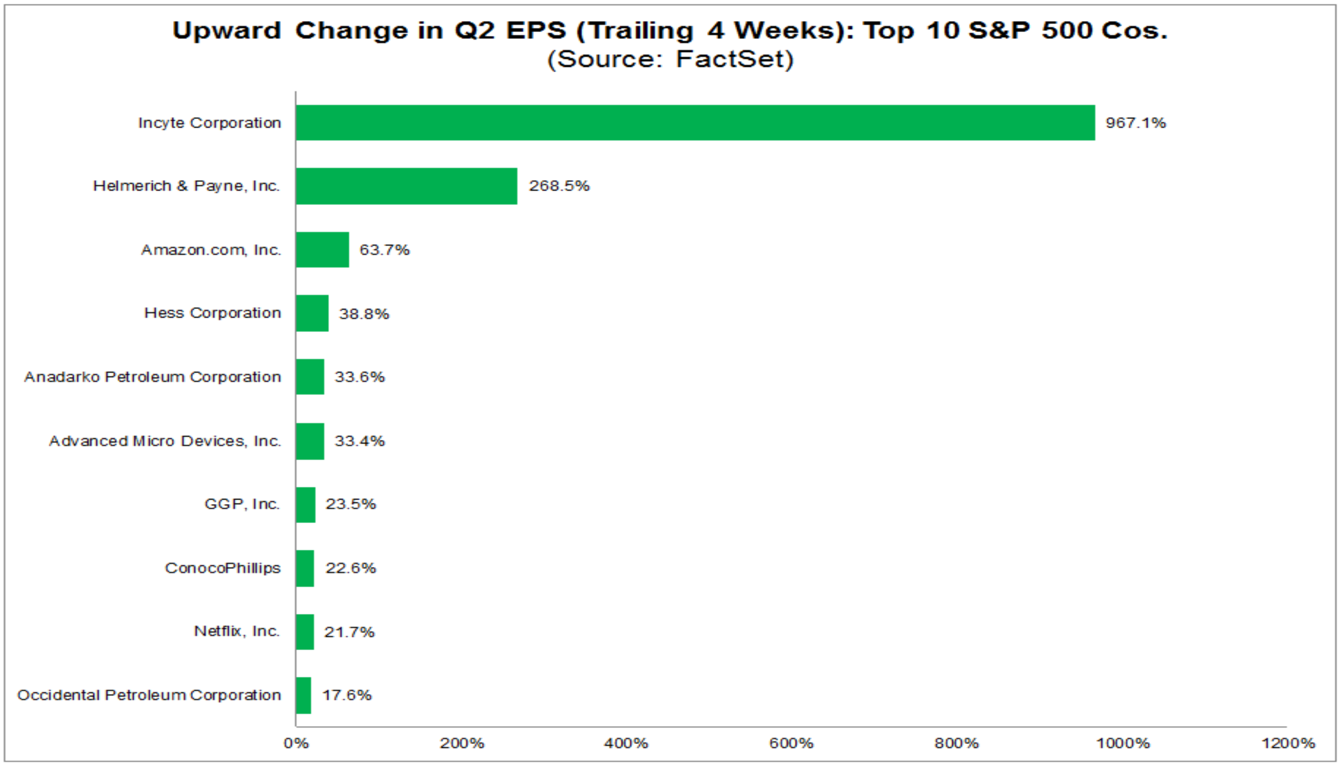
Q2 2018: Guidance

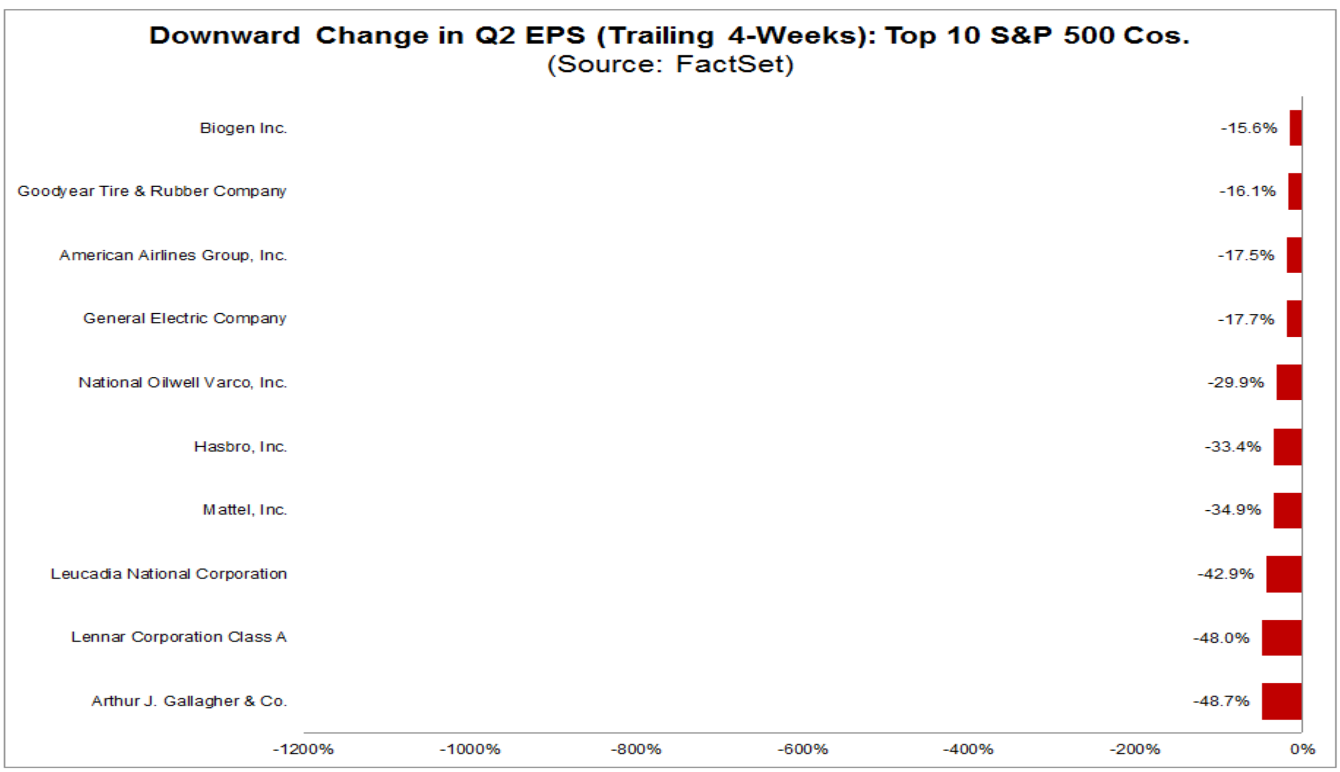




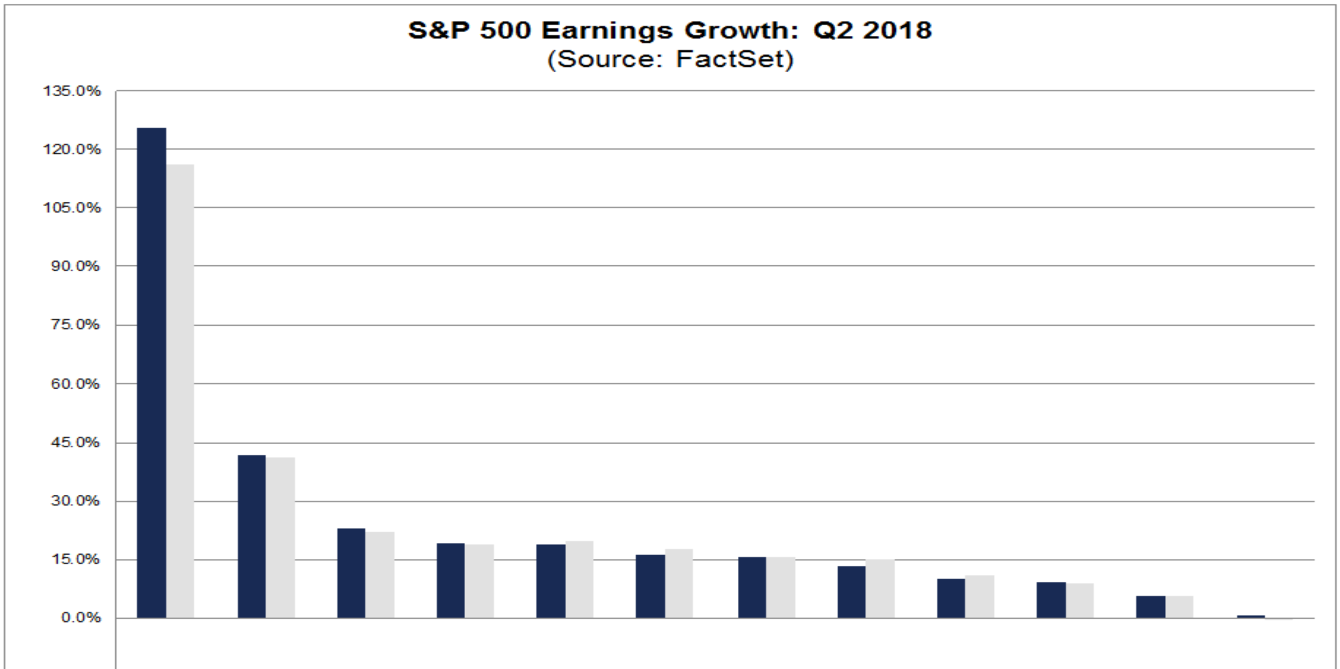
	Real Estate	Financials	Consumer Disc.	S&P 500	Industrials	Materials	Utilities	Info. Technology	Health Care	Consumer Staples	Telecom Services	Energy
Positive	0%	0%	29%	45%	50%	50%	50%	54%	67%	0%	0%	0%
Negative	100%	100%	71%	55%	50%	50%	50%	46%	33%	0%	0%	0%

Q2 2018: EPS Revisions

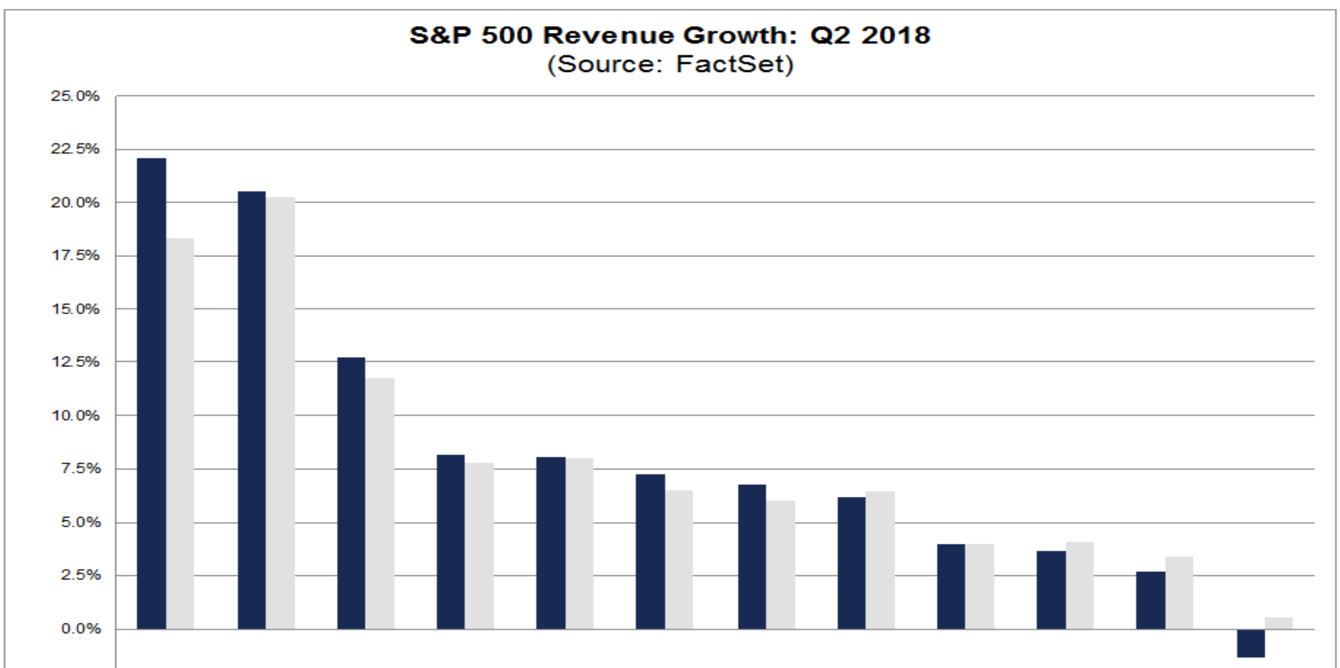




Q2 2018: Growth

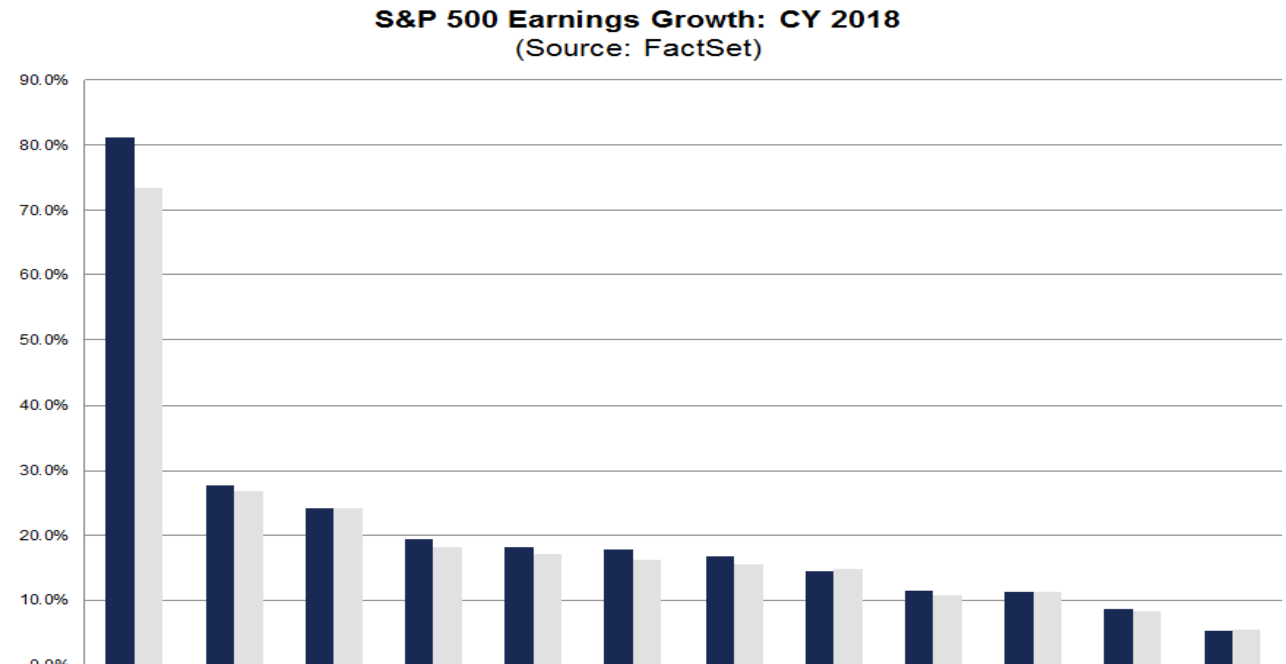


	Energy	Materials	Info. Technology	S&P 500	Financials	Telecom Services	Consumer Disc.	Industrials	Consumer Staples	Health Care	Real Estate	Utilities
Today	125.5%	41.7%	23.2%	19.1%	18.9%	16.2%	15.7%	13.4%	10.0%	9.3%	5.6%	0.7%
31-Mar	116.1%	41.4%	22.1%	19.0%	19.8%	17.7%	15.8%	15.0%	11.1%	9.0%	5.7%	-0.5%

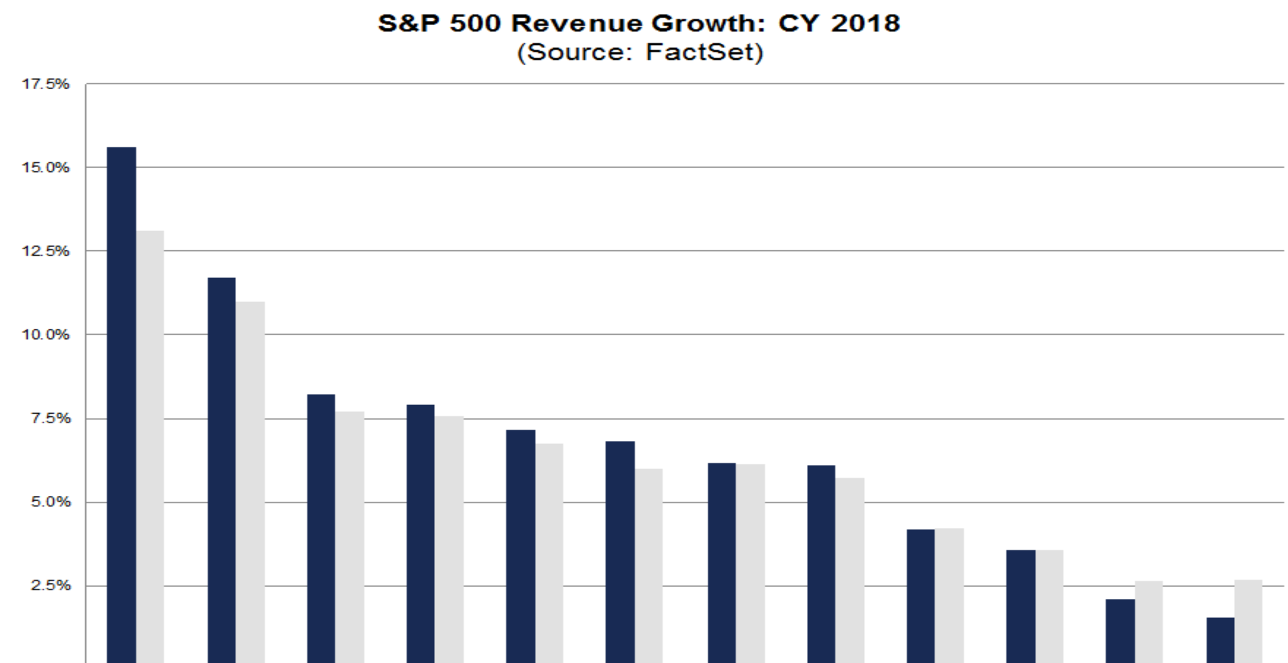


	Energy	Materials	Info. Technology	S&P 500	Consumer Disc.	Industrials	Real Estate	Health Care	Consumer Staples	Financials	Telecom Services	Utilities
Today	22.1%	20.5%	12.7%	8.2%	8.1%	7.3%	6.8%	6.2%	4.0%	3.7%	2.7%	-1.3%
31-Mar	18.3%	20.3%	11.8%	7.8%	8.0%	6.5%	6.1%	6.5%	4.0%	4.1%	3.4%	0.5%

CY 2018: Growth

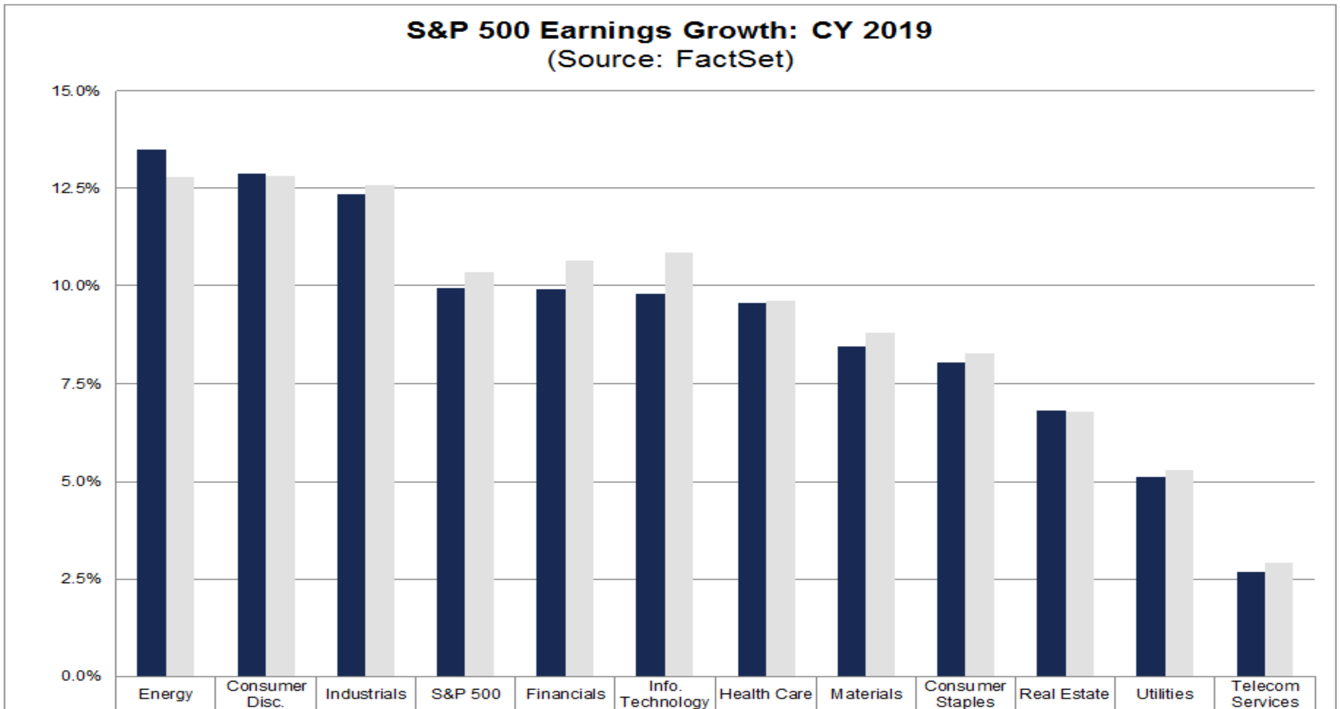


	Energy	Financials	Materials	S&P 500	Industrials	Info. Technology	Consumer Disc.	Telecom Services	Health Care	Consumer Staples	Utilities	Real Estate
Today	81.2%	27.8%	24.2%	19.4%	18.1%	17.9%	16.8%	14.5%	11.5%	11.3%	8.6%	5.4%
31-Mar	73.3%	26.9%	24.3%	18.3%	17.1%	16.3%	15.6%	15.0%	10.8%	11.4%	8.3%	5.5%

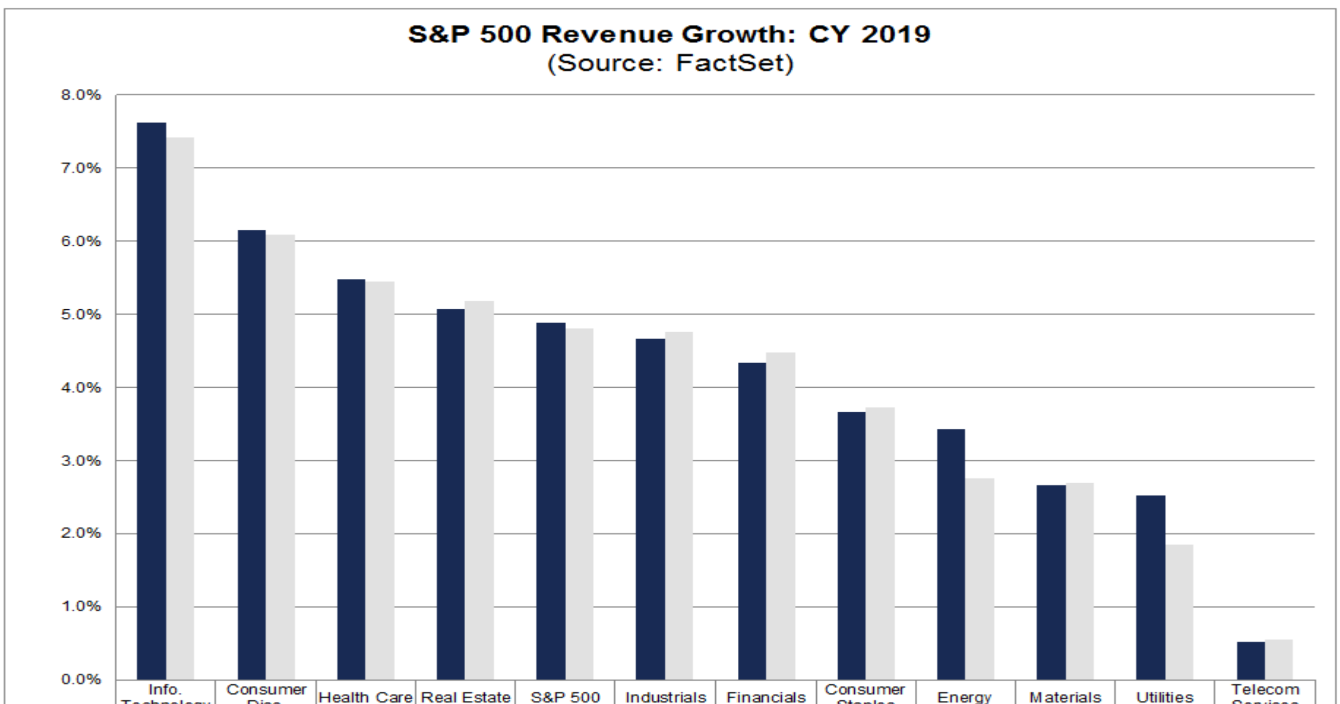


	Energy	Info. Technology	Materials	Consumer Disc.	S&P 500	Industrials	Health Care	Real Estate	Financials	Consumer Staples	Telecom Services	Utilities
Today	15.6%	11.7%	8.2%	7.9%	7.2%	6.8%	6.2%	6.1%	4.2%	3.6%	2.1%	1.5%
31-Mar	13.1%	11.0%	7.7%	7.6%	6.8%	6.0%	6.1%	5.7%	4.2%	3.6%	2.7%	2.7%

CY 2019: Growth

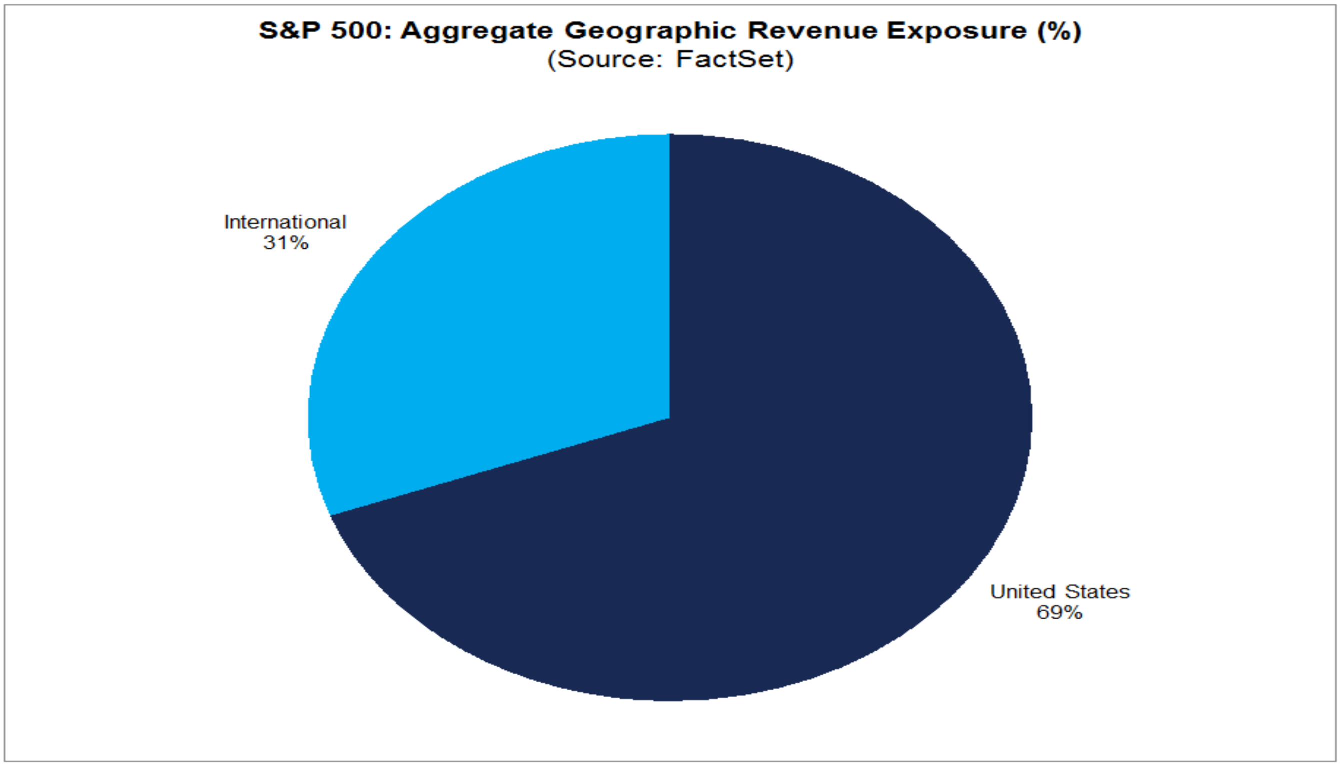


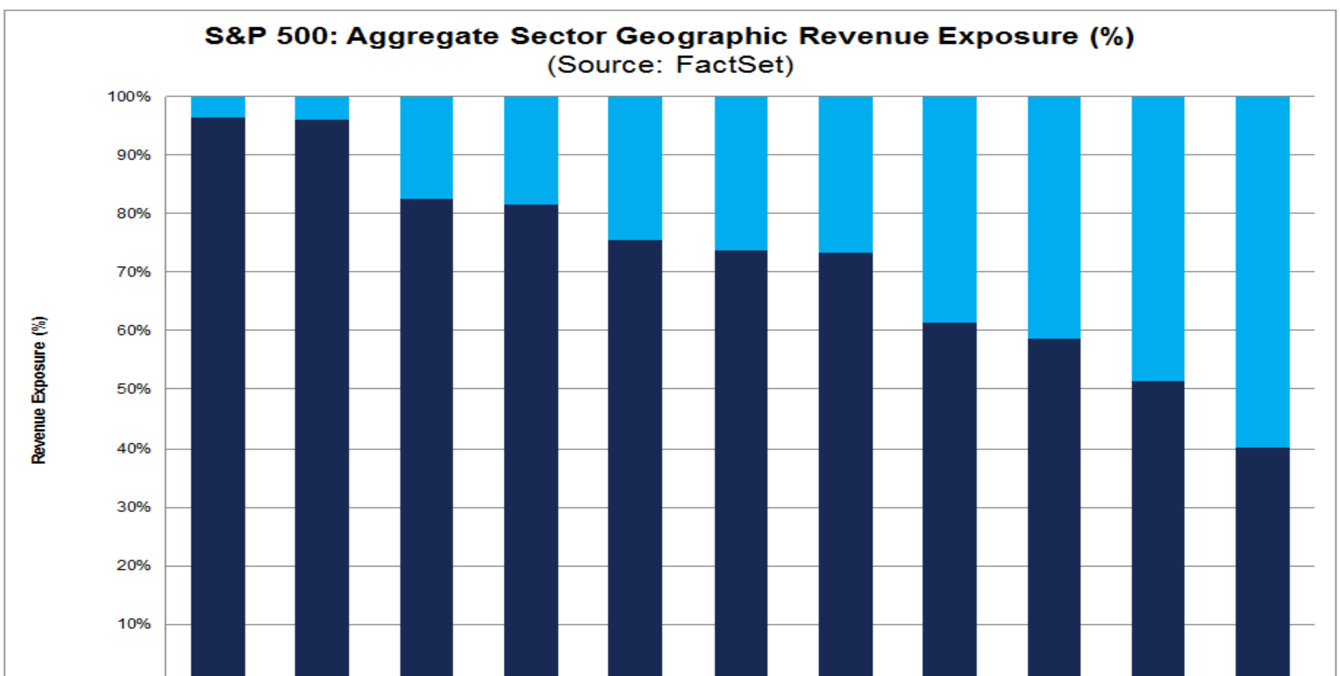
	Energy	Consumer Disc.	Industrials	S&P 500	Financials	Info. Technology	Health Care	Materials	Consumer Staples	Real Estate	Utilities	Telecom Services
Today	13.5%	12.9%	12.4%	9.9%	9.9%	9.8%	9.5%	8.4%	8.0%	6.8%	5.1%	2.7%
31-Mar	12.8%	12.8%	12.6%	10.3%	10.6%	10.9%	9.6%	8.8%	8.3%	6.8%	5.3%	2.9%



	Info. Technology	Consumer Disc.	Health Care	Real Estate	S&P 500	Industrials	Financials	Consumer Staples	Energy	Materials	Utilities	Telecom Services
Today	7.6%	6.1%	5.5%	5.1%	4.9%	4.7%	4.3%	3.6%	3.4%	2.7%	2.5%	0.5%
31-Mar	7.4%	6.1%	5.4%	5.2%	4.8%	4.8%	4.5%	3.7%	2.8%	2.7%	1.9%	0.6%

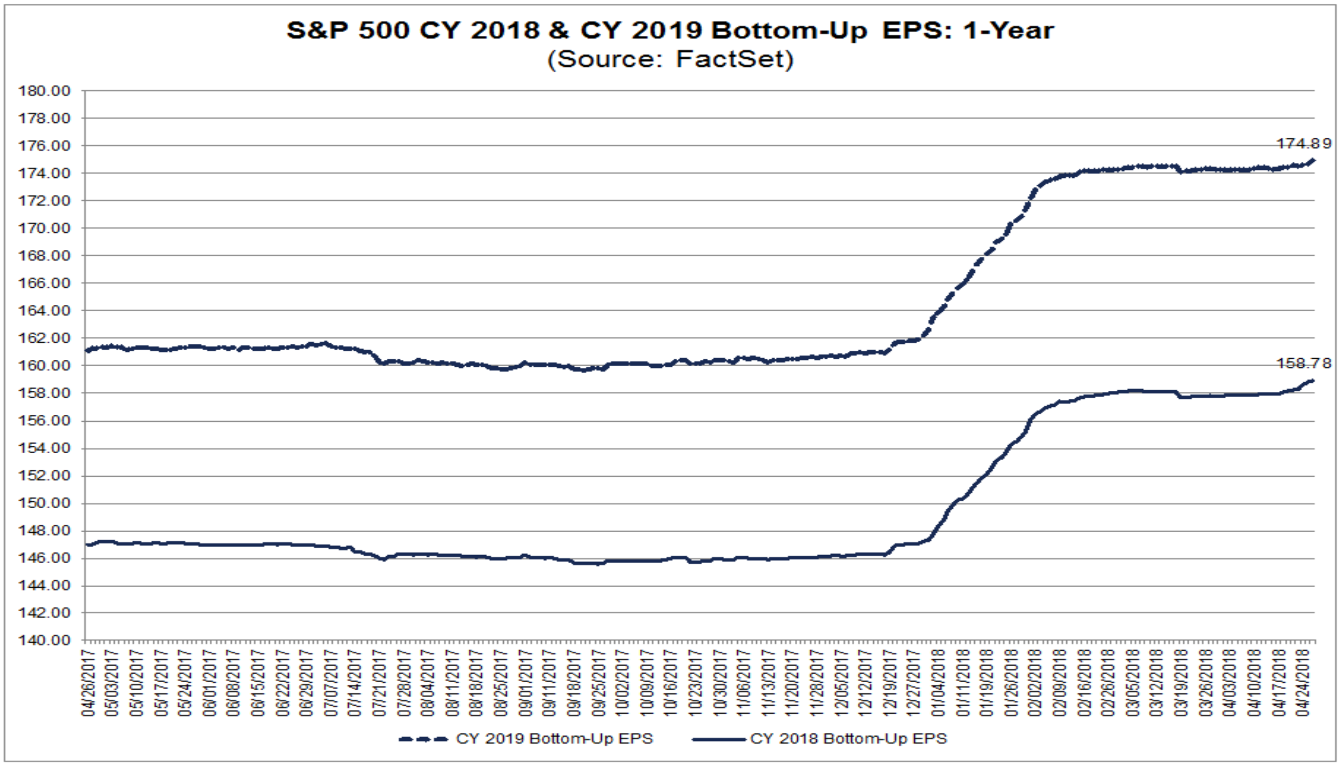
Geographic Revenue Exposure

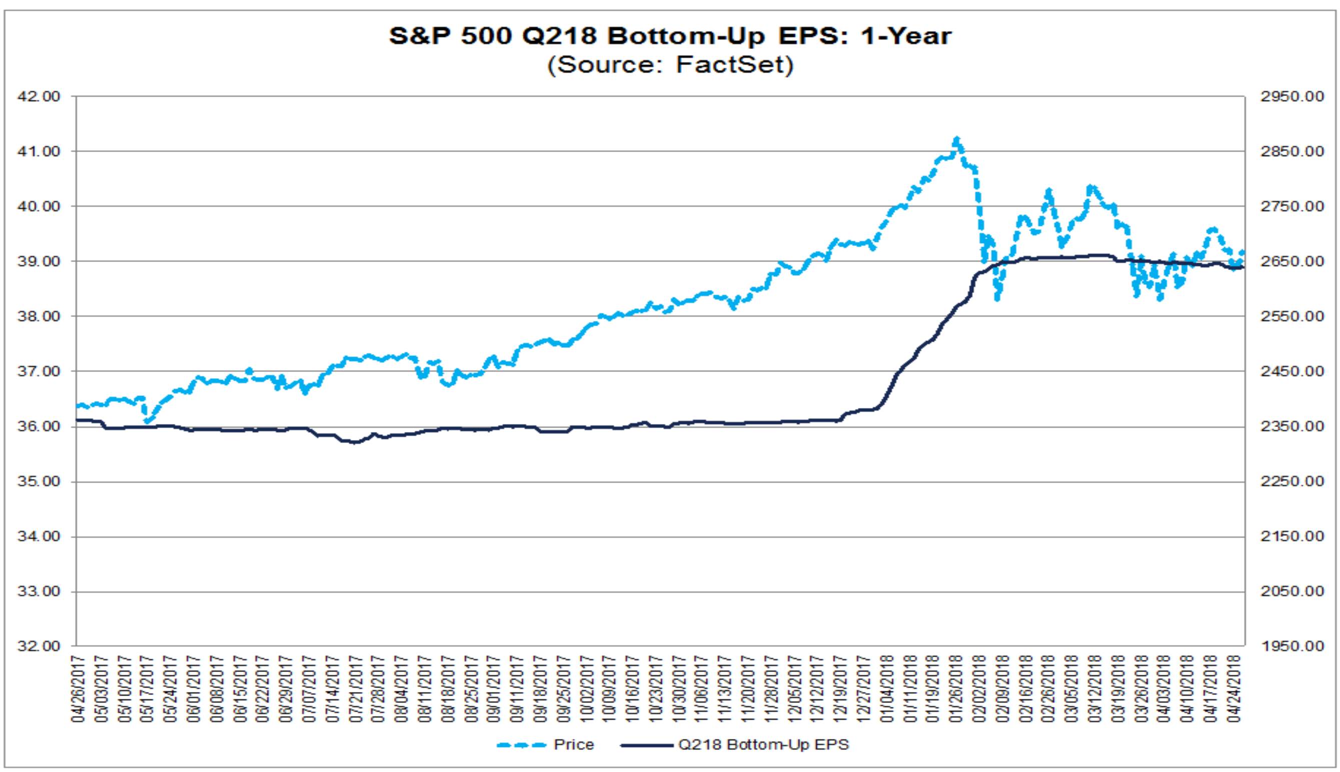




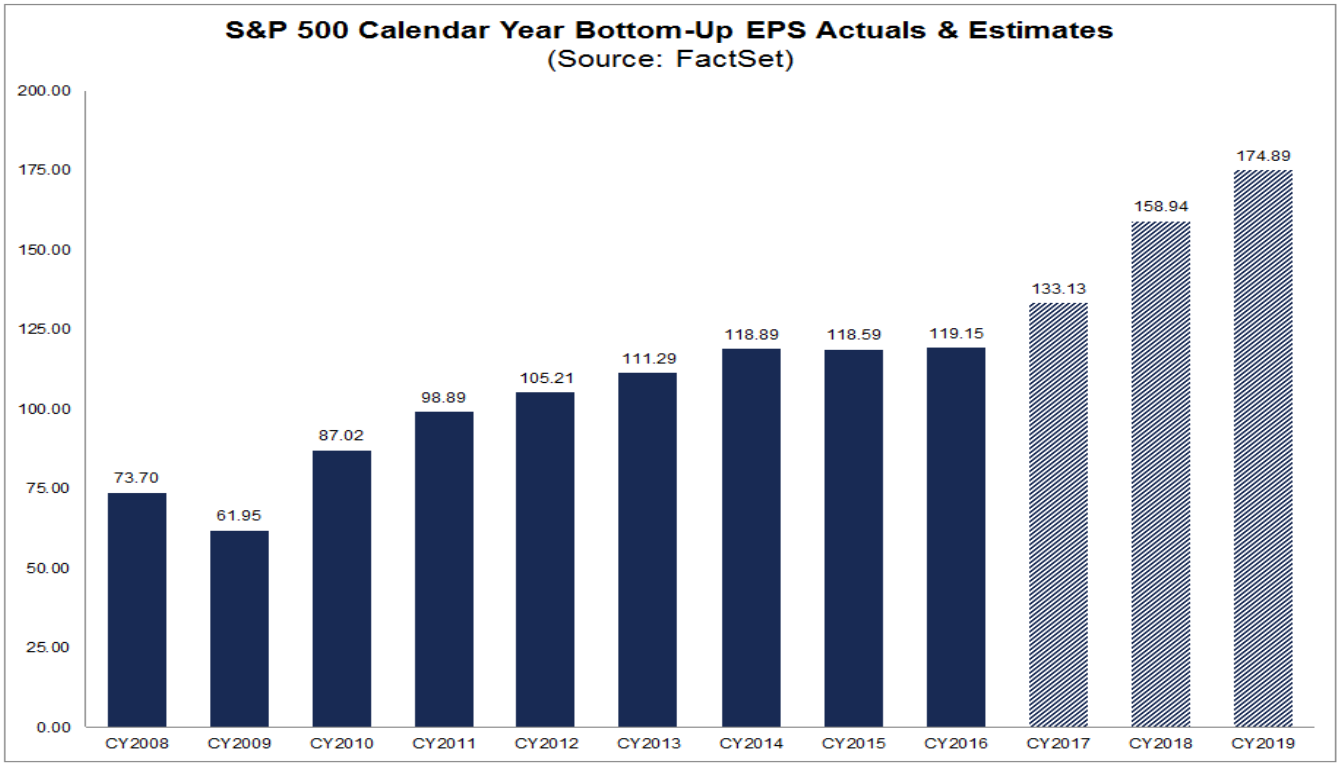
	Telecom Services	Utilities	Real Estate	Health Care	Consumer Disc.	Financials	Consumer Staples	Industrials	Energy	Materials	Info. Technology
International	4%	4%	18%	18%	25%	26%	27%	39%	41%	49%	60%
United States	96%	96%	82%	82%	75%	74%	73%	61%	59%	51%	40%

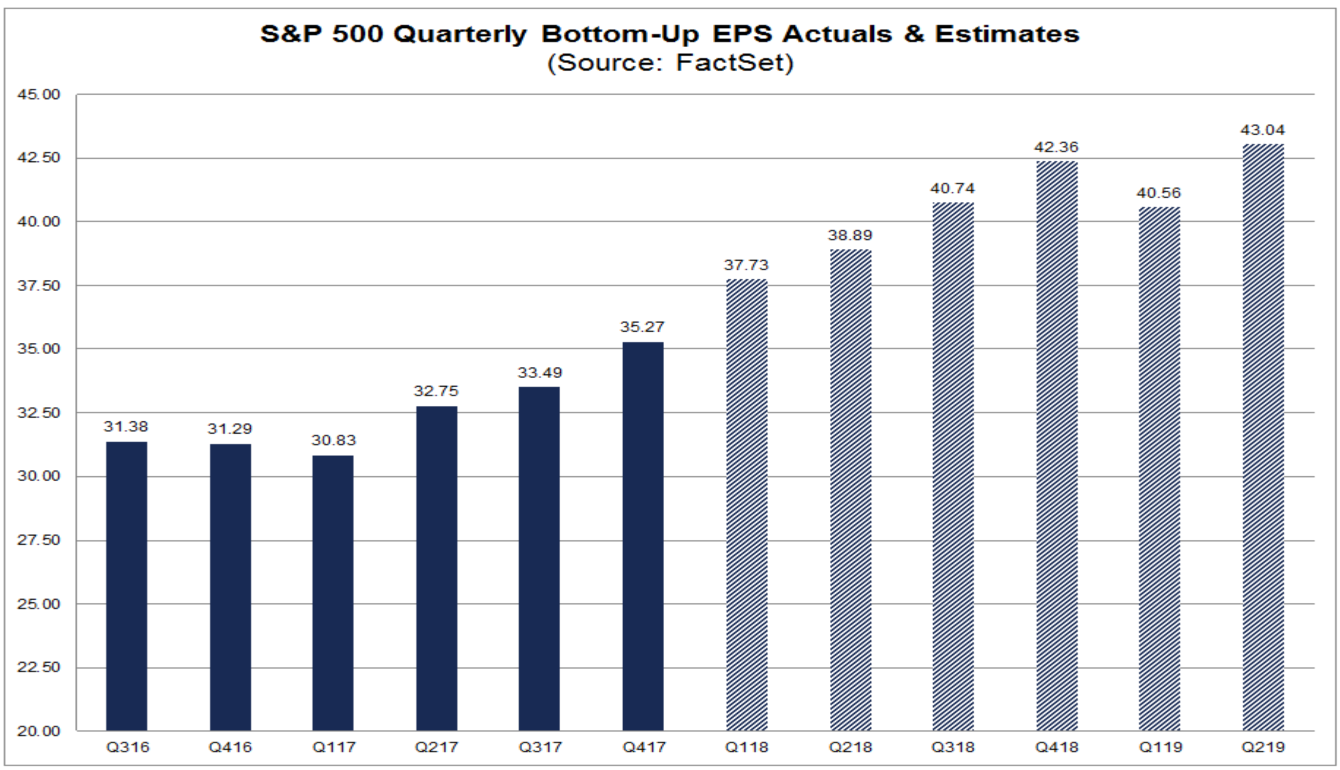
Bottom-up EPS Estimates: Revisions



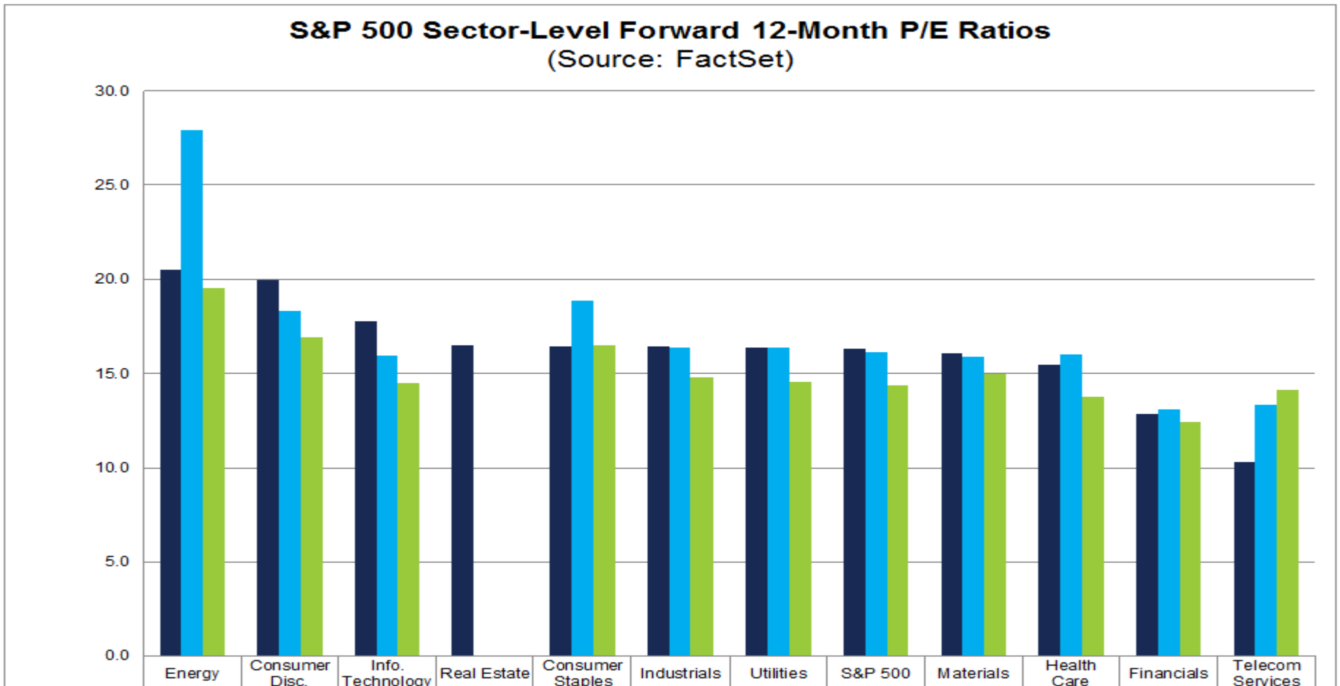


Bottom-up EPS Estimates: Current & Historical

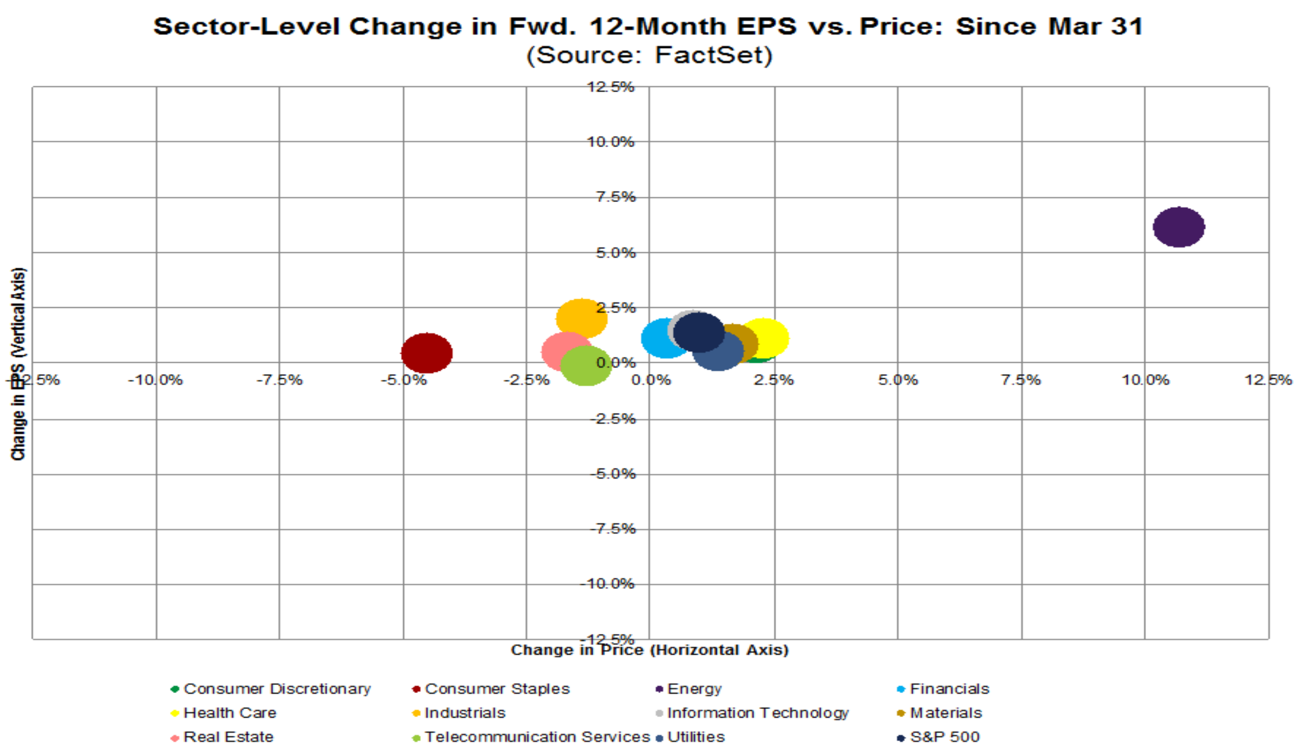




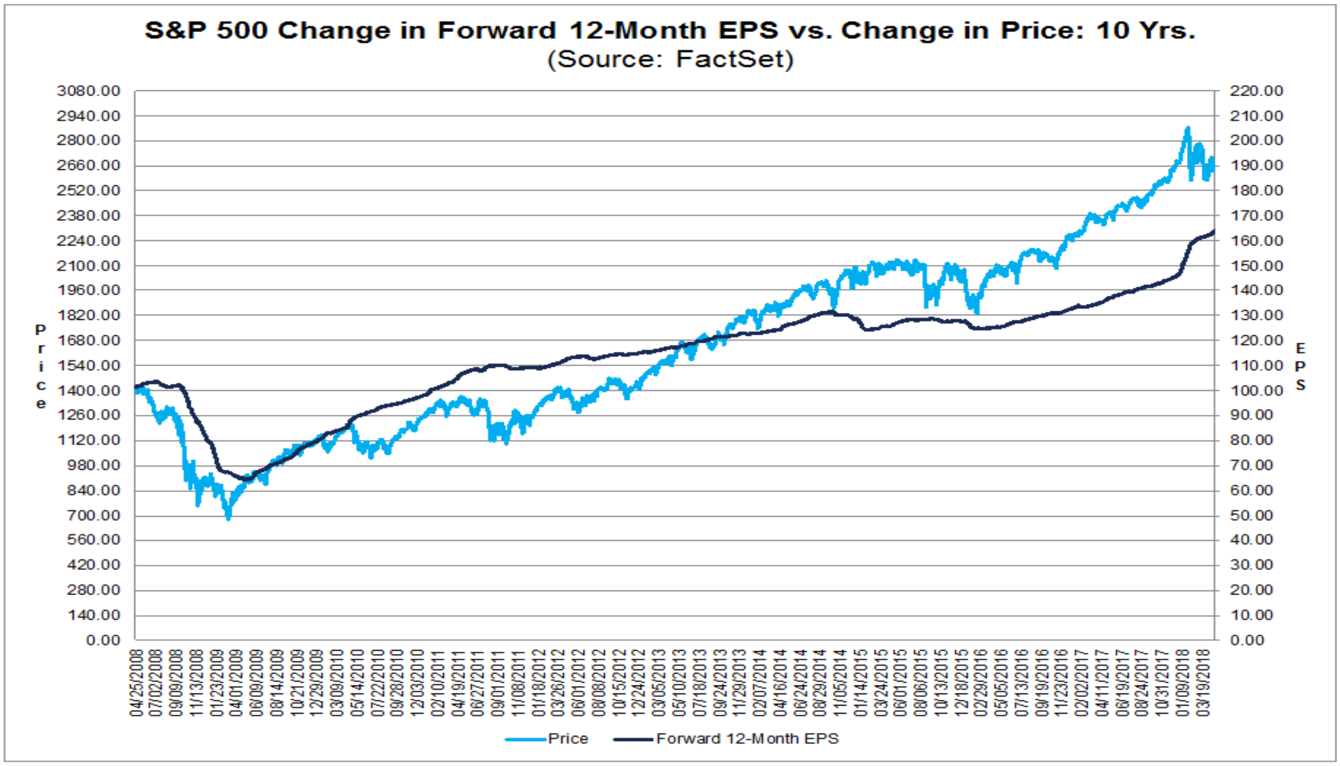
Forward 12M P/E Ratio: Sector Level

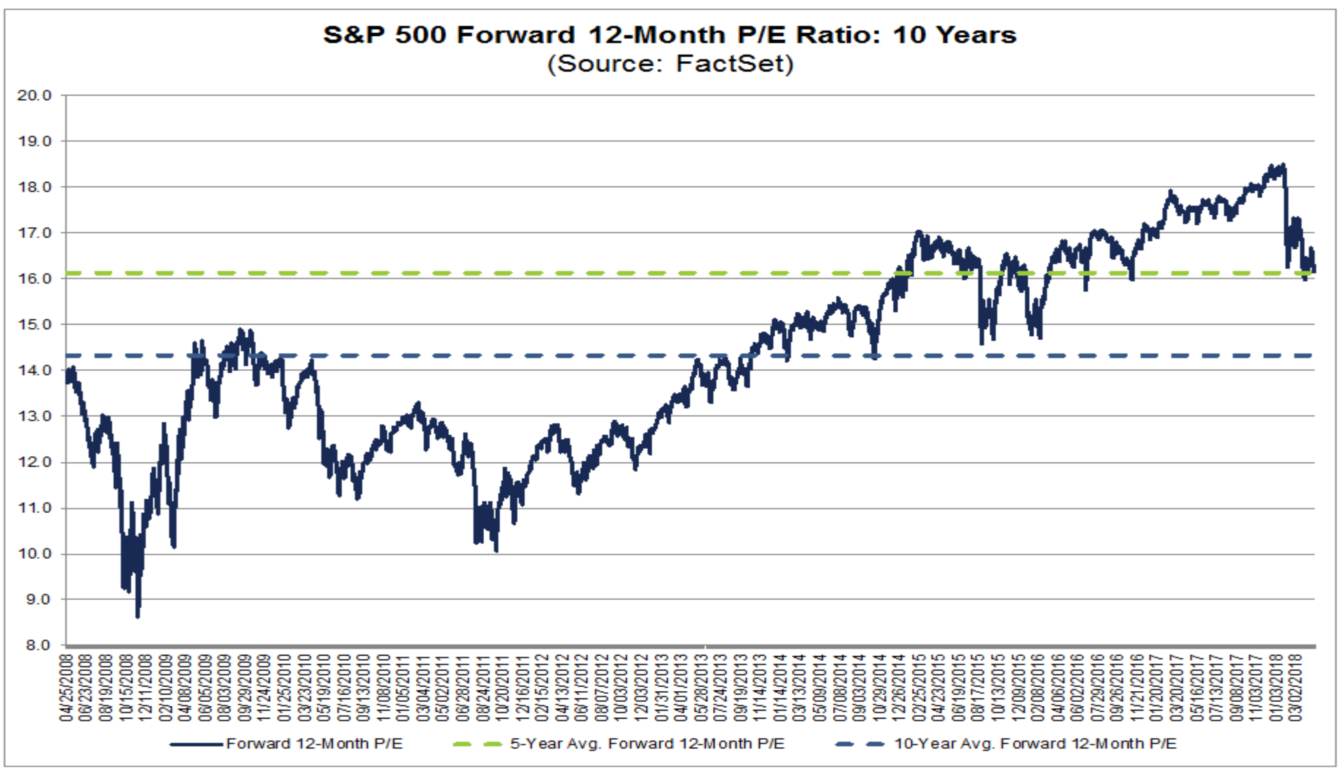


	Energy	Consumer Disc.	Info. Technology	Real Estate	Consumer Staples	Industrials	Utilities	S&P 500	Materials	Health Care	Financials	Telecom Services
Fwd P/E	20.5	19.9	17.7	16.5	16.4	16.4	16.4	16.3	16.1	15.4	12.9	10.3
5-Yr Avg.	27.9	18.3	15.9		18.8	16.3	16.3	16.1	15.9	16.0	13.1	13.3
10-Yr Avg.	19.5	16.9	14.5		16.4	14.8	14.5	14.3	14.9	13.7	12.5	14.1

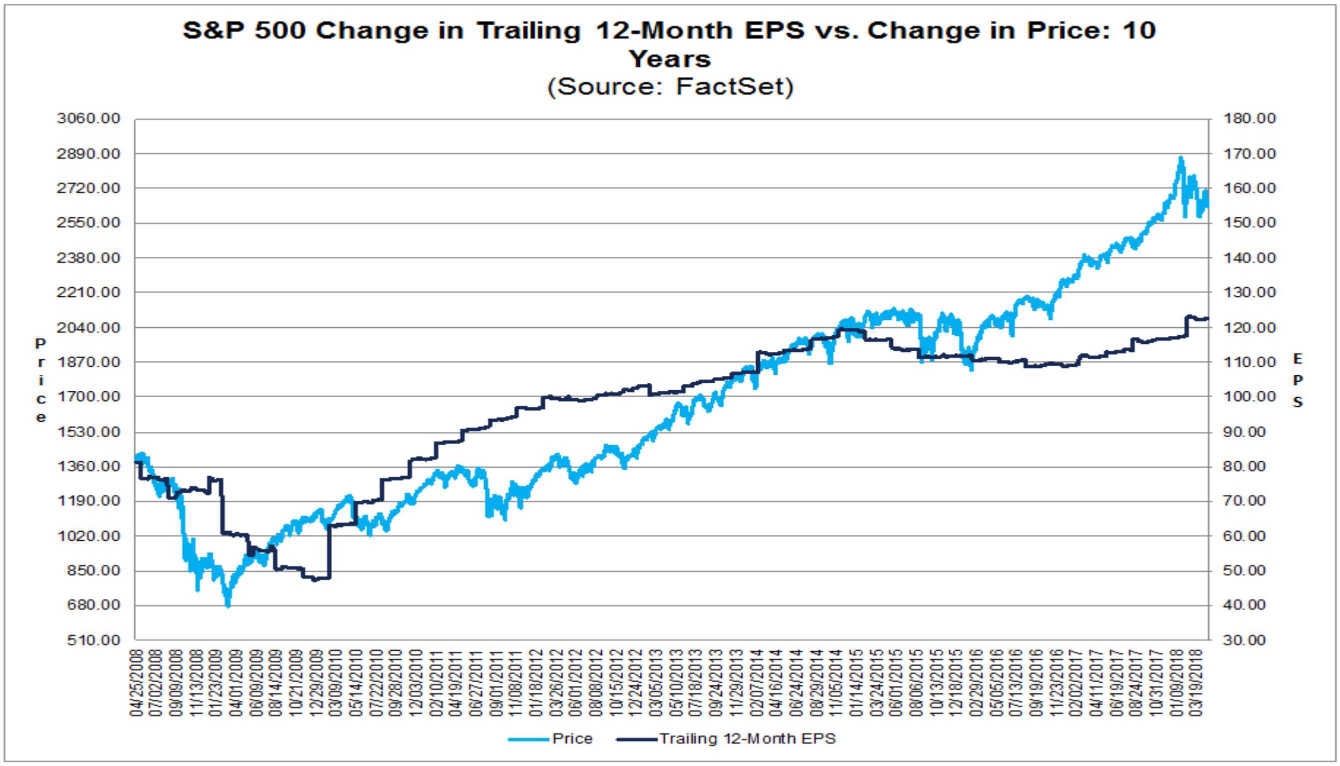


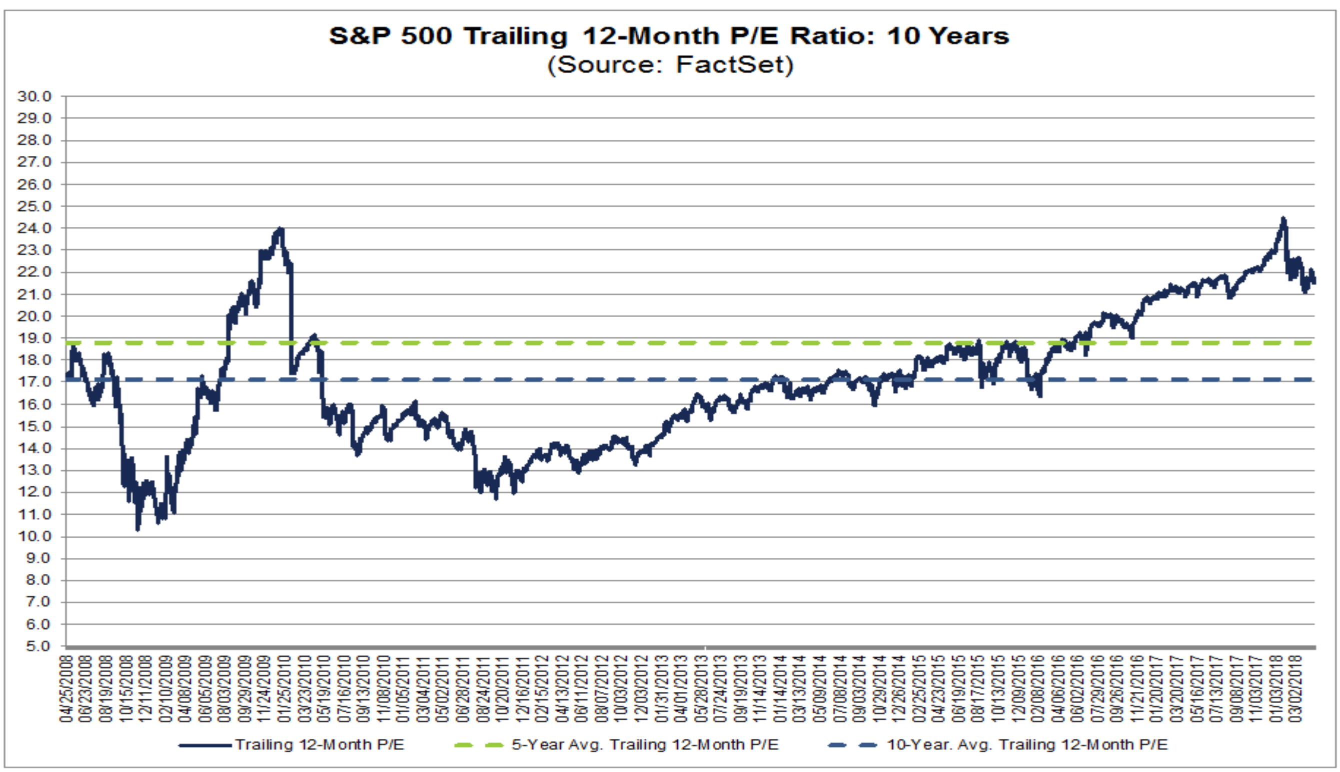
Forward 12M P/E Ratio: Long-Term Averages





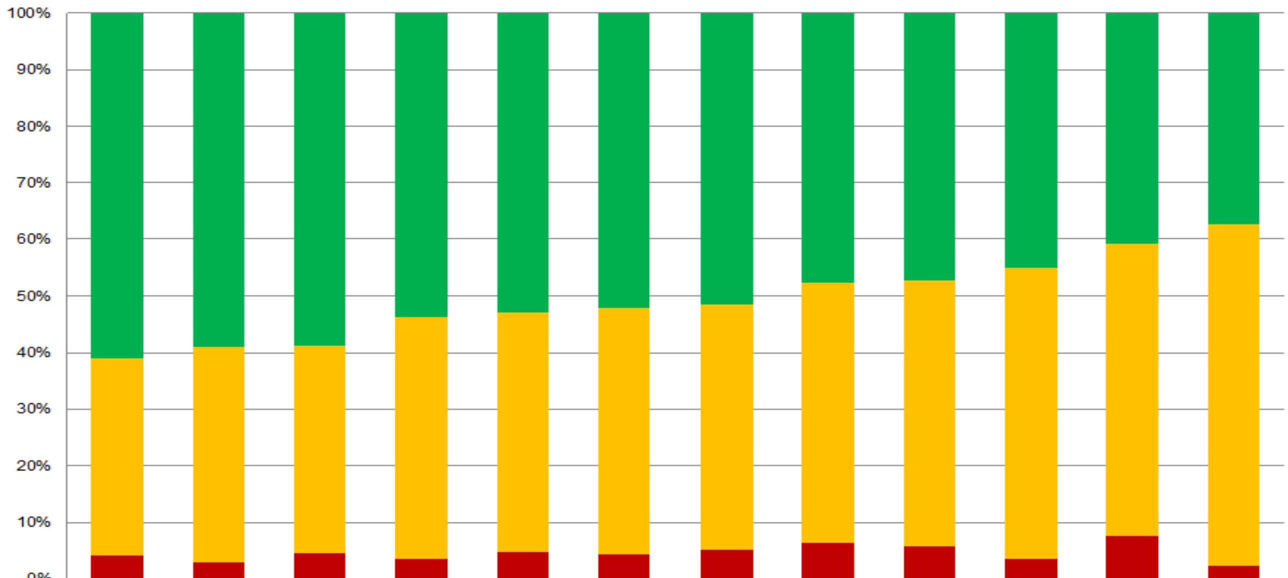
Trailing 12M P/E Ratio: Long-Term Averages





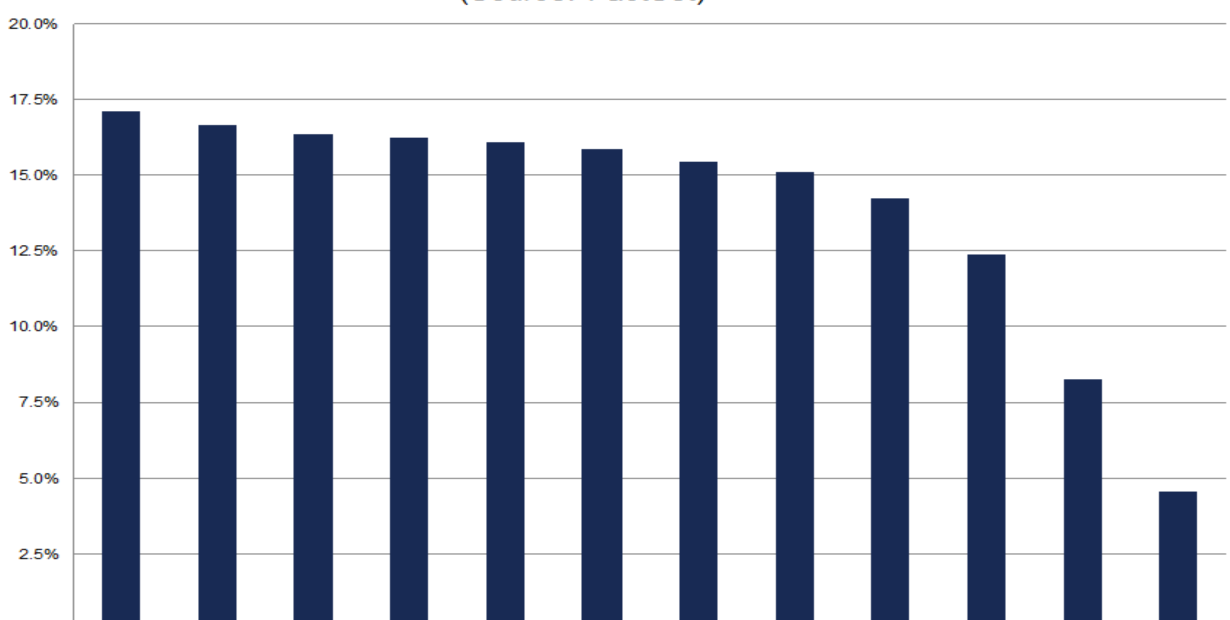
Targets & Ratings

S&P 500: Percentage of Buy, Hold, and Sell Ratings
(Source: FactSet)



	Info. Tech.	Health Care	Energy	Materials	S&P 500	Industrials	Consumer Disc.	Consumer Staples	Financials	Real Estate	Utilities	Telecom Services
Buy	61%	59%	59%	54%	53%	52%	52%	48%	47%	45%	41%	37%
Hold	35%	38%	37%	43%	42%	44%	43%	46%	47%	51%	52%	60%
Sell	4%	3%	5%	3%	5%	4%	5%	6%	6%	4%	8%	2%

S&P 500 Sector-Level Bottom-Up Target Price vs. Closing Price
(Source: FactSet)



	Info. Tech.	Consumer Staples	Industrials	Materials	Telecom Services	Consumer Disc.	Health Care	S&P 500	Financials	Real Estate	Energy	Utilities
Target/Close	17.1%	16.6%	16.3%	16.2%	16.1%	15.9%	15.4%	15.1%	14.2%	12.4%	8.3%	4.6%

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