

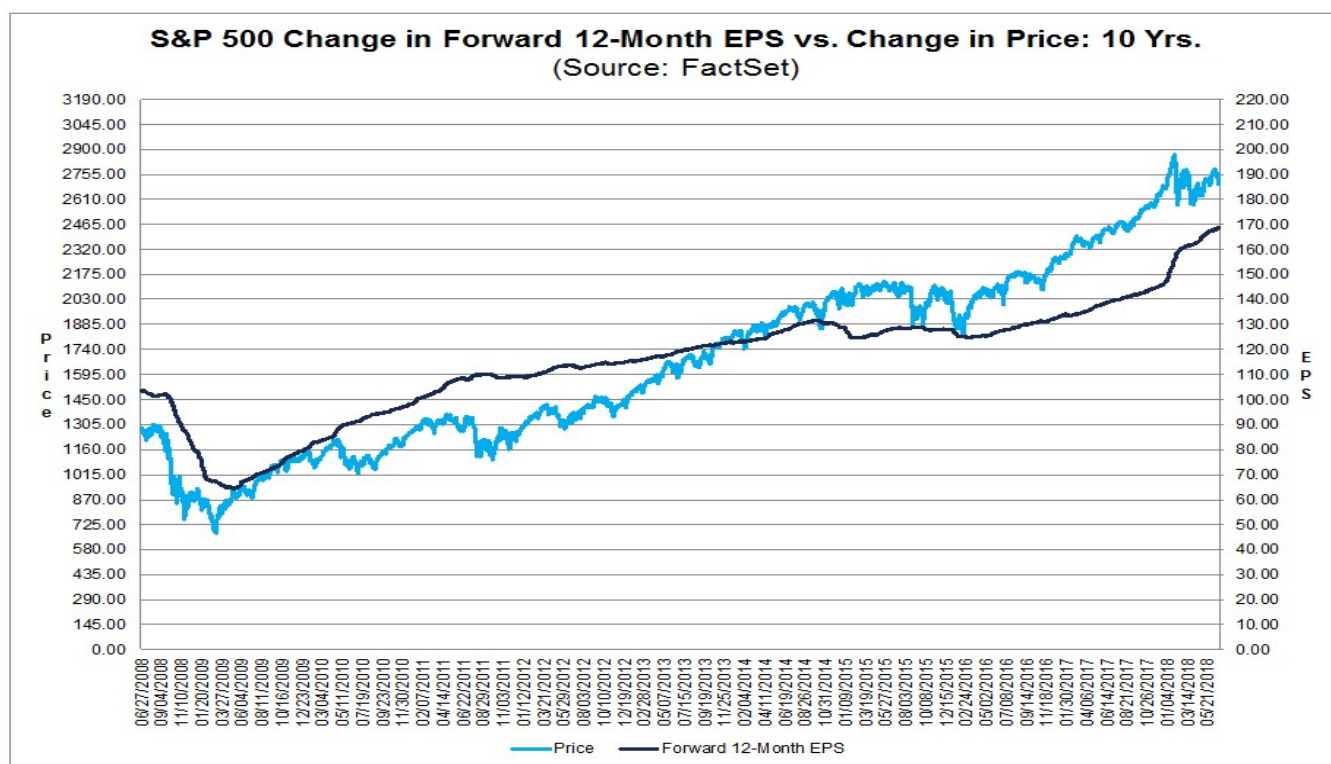
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June 29, 2018

Key Metrics

- **Earnings Scorecard:** For Q2 2018 (with 19 companies in the S&P 500 reporting actual results for the quarter), 95% of S&P 500 companies have reported a positive EPS surprise and 89% have reported a positive sales surprise.
- **Earnings Growth:** For Q2 2018, the estimated earnings growth rate for the S&P 500 is 20.0%. If 20.0% is the actual growth rate for the quarter, it will mark the second highest earnings growth since Q3 2010 (34.0%).
- **Earnings Revisions:** On March 31, the estimated earnings growth rate for Q2 2018 was 18.9%. Five sectors have higher growth rates today (compared to March 31) due to upward revisions to EPS estimates, led by the Energy sector.
- **Earnings Guidance:** For Q2 2018, 62 S&P 500 companies have issued negative EPS guidance and 47 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.1. This P/E ratio is below the 5-year average (16.2) but above the 10-year average (14.4).



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Topic of the Week:

Second Largest Increase in S&P 500 EPS Estimate in 8 Years for Q2 2018

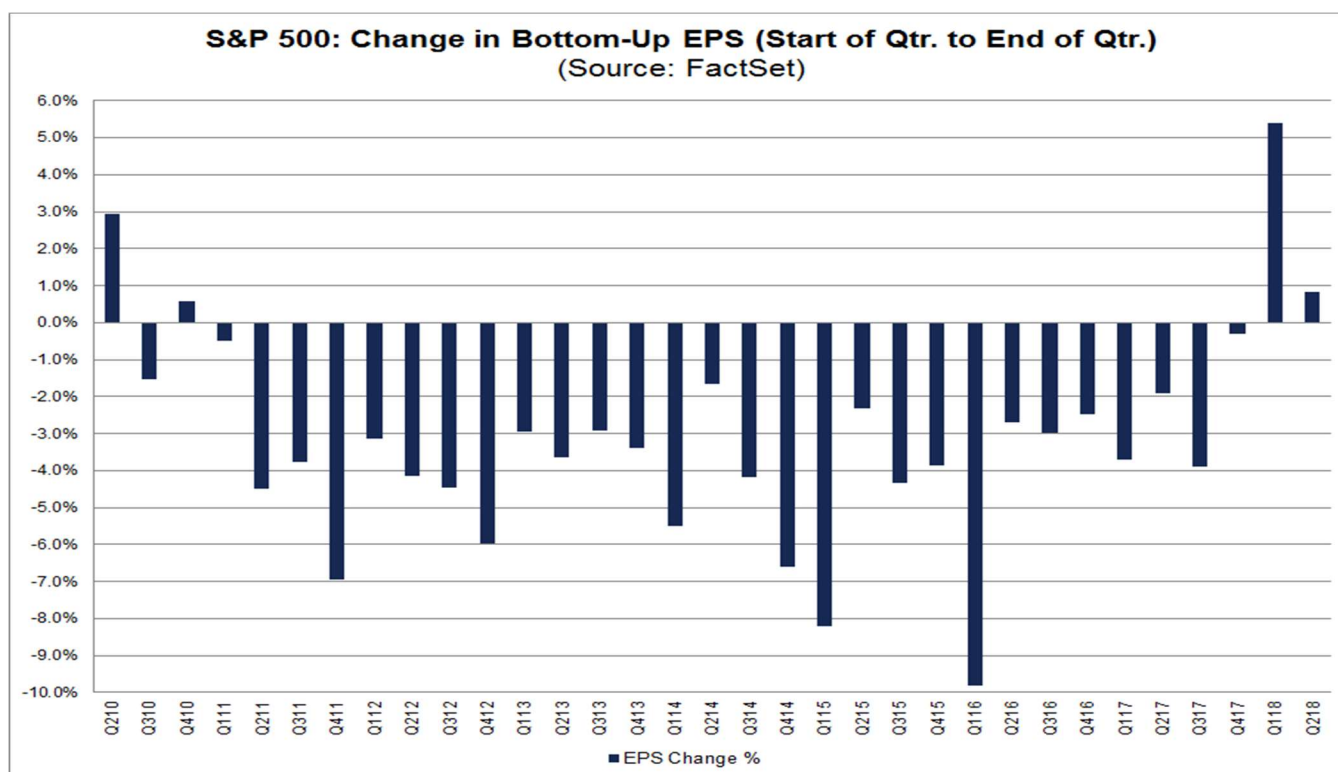
During the second quarter, analysts have increased earnings estimates for companies in the S&P 500 for the quarter. The Q2 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for all the companies in the index) has increased by 0.8% (to \$39.35 from \$39.03) during this period. How significant is a 0.8% increase in the bottom-up EPS estimate during a quarter? How does this increase compare to recent quarters?

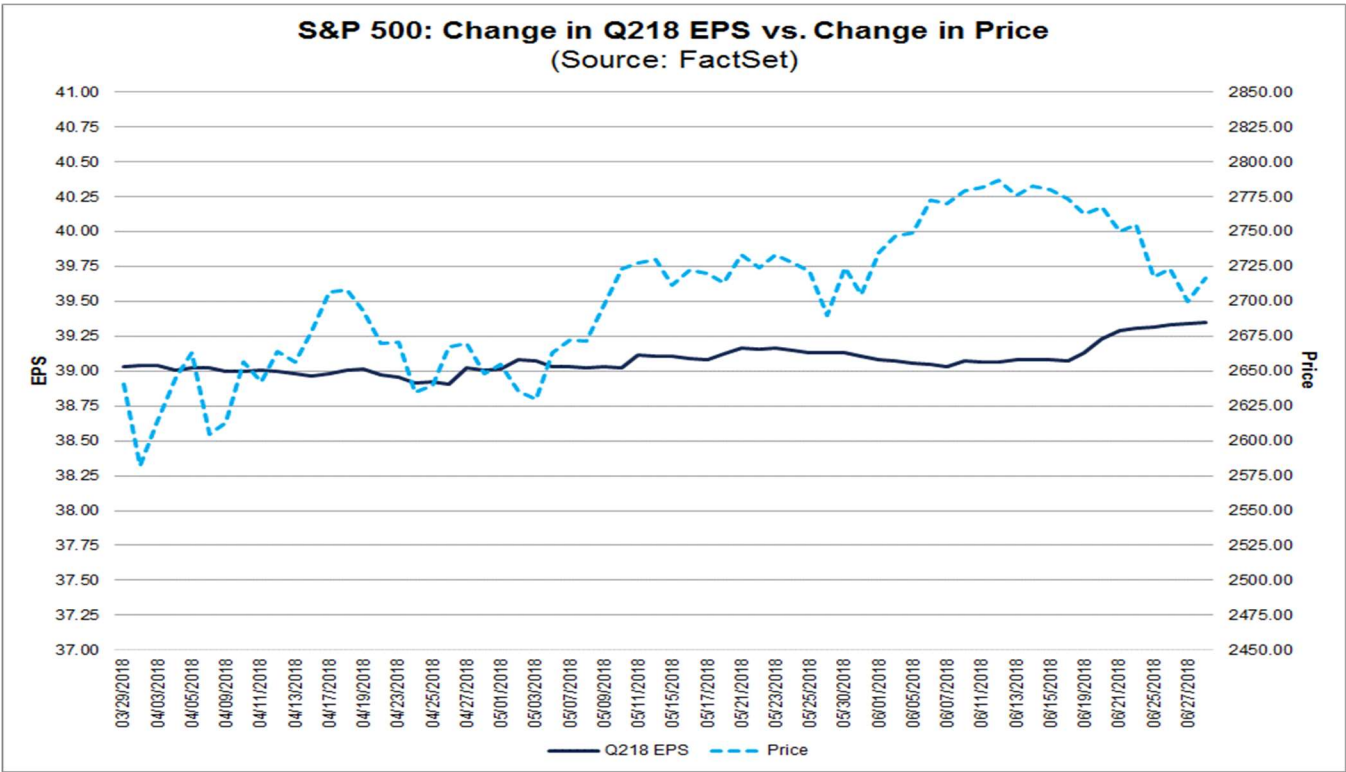
On average, the bottom-up EPS estimate usually decreases during a quarter. During the past five years (20 quarters), the bottom-up EPS estimate has recorded an average decline of 3.4% during a quarter. During the past ten years, (40 quarters), the bottom-up EPS estimate has recorded an average decline of 5.0% during a quarter. During the past fifteen years, (60 quarters), the bottom-up EPS estimate has recorded an average decline of 3.9% during a quarter.

In fact, the second quarter of 2018 will mark the second largest increase in the bottom-up EPS estimate during a quarter since Q2 2010 (+3.0%). The current record (since 2002) is 5.4%, which occurred in the previous quarter (Q1 2018).

At the sector level, five sectors have recorded an increase in their bottom-up EPS estimate during the quarter, led by the Energy sector (+15.5%). Six sectors have recorded a decrease in their bottom-up EPS estimate during the quarter, led by the Consumer Staples sector (-4.4%). However, nine sectors have recorded a smaller decrease (or an increase) in their bottom-up EPS estimate relative to their 5-year average and their 10-year average for a quarter. Seven sectors recorded a smaller decrease (or an increase) in their bottom-up EPS estimate relative to their 15-year average for a quarter.

As the bottom-up EPS estimate for the second quarter rose during the quarter, the value of the S&P 500 also increased during this same period. From March 31 through June 28, the value of the index increased by 2.9% (to 2716.31 from 2640.87). Assuming the price of the index does not fall below 2640.87 today, the second quarter will mark the second time since Q4 2010 in which both the bottom-up EPS estimate for the quarter and the value of the index increased during the quarter.





Q2 Earnings Season: By The Numbers

Overview

In terms of estimate revisions for companies in the S&P 500, analysts have increased earnings estimates in aggregate for Q2 2018 to date. On a per-share basis, estimated earnings for the second quarter have increased by 0.8% since March 31. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings estimates have fallen by 3.4% on average during a quarter. Over the past ten years, (40 quarters), earnings estimates have fallen by 5.0% on average during a quarter. Over the past fifteen years, (60 quarters), earnings estimates have fallen by 3.9% on average during a quarter.

In addition, a smaller percentage of S&P 500 companies have lowered the bar for earnings for Q2 2018 relative to recent averages. Of the 109 companies that have issued EPS guidance for the second quarter, 62 have issued negative EPS guidance and 47 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 57% (62 out of 109), which is well below the 5-year average of 72%.

Because of the upward revisions to earnings estimates, the estimated year-over-year earnings growth rate for Q2 2018 has increased from 18.9% on March 31 to 20.0% today. All eleven sectors are predicted to report year-over-year earnings growth. Seven sectors are projected to report double-digit earnings growth for the quarter, led by the Energy, Materials, Telecom Services, and Information Technology sectors.

Because of the upward revisions to sales estimates, the estimated year-over-year sales growth rate for Q2 2018 has increased from 7.9% on March 31 to 8.8% today. All eleven sectors are projected to report year-over-year growth in revenues. Four sectors are predicted to report double-digit growth in revenues: Energy, Materials, Information Technology, and Real Estate.

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

The forward 12-month P/E ratio is 16.1, which is below the 5-year average but above the 10-year average.

During the upcoming week, no S&P 500 companies are scheduled to report results for the second quarter.

Earnings Revisions: Energy Sector Has Recorded Largest Increase in Earnings Estimates

Slight Increase in Estimated Earnings Growth Rate for Q2 This Week

The estimated earnings growth rate for the second quarter is 20.0% this week, which is slightly above the estimated earnings growth rate of 19.8% last week. The slight increase was mainly due to upside earnings surprises reported by companies in the Consumer Discretionary and Consumer Staples sectors during the past week.

Overall, the estimated earnings growth rate for Q2 2018 of 20.0% today is above the estimated earnings growth rate of 18.9% at the start of the quarter (March 31). Five sectors have recorded an increase in expected earnings growth since the beginning of the quarter due to upward revisions to earnings estimates, led by the Energy, Materials, and Information Technology sectors. On the other hand, five sectors have a recorded a decrease in expected earnings growth due to downward revisions to earnings estimates, led by the Consumer Staples sector. One sector (Real Estate) has recorded no change in FFO growth (5.7%) since March 31.

Energy: Chevron Leads Increase in Expected Earnings

The Energy sector has recorded the largest increase in expected earnings growth since the start of the quarter (to 141.7% from 115.1%). This sector has also witnessed the largest increase in price of any sector since March 31 at 12.0%. Overall, 23 of the 31 companies (74%) in the Energy sector have seen an increase in their mean EPS estimate during this time. Of these 23 companies, 13 have recorded an increase in their mean EPS estimate of more than 10%, led by Helmerich & Payne (to \$0.03 from \$0.01), Occidental Petroleum (to \$1.22 from \$0.70), and Anadarko Petroleum (to \$0.54 from \$0.33). However, the increase in the mean EPS estimate for Chevron (to \$2.09 from \$1.67) has been the largest contributor to the increase in expected earnings for this sector since March 31. The stock price for Chevron has increased by more than 10% over this same time frame.

Materials: DowDuPont Leads Increase in Estimated Earnings

The Materials sector has recorded the second largest increase (along with the Information Technology sector) in expected earnings growth since the start of the quarter (to 48.7% from 45.1%). This sector has witnessed an increase in price of 1.8% during this same period. Overall, 11 of the 24 companies (46%) in the Materials sector have seen an increase in their mean EPS estimate during this time, led by FMC Corporation (to \$1.72 from \$1.39) and Nucor (to \$1.89 from \$1.63). However, the increase in the mean EPS estimate for DowDuPont (to \$1.29 from \$1.23) has been the largest contributor to the increase in expected earnings for this sector since March 31. The stock price for DowDuPont has increased by 4.9% since the start of the quarter.

Information Technology: Intel and Microsoft Lead Increase in Expected Earnings

The Information Technology sector has recorded the second largest increase (along with the Materials sector) in expected earnings growth since the start of the quarter (to 24.6% from 21.0%). This sector has witnessed the third largest increase in price of all eleven sectors during this time at 6.7%. Overall, 42 of the 71 companies (59%) in the Information Technology sector have seen an increase in their mean EPS estimate during this time. Of these 42 companies, 10 have recorded an increase in their mean EPS estimate of more than 10%, led by Advanced Micro Devices (to \$0.13 from \$0.09) and Twitter (to \$0.16 from \$0.12). However, the increase in the mean EPS estimates for Intel (to \$0.96 from \$0.81) and Microsoft (to \$1.08 from \$1.00) have been the largest contributors to the increase in expected earnings for this sector since March 31. While the stock price for Microsoft has increased by 8.9% since the start of the quarter, the stock price for Intel has fallen by 4.6% over this same period.

Consumer Staples: 76% of Companies Have Seen Decline in Earnings Expectations

The Consumer Staples sector has recorded the largest decrease in expected earnings growth since the start of the quarter (to 8.3% from 11.0%). This sector has also witnessed a decrease in price of 2.2% during this period. Overall, 25 of the 33 companies (76%) in the Consumer Staples sector have seen a decrease in their mean EPS estimate during this time. Of these 25 companies, only two have recorded a decrease in their mean EPS estimate of more than 10%: Campbell Soup (to \$0.25 from \$0.58) and Coty (to \$0.14 from \$0.17). Companies that have been significant contributors to the decrease in earnings for this sector since March 31 include Campbell Soup, Kraft Heinz (to \$0.93 from \$1.01), Philip Morris International (to \$1.25 from \$1.31), and Coca-Cola Company (to \$0.60 from \$0.63).

Index-Level (Bottom-Up) EPS Estimate: Up 0.8%

The Q2 bottom-up EPS estimate (which is an aggregation of the median earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) has increased by 0.8% (to \$39.35 from \$39.03) since March 31. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings estimates have fallen by 3.4% on average during a quarter. Over the past ten years, (40 quarters), earnings estimates have fallen by 5.0% on average during a quarter. Over the past fifteen years, (60 quarters), earnings estimates have fallen by 3.9% on average during a quarter.

For more details, please see pages 2 and 3.

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, 109 companies in the index have issued EPS guidance for Q2 2018. Of these 109 companies, 62 have issued negative EPS guidance and 47 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 57% (62 out of 109), which is well below the 5-year average of 72%.

Second-Highest Earnings Growth (20.0%) Since Q3 2010

The estimated (year-over-year) earnings growth rate for Q2 2018 is 20.0%. If 20.0% is the final growth rate for the quarter, it will mark the second highest earnings growth reported by the index since Q3 2010 (34.0%), trailing only the previous quarter (24.8%). It will also mark the fourth straight quarter in which the index has reported double-digit earnings growth. All eleven sectors are expected to report year-over-year growth in earnings. Seven sectors are expected to report double-digit earnings growth, led by the Energy, Materials, Telecom Services, and Information Technology sectors.

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

The Energy sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 141.7%. At the sub-industry level, all six sub-industries in the sector are predicted to report earnings growth for the quarter: Oil & Gas Exploration & Production (N/A due to year-ago loss), Oil & Gas Drilling (N/A due to year-ago loss), Integrated Oil & Gas (99%), Oil & Gas Storage & Transportation (76%), Oil & Gas Refining & Marketing (75%), and Oil & Gas Equipment & Services (70%).

The unusually high growth rate for the sector is due to a combination of a 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 Q2 2018 (\$67.81) to date is 41% higher than the average price of oil in Q2 2017 (\$48.15). On a dollar-level basis, the Energy sector is projected to report earnings of \$19.6 billion in Q2 2018, compared to earnings of \$8.0 billion in Q2 2017. The Energy sector has the lowest dollar-level earnings in the year-ago quarter of all eleven sectors.

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

The Materials sector is expected to report the second highest (year-over-year) earnings growth of all eleven sectors at 48.7%. At the industry level, all four industries in the sector are predicted to report double-digit earnings growth: Metals & Mining (89%), Chemicals (44%), Containers & Packaging (40%), and Construction Materials (38%). At the company level, DowDuPont is predicted to be the largest contributor to earnings growth for the sector. However, the estimated (dollar-level) earnings for Q2 2018 (\$3.0 billion) reflect the combined DowDuPont company, while the actual earnings for Q2 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 estimated earnings growth rate for the sector would fall to 31.1% from 48.7%.

Telecom Services: AT&T Leads Growth

The Telecom Services sector is expected to report the third highest (year-over-year) earnings growth of all eleven sectors at 27.3%. At the company level, AT&T is predicted to be the largest contributor to earnings growth for the sector. If this company were excluded, the estimated earnings growth rate for the sector would fall to 20.1% from 27.3%.

Information Technology: 5 of 7 Industries Expected to Report Double-Digit Earnings Growth

The Information Technology sector is expected to report the fourth highest (year-over-year) earnings growth of all eleven sectors at 24.6%. At the industry level, six of the seven industries in this sector are predicted to report earnings growth. Five of these six industries are predicted to report double-digit earnings growth: Internet Software & Services (58%), Semiconductor & Semiconductor Equipment (38%), Technology Hardware, Storage, & Peripherals (22%), IT Services (17%), and Software (10%).

Highest Revenue Growth (8.8%) Since Q3 2011

The estimated (year-over-year) revenue growth rate for Q2 2018 is 8.8%. If 8.8% is the final growth rate for the quarter, it will mark the highest revenue growth reported by the index since Q3 2011 (12.5%). All eleven sectors are expected to report year-over-year growth in revenues. Four sectors are predicted to report double-digit growth in revenues: Materials, Energy, Information Technology, and Real Estate.

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

The Materials sector is expected to report the highest (year-over-year) revenue growth of all eleven sectors at 23.8%. At the industry level, all four industries in this sector are expected to report revenue growth, led by the Chemicals (31%) and Metals & Mining (22%) industries. At the company level, DowDuPont is predicted to be the largest contributor to revenue growth for the sector. However, the estimated revenues for Q2 2018 (\$23.6 billion) reflect the combined DowDuPont company, while the actual revenues for Q2 2017 (\$13.8 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 estimated revenue growth rate for the sector would fall to 13.3% from 23.8%.

Energy: All 6 Sub-Industries Expected to Report Double-Digit Growth

The Energy sector is expected to report the second highest (year-over-year) revenue growth of all eleven sectors at 21.8%. At the sub-industry level, all six sub-industries in the sector are predicted to report double-digit revenue growth: Oil & Gas Refining & Marketing (24%), Oil & Gas Drilling (24%), Integrated Oil & Gas (23%), Oil & Gas Equipment & Services (23%), Oil & Gas Storage & Transportation (11%), and Oil & Gas Exploration & Production (10%).

Information Technology: 4 of 7 Industries Expected to Report Double-Digit Growth

The Information Technology sector is expected to report the third highest (year-over-year) revenue growth of all eleven sectors at 13.4%. At the industry level, all seven industries in this sector are predicted to report revenue growth. Four of these seven industries are projected to report double-digit revenue growth: Internet Software & Services (26%), Semiconductor & Semiconductor Equipment (17%), Software (13%), and Technology Hardware, Storage, & Peripherals (11%).

Real Estate: CBRE Group Leads Growth

The Real Estate sector is expected to report the fourth highest (year-over-year) revenue growth of all eleven sectors at 10.7%. At the company level, CBRE Group is predicted to be the largest contributor to revenue growth for the sector. The revenue estimate for Q2 2018 is \$4.7 billion, compared to year-ago revenues of \$3.3 billion. If this company were excluded, the estimated revenue growth rate for the sector would fall to 6.0% from 10.7%.

Looking Ahead: Forward Estimates and Valuation

Double-Digit Earnings Growth Expected For All of 2018

For the second quarter, companies are expected to report earnings growth of 20.0% and revenue growth of 8.8%. Analysts also currently expect earnings to grow at double-digit levels for the remainder 2018.

For Q3 2018, analysts are projecting earnings growth of 21.7% and revenue growth of 7.6%.

For Q4 2018, analysts are projecting earnings growth of 17.8% and revenue growth of 5.8%.

For all of 2018, analysts are projecting earnings growth of 20.5% and revenue growth of 7.6%.

Valuation: Forward P/E Ratio is 16.1, above the 10-Year Average (14.4)

The forward 12-month P/E ratio is 16.1. This P/E ratio is below the 5-year average of 16.2, but above the 10-year average of 14.4. It is also 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 2.9%, while the forward 12-month EPS estimate has increased by 4.2%.

At the sector level, the Consumer Discretionary (20.7) sector has the highest forward 12-month P/E ratio, while the Telecom Services (10.2) and Financials (12.2) sectors have the lowest forward 12-month P/E ratios. Seven sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Information Technology (18.2 vs. 14.5) and Consumer Discretionary (20.7 vs. 16.9) sectors. Three sectors have forward 12-month P/E ratios that are below their 10-year averages, led by the Telecom Services (10.2 vs. 14.0) sector.

Targets & Ratings: Analysts Project 14% Increase in Price Over Next 12 Months

The bottom-up target price for the S&P 500 is 3094.99, which is 14.0% above the closing price of 2716.31. At the sector level, the Financials (+18.7%) 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 (+3.6%) 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 10,933 ratings on stocks in the S&P 500. Of these 10,933 ratings, 53.3% are Buy ratings, 41.7% are Hold ratings, and 5.0% are Sell ratings. At the sector level, the Energy (60%), Information Technology (60%), Health Care (59%), and Materials (58%) sectors have the highest percentages of Buy ratings, while the Telecom Services (41%) and Utilities (43%) sectors have the lowest percentages of Buy ratings.

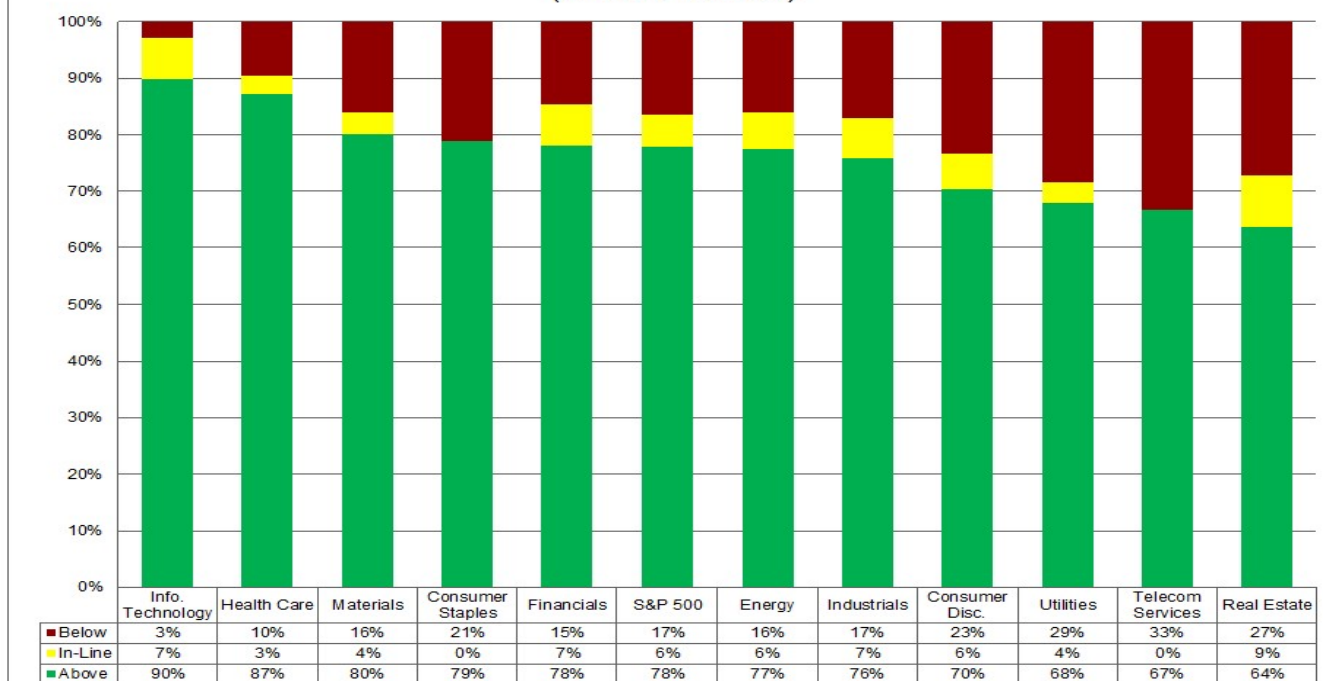
Companies Reporting Next Week: 0

During the upcoming week, no S&P 500 companies are scheduled to report results for the second quarter.

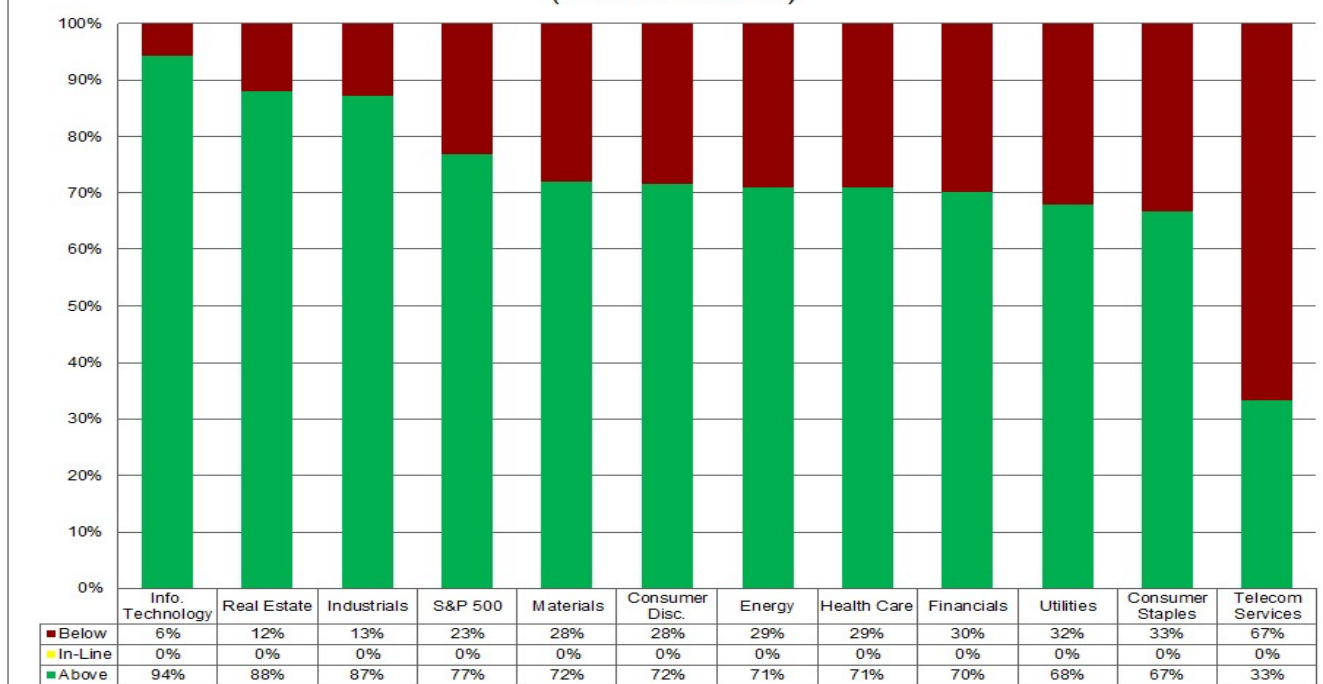
Q1 2018: Scorecard

S&P 500 Earnings Above, In-Line, Below Estimates: Q1 2018

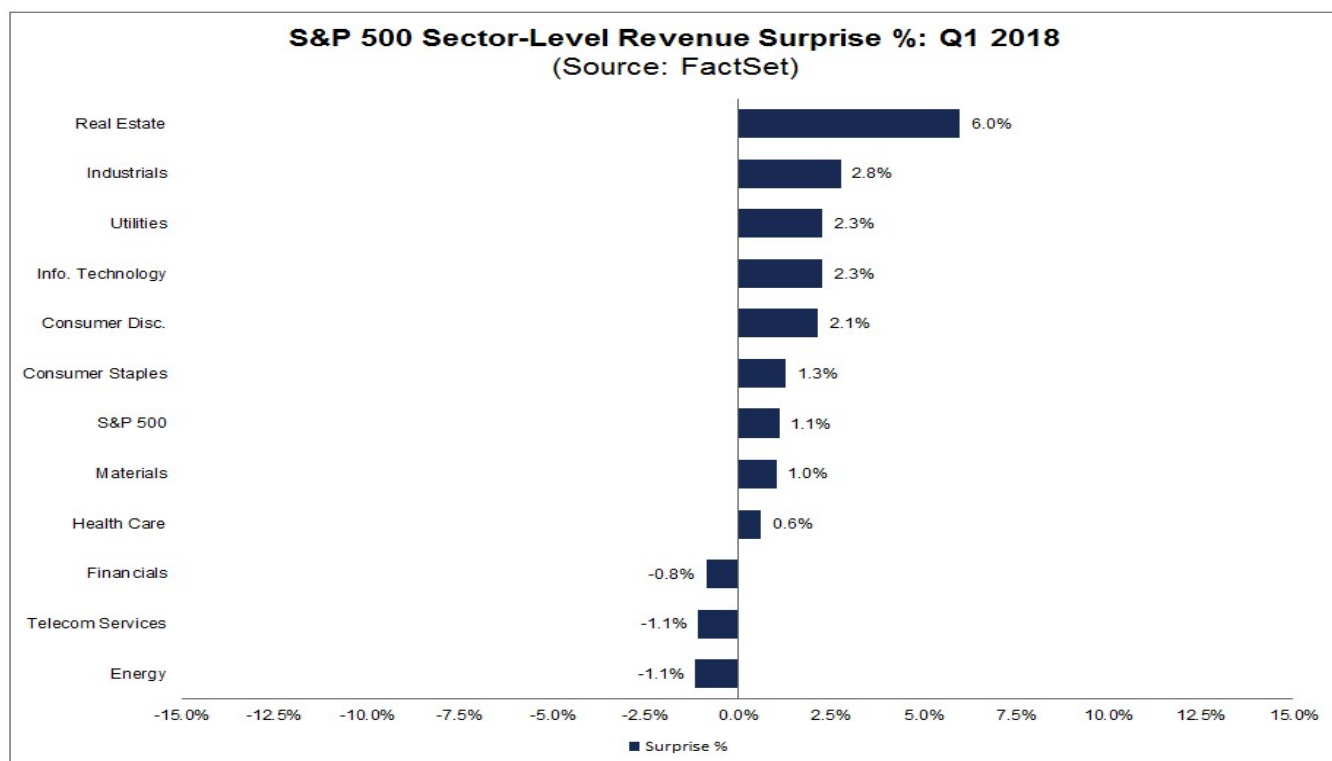
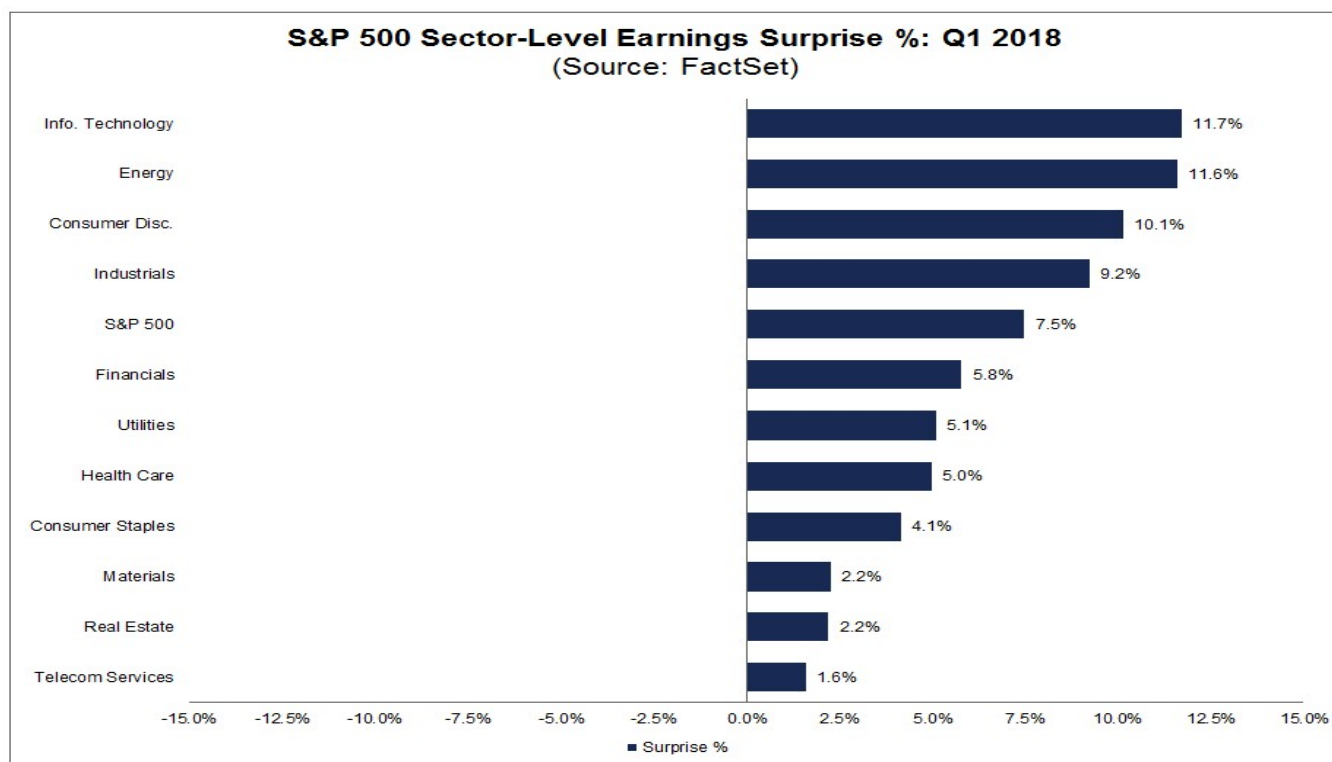
(Source: FactSet)

**S&P 500 Revenues Above, In-Line, Below Estimates: Q1 2018**

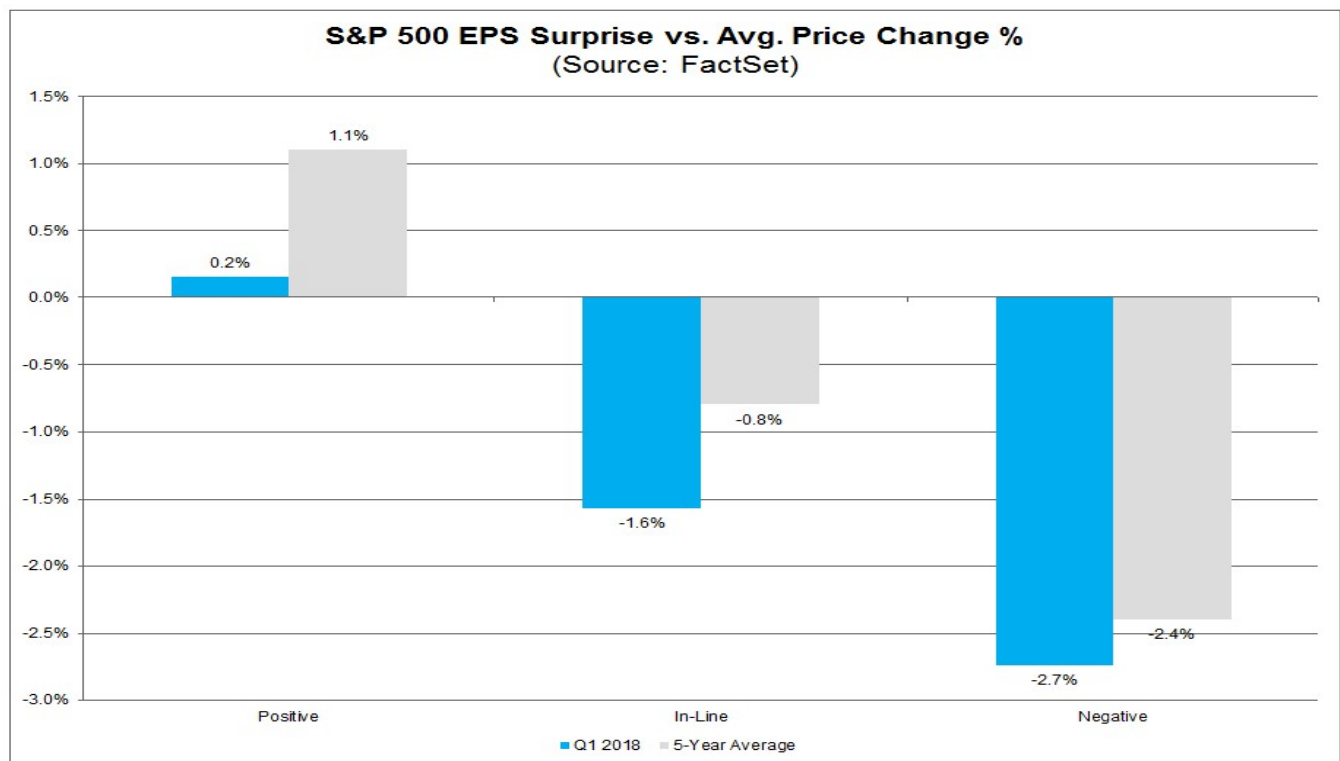
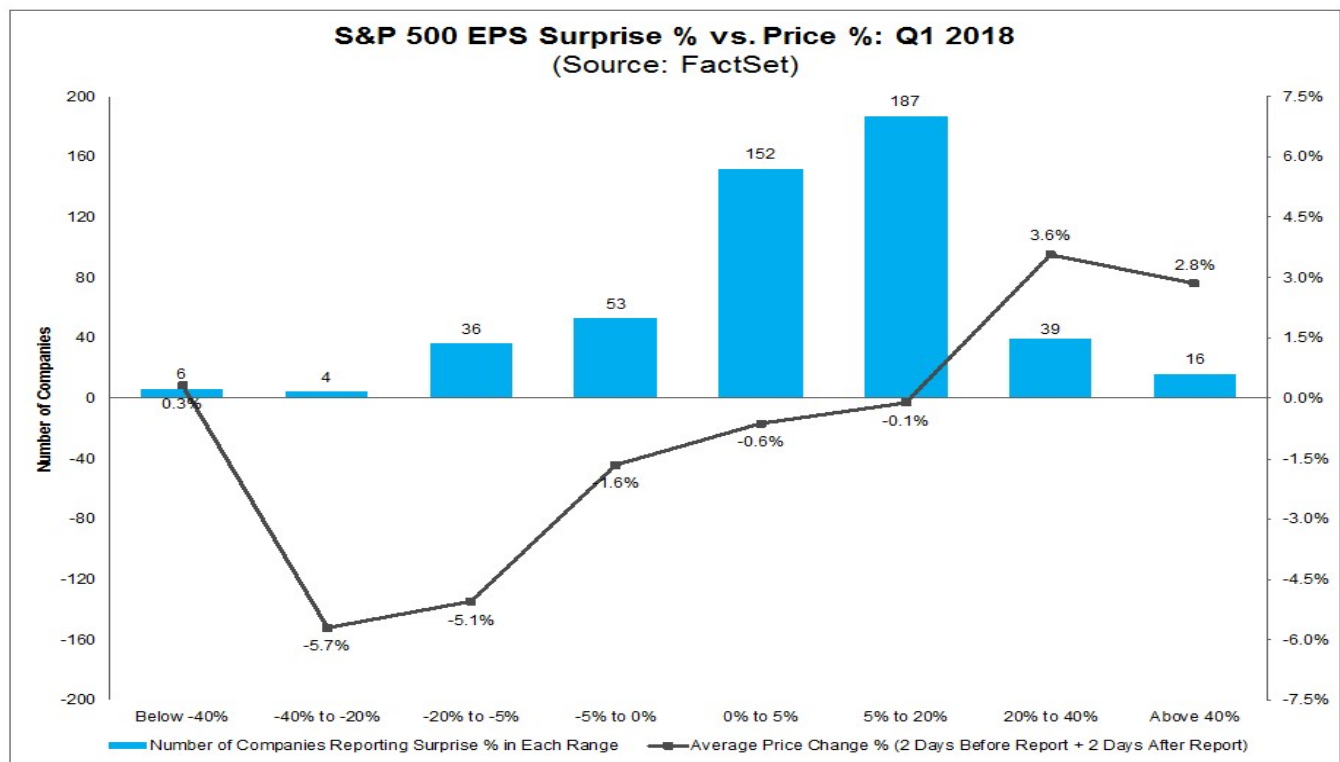
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Q1 2018: Scorecard

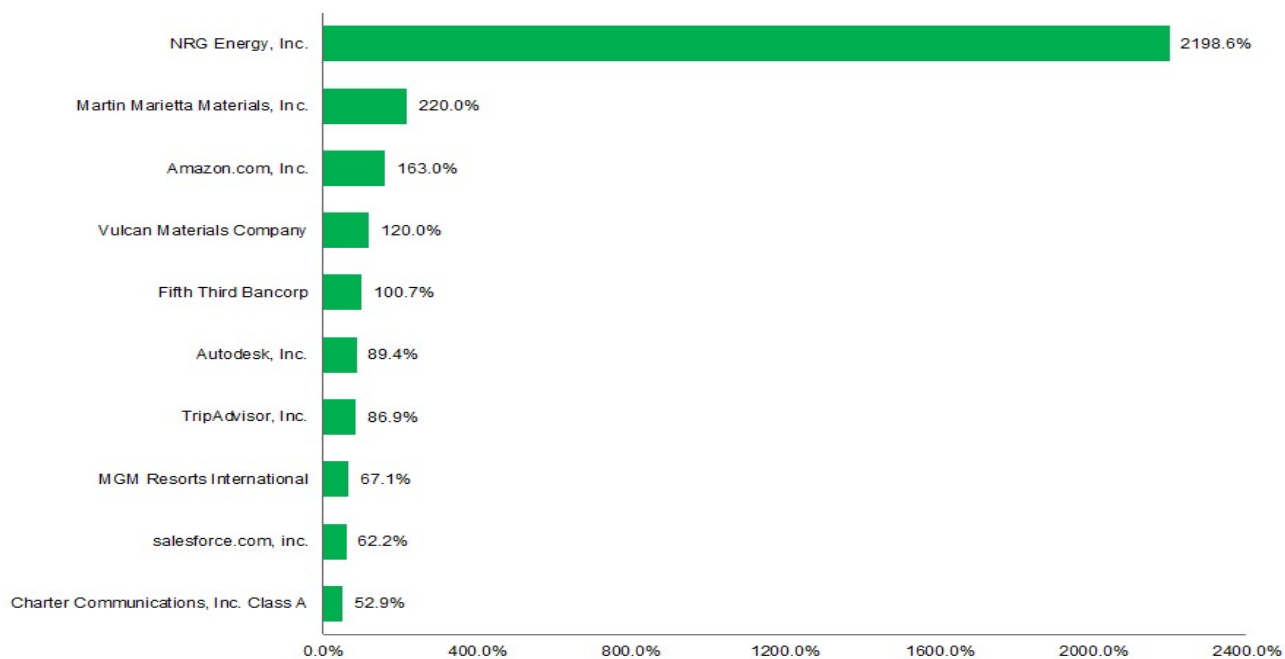


Q1 2018: Scorecard

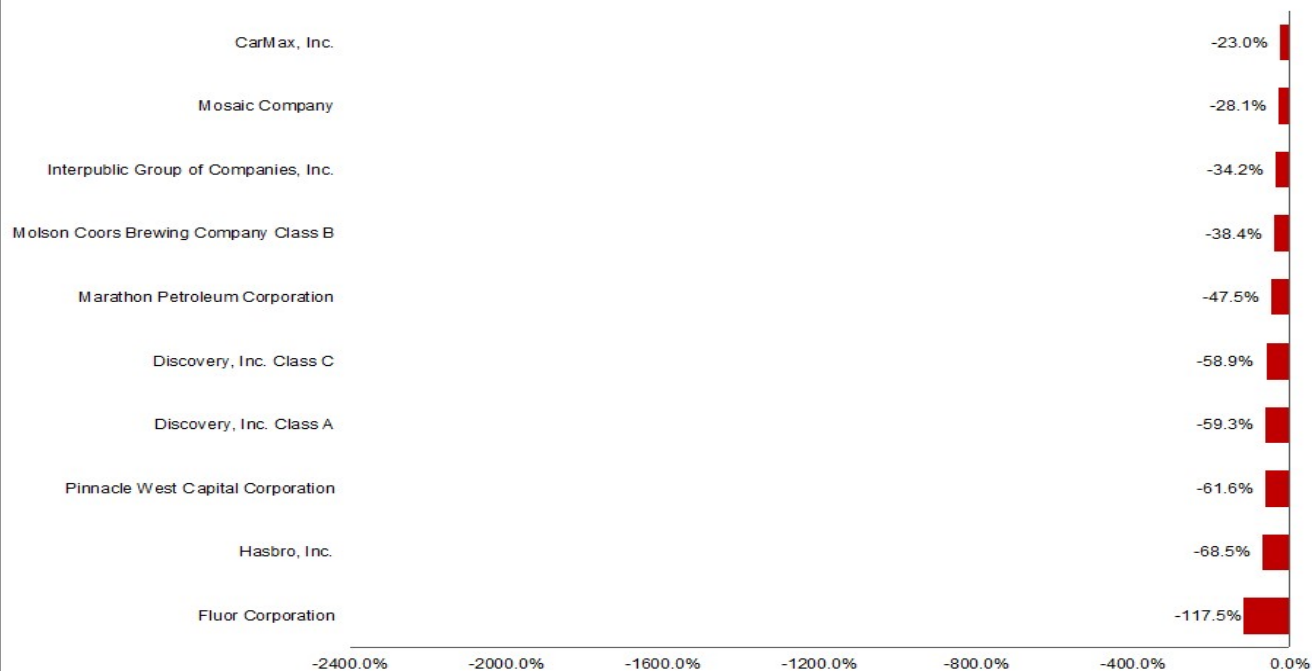


Q1 2018: Scorecard

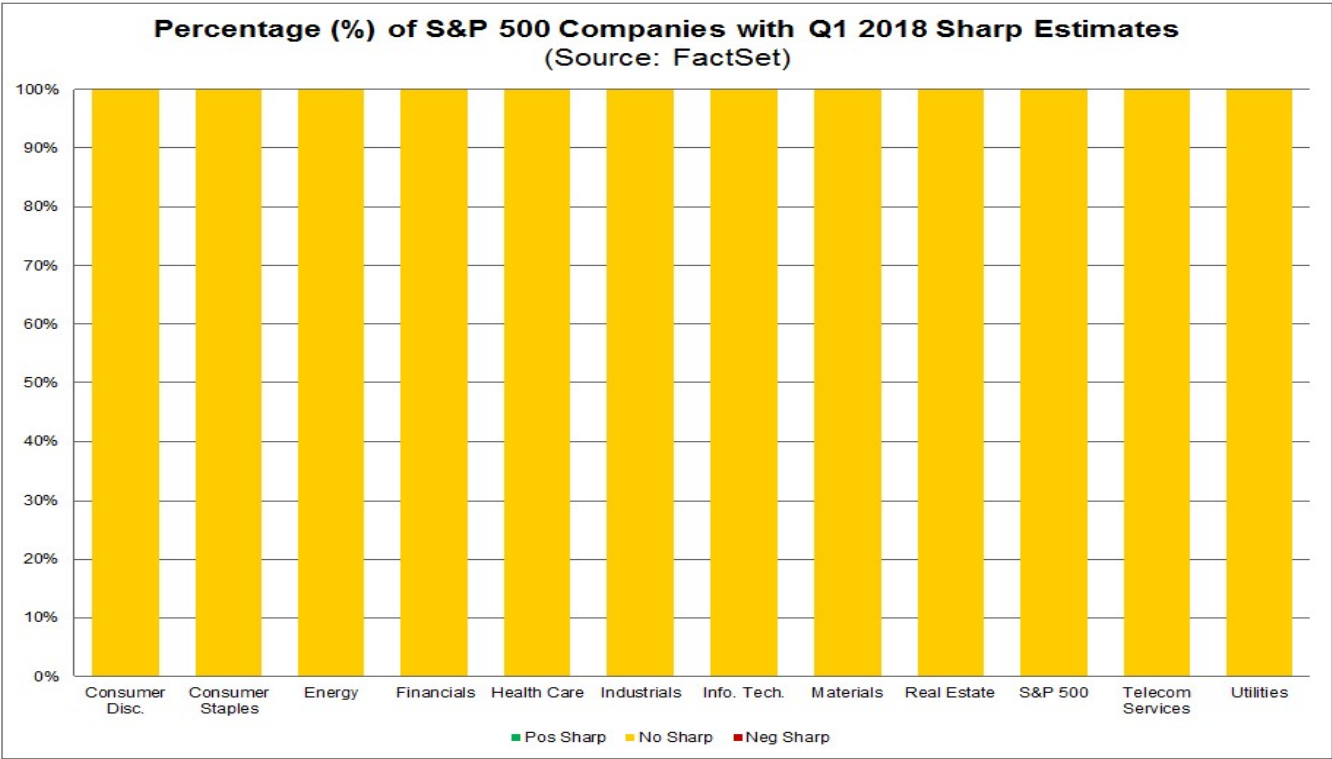
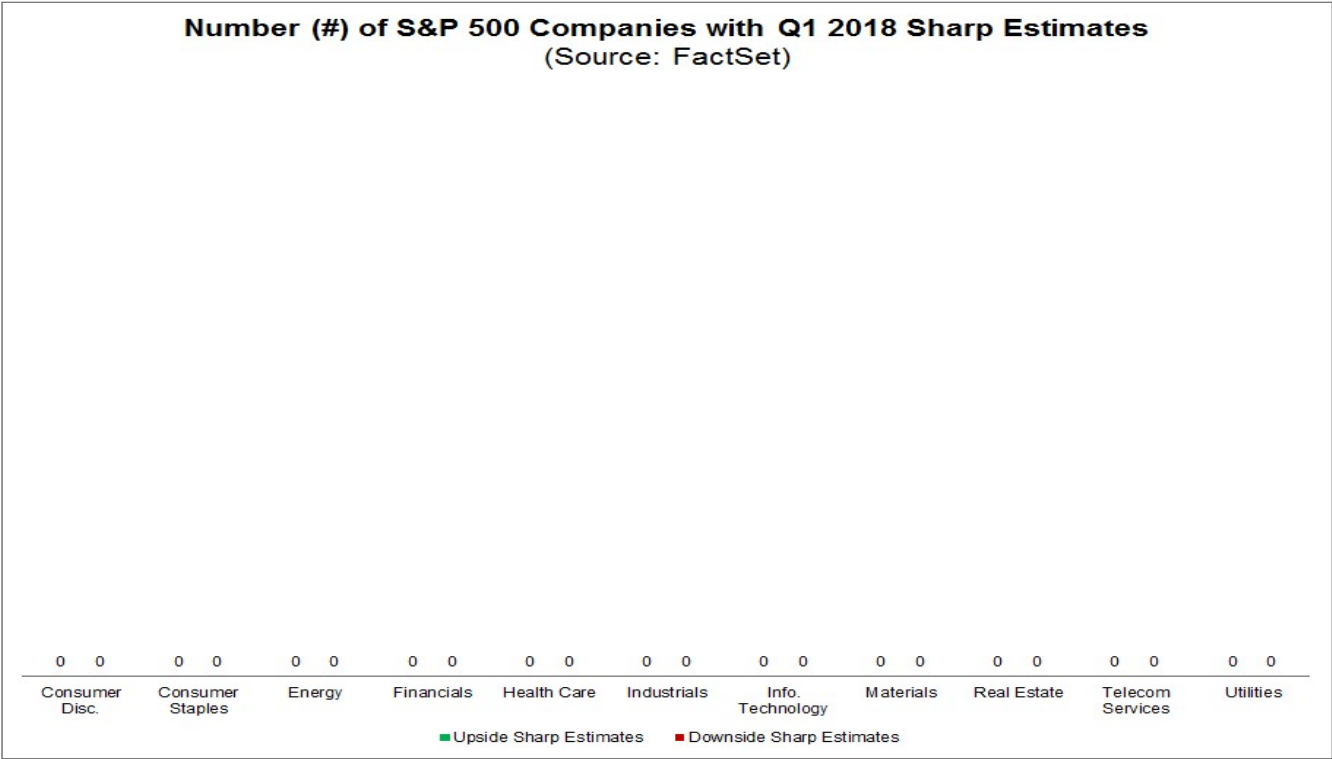
S&P 500 Actual EPS Surprise %: Top 10 Q1 Actual EPS Surprises
(Source: FactSet)



S&P 500 Actual EPS Surprise %: Bottom 10 Q1 Actual EPS Surprises
(Source: FactSet)

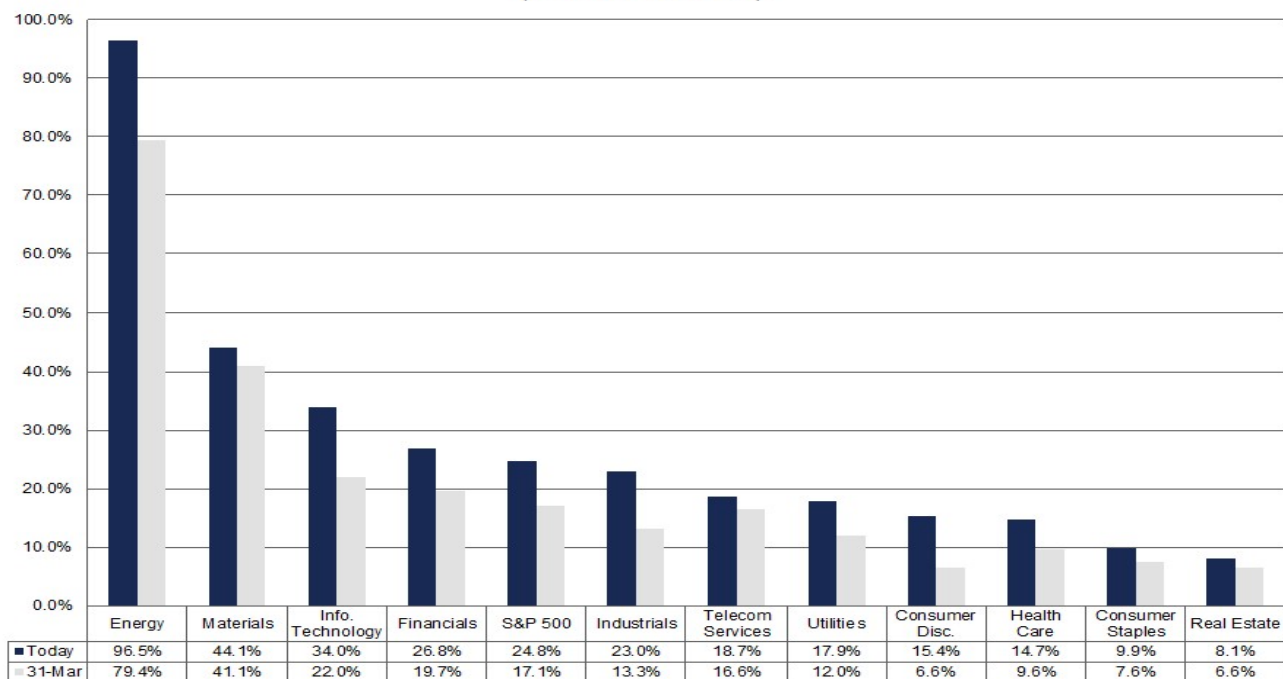


Q1 2018: Projected EPS Surprises (Sharp Estimates)

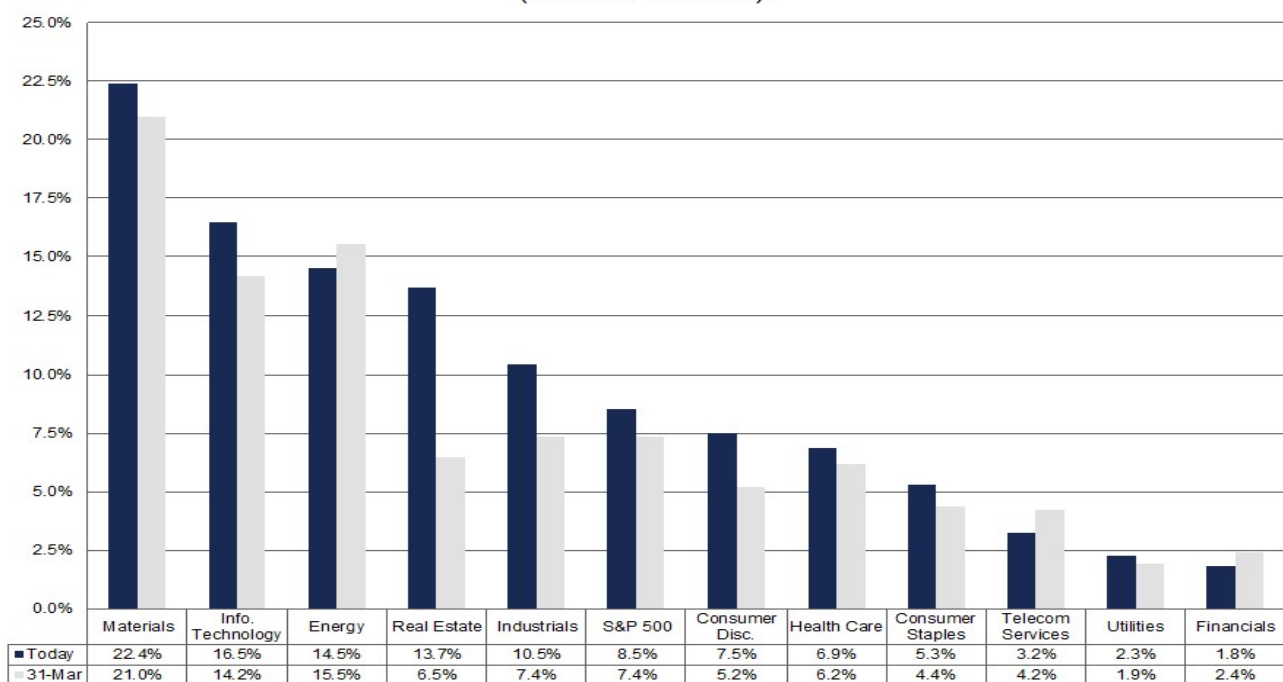


Q1 2018: Growth

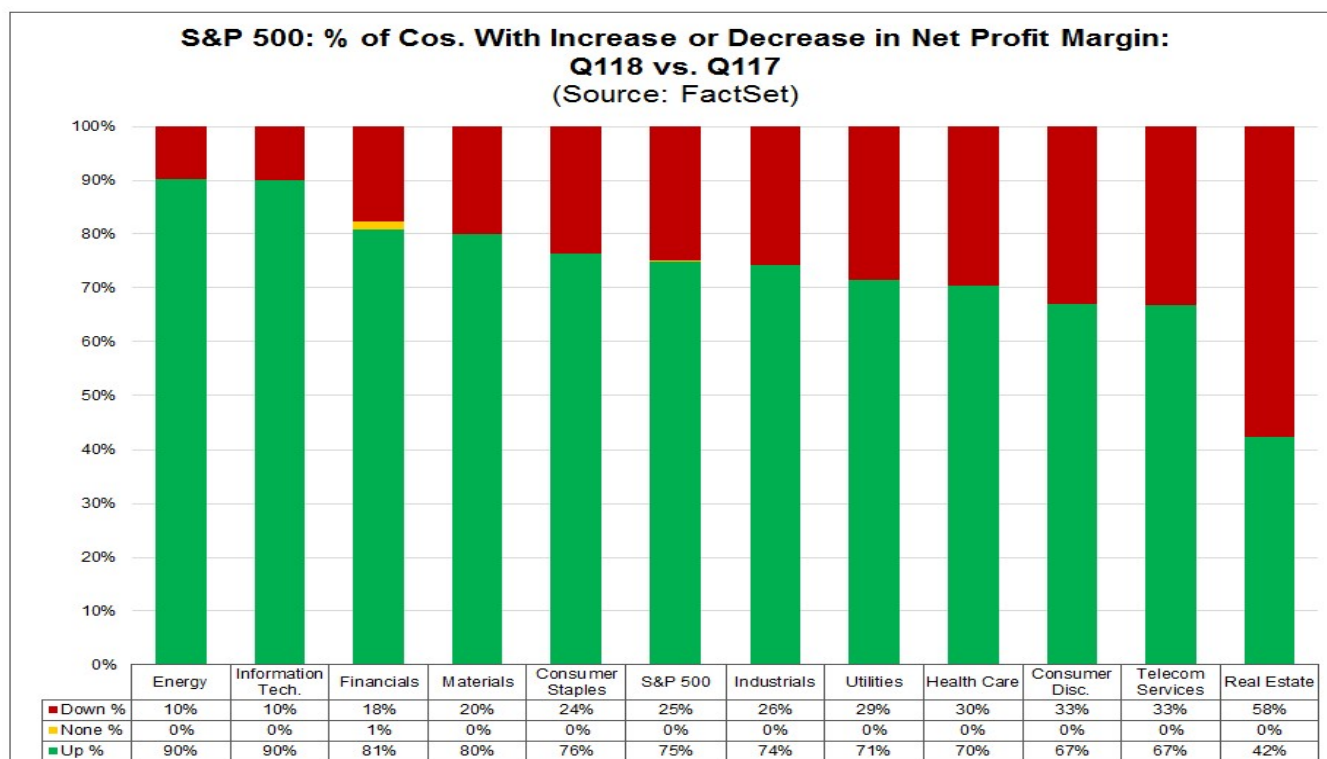
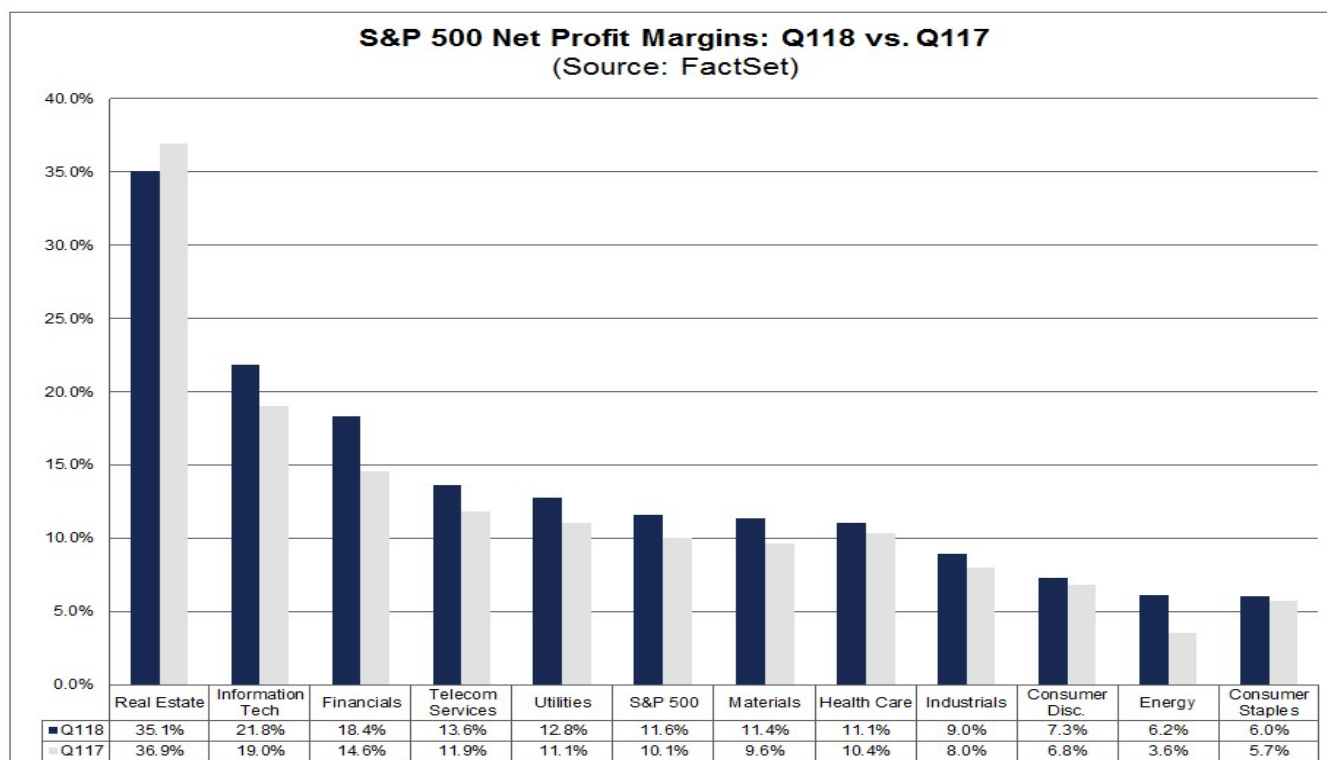
S&P 500 Earnings Growth: Q1 2018
(Source: FactSet)



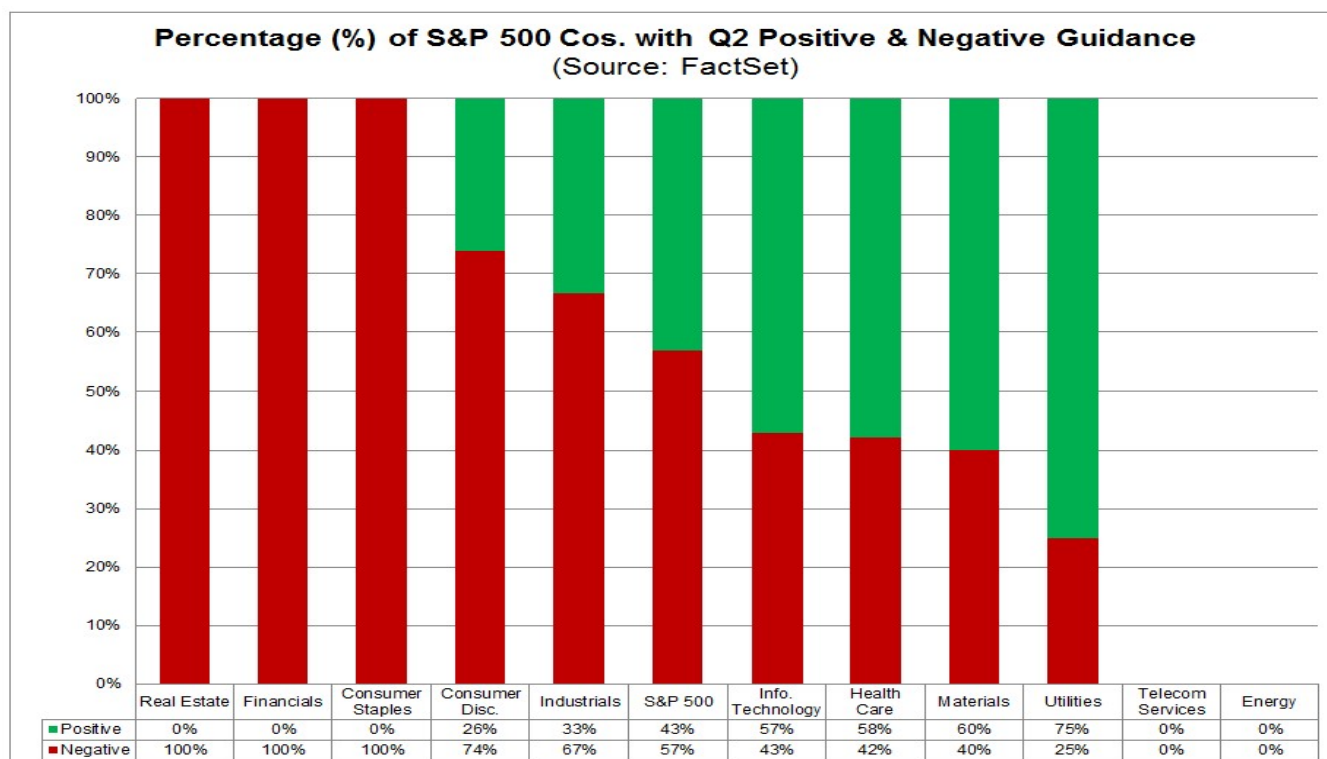
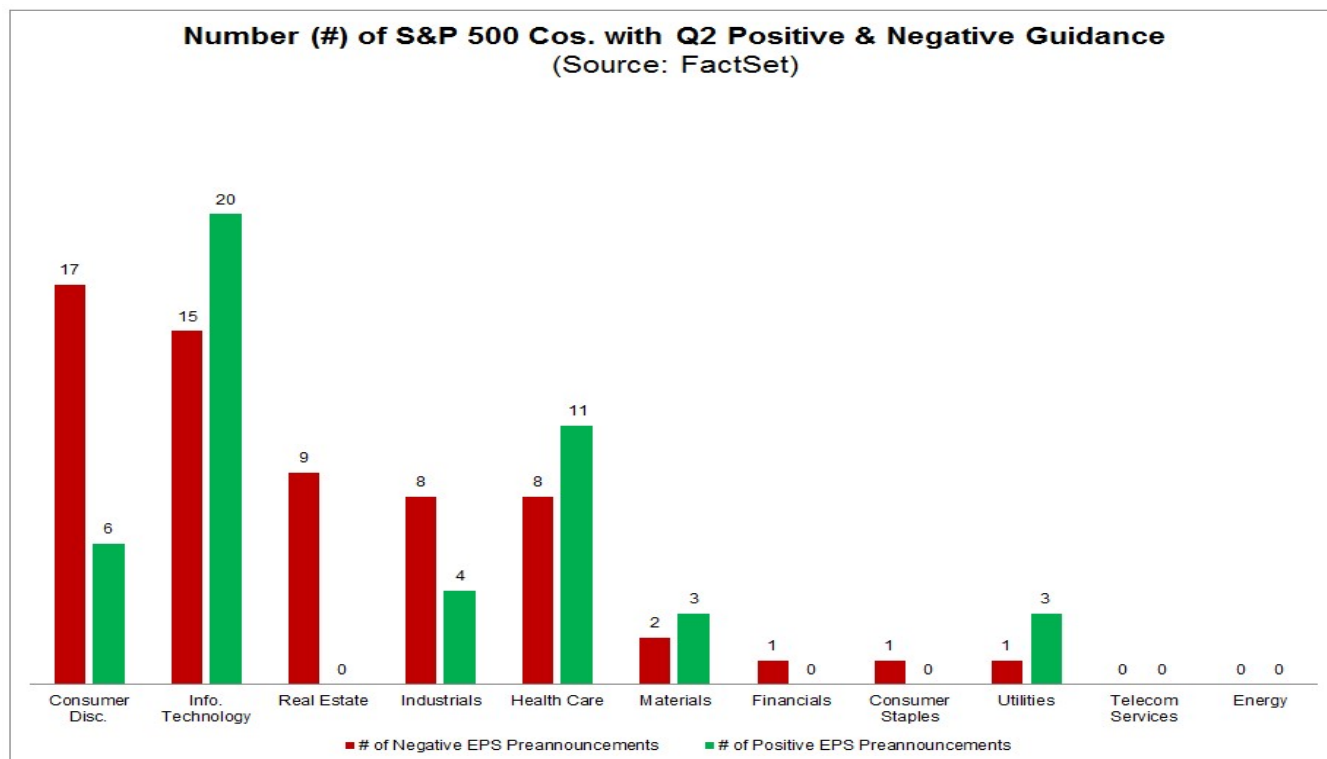
S&P 500 Revenue Growth: Q1 2018
(Source: FactSet)



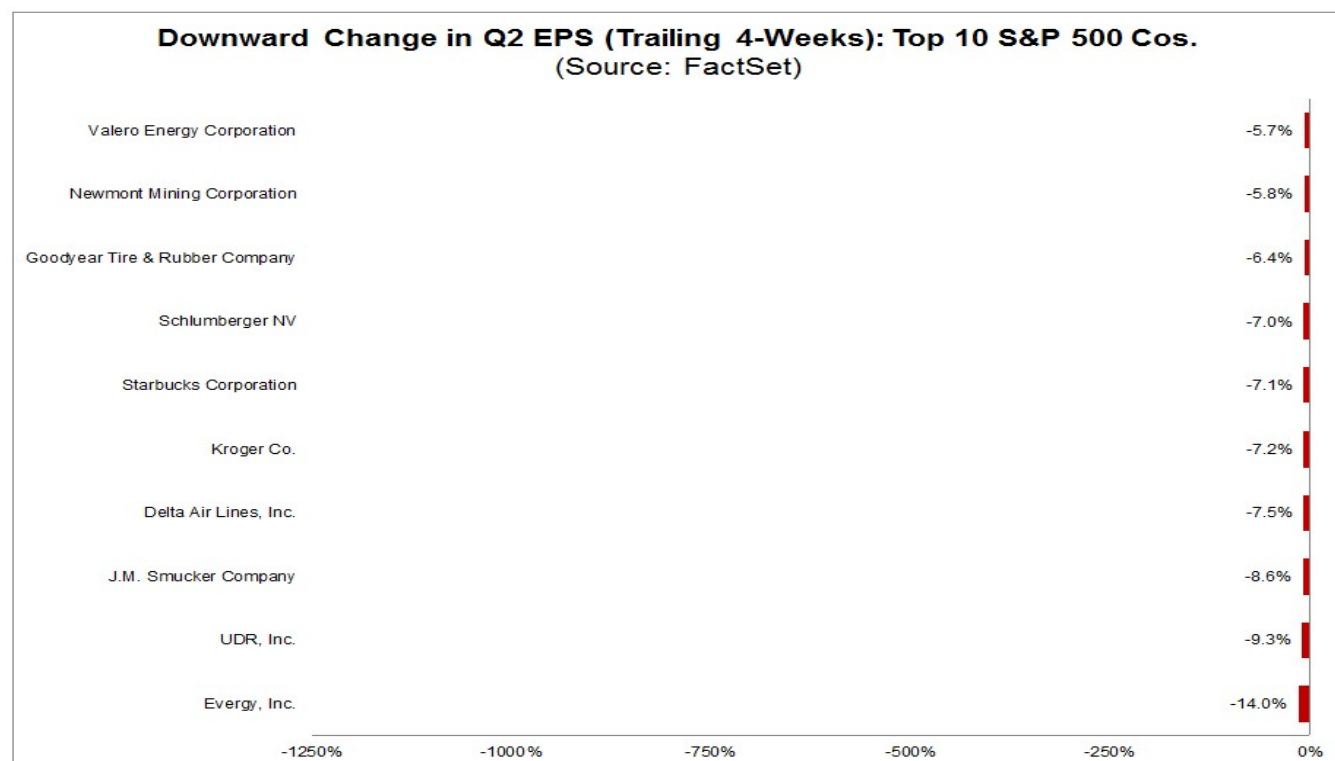
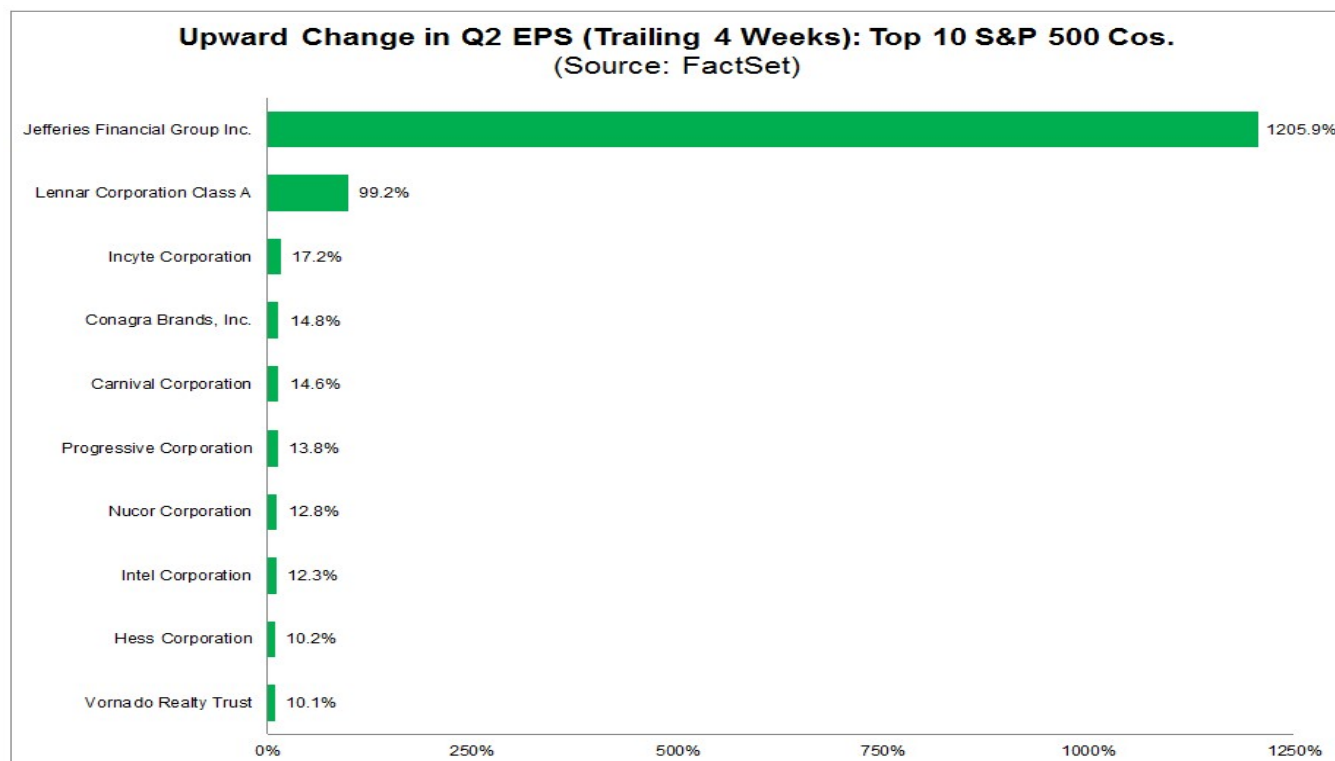
Q1 2018: Net Profit Margin



Q2 2018: Guidance

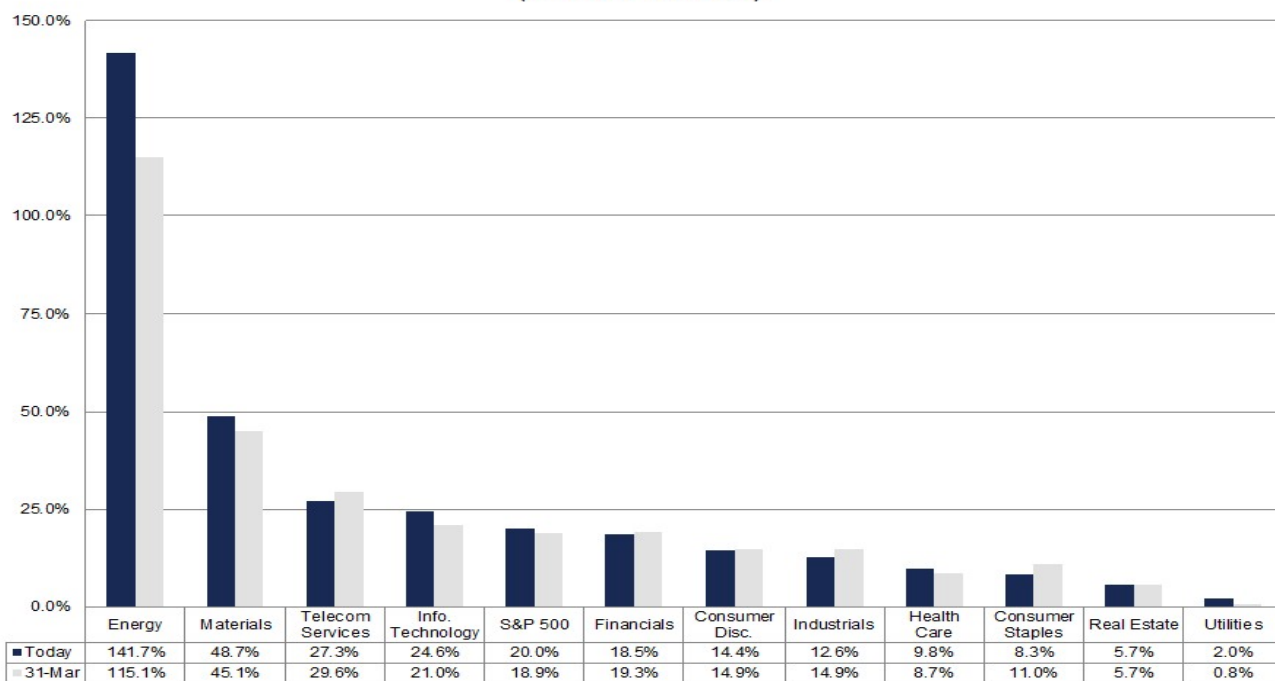


Q2 2018: EPS Revisions

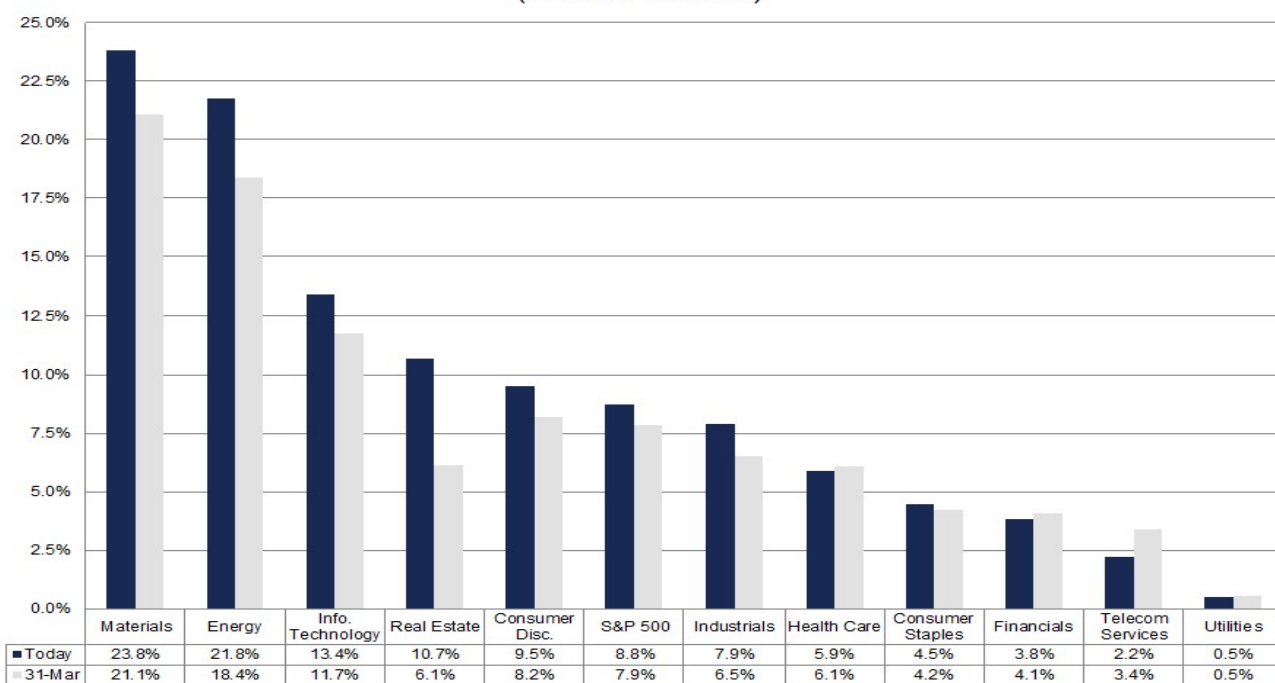


Q2 2018: Growth

S&P 500 Earnings Growth: Q2 2018
(Source: FactSet)



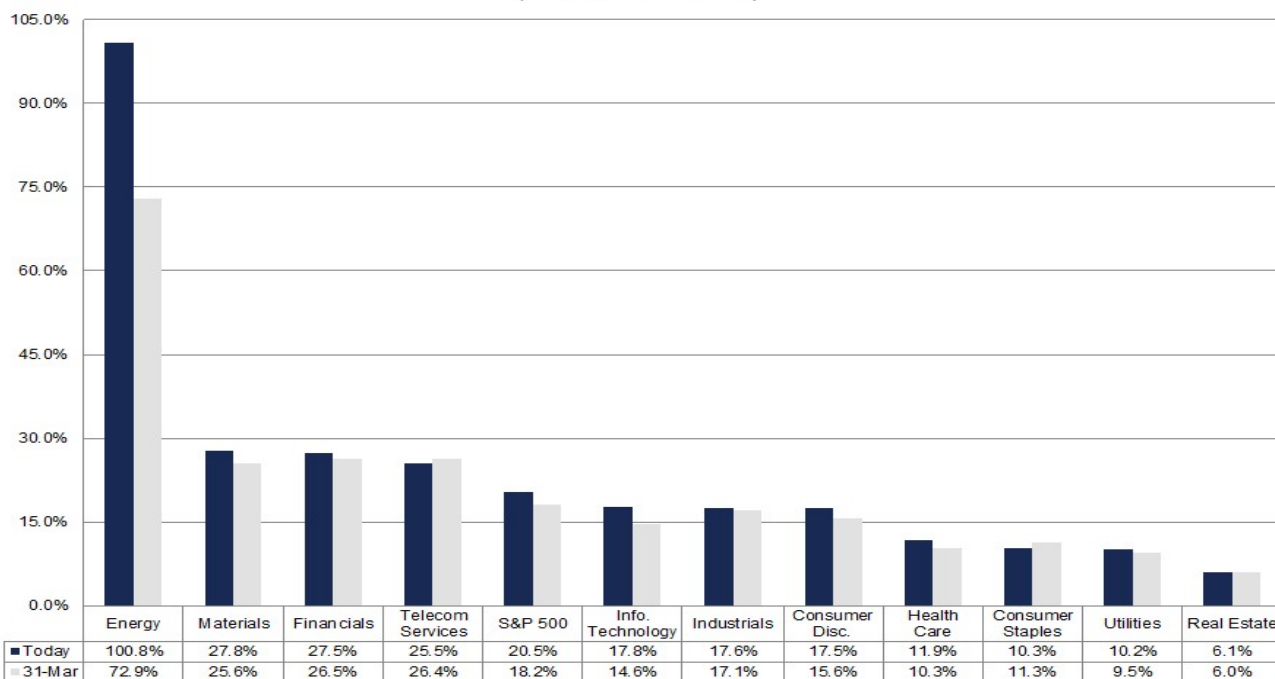
S&P 500 Revenue Growth: Q2 2018
(Source: FactSet)



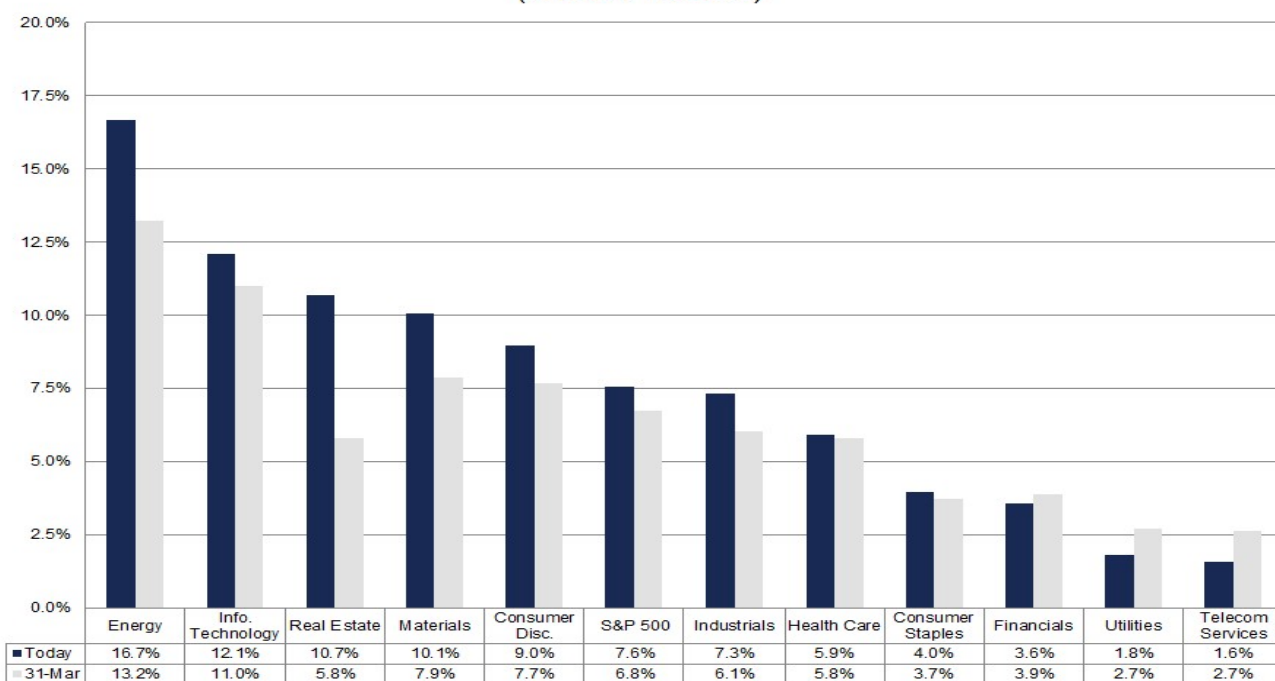
CY 2018: Growth

S&P 500 Earnings Growth: CY 2018

(Source: FactSet)

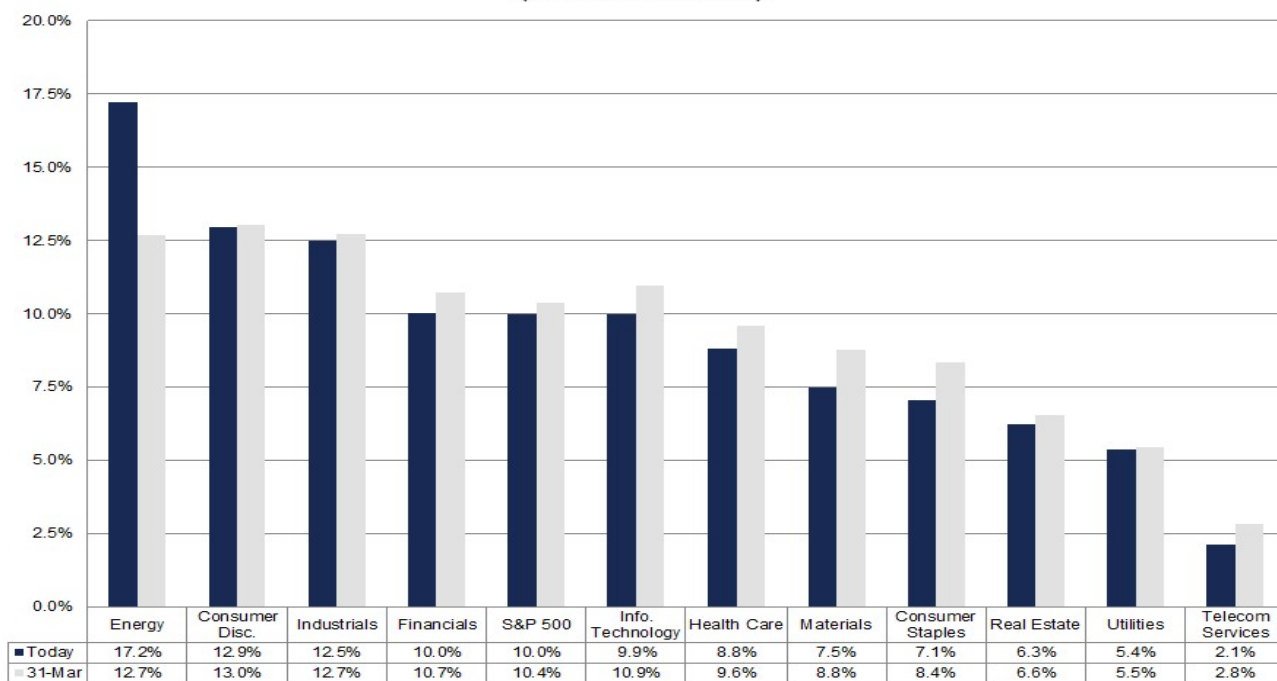
**S&P 500 Revenue Growth: CY 2018**

(Source: FactSet)

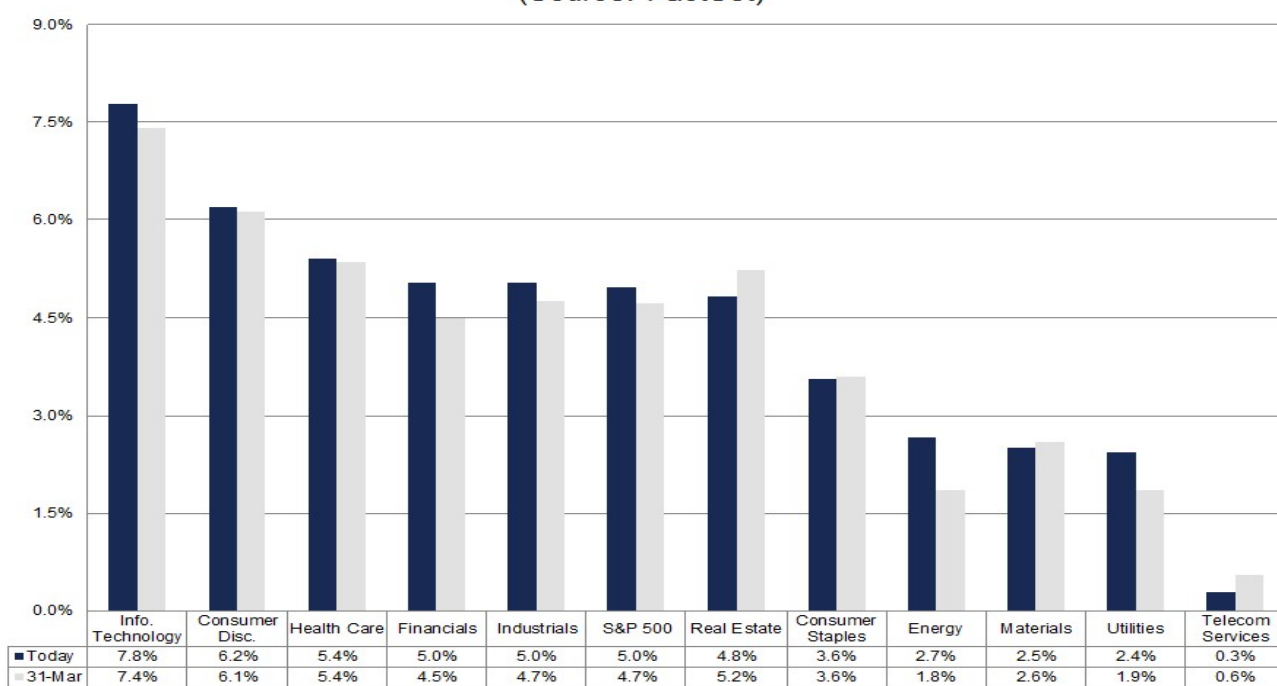


CY 2019: Growth

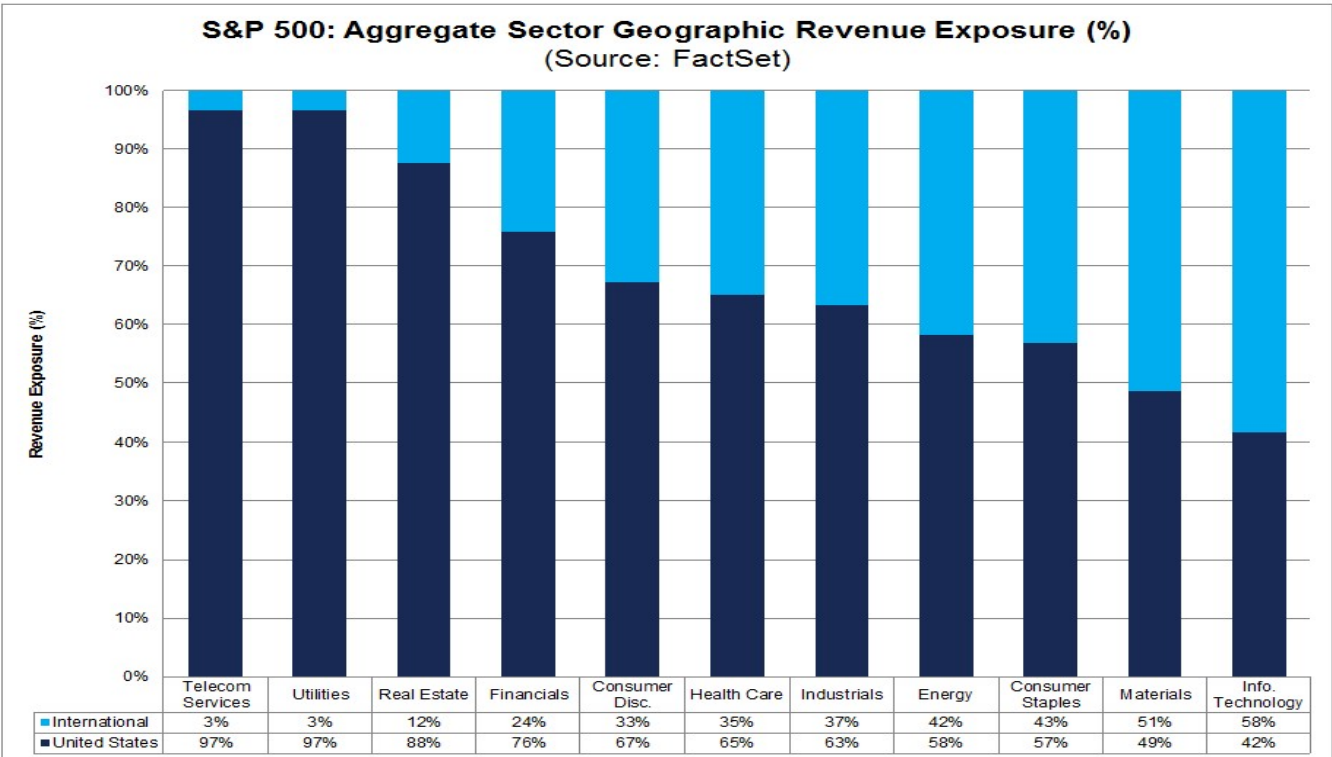
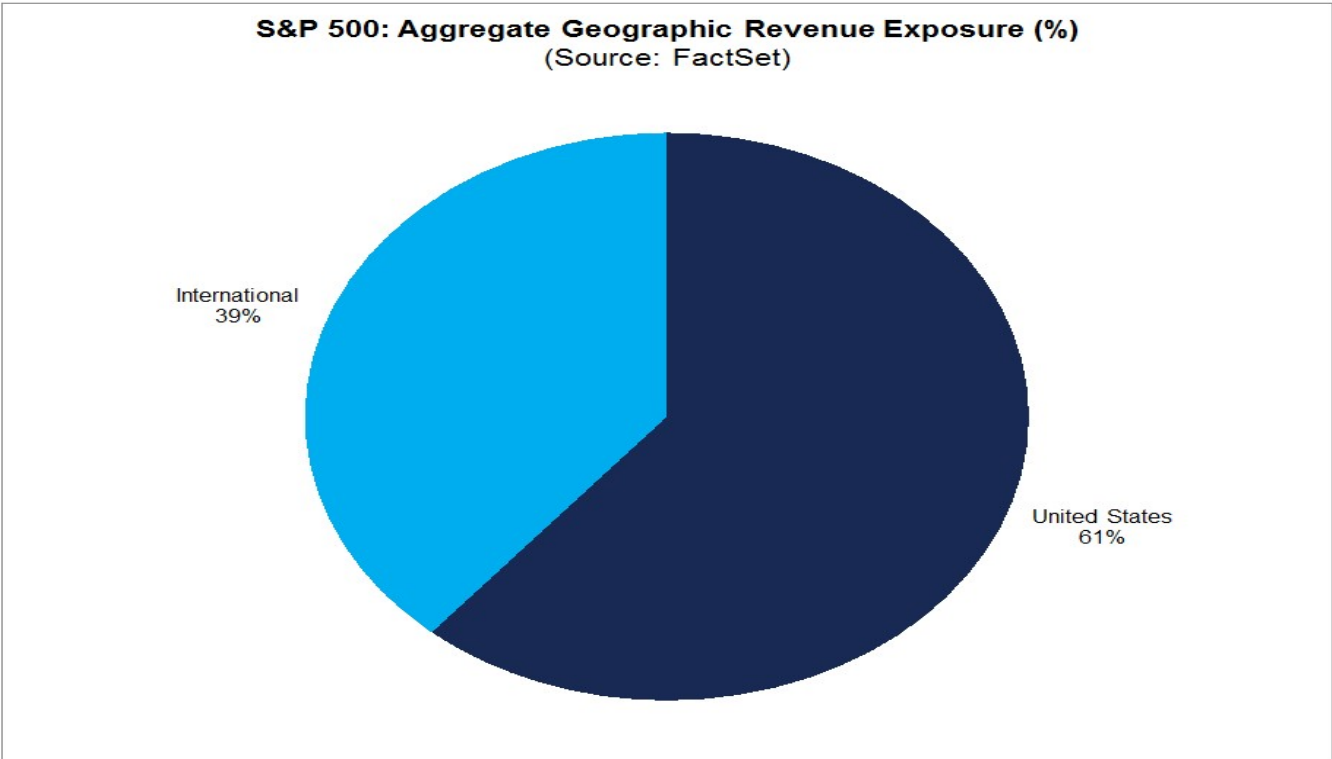
S&P 500 Earnings Growth: CY 2019
(Source: FactSet)



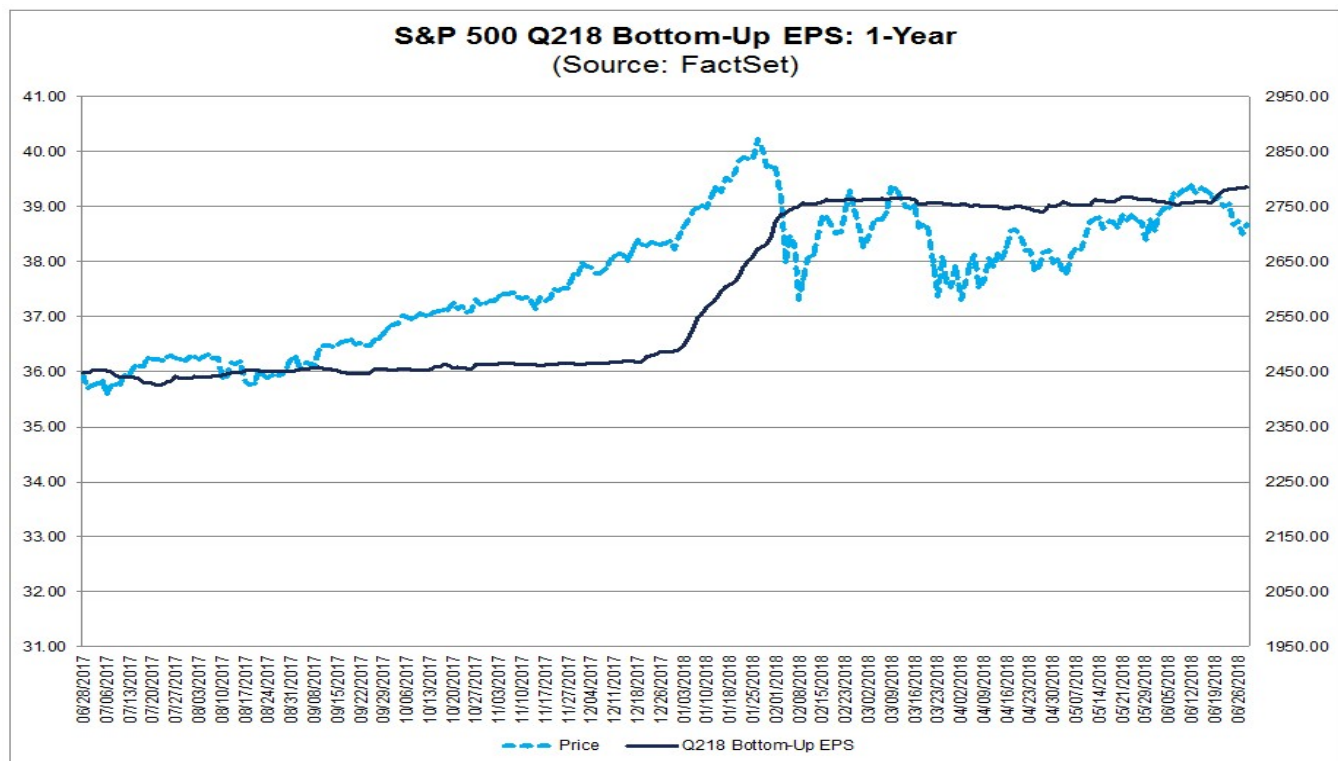
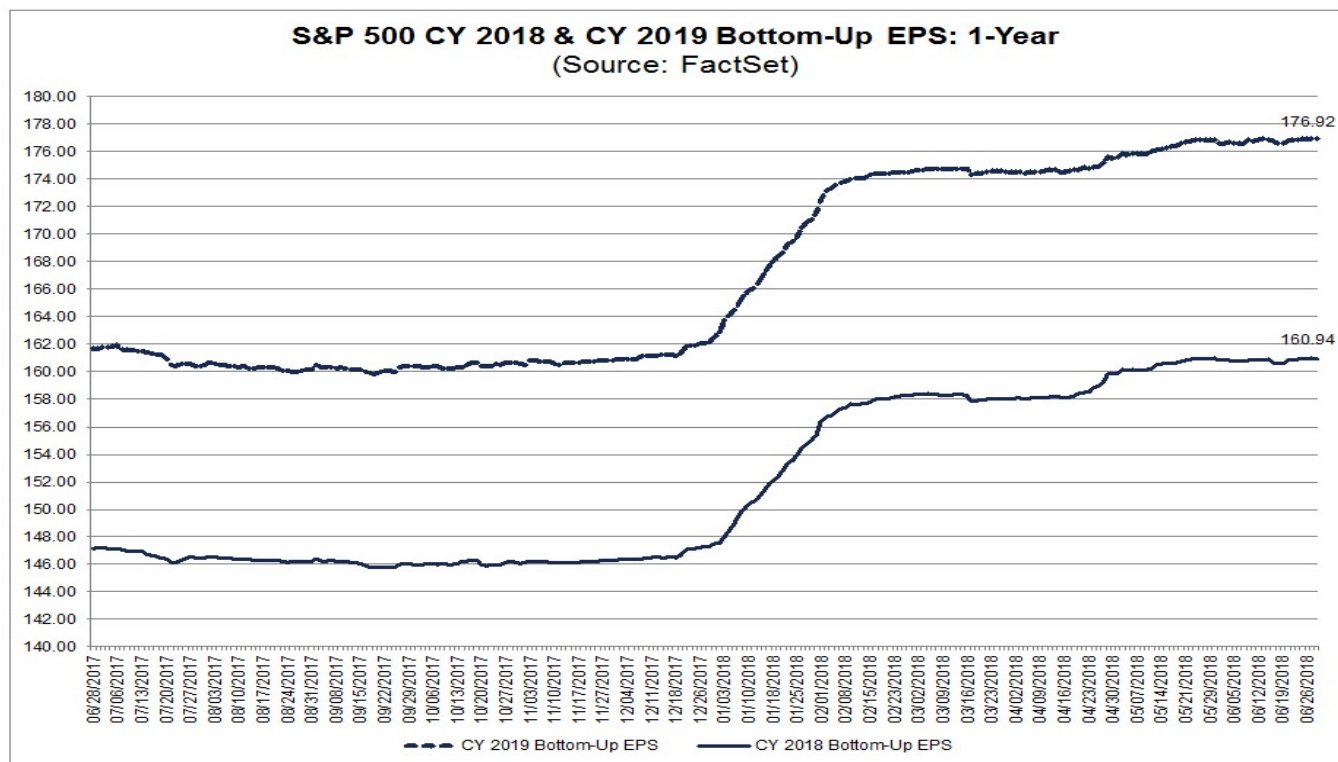
S&P 500 Revenue Growth: CY 2019
(Source: FactSet)



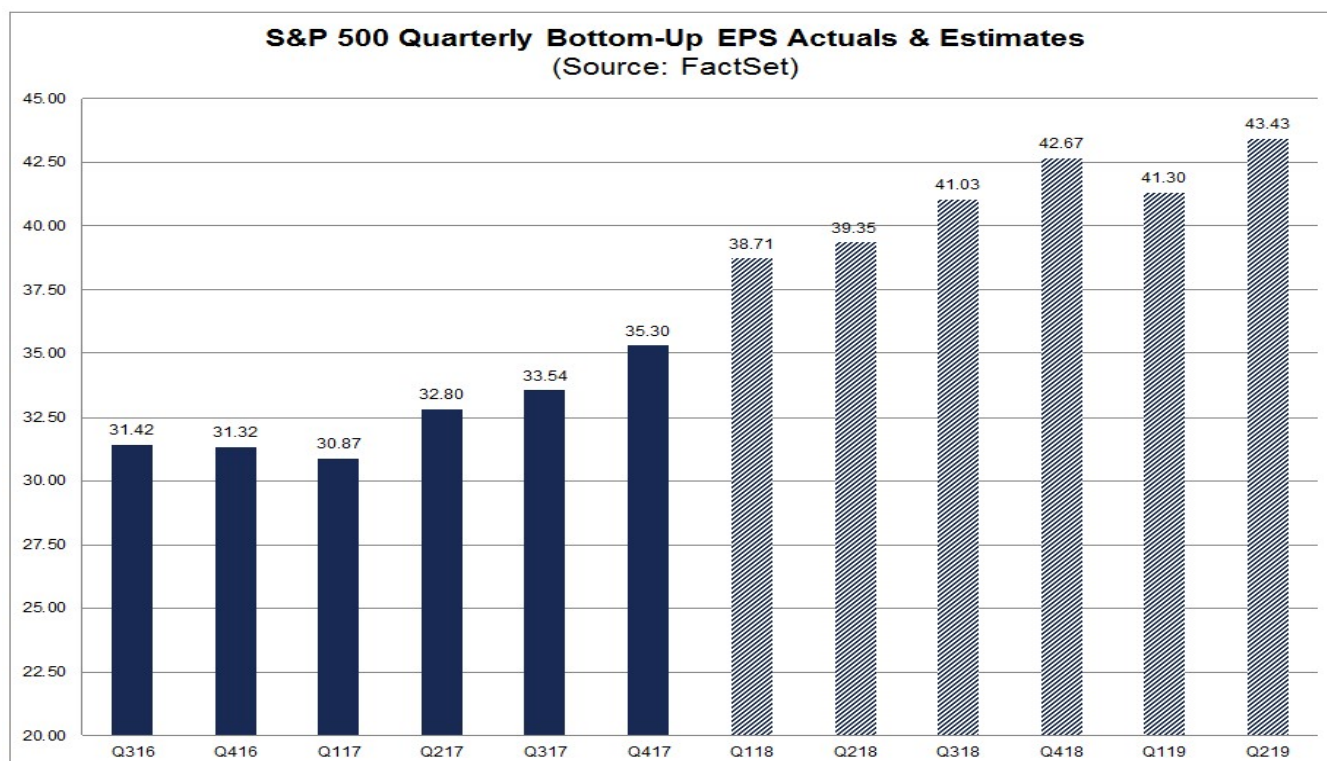
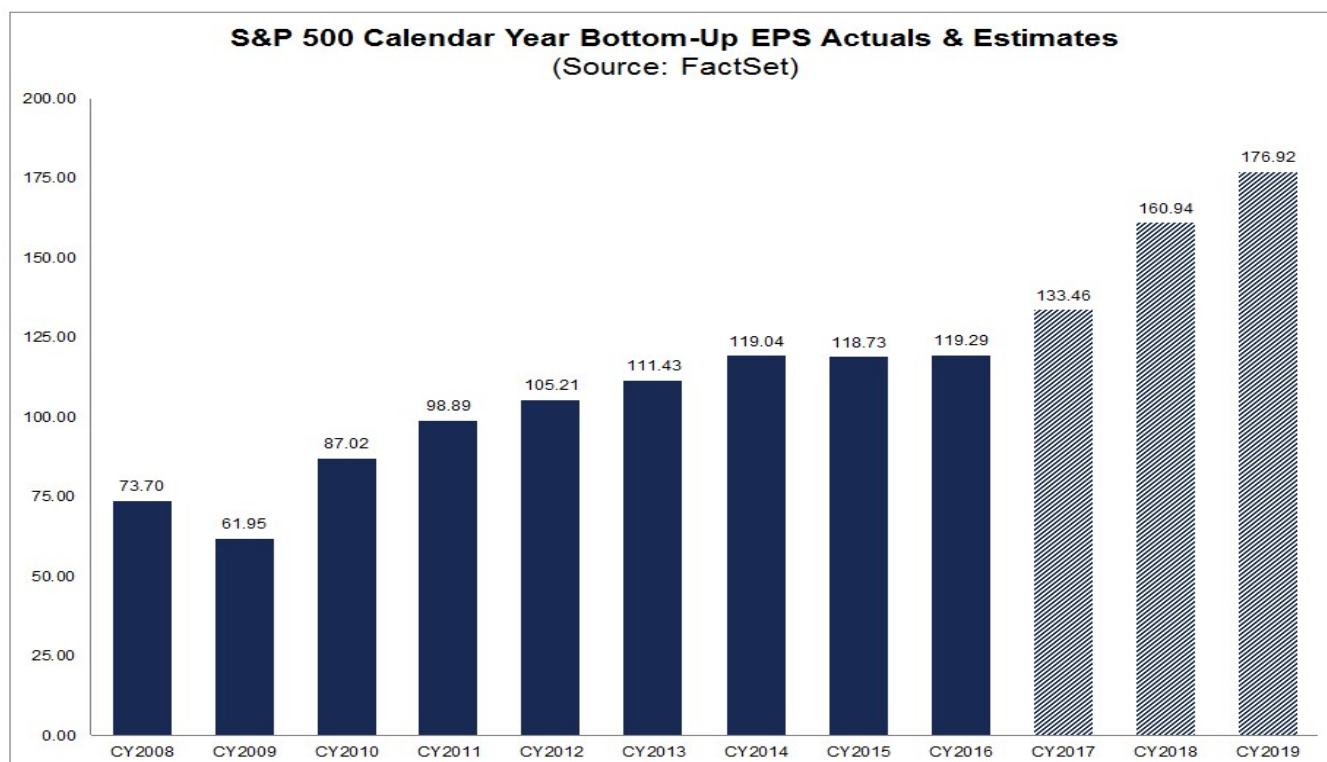
Geographic Revenue Exposure



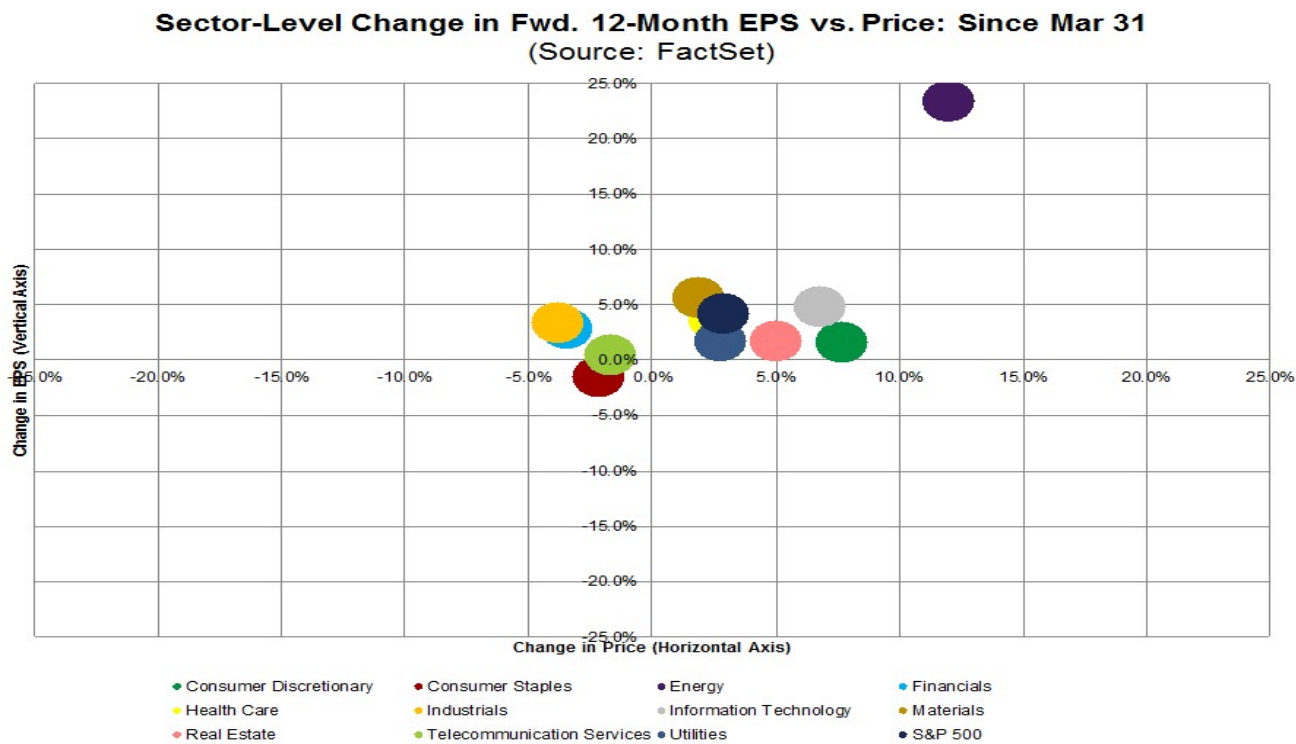
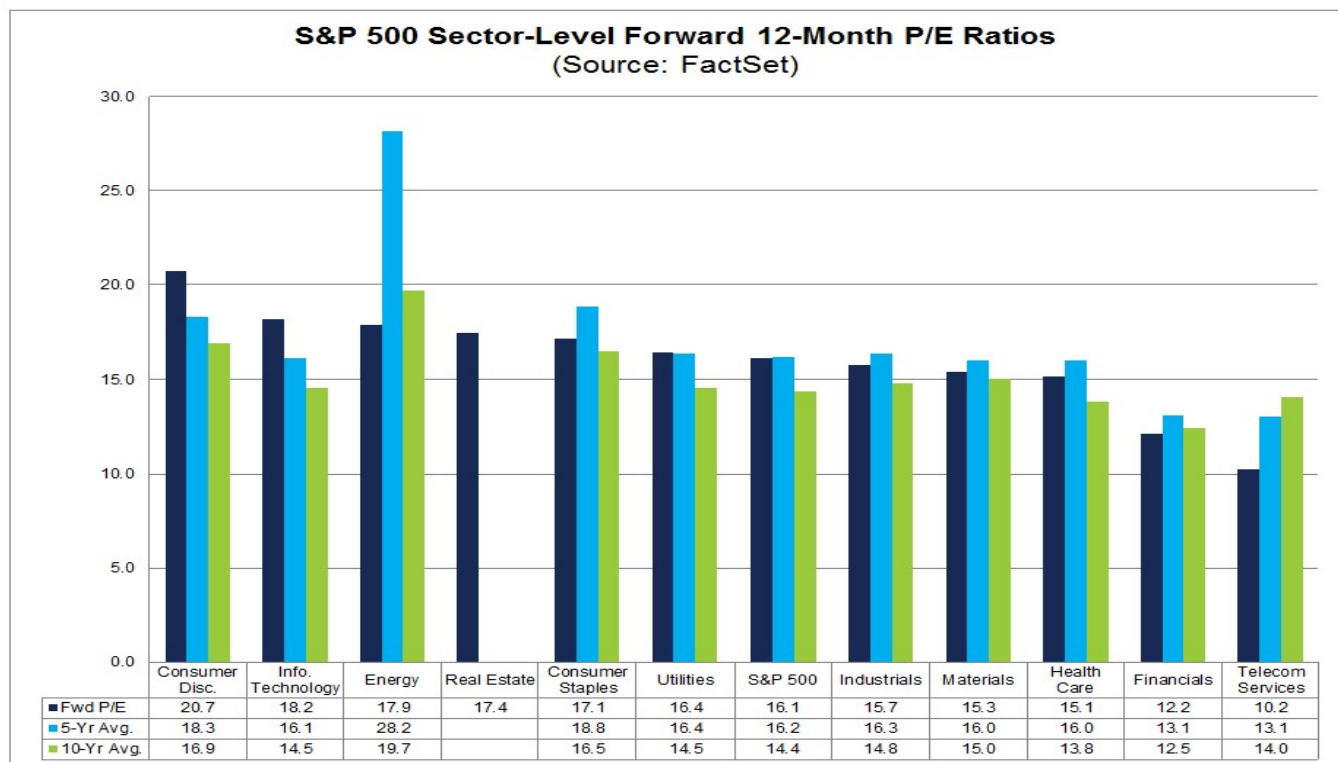
Bottom-up EPS Estimates: Revisions



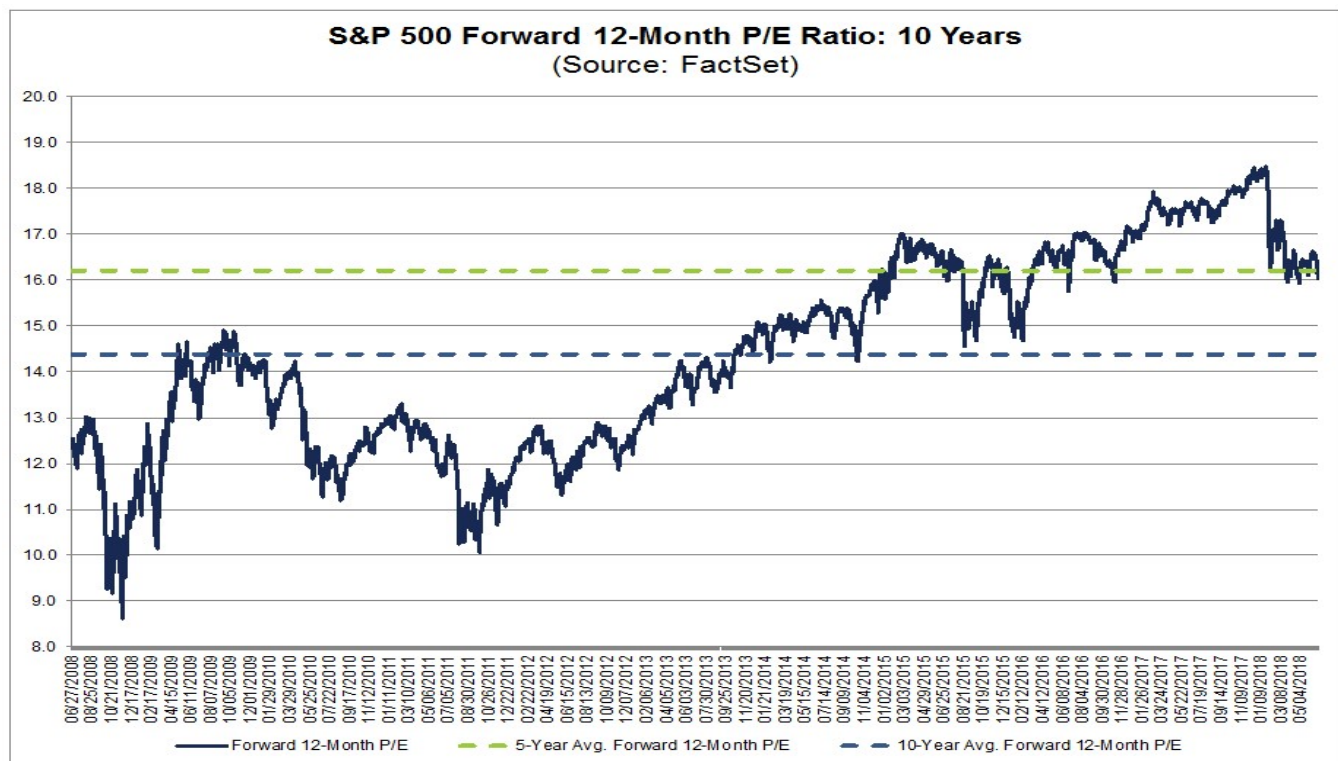
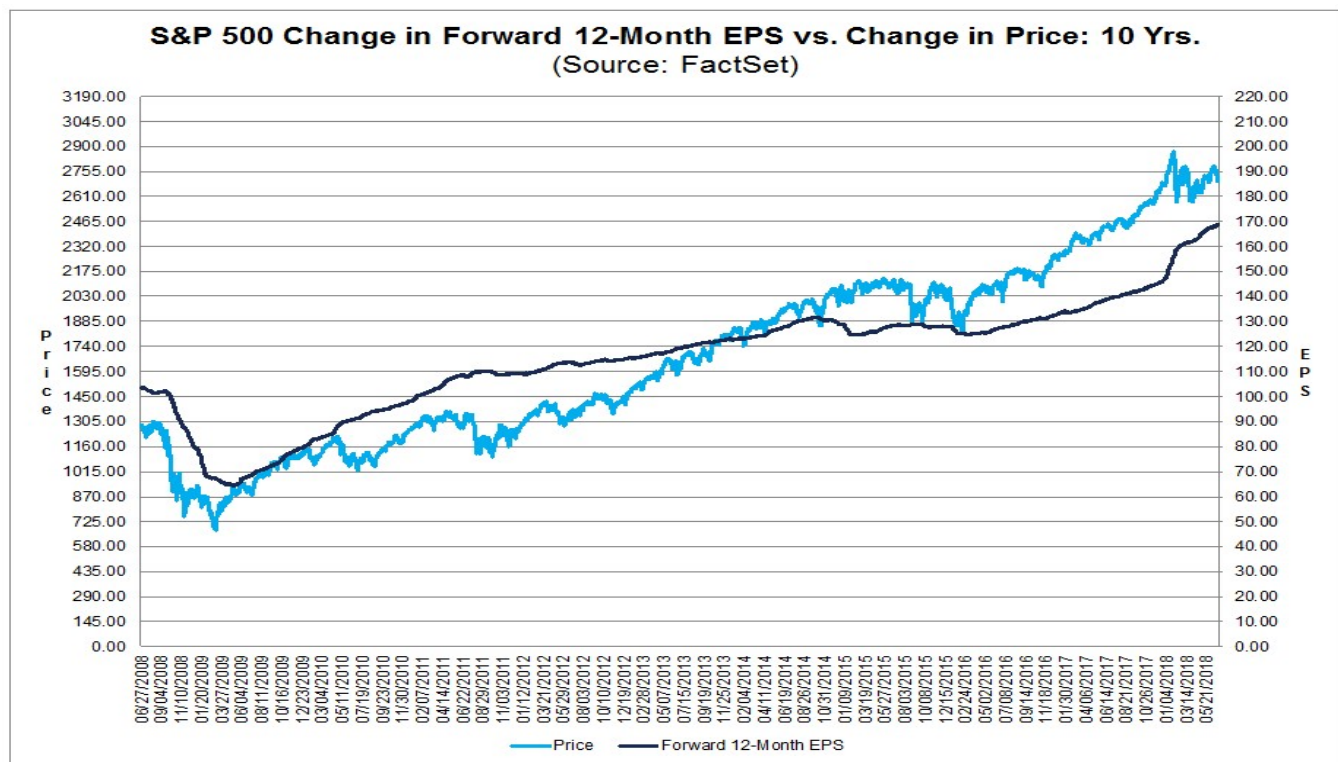
Bottom-up EPS Estimates: Current & Historical



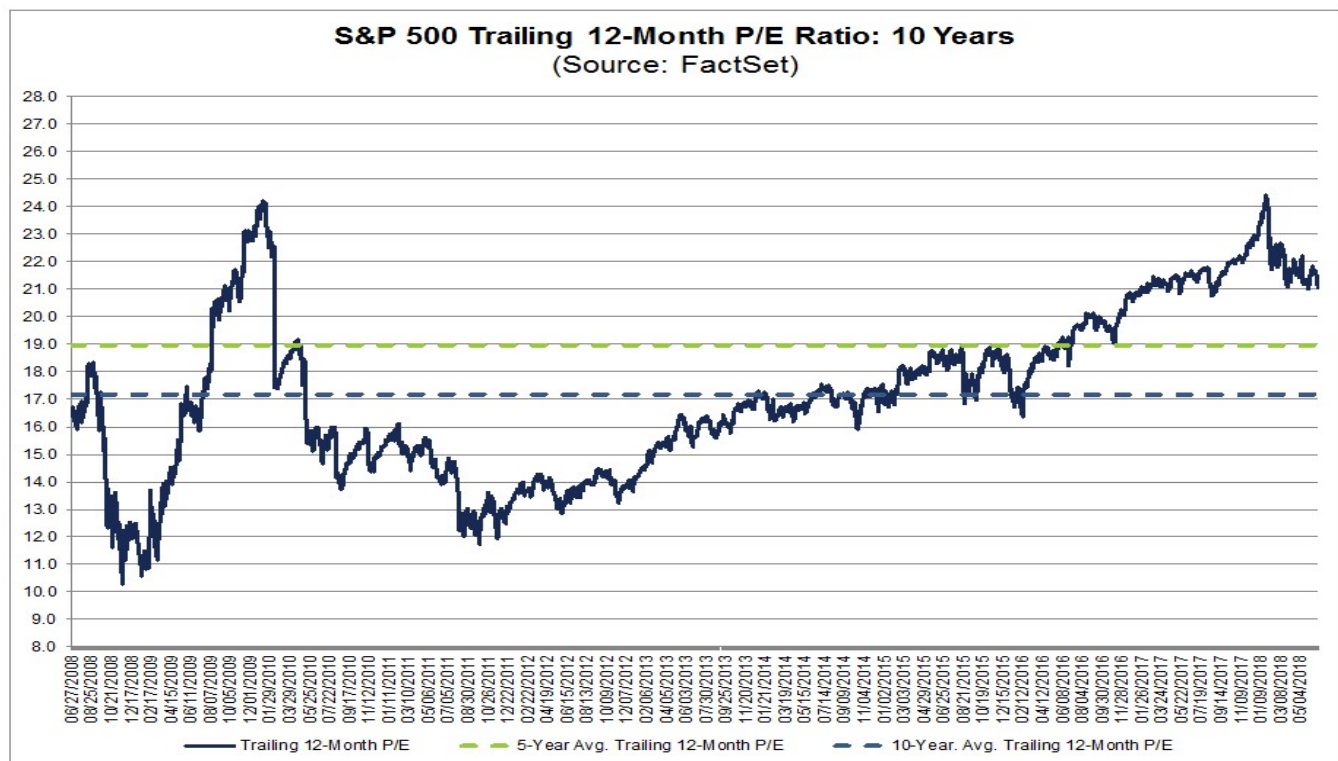
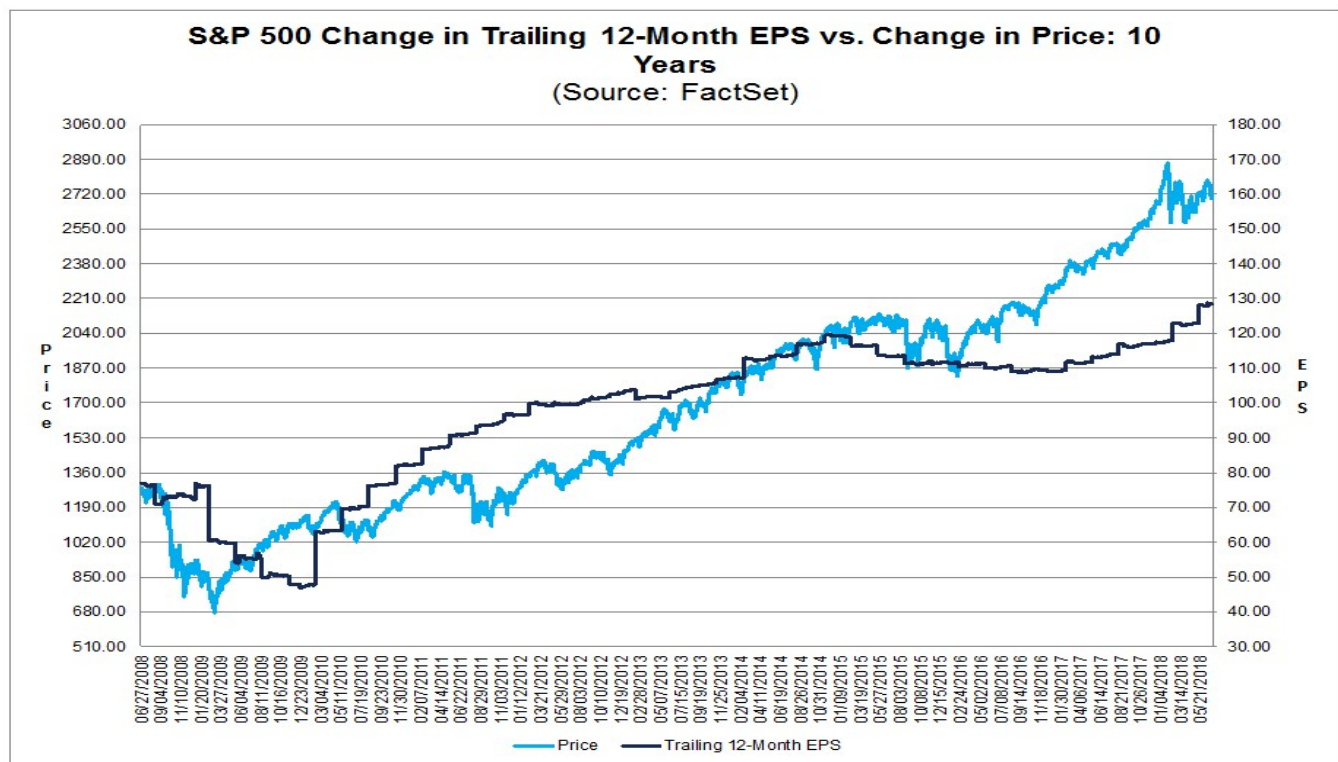
Forward 12M P/E Ratio: Sector Level



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



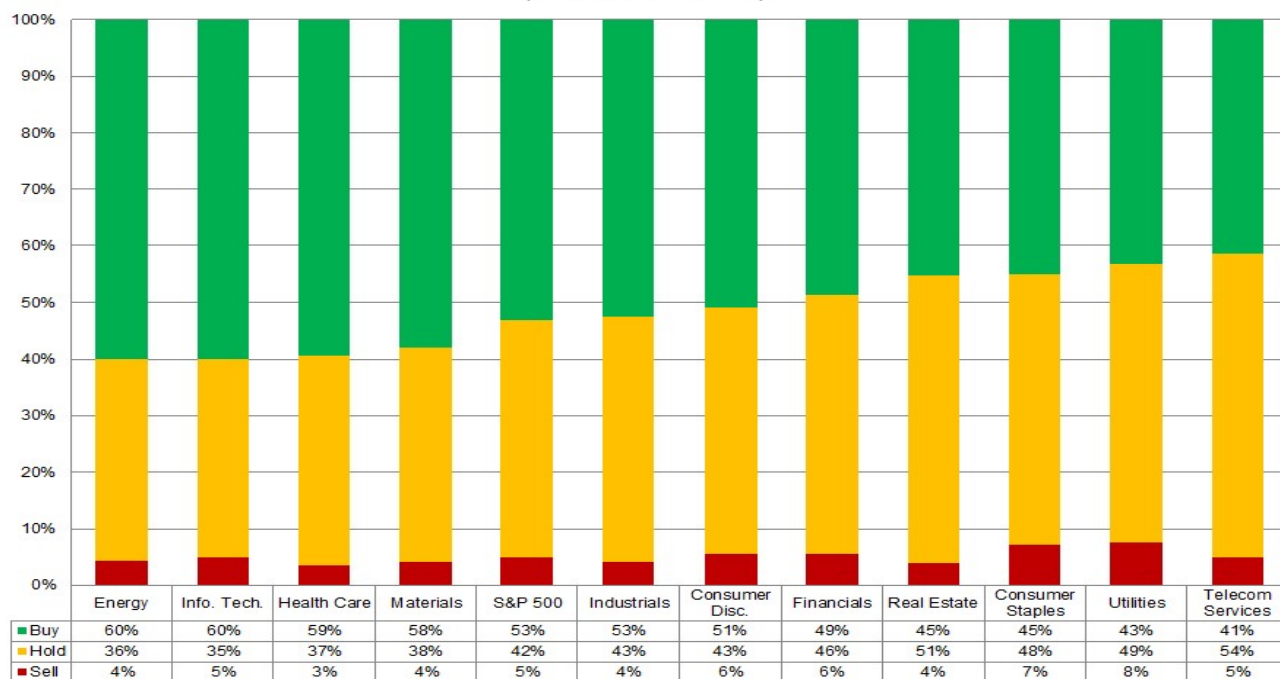
Trailing 12M P/E Ratio: Long-Term Averages



Targets & Ratings

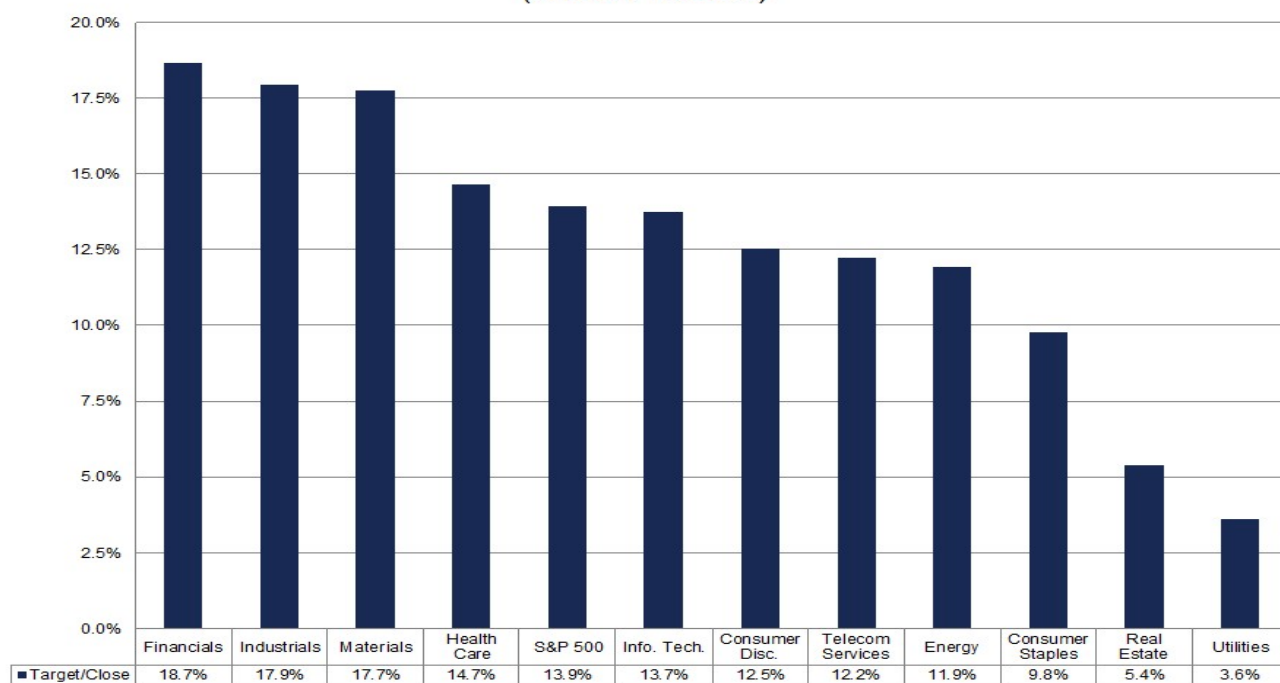
S&P 500: Percentage of Buy, Hold, and Sell Ratings

(Source: FactSet)



S&P 500 Sector-Level Bottom-Up Target Price vs. Closing Price

(Source: FactSet)



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