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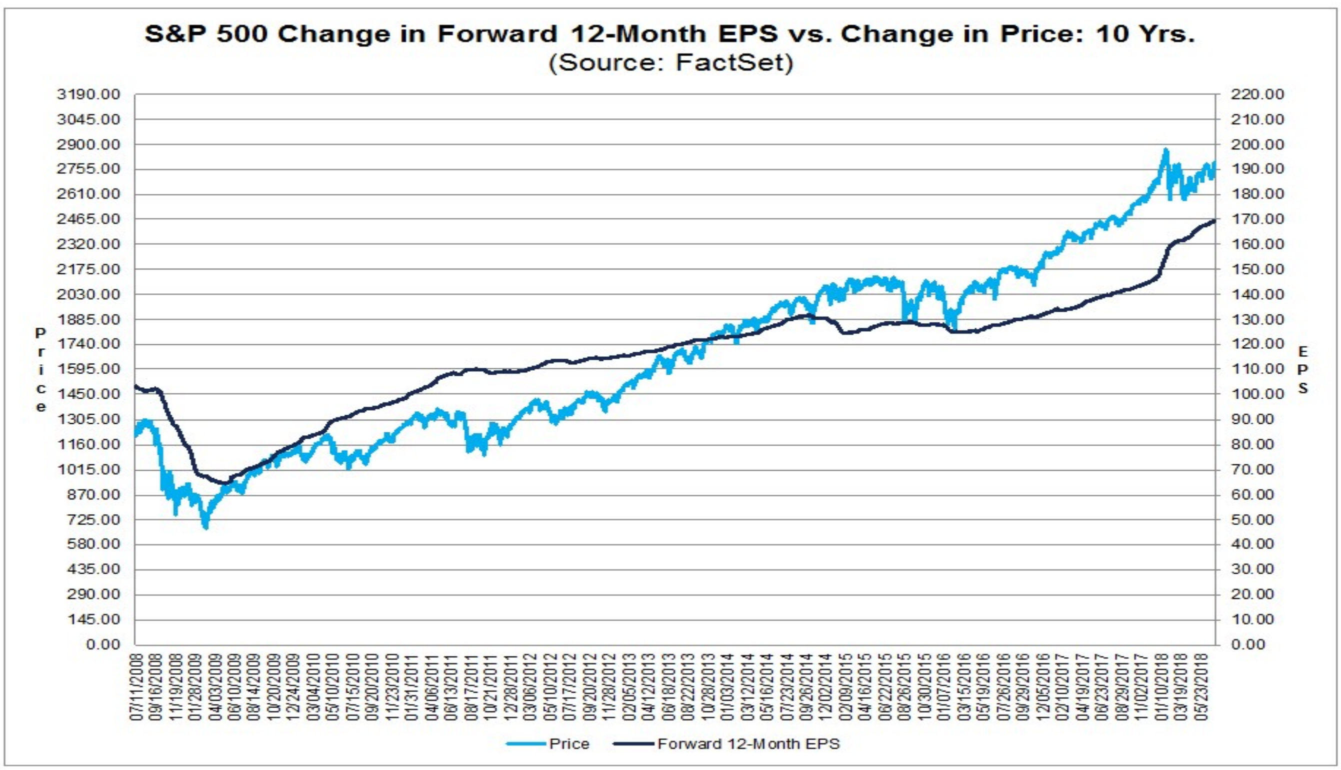
Key Metrics

- **Earnings Scorecard:** For Q2 2018 (with 5% of the companies in the S&P 500 reporting actual results for the quarter), 89% of S&P 500 companies have reported a positive EPS surprise and 85% have reported a positive sales surprise.
- **Earnings Growth:** For Q2 2018, the blended earnings growth rate for the S&P 500 is 19.9%. If 19.9% is the actual growth rate for the quarter, it will mark the second highest earnings growth since Q3 2010 (34.1%).
- **Earnings Revisions:** On June 30, the estimated earnings growth rate for Q2 2018 was 20.0%. Four sectors have lower growth rates today (compared to June 30) due to downward estimate revisions and negative earnings surprises.
- **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 16.6. This P/E ratio is above the 5-year average (16.2) and above the 10-year average (14.4).



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Topic of the Week: 1

2nd Highest Number of S&P 500 Companies Issuing Positive EPS Guidance for Q2 Since 2006

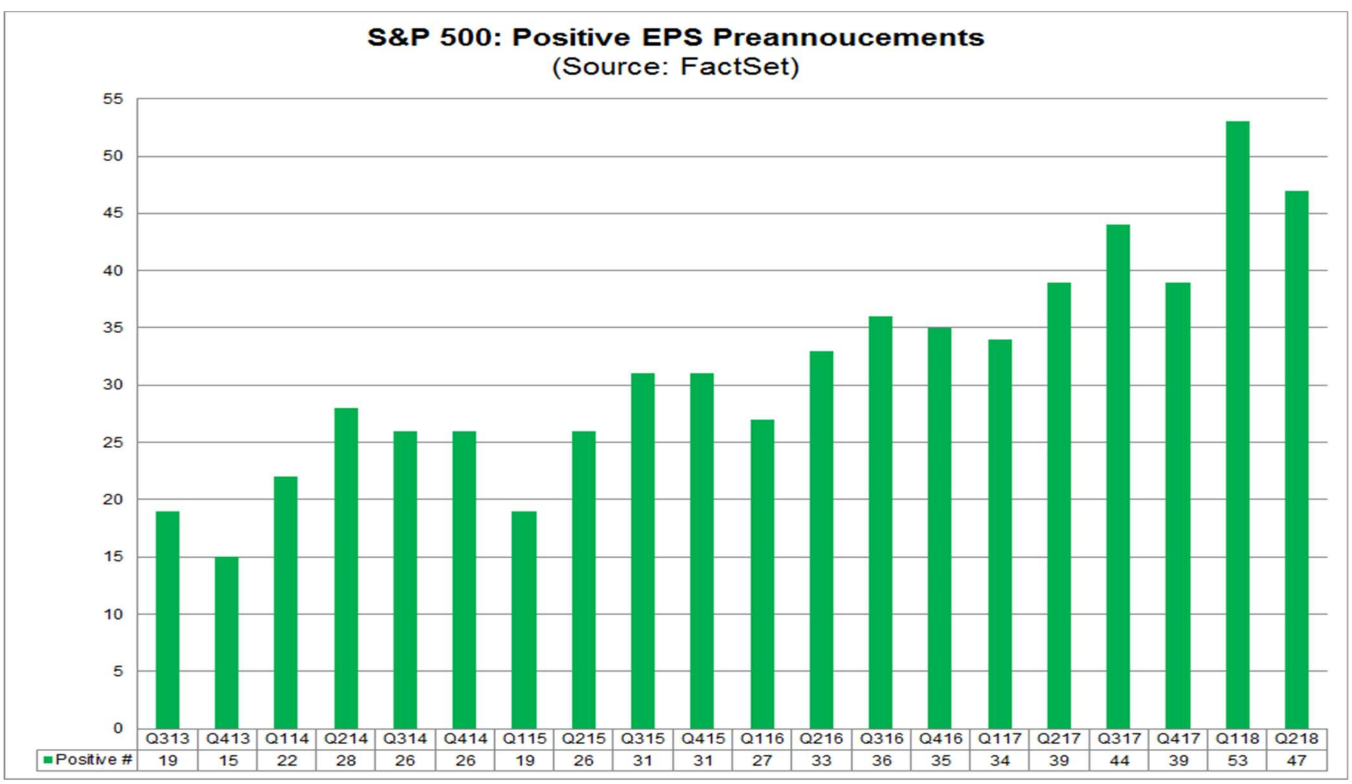
Heading into the peak weeks of the second quarter earnings season, 109 S&P 500 companies have issued EPS guidance for the second quarter. Of these 109 companies, 62 have issued negative EPS guidance and 47 companies have issued positive EPS guidance. The number of companies issuing negative EPS is below the 5-year average (78), while the number of companies issuing positive EPS guidance is well above the 5-year average (30).

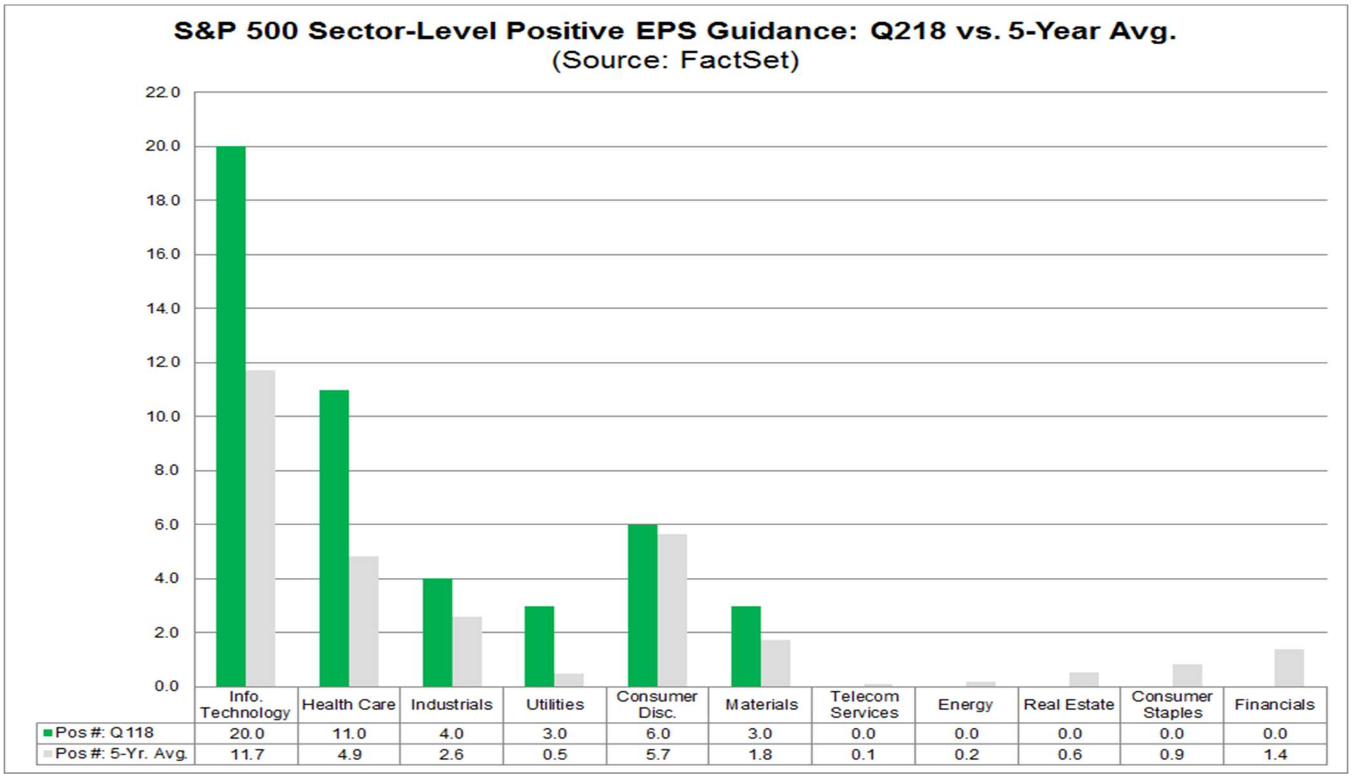
If 47 is the final number of S&P 500 companies issuing positive EPS guidance for the quarter, it will mark a tie with Q2 2010 for the second highest number of S&P 500 companies issuing positive EPS guidance for a quarter since FactSet began tracking this data in 2006. The current record for the highest number of S&P 500 companies issuing positive EPS guidance for a quarter is 53, which was set in the previous quarter (Q1 2018)

What is driving the positive sentiment in EPS guidance for the second quarter? At the sector level, the Information Technology and Health Care sectors have the highest number of companies issuing positive EPS guidance for the quarter. Combined, these two sectors account for 31 of the 47 S&P 500 companies (or 66%) that have issued positive EPS guidance for the quarter.

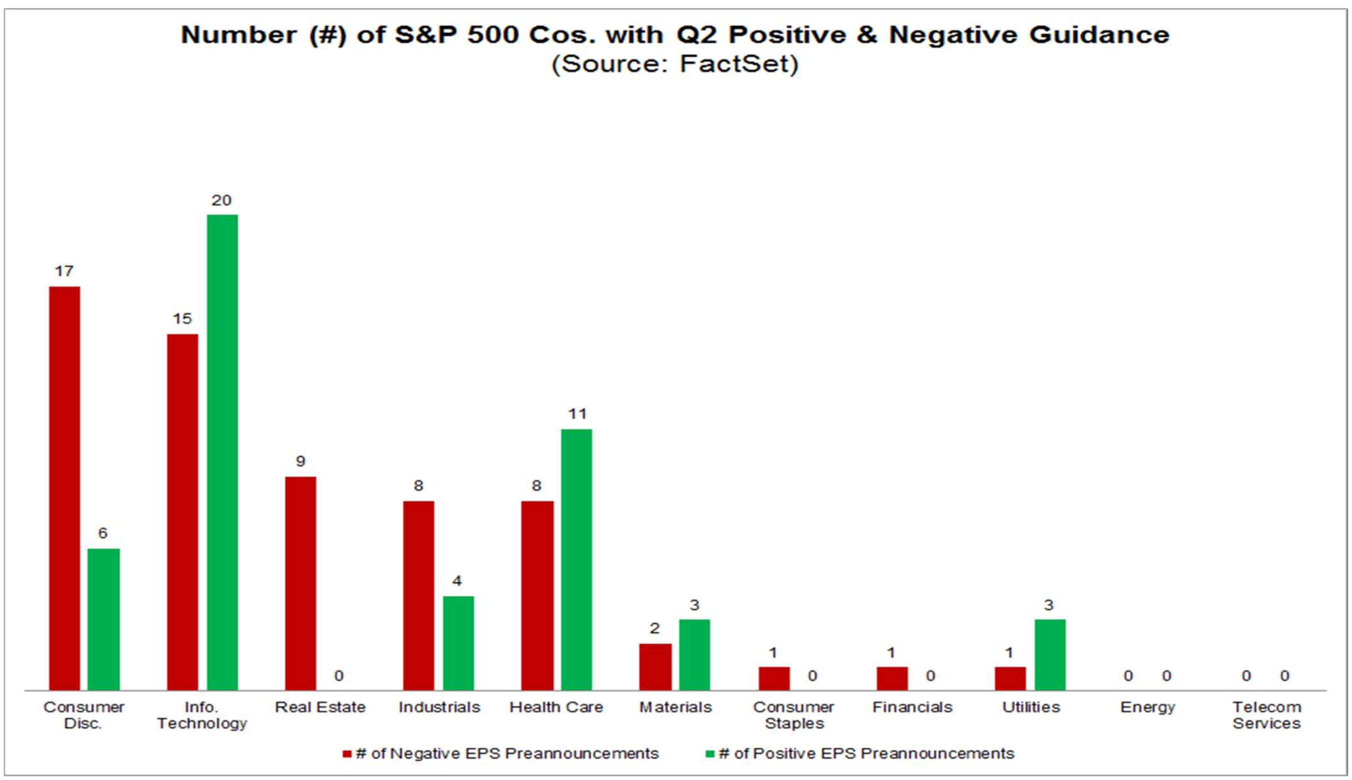
In the Information Technology sector, 20 companies have issued positive EPS guidance for the second quarter. This number is above the 5-year average for the sector (12). If 20 is the final number for the quarter, it will mark the third highest number of companies issuing positive EPS guidance for this sector since FactSet began tracking EPS guidance in 2006. Eight of these 20 companies are in the Semiconductor & Semiconductor Equipment industry. This industry is projected to report the second highest earnings growth (38%) of the seven industries in this sector.

In the Health Care sector, 11 companies have issued positive EPS guidance for the second quarter. This number is above the 5-year average for the sector (5). If 11 is the final number for the quarter, it will mark a tie with Q2 2017 and Q3 2017 for the highest number of companies issuing positive EPS guidance for this sector since FactSet began tracking EPS guidance in 2006. Five of these 11 companies are in the Health Care Equipment & Supplies industry. This industry is projected to report the fourth highest earnings growth (10%) of the six industries in this sector.





	Info. Technology	Health Care	Industrials	Utilities	Consumer Disc.	Materials	Telecom Services	Energy	Real Estate	Consumer Staples	Financials
Pos #: Q118	20.0	11.0	4.0	3.0	6.0	3.0	0.0	0.0	0.0	0.0	0.0
Pos #: 5-Yr. Avg.	11.7	4.9	2.6	0.5	5.7	1.8	0.1	0.2	0.6	0.9	1.4



Topic of the Week: 2

More S&P 500 Companies Seeing Negative Impact from FX Than Tariffs in Earnings Calls for Q2

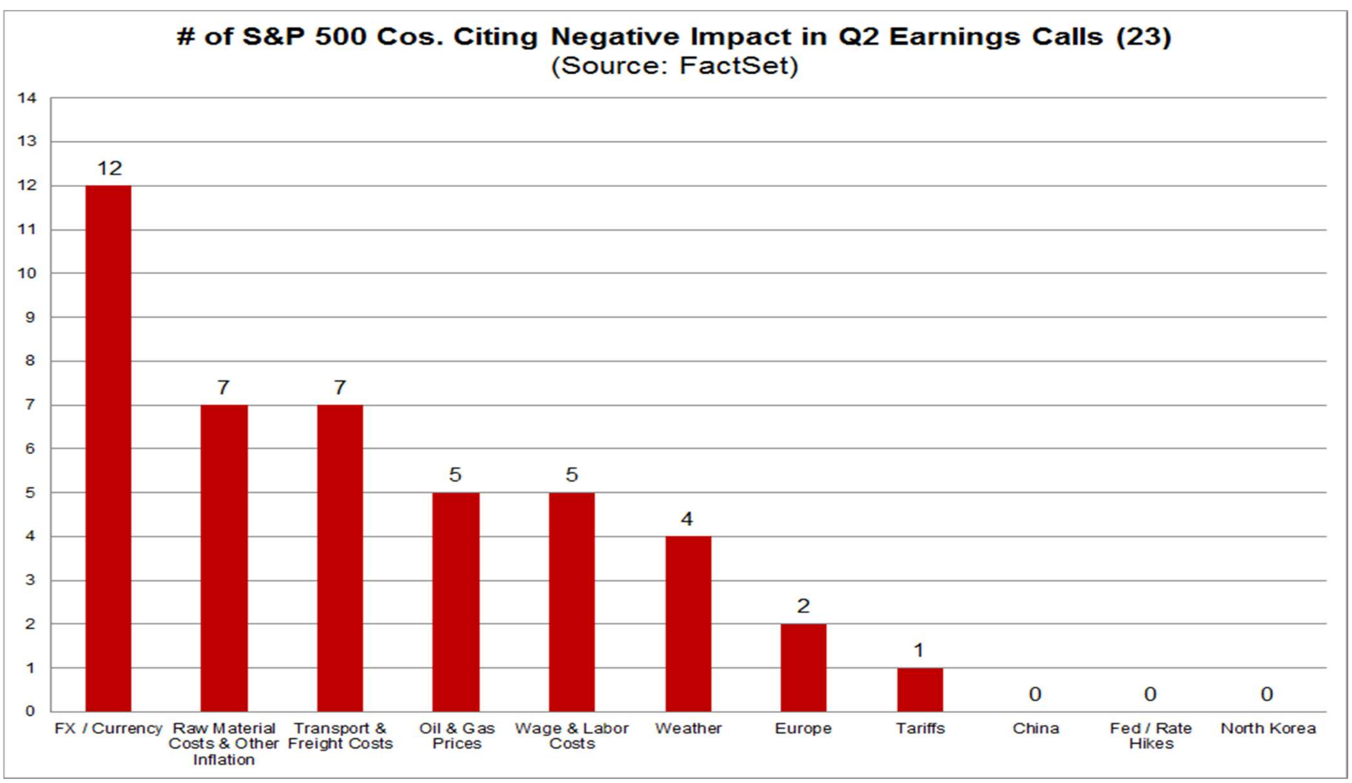
While the majority of S&P 500 companies will report earnings results for Q2 2018 over the next few weeks, about 5% of the companies in the index (23 companies) had reported earnings results for the second quarter through July 12. Given the expectations for about 20% earnings growth for the second quarter (and for the next two quarters), have these companies discussed specific factors that had a negative impact on earnings or revenues for the second quarter (or are expected to have a negative impact in future quarters) during their earnings conference calls?

To answer this question, FactSet searched for specific terms related to a number of factors (i.e. “currency,” “China,” etc.) in the conference call transcripts of the 23 S&P 500 companies that have conducted second quarter earnings conference calls through July 12 to see how many companies discussed these factors. FactSet then looked to see if the company cited a negative impact, expressed a negative sentiment (e.g. “volatility,” “uncertainty,” “pressure,” “headwind,” etc.), or discussed clear underperformance in relation to the factor for either the quarter just reported or in guidance for future quarters. The results are shown below.

Foreign exchange has been cited by the most companies (12) in the index to date as a factor that either had a negative impact on earnings or revenues in Q2, or is expected to have a negative impact on earnings and revenues in future quarters.

After currency, the next four factors with the highest number of companies citing a negative impact are related to costs. If these four “cost” categories (raw material, transport, labor, and oil/gas) were combined, the total number of companies citing a negative impact from at least one of these four categories would be 14, as several companies cited a negative impact from more than one of these factors during their earnings calls.

It is interesting to note that the term “tariff” has been mentioned during the earnings calls of six S&P 500 companies to date. However, only one of these six companies (Lennar) cited a direct negative impact from tariffs. With the imposition of additional tariffs in recent weeks by both the U.S. and China, more companies in the index will likely discuss this topic on earnings calls for the second quarter over the next few weeks.



Tariffs

"Given our progress in these and other categories, we're on track to meet or exceed our 2019 target of $265 million of direct construction cost synergies. We expect to accomplish this despite the backdrop of serious industry headwinds of a tight labor market, elevated lumber prices and international trade tariffs." -Lennar (Jun. 26)

FX / Currency

"And currency volatility remains significant and causes us to be deliberate with our pace of investment. Moves in the foreign currency rate of greater than 5% from one quarter to the next are common." -AutoZone (May 22)

"Importantly, in regard to Q1 guidance, exchange rates have moved from a 3% revenue tailwind to now being a 1% headwind from the last time I gave guidance. That is a 4% negative move, which impacts revenue in Q1 by about $300 million. It also impacts EPS negatively by $0.03." -Oracle (Jun. 19)

"Before I discuss our results in further detail, please note that many of the foreign currencies that we conduct business in have weakened against the dollar since we provided guidance back in March. For instance, total revenue for the quarter would have been $3 million higher using the FX rates from March. As for the impact to our full-year revenue outlook, we are re-affirming the growth on a constant currency basis of 16% to 17%, while we adjust the dollar range down by $50 million for the changes in FX rates as of today, which I will discuss in more detail at the end of the call." -Red Hat (Jun. 21)

"While I'm on the topic of fuel and currency impact, for those of you who are modeling 2019 using June guidance fuel price and FX rates, the impact of higher fuel prices and the stronger dollar would unfavorably impact 2019 by $0.14." -Carnival (Jun. 25)

"Margin will be negatively impacted by approximately 35 basis points from FX but we expect to deliver our 100-basis point margin expansion target normalized for FX." –IHS Markit (Jun. 26)

"Full-year segment operating profit was down 22% in constant currency driven by significant raw material inflation and currency-driven inflation on products imported into the UK." -General Mills (Jun. 27)

"As we do our analysis, so looking at the rates that we used as a basis for the FX impact that I just provided for this year, if those rates were to hold constant, as we do our analysis, it would create a headwind of about 2%. So it'd have a negative 2% impact on our results next year." -Accenture (Jun. 28)

"So, the comment about volatility was more around FX. You've seen some of the FX rates jumping around the last month or so. That's it. And our FX has been very favorable year-to-date, about 3.5%. We see that going down for the year about 2%." -McCormick & Co. (Jun. 28)

"For the full-year, gross margin contracted just under 80 basis points as strong underlying product profitability was more than offset by a 90 basis point headwind from foreign exchange." -NIKE (Jun. 28)

"So, there are really two components. So, FX was a small headwind to GP in Q1, but it was a larger headwind at operating income because we have – as the peso weakened in the quarter and we had to reval our peso receivables with the biggest one being our VAT receivable, there was a reasonably sized SG&A drag on our beer business. So, again, at the operating income line, it was a larger drag than it was at the GP line." -Constellation Brands (Jun. 29)

"In addition, we expect the previously announced refranchising of our Czech Republic, Hungary and Slovakia business operations to benefit our fourth quarter earnings and, finally, based on market consensus forecasts, we expect foreign exchange translation to negatively impact both net revenue and operating profit in the second half of the year reversing the ForEx benefits that we had in the first half." -PepsiCo (Jul. 10)

"Unit costs in the back half of the year should be 3 to 4 points better than our first half performance…This puts us on a trajectory for 1% to 2% non-fuel unit cost growth for 2018. This is a solid result, albeit at the upper end of our original range due to a half point of pressure from weather and currency." -Delta Air Lines (Jul. 12)

Higher Costs (Materials, Freight, Labor, Oil, etc.)

"On the cost front, I've highlighted the past few quarters the impacts we are experiencing from accelerated pressure on wages. Those pressures continue to exist and are much more than historical norms." -AutoZone (May 22)

"I think in the food and sundries side, it's [inflation] picked up a little bit. And again, in talking to the buyers, a big chunk of that has to do with freight. And I think one of the analyst reports out there and the title was called frieghtening changes to cost…And I think on the food and sundries side, it was up in the 2% to 3% range. And probably two-thirds of X was more related to the freight-related costs." -Costco (May 31)

"Restaurant labor was unfavorable 90 basis points, as continued wage pressures, workforce investments, and Cheddar's brand mix offset pricing and productivity gains." -Darden Restaurants (Jun. 21)

"While I'm on the topic of fuel and currency impact, for those of you who are modeling 2019 using June guidance fuel price and FX rates, the impact of higher fuel prices and the stronger dollar would unfavorably impact 2019 by $0.14." -Carnival (Jun. 25)

"Given our progress in these and other categories, we're on track to meet or exceed our 2019 target of $265 million of direct construction cost synergies. We expect to accomplish this despite the backdrop of serious industry headwinds of a tight labor market, elevated lumber prices and international trade tariffs." -Lennar (Jun. 26)

"Our realized productivity has been coming in at 3%, a little north of 3%. The thing that we did not call right back then, nobody called right was inflation, right? We thought inflation was going to be in the low 2%. As I just quoted, we finished at 3.8% this year. So clearly much more of a headwind than we anticipated that time." -ConAgra Brands (Jun. 27)

"Total segment operating profit of $2.8 billion declined 6% in constant currency. We delivered another strong year of HMM savings, and we reached our restructuring savings goal. However, those results were not enough to offset unexpectedly high freight and raw material inflation, increases in other operating costs and higher merchandising." -General Mills (Jun. 27)

"Our selling, general and administrative expense as a percentage of net sales increased by 10 basis points from the second quarter of 2017. Leverage from sales growth as well as CCI-led cost savings were more than offset by significant increases in distribution expense driven by freight." -McCormick & Co. (Jun. 28)

"We are forecasting, as you noted, a bit of pressure on gross margin from select input cost headwinds within labor, oil, freight, materials." -NIKE (Jun. 28)

"Adjusted operating income was up 0.4% on a constant currency basis reflecting higher adjusted earnings from AmerisourceBergen. Excluding AmerisourceBergen, generic procurement margin and cost inflationary pressure more than offset the favorable impact of higher sales." -Walgreens Boots Alliance (Jun. 28)

"So GP margins in beer benefited from robust pricing and then that was offset by incremental depreciation, which we'd planned on, as well as about a 70 basis points drag from incremental freight in logistics cost, as a result of a tighter trucking market in the U.S." -Constellation Brands (Jun. 29)

"So, a couple of comments. When I say gross margins under pressure, I'm talking about relatively nominal pressure as we've seen over the last several quarters. A combination of a couple of factors on gross margin: number one, obviously commodity inflation has picked up a bit. Certainly we've seen a bit more in oil and in addition to that in aluminum. Second, transport costs have also been under some pressure with the driver shortage in the United States." -PepsiCo (Jul. 10)

"Our gross margin was 48.7% in the second quarter of 2018, down 110 basis points versus the second quarter of 2017…There were two larger impacts. In the second quarter of 2017, we had a modest price increase ahead of anticipated higher product costs, so the large decline in the current period reflects the degree to which those costs have caught up. Higher freight expenses were also a meaningful drag on a year-over-year basis." -Fastenal (Jul. 11)

"Since our last call, we've seen a significant increase in fuel prices and now expect our fuel expense to increase by about $2 billion for the year. Our new EPS guide of $5.35 to $5.70 per share reflects both higher fuel and a stronger revenue outlook." -Delta Air Lines (Jul. 12)

Q2 Earnings Season: By The Numbers

Overview

To date, 5% of the companies in the S&P 500 have reported actual results for Q2 2018. In terms of earnings, more companies are reporting actual EPS above estimates (89%) compared to the 5-year average. In aggregate, companies are reporting earnings that are 2.1% above the estimates, which is below the 5-year average. In terms of sales, more companies (85%) are reporting actual sales above estimates compared to the 5-year average. In aggregate, companies are reporting sales that are 1.2% above estimates, which is also above the 5-year average.

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report), year-over-year earnings growth rate for the second quarter is 19.9% today, which is slightly below the earnings growth rate of 20.0% last week. All eleven sectors are reporting (or are predicted to report) year-over-year earnings growth. Seven sectors are reporting (or are expected to report) double-digit earnings growth, led by the Energy, Materials, Telecom Services, and Information Technology sectors.

The blended, year-over-year sales growth rate for the third quarter is 8.8% today, which is slightly above the growth rate of 8.7% last week. All eleven sectors are reporting (or are projected to report) year-over-year growth in revenues. Four sectors are reporting (or 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 about 20% through the remainder 2018, but do predict lower growth in the first half of 2019.

The forward 12-month P/E ratio is 16.6, which is above the 5-year average and above the 10-year average.

During the upcoming week, 60 S&P 500 companies (including seven Dow 30 components) are scheduled to report results for the second quarter.

Scorecard: More Companies Beating Earnings & Revenue Estimates than Average

Percentage of Companies Beating EPS Estimates (89%) is Above 5-Year Average

Overall, 5% of the companies in the S&P 500 have reported earnings to date for the second quarter. Of these companies, 89% have reported actual EPS above the mean EPS estimate, 4% have reported actual EPS equal to the mean EPS estimate, and 7% 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 (75%) average and above the 5-year (70%) average.

At the sector level, the Consumer Discretionary (100%) and Industrials (100%) sectors have the highest percentages of companies reporting earnings above estimates, while the Financials (75%) sector has the lowest percentage of companies reporting earnings above estimates.

Earnings Surprise Percentage (+2.1%) is Below 5-Year Average

In aggregate, companies are reporting earnings that are 2.1% above expectations. This surprise percentage is below the 1-year (+5.6%) average and below the 5-year (+4.4%) average.

The Consumer Discretionary (+14.7%) sector is reporting the largest upside aggregate difference between actual earnings and estimated earnings. Within this sector, Lennar ($0.94 vs. $0.43) has reported the largest upside difference between actual EPS and estimated EPS. On the other hand, the Financials sector (-1.0%) is reporting the largest downside aggregate difference between actual earnings and estimated earnings. Within this sector, Wells Fargo ($0.98 vs. $1.12) has reported the largest downside difference between actual EPS and estimated EPS.

Market Punishing Earnings Beats and Earnings Misses

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

Companies that have reported upside earnings surprises for Q1 2018 have seen an average price decrease of -0.3% two days before the earnings release through two days after the earnings. This percentage decrease is well below the 5-year average price increase of +1.0% 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 -4.7% two days before the earnings release through two days after the earnings. This percentage decrease is much larger than the 5-year average price decrease of -2.5% during this same window for companies reporting downside earnings surprises.

Percentage of Companies Beating Revenue Estimates (85%) is Above 5-Year Average

In terms of revenues, 85% of companies have reported actual sales above estimated sales and 15% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is above the 1- year average (73%) and well above the 5-year average (58%).

At the sector level, the Industrials (100%) and Information Technology (100%) sectors have the highest percentages of companies reporting revenues above estimates, while the Financials (50%) sector has the lowest percentage of companies reporting revenues above estimates.

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

In aggregate, companies are reporting sales that are 1.2% above expectations. This surprise percentage is equal to the 1-year (+1.2%) average but above the 5-year (+0.7%) average.

The Consumer Discretionary (+3.2%) sector is reporting the largest upside aggregate difference between actual sales and estimated sales, while the Industrials (+0.5%) sector is reporting the smallest aggregate upside difference between actual sales and estimated sales.

Slight Decrease in Blended Earnings Growth This Week

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The blended, year-over-year earnings growth rate for the second quarter is 19.9% today, which is slightly below the earnings growth rate of 20.0% last week.

Slight Increase in Blended Revenue Growth This Week

The blended, year-over-year sales growth rate for the second quarter is 8.8% today, which is slightly above the sales growth rate of 8.7% last week.

Energy Sector Has Seen Largest Increase in Earnings Growth since June 30

The blended, year-over-year earnings growth rate for Q2 2018 of 19.9% is slightly below the estimate of 20.0% at the end of the second quarter (June 30). Five 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 Energy (to 145.3% from 141.7%) sector. Four sectors have recorded a decrease in earnings growth during this time due to downward revisions to earnings estimates and negative earnings surprises. Two sectors have recorded no change in earnings growth since June 30.

Seven Sectors Have Seen No Change in Revenue Growth since June 30

The blended, year-over-year sales growth rate for Q2 2018 of 8.8% is slightly above the estimate of 8.7% at the end of the second quarter (June 30). Three 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. One sector has recorded a decrease in sales growth during this time due to downward revisions to revenue estimates and negative revenue surprises. Seven sectors have recorded no change in sales growth since June 30.

Second-Highest Earnings Growth (19.9%) Since Q3 2010

The blended (year-over-year) earnings growth rate for Q2 2018 is 19.9%. If 19.9% is the final growth rate for the quarter, it will mark the second highest earnings growth reported by the index since Q3 2010 (34.1%), trailing only the previous quarter (24.8%). It will also mark the third straight quarter in which the index has reported double-digit earnings growth. All eleven sectors are reporting (or are expected to report) year-over-year growth in earnings. Seven sectors are reporting (or 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 145.3%. 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 (103%), Oil & Gas Storage & Transportation (77%), Oil & Gas Refining & Marketing (71%), and Oil & Gas Equipment & Services (69%).

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 ($67.91) was 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 $19.9 billion in Q2 2018, compared to earnings of $8.1 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 reporting the second highest (year-over-year) earnings growth of all eleven sectors at 48.8%. At the industry level, all four industries in the sector are reporting (or are predicted to report) double-digit earnings growth: Metals & Mining (92%), Chemicals (45%), Containers & Packaging (39%), 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 48.8%.

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 26.4%. 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 19.8% from 26.4%.

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

The Information Technology sector is reporting 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 reporting (or are predicted to report) earnings growth. Five of these six industries are reporting (or are predicted to report) double-digit earnings growth: Internet Software & Services (59%), Semiconductor & Semiconductor Equipment (38%), Technology Hardware, Storage, & Peripherals (22%), IT Services (17%), and Software (10%).

Highest Revenue Growth (8.8%) Since Q3 2011

The blended (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 reporting (or are expected to report) year-over-year growth in revenues. Four sectors are reporting (or are predicted to report) double-digit growth in revenues: Materials, Energy, Information Technology, and Real Estate sectors.

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 23.8%. At the industry level, all four industries in this sector are reporting (or 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 13.2% 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 21.7%. 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%), Oil & Gas Equipment & Services (24%), Integrated Oil & Gas (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 reporting 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 reporting (or are predicted to report) revenue growth. Four of these seven industries are reporting (or 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 5.9% from 10.7%.

Looking Ahead: Forward Estimates and Valuation

Earnings Guidance: Negative EPS Guidance For Q3 2018 is Above 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, 5 companies in the index have issued EPS guidance for Q3 2018. Of these 5 companies, 4 have issued negative EPS guidance and 1 has issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 80% (4 out of 5), which is above the 5-year average of 72%.

Near 20% Earnings Growth Expected For 2018, But Lower Growth Projected for Early 2019

For the second quarter, companies reporting earnings growth of 19.9% and revenue growth of 8.8%. Analysts currently expect earnings to grow near 20% for the remainder 2018, but also expect more moderate growth for early 2019

For Q3 2018, analysts are projecting earnings growth of 21.5% and revenue growth of 7.6%.

For Q4 2018, analysts are projecting earnings growth of 17.8% and revenue growth of 5.7%.

For Q1 2019, analysts are projecting earnings growth of 6.9% and revenue growth of 5.5%.

For Q2 2019, analysts are projecting earnings growth of 10.8% and revenue growth of 4.8%.

Valuation: Forward P/E Ratio is 16.6, above the 10-Year Average (14.4)

The forward 12-month P/E ratio is 16.6. This P/E ratio is equal above the 5-year average of 16.2, and above the 10-year average of 14.4. It is also above the forward 12-month P/E ratio of 16.1 recorded at the start of the third quarter (June 30). Since the start of the third quarter, the price of the index has increased by 2.9%, while the forward 12-month EPS estimate has increased by 0.3%.

At the sector level, the Consumer Discretionary (21.2) and Information Technology (19.0) sectors have the highest forward 12-month P/E ratios, while the Telecom Services (10.3) and Financials (12.3) 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 (19.0 vs. 14.5) and Consumer Discretionary (21.2 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 (10.3 vs. 14.0) sector.

Targets & Ratings: Analysts Project 11% Increase in Price Over Next 12 Months

The bottom-up target price for the S&P 500 is 3096.40, which is 10.7% above the closing price of 2798.29. At the sector level, the Materials (+16.5%) and Financials (+15.8%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Utilities (+3.2%) and Real Estate (+4.2%) sectors are expected to see the smallest price increases, as these sectors have the smallest upside differences between the bottom-up target price and the closing price.

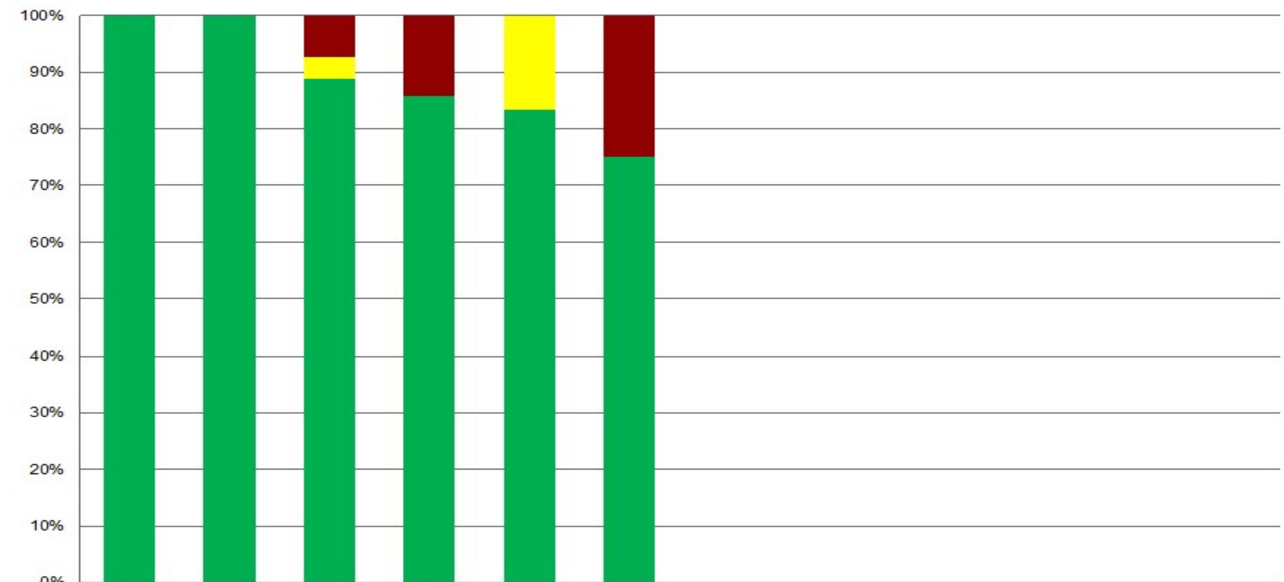
Overall, there are 10,961 ratings on stocks in the S&P 500. Of these 10,961 ratings, 53.0% are Buy ratings, 41.8% are Hold ratings, and 5.2% are Sell ratings. At the sector level, the Information Technology (60%), Energy (60%), Health Care (59%), and Materials (58%) sectors have the highest percentages of Buy ratings, while the Telecom Services (40%) and Utilities (42%) sectors have the lowest percentages of Buy ratings.

Companies Reporting Next Week: 60

During the upcoming week, 60 S&P 500 companies (including seven Dow 30 components) are scheduled to report results for the second quarter.

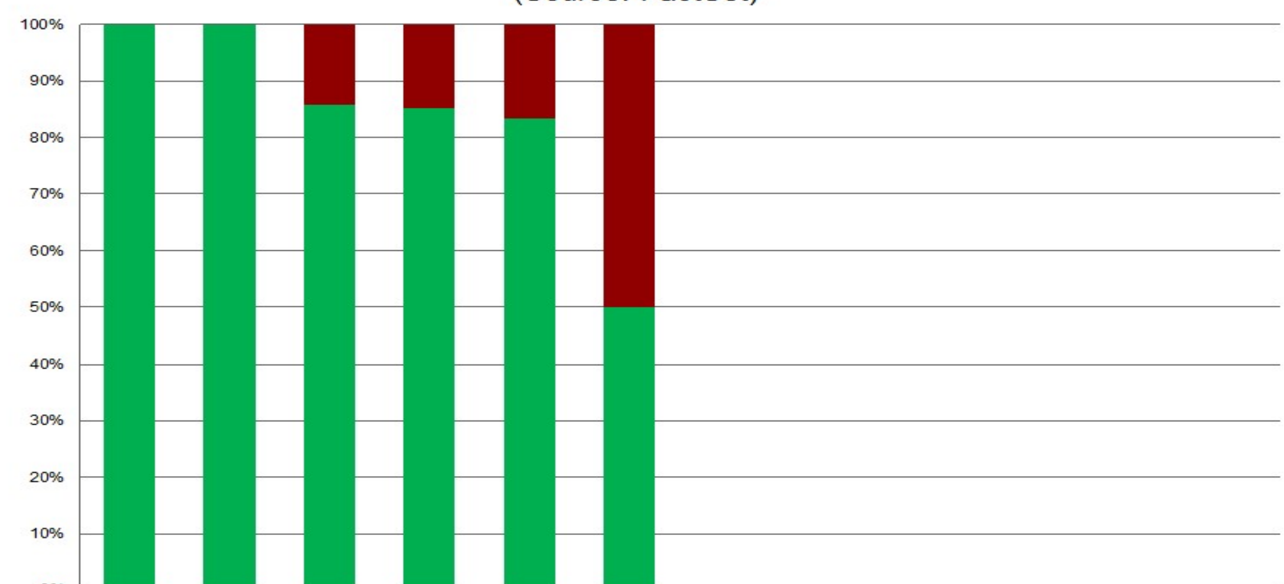
Q2 2018: Scorecard

S&P 500 Earnings Above, In-Line, Below Estimates: Q2 2018
(Source: FactSet)



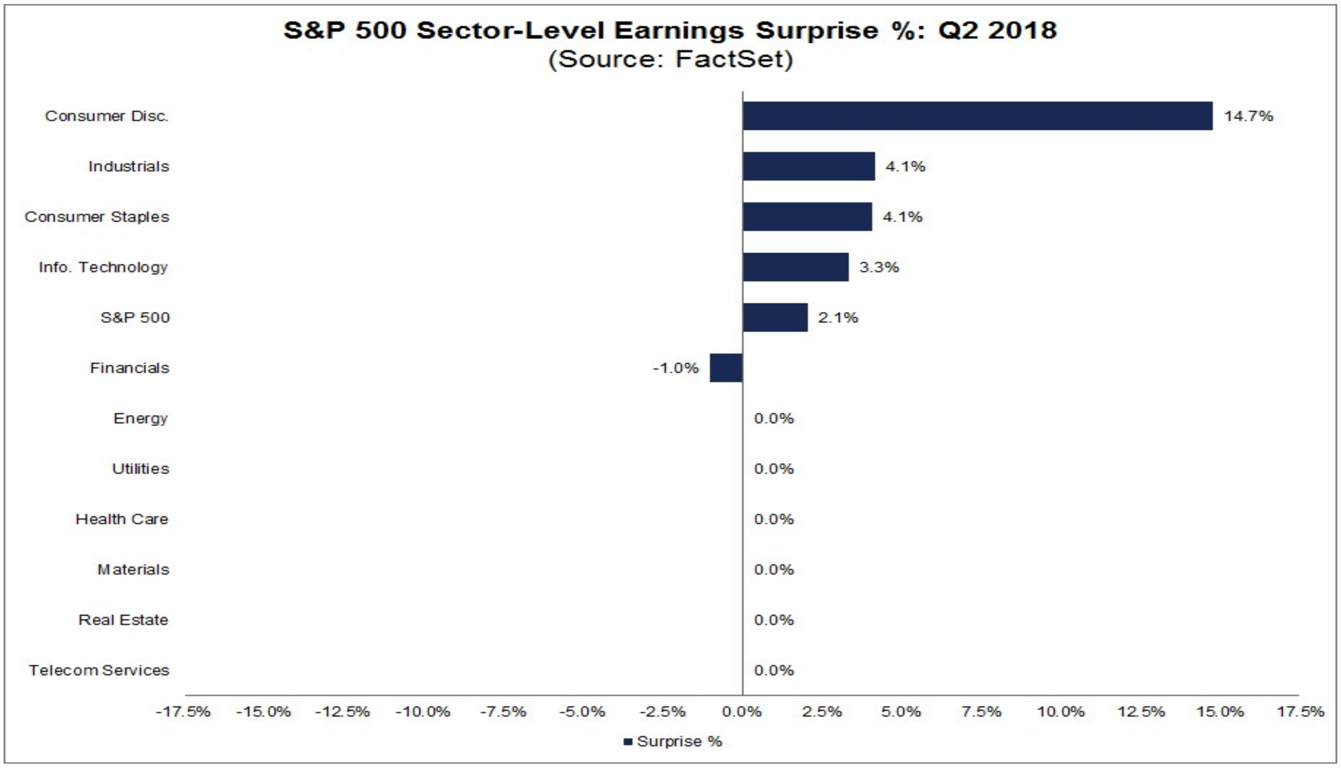
	Industrials	Consumer Disc.	S&P 500	Consumer Staples	Info. Technology	Financials	Health Care	Materials	Energy	Utilities	Telecom Services	Real Estate
Below	0%	0%	7%	14%	0%	25%	0%	0%	0%	0%	0%	0%
In-Line	0%	0%	4%	0%	17%	0%	0%	0%	0%	0%	0%	0%
Above	100%	100%	89%	86%	83%	75%	0%	0%	0%	0%	0%	0%

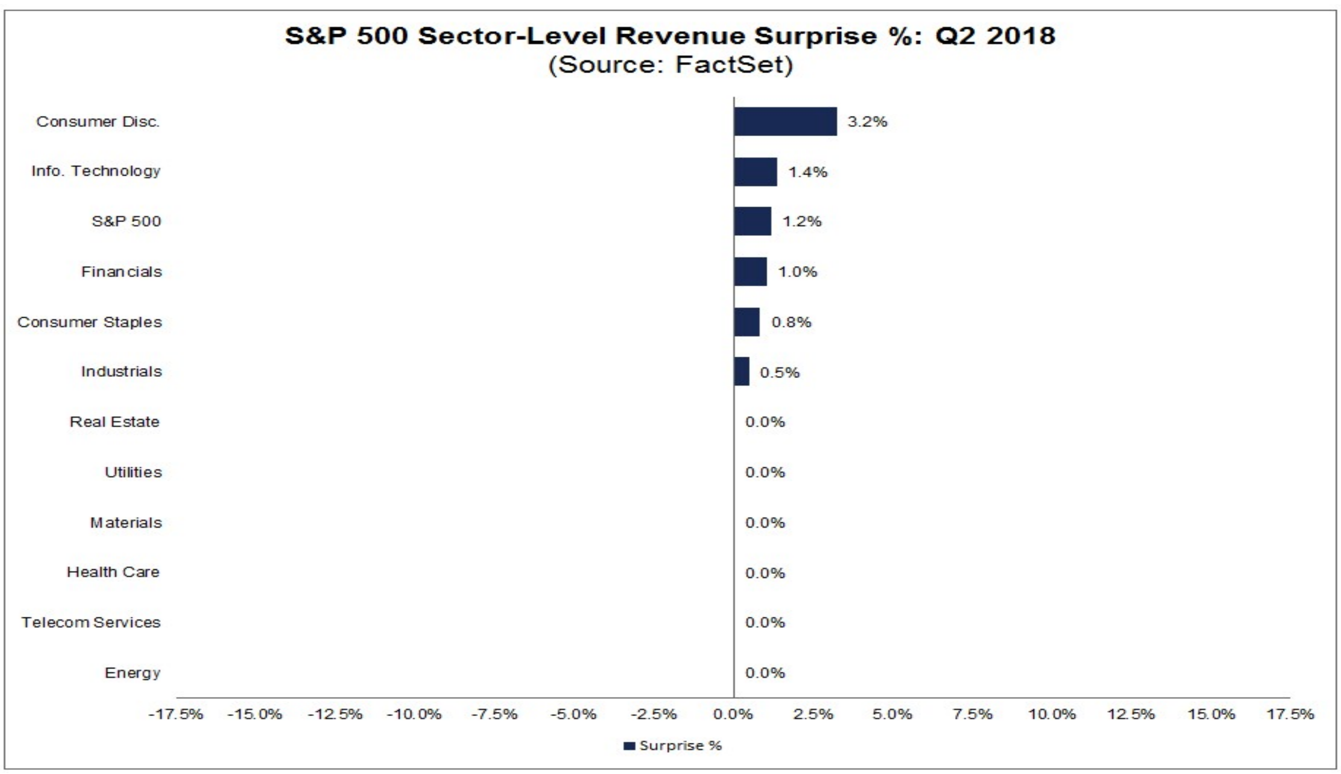
S&P 500 Revenues Above, In-Line, Below Estimates: Q2 2018
(Source: FactSet)



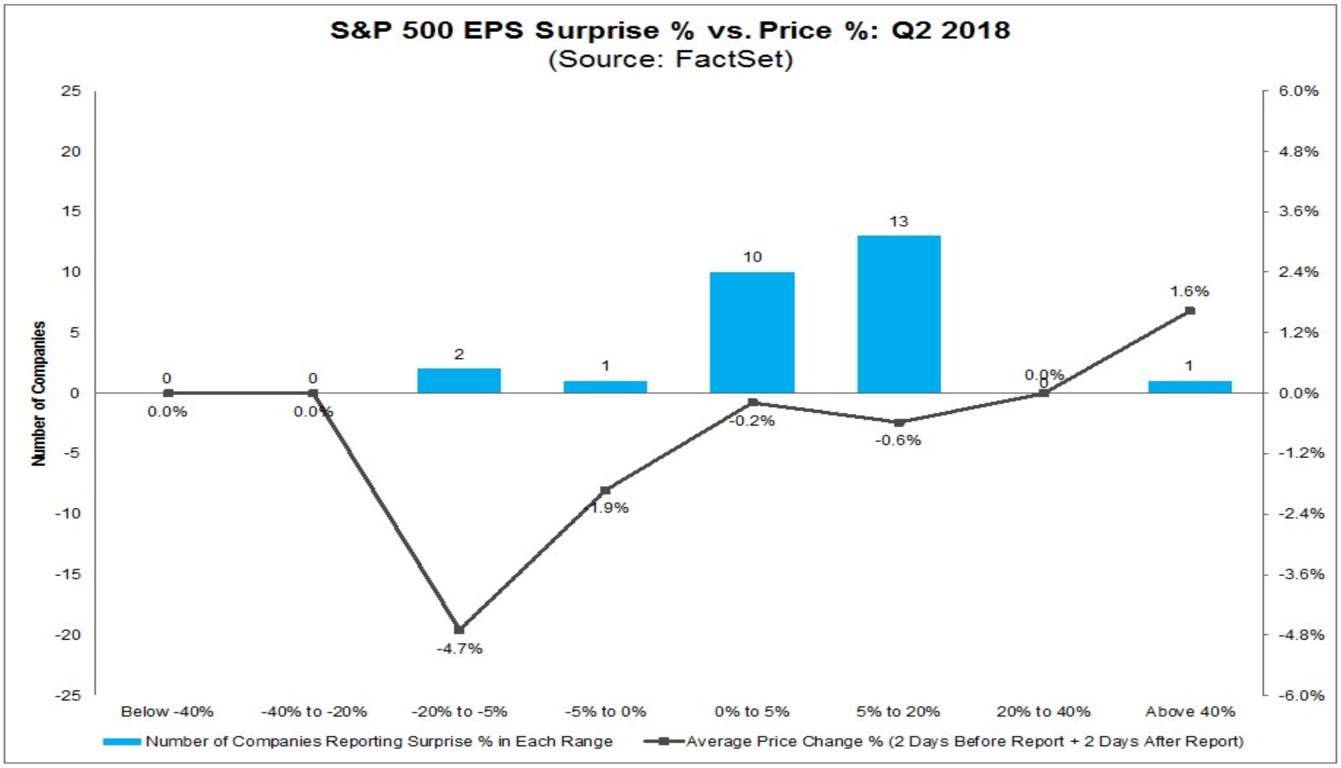
	Info. Technology	Industrials	Consumer Staples	S&P 500	Consumer Disc.	Financials	Real Estate	Materials	Energy	Health Care	Utilities	Telecom Services
Below	0%	0%	14%	15%	17%	50%	0%	0%	0%	0%	0%	0%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	100%	100%	86%	85%	83%	50%	0%	0%	0%	0%	0%	0%

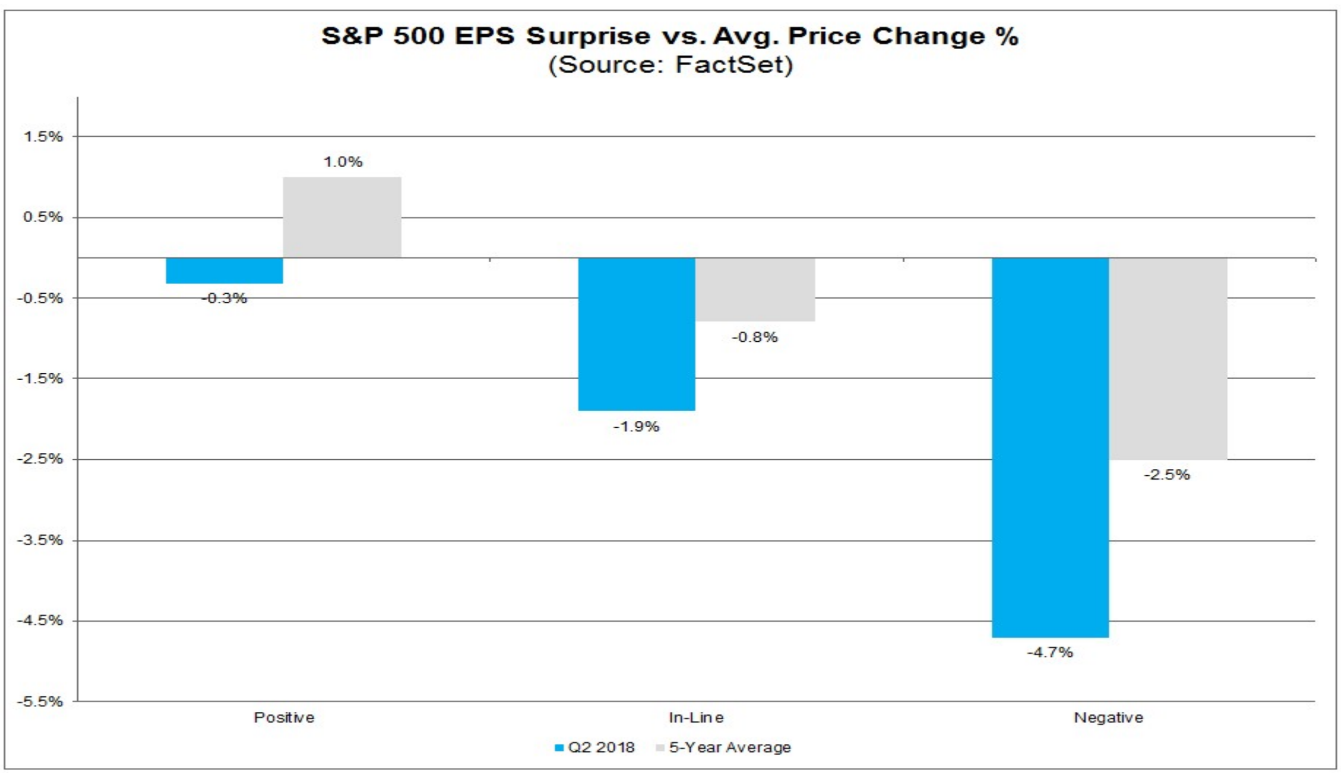
Q2 2018: Scorecard



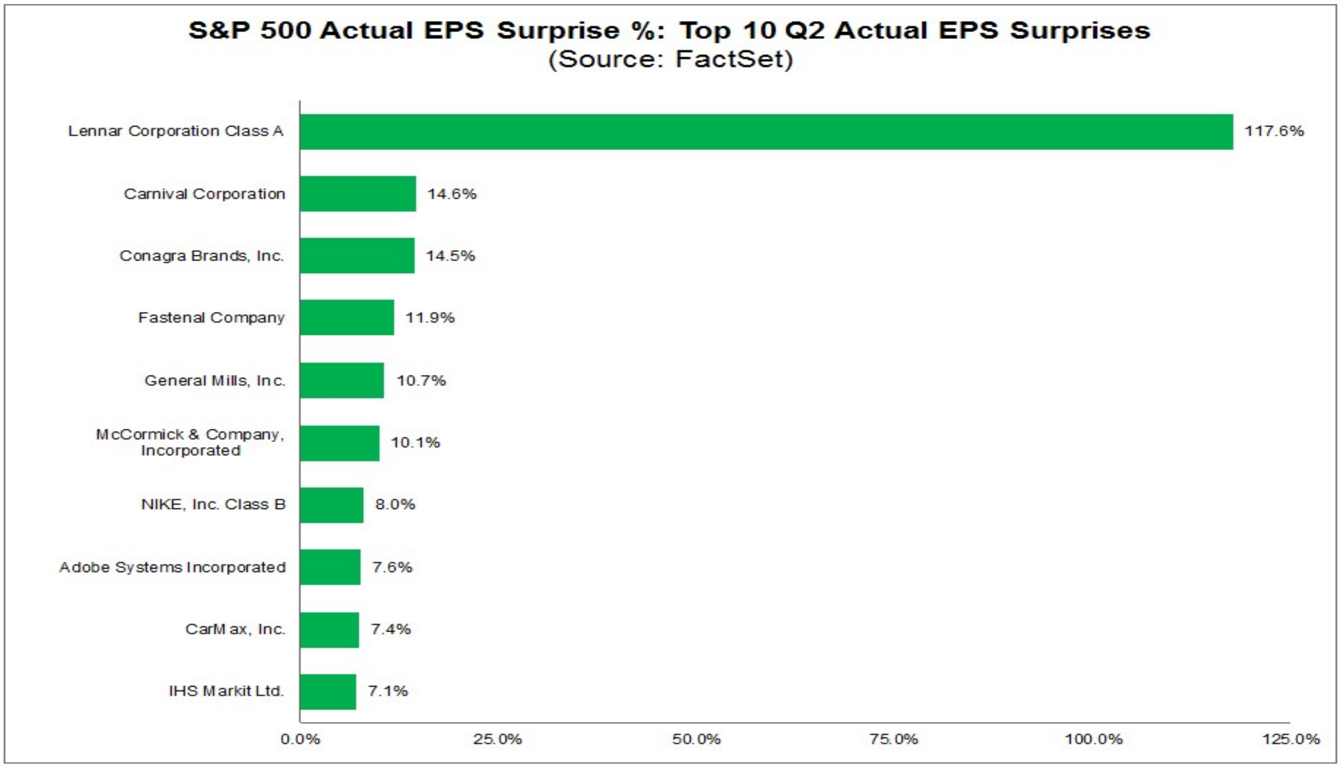


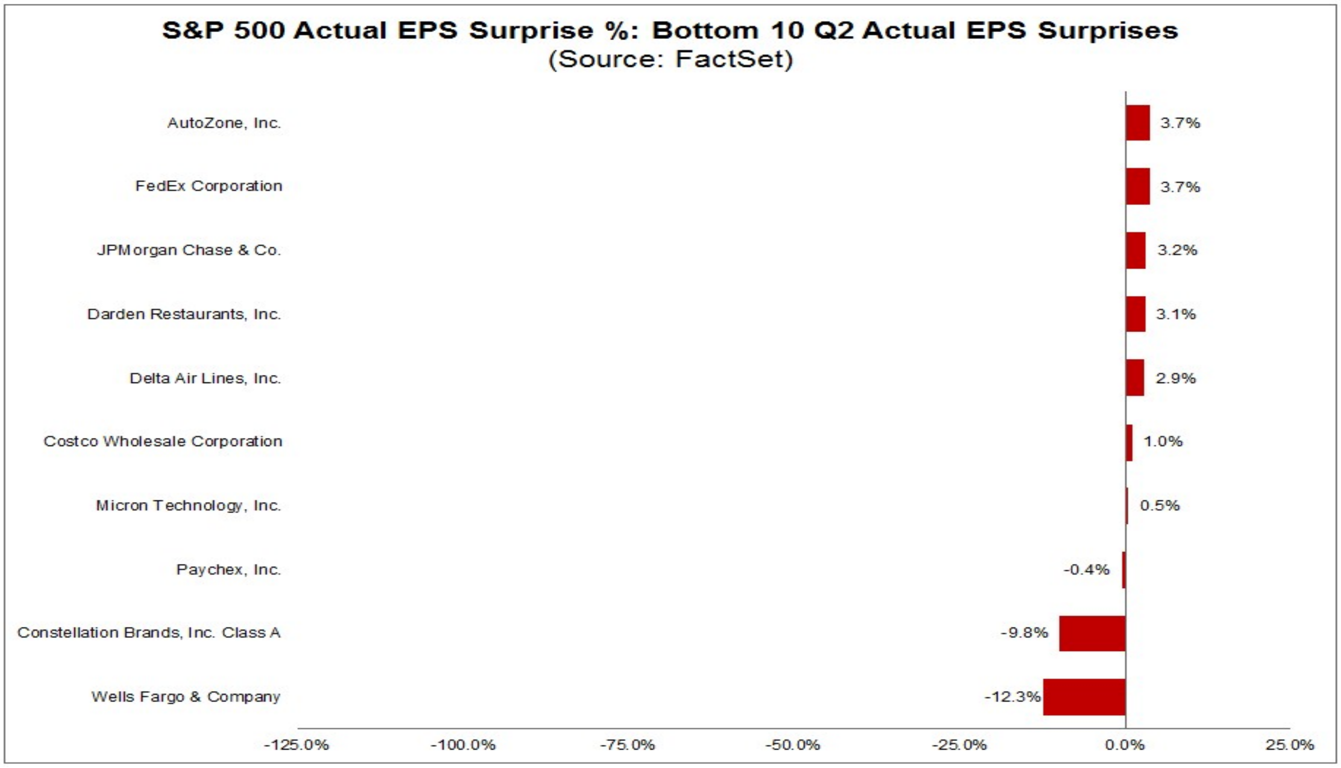
Q2 2018: Scorecard



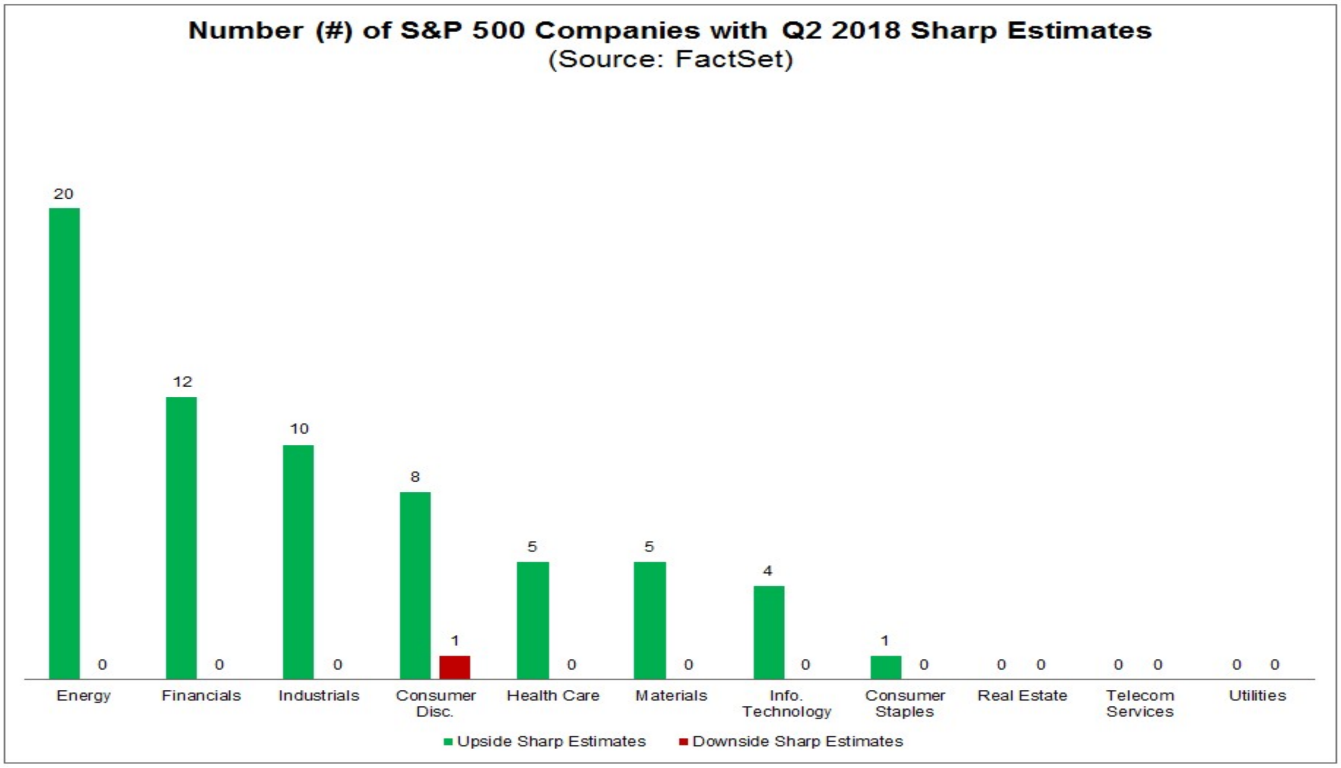


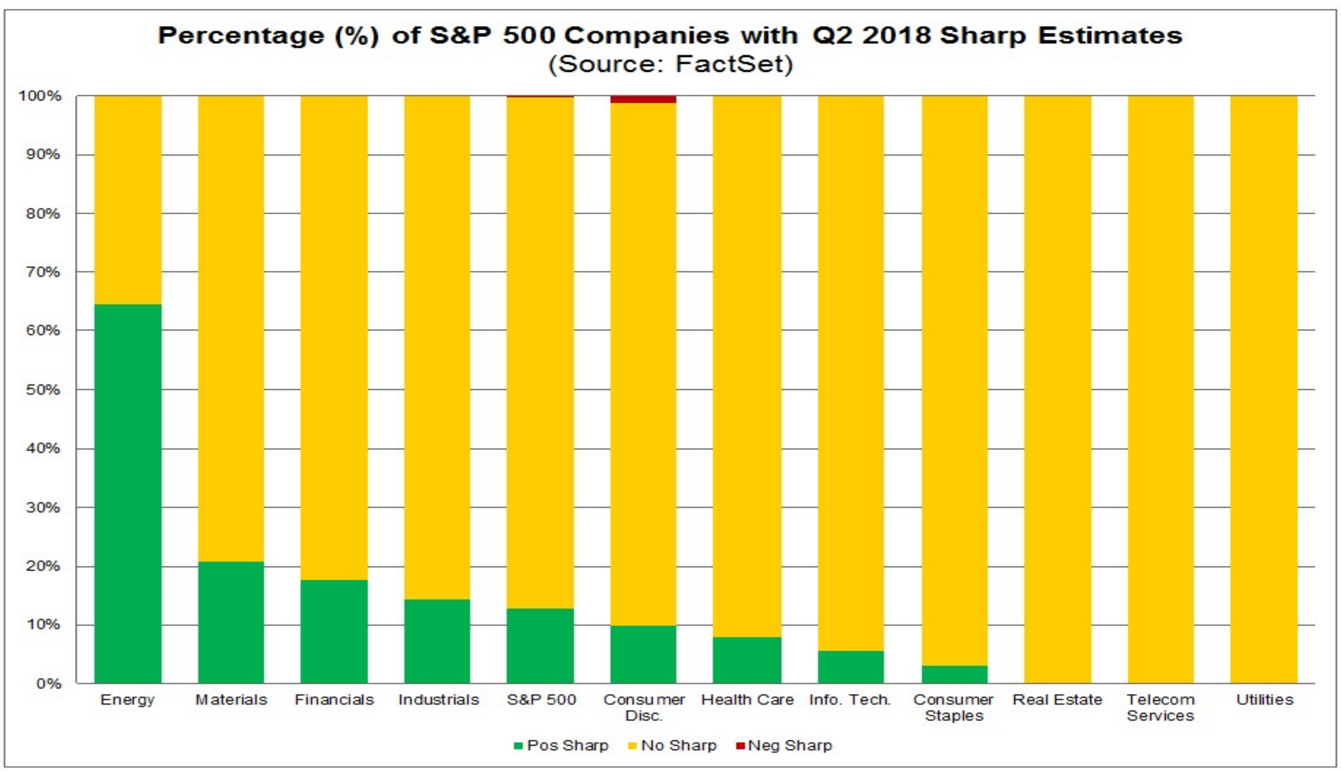
Q2 2018: Scorecard





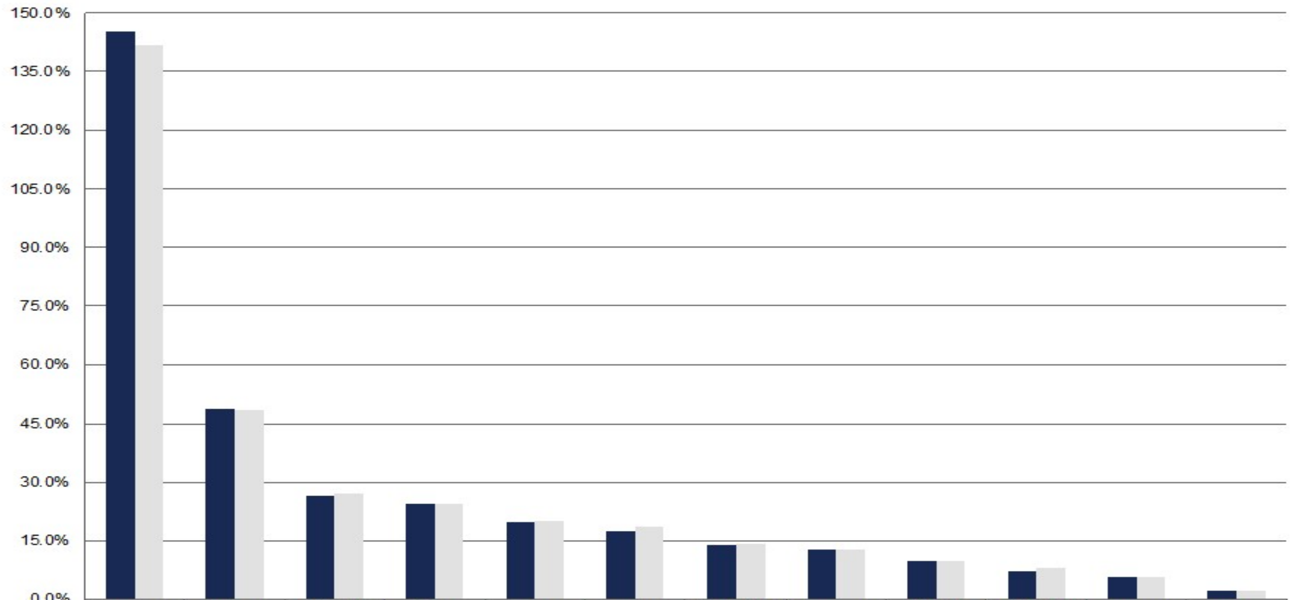
Q2 2018: Projected EPS Surprises (Sharp Estimates)





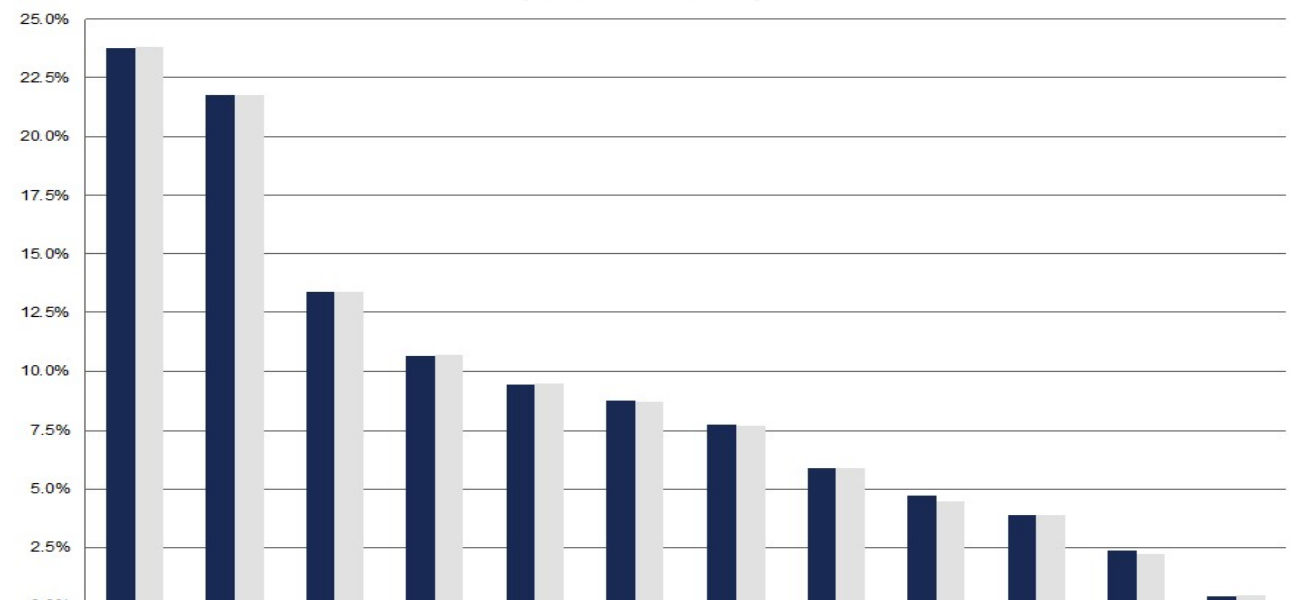
Q2 2018: Growth

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



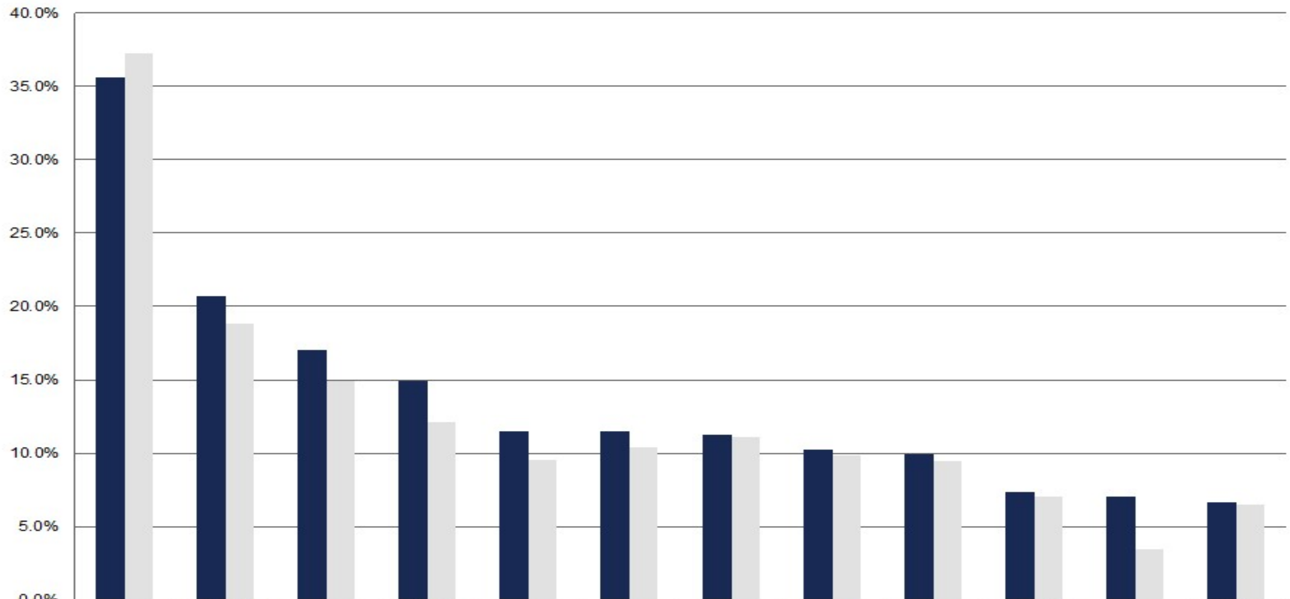
	Energy	Materials	Telecom Services	Info. Technology	S&P 500	Financials	Consumer Disc.	Industrials	Health Care	Consumer Staples	Real Estate	Utilities
Today	145.3%	48.8%	26.4%	24.6%	19.9%	17.6%	14.1%	12.9%	9.9%	7.3%	5.7%	2.3%
30-Jun	141.7%	48.6%	27.3%	24.6%	20.0%	18.5%	14.3%	12.7%	9.8%	8.1%	5.7%	2.1%

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

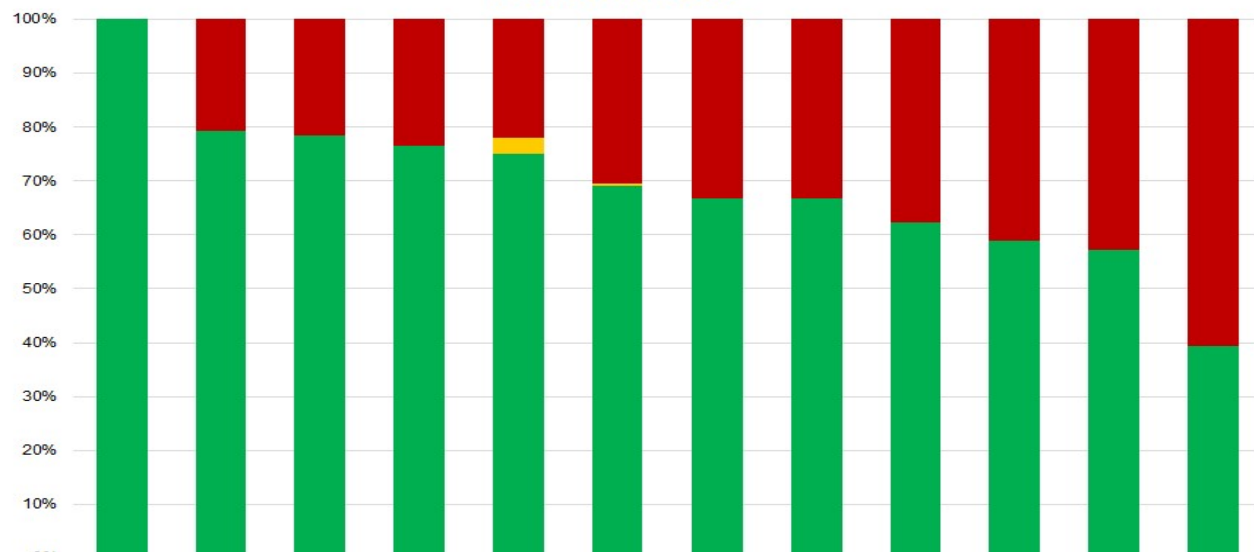


	Materials	Energy	Info. Technology	Real Estate	Consumer Disc.	S&P 500	Industrials	Health Care	Consumer Staples	Financials	Telecom Services	Utilities
Today	23.8%	21.7%	13.4%	10.7%	9.5%	8.8%	7.8%	5.9%	4.7%	3.9%	2.4%	0.4%
30-Jun	23.8%	21.7%	13.4%	10.7%	9.5%	8.7%	7.7%	5.9%	4.5%	3.9%	2.2%	0.5%

Q2 2018: Net Profit Margin

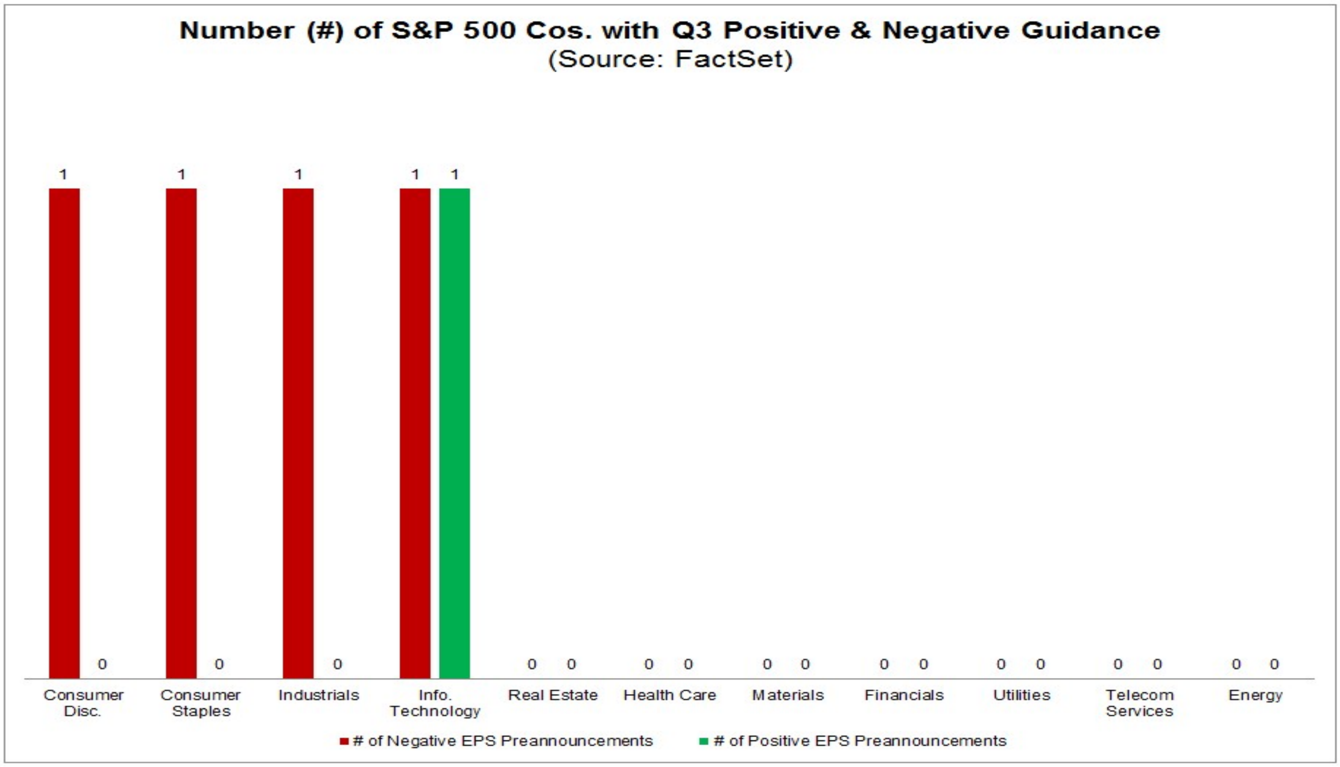


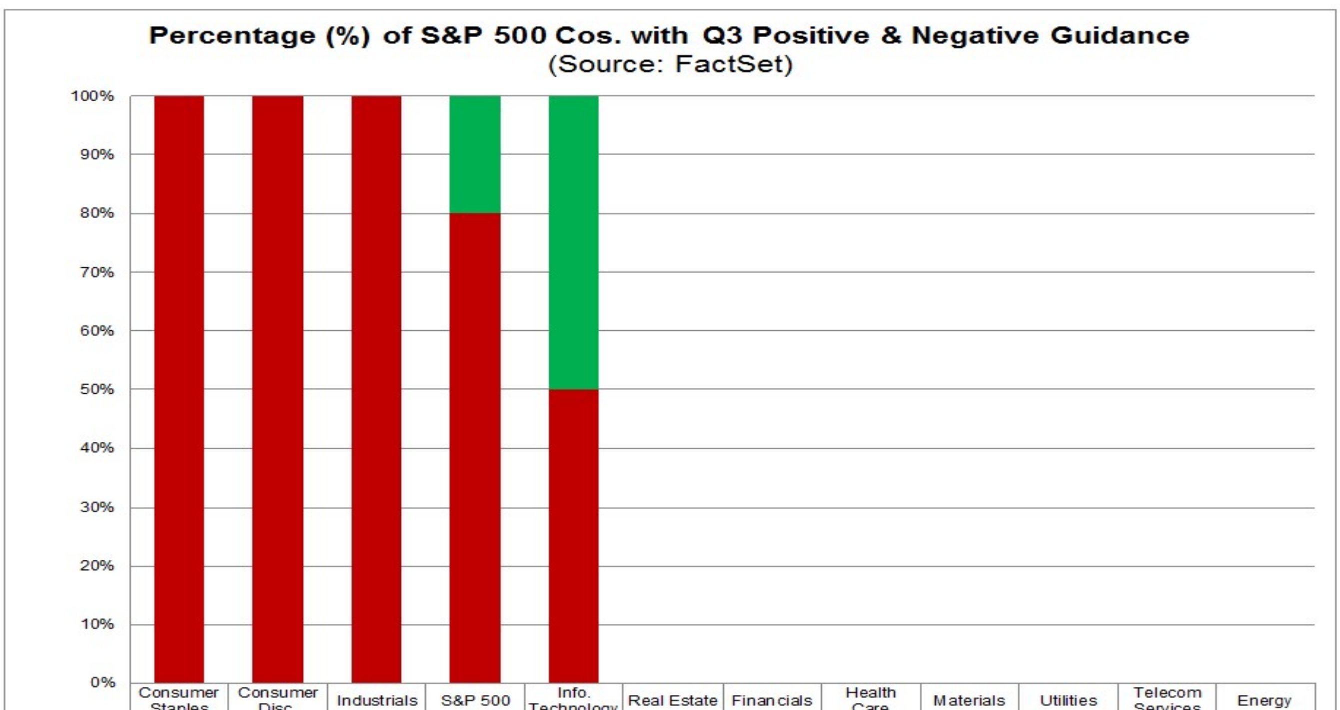
	Real Estate	Information Tech	Financials	Telecom Services	Materials	S&P 500	Utilities	Health Care	Industrials	Consumer Disc.	Energy	Consumer Staples
Q218	35.6%	20.6%	17.1%	15.0%	11.5%	11.5%	11.3%	10.2%	10.0%	7.4%	7.1%	6.7%
Q217	37.2%	18.8%	15.0%	12.1%	9.6%	10.4%	11.1%	9.9%	9.5%	7.1%	3.5%	6.6%



	Energy	Materials	Industrials	Information Tech.	Financials	S&P 500	Consumer Staples	Telecom Services	Utilities	Consumer Disc.	Health Care	Real Estate
Down %	0%	21%	22%	24%	22%	31%	33%	33%	38%	41%	43%	61%
None %	0%	0%	0%	0%	3%	0%	0%	0%	0%	0%	0%	0%
Up %	100%	79%	78%	76%	75%	69%	67%	67%	62%	59%	57%	39%

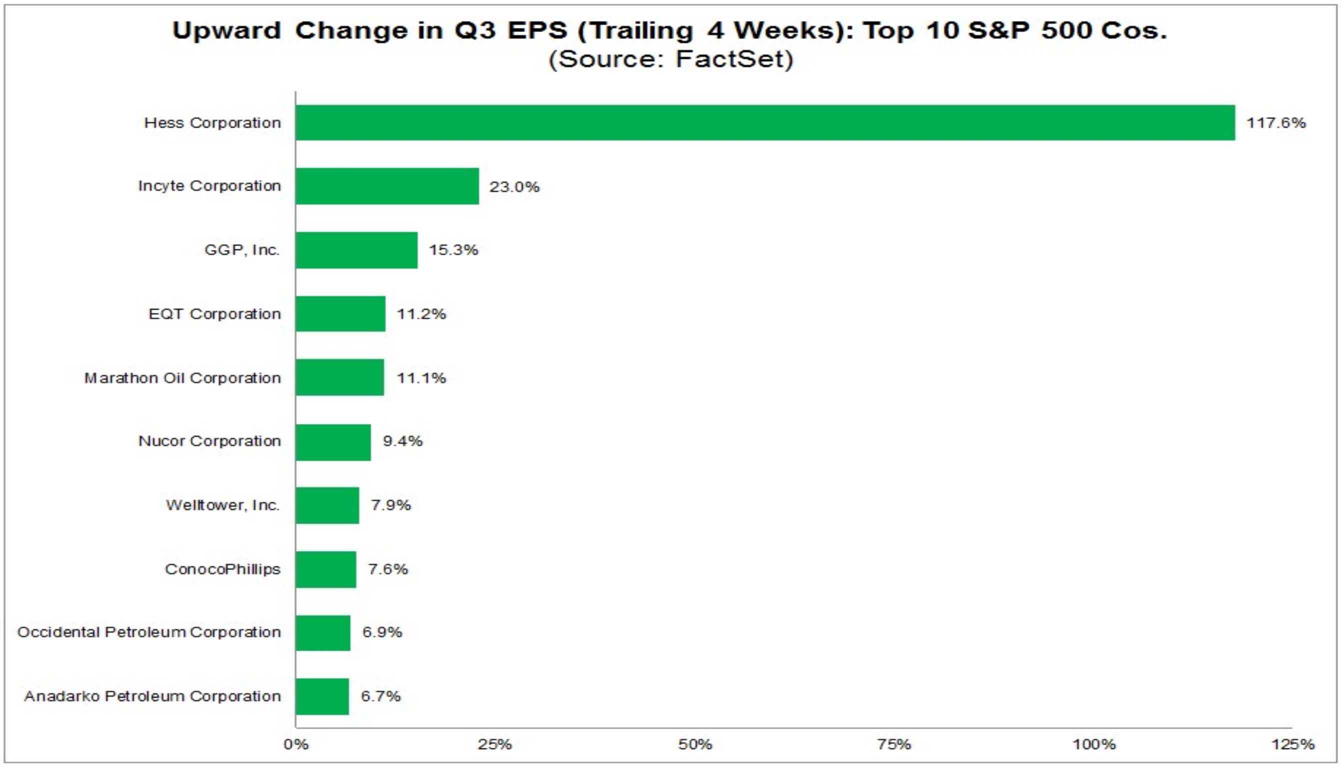
Q3 2018: EPS Guidance

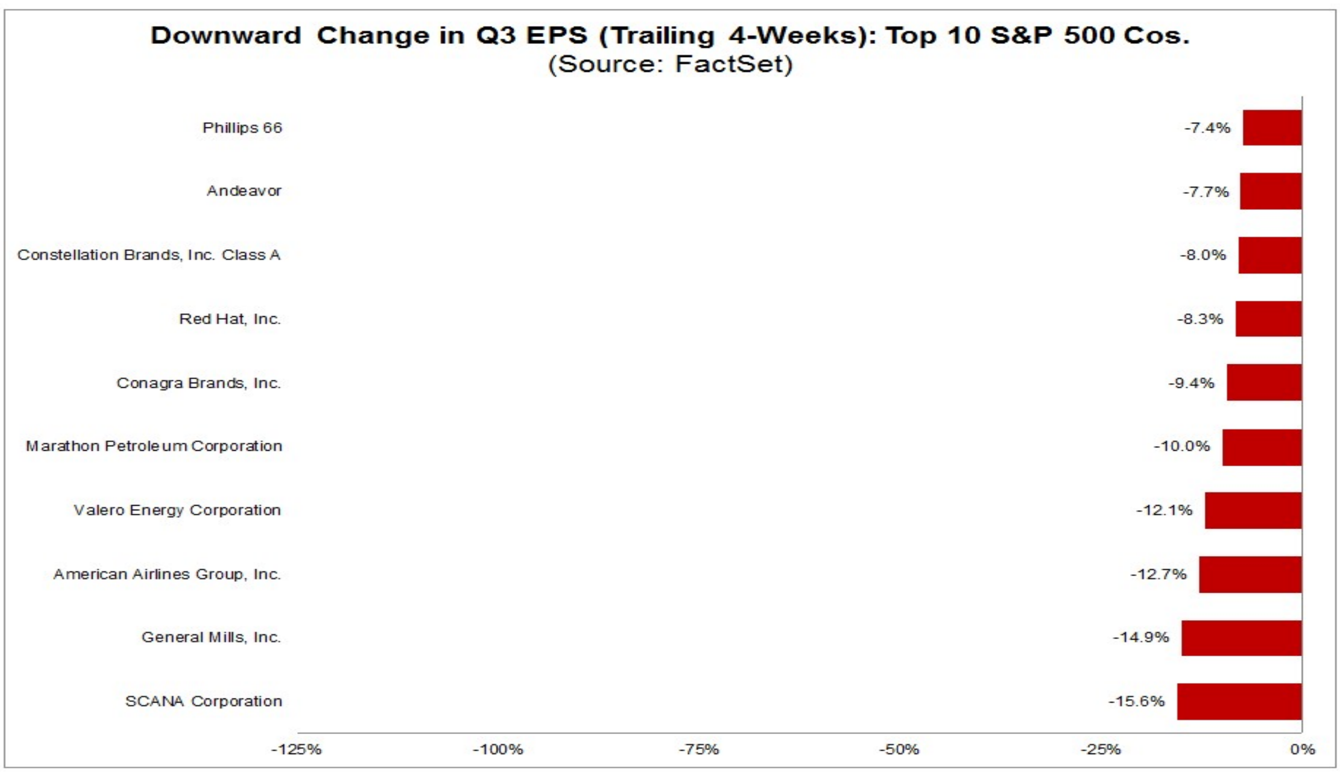




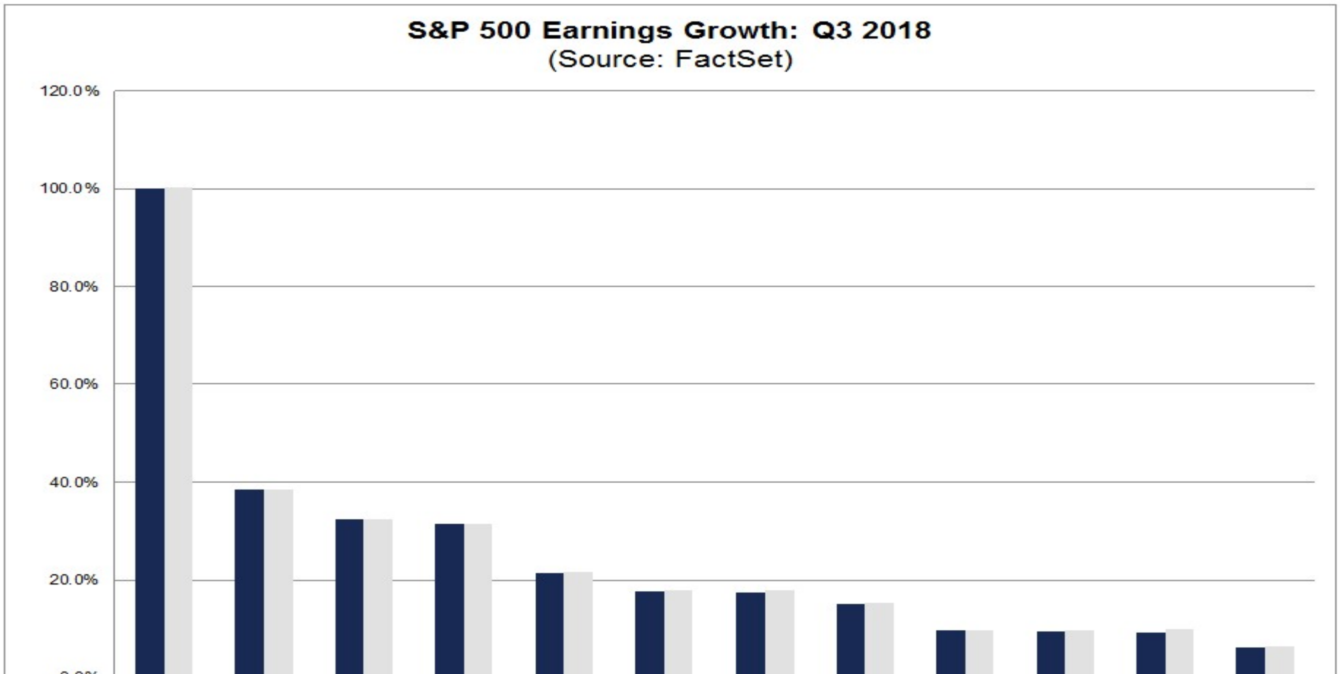
	Consumer Staples	Consumer Disc.	Industrials	S&P 500	Info. Technology	Real Estate	Financials	Health Care	Materials	Utilities	Telecom Services	Energy
Positive	0%	0%	0%	20%	50%	0%	0%	0%	0%	0%	0%	0%
Negative	100%	100%	100%	80%	50%	0%	0%	0%	0%	0%	0%	0%

Q3 2018: EPS Revisions

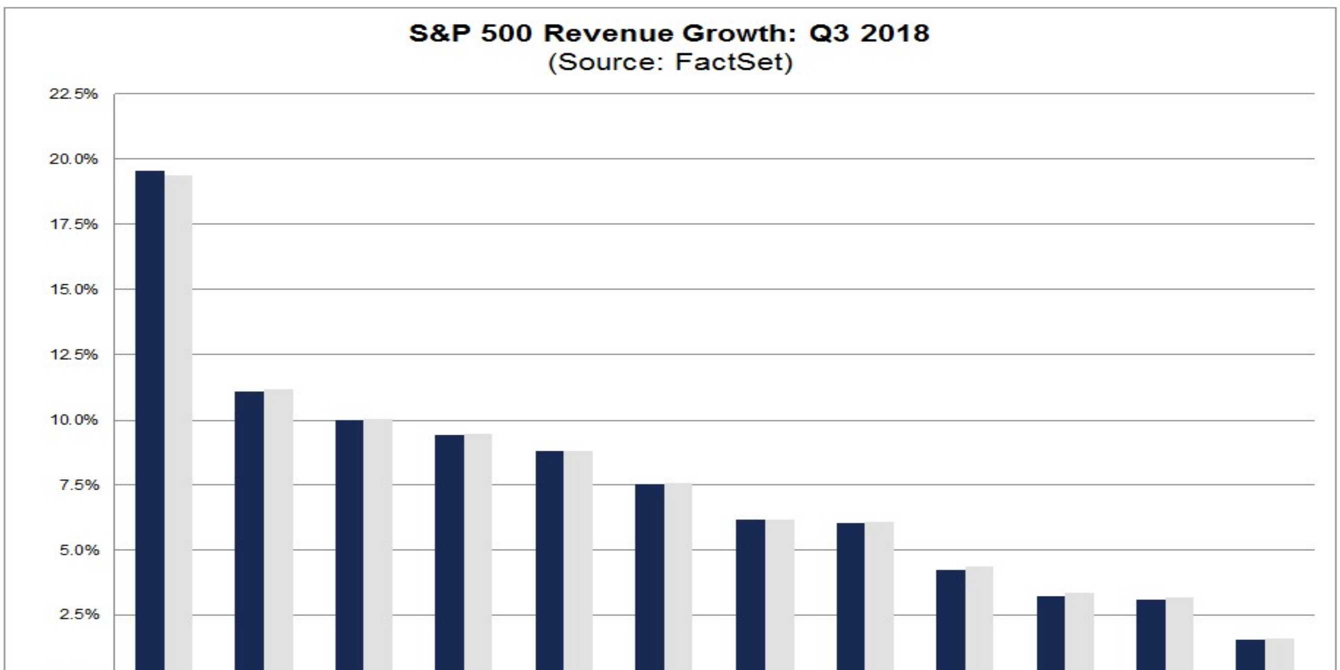




Q3 2018: Growth

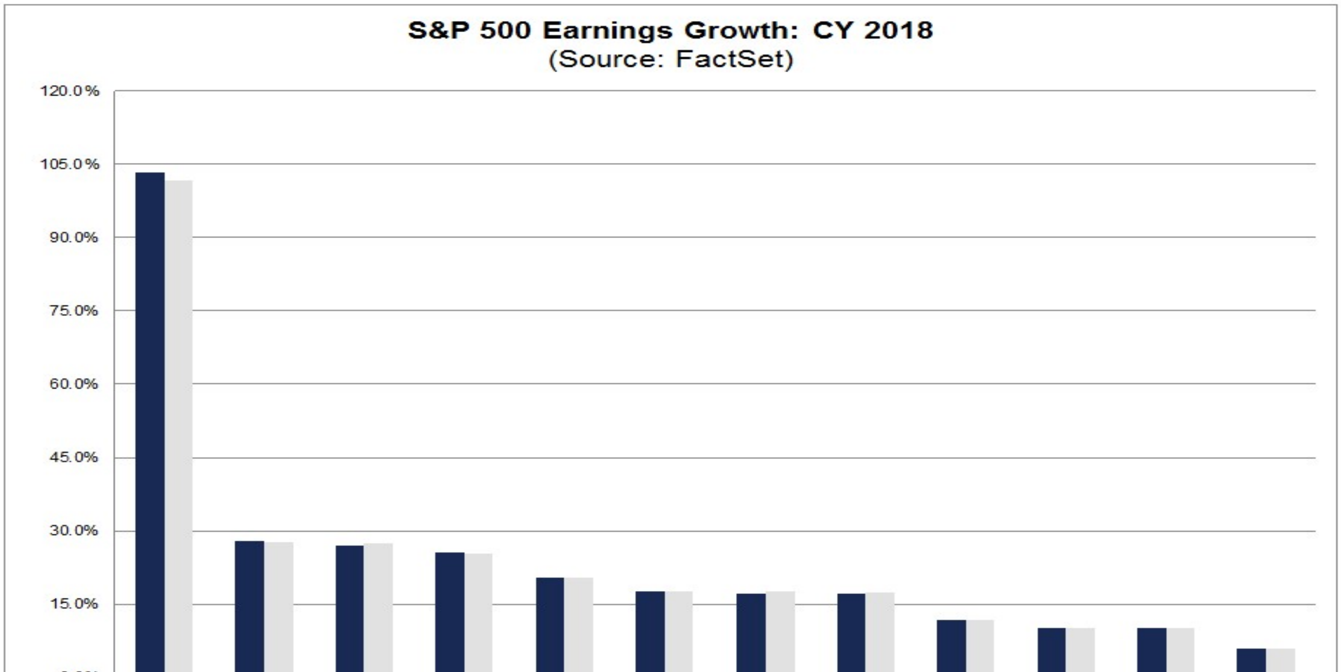


	Energy	Financials	Telecom Services	Materials	S&P 500	Consumer Disc.	Industrials	Info. Technology	Health Care	Utilities	Consumer Staples	Real Estate
Today	99.9%	38.5%	32.4%	31.6%	21.5%	17.8%	17.5%	15.2%	9.8%	9.5%	9.2%	6.3%
30-Jun	100.2%	38.7%	32.5%	31.5%	21.7%	18.1%	18.0%	15.4%	9.8%	9.6%	10.0%	6.4%

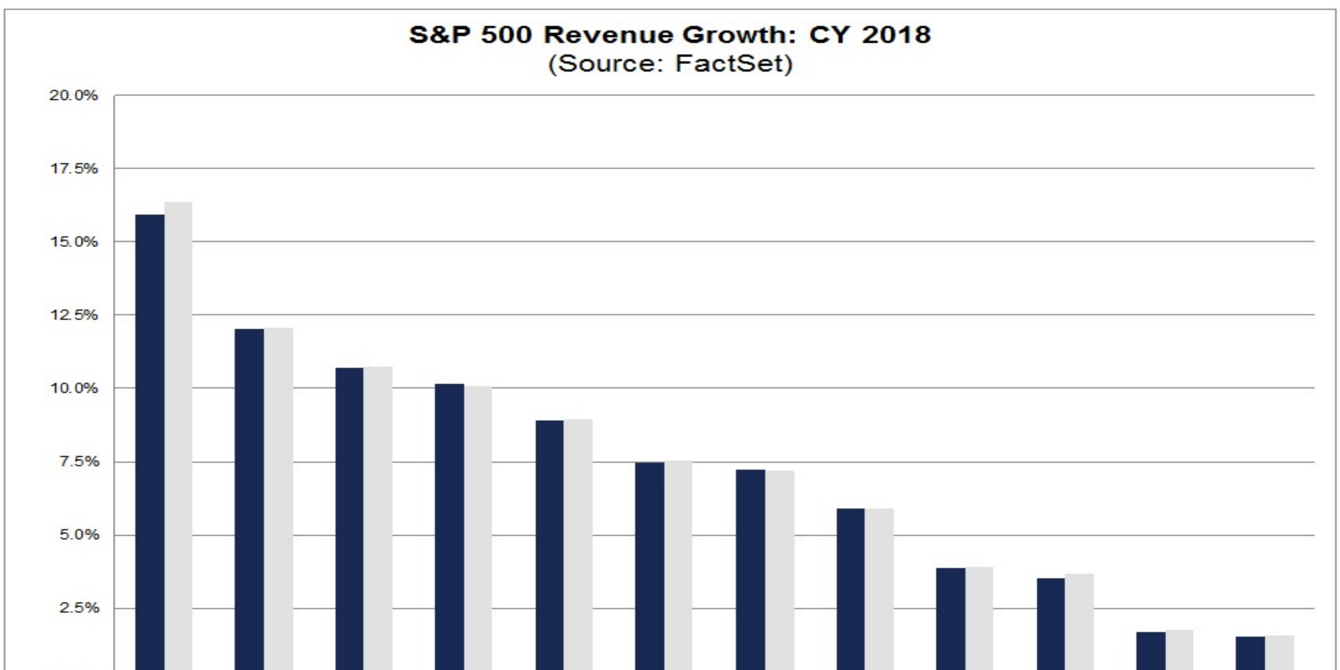


	Energy	Info. Technology	Real Estate	Consumer Disc.	Materials	S&P 500	Health Care	Industrials	Utilities	Consumer Staples	Financials	Telecom Services
Today	19.5%	11.1%	10.0%	9.4%	8.8%	7.6%	6.2%	6.1%	4.2%	3.2%	3.1%	1.6%
30-Jun	19.4%	11.1%	10.1%	9.5%	8.8%	7.6%	6.2%	6.1%	4.4%	3.3%	3.2%	1.6%

CY 2018: Growth

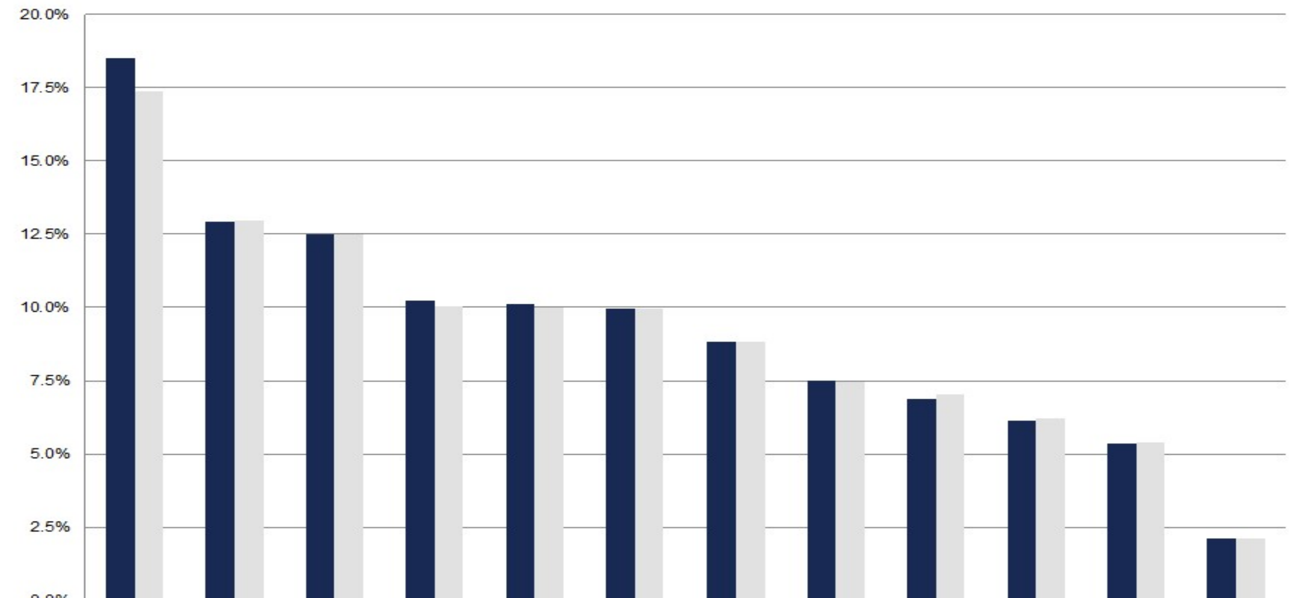


	Energy	Materials	Financials	Telecom Services	S&P 500	Info. Technology	Industrials	Consumer Disc.	Health Care	Utilities	Consumer Staples	Real Estate
Today	103.3%	27.9%	27.1%	25.6%	20.4%	17.8%	17.3%	17.3%	11.9%	10.3%	10.1%	6.1%
30-Jun	101.7%	27.7%	27.5%	25.5%	20.5%	17.8%	17.6%	17.4%	11.9%	10.3%	10.3%	6.1%

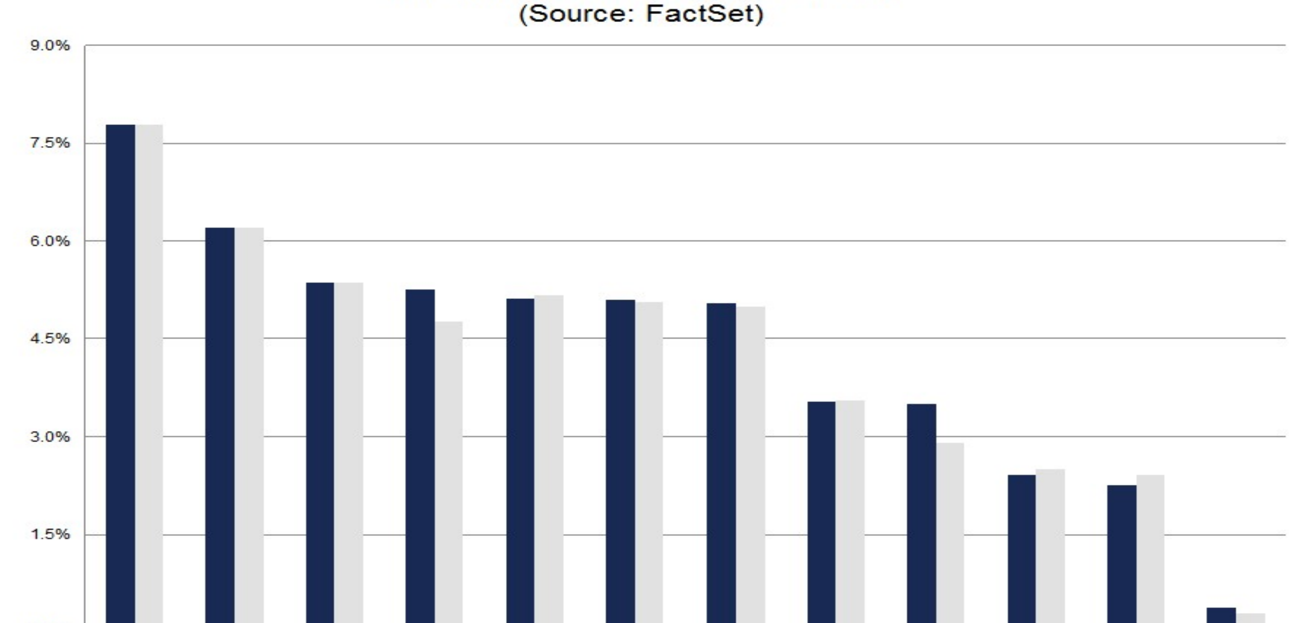


	Energy	Info. Technology	Real Estate	Materials	Consumer Disc.	S&P 500	Industrials	Health Care	Consumer Staples	Financials	Utilities	Telecom Services
Today	15.9%	12.0%	10.7%	10.1%	8.9%	7.5%	7.3%	5.9%	3.9%	3.5%	1.7%	1.5%
30-Jun	16.4%	12.1%	10.7%	10.1%	9.0%	7.6%	7.2%	5.9%	3.9%	3.7%	1.8%	1.6%

CY 2019: Growth

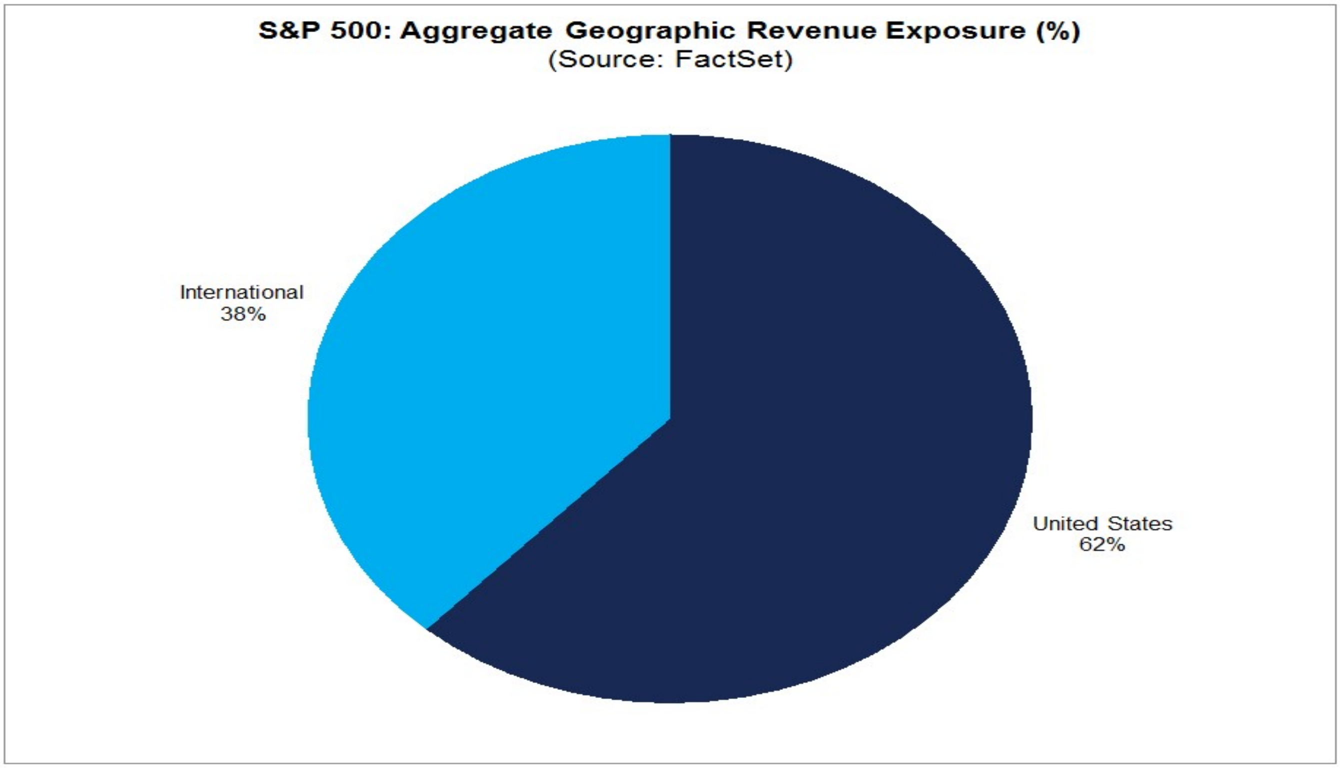


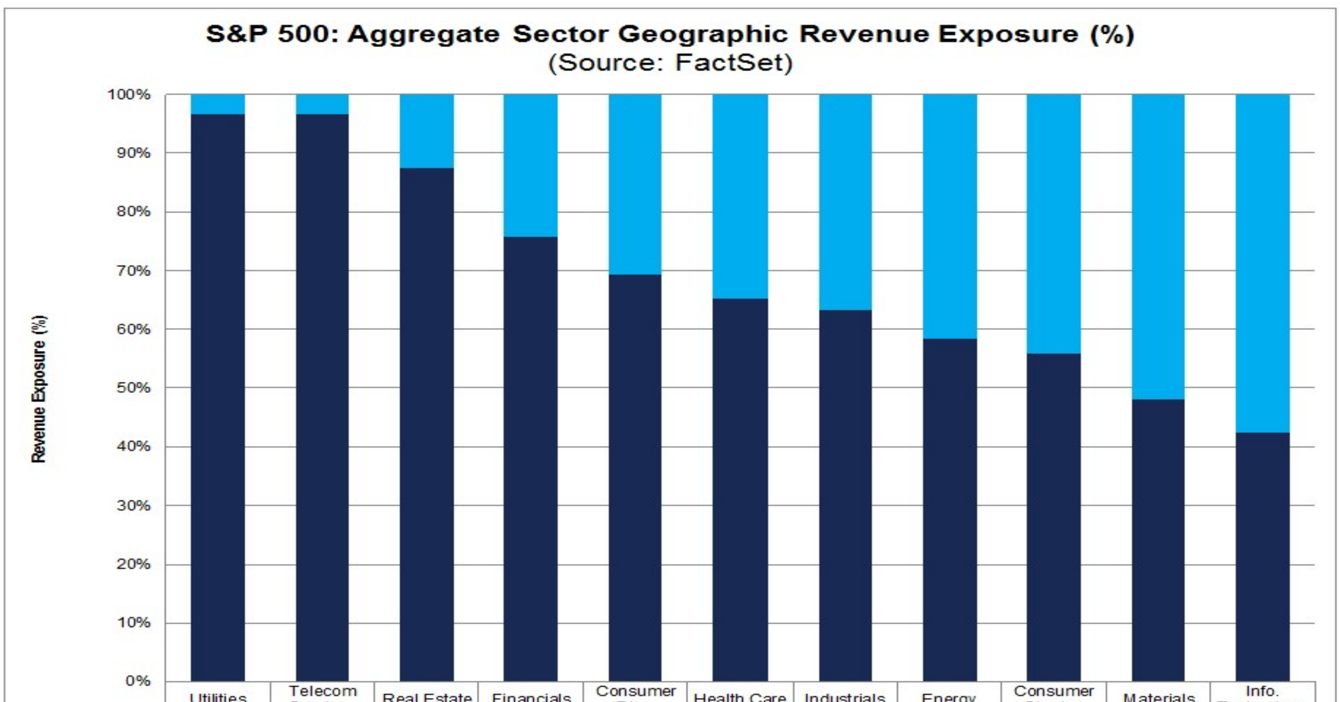
	Energy	Consumer Disc.	Industrials	Financials	S&P 500	Info. Technology	Health Care	Materials	Consumer Staples	Real Estate	Utilities	Telecom Services
Today	18.5%	12.9%	12.5%	10.2%	10.1%	9.9%	8.9%	7.5%	6.9%	6.2%	5.4%	2.1%
30-Jun	17.4%	12.9%	12.5%	10.0%	10.0%	9.9%	8.8%	7.5%	7.1%	6.2%	5.4%	2.1%



	Info. Technology	Consumer Disc.	Health Care	Real Estate	Industrials	Financials	S&P 500	Consumer Staples	Energy	Materials	Utilities	Telecom Services
Today	7.8%	6.2%	5.4%	5.3%	5.1%	5.1%	5.0%	3.5%	3.5%	2.4%	2.3%	0.4%
30-Jun	7.8%	6.2%	5.4%	4.8%	5.2%	5.1%	5.0%	3.6%	2.9%	2.5%	2.4%	0.3%

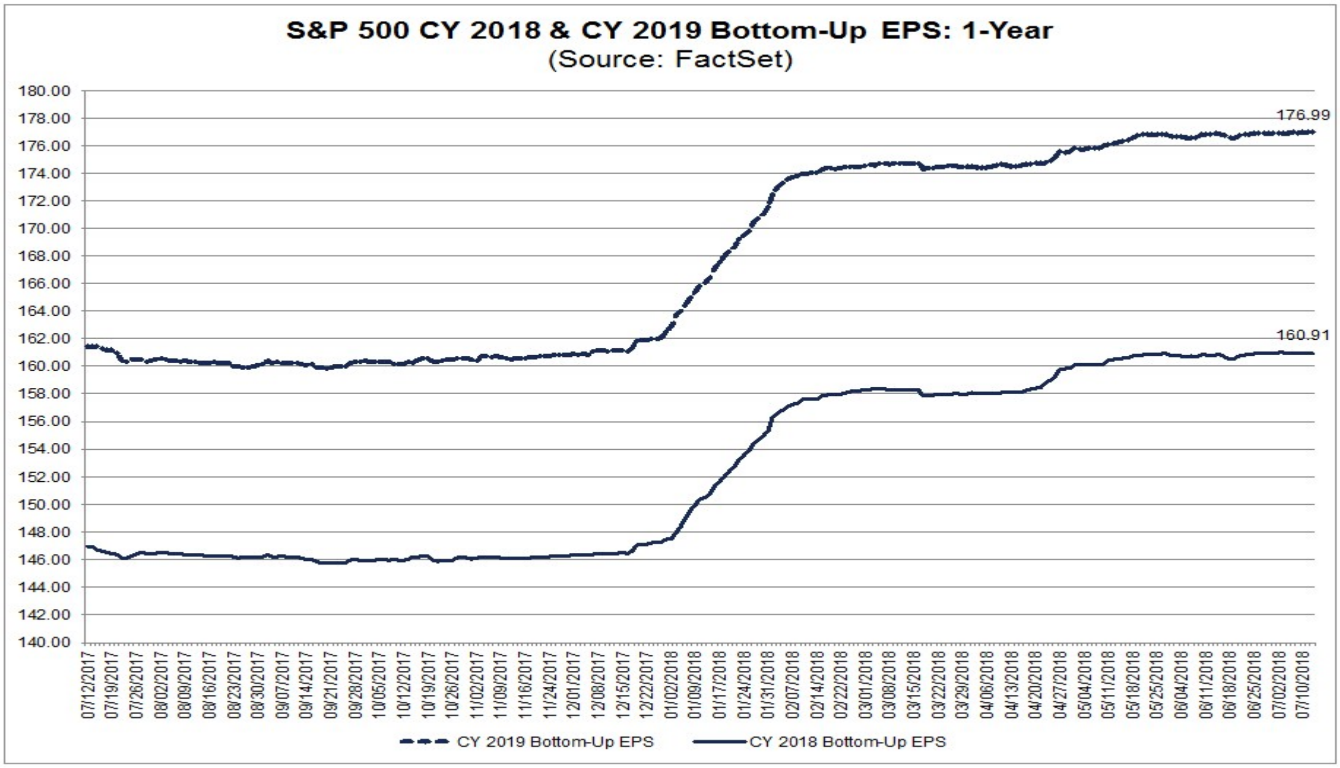
Geographic Revenue Exposure

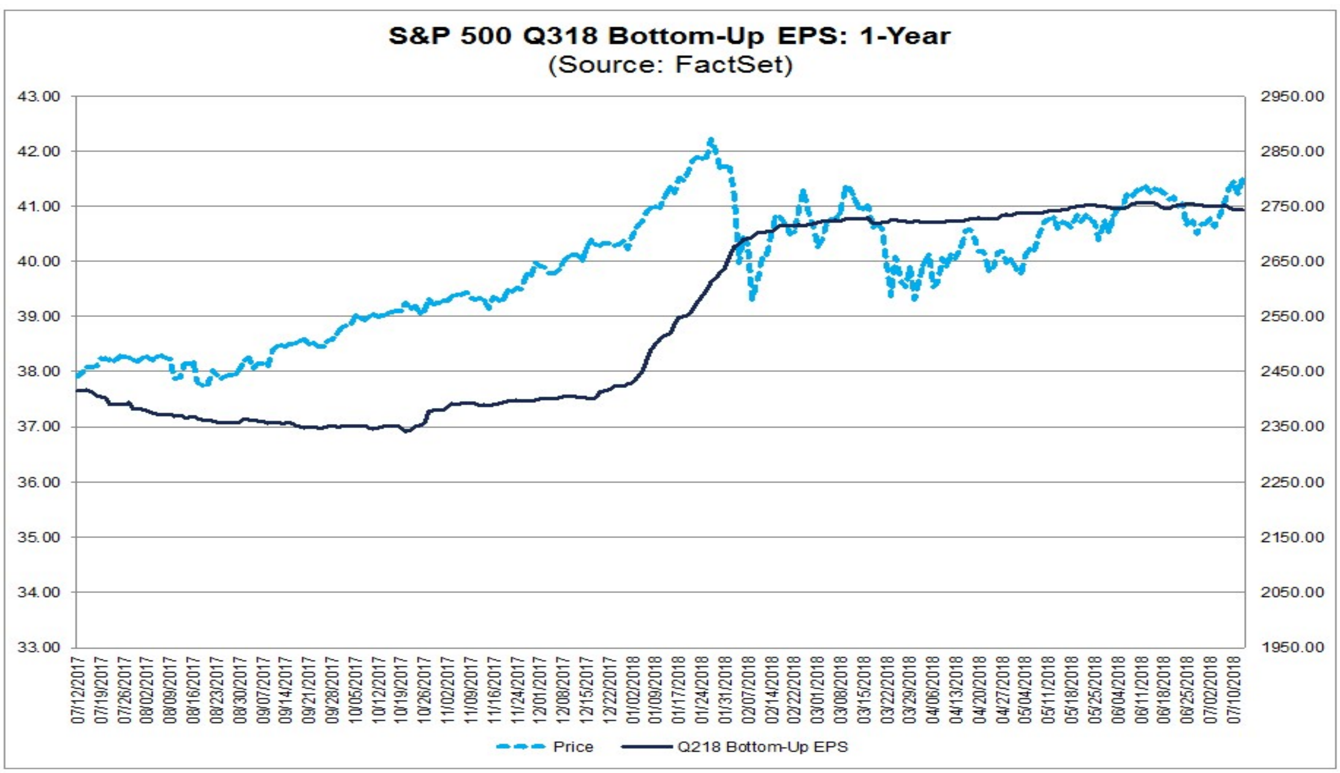




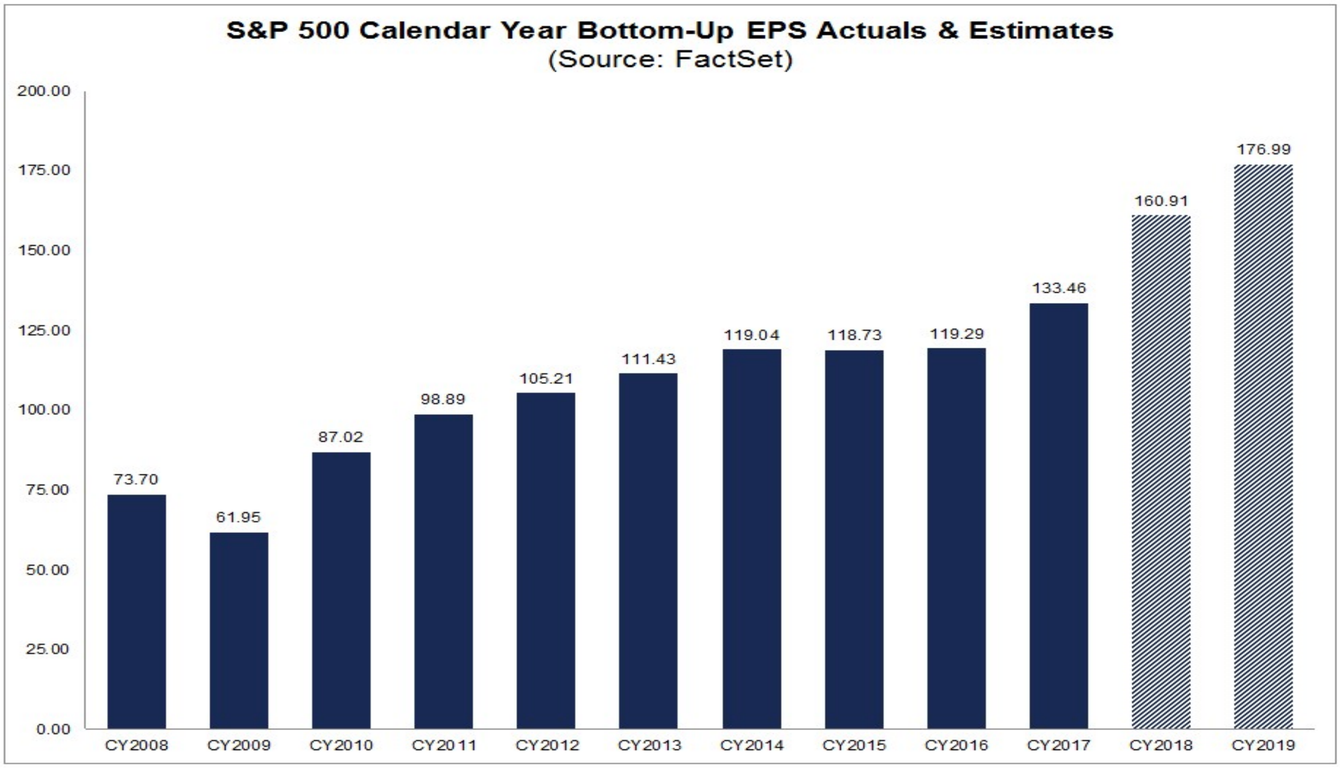
	Utilities	Telecom Services	Real Estate	Financials	Consumer Disc.	Health Care	Industrials	Energy	Consumer Staples	Materials	Info. Technology
International	3%	3%	12%	24%	31%	35%	37%	42%	44%	52%	58%
United States	97%	97%	88%	76%	69%	65%	63%	58%	56%	48%	42%

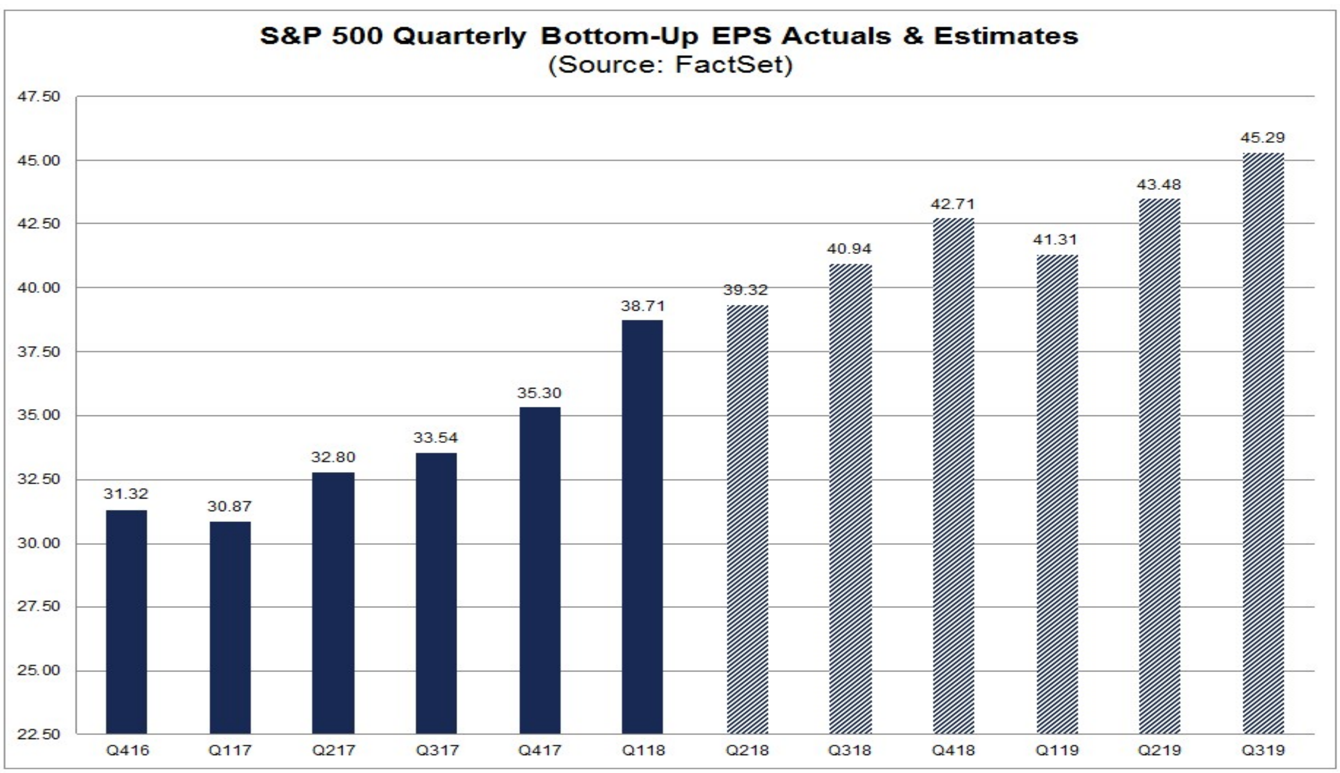
Bottom-up EPS Estimates: Revisions



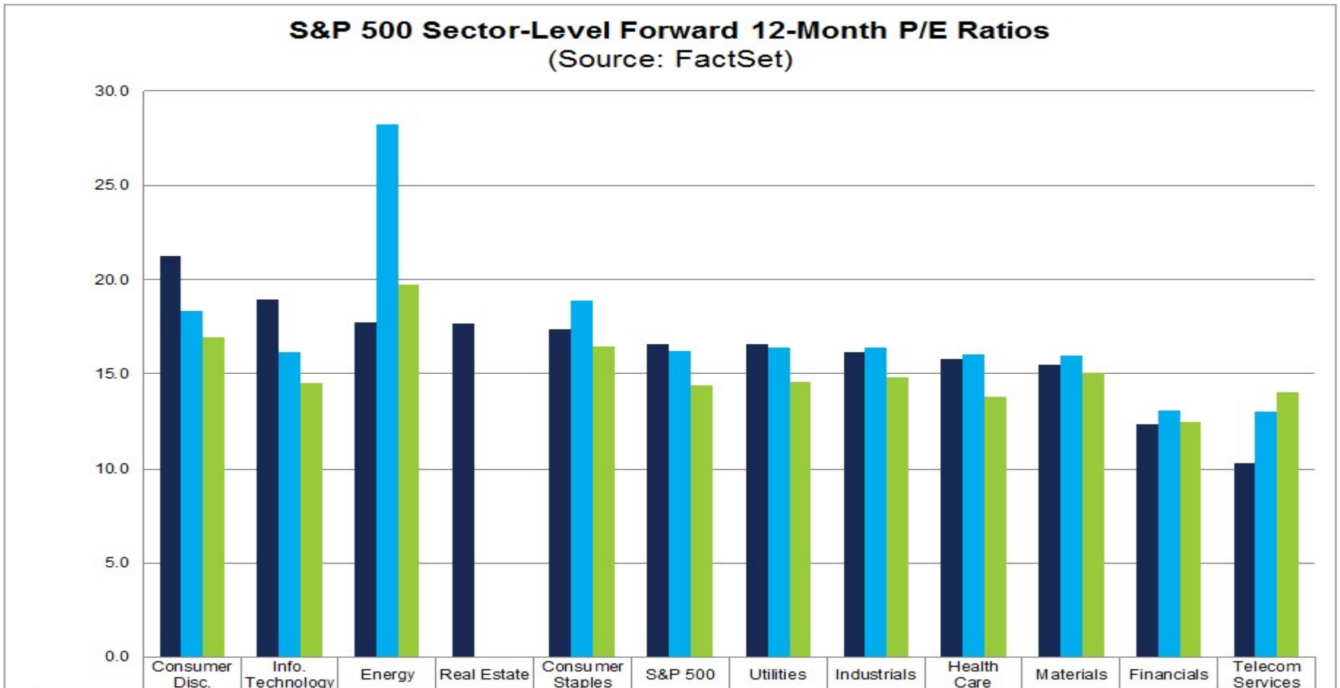


Bottom-up EPS Estimates: Current & Historical

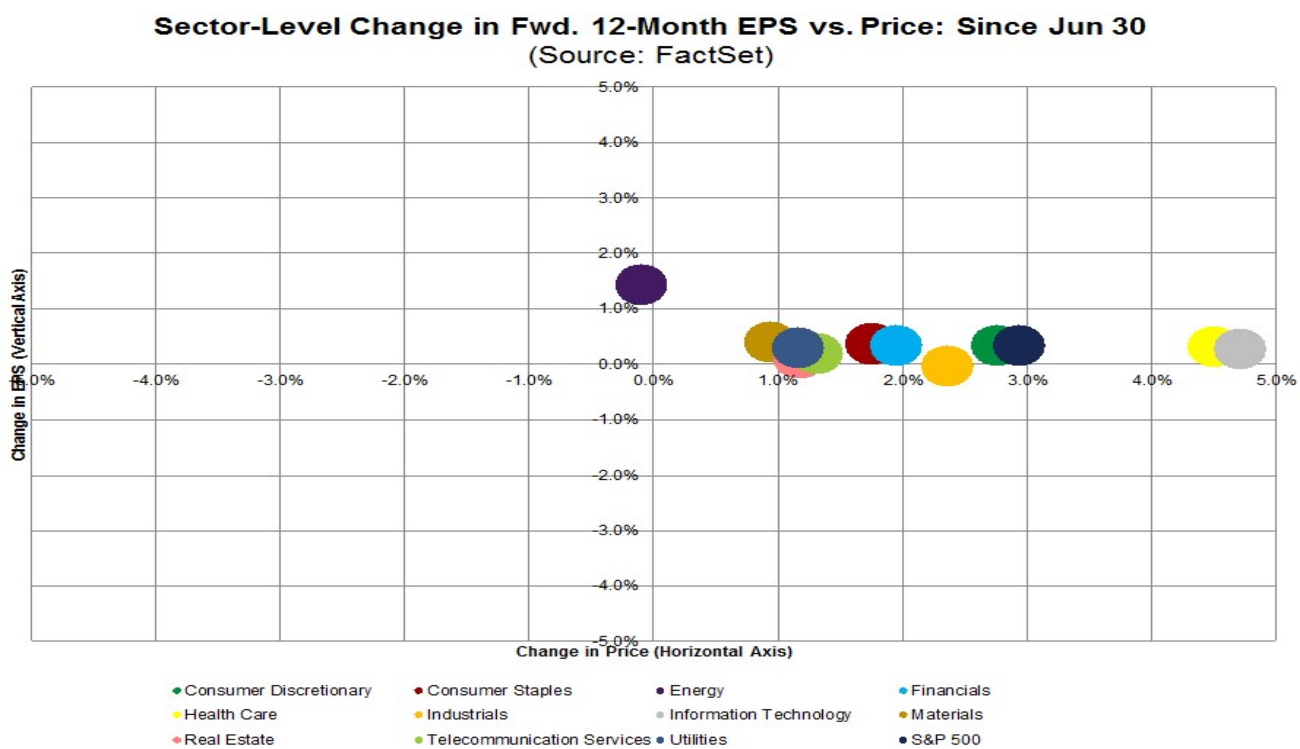




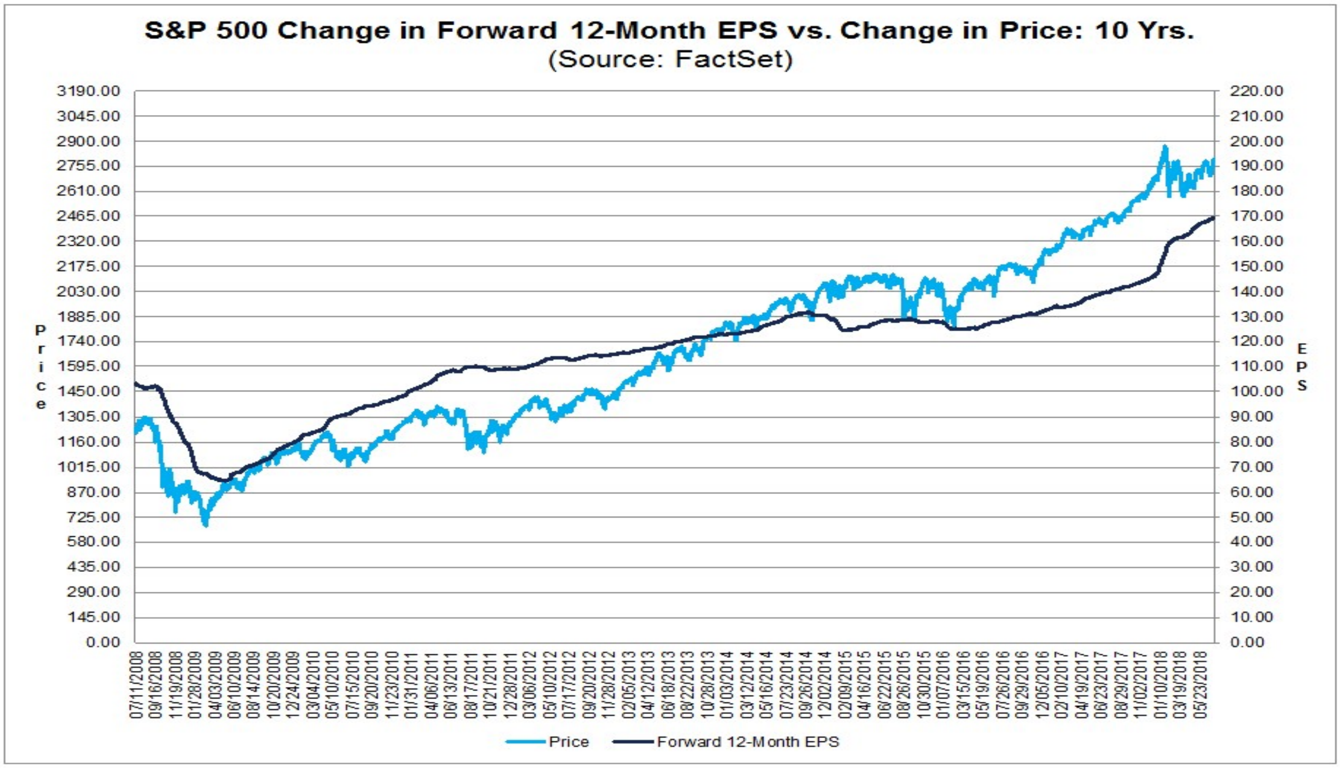
Forward 12M P/E Ratio: Sector Level

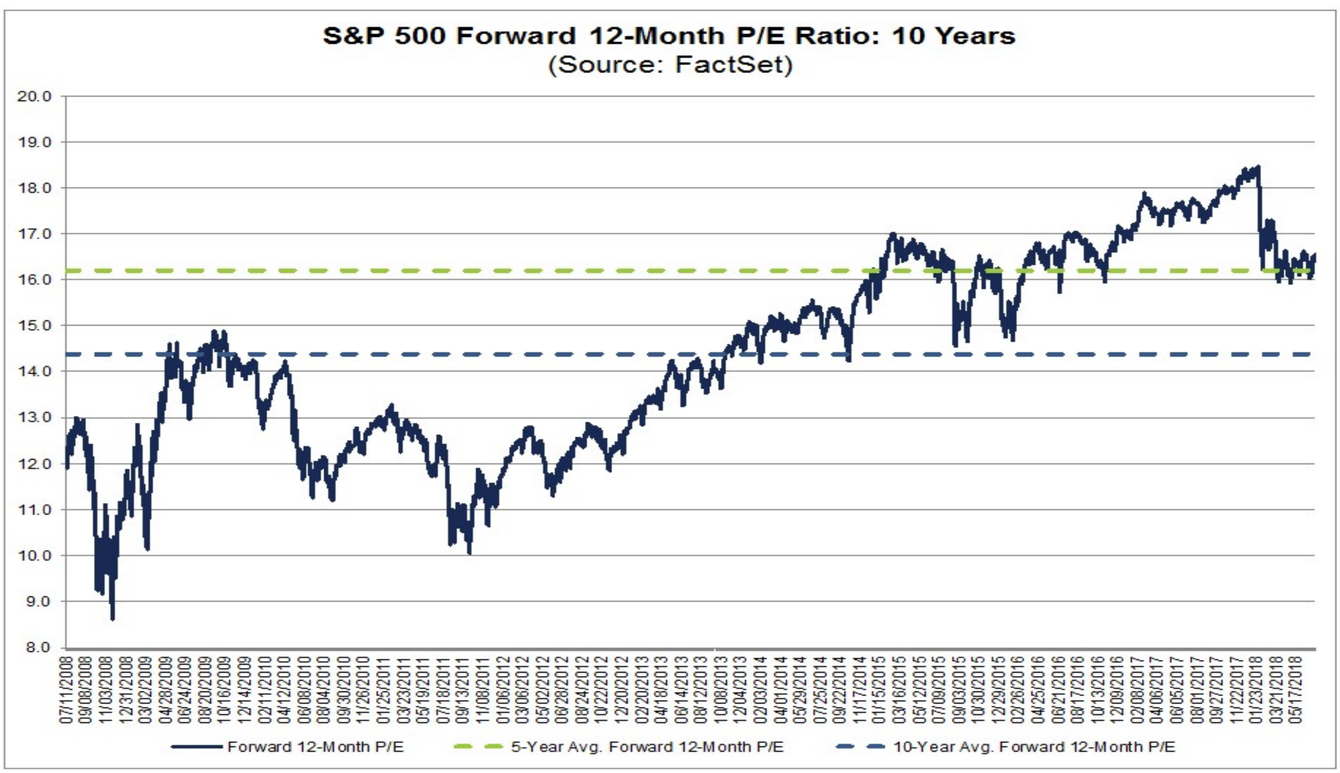


	Consumer Disc.	Info. Technology	Energy	Real Estate	Consumer Staples	S&P 500	Utilities	Industrials	Health Care	Materials	Financials	Telecom Services
Fwd P/E	21.2	19.0	17.7	17.6	17.3	16.6	16.5	16.1	15.7	15.4	12.3	10.3
5-Yr Avg.	18.3	16.2	28.2		18.8	16.2	16.4	16.4	16.0	16.0	13.1	13.0
10-Yr Avg.	16.9	14.5	19.7		16.5	14.4	14.5	14.8	13.8	15.0	12.5	14.0

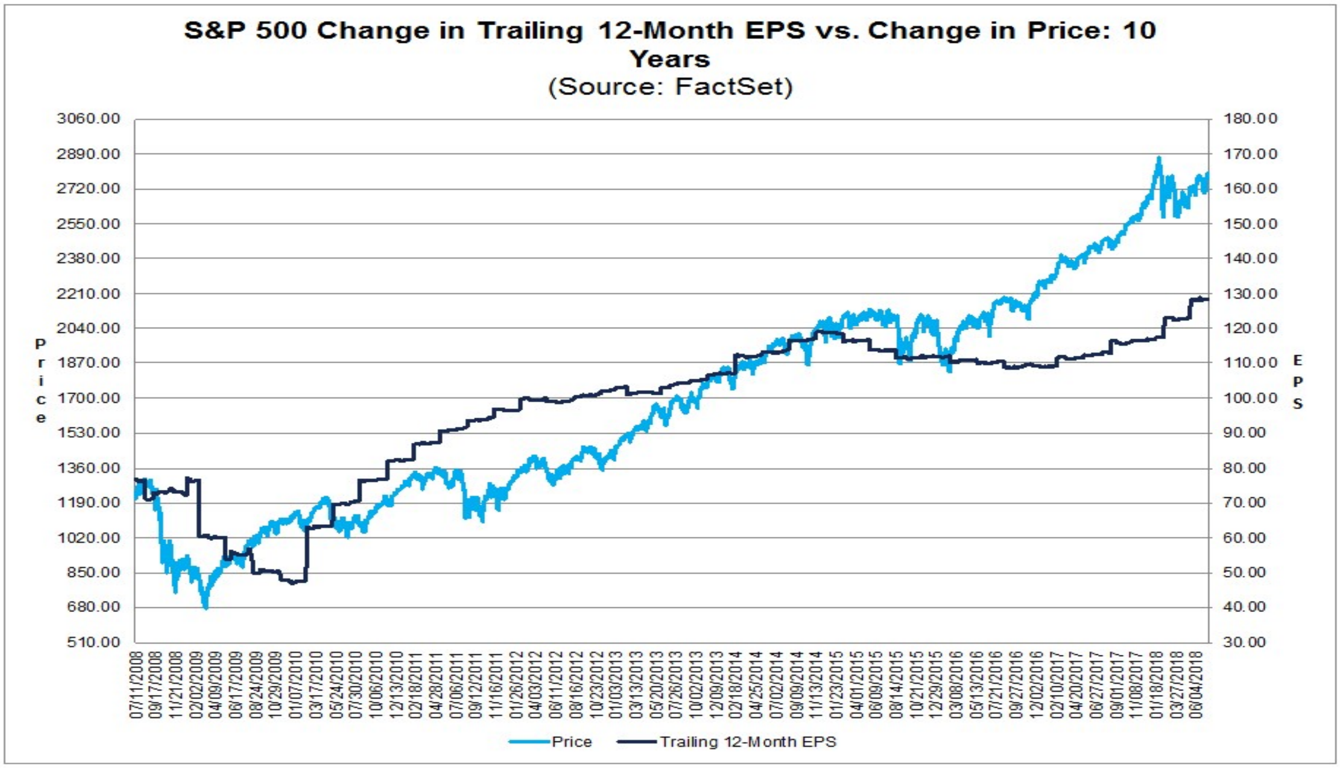


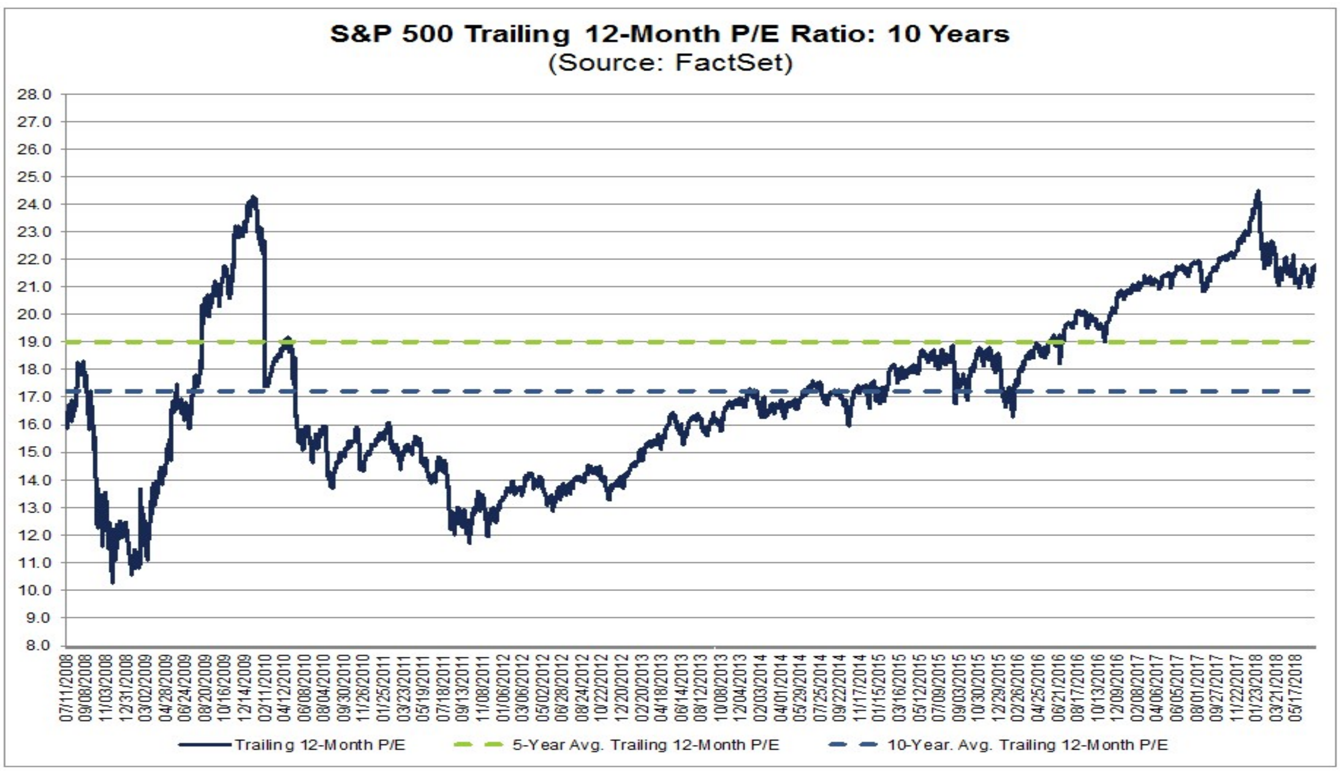
Forward 12M P/E Ratio: Long-Term Averages



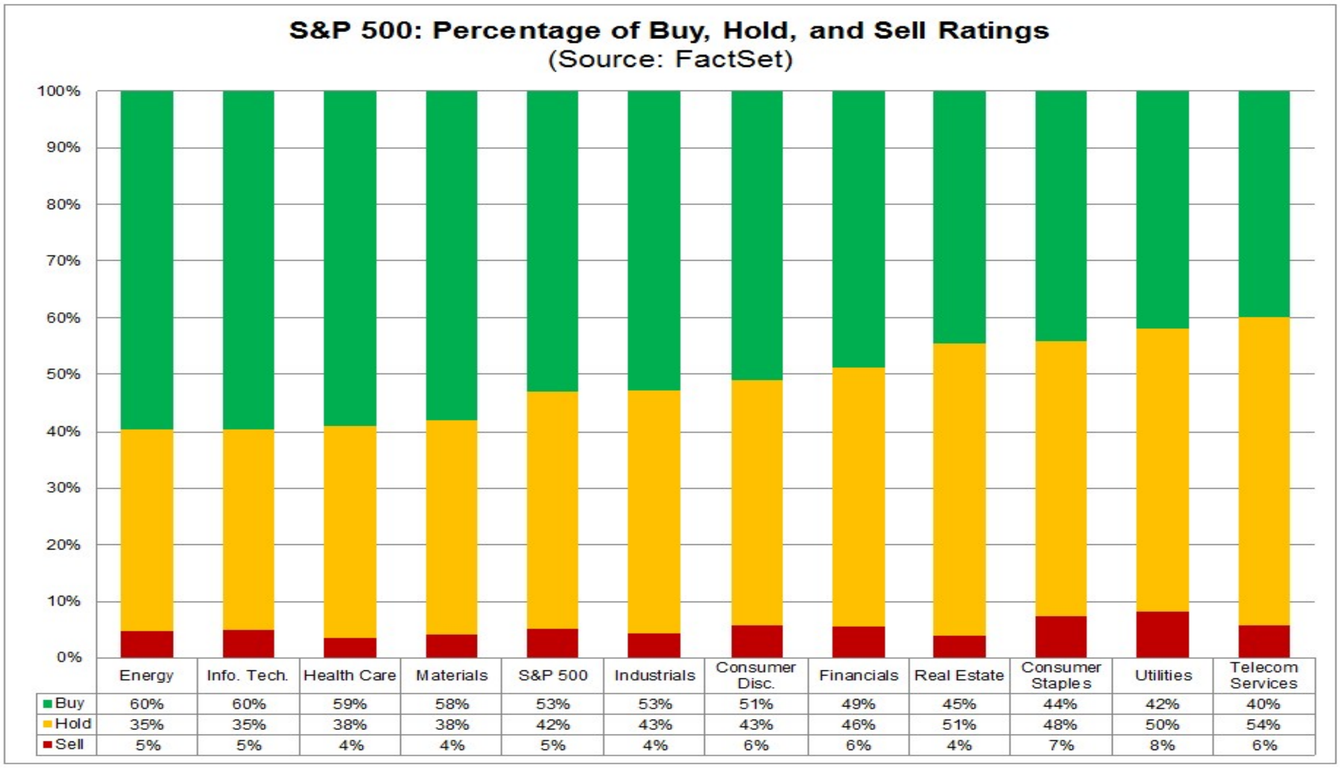


Trailing 12M P/E Ratio: Long-Term Averages

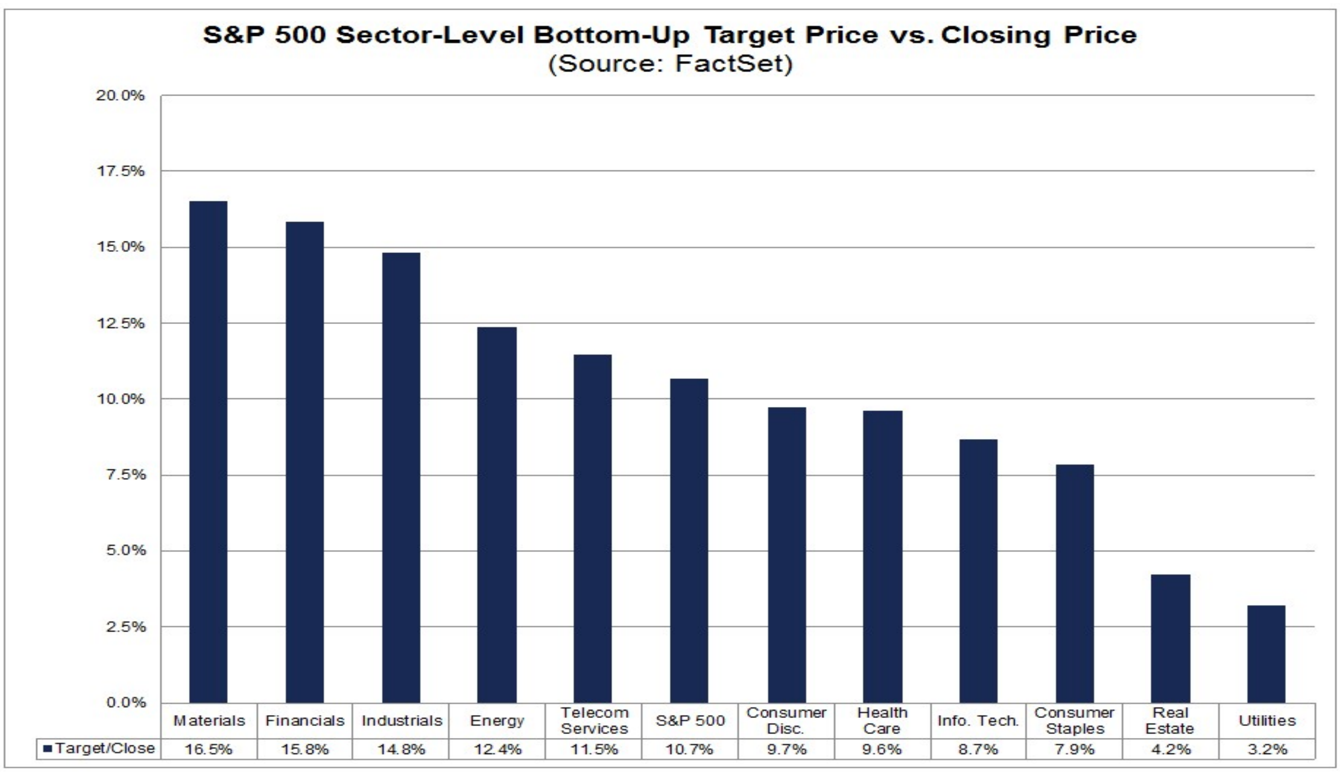




Targets & Ratings



	Energy	Info. Tech.	Health Care	Materials	S&P 500	Industrials	Consumer Disc.	Financials	Real Estate	Consumer Staples	Utilities	Telecom Services
Buy	60%	60%	59%	58%	53%	53%	51%	49%	45%	44%	42%	40%
Hold	35%	35%	38%	38%	42%	43%	43%	46%	51%	48%	50%	54%
Sell	5%	5%	4%	4%	5%	4%	6%	6%	4%	7%	8%	6%



	Materials	Financials	Industrials	Energy	Telecom Services	S&P 500	Consumer Disc.	Health Care	Info. Tech.	Consumer Staples	Real Estate	Utilities
Target/Close	16.5%	15.8%	14.8%	12.4%	11.5%	10.7%	9.7%	9.6%	8.7%	7.9%	4.2%	3.2%

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