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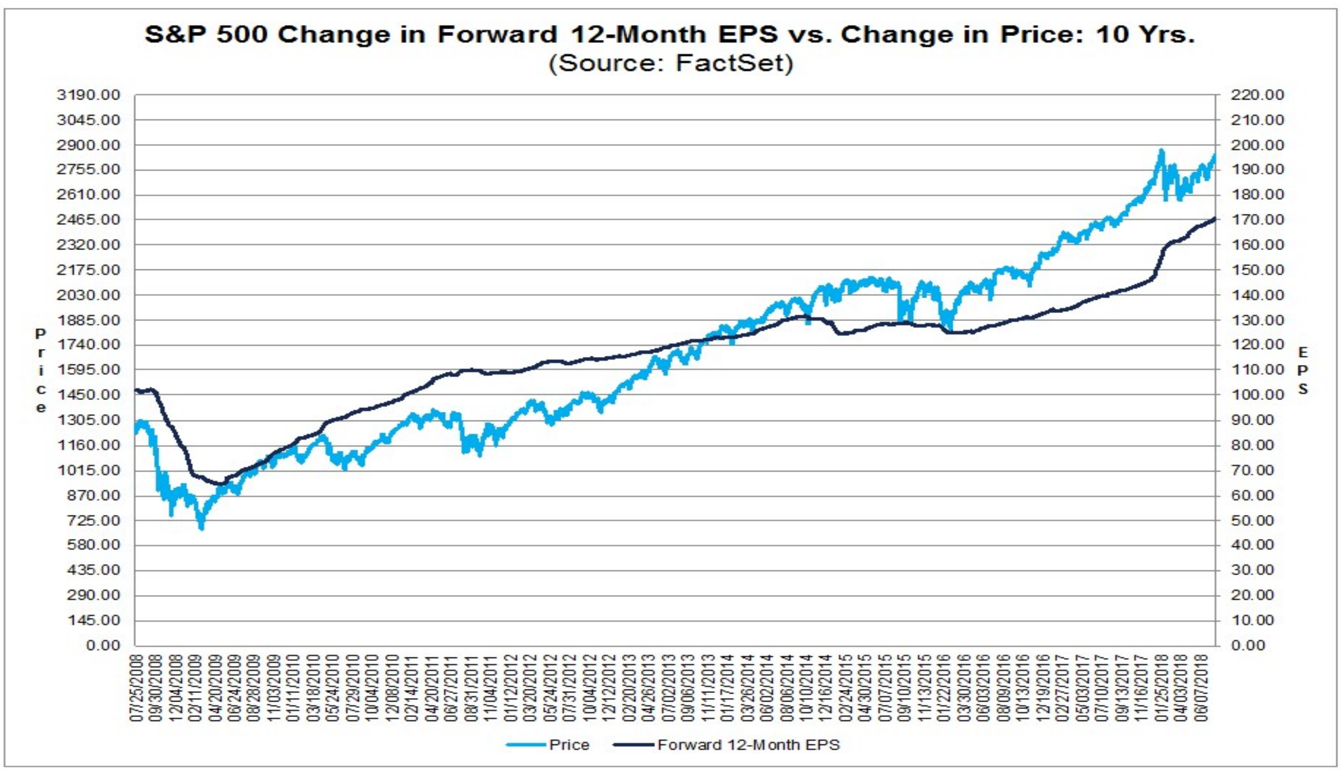
Key Metrics

- **Earnings Scorecard:** For Q2 2018 (with 53% of the companies in the S&P 500 reporting actual results for the quarter), 83% of S&P 500 companies have reported a positive EPS surprise and 77% have reported a positive sales surprise. If 83% is the final number, it will mark the highest percentage since FactSet began tracking this metric in Q3 2008.
- **Earnings Growth:** For Q2 2018, the blended earnings growth rate for the S&P 500 is 21.3%. If 21.3% 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%. Nine sectors have higher growth rates today (compared to June 30) due to upward estimate revisions and positive earnings surprises.
- **Earnings Guidance:** For Q3 2018, 29 S&P 500 companies have issued negative EPS guidance and 14 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.7. 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:

Most S&P 500 Companies Not Seeing Significant Negative Impact from Tariffs Yet

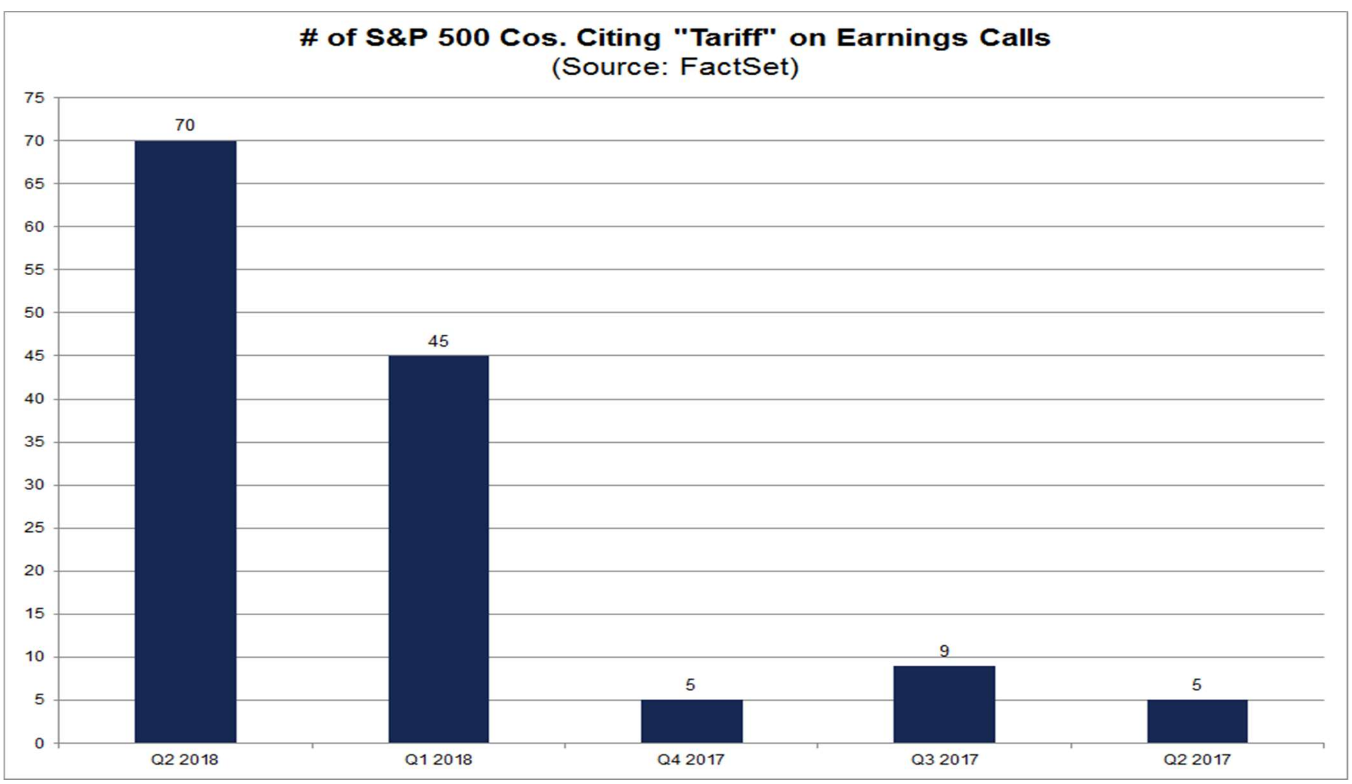
During each corporate earnings season, it is not unusual for companies to comment on subjects that had an impact on their earnings and revenues for a given quarter, or may have an impact on earnings and revenues for future quarters. Through Wednesday (July 25), approximately 35% of the companies in the index (173 companies) had reported earnings results for the second quarter. Given the recent implementation of tariffs by the Trump administration, have companies in the S&P 500 commented on "tariffs" during their earnings conference calls for the second quarter?

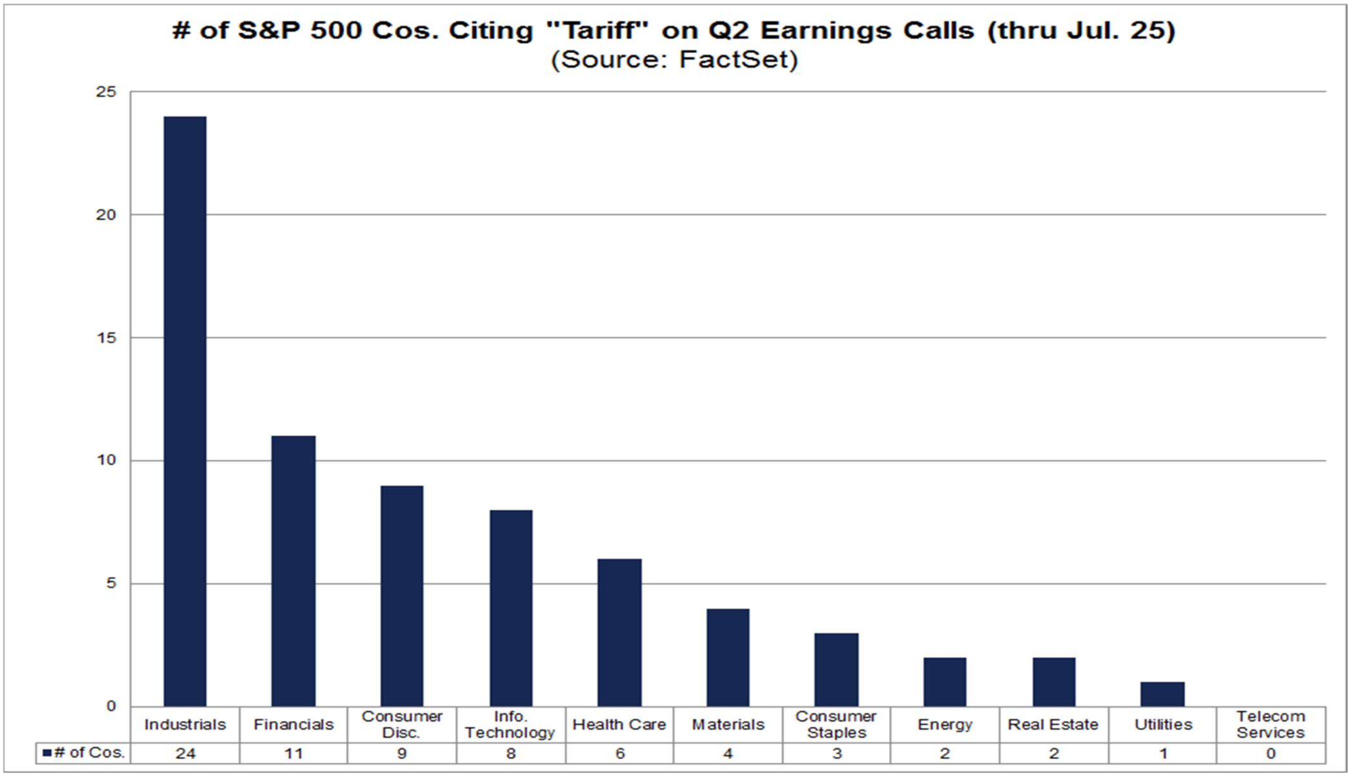
To answer this question, FactSet searched for the term "tariff" in the conference call transcripts of the 159 S&P 500 companies that had conducted second quarter earnings conference calls through July 25.

Of these 159 companies, 70 (or 44%) cited the term "tariff" during the call. This number is above the numbers for the previous four quarters (through the same point in time in the earnings season). Clearly, tariffs have become a more frequent topic of discussion on the earnings calls of S&P 500 companies in recent quarters. At the sector level, the Industrials sector has witnessed the highest number of companies (24) discussing "tariffs" on earnings calls of all eleven sectors.

Overall, 43 of the 70 companies (61%) that have discussed tariffs on their earnings calls saw little to no impact on their earnings in the second quarter or anticipated little to no impact in future quarters from tariffs. On the other hand, 19 companies discussed at least a "modest" negative impact (or potential negative impact in future quarters) from tariffs on their businesses. In addition, 17 companies also discussed the uncertainty of the implementation or impact of future tariffs. The number of companies do not add to 70, as some companies made comments in multiple categories (e.g. no impact in Q2 but uncertainty in future), while other companies made comments about tariffs that did not fit any of these categories.

Comments from the earnings calls of 24 companies in the Industrials sector that fall into these three categories can be found on the next few pages.





Industrials: Minimal to No Impact from Tariffs

"So we have not seen any changes in the U.S. customer behavior directly related to these new tariffs. Now this is not really surprising especially since the commodities inflection make up only a very, very small portion of our U.S.-China revenues." -FedEx (Jun. 19)

"Basically, what I'm saying is we're confident in high single-digit growth long term, diversified set of drivers. We believe we'll continue to drive those numbers regardless of the global trade potential for tariffs, some of the raw material tariffs that might come about. We feel our services are well diversified and would play through that." -IHS Markit (Jun. 26)

"As it relates to 301, I think there's a couple of threads here. One is, the first $50 billion that has been talked about. There's not a huge impact on us from that. Now that we had a chance to kind of see how our products are being affected, I will probably stick with about 10 million of COGS perhaps being affected by that, although it's in places we hadn't necessarily expected sort of indirect shipments on things like ball bearings and welding consumables and things like that. But it's a pretty small number, I don't think particularly meaningful. And so if it stops there, I'm not overly concerned about the direct impact to tariffs." -Fastenal (Jul. 11)

"Well again, there's so much noise swirling around about tariffs. In terms of the specific impacts on CSX today, from any kind of tariff activity, clearly, first was steel. And from a steel standpoint, both finished steel out and ore business in, we have seen some positive as a result of the U.S. steel manufacturers kicking-off production. The second area where there have been some real activities involve export soybeans. Our export grain business in total is around $30 million. About a third of that is soybean. And so in the grand scheme of things, in terms of soybeans going to China, it's really not a factor at all for us. And then, the third area which again, has not had any real activity, but again a lot of noise about it, is both NAFTA and Europe in terms of tariffs on imported autos. We are not impacted in terms of imported autos from Mexico. We would clearly watch carefully, if anything were to be put on imported vehicles from Canada, but nothing has happened there, yet. And in terms of European imports coming in through the East Coast ports, normally they don't touch rail anyway. So not much of an impact at all right now. And our customers continue

despite the fact again that there's much discussion that this could lead to an economic downturn, our customers continue to be very optimistic about the future." -CSX Corp. (Jul. 17)

"Well, through the quarter, we haven't seen any signs of a slowdown at this point. There are certainly conversations with customers. I would say most of those conversations, tariff-related, tend to be longer term. So, questions about whether or not product will actually be – end product will be made in China and then shipped over given the way the tariffs are structured. I've talked with a couple of customers about that. But, in the short term, we feel like there hasn't been a lot of action yet and we don't see any slowdown at this point." -W.W. Grainger (Jul. 18)

"No Tim, we haven't. And we've talked about that. Obviously we have our Customer Confidence Index, and we track, that remains robust. More importantly we talk to our field leaders and field sales teams, specifically the strategic teams that are engaging with the large customers on large projects. And I can't point to one project that's been canceled because of any kind of tariff concerns, inflation concerns or anything else. So it's still robust." -United Rentals (Jul. 19)

"So, when we look at the list of tariffs, we think we are pretty well positioned for those things. And those things that we are not, that's our job to move the difference. So, at least, as we look at it right now, we're not wringing our hands and worrying about them real effectively. So, I think now things could change. They seem to be changing minute-by-minute out of the tariffs. So, I'm only saying to what I see right today, and what's in place today, we're okay." -Snap-on (Jul. 19)

"So, I'll start Ken, and then, let Beth talk specifically about our markets. So, the concern is that tariffs are just going to basically be a tax, whether it's on U.S. consumption or U.S. products going overseas. And generally, that's going to retard – that's going to reduce the amount of demand. We haven't necessarily seen that wholesale – and I'll ask Beth to kind of fill in the blanks in detail – but it's pretty early…So when we talk about agriculture, we aren't really seeing the impacts yet, because of the crop uncertainty in South America that I referenced. So, I think this year, the Ag business looks okay in the United States. But I think where we're more concerned is in the longer-term, what the impacts will be. And really, the other impacts on steel, for example, have kind of a net neutral for us." -Union Pacific (Jul. 19)

"From a direct standpoint, we have certainly had some impact like hangers. But overall, it has not been significant. From an indirect standpoint – and when I say indirect, I mean from our vendors – it remains to be seen how they will be impacted and how that might in turn impact us. We're certainly keeping our eyes on that. But we need a little bit more time for that to play out. From a customer perspective, too early to see much of an impact." -Cintas (Jul. 19)

"If you go and look at the actual tariffs, the $50 billion that are announced and implemented and $200 billion announced but not implemented yet, I'd say we look at it on a gross and a net basis. So it could be $300 million to $400 million at a gross level before any mitigating factors are taken there and there are some significant mitigating factors. The first is what's called duty drawbacks, and these are basically credits for any components and things that we would import from China and ultimately re-export as part of the gas turbine or an MRI machine or an aircraft engine, and that's a significant amount of what we import. So we think that could mitigate half or more of what the tariff picture is there. And then, obviously, over time, we also can adjust our supply chains in response to some of these issues if that's what made sense. So I'd say we don't see a major impact yet financially, certainly not on our 2018 guidance." -General Electric (Jul. 20)

"Based on the tariffs enacted to-date and our mitigation actions across the portfolio, we anticipate a minimal impact to our overall business results in 2018." -Honeywell (Jul. 20)

"I'll jump on that one because I'm sure there will be questions later on about the impact of tariffs and, so far, we just haven't seen any impact, any negative impact in our business even into the third quarter because of the tariffs that have been announced or threatened or both of those." -Kansas City Southern (Jul. 20)

"Yeah. So I think, Ross, the short answer to your question is we've not seen anything with our customers. It might be a little too early to tell. There's still some movement around what these tariffs may or may not be and for how long they may be in place. And again, we are a produce where we sell company and the impact on tariffs is significantly mitigated by that. In terms of the overall tariff impact, it's as a result of that fairly small 10% to 15% of what we project for the full year will come from tariffs. The majority of that is really related to metals, so steel and aluminum which was the first round of tariffs. And then the China tariffs role, I'd say broad-based across the portfolio, but pretty small impact overall from the Section 301 tariffs." -Illinois Tool Works (Jul. 23)

"So when we're talking tariffs, there's a number of tariffs. First, the steel and aluminum under the National Security Act and that impact as well as the Section 301 List 1. Those two that have already been enacted we see having a fairly immaterial impact on us. We estimate that to be approximately $10 million, or $0.01 a share, on an annualized basis, the direct and indirect impact of those tariffs." -3M (Jul. 24)

"I think the early read is that there's not going to be a significant impact to our business and our expectations for operations based on what we know now." -PACCAR (Jul. 24)

"I don't think yet we're having specific discussions or we've got specific concerns about tariffs per se. I think it's the second order impacts potentially on sentiment and optimism that concern us more, but at least to this point, there's very little, if any, impact on that." -Robert Half International (Jul. 24)

"I can tell you that we've seen no significant impact at this time. Now, are we closely monitoring the trade landscape? We absolutely are. Are we having more frequent discussions with our customers about if this continues what they may or may not need to do. So, if these trade war continued or these actions continued, there would always be some exposure or risk to our business. But that exposure is very much limited and the reason that it is, is because we really see it as our duty to utilize our flexible global network and our broad portfolio to help our customers adapt to any changing trade dynamics. And I'm going to ask Jim if there's anything he wants to expand here, but I think it's a key point that you need to remember when you think about these headlines." -United Parcel Service (Jul. 25)

"As we take a look at trade skirmishes and potential trade war, we don't see much of an impact at all in 2018." -Norfolk Southern (Jul. 25)

Industrials: Negative Impact from Tariffs

"In the industrial platform, performance was more mixed as they are more subjected to material costs and tariff issues." -Dover (Jul. 19)

"As we look ahead at the second half of 2018, our Ag products group will continue to face challenges in the export grain market from high global supplies, foreign tariffs, and a low protein wheat crop." -Union Pacific (Jul. 19)

"Now, shifting to tariffs. We currently estimate the impact of tariffs to be a 2018 headwind of approximately $35 million. This reflects the impact of Section 232 tariffs on steel and aluminum, as well as the initial $34 billion of Section 301 tariffs on componentry and some finished goods." -Stanley Black & Decker (Jul. 20)

"I think if you think about next year, obviously you can see a much bigger impact from all of these tariffs. Right now, we've only got a half-year impact on the Section 301, but a full-year impact there plus potentially some higher steel and aluminum tariffs as well as copper input costs higher…So again, these tariffs aren't helpful to anybody, but we're going to have to deal with them." -United Technologies (Jul. 24)

"As we talked about Q3 with inflation kicking in and the impact of tariffs coming in, but price not yet being there. That's really the biggest driver of why, as you look at margins across the three businesses and overall, why they tend to not be expanding as much as you might otherwise think." -Pentair (Jul. 25)

"We're evaluating the potential impacts from the additional $200 billion in proposed Section 301 tariffs which are indeterminate at this stage. To be clear, we have seen a significant uptick in inflation from the direct and indirect impacts of the known portions of the Section 232 and 301 tariffs." -Ingersoll-Rand (Jul. 25)

"For the fourth quarter of fiscal 2018, we estimate the net unfavorable impact of these tariffs will be less than $0.05 of adjusted EPS." -Rockwell Automation (Jul. 25)

Industrials: Tariff Uncertainty

"I think the question you're really getting at is what happens with the other $200 billion, should they go into effect? And honestly at this point, we're not sure. I mean it's hard to sort of speculate on that." -Fastenal (Jul. 11)

"From an indirect standpoint – and when I say indirect, I mean from our vendors – it remains to be seen how they will be impacted and how that might in turn impact us. We're certainly keeping our eyes on that. But we need a little bit more time for that to play out. From a customer perspective, too early to see much of an impact." -Cintas (Jul. 19)

“Now, turning to the right side of the chart to address the additional $200 billion in tariffs under Section 301 that were announced on July 10. We have not included the impact of these tariffs in our guidance due to the uncertainty around implementation timing and the product categories that will ultimately be included.” -Stanley Black & Decker (Jul. 20)

“As to tariffs that have been proposed but not yet implemented, as you know, there remains a lot of uncertainty and we're analyzing potential implications to our business, including opportunities to mitigate their impacts if they are enacted.” -Rockwell Automation (Jul. 25)

Q2 Earnings Season: By The Numbers

Overview

To date, 53% 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 (83%) compared to the 5-year average. If 83% is the final number, it will mark the highest percentage of S&P 500 companies reporting a positive EPS surprise for a quarter since FactSet began tracking this metric in Q3 2008. In aggregate, companies are reporting earnings that are 2.5% above the estimates, which is below the 5-year average. In terms of sales, more companies (73%) are reporting actual sales above estimates compared to the 5-year average. In aggregate, companies are reporting sales that are 0.9% 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 21.3% today, which is above the earnings growth rate of 20.8% last week. Positive EPS surprises reported by companies in multiple sectors (led by Health Care and Consumer Discretionary) were the largest contributors to the increase in the earnings growth rate over the past week. All eleven sectors are reporting year-over-year earnings growth. Eight sectors are reporting 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 second quarter is 9.3% today, which is above the revenue growth rate of 9.0% last week. Positive sales surprises reported by companies in the Health Care, Information Technology, and Industrials sectors were the largest contributors to the increase in the revenue growth rate over the past week. All eleven sectors are reporting year-over-year growth in revenues. Four sectors are reporting 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. However, they predict lower growth in the first half of 2019.

The forward 12-month P/E ratio is 16.7, which is above the 5-year average and above the 10-year average.

During the upcoming week, 140 S&P 500 companies (including five Dow 30 components) are scheduled to report results for the second quarter.

Scorecard: More Companies Beating Earnings & Revenue Estimates than Average

Record-High Percentage of Companies Beating EPS Estimates (83%)

Overall, 53% of the companies in the S&P 500 have reported earnings to date for the second quarter. Of these companies, 83% have reported actual EPS above the mean EPS estimate, 5% have reported actual EPS equal to the mean EPS estimate, and 12% 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.

If 83% is the final percentage for the quarter, it will mark the highest percentage of S&P 500 companies reporting actual EPS above estimates for a quarter since FactSet began tracking this metric in Q3 2008.

At the sector level, the Telecom Services (100%), Utilities (100%), and Health Care (87%) sectors have the highest percentages of companies reporting earnings above estimates, while the Energy (50%) sector has the lowest percentage of companies reporting earnings (FFO) above estimates.

Earnings Surprise Percentage (+2.5%) is Below 5-Year Average

In aggregate, companies are reporting earnings that are 2.5% above expectations. This surprise percentage is below the 1-year (+5.6%) average and below the 5-year (+4.4%) average.

The Consumer Discretionary (+11.3%) and Utilities (+11.0%) sectors are reporting the largest upside aggregate differences between actual earnings and estimated earnings. In the Consumer Discretionary sector, Lennar ($0.94 vs. $0.43) and Amazon.com ($5.07 vs. $2.48) have reported the largest upside differences between actual EPS and estimated EPS. In the Utilities sector, PG&E ($1.16 vs. $0.94) and DTE Energy ($1.36 vs. $1.13) have reported the largest positive EPS surprises. On the other hand, the Energy (-10.5%) sector is reporting the largest downside aggregate difference between actual earnings and estimated earnings. Within this sector, Helmerich & Payne (-$0.01 vs. $0.03) and Cabot Oil & Gas ($0.13 vs. $0.20) have reported the largest downside differences between actual EPS and estimated EPS.

Market Rewarding Positive EPS Surprises

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

Companies that have reported positive earnings surprises for Q2 2018 have seen an average price increase of +1.5% two days before the earnings release through two days after the earnings. This percentage increase is above the 5-year average price increase of +1.0% during this same window for companies reporting positive earnings surprises.

Companies that have reported negative earnings surprises for Q2 2018 have seen an average price decrease of -2.0% two days before the earnings release through two days after the earnings. This percentage decrease is smaller than the 5-year average price decrease of -2.5% during this same window for companies reporting negative earnings surprises.

Percentage of Companies Beating Revenue Estimates (73%) is Above 5-Year Average

In terms of revenues, 73% of companies have reported actual sales above estimated sales and 27% 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 Telecom Services (100%) and Information Technology (89%) sectors have the highest percentages of companies reporting revenues above estimates, while the Energy (40%) sector has the lowest percentage of companies reporting revenues above estimates.

Revenue Surprise Percentage (+0.9%) is Above 5-Year Average

In aggregate, companies are reporting sales that are 0.9% above expectations. This surprise percentage is below the 1-year (+1.2%) average, but above the 5-year (+0.7%) average.

The Information Technology (+1.9%) sector is reporting the largest upside aggregate difference between actual sales and estimated sales, while the Consumer Discretionary (-0.9%) sector is reporting the largest aggregate downside differences between actual sales and estimated sales.

Increase in Blended Earnings Growth This Week Due to Health Care and Consumer Discretionary

Increase in Blended Earnings Growth This Week Due to Health Care and Consumer Discretionary

The blended, year-over-year earnings growth rate for the second quarter is 21.3% today, which is above the earnings growth rate of 20.8% last week. Positive EPS surprises reported by companies in the Health Care and Consumer Discretionary sectors (partially offset by downside EPS surprises reported by companies in the Energy and Information Technology sectors) were the largest contributors to the increase in the earnings growth rate over the past week.

In the Health Care sector, the positive earnings surprises reported by Gilead Sciences ($1.91 vs. $1.56), Bristol-Myers Squibb ($1.01 vs. $0.87), and Eli Lilly ($1.50 vs. $1.30) were substantial 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 Health Care sector increased to 13.8% from 10.5% during this period.

In the Consumer Discretionary sector, the positive earnings surprise reported by Amazon.com ($5.07 vs. $2.48) was the largest contributor 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 Consumer Discretionary sector increased to 18.2% from 13.2% during this period.

In the Information Technology sector, the negative earnings surprise reported by Alphabet ($4.54 vs. $9.64) was the largest detractor to the increase in the overall earnings growth rate for the index during the past week. On July 18, Alphabet announced the company would take a charge of $5.07 billion in the second quarter related to the European Commission (EC) Android fine. When the company reported actuals results for the second quarter on July 23, the majority of analysts used the actual EPS including the charge ($4.54) for Alphabet. The year-ago actual EPS for Alphabet ($5.01) also included charges related to an EC fine. As a result, the blended earnings growth rate for the Information Technology sector decreased to 21.6% from 25.5% during this period.

In the Energy sector, the negative earnings surprises reported by Exxon Mobil ($0.92 vs. $1.27) and Chevron ($1.78 vs. $2.09) were substantial detractors 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 Energy sector decreased to 124.3% from 144.1% during this period.

Increase in Blended Revenue Growth This Week

The blended, year-over-year sales growth rate for the second quarter is 9.3% today, which is above the sales growth rate of 9.0% last week. Positive sales surprises reported by companies in the Health Care, Information Technology, and Industrials sectors were the largest contributors to the increase in the revenue growth rate over the past week.

Utilities and Health Care Sectors Have Seen Largest Increases in Earnings Growth since June 30

The blended, year-over-year earnings growth rate for Q2 2018 of 21.3% is above the estimate of 20.0% at the end of the second quarter (June 30). Nine 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 Utilities (to 7.0% from 2.0%) and Health Care (to 14.5% from 9.8%) sectors. Two sectors have recorded a decrease in earnings growth during this time due to downward revisions to earnings estimates and negative earnings surprises, led by the Energy (to 124.3% from 141.7%) sector

Eight Sectors Have Seen Increase in Revenue Growth since June 30

The blended, year-over-year sales growth rate for Q2 2018 of 9.3% is above the estimate of 8.7% at the end of the second quarter (June 30). Eight 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 Telecom Services (to 3.5% from 2.2%), Industrials (to 8.9% from 7.7%), and Information Technology (to 14.4% from %13.2%) sectors. Two sectors have recorded a decrease in sales growth since the end of the quarter due to downward revisions to revenue estimates and negative revenue surprises. One sector has recorded no change in sales growth since June 30.

Second-Highest Earnings Growth (21.3%) Since Q3 2010

The blended (year-over-year) earnings growth rate for Q2 2018 is 21.3%. If 21.3% 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 year-over-year growth in earnings. Eight sectors are reporting 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 reporting the highest (year-over-year) earnings growth of all eleven sectors at 124.3%. At the sub-industry level, all six sub-industries in the sector are reporting 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), Oil & Gas Refining & Marketing (99%), Oil & Gas Storage & Transportation (81%), Oil & Gas Equipment & Services (63%), and Integrated Oil & Gas (60%).

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 reporting earnings of $18.2 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 50.4%. At the industry level, all four industries in the sector are reporting double-digit earnings growth: Metals & Mining (102%), Construction Materials (48%), Containers & Packaging (45%), and Chemicals (43%). 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 33.0% from 50.4%.

Telecom Services: AT&T and Verizon Drive Growth

The Telecom Services sector is reporting the third highest (year-over-year) earnings growth of all eleven sectors at 31.6%. At the company level, AT&T and Verizon are the main contributors to earnings growth for the sector.

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

The Information Technology sector is reporting the fourth highest (year-over-year) earnings growth of all eleven sectors at 22.4%. At the industry level, all seven industries in this sector are reporting earnings growth. Five of these seven industries are reporting double-digit earnings growth: Semiconductor & Semiconductor Equipment (45%), Technology Hardware, Storage, & Peripherals (22%), IT Services (20%), Software (14%), and Internet Software & Services (13%).

Highest Revenue Growth (9.3%) Since Q3 2011

The blended (year-over-year) revenue growth rate for Q2 2018 is 9.3%. If 9.3% 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 year-over-year growth in revenues. Four sectors are reporting 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 24.3%. At the industry level, all four industries in this sector are reporting revenue growth, led by the Chemicals (31%) and Metals & Mining (24%) 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 13.8% from 24.3%.

Energy: All 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 21.8%. At the sub-industry level, all six sub-industries in the sector are reporting double-digit revenue growth: Oil & Gas Drilling (30%), Oil & Gas Refining & Marketing (29%), Oil & Gas Equipment & Services (23%), Integrated Oil & Gas (19%), Oil & Gas Storage & Transportation (14%), and Oil & Gas Exploration & Production (11%).

Information Technology: 5 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 14.4%. At the industry level, all seven industries in this sector are reporting revenue growth. Five of these seven industries are reporting double-digit revenue growth: Internet Software & Services (27%), Semiconductor & Semiconductor Equipment (18%), Software (15%), Electronic Equipment, Instruments, & Components (11%), and Technology Hardware, Storage, & Peripherals (11%).

Real Estate: CBRE Group Leads Growth

The Real Estate sector is reporting the fourth highest (year-over-year) revenue growth of all eleven sectors at 11.4%. 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 6.5% from 11.4%.

Looking Ahead: Forward Estimates and Valuation

Earnings Guidance: Negative EPS Guidance For Q3 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, 43 companies in the index have issued EPS guidance for Q3 2018. Of these 43 companies, 29 have issued negative EPS guidance and 14 has issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 67% (29 out of 43), which is below 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 21.3% and revenue growth of 9.3%. 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 21.2% and revenue growth of 7.7%.

For Q4 2018, analysts are projecting earnings growth of 18.0% and revenue growth of 6.0%.

For Q1 2019, analysts are projecting earnings growth of 7.3% and revenue growth of 5.8%.

For Q2 2019, analysts are projecting earnings growth of 10.2% and revenue growth of 4.8%.

Valuation: Forward P/E Ratio is 16.7, above the 10-Year Average (14.4)

The forward 12-month P/E ratio is 16.7. This P/E ratio is 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 4.4%, while the forward 12-month EPS estimate has increased by 1.0%.

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 (9.8) and Financials (12.7) 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 (19.0 vs. 14.5) and Consumer Discretionary (21.2 vs. 16.9) sectors. Two sectors have forward 12-month P/E ratios that are below their 10-year averages, led by the Telecom Services (9.8 vs. 14.0) sector.

Targets & Ratings: Analysts Project 10% Increase in Price Over Next 12 Months

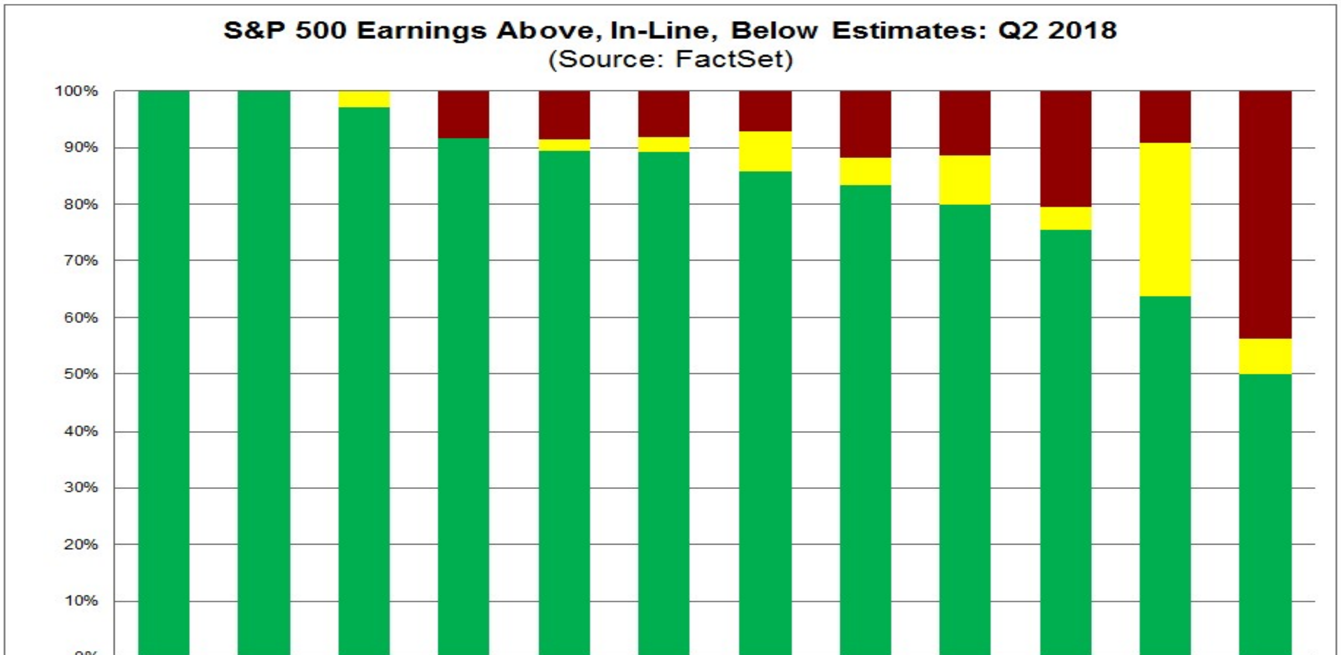
The bottom-up target price for the S&P 500 is 3123.49, which is 10.1% above the closing price of 2837.44. At the sector level, the Materials (+14.3%) and Telecom Service (+13.7%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Utilities (+3.3%) 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 10,905 ratings on stocks in the S&P 500. Of these 10,905 ratings, 53.0% are Buy ratings, 41.6% are Hold ratings, and 5.4% are Sell ratings. At the sector level, the Information Technology (59%), Health Care (59%), Energy (58%), and Materials (58%) sectors have the highest percentages of Buy ratings, while the Telecom Services (41%) sector has the lowest percentage of Buy ratings.

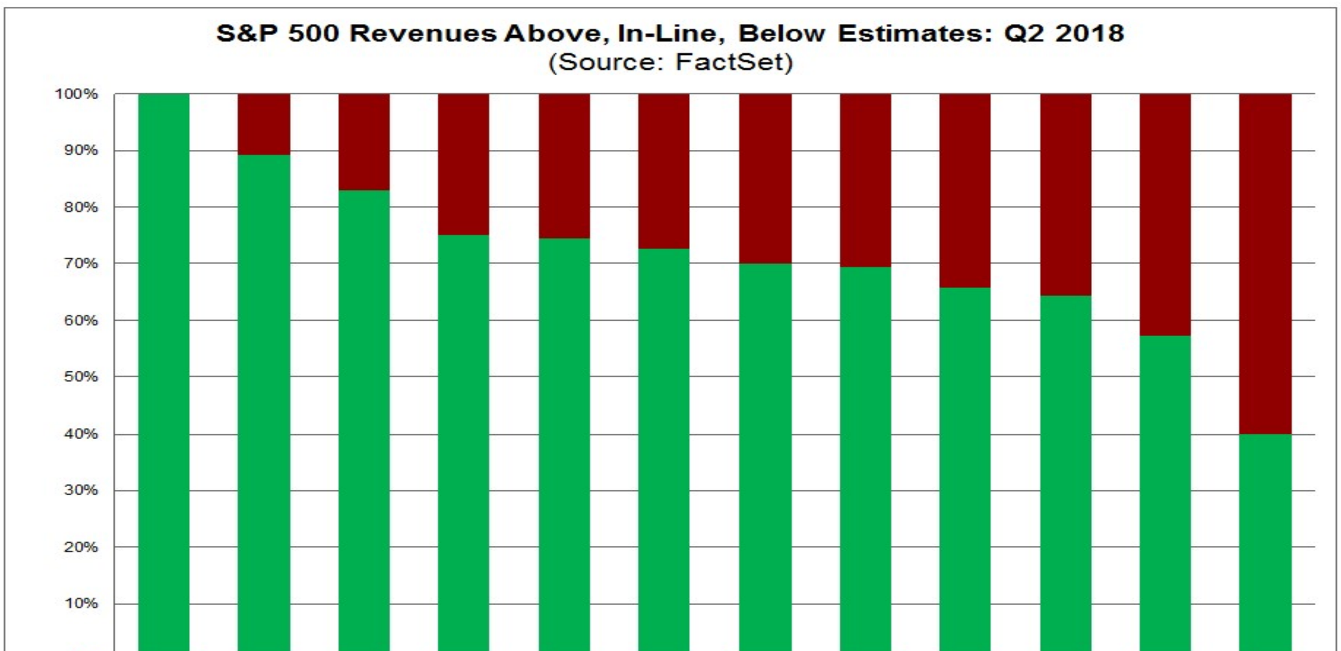
Companies Reporting Next Week: 140

During the upcoming week, 140 S&P 500 companies (including five Dow 30 components) are scheduled to report results for the second quarter.

Q2 2018: Scorecard

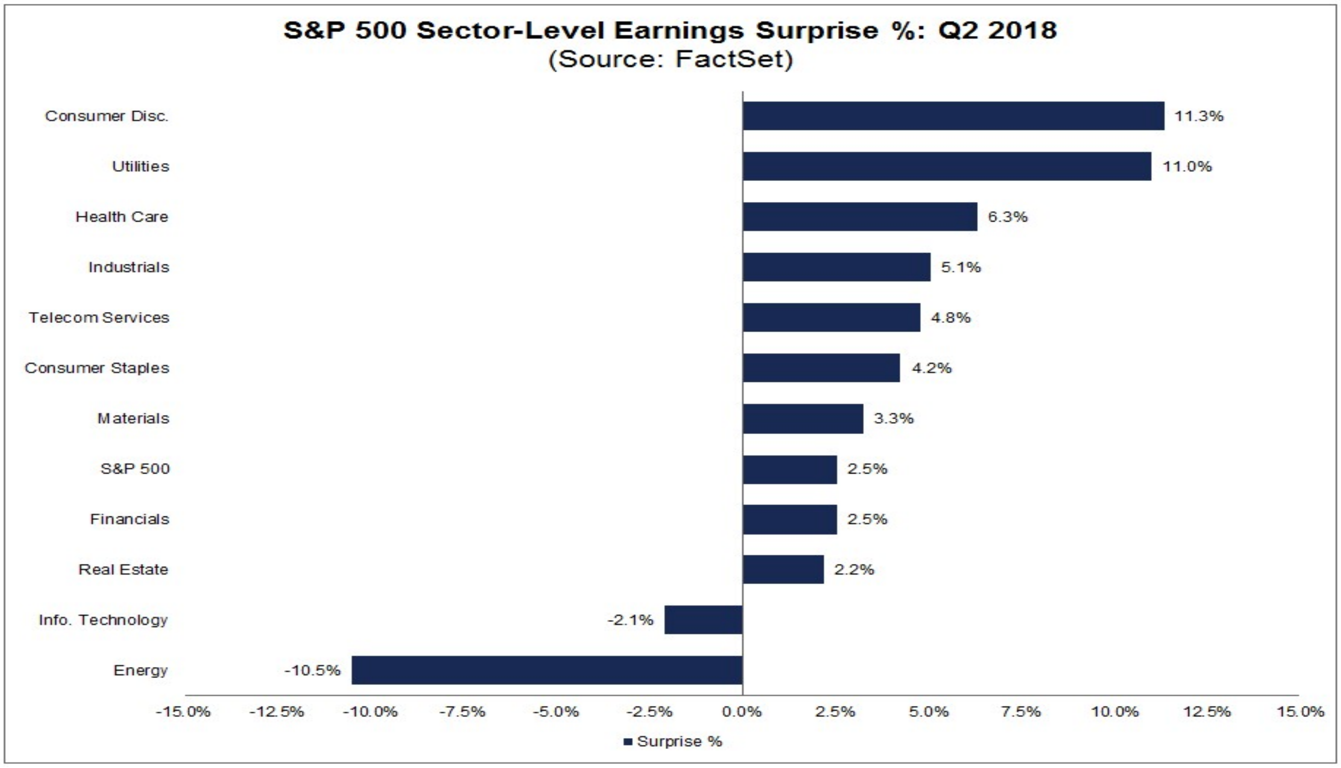


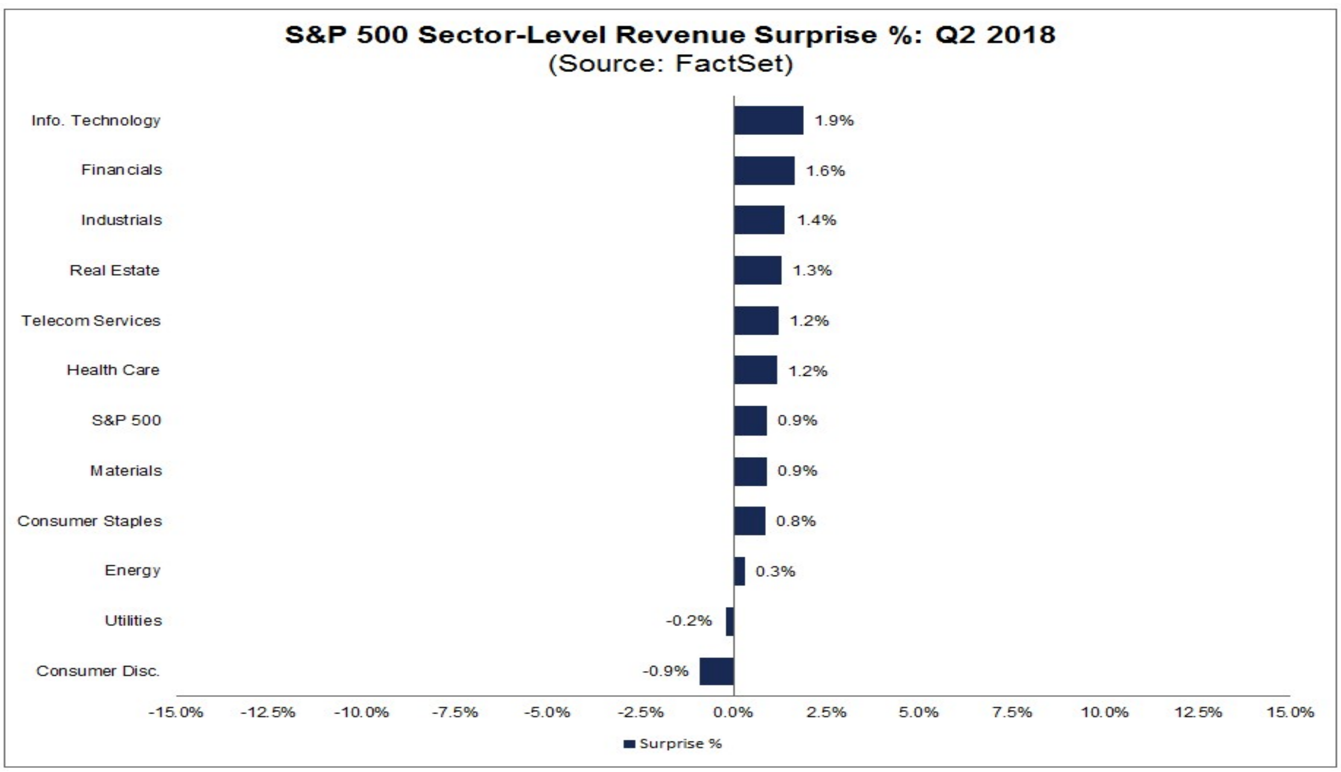
	Utilities	Telecom Services	Health Care	Materials	Industrials	Info. Technology	Consumer Staples	S&P 500	Consumer Disc.	Financials	Real Estate	Energy
Below	0%	0%	0%	8%	9%	8%	7%	12%	11%	20%	9%	44%
In-Line	0%	0%	3%	0%	2%	3%	7%	5%	9%	4%	27%	6%
Above	100%	100%	97%	92%	89%	89%	86%	83%	80%	76%	64%	50%



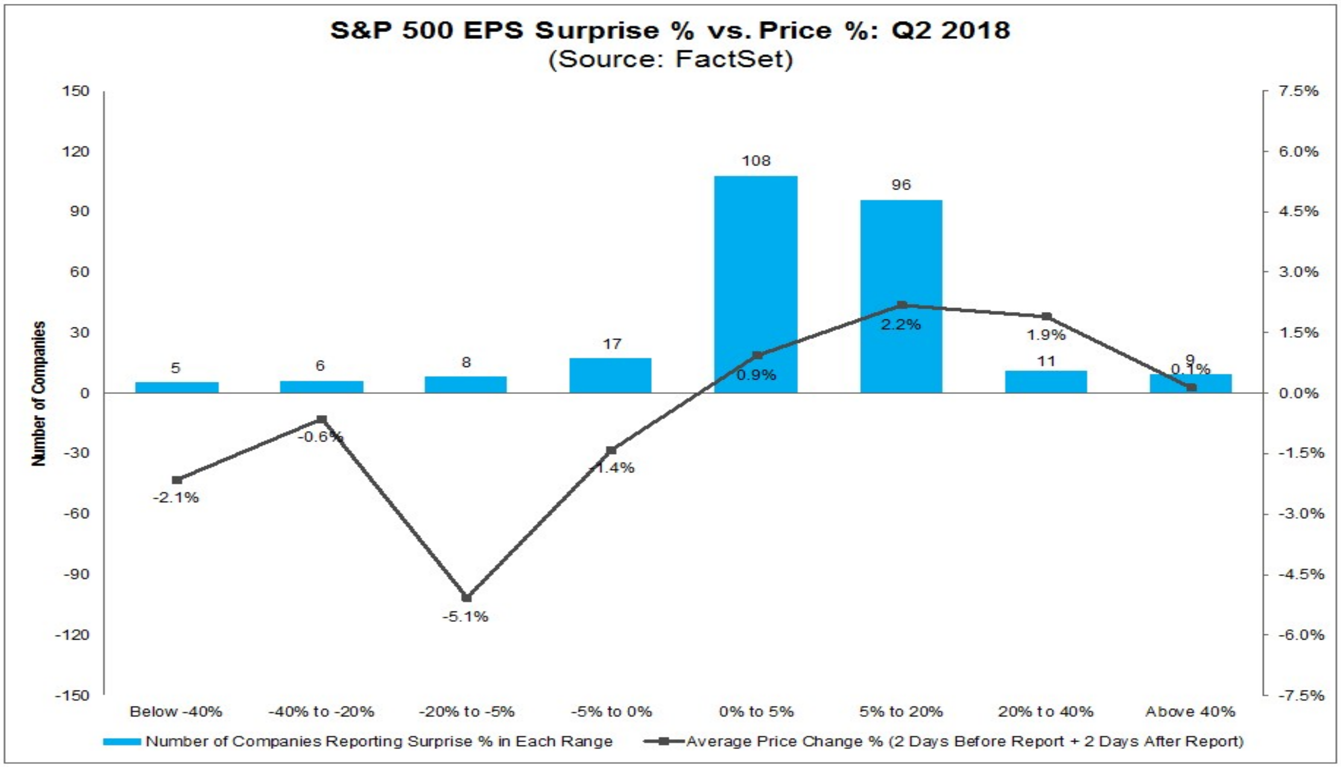
	Telecom Services	Info. Technology	Health Care	Materials	Industrials	S&P 500	Real Estate	Financials	Consumer Disc.	Consumer Staples	Utilities	Energy
Below	0%	11%	17%	25%	26%	27%	30%	31%	34%	36%	43%	60%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	100%	89%	83%	75%	74%	73%	70%	69%	66%	64%	57%	40%

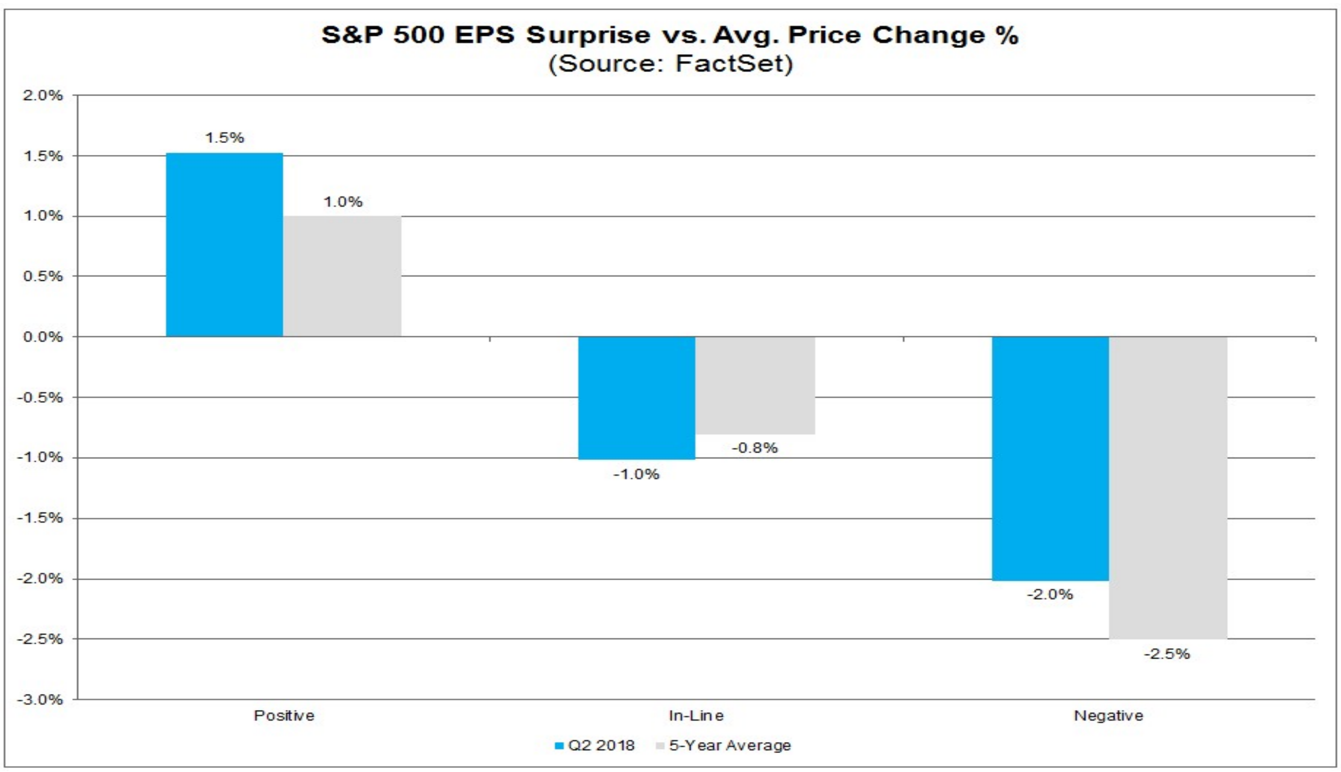
Q2 2018: Scorecard



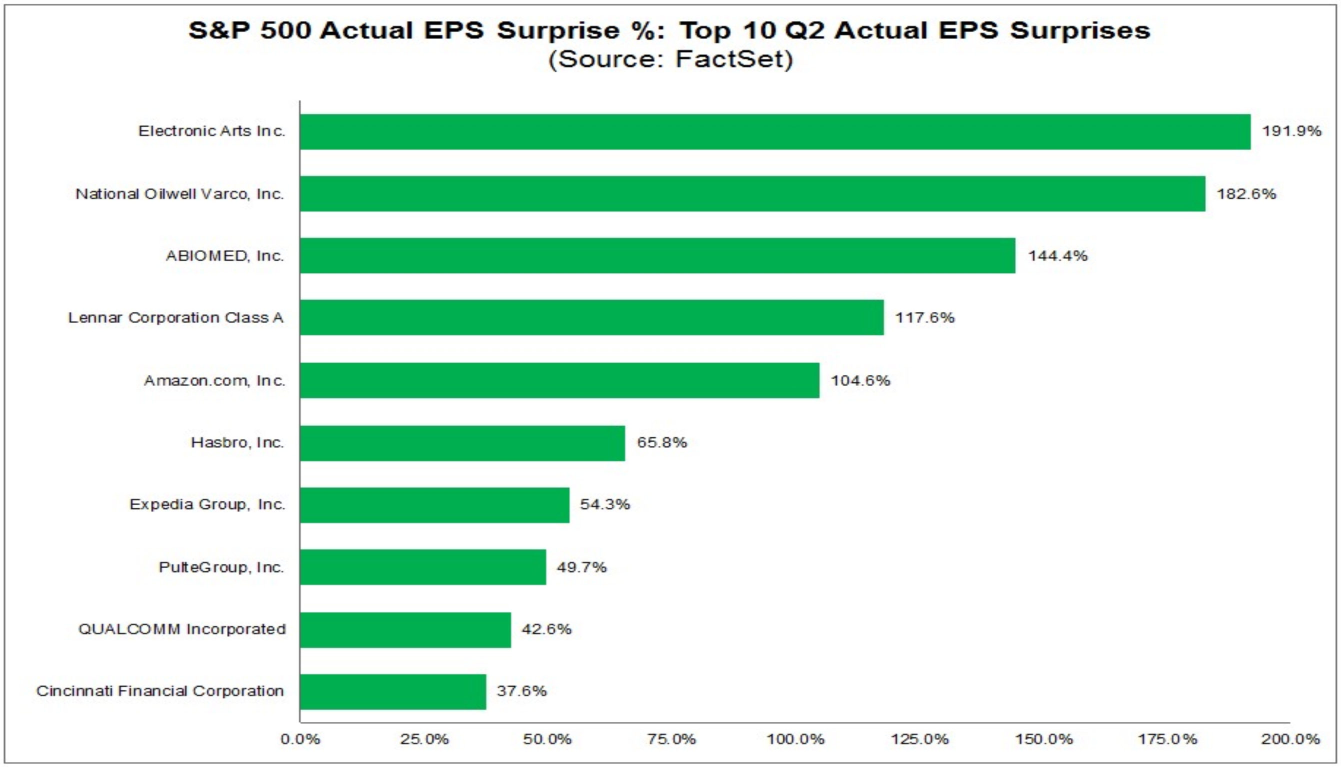


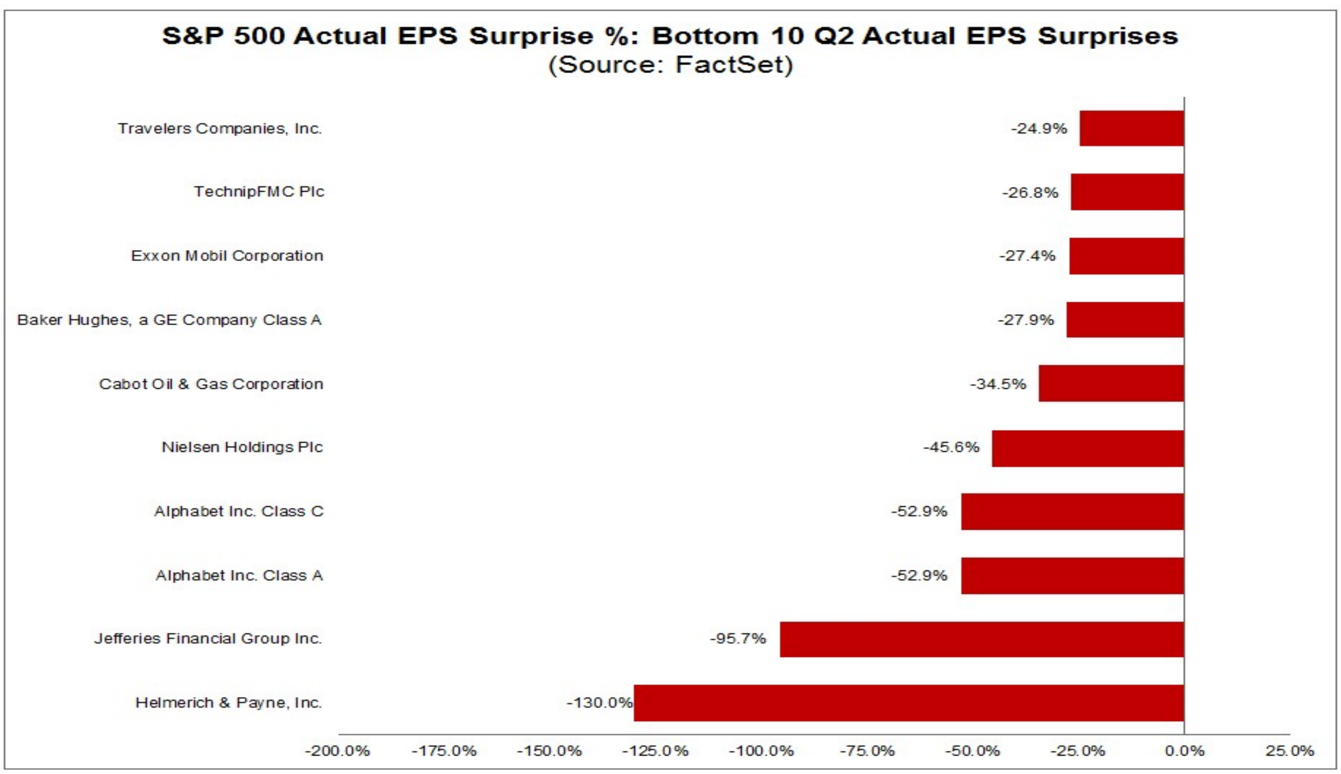
Q2 2018: Scorecard



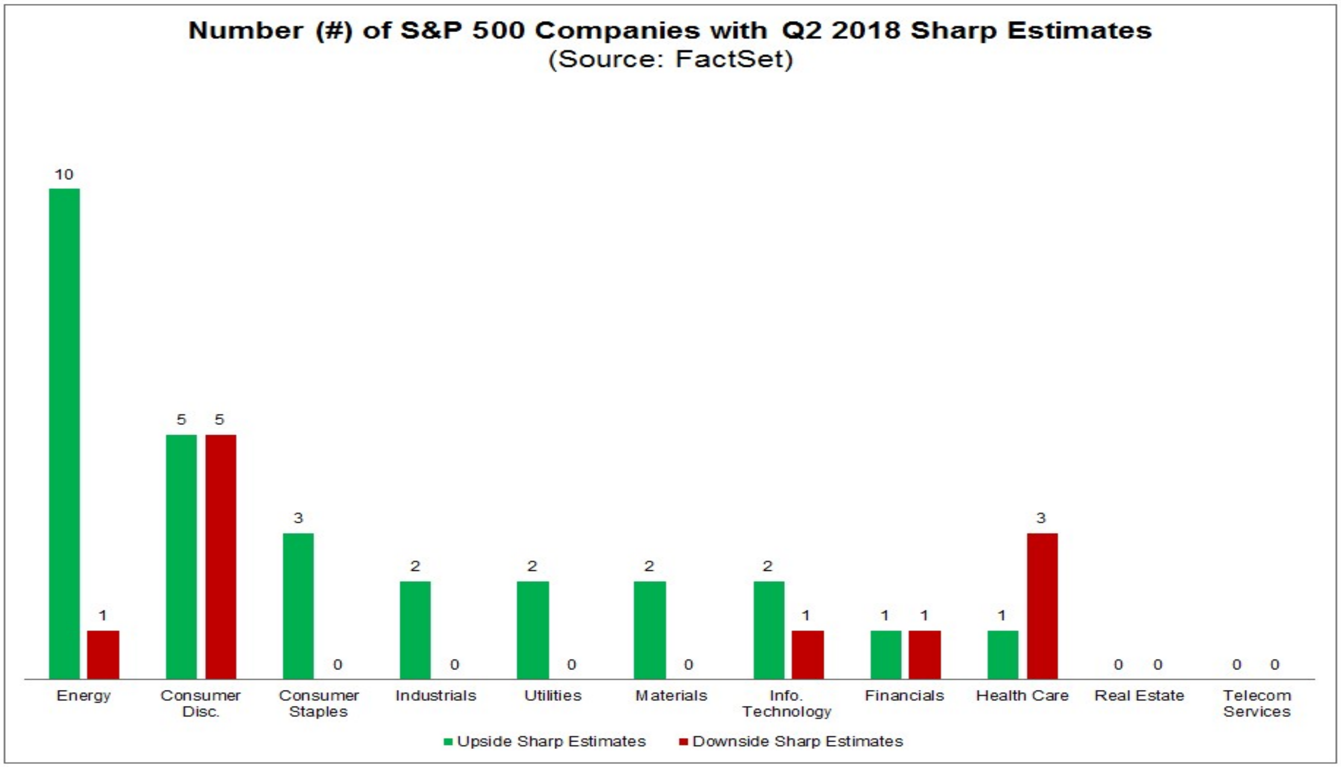


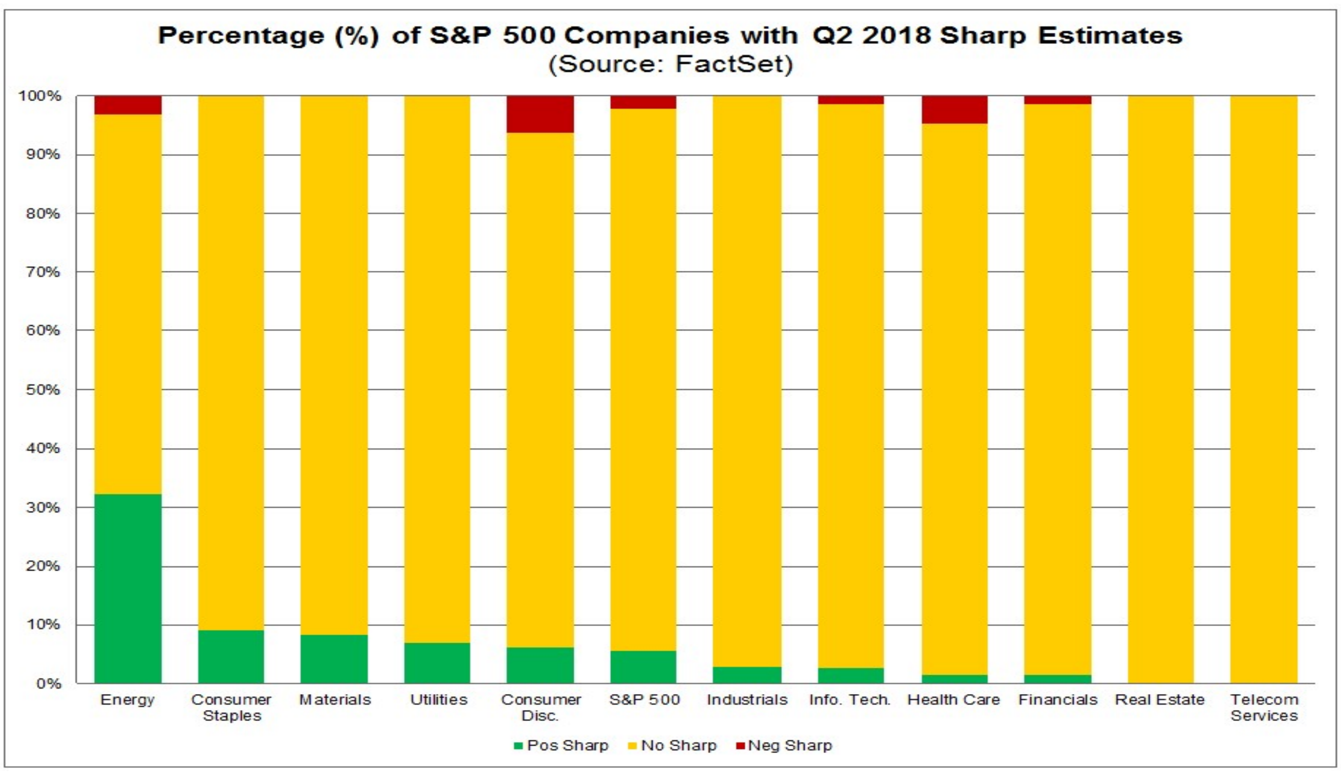
Q2 2018: Scorecard





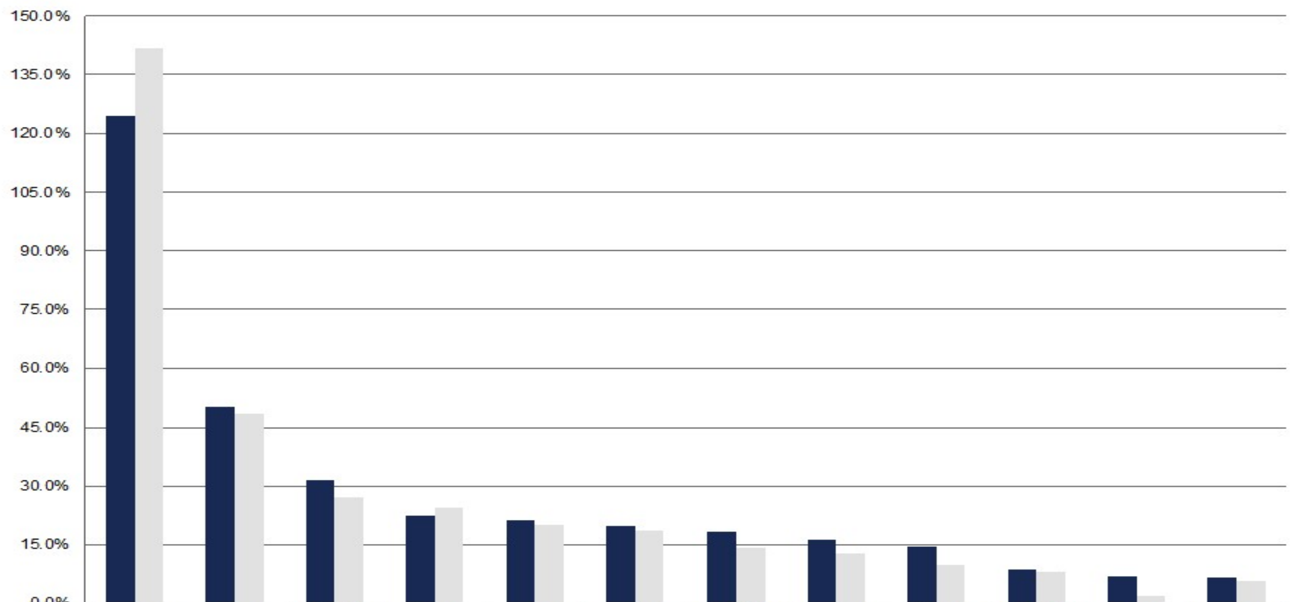
Q2 2018: Projected EPS Surprises (Sharp Estimates)





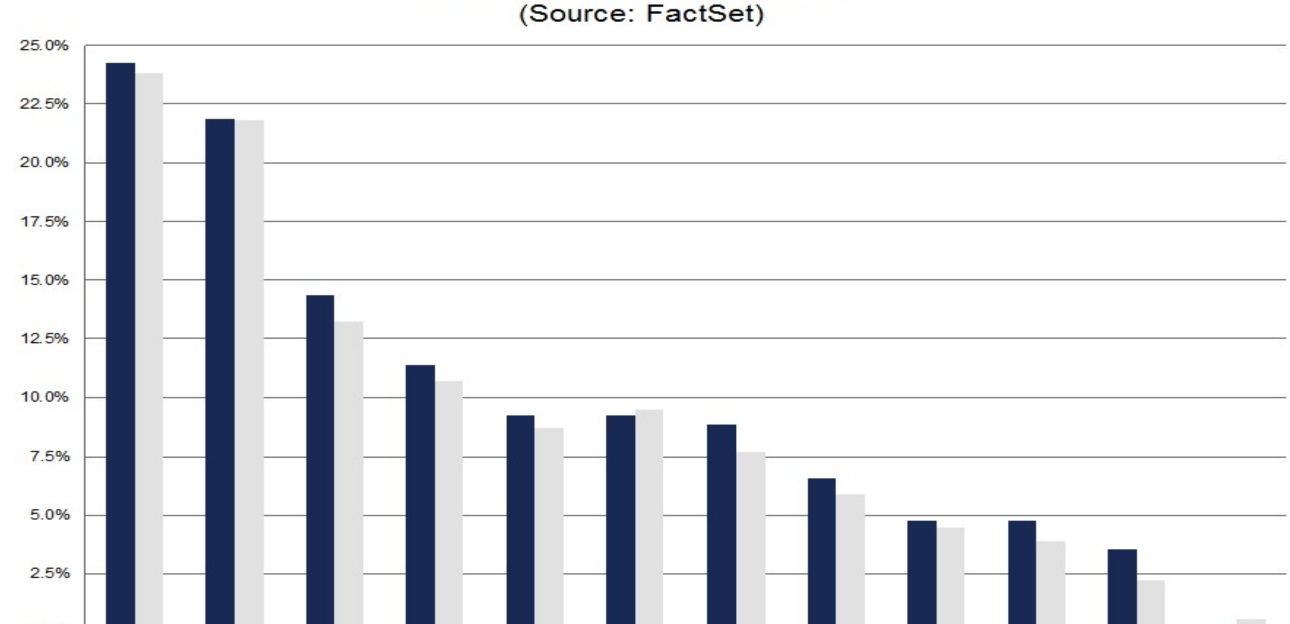
Q2 2018: Growth

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	Utilities	Real Estate
Today	124.3%	50.4%	31.6%	22.4%	21.3%	19.7%	18.2%	16.2%	14.5%	8.6%	7.0%	6.7%
30-Jun	141.7%	48.6%	27.3%	24.6%	20.0%	18.5%	14.3%	12.7%	9.8%	8.0%	2.0%	5.7%

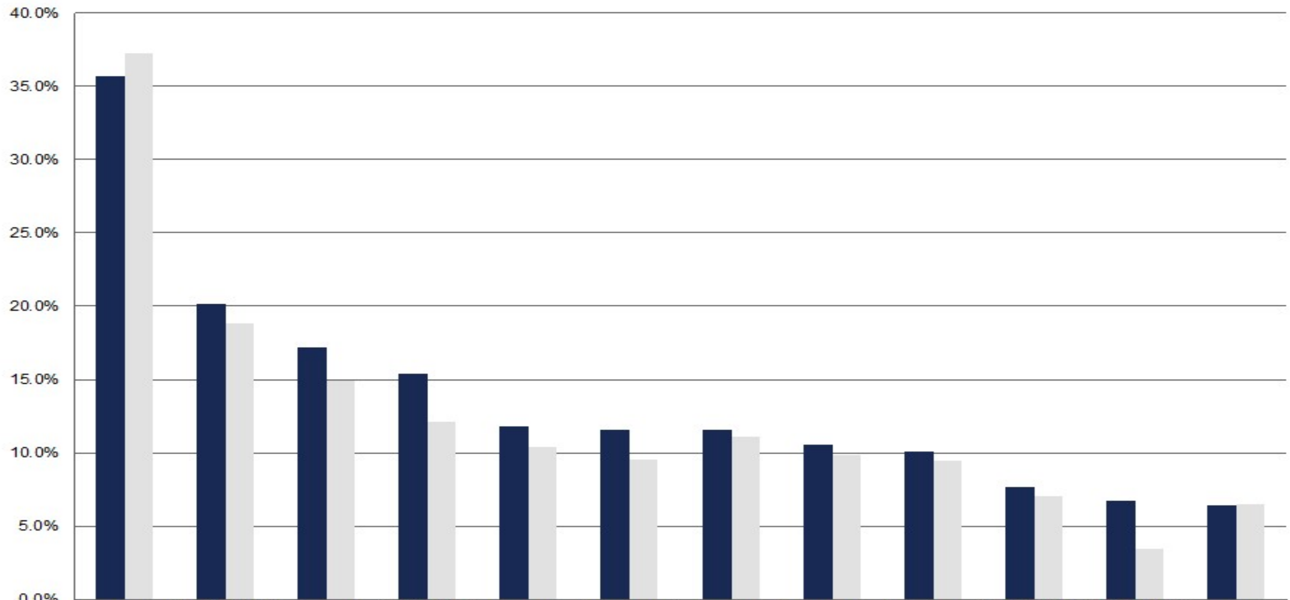
S&P 500 Revenue Growth: Q2 2018
(Source: FactSet)



	Materials	Energy	Info. Technology	Real Estate	S&P 500	Consumer Disc.	Industrials	Health Care	Consumer Staples	Financials	Telecom Services	Utilities
Today	24.3%	21.8%	14.4%	11.4%	9.3%	9.2%	8.9%	6.6%	4.8%	4.7%	3.5%	0.3%
30-Jun	23.8%	21.8%	13.2%	10.7%	8.7%	9.5%	7.7%	5.9%	4.5%	3.9%	2.2%	0.6%

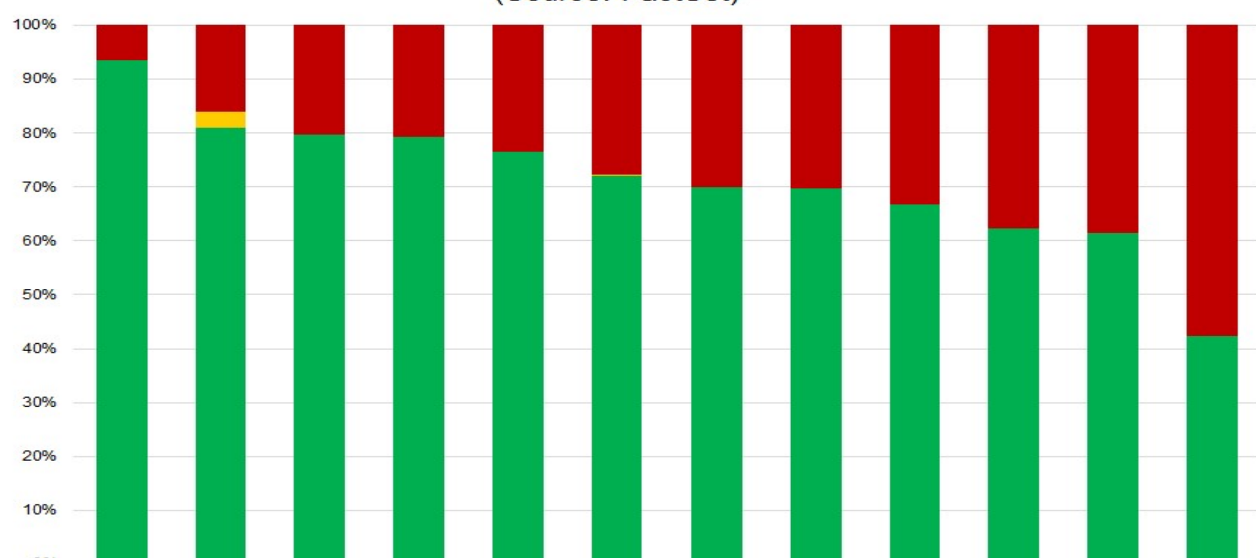
Q2 2018: Net Profit Margin

S&P 500 Net Profit Margins: Q218 vs. Q217
(Source: FactSet)



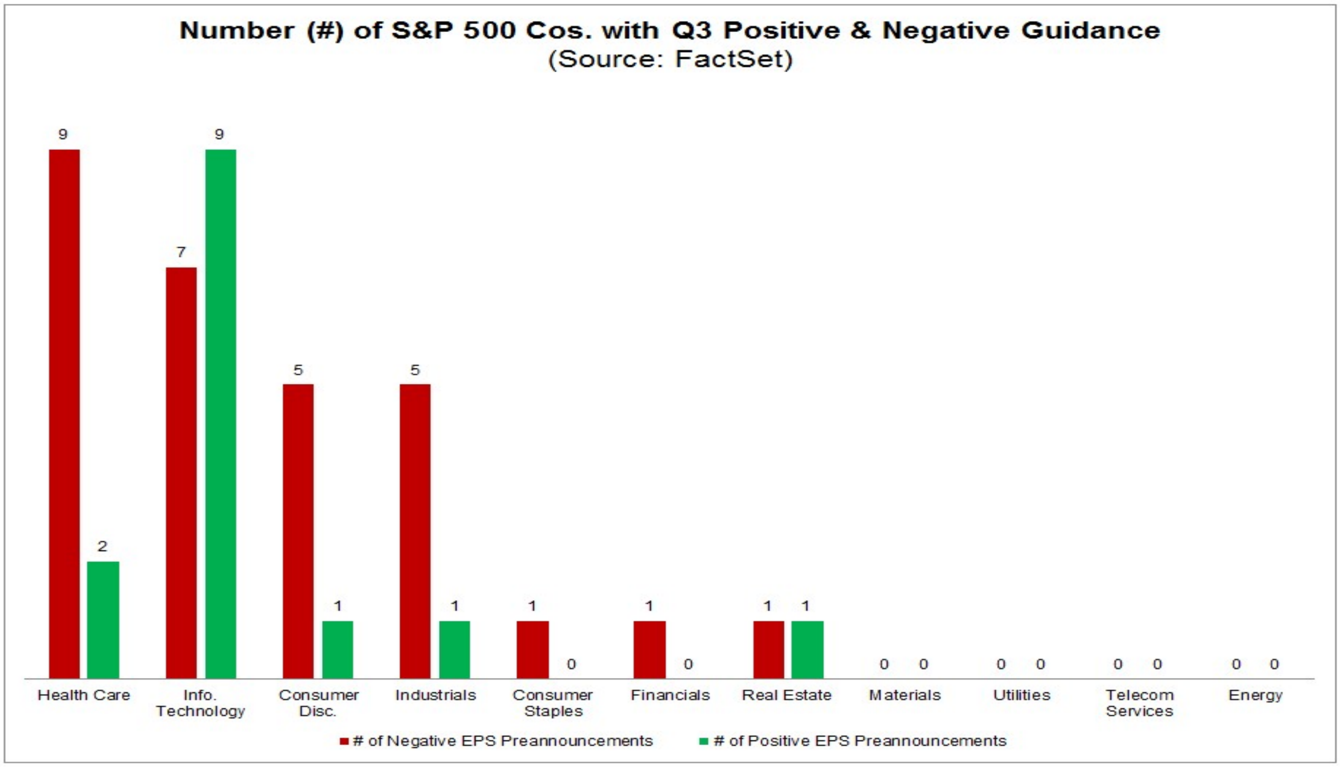
	Real Estate	Information Tech	Financials	Telecom Services	Utilities	Materials	S&P 500	Health Care	Industrials	Consumer Disc.	Consumer Staples	Energy
Q218	35.7%	20.1%	17.3%	15.4%	11.9%	11.6%	11.6%	10.6%	10.2%	7.7%	6.8%	6.5%
Q217	37.2%	18.8%	15.0%	12.1%	10.4%	9.6%	11.1%	9.9%	9.5%	7.1%	3.5%	6.6%

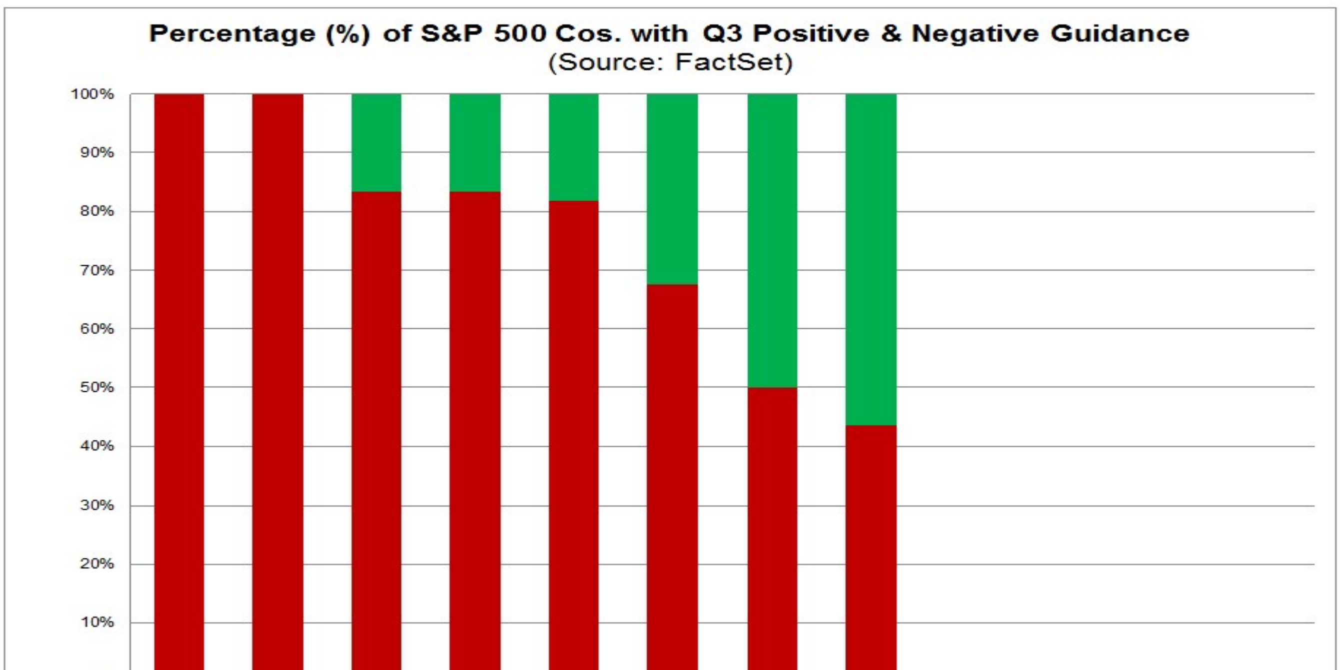
S&P 500: % of Cos. With Increase or Decrease in Net Profit Margin: Q218 vs. Q217
(Source: FactSet)



	Energy	Financials	Industrials	Materials	Information Tech.	S&P 500	Health Care	Consumer Staples	Telecom Services	Utilities	Consumer Disc.	Real Estate
Down %	6%	16%	20%	21%	24%	28%	30%	30%	33%	38%	39%	58%
None %	0%	3%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Up %	94%	81%	80%	79%	76%	72%	70%	70%	67%	62%	61%	42%

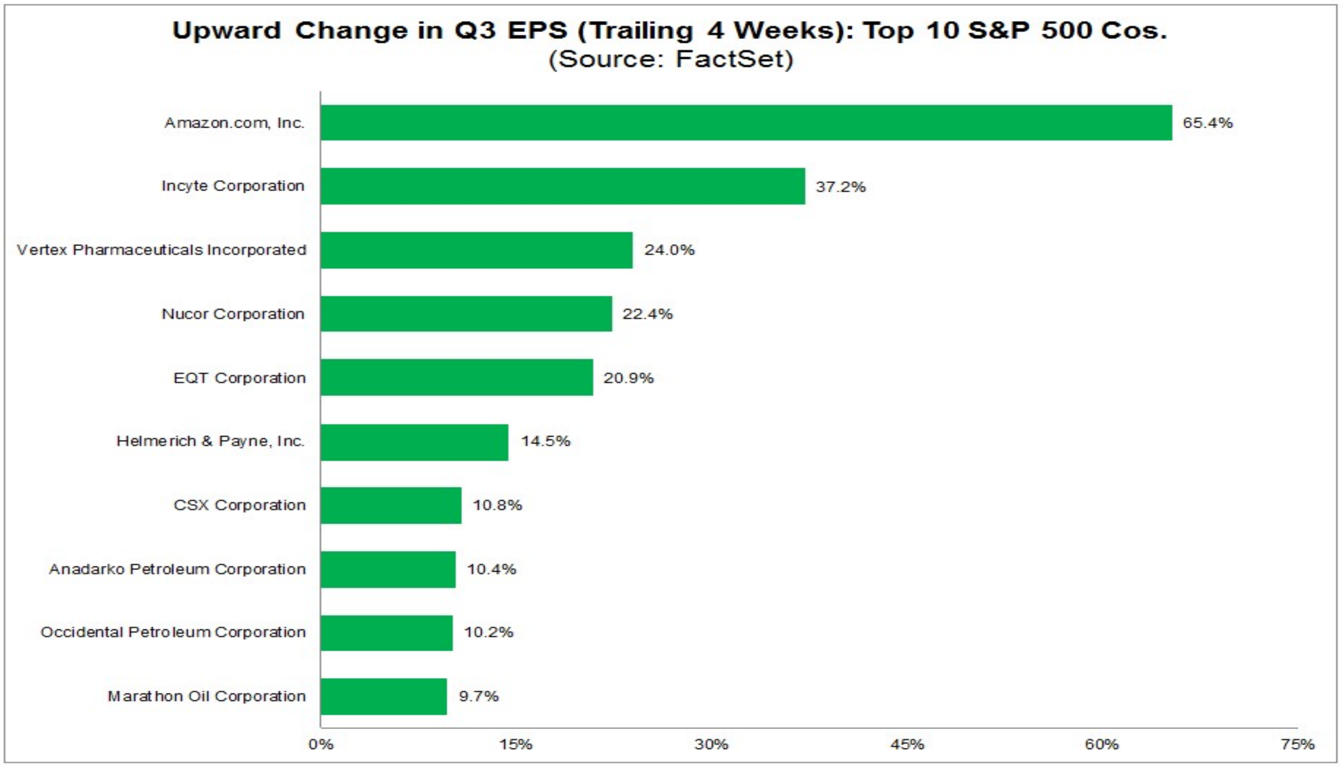
Q3 2018: EPS Guidance

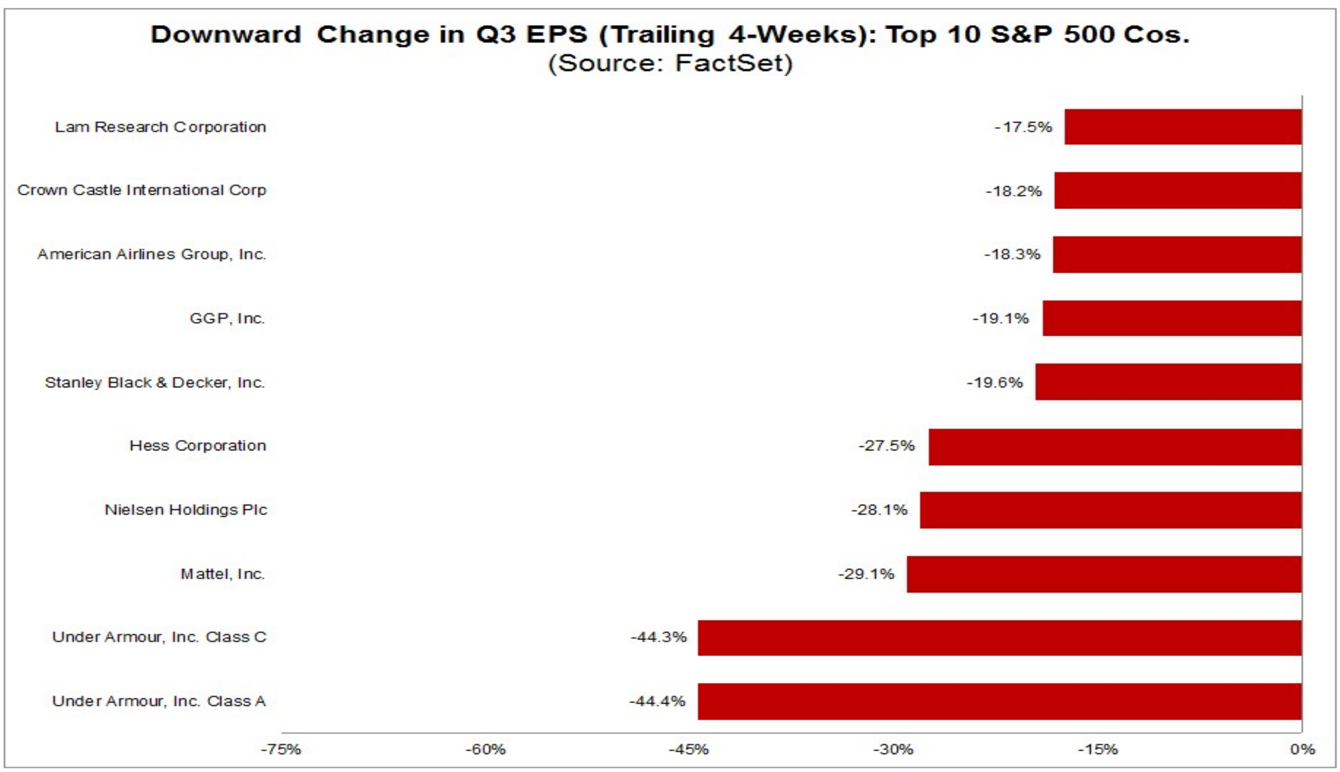




	Consumer Staples	Financials	Consumer Disc.	Industrials	Health Care	S&P 500	Real Estate	Info. Technology	Materials	Utilities	Telecom Services	Energy
Positive	0%	0%	17%	17%	18%	33%	50%	56%	0%	0%	0%	0%
Negative	100%	100%	83%	83%	82%	67%	50%	44%	0%	0%	0%	0%

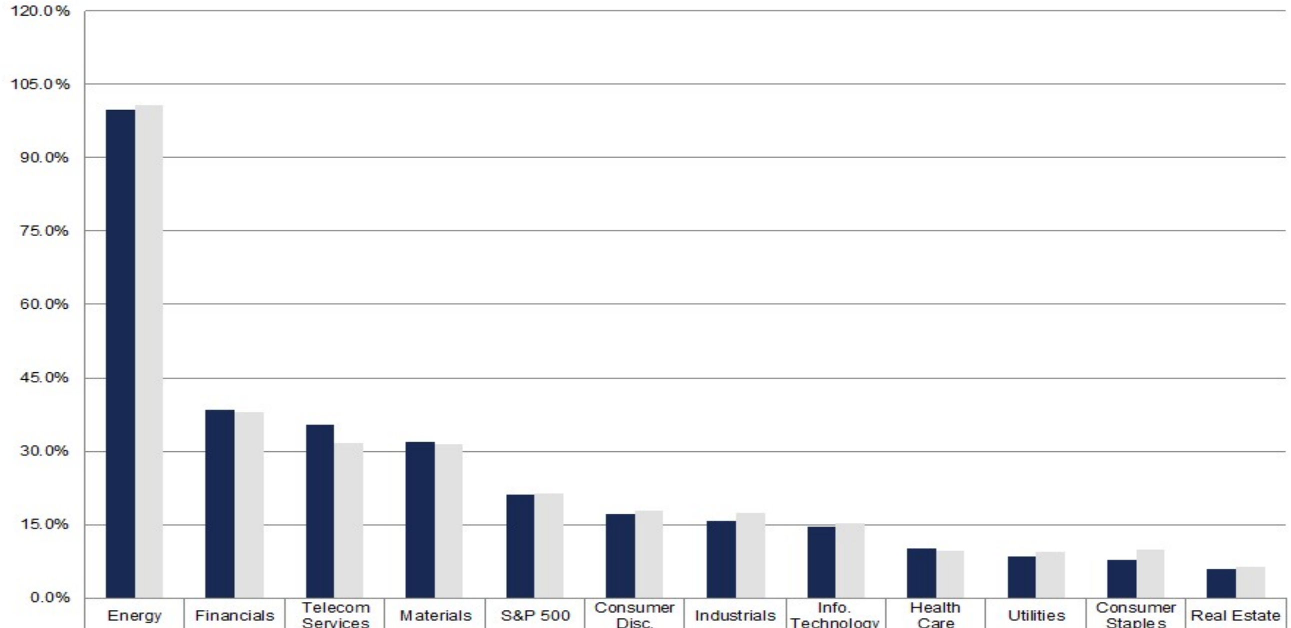
Q3 2018: EPS Revisions





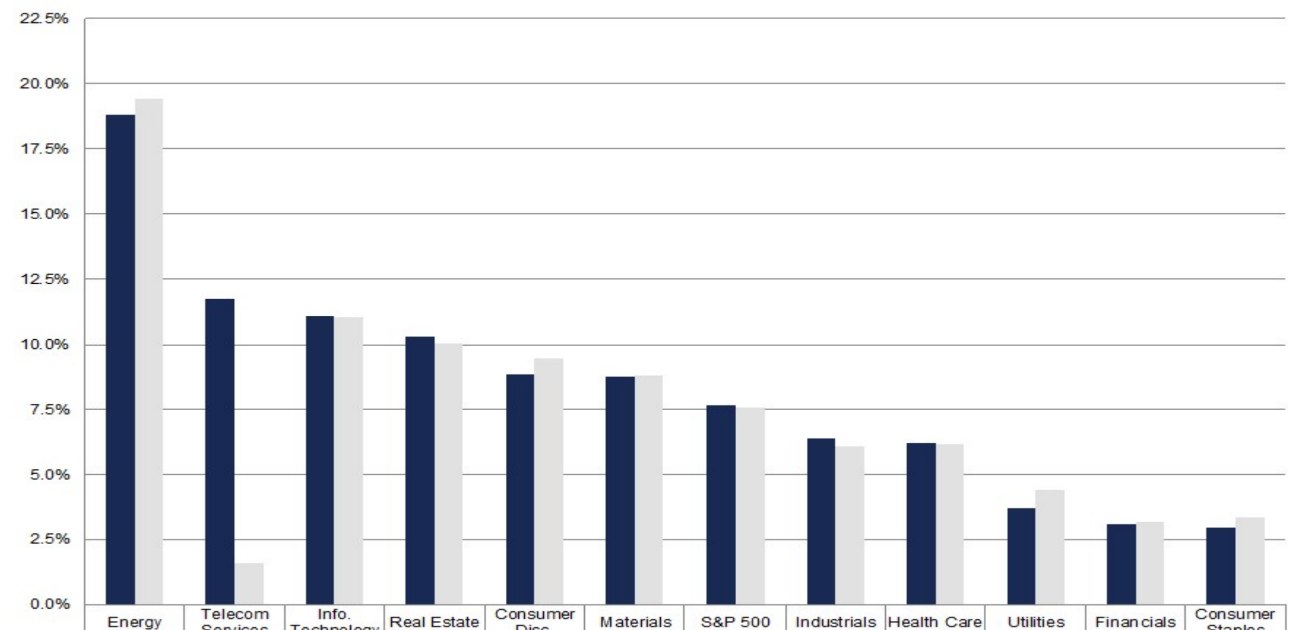
Q3 2018: Growth

S&P 500 Earnings Growth: Q3 2018
(Source: FactSet)



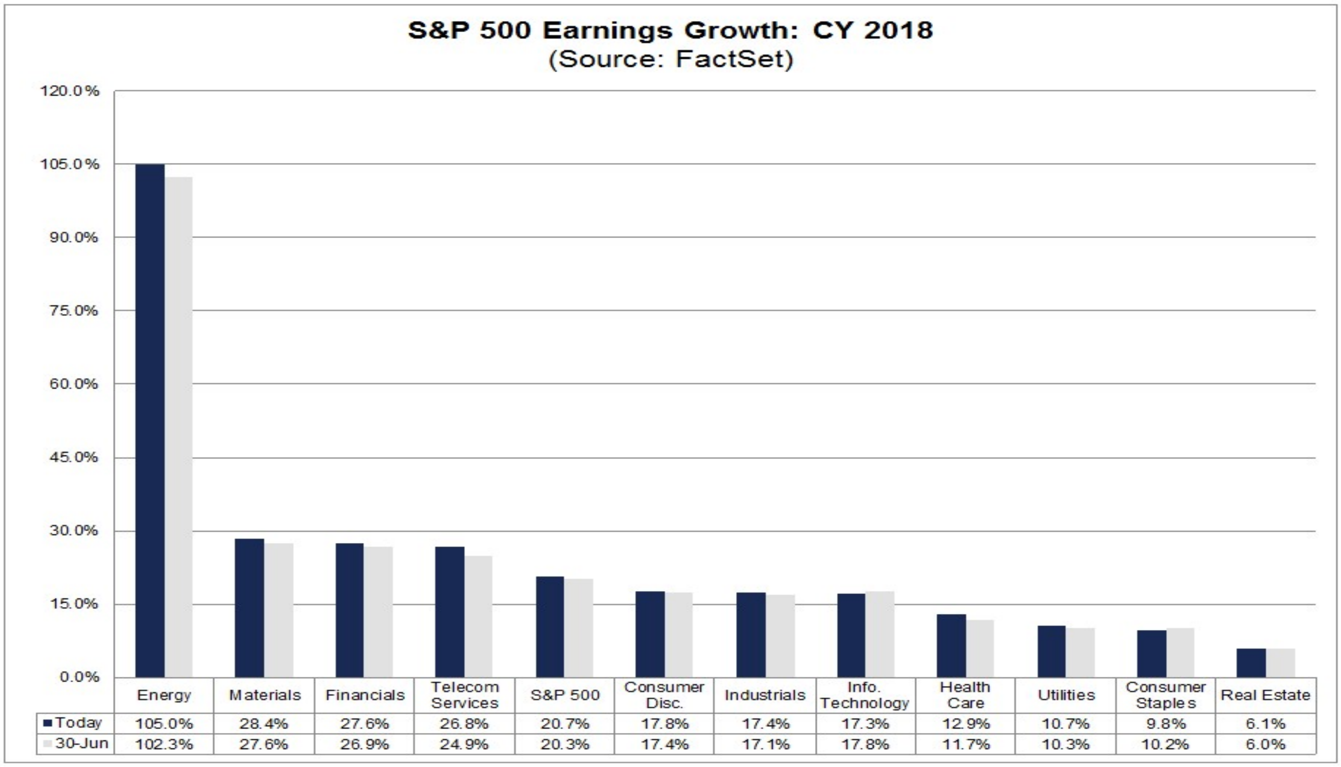
	Energy	Financials	Telecom Services	Materials	S&P 500	Consumer Disc.	Industrials	Info. Technology	Health Care	Utilities	Consumer Staples	Real Estate
Today	99.8%	38.7%	35.5%	32.0%	21.2%	17.3%	15.9%	14.8%	10.1%	8.5%	7.9%	6.1%
30-Jun	100.7%	38.2%	31.8%	31.4%	21.5%	18.0%	17.4%	15.3%	9.6%	9.6%	9.9%	6.4%

S&P 500 Revenue Growth: Q3 2018
(Source: FactSet)

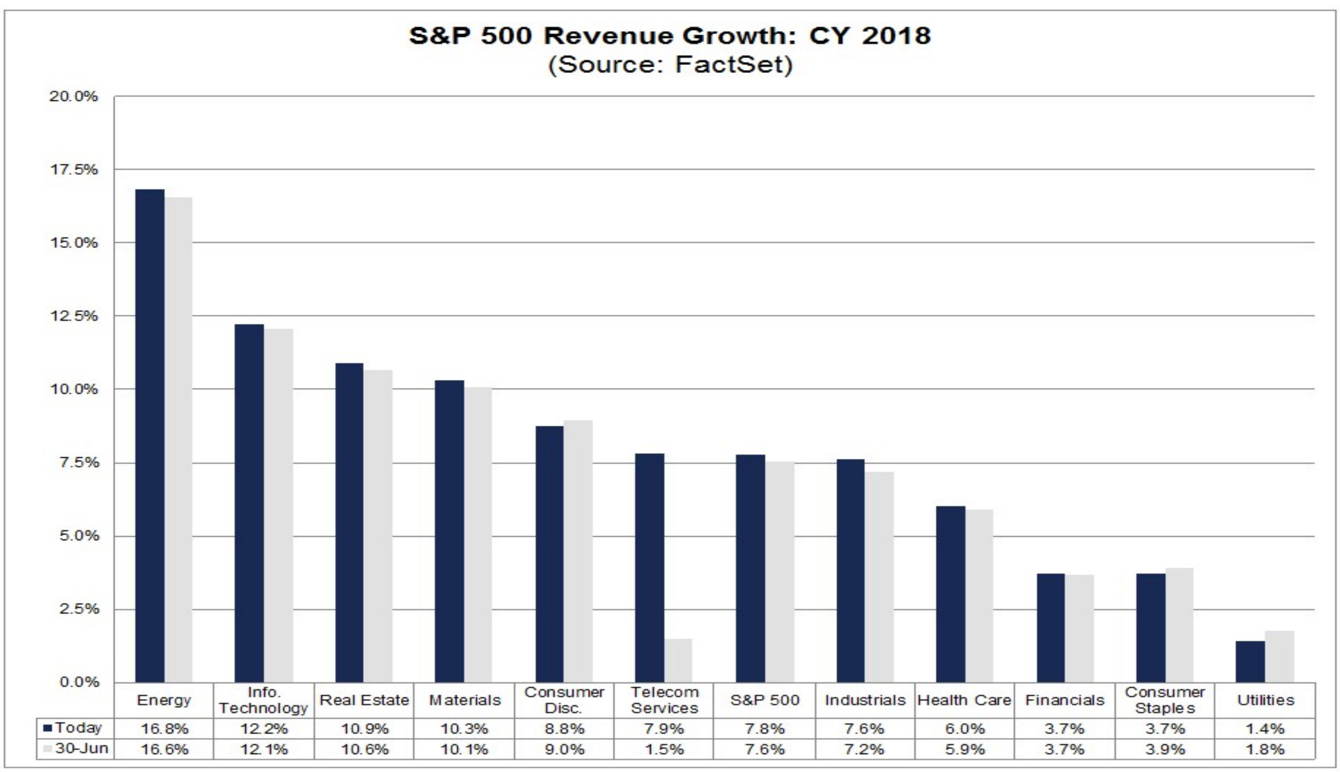


	Energy	Telecom Services	Info. Technology	Real Estate	Consumer Disc.	Materials	S&P 500	Industrials	Health Care	Utilities	Financials	Consumer Staples
Today	18.8%	11.7%	11.0%	10.3%	8.9%	8.8%	7.7%	6.4%	6.2%	3.7%	3.1%	3.0%
30-Jun	19.4%	1.6%	11.0%	10.0%	9.5%	8.8%	7.6%	6.1%	6.2%	4.4%	3.2%	3.3%

CY 2018: Growth

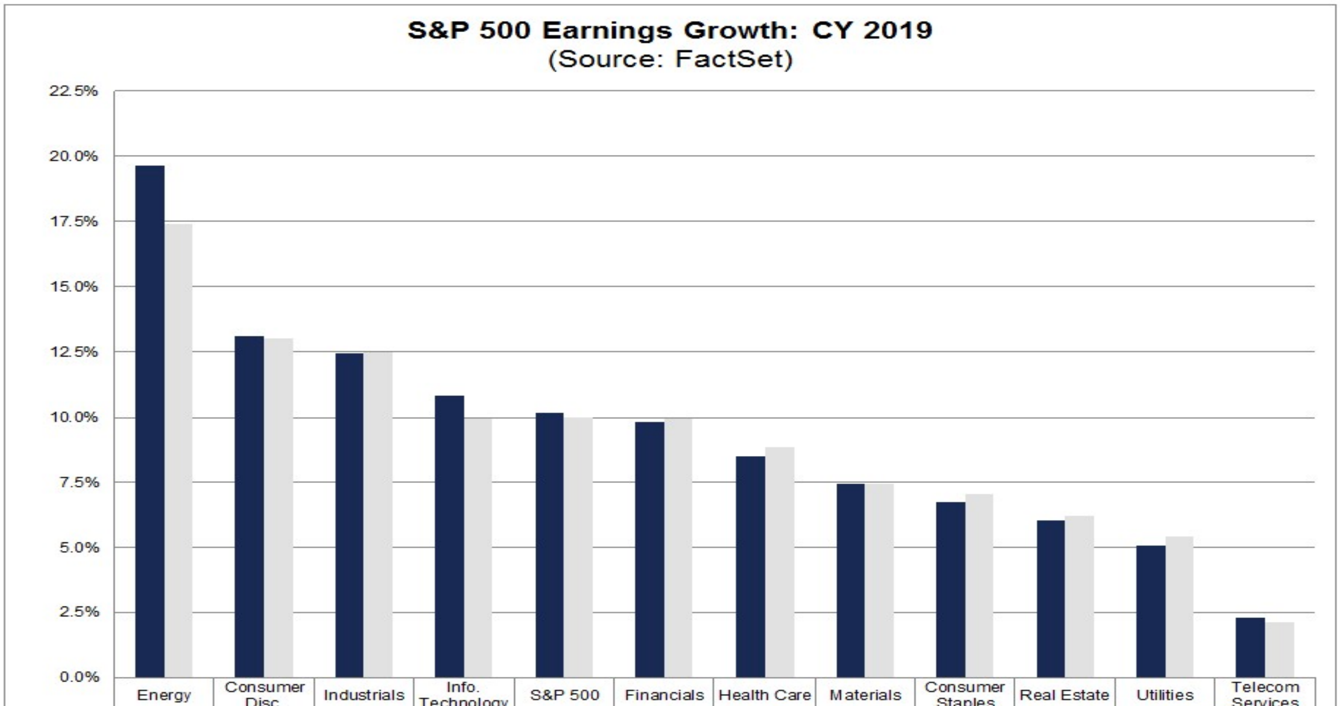


	Energy	Materials	Financials	Telecom Services	S&P 500	Consumer Disc.	Industrials	Info. Technology	Health Care	Utilities	Consumer Staples	Real Estate
Today	105.0%	28.4%	27.6%	26.8%	20.7%	17.8%	17.4%	17.3%	12.9%	10.7%	9.8%	6.1%
30-Jun	102.3%	27.6%	26.9%	24.9%	20.3%	17.4%	17.1%	17.8%	11.7%	10.3%	10.2%	6.0%

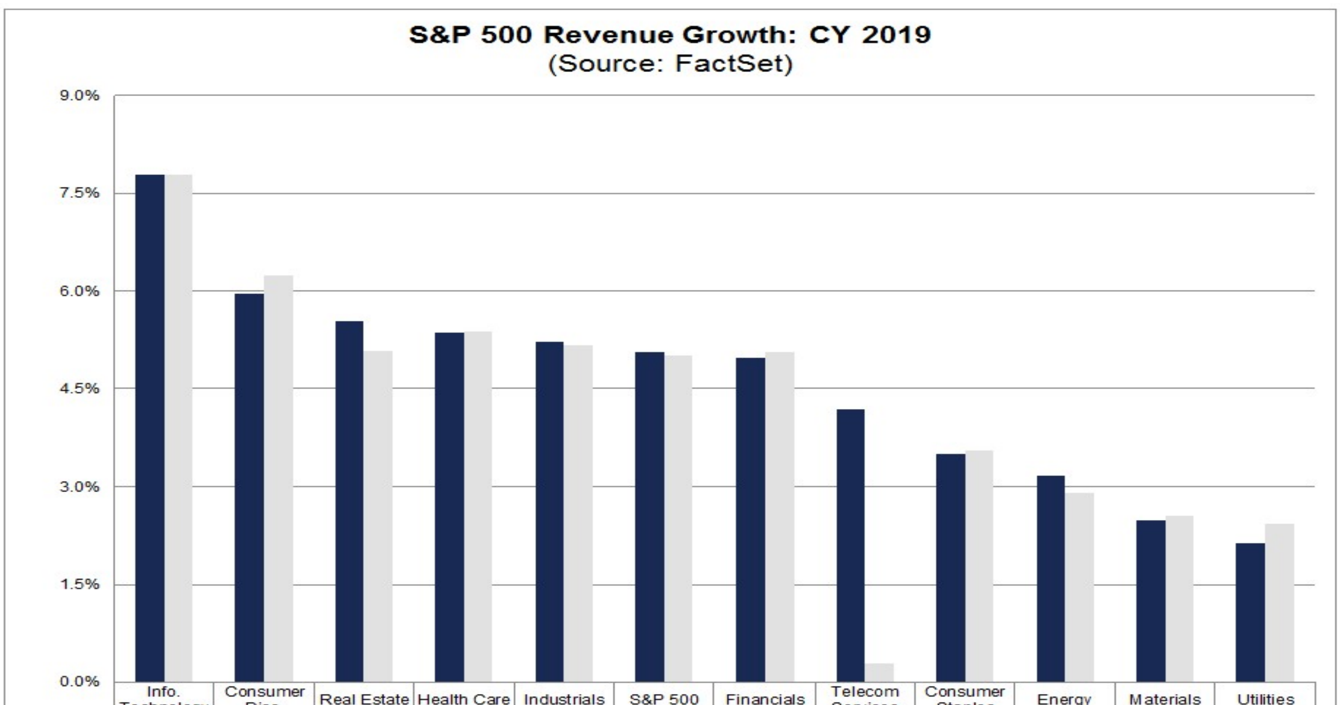


	Energy	Info. Technology	Real Estate	Materials	Consumer Disc.	Telecom Services	S&P 500	Industrials	Health Care	Financials	Consumer Staples	Utilities
Today	16.8%	12.2%	10.9%	10.3%	8.8%	7.9%	7.8%	7.6%	6.0%	3.7%	3.7%	1.4%
30-Jun	16.6%	12.1%	10.6%	10.1%	9.0%	1.5%	7.6%	7.2%	5.9%	3.7%	3.9%	1.8%

CY 2019: Growth

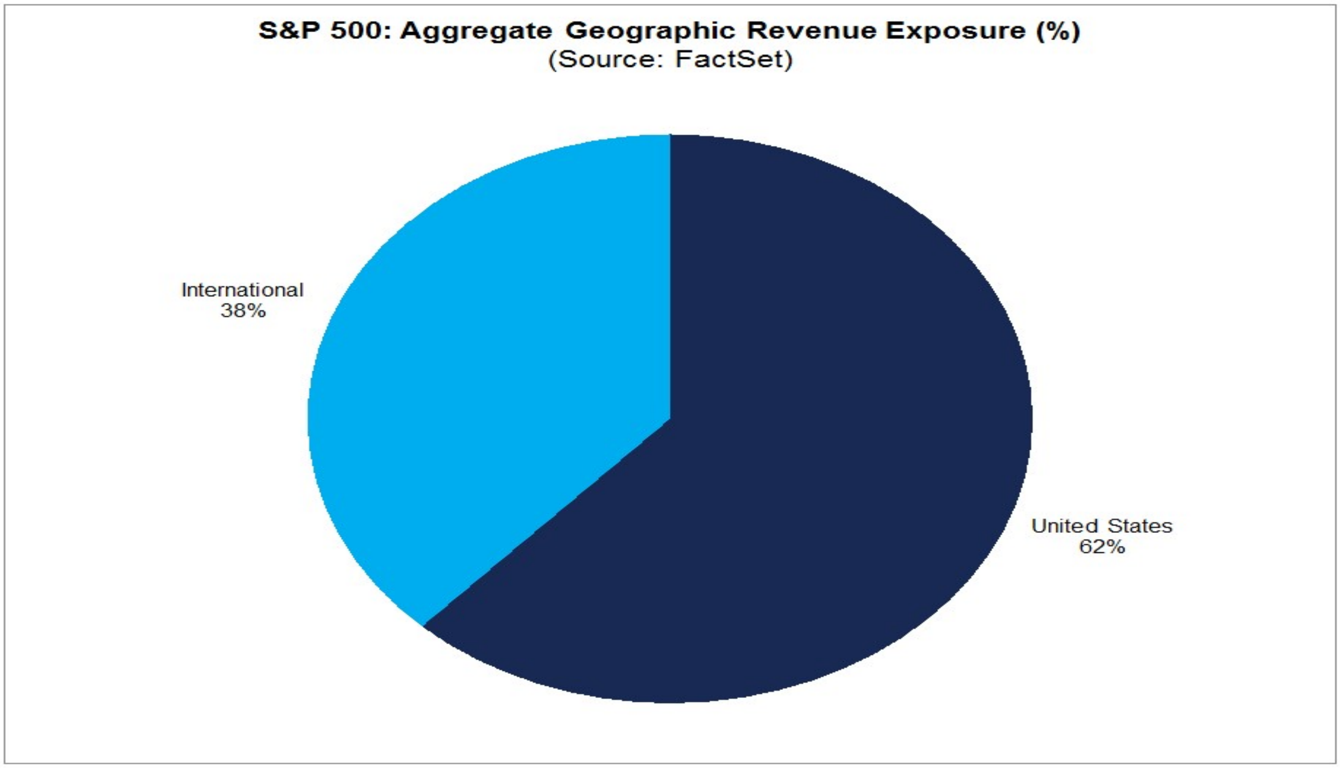


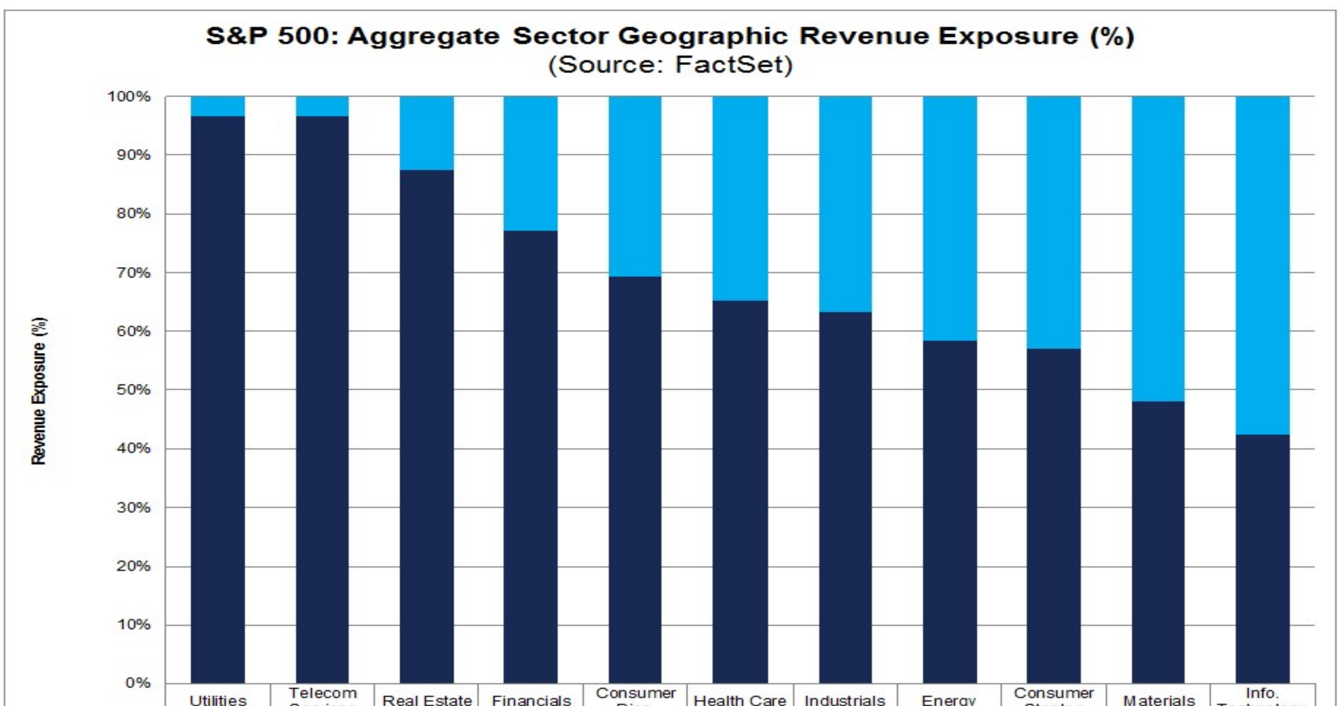
	Energy	Consumer Disc.	Industrials	Info. Technology	S&P 500	Financials	Health Care	Materials	Consumer Staples	Real Estate	Utilities	Telecom Services
Today	19.6%	13.1%	12.4%	10.8%	10.2%	9.8%	8.5%	7.5%	6.7%	6.0%	5.1%	2.3%
30-Jun	17.4%	13.0%	12.5%	9.9%	10.0%	10.0%	8.9%	7.4%	7.1%	6.2%	5.4%	2.1%



	Info. Technology	Consumer Disc.	Real Estate	Health Care	Industrials	S&P 500	Financials	Telecom Services	Consumer Staples	Energy	Materials	Utilities
Today	7.8%	5.9%	5.5%	5.3%	5.2%	5.1%	5.0%	4.2%	3.5%	3.2%	2.5%	2.1%
30-Jun	7.8%	6.2%	5.1%	5.4%	5.2%	5.0%	5.1%	0.3%	3.6%	2.9%	2.6%	2.4%

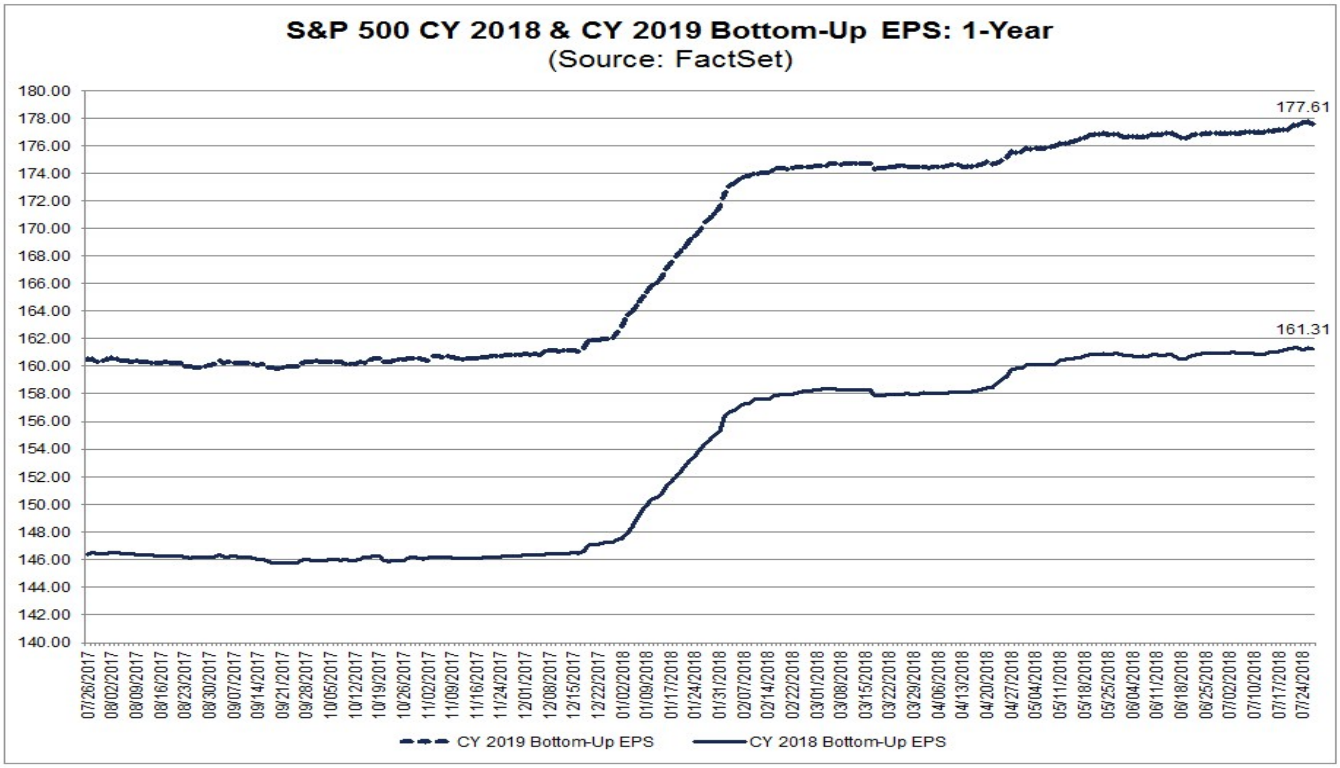
Geographic Revenue Exposure

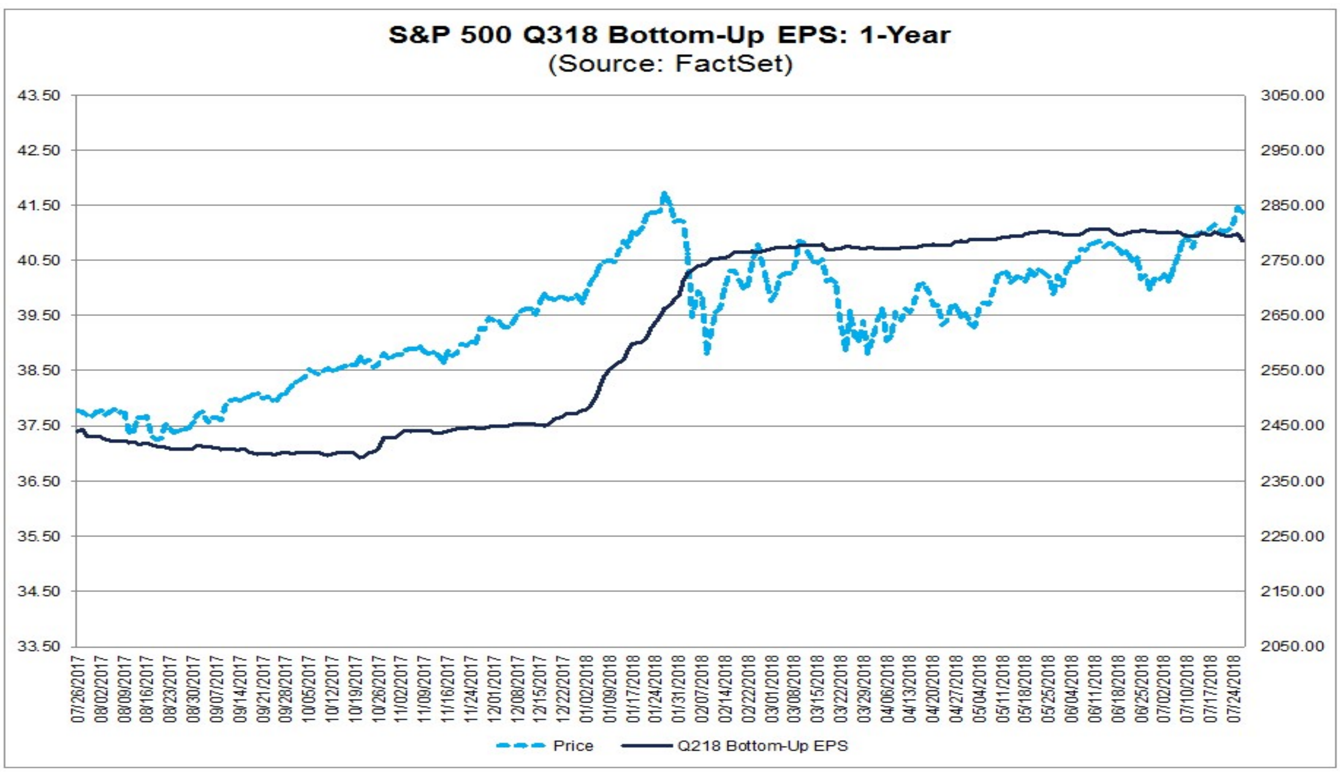




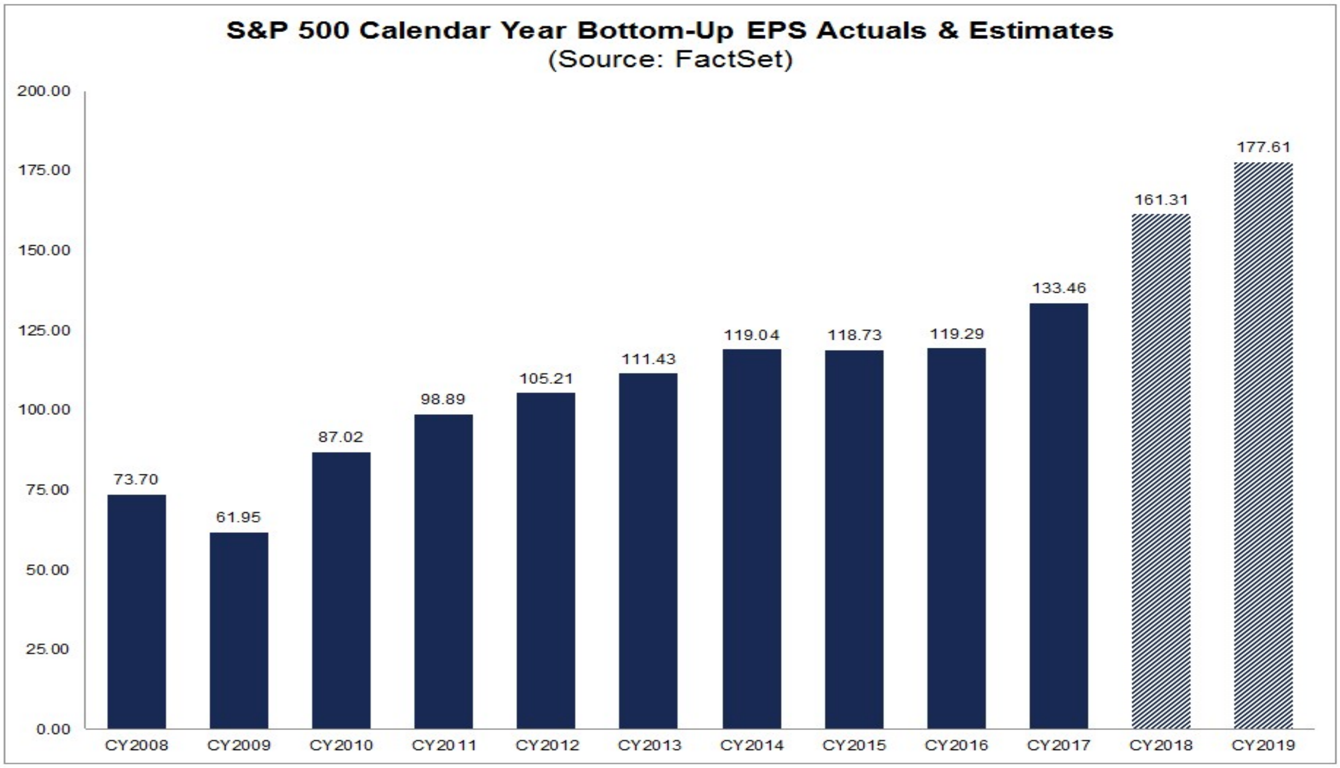
	Utilities	Telecom Services	Real Estate	Financials	Consumer Disc.	Health Care	Industrials	Energy	Consumer Staples	Materials	Info. Technology
International	3%	3%	12%	23%	31%	35%	37%	42%	43%	52%	58%
United States	97%	97%	88%	77%	69%	65%	63%	58%	57%	48%	42%

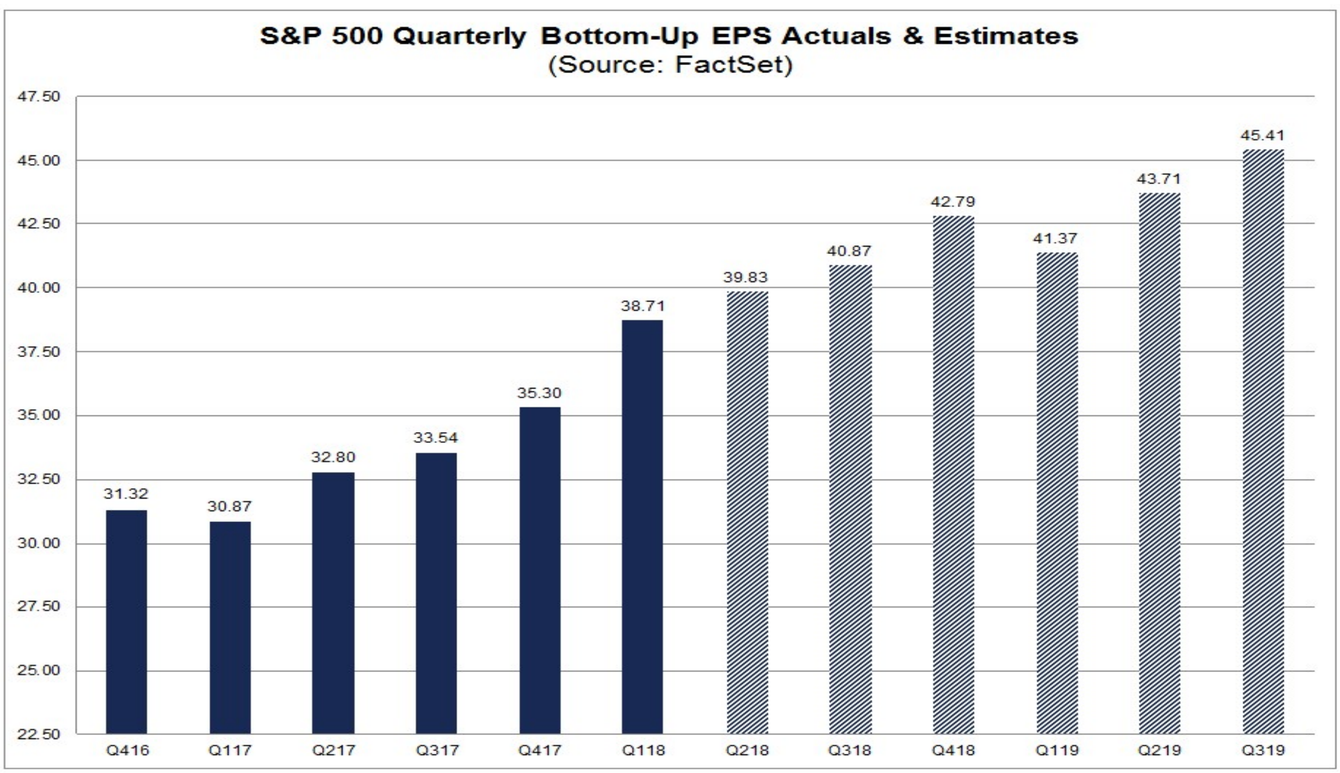
Bottom-up EPS Estimates: Revisions



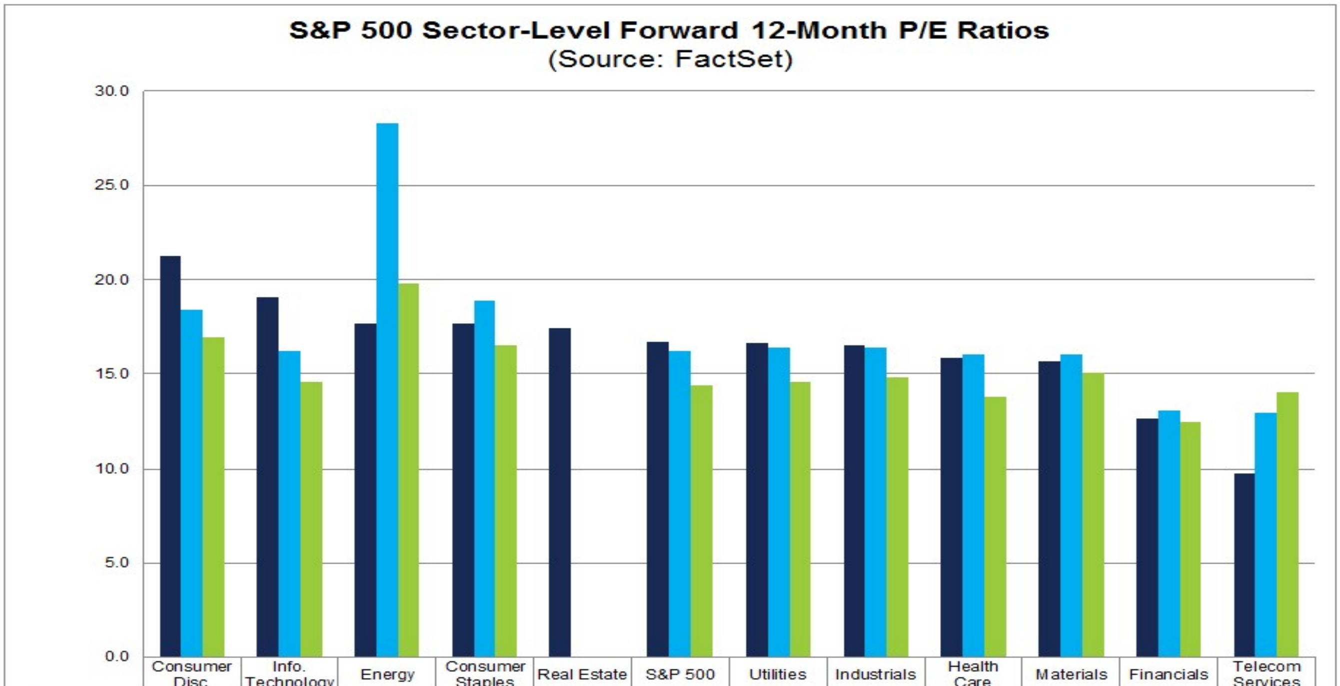


Bottom-up EPS Estimates: Current & Historical

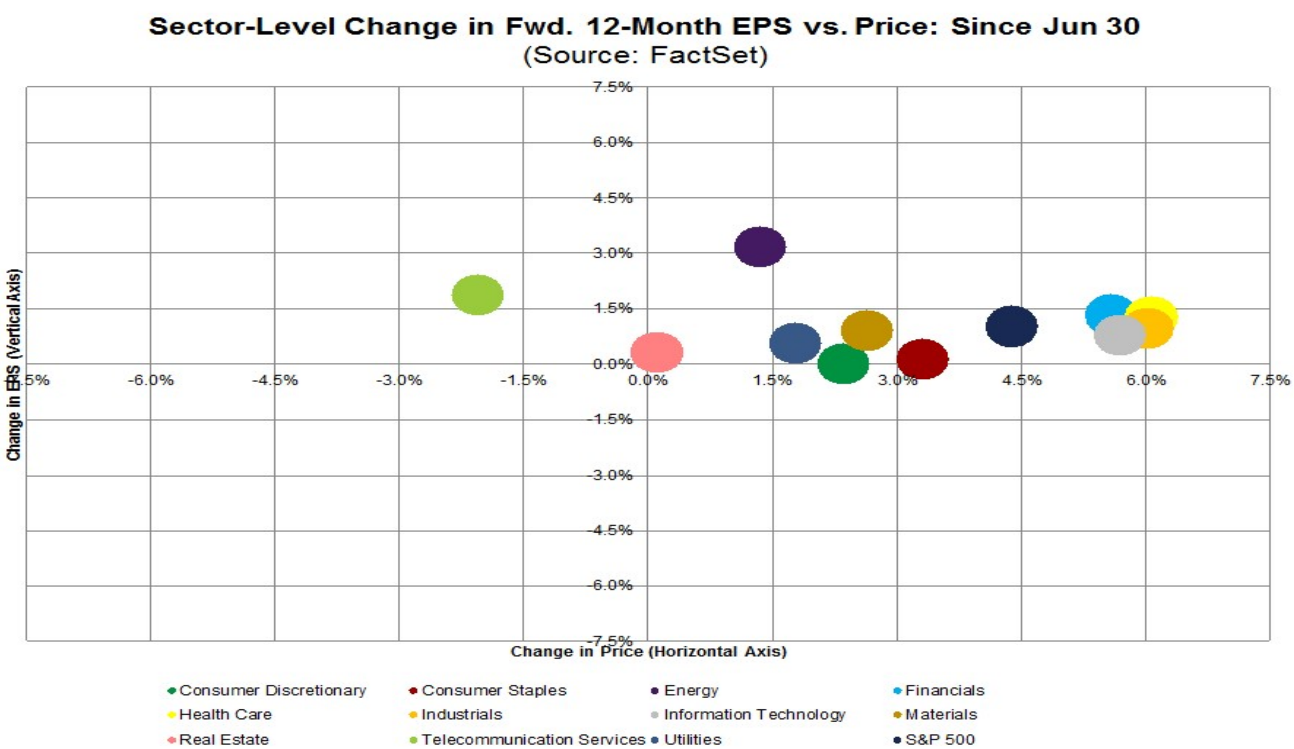




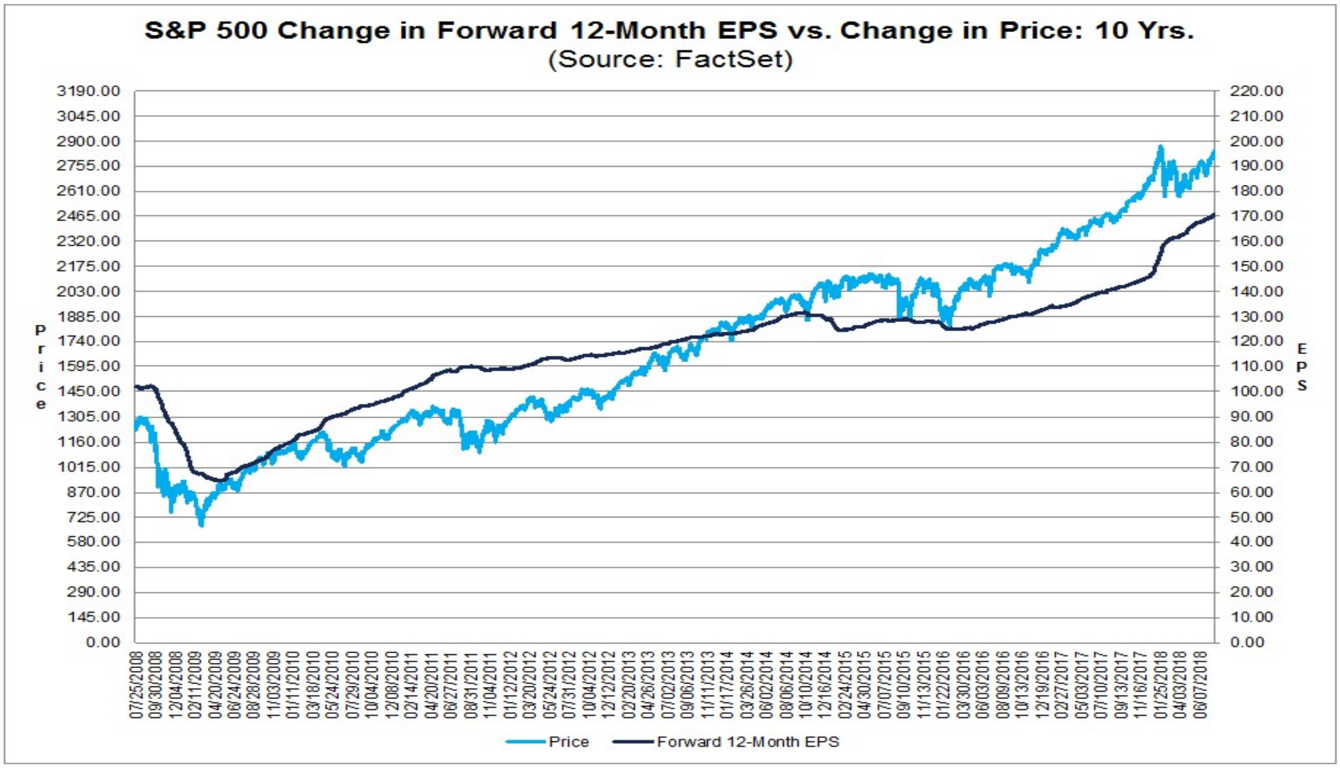
Forward 12M P/E Ratio: Sector Level

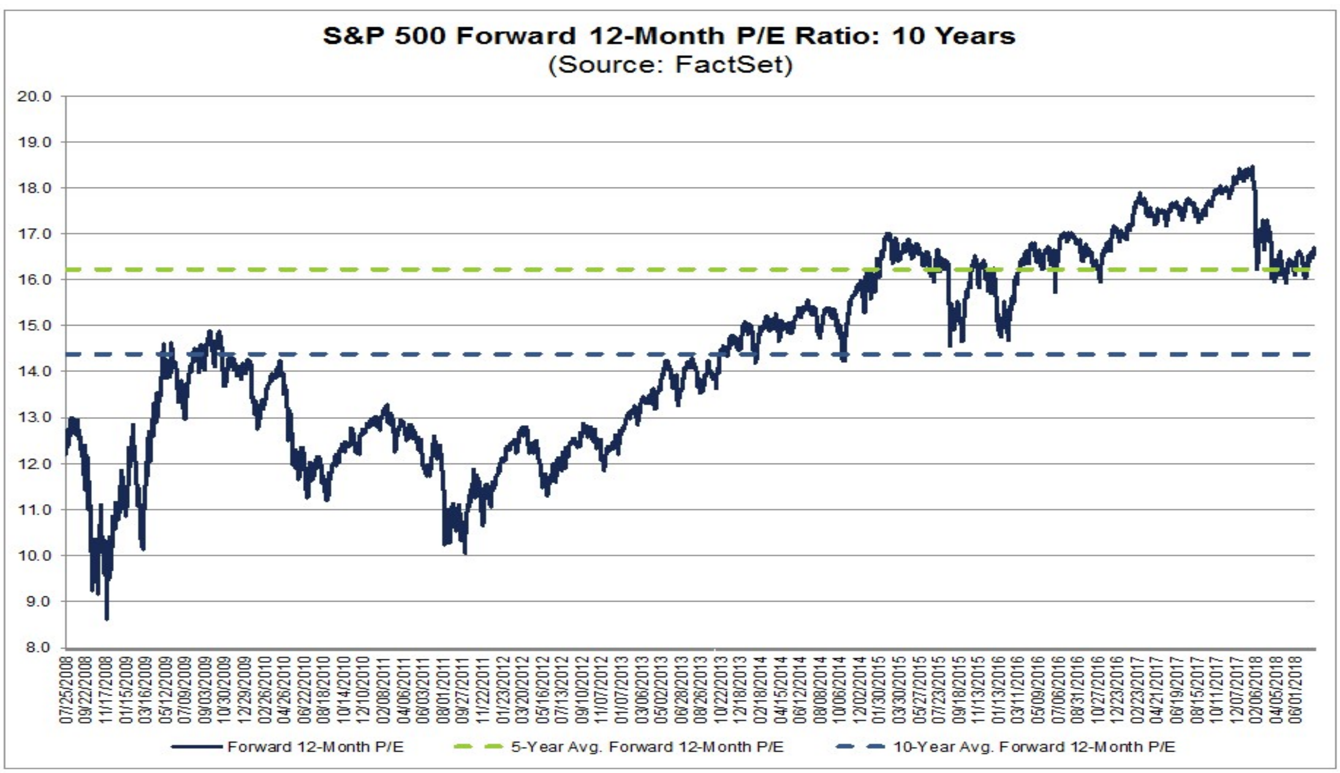


	Consumer Disc.	Info. Technology	Energy	Consumer Staples	Real Estate	S&P 500	Utilities	Industrials	Health Care	Materials	Financials	Telecom Services
Fwd P/E	21.2	19.0	17.7	17.7	17.4	16.7	16.6	16.5	15.8	15.6	12.7	9.8
5-Yr Avg.	18.4	16.2	28.3	18.9		16.2	16.4	16.4	16.0	16.0	13.1	13.0
10-Yr Avg.	16.9	14.5	19.7	16.5		14.4	14.6	14.8	13.8	15.0	12.5	14.0

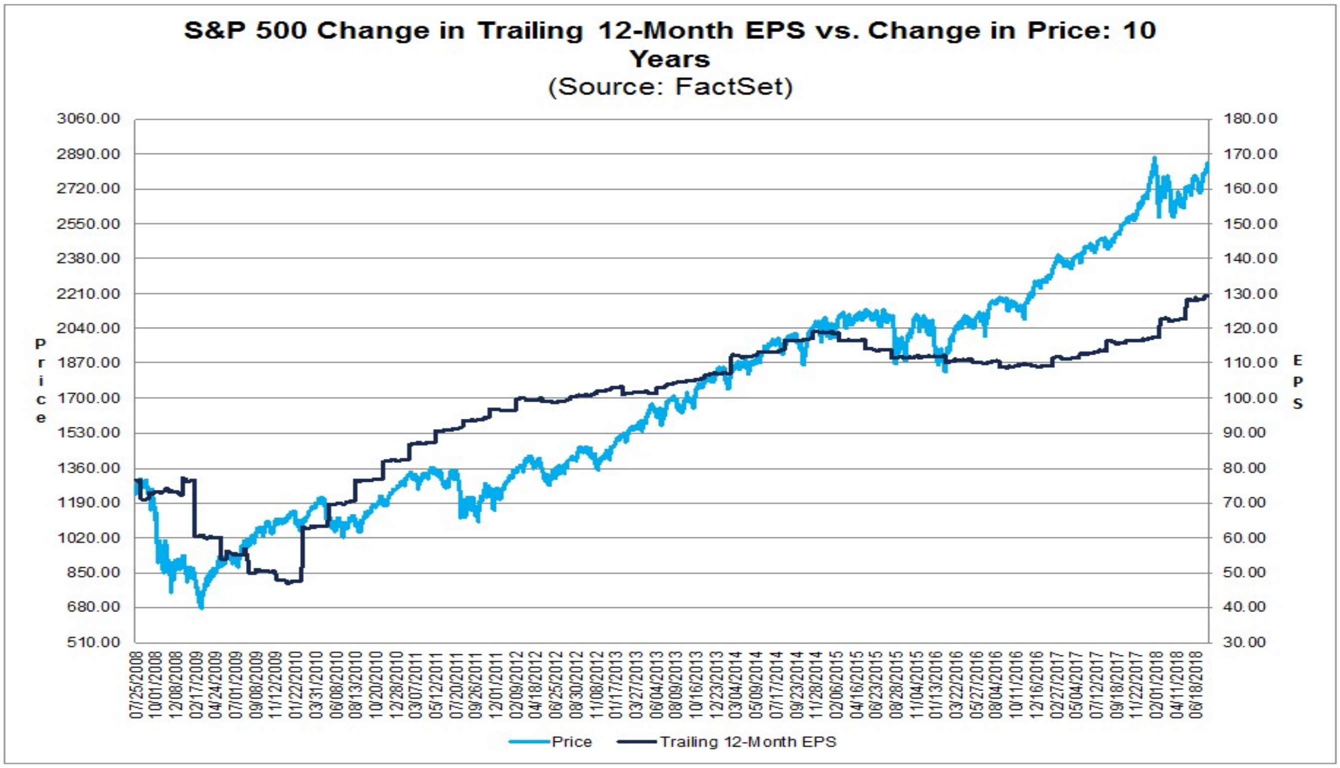


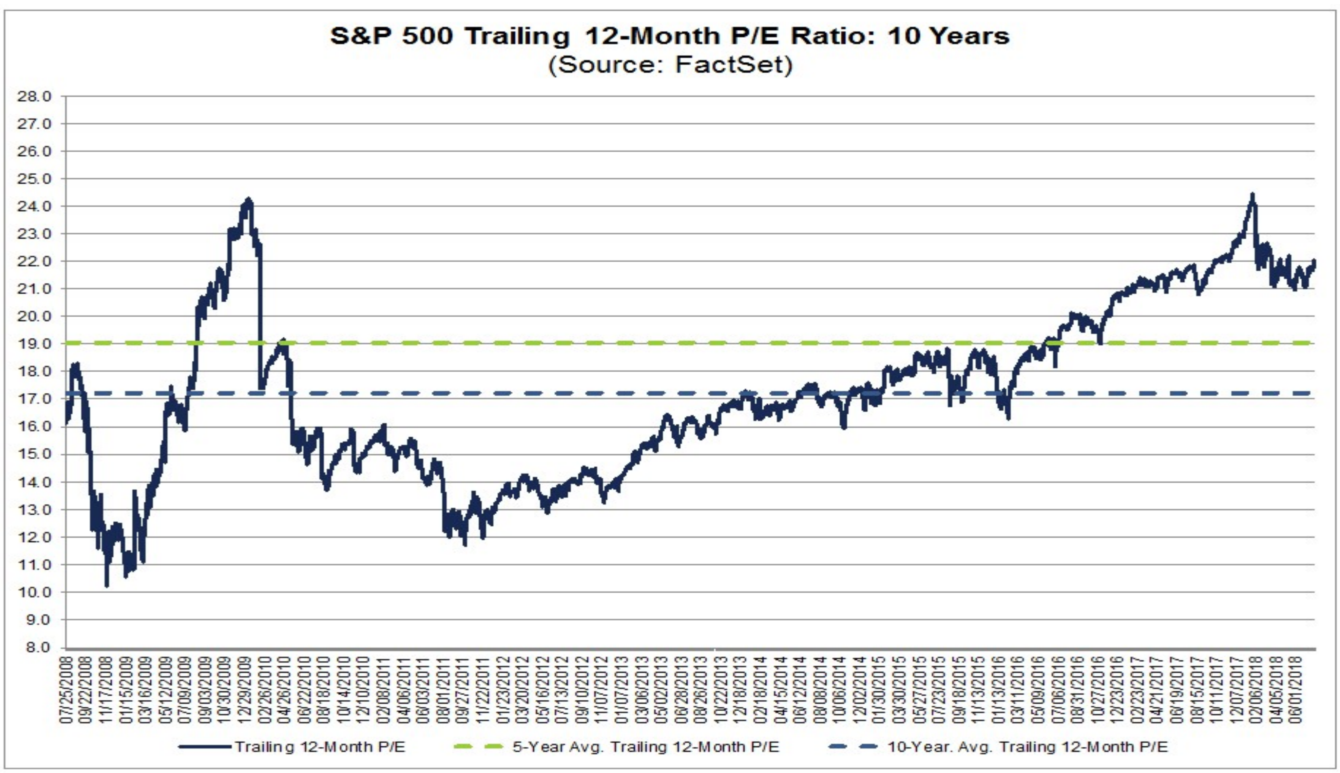
Forward 12M P/E Ratio: Long-Term Averages



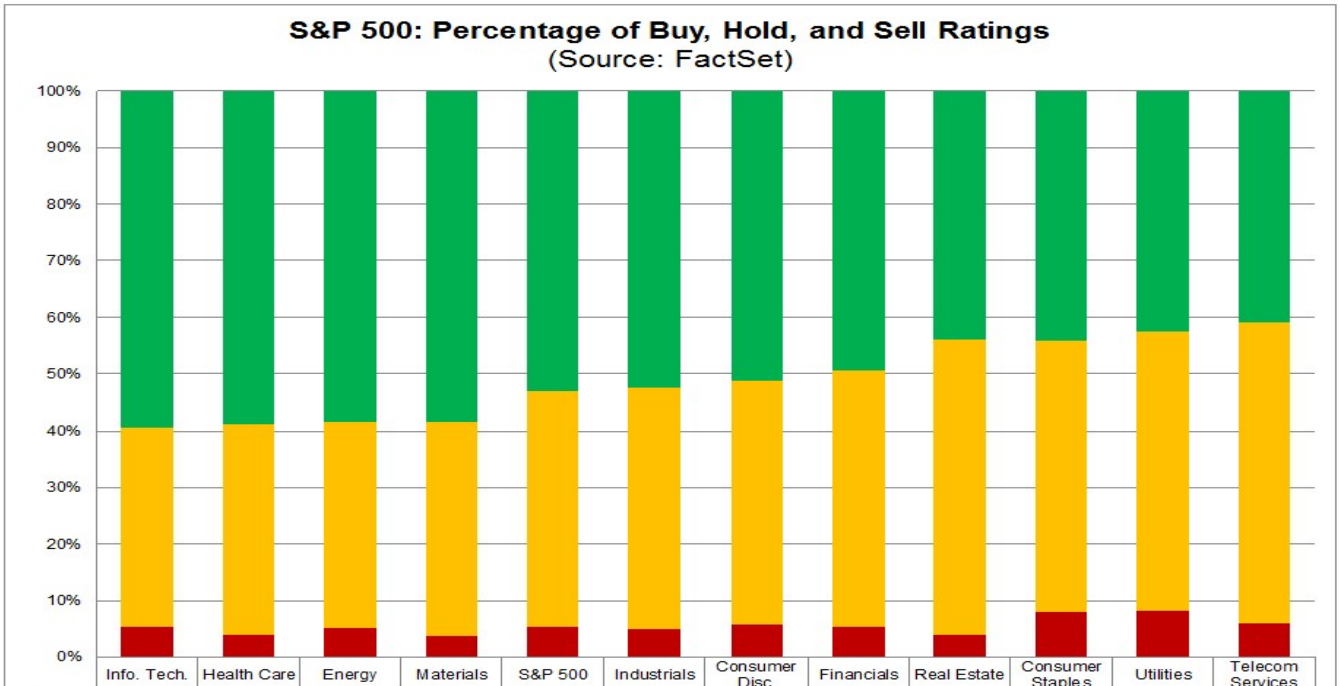


Trailing 12M P/E Ratio: Long-Term Averages





Targets & Ratings



	Info. Tech.	Health Care	Energy	Materials	S&P 500	Industrials	Consumer Disc.	Financials	Real Estate	Consumer Staples	Utilities	Telecom Services
Buy	59%	59%	58%	58%	53%	53%	51%	49%	44%	44%	43%	41%
Hold	35%	37%	36%	38%	42%	42%	43%	45%	52%	48%	49%	53%
Sell	5%	4%	5%	4%	5%	5%	6%	5%	4%	8%	8%	6%

	Materials	Telecom Services	Financials	Energy	Industrials	Info. Tech.	Consumer Disc.	S&P 500	Health Care	Real Estate	Consumer Staples	Utilities
Target/Close	14.3%	13.7%	11.7%	11.4%	11.3%	10.3%	10.3%	10.1%	9.5%	5.8%	5.6%	3.3%

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