

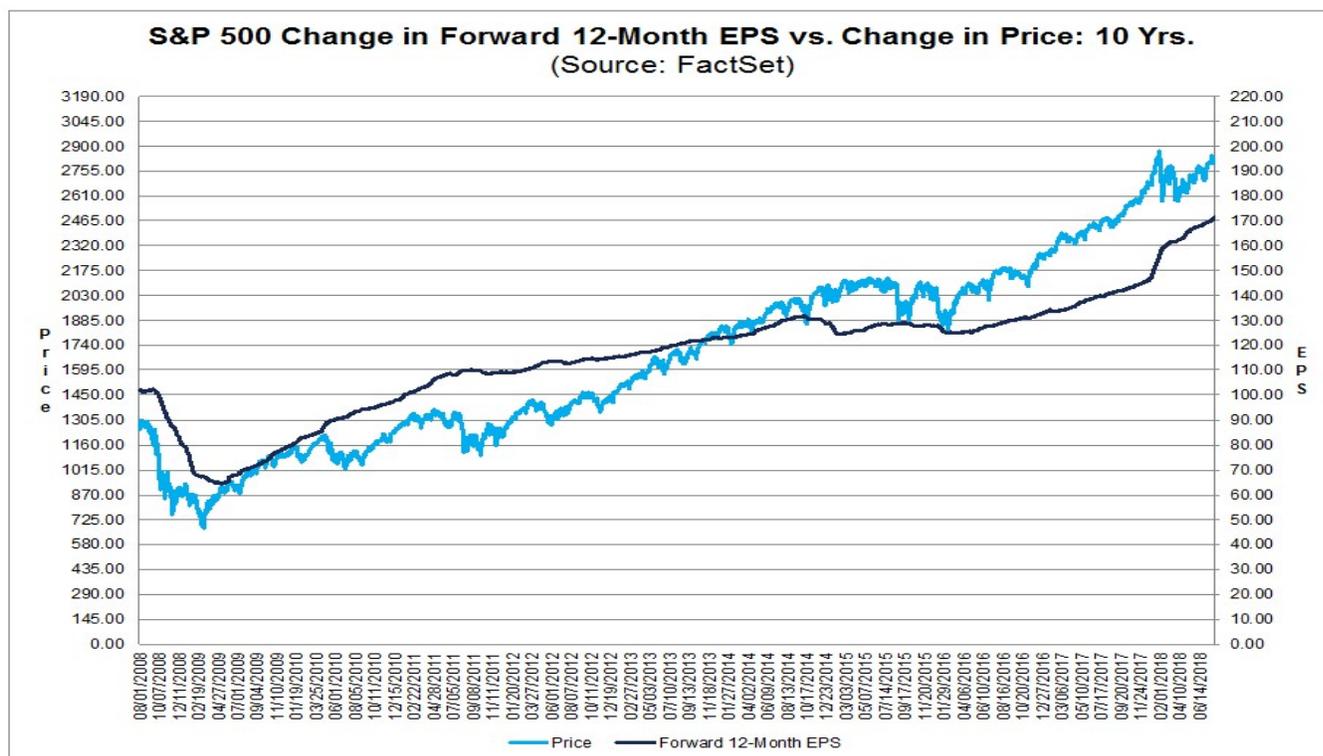
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Key Metrics

- Earnings Scorecard:** For Q2 2018 (with 81% of the companies in the S&P 500 reporting actual results for the quarter), 80% of S&P 500 companies have reported a positive EPS surprise and 74% have reported a positive sales surprise. If 80% 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 24.0%. If 24.0% 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%. Ten sectors have higher growth rates today (compared to June 30) due to upward estimate revisions and positive earnings surprises.
- Earnings Guidance:** For Q3 2018, 48 S&P 500 companies have issued negative EPS guidance and 17 S&P 500 companies have issued positive EPS guidance.
- Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.5. 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:

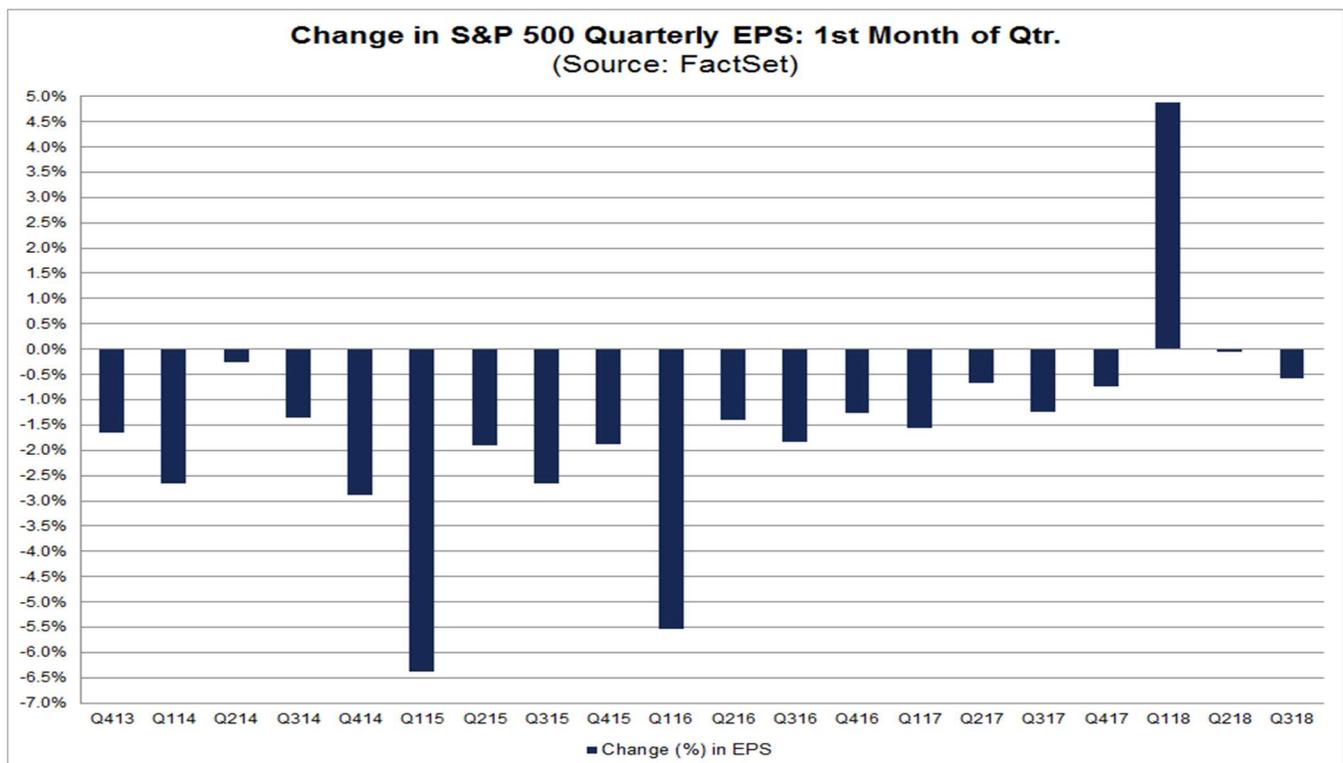
Smaller Cuts Than Average to S&P 500 EPS Estimates for Q3 in July

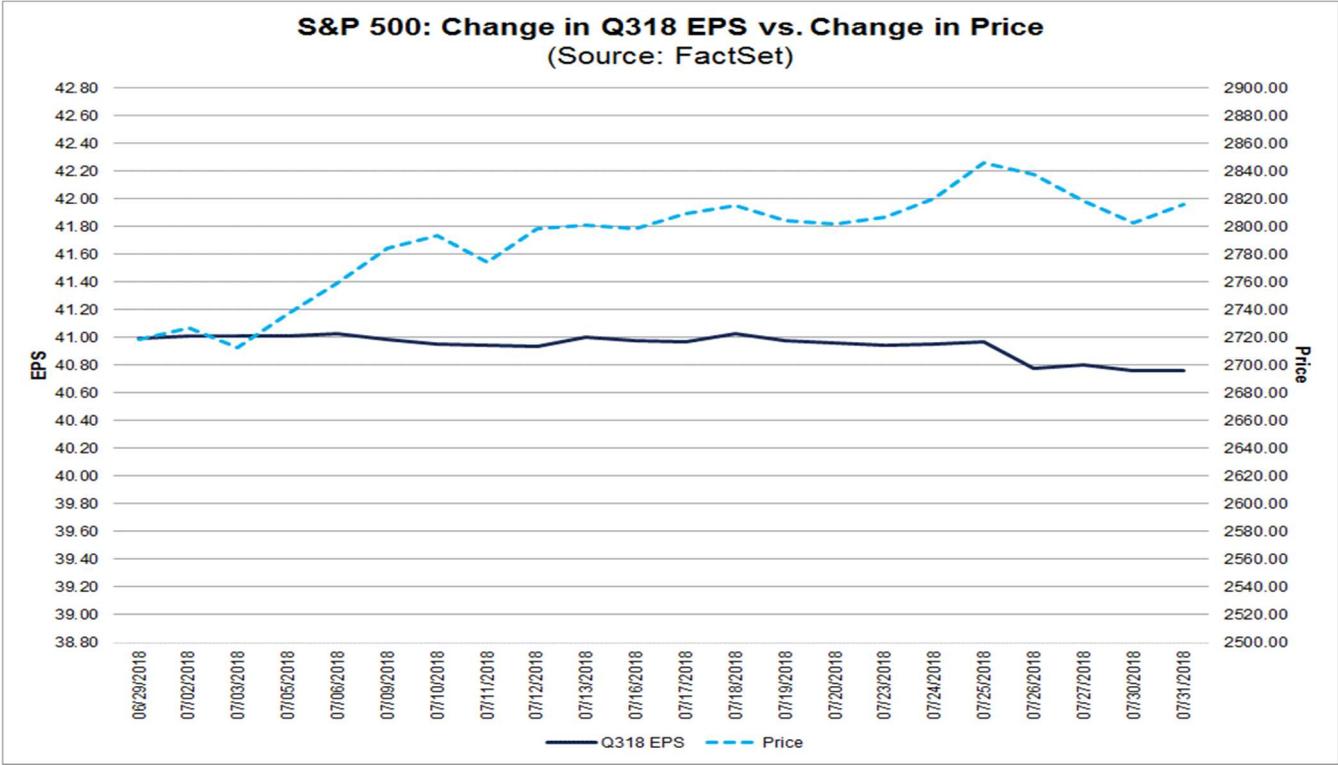
During the month of July, analysts lowered earnings estimates for companies in the S&P 500 for the third quarter. The Q3 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for all the companies in the index) dropped by 0.6% (to \$40.76 from \$41.00) during this period. How significant is a 0.6% decline in the bottom-up EPS estimate during the first month of a quarter? How does this decrease compare to recent quarters?

During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 1.6%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 2.2%. During the past fifteen years, (60 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 1.6%. Thus, the decline in the bottom-up EPS estimate recorded during the first month of the third quarter was smaller than the 5-year, 10-year, and 15-year averages.

At the sector level, seven sectors recorded a decline in their bottom-up EPS estimate during the first month of the quarter, led by the Energy (-3.1%) and Consumer Staples (-3.0%) sectors. On the other hand, three sectors recorded an increase in their bottom-up EPS estimate during the first month of the quarter, led by the Telecom Services (+4.1%) sector. One sector (Financials) recorded no change in its bottom-up EPS estimate during the month of July. Overall, eight sectors recorded a smaller decrease (or an increase) in their bottom-up EPS estimate relative to their 5-year average and their 15-year average for the first month of a quarter, while nine sectors recorded a smaller decrease (or an increase) in their bottom-up EPS estimate relative to their 10-year average for the first month of a quarter.

As the bottom-up EPS estimate for the index declined during the first month of the quarter, the value of the S&P 500 increased during this same period. From June 30 through July 31, the value of the index increased by 3.6% (to 2816.29 from 2718.37). The third quarter marked the 14th time in the past 20 quarters in which the bottom-up EPS estimate decreased during the first month of the quarter while the value of the index increased over this same period.





Q2 Earnings Season: By The Numbers

Overview

To date, 81% 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 (80%) compared to the 5-year average. If 80% 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 4.9% above the estimates, which is also above the 5-year average. In terms of sales, more companies (74%) are reporting actual sales above estimates compared to the 5-year average. In aggregate, companies are reporting sales that are 1.4% 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 24.0% today, which is above the earnings growth rate of 22.8% last week. Positive EPS surprises reported by companies in multiple sectors (led by Information Technology and Health Care) were significant contributors to the increase in the earnings growth rate over the past week. All eleven sectors are reporting year-over-year earnings growth. Ten sectors are reporting double-digit earnings growth, led by the Energy, Materials, and Information Technology sectors.

The blended, year-over-year sales growth rate for the second quarter is 9.8% today, which is above the revenue growth rate of 9.3% last week. Positive sales surprises reported by companies in multiple sectors were significant 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 16.5, which is above the 5-year average and above the 10-year average.

During the upcoming week, 47 S&P 500 companies (including one Dow 30 component) 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 (80%)

Overall, 81% of the companies in the S&P 500 have reported earnings to date for the second quarter. Of these companies, 80% have reported actual EPS above the mean EPS estimate, 6% have reported actual EPS equal to the mean EPS estimate, and 15% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is above the 1-year (75%) average and above the 5-year (70%) average.

If 80% 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%), Health Care (96%), and Information Technology (93%) sectors have the highest percentages of companies reporting earnings above estimates, while the Energy (48%) sector has the lowest percentage of companies reporting earnings above estimates.

Earnings Surprise Percentage (+4.9%) is Above 5-Year Average

In aggregate, companies are reporting earnings that are 4.9% above expectations. This surprise percentage is below the 1-year (+5.6%) average but above the 5-year (+4.4%) average.

The Consumer Discretionary (+10.4%) sector is reporting the largest upside aggregate differences between actual earnings and estimated earnings. In this 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.

On the other hand, the Energy (-8.5%) 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 and Punishing Negative EPS Surprises Near Average Levels

To date, the market is rewarding positive earnings surprises at about average levels and punishing negative earnings surprises at about average levels.

Companies that have reported positive earnings surprises for Q2 2018 have seen an average price increase of +1.1% two days before the earnings release through two days after the earnings. This percentage increase is slightly 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 -2.4% two days before the earnings release through two days after the earnings. This percentage decrease is slightly 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 (74%) is Above 5-Year Average

In terms of revenues, 74% of companies have reported actual sales above estimated sales and 26% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is above the 1-year average (73%) and well above the 5-year average (58%).

At the sector level, the Telecom Services (100%), Health Care (87%), and Information Technology (84%) sectors have the highest percentages of companies reporting revenues above estimates, while the Energy (54%) sector has the lowest percentage of companies reporting revenues above estimates.

Revenue Surprise Percentage (+1.4%) is Above 5-Year Average

In aggregate, companies are reporting sales that are 1.4% above expectations. This surprise percentage is above the 1-year (+1.2%) average and above the 5-year (+0.7%) average.

The Financials (+3.5%) and Real Estate (+2.5%) sectors are reporting the largest upside aggregate differences between actual sales and estimated sales, while the Consumer Discretionary (-0.8%) sector is reporting the largest aggregate downside difference between actual sales and estimated sales.

Increase in Blended Earnings Growth This Week Due to Technology and Health Care Sectors

Increase in Blended Earnings Growth This Week Due to Technology and Health Care Sectors

The blended, year-over-year earnings growth rate for the second quarter is 24.0% today, which is above the earnings growth rate of 22.8% last week. Positive EPS surprises reported by companies in the Information Technology and Health Care sectors were the largest contributors to the increase in the earnings growth rate over the past week.

In the Information Technology sector, the positive earnings surprise reported by Apple (\$2.34 vs. \$2.16) 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 Information Technology sector increased to 31.7% from 30.1% during this period.

In the Health Care sector, the positive earnings surprise reported by Pfizer (\$0.81 vs. \$0.74) was a significant 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 Health Care sector increased to 16.2% from 14.3% during this period.

Increase in Blended Revenue Growth This Week

The blended, year-over-year sales growth rate for the second quarter is 9.8% today, which is above the sales growth rate of 9.3% last week. Positive sales surprises reported by companies in multiple sectors were significant contributors to the increase in the revenue growth rate over the past week.

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

The blended, year-over-year earnings growth rate for Q2 2018 of 24.0% is above the estimate of 20.0% at the end of the second quarter (June 30). Ten 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 10.8% from 2.0%), Information Technology (to 31.7% from 24.5%), and Health Care (to 16.2% from 9.8%) sectors. The only sector that has recorded a decrease in earnings growth during this time due to downward revisions to earnings estimates and negative earnings surprises is the Energy (to 125.4% from 141.7%) sector.

Ten Sectors Have Seen Increase in Revenue Growth since June 30

The blended, year-over-year sales growth rate for Q2 2018 of 9.8% is above the estimate of 8.7% at the end of the second quarter (June 30). Ten 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 Real Estate (to 13.6% from 10.8%) and Financials (to 6.5% from 3.9%) sectors. The only sector that has recorded a decrease in revenue growth during this time due to downward revisions to revenue estimates and negative revenue surprises is the Consumer Discretionary (to 9.3% from 9.5%) sector.

Second-Highest Earnings Growth (24.0%) Since Q3 2010

The blended (year-over-year) earnings growth rate for Q2 2018 is 24.0%. If 24.0% is the final growth rate for the quarter, it will mark the second highest earnings growth reported by the index since Q3 2010 (34.1%), 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. Ten sectors are reporting double-digit earnings growth, led by the Energy, Materials, 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 125.4%. 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 (97%), 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 \$18.3 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 53.6%. At the industry level, all four industries in the sector are reporting double-digit earnings growth: Metals & Mining (102%), Chemicals (48%), Containers & Packaging (47%), and Construction Materials (41%). At the company level, DowDuPont is the largest contributor to earnings growth for the sector. However, the actual (dollar-level) earnings for Q2 2018 (\$3.2 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 the largest contributor to earnings growth for the sector. If this company were excluded, the blended earnings growth rate for the sector would fall to 34.0% from 53.6%.

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

The Information Technology sector is reporting the third highest (year-over-year) earnings growth of all eleven sectors at 31.7%. 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: Internet Software & Services (79%), Semiconductor & Semiconductor Equipment (45%), Technology Hardware, Storage, & Peripherals (29%), IT Services (21%), and Software (14%).

Highest Revenue Growth (9.8%) Since Q3 2011

The blended (year-over-year) revenue growth rate for Q2 2018 is 9.8%. If 9.8% 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 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 25.3%. At the industry level, all four industries in this sector are reporting revenue growth, led by the Chemicals (33%) and Metals & Mining (24%) industries. At the company level, DowDuPont is the largest contributor to revenue growth for the sector. However, the actual revenues for Q2 2018 (\$24.2 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 the largest contributor to revenue growth for the sector. If this company were excluded, the blended revenue growth rate for the sector would fall to 14.0% from 25.3%.

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

The Energy sector is reporting the second highest (year-over-year) revenue growth of all eleven sectors at 22.9%. At the sub-industry level, five of the six sub-industries in the sector are reporting double-digit revenue growth: Oil & Gas Drilling (30%), Oil & Gas Refining & Marketing (30%), Oil & Gas Equipment & Services (23%), Oil & Gas Exploration & Production (21%), and Integrated Oil & Gas (19%).

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 14.7%. 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%), Technology Hardware, Storage, & Peripherals (12%), and Electronic Equipment, Instruments, & Components (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 13.6%. At the company level, CBRE Group is the largest contributor to revenue growth for the sector. The company reported actual revenues of \$5.1 billion in Q2 2018, compared to year-ago revenues of \$3.3 billion. If this company were excluded, the blended revenue growth rate for the sector would fall to 7.2% from 13.6%.

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, 65 companies in the index have issued EPS guidance for Q3 2018. Of these 65 companies, 48 have issued negative EPS guidance and 17 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 74% (48 out of 65), 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 24.0% and revenue growth of 9.8%. 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 20.7% and revenue growth of 7.7%.

For Q4 2018, analysts are projecting earnings growth of 17.8% and revenue growth of 6.0%.

For Q1 2019, analysts are projecting earnings growth of 7.3% and revenue growth of 6.2%.

For Q2 2019, analysts are projecting earnings growth of 8.2% and revenue growth of 4.6%.

Valuation: Forward P/E Ratio is 16.5, above the 10-Year Average (14.4)

The forward 12-month P/E ratio is 16.5. 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 4.0%, while the forward 12-month EPS estimate has increased by 1.6%.

At the sector level, the Consumer Discretionary (20.8) and Information Technology (18.7) sectors have the highest forward 12-month P/E ratios, while the Telecom Services (10.1) and Financials (12.6) 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 (18.7 vs. 14.5) and Consumer Discretionary (20.8 vs. 17.0) sectors. Two sectors have forward 12-month P/E ratios that are below their 10-year averages, led by the Telecom Services (10.1 vs. 14.0) sector.

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

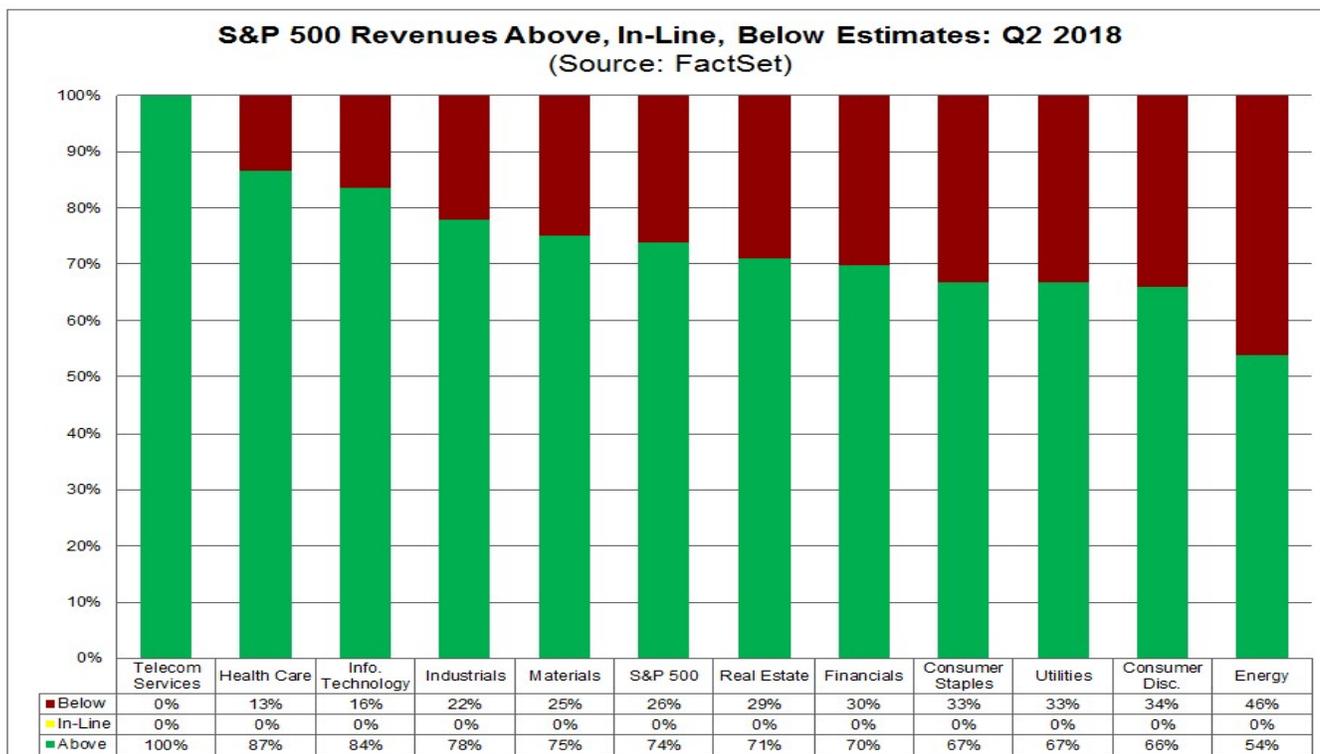
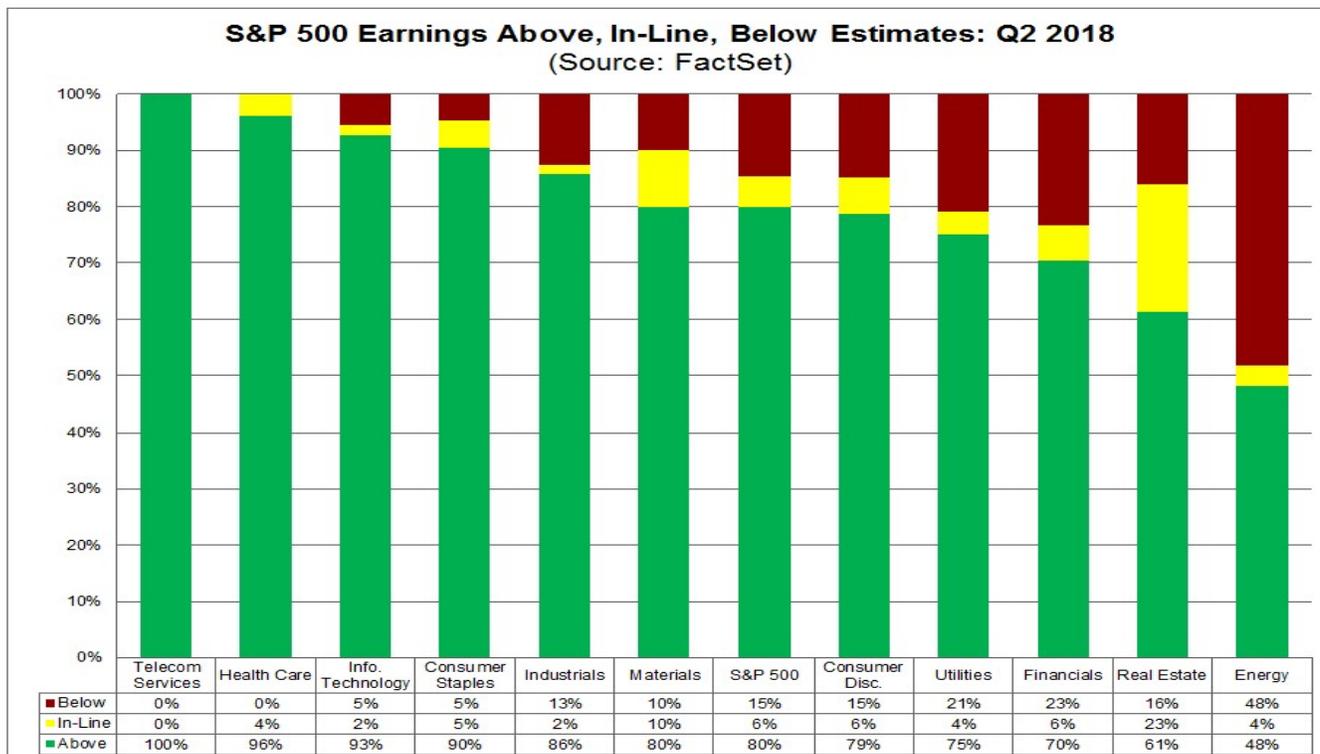
The bottom-up target price for the S&P 500 is 3144.93, which is 11.2% above the closing price of 2827.22. At the sector level, the Materials (+16.9%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Utilities (+3.9%) 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 10,879 ratings on stocks in the S&P 500. Of these 10,879 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%), Materials (59%), Health Care (59%), and Energy (58%) sectors have the highest percentages of Buy ratings, while the Telecom Services (42%) and Utilities (43%) sectors have the lowest percentages of Buy ratings.

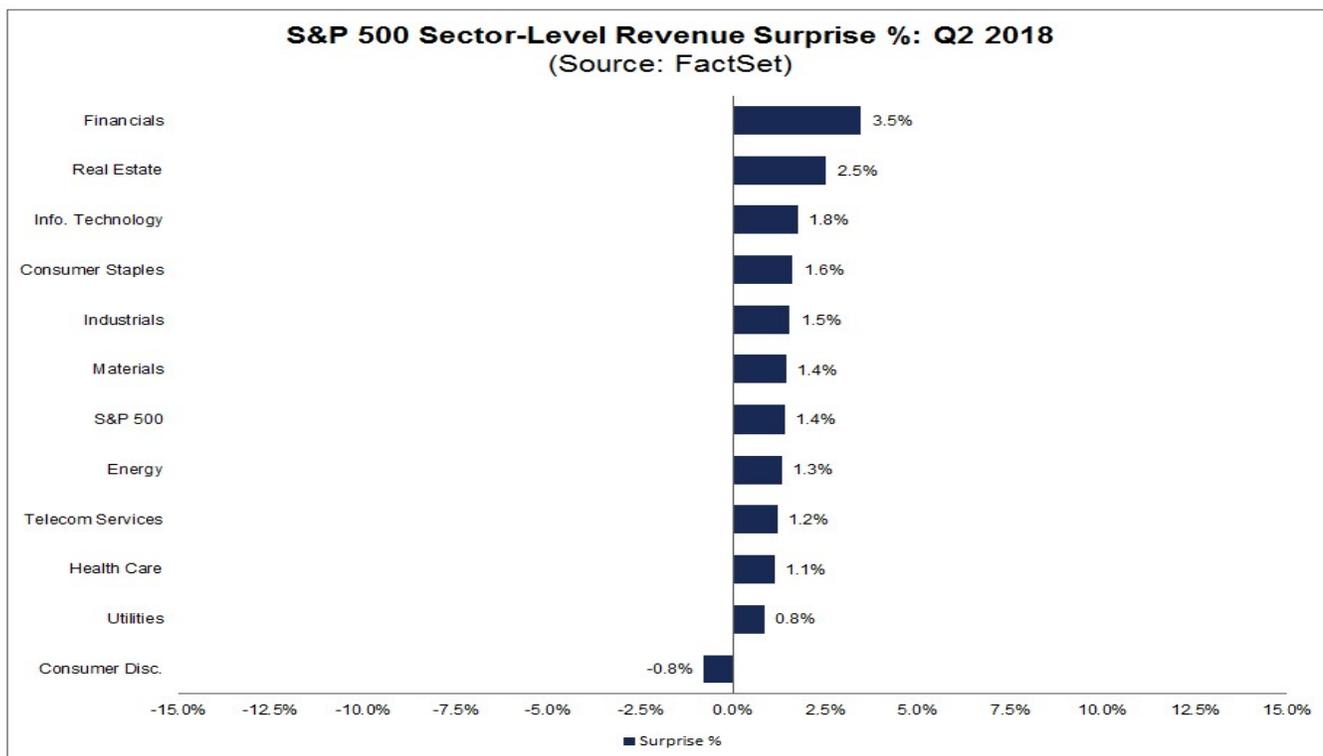
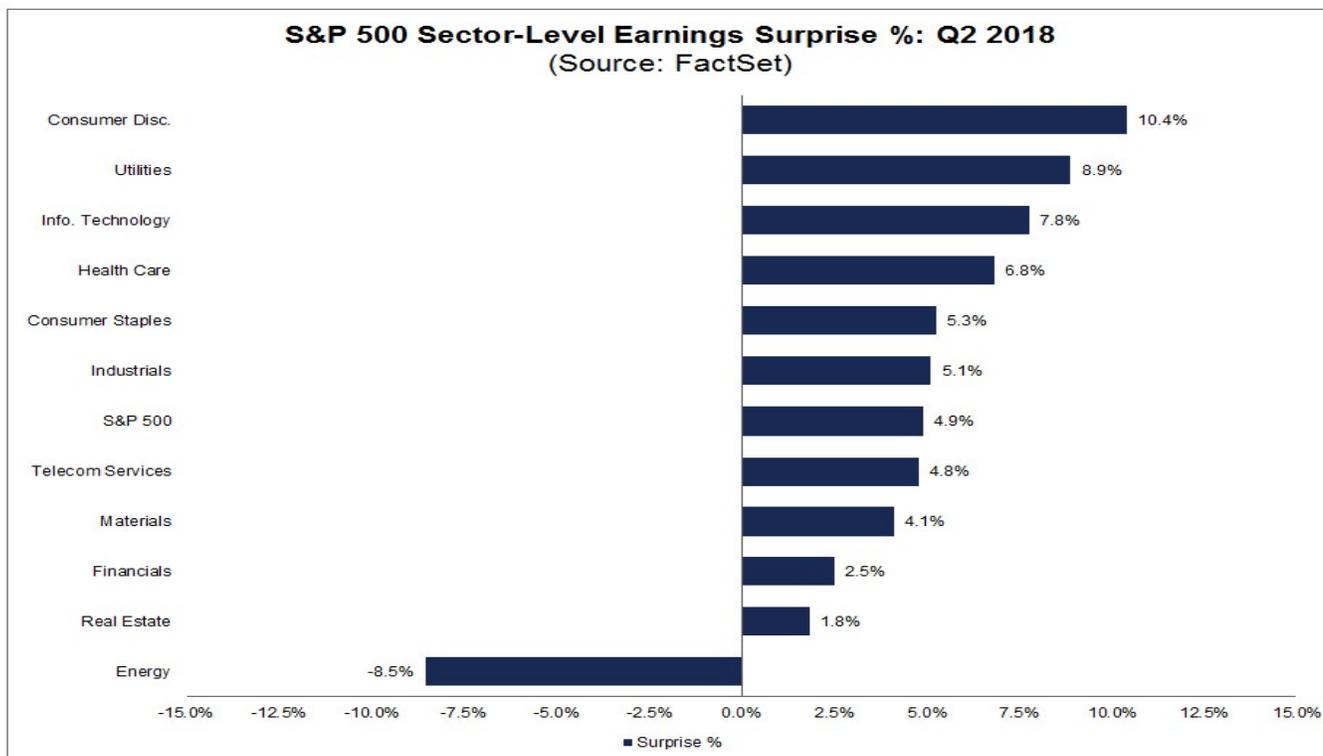
Companies Reporting Next Week: 47

During the upcoming week, 47 S&P 500 companies (including one Dow 30 component) are scheduled to report results for the second quarter.

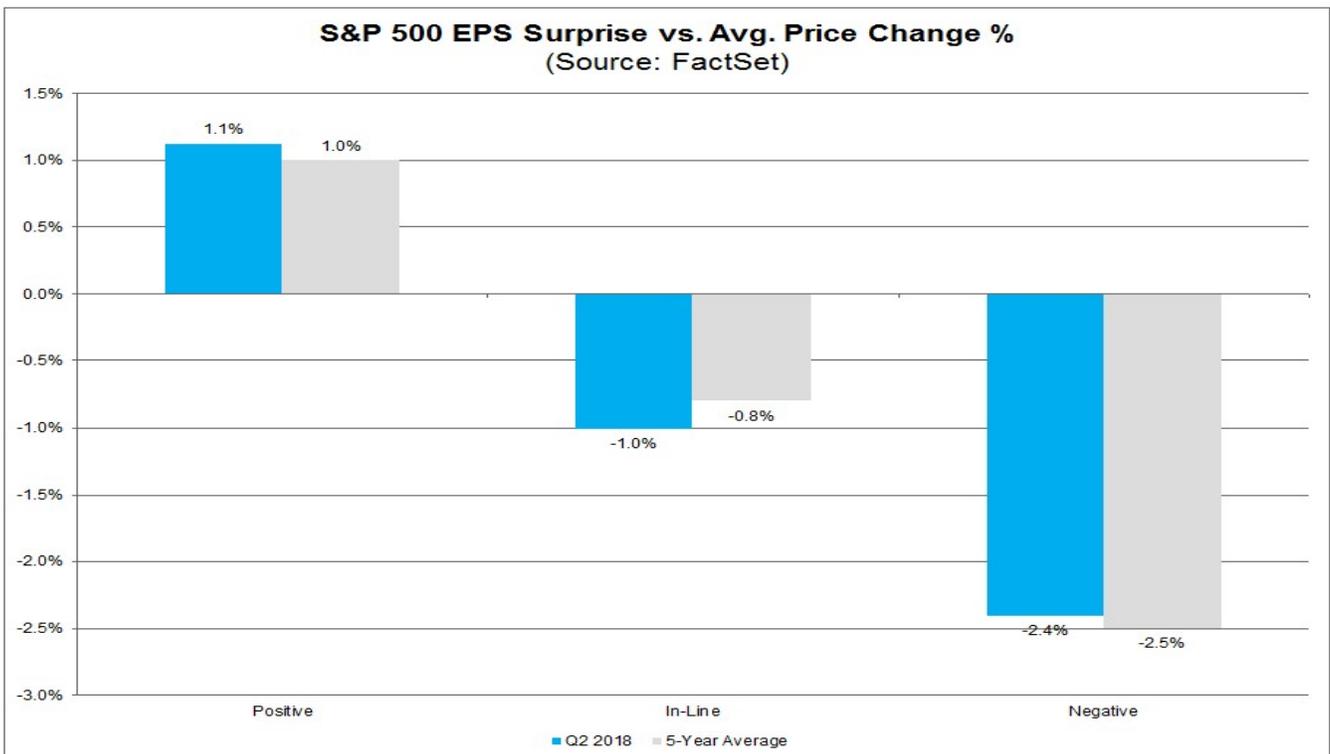
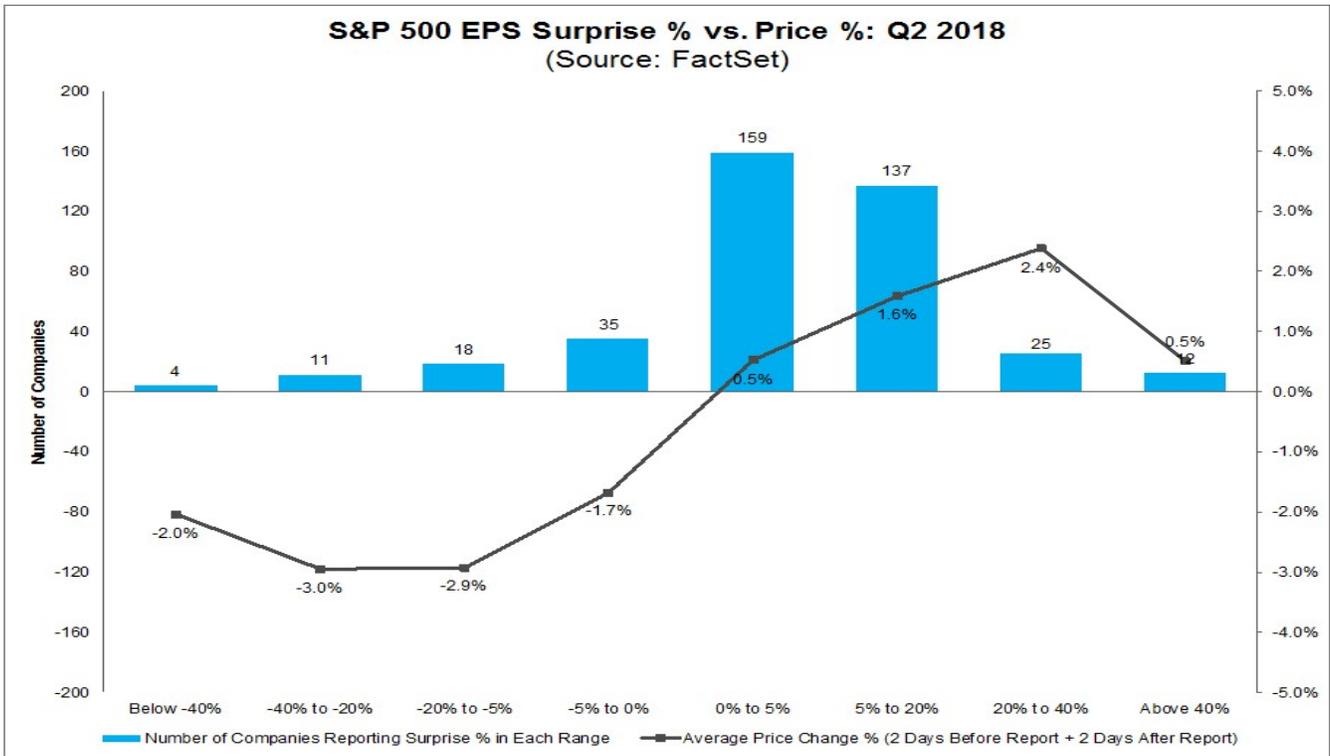
Q2 2018: Scorecard



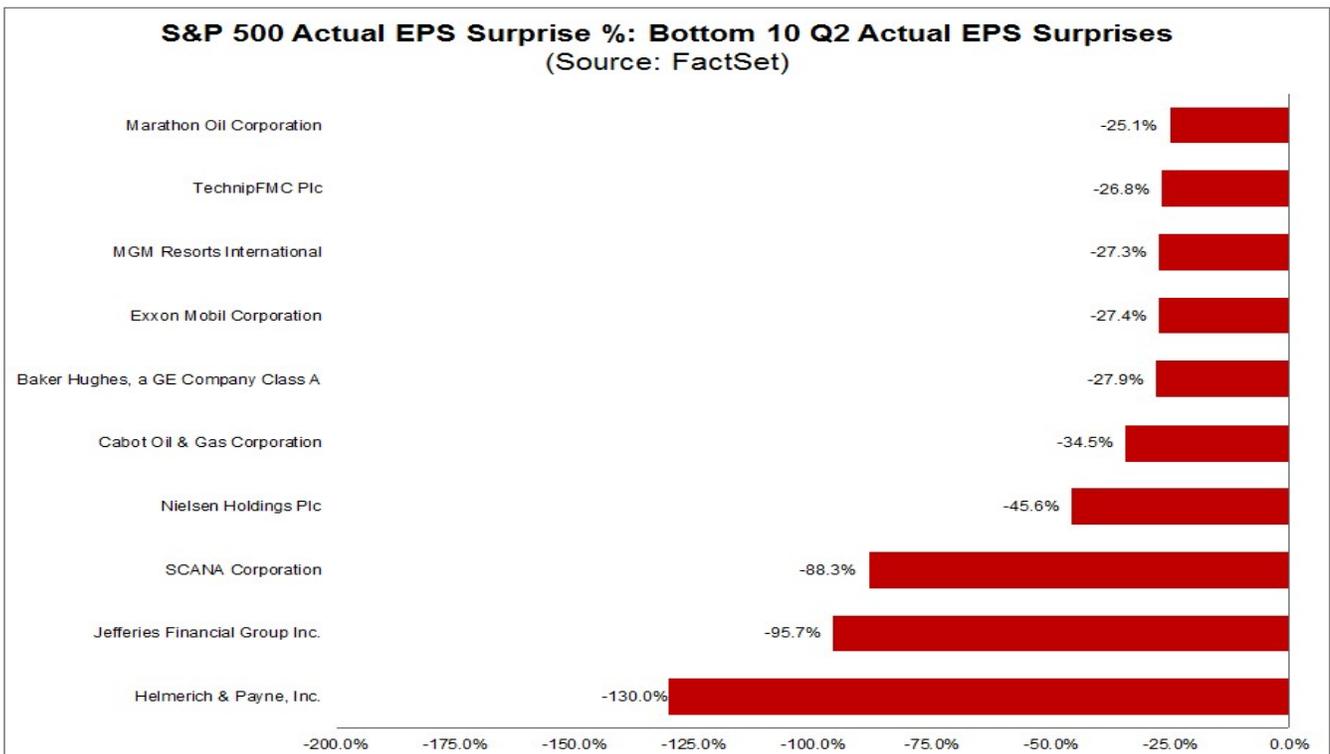
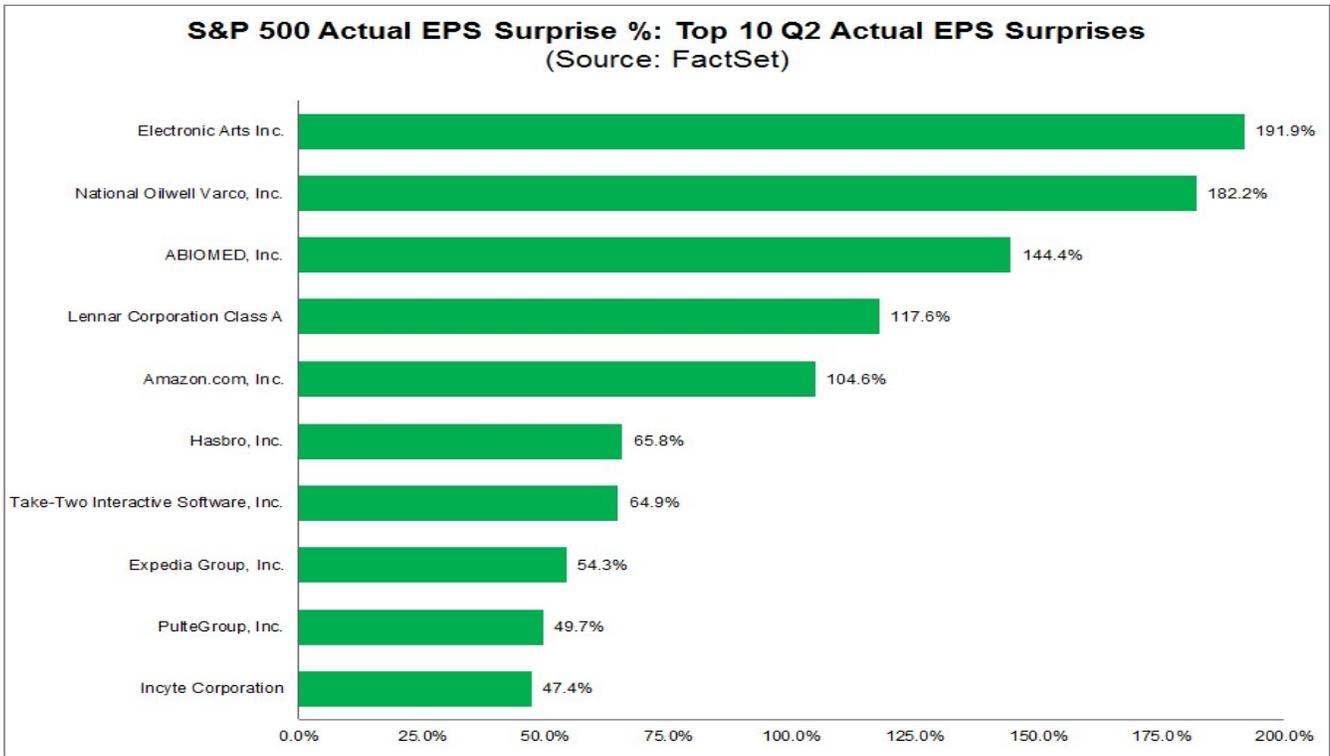
Q2 2018: Scorecard



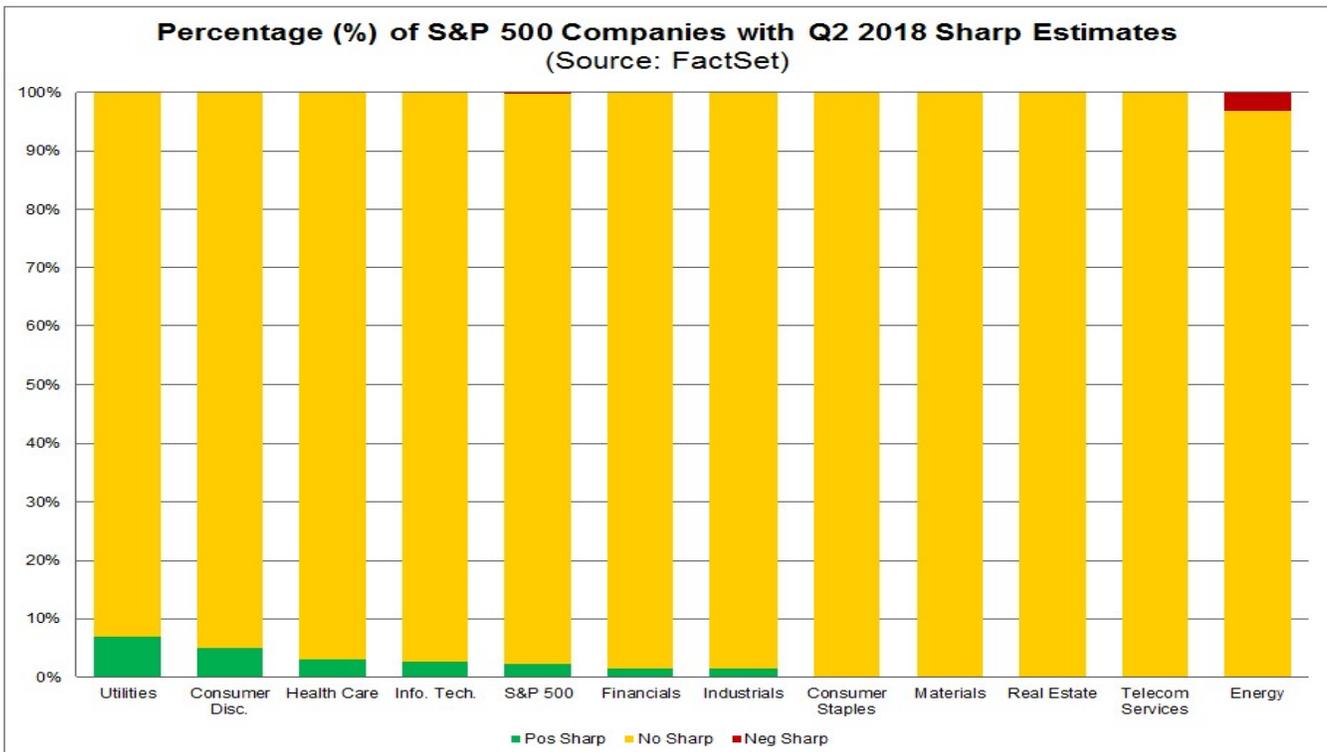
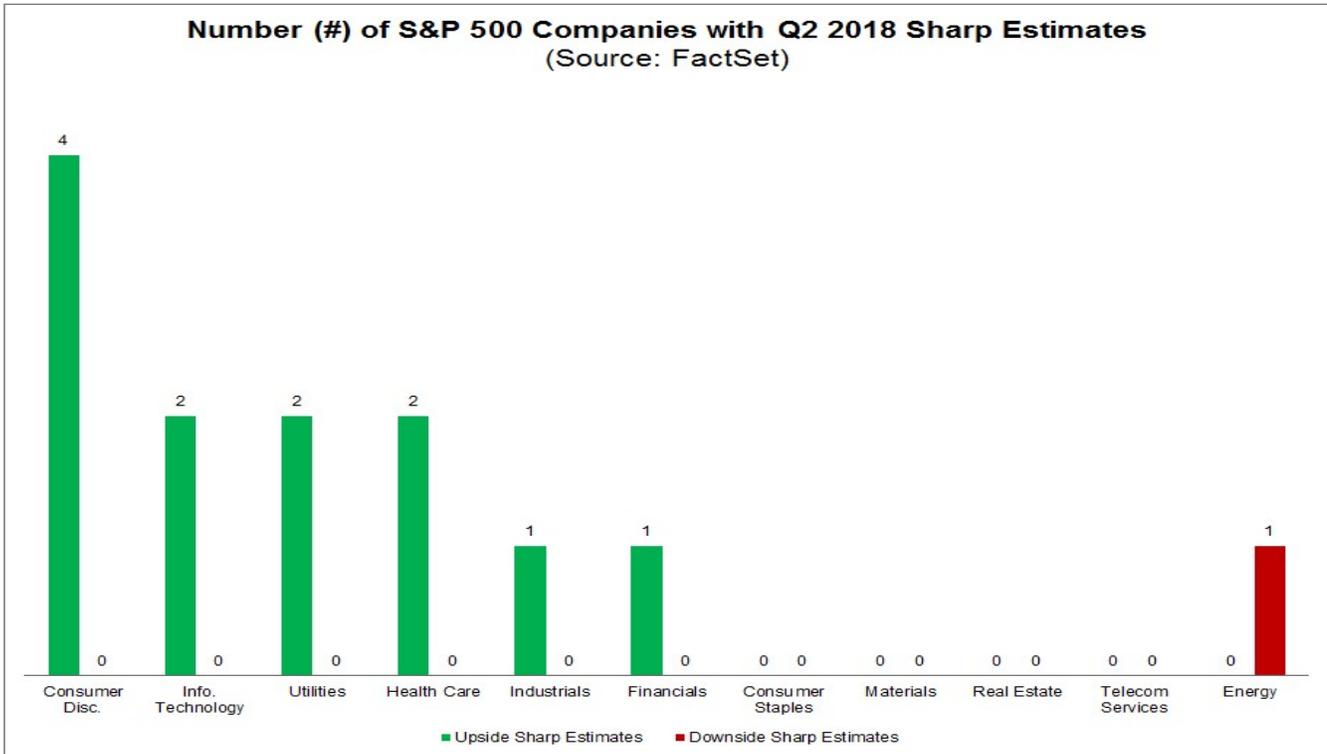
Q2 2018: Scorecard



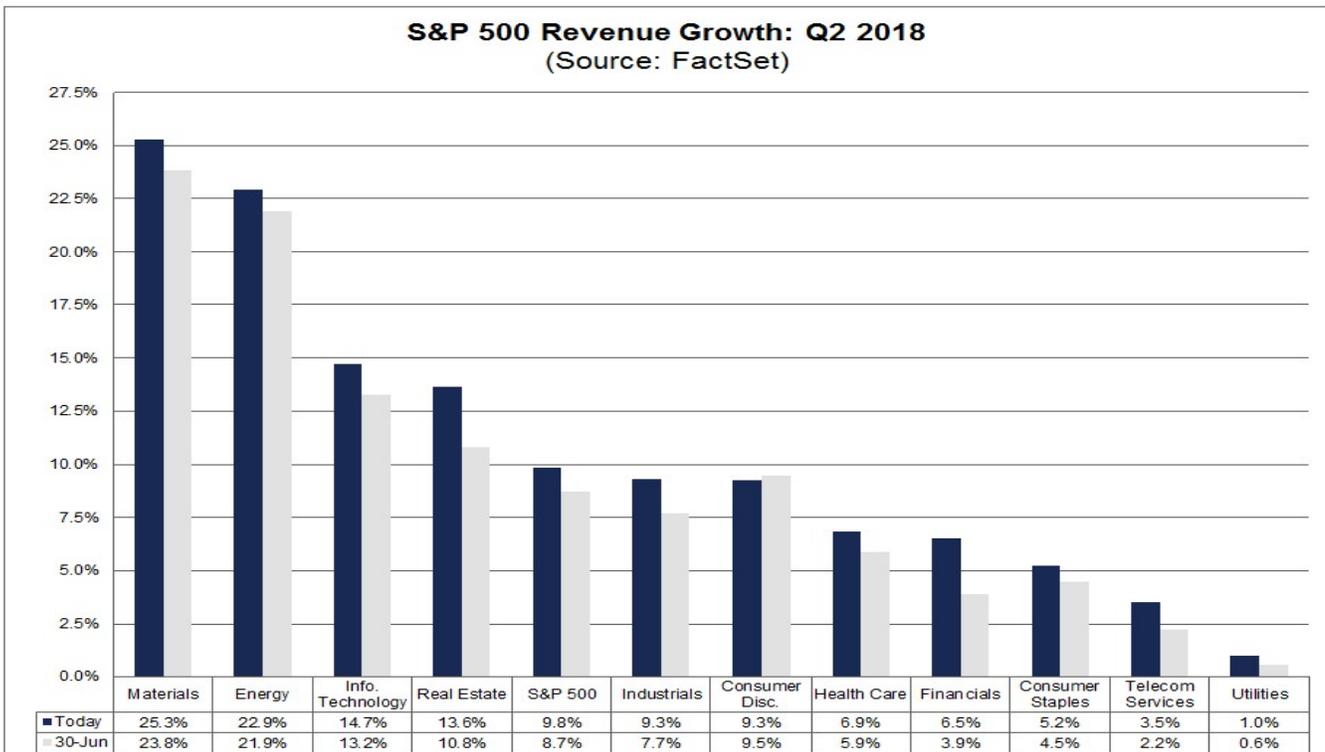
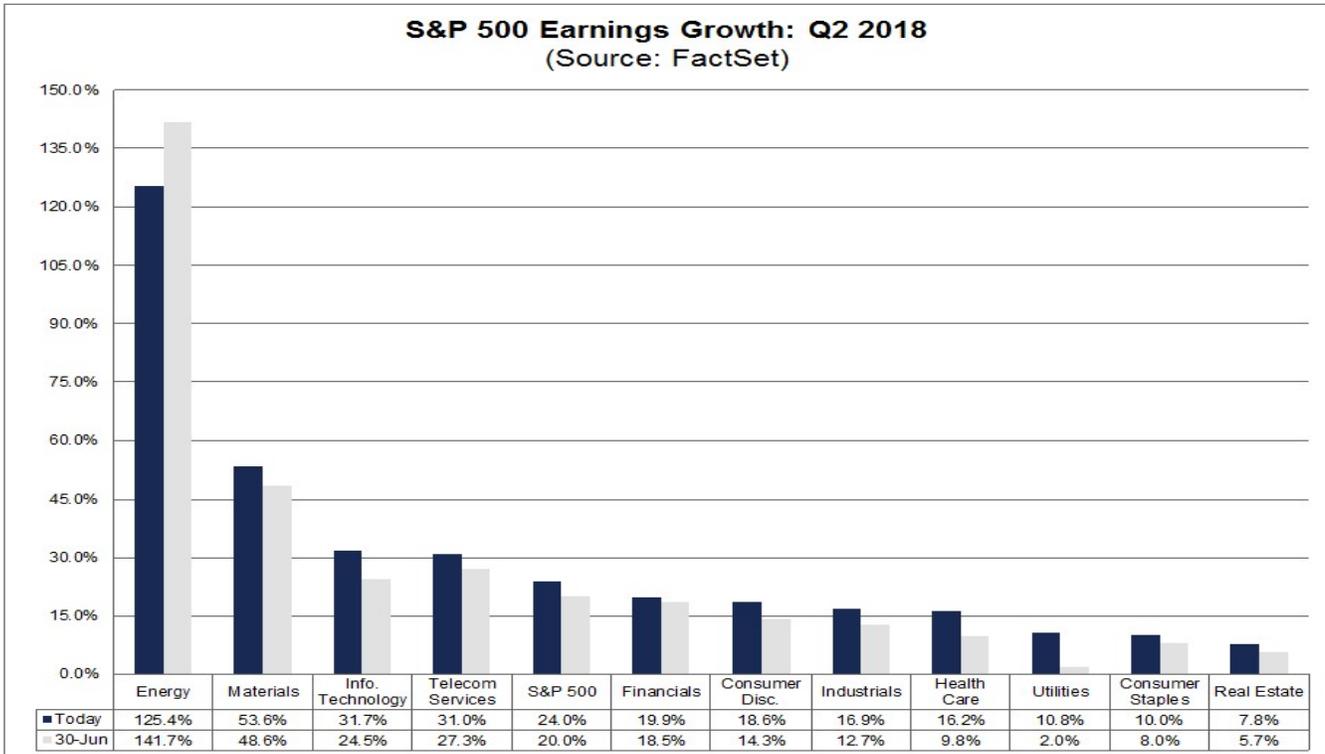
Q2 2018: Scorecard



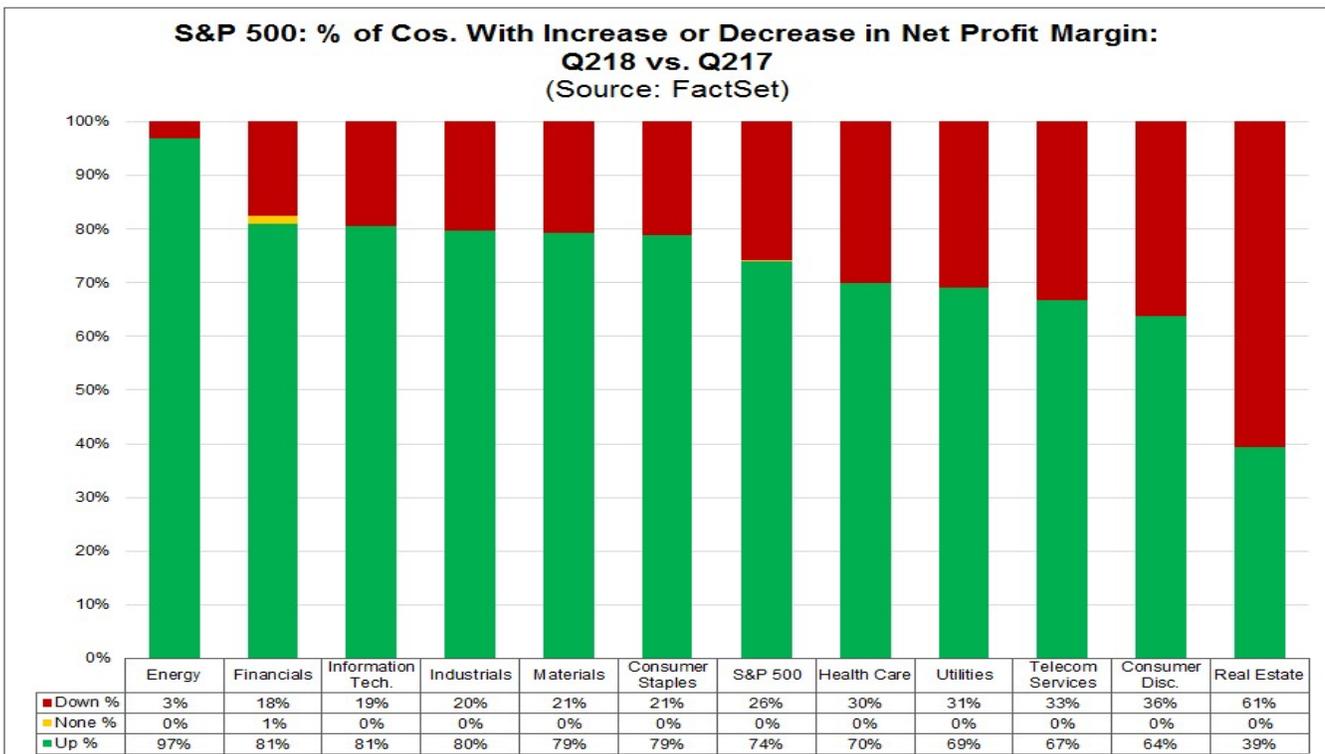
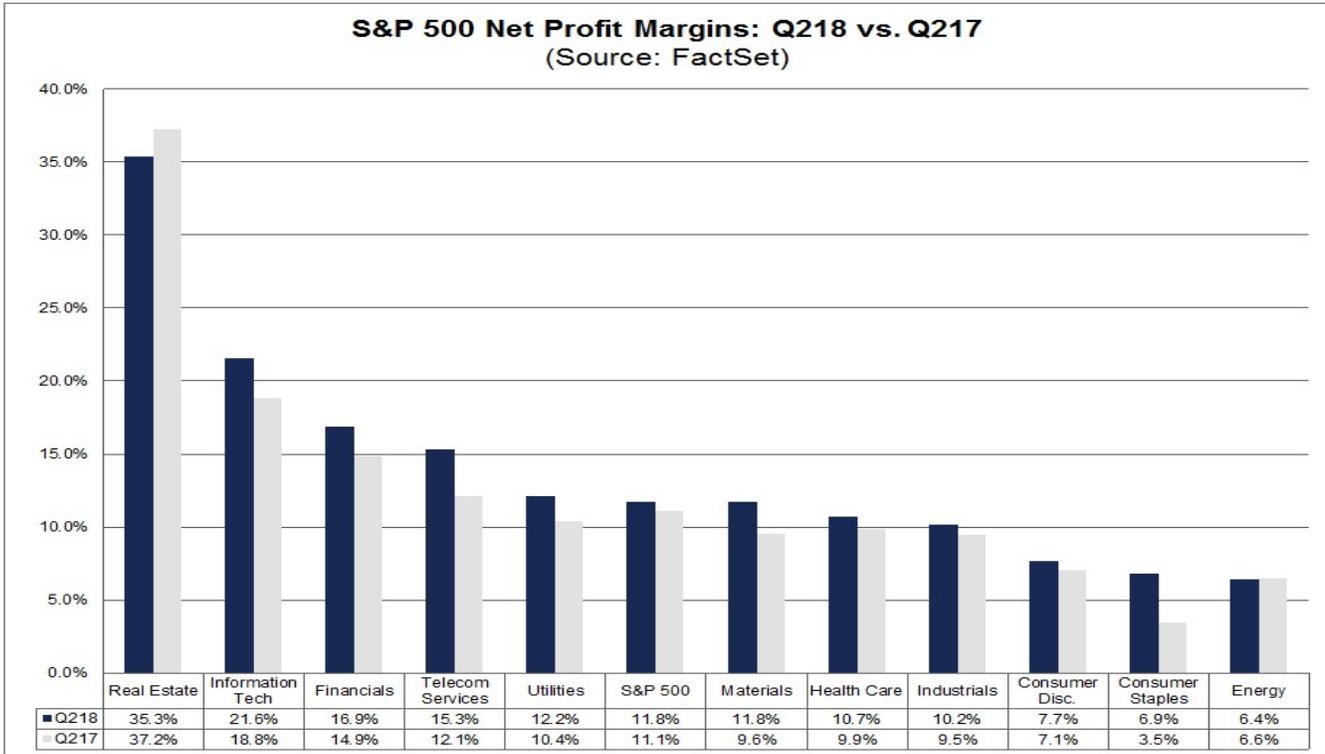
Q2 2018: Projected EPS Surprises (Sharp Estimates)



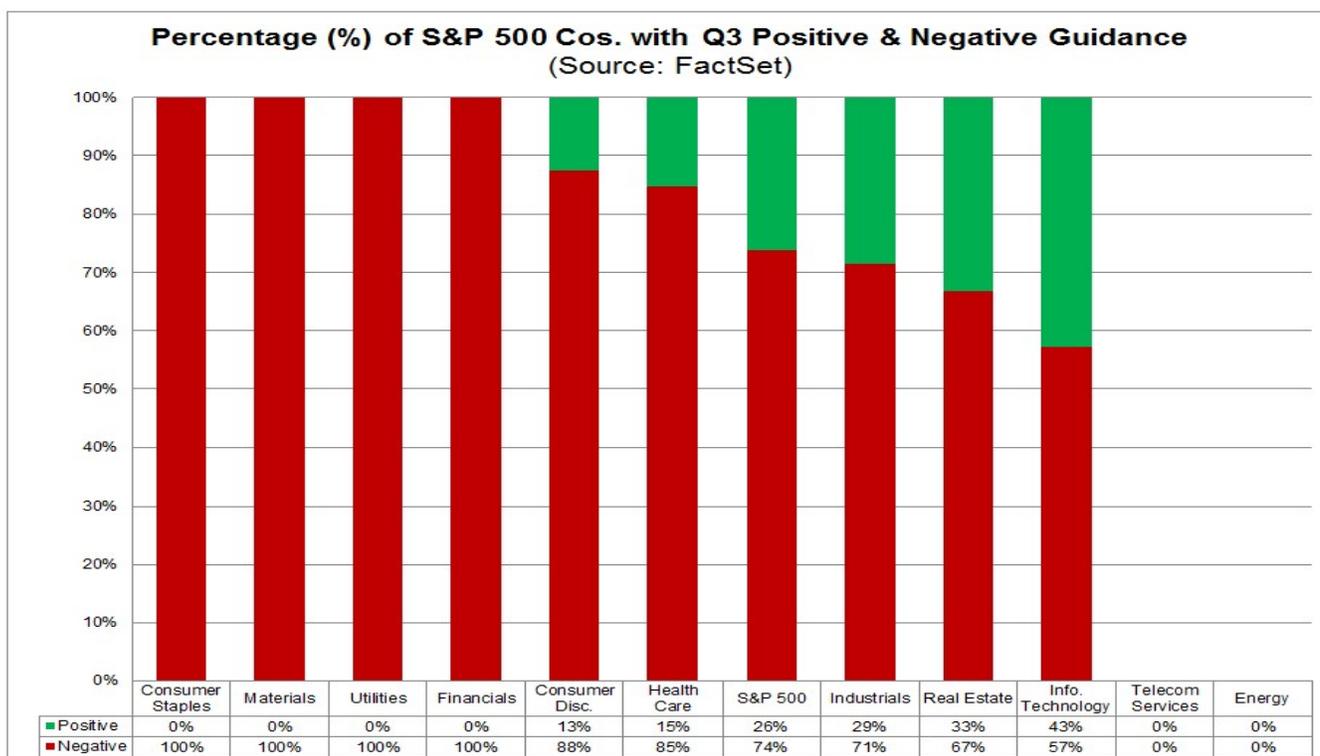
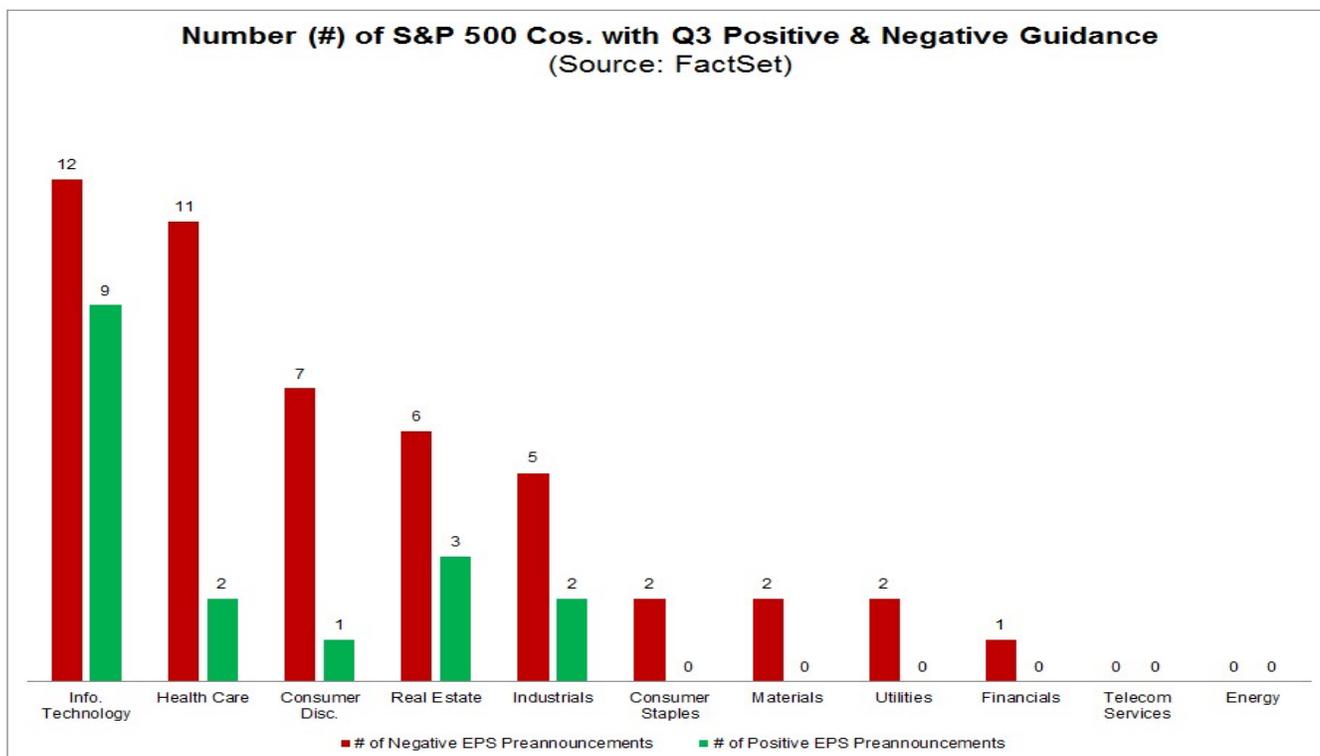
Q2 2018: Growth



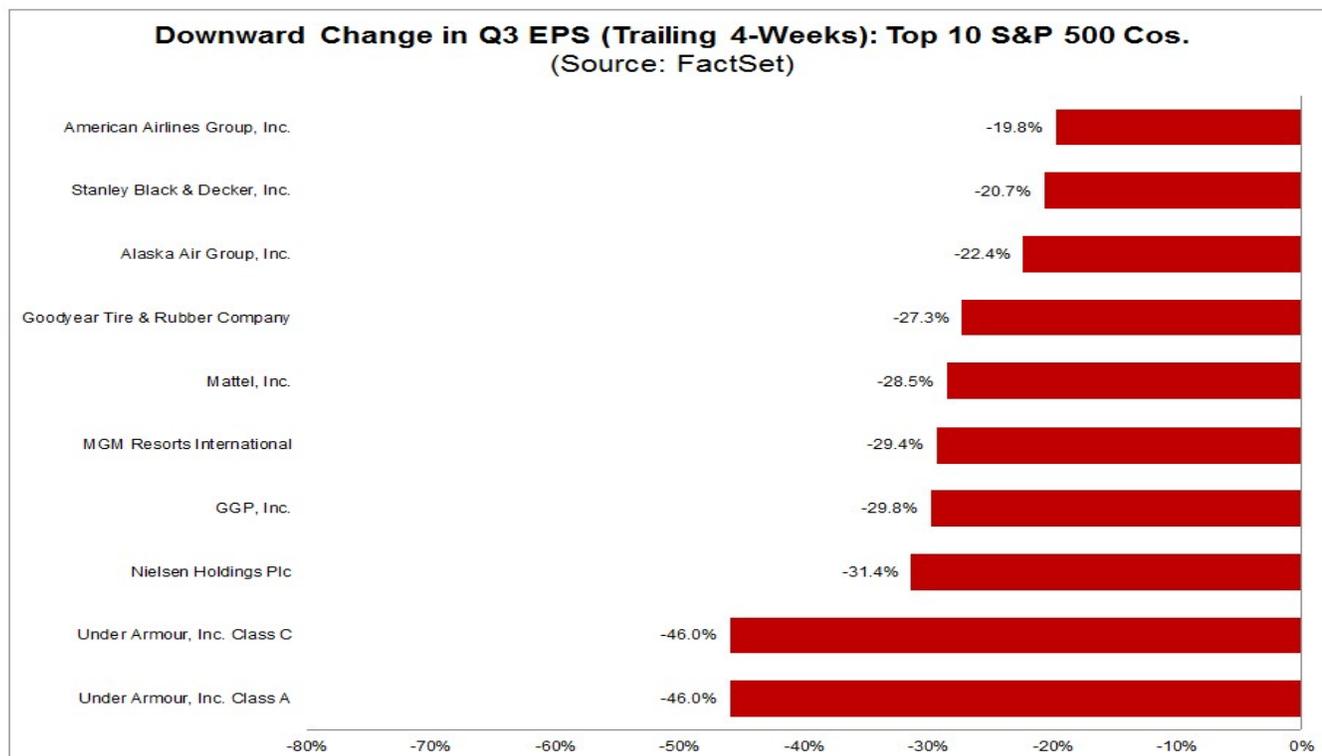
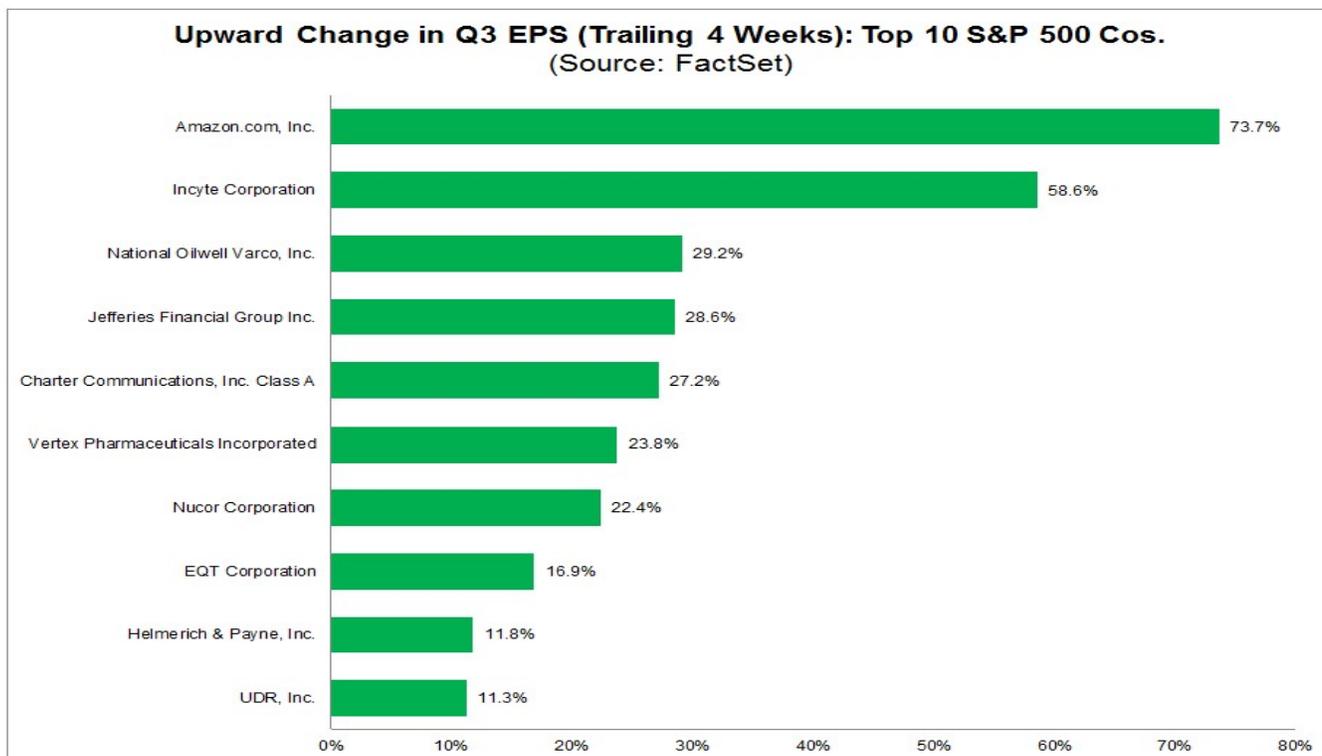
Q2 2018: Net Profit Margin



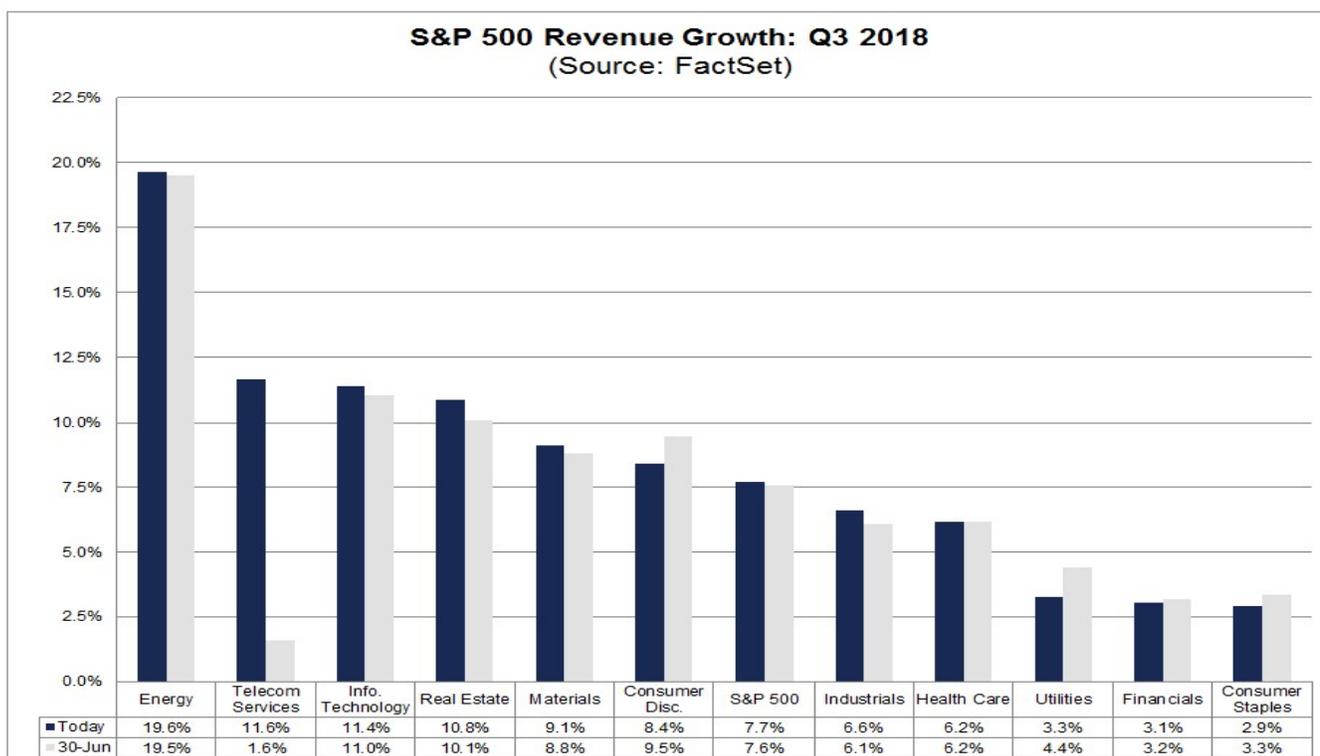
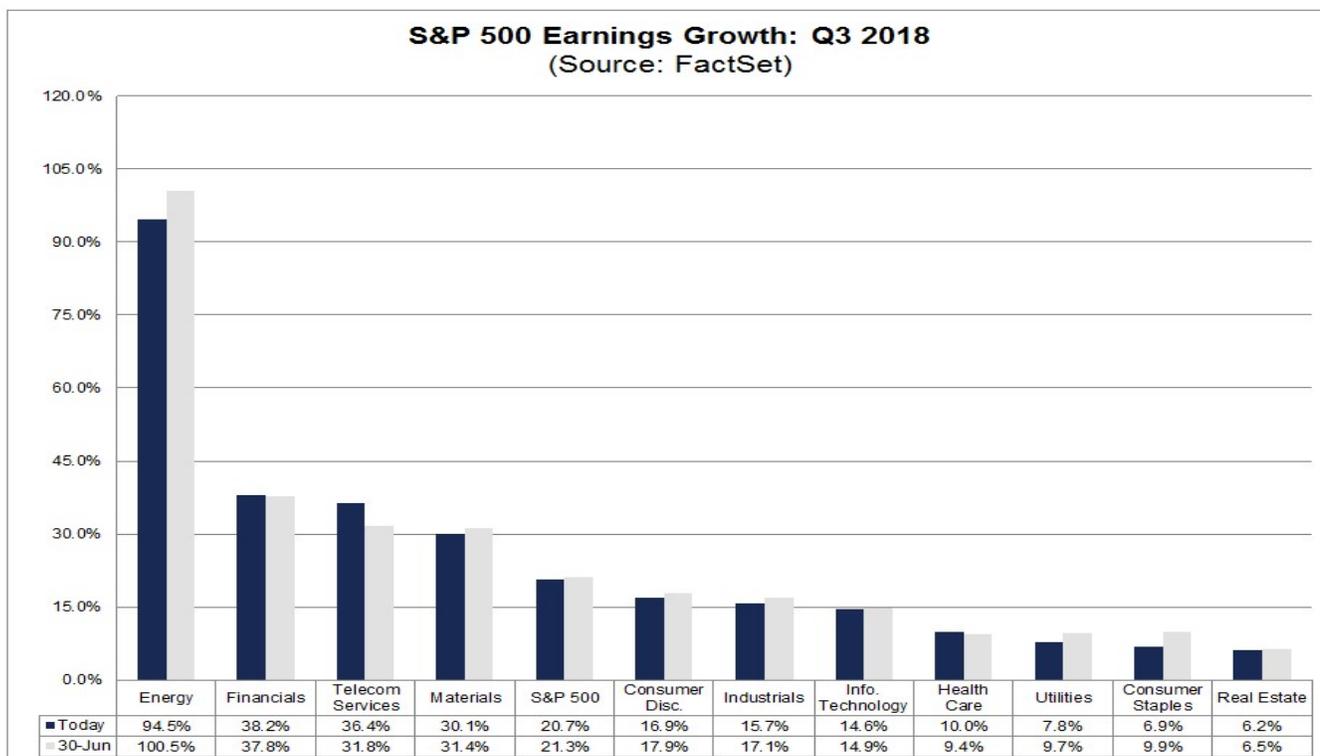
Q3 2018: EPS Guidance



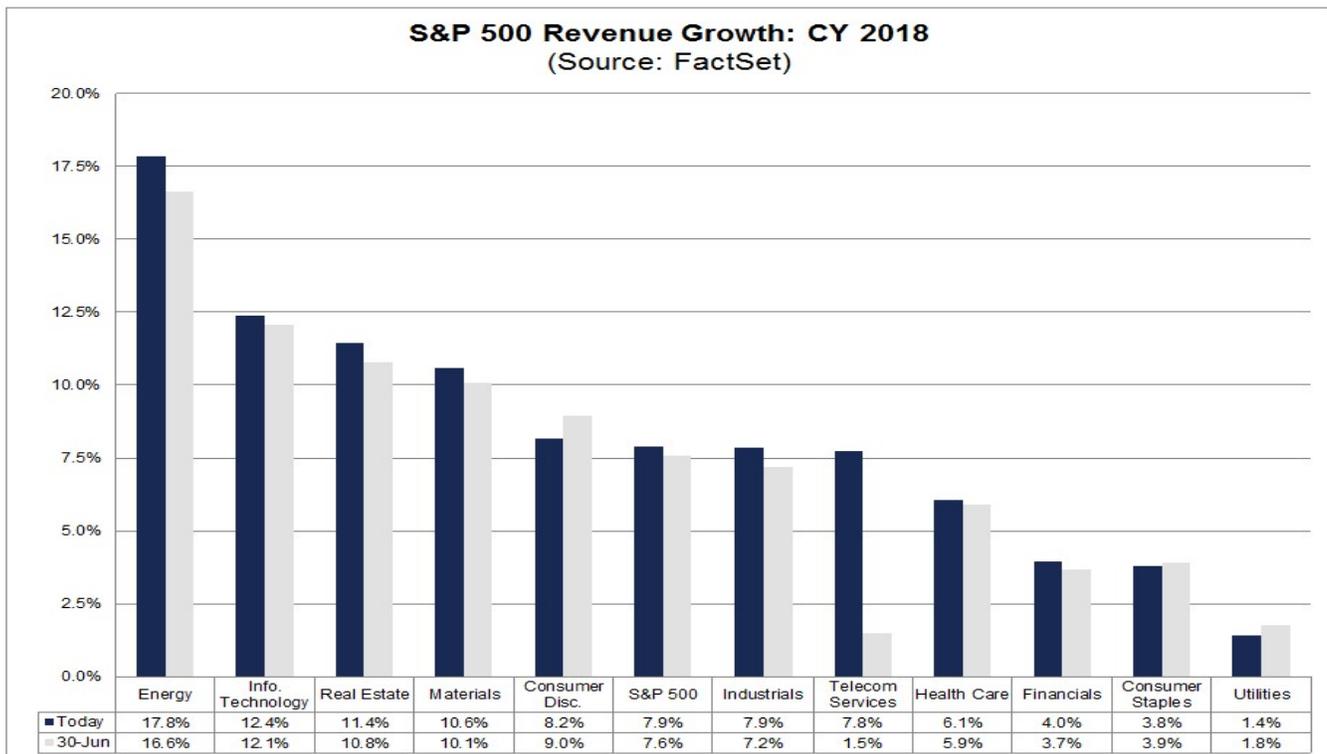
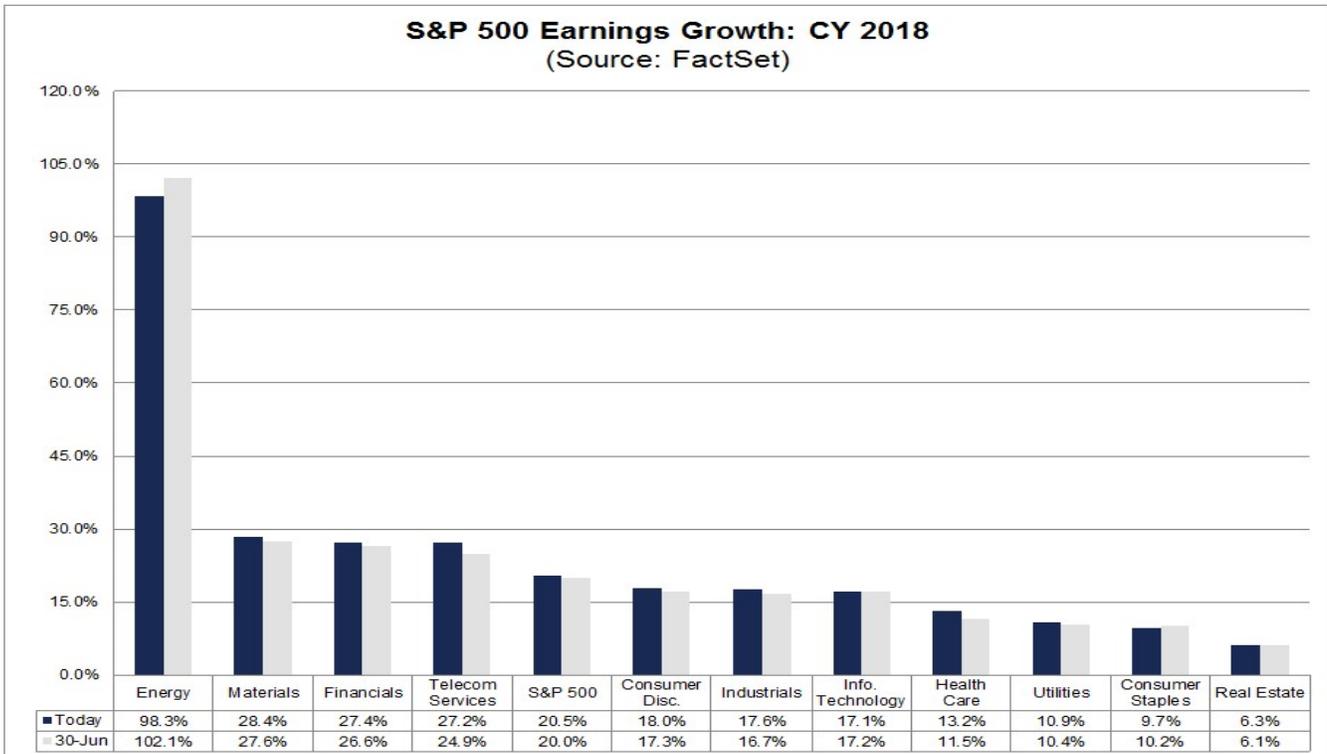
Q3 2018: EPS Revisions



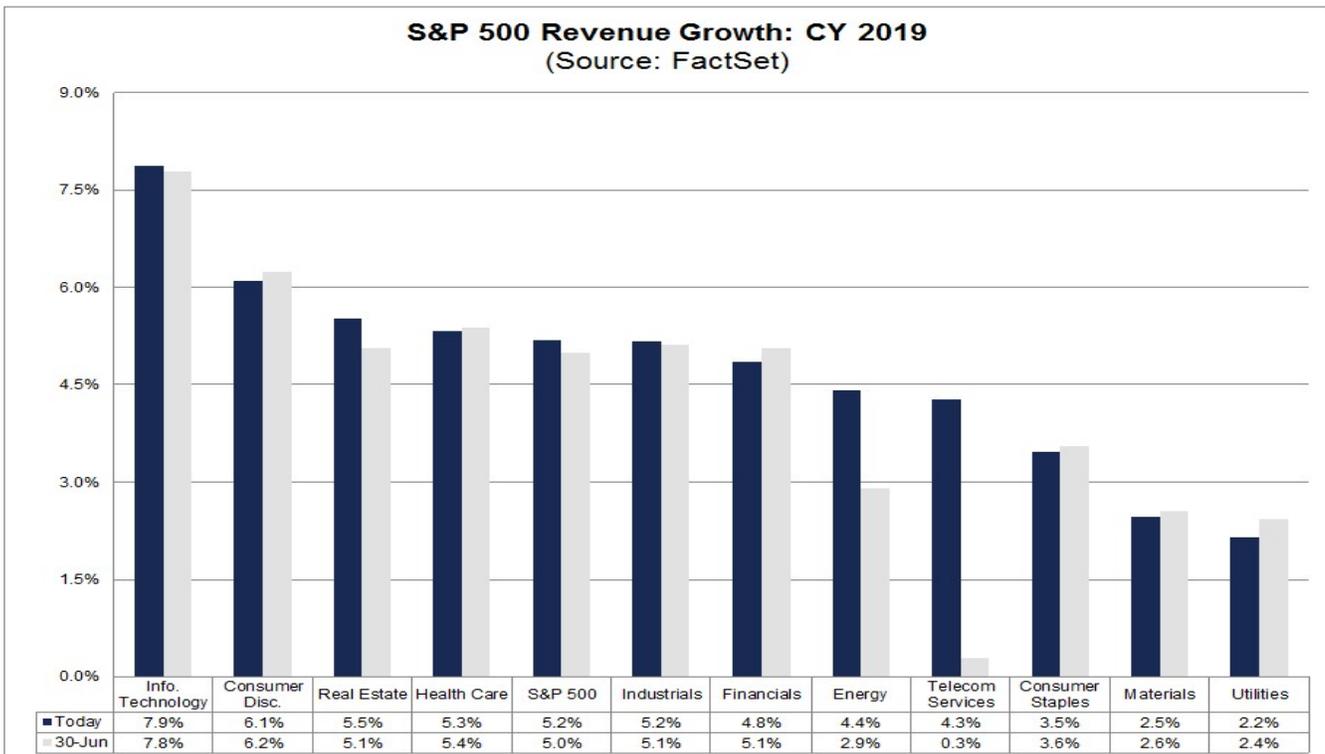
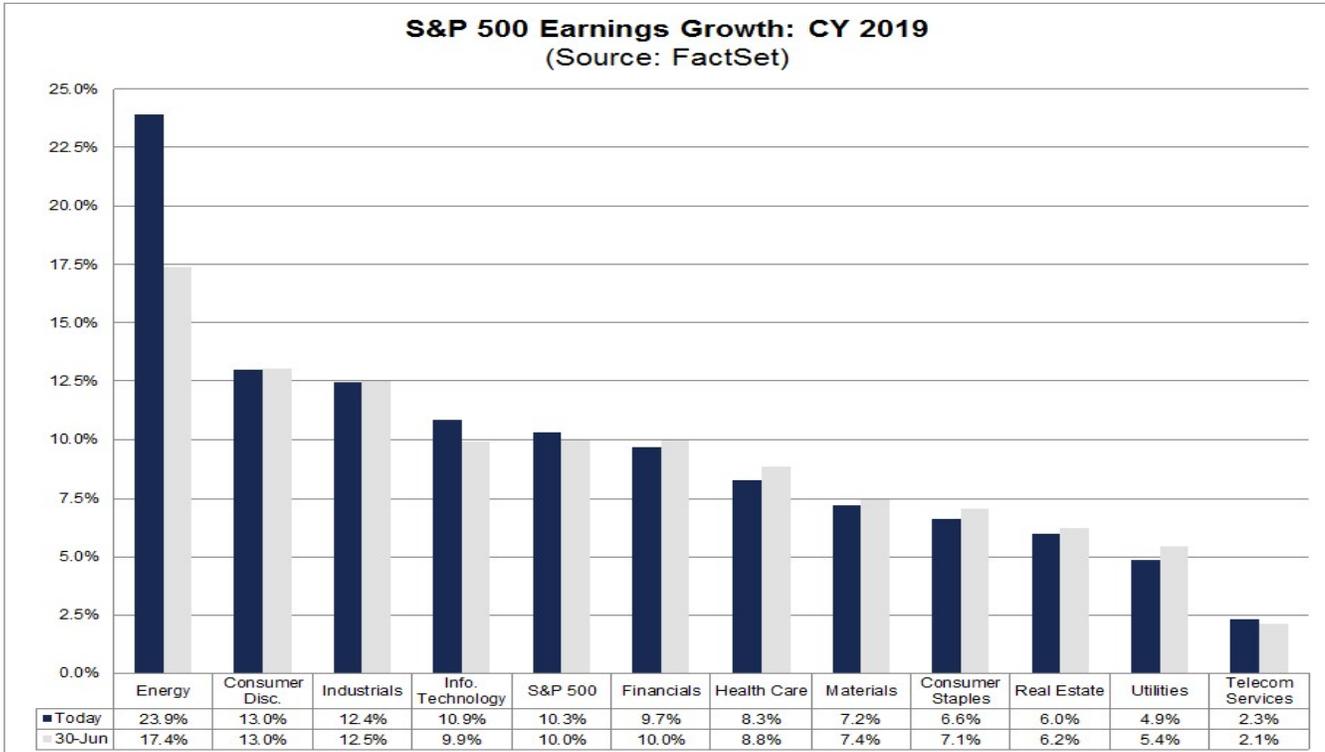
Q3 2018: Growth



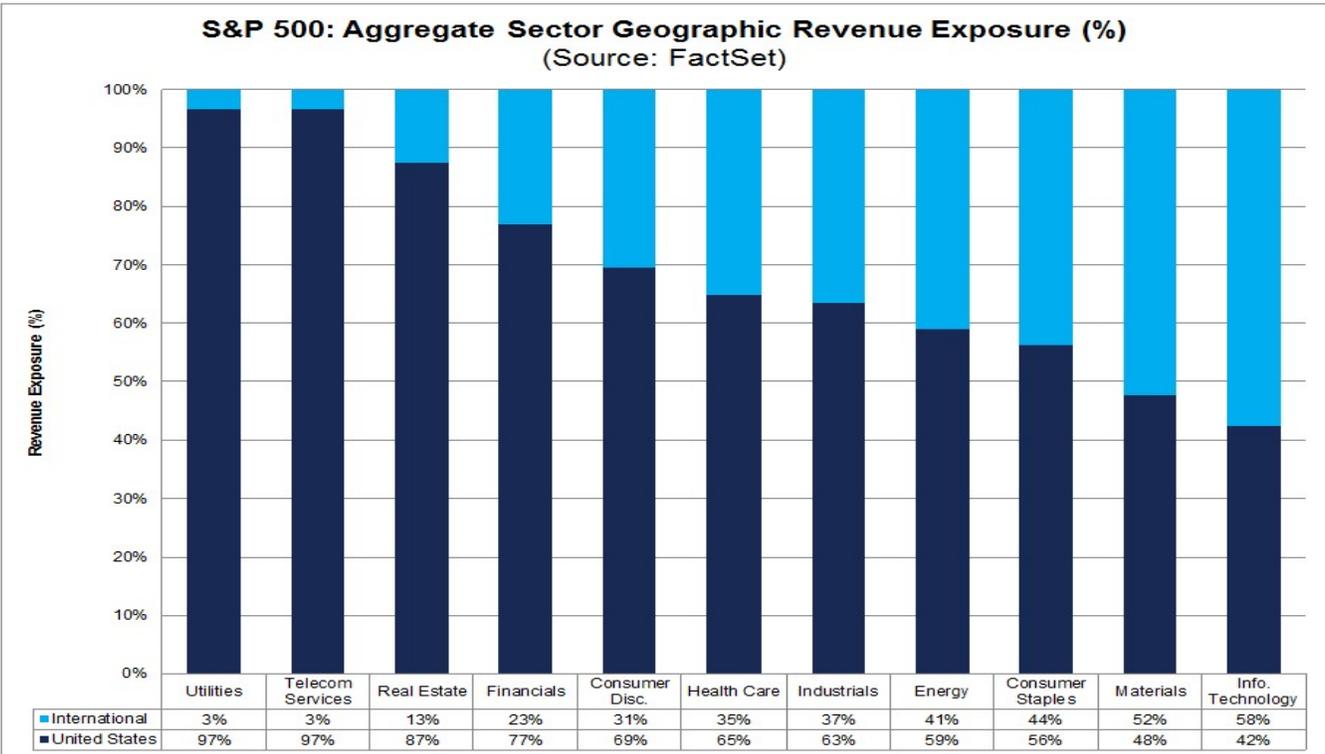
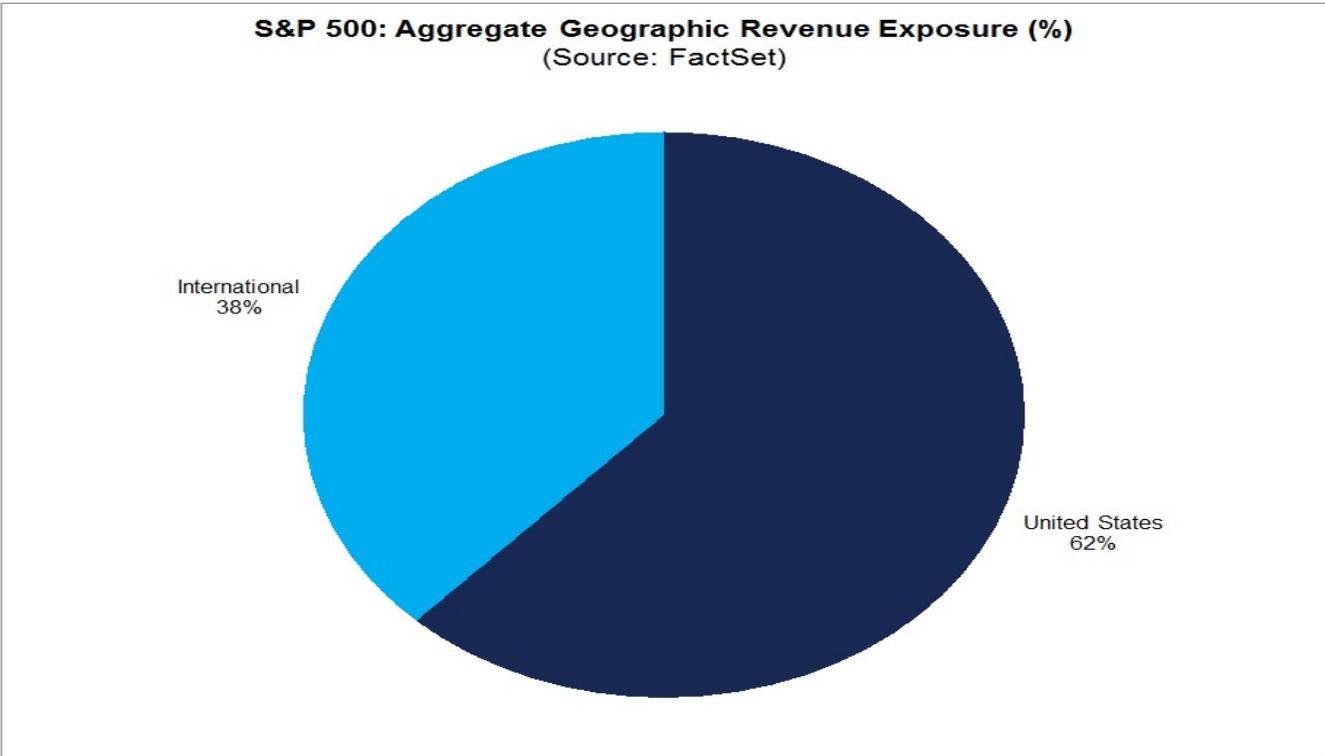
CY 2018: Growth



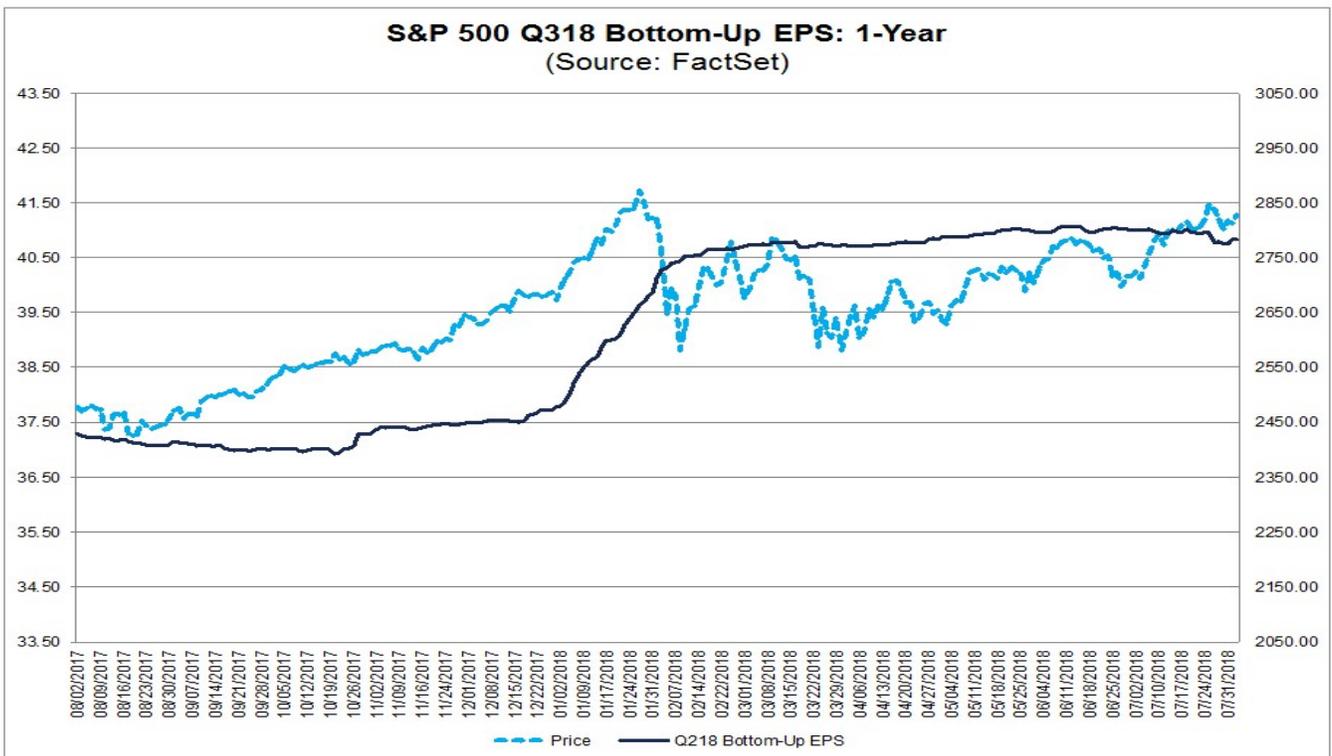
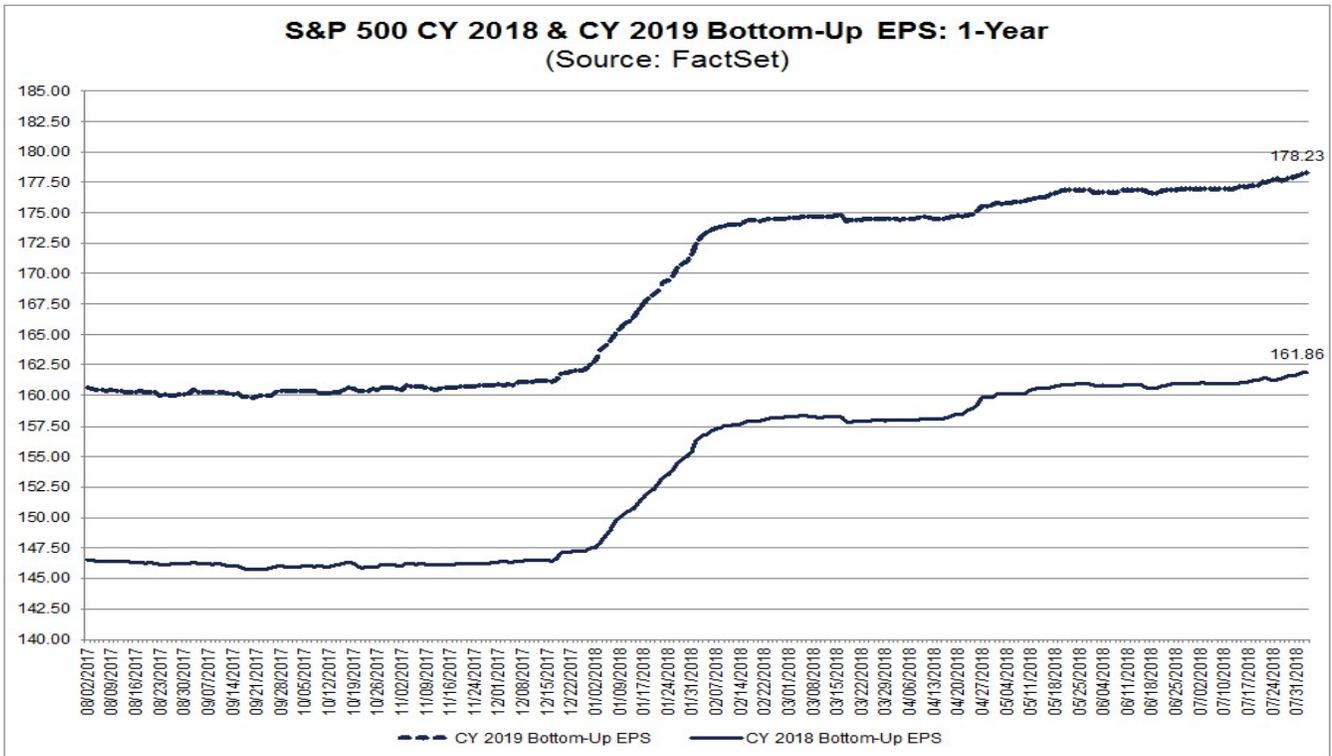
CY 2019: Growth



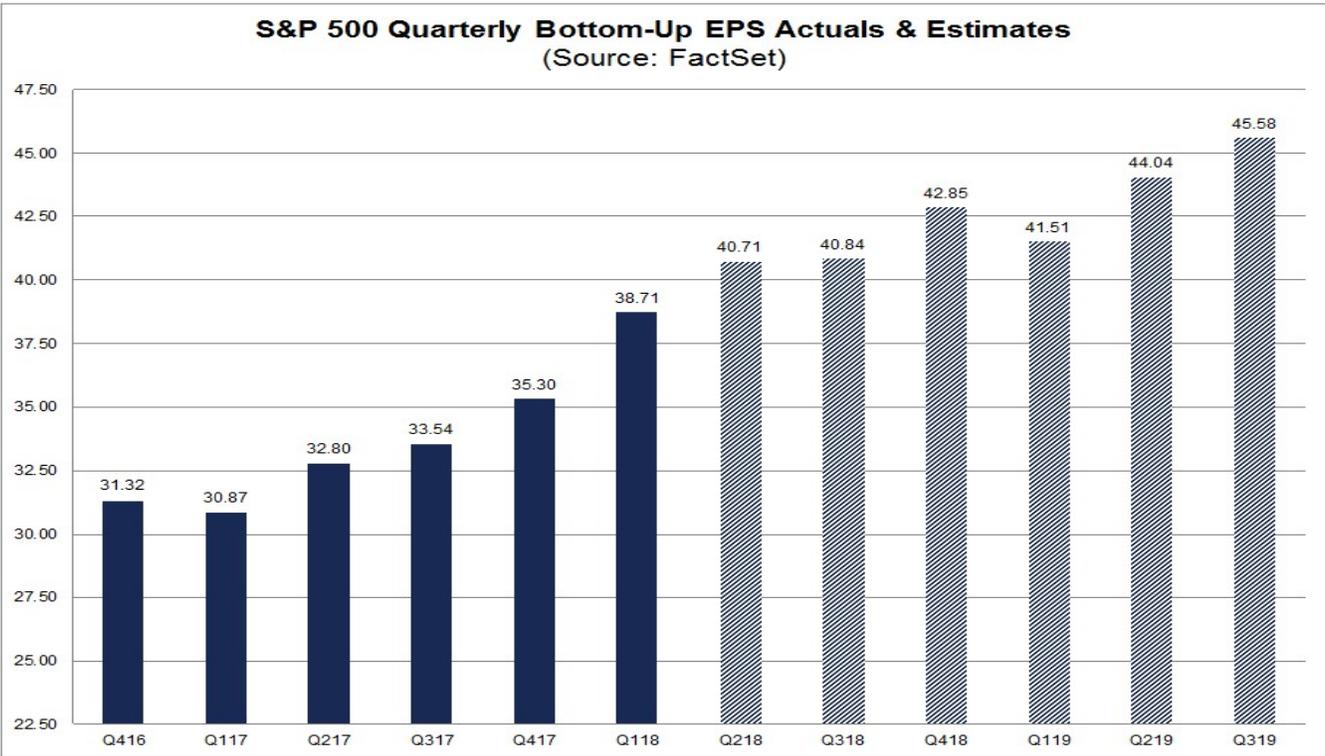
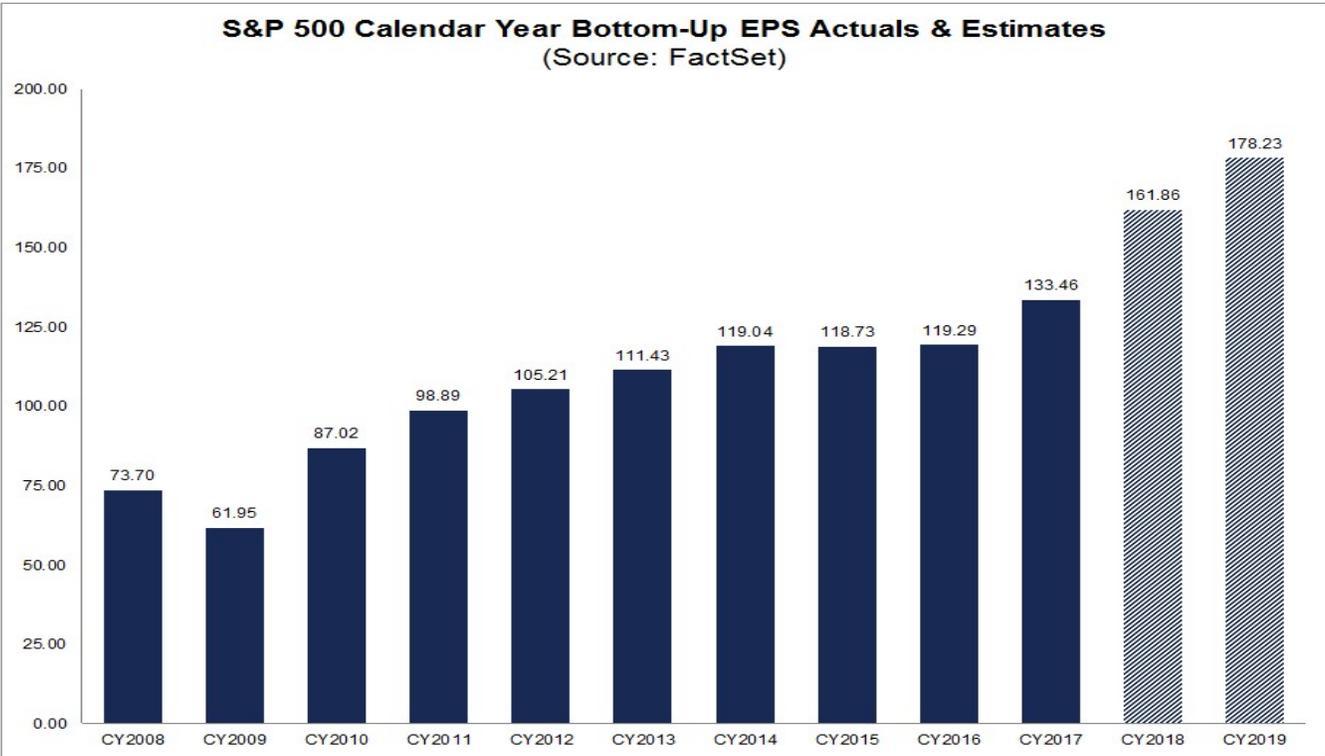
Geographic Revenue Exposure



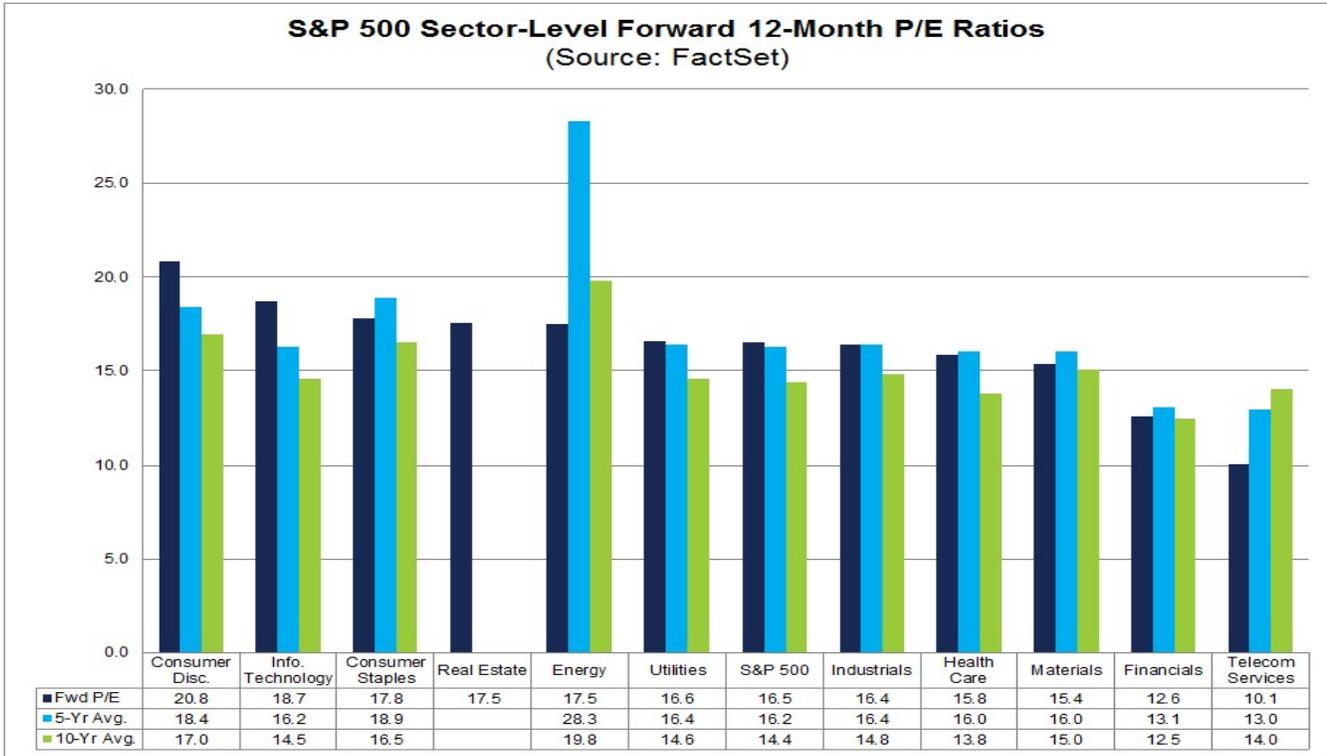
Bottom-up EPS Estimates: Revisions



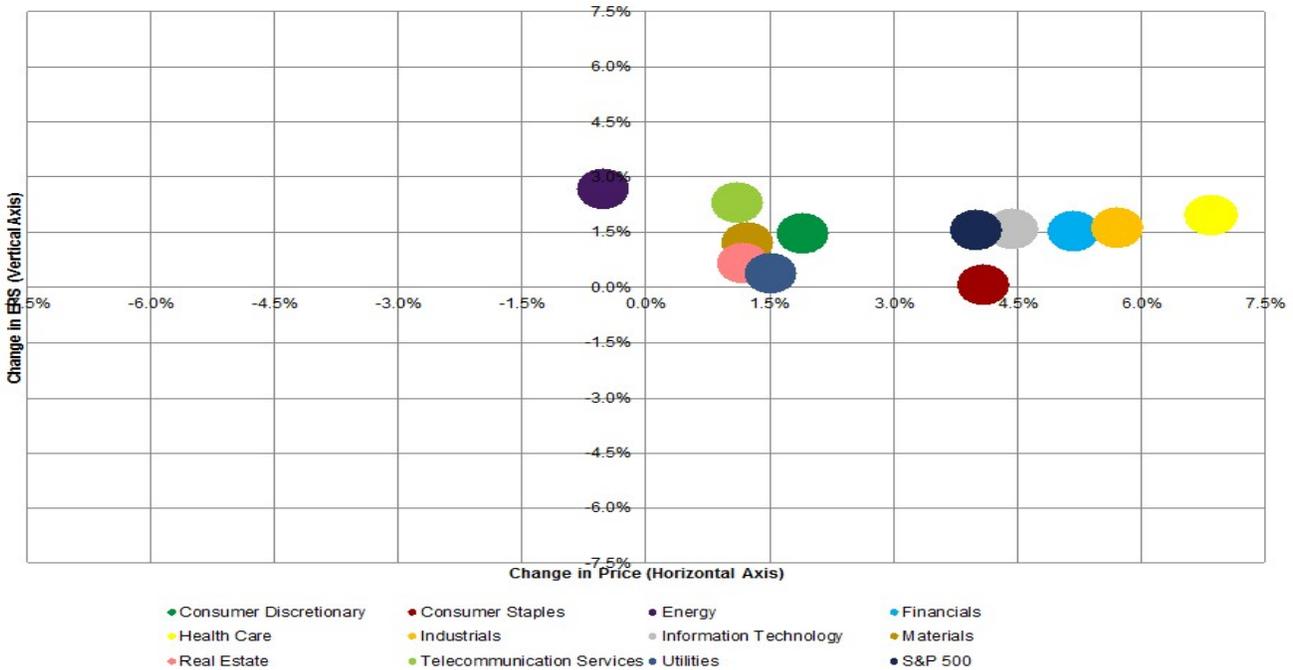
Bottom-up EPS Estimates: Current & Historical



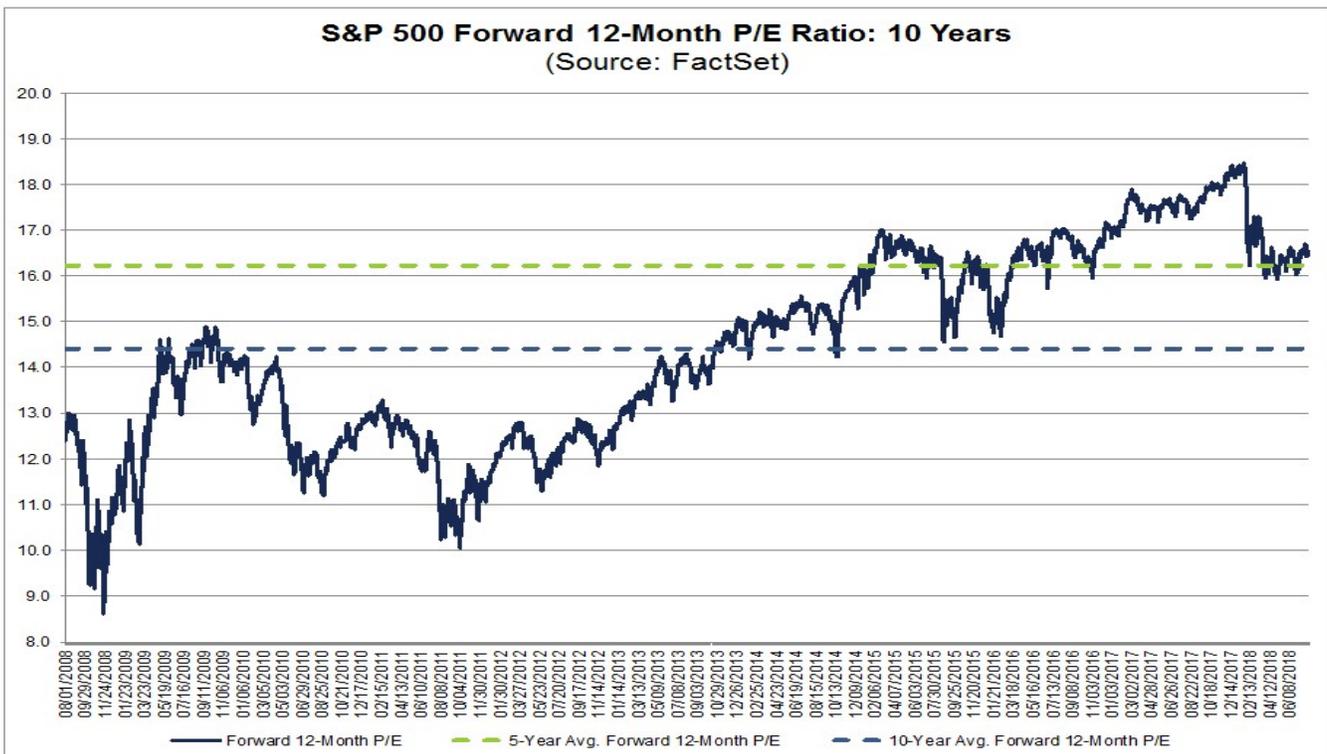
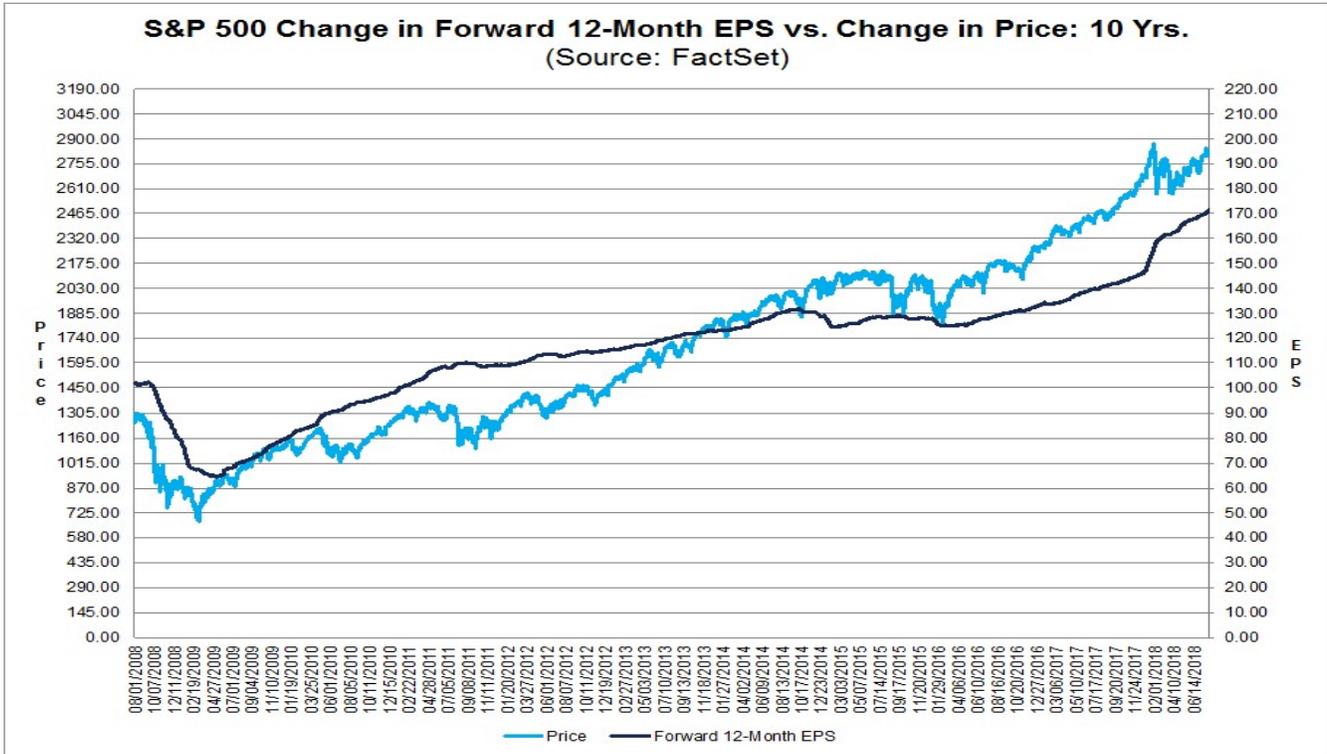
Forward 12M P/E Ratio: Sector Level



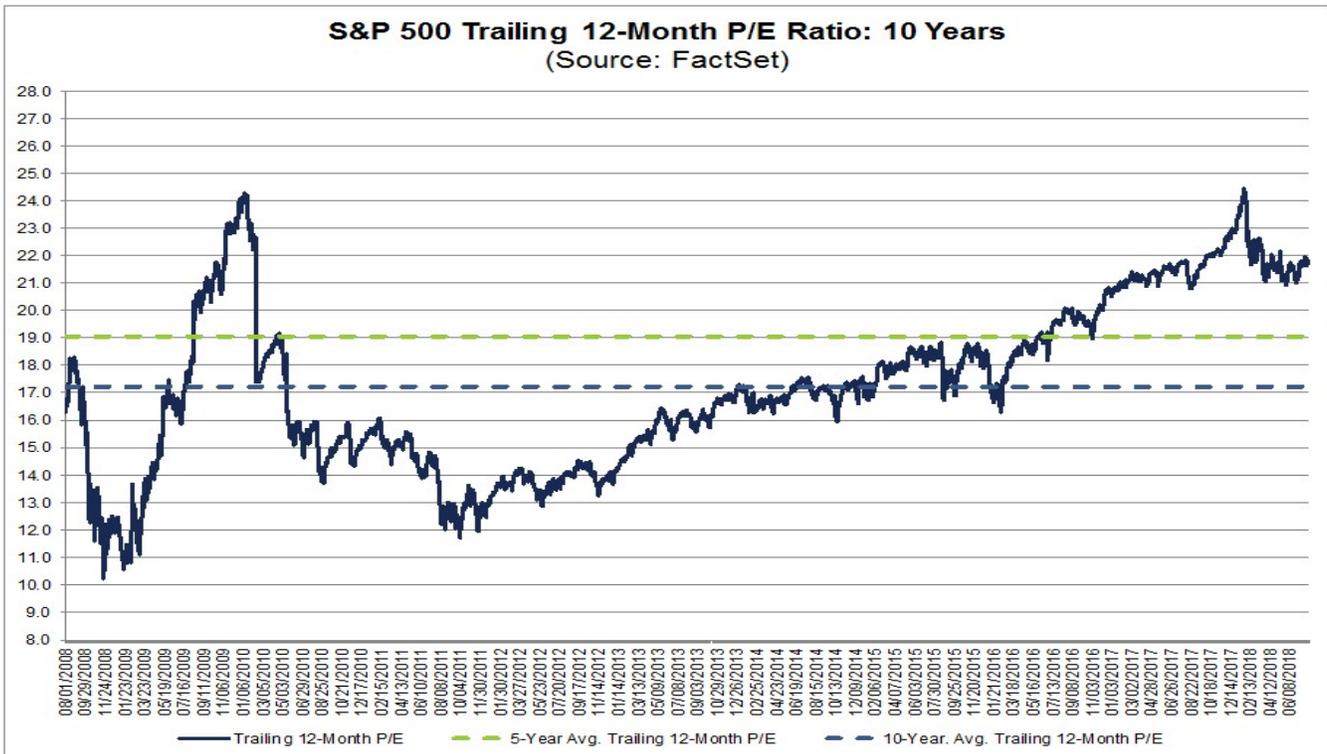
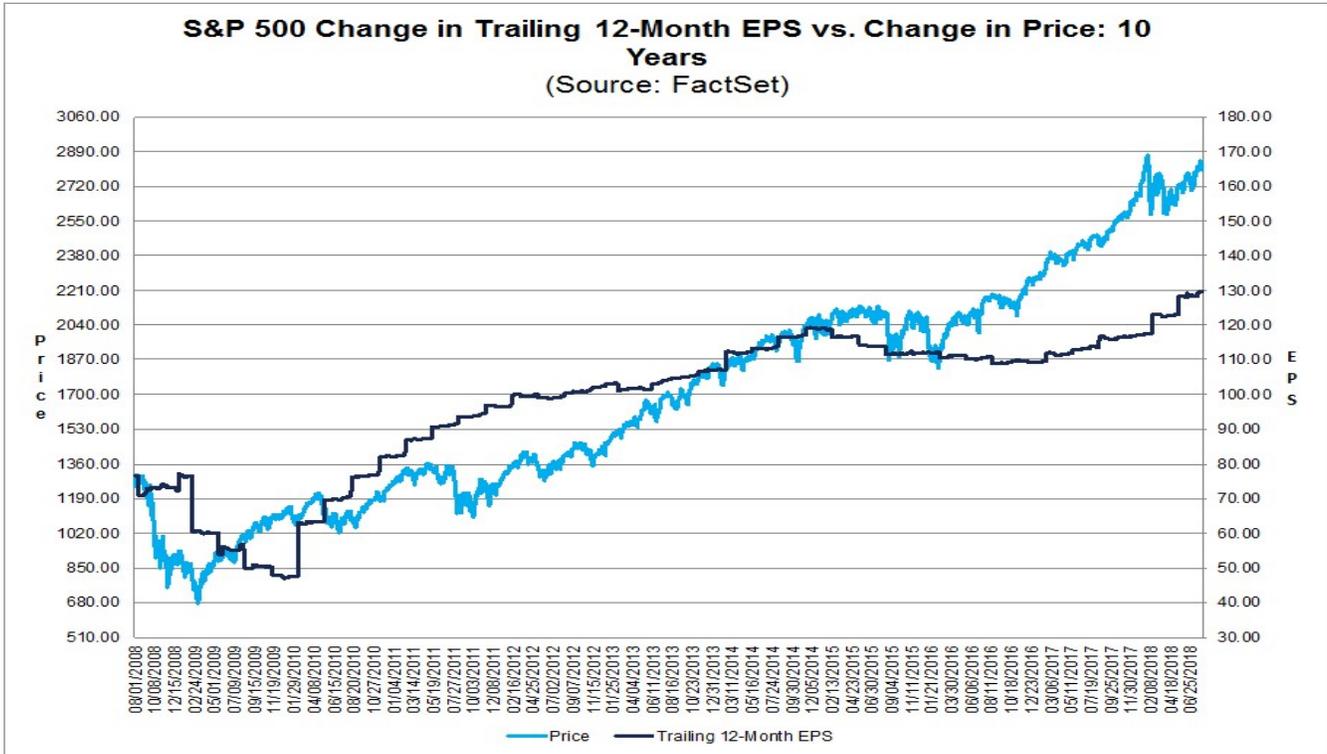
Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Jun 30
(Source: FactSet)



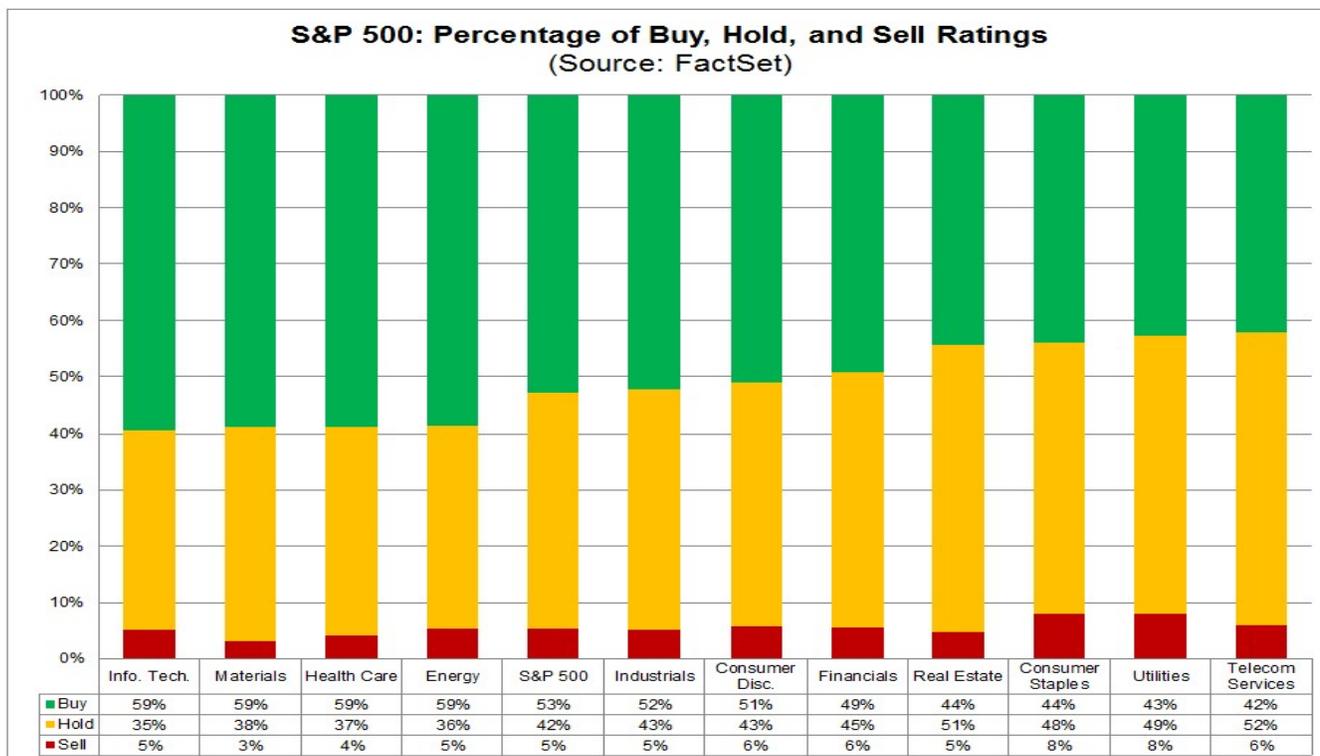
Forward 12M P/E Ratio: Long-Term Averages



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



Targets & Ratings



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