Earnings Insight

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Key Metrics

- **Earnings Growth:** For Q3 2017, the estimated earnings growth rate for the S&P 500 is 4.2%. Eight sectors are expected to report earnings growth for the quarter, led by the Energy sector.

- **Earnings Revisions:** On June 30, the estimated earnings growth rate for Q3 2017 was 7.5%. Nine sectors have lower growth rates today (compared to June 30) due to downward revisions to earnings estimates, led by the Energy sector.

- **Earnings Guidance:** For Q3 2017, 76 S&P 500 companies have issued negative EPS guidance and 42 S&P 500 companies have issued positive EPS guidance.

- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 17.7. This P/E ratio is above the 5-year average (15.6) and above the 10-year average (14.1).

- **Earnings Scorecard:** For Q3 2017 (with 16 companies in the S&P 500 reporting actual results for the quarter), 13 companies have reported positive EPS surprises and 13 companies have reported positive sales surprises.

S&P 500 Change in Forward 12-Month EPS vs. Change in Price: 10 Yrs.
(Source: FactSet)
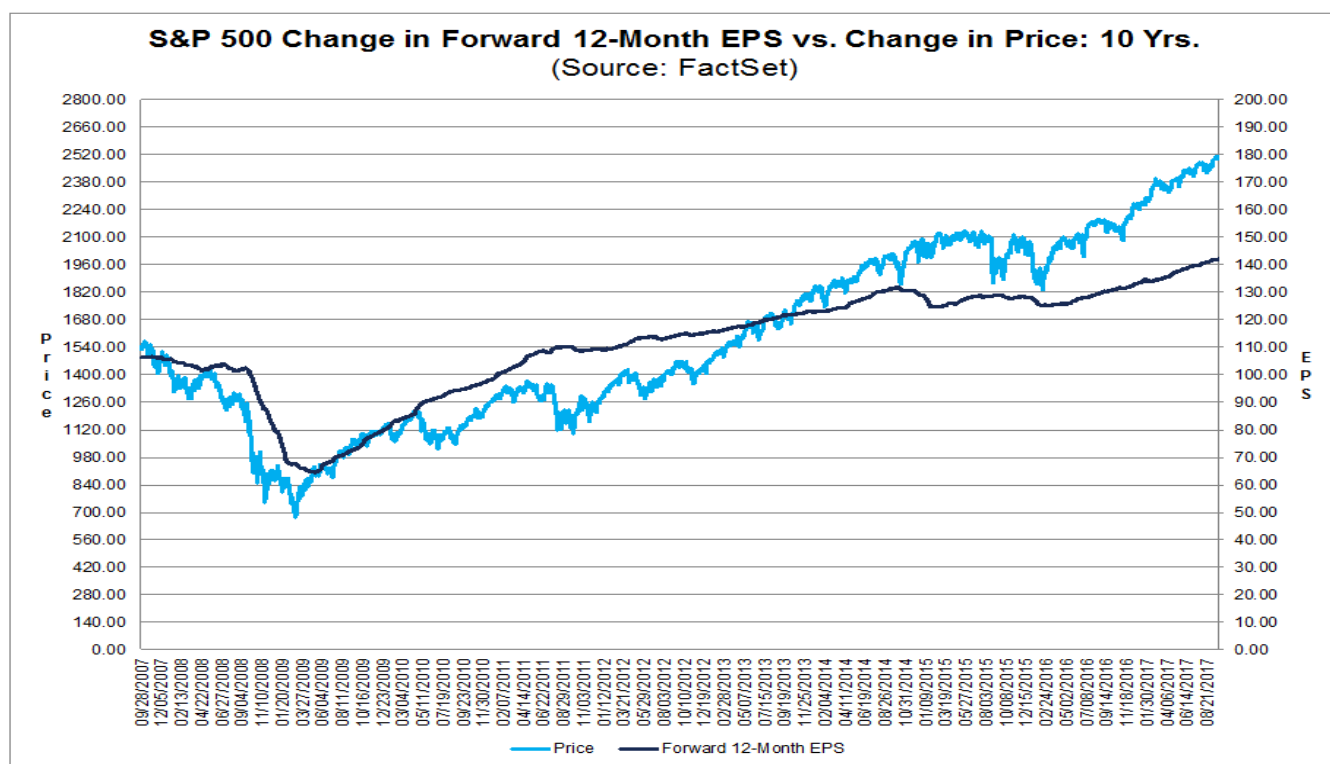
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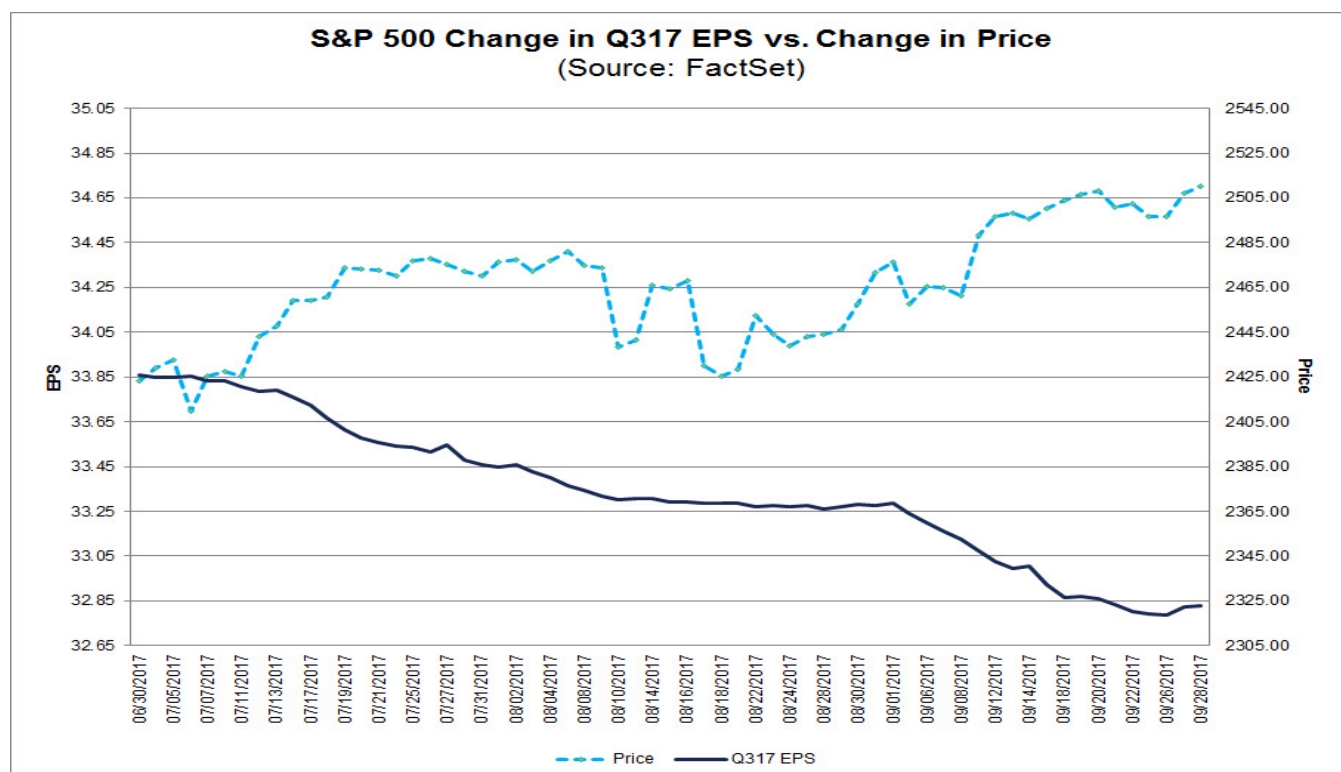
Topic of the Week: 1

Despite Hurricanes, Cuts to S&P 500 EPS Estimates for Q3 Were Below Long-Term Averages

During the third quarter, analysts lowered earnings estimates for companies in the S&P 500 for the quarter. The Q3 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for all the companies in the index) has dropped by 3.0% (to $32.83 from $33.86) during this period. How significant is a 3.0% decline in the bottom up EPS estimate during a quarter? How does this decrease compare to recent quarters?

During the past year (4 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 2.8%. During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 4.2%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 6.0%. Thus, the decline in the bottom-up EPS estimate recorded during the third quarter was larger than the 1-year average, but smaller than both the 5-year average and the 10-year average.

At the sector level, all eleven sectors recorded a decline in their bottom-up EPS estimate during the quarter. Five sectors recorded a decline in their bottom-up EPS estimate that was smaller than both the 5-year average and the 10-year average for the sector, led by the Information Technology (-0.1%) sector. On the other hand, three sectors recorded a decline in their bottom-up EPS estimate that was larger than both the 5-year average and the 10-year average for the sector, led by the Energy (-16.4%) sector. It interesting to note that most of the drop in the bottom-up EPS estimate for the Energy sector occurred during the month of June. This sector actually recorded a 3.1% increase in the bottom-up EPS estimate during the month of September.

As the bottom-up EPS estimate for the index declined the quarter, the value of the S&P 500 increased during this same period. From June 30 through September 28, the value of the index increased by 3.6% (to 2510.06 from 2423.41). Assuming the price of the index closes above 2423.41 today, this quarter will mark the 17th time in the past 20 quarters in which the bottom-up EPS estimate decreased during the quarter while the value of the index increased over this same period.

S&P 500 Change in Q317 EPS vs. Change in Price
(Source: FactSet)

Topic of the Week: 2

Industry Analysts Project 8% Increase for S&P 500 Over the Next 12 Months

For the third quarter to date, the S&P 500 index has recorded an increase in value of 3.6% (to 2510.06 from 2423.41). Over the past year (since September 30, 2016), the S&P 500 index has witnessed an increase in value of 15.8% (to 2510.06 from 2168.27). Where do industry analysts believe the price of the index will go from here?

Industry analysts in aggregate predict the S&P 500 will see an 8.4% increase in price over the next twelve months. This percentage is based on the difference between the bottom-up target price and the closing price for the index. The bottom-up target price is calculated by aggregating the median target price estimates (based on company-level estimates submitted by industry analysts) for all the companies in the index. On September 28, the bottom-up target price for the S&P 500 was 2721.60, which was 8.4% above the closing price of 2510.06.
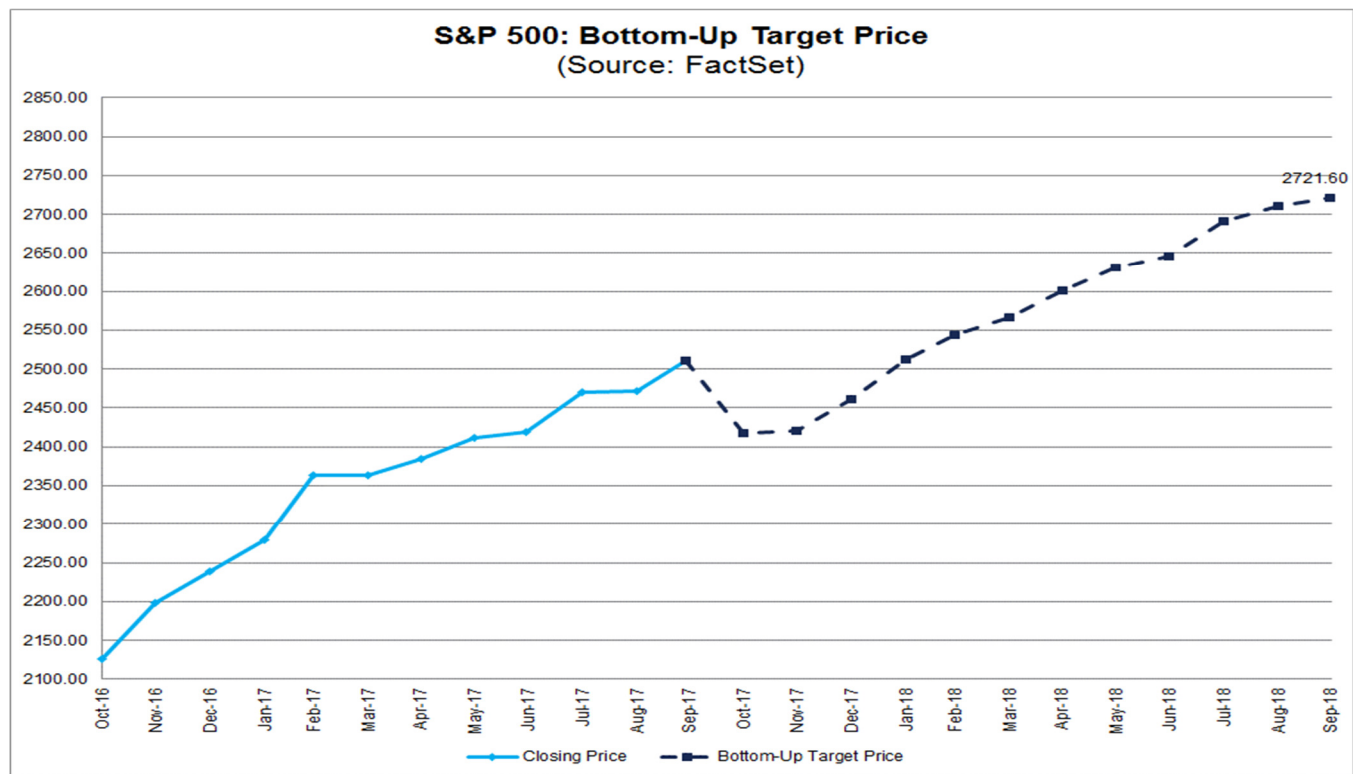
At the sector-level, the Consumer Discretionary (+13.1%) and Information Technology (+11.6%) sectors have the largest upside difference between the bottom-up target price and the closing price, while the Telecom Services (+4.2%), Financials (+4.5%), and Utilities (+4.5%) sectors have the smallest upside differences between the bottom-up target price and the closing price. For the companies in the index with the largest upside and downside differences between the median target price and the closing price, please page 5.

How have analysts performed in terms of their target price estimates over the past 12 months?

At the index level one year ago (September 30, 2016), the bottom-up target price was 2401.24. Compared to the most recent closing price of 2510.06 on September 28, 2017, industry analysts underestimated the price of the index by about 4.3% one year ago.

At the sector level one year-ago (September 30, 2016), the Materials (+18.0%) and Health Care (+14.3%) sectors had the largest upside percentage differences between the bottom-up target price and the closing price in the index. Over the past 12 months (since September 30, 2016), the Materials sector has recorded the fourth highest price return of all eleven sectors at 18.8%, while the Health Care sector has recorded the fifth highest price return of all eleven sectors at 12.8%. As previously noted, the S&P 500 recorded a price return of 15.8% during this same period.

At the company level, the S&P 500 can be divided into five quintiles based on the percentage difference between the median target price and the closing price on September 30, 2016 to analyze price performance. The quintile with the highest positive percentage differences between the median target price and the closing price on September 30, 2016 (Quintile 1) saw the third highest average price increase (+13.4%) and the third highest median price increase (+13.7%) of the five quintiles during this period. The quintile with the highest negative percentage differences between the median target price and the closing price on September 30, 2016 saw the lowest average price increase (+12.0%) and the lowest average median price increase (+12.3%) of the five quintiles during this period. However, all five quintiles recorded double-digit price returns during this period. The third quintile (Quintile 3) recorded the highest average price increase (+15.7%) during this period, while the second quintile (Quintile 2) recorded the highest median price increase during this period. Price returns for companies in the index that were acquired or no longer traded publicly after September 30, 2016 (i.e. do not have a current trading price) were excluded from the price analysis for the quintiles.

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S&P 500: Bottom-Up Target Price
(Source: FactSet)

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

	Consumer Disc.	Info. Tech.	Consumer Staples	S&P 500	Real Estate	Materials	Health Care	Industrials	Energy	Utilities	Financials	Telecom Services
Target/Close	13.1%	11.6%	9.7%	8.4%	8.2%	8.0%	7.7%	5.4%	5.4%	4.5%	4.5%	4.2%

S&P 500: Difference Between Median Target Price & Closing Price: Top 10 (Source: FactSet)

Company	Target	Closing	Diff ($)	Diff (%)
Envision Healthcare Corp.	70.00	44.00	26.00	59.1%
Mattel, Inc.	22.00	15.01	6.99	46.6%
Range Resources Corporation	28.00	19.72	8.28	42.0%
Twenty-First Century Fox, Inc. Cl B	36.00	26.01	9.99	38.4%
Western Digital Corporation	120.00	86.71	33.29	38.4%
Mylan N.V.	42.50	30.86	11.64	37.7%
Viacom Inc. Class B	38.00	27.85	10.15	36.4%
Newell Brands Inc	57.00	41.95	15.05	35.9%
CBS Corporation Class B	76.00	56.92	19.08	33.5%
Twenty-First Century Fox, Inc. Cl A	35.00	26.56	8.44	31.8%

S&P 500: Difference Between Median Target Price & Closing Price: Bottom 10 (Source: FactSet)

Company	Target	Closing	Diff ($)	Diff (%)
CF Industries Holdings, Inc.	30.00	34.84	-4.84	-13.9%
Gap, Inc.	26.00	29.52	-3.52	-11.9%
Expeditors Intl. of Washington, Inc.	53.50	59.63	-6.13	-10.3%
Helmerich & Payne, Inc.	48.00	52.41	-4.41	-8.4%
Genuine Parts Company	87.50	95.19	-7.69	-8.1%
C.H. Robinson Worldwide, Inc.	69.50	75.48	-5.98	-7.9%
Kohl's Corporation	42.50	45.94	-3.44	-7.5%
Xilinx, Inc.	65.00	70.19	-5.19	-7.4%
Torchmark Corporation	74.00	79.74	-5.74	-7.2%
Rockwell Automation, Inc.	165.00	177.27	-12.27	-6.9%

S&P 500: Median Target Price (Sep. 30, 2016) vs. Price Performance (Source: FactSet)

■ Average Price Return (Since September 30, 2016) ■ Median Price Return (Since September 30, 2016)
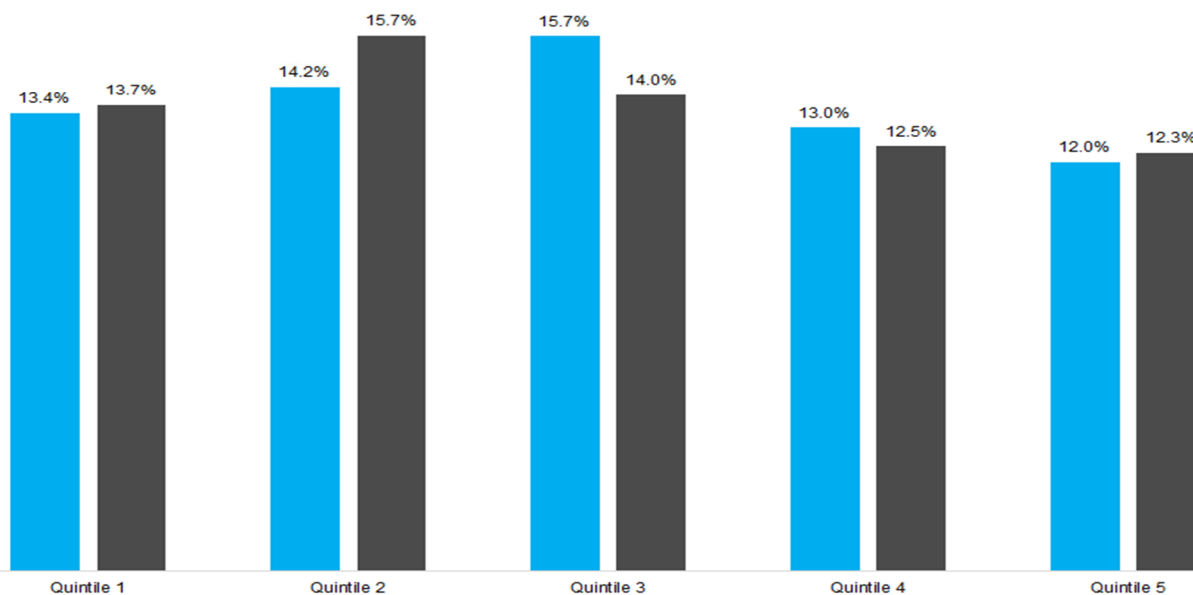
Topic of the Week: 3

Technology, Energy, and Health Care Sectors Have Highest % of Buy Ratings in S&P 500

At the end of the third quarter, where are analysts most optimistic and pessimistic in terms of their ratings on stocks in the S&P 500? Overall, there are 11,028 ratings on stocks in the S&P 500. Of these 11,028 ratings, 49.5% are Buy ratings, 45.4% are Hold ratings, and 5.1% are Sell ratings.
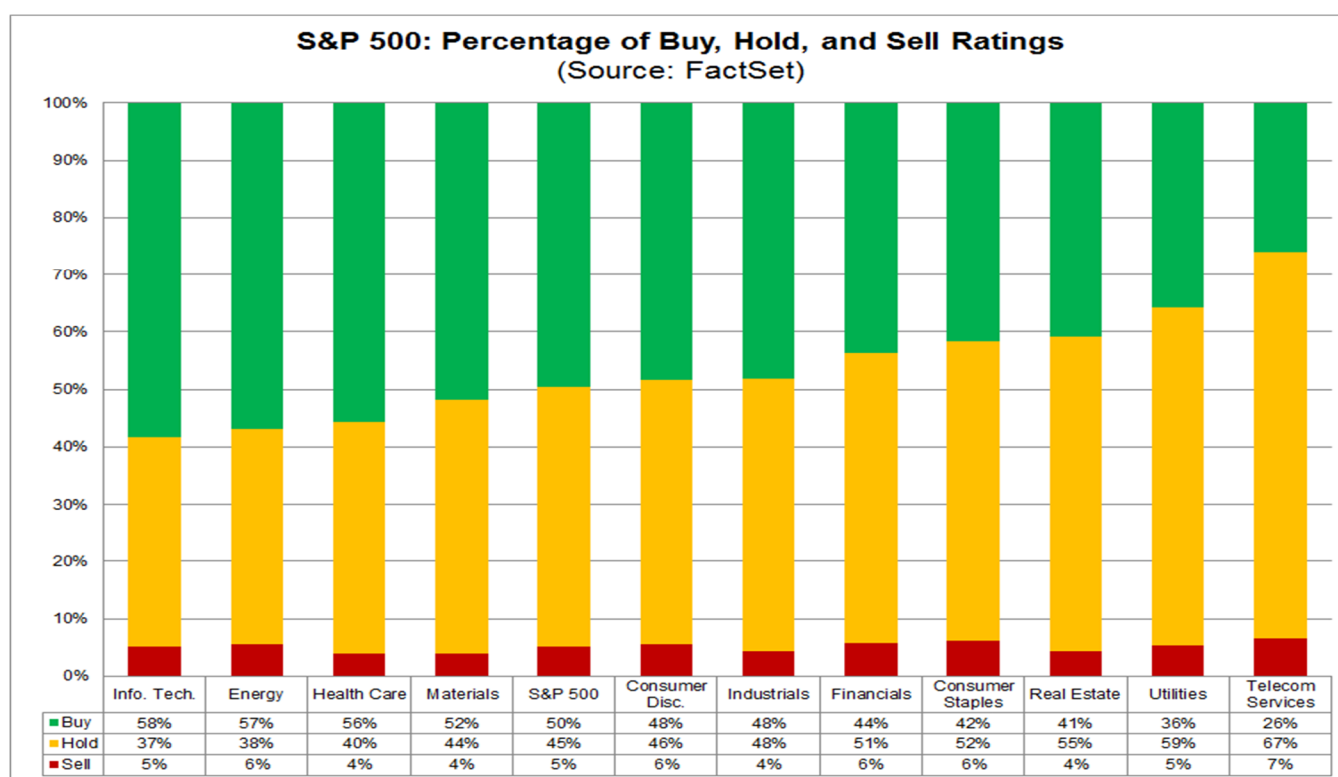
At the sector level, analysts are most optimistic on the Information Technology (58%), Energy (57%), and Health Care (56%) sectors, as these three sectors have highest percentages of Buy ratings. On the other hand, analysts are most pessimistic about the Telecom Services (7%), as this sector has the highest percentage of Sell ratings.

At the company level, the ten stocks in the S&P 500 with the highest percentages of Buy ratings and the highest percentages of Sell ratings are listed on the next page.

How have analysts performed in terms of their ratings over the past 12 months?

At the sector level, the Health Care (55%) and Information Technology (54%) sectors had the highest percentages of Buy ratings back on September 30, 2016. Over the past 12 months (since September 30, 2016), the Health Care sector has recorded the fifth highest price return of all eleven sectors at 12.8%, while the Information Technology sector has recorded the second highest price return of all eleven sectors at 26.1%. As previously noted, the S&P 500 recorded a price return of 15.8% during this same period.

At the company level, S&P 500 companies with the smallest percentage of Buy ratings underperformed the rest of the index in terms of price returns over the past year. The S&P 500 can be divided into five quintiles based on the percentage of Buy ratings on September 30, 2016 to analyze price performance. The quintile with the highest percentage of Buy ratings on September 30, 2016 (Quintile 1) saw the second highest average price increase (+16.9%) and the highest median price increase (+20.1%) of the five quintiles during this period. The quintile with the lowest percentage of Buy ratings on September 30, 2016 (Quintile 5) saw the lowest average price increase (+5.3%) and the lowest median price increase (+5.7%) of the five quintiles during this period. Price returns for companies that were acquired after September 30, 2016 (i.e. do not have a current trading price) were excluded from the price analysis.

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

	Info. Tech.	Energy	Health Care	Materials	S&P 500	Consumer Disc.	Industrials	Financials	Consumer Staples	Real Estate	Utilities	Telecom Services
Buy	58%	57%	56%	52%	50%	48%	48%	44%	42%	41%	36%	26%
Hold	37%	38%	40%	44%	45%	46%	48%	51%	52%	55%	59%	67%
Sell	5%	6%	4%	4%	5%	6%	4%	6%	6%	4%	5%	7%

Highest % of Buy Ratings in S&P 500: Top 10 (Source: FactSet)

Company	Buy	Hold	Sell	Total
Align Technology, Inc.	**100%**	0%	0%	100%
UnitedHealth Group Incorporated	**95%**	0%	5%	100%
Delta Air Lines, Inc.	**95%**	5%	0%	100%
Broadcom Limited	**94%**	6%	0%	100%
Comcast Corporation Class A	**94%**	6%	0%	100%
Envision Healthcare Corp.	**94%**	6%	0%	100%
American Tower Corporation	**92%**	8%	0%	100%
Harris Corporation	**91%**	9%	0%	100%
Pioneer Natural Resources Co.	**90%**	10%	0%	100%
Facebook, Inc. Class A	**89%**	7%	4%	100%

Highest % of Sell Ratings in S&P 500: Top 10 (Source: FactSet)

Company	Buy	Hold	Sell	Total
Consolidated Edison, Inc.	0%	50%	**50%**	100%
News Corporation Class B	0%	50%	**50%**	100%
Torchmark Corporation	0%	56%	**44%**	100%
Helmerich & Payne, Inc.	17%	47%	**37%**	100%
Western Union Company	17%	50%	**33%**	100%
VeriSign, Inc.	0%	67%	**33%**	100%
Campbell Soup Company	17%	56%	**28%**	100%
Apache Corporation	24%	48%	**28%**	100%
IDEXX Laboratories, Inc.	55%	18%	**27%**	100%
Franklin Resources, Inc.	7%	67%	**27%**	100%

S&P 500: % of Buy Ratings (Sep. 30, 2016) vs. Price Performance
(Source: FactSet)

■Average Price Return (Since Sep. 30, 2016)   ■Median Price Return (Since Sep. 30, 2016)
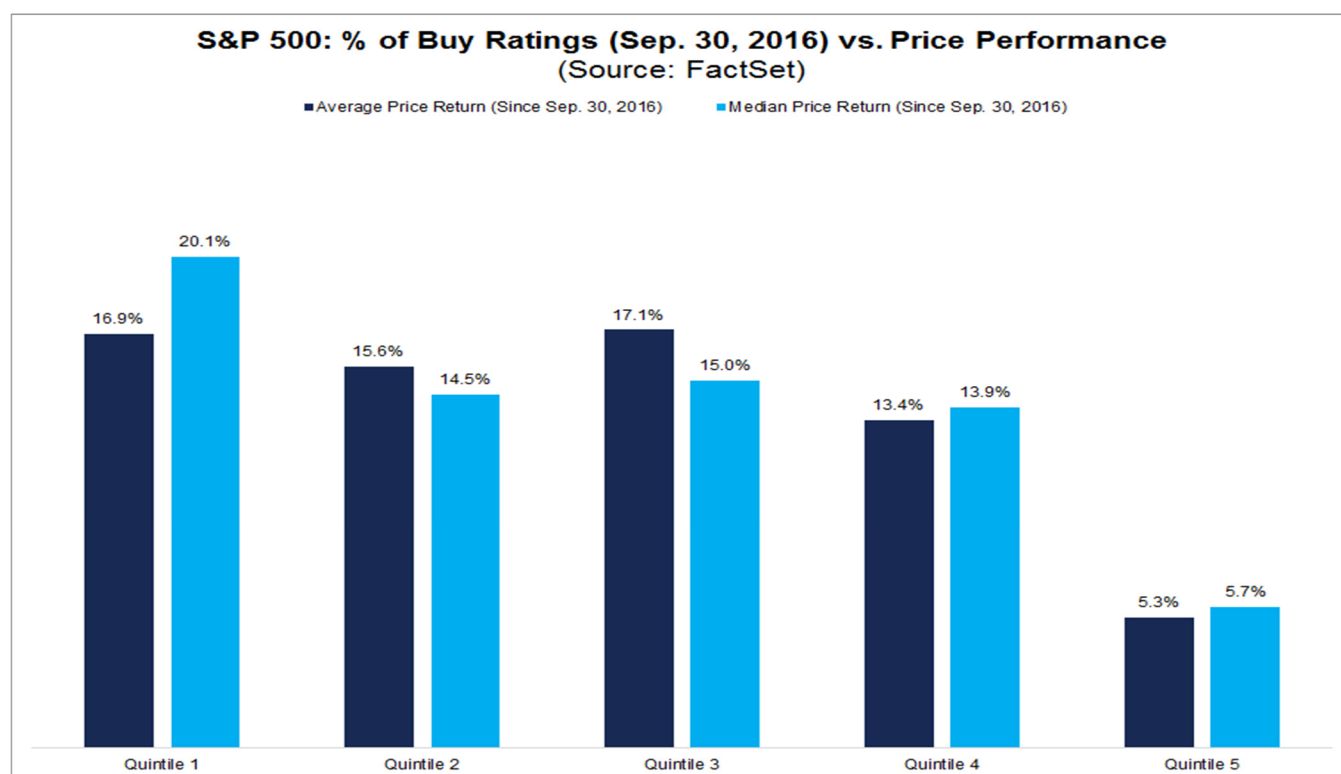
Q3 2017 Earnings Season: By the Numbers

Overview

In terms of estimate revisions, analysts made smaller cuts than average to earnings estimates for companies in the S&P 500 for Q3 2017. On a per-share basis, estimated earnings for the third quarter fell by 3.0% during the quarter. This percentage decline was smaller than the trailing 5-year average (-4.2%) and the trailing 10-year average (-6.0%) for a quarter.

In addition, a smaller percentage of S&P 500 companies have lowered the bar for earnings for Q3 2017 relative to recent averages. Of the 118 companies that have issued EPS guidance for the third quarter, 76 have issued negative EPS guidance and 42 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 64% (76 out of 118), which is below the 5-year average of 75%.

Because of the downward revisions to earnings estimates, the estimated year-over-year earnings growth rate for Q3 2017 has fallen from 7.5% on June 30 to 4.2% today. Eight sectors are predicted to report year-over-year earnings growth, led by the Energy, Information Technology, and Real Estate sectors. Three sectors are projected to report a year-over-year decline in earnings, led by the Consumer Discretionary sector.

Because of the downward revisions to sales estimates, the estimated year-over-year revenue growth rate for Q3 2017 has fallen from 5.2% on June 30 to 5.0% today. Ten sectors are projected to report year-over-year growth in revenues, led by the Energy, Materials, and Information Technology sectors. The only sector predicted to report a year-over-year decline in revenues is the Telecom Services sector.

Looking at future quarters, analysts currently project earnings growth to rebound to double-digit levels starting in Q4 2017.

The forward 12-month P/E ratio is 17.7, which is above the 5-year average and the 10-year average.

During the upcoming week, seven S&P 500 companies are scheduled to report results for the third quarter.

Earnings Revisions: Energy Sector Has Recorded Largest Drop in Expected Earnings Growth

Small Increase in Estimated Earnings Growth Rate for Q3 This Week Due to Upside Surprises

The estimated earnings growth rate for the third quarter is 4.2% this week, which is slightly above the estimated earnings growth rate of 4.1% last week. The upside earnings surprises reported by Micron Technology ($2.02 vs. $1.84) and NIKE ($0.57 vs. $0.48) were mainly responsible for the small increase in the overall earnings growth rate for the index during the week.

Overall, the estimated earnings growth rate for Q3 2017 of 4.2% today is below the estimated earnings growth rate of 7.5% at the start of the quarter (June 30). Nine sectors have recorded a decline in expected earnings growth since the beginning of the quarter due to downward revisions to earnings estimates, led by the Energy and Materials sectors.

Energy: Largest Decline in Expected Earnings Growth since June 30, led by Exxon Mobil and Chevron

The Energy sector has recorded the largest decrease in expected earnings growth since the start of the quarter (to 109.4% from 157.3%). Despite the decrease in estimated earnings, this sector has witnessed an increase in price of 6.1% since June 30. Overall, 24 of the 32 companies (75%) in the Energy sector have seen a decline in their mean EPS estimate during this time. Of these 24 companies, 23 have recorded a decrease in their mean EPS estimate of more than 10%, led by Anadarko Petroleum (to -$0.54 from -$0.09), Marathon Oil (to -$0.16 from -$0.05), and Apache Corporation (to $0.01 from $0.25). However, the declines in the mean EPS estimates for Exxon Mobil (to $0.84 from $0.99) and Chevron (to $0.89 from $1.14) have been the largest contributors to the decrease in expected earnings for this sector since June 30. Despite the cuts to EPS estimates, both companies have seen their stock prices increase during the quarter. The stock price of Exxon Mobil has increased by 1.4% (to $81.85 from $80.73) since June 30, while the stock price of Chevron has increased by 12.2% (to $117.06 from $104.33) during the same period.

Materials: 2nd Largest Decrease in Expected Earnings Growth, led by DowDuPont

The Materials sector has recorded the second largest decrease in expected earnings growth since the start of the quarter (to 0.8% from 24.0%). Despite the decrease in estimated earnings, this sector has witnessed an increase in price of 5.6% since June 30. Overall, 17 of the 25 companies (68%) in this sector have seen a decline in their mean EPS estimate during this time. Of these 17 companies, 7 have recorded a drop in their mean EPS estimate of more than 10%, led by CF Industries Holdings (to -$0.56 from -$0.29) and DowDuPont (to $0.44 from $0.95). The decline in the mean EPS estimate for DowDuPont has been the largest contributor to the decrease in expected earnings for this sector since June 30. On September 1, analysts converted EPS estimates from standalone Dow Chemical ($0.94) to the combined DowDuPont entity ($0.60) after the completion of the merger. On September 12, analysts lowered EPS estimates after DowDuPont provided some pro forma EBITDA guidance (including hurricane impacts) for the quarter.

Index-Level (Bottom-Up) EPS Estimate: Below Average Decline

Downward revisions to earnings estimates in aggregate for the third quarter were below recent averages. The Q3 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) fell by 3.0% (to $32.83 from $33.86) during the quarter. This decline in the EPS estimate for Q3 2017 was below the trailing 5-year average (-4.2%) and the trailing 10-year average (-6.0%) for the bottom-up EPS estimate for a quarter. For more details on revisions, please see page 2

Earnings Guidance: High Number of Companies (42) Issuing Positive EPS Guidance for Q3

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, 118 companies in the index have issued EPS guidance for Q3 2017. Of these 118 companies, 76 have issued negative EPS guidance and 42 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 64% (76 out of 118), which is below the 5-year average of 75%. While the number of companies issuing negative EPS is slightly below the 5-year average (79), the number of companies issuing positive EPS guidance is well above the 5-year average (27). If 42 is the final number for the quarter, it will mark the fourth highest number of S&P 500 companies issuing positive EPS guidance for a quarter since FactSet began tracking EPS guidance in 2006. At the sector level, companies in the Information Technology, Health Care, and Consumer Discretionary sectors account for 38 of the 42 companies that have issued positive EPS guidance for the third quarter.

For more details on EPS guidance for Q3, please see these articles at the following links:

https://insight.factset.com/earningsinsight_09.22.17

https://insight.factset.com/earningsinsight_09.25.17

Earnings Growth: 4.2%

The estimated (year-over-year) earnings growth rate for Q3 2017 is 4.2%. Eight sectors are expected to report year-over-year growth in earnings, led by the Energy, Information Technology, and Real Estate sectors. On the other hand, three sectors are expected to report a year-over-year decline in earnings, led by Consumer Discretionary sector.

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

The Energy sector is projected to report the highest (year-over-year) earnings growth of all eleven sectors at 109.4%. The unusually high growth rate for the sector is mainly due to unusually low earnings in the year-ago quarter. On a dollar-level basis, the Energy sector is predicted to report earnings of $9.5 billion in Q3 2017, compared to earnings of 4.6 billion in Q3 2016. This sector is also expected to be the largest contributor to earnings growth for the S&P 500. If the Energy sector were excluded, the estimated earnings growth rate for the remaining ten sectors would fall to 2.5% from 4.2%.

At the sub-industry level, all six sub-industries in the sector are projected to report earnings growth: Oil & Gas Exploration & Production (N/A due to year-ago loss), Oil & Gas Drilling (N/A due to year-ago loss), Oil & Gas Equipment & Services (250%), Oil & Gas Refining & Marketing (63%), Integrated Oil & Gas (38%), and Oil & Gas Storage & Transportation (12%).

Information Technology: Semiconductor Industry Leads Growth

The Information Technology sector is expected to report the second highest (year-over-year) earnings growth of all eleven sectors at 8.8%. At the industry level, five of the seven industries in this sector are predicted to report earnings growth. Only one of these five industries is projected to report double-digit earnings growth: Semiconductor & Semiconductor Equipment (31%). The Semiconductor & Semiconductor Equipment industry is also expected to be the largest contributor to earnings growth for the sector. If this industry were excluded, the estimated earnings growth rate for the Information Technology sector would fall to 3.6% from 8.8%. At the company level, Micron Technology is expected to be the largest contributor to earnings growth for the sector. The company reported actual EPS of $2.02 for Q3 2017, compared to year-ago EPS of -$0.05. If Micron Technology alone were excluded, the estimated earnings growth rate for the Information Technology sector would fall to 4.7% from 8.8%.

Real Estate: Specialized REITs and Retail REITs Lead Growth

The Real Estate sector is expected to report the third highest (year-over-year) earnings (FFO) growth of all eleven sectors at 6.9%. At the sub-industry level, four of the eight sub-industries in this sector are predicted to report FFO growth. Two of these four industries are projected to report double-digit FFO growth: Specialized REITs (17%) and Retail REITs (13%).

Consumer Discretionary: General Motors Leads Decline

The Consumer Discretionary sector is expected to report the largest (year-over-year) decline in earnings for the quarter at -2.7%. At the industry level, six of the twelve industries in this sector projected to report a decline in earnings, led by the Automobiles (-23%) industry. At the company level, General Motors is expected to be the largest contributor to the earnings decline for the sector. The mean EPS estimate for the company for Q3 2017 is $1.12, compared to year-ago EPS of $1.72. If General Motors were excluded, the estimated earnings growth rate for the Consumer Discretionary sector would rise to 0.6% from -2.7%

Revenue Growth: 5.0%

The estimated (year-over-year) revenue growth rate for Q3 2017 is 5.0%. Ten sectors are expected to report year-over-year growth in revenues, led by the Energy, Materials, and Information Technology sectors. The only sector that is expected to report a decline in revenues is the Telecom Services sector.

Energy: Highest Revenue Growth

The Energy sector is expected to report the highest (year-over-year) revenue growth of all eleven sectors at 17.1%. At the sub-industry level, five of the six sub-industries in the sector are predicted to report revenue growth: Oil & Gas Equipment & Services (55%), Oil & Gas Drilling (47%), Oil & Gas Refining & Marketing (26%), Integrated Oil & Gas (11%), and Oil & Gas Storage & Transportation (2%). On the other hand, the Oil & Gas Exploration & Production (-3%) sub-industry is the only sub-industry that is expected to report a year-over-year decline in earnings.

This sector is also expected to be the largest contributor to revenue growth for the S&P 500. If the Energy sector were excluded, the estimated revenue growth rate for the index would fall to 4.0% from 5.0%.

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

The Materials sector is expected to report the second highest (year-over-year) revenue growth of all eleven sectors at 12.5%. At the industry level, all four industries in this sector are predicted to report revenue growth, led by the Chemicals (16%) industry. At the company level, DowDuPont is expected to be the largest contributor to revenue growth for the sector. However, the mean revenue estimate for Q3 2017 ($17.7 billion) reflects the combined DowDuPont company, while the year-ago revenue actual for Q3 2016 ($12.5 billion) reflects the standalone Dow Chemical company. This apples-to-oranges comparison is the main reason DowDuPont is expected to be the key driver of revenue growth for the sector. If DowDuPont were excluded, the estimated revenue growth rate for the sector would fall to 6.6% from 12.5%.

Information Technology: Internet Software & Services Leads Growth

The Information Technology sector is expected to report the third highest (year-over-year) revenue growth of all eleven sectors at 8.1%. At the industry level, five of the seven industries in this sector are predicted to report revenue growth. Three of these five industries are projected to report double-digit revenue growth: Internet Software & Services (22%), Semiconductor & Semiconductor Equipment (14%), and IT Services (11%).

Telecom Services: 2 of 4 Companies to Report Sales Decline

The Telecom Services sector is the only sector that is expected to report a (year-over-year) decline in revenues at -0.5%. Two of the four companies in the sector are projected to report a sales decline for the quarter, led by CenturyLink (-7%).

Looking Ahead: Forward Estimates and Valuation

Growth Expected to Rebound to Double-Digit Levels after Q3

For the third quarter, companies are expected to report earnings growth of 4.2% and revenue growth of 5.0%. Analysts currently expect earnings to rebound to double-digit levels over the next few quarters.

For Q4 2017, analysts are projecting earnings growth of 11.2% and revenue growth of 5.7%.

For Q1 2018, analysts are projecting earnings growth of 10.4% and revenue growth of 6.1%.

For Q2 2018, analysts are projecting earnings growth of 10.3% and revenue growth of 5.9%.

For all of 2017, analysts are projecting earnings growth of 9.6% and revenue growth of 5.7%.

Valuation: Forward P/E Ratio is 17.7, above the 10-Year Average (14.1)

The forward 12-month P/E ratio is 17.7. This P/E ratio is above the 5-year average of 15.6, and above the 10-year average of 14.1. It is also above the forward 12-month P/E ratio of 17.4 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 3.6%, while the forward 12-month EPS estimate has increased by 1.9%.

At the sector level, the Energy (29.9) sector has the highest forward 12-month P/E ratio, while the Telecom Services (13.2) sector has the lowest forward 12-month P/E ratio. Nine sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (29.9 vs. 18.8) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (13.2 vs. 14.2). Historical averages are not available for the Real Estate sector.

Targets & Ratings: Analysts Project 8% Increase in Price Over Next 12 Months

The bottom-up target price for the S&P 500 is 2721.60, which is 8.4% above the closing price of 2510.06. At the sector level, the Consumer Discretionary (+13.1%) and Information Technology (+11.6%) sectors have the largest upside differences between the bottom-up target price and the closing price, while the Telecom Services (+4.2%), Financials (+4.5%), and Utilities (+4.5%) sectors have the smallest upside differences between the bottom-up target price and the closing price. For more details on target prices, please see pages 3 thru 5.

Overall, there are 11,028 ratings on stocks in the S&P 500. Of these 11,028 ratings, 49.5% are Buy ratings, 45.4% are Hold ratings, and 5.1% are Sell ratings. At the sector level, the Information Technology (58%), Energy (57%), and Health Care (56%) sectors have the highest percentages of Buy ratings, while the Telecom Services (7%) sector has the highest percentage of Sell ratings. For more details on ratings, please see pages 6 and 7.

Companies Reporting Next Week: 7

During the upcoming week, seven S&P 500 companies are scheduled to report results for the third quarter.

Q2 2017: Scorecard

S&P 500 Earnings Above, In-Line, Below Estimates: Q2 2017
(Source: FactSet)

	Info. Technology	Health Care	Real Estate	Industrials	Financials	S&P 500	Utilities	Consumer Disc.	Materials	Consumer Staples	Energy	Telecom Services
■ Below	4%	10%	19%	15%	15%	18%	14%	25%	28%	29%	38%	25%
■ In-Line	10%	11%	3%	10%	11%	10%	14%	8%	8%	12%	3%	25%
■ Above	85%	79%	77%	75%	74%	72%	71%	67%	64%	59%	59%	50%
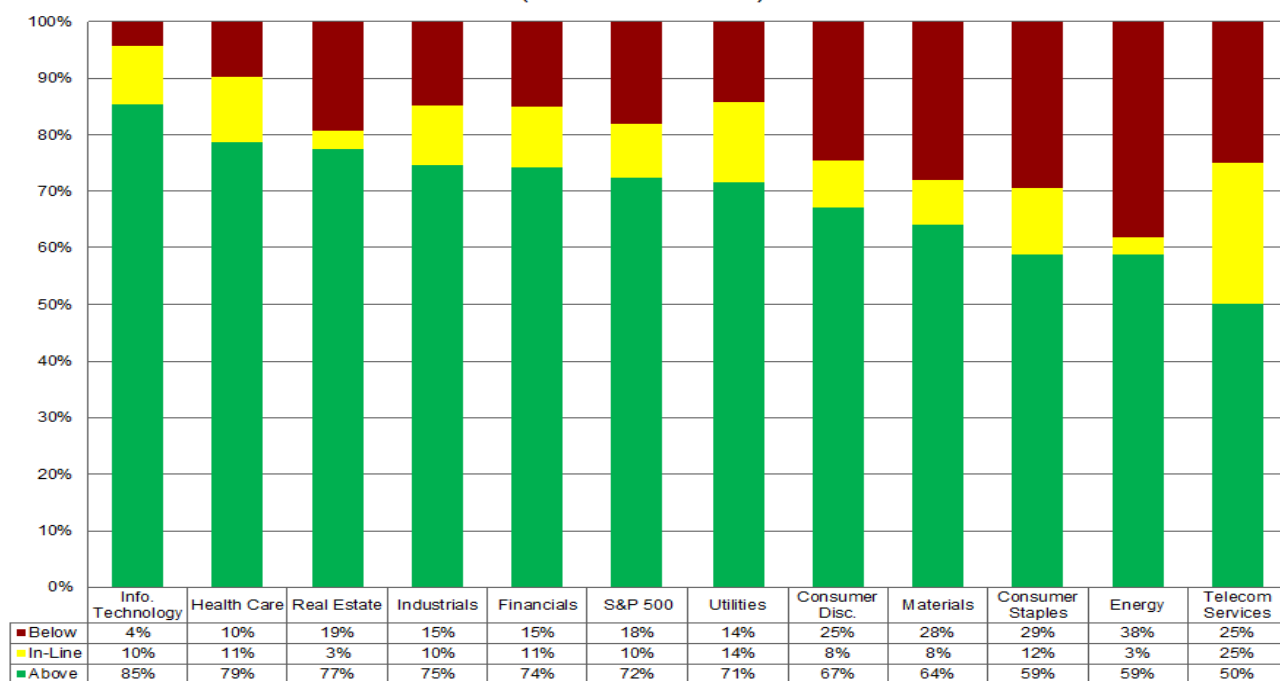
S&P 500 Revenues Above, In-Line, Below Estimates: Q2 2017
(Source: FactSet)

	Telecom Services	Info. Technology	Materials	Real Estate	Energy	S&P 500	Financials	Consumer Disc.	Health Care	Industrials	Consumer Staples	Utilities
■ Below	0%	16%	20%	23%	29%	30%	31%	32%	33%	34%	35%	54%
■ In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
■ Above	100%	84%	80%	77%	71%	70%	69%	68%	67%	66%	65%	46%
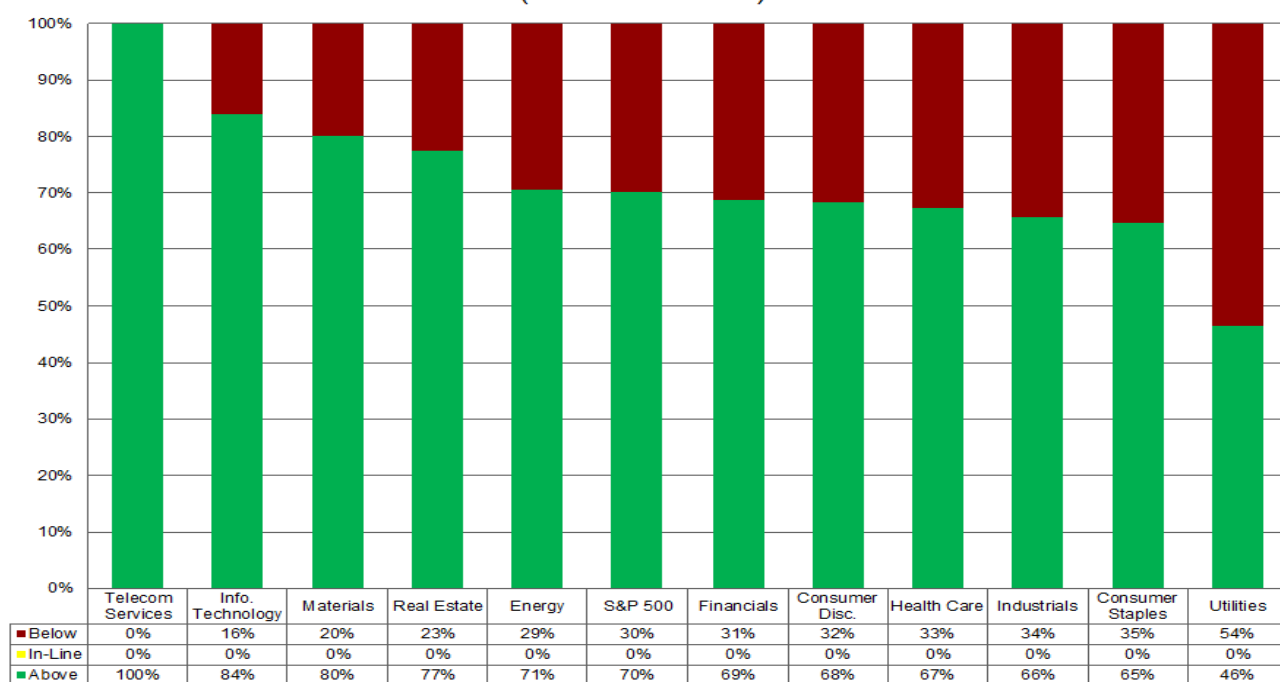
Q2 2017: Scorecard

S&P 500 Sector-Level Earnings Surprise %: Q2 2017
(Source: FactSet)

Sector	Surprise %
Utilities	11.6%
Info. Technology	10.4%
Health Care	6.3%
S&P 500	5.8%
Financials	5.3%
Materials	4.8%
Industrials	4.2%
Telecom Services	4.0%
Consumer Disc.	3.5%
Real Estate	3.3%
Consumer Staples	1.9%
Energy	0.6%
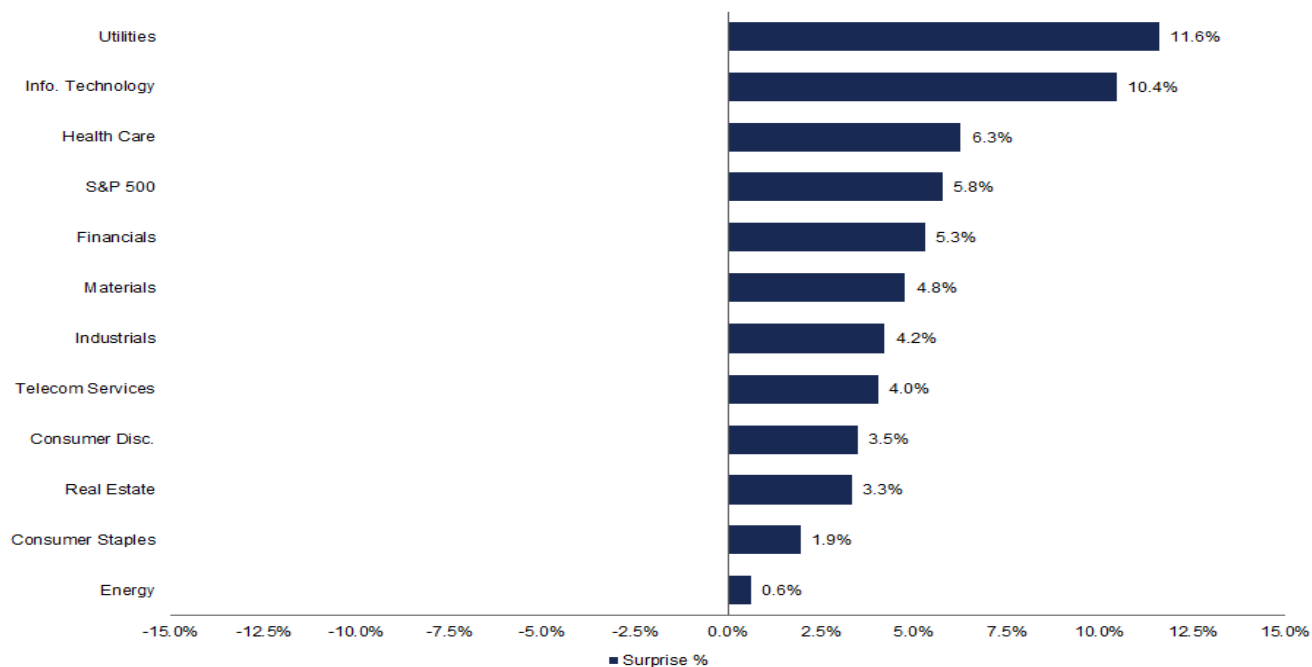
■ Surprise %

S&P 500 Sector-Level Revenue Surprise %: Q2 2017
(Source: FactSet)

Sector	Surprise %
Financials	1.7%
Info. Technology	1.6%
Energy	1.4%
Materials	1.0%
Telecom Services	1.0%
Industrials	0.8%
S&P 500	0.7%
Real Estate	0.6%
Health Care	0.4%
Consumer Staples	0.2%
Consumer Disc.	0.0%
Utilities	-0.1%

■ Surprise %

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Q2 2017: Scorecard

S&P 500 EPS Surprise % vs. Price %: Q2 2017
(Source: FactSet)

Number of Companies Reporting Surprise % in Each Range — Average Price Change % (2 Days Before Report + 2 Days After Report)

S&P 500 EPS Surprise vs. Avg. Price Change %
(Source: FactSet)

■ Q2 2017 □ 5-Year Average
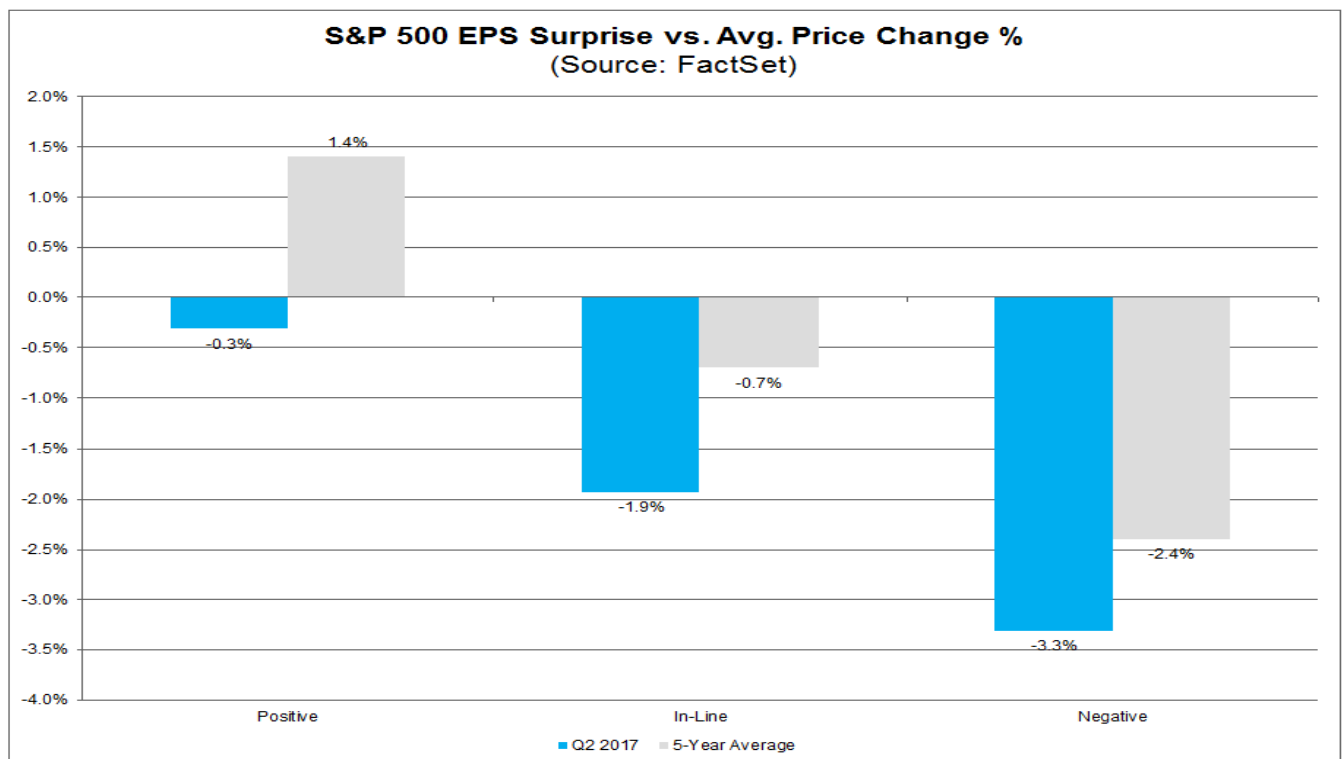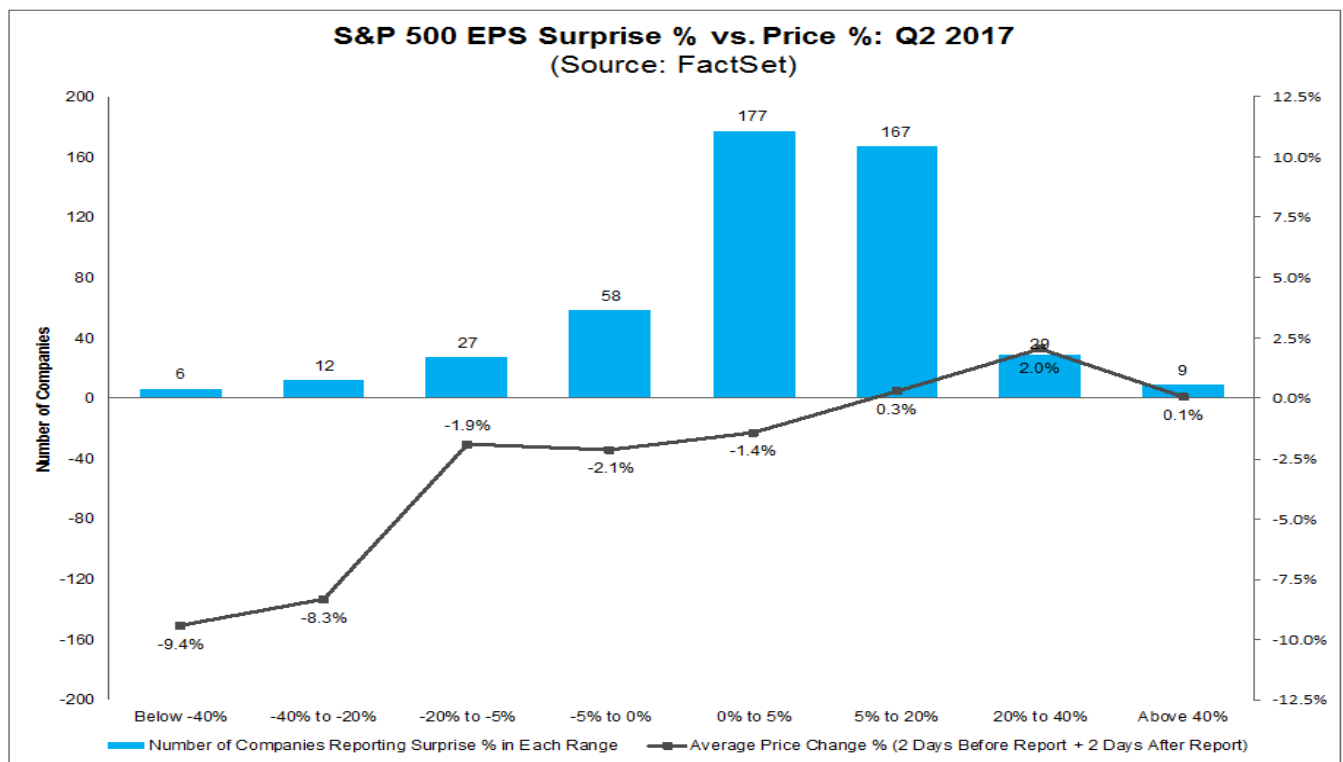
Q2 2017: Scorecard

S&P 500 Actual EPS Surprise %: Top 10 Q2 Actual EPS Surprises
(Source: FactSet)

Company	Surprise %
NRG Energy, Inc.	1244.9%
Entergy Corporation	164.3%
Pioneer Natural Resources Company	108.4%
Newmont Mining Corporation	75.4%
Allstate Corporation	56.4%
E*TRADE Financial Corporation	45.6%
Aetna Inc.	44.5%
Activision Blizzard, Inc.	41.3%
Microsoft Corporation	38.6%
Occidental Petroleum Corporation	33.0%
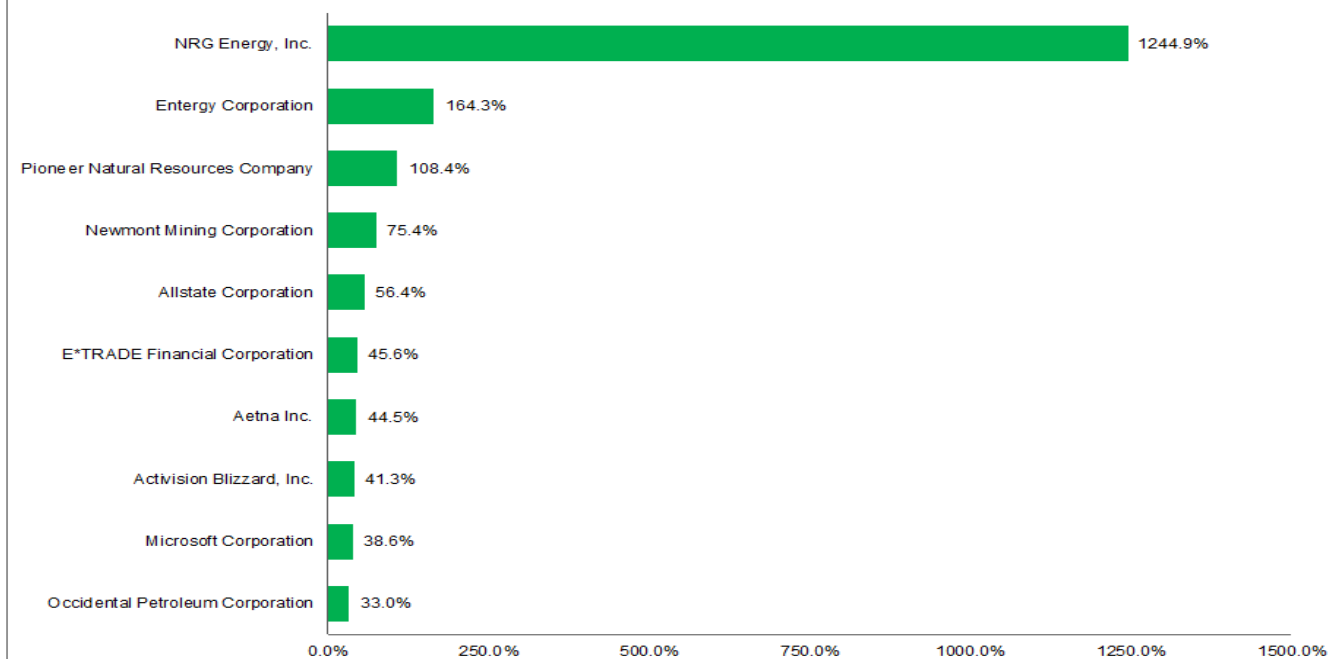
S&P 500 Actual EPS Surprise %: Bottom 10 Q2 Actual EPS Surprises
(Source: FactSet)

Company	Surprise %
Foot Locker, Inc.	-30.9%
Seagate Technology PLC	-33.8%
Charter Communications, Inc. Class A	-34.2%
Williams Companies, Inc.	-34.3%
Leucadia National Corporation	-46.7%
Flowserve Corporation	-48.8%
Amazon.com, Inc.	-71.6%
DISH Network Corporation Class A	-87.9%
Coty Inc. Class A	-100.0%
Fluor Corporation	-128.4%
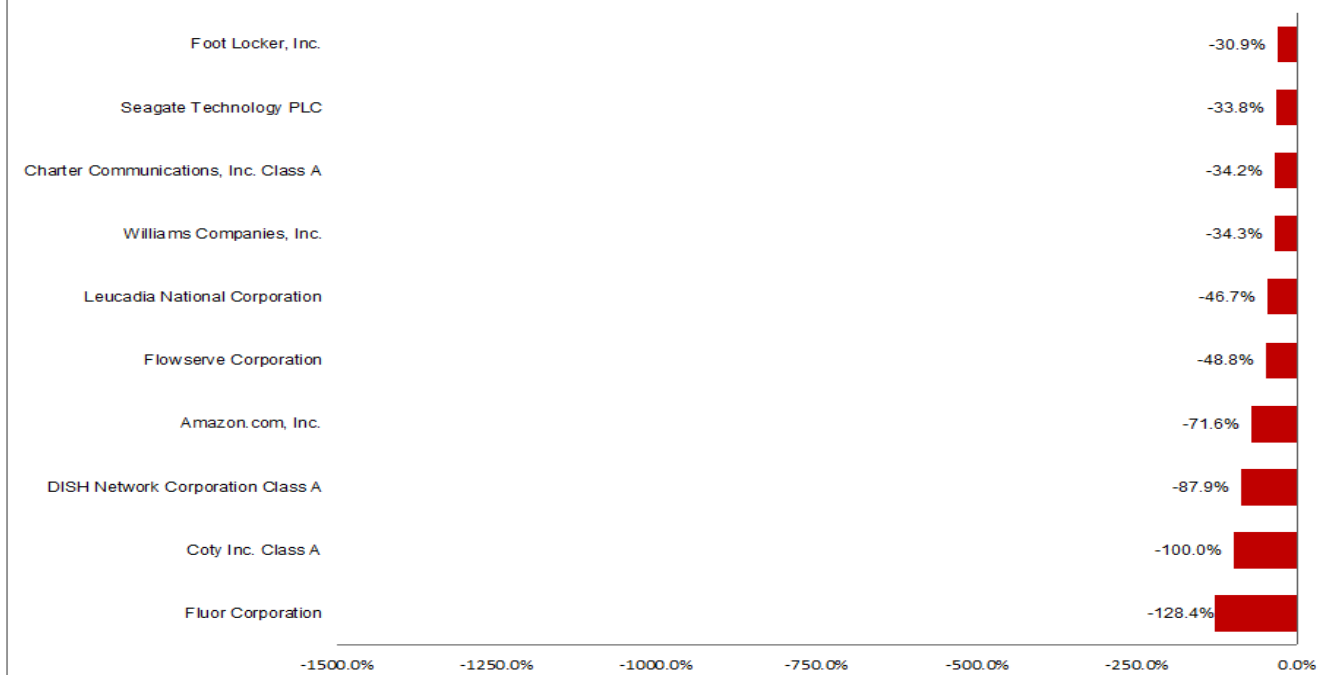
Q2 2017: Projected EPS Surprises (Sharp Estimates)

Number (#) of S&P 500 Companies with Q2 2017 Sharp Estimates
(Source: FactSet)

Consumer Disc.	Consumer Staples	Energy	Financials	Health Care	Industrials	Info. Technology	Materials	Real Estate	Telecom Services	Utilities
0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0

■ Upside Sharp Estimates   ■ Downside Sharp Estimates

Percentage (%) of S&P 500 Companies with Q2 2017 Sharp Estimates
(Source: FactSet)

■ Pos Sharp   ■ No Sharp   ■ Neg Sharp

Q2 2017: Growth

S&P 500 Earnings Growth: Q2 2017
(Source: FactSet)

	Energy	Info. Technology	Utilities	S&P 500	Financials	Materials	Real Estate	Health Care	Industrials	Telecom Services	Consumer Staples	Consumer Disc.
Today	329.9%	15.1%	10.8%	10.3%	10.3%	8.0%	7.5%	6.7%	6.5%	4.8%	3.3%	0.0%
30-Jun	388.3%	10.1%	-0.1%	6.4%	5.9%	4.9%	3.7%	0.4%	1.7%	1.1%	2.5%	-2.2%
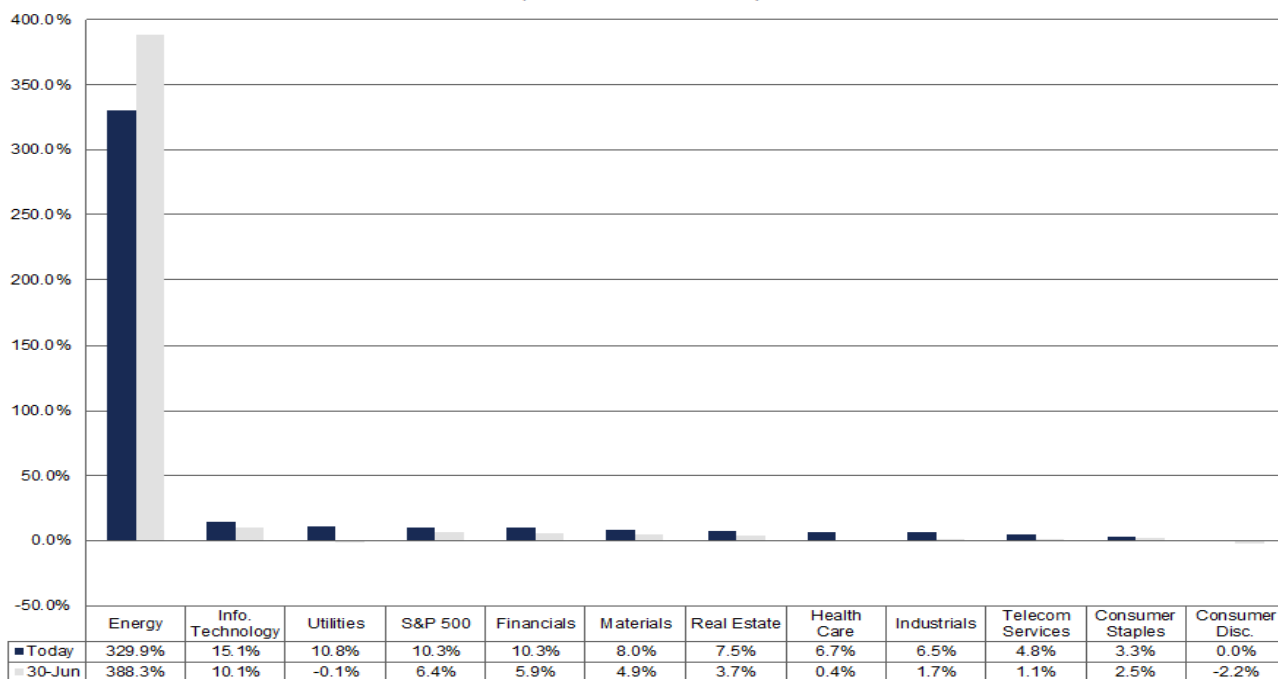
S&P 500 Revenue Growth: Q2 2017
(Source: FactSet)

	Energy	Info. Technology	Materials	Utilities	S&P 500	Financials	Real Estate	Health Care	Industrials	Consumer Disc.	Consumer Staples	Telecom Services
Today	15.5%	9.4%	7.4%	7.0%	5.3%	4.8%	4.3%	4.1%	4.0%	3.3%	2.5%	-1.3%
30-Jun	17.5%	7.9%	6.7%	7.6%	4.9%	2.7%	3.8%	3.7%	2.9%	3.9%	2.5%	-2.1%

Q2 2017: Net Profit Margin

S&P 500 Net Profit Margins: Q217 vs. Q216
(Source: FactSet)

	Real Estate	Information Tech	Financials	Telecom Services	Utilities	Materials	Health Care	S&P 500	Industrials	Consumer Disc.	Consumer Staples	Energy
Q217	37.0%	18.7%	14.9%	12.0%	11.1%	10.7%	10.6%	10.4%	9.5%	7.1%	6.3%	3.6%
Q216	35.9%	17.7%	14.2%	11.3%	10.7%	10.6%	10.4%	9.9%	9.3%	7.3%	6.2%	1.0%

S&P 500: % of Cos. With Increase or Decrease in Net Profit Margin: Q217 vs. Q216
(Source: FactSet)

	Financials	Energy	Telecom Services	Real Estate	Health Care	S&P 500	Information Tech.	Consumer Staples	Utilities	Industrials	Materials	Consumer Disc.
Down %	21%	24%	25%	26%	38%	39%	40%	42%	43%	43%	52%	56%
None %	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Up %	77%	76%	75%	74%	62%	61%	60%	58%	57%	57%	48%	44%

Q3 2017: Guidance

Number (#) of S&P 500 Cos. with Q3 Positive & Negative Guidance
(Source: FactSet)

■ # of Negative EPS Preannouncements   ■ # of Positive EPS Preannouncements

Percentage (%) of S&P 500 Cos. with Q3 Positive & Negative Guidance
(Source: FactSet)

	Industrials	Utilities	Financials	Telecom Services	Materials	Real Estate	Consumer Staples	S&P 500	Consumer Disc.	Info. Technology	Health Care	Energy
■ Positive	0%	0%	0%	0%	17%	20%	20%	36%	43%	45%	55%	0%
■ Negative	100%	100%	100%	100%	83%	80%	80%	64%	57%	55%	45%	0%

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Q3 2017: EPS Revisions

Upward Change in Q3 EPS (Trailing 4 Weeks): Top 10 S&P 500 Cos.
(Source: FactSet)

Company	Change
Incyte Corporation	23.5%
Andeavor	20.9%
NIKE, Inc. Class B	18.6%
GGP, Inc.	18.3%
Marathon Petroleum Corporation	15.1%
Phillips 66	15.0%
Conagra Brands, Inc.	14.9%
Red Hat, Inc.	14.8%
Cintas Corporation	14.7%
Valero Energy Corporation	14.6%

Downward Change in Q3 EPS (Trailing 4-Weeks): Top 10 S&P 500 Cos.
(Source: FactSet)

Company	Change
FedEx Corporation	-20.9%
Hewlett Packard Enterprise Co.	-28.4%
United Continental Holdings, Inc.	-33.2%
Travelers Companies, Inc.	-37.8%
DowDuPont Inc.	-43.7%
Progressive Corporation	-46.4%
Allstate Corporation	-56.5%
Apache Corporation	-73.3%
SL Green Realty Corp.	-103.7%
EQT Corporation	-260.0%

Q3 2017: Growth

S&P 500 Earnings Growth: Q3 2017
(Source: FactSet)

	Energy	Info. Technology	Real Estate	S&P 500	Industrials	Health Care	Consumer Staples	Financials	Materials	Telecom Services	Utilities	Consumer Disc.
■ Today	109.4%	8.8%	6.9%	4.2%	2.6%	2.5%	1.0%	0.8%	0.8%	-1.4%	-2.1%	-2.7%
30-Jun	157.3%	8.5%	8.6%	7.5%	5.8%	3.5%	3.9%	4.4%	24.0%	-1.6%	-0.1%	0.8%

S&P 500 Revenue Growth: Q3 2017
(Source: FactSet)

	Energy	Materials	Info. Technology	Industrials	S&P 500	Health Care	Real Estate	Utilities	Consumer Staples	Consumer Disc.	Financials	Telecom Services
■ Today	17.1%	12.5%	8.1%	5.0%	5.0%	4.8%	4.0%	3.9%	3.9%	1.7%	0.4%	-0.5%
30-Jun	23.2%	6.7%	7.1%	4.2%	5.2%	4.7%	4.7%	5.0%	3.6%	3.1%	0.5%	-1.5%

CY 2017: Growth

S&P 500 Earnings Growth: CY 2017
(Source: FactSet)

	Energy	Materials	Financials	Info. Technology	S&P 500	Health Care	Real Estate	Industrials	Consumer Disc.	Consumer Staples	Utilities	Telecom Services
Today	242.8%	23.3%	11.0%	10.9%	9.6%	5.4%	5.3%	5.3%	3.5%	2.6%	2.1%	-0.7%
30-Jun	292.4%	30.1%	11.2%	10.1%	10.0%	4.3%	5.1%	5.6%	4.0%	3.0%	0.7%	-1.4%

S&P 500 Revenue Growth: CY 2017
(Source: FactSet)

	Energy	Materials	Info. Technology	S&P 500	Utilities	Health Care	Real Estate	Industrials	Financials	Consumer Disc.	Consumer Staples	Telecom Services
Today	17.5%	16.1%	9.0%	5.7%	5.1%	5.1%	4.8%	4.2%	3.8%	3.7%	2.4%	-1.6%
30-Jun	20.1%	7.2%	8.1%	5.5%	5.2%	4.9%	5.1%	3.6%	3.6%	4.1%	2.4%	-2.2%

CY 2018: Growth

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

	Energy	Materials	Info. Technology	Financials	S&P 500	Industrials	Consumer Disc.	Health Care	Consumer Staples	Real Estate	Utilities	Telecom Services
Today	35.4%	17.3%	12.4%	11.7%	11.1%	10.8%	10.5%	8.6%	7.9%	6.7%	4.7%	2.0%
30-Jun	42.2%	13.0%	11.7%	12.3%	11.8%	12.2%	12.4%	9.2%	7.8%	7.5%	6.3%	2.6%

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

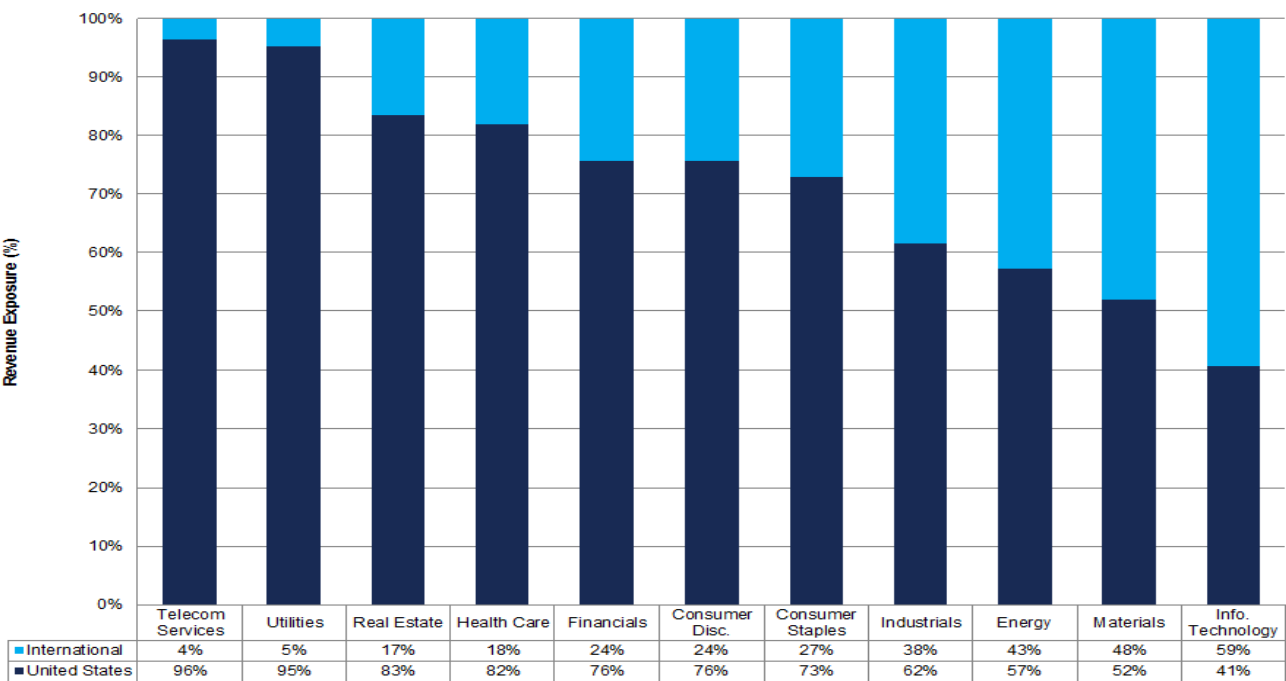|	Info. Technology	Energy	Consumer Disc.	Real Estate	Health Care	Materials	S&P 500	Industrials	Financials	Consumer Staples	Utilities	Telecom Services
Today	8.8%	6.0%	5.4%	5.2%	5.2%	5.1%	5.1%	4.7%	3.6%	3.6%	3.1%	0.6%
30-Jun	8.0%	5.8%	4.6%	5.2%	5.3%	4.8%	4.8%	4.8%	3.5%	3.3%	3.1%	0.6%

Geographic Revenue Exposure

S&P 500: Aggregate Geographic Revenue Exposure (%)
(Source: FactSet)
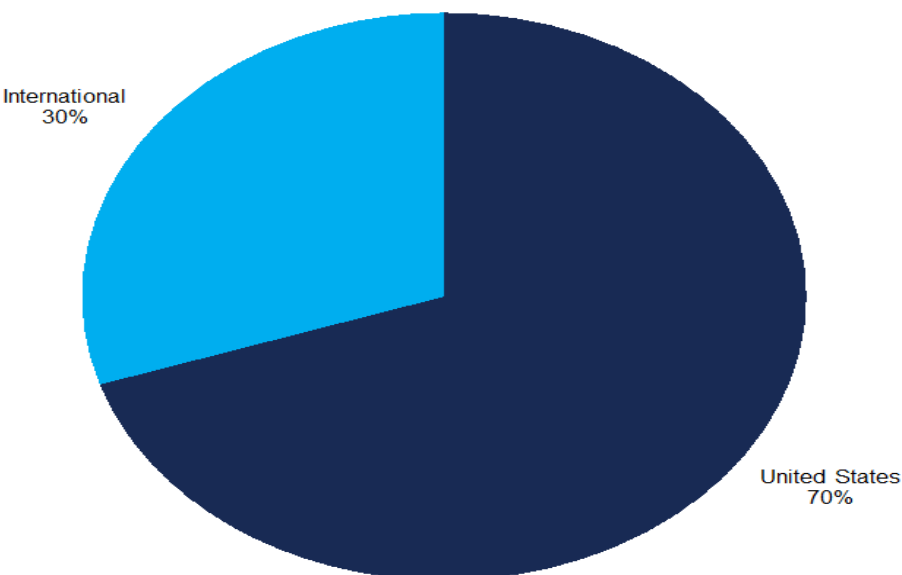
International
30%

United States
70%

S&P 500: Aggregate Sector Geographic Revenue Exposure (%)
(Source: FactSet)

	Telecom Services	Utilities	Real Estate	Health Care	Financials	Consumer Disc.	Consumer Staples	Industrials	Energy	Materials	Info. Technology
International	4%	5%	17%	18%	24%	24%	27%	38%	43%	48%	59%
United States	96%	95%	83%	82%	76%	76%	73%	62%	57%	52%	41%

Bottom-up EPS Estimates: Revisions

S&P 500 CY 2017 & CY 2018 Bottom-Up EPS: 1-Year
(Source: FactSet)

145.80

131.37

CY 2018 Bottom-Up EPS   CY 2017 Bottom-Up EPS

S&P 500 Q317 Bottom-Up EPS: 1-Year
(Source: FactSet)

Price   Q317 Bottom-Up EPS
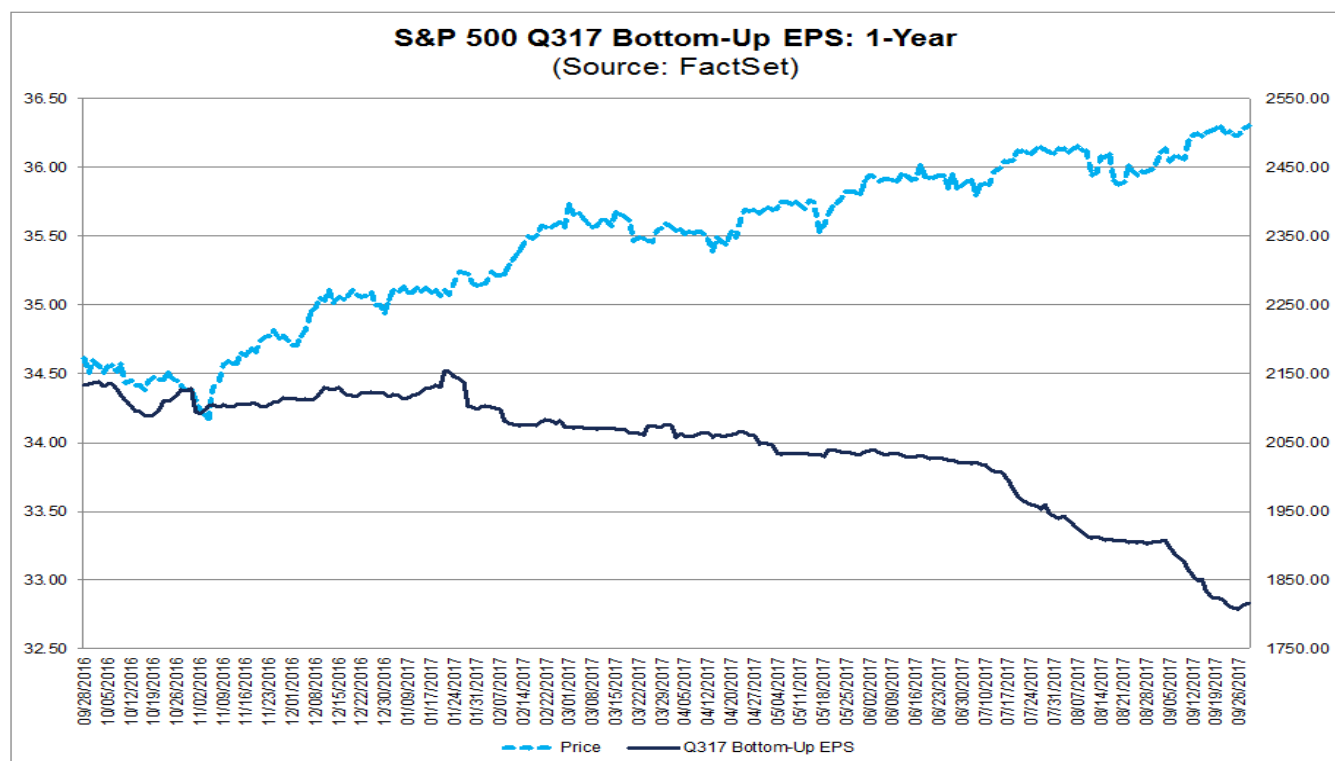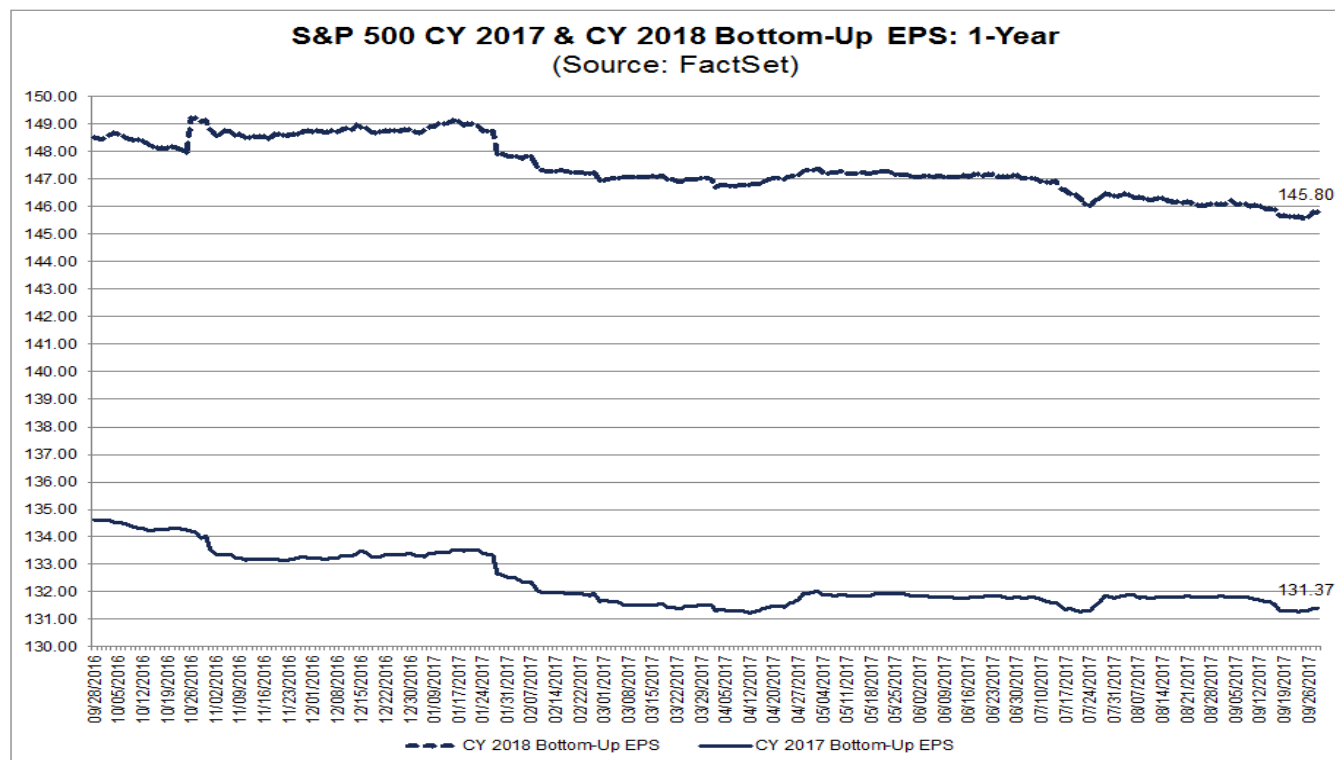
Bottom-up EPS Estimates: Current & Historical
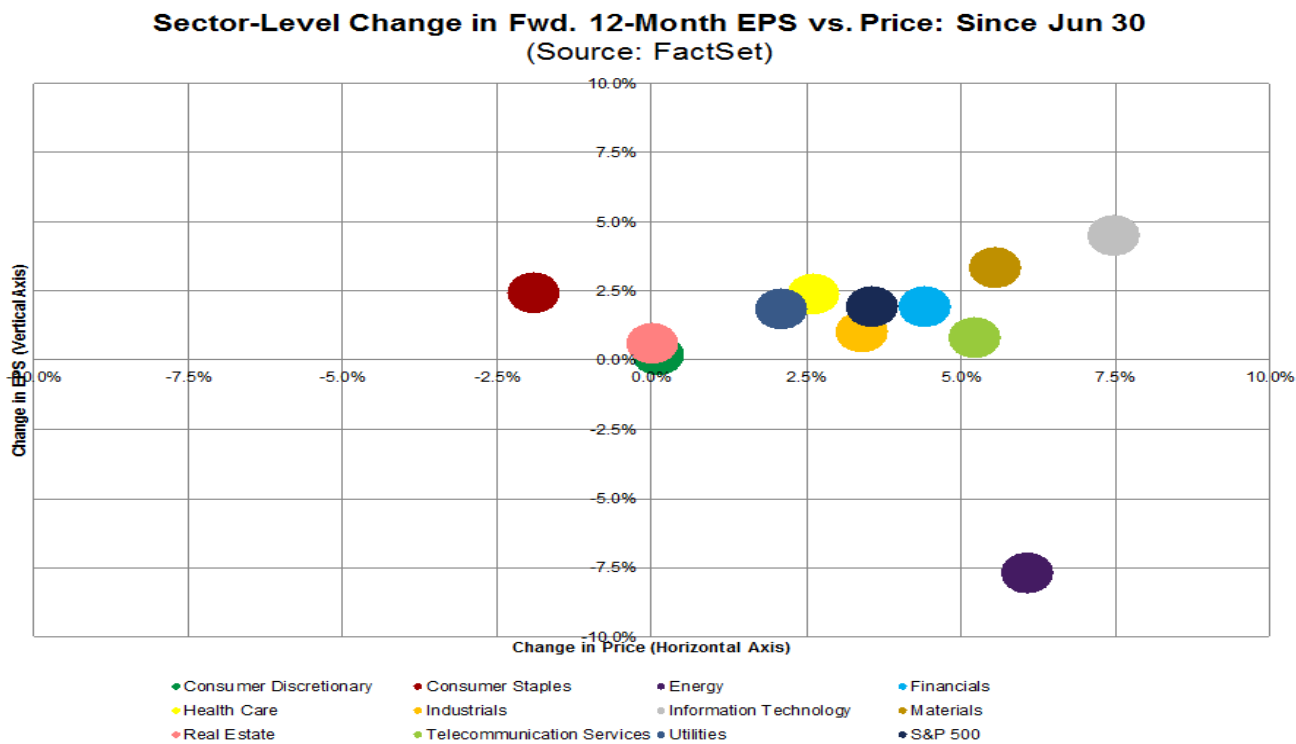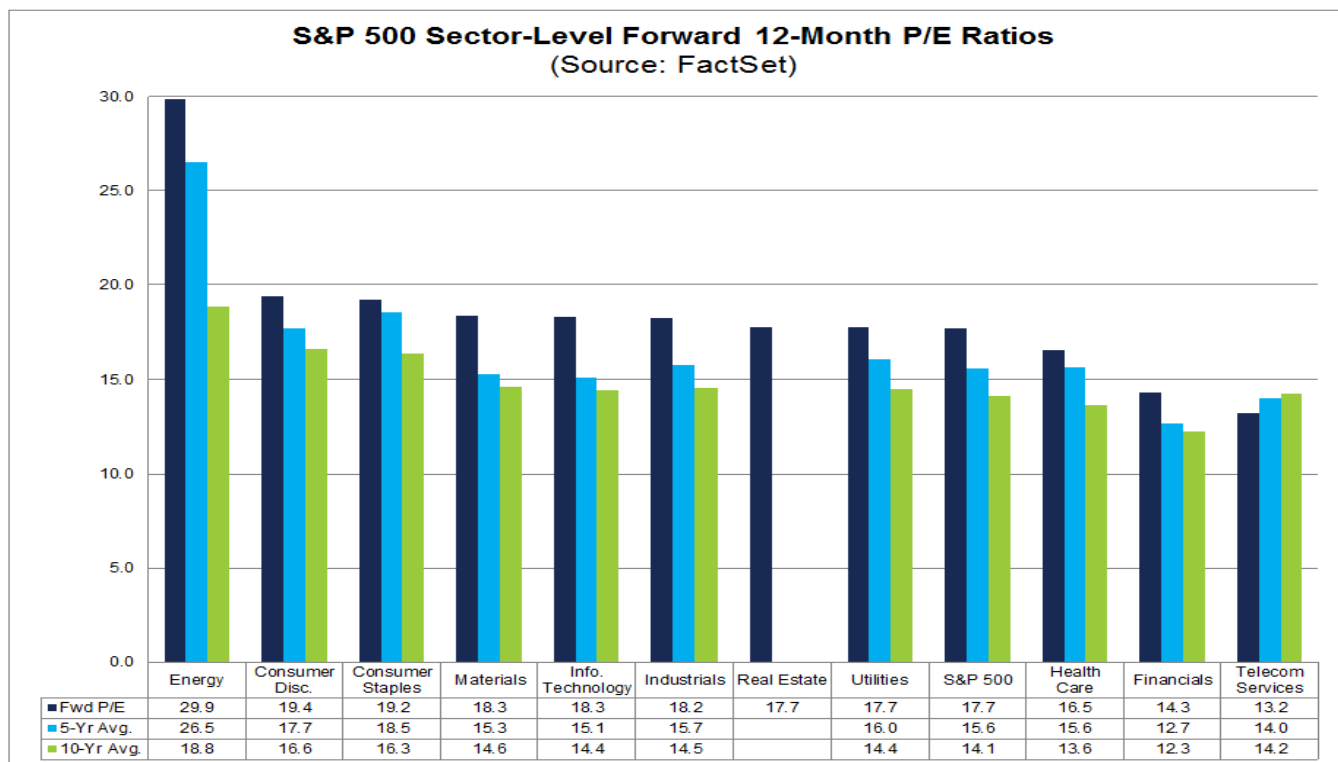
S&P 500 Calendar Year Bottom-Up EPS Actuals & Estimates
(Source: FactSet)

S&P 500 Quarterly Bottom-Up EPS Actuals & Estimates
(Source: FactSet)
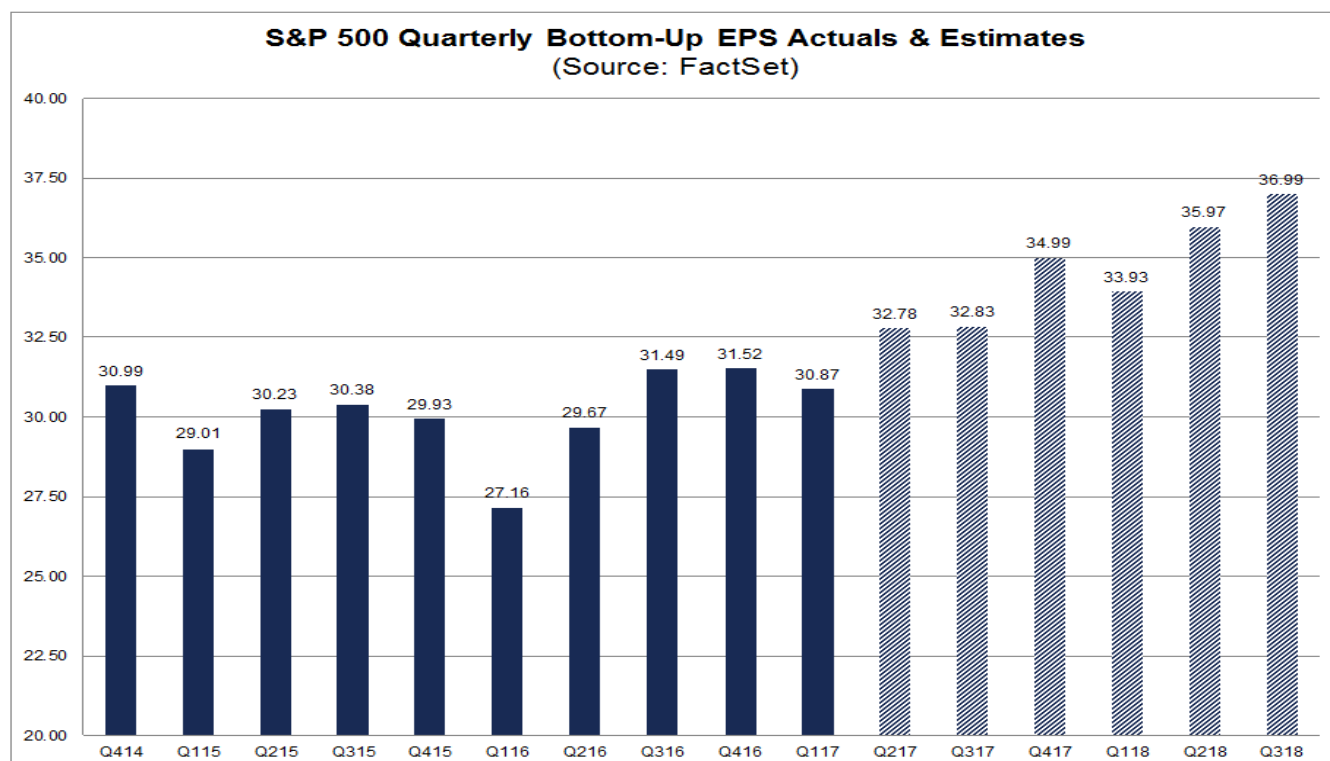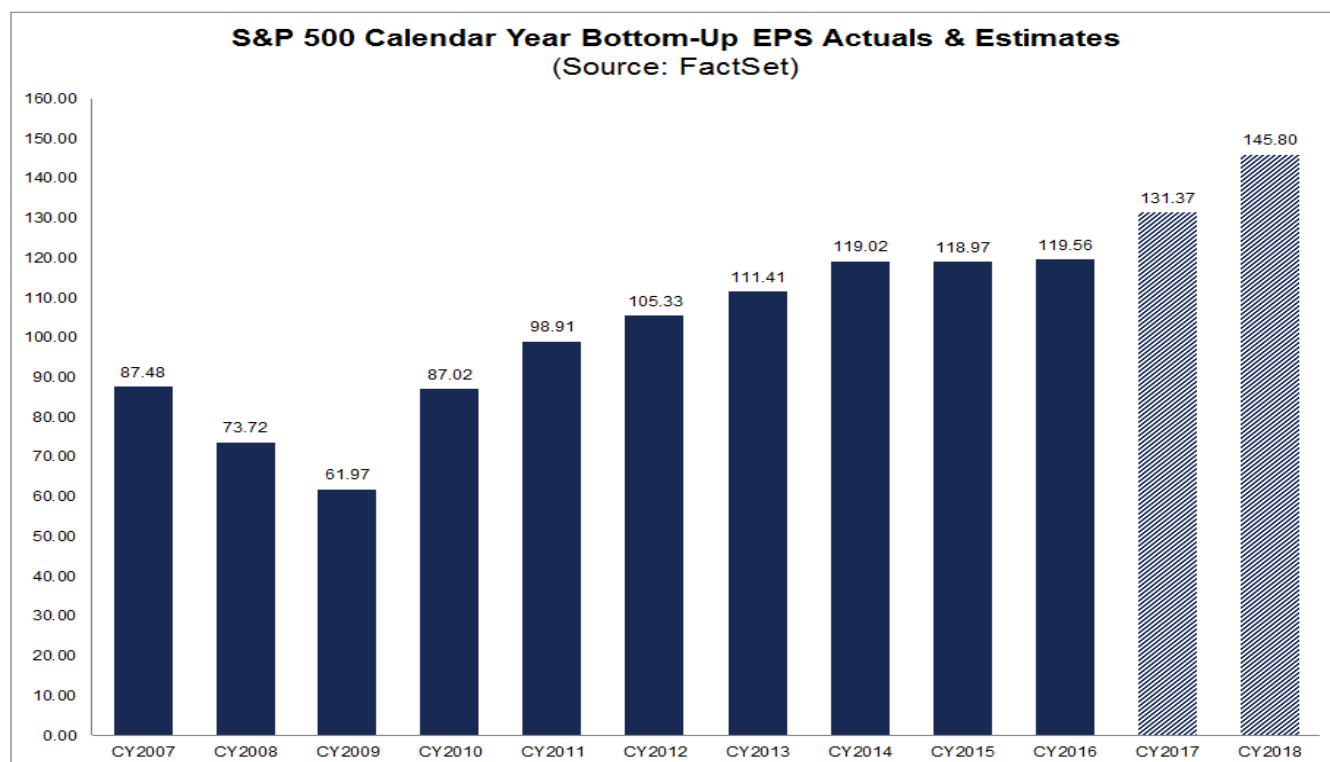
Forward 12M P/E Ratio: Sector Level

S&P 500 Sector-Level Forward 12-Month P/E Ratios
(Source: FactSet)

	Energy	Consumer Disc.	Consumer Staples	Materials	Info. Technology	Industrials	Real Estate	Utilities	S&P 500	Health Care	Financials	Telecom Services
Fwd P/E	29.9	19.4	19.2	18.3	18.3	18.2	17.7	17.7	17.7	16.5	14.3	13.2
5-Yr Avg.	26.5	17.7	18.5	15.3	15.1	15.7		16.0	15.6	15.6	12.7	14.0
10-Yr Avg.	18.8	16.6	16.3	14.6	14.4	14.5		14.4	14.1	13.6	12.3	14.2

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

Change in EPS (Vertical Axis)

Change in Price (Horizontal Axis)

- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Health Care
- Industrials
- Information Technology
- Materials
- Real Estate
- Telecommunication Services
- Utilities
- S&P 500

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

S&P 500 Change in Forward 12-Month EPS vs. Change in Price: 10 Yrs.
(Source: FactSet)

S&P 500 Forward 12-Month P/E Ratio: 10 Years
(Source: FactSet)

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

S&P 500 Change in Trailing 12-Month EPS vs. Change in Price: 10 Years
(Source: FactSet)

S&P 500 Trailing 12-Month P/E Ratio: 10 Years
(Source: FactSet)
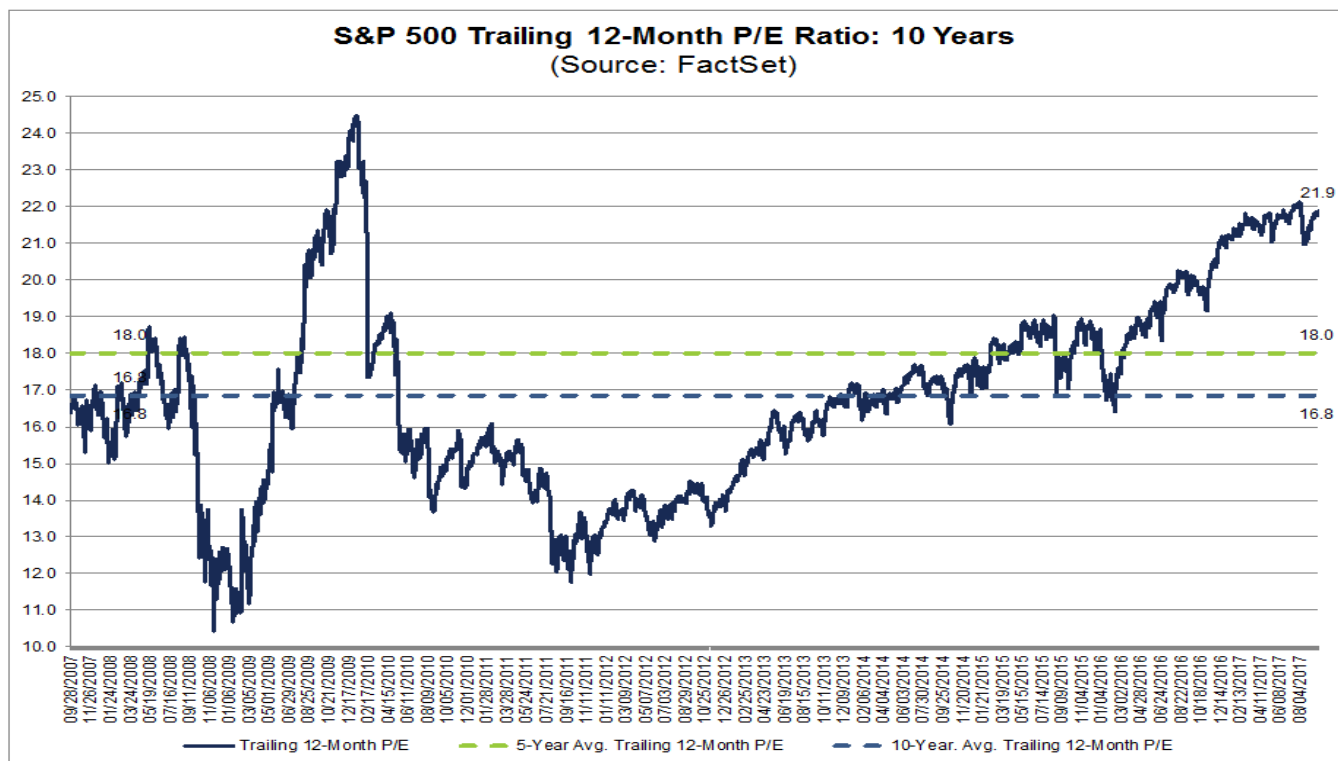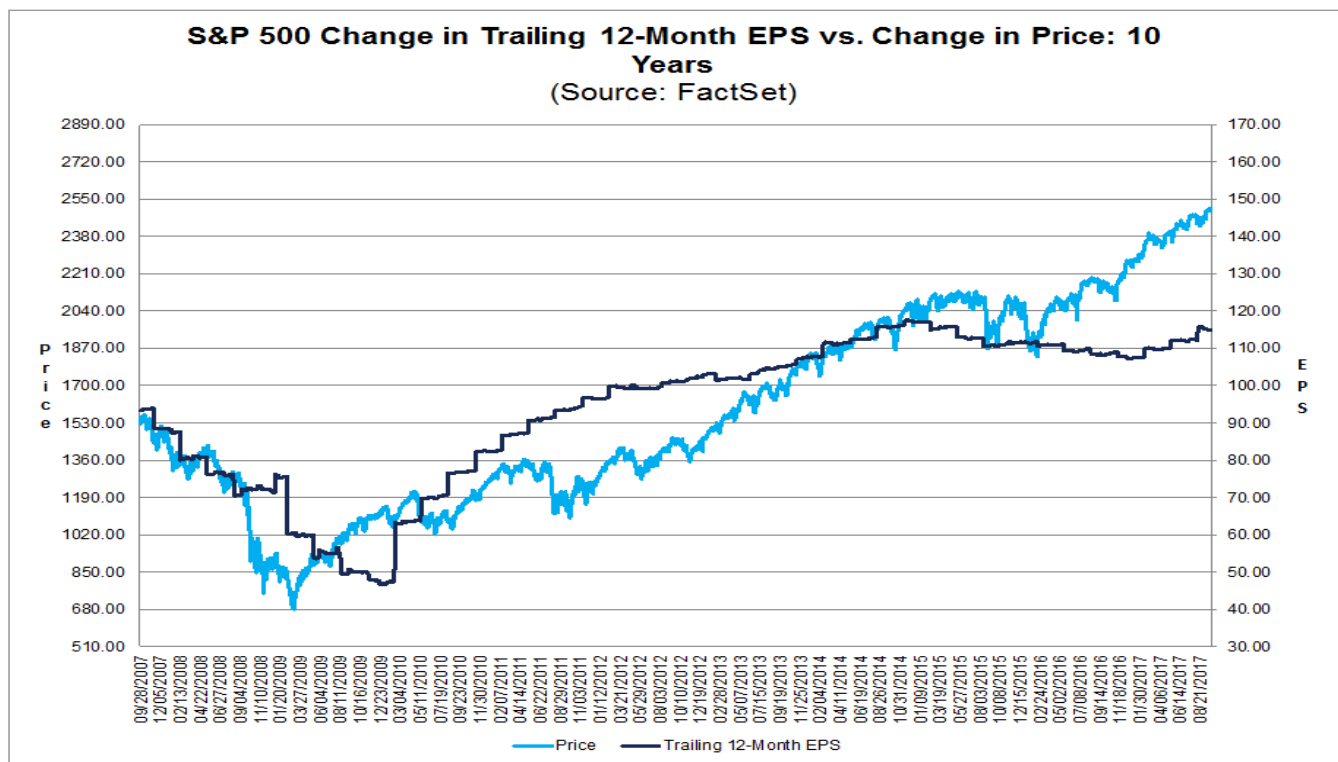
FACTSET

Targets & Ratings

S&P 500: Percentage of Buy, Hold, and Sell Ratings
(Source: FactSet)
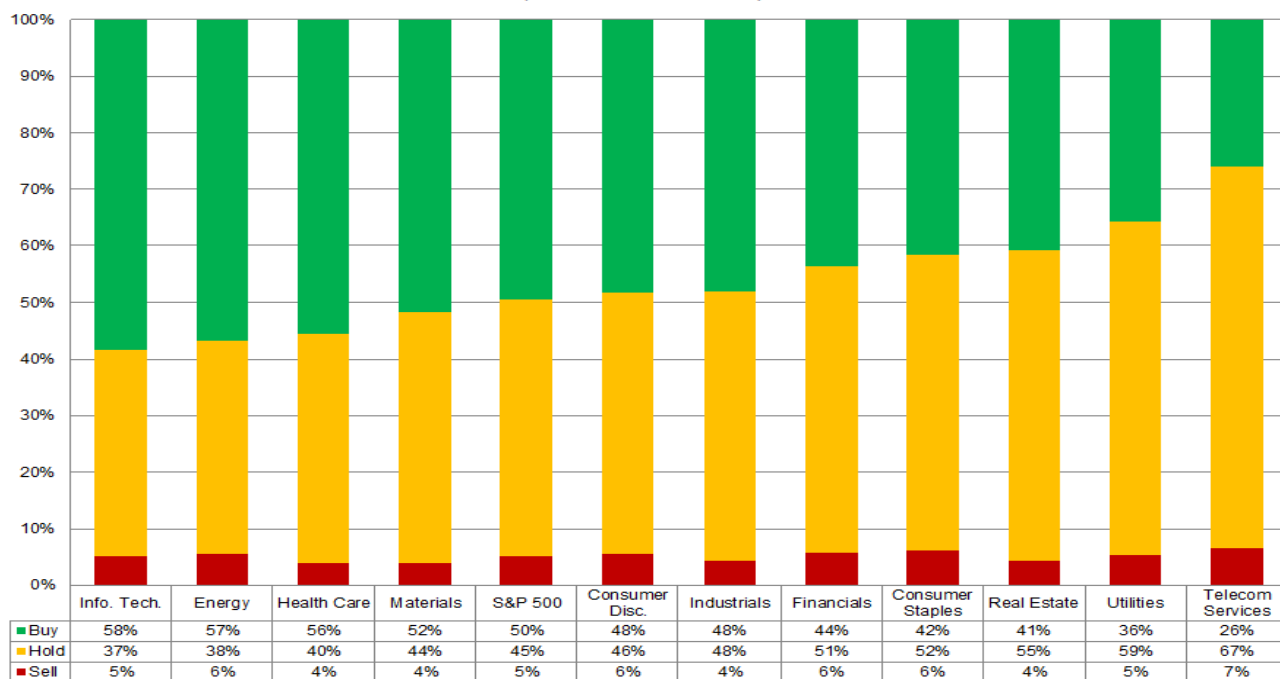
	Info. Tech.	Energy	Health Care	Materials	S&P 500	Consumer Disc.	Industrials	Financials	Consumer Staples	Real Estate	Utilities	Telecom Services
Buy	58%	57%	56%	52%	50%	48%	48%	44%	42%	41%	36%	26%
Hold	37%	38%	40%	44%	45%	46%	48%	51%	52%	55%	59%	67%
Sell	5%	6%	4%	4%	5%	6%	4%	6%	6%	4%	5%	7%

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

	Consumer Disc.	Info. Tech.	Consumer Staples	S&P 500	Real Estate	Materials	Health Care	Industrials	Energy	Utilities	Financials	Telecom Services
Target/Close	13.1%	11.6%	9.7%	8.4%	8.2%	8.0%	7.7%	5.4%	5.4%	4.5%	4.5%	4.2%

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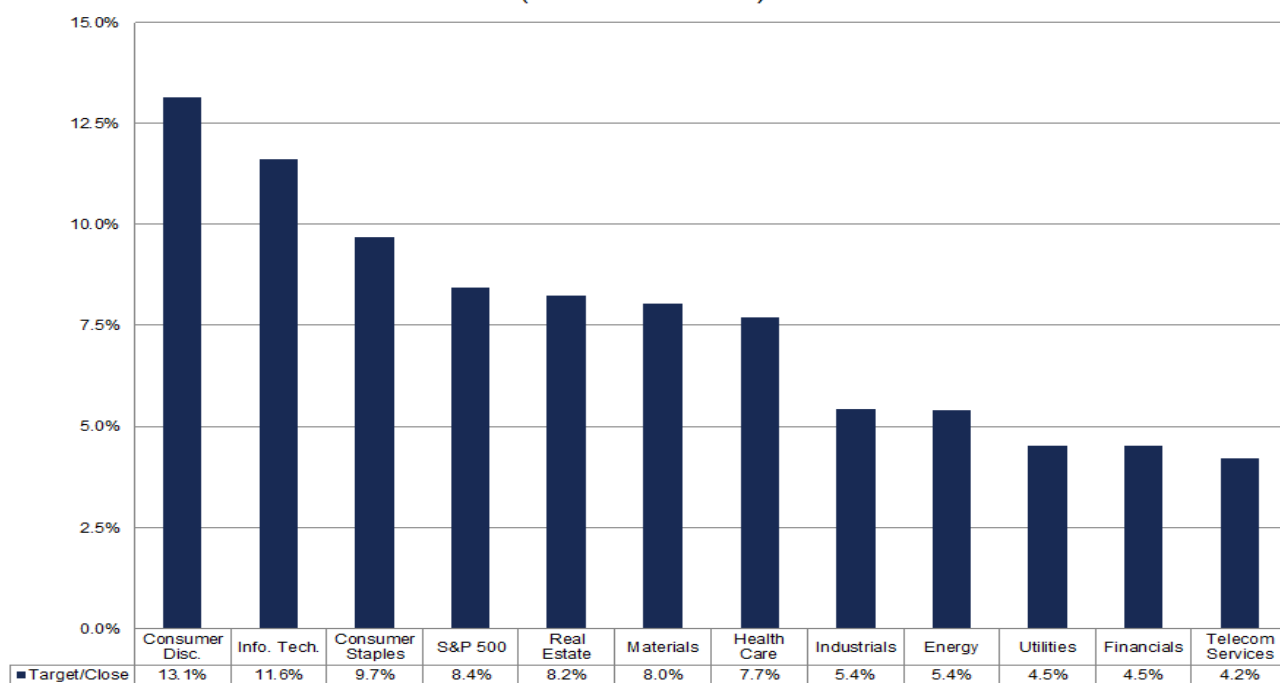
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