

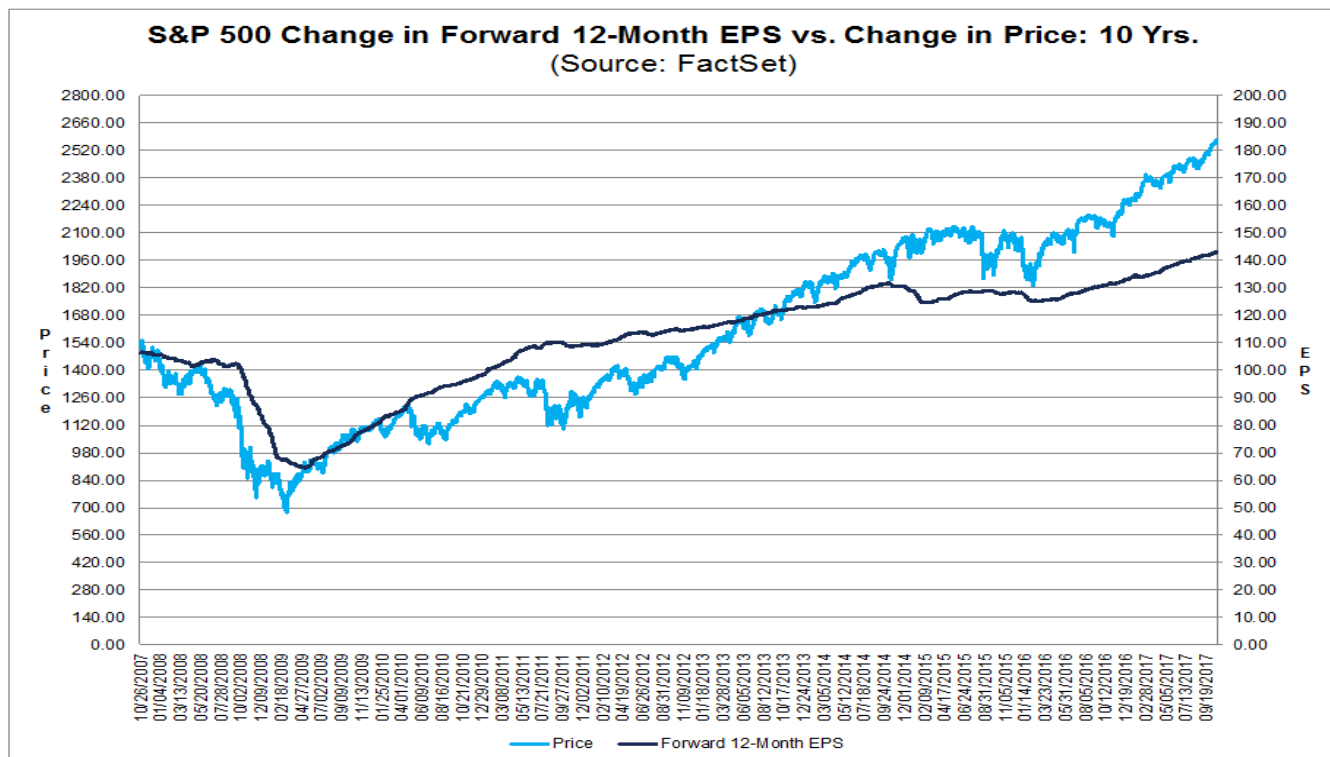
John Butters, Senior Earnings Analyst  
jbutters@factset.com

Media Questions/Requests  
media\_request@factset.com

October 27, 2017

## Key Metrics

- **Earnings Scorecard:** For Q3 2017 (with 55% of the companies in the S&P 500 reporting actual results for the quarter), 76% of S&P 500 companies have reported positive EPS surprises and 67% have reported positive sales surprises.
- **Earnings Growth:** For Q3 2017, the blended earnings growth rate for the S&P 500 is 4.7%. Six sectors are reporting earnings growth for the quarter, led by the Energy sector.
- **Earnings Revisions:** On September 30, the estimated earnings growth rate for Q3 2017 was 3.0%. Six sectors have higher growth rates today (compared to September 30) due to upward revisions to earnings estimates and upside earnings surprises, led by the Energy sector.
- **Earnings Guidance:** For Q4 2017, 29 S&P 500 companies have issued negative EPS guidance and 20 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 17.9. This P/E ratio is above the 5-year average (15.6) and above the 10-year average (14.1).



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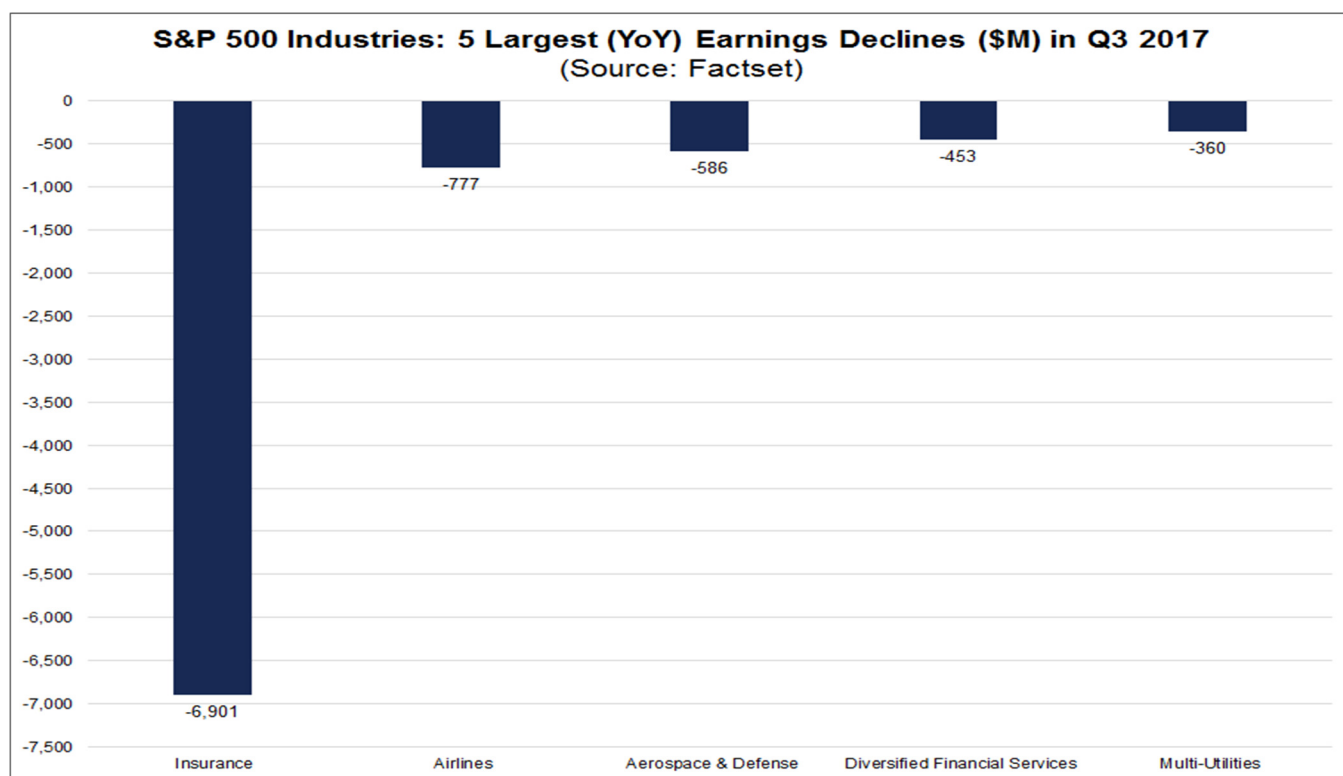
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## Topic of the Week:

### Ex-Insurance, S&P 500 Earnings Growth Rate for Q3 Would Jump to 7.4%

At just past the mid-point of the Q3 2017 earnings season, the blended (combines actual results for companies that have reported and estimated results for companies yet to report) earnings growth rate for the S&P 500 is 4.7%. If 4.7% is the actual earnings growth rate for the quarter, it will mark the lowest earnings growth rate for the index since Q3 2016 (2.8%). What is the cause of the lower growth rate for the index for Q3 2017?

At the industry level, the Insurance industry is reporting the largest percentage decline (-66%) and largest dollar-level decline (-\$6.9 billion) in earnings of all the industries in the index. As a result, this industry is the largest detractor to earnings growth for the index in Q3 2017. If the Insurance industry were excluded, the blended earnings growth rate for the S&P 500 would jump to 7.4% from 4.7%.



Companies in this industry are reporting significant declines in EPS due to catastrophic losses caused by the recent hurricanes and the earthquake in Mexico. AIG, Chubb Limited, XL Group Limited, and Everest Re Group are the four largest contributors to the year-over-year decline in earnings for this industry for the quarter. Combined, these four companies account for \$5.3 billion (or 76%) of the \$6.9 billion decline in earnings for this industry for the quarter. All four companies have reported or are expected to report declines in EPS in excess of 100%. Chubb Limited and XL Group Limited reported actual results this past week, while AIG and Everest Re Group are scheduled to report actual results this week.

Ticker	Company	Q3 2017 EPS	Q3 2016 EPS	Difference (%)
XL	XL Group Ltd	-4.00	0.44	-905%
RE	Everest Re Group, Ltd.	-15.99	6.53	-345%
AIG	American International Group	-0.79	1.00	-179%
CB	Chubb Limited	-0.13	2.88	-109%

## Q3 2017 Earnings Season: By the Numbers

### Overview

To date, 55% of the companies in the S&P 500 have reported actual results for Q3 2017. In terms of earnings, more companies (76%) are reporting actual EPS above estimates compared to the 5-year average. In aggregate, companies are reporting earnings that are 4.7% above the estimates, which is also above the 5-year average. In terms of sales, more companies (67%) are reporting actual sales above estimates compared to the 5-year average. In aggregate, companies are reporting sales that are 1.5% 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) earnings growth rate for the third quarter is 4.7% today, which is higher than the earnings growth rate of 1.7% last week. Upside earnings surprises reported by companies in multiple sectors (led by the Information Technology sector) were responsible for the increase in the earnings growth rate for the index during the past week. Overall, six sectors are reporting earnings growth, led by the Energy and Information Technology sectors. Five sectors are reporting a year-over-year decline in earnings, led by the Financials sector.

The blended sales growth rate for the third quarter is 5.7% today, which is higher than the sales growth rate of 5.1% last week. Upside sales surprises reported by companies in multiple sectors (led by the Consumer Discretionary and Energy sectors) were responsible for the increase in the sales growth rate for the index during the past week. Overall, ten sectors are reporting year-over-year growth in revenues, led by the Energy, Materials, and Information Technology sectors. The only sector reporting a year-over-year decline in revenues is the Telecom Services sector.

During the upcoming week, 135 S&P 500 companies (including three Dow 30 components) are scheduled to report results for the third quarter.

For Q4 2017, 29 S&P 500 companies have issued negative EPS guidance and 20 S&P 500 companies have issued positive EPS guidance.

The forward 12-month P/E ratio is 17.9, which is above the 5-year average and the 10-year average.

### Scorecard: More Companies Beating EPS and Revenue Estimates than Average

#### Percentage of Companies Beating EPS Estimates (76%) is Above 5-Year Average

Overall, 55% of the companies in the S&P 500 have reported earnings to date for the third quarter. Of these companies, 76% have reported actual EPS above the mean EPS estimate, 8% 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 average (71%) and above the 5-year average (69%).

At the sector level, the Information Technology (91%) and Materials (85%) sectors have the highest percentages of companies reporting earnings above estimates, while the Telecom Services (50%) sector has the lowest percentage of companies reporting earnings above estimates.

#### Earnings Surprise Percentage (+4.7%) is Above 5-Year Average

In aggregate, companies are reporting earnings that are 4.7% above expectations. This surprise percentage is below the 1-year average (+5.1%) but above the 5-year average (+4.2%).

The Materials (+11.6%) and Information Technology (+11.3%) sectors are reporting the largest upside aggregate differences between actual earnings and estimated earnings. On the other hand, the Industrials sector (-3.1%) is reporting the largest downside aggregate difference between actual earnings and estimated earnings.

#### Market Not Rewarding Earnings Beats and Punishing Earnings Misses

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

Companies that have reported upside earnings surprises for Q3 2017 have seen an average price increase of +0.1% two days before the earnings release through two days after the earnings. This percentage increase is below the 5-year average price increase of +1.2% during this same window for companies reporting upside earnings surprises.

Companies that have reported downside earnings surprises for Q3 2017 have seen an average price decrease of -3.2% two days before the earnings release through two days after the earnings. This percentage decrease is larger than the 5-year average price decrease of -2.4% during this same window for companies reporting downside earnings surprises.

### Percentage of Companies Beating Revenue Estimates (67%) is Above 5-Year Average

In terms of revenues, 67% of companies have reported actual sales above estimated sales and 33% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is above the 1-year average (61%) and above the 5-year average (55%).

At the sector level, the Information Technology (85%) and Materials (85%) sectors have the highest percentages of companies reporting revenues above estimates, while the Utilities (22%) sector has the lowest percentage of companies reporting revenues above estimates.

### Revenue Surprise Percentage (+1.5%) is Above 5-Year Average

In aggregate, companies are reporting sales that are 1.5% above expectations. This surprise percentage is above the 1-year average (+0.6%) and above the 5-year average (+0.5%).

The Energy (+3.6%) sector is reporting the largest upside aggregate difference between actual sales and estimated sales, while the Utilities (-1.1%) sector is reporting the largest downside aggregate difference between actual sales and estimated sales.

## Increase in Blended Earnings Growth This Week Due To Upside EPS Surprises in Multiple Sectors

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### Energy Sector Has Seen Largest Increase in Earnings Growth since September 30

The blended earnings growth rate for Q3 2017 of 4.7% is larger than the estimate of 3.0% at the end of the third quarter (September 30). Six sectors have recorded an increase in earnings growth since the end of the quarter due to upward revisions to earnings estimates and upside earnings surprises, led by the Energy (to 138.2% from 109.6%) sector. Five sectors have recorded a decrease in earnings growth during this time due to downward revisions to earnings estimates and downside earnings surprises, led by the Utilities (to -6.3% from -2.4%) sector.

### Energy Sector Has Seen Largest Increase in Revenue Growth since September 30

The blended sales growth rate for Q3 2017 of 5.7% is larger than the estimate of 4.9% at the end of the third quarter (September 30). Nine sectors have recorded an increase in sales growth since the end of the quarter due to upward revisions to revenue estimates and upside revenue surprises, led by the Energy (to 20.1% from 17.1%) sector. Two sectors have recorded a decrease in sales growth during this time due to downward revisions to revenue estimates and downside revenue surprises, led by the Utilities (to 0.5% from 3.9%) sector.

## Earnings Growth: 4.7%

The blended (year-over-year) earnings growth rate for Q3 2017 is 4.7%. If 4.7% is the actual earnings growth rate for the quarter, it will mark the lowest earnings growth rate for the index since Q3 2016 (2.8%). Six sectors are reporting year-over-year growth in earnings, led by the Energy and Information Technology sectors. On the other hand, five sectors are reporting a year-over-year decline in earnings, led by the Financials sector.

### 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 138.2%. At the sub-industry level, all six sub-industries in the sector are reporting or 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 (244%), Oil & Gas Refining & Marketing (92%), Integrated Oil & Gas (45%), and Oil & Gas Storage & Transportation (11%).

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 reporting earnings of \$10.8 billion in Q3 2017, compared to earnings of 4.6 billion in Q3 2016. This sector is also one of the top two contributors (along with the Information Technology sector) to earnings growth for the S&P 500. If the Energy sector were excluded, the blended earnings growth rate for the remaining ten sectors would fall to 2.5% from 4.7%.

### Information Technology: Semiconductor Industry Leads Growth

The Information Technology sector is reporting the second highest (year-over-year) earnings growth of all eleven sectors at 14.8%. At the industry level, five of the seven industries in this sector are reporting earnings growth. Four of these five industries are reporting double-digit earnings growth: Semiconductor & Semiconductor Equipment (42%), Software (12%), IT Services (11%), and Internet Software & Services (10%). The Semiconductor & Semiconductor Equipment industry is also the largest contributor to earnings growth for the sector. If this industry were excluded, the blended earnings growth rate for the Information Technology sector would fall to 8.4% from 14.8%. At the company level, Micron Technology is 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 blended earnings growth rate for the Information Technology sector would fall to 10.7% from 14.8%.

This sector is one of the top two contributors (along with the Energy sector) to earnings growth for the S&P 500. If the Information Technology sector were excluded, the blended earnings growth rate for the remaining ten sectors would fall to 2.1% from 4.7%.

### Financials: Insurance Industry Leads Decline

The Financials sector is reporting the highest (year-over-year) earnings decline of all eleven sectors at -8.2%. At the industry level, two of the five industries in this sector are reporting or are predicted to report a decline in earnings, led by the Insurance industry (-66%). This industry is also the largest contributor to the earnings decline for the sector. If the Insurance industry were excluded, the blended earnings growth rate for the Financials sector would increase to 6.9% from -8.2%. For more details, please see page 2.

This sector is also the top detractor to earnings growth for the entire S&P 500. If the Financials sector were excluded, the blended earnings growth rate for the remaining ten sectors would rise to 7.5% from 4.7%.

## Revenue Growth: 5.7%

The blended (year-over-year) revenue growth rate for Q3 2017 is 5.7%. Ten sectors are reporting year-over-year growth in revenues, led by the Energy, Materials, and Information Technology sectors. The only sector that is reporting a decline in revenues is the Telecom Services sector.

### Energy: Highest Revenue Growth

The Energy sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 20.1%. At the sub-industry level, all six sub-industries in the sector are reporting or are predicted to report revenue growth: Oil & Gas Equipment & Services (55%), Oil & Gas Drilling (49%), Oil & Gas Refining & Marketing (28%), Integrated Oil & Gas (15%), Oil & Gas Storage & Transportation (2%), and Oil & Gas Exploration & Production (1%).

This sector is the largest contributor to revenue growth for the S&P 500. If the Energy sector were excluded, the blended revenue growth rate for the index would fall to 4.5% from 5.7%.

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

The Materials sector is reporting the second highest (year-over-year) revenue growth of all eleven sectors at 14.2%. At the industry level, all four industries in this sector are reporting or are predicted to report revenue growth, led by the Chemicals (18%) and Metals & Mining (14%) industries. 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 blended revenue growth rate for the sector would fall to 8.6% from 14.2%.

### Information Technology: Internet Software & Services Leads Growth

The Information Technology sector is reporting the third highest (year-over-year) revenue growth of all eleven sectors at 9.2%. At the industry level, five of the seven industries in this sector are reporting revenue growth. Four of these five industries are reporting double-digit revenue growth: Internet Software & Services (23%), Semiconductor & Semiconductor Equipment (16%), IT Services (13%), and Software (10%).

### Telecom Services: 2 of 4 Companies Reporting Sales Decline

The Telecom Services sector is the only sector that is reporting a (year-over-year) decline in revenues at -0.9%. Two of the four companies in the sector are reporting or are projected to report a sales decline for the quarter, led by CenturyLink (-7%).

## Looking Ahead: Forward Estimates and Valuation

### Earnings Guidance: Below Average % of Negative EPS Guidance For Q4 To Date

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, 49 companies in the index have issued EPS guidance for Q4 2017. Of these 49 companies, 29 have issued negative EPS guidance and 20 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 59% (29 out of 49), which is below the 5-year average of 75%.

### Growth Expected to Rebound to Double-Digit Levels after Q3

For the third quarter, companies are reporting earnings growth of 4.7% and revenue growth of 5.7%. Analysts currently expect earnings to rebound to double-digit levels over the next few quarters.

For Q4 2017, analysts are projecting earnings growth of 10.7% and revenue growth of 6.1%.

For Q1 2018, analysts are projecting earnings growth of 10.5% and revenue growth of 6.4%.

For Q2 2018, analysts are projecting earnings growth of 10.3% and revenue growth of 6.3%.

For all of 2017, analysts are projecting earnings growth of 9.3% and revenue growth of 6.0%.

### Valuation: Forward P/E Ratio is 17.9, above the 10-Year Average (14.1)

The forward 12-month P/E ratio is 17.9. 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 17.8 recorded at the start of the fourth quarter (September 30). Since the start of the fourth quarter, the price of the index has increased by 1.6%, while the forward 12-month EPS estimate has increased by 0.8%.

At the sector level, the Energy (27.6) sector has the highest forward 12-month P/E ratio, while the Telecom Services (11.9) 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 (27.6 vs. 18.9) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (11.9 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

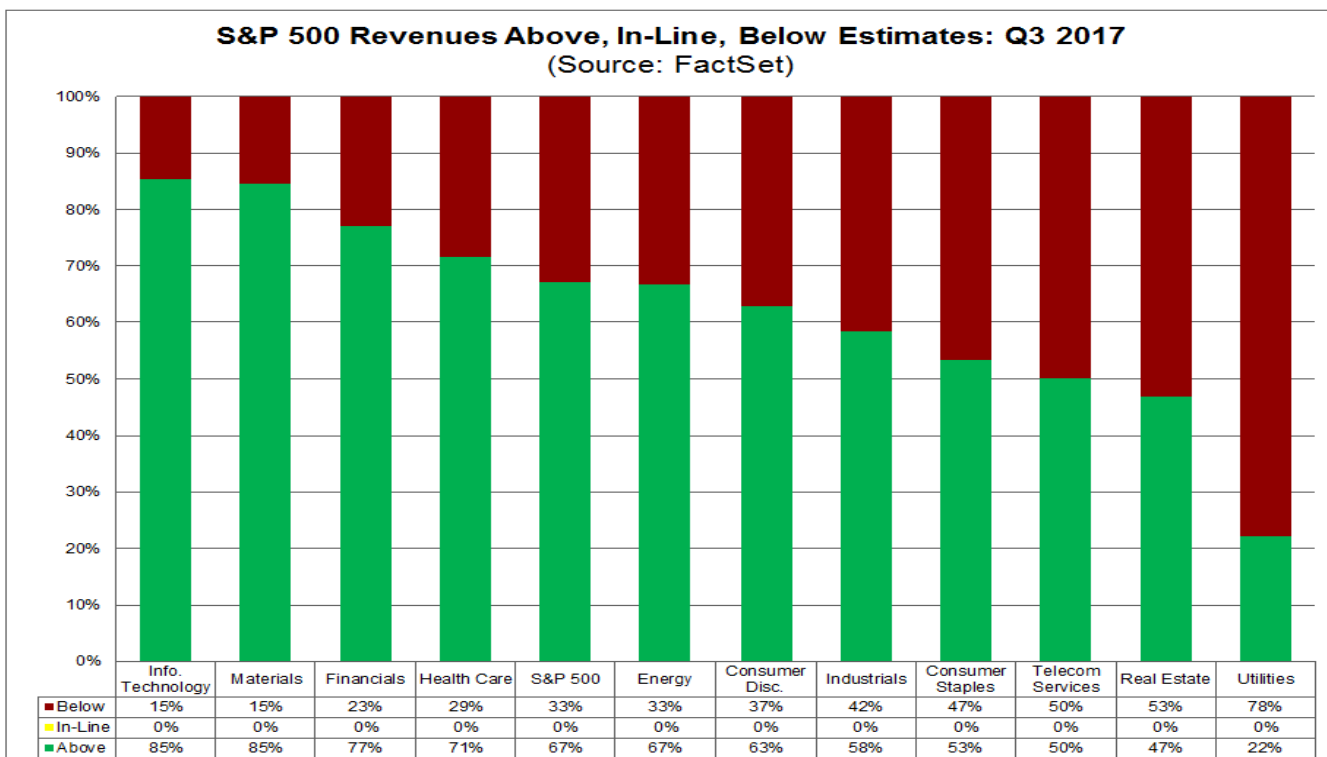
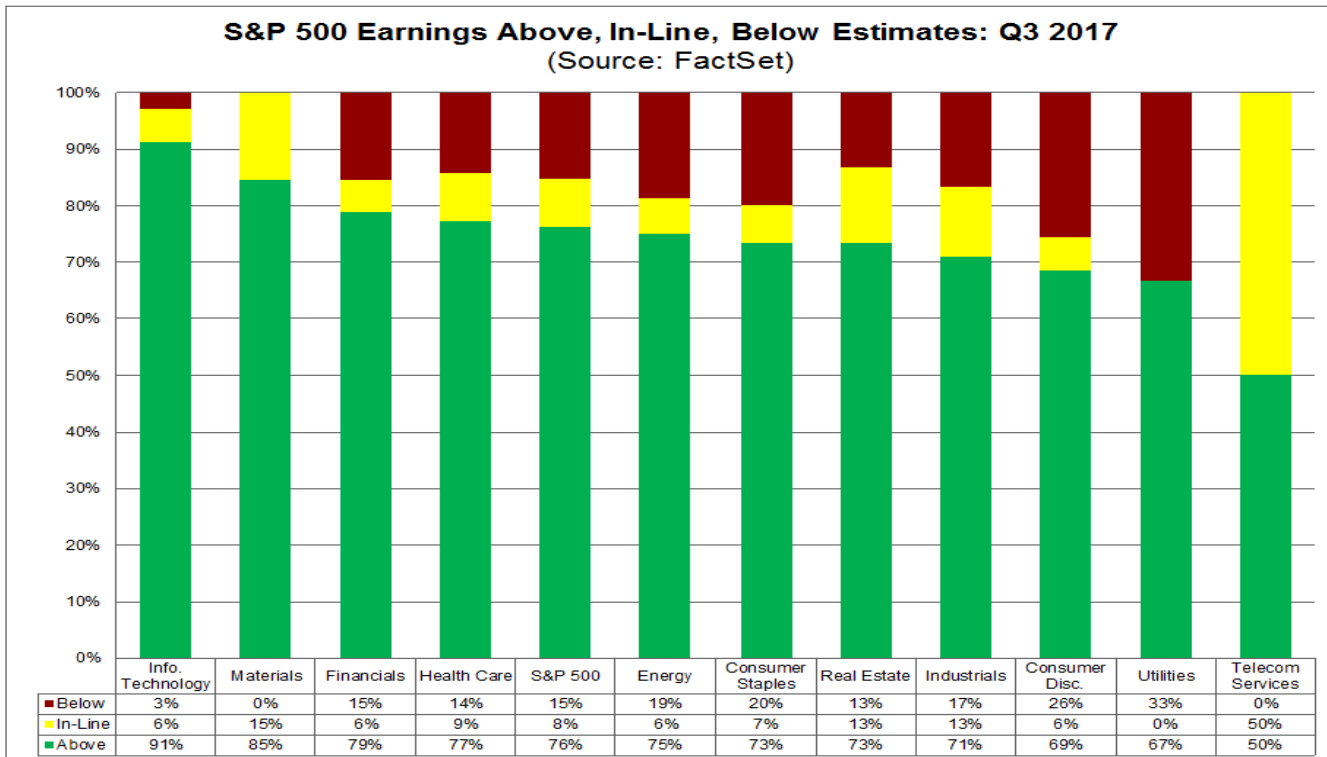
The bottom-up target price for the S&P 500 is 2771.94, which is 8.3% above the closing price of 2560.40. At the sector level, the Consumer Discretionary (+12.8%) has the largest upside difference between the bottom-up target price and the closing price, while the Utilities (+1.4%) sector has the smallest upside difference between the bottom-up target price and the closing price.

Overall, there are 11,097 ratings on stocks in the S&P 500. Of these 11,097 ratings, 49.1% are Buy ratings, 45.6% are Hold ratings, and 5.3% are Sell ratings. At the sector level, the Information Technology (58%), Energy (56%), and Health Care (56%) sectors have the highest percentages of Buy ratings, while the Utilities (7%) sector has the highest percentage of Sell ratings at 6%.

### Companies Reporting Next Week: 135

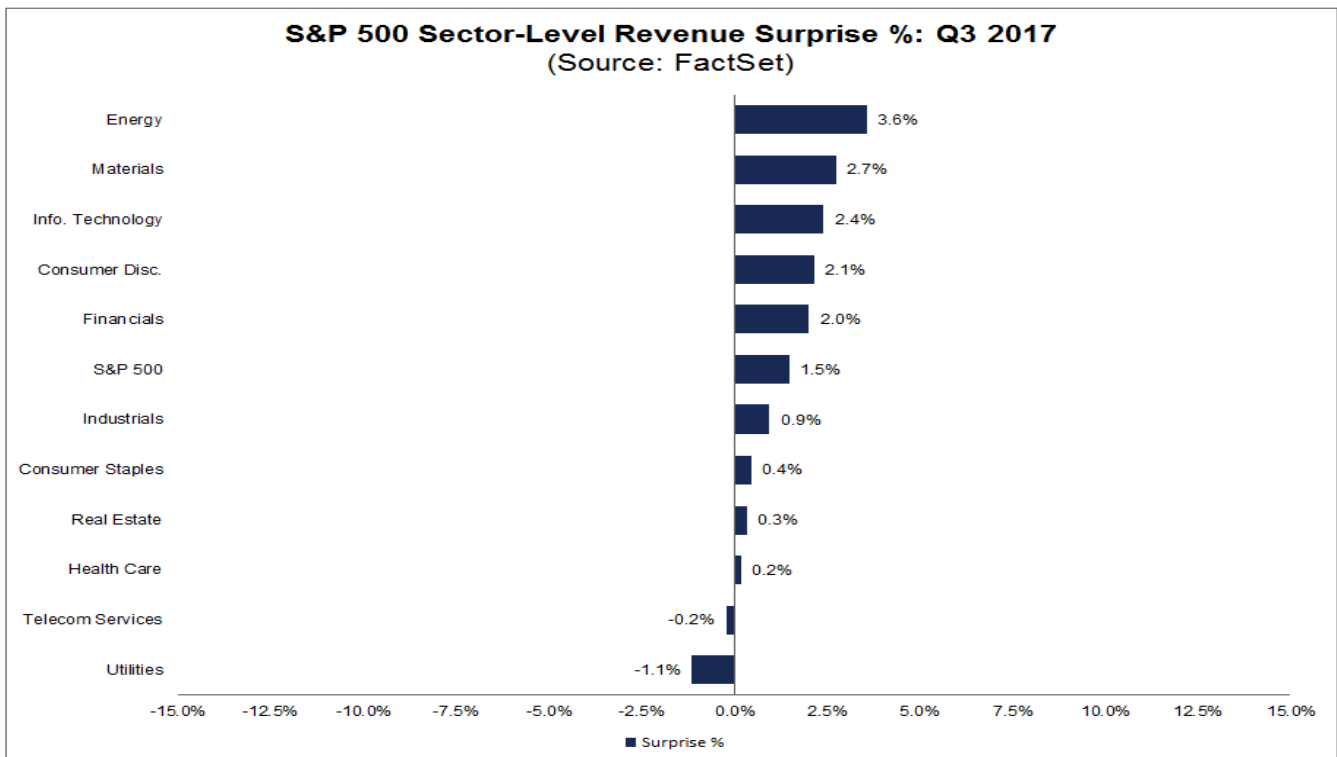
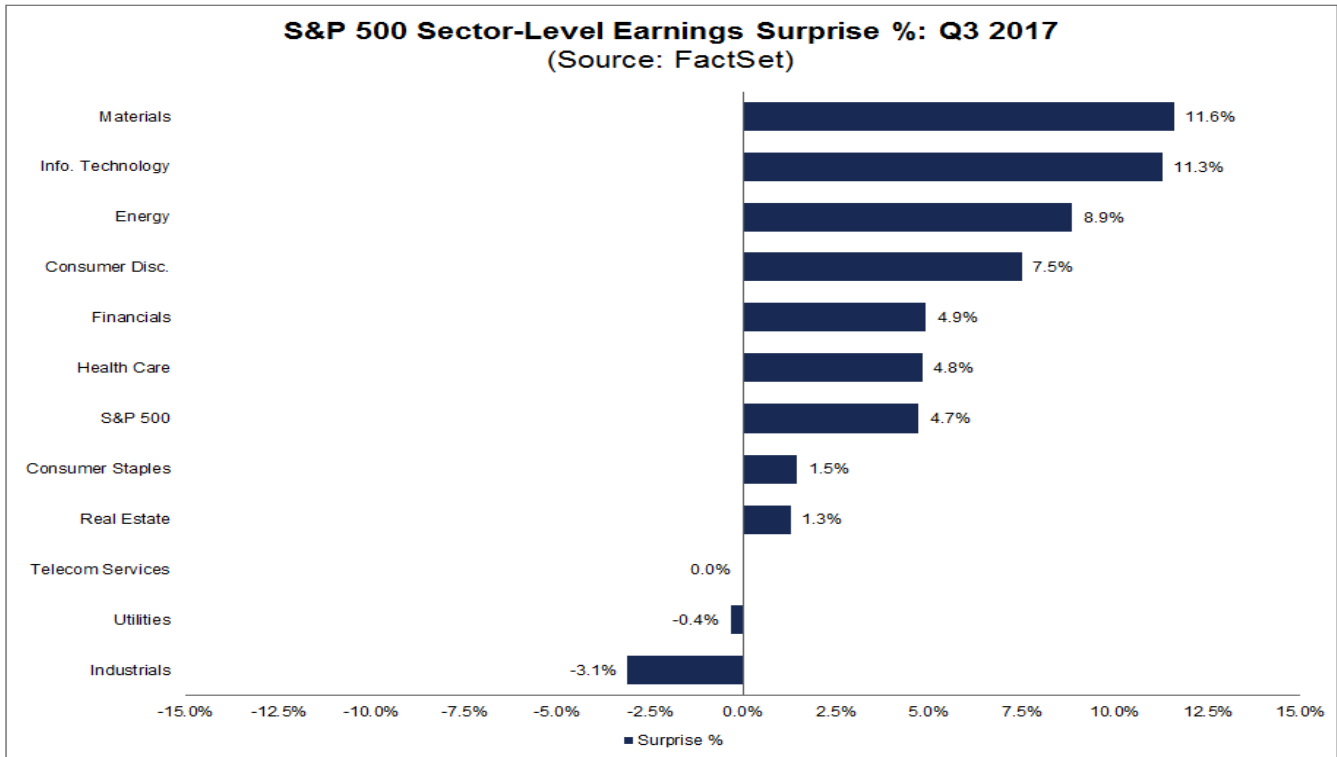
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# Q3 2017: Scorecard

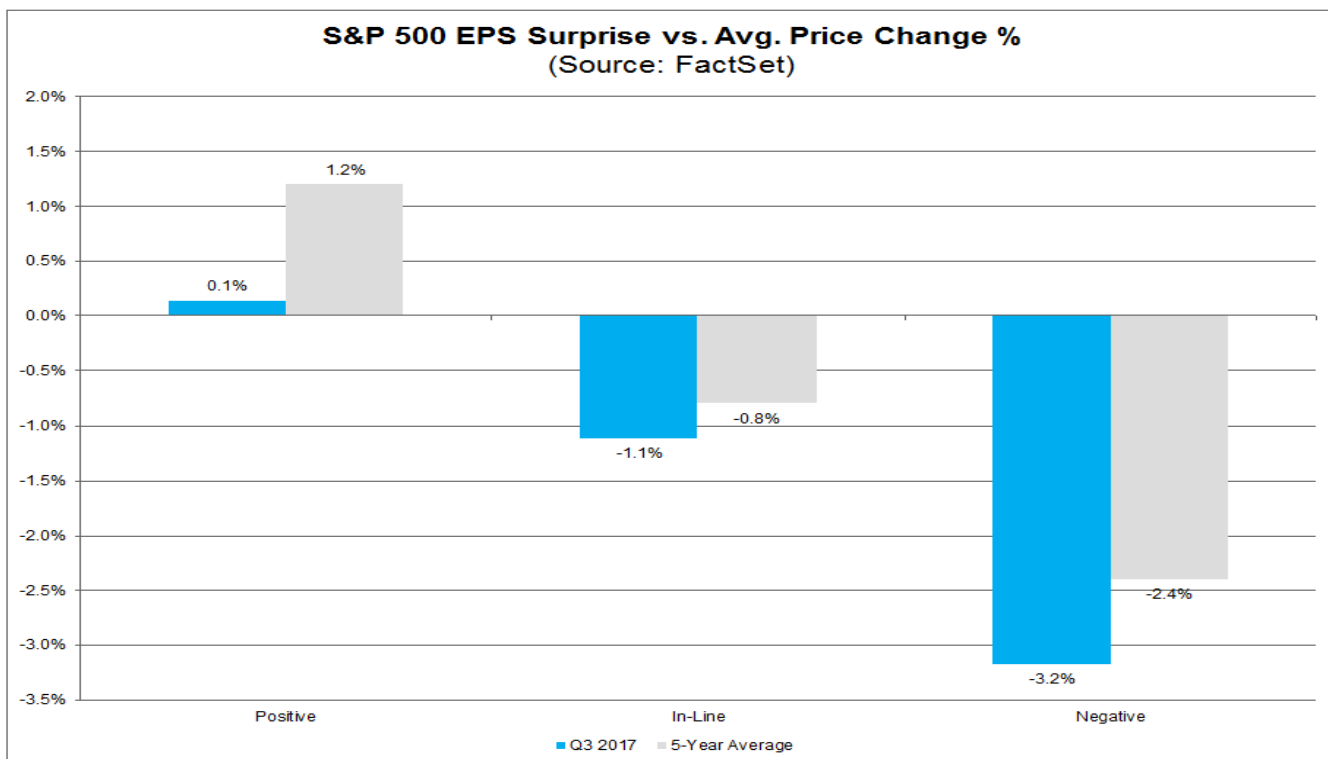
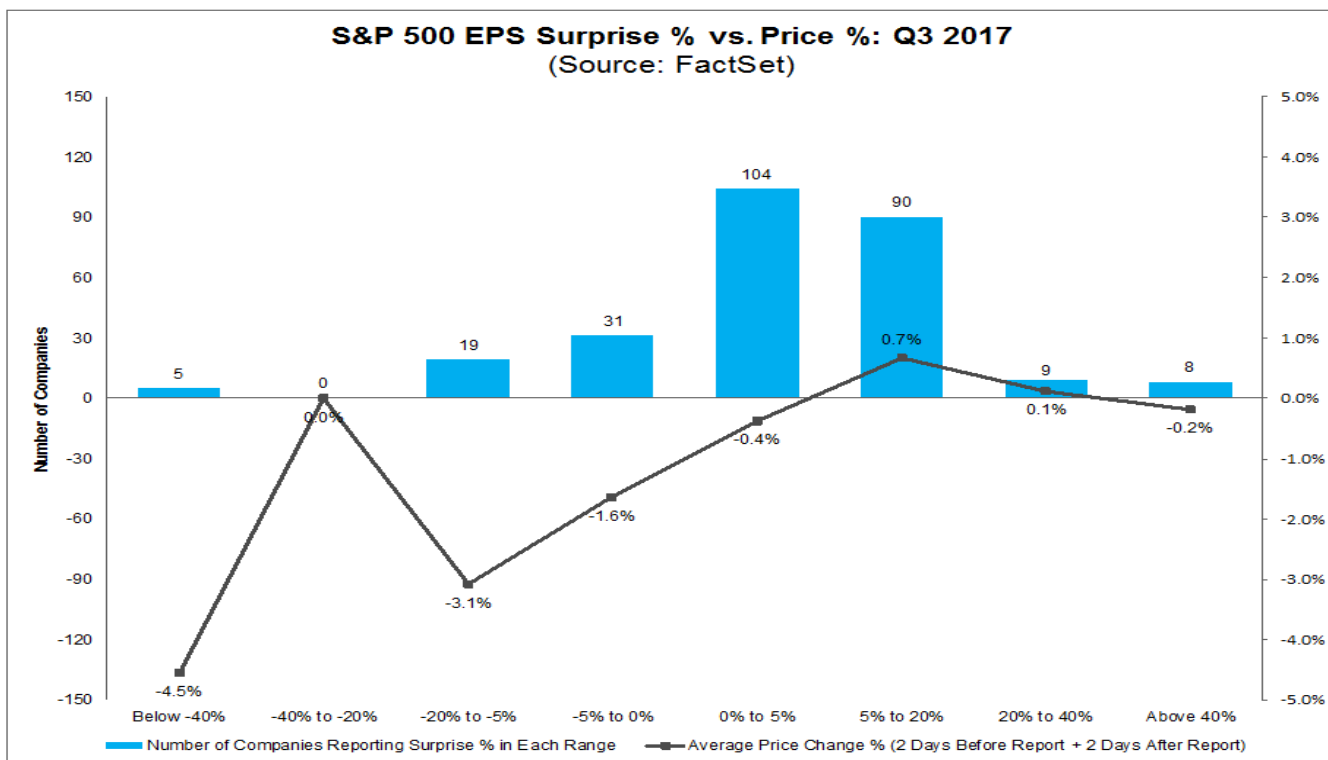




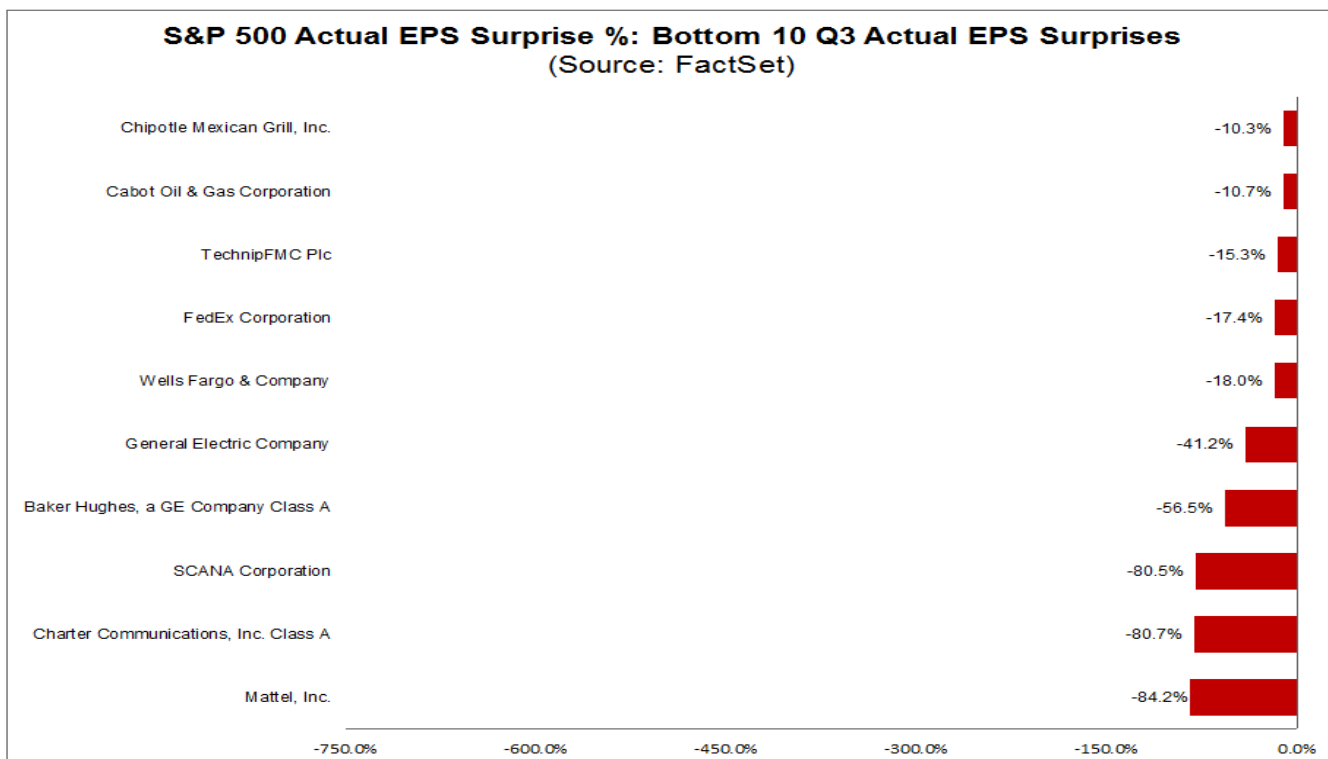
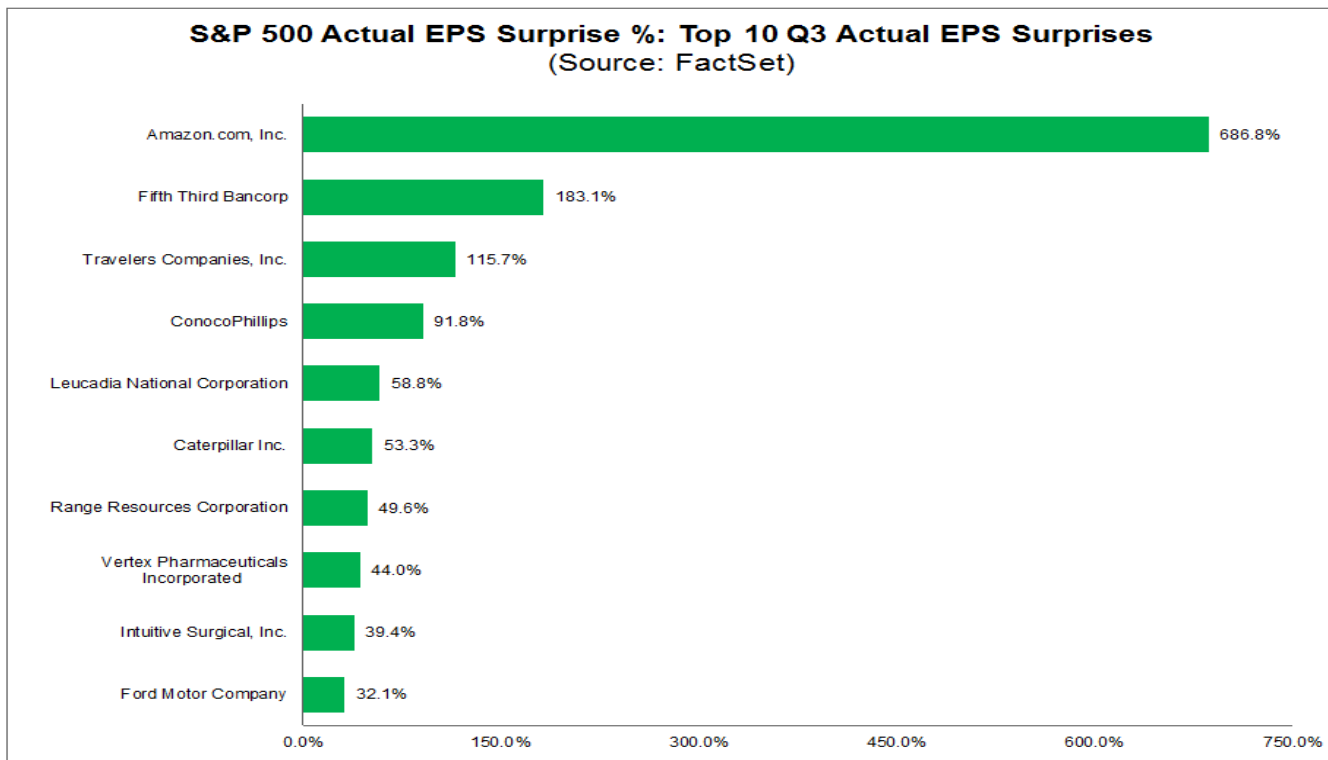
# Q3 2017: Scorecard



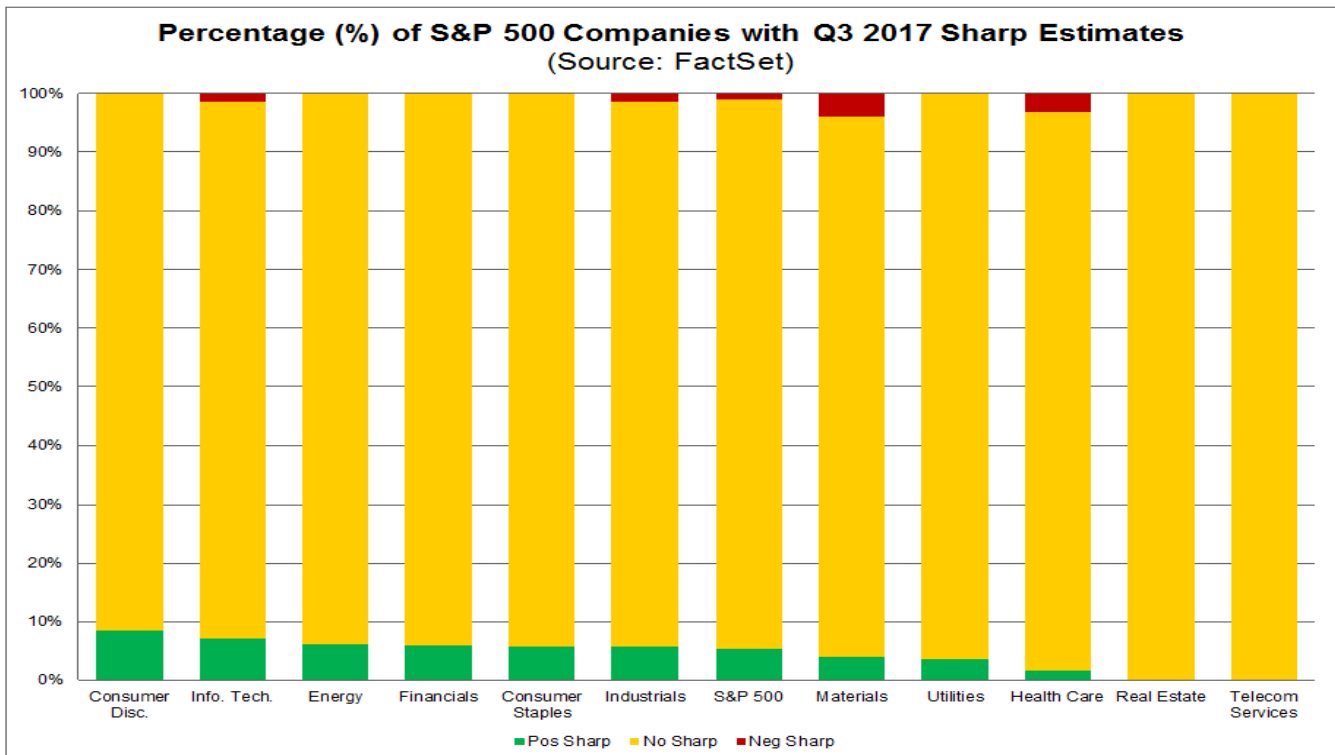
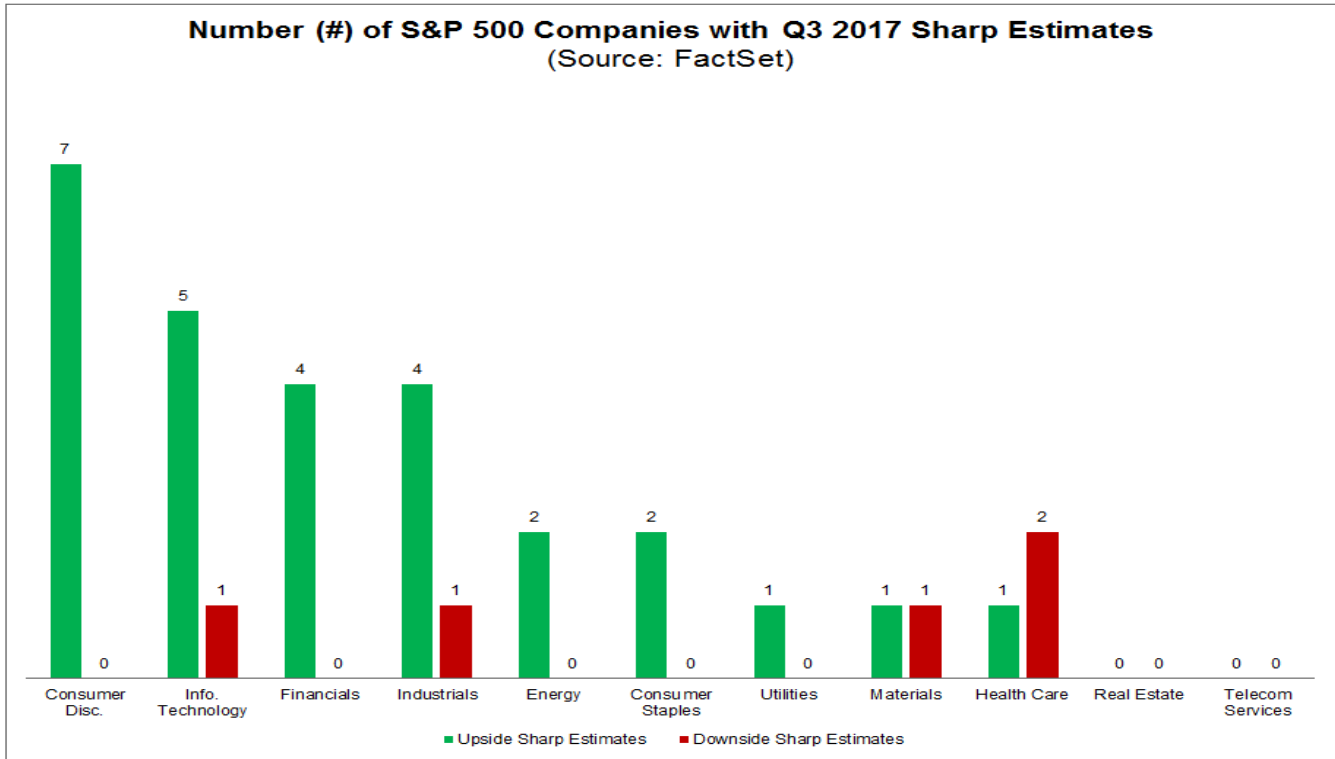
## Q3 2017: Scorecard



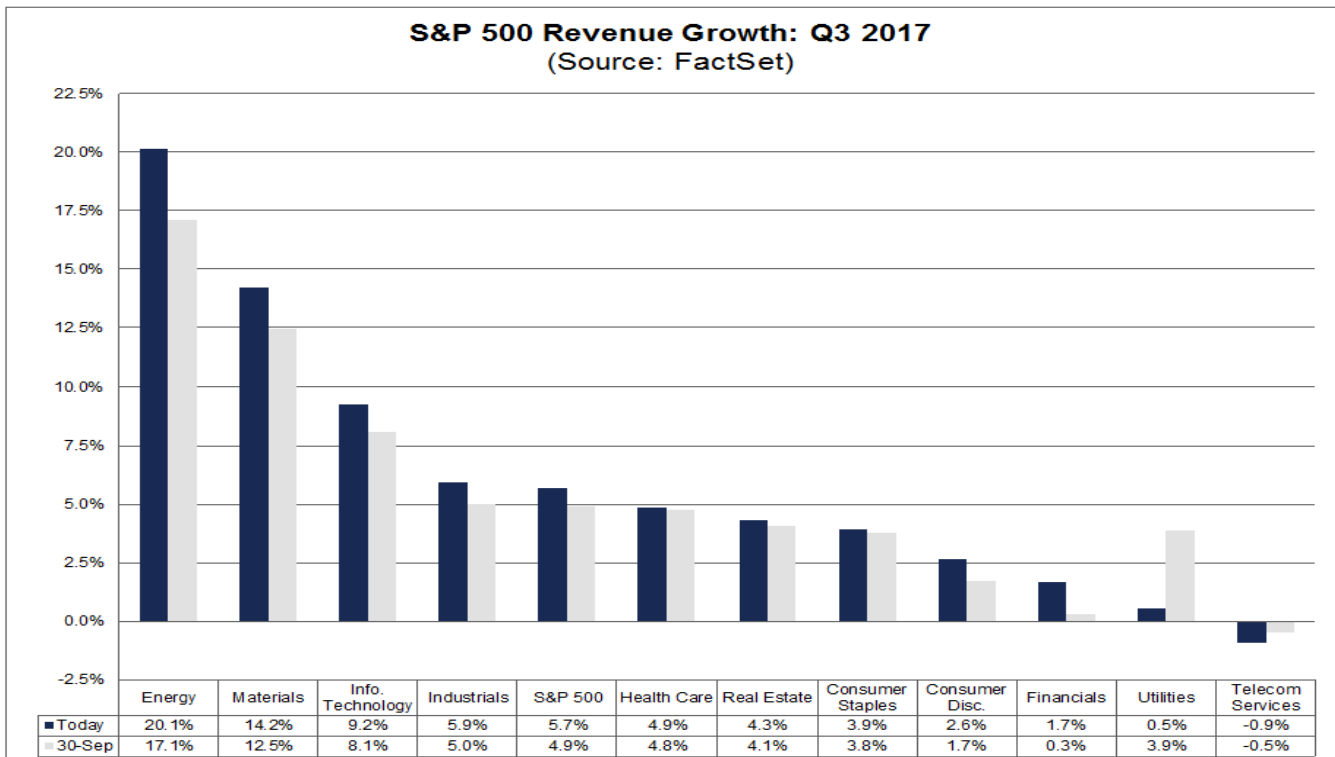
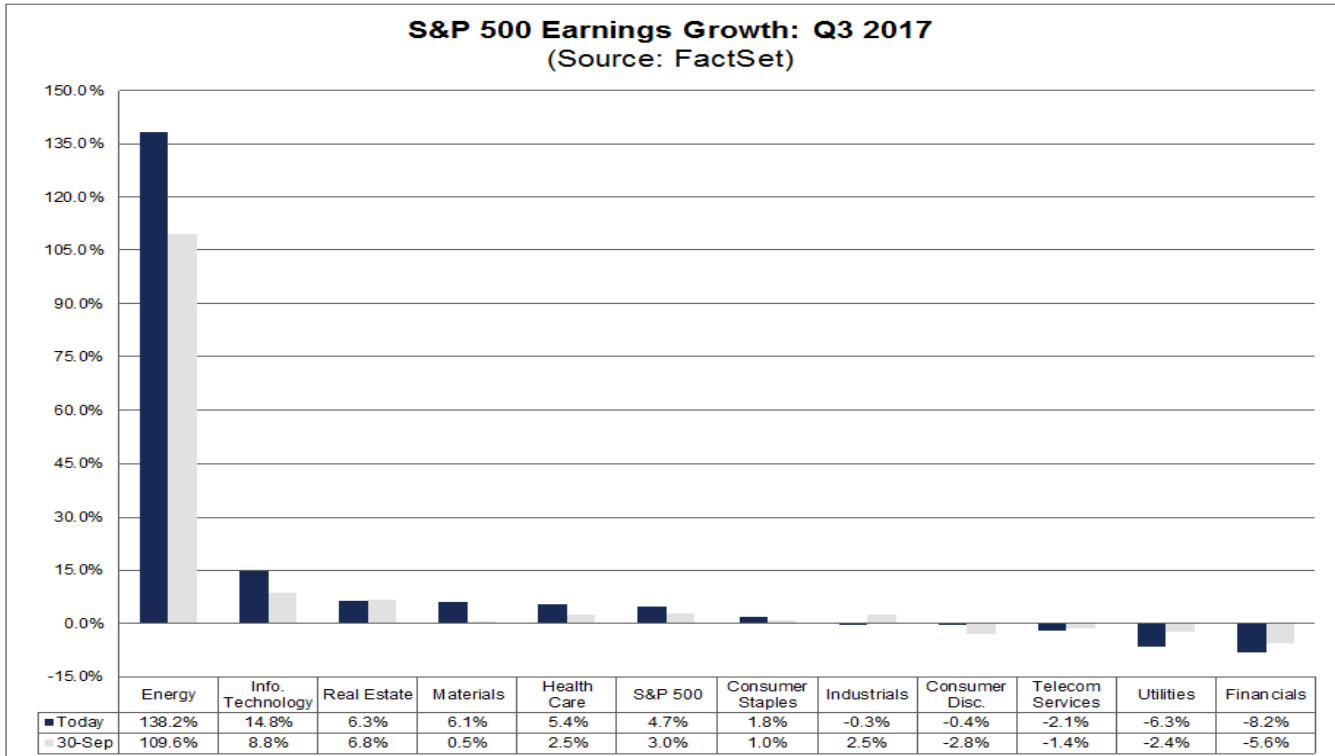
## Q3 2017: Scorecard



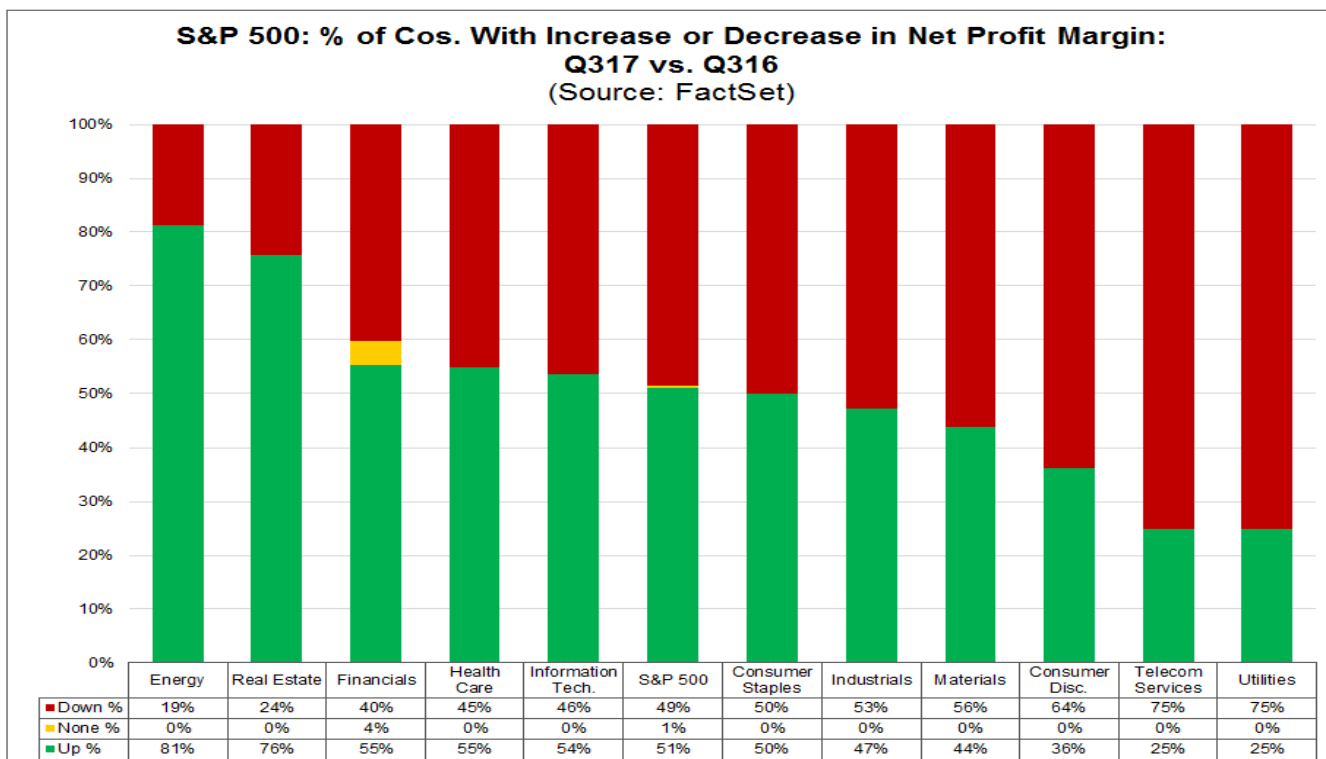
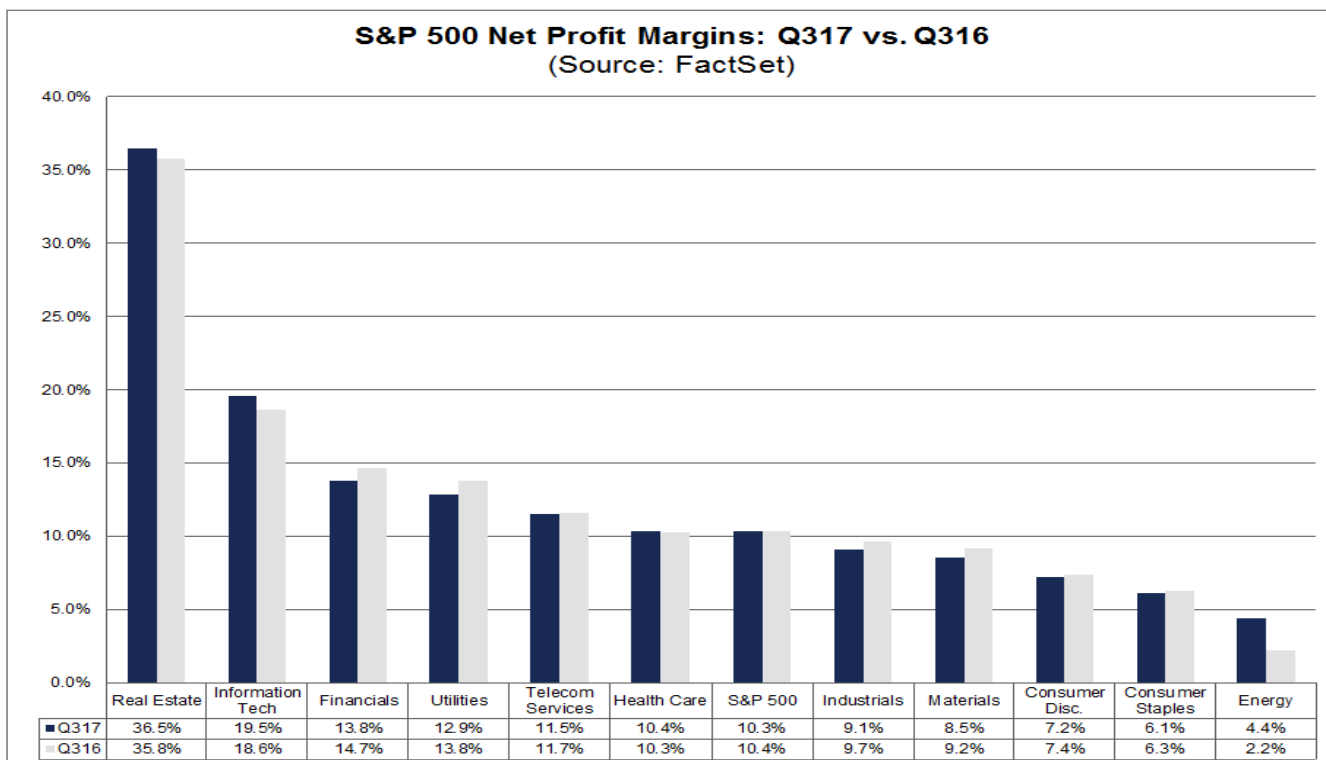
## Q3 2017: Projected EPS Surprises (Sharp Estimates)



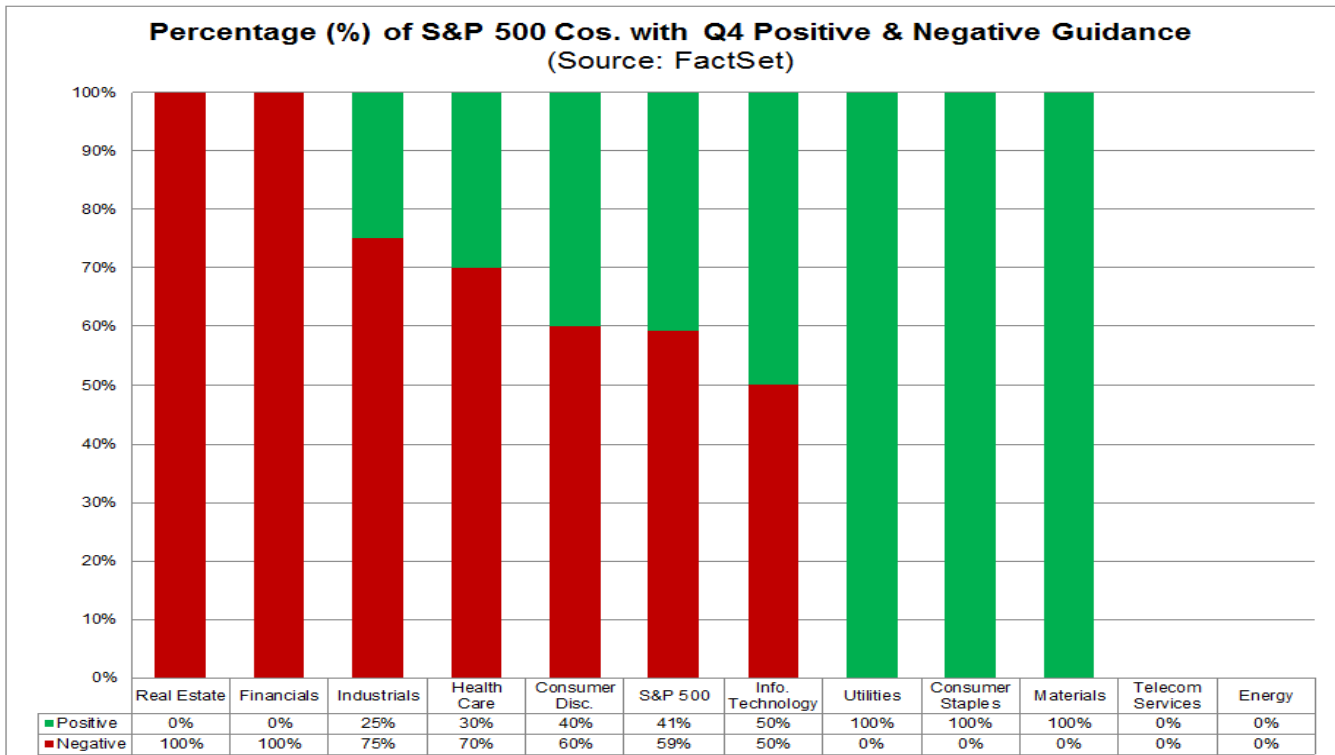
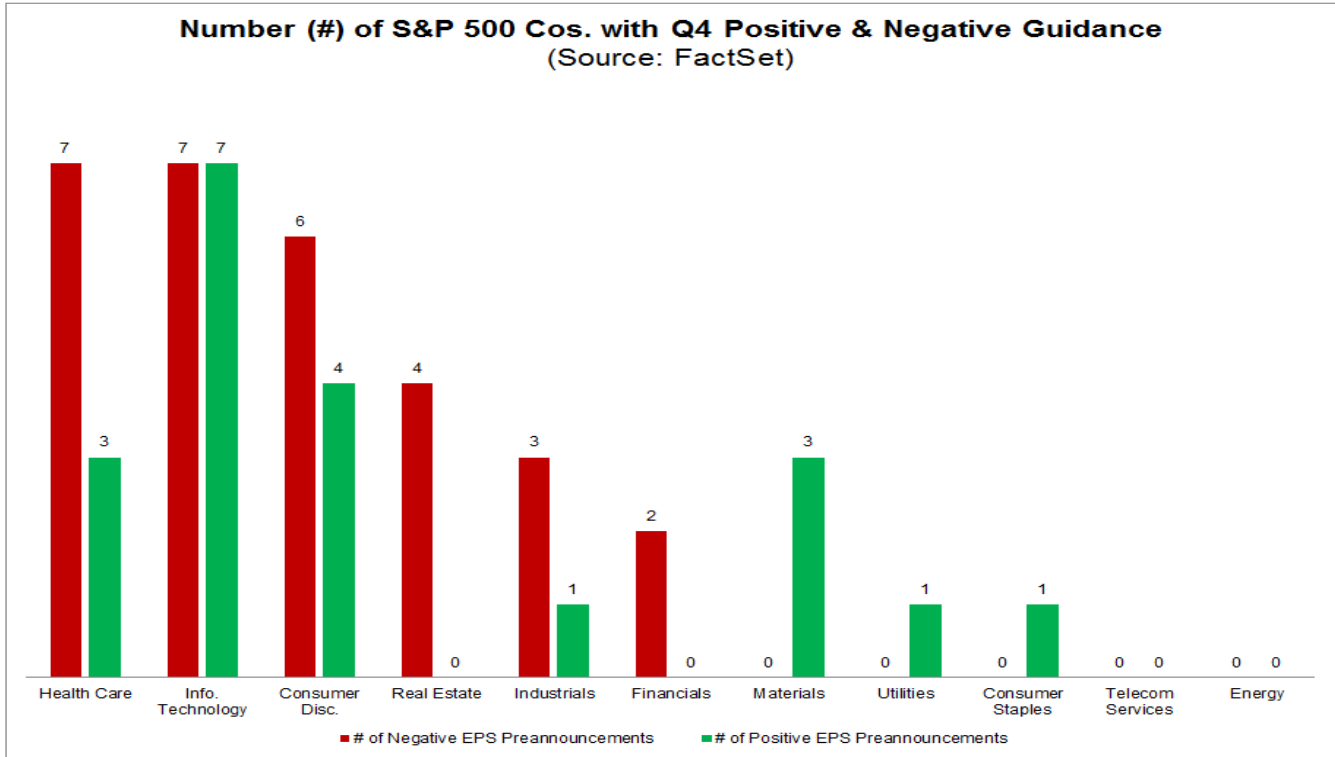
## Q3 2017: Growth



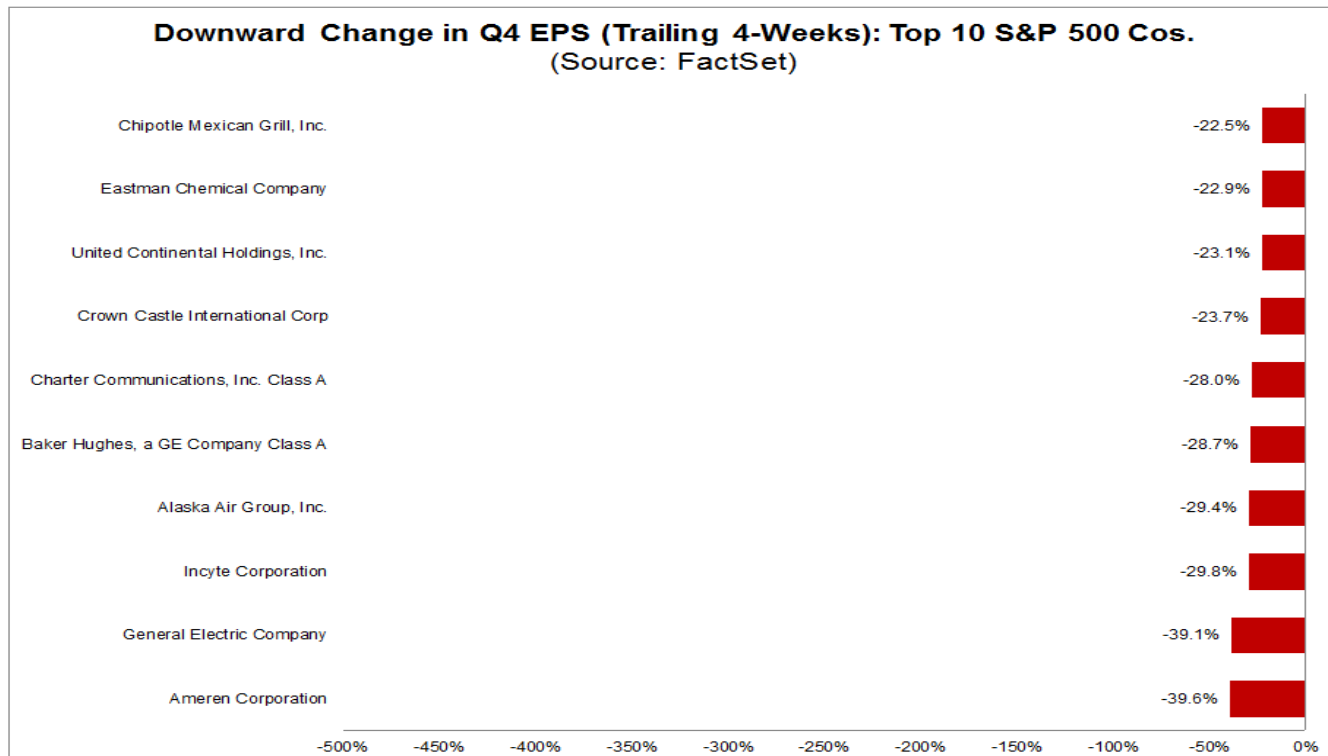
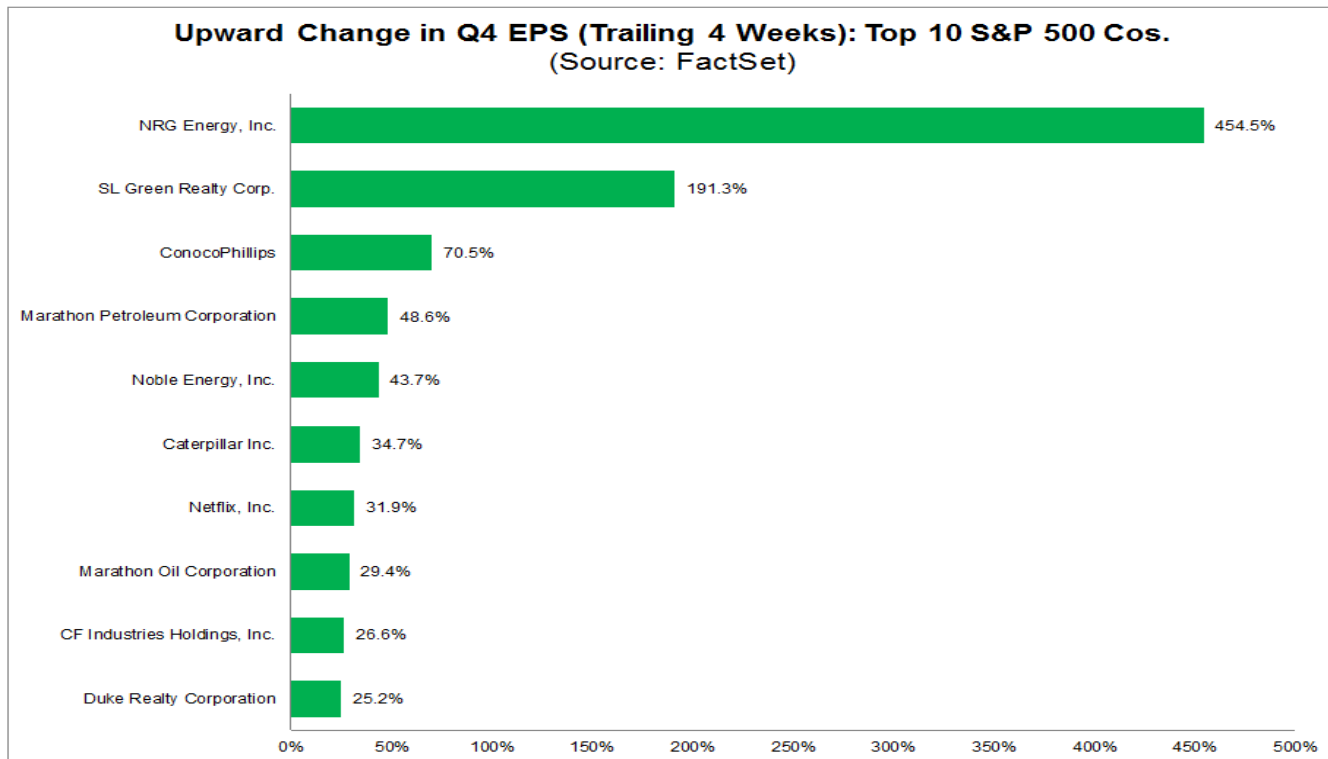
## Q3 2017: Net Profit Margin



## Q4 2017: Guidance

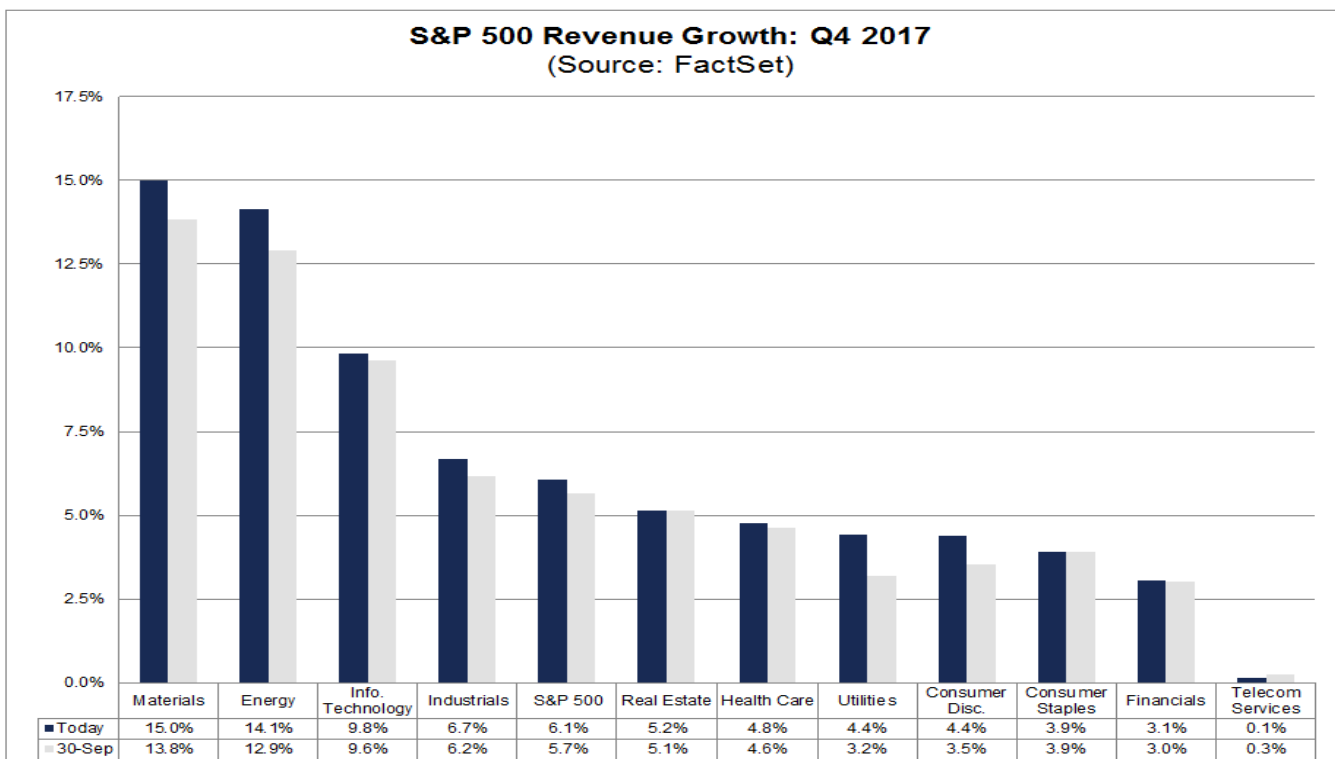
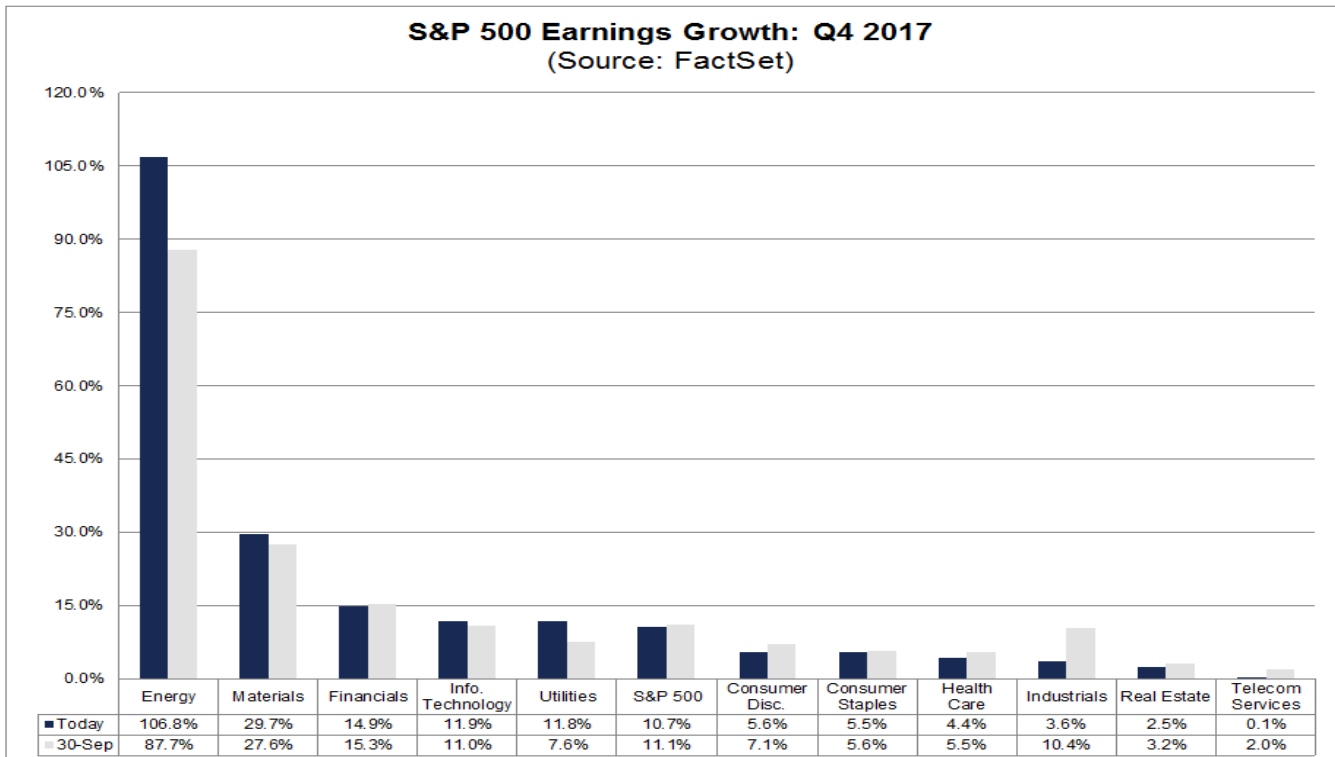


## Q4 2017: EPS Revisions



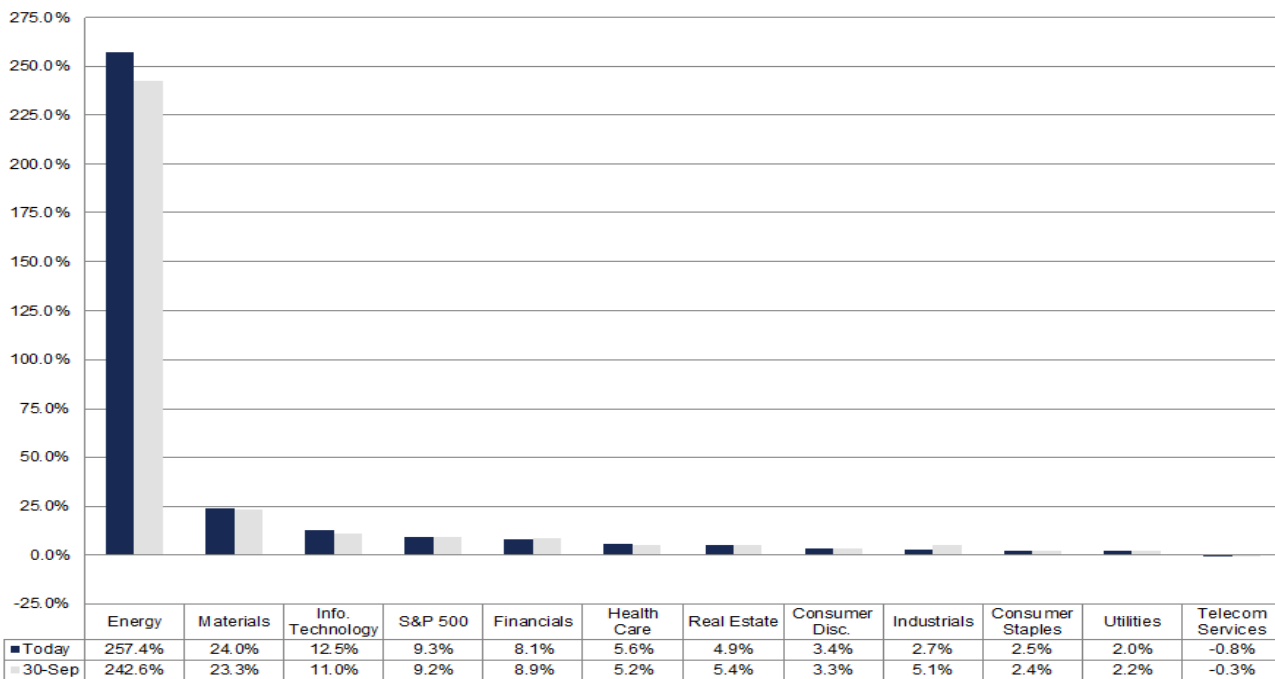


## Q4 2017: Growth

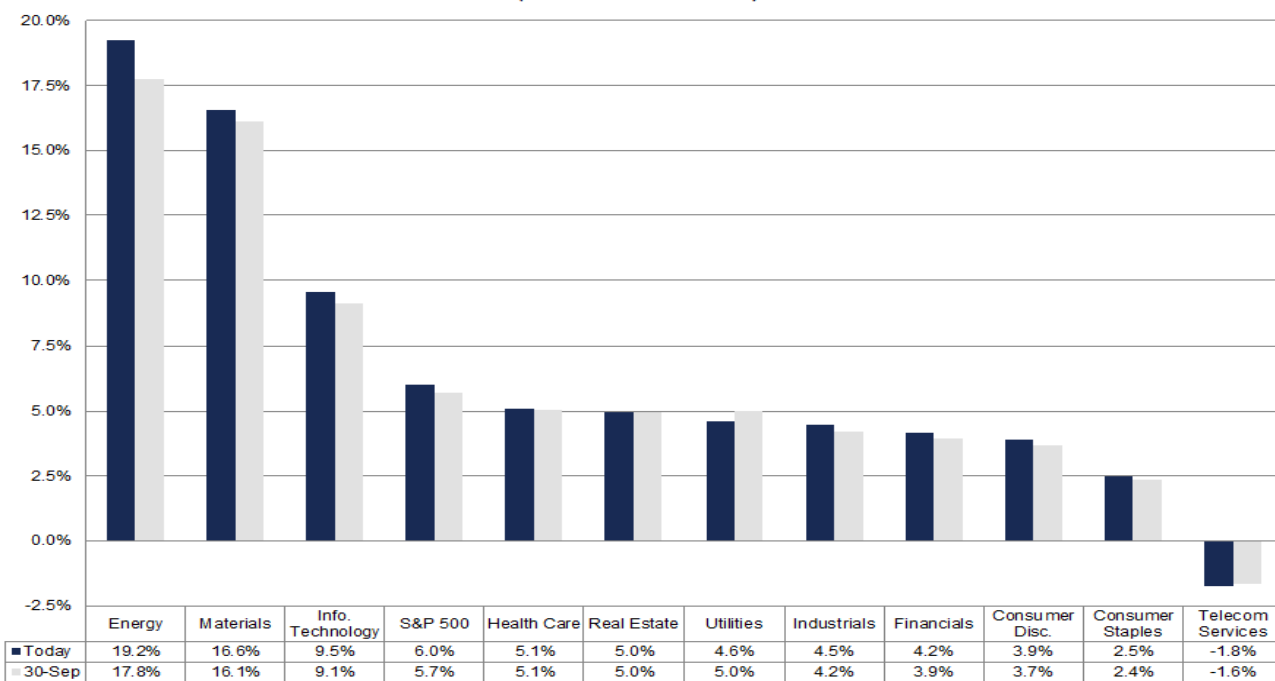


# CY 2017: Growth

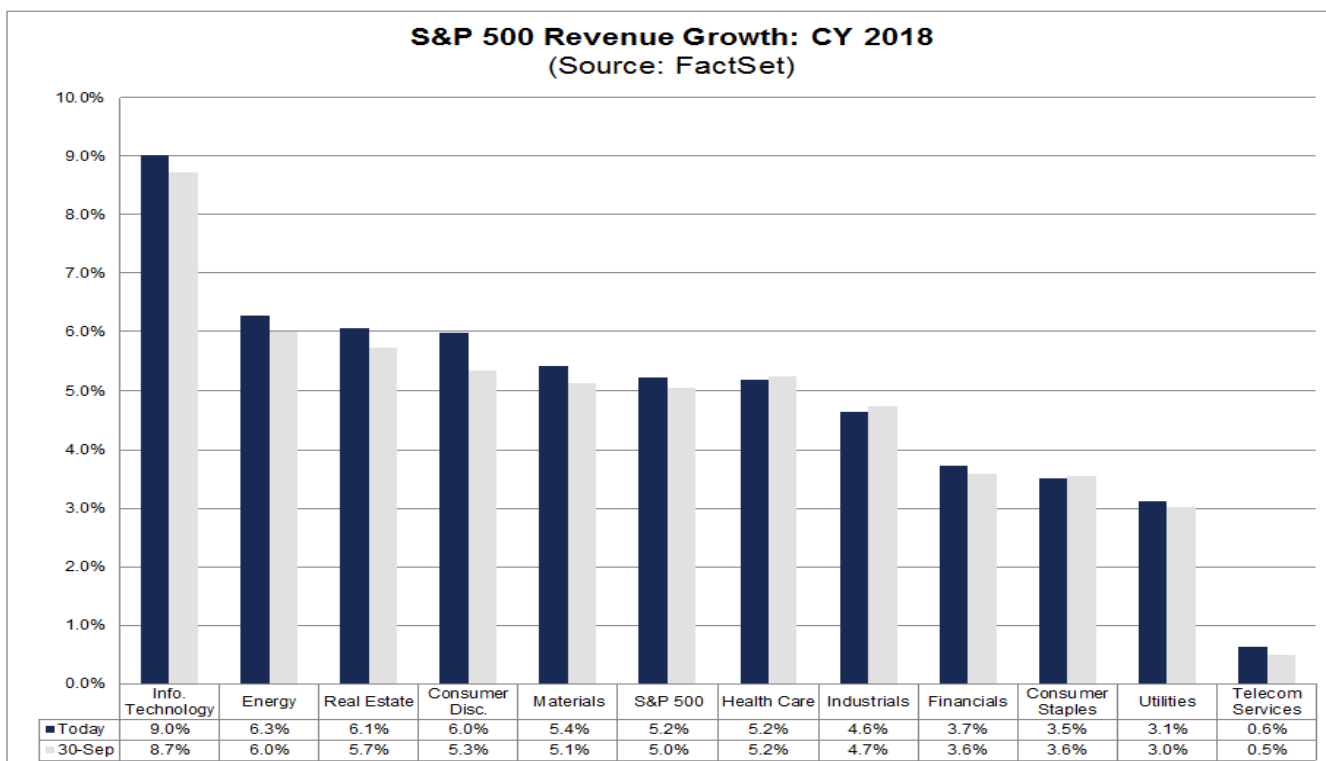
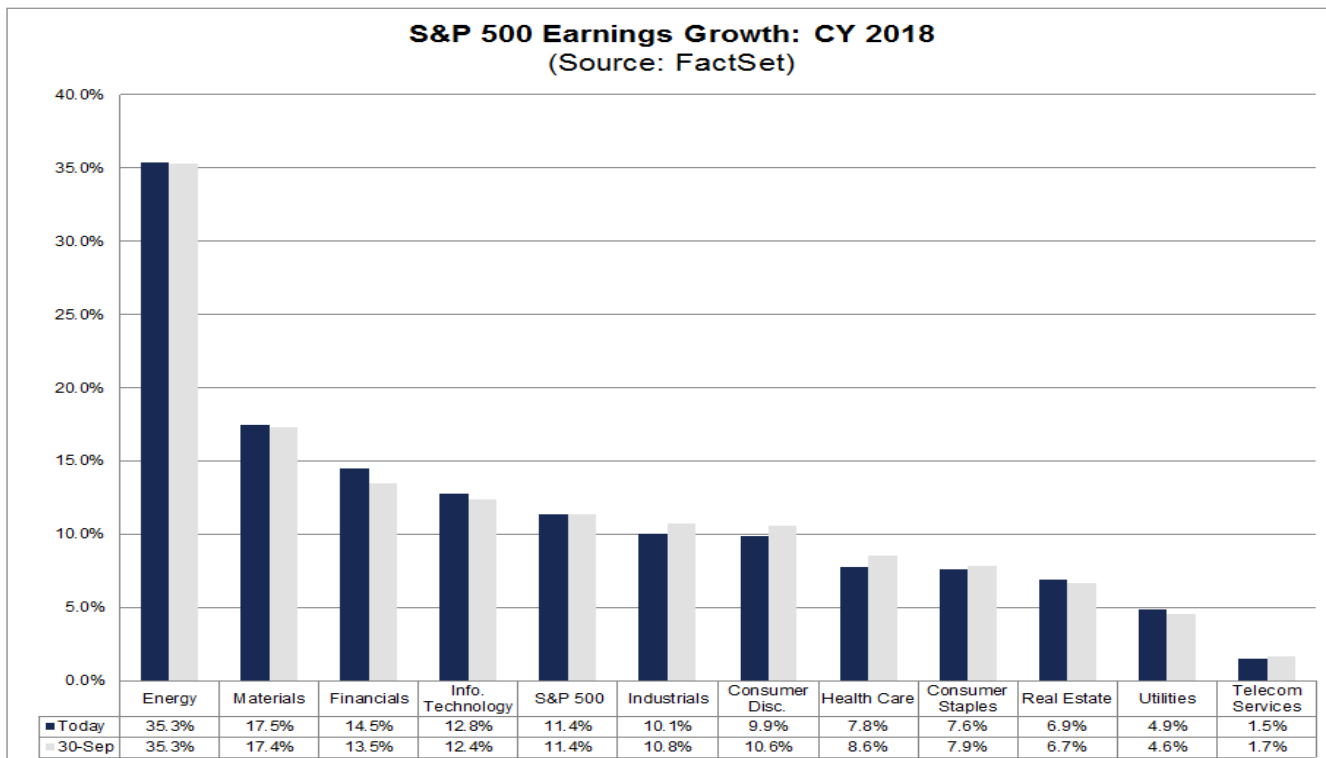
**S&P 500 Earnings Growth: CY 2017**  
(Source: FactSet)



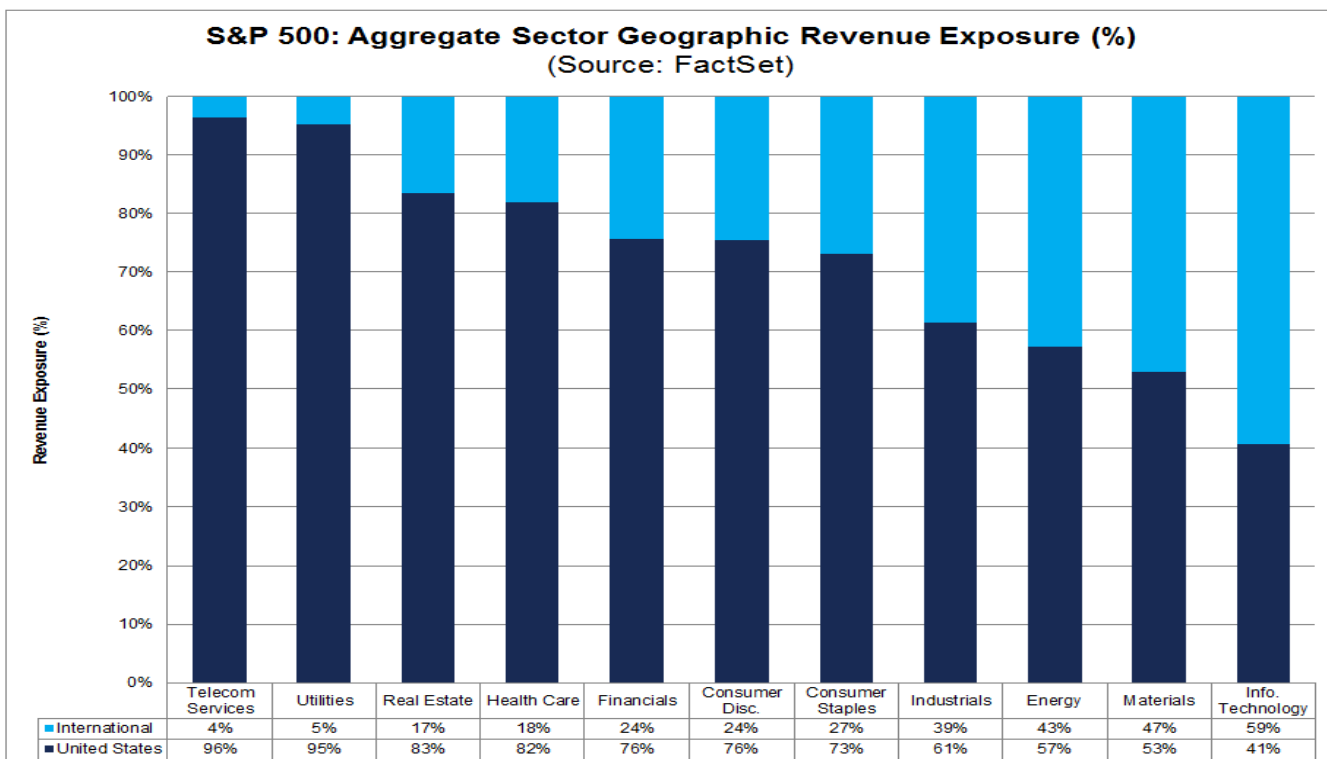
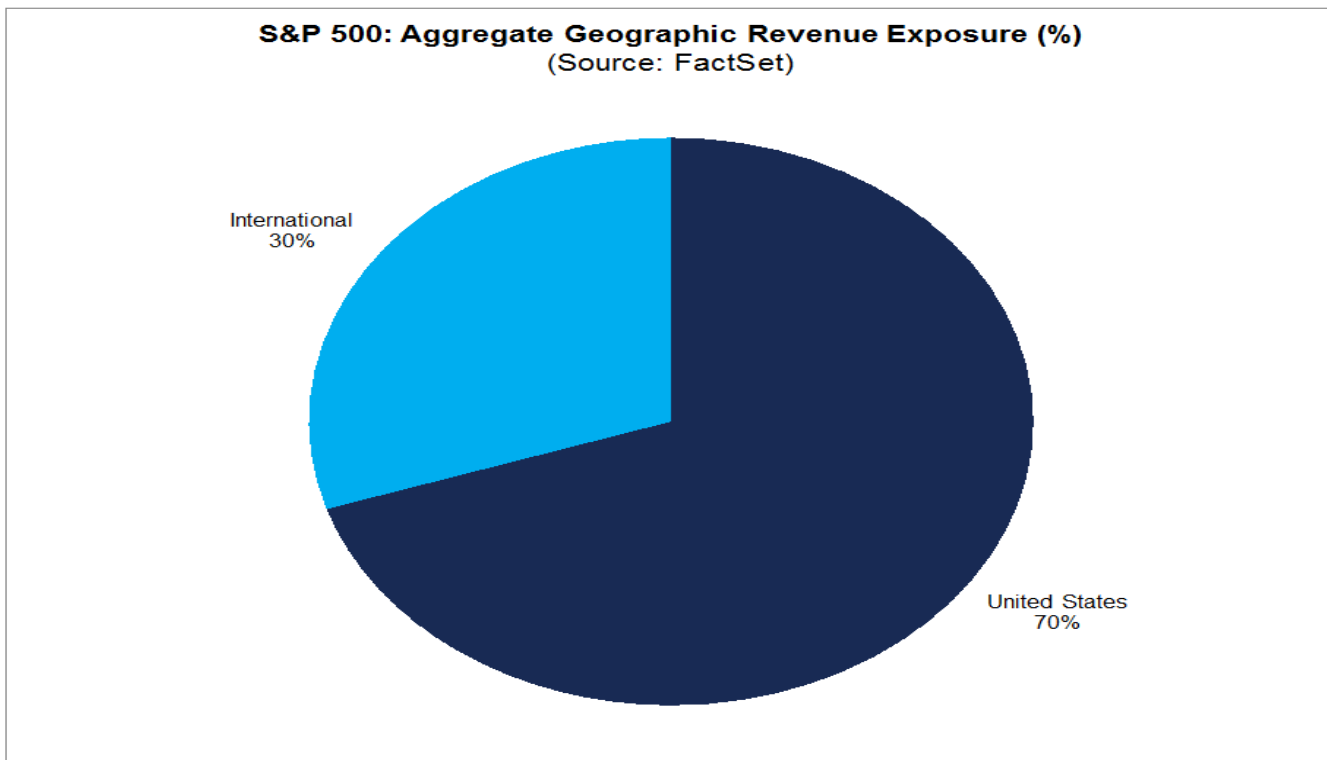
**S&P 500 Revenue Growth: CY 2017**  
(Source: FactSet)



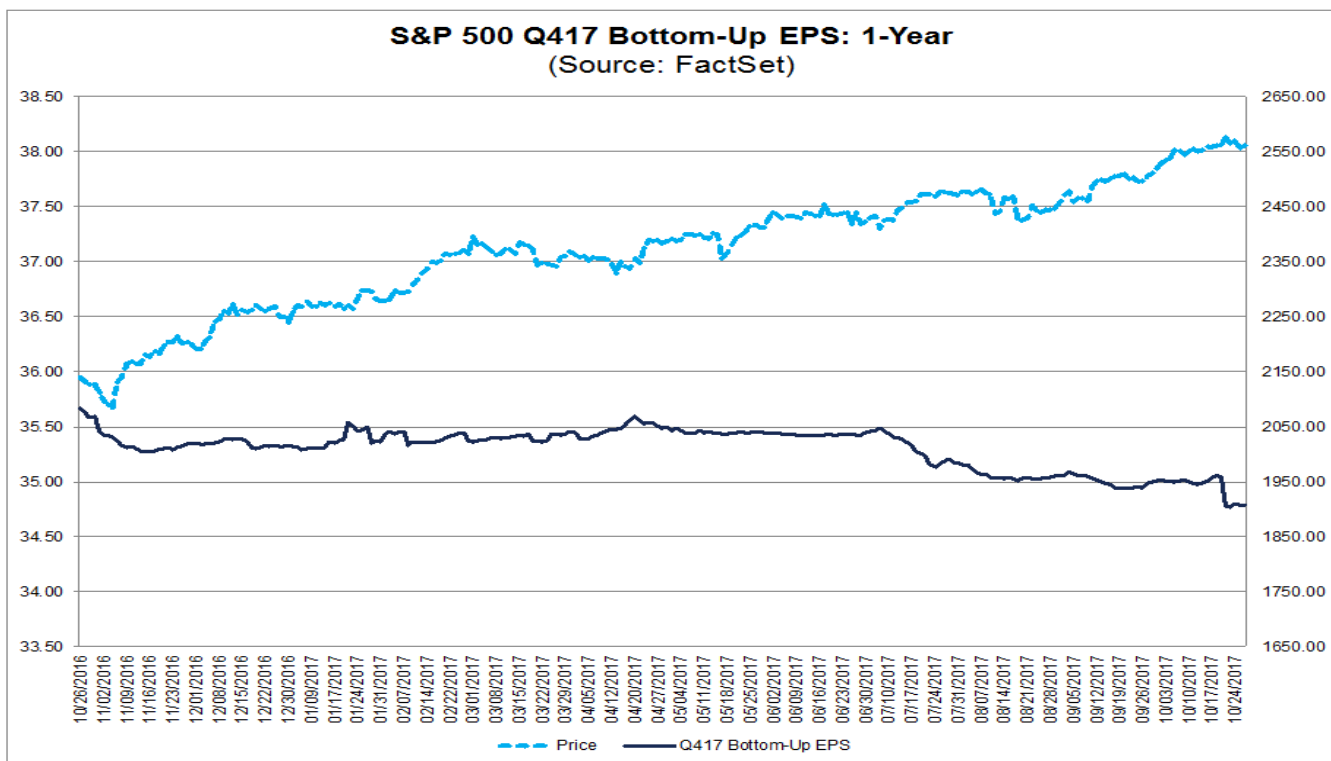
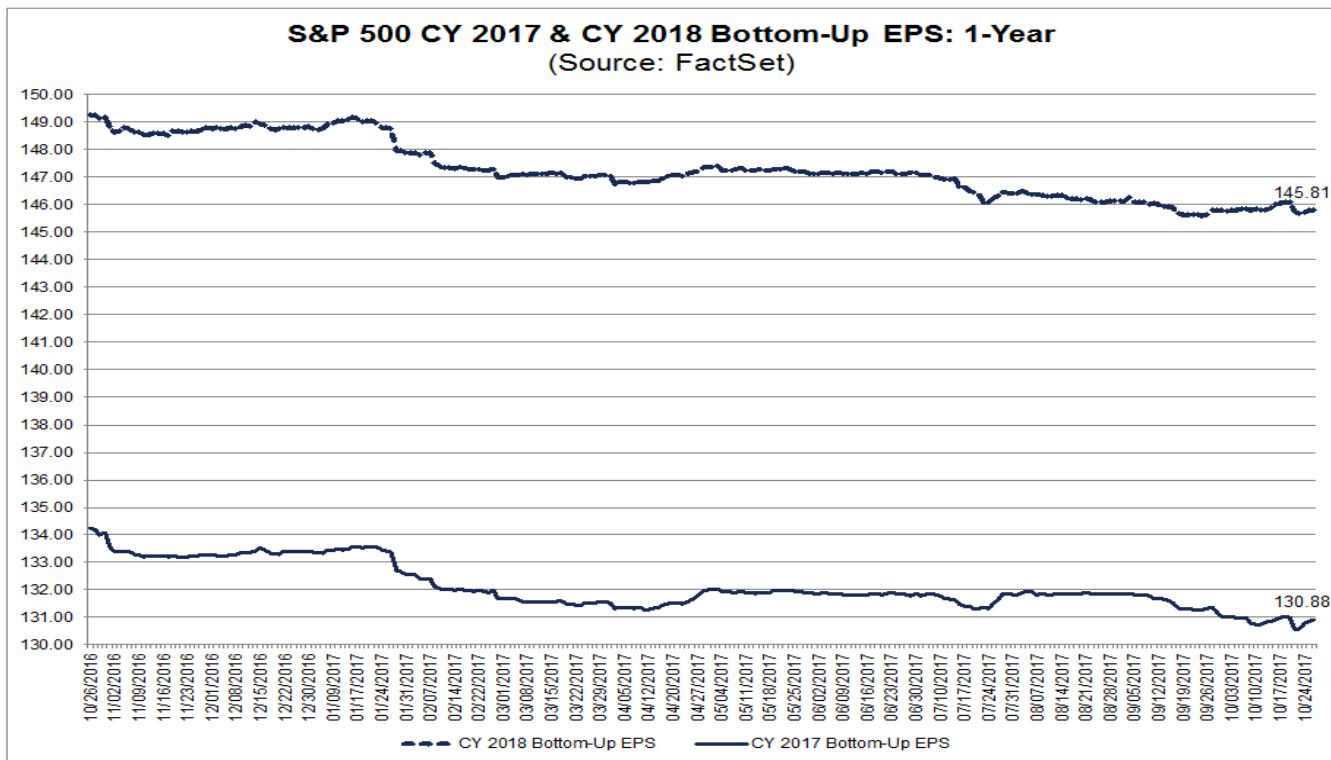
## CY 2018: Growth



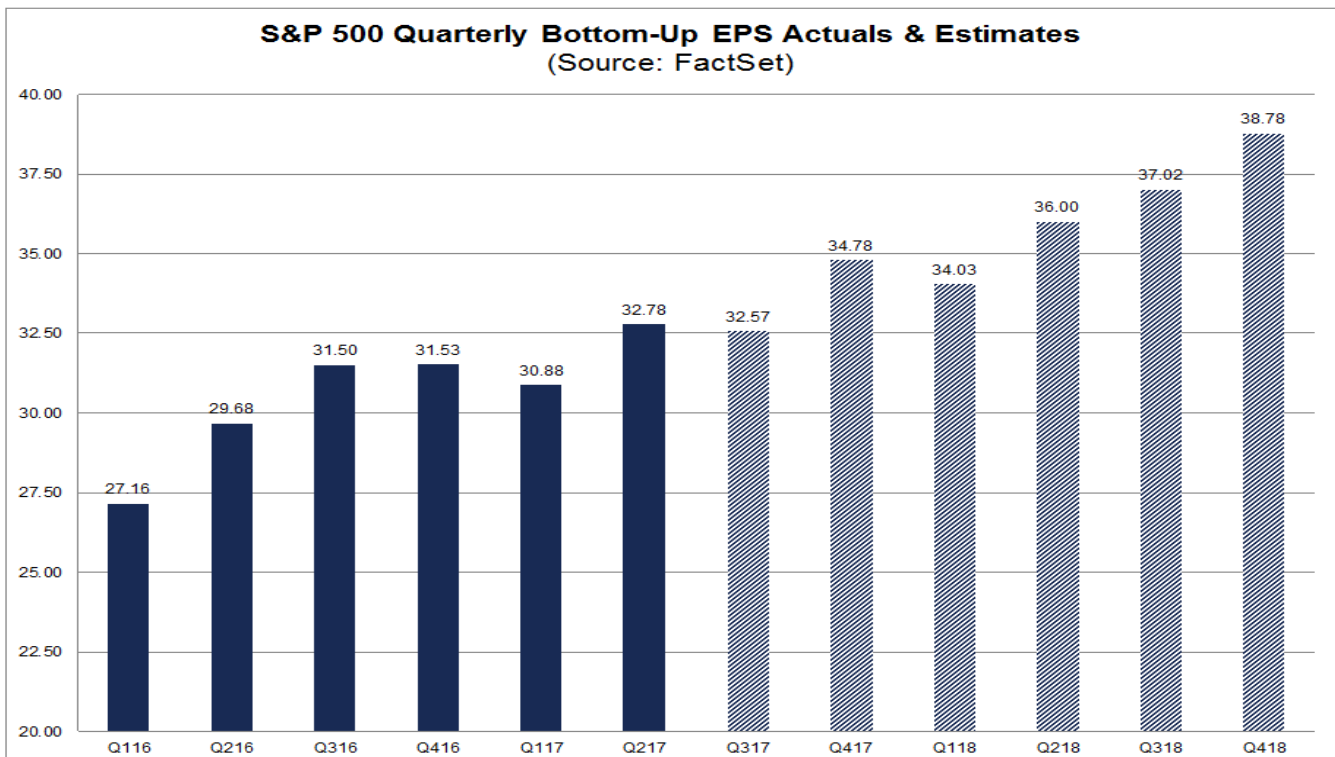
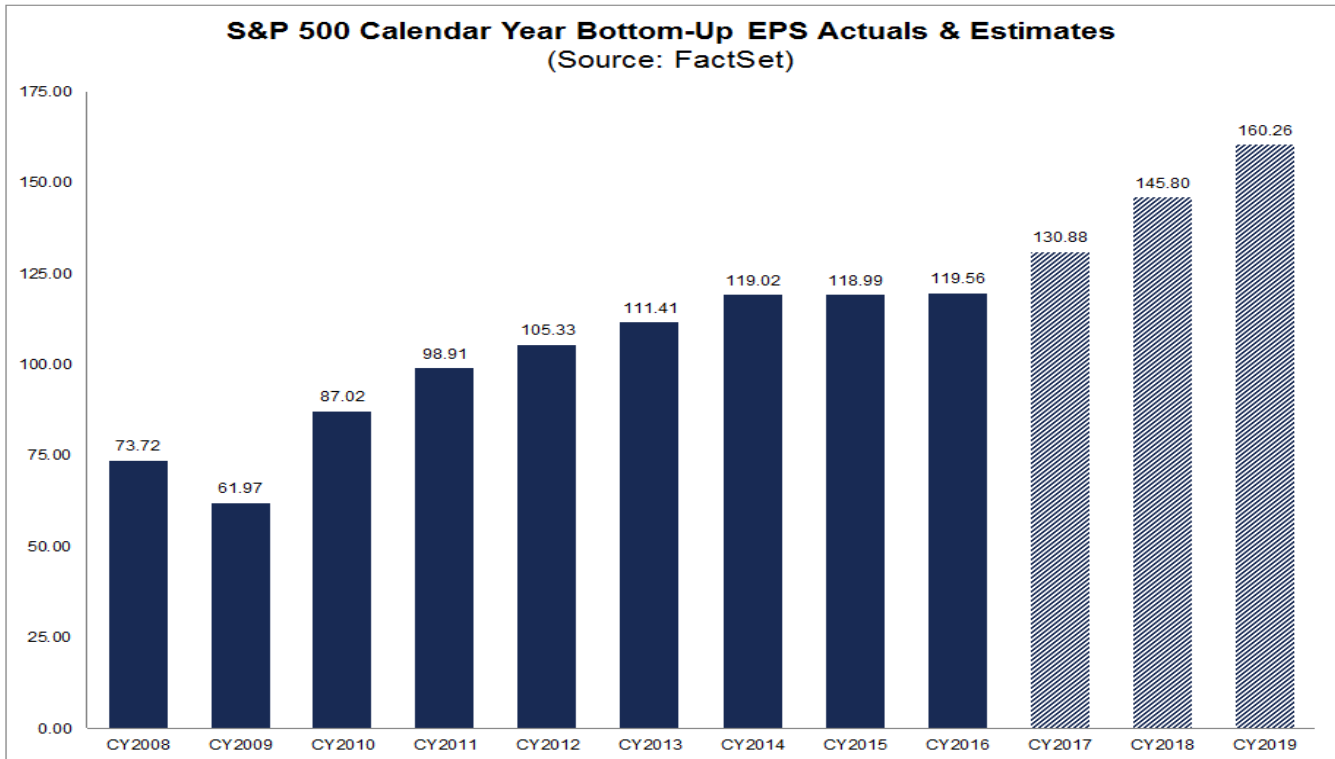
## Geographic Revenue Exposure



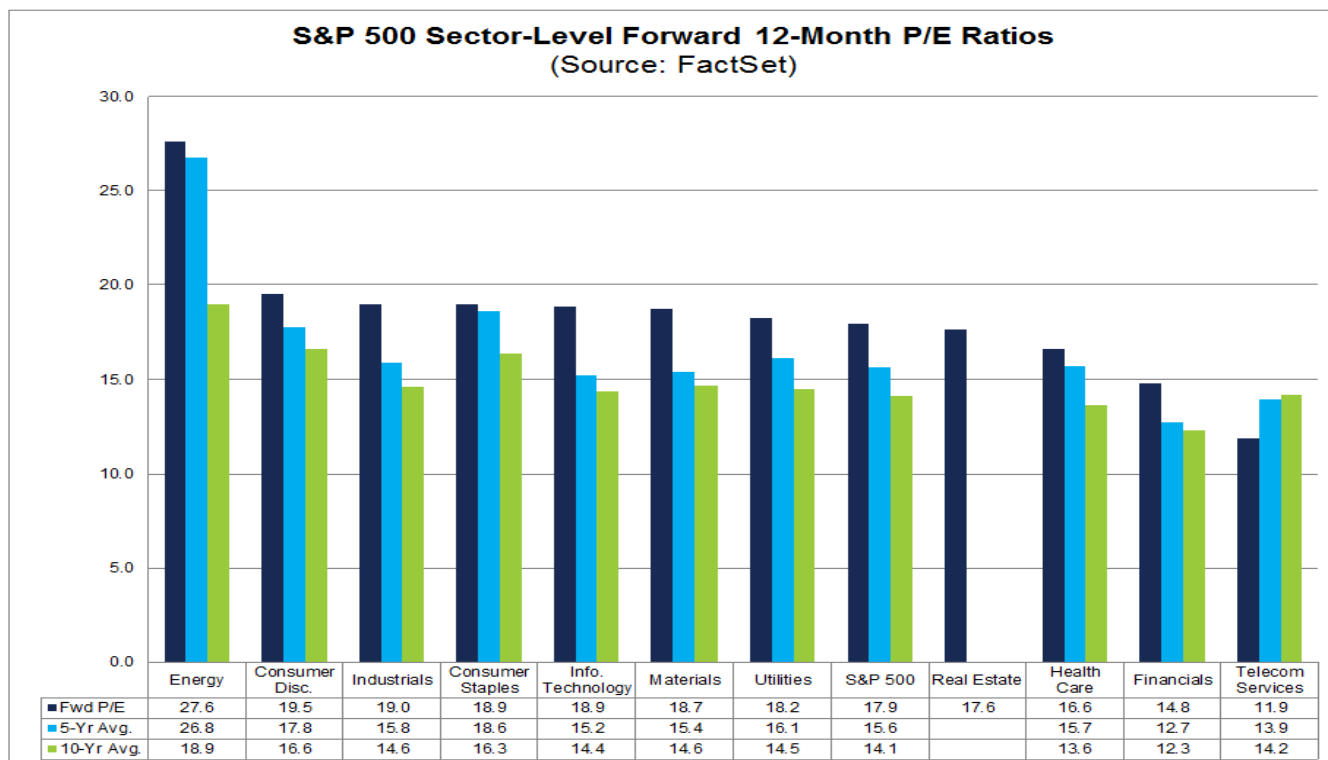
## Bottom-up EPS Estimates: Revisions



## Bottom-up EPS Estimates: Current & Historical

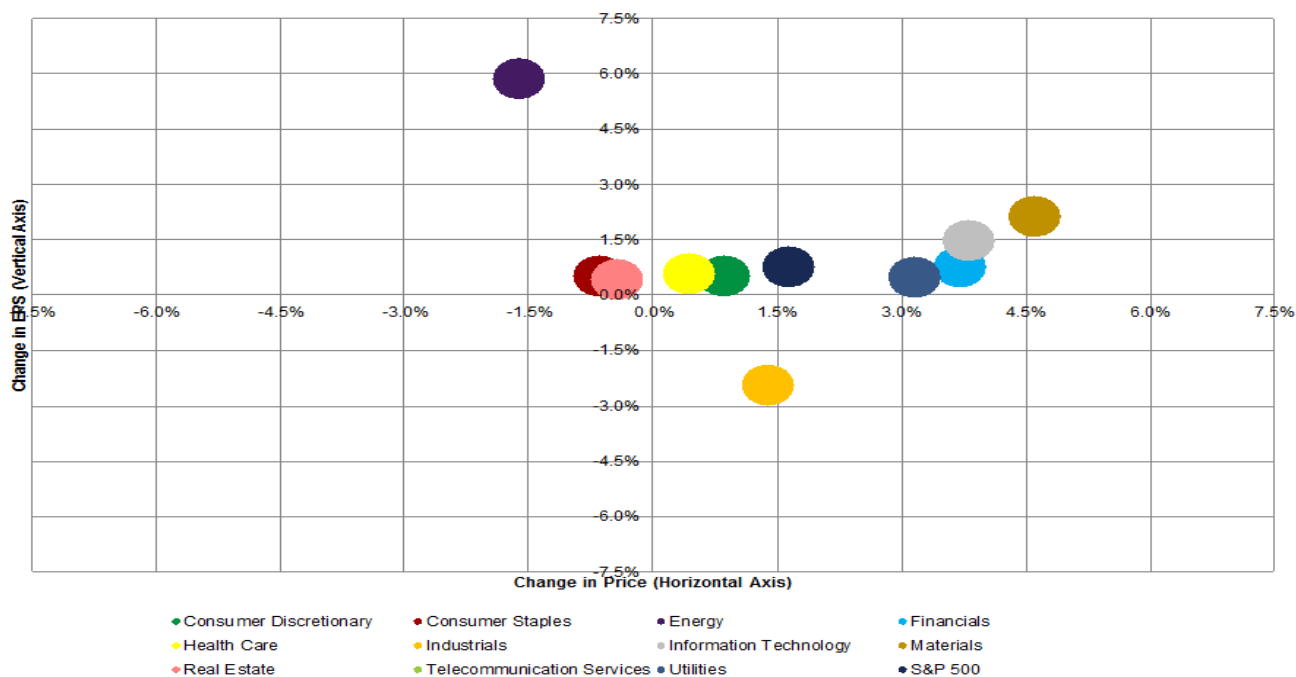


## Forward 12M P/E Ratio: Sector Level

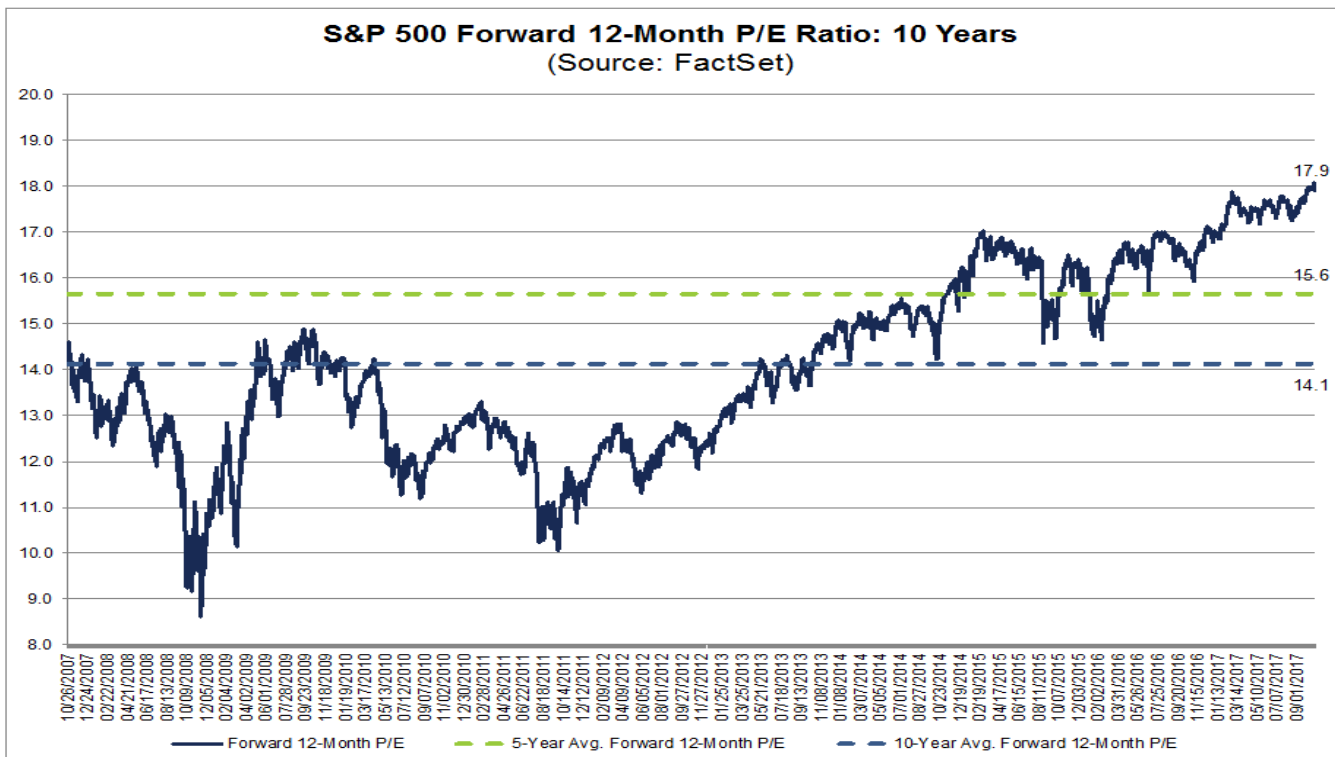
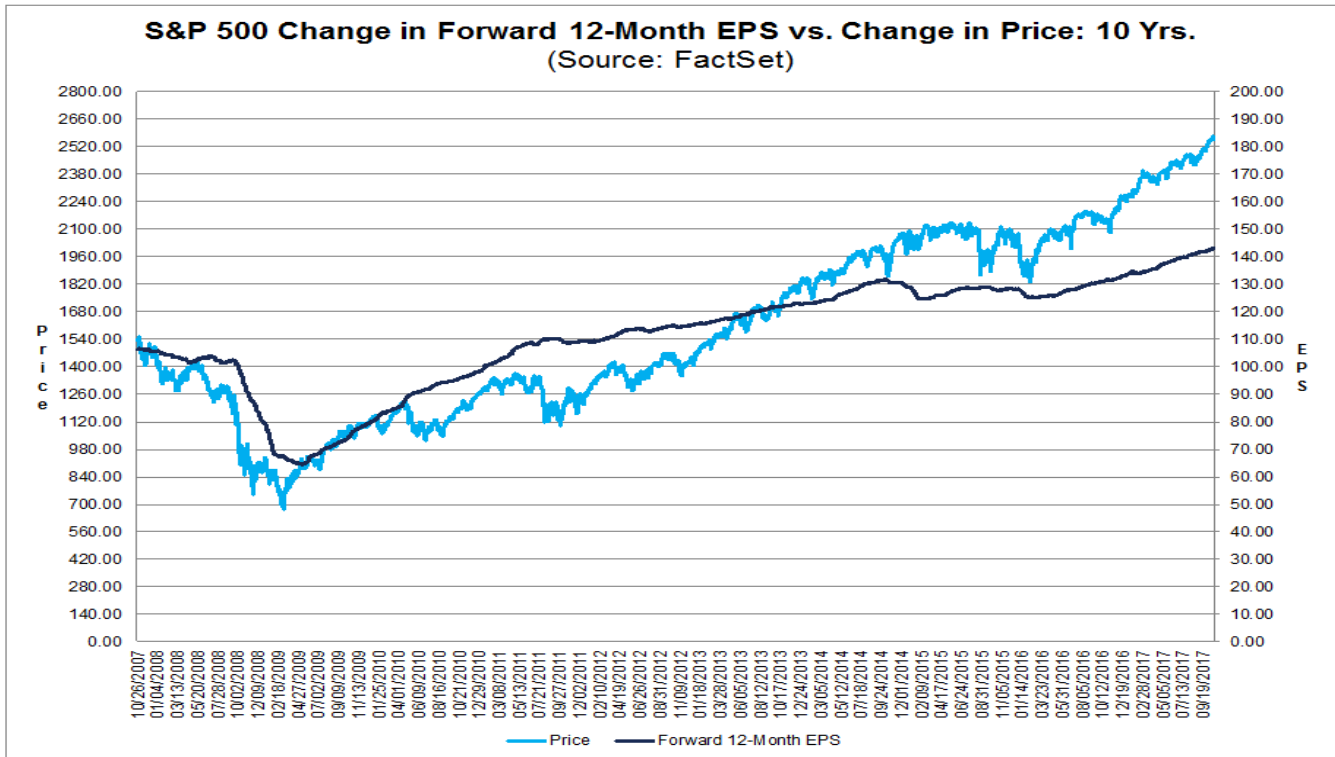


## Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Sep 30

(Source: FactSet)

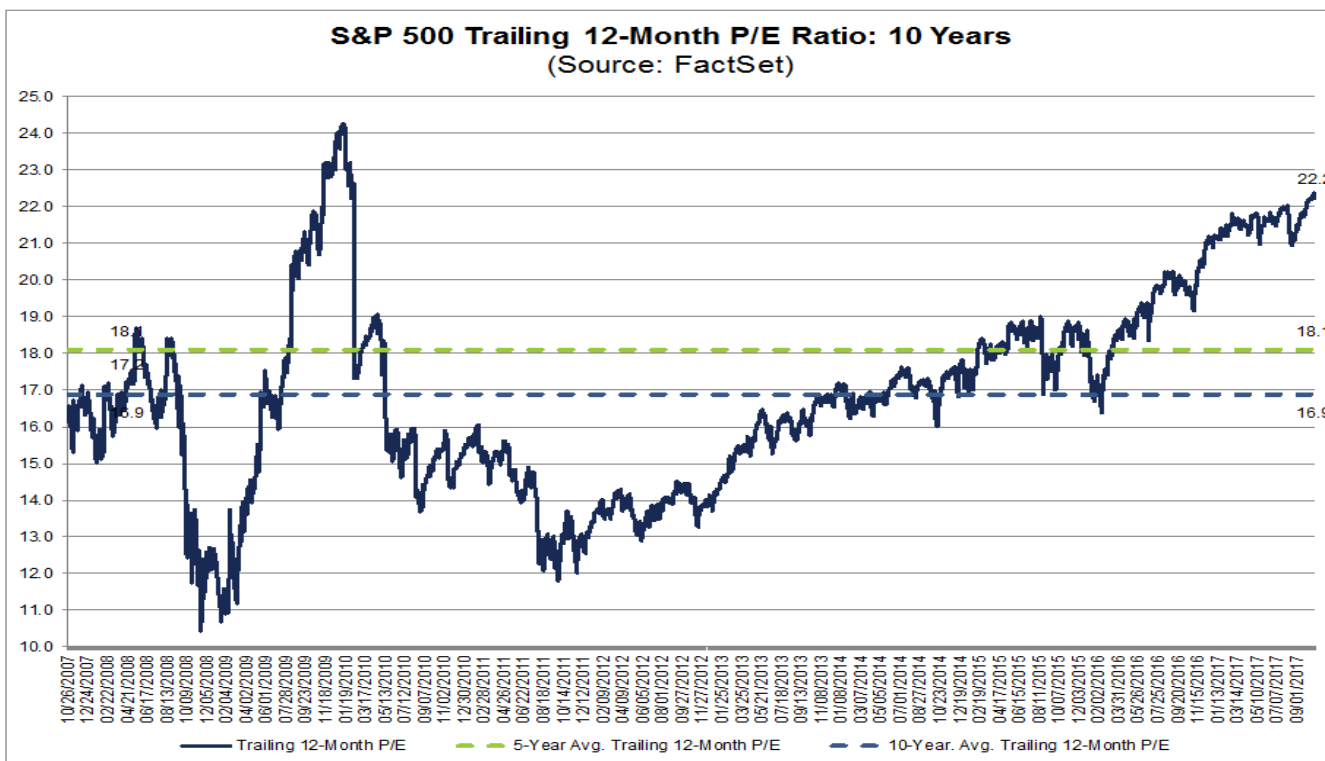
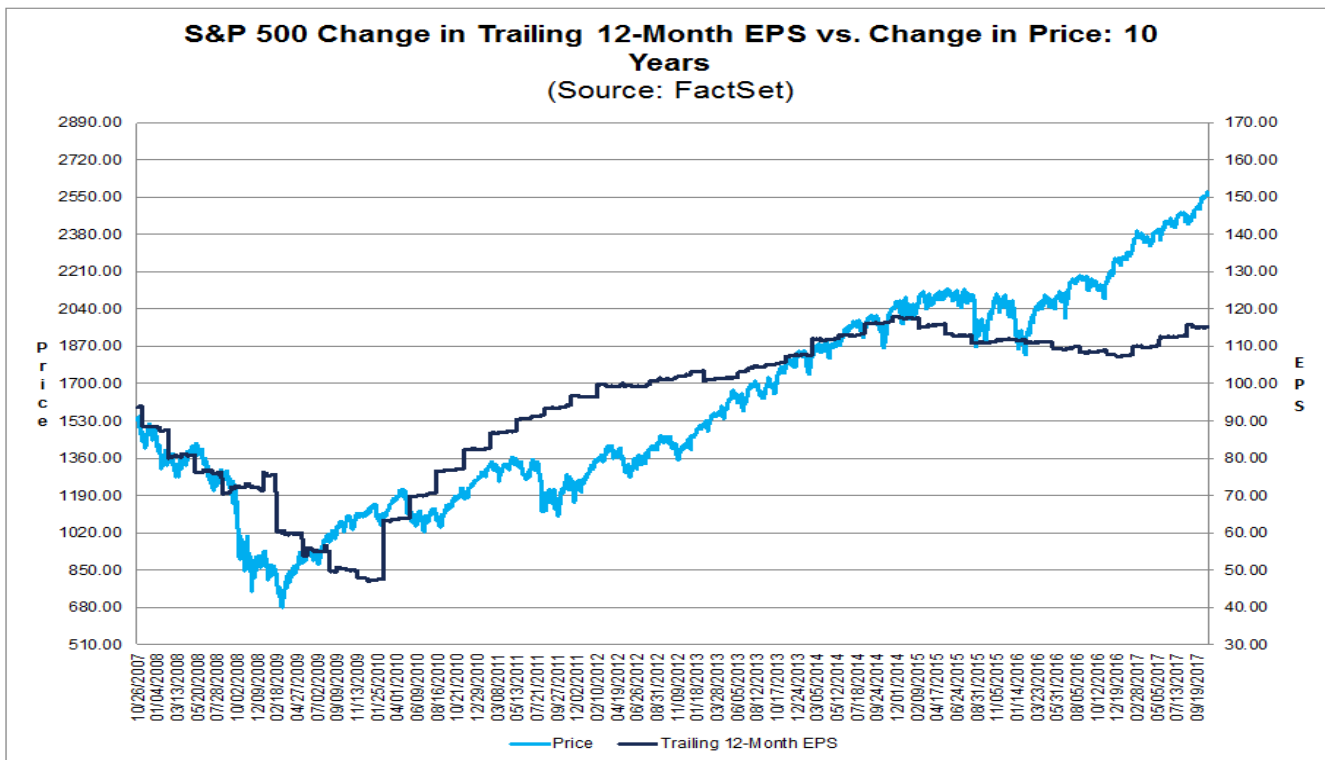


## Forward 12M P/E Ratio: Long-Term Averages

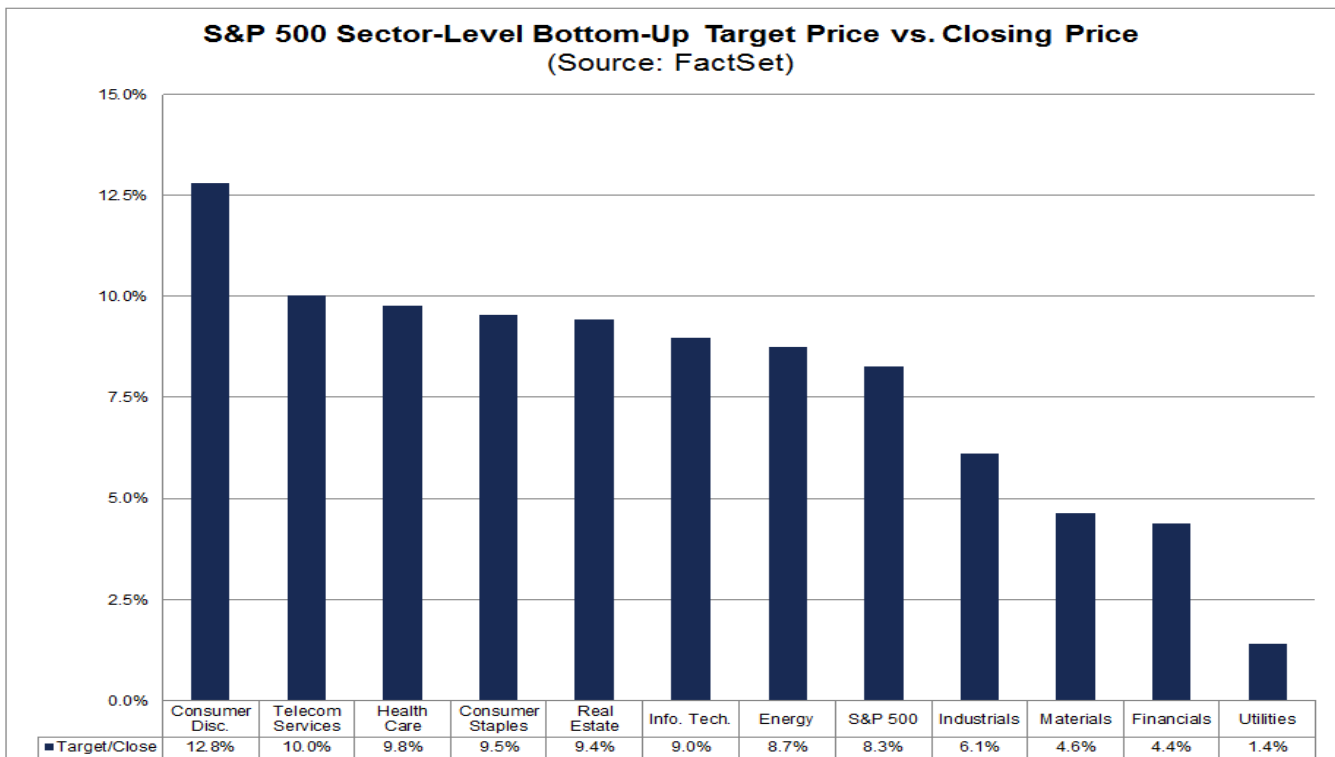
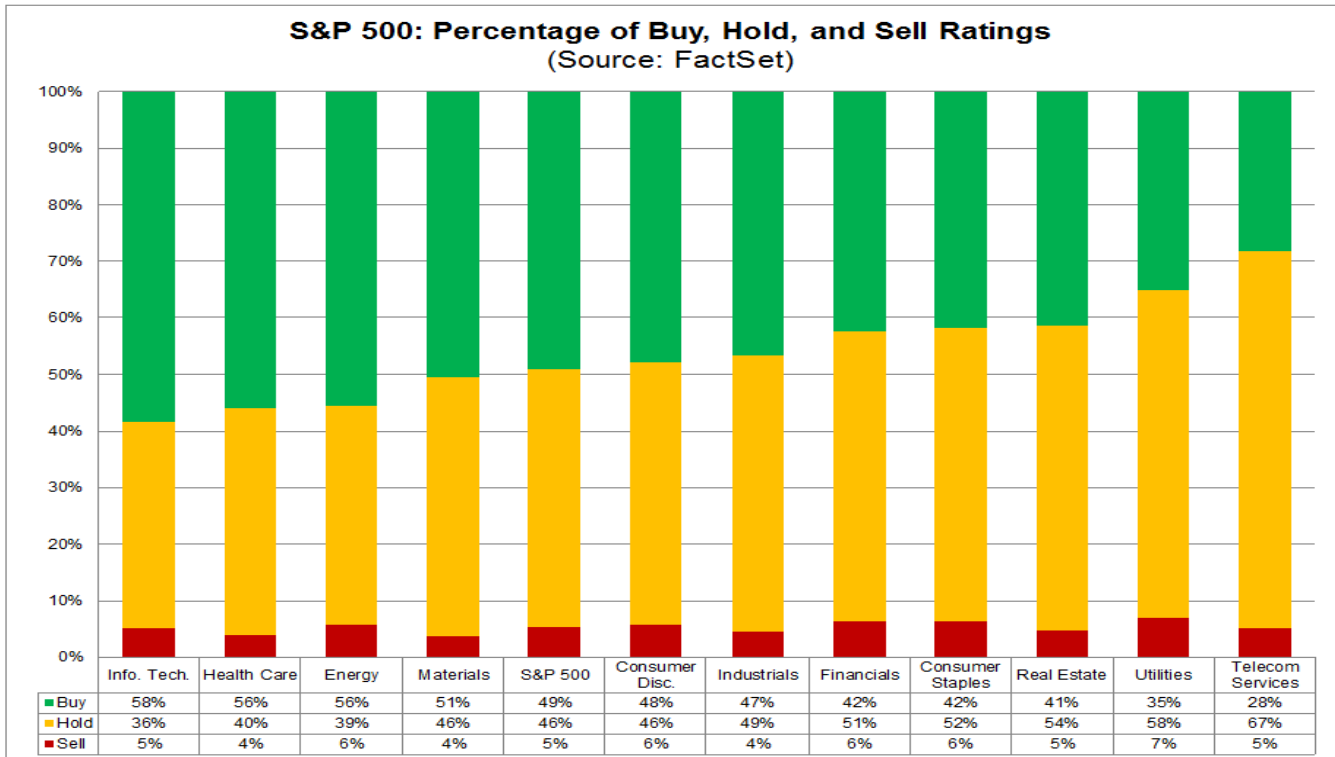




# Trailing 12M P/E Ratio: Long-Term Averages



## Targets & Ratings



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