

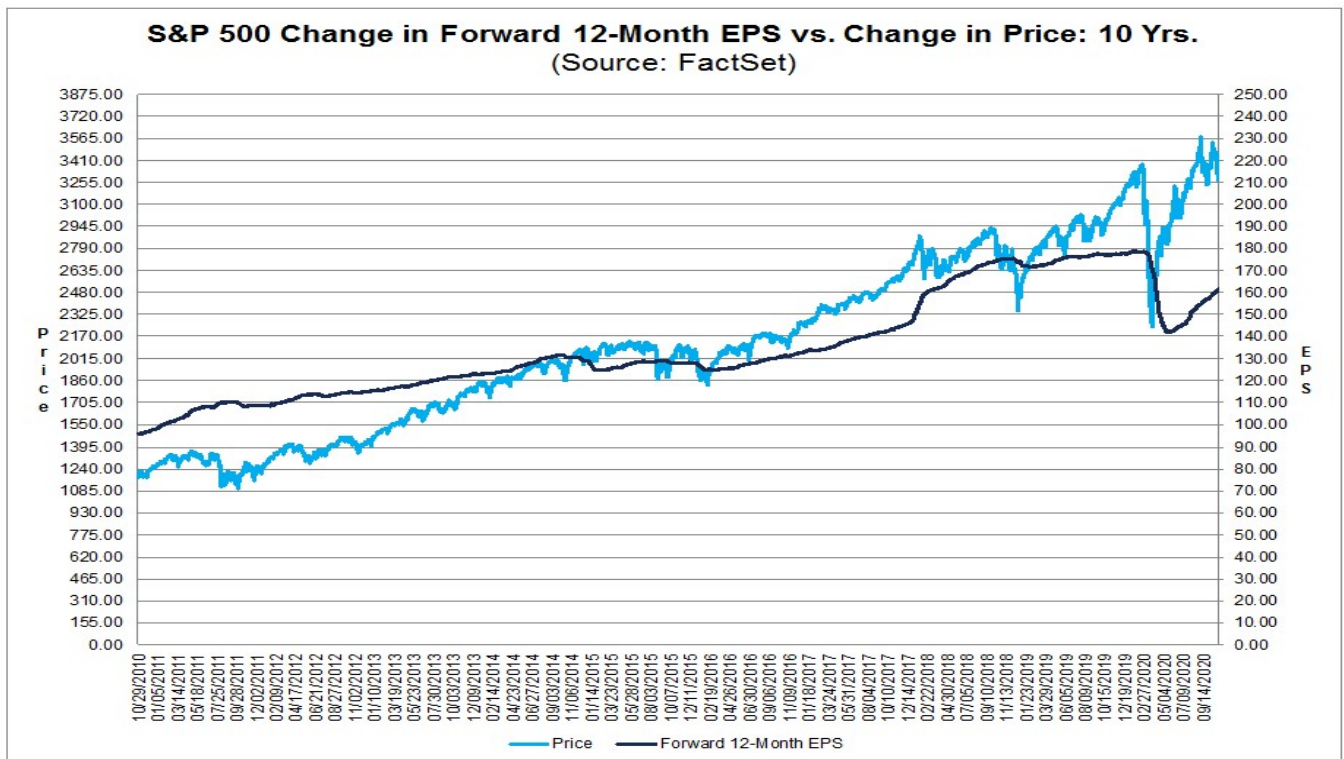
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Key Metrics

- Earnings Scorecard:** For Q3 2020 (with 64% of the companies in the S&P 500 reporting actual results), 86% of S&P 500 companies have reported a positive EPS surprise and 81% have reported a positive revenue surprise. If 86% is the final percentage, it will mark the highest percentage of S&P 500 companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008.
- Earnings Growth:** For Q3 2020, the blended earnings decline for the S&P 500 is -9.8%. If -9.8% is the actual decline for the quarter, it will mark the third largest year-over-year decline in earnings reported by the index since Q3 2009 (-15.8%).
- Earnings Revisions:** On September 30, the estimated earnings decline for Q3 2020 was -21.1%. Ten sectors have smaller earnings declines or higher earnings growth rates today (compared to September 30) due to positive EPS surprises.
- Earnings Guidance:** For Q4 2020, 15 S&P 500 companies have issued negative EPS guidance and 31 S&P 500 companies have issued positive EPS guidance.
- Valuation:** The forward 12-month P/E ratio for the S&P 500 is 20.6. This P/E ratio is above the 5-year average (17.3) and above the 10-year average (15.5).



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Topic of the Week:

More Than 1 in 3 S&P 500 Companies Are Discussing the “Election” on Q3 Earnings Calls

During each corporate earnings season, it is not unusual for companies to comment on domestic or international events that may have an impact on earnings for future quarters. Given the uncertainty of the upcoming presidential election in the U.S., how many companies in the S&P 500 have commented on the election during their earnings conference calls for the third quarter? How does this number compare to the previous presidential election in 2016? Have S&P 500 companies discussed any specific government policies in conjunction with the election?

To answer the first question, FactSet searched for the term “election” in the conference call transcripts of the 212 S&P 500 companies that conducted third quarter earnings conference calls from September 15 through October 28 to see if the term was mentioned during the call.

The term “election” was mentioned during the earnings conference calls of 73 S&P 500 companies (or approximately 34% of the 212 S&P 500 companies that had conducted earnings calls between September 15 and October 28).

At the sector level, the Financials (19) and Industrials (15) sectors have the highest number of companies in which the term “election” was discussed during their earnings calls for Q3 2020 during this period.

To answer the second question, FactSet searched for the term “election” in the conference call transcripts of the 284 S&P 500 companies that had conducted third quarter earnings conference calls from September 15, 2016 through October 28, 2016 to see if the term was mentioned during the call.

The term “election” was mentioned during the earnings conference calls of 56 S&P 500 companies (or approximately 20% of the 284 S&P 500 companies that had conducted earnings calls between September 15 and October 28 in 2016).

Thus, through October 28, a higher number (73 vs. 56) and a higher percentage (34% vs. 20%) of S&P 500 companies had discussed the election during their earnings calls in Q3 2020 relative to the same point in time in Q3 2016.

At the sector level, the Industrials (+9) and Financials (+8) sectors have recorded the largest increases in the number of companies mentioning “election” during their earnings calls for Q3 2020 compared to Q3 2016, while the Communication Services (-4) and Real Estate (-3) sectors have recorded the largest decreases in the number of companies mentioning “election” during their earnings calls for Q3 2020 compared to Q3 2016.

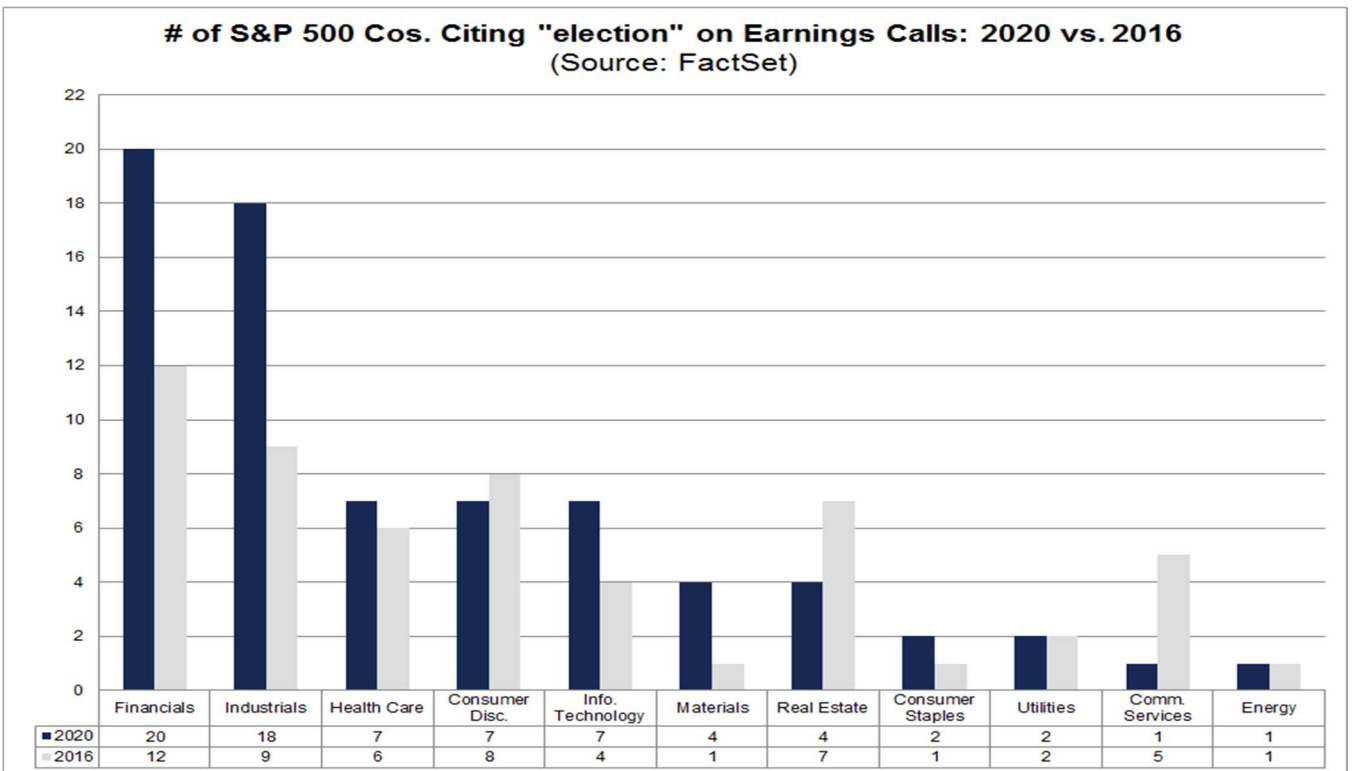
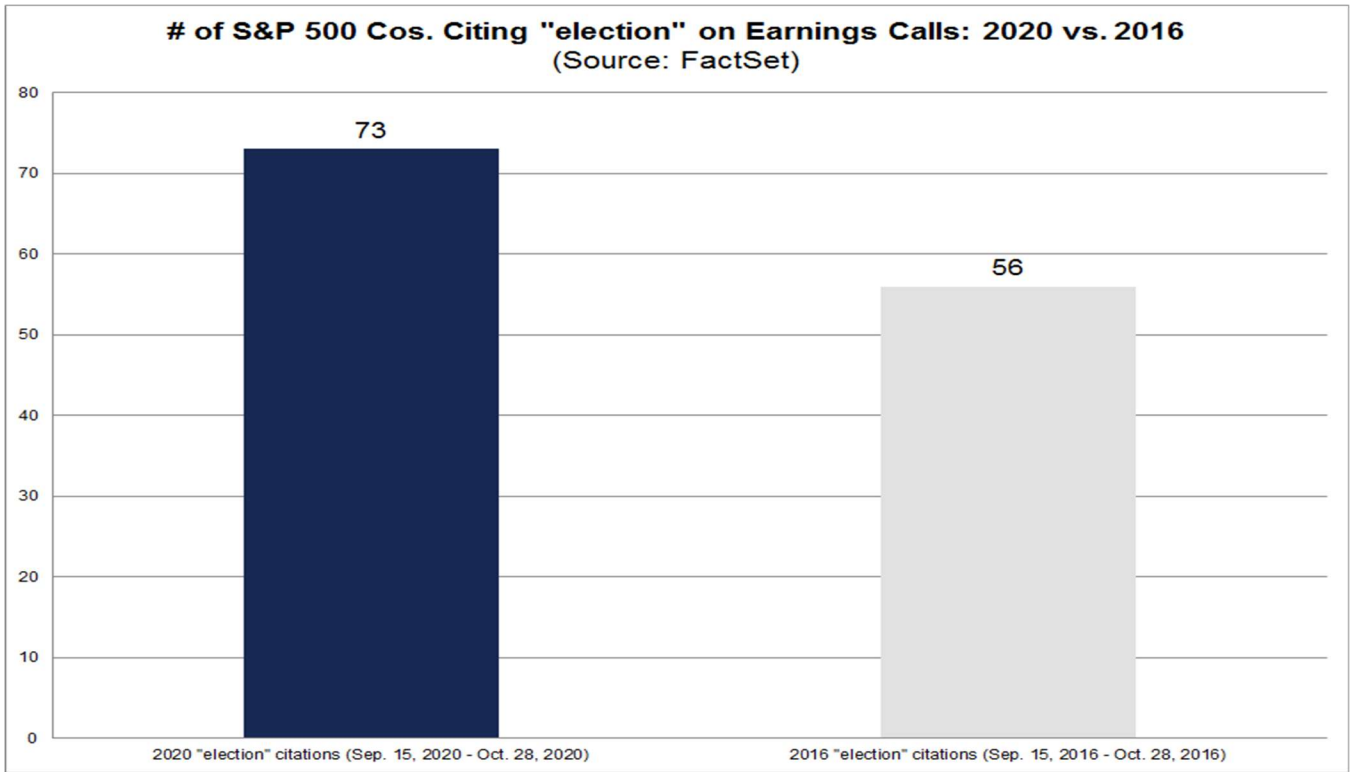
To answer the third question, FactSet looked at the context in which the term “election” was mentioned during these 73 earnings conference calls to see if any specific policy areas were referenced in conjunction with the term.

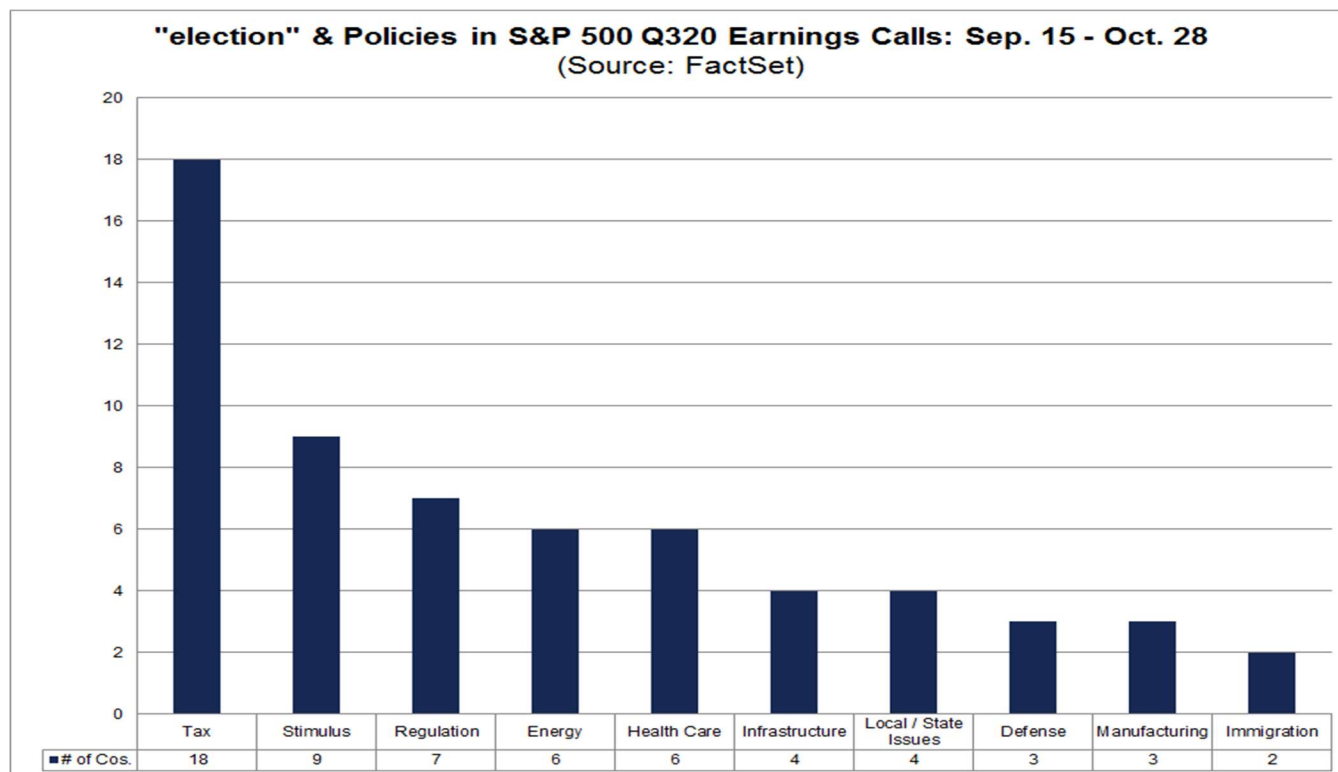
The government policy that was cited by the highest number of S&P 500 companies in conjunction with the election was tax policy, with 18 of the 73 companies (or 25%) discussing this policy area. At the sector level, the sector with the highest number of S&P 500 companies discussing taxes in conjunction with the election was the Financials sector with 5 companies. A list of the 18 S&P 500 companies that discussed taxes in conjunction with the election and their comments can be found on pages 4 through 7.

After tax policy, stimulus (9) and regulations (7) were the next two policy areas cited by the highest number of S&P 500 companies in conjunction with comments about the election.

It should be noted that nearly all S&P 500 companies continue to discuss COVID-19 on their earnings calls. However, most companies did not directly discuss COVID-19 in the context of the election and government policy (e.g. lockdowns, vaccines, etc.) outside of stimulus. When the pandemic was discussed in conjunction with the election, it was discussed by most companies as another area of uncertainty or risk along with the election, rather than in terms of specific government policies. Therefore, it is not included in the government policy chart on page 4. Here is an example of comments from Etsy Corporation discussing COVID-19 and the election as areas of uncertainty.

“We continue to model a wide range of outcomes in our guidance to account for significant uncertainty. This quarter primarily focused on the US election, impacts from the pandemic, continued uncertainty around health of consumer spending and the holiday shopping period which is being influenced by many factors.”





"Election" & Tax Policy Citations: 18

"Well, yeah. I mean, there's a big difference between the two candidates in their intentions. I would say that the US economy, not just us, but the US economy will be affected depending on which candidate wins and assuming they both implement the things that they say, the positions that they have taken at this point. Biden administration, more business regulation could slow down businesses' ability to continue to grow. Higher taxes would obviously hit profits and earnings per share and then obviously, the impact the overall stock market. And as you said, President Trump wants to continue to try to bring manufacturing jobs back and maintain or improve the current tax situation. Anyway, we will be impacted as much because of how our customers are impacted by whoever wins as anything else." -Cintas (Sep. 23)

"Yeah, longer term, it's still – I'd say that what we said earlier this year, 24% to 25%. Obviously, with the election coming up, we have no idea what's going to happen next year. So, let's stay tuned for that one. But underlying the way the rates – the rules are written out, 24% to 25%. And then periodically, we have tax planning initiatives." -McCormick & Company (Sep. 29)

"Sure. So, hard to know exactly what happens, but in the event that we did see or we do see a tax rate increase to 28% or so, and it went into effect in the latter part of 2021, it would likely result in our DTA increasing by about \$4 billion, so a one-time increase in our DTA of about \$4 billion. It obviously would have the impact of our rate being close to that level, our tax rate being close to that level and as a result of that, less income, given the higher tax rate, less income contributing to the CET1 ratio. And then, in terms of the disallowed DTA, with a higher corporate tax rate, we would expect to return to our usage levels of roughly \$1 billion per year. So, that gives you a little bit of a sense of a couple of the moving pieces, should that happen. And Mark, I think an important nuance there is what comes out between remaining territorial, or a reversion to global taxation. I think what people are talking about today is it would likely remain territorial, which, again, with average global tax rate of about 25%, that would certainly benefit us in some of the jurisdictions that we operate in." -Citigroup (Oct. 13)

“Well, the taxes, if you mean by your question that are the taxes impacting our markets any, I would say there's a little bit of movement based on taxes out of the Northeast and out of California to lower tax states, but mostly among people that were probably fairly ready to move already. I don't think we have a comment really on the macro impact of one candidate or another obviously... So, Dave, thanks for the question. You're right about back in 2017. So, the bank has had a pretty optimized tax-efficient portfolio between municipal securities, low income housing, bank-owned life insurance. And so, as a result, if, let's say, 28% were the new corporate tax rate, that would be a 7% increase in the federal rate, our rate would go up about 4% because those investments would have greater value from a yield perspective when looking at our overall taxes.” -First Republic Bank (Oct. 13)

“So there are a couple of items we're looking at for Q4 that we hope to achieve through tax planning. Kevin, I wouldn't call it structural at this point. We're certainly interested to see what happens here with the US elections to determine what our tax rate will be next year. So we'll give some more guidance in January.” -PPG Industries (Oct. 20)

“Yeah. I'll take that. Clearly, 1031s are very embedded in real estate transactions. That code, I think, has been around for almost 100 years. But I think there's three reason why we can clearly manage if that change does happen. I don't know the probability of that change. But if it does happen and we can manage it extremely well. The first thing is from a sales perspective, we've always talked about we can be extremely patient. We're very under-levered. We're quite frankly under deployed a bit, getting back to probably Jamie's initial question. And – so we can be very, very patient on sales. And then, the second thing would be our dividend payout ratios in the low-60s. close to 60% this year and we're generating about \$1.1 billion of excess cash flow. So, what would happen at the 1031 exchange gets eliminated, right, our taxable income could go up to the extent we sold assets and capital gain component of our dividend would increase.” -Prologis (Oct. 20)

“As it relates to tax reform, obviously, that's part of some of the things that Biden has been talking about. It certainly could be on the agenda. I think there's a question as to whether or not it would be one of the first things that a new administration would want to focus on, particularly as we will likely find ourselves still in recovery mode from the pandemic. And we will evaluate – if there are more details and as there are more details, we'll evaluate the overall impacts. If you look at the prior tax reform as an example, clearly, a change in the tax rate – an increase in tax rate as Biden has talked about would have some negative adjusted earnings impacts, positive cash impacts, all else being equal. But we need to think about, one, the details of any policies that they put forward, but two, together with the other things that would come along with a new Biden administration, including the strong demand for renewables that we would expect. So, more to come as we learn more and obviously, the results from the actual election unfold...Hey, Michael. It's Jim. Let me take that because we've been doing a lot of thinking around obviously different scenarios around what happens with taxes depending on what happens with the federal elections. Remember, what happened in 2017 around tax reform is that the industry very effectively I think came together and there were really two industries that were carved out for different treatment in the 2017 tax reform scenario. One was real estate and I'll let you speculate as to why real estate might have gotten singled out. And the other was utility sector, and the utility sector I think was very effective in laying out how – what the impacts to customers and to balance sheets were around tax reform. I think to the extent that there is any tax discussion next year, let's assume for a minute that Biden wins, I think it's very – I think it's – we're – obviously scenario planning around both outcomes because I think you can't really handicap it one way or another right now. The best thinking that we've had around this is that in the middle of a pandemic is probably not the time to have a tax increase, period. And so, in terms of the timing around tax reform, I'd be surprised if it was next year honestly, even in a Biden administration. Who knows, right? I mean, that's a bit of speculation on my part. But the other thing I think we would be very effective as an industry being able to do is to lay out how any tax increase on utilities is really simply a tax increase on all customers, and not on corporations but on everyday Americans. And I think that message will resonate in Washington. And so that's a message that we, as an industry, haven't been able to lay out yet obviously because it's premature to do so. But – so I think a lot of the angst around tax reform one way or another is I think a little premature right now. And, obviously, we'll see what happens in the election, but then if Biden does win, then there's going to be where does it stand up in the list of policy priorities for the new administration, if there should be one.” -NextEra Energy (Oct. 21)

"We're not going to hurry up to do anything. Never have, never will, regardless of which administration is occupying the White House. I think taxes will change, up or down. But I think we will buy the businesses that we're looking at. The ones that we're looking at, we'll buy them, because they're good businesses in the long term and we can improve their margins. And I wouldn't rush about it, not because of the election or subsequent to the election." -Teledyne Technologies (Oct. 21)

"If we were to have an increase in taxes, we anticipate that our commissions would handle it really one of two ways and not dissimilar to how they handled tax reform three or four years ago. We anticipate that they would either allow the increase to be deferred until the next rate proceeding or we anticipate that they'd have kind of a one issue order come out, where they would allow us to adjust rates just to reflect the new expected higher income tax rate. In any event, we wouldn't expect it to be a significant driver to earnings or cash for the company going forward." -American Electric Power (Oct. 22)

"I mean I think you're right, if you look at this, if you have a Democratic win directionally, they're going – they're probably going to want to look at higher taxes and probably more regulation." -Valero Energy (Oct. 22)

"We haven't really spent a lot of time thinking about under the Biden plan the impact and quantified it. But it's a pretty simple exercise once we know what the ultimate tax rates are. But there's not anything really on the tax side of – that I think would materially – that's materially different now from when we benefited from the drop. So it should be proportional with our expectation." -People's United Financial (Oct. 23)

"I mean, I think that as we look at -- it's hard to tell exactly where the tax rate is going to play out but one thing is clear. With an increasing tax rate, that will put some pressure at least on the post-tax earnings as we get into next year. Looking back what happened during the tax decrease, we kind of split what went to the bottom line with employees and the rest, we let it flow through. I think we'll, obviously, work to optimize as much as possible, but I think paying for performance and making sure that we have the right people is probably the most important thing for us in a go-forward basis. So we'll see where the ultimate tax rate ends up. If the tax rate goes back up to 28%, the all-in impact from an ROE perspective could be something close to three quarters of a point to a point but we'll play that out as we get there. I think the most important thing is for us to take care of our employees and continue to invest and grow in that space." -SVB Financial Group (Oct. 23)

"I think, first, the tax system that we have in the US now does help us compete on a global basis for innovation. I think that's the biggest positive that we've seen. It is a complex system. But having an underlying rate that's more competitive with our European competitors allows us to attract innovation, keep it in the US and I think you've seen that in some of the acquisitions we've done, including companies like Walk. So, we're more competitive when we're competing against OUS companies that have a low corporate tax rate in their countries. So, we like that. I think as we look, though, to potential changes, I think the first thing I would say is there's – having been through the last round here, there's a huge difference between what a high-level plan is and how it gets implemented. And the details in that implementation are what actually drives the big point movements. I don't know that we could have sitting in 2017 predicted that we have a 15% rate, for example, as our long-term rate here. So, there's a lot of work to be done, if there is any kind of future tax reform coming. Obviously, the underlying US rate looks like it'll go up. But I think we have a couple of advantages, no matter what happens. We invest heavily in R&D among the most heavily of any of our big pharma peers. So, we would hope and work to ensure that innovation is rewarded in any tax system going forward. And we have a pretty balanced manufacturing network. We make about half of our plants are in the US and half are outside the US. So, I think we're probably poised to take advantage of any changes that happen in the tax structure going forward. But there's no doubt that having a competitive sort of base rate for the US relative to our OUS peers is something that's, I think, really important for our industry." -Eli Lilly (Oct. 27)

"I think the one negative thing that sits on the horizon is if Biden happened to win, and he happened to be able to increase corporate taxes, he's going to do the very thing that we've sought not to do which is force companies overseas, move companies' cash overseas. Why would you want to operate in a high cost US environment where you could operate overseas at a reduced price? And so, that would undermine the purpose of bringing back manufacturing. So, we hope that doesn't happen." -Alexandria Real Estate Equities (Oct. 28)

“On your question, if we assume no state, federal or international tax law changes, I'd point you to our 2019 effective tax rate of 22.3% as more indicative of our normalized tax rate. Once the US election results come in, we may get a bit more clarity on where rates are headed. But regardless of the election results, our team will continue to evaluate long-term tax planning strategies to improve our effective tax rate.” -C.H. Robinson Worldwide (Oct. 28)

“So because it also depends on who controls the Senate and whether the House stays, where it is now and hold, that's really hard to speculate on. I mean, I think it's pretty well understood, the programs people have...Some things like taxes changing may create more or less economic growth. So it's hard for me to say that they're – EQR as a particular dog in this fight and I'm hesitant to get involved in any of that, so. But I do think the mortgage tax thing, it wasn't a big impact on us before when they took it away, so I doubt it will matter very much here to us at all.” -Equity Residential (Oct. 28)

“I think what you'll see is, I'm looking for more low-hanging fruit, when I say that taxes are low-hanging fruit. Now, I'm not saying it's going to be corporate or personal or both, but that will be the low-hanging fruit that I think that a blue sweep administration will try to address.” -CME Group (Oct. 28)

“Our fiscal year 2021 tax rate is expected to be in the 19% to 19.5% range. It is too early to predict what impact the US elections will have on our taxes. As always, we will provide updates, if any, to our tax rate expectations as the year progresses.” -Visa (Oct. 28)

Q3 Earnings Season: By The Numbers

Overview

At this point in time, the percentage of S&P 500 companies beating EPS estimates for the third quarter and the magnitude of the earnings beats are at or near record levels. As a result, the index is reporting higher earnings for the third quarter today relative to the end of last week and relative to the end of the quarter. Despite the increase in earnings, the index is still reporting the third largest year-over-year decline in earnings since Q3 2009, mainly due to the negative impact of COVID-19 on a number of industries within the index. However, the S&P 500 is projected to report year-over-year earnings growth starting in Q1 2021.

Overall, 64% of the companies in the S&P 500 have reported actual results for Q3 2020 to date. Of these companies, 86% have reported actual EPS above estimates, which is well above the 5-year average of 73%. If 86% is the final percentage for the quarter, it will mark the highest percentage of S&P 500 companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008. The current record is 84%, which occurred in Q2 2020. In aggregate, these companies are reporting earnings that are 19.3% above the estimates, which is also well above the 5-year average of 5.6%. If 19.3% is the final percentage for the quarter, it will mark the second largest earnings surprise percentage reported by the index since FactSet began tracking this metric in 2008, trailing only the 23.1% earnings surprise percentage recorded in the previous quarter.

Due to the number and magnitude of these positive EPS surprises, the blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) earnings decline for the third quarter is smaller now relative to the end of last week and relative to the end of the third quarter. As of today, the S&P 500 is reporting a year-over-year decline in earnings of -9.8%, compared to a year-over-year decline in earnings of -16.6% last week and a year-over-year decline in earnings of -21.1% at the end of the third quarter. Positive earnings surprises reported by companies in multiple sectors (led by the Communication Services and Consumer Discretionary sectors) were responsible for the large decrease in the overall earnings decline during the past week.

If -9.8% is the actual decline for the quarter, it will mark the third largest year-over-year decline in earnings reported by the index since Q3 2009 (-15.8%), trailing only the previous two quarters. It will also mark the sixth time in the past seven quarters in which the index has reported a year-over-year decline in earnings. Four sectors are reporting year-over-year earnings growth, led by the Health Care sector. Seven sectors are reporting a year-over-year decline in earnings, led by the Energy, Industrials, and Consumer Discretionary sectors.

In terms of revenues, 81% of S&P 500 companies have reported actual revenues above estimates, which is above the 5-year average of 61%. If 81% is the final percentage for the quarter, it will mark the highest percentage of S&P 500 companies reporting a positive revenue surprise since FactSet began tracking this metric in 2008. The current record is 78%, which occurred in Q4 2017. In aggregate, companies are reporting revenues that are 2.9% above the estimates, which is also above the 5-year average of 0.7%. If 2.9% is the final percentage for the quarter, it will mark the largest revenue surprise percentage reported by the index since FactSet began tracking this metric in 2008. The current record is 2.2%, which occurred in Q4 2012.

Due to the number and magnitude of these revenue surprises, the blended revenue decline for the third quarter is smaller now relative to the end of last week and relative to the end of the third quarter. As of today, the S&P 500 is reporting a year-over-year decline in revenues of -2.1%, compared to a year-over-year decline in revenues of -3.0% last week and a year-over-year decline in earnings of -3.6% at the end of the third quarter. Positive revenue surprises reported by companies in multiple sectors (led by the Communication Services and Consumer Discretionary sectors) were responsible for the decrease in the overall revenue decline during the past week.

If -2.1% is the actual decline for the quarter, it will mark the first time the index has reported two consecutive quarters of year-over-year revenue declines since Q1 2016 and Q2 2016. Five sectors are reporting year-over-year growth in revenues, led by the Health Care sector. Six sectors are reporting a year-over-year decline in revenues, led by the Energy and Industrials sectors.

Looking at future quarters, analysts predict a (year-over-year) decline in earnings in the fourth quarter (-11.2%) of 2020. However, they are also project a return to earnings growth starting in Q1 2021 (14.5%).

The forward 12-month P/E ratio is 20.6, which is above the 5-year average and above the 10-year average.

During the upcoming week, 126 S&P 500 companies are scheduled to report results for the third quarter.

Scorecard: Companies Reporting Record or Near-Record Performances vs. Estimates

Percentage of Companies Beating EPS Estimates (86%) is at Record-High Level

Overall, 64% of the companies in the S&P 500 have reported earnings to date for the third quarter. Of these companies, 86% have reported actual EPS above the mean EPS estimate, 3% have reported actual EPS equal to the mean EPS estimate, and 10% 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 (73%) average and above the 5-year (73%) average.

If 86% is the final percentage for the quarter, it will mark the highest percentage of S&P 500 companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008. The current record is 84%, which occurred in Q2 2020.

At the sector level, the Materials (100%), Health Care (95%), and Consumer Staples (95%) sectors have the highest percentages of companies reporting earnings above estimates, while the Real Estate (67%) and Energy (75%) sectors have the lowest percentages of companies reporting earnings (or FFO for Real Estate) above estimates.

Earnings Surprise Percentage (+19.3%) is Near Record-Level

In aggregate, companies are reporting earnings that are 19.3% above expectations. This surprise percentage is above the 1-year (+8.0%) average and above the 5-year (+5.6%) average.

If 19.3% is the final percentage for the quarter, it will mark the second largest earnings surprise percentage reported by the index since FactSet began tracking this metric in 2008, trailing only the 23.1% earnings surprise percentage recorded in the previous quarter.

The Consumer Discretionary sector (+94.2%) sector is reporting the largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Darden Restaurants (\$0.56 vs. \$0.05), Under Armour (\$0.26 vs. \$0.03), Ford Motor (\$0.65 vs. \$0.22), Tapestry (\$0.58 vs. \$0.22), and NIKE (\$0.95 vs. \$0.47) have reported some of the largest positive EPS surprises.

The Energy sector (+93.7%) sector is reporting the second largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Chevron (\$0.11 vs. -\$0.26) and Phillips 66 (-\$0.01 vs. -\$0.80) have reported some of the largest positive EPS surprises.

The Industrials sector (+44.9%) sector is reporting the third largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, General Electric (\$0.06 vs. -\$0.04) and FedEx (\$4.87 vs. \$2.70) have reported some of the largest positive EPS surprises.

The Communication Services sector (+23.2%) sector is reporting the fourth largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Twitter (\$0.19 vs. \$0.06), Interpublic Group of Companies (\$0.53 vs. \$0.33), Alphabet (\$16.40 vs. \$11.30) and Facebook (\$2.71 vs. \$1.90) have reported some of the largest positive EPS surprises.

The Financials sector (+21.2%) sector is reporting the fifth largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Capital One Financial (\$5.05 vs. \$2.14), Goldman Sachs (\$9.68 vs. \$5.54) and Comerica (\$1.44 vs. \$0.84) have reported some of the largest positive EPS surprises.

Market Punishing Positive Surprises and Negative Earnings Surprises More Than Average

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

Companies that have reported positive earnings surprises for Q3 2020 have seen an average price decrease of -1.7% two days before the earnings release through two days after the earnings release. This percentage decrease is well below the 5-year average price increase of +0.9% during this same window for companies reporting positive earnings surprises.

Companies that have reported negative earnings surprises for Q3 2020 have seen an average price decrease of -5.6% two days before the earnings release through two days after the earnings. This percentage decrease is much larger than the 5-year average price decrease of -2.6% during this same window for companies reporting negative earnings surprises.

Percentage of Companies Beating Revenue Estimates (81%) is at Record-High Level

In terms of revenues, 81% of companies have reported actual revenues above estimated revenues and 19% have reported actual revenues below estimated revenues. The percentage of companies reporting revenues above estimates is above the 1-year average (61%) and above the 5-year average (61%).

If 81% is the final percentage for the quarter, it will mark the highest percentage of S&P 500 companies reporting a positive revenue surprise since FactSet began tracking this metric in 2008. The current record is 78%, which occurred in Q4 2017.

At the sector level, the Consumer Staples (95%), Information Technology (90%), and Health Care (90%) sectors have the highest percentages of companies reporting revenues above estimates, while the Utilities (30%) and Energy (53%) sectors have the lowest percentages of companies reporting revenues above estimates.

Revenue Surprise Percentage (+2.9%) is at Record-High Level

In aggregate, companies are reporting revenues that are 2.9% above expectations. This surprise percentage is above the 1-year (+0.9%) average and above the 5-year (+0.7%) average.

If 2.9% is the final percentage for the quarter, it will mark the largest revenue surprise percentage reported by the index since FactSet began tracking this metric in 2008. The current record is 2.2%, which occurred in Q4 2012.

At the sector level, the Consumer Discretionary (+4.8%) and Communication Services (+4.5%) sectors are reporting the largest positive (aggregate) differences between actual revenues and estimated revenues, while the Utilities (-4.8%) sector is reporting the largest negative (aggregate) difference between actual revenues and estimated revenues.

Revisions: Decrease in Blended Earnings Decline this Week Due to Surprises in Multiple Sectors

Large Decrease in Blended Earnings Decline This Week Due to Positive Surprises in Multiple Sectors

The blended (year-over-year) earnings decline for the third quarter is -9.8%, which is smaller than the earnings decline of -16.6% last week. Positive surprises reported by companies in multiple sectors (led by the Communication Services and Consumer Discretionary sectors) were responsible for the large decrease in the overall earnings decline for the index during the week.

In the Communication Services sector, the positive EPS surprises reported by Alphabet (\$16.40 vs. \$11.32), Facebook (\$2.71 vs \$1.90), and Comcast (\$0.65 vs. \$0.52) were substantial contributors to the decrease in the earnings decline for the index during the week. As a result, the blended earnings decline for the Communication Services sector decreased to -1.3% from -19.5% over this period.

In the Consumer Discretionary sector, the positive EPS surprises reported by Amazon.com (\$12.37 vs. \$7.41) and Ford Motor (\$0.65 vs. \$0.22) were significant contributors to the decrease in the earnings decline for the index during the week. As a result, the blended earnings decline for the Consumer Discretionary sector decreased to -17.0% from -34.4% over this period.

In the Information Technology sector, the positive EPS surprises reported by Microsoft (\$1.82 vs. \$1.54) and Apple (\$0.73 vs. \$0.71) were substantial contributors to the decrease in the earnings decline for the index during the week. As a result, the blended earnings growth rate for the Information Technology sector increased to 2.6% from -2.3% over this period.

In the Health Care sector, the positive EPS surprise reported by Merck (\$1.74 vs. \$1.44) was a significant contributor to the decrease in the earnings decline for the index during the week. As a result, the blended earnings growth rate for the Health Care sector increased to 9.3% from 4.1% over this period.

In the Industrials sector, the positive EPS surprises reported by General Electric (\$0.06 vs. -\$0.04) and Boeing (-\$1.39 vs. -\$2.29) were substantial contributors to the decrease in the earnings decline for the index during the week. As a result, the blended earnings decline for the Industrials sector decreased to -50.9% from -59.0% over this period.

In the Energy sector, the positive EPS surprise reported by Chevron (\$0.11 vs. -\$0.26) was a significant contributor to the decrease in the earnings decline for the index during the week. As a result, the blended earnings decline for the Energy sector decreased to -113.5% from -123.9% over this period.

Decrease in Blended Revenue Decline This Week Due to Multiple Sectors

The blended (year-over-year) revenue decline for the third quarter is -2.1%, which is smaller than the revenue decline of -3.0% last week. Positive revenue surprises reported by companies in multiple sectors (led by the Communication Services and Consumer Discretionary sectors) were responsible for the decrease in the overall revenue decline during the past week.

Consumer Discretionary Sector Has Seen Largest Increase in Earnings since September 30

The blended (year-over-year) earnings decline for Q3 2020 of -9.8% is smaller than the estimate of -21.1% at the end of the third quarter (September 30). Ten sectors have recorded a decrease in their earnings decline or 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 Consumer Discretionary (to -17.0% from -36.9%), Communication Services (to -1.3% from -20.5%), and Financials (to -4.8% from -22.9%) sectors. The Energy sector (to -113.5% from -111.4%) is the only sector that has recorded an increase in its earnings decline during this time.

Communication Services Sector Has Seen Largest Increase in Revenues since September 30

The blended (year-over-year) revenue decline for Q3 2020 of -2.1% is smaller than the estimate of -3.6% at the end of the third quarter (September 30). Nine sectors have recorded a decrease in their revenue decline or an increase in revenue growth since the end of the quarter due to upward revisions to revenue estimates and positive revenue surprises, led by the Communication Services (to 4.0% from 0.3%), Financials (to -2.0% from -5.0%), and Consumer Discretionary (to 2.6% from -0.1%) sectors. Two sectors have recorded an increase in their revenue decline or a decrease in revenue growth during this time due to downward revisions to revenue estimates and negative revenue surprises: Energy (to -33.9% from -30.9%) and Utilities (to -1.7% from 0.9%).

Earnings Decline: -9.8%

The blended (year-over-year) earnings decline for Q3 2020 is -9.8%, which is below the 5-year average earnings growth rate of 4.0%. If -9.8% is the actual decline for the quarter, it will mark the third largest year-over-year decline in earnings for the index since Q3 2009 (-15.8%), trailing only the previous two quarters. It will also mark the sixth time in the past seven quarters in which the index has reported a year-over-year decline in earnings. Four sectors are reporting year-over-year earnings growth, led by the Health Care sector. Seven sectors are reporting a year-over-year decline in earnings, led by the Energy, Industrials, and Consumer Discretionary sectors.

Health Care: Bristol-Myers Squibb and AbbVie Largest Contributors to Year-Over-Year Growth

The Health Care sector is reporting the highest (year-over-year) earnings growth of all eleven sectors at 9.3%. At the industry level, four of the six industries in this sector are reporting year-over-year growth in earnings: Life Sciences Tools & Services (43%), Biotechnology (22%), Pharmaceuticals (11%), and Health Care Technology (5%). One industry (Health Care Equipment & Supplies) is reporting flat year-over-year earnings (0%). One sector (Health Care Providers & Services) is reporting a year-over-year decline in earnings (-4%).

At the company level, Bristol-Myers Squibb and AbbVie are the largest contributors to earnings growth for the sector. However, the earnings growth for both companies are being boosted by apples-to-oranges comparisons of post-merger earnings in Q3 2020 to pre-merger earnings in Q3 2019. If these two companies were excluded, the blended earnings growth rate for the sector would fall to 4.2% from 9.3%

Energy: 3 of 5 Sub-Industries Reporting Year-Over-Year Decline of 120% or More

The Energy sector is reporting the largest (year-over-year) decline in earnings of all eleven sectors at -113.5%. Lower year-over-year oil prices are contributing to the earnings decline for this sector, as the average price of oil for Q3 2020 (\$40.92) was 27% below the average price for oil in Q3 2019 (\$56.44). At the sub-industry level, four of the five sub-industries in the sector are reporting a decline in earnings. Three of these four sub-industries are reporting a decline in earnings of 120% or more: Oil & Gas Refining & Marketing (-150%), Integrated Oil & Gas (-120%), and Oil & Gas Exploration & Production (-120%). The only sub-industry in the sector reporting year-over-year growth in earnings is the Oil & Gas Storage & Transportation (9%) sub-industry.

Industrials: Airlines Industry Largest Contributor To Year-Over-Year Decline

The Industrials sector is reporting the second largest (year-over-year) earnings decline of all eleven sectors at -50.9%. At the industry level, eight of the twelve industries in this sector are reporting a decline in earnings. Five of these eight industries are reporting a double-digit decline in earnings: Airlines (-313%), Aerospace & Defense (-31%), Industrial Conglomerates (-27%), Machinery (-21%), and Electrical Equipment (-20%). On the other hand, four industries are reporting earnings growth in this sector, led by the Air Freight & Logistics (25%) industry.

The Airlines industry is also the largest contributor to the year-over-year decline in earnings for the sector. If the five companies in this industry were excluded, the blended earnings decline for the sector would improve to -15.0% from -51.0%.

Consumer Discretionary: Ex Hotels, Restaurants, & Leisure Industry, Earnings Up 18.8% Year-Over-Year

The Consumer Discretionary sector is reporting the third largest (year-over-year) earnings decline of all eleven sectors at -17.0%. At the industry level, only three of the ten industries in this sector are reporting a decline in earnings, led by the Hotels, Restaurants, & Leisure (-131%) industry. On the other hand, the other seven industries in this sector are reporting year-over-year earnings growth of 10% or more, led by the Internet & Direct Marketing Retail (45%) and Household Durables (30%) industries.

The Hotels, Restaurants, & Leisure industry is also the largest contributor to the year-over-year decline in earnings for the sector. If this industry were excluded, blended earnings for the sector would be up 18.8% year-over-year for the quarter rather than down -17.0%.

Revenue Decline: -2.1%

The blended (year-over-year) revenue decline for Q3 2020 is -2.1%, which is below the 5-year average revenue growth rate of 3.4%. If -2.1% is the actual decline for the quarter, it will mark the first time the index has reported two consecutive quarters of year-over-year revenue declines since Q1 2016 and Q2 2016. Five sectors are reporting year-over-year growth in revenues, led by Health Care sector. Six sectors are reporting a year-over-year decline in revenues, led by the Energy and Industrials sectors.

Health Care: 5 of 6 Industries Reporting Year-Over-Year Growth

The Health Care sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 9.1%. At the industry level, five of the six industries in this sector are reporting year-over-year growth in revenues: Biotechnology (24%), Life Sciences Tools & Services (18%), Health Care Providers & Services (9%), Pharmaceuticals (8%) and Health Care Equipment & Supplies (3%). On the other hand, the only industry reporting a decline in revenue is the Health Care Technology (-4%) industry.

It should be noted that some of the companies that are the larger contributors to revenue growth for this sector are being boosted by apples-to-oranges comparisons of post-merger revenues in Q3 2020 to pre-merger revenues in Q3 2019, including Centene, Bristol Myers Squibb, and AbbVie.

Energy: 4 of 5 Sub-Industries Reporting Year-Over-Year Decline of More Than 25%

The Energy sector is reporting the largest (year-over-year) decline in revenue of all eleven sectors at -33.9%. Lower year-over-year oil prices are contributing to the revenue decline for this sector. As the average price of oil for Q3 2020 (\$40.92) was 27% below the average price for oil in Q3 2019 (\$56.44). At the sub-industry level, all five sub-industries in the sector are reporting a year-over-year decline in revenue. Four sub-industries are reporting a decline in revenue of more than 25%: Oil & Gas Exploration & Production (-42%), Oil & Gas Refining & Marketing (-38%), Integrated Oil & Gas (-30%), and Oil & Gas Equipment & Services (-29%).

Industrials: Airlines Industry Largest Contributor to Year-Over-Year Decline

The Industrials sector is reporting the second largest (year-over-year) revenue decline of all eleven sectors at -15.6%. At the industry level, eleven of the twelve industries in this sector are reporting a decline in revenues. Five of these eleven industries are reporting a double-digit decline in revenues, led by the Airlines (-74%) industry. On the other hand, the Air Freight & Logistics (14%) industry is the only industry in the sector reporting year-over-year revenue growth for the quarter.

The Airlines industry is also the largest contributor to the year-over-year decline in revenue for the sector. If the five companies in this industry were excluded, the blended revenue decline for the sector would improve to -6.9% from -15.6%.

Looking Ahead: Forward Estimates and Valuation

Guidance: More S&P 500 Companies Issuing Positive EPS Guidance for Q4 to Date

To date, more S&P 500 companies are issuing positive earnings guidance than average. At this point in time, 46 companies in the index have issued EPS guidance for Q4 2020. Of these 46 companies, 15 have issued negative EPS guidance and 31 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 67% (31 out of 46), which is well above the 5-year average of 32%.

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.

Earnings: Analysts Expect Earnings Decline of -15.5% for CY 2020

For the third quarter, S&P 500 companies are reporting a decline in earnings of -9.8% and a decline in revenues of -2.1%. Analysts expect an earnings decline of -15.5% and a revenue decline of -2.3% for CY 2020.

For Q4 2020, analysts are projecting an earnings decline of -11.2% and a revenue decline of -0.5%.

For CY 2020, analysts are projecting an earnings decline of -15.5% and a revenue decline of -2.3%.

For Q1 2021, analysts are projecting earnings growth of 14.5% and revenue growth of 3.4%.

For Q2 2021, analysts are projecting earnings growth of 44.2% and revenue growth of 13.7%.

For CY 2021, analysts are projecting earnings growth of 23.0% and revenue growth of 7.9%.

Valuation: Forward P/E Ratio is 20.6, Above the 10-Year Average (15.5)

The forward 12-month P/E ratio is 20.6. This P/E ratio is above the 5-year average of 17.3 and above the 10-year average of 15.5. However, it is below the forward 12-month P/E ratio of 21.5 recorded at the end of the third quarter (September 30). Since the end of the third quarter (September 30), the price of the index has decreased by 1.6%, while the forward 12-month EPS estimate has increased by 2.6%.

At the sector level, the Consumer Discretionary (33.9) sector has the highest forward 12-month P/E ratio, while the Financials (12.7) sector has the lowest forward 12-month P/E ratio.

Targets & Ratings: Analysts Project 16% Increase in Price Over Next 12 Months

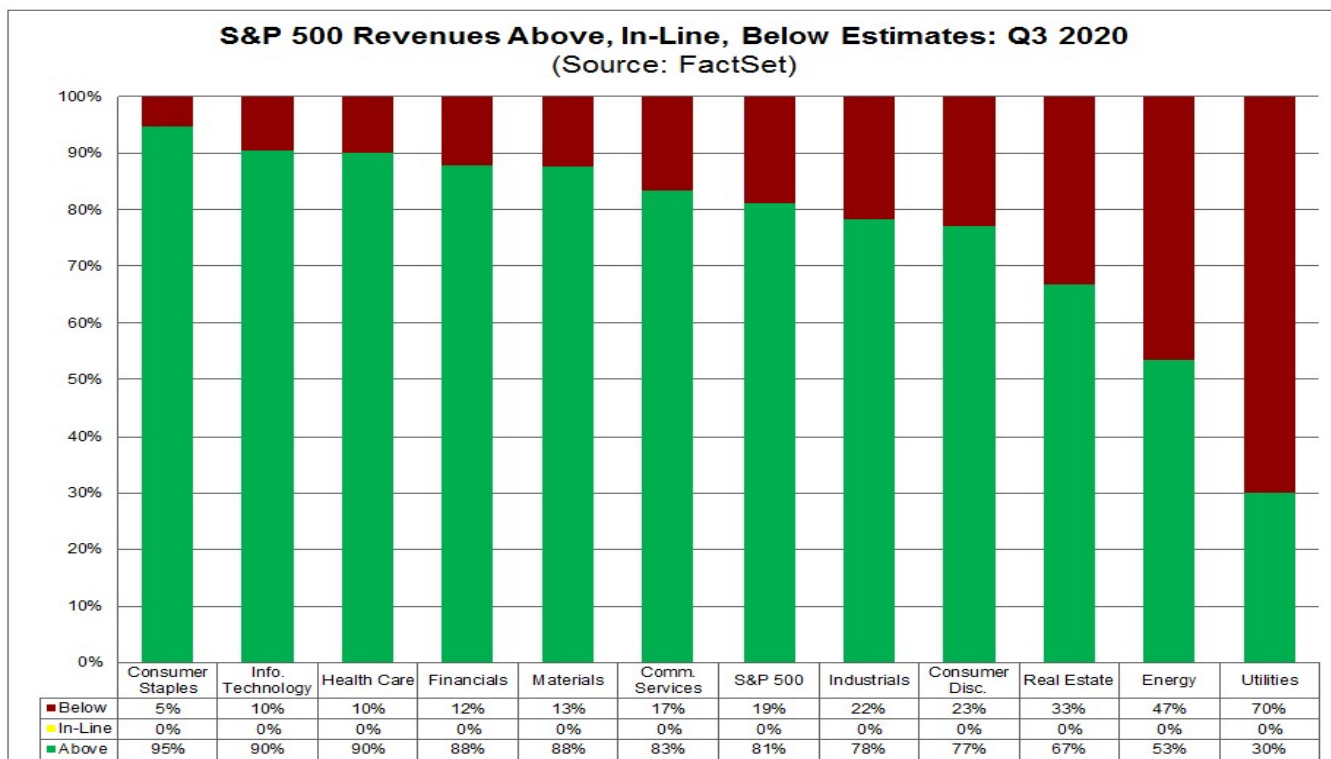
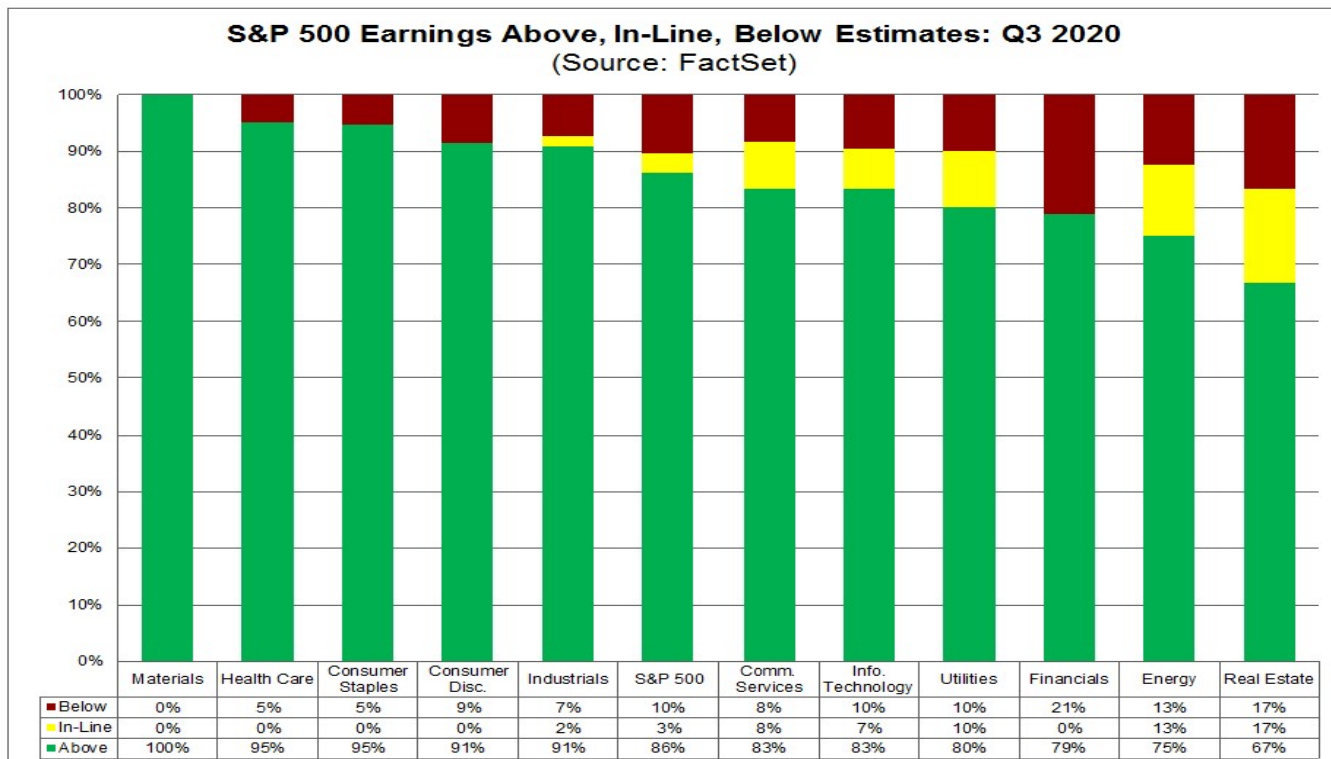
The bottom-up target price for the S&P 500 is 3853.23, which is 16.4% above the closing price of 3310.11. At the sector level, the Energy (+42.6%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Utilities (+7.1%) 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 10,333 ratings on stocks in the S&P 500. Of these 10,333 ratings, 53.8% are Buy ratings, 39.9% are Hold ratings, and 6.4% are Sell ratings. At the sector level, the Energy (63%) and Health Care (61%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (47%) and Real Estate (47%) sectors have the lowest percentages of Buy ratings.

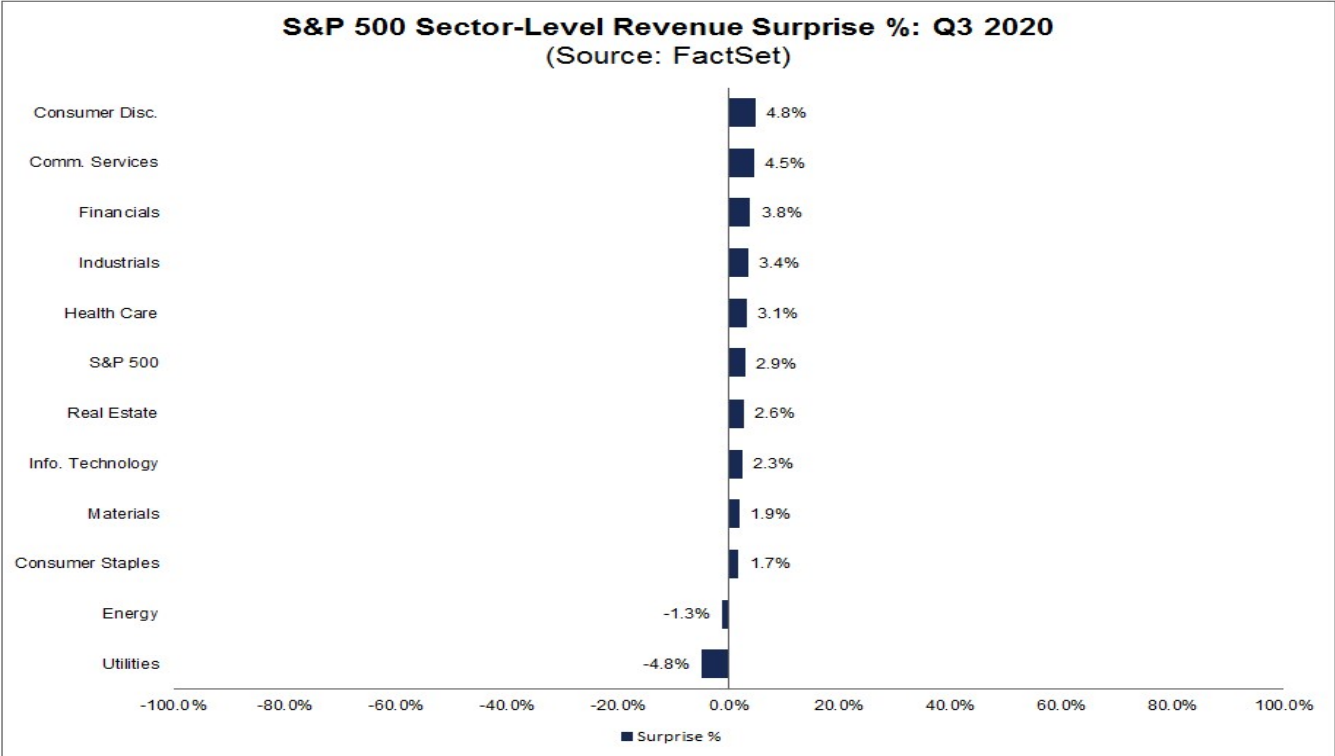
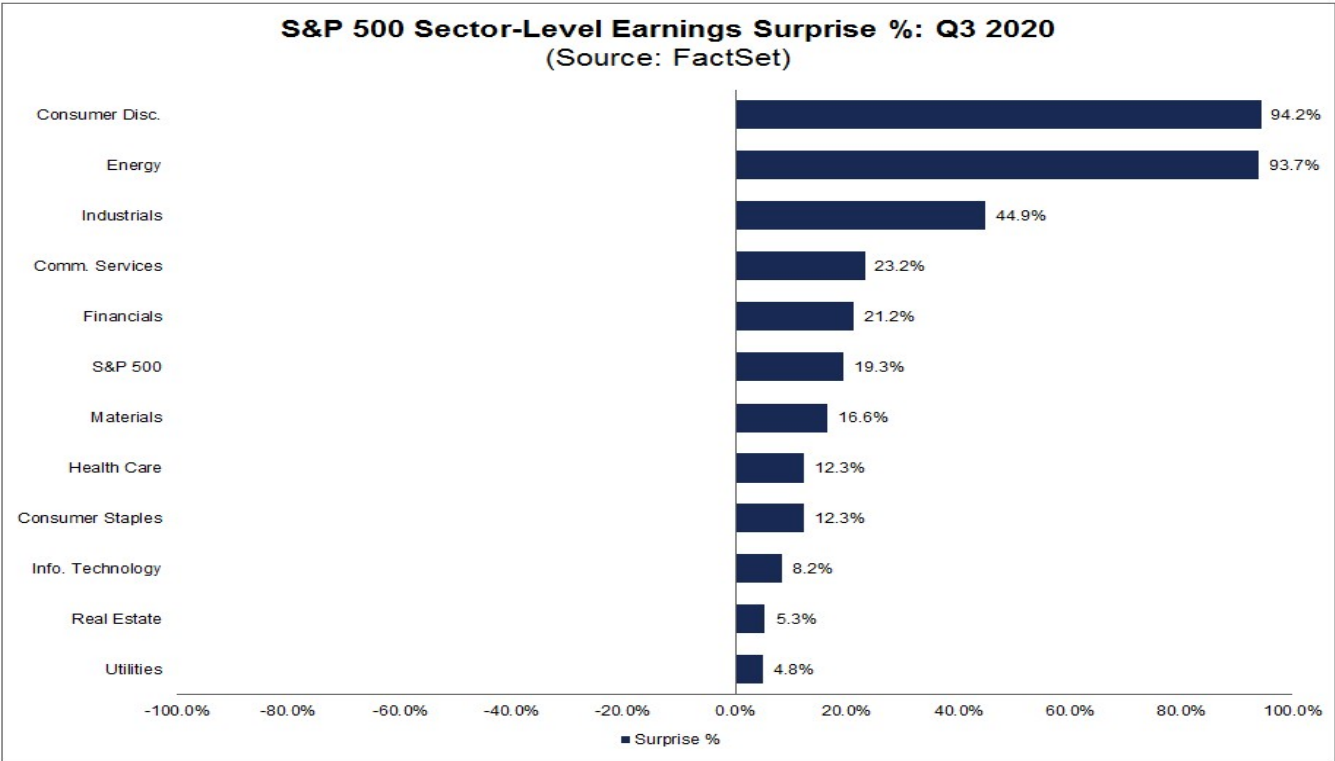
Companies Reporting Next Week: 126

During the upcoming week, 126 S&P 500 companies are scheduled to report results for the third quarter.

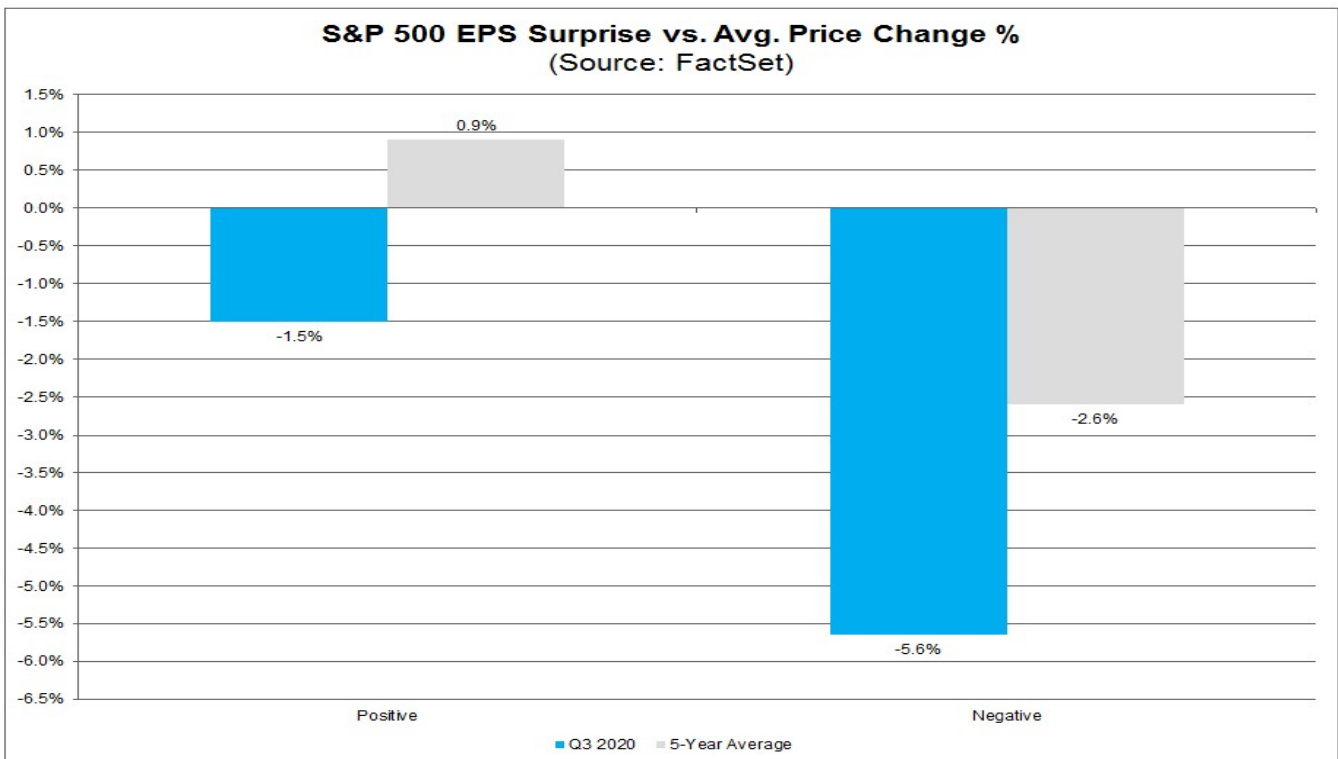
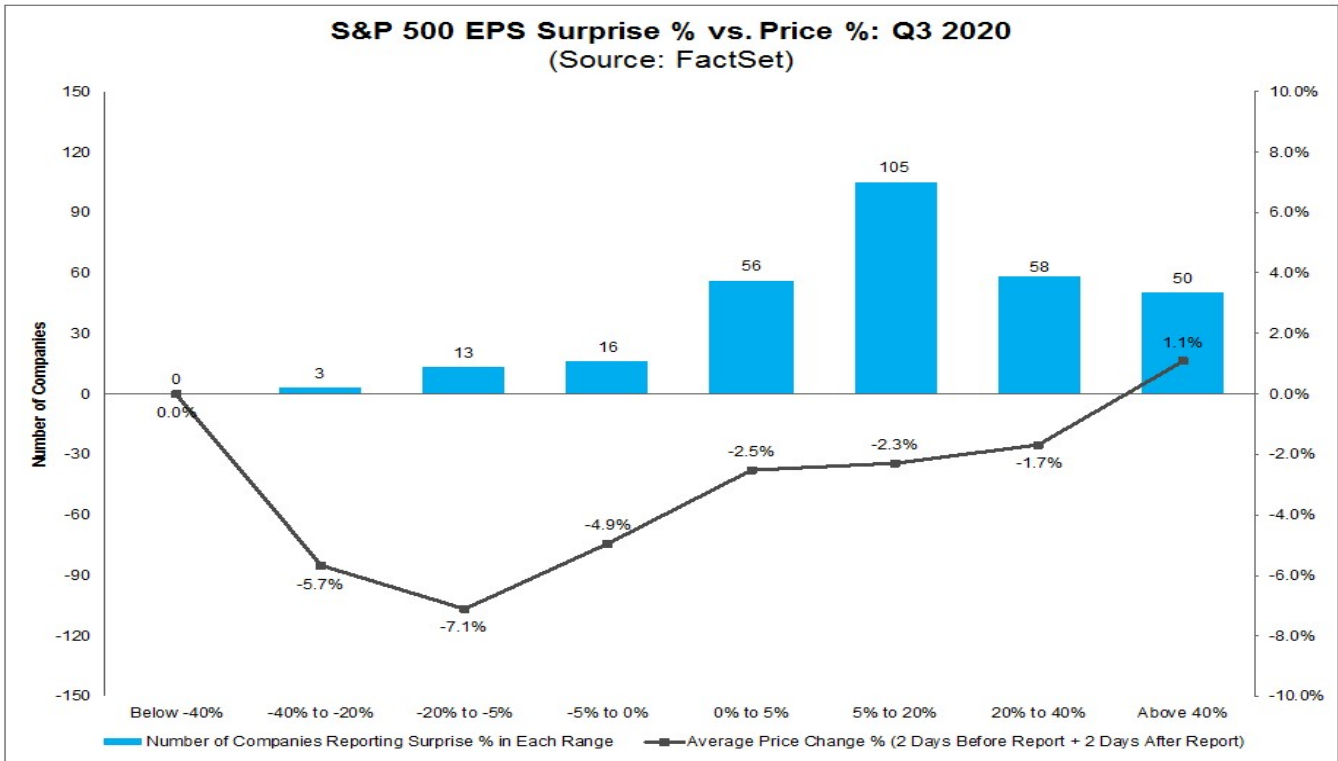
Q3 2020: Scorecard



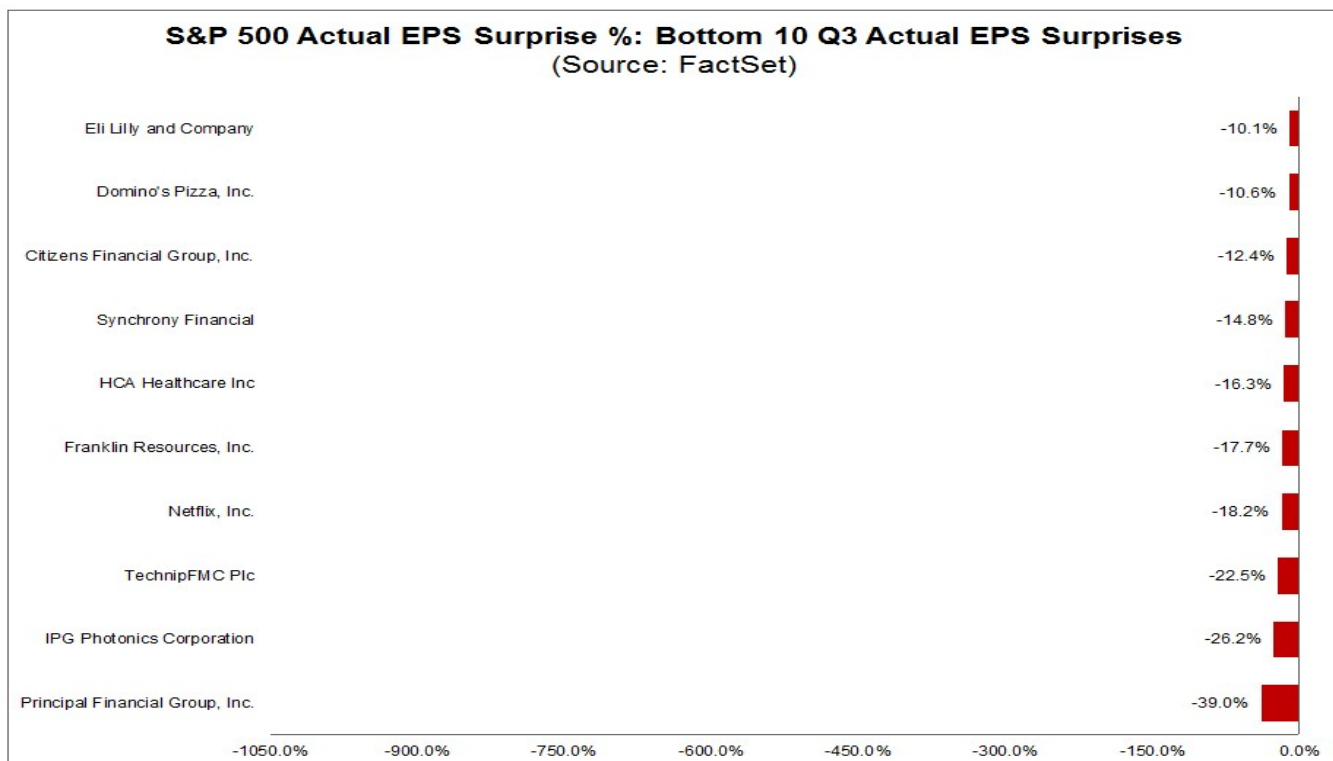
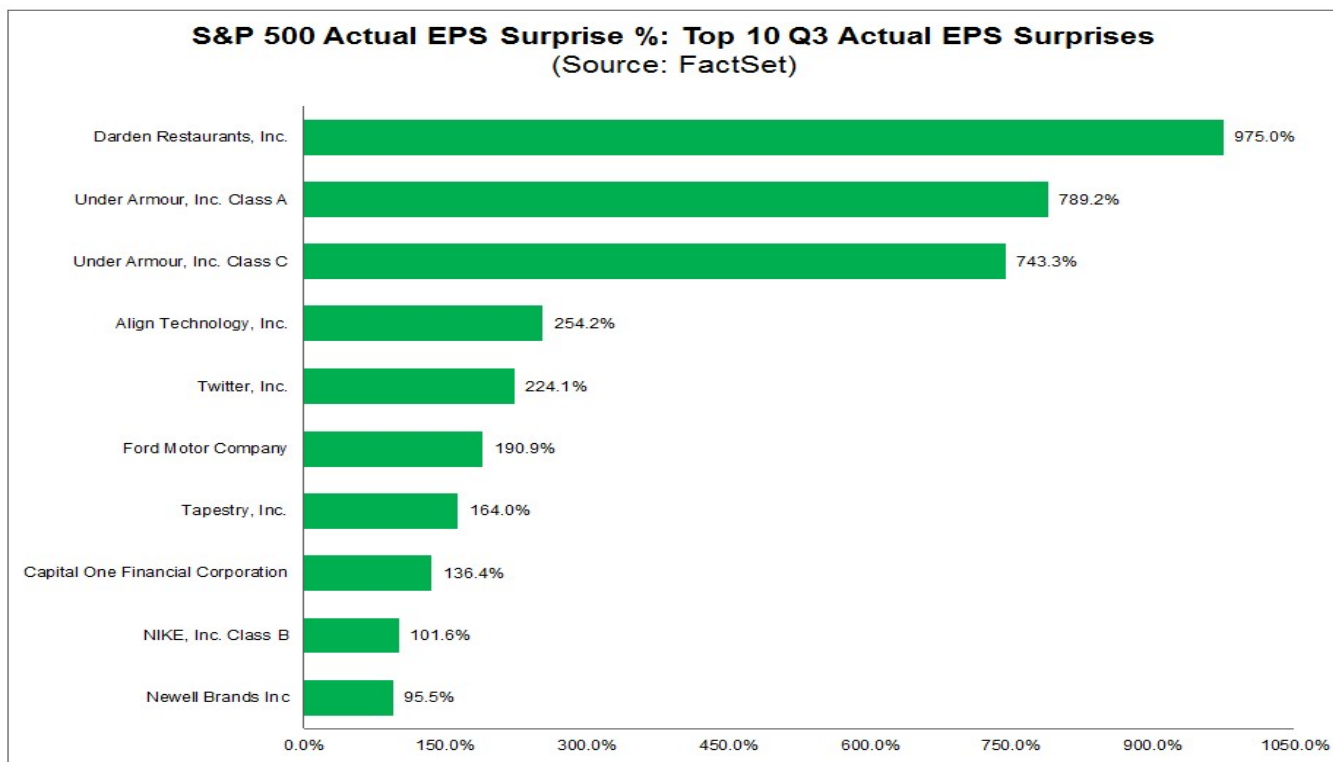
Q3 2020: Scorecard



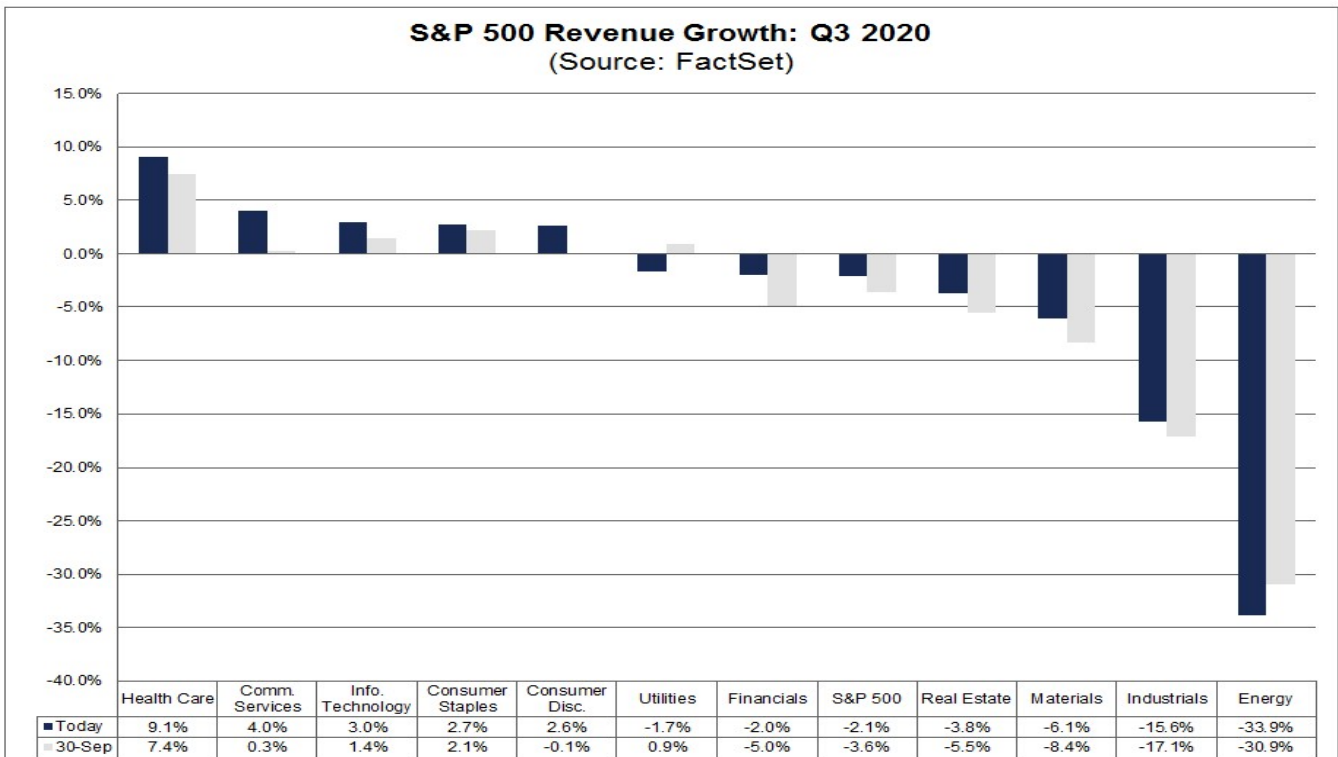
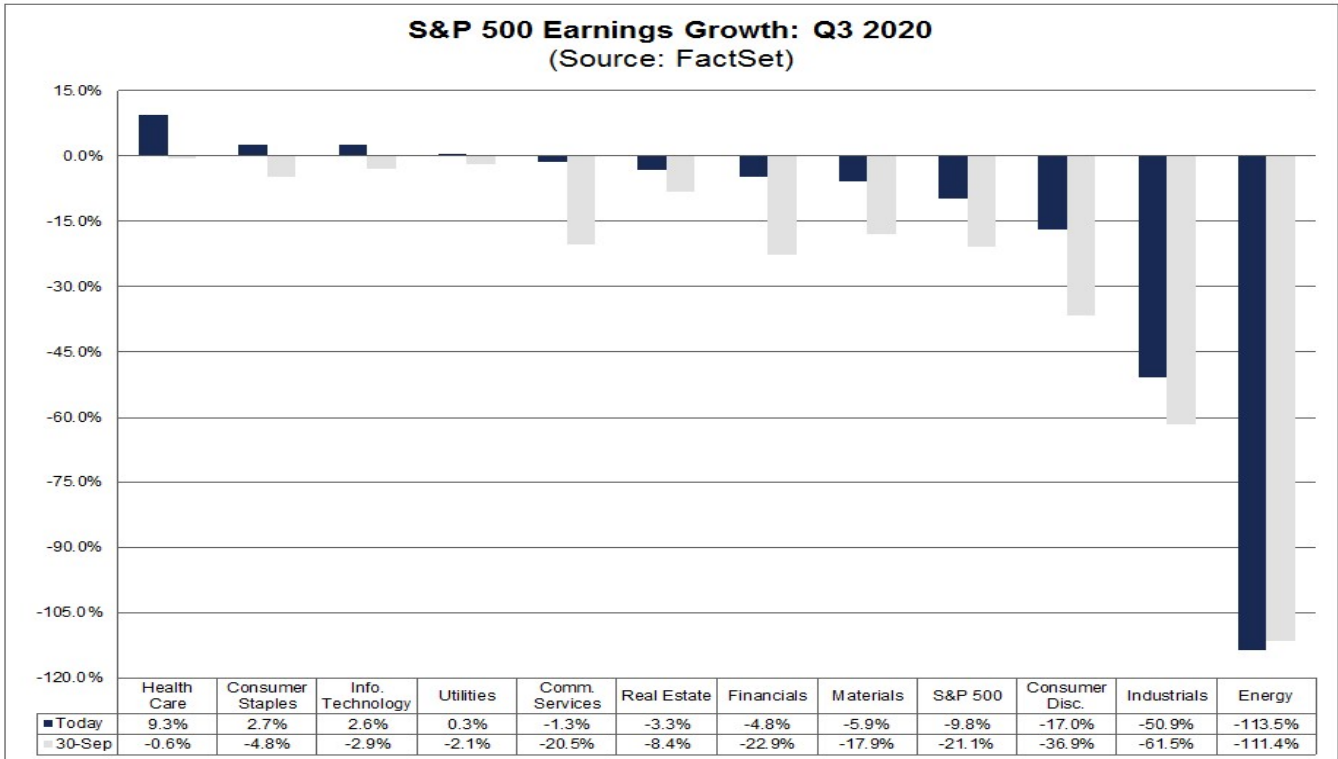
Q3 2020: Scorecard



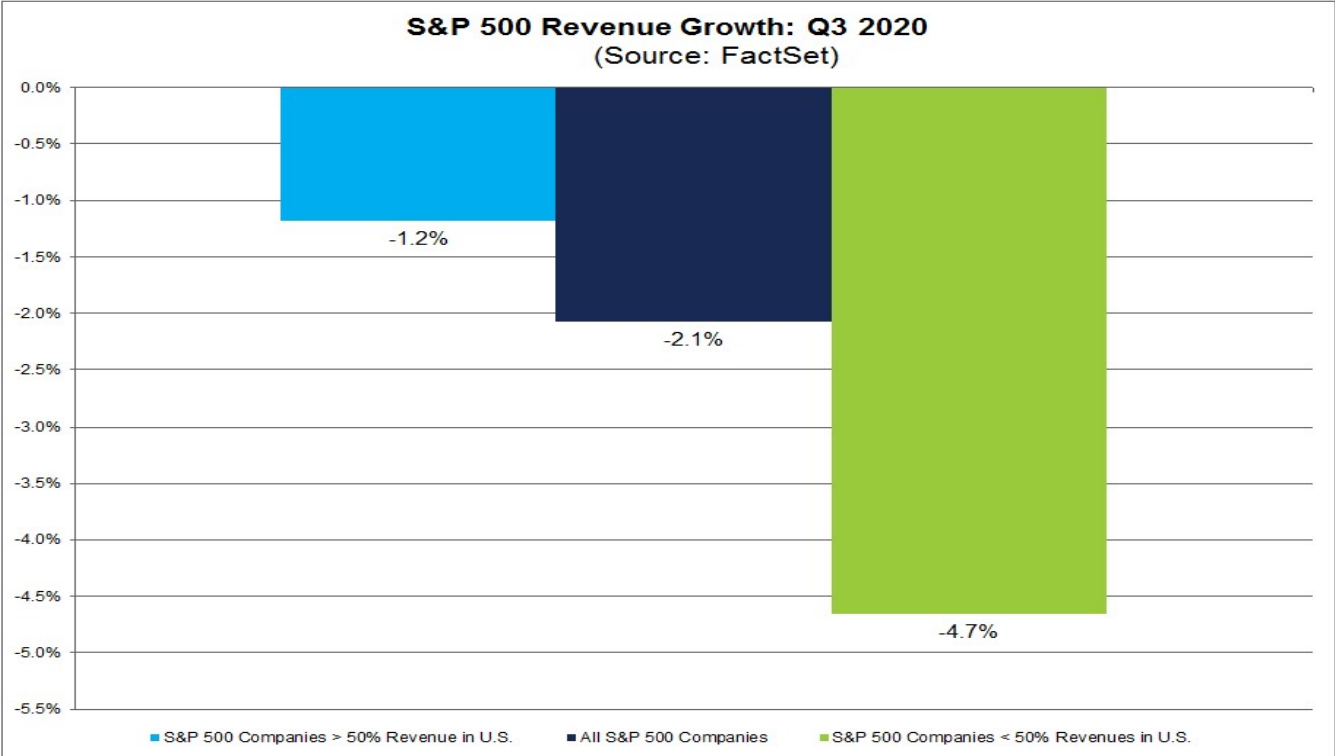
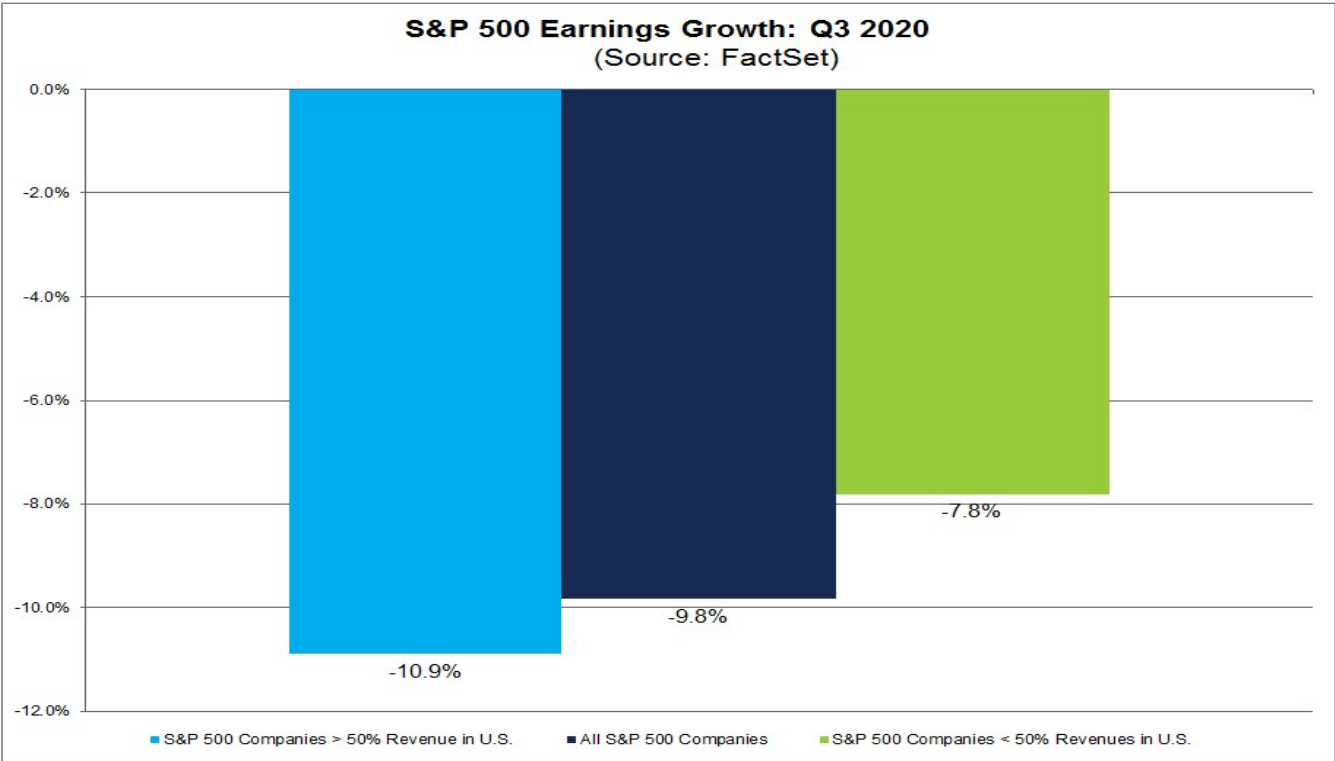
Q3 2020: Scorecard



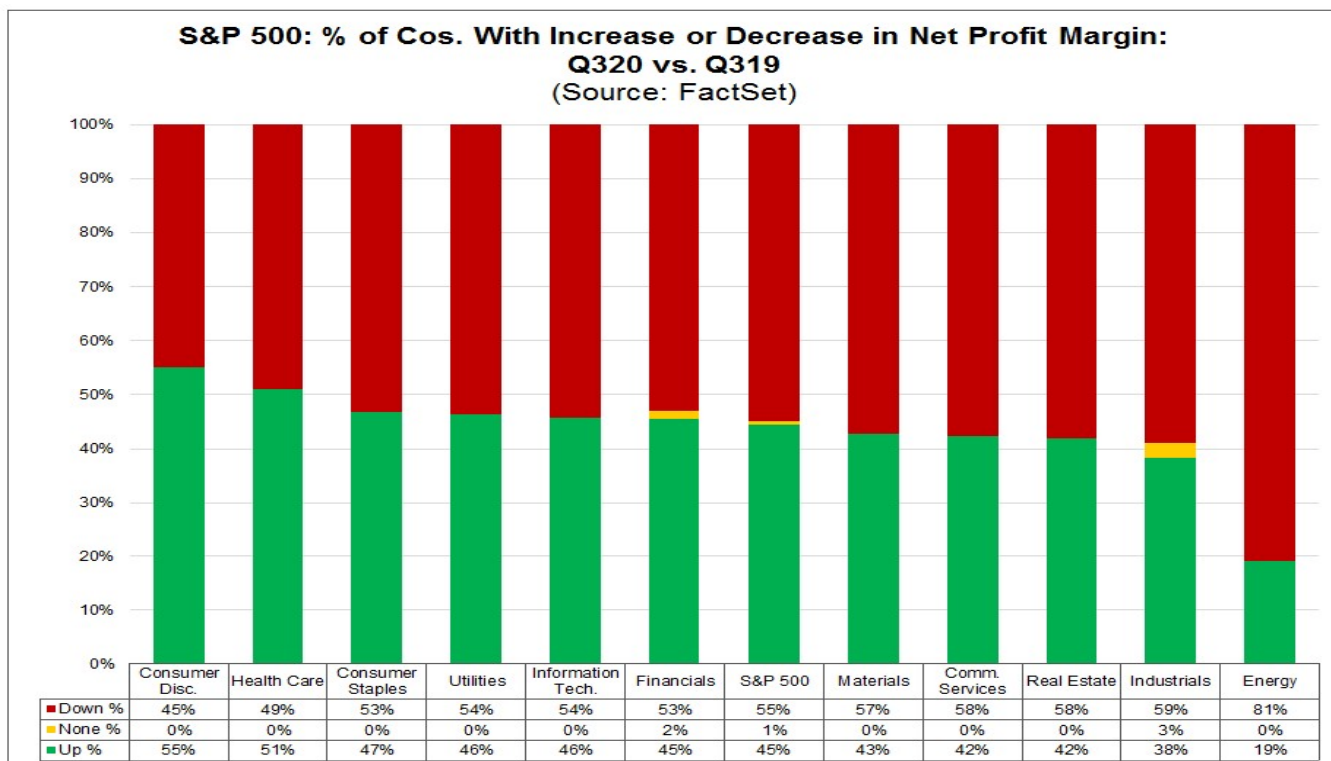
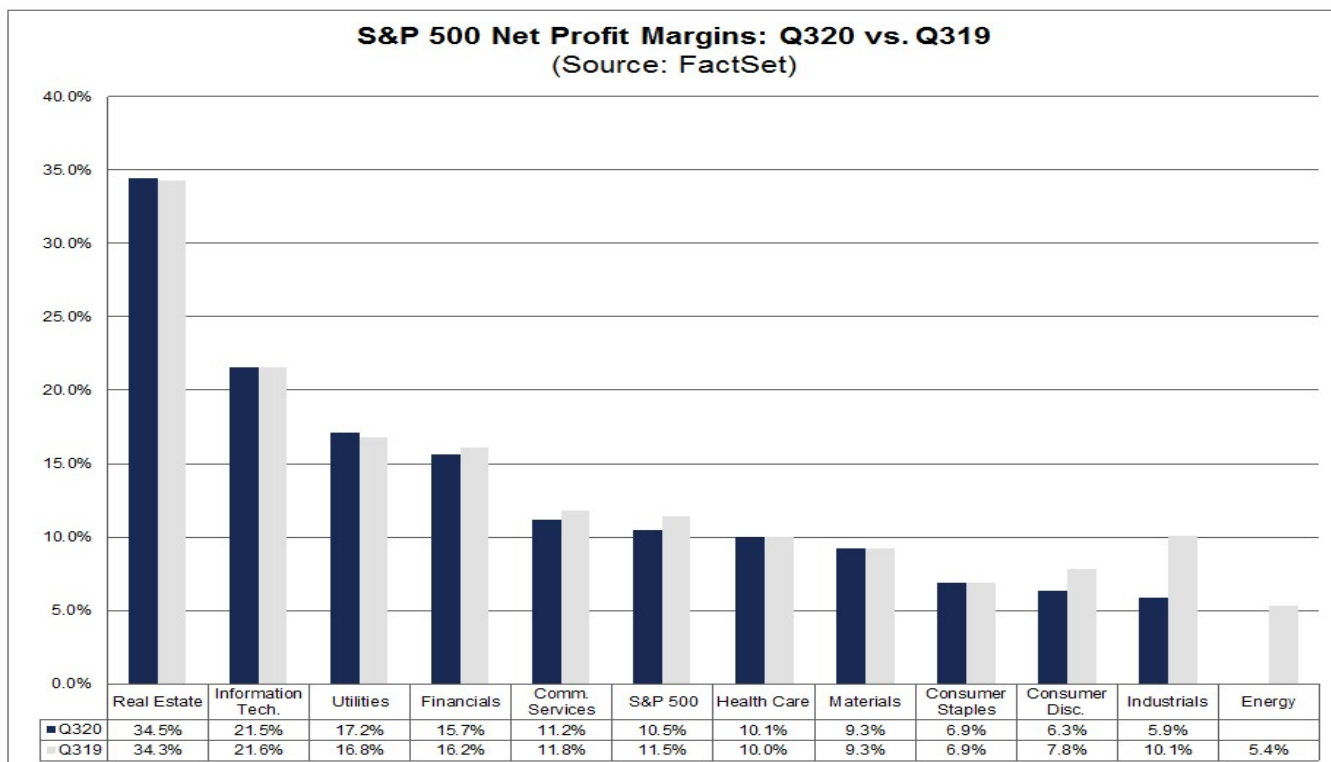
Q3 2020: Growth



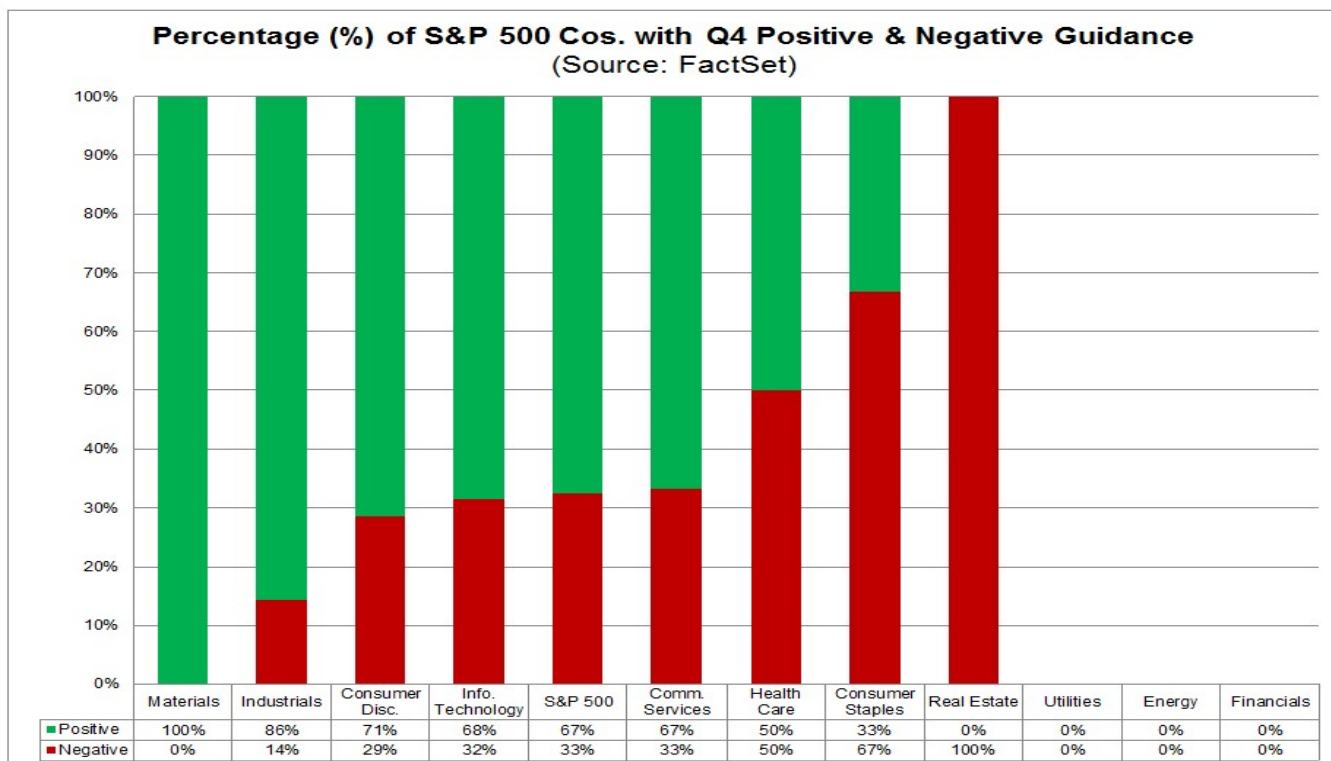
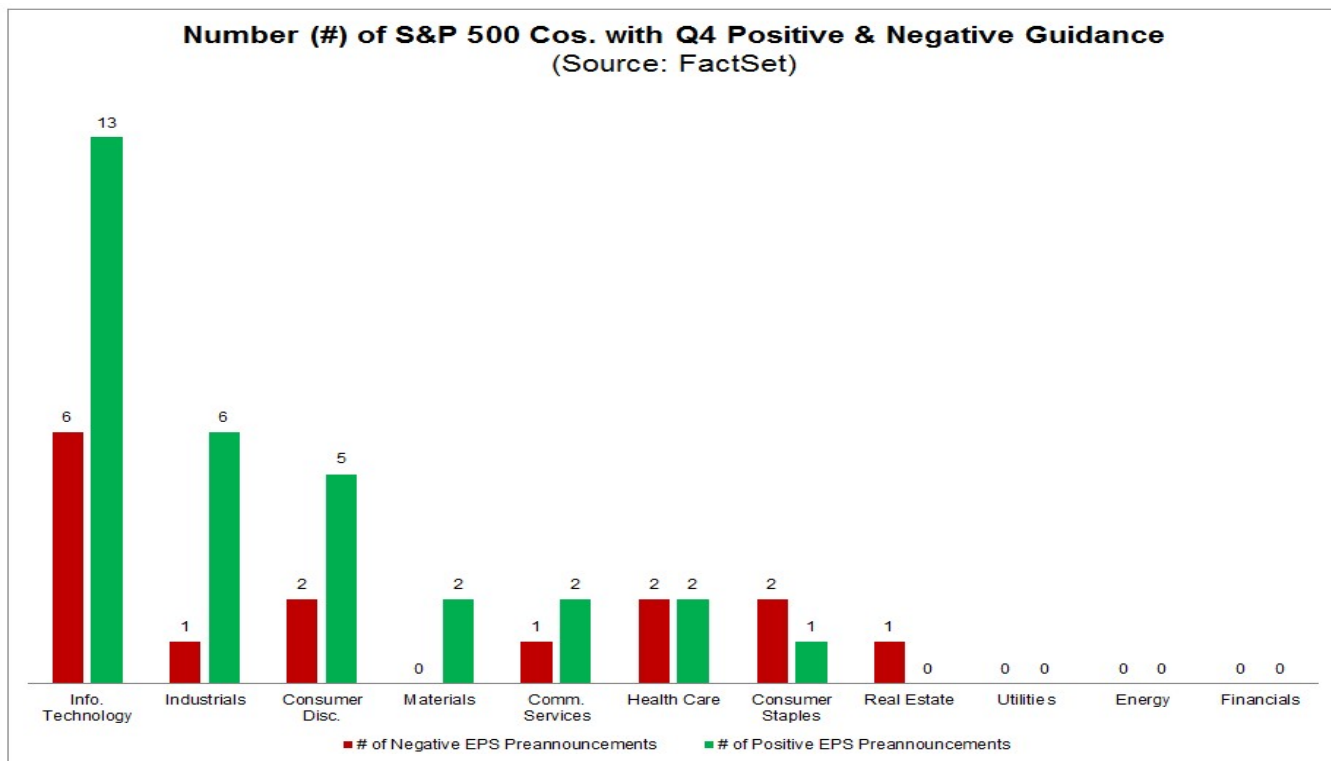
Q3 2020: Growth



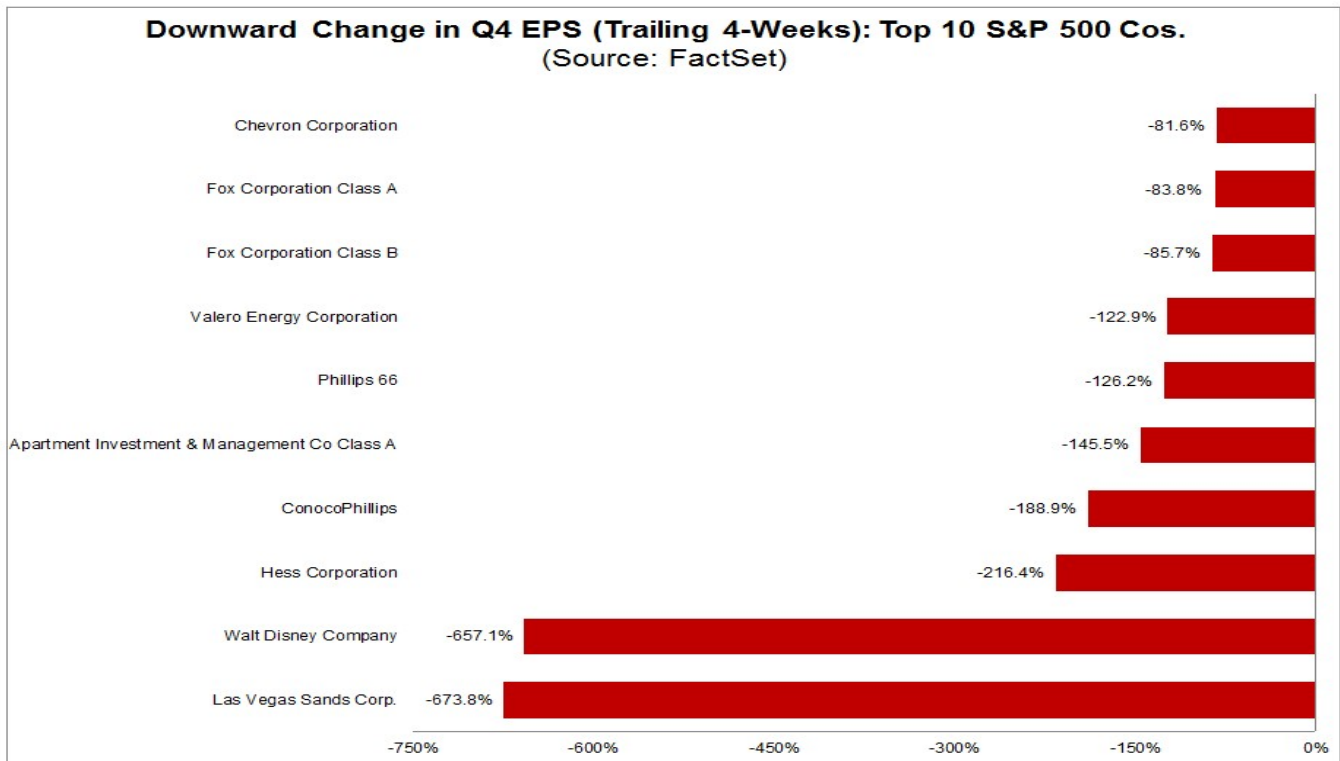
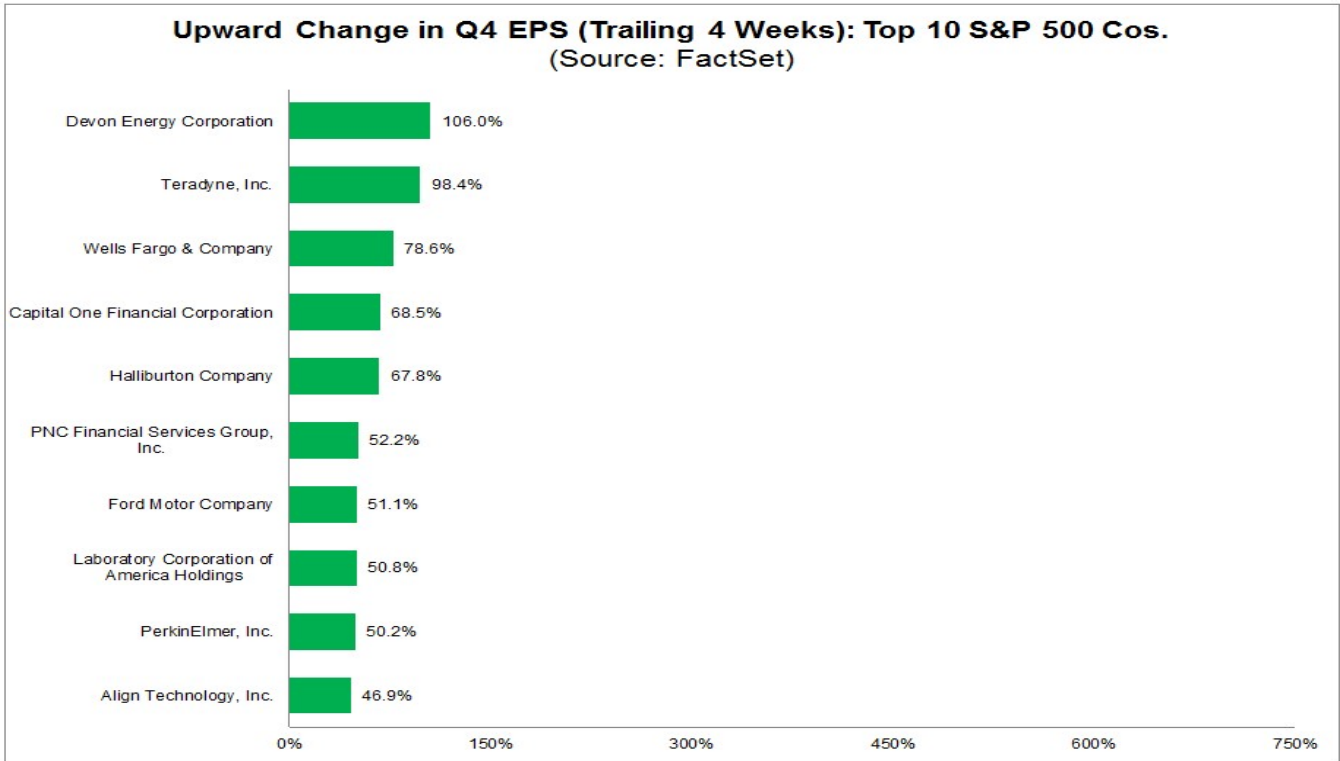
Q3 2020: Net Profit Margin



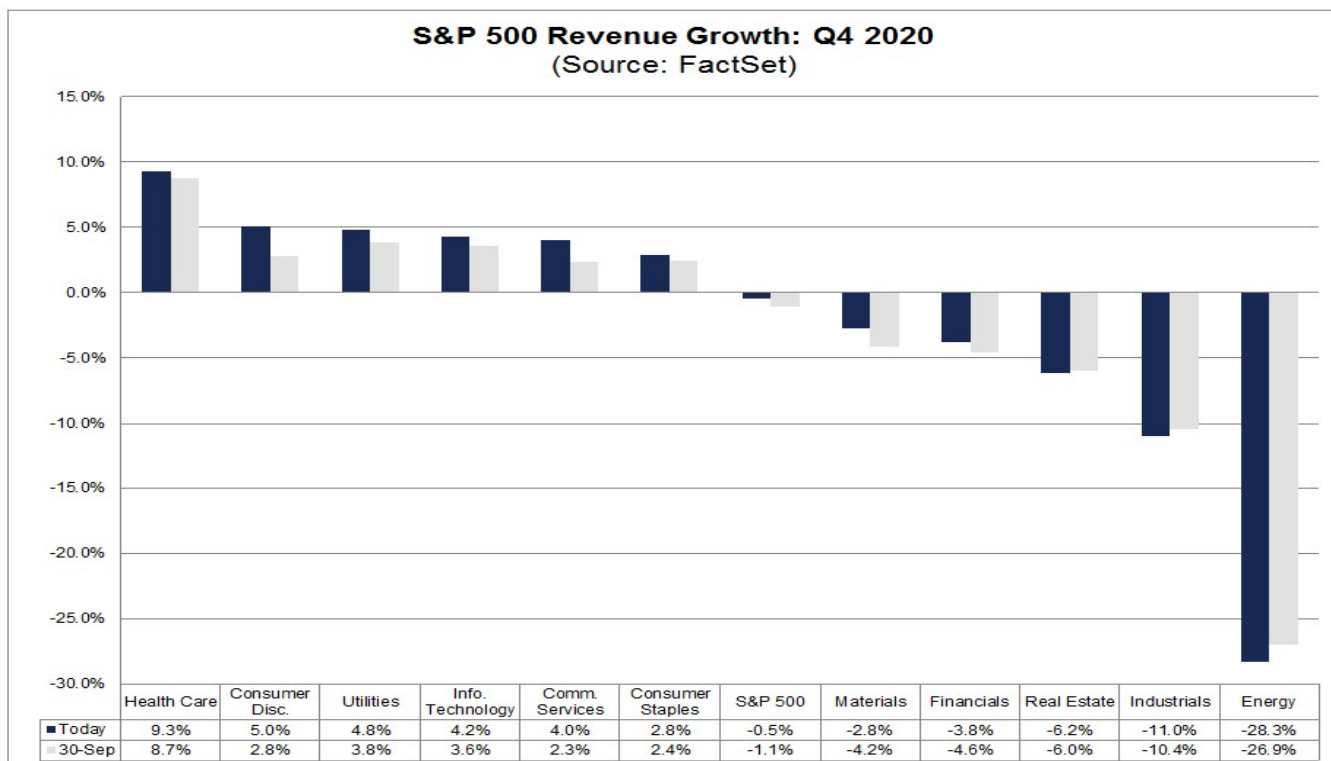
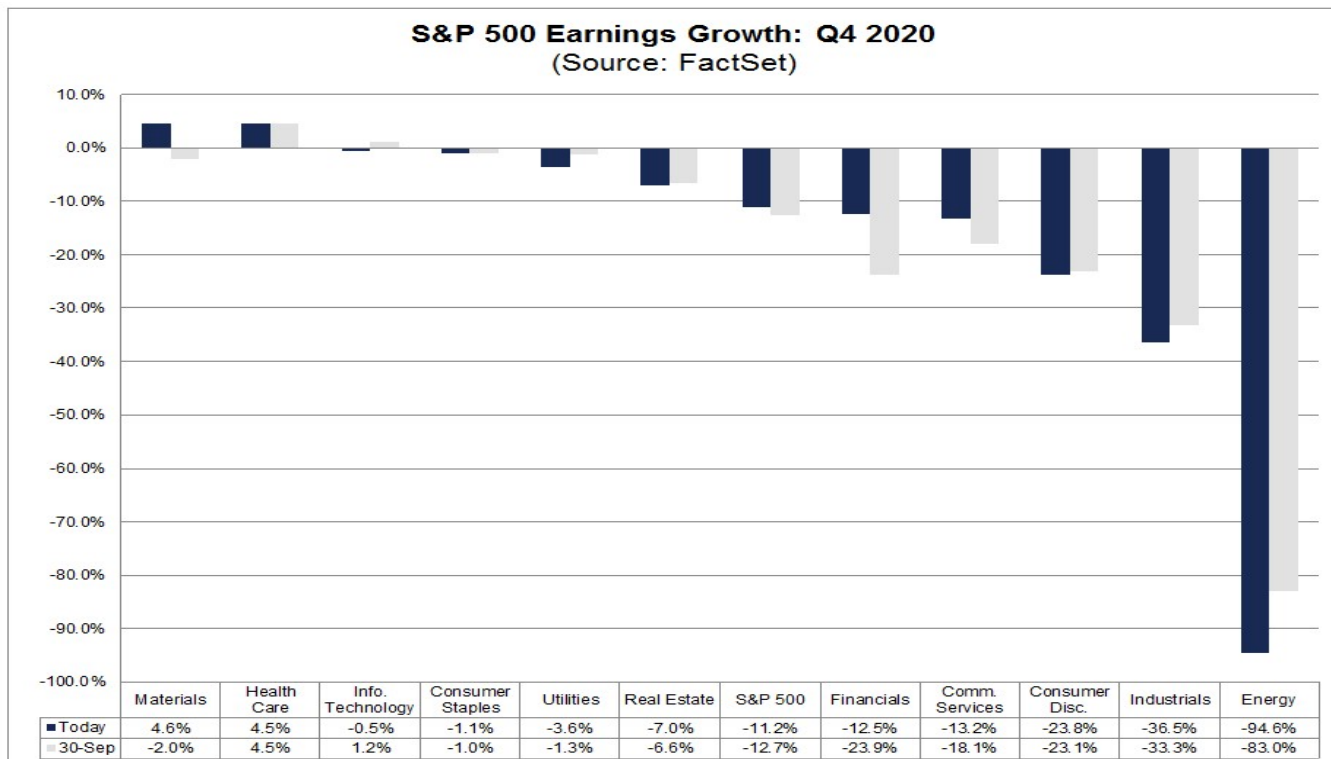
Q4 2020: EPS Guidance



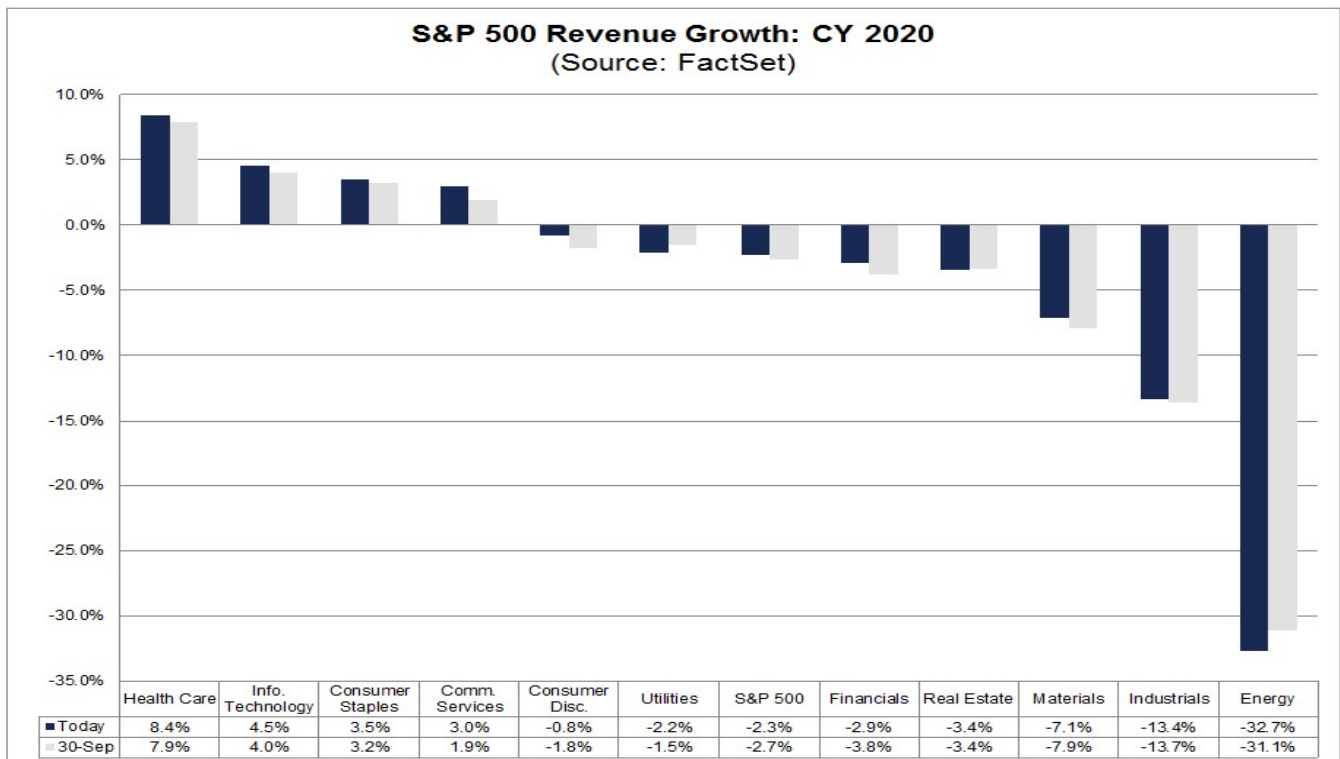
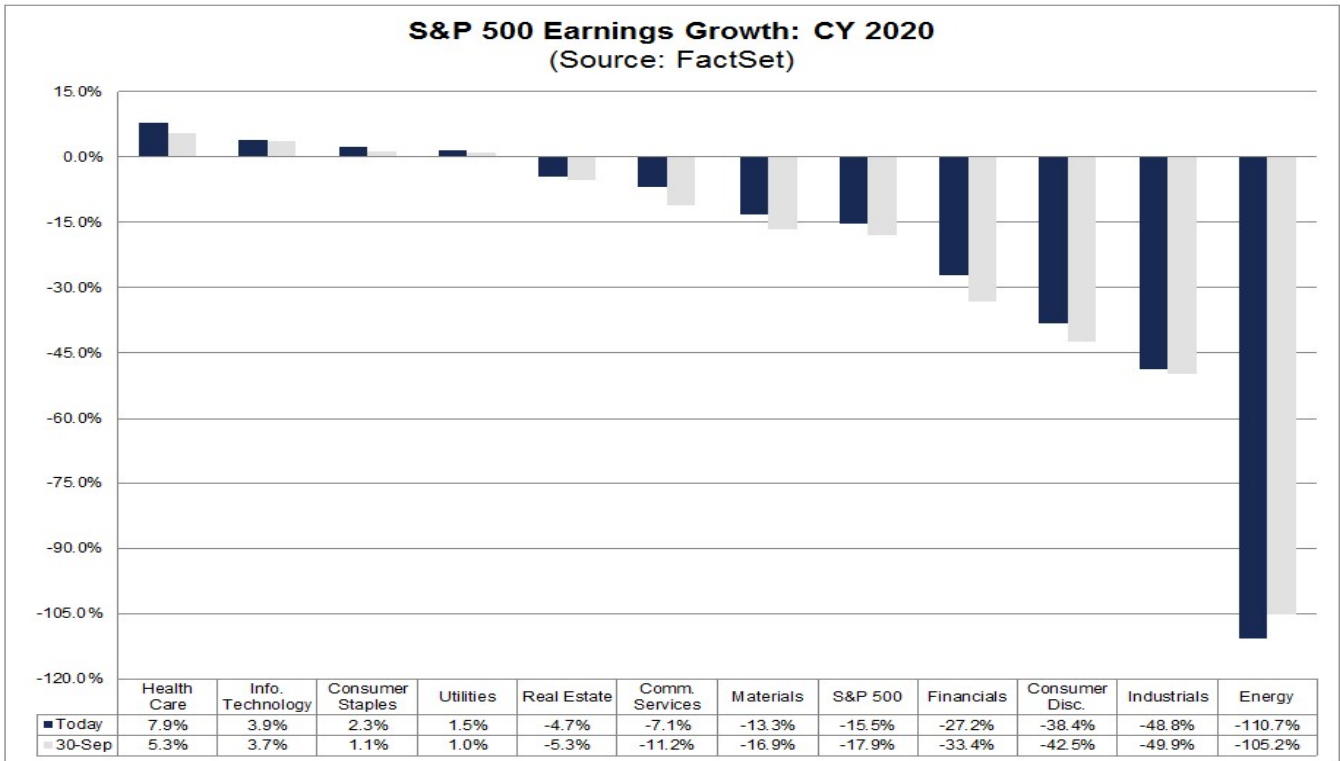
Q4 2020: EPS Revisions



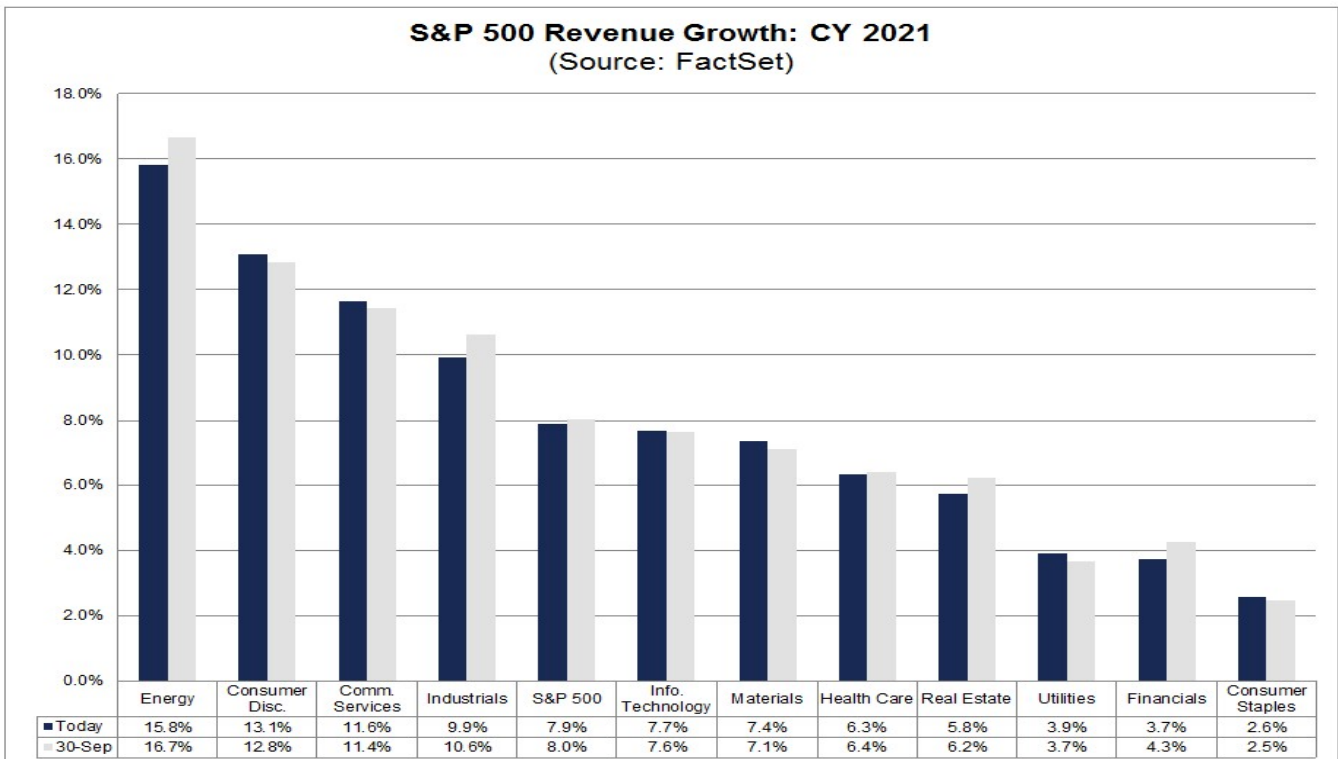
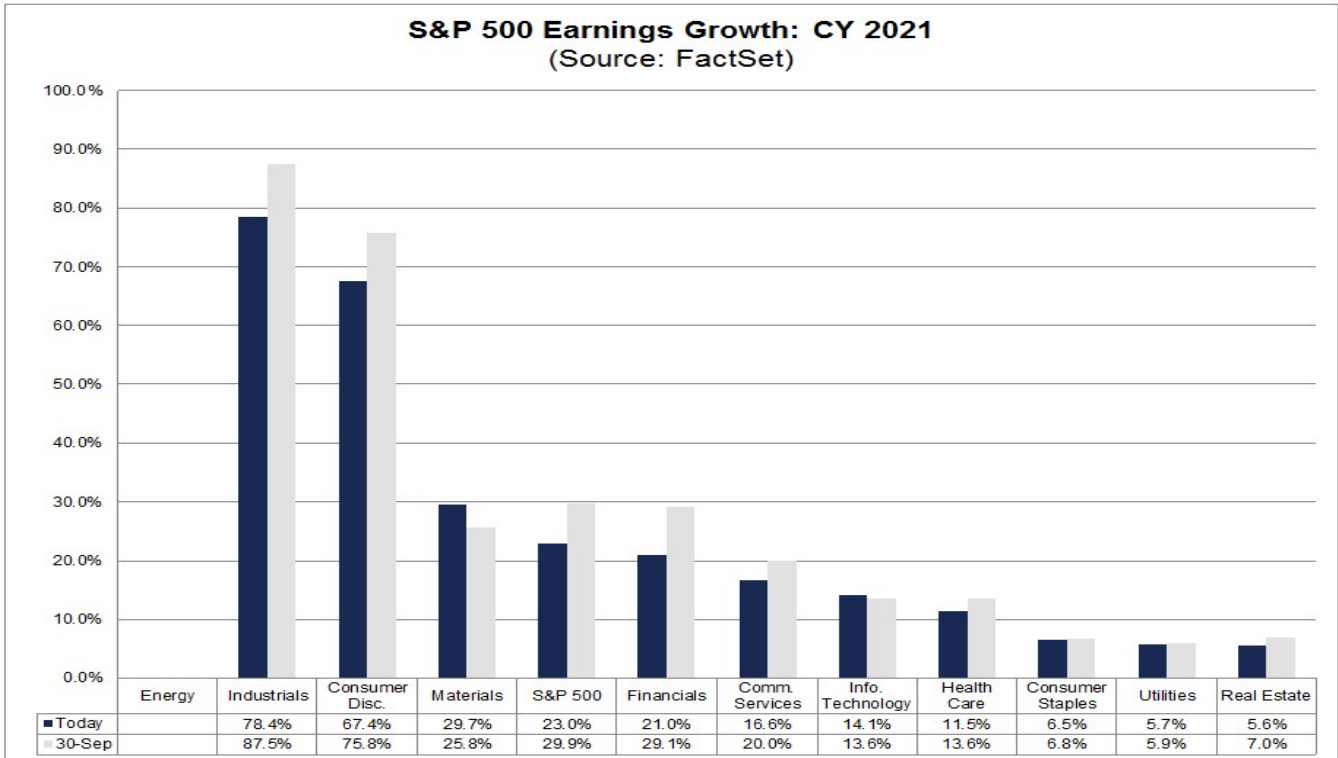
Q4 2020: Growth



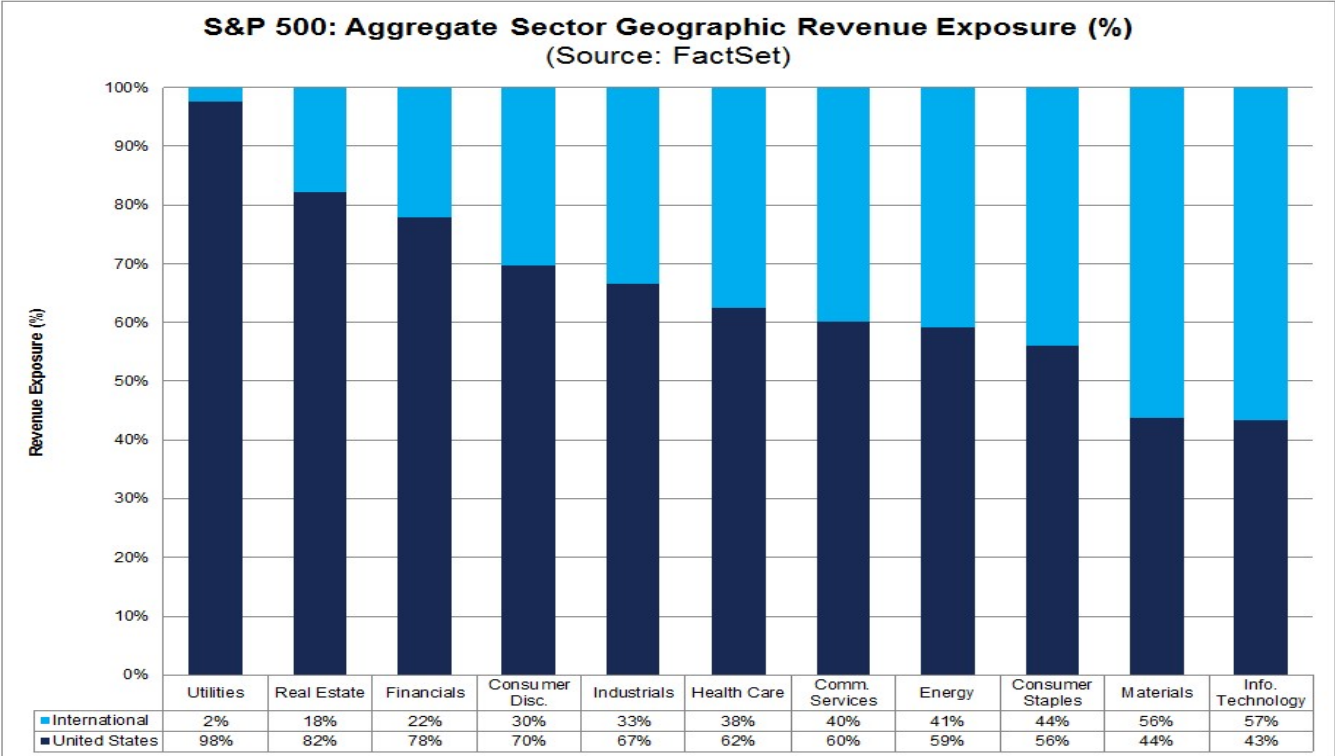
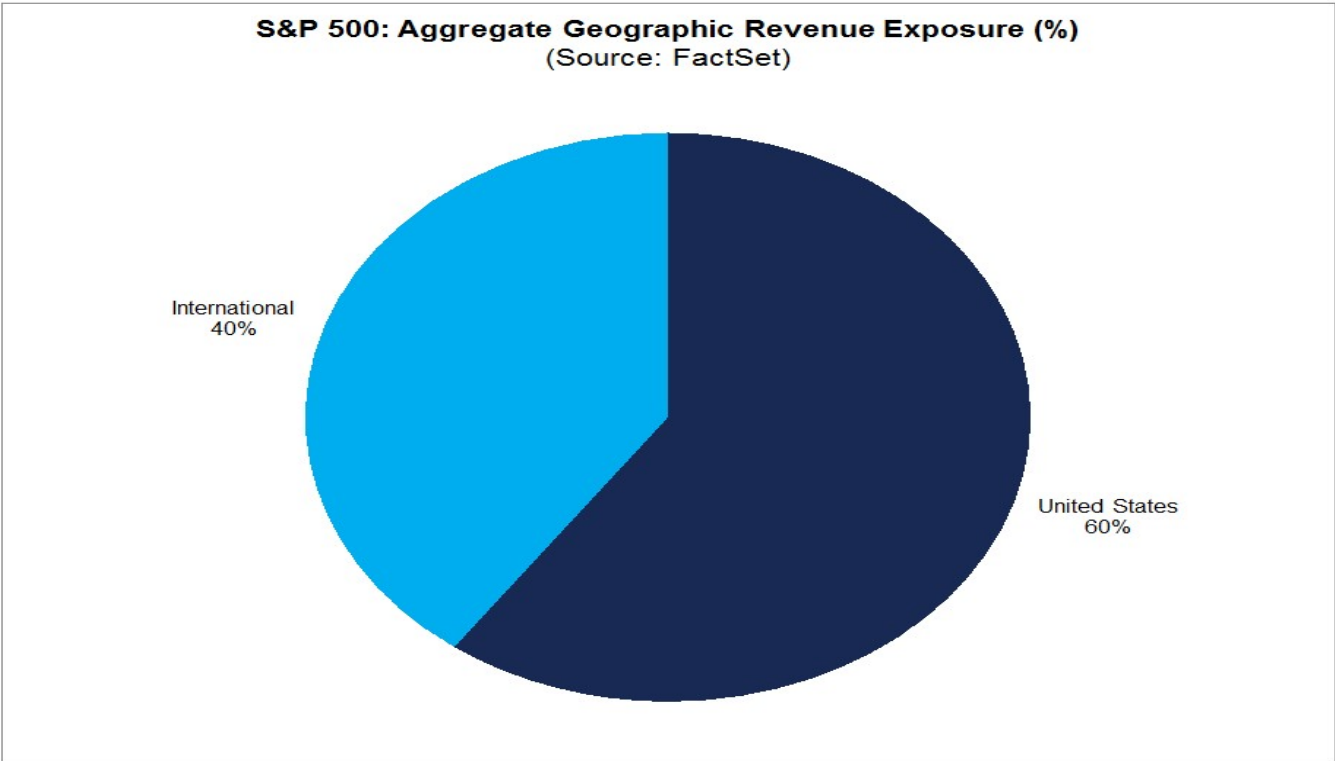
CY 2020: Growth



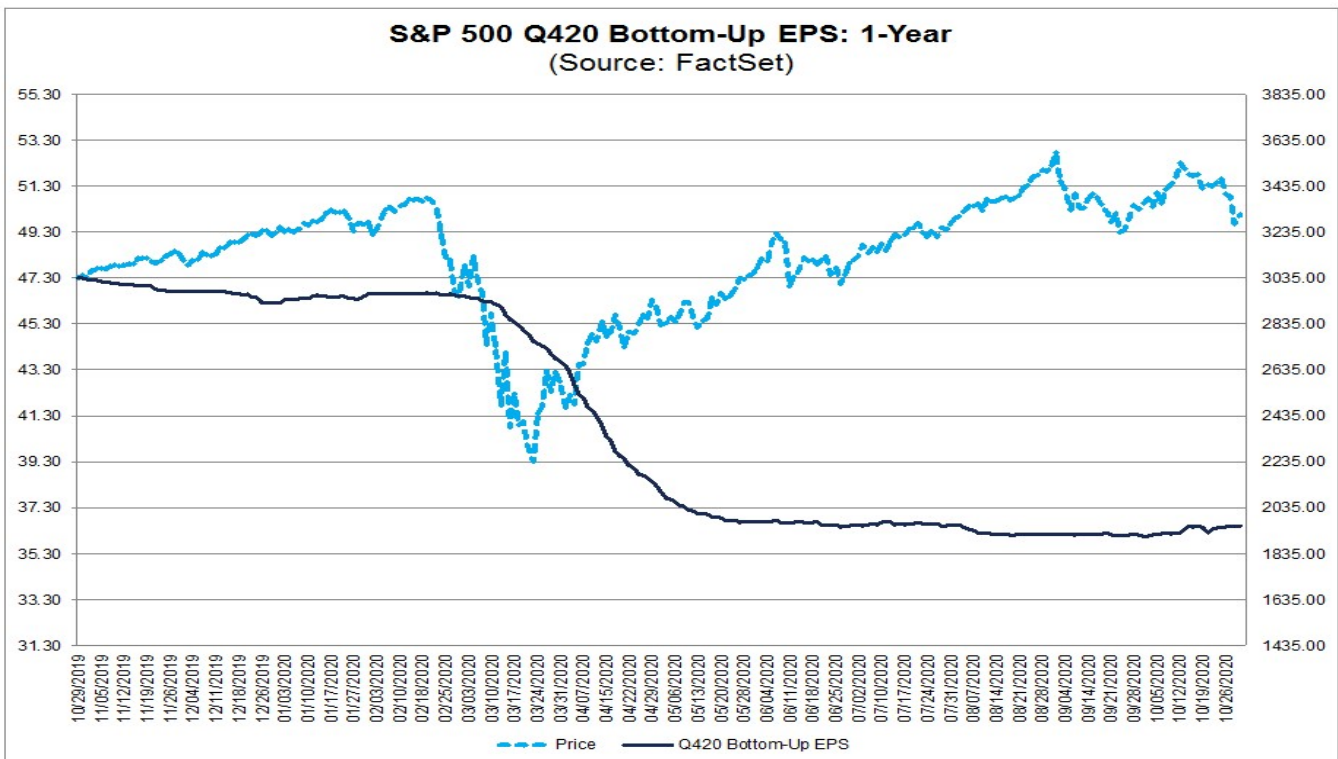
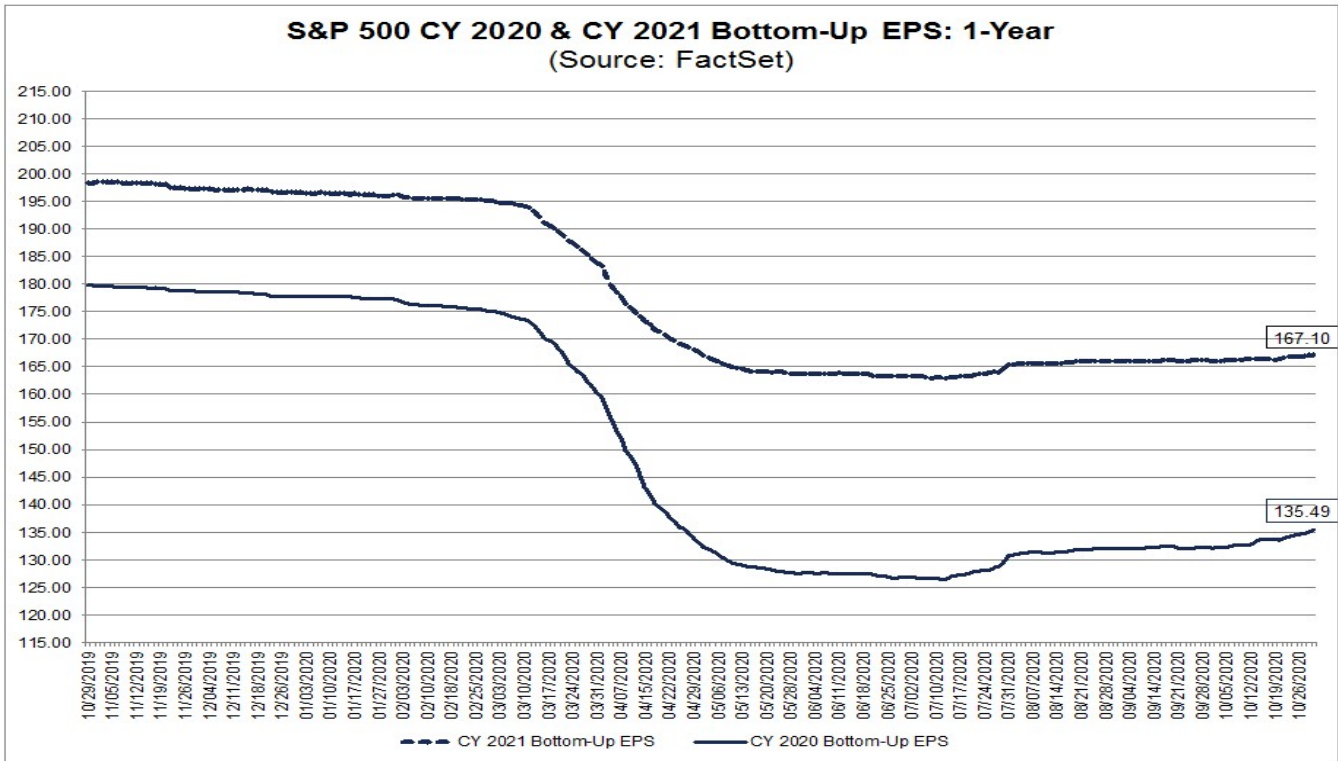
CY 2021: Growth



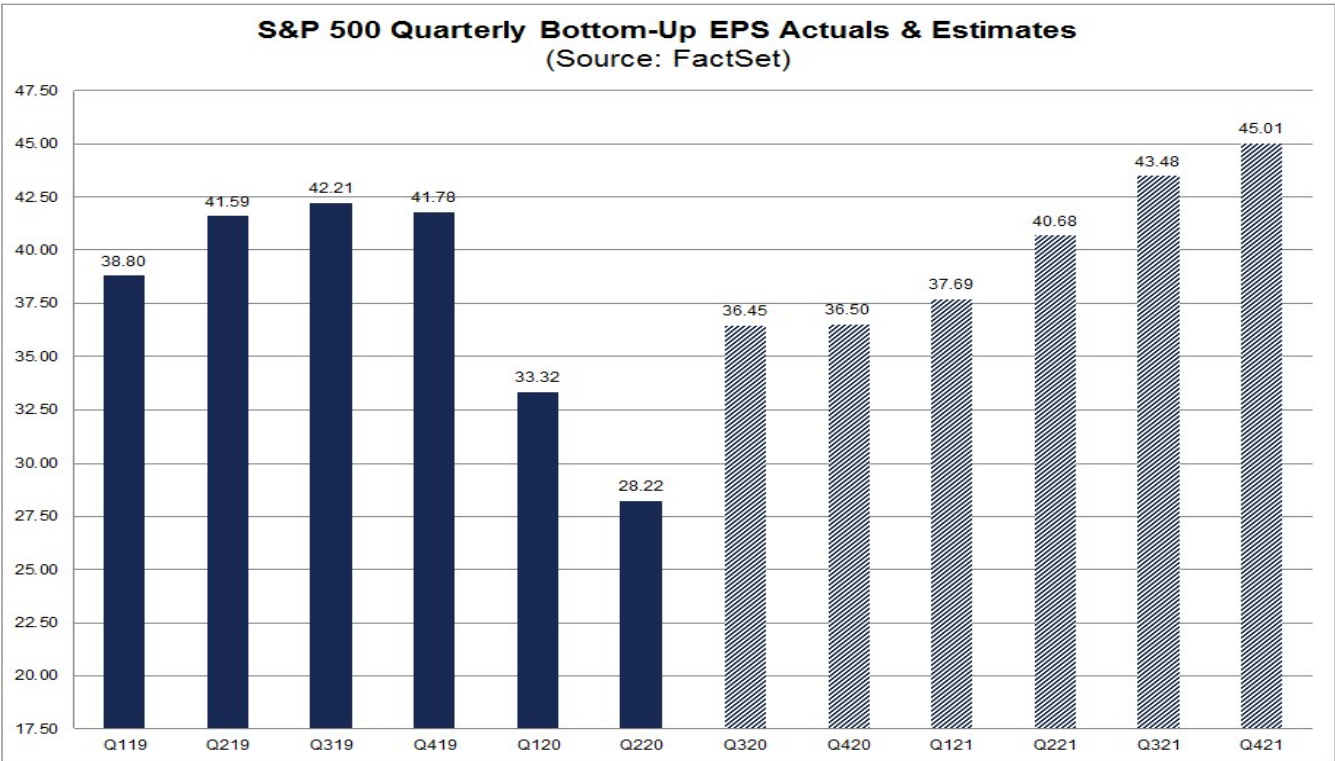
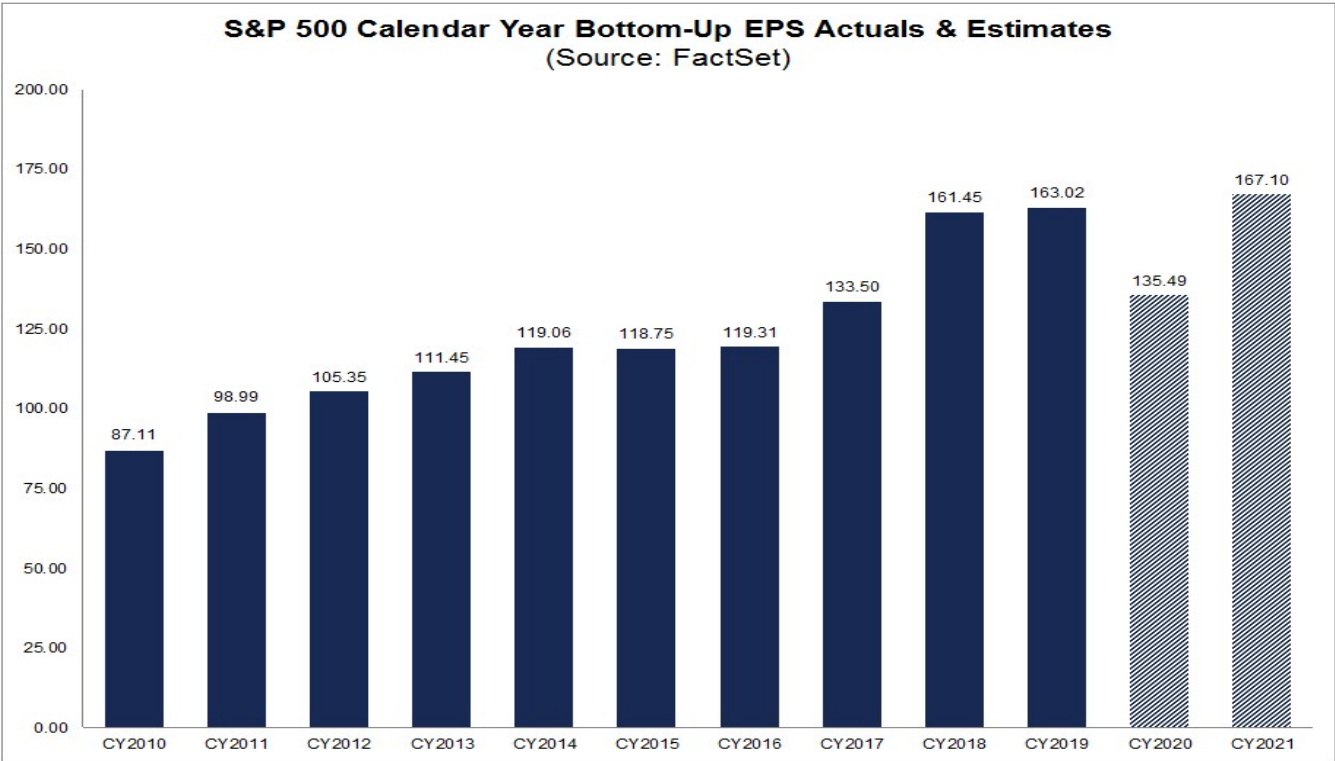
Geographic Revenue Exposure



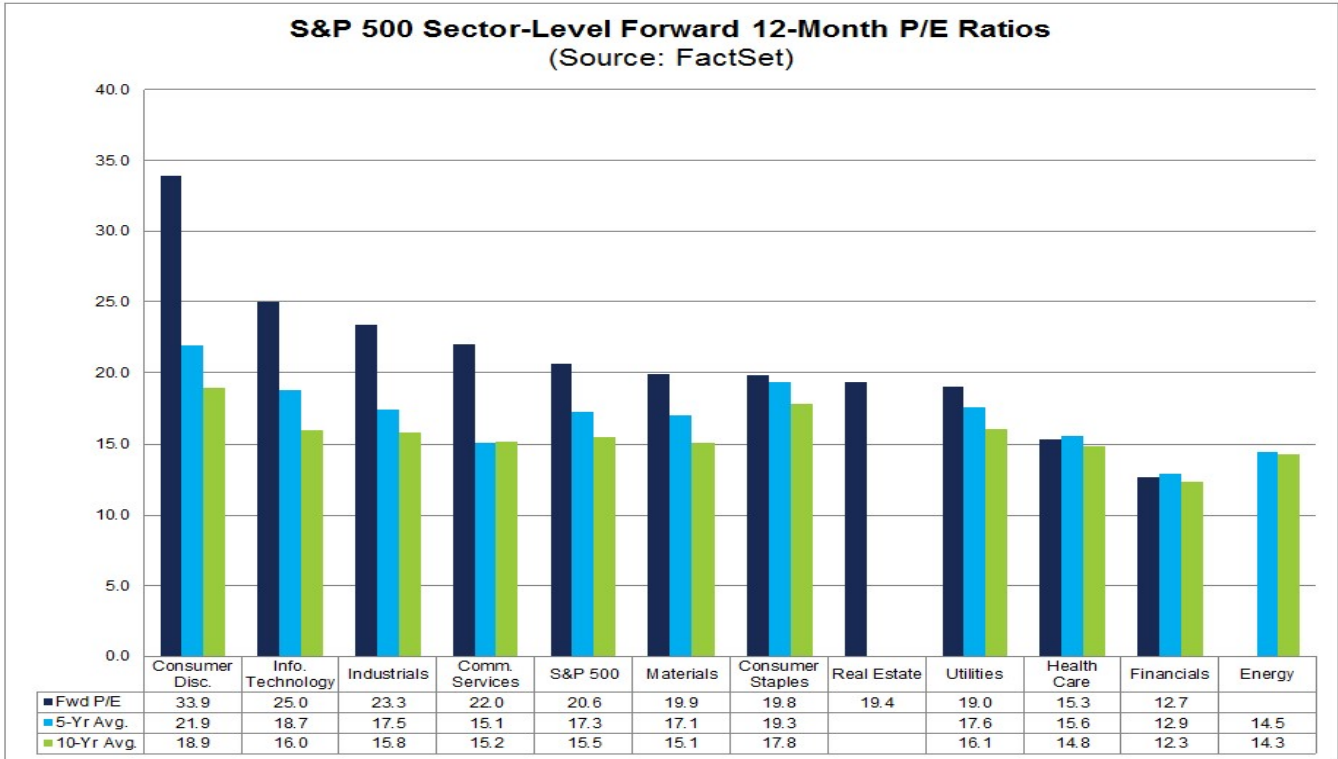
Bottom-up EPS Estimates: Revisions



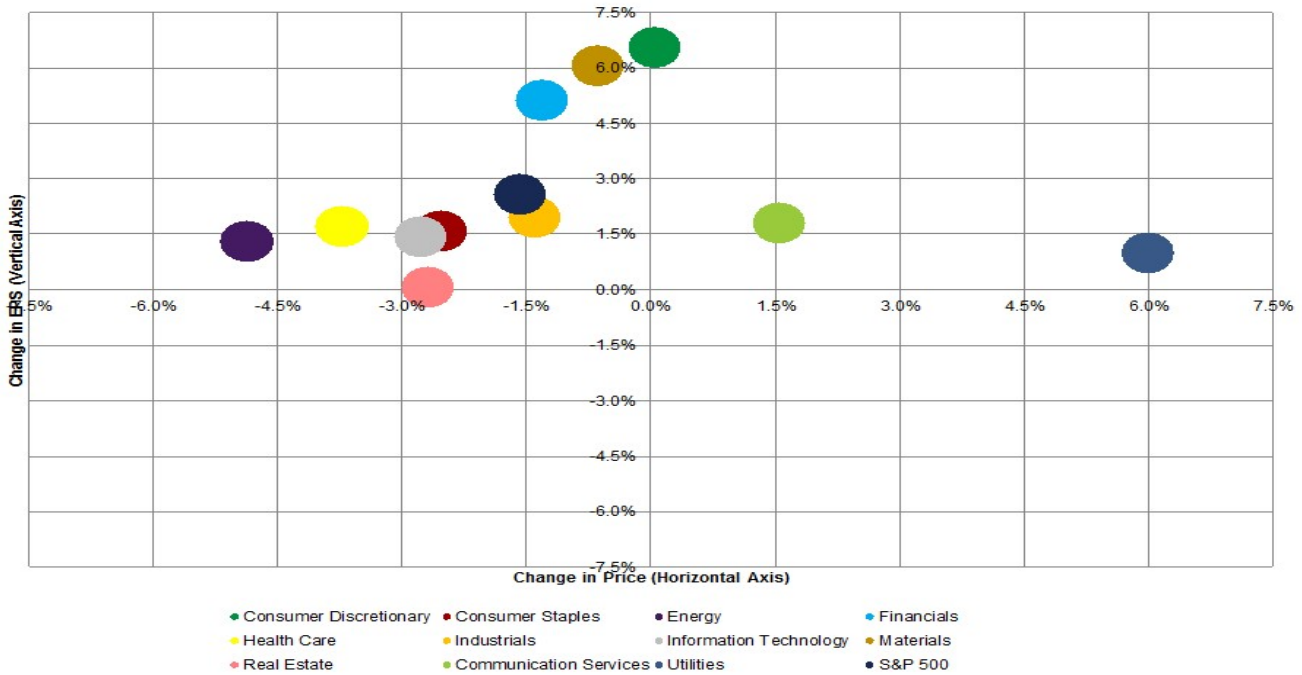
Bottom-up EPS Estimates: Current & Historical



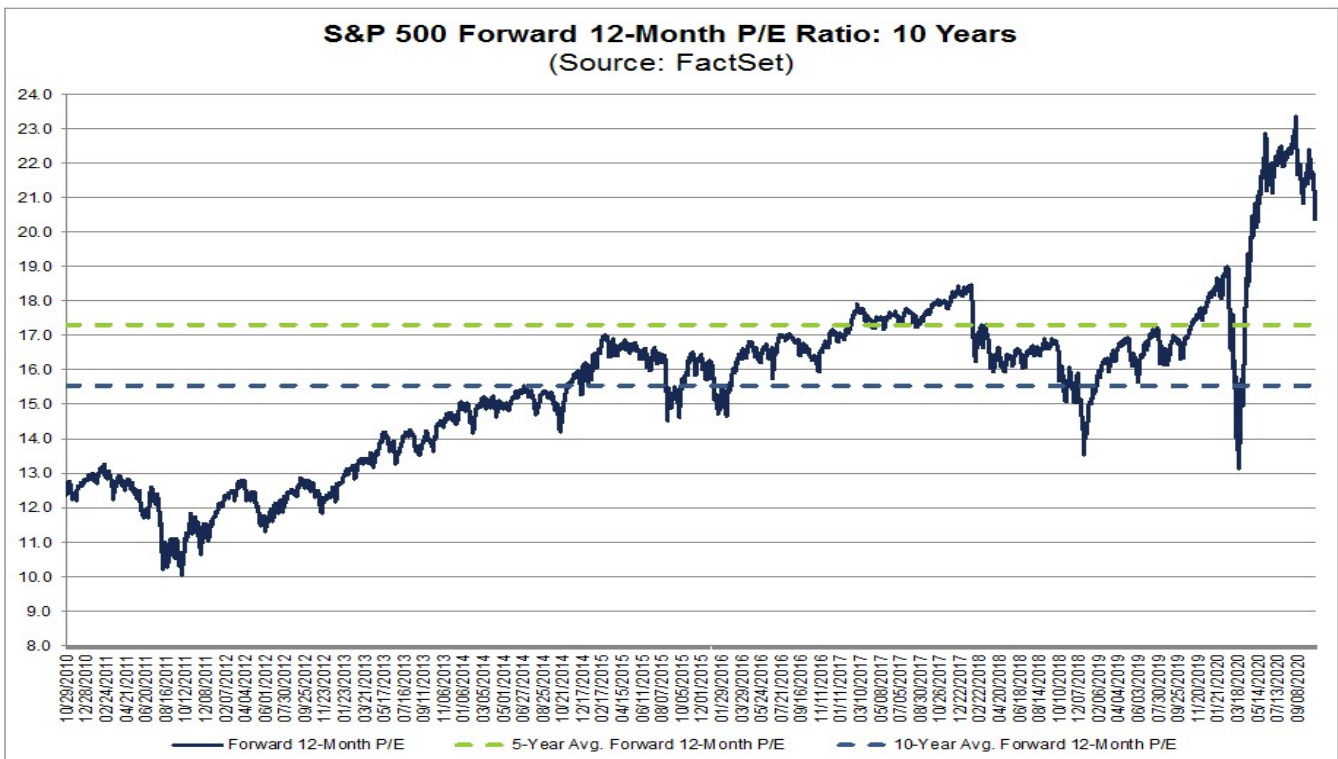
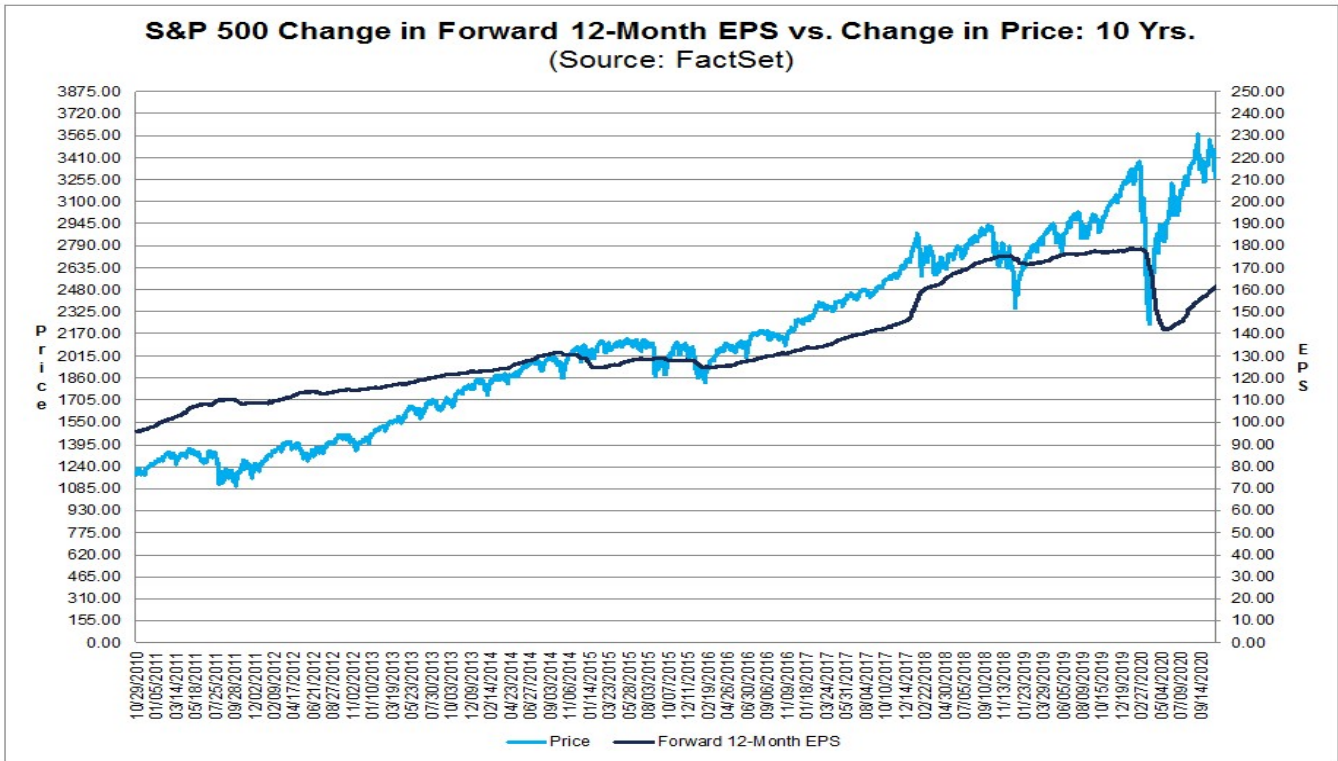
Forward 12M P/E Ratio: Sector Level



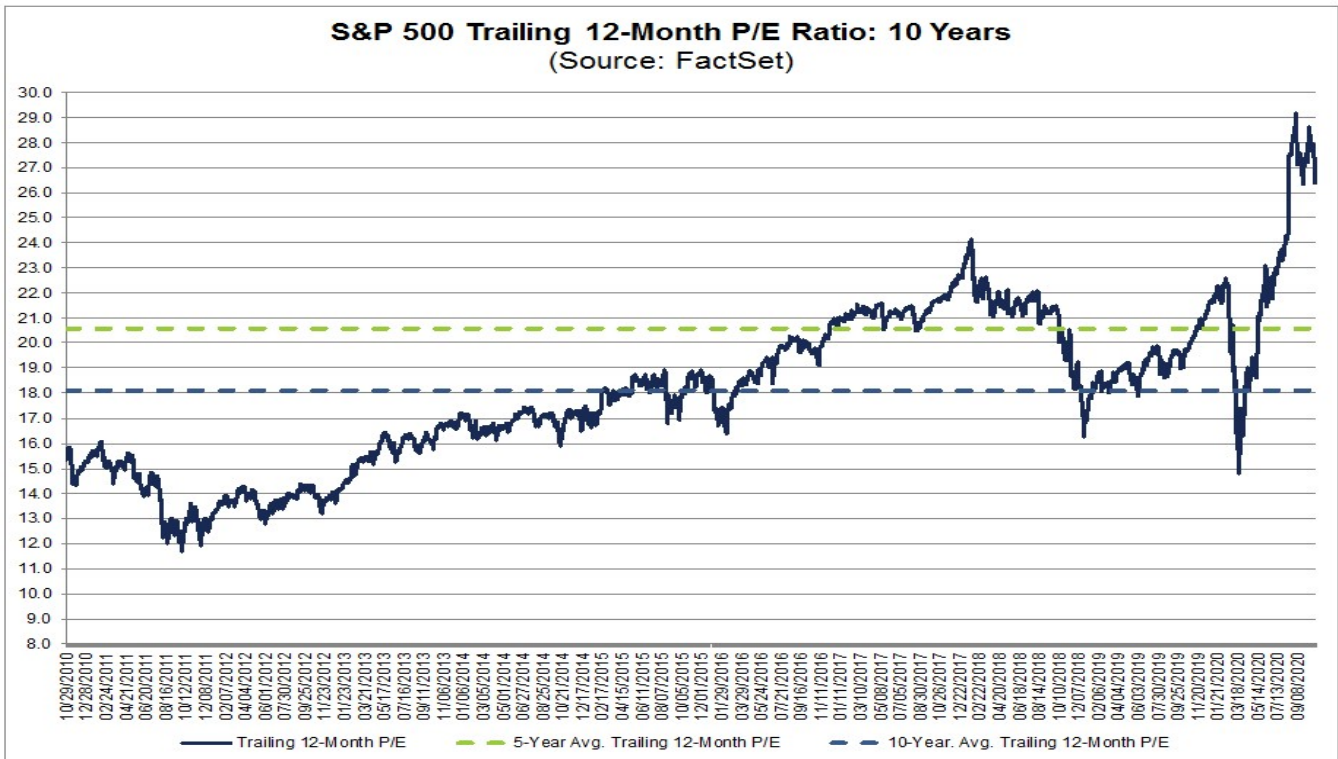
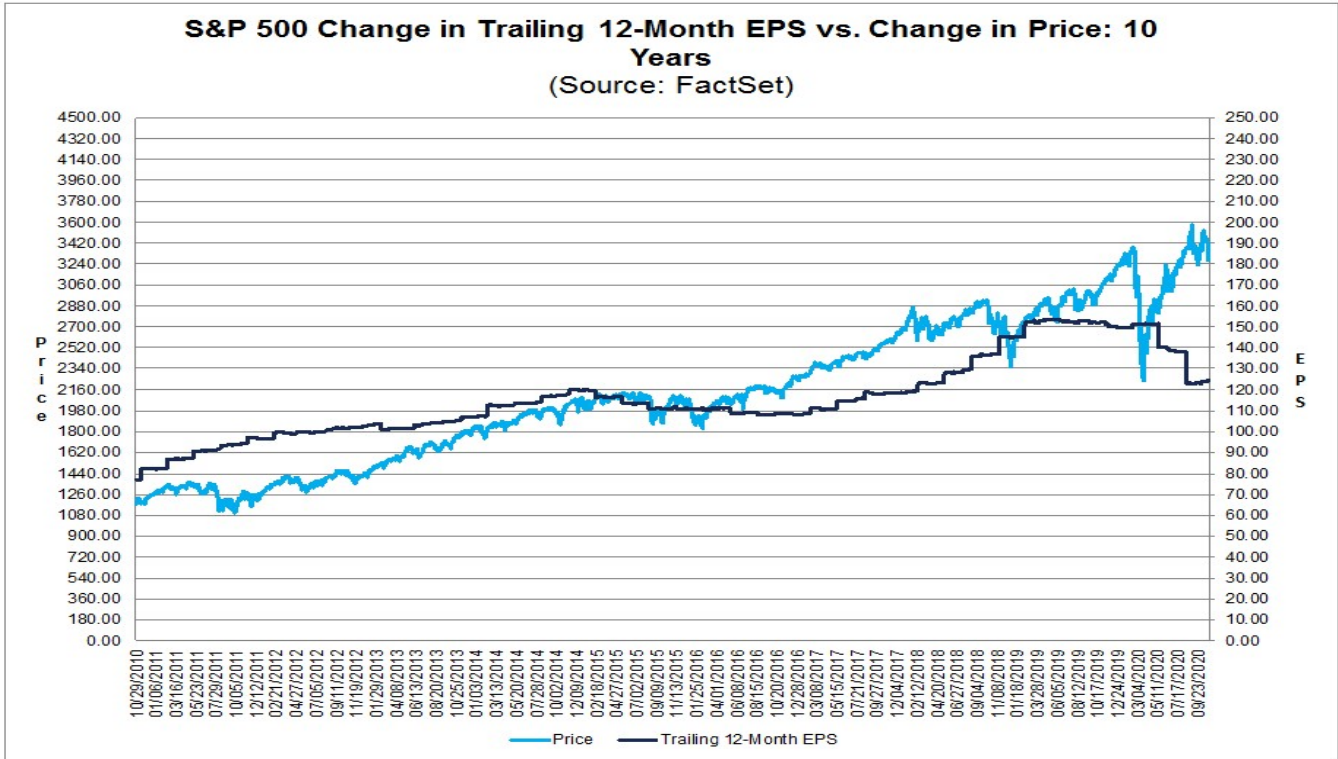
Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Sep. 30

(Source: FactSet)


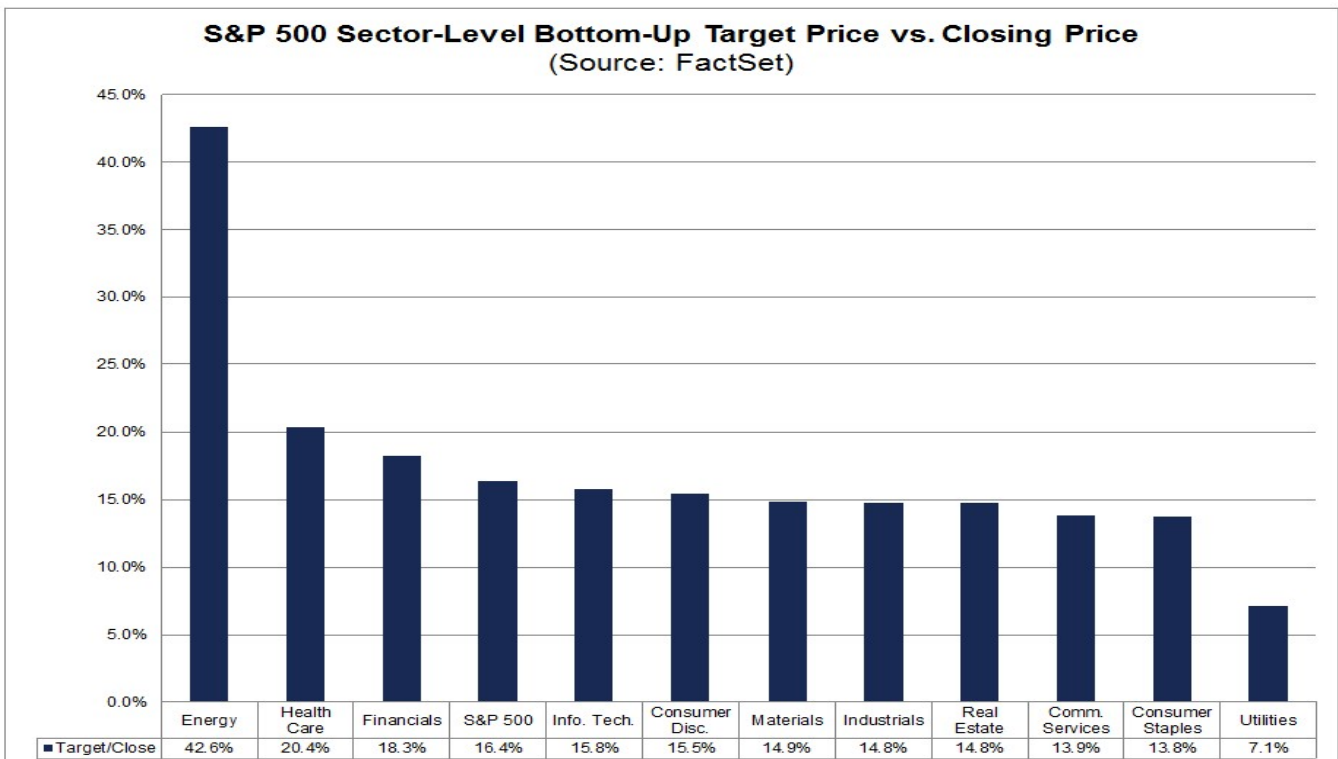
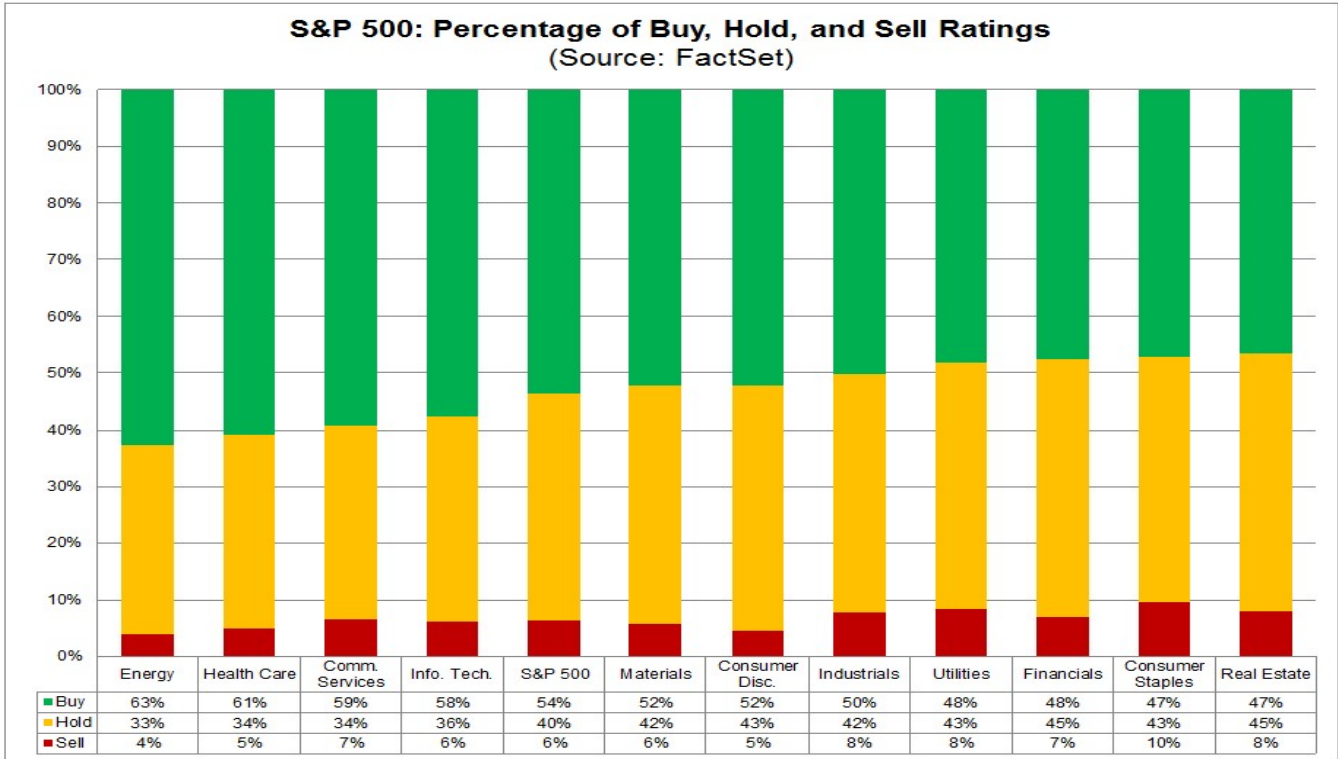
Forward 12M P/E Ratio: 10-Years



Trailing 12M P/E Ratio: 10-Years



Targets & Ratings



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