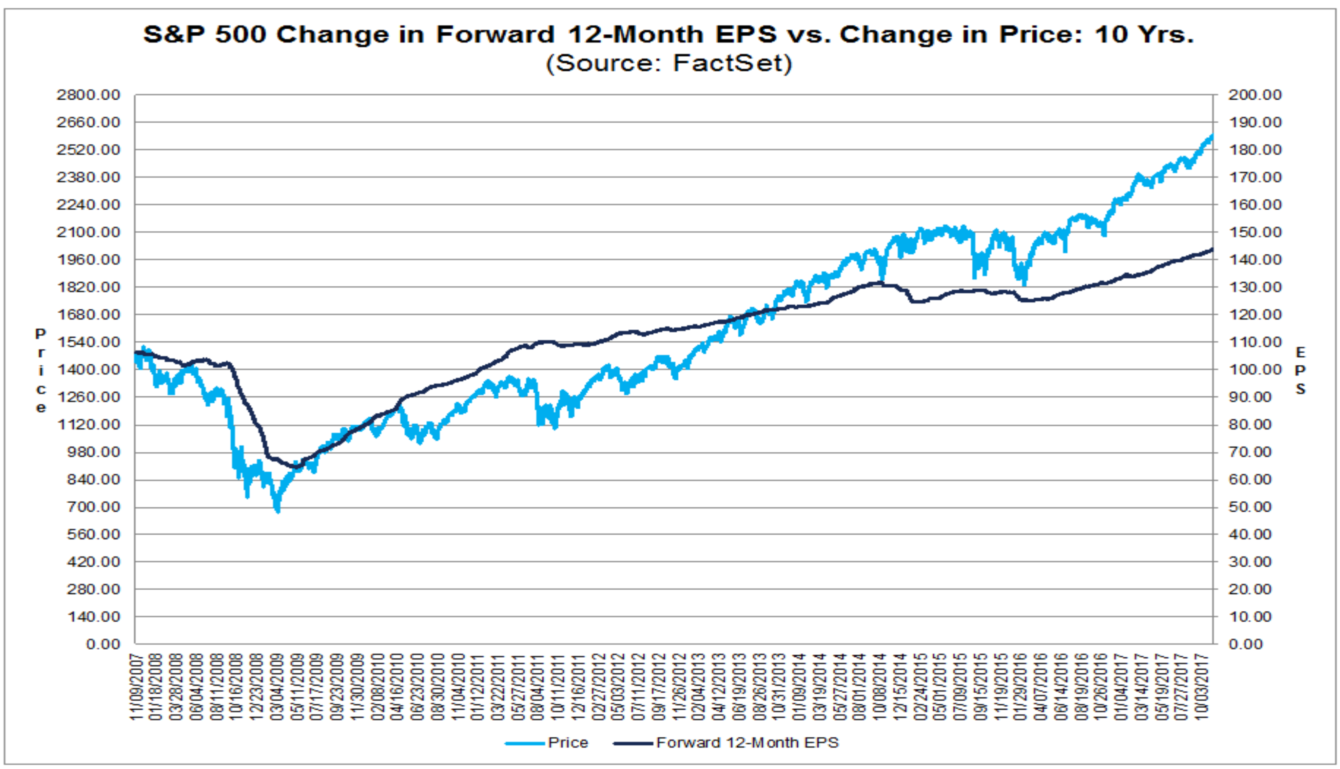
John Butters, Senior Earnings Analyst
jbutters@factset.com

Media Questions/Requests
media_request@factset.com

November 10, 2017

Key Metrics

- **Earnings Scorecard:** For Q3 2017 (with 91% of the companies in the S&P 500 reporting actual results for the quarter), 74% of S&P 500 companies have reported positive EPS surprises and 66% have reported positive sales surprises.
- **Earnings Growth:** For Q3 2017, the blended earnings growth rate for the S&P 500 is 6.1%. Seven sectors are reporting or have reported earnings growth for the quarter, led by the Energy sector.
- **Earnings Revisions:** On September 30, the estimated earnings growth rate for Q3 2017 was 3.1%. Eight 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, Information Technology, and Materials sectors.
- **Earnings Guidance:** For Q4 2017, 58 S&P 500 companies have issued negative EPS guidance and 28 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 18.0. This P/E ratio is above the 5-year average (15.7) and above the 10-year average (14.1).



To receive this report via e-mail, please go to www.factset.com/data/news_research/researchdesk

To view other market stories with FactSet content, please go to www.factset.com/insight

All data published in this report is available on FactSet. Please contact media_request@factset.com or 1-877-FACTSET for more information.

Topic of the Week: 1

What Are S&P 500 Companies Saying About Tax Reform?

Last Thursday (November 2), Republicans in the House of Representatives released their proposed legislation for tax reform. Yesterday, Republicans in the Senate released their proposed legislation for tax reform. Many of the changes to tax laws in these proposals could have a significant impact on future earnings for S&P 500 companies.

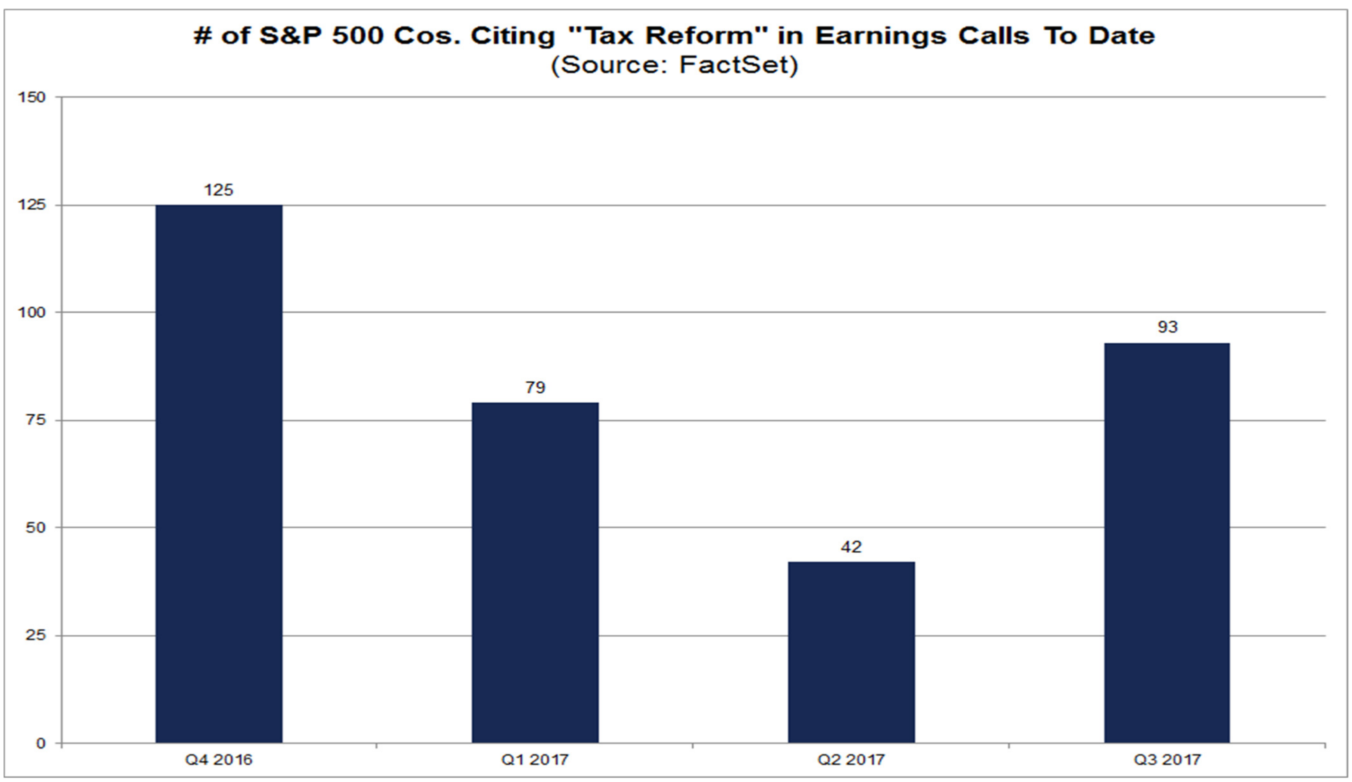
During each corporate earnings season, it is not unusual for companies to comment on subjects that had an impact on their earnings for a given quarter, or may have an impact on earnings for future quarters. Through yesterday, 457 S&P 500 companies (or 91% of the index) had reported earnings results for Q3 2017. Given the renewed focus on tax reform by President Trump and the release of the House and Senate proposals, have companies in the S&P 500 commented on “tax reform” during their earnings conference calls for the third quarter?

To answer this question, FactSet searched for the term “tax reform” in the conference call transcripts of the 445 S&P 500 companies that had conducted third quarter earnings conference calls through November 9.

Of these 445 companies, 93 cited the term “tax reform” during the call. This number is above the number for Q2 2017 (42) and the number for Q1 2017 (79) through the same point in time in the earnings season. However, it does trail the number for Q4 2016 (125).

Since the day the House tax reform proposal was released (November 2), 34 S&P 500 companies have discussed the term “tax reform” during their earnings calls for Q3. What have S&P 500 companies been saying about tax reform since the release of the House proposal?

Broadly speaking, 14 of these 34 S&P 500 companies have expressed positive sentiments about tax reform in general. However, 17 of these 34 S&P 500 companies have also expressed uncertainty about the final tax legislation or the need to study the tax proposals in more details during this period. Many of the same companies expressed both positive sentiments and uncertainty about the final legislation during their earnings calls. Five of these 34 S&P 500 companies stated they are not incorporating tax reform into their guidance or decision-making process for the upcoming year. Example of these various comments can be found on the next three pages.



Tax Reform Comments: Positive Sentiments (14)

"To start, Perrigo has always talked about we believe that tax reform is necessary. Modernizing what you could argue is an outdated United States tax code for competitiveness for the U.S. in jobs and investment is critical for the U.S. economy over the longer term… So again, we applaud the U.S. government for being serious about tax reform." –Perrigo (Nov. 9)

"I have participated in a number of events with a whole bunch of our corporate customers recently, and I think generally the view from our corporate customers, not surprisingly, is if tax reform gets done, it will be a boost to the economy, a boost to their fortunes, and a boost to GDP generally. And in that sense I think they would be a bit more optimistic about growth." –Marriott International (Nov. 8)

"As far as what's been proposed, as far as kind of the federal changes, clearly, a big benefit to someone in Cboe's position where we pay at the top end of the bracket, it's primarily U.S. earnings. So we're paying that full 35%. There's positives and negatives in there. But largely, it's going to be much more positive to us, both on an effective tax rate basis and a cash basis for what we ultimately pay in taxes." –Cboe Global Markets (Nov. 7)

"But I think the – yeah, look, we're a company that obviously has a large percentage of our profits in the United States and so, certainly, just based on that fact it certainly seems like a positive opportunity for us…But, certainly, again, overall, from our company's perspective, again, were that to happen, I think there's certainly some positive opportunities for us." –Sysco (Nov. 6)

"Ameren supports thoughtful comprehensive tax reform, because we believe that lower corporate tax rates would drive economic growth and job creation, benefiting our customers, the communities we serve, and other key stakeholders. We will continue to advocate for tax reform that would benefit stakeholders and that appropriately supports our industry's efforts to invest in our nation's critical energy infrastructure in an affordable manner." –Ameren (Nov. 3)

"We have taken a look at the bill that came out yesterday. Our initial take is positive. Obviously, we're going to be cautious and waiting. There could be a lot of twist and turns between now when legislation is finalized, but net-net, we see this positive for the industry." –CBRE Group (Nov. 3)

"Before I close, let me say a few words about tax reform. Duke supports comprehensive tax reform. Like everyone, we are reviewing the legislation that came out yesterday. We were encouraged to see that the bill includes provisions to retain interest deductibility in lieu of the immediate expensing of capital. We're taking a close look at these provisions and the bill as a whole, but let me say this is a positive first step, and recognizes our industry and the importance of the impact to our customers, and we will remain engaged as the process continues to unfold." –Duke Energy (Nov. 3)

"I would also point out that the benefit we would get from moving to a 20% tax rate would be much more substantial than what I would anticipate being any decrease in revenue from reduced debt issuance. So I think it's a positive, and we'll see whether the current form of this bill goes through and obviously pay close attention to any changes that happen along the way. I'd also note that I look favorably at the five-year carry-forward that's been proposed as part of this in terms of mitigating any changes in the attractiveness of debt issuance." –Moody's (Nov. 3)

"So I think it's going to have a positive impact once it becomes law. And the simplicity of what they've put forth, I think, is really good for everybody. So I think there will be a good uptick in terms of investment and kind of regenerating that manufacturing, Mike, of the U.S. I'm pretty excited about that and for a lot of the reasons, not withstanding that we'll hopefully build our fair share of that. So I'm pretty optimistic that the new tax law will be a good catalyst for growth." –Fluor Corporation (Nov. 2)

"To be clear, we have not underwritten the benefit of a tax reform policy passing this year or next, but recognize that could be very positive for the U.S. economy and our business." –Host Hotels & Resorts (Nov. 2)

"What we've said for some time now is that we support a pro-growth tax reform package, a significantly lower marginal rate, and we're prepared to see certain preferences changed or eliminated. And we think that will be acceptable to us as a company overall. We think that will drive economic growth, which is a key factor in terms of our growth as a company, especially in the U.S. group insurance market. So that's what we're supportive of." –Metlife (Nov. 2)

"But as we disclosed sort of on the fourth quarter earnings call earlier this year, we think we're, as Geisha mentioned, very well-positioned in that the recent discussions have included sort of a phase down of the corporate tax rate. We see that as beneficial to our customers in terms of refunding sort of the excess amount of taxes that we've collected in the past. And so for us, that would allow us to create sort of build capacity for incremental capital expenditures in our system which we think would continue to improve the safety and reliability of our gas and electric systems." –PG&E Corporation (Nov. 2)

"Let me reiterate what John said up front, which is longer term lower corporate tax rates all things being equal are a positive for us and for businesses. And so we look at the opportunity for tax reduction as being something that's going to be beneficial." –Prudential Financial (Nov. 2)

"Since we received a number of questions regarding the potential impact of tax reform, I'd like to make a few comments. As a statutory tax rate payer, we would be a direct beneficiary of tax reform. For example, if the federal tax rate has decreased from 35% to 20%, free cash flow would increase by approximately $180 million, or said differently for every 500 basis point reduction in the tax rate, free cash flow would increase by $60 million." –Republic Services (Nov. 2)

Tax Reform Comments: Uncertainty or Need to Analyze In-Depth (17)

"But I would also say that until we really sit back and study all the provisions of it, we really aren't in a position today to comment on what the ultimate effect will be, because I'm sure there will be tax planning opportunities that we'll have in front of us as well." –Johnson Controls (Nov. 9)

"I think, David, we can agree to kind of three things to start with. Number one, we're very early in the process. The first H-1 bill was issued just a week ago. It still remains very dynamic. And I think we probably can agree the final reform to the extent it's achieved will not be like the first bill that was provided. So that's probably the first thing… But for us to provide a good/bad systemic indication at this point would not provide a very steady hand, thoughtful process. So we're looking for what final reform is. Where does the final delivery of the legislative process come forth to?" –Perrigo (Nov. 9)

"There's obviously plenty of uncertainty about tax reform, both the timing and the details of what might get passed." – Marriott International (Nov. 8)

"I think it's probably silly to kind of speculate right now because of the ebbs and flows and what's likely to change from what's been proposed to what may or may not end up happening." -Cboe Global Markets (Nov. 7)

"I think our – a general answer on that is that we haven't fully evaluated it, and the proposal is just a proposal. A lot of other proposals that have come out on tax rates, healthcare and other, not much has happened in Washington and there's really not much reason to burn calories on it. I don't really know if there is support in Senate where a number of Senators against anything that they want to do. So I think it's kind of too early." –Microchip Technology (Nov. 6)

"We also continue to carefully assess the potential impacts from U.S. corporate tax reform and are in the process of studying yesterday's bill." –AIG (Nov. 3)

"Before I wrap up, I would like to briefly address the tax reform bill released in Congress yesterday. It's too early for us to know the potential impacts of tax reform on our company and customers, especially given that changes are expected in the coming weeks." –Alliant Energy (Nov. 3)

"As you know, yesterday, Republican leaders in the U.S. House of Representatives, released a new comprehensive income tax reform proposal. Ameren, along with our industry colleagues, is still in the process of reviewing this proposal. While the debate on tax reform took another step forward yesterday, the timing and elements of tax reform, if ultimately successful, remain uncertain." –Ameren (Nov. 3)

"Finally, we recognize that our federal legislators are hard at work at tax reform and yesterday provided their reconciliation bill under the Tax Cuts and Jobs Act. Although it's premature to take a view on eventual tax reform, if at all, we have provided a review of CenterPoint's tax position in the appendix material…" –CenterPoint Energy (Nov. 3)

"We have taken a look at the bill that came out yesterday. Our initial take is positive. Obviously, we're going to be cautious and waiting. There could be a lot of twist and turns between now when legislation is finalized, but net-net, we see this positive for the industry." –CBRE Group (Nov. 3)

"Before I close, let me say a few words about tax reform. Duke supports comprehensive tax reform. Like everyone, we are reviewing the legislation that came out yesterday. We were encouraged to see that the bill includes provisions to retain interest deductibility in lieu of the immediate expensing of capital. We're taking a close look at these provisions and the bill as a whole, but let me say this is a positive first step, and recognizes our industry and the importance of the impact to our customers, and we will remain engaged as the process continues to unfold." –Duke Energy (Nov. 3)

"So I think it's a positive, and we'll see whether the current form of this bill goes through and obviously pay close attention to any changes that happen along the way." –Moody's (Nov. 3)

"With respect to tax reform, we just – we don't know yet. It just came out, we've got to evaluate this. There are going to be proposals in there that are going to change over time as well. So whatever's in the initial draft is going to change. So it's – it would be very difficult to speculate where this is all going to end up." –Brighthouse Financial (Nov. 2)

"Well, it's 11:15, I think, or 11:30 Eastern when we see the draft, and we'll have to rally together with EEI and take a look at how we, as a sector, have been positioned. Kind of early to say now. If you've gone over the last 24 hours, things have been all over the board.…You don't know what's going to happen in D.C." –Exelon (Nov. 2)

"Well, if we can get everybody to make it law, that'd be great. We still got that process to go through and I'm sure there'll be some reconciliations that takes place." –Fluor Corporation (Nov. 2)

"Tom, let me talk about tax reform in general for the moment and remind all of us, I guess, the blindly obvious which is that we're in the early stages of tax reform. And it is going to change as it moves forward through the legislative process.…And so there's so much change that's going on or, excuse me, so much potential for different outcomes that I think we should just wait until we have a little more confidence before commenting on any specific issue related to tax." –Lincoln National Corporation (Nov. 2)

"We are not planning share repurchases for fiscal 2018. We make this determination based on the cash needs of our business, sector dynamics and with consideration for the uncertain environment around U.S. tax reform." –Ralph Lauren (Nov. 2)

Tax Reform Comments: Not Incorporating Into 2018 Guidance or Corporate Decisions (5)

"We believe the full-year adjusted effective tax rate will be about 24.5%, a 3-point increase, mainly resulting from the discrete tax items we benefited from in fiscal 2017. Included in our 24.5% tax rate is an estimated impact of excess income tax benefits from equity-based compensation. Note that the 24.5% tax rate does not include any potential impact from potential U.S. corporate tax reform." –Rockwell Automation (Nov. 8)

"For fiscal 2018, we provided guidance for Q1, 14.5%, and we also do expect on a full-year basis the tax rate to be on or about 14.5%. That obviously does not take into account any potential benefits from tax reform. It's too early to call that." –Skyworks Solutions (Nov. 6)

"And we're not making any investment or operational decisions based on improvements that might result from current tax reform efforts." –Boston Properties (Nov. 2)

"To be clear, we have not underwritten the benefit of a tax reform policy passing this year or next, but recognize that could be very positive for the U.S. economy and our business." –Host Hotels & Resorts (Nov. 2)

"So first I'd like to say that the $2 billion repurchase authorization that the board approved doesn't estimate that there'd be any tax reform, right. So, the $2 billion is based on our current performance, the current tax policy, et cetera." – Republic Services (Nov. 2)

Topic of the Week: 2

S&P 500 Companies Not Rewarded for EPS Beats and Punished for EPS Misses Again in Q3

To date, more than 90% of the companies in the S&P 500 have reported earnings for the third quarter. Of these companies, 74% have reported actual EPS above the mean EPS estimate, which is above the 5-year average of 69%. In aggregate, earnings have exceeded expectations by 4.6%, which is also above the 5-year average of 4.2%. Due to these upside surprises, the earnings growth rate for the S&P 500 has nearly doubled to 6.1% today from 3.1% on September 30.

Given the stronger performance of companies relative to analyst EPS estimates and the improvement in the growth rate over the past few weeks, how has the market responded to upside EPS and downside EPS surprises during the Q3 earnings season?

Similar to last quarter, the market has rewarded positive earnings surprises less than average and punished negative earnings surprises more than average during this earnings season.

Companies in the S&P 500 that have reported positive earnings surprises for Q3 have seen an increase in price of 0.4% on average from two days before the company reported actual results through two days after the company reported actual results. Over the past five years, companies in the S&P 500 that have reported positive earnings surprises have witnessed a 1.2% increase in price on average during this 4-day window.

Overall, 47% of the S&P 500 companies that have reported positive earnings surprises have recorded a decline in price over this 4-day window. The average price decline for these companies over this period was -3.6%. Of these companies, Under Armour (UAA) has witnessed the largest price decline to date over this 4-day window after reporting a positive earnings surprise. Before the opening bell on October 31, the company reported actual (adjusted) EPS of $0.22, compared to the mean EPS estimate of $0.19. From October 27 through November 2, the price of the stock fell by 27% (to $11.78 from $16.04).

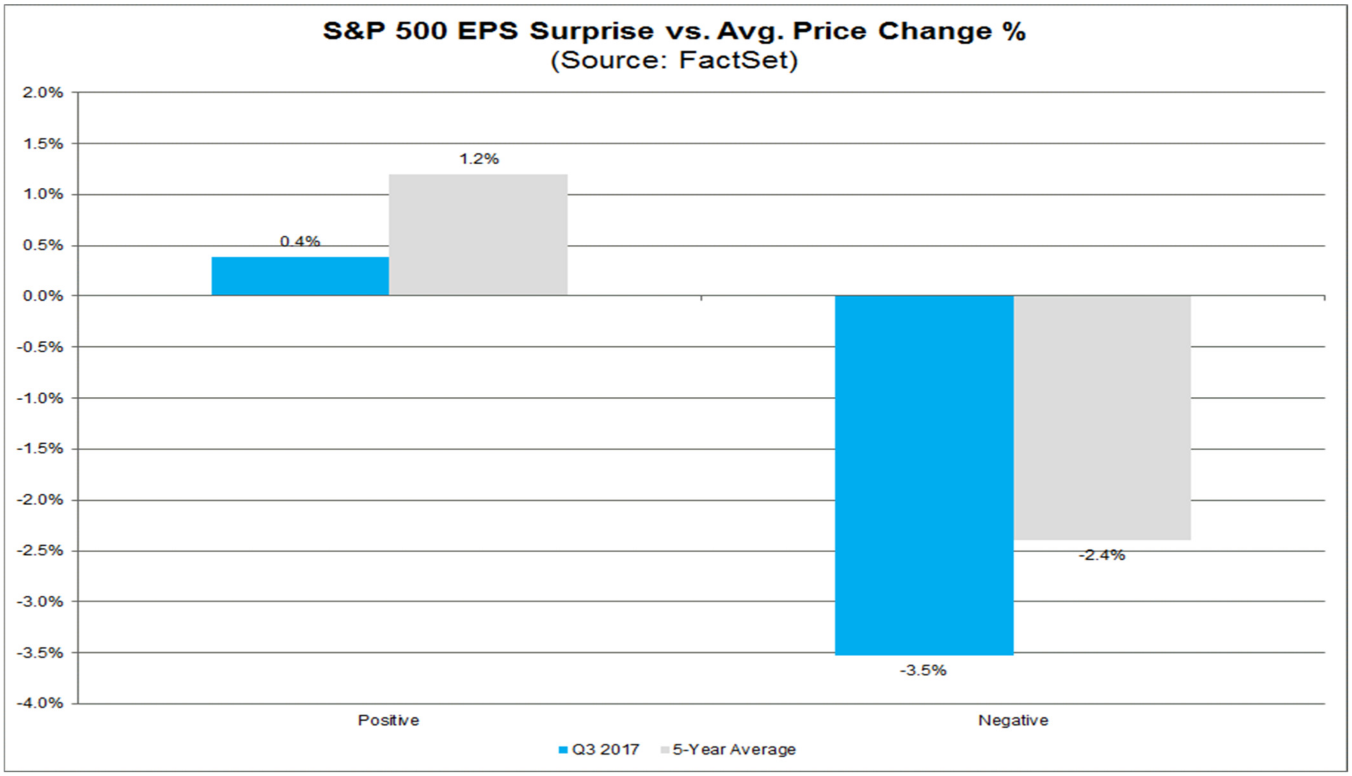
Companies in the S&P 500 that have reported negative earnings surprises for Q3 have seen a decrease in price of -3.5% on average from two days before the company reported actual results through two days after the company reported actual results. Over the past five years, companies in the S&P 500 that have reported negative earnings surprises have witnessed a decrease in price of -2.4% on average during this 4-day window.

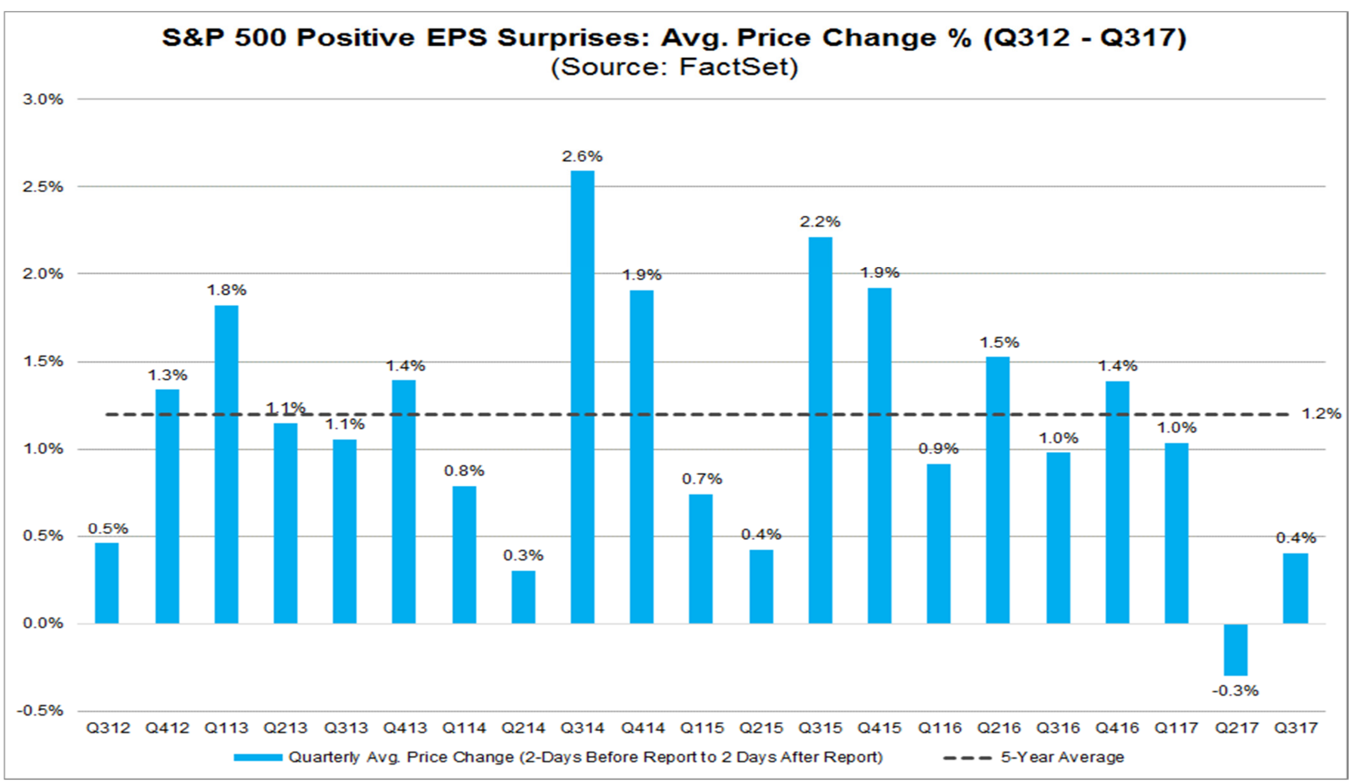
Overall, 67% of the S&P 500 companies that have reported negative earnings surprises for Q3 have recorded a decline in price over this 4-day window. The average price decline for these companies over this period was -6.4%. Of these companies, Envision Healthcare (EVHC) has witnessed the largest price decline to date over this 4-day window after reporting a negative earnings surprise. After the closing bell on October 31, Envision Healthcare reported actual (adjusted) EPS of $0.73, compared to the mean EPS estimate of $0.88. From October 27 through November 2, the price of the stock fell by 37% (to $27.25 from $43.40).

Why is the market rewarding positive EPS surprises less than average and punishing negative EPS surprises more than average?

In aggregate, it is not likely due to forward EPS guidance or analyst revisions to EPS estimates for the fourth quarter. To date, fewer S&P 500 companies have issued negative EPS guidance for Q4 2017 (58) compared to the 5-year average (80). In aggregate, analysts made smaller cuts to fourth quarter EPS estimates during the month of October compared to recent averages.

However, it may be due to the high valuation of the index relative to recent averages. As of today, the forward 12-month P/E ratio for the S&P 500 is 18.0. This forward 12-month P/E ratio is above the four most recent historical averages for the S&P 500: 5-year (15.7), 10-year (14.1), 15-year (14.5), and 20-year (16.0). Prior to the month of October, the forward 12-month P/E had not been equal to (or above) 18.0 since 2002. Thus, despite the number and magnitude of positive earnings surprises in recent quarters, the market may be reluctant to push valuations even higher in aggregate.


S&P 500 EPS Surprise vs. Avg. Price Change %
(Source: FactSet)
2.0%
1.5%
1.0%
0.5%
0.0%
-0.5%
-1.0%
-1.5%
-2.0%
-2.5%
-3.0%
-3.5%
-4.0%
0.4%
1.2%
-3.5%
-2.4%
Positive
Negative
Q3 2017
5-Year Average


S&P 500 Positive EPS Surprises: Avg. Price Change % (Q312 - Q317)
(Source: FactSet)
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
-0.5%
0.5%
1.3%
1.8%
1.1%
1.1%
1.4%
0.8%
0.3%
2.6%
1.9%
0.7%
0.4%
2.2%
1.9%
0.9%
1.5%
1.0%
1.4%
1.0%
-0.3%
0.4%
1.2%
Q312 Q412 Q113 Q213 Q313 Q413 Q114 Q214 Q314 Q414 Q115 Q215 Q315 Q415 Q116 Q216 Q316 Q416 Q117 Q217 Q317
Quarterly Avg. Price Change (2-Days Before Report to 2 Days After Report)
5-Year Average

Topic of the Week: 3

S&P 500 Companies with More Global Exposure Reported Higher Earnings Growth in Q3

"Global GDP growth is projected to increase to around 3.5% in 2017 and 3.7% in 2018 from 3% in 2016, slightly improved since the OECD's June Economic Outlook. The upturn has become more synchronised across countries. Investment, employment and trade are expanding." –OECD Interim Economic Outlook (September 20)

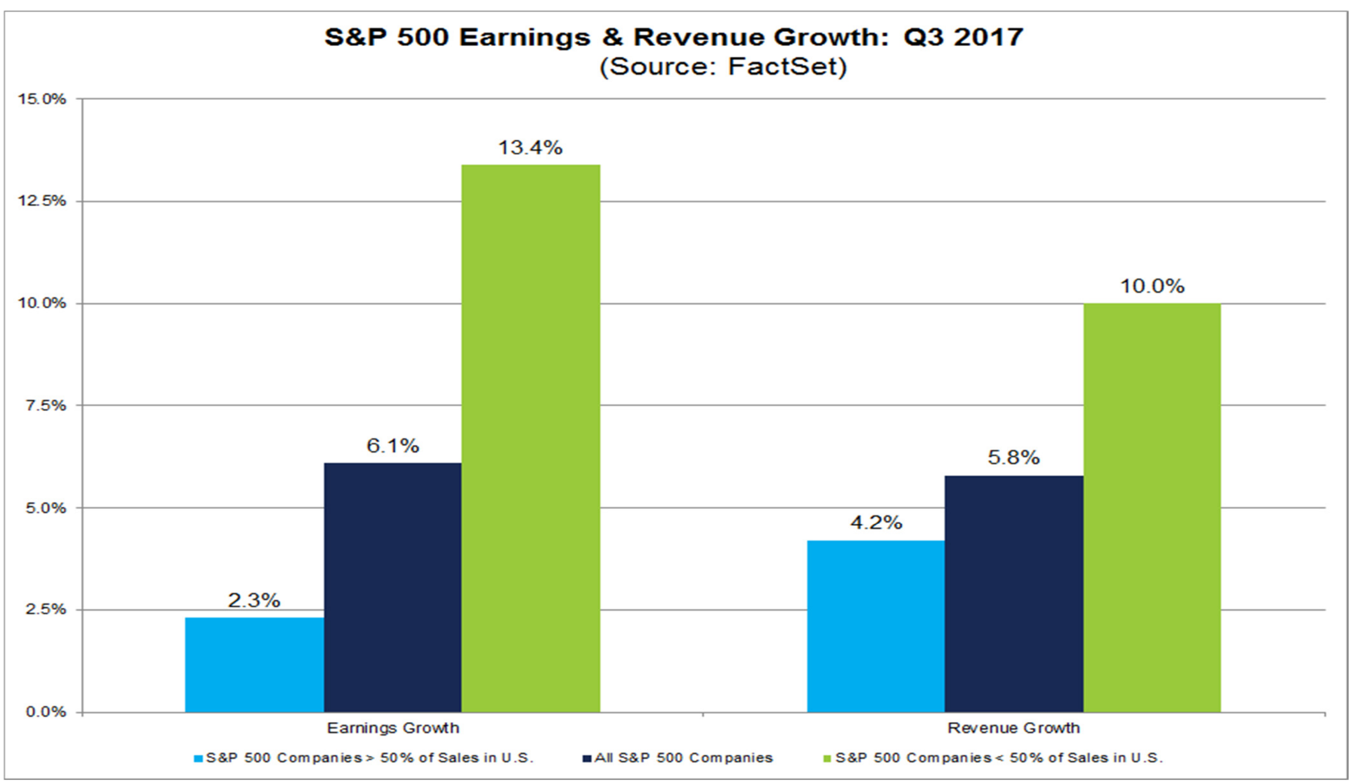
Coming into the Q3 earnings season, companies in the S&P 500 with higher global exposure were expected to benefit from the tailwinds of a weaker U.S. dollar and higher global GDP growth. Now that more than 90% of the companies in the index have reported results for Q3, did S&P 500 companies with higher global revenue exposure outperform S&P 500 companies with lower global revenue exposure in terms of earnings growth and sales growth for Q3 2017?

The answer is yes. FactSet Geographic Revenue Exposure data (based on the most recently reported fiscal year data for each company in the index) can be used to answer this question. For this particular analysis, the index was divided into two groups: companies that generate more than 50% of sales inside the U.S. (less global exposure) and companies that generate less than 50% of sales inside the U.S. (more global exposure). Aggregate earnings and revenue growth rates were then calculated based on these two groups. The results are listed below.

The earnings growth rate for the S&P 500 for Q3 2017 is 6.1%. For companies that generate more than 50% of sales inside the U.S., the earnings growth rate is 2.3%. For companies that generate less than 50% of sales inside the U.S., the earnings growth rate is 13.4%.

The sales growth rate for the S&P 500 for Q3 2017 is 5.8%. For companies that generate more than 50% of sales inside the U.S., the sales growth rate is 4.2%. For companies that generate less than 50% of sales inside the U.S., the sales growth rate is 10.0%.

What drove the outperformance of S&P 500 companies with higher global revenue exposure? At the sector level, the Information Technology and Energy sectors were by far the largest contributors to earnings and revenue growth in Q3 for S&P 500 companies with more global exposure. If these two sectors were excluded, the earnings and revenue growth rates for S&P 500 companies that generate less than 50% of sales inside the U.S. would fall to 0.7% and 5.7%, respectively.



Q3 2017 Earnings Season: By the Numbers

Overview

To date, 91% of the companies in the S&P 500 have reported actual results for Q3 2017. In terms of earnings, more companies (74%) are reporting actual EPS above estimates compared to the 5-year average. In aggregate, companies are reporting earnings that are 4.6% above the estimates, which is also above the 5-year average. In terms of sales, more companies (66%) are reporting actual sales above estimates compared to the 5-year average. In aggregate, companies are reporting sales that are 1.1% 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 6.1% today, which is higher than the earnings growth rate of 5.8% last week. Upside earnings surprises reported by companies in the Information Technology sector were mainly responsible for the increase in the earnings growth rate for the index during the past week. Overall, seven sectors are reporting or have reported earnings growth, led by the Energy, Information Technology, and Materials sectors. Four sectors are reporting or have reported a year-over-year decline in earnings, led by the Financials sector.

The blended sales growth rate for the third quarter is 5.8% today, which is slightly higher than the sales growth rate of 5.7% last week. Upside sales surprises reported by companies in in multiple sectors were responsible for the small increase in the sales growth rate for the index during the past week. Overall, nine sectors are reporting or have reported year-over-year growth in revenues, led by the Energy, Materials, and Information Technology sectors. The Utilities and Telecom Services sectors are the only two sectors that reported a year-over-year decline in revenues.

During the upcoming week, 17 S&P 500 companies (including three Dow 30 components) are scheduled to report results for the third quarter.

For Q4 2017, 58 S&P 500 companies have issued negative EPS guidance and 28 S&P 500 companies have issued positive EPS guidance.

The forward 12-month P/E ratio is 18.0, 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 (74%) is Above 5-Year Average

Overall, 91% of the companies in the S&P 500 have reported earnings to date for the third quarter. Of these companies, 74% have reported actual EPS above the mean EPS estimate, 8% have reported actual EPS equal to the mean EPS estimate, and 18% 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 (90%) has the highest percentage of companies reporting earnings above estimates, while the Telecom Services (33%) and Utilities (50%) sectors had the lowest percentages of companies reporting earnings above estimates.

Earnings Surprise Percentage (+4.6%) is Above 5-Year Average

In aggregate, companies are reporting earnings that are 4.6% above expectations. This surprise percentage is below the 1-year average (+5.1%) but above the 5-year average (+4.2%).

The Materials (+12.6%) and Information Technology (+12.0%) sectors are reporting the largest upside aggregate differences between actual earnings and estimated earnings. On the other hand, the Industrials sector (-2.7%) 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 +0.4% 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 -3.5% 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. Please see pages 6 and 7 for more details on this topic.

Percentage of Companies Beating Revenue Estimates (66%) is Above 5-Year Average

In terms of revenues, 66% of companies have reported actual sales above estimated sales and 34% 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 (83%) sector has the highest percentage of companies reporting revenues above estimates, while the Utilities (21%) and Telecom Service (25%) sectors had the lowest percentages of companies reporting revenues above estimates.

Revenue Surprise Percentage (+1.1%) is Above 5-Year Average

In aggregate, companies are reporting sales that are 1.1% above expectations. This surprise percentage is above the 1-year average (+0.6%) and above the 5-year average (+0.5%).

The Information Technology (+2.7%) sector is reporting the largest upside aggregate difference between actual sales and estimated sales, while the Utilities (-3.5%) sector reported the largest downside aggregate difference between actual sales and estimated sales.

Increase in Blended Earnings Growth This Week Due To Upside EPS Surprises in Tech Sector

Increase in Blended Earnings Growth This Week Due to Upside EPS Surprises in Tech Sector

The blended earnings growth rate for the S&P 500 for the third quarter is 6.1% today, which is higher than the earnings growth rate of 5.8% last week. Upside earnings surprises reported by companies in the Information Technology sector were mainly responsible for the increase in the earnings growth rate for the index during the past week.

Increase in Blended Revenue Growth This Week Due to Upside Sales Surprises in Multiple Sectors

The blended sales growth rate for the third quarter is 5.8% today, which is slightly higher than the sales growth rate of 5.7% last week. Upside sales surprises reported by companies in in multiple sectors were responsible for the small increase in the sales growth rate for the index during the past week.

Energy, Tech, and Materials Sectors Have Seen Largest Increases in Earnings Growth since September 30

The blended earnings growth rate for Q3 2017 of 6.1% is larger than the estimate of 3.1% at the end of the third quarter (September 30). Eight 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 135.0% from 109.6%), Information Technology (to 19.5% from 8.8%) and Materials (to 10.7% from 0.5%) sectors. Three sectors have recorded a decrease in earnings growth during this time due to downward revisions to earnings estimates and downside earnings surprises: Financials (to -8.3% from -5.3%), Industrials (to -0.2% from 2.5%) and Utilities (to -5.1% from -2.4%) sectors.

Materials and Energy Sectors Have Seen Largest Increases in Revenue Growth since September 30

The blended sales growth rate for Q3 2017 of 5.8% is larger than the estimate of 4.9% at the end of the third quarter (September 30). Seven 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 Materials (to 15.3% from 12.5%) and Energy (to 19.8% from 17.1%) sectors. One sector (Consumer Staples) has recorded no change in sales growth (3.8%) since September 30. Three 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 -2.8% from 3.9%) sector.

Earnings Growth: 6.1%

The blended (year-over-year) earnings growth rate for Q3 2017 is 6.1%. Seven sectors are reporting or have reported year-over-year growth in earnings, led by the Energy, Information Technology, and Materials sectors. On the other hand, four sectors are reporting or have reported 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 135.0%. At the sub-industry level, all six sub-industries in the sector are reporting or have reported earnings growth for the quarter: Oil & Gas Exploration & Production (N/A due to year-ago loss), Oil & Gas Drilling (N/A due to year-ago loss), Oil & Gas Equipment & Services (244%), Oil & Gas Refining & Marketing (90%), Integrated Oil & Gas (46%), and Oil & Gas Storage & Transportation (8%).

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 $10.7 billion in Q3 2017, compared to earnings of $4.6 billion in Q3 2016. This sector is also the second largest contributor to earnings growth for the S&P 500 for the quarter. If the Energy sector were excluded, the blended earnings growth rate for the remaining ten sectors would fall to 3.9% from 6.1%.

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 19.5%. At the industry level, six of the seven industries in this sector are reporting or have reported earnings growth. Five of these six industries are reporting or have reported double-digit earnings growth: Semiconductor & Semiconductor Equipment (46%), Internet Software & Services (18%), Technology Hardware, Storage & Peripherals (16%), IT Services (14%), and Software (13%). 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 13.3% from 19.5%.

This sector is also the largest contributor 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 2.7% from 6.1%.

Materials: Freeport-McMoRan Led Growth

The Materials sector reported the third highest (year-over-year) earnings growth of all eleven sectors at 10.7%. At the industry level, three of the four industries reported earnings growth, led by the Metals & Mining (42%) industry. At the company level, Freeport-McMoRan was the largest contributor to earnings growth for the sector. The company reported actual EPS of $0.34 for Q3 2017, compared to year-ago EPS of $0.13. If Freeport-McMoRan were excluded, the blended earnings growth rate for the Materials sector would fall to 6.1% from 10.7%.

Financials: Insurance Industry Led Decline

The Financials sector reported the highest (year-over-year) earnings decline of all eleven sectors at -8.3%. At the industry level, two of the five industries in this sector reported a decline in earnings, led by the Insurance industry (-63%). This industry was 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 6.0% from -8.3%.

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 9.2% from 6.1%.

Revenue Growth: 5.8%

The blended (year-over-year) revenue growth rate for Q3 2017 is 5.8%. Nine sectors are reporting or have reported year-over-year growth in revenues, led by the Energy, Materials, and Information Technology sectors. The Utilities and Telecom Services sectors are the only two sectors that reported a decline in revenues for the quarter.

Energy: Highest Revenue Growth

The Energy sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 19.8%. At the sub-industry level, all six sub-industries in the sector are reporting or have reported revenue growth: Oil & Gas Equipment & Services (55%), Oil & Gas Drilling (49%), Oil & Gas Refining & Marketing (23%), Integrated Oil & Gas (15%), Oil & Gas Exploration & Production (10%), and Oil & Gas Storage & Transportation (6%).

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 4.7% from 5.8%.

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

The Materials sector reported the second highest (year-over-year) revenue growth of all eleven sectors at 15.3%. At the industry level, all four industries in this sector are reported revenue growth, led by the Chemicals (20%) and Metals & Mining (14%) industries. At the company level, DowDuPont was the largest contributor to revenue growth for the sector. However, the actual revenues for Q3 2017 ($18.3 billion) reflect the combined DowDuPont company, while the actual revenues for Q3 2016 ($12.5 billion) reflect the standalone Dow Chemical company (DowDuPont did provide pro-forma year-ago revenue numbers in the company’s earnings release). This apples-to-oranges comparison is the main reason DowDuPont was the largest contributor to revenue growth for the sector. If this company were excluded, the blended revenue growth rate for the sector would fall to 8.9% from 15.3%.

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 10.4%. At the industry level, six of the seven industries in this sector are reporting or have reported revenue growth. Four of these six industries are reporting or have reported double-digit revenue growth: Internet Software & Services (25%), Semiconductor & Semiconductor Equipment (17%), IT Services (13%), and Software (10%).

Utilities: Highest Revenue Decline

The Utilities sector reported the highest (year-over-year) revenue decline of all eleven sectors at -2.8%. At the industry level, two of the four industries in this sector reported a revenue decline, led by the Independent Power & Renewable Electricity Producers (-12%) industry.

Telecom Services: CenturyLink and AT&T Led Decline

The Telecom Services sector reported the second highest (year-over-year) decline in revenues at -1.0%. CenturyLink (-8%) and AT&T (-3%) were the two companies in the sector that reported a decline in revenues for the quarter.

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, 86 companies in the index have issued EPS guidance for Q4 2017. Of these 86 companies, 58 have issued negative EPS guidance and 28 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 67% (58 out of 86), 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 6.1% and revenue growth of 5.8%. Analysts currently expect earnings to rebound to double-digit levels over the next few quarters.

For Q4 2017, analysts are projecting earnings growth of 10.0% and revenue growth of 6.4%.

For Q1 2018, analysts are projecting earnings growth of 10.5% and revenue growth of 6.5%.

For Q2 2018, analysts are projecting earnings growth of 10.1% and revenue growth of 6.3%.

For all of 2017, analysts are projecting earnings growth of 9.4% and revenue growth of 6.2%.

Valuation: Forward P/E Ratio is 18.0, above the 10-Year Average (14.1)

The forward 12-month P/E ratio is 18.0. This P/E ratio is above the 5-year average of 15.7 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 2.6%, while the forward 12-month EPS estimate has increased by 1.3%.

At the sector level, the Energy (28.0) sector has the highest forward 12-month P/E ratio, while the Telecom Services (11.5) 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 (28.0 vs. 19.0) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (11.5 vs. 14.2). Historical averages are not available for the Real Estate sector.

Targets & Ratings: Analysts Project 9% Increase in Price Over Next 12 Months

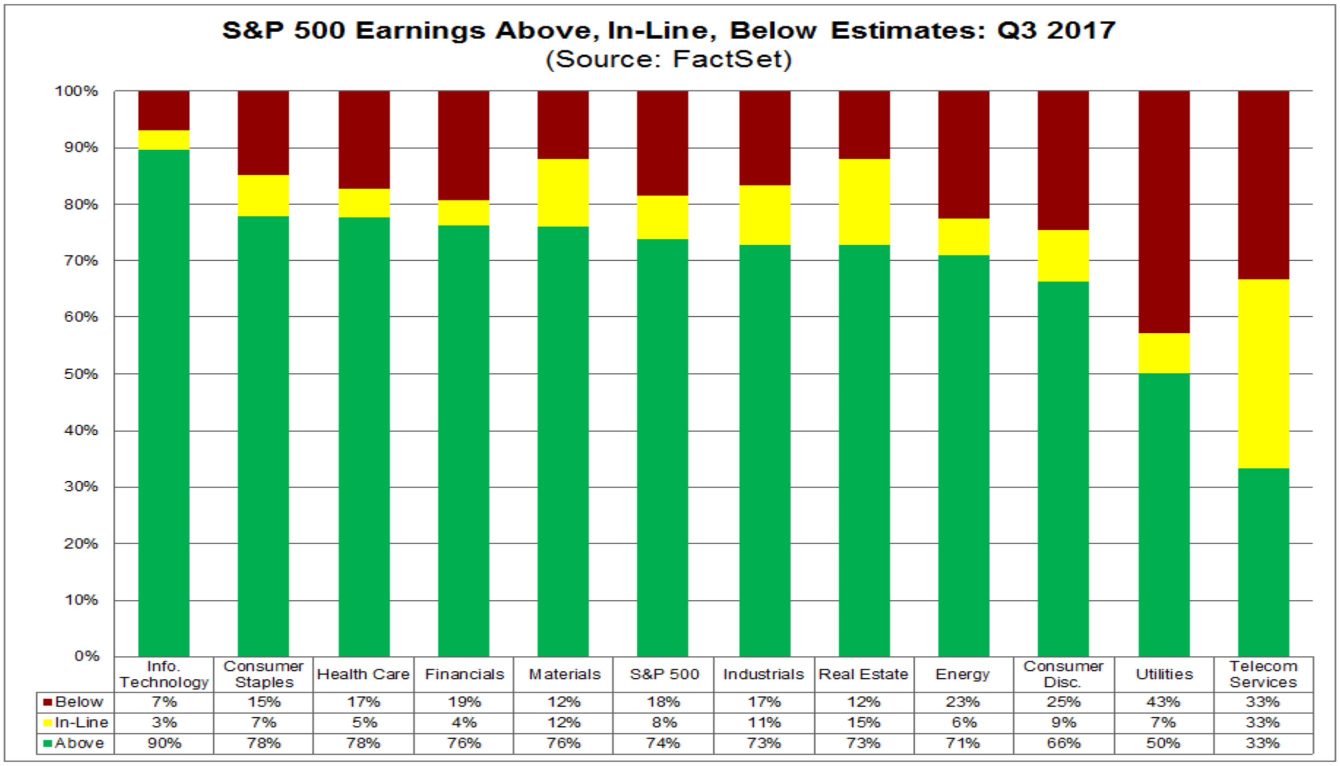
The bottom-up target price for the S&P 500 is 2813.44, which is 8.9% above the closing price of 2584.62. At the sector level, the Telecom Services (+14.0%) and Consumer Discretionary (+11.7%) sectors have the largest upside differences between the bottom-up target price and the closing price, while the Utilities (+0.4%) sector has the smallest upside difference between the bottom-up target price and the closing price.

Overall, there are 11,028 ratings on stocks in the S&P 500. Of these 11,028 ratings, 49.2% are Buy ratings, 45.5% are Hold ratings, and 5.3% are Sell ratings. At the sector level, the Information Technology (59%), Health Care (56%), and Energy (55%) sectors have the highest percentages of Buy ratings, while the Telecom Services (30%) and Utilities (35%) sectors have the lowest percentages of Buy ratings.

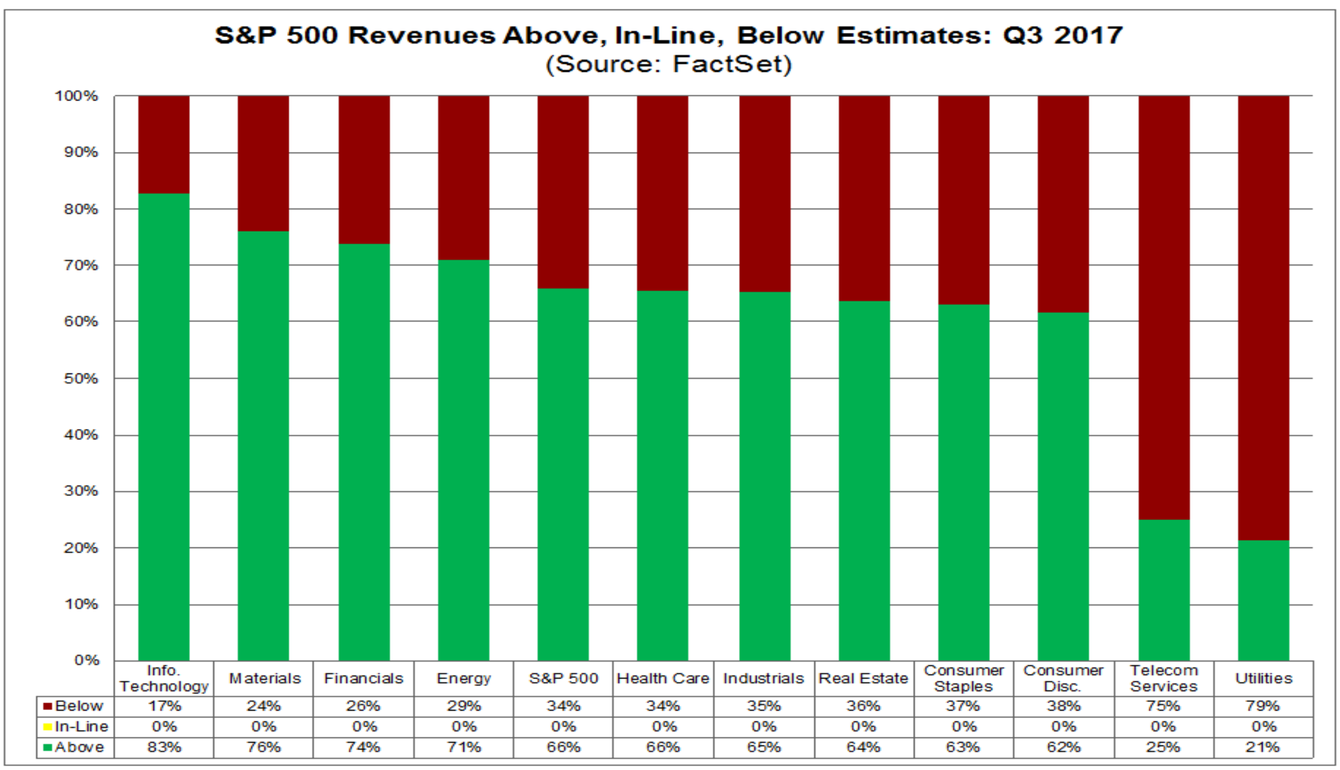
Companies Reporting Next Week: 17

During the upcoming week, 17 S&P 500 companies (including three Dow 30 component) are scheduled to report results for the third quarter.

Q3 2017: Scorecard

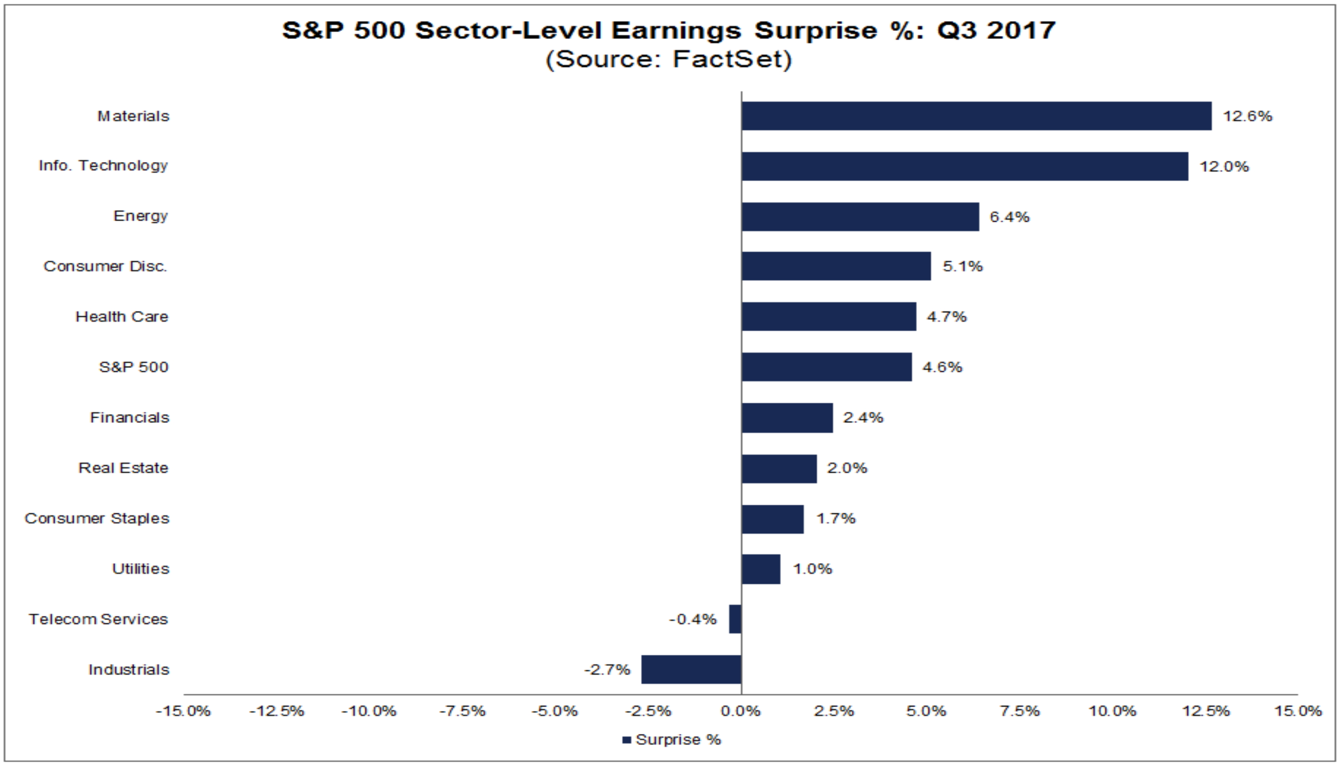


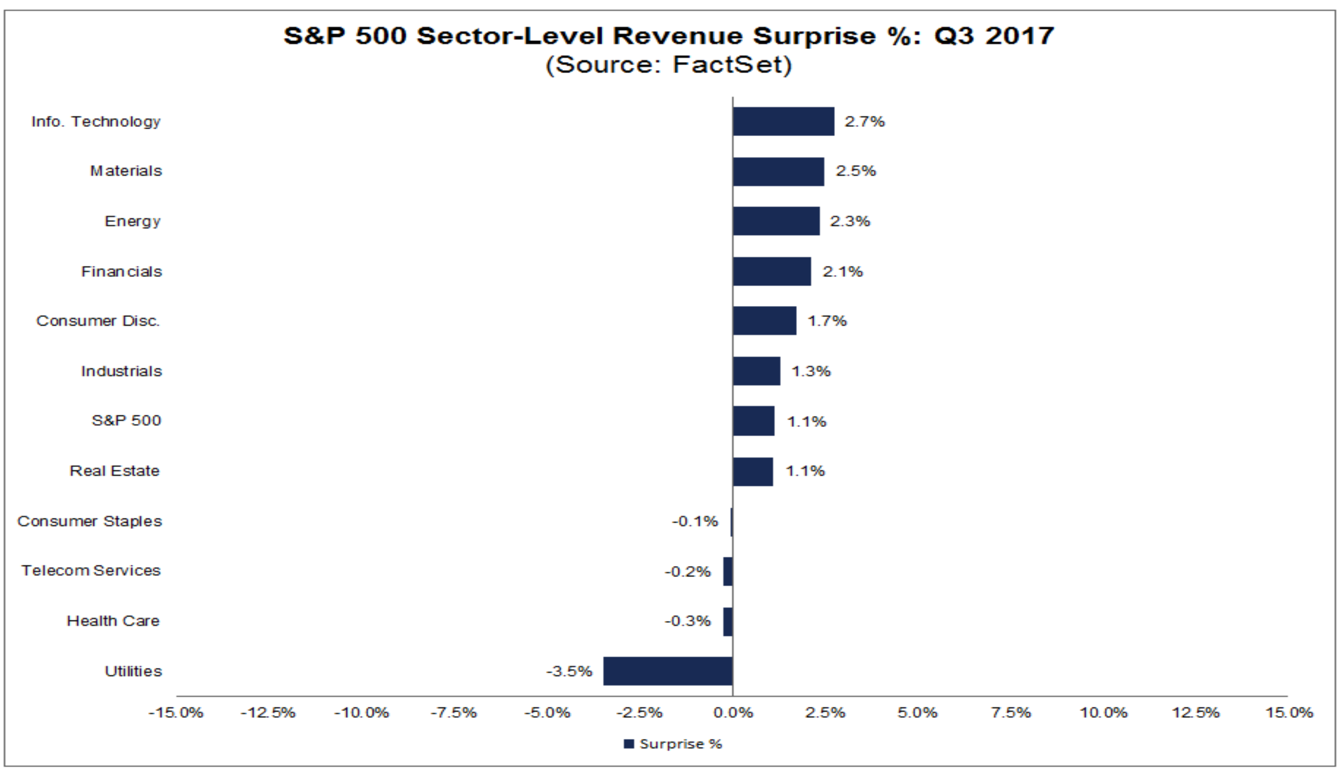
	Info. Technology	Consumer Staples	Health Care	Financials	Materials	S&P 500	Industrials	Real Estate	Energy	Consumer Disc.	Utilities	Telecom Services
Below	7%	15%	17%	19%	12%	18%	17%	12%	23%	25%	43%	33%
In-Line	3%	7%	5%	4%	12%	8%	11%	15%	6%	9%	7%	33%
Above	90%	78%	78%	76%	76%	74%	73%	73%	71%	66%	50%	33%



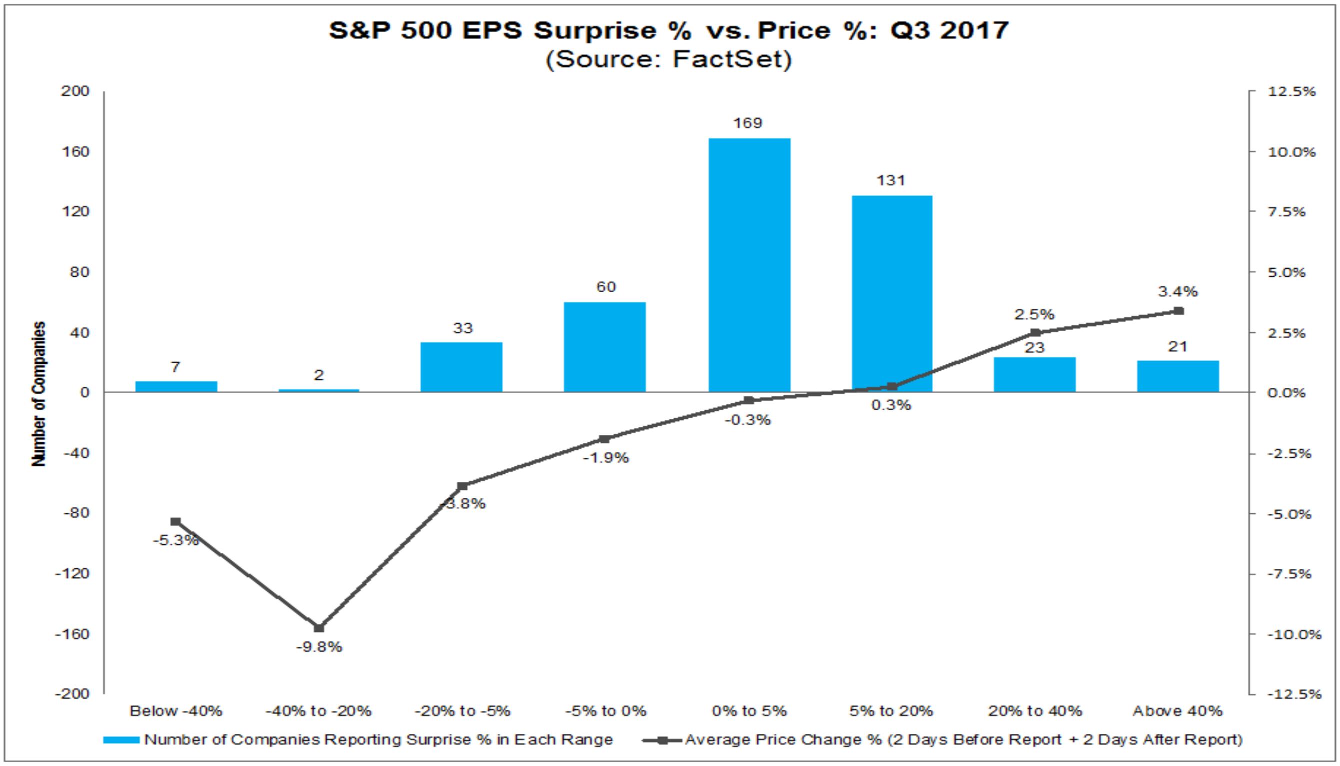
	Info. Technology	Materials	Financials	Energy	S&P 500	Health Care	Industrials	Real Estate	Consumer Staples	Consumer Disc.	Telecom Services	Utilities
Below	17%	24%	26%	29%	34%	34%	35%	36%	37%	38%	75%	79%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	83%	76%	74%	71%	66%	66%	65%	64%	63%	62%	25%	21%

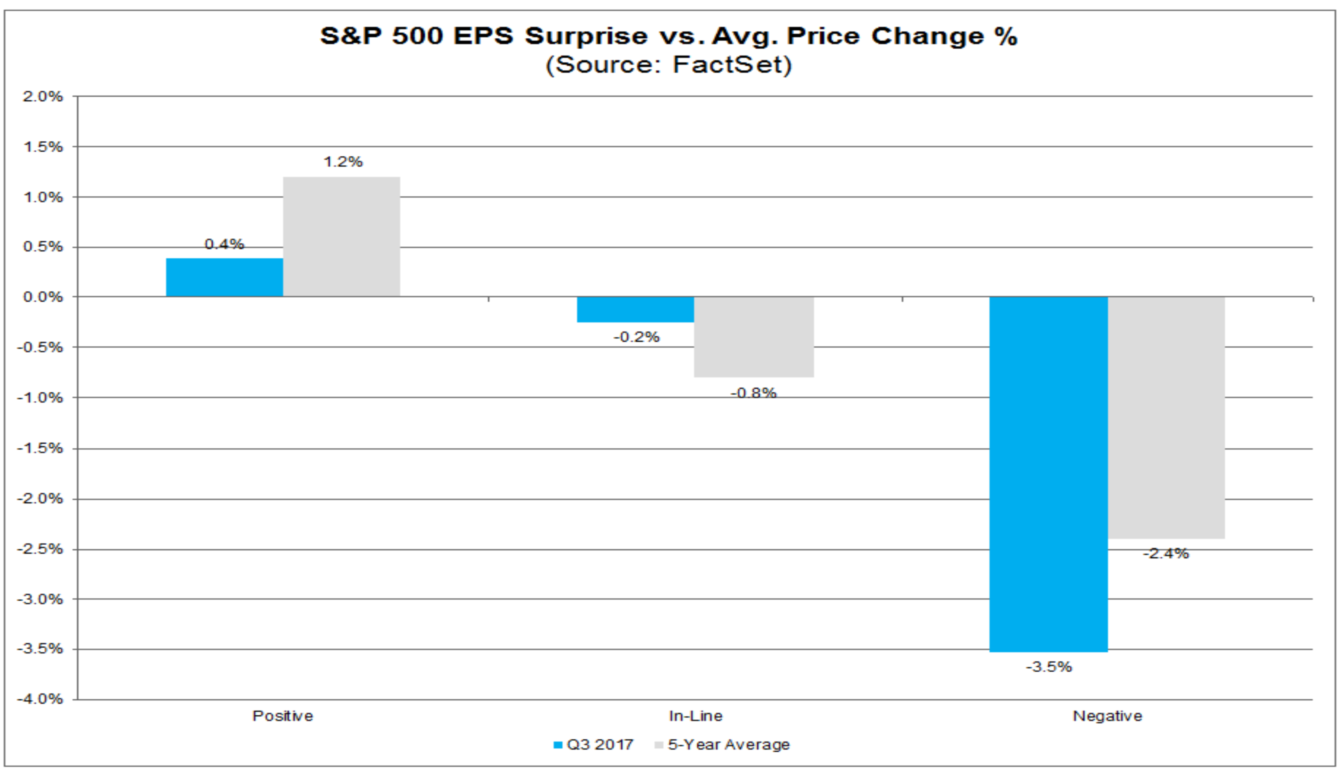
Q3 2017: Scorecard



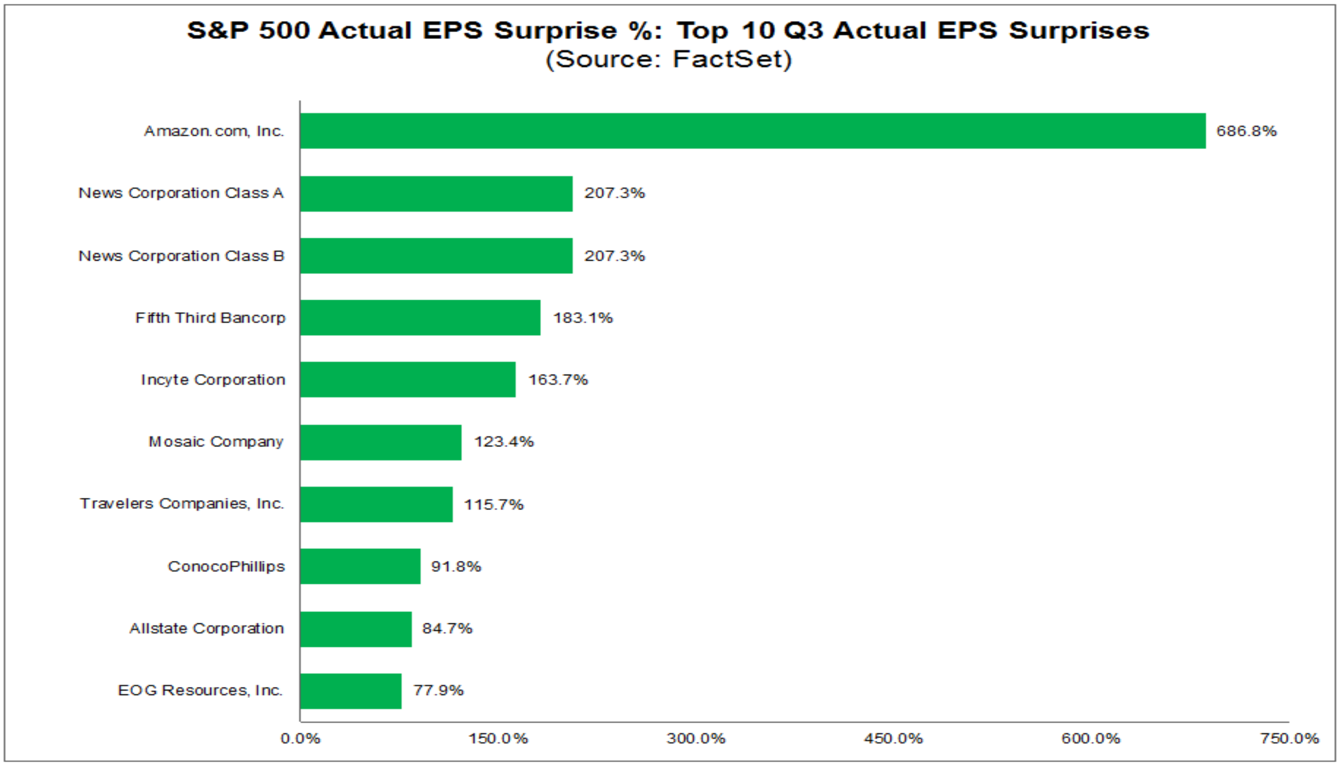


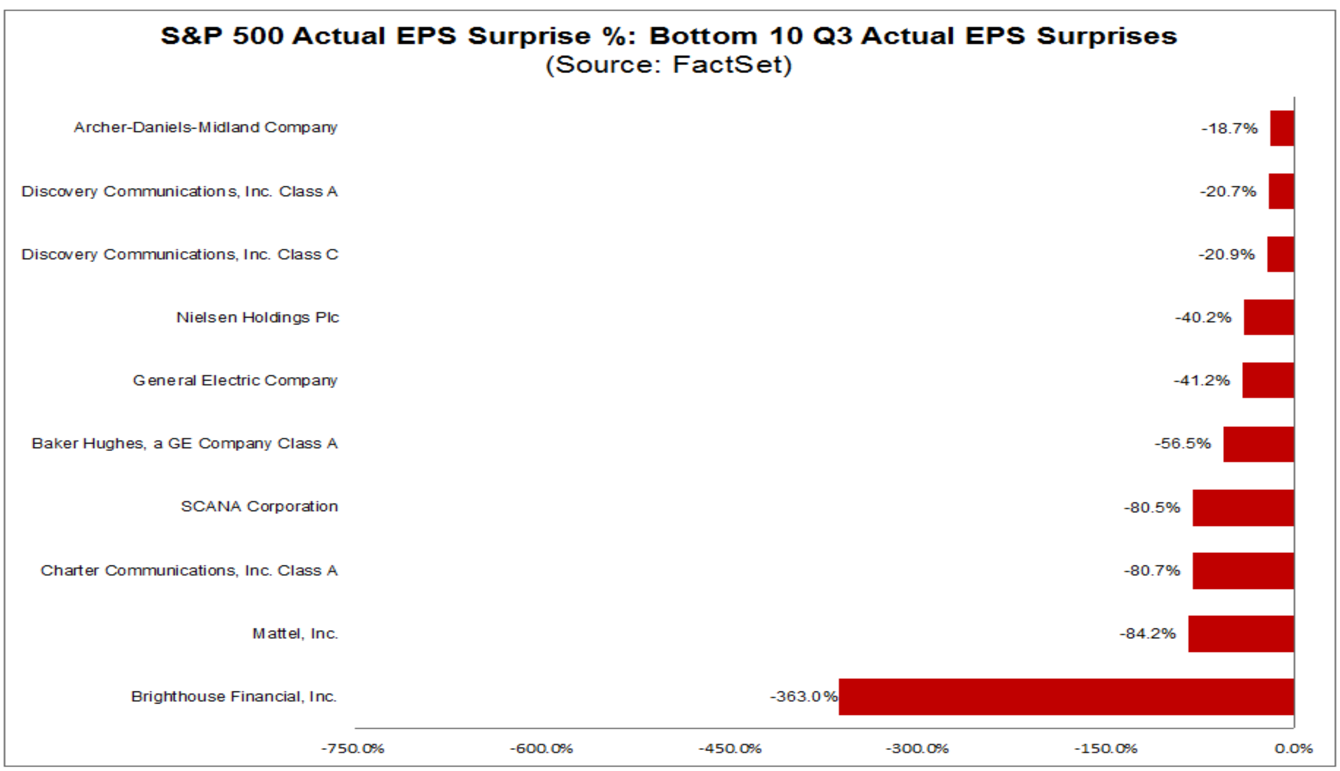
Q3 2017: Scorecard



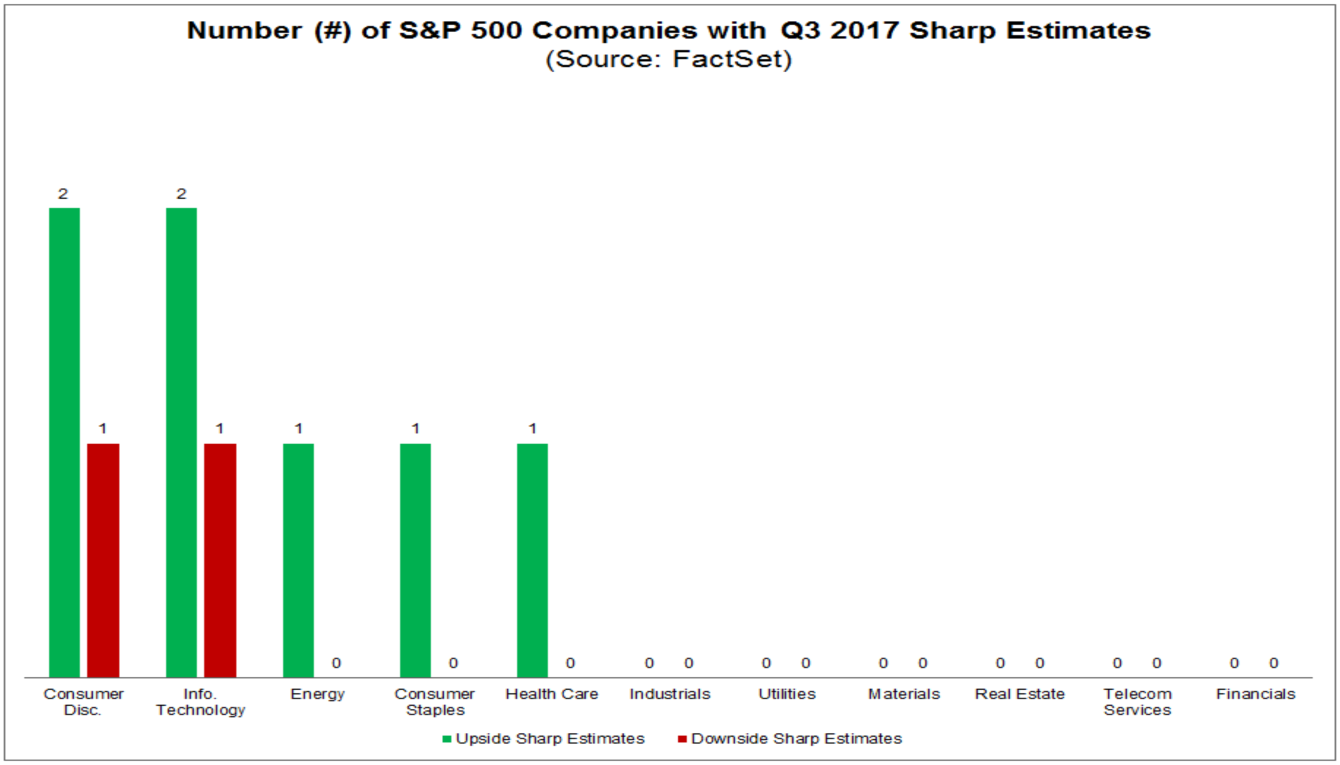


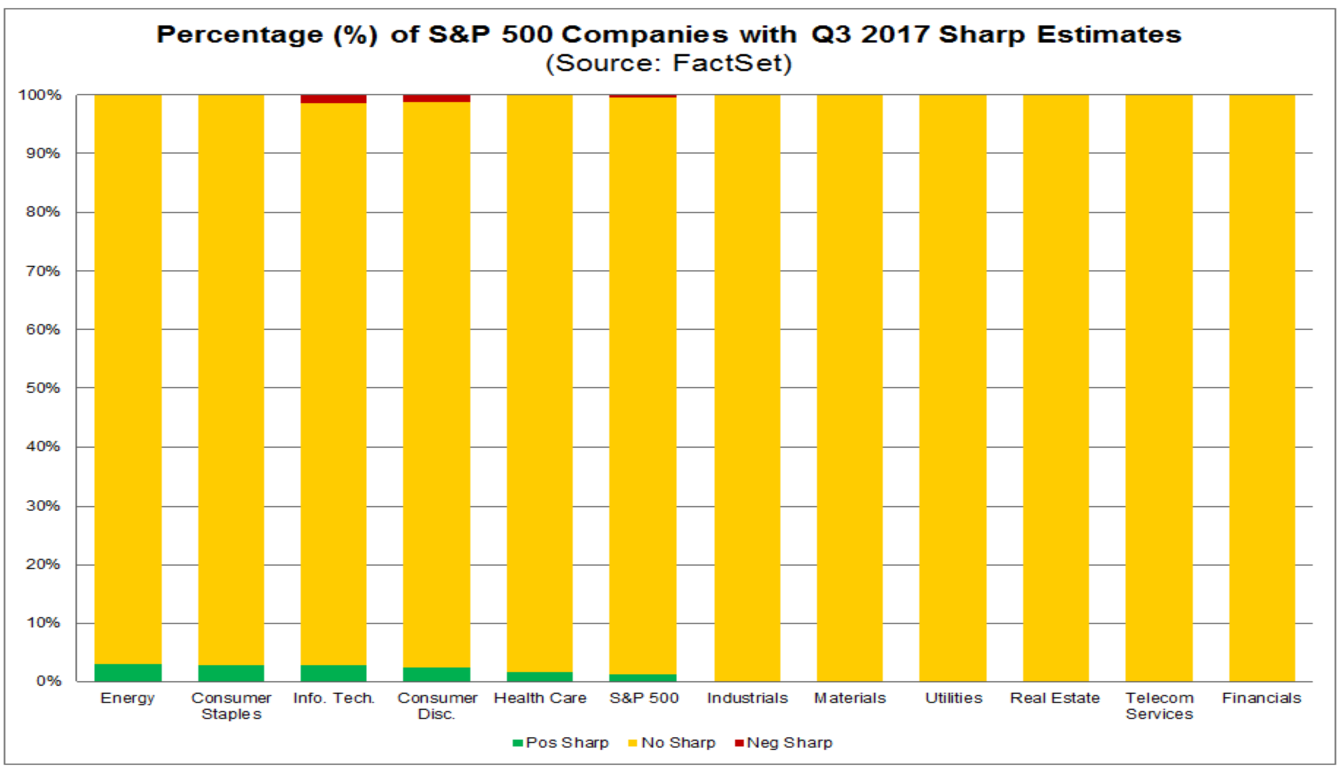
Q3 2017: Scorecard



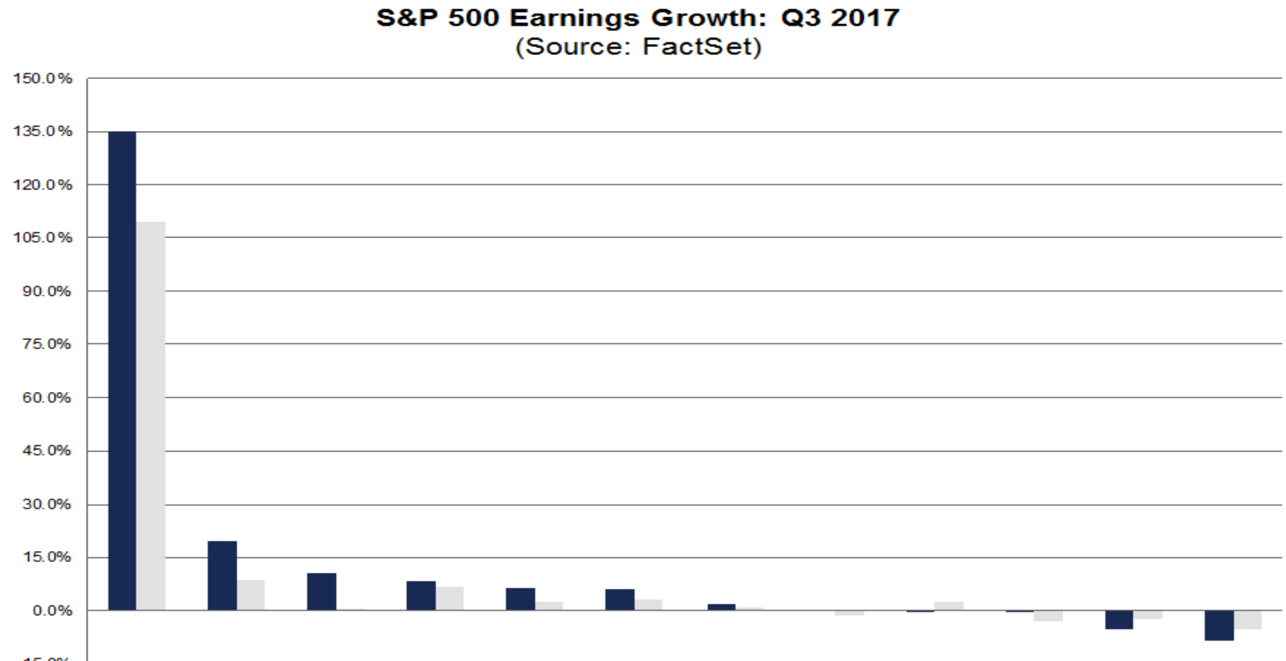


Q3 2017: Projected EPS Surprises (Sharp Estimates)

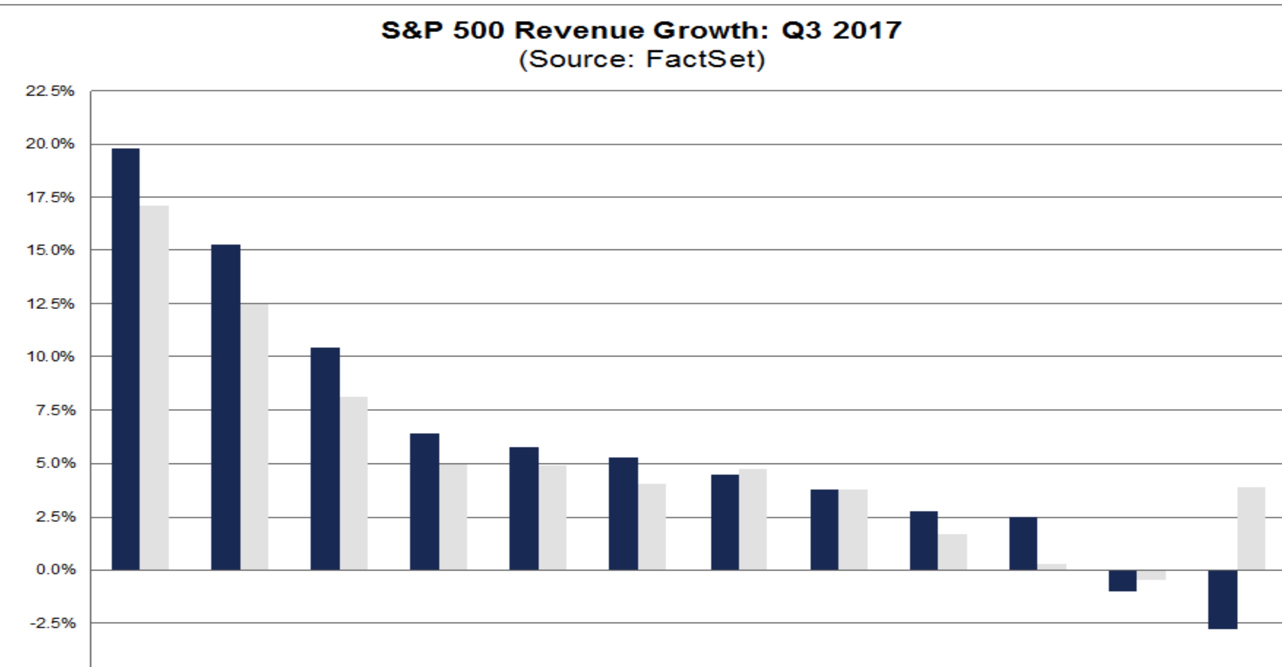




Q3 2017: Growth

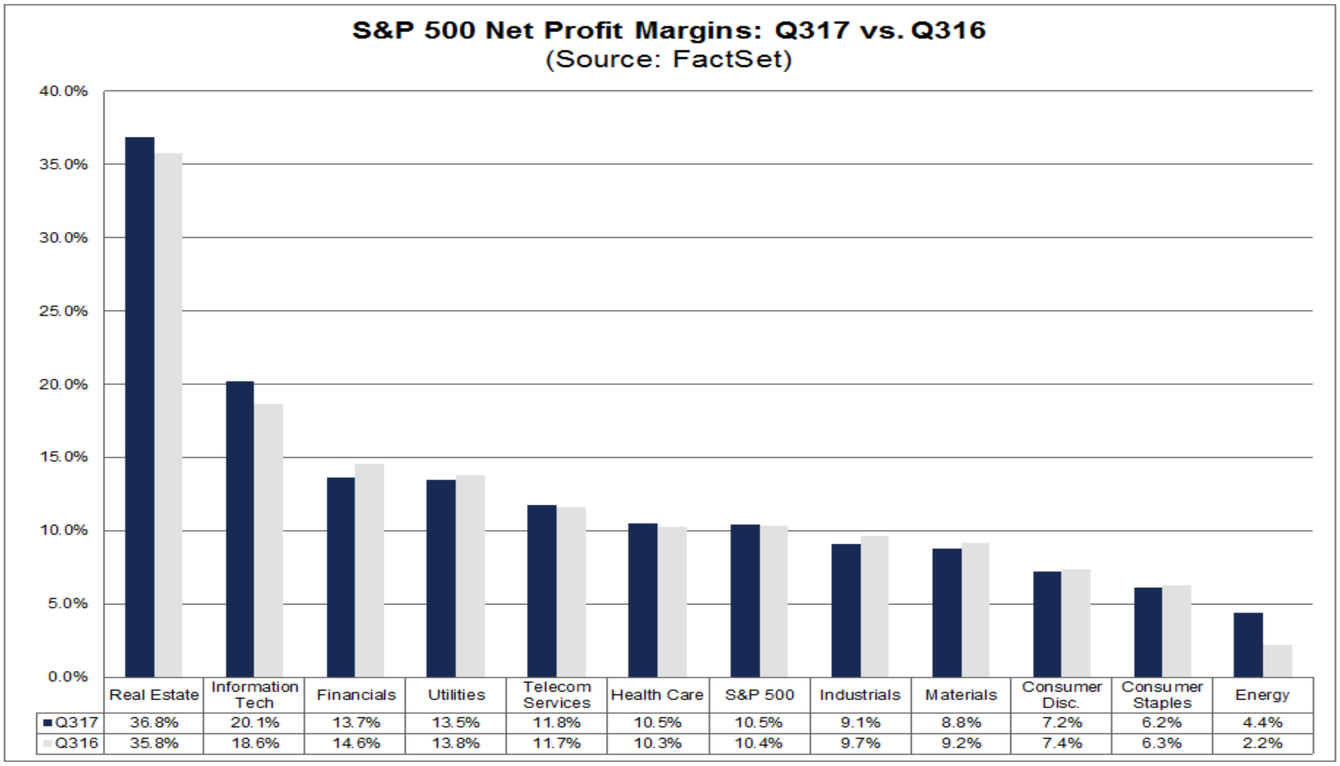


	Energy	Info. Technology	Materials	Real Estate	Health Care	S&P 500	Consumer Staples	Telecom Services	Industrials	Consumer Disc.	Utilities	Financials
Today	135.0%	19.5%	10.7%	8.5%	6.5%	6.1%	2.0%	0.1%	-0.2%	-0.3%	-5.1%	-8.3%
30-Sep	109.6%	8.8%	0.5%	6.8%	2.5%	3.1%	1.0%	-1.4%	2.5%	-2.8%	-2.4%	-5.3%

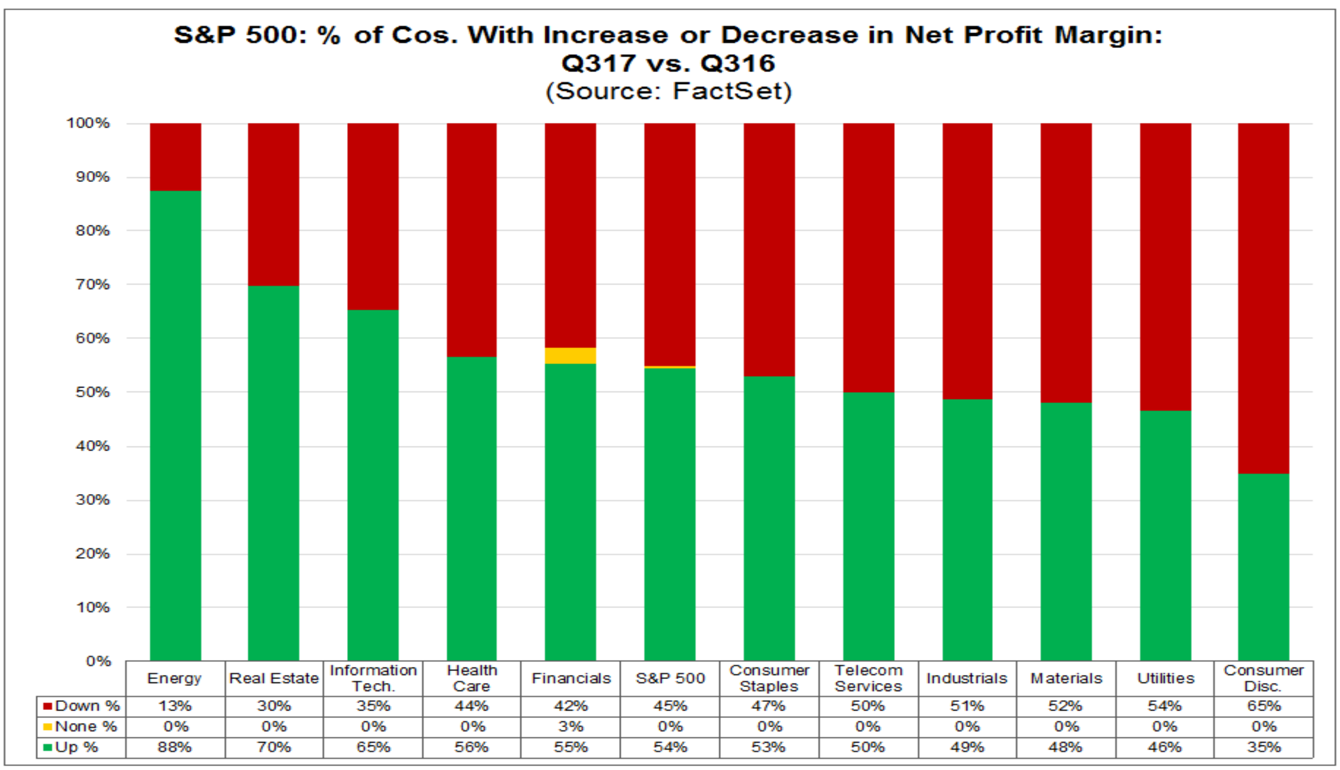


	Energy	Materials	Info. Technology	Industrials	S&P 500	Real Estate	Health Care	Consumer Staples	Consumer Disc.	Financials	Telecom Services	Utilities
Today	19.8%	15.3%	10.4%	6.4%	5.8%	5.3%	4.5%	3.8%	2.8%	2.5%	-1.0%	-2.8%
30-Sep	17.1%	12.5%	8.1%	5.0%	4.9%	4.1%	4.8%	3.8%	1.7%	0.3%	-0.5%	3.9%

Q3 2017: Net Profit Margin

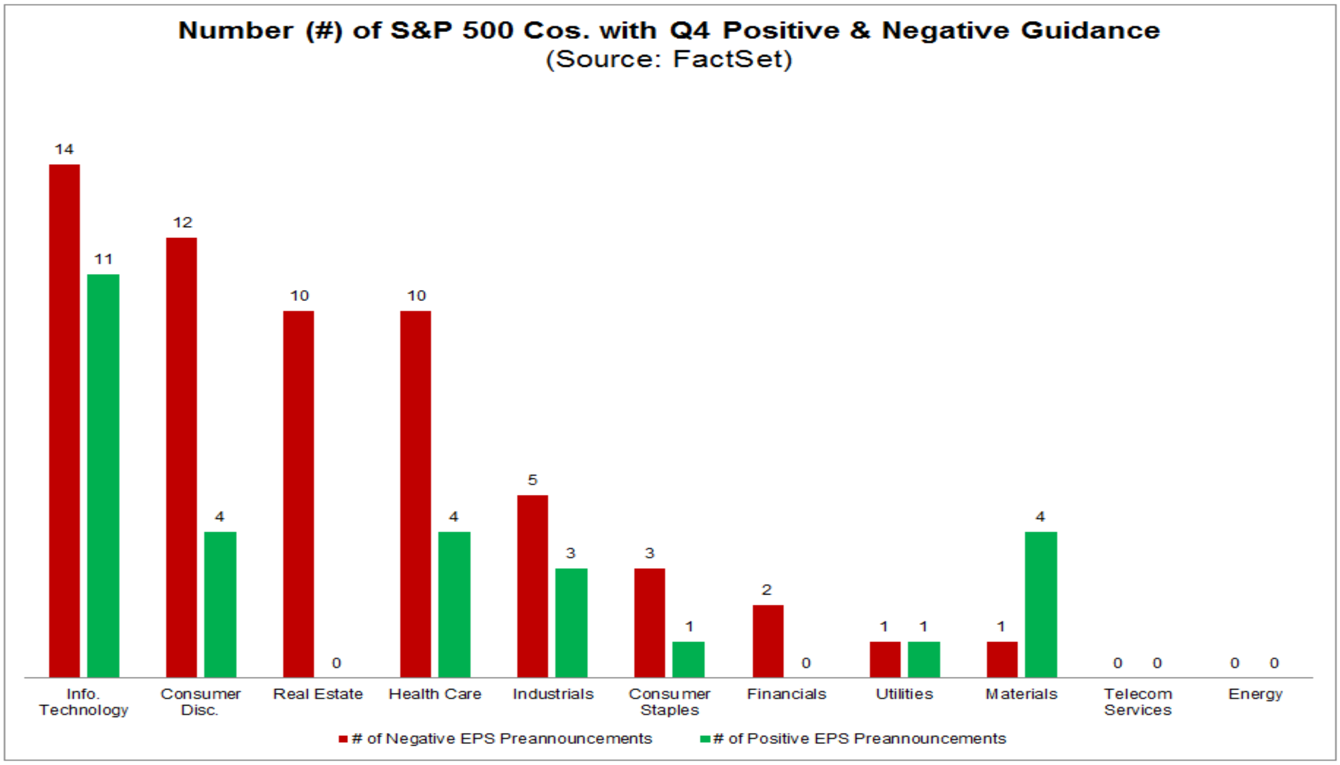


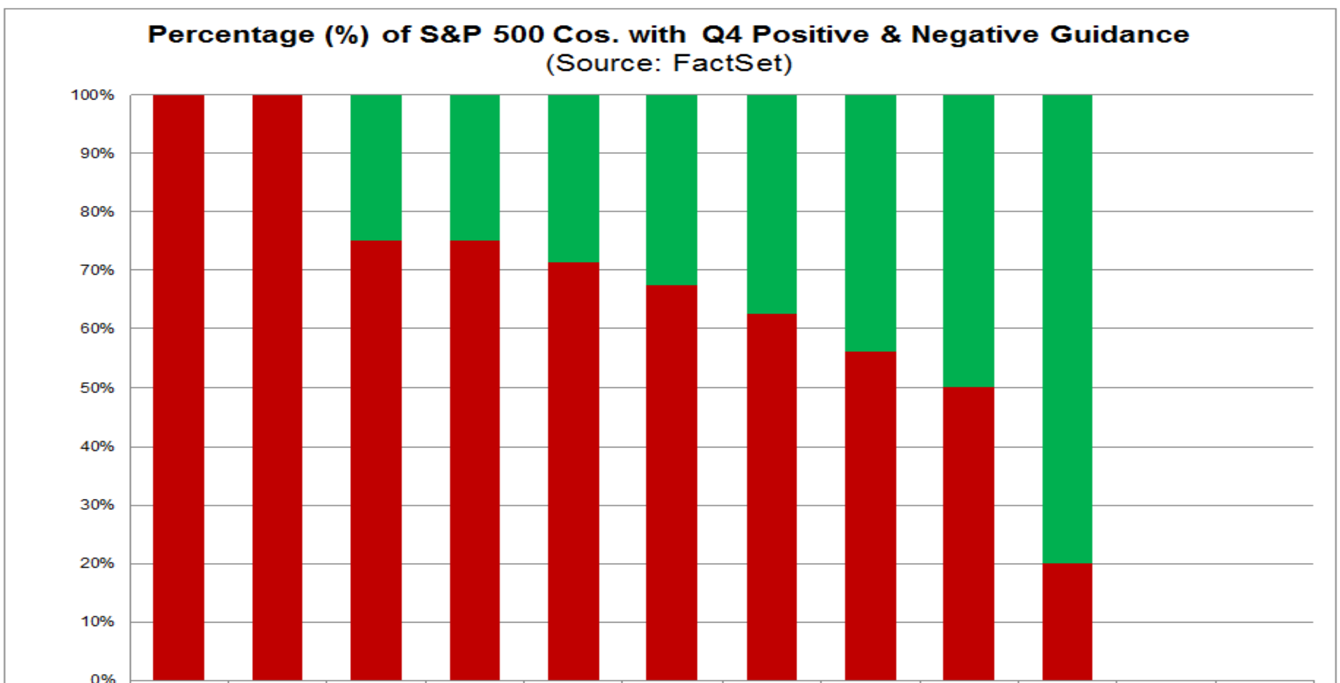
	Real Estate	Information Tech	Financials	Utilities	Telecom Services	Health Care	S&P 500	Industrials	Materials	Consumer Disc.	Consumer Staples	Energy
Q317	36.8%	20.1%	13.7%	13.5%	11.8%	10.5%	10.5%	9.1%	8.8%	7.2%	6.2%	4.4%
Q316	35.8%	18.6%	14.6%	13.8%	11.7%	10.3%	10.4%	9.7%	9.2%	7.4%	6.3%	2.2%



	Energy	Real Estate	Information Tech.	Health Care	Financials	S&P 500	Consumer Staples	Telecom Services	Industrials	Materials	Utilities	Consumer Disc.
Down %	13%	30%	35%	44%	42%	45%	47%	50%	51%	52%	54%	65%
None %	0%	0%	0%	0%	3%	0%	0%	0%	0%	0%	0%	0%
Up %	88%	70%	65%	56%	55%	54%	53%	50%	49%	48%	46%	35%

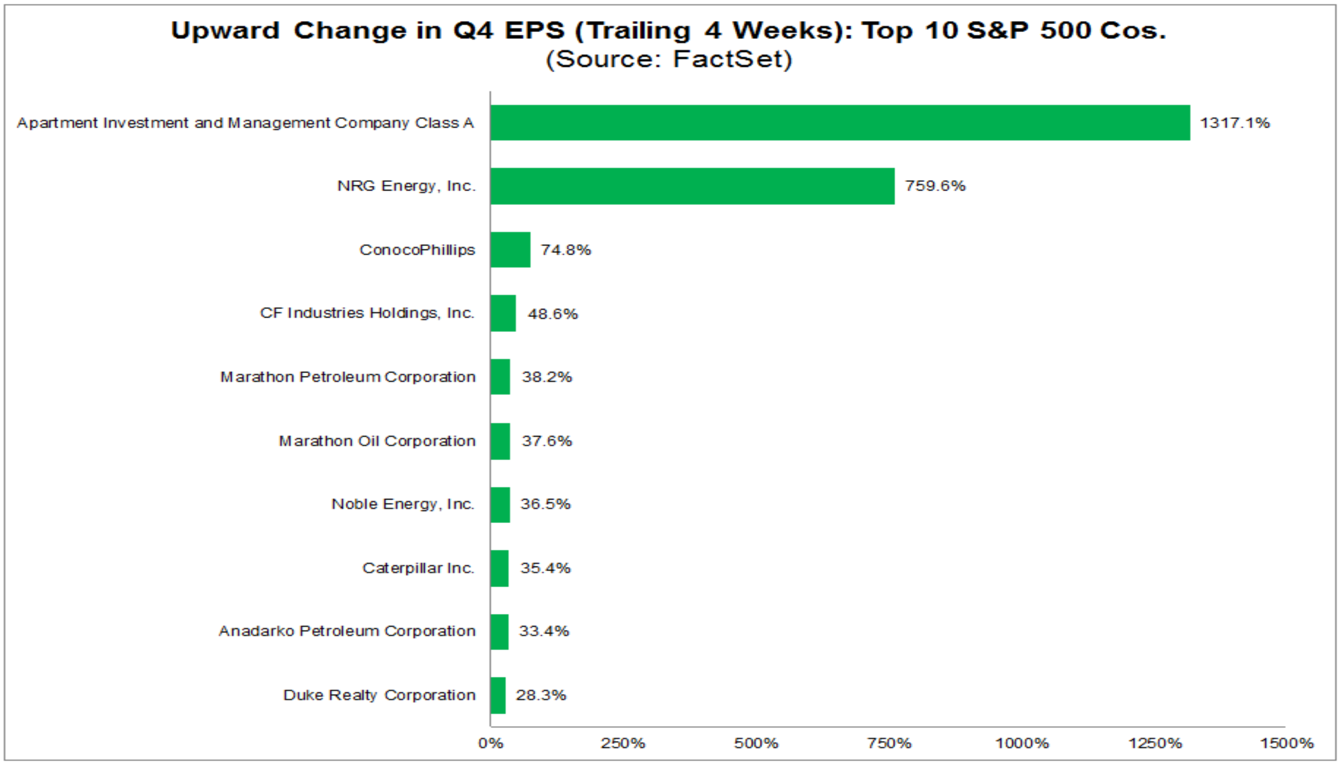
Q4 2017: Guidance

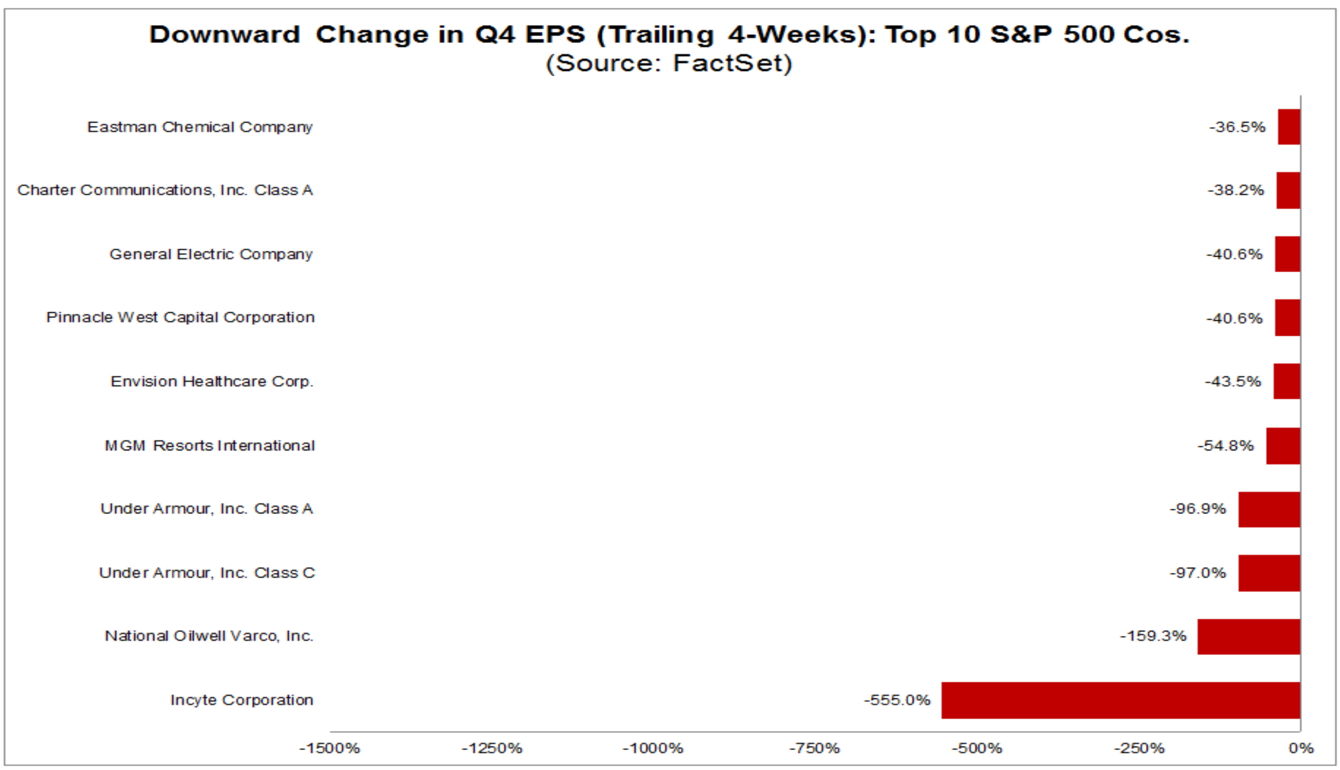




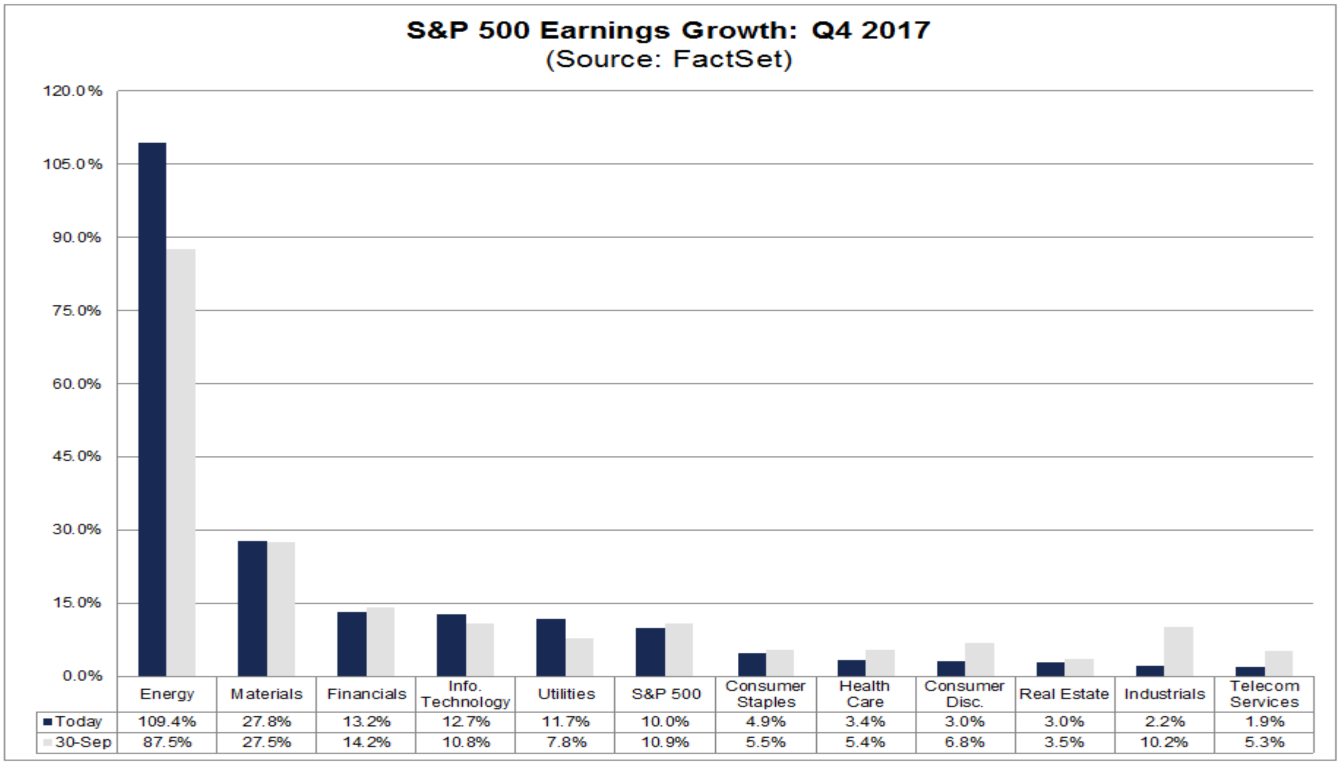
	Real Estate	Financials	Consumer Disc.	Consumer Staples	Health Care	S&P 500	Industrials	Info. Technology	Utilities	Materials	Telecom Services	Energy
Positive	0%	0%	25%	25%	29%	33%	38%	44%	50%	80%	0%	0%
Negative	100%	100%	75%	75%	71%	67%	63%	56%	50%	20%	0%	0%

Q4 2017: EPS Revisions

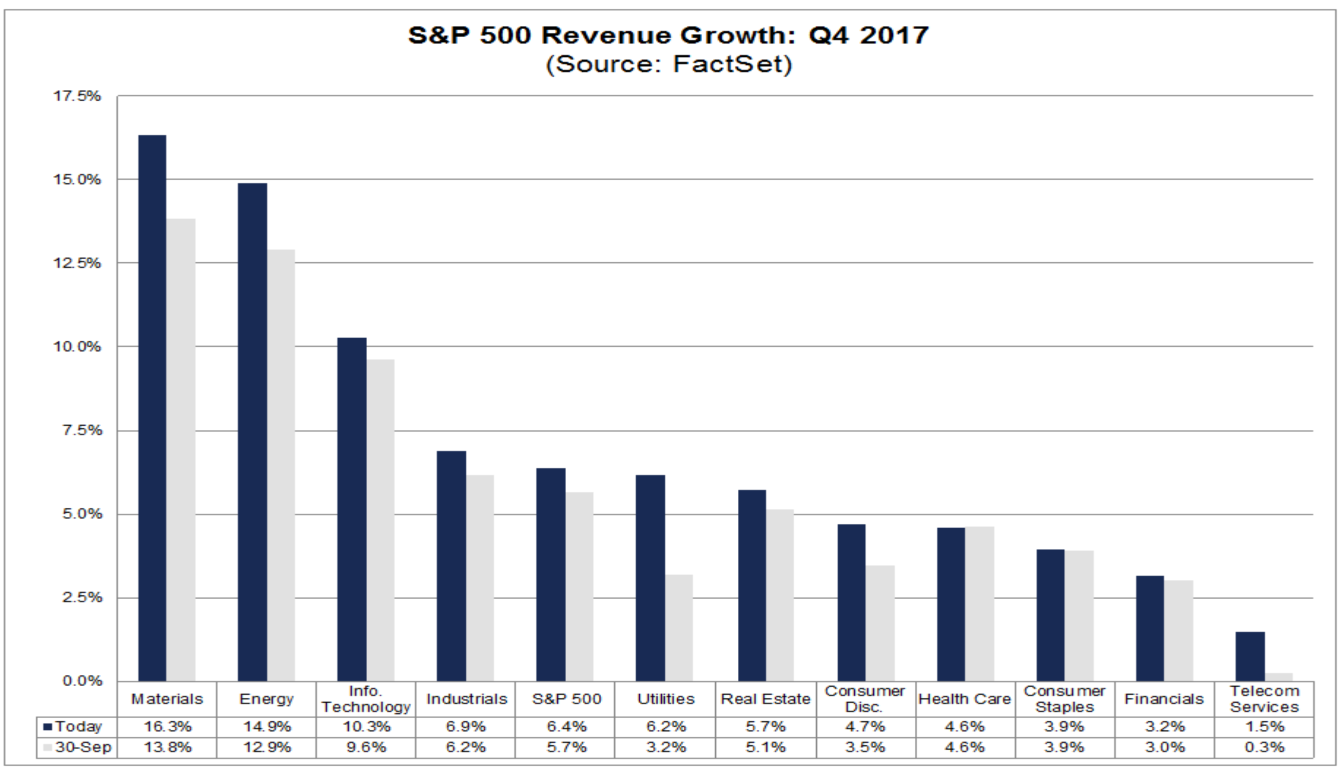




Q4 2017: Growth

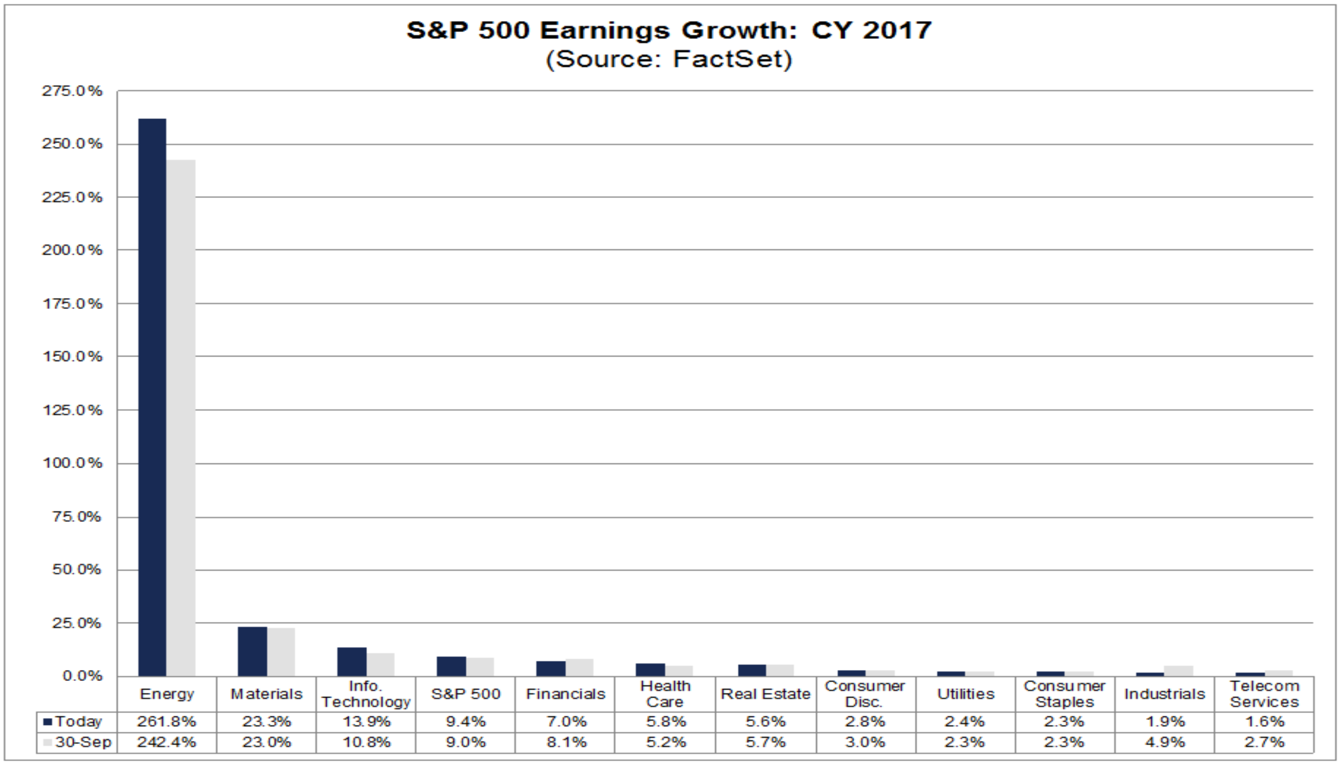


	Energy	Materials	Financials	Info. Technology	Utilities	S&P 500	Consumer Staples	Health Care	Consumer Disc.	Real Estate	Industrials	Telecom Services
Today	109.4%	27.8%	13.2%	12.7%	11.7%	10.0%	4.9%	3.4%	3.0%	3.0%	2.2%	1.9%
30-Sep	87.5%	27.5%	14.2%	10.8%	7.8%	10.9%	5.5%	5.4%	6.8%	3.5%	10.2%	5.3%

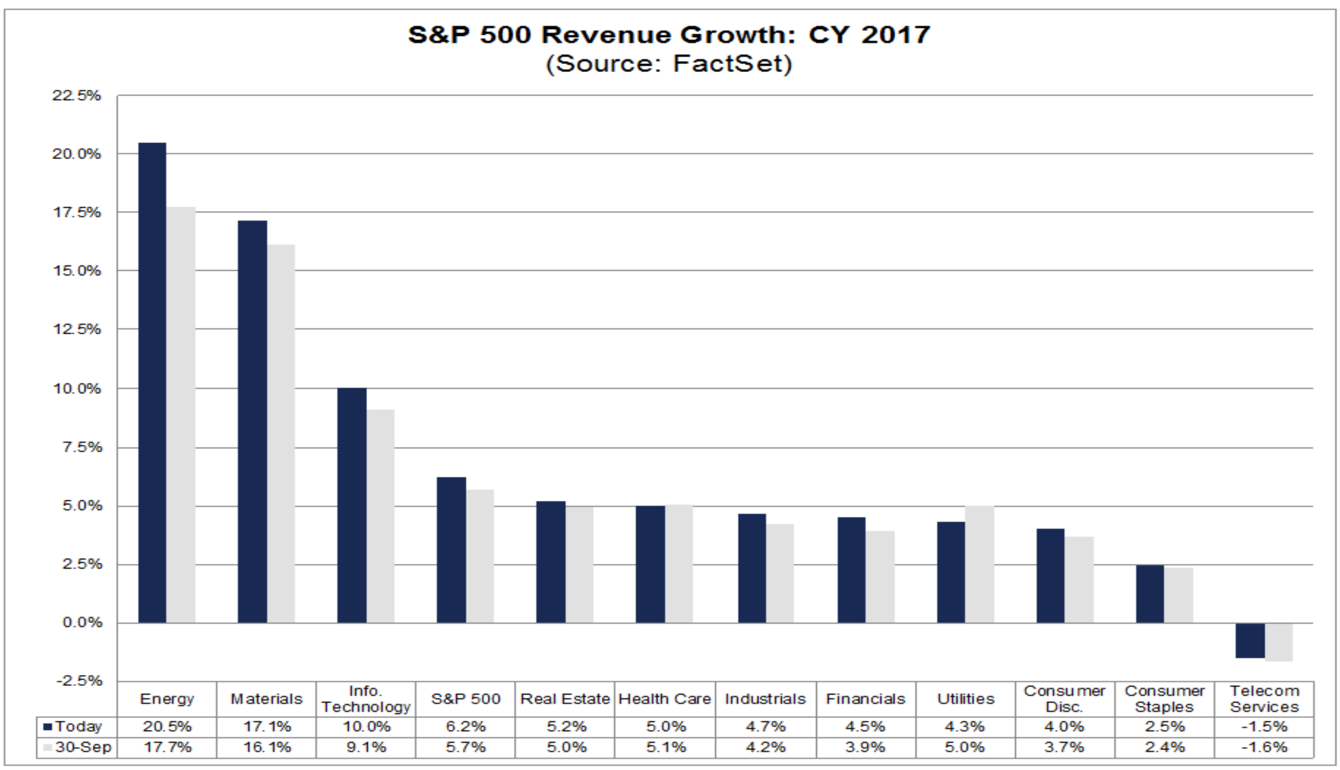


	Materials	Energy	Info. Technology	Industrials	S&P 500	Utilities	Real Estate	Consumer Disc.	Health Care	Consumer Staples	Financials	Telecom Services
Today	16.3%	14.9%	10.3%	6.9%	6.4%	6.2%	5.7%	4.7%	4.6%	3.9%	3.2%	1.5%
30-Sep	13.8%	12.9%	9.6%	6.2%	5.7%	3.2%	5.1%	3.5%	4.6%	3.9%	3.0%	0.3%

CY 2017: Growth

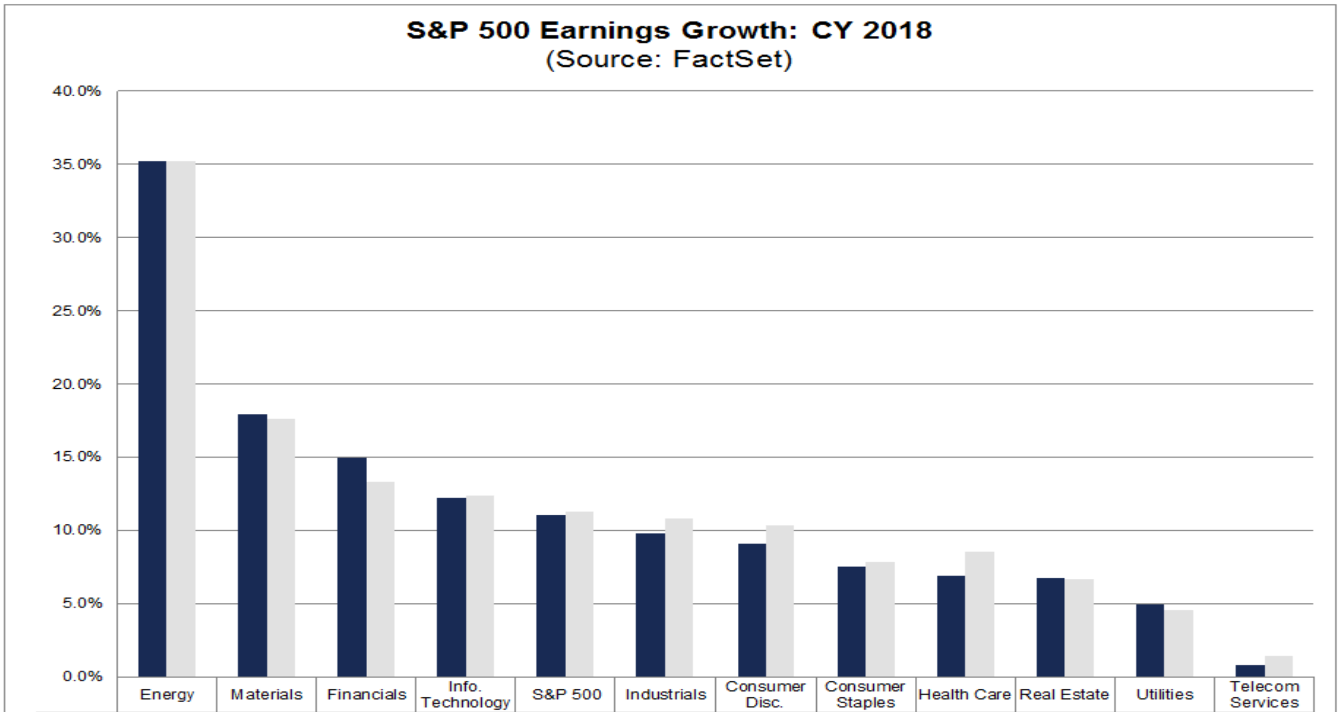


	Energy	Materials	Info. Technology	S&P 500	Financials	Health Care	Real Estate	Consumer Disc.	Utilities	Consumer Staples	Industrials	Telecom Services
Today	261.8%	23.3%	13.9%	9.4%	7.0%	5.8%	5.6%	2.8%	2.4%	2.3%	1.9%	1.6%
30-Sep	242.4%	23.0%	10.8%	9.0%	8.1%	5.2%	5.7%	3.0%	2.3%	2.3%	4.9%	2.7%

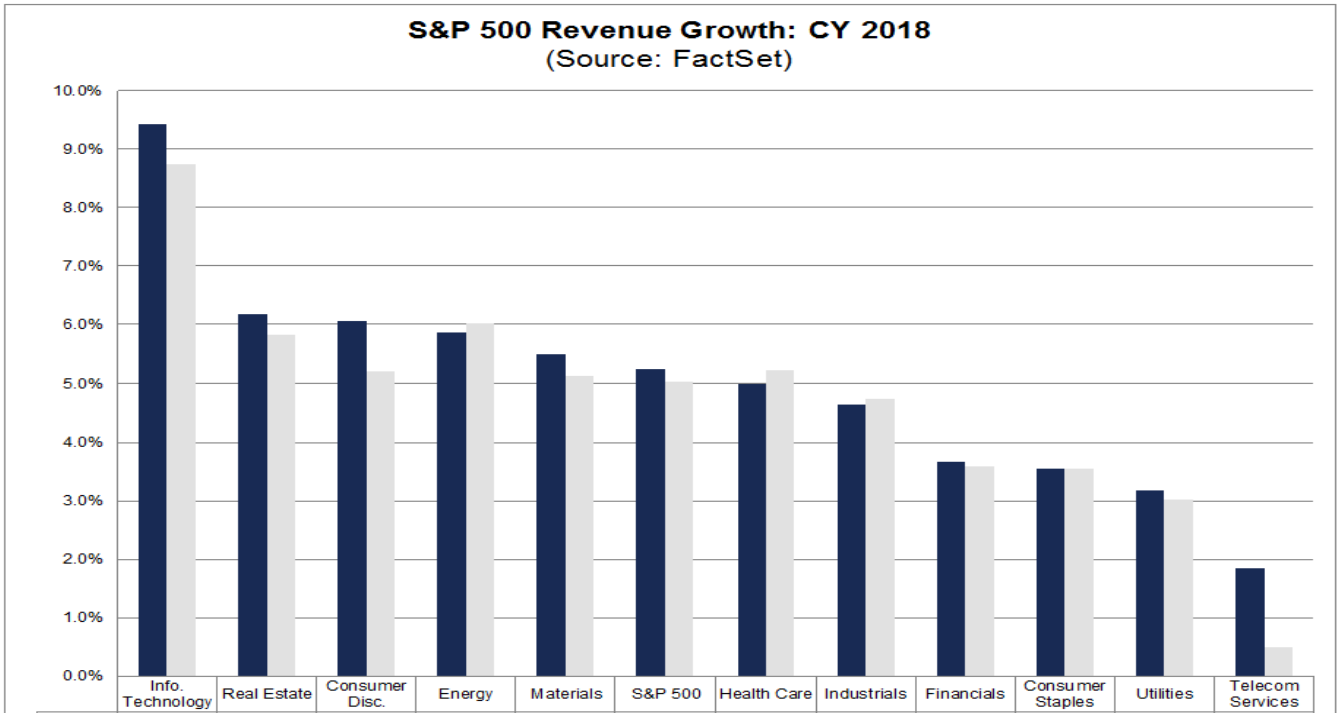


	Energy	Materials	Info. Technology	S&P 500	Real Estate	Health Care	Industrials	Financials	Utilities	Consumer Disc.	Consumer Staples	Telecom Services
Today	20.5%	17.1%	10.0%	6.2%	5.2%	5.0%	4.7%	4.5%	4.3%	4.0%	2.5%	-1.5%
30-Sep	17.7%	16.1%	9.1%	5.7%	5.0%	5.1%	4.2%	3.9%	5.0%	3.7%	2.4%	-1.6%

CY 2018: Growth

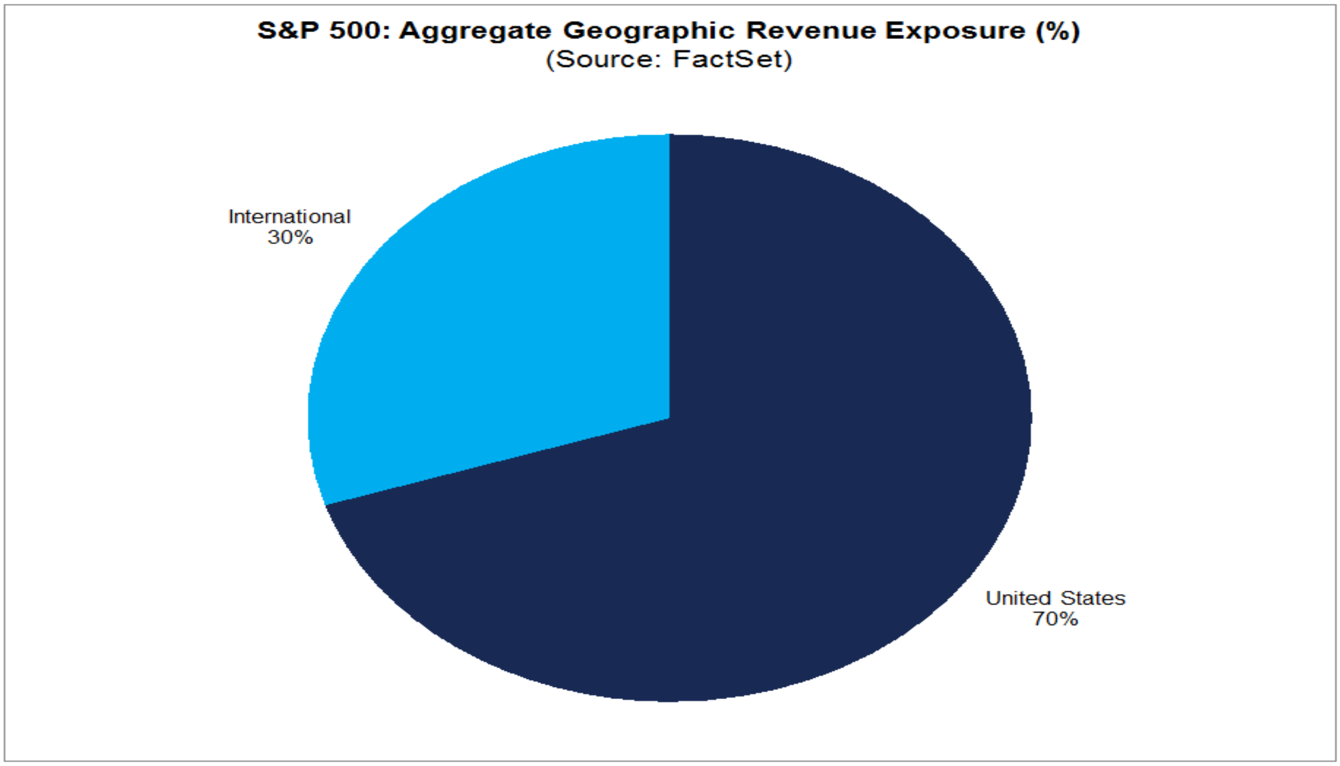


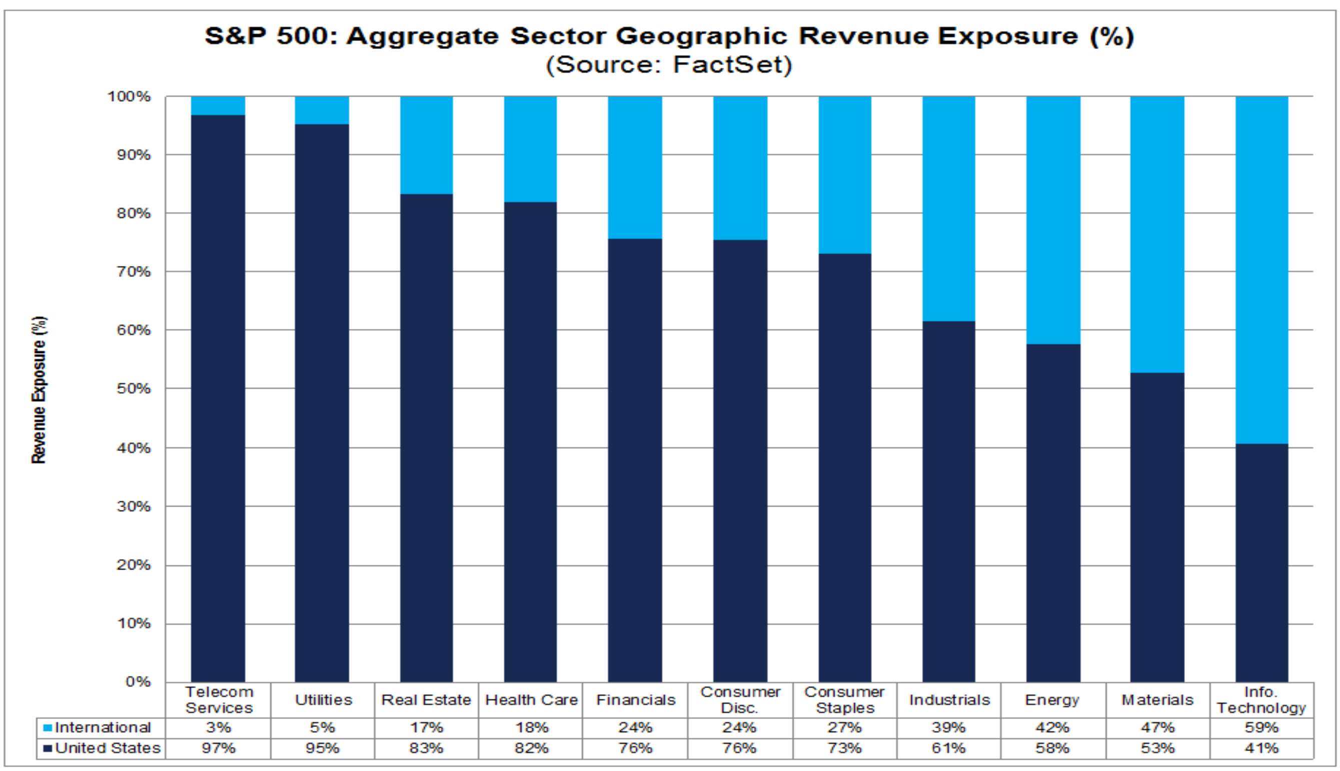
	Energy	Materials	Financials	Info. Technology	S&P 500	Industrials	Consumer Disc.	Consumer Staples	Health Care	Real Estate	Utilities	Telecom Services
Today	35.2%	18.0%	15.0%	12.2%	11.1%	9.8%	9.1%	7.6%	6.9%	6.8%	4.9%	0.8%
30-Sep	35.2%	17.6%	13.3%	12.4%	11.3%	10.8%	10.4%	7.9%	8.6%	6.7%	4.6%	1.5%



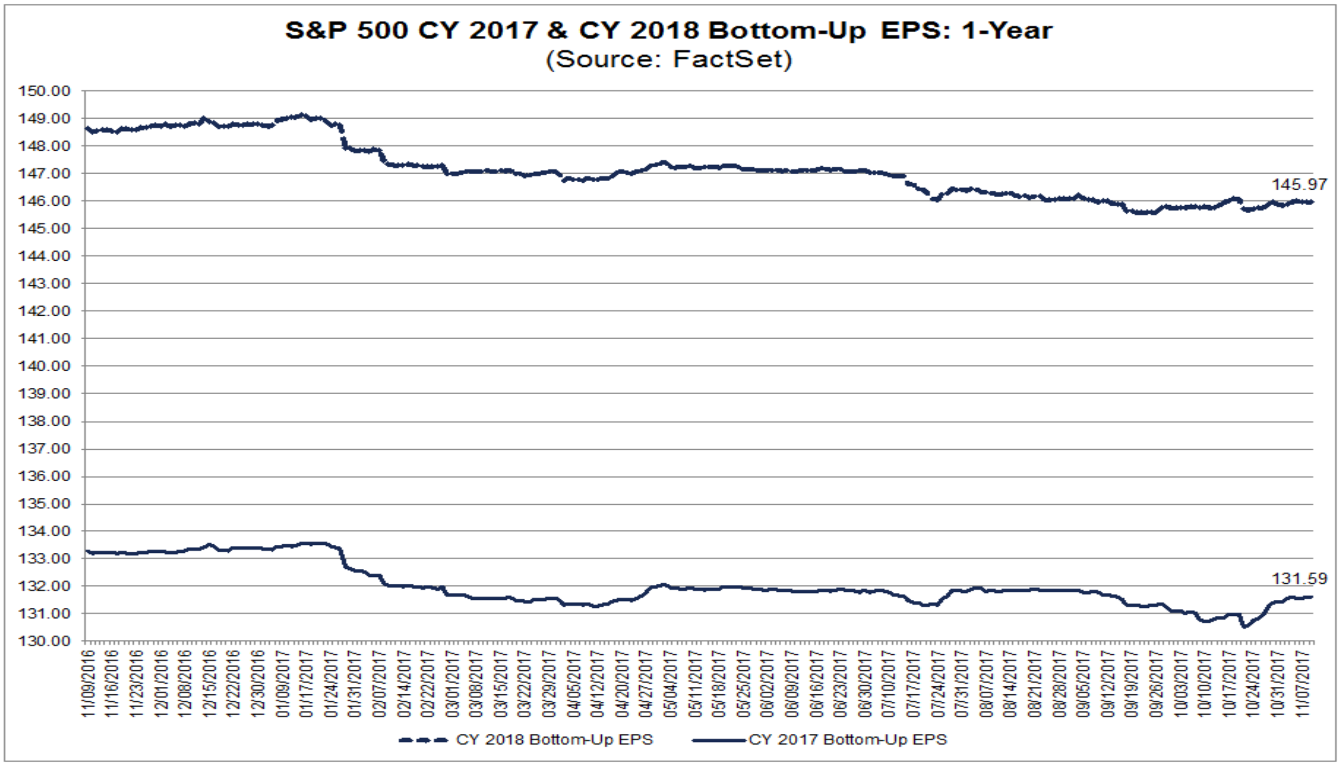
	Info. Technology	Real Estate	Consumer Disc.	Energy	Materials	S&P 500	Health Care	Industrials	Financials	Consumer Staples	Utilities	Telecom Services
Today	9.4%	6.2%	6.0%	5.9%	5.5%	5.2%	5.0%	4.6%	3.7%	3.5%	3.2%	1.9%
30-Sep	8.7%	5.8%	5.2%	6.0%	5.1%	5.0%	5.2%	4.7%	3.6%	3.6%	3.0%	0.5%

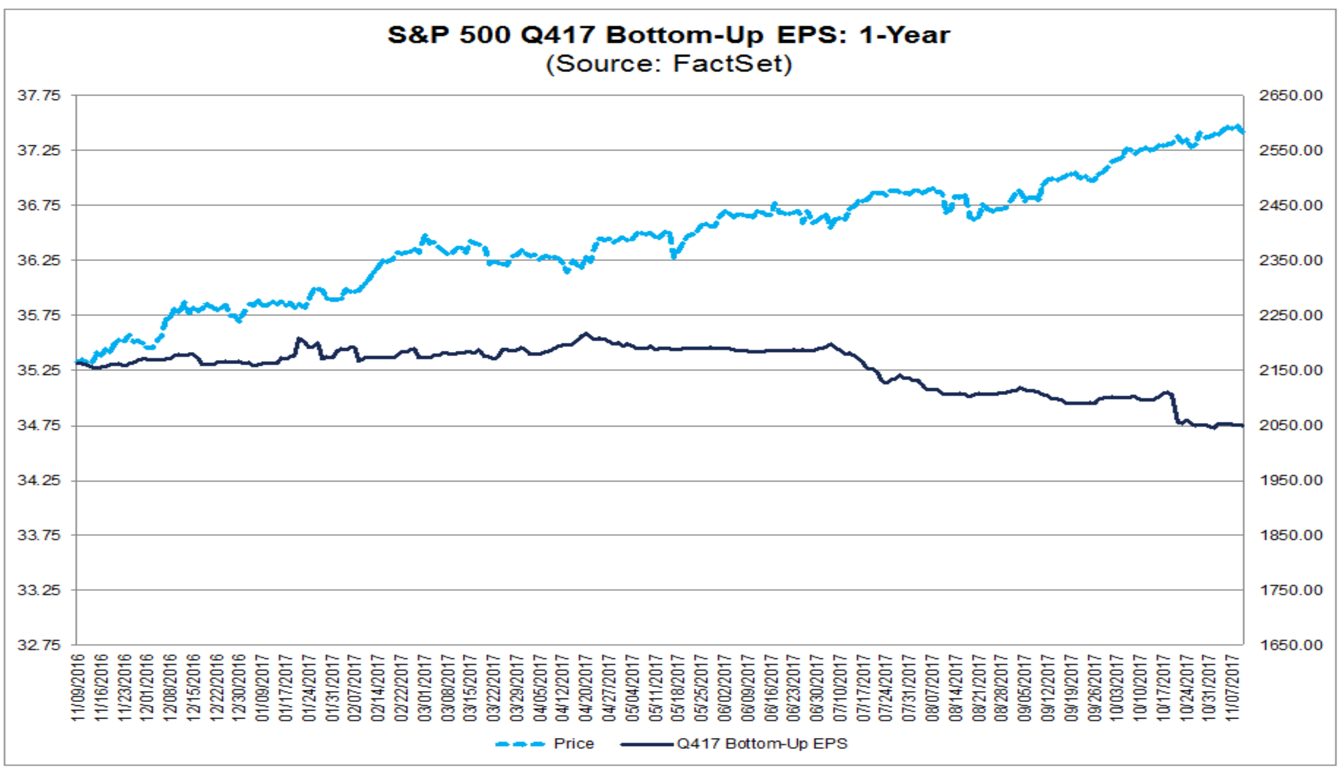
Geographic Revenue Exposure



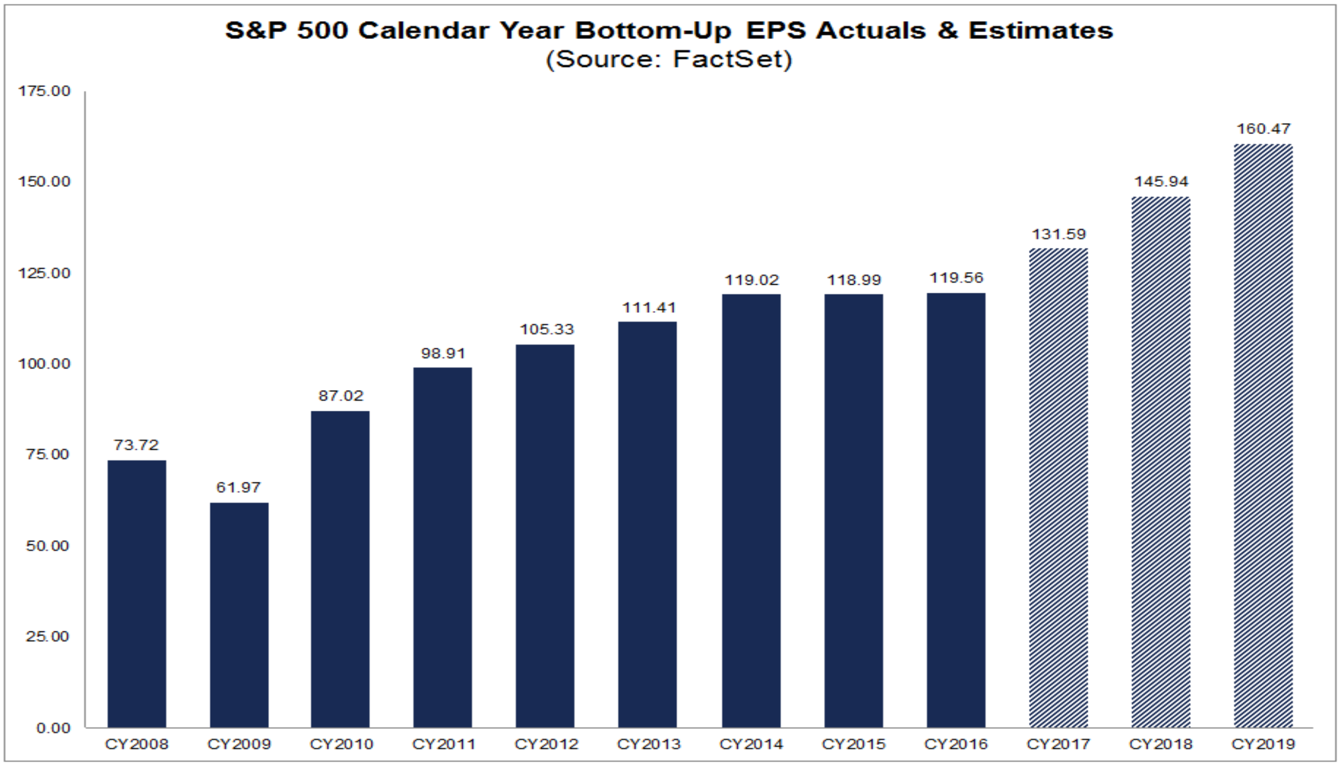


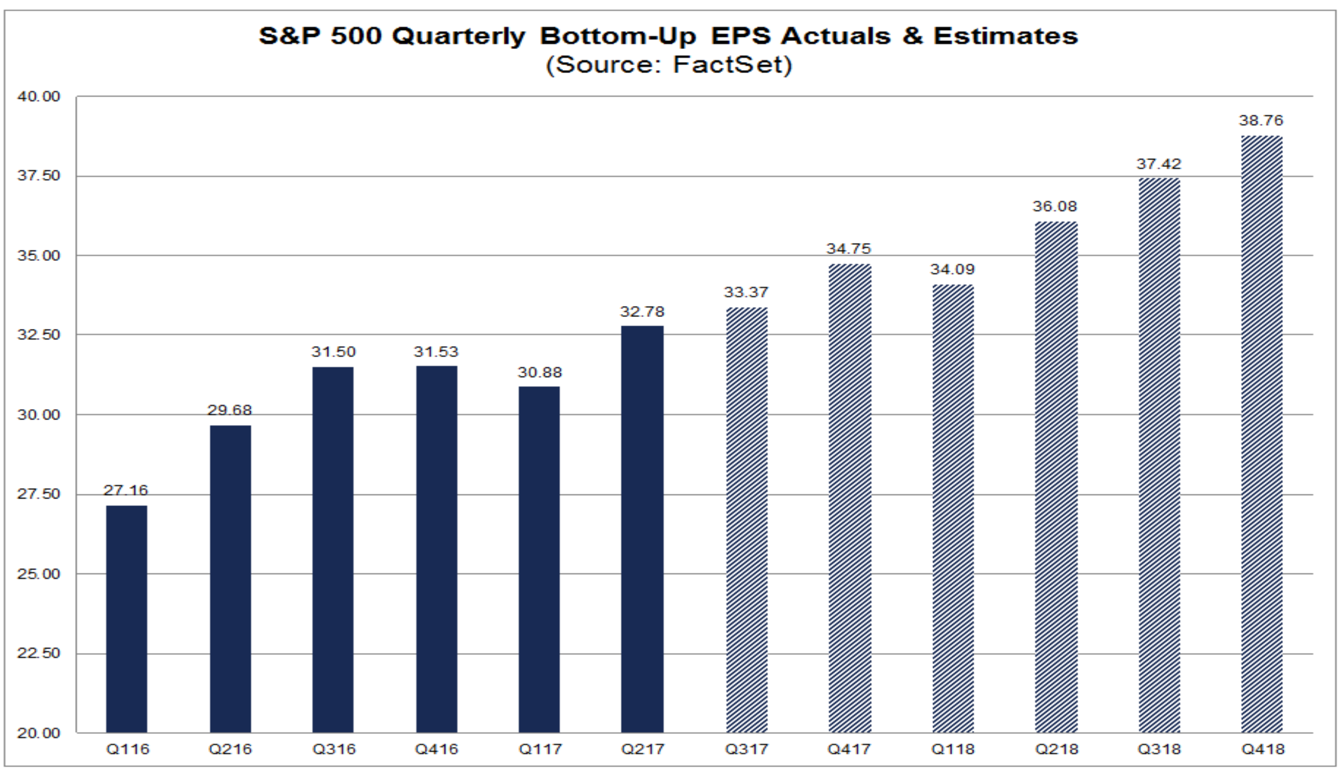
Bottom-up EPS Estimates: Revisions



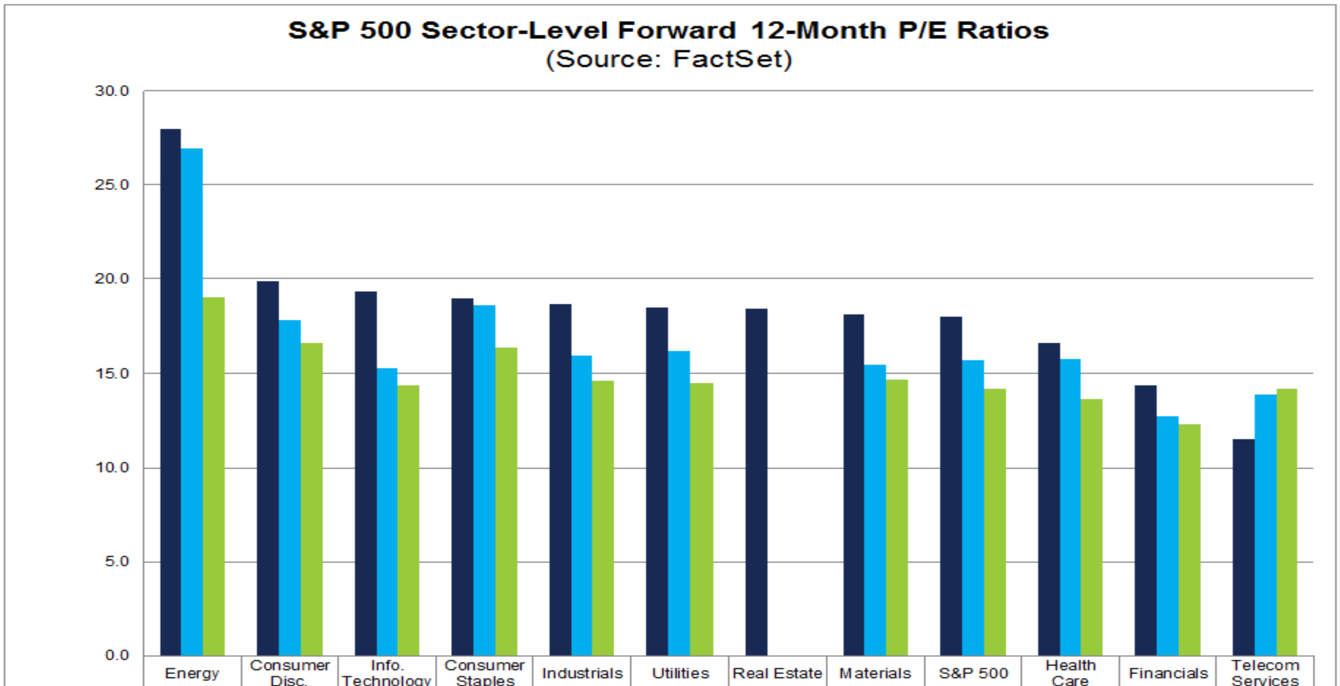


Bottom-up EPS Estimates: Current & Historical

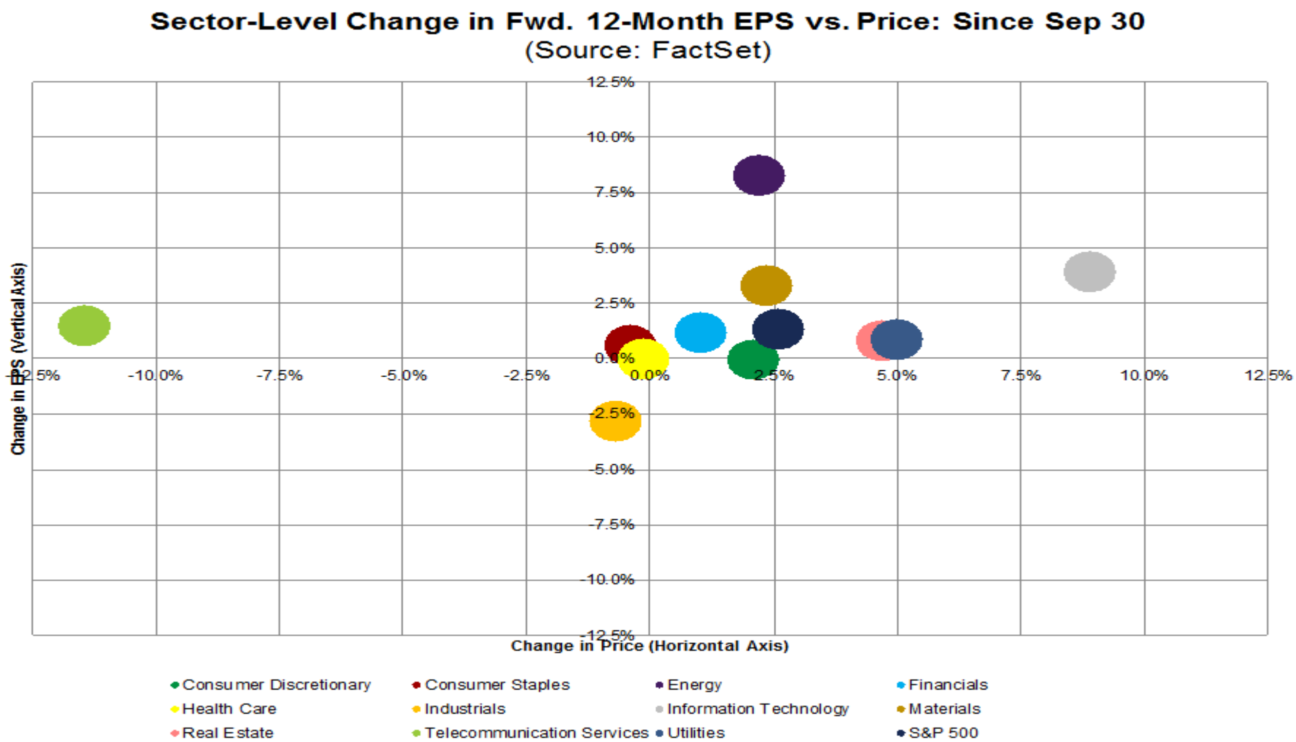




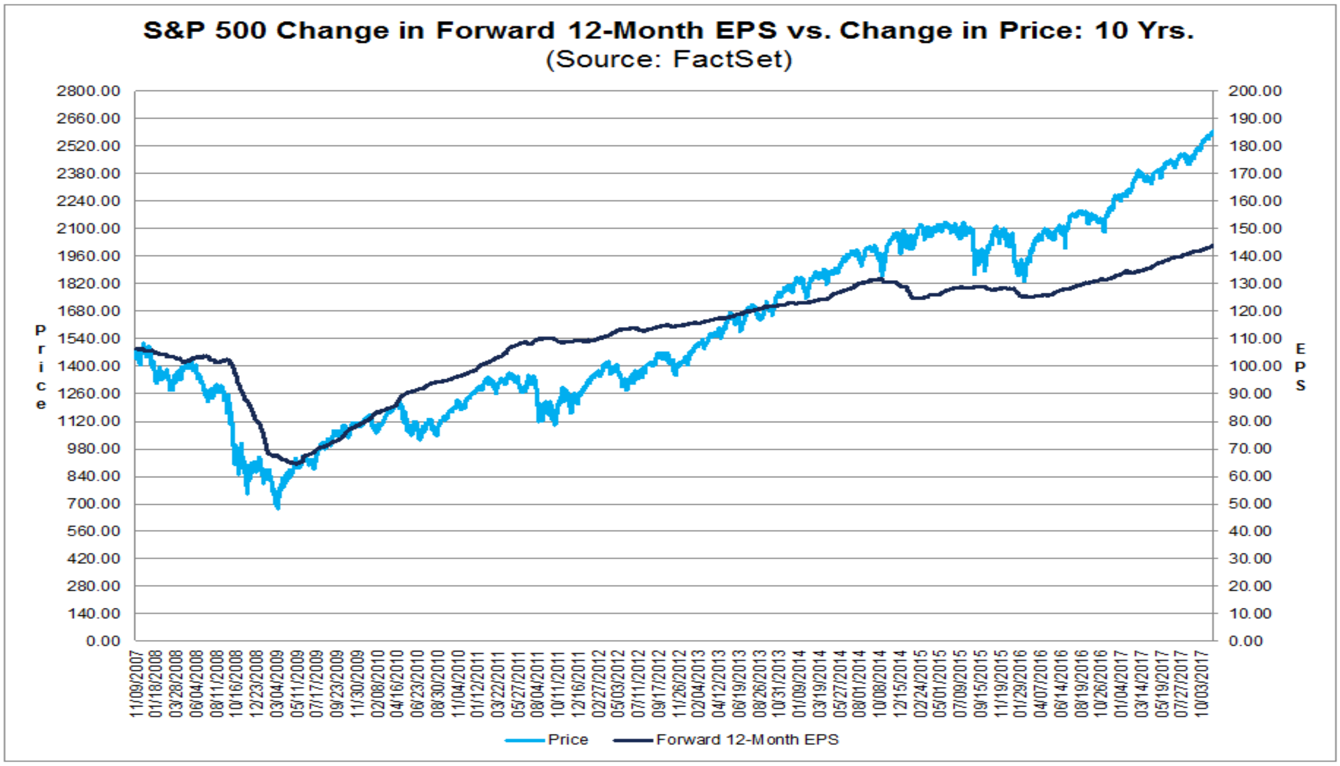
Forward 12M P/E Ratio: Sector Level

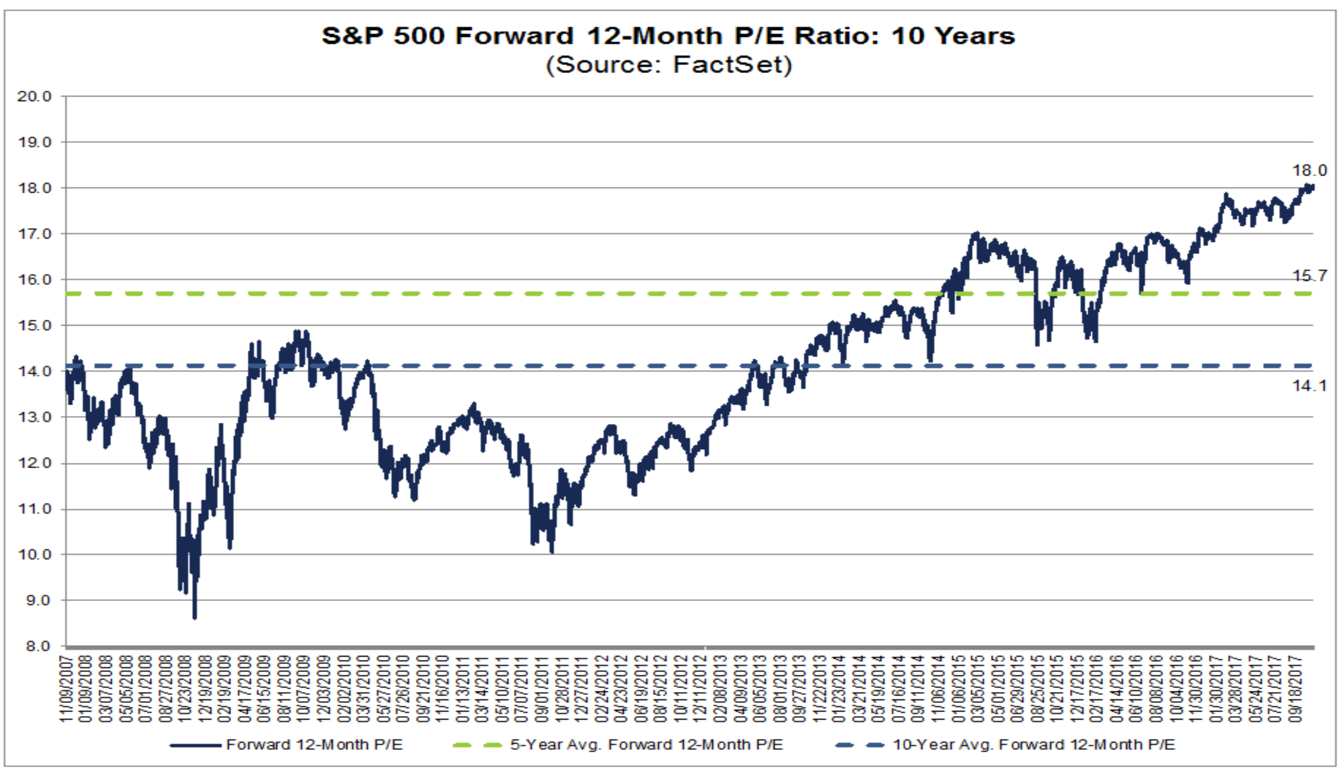


	Energy	Consumer Disc.	Info. Technology	Consumer Staples	Industrials	Utilities	Real Estate	Materials	S&P 500	Health Care	Financials	Telecom Services
Fwd P/E	28.0	19.9	19.3	19.0	18.6	18.5	18.4	18.1	18.0	16.6	14.3	11.5
5-Yr Avg.	26.9	17.8	15.2	18.6	15.9	16.1		15.4	15.7	15.7	12.8	13.8
10-Yr Avg.	19.0	16.6	14.4	16.3	14.6	14.5		14.7	14.1	13.6	12.3	14.2

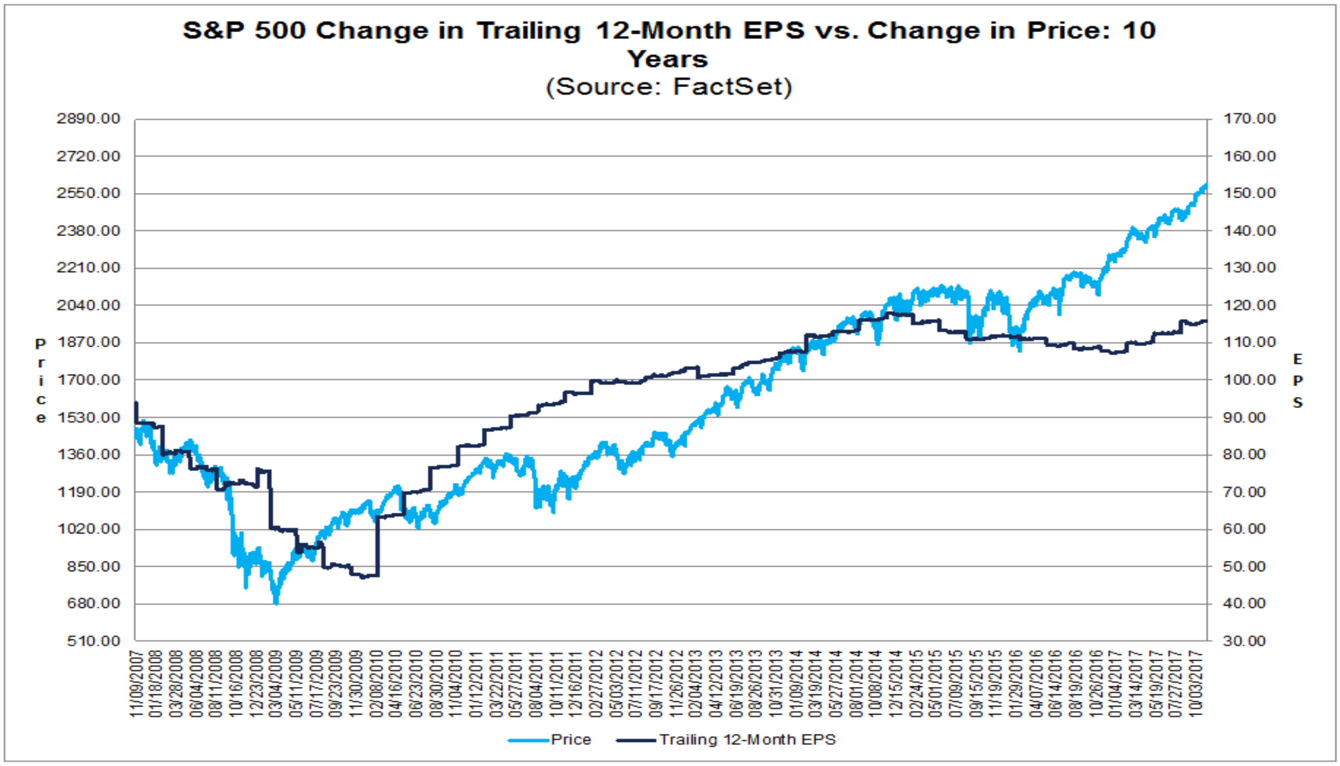


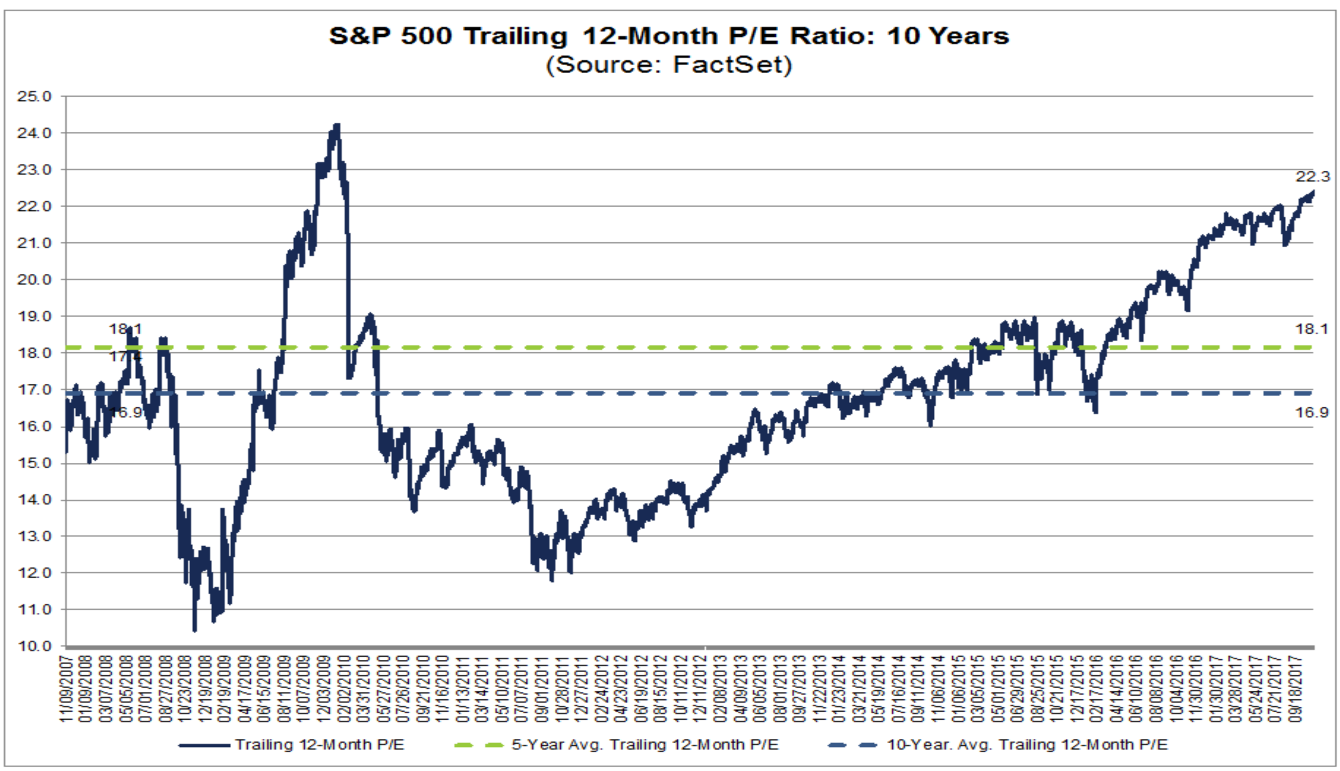
Forward 12M P/E Ratio: Long-Term Averages



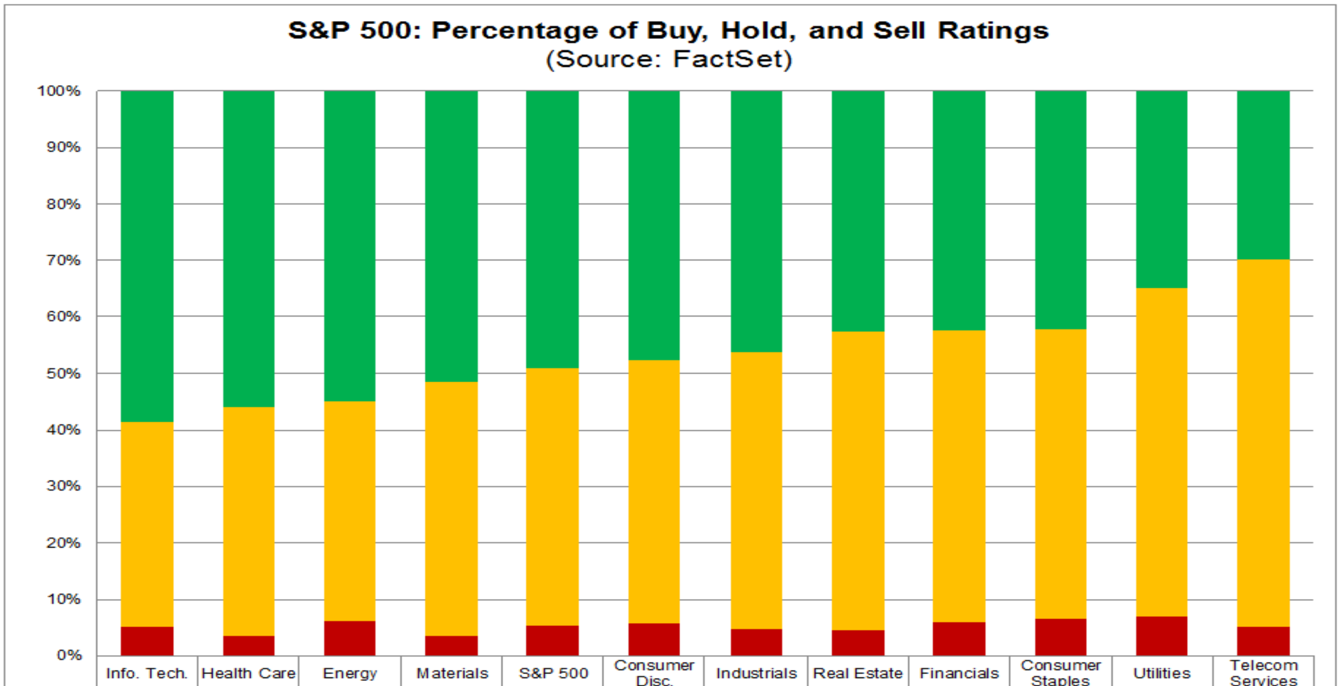


Trailing 12M P/E Ratio: Long-Term Averages

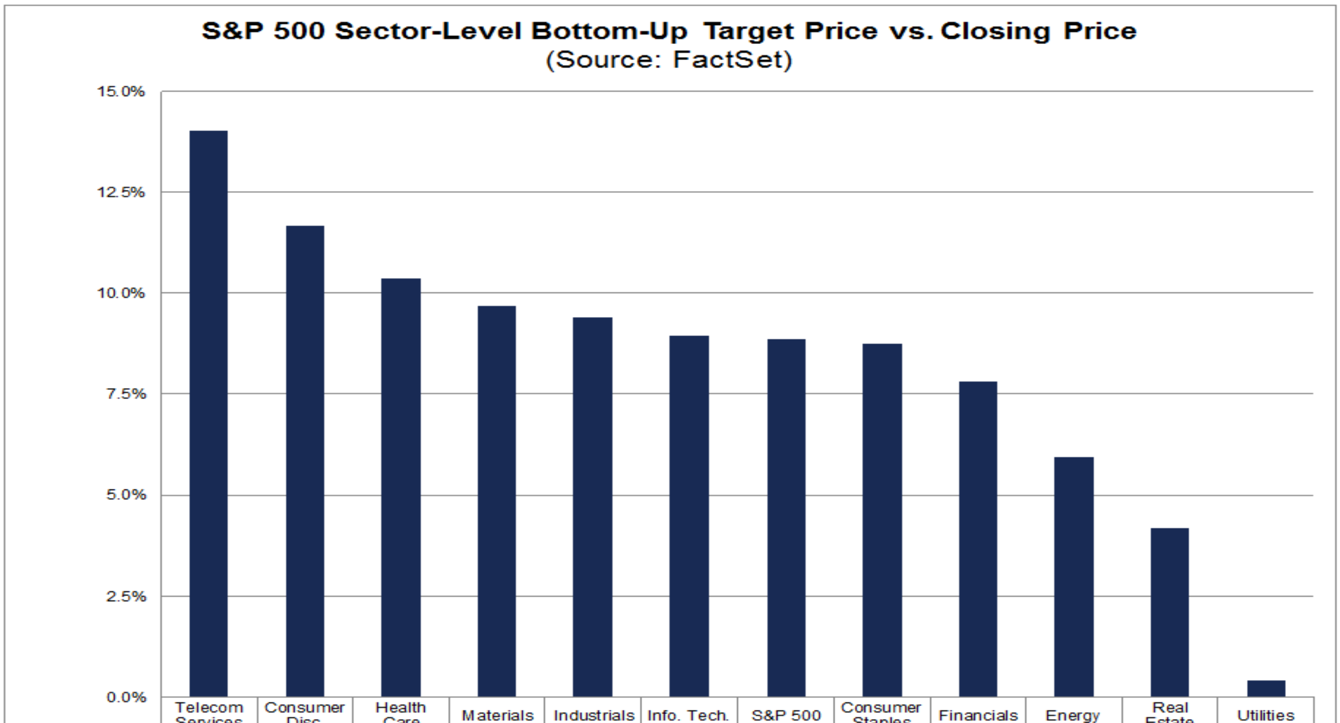




Targets & Ratings



	Info. Tech.	Health Care	Energy	Materials	S&P 500	Consumer Disc.	Industrials	Real Estate	Financials	Consumer Staples	Utilities	Telecom Services
Buy	59%	56%	55%	52%	49%	48%	46%	43%	43%	42%	35%	30%
Hold	36%	40%	39%	45%	46%	46%	49%	53%	51%	51%	58%	65%
Sell	5%	4%	6%	4%	5%	6%	5%	5%	6%	6%	7%	5%



	Telecom Services	Consumer Disc.	Health Care	Materials	Industrials	Info. Tech.	S&P 500	Consumer Staples	Financials	Energy	Real Estate	Utilities
Target/Close	14.0%	11.7%	10.4%	9.7%	9.4%	9.0%	8.9%	8.8%	7.8%	6.0%	4.2%	0.4%

Important Notice

The information contained in this report is provided "as is" and all representations, warranties, terms and conditions, oral or written, express or implied (by common law, statute or otherwise), in relation to the information are hereby excluded and disclaimed to the fullest extent permitted by law. In particular, FactSet, its affiliates and its suppliers disclaim implied warranties of merchantability and fitness for a particular purpose and make no warranty of accuracy, completeness or reliability of the information. This report is for informational purposes and does not constitute a solicitation or an offer to buy or sell any securities mentioned within it. The information in this report is not investment advice. FactSet, its affiliates and its suppliers assume no liability for any consequence relating directly or indirectly to any action or inaction taken based on the information contained in this report.

FactSet aggregates and redistributes estimates data and does not conduct any independent research. Nothing in our service constitutes investment advice or FactSet recommendations of any kind. Estimates data is provided for information purposes only.

FactSet has no relationship with creators of estimates that may reasonably be expected to impair its objective presentation of such estimate or recommendation. FactSet redistributes estimates as promptly as reasonably practicable from research providers.

About FactSet

FactSet (NYSE:FDS | NASDAQ:FDS) delivers superior analytics, service, content, and technology to help more than 66,000 users see and seize opportunity sooner. We are committed to giving investment professionals the edge to outperform, with fresh perspectives, informed insights, and the industry-leading support of our dedicated specialists. We're proud to have been recognized with multiple awards for our analytical and data-driven solutions and repeatedly ranked as one of Fortune's 100 Best Companies to Work For and a Best Workplace in the United Kingdom and France. Subscribe to our thought leadership blog to get fresh insight delivered daily at insight.factset.com. Learn more at www.factset.com and follow on Twitter: www.twitter.com/factset.