

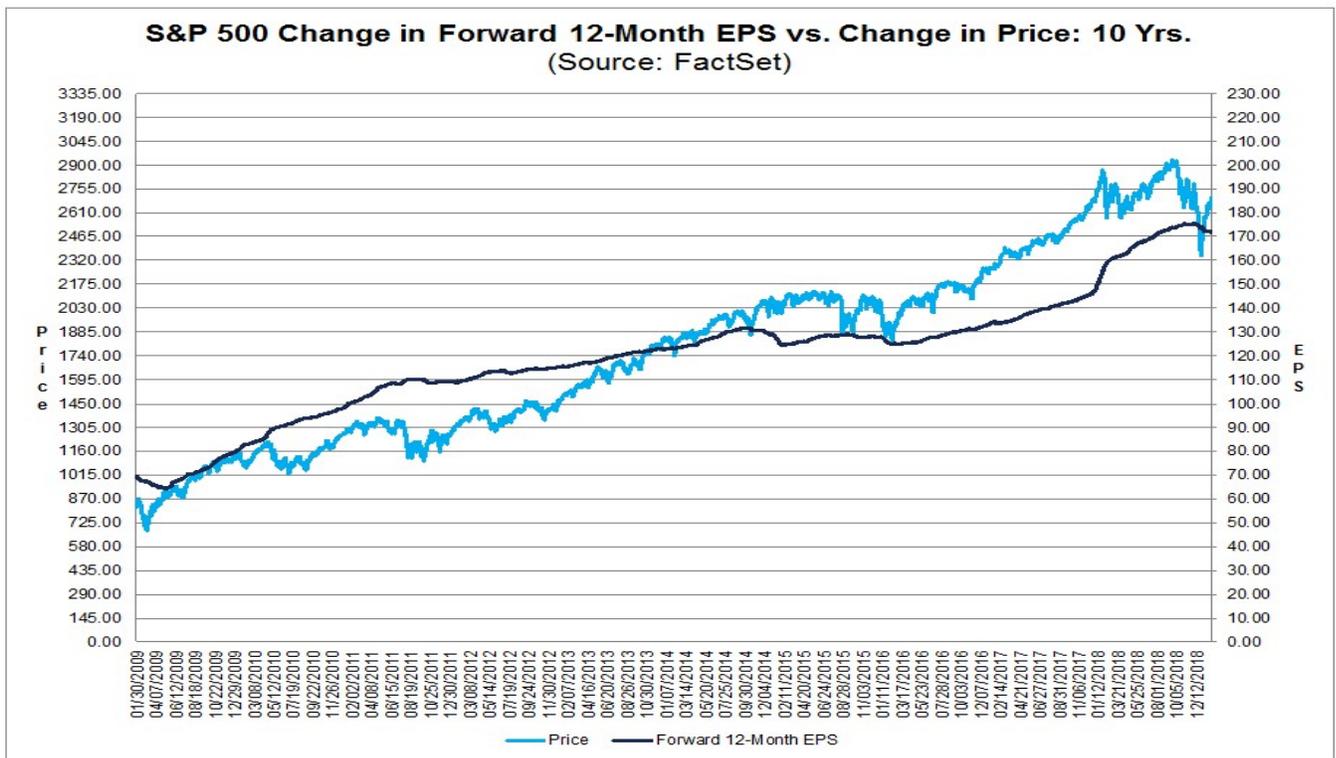
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Key Metrics

- **Earnings Scorecard:** For Q4 2018 (with 46% of the companies in the S&P 500 reporting actual results for the quarter), 70% of S&P 500 companies have reported a positive EPS surprise and 62% have reported a positive revenue surprise.
- **Earnings Growth:** For Q4 2018, the blended earnings growth rate for the S&P 500 is 12.4%. If 12.4% is the actual growth rate for the quarter, it will mark the fifth straight quarter of double-digit earnings growth for the index.
- **Earnings Revisions:** On December 31, the estimated earnings growth rate for Q4 2018 was 12.2%. Six sectors have higher growth rates today (compared to December 31) due to upward revisions to EPS estimates and positive EPS surprises.
- **Earnings Guidance:** For Q1 2019, 33 S&P 500 companies have issued negative EPS guidance and 9 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 15.7. This P/E ratio is below the 5-year average (16.4) but above the 10-year average (14.6).



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Topic of the Week:

S&P 500 Now Projected to Report a Year-over-Year Decline in Earnings in Q1 2019

During the month of January, analysts lowered earnings estimates for companies in the S&P 500 for the first quarter. The Q1 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for all the companies in the index) dropped by 4.1% (to \$38.55 from \$40.21) during this period. How significant is a 4.1% decline in the bottom-up EPS estimate during the first month of a quarter? How does this decrease compare to recent quarters?

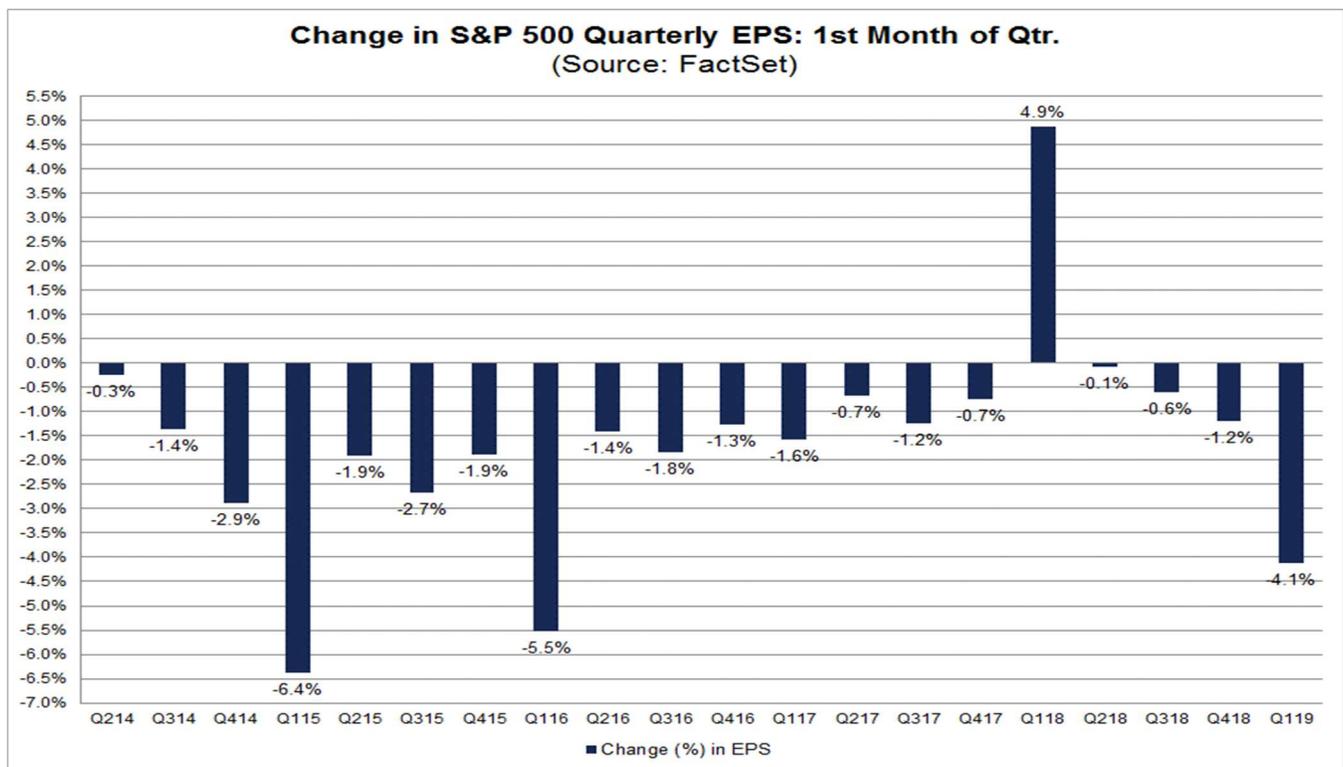
During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 1.6%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 1.8%. During the past fifteen years, (60 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 1.7%. Thus, the decline in the bottom-up EPS estimate recorded during the first month of the first quarter was larger than the 5-year, 10-year, and 15-year averages.

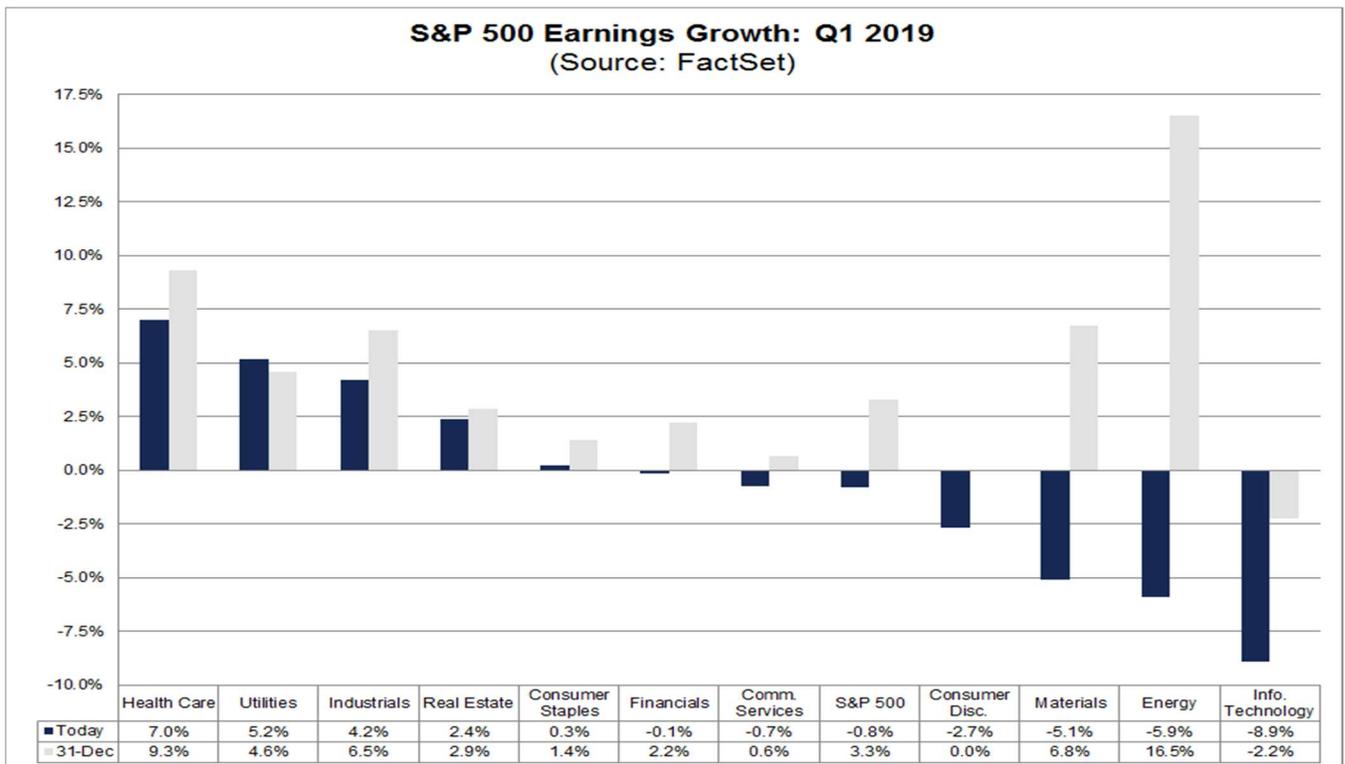
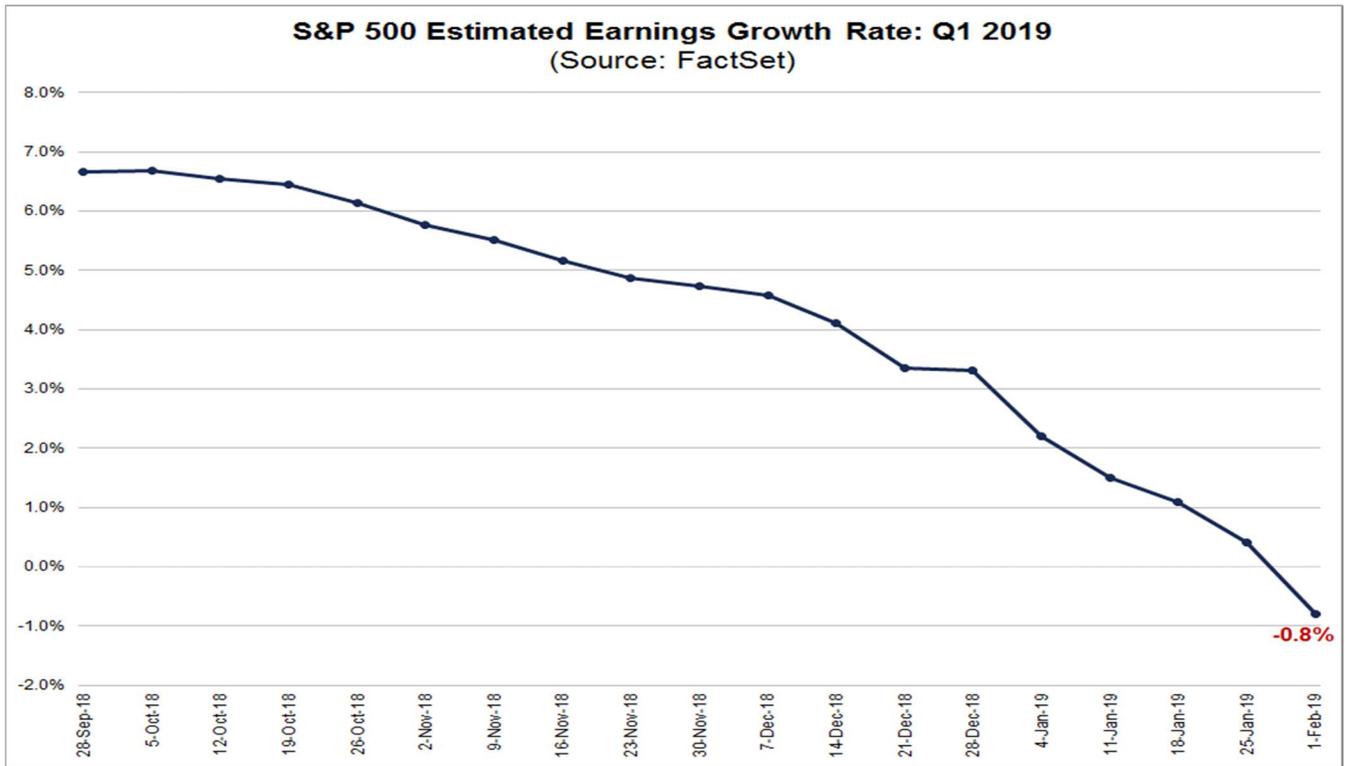
In fact, the first quarter marked the largest decline in the bottom-up EPS estimate during the first month of a quarter since Q1 2016 (-5.5%)

At the sector level, all eleven sectors recorded a decline in their bottom-up EPS estimate during the first month of the quarter, led by the Energy (-22.5%) and Information Technology (-7.3%) sectors. Overall, seven sectors recorded a larger decrease in their bottom-up EPS estimate relative to their 5-year average and their 10-year average for the first month of a quarter.

Because of the downward revisions to EPS estimates during the month, the S&P 500 is now projected to report a small year-over-year decline in earnings (-0.8%) for the first quarter. However, earnings estimates for the first quarter have been falling for the past few months. On September 30, the estimated earnings growth rate for Q1 2019 was 6.7%. On December 31, the estimated earnings growth rate for Q1 2019 was 3.3%. Six of the eleven sectors are now predicted to report a decrease in earnings for the first quarter, led by the Information Technology (-8.9%) sector.

If the index reports an actual decline in earnings for the first quarter, it will mark the first year-over-year decline in earnings since Q2 2016 (-3.1%)





Q4 Earnings Season: By The Numbers

Overview

To date, 46% of the companies in the S&P 500 have reported actual results for Q4 2018. In terms of earnings, the percentage of companies reporting actual EPS above estimates (70%) is below the 5-year average. In aggregate, companies are reporting earnings that are 3.5% above the estimates, which is also below the 5-year average. In terms of revenues, the percentage of companies reporting actual revenues above estimates (62%) is above the 5-year average. In aggregate, companies are reporting revenues that are 0.8% above the estimates, which is also above the 5-year average.

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report), year-over-year earnings growth rate for the fourth quarter is 12.4% today, which is above the earnings growth rate of 10.9% last week. Positive earnings surprises reported companies in multiple sectors (led by the Energy sector) were responsible for the increase in the earnings growth rate during the week. If 12.4% is the actual growth rate for the quarter, it will mark the first time the index has not reported earnings growth above 20% since Q4 2017. However, it will also mark the fifth straight quarter of double-digit earnings growth for the index. Ten of the eleven sectors are reporting year-over-year earnings growth. Five sectors are reporting double-digit earnings growth, led by the Energy, Industrials, and Communication Services sectors.

The blended, year-over-year revenue growth rate for the fourth quarter is 6.6% today, which is above the revenue growth rate of 6.2% last week. Positive revenue surprises reported by companies in multiple sectors (led by the Health Care sector) were responsible for the increase in the revenue growth rate during the week. Ten of the eleven sectors are reporting year-over-year growth in revenues. Three sectors are reporting double-digit growth in revenues: Communications Services, Energy, and Real Estate.

Looking at future quarters, analysts predict a decline in earnings for the first quarter of 2019 and low single-digit growth in earnings for the second and third quarters of 2019.

The forward 12-month P/E ratio is 15.7, which is below the 5-year average but above the 10-year average.

During the upcoming week, 103 S&P 500 companies (including 1 Dow 30 component) are scheduled to report results for the fourth quarter.

Scorecard: Companies Underperforming Averages on EPS and Outperforming Averages on Sales

Percentage of Companies Beating EPS Estimates (70%) is Below 5-Year Average

Overall, 46% of the companies in the S&P 500 have reported earnings to date for the fourth quarter. Of these companies, 70% have reported actual EPS above the mean EPS estimate, 7% have reported actual EPS equal to the mean EPS estimate, and 23% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is below the 1-year (77%) average and below the 5-year (71%) average.

At the sector level, the Information Technology (87%) and Industrials (85%) sectors have the highest percentages of companies reporting earnings above estimates, while the Utilities (20%) and Real Estate (27%) sectors have the lowest percentages of companies reporting earnings (or FFO for Real Estate) above estimates.

Earnings Surprise Percentage (+3.5%) is Below 5-Year Average

In aggregate, companies are reporting earnings that are 3.5% above expectations. This surprise percentage is below the 1-year (+6.0%) average and below the 5-year (+4.8%) average.

The Energy sector (+23.0%) is reporting the largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Valero Energy (\$2.12 vs. \$1.13) has reported the largest positive EPS surprise.

The Consumer Discretionary (+6.0%) sector is reporting second the largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Lennar (\$2.42 vs. \$1.93), V.F. Corporation (\$1.31 vs. \$1.10), Starbucks (\$0.75 vs. \$0.65), and NIKE (\$0.52 vs. \$0.46) have reported large positive EPS surprises.

The Utilities (-1.5%) sector is reporting the largest negative (aggregate) difference between actual earnings and estimated earnings. Within this sector, NextEra Energy (\$1.49 vs. \$1.53) and Dominion Energy (0.89 vs. \$0.91) have reported the largest negative EPS surprises.

Market Rewarding Positive and Negative Earnings Surprises

To date, the market is rewarding both positive and negative earnings surprises

Companies that have reported positive earnings surprises for Q4 2018 have seen an average price increase of +2.3% two days before the earnings release through two days after the earnings release. This percentage increase larger than the 5-year average price increase of +1.0% during this same window for companies reporting positive earnings surprises.

Companies that have reported negative earnings surprises for Q4 2018 have seen an average price increase of +0.8% two days before the earnings release through two days after the earnings release. This percentage increase is an improvement relative to 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 (62%) is Above 5-Year Average

In terms of revenues, 62% of companies have reported actual sales above estimated sales and 38% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is below the 1-year average (72%) but above the 5-year average (60%).

At the sector level, the Health Care (88%) and Industrials (78%) sectors have the highest percentages of companies reporting revenues above estimates, while the Materials (15%) and Financials (48%) sectors have the lowest percentages of companies reporting revenues above estimates.

Revenue Surprise Percentage (+0.8%) is Above 5-Year Average

In aggregate, companies are reporting revenues that are 0.8% above expectations. This surprise percentage is below the 1-year (+1.4%) average but above the 5-year (+0.7%) average.

The Energy (+2.2%) sector is reporting the largest positive (aggregate) difference between actual revenues and estimated revenues. Within this sector, Valero Energy (\$28.73 billion vs. \$24.66 billion) and Hess Corporation (\$1.68 billion vs. \$1.46 billion) have reported the largest positive revenue surprises.

The Health Care (+2.1%) sector is reporting the second largest positive (aggregate) difference between actual revenues and estimated revenues. Within this sector, Cigna Corporation (\$14.30 billion vs. \$12.18 billion) has reported the largest positive revenue surprise.

The Utilities (-2.1%) sector is reporting the largest negative (aggregate) difference between actual revenues and estimated revenues. Within this sector, NextEra Energy (\$4.39 billion vs. \$4.97 billion) and Xcel Energy (\$2.88 billion vs. \$3.22 billion) have reported the largest negative revenue surprises.

Revisions: Increases in Blended Earnings and Revenue Growth Rates this Week

Increase in Blended Earnings Growth This Week Due to Positive Surprises in Multiple Sectors

The blended, year-over-year earnings growth rate for the fourth quarter is 12.4% today, which is above the earnings growth rate of 10.9% last week. Positive earnings surprises reported by companies in multiple sectors (led by the Energy sector) were responsible for the increase in the earnings growth rate during the week.

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

The blended, year-over-year revenue growth rate for the fourth quarter is 6.6% today, which is above the revenue growth rate of 6.2% last week. Positive revenue surprises reported by companies in multiple sectors (led by the Health Care sector) were responsible for the increase in the earnings growth rate during the week.

Energy Sector Has Seen Largest Increase in Earnings Growth since December 31

The blended, year-over-year earnings growth rate for Q4 2018 of 12.4% is above the estimate of 12.2% at the end of the fourth quarter (December 31). Six sectors have recorded an increase in earnings growth since the end of the quarter due to upward revisions to earnings estimates and positive earnings surprises, led by the Energy (to 96.3% from 75.9%) sector. Five sectors have recorded a decrease in earnings growth during this time due to downward revisions to earnings estimates and negative earnings surprises, led by the Materials (to 2.8% from 9.4%) and Utilities (to -5.2% from 0.9%) sectors.

Health Care Sector Has Seen Largest Increase in Revenue Growth since December 31

The blended, year-over-year revenue growth rate for Q4 2018 of 6.6% is above the estimate of 6.4% at the end of the fourth quarter (December 31). Six sectors have recorded 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 Health Care (to 8.5% from 5.8%) sector. Three sectors have recorded a decrease in revenue growth during this time due to downward revisions to revenue estimates and negative revenue surprises, led by the Information Technology (to 1.4% from 3.8%) sector. Two sectors (Consumer Staples and Real Estate) have the same revenue growth rates today relative to December 31.

Earnings Growth: 12.4%

The blended (year-over-year) earnings growth rate for Q4 2018 is 12.4%. If 12.4% is the final growth rate for the quarter, it will mark the first time the index has not reported earnings growth above 20% since Q4 2017. However, it will also mark the fifth straight quarter of double-digit earnings growth for the index. Ten of the eleven sectors are reporting year-over-year growth in earnings. Five sectors are reporting double-digit earnings growth, led by the Energy, Industrials, and Communication Services sectors.

Energy: Broad-Based Growth

The Energy sector is reporting the highest (year-over-year) earnings growth of all eleven sectors at 96.3%. At the sub-industry level, five of the six sub-industries in the sector are reporting earnings growth for the quarter: Oil & Gas Drilling (N/A due to \$0 earnings in year-ago), Oil & Gas Exploration & Production (133%), Oil & Gas Refining & Marketing (129%), Integrated Oil & Gas (102%), and Oil & Gas Storage & Transportation (64%). The Oil & Gas Equipment & Services (-7%) sub-industry is the only sub-industry reporting a year-over-year decline in earnings in the sector.

Industrials: 9 of 12 Industries Reporting Double-Digit Growth

The Industrials sector is reporting the second highest (year-over-year) earnings growth of all eleven sectors at 17.5%. At the industry level, 9 of the 12 industries in this sector are reporting earnings growth for the quarter. All nine of these industries are reporting double-digit growth in earnings, led by the Construction & Engineering (54%), Trading Companies & Distributors (41%), Road & Rail (37%), Aerospace & Defense (34%), and Airlines (31%) industries.

At the company level, General Electric is the largest detractor to earnings growth for the sector. The company reported actual EPS of \$0.17 for Q4 2018, compared to actual EPS of \$0.27 in the year-ago quarter. If this company were excluded, the blended earnings growth rate for the sector would improve to 22.2% from 17.5%.

Communication Services: 3 of 4 Industries Reporting Double-Digit Growth

The Communication Services sector is reporting the third highest (year-over-year) earnings growth of all eleven sectors at 15.5%. At the industry level, three of the four industries in this sector are reporting earnings growth for the quarter. All three of these industries are reporting double-digit growth in earnings: Diversified Telecommunications Services (31%), Media (25%), and Interactive Media & Services (11%).

Revenue Growth: 6.6%

The blended (year-over-year) revenue growth rate for Q4 2018 is 6.6%. Ten of the eleven sectors are reporting year-over-year growth in revenues. Three sectors are reporting double-digit growth in revenues: Communication Services, Energy, and Real Estate.

Communication Services: Alphabet Leads Growth

The Communication Services sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 20.2%. At the industry level, all four industries in this sector are reporting revenue growth. Two of these four industries are reporting double-digit revenue growth: Interactive Media & Services (46%) and Media (17%).

At the company level, Alphabet is the largest contributor to revenue growth for this sector. The mean revenue estimate for Alphabet for Q4 2018 is \$38.9 billion, compared to revenue of \$25.9 billion in the year-ago quarter. Because Alphabet is a dual-listed ticker in the index, the company's revenue numbers are counted twice in the growth rate calculation (once for GOOG and once for GOOGL). If this company were excluded, the blended revenue growth rate for this sector would fall to 12.0% from 20.2%.

Energy: 3 of 6 Sub-Industries Reporting Double-Digit Growth

The Energy sector is reporting the second highest (year-over-year) revenue growth of all eleven sectors at 12.2%. At the sub-industry level, five of the six sub-industries in the sector are reporting revenue growth for the quarter. Three of these five sub-industries are reporting double-digit revenue growth: Oil & Gas Drilling (31%), Oil & Gas Refining & Marketing (21%), and Integrated Oil & Gas (10%).

Real Estate: CBRE Group Leads Growth

The Real Estate sector is reporting the third highest (year-over-year) revenue growth of all eleven sectors at 10.9%. At the company level, CBRE Group is the largest contributor to revenue growth for the sector. The mean revenue estimate for CBRE Group for Q4 2018 is \$5.96 billion, compared to revenue of \$4.34 billion in the year-ago quarter. If this company were excluded, the estimated revenue growth rate for the sector would fall to 5.3% from 10.9%.

Looking Ahead: Forward Estimates and Valuation

Guidance: More S&P 500 Companies Issuing Negative EPS Guidance for Q1 than Average

The term “guidance” (or “preannouncement”) is defined as a projection or estimate for EPS provided by a company in advance of the company reporting actual results. Guidance is classified as negative if the estimate (or mid-point of a range estimates) provided by a company is lower than the mean EPS estimate the day before the guidance was issued. Guidance is classified as positive if the estimate (or mid-point of a range of estimates) provided by the company is higher than the mean EPS estimate the day before the guidance was issued.

At this point in time, 42 companies in the index have issued EPS guidance for Q1 2019. Of these 42 companies, 33 have issued negative EPS guidance and 9 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 79% (33 out of 42), which is above the 5-year average of 71%.

Earnings: Year-over-Year Decline Projected for Q1 2019

For the fourth quarter, companies are reporting earnings growth of 12.4% and revenue growth of 6.6%. For CY 2018, companies are reporting earnings growth of 20.2% and revenue growth of 8.7%. However, analysts expect a decline in earnings in Q1 2019 and low, single-digit growth in earnings in Q2 2019 and Q3 2019.

For Q1 2019, analysts are projecting a decline in earnings (-0.8%) and revenue growth of 5.7%.

For Q2 2019, analysts are projecting earnings growth of 1.6% and revenue growth of 5.1%.

For Q3 2019, analysts are projecting earnings growth of 2.7% and revenue growth of 4.9%.

For Q4 2019, analysts are projecting earnings growth of 9.9% and revenue growth of 6.0%.

For CY 2019, analysts are projecting earnings growth of 5.6% and revenue growth of 5.3%.

Valuation: Forward P/E Ratio is 15.7, Above the 10-Year Average (14.6)

The forward 12-month P/E ratio is 15.7. This P/E ratio is below the 5-year average of 16.4 but above the 10-year average of 14.6. It is also above the forward 12-month P/E ratio of 14.4 recorded at the end of the fourth quarter (December 31). Since the end of the fourth quarter (December 31), the price of the index has increased by 7.9%, while the forward 12-month EPS estimate has decreased by 1.1%.

At the sector level, the Consumer Discretionary (20.1) sector has the highest forward 12-month P/E ratio, while the Financials (11.4) sector has the lowest forward 12-month P/E ratio.

Targets & Ratings: Analysts Project 13% Increase in Price Over Next 12 Months

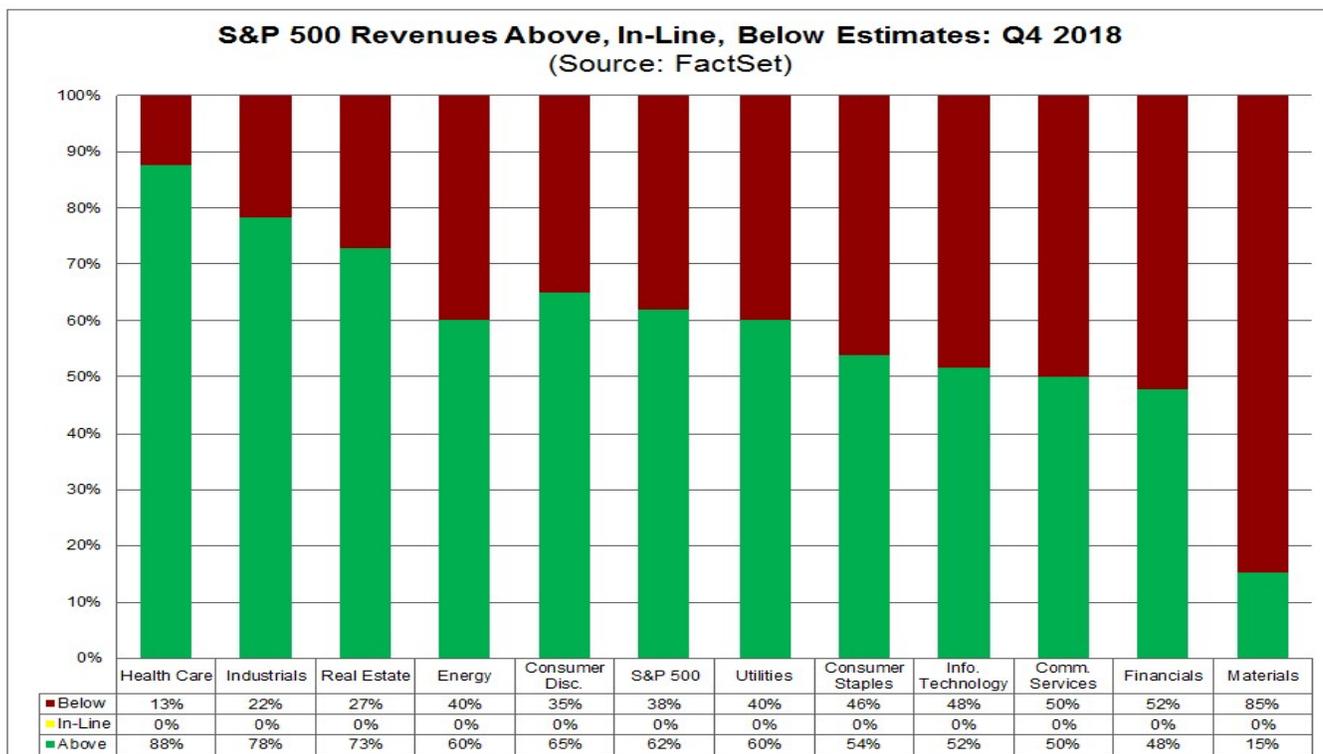
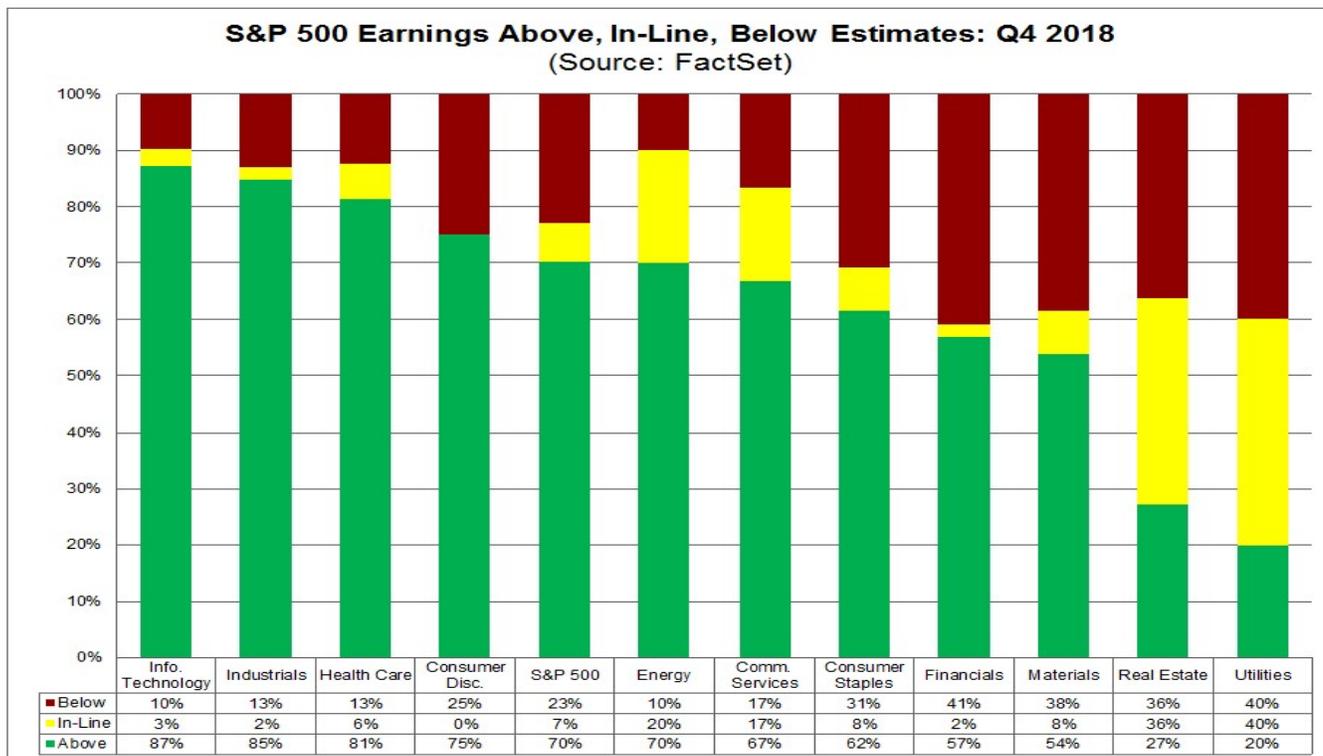
The bottom-up target price for the S&P 500 is 3044.19, which is 12.6% above the closing price of 2704.10. At the sector level, the Energy (+18.8%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Utilities (+1.8%) 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 11,171 ratings on stocks in the S&P 500. Of these 11,171 ratings, 54.4% are Buy ratings, 40.0% are Hold ratings, and 5.6% are Sell ratings. At the sector level, the Energy (67%) sector has the highest percentage of Buy ratings, while the Consumer Staples (41%) sector has the lowest percentage of Buy ratings.

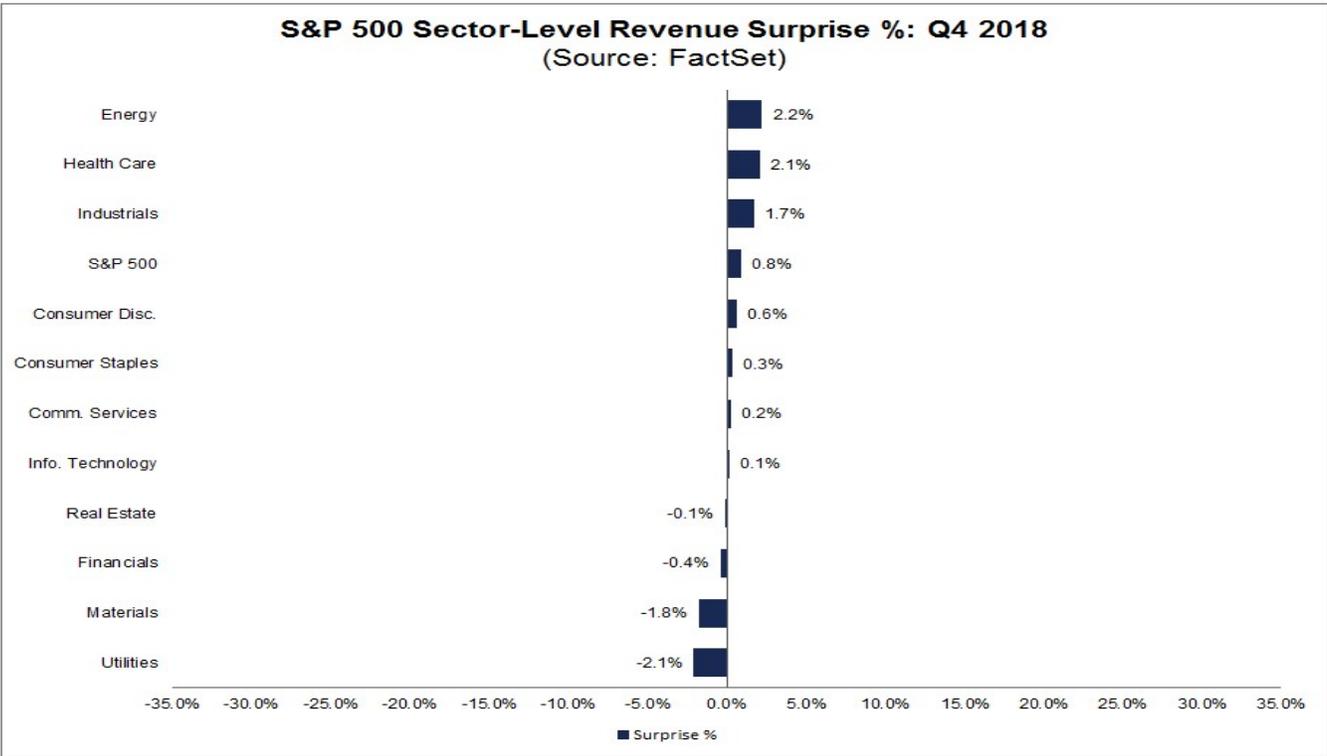
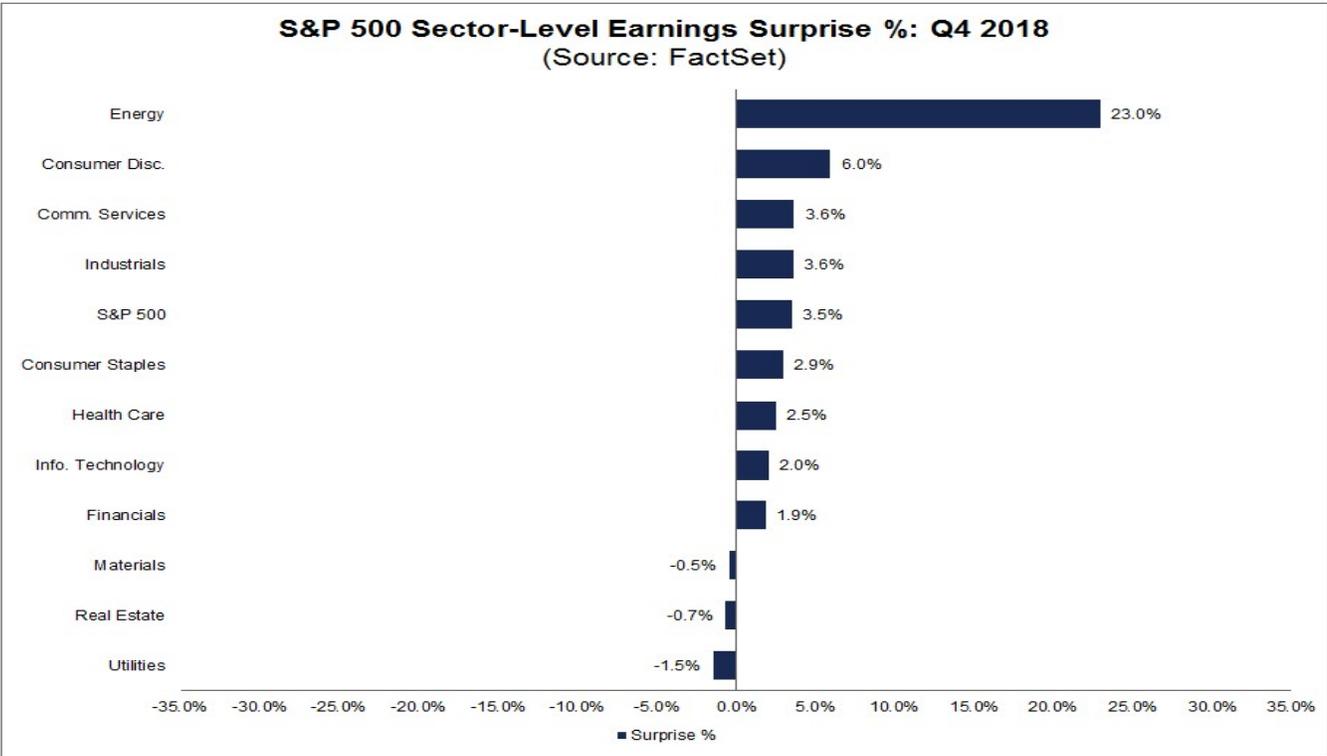
Companies Reporting Next Week: 103

During the upcoming week, 103 S&P 500 companies (including 1 Dow 30 component) is scheduled to report results for the fourth quarter.

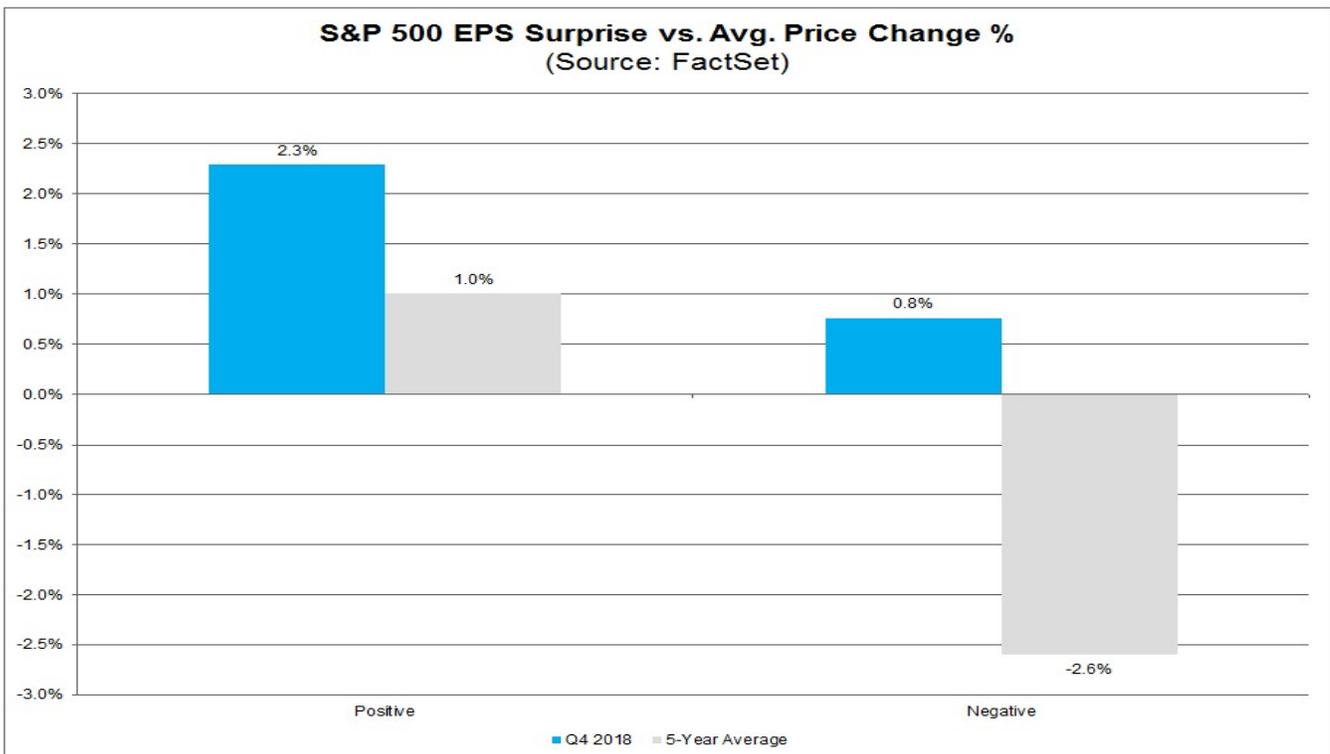
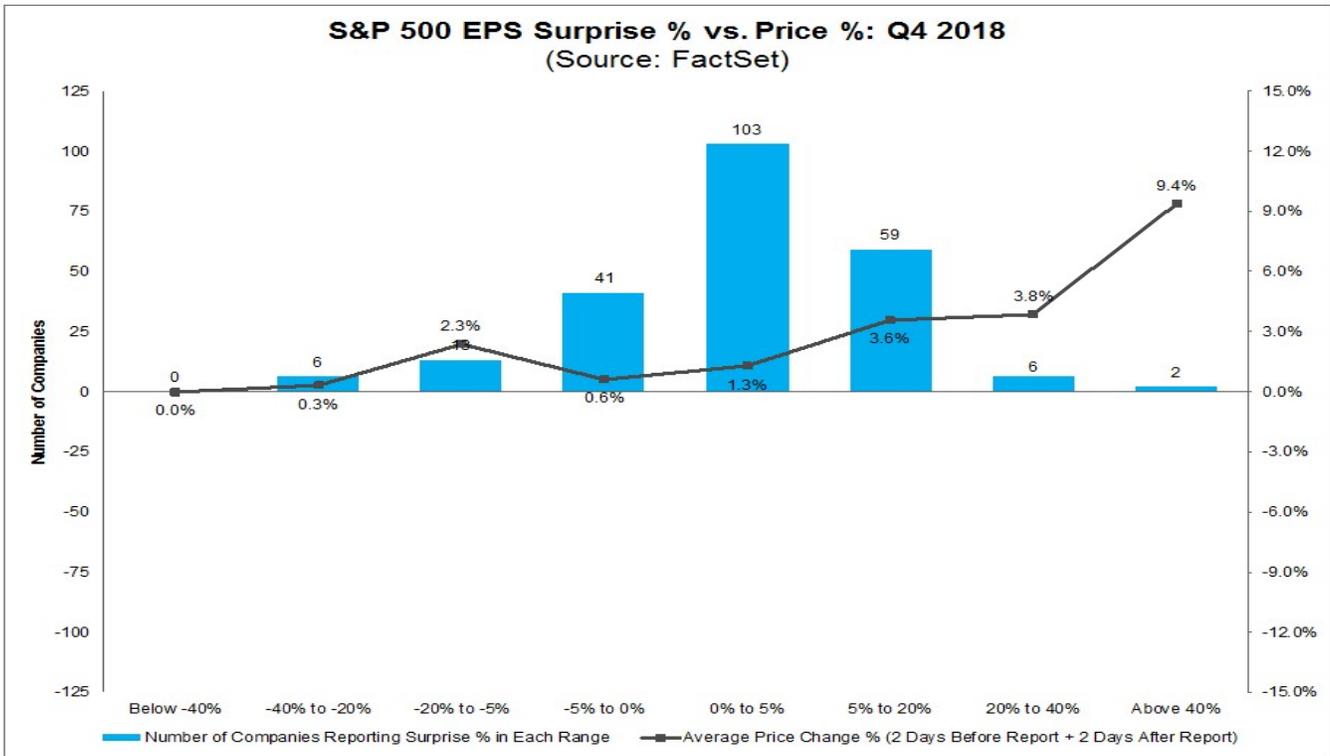
Q4 2018: Scorecard



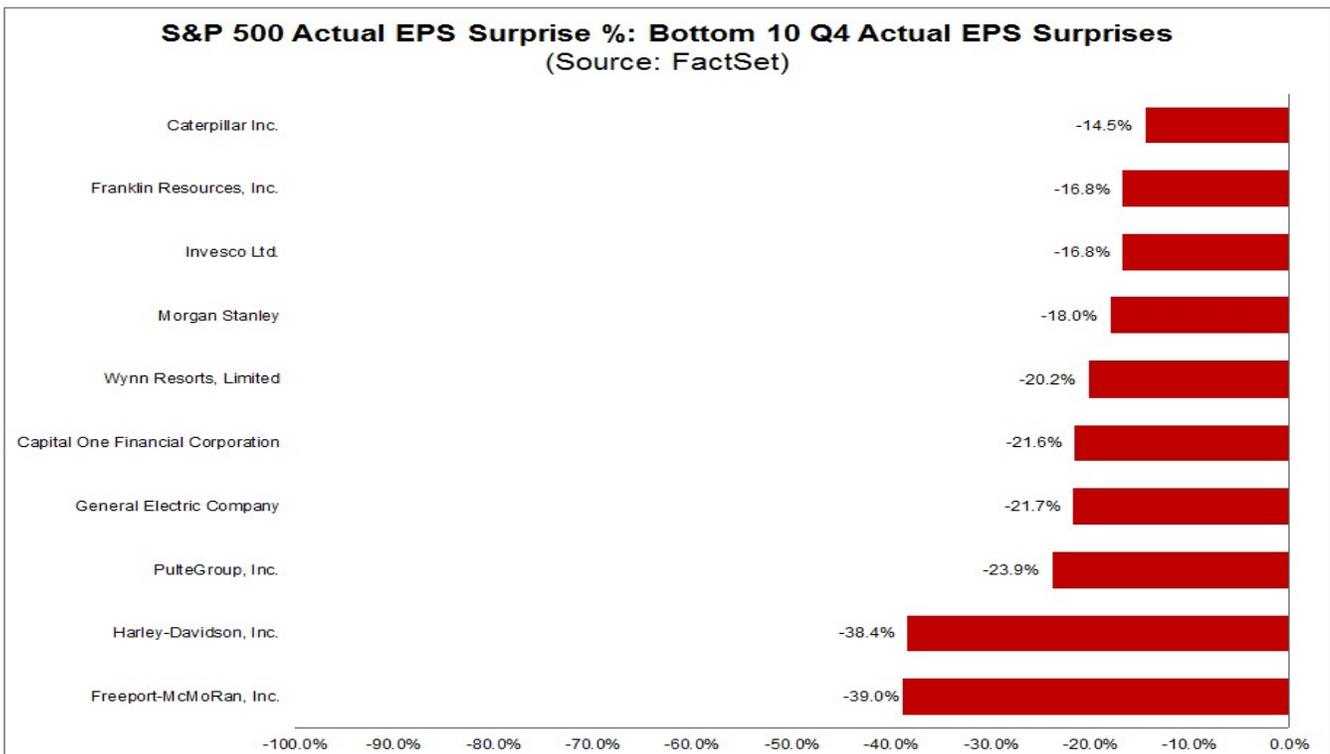
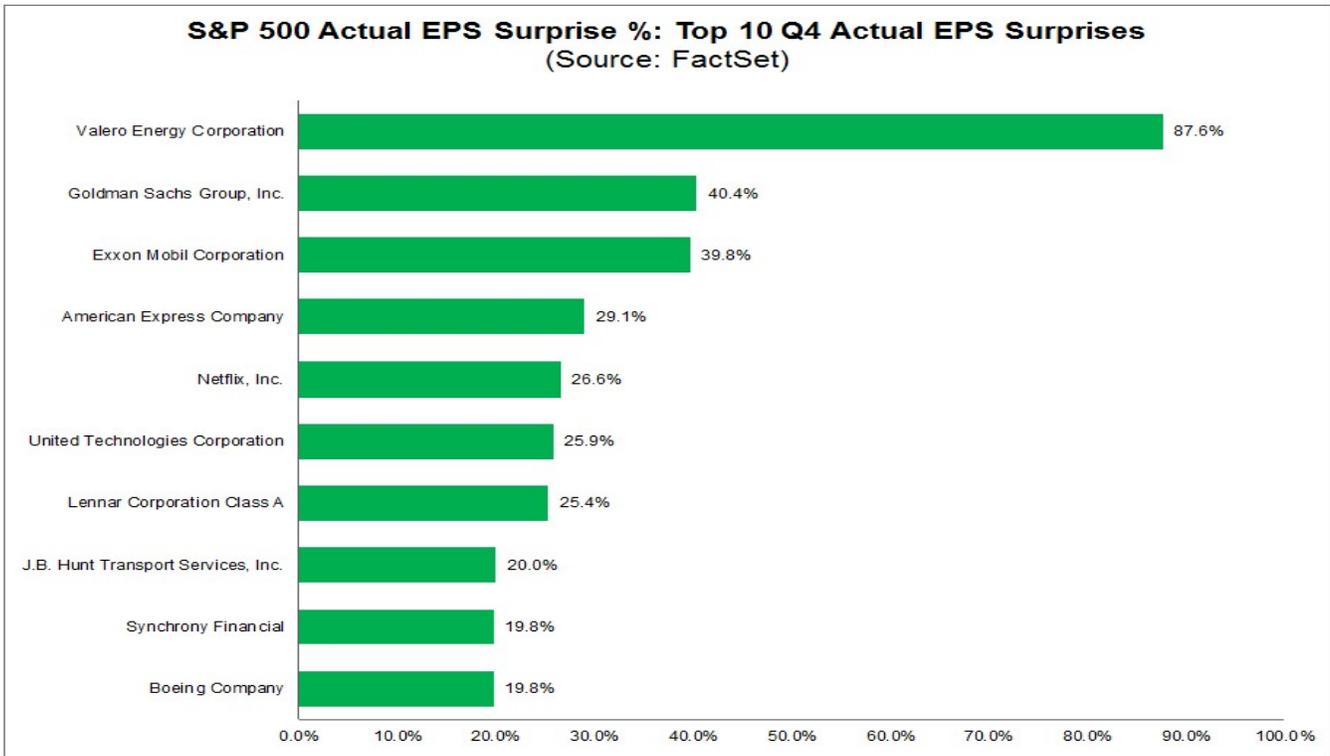
Q4 2018: Scorecard



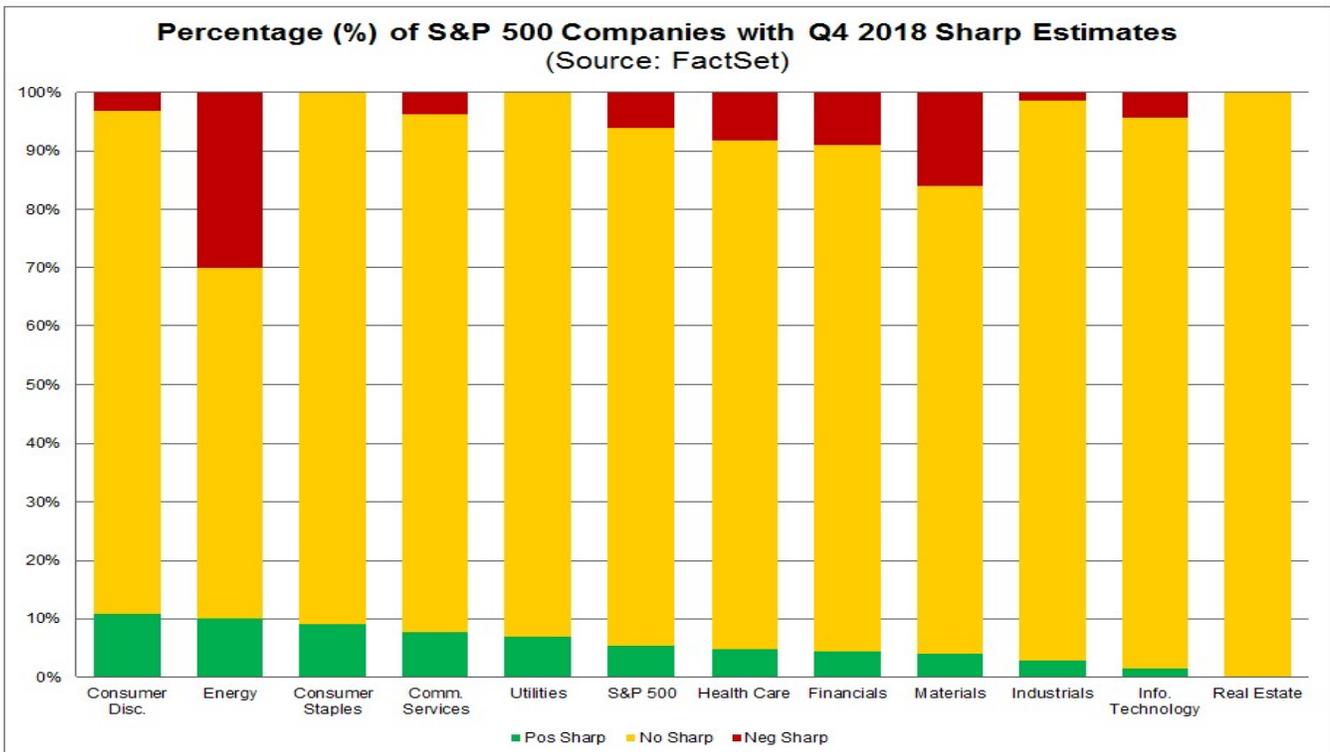
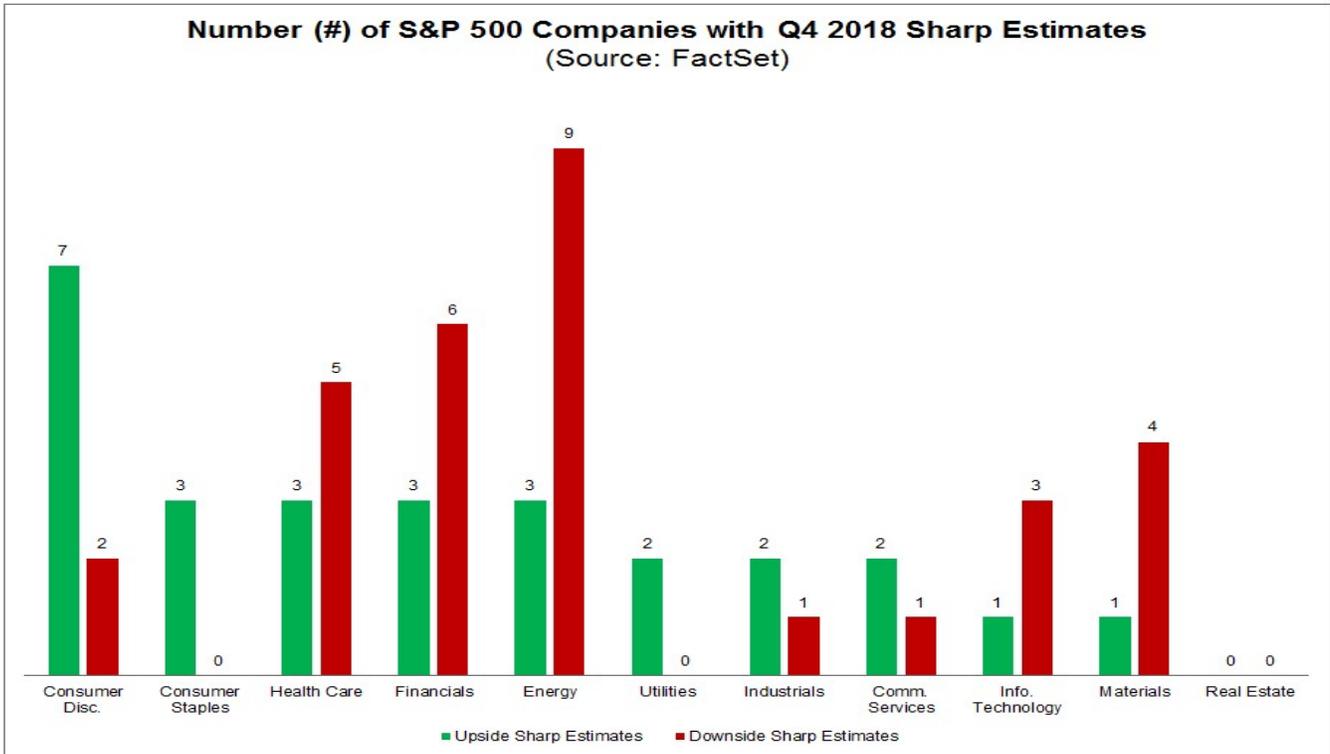
Q4 2018: Scorecard



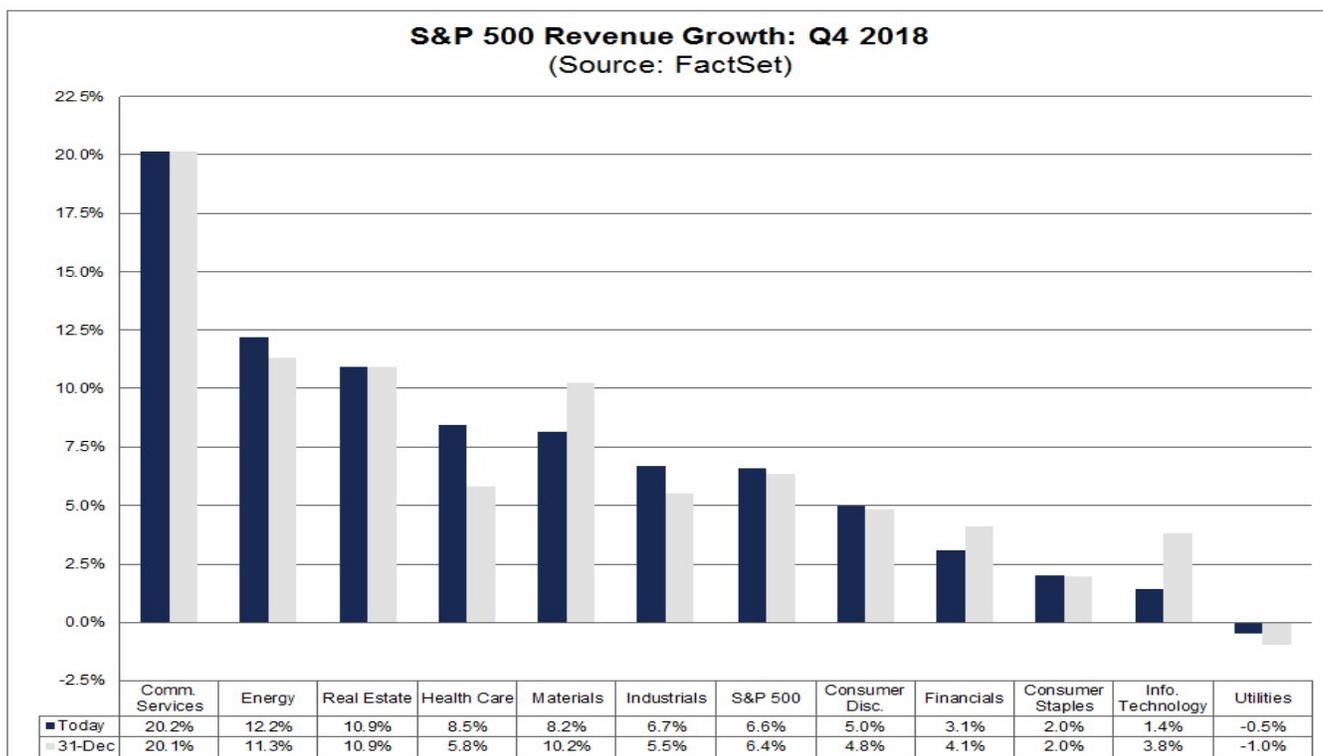
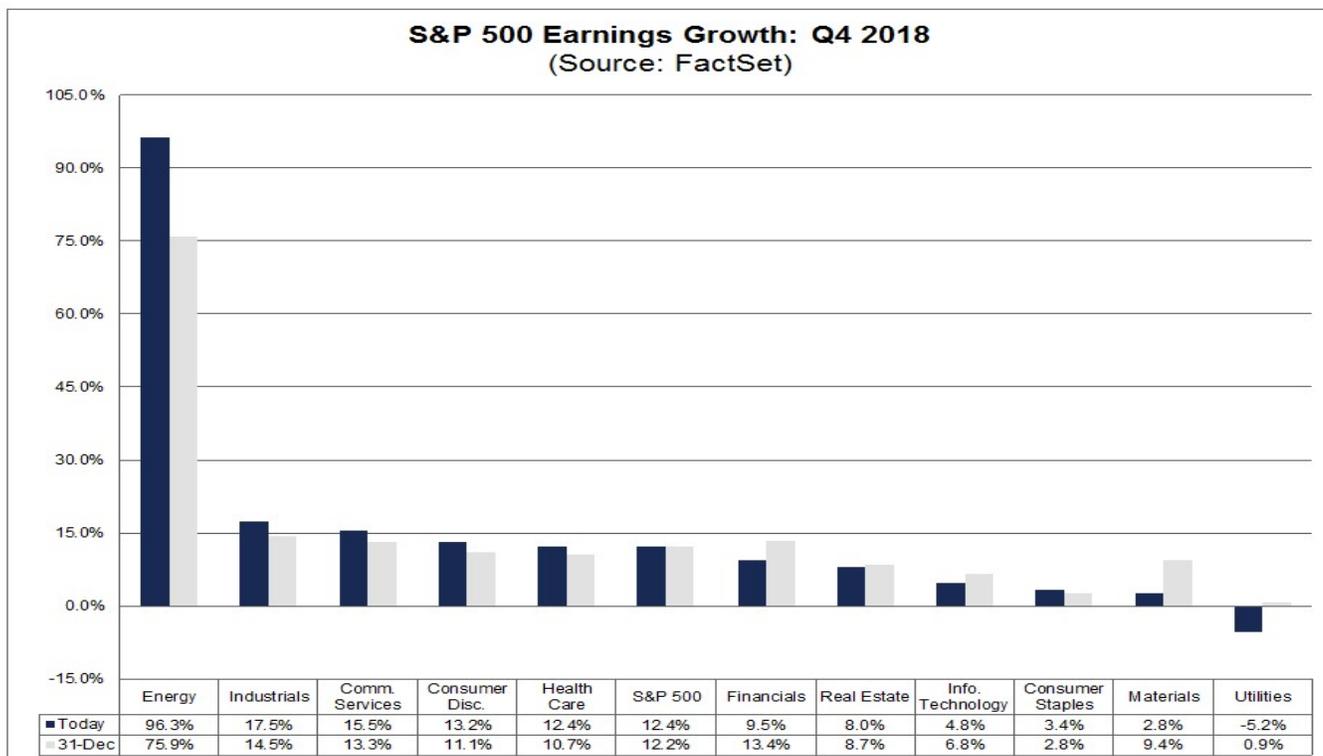
Q4 2018: Scorecard



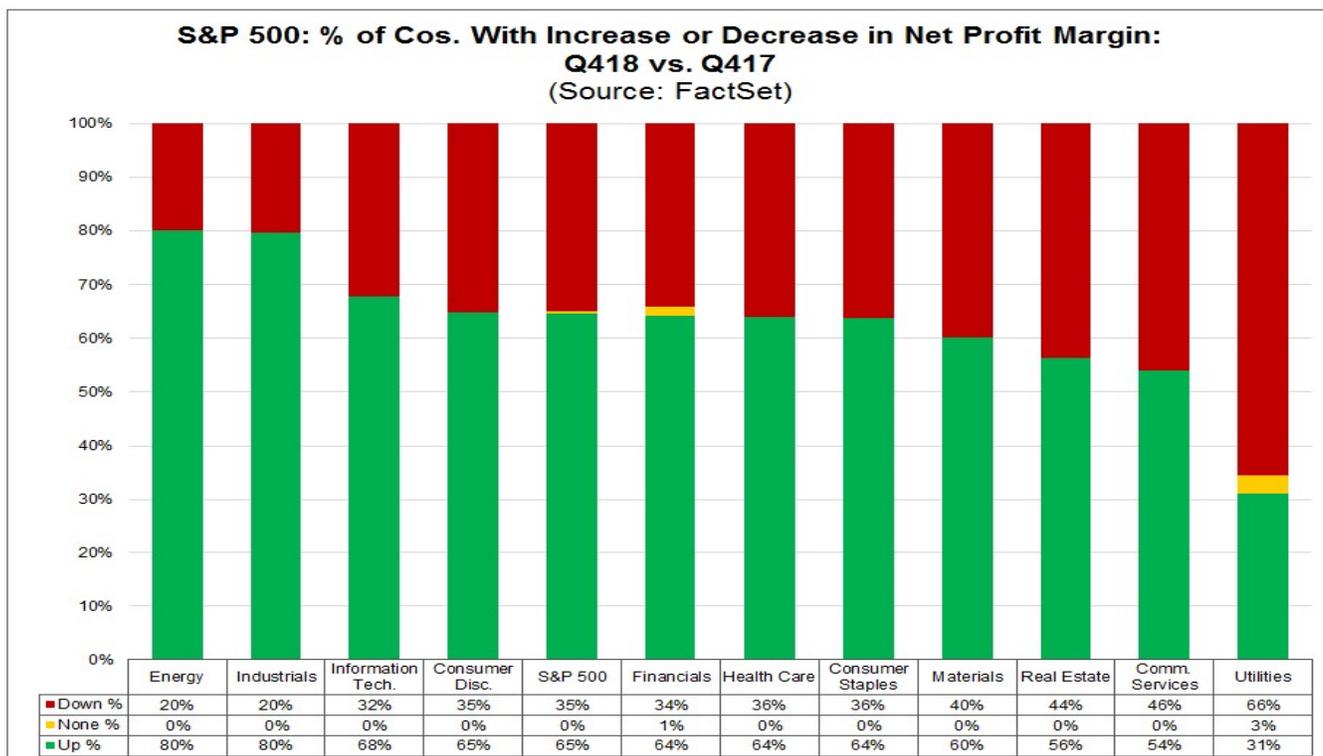
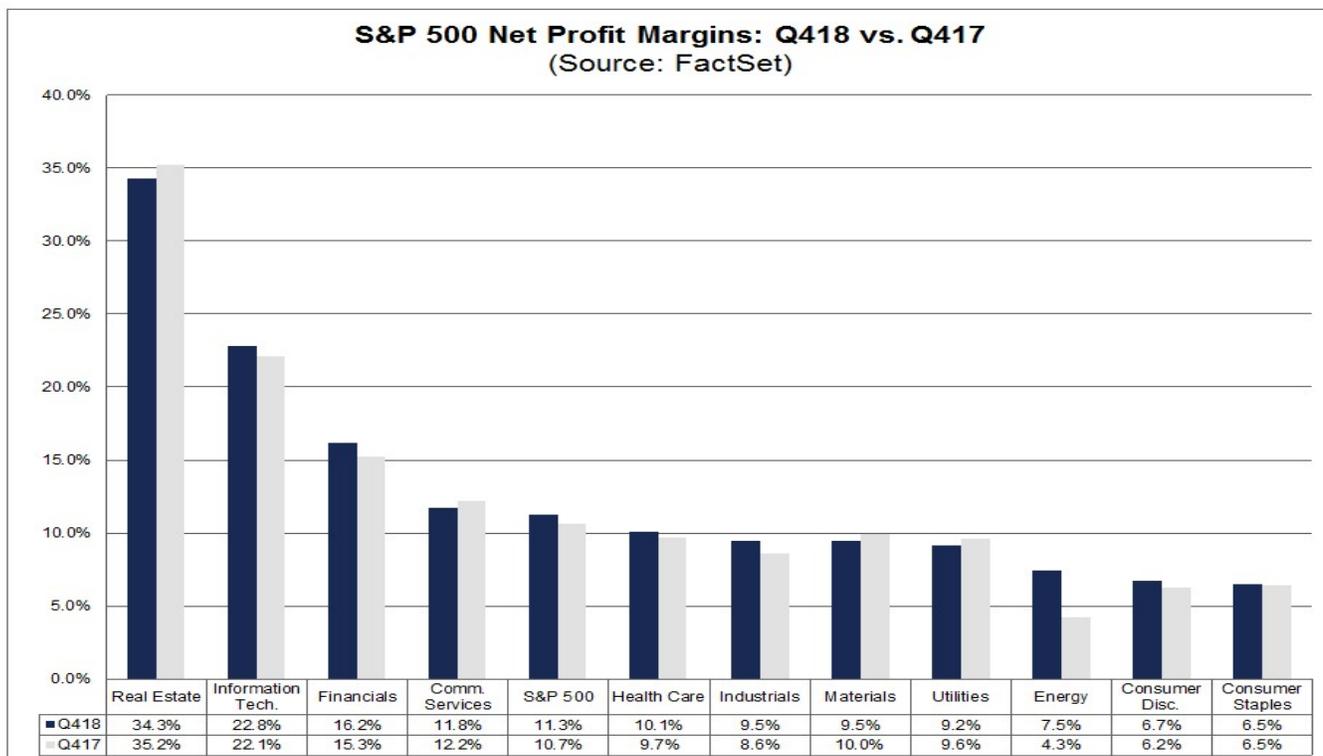
Q4 2018: Projected EPS Surprises (Sharp Estimates)



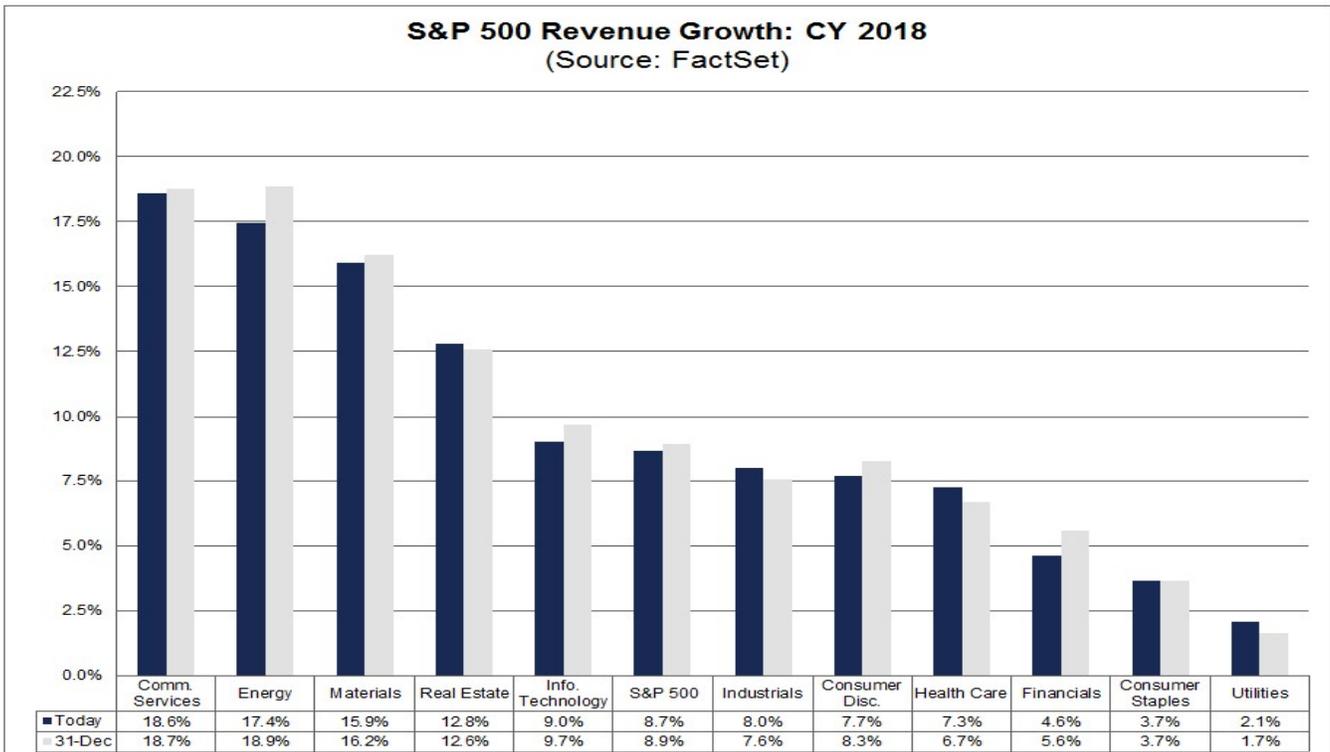
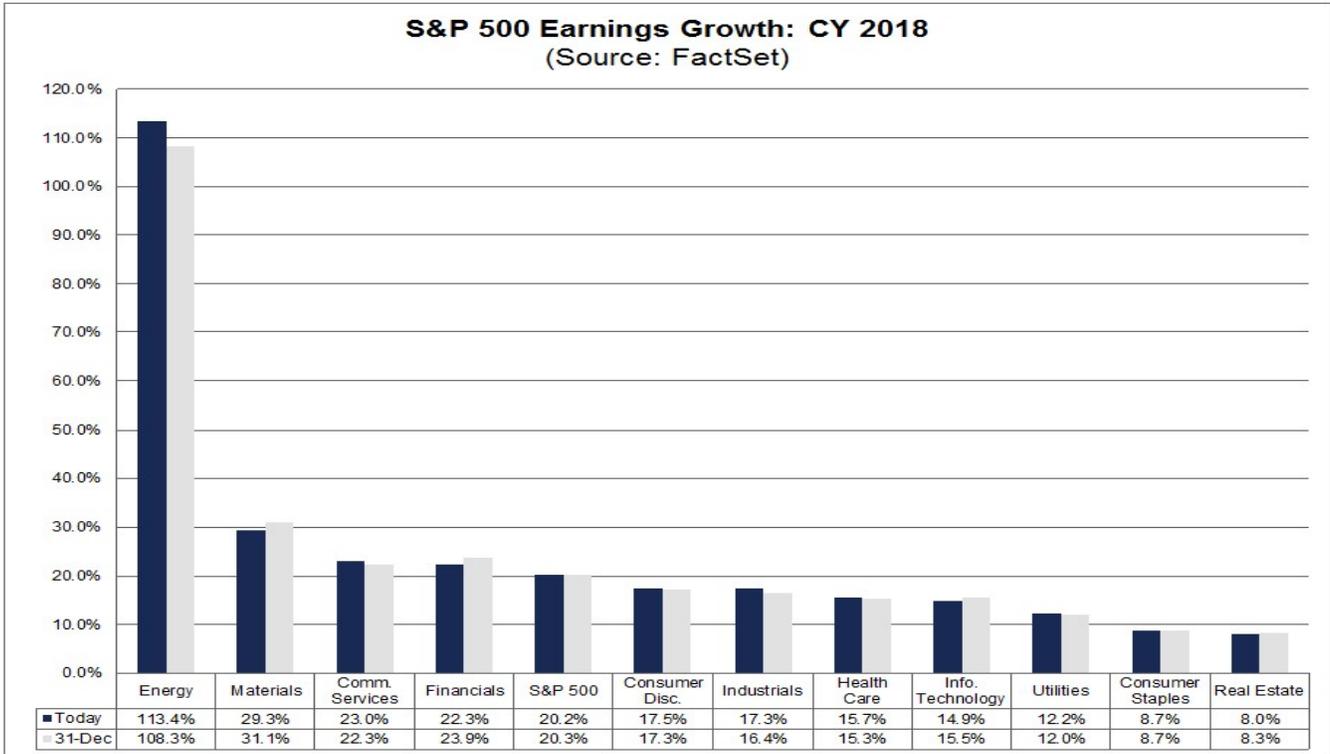
Q4 2018: Growth



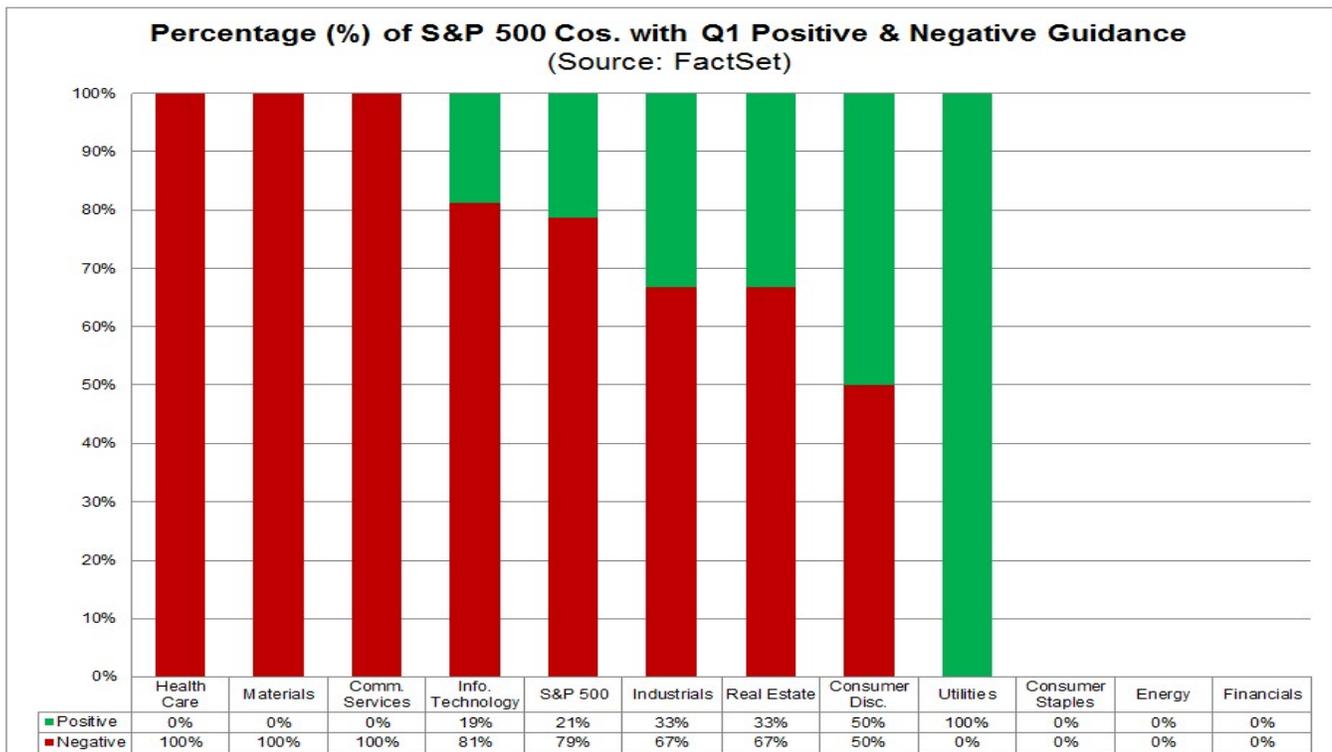
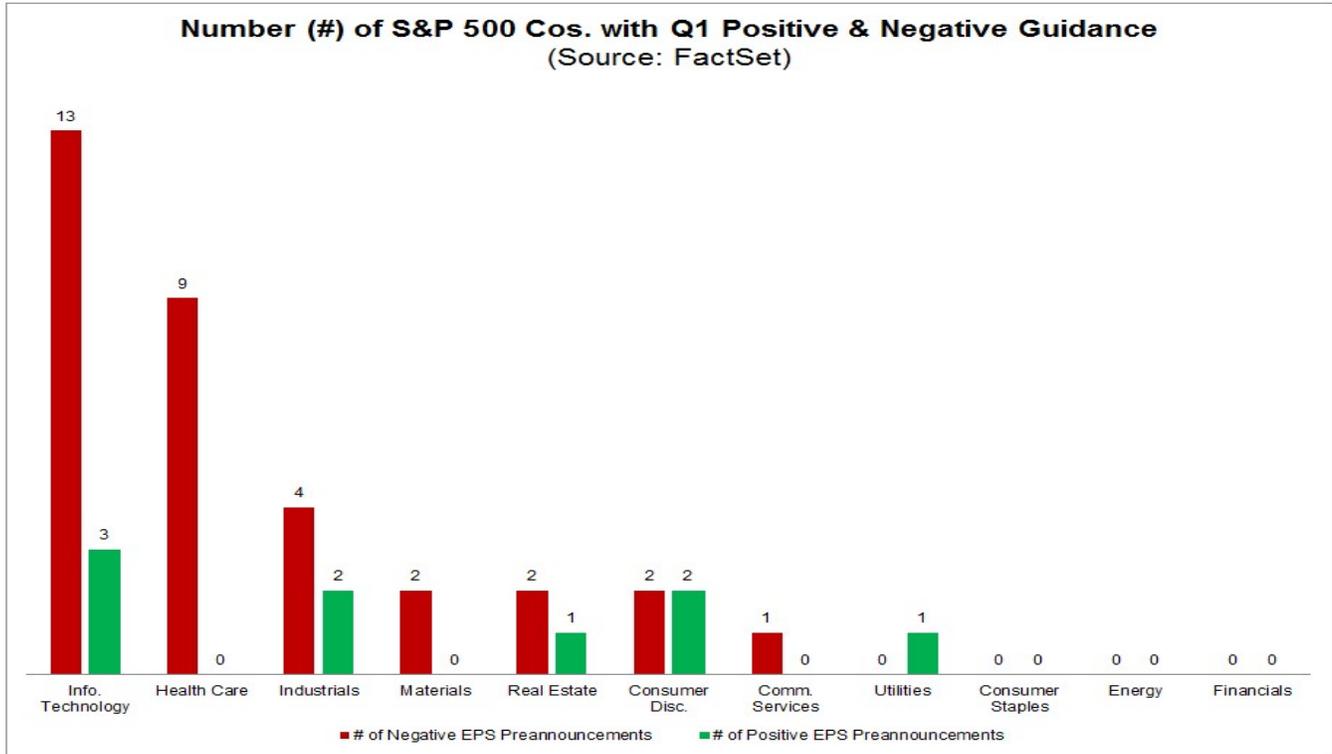
Q4 2018: Net Profit Margin



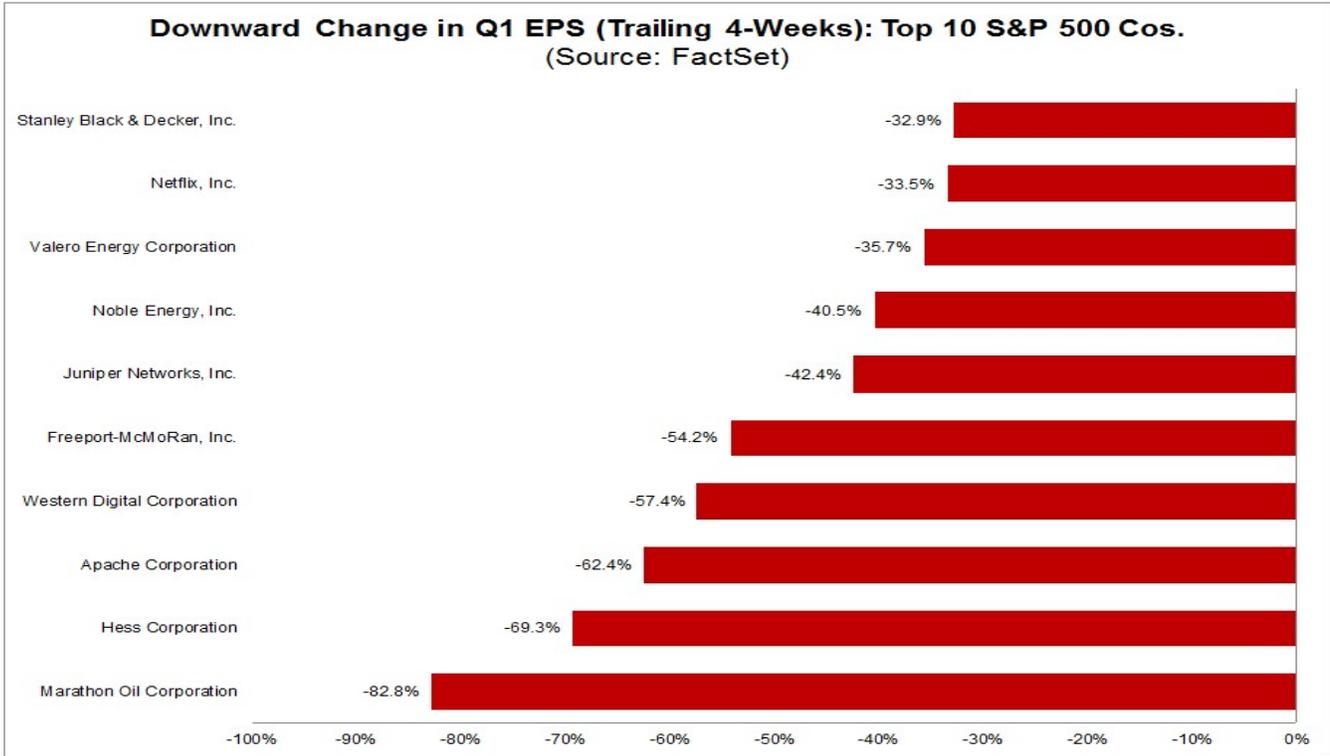
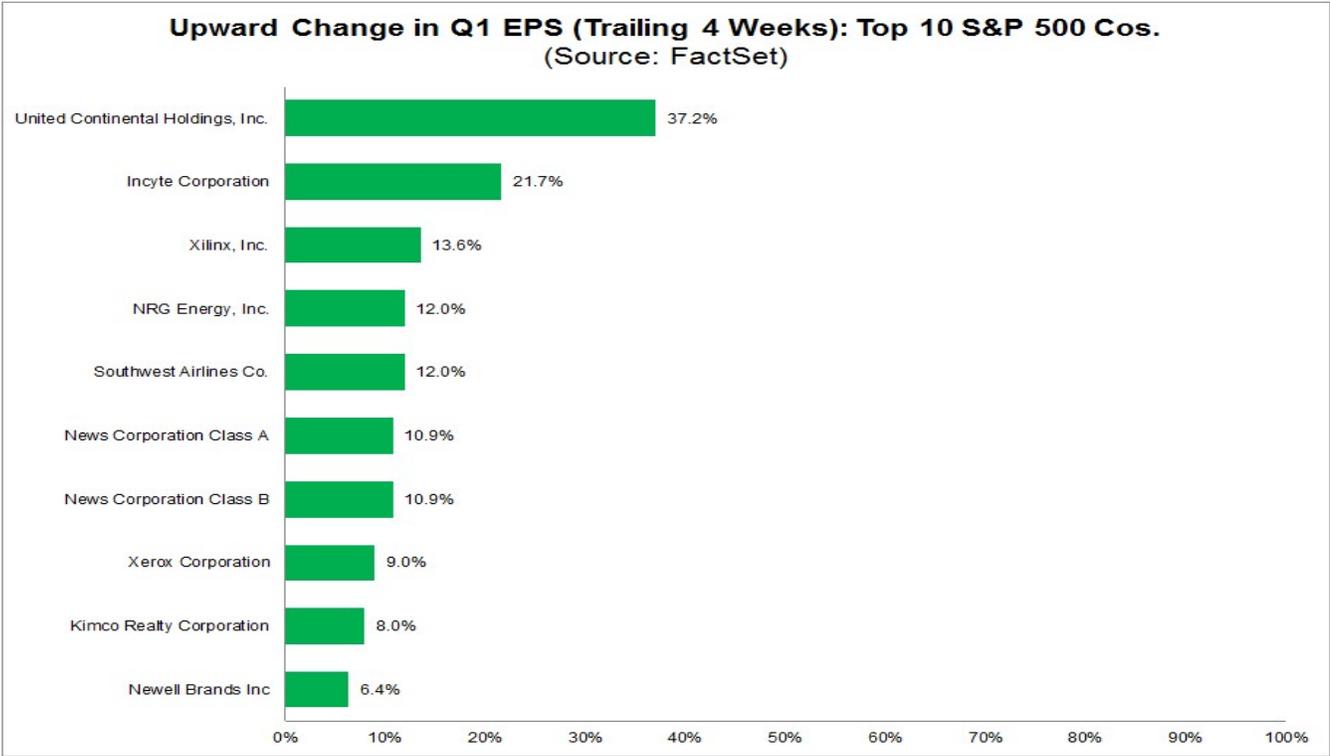
CY 2018: Growth



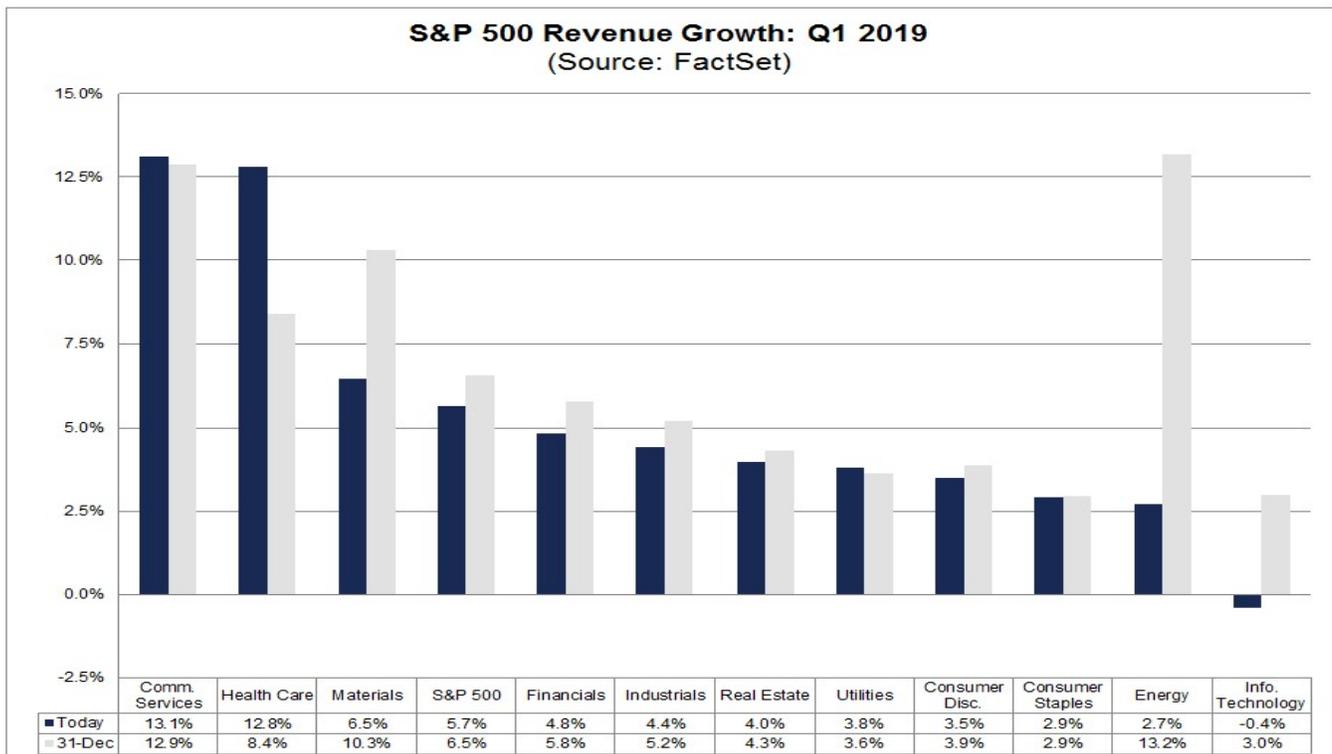
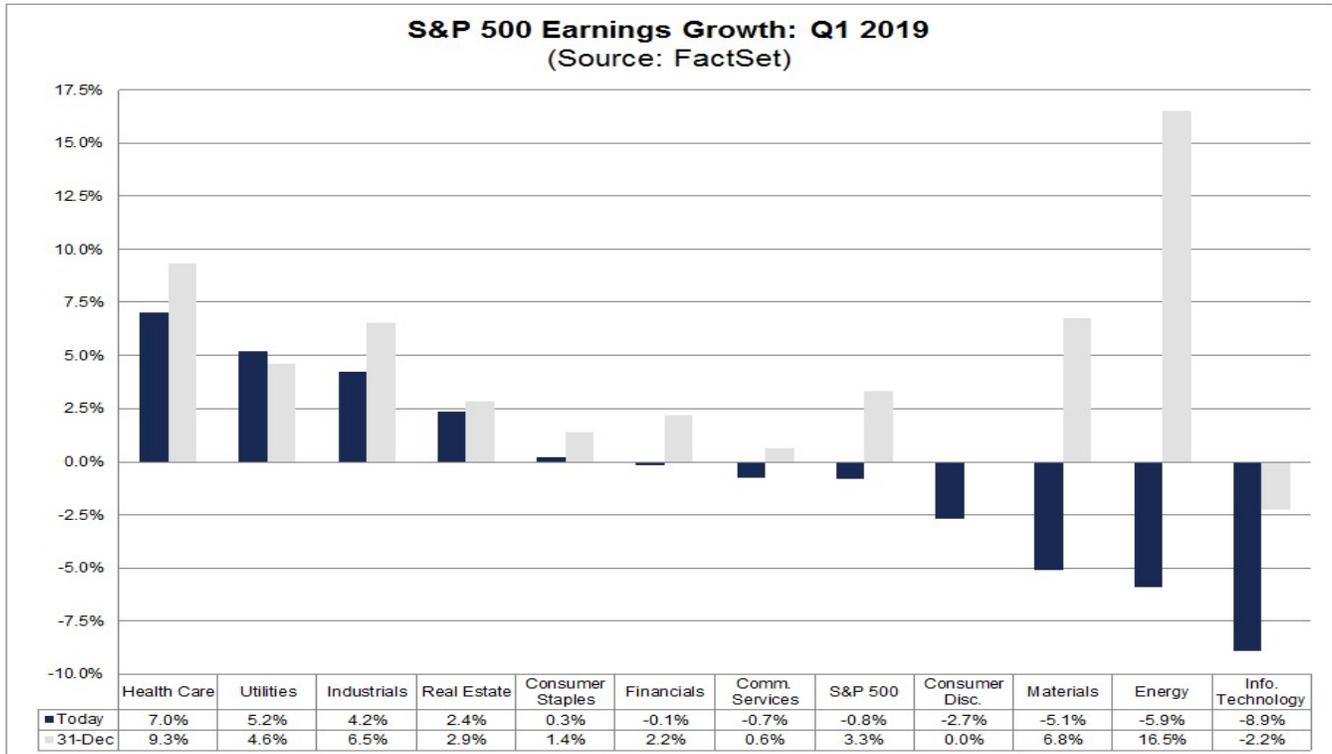
Q1 2019: EPS Guidance



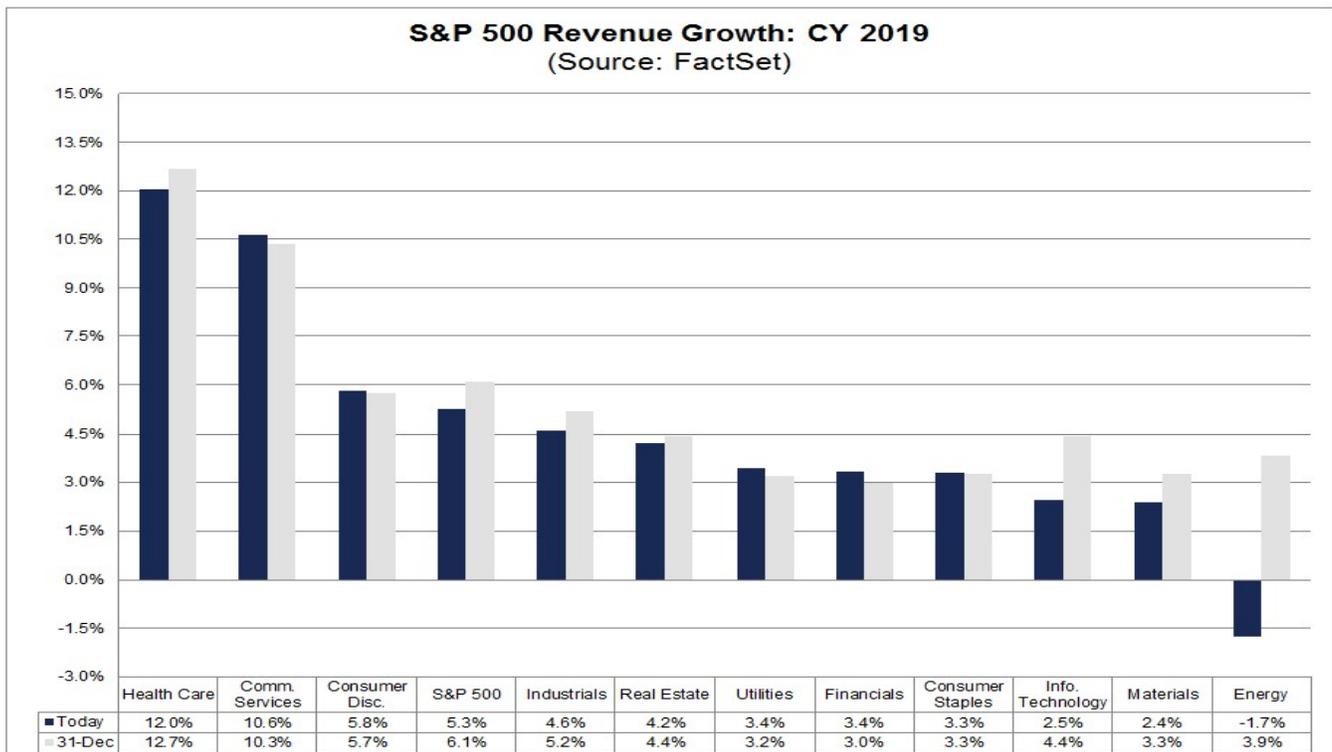
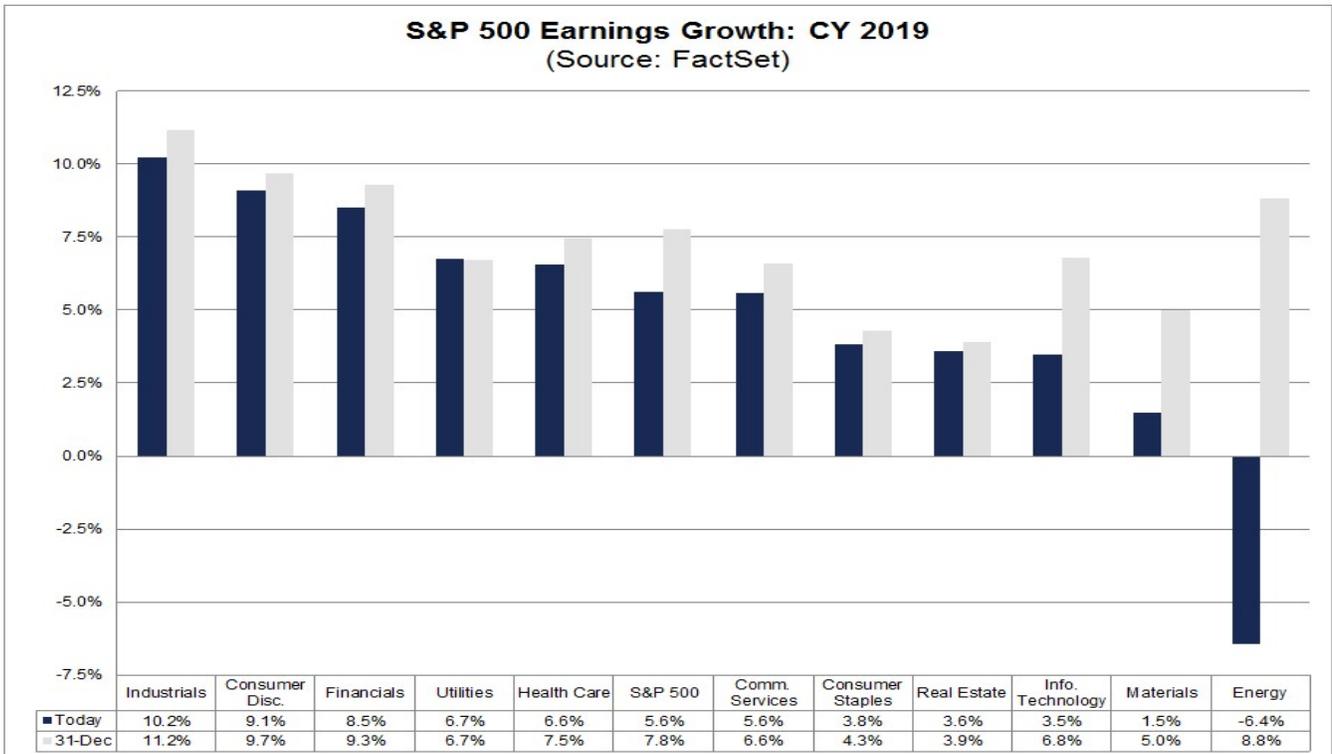
Q1 2019: EPS Revisions



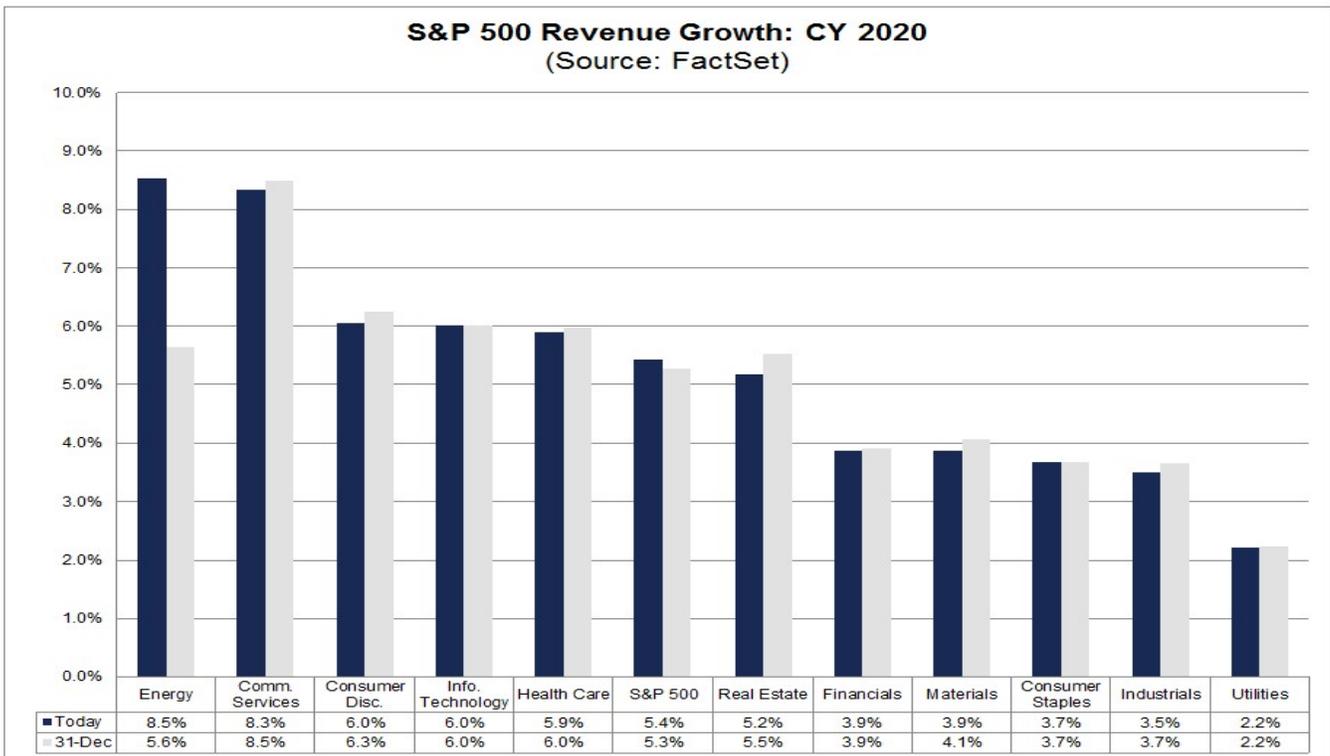
Q1 2019: Growth



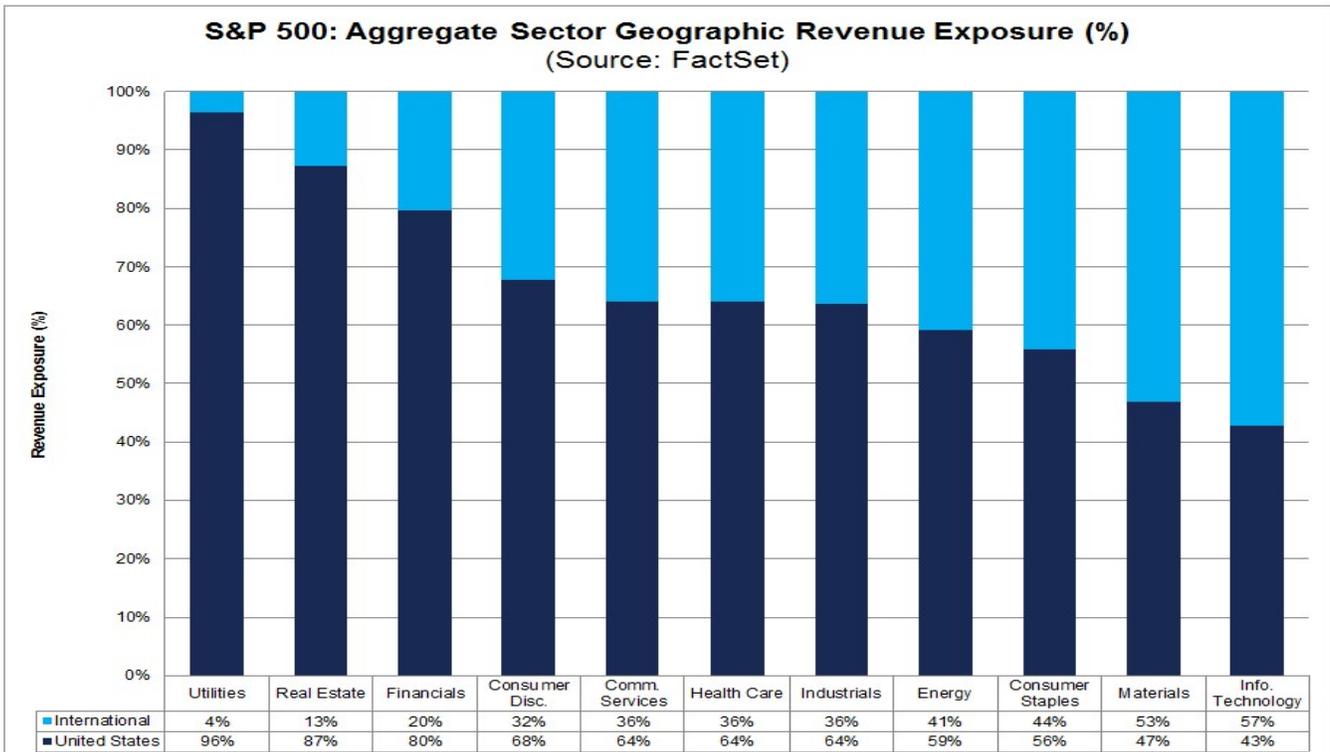
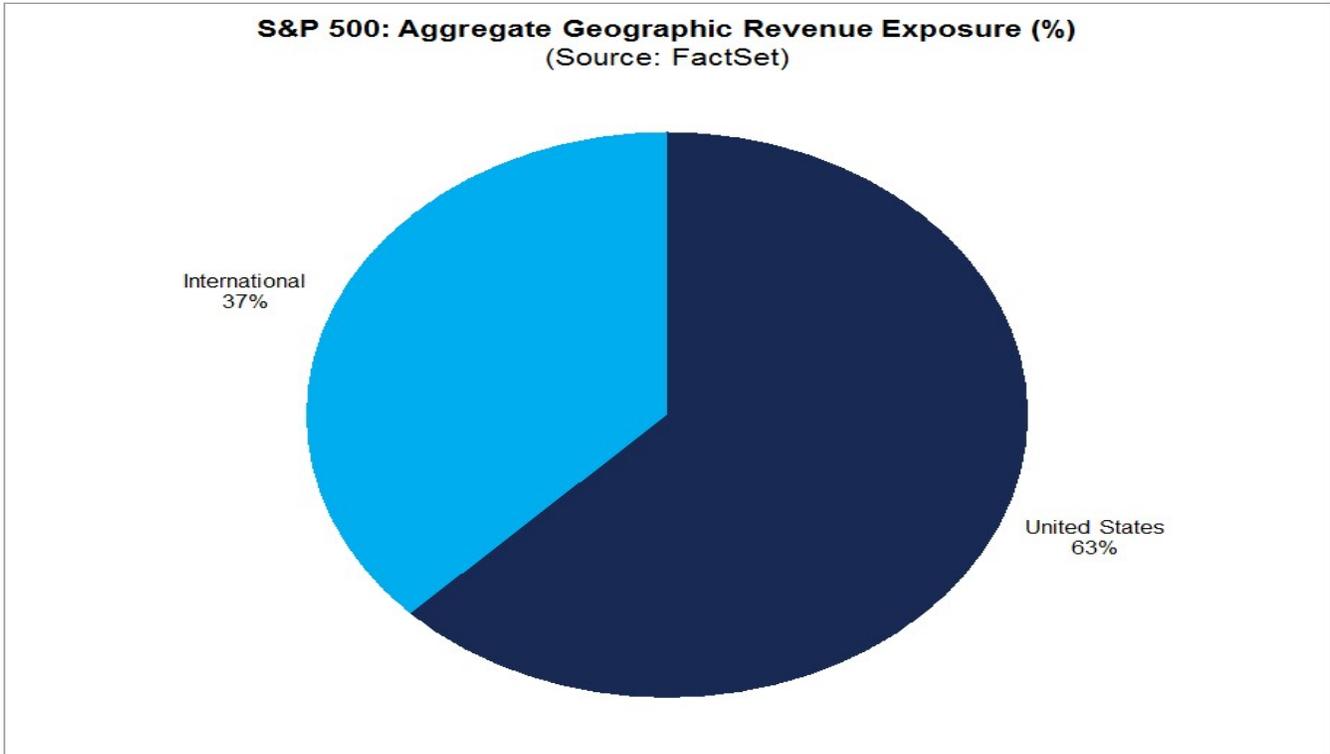
CY 2019: Growth



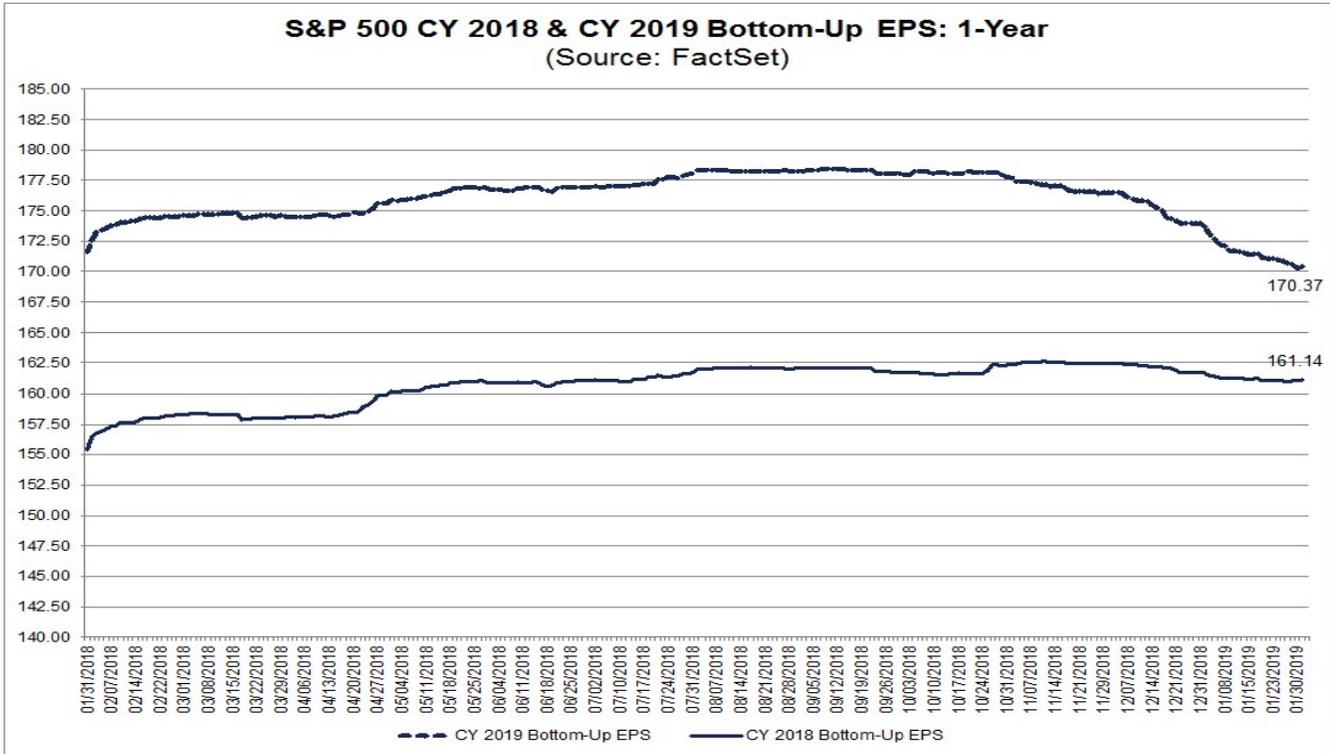
CY 2020: Growth



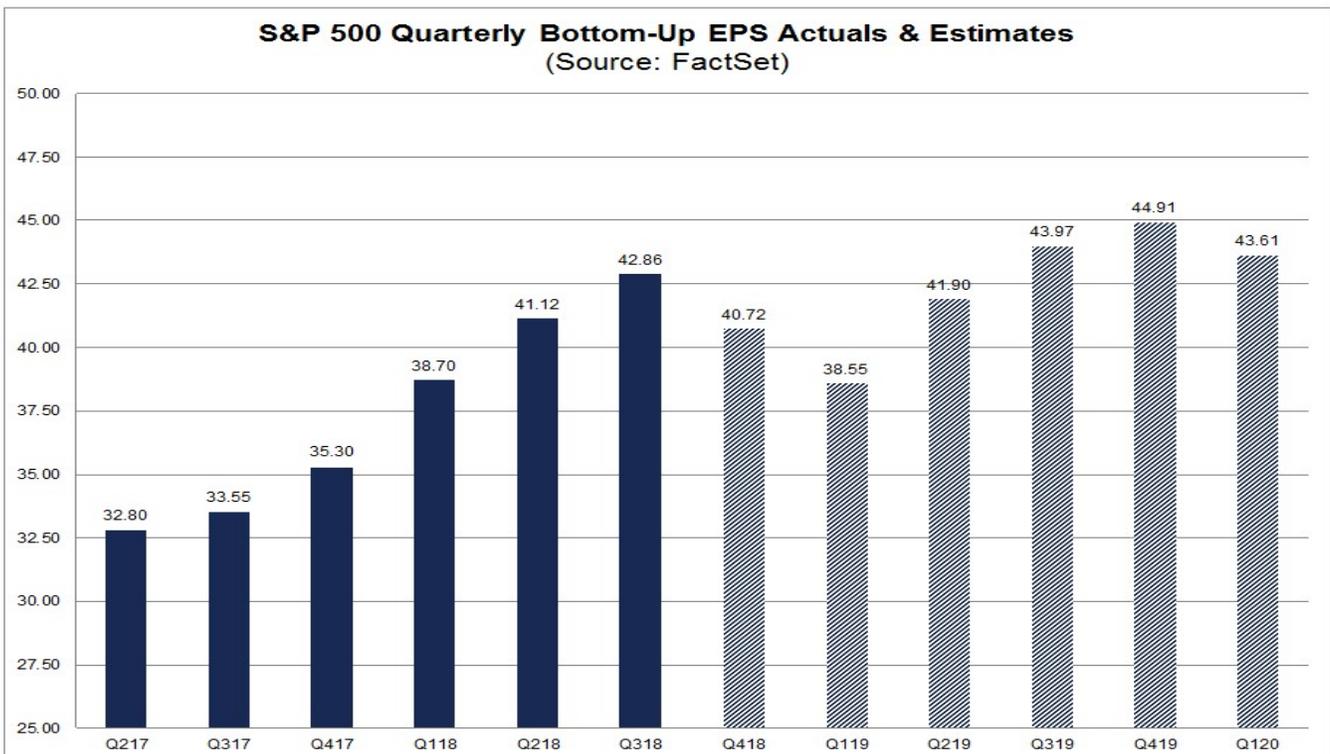
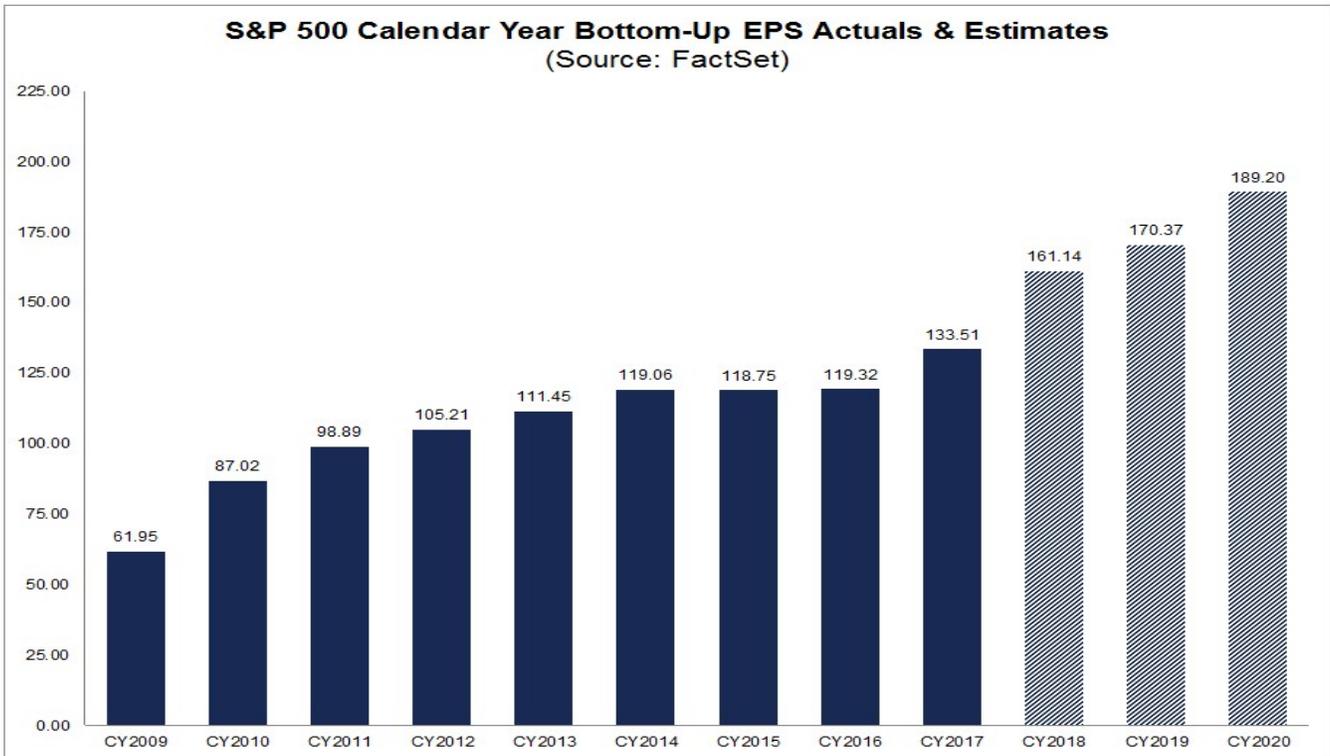
Geographic Revenue Exposure



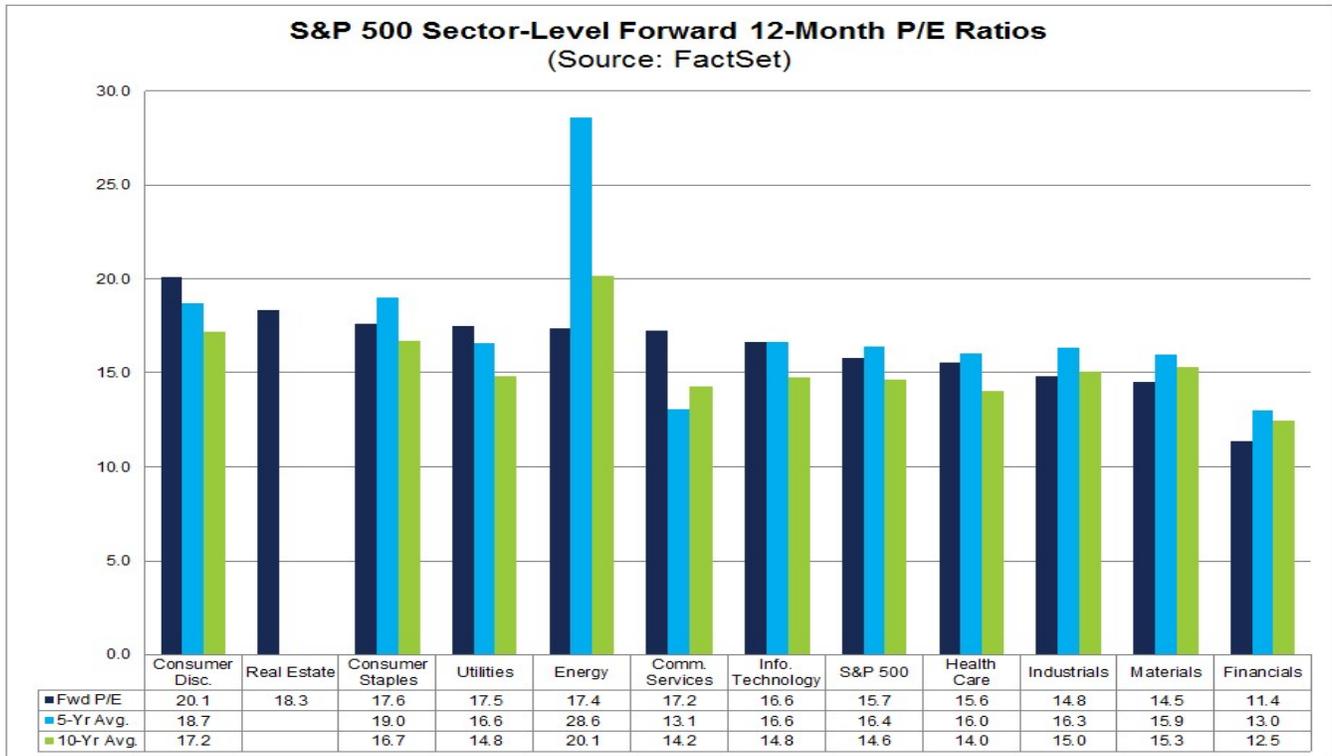
Bottom-up EPS Estimates: Revisions



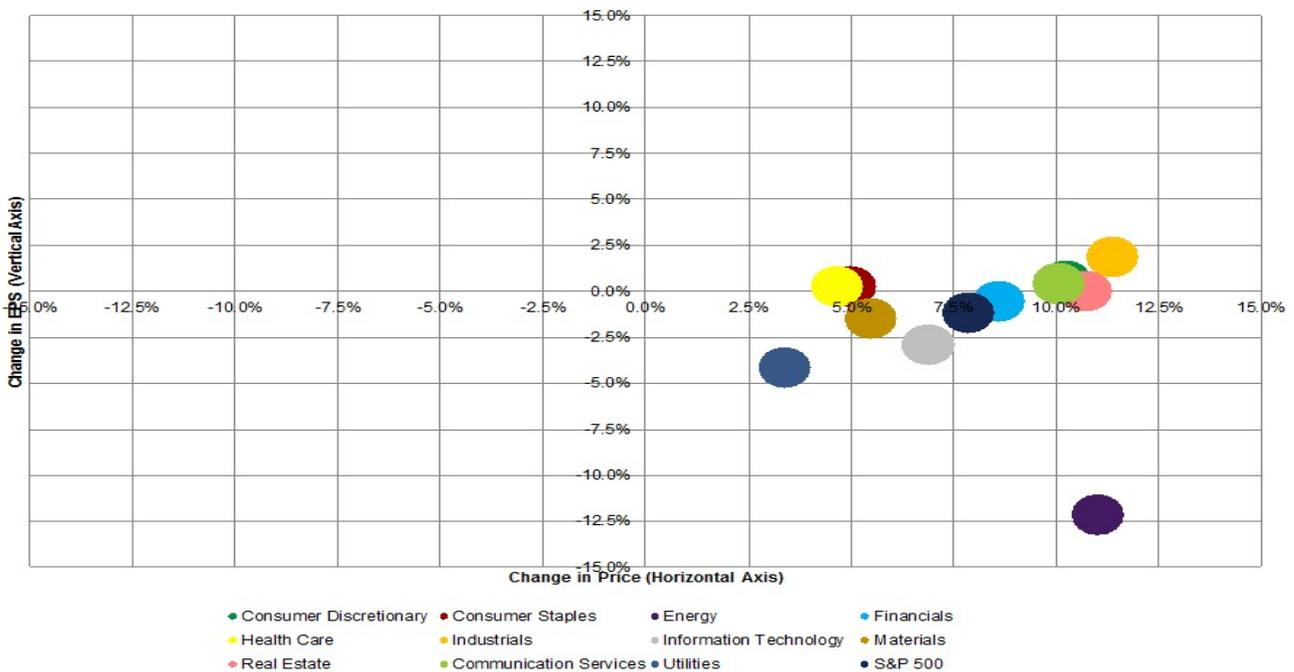
Bottom-up EPS Estimates: Current & Historical



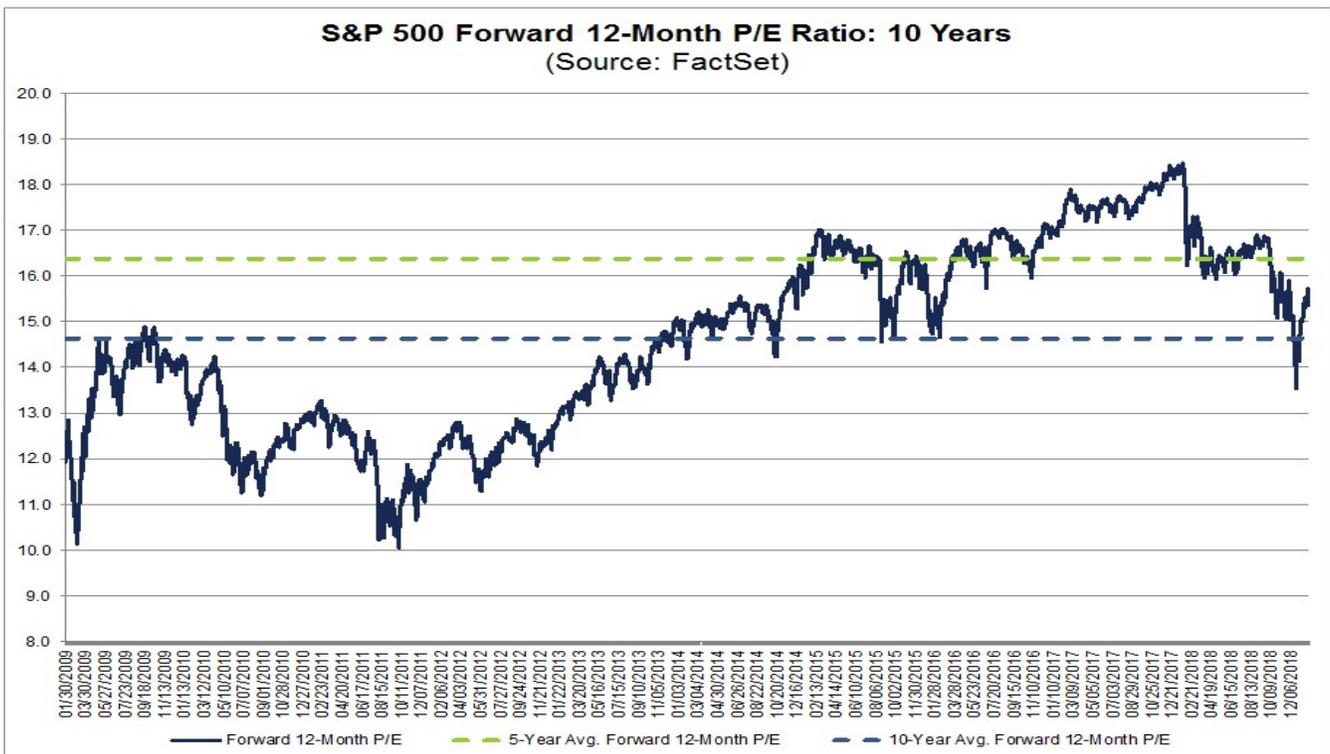
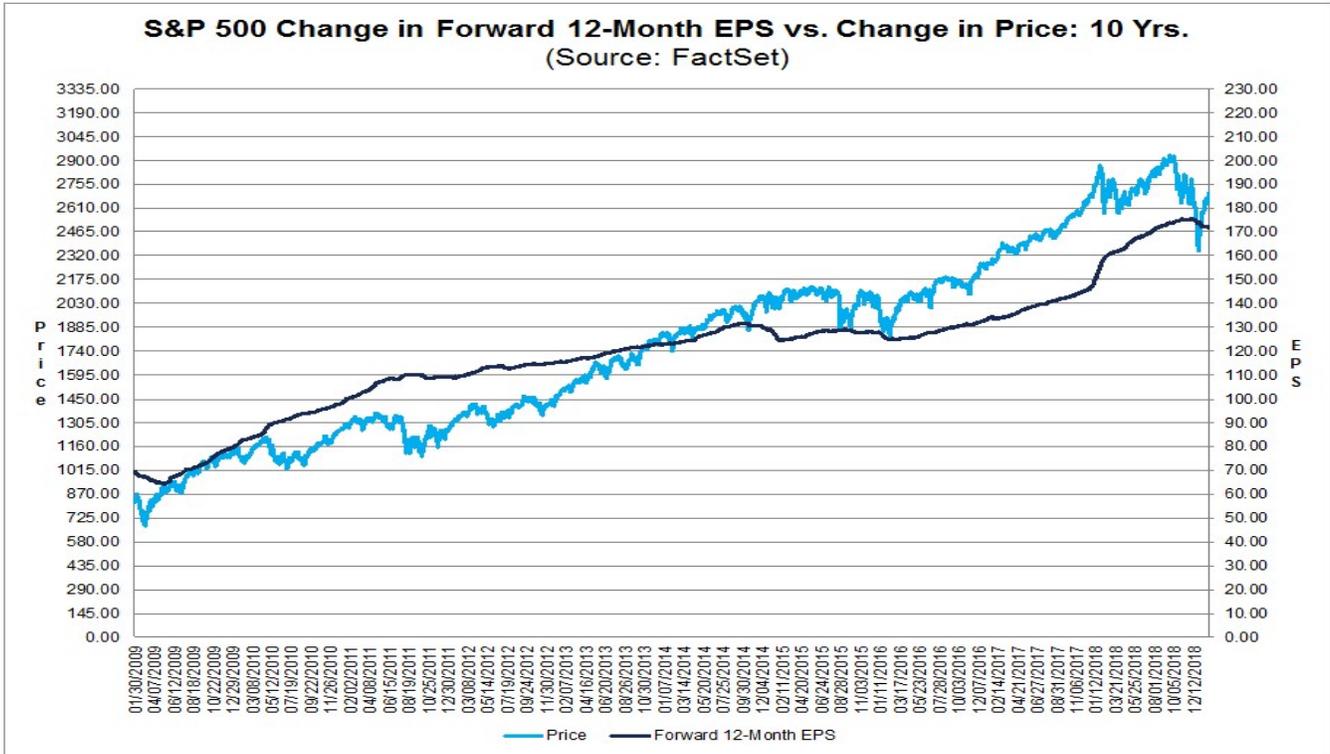
Forward 12M P/E Ratio: Sector Level



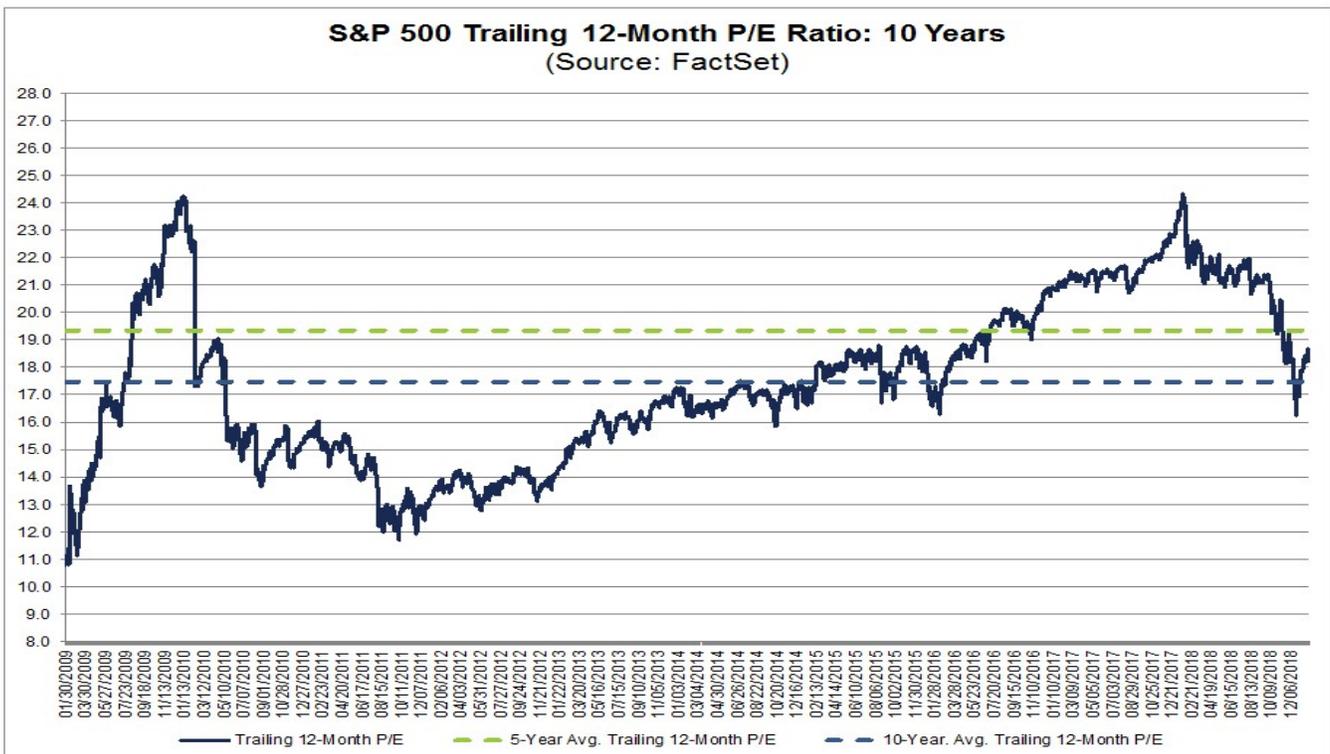
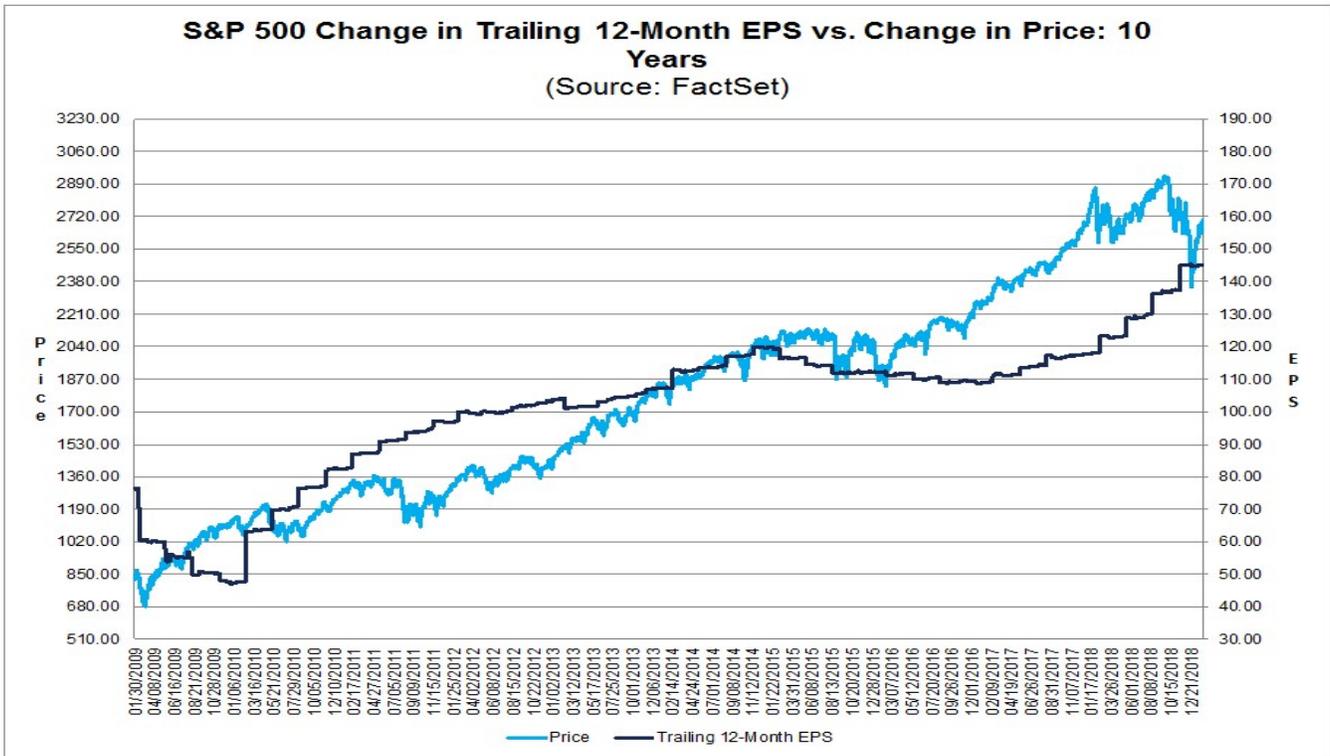
Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Dec. 31
(Source: FactSet)



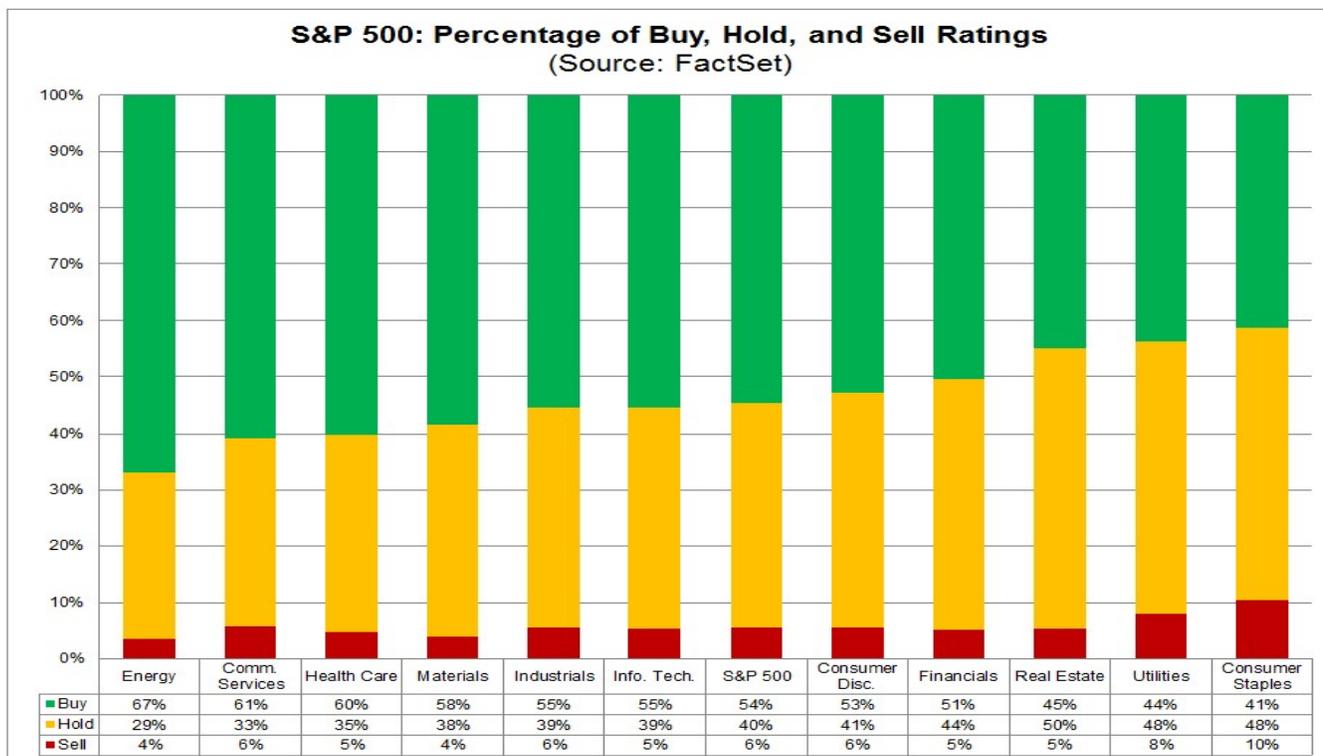
Forward 12M P/E Ratio: 10-Years



Trailing 12M P/E Ratio: 10-Years



Targets & Ratings



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