

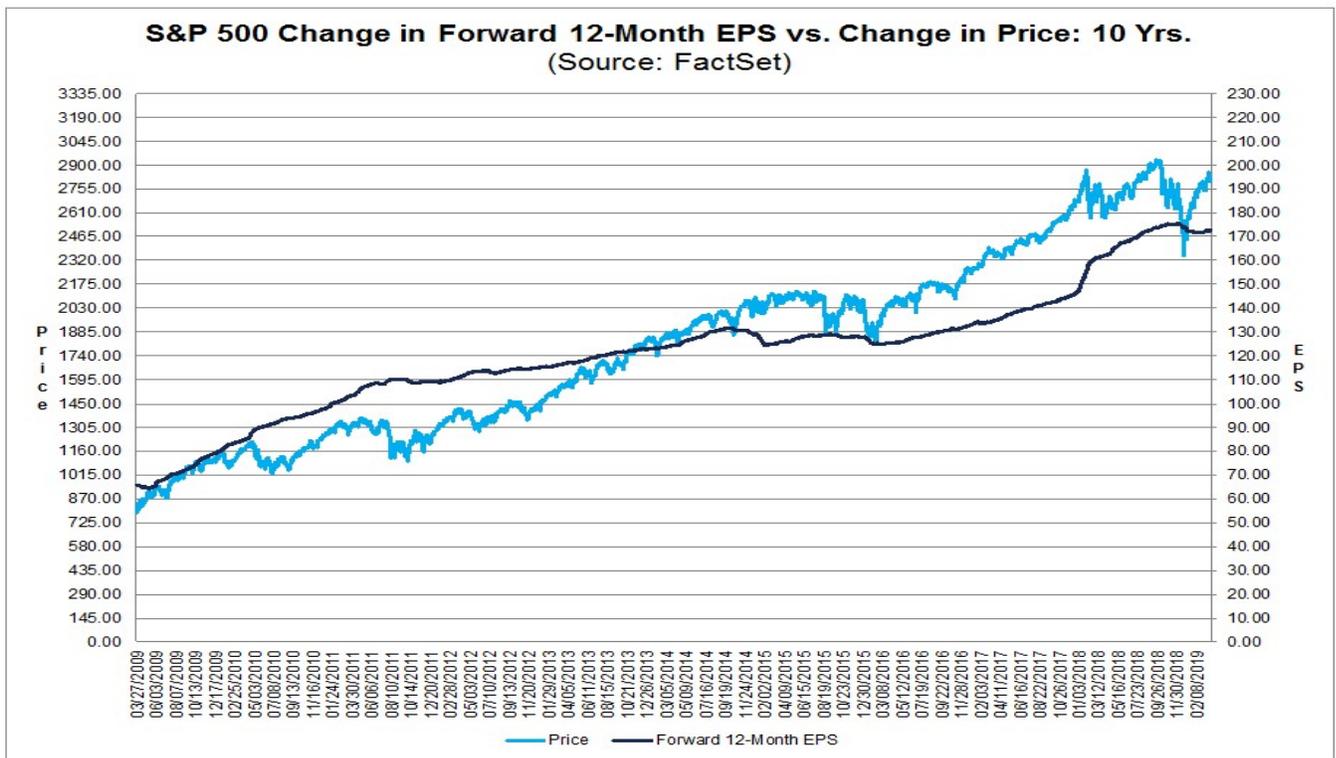
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## Key Metrics

- **Earnings Growth:** For Q1 2019, the estimated earnings decline for the S&P 500 is -3.9%. If -3.9% is the actual decline for the quarter, it will mark the first year-over-year decline in earnings for the index since Q2 2016.
- **Earnings Revisions:** On December 31, the estimated earnings growth rate for Q1 2019 was 2.9%. All eleven sectors have lower growth rates today (compared to December 31) due to downward revisions to EPS estimates.
- **Earnings Guidance:** For Q1 2019, 79 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 16.3. This P/E ratio is below the 5-year average (16.4) but above the 10-year average (14.7).
- **Earnings Scorecard:** For Q1 2019 (with 20 companies in the S&P 500 reporting actual results for the quarter), 17 S&P 500 companies have reported a positive EPS surprise and 11 have reported a positive revenue surprise.



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## Topic of the Week:

### Largest Cuts to S&P 500 EPS Estimates Since Q1 2016

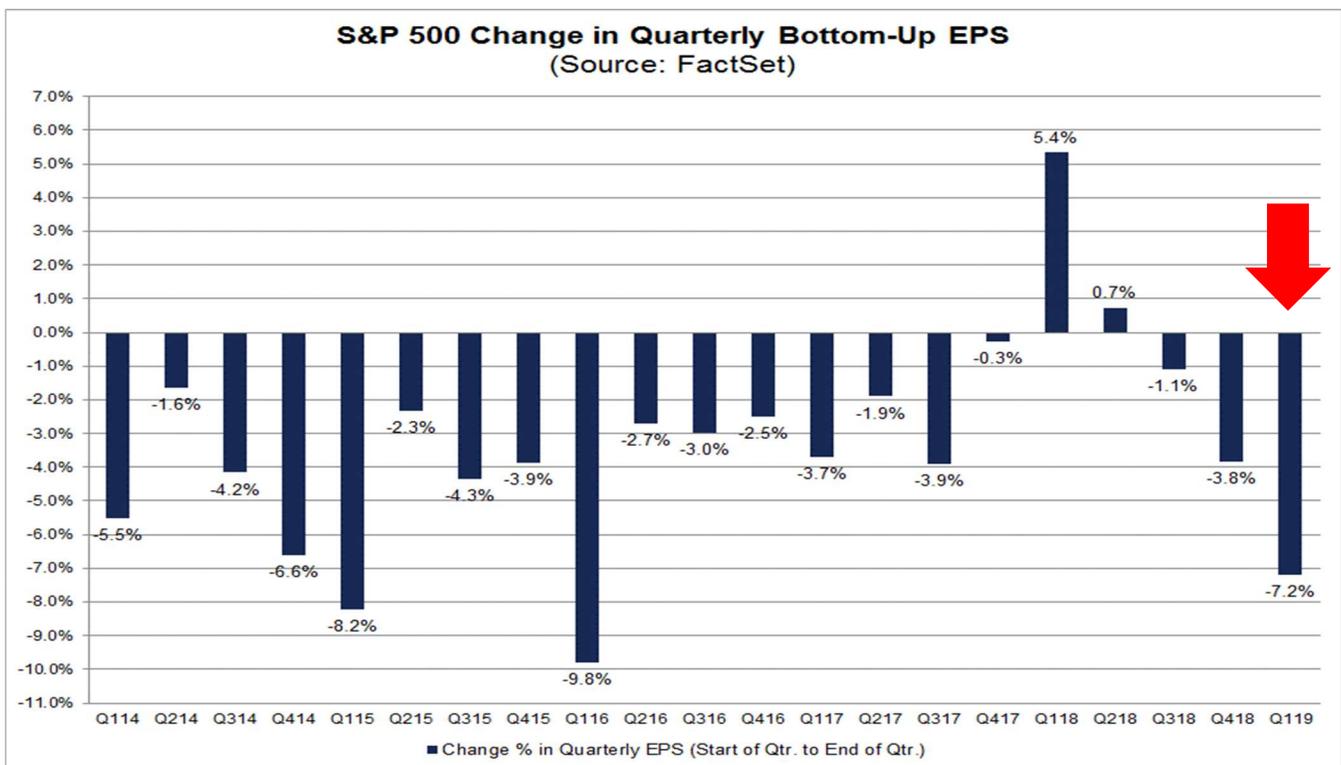
During the first quarter, analysts lowered earnings estimates for companies in the S&P 500 for the quarter. The Q1 bottom-up EPS estimate (which is an aggregation of the median EPS estimates of all the companies in the index) dropped by 7.2% (to \$37.33 from \$40.21) during this period. How significant is a 7.2% decline in the bottom-up EPS estimate during a quarter? How does this decrease compare to recent quarters?

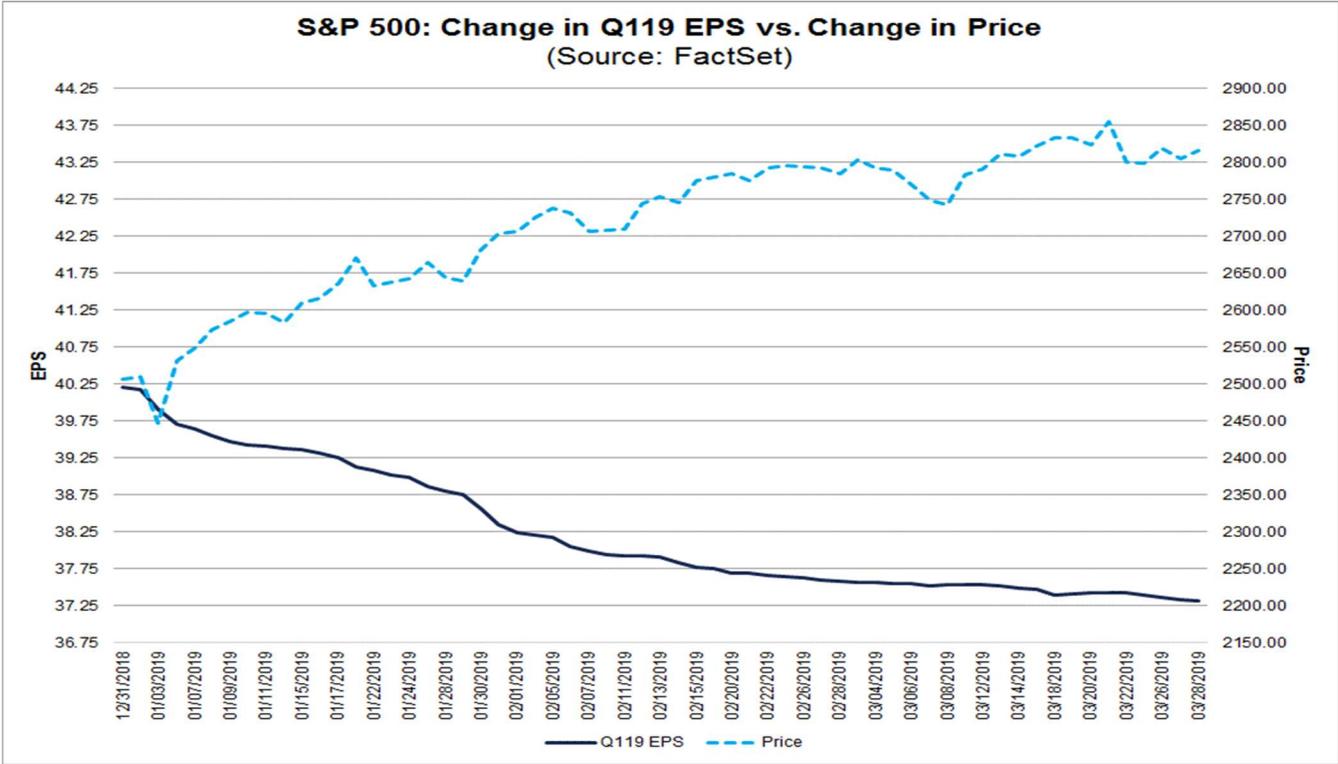
During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 3.2%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 3.7%. During the past fifteen years, (60 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 4.0%. Thus, the decline in the bottom-up EPS estimate recorded during the first quarter was larger than the 5-year average, the 10-year average, and the 15-year average.

In fact, the first quarter marked the largest percentage decline in the bottom-up EPS estimate during a quarter since Q1 2016 (-9.8%).

At the sector level, all eleven sectors recorded a decline in their bottom-up EPS estimate during the quarter, led by the Energy (-34.0%), Materials (-16.3%), and Information Technology (-8.3%) sectors. The Energy sector witnessed the largest decline in its bottom-up EPS estimate for a quarter since Q1 2016 (-108.6%). The Materials sector saw the largest decline in its bottom-up EPS estimate for a quarter since Q4 2016 (-17.1%). The Information Technology sector recorded the largest decline in its bottom-up EPS estimate for a quarter since Q4 2012 (-10.0%). Overall, ten sectors recorded a larger decrease in their bottom-up EPS estimate relative to their 5-year average, while nine sectors recorded a larger decrease in their bottom-up EPS estimate relative to their 10-year average and 15-year average.

As the bottom-up EPS estimate for the index declined during the quarter, the value of the S&P 500 increased during this same period. From December 31 through March 28, the value of the index increased by 12.3% (to 2815.44 from 2506.85). Assuming the price of the index does not fall below 2506.85 today, the first quarter will mark the 15th time in the past 20 quarters in which the bottom-up EPS estimate decreased while the value of the index increased during a quarter.





## Q1 Earnings Season: By The Numbers

### Overview

In terms of estimate revisions for companies in the S&P 500, analysts have made larger cuts than average to EPS estimates for Q1 2019 to date. On a per-share basis, estimated earnings for the first quarter have fallen by 7.2% since December 31. This percentage decline is larger than the 5-year average (-3.2%), the 10-year average (-3.7%), and the 15-year average (-4.0%) for a quarter.

In addition, a larger percentage of S&P 500 companies have lowered the bar for earnings for Q1 2019 relative to recent quarters. Of the 107 companies that have issued EPS guidance for the first quarter, 79 have issued negative EPS guidance and 28 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 74% (79 out of 107), which is above the 5-year average of 70%.

Because of the net downward revisions to earnings estimates, the estimated (year-over-year) earnings decline for Q1 2019 is -3.9% today compared to the estimated (year-over-year) earnings growth rate of 2.9% on December 31. If -3.9% is the actual decline for the quarter, it will mark the first year-over-year decline in earnings for the index since Q2 2016 and the largest year-over-year decline in earnings since Q1 2016. Four sectors are predicted to report year-over-year earnings growth, led by the Utilities and Health Care sectors. Seven sectors are projected to report a year-over-year decline in earnings, led by the Energy, Materials, and Information Technology sectors.

Because of the net downward revisions to revenue estimates, the estimated (year-over-year) revenue growth rate for Q1 2019 is 4.8% today compared to the estimated (year-over-year) revenue growth rate of 6.6% on December 31. Nine of the eleven sectors are projected to report year-over-year growth in revenues, led by the Communication Services and Health Care sectors. Two sectors are predicted to report a year-over-year decline in revenues: Energy and Information Technology.

Looking at future quarters, analysts see low single-digit earnings growth for the second quarter and third quarter of 2019, followed by high single-digit earnings growth in the fourth quarter of 2019.

The forward 12-month P/E ratio is 16.3, which is below the 5-year average but above the 10-year average.

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

### Estimate Revisions: Largest Declines in Energy, Materials, & Technology

#### Slight Increase in Estimated Earnings Decline for Q1 This Week

The estimated earnings decline for the first quarter is -3.9% this week, which is slightly larger than the estimated earnings decline of -3.7% last week. Small downward revisions to estimates for companies in multiple sectors were responsible for the slight increase in the overall decline during the week.

The estimated earnings decline for Q1 2019 of -3.9% today is below the estimated earnings growth rate of 2.9% at the start of the quarter (December 31). All eleven sectors have recorded a decrease in expected earnings growth due to downward revisions to earnings estimates, led by the Energy, Materials, and Information Technology sectors.

#### Energy: 83% of Companies Have Seen a Double-Digit Decline in Q1 Earnings Expectations

The Energy sector has recorded the largest decrease in expected earnings growth since the start of the quarter (to -18.4% from 16.2%). Despite the decline in expected earnings, this sector has witnessed the third largest increase in price of all eleven sectors since December 31 at 15.6%. Overall, 26 of the 29 companies (90%) in the Energy sector have seen a decrease in their mean EPS estimate during this time. Of these 26 companies, 24 have recorded a decrease in their mean EPS estimate of more than 10%, led by Hess Corporation (to -\$0.32 from -\$0.02), Noble Energy (to -\$0.03 from \$0.16), and National Oilwell Varco (to -\$0.01 from \$0.07). However, Exxon Mobil (to \$0.86 from \$1.15) and Chevron (to \$1.43 from \$1.85) have been the largest contributors to the decrease in expected earnings for this sector since the start of the quarter. Both companies have witnessed double-digit increases in their stock prices since December 31.

## Materials: 88% of Companies Have Seen a Decline in Q1 Earnings Expectations

The Materials sector has recorded the second largest decrease in expected earnings growth since the start of the quarter (to -12.2% from 5.2%). Despite the decline in expected earnings, this sector has witnessed an increase in price of 8.9% since December 31. Overall, 22 of the 25 companies (88%) in the Materials sector have seen a decrease in their mean EPS estimate during this time. Of these 22 companies, 14 have recorded a decrease in their mean EPS estimate of more than 10%, led by Freeport-McMoRan (to \$0.08 from \$0.20). However, DowDuPont (to \$0.87 from \$1.25) has been the largest contributor to the decrease in expected earnings for this sector since the start of the quarter. The stock price of DowDuPont has declined since December 31.

## Information Technology: Apple and Intel Lead Decline

The Information Technology sector has recorded the third largest decrease in expected earnings growth since the start of the quarter (to -10.5% from -3.0%). Despite the decline in expected earnings, this sector has witnessed the largest increase in price of all eleven sectors since December 31 at 18.2%. Overall, 50 of the 68 companies (74%) in the Information Technology sector have seen a decrease in their mean EPS estimate during this time. Of these 50 companies, 21 have recorded a decrease in their mean EPS estimate of more than 10%, led by Western Digital (to \$0.47 from \$1.11), NVIDIA (to \$0.62 from \$1.30), and Juniper Networks (to \$0.21 from \$0.37). However, Apple (to \$2.39 from \$2.95) and Intel (to \$0.87 from \$1.01) have been the largest contributors to the decrease in expected earnings for this sector since the start of the quarter. Both companies have witnessed double-digit increases in their stock prices since December 31.

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

The Q1 bottom-up EPS estimate (which is an aggregation of the median earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) has decreased by 7.2% (to \$37.33 from \$40.21) since December 31. This percentage decline is larger than the 5-year average (-3.2%), the 10-year average (-3.7%), and the 15-year average (-4.0%) for a quarter.

## 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 an estimate range) 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 an estimate range) provided by the company is higher than the mean EPS estimate the day before the guidance was issued.

At this point in time, 107 companies in the index have issued EPS guidance for Q1 2019. Of these 107 companies, 79 have issued negative EPS guidance and 28 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 74% (79 out of 107), which is above the 5-year average of 70%. At the sector level, the Information Technology and Health Care sectors have the highest number of companies issuing negative EPS guidance.

In the Information Technology sector, 26 companies have issued negative EPS guidance for the quarter, which is above the 5-year average for the sector (20). If 26 is the final number, it will mark the highest number of companies issuing negative EPS guidance in this sector since Q1 2016 (also 26). This sector has also witnessed an unusually high number of companies issue negative revenue guidance for the quarter. Overall, 31 companies in the sector have issued negative revenue guidance, which is above the 5-year average (20). If 31 is the final number for the quarter, it will mark the highest number of companies issuing negative revenue guidance in this sector since Q4 2012 (36).

In the Health Care sector, 16 companies have issued negative EPS guidance for the quarter, which is above the 5-year average for the sector (10). If 16 is the final number, it will mark the highest number of companies issuing negative EPS guidance in this sector since FactSet began tracking EPS guidance in 2006. This sector has also witnessed an unusually low number of companies issuing positive EPS guidance. Overall, two companies in the Health Care sector have issued positive EPS guidance for the quarter, which is below the 5-year average of five. If two is final number for the quarter, it will mark the lowest number of companies issuing positive EPS guidance in this sector since Q1 2014 (one).

## Earnings Decline: -3.9%

The estimated earnings decline for Q1 2019 is -3.9%. If -3.9% is the final decline for the quarter, it will mark the first time the index has reported a year-over-year decline in earnings since Q2 2016 (-3.2%) and the largest year-over-year decline in earnings since Q1 2016 (-6.9%). Four of the eleven sectors are expected to report year-over-year growth in earnings, led by the Utilities and Health Care sectors. Seven sectors are expected to report a year-over-year decline in earnings. Three of these seven sectors are projected to report a double-digit decline in earnings: Energy, Materials, and Information Technology.

### Utilities: 3 of 5 Industries to Report Double-Digit Growth

The Utilities sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 4.6%. At the industry level, four of the five industries in this sector are predicted to report earnings growth for the quarter. Three of these five industries are projected to report double-digit growth in earnings: Gas Utilities (12%), Independent Power and Renewable Electricity Producers (12%), and Multi-Utilities (11%).

### Health Care: Health Care Providers & Services Industry Leads Growth

The Health Care sector is expected to report the second highest (year-over-year) earnings growth of all eleven sectors at 4.0%. At the industry level, five of the six industries in this sector are expected to reporting earnings growth for the quarter. One of these five industries is predicted to report double-digit earnings growth: Health Care Providers & Services (15%). The Pharmaceuticals (-4%) industry is the only industry projected to report a year-over-year decline in earnings for the quarter.

### Energy: 4 of 6 Sub-Industries Expected to Report Double-Digit Decline

The Energy sector is expected to report the largest (year-over-year) earnings decline of all eleven sectors at -18.4%. Lower oil prices are helping to drive the expected decline in earnings for the sector. Despite an increase in price during the quarter, the average price of oil in Q1 2019 (\$54.81) to date is 13% lower than the average price of oil in Q1 2018 (\$62.89). At the sub-industry level, four of the six sub-industries in the sector are projected to report a decline in earnings for the quarter: Integrated Oil & Gas (-23%), Oil & Gas Exploration & Production (-21%), Oil & Gas Refining & Marketing (-16%), and Oil & Gas Equipment & Services (-16%). On the other hand, the other two sub-industries in the sector are projected to report earnings growth for the quarter: Oil & Gas Drilling (N/A due to year-ago loss) and Oil & Gas Storage & Transportation (24%).

### Materials: Freeport-McMoRan and DowDuPont Lead Decline

The Materials sector is expected to report the second largest (year-over-year) earnings decline of all eleven sectors at -12.2%. At the industry level, three of the four industries in this sector are predicted to report a decline in earnings for the quarter. One of these three industries is expected to report a double-digit decline: Metals & Mining (-40%).

At the company level, Freeport-McMoRan and DowDuPont are expected to be the largest contributors to the decline in earnings for the sector. The mean EPS estimate for Freeport-McMoRan for Q1 2019 is \$0.08, compared to year-ago EPS of \$0.46. The mean EPS estimate for DowDuPont for Q1 2019 is \$0.87, compared to year-ago EPS of \$1.12. If these two companies were excluded, the estimated earnings growth rate for the sector would rise to 0.4% from -12.2%.

### Information Technology: Apple and Micron Technology Lead Decline

The Information Technology sector is expected to report the third highest (year-over-year) earnings decline of all eleven sectors at -10.5%. At the industry level, three of the six industries in this sector are predicted to report a decline in earnings for the quarter. Two of these three industries are projected to report a double-digit decline in earnings: Semiconductors & Semiconductor Equipment (-23%) and Technology Hardware, Storage, & Peripherals (-22%).

At the company level, Apple and Micron Technology are expected to be the largest contributors to the decline in earnings for the sector. The mean EPS estimate for Apple for Q1 2019 is \$2.39, compared to year-ago EPS of \$2.73. Micron Technology reported actual EPS of for Q1 2019 is \$1.71, compared to year-ago EPS of \$2.82. If these two companies were excluded, the estimated earnings decline for the sector would improve to -6.0% from -10.5%.

## Revenue Growth: 4.8%

The estimated (year-over-year) revenue growth rate for Q1 2019 is 4.8%. Nine of the eleven sectors are expected to report year-over-year growth in revenues. Two of these nine sectors are projected to report double-digit growth in revenues: Communication Services and Health Care. On the other hand, the Energy and Information Technology sectors are the only two sectors predicted to report a year-over-year decline in revenues.

### Communication Services: 3 of 4 Industries to Report Double-Digit Growth

The Communication Services sector is expected to report the highest (year-over-year) revenue growth of all eleven sectors at 13.2%. At the industry level, all four industries in this sector are projected to report revenue growth. Three of these four industries are predicted to report double-digit revenue growth: Interactive Media & Services (21%), Media (13%), and Diversified Telecommunication Services (10%).

### Health Care: Cigna and CVS Lead Growth on Easy Comparisons to Year-Ago Pre-Merger Revenues

The Health Care sector is expected to report the second highest (year-over-year) revenue growth of all eleven sectors at 13.0%. At the industry level, all six industries in this sector are predicted to report revenue growth for the quarter. One of these six industries is projected to report double-digit growth in revenues: Health Care Providers & Services (18%).

At the company level, Cigna and CVS Health are expected to be the largest contributors to revenue growth for the sector. However, the revenue growth rates for both companies are being boosted by apples-to-oranges comparisons of post-merger revenues to pre-merger revenues. The mean revenue estimate for Cigna for Q1 2019 (\$34.14 billion) reflects the combined revenues of Cigna and Express Scripts, while the actual revenue for Q1 2018 (\$11.38 billion) reflects the standalone revenue for Cigna. The mean revenue estimate for CVS Health for Q1 2019 (\$60.40 billion) reflects the combined revenues of CVS Health and Aetna, while the actual revenue for Q1 2018 (\$45.69 billion) reflects the standalone revenue for CVS Health. These apples-to-oranges comparisons are the main reason Cigna and CVS Health are projected to be the largest contributors to revenue growth for the sector. If these companies were excluded, the estimated revenue growth rate for the sector would fall to 5.7% from 13.0%.

### Energy: 2 of 6 Sub-Industries to Report Decline

The Energy sector is expected to report the highest (year-over-year) decline in revenue of all eleven sectors at -3.5%. At the sub-industry level, only two of the six sub-industries in the sector are projected to report a decline in revenue: Oil & Gas Exploration & Production (-10%) and Integrated Oil & Gas (-10%). On the other hand, four sub-industries are projected to report revenue growth, led by the Oil & Gas Drilling (23%) sub-industry.

### Information Technology: 2 of 6 Industries to Report Decline

The Information Technology sector is expected to report the second largest (year-over-year) decline in revenue at -1.0%. At the industry level, only two of the six industries are projected to report a decline in revenue: Semiconductors & Semiconductor Equipment (-8%) and Technology Hardware, Storage, & Peripherals (-6%). On the other hand, four industries are projected to report revenue growth, led by the Software (10%) industry.

## Looking Ahead: Forward Estimates and Valuation

### Earnings: Single-Digit Earnings Growth Projected for 2019

For the first quarter, analysts are expecting S&P 500 companies to report a decline in earnings of -3.9% and growth in revenue of 4.8%. For the remainder of 2019, analysts are predicting low single-digit earnings growth for the second and third quarters and high single digit earnings growth for the fourth quarter.

For Q2 2019, analysts are projecting earnings growth of 0.1% and revenue growth of 4.5%.

For Q3 2019, analysts are projecting earnings growth of 1.7% and revenue growth of 4.3%.

For Q4 2019, analysts are projecting earnings growth of 8.3% and revenue growth of 4.8%.

For CY 2019, analysts are projecting earnings growth of 3.7% and revenue growth of 4.9%.

### Valuation: Forward P/E Ratio is 16.3, Above the 10-Year Average (14.7)

The forward 12-month P/E ratio is 16.3. This P/E ratio is below the 5-year average of 16.4 but above the 10-year average of 14.7. 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 12.3%, while the forward 12-month EPS estimate has decreased by 0.7%.

At the sector level, the Consumer Discretionary (20.7) sector has the highest forward 12-month P/E ratio, while the Financials (11.2) sector has the lowest forward 12-month P/E ratio.

### Targets & Ratings: Analysts Project 10% Increase in Price Over Next 12 Months

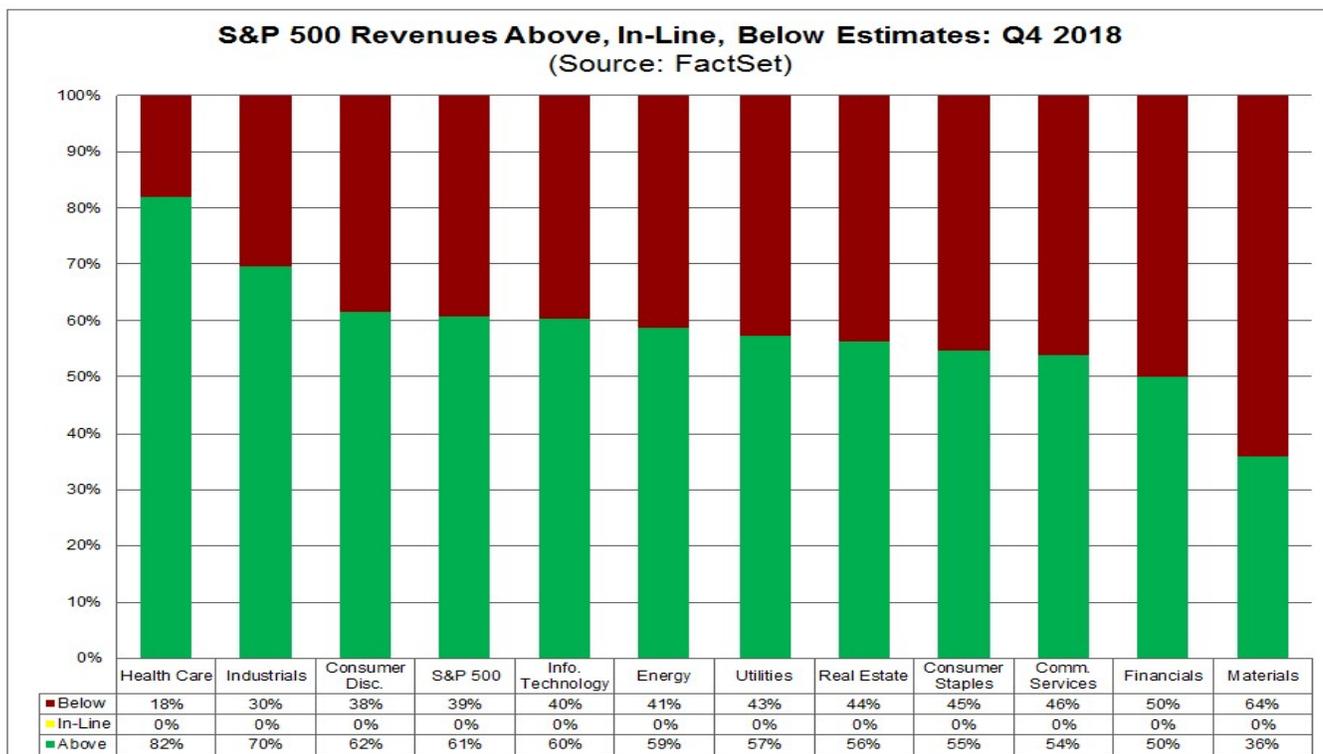
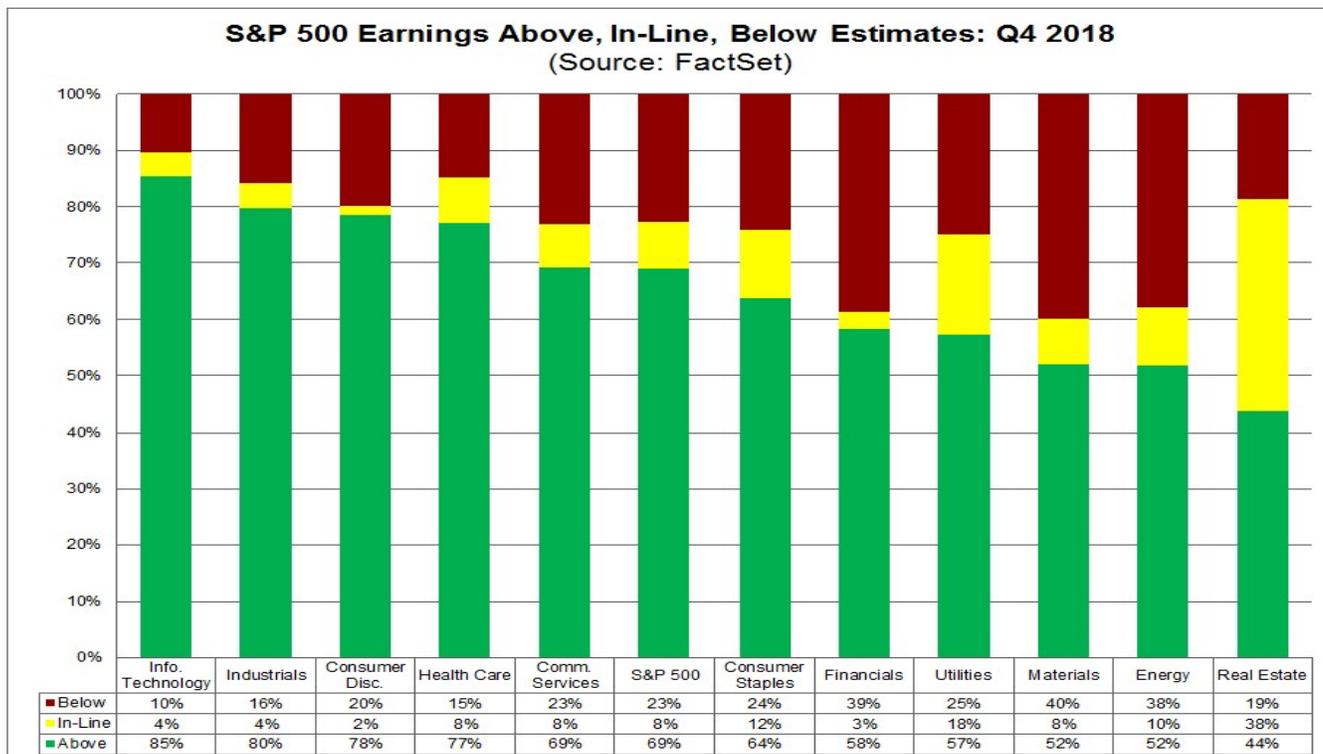
The bottom-up target price for the S&P 500 is 3093.61, which is 9.9% above the closing price of 2815.44. At the sector level, the Financials (+14.4%), Communication Services (+14.0%), and Energy (+13.6%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Utilities (+1.0%) and Real Estate (+1.2%) sectors are expected to see the smallest price increases, as these sectors have the smallest upside differences between the bottom-up target price and the closing price.

Overall, there are 11,043 ratings on stocks in the S&P 500. Of these 11,043 ratings, 53.2% are Buy ratings, 40.7% are Hold ratings, and 6.0% are Sell ratings. At the sector level, the Energy (67%) sector has the highest percentage of Buy ratings, while the Consumer Staples (40%) sector has the lowest percentage of Buy ratings.

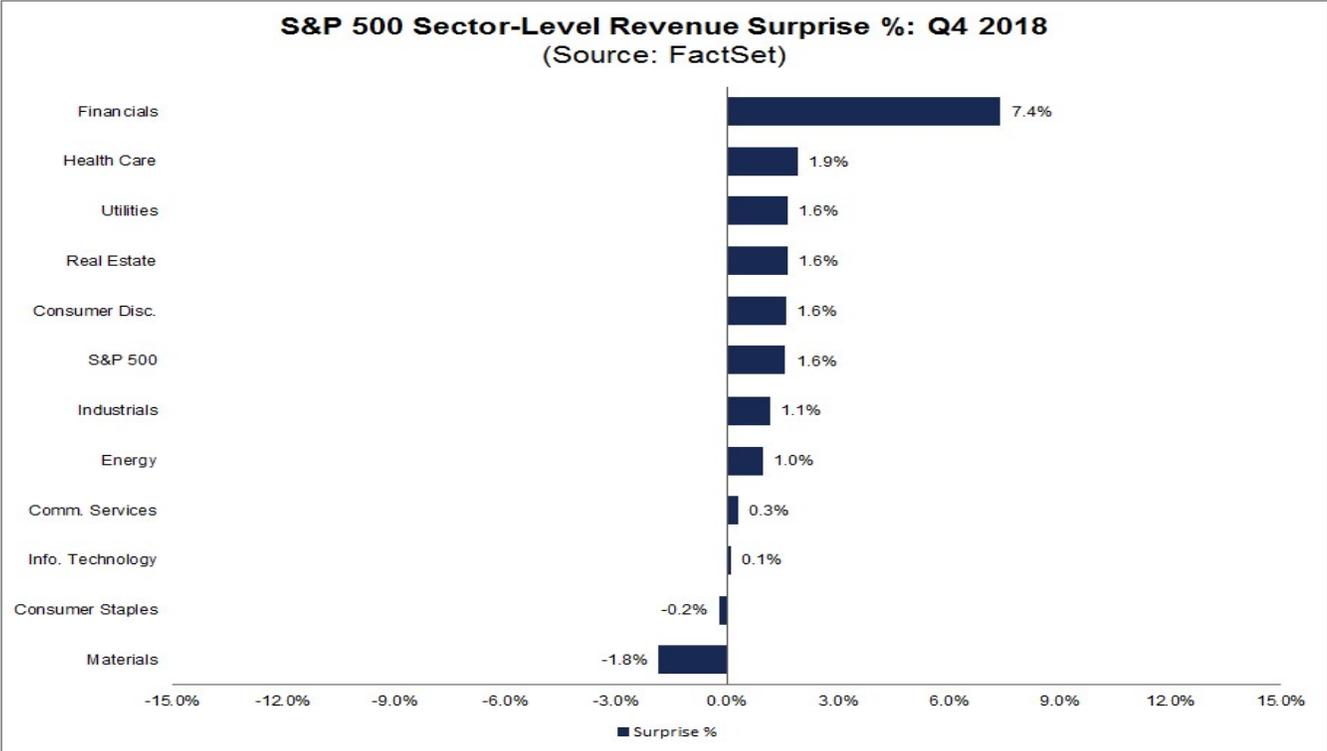
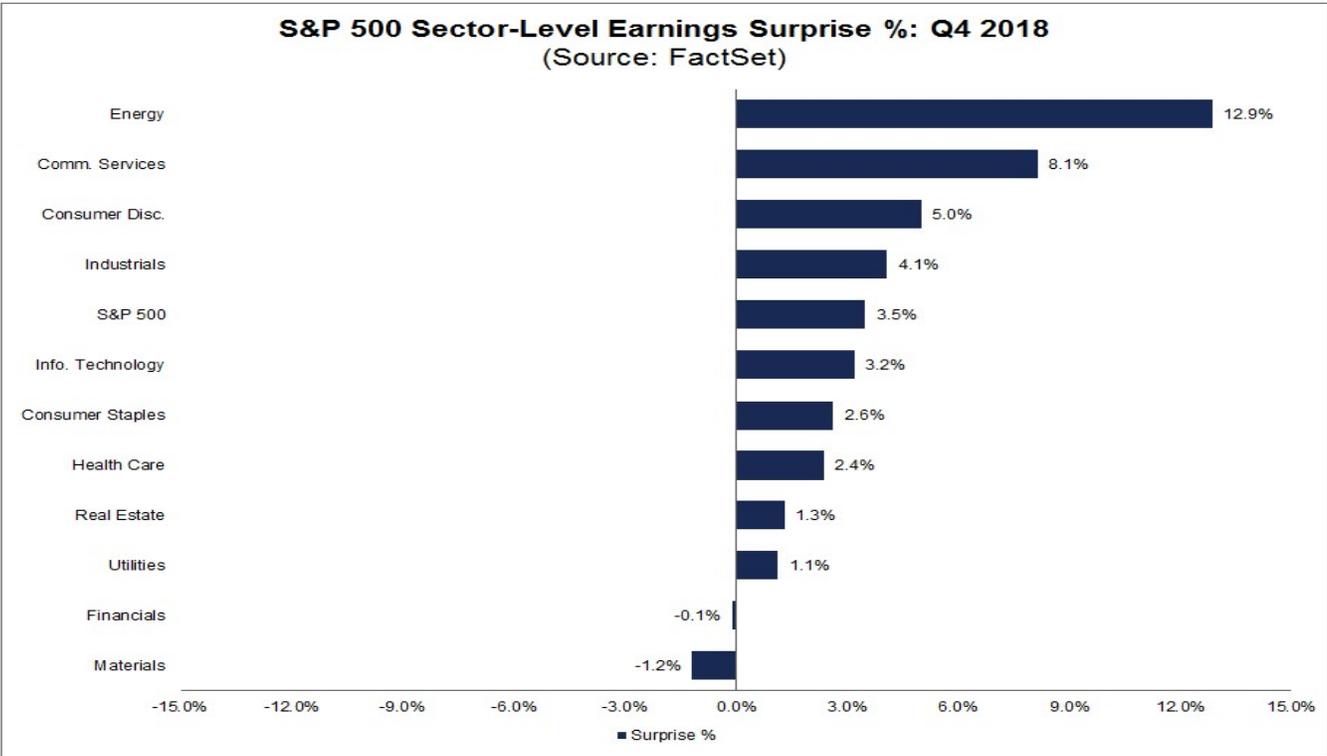
### Companies Reporting Next Week: 3

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

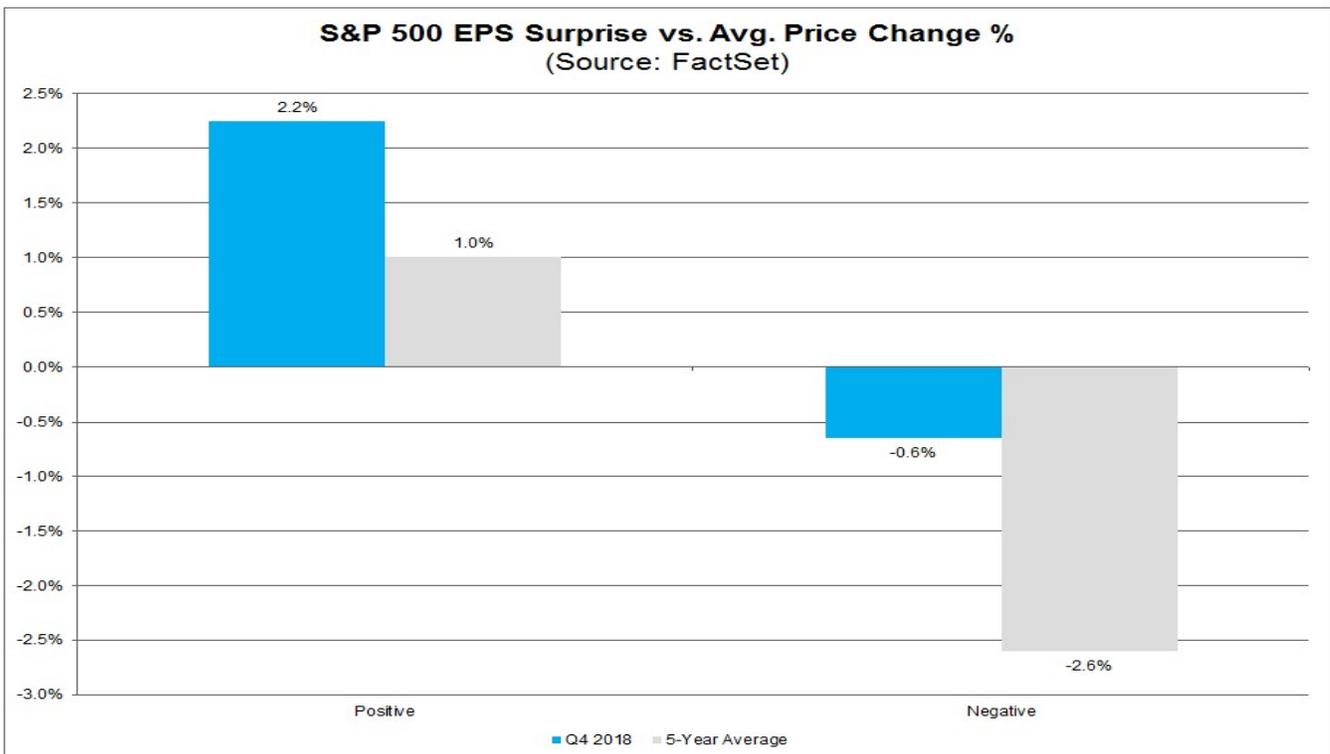
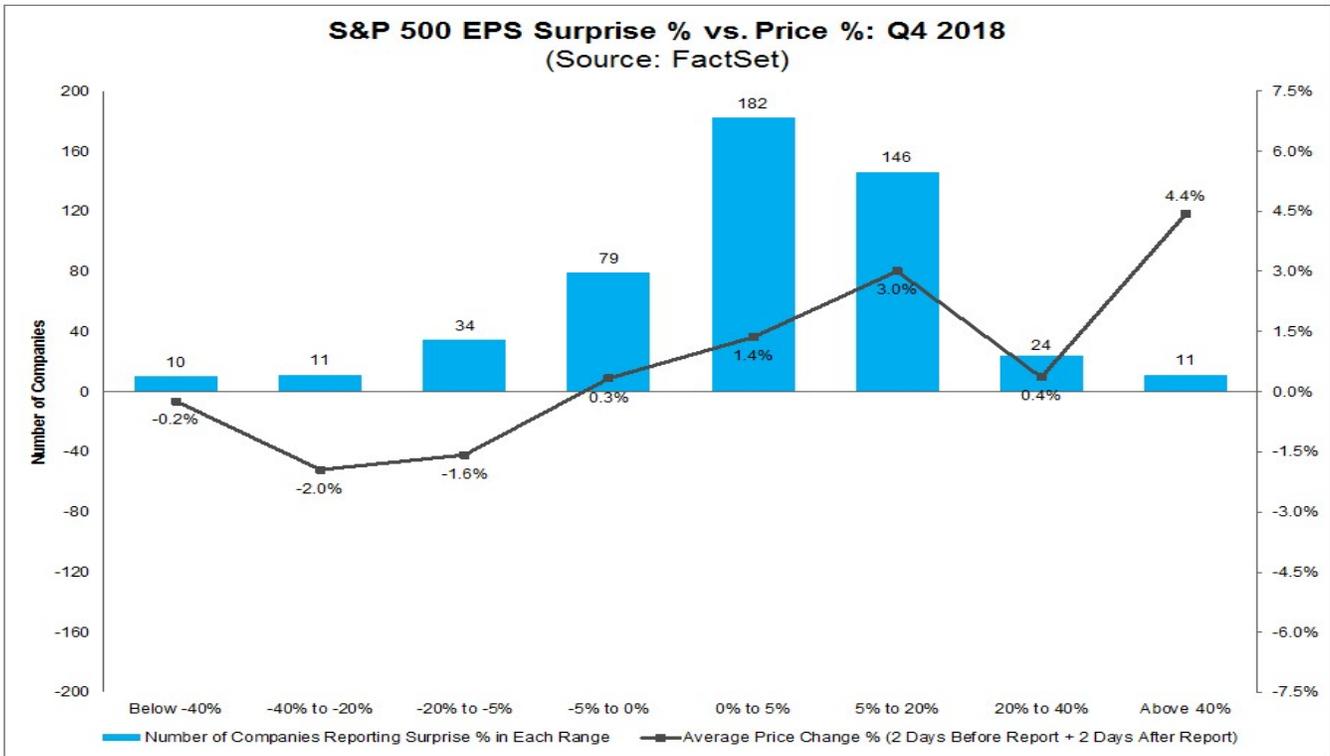
## Q4 2018: Scorecard



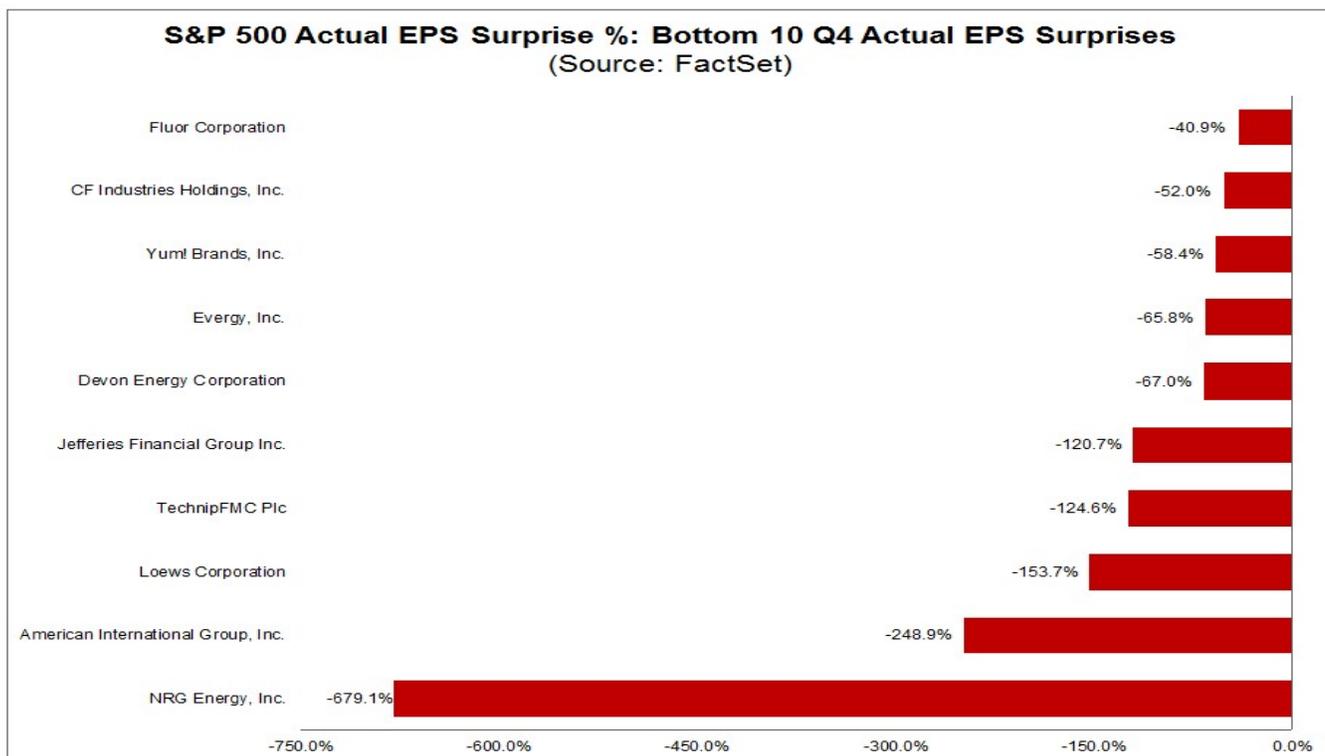
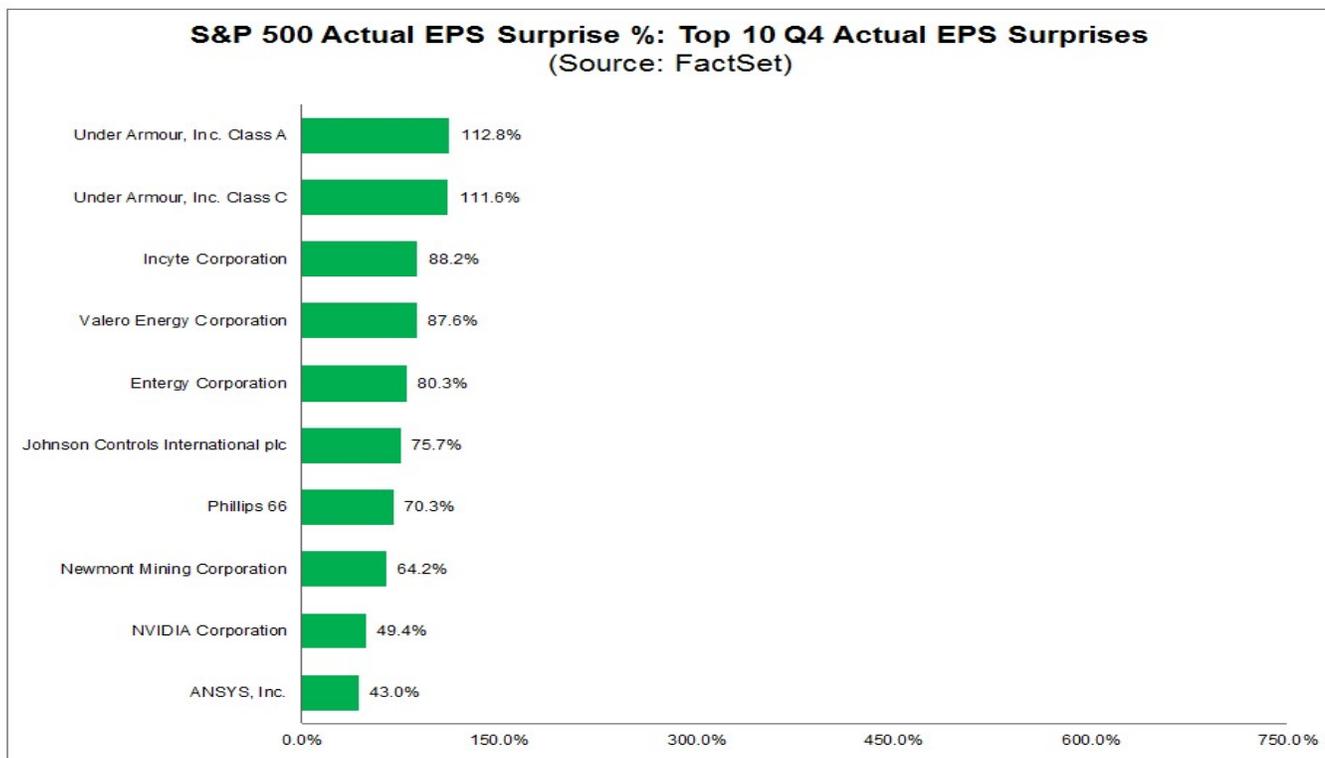
# Q4 2018: Scorecard



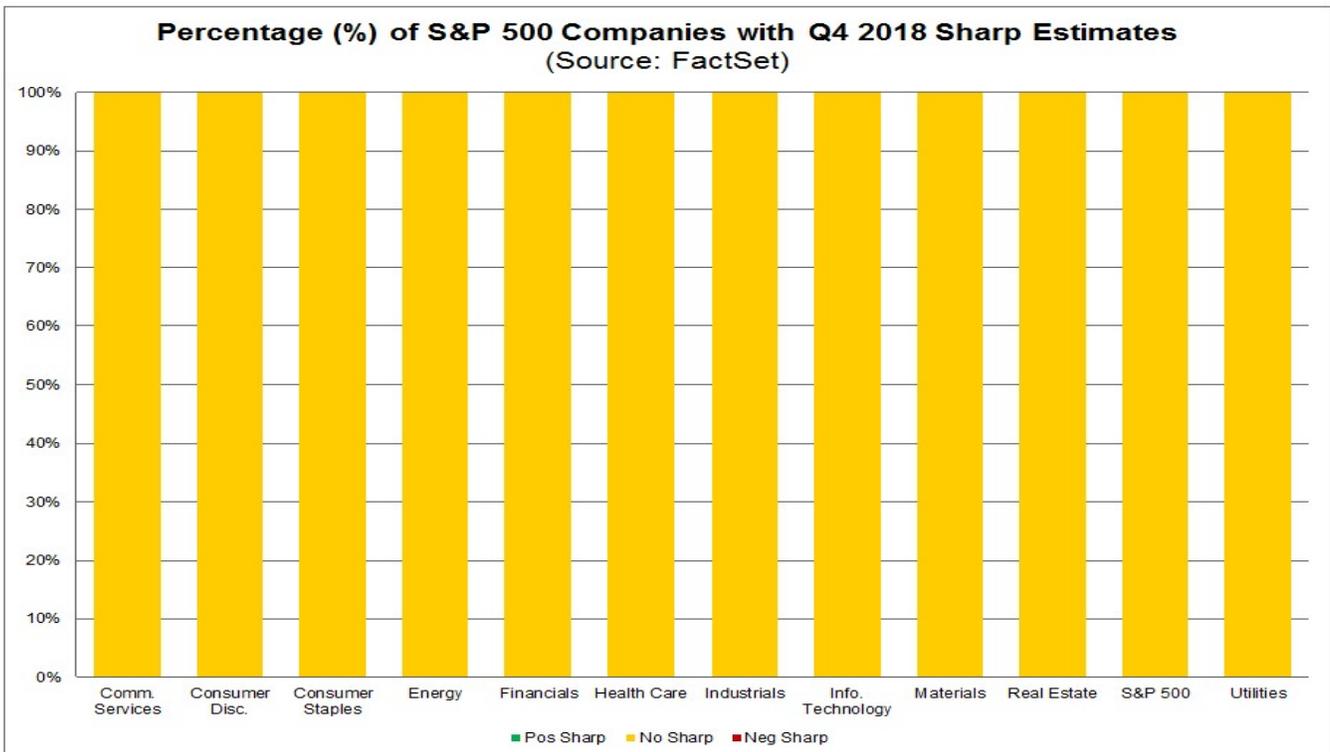
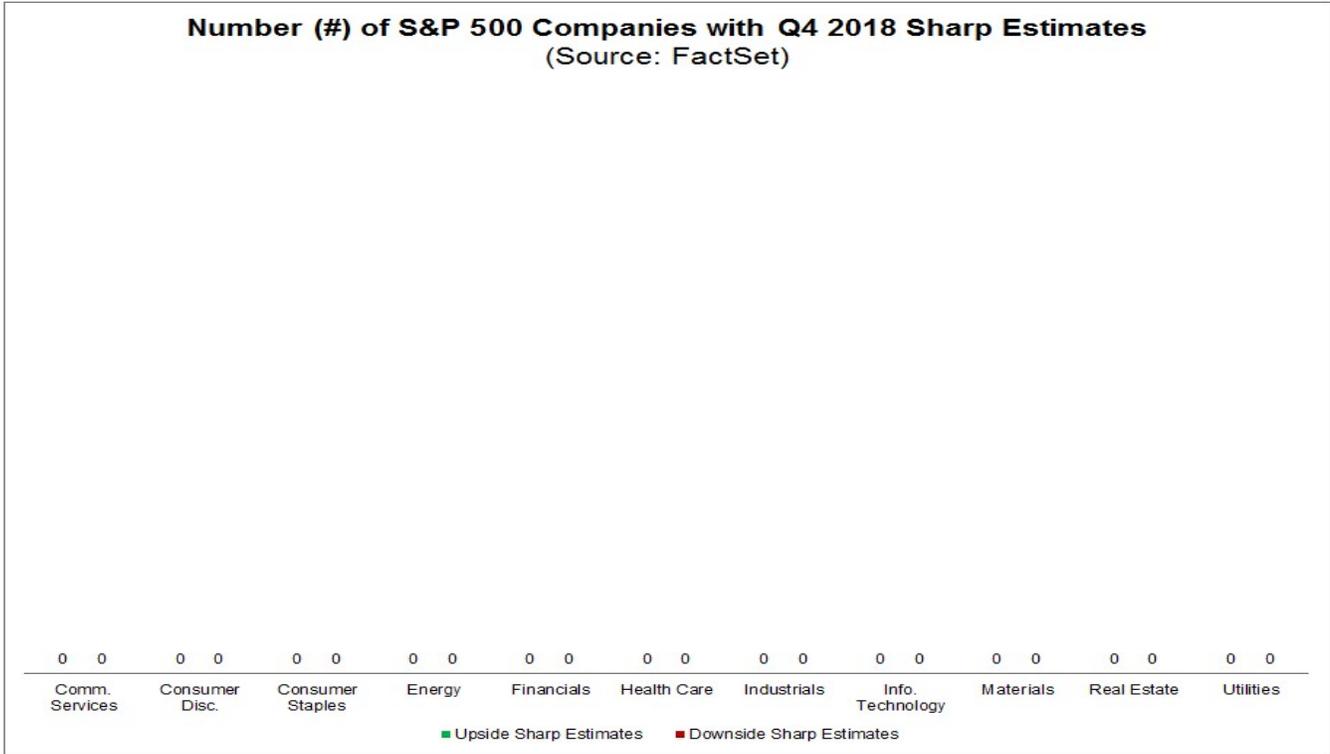
## Q4 2018: Scorecard



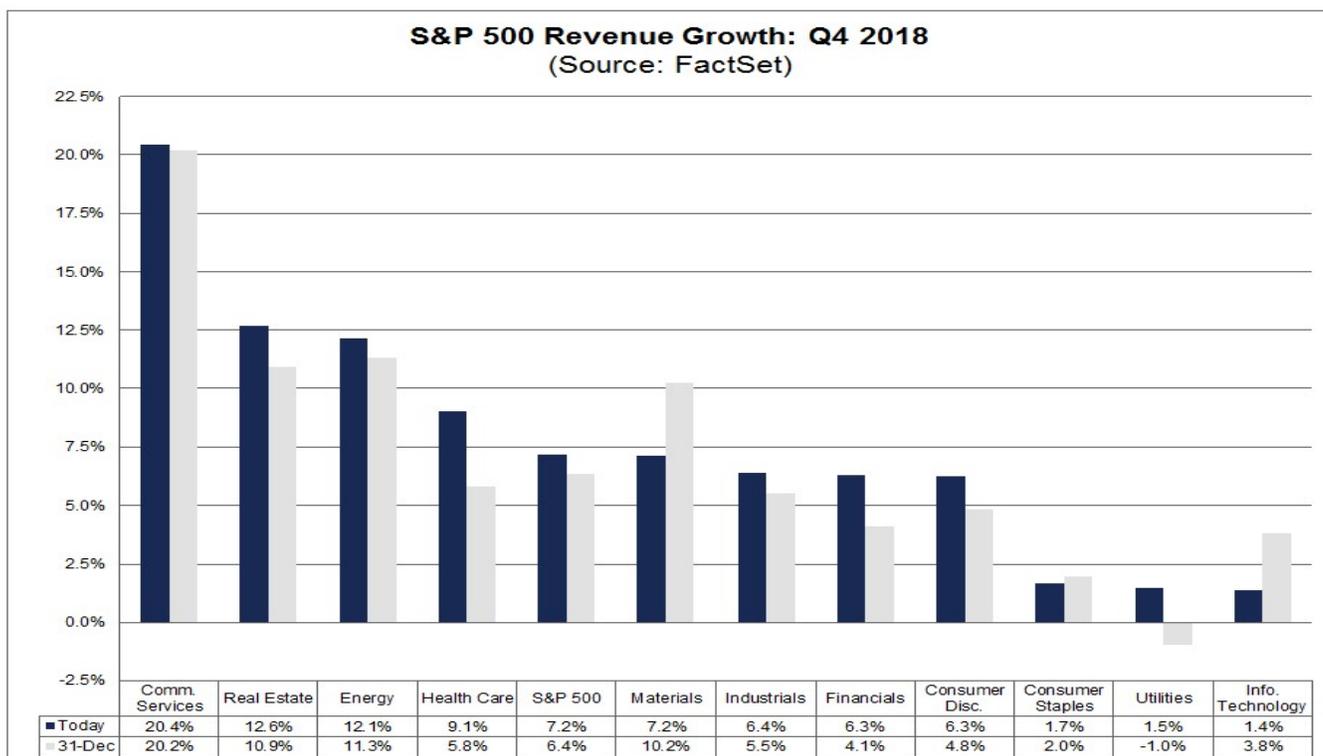
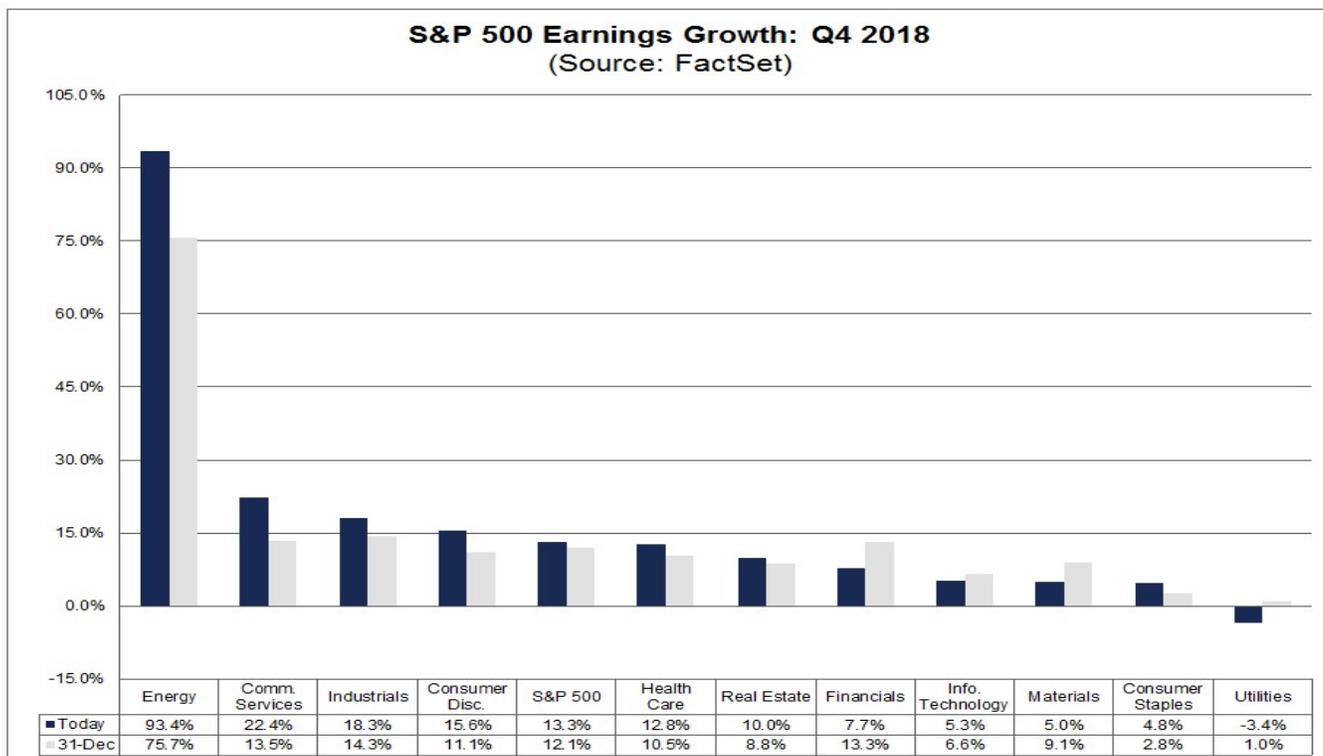
## Q4 2018: Scorecard



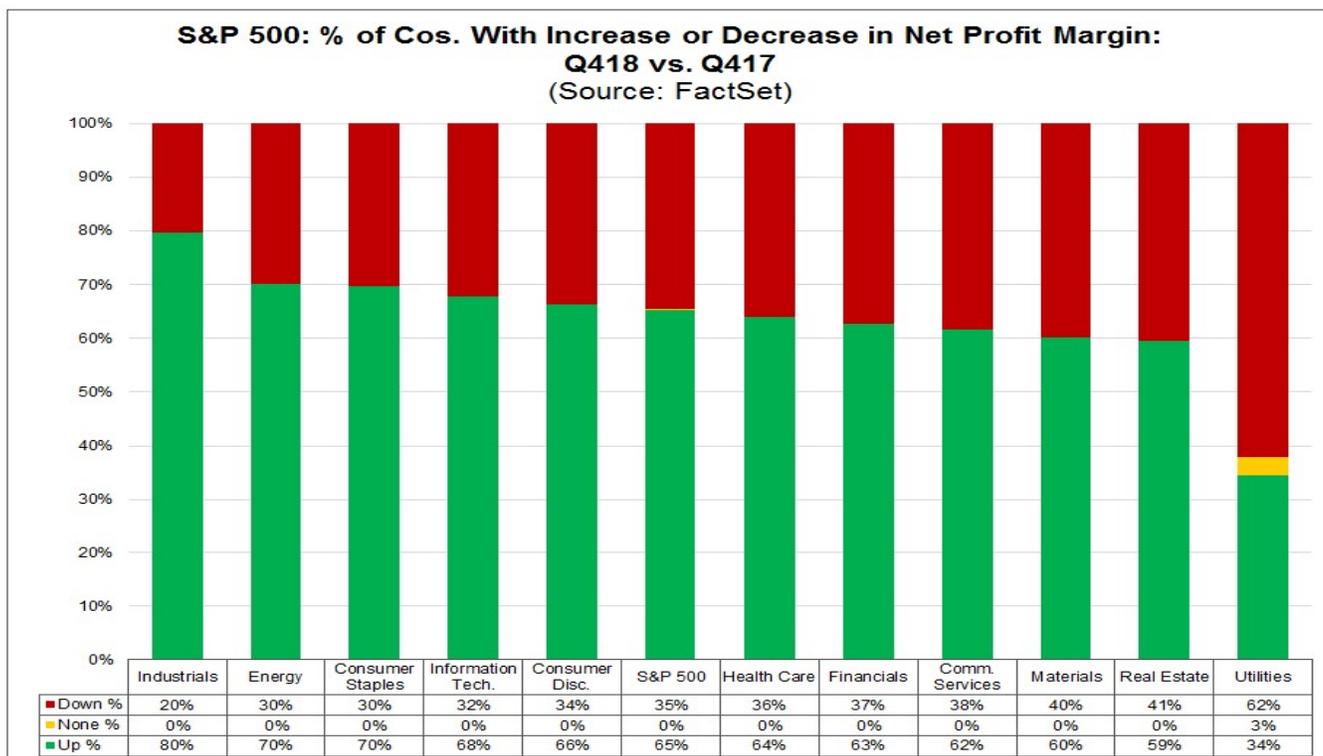
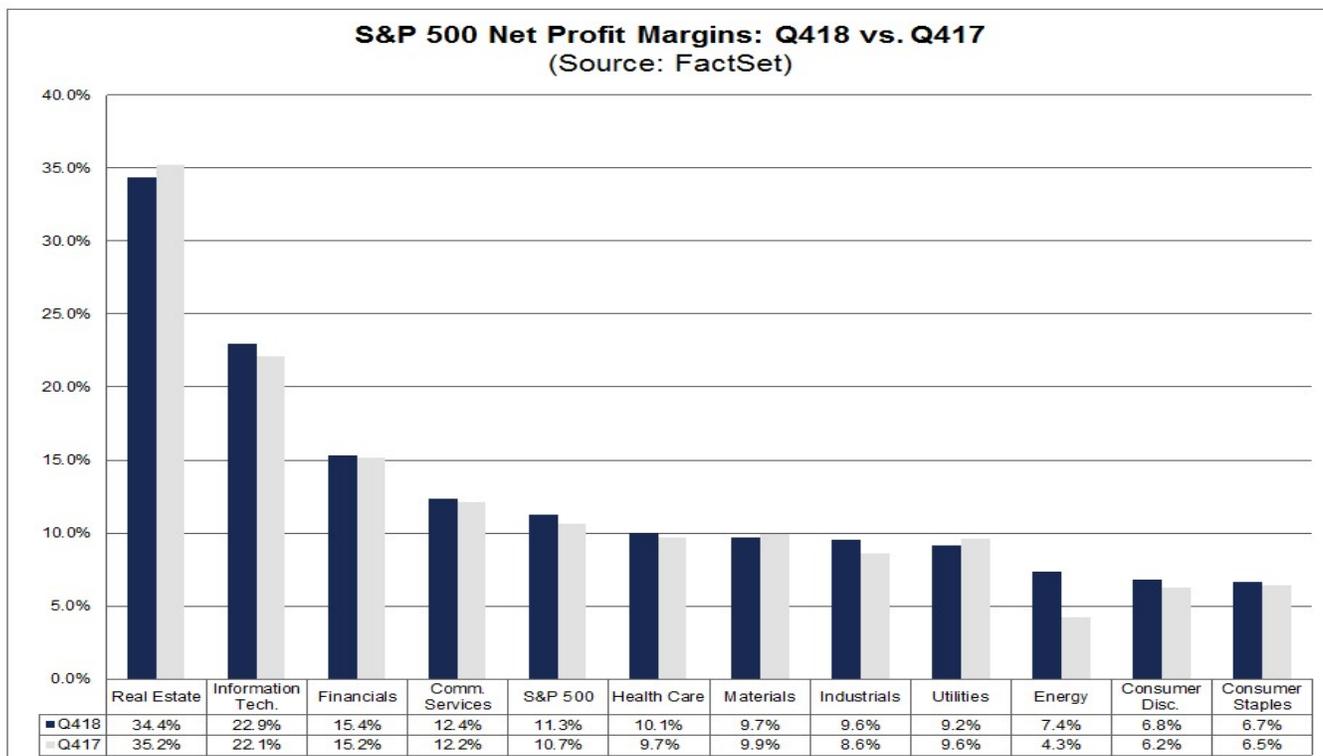
## Q4 2018: Projected EPS Surprises (Sharp Estimates)



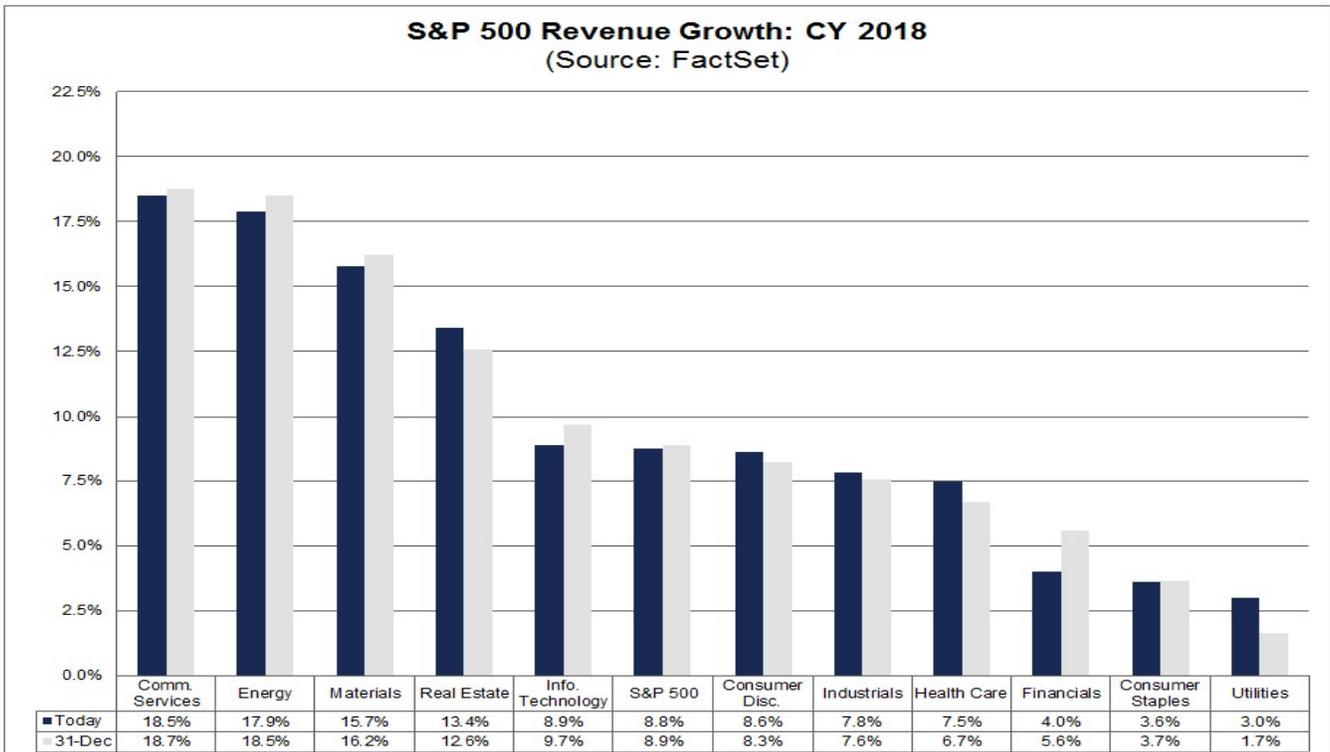
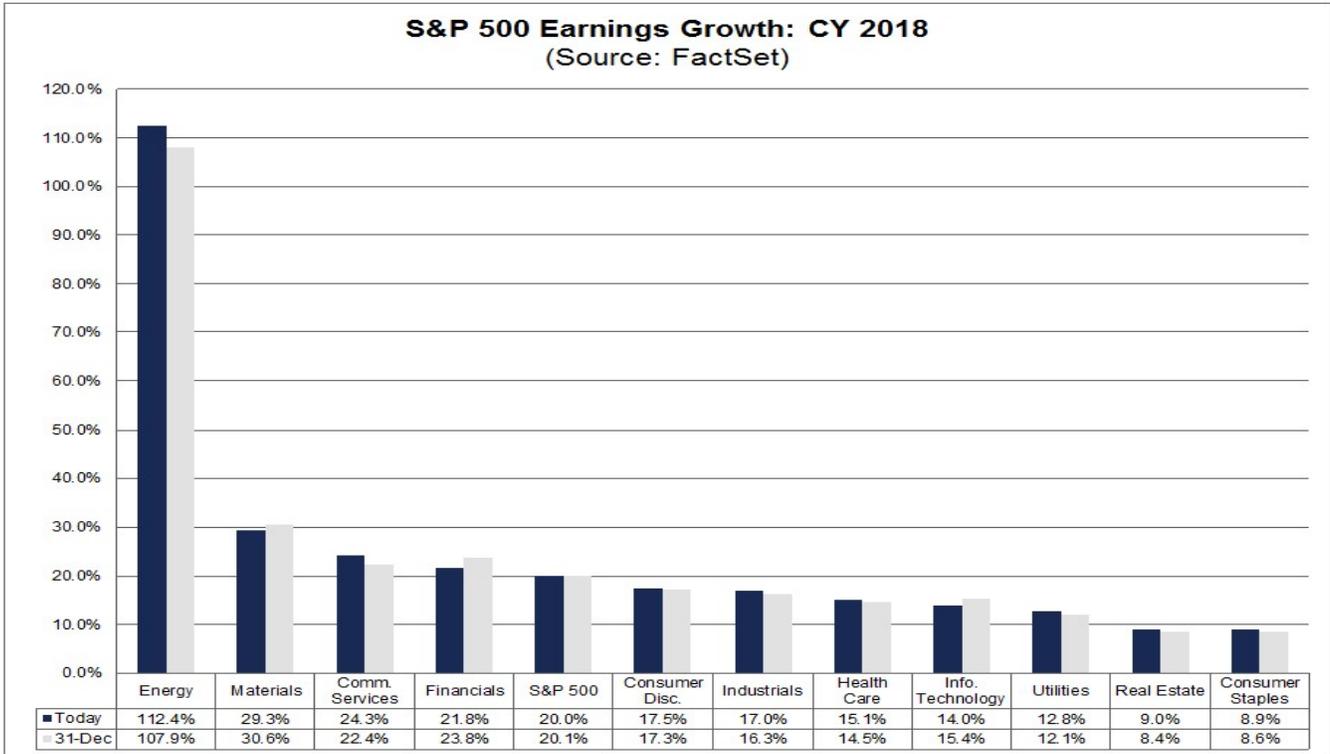
## Q4 2018: Growth



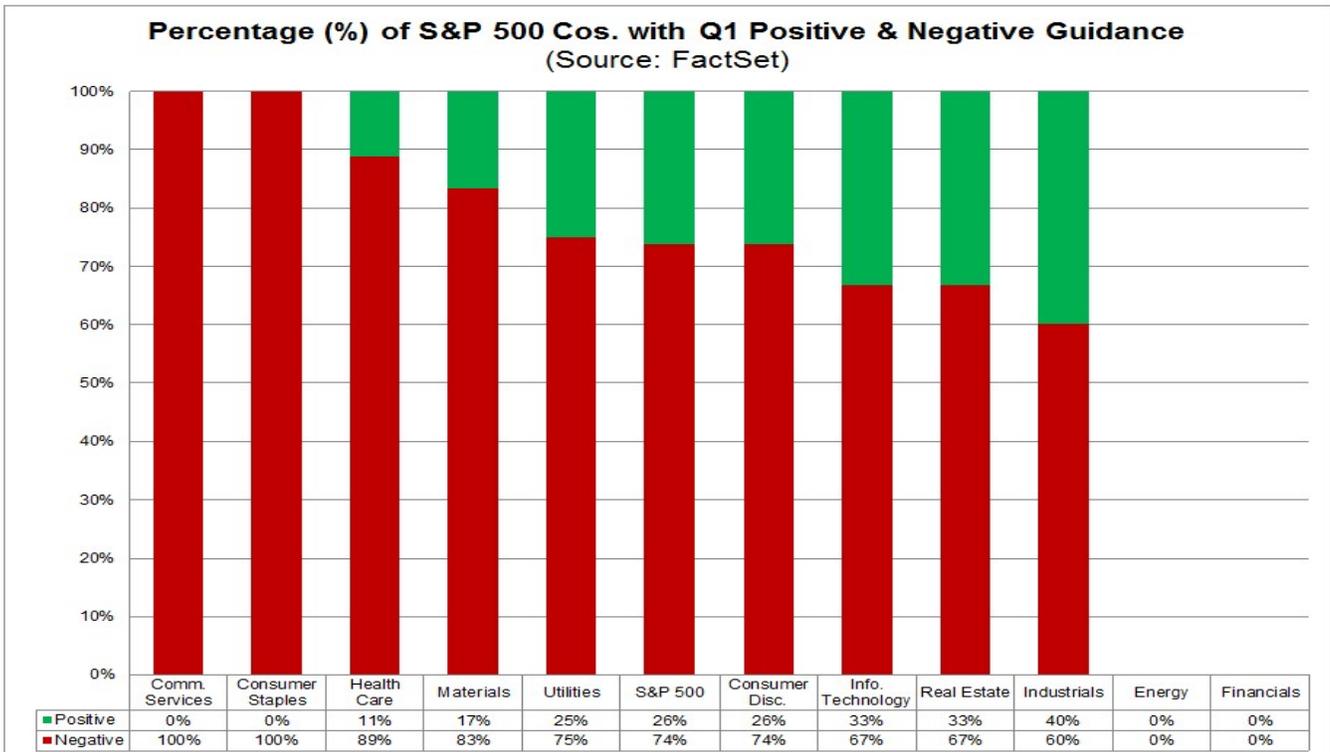
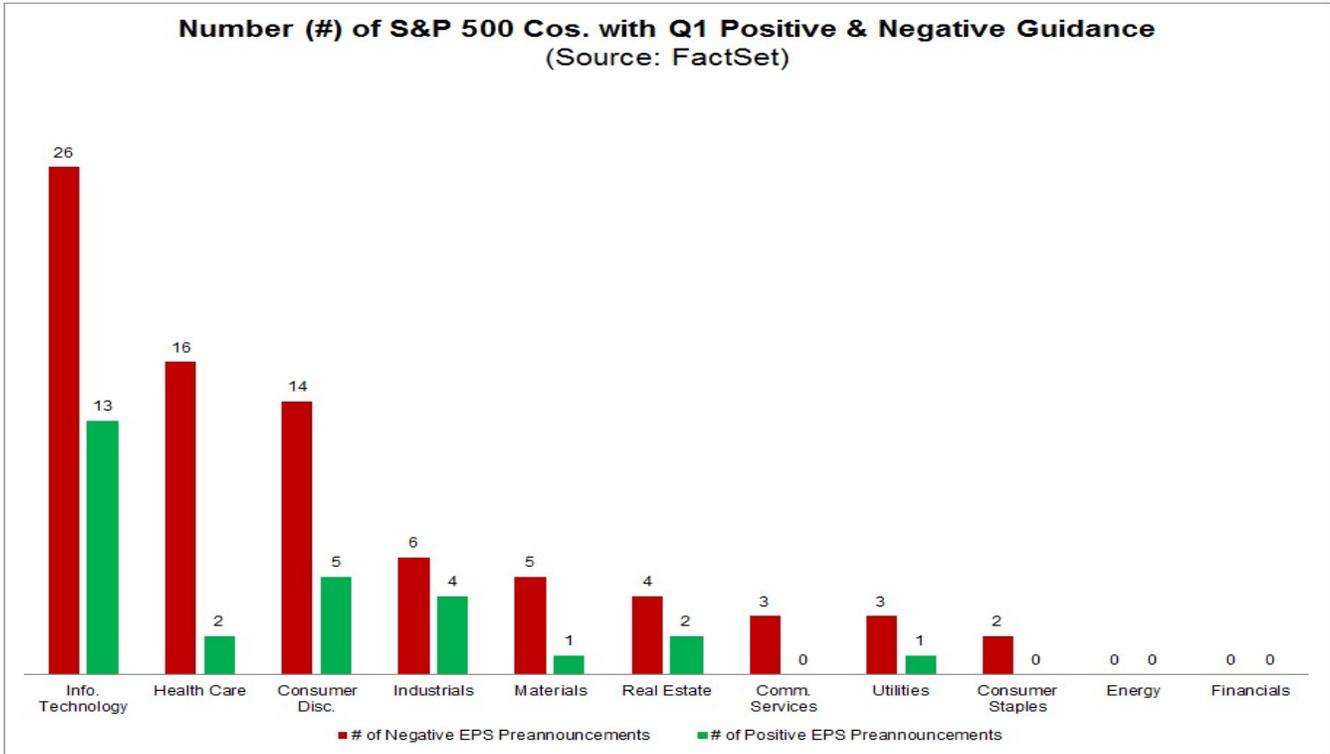
## Q4 2018: Net Profit Margin



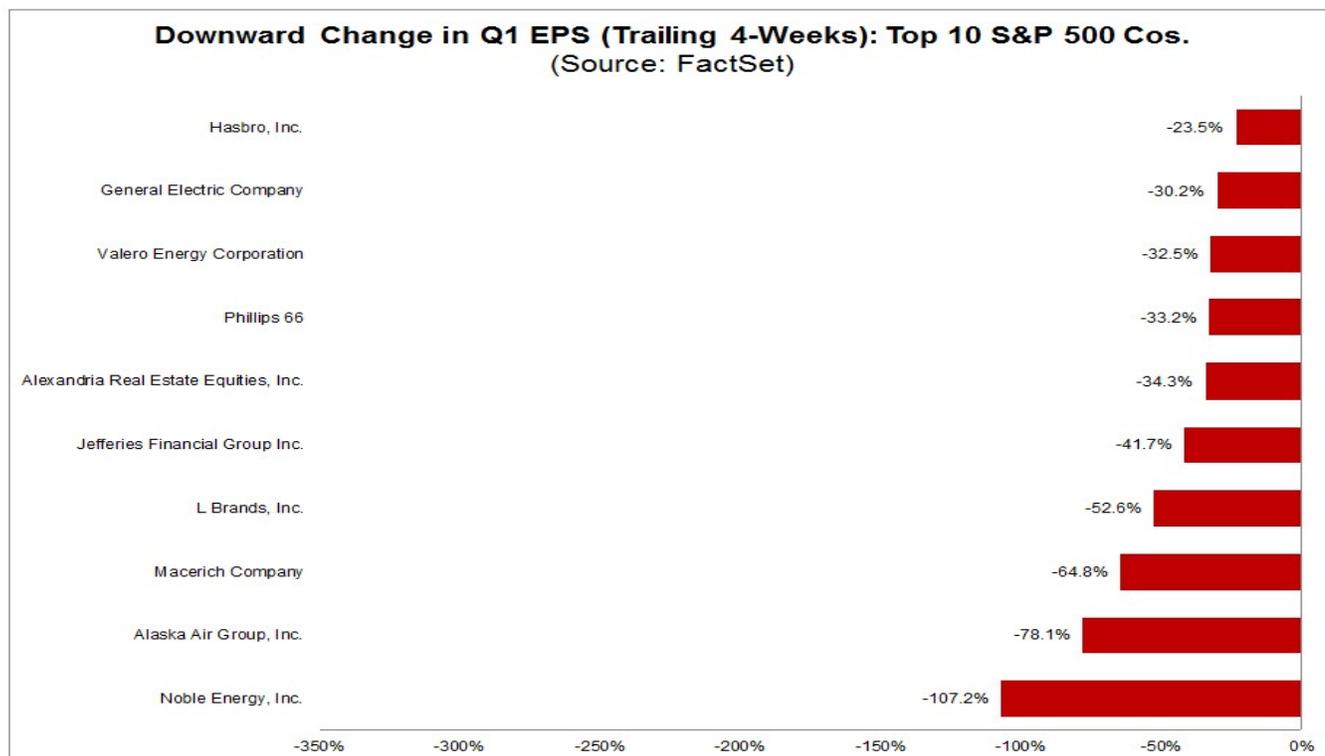
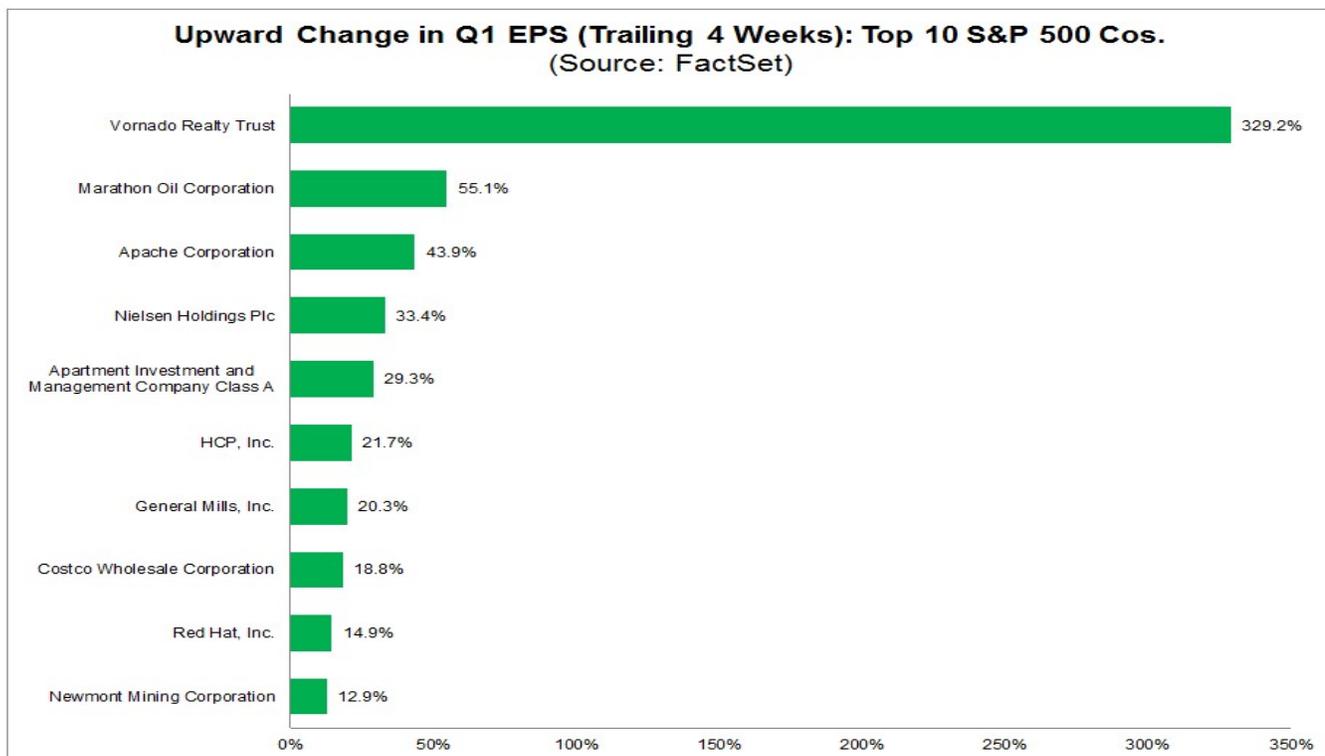
## CY 2018: Growth



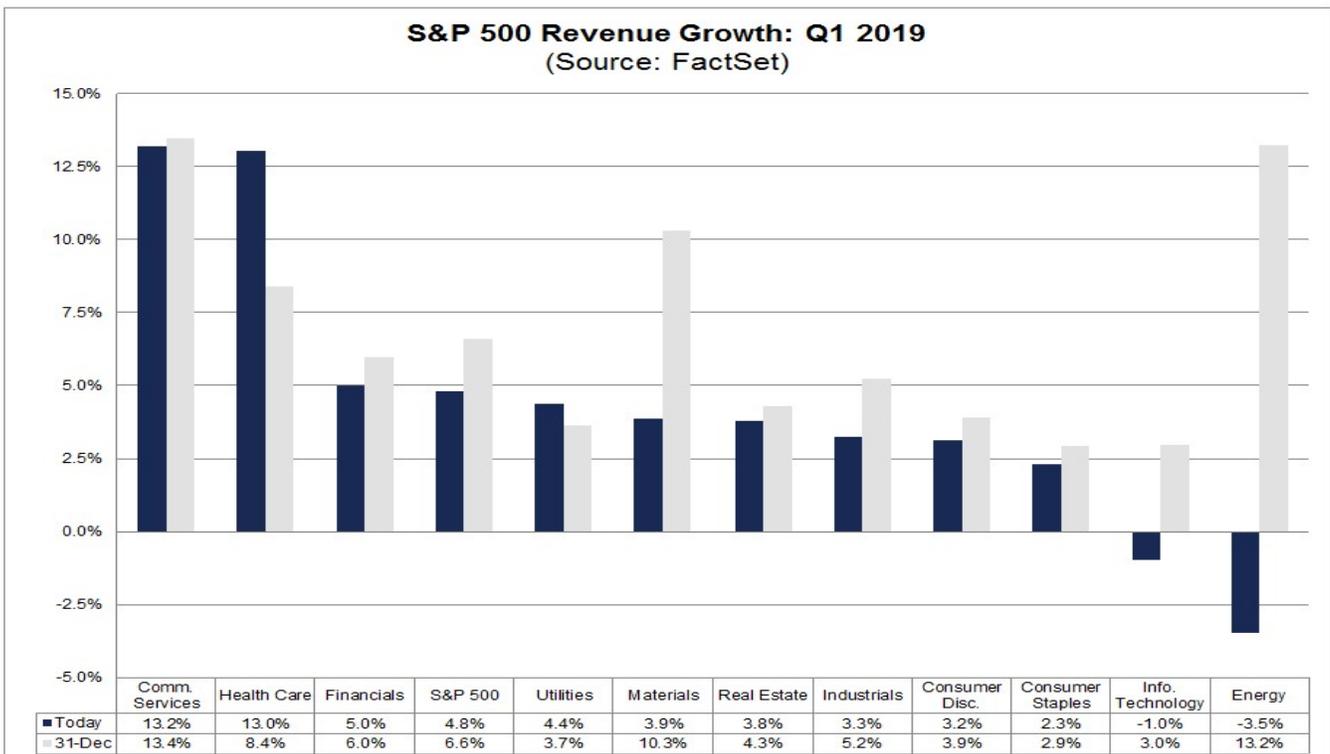
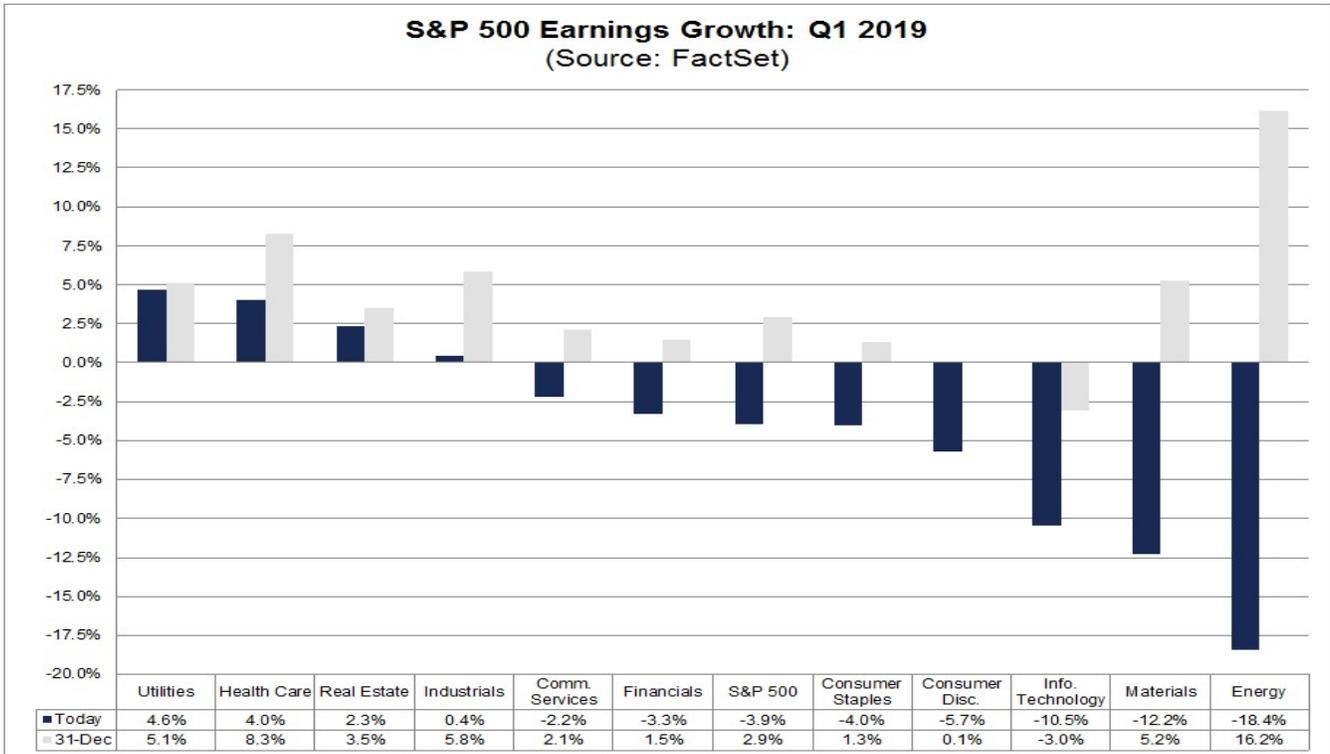
## Q1 2019: EPS Guidance



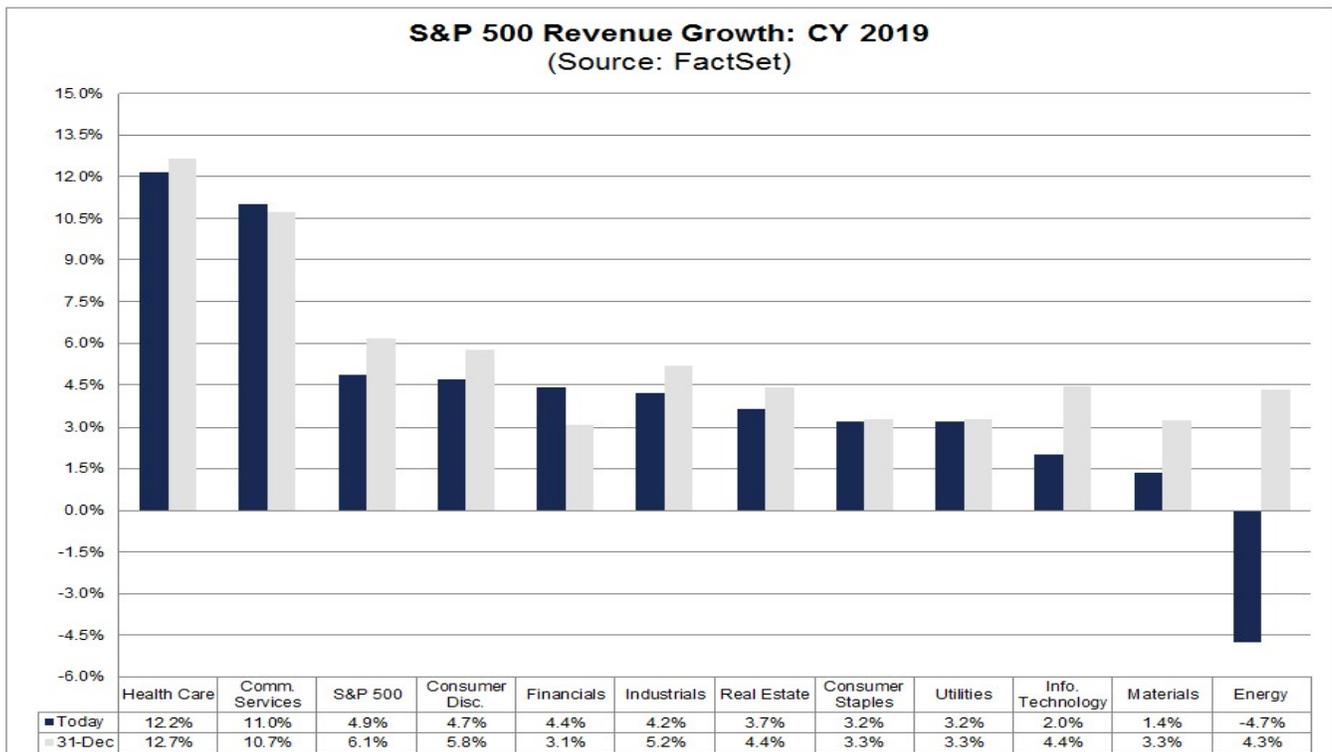
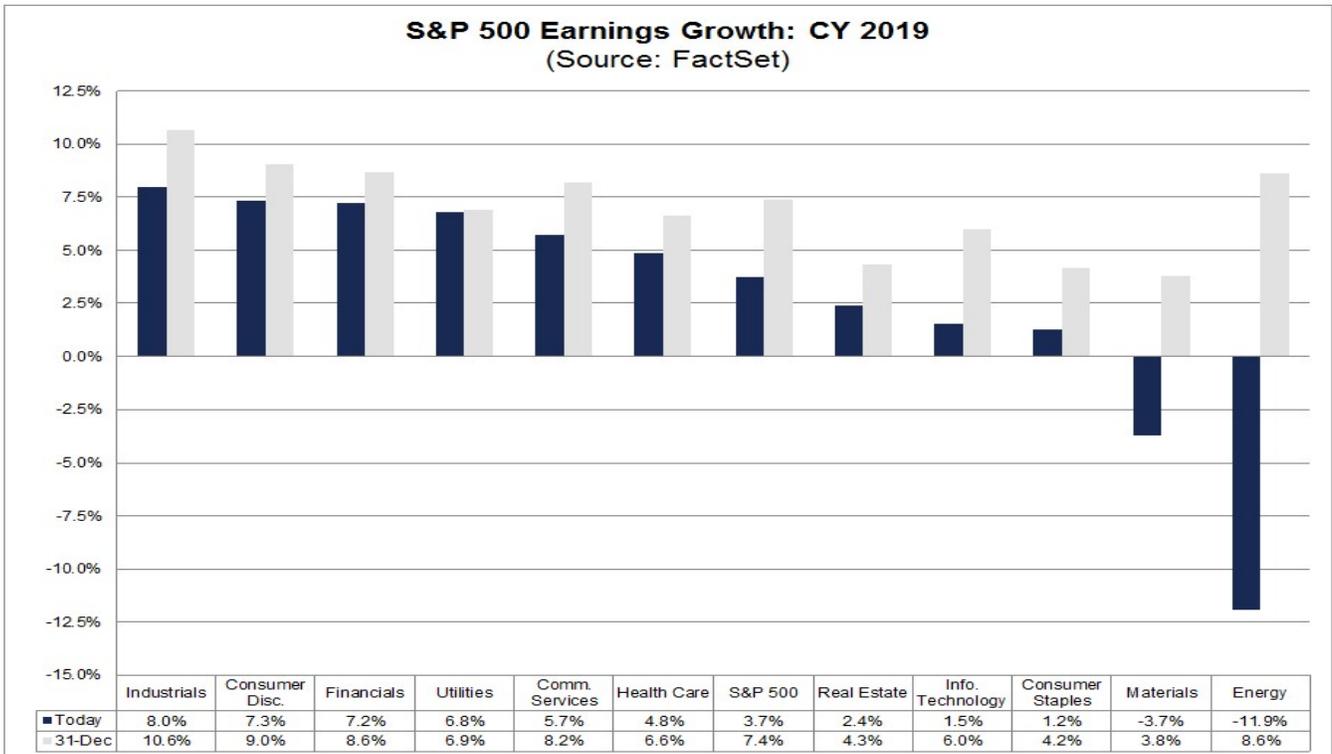
## Q1 2019: EPS Revisions



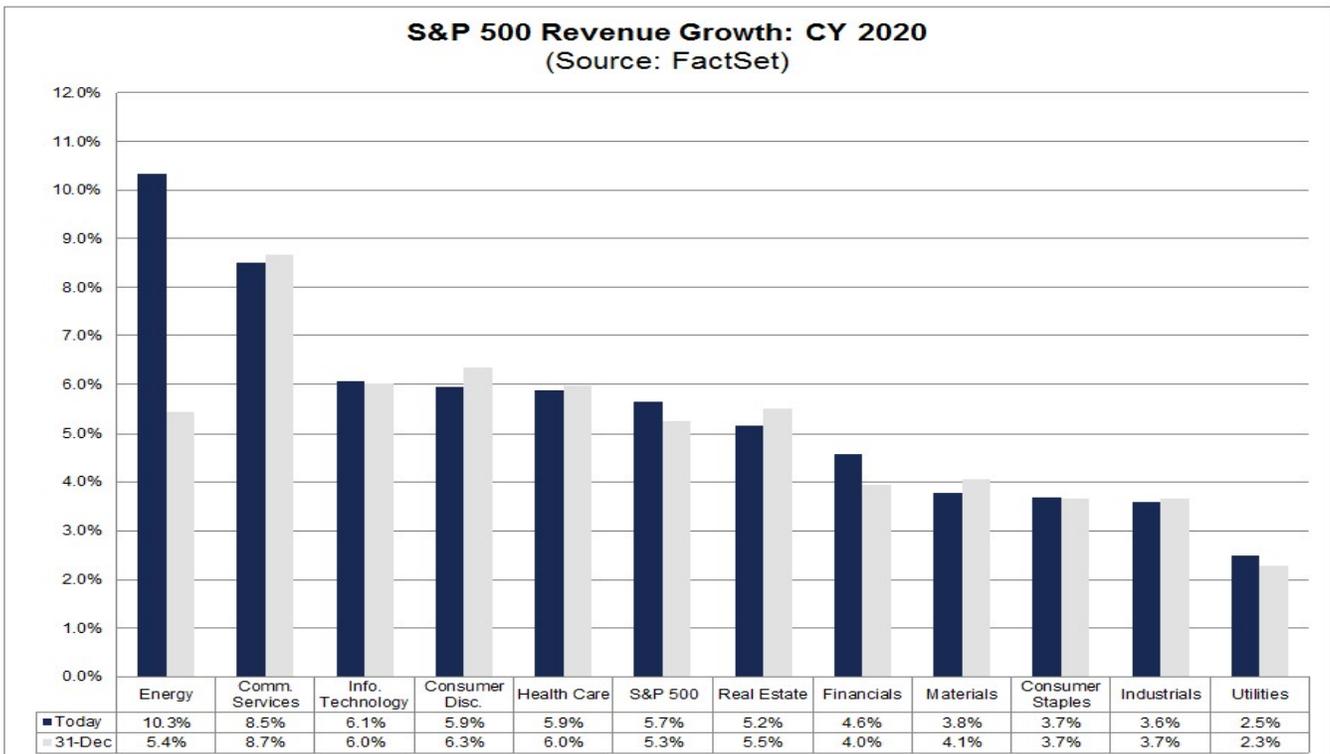
## Q1 2019: Growth



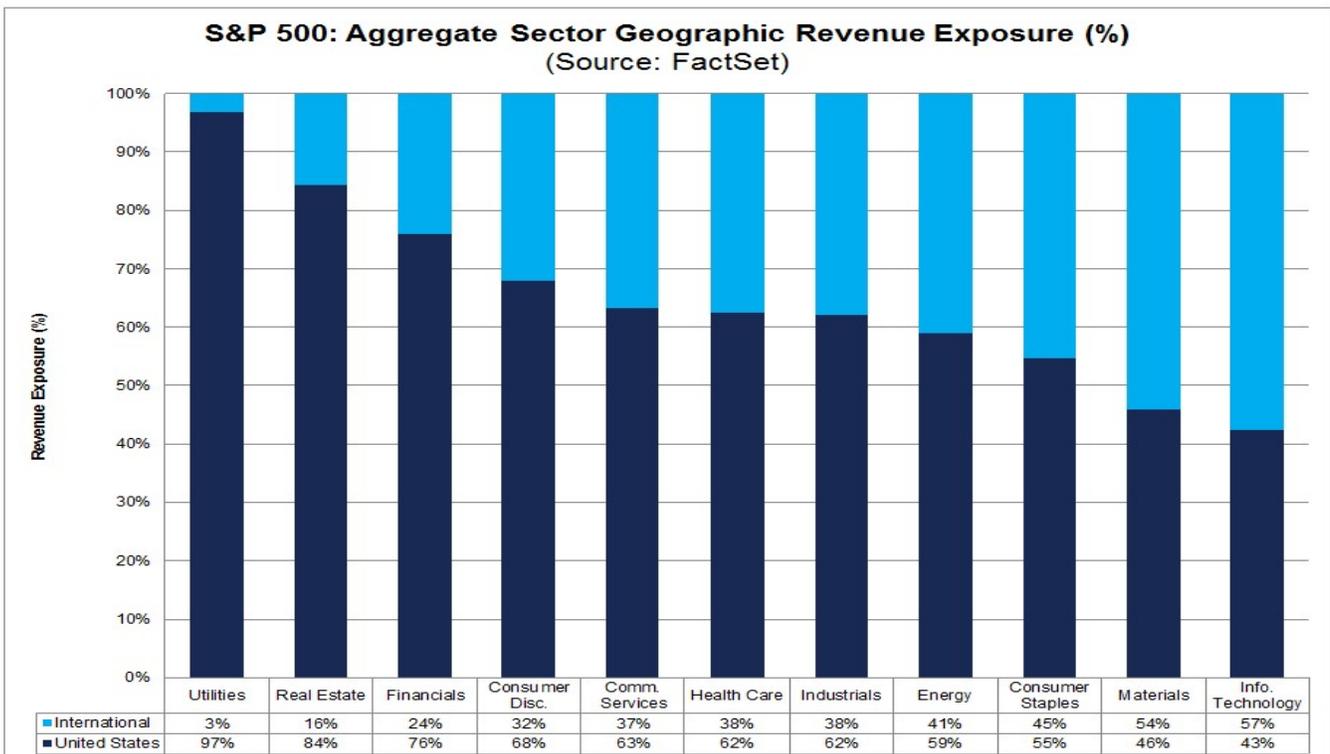
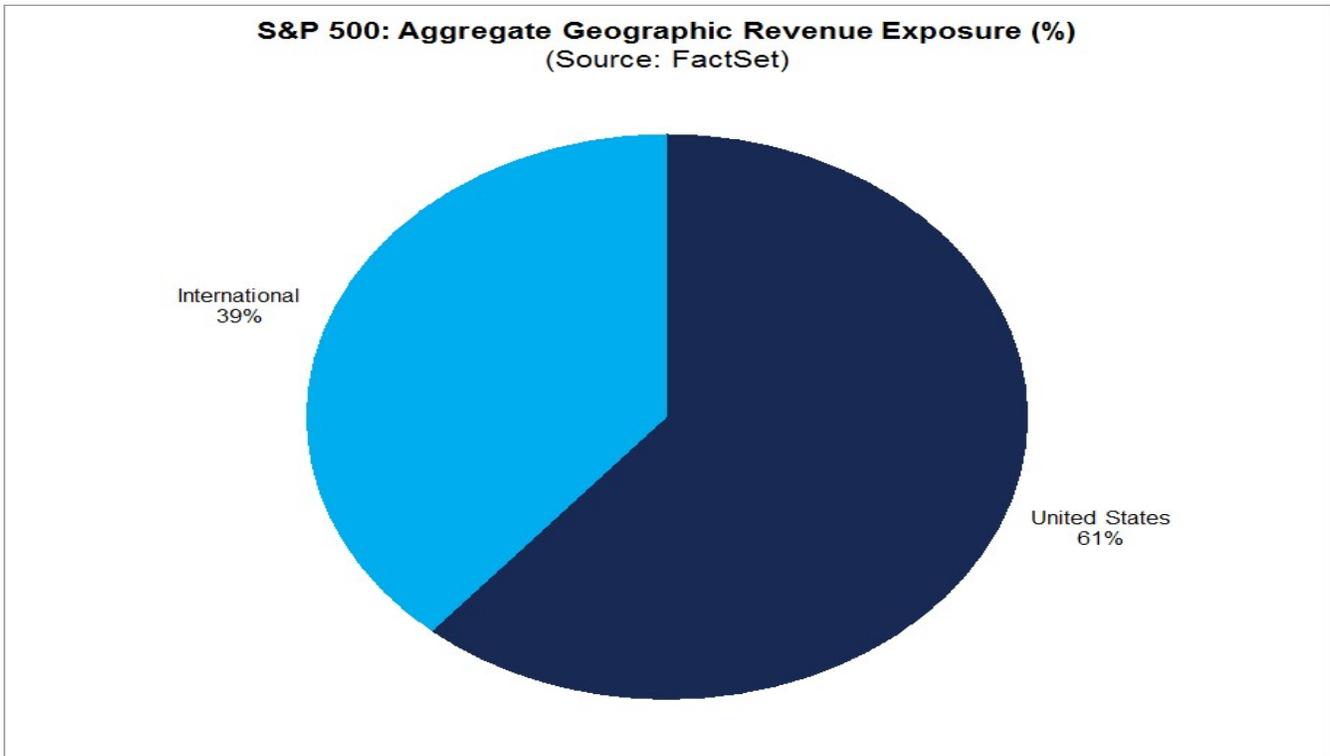
## CY 2019: Growth



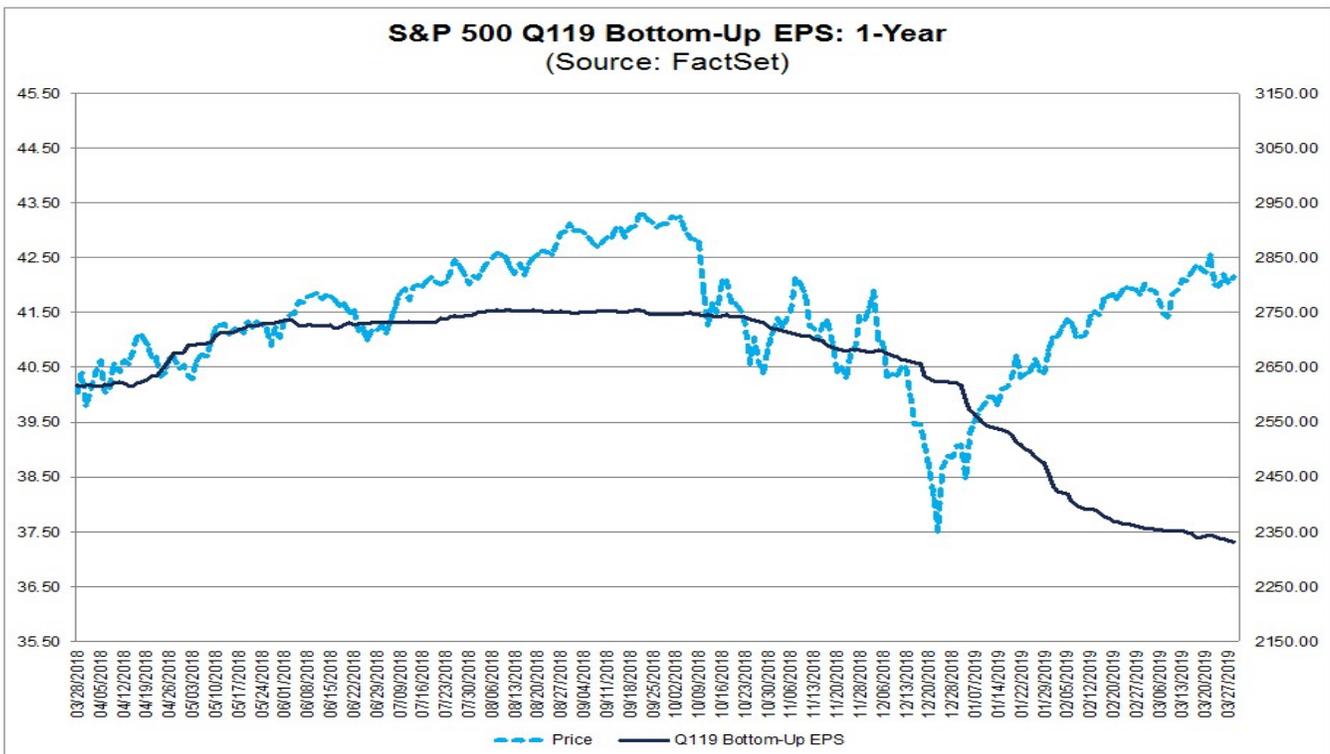
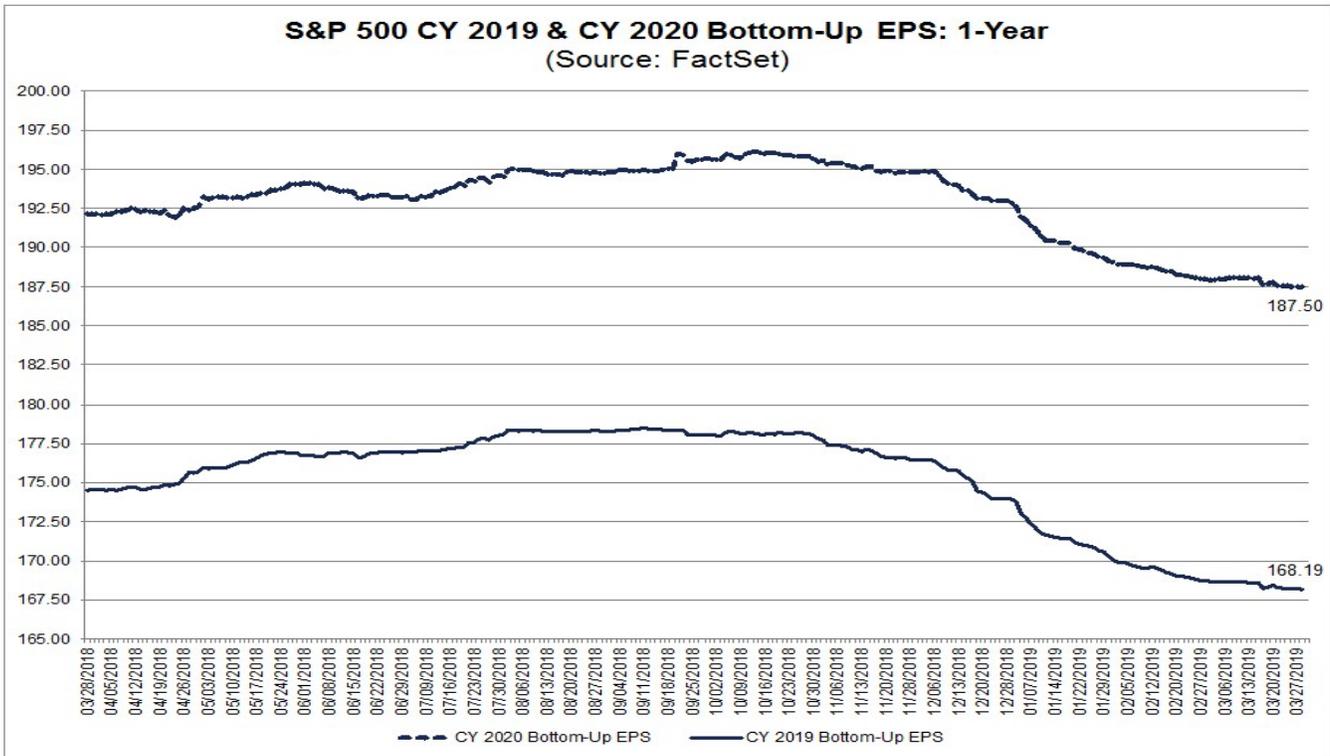
## CY 2020: Growth



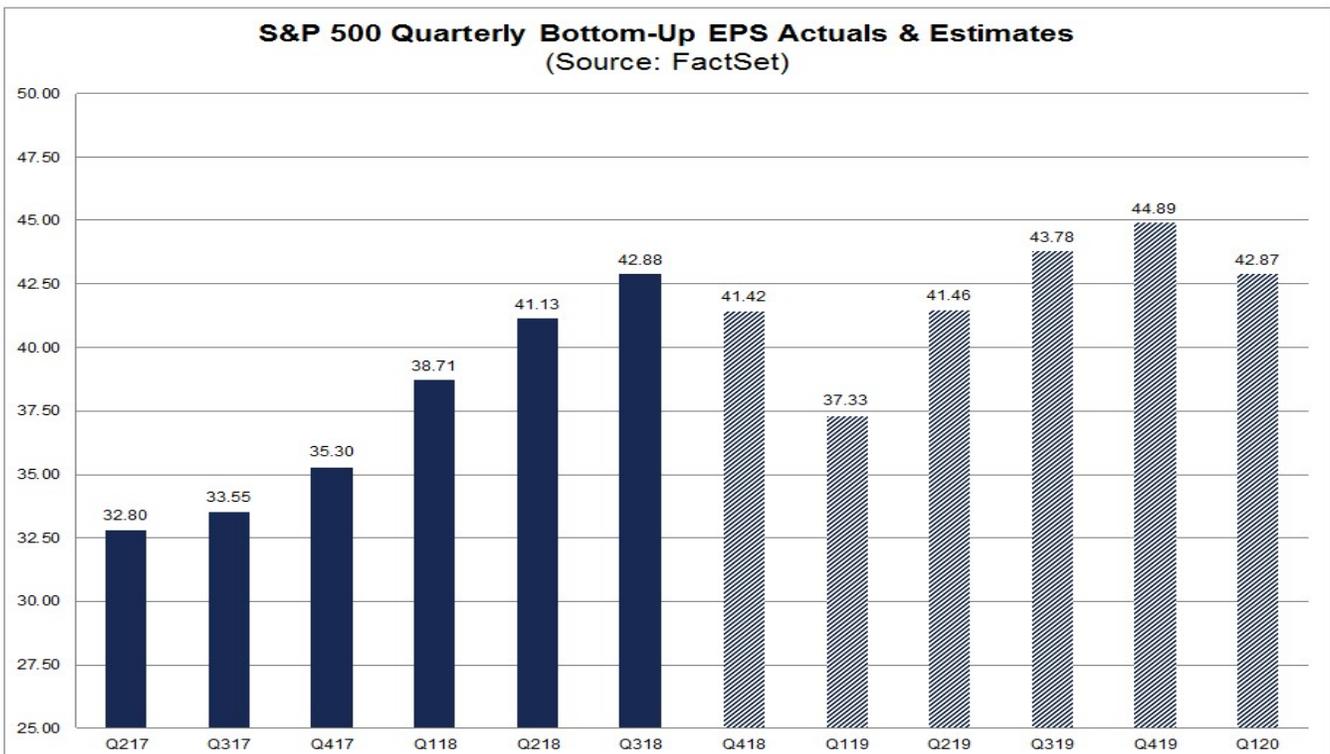
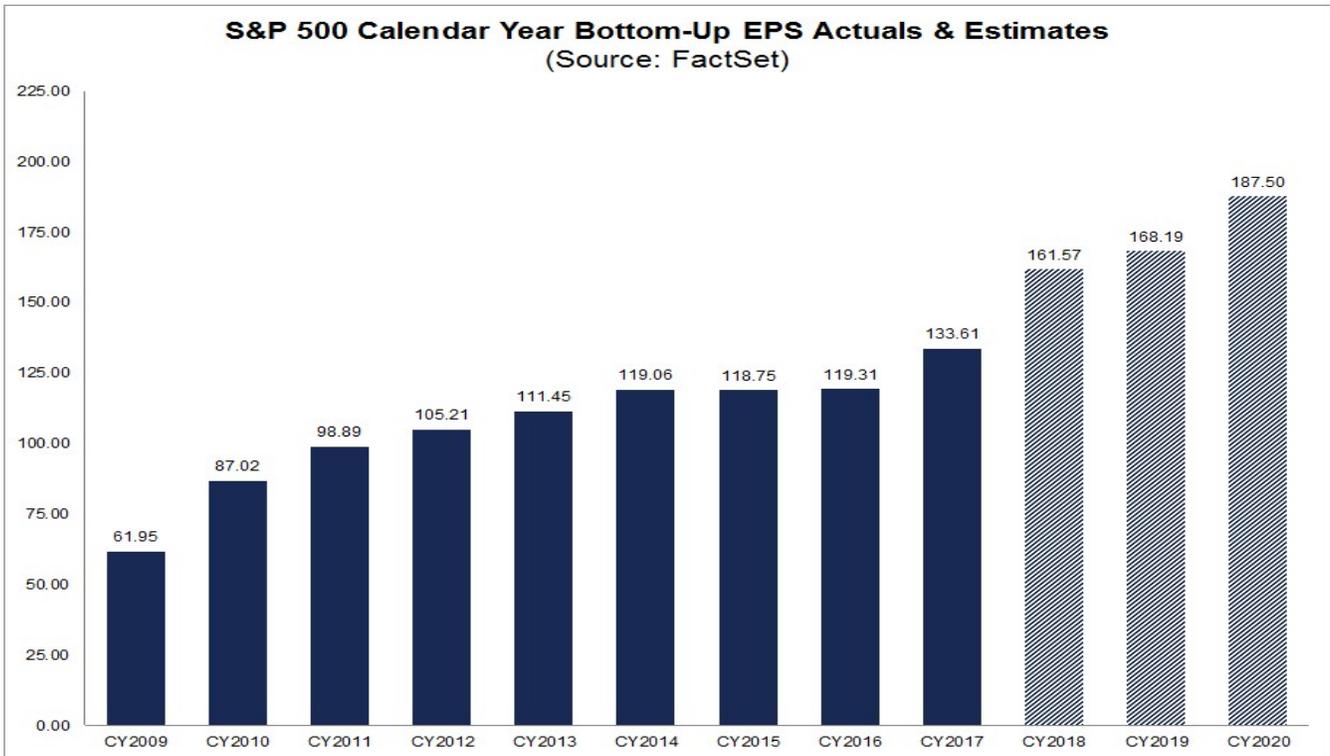
## Geographic Revenue Exposure



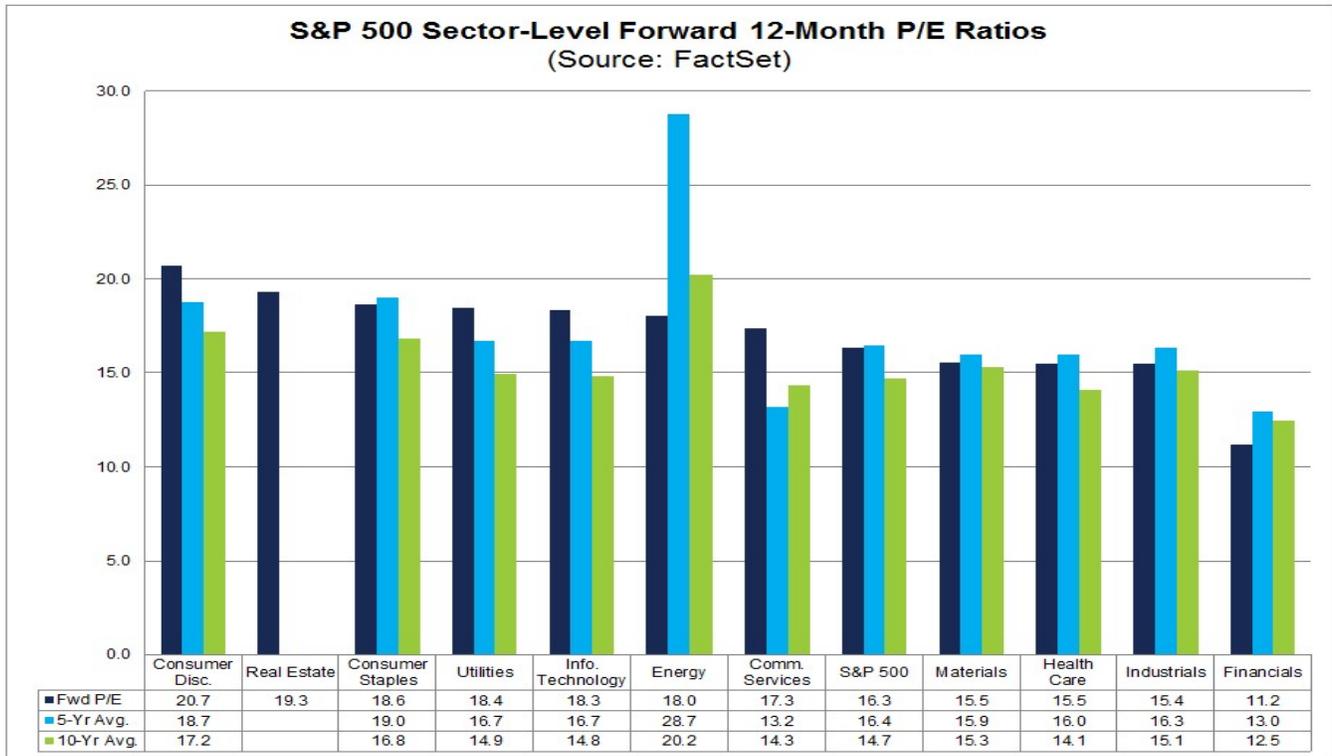
## Bottom-up EPS Estimates: Revisions



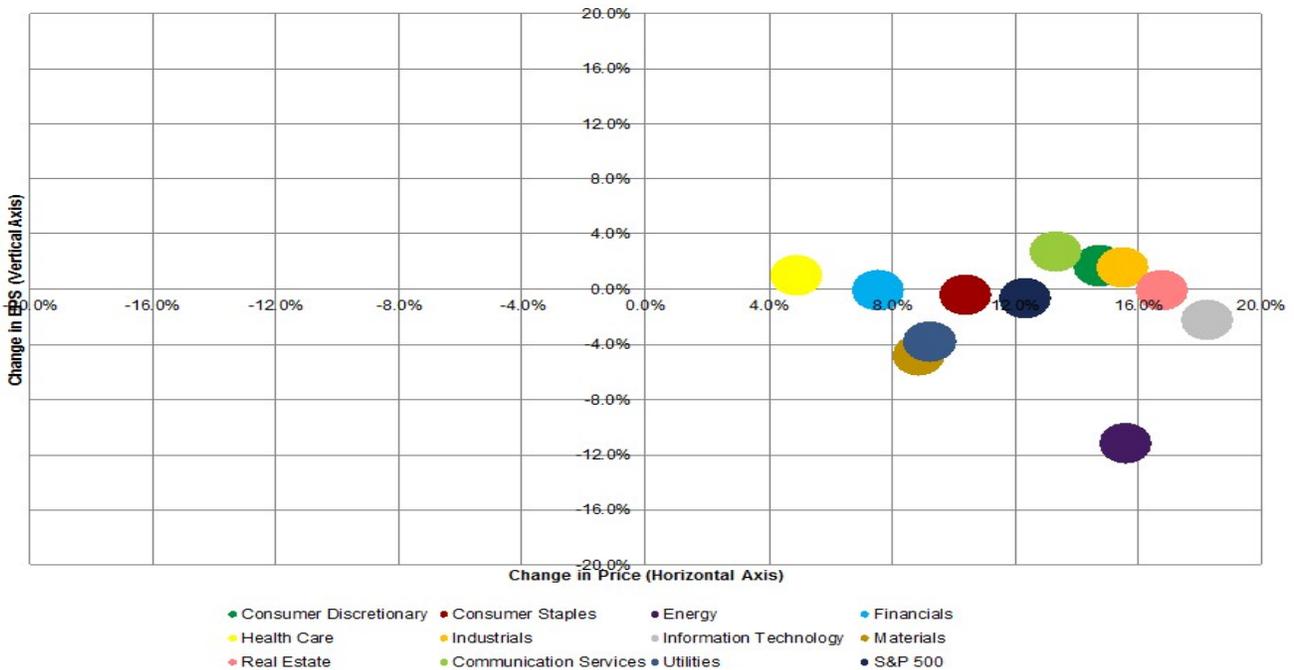
## Bottom-up EPS Estimates: Current & Historical



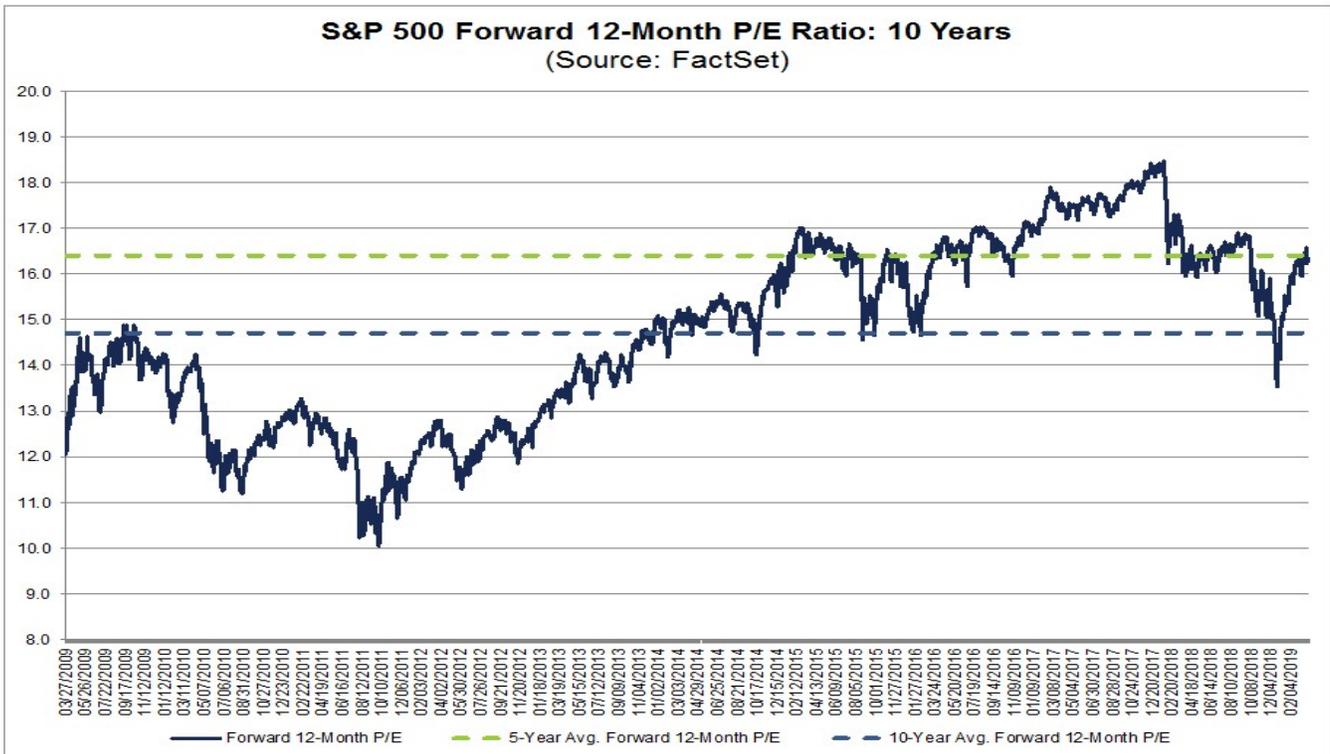
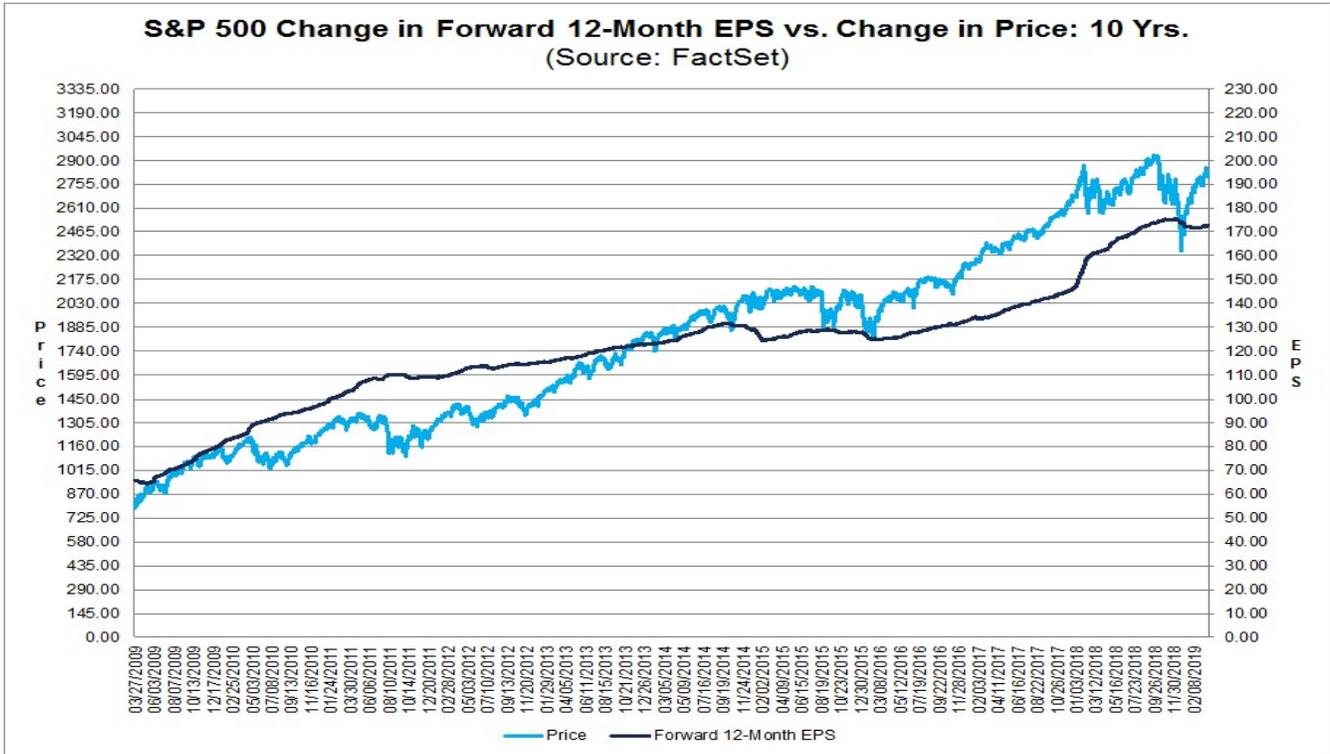
## Forward 12M P/E Ratio: Sector Level



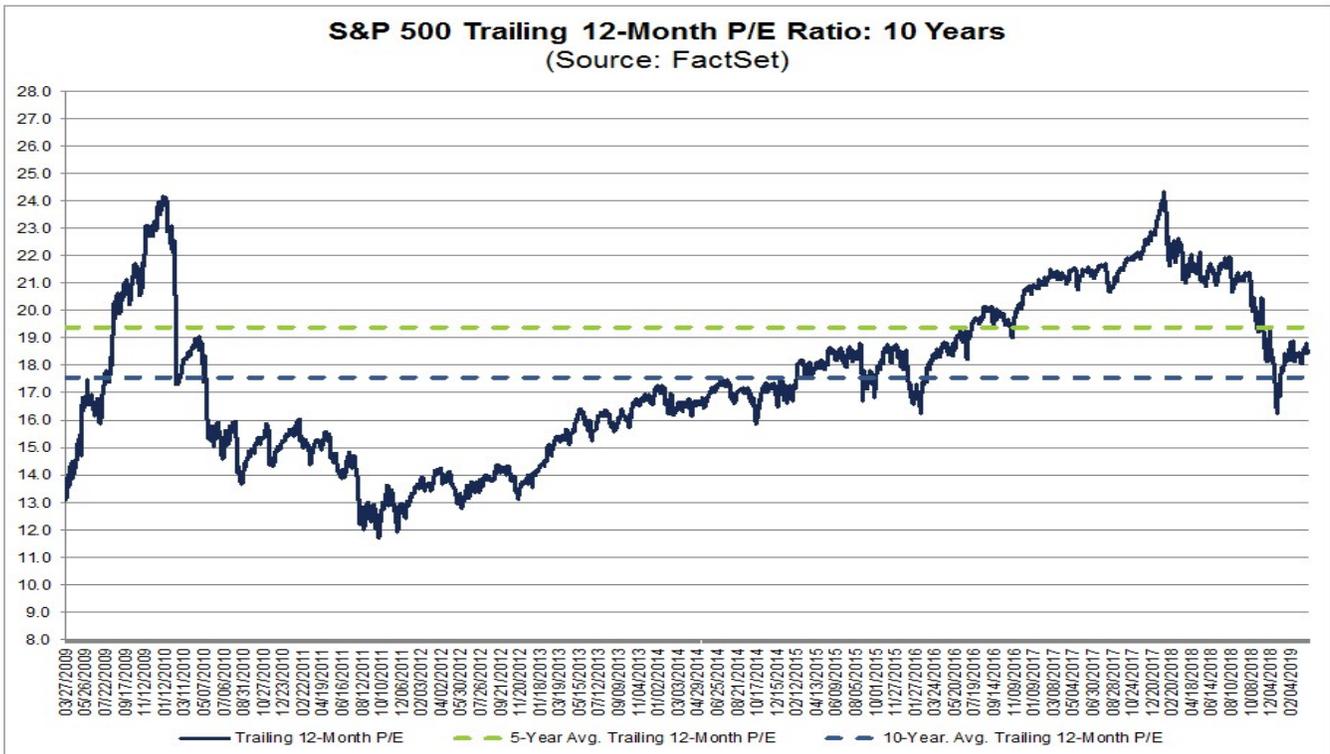
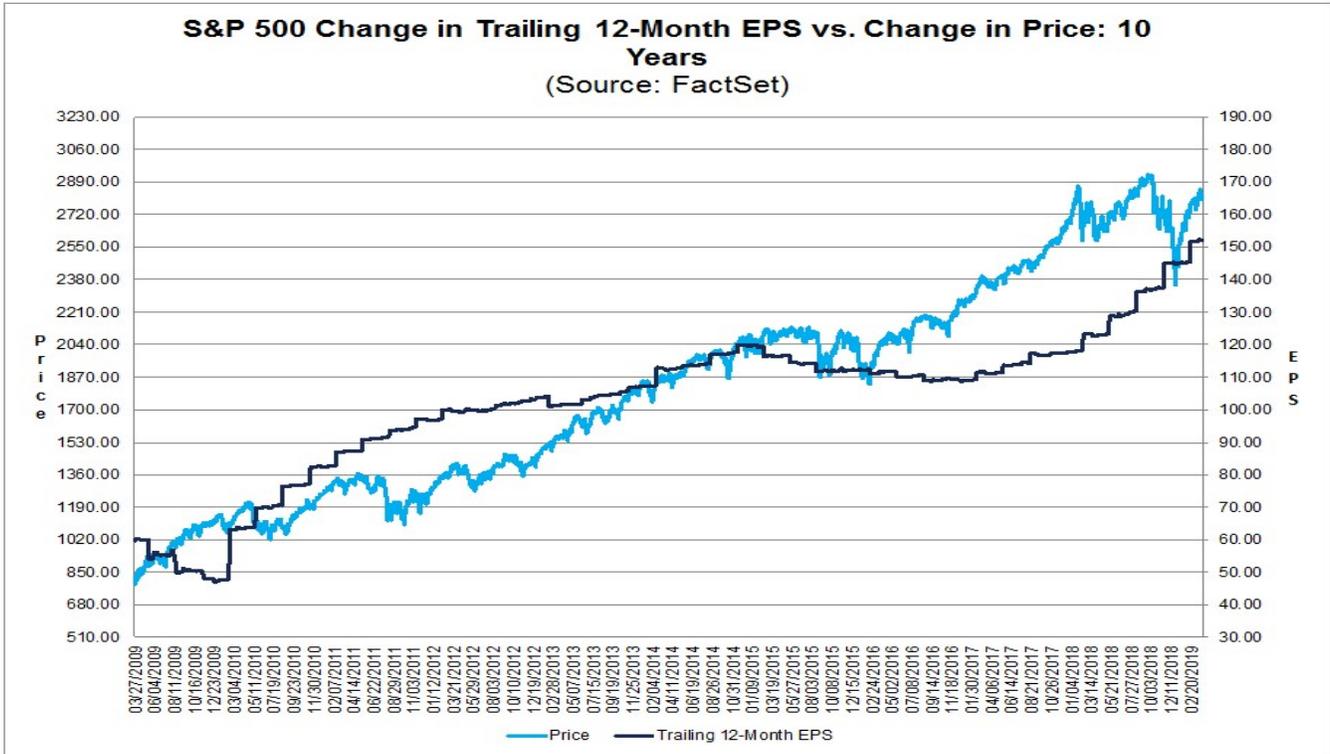
**Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Dec. 31**  
(Source: FactSet)



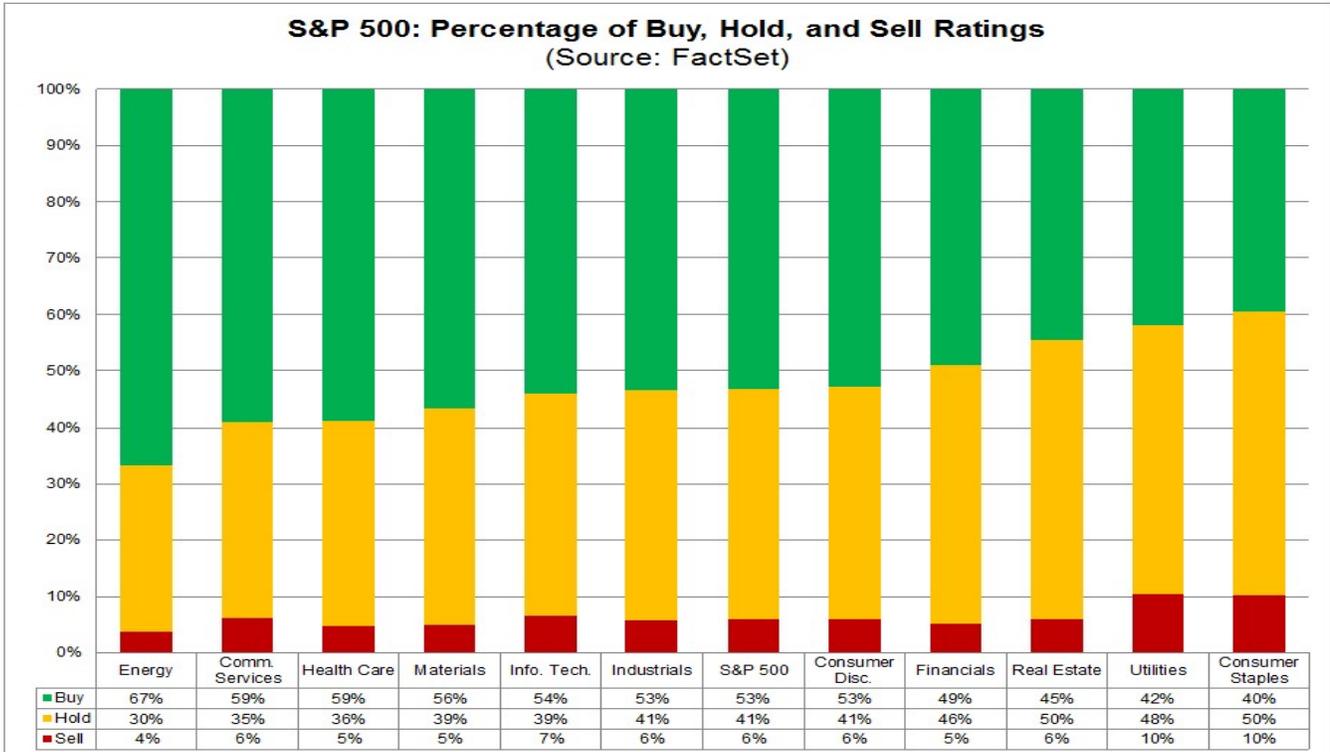
# Forward 12M P/E Ratio: 10-Years



# Trailing 12M P/E Ratio: 10-Years



## Targets & Ratings



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