

John Butters, Senior Earnings Analyst  
jbutters@factset.com

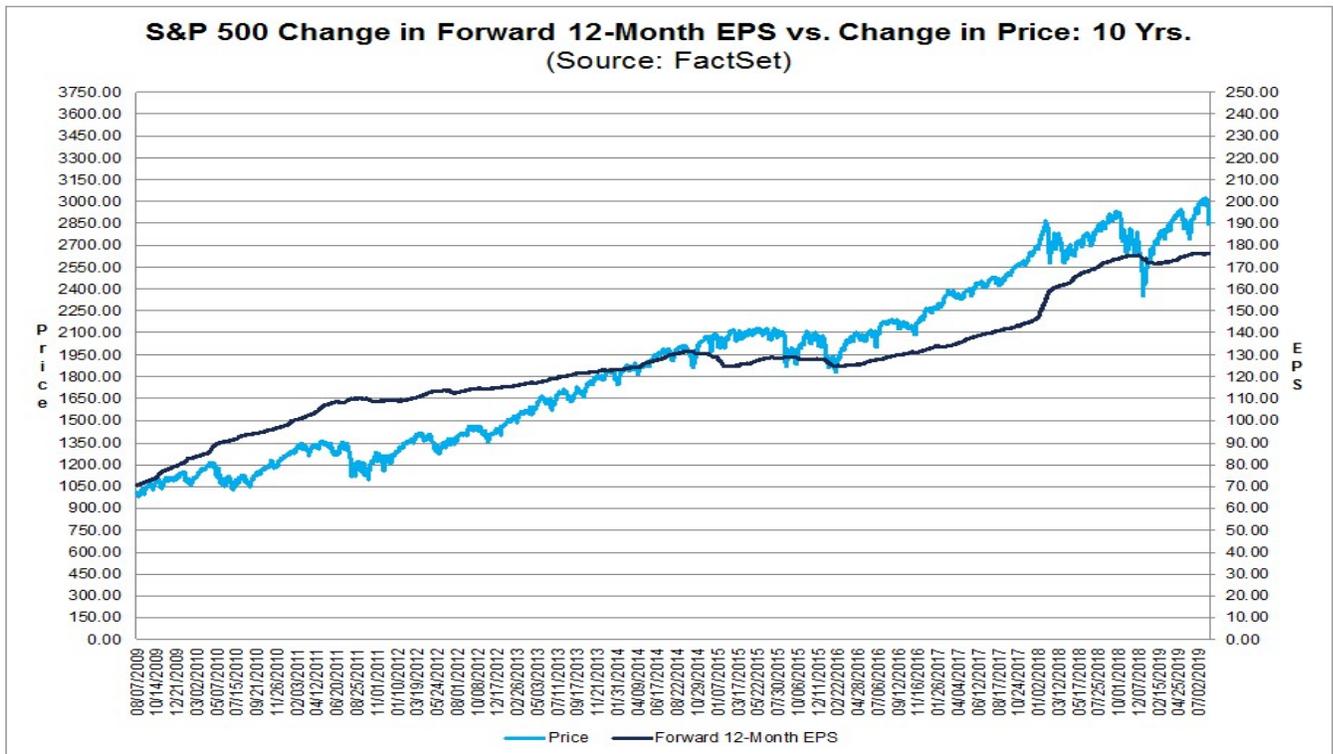
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media\_request@factset.com

August 9, 2019

**Author's Note:** Due to technical problems, we unfortunately were unable to publish most of the charts in the FactSet Earnings Insight report for today. We sincerely apologize for the inconvenience. Due to the author being out of the office, we will not be publishing the FactSet Earnings Insight report on August 16 or August 23. The next edition of the report is scheduled to be published on August 30.

## Key Metrics

- **Earnings Scorecard:** For Q2 2019 (with 90% of the companies in the S&P 500 reporting actual results), 75% of S&P 500 companies have reported a positive EPS surprise and 57% of companies have reported a positive revenue surprise.
- **Earnings Growth:** For Q2 2019, the blended earnings decline for the S&P 500 is -0.7%. If -0.7% is the actual decline for the quarter, it will mark the first time the index has reported two straight quarters of year-over-year declines in earnings since Q1 2016 and Q2 2016.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.7. This P/E ratio is above the 5-year average (16.5) and above the 10-year average (14.8).



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## Topic of the Week:

### More Than 40% Increase in S&P 500 Companies Citing “Tariffs” on Earnings Calls in Q2 vs. Q1

During each corporate earnings season, it is not unusual for companies to comment on subjects that had an impact on their earnings and revenues in a given quarter or may have an impact on earnings and revenues in future quarters. To date, 90% of the companies in the index had reported earnings results for the second quarter. Given the continued implementation of tariffs by the Trump administration, have companies in the S&P 500 commented on “tariffs” during their earnings conference calls for the second quarter?

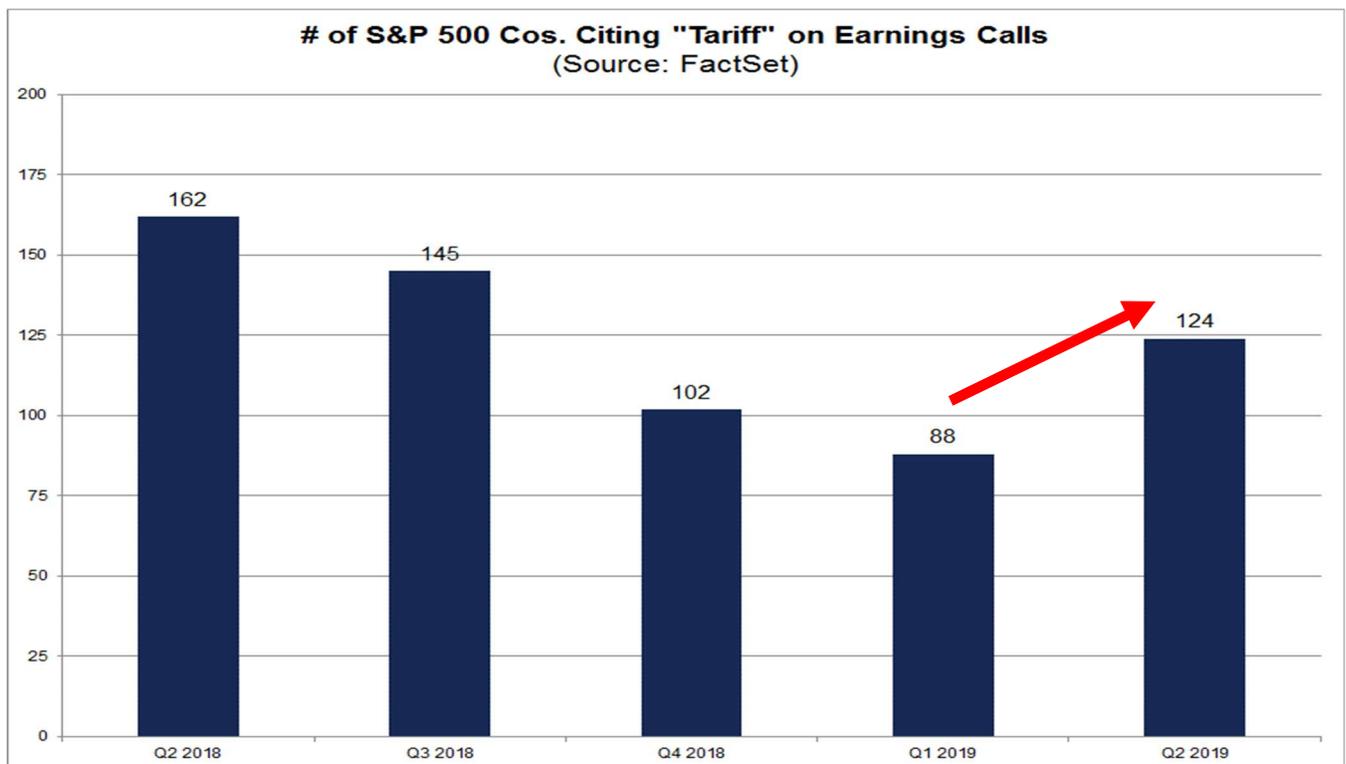
To answer this question, FactSet searched for the term “tariff” in the conference call transcripts of the 438 S&P 500 companies that had conducted earnings conference calls between June 15 and August 8.

Of these 438 companies, 124 (or 28%) cited the term “tariff” during the call. At the sector level, the Industrials led all sectors with 35 companies citing the term “tariff” on earnings calls.

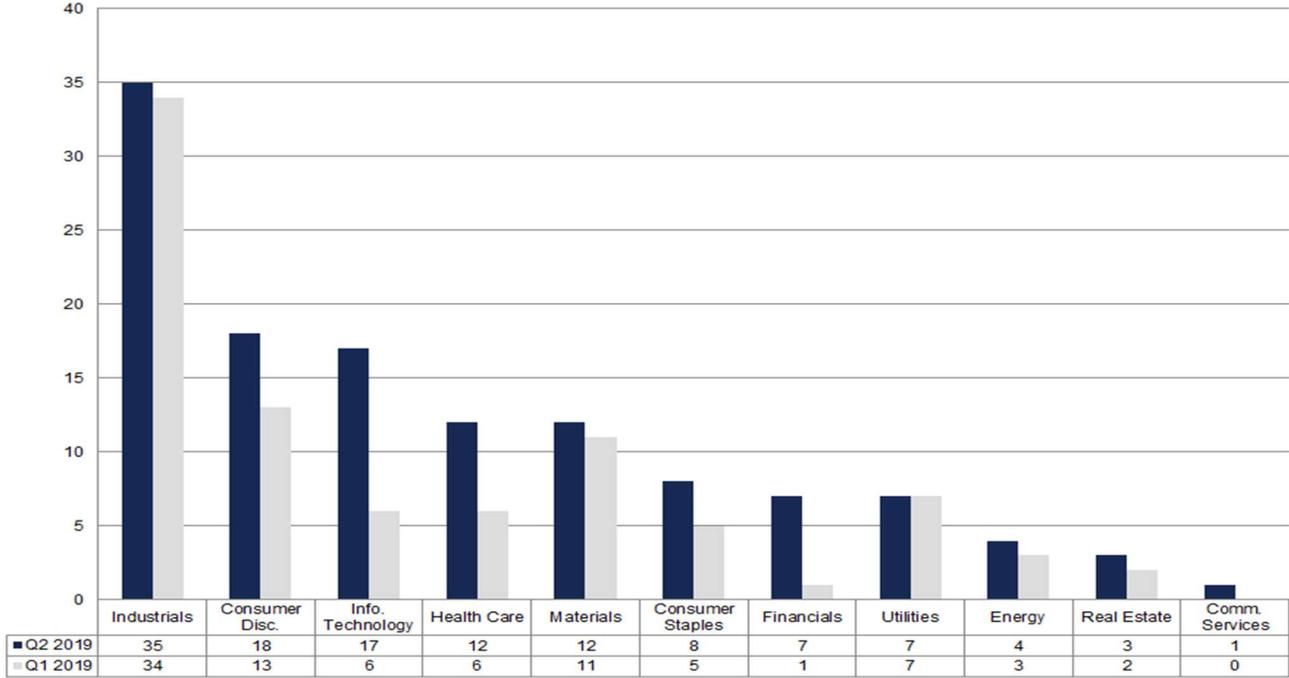
The number of S&P 500 companies discussing tariffs on Q2 2019 earnings calls during this time is well above the number through the same point in time in the first quarter. From March 15 through May 8, 88 S&P 500 companies (or 21%) had cited the term “tariff” during their Q1 2019 earnings calls. Thus, there has been a 41% increase (124 vs. 88) in the number of S&P 500 companies citing “tariffs” in Q2 relative to Q1. At the sector level, ten of the eleven sectors witnessed an increase in the number of S&P 500 companies citing the term “tariff” on earnings calls in Q2 2019 relative to Q1 2019, led by the Information Technology sector (+11).

However, the number of S&P 500 companies discussing tariffs on Q2 2019 earnings calls is still well below the number at the same point in time in the year-ago quarter. From June 15 (2018) through August 8 (2018), 162 S&P 500 companies (or 38%) had cited the term “tariff” on their Q2 2018 earnings calls. Thus, the number of S&P 500 companies citing “tariffs” in Q2 2019 is still 23% below the number from last year at the same point in time.

It is interesting to note that the number of S&P 500 companies citing “tariffs” had declined for three straight quarters until Q2 2019. But, based on the numbers for Q2 2019, it appears concerns about tariffs may be back on the rise for S&P 500 companies.



**# of S&P 500 Cos. Citing "Tariff" on Earnings Calls: Q219 vs. Q119**  
(Source: FactSet)



## Q2 Earnings Season: By The Numbers

### Overview

To date, 90% of the companies in the S&P 500 have reported actual results for Q2 2019. In terms of earnings, the percentage of companies reporting actual EPS above estimates (75%) is above the 5-year average. In aggregate, companies are reporting earnings that are 5.7% above the estimates, which is also above the 5-year average. In terms of sales, the percentage of companies (57%) reporting actual sales above estimates is below the 5-year average. In aggregate, companies are reporting sales that are 0.8% above estimates, which is equal to 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 decline for the second quarter is -0.7% today. If -0.7% is the actual decline for the quarter, it will mark the first time the index has reported two straight quarters of year-over-year declines in earnings since Q1 2016 and Q2 2016. Five sectors are reporting year-over-year growth in earnings, led by the Health Care and Financials sectors. Six sectors are reporting a year-over-year decline in earnings, led by the Materials and Industrials sectors.

The blended revenue growth rate for the second quarter is 4.1% today. If 4.1% is the final growth rate for the quarter, it will mark the lowest revenue growth rate for the index since Q3 2016 (2.7%). Eight sectors are reporting year-over-year growth in revenues, led by the Communication Services and Health Care sectors. Three sectors are reporting a year-over-year decline in revenues, led by the Materials sector.

Looking at the second half of 2019, analysts see a decline in earnings for the third quarter followed by low-single-digit earnings growth in the fourth quarter.

The forward 12-month P/E ratio is 16.7, which is above the 5-year average and above the 10-year average.

During the upcoming week, 11 S&P 500 companies (including 2 Dow 30 components) are scheduled to report results for the second quarter.

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

#### Percentage of Companies Beating EPS Estimates (75%) is Above 5-Year Average

Overall, 90% of the companies in the S&P 500 have reported earnings to date for the second quarter. Of these companies, 76% have reported actual EPS above the mean EPS estimate, 7% have reported actual EPS equal to the mean EPS estimate, and 17% 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 (76%) average but above the 5-year (72%) average.

At the sector level, the Health Care (97%) sector has the highest percentage of companies reporting earnings above estimates, while the Utilities (46%) sector has the lowest percentage of companies reporting earnings above estimates.

#### Earnings Surprise Percentage (+5.7%) is Above 5-Year Average

In aggregate, companies are reporting earnings that are 5.7% above expectations. This surprise percentage is above the 1-year (+5.2%) average and above the 5-year (+4.8%) average.

The Energy (+10.3%) sector is reporting largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Marathon Oil (\$0.23 vs. \$0.13) and Apache (\$0.10 vs. \$0.06) have reported the largest positive EPS surprises.

The Information Technology sector (+8.1%) sector is reporting the second-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Micron Technology (\$1.05 vs. \$0.79) and Symantec (\$0.43 vs. \$0.33) have reported the largest positive EPS surprises.

### Percentage of Companies Beating Revenue Estimates (57%) is Below 5-Year Average

In terms of revenues, 57% of companies have reported actual sales above estimated sales and 43% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is below the 1-year average (63%) and below the 5-year average (60%).

At the sector level, the Information Technology (70%), Consumer Discretionary (70%), Financials (70%), and Health Care (69%) sectors have the highest percentages of companies reporting revenues above estimates, while the Utilities (18%), Materials (22%), and Industrials (44%) sectors have the lowest percentages of companies reporting revenues above estimates.

### Revenue Surprise Percentage (+0.8%) is Equal to 5-Year Average

In aggregate, companies are reporting revenues that are 0.8% above expectations. This surprise percentage is below the 1-year (+1.1%) average but equal to the 5-year (+0.8%) average.

At the sector level, the Energy (+3.0%) sector is reporting the largest positive (aggregate) difference between actual revenues and estimated revenues, while the Utilities (-2.9%) and Materials (-2.2%) sectors are reporting the largest negative (aggregate) differences between actual revenue and estimated revenues.

### Year-Over-Year Earnings Decline: -0.7%

The blended (year-over-year) earnings decline for Q2 2019 is -0.7%, which is below the 5-year average earnings growth rate of 7.3%. If -0.7% is the actual decline for the quarter, it will mark the first time the index has reported two straight quarters of year-over-year declines in earnings since Q1 2016 and Q2 2016. It will also mark the largest year-over-year decline in earnings reported by the index since Q2 2016 (-3.2%).

Five sectors are reporting year-over-year earnings growth, led by the Health Care and Financials sectors. Six sectors are reporting a year-over-year decline in earnings, led by the Materials and Industrials sectors.

#### Health Care: Health Care Providers & Services Industry Leads Year-Over-Year Growth

The Health Care sector is reporting the highest (year-over-year) earnings growth of all eleven sectors at 8.9%. At the industry level, all six industries in this sector are reporting growth in earnings. However, only one sector is reporting double-digit growth: Health Care Providers & Services (23%).

#### Financials: Banks and Insurance Industries Lead Year-Over-Year Growth

The Financials sector is reporting the second highest (year-over-year) earnings growth of all eleven sectors at 5.2%. At the industry level, three of the five industries in this sector are reporting growth in earnings: Banks (9%), Insurance (9%), and Consumer Finance (4%). On the other hand, the Diversified Financial Services (-8%) and Capital Markets (-4%) sectors are reporting year-over-year declines in earnings

#### Materials: Metals & Mining Industry Lead Year-Over-Year Decline

The Materials sector is reporting the highest (year-over-year) earnings decline of all eleven sectors at -17.9%. At the industry level, three of the four industries in this sector are reporting a decline in earnings: Metals & Mining (-76%), Chemicals (-9%), and Containers & Packaging (less than -1%). On the other hand, the Construction Materials (8%) industry is the only industry in the sector that is reporting earnings growth.

#### Industrials: Aerospace & Defense Industry Leads Year-Over-Year Decline

The Industrials sector is reporting the second highest (year-over-year) earnings decline of all eleven sectors at -10.0%. At the industry level, five of the twelve industries in this sector are reporting a decline in earnings, led by the Aerospace & Defense (-50%), Construction & Engineering (-16%), and Building Products (-14%) industries. On the other hand, seven industries are reporting earnings growth, led by the Professional Services (19%), Airlines (16%), and Commercial Services & Supplies (11%) industries.

## Year-Over-Year Revenue Growth: 4.1%

The blended (year-over-year) revenue growth rate for Q2 2019 is 4.1%, which is above the 5-year average revenue growth rate of 3.5%. If 4.1% is the actual growth rate for the quarter, it will mark the lowest revenue growth rate for the index since Q3 2016 (2.7%).

Eight sectors are reporting year-over-year growth in revenues, led by the Communication Services and Health Care sectors. Two sectors are reporting a year-over-year decline in revenues, led by the Materials sector.

### Communication Services: 3 of 4 Industries Reporting (Year-Over-Year) Double-Digit Growth

The Communication Services sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 14.0%. At the industry level, all four industries in this sector are reporting revenue growth. Three of these four industries are reporting double-digit revenue growth: Entertainment (25%), Interactive Media & Services (21%), and Media (10%).

### Health Care: Health Care Providers & Services Industry Leads Year-Over-Year Growth

The Health Care sector is reporting the second highest (year-over-year) revenue growth of all eleven sectors at 13.7%. At the industry level, five of the six industries in this sector are reporting revenue growth for the quarter. The Health Care Providers & Services is the only industry reporting double-digit revenue growth (19%). On the other hand, the Pharmaceuticals (less than -1%) industry is the only industry reporting a decline in revenue.

### Materials: Chemicals Industry Leads Year-Over-Year Decline

The Materials sector is reporting the highest (year-over-year) decline in revenue of all eleven sectors at -17.5%. At the industry level, two of the four industries in this sector are reporting a decline in revenue for the quarter: Chemicals (-25%) and Metals & Mining (-12%).

## Looking Ahead: Forward Estimates and Valuation

### Guidance: % of S&P 500 Companies Issuing Negative EPS Guidance for Q3 is Above 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, 84 companies in the index have issued EPS guidance for Q3 2019. Of these 84 companies, 60 have issued negative EPS guidance and 24 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 71% (60 out of 84), which is slightly above the 5-year average of 70%.

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

For the second quarter, S&P 500 companies are reporting a decline in earnings of -0.7% and growth in revenues of 4.1%. For the second half of 2019, analysts see a decline in earnings in the third quarter and low-single-digit growth in earnings in the fourth quarter.

For Q3 2019, analysts are projecting a decline in earnings of -3.1% and revenue growth of 3.0%.

For Q4 2019, analysts are projecting earnings growth of 3.9% and revenue growth of 4.0%.

For CY 2019, analysts are projecting earnings growth of 1.5% and revenue growth of 4.3%.

For Q1 2020, analysts are projecting earnings growth of 8.5% and revenue growth of 5.6%.

For Q2 2020, analysts are projecting earnings growth of 9.9% and revenue growth of 6.4%.

### Valuation: Forward P/E Ratio is 16.7, Above the 10-Year Average (14.8)

The forward 12-month P/E ratio is 16.7. This P/E ratio is above the 5-year average of 16.5 and above the 10-year average of 14.8. However, it is below the forward 12-month P/E ratio of 16.8 recorded at the end of the second quarter (June 30). Since the end of the second quarter (June 30), the price of the index has decreased by 0.1%, while the forward 12-month EPS estimate has increased by 0.1%.

At the sector level, the Consumer Discretionary (21.2) sector has the highest forward 12-month P/E ratio, while the Financials (11.7) sector has the lowest forward 12-month P/E ratio.

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

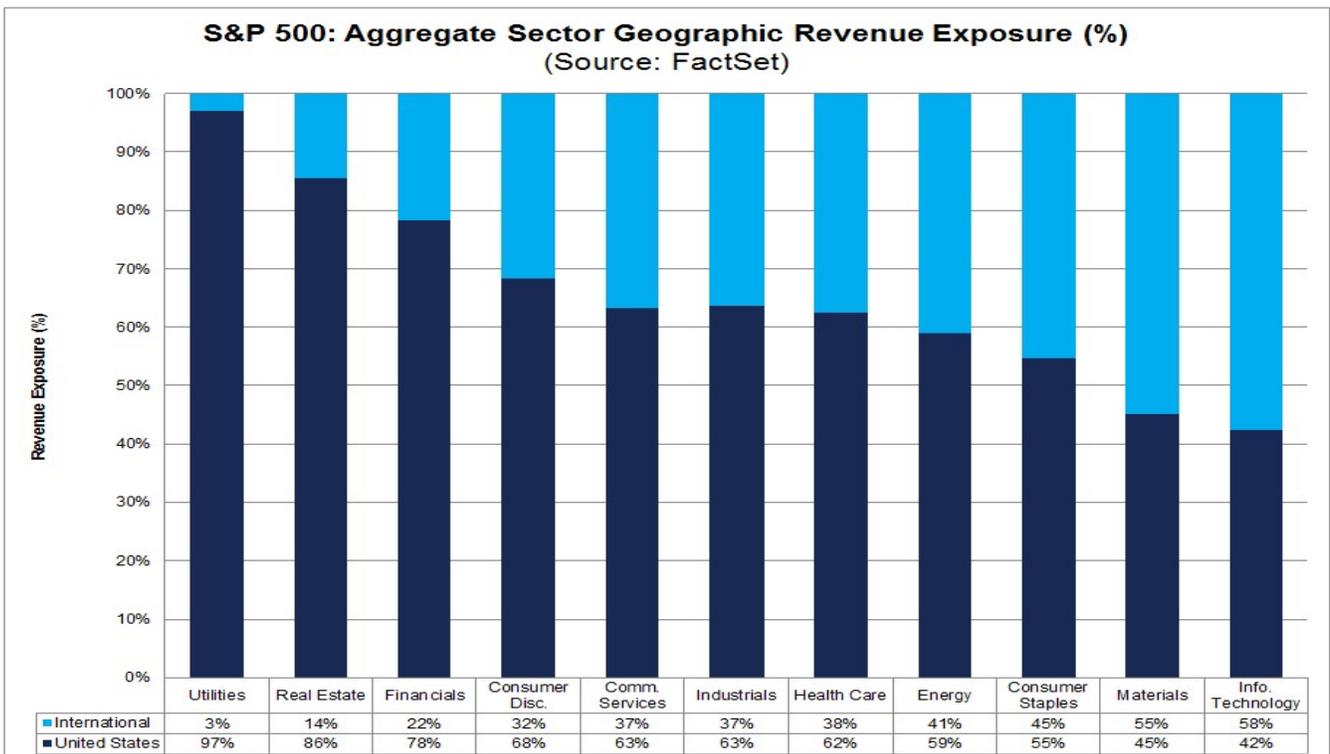
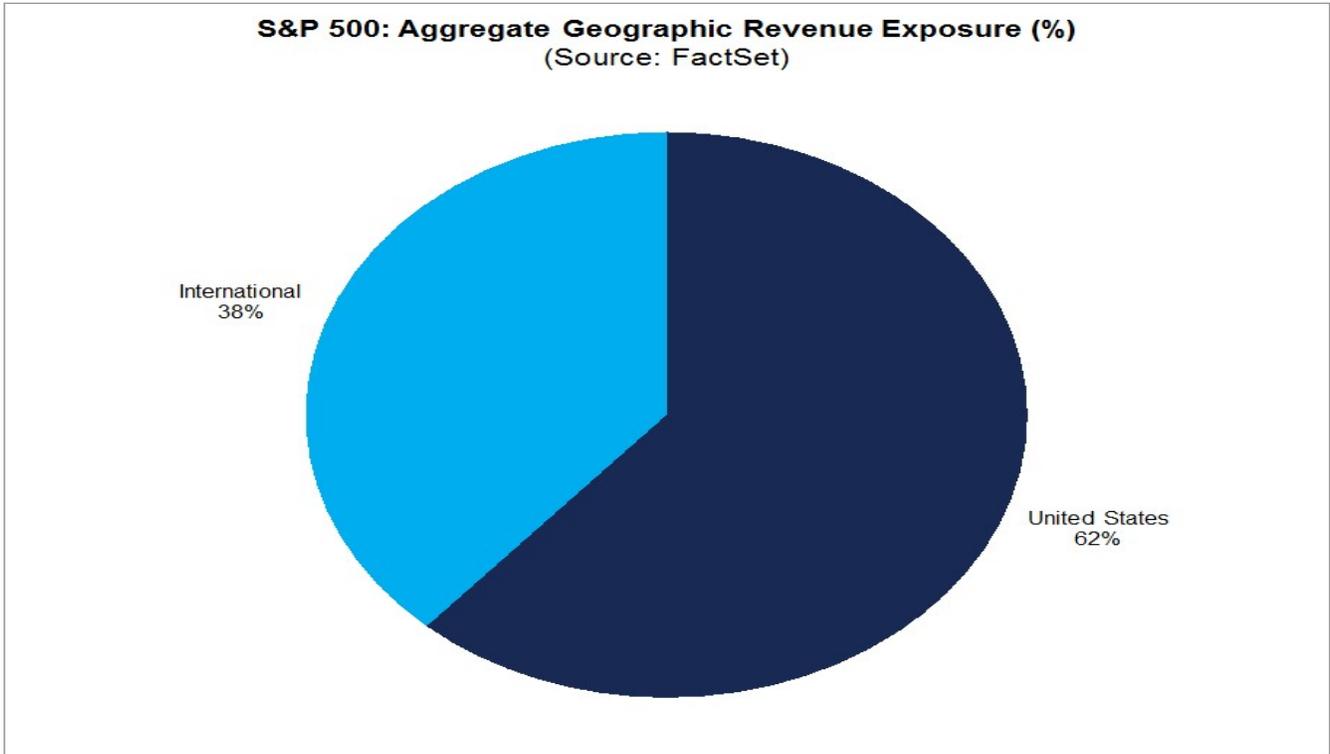
The bottom-up target price for the S&P 500 is 3298.97, which is 12.3% above the closing price of 2938.09. At the sector level, the Energy (+22.5%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Real Estate (+3.0%) and Utilities (+3.8%) 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 10,352 ratings on stocks in the S&P 500. Of these 10,352 ratings, 51.9% are Buy ratings, 41.7% are Hold ratings, and 6.4% are Sell ratings. At the sector level, the Energy (64%) sector has the highest percentage of Buy ratings, while the Consumer Staples (41%) sector has the lowest percentage of Buy ratings.

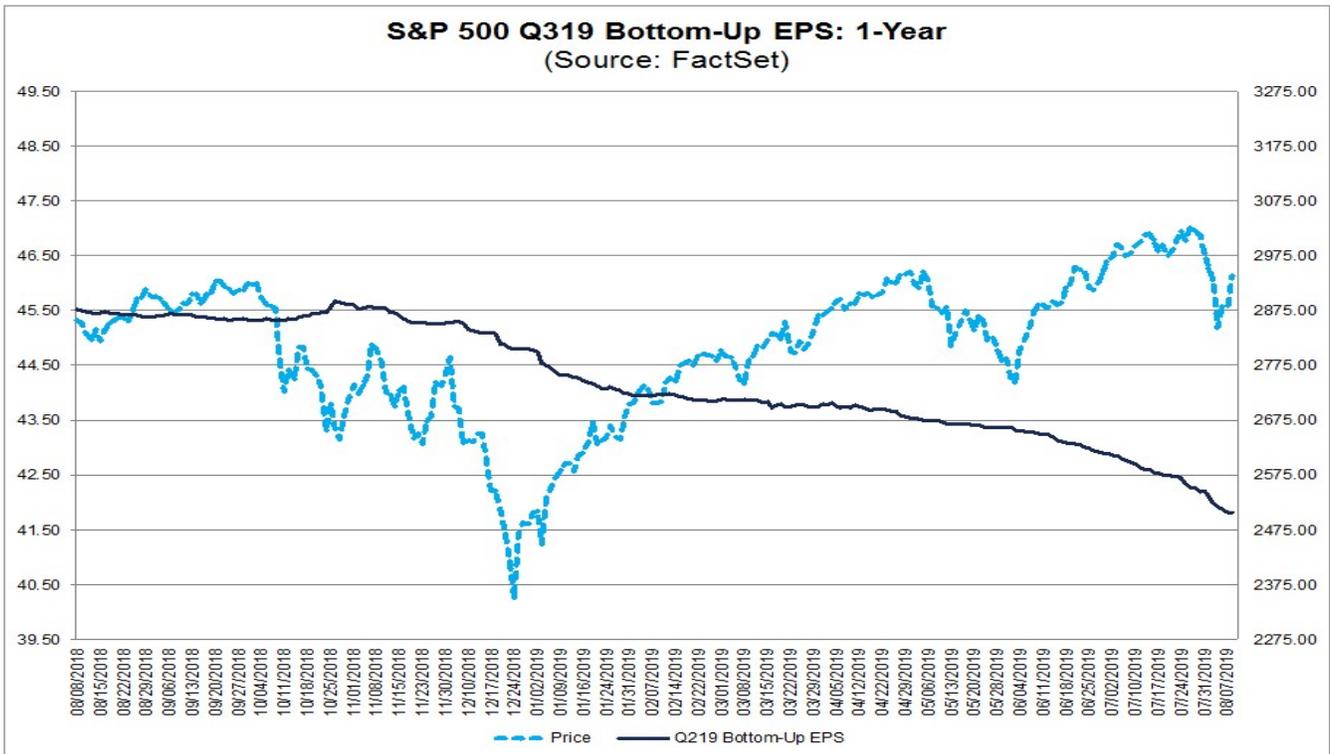
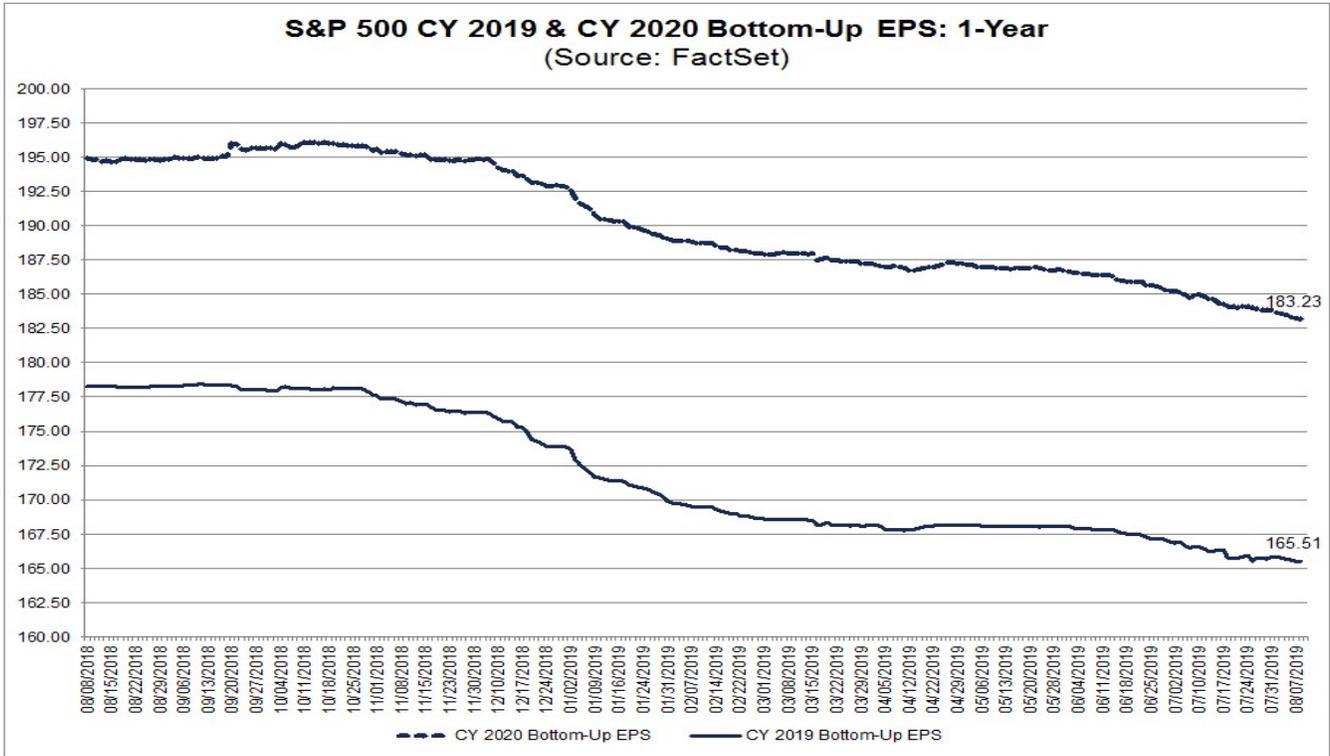
### Companies Reporting Next Week: 11

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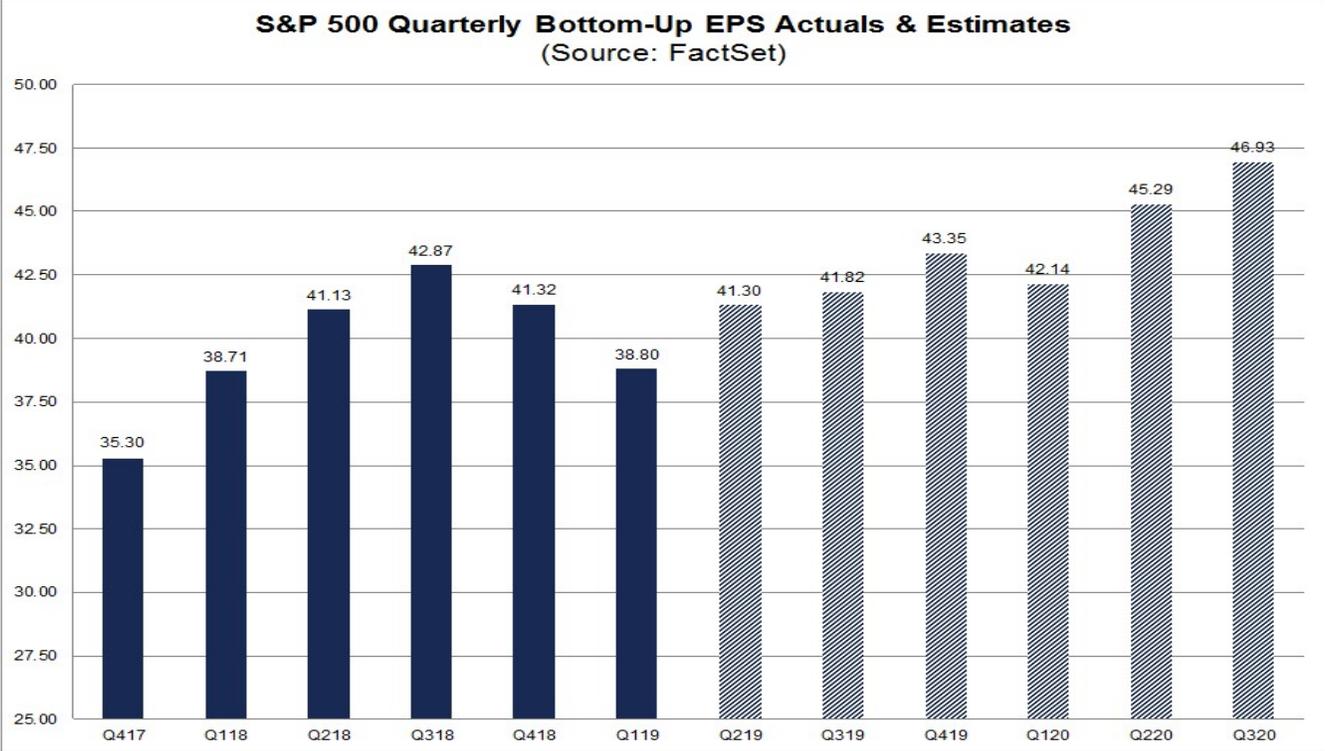
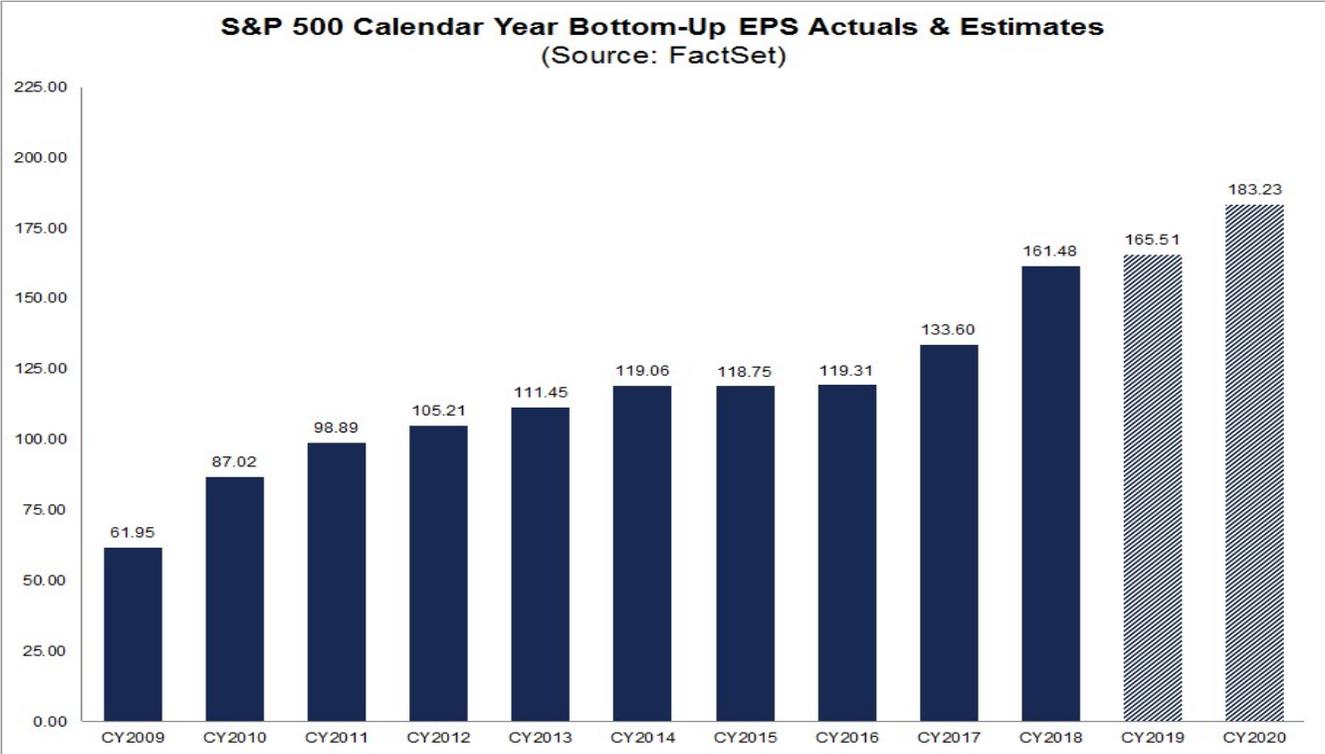
## Geographic Revenue Exposure



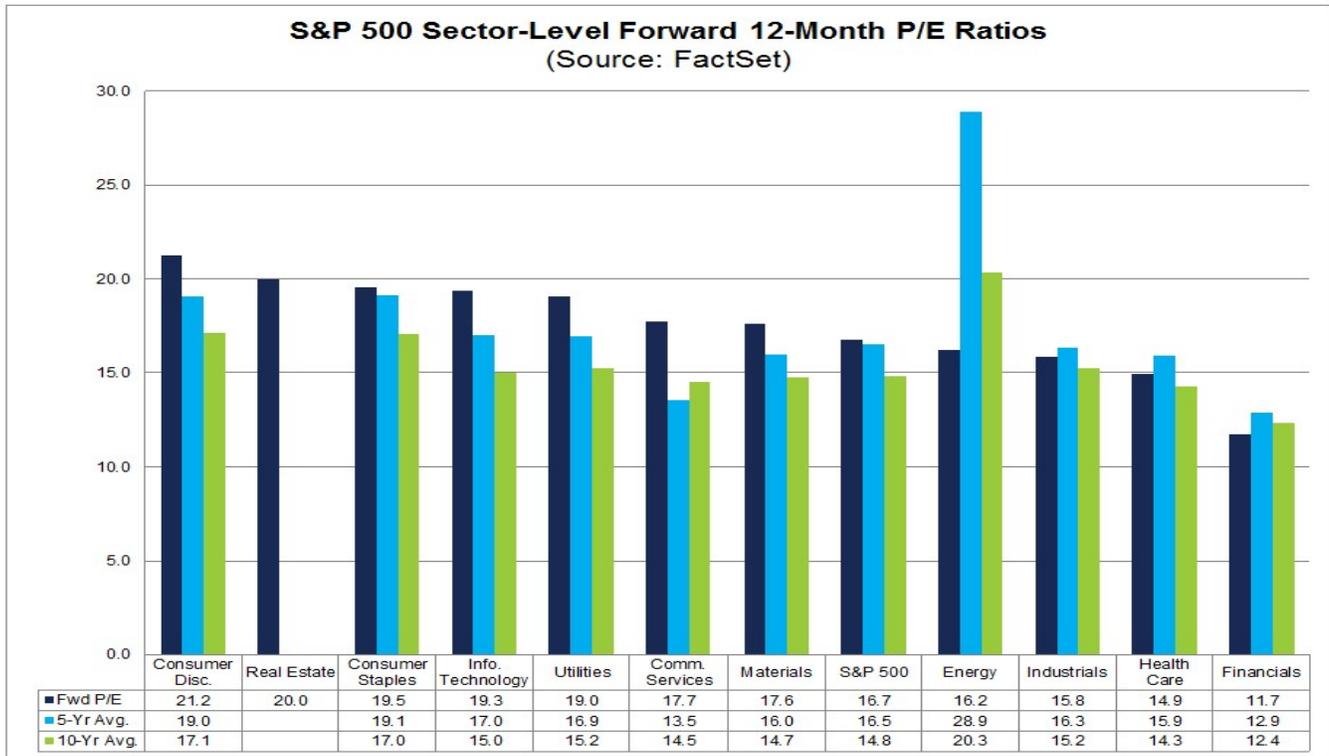
# Bottom-up EPS Estimates: Revisions



# Bottom-up EPS Estimates: Current & Historical

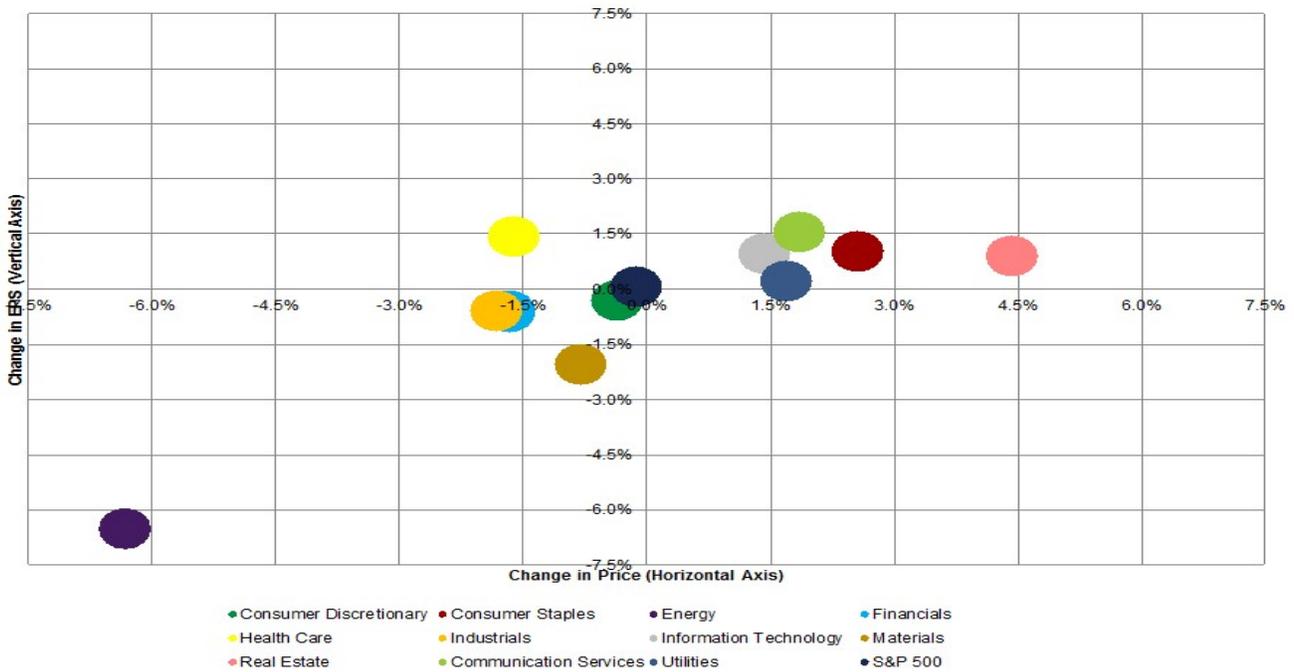


## Forward 12M P/E Ratio: Sector Level

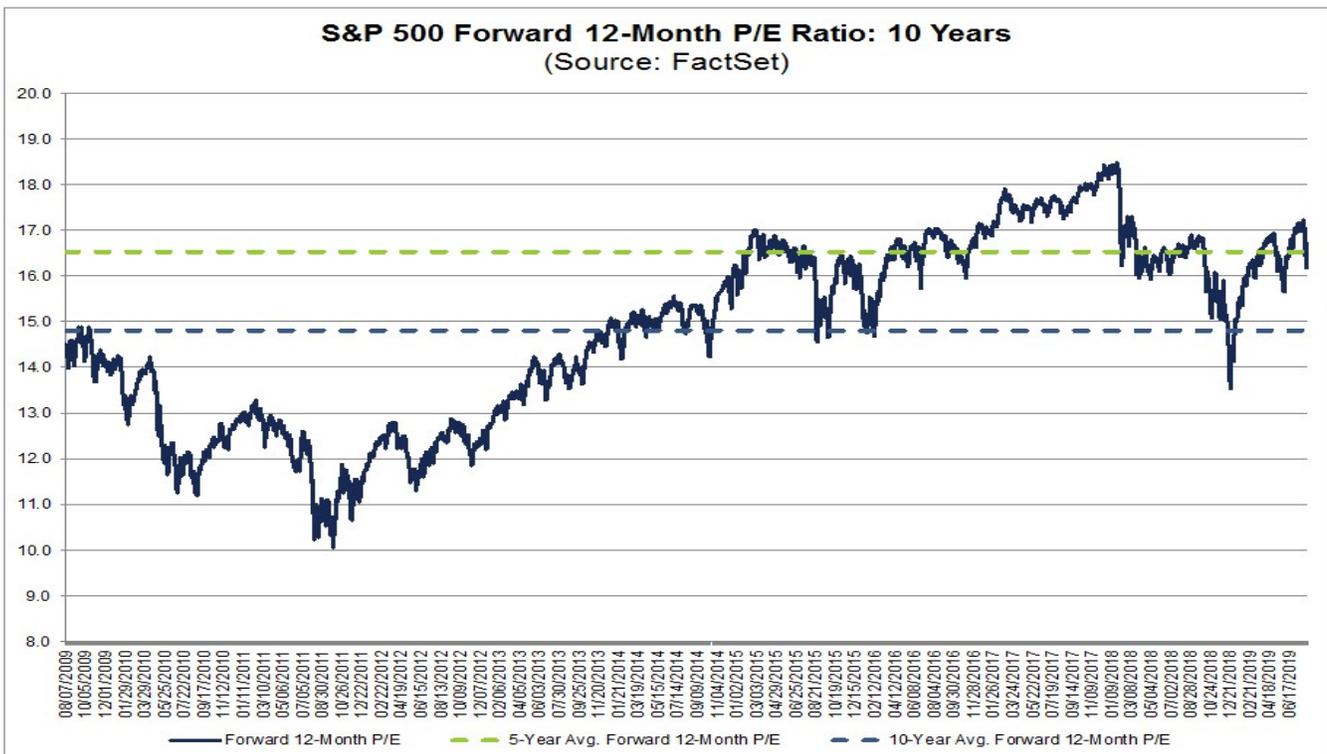
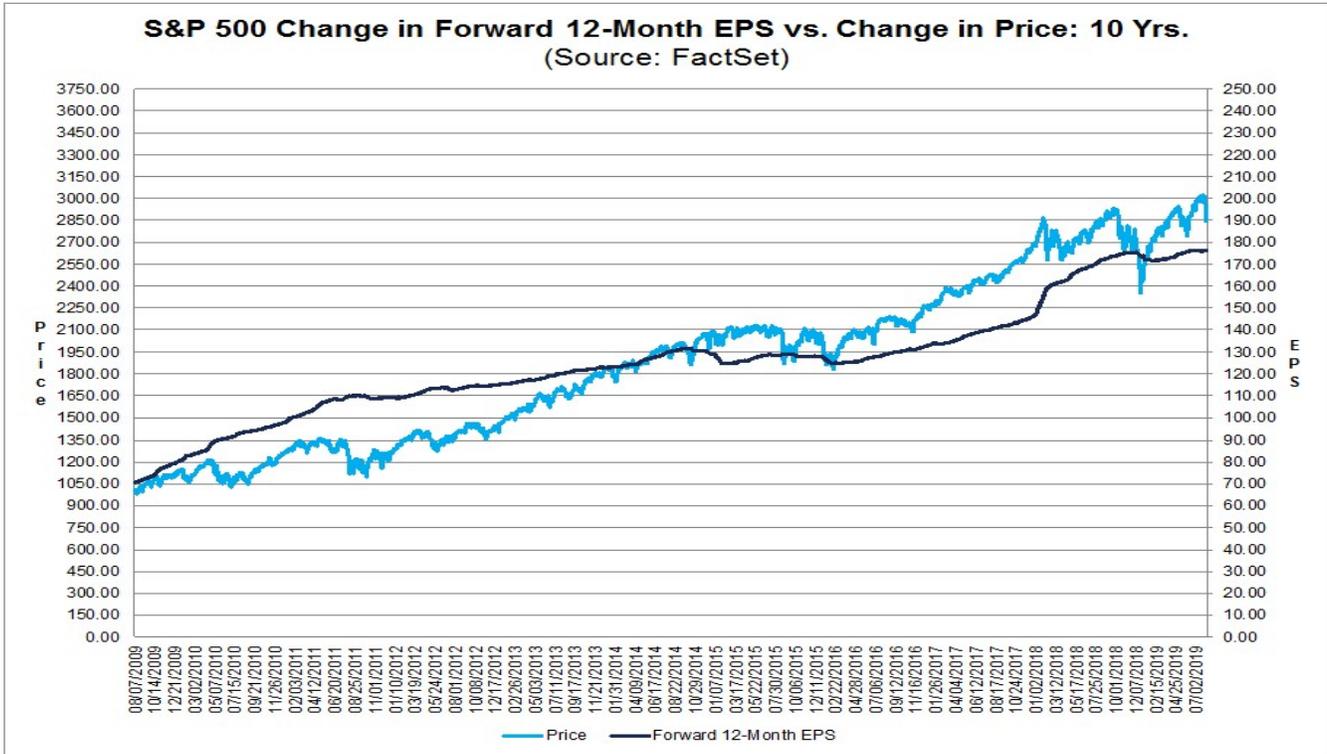


## Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Jun. 30

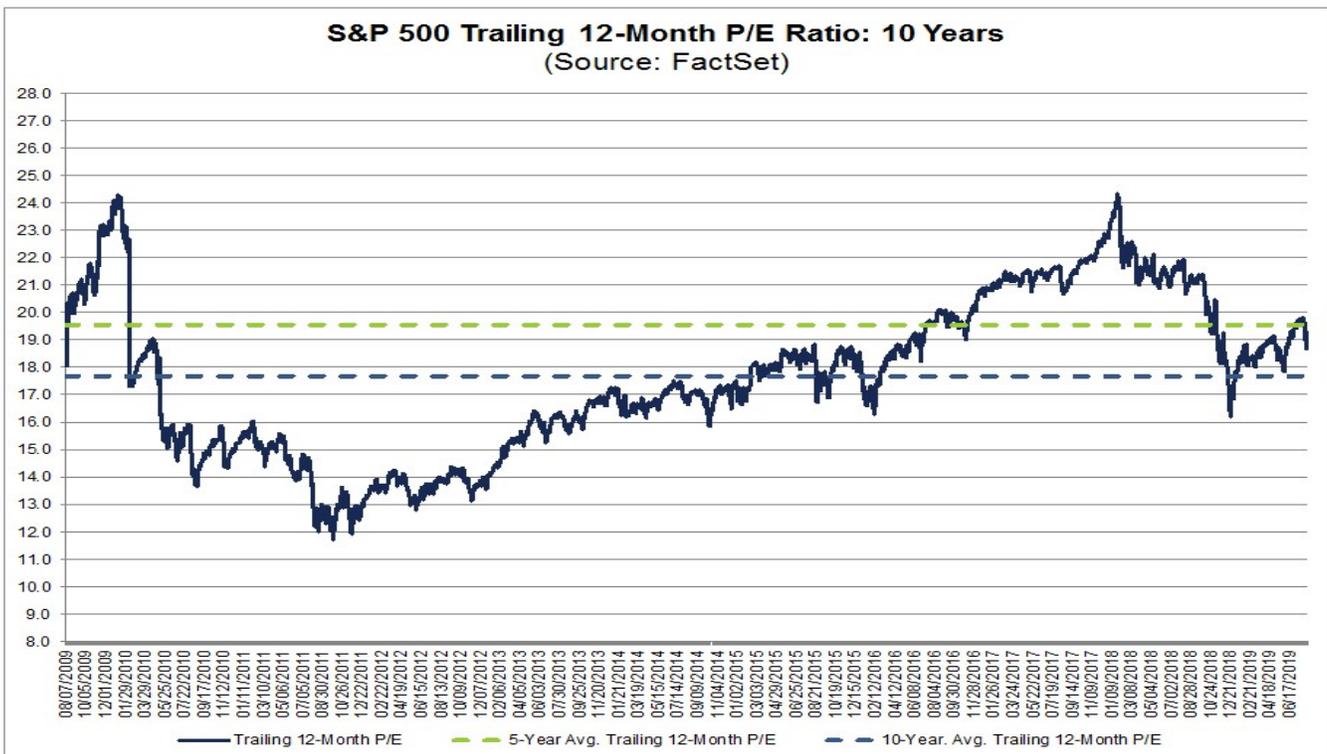
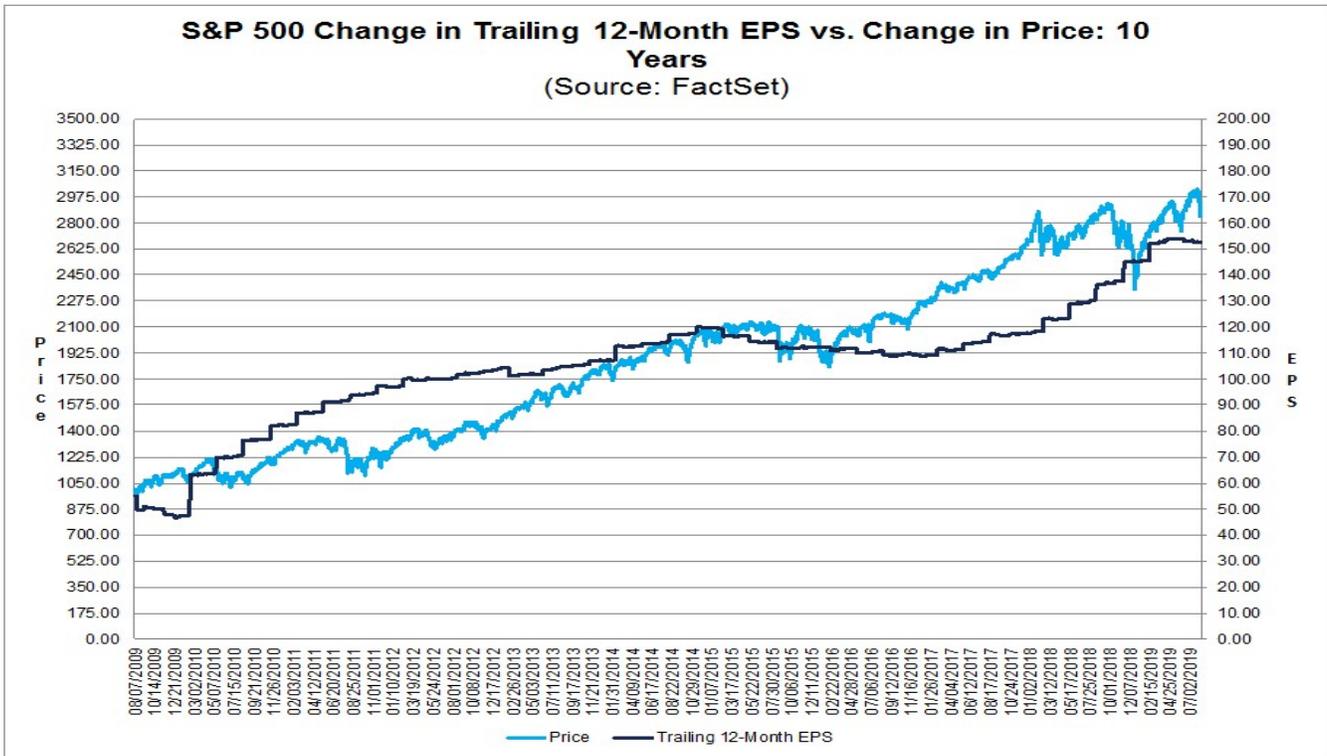
(Source: FactSet)



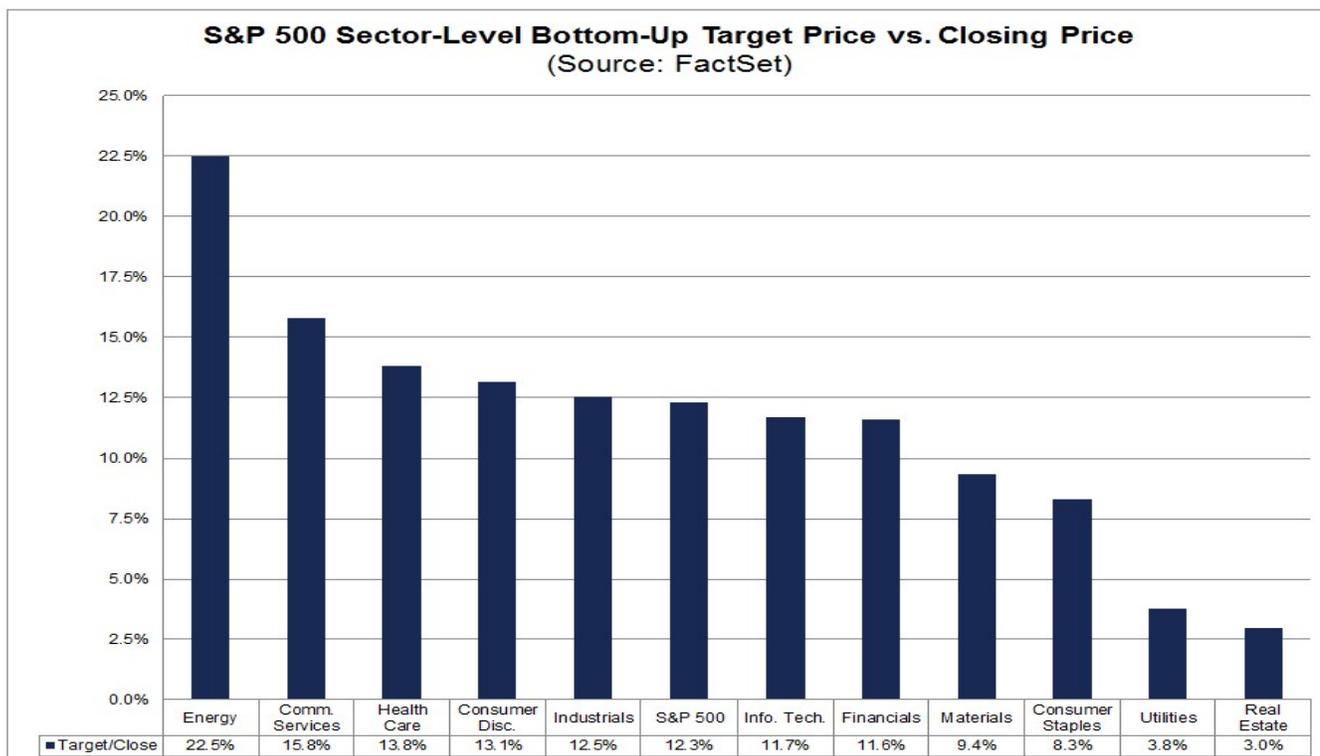
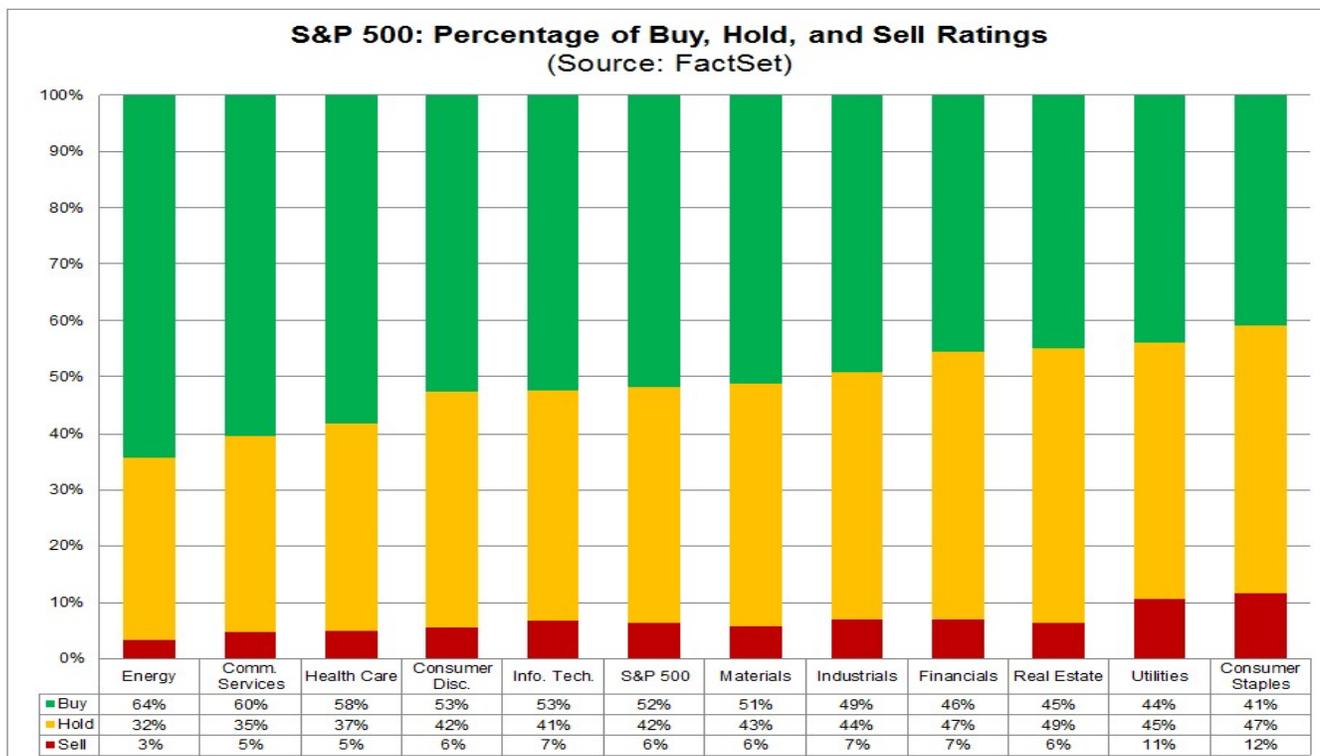
# Forward 12M P/E Ratio: 10-Years



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



## Targets & Ratings



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