

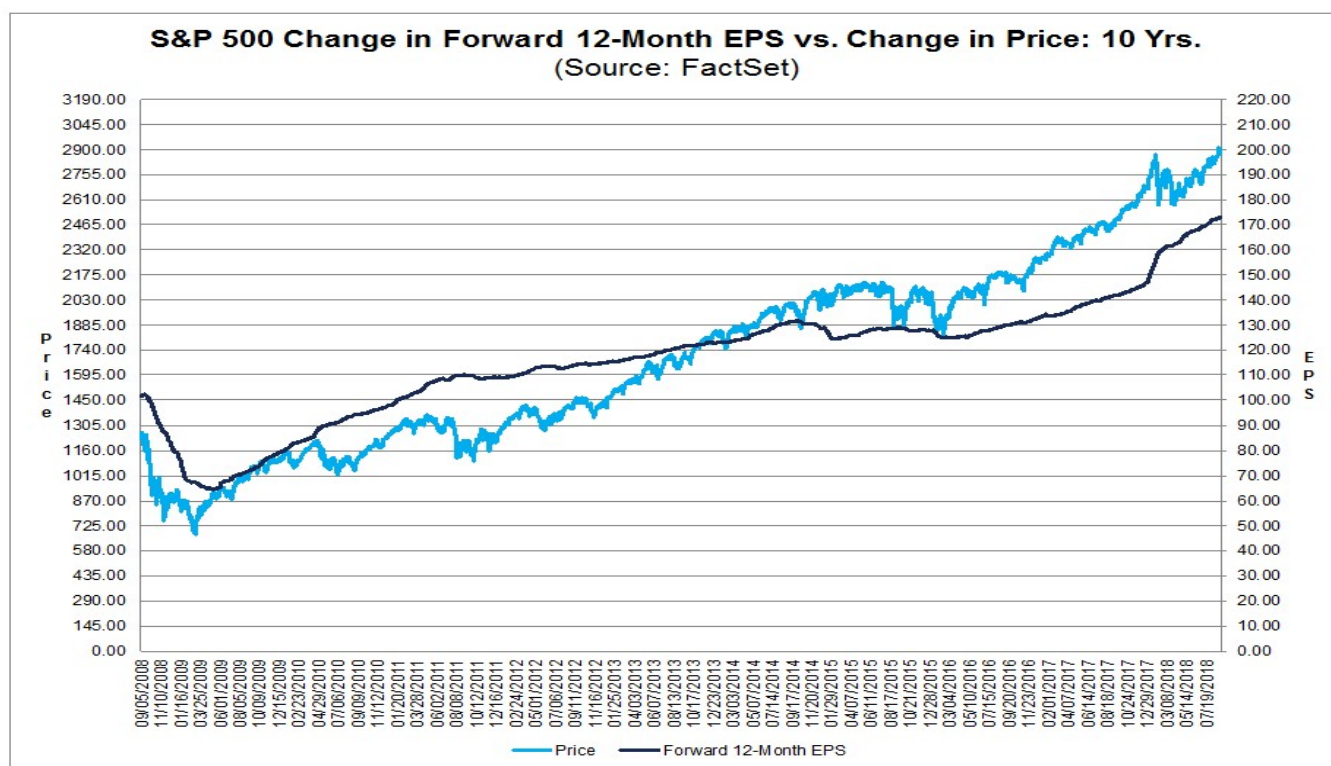
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Key Metrics

- **Earnings Growth:** For Q3 2018, the estimated earnings growth rate for the S&P 500 is 20.0%. If 20.0% is the actual growth rate for the quarter, it will mark the third highest earnings growth since Q3 2010 (34.1%).
- **Earnings Revisions:** On June 30, the estimated earnings growth rate for Q3 2018 was 21.1%. Eight sectors have lower growth rates today (compared to June 30) due to downward revisions to earnings estimates.
- **Earnings Guidance:** For Q3 2018, 73 S&P 500 companies have issued negative EPS guidance and 24 S&P 500 companies have issued positive EPS guidance.
- **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 (16.3) and above the 10-year average (14.4).
- **Earnings Scorecard:** For Q2 2018 (with more than 99% of the companies in the S&P 500 reporting actual results for the quarter), 80% of S&P 500 companies have reported a positive EPS surprise and 73% have reported a positive sales surprise.



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Topic of the Week:

Record-High Percentage (80%) of S&P 500 Companies Beat EPS Estimates for Q2

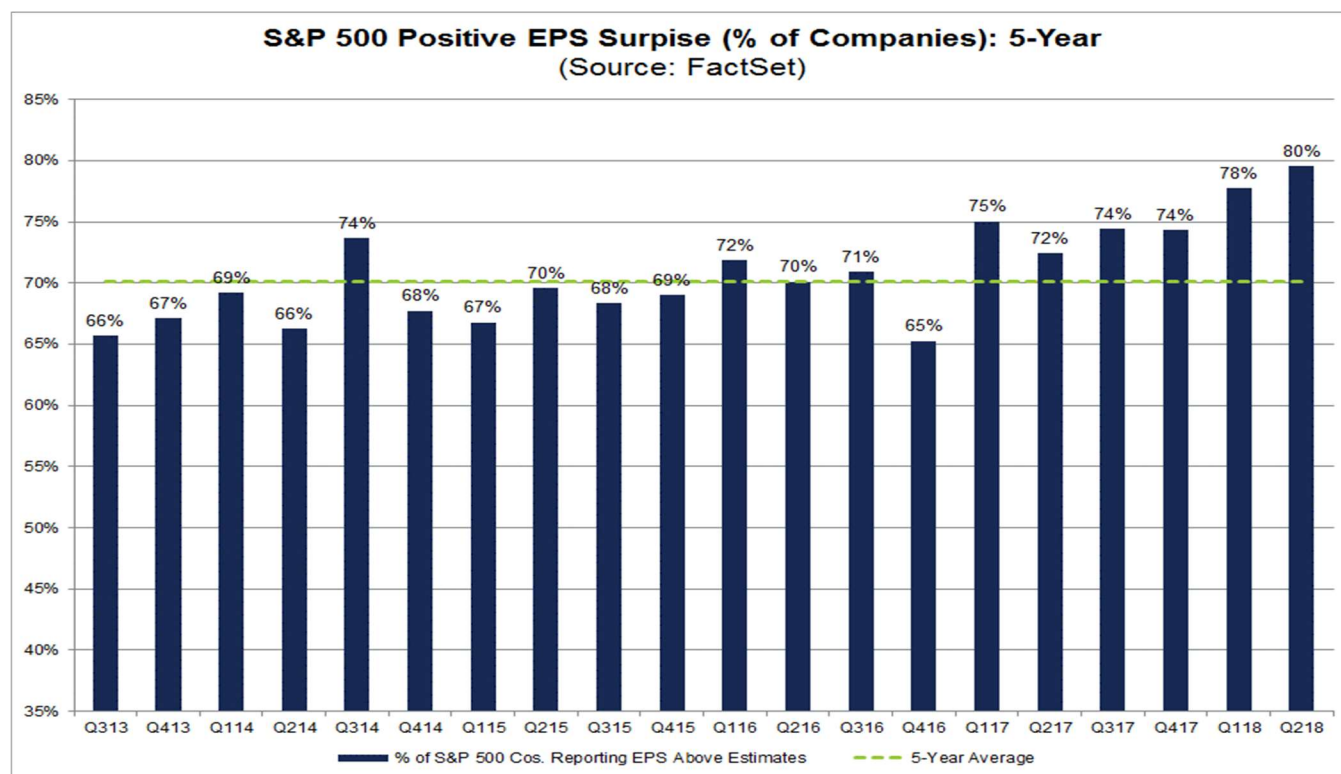
As of today, more than 99% of the companies in the S&P 500 have reported actual earnings numbers for the second quarter. Of these companies, 80% reported actual EPS above the mean EPS estimate, 5% reported actual EPS equal to the mean EPS estimate, and 16% reported actual EPS below the mean EPS estimate (the percentages do not add to 100% due to rounding). How does this 80% positive surprise number compare to recent quarters?

During the past year (4 quarters), 75% of the companies in the S&P 500 have reported EPS above the mean estimate on average. During the past five years (20 quarters), 70% of companies in the S&P 500 have reported EPS above the mean estimate on average. Thus, the percentage of companies that reported EPS above estimates for Q2 2018 was above both the trailing 1-year average and the trailing and 5-year average.

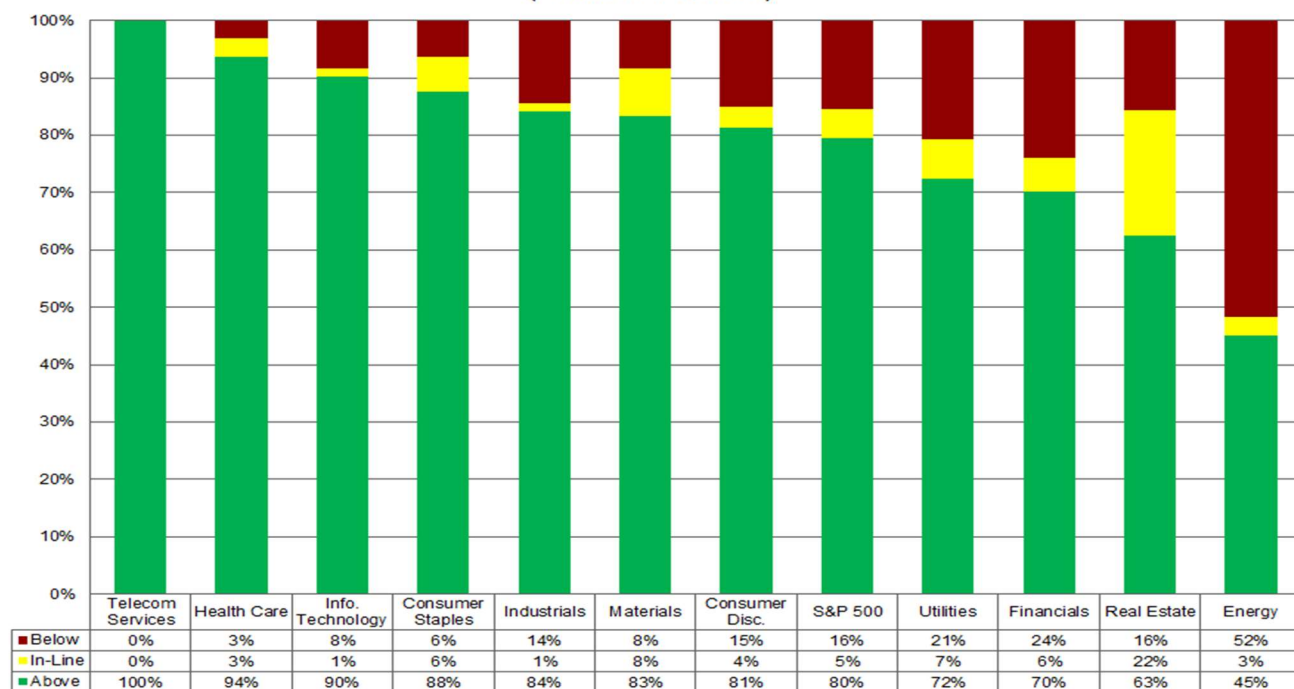
In fact, the second quarter marked the highest percentage of companies reporting EPS above estimates for a quarter since FactSet began tracking the data in Q3 2008. The previous record for the highest percentage for a quarter was 78%, set in in the prior quarter (Q1 2018).

At the sector level, the Telecom Services (100%), Health Care (94%), and Information Technology (90%) sectors had the highest percentages of companies reporting EPS above estimates. In seven of the eleven sectors, more than 80% of companies reported a positive EPS surprise.

It is important to note that S&P 500 companies did not beat EPS estimates that had been drastically lowered coming into the second quarter earnings season. Aggregate earnings for the second quarter actually increased by the second largest percentage in seven years during the second quarter. Please see our previous article on this topic: <https://insight.factset.com/second-largest-increase-in-sp-500-eps-estimate-since-2010-for-q218>



S&P 500 Earnings Above, In-Line, Below Estimates: Q2 2018
(Source: FactSet)



Q3 Earnings Season: By The Numbers

Overview

In terms of estimate revisions for companies in the S&P 500, analysts have made smaller cuts than average to earnings estimates for Q3 2018 to date. On a per-share basis, estimated earnings for the third quarter have fallen by 0.9% since June 30. This percentage decline is smaller than the 5-year average (-2.5%), 10-year average (-3.6%), and 15-year average (-2.8%) for the first two months of a quarter.

However, a larger percentage of S&P 500 companies have lowered the bar for earnings for Q3 2018 relative to recent quarters. Of the 97 companies that have issued EPS guidance for the third quarter, 73 have issued negative EPS guidance and 24 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 75% (73 out of 97), which is above the 5-year average of 71%.

Because of the downward revisions to earnings estimates, the estimated year-over-year earnings growth rate for Q3 2018 has decreased from 21.1% on June 30 to 20.0% today. All eleven sectors are predicted to report year-over-year earnings growth. Seven sectors are projected to report double-digit growth in earnings for the quarter, led by the Energy, Financials, Telecom Services, and Materials sectors.

The estimated year-over-year sales growth rate for Q3 2018 is 7.5% today, which is equal to the estimate of 7.5% on June 30. All eleven sectors are projected to report year-over-year growth in revenues. Four sectors are predicted to reported double-digit growth in revenue: Energy, Real Estate, Telecom Services, and Information Technology.

Looking at future quarters, analysts see double-digit earnings growth for the fourth quarter, but also see single-digit earnings growth for the first half of 2019.

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, one S&P 500 company is scheduled to report results for the second quarter and one S&P 500 company is scheduled to report results for the third quarter.

Earnings Revisions: Largest Declines in Energy & Consumer Staples Sectors

No Change in Estimated Earnings Growth Rate for Q4 This Week

The estimated earnings growth rate for the third quarter is 20.0% this week, which is equal to the estimated earnings growth rate of 20.0% last week.

Overall, the estimated earnings growth rate for Q3 2018 of 20.0% today is slightly below the estimated earnings growth rate of 21.1% at the start of the quarter (June 30). Eight sectors have a recorded a decrease in expected earnings growth due to downward revisions to earnings estimates, led by the Energy, Consumer Staples, and Consumer Discretionary sectors. On the other hand, three sectors have recorded an increase in expected earnings growth since the beginning of the quarter due to upward revisions to earnings estimates, led by the Telecom Services sector.

Energy: Exxon Mobil and Chevron Lead Decrease in Expected Earnings

The Energy sector has recorded the largest decrease in expected earnings growth since the start of the quarter (to 94.7% from 101.0%). This sector has also witnessed the largest decrease in price since June 30 at -4.7%. Overall, 18 of the 31 companies (58%) in the Energy sector have seen a decrease in their mean EPS estimate during this time. Of these 18 companies, 8 have recorded a decrease in their mean EPS estimate of more than 10%, led by Noble Energy (to \$0.19 from \$0.26), Halliburton (to \$0.56 from \$0.70), and Valero Energy (to \$1.96 from \$2.35). However, the decrease in the mean EPS estimates for Exxon Mobil (to \$1.27 from \$1.35) and Chevron (to \$2.10 from \$2.20) have been the largest contributors to the decrease in expected earnings for this sector since June 30. The stock prices of both Exxon Mobil (-2.7%) and Chevron (-8.9%) have declined over this same period.

Consumer Staples: 78% of Companies Have Seen a Decline in Earnings Expectations

The Consumer Staples sector has recorded the second largest decrease in expected earnings growth since the start of the quarter (to 5.5% from 9.8%). Despite the decline in expected earnings growth, this sector has witnessed a 5.5% increase in price since June 30. Overall, 25 of the 32 companies (78%) in the Consumer Staples sector have seen a decrease in their mean EPS estimate during this time. Of these 25 companies, 3 have recorded a decrease in their mean EPS estimate of more than 10%: Coty (to \$0.08 from \$0.14), Tyson Foods (to \$1.30 from \$1.88), and Kraft Heinz (to \$0.83 from \$0.93). The decrease in the mean EPS estimates for Philip Morris International (to \$1.29 from \$1.43) and Tyson Foods have been the largest contributors to the decrease in expected earnings for this sector since June 30. The stock prices for both Philip Morris (-2.6%) and Tyson Foods (-8.4%) have decreased since the start of the quarter.

Consumer Discretionary: GM and Ford Lead Decrease in Expected Earnings

The Consumer Discretionary sector has recorded the third largest decrease in expected earnings growth since the start of the quarter (to 14.0% from 17.4%). Despite the decline in expected earnings growth, this sector has witnessed a 5.5% increase in price since June 30. Overall, 54 of the 76 companies (71%) in the Consumer Discretionary sector have seen a decrease in their mean EPS estimate during this time. Of these 54 companies, 15 have recorded a decrease in their mean EPS estimate of more than 10%, led by L Brands (to \$0.04 from \$0.17), MGM Resorts (to \$0.20 from \$0.40), and Under Armour (to \$0.12 from \$0.24). However, the decrease in the mean EPS estimates for General Motors (to \$1.34 from \$1.63), Ford Motor (to \$0.32 from \$0.37), and Lowe's Companies (to \$1.05 from \$1.27) have been the largest contributors to the decrease in expected earnings for this sector since June 30. While the stock prices for both General Motors (-12.7%) and Ford Motor (-14.8%) have decreased since the start of the quarter, the stock price for Lowe's Companies (+14.5%) has increased over the time frame.

Telecom Services: AT&T Leads Increase in Estimated Earnings

The Telecom Services sector has recorded the largest increase in expected earnings growth since the start of the quarter (to 37.1% from 31.8%). This sector has also witnessed an increase in price of 4.4% during this same period. All 3 companies in this sector have seen an increase in their mean EPS estimate during this time, led by CenturyLink (to \$0.31 from \$0.24). However, the increase in the mean EPS estimate for AT&T (to \$0.88 from \$0.93) is the largest contributor to the rise in expected earnings for this sector since June 30. The stock price for this company has increased slightly (+0.2%) over this same period.

Index-Level (Bottom-Up) EPS Estimate: Record-High Increase

The Q3 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 0.9% (to \$40.61 from \$41.00) since June 30. This percentage decline is smaller than the 5-year average (-2.5%), 10-year average (-3.6%), and 15-year average (-2.8%) for the first two months of a quarter.

Earnings Guidance: Negative EPS Guidance is Above Average for Q3

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, 97 companies in the index have issued EPS guidance for Q3 2018. Of these 97 companies, 73 have issued negative EPS guidance and 24 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 75% (73 out of 97), which is above the 5-year average of 71%.

Earnings Growth: 20.0%

The estimated (year-over-year) earnings growth rate for Q3 2018 is 20.0%. If 20.0% is the final growth rate for the quarter, it will mark the third highest earnings growth reported by the index since Q3 2010 (34.1%), trailing only the previous two quarters. It will also mark the third straight quarter in which the index has reported earnings growth at or above 20%. All eleven sectors are expected to report year-over-year growth in earnings. Seven sectors are projected to report double-digit earnings growth for the quarter, led by the Energy, Financials, Telecom Services, and Materials sectors.

Energy: Higher Year-Over-Year Oil Prices Driving Broad-Based Growth

The Energy sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 94.7%. Higher oil prices are helping to drive the unusually high growth rate for the sector, as the average price of oil in Q3 2018 (\$69.13) to date is 43% higher than the average price of oil in Q3 2017 (\$48.20). At the sub-industry level, all six sub-industries in the sector are predicted to report earnings growth for the quarter: Oil & Gas Drilling (N/A due to year-ago loss), Oil & Gas Exploration & Production (3,524%), Integrated Oil & Gas (87%), Oil & Gas Storage & Transportation (60%), Oil & Gas Equipment & Services (30%), and Oil & Gas Refining & Marketing (7%).

Financials: All 5 Industries Expected to Report Double-Digit Growth, Led by Insurance

The Financials sector is expected to report the second highest (year-over-year) earnings growth of all eleven sectors at 38.1%. At the industry level, all five industries in this sector are predicted to report double-digit growth in earnings: Insurance (248%), Diversified Financial Services (87%), Banks (22%), Consumer Finance (19%), and Capital Markets (14%). The unusually high growth rate for the Insurance industry can be attributed in part to an easy comparison to weak year-ago earnings due to catastrophic losses from Hurricanes Harvey and Irma. If the Insurance industry were excluded, the estimated earnings growth rate for the Financials sector would fall to 22.2% from 38.1%.

Telecom Services: AT&T Leads Growth on Easy Comparison to Pre-Merger Earnings

The Telecom Services sector is expected to report the third highest (year-over-year) earnings growth of all eleven sectors at 37.1%. At the company level, AT&T is predicted to be the largest contributor to earnings growth for the sector. However, the estimated (dollar-level) earnings for Q3 2018 (\$6.8 billion) reflect the combination of AT&T and Time Warner, while the actual earnings for Q3 2017 (\$4.5 billion) reflect the standalone AT&T company. This apple-to-orange comparison is one reason why AT&T is projected to be the largest contributor to earnings growth for the sector. If this company were excluded, the estimated earnings growth rate for the sector would fall to 24.2% from 37.1%.

Materials: All 4 Industries Expected to Report Double-Digit Earnings Growth

The Materials sector is expected to report the fourth highest (year-over-year) earnings growth of all eleven sectors at 29.8%. At the industry level, all four industries in the sector are predicted to report double-digit earnings growth: Metals & Mining (68%), Construction Materials (48%), Containers & Packaging (31%), and Chemicals (21%).

Revenue Growth: 7.5%

The estimated (year-over-year) revenue growth rate for Q3 2018 is 7.5%. All eleven sectors are expected to report year-over-year growth in revenues. Four sectors are predicted to report double-digit growth in revenue: Energy, Real Estate, Telecom Services, and Information Technology.

Energy: 5 of 6 Sub-Industries Expected to Report Double-Digit Growth

The Energy sector is expected to report the highest (year-over-year) revenue growth of all eleven sectors at 17.9%. At the sub-industry level, all six sub-industries are expected to report (year-over-year) revenue growth. Five of the six sub-industries in the sector are predicted to report double-digit revenue growth: Oil & Gas Drilling (28%), Oil & Gas Exploration & Production (21%), Integrated Oil & Gas (20%), Oil & Gas Storage & Transportation (18%), and Oil & Gas Refining & Marketing (18%).

Real Estate: CBRE Group Leads Growth

The Real Estate sector is expected to report the second highest (year-over-year) revenue growth of all eleven sectors at 11.6%. At the company level, CBRE Group is predicted to be the largest contributor to revenue growth for the sector. The revenue estimate for Q3 2018 is \$5.1 billion, compared to year-ago revenues of \$3.5 billion. If this company were excluded, the estimated revenue growth rate for the sector would fall to 5.7% from 11.6%.

Telecom Services: AT&T Leads Growth on Easy Comparison to Pre-Merger Revenues

The Telecom Services sector is expected to report the third highest (year-over-year) revenue growth of all eleven sectors at 11.5%. At the company level, AT&T is predicted to be the largest contributor to revenue growth for the sector. However, the estimated revenues for Q3 2018 (\$45.7 billion) reflect the combination of AT&T and Time Warner, while the actual revenues for Q3 2017 (\$39.7 billion) reflect the standalone AT&T company. This apple-to-orange comparison is one reason why AT&T is projected to be the largest contributor to revenue growth for the sector. If this company were excluded, the estimated revenue growth rate for the sector would fall to 7.4% from 11.5%.

Information Technology: Internet Software Industry Leads Growth

The Information Technology sector is expected to report the fourth highest (year-over-year) revenue growth of all eleven sectors at 11.4%. At the industry level, all seven industries in this sector are predicted to report revenue growth. Three of these seven industries are projected to report double-digit revenue growth: Internet Software & Services (24%), Technology Hardware, Storage, & Peripherals (12%), and Semiconductor & Semiconductor Equipment (11%).

Looking Ahead: Forward Estimates and Valuation

20% Earnings Growth Expected For 2018, But Lower Growth Projected for 2019

For the third quarter, analysts expect companies to report earnings growth of 20.0% and revenue growth of 7.5%. While analysts currently expect earnings to grow at double-digit levels for Q4, they also expect more moderate growth in early 2019.

For Q4 2018, analysts are projecting earnings growth of 17.4% and revenue growth of 5.9%.

For CY 2018, analysts are projecting earnings growth of 20.6% and revenue growth of 8.1%.

For Q1 2019, analysts are projecting earnings growth of 7.2% and revenue growth of 6.2%.

For Q2 2019, analysts are projecting earnings growth of 7.5% and revenue growth of 4.4%.

For CY 2019, analysts are projecting earnings growth of 10.3% and revenue growth of 5.2%.

Valuation: Forward P/E Ratio is 16.7, above the 10-Year Average (14.4)

The forward 12-month P/E ratio is 16.7. This P/E ratio is above the 5-year average of 16.3, and above the 10-year average of 14.4. It is also above the forward 12-month P/E ratio of 16.1 recorded at the start of the third quarter (June 30). Since the start of the third quarter, the price of the index has increased by 5.9%, while the forward 12-month EPS estimate has increased by 2.5%.

At the sector level, the Consumer Discretionary (21.3) and Information Technology (18.8) sectors have the highest forward 12-month P/E ratios, while the Telecom Services (10.3) and Financials (12.6) sectors have the lowest forward 12-month P/E ratios. Eight sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Information Technology (18.8 vs. 14.6) and Consumer Discretionary (21.3 vs. 17.0) sectors. Two sectors have forward 12-month P/E ratios that are below their 10-year averages, led by the Telecom Services (10.3 vs. 14.0) sector.

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

The bottom-up target price for the S&P 500 is 3169.55, which is 10.1% above the closing price of 2878.05. At the sector level, the Energy (+18.8%) and Materials (+14.9%) 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 (+1.8%) 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.

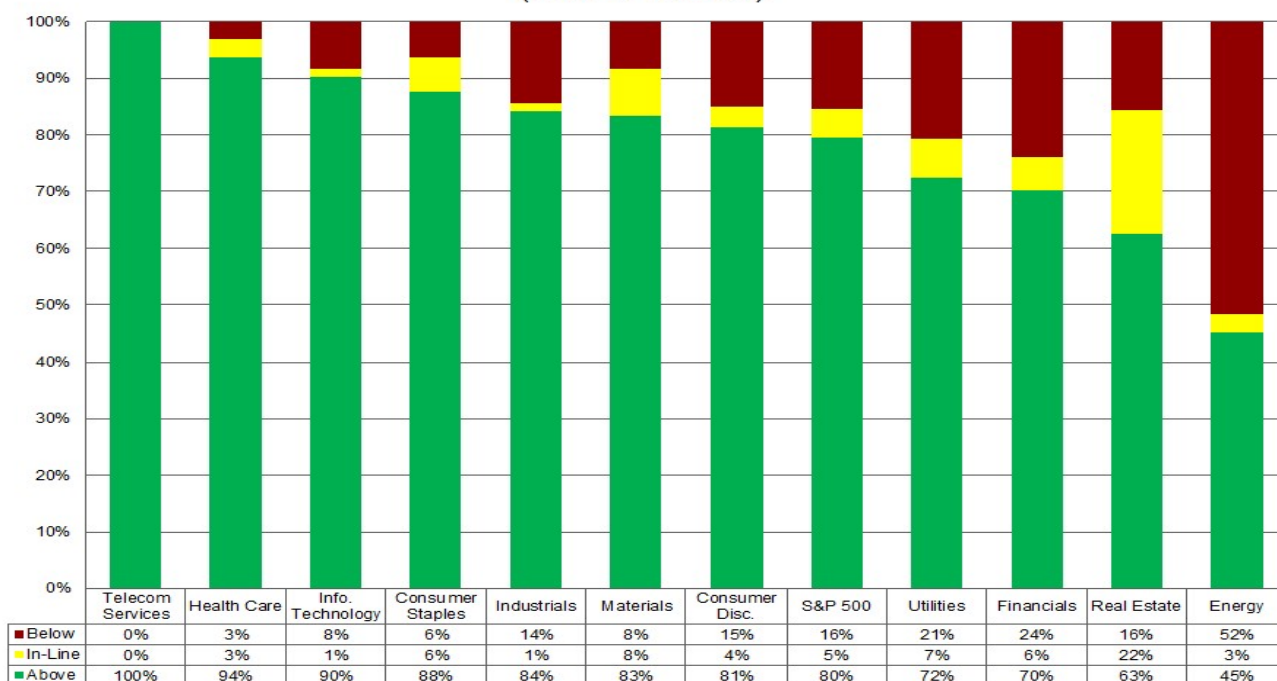
Overall, there are 10,867 ratings on stocks in the S&P 500. Of these 10,867 ratings, 52.6% are Buy ratings, 41.7% are Hold ratings, and 5.7% are Sell ratings. At the sector level, the Information Technology (59%), Materials (59%), Energy (59%), and Health Care (58%) sectors have the highest percentages of Buy ratings, while the Telecom Services (40%), Consumer Staples (42%), Utilities (44%), and Real Estate (44%) sectors have the lowest percentages of Buy ratings.

Companies Reporting Next Week: 2

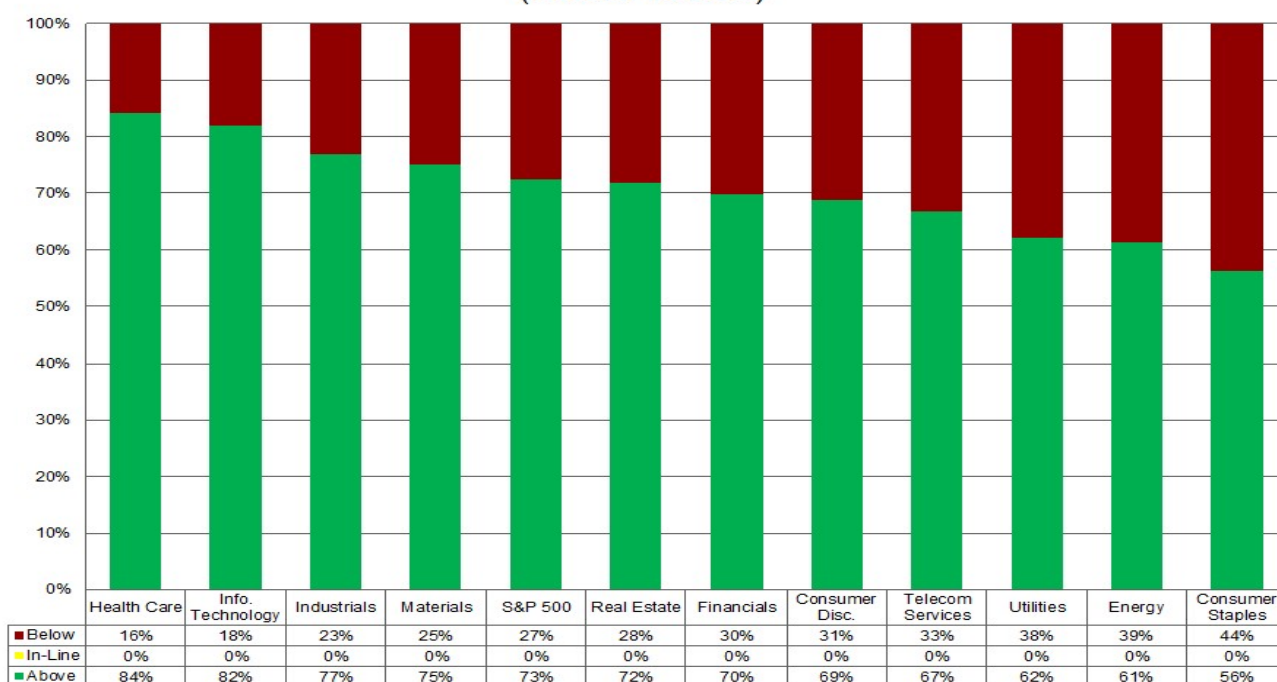
During the upcoming week, one S&P 500 company is scheduled to report results for the second quarter and one S&P 500 company is scheduled to report results for the third quarter.

Q2 2018: Scorecard

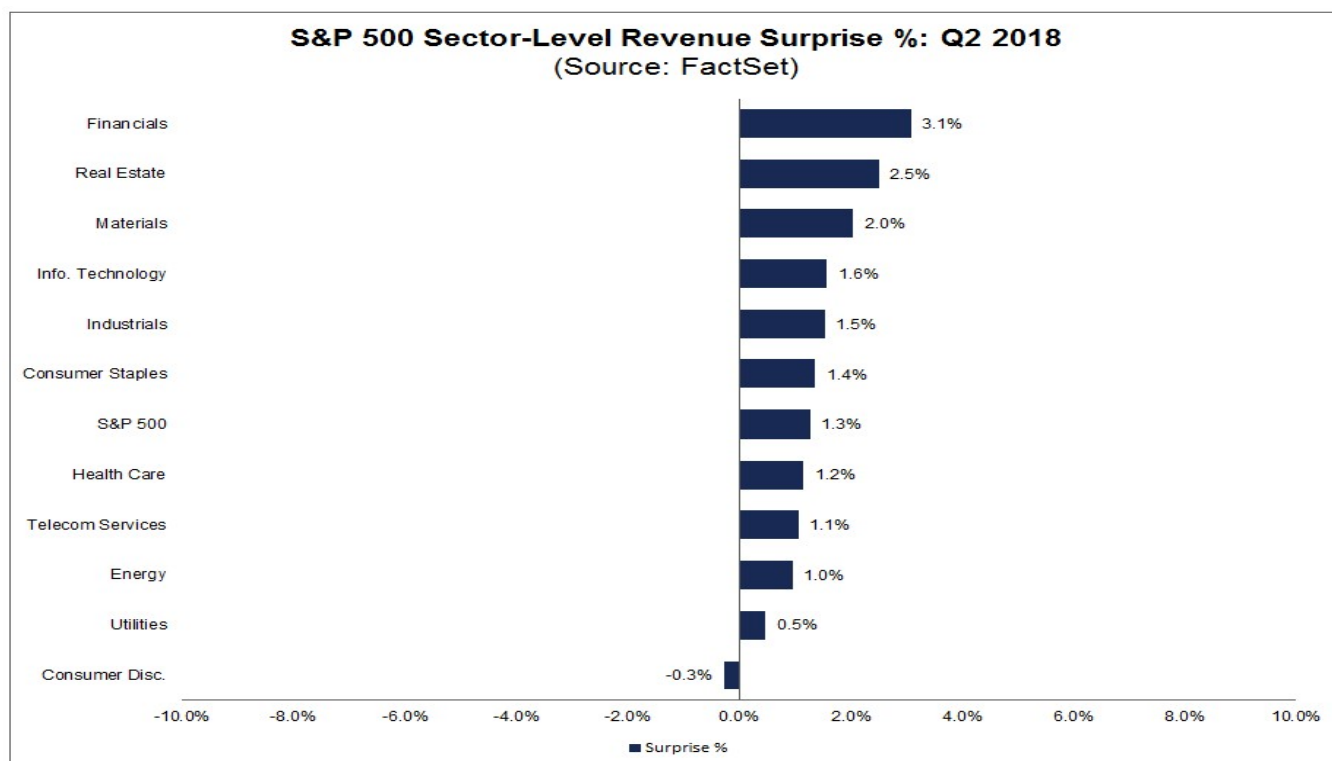
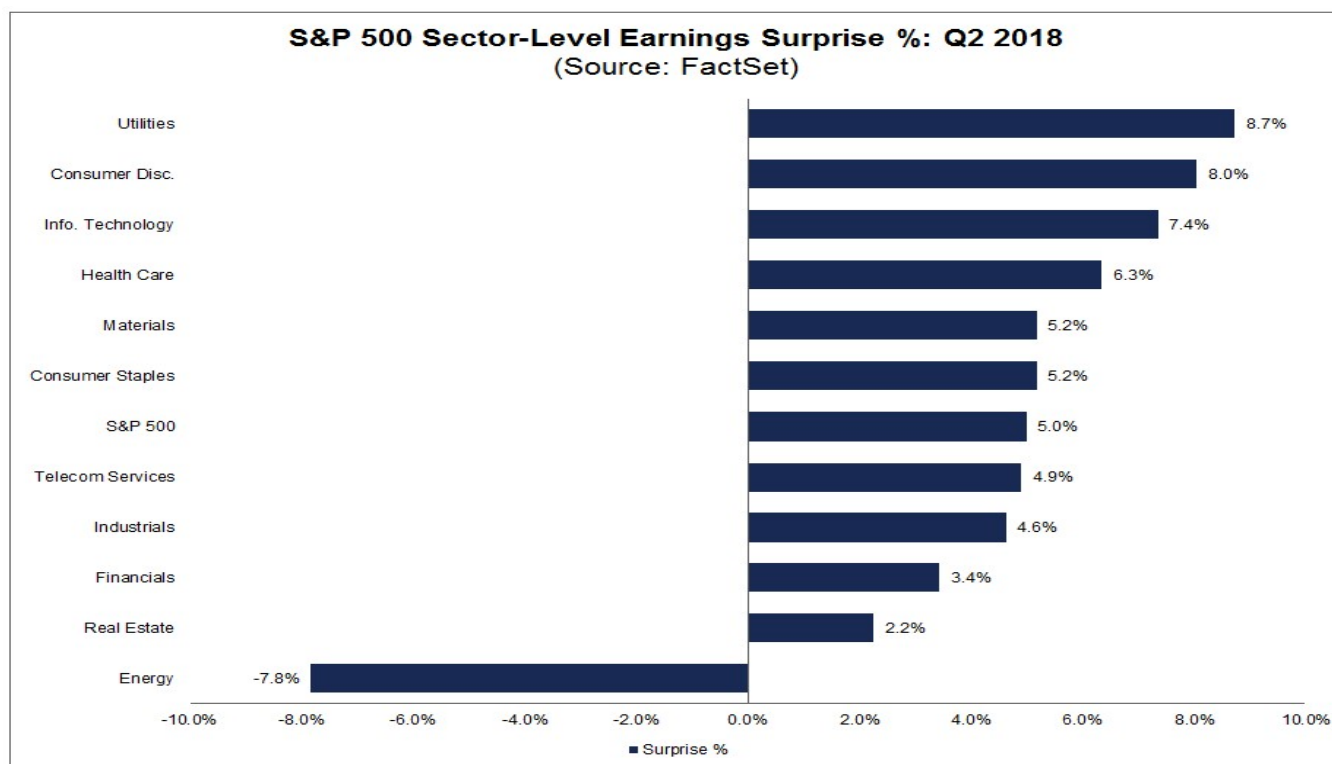
S&P 500 Earnings Above, In-Line, Below Estimates: Q2 2018
(Source: FactSet)



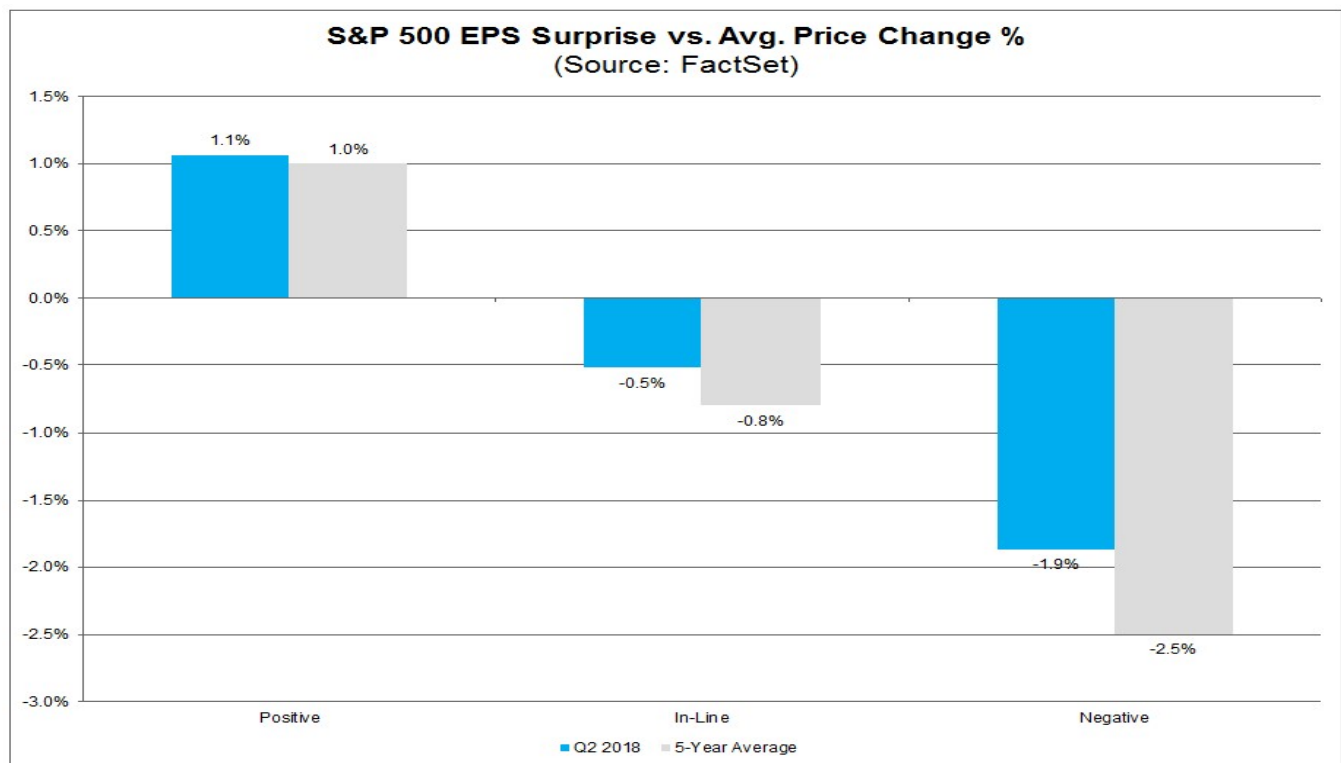
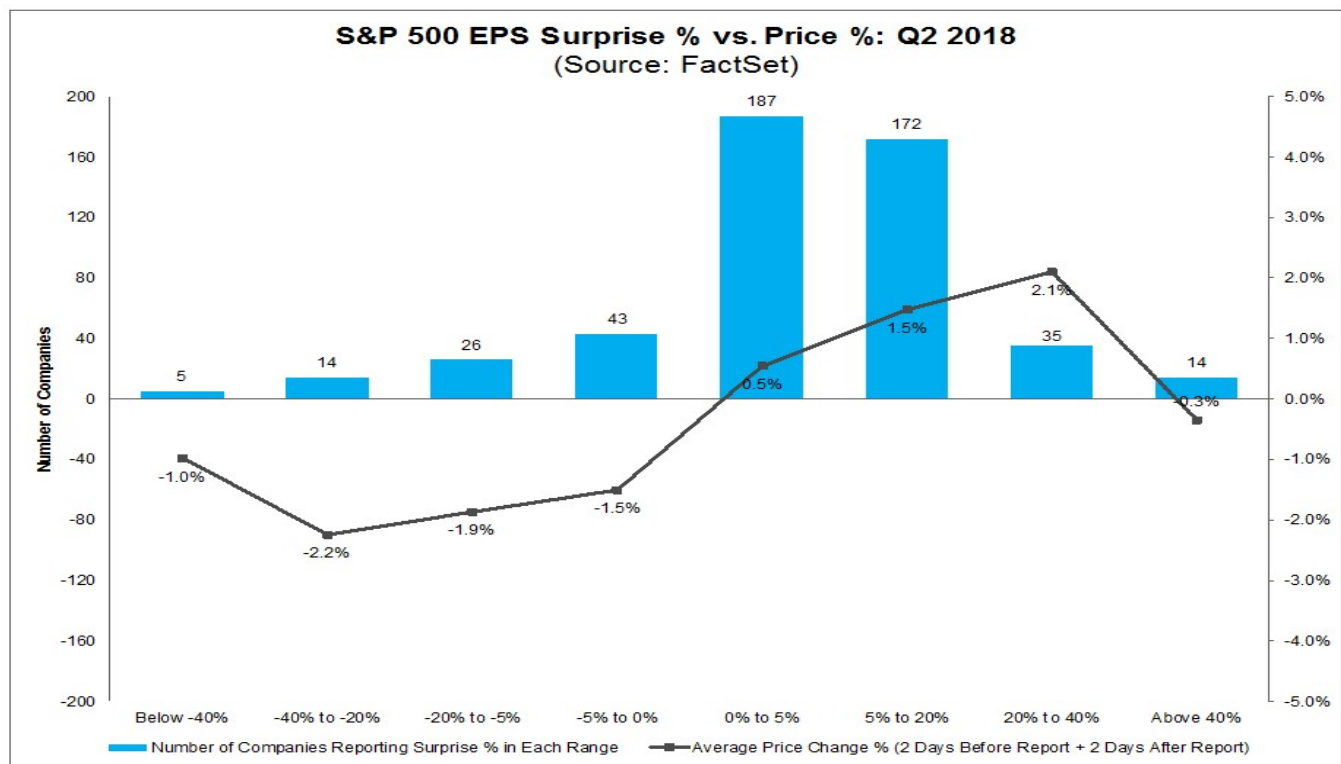
S&P 500 Revenues Above, In-Line, Below Estimates: Q2 2018
(Source: FactSet)



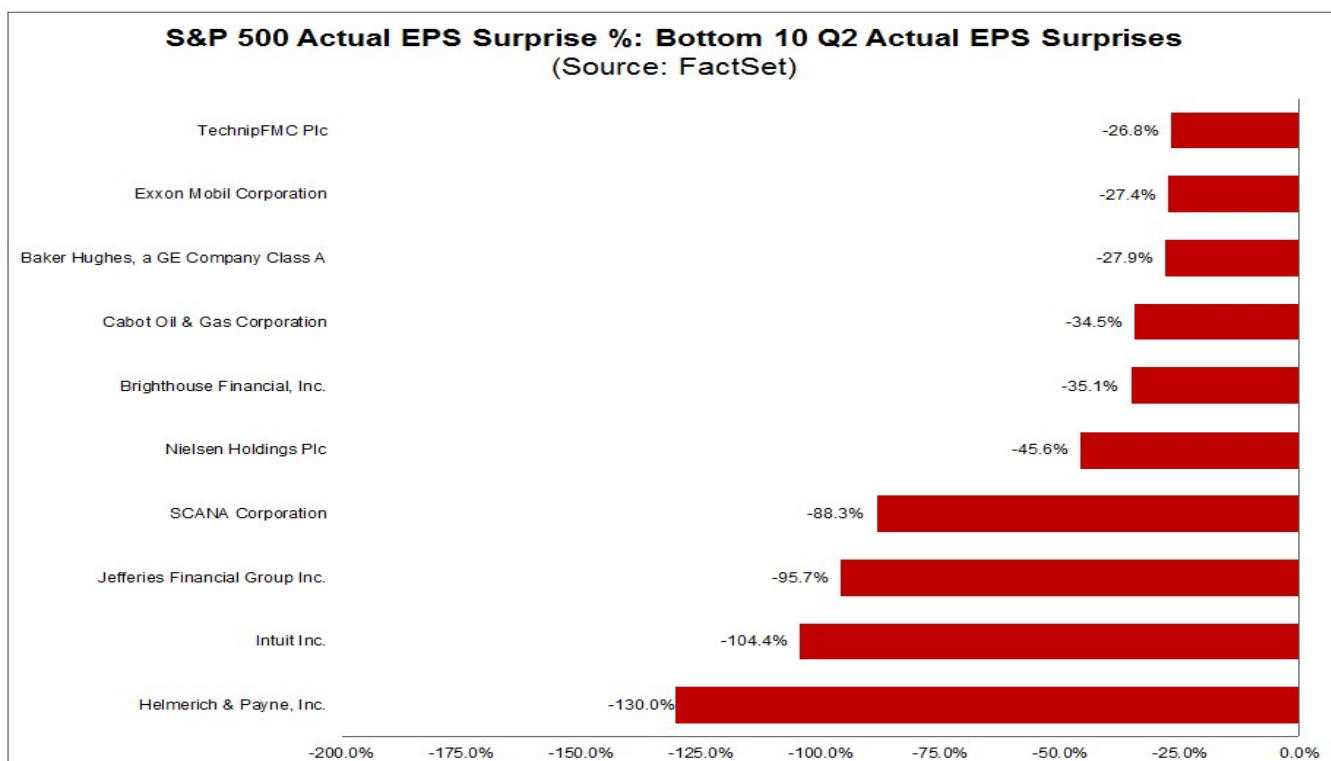
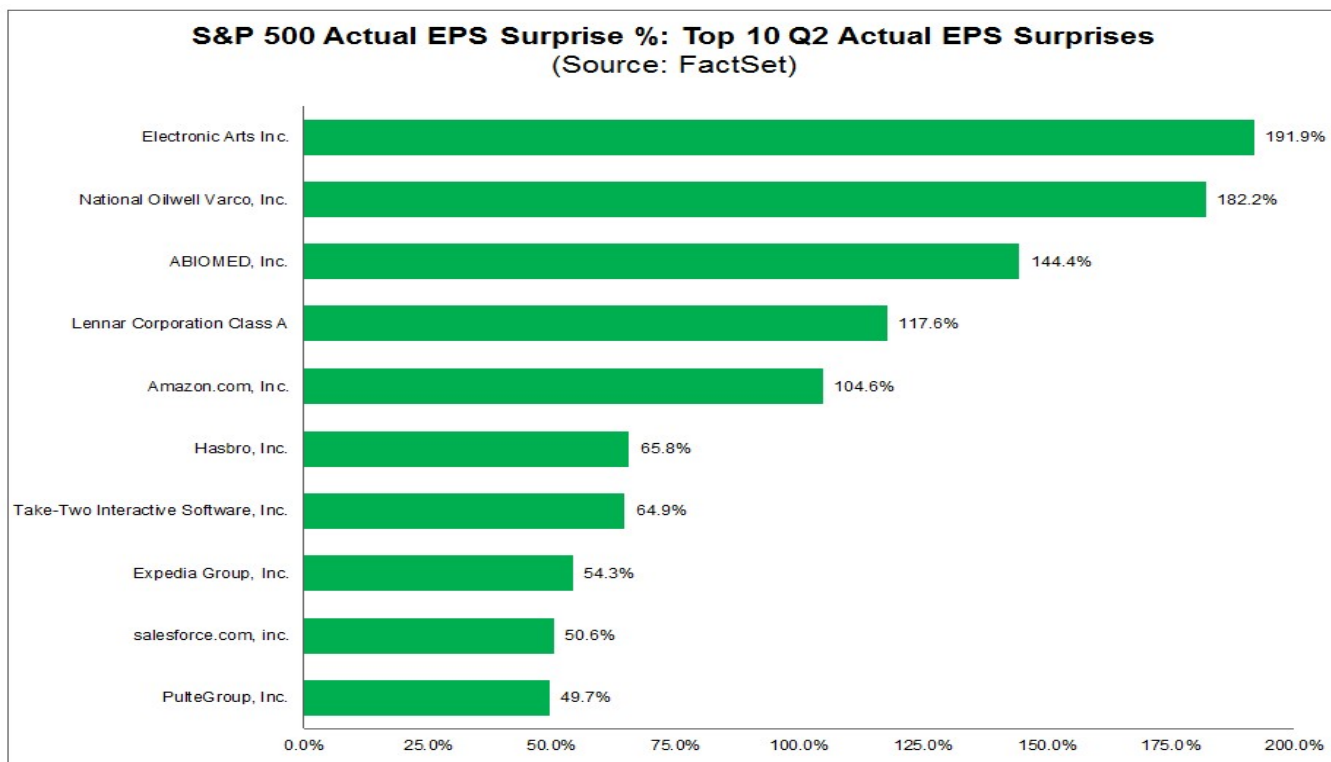
Q2 2018: Scorecard



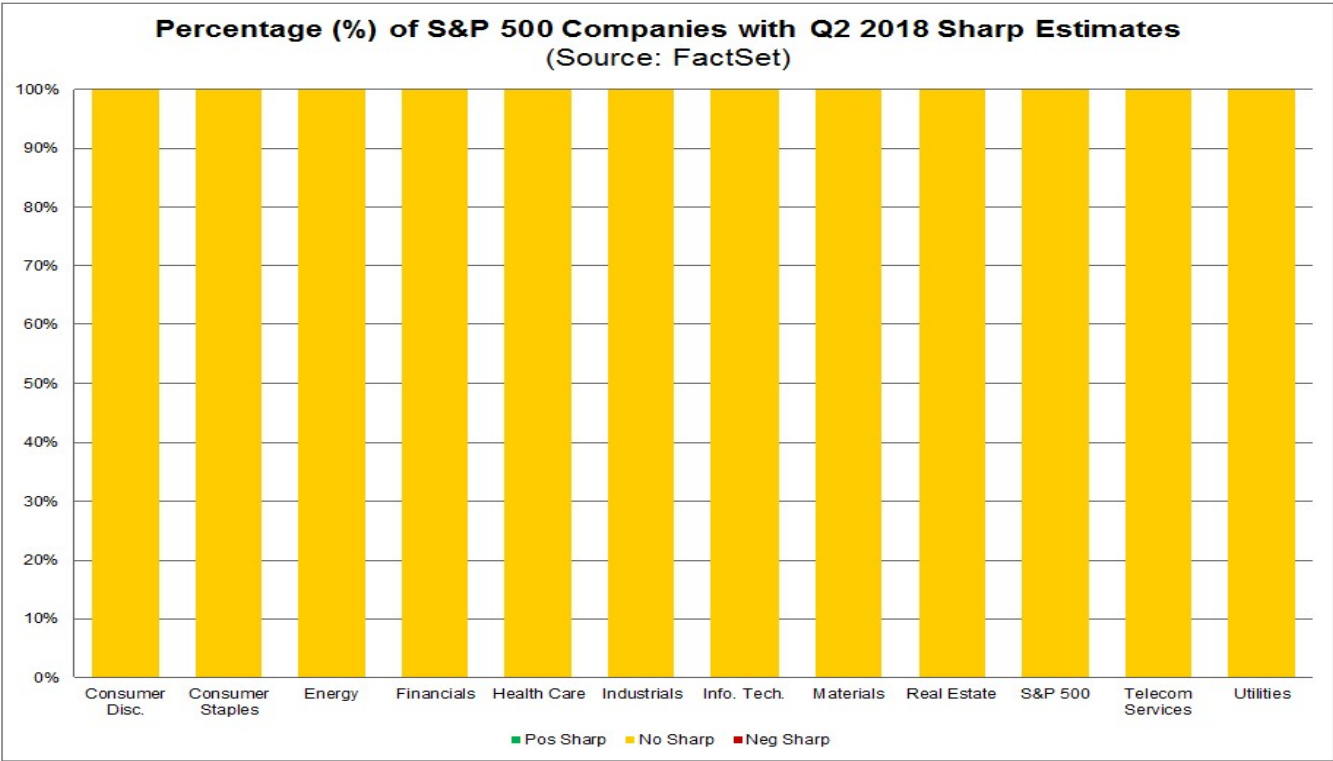
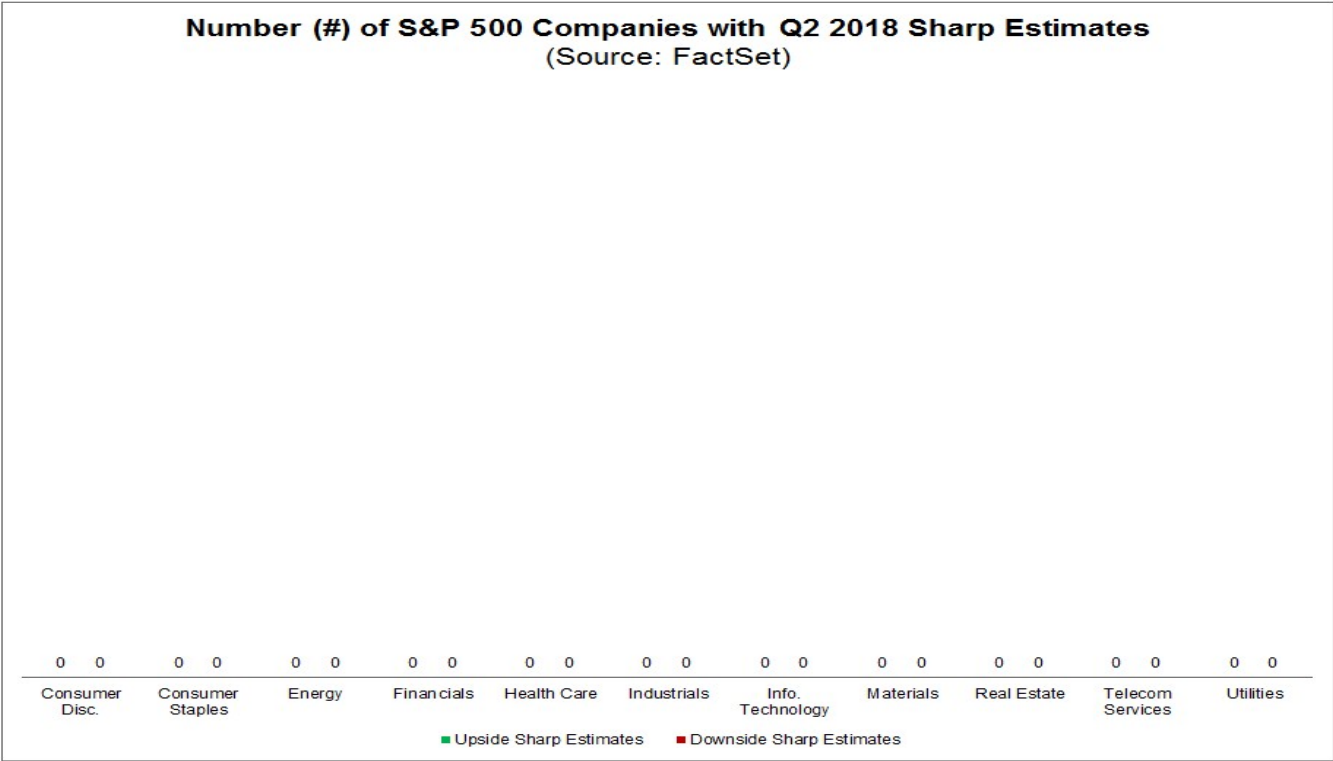
Q2 2018: Scorecard



Q2 2018: Scorecard

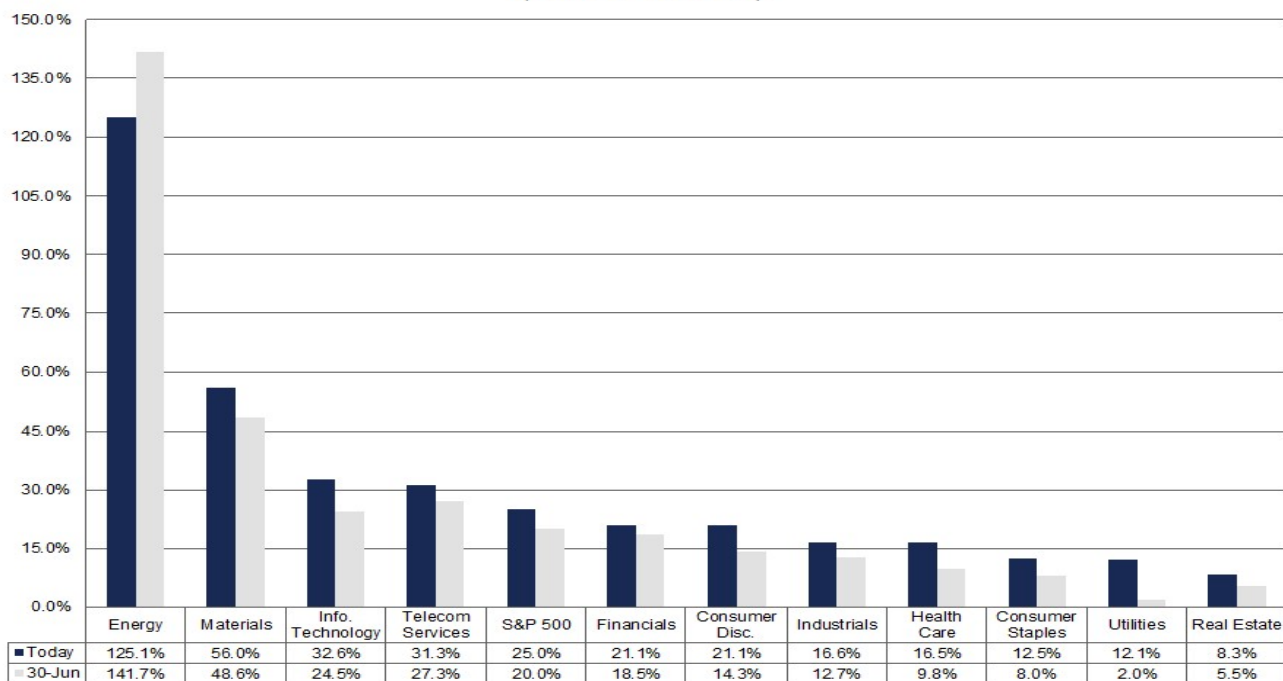


Q2 2018: Projected EPS Surprises (Sharp Estimates)

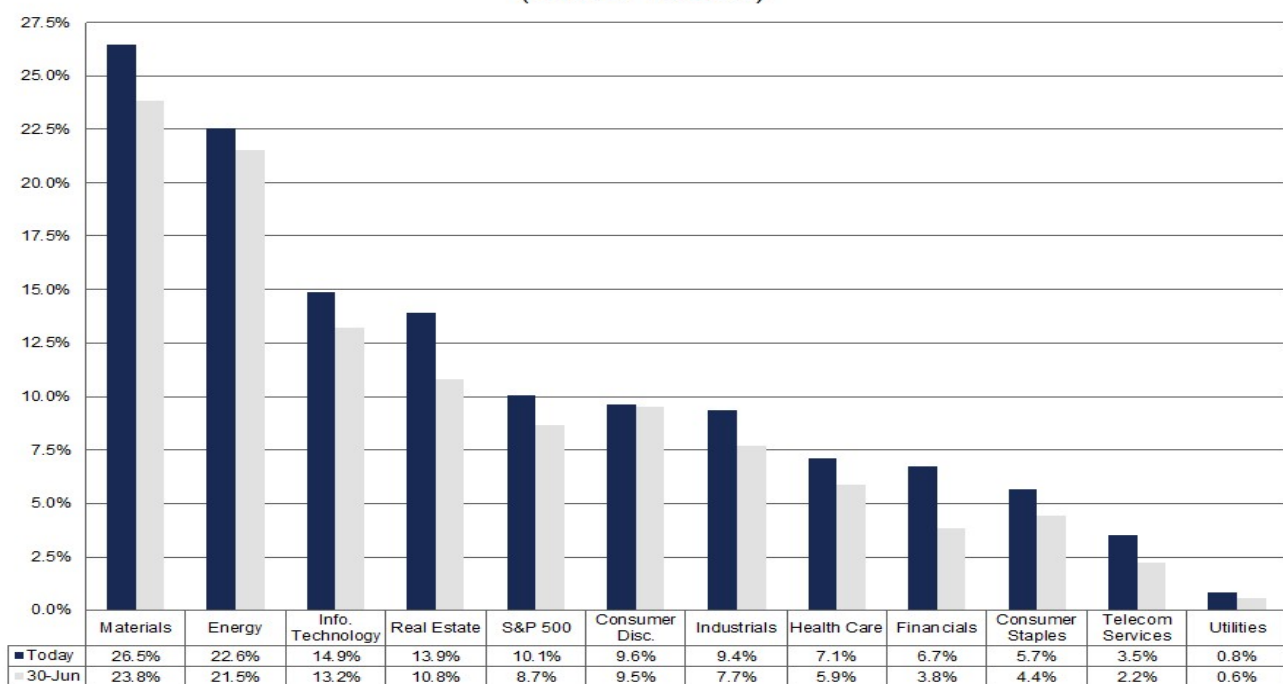


Q2 2018: Growth

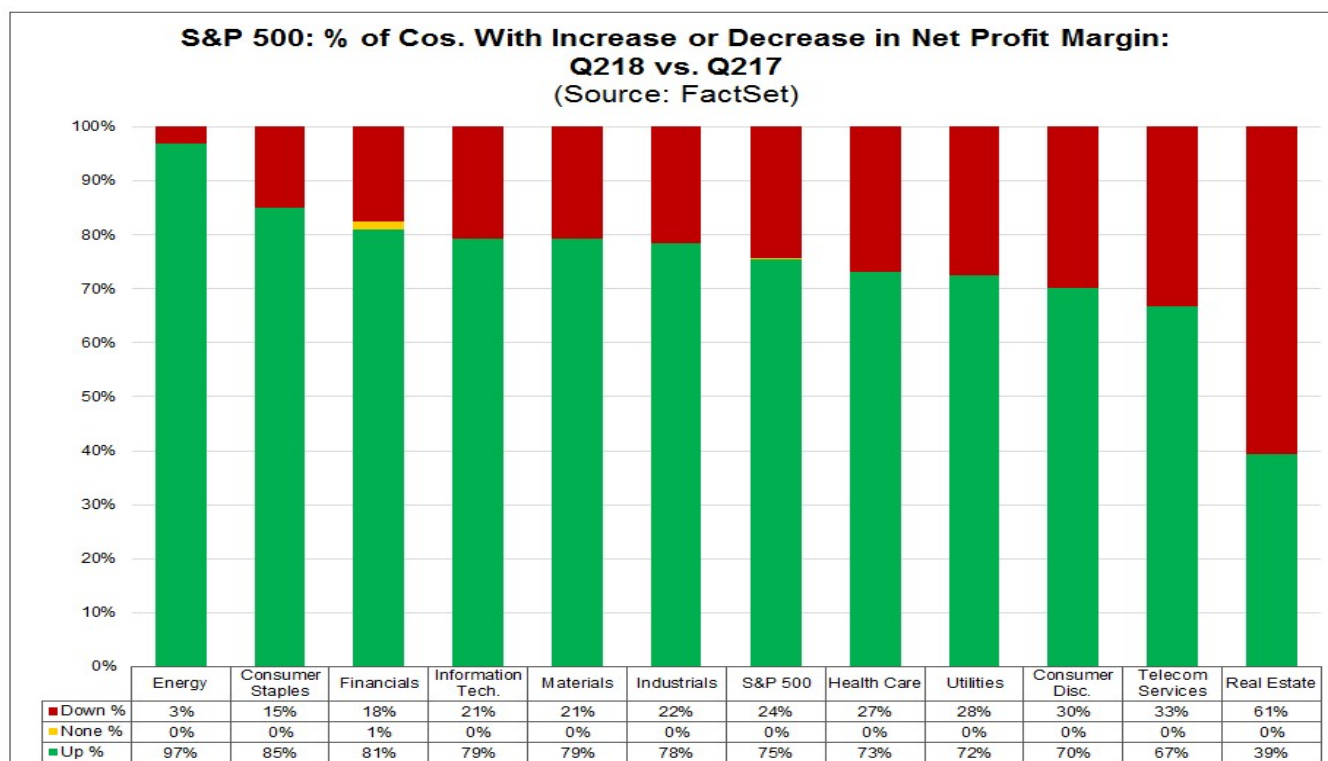
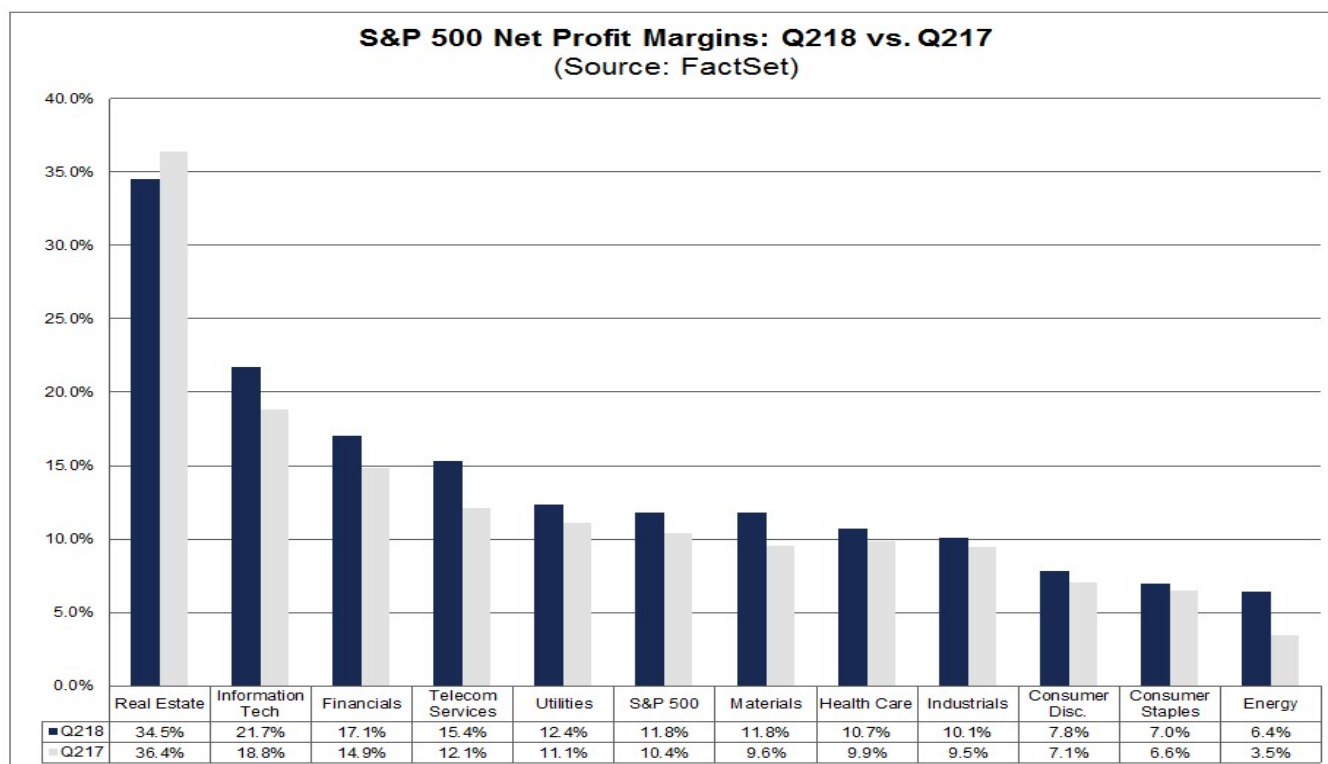
S&P 500 Earnings Growth: Q2 2018
(Source: FactSet)



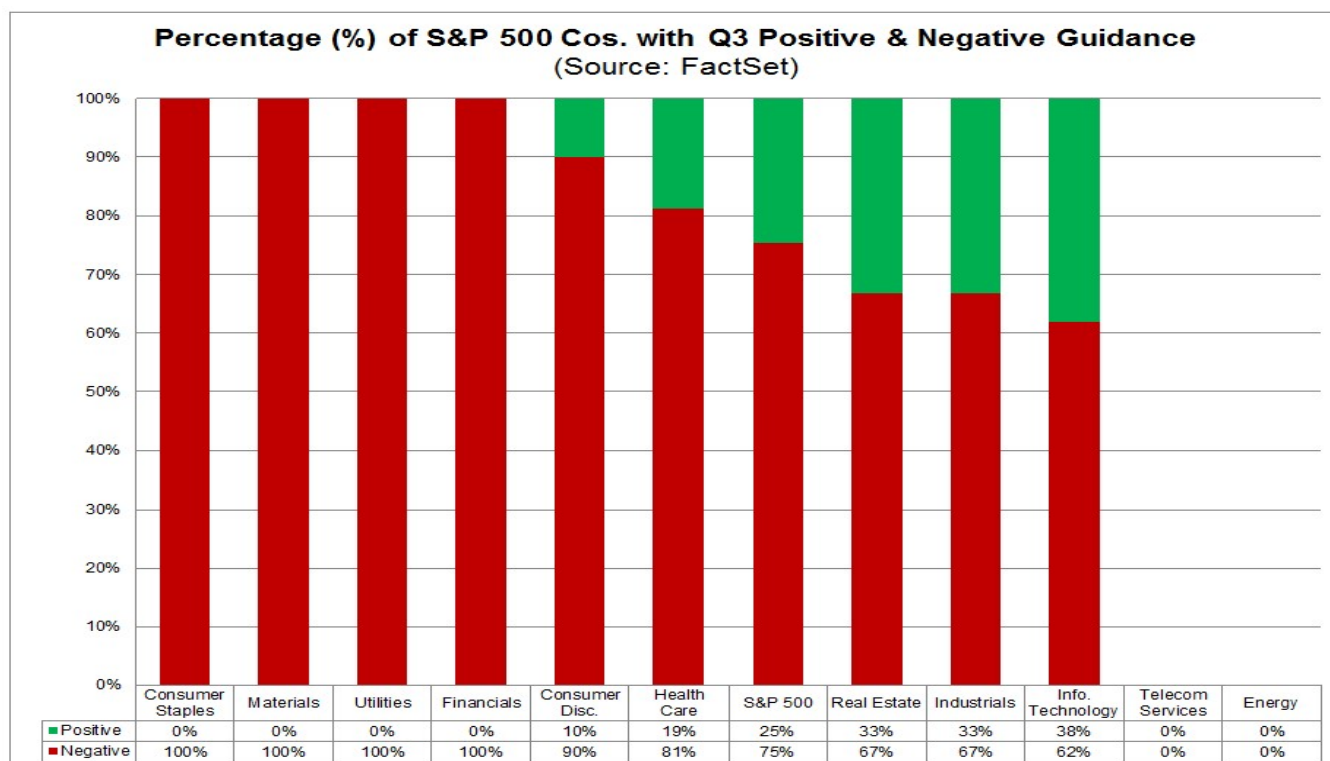
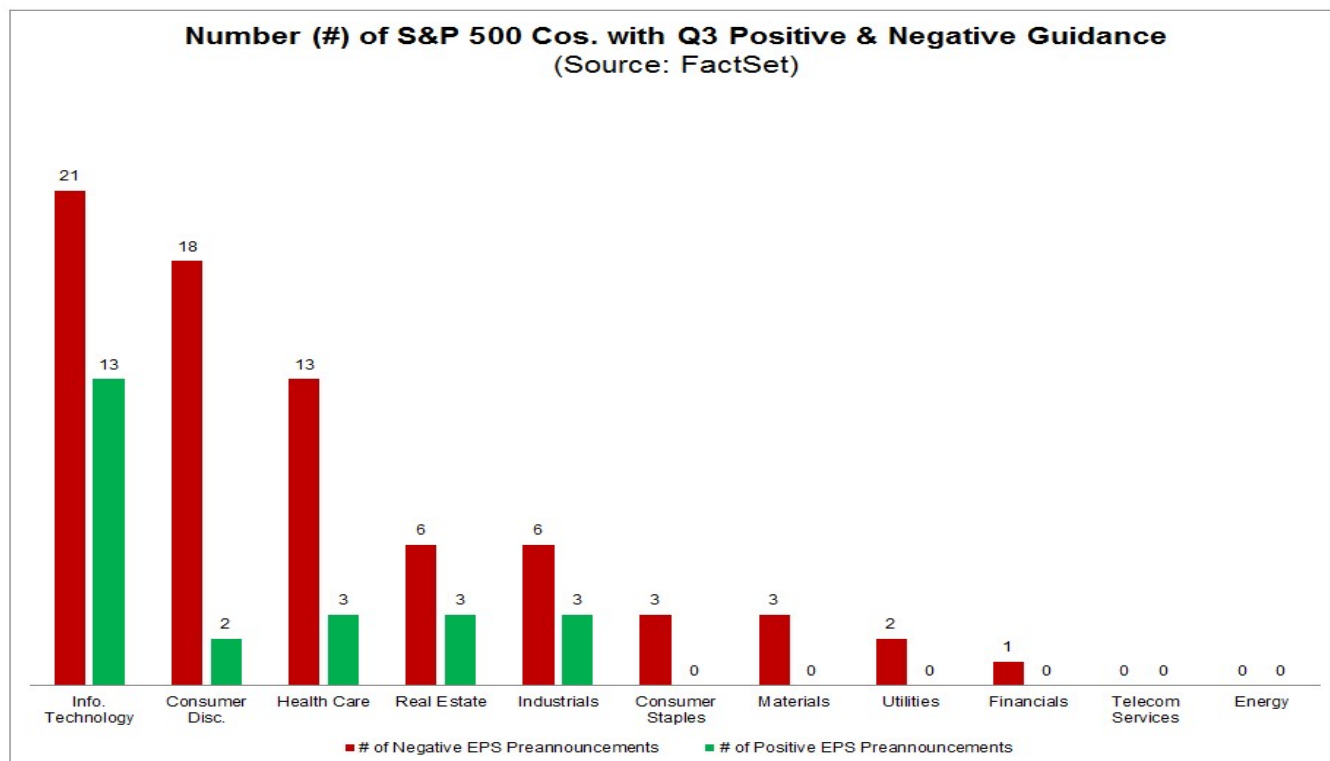
S&P 500 Revenue Growth: Q2 2018
(Source: FactSet)



Q2 2018: Net Profit Margin

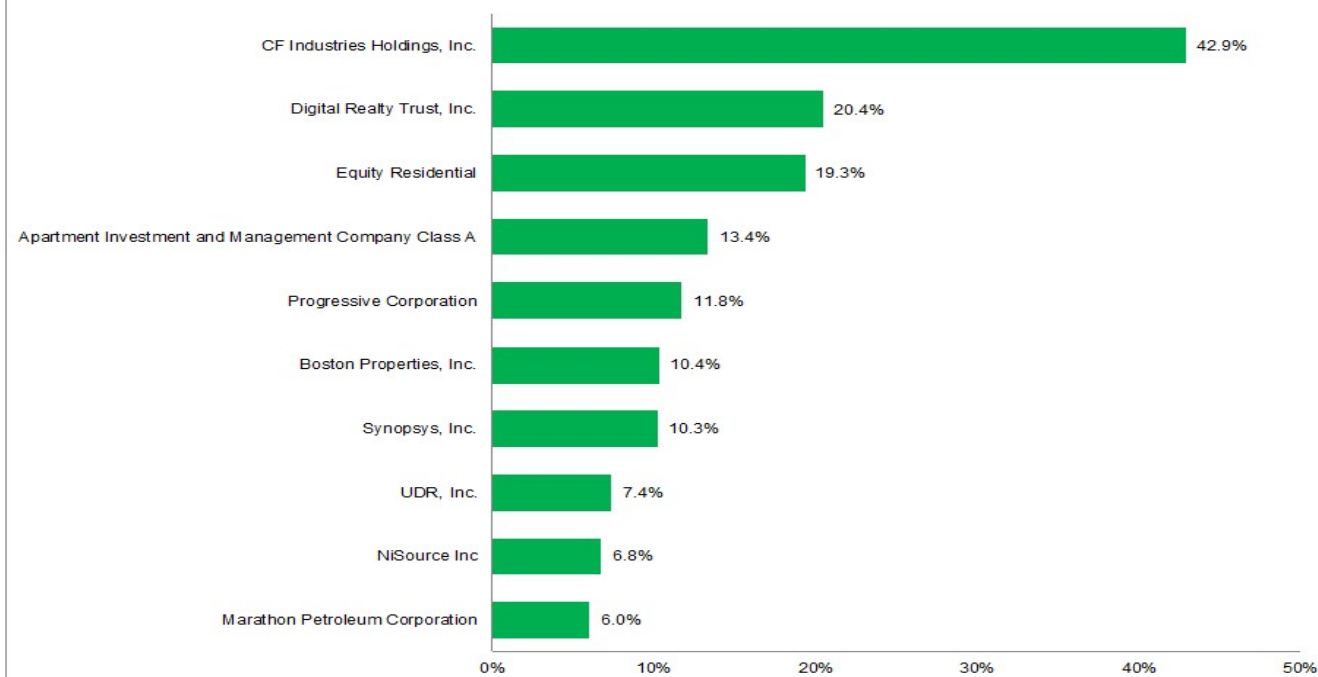


Q3 2018: EPS Guidance

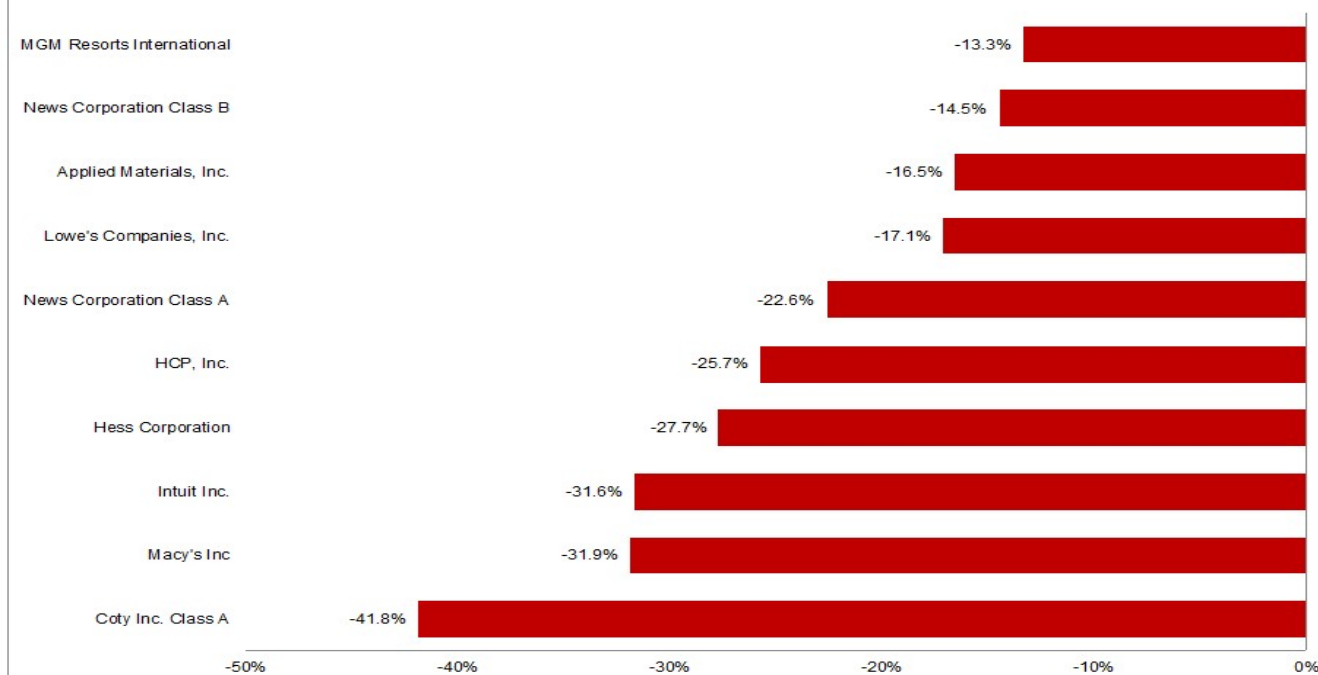


Q3 2018: EPS Revisions

Upward Change in Q3 EPS (Trailing 4 Weeks): Top 10 S&P 500 Cos.
(Source: FactSet)

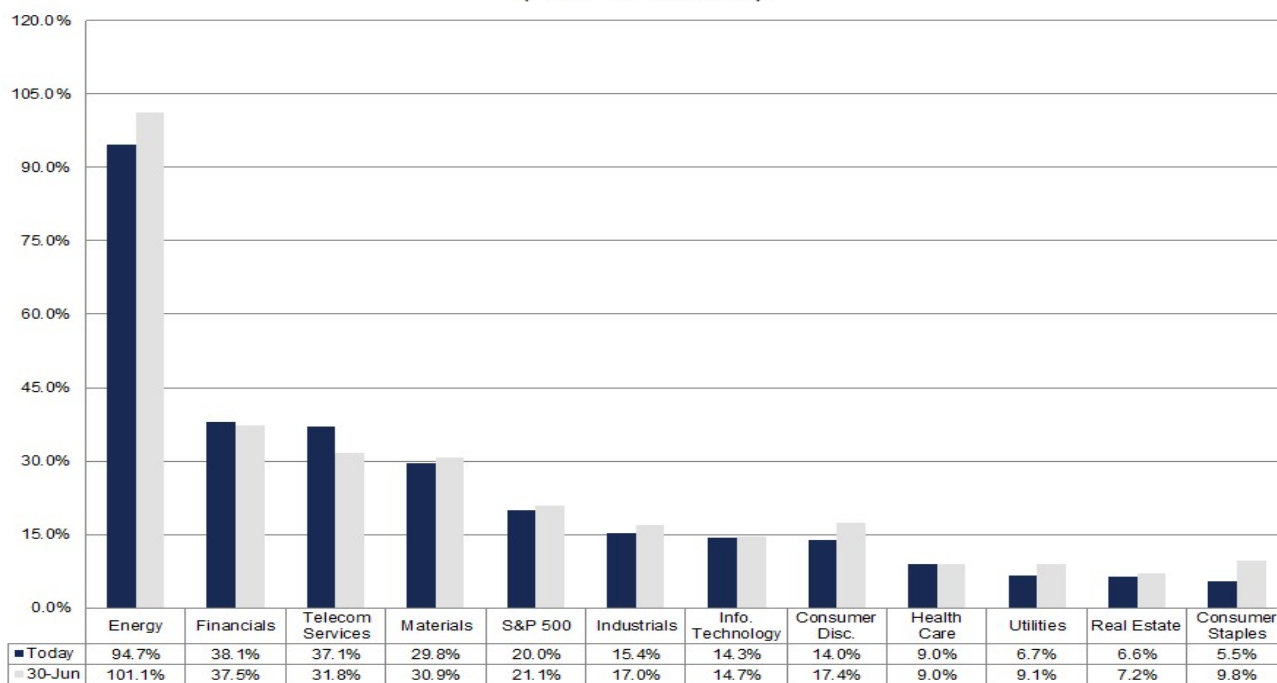


Downward Change in Q3 EPS (Trailing 4-Weeks): Top 10 S&P 500 Cos.
(Source: FactSet)

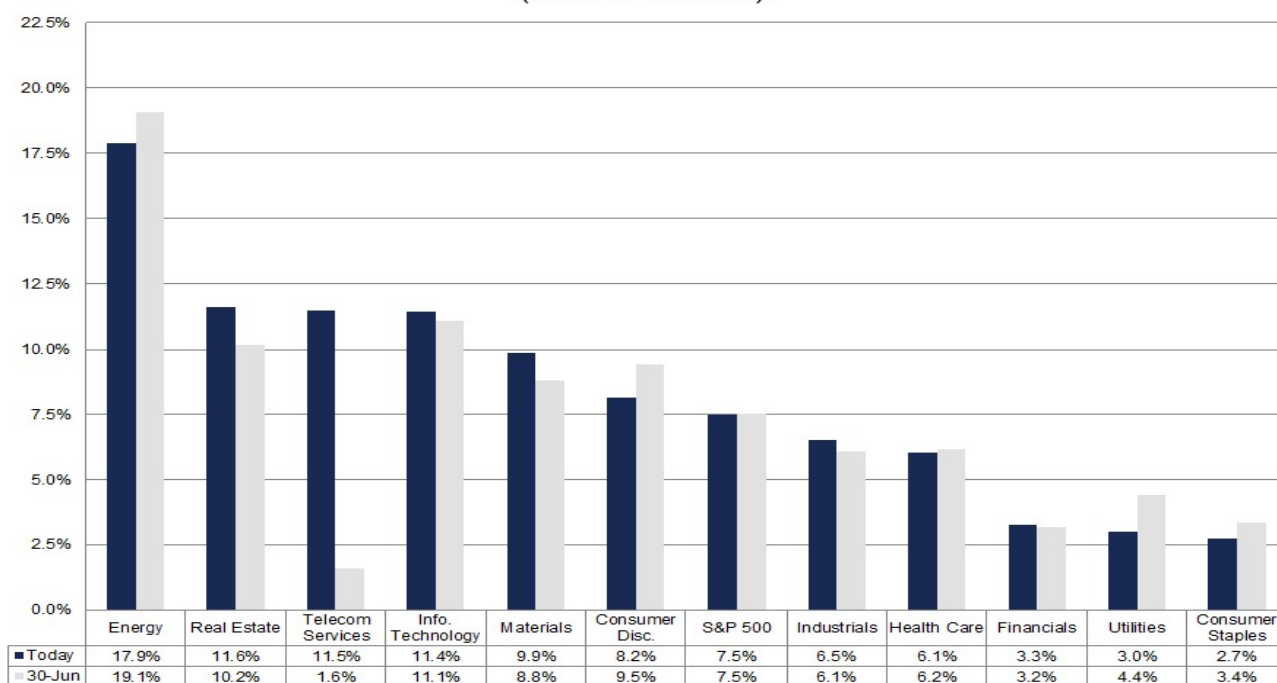


Q3 2018: Growth

S&P 500 Earnings Growth: Q3 2018
(Source: FactSet)



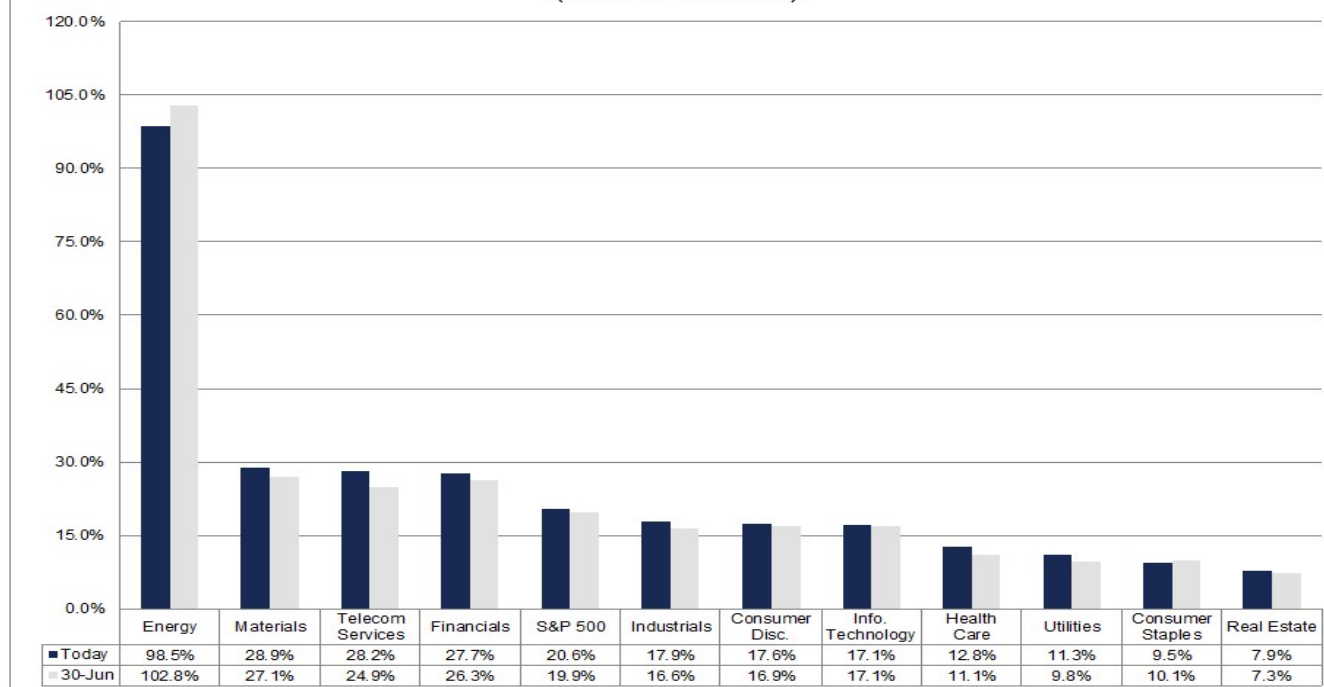
S&P 500 Revenue Growth: Q3 2018
(Source: FactSet)



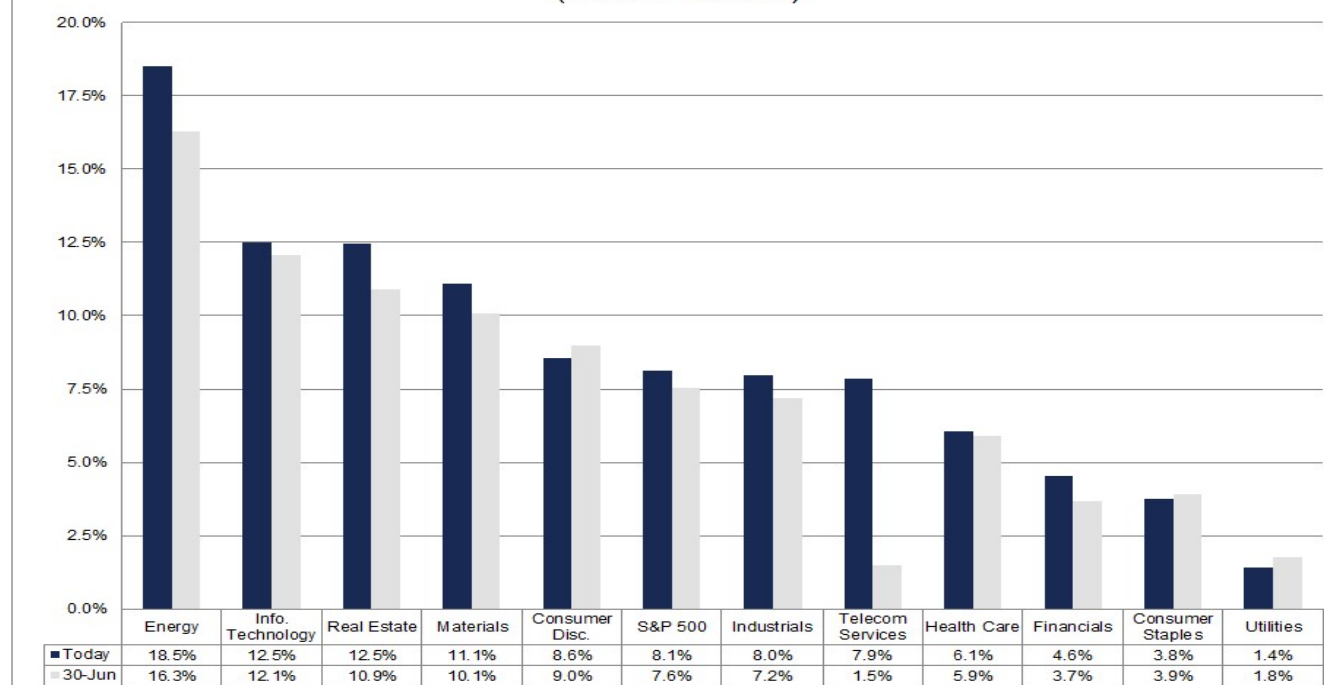
CY 2018: Growth

S&P 500 Earnings Growth: CY 2018

(Source: FactSet)

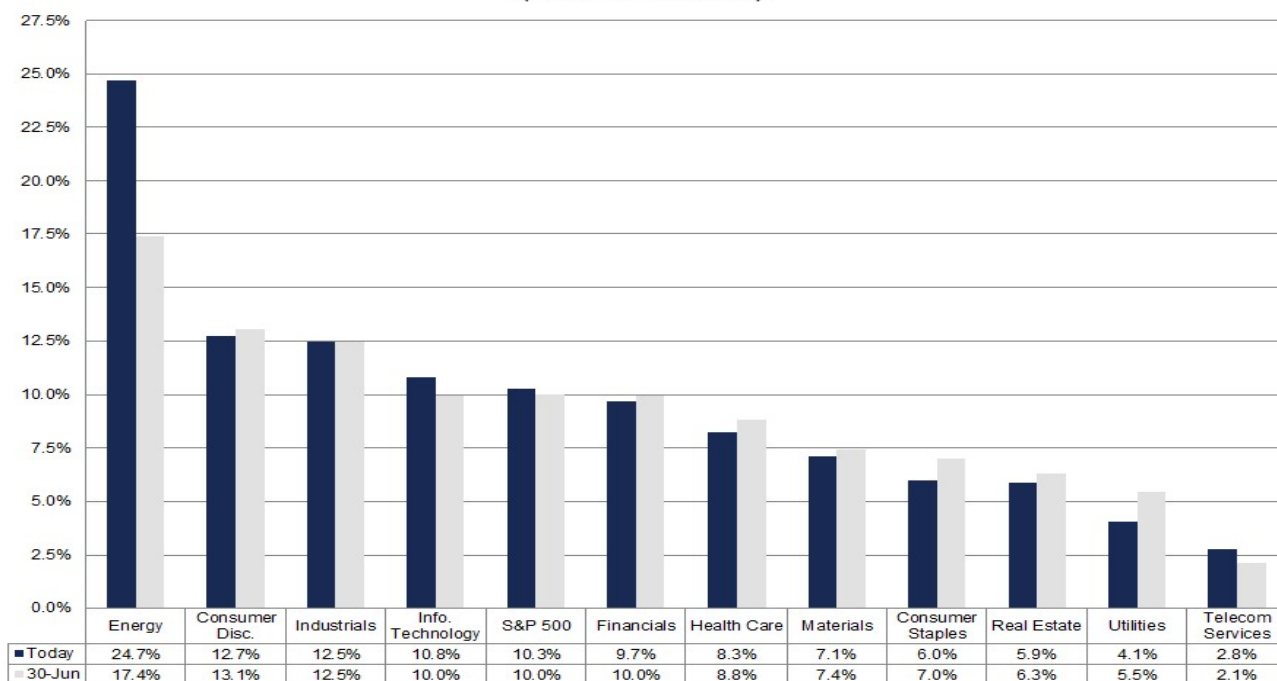
**S&P 500 Revenue Growth: CY 2018**

(Source: FactSet)

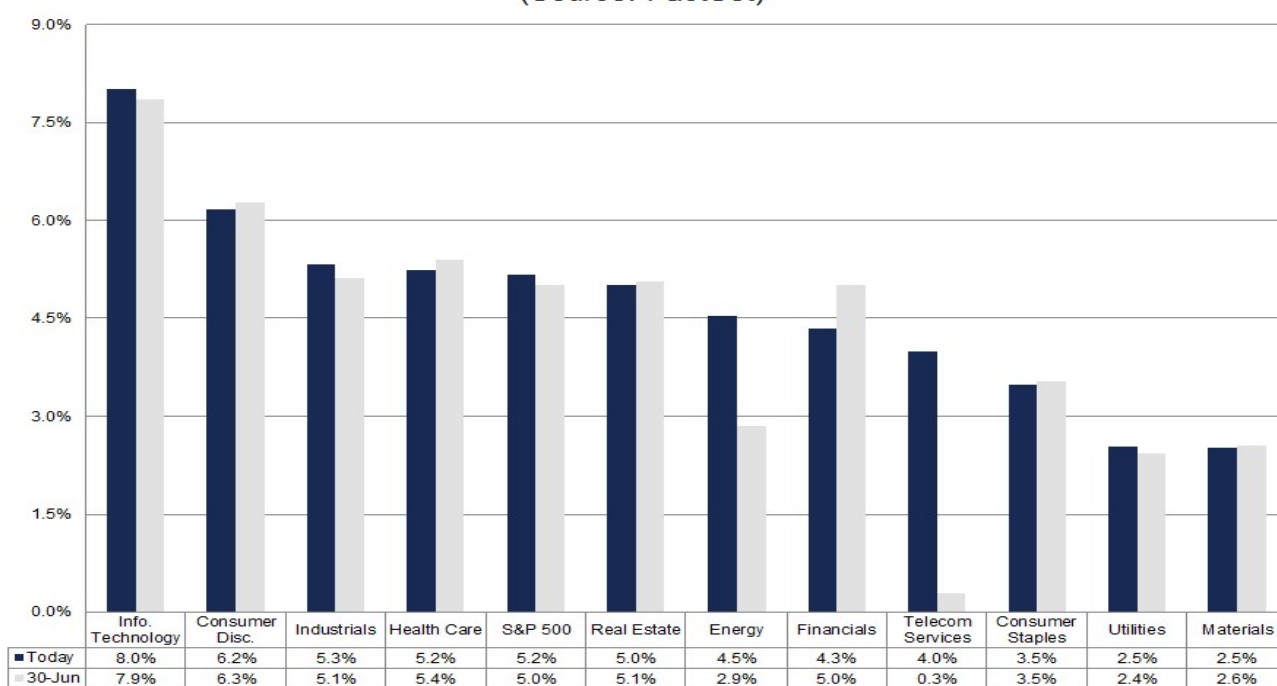


CY 2019: Growth

S&P 500 Earnings Growth: CY 2019
(Source: FactSet)

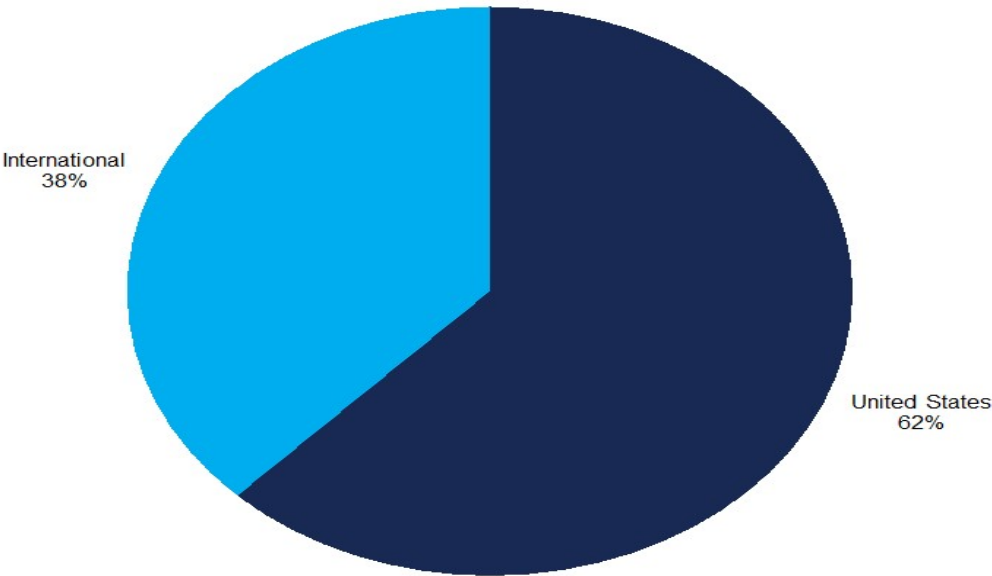


S&P 500 Revenue Growth: CY 2019
(Source: FactSet)

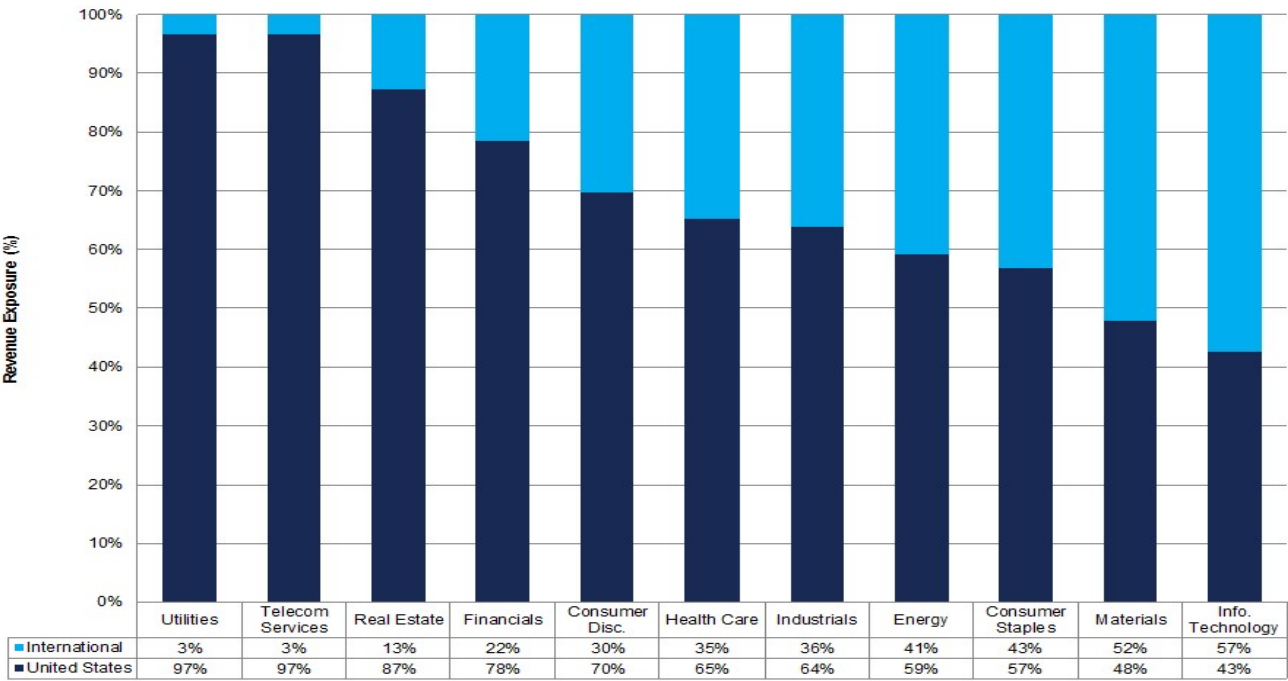


Geographic Revenue Exposure

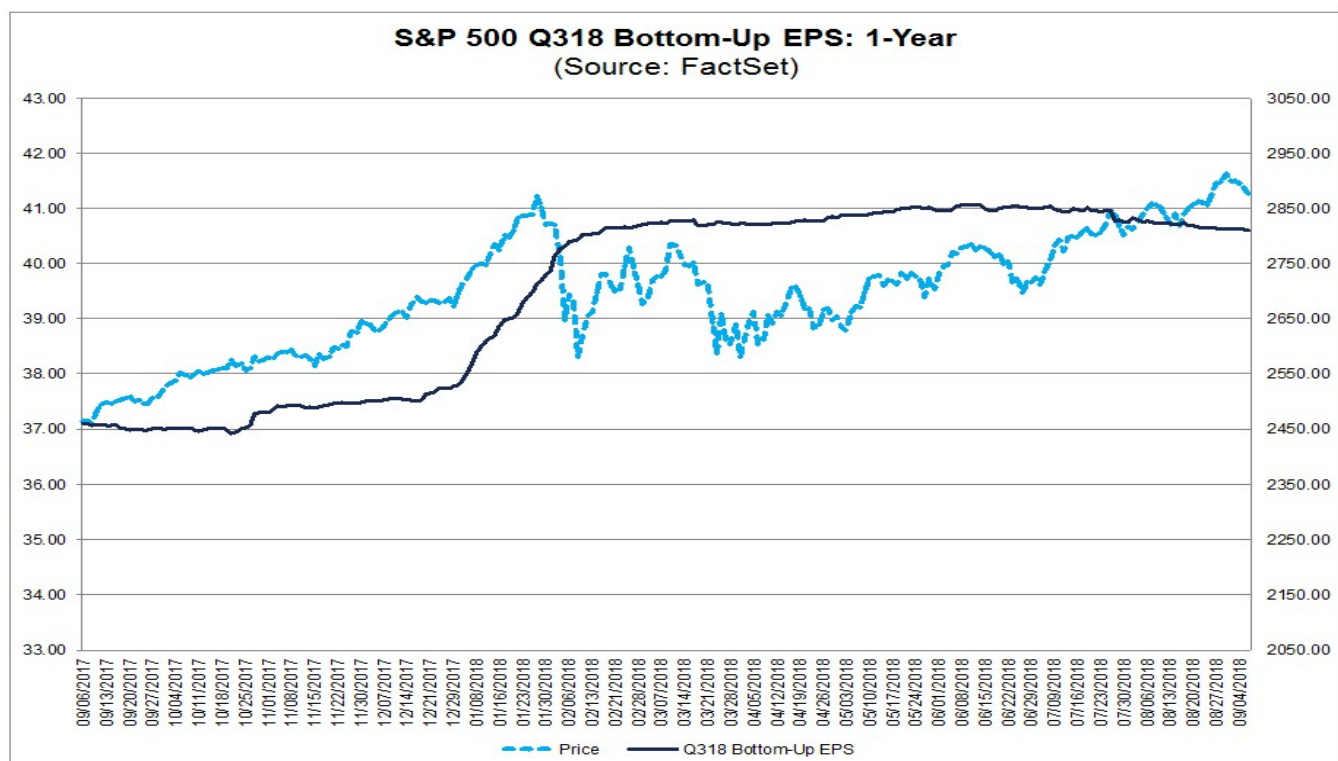
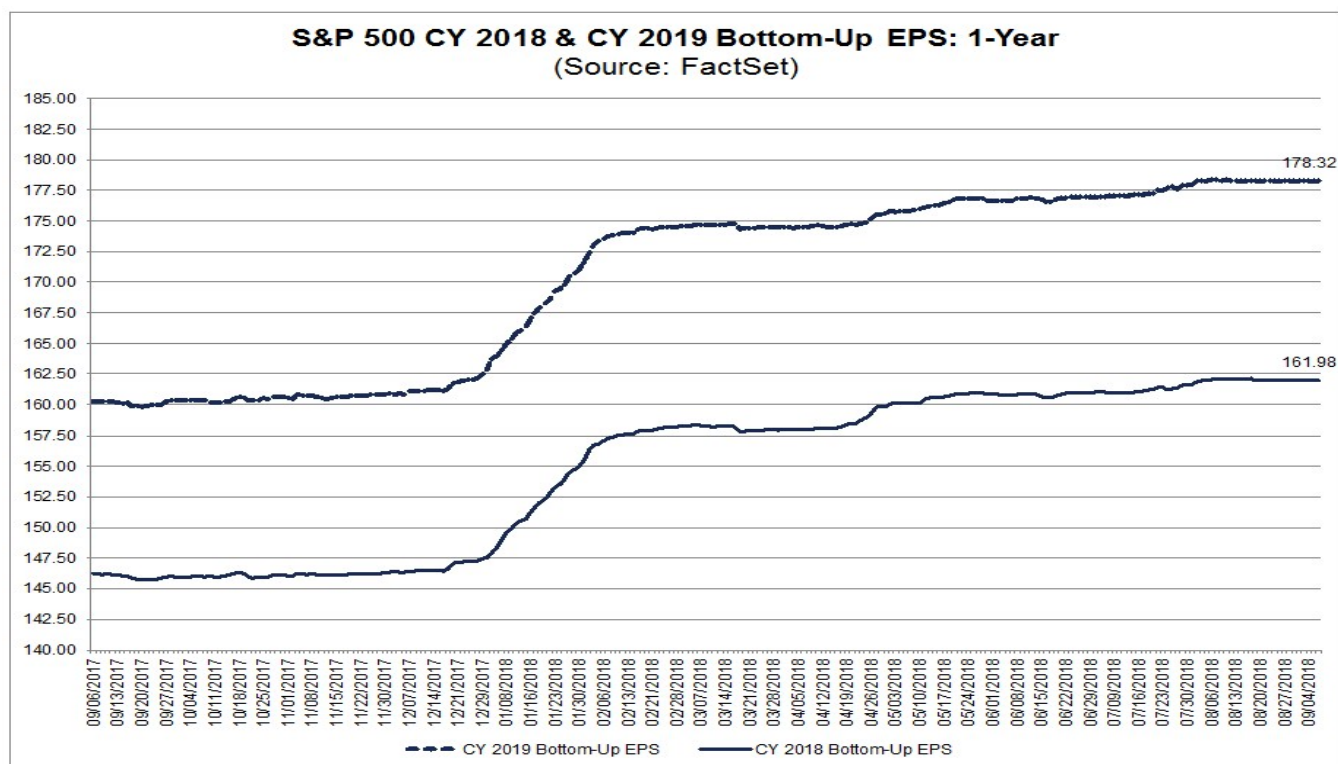
S&P 500: Aggregate Geographic Revenue Exposure (%)
(Source: FactSet)



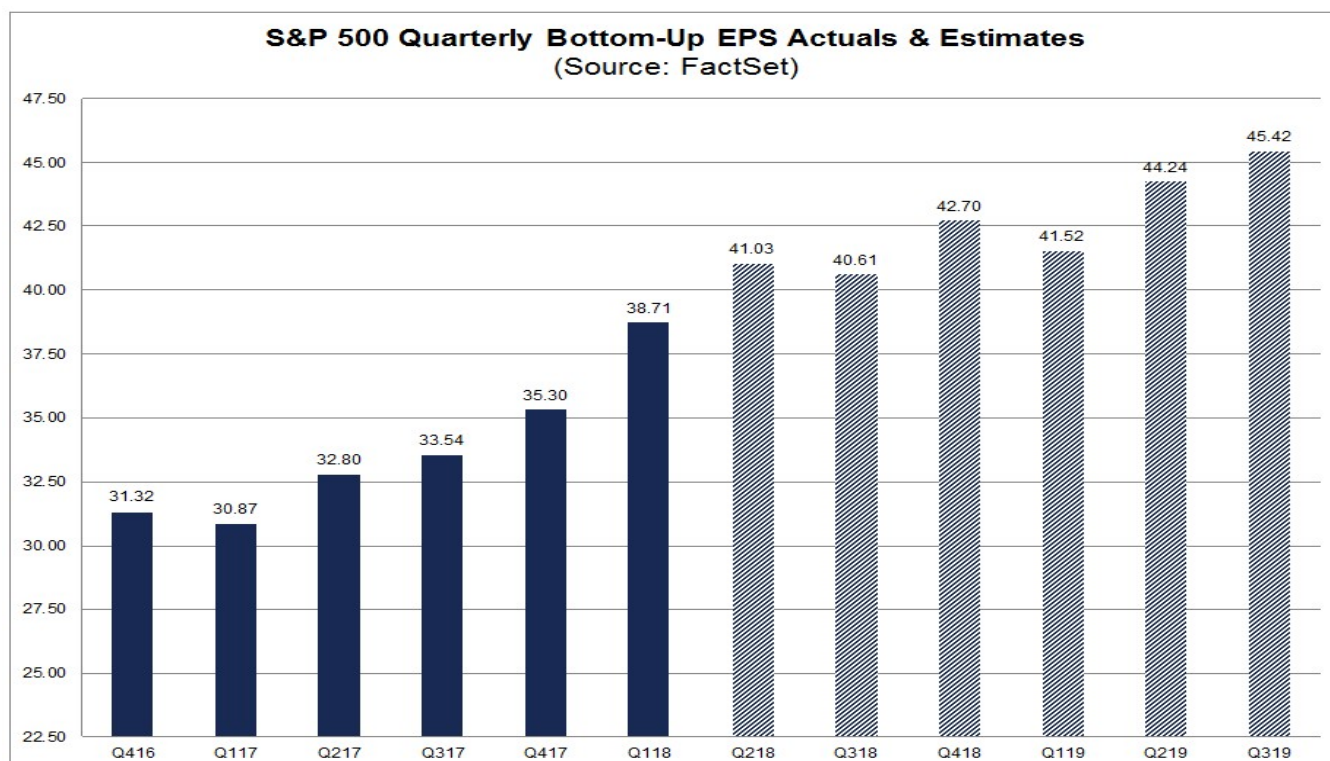
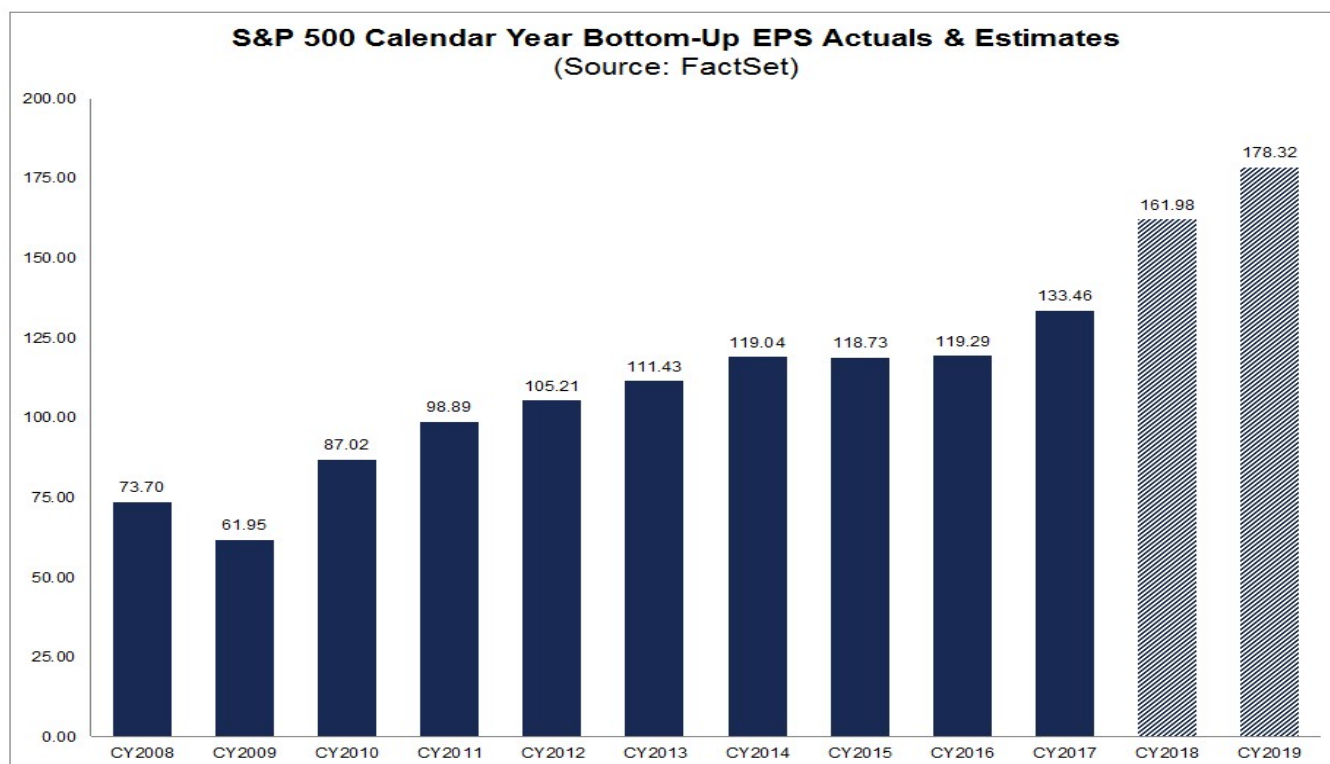
S&P 500: Aggregate Sector Geographic Revenue Exposure (%)
(Source: FactSet)



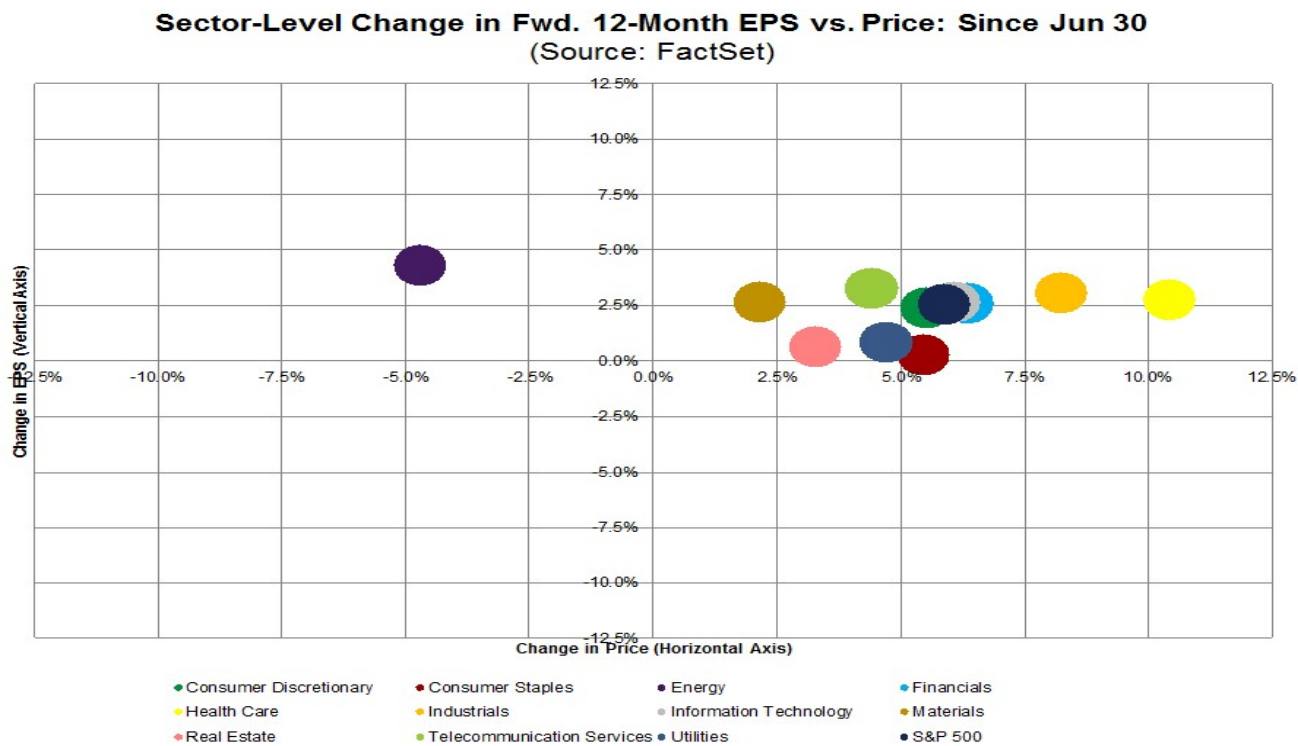
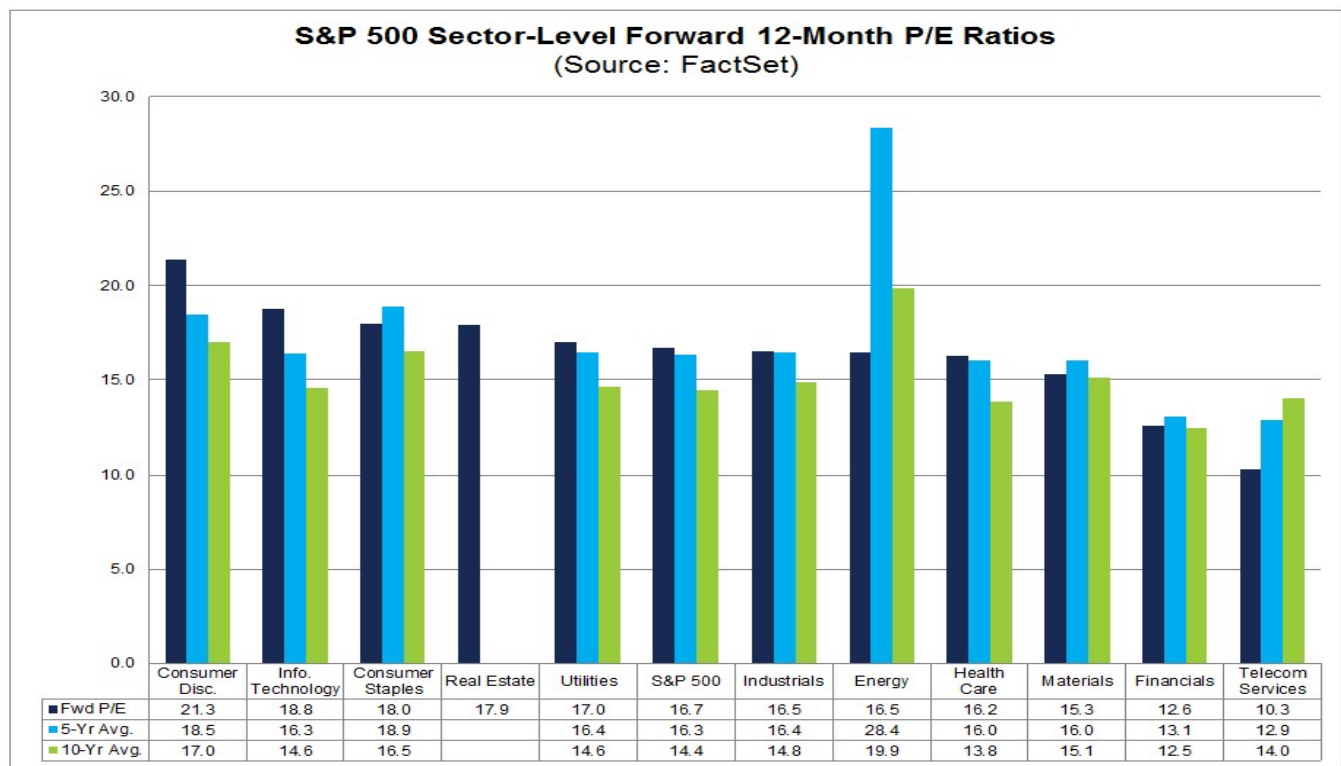
Bottom-up EPS Estimates: Revisions



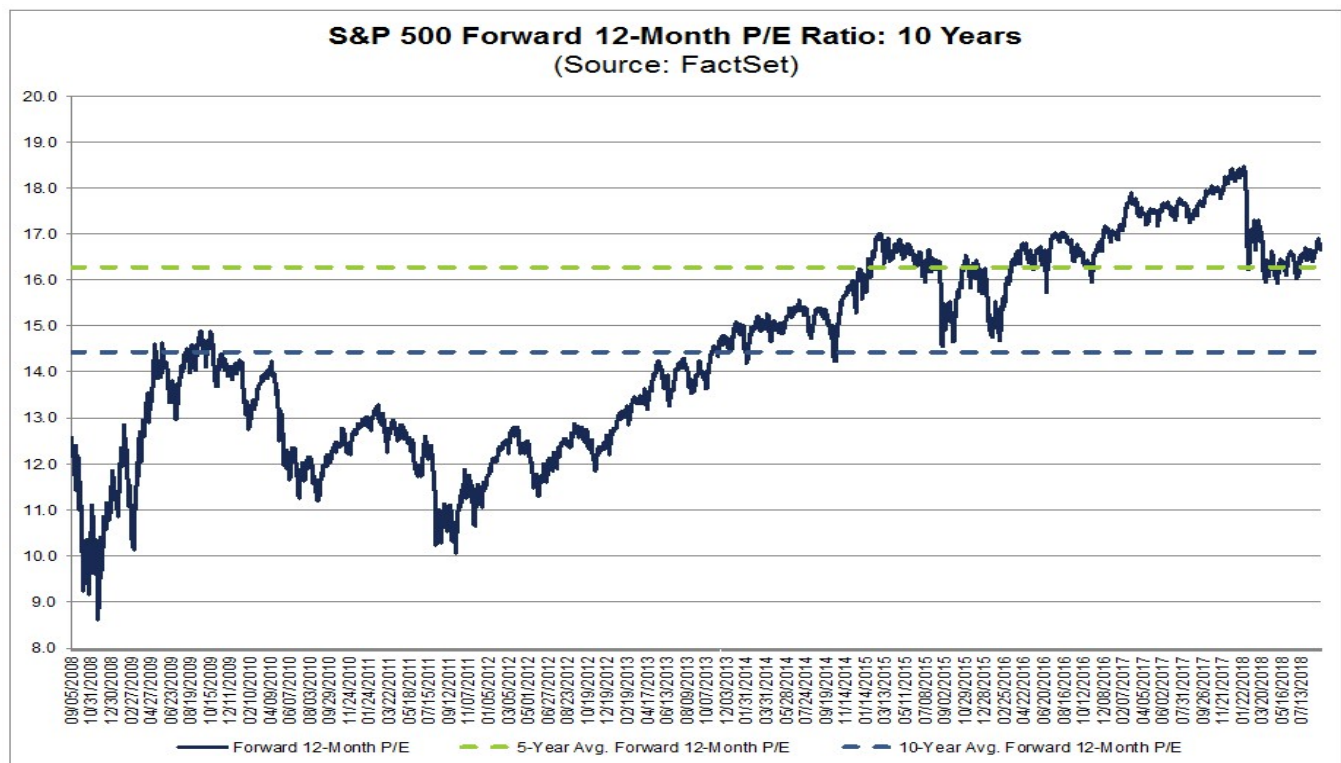
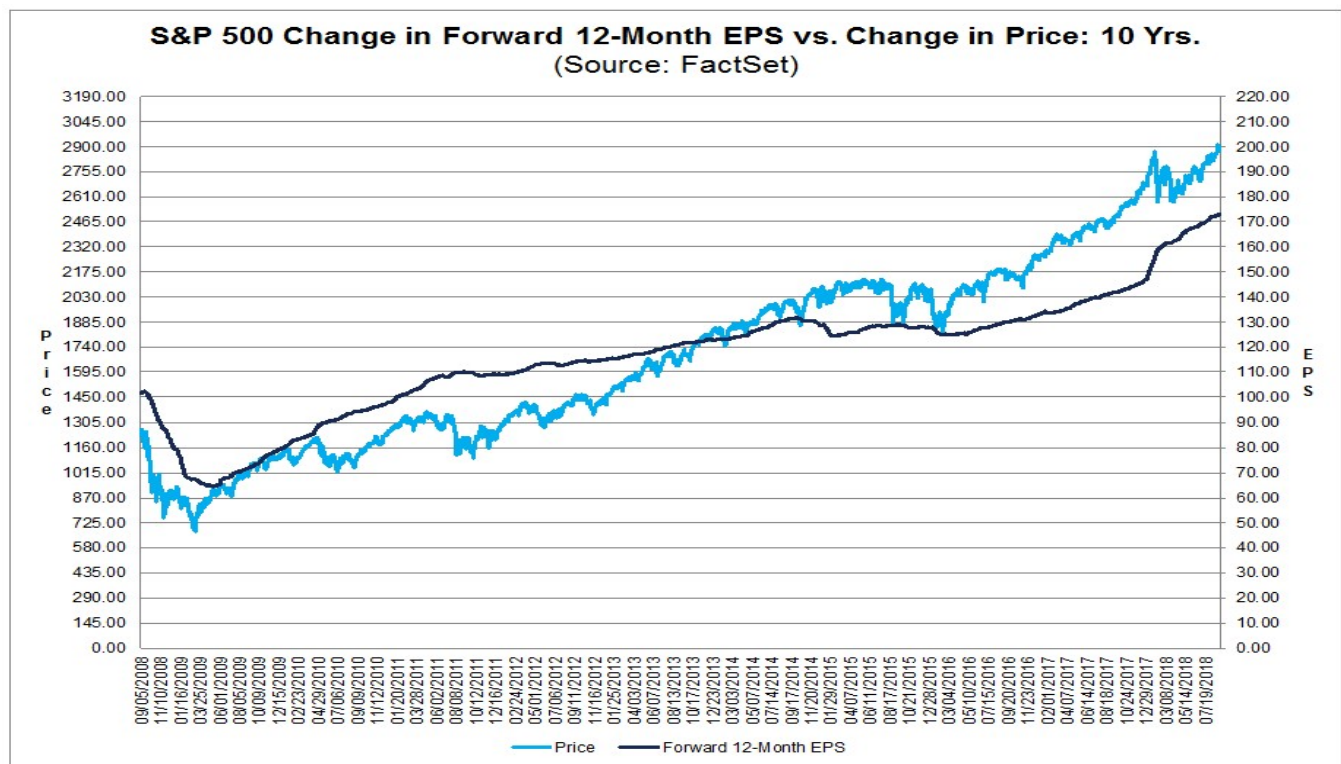
Bottom-up EPS Estimates: Current & Historical



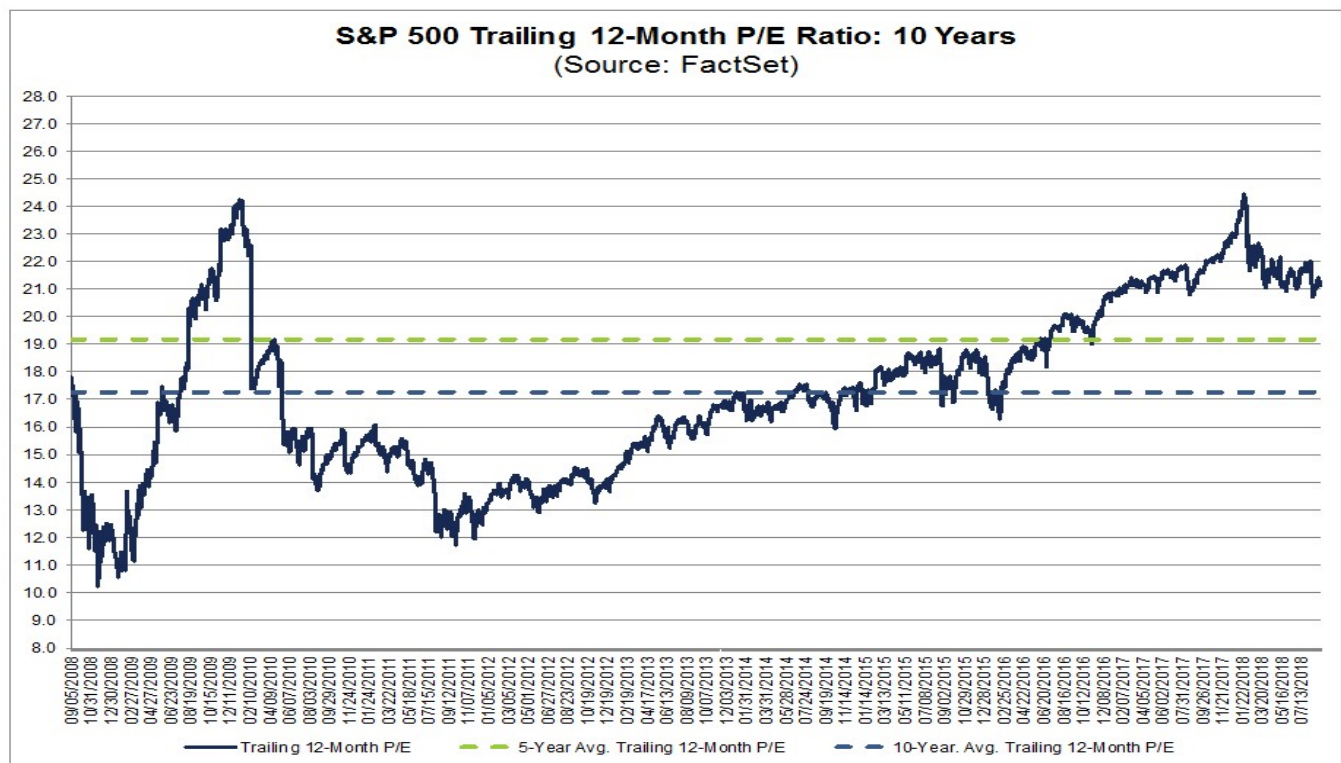
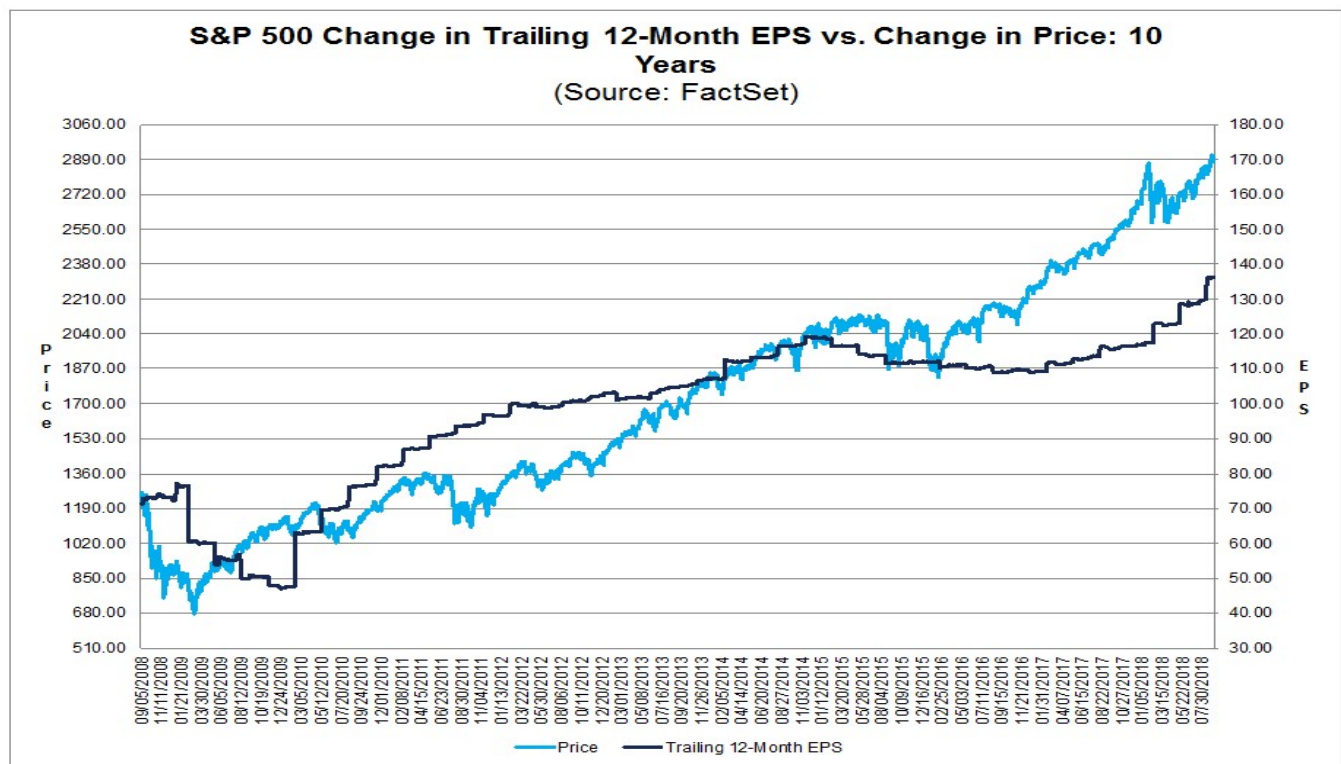
Forward 12M P/E Ratio: Sector Level



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



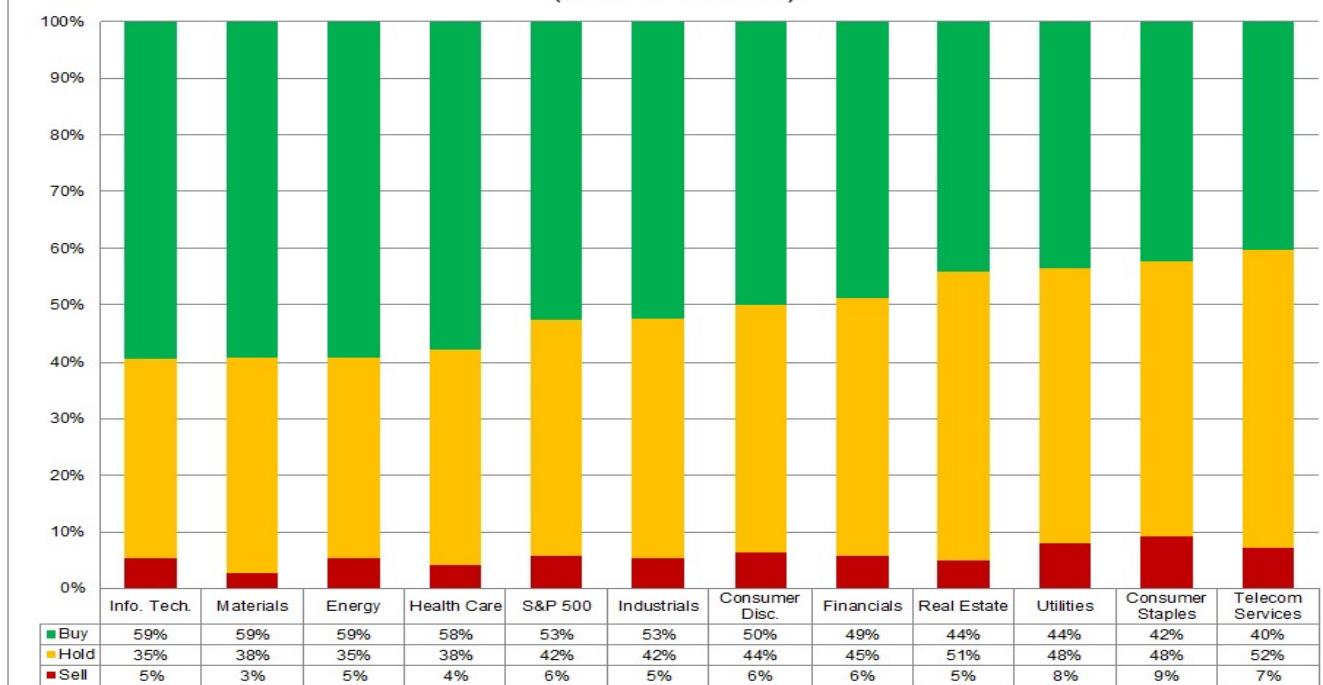
Trailing 12M P/E Ratio: Long-Term Averages



Targets & Ratings

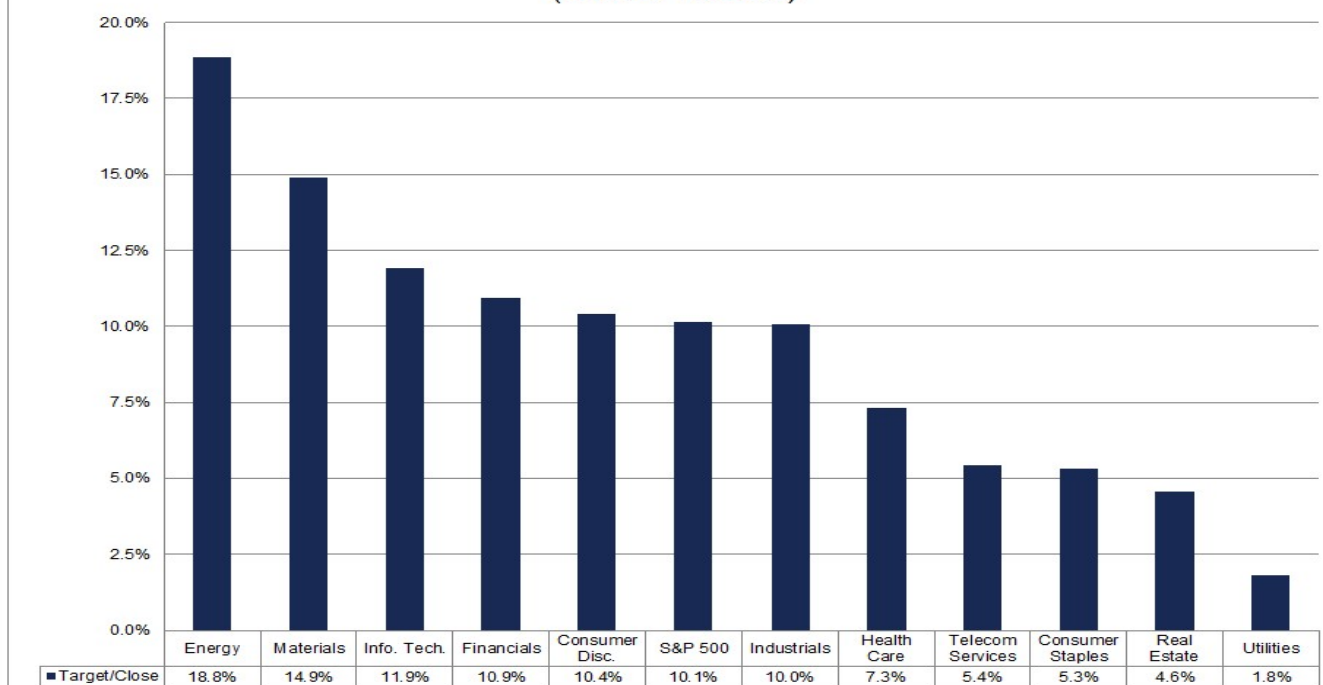
S&P 500: Percentage of Buy, Hold, and Sell Ratings

(Source: FactSet)



S&P 500 Sector-Level Bottom-Up Target Price vs. Closing Price

(Source: FactSet)



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