

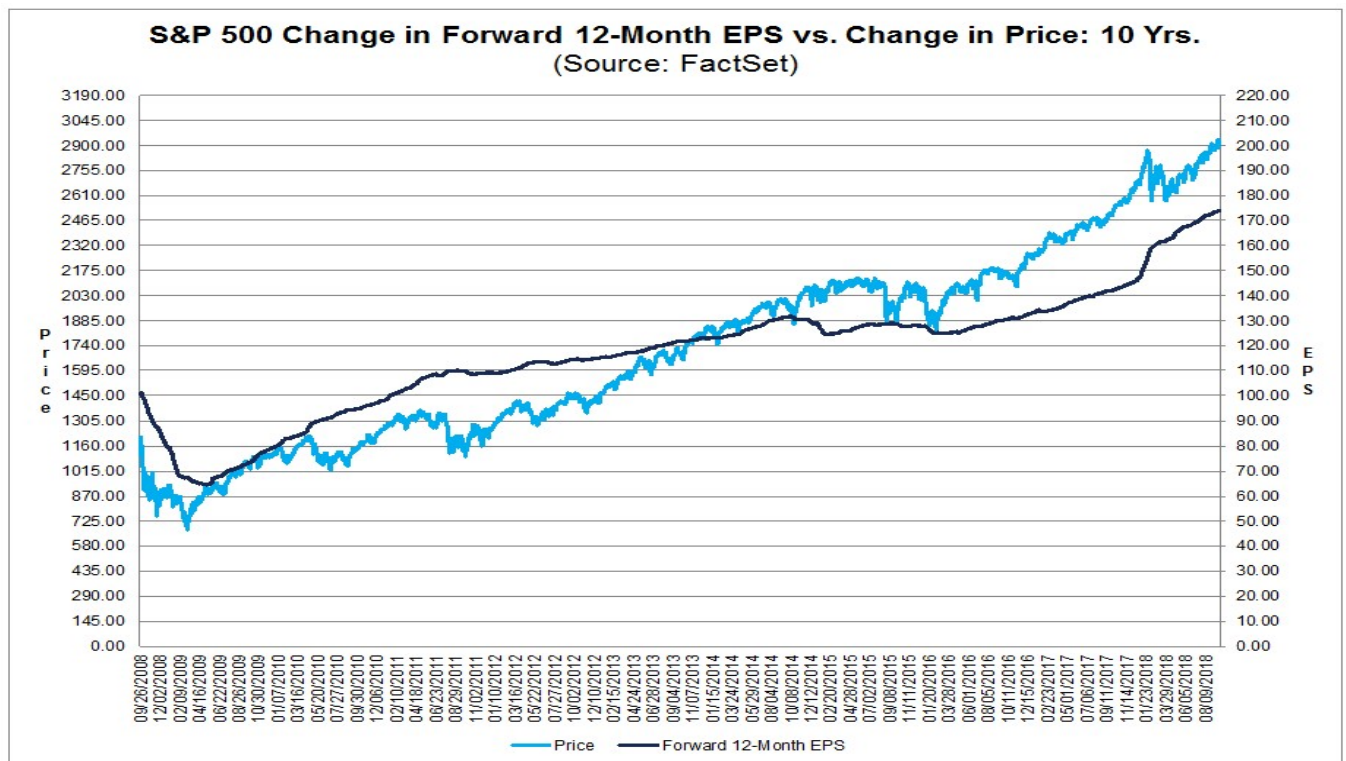
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Key Metrics

- **Earnings Growth:** For Q3 2018, the estimated earnings growth rate for the S&P 500 is 19.3%. If 19.3% is the actual growth rate for the quarter, it will mark the third highest earnings growth since Q1 2011 (19.5%).
- **Earnings Revisions:** On June 30, the estimated earnings growth rate for Q3 2018 was 20.4%. Nine sectors have lower growth rates today (compared to June 30) due to downward revisions to earnings estimates.
- **Earnings Guidance:** For Q3 2018, 74 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 16.8. This P/E ratio is above the 5-year average (16.3) and above the 10-year average (14.5).
- **Earnings Scorecard:** For Q3 2018 (with 16 companies in the S&P 500 reporting actual results for the quarter), 14 S&P 500 companies have reported a positive EPS surprise and 10 have reported a positive sales surprise.



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Topic of the Week: 1

Where Are Analysts Most Optimistic on Ratings for S&P 500 Companies For Q3?

With the end of the third quarter today, where are analysts most optimistic and pessimistic in terms of their ratings on stocks in the S&P 500? How have their views changed during the quarter?

Overall, there are 10,929 ratings on stocks in the S&P 500. Of these 10,929 ratings, 52.6% are Buy ratings, 41.7% are Hold ratings, and 5.7% are Sell ratings.

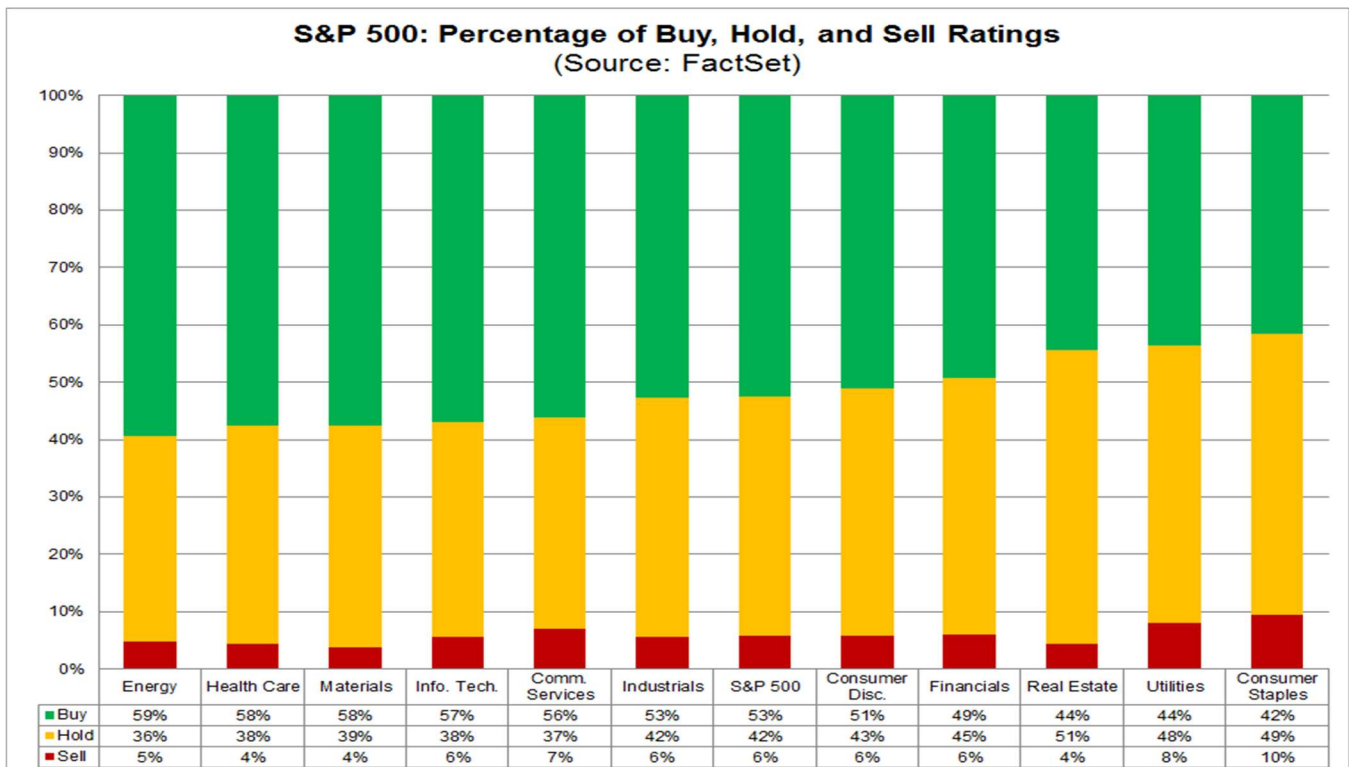
Since June 30, the total number of ratings on S&P 500 companies has increased by 0.3% (to 10,929 from 10,902). The number of Buy ratings has decreased by 1.1% (to 5747 from 5809). The number of Hold ratings has increased by 0.9% (to 4554 from 4514). The number of Sell ratings has increased by 8.7% (to 628 from 578).

At the sector level, analysts are most optimistic on the Energy (59%), Health Care (58%), and Materials (58%) sectors, as these sectors have the highest percentages of Buy ratings.

On the other hand, analysts are most pessimistic about the Consumer Staples (42%), Utilities (44%), and Real Estate (44%) sectors, as these sectors have the lowest percentages of Buy ratings. The Consumer Staples sector also has the highest percentage of Sell ratings (10%).

In the newly formed Communication Services sector, 56% of the ratings on companies in this sector are Buy ratings, which is the fifth highest percentage in the index. Within this sector, Alphabet (GOOGL & GOOG) has the highest percentage of Buy ratings at 91%. However, 7% of the ratings on companies in this sector are Sell ratings, which is the third highest percentage in the index. Within the sector, News Corp. (NWS) has the highest percentage of Sell ratings at 50%.

Overall for the S&P 500, the ten stocks with the highest percentages of Buy ratings and the highest percentages of Sell ratings are listed on the next page.



Highest Buy Ratings % in S&P 500: Top 10 (Source: FactSet)

Company	Buy	Hold	Sell	Total
Amazon.com, Inc.	96%	4%	0%	100%
UnitedHealth Group Incorporated	92%	4%	4%	100%
Alphabet Inc. Class A	91%	9%	0%	100%
Alphabet Inc. Class C	91%	9%	0%	100%
salesforce.com, inc.	90%	10%	0%	100%
Mastercard Incorporated Class A	90%	8%	3%	100%
Alexion Pharmaceuticals, Inc.	90%	10%	0%	100%
Visa Inc. Class A	90%	8%	3%	100%
Delta Air Lines, Inc.	89%	11%	0%	100%
Equinix, Inc.	89%	11%	0%	100%

Highest Sell Ratings % in S&P 500: Top 10 (Source: FactSet)

Company	Buy	Hold	Sell	Total
Campbell Soup Company	17%	33%	50%	100%
VeriSign, Inc.	0%	50%	50%	100%
News Corporation Class B	0%	50%	50%	100%
Torchmark Corporation	9%	45%	45%	100%
Consolidated Edison, Inc.	6%	50%	44%	100%
Public Storage	6%	53%	41%	100%
Southern Company	19%	43%	38%	100%
Varian Medical Systems, Inc.	27%	36%	36%	100%
Franklin Resources, Inc.	0%	67%	33%	100%
Apache Corporation	25%	43%	32%	100%

Topic of the Week: 2

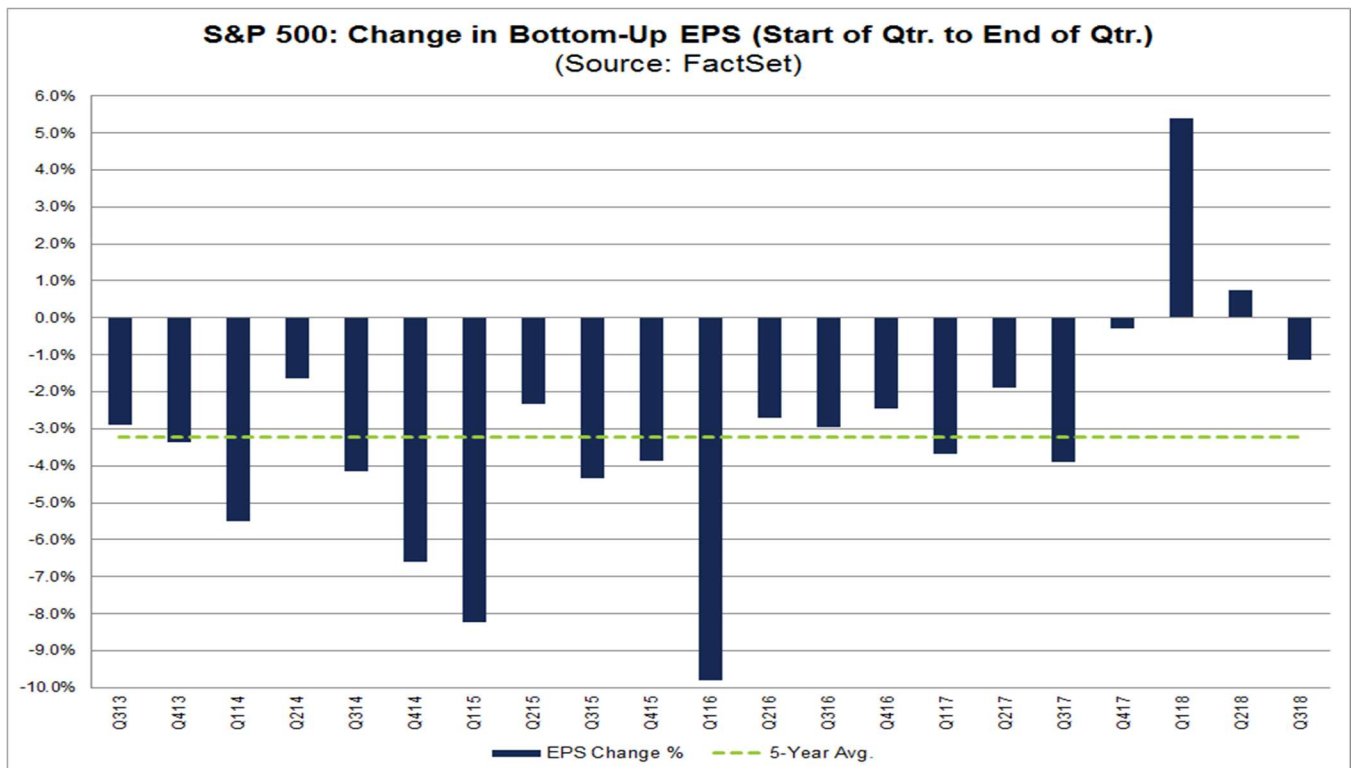
Analysts Made Smaller Cuts than Normal to EPS Estimates for S&P 500 Companies For Q3

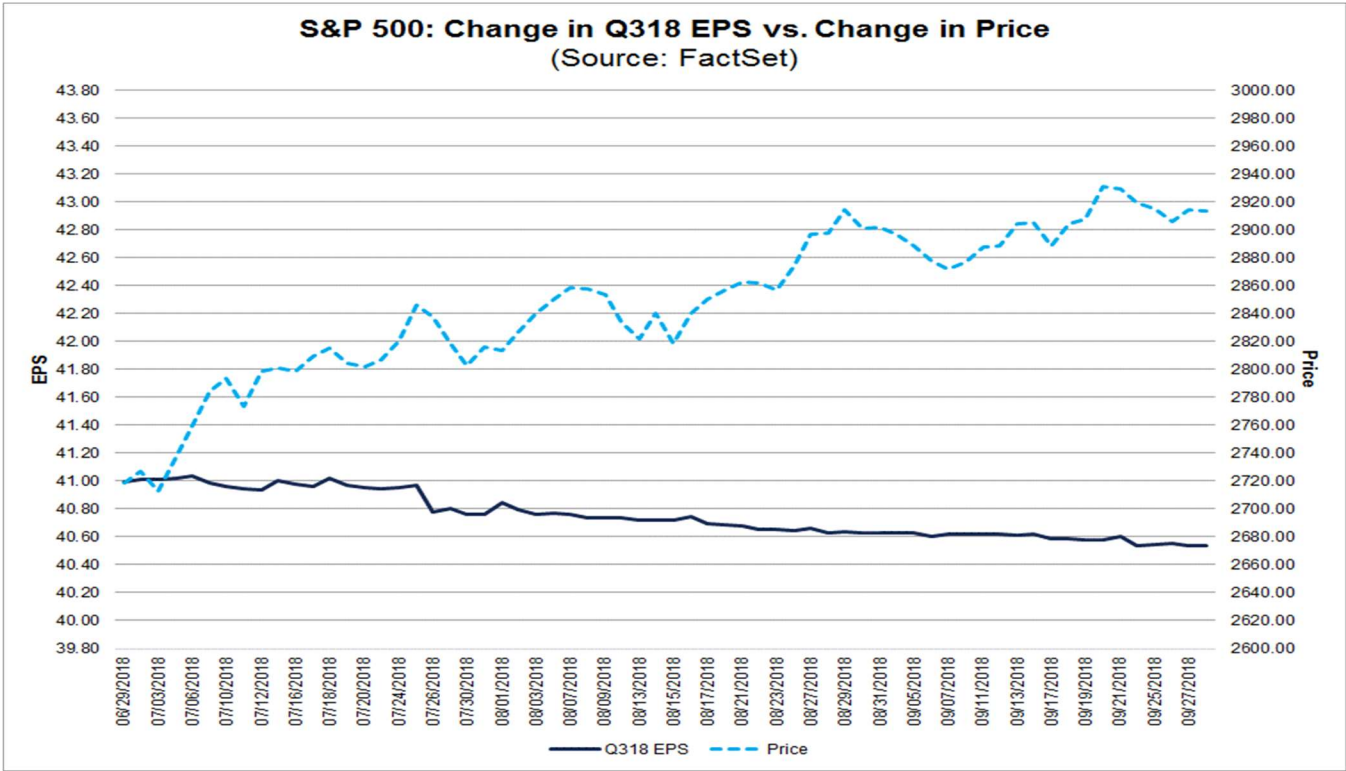
During the third quarter, analysts lowered earnings estimates for companies in the S&P 500 for the quarter. The Q3 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for all the companies in the index) dropped by 1.1% (to \$40.54 from \$41.00) during this period. How significant is a 1.1% 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 4.8%. During the past fifteen years, (60 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 3.9%. Thus, the decline in the bottom-up EPS estimate recorded during the third quarter was smaller than the 5-year, 10-year, and 15-year averages.

Excluding the three sectors (Communication Services, Consumer Discretionary, and Information Technology) impacted by the recent company and sector reclassifications in the index (as the bottom-up EPS estimates for these three sectors on June 30 reflect the previous sector classifications), seven of eight sectors recorded a decline in their bottom-up EPS estimate during the quarter, led by the Energy (-4.4%) and Consumer Staples (-4.0%) sectors. On the other hand, the Financials (+0.2%) sector is the only sector that recorded an increase in its bottom-up EPS estimate during this period. Overall (again excluding the three sectors previously mentioned), five sectors recorded a smaller decrease (or an increase) in their bottom-up EPS estimate relative to their 5-year and 10-year averages for the quarter, while four sectors recorded a smaller decrease (or an increase) in their bottom-up EPS estimate relative to their 15-year averages for the quarter.

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 June 30 through September 28, the value of the index increased by 7.2% (to 2913.98 from 2718.37). The third quarter marked the 16th time in the past 20 quarters in which the bottom-up EPS estimate decreased during the quarter while the value of the index increased over this same period.





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 1.1% since June 30. This percentage decline is smaller than the 5-year average (-3.2%), 10-year average (-4.8%), and 15-year average (-3.9%) for 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 98 companies that have issued EPS guidance for the third quarter, 74 have issued negative EPS guidance and 24 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 76% (74 out of 98), which is above the 5-year average of 71%.

Because of the aggregate downward revisions to earnings estimates, the estimated year-over-year earnings growth rate for Q3 2018 has decreased from 20.4% on June 30 to 19.3% today. All eleven sectors are predicted to report year-over-year earnings growth for the quarter. Seven sectors are projected to report double-digit growth in earnings, led by the Energy, Financials, and Materials sectors.

Because of the aggregate downward revisions to revenue estimates, the estimated year-over-year revenue growth rate for Q3 2018 has decreased from 7.4% on June 30 to 6.9% today. Ten of the eleven sectors are projected to report year-over-year growth in revenues. Three sectors are predicted to report double-digit growth in revenue: Energy, Communication Services, and Real Estate.

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 16.8, which is above the 5-year average and above the 10-year average.

During the upcoming week, five S&P 500 companies are 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 Q3 This Week

The estimated earnings growth rate for the third quarter is 19.3% this week, which is equal to the estimated earnings growth rate of 19.3% last week.

Overall, the estimated earnings growth rate for Q3 2018 of 19.3% today is below the estimated earnings growth rate of 20.4% at the start of the quarter (June 30). Nine sectors have recorded a decrease in expected earnings growth due to downward revisions to earnings estimates, led by the Energy and Consumer Staples sectors. On the other hand, two 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 Information Technology sector.

Energy: Exxon Mobil Leads Decrease in Expected Earnings

The Energy sector has recorded the largest decrease in expected earnings growth since the start of the quarter (to 94.3% from 101.1%). Overall, 17 of the 31 companies (55%) in this sector have seen a decrease in their mean EPS estimate during this time. Of these 17 companies, 8 have recorded a decrease in their mean EPS estimate of more than 10%, led by Halliburton (to \$0.51 from \$0.70), Noble Energy (to \$0.19 from \$0.26), and Valero Energy (to \$1.94 from \$2.35). However, the decrease in the mean EPS estimates for Exxon Mobil (to \$1.28 from \$1.35), Valero Energy, Halliburton, and Chevron (to \$2.12 from \$2.20) have been the largest contributors to the decrease in expected earnings for the Energy sector since June 30.

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 5.2% from 9.7%). Overall, 25 of the 32 companies (78%) in this sector have seen a decrease in their mean EPS estimate during this time. Of these 25 companies, 5 have recorded a decrease in their mean EPS estimate

of more than 10%, led by Coty (to \$0.07 from \$0.14) and Tyson Foods (to \$1.31 from \$1.88). However, the decrease in the mean EPS estimates for Philip Morris International (to \$1.28 from \$1.43) and Tyson Foods have been the largest contributors to the decrease in expected earnings for the Consumer Staples sector since June 30.

Consumer Discretionary: GM Leads 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 11.1% from 14.8%). Overall, 44 of the 64 companies (69%) in this sector have seen a decrease in their mean EPS estimate during this time. Of these 44 companies, 14 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 \$1.30 from \$1.63), Ford Motor (to \$0.31 from \$0.37), and Lowe's Companies (to \$1.02 from \$1.27) have been the largest contributors to the decrease in expected earnings for the Consumer Discretionary sector since June 30.

Information Technology: Apple Leads Increase in Expected Earnings

The Information Technology sector has recorded the largest increase in expected earnings growth since the start of the quarter (to 16.8% from 14.5%). Overall, 32 of the 65 companies (49%) in this sector have seen an increase in their mean EPS estimate during this time. Of these 32 companies, only 1 has recorded an increase in its mean EPS estimate of more than 10%: Synopsis (to \$0.78 from \$0.70). However, the increase in the mean EPS estimates for Apple (to \$2.77 from \$2.65), Intel (to \$1.15 from \$1.07), and Microsoft (to \$0.96 from \$0.92) have been the largest contributors to the increase in expected earnings for the Information Technology sector since June 30.

Index-Level (Bottom-Up) EPS Estimate: Smaller Decline Than Average

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 1.1% (to \$40.54 from \$41.00) since June 30. This percentage decline is smaller than the 5-year average (-3.2%), 10-year average (-4.8%), and 15-year average (-3.9%) for a quarter.

For more details, please see pages 4 and 5.

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, 98 companies in the index have issued EPS guidance for Q3 2018. Of these 98 companies, 74 have issued negative EPS guidance and 24 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 76% (74 out of 98), which is above the 5-year average of 71%.

Earnings Growth: 19.3%

The estimated (year-over-year) earnings growth rate for Q3 2018 is 19.3%. If 19.3% is the final growth rate for the quarter, it will mark the third highest earnings growth reported by the index since Q1 2011 (19.5%), trailing only the previous two quarters. 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, 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 94.3%. Higher oil prices are helping to drive the unusually high growth rate for the sector, as the average price of oil in Q3 2018 (\$69.37) to date is 44% 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 (3,507%), Integrated Oil & Gas (88%), Oil & Gas Storage & Transportation (59%), Oil & Gas Equipment & Services (25%), and Oil & Gas Refining & Marketing (7%).

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

The Financials sector is expected to report the second highest (year-over-year) earnings growth of all eleven sectors at 34.3%. At the industry level, all five industries in this sector are predicted to report double-digit growth in earnings: Insurance (159%), Diversified Financial Services (87%), Banks (21%), Consumer Finance (19%), and Capital Markets (12%). 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 21.8% from 34.3%.

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

The Materials sector is expected to report the third highest (year-over-year) earnings growth of all eleven sectors at 27.8%. At the industry level, all four industries in the sector are predicted to report double-digit earnings growth: Metals & Mining (59%), Construction Materials (44%), Containers & Packaging (31%), and Chemicals (20%).

Revenue Growth: 6.9%

The estimated (year-over-year) revenue growth rate for Q3 2018 is 6.9%. Ten of the eleven sectors are expected to report year-over-year growth in revenue. Three sectors are predicted to report double-digit growth in revenue: Energy, Communication Services, and Real Estate.

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 18.1%. 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 (19%), and Oil & Gas Refining & Marketing (19%).

Communication Services: Interactive Media & Services Industry Leads Growth

The Communication Services sector is expected to report the second highest (year-over-year) revenue growth of all eleven sectors at 13.1%. At the industry level, all four industries in this sector are predicted to report revenue growth. Two of these four industries are projected to report double-digit revenue growth: Interactive Media & Services (25%) and Diversified Telecommunication Services (11%).

Real Estate: CBRE Group Leads Growth

The Real Estate sector is expected to report the third 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%.

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 19.3% and revenue growth of 6.9%. 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 17.2% and revenue growth of 5.7%.

For CY 2018, analysts are projecting earnings growth of 20.3% and revenue growth of 7.6%.

For Q1 2019, analysts are projecting earnings growth of 7.1% and revenue growth of 6.3%.

For Q2 2019, analysts are projecting earnings growth of 7.4% and revenue growth of 4.6%.

For CY 2019, analysts are projecting earnings growth of 10.3% and revenue growth of 5.3%.

Valuation: Forward P/E Ratio is 16.8, above the 10-Year Average (14.5)

The forward 12-month P/E ratio is 16.8. This P/E ratio is above the 5-year average of 16.3, and above the 10-year average of 14.5. 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 7.2%, while the forward 12-month EPS estimate has increased by 2.9%.

At the sector level, the Consumer Discretionary (22.4) sector has the highest forward 12-month P/E ratio, while the Financials (12.4) and Materials (15.1) sectors have the lowest forward 12-month P/E ratios.

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

The bottom-up target price for the S&P 500 is 3198.38, which is 9.8% above the closing price of 2914.00. At the sector level, the Materials (+15.7%) 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 Health Care (+5.2%) and Consumer Staples (+6.6%) 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.

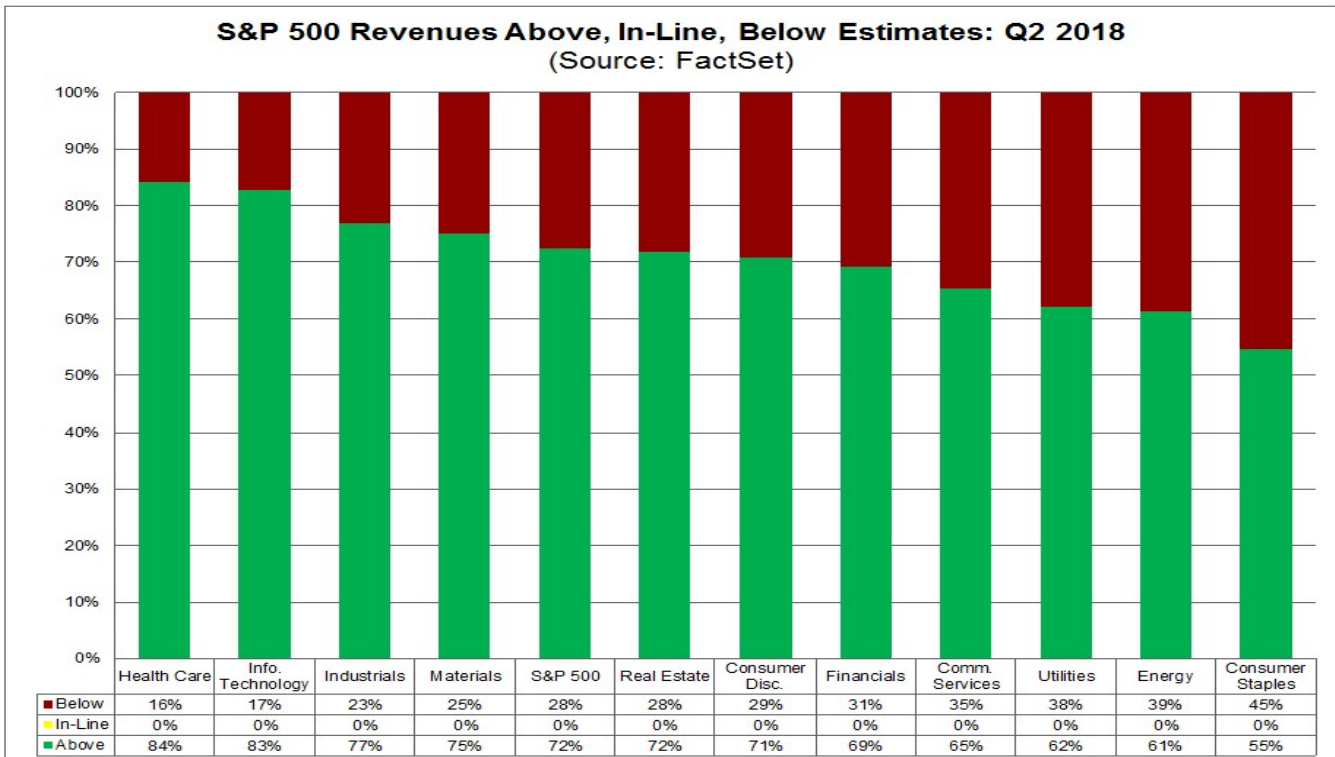
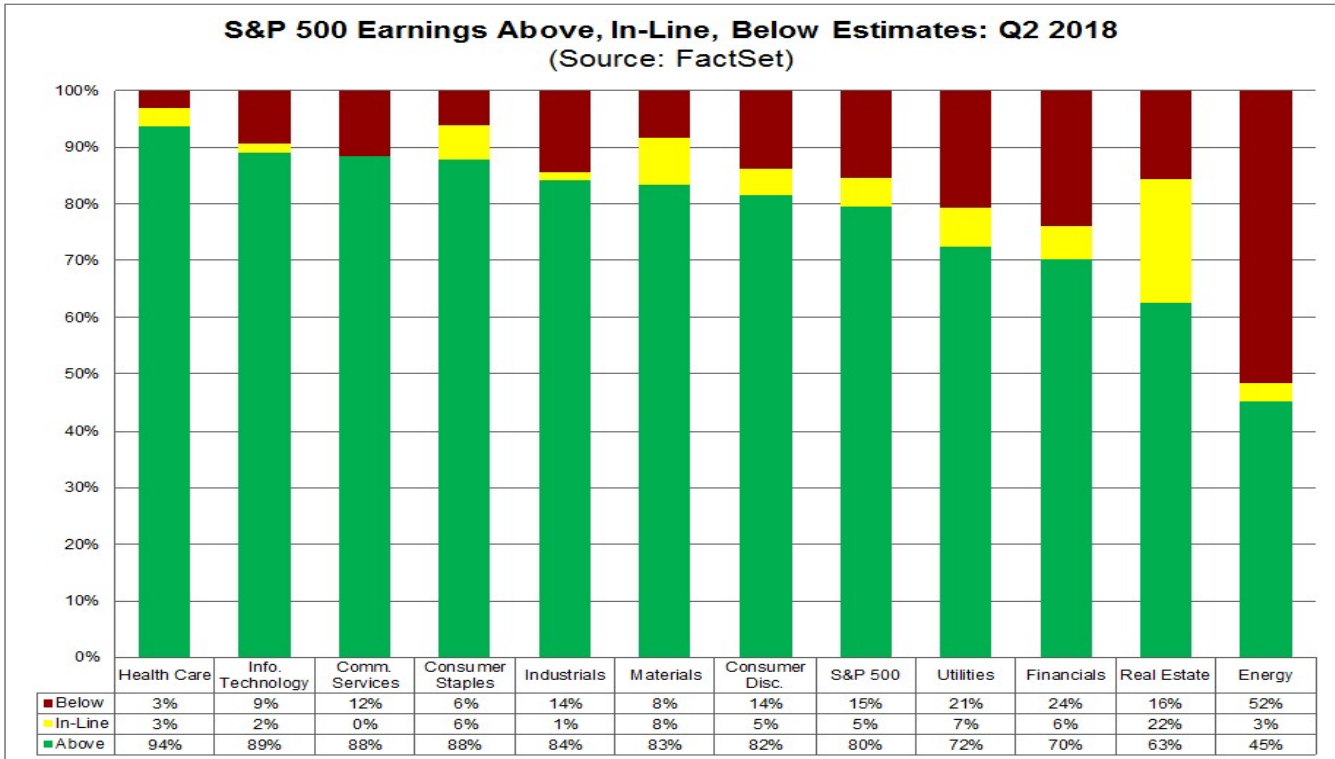
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For more details, please see pages 2 and 3.

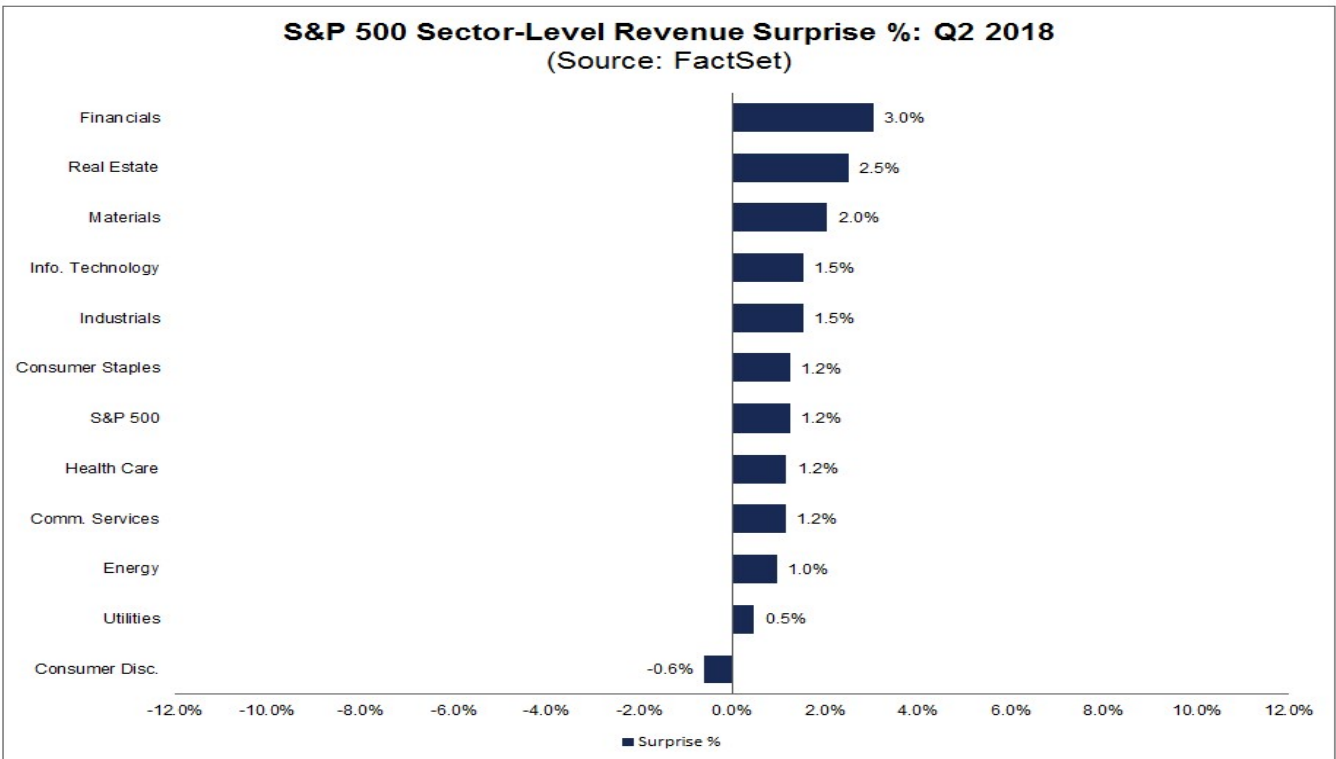
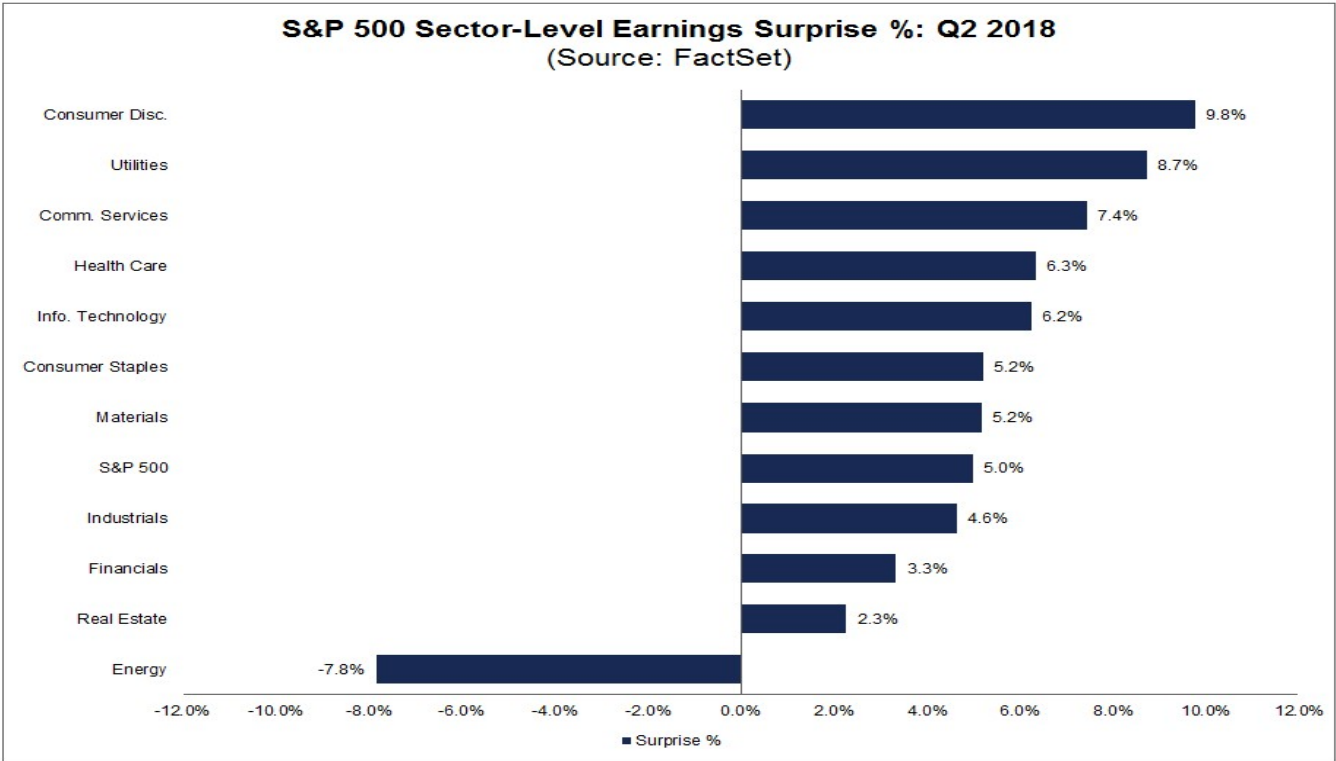
Companies Reporting Next Week: 5

During the upcoming week, five S&P 500 companies are scheduled to report results for the third quarter.

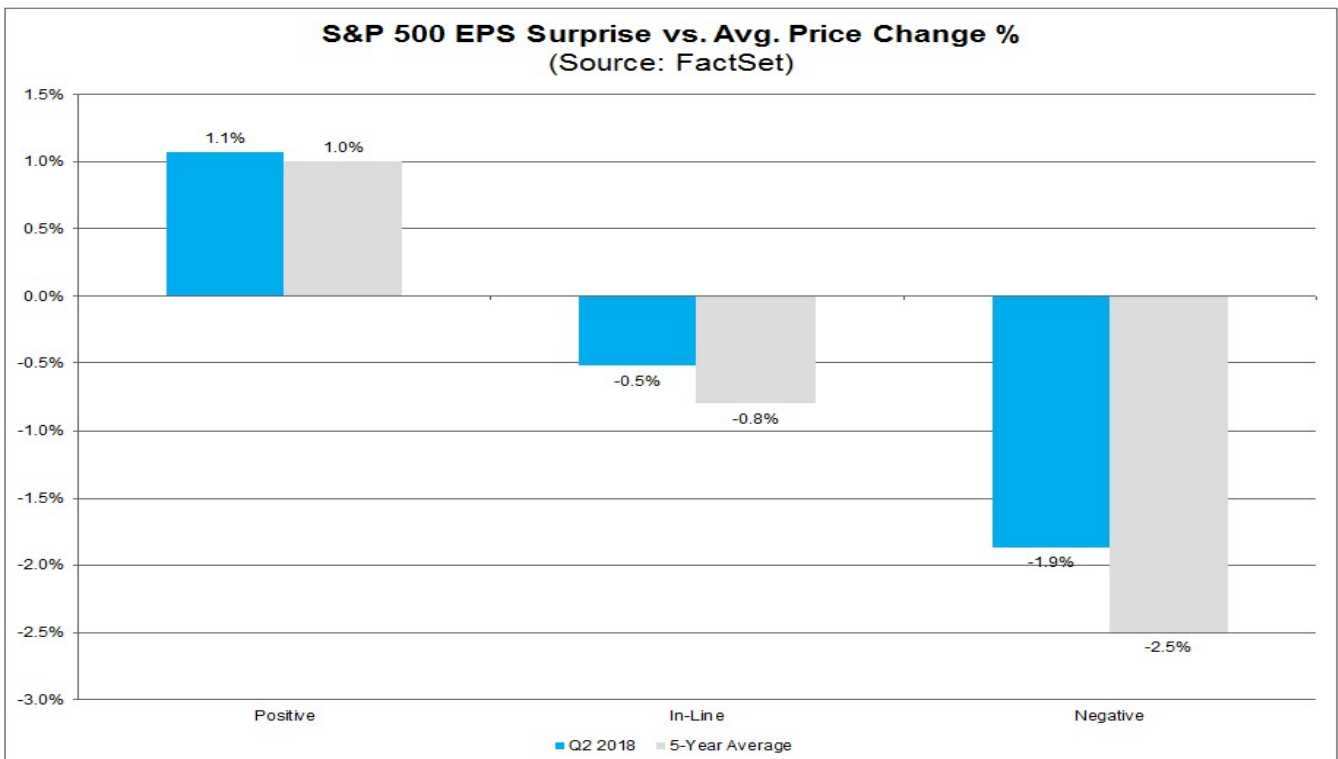
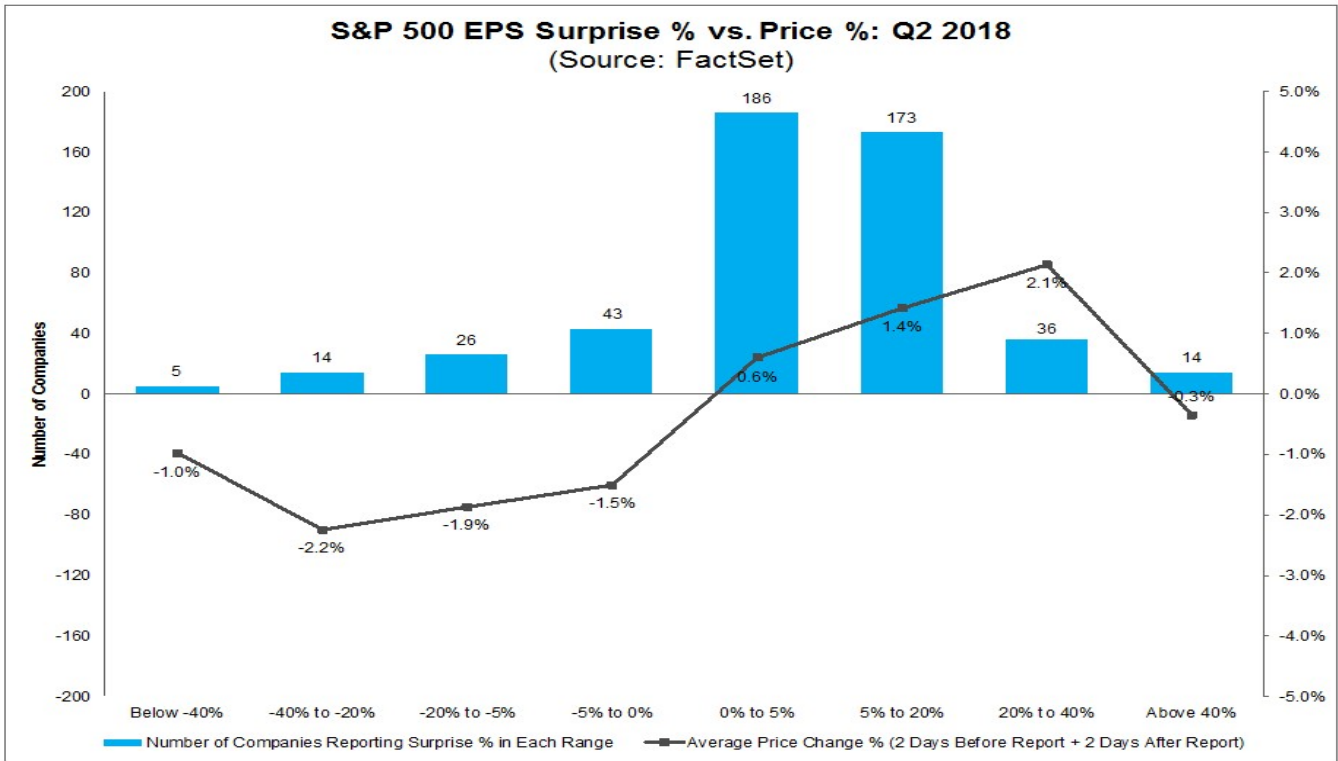
Q2 2018: Scorecard



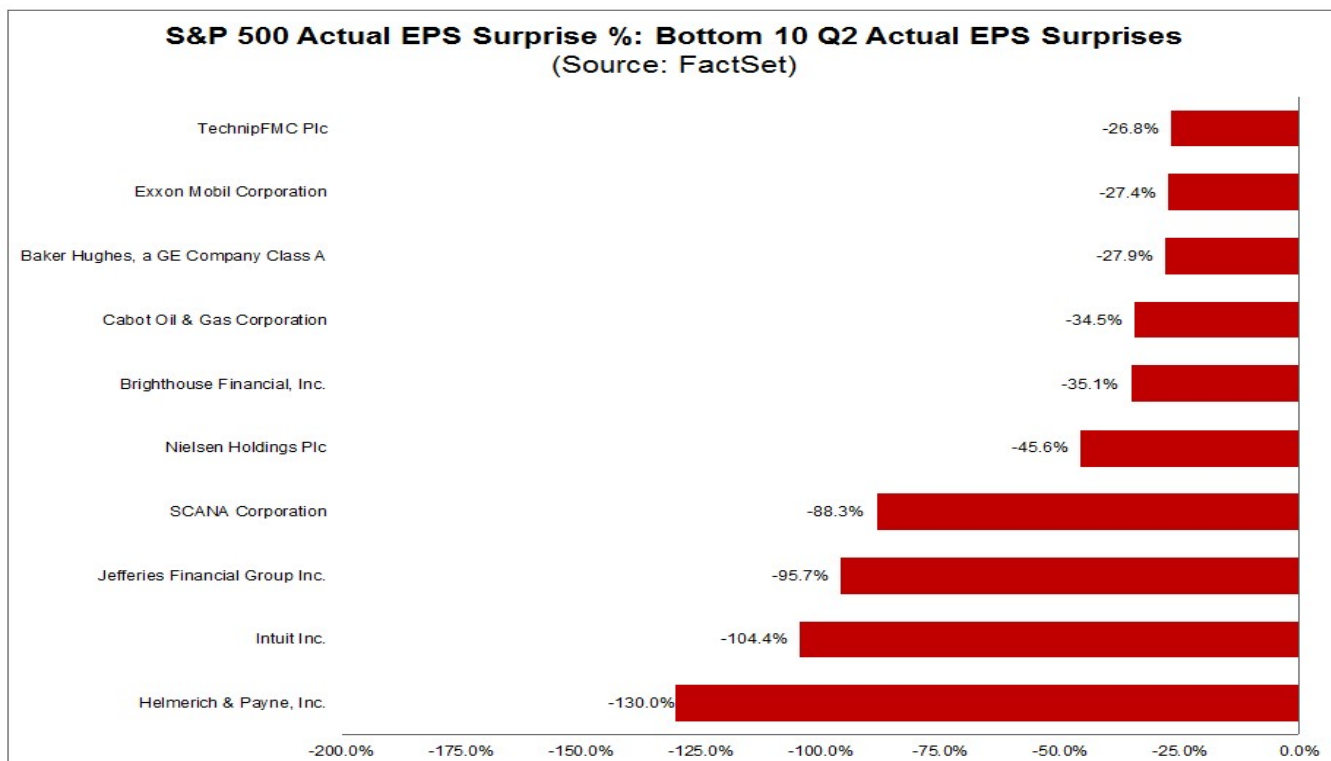
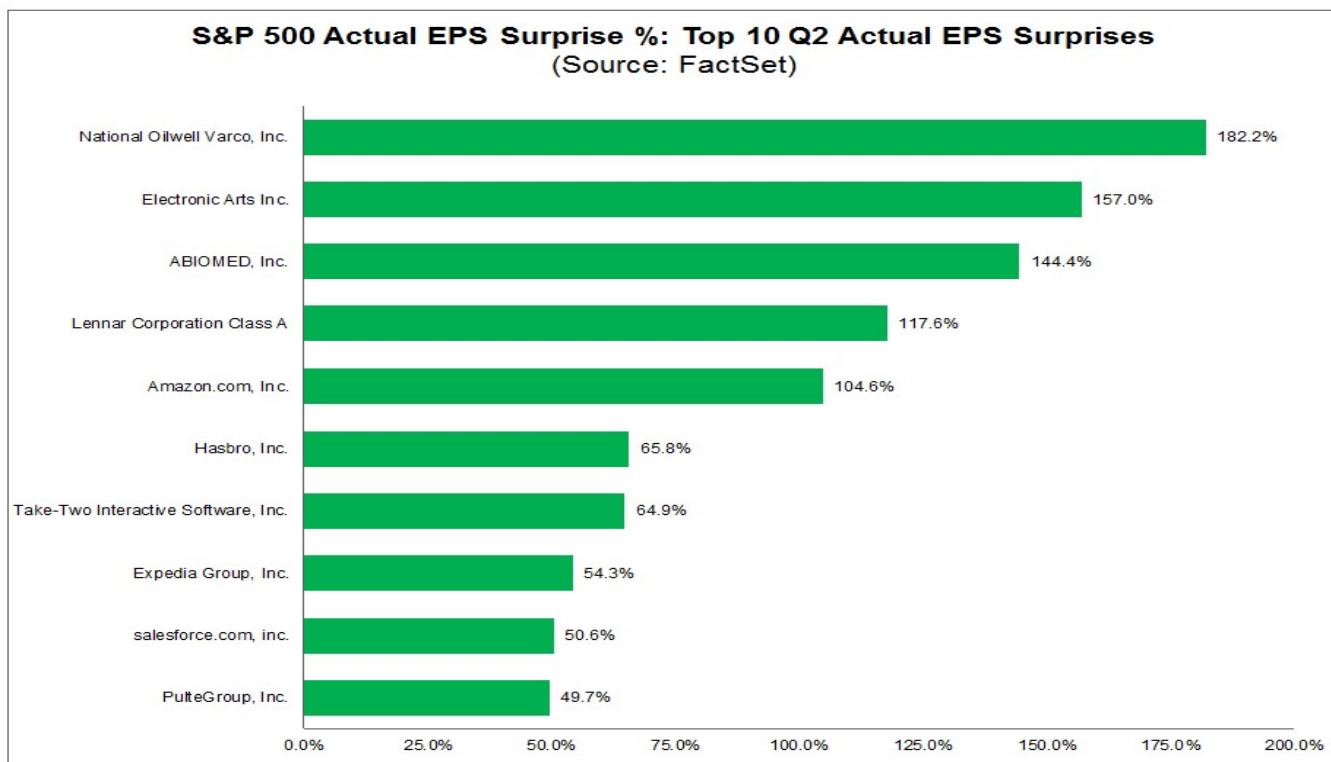
Q2 2018: Scorecard



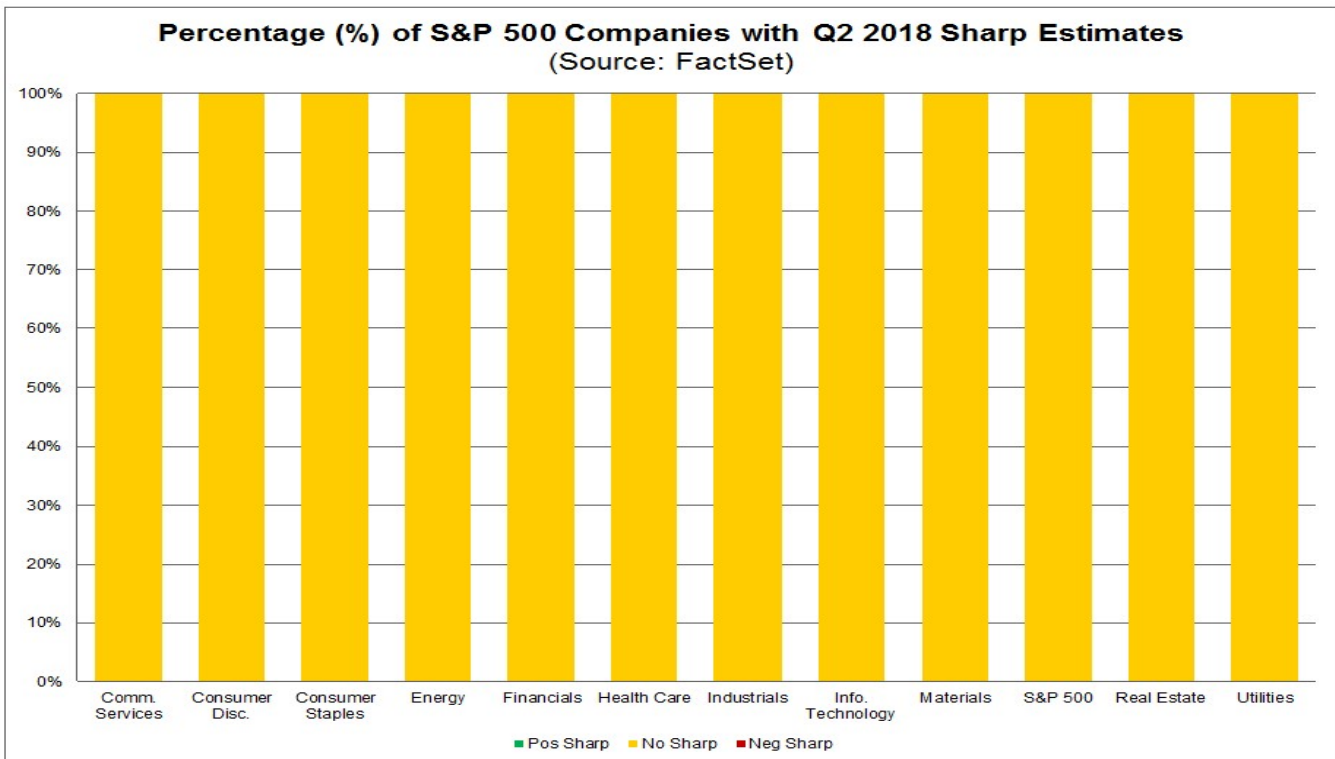
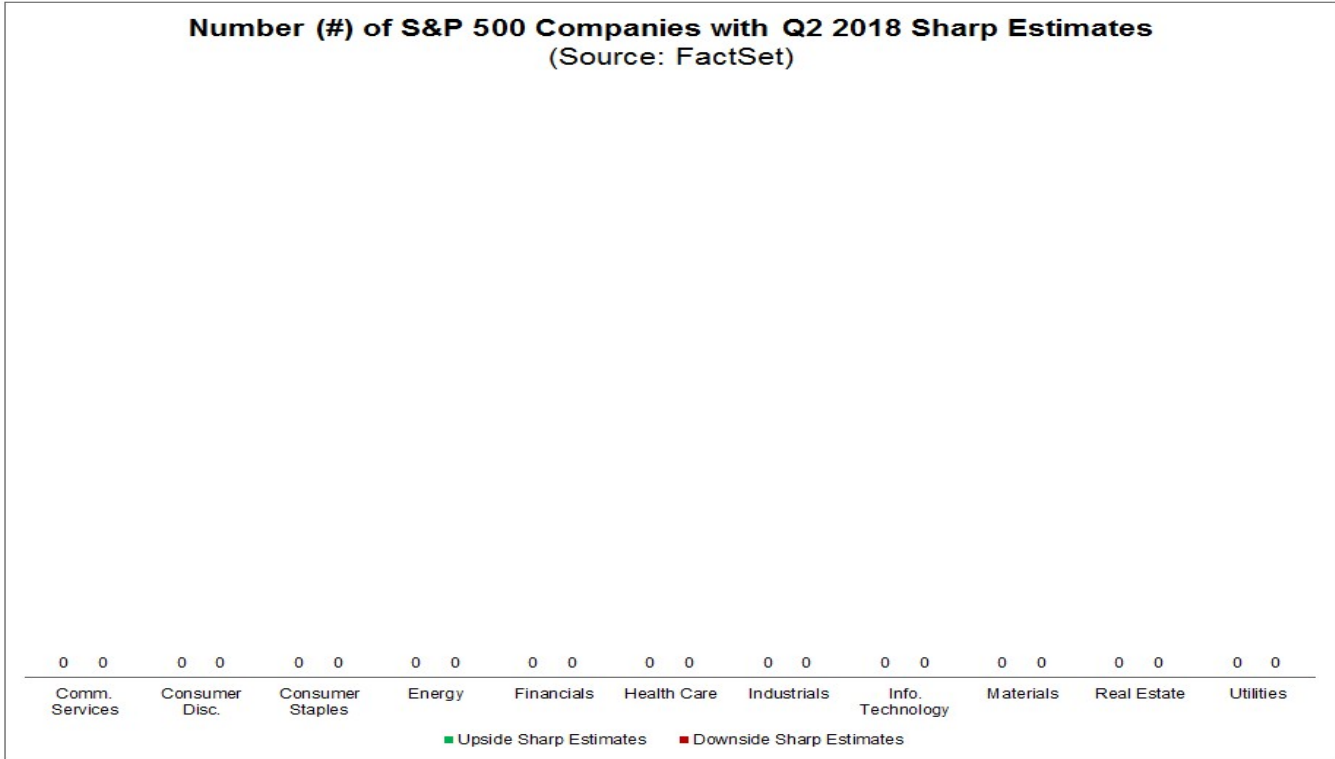
Q2 2018: Scorecard



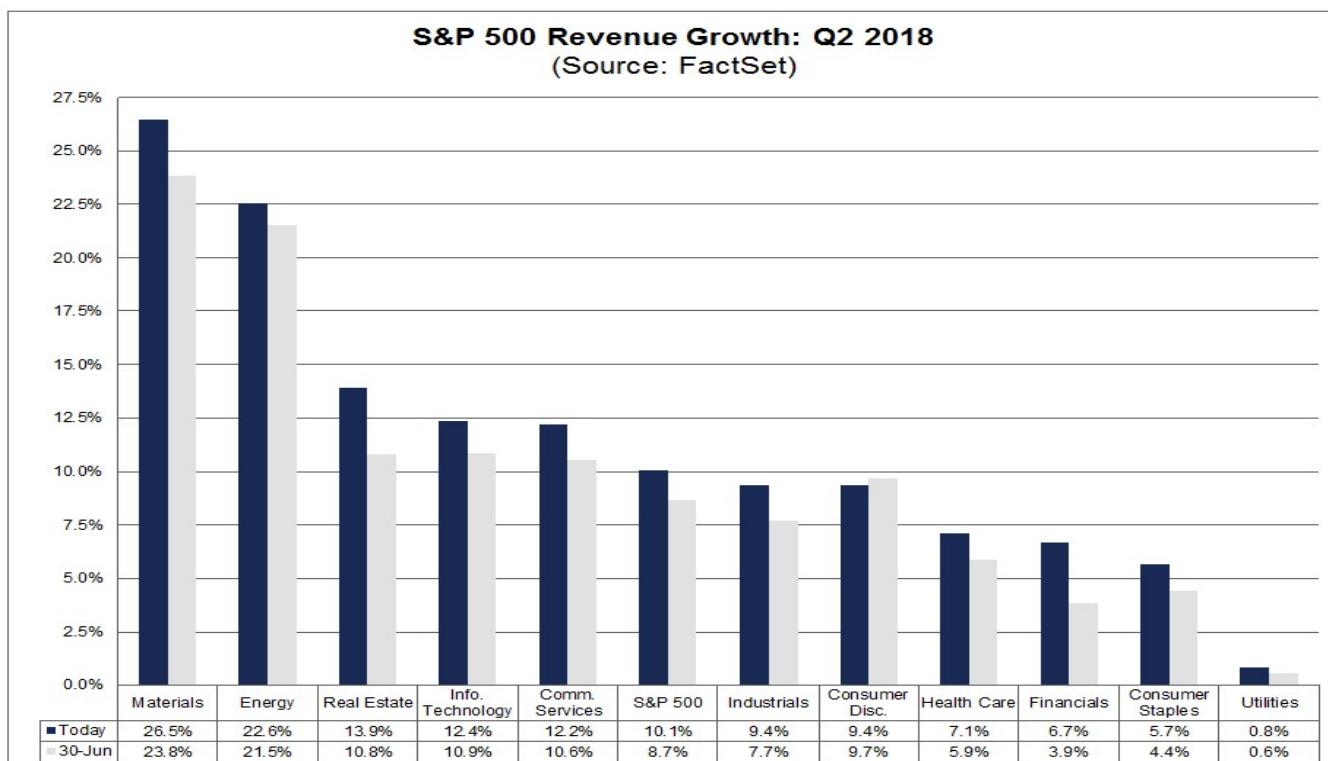
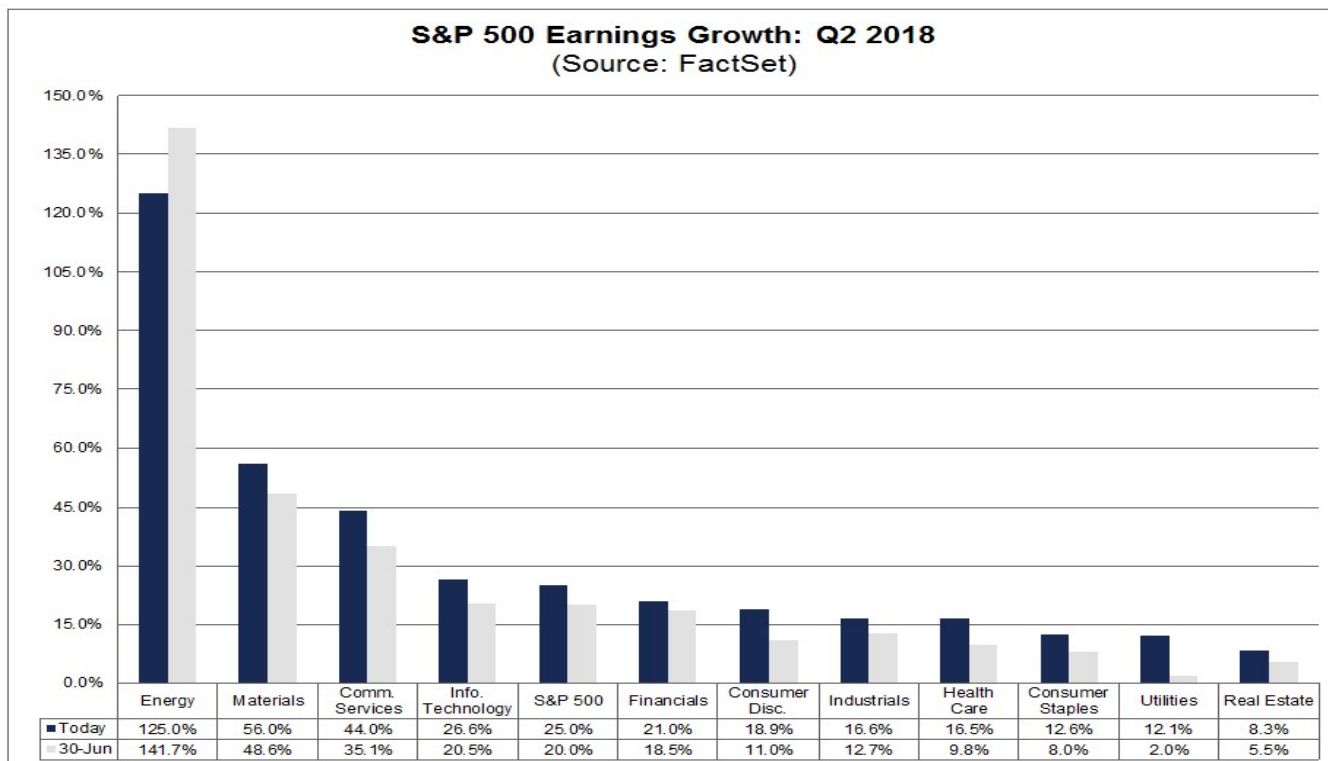
Q2 2018: Scorecard



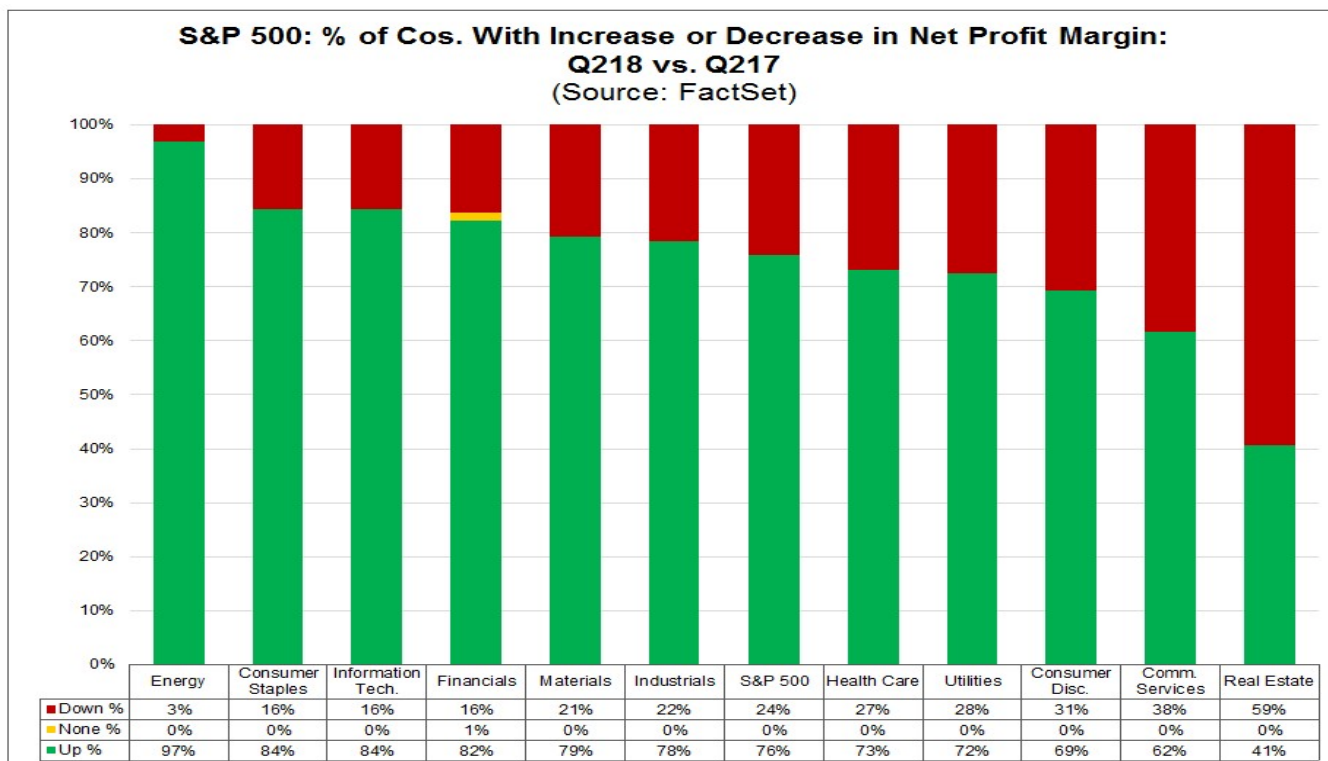
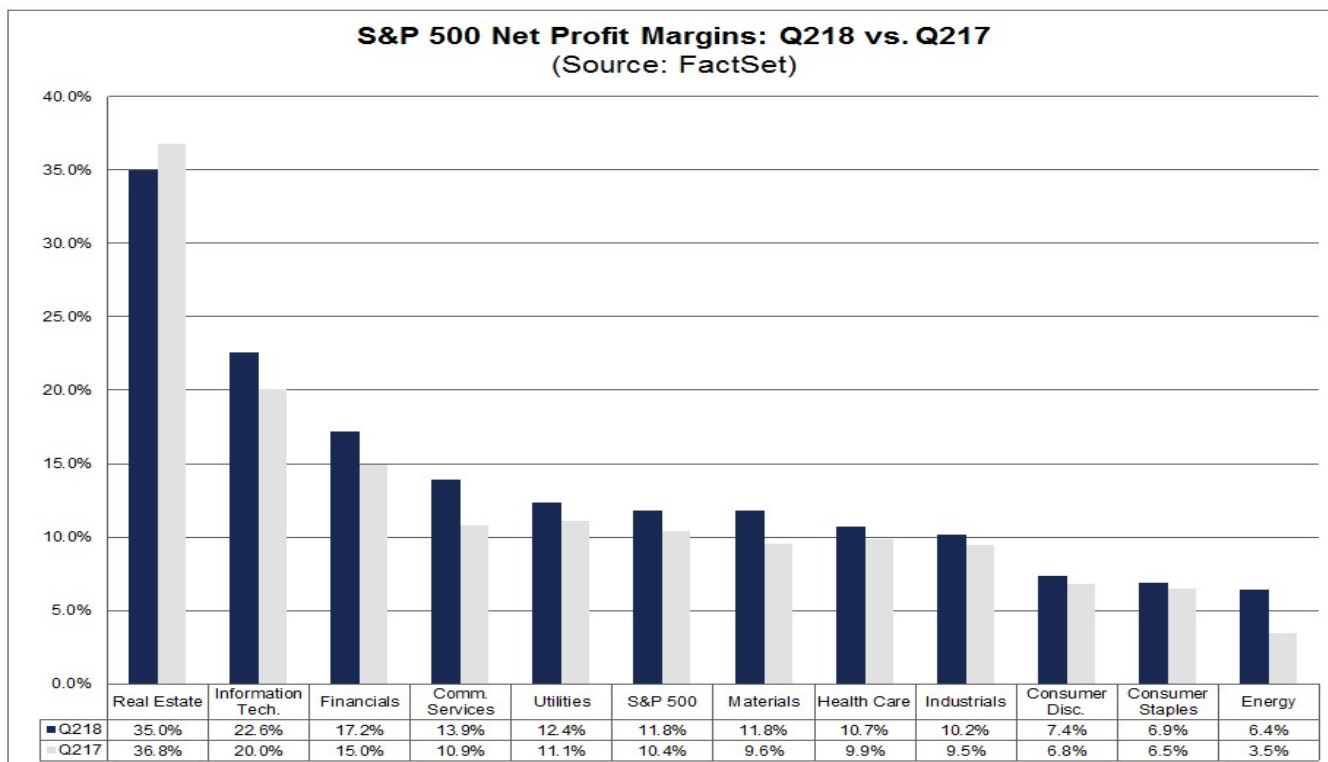
Q2 2018: Projected EPS Surprises (Sharp Estimates)



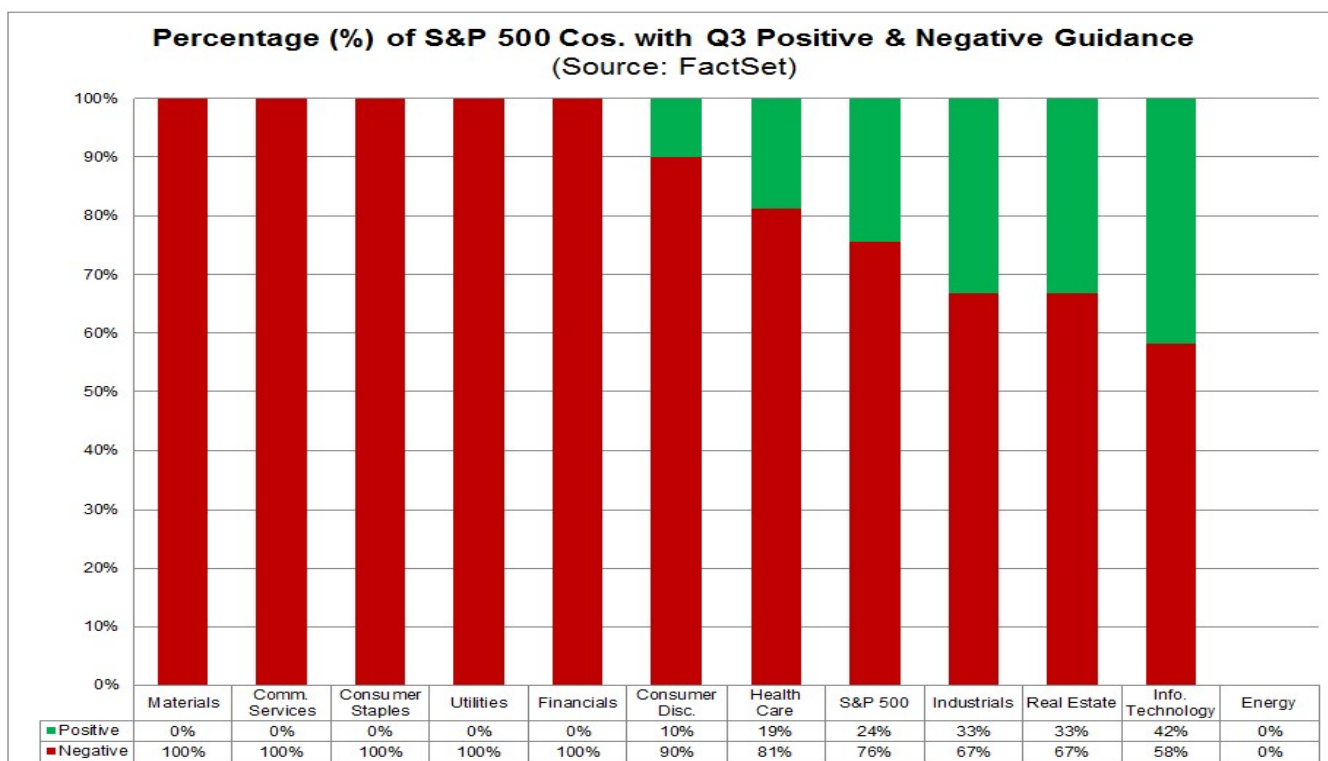
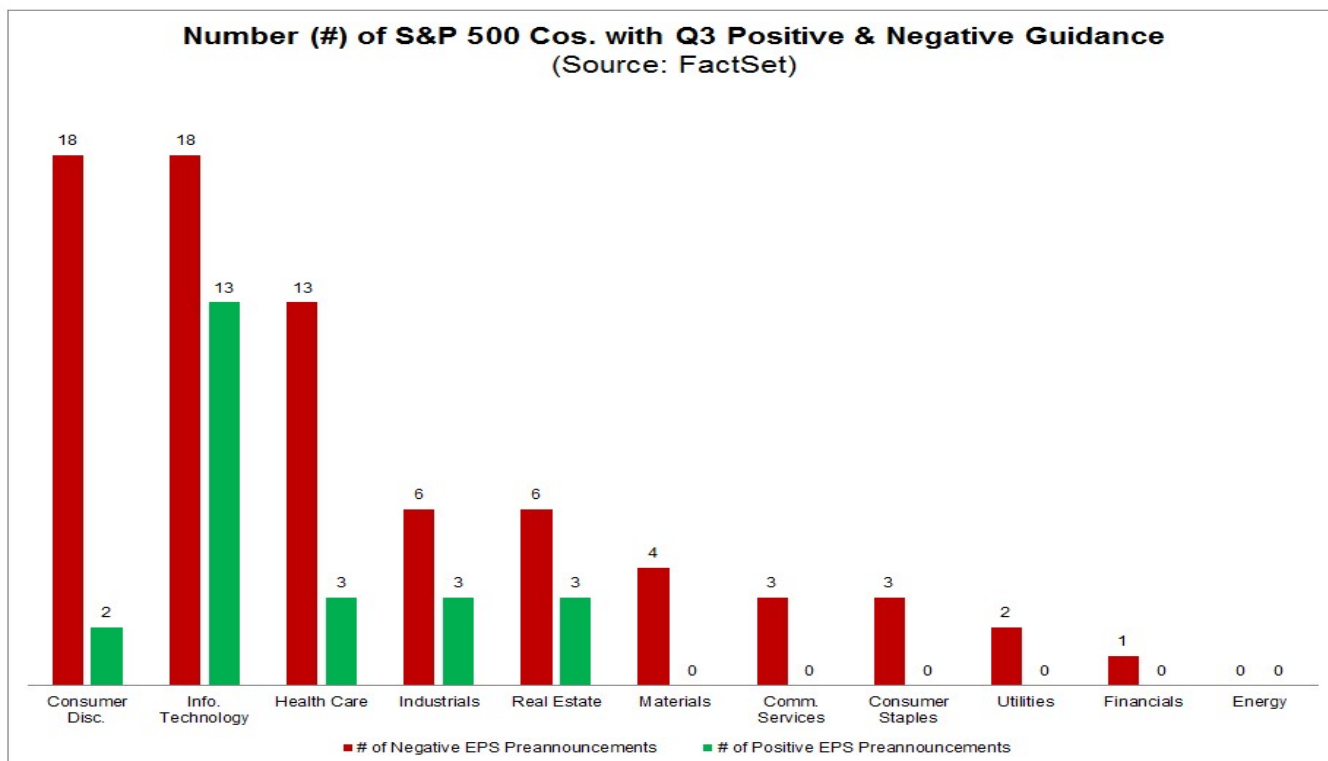
Q2 2018: Growth



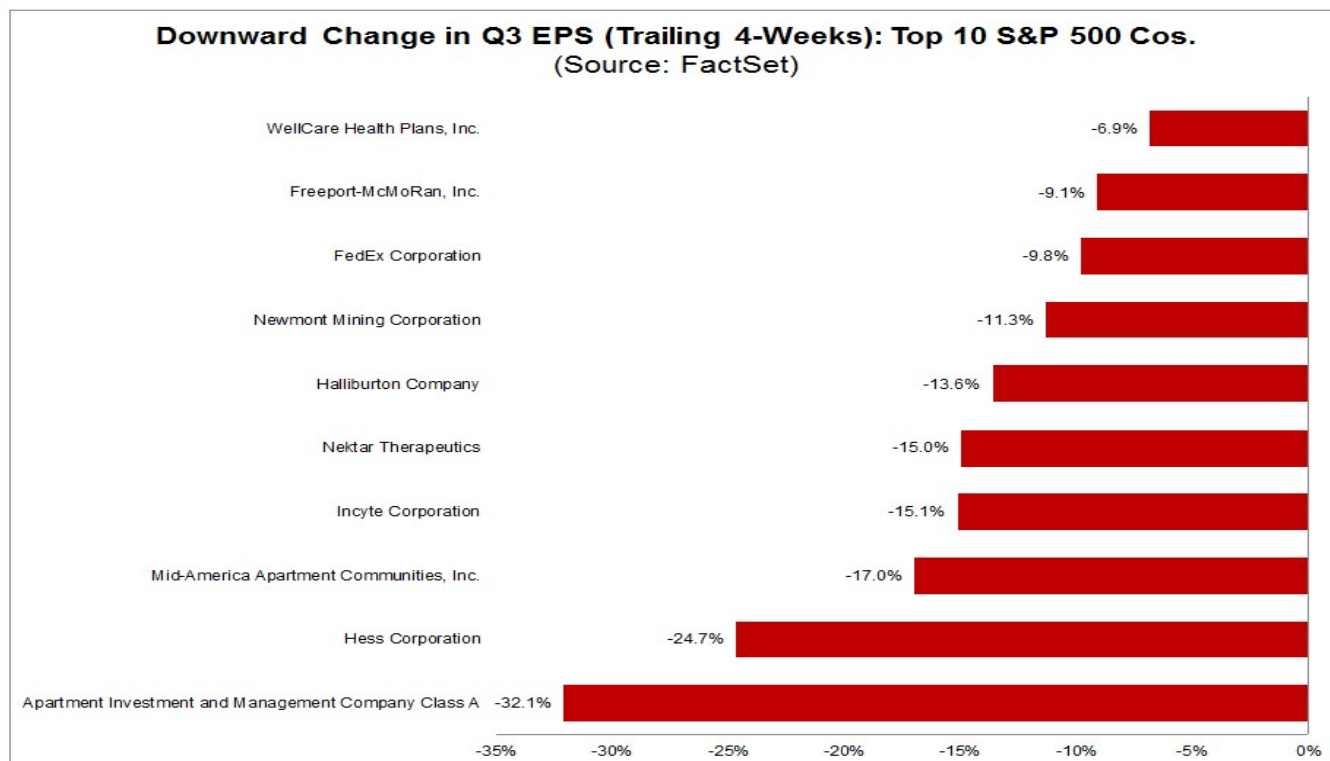
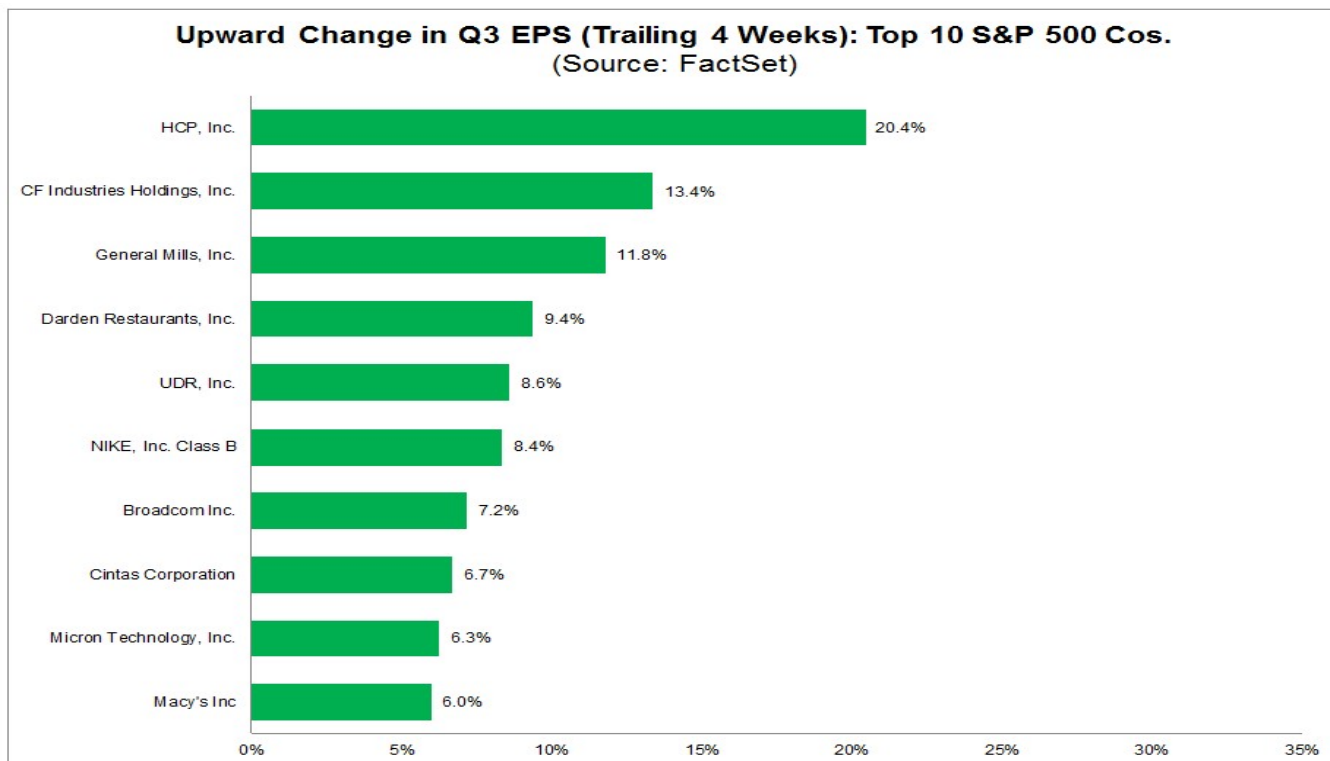
Q2 2018: Net Profit Margin



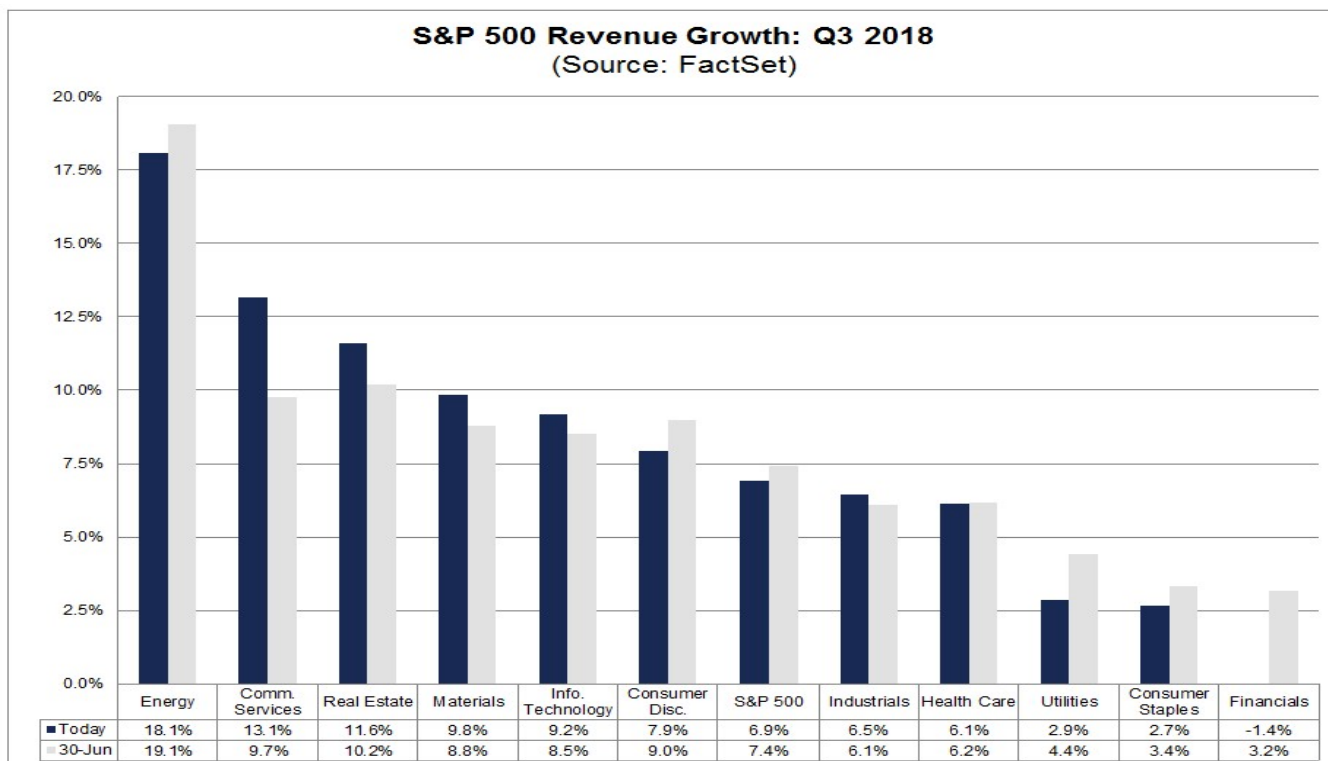
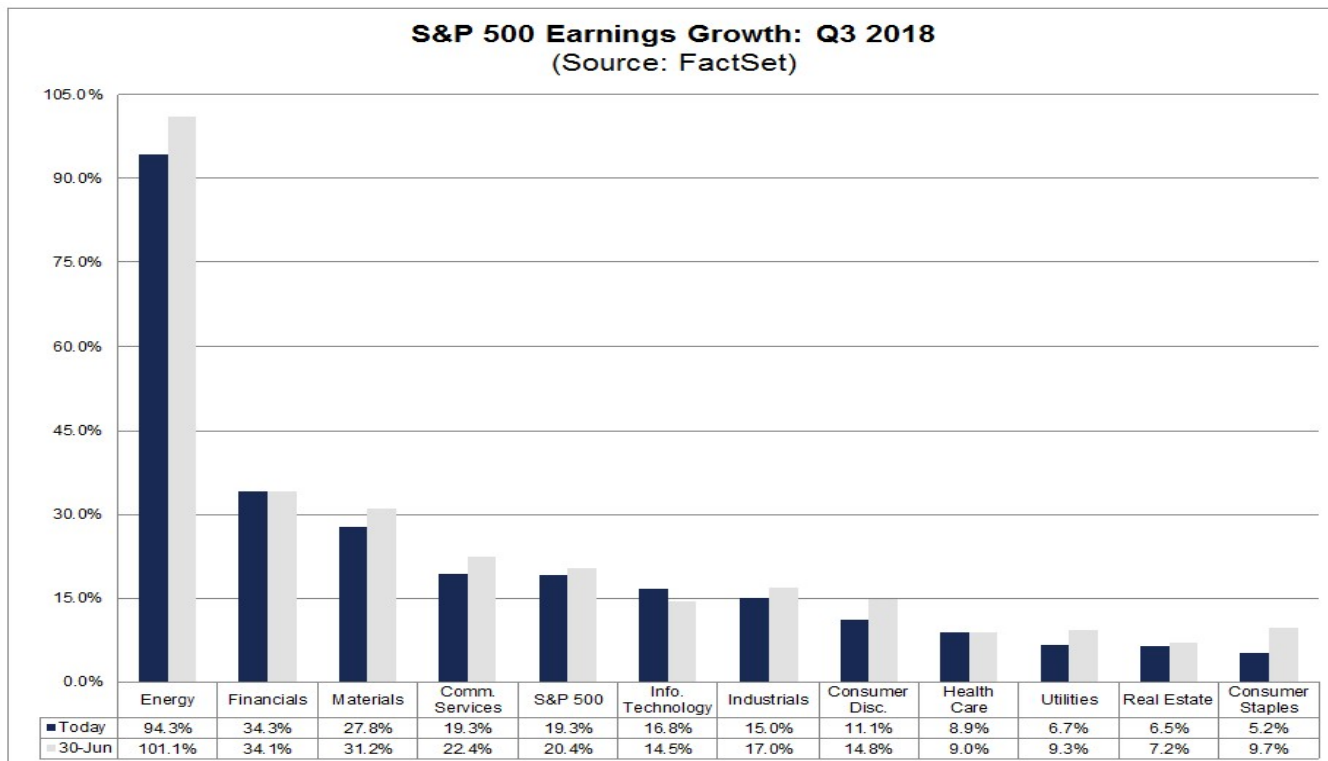
Q3 2018: EPS Guidance



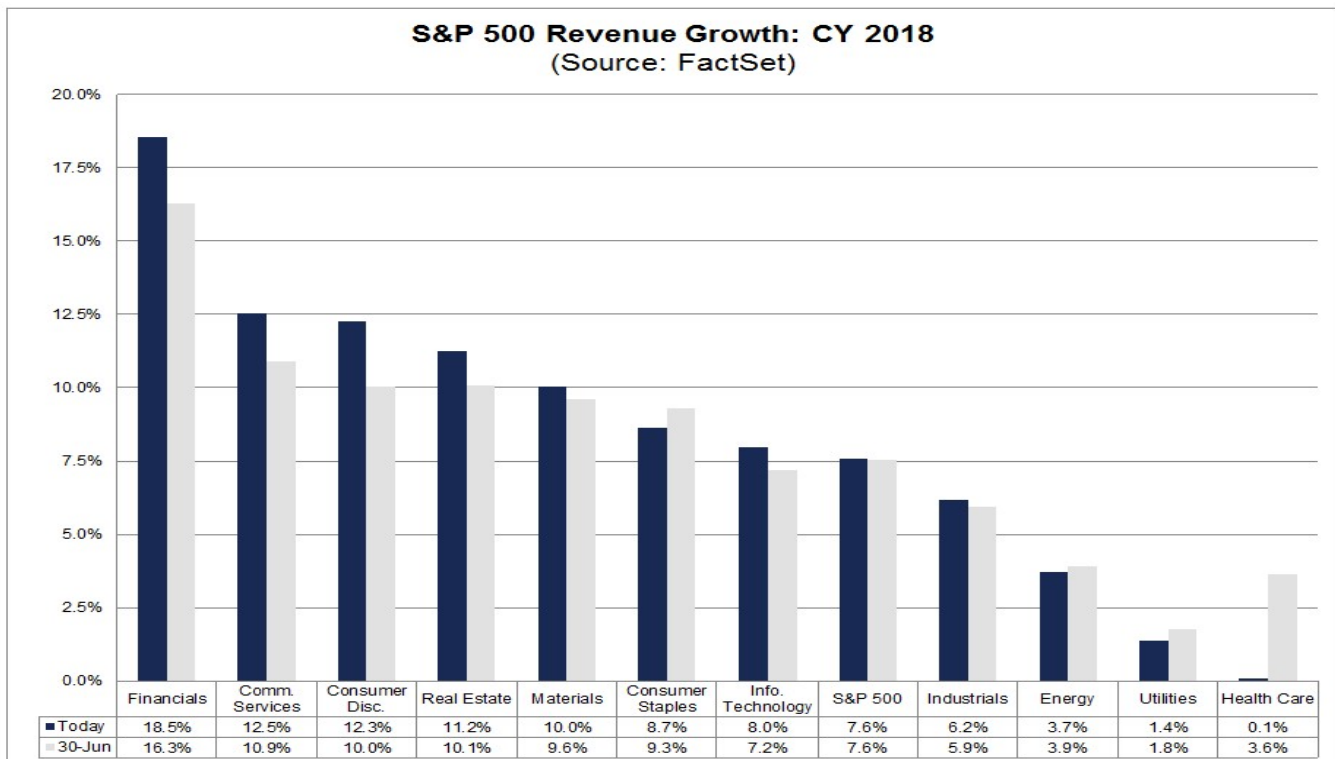
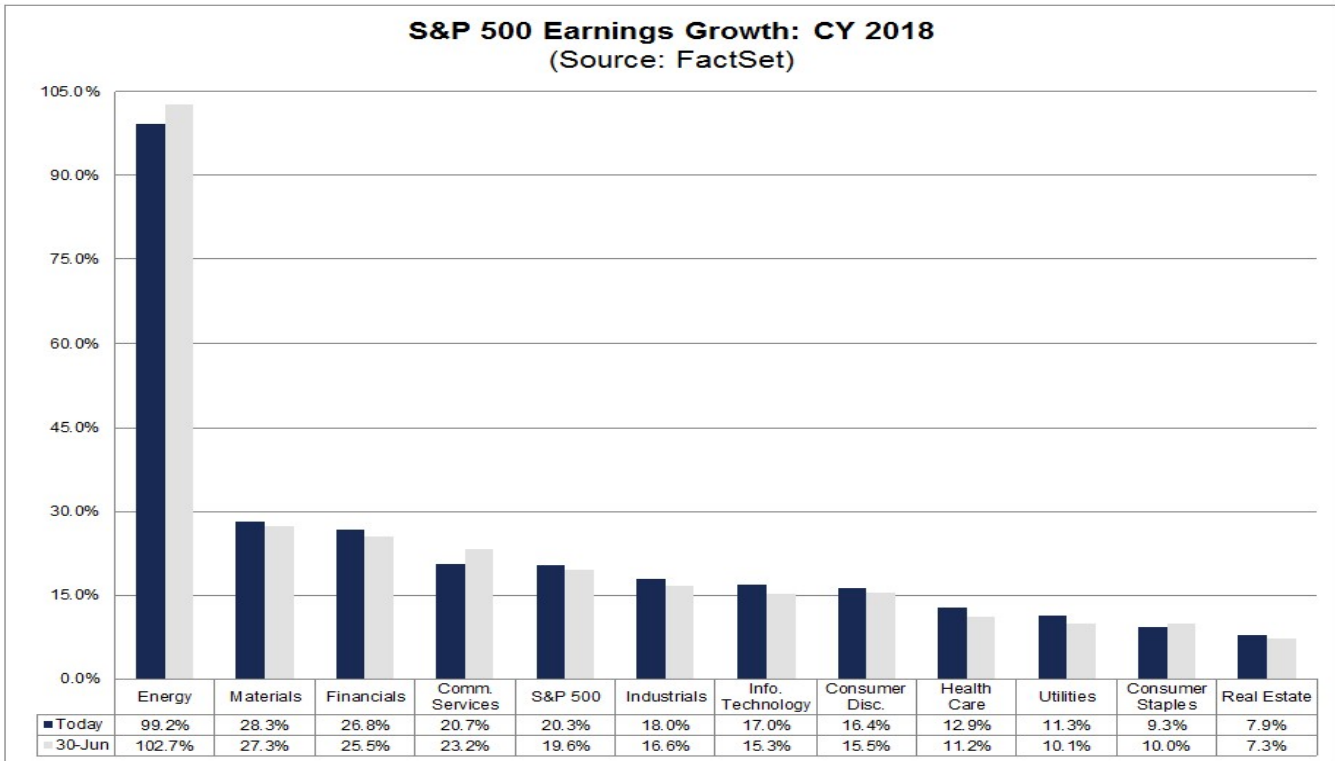
Q3 2018: EPS Revisions



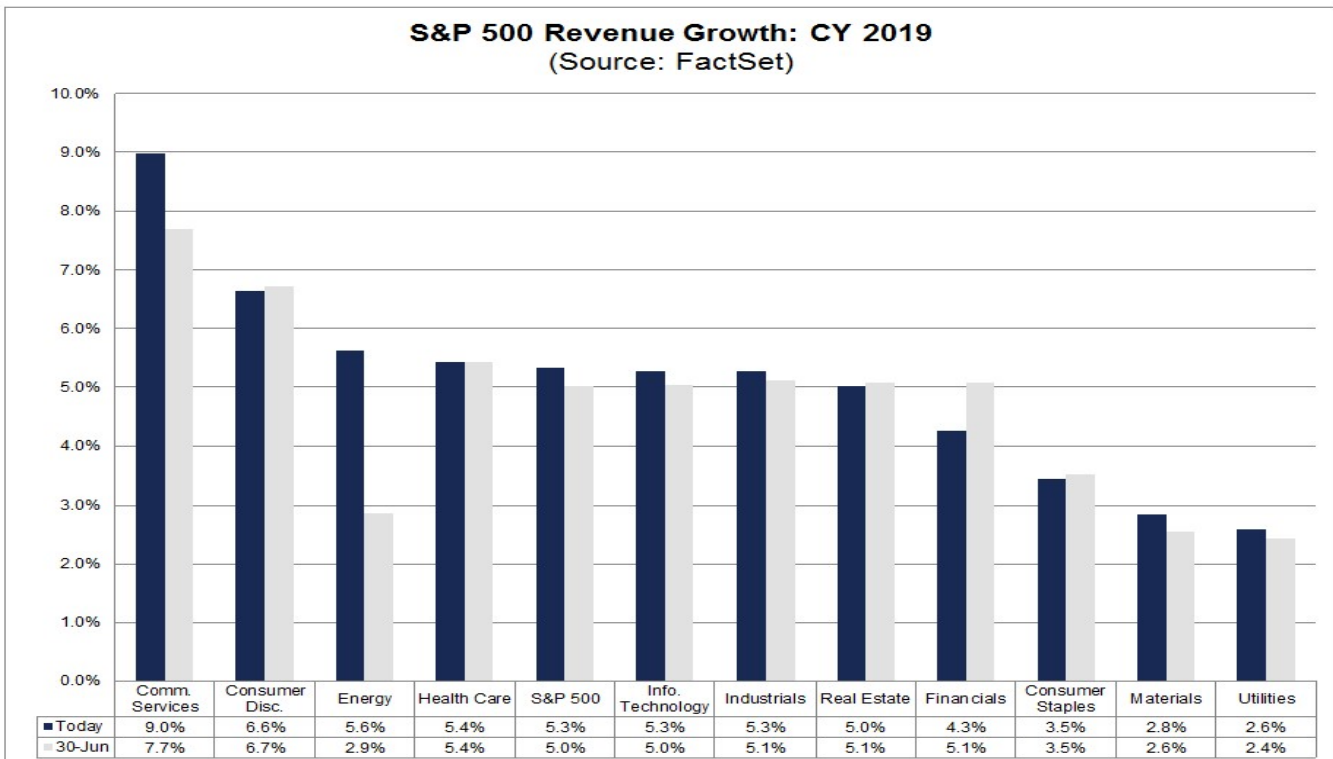
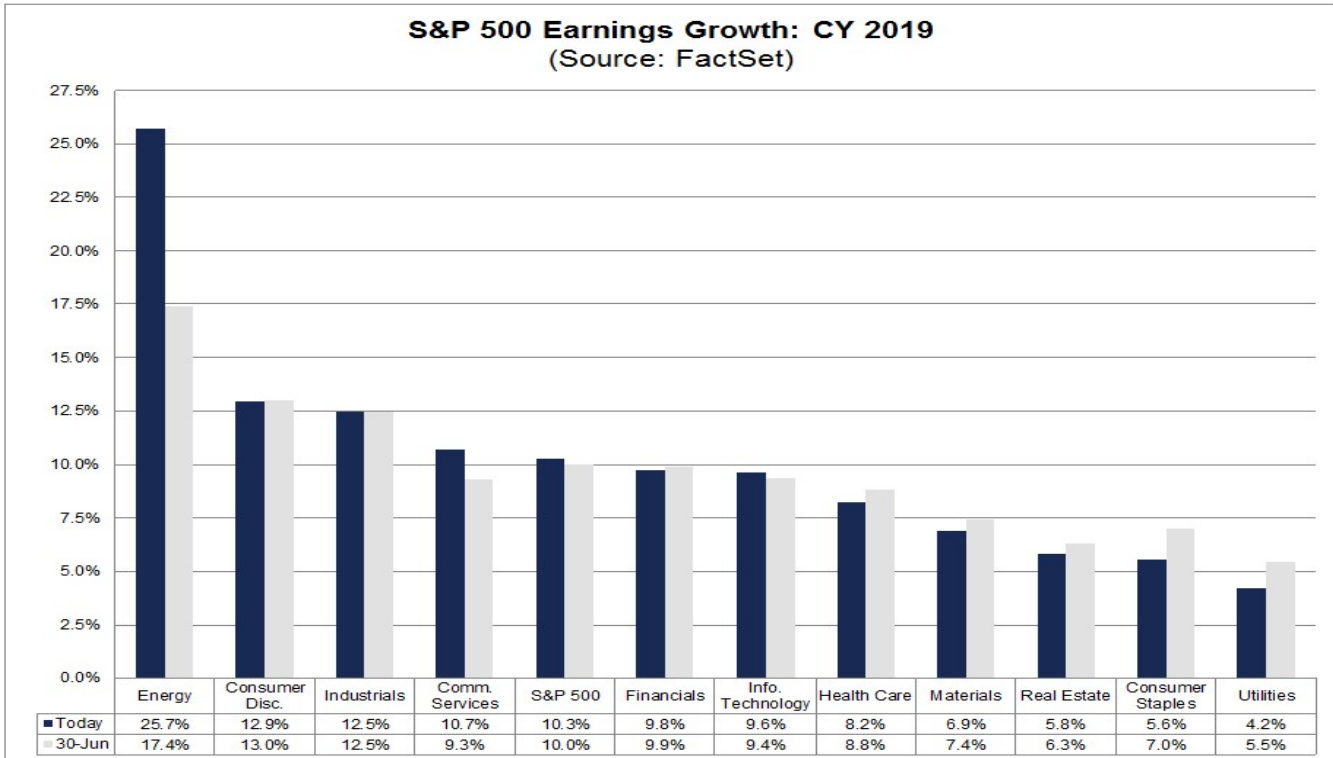
Q3 2018: Growth



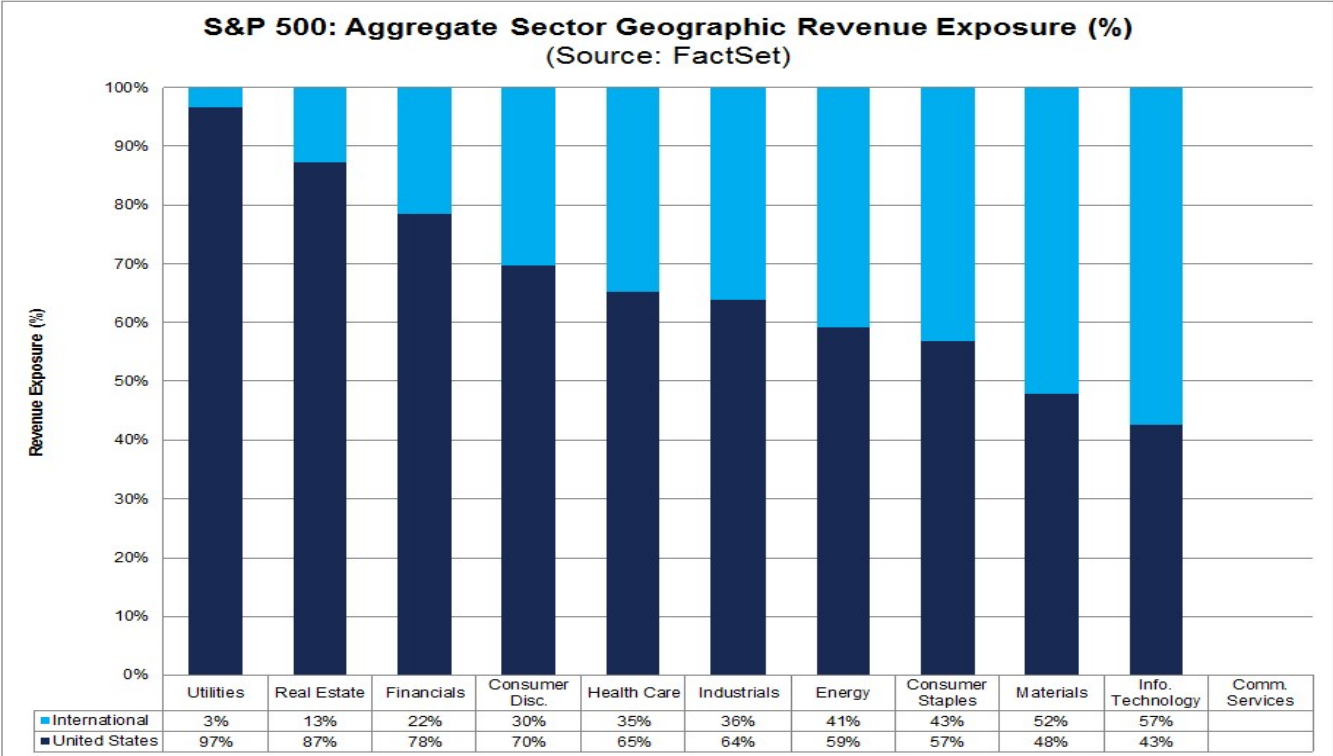
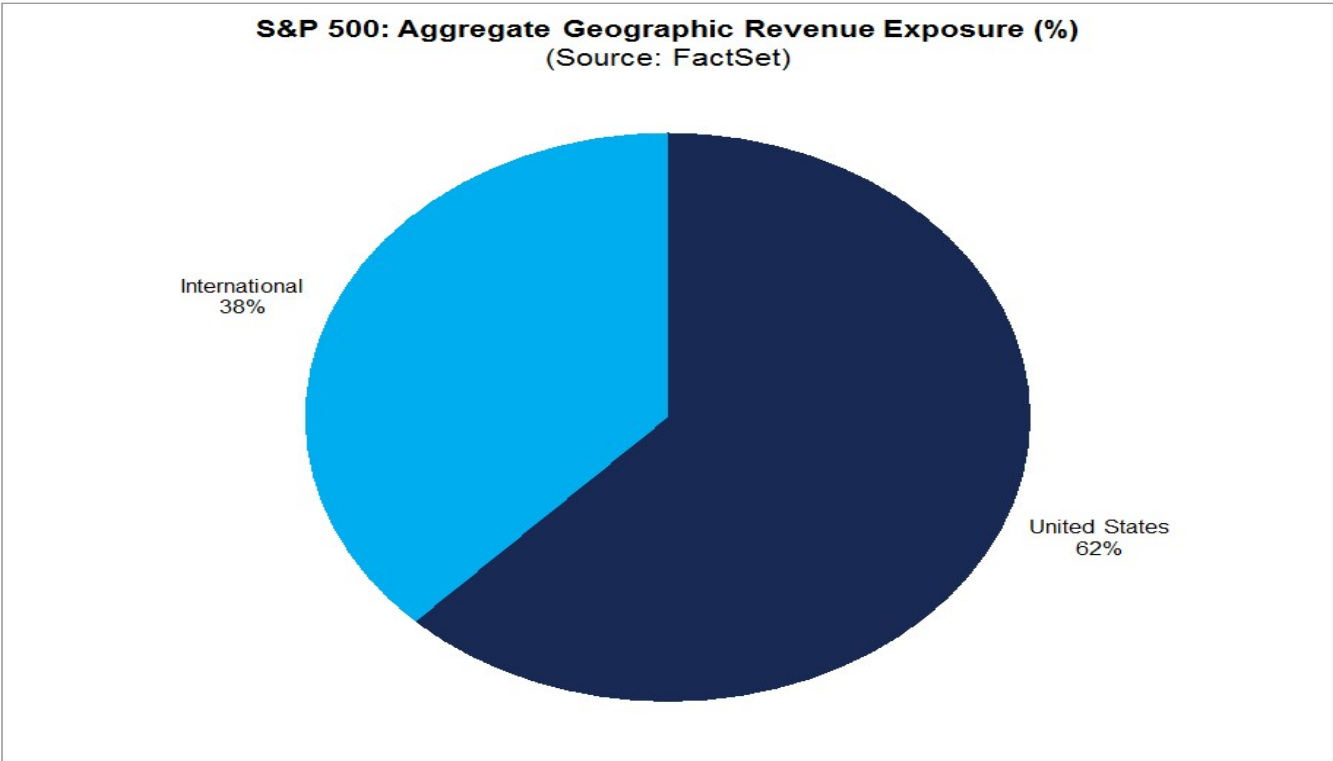
CY 2018: Growth



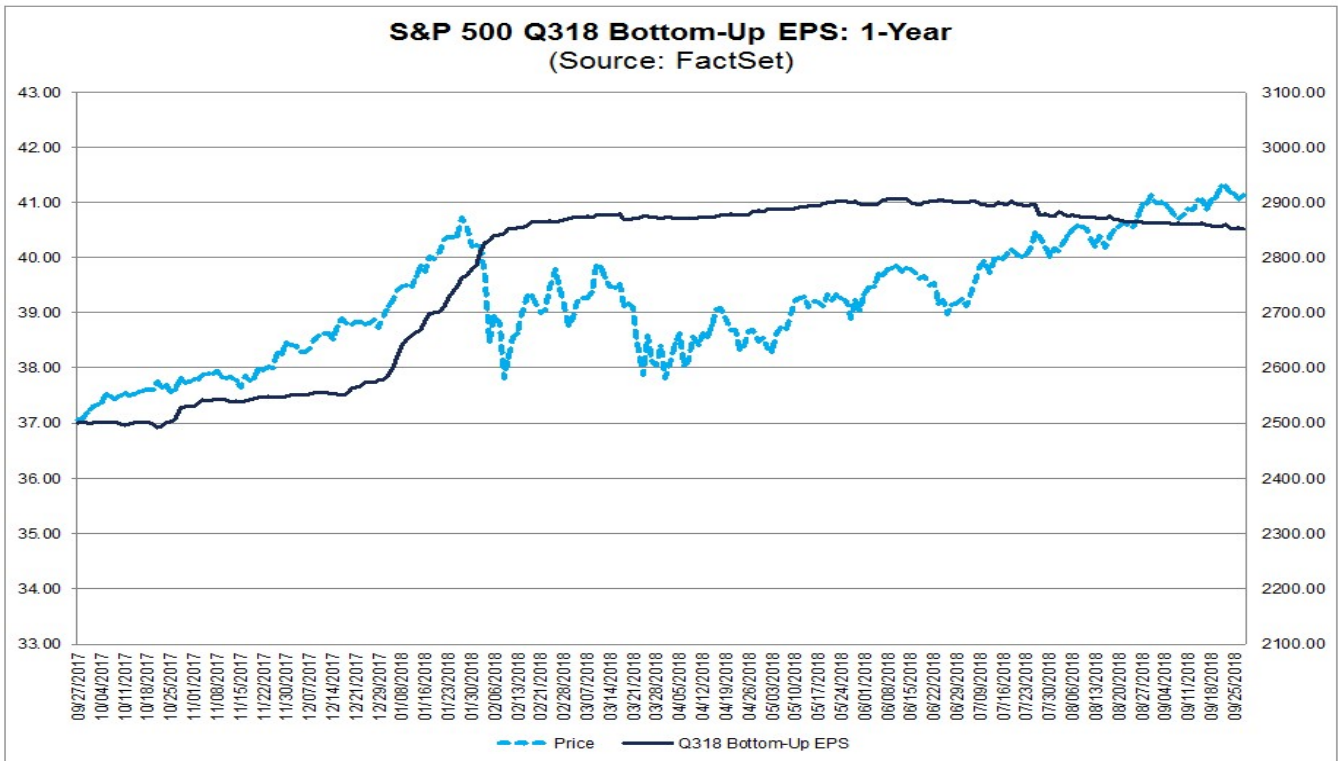
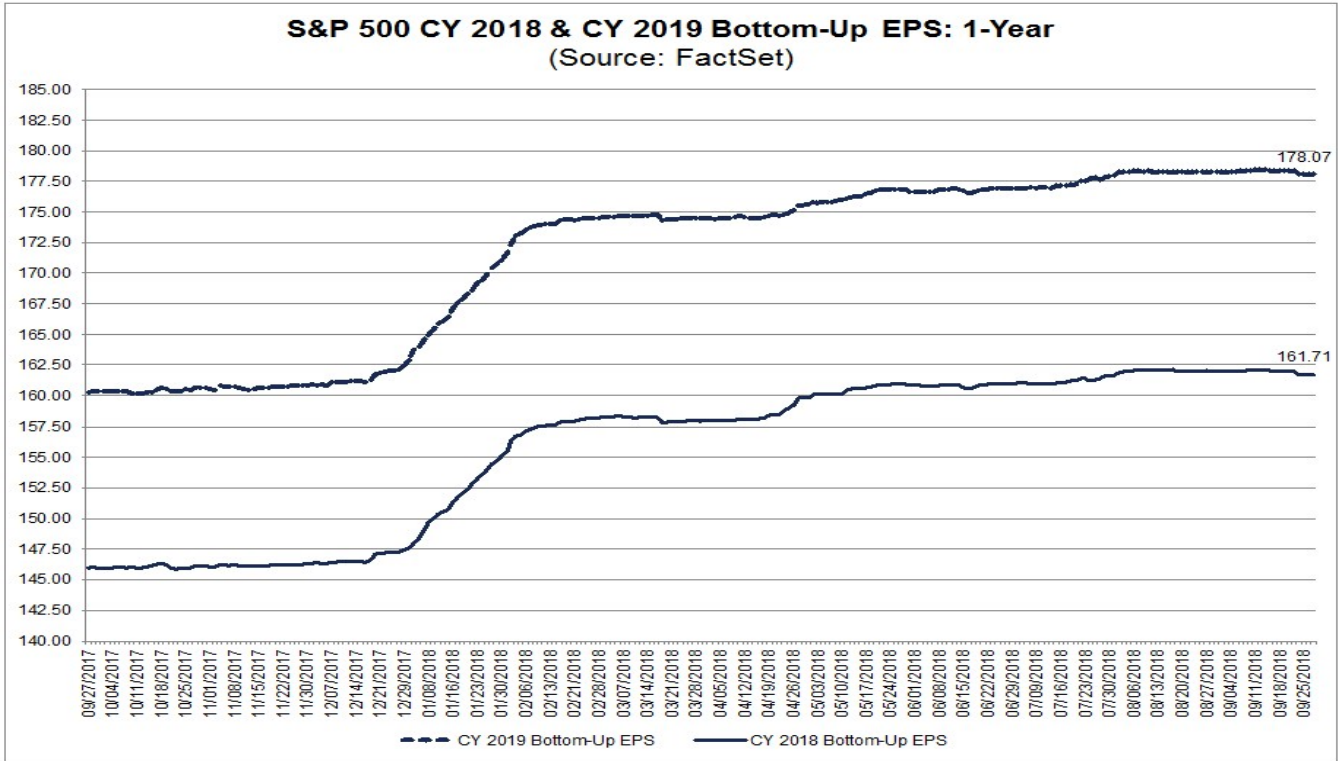
CY 2019: Growth



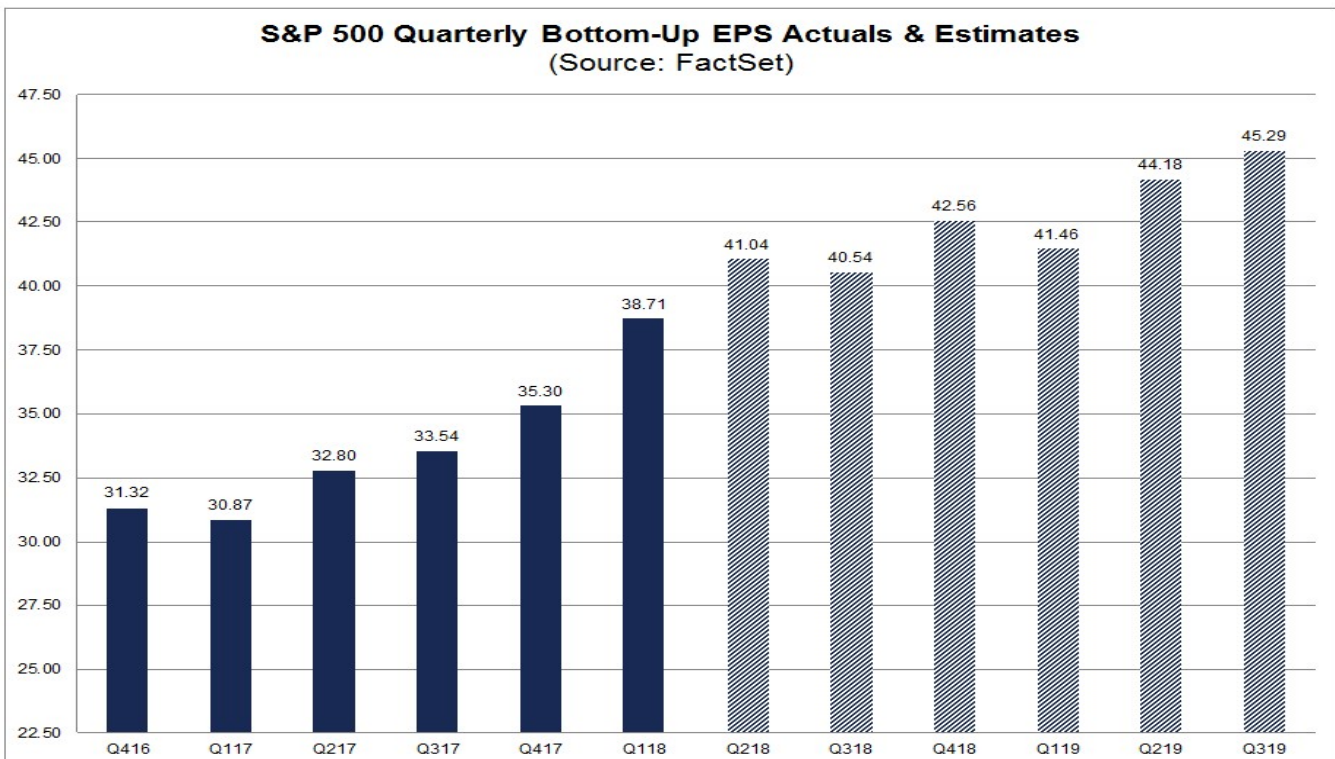
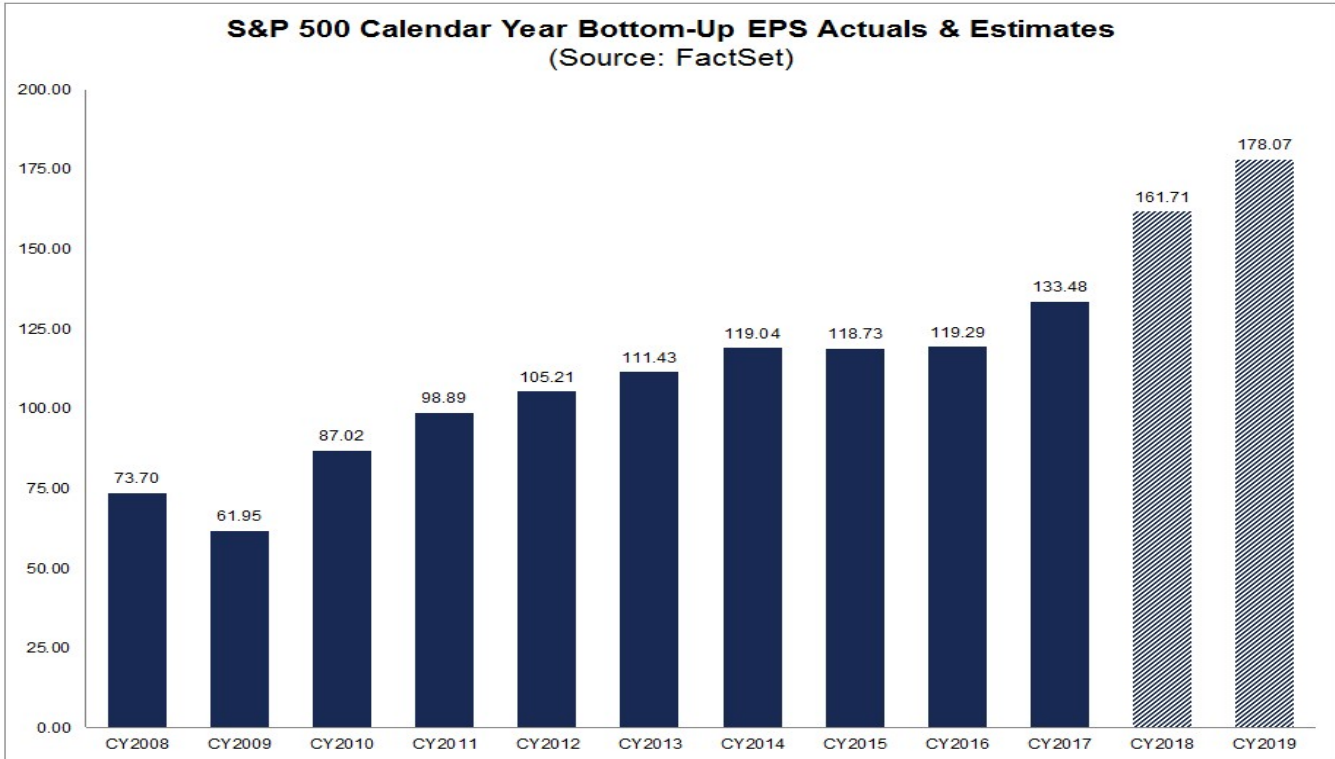
Geographic Revenue Exposure



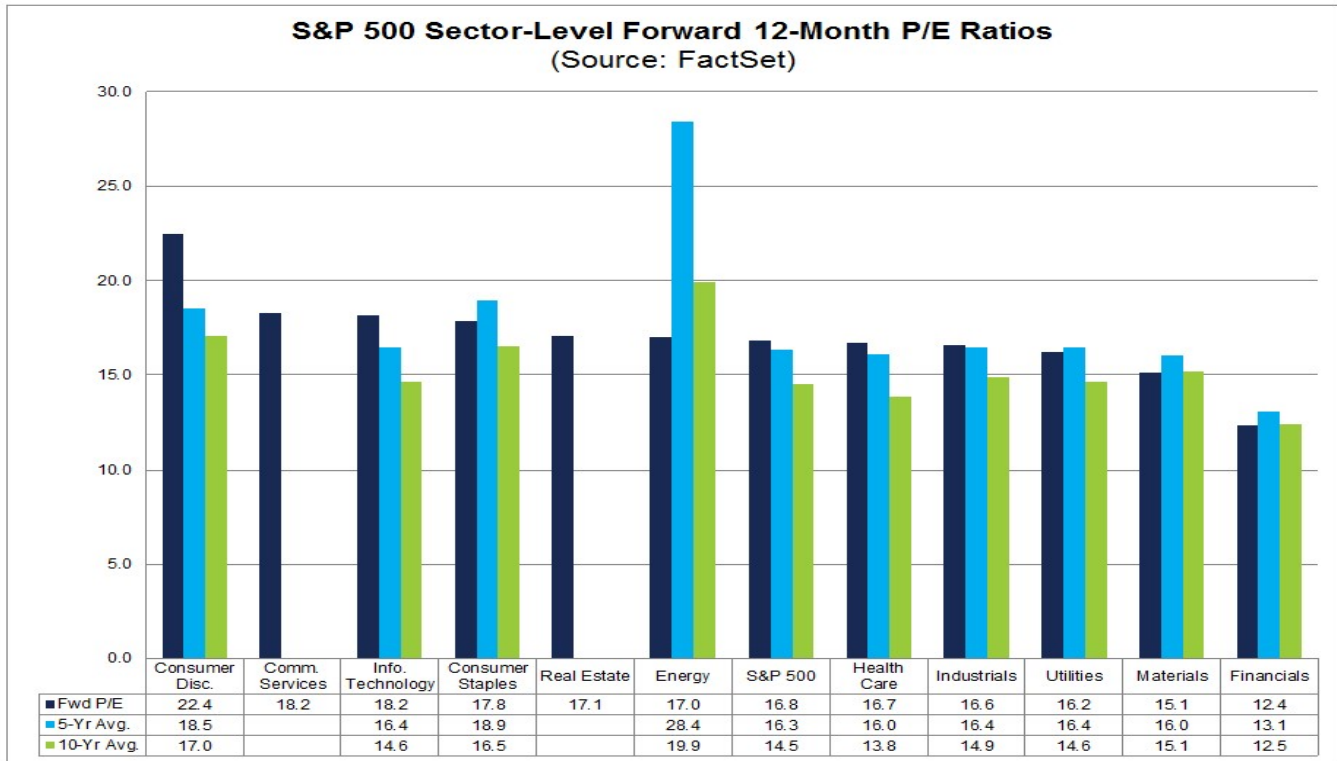
Bottom-up EPS Estimates: Revisions



Bottom-up EPS Estimates: Current & Historical

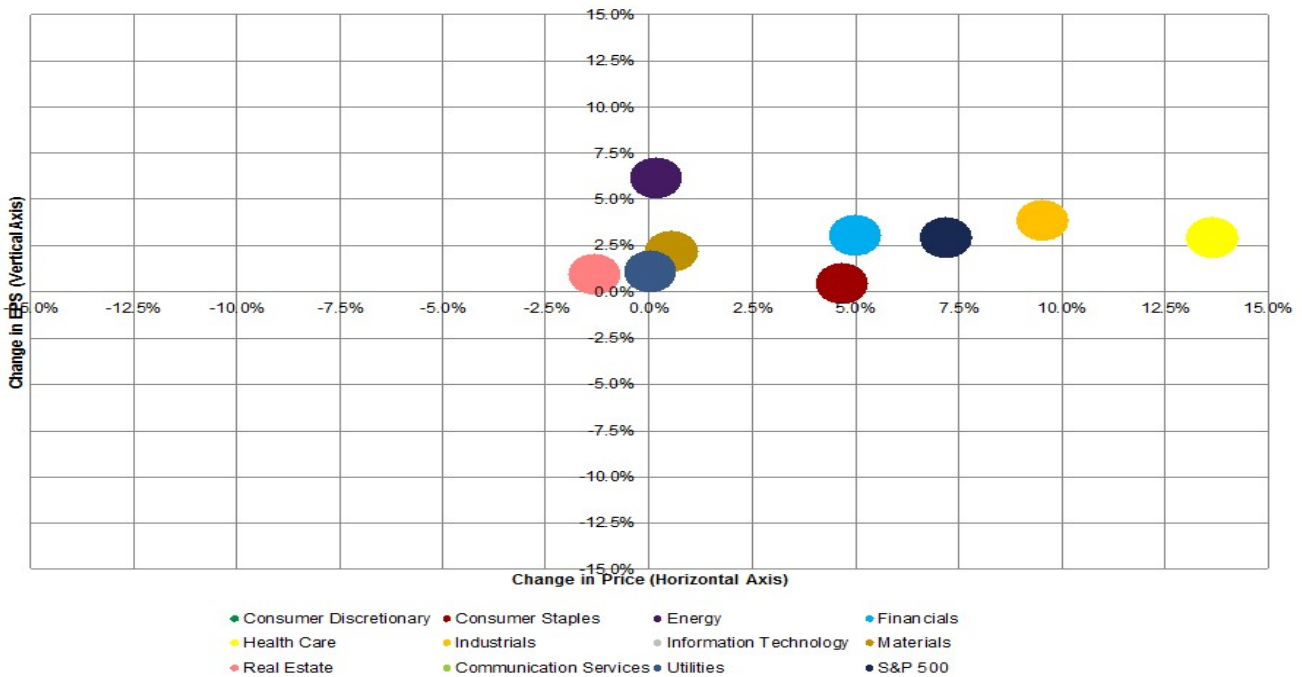


Forward 12M P/E Ratio: Sector Level

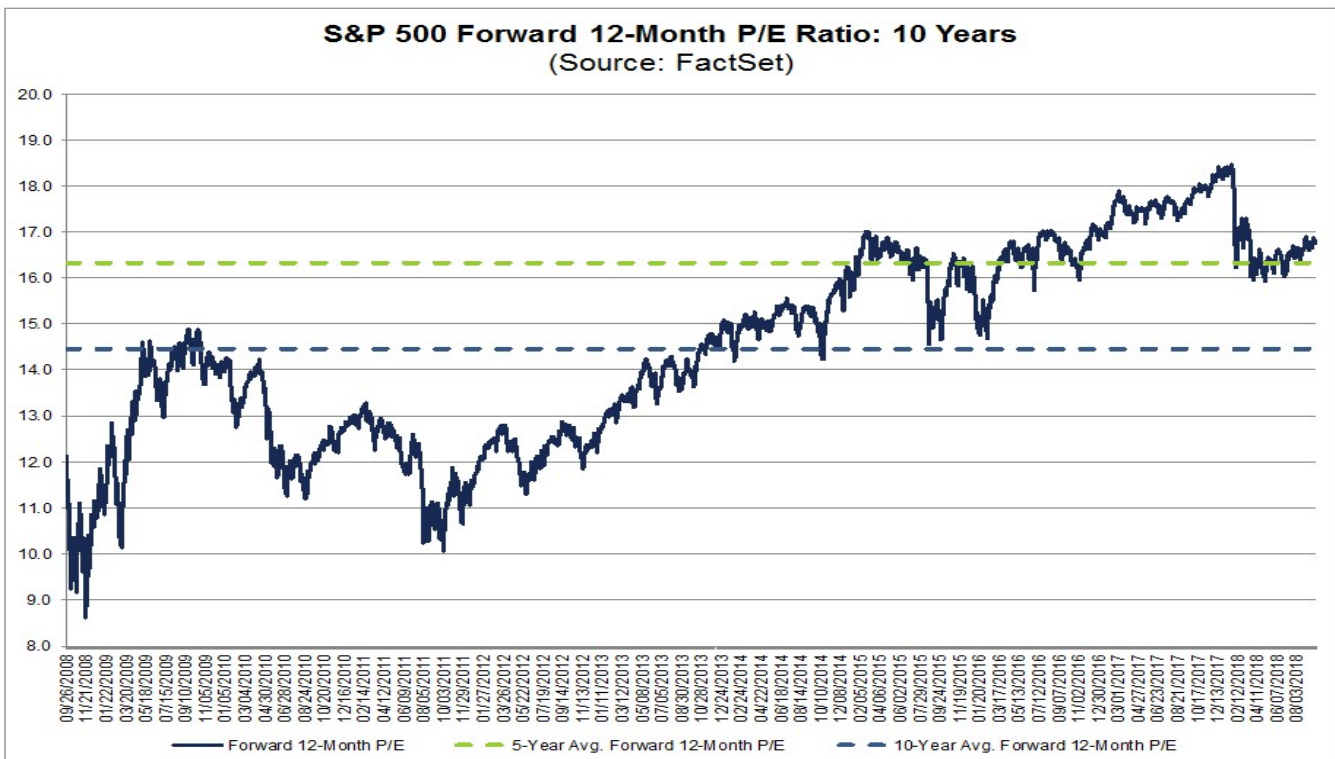
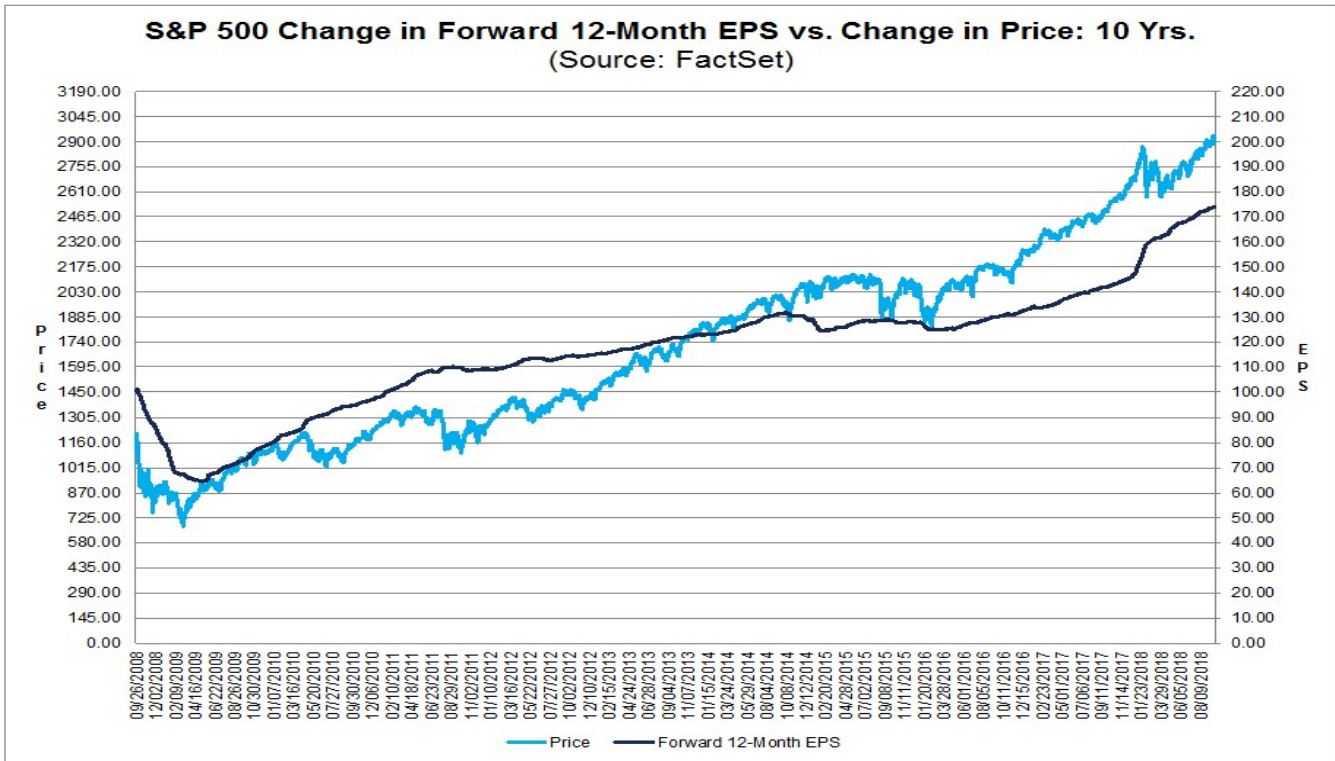


Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Jun 30

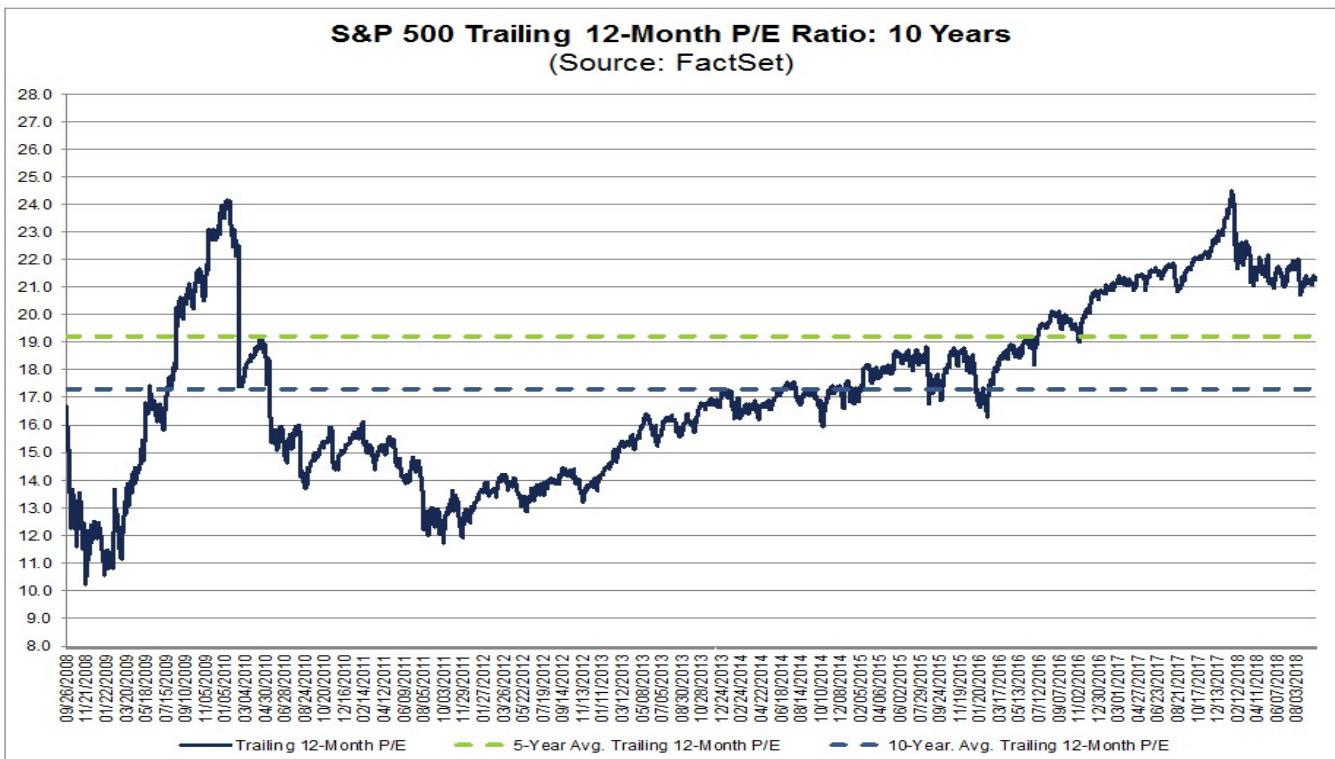
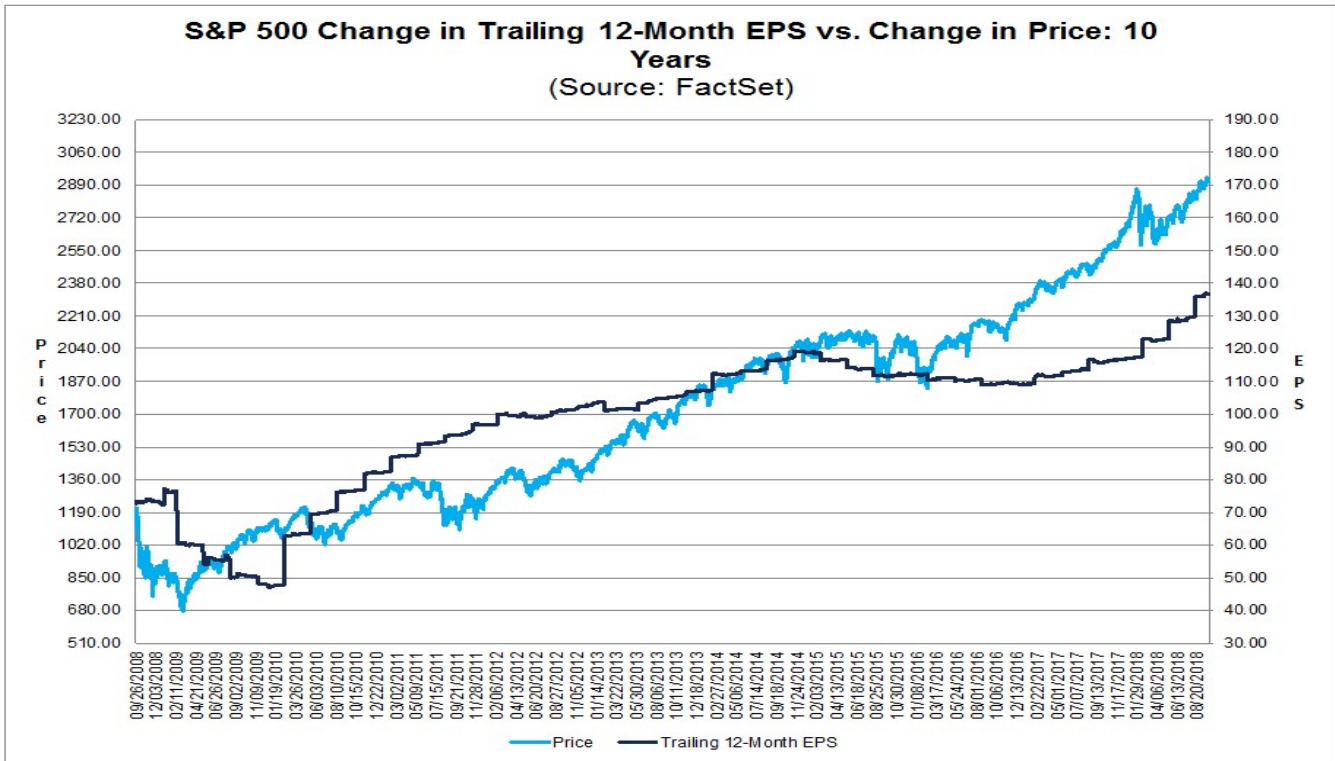
(Source: FactSet)



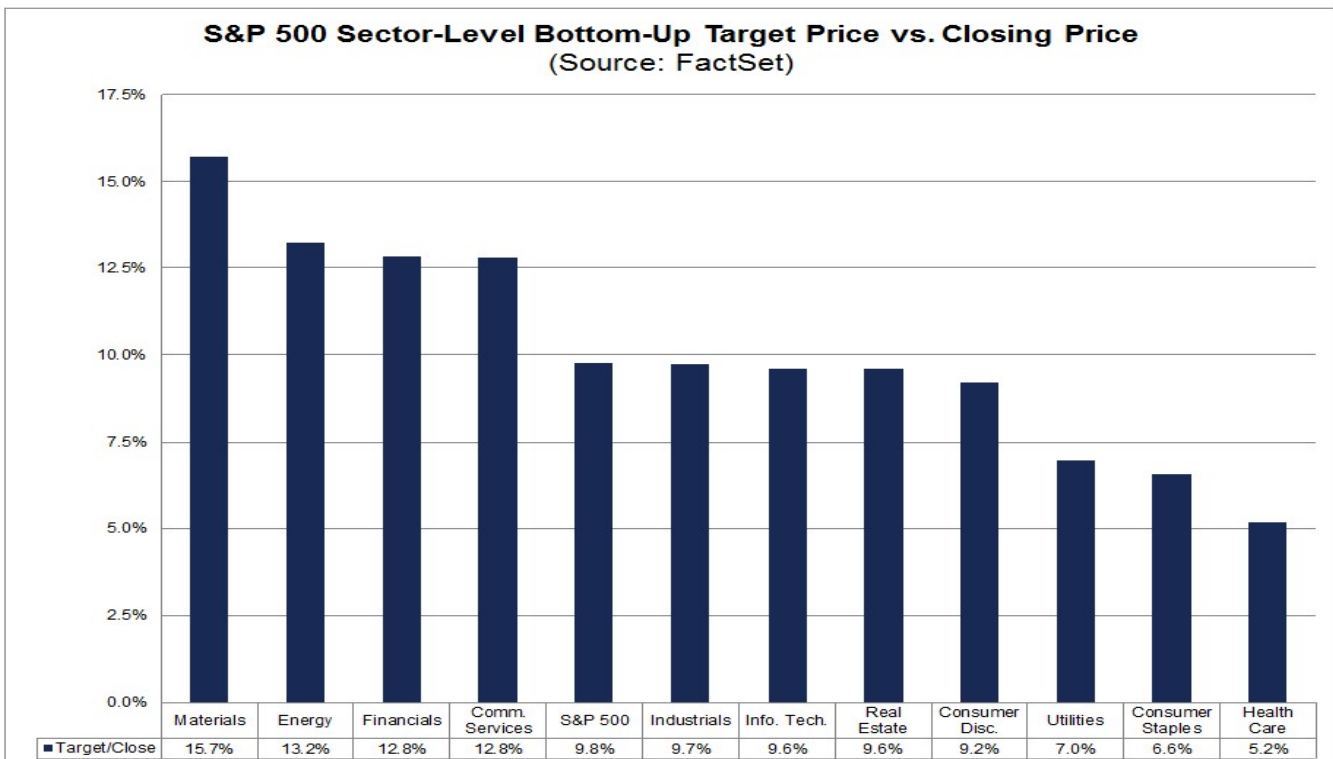
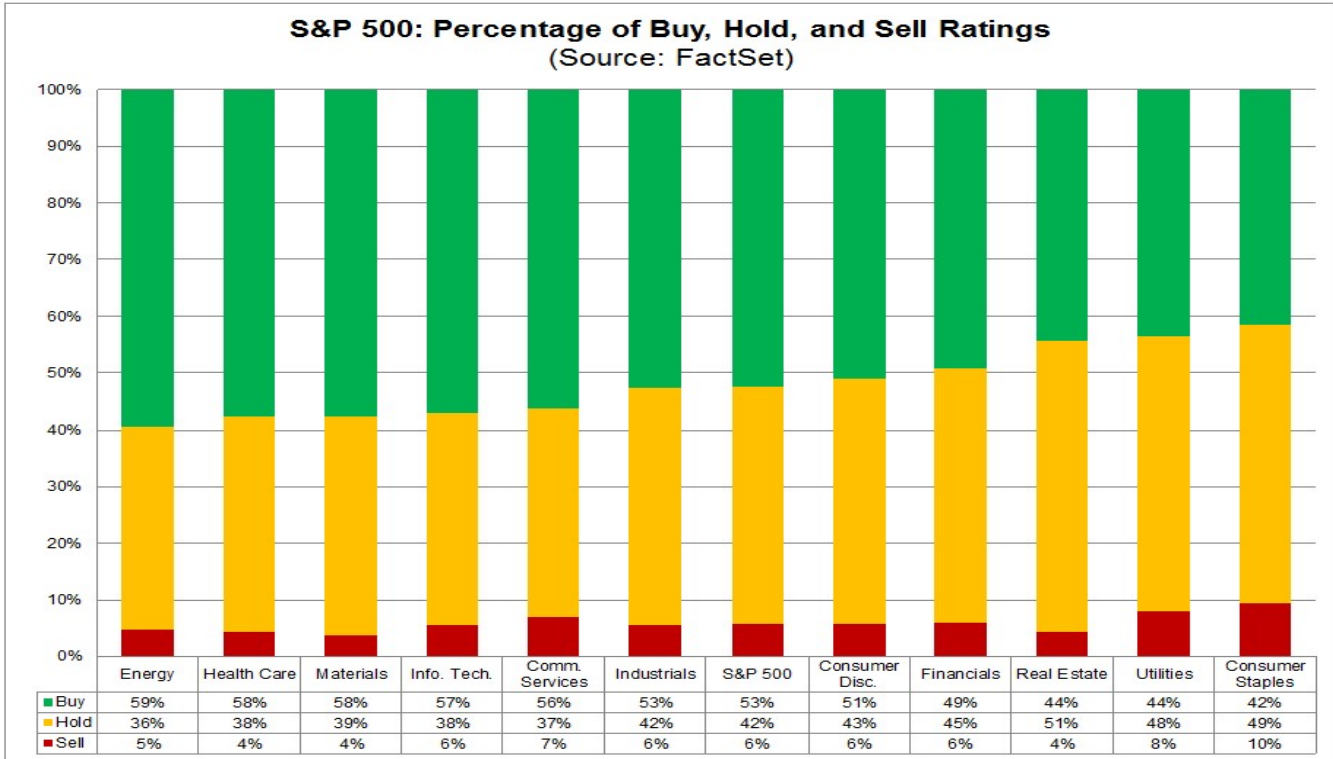
Forward 12M P/E Ratio: Long-Term Averages



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



Targets & Ratings



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