

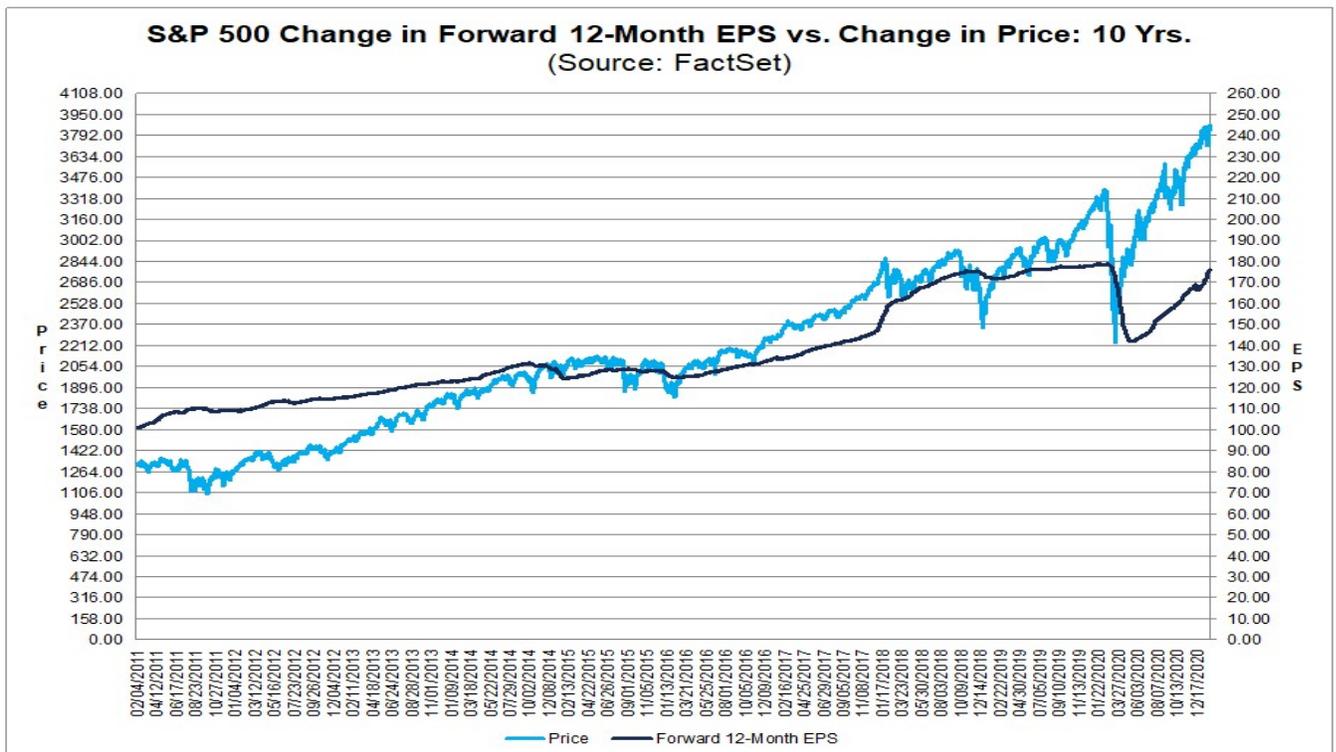
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## Key Metrics

- Earnings Scorecard:** For Q4 2020 (with 59% of the companies in the S&P 500 reporting actual results), 81% of S&P 500 companies have reported a positive EPS surprise and 79% have reported a positive revenue surprise. If 81% is the final percentage, it will tie the mark for the second-highest percentage of S&P 500 companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008.
- Earnings Growth:** For Q4 2020, the blended earnings growth rate for the S&P 500 is 1.7%. If 1.7% is the actual growth rate for the quarter, it will mark the first quarter in which the index has reported a year-over-year earnings growth since Q4 2019.
- Earnings Revisions:** On December 31, the estimated earnings decline for Q4 2020 was -9.3%. Nine sectors have higher earnings growth rates or smaller earnings declines today (compared to December 31) due to positive EPS surprises.
- Earnings Guidance:** For Q1 2021, 20 S&P 500 companies have issued negative EPS guidance and 35 S&P 500 companies have issued positive EPS guidance.
- Valuation:** The forward 12-month P/E ratio for the S&P 500 is 22.0. This P/E ratio is above the 5-year average (17.6) and above the 10-year average (15.8).



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## Topic of the Week: 1

### S&P 500 Now Reporting Year-over-Year Growth in Earnings for Q4 2020

As of today, the S&P 500 is reporting year-over-year growth in earnings of 1.7% for the fourth quarter, compared to a year-over-year decline in earnings of -2.4% last week and a year-over-year decline in earnings of -9.3% at the end of the fourth quarter (December 31). If 1.7% is the actual growth rate for the fourth quarter, it will mark the first time the index has reported year-over-year growth in earnings since Q4 2019 (0.8%).

The strong possibility that the index would report (year-over-year) earnings growth for the fourth quarter was discussed in our FactSet Insight article published back on January 15: <https://insight.factset.com/will-the-sp-500-report-year-over-year-earnings-growth-in-q4>

What is driving the increase in earnings for the index since December 31? During the fourth quarter earnings season, more companies have beaten EPS estimates than average and by a wider margin than average. To date, 59% of the companies in the S&P 500 have reported actual results for the fourth quarter. Of these companies, 81% have reported actual EPS above estimates, which is above the 5-year average of 74%. If 81% is the final percentage for the quarter, it will tie the mark for the second-highest percentage of S&P 500 companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008. In aggregate, companies are reporting earnings that are 15.2% above the estimates, which is also above the 5-year average of 6.3%. If 15.2% is the final percentage for the quarter, it will mark the third-largest earnings surprise percentage reported by the index since FactSet began tracking this metric in 2008.

In aggregate, these positive earnings surprises have led to a net \$39.2 billion increase in earnings (to \$362.5 billion from 323.2 billion) for the index since December 31, as higher actual earnings have replaced estimated earnings in the growth rate calculation during the earning season. As a result, nine of the eleven sectors have higher earnings growth rates (or smaller earnings declines) today compared to December 31. However, the three sectors that have been the largest contributors to the \$39 billion increase in earnings for the index over this period are the Financials, Information Technology, and Communication Services sectors.

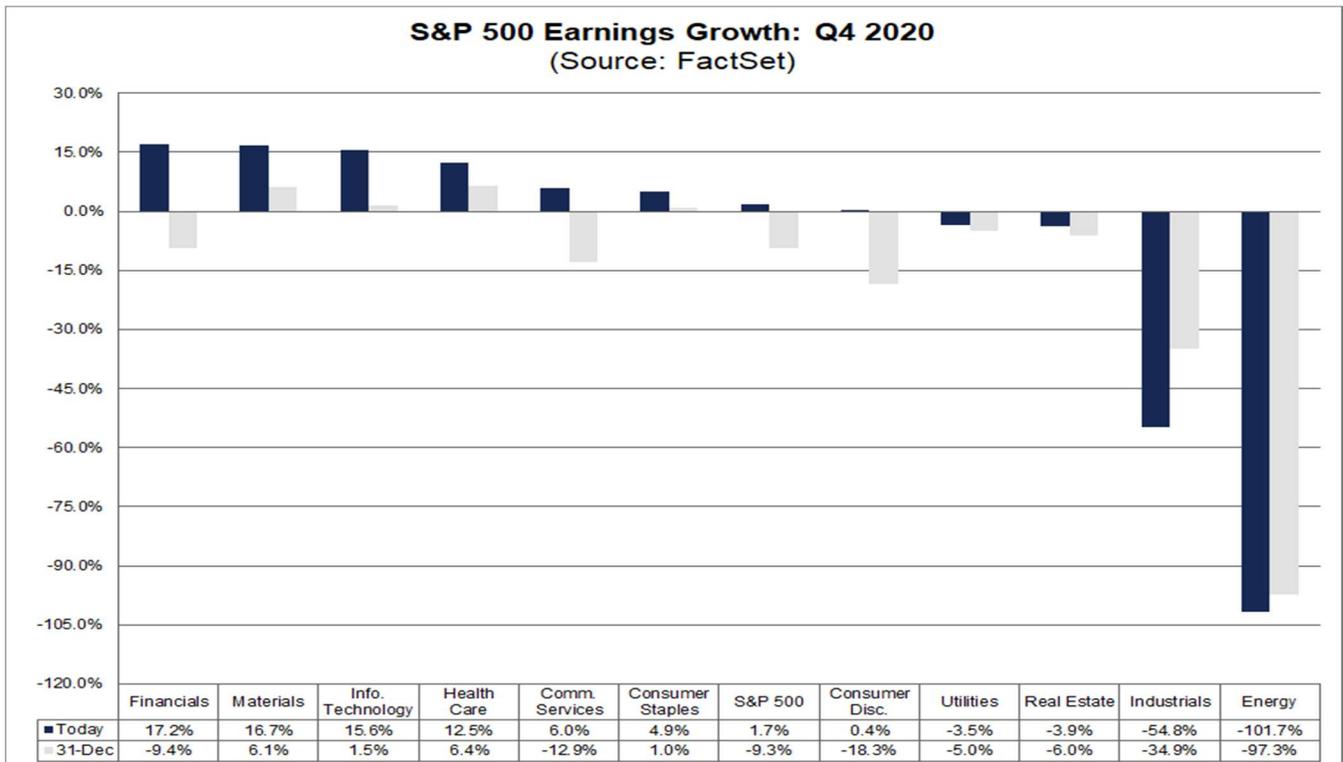
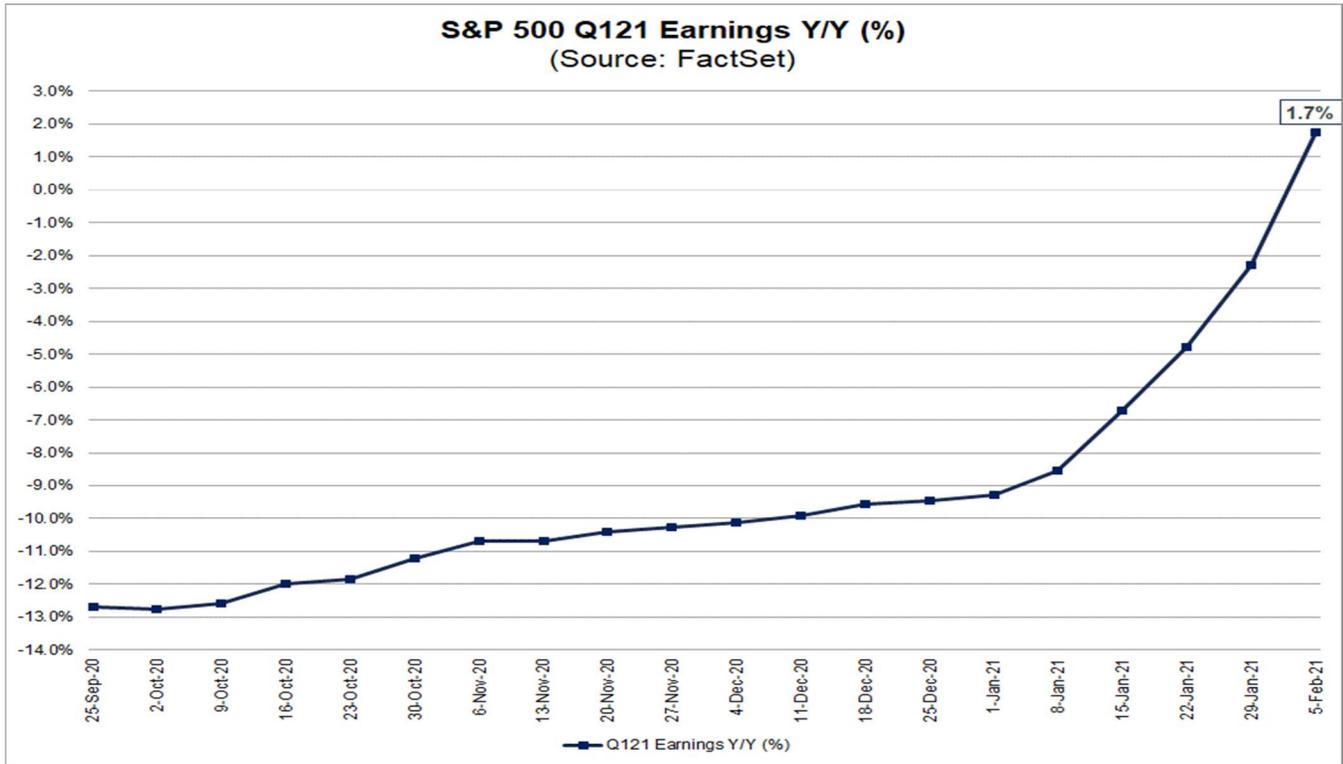
The Financials sector is the largest contributor to this increase in earnings, accounting for about \$16.3 billion of the net increase in earnings. The positive earnings surprises reported by JPMorgan Chase (\$3.79 vs. \$2.62), Goldman Sachs (\$12.08 vs. \$7.45), Citigroup (\$2.08 vs. \$1.34), Morgan Stanley (\$1.92 vs \$1.30), and Capital One Financial (\$5.29 vs. \$2.83) have been substantial contributors to the increase in earnings for the index during this time. As a result, the blended earnings growth rate for the Financials sector has improved to 17.2% today from -9.4% on December 31.

The Information Technology sector is the second-largest contributor to this increase in earnings, accounting for about \$11.5 billion of the net increase in earnings. The positive earnings surprises reported by Apple (\$1.68 vs. \$1.42), Microsoft (\$2.03 vs. \$1.64) and Intel (\$1.52 vs. \$1.11) have been significant contributors to the increase in earnings for the index during this time. As a result, the blended earnings growth rate for the Information Technology sector has improved to 15.6% today from 1.5% on December 31.

The Communication Services sector is the third-largest contributor to this increase in earnings, accounting for about \$7.5 billion of the net increase in earnings. The positive earnings surprises reported by Alphabet (\$22.30 vs. \$15.79) and Facebook (\$3.88 vs. \$1.25) have been substantial contributors to the increase in earnings for the index during this time. As a result, the blended earnings growth rate for the Communication Service sector has improved to 6.0% today from -12.9% on December 31.

Outside of the Information Technology sector, the positive EPS surprises reported by Amazon.com (\$14.09 vs. \$7.20) and Ford Motor (\$0.34 vs. -\$0.05) in the Consumer Discretionary sector have also been significant contributors to the increase in earnings for the index since December 31.

It should also be noted that the Industrials sector is the largest detractor to the improvement in earnings for the index since December 31, accounting for about a \$6.0 billion decrease in earnings against the overall net increase. The negative earnings surprise reported by Boeing (-\$15.25 vs. -\$1.78) has been the largest detractor to the net increase in earnings for the index during this time. If Boeing were excluded, the blended earnings growth rate for the S&P 500 would improve to 3.8% from 1.7%.



## Topic of the Week: 2

### How Much Is Consumer Spending Still Being Impacted By COVID-19?

**(Author's Note: This "Topic of the Week" was co-written by Sara Potter, Senior Content Specialist at FactSet)**

During the second quarter of 2020, macroeconomic activity and consumer spending declined dramatically due to the impact of government policies implemented to reduce the spread of COVID-19. Globally, the widely accepted method for mitigating the spread of the virus was to limit human movement and interactions. Strict lockdowns aimed at limiting the spread of this new and deadly virus kept consumers at home and many businesses closed their physical operations. In general retail establishments selling groceries were deemed essential and remained open, and many consumers switched to online delivery services for fresh food as well as pantry staples. But stores selling discretionary items such as clothing saw their business dry up; in the U.S. that led to an acceleration of the decline of brick-and-mortar retail. In addition, many businesses providing consumer services were forced to close. Due to the near-total shutdown of economic activity, second-quarter GDP in the U.S. decreased by 31.4% (% change vs. prior period annualized), while revenues for companies in the Consumer Discretionary sector in the S&P 1500 fell by 15.3% year-over-year.

However, since the end of the second quarter, many of the policies that constricted economic activity to reduce the spread of the virus have been loosened or eased to varying degrees across the globe and across the U.S. As a result, there has been a resurgence in economic activity in recent months. For example, the just-released fourth-quarter U.S. GDP figures show that real GDP grew by 4.0% (seasonally adjusted annual rate) in the last quarter of 2020 compared to the prior quarter.

The consumer impact is key because personal consumption makes up approximately two-thirds of U.S. GDP. Thus, has there been a change in consumer spending patterns over the past few months due to the easing of restrictions for COVID-19? Or have consumers mainly continued and accelerated their prior spending patterns due to trends caused by COVID-19? How much is consumer spending still being impacted by COVID-19?

To answer this question, FactSet looked at three data sets to gain more insight into U.S. consumer spending: Retail Sales, Personal Consumption Expenditures, and S&P 1500 Consumer Discretionary sector revenue growth.

#### U.S. Retail Sales

The U.S. Census Bureau's retail sales data clearly reflect that by the end of 2020, consumers had continued their prior spending patterns despite the impact of the pandemic. Looking at the fourth quarter, which includes the full holiday season as well as the autumn surge in coronavirus cases nationwide, it is clear which industries were hard hit and which ones prospered over the last 12 months. Compared to the fourth quarter of 2019, restaurants, gas stations, apparel, and electronics and appliance stores all saw steep double-digit declines. On the other hand, retailers selling entertainment goods and construction materials fared well, as did nonstore (largely online) retailers; all saw strong double-digit growth.

#### Retail Sales Fourth Quarter Year-Over-Year Growth by Category (%y/y, seasonally adjusted)

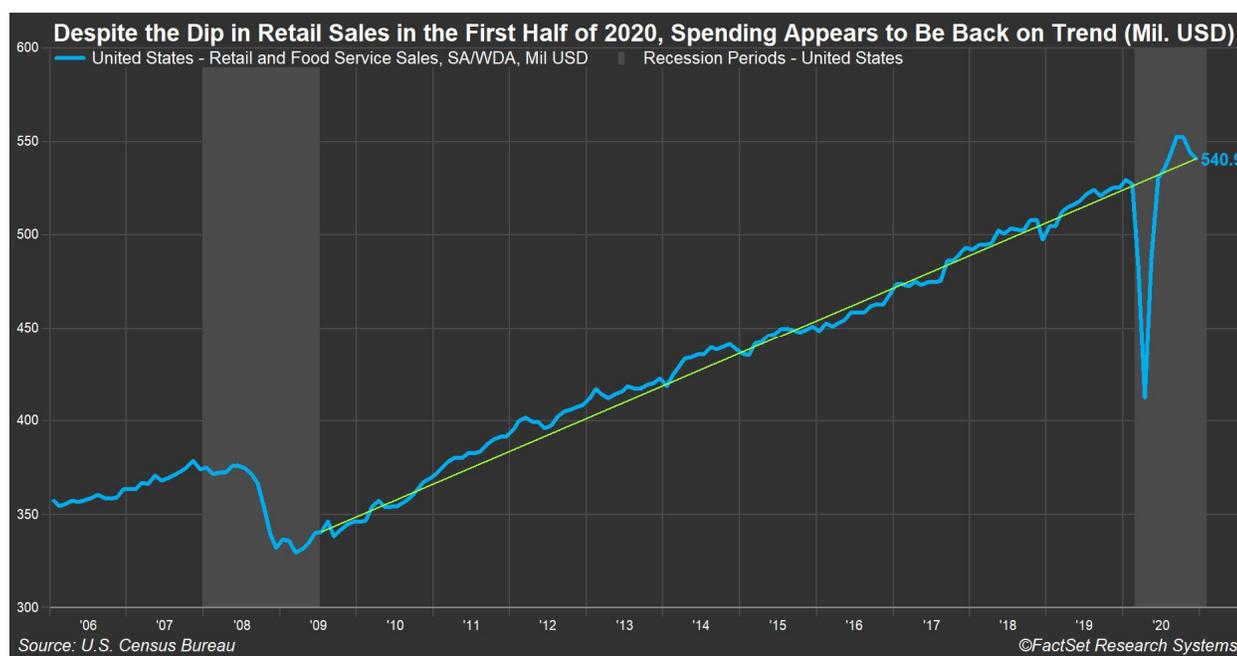
Category	4Q 2020 (%y/y)
Total Retail & Food Services	4.0%
Food Service & Drinking Places	-17.4
Gasoline Stations	-14.3
Clothing & Clothing Accessory Stores	-14.2
Electronics & Appliance Stores	-11.0
General Merchandise Stores	2.6
Miscellaneous Stores	2.8
Furniture & Home Furnishings Stores	3.5

Health & Personal Care Stores	4.5
Motor Vehicle & Parts Dealers	8.8
Food & Beverage Stores	9.8
Sporting Goods, Hobby, Book & Music Stores	16.4
Building Materials, Garden Equip., Supply Stores	17.6
Nonstore Retailers	24.3

Source: [U.S. Census Bureau Monthly Retail Trade report](#)

The data lines up with the narratives of the pandemic. Consumers have foregone eating out at restaurants in favor of eating at home. Recreational activities have moved from external venues to in-home entertainment. Homeowners stuck at home are taking on long-neglected improvement projects and investing in home offices and gyms. In a work-at-home world, commuters are not driving as much and only need to “dress” for work from the waist up, if at all. Ordering everything from yoga pants to bread flour is all done online. “Self-care” is the new indulgence.

Interestingly, overall retail sales returned to their long-term trend levels by the end of the year. Even though spending was severely curtailed in the early months of the pandemic, there was a surge in the late spring and summer due to pent-up demand. In fact, despite consecutive month-over-month declines in the fourth quarter, total retail sales excluding food services were up 6.3% in December compared to December 2019.



### Personal Consumption Expenditures

While the Census Bureau’s retail sales data gives us a clear picture of spending on goods and at food and drinking establishments, it doesn’t cover consumer spending on many of the services that were heavily impacted by the pandemic. Fourth-quarter personal consumption expenditures were down 1.4% compared to a year ago according to data from the U.S. Bureau of Economic Analysis; however, there was a wide disparity between spending on goods vs. services. While consumption expenditures on goods were up 6.5% in the fourth quarter compared to the same quarter of 2019, services consumption was down by 5.0%.

The only two major subcategories of services that grew in the fourth quarter on a year-over-year basis were Housing & Utilities (+3.5%) and Financial Services & Insurance (+1.5%). The biggest decliners were Recreation Services

(-31.3%), Transportation Services (-26.5%), and Food Services & Accommodations (-19.4%). While these three subcategories are the smallest groupings within the services component, their substantial drops were enough to drag down the overall category. The steep drop in Recreation Services is key to the narrative around the decline in consumer demand for services, as this category covers everything from amusement parks to spectator sports to casino gambling.

### S&P 1500 Consumer Discretionary Revenues

Similar to what we saw with overall retail sales, companies in the Consumer Discretionary sector in the S&P 1500 are reporting year-over-year revenue growth of 5.6% for the fourth quarter.

Looking one level deeper at the industry group level, the Retailing industry group is reporting the largest (year-over-year) revenue growth of the four industry groups in the sector at 12.9%. On the other hand, the Consumer Services industry group is reporting the largest (year-over-year) revenue decline at -32.9%. These top and bottom performers mirror what we saw in the personal consumption expenditures data: consumers are spending more on goods (Retailing) while their consumption of services (Consumer Services) has fallen sharply.

### S&P 1500 Q4 Consumer Discretionary Industry Group Revenue Growth (%/y)

Industry Group	4Q 2020 (%/y)
Retailing	12.9%
Automobiles & Components	7.1%
Consumer Durables & Apparel	3.9%
Consumer Services	-32.9%

Going deeper into the Retailing revenue growth numbers at the sub-industry level, seven of the ten retail sub-industries are reporting revenue growth, led by the Internet & Direct Marketing Retail, Home Improvement Retail, and General Merchandise Stores sub-industries. These top performers are similar to the top performers in the U.S. retail sales numbers. Companies classified as Nonstore retailers in the retail sales data likely overlap with companies in the Internet & Direct Marketing Retail sub-industry in the Retailing industry group as the top performers. Companies classified as Building Materials, Garden Equip., and Supply Stores in the retail sales data likely overlap with companies in the Home Improvement Retail sub-industry in the Retailing industry group as the second-best performers.

Again, all these top performers are beneficiaries of some of the trends caused by or accelerated by the pandemic. As previously noted, many consumers are having more goods delivered directly to their homes or doing curbside pickup due to the pandemic, which helps explain the high sales growth for the Internet & Direct Marketing Retail (30%) and General Merchandise Stores (15%) sub-industries. Due to spending more time at home because of the pandemic, many consumers are opting to do more home improvements and repairs, which helps explain the high sales growth for the Home Improvement Retail (18%) sub-industry.

### S&P 1500 Q4 Consumer Discretionary Retailing Sub-Industry Revenue Growth (%/y)

Sub-Industry	4Q 2020 (%/y)
Internet & Direct Marketing Retail	29.6%
Home Improvement Retail	18.0%
General Merchandise Stores	14.5%
Computer & Electronics Retail	10.1%
Homefurnishing Retail	7.6%
Automotive Retail	5.3%
Specialty Stores	4.7%
Distributors	-3.1%

Apparel Retail	-4.8%
Department Stores	-17.6%

Within the Retailing industry group in the S&P 1500, there are not only sharp differences in performance by sub-industry, but also by market capitalization. Retailers in the S&P 500 are reporting (year-over-year) revenue growth of 18.1%, while retailers in the S&P 600 are reporting a (year-over-year revenue decline of 5.4%. Thus, it appears consumers are spending more at larger retailers than smaller ones. This could be due to a number of factors including government policies that have allowed many of these larger stores to stay open throughout the pandemic, more digital or online capabilities at the larger stores, and more resources at the larger stores to meet the safety protocols required by COVID-19.

### **S&P 1500 Q4 Consumer Discretionary Retailing Industry Group Revenue Growth (%y/y)**

<b>Index</b>	<b>4Q 2020 (%y/y)</b>
S&P 500	18.1%
S&P 400	-0.6%
S&P 600	-5.4%

Based on fourth-quarter data for U.S. retail sales, U.S. personal consumption expenditures, and S&P 1500 Consumer Discretionary sector revenue growth, it appears consumers have continued and accelerated their prior spending patterns due to trends caused by COVID-19. Although restrictions have been easing, consumers are still spending more on goods and less on services. They are also continuing to buy goods (mainly from large retailers) related to more time spent at home due to the pandemic. At this point, there may not be a significant change in spending patterns until vaccinations for the virus are widespread.

## Q4 Earnings Season: By The Numbers

### Overview

At this point in time, more S&P 500 companies are beating EPS estimates for the fourth quarter than average, and beating EPS estimates by a wider margin than average. As a result, the index is reporting higher earnings for the fourth quarter today relative to the end of last week and relative to the end of the quarter. Due to this increase in earnings, the index is now reporting year-over-year growth in earnings in Q4 2020 for the first time since Q4 2019. Analysts expect double-digit earnings growth for all four quarters of 2021.

Overall, 59% of the companies in the S&P 500 have reported actual results for Q4 2020 to date. Of these companies, 81% have reported actual EPS above estimates, which is above the 5-year average of 74%. If 81% is the final percentage for the quarter, it will tie the mark for the second-highest percentage of S&P 500 companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008. In aggregate, companies are reporting earnings that are 15.2% above the estimates, which is also above the 5-year average of 6.3%. If 15.2% is the final percentage for the quarter, it will mark the third-largest earnings surprise percentage reported by the index since FactSet began tracking this metric in 2008.

Due to the number and magnitude of these positive EPS surprises, the index is reporting higher earnings for the fourth quarter today relative to the end of last week and relative to the end of the quarter. The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) earnings growth rate for the fourth quarter is 1.7% today, compared to a year-over-year decline in earnings of -2.4% last week and a year-over-year decline in earnings of -9.3% at the end of the fourth quarter. Positive earnings surprises reported by companies in the Consumer Discretionary and Communication Services sectors were the top contributors to the improvement in overall earnings for the index during the past week. Positive earnings surprises reported by companies in the Financials, Information Technology, and Communication Services sectors have been the top contributors to the overall increase in earnings since the end of the fourth quarter.

If 1.7% is the actual growth rate for the quarter, it will mark the first time the index has reported year-over-year earnings growth since Q4 2019 (0.8%), and it will mark the highest year-over-year earnings growth reported by the index since Q4 2018 (13.2%). Seven sectors are reporting year-over-year earnings growth, led by the Financials, Materials, Information Technology, and Health Care sectors. Four sectors are reporting a year-over-year decline in earnings, led by the Energy and Industrials sectors.

In terms of revenues, 79% of S&P 500 companies have reported actual revenues above estimates, which is above the 5-year average of 62%. If 79% is the final percentage for the quarter, it will tie the mark for the highest percentage of S&P 500 companies reporting a positive revenue surprise since FactSet began tracking this metric in 2008. In aggregate, companies are reporting revenues that are 3.4% above the estimates, which is also above the 5-year average of 0.9%. If 3.4% is the final percentage for the quarter, it will mark the largest revenue surprise percentage reported by the index since FactSet began tracking this metric in 2008.

Due to the number and magnitude of these revenue surprises, the blended revenue growth rate for the fourth quarter is higher now relative to the end of last week and relative to the end of the fourth quarter. As of today, the S&P 500 is reporting year-over-year growth in revenues of 2.7%, compared to year-over-year growth in revenues of 1.6% last week and year-over-year growth in earnings of 0.1% at the end of the fourth quarter. Positive revenue surprises reported by companies in the Communication Services, Health Care, and Financials sectors were the largest contributors to the increase in overall revenues for the index over the past week. Positive revenue surprises reported by companies in the Information Technology, Financials, and Communication Services sectors have been the largest contributors to the increase in the overall revenues for the index since the end of the fourth quarter.

If 2.7% is the actual growth rate for the quarter, it will mark the first time the index has reported year-over-year revenue growth since Q1 2020 (0.8%), and it will mark the highest year-over-year revenue growth reported by the index since Q4 2019 (3.4%). Eight sectors are reporting year-over-year growth in revenues, led by the Health Care, Information Technology, Consumer Discretionary, and Communication Services sectors. Three sectors are reporting a year-over-year decline in revenues, led by the Energy and Industrials sectors.

Looking at future quarters, analysts project double-digit earnings growth for all four quarters of 2021.

The forward 12-month P/E ratio is 22.0, which is above the 5-year average and above the 10-year average.

During the upcoming week, 77 S&P 500 companies (including three Dow 30 components) are scheduled to report results for the fourth quarter.

## Scorecard: Companies Reporting Record-High or Near Record-High Performances vs. Estimates

### Percentage of Companies Beating EPS Estimates is Near Record-High Level

Overall, 59% of the companies in the S&P 500 have reported earnings to date for the fourth quarter. Of these companies, 81% have reported actual EPS above the mean EPS estimate, 3% have reported actual EPS equal to the mean EPS estimate, and 16% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is above the 1-year (75%) average and above the 5-year (74%) average.

If 81% is the final percentage for the quarter, it will tie the mark (with Q2 2018) for the second-highest percentage of S&P 500 companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008. The current record is 84%, which occurred in both Q3 2020 and Q2 2020.

At the sector level, the Information Technology (93%) and Communication Services (92%) sectors have the highest percentages of companies reporting earnings above estimates, while the Real Estate (45%) and Energy (67%) sectors has the lowest percentage of companies reporting earnings (or FFO for Real Estate) above estimates.

### Earnings Surprise Percentage (+15.2%) is Well Above 5-Year Average

In aggregate, companies are reporting earnings that are 15.2% above expectations. This surprise percentage is above the 1-year (+11.9%) average and above the 5-year (+6.3%) average.

If 15.2% is the final percentage for the quarter, it will mark the third-largest earnings surprise percentage reported by the index since FactSet began tracking this metric in 2008. The current record is 23.1%, which occurred in Q2 2020.

The Consumer Discretionary sector (+54.0%) sector is reporting the largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Ford Motor (\$0.34 vs. -\$0.05) and Amazon.com (\$14.09 vs. \$7.20) have reported some of the largest positive EPS surprises.

The Energy sector (+28.0%) sector is reporting the second-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Exxon Mobil (\$0.03 vs. \$0.01) and Marathon Petroleum (-\$0.94 vs. -\$1.37) have reported some of the largest positive EPS surprises.

The Financials sector (+27.2%) sector is reporting the third-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, SVB Financial Group (\$7.40 vs. \$3.80), Capital One Financial (\$5.29 vs. \$2.83), Goldman Sachs (\$12.08 vs. \$7.45), Zions Bancorporation (\$1.66 vs. \$1.02), Citigroup (\$2.08 vs. \$1.34), and Travelers Companies (\$4.91 vs. \$3.18) have reported some of the largest positive EPS surprises.

The Communication Services sector (+21.0%) sector is reporting the fourth-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, News Corporation (\$0.34 vs. \$0.10), Alphabet (\$22.30 vs. \$15.79), Charter Communications (\$6.05 vs. \$4.83), Electronic Arts (\$3.61 vs. \$2.95), and Facebook (\$3.88 vs. \$3.19) have reported some of the largest positive EPS surprises.

The Information Technology sector (+17.5%) sector is reporting the fifth-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Skyworks Solutions (\$3.36 vs. \$2.09), DXC Technology (\$0.84 vs. \$0.54), Intel (\$1.52 vs. \$1.11), Texas Instruments (\$1.80 vs. \$1.34), Western Digital (\$0.69 vs. \$0.54), Microsoft (\$2.03 vs. \$1.64), and Apple (\$1.68 vs. \$1.42) have reported some of the largest positive EPS surprises.

The Industrials sector (-35.3%) sector is reporting the largest negative (aggregate) difference between actual earnings and estimated earnings. Within this sector, Boeing (-\$15.25 vs. -\$1.78) has reported the largest negative EPS surprise.

## Market Punishing Positive Earnings Surprises

To date, the market is not rewarding positive earnings surprises and punishing negative earnings surprises less than average.

Companies that have reported positive earnings surprises for Q4 2020 have seen an average price decrease of -0.5% two days before the earnings release through two days after the earnings release. This percentage decrease is well below the 5-year average price increase of +0.9% during this same window for companies reporting positive earnings surprises.

Companies that have reported negative earnings surprises for Q4 2020 have seen an average price decrease of -1.7% two days before the earnings release through two days after the earnings. This percentage decrease is smaller than the 5-year average price decrease of -2.5% during this same window for companies reporting negative earnings surprises.

## Percentage of Companies Beating Revenue Estimates (79%) is at Record-High Level

In terms of revenues, 79% of companies have reported actual revenues above estimated revenues and 21% have reported actual revenues below estimated revenues. The percentage of companies reporting revenues above estimates is above the 1-year average (66%) and above the 5-year average (62%).

If 79% is the final percentage for the quarter, it will tie the mark (with Q3 2020) for the highest percentage of S&P 500 companies reporting a positive revenue surprise since FactSet began tracking this metric in 2008.

At the sector level, the Communication Services (100%), Information Technology (93%), Health Care (90%), and Consumer Staples (89%) sectors have the highest percentages of companies reporting revenues above estimates, while the Utilities (20%) and Real Estate (36%) sectors have the lowest percentages of companies reporting revenues above estimates.

## Revenue Surprise Percentage (+3.4%) is at Record-High Level

In aggregate, companies are reporting revenues that are 3.4% above expectations. This surprise percentage is above the 1-year (+1.4%) average and above the 5-year (+0.9%) average.

If 3.4% is the final percentage for the quarter, it will mark the largest revenue surprise percentage reported by the index since FactSet began tracking this metric in 2008. The current record is 2.6%, which occurred in Q3 2020.

At the sector level, the Information Technology (+5.7%) and Communication Services (+4.8%) sectors are reporting the largest positive (aggregate) differences between actual revenues and estimated revenues, while the Utilities (-11.9%) sector is the only sector reporting a negative (aggregate) difference between actual revenue and estimated revenues.

## Revisions: Increase in Earnings This Week

### Increase in Earnings This Week Due to Multiple Sectors

The blended (year-over-year) earnings growth rate for the fourth quarter is 1.7%, which is above the earnings decline of -2.4% last week. Positive earnings surprises reported by companies in multiple sectors (led by the Consumer Discretionary and Communications Services sectors) were responsible for the increase in earnings for the index during the week.

In the Consumer Discretionary sector, the positive EPS surprises reported by Amazon.com (\$14.09 vs. \$7.20) and Ford Motor (\$0.34 vs. -\$0.05) were substantial contributors to the increase in the earnings for the index during the week. As a result, the year-over-year earnings for the Consumer Discretionary sector improved to 0.4% from -19.0% over this period.

In the Communication Services sector, the positive EPS surprise reported by Alphabet (\$22.30 vs. \$15.79) was the largest contributor to the increase in the earnings for the index during the week. As a result, the blended earnings growth rate for the Communications Services sector increased to 6.0% from -5.5% over this period.

### Increase in Revenues This Week Due to Multiple Sectors

The blended (year-over-year) revenue growth rate for the fourth quarter is 2.7%, which is larger than the revenue growth rate of 1.6% last week. Positive revenue surprises reported by companies in multiple sectors (led by the Communication Services, Health Care, and Financials sectors) were responsible for the increase in the overall revenue growth rate during the past week.

### Financials Sector Has Seen Largest Increase in Earnings since December 31

The blended (year-over-year) earnings growth rate for Q4 2020 of 1.7% is larger than the estimate of -9.3% at the end of the fourth quarter (December 31). Nine sectors have recorded a decrease in their earnings decline or an increase in earnings growth since the end of the quarter due to upward revisions to earnings estimates and positive earnings surprises, led by the Financials sector (to 17.2% from -9.4%), Communication Services (6.0% from -12.9%), and Consumer Discretionary (to 0.4% from -18.3%) sectors. Two sectors have recorded an increase in their earnings decline or a decrease in their earnings growth rate due to downward revisions to earnings estimates and negative earnings surprises, led by the Industrials sector (to -54.8% from -34.9%).

### Tech Sector Has Seen Largest Increase in Revenues since December 31

The blended (year-over-year) revenue growth rate for Q4 2020 of 2.7% is larger than the estimate of 0.1% at the end of the fourth quarter (December 31). Ten sectors have recorded a decrease in their revenue decline or an increase in revenue growth since the end of the quarter due to upward revisions to revenue estimates and positive revenue surprises, led by the Information Technology (to 10.8% from 5.9%) and Communication Services (to 9.6% from 5.3%) sectors. The Utilities (to 4.2% from 6.5%) sector is the only sector that has recorded a decrease in revenue growth during this time due to downward revisions to revenue estimates and negative revenue surprises.

### Earnings Growth: 1.7%

The blended (year-over-year) earnings growth rate for Q4 2020 is 1.7%, which is below the 5-year average earnings growth rate of 3.8%. If 1.7% is the actual growth rate for the quarter, it will mark the first time the index has reported year-over-year earnings growth since Q4 2019, and it will mark the highest year-over-year earnings growth reported by the index since Q4 2018 (13.2%). Seven sectors are reporting year-over-year earnings growth, led by the Financials, Materials, Information Technology, and Health Care sectors. Four sectors are reporting a year-over-year decline in earnings, led by the Energy and Industrials sectors.

### Financials: JPMorgan Chase is Largest Contributor to Year-Over-Year Growth

The Financials sector is reporting the highest (year-over-year) earnings growth of all eleven sectors at 17.2%. At the industry level, all five industries in this sector are reporting year-over-year growth in earnings. Four of these five industries are reporting double-digit earnings growth: Capital Markets (35%), Consumer Finance (25%), Diversified Financial Services (25%), and Insurance (15%).

At the company level, JPMorgan Chase, Goldman Sachs, Morgan Stanley, and Capital One Financial are the largest contributors to earnings growth for the sector. If these four companies were excluded, the earnings growth rate for the sector would fall to 3.5% from 17.2%.

### Materials: Metals & Mining Industry Is Largest Contributor to Year-Over-Year Growth

The Materials sector is reporting the second-highest (year-over-year) earnings growth of all eleven sectors at 16.7%. At the industry level, two of the four industries in this sector are reporting year-over-year growth in earnings: Metals & Mining (189%) and Chemicals (6%). On the other hand, the Containers & Packaging (-4%) and Construction Materials (<-1%) industries are reporting year-over-year declines in earnings.

The Metals & Mining industry is also the largest contributor to year-over-year growth in earnings for the sector. If the three companies in this industry were excluded, year-over-year earnings for this sector would fall to 2.6% from 16.7%.

### Information Technology: Apple and Microsoft Are Largest Contributors to Year-Over-Year Growth

The Information Technology sector is reporting the third-highest (year-over-year) earnings growth of all eleven sectors at 15.6%. At the industry level, four of the six industries in this sector are reporting double-digit earnings growth: Semiconductors & Semiconductor Equipment (28%), Software (26%), Technology Hardware, Storage, & Peripherals (23%), and Electronic Equipment, Instruments, & Components (14%). The other two industries in the sector are reporting year-over-year declines in earnings: IT Services (-16%) and Communications Equipment (-2%).

At the company level, Apple and Microsoft are the largest contributors to earnings growth for the sector. If these two companies were excluded, the earnings growth rate for the sector would fall to 5.9% from 15.6%.

### Health Care: 5 of 6 Industries Reporting Year-Over-Year Growth

The Health Care sector is reporting the fourth-largest (year-over-year) earnings growth of all eleven sectors at 12.5%. At the industry level, five of the six industries in this sector are reporting growth in earnings. Four of these five industries are reporting double-digit growth in earnings: Life Sciences, Tools, & Service (61%), Biotechnology (25%), Health Care Equipment & Supplies (22%), and Pharmaceuticals (11%). On the other hand, the Health Care Providers & Services (-14%) industry is the only industry in this sector reporting a year-over-year decline in earnings.

### Energy: 3 of 5 Sub-Industries Reporting Year-Over-Year Decline of More Than 90%

The Energy sector is reporting the largest (year-over-year) decline in earnings of all eleven sectors at -101.7%. Lower year-over-year oil prices are contributing to the earnings decline for this sector, as the average price of oil in Q4 2020 (\$41.94) was 26% below the average price for oil in Q4 2019 (\$56.87). At the sub-industry level, four of the five sub-industries in the sector are reporting a decline in earnings. Three of these four sub-industries are reporting a decline in earnings of more than 90%: Oil & Gas Refining & Marketing (-163%), Integrated Oil & Gas (-111%), and Oil & Gas Exploration & Production (-94%). The only sub-industry in the sector that is reporting year-over-year growth in earnings is the Oil & Gas Storage & Transportation (9%) sub-industry.

### Industrials: Boeing and Airlines Industry Are Largest Contributors To Year-Over-Year Decline

The Industrials sector is reporting the second-largest (year-over-year) earnings decline of all eleven sectors at -54.8%. At the industry level, five of the twelve industries in this sector are reporting a decline in earnings. Three of these five industries are reporting a double-digit decline in earnings: Airlines (-345%), Aerospace & Defense (-153%), and Industrial Conglomerates (-18%). On the other hand, seven industries are reporting earnings growth in this sector, led by the Air Freight & Logistics (48%) industry.

Boeing and the five companies in the Airlines industry are also the largest contributors to the year-over-year decline in earnings for the sector. If these six companies were excluded, year-over-year earnings for the sector would improve to 4.7% from -54.8%.

### Revenue Growth: 2.7%

The blended (year-over-year) revenue growth rate for Q4 2020 is 2.7%, which is below the 5-year average revenue growth rate of 3.5%. If 2.7% is the actual growth rate for the quarter, it will mark the first time the index has reported year-over-year revenue growth since Q1 2020 (0.8%), and it will mark the highest year-over-year revenue growth reported by the index since Q4 2019 (3.4%). Eight sectors are reporting year-over-year growth in revenues, led by Health Care, Information Technology, Consumer Discretionary, and Communication Services sectors. Three sectors are reporting a year-over-year decline in revenues, led by the Energy and Industrials sectors.

### Health Care: 5 of 6 Industries Reporting Year-Over-Year Growth At or Above 10%

The Health Care sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 12.0%. At the industry level, five of the six industries in this sector are reporting year-over-year growth in revenues at or above 10%: Life Sciences Tools & Services (32%), Biotechnology (24%), Health Care Equipment & Supplies (14%), Pharmaceuticals (11%), and Health Care Providers & Services (10%). On the other hand, the only industry that is reporting a decline in revenue is the Health Care Technology (-3%) industry.

It should be noted that the revenue growth rates of some of the companies that are the largest contributors to revenue growth for this sector (including Centene and AbbVie) are being boosted by apples-to-oranges comparisons of post-merger revenues in Q4 2020 to pre-merger revenues in Q4 2019.

#### Information Technology: 4 of 6 Industries Reporting Year-Over-Year Growth

The Information Technology sector is reporting the second-highest (year-over-year) revenue growth of all eleven sectors at 10.8%. At the industry level, four of the six industries in this sector are reporting revenue growth. Three of these four industries are reporting double-digit revenue growth: Semiconductors & Semiconductor Equipment (19%), Technology Hardware, Storage, & Peripherals (15%), and Software (14%). The other two industries in the sector are reporting year-over-year declines in revenue: IT Services (-1%) and Communications Equipment (<-1%).

#### Consumer Discretionary: 7 of 10 Industries Reporting Year-Over-Year Growth

The Consumer Discretionary sector is reporting the third-largest (year-over-year) revenue growth of all eleven sectors at 9.6%. At the industry level, seven of the ten industries in this sector are reporting growth in revenues. Six of these seven industries are reporting double-digit growth in revenues: Internet & Direct Marketing Retail (36%), Auto Components (27%), Leisure Products (18%), Multiline Retail (15%), Specialty Retail (10%), and Household Durables (10%). On the other hand, three industries are reporting a year-over-year decline in revenues, led by the Hotels, Restaurants, & Leisure (-42%) industry.

#### Communication Services: Alphabet and T-Mobile Largest Contributors to Year-Over-Year Growth

The Communication Services sector is also reporting the third-largest (year-over-year) revenue growth of all eleven sectors at 9.6%. At the industry level, three of the five industries in this sector are reporting growth in revenues. Two of these three industries are reporting double-digit growth in revenues: Wireless Telecommunication Services (71%) and Interactive Media & Services (25%). On the other hand, two industries are reporting a year-over-year decline in revenues, led by the Entertainment (-17%) industry.

At the company level, Alphabet and T-Mobile are the largest contributors to revenue growth for the sector. If these two companies were excluded, the revenue growth rate for the sector would fall to 0.3% from 9.6%.

#### Energy: 4 of 5 Sub-Industries Reporting Year-Over-Year Decline of More Than 25%

The Energy sector is reporting the largest (year-over-year) decline in revenue of all eleven sectors at -33.2%. Lower year-over-year oil prices are contributing to the revenue decline for this sector, as the average price of oil in Q4 2020 (\$41.94) was 26% below the average price for oil in Q4 2019 (\$56.87). At the sub-industry level, all five sub-industries in the sector are reporting a year-over-year decline in revenue. Four sub-industries are reporting a decline in revenue of more than 25%: Oil & Gas Refining & Marketing (-42%), Integrated Oil & Gas (-31%), Oil & Gas Exploration & Production (-28%), and Oil & Gas Equipment & Services (-26%).

#### Industrials: Airlines Industry Largest Contributor to Year-Over-Year Decline

The Industrials sector is reporting the second-largest (year-over-year) revenue decline of all eleven sectors at -8.4%. At the industry level, nine of the twelve industries in this sector are reporting a decline in revenues, led by the Airlines (-66%) industry. On the other hand, the Air Freight & Logistics (20%) industry is reporting the largest year-over-year revenue growth in the sector.

The Airlines industry is also the largest contributor to the year-over-year decline in revenue for the sector. If the five companies in this industry were excluded, the revenue decline for the sector would improve to -0.6% from -8.4%.

### Net Profit Margin: 10.8%

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) net profit margin for the S&P 500 for Q4 2020 is 10.8%, which is above the 5-year average of 10.5% but below the year-ago net profit margin of 10.9%. If 10.8% is the actual net profit margin for the quarter, it will mark the first time the index has reported a net profit margin above 10% for two consecutive quarters since Q3 2019 and Q4 2019.

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At the sector level, five sectors are reporting net profit margins that are below their 5-year averages, led by the Industrials (4.3% vs. 8.4%) sector. Five sectors are also reporting a year-over-year decline in their net profit margins in Q4 2020 compared to Q4 2019, led by the Industrials (4.3% vs. 8.6%) sector. It should be noted that the Energy sector is reporting a loss for the quarter, so a net profit margin can't be calculated for this sector (due to negative earnings). For this analysis, the Energy sector is counted as reporting a net profit margin below its 5-year average net profit margin and below its year-ago net profit margin due to the loss.

## Looking Ahead: Forward Estimates and Valuation

### Guidance: More S&P 500 Companies Issuing Positive EPS Guidance for Q1 Than Average

At this point in time, 55 companies in the index have issued EPS guidance for Q1 2021. Of these 55 companies, 20 have issued negative EPS guidance and 35 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 64% (35 out of 55), which is well above the 5-year average of 33%.

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.

### Earnings: S&P 500 Reporting Earnings Decline of -11% for CY 2020

For the fourth quarter, S&P 500 companies are reporting growth in earnings of 1.7% and growth in revenues of 2.7%. For all of 2020, S&P 500 companies are reporting a decline in earnings of -11.4% and a decline in revenue of -1.1%.

For Q1 2021, analysts are projecting earnings growth of 21.0% and revenue growth of 5.6%.

For Q2 2021, analysts are projecting earnings growth of 49.4% and revenue growth of 15.6%.

For Q3 2021, analysts are projecting earnings growth of 16.7% and revenue growth of 9.3%.

For Q4 2021, analysts are projecting earnings growth of 14.0% and revenue growth of 6.7%.

For CY 2021, analysts are projecting earnings growth of 23.4% and revenue growth of 9.0%.

### Valuation: Forward P/E Ratio is 22.0, Above the 10-Year Average (15.8)

The forward 12-month P/E ratio is 22.0. This P/E ratio is above the 5-year average of 17.6 and above the 10-year average of 15.8. However, it is below the forward 12-month P/E ratio of 22.4 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 3.1%, while the forward 12-month EPS estimate has increased by 5.1%.

At the sector level, the Consumer Discretionary (36.8) sector has the highest forward 12-month P/E ratio, while the Financials (14.1) sector has the lowest forward 12-month P/E ratio.

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

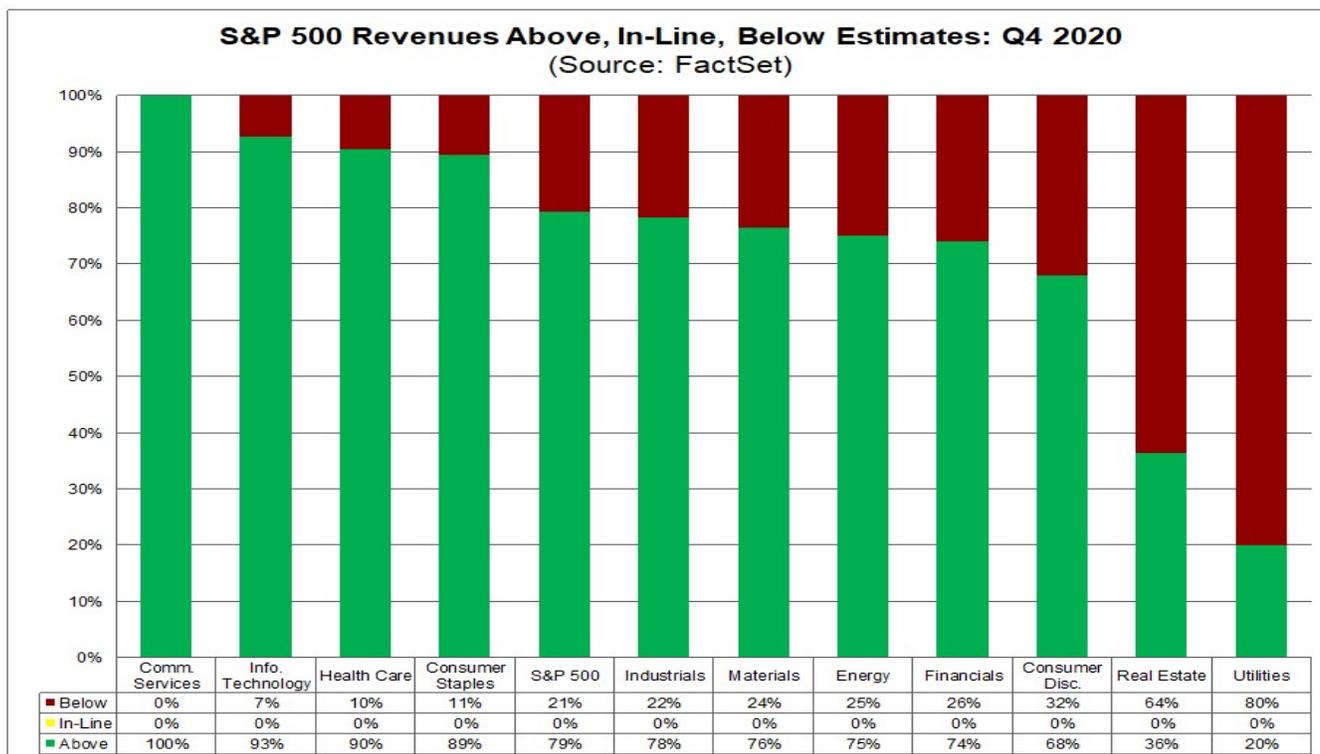
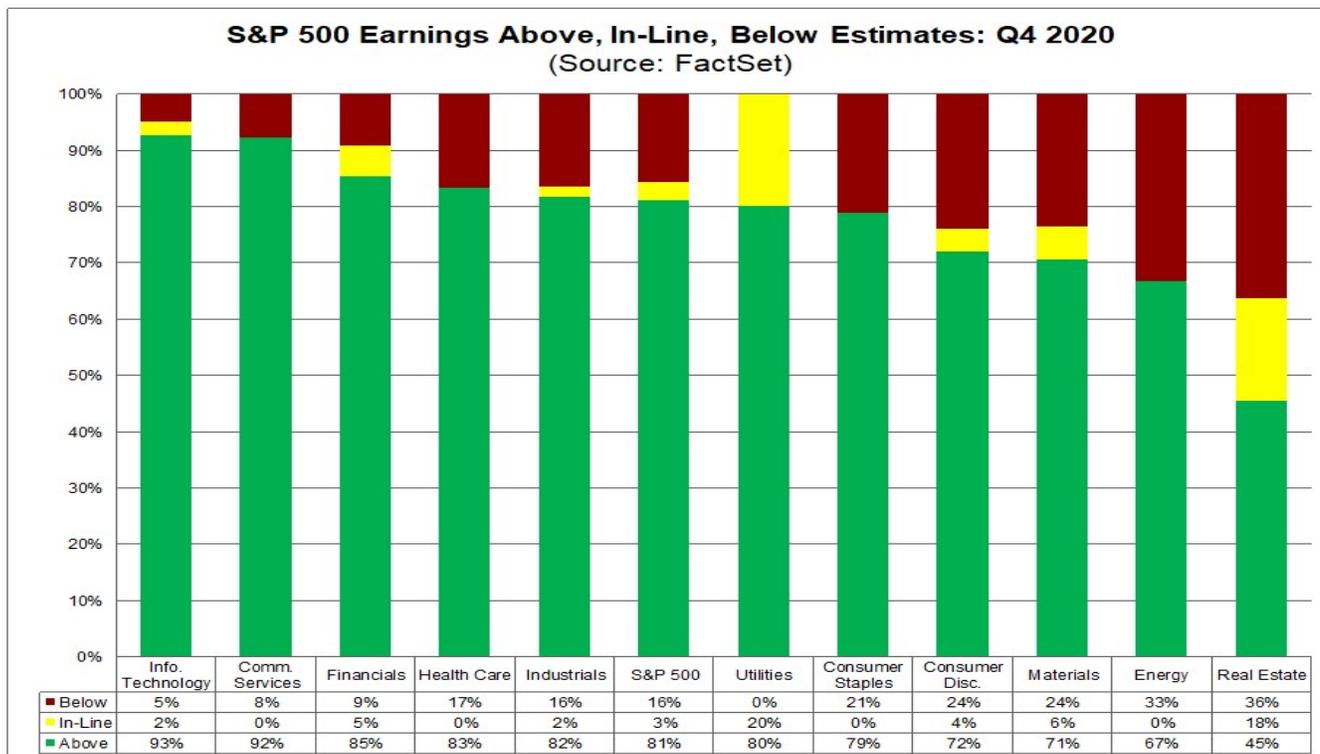
The bottom-up target price for the S&P 500 is 4345.98, which is 12.2% above the closing price of 3871.74. At the sector level, the Communication Services (+14.9%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Real Estate (+8.6%) 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 10,414 ratings on stocks in the S&P 500. Of these 10,414 ratings, 54.7% are Buy ratings, 38.4% are Hold ratings, and 6.7% are Sell ratings. At the sector level, the Energy (64%) and Health Care (61%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (45%) sector has the lowest percentage of Buy ratings.

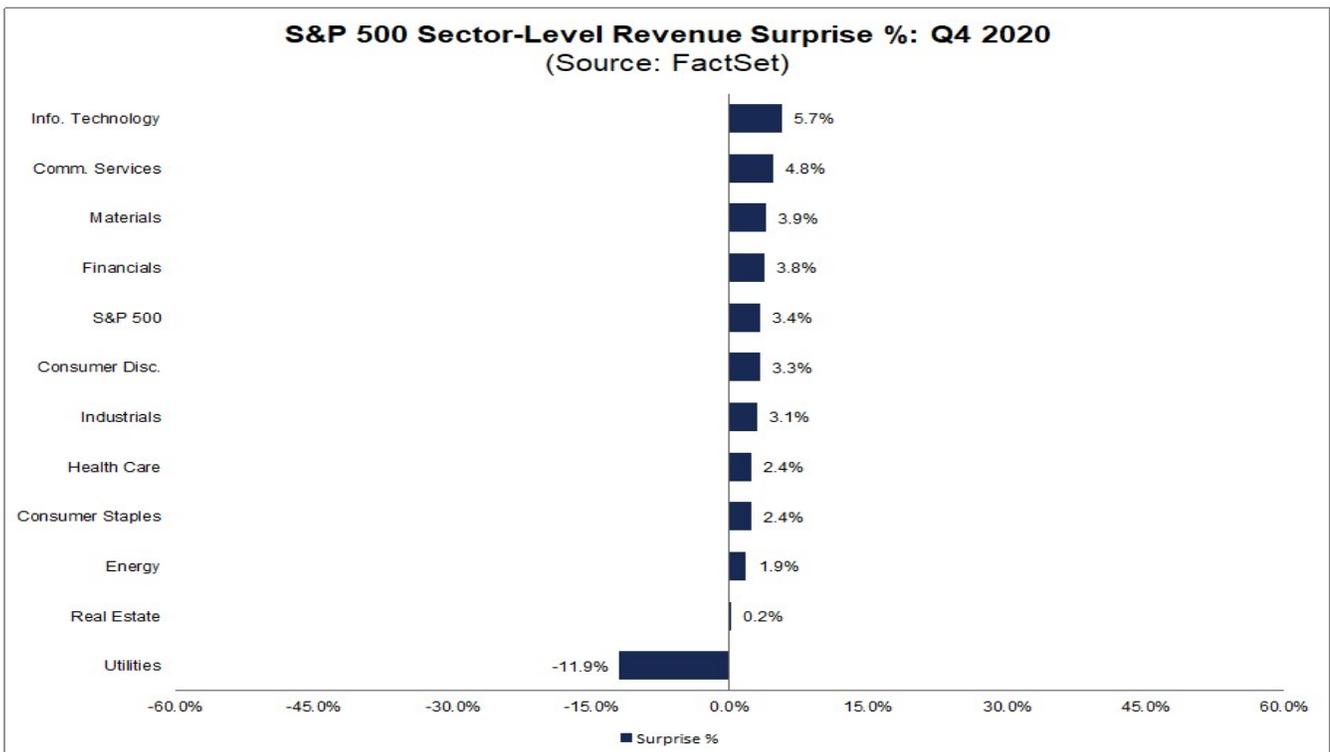
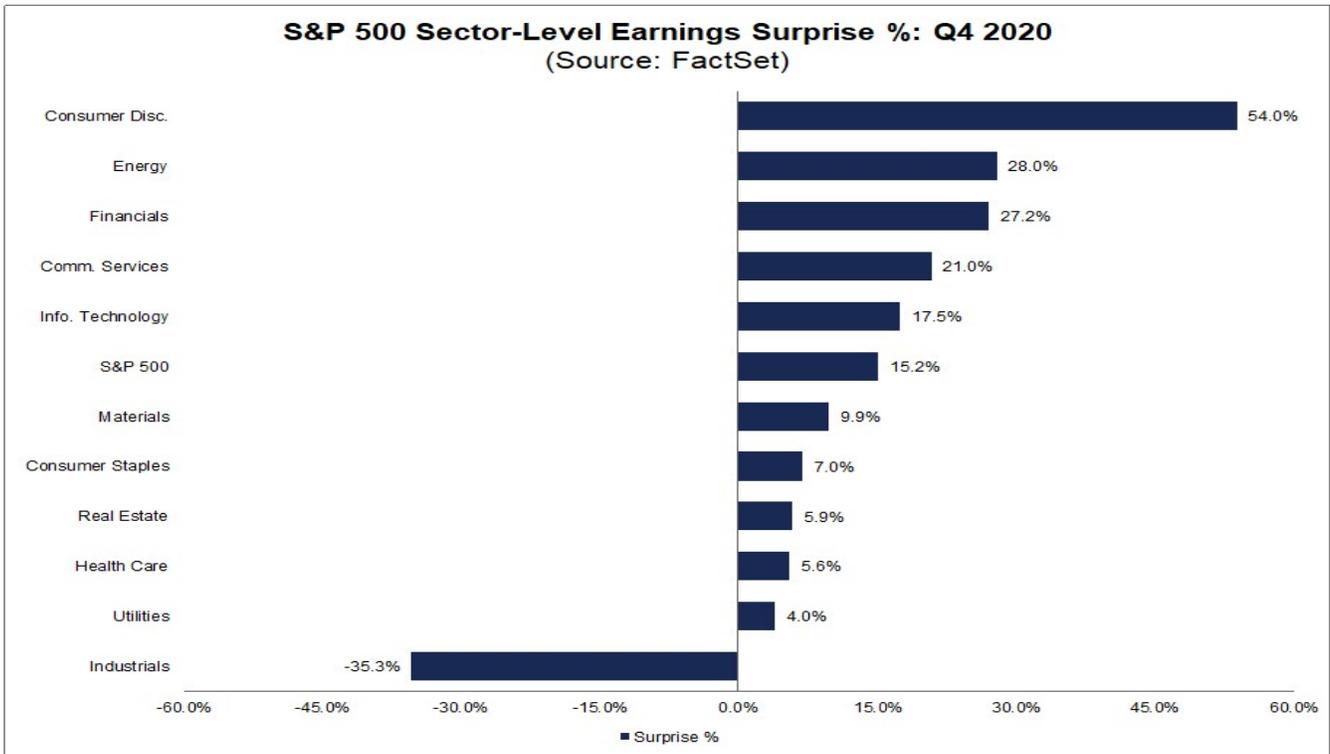
### Companies Reporting Next Week: 77

During the upcoming week, 77 S&P 500 companies (including three Dow 30 components) are scheduled to report results for the fourth quarter.

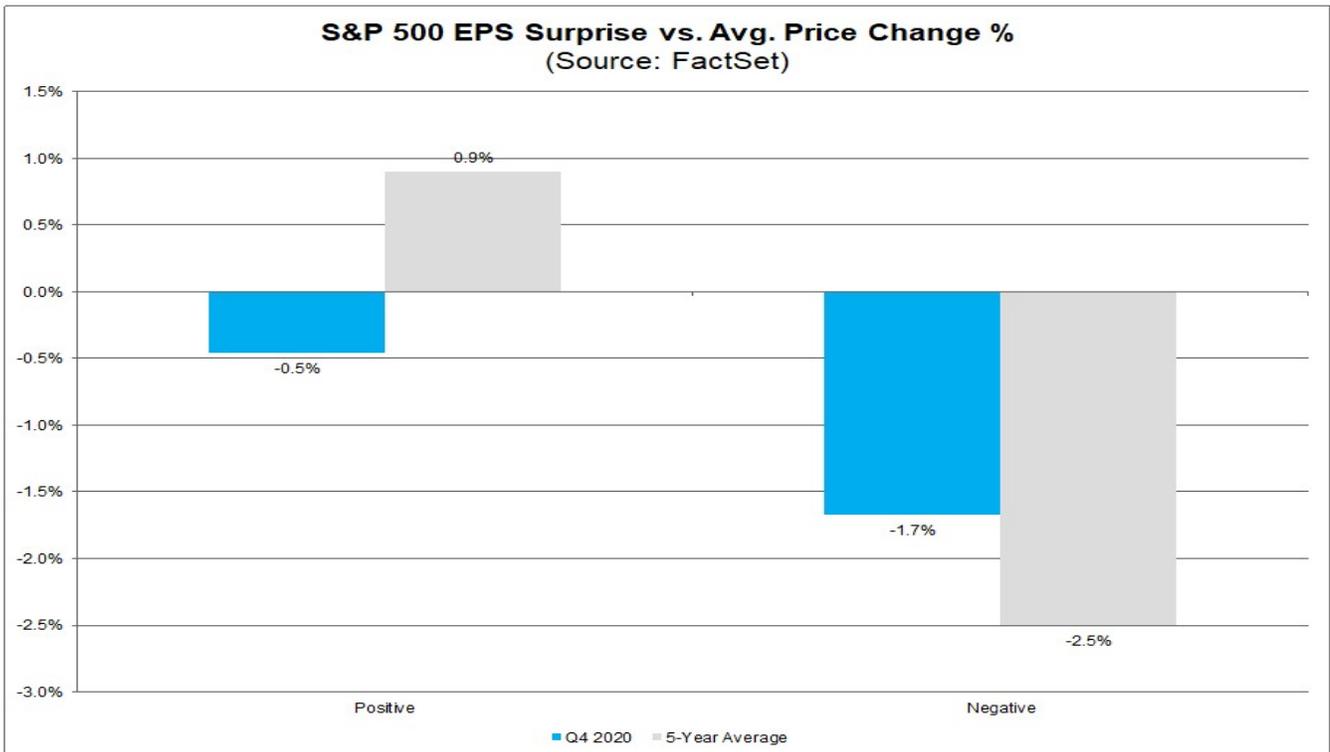
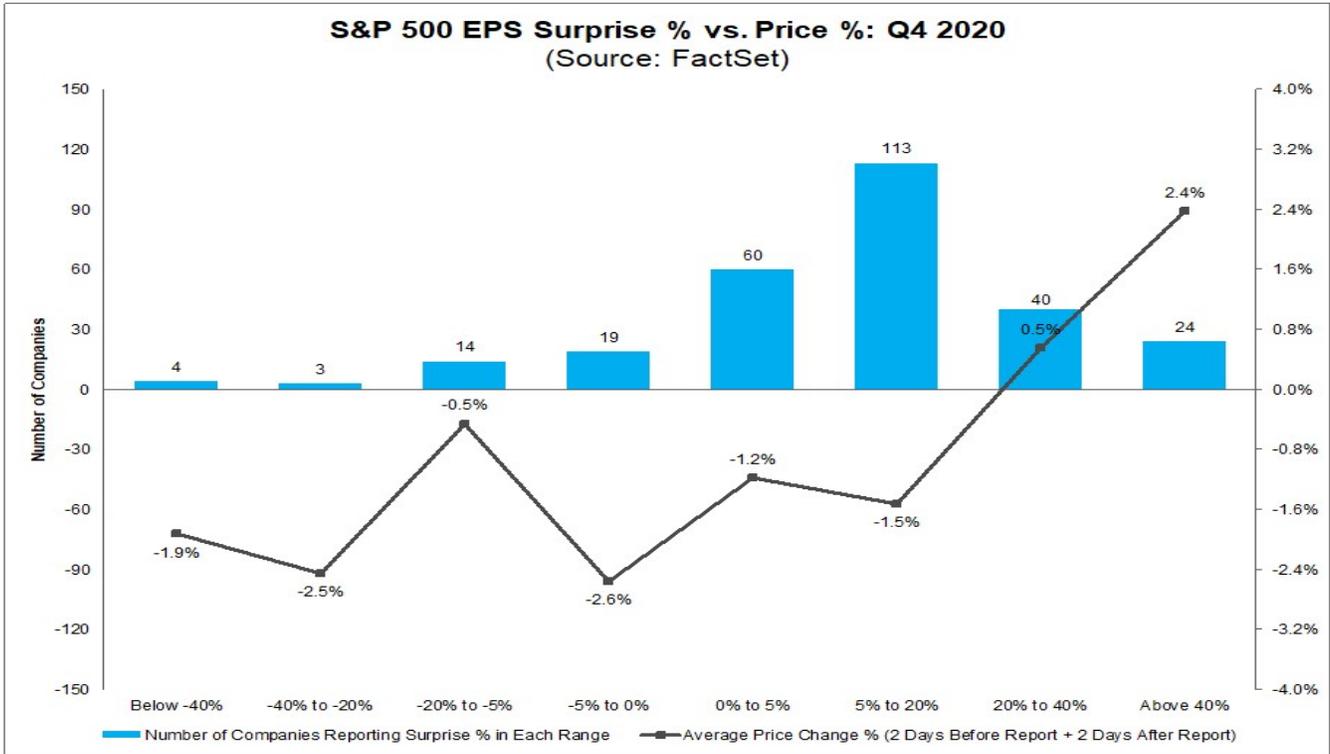
# Q4 2020: Scorecard



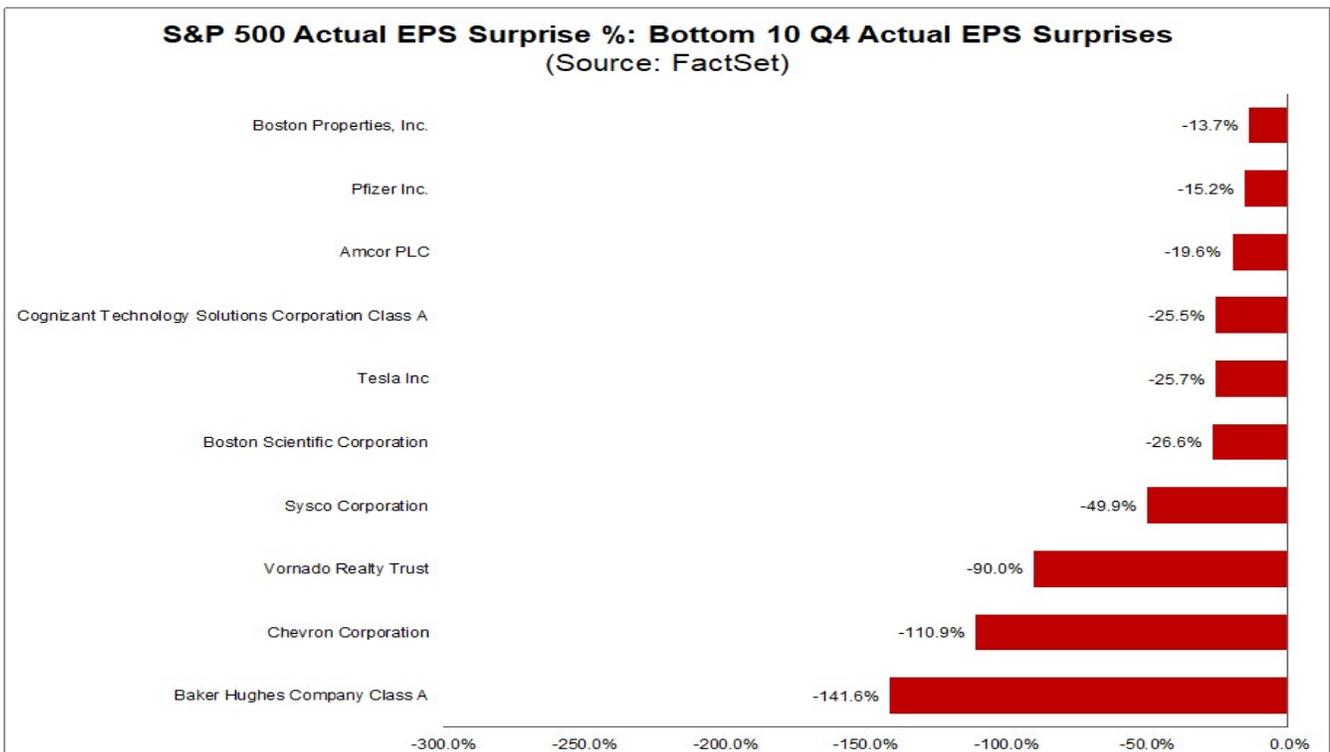
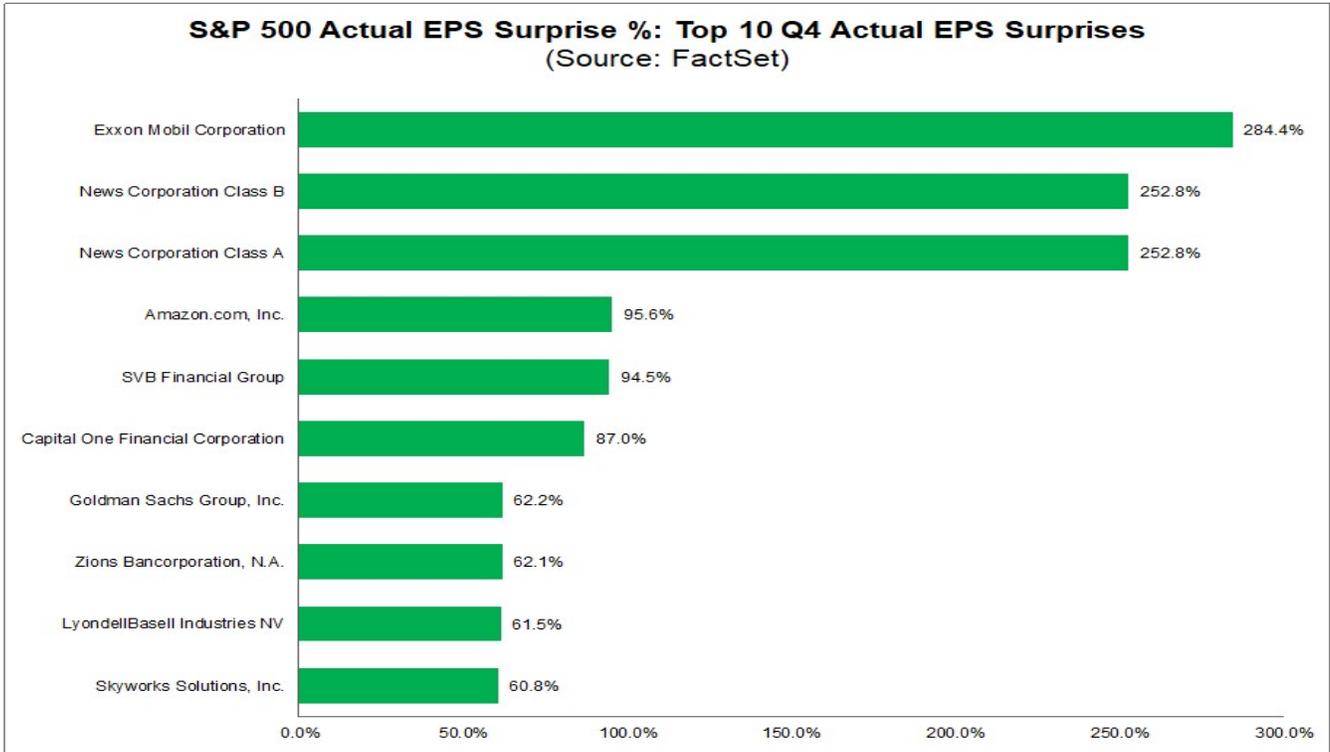
## Q4 2020: Scorecard



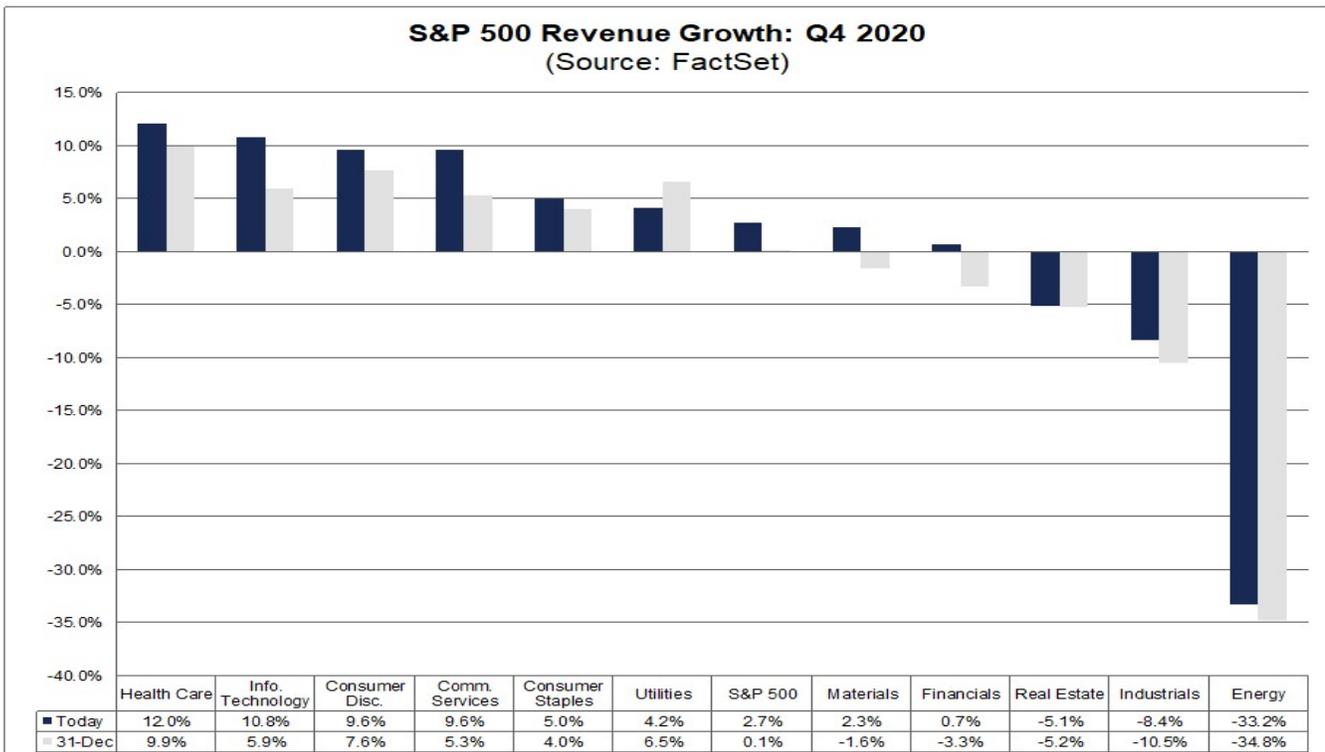
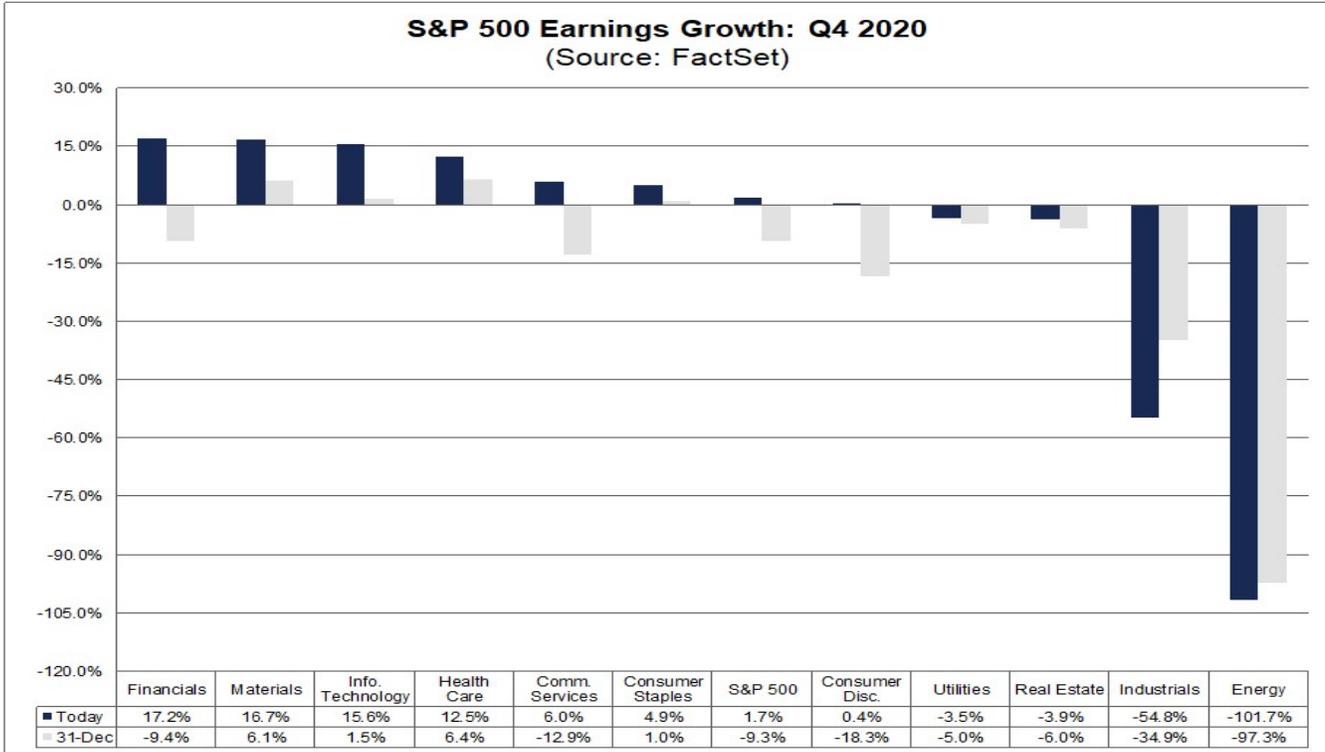
# Q4 2020: Scorecard



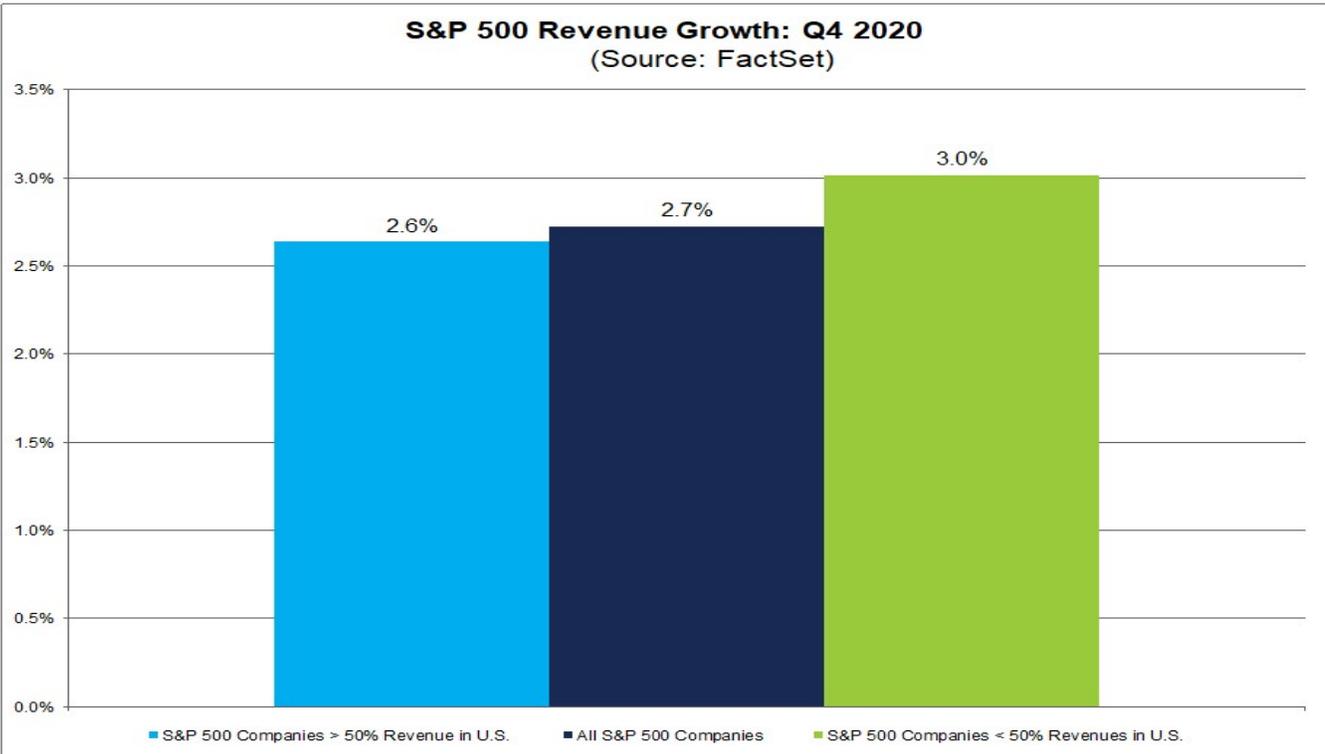
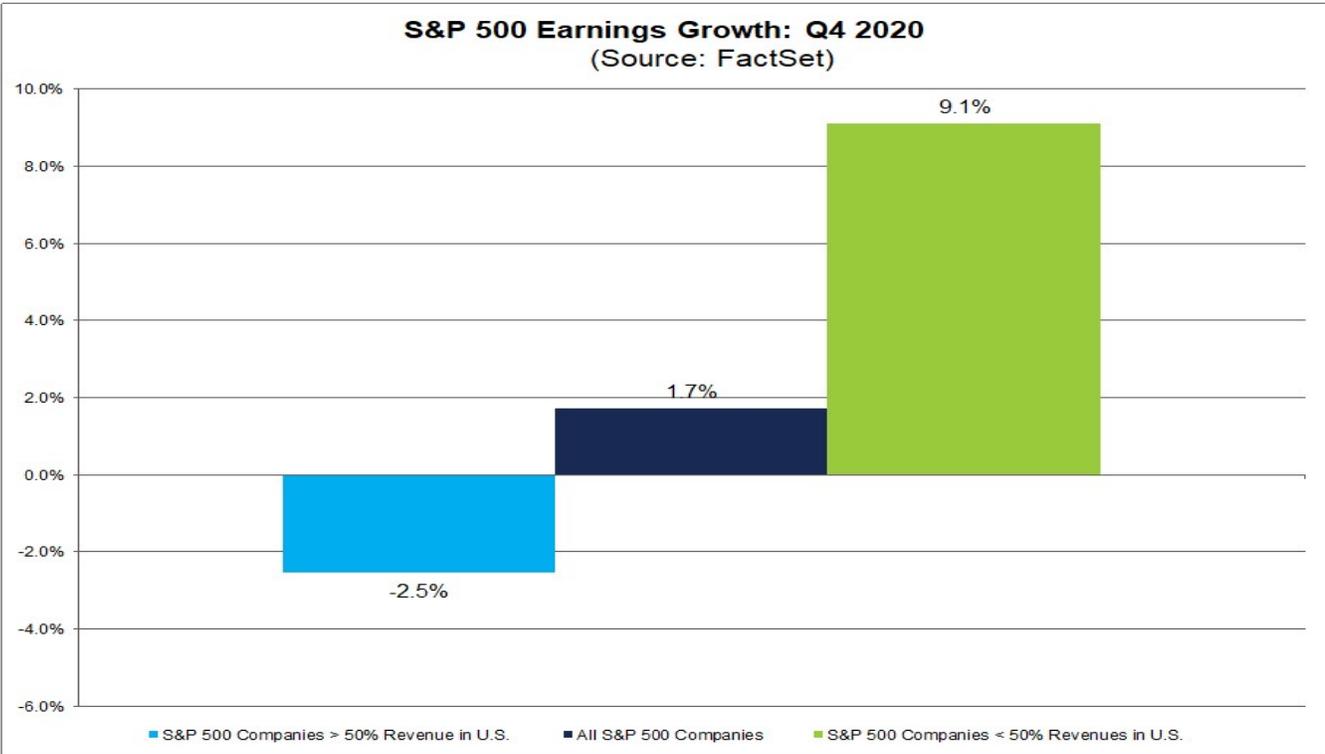
## Q4 2020: Scorecard



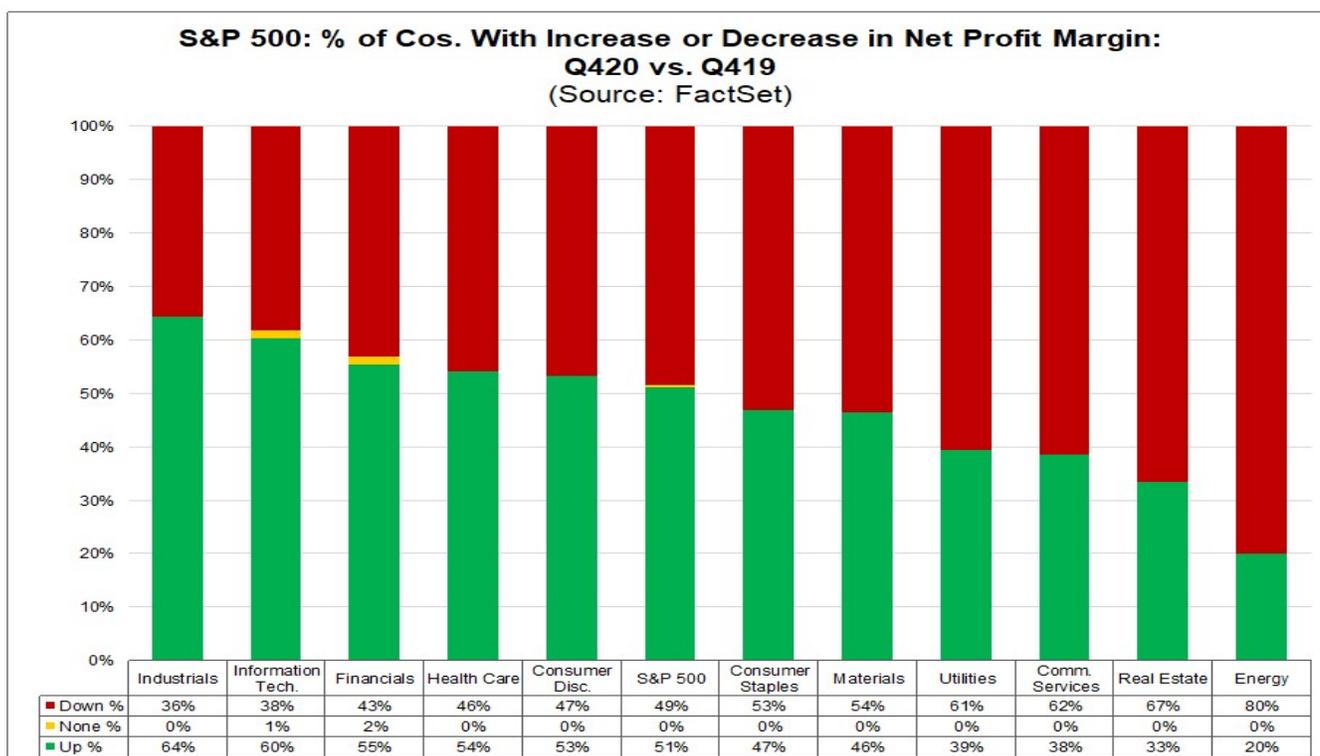
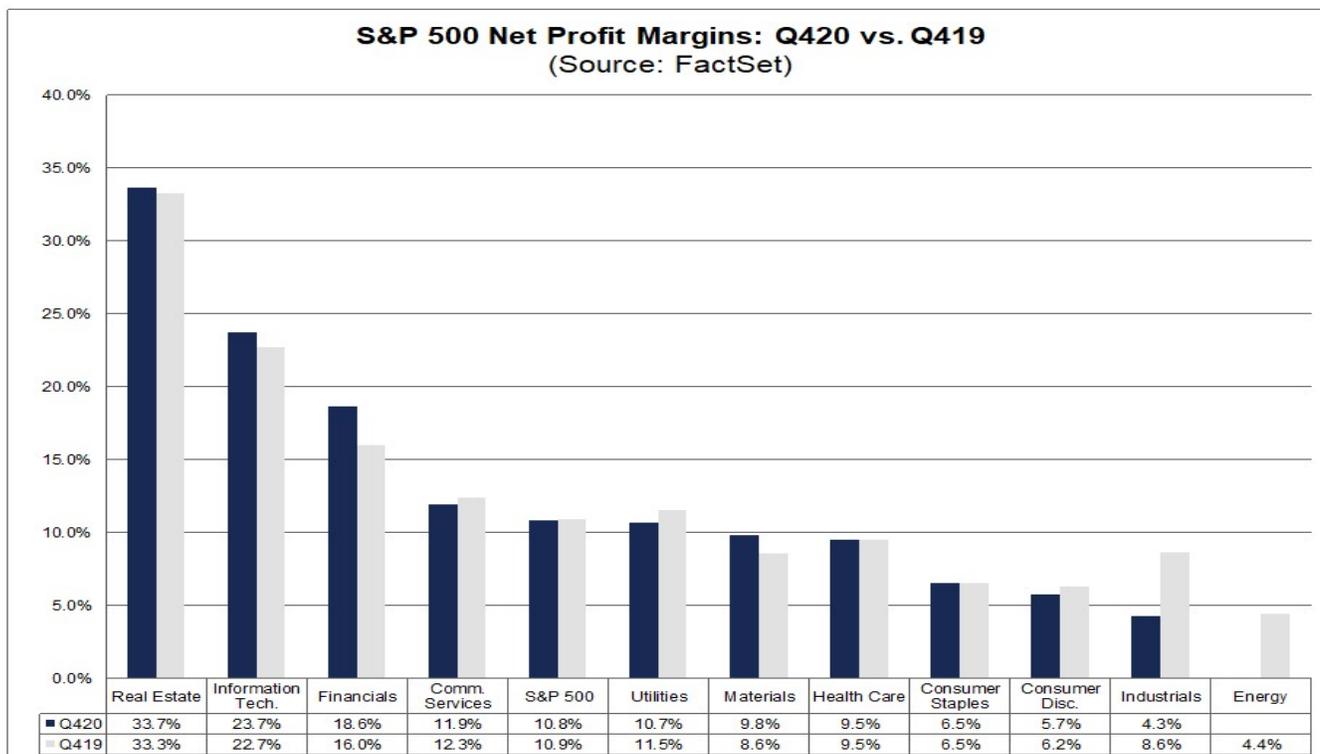
## Q4 2020: Growth



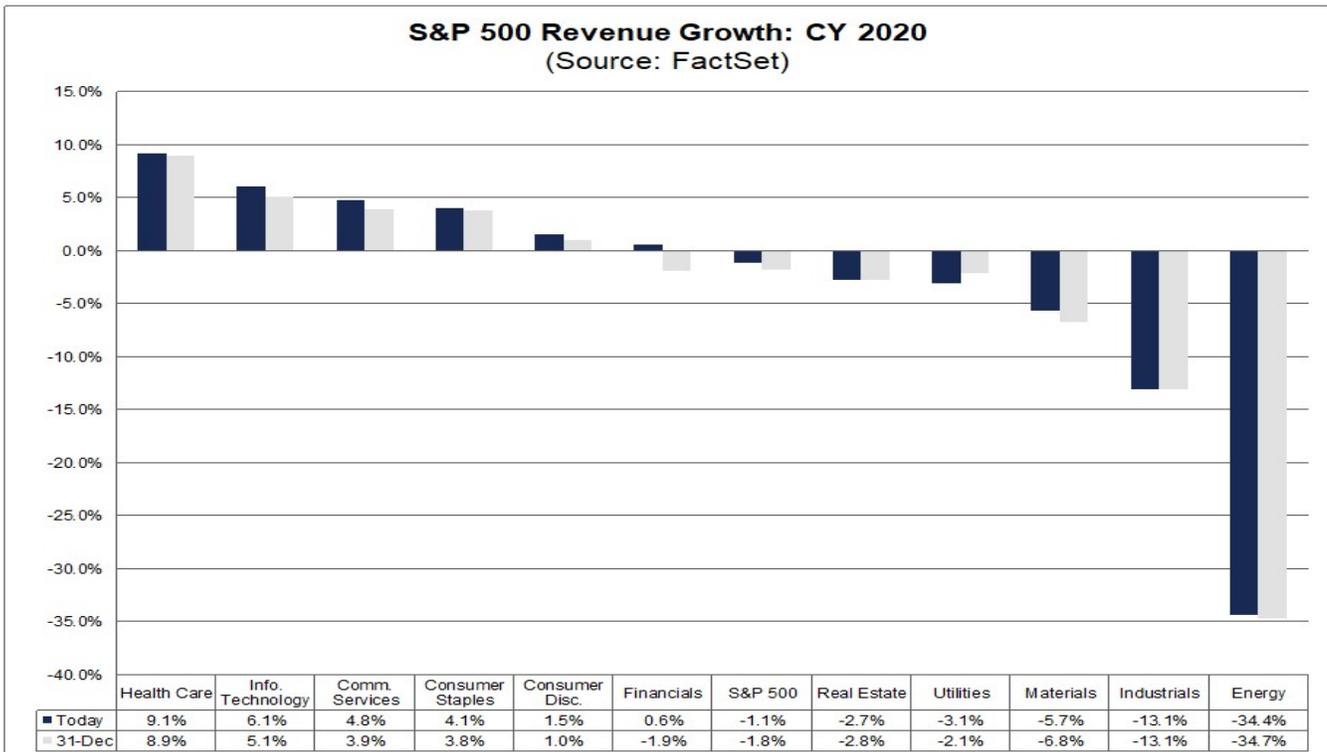
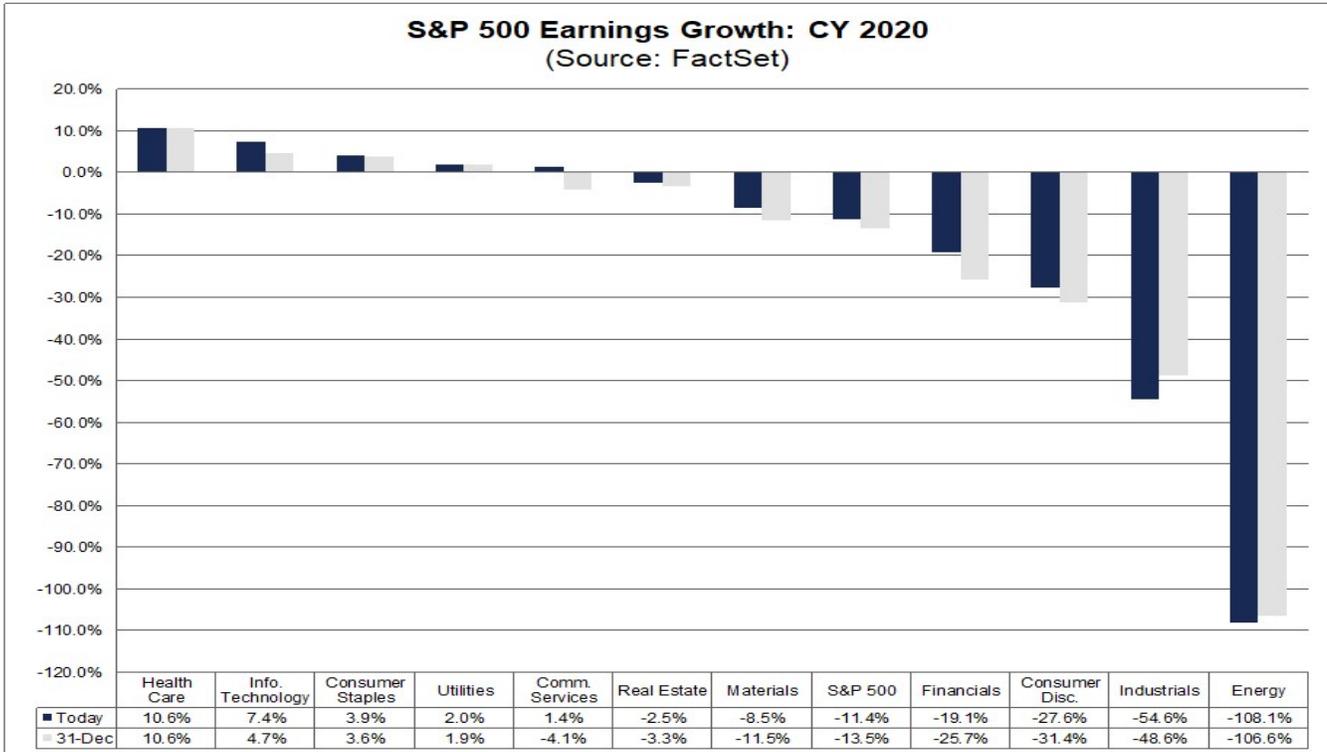
# Q4 2020: Growth



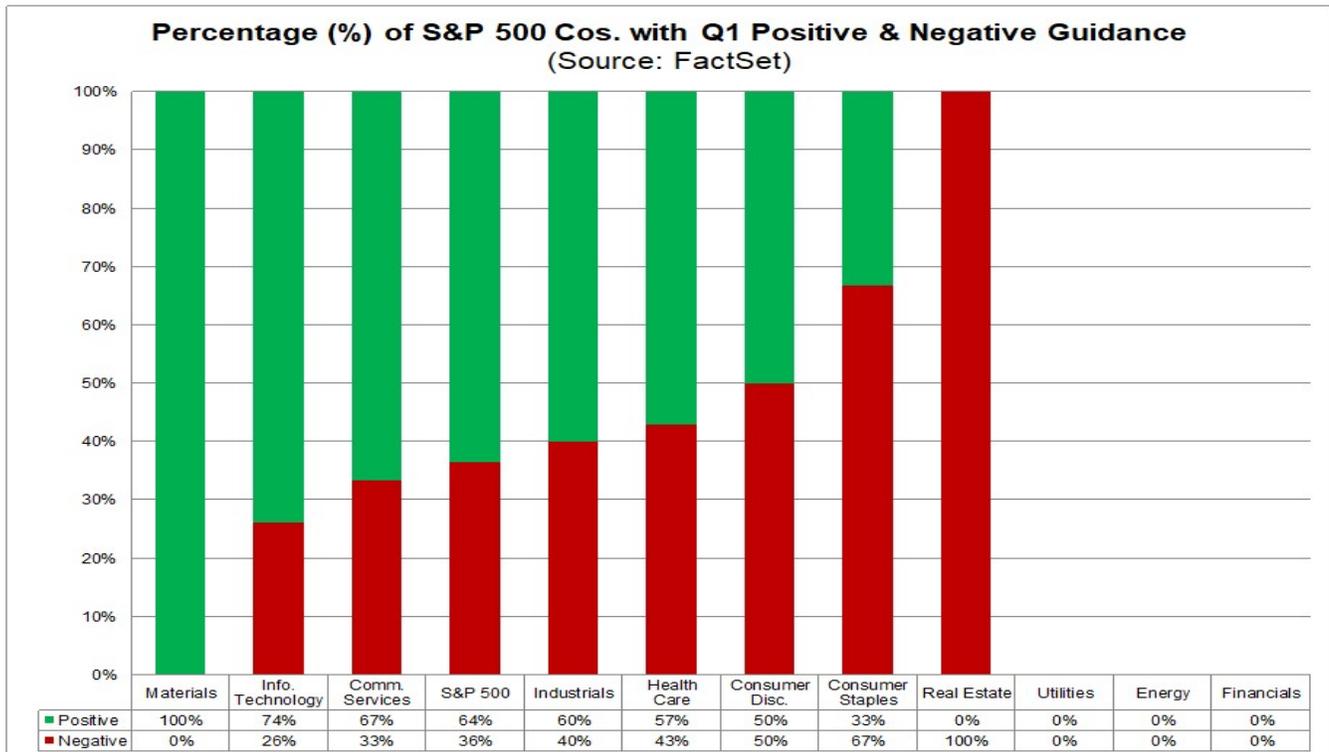
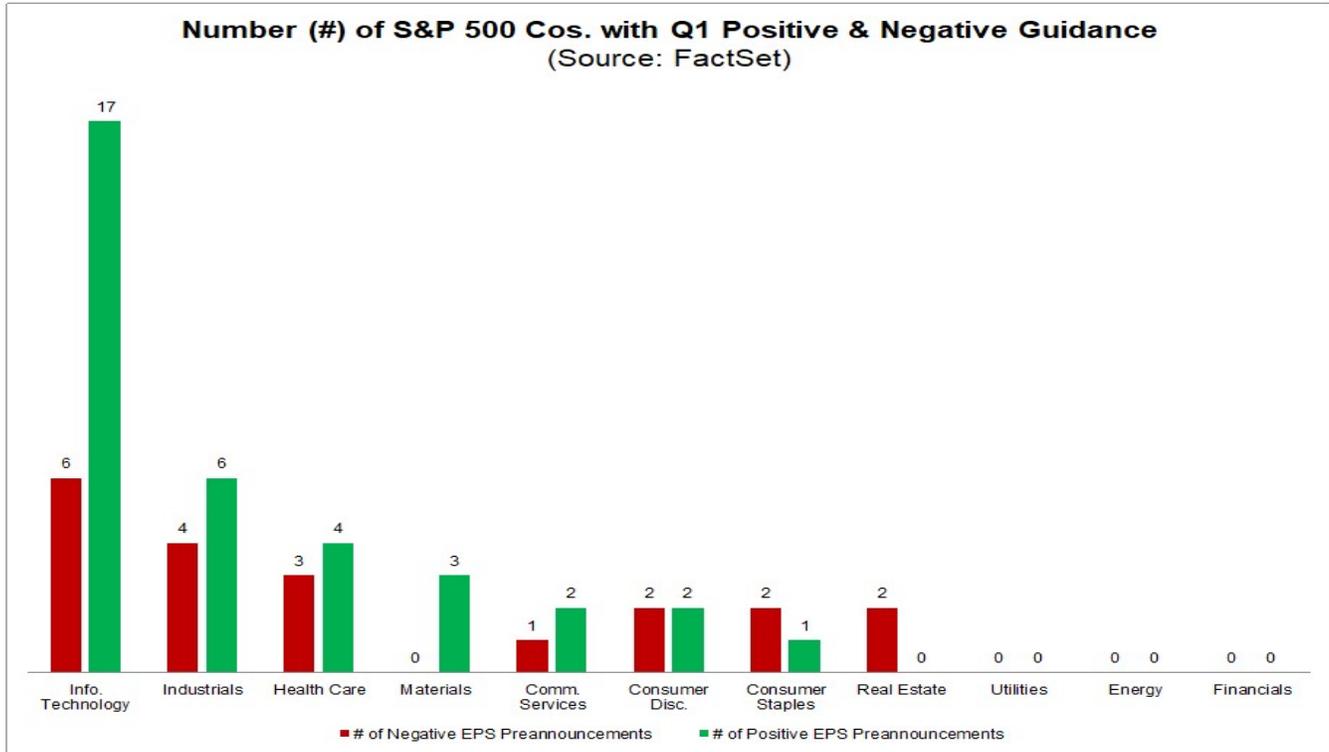
## Q4 2020: Net Profit Margin



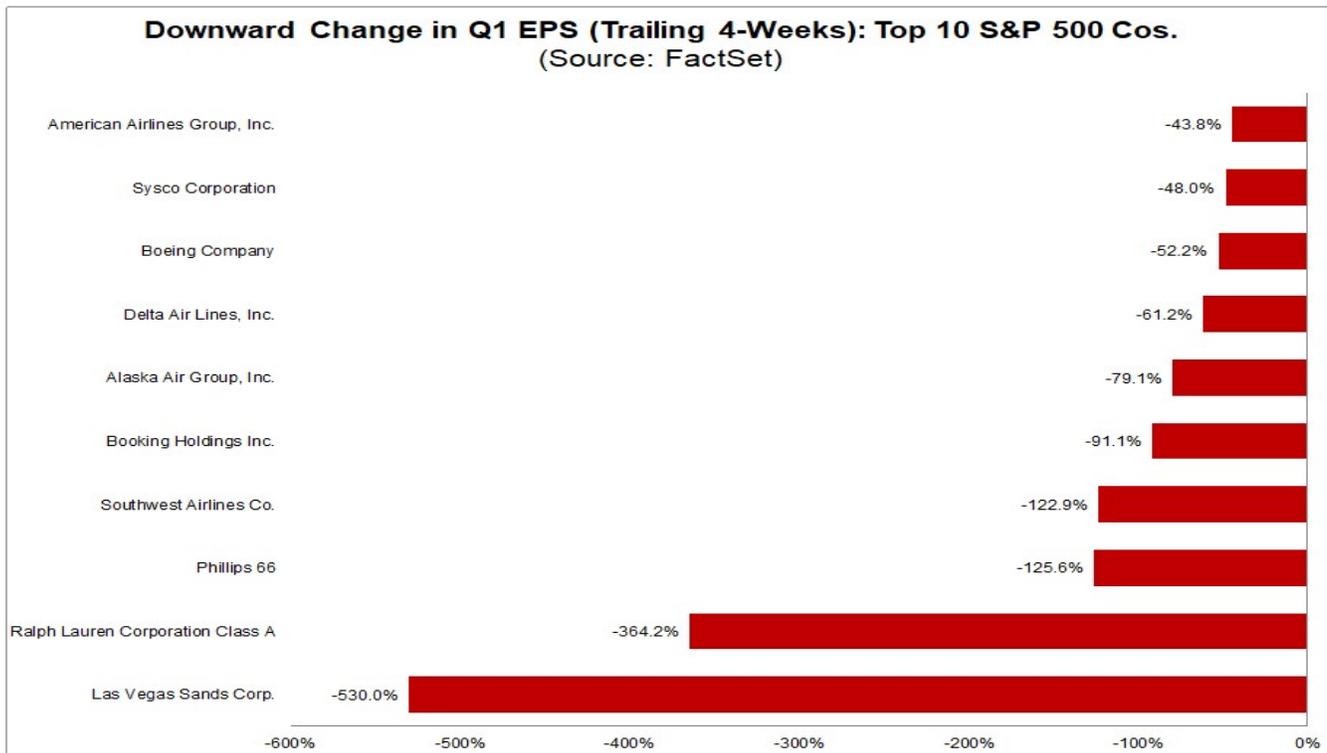
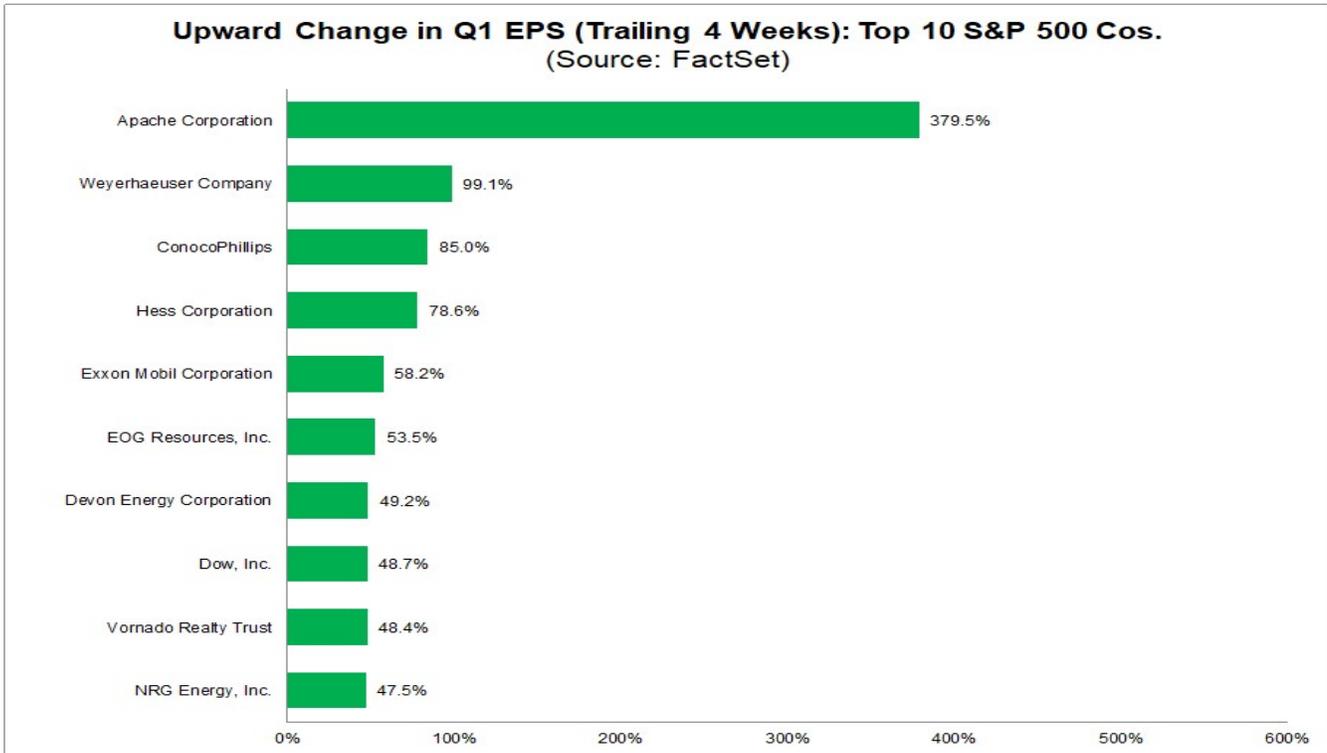
## CY 2020: Growth



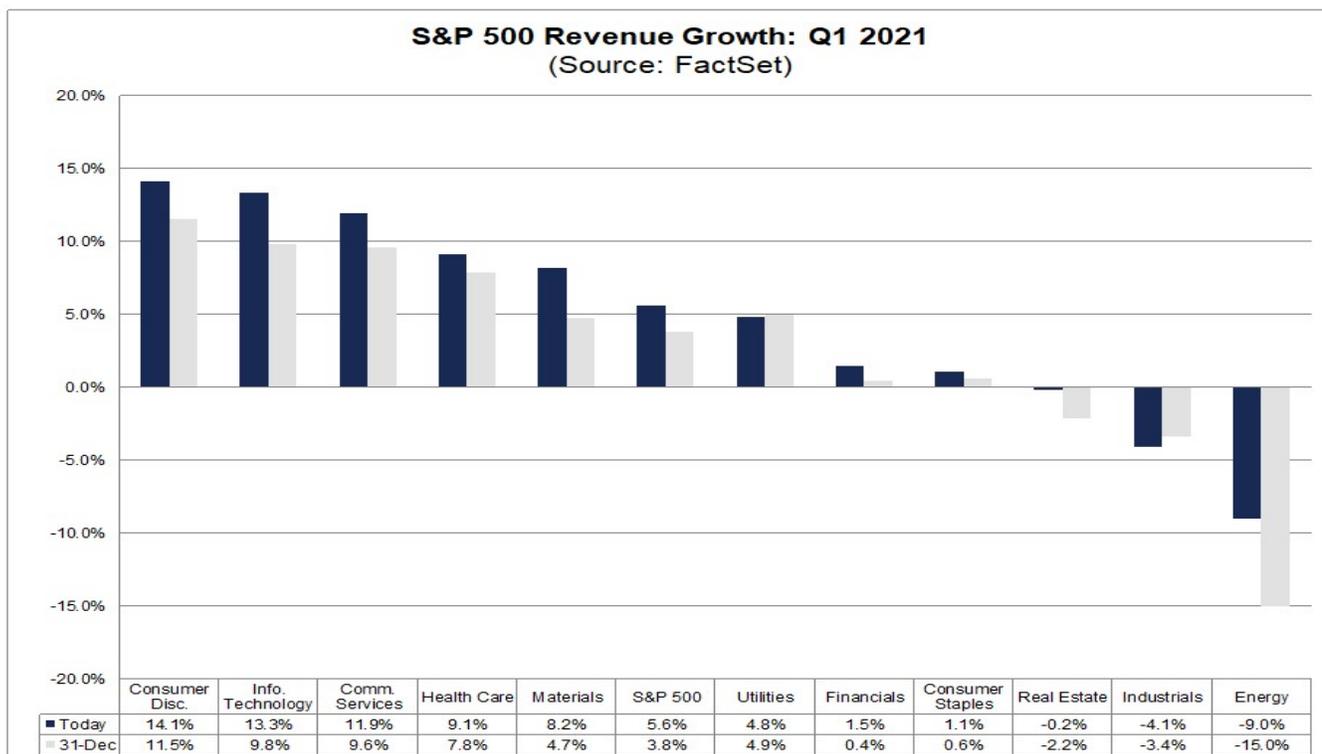
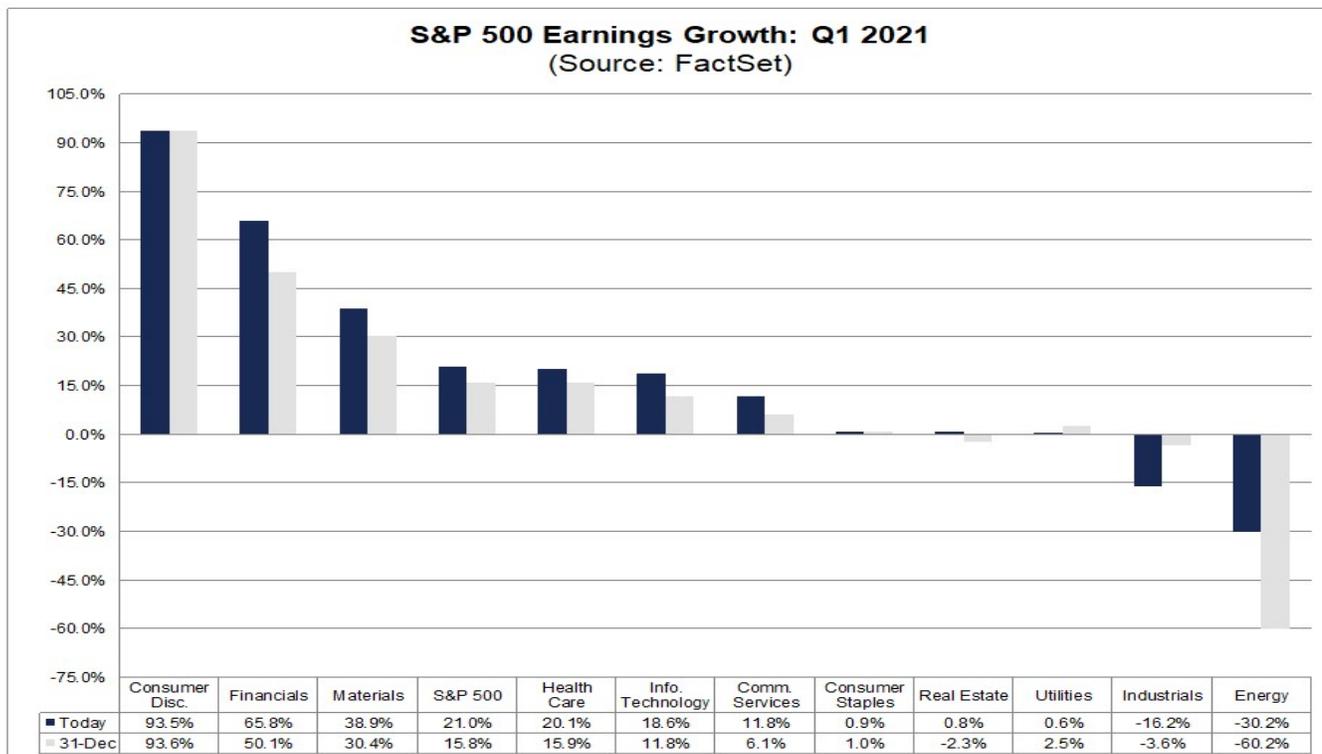
## Q1 2021: EPS Guidance



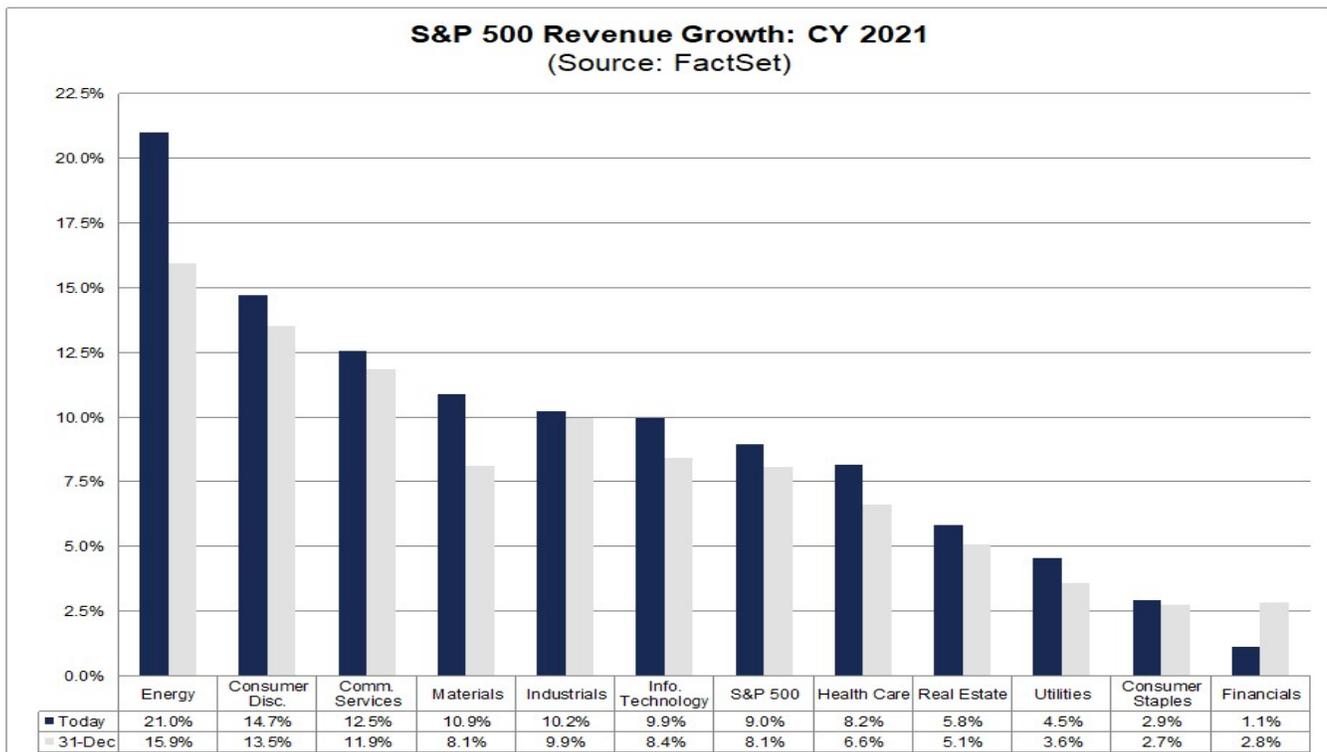
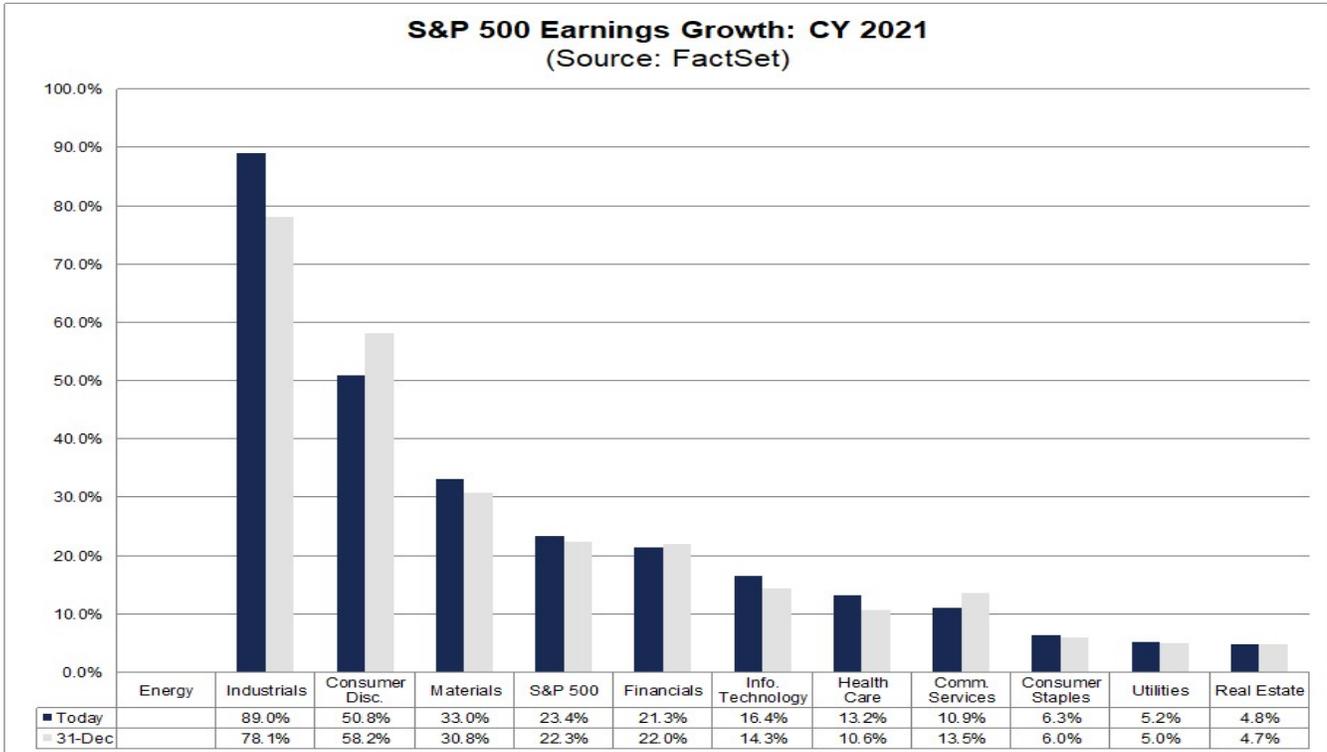
## Q1 2021: EPS Revisions



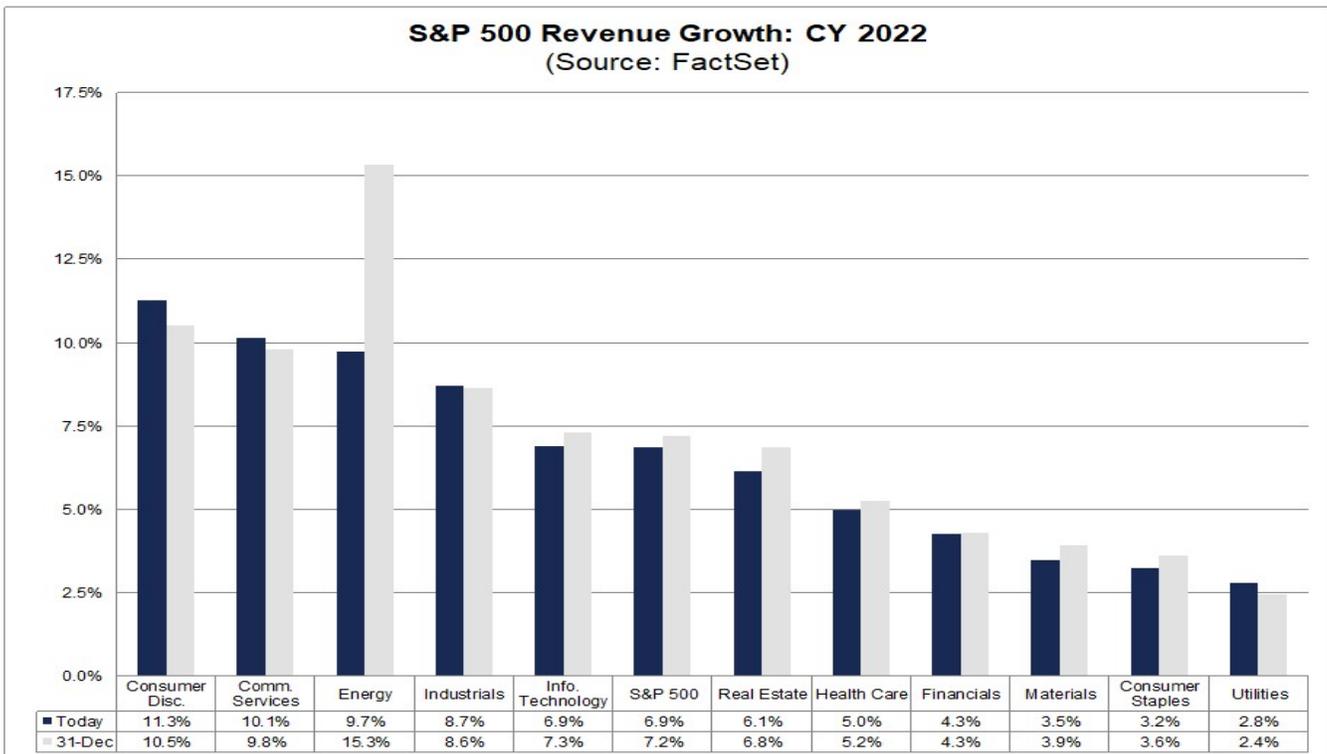
## Q1 2021: Growth



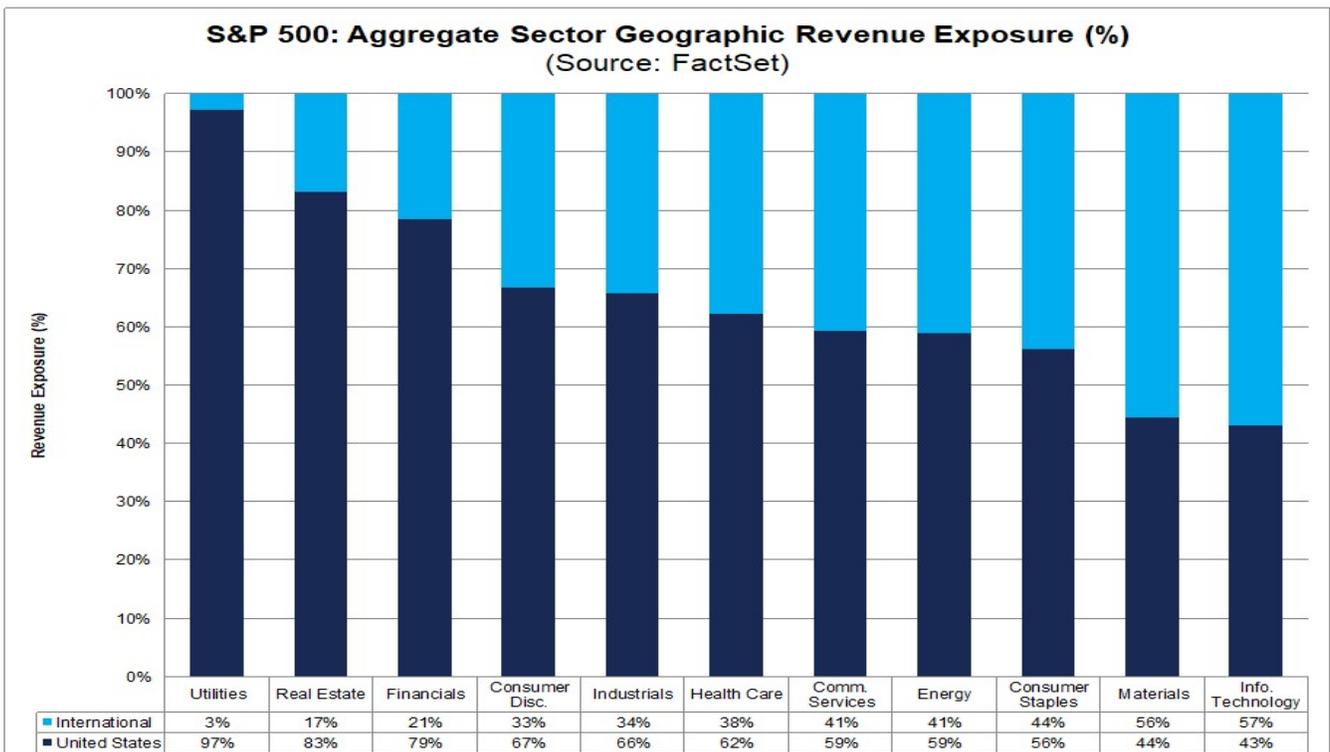
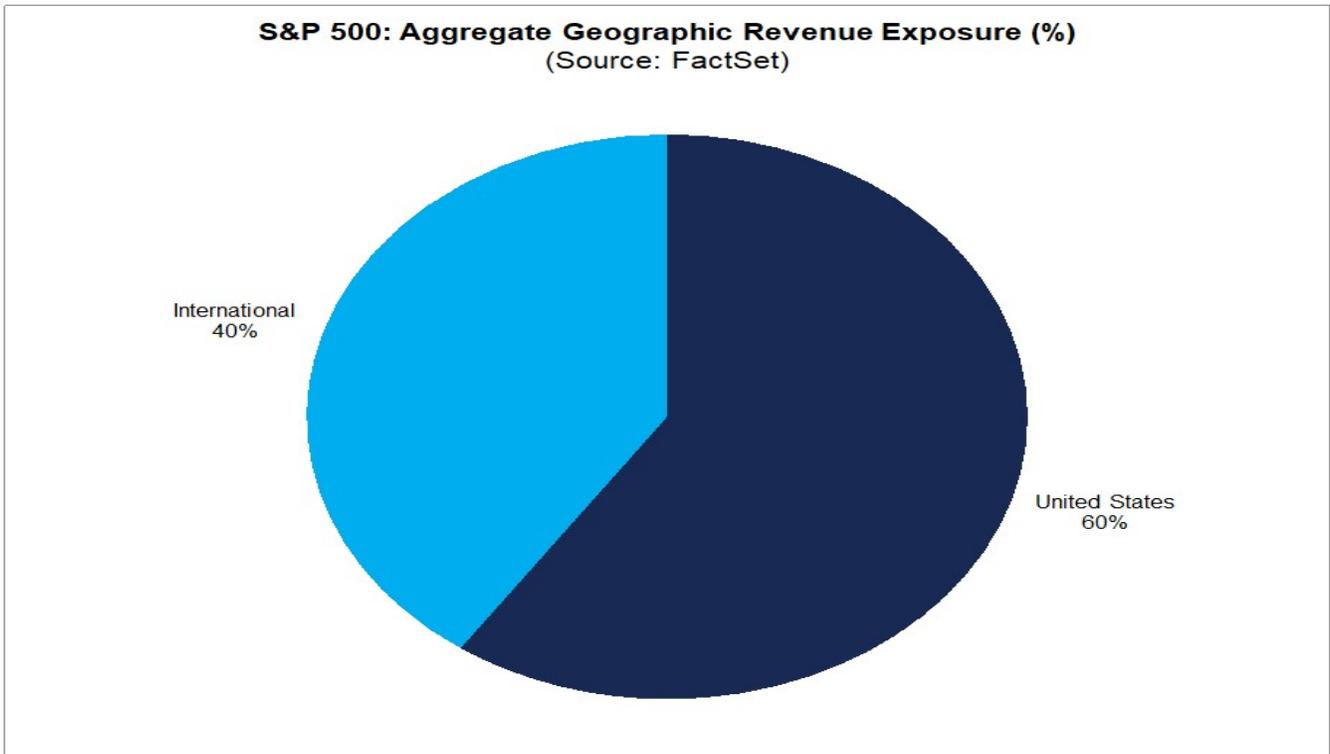
## CY 2021: Growth



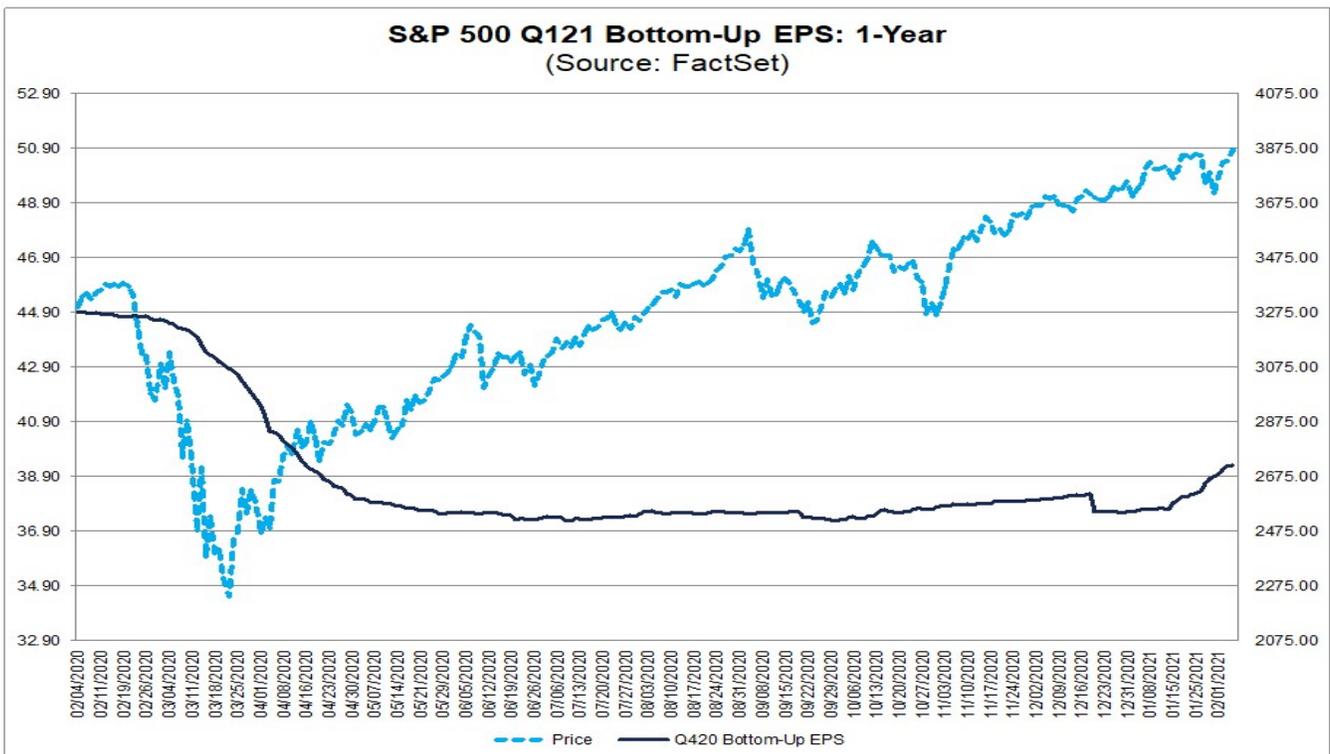
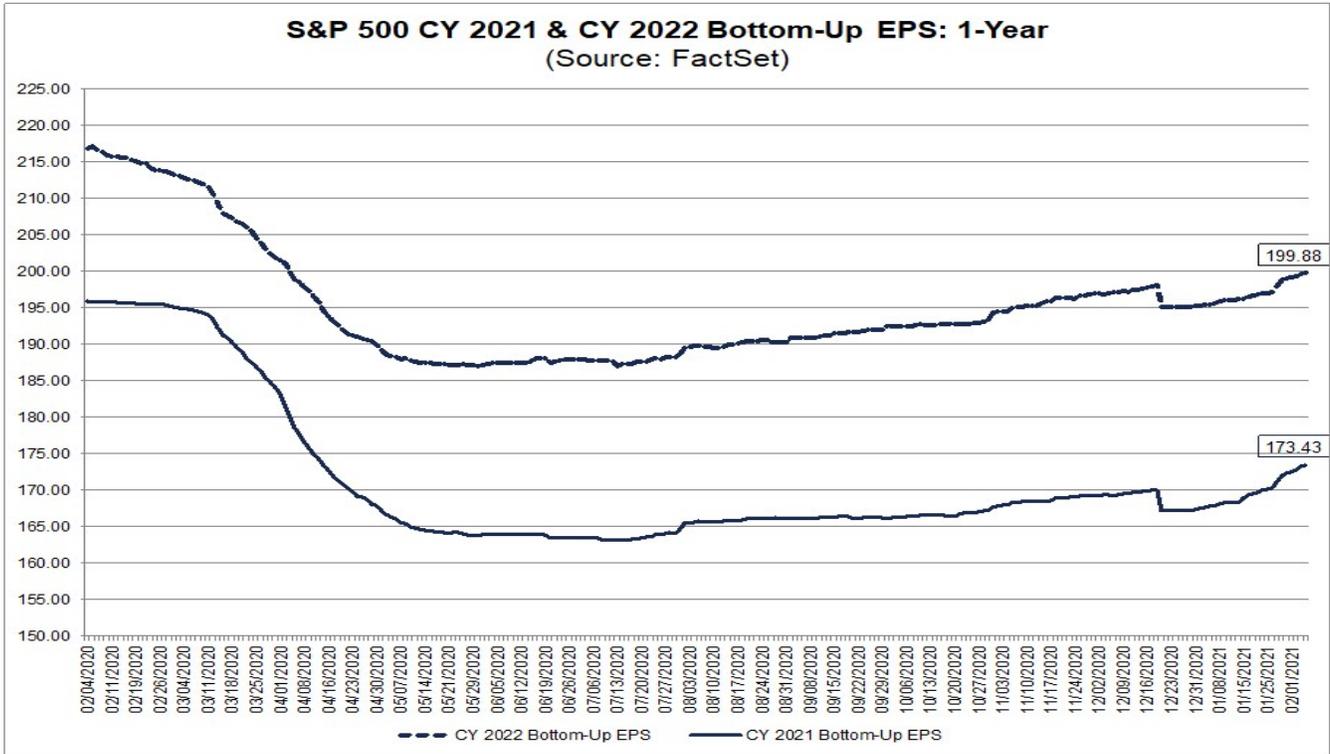
## CY 2022: Growth



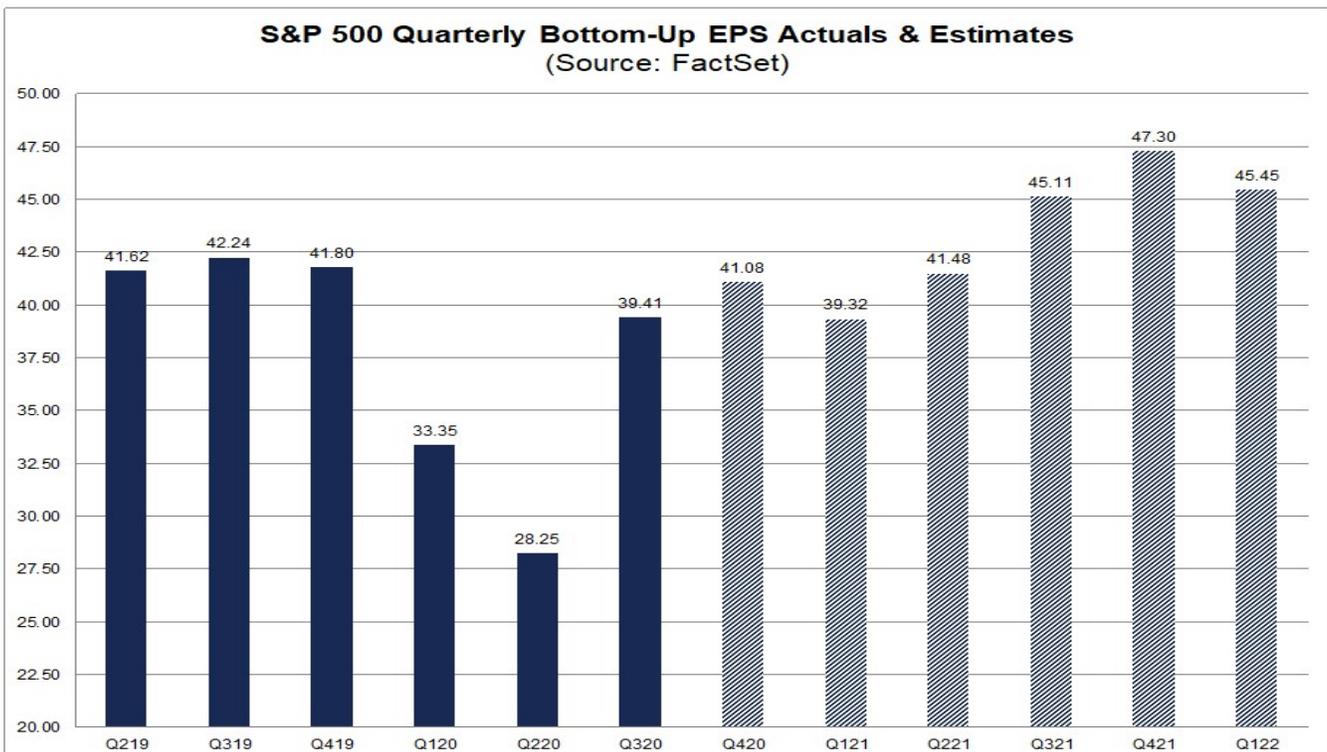
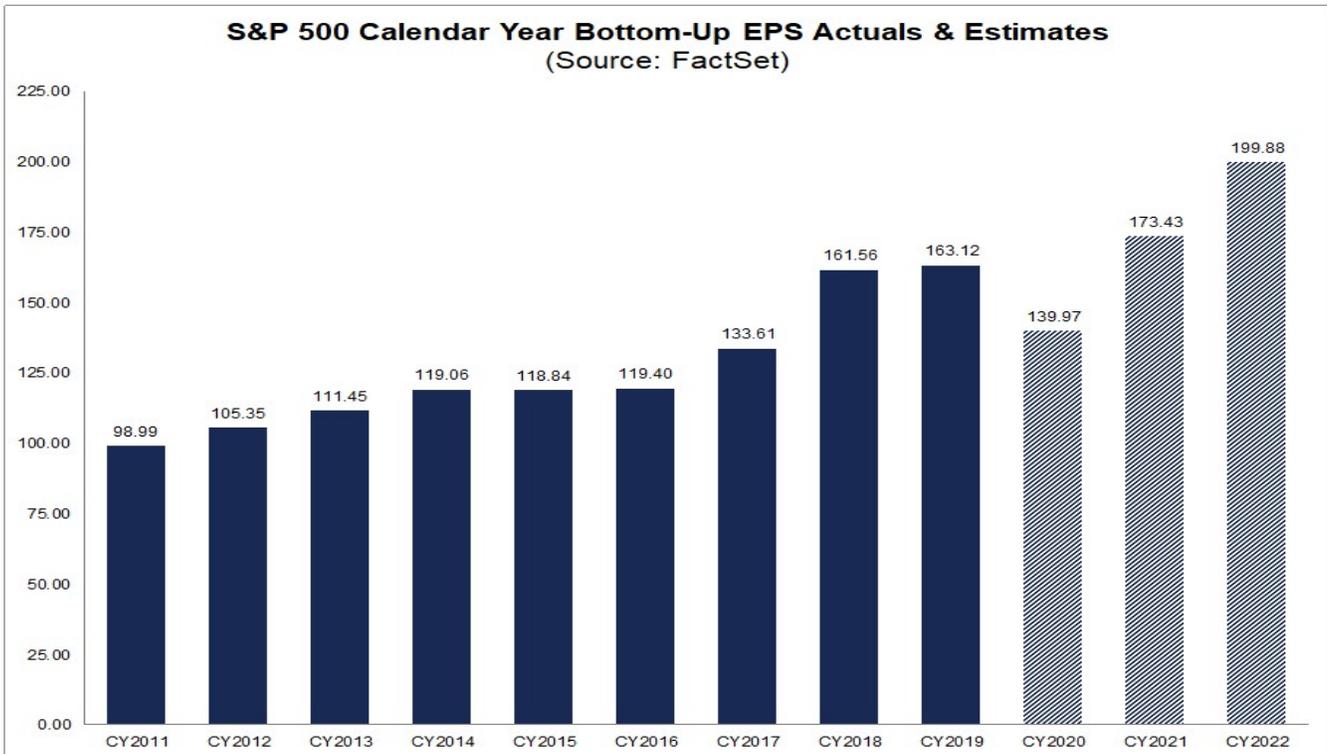
## Geographic Revenue Exposure



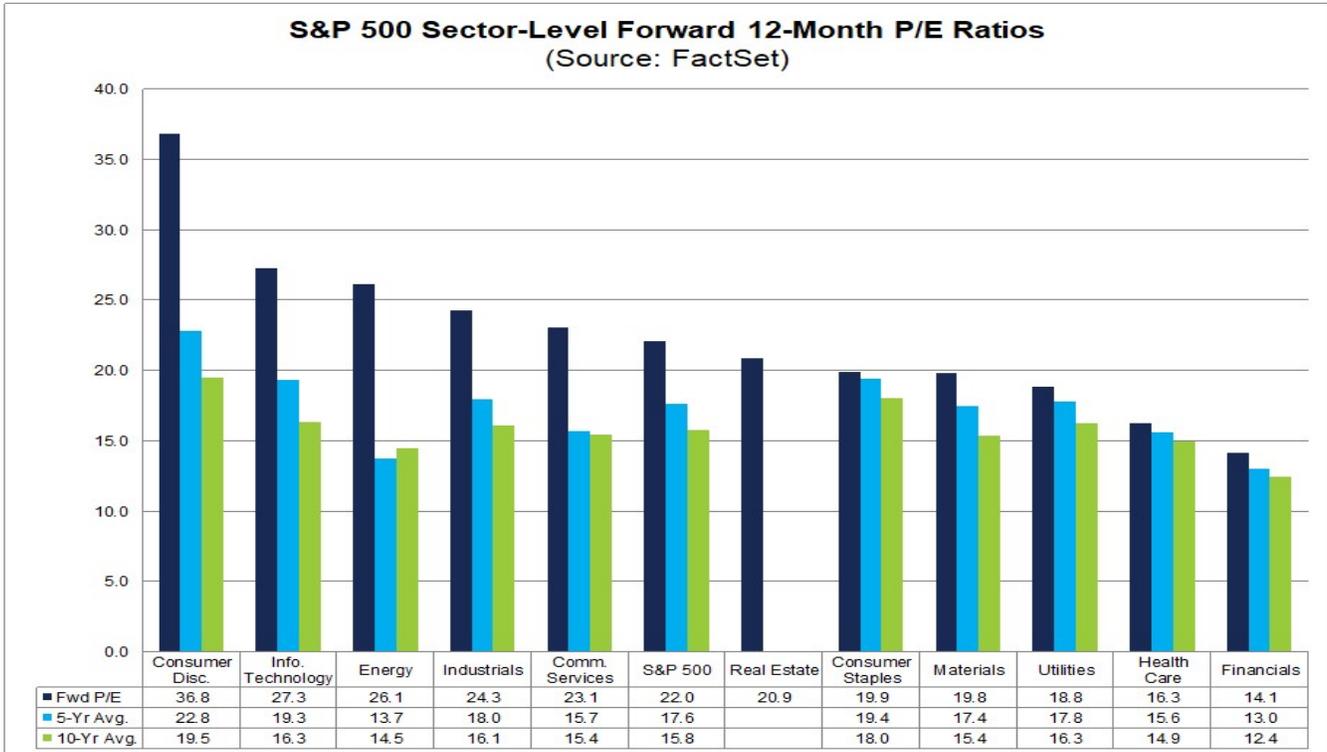
## Bottom-up EPS Estimates: Revisions



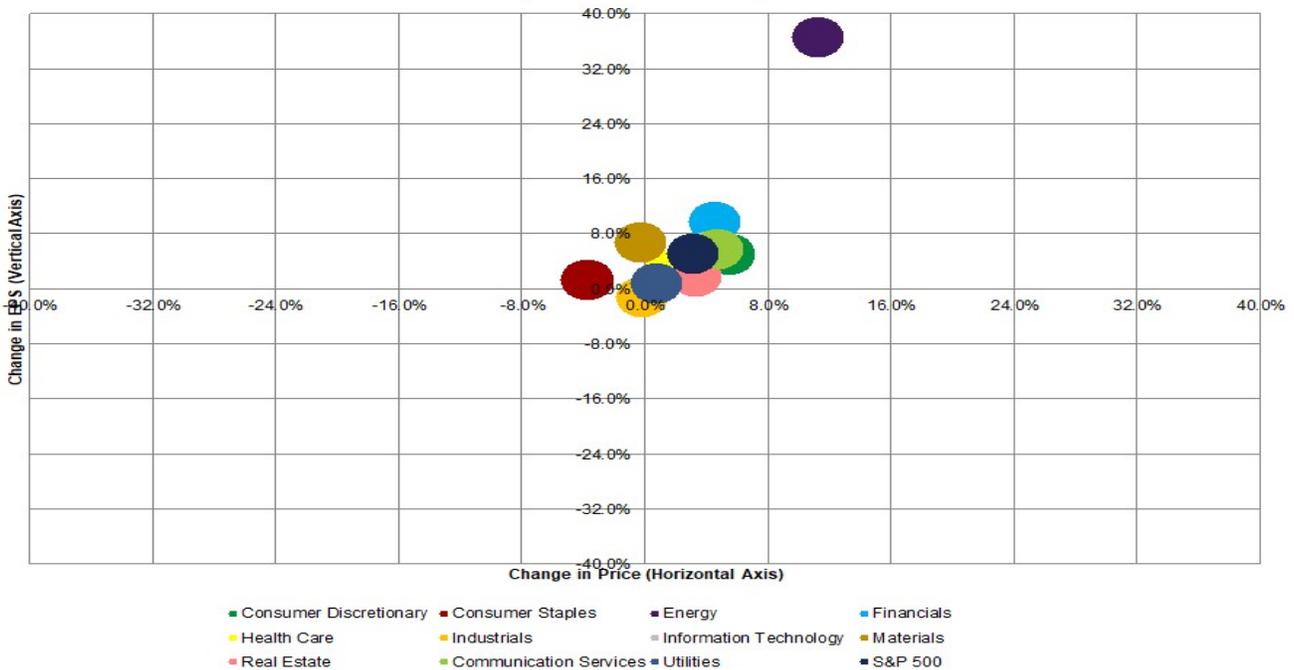
## Bottom-up EPS Estimates: Current & Historical



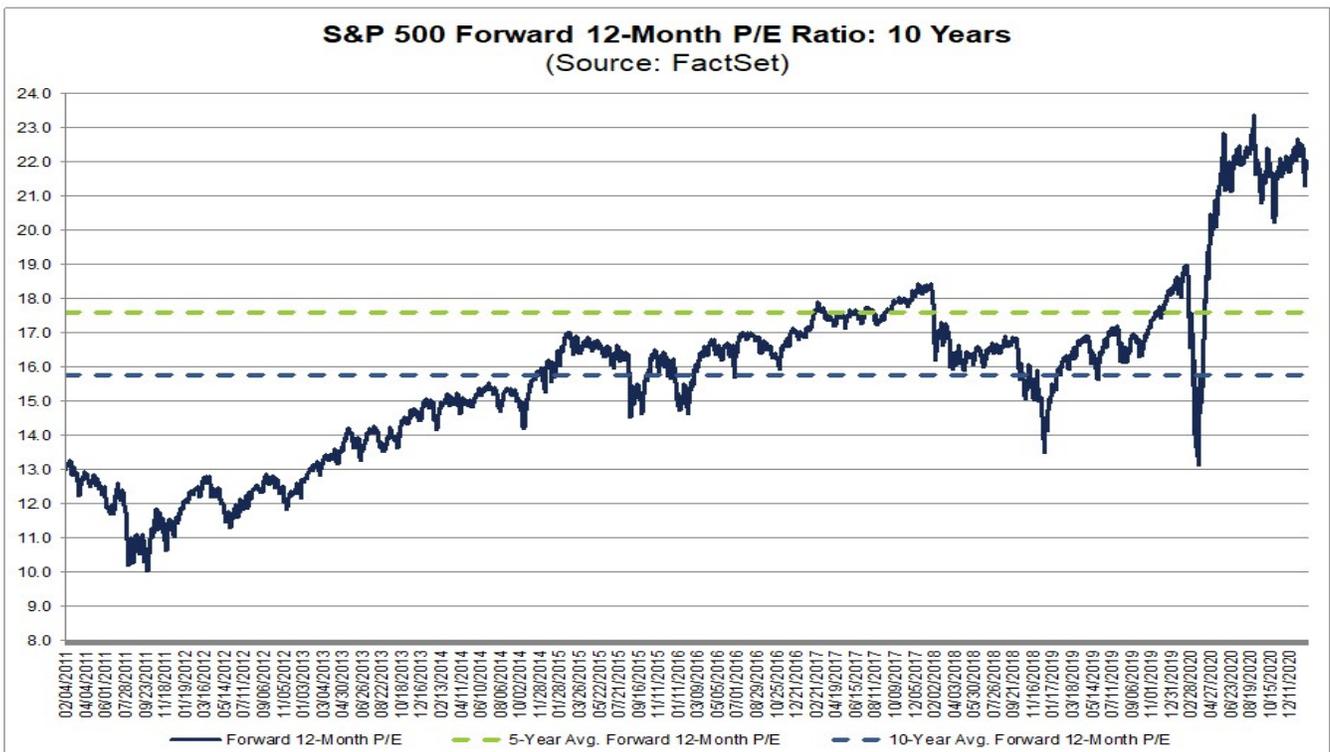
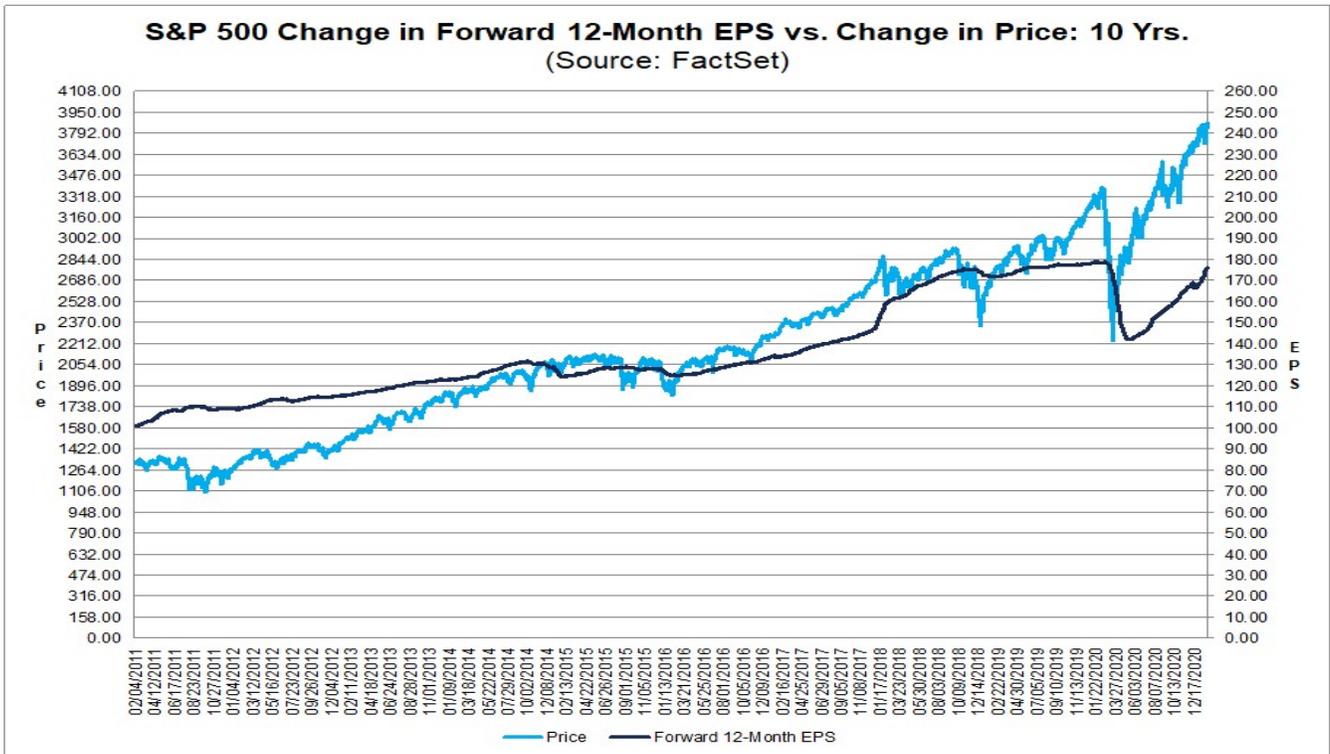
## Forward 12M P/E Ratio: Sector Level



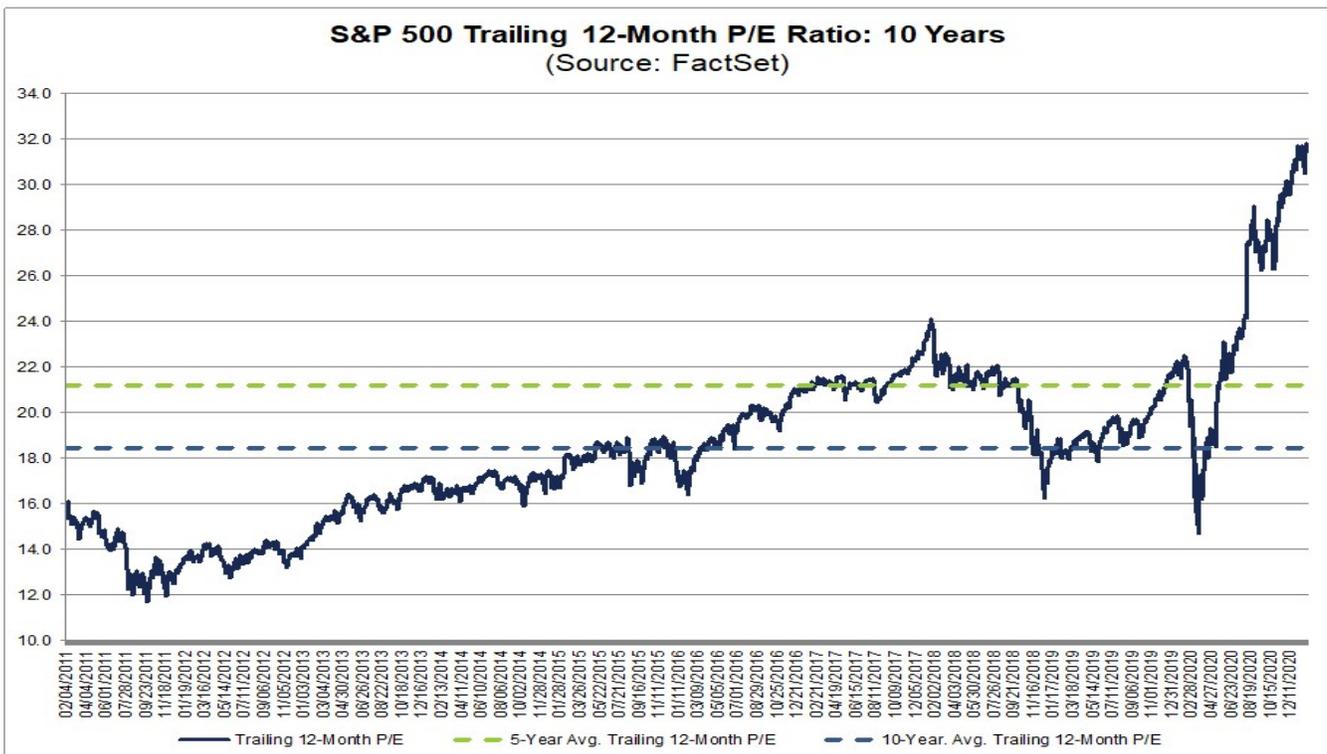
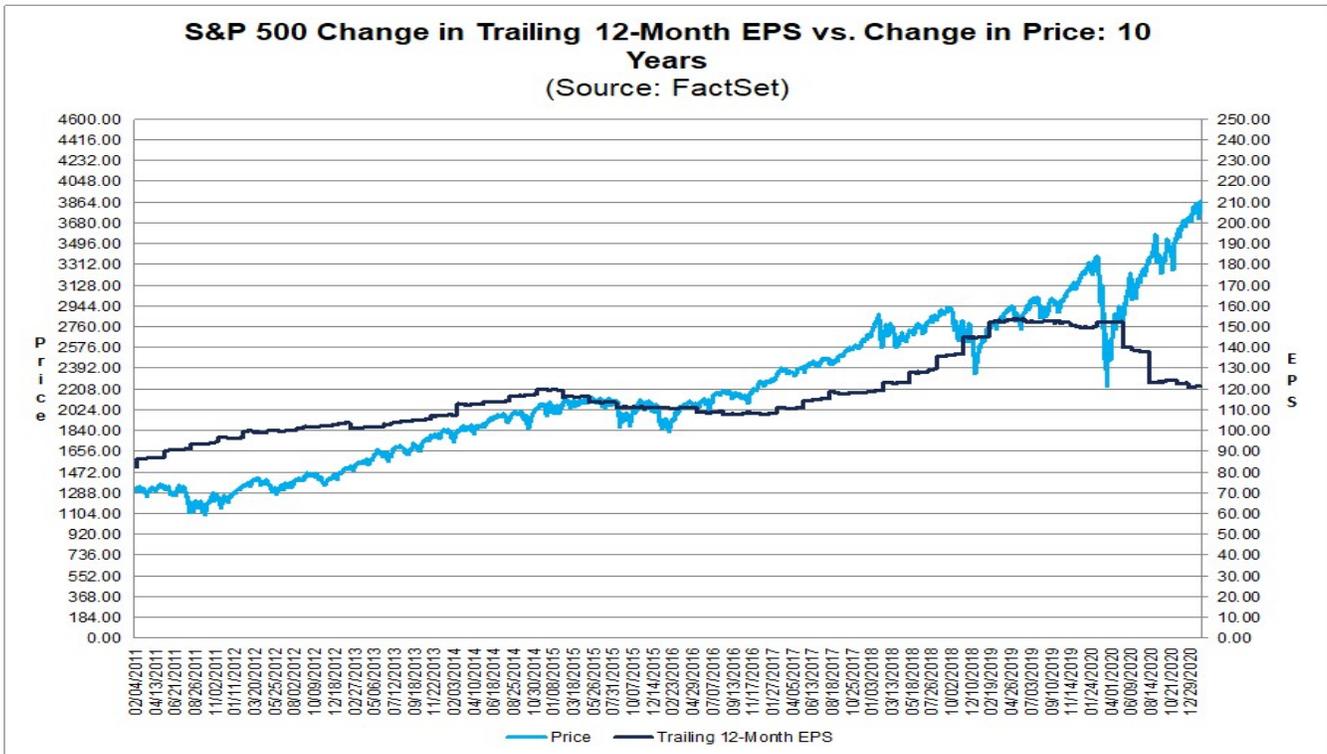
**Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Dec. 31**  
(Source: FactSet)



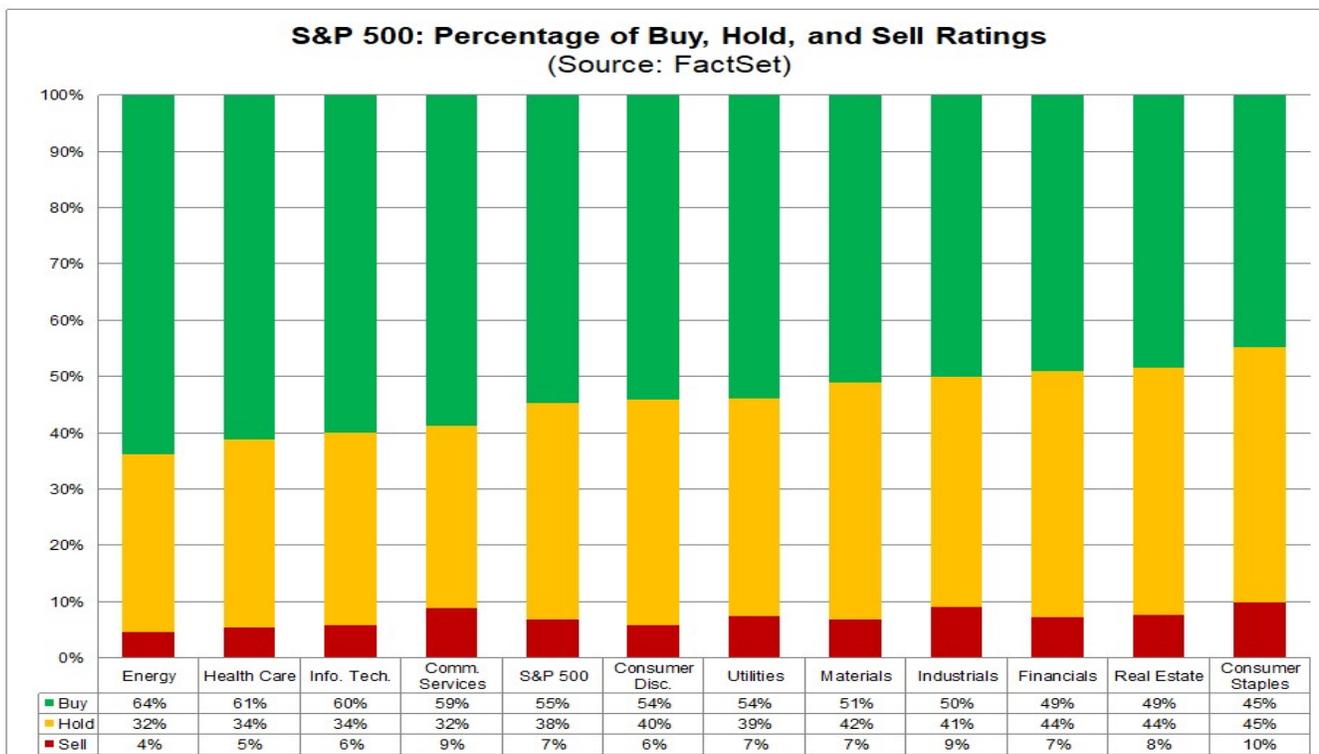
## Forward 12M P/E Ratio: 10-Years



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



## Targets & Ratings



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