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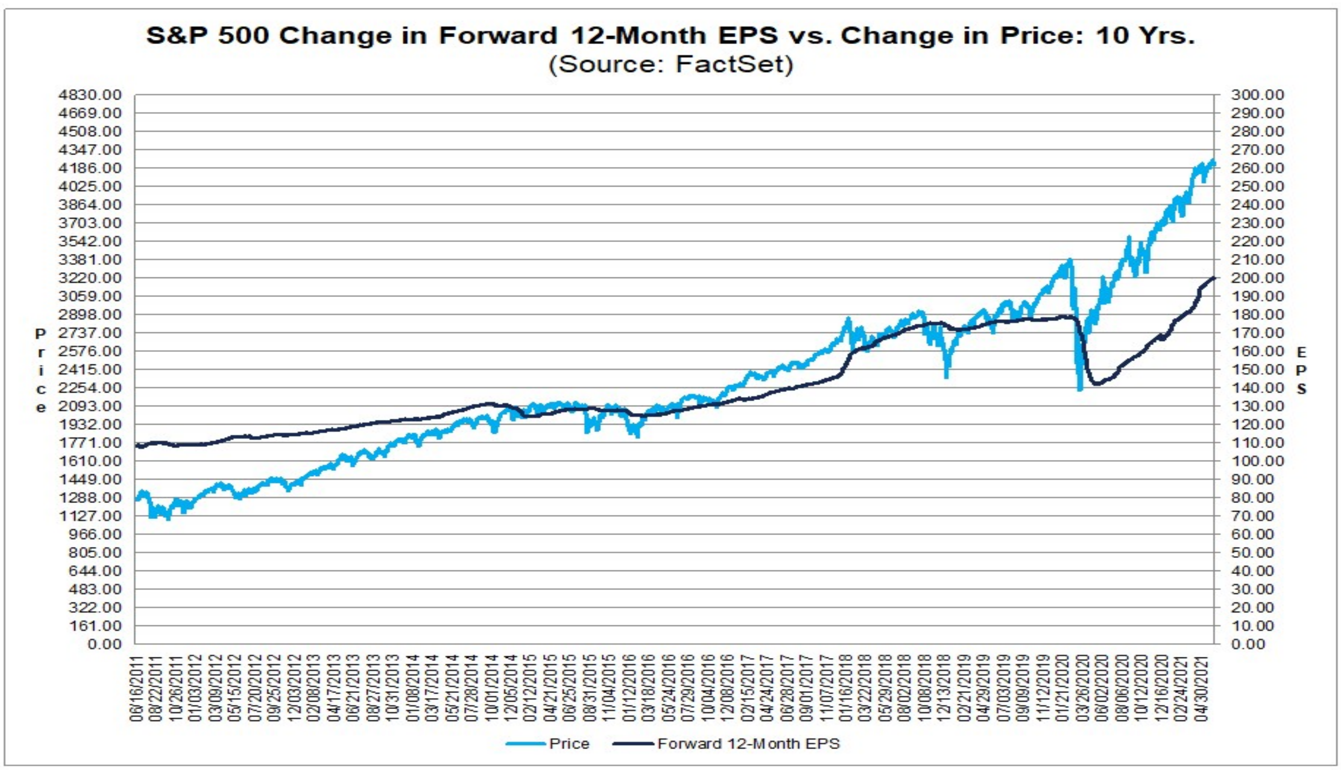
Key Metrics

- **Earnings Growth:** For Q2 2021, the estimated earnings growth rate for the S&P 500 is 61.9%. If 61.9% is the actual growth rate for the quarter, it will mark the highest year-over-year earnings growth rate reported by the index since Q4 2009 (108.9%).
- **Earnings Revisions:** On March 31, the estimated earnings growth rate for Q2 2021 was 52.2%. Eight sectors have higher earnings growth rates today (compared to March 31) due to upward revisions to EPS estimates.
- **Earnings Guidance:** For Q2 2021, 37 S&P 500 companies have issued negative EPS guidance and 66 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 22.4. This P/E ratio is above the 5-year average (18.0) and above the 10-year average (16.1).
- **Earnings Scorecard:** For Q2 2021 (with 4 S&P 500 companies reporting actual results), 4 S&P 500 companies have reported a positive EPS surprise and 4 S&P 500 companies have reported a positive revenue surprise.



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Topic of the Week:

Is Higher Inflation Having a Negative Impact on S&P 500 Earnings for 2021?

After a decade of economic expansion during which annual consumer price (CPI) inflation averaged just 1.8%, consumers are now dealing with price increases of magnitudes they haven't faced in nearly 13 years. Total May CPI was up 5.0% compared to May 2020, while core prices (excluding food and energy) were up 3.8%. For more details on CPI and PPI, please see our recent article at the following link: https://insight.factset.com/rising-consumer-prices-as-producers-face-higher-input-costs

In light of this higher inflation, did more S&P 500 companies comment on inflation than normal during their earnings conference calls for Q1? To answer this question, FactSet searched for the term "inflation" in the conference call transcripts of all the S&P 500 companies that conducted earnings conference calls from March 15 through June 15.

Of these companies, 197 cited the term "inflation" during their earnings calls for the first quarter. This is the highest overall number of S&P 500 companies citing "inflation" on earnings calls going back to at least 2010 (using current index constituents going back in time). The previous record was 163, which occurred in Q2 2018. In addition, the first quarter marked the largest year-over-year increase (+138) in the number of S&P 500 companies citing "inflation" on quarterly earnings calls going back to at least 2010 as well.

At the sector level, the Industrials sector has the highest number of companies that cited "inflation" on earnings calls for Q1 2021 at 48, followed by the Consumer Discretionary (34) and Consumer Staples (26) sectors. However, the Consumer Staples (84%) and Materials (75%) sectors have the highest percentages of companies that cited "inflation" on their Q1 earnings calls from March 15 through June 15.

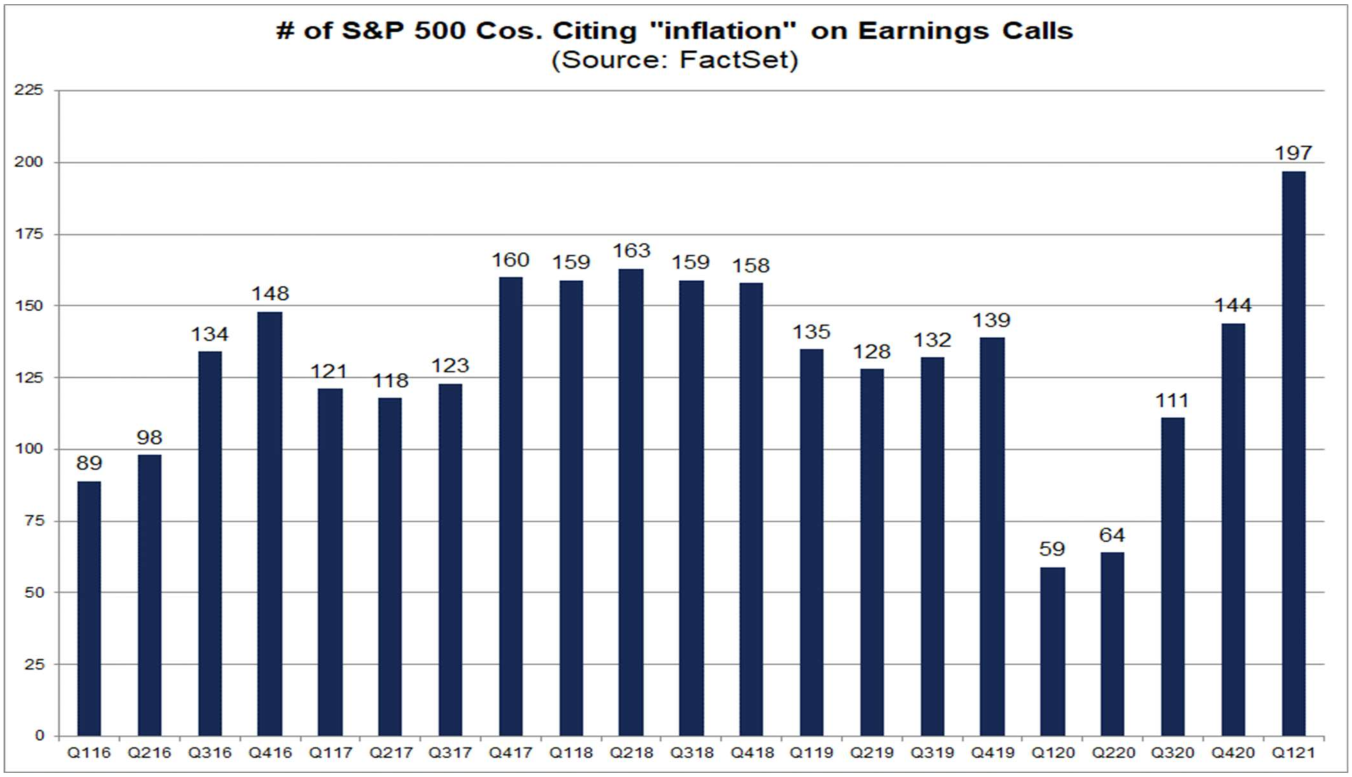
Given the unusually high number of S&P companies that discussed "inflation" on earnings calls for Q1, in what specific areas did these companies see higher inflation? Is this inflation having a negative impact on expected earnings and profit margins for the full year?

To answer the first question, FactSet looked in more detail into the comments made on inflation by the 26 companies in the Consumer Staples sector, as this sector had the highest percentage of companies that cited inflation on Q1 earnings calls. While many of these companies discussed broad-based inflation, higher transportation and freight costs were mentioned by the highest number of companies in conjunction with their comments on inflation, with over half of all of the companies (15 of 26) discussing these costs.

To answer the second question, FactSet looked in more detail at earnings guidance and EPS estimates for the current fiscal year for the 26 companies in the Consumer Staples sector that cited "inflation" on Q1 earnings calls. Of these 26 companies, 18 issued EPS guidance for FY 2021 or FY 2022. Of these 18 companies, 13 (72%) either issued EPS guidance above previous guidance or maintained previous EPS guidance for the current fiscal year. On the other hand, only three companies issued EPS guidance below previous guidance for the current fiscal year (the other two companies issued new FY 2022 EPS guidance with no comparison available). Overall, analysts have increased or maintained EPS estimates for the current fiscal year (relative to estimates on March 15) for 17 of these 26 companies (65%).

In aggregate, the estimated earnings growth rate for the Consumer Staples for CY 2021 is higher today (7.2%) compared to March 15 (5.2%). In addition, the estimated net profit margin for the Consumer Staples sector for CY 2021 is also slightly higher today (6.8%) compared to March 15 (6.7%). For the entire S&P 500, both the estimated earnings growth rate (34.8% vs. 24.9%) and estimated net profit margin (12.1% vs. 11.4%) are also higher today compared to March 15.

Thus, at least for companies in the Consumer Staples sector, it does not appear higher inflation is having a negative impact on full-year earnings and net profit margins at this time. Overall, 18 of the 26 companies in this sector stated they had already increased prices or were willing to increase prices to help offset inflation. A list of these companies can be found on pages 5 to 7. A number of companies also discussed lowering costs and improving productivity as ways to mitigate the impact of higher inflation on the bottom line.


# of S&P 500 Cos. Citing "inflation" on Earnings Calls
(Source: FactSet)
225
200
175
150
125
100
75
50
25
0
89
98
134
148
121
118
123
160
159
163
159
158
135
128
132
139
59
64
111
144
197
Q116
Q216
Q316
Q416
Q117
Q217
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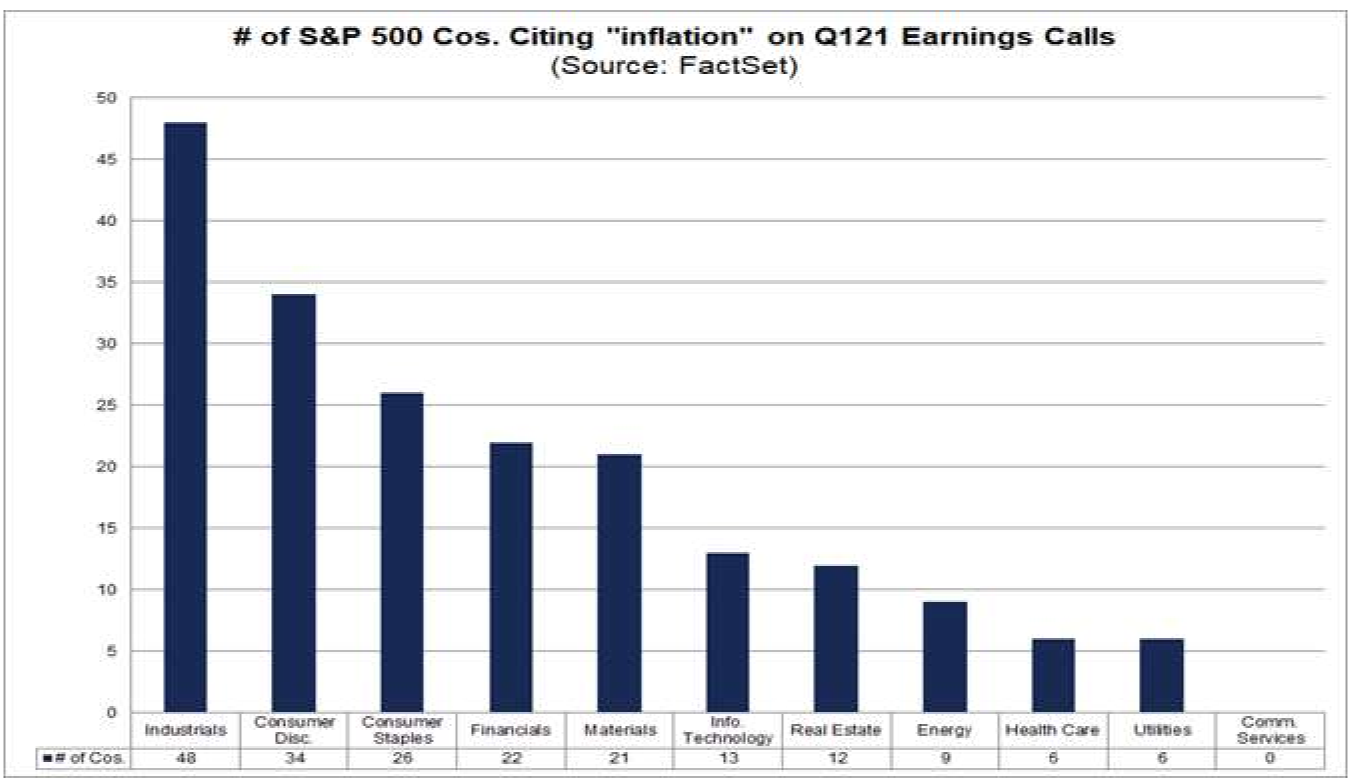
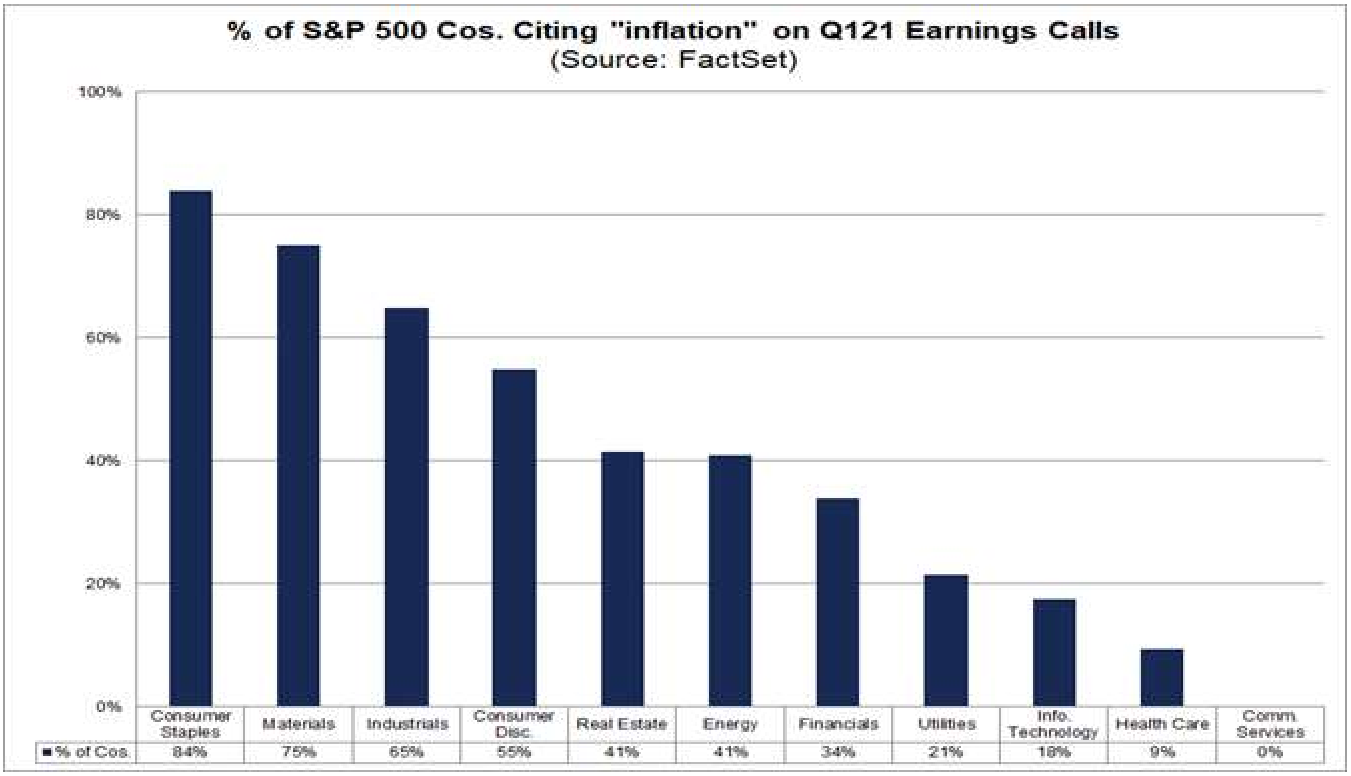
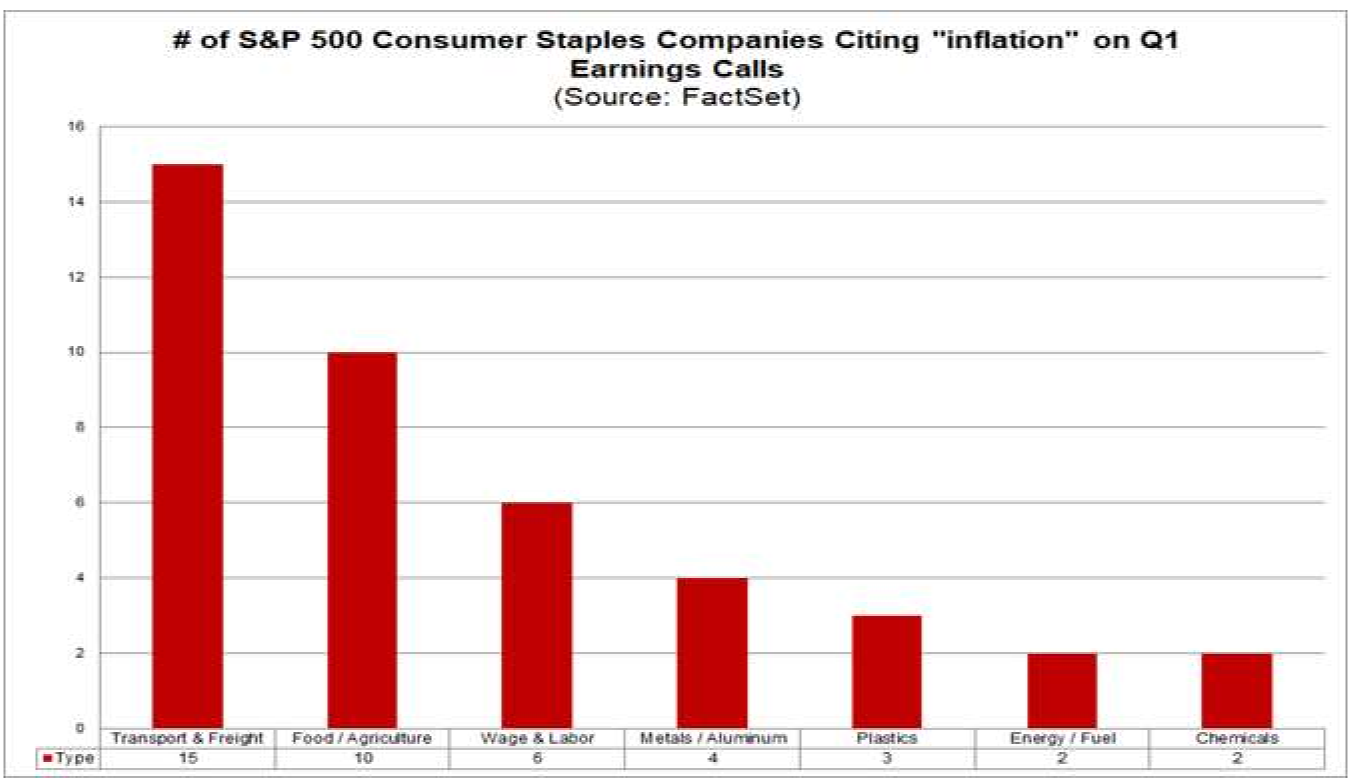
Q219
Q319
Q419
Q120
Q220
Q320
Q420
Q121


# of S&P 500 Cos. Citing "inflation" on Q121 Earnings Calls
(Source: FactSet)
50
45
40
35
30
25
20
15
10
5
0
Industrials
Consumer Disc.
Consumer Staples
Financials
Materials
Info. Technology
Real Estate
Energy
Health Care
Utilities
Comm. Services
# of Cos.
48
34
26
22
21
13
12
9
6
6
0


% of S&P 500 Cos. Citing "inflation" on Q121 Earnings Calls
(Source: FactSet)
100%
80%
60%
40%
20%
0%
Consumer Staples | Materials | Industrials | Consumer Disc. | Real Estate | Energy | Financials | Utilities | Info. Technology | Health Care | Comm. Services
% of Cos. | 84% | 75% | 65% | 55% | 41% | 41% | 34% | 21% | 18% | 9% | 0%


# of S&P 500 Consumer Staples Companies Citing "inflation" on Q1 Earnings Calls
(Source: FactSet)
16
14
12
10
8
6
4
2
0
Transport & Freight | Food / Agriculture | Wage & Labor | Metals / Aluminum | Plastics | Energy / Fuel | Chemicals
Type | 15 | 10 | 6 | 4 | 3 | 2 | 2

S&P 500 Consumer Staples: Price Increases (18)

And so whenever you see this kind of broad-based inflation and it's global, that's an environment where you're going to realize net pricing. And we certainly go to HMM first. But in this kind of environment, just like a few years ago, when we saw the same thing, our retailers are saying it, our competitors are saying it, we're saying it. And so we will realize pricing. We'll also – just – we will use all of the tools, and that includes list pricing. But it's list pricing, it is price pack architecture. It's how we manage trade and then finally, price and mix. We'll need to use all those levers. And when it comes to pricing, you go from the macro to the micro pretty fast. And so the levers we pull certainly depend on category and they certainly depend on geography. And so I want you to know, we'll use all those – we'll use all the levers at our disposal and we'll begin that process here in the fourth quarter. -General Mills (Mar. 24)

We expect the rate of inflation to continue to accelerate over the next few quarters. Fortunately, we have a variety of levers that can be used to offset this pressure, including pricing. We have already mobilized our inflation-justified pricing plans with some actions already in market, others communicated to customers, and some yet to come. History shows us that price adjustments are more likely to be accepted in the market when industry-wide and broad-based input cost inflation occurs, and that's the environment we see today. We will also leverage our capabilities beyond just pricing to offset margin pressure, including overall mix management, cost savings measures, such as our ongoing supply chain realized productivity programs, and the optimization of our fixed cost leverage. In short, we will continue to closely evaluate the impact of inflation on our business and are confident in our ability to utilize our entire tool kit to manage through this environment. -ConAgra (Apr. 8)

We believe the 1% to 2% pricing actions that we take pretty much on an annual basis is the smart way to approach it. It balances the opportunity to get improved revenue scenarios with the recognition that you do have some price sensitivity within certain consumer groups that consume our brands. So you always walk that delicate balance of where you go, and our view is 1% to 2% is a good amount that allows us to continue to maintain the strong momentum within our business that we have. -Constellation Brands (Apr. 8)

As you said, the inflationary pressures particularly surrounding some of our key commodities, it looks like it is going to be more of a headwind in 2022. 2021 we are, as we said in the release, pretty well-covered and in good shape, and so when you think about the actions we take, first and foremost, I think it is important to highlight that as an overarching principle around the world, we typically look to take pricing in line with inflation. And I would expect that that principle will continue to be adhered to as we move into the back half of 2021 and even then into 2022. -Coca-Cola (Apr. 19)

In North America, pricing is typically going to be in the mid to high-single-digit range across both our consumer tissue business and our personal care businesses. It'll cover about 60% of our overall portfolio. We are taking pricing in multiple other markets, including in Europe, Latin America and parts of Asia. We expect pricing and additional productivity to offset most of the raw material inflation, incremental raw material inflation this year. And again, we're off to execution. We have generally announced most of our moves thus far. -Kimberly-Clark (Apr. 23)

In terms of inflation, there is more inflation coming. And so, profitability is great in Q1. We believe we are going to hit the numbers as we had originally in mind. But the higher inflation will require some additional pricing and some additional productivities to offset the impact, which I believe at this point is absolutely manageable given that all these positions are pretty much hedged for 2021. And so, as I said, profitability should be good, in line with what we told you at the end of last quarter. And we feel like we can price away the inflation and commit again to a high single-digit EPS as per the original guidance. -Mondelez (Apr. 27)

The good news is for the back half of the year, we expect margin expansion behind the pricing and promotional actions we laid out in the release as well as we start to lap some of the higher inflation and tariffs that we experienced in the back half of 2020. -Church & Dwight (Apr. 29)

So, yeah, we are still calling for modest gross margin expansion on a full year basis. As you noted and we had in the remarks, there were some transitory impacts in the first quarter, some lapping from last year, some also costs in response to the higher volume. As we look forward for the rest of the year, some of the things that are strengths for us, the productivity gains, the additional volume, the pricing that you referenced, all of that will be part of building that gross margin. So far, for the first quarter and even as we look out for the year, I would say our inflation assumptions are largely tracking to what we had in plan, and the one exception that we noted was packaging. And I think that is one we'll watch. -Hershey (Apr. 29)

I can start. Let me at least give you a perspective too, first of all, about the overall view of how we're thinking about our pricing and how that fits in terms of our promotions. All I can tell you is I feel good about our ability to pass through our cost inflation and – as we see it and where we need to do it...What I was getting at is within the context of our pricing that we're looking at, do know that in the – if you think about our quarters, seven of the last eight quarters, we actually were able to actually drive pricing as a positive contribution to our net sales. So we are seeing that our iconic brands are actually showing their pricing power. -Kraft-Heinz (Apr. 29)

One of the four key choices in our IGNITE strategy is to generate fuel to support growth and mitigate any inflation. We're taking a holistic approach to address these cost pressures by leveraging a number of tools to support our margins, including margin-accretive innovation, net revenue management, pricing through trade reduction and list price increases and, as always, a relentless focus on cost savings. -Clorox (Apr. 30)

I think we would anticipate as we have built into our guidance that costs will continue to remain inflated as we move through the year and as we start to lap some of the increases that we saw later in the back half of last year, it will become a little bit more benign in that regard. A couple things. Obviously continuing to be highly disciplined about taking pricing and taking it quickly and that will continue to be the case. We've got to be courageous and bold in that regard. Obviously we watch that carefully based on what's happening in the local marketplace, but just straight price increases will continue to be an important element as we look at the back half of the year. -Colgate-Palmolive (Apr. 30)

Kelly, thank you for the inflation question. It's definitely accelerating but I would say that's more of a Q4 fiscal happening than it was a Q3 happening. We all read the paper every day. We're seeing what's happening not just in this industry but in every industry. Certainly, the economy is becoming more inflationary…So here is what we're seeing. Consumers, people who are actually going to the restaurants themselves, are showing a willingness to pay a higher ticket. I think you've heard other restaurant people that you personally cover talk about that. We are seeing restaurant partners being willing to increase their menu prices and we're working with them. That's a part of what Sysco does. We consult with them, we teach them, we educate them on the impact of the inflation on the COGS that we're all experiencing, and we're providing suggestions on alternative product to offset the cost and also we're providing suggestions on where some price increases on the menu could take place. -Sysco (May 4)

So what I'd say is we've talked about the inflationary environment, which is real. We've also talked about the hedging, and I'll let Amit build on that, that we've got in place for the first half of the year as well as the back half of the year. On the pricing front and just a cost pressure front, what I'd say is we have a host of tools at our disposal. So we think about the suite of offerings, we want to always start with productivity and drive productivity as hard as we possibly can. And then we're going to look to revenue growth management and the tools that we have in revenue growth management, whether they be price/package architecture, whether they be pricing, which would include list pricing. All of those are at our disposal. But at the end of the day, we have to earn that price in the marketplace, through investing in our brands, through innovating, through putting the types of performances that we've been able to put against our brands, which puts us in a good position to have the confidence to slightly raise our guidance, even despite increased cost pressures that are quite real. -Kellogg (May 6)

Average sales price was up substantially during the period due to the favorable mix and the benefit of higher retail volume. Our reported price improvement also reflects actions that we have taken to cover the inflationary pressure we have experienced from higher grain, labor and freight cost. -Tyson Foods (May 10)

And really what we're talking about here is the timing, the volatility, the magnitude of the inflation that we're seeing. And so, the pricing actions that we've taken didn't happen all right at the beginning of the second quarter. And quite frankly, we're not done with all the pricing actions that we need to take. So, we've got a lot of activity on that front. And so, just the sequential action in our pricing is what will lead to that sequential improvement in margins. And so, as you think about Q3, you'll see improvement, but probably some slightly lower margins as pricing hasn't quite caught up. Q4 really start to see more normalized margins as full pricing takes effect across the board. And I think it's important to note that we've either taken or will take price across almost all of our businesses. -Hormel Foods (May 20)

Now all this being said, I was asked back on our March second quarter call that while the level we felt inflation was running overall at that time with our goods, I stated that our best guess was somewhere in the 1% to 1.5% range. As of today, we'd guess that overall price inflation at the selling level and excluding our gasoline sales would be estimated to be probably more in the 2.5% to 3.5%. Some items are up more, and some items, the sale prices haven't yet changed, and some items are even down little bit. We think, again, we've done pretty well in terms of controlling that as best we can, but the inflation pressures abound. -Costco (May 27)

Broad-based inflation is impacting many of the commodities, packaging materials and transportation channels that are important to our business. We are mitigating the impact through a combination of higher pricing, inclusive of list price increases, reduced trade and net revenue optimization strategies, as well as continued cost management. We have recently implemented net price increases across all business segments, with most becoming effective during the month of July. -J.M. Smucker (Jun. 3)

We, like others, faced pronounced inflation related primarily to steeply higher transportation costs, some of which was an outcome from the strain of the Texas winter storms on supply chain logistics and the closure of our Paris, Texas facility for two weeks. These factors, partially offset by our productivity improvements, reflect about a third of the gross margin erosion in the third quarter and will continue into fiscal 2022. We currently expect the benefit from pricing actions we have put in place across our portfolio and our strong productivity plans to mitigate this inflation pressure in fiscal 2022, while we remain vigilant monitoring the ongoing dynamic nature of the current environment. -Campbell Soup (Jun. 9)

Q2 Earnings Season: By The Numbers

Overview

Analysts and companies have been much more optimistic than normal in their estimate revisions and earnings outlooks for the second quarter to date. As a result, expected earnings for the S&P 500 for the second quarter are higher today compared to the start of the quarter. The index is now expected to report the highest year-over-year growth in earnings since Q4 2009 for Q2. Analysts also expect double-digit earnings growth for the second half of 2021. The above-average growth rates for the second quarter and for all of 2021 are due to a combination of higher earnings for 2021 and an easier comparison to weaker earnings in 2020 due to the negative impact of COVID-19 on numerous industries.

In terms of estimate revisions for companies in the S&P 500, analysts have increased earnings estimates in aggregate for Q2 2021. On a per-share basis, estimated earnings for the second quarter have increased by 6.4% since March 31. In a typical quarter, analysts usually reduce earnings estimates during the quarter. Over the past five years (20 quarters), earnings estimates have fallen by 3.4% on average during a quarter. Over the past ten years, (40 quarters), earnings estimates have fallen by 4.0% on average during a quarter. Over the past fifteen years, (60 quarters), earnings estimates have fallen by 5.0% on average during a quarter.

More S&P 500 companies have issued positive EPS guidance for Q2 2021 than average as well. At this point in time, 103 companies in the index have issued EPS guidance for Q2 2021, Of these 103 companies, 37 have issued negative EPS guidance and 66 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 64% (66 out of 103), which is well above the 5-year average of 37%.

Because of the high number of companies issuing positive EPS guidance and the net upward revisions to earnings estimates, the estimated (year-over-year) earnings growth rate for Q2 2021 is higher now relative to the start of the second quarter. As of today, the S&P 500 is expected to report (year-over-year) earnings growth of 61.9%, compared to the estimated (year-over-year) earnings growth rate of 52.2% on March 31.

If 61.9% is the actual growth rate for the quarter, it will mark the largest year-over-year growth in earnings reported by the index since Q4 2009 (108.9%). The unusually high growth rate is due to a combination of higher earnings for Q2 2021 and a comparison to unusually weak earnings in Q2 2020 due to the negative impact of COVID-19 on a number of industries. All eleven sectors are projected to report year-over-year earnings growth, led by the Energy, Industrials, Consumer Discretionary, Financials, and Materials sectors.

Because of the high number of companies issuing positive revenue guidance and the net upward revisions to revenue estimates, the estimated (year-over-year) revenue growth rate for Q2 2021 is higher now relative to the start of the second quarter. As of today, the S&P 500 is expected to report (year-over-year) revenue growth of 19.4%, compared to the estimated (year-over-year) revenue growth rate of 16.6% on March 31.

If 19.4% is the actual growth rate for the quarter, it will mark the highest year-over-year revenue growth reported by the index since FactSet began tracking this metric in 2008. All eleven sectors are projected to report year-over-year growth in revenues, led by the Energy, Consumer Discretionary, and Materials sectors.

Looking at future quarters, analysts also project double-digit earnings growth for the remaining two quarters of 2021.

The forward 12-month P/E ratio is 22.4, which is above the 5-year average and above the 10-year average.

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

Earnings Revisions: Energy Sector Sees Largest Estimate Increases

Small Increase in Estimated Earnings Growth Rate for Q2 This Week

During the past week, the estimated earnings growth rate for the S&P 500 for Q2 2021 increased slightly to 61.9% from 61.5%.

Since the start of the quarter, the estimated earnings growth rate for the S&P 500 for Q2 2021 has increased to 61.9% today from 52.2% on March 31, as estimated earnings for the index have increased by 6.4% (to $391.2 billion from $367.6 billion) during this time. Nine sectors have recorded an increase in expected (dollar-level) earnings due to upward revisions to earnings estimates, led by the Energy, Materials, Financials, Information Technology, and Communication Services sectors. On the other hand, the Utilities and Consumer Staples sectors are the only two sectors that have recorded a decrease in expected (dollar-level) earnings due to downward revisions to earnings estimates.

Energy: Exxon Mobil Leads Earnings Increase Since March 31

The Energy sector has recorded the largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 22.1% (to $13.2 billion from $10.8 billion). A year-over-year growth rate is not being calculated for the Energy sector due to the loss reported by the sector in Q2 2020. This sector has also witnessed the second-largest increase in price (+13.1%) of all eleven sectors since March 31. Rising oil prices are contributing to increase in earnings estimates for this sector, as the price of oil today ($72.15) is 22% above the price for oil on March 31 ($59.16). Overall, 19 of the 22 companies (86%) in the Energy sector have seen an increase in their mean EPS estimate during this time. Of these 19 companies, 12 have recorded an increase in their mean EPS estimate of more than 10%, led by Marathon Petroleum (to $0.68 from $0.19), Marathon Oil (to $0.13 from $0.06), Valero Energy (to $0.84 from $0.48), and Hess Corporation (to $0.17 from $0.10). However, Exxon Mobil (to $0.90 from $0.73) has been the largest contributor to the increase in estimated (dollar-level) earnings for this sector since March 31.

Materials: Dow Leads Earnings Increase Since March 31

The Materials sector has recorded the second-largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 16.5% (to $15.5 billion from $13.3 billion). As a result, the estimated earnings growth rate for this sector has risen to 113.5% from 83.3% during this time. This sector has also witnessed an increase in price of 6.2% since March 31. Overall, 19 of the 28 companies (68%) in the Materials sector have seen an increase in their mean EPS estimate during this time. Of these 19 companies, 11 have recorded an increase in their mean EPS estimate of more than 10%, led by Dow (to $2.11 from $1.22), Nucor (to $4.36 from $2.96), LyondellBasell Industries (to $4.80 from $3.32), and Celanese Corporation (to $4.18 from $2.97). Dow has also been the largest contributor to the increase in expected (dollar-level) earnings for this sector since March 31.

Financials: Bank of America Leads Earnings Increase Since March 31

The Financials sector has recorded the third-largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 9.4% (to $68.6 billion from $62.7 billion). As a result, the estimated earnings growth rate for this sector has risen to 115.5% from 96.9% during this time. This sector has also witnessed the third-largest increase in price (+9.0%) of all eleven sectors since March 31. Overall, 51 of the 65 companies (78%) in the Financials sector have seen an increase in their mean EPS estimate during this time. Of these 51 companies, 21 have recorded an increase in their mean EPS estimate of more than 10%, led by Wells Fargo (to $0.93 from $0.69), Capital One Financial (to $4.26 from $3.34), and Discover Financial Services (to $3.27 from $2.59). However, Bank of America (to $0.77 from $0.66), Wells Fargo, and JPMorgan Chase (to $3.07 from $2.80) have been the largest contributors to the increase in expected (dollar-level) earnings for this sector since March 31.

Information Technology: Apple and Microsoft Lead Earnings Increase since March 31

The Information Technology sector has recorded the fourth-largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 9.1% (to $85.2 billion from $78.1 billion). As a result, the estimated earnings growth rate for this sector has risen to 30.4% from 19.5% during this time. This sector has also witnessed the fifth-largest increase in price (+6.7%) of all eleven sectors since March 31. Overall, 54 of the 74 companies (73%) in the Information Technology sector have seen an increase in their mean EPS estimate during this time. Of these 54 companies, 21 have recorded an increase in their mean EPS estimate of more than 10%, led by Intuit (to $1.59 from -$0.11), Gartner (to $1.73 from $1.09), and Western Digital (to $1.49 from $1.00). However, Apple (to $0.99 from $0.82) and Microsoft (to $1.91 from $1.77) have been the largest contributors to the increase in expected (dollar-level) earnings for this sector since March 31.

Communication Services: Alphabet and Facebook Lead Earnings Increase since March 31

The Communication Services sector has recorded the fifth-largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 8.7% (to $40.3 billion from $37.1 billion). As a result, the estimated earnings growth rate for this sector has risen to 40.9% from 29.7% during this time. This sector has also witnessed the fourth-largest increase in price (+8.5%) of all eleven sectors since March 31. Overall, 12 of the 22 companies (55%) in the Communication Services sector have seen an increase in their mean EPS estimate during this time. Of these 12 companies, 5 have recorded an increase in their mean EPS estimate of more than 10%, led by Alphabet (to $19.15 from $15.56), Take-Two Interactive (to $0.88 from $0.72), Facebook (to $3.03 from $2.49), and Netflix (to $3.18 from $2.70). Alphabet and Facebook have also been the largest contributors to the increase in expected (dollar-level) earnings for this sector since March 31.

Index-Level (Bottom-Up) EPS Estimate: 6.4% Increase Since March 31

The Q2 bottom-up EPS estimate (which is an aggregation of the median Q2 earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings of the index) has increased by 6.4% (to $44.68 from $42.00) since March 31. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings expectations have fallen by 3.4% on average during a quarter. Over the past ten years, (40 quarters), earnings expectations have also fallen by 4.0% on average during a quarter. Over the past fifteen years (60 quarters), earnings expectations have fallen by 5.0% on average during a quarter.

Guidance: % of S&P 500 Companies Issuing Positive EPS Guidance Above 5-Year Average

At this point in time, 103 companies in the index have issued EPS guidance for Q2 2021. Of these 103 companies, 37 have issued negative EPS guidance and 66 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 64% (66 out of 103), which is well above the 5-year average of 37%.

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 Growth: 61.9%

The estimated (year-over-year) earnings growth rate for Q2 2021 is 61.9%, which is well above the 5-year average earnings growth rate of 4.1%. If 61.9% is the actual growth rate for the quarter, it will mark the highest year-over-year earnings growth reported by the index since Q4 2009 (108.9%). All eleven sectors are expected to report year-over-year earnings growth, led by the Energy, Industrials, Consumer Discretionary, Financials, and Materials sectors.

Energy: Exxon Mobil and Chevron Are Largest Contributors to Higher Year-Over-Year Earnings

The Energy sector is expected to report earnings of $13.2 billion for Q2 2021 compared to a loss of -$10.6 billion in Q2 2020. Thus, a year-over-year growth rate is not being calculated for the Energy sector due to the loss reported by the sector in Q2 2020. Higher year-over-year oil prices are contributing to the year-over-year improvement in earnings for this sector, as the average price of oil in Q2 2021 ($64.90) is 132% above the average price for oil in Q2 2020 ($28.00). At the sub-industry level, all five sub-industries in the sector are projected to report a year-over-year increase in earnings. A growth rate is not being calculated for three of these five sub-industries due to losses reported in the year-ago quarter. However, all three are projected to report profits in Q2 2021: Integrated Oil & Gas, Oil & Gas Exploration & Production, and Oil & Gas Refining & Marketing. The other two sub-industries that are predicted to report year-over-year growth are the Oil & Gas Equipment & Services (1,193%) and Oil & Gas Storage & Transportation (33%) sub-industries. At the company level, Exxon Mobil and Chevron are the largest contributors to the year-over-year improvement in earnings for the sector. Combined, these two companies account for $12.6 billion of the projected $23.9 billion year-over-year increase in earnings for the sector.

Industrials: Airlines Industry is Largest Contributor to Year-Over-Year Growth

The Industrials sector is expected to report the highest (year-over-year) earnings growth rate of all eleven sectors at 346.8%. At the industry level, all 12 industries in the sector are projected to report a year-over-year increase in earnings. A growth rate is not being calculated for the Airlines industry due to a loss reported in the year-ago quarter. However, this industry is predicted to report a smaller loss in Q2 2021 (-$4.2 billion) relative to Q2 2020 (-$11.5 billion). The remaining eleven industries are all expected to report double-digit earnings growth. Six of these eleven industries are projected to report earnings growth of more than 50%: Industrials Conglomerates (271%), Aerospace & Defense (178%), Machinery (81%), Road & Rail (57%), Electrical Equipment (55%), and Air Freight & Logistics (51%). The Airlines industry is also expected to be the largest contributor to earnings growth for the sector. If this industry were excluded, the estimated earnings growth rate for the Industrials sector would fall to 78.7% from 346.8%.

Consumer Discretionary: Hotels, Restaurants & Leisure Industry is Largest Contributor to Growth

The Consumer Discretionary sector is expected to report the second-highest (year-over-year) earnings growth rate of all eleven sectors at 184.8%. At the industry level, nine of the ten industries in this sector are expected to report a year-over-year improvement in earnings. A growth rate is not being calculated for four of these nine industries due to losses reported in the year-ago quarter. However, three of these four industries are projected to report profits in Q2 2021: Automobiles, Textiles, Apparel & Luxury Goods, and Auto Components. The Hotels, Restaurants, & Leisure industry is projected to report a smaller loss in Q2 2021 (-$406 million) relative to Q2 2020 (-$7.7 billion). The other five industries are predicted to report double-digit earnings growth: Leisure Products (2,315%), Household Durables (74%), Distributors (32%), Specialty Retail (28%), and Internet & Direct Marketing Retail (15%). The only industry expected to report a year-over-year decline in earnings is the Multiline Retail (-8%) industry. The Hotels, Restaurants, & Leisure industry is also projected to be the largest contributor to growth for the sector. If this industry were excluded, the estimated earnings growth rate for the Consumer Discretionary sector would fall to 59.6% from 184.8%.

Financials: Banks Industry Is Largest Contributor to Year-Over-Year Growth

The Financials sector is expected to report the third-highest (year-over-year) earnings growth rate of all eleven sectors at 115.5%. At the industry level, all five industries in this sector are expected to report a year-over-year improvement in earnings. A growth rate is not being calculated for the Consumer Finance industry due to a loss reported in the year-ago quarter. However, this industry is predicted to report a profit in Q2 2021 ($5.0 billion) relative to the loss in Q2 2020 (-$832 million). Three of the other four industries are predicted to report double-digit earnings growth: Banks (310%), Insurance (51%), and Capital Markets (19%). The Banks industry is also projected to be the largest contributor to growth for the sector. If this industry were excluded, the estimated earnings growth rate for the Financials sector would fall to 51.6% from 115.5%.

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

The Materials sector is expected to report the fourth-highest (year-over-year) earnings growth rate of all eleven sectors at 113.5%. At the industry level, all four industries in this sector are predicted to report year-over-year growth. Three of these four industries are projected to report growth of 20% or more: Metals & Mining (623%), Chemicals (106%), and Containers & Packaging (20%). The Metals & Mining industry is also projected to be the largest contributor to year-over-year growth in earnings for the sector. If this industry were excluded, the estimated earnings growth rate for the Materials sector would fall to 81.8% from 113.5%.

Revenue Growth: 19.4%

The estimated (year-over-year) revenue growth rate for Q2 2021 is 19.4%, which is above the 5-year average revenue growth rate of 3.9%. If 19.4% is the actual growth rate for the quarter, it will mark the highest year-over-year revenue growth reported by the index since FactSet began tracking this metric in 2008. The current record is 12.7%, which occurred in Q2 2011. All eleven sectors are expected to report year-over-year growth in revenues, led by the Energy, Consumer Discretionary, and Materials sectors.

Energy: 3 of 5 Sub-Industries Expected to Report Year-Over-Year Growth Above 70%

The Energy sector is expected to report the highest (year-over-year) revenue growth rate of all eleven sectors at 86.0%. Higher year-over-year oil prices are contributing to the year-over-year improvement in revenues for this sector, as the average price of oil in Q2 2021 ($64.90) is 132% above the average price for oil in Q2 2020 ($28.00). At the sub-industry level, all five sub-industries in the sector are projected to report year-over-year growth in revenues. Four of these five sub-industries are projected to report revenue growth above 30%: Oil & Gas Exploration & Production (174%), Integrated Oil & Gas (110%), Oil & Gas Refining & Marketing (75%), and Oil & Gas Storage & Transportation (31%).

Consumer Discretionary: 4 of 10 Industries Expected to Report Year-Over-Year Growth Above 60%

The Consumer Discretionary sector is expected to report the second-highest (year-over-year) revenue growth of all eleven sectors at 31.8%. At the industry level, all ten industries in this sector are predicted to report growth in revenues. Nine of these ten industries are predicted to report double-digit growth, with four of these nine industries projected to report earnings growth above 60%: Auto Components (110%), Hotels, Restaurants, & Leisure (103%), Textiles, Apparel, & Luxury Goods (66%), and Automobiles (64%).

Materials: Metals & Mining Industry Leads Year-Over-Year Growth

The Materials sector is expected to report the third-highest (year-over-year) revenue growth of all eleven sectors at 31.7%. At the industry level, all four industries in this sector are predicted to report year-over-year growth in revenues, with three of these four industries projected to report double-digit growth: Metals & Mining (75%), Chemicals (32%), and Containers & Packaging (13%).

Net Profit Margin: 11.7%

The estimated net profit margin for the S&P 500 for Q2 2021 is 11.7%, which is above the 5-year average of 10.6% and the year-ago net profit margin of 8.6%, but below the previous quarter’s record-high net profit margin of 12.8%.

At the sector level, nine sectors are expected to report a year-over-year increase in their net profit margins in Q2 2021 compared to Q2 2020, led by the Financials sector (17.8% vs. 8.6%). Seven sectors are expected to report net profit margins in Q2 2021 that are above their 5-year averages, led by the Materials sector (14.0% vs. 9.1%).

Looking Ahead: Forward Estimates and Valuation

Earnings: S&P 500 Expected to Report Earnings Growth of 35% for CY 2021

For the first quarter, S&P 500 companies are reported growth in earnings of 52.5% and growth in revenue of 10.9%.

For Q2 2021, analysts are projecting earnings growth of 61.9% and revenue growth of 19.4%.

For Q3 2021, analysts are projecting earnings growth of 23.0% and revenue growth of 12.0%.

For Q4 2021, analysts are projecting earnings growth of 17.4% and revenue growth of 8.9%.

For CY 2021, analysts are projecting earnings growth of 34.8% and revenue growth of 12.1%.

Valuation: Forward P/E Ratio is 22.4, Above the 10-Year Average (16.1)

The forward 12-month P/E ratio is 22.4 This P/E ratio is above the 5-year average of 18.0 and above the 10-year average of 16.1. It is also above the forward 12-month P/E ratio of 21.8 recorded at the end of the first quarter (March 31). Since the end of the first quarter (March 31), the price of the index has increased by 6.3%, while the forward 12-month EPS estimate has increased by 9.5%.

At the sector level, the Consumer Discretionary (31.7) sector has the highest forward 12-month P/E ratio, while the Financials (14.4) sector has the lowest forward 12-month P/E ratio.

Targets & Ratings: Analysts Project 13% Increase in Price Over Next 12 Months

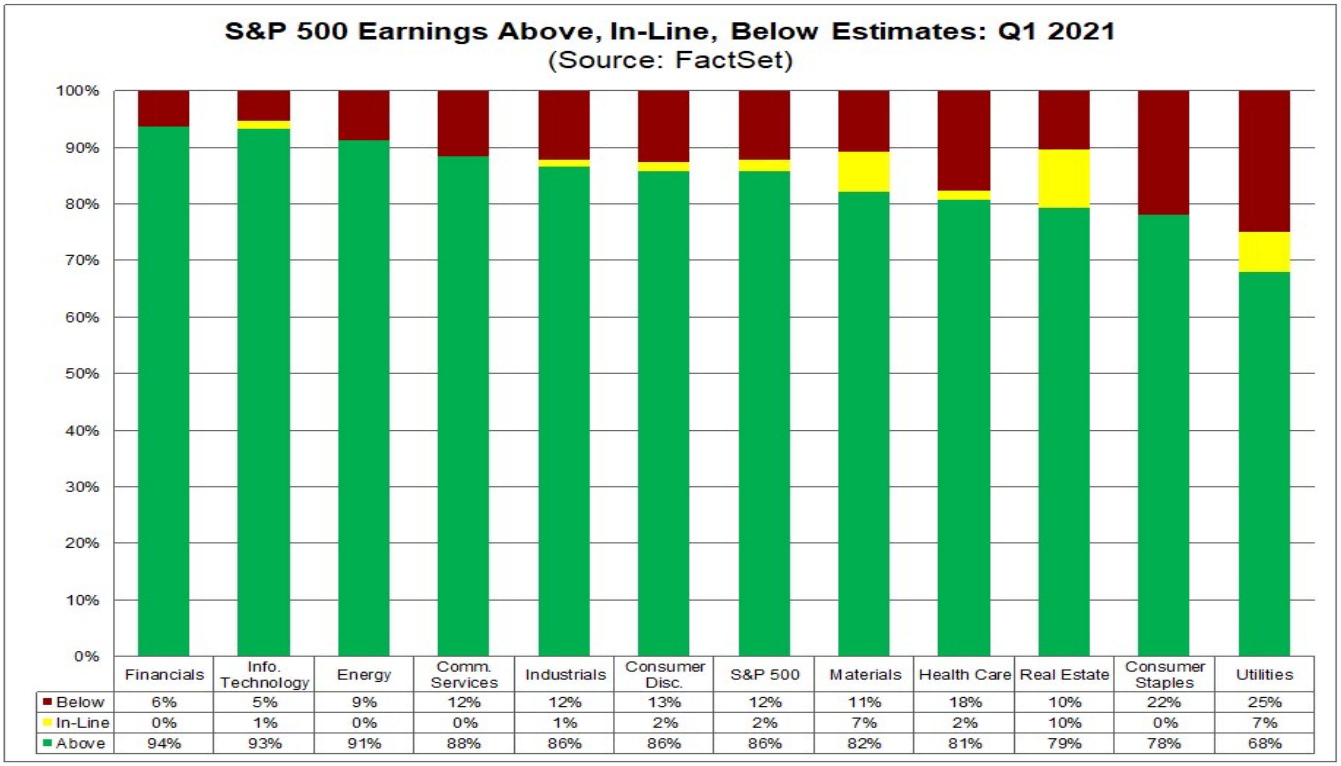
The bottom-up target price for the S&P 500 is 4774.47, which is 13.0% above the closing price of 4223.70. At the sector level, the Consumer Discretionary (+18.3%) and Information Technology (+16.2%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Real Estate (+3.9%) 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 10,496 ratings on stocks in the S&P 500. Of these 10,496 ratings, 56.7% are Buy ratings, 36.8% are Hold ratings, and 6.5% are Sell ratings. At the sector level, the Energy (63%), Health Care (63%) Information Technology (63%), and Communication Services (62%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (44%) sector has the lowest percentage of Buy ratings.

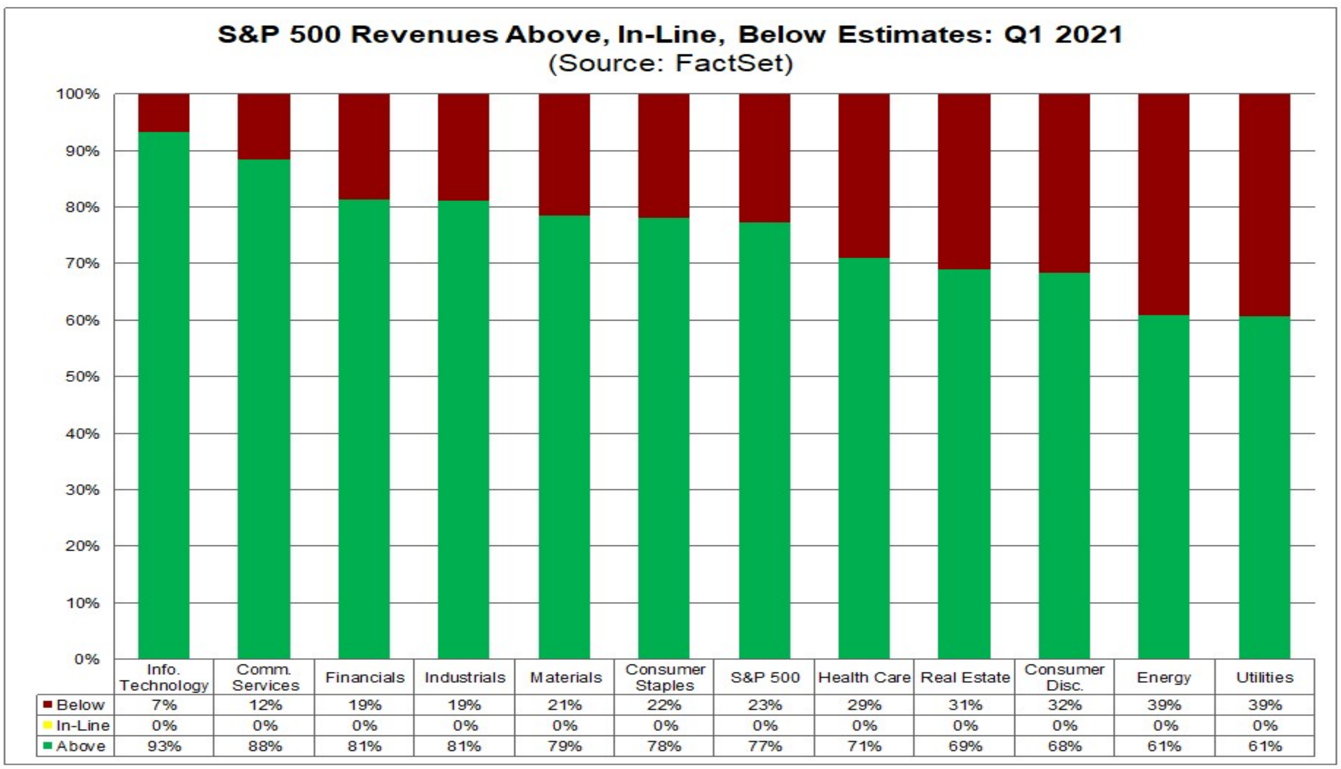
Companies Reporting Next Week: 7

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

Q1 2021: Scorecard

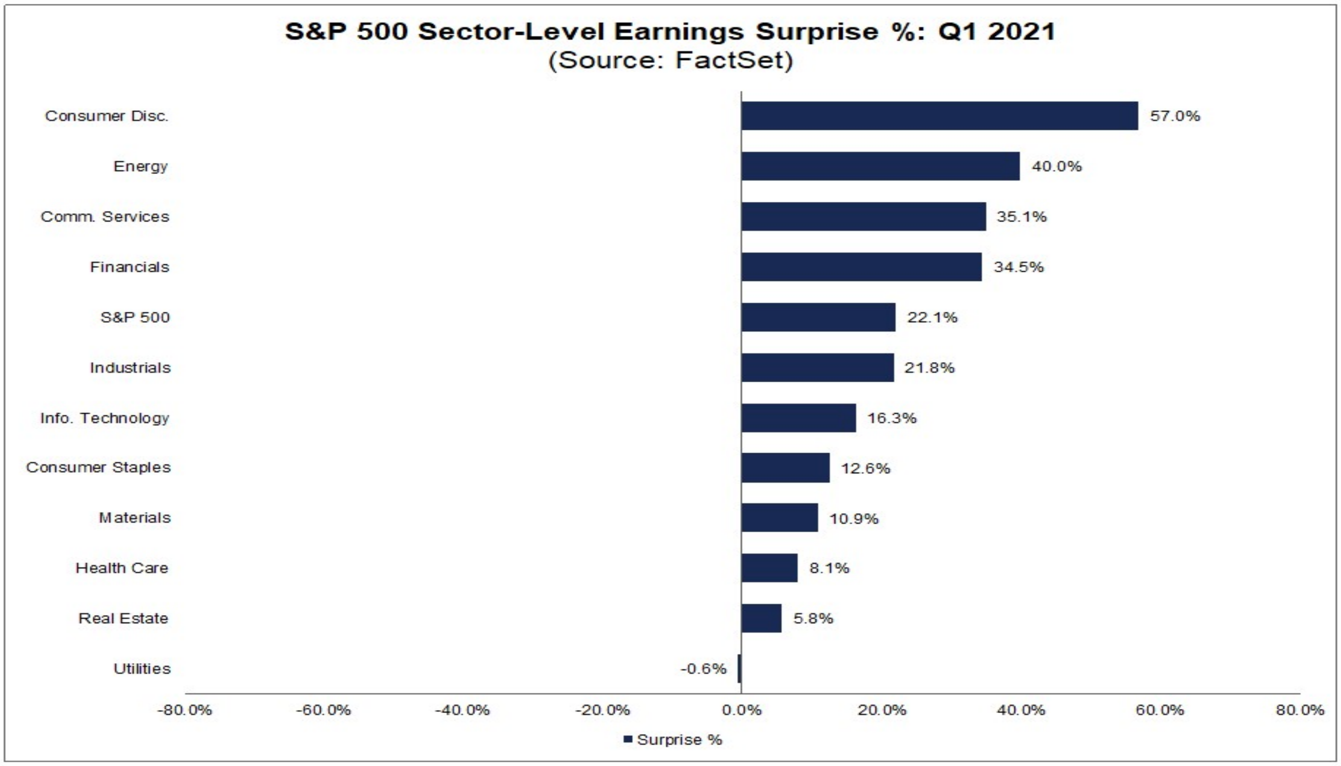


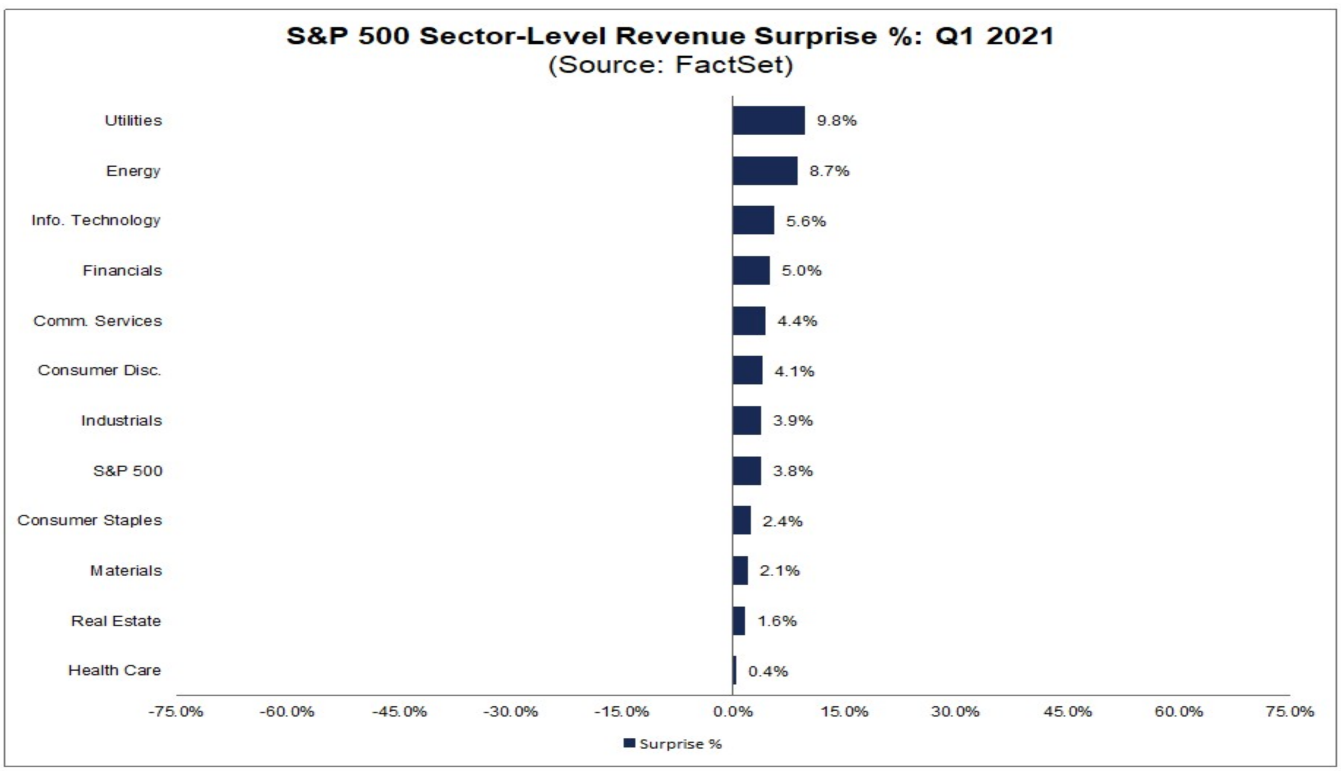
	Financials	Info. Technology	Energy	Comm. Services	Industrials	Consumer Disc.	S&P 500	Materials	Health Care	Real Estate	Consumer Staples	Utilities
Below	6%	5%	9%	12%	12%	13%	12%	11%	18%	10%	22%	25%
In-Line	0%	1%	0%	0%	1%	2%	2%	7%	2%	10%	0%	7%
Above	94%	93%	91%	88%	86%	86%	86%	82%	81%	79%	78%	68%



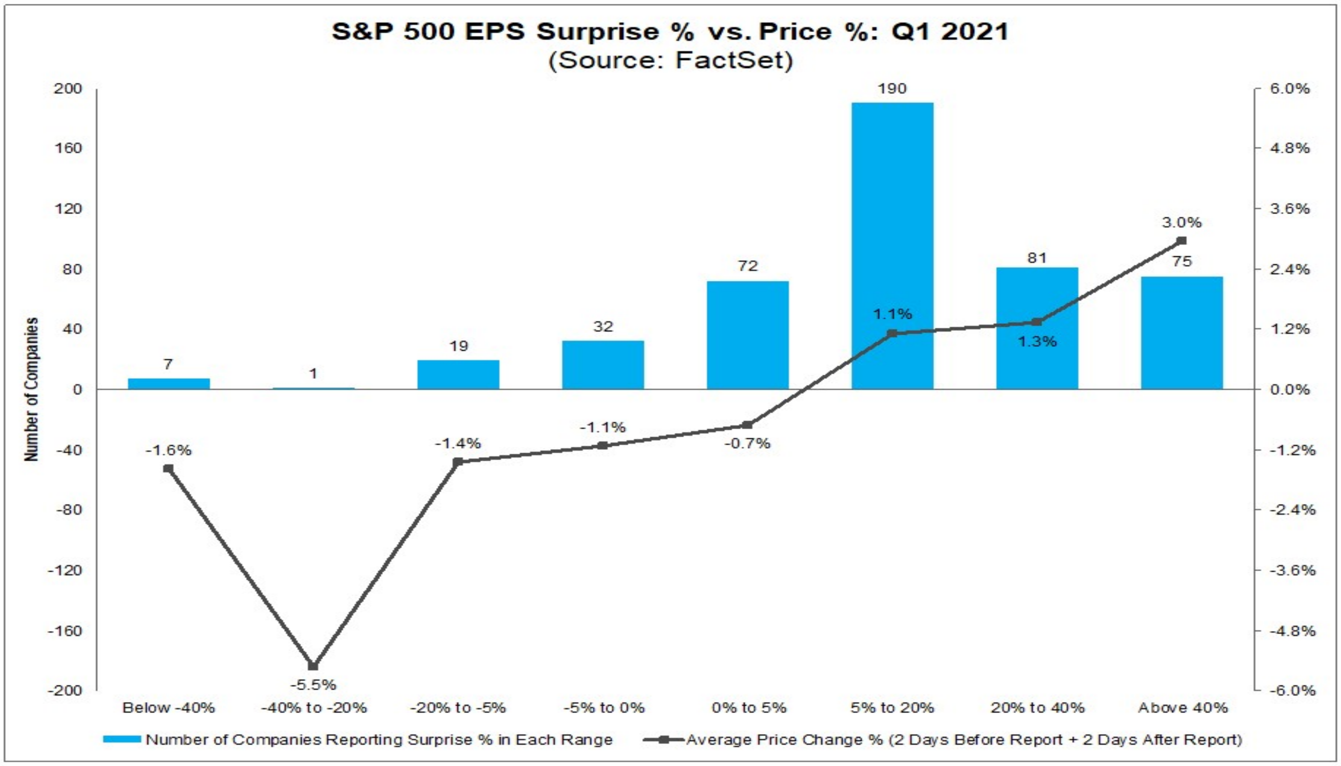
	Info. Technology	Comm. Services	Financials	Industrials	Materials	Consumer Staples	S&P 500	Health Care	Real Estate	Consumer Disc.	Energy	Utilities
Below	7%	12%	19%	19%	21%	22%	23%	29%	31%	32%	39%	39%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	93%	88%	81%	81%	79%	78%	77%	71%	69%	68%	61%	61%

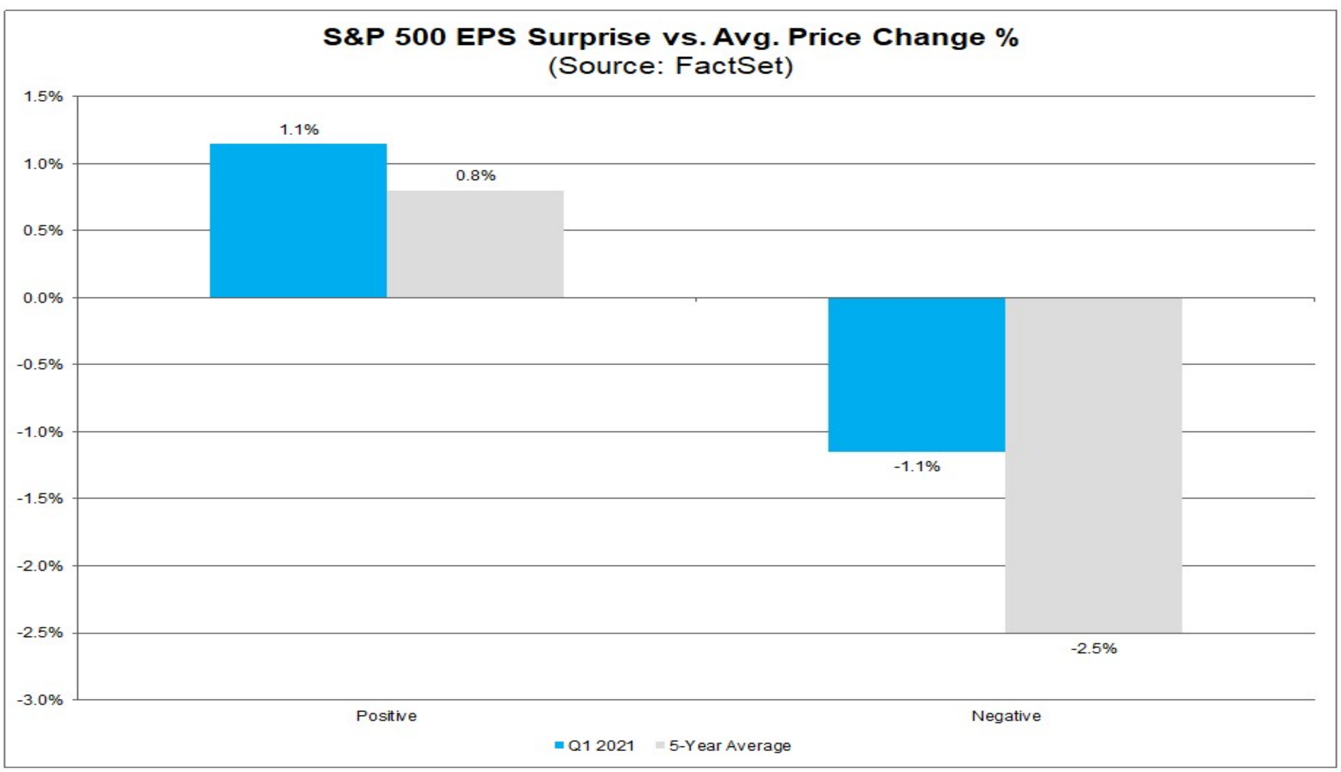
Q1 2021: Scorecard



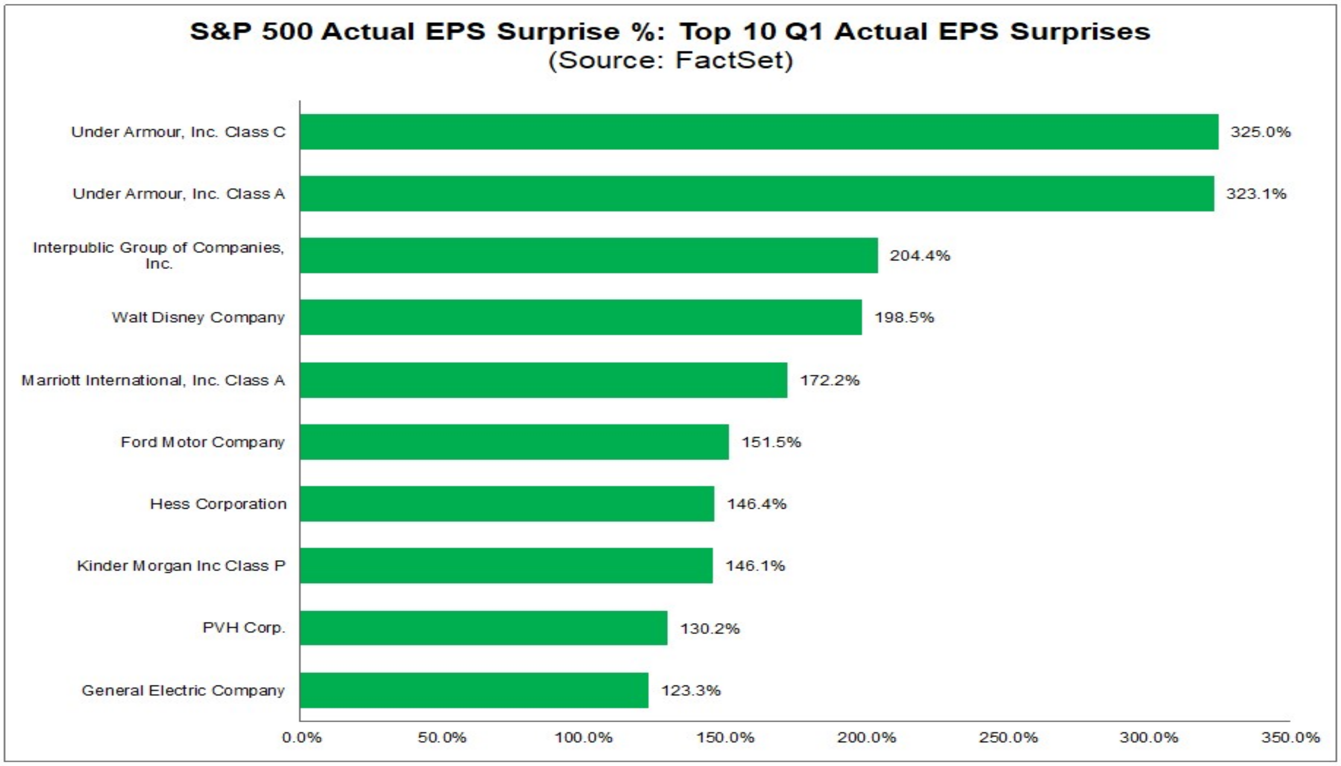


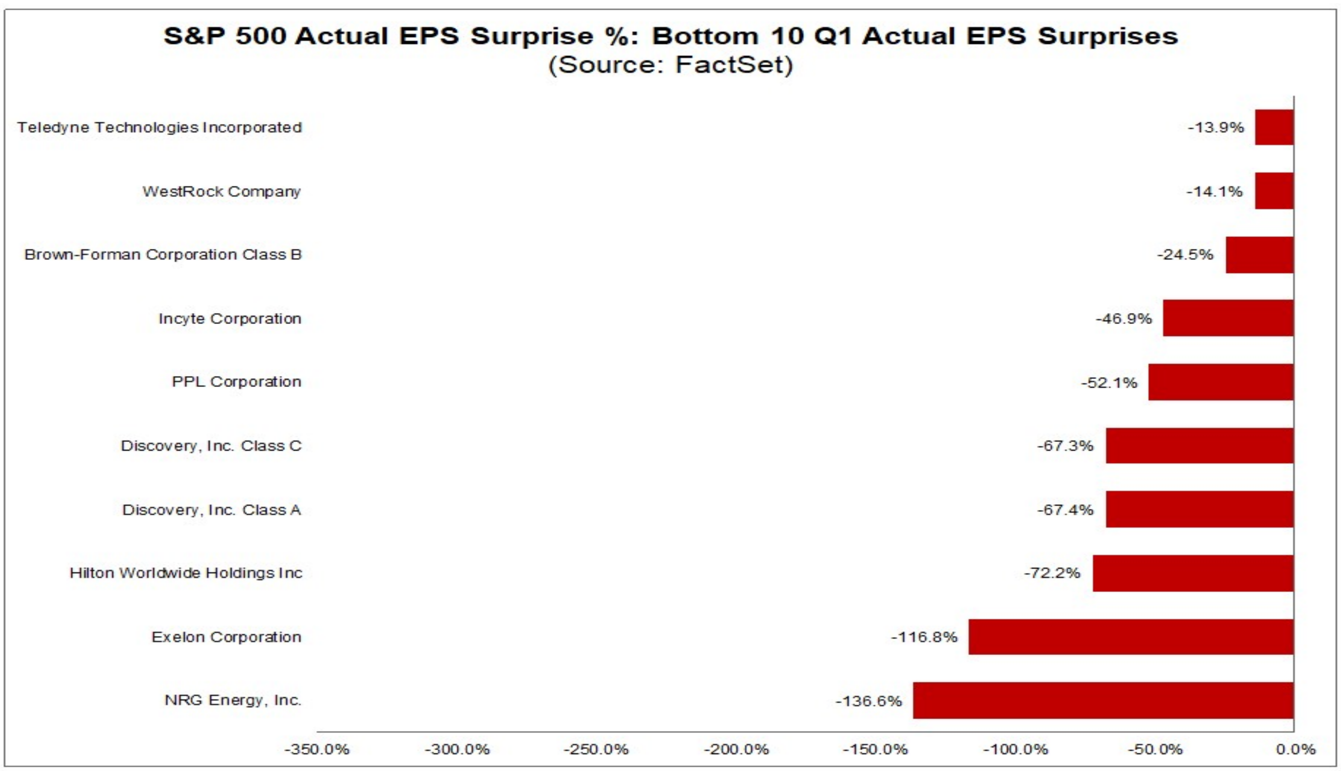
Q1 2021: Scorecard



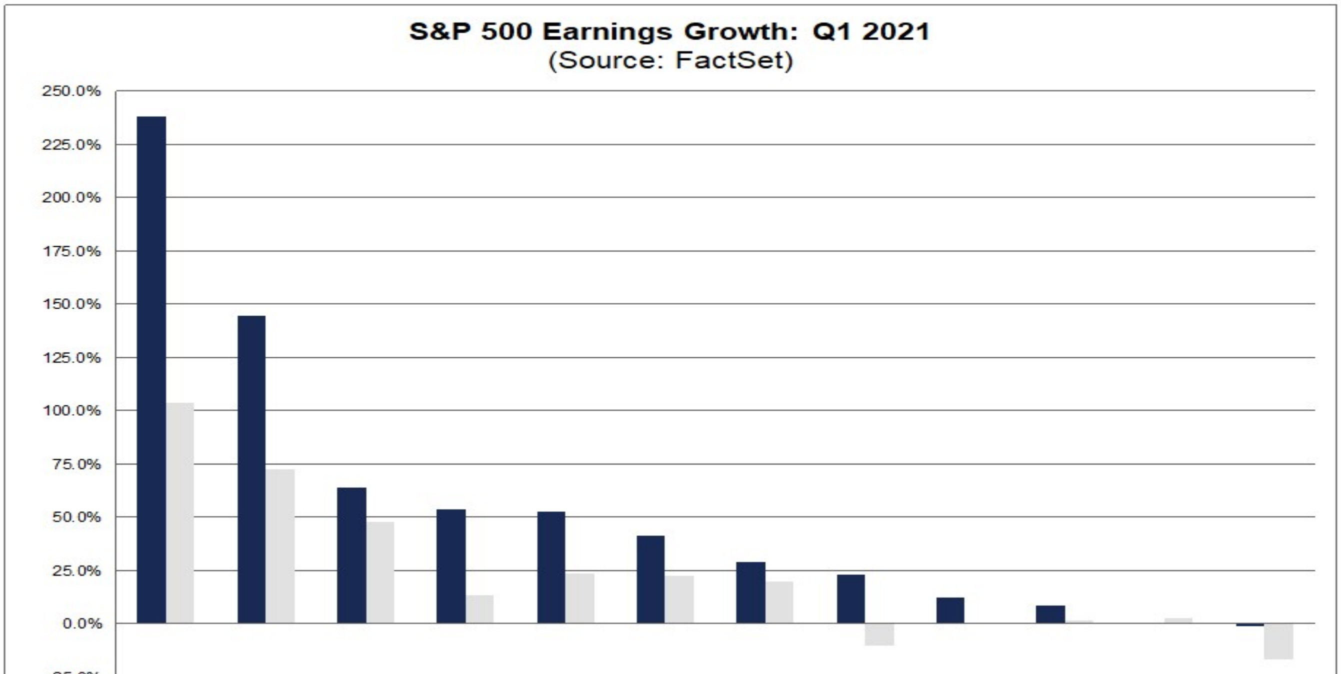


Q1 2021: Scorecard

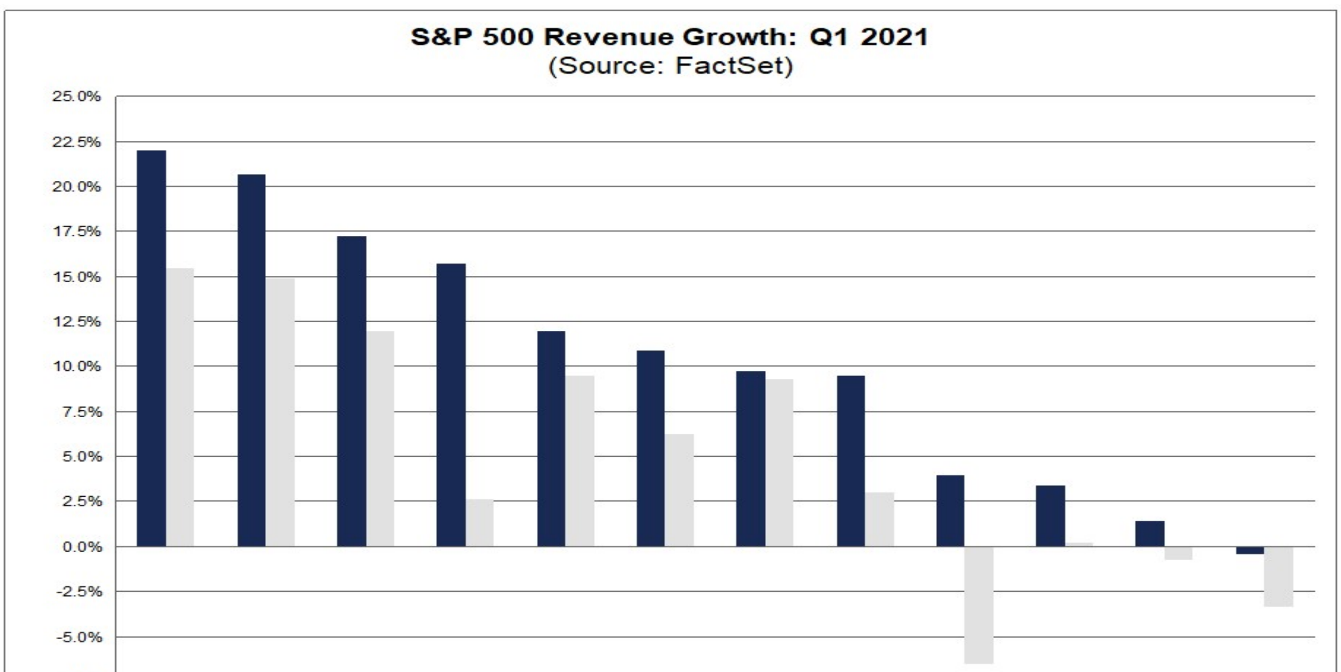




Q1 2021: Growth

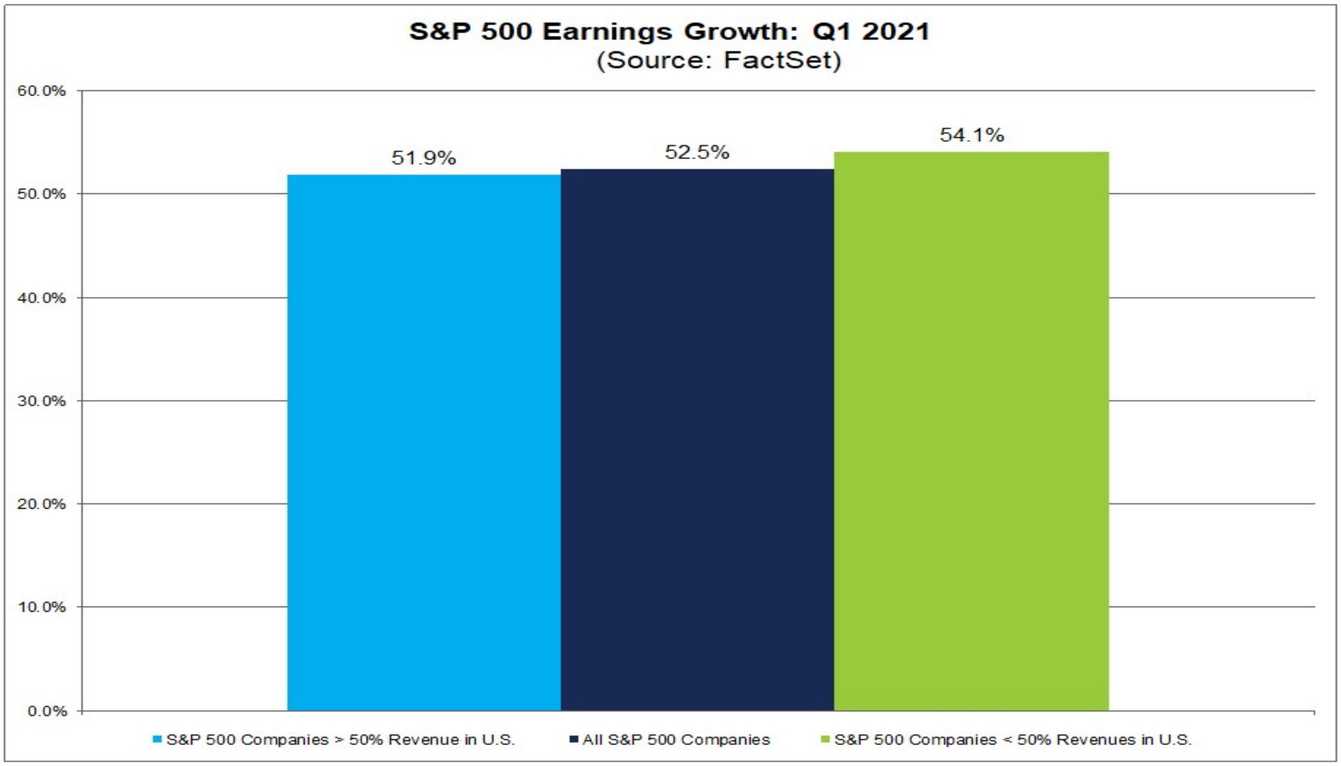


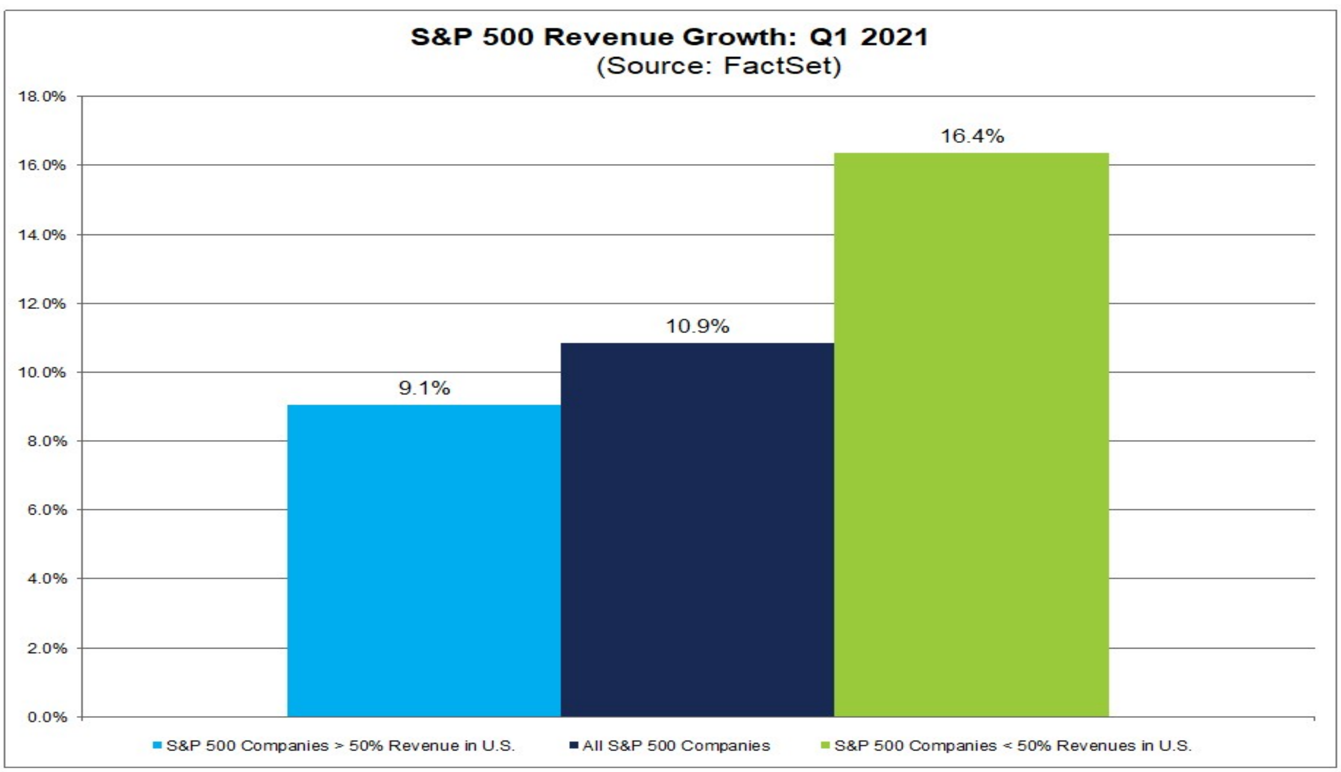
	Consumer Disc.	Financials	Materials	Comm. Services	S&P 500	Info. Technology	Health Care	Energy	Consumer Staples	Real Estate	Utilities	Industrials
Today	238.3%	144.3%	63.7%	53.8%	52.5%	41.6%	28.9%	22.9%	12.3%	8.3%	0.7%	-1.0%
31-Mar	103.4%	72.3%	47.7%	13.4%	23.8%	22.3%	19.8%	-10.2%	0.2%	1.7%	2.5%	-16.6%



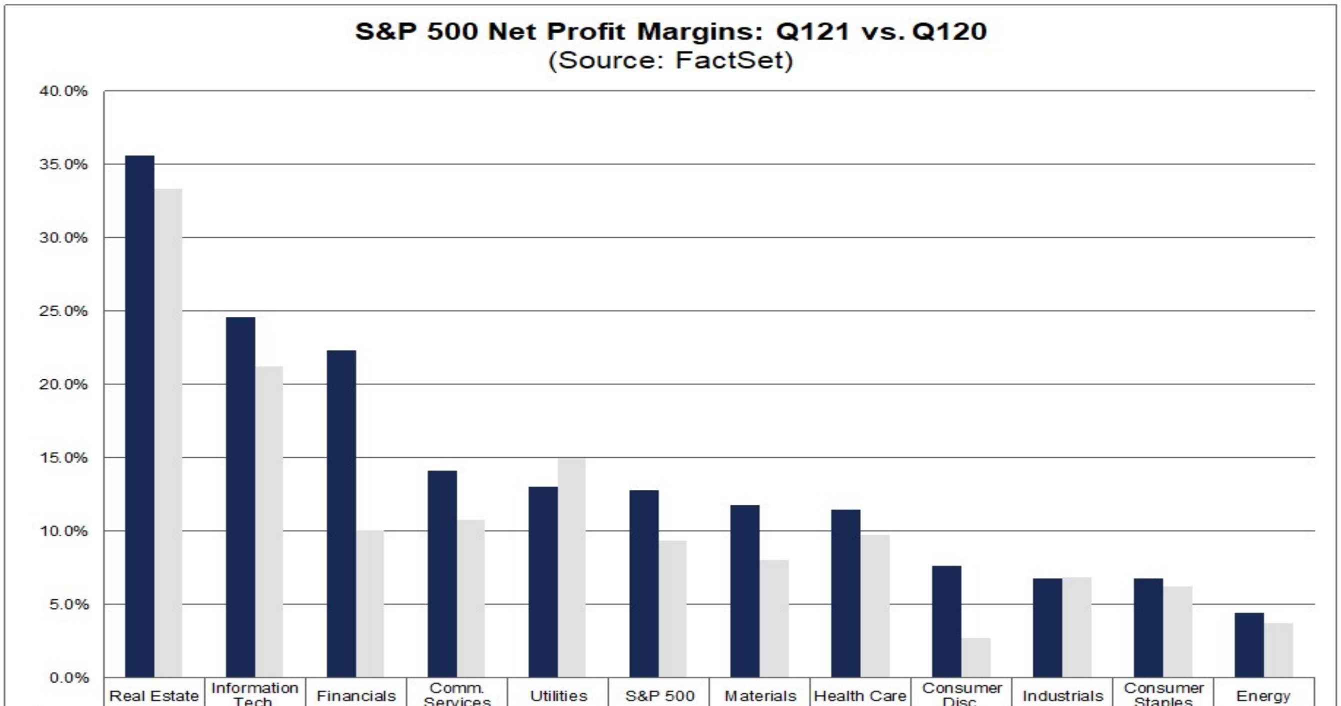
	Info. Technology	Consumer Disc.	Comm. Services	Utilities	Materials	S&P 500	Health Care	Financials	Energy	Consumer Staples	Real Estate	Industrials
Today	22.0%	20.6%	17.2%	15.7%	12.0%	10.9%	9.8%	9.5%	4.0%	3.4%	1.4%	-0.4%
31-Mar	15.5%	14.9%	12.0%	2.6%	9.5%	6.2%	9.3%	3.0%	-6.5%	0.2%	-0.7%	-3.3%

Q1 2021: Growth

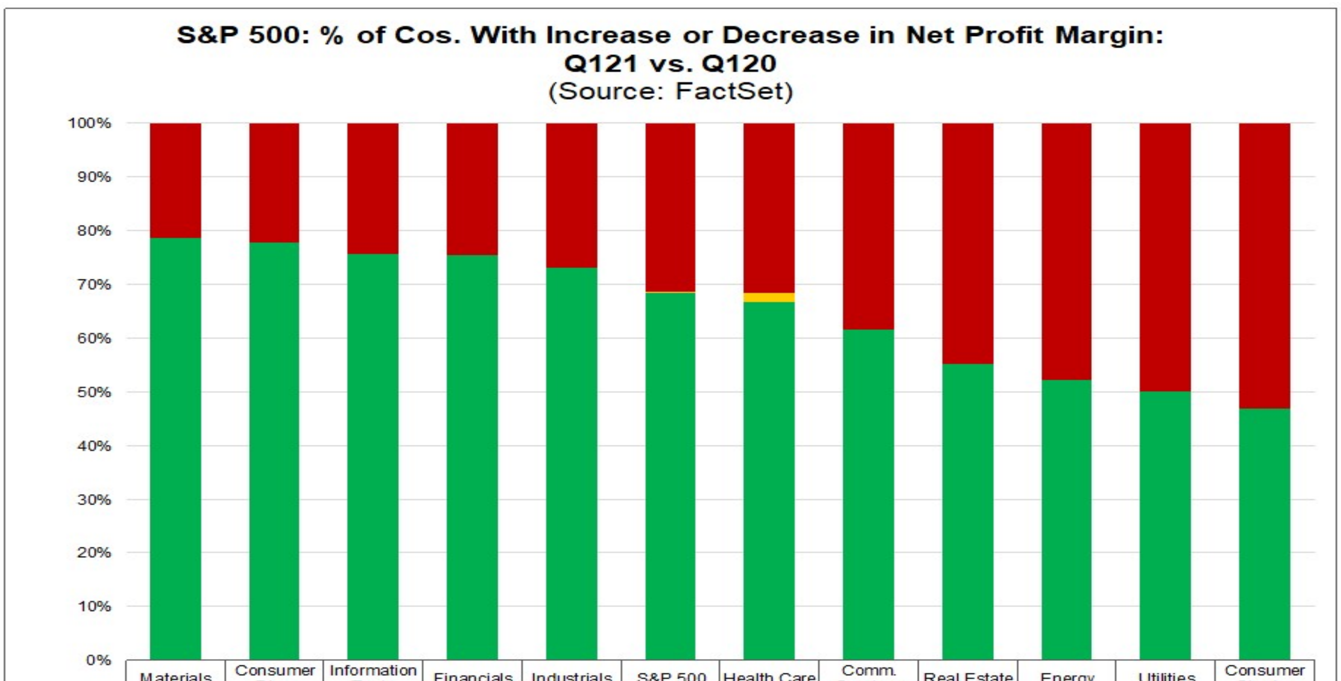




Q1 2021: Net Profit Margin

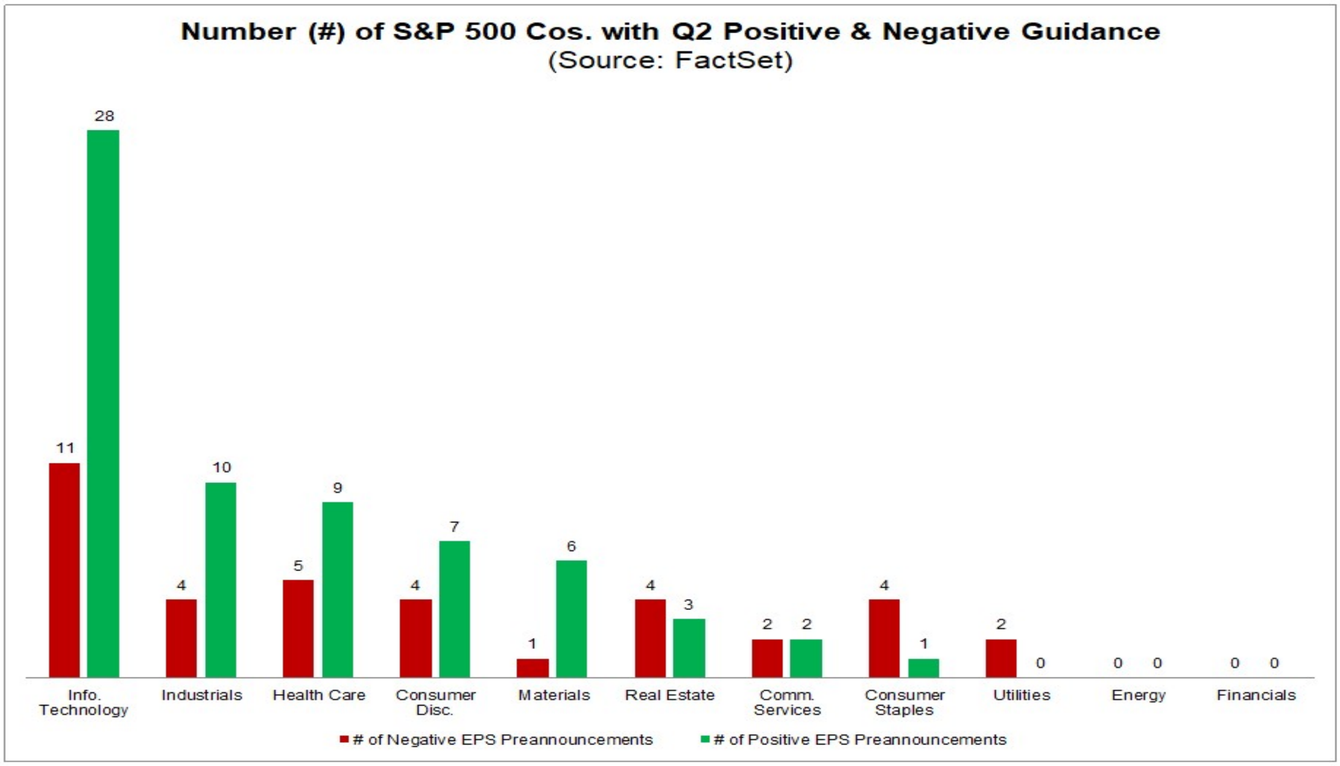


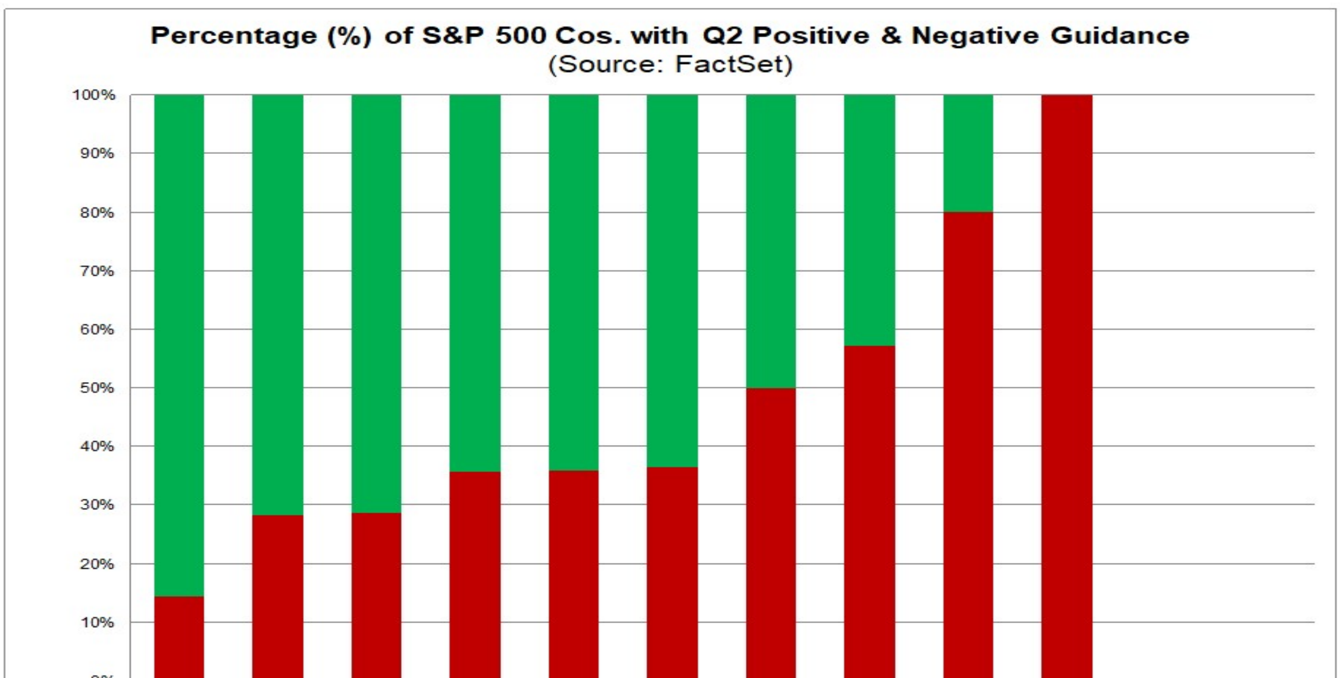
	Real Estate	Information Tech.	Financials	Comm. Services	Utilities	S&P 500	Materials	Health Care	Consumer Disc.	Industrials	Consumer Staples	Energy
Q121	35.6%	24.6%	22.3%	14.1%	13.0%	12.8%	11.7%	11.4%	7.6%	6.8%	6.7%	4.4%
Q120	33.3%	21.2%	10.0%	10.7%	15.0%	9.3%	8.0%	9.7%	2.7%	6.8%	6.2%	3.7%



	Materials	Consumer Disc.	Information Tech.	Financials	Industrials	S&P 500	Health Care	Comm. Services	Real Estate	Energy	Utilities	Consumer Staples
Down %	21%	22%	24%	25%	27%	31%	32%	38%	45%	48%	50%	53%
None %	0%	0%	0%	0%	0%	0%	2%	0%	0%	0%	0%	0%
Up %	79%	78%	76%	75%	73%	68%	67%	62%	55%	52%	50%	47%

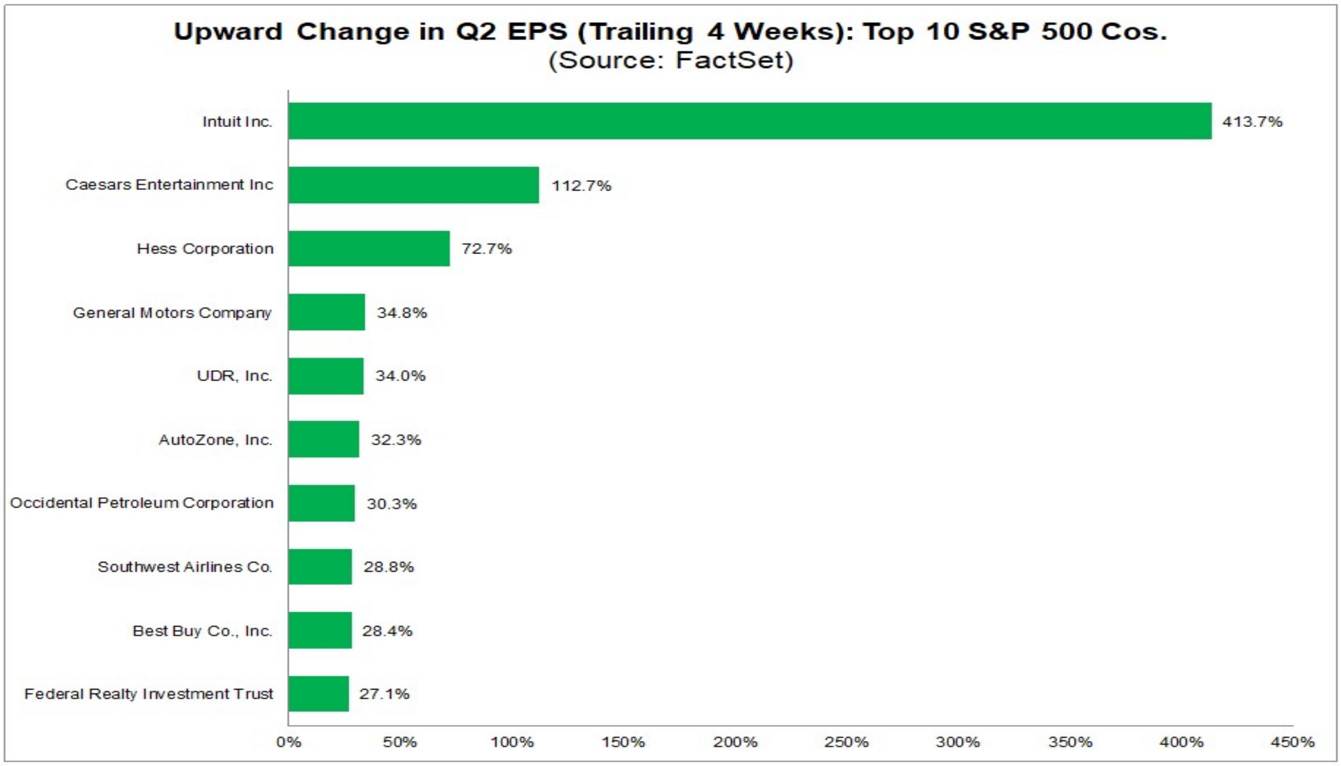
Q2 2021: EPS Guidance

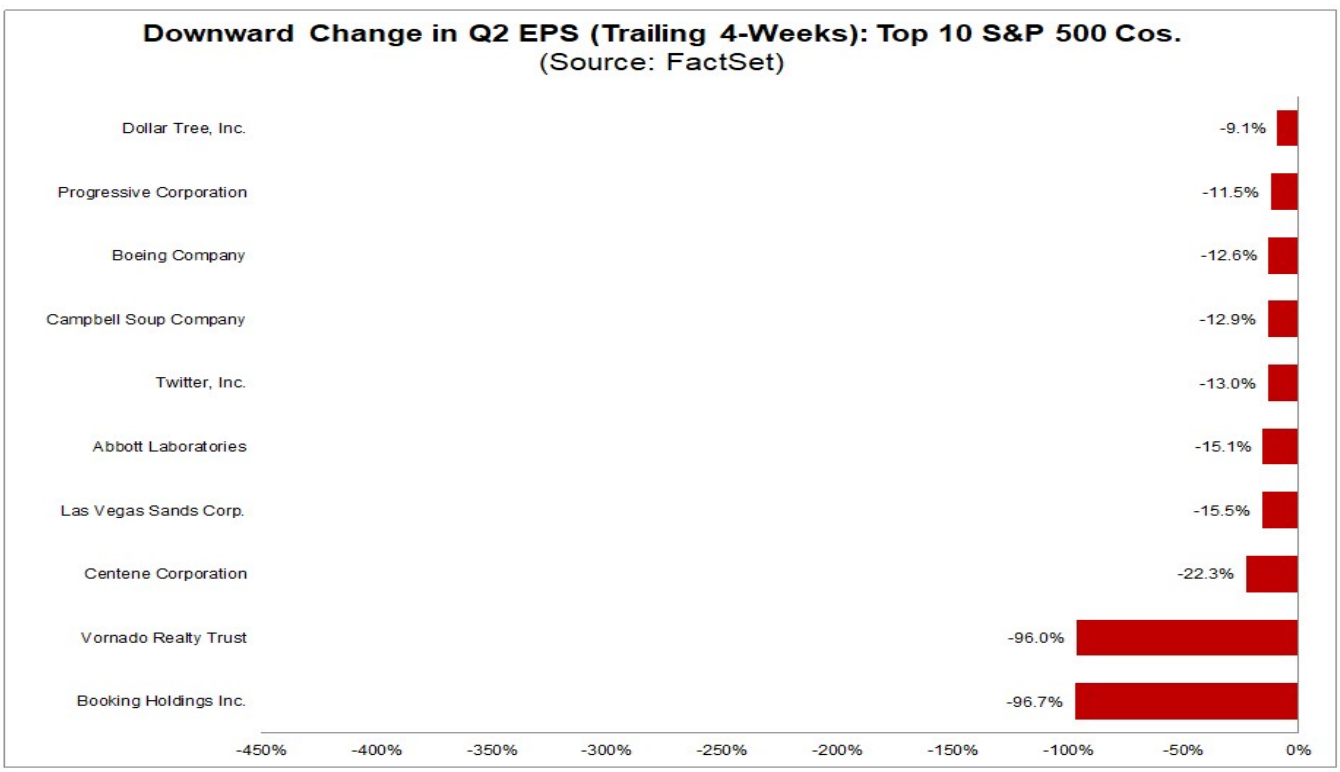




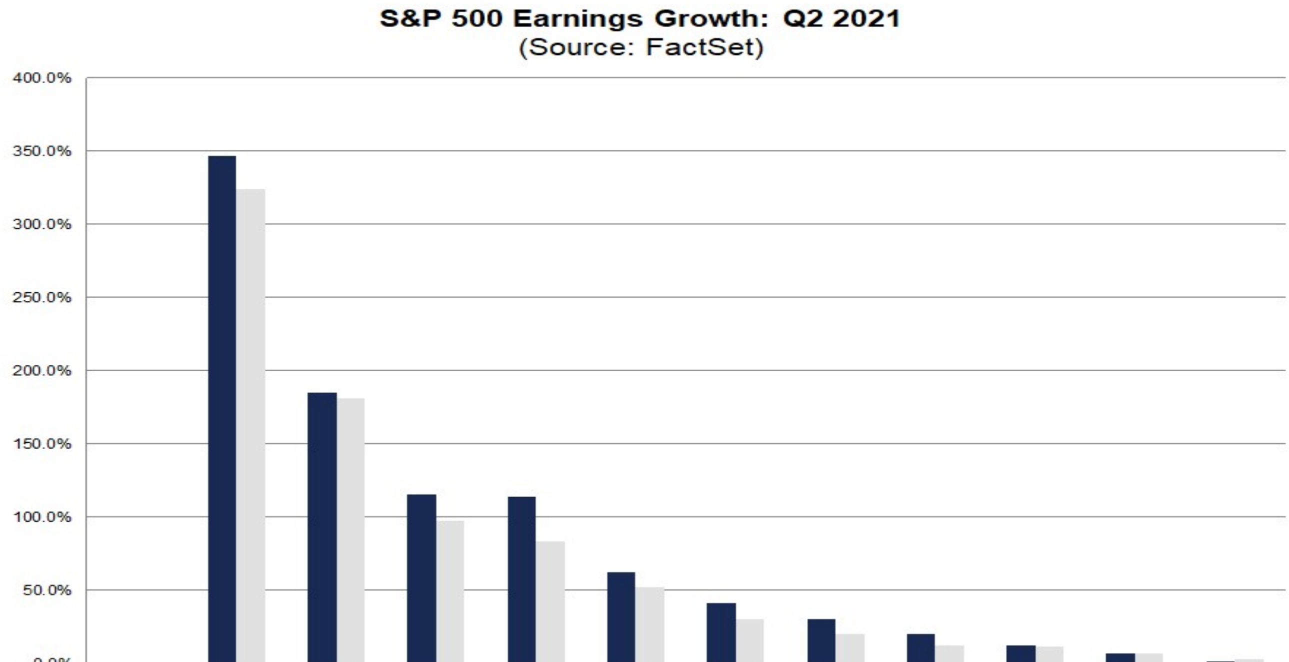
	Materials	Info. Technology	Industrials	Health Care	S&P 500	Consumer Disc.	Comm. Services	Real Estate	Consumer Staples	Utilities	Energy	Financials
Positive	86%	72%	71%	64%	64%	64%	50%	43%	20%	0%	0%	0%
Negative	14%	28%	29%	36%	36%	36%	50%	57%	80%	100%	0%	0%

Q2 2021: EPS Revisions

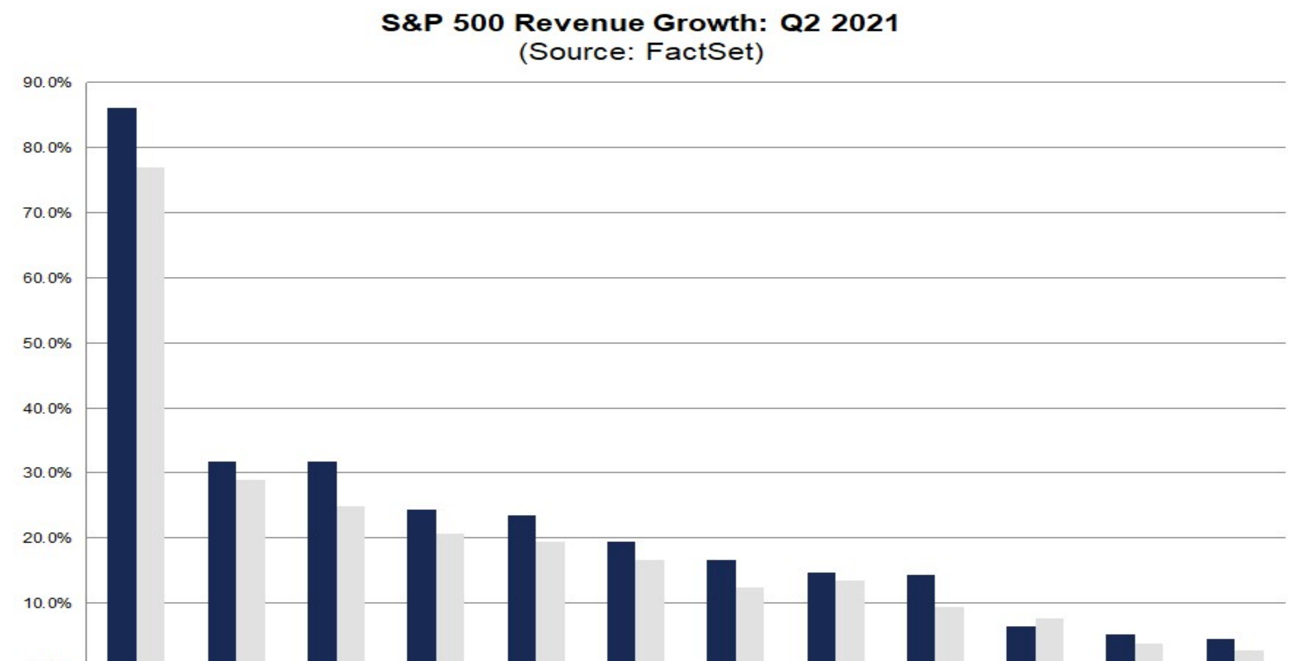




Q2 2021: Growth

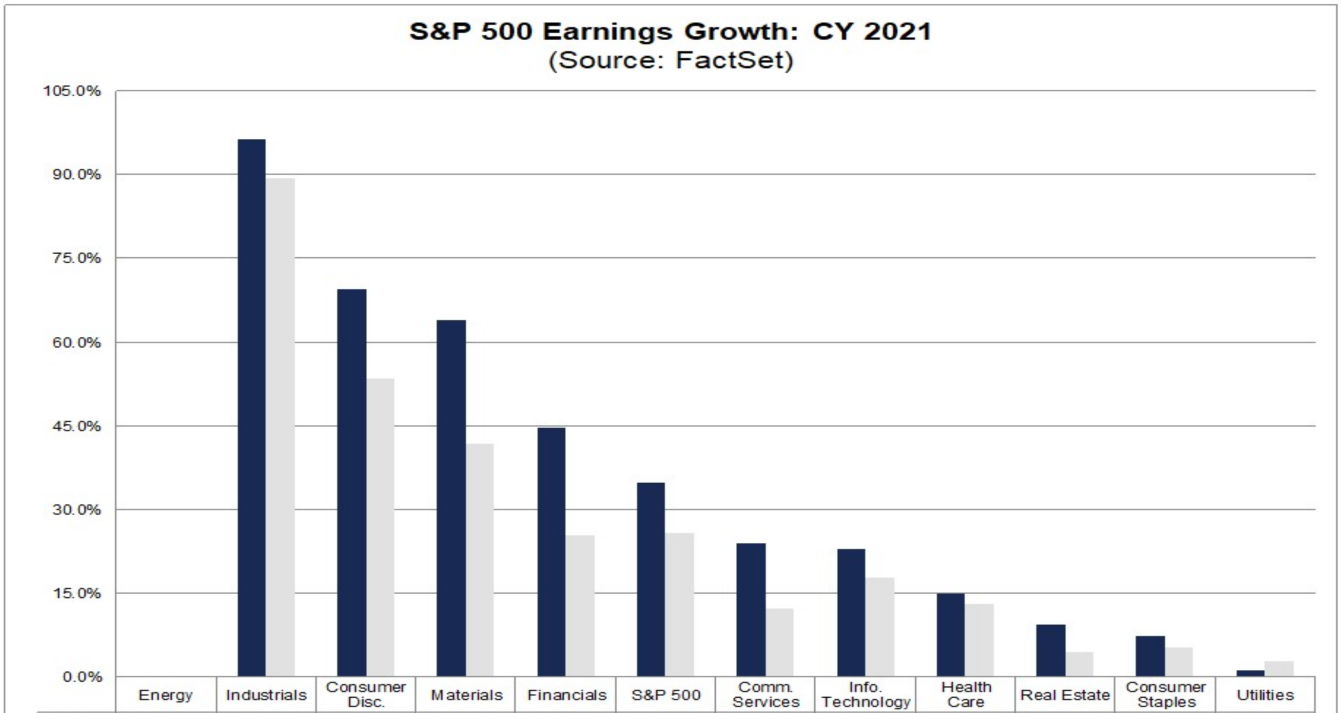


	Energy	Industrials	Consumer Disc.	Financials	Materials	S&P 500	Comm. Services	Info. Technology	Real Estate	Health Care	Consumer Staples	Utilities
Today		346.8%	184.8%	115.5%	113.5%	61.9%	40.9%	30.4%	20.2%	11.7%	6.5%	0.9%
31-Mar		324.0%	180.8%	96.9%	83.3%	52.2%	29.7%	19.5%	12.4%	10.9%	6.5%	2.4%

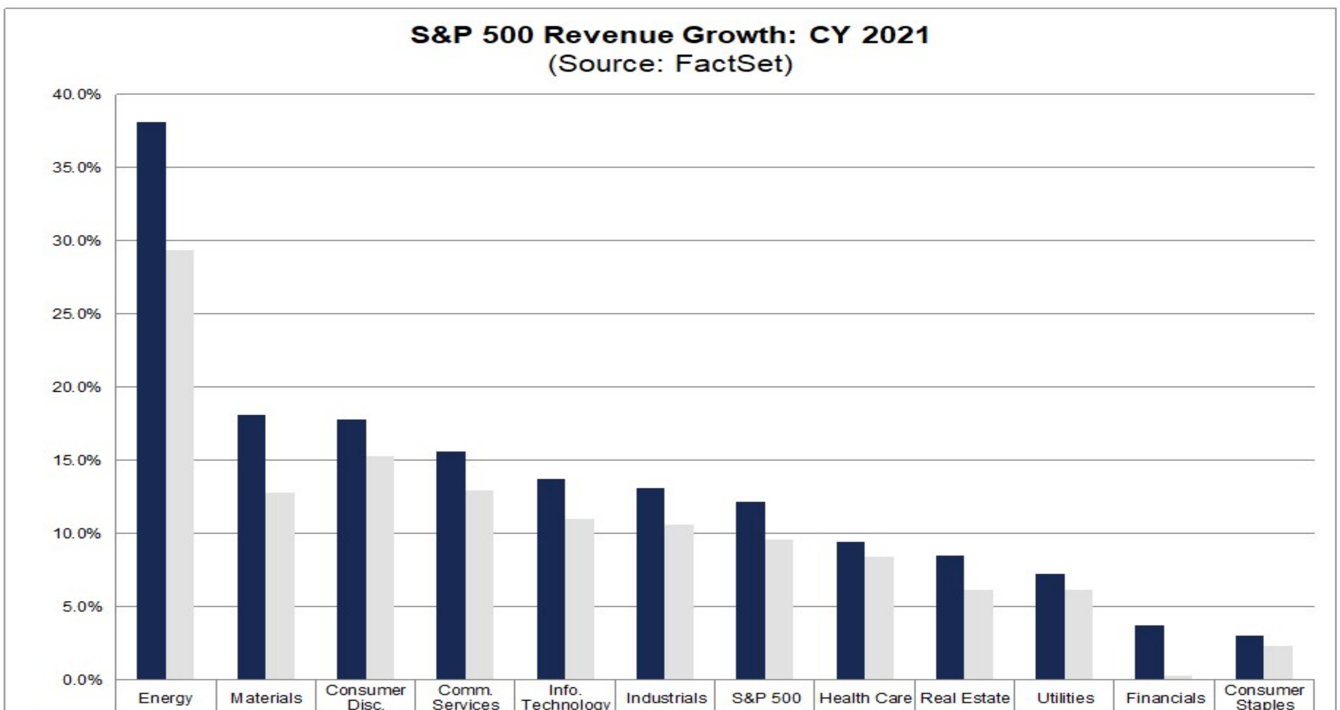


	Energy	Consumer Disc.	Materials	Industrials	Comm. Services	S&P 500	Info. Technology	Health Care	Real Estate	Utilities	Consumer Staples	Financials
Today	86.0%	31.8%	31.7%	24.3%	23.4%	19.4%	16.6%	14.6%	14.3%	6.5%	5.2%	4.4%
31-Mar	76.9%	29.0%	25.0%	20.6%	19.4%	16.6%	12.4%	13.4%	9.5%	7.7%	3.8%	2.7%

CY 2021: Growth



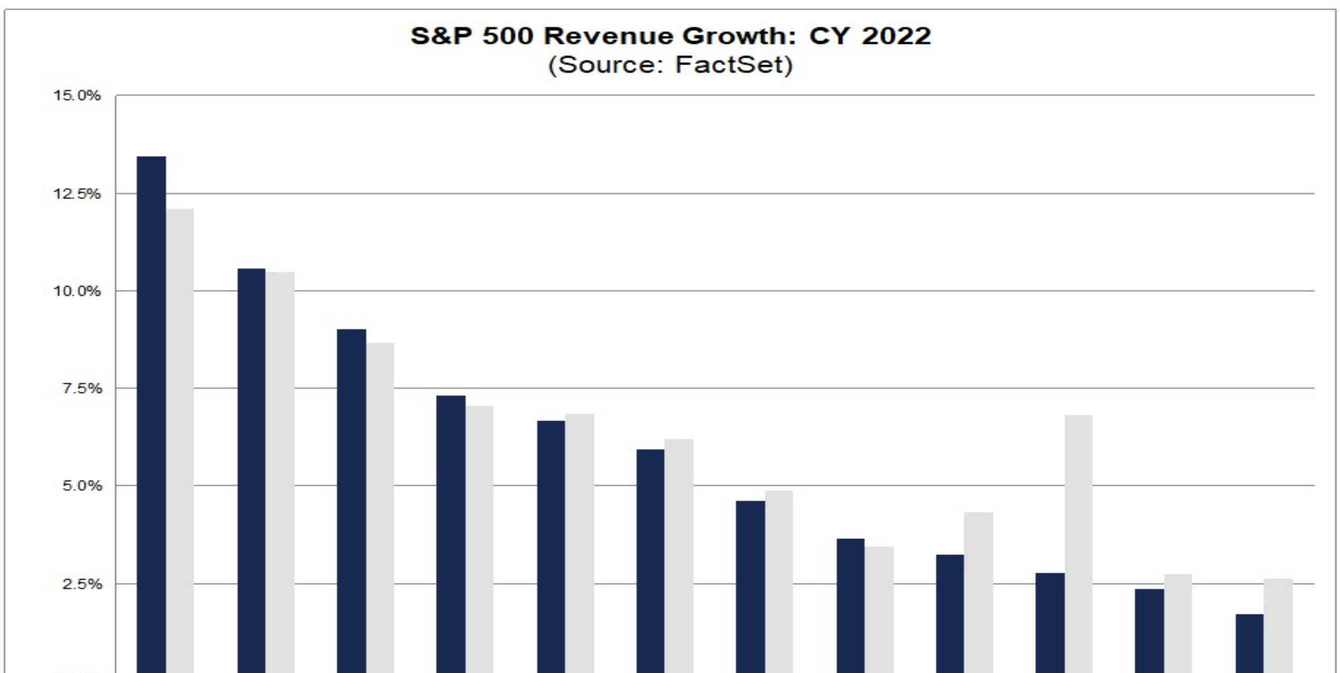
	Energy	Industrials	Consumer Disc.	Materials	Financials	S&P 500	Comm. Services	Info. Technology	Health Care	Real Estate	Consumer Staples	Utilities
Today		96.2%	69.4%	63.9%	44.7%	34.8%	23.9%	22.9%	14.9%	9.2%	7.2%	1.1%
31-Mar		89.3%	53.5%	41.8%	25.2%	25.7%	12.1%	17.8%	12.9%	4.4%	5.3%	2.8%



	Energy	Materials	Consumer Disc.	Comm. Services	Info. Technology	Industrials	S&P 500	Health Care	Real Estate	Utilities	Financials	Consumer Staples
Today	38.1%	18.1%	17.8%	15.6%	13.7%	13.1%	12.1%	9.4%	8.5%	7.2%	3.7%	3.0%
31-Mar	29.3%	12.8%	15.3%	12.9%	11.0%	10.6%	9.6%	8.4%	6.1%	6.2%	0.3%	2.3%

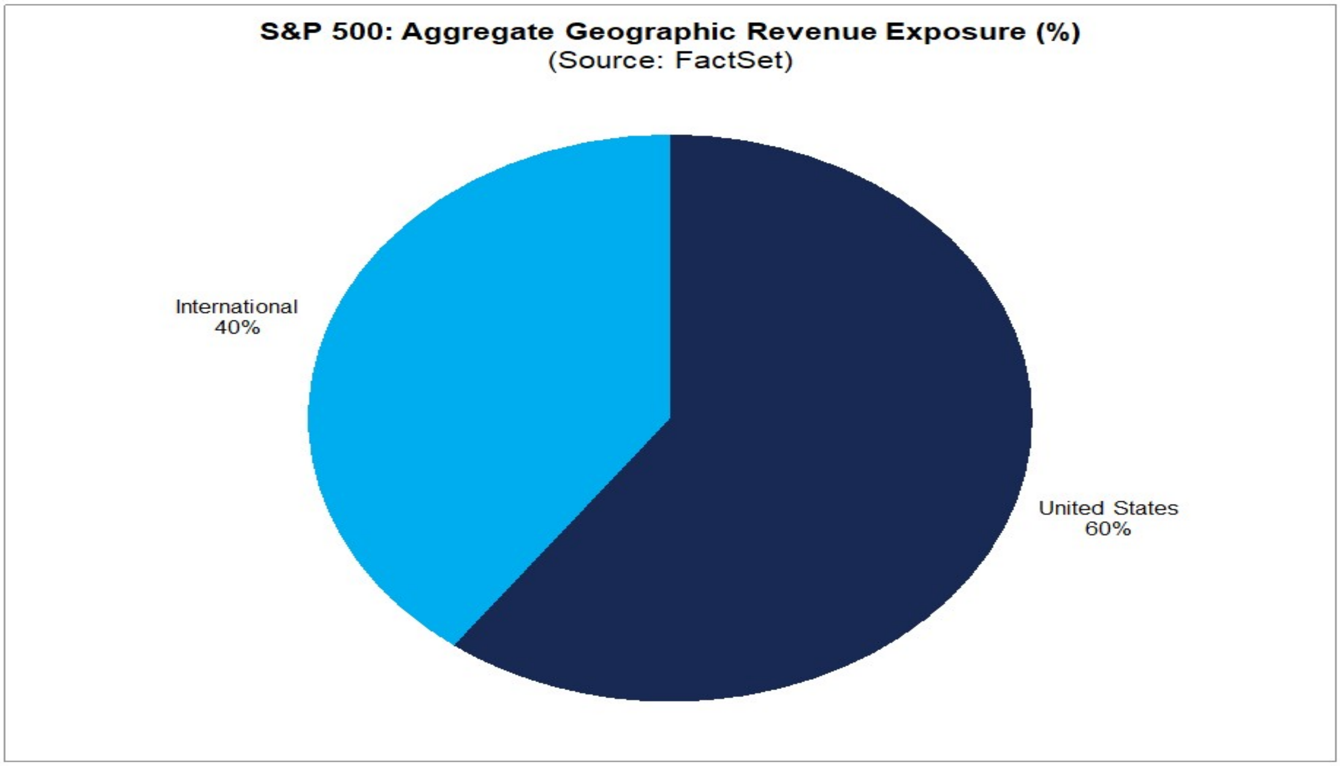
CY 2022: Growth

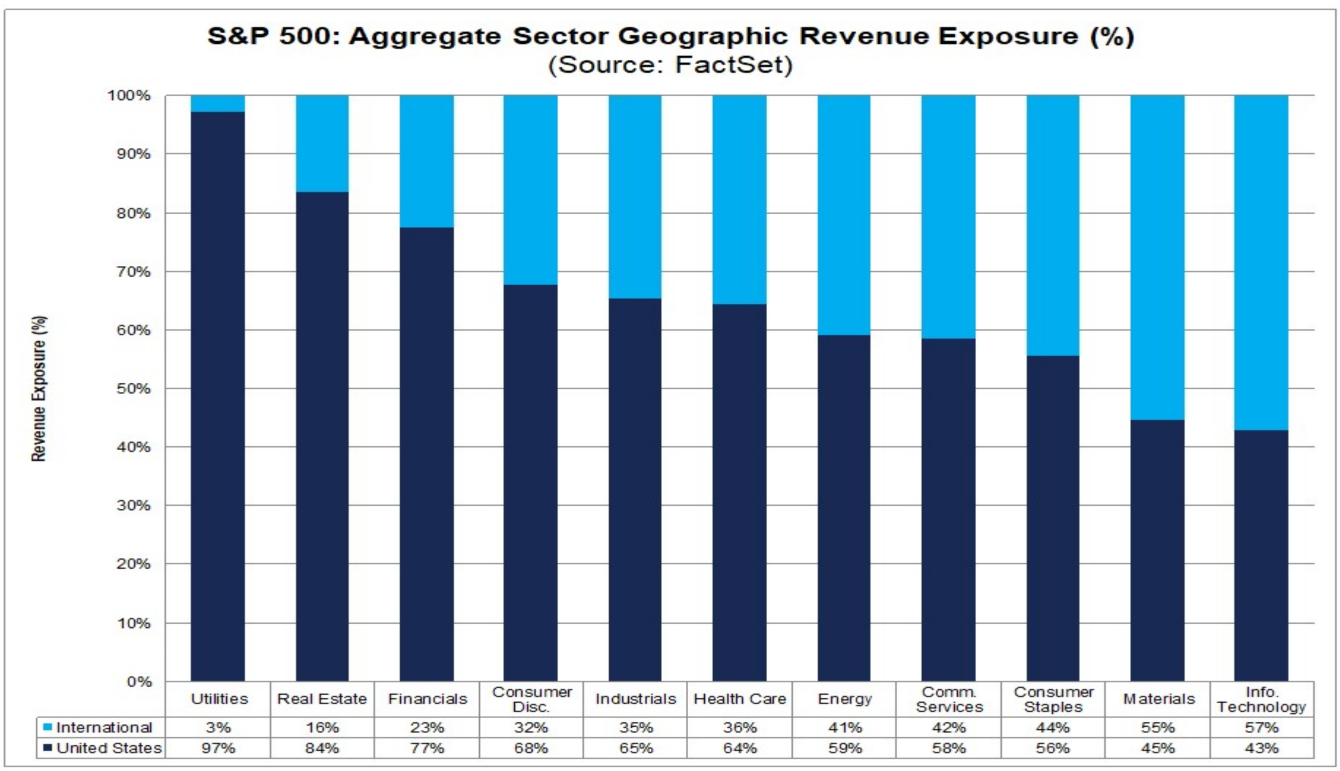
	Consumer Disc.	Industrials	Energy	Comm. Services	S&P 500	Info. Technology	Utilities	Consumer Staples	Health Care	Real Estate	Materials	Financials
Today	36.1%	35.9%	25.2%	13.3%	11.8%	10.8%	7.6%	7.6%	6.2%	5.7%	2.2%	-0.1%
31-Mar	39.1%	35.2%	37.7%	17.6%	15.0%	11.5%	6.5%	7.8%	6.8%	7.9%	6.2%	10.6%



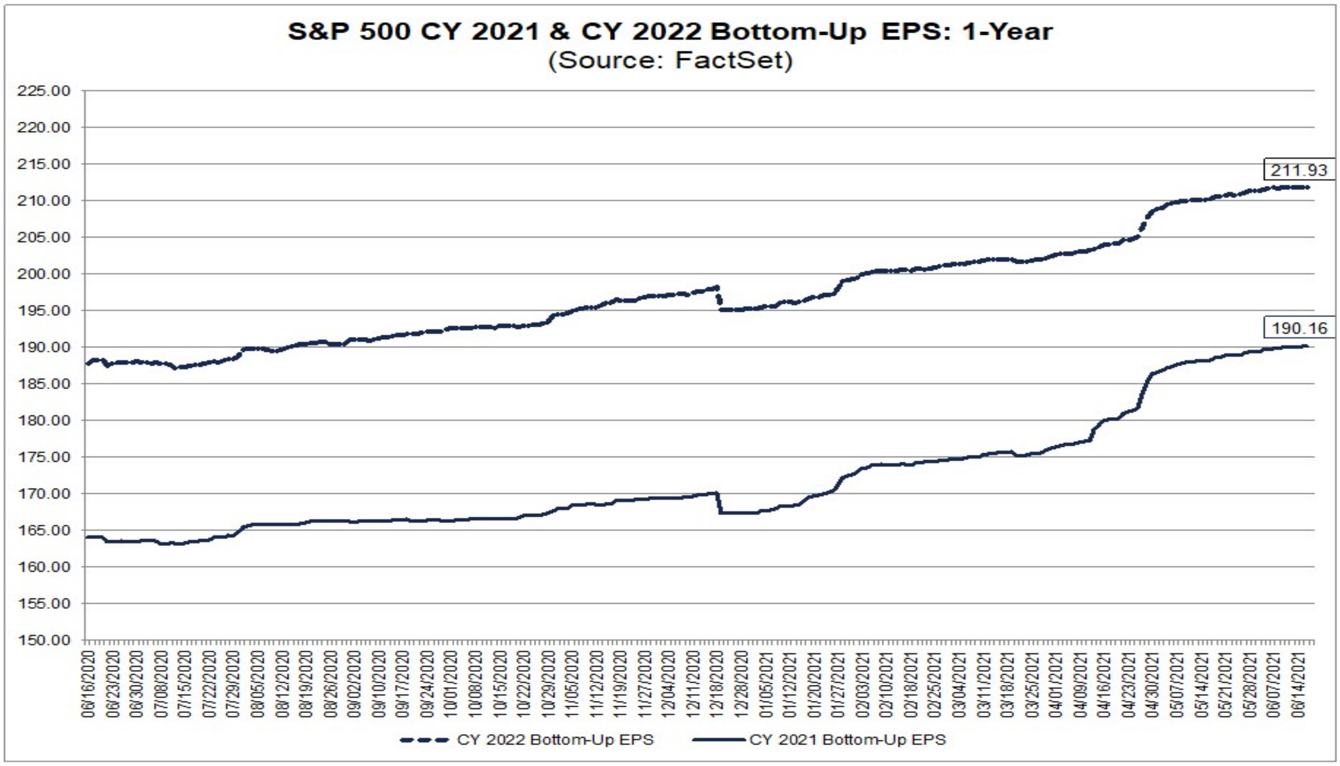
	Consumer Disc.	Comm. Services	Industrials	Info. Technology	S&P 500	Real Estate	Health Care	Consumer Staples	Financials	Energy	Materials	Utilities
Today	13.4%	10.6%	9.0%	7.3%	6.7%	5.9%	4.6%	3.7%	3.2%	2.8%	2.4%	1.7%
31-Mar	12.1%	10.5%	8.6%	7.1%	6.8%	6.2%	4.9%	3.4%	4.3%	6.8%	2.7%	2.6%

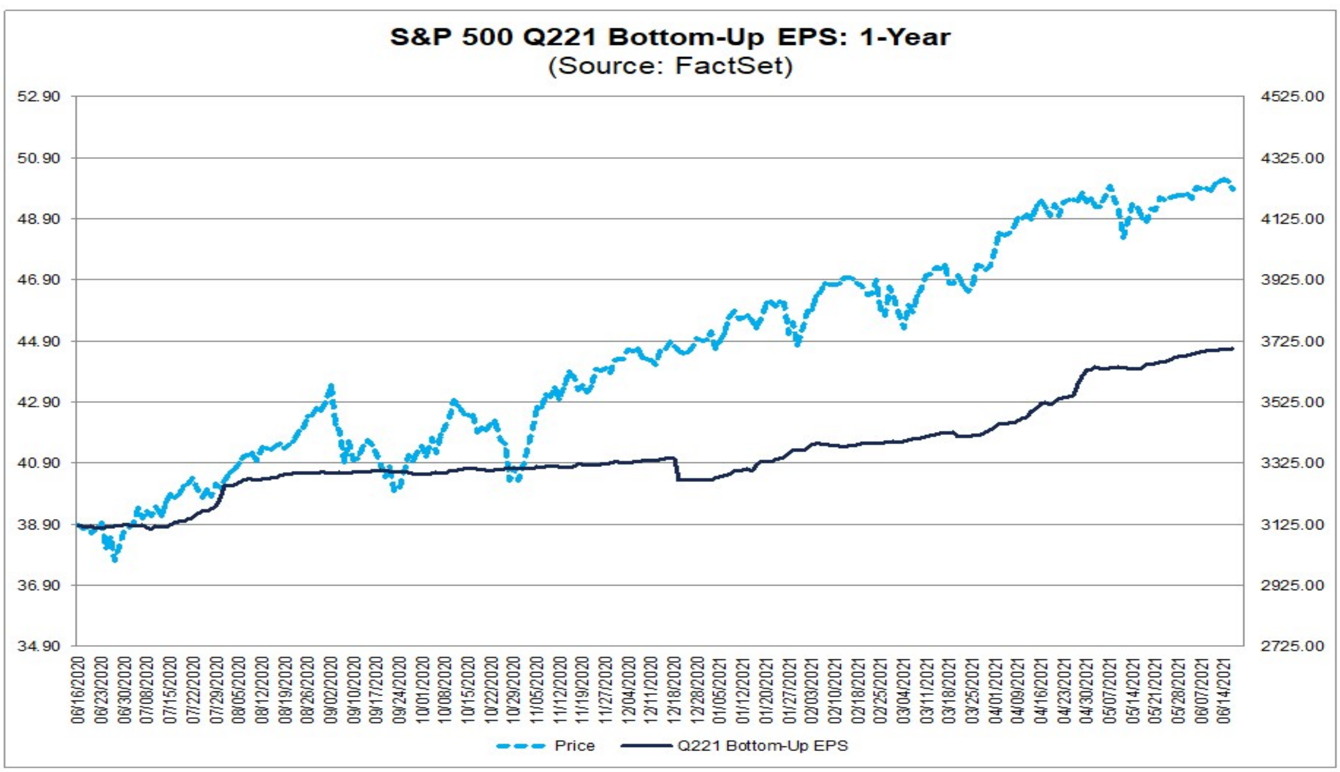
Geographic Revenue Exposure



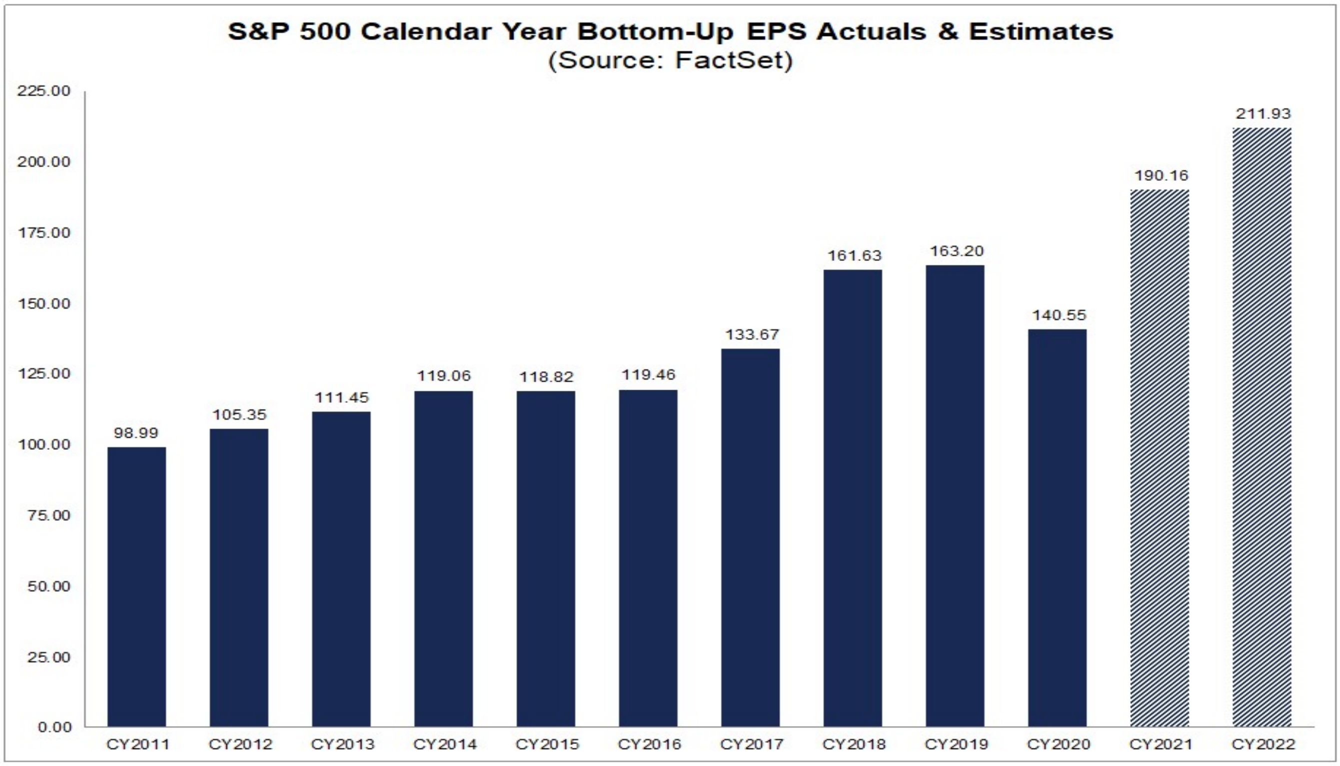


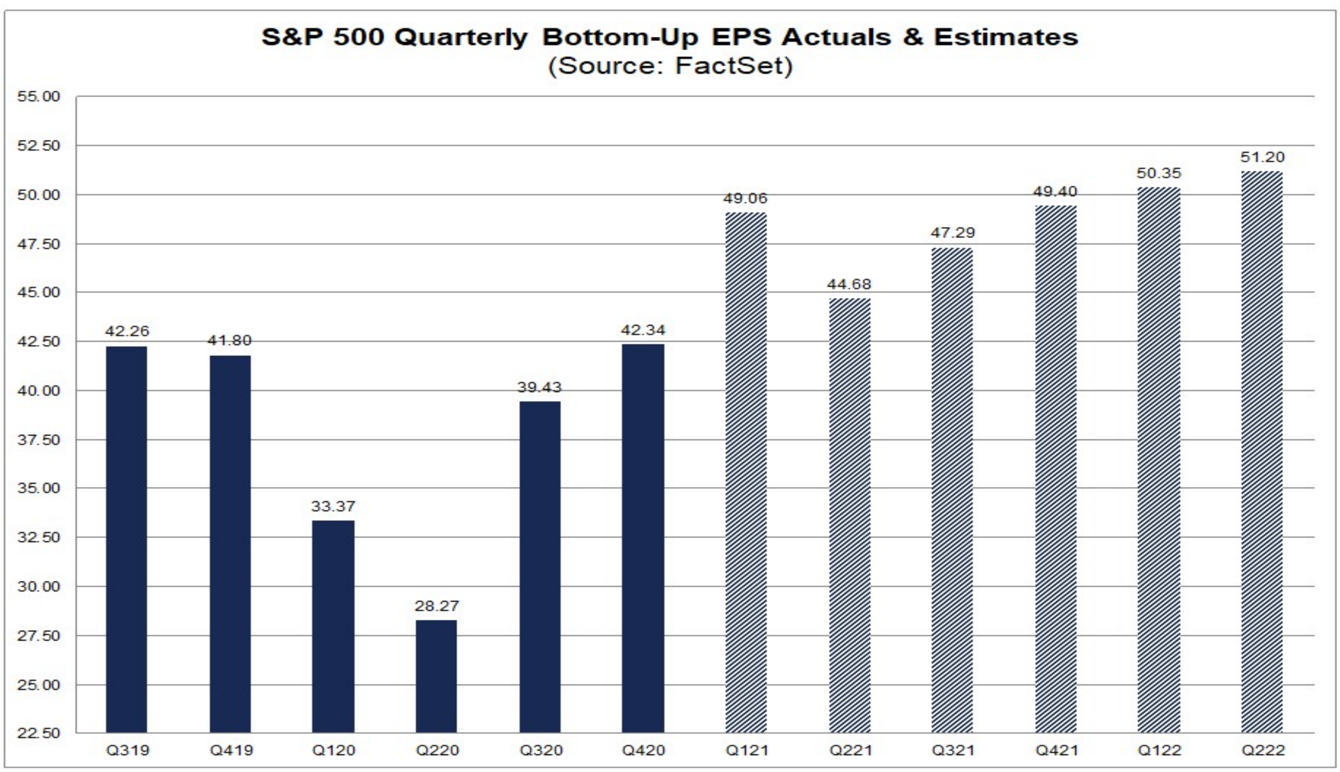
Bottom-up EPS Estimates: Revisions





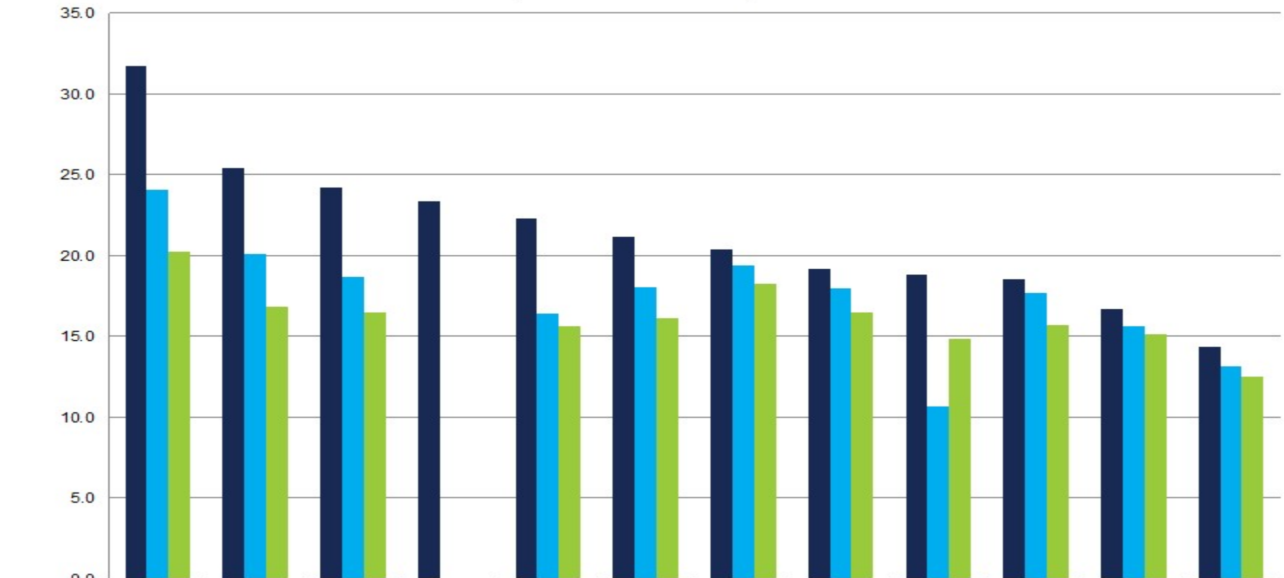
Bottom-up EPS Estimates: Current & Historical





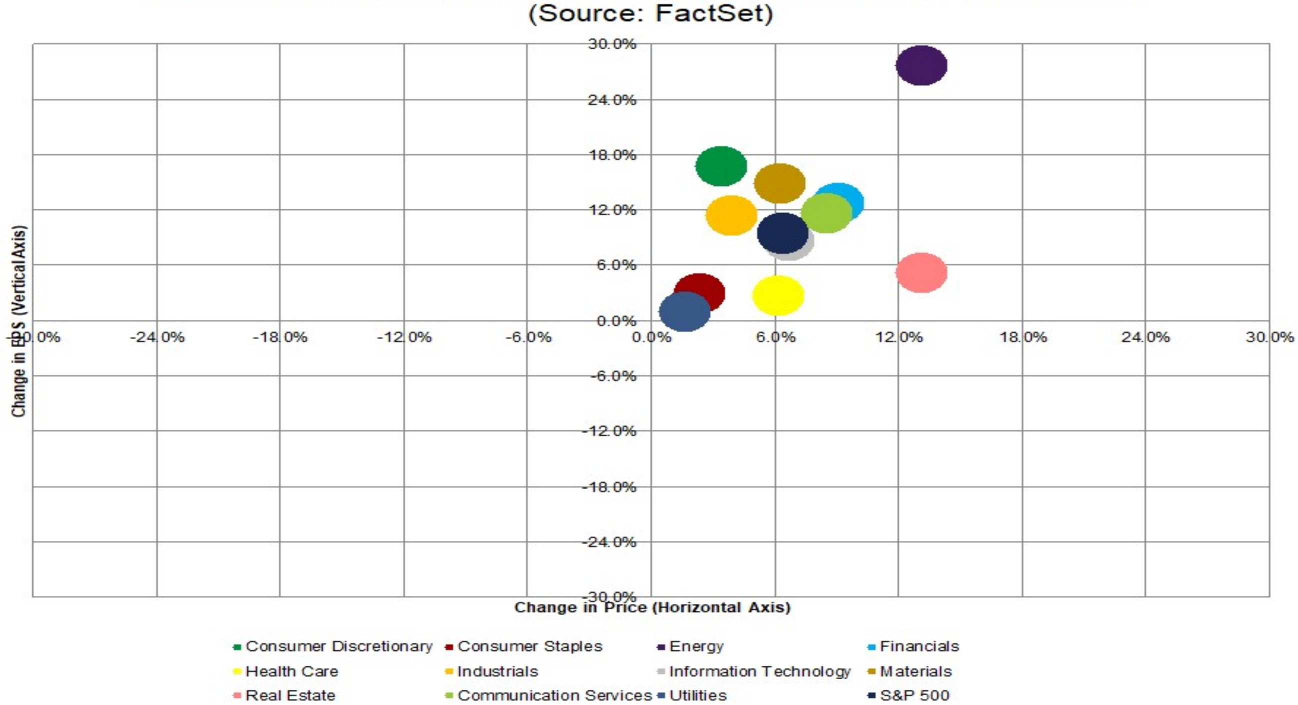
Forward 12M P/E Ratio: Sector Level

S&P 500 Sector-Level Forward 12-Month P/E Ratios
(Source: FactSet)

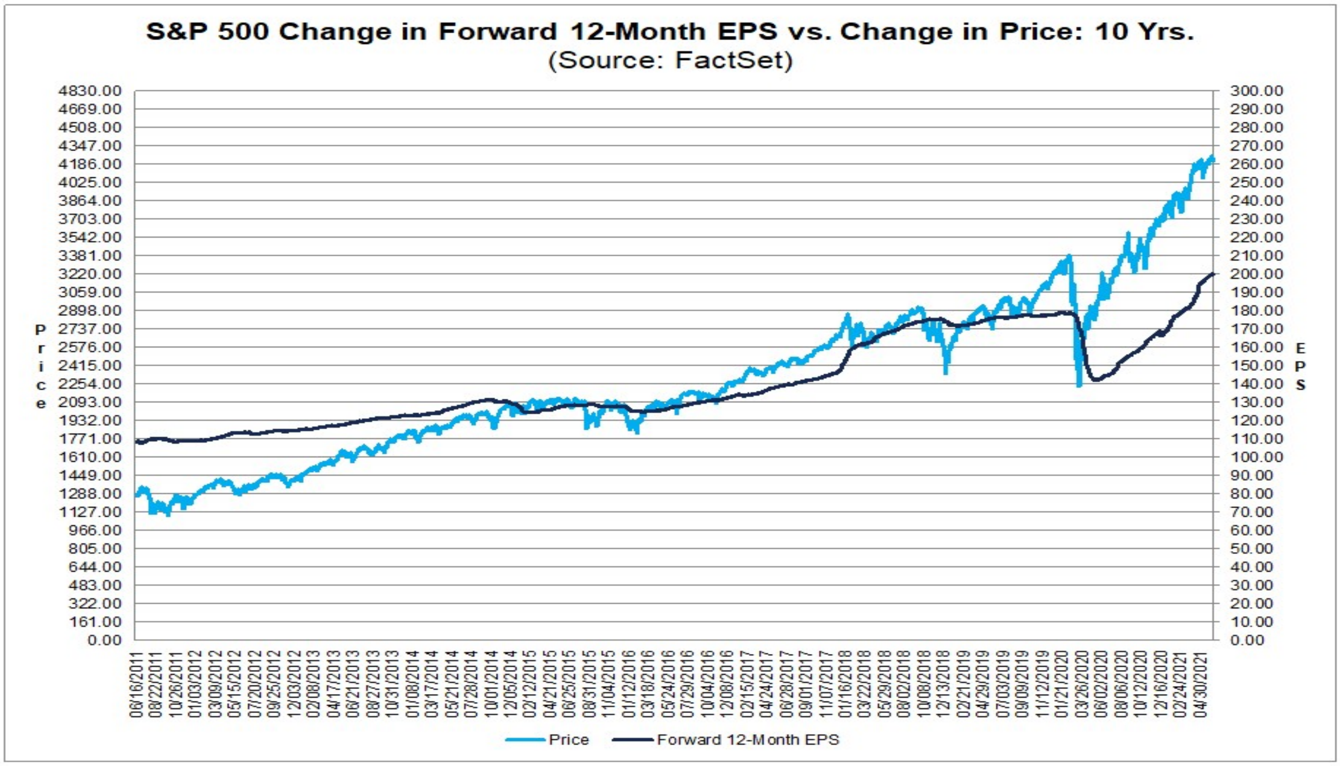


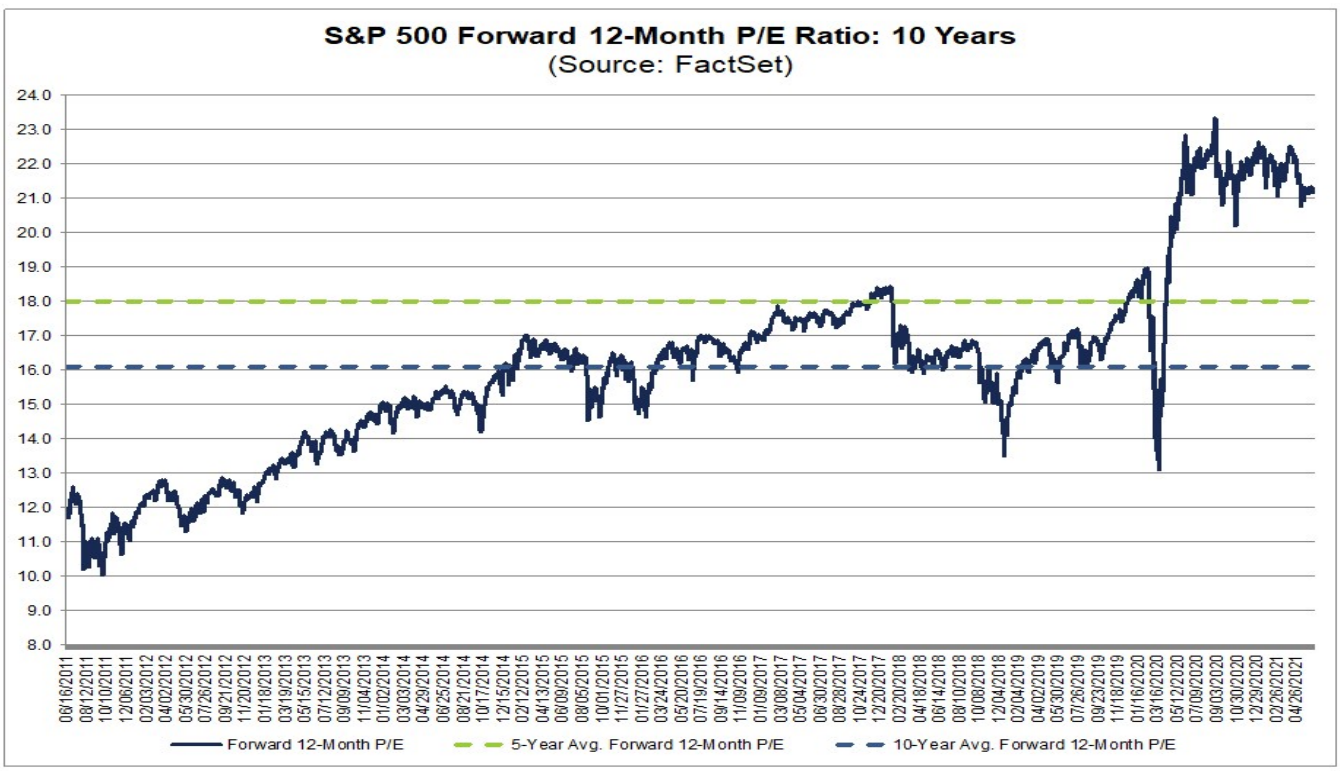
	Consumer Disc.	Info. Technology	Industrials	Real Estate	Comm. Services	S&P 500	Consumer Staples	Utilities	Energy	Materials	Health Care	Financials
Fwd P/E	31.7	25.4	24.2	23.4	22.3	21.2	20.4	19.2	18.8	18.5	16.7	14.4
5-Yr Avg.	24.1	20.1	18.7		16.4	18.0	19.4	17.9	10.7	17.7	15.7	13.2
10-Yr Avg.	20.2	16.8	16.5		15.6	16.1	18.2	16.5	14.9	15.7	15.1	12.5

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

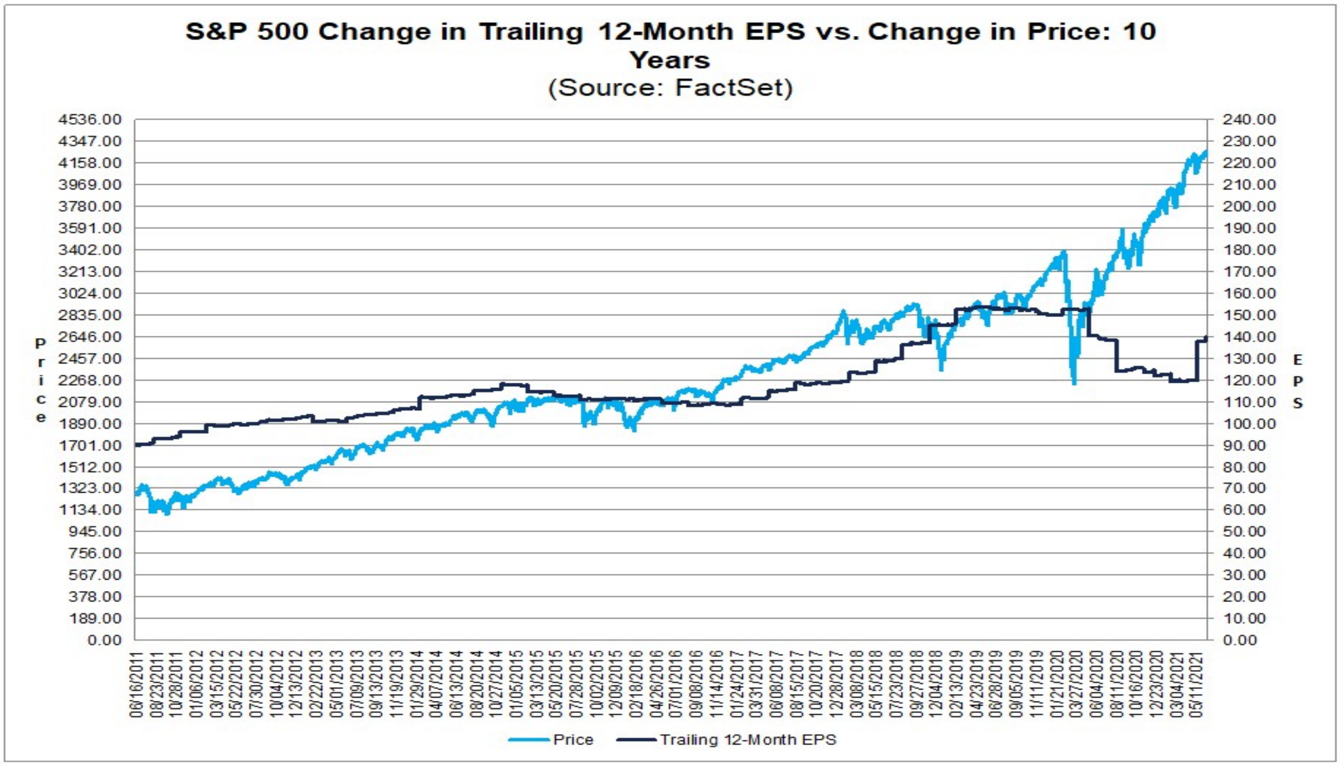


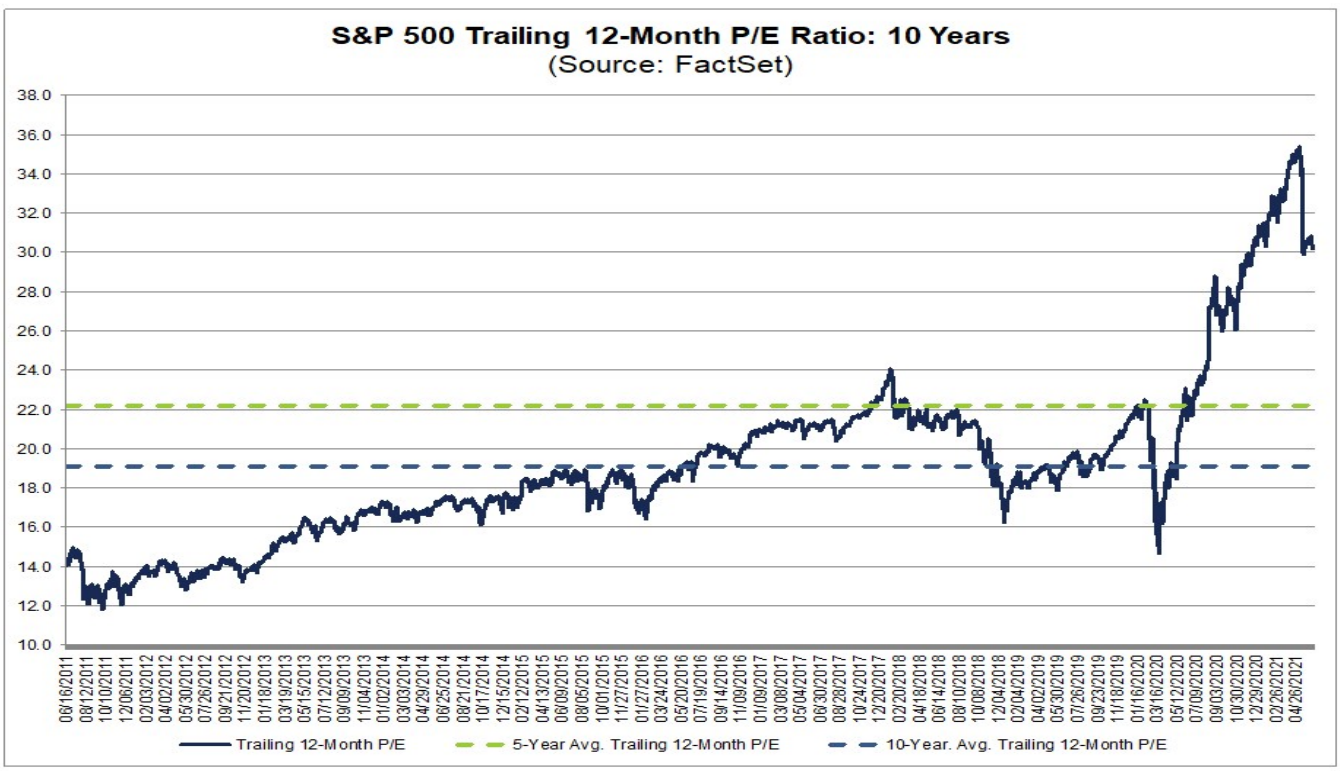
Forward 12M P/E Ratio: 10-Years



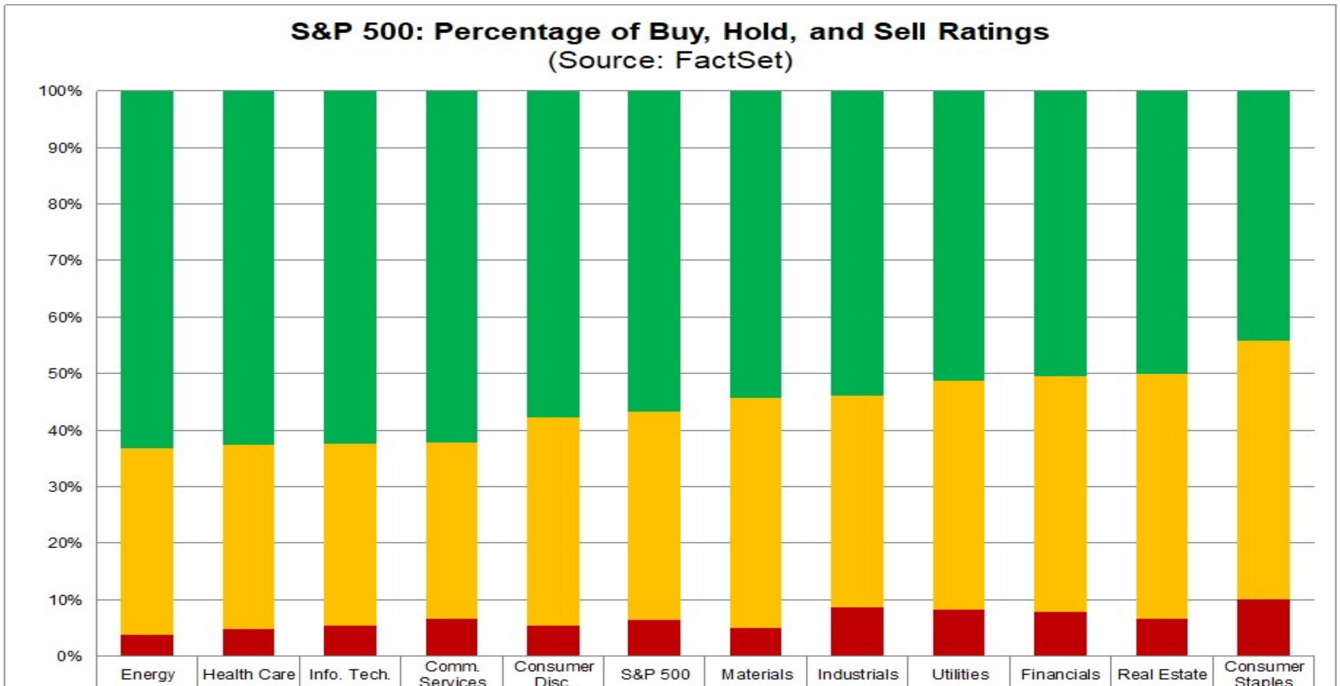


Trailing 12M P/E Ratio: 10-Years

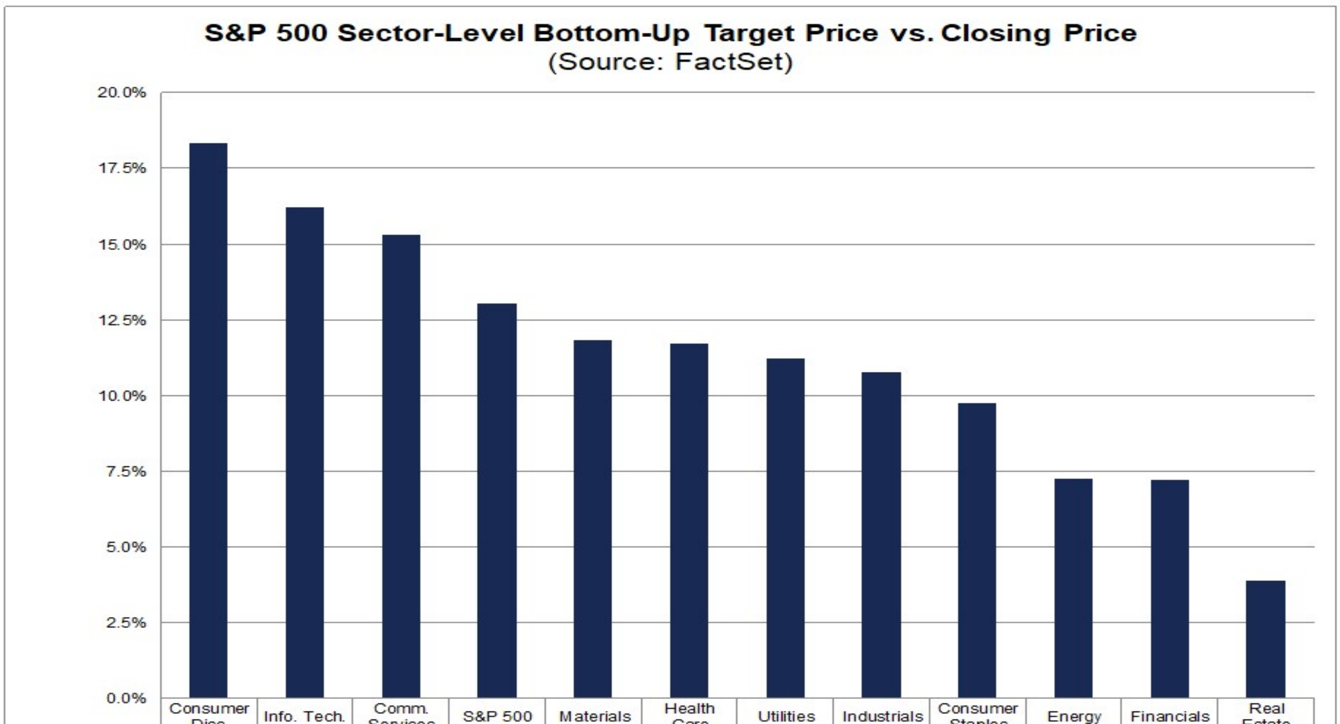




Targets & Ratings



	Energy	Health Care	Info. Tech.	Comm. Services	Consumer Disc.	S&P 500	Materials	Industrials	Utilities	Financials	Real Estate	Consumer Staples
Buy	63%	63%	63%	62%	58%	57%	54%	54%	51%	50%	50%	44%
Hold	33%	33%	32%	31%	37%	37%	41%	38%	40%	42%	43%	46%
Sell	4%	5%	5%	7%	5%	6%	5%	9%	8%	8%	7%	10%



	Consumer Disc.	Info. Tech.	Comm. Services	S&P 500	Materials	Health Care	Utilities	Industrials	Consumer Staples	Energy	Financials	Real Estate
Target/Close	18.3%	16.2%	15.3%	13.0%	11.8%	11.7%	11.2%	10.8%	9.8%	7.2%	7.2%	3.9%

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