

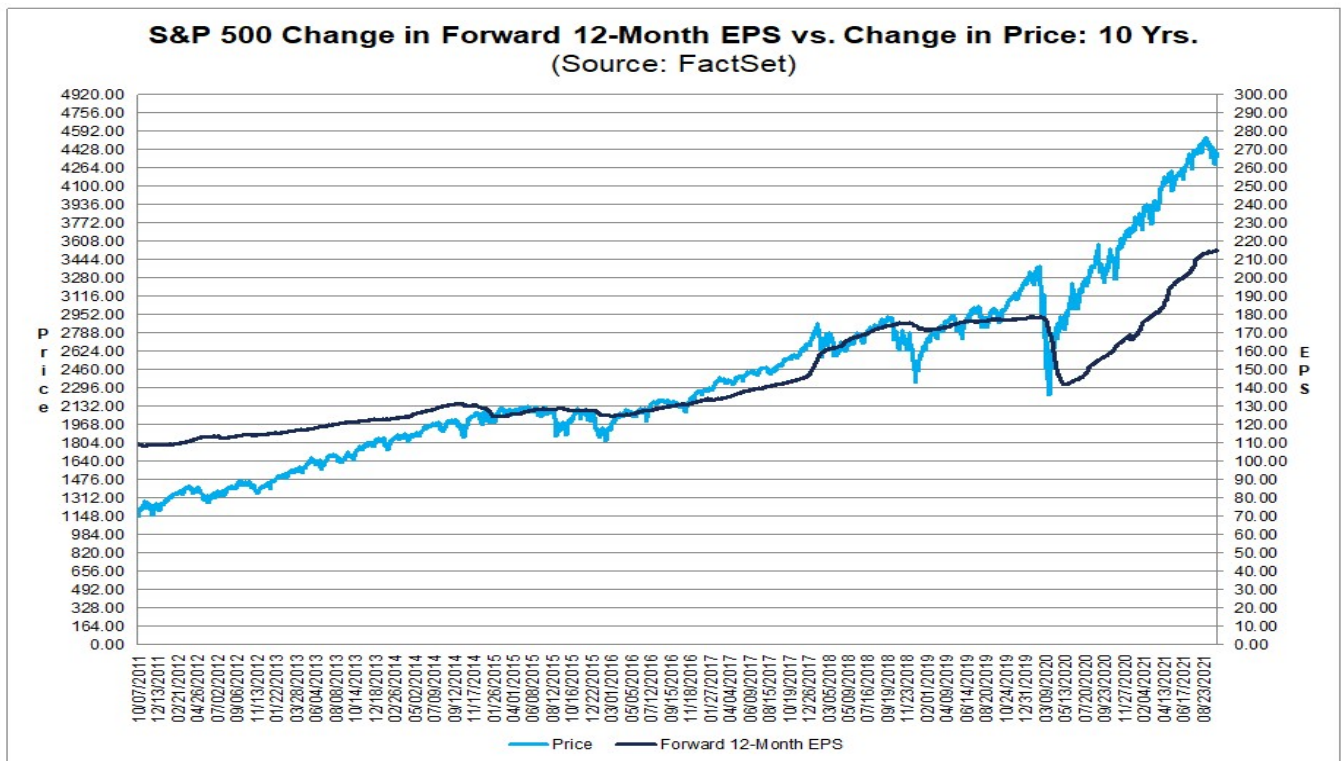
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October 8, 2021

Key Metrics

- **Earnings Growth:** For Q3 2021, the estimated earnings growth rate for the S&P 500 is 27.6%. If 27.6% is the actual growth rate for the quarter, it will mark the third-highest (year-over-year) earnings growth rate reported by the index since 2010.
- **Earnings Revisions:** On June 30, the estimated earnings growth rate for Q3 2021 was 24.2%. Six sectors have higher earnings growth rates today (compared to June 30) due to upward revisions to EPS estimates.
- **Earnings Guidance:** For Q3 2021, 47 S&P 500 companies have issued negative EPS guidance and 56 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 20.5. This P/E ratio is above the 5-year average (18.3) and above the 10-year average (16.4).
- **Earnings Scorecard:** For Q3 2021 (with 21 S&P 500 companies reporting actual results), 16 S&P 500 companies have reported a positive EPS surprise and 15 S&P 500 companies have reported a positive revenue surprise.



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Topic of the Week: 1

71% of S&P 500 Companies Are Citing Negative Impact of Supply Chain on Q3 Earnings Calls

While the majority of S&P 500 companies will report earnings results for Q3 2021 over the next few weeks, about 4% of the companies in the index (21 companies) have already reported earnings results for the third quarter (through October 7). Given expectations for earnings growth of more than 20% for both the third and fourth quarters, have these companies discussed specific factors that had a negative impact on earnings or revenues for the third quarter (or are expected to have a negative impact in future quarters) during their earnings conference calls?

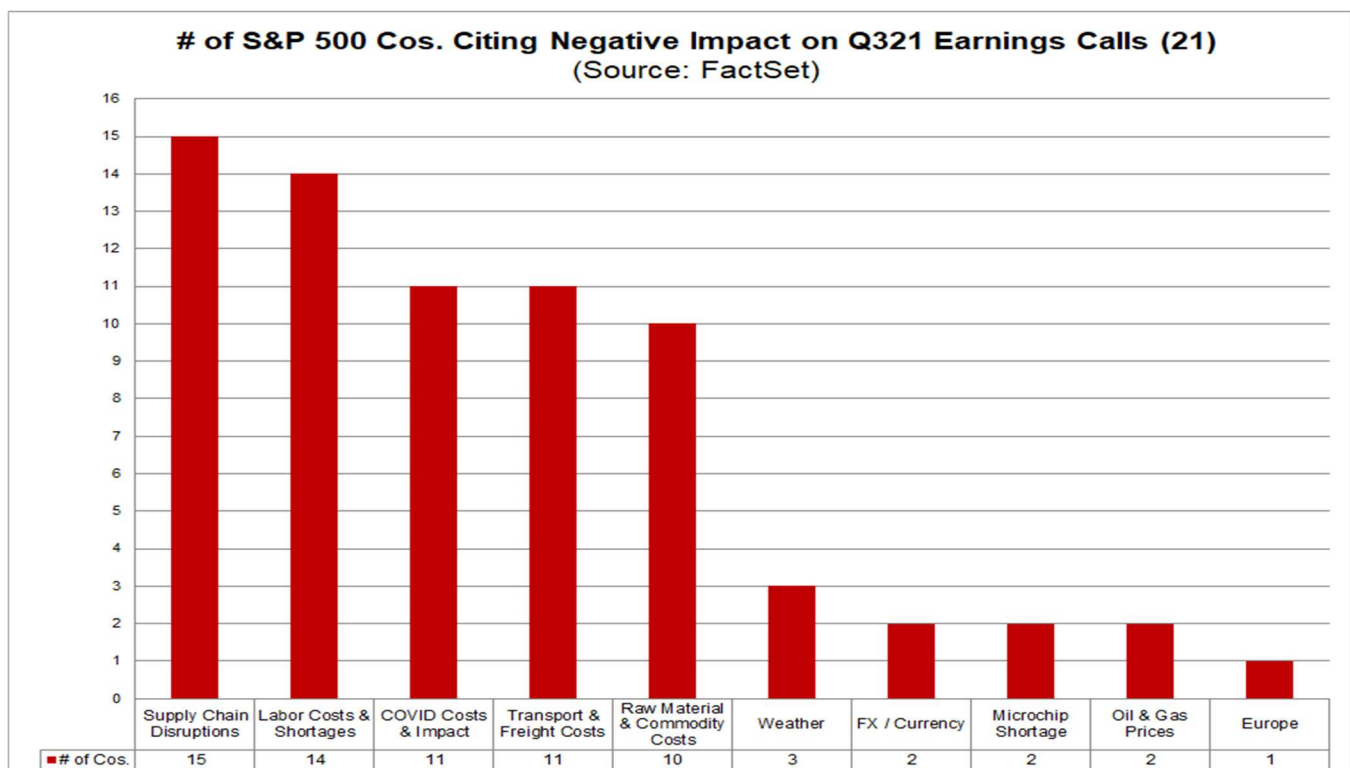
To answer this question, FactSet searched for specific terms related to a number of factors (e.g. “currency,” “labor,” etc.) in the conference call transcripts of the 21 S&P 500 companies that have conducted third quarter earnings conference calls through October 7 to see how many companies discussed these factors. FactSet then looked to see if the company cited a negative impact, expressed a negative sentiment (e.g. “volatility,” “uncertainty,” “pressure,” “headwind,” etc.), or discussed clear underperformance in relation to the factor for either the quarter just reported or in guidance for future quarters. The results are shown below.

Supply chain disruptions and costs have been cited by the highest number companies in the index to date as a factor that either had a negative impact on earnings or revenues in Q3, or is expected to have a negative impact on earnings or revenues in future quarters. Of these 21 companies, 15 (or 71%) have discussed a negative impact from this factor. After supply chain disruptions, labor shortages and costs (14), COVID costs and impacts (11), and transportation and freight costs (11) have been discussed by the highest number of S&P 500 companies.

Companies that discussed “inflation” on their earnings calls were divided into four categories in the chart below: labor costs & shortages, transportation & freight costs, raw material & commodity costs, and oil & gas prices. If these four categories were combined, the total number of companies negatively discussing some form of inflation would be 14.

It is interesting to note that only 2 companies have discussed a negative impact from foreign exchange, as this factor has been cited as a negative impact by numerous companies in previous years. In fact, 10 S&P 500 companies have cited a positive impact from foreign exchange on their Q3 earnings calls to date.

A list of the companies discussing the top factors and their comments can be found in Appendix 1 on pages 32-38.



Topic of the Week: 2

S&P 500 Likely to Report Earnings Growth of More Than 30% for 3rd Straight Quarter

As of today, the S&P 500 is expected to report (year over-year) earnings growth of 27.6% for the third quarter. Given that most S&P 500 companies report actual earnings above estimates, what is the likelihood the index will report actual growth in earnings of 27.6% for the quarter?

Based on the 5-year average improvement in earnings growth during each earnings season due to companies reporting positive earnings surprises, it is likely the index will report earnings growth of nearly 35% for the third quarter, which would be the third consecutive quarter of (year-over-year) earnings growth above 30%.

When companies in the S&P 500 report actual earnings above estimates during an earnings season, the overall earnings growth rate for the index increases because the higher actual EPS numbers replace the lower estimated EPS numbers in the calculation of the growth rate. For example, if a company is projected to report EPS of \$1.05 compared to year ago EPS of \$1.00, the company is projected to report earnings growth of 5%. If the company reports actual EPS of \$1.10 (a \$0.05 upside earnings surprise compared to the estimate), the actual earnings growth for the company for the quarter is now 10%, five percentage points above the estimated growth rate ($10\% - 5\% = 5\%$).

Over the past five years, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 8.4% on average. During this same period, 76% of companies in the S&P 500 have reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has increased by 7.2 percentage points on average (over the past five years) due to the number and magnitude of positive earnings surprises.

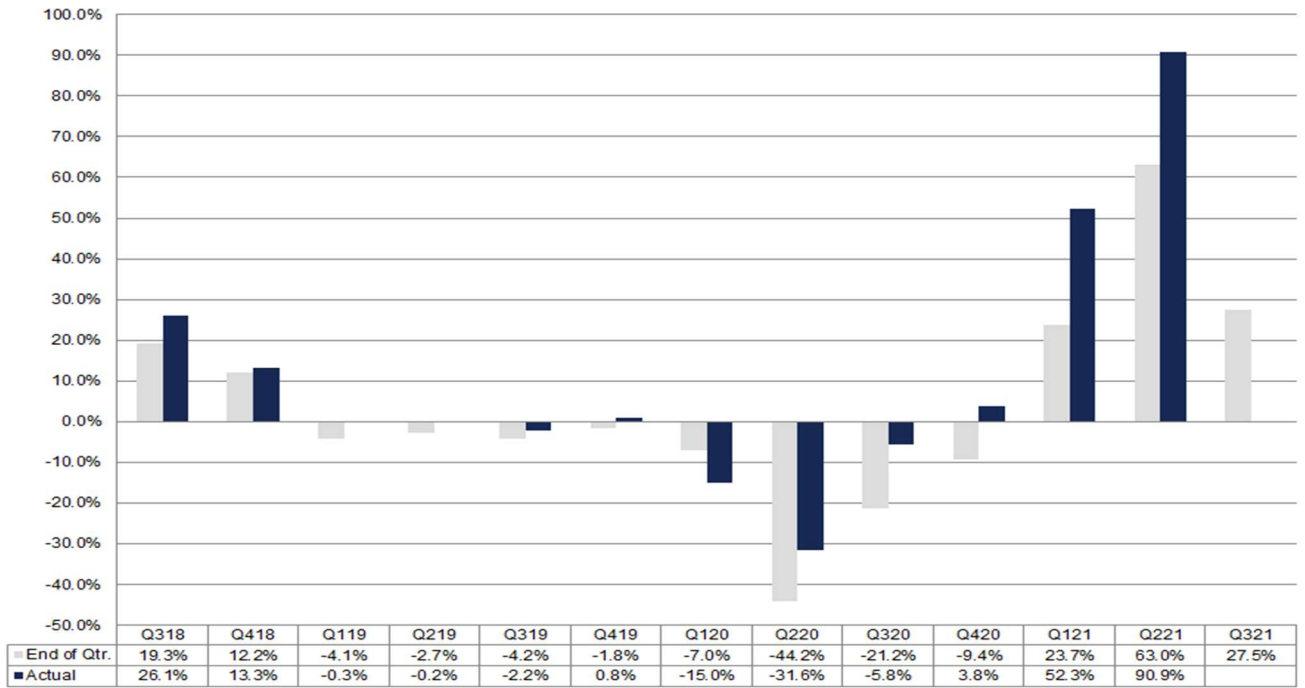
If this average increase is applied to the estimated earnings growth rate at the end of Q3 (September 30) of 27.5%, the actual earnings growth rate for the quarter would be 34.7% ($27.5\% + 7.2\% = 34.7\%$). If the S&P 500 reports year-over-year growth in earnings of 34.7% in Q3, it would mark the third straight quarter of (year-over-year) earnings growth above 30%.

However, during the past five quarters (Q2 2020 through Q2 2021), actual earnings reported by S&P 500 companies have exceeded estimated earnings by 19.1% on average. During these five quarters, 84% of companies in the S&P 500 have reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has increased by 19.5 percentage points on average due to the number and magnitude of positive earnings surprises over these past five quarters.

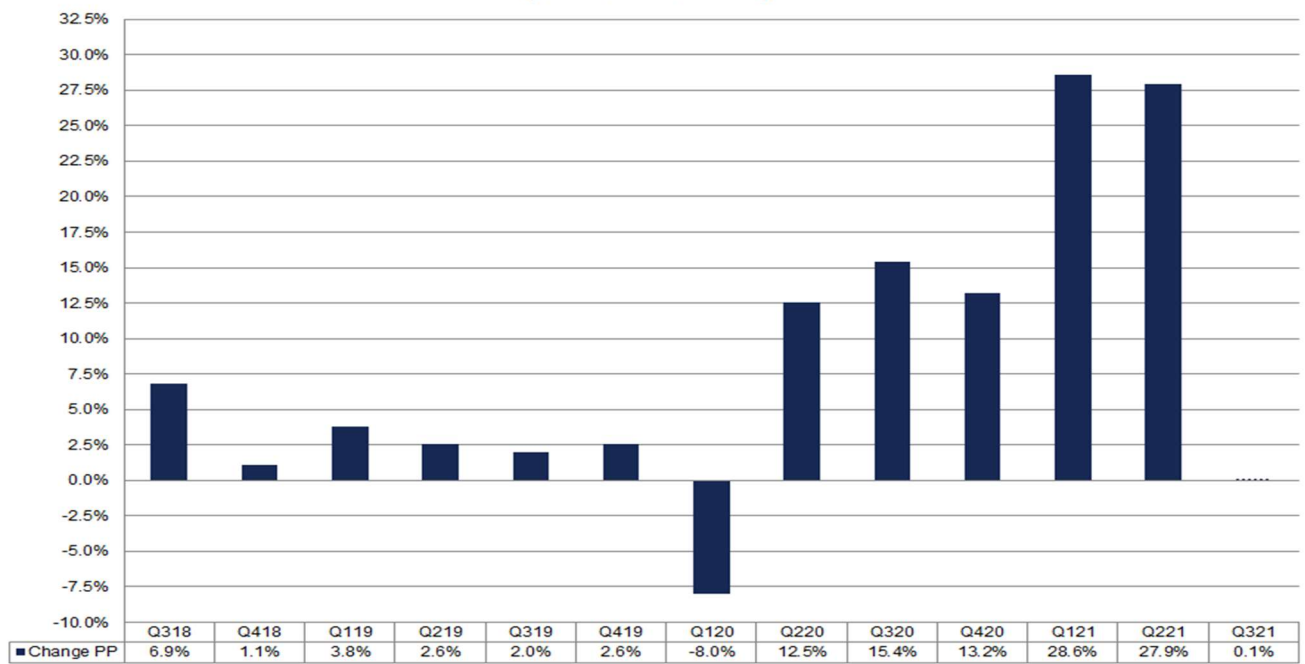
If this average increase is applied to the estimated earnings growth rate at the end of Q3 (September 30) of 27.5%, the actual earnings growth rate for the quarter would be 47.0% ($27.5\% + 19.5\% = 47.0\%$). If the S&P 500 reports year-over-year growth in earnings of 47.0% in Q3, it would mark the third straight quarter of (year-over-year) earnings growth above 45%.

Of the 21 S&P 500 companies that have reported actual earnings for Q3 2021 to date, 76% have reported actual EPS above the mean EPS estimate. In aggregate, actual earnings reported by these 21 companies have exceeded estimated earnings by 4.4%. Therefore, at this very early stage of the Q3 earnings season, both the number of companies reporting positive earnings surprises and the magnitude of the positive surprises are trending closer to the 5-year average. Since September 30, the earnings growth rate for the S&P 500 has increased by 0.1 percentage points (to 27.6% from 27.5%).

S&P 500 Earnings Growth: End of Qtr. Estimate vs. Actual
(Source: FactSet)



Percentage-Point Change in S&P 500 Earnings Growth Rate: End of Qtr. to End of Earnings Season
(Source: FactSet)



Topic of the Week: 3

Industry Analysts Predict a 15% Price Increase for the S&P 500 Over The Next 12 Months

The price of the S&P 500 increased by 14.4% during the first two quarters of the year (to 4297.50 from 3756.07), but only increased by 0.2% during the third quarter (to 4307.54 from 4297.50). Where do industry analysts believe the price of the index will go from here?

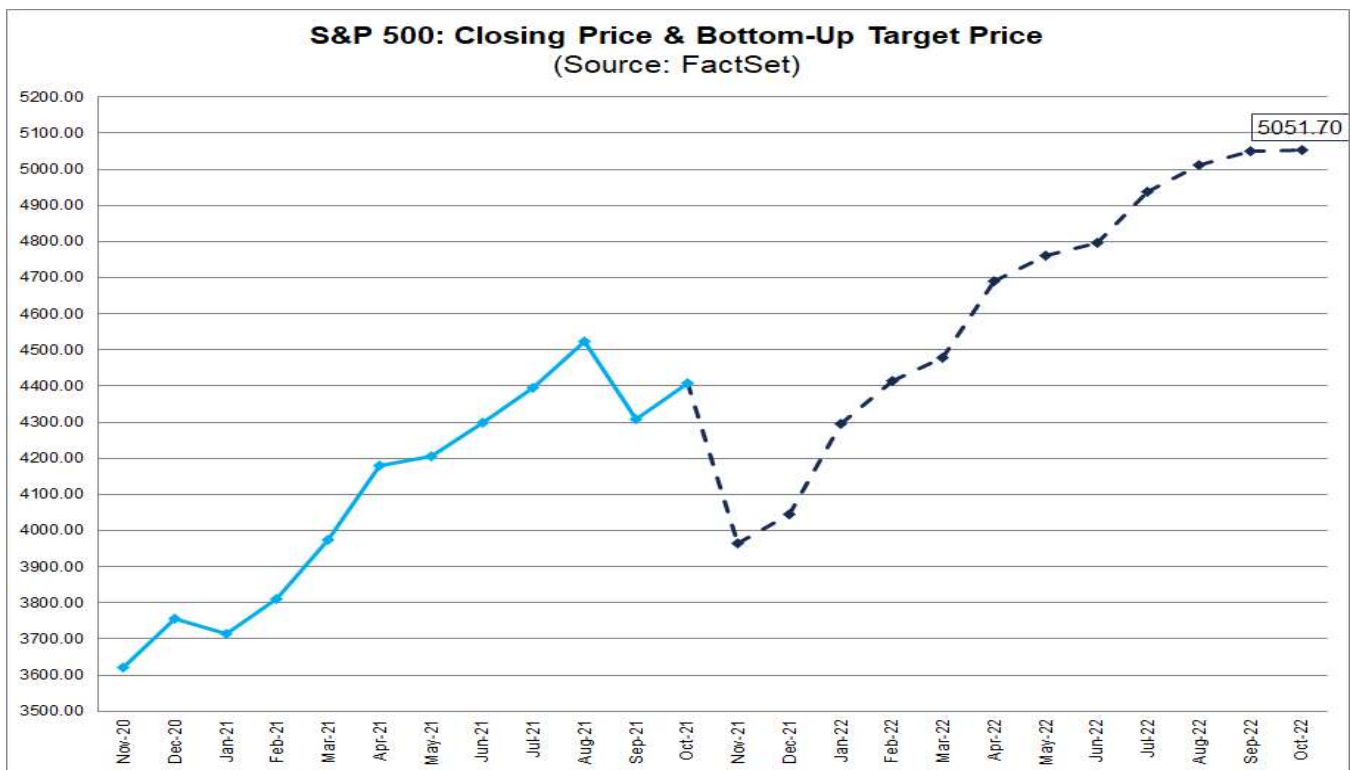
Industry analysts in aggregate predict the S&P 500 will see a price increase of 14.8% over the next twelve months. This percentage is based on the difference between the bottom-up target price and the closing price for the index as of yesterday (October 6). The bottom-up target price is calculated by aggregating the median target price estimates (based on company-level estimates submitted by industry analysts) for all the companies in the index. On October 6, the bottom-up target price for the S&P 500 was 5051.70, which was 14.8% above the closing price of 4399.76.

At the sector level, the Communication Services (+18.0%) sector is expected to see the largest price increase, as this sector had the largest upside difference between the bottom-up target price and the closing price on October 6. On the other hand, the Financials (+7.8%) sector is expected to see the smallest price increase, as this sector had the smallest upside difference between the bottom-up target price and the closing price on October 6.

At the company level, the ten stocks in the S&P 500 with the largest upside and downside differences between their median target price and closing price (on October 6) can be found on the next page.

How accurate have the industry analysts been in predicting the future value of the S&P 500? Over the past five years, industry analysts have underestimated the price of the index by 1.7% on average (using month-end values). Over the past ten years, industry analysts have overestimated the price of the index by 0.8% on average (using month-end values). Over the past fifteen years, industry analysts have overestimated the price of the index by 8.1% on average (using month-end values). Over the past twenty years, industry analysts have overestimated the price of the index by 9.6% on average (using month-end values).

It is interesting to note that on September 30, 2020, the bottom-up target price was 3775.94. One year later (on September 30, 2021), the S&P 500 closing price was 4307.54. Thus, industry analysts underestimated the closing price at the end of September 2021 by 12% one-year ago.

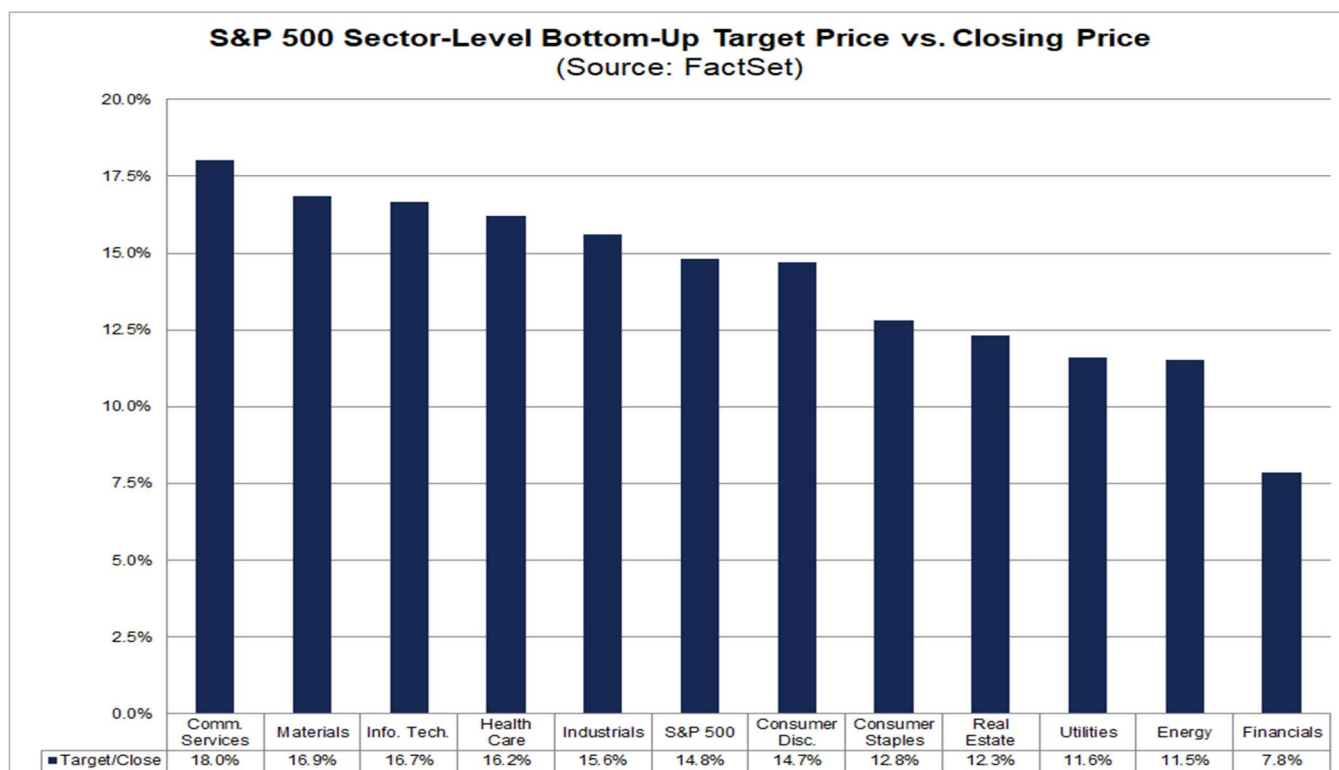


S&P 500: Difference Between Median Target Price & Closing Price: Top 10 (Source: FactSet)

Company	Target	Closing	Diff (\$)	Diff (%)
Western Digital Corporation	92.00	57.39	34.61	60.3%
Las Vegas Sands Corp.	58.00	37.12	20.88	56.3%
Incyte Corporation	98.00	65.65	32.35	49.3%
Activision Blizzard, Inc.	115.00	77.36	37.64	48.7%
Under Armour, Inc. Class C	27.00	18.28	8.72	47.7%
Biogen Inc.	425.00	287.77	137.23	47.7%
Moderna, Inc.	453.00	309.36	143.64	46.4%
Vertex Pharmaceuticals Inc.	260.00	180.02	79.98	44.4%
Tapestry, Inc.	55.00	38.18	16.82	44.1%
Global Payments Inc.	230.00	159.87	70.13	43.9%

S&P 500: Difference Between Median Target Price & Closing Price: Bottom 10 (Source: FactSet)

Company	Target	Closing	Diff (\$)	Diff (%)
Lumen Technologies, Inc.	11.00	12.70	-1.70	-13.4%
Xilinx, Inc.	146.50	158.07	-11.57	-7.3%
Ceridian HCM Holding, Inc.	110.00	118.53	-8.53	-7.2%
Marriott International, Inc. Cl. A	146.50	157.75	-11.25	-7.1%
Paycom Software, Inc.	475.50	511.69	-36.19	-7.1%
ONEOK, Inc.	57.00	60.75	-3.75	-6.2%
Comerica Incorporated	79.10	84.15	-5.05	-6.0%
Robert Half International Inc.	101.00	107.14	-6.14	-5.7%
Juniper Networks, Inc.	27.00	28.63	-1.63	-5.7%
Aon Plc Class A	277.00	293.28	-16.28	-5.6%

S&P 500 Sector-Level Bottom-Up Target Price vs. Closing Price
(Source: FactSet)

Q3 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 third quarter. As a result, expected earnings for the S&P 500 for the third quarter are higher today compared to the start of the quarter. The index is now expected to report the third-highest (year-over-year) growth in earnings since Q3 2010 for Q3. Analysts also project earnings growth of more than 20% for the fourth quarter of 2021. These above-average growth rates 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 increased earnings estimates in aggregate for Q3 2021. On a per-share basis, estimated earnings for the third quarter increased by 2.9% during the quarter. In a typical quarter, analysts usually reduce earnings estimates during the quarter. Over the past five years (20 quarters), earnings estimates have fallen by 2.9% on average during a quarter. Over the past ten years, (40 quarters), earnings estimates have fallen by 3.7% on average during a quarter. Over the past fifteen years, (60 quarters), earnings estimates have fallen by 4.9% on average during a quarter.

More S&P 500 companies have issued positive EPS guidance for Q3 2021 than average as well. At this point in time, 103 companies in the index have issued EPS guidance for Q3 2021. Of these companies, 47 have issued negative EPS guidance and 56 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 54% (56 out of 103), which is well above the 5-year average of 39%.

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 Q3 2021 is higher now relative to the start of the third quarter. As of today, the S&P 500 is expected to report (year-over-year) earnings growth of 27.6%, compared to the estimated (year-over-year) earnings growth rate of 24.2% on June 30.

If 27.6% is the actual growth rate for the quarter, it will mark the third-largest year-over-year earnings growth rate reported by the index since Q3 2010 (34.0%). The unusually high growth rate is due to a combination of higher earnings for Q3 2021 and a comparison to weaker earnings in Q3 2020 due to the negative impact of COVID-19 on a number of industries. Ten of the eleven sectors are projected to report year-over-year earnings growth, led by the Energy, Materials, Industrials, and Information Technology 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 Q3 2021 is higher now relative to the start of the third quarter. As of today, the S&P 500 is expected to report (year-over-year) revenue growth of 14.9%, compared to the estimated (year-over-year) revenue growth rate of 12.6% on June 30.

If 14.9% is the actual growth rate for the quarter, it will mark the second-highest year-over-year revenue growth rate 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 and Materials sectors.

Looking ahead, analysts project earnings growth of more than 20% for Q4 2021 and more than 40% for CY 2021.

The forward 12-month P/E ratio is 20.5, which is above the 5-year average and above the 10-year average, but below the forward P/E ratio of 21.4 at the start of the second quarter (June 30).

During the upcoming week, 19 S&P 500 companies (including five Dow 30 components) are scheduled to report results for the third quarter.

Earnings Revisions: Energy Sector Has Seen Largest Estimate Increases

Slight Increase in Estimated Earnings Growth Rate for Q3 This Week

During the past week, the estimated earnings growth rate for the S&P 500 for Q3 2021 increased slightly to 27.6% from 27.5%.

Since the start of the quarter, the estimated earnings growth rate for the S&P 500 for Q3 2021 has increased to 27.6% today from 24.2% (on June 30), as estimated earnings for the index have increased by 2.7% (to \$428.8 billion from \$417.6 billion) during this time. Seven sectors have recorded an increase in expected (dollar-level) earnings due to upward revisions to earnings estimates, led by the Energy, Materials, Communication Services, and Information Technology sectors. On the other hand, four sectors have recorded a decrease in expected (dollar-level) earnings due to downward revisions to earnings estimates, led by the Consumer Discretionary sector.

Energy: Exxon Mobil Leads Earnings Increase Since June 30

The Energy sector has recorded the largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the second quarter at 23.5% (to \$20.5 billion from \$16.6 billion). A year-over-year growth rate is not being calculated for the Energy sector due to the loss reported by the sector in Q3 2020. This sector has also witnessed the fifth-largest increase in price (+2.2%) of eleven sectors since June 30. Overall, 17 of the 21 companies (81%) in the Energy sector have seen an increase in their mean EPS estimate during this time. Of these 17 companies, 13 have recorded an increase in their mean EPS estimate of more than 10%, led by Occidental Petroleum (to \$0.61 from -\$0.07) and Hess Corporation (to \$0.45 from \$0.28). However, Exxon Mobil (to \$1.45 from \$1.13), Chevron (to \$2.16 from \$1.73), and Occidental Petroleum have been the largest contributors to the increase in estimated (dollar-level) earnings for this sector since June 30.

Materials: Nucor and Dow Lead Earnings Increase Since June 30

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 11.1% (to \$16.1 billion from \$14.5 billion). As a result, the estimated earnings growth rate for this sector has risen to 90.4% from 71.4% during this time. Despite the increase in estimated earnings, this sector has witnessed the second-largest decrease in price (-0.9%) of all eleven sectors since June 30. Overall, 13 of the 28 companies (46%) in the Materials sector have seen an increase in their mean EPS estimate during this time. Of these 13 companies, 9 have recorded an increase in their mean EPS estimate of more than 10%, led by Mosaic Company (to \$1.58 from \$0.98), Celanese Corporation (to \$4.72 from \$3.23), Dow (to \$2.53 from \$1.81), and Nucor (to \$6.93 from \$5.00). Nucor and Dow have also been the largest contributors to the increase in expected (dollar-level) earnings for this sector since June 30.

Communication Services: Alphabet and Facebook Lead Earnings Increase since June 30

The Communication Services sector has recorded the third-largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 7.4% (to \$44.6 billion from \$41.6 billion). As a result, the estimated earnings growth rate for this sector has risen to 23.0% from 14.5% during this time. This sector has also witnessed the second-largest increase in price (+3.4%) of all eleven sectors since June 30. 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 Live Nation Entertainment (to -\$0.07 from -\$0.09), Alphabet (to \$23.78 from \$20.15), and Netflix (to \$2.55 from \$2.20). However, Alphabet and Facebook (to \$3.18 from \$2.95) have been the largest contributors to the increase in expected (dollar-level) earnings for this sector since June 30.

Information Technology: Apple and Microsoft Lead Earnings Increase since June 30

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 5.8% (to \$94.2 billion from \$89.1 billion). As a result, the estimated earnings growth rate for this sector has risen to 28.6% from 21.6% during this time. This sector has also witnessed the third-largest increase in price (+3.3%) of all eleven sectors since June 30. Overall, 59 of the 74 companies (80%) in the Information Technology sector have seen an increase in their mean EPS estimate during this time. Of these 59 companies, 12 have recorded an increase in their mean EPS estimate of more than 10%, led by Gartner (to \$1.56 from \$1.20) and Western Digital (to \$2.44 from \$2.01). However, Apple (to \$1.23 from \$1.11) and Microsoft (to \$2.07 from \$1.95) have been the largest contributors to the increase in expected (dollar-level) earnings for this sector since June 30.

Consumer Discretionary: Amazon.com and GM Lead Earnings Decrease Since June 30

The Consumer Discretionary sector has recorded the largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -7.6% (to \$30.5 billion from \$33.0 billion). As a result, the estimated earnings growth rate for this sector has fallen to 3.0% from 11.4% during this time. Despite the decrease in expected earnings, this sector has witnessed an increase in price of 1.8% since June 30. Overall, 22 of the 62 companies (35%) in the Consumer Discretionary sector have seen a decrease in their mean EPS estimate during this time. Of these 22 companies, 13 have recorded a decrease in their mean EPS estimate of more than 10%, led by Las Vegas Sands (to -\$0.17 from \$0.16), General Motors (to \$0.69 from \$1.52), Wynn Resorts (to -\$1.33 from -\$0.87), and Royal Caribbean Group (to -\$4.13 from -\$2.86). However, Amazon.com (to \$8.90 from \$12.89) and General Motors have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since June 30.

Index-Level (Bottom-Up) EPS Estimate: 2.9% Increase During Third Quarter

The Q3 bottom-up EPS estimate (which is an aggregation of the median Q3 earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings of the index) increased by 2.9% (to \$48.90 from \$47.50) during the third quarter. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings expectations have fallen by 2.9% on average during a quarter. Over the past ten years (40 quarters), earnings expectations have fallen by 3.7% on average during a quarter. Over the past fifteen years (60 quarters), earnings expectations have fallen by 4.9% on average during a quarter.

However, it should be noted that while the Q3 bottom-up EPS estimate increased by 3.8% during the first two months of the third quarter (to \$49.31 from \$47.50), it declined by 0.8% during the month of September (to \$48.90 from \$49.31).

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 Q3 2021. Of these 103 companies, 47 have issued negative EPS guidance and 56 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 54% (56 out of 103), which is well above the 5-year average of 39%.

However, it should be noted that the number of S&P 500 companies issuing negative EPS guidance has increased by 10 compared to Q2 2021 (to 47 from 37), while the number of S&P 500 companies issuing positive EPS guidance has decreased by 11 compared to Q2 2021 (to 56 from 67).

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: 27.6%

The estimated (year-over-year) earnings growth rate for Q3 2021 is 27.6%, which is well above the 5-year average earnings growth rate of 11.8%. If 27.6% is the actual growth rate for the quarter, it will mark the third-highest year-over-year earnings growth rate reported by the index since Q3 2010 (34.0%). The unusually high growth rate is due to a combination of higher earnings in Q3 2021 and an easier comparison to lower earnings in Q3 2020 due to the negative impact of COVID-19 on a number of industries. Ten sectors are expected to report year-over-year earnings growth, led by the Energy, Materials, Industrials, and Information Technology sectors.

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

The Energy sector is expected to report earnings of \$20.5 billion for Q3 2021 compared to a loss of -\$1.5 billion in Q3 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 Q3 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 Q3 2021 (\$70.52) was 72% above the average price for oil in Q3 2020 (\$40.92). 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 Q3 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 (166%) and the Oil & Gas Storage & Transportation (14%) 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 \$10.9 billion of the projected \$22.0 billion year-over-year increase in earnings for the sector.

Materials: 3 of 4 Industries Expected to Report Year-over-Year Growth Above 35%.

The Materials sector is expected to report the highest (year-over-year) earnings growth rate of all eleven sectors at 90.4%. At the industry level, three of the four industries in this sector are predicted to report year-over-year earnings growth above 35%: Metals & Mining (200%), Chemicals (86%), and Containers & Packaging (39%). The only industry expected to report a year-over-year decline in earnings is the Construction Materials (-1%) industry. At the company level, Nucor, Dow, and LyondellBasell Industries are the largest contributors to year-over-year earnings growth for the sector. If these three companies were excluded, the estimated earnings growth rate for the Materials sector would fall to 37.8% from 90.4%.

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

The Industrials sector is expected to report the second-highest (year-over-year) earnings growth rate of all eleven sectors at 61.7%. 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 much smaller loss in Q3 2021 (-1.2 billion) relative to Q3 2020 (-\$8.9 billion). Six of the remaining eleven industries are expected to report double-digit earnings growth: Machinery (25%), Electrical Equipment (22%), Trading Companies & Distributors (19%), Road & Rail (18%), Commercial Services & Supplies (17%), and Aerospace & Defense (13%). 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 14.4% from 61.7%.

Information Technology: Apple Is Largest Contributor to Year-Over-Year Growth

The Information Technology sector is expected to report the third-highest (year-over-year) earnings growth rate of all eleven sectors at 28.6%. At the industry level, all six industries in this sector are expected to report a year-over-year improvement in earnings. Four of these six industries are predicted to report double-digit earnings growth: Technology Hardware, Storage, & Peripherals (64%), Semiconductors & Semiconductor Equipment (39%), Electronic Equipment, Instruments, & Components (24%), and IT Services (18%). At the company level, Apple is predicted to be the largest contributor to year-over-year earnings growth. If this company were excluded, the estimated earnings growth rate for the Information Technology sector would fall to 21.2% from 28.6%.

Revenue Growth: 14.9%

The estimated (year-over-year) revenue growth rate for Q3 2021 is 14.9%, which is above the 5-year average revenue growth rate of 3.9%. If 14.9% is the actual growth rate for the quarter, it will mark the second-highest year-over-year revenue growth rate reported by the index since FactSet began tracking this metric in 2008. The current record is 25.3%, which occurred in Q2 2021. All eleven sectors are expected to report year-over-year growth in revenues, led by the Energy and Materials sectors.

Energy: 3 of 5 Sub-Industries Expected to Report Year-Over-Year Growth Above 40%

The Energy sector is expected to report the highest (year-over-year) revenue growth rate of all eleven sectors at 53.1%. 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 Q3 2021 (\$70.52) was 72% above the average price for oil in Q3 2020 (\$40.92). At the sub-industry level, all five sub-industries in the sector are projected to report double-digit (year-over-year) growth in revenues: Oil & Gas Exploration & Production (117%), Integrated Oil & Gas (57%), Oil & Gas Refining & Marketing (45%), Oil & Gas Storage & Transportation (28%), and Oil & Gas Equipment & Services (14%).

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

The Materials sector is expected to report the second-highest (year-over-year) revenue growth of all eleven sectors at 28.9%. At the industry level, all four industries in this sector are predicted to report double-digit (year-over-year) growth in revenues: Metals & Mining (65%), Chemicals (28%), Construction Materials (14%), and Containers & Packaging (13%).

Net Profit Margin: 12.1%

The estimated net profit margin for the S&P 500 for Q3 2021 is 12.1%, which is above the 5-year average of 10.9% and the year-ago net profit margin of 10.9%, but below the previous quarter's record-high net profit margin of 13.1%.

If 12.1% is the actual net profit margin for the quarter, it will mark the third-highest net profit margin reported by the index since FactSet began tracking this metric in 2008. The current record is 13.1%, which occurred in Q2 2021.

At the sector level, eight sectors are expected to report a year-over-year increase in their net profit margins in Q3 2021 compared to Q3 2020, led by the Materials (14.0% vs. 9.5%) and Industrials (8.7% vs. 6.3%) sectors. Eight sectors are also expected to report net profit margins in Q3 2021 that are above their 5-year averages, led by the Materials (14.0% vs. 9.5%), Utilities (16.8% vs. 12.9%), and Energy (8.5% vs. 4.9%) sectors.

Looking Ahead: Forward Estimates and Valuation

Earnings: S&P 500 Expected to Report Earnings Growth of 43% for CY 2021

For the third quarter, S&P 500 companies are projected to report earnings growth of 27.6% and revenue growth of 14.9%.

For Q4 2021, analysts are projecting earnings growth of 21.8% and revenue growth of 11.5%.

For CY 2021, analysts are projecting earnings growth of 42.8% and revenue growth of 15.0%.

For Q1 2022, analysts are projecting earnings growth of 5.5% and revenue growth of 8.4%.

For CY 2022, analysts are projecting earnings growth of 9.7% and revenue growth of 6.8%.

Valuation: Forward P/E Ratio is 20.5, Above the 10-Year Average (16.4)

The forward 12-month P/E ratio is 20.5. This P/E ratio is above the 5-year average of 18.3 and above the 10-year average of 16.4. However, it is below the forward 12-month P/E ratio of 21.4 recorded at the end of the second quarter (June 30). Since the end of the second quarter (June 30), the price of the index has increased by 2.4%, while the forward 12-month EPS estimate has increased by 6.7%. At the sector level, the Consumer Discretionary (29.7) and Information Technology (25.6) sectors have the highest forward 12-month P/E ratios, while the Energy (13.4) and Financials (14.6) sectors have the lowest forward 12-month P/E ratios.

The trailing 12-month P/E ratio is 25.9, which is above the 5-year average of 22.7 and above the 10-year average of 19.6.

Targets & Ratings: Analysts Project 15% Increase in Price Over Next 12 Months

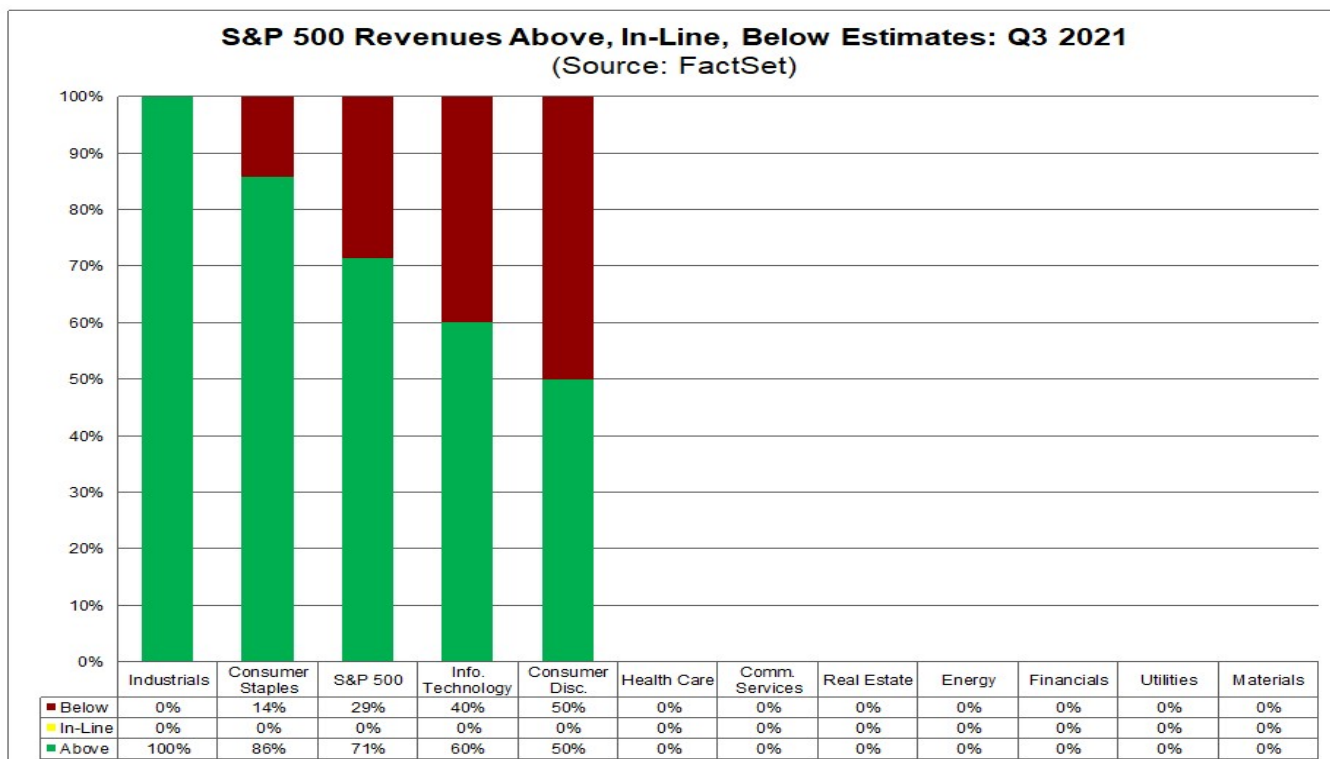
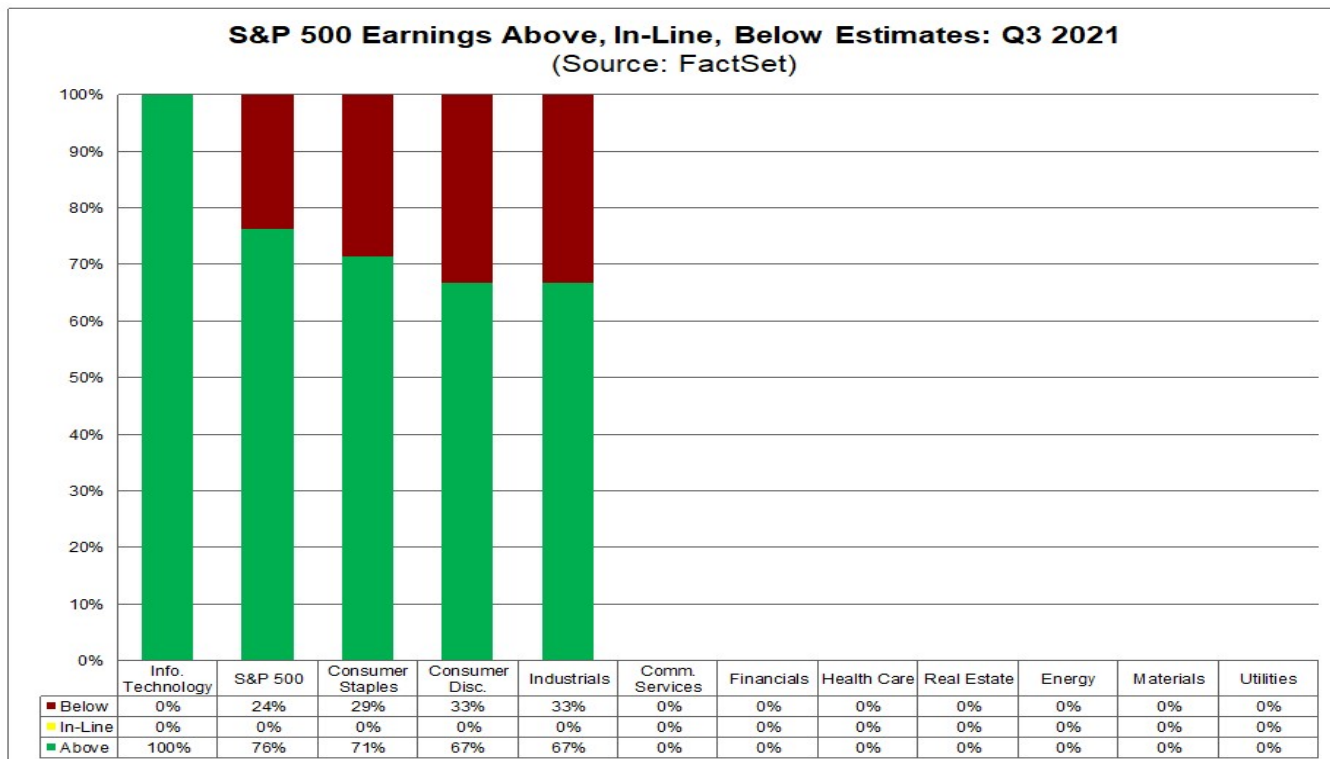
The bottom-up target price for the S&P 500 is 5051.70, which is 14.8% above the closing price of 4399.76. At the sector level, the Communication Services (18.0%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Financials (+7.8%) sector is expected to see the smallest price increase, as this sector has the smallest upside difference between the bottom-up target price and the closing price.

Overall, there are 10,586 ratings on stocks in the S&P 500. Of these 10,586 ratings, 56.8% are Buy ratings, 37.1% are Hold ratings, and 6.1% are Sell ratings. At the sector level, the Energy (65%), Communication Services (64%), Information Technology (62%), and Health Care (62%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (43%) sector has the lowest percentage of Buy ratings.

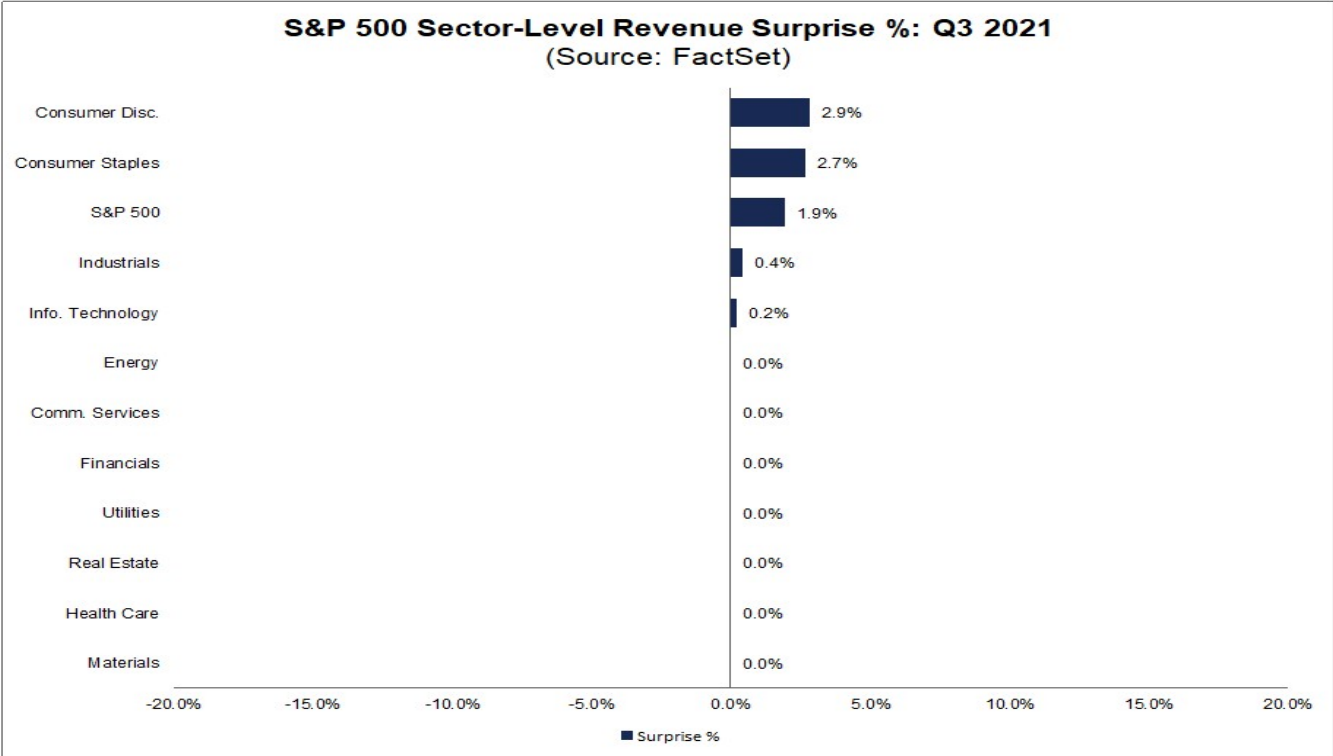
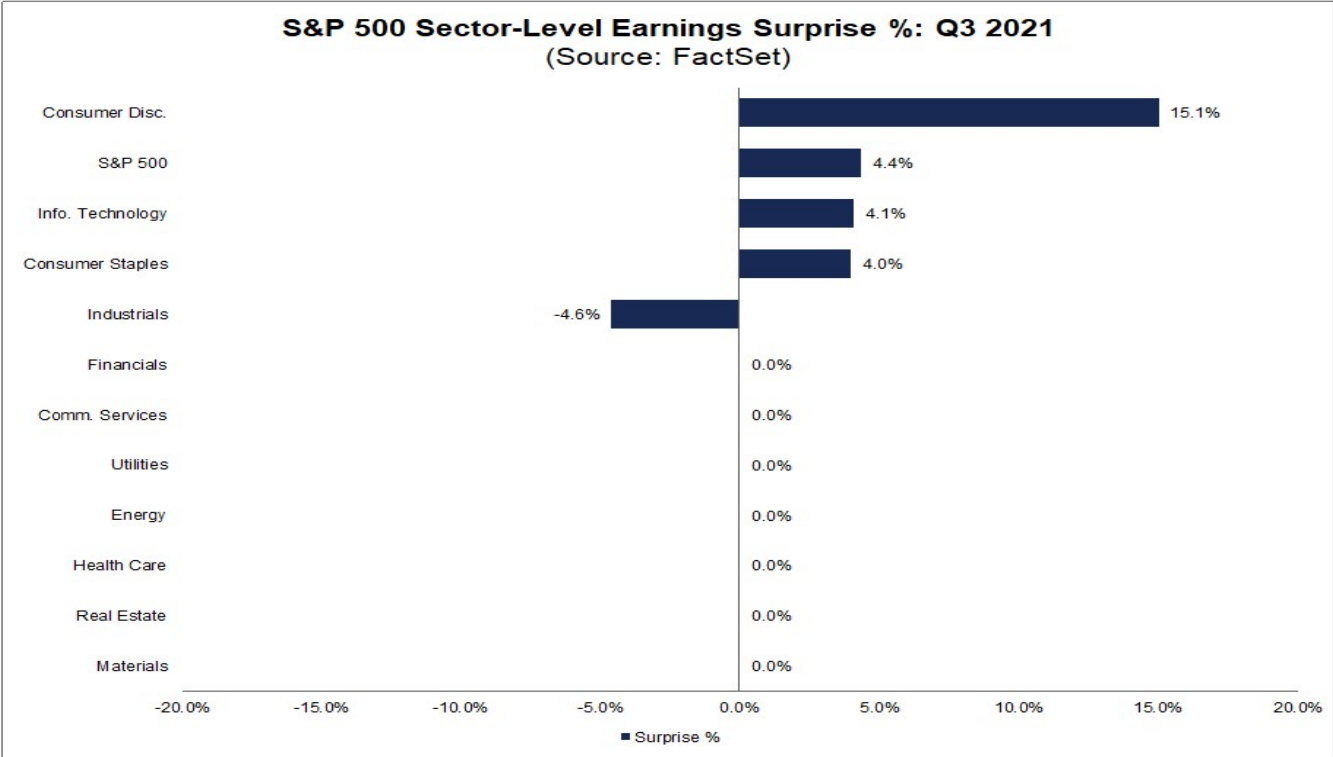
Companies Reporting Next Week: 19

During the upcoming week, 19 S&P 500 companies (including 4 Dow 30 components) are scheduled to report results for the third quarter.

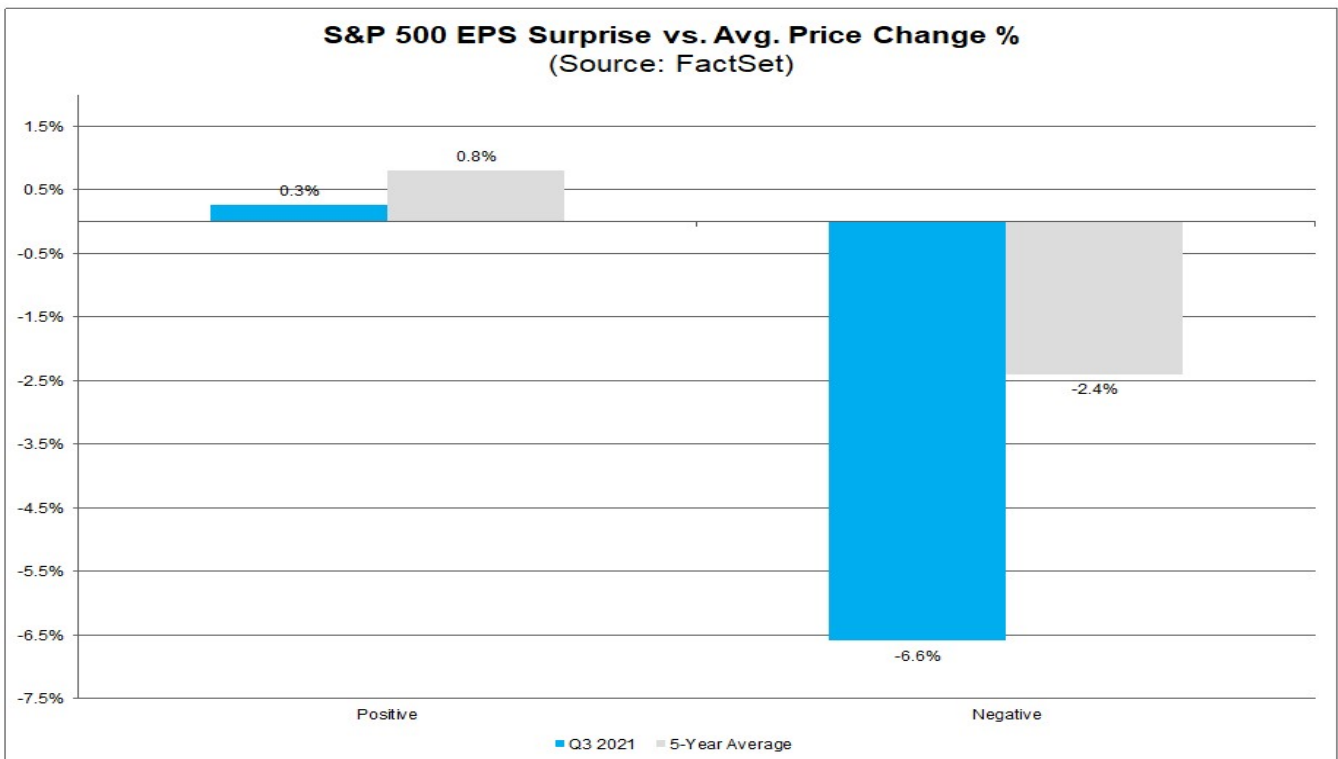
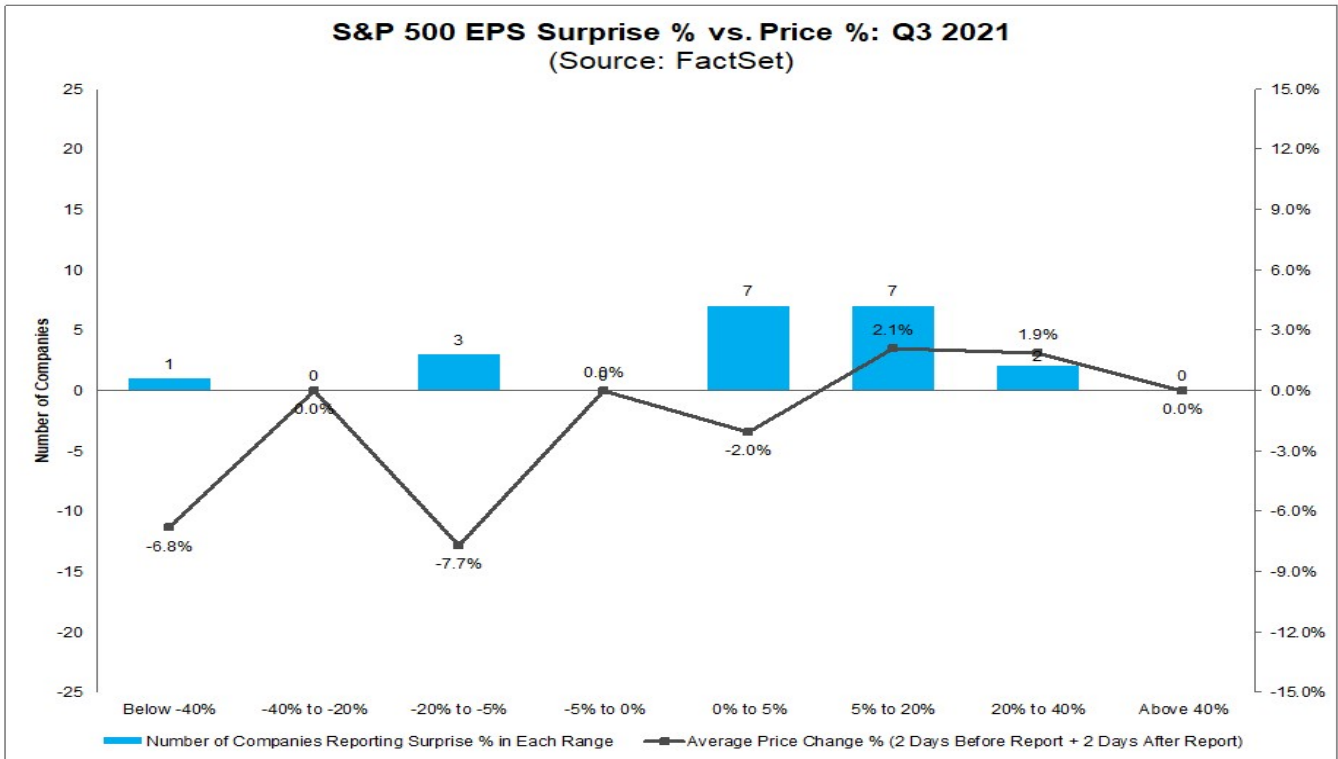
Q3 2021: Scorecard



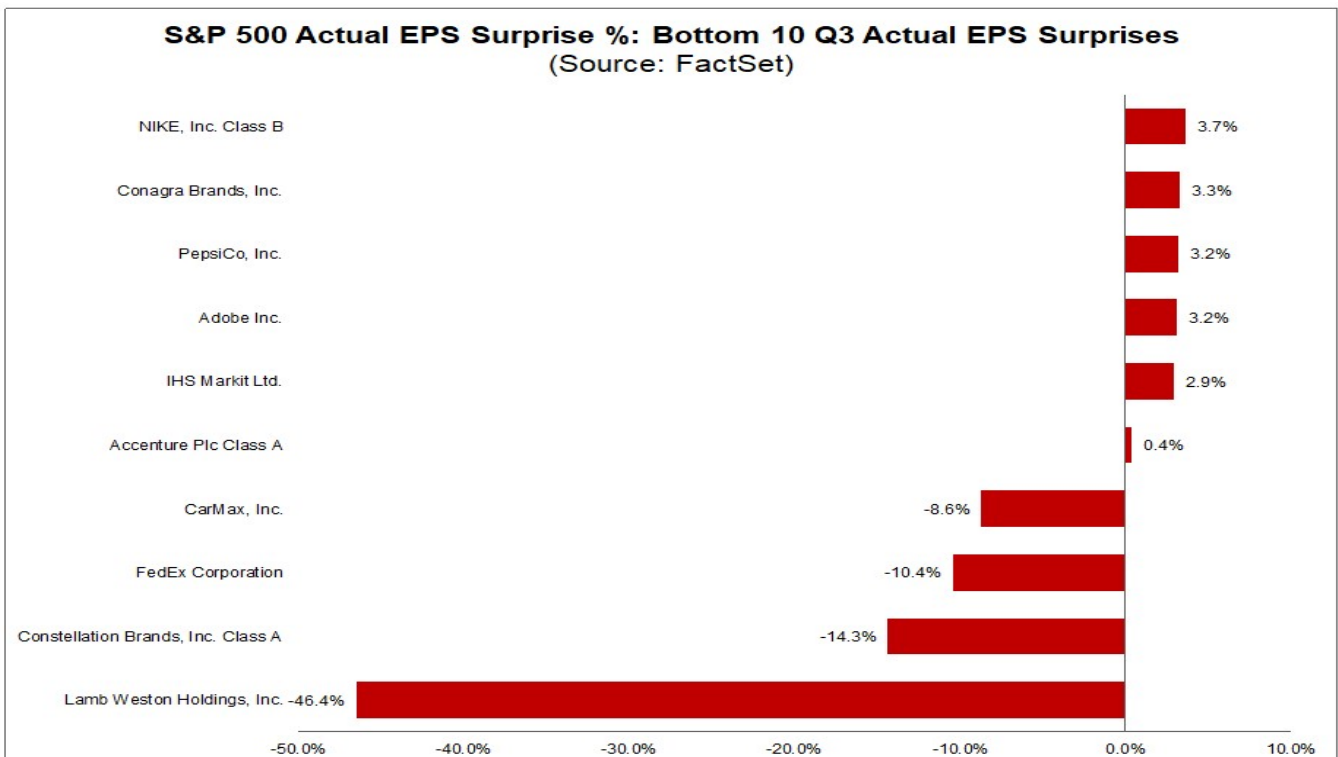
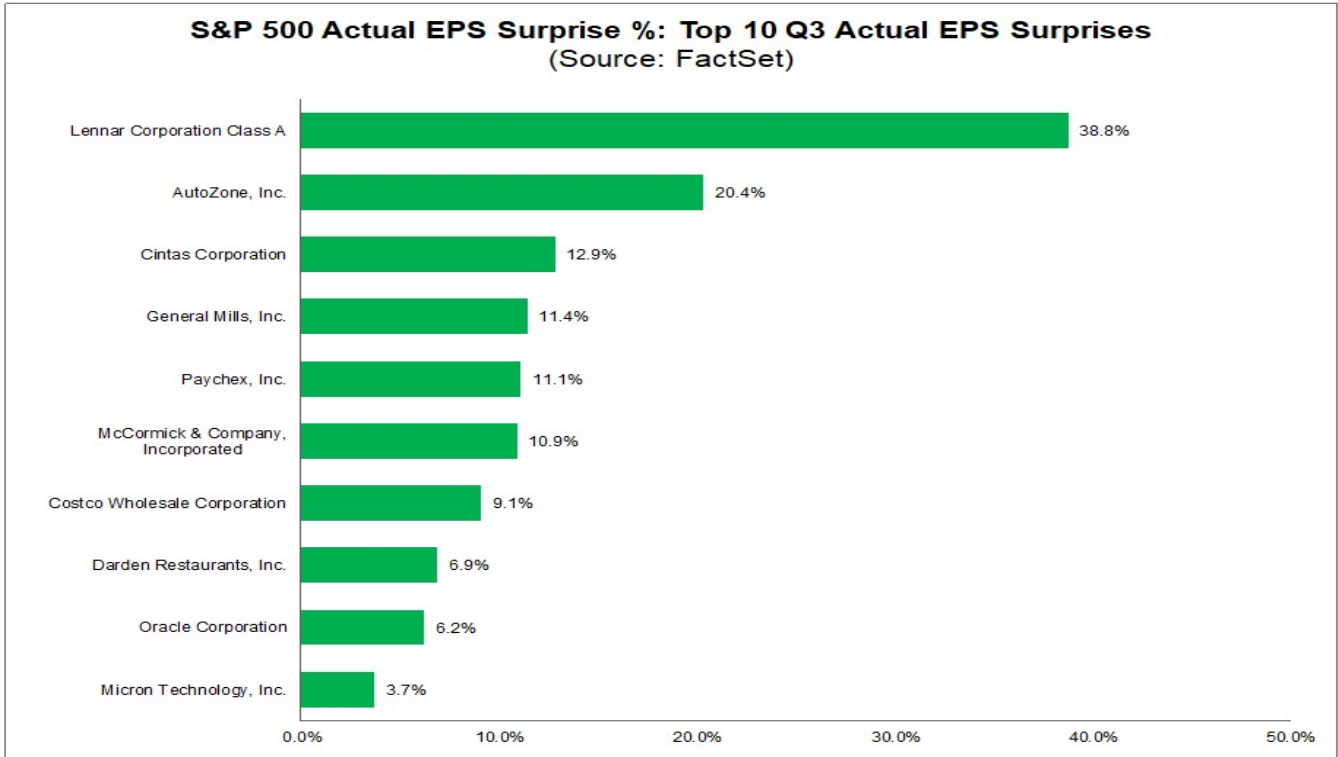
Q3 2021: Scorecard



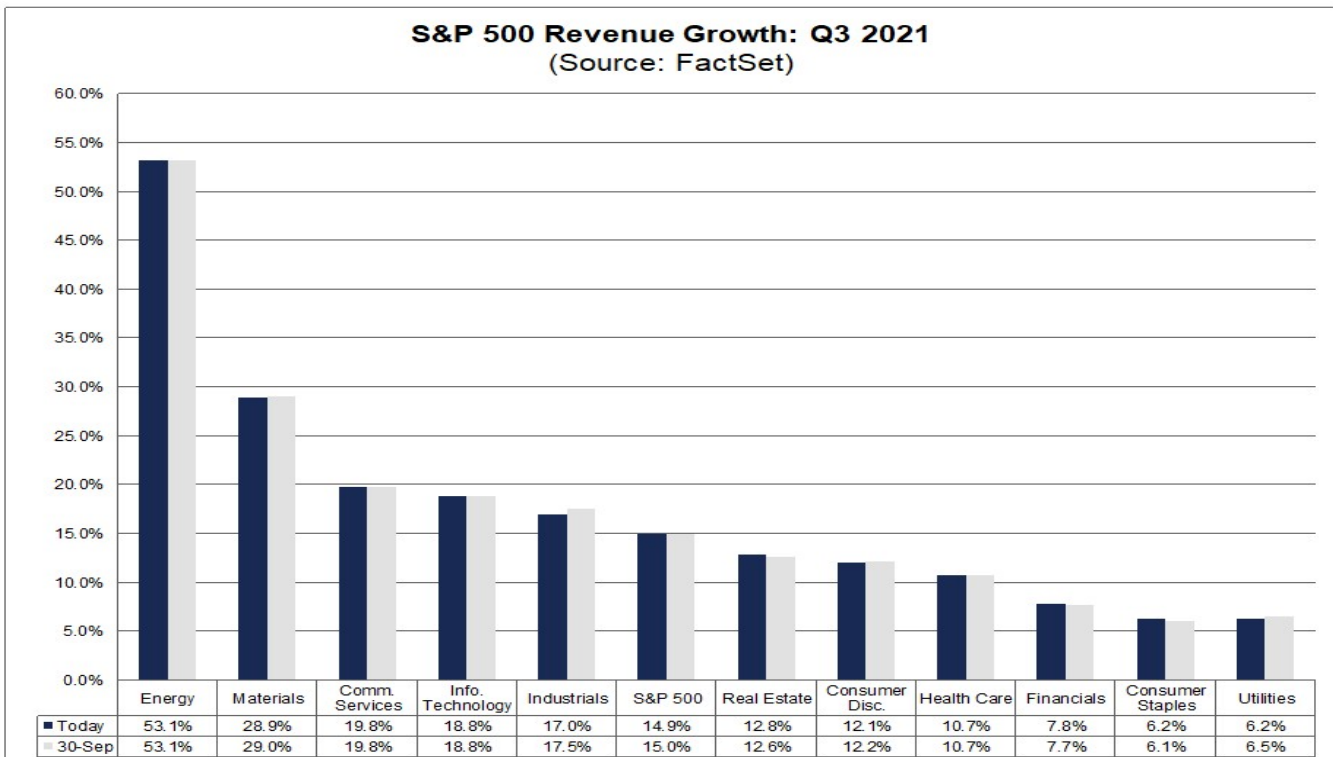
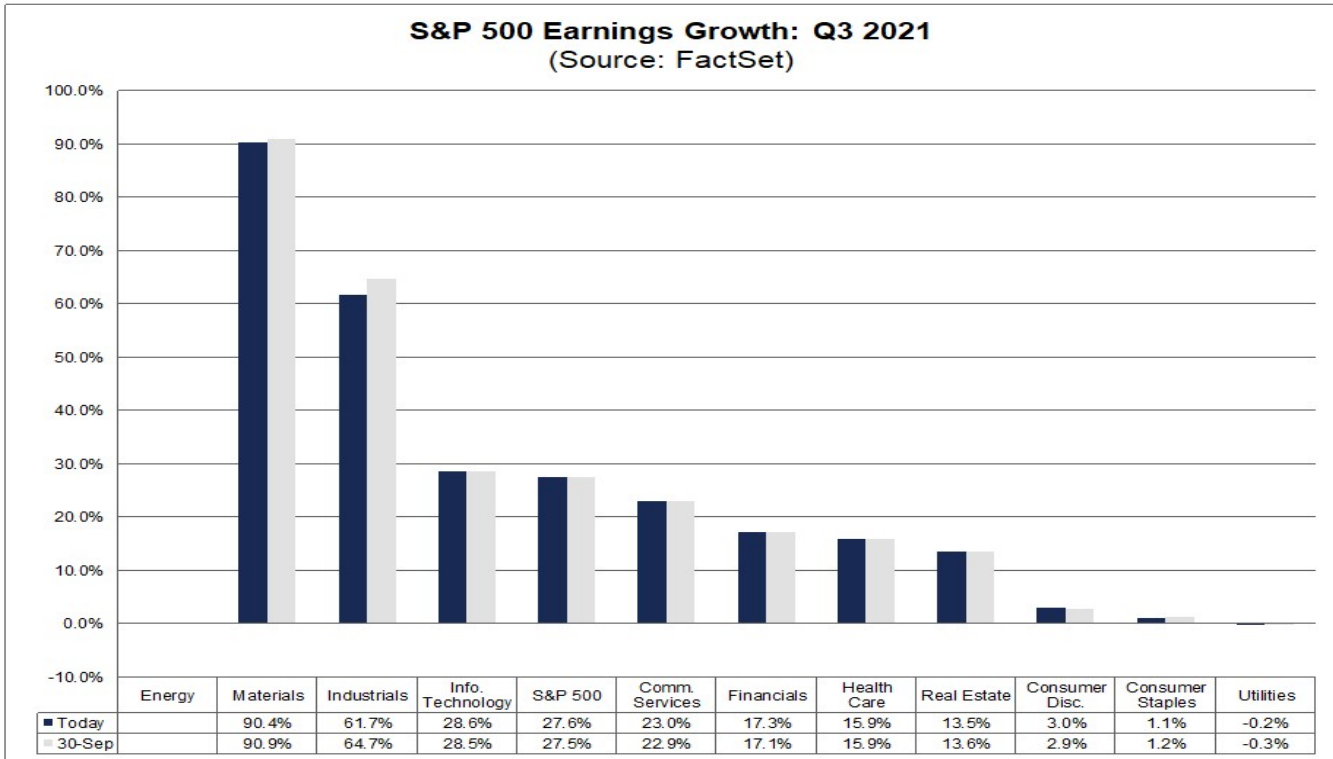
Q3 2021: Scorecard



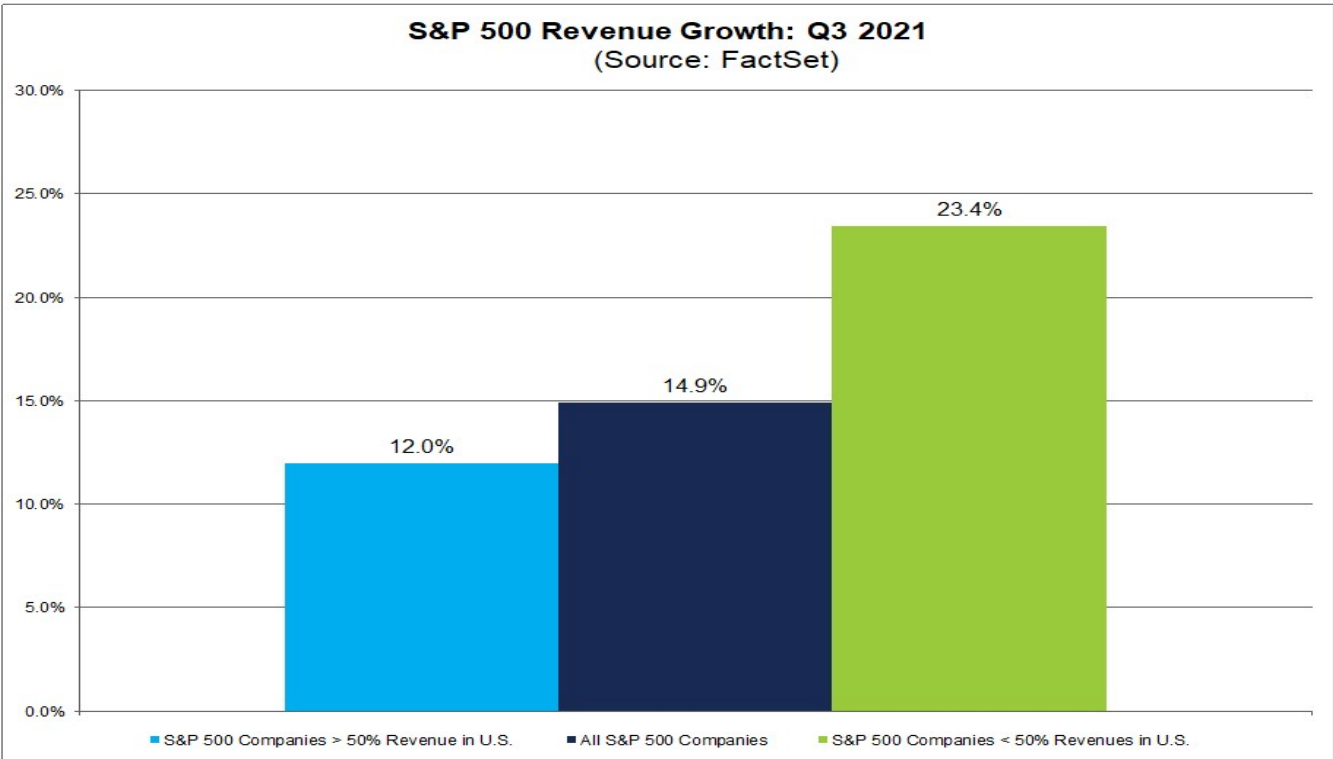
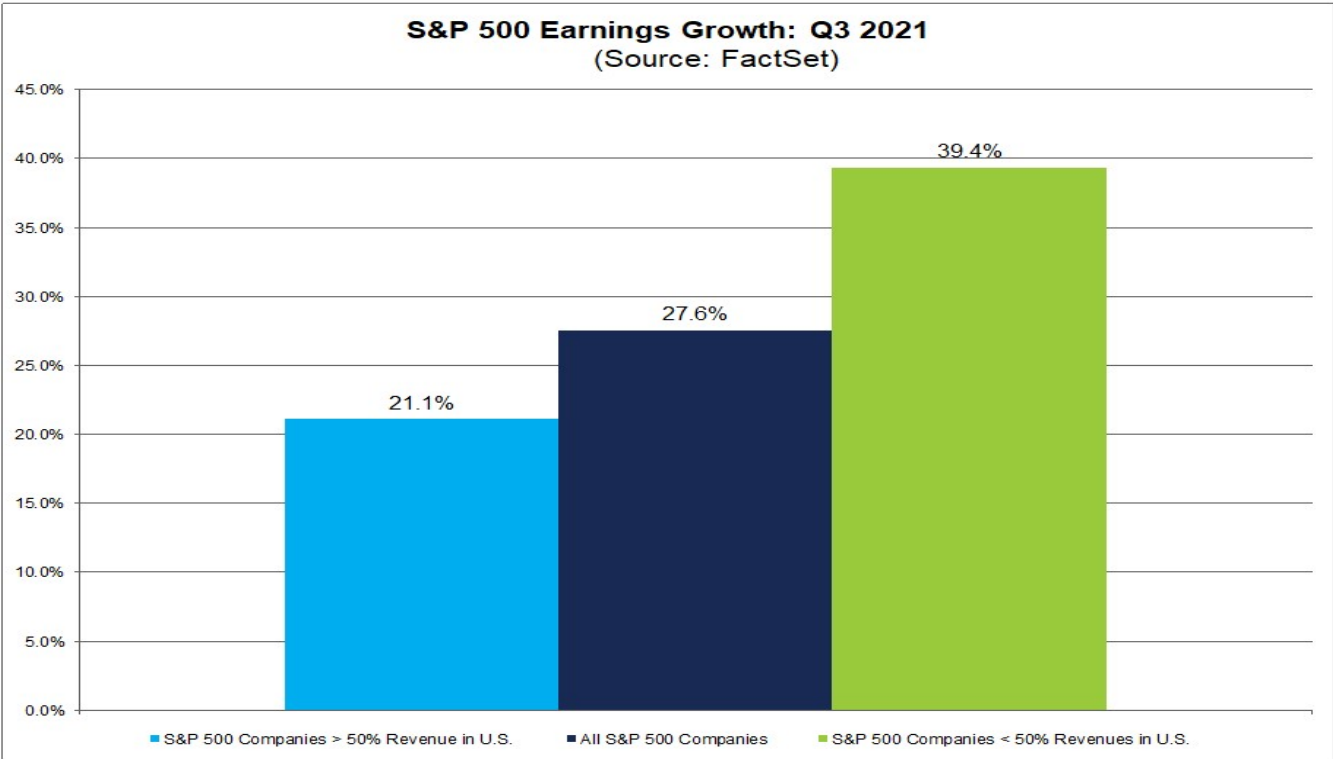
Q3 2021: Scorecard



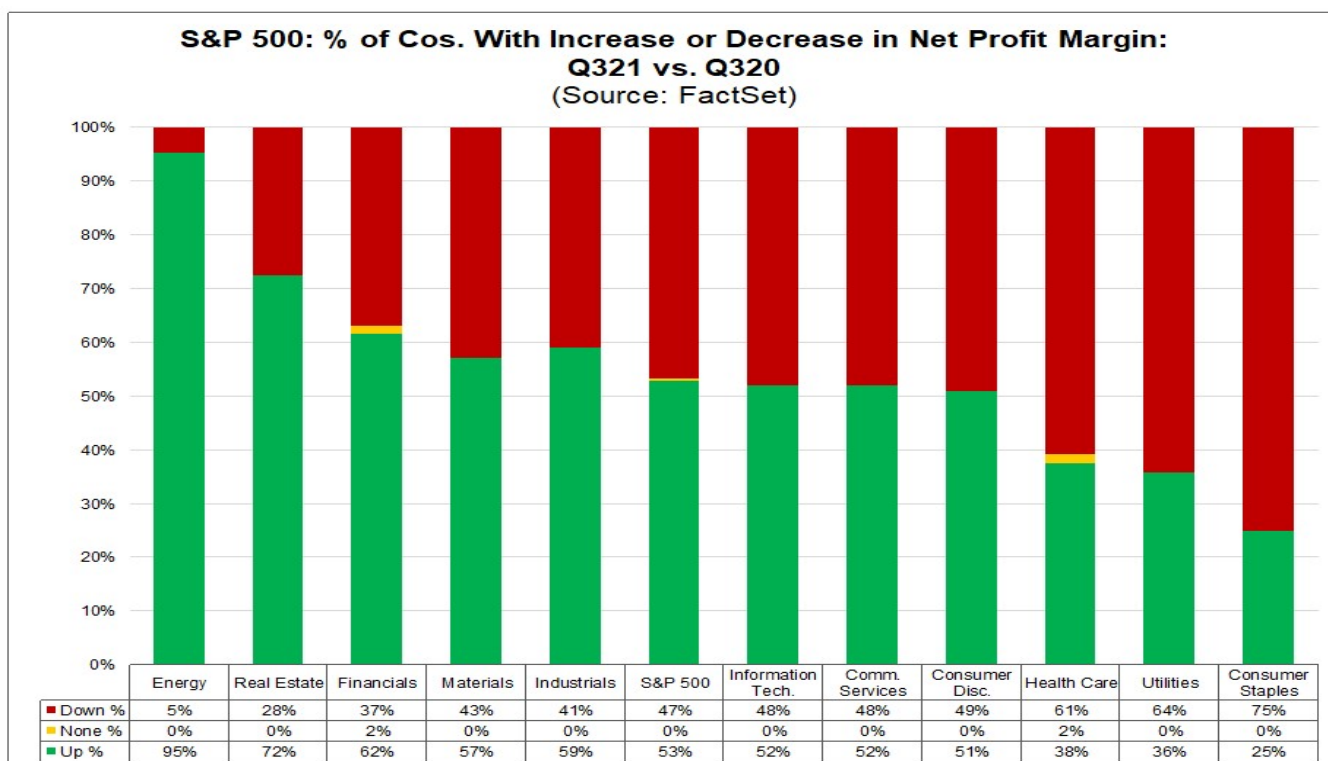
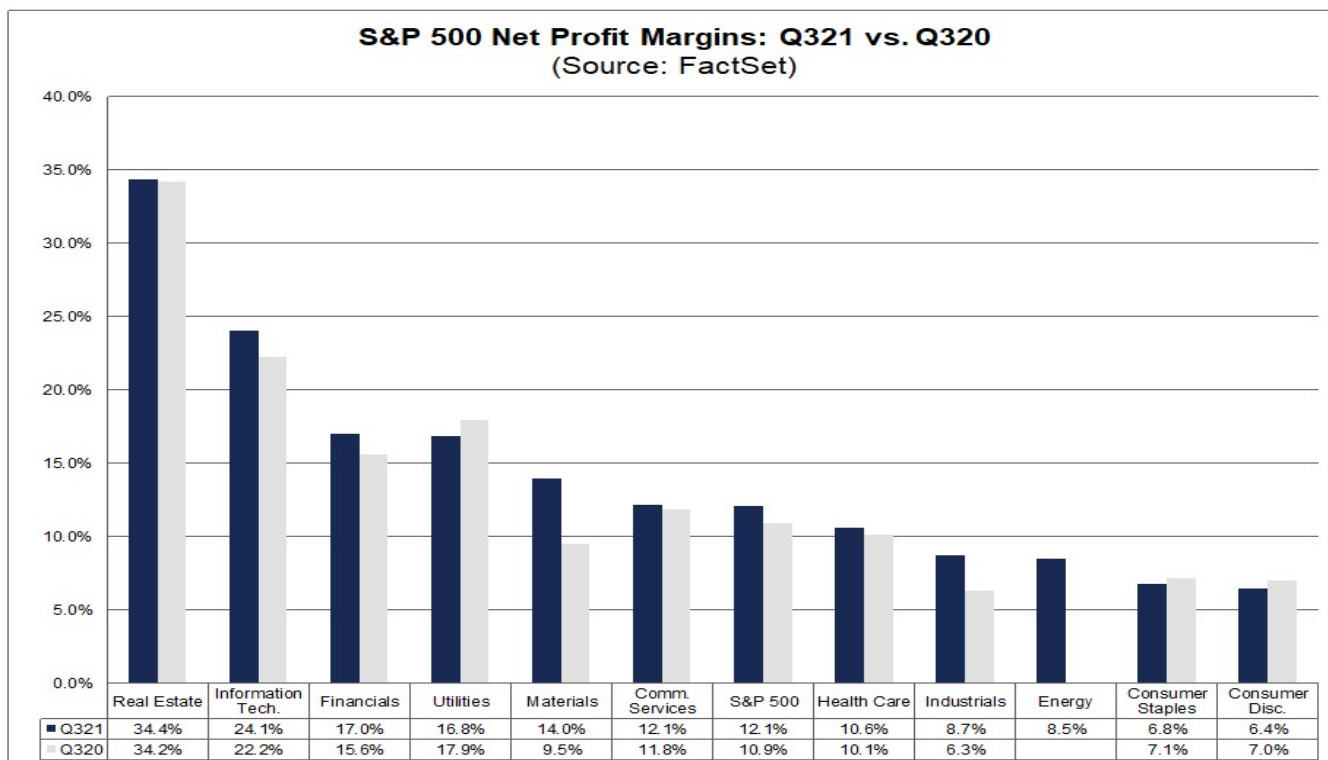
Q3 2021: Growth



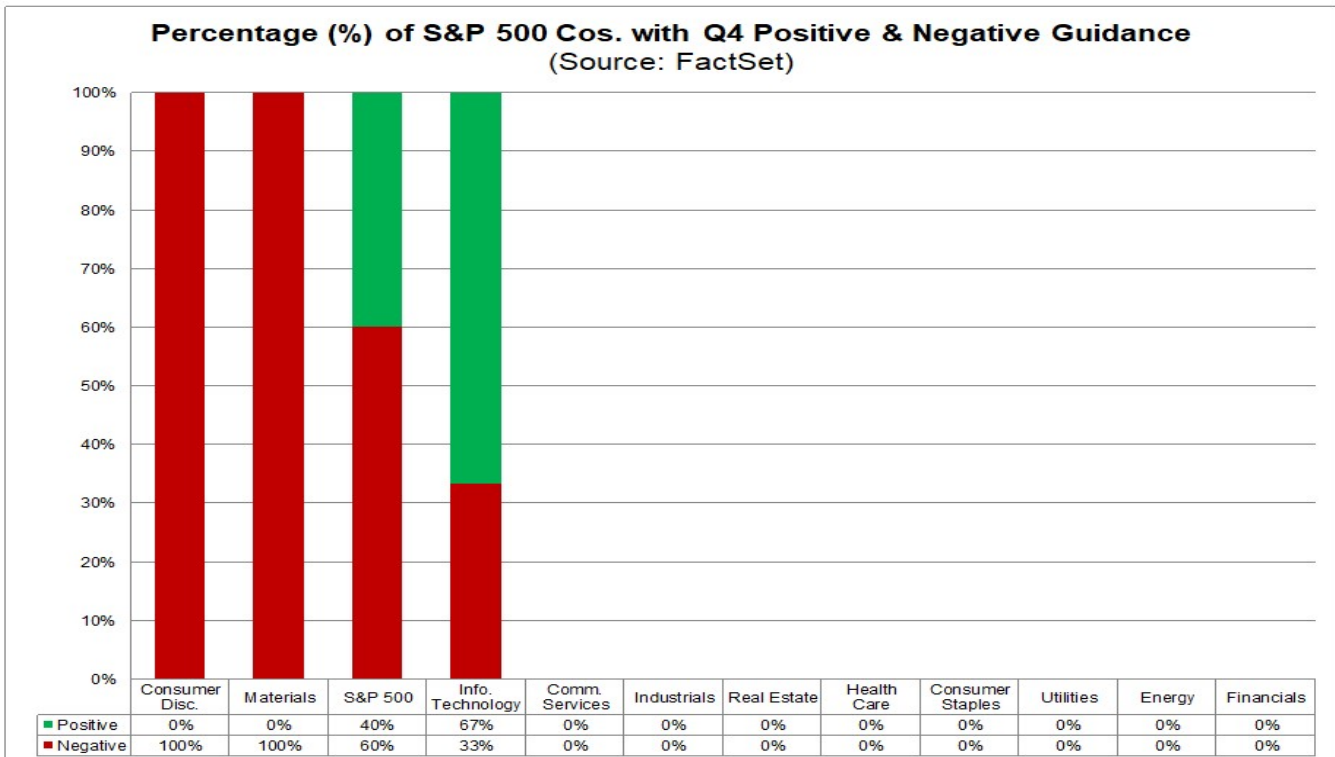
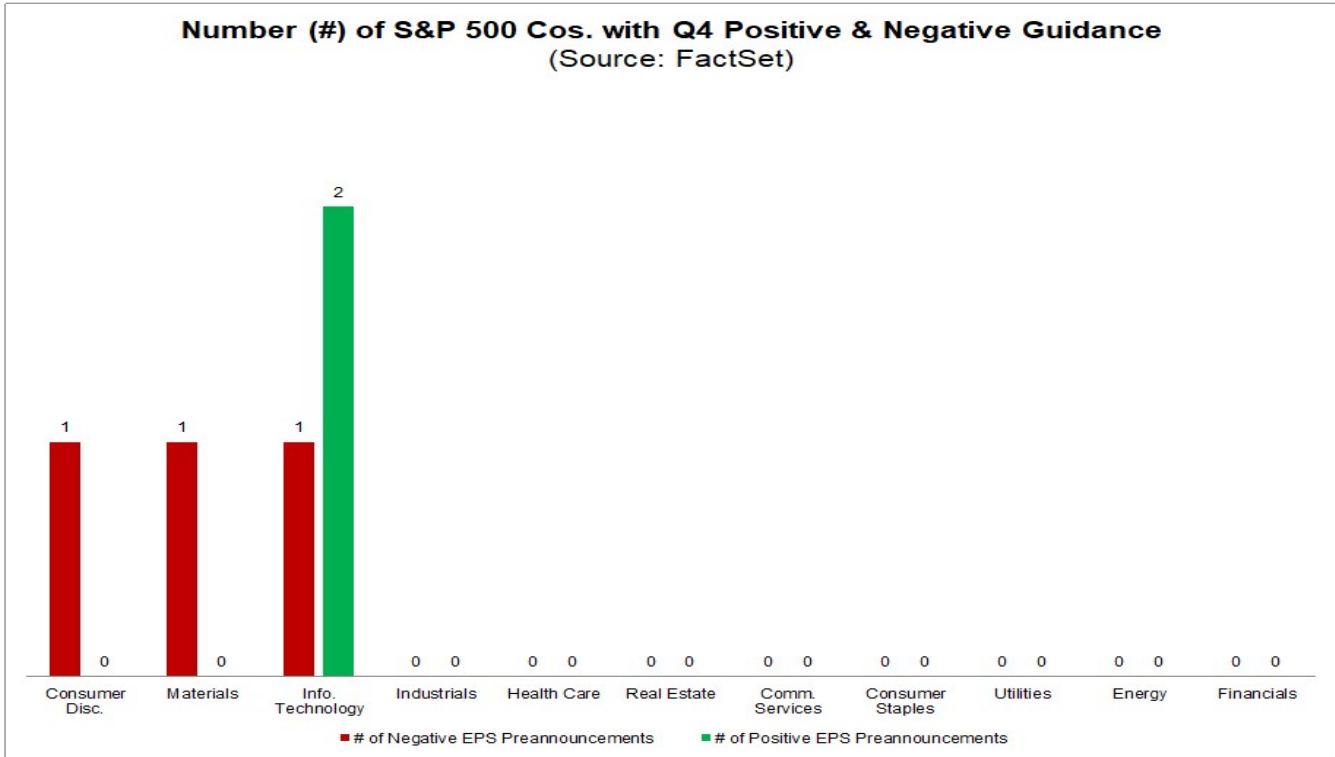
Q3 2021: Growth



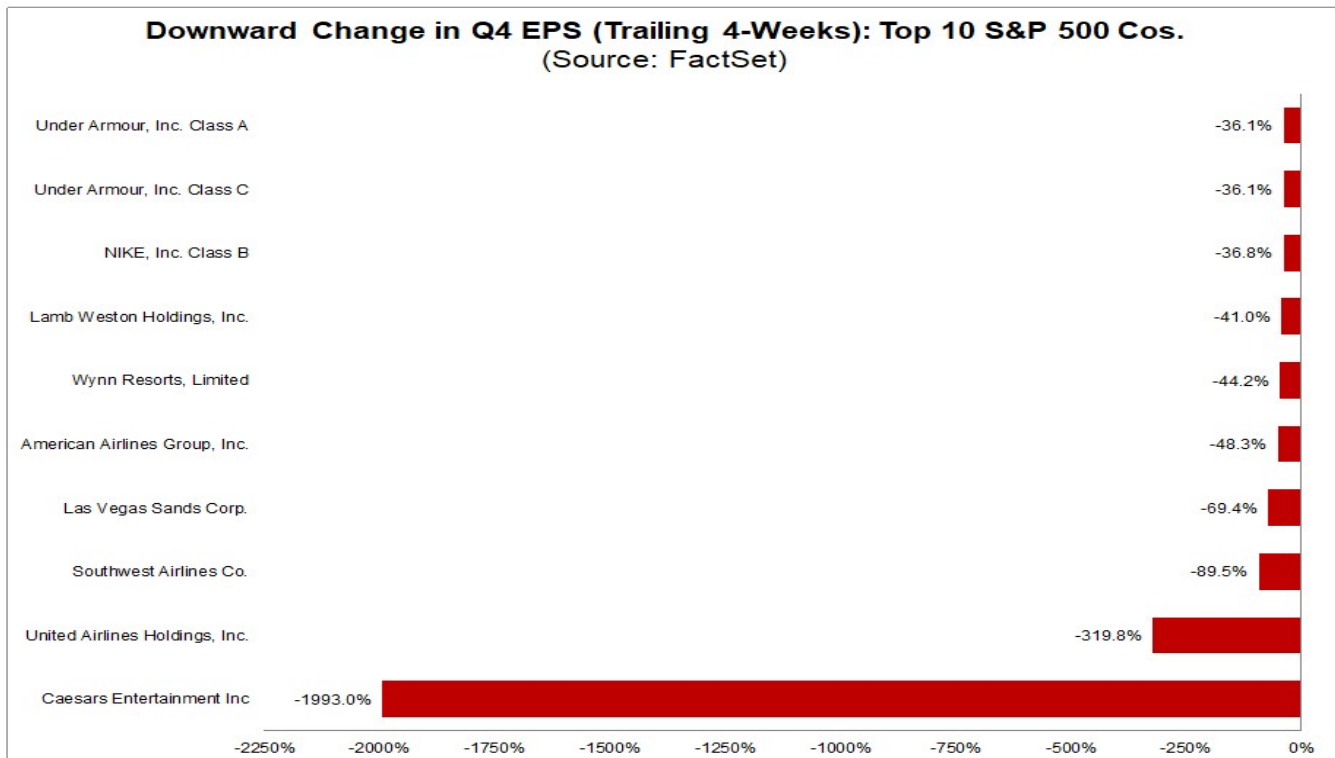
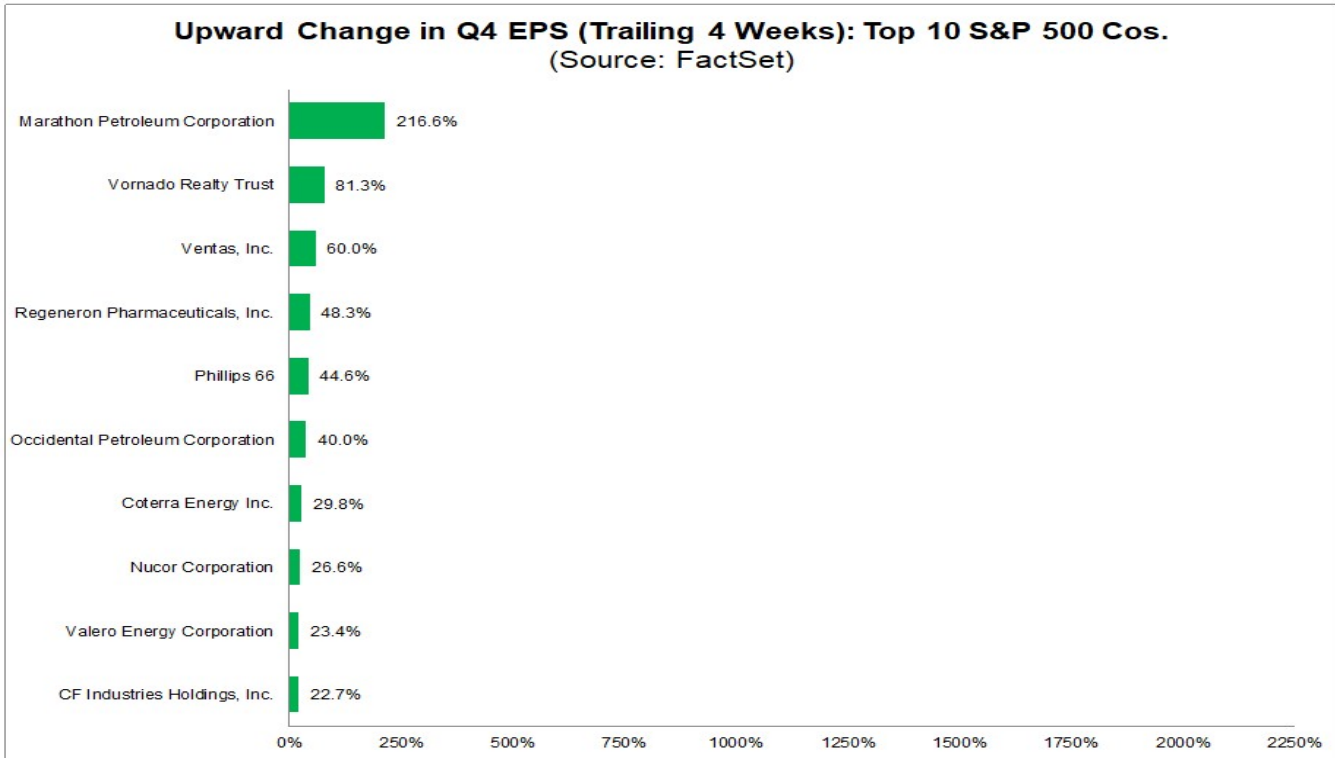
Q3 2021: Net Profit Margin



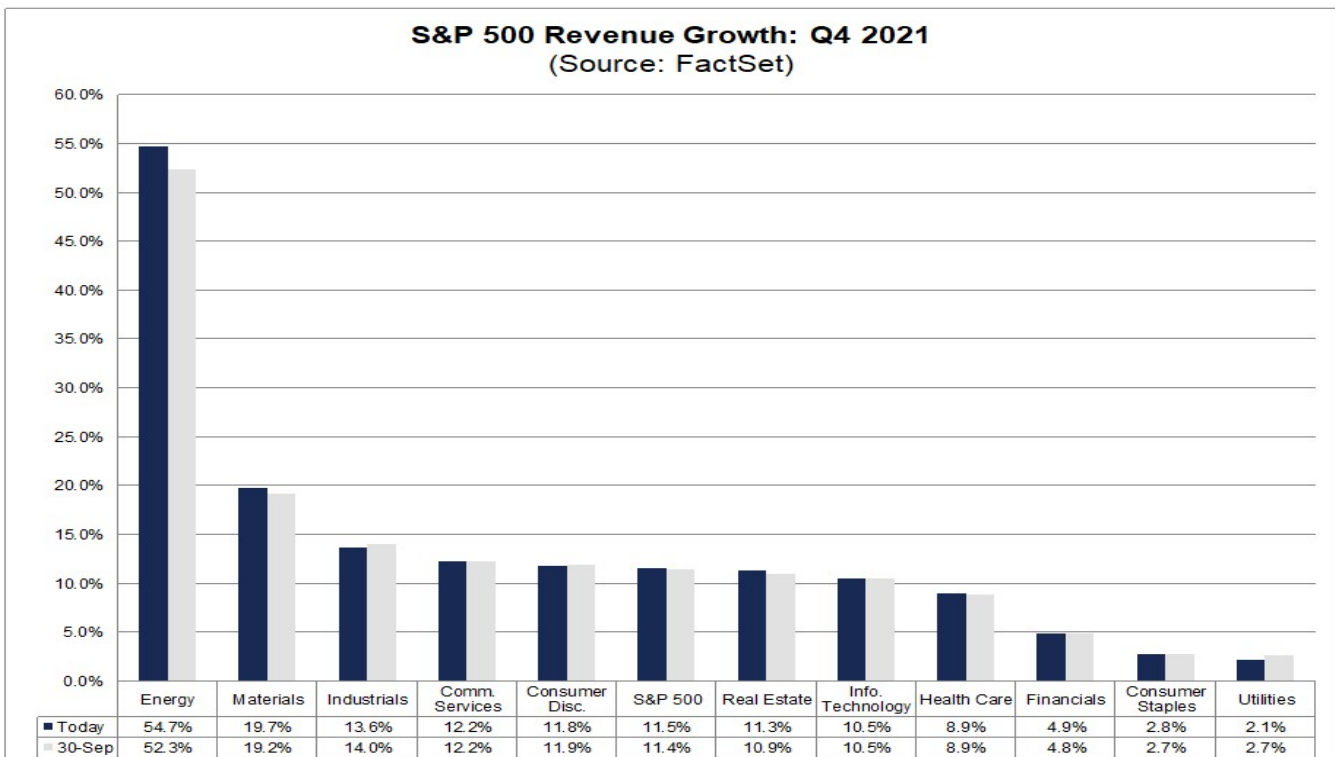
Q4 2021: EPS Guidance



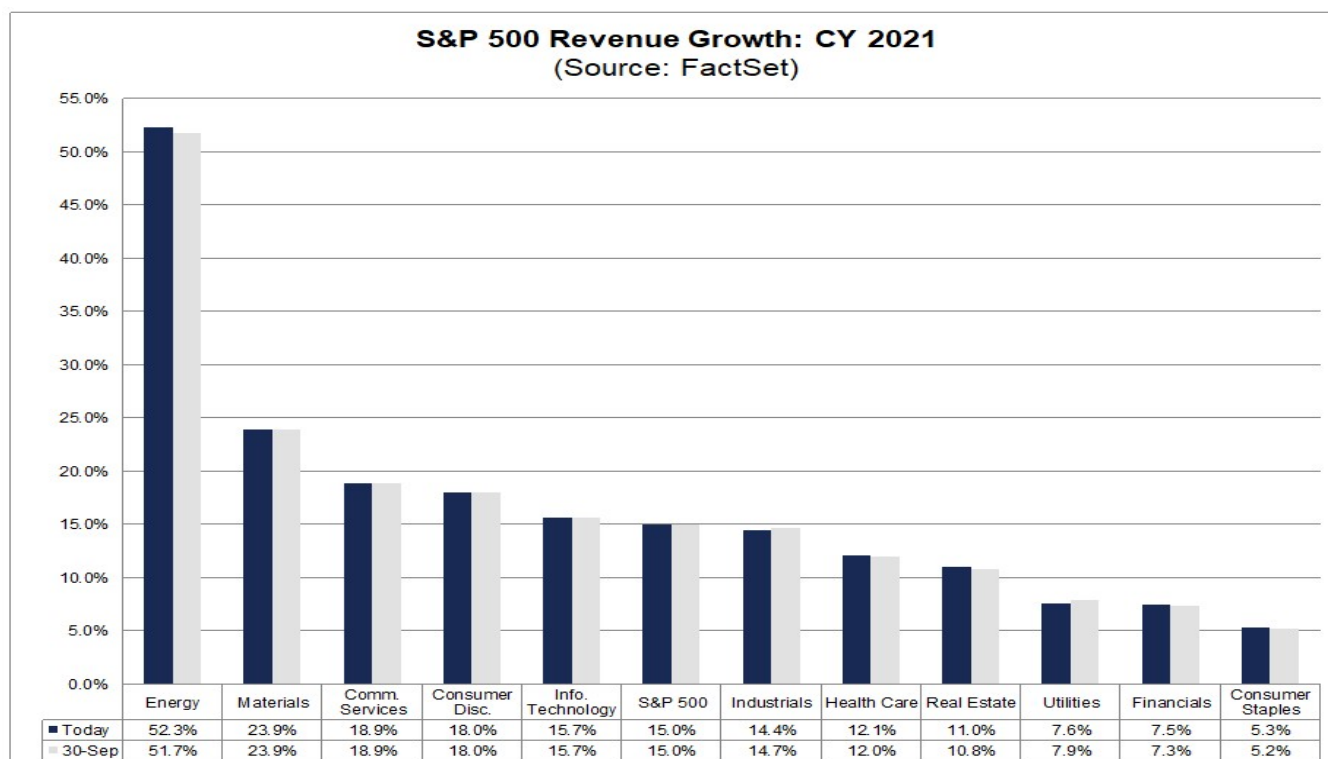
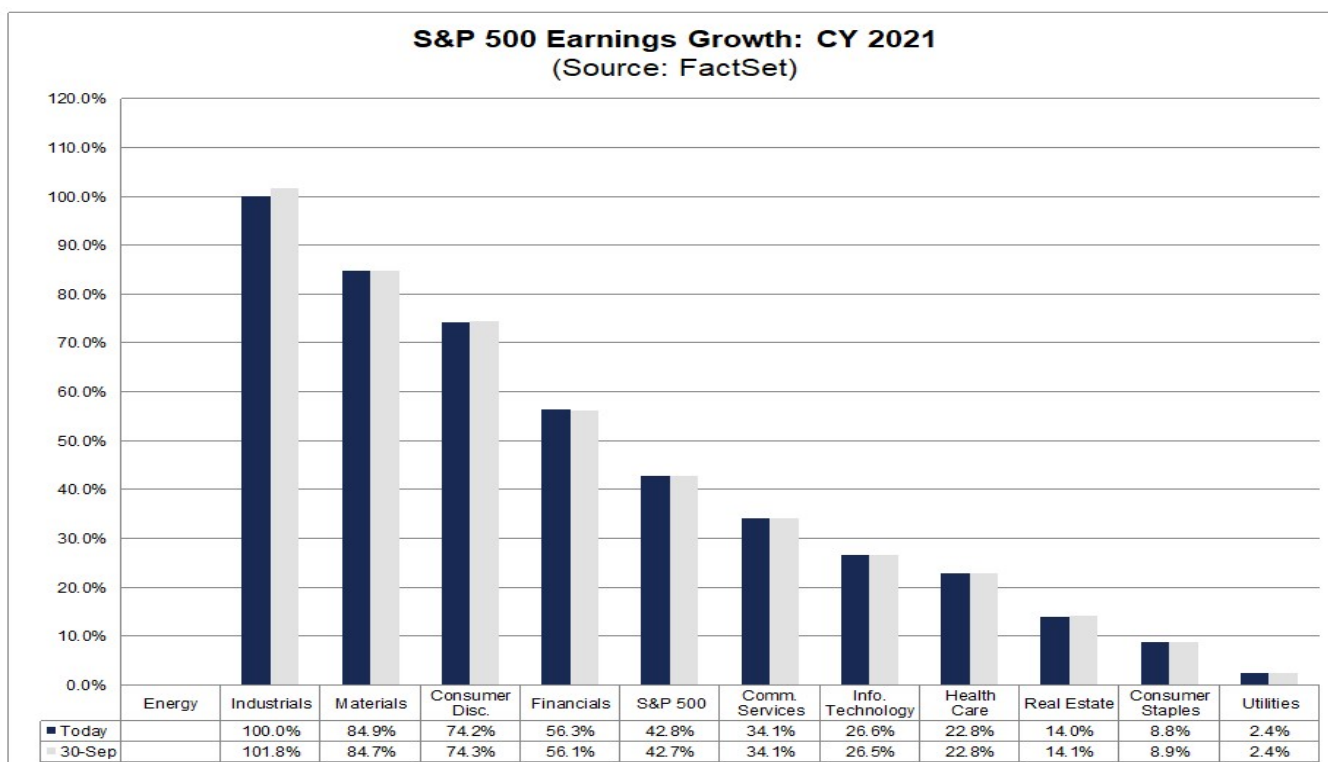
Q4 2021: EPS Revisions



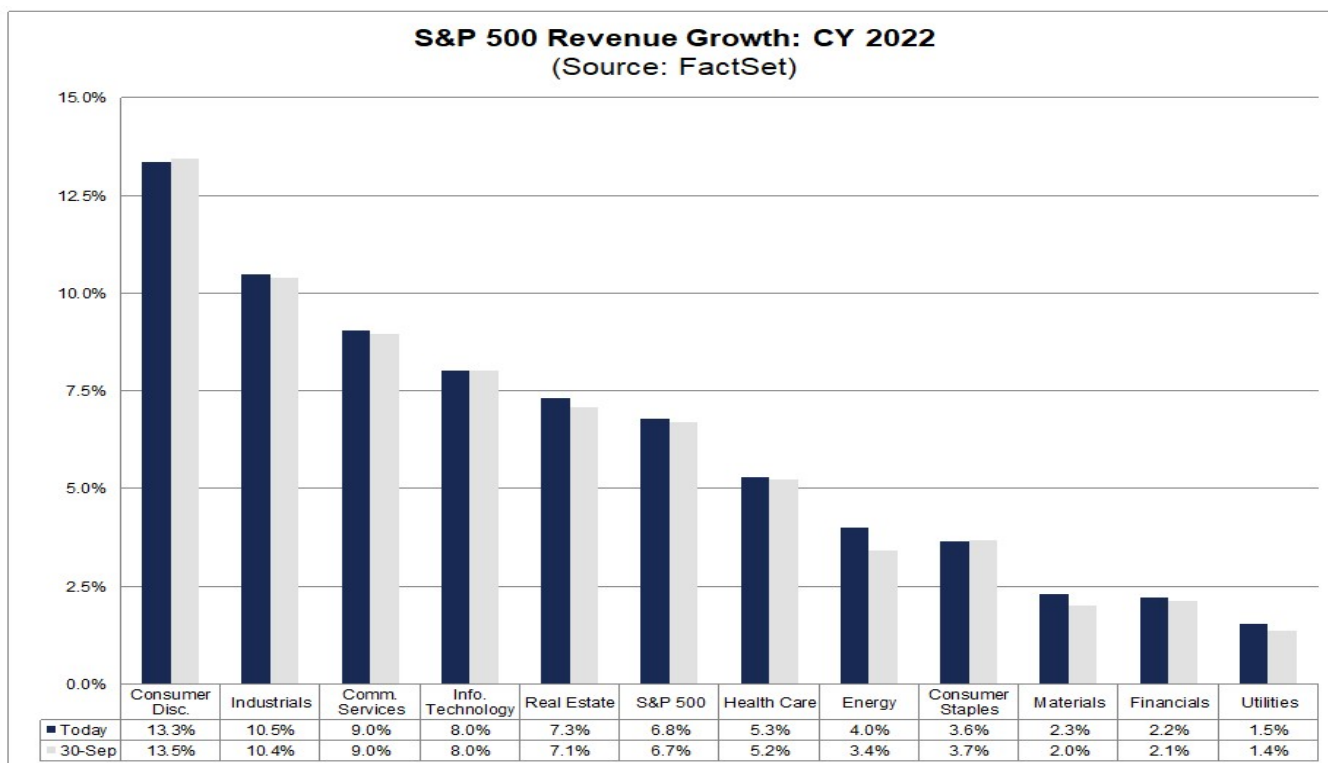
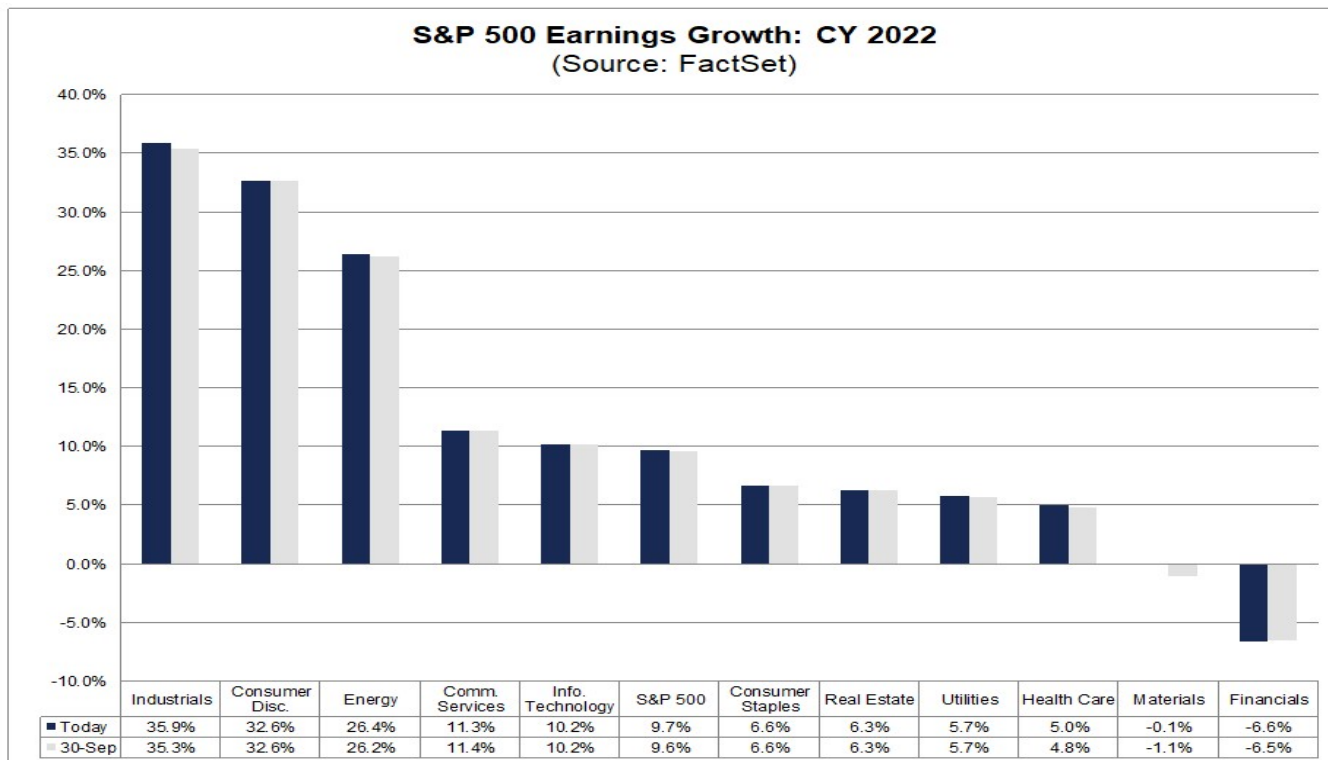
Q4 2021: Growth



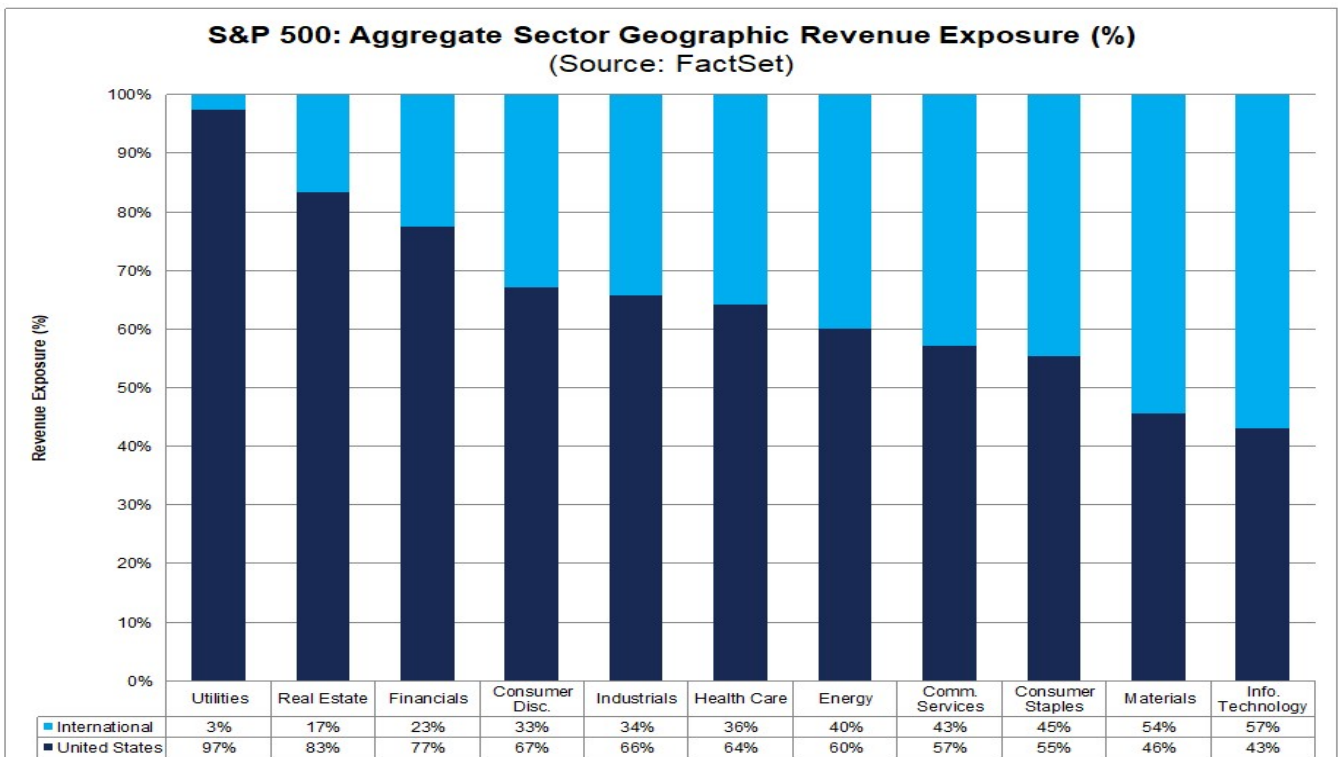
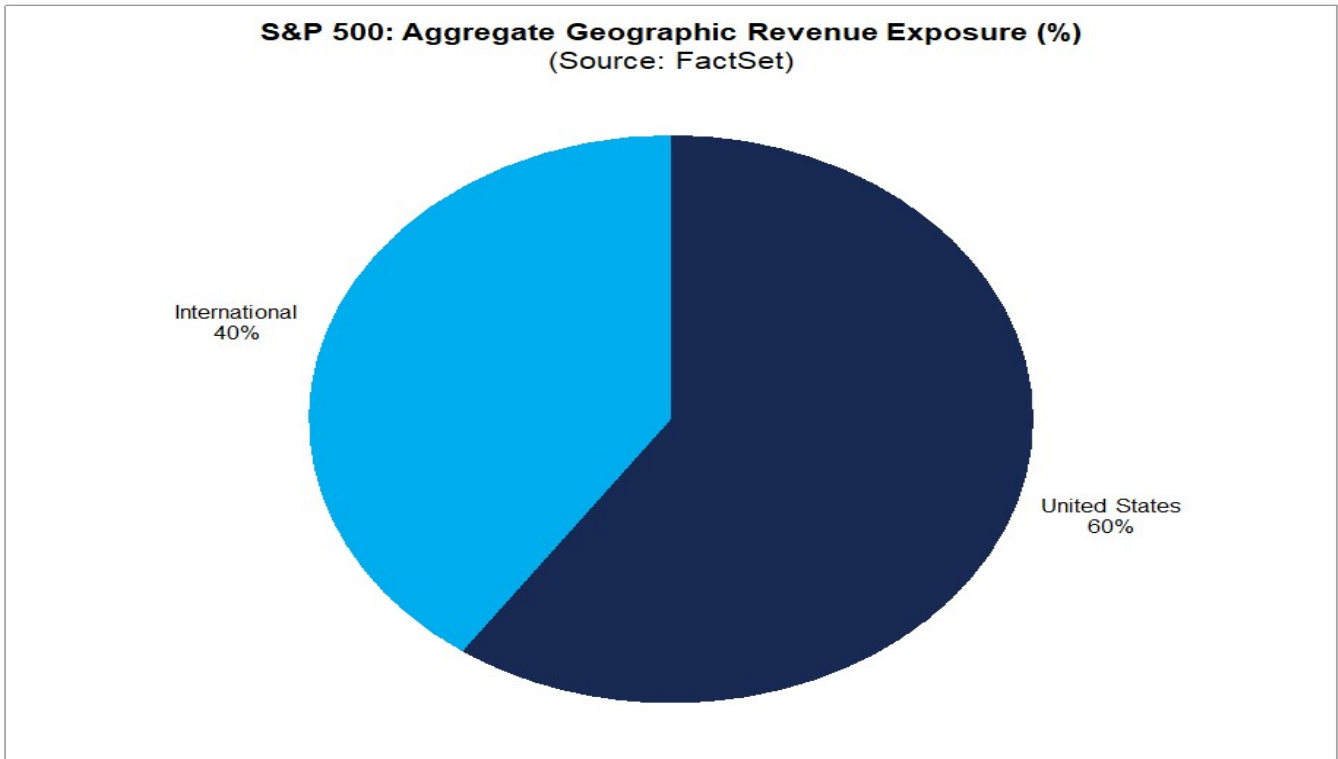
CY 2021: Growth



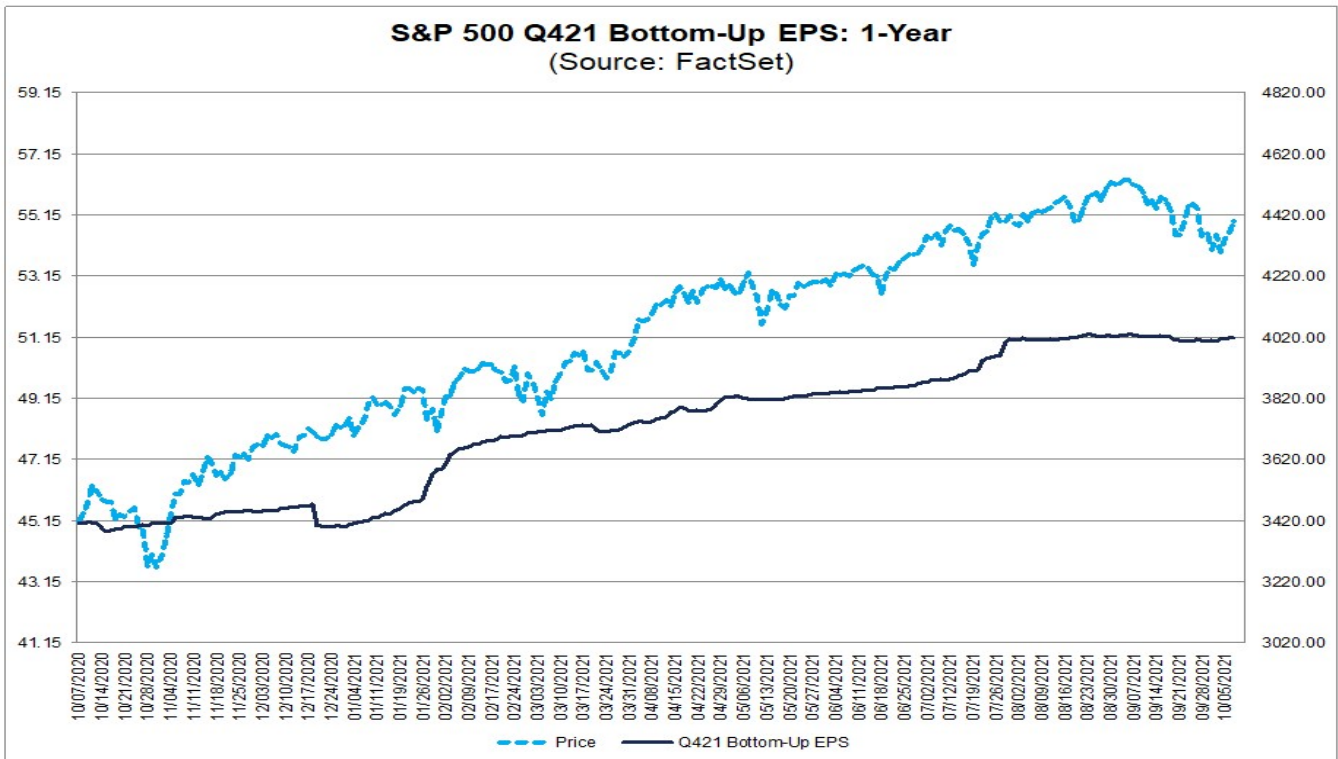
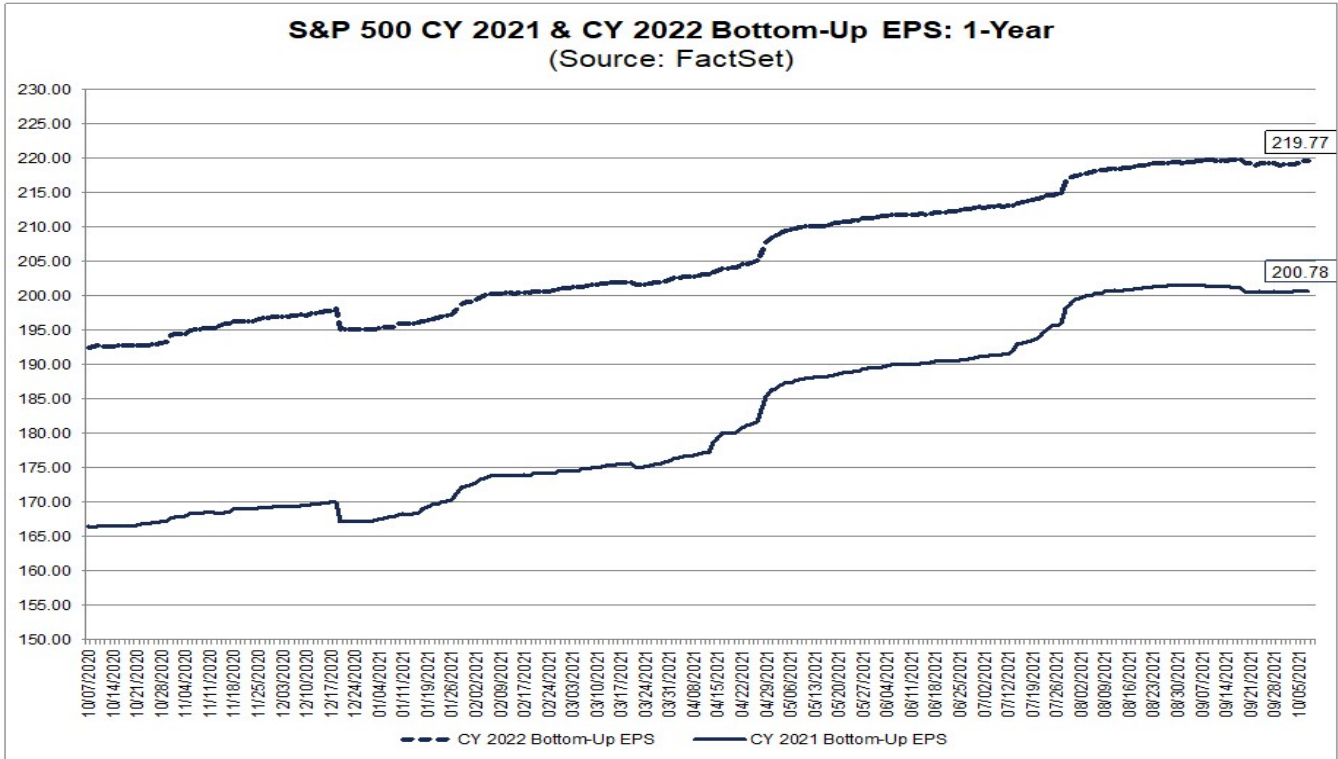
CY 2022: Growth



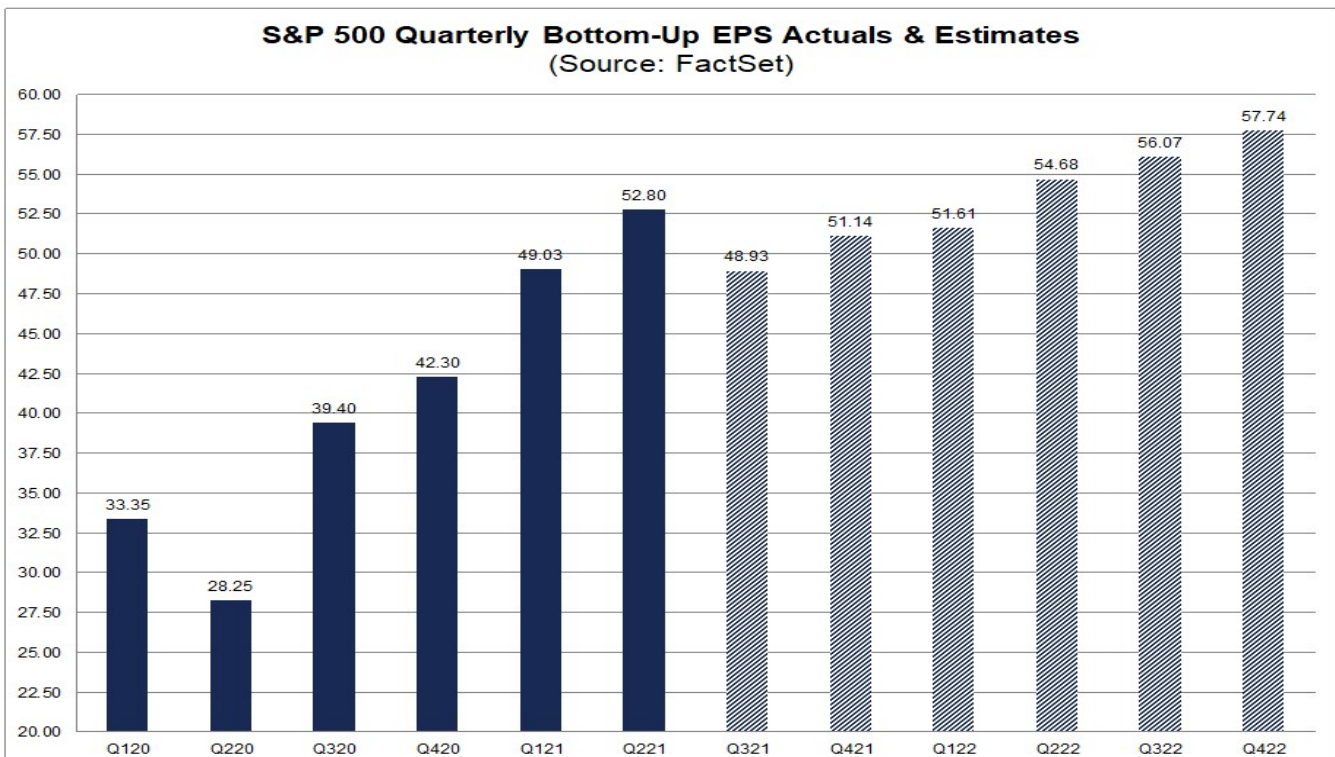
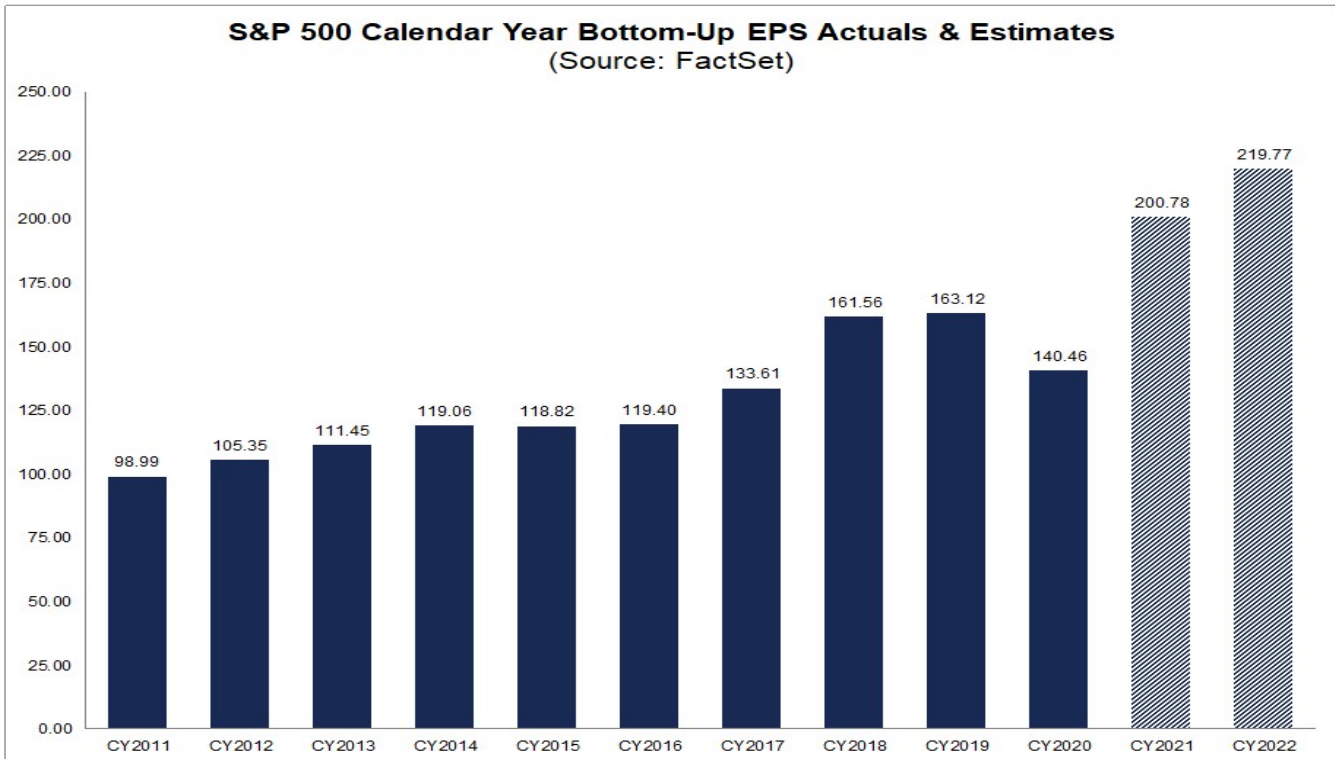
Geographic Revenue Exposure



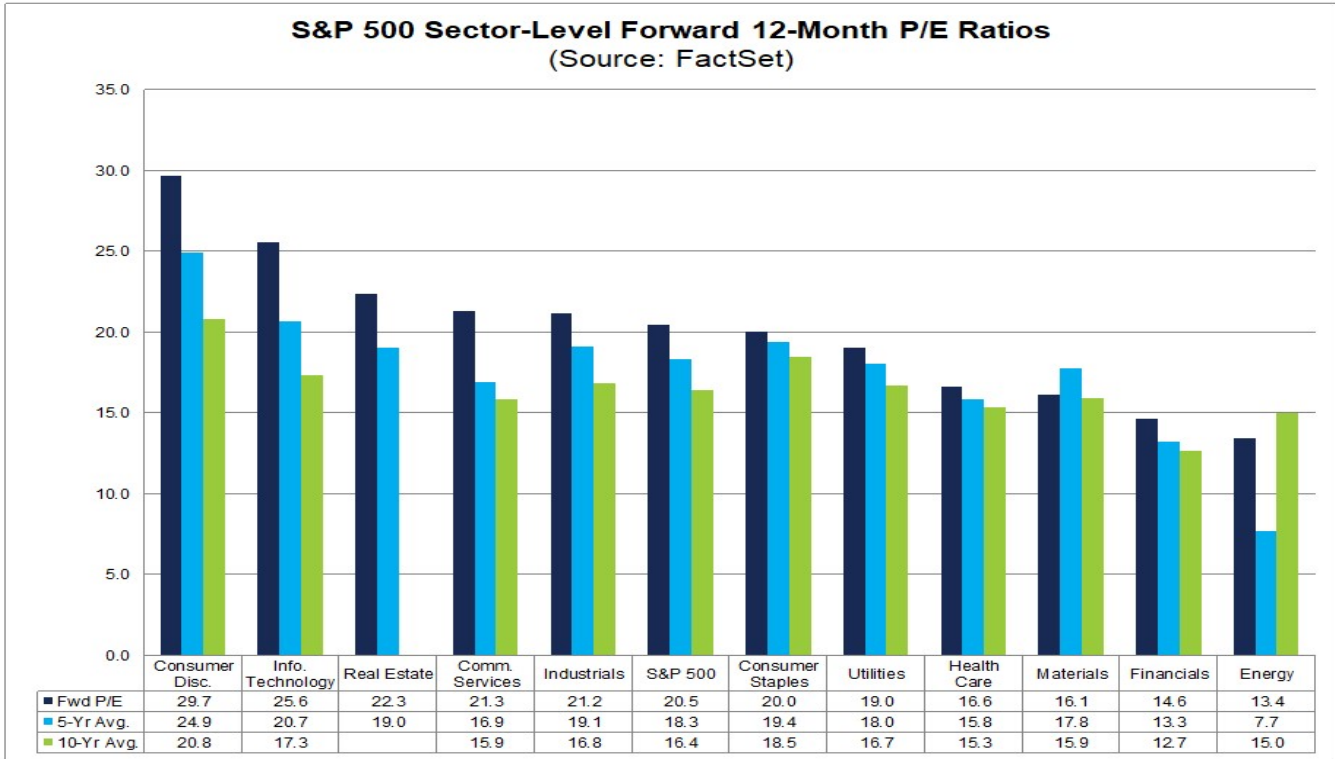
Bottom-up EPS Estimates: Revisions



Bottom-up EPS Estimates: Current & Historical

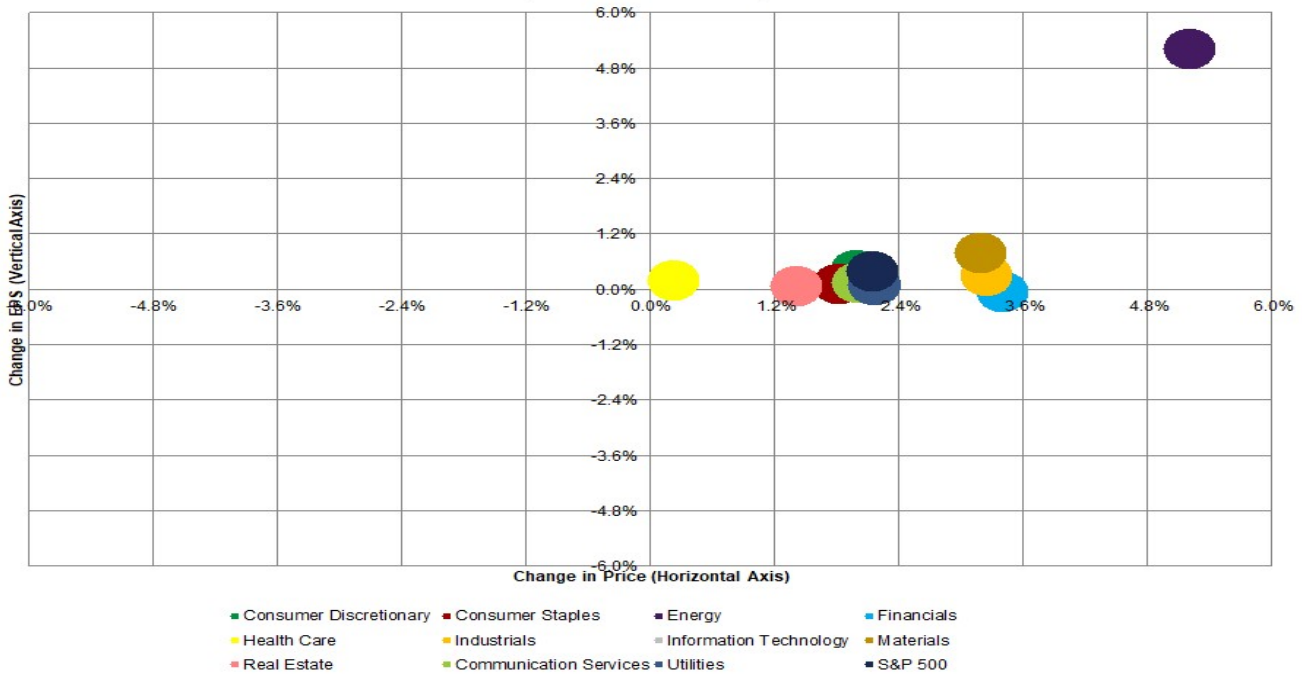


Forward 12M P/E Ratio: Sector Level

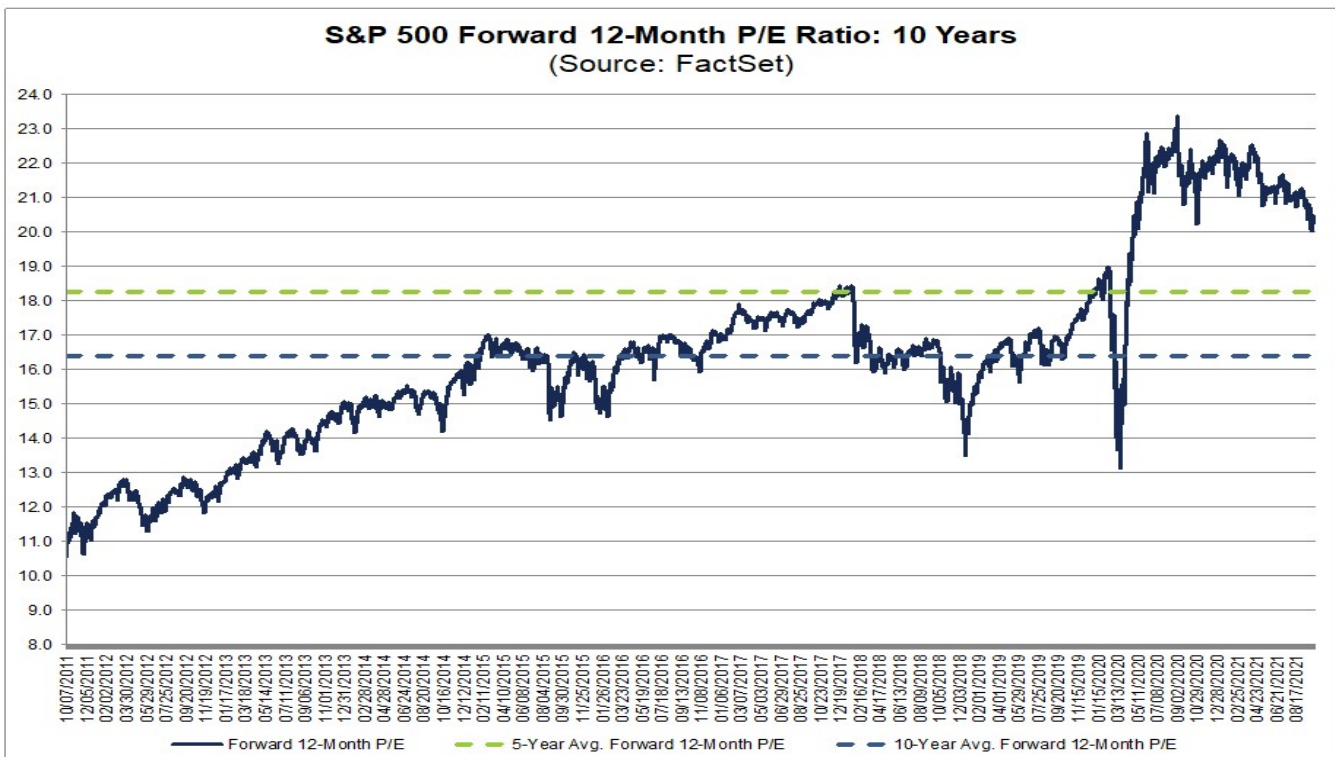
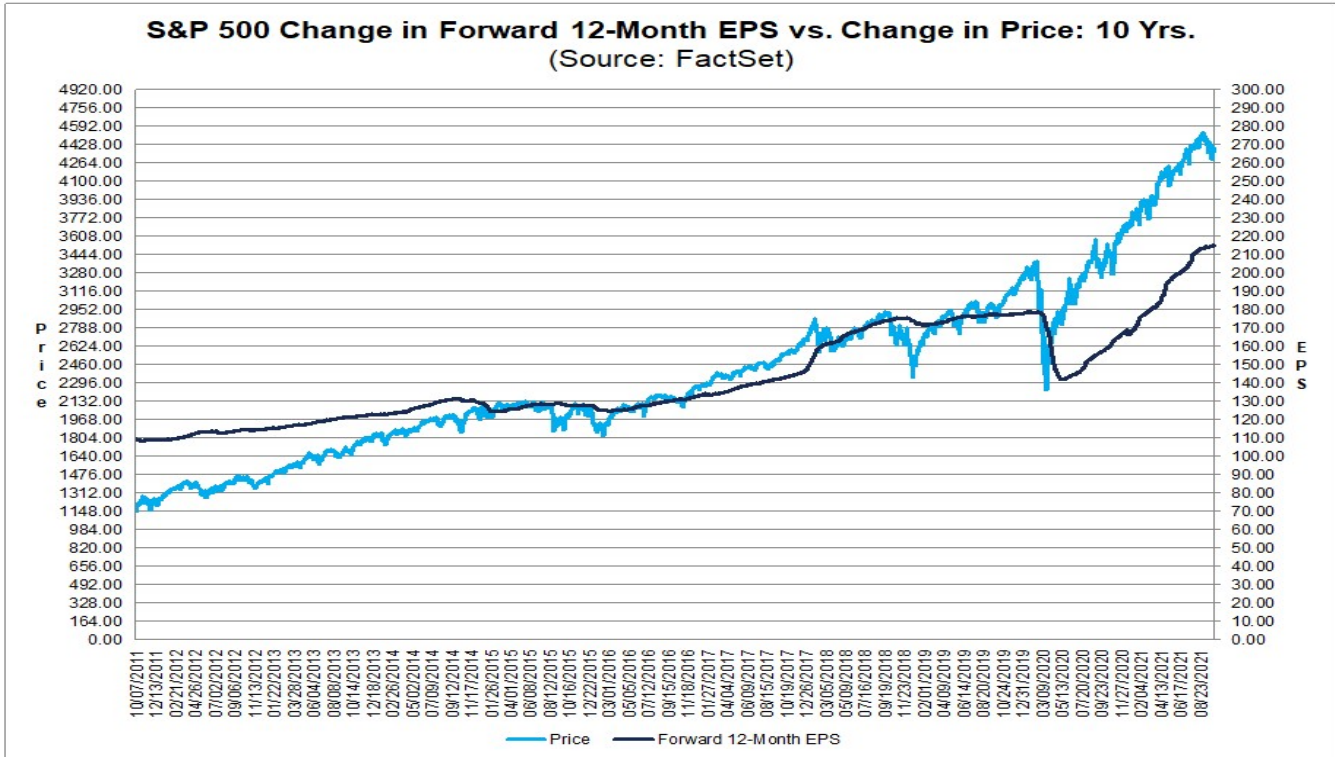


Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Sep. 30

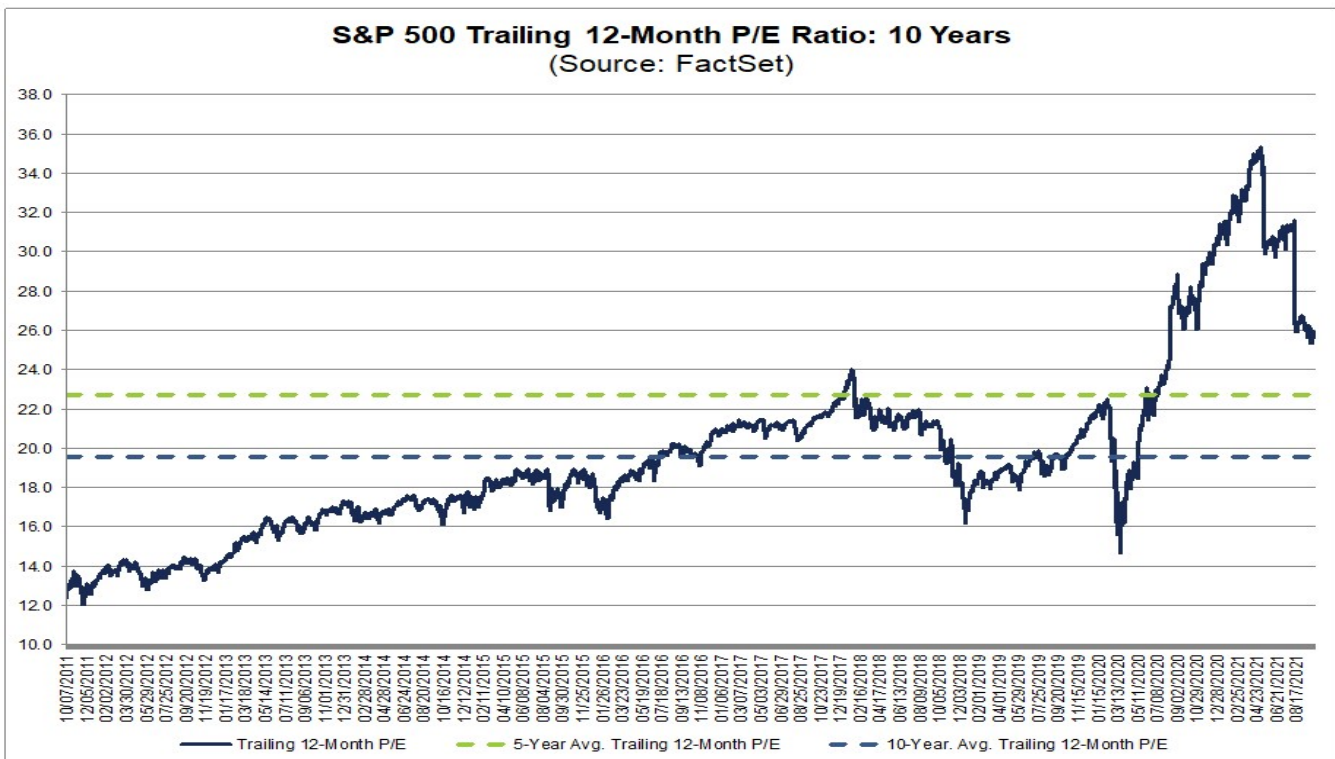
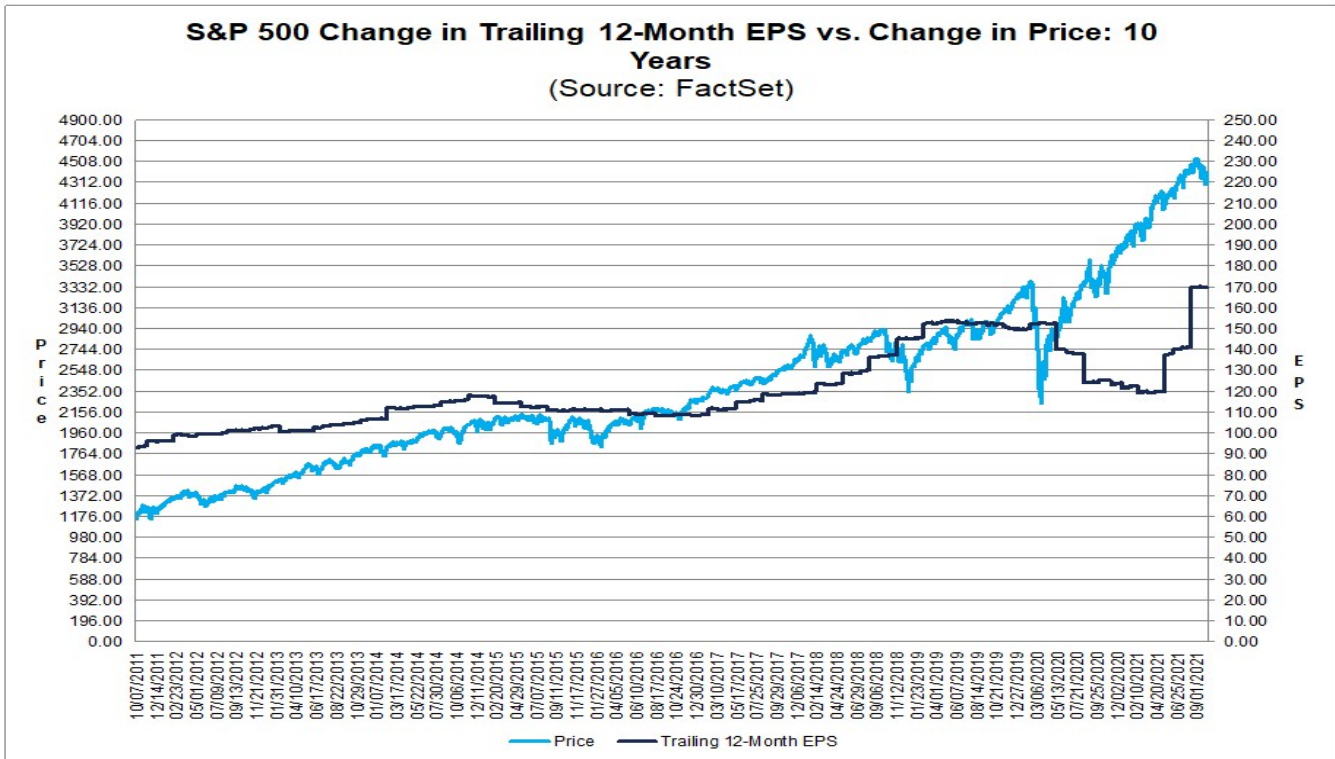
(Source: FactSet)



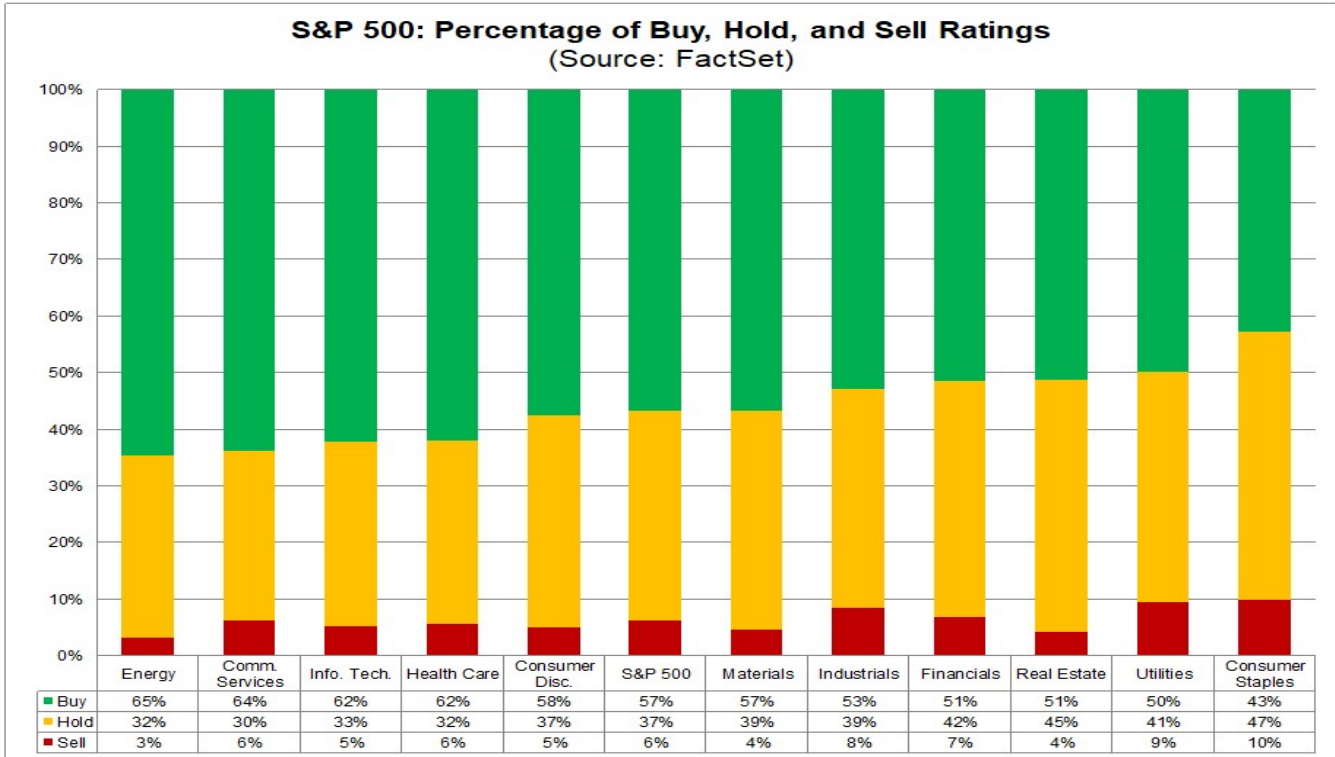
Forward 12M P/E Ratio: 10-Years



Trailing 12M P/E Ratio: 10-Years



Targets & Ratings



Appendix 1: Q3 Earnings Call Comments

Negative: Supply Chain Disruptions & Costs (15)

No, there are absolutely significant issues in getting products. We're running the lowest level of in stock that I can ever remember. It's 3% or 4% below where we normally run. It moves from one category to the other. This is the most difficult supply chain environment that I have ever seen. -AutoZone (Sep. 21)

While our outlook reflects more uncertainty moving forward, it represents adjusted year-over-year EPS growth ranging from approximately 9% to 15.5% following our record fiscal 2021. As you all know, we are navigating an inherently uncertain macro environment and managing several unknowns; the pace, shape and timing of global economic recovery given the dynamics of the pandemic, including the spread and response to new and existing COVID variants, the uneven nature of global government restrictions, disruptions to global supply chains and, of course, recovery in labor availability. -FedEx (Sep. 21)

"So, let me begin and start on our singular low note. As you saw in our press release, we missed the low end of our third quarter delivery guidance by 600 homes, delivering 15,199 homes. And while, at Lennar, we are certainly not immune to supply chain disruption, we are simply not used to missing either. While our entire team feels the pain of this miss, it is not for lack of effort or focus that we missed, but instead, a reflection of the current market conditions. The supply chain for both land and construction is significantly stressed, and that will continue into the fourth quarter and beyond." -Lennar (Sep. 21)

From a supply chain perspective, I want to go back to two things: supply chain and inflation. From a supply chain perspective, the factors pressuring supply chains and inflation include port delays, container shortages, COVID disruptions, shortages on various components, raw materials, and ingredients, labor cost pressures, and trucks and driver shortages. -Costco Wholesale (Sep.23)

During the quarter, we had to secure more product than usual on the spot market because our brands exceeded sales expectations and some of our suppliers experienced capacity challenges. Raj will share more details in a moment, but these higher sales volumes as well as freight costs have contributed to higher-than-expected inflation...Ensuring our restaurants are appropriately staffed and our supply chain continues to avoid significant disruptions will be the most important factors of our continued success in the short-term. -Darden Restaurants (Sep. 23)

On slide 26, we provided an update of a few key financial assumptions for fiscal 2022. On the cost side, Jeff mentioned that we expect input cost inflation and other supply chain costs will be more of a headwind in fiscal 2022 than compared to our initial outlook where we shared on our Q4 earnings call. -General Mills (Sep. 22)

Now I will turn to our financial outlook. Consumer demand for NIKE remains at an all-time high, and we are confident that our deep consumer connections and brand momentum will continue. However, we are not immune to the global supply chain headwinds that are challenging the manufacture and movement of product around the world. Previously, I had shared that we were planning for transit times to remain elevated for the balance of fiscal 2022. Unfortunately, the situation deteriorated even further in the first quarter with North America and EMEA seeing increases in transit times due primarily to port and rail congestion and labor shortages...We now expect fiscal 2022 revenue to grow mid-single-digits versus the prior year, versus our prior guidance of low-double-digit growth, due solely to the supply chain impacts that I just described. -NIKE (Sep. 23)

The Delta variant has also created some disruption in our supply chain, impacted the timing of opening for some destinations and created a heightened level of uncertainty that has been reflected in the broader travel sector and in our own booking trends. -Carnival (Sep. 24)

However, over the past two months, we have also seen the escalating supply chain crisis lead to further production cuts. And as a result of shortage of cars on dealer lots, we are seeing a temporary slowdown in sales of products that support OEM and dealer and sales and marketing. -IHS Markit (Sep. 28)

Obviously Q1, Q2 will likely have these cost headwinds as it relates to the pandemic and the supply challenges, so those things might impact us in the first couple quarters. But hopefully, over time that starts to go away and we'll start to see the benefit. -Micron Technology (Sep. 28)

We, along with our peers and customers, are also facing additional pressure in our supply chain due to strained transportation capacity and labor shortages in distribution. These pressures not only impact costs, but also negatively impact sales, as the addition to further supply chain complexity makes it harder to get orders shipped and receive for customers. And this pressure is amplified by continued elevated demand. -McCormick & Company (Sep. 30)

Our core gross profit increased 9 percent, while our core operating profit increased 6 percent and reflected the impacts of supply chain disruptions, as well as the adverse effects of inflationary pressures within the labor, transportation, and commodity markets. -PepsiCo (Oct. 5)

The short-term supply disruption to our imported Beer Business does nothing to dampen our long-term prospects, as we expect to return to more normal inventory levels by the end of Q4 and we're on track to deliver a better-than-expected year for our Beer Business. -Constellation Brands (Oct. 6)

First, as we've already mentioned, consumer demand has remained at higher levels than we expected due to macro forces, as well as the unique position of our portfolio. This is a great problem to have, but it increases the demands on our supply chain at a time when the industry is navigating labor shortages, material supply issues and transportation cost and congestion challenges. Taken together, these factors created an upper control limit on the amount of product we could produce and ship in Q1. If we had the capacity to meet all of the demand, our numbers would likely have been even more impressive. -Conagra Brands (Oct. 7)

Gross profit in the quarter declined \$63 million, as the benefit of higher sales was more than offset by higher manufacturing and transportation costs on a per pound basis...The increase in cost per pound, primarily related to three factors...The third factor driving the increase in cost per pound was lower production run rates and throughput at our plants from lost production days and unplanned downtime. This resulted in incremental costs and inefficiencies. Some of this is attributable to ongoing upstream supply chain disruptions including the timely delivery of key inputs and other vendor supplied materials and services. However most of the impact on runrates was attributable to volatile labor availability and shortages across our manufacturing network. -Lamb Weston (Oct. 7)

Negative: Labor Costs & Shortages (14)

But what I will tell you is, for the last four years, I've been talking about we've been operating in the toughest labor end market I've ever seen and our wage inflation has been significant. It has basically doubled the wage inflation during this period of time. It is very, very difficult to get new AutoZoners to join the company. I hear that from all of our retail peers. -AutoZone (Sep. 21)

The impact of constrained labor markets remains the biggest issue facing our business as with many other companies around the world and was a key driver of our lower-than-expected results in the first quarter. As Mike will share in more detail momentarily, we estimate that the impact of labor shortages on our quarterly results was approximately \$450 million, primarily at FedEx Ground. Labor shortages have had two distinct impacts on our business. The competition for talent, particularly for our frontline workers have driven wage rates higher and pay premiums higher. While wage rates are higher, the more significant impact is the widespread inefficiencies in our operation from constrained labor markets. -FedEx (Sep. 21)

In various other product categories, cost increases have been pushed in the second and third quarters as a result of supply chain disruptions and labor shortages. These increases will flow through closing starting Q1 of 2022, but will be offset by the reduction in lumber costs, resulting in a net reduction in costs by Q2. -Lennar (Sep. 21)

To add to the challenge, industry-wide shortages in the labor market, in particular in North America, are impacting not only our manufacturing facilities and distribution network, but also raw material supply and external production capacity. As a result, we're facing service challenges and elevated costs. -General Mills (Sep. 22)

From a people perspective, the employment environment is challenging. That's why our top priority during the quarter was staffing our restaurants...The biggest operational challenge we've been dealing with is the temporary exclusion of team members identified through contact tracing. Given our commitment to health and safety, we are diligent about exclusions, but they create sudden staffing disruptions for our operators. Despite being appropriately staffed in the majority of our restaurants, these exclusions reduced the number of available team members with little notice for our operators to prepare. This volatility can negatively impact sales in these restaurants for the duration of the exclusion period. -Darden Restaurants (Sep. 23)

Moving to inflation, again there have been and are a variety of inflationary pressures that we and others are seeing, and more of it. As I discussed on last quarter's call, inflationary factors abound, higher labor costs, higher freight costs, higher transportation demand, along with container shortages and port delays, increased demand in certain product categories, various shortages of everything from computer chips to oils and chemicals, higher commodities prices, it's a lot of fun right now. -Costco Wholesale (Sep. 23)

Now I will turn to our financial outlook. Consumer demand for NIKE remains at an all-time high, and we are confident that our deep consumer connections and brand momentum will continue. However, we are not immune to the global supply chain headwinds that are challenging the manufacture and movement of product around the world. Previously, I had shared that we were planning for transit times to remain elevated for the balance of fiscal 2022. Unfortunately, the situation deteriorated even further in the first quarter with North America and EMEA seeing increases in transit times due primarily to port and rail congestion and labor shortages...We now expect fiscal 2022 revenue to grow mid-single-digits versus the prior year, versus our prior guidance of low-double-digit growth, due solely to the supply chain impacts that I just described. -NIKE (Sep. 23)

Yeah, Andy, first off, you can't open up a newspaper without hearing about wages and pressure in the market on labor. So, we are certainly not immune from that nor are our customers. And so, we are battling it every single day in staffing at levels that we feel very good about in our business. -Cintas (Sep. 29)

In addition to the inventory headwind, we were understaffed and we still are understaffed, but not to the degree – we were understaffed pretty much across the board. And that's important not only because it hinders our ability to hit our SLAs but in some cases, we just weren't able to get back with customers, which is never a good thing. And so, we're working on that. -CarMax (Sep. 30)

We, along with our peers and customers, are also facing additional pressure in our supply chain due to strained transportation capacity and labor shortages in distribution. These pressures not only impact costs, but also negatively impact sales, as the addition to further supply chain complexity makes it harder to get orders shipped and receive for customers. And this pressure is amplified by continued elevated demand. -McCormick & Company (Sep. 30)

Our core gross profit increased 9 percent, while our core operating profit increased 6 percent and reflected the impacts of supply chain disruptions, as well as the adverse effects of inflationary pressures within the labor, transportation, and commodity markets. -PepsiCo (Oct. 5)

Moving on to Beer margins, Beer operating margin decreased 530 basis points versus prior year to 37.2%. Benefits from favorable pricing, mix and foreign currency were more than offset by unfavorable COGS, increased marketing investments and higher SG&A. The increase in COGS was driven by several headwinds that include the following...Second, increased brewery costs driven by labor inflation in Mexico, increased head count and incremental spend related to capacity expansion. -Constellation Brands (Oct. 6)

First, as we've already mentioned, consumer demand has remained at higher levels than we expected due to macro forces, as well as the unique position of our portfolio. This is a great problem to have, but it increases the demands on our supply chain at a time when the industry is navigating labor shortages, material supply issues and transportation cost and congestion challenges. Taken together, these factors created an upper control limit on the amount of product we could produce and ship in Q1. If we had the capacity to meet all of the demand, our numbers would likely have been even more impressive. -Conagra Brands (Oct. 7)

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Negative: COVID Costs & Impacts (11)

Consistent with the first quarter, we also expect headwinds in Q2 to be driven by our expansion at Ground, higher healthcare expenses, COVID-related air network inefficiencies at Express and the benefit in the prior year of reduced aviation excise taxes. -FedEx (Sep. 21)

Similar to the supply chain delays experienced by our homebuilding operations, the land issues are not caused by any operational failures but instead by various external forces. The impacts of COVID, from quarantine of sick workers to the necessary workplace modifications to ensure compliance with safety protocols, had severely hampered many municipalities ability to timely process approvals and conduct inspections. Likewise, the active tropical basin this year caused not only site-specific land development delays, but added to the logistical supply chain challenges that already existed, primarily associated with PVC, drainage structures and valves. The snowball effect of these delays, combined with the shortage of crews due to COVID quarantines, really slowed down the process. While these challenges persist, we are proactively managing these challenges. With all this in mind, we now expect to end the year with a 7% increase in community count versus the 10% we targeted at the beginning of the year. While we are disappointed with these delays, we know this is just a timing thing and that these communities will come online. -Lennar (Sep. 21)

Given the uncertainty in the demand environment caused by the evolving state of the virus, we have not made meaningful adjustments to our original net sales outlook for the remainder of the year. -General Mills (Sep. 22)

From a supply chain perspective, I want to go back to two things: supply chain and inflation. From a supply chain perspective, the factors pressuring supply chains and inflation include port delays, container shortages, COVID disruptions, shortages on various components, raw materials, and ingredients, labor cost pressures, and trucks and driver shortages. -Costco Wholesale (Sep.23)

Our first quarter sales trends started strong, as momentum carried over from the fourth quarter, and they further strengthened and peaked in July. However, in August, sales slowed due to the impact of the Delta variant, but remain positive relative to pre-COVID levels. -Darden Restaurants (Sep. 23)

Retail sales were impacted in late July and August due to regional closures and lower levels of foot traffic due to COVID containment. Prior to late July, physical traffic had been approaching prior-year levels. -NIKE (Sep. 23)

We were clearly among the most impacted companies by COVID-19, and I'm very proud of all we've accomplished collectively to sustain our organization through these challenging times, including all we did for our loyal guests, all we did for our other many stakeholders, and all we did for each other within our Carnival family. -Carnival (Sep. 24)

And on the gross margin side, our outlook is similar to how we viewed FQ4. While we will benefit from our node transitions on both DRAM and NAND, we will continue to see near-term headwinds from COVID-related expenses in assembly and packaging. As a result, we expect the gross margins in FQ1 to be largely a function of the mix. -Micron Technology (Sep. 28)

Guidance assumes an uneven economic recovery caused by the surging COVID-19 Delta variant. -Cintas (Sep. 29)

Our guidance range for adjusted earnings per share in 2021 is now \$2.97 to \$3.02. This compares to \$2.83 of adjusted earnings per share in 2020 and represents 8% to 10% growth in constant currency from our strong base business and acquisition performance, partially offset by the impacts related to COVID-19 costs, our incremental ERP investment and the tax headwind. -McCormick & Company (Sep. 30)

Overall restaurant traffic has largely stabilized at about 5% below pre-pandemic levels led by the continued solid performance at quick service restaurants. Traffic at full service restaurants continued to rebound in June and July, but it did soften a bit in August as a Delta variant surged across most of the country. -Lamb Weston (Oct. 7)

Negative: Transportation & Freight Costs (11)

We believe both numbers will be higher in the first quarter as cost increases in many merchandise categories work their way through the system. We can see low single-digit inflation in retails, as rising raw material, labor and transportation costs are impacting us and our suppliers. We have no way to say how long it will last, but our industry has been disciplined about pricing for decades. -AutoZone (Sep. 21)

We now expect total input cost inflation in fiscal 2022 will be roughly 7% to 8%, up from our prior estimate of 7%, driven by volatile weather, supply and demand imbalances, and constrained transportation and labor markets. -General Mills (Sep. 22)

In terms of transportation costs, they're increasing. We're reading about it every day. Containers, trucks and drivers all are impacting the timing of deliveries and higher freight costs. -Costco Wholesale (Sep. 23)

During the quarter, we had to secure more product than usual on the spot market because our brands exceeded sales expectations and some of our suppliers experienced capacity challenges. Raj will share more details in a moment, but these higher sales volumes as well as freight costs have contributed to higher-than-expected inflation. -Darden Restaurants (Sep. 23)

Turning to the rest of the P&L, we still expect gross margin to expand 125 basis points versus the prior year, at the low end of our prior guidance, reflecting stronger than expected full price realization, the ongoing shift to our more profitable NIKE Direct business, and price increases in the second half. This more than offsets roughly 100 basis points of additional transportation, logistics, and air freight costs to move inventory in this dynamic environment. -NIKE (Sep. 23)

We are seeing inflationary signs including higher cost of freight, energy, wages, and supplies. -Cintas (Sep. 29)

In the last few months, inflation has continued to ratchet up, mainly with packaging and transportation costs. We're experiencing the highest inflationary period of the last decade or even two. -McCormick & Company (Sep. 30)

Our core gross profit increased 9 percent, while our core operating profit increased 6 percent and reflected the impacts of supply chain disruptions, as well as the adverse effects of inflationary pressures within the labor, transportation, and commodity markets. -PepsiCo (Oct. 5)

Moving on to Wine and Spirits margins, operating margin decreased 620 basis points to 19.7% as mix benefits from the existing portfolio and divestitures combined with favorable price were more than offset by increased marketing and SG&A spend, higher COGS and margin-dilutive smoke tainted bulk wine sales. Higher COGS were driven by unfavorable fixed cost absorption and increased transportation costs. -Constellation Brands (Oct. 6)

We are also seeing increasing costs in transportation given marketplace dynamics. -Conagra Brands (Oct. 7)

Gross profit in the quarter declined \$63 million, as the benefit of higher sales was more than offset by higher manufacturing and transportation costs on a per pound basis...The increase in cost per pound, primarily related to three factors...Second, our transportation costs increased due to rising freight rates as global logistics networks continue to struggle. Our costs also rose due to an unfavorable mix of higher costs trucking versus rail as we took extraordinary steps to deliver products to our customers. Together inflation for commodity inputs and transportation accounted for approximately three quarters of the increase in our cost per pound. -Lamb Weston (Oct. 7)

Negative: Raw Material & Input Costs (10)

We believe both numbers will be higher in the first quarter as cost increases in many merchandise categories work their way through the system. We can see low single-digit inflation in retails, as rising raw material, labor and transportation costs are impacting us and our suppliers. We have no way to say how long it will last, but our industry has been disciplined about pricing for decades. -AutoZone (Sep. 21)

The construction cost impacts in our third quarter closings were primarily from the lumber increases taken earlier in the year that are now impacting cost as homes close. In the third quarter, costs were up \$5.40 per square foot over the third quarter last year, and lumber accounted for about 95% of that increase. We will see increased cost for lumber although at lower level in Q4 and Q1, with lumber cost reductions thereafter. -Lennar (Sep. 21)

We, like the rest of the industry, are facing rising input cost inflation globally. Our North American market basket has reached its highest point in recent history and we're seeing significant inflationary pressures across our international markets as well. -General Mills (Sep. 22)

Moving to inflation, again there have been and are a variety of inflationary pressures that we and others are seeing, and more of it. As I discussed on last quarter's call, inflationary factors abound, higher labor costs, higher freight costs, higher transportation demand, along with container shortages and port delays, increased demand in certain product categories, various shortages of everything from computer chips to oils and chemicals, higher commodities prices, it's a lot of fun right now. -Costco Wholesale (Sep. 23)

We had strong performance this quarter despite increased inflationary pressures, with EBITDA of \$370 million and EBITDA margin of 16%, 250 basis points higher than pre-COVID. Our sales results were better than expected, requiring us to go out and purchase more products on the spot market. In particular, proteins, as our LongHorn and Fine Dining segments, had the largest sales outperformance versus our expectations. The market for proteins this quarter was very strong with spot premiums as high as 30% above our contracted rates. This resulted in higher average cost per pound for our proteins, contributing to total commodities inflation for the quarter of approximately 5.5%. -Darden Restaurants (Sep. 23)

And I'll just add to that that the cost increases that we're talking about are – these are not things that are unique to McCormick at all. The biggest increases have been on package materials and on transportation costs, followed by raw material and labor. And I'd say that we look a lot like everybody else in that regard. -McCormick & Company (Sep. 30)

Our core gross profit increased 9 percent, while our core operating profit increased 6 percent and reflected the impacts of supply chain disruptions, as well as the adverse effects of inflationary pressures within the labor, transportation, and commodity markets. -PepsiCo (Oct. 5)

Moving on to Beer margins, Beer operating margin decreased 530 basis points versus prior year to 37.2%. Benefits from favorable pricing, mix and foreign currency were more than offset by unfavorable COGS, increased marketing investments and higher SG&A. The increase in COGS was driven by several headwinds that include the following...And finally, as expected, increased material costs predominantly driven by increased commodity prices and inflationary headwinds on pallets, cartons and aluminum. -Constellation Brands (Oct. 6)

As we have already detailed today, we continue to experience cost of goods sold inflation at a level that is both significant and in excess of the level projected at the time of our Q4 fiscal 2021 earnings call. We now expect gross cost of goods sold inflation to be approximately 11% for fiscal 2022. We previously expected gross inflation of approximately 9%. This heightened inflationary pressure is coming from increases across many inputs, particularly proteins, edible fats and oils, grains and metal-based packaging. -Conagra Brands (Oct. 7)

Gross profit in the quarter declined \$63 million, as the benefit of higher sales was more than offset by higher manufacturing and transportation costs on a per pound basis...The increase in cost per pound, primarily related to three factors. First, we incurred double digit cost inflation for key commodity inputs, most notably edible oils which has more than doubled versus the prior year quarter. Other inputs that saw significant inflation include ingredients such as wheat and starches used to make batter and other coatings and containerboard and plastic film for packaging. Higher labor costs were also a factor as we incurred more expense from increased unplanned overtime. -Lamb Weston (Oct. 7)

Positive: Foreign Exchange (10)

Let me now turn to my guidance for Q2, and I'll review this on a non-GAAP basis assuming currency exchange rates remain the same as they are now, currency should have a very minor positive effect on total revenue and EPS in Q2. -Oracle (Sep. 13)

From a quarter-over-quarter currency perspective, the impact of FX net of accounting for hedging activities caused a sequential currency increase to revenue of \$10 million. From a year-over-year currency perspective, the impact of FX net of accounting for hedging activities caused a currency increase to revenue of \$80 million. -Adobe (Sep. 21)

Foreign exchange was a 1 point benefit in the quarter. -General Mills (Sep. 22)

Turning now to revenues, revenues for the quarter were \$13.4 billion, a 24% increase in US dollars and 21% in local currency, slightly above our FX-adjusted range as the FX tailwind was 3% compared to the 4% estimated last quarter...Now let me turn to our business outlook. For the first quarter fiscal 2022, we expect revenues to be in the range of \$13.9 billion to \$14.35 billion. This assumes the impact of FX will be about positive 0.5% compared to the first quarter of fiscal 2021 and reflects an estimated 18% to 22% growth in local currency. -Accenture (Sep. 23)

In terms of Q4 comp sales metrics, traffic or shopping frequency increased 9.2% worldwide and 8.8% in the US. Our average transaction or basket was up 5.8% worldwide and 5.6% in the US during the fourth quarter. Those numbers including the positive impact from gas, inflation and FX. Foreign currencies relative to the US dollar positively impacted sales by approximately 230 basis points, whereas gasoline price inflation positively impacted sales by approximately 385 basis points. -Costco Wholesale (Sep. 23)

Turning to the rest of the P&L, we still expect gross margin to expand 125 basis points versus the prior year, at the low end of our prior guidance, reflecting stronger than expected full price realization, the ongoing shift to our more profitable NIKE Direct business, and price increases in the second half. This more than offsets roughly 100 basis points of additional transportation, logistics, and air freight costs to move inventory in this dynamic environment. We also expect a lower foreign exchange benefit, now estimated to be a tailwind of roughly 60 basis points. -NIKE (Sep. 23)

For 2021, we are projecting top line and earnings growth from our strong base business and acquisition contribution, with earnings growth partially offset by incremental COVID-19 costs and ERP investment, as well as a higher projected adjusted effective tax rate. We continue to expect an estimated 3 percentage points favorable impact of currency rates on sales. And for the adjusted operating income and adjusted earnings per share, a 2 percentage point favorable impact of currency rates. -McCormick & Company (Sep. 30)

Based on current market consensus rates, we continue to expect foreign exchange translation to benefit our reported net revenue and core earnings per share performance by 1 percentage point. -PepsiCo (Oct. 5)

Moving on to Beer margins, Beer operating margin decreased 530 basis points versus prior year to 37.2%. Benefits from favorable pricing, mix and foreign currency were more than offset by unfavorable COGS, increased marketing investments and higher SG&A. The increase in COGS was driven by several headwinds that include the following. -Constellation Brands (Oct. 6)

Divestitures resulted in a 110 basis point decline in net sales during the quarter, and foreign exchange provided a 50 basis point benefit. Together, these factors drove a 1% decline in total Conagra net sales for the quarter compared to a year ago. -Conagra Brands (Oct. 7)

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