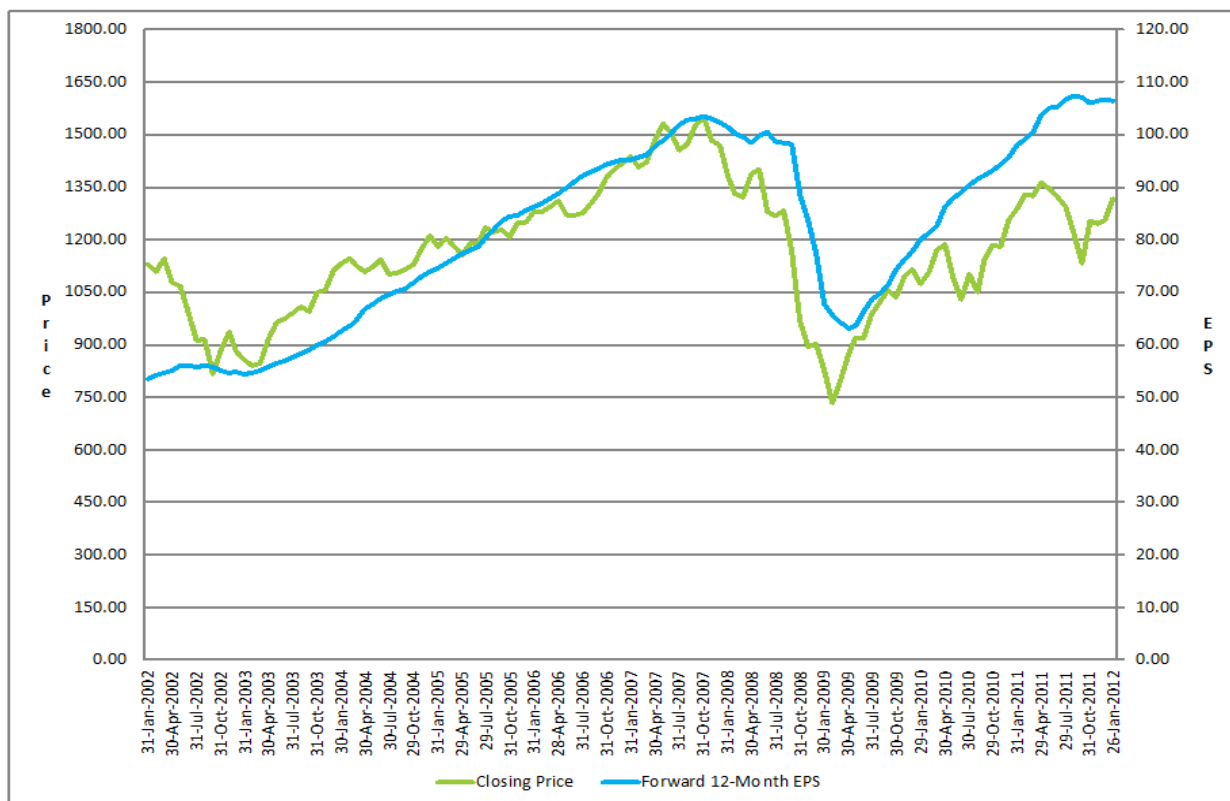


Key Metrics

- + **Earnings Scorecard:** Of the 172 companies that have reported earnings for Q4 2011 to date, 65% have reported earnings above the mean estimate.
- + **Earnings Growth:** The blended earnings growth rate for Q4 2011 is 11.5%. The Financials (60.4%), Information Technology (11.9%) and Industrials (10.6%) sectors have the highest growth rates for the quarter.
- + **Earnings Revisions:** The Q4 2011 earnings growth rate of 11.5% is equal to the earnings growth rate on December 31 (11.5%). The Information Technology and Industrials sectors have seen the largest increases in earnings growth rates during this time, while the Telecom Services, Energy, and Financials sectors have recorded the largest declines in earnings growth during this time.
- + **Valuation:** The current 12-Month forward P/E ratio is 12.4. This P/E ratio is below the average forward 12-Month P/E ratio over the past 10 years (14.7).

S&P 500 Forward 12-Month EPS vs. Price: 10-Year



All data published in this report is available on FactSet. Please contact media_request@factset.com or 1-877-FACTSET for more information.

Topic of the Week:

The Apple of the Eye of the Information Technology Sector

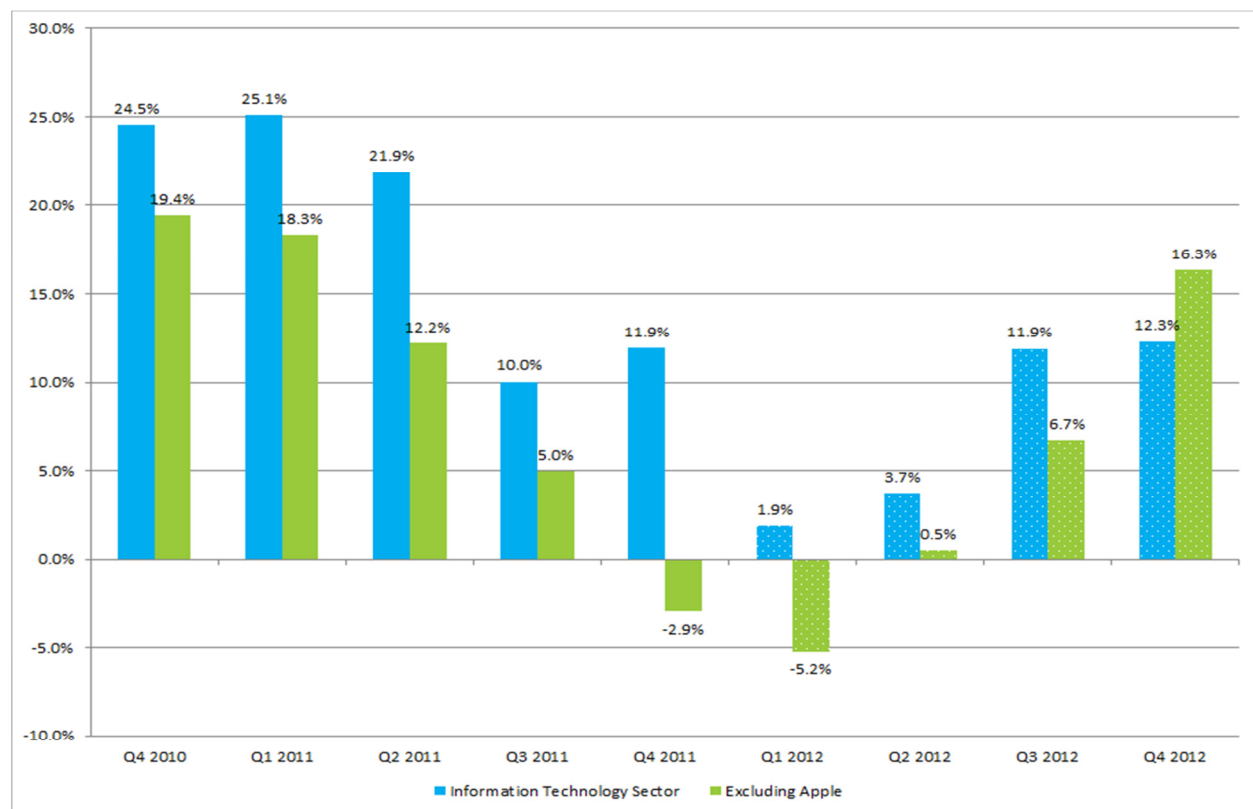
This past Tuesday, Apple reported EPS and revenues that were significantly above analyst expectations and year-ago results. The company reported EPS for Q4 2011 of \$13.87, which was 116% above year-ago actual EPS (\$6.43) and 36.5% above the mean EPS estimate (\$10.16). The company reported revenue of \$46.3 billion, which was 73.3% above year-ago actual revenue (\$26.7 billion) and 18.4% above the mean revenue estimate (\$39.1 billion).

Based on these results, the earnings growth rate of the Information Technology sector improved over the past week to 11.9% today from 3.9% last Friday.

Thus, it should come as no surprise that Apple is the largest contributor to earnings growth to the Information Technology sector for Q4 2011. Excluding Apple, the earnings growth rate for the sector would fall to -2.9% from 11.9%.

In fact, Apple's contribution to earnings growth for the Information Technology sector has expanded over the past few quarters and is expected to continue through the first three quarters of 2012. However, based on current estimates from analysts, Apple is expected to be a drag on earnings growth for the sector by Q4 2012.

S&P 500 Information Technology Earnings Growth Rates



Q4 2011 Earnings Season: Overview

Increase in Earnings Growth Rate This Week Mainly Due to Apple's Upside Surprise

The blended (combines actual results for companies that have reported and estimates for companies yet to report) earnings growth rate for the fourth quarter increased to 11.5% this week from 9.4% last week. Upside earnings surprises from companies in the Information Technology and Industrials sectors were responsible for the jump in the growth rate. However, the large earnings surprise from Apple was the main driver of the rise in the growth rate this week.

In the Industrial sector, companies such as Boeing (\$1.84 vs. \$1.00), Caterpillar (\$2.32 vs. \$1.76), and Raytheon (\$1.58 vs. \$1.34) reported large upside surprises relative to estimates. Overall, the blended earnings growth rate for the sector nearly doubled from 5.4% to 10.6% during the week.

In the Information Technology sector, companies such as Apple (\$13.87 vs. \$10.16) and Western Digital (\$1.51 vs. \$0.65) reported actual earnings substantially above the mean estimate. The blended earnings growth rate for the Information Technology sector improved to 11.9% from 3.9% over this time.

However, Apple was the key driver of the increase in the earnings growth rate for the entire S&P 500 this past week. If Apple had reported EPS that was simply equal to the mean estimate, the blended earnings growth rate for the S&P 500 would have only improved to 9.8% (instead of 11.5%) during the week.

Slightly Fewer Companies (65%) Than Average Have Beat EPS Estimates To Date

Despite the jump in the earnings growth rate this week, slightly fewer companies overall are reporting actual EPS above the mean EPS estimate relative to recent quarters.

Of the 172 companies that have reported earnings to date, 65% have reported actual EPS above estimates and 35% have reported actual EPS below estimates. Over the past four quarters, 73% of companies have reported actual EPS above estimates, on average.

Five of the ten sectors have seen less than 60% of companies report actual earnings above estimates to date, led by the Telecommunications Services (0%), Financials (48%), and Consumer Staples (50%) sectors.

Overall S&P 500 Earnings Growth is 11.5%, But Drops to 1.0% excluding AIG & Apple

The blended (combines actual results for companies that have reported and estimates for companies yet to report) earnings growth rate for the fourth quarter currently stands at 11.5%. If the final earnings growth rate is 11.5%, it will mark the ninth consecutive quarter of double-digit earnings growth for the index.

Eight of the ten sectors are reporting earnings growth for the quarter, led by the Financials (60.4%), Information Technology (11.9%), and Industrials (10.6%) sectors.

However, it is important to note that two companies in the index are responsible for nearly all of the earnings growth in the S&P 500 for Q4 2011: AIG and Apple

If AIG and Apple are excluded from the index, the blended earnings growth rate for the S&P 500 would drop to 1.0% from 11.5%.

For AIG, comparisons to weak year-ago earnings are driving the unusually high dollar-level growth. The current mean EPS estimate for AIG for Q4 2011 is \$0.60, relative to actual EPS of -\$16.20 reported for Q4 2010. In Q4 2010, the company recorded \$4.2 billion net charge to strengthen Chartis loss reserves, which accounted for much of the loss for the quarter.

On the other hand, Apple reported substantial growth in revenue and earnings for Q4 2011. On the earnings side, the company reported EPS for Q4 2011 of \$13.87, which was 116% above year-ago actual EPS (\$6.43). On the sales side, the company reported revenue of \$46.3 billion, which was 73.3% above year-ago actual revenue (\$26.7 billion).

Global Concerns: Uncertainty and Economic Weakness in Europe

During this earnings season, a number of companies have commented on their business conditions in Europe. Overall, companies have specifically expressed concerns about weaker sales and earnings in the region, headwinds to future growth due to less favorable foreign currency exchange rates, and general uncertainty about when economic conditions will begin to improve.

Here are some comments from companies that reported this week discussing all three of these concerns:

"Let's now turn to the technology slide. Technology revenue was down 5%, or 4% at constant currency. The largest factor in this decline was the slowdown in Europe, where equipment revenue was down 15%." – Xerox (Jan. 25)

"Europe, of course, remains a question mark as we begin 2012, and we are seeing some pressure from the euro, which has traded as low as \$1.26 versus the dollar. We continue to keep a close eye on exchange rates, and we expect FX to be a significant headwind in the first half of 2012, as the euro averaged \$1.40 last year in the first half." –United Technologies (Jan. 25)

"Yeah, and again, I think it's a very good question. Because I think maybe one of the hardest calls from an economic perspective right now is, how long does the European weakness go on...." – Eaton (Jan 26)

Global Concerns: Slowdown In Emerging Markets Now, But Future Rebound Expected

On the other hand, countries in the Asia Pacific region (except Japan) and in "emerging markets" regions have reported high economic growth in recent quarters. According to FactSet Economics, eight of the top fifteen nations in terms of year-over-year real GDP growth in Q3 2011 were countries in the Asia Pacific and Latin American regions, including Argentina (10.0%), China (9.1%), Peru (6.6%), and India (6.4%). Over the last few quarters, many corporations have reported their largest revenue growth in the Asia Pacific region and in emerging markets.

However, there have been concerns about slowing growth in developing countries. According to FactSet Economics, three of the four "BRIC" countries have recorded slower GDP growth over the last year. For Q3 2010, Brazil, China, and India recorded GDP growth of 7.1%, 9.6% and 9.1%, respectively. For Q3 2011, GDP growth rates for Brazil, China, and India had fallen to 2.4%, 9.1% and 6.4%.

A number of companies have stated that despite seeing some recent slowdown in growth, they expect strong sales growth in "emerging markets" regions to continue in the second half of 2012.

"If you add it all up and bring it together for the aluminum demand picture. Let's go to the next slide. So we've seen a 10% growth last year, just to show that to you and we believe the growth rate for this year is going be 7%. So this shows you a breakdown of the different regions and you do see there's strong growth coming from China. We believe China's going have about 12% growth obviously on a higher basis, by the way, last year, 15%. Asia, 9% without China. Asia, 9%. India, 10%. These are the strong growth drivers". –Alcoa (Jan. 9)

"Clearly, China was also a factor in the fourth quarter, as the Chinese government successfully slowed activity to stem inflation. Our China team anticipates continued below-trend growth in the first half of 2012, with stronger growth returning in the second half." –3M (Jan. 26)

"We expect government policy easing in China, which has already started, to continue and lead to modest recovery in machine sales in 2012." – Caterpillar (Jan. 26)

Late 2012/Early 2012 Rebound in Double-Digit Earnings Growth Rates Projected

In light of these predictions for stronger economic growth in emerging markets and the U.S. in the second-half of 2012, analysts are projecting double-digit earnings growth rates to resume in Q4 2012 after a decline in the first three quarters of 2012.

For Q1 2012, Q2 2012, and Q3 2012, the estimated earnings growth rates are expected to fall to 1.2%, 7.8%, and 5.2%, respectively. However, the estimated earnings growth rates for Q4 2012 and Q1 2013 are predicted to jump to 16.7% and 15.4%.

Valuation: Forward P/E Below 10-Year Average, But Up Since September 30

The current forward 12-month P/E ratio of 12.4 is well below the prior ten-year average forward 12-month P/E ratio of 14.7, but is higher than the 10.6 P/E ratio recorded at the start of the quarter (September 30). The P/E ratio has increased during the quarter due to the combination of an overall increase in the price of the index (up 16.5% since September 30) and small downward revisions to earnings estimates for 2012.

While this projection of over \$100 per share in earnings may seem high, it is important to note that more than 70% of companies have reported EPS above estimates over the last ten quarters.

Will there be a return to the 10-year average valuation for the market anytime soon? If there is going to be a return to this average P/E ratio of 14.7, either future estimates will need to continue to decrease, the price of the index will need to continue to increase, or a combination of the two will need to occur.

Companies Reporting Next Week

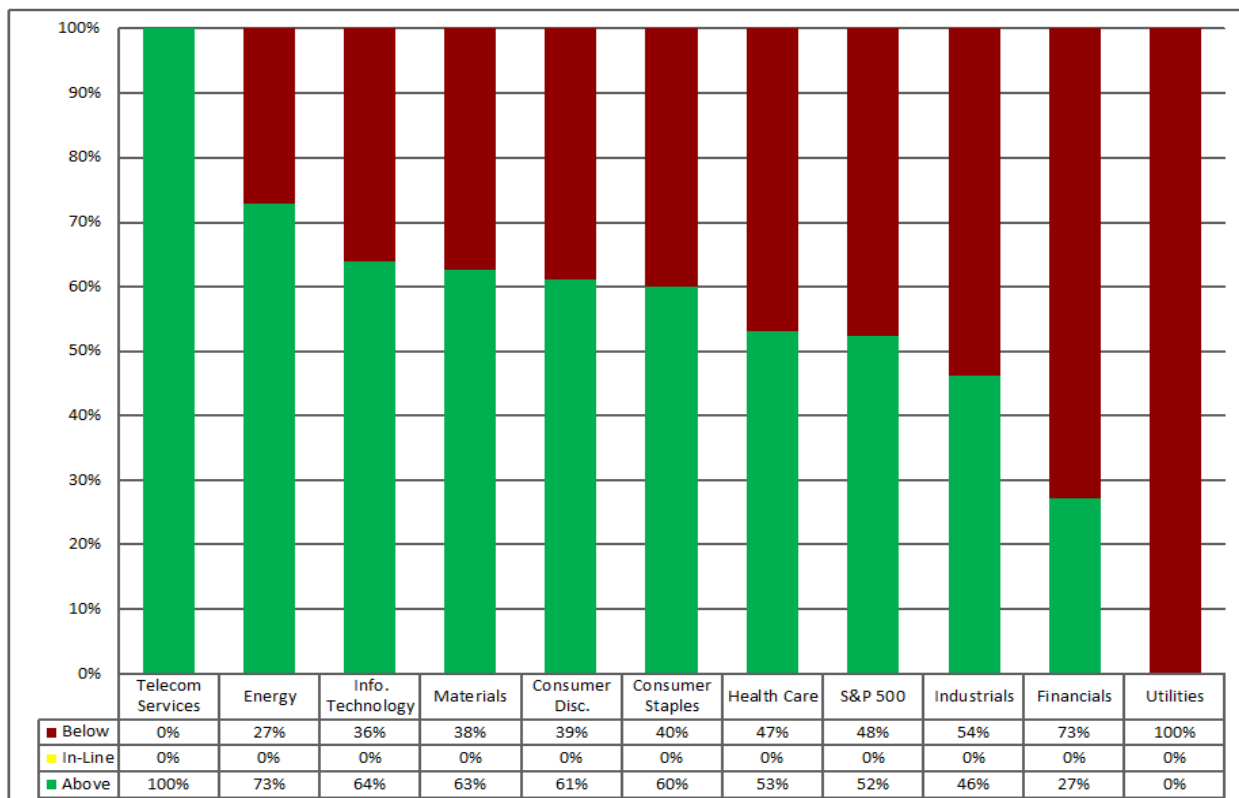
Alcoa's earnings release on January 9 marked the start of the Q4 2011 earnings season. This week is another "peak week" for the Q4 2011 earnings season, as 91 companies in the S&P 500 index and three Dow components (Pfizer, ExxonMobil, and Merck) are scheduled to release earnings results.

Q4 2011: Scorecard

Q4 2011 Earnings: Above, In-Line, Below Estimates

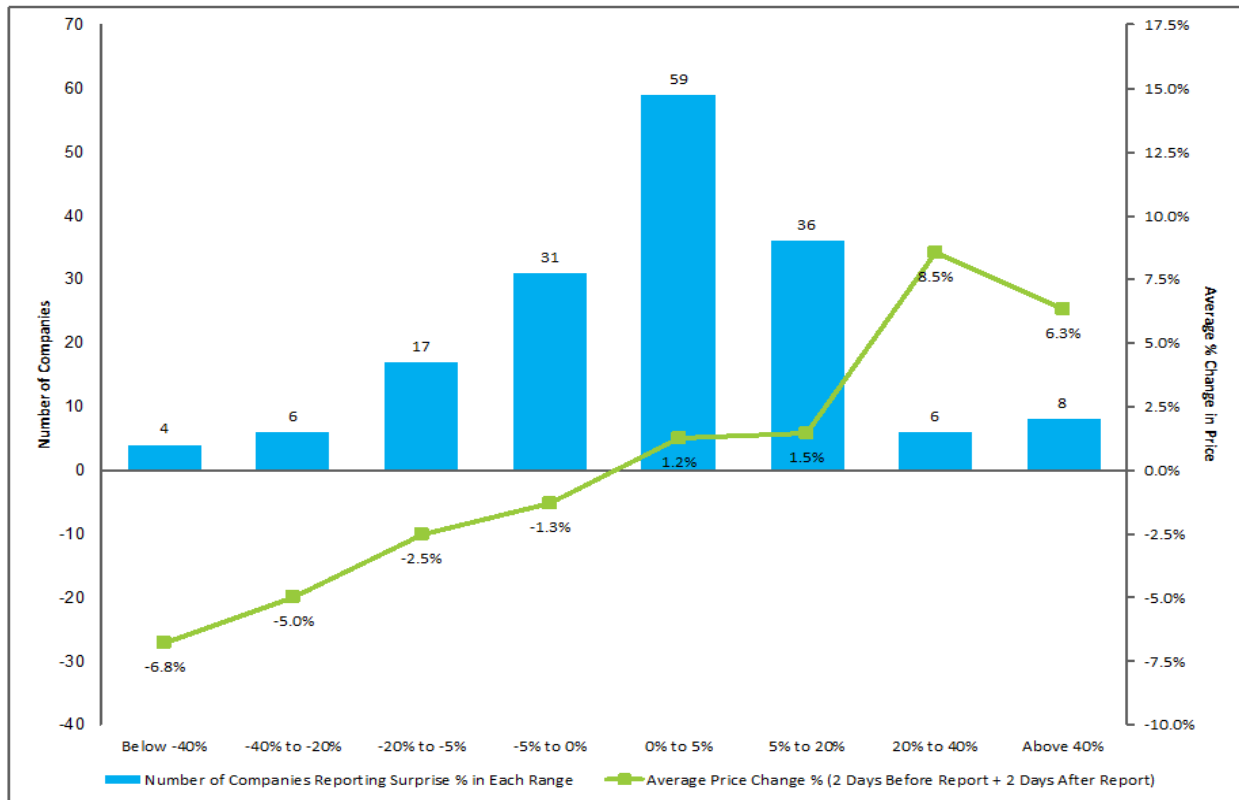


Q4 2011 Revenues: Above, In-Line, Below Estimates

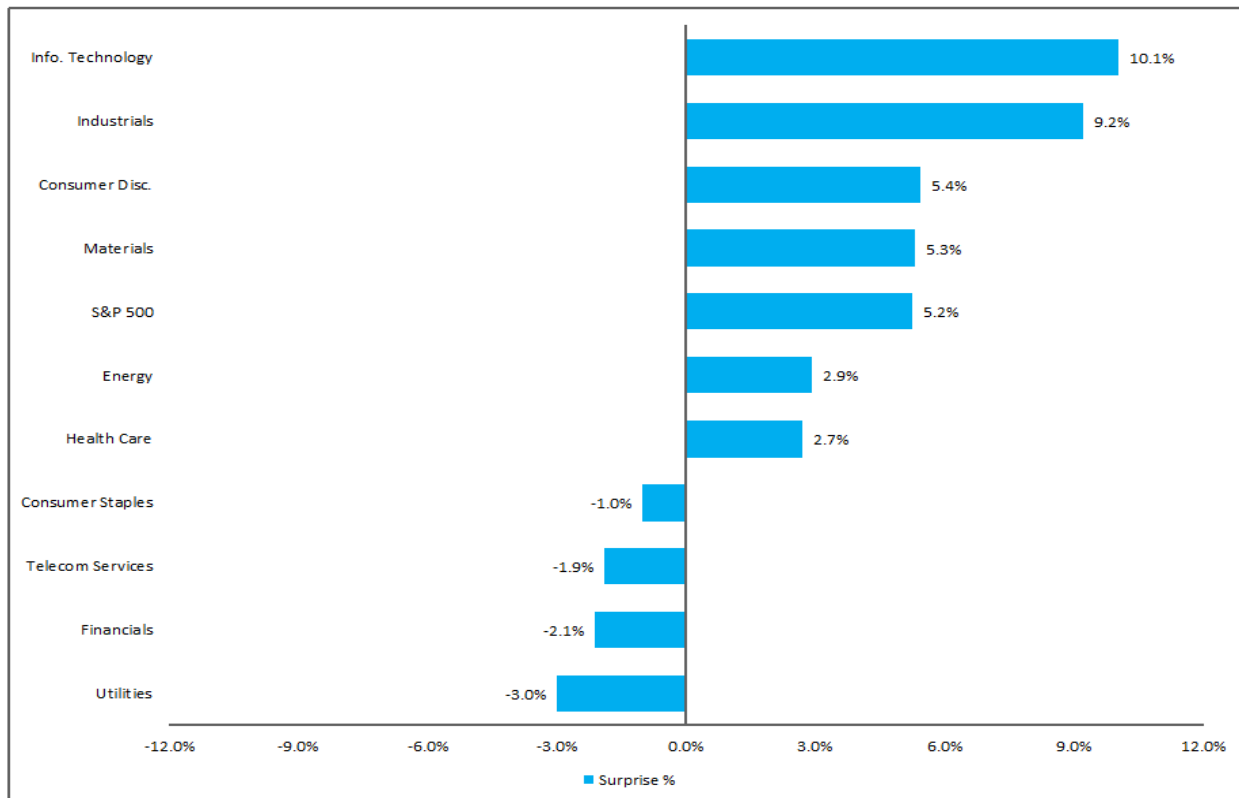


Q4 2011: Scorecard

Q4 2011: Surprise % vs. Average Price Change %

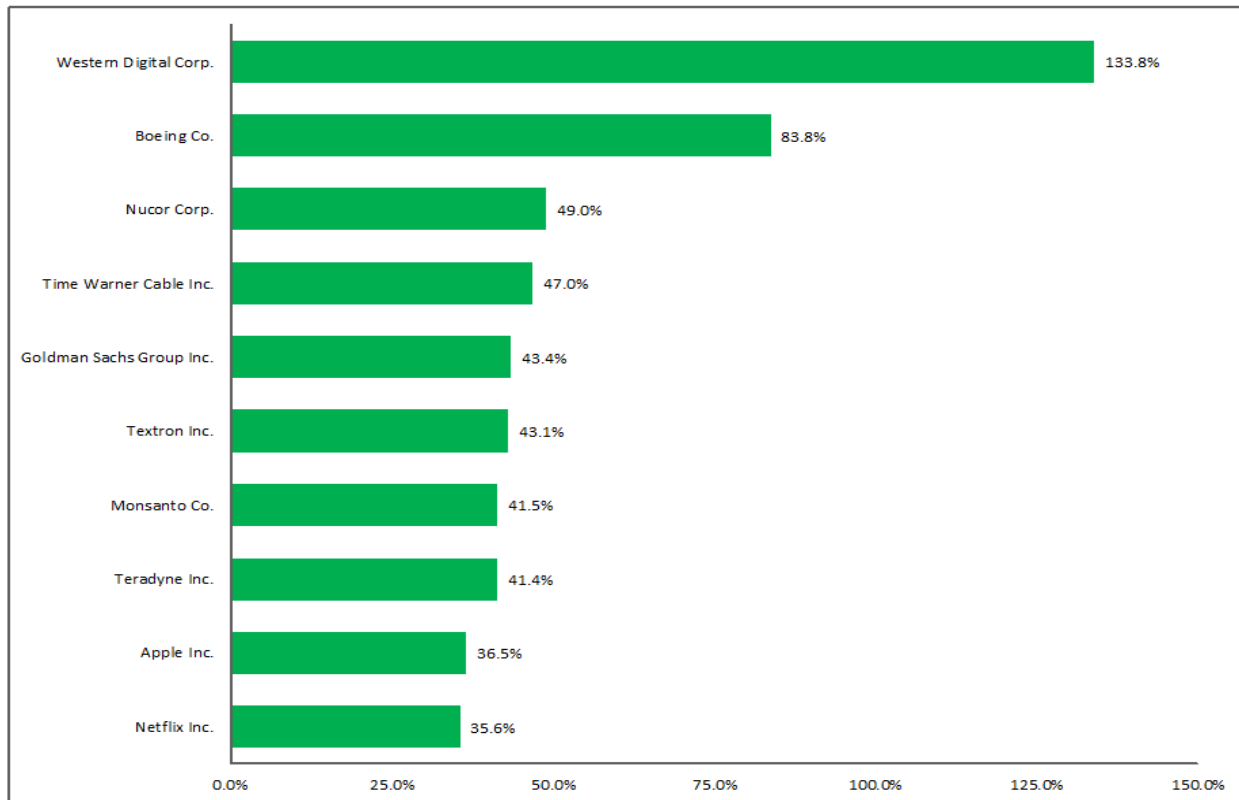


Q4 2011: Sector Level Surprise %

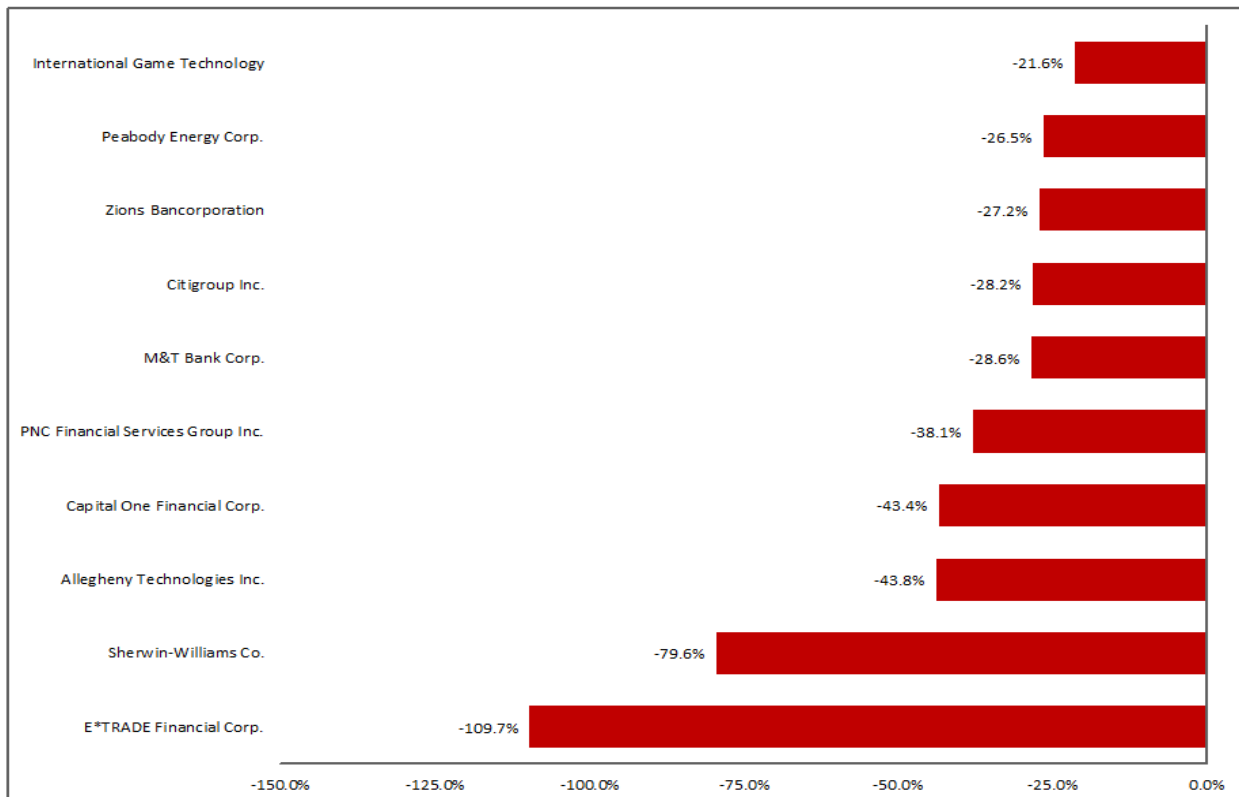


Q4 2011: Scorecard

Surprise %: Top 10 Companies

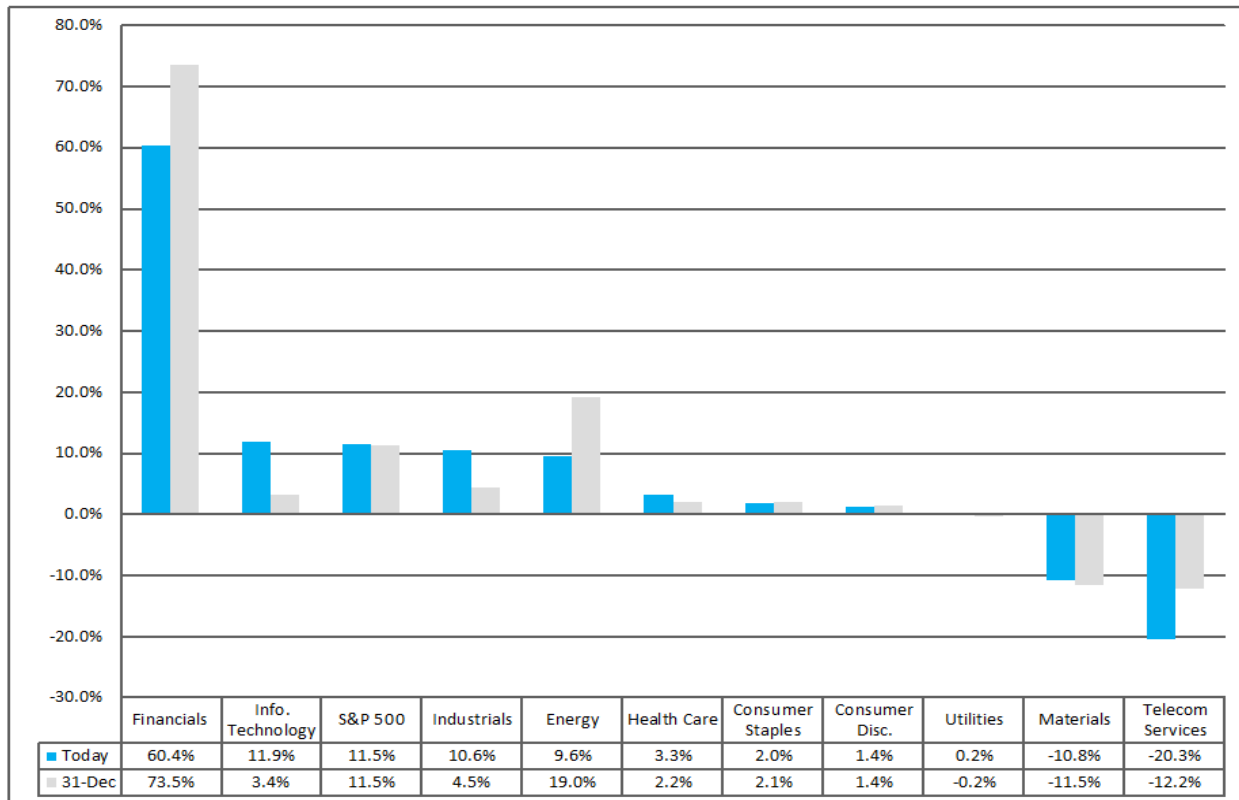


Surprise %: Bottom 10 Companies

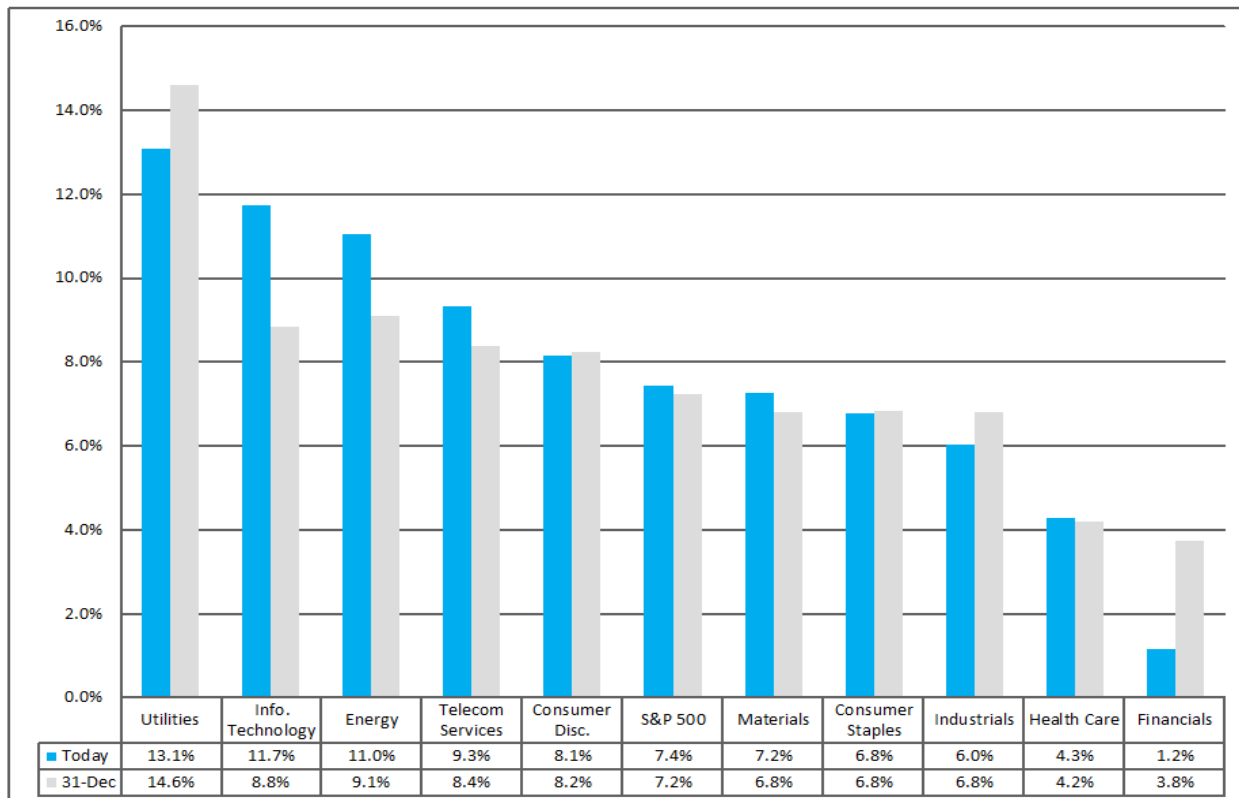


Q4 2011: Growth

Q4 2011 Earnings Growth

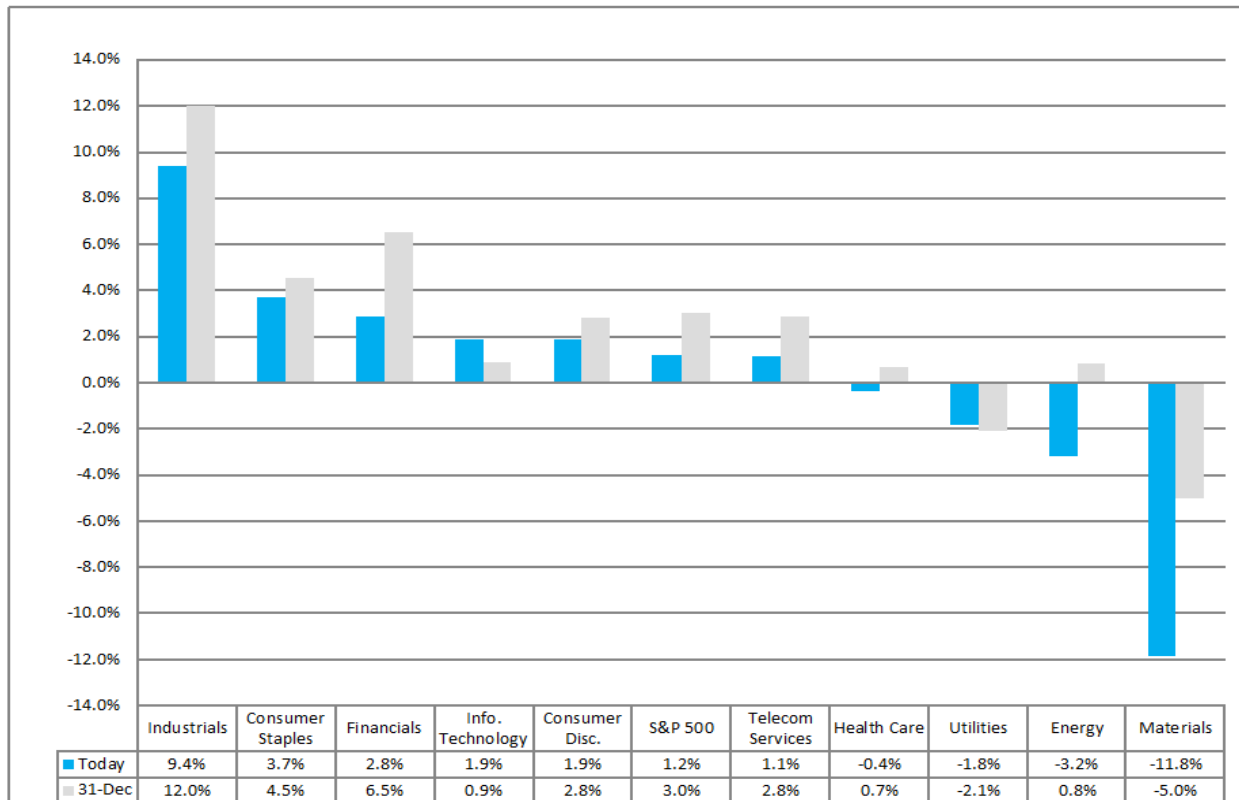


Q4 2011 Revenue Growth

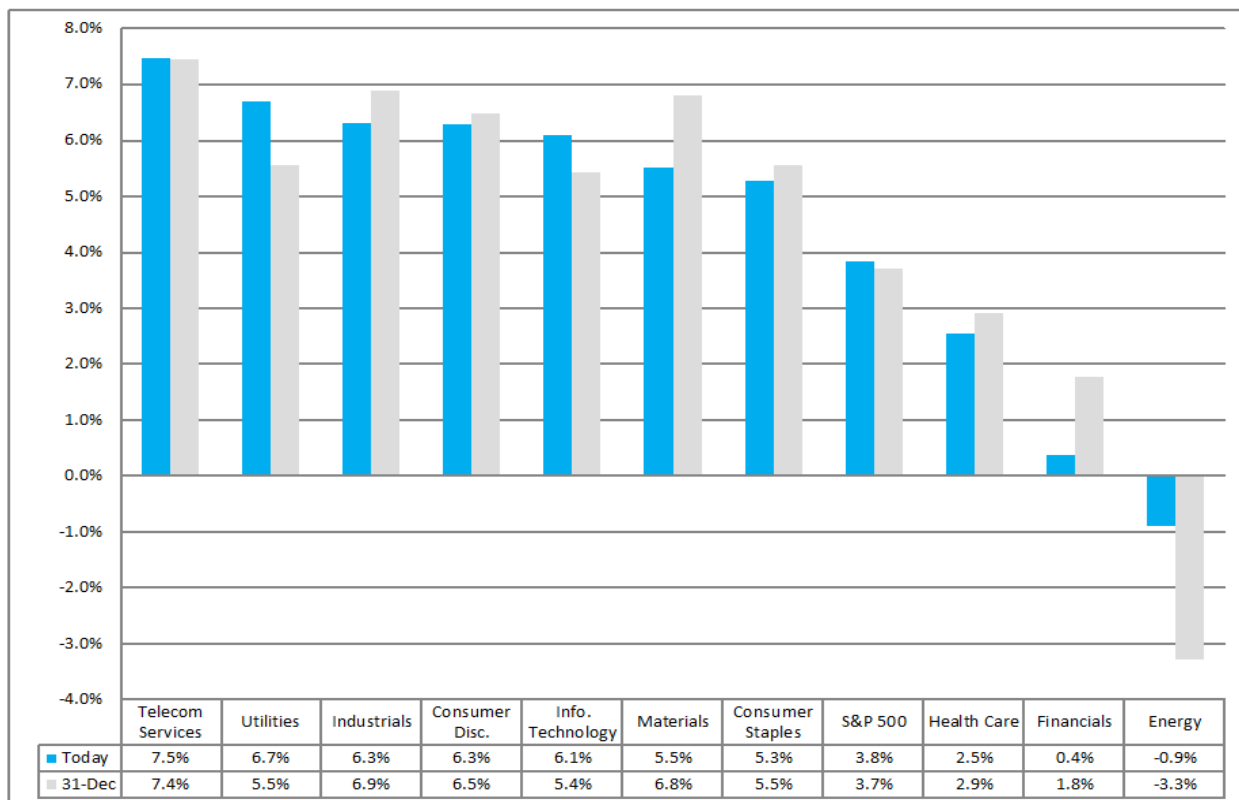


Q1 2012: Growth

Q1 2012 Earnings Growth

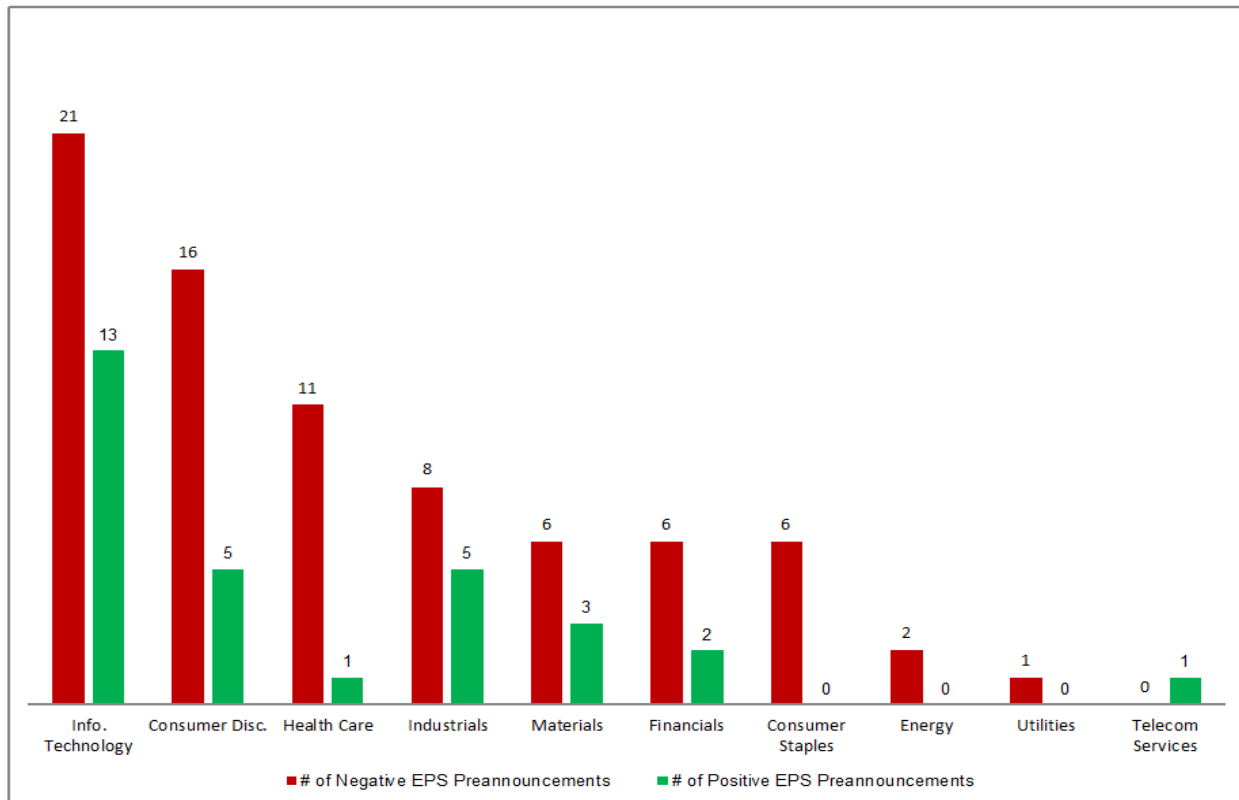


Q1 2012 Revenue Growth

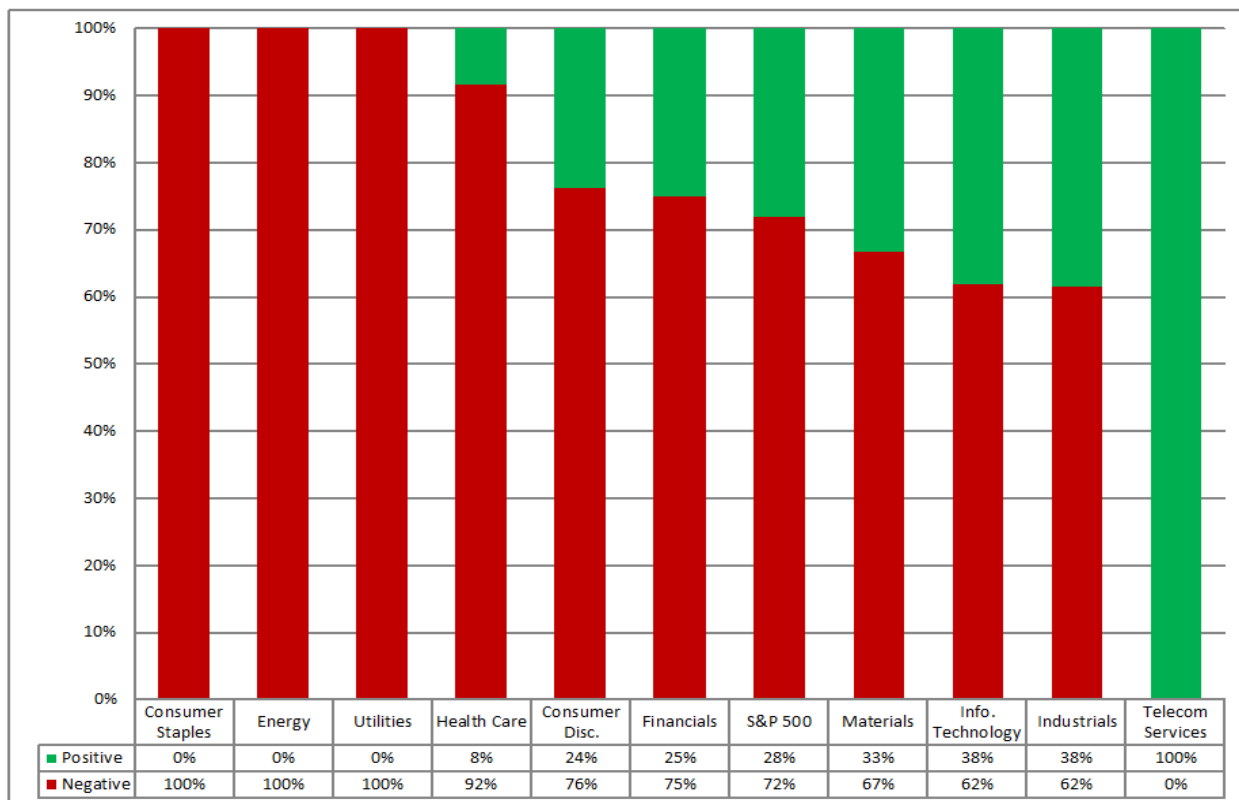


Guidance: Current Fiscal Quarter

Number of Positive & Negative EPS Preannouncements: Current Fiscal Quarter

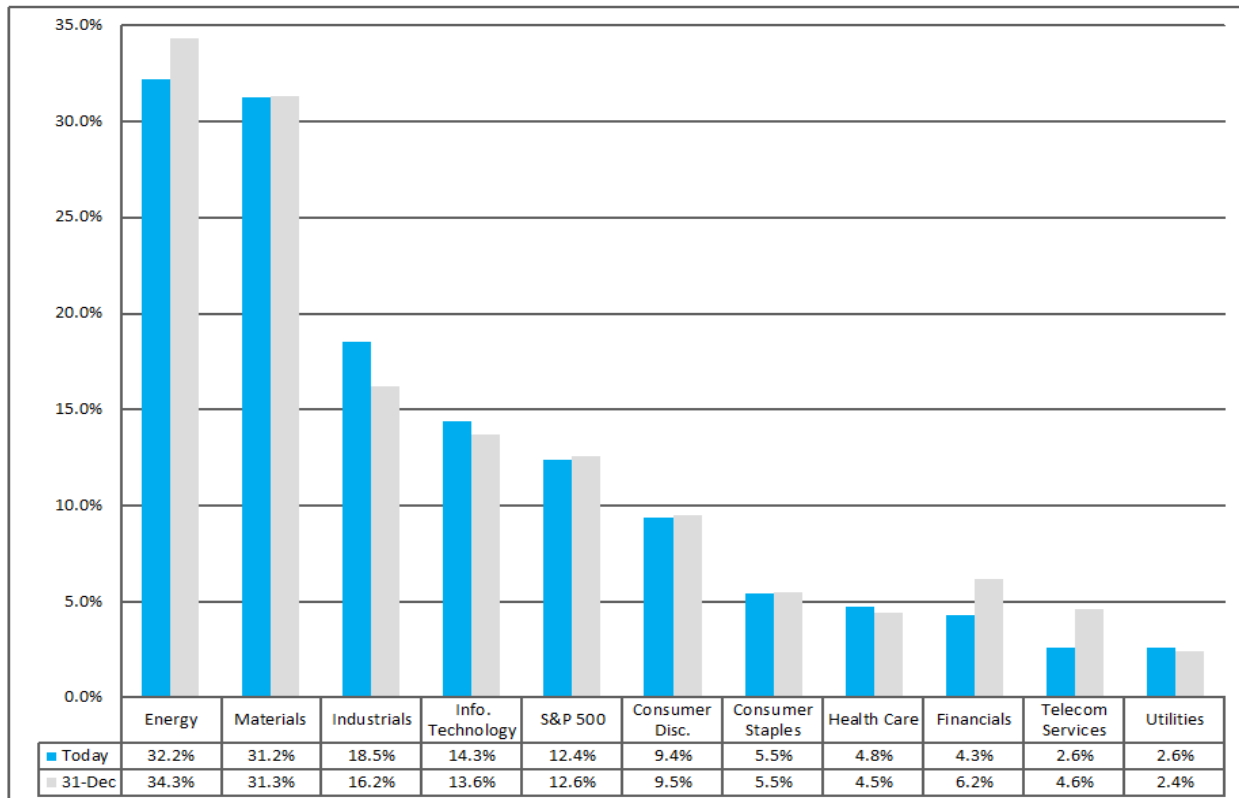


Percentage of Positive & Negative EPS Preannouncements: Current Fiscal Quarter

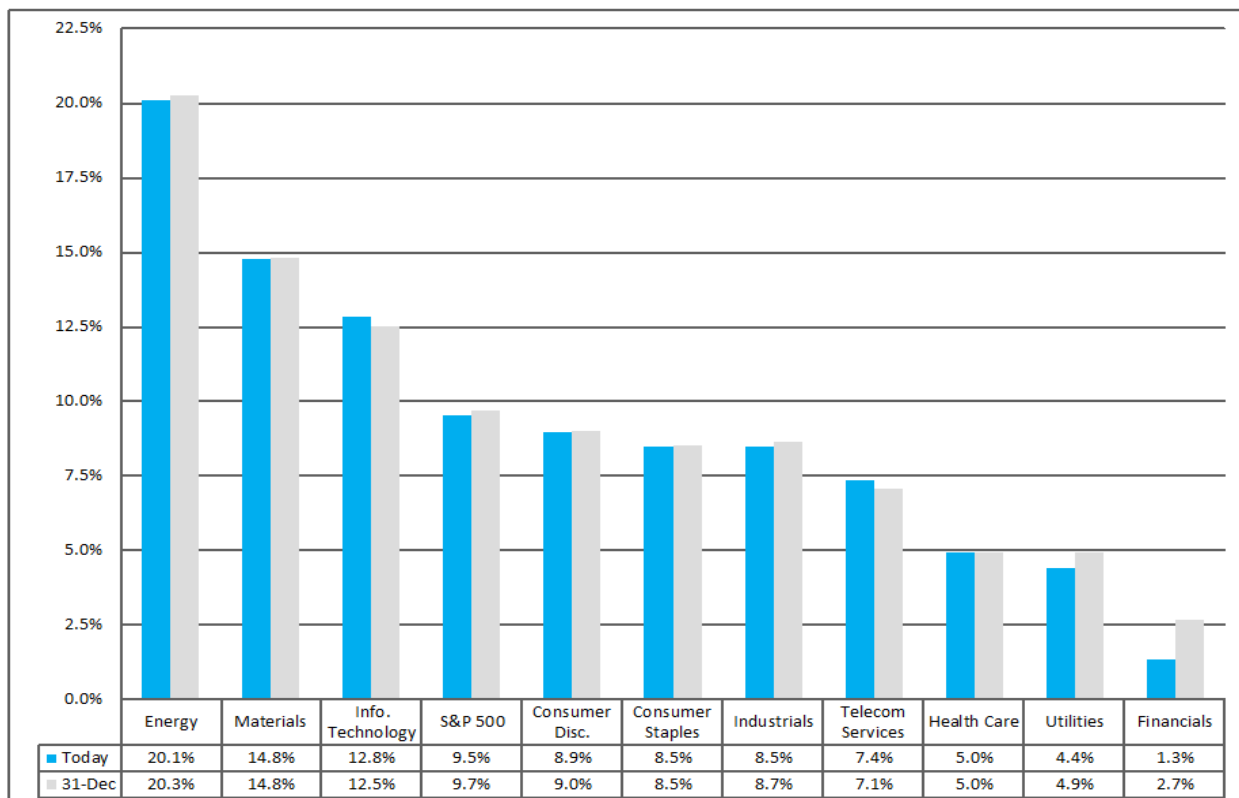


CY 2011: Growth

CY 2011 Earnings Growth



CY 2011 Revenue Growth

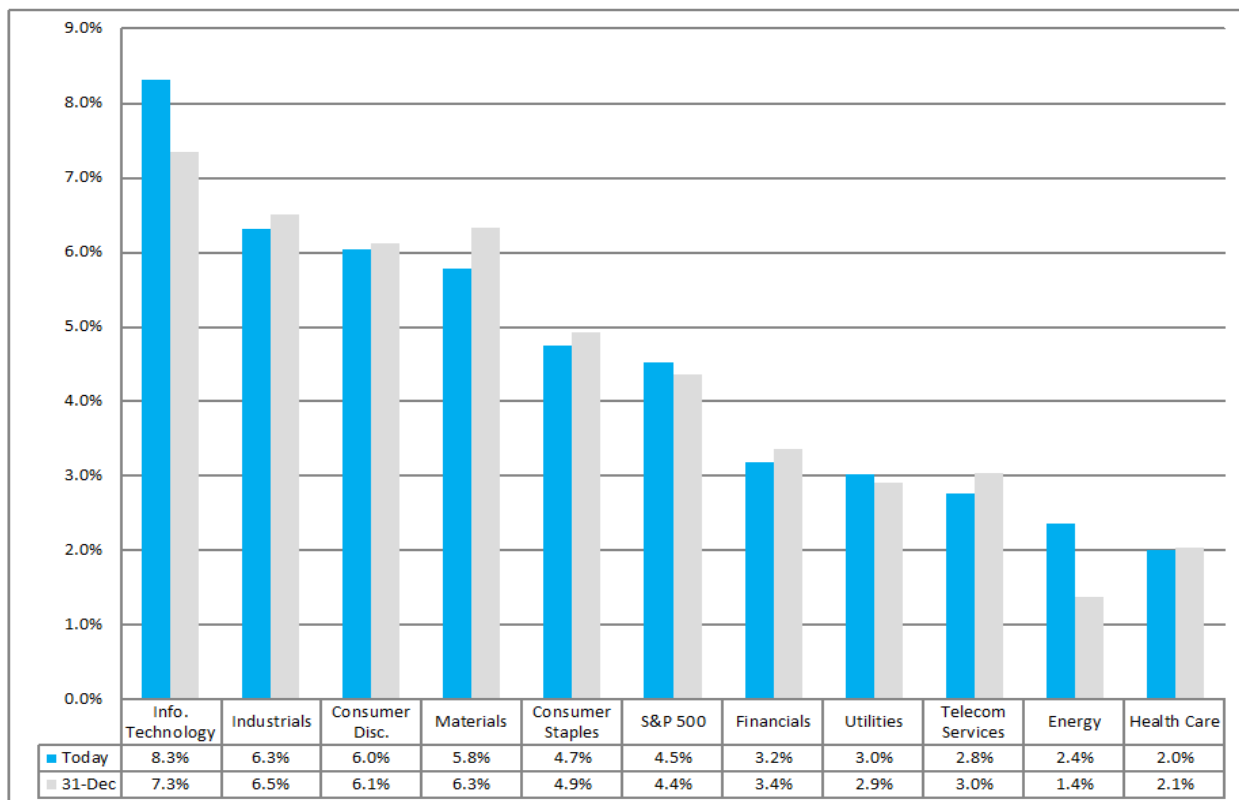


CY 2012: Growth

CY 2012 Earnings Growth

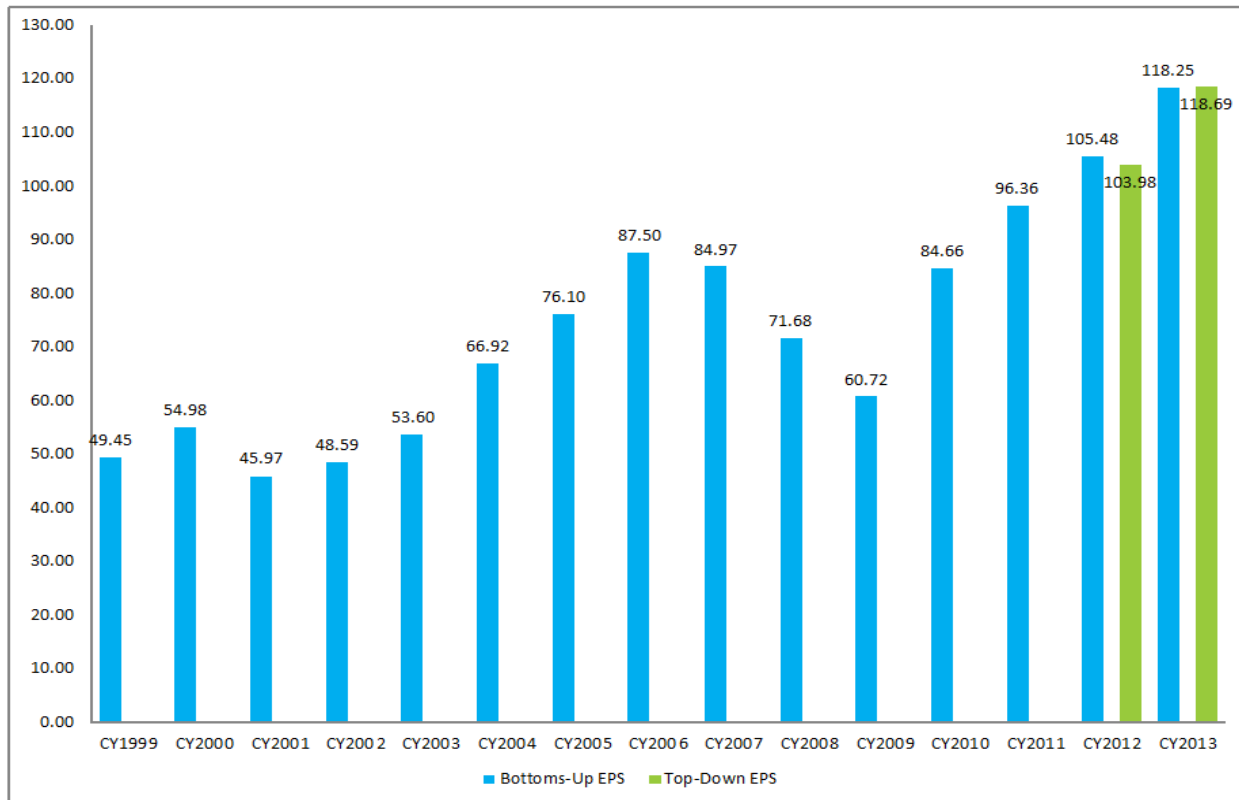


CY 2012 Revenue Growth

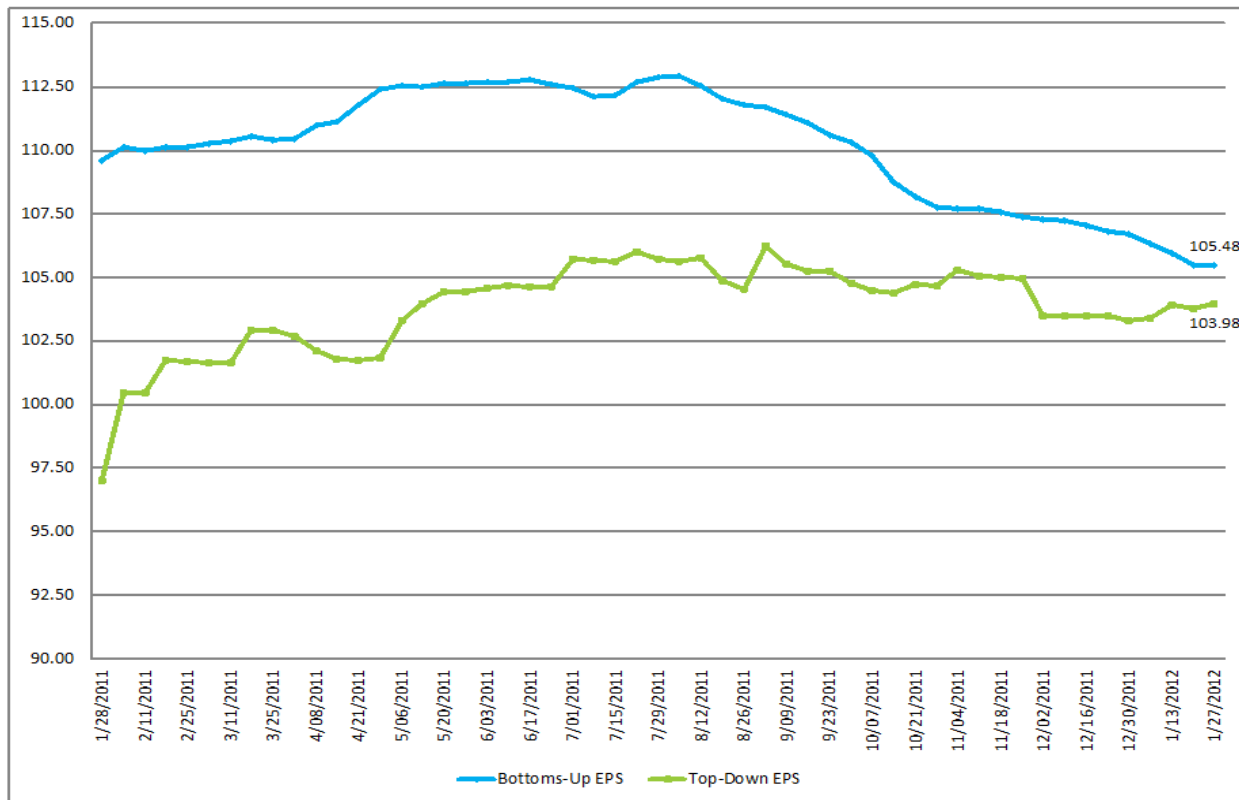


Bottoms-Up Estimates

Calendar Year Bottoms-Up EPS Actuals & Estimates

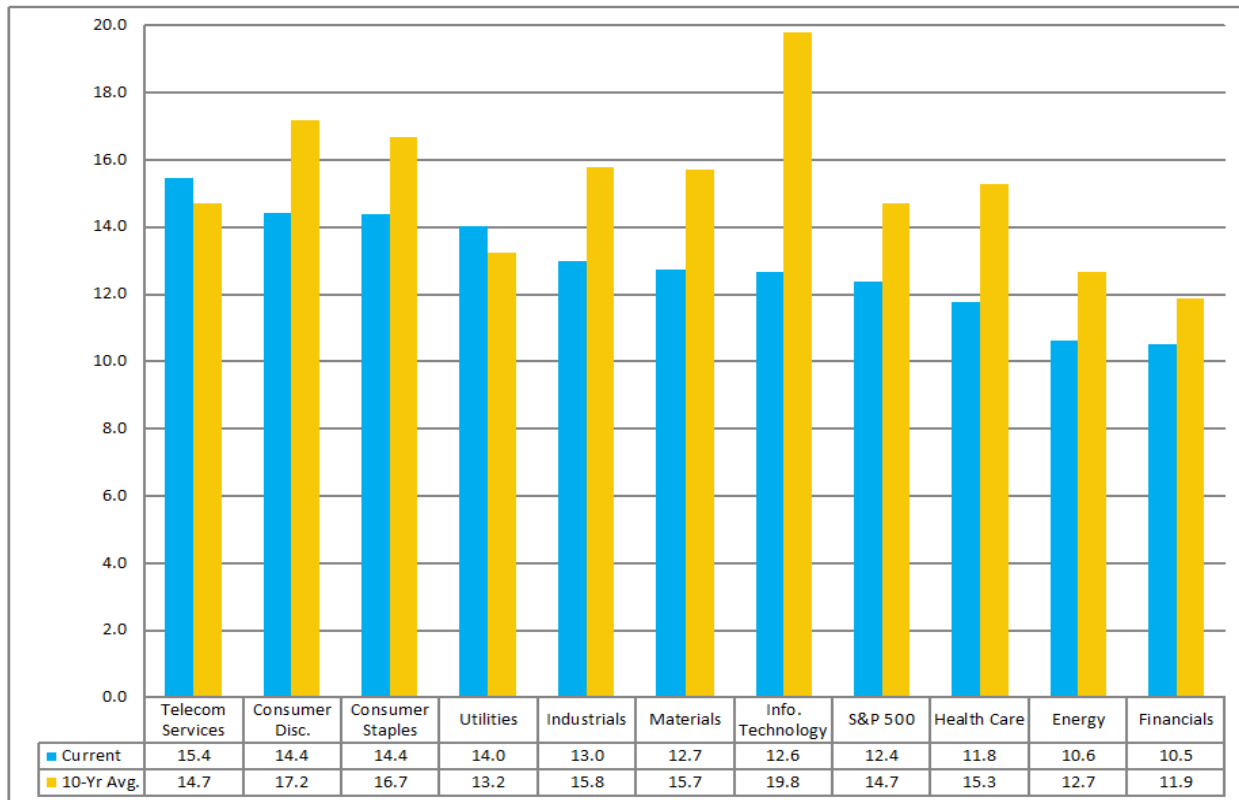


CY 2012 Estimates: Bottoms-Up EPS vs. Top Down EPS

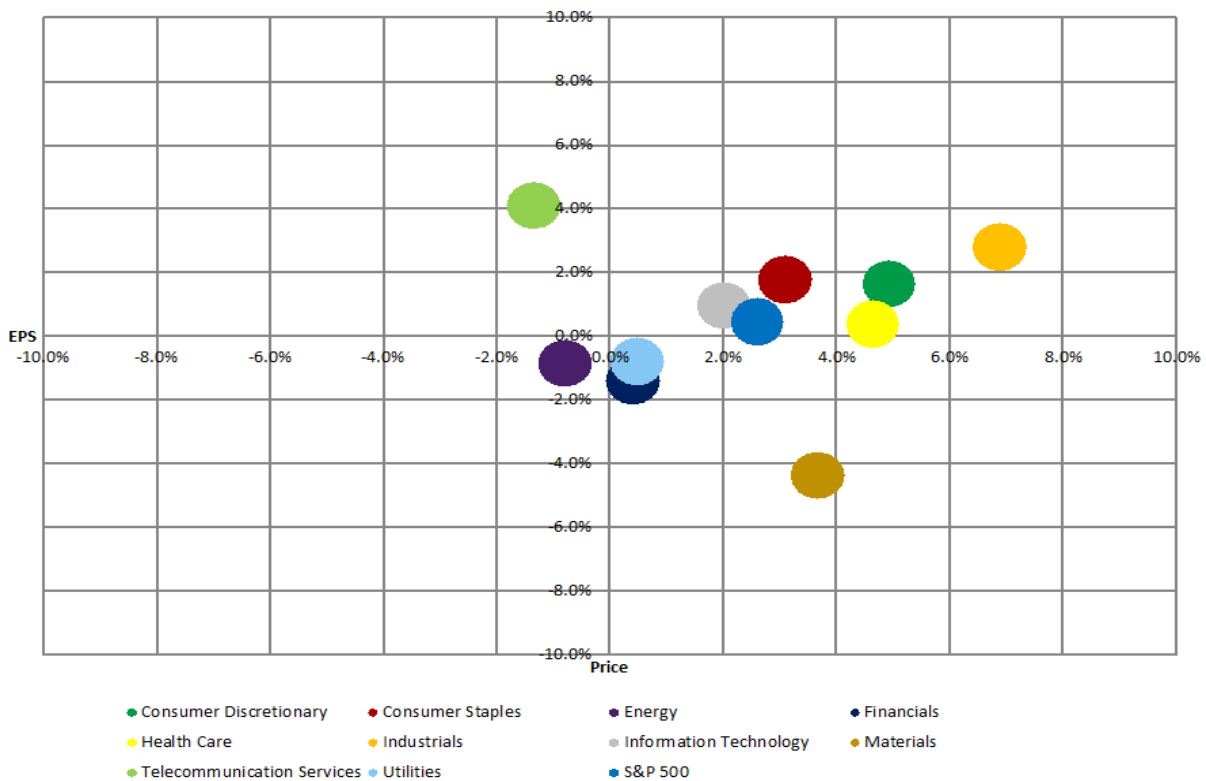


Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

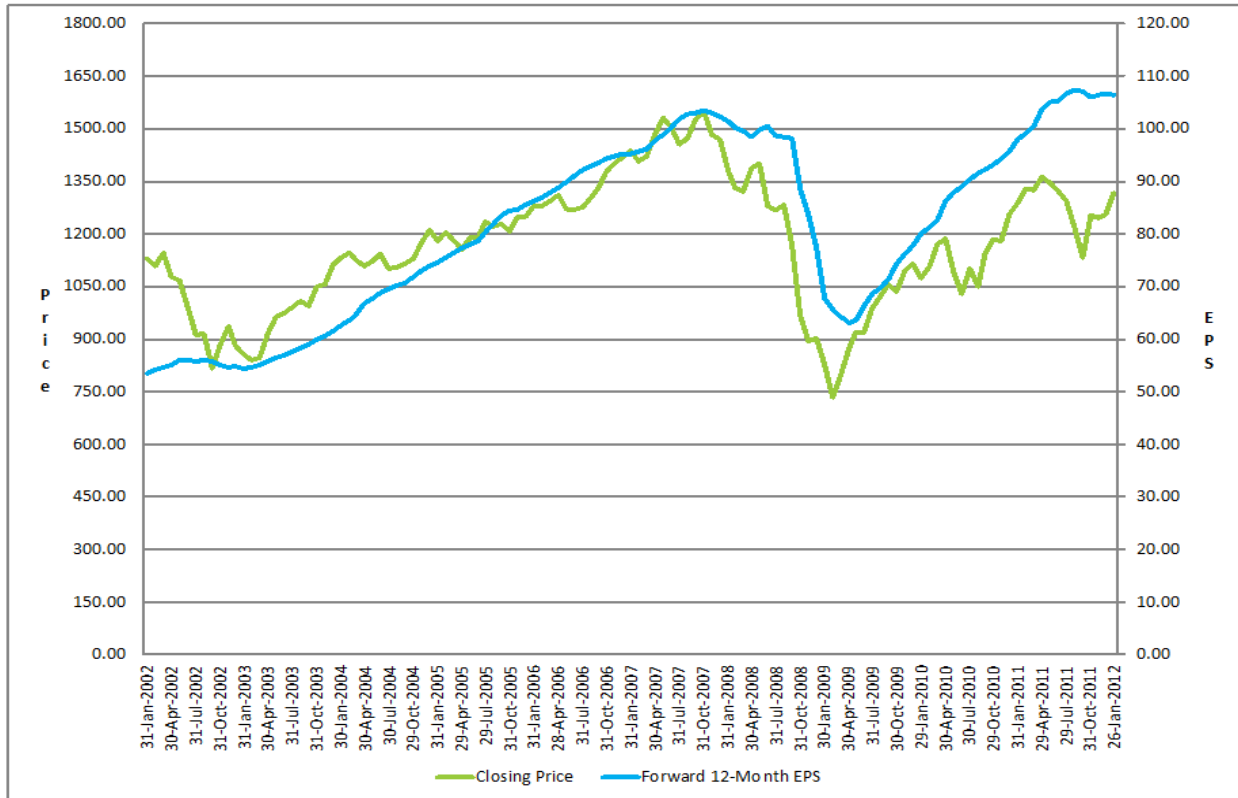


Sector-Level Change in Price vs. Change Forward 12M EPS: 3-Months

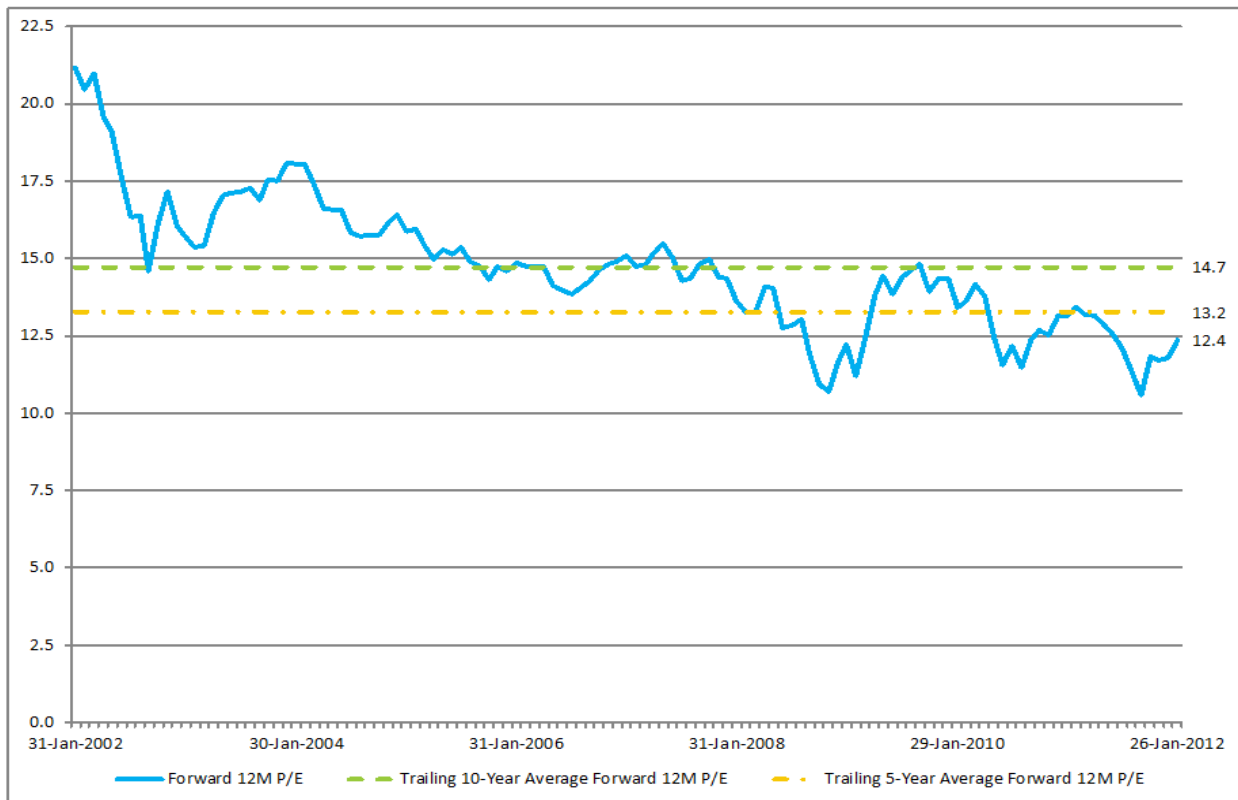


Price / Earnings Ratio: Long-Term Averages

Change in Price vs. Change in Forward 12M EPS: 10-Year



Forward 12M P/E Ratio: 10-Years



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