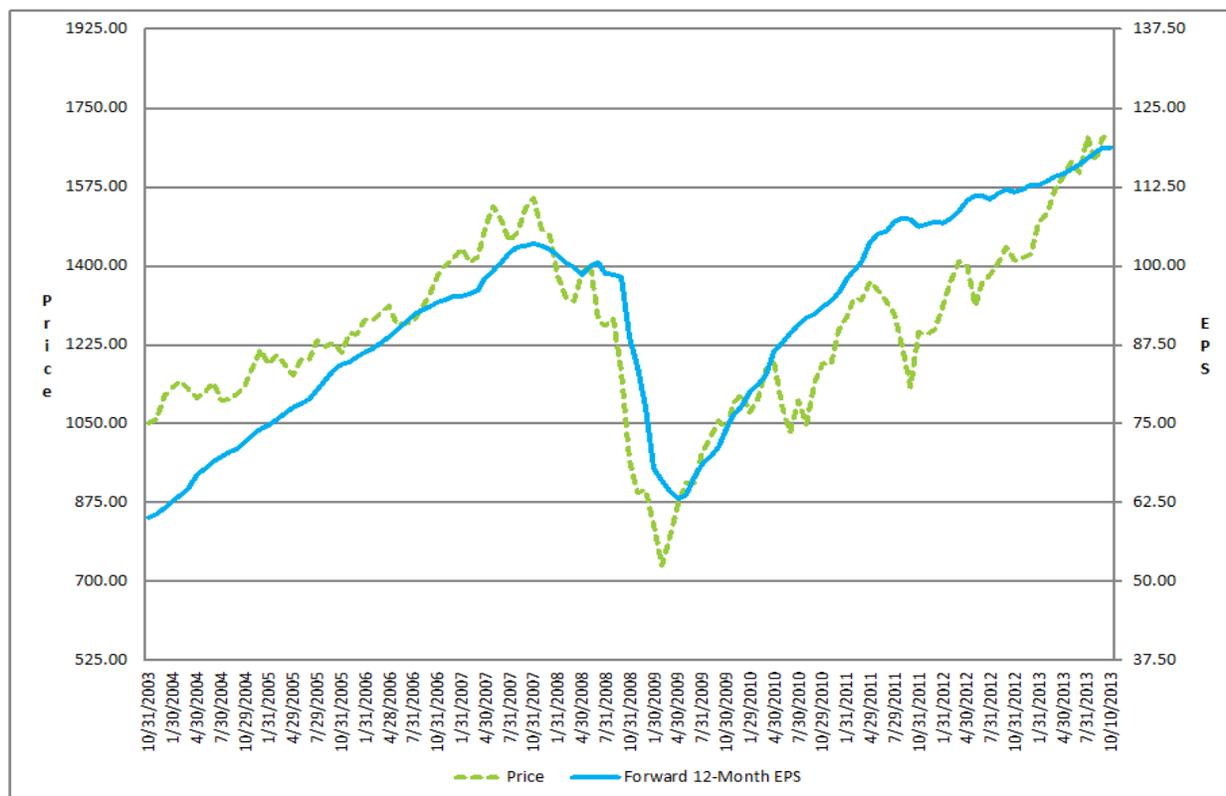


Key Metrics

- + **Earnings Scorecard:** Of the 31 companies that have reported earnings to date for Q3 2013, 61% have reported earnings above the mean estimate and 52% have reported sales above the mean estimate.
- + **Earnings Growth:** The blended earnings growth rate for Q3 2013 is 0.8%. The Consumer Discretionary sector is predicted to report the highest earnings growth for the quarter, while the Energy sector is predicted to report the lowest earnings growth for the quarter.
- + **Earnings Revisions:** On September 30, the earnings growth rate for Q3 2013 was 3.1%. Six of the ten sectors have recorded a decline in expected earnings growth over this time frame, led by the Financials sector.
- + **Earnings Guidance:** For Q3 2013, 91 companies have issued negative EPS guidance and 19 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-month forward P/E ratio is 14.3. This P/E ratio is based on Thursday's closing price of 1692.56 and forward 12-month EPS estimate of \$118.75.

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

JPMorgan Chase Legal Expense Leads Financials and S&P 500 Growth Rate Down

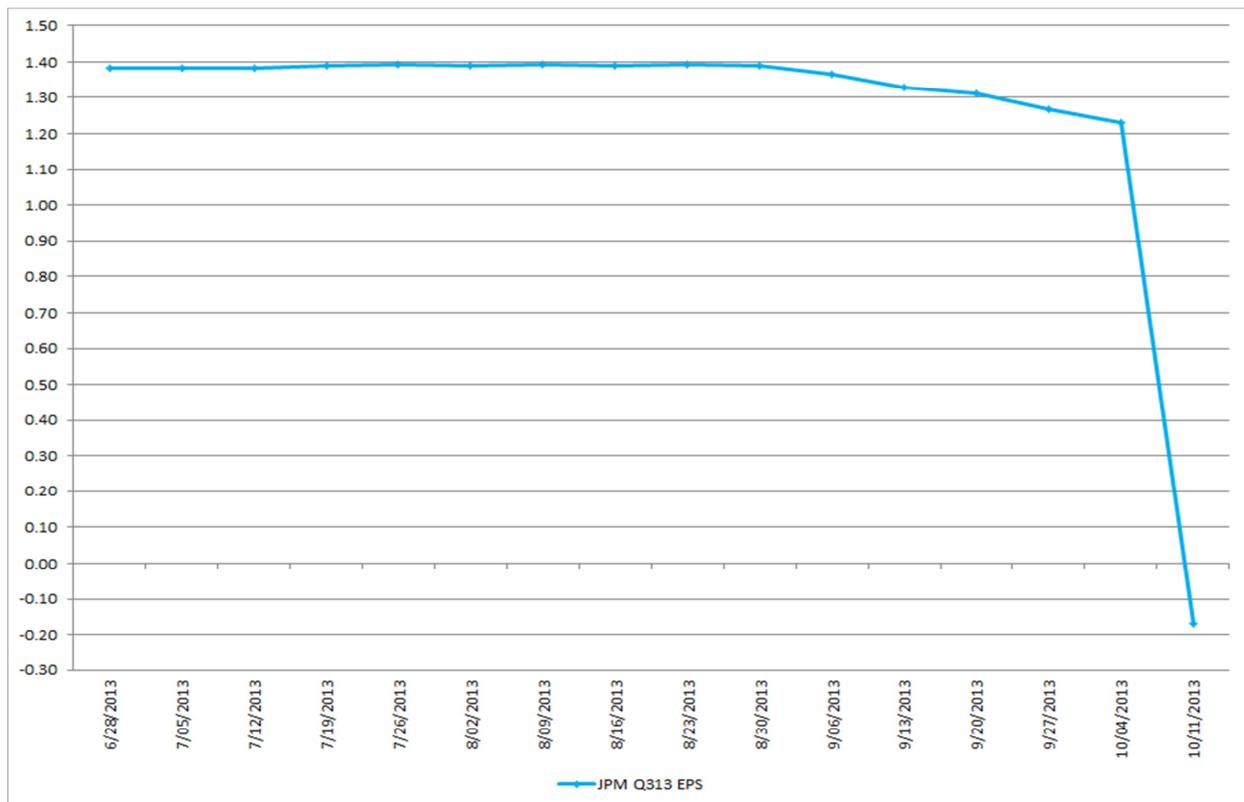
During the past week, the blended earnings growth rate for the S&P 500 declined by 2.0 percentage points, from 2.8% on October 4 to 0.8% today. In aggregate, dollar-level earnings for the S&P 500 decreased by nearly \$5 billion during this time. Looking at the change in dollar-level earnings at the sector level, the Financials sector has recorded the sharpest decline over this time frame. In aggregate, dollar-level earnings for the Financials sector have dropped by nearly \$5.2 billion. As a result, the growth rate for the Financials sector has fallen from 8.9% on October 4 to -3.5% today.

Within the Financials sector, JPMorgan Chase has witnessed the largest dollar-level decline in share-weighted earnings of any company in the Financials sector over the past weeks. Since October 4, share-weighted earnings for JPMorgan Chase have dropped by nearly \$5.4 billion.

What is behind the sharp decline in earnings for JPMorgan Chase? Today, the company announced actual earnings that were substantially below the expectations of analysts. JPMorgan Chase reported actual EPS of -\$0.17 for the third quarter, compared to the mean EPS estimate of \$1.19. The actual EPS of -\$0.17 included a legal expense of \$1.85 “for legal expense in Corporate, including reserves for litigation and regulatory proceedings for the quarter.” As the majority of analysts covering JPMorgan Chase provide EPS estimates to FactSet on a GAAP basis, these legal expenses were not excluded from the actual EPS.

As a result, JPMorgan Chase is accountable for most the decline in the earnings growth rate for the S&P 500 and the Financials sector over the past week. If this company is excluded, the earnings growth rate for the S&P 500 would improve to 3.3%, and the earnings growth rate for the Financials sector would improve to 12.4%.

JPM: Q3 EPS



Q3 2013 Earnings Season: Overview

Fewer Companies Beating EPS and Revenue Estimates than Average to Date

With 6% of the companies in the S&P 500 reporting actual results, the percentage of companies reporting earnings above estimates is below the four-year average, and the percentage of companies reporting revenues above estimates is also below the four-year average.

Percentage of Companies Beating EPS Estimates (61%) Below 4-Year Average

Overall, 31 companies have reported earnings to date for the third quarter. Of these 31 companies, 61% have reported actual EPS above the mean EPS estimate and 39% have reported actual EPS below the mean EPS estimate. Over the past four quarters on average, 70% of companies have reported actual EPS above the mean EPS estimate. Over the past four years on average, 73% of companies have reported actual EPS above the mean EPS estimate.

At the sector level, the Information Technology (86%) and Consumer Discretionary (78%) sectors have the highest percentages of companies reporting earnings above estimates, while the Consumer Staples (29%) and Financials (33%) sectors have the lowest percentages of companies reporting earnings above estimates.

Low Surprise Percentage (-18%) due to Substantial Miss by JPMorgan Chase

In aggregate, companies are reporting earnings that are 18.0% below expectations. Over the last four quarters on average, actual earnings have surpassed estimates by 3.7%. Over the past four years on average, actual earnings have surpassed estimates by 6.5%.

Companies in the Financials (-51.1%) sector are reporting the largest downside aggregate differences between actual earnings and estimated earnings. However, one company is mainly responsible for the unusually large negative surprise percentage for the sector: JPMorgan Chase. The company reported a loss of \$0.17 for the third quarter, which was significantly below the mean EPS estimate of \$1.19 the mean estimate. A legal expense (including reserves for litigation and regulatory proceedings) of \$1.85 per share was the main contributor to the downside surprise. Please see page 2 for more details.

On the other hand, companies in the Information Technology (+36.9%) sector are reporting the largest upside aggregate differences between actual earnings and estimated earnings. Again, one company accounts for the unusually high positive surprise percentage for this sector: Micron Technology. The company reported EPS of \$1.51 for the third quarter, which was substantially above the mean EPS estimate of \$0.23. The upside surprise was aided by "purchase accounting gains relating to the acquisition and the results of operations of Elpida for the month of August," which totaled \$1.31 per share.

Percentage of Companies Beating Revenue Estimates (52%) Below 4-Year Average

In terms of revenues, 52% of companies have reported actual sales above estimated sales and 48% have reported actual sales below estimated sales. The percentage of companies beating sales estimates is above the percentage recorded over the last four quarters (48%), but below the average over the previous four years (58%).

At the sector level, companies in the Information Technology (71%) and Consumer Discretionary (67%) sectors have the highest percentages of companies reporting revenue above estimates, while companies in the Financials (0%) and Industrials (33%) sectors have the lowest percentages of companies reporting revenue above estimates.

In aggregate, companies are reporting sales that are 0.4% below expectations. Over the previous four quarters on average, actual sales have exceeded estimates by 0.4%. Over the previous four years on average, actual sales have exceeded estimates by 0.7%.

Decline in the Growth Rate This Week Due to Downside Surprise from JPMorgan Chase

Financials Sector Sees Largest Drop in Earnings Growth This Week

The blended earnings growth rate for the third quarter is 0.8% this week, down from the growth rate of 2.8% last week. The decline in the earnings growth rate this week can mainly be attributed to the large downside earnings surprise reported by JPMorgan Chase (-114%) and downward revisions to estimates for companies in the Energy sector (including Chevron, Exxon Mobil, and Valero Energy), partially offset by the large upside earnings surprise reported by Micron Technology (+547%). As a result, the blended earnings growth rates for the Financials (to -3.5% from 8.9%) and Energy (to -5.5% from -2.6%) sectors recorded the largest decreases of all ten sectors during the week, while the blended earnings growth rate for the Information Technology (to 4.2% from 1.2%) sector witnessed the largest increase of all ten sectors over this time frame.

Financials Sector Has Seen Largest Drop in Earnings Growth since September 30

The blended earnings growth rate for Q3 2013 of 0.8% is also below the estimate of 3.1% at the end of the quarter (September 30). Six of the ten sectors have recorded a decline in earnings growth during this time frame, led by the Financials and Energy sectors. Three of the ten sectors have seen an increase in earnings growth over this period, led by the Information Technology sector. The earnings growth rate for the Health Care sector has remained unchanged since September 30.

Record High Number of Companies Have Issued Negative EPS Guidance (91) for Q3

Heading into the start of the peak weeks of the Q3 2013 earnings season, 110 companies in the index have issued EPS guidance for the third quarter. Of these 110 companies, 91 have issued negative EPS guidance and 19 have issued positive EPS guidance.

If 91 is the final number of companies issuing negative EPS guidance for the quarter, it will mark the highest number of companies issuing negative EPS guidance since FactSet began tracking guidance data in 2006. The current record is 88, which was recorded in Q2 2013. If 19 is the final number of companies issuing positive EPS guidance, it will mark the lowest number of companies issuing positive EPS guidance for a quarter. The current record is 22, which was also recorded in Q2 2013.

The percentage of companies issuing negative EPS guidance is 83% (91 out of 110). If this is the final percentage for the quarter, it will mark the highest percentage of companies issuing negative EPS guidance for a quarter since FactSet began tracking the data in 2006.

With the start of the peak weeks of the Q3 earnings season next week, the markets will likely shift focus from EPS guidance issued for the third quarter to EPS guidance issued for the fourth quarter.

Blended Earnings Growth: 0.8%

The blended earnings growth rate for Q3 2013 is 0.8%. Seven of the ten sectors are reporting or are expected to report higher earnings relative to a year ago, led by the Consumer Discretionary sector. On the other hand, the Energy and Financials sectors are reporting or expected to report the largest year-over-year decreases in earnings for the quarter.

Consumer Discretionary: Broad-Based Growth across Sector

The Consumer Discretionary sector is reporting the highest earnings growth rate of all ten sectors at 6.4%. Growth is broad-based across the sector. Nine of the twelve industries in the sector are reporting or are expected to report earnings growth, led by the Internet & Catalog Retail (82%), Household Durables (17%), and Auto Components (16%) industries. At the other end of the spectrum, the Multiline Retail (-22%) and Automobiles (-7%) industries have the lowest earnings growth rates for the quarter.

Energy: Chevron vs. Exxon Mobil & Phillips 66

The Energy sector has the lowest earnings growth of any sector at -5.5%. Three of the seven sub-industries in this sector are expected to report a decline in earnings: Coal & Consumable Fuels (-93%), Oil & Gas Refining & Marketing (-68%), and Integrated Oil & Gas (-2%). On the other end of the spectrum, the Oil & Gas Storage & Transportation (49%) and Oil & Gas Exploration & Production (22%) sub-industries have the highest earnings growth rates.

At the company level, Chevron is the largest contributor to earnings growth for the sector, while Exxon Mobil and Phillips 66 are the largest detractors to earnings growth. The mean EPS estimate for Chevron is \$2.80, relative to year-ago actual EPS of \$2.38. If Chevron is excluded, the growth rate for the sector would drop to -9.4%. The mean EPS estimate for Exxon Mobil is \$1.88, compared to year-ago EPS of \$2.09. The mean EPS estimate for Phillips 66 is \$1.13, relative to year-ago EPS of \$2.97. If Exxon Mobil and Phillips 66 are excluded, the growth rate for the Energy sector would improve to 4.5%.

Financials: Bank of America & Morgan Stanley vs. JPMorgan Chase

The Financials sector has the second lowest earnings growth rate (-3.5%) of any sector. Five of the eight industries in the sector are reporting or are expected to report a decline in earnings for the quarter, led by the Diversified Financial Services (-33%) industry. Three of the eight industries are reporting or are expected to report year-over-year growth in earnings, led by the Capital Markets (54%) industry.

At the company level, Bank of America and Morgan Stanley are the key drivers of growth in the sector, while JPMorgan Chase is the largest detractor to earnings growth. The mean EPS estimate for Bank of America is \$0.19, relative to year-ago EPS of \$0.00. The mean EPS estimate for Morgan Stanley is \$0.40, compared to year-ago EPS of -\$0.55. If both of these companies are excluded, the growth rate for the sector would fall to -12.6%. On the other hand, JPMorgan Chase reported actual EPS of -\$0.17, compared to year-ago actual EPS of \$1.40. If this company is excluded, the growth rate for the sector would improve to 12.4%.

Blended Revenue Growth: 2.2%

The blended revenue growth rate for Q3 2013 is 2.2%, below the growth rate of 2.5% at the end of the third quarter (September 30). Nine of the ten sectors are reporting or are predicted to report revenue growth for the quarter, led by the Utilities and Consumer Discretionary sectors. The Energy sector is the only sector expected to report a year-over-year decline in sales in the quarter.

The Utilities sector is expected to report the highest revenue growth at 5.6%. While all four industries are predicted to report growth, the Independent Power Producers & Energy Traders (18%) and Gas Utilities (17%) industries have the highest expected sales growth rates in the sector.

The Consumer Discretionary sector has the second highest revenue growth rate at 5.3%. Growth is broad-based across the sector. At the industry level, eleven of the twelve industries in the sector are reporting or are expected to report earnings growth, led by the Internet & Catalog Retail (22%), Distributors (12%), and Household Durables (12%) industries.

The Energy sector has the lowest revenue growth rate of all ten sectors at -2.9%. At the sub-industry level, three of the seven sub-industries are predicted to report a decrease in revenues: Oil & Gas Refining & Marketing (-8%), Coal & Consumable Fuels (-7%), and Integrated Oil & Gas (-6%). At the company level, Hess Corporation is the largest detractor to growth in the sector. The mean sales estimate for Hess Corporation is \$2.4 billion, compared to sales of \$9.6 billion in the year-ago quarter. If Hess is excluded, the revenue growth rate for the sector improves to -1.0%. Other companies that are significant contributors to the expected year-over-year decline in revenue for the sector include Valero Energy, Phillips 66, and Exxon Mobil.

Global Concerns: F/X Rates, Europe and Emerging Markets

Less Favorable F/X Rates

The U.S. dollar has strengthened relative to the Japanese yen and other foreign currencies over the past year. In the year-ago quarter (Q3 2012), one dollar was equal to about \$78.62 yen on average. For Q3 2013 on average, one dollar was equal to about \$98.90 yen on average. A number of companies commented on the negative impact of F/X rates on revenues and earnings for the third quarter.

“For example, the year-over-year exchange rates for the yen for both the spot rate and the average rate have weakened 20% against the dollar. Other major FX moves occurred in India, Australia, Argentina and Brazil. These were somewhat offset by a slight strengthening of the euro. Overall, FX rates had a negative impact on our revenue and billings growth for the quarter although the impact on profitability was less pronounced.” –Red Hat (Sep. 23)

“I want to start by letting you know that currency in Q1 gave us a 2% headwind for new software license and total revenue which was more than my guidance last quarter.” –Oracle (Sep. 18)

“Year-over-year, FX rate changes had an \$18 million negative impact on reported revenue.” –Adobe Systems (Sep. 17)

Europe

Europe has been reporting a decline in economic growth relative to last year. According to FactSet Economics, the European Union recorded a decrease in GDP of 0.2% in Q2 2013, which marked the sixth consecutive quarter of year-over-year declines in GDP. A number of companies stated that economic conditions were still weak in Europe in the third quarter. However, some companies stated that conditions may have reached a bottom or improved slightly.

“I think so from a macroeconomic situation, the one area that I called out was in particular the EMEA region had its lowest percentage of total bookings or total company bookings that they've had in some time. Having said that, I think their Q3 and Q4 is shaping up better and I'm hopeful that we're going to see some improvement there.” –Red Hat (Sep. 23)

“In Europe, first quarter sales in constant currency declined 3%, reflecting the tough operating environment in the region.” –General Mills (Sep. 18)

Emerging Markets

Economic growth for some countries in emerging markets regions has also been decreasing over the past year. According to FactSet Economics, two of the four “BRIC” countries recorded slower GDP growth in the most recent quarter. For Q2 2012, China and India recorded GDP growth of 7.6% and 3.4%, respectively. By Q2 2013, GDP growth rates for China and India had fallen to 7.5% and 2.4%.

On the other hand, Brazil has recorded an increase in GDP growth over the past year. For Q2 2013, Brazil reported GDP growth of 3.3%, above the 0.5% recorded in Q1 2012.

As a result, comments on business conditions in China and emerging markets continued to be mixed for Q3. Some companies reported weak conditions, while others saw strength.

“Revenues for the NIKE Brand were \$6.5 billion, up 7 percent on a currency neutral basis, with growth in every product type and every geography except Greater China.” –NIKE (Sep. 26)

“And by the way, while many of you have commented on the softening in emerging market economies overall, I mean, I do want to point out that our business continues to be very strong in emerging markets. We had a very strong quarter in China and we're seeing terrific growth in Brazil.” –General Mills (Sep.18)

Earnings Growth Rebound Still Projected for Q413, But Little Revenue Growth

Since the start of the fourth quarter (September 30), analysts have only slightly reduced earnings growth expectations for Q4 2013 (to 9.8% from 10.1%). As a result, they still expect a significant improvement in earnings growth in the fourth quarter of 2013 relative to recent quarters. For Q4 2013, five of the ten sectors are predicted to see double-digit earnings growth: Financials (26.3%), Industrials (18.2%), Materials (14.3%), Telecom Services (13.9%), and Consumer Discretionary (11.3%).

The estimated revenue growth rate for Q4 2013 of 0.9% is expected to be well below estimated earnings growth rate. The Financials sector accounts for much of this gap between expected earnings and revenue growth for the index, as the sector is projected to report the highest earnings growth of all ten sectors at 26.3%, but also the lowest revenue growth of all ten sectors at -9.4%. For more details on this dichotomy, please see our most recent *Market Insight* report titled, "Growth Divide in EPS & Sales in Q4," which was published on September 25.

Valuation: Forward P/E Ratio is 14.3, above the 10-Year Average (14.0)

The current 12-month forward P/E ratio is 14.3. This P/E ratio is based on Thursday's closing price of 1692.56 and forward 12-month EPS estimate of \$118.75.

At the sector level, the Consumer Discretionary (17.2) and Consumer Staples (16.4) sectors have the highest forward 12-month P/E ratios, while the Financials (12.0) and Energy (12.4) sectors have the lowest forward 12-month P/E ratios.

The P/E ratio of 14.3 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 12.9, and above the prior 10-year average forward 12-month P/E ratio of 14.0.

However, it is equal to the forward 12-month P/E ratio of 14.3 recorded one month ago. During the past month, the price of the index rose by 0.5%, while the forward 12-month EPS estimate increased by 0.4%.

At the sector level, the Utilities (to 15.2 from 14.9) sector witnessed the largest increase in the forward 12-month P/E ratio over the past month. On the other hand, the Telecom Services sector (to 13.8 from 13.9) recorded the largest decrease in the forward 12-month P/E ratio during this time frame.

Companies Reporting Next Week: 67

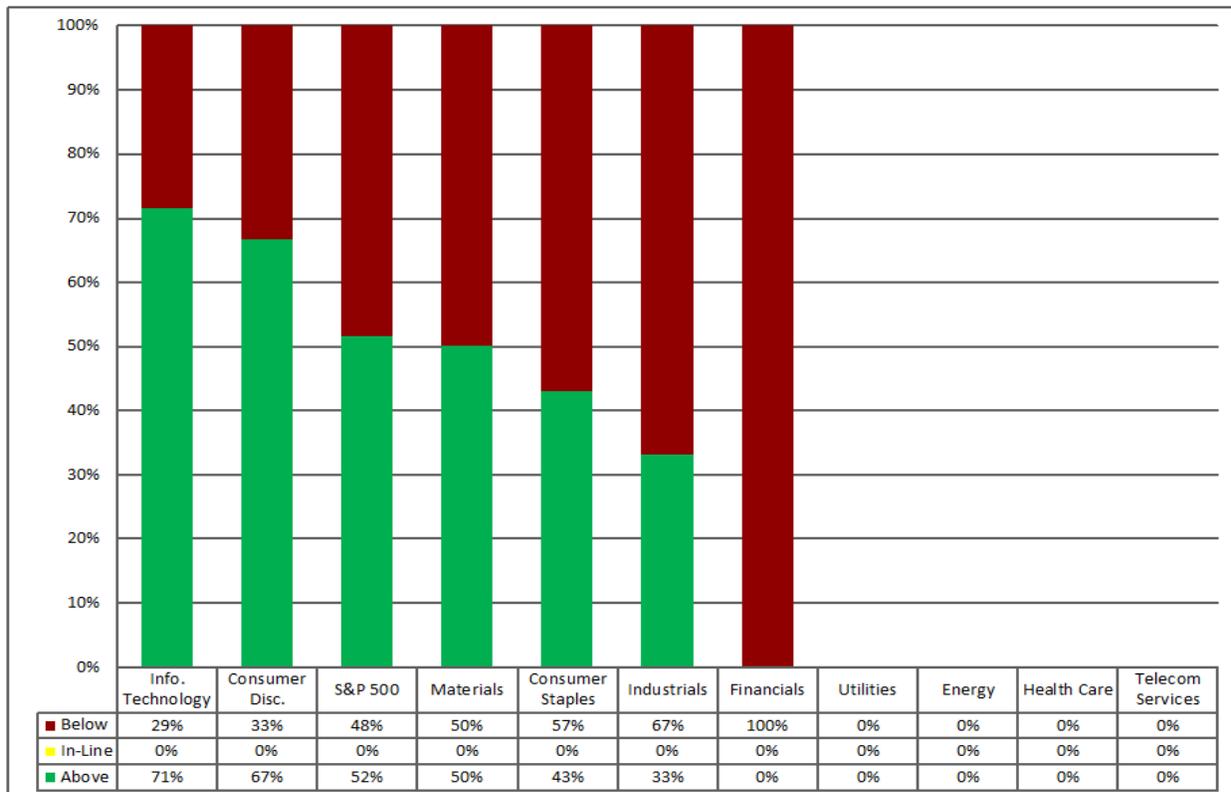
The upcoming week marks the first "peak" week of the third quarter earnings season, as nine Dow 30 components and 67 S&P 500 companies are scheduled to report earnings for the third quarter.

Q3 2013: Scorecard

Q3 2013 Earnings: Above, In-Line, Below Estimates

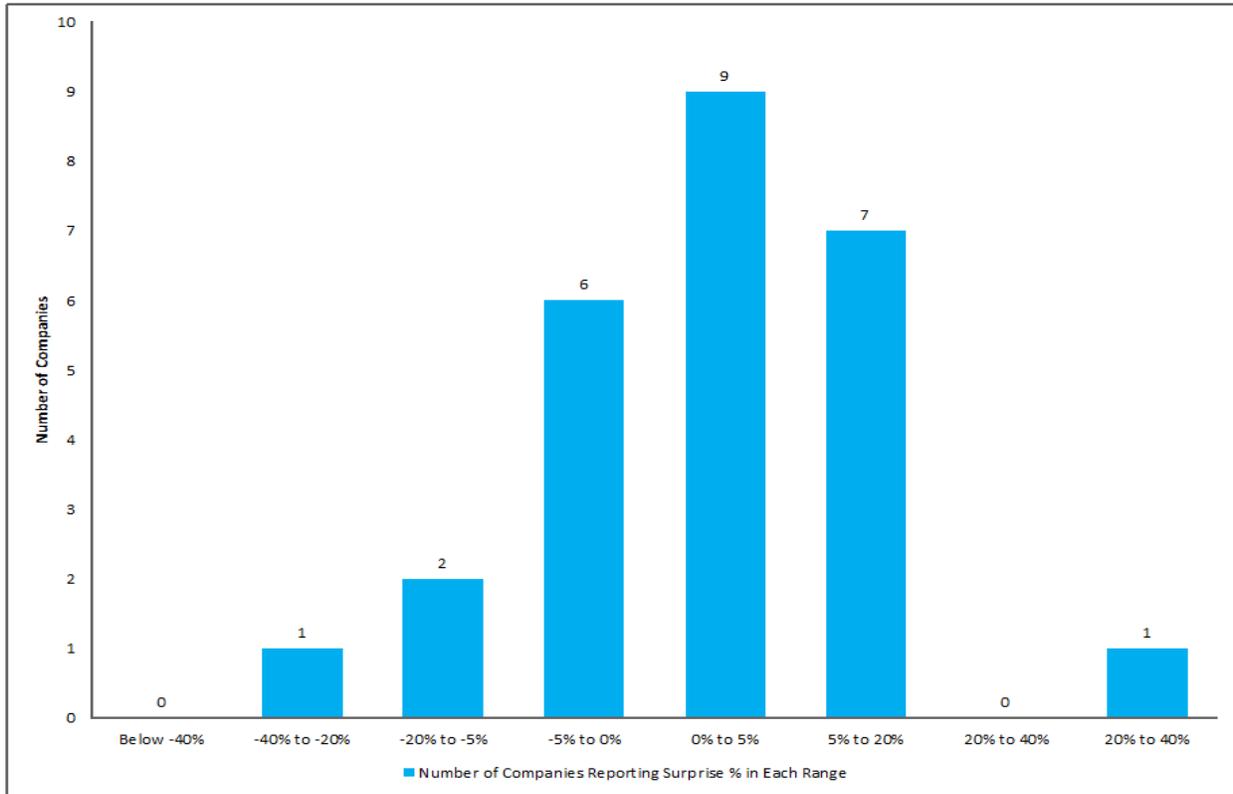


Q3 2013 Revenues: Above, In-Line, Below Estimates

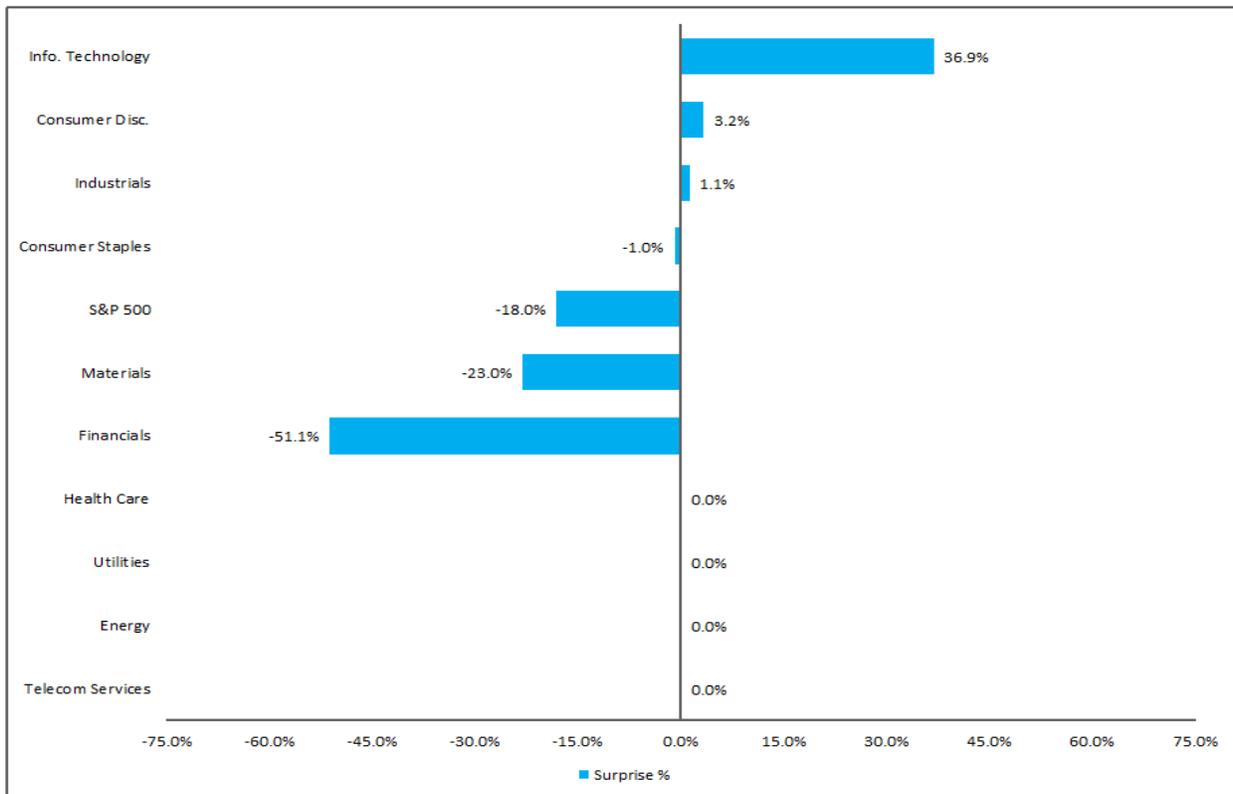


Q3 2013: Scorecard

Q3 2013: Surprise % Numbers

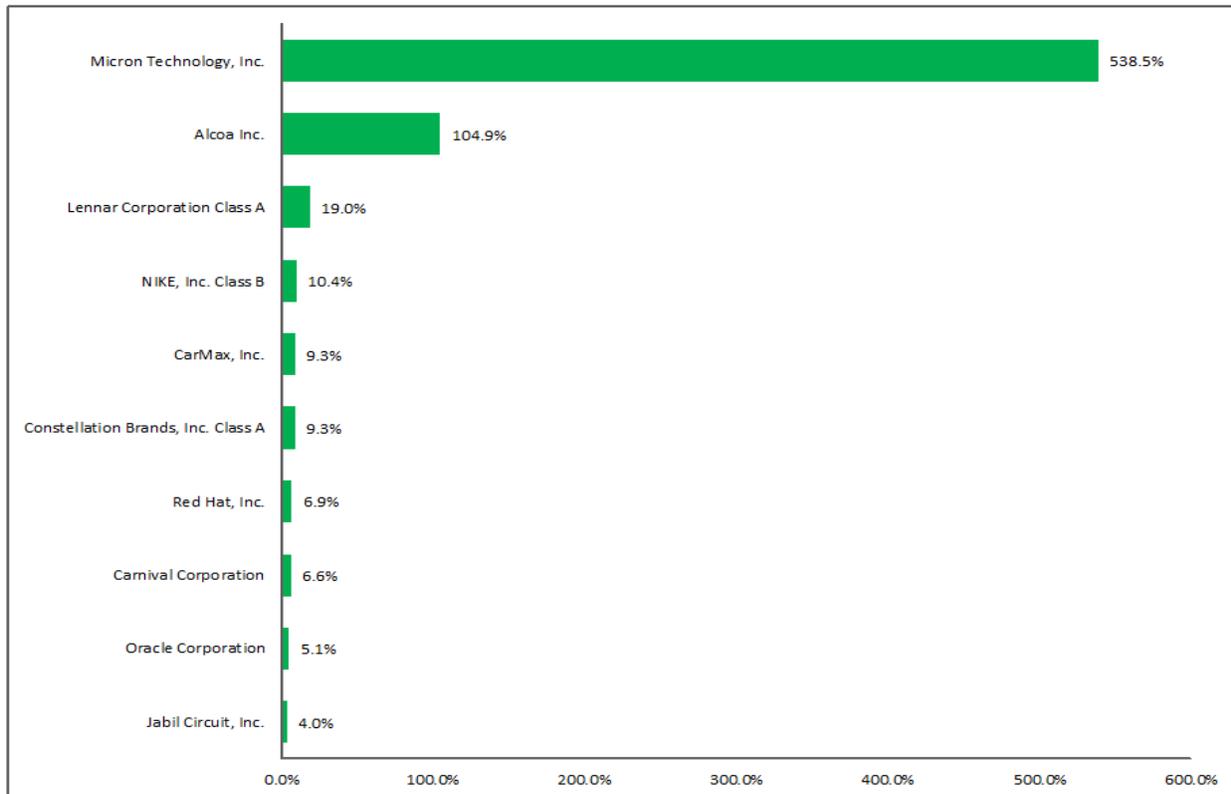


Q3 2013: Sector Level Surprise %

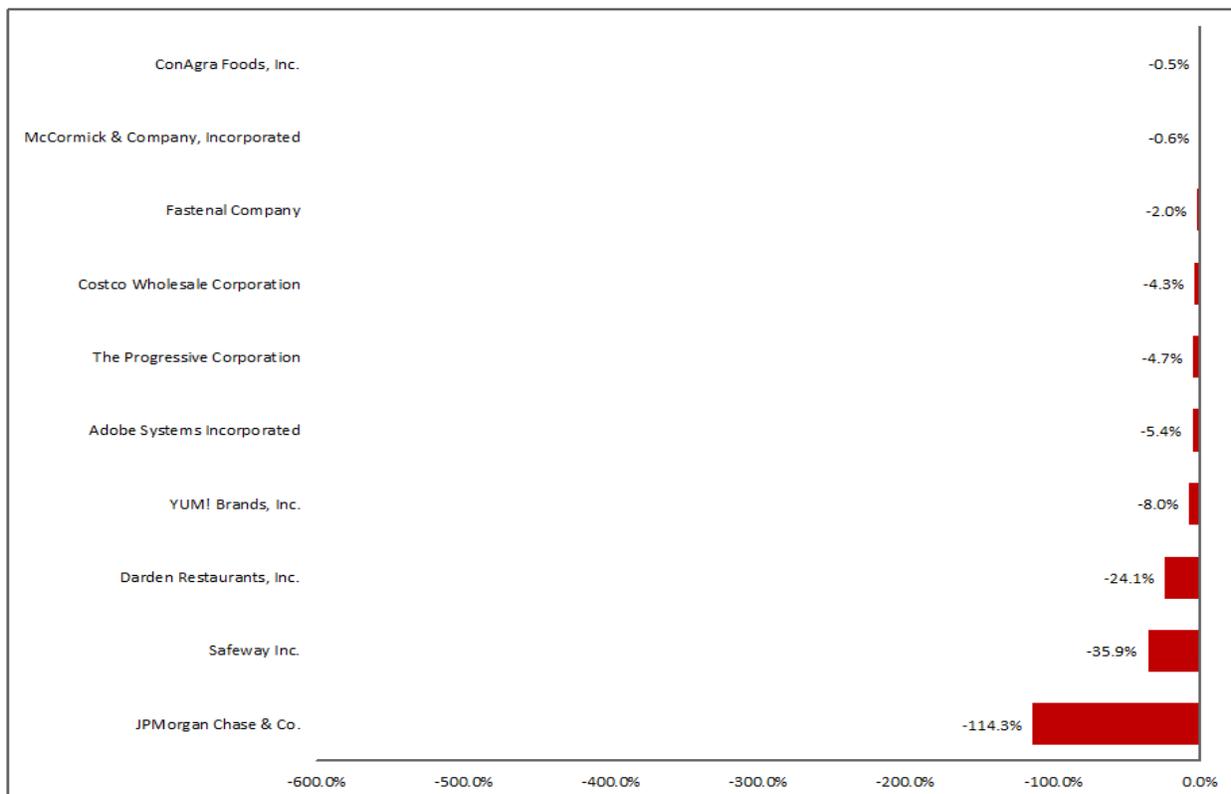


Q3 2013: Scorecard

EPS Surprise %: Top 10 Companies



EPS Surprise %: Bottom 10 Companies

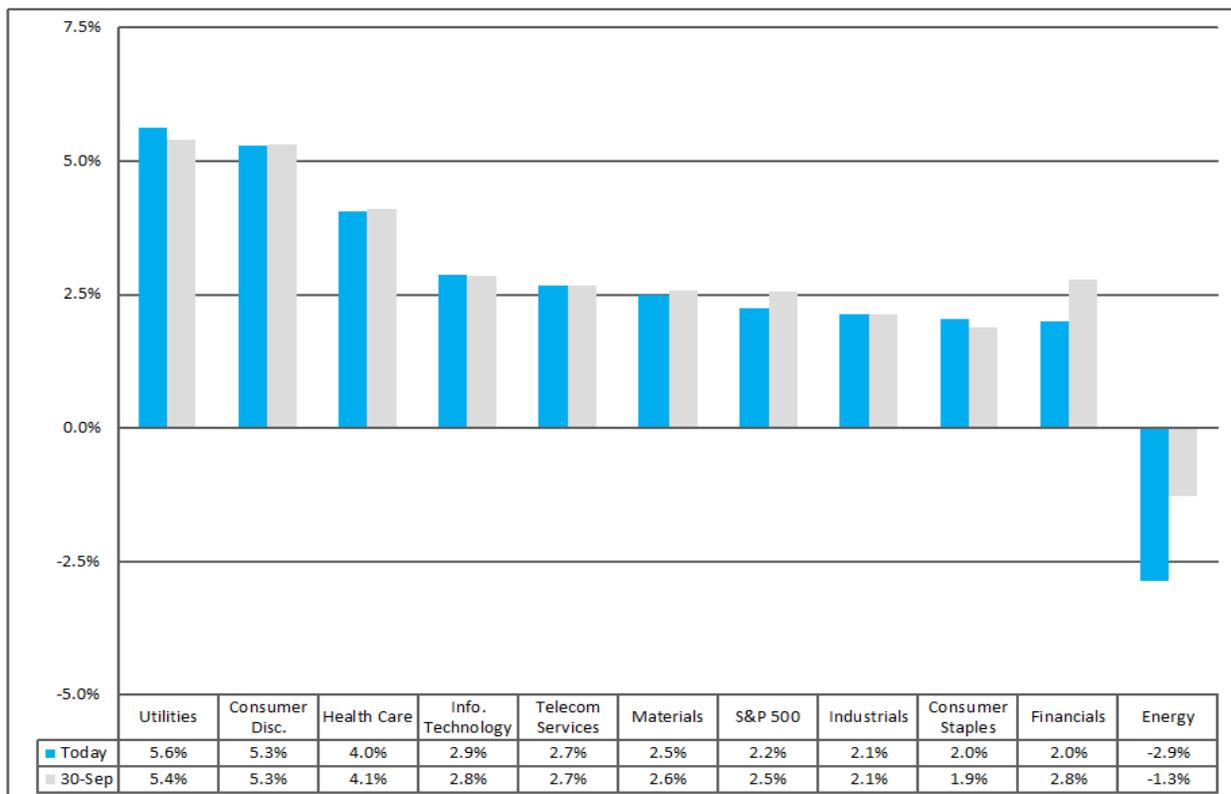


Q3 2013: Growth

Q3 2013 Earnings Growth

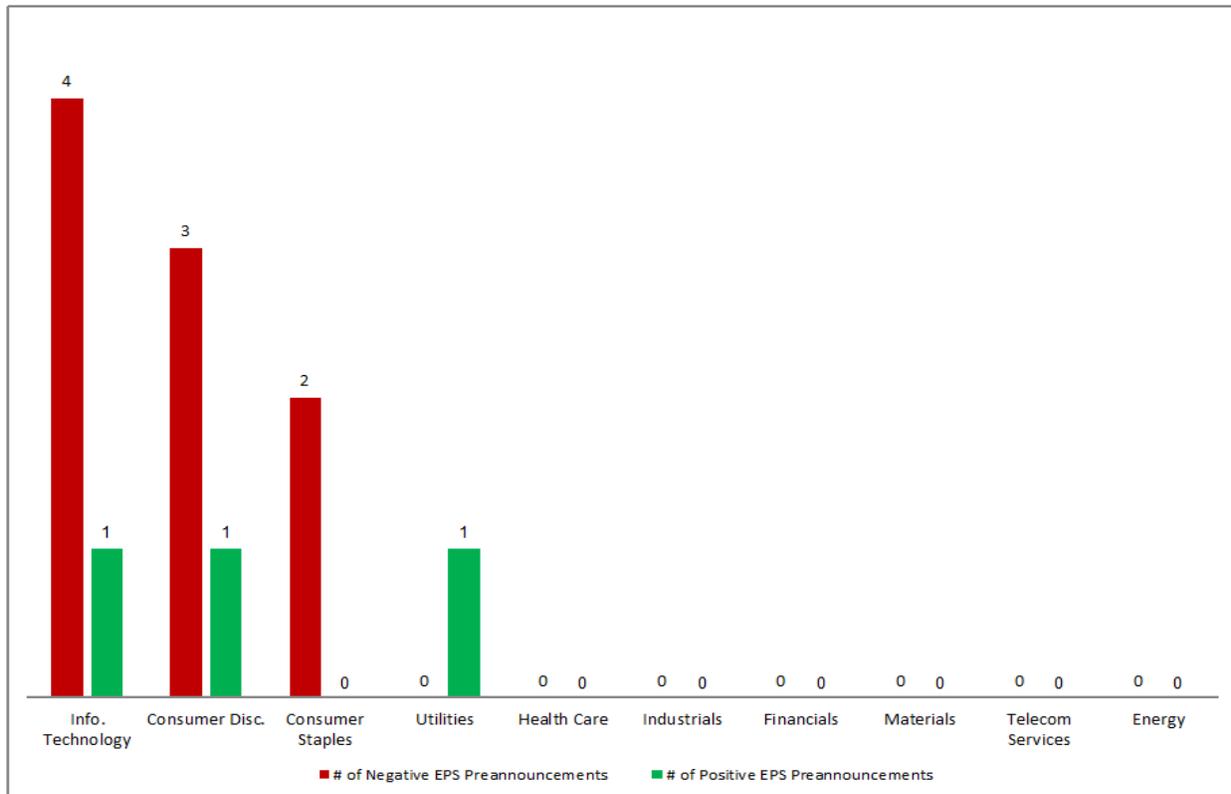


Q3 2013 Revenue Growth

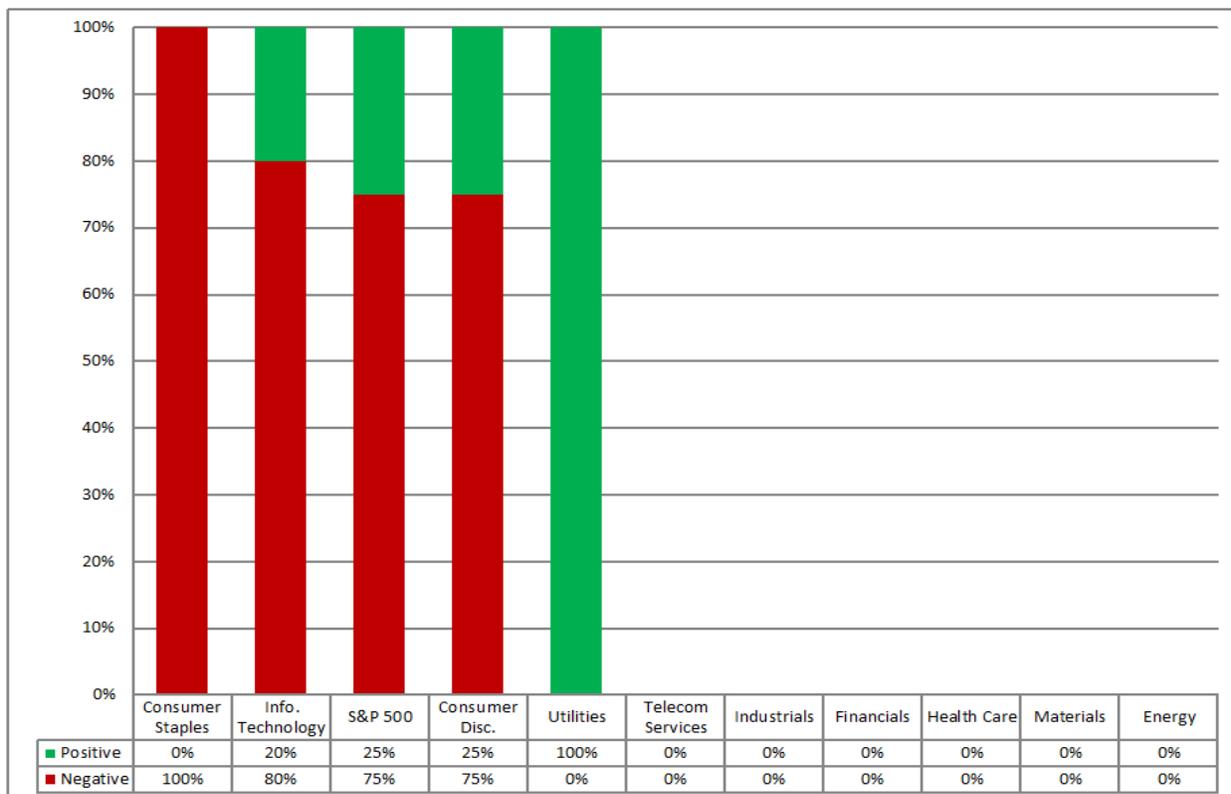


Q4 2013: Guidance

Number of Positive & Negative EPS Preannouncements: Q4 2013

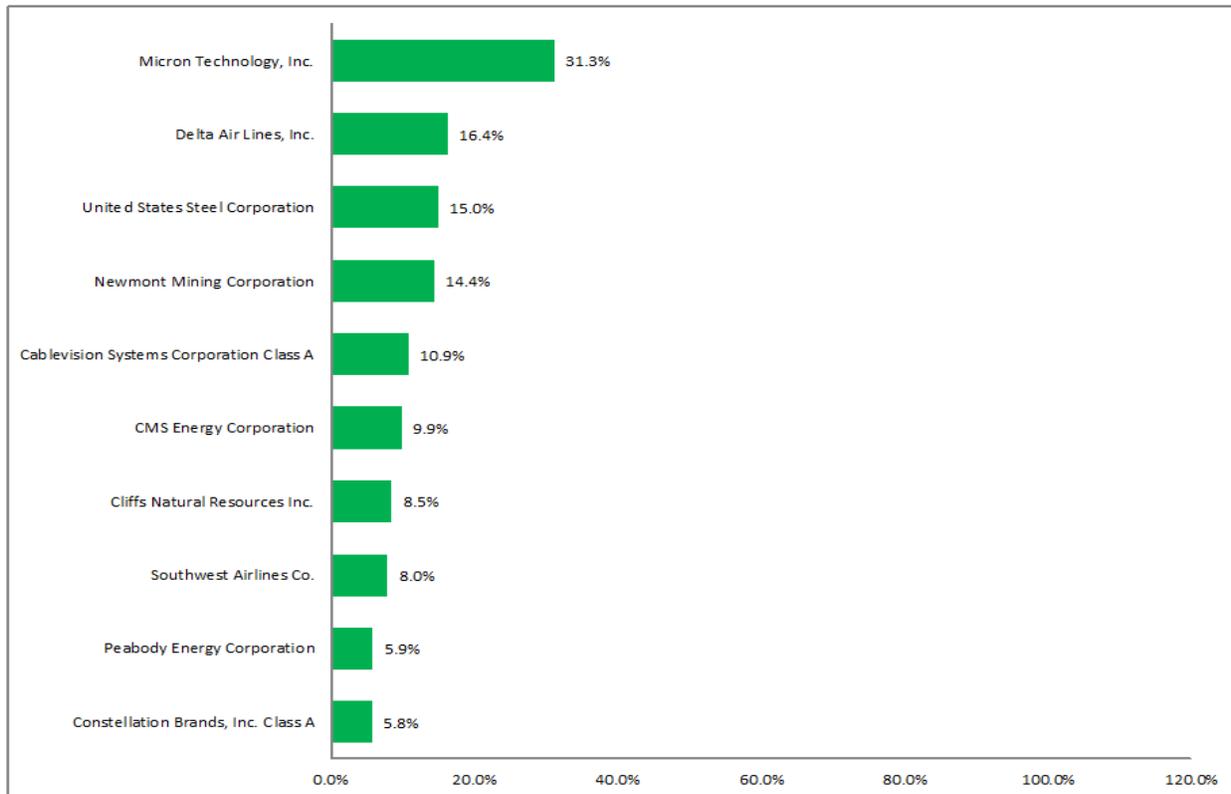


Percentage of Positive & Negative EPS Preannouncements: Q4 2013

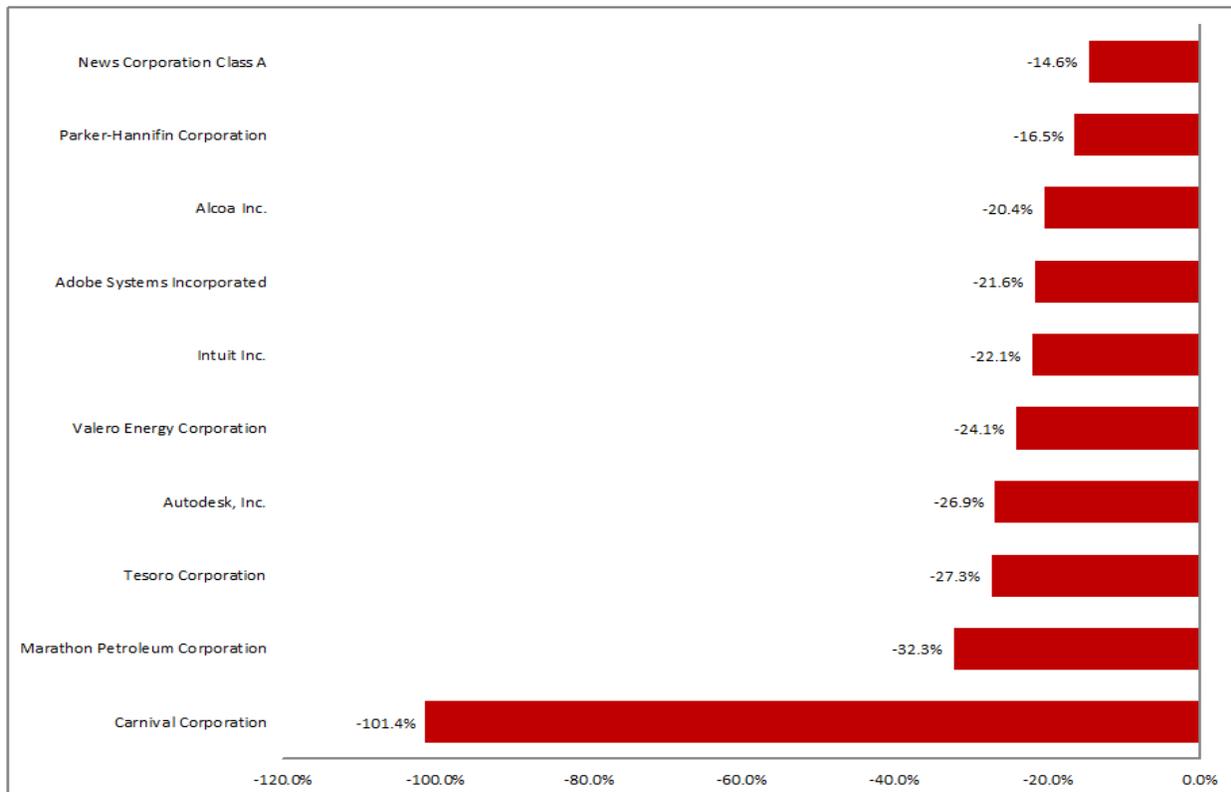


Q4 2013: EPS Revisions

Highest Upward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

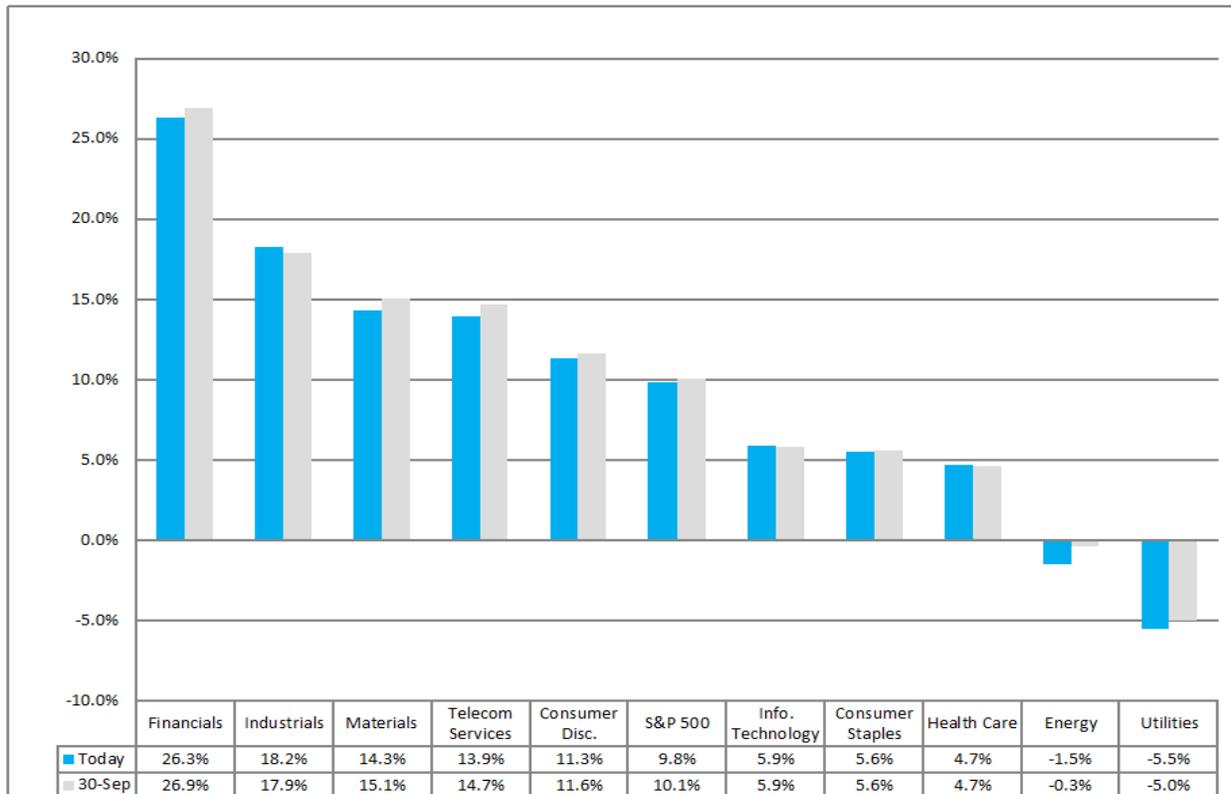


Highest Downward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

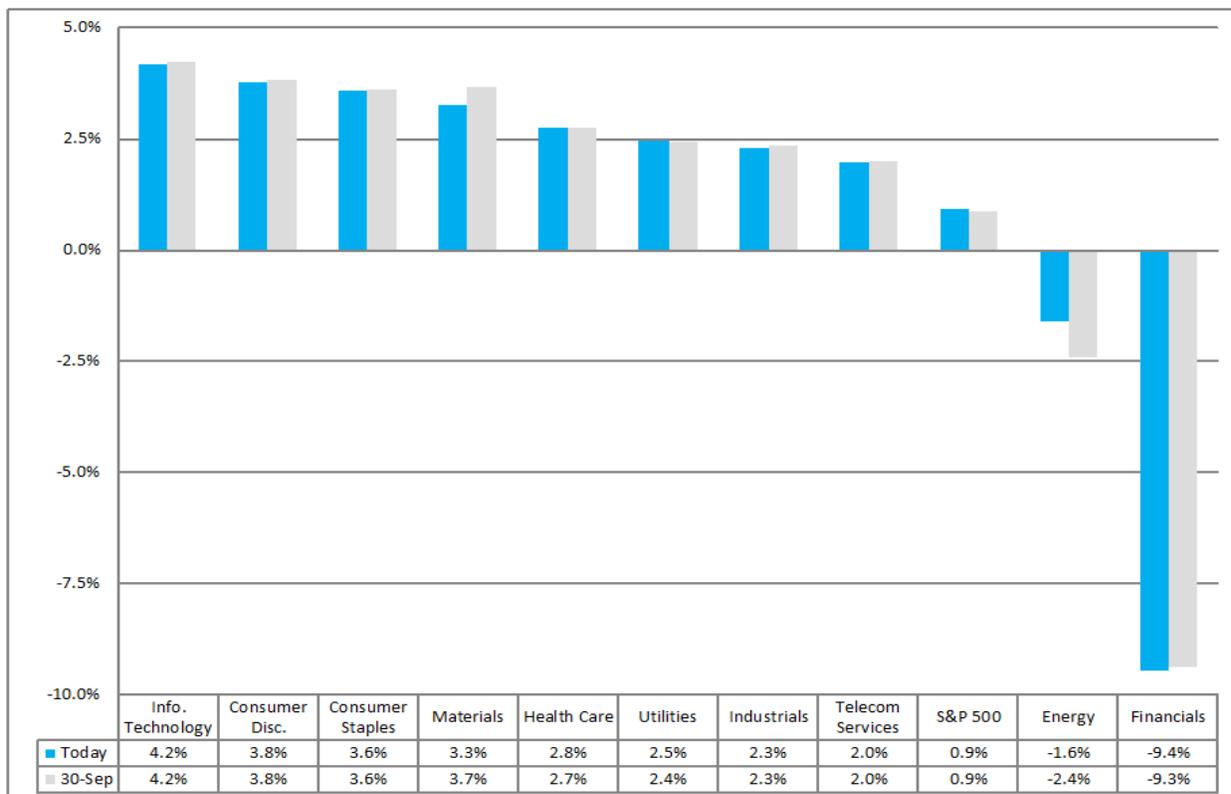


Q4 2013: Growth

Q4 2013 Earnings Growth

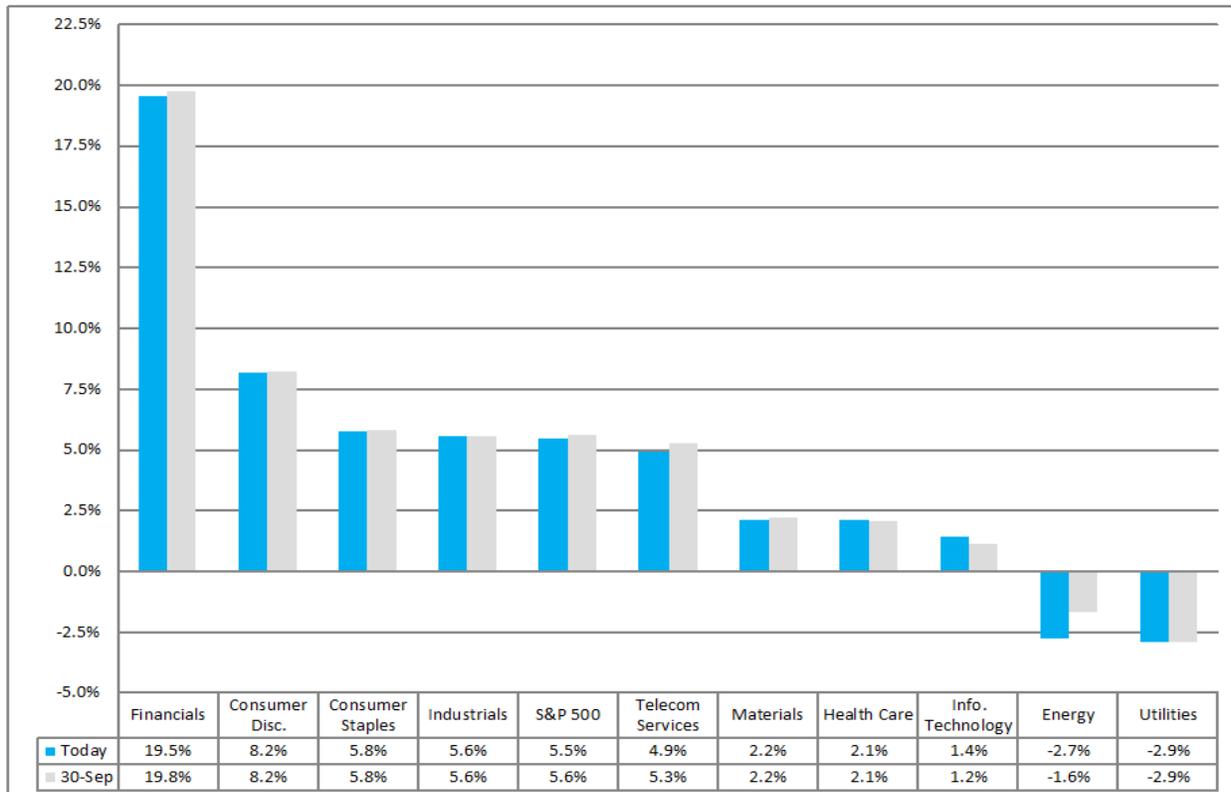


Q4 2013 Revenue Growth

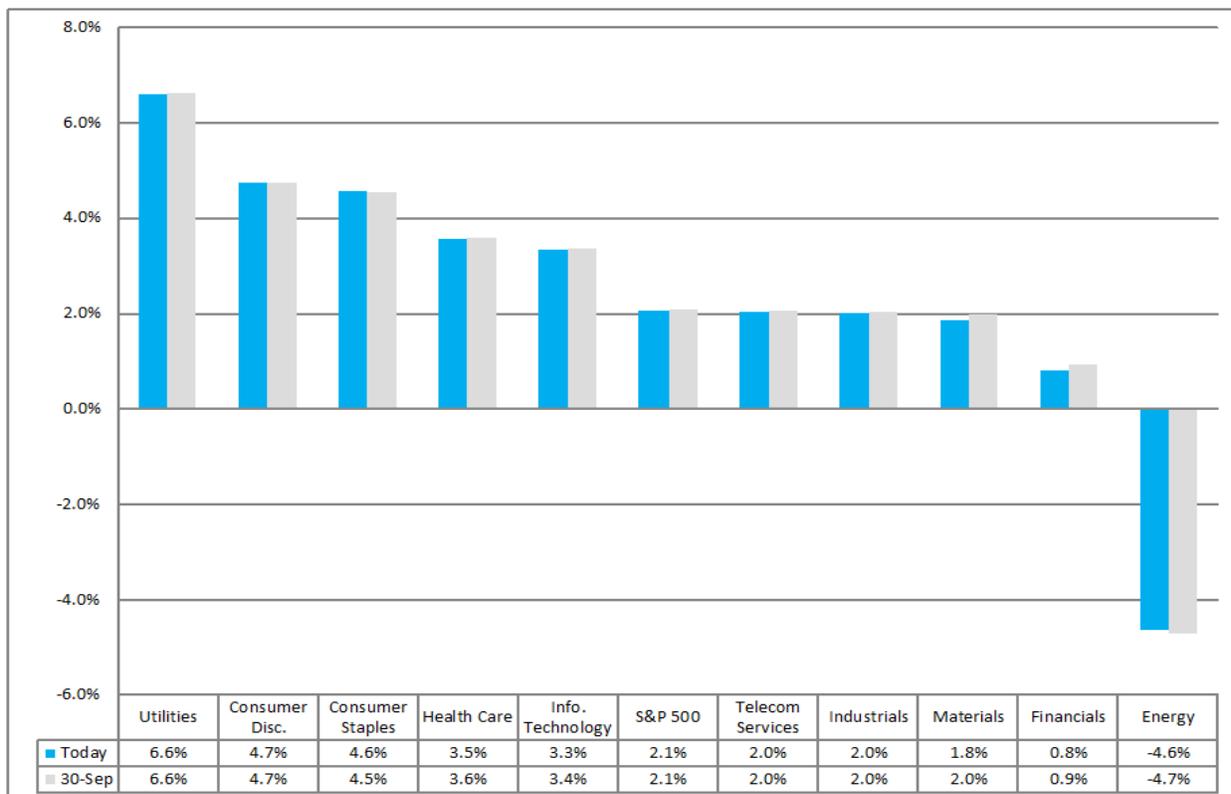


CY 2013: Growth

CY 2013 Earnings Growth

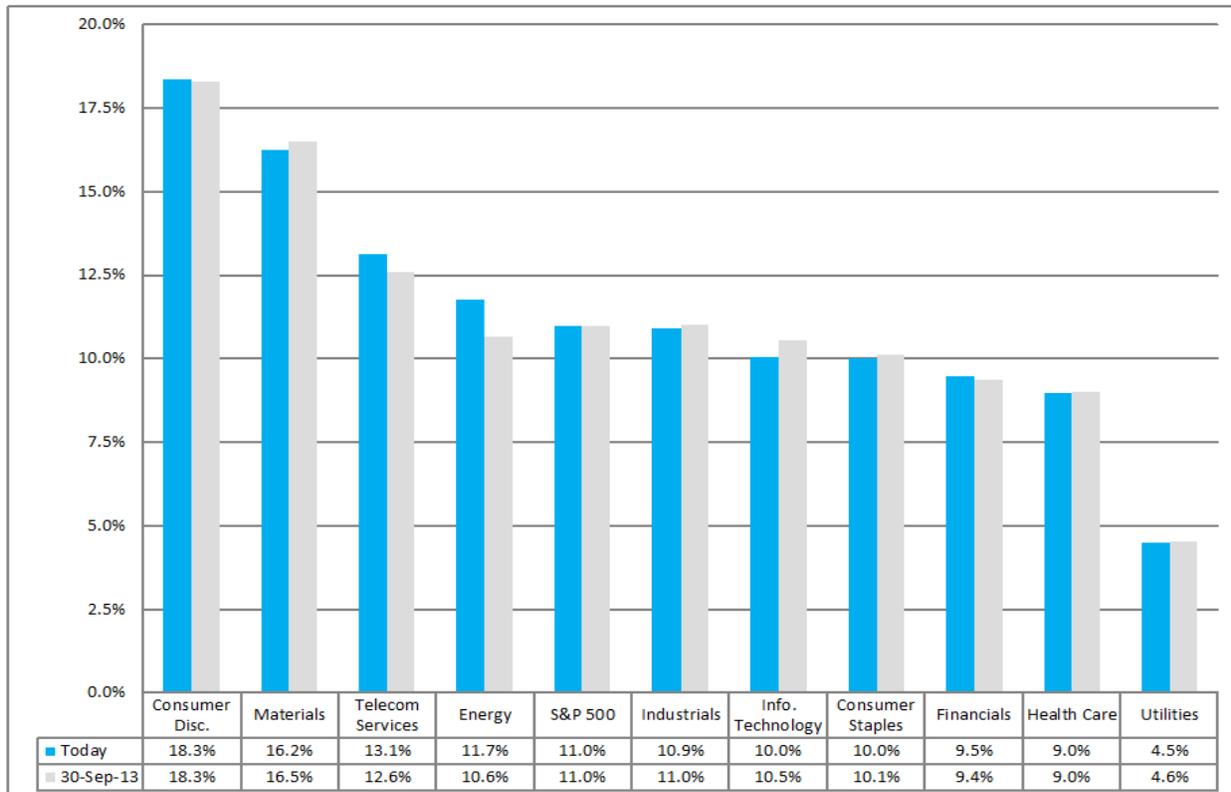


CY 2013 Revenue Growth

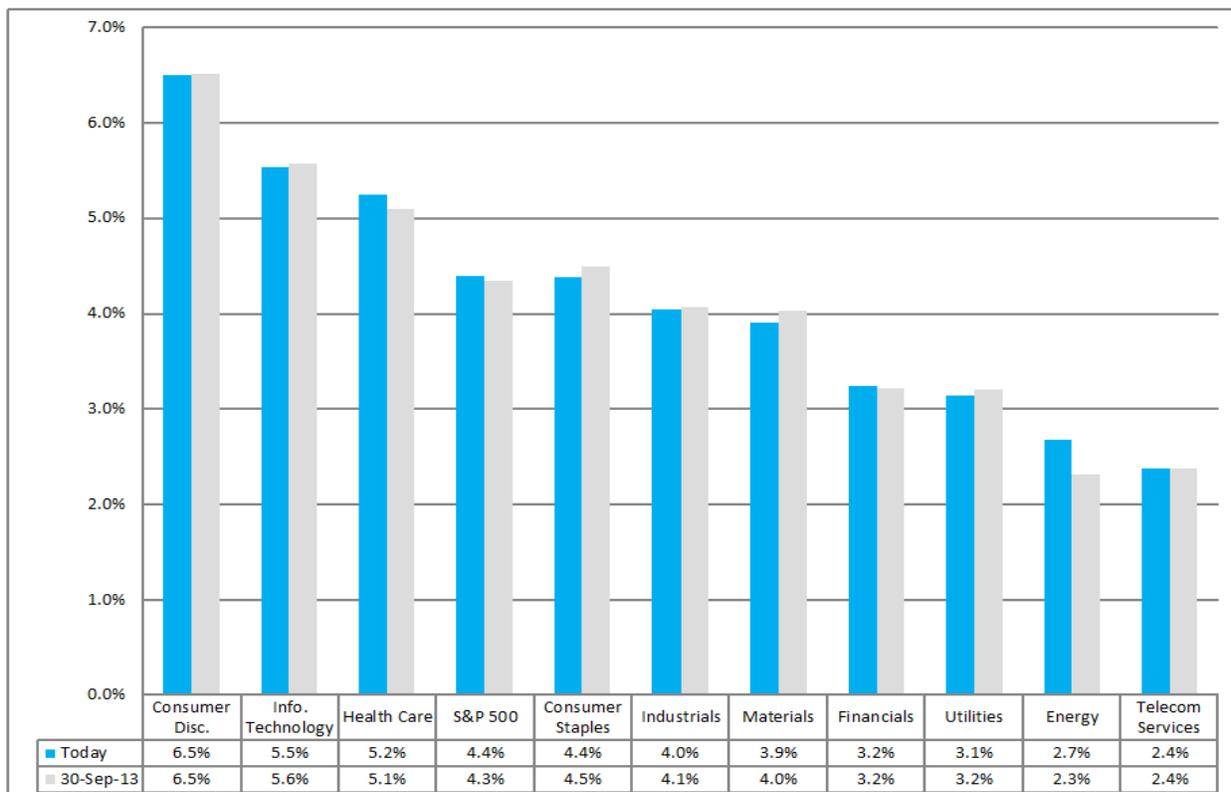


CY 2014: Growth

CY 2014 Earnings Growth

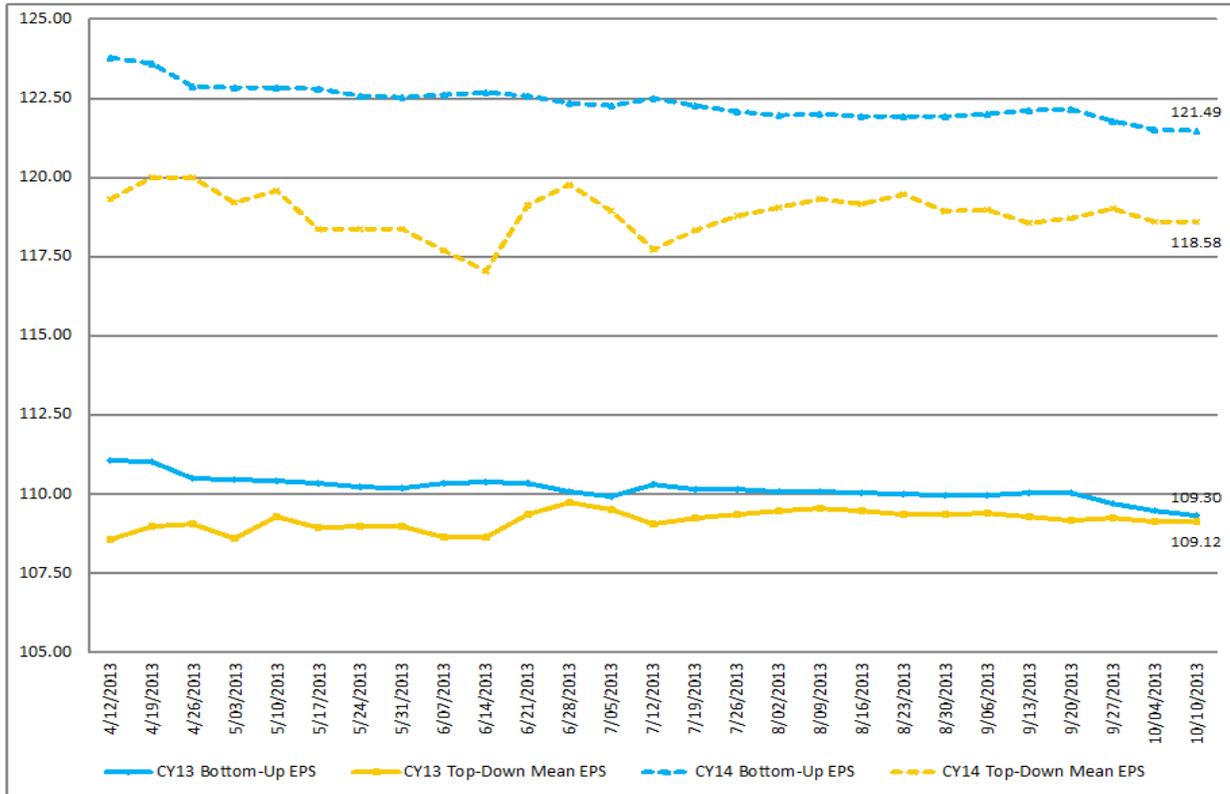


CY 2014 Revenue Growth

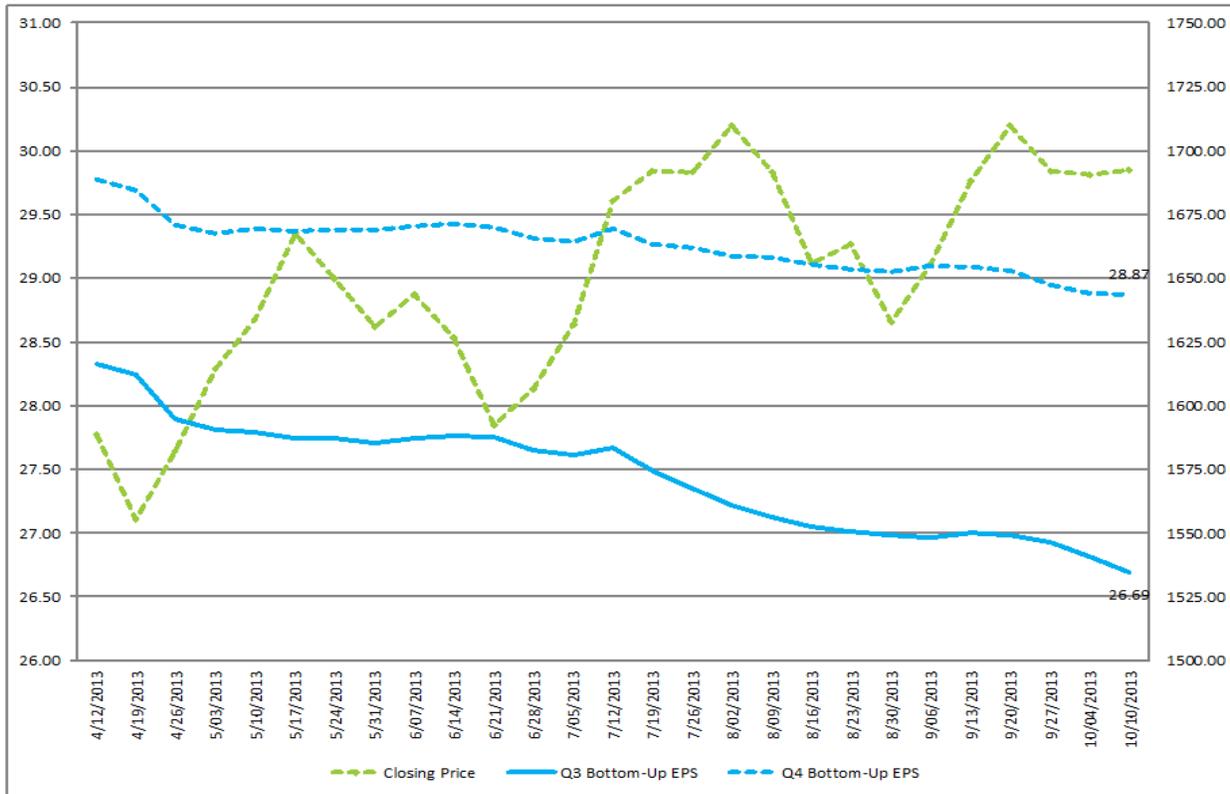


Bottom-up EPS Estimates: Revisions

CY Bottom-Up EPS vs. Top-Down Mean EPS (Trailing 26-Weeks)

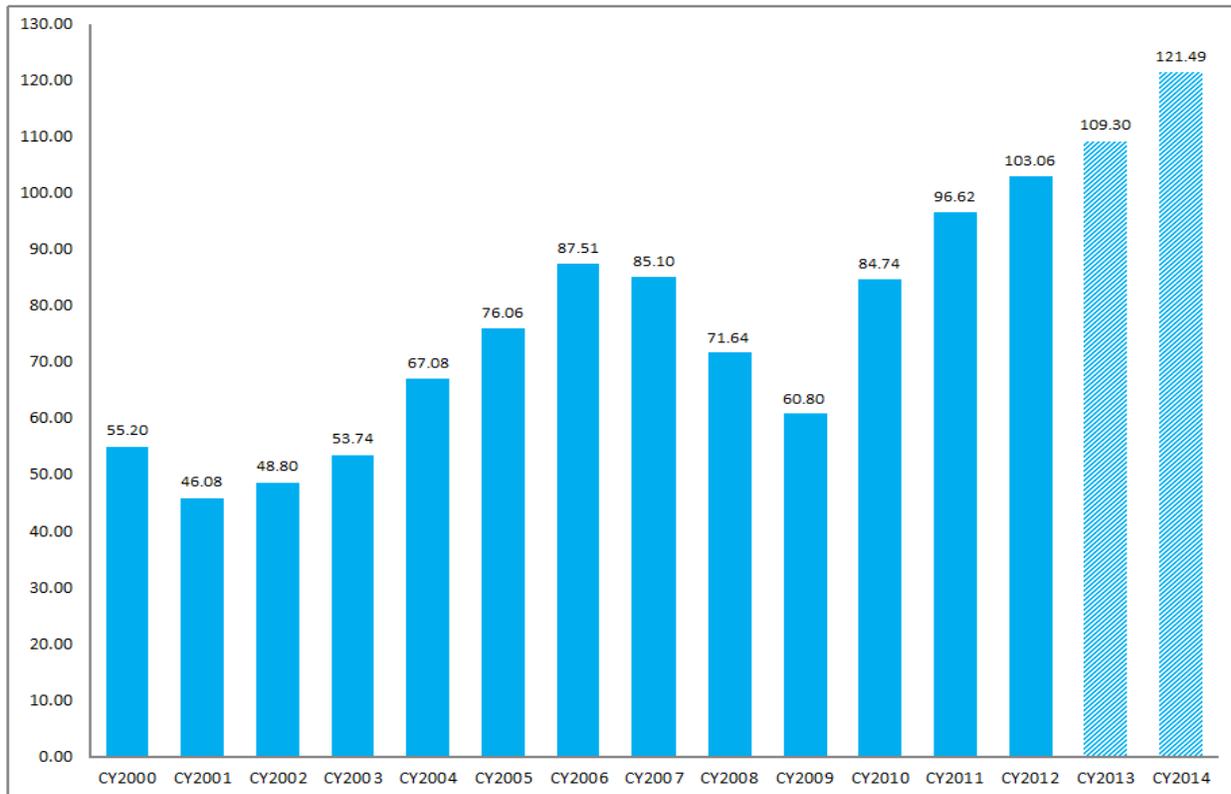


Change in Q213 Bottom-Up EPS vs. Price (Trailing 26-Weeks)

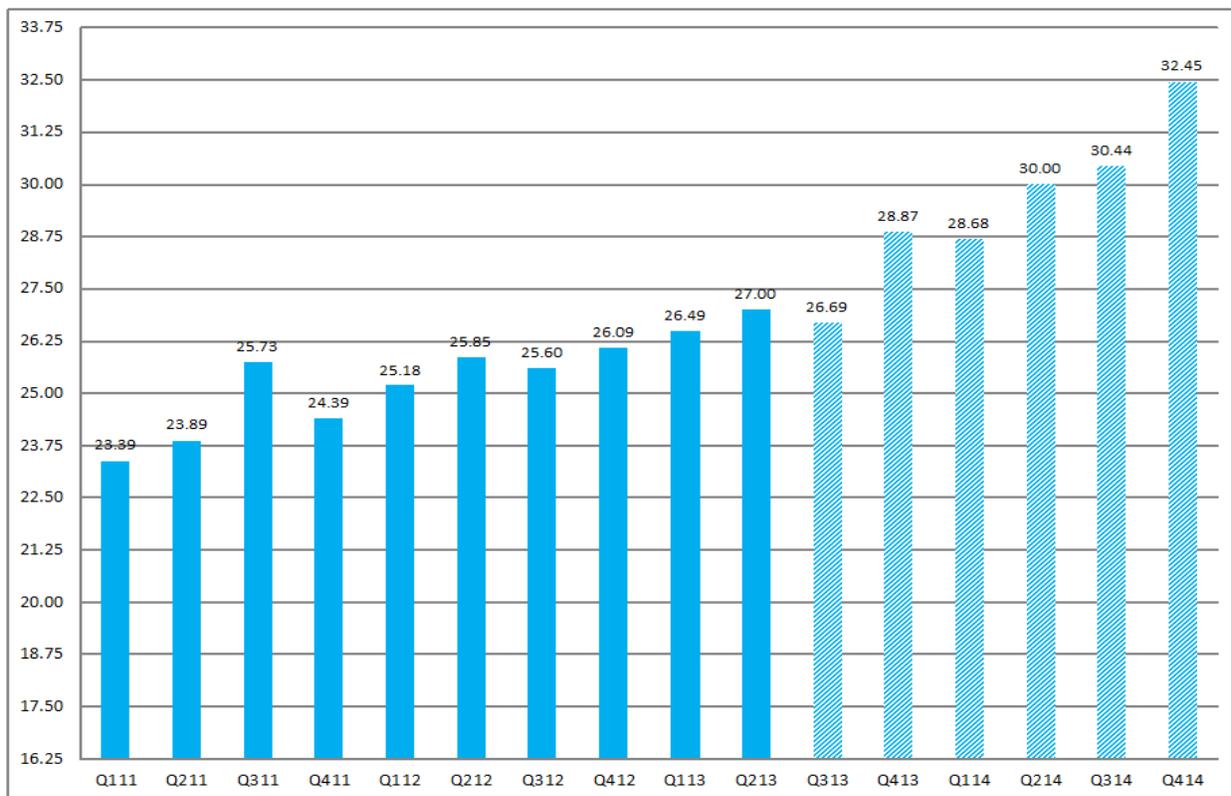


Bottom-up EPS Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates

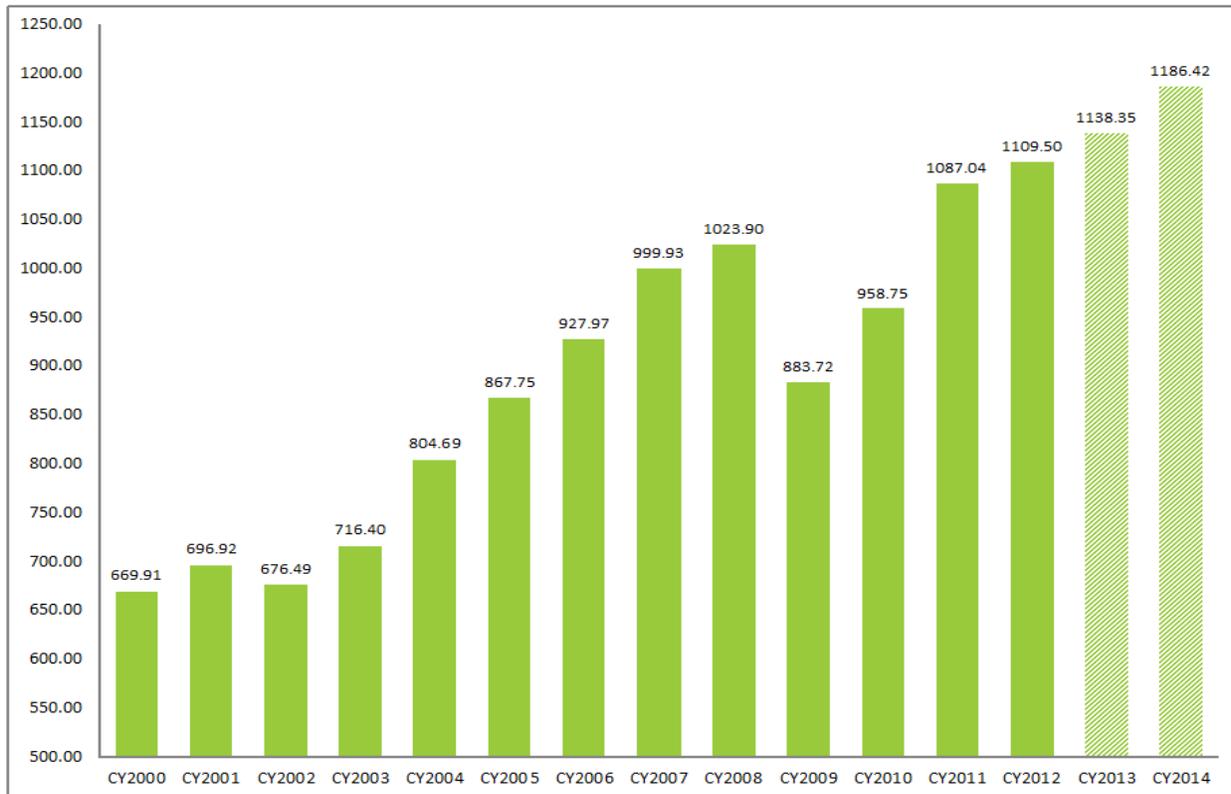


Quarterly Bottom-Up EPS Actuals & Estimates

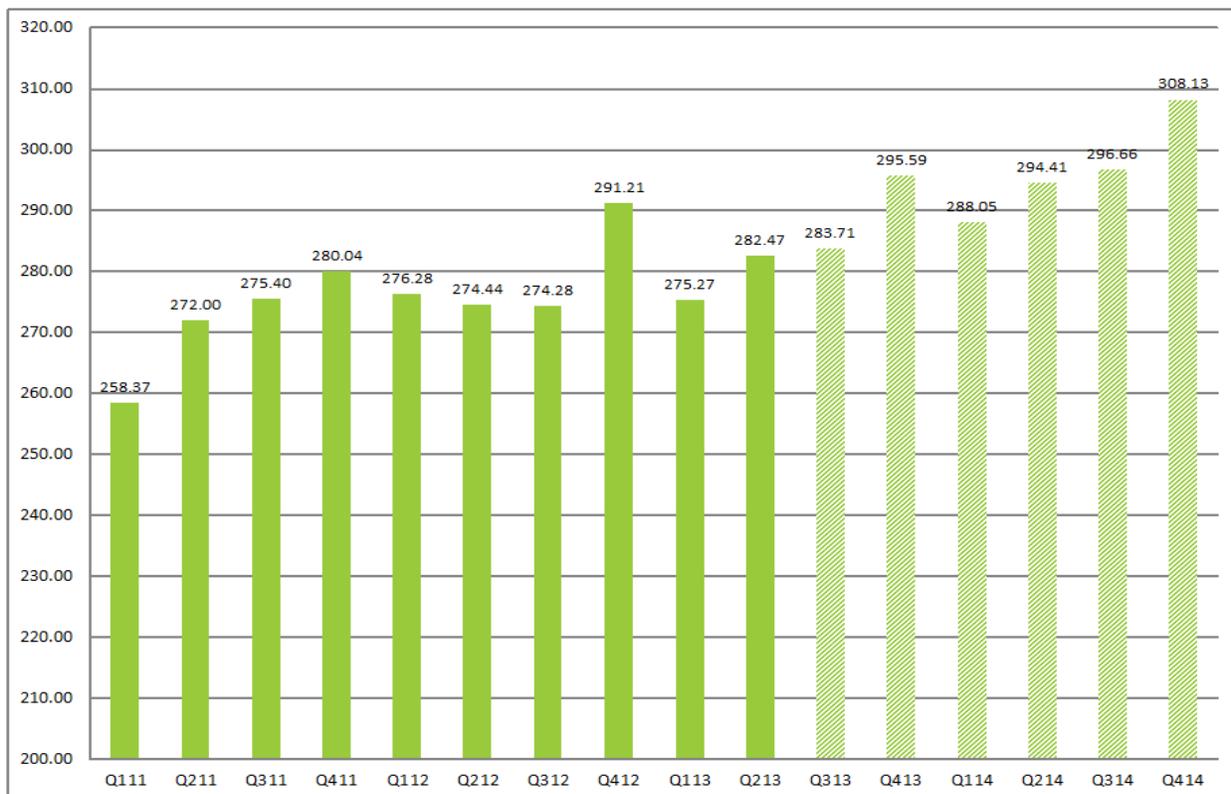


Bottom-up SPS Estimates: Current & Historical

Calendar Year Bottom-Up SPS Actuals & Estimates

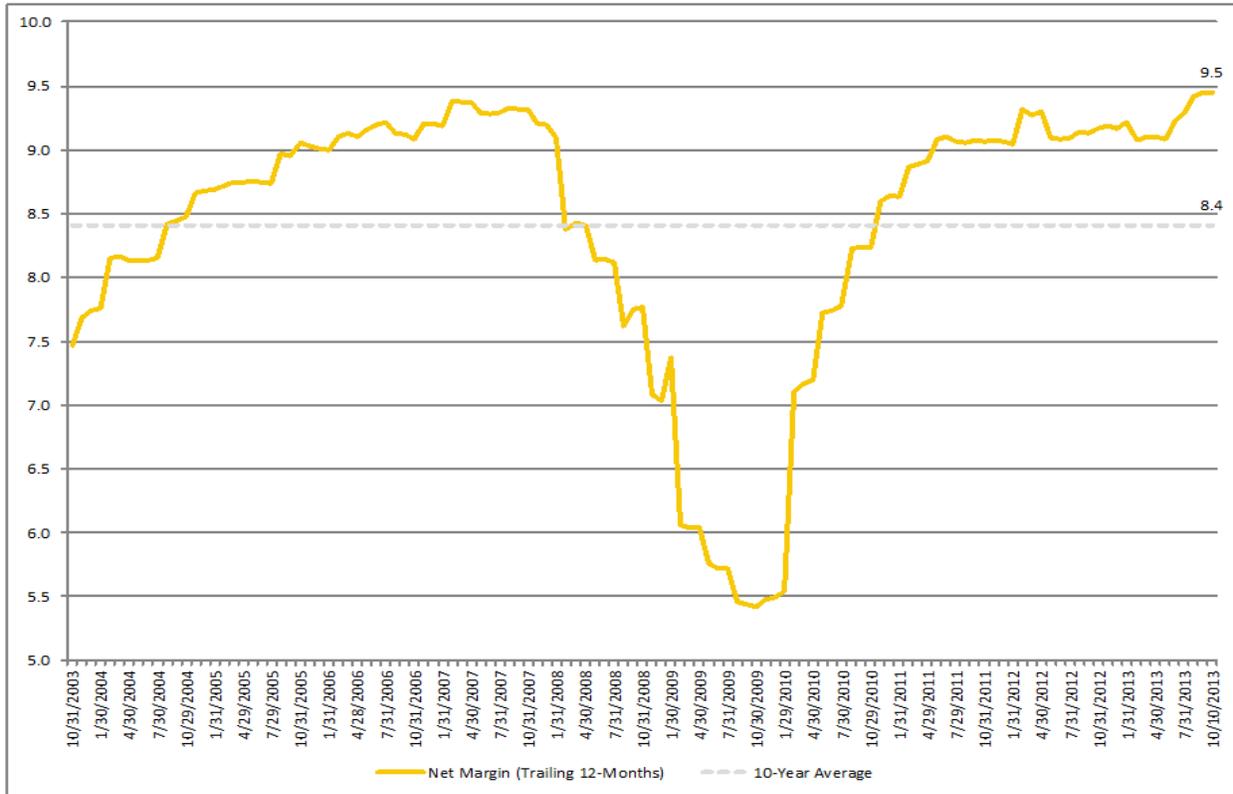


Quarterly Bottom-Up SPS Actuals & Estimates

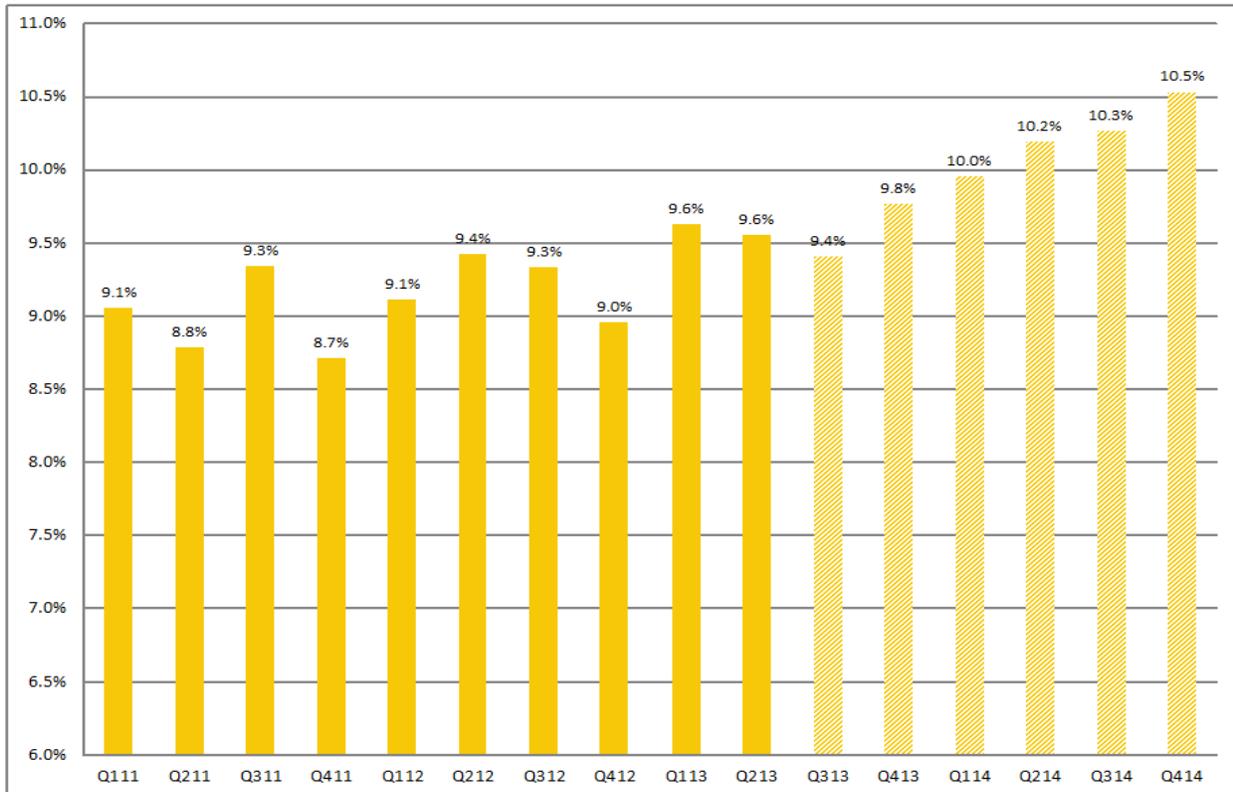


Net Margins: Current & Historical

Trailing 12M Net Margin: 10 Years

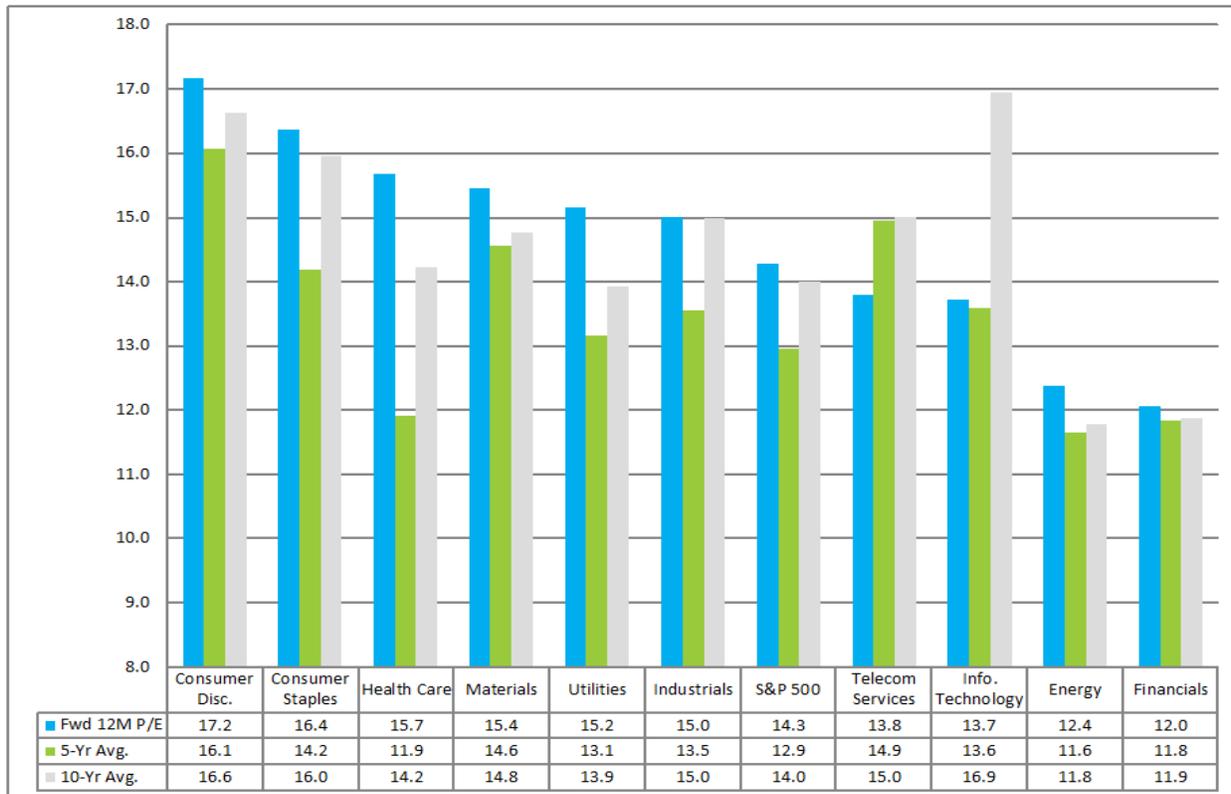


Quarterly Net Margins (Bottom-Up EPS / Bottom-Up SPS)

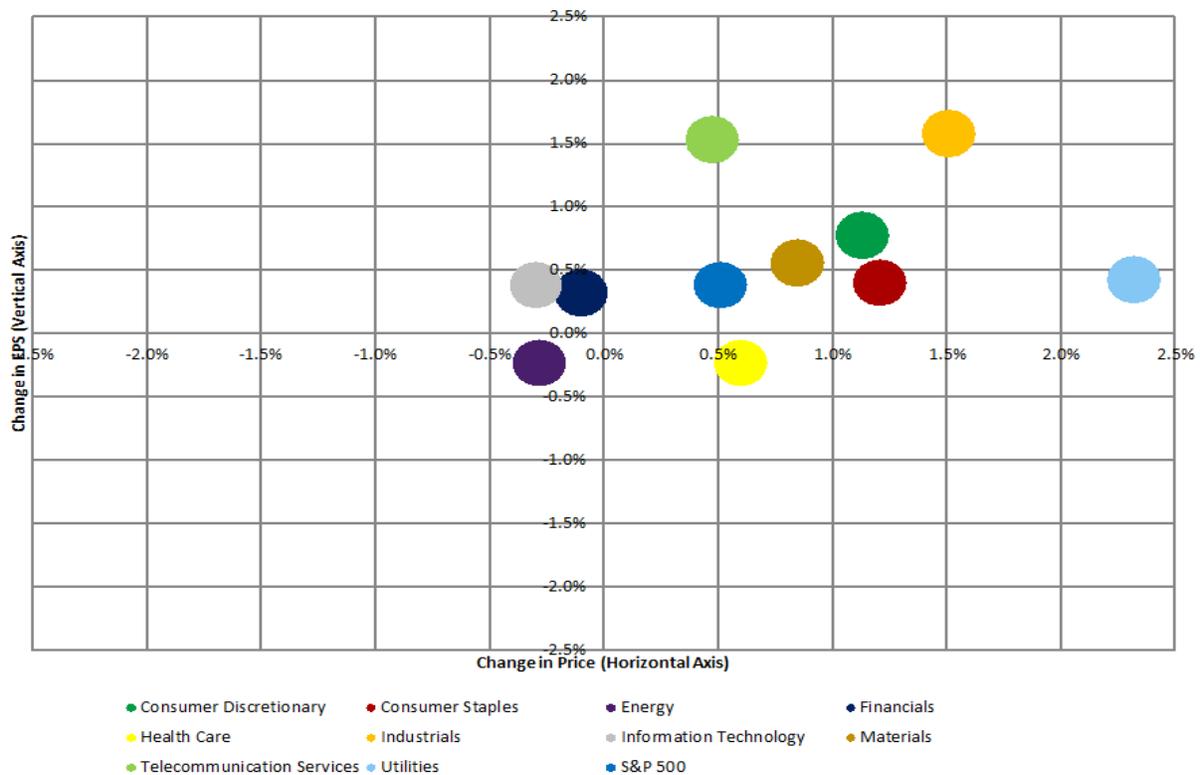


Forward 12M Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

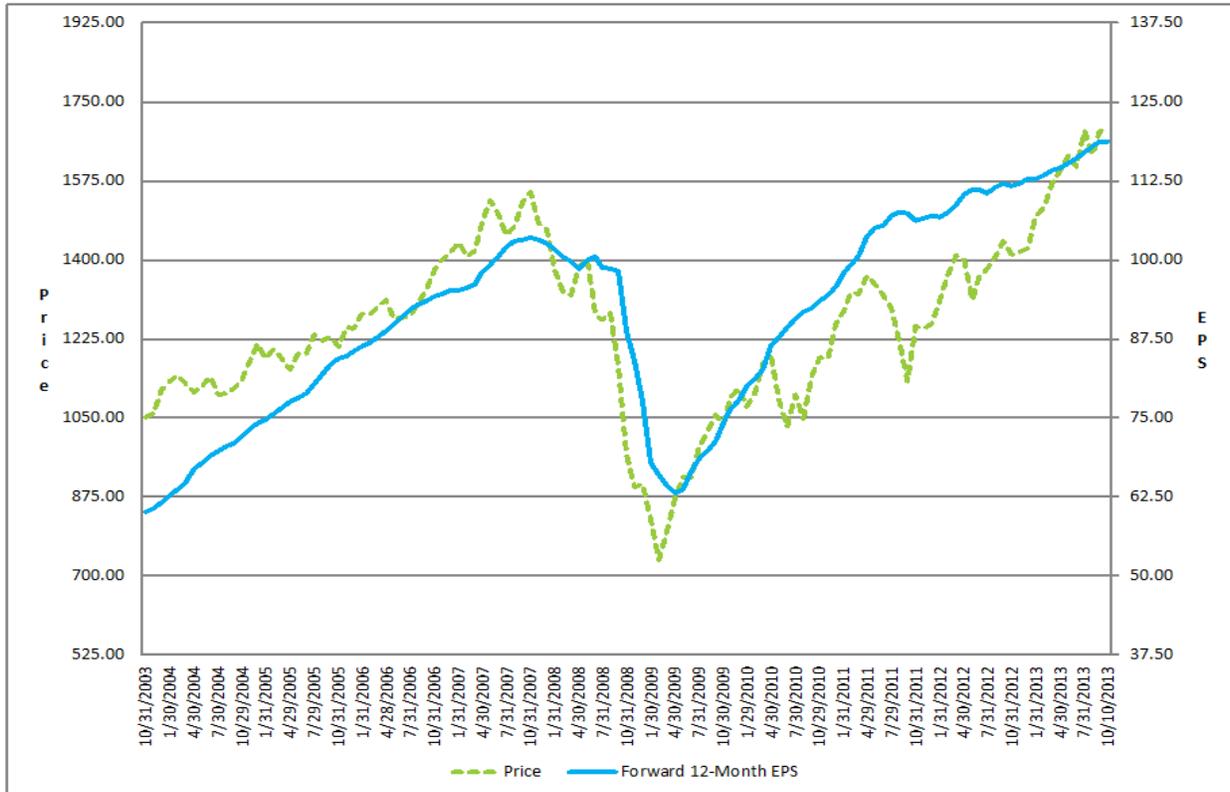


Sector-Level Change in Price vs. Change Forward 12M EPS: 1-Month

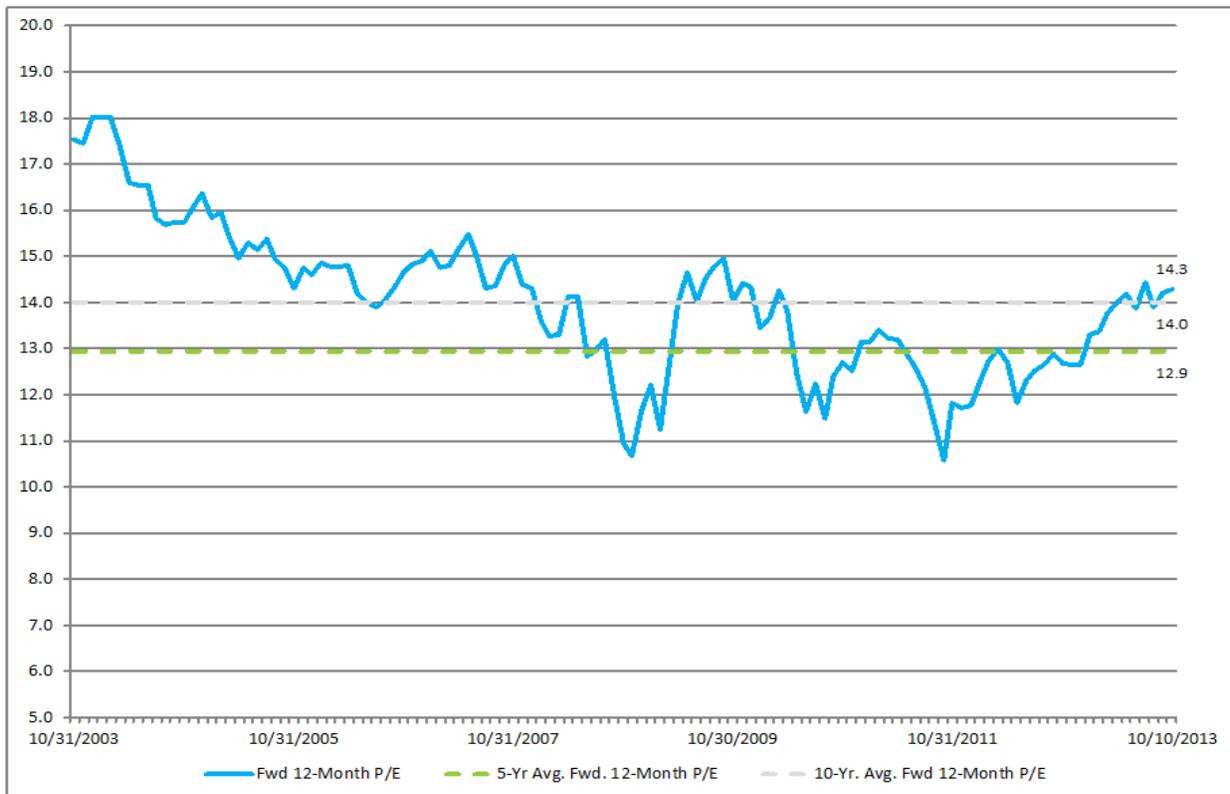


Forward 12M Price / Earnings Ratio: Long-Term Averages

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

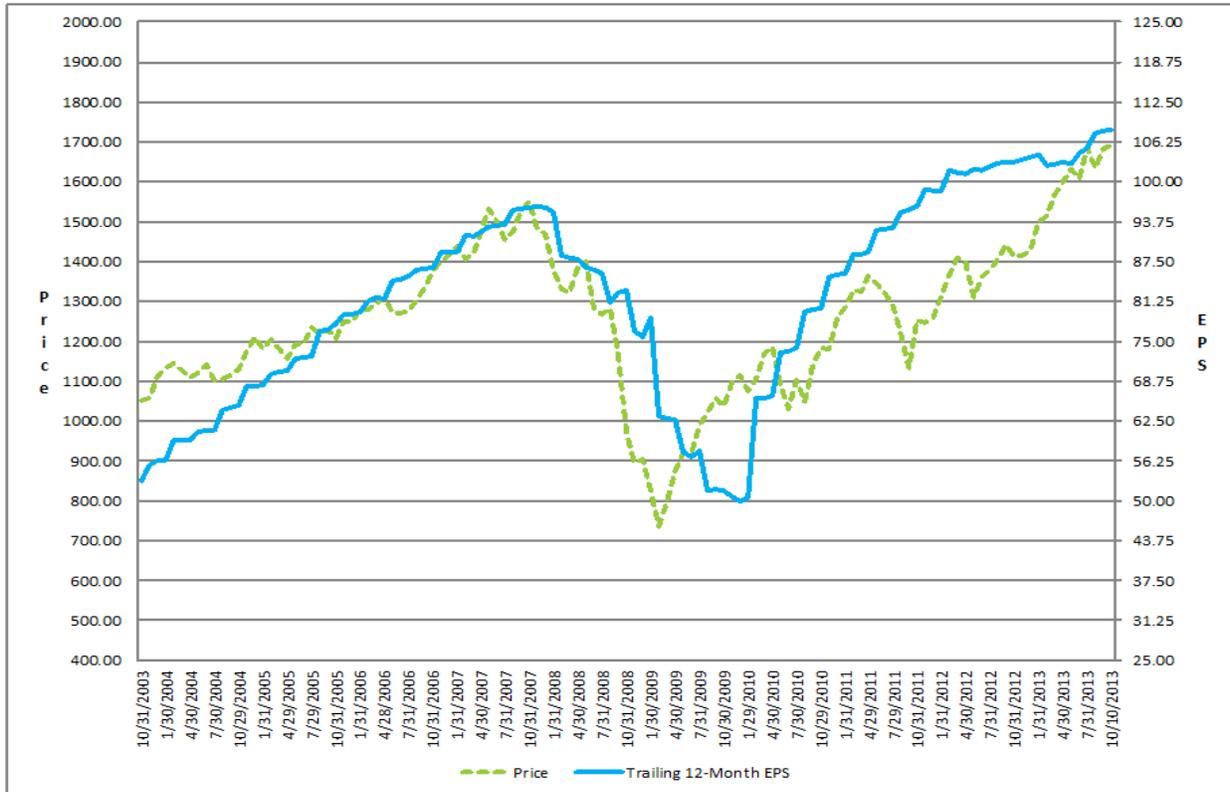


Forward 12M P/E Ratio: 10-Year

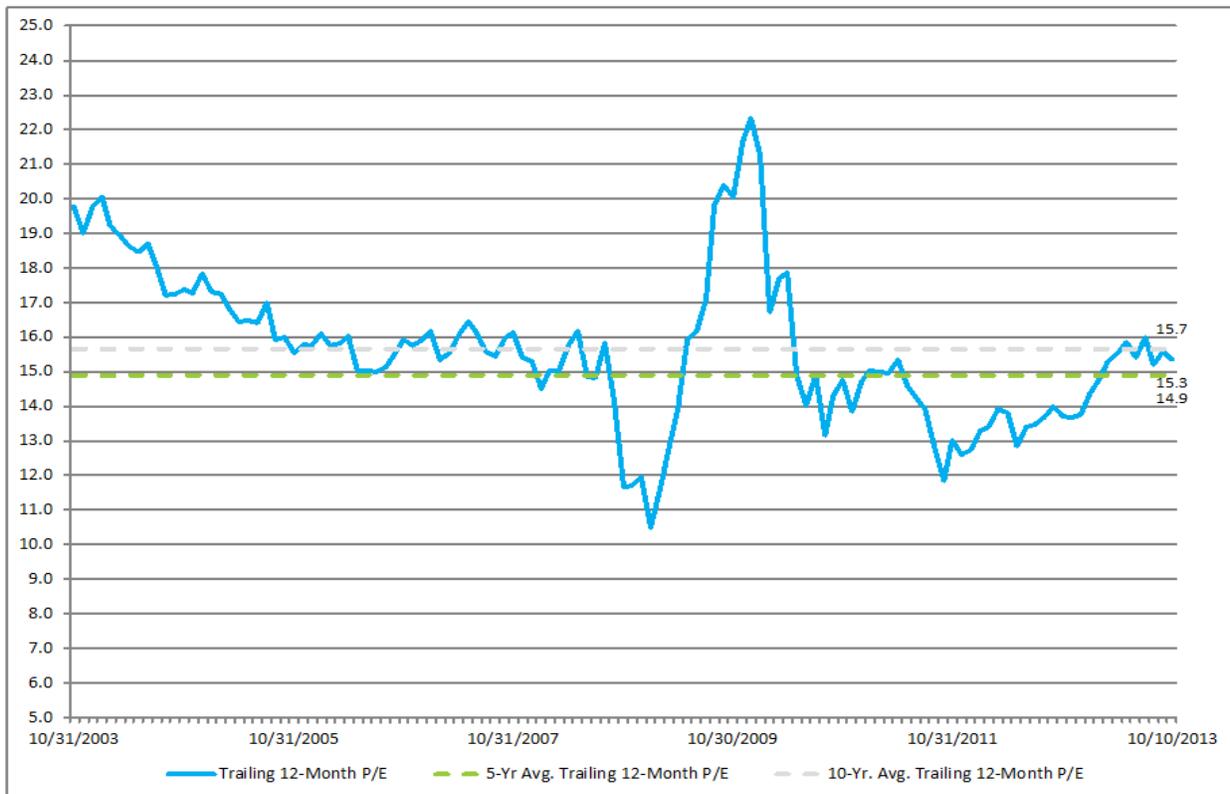


Trailing 12M Price / Earnings Ratio: Long-Term Averages

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



Trailing 12M P/E Ratio: 10-Year



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