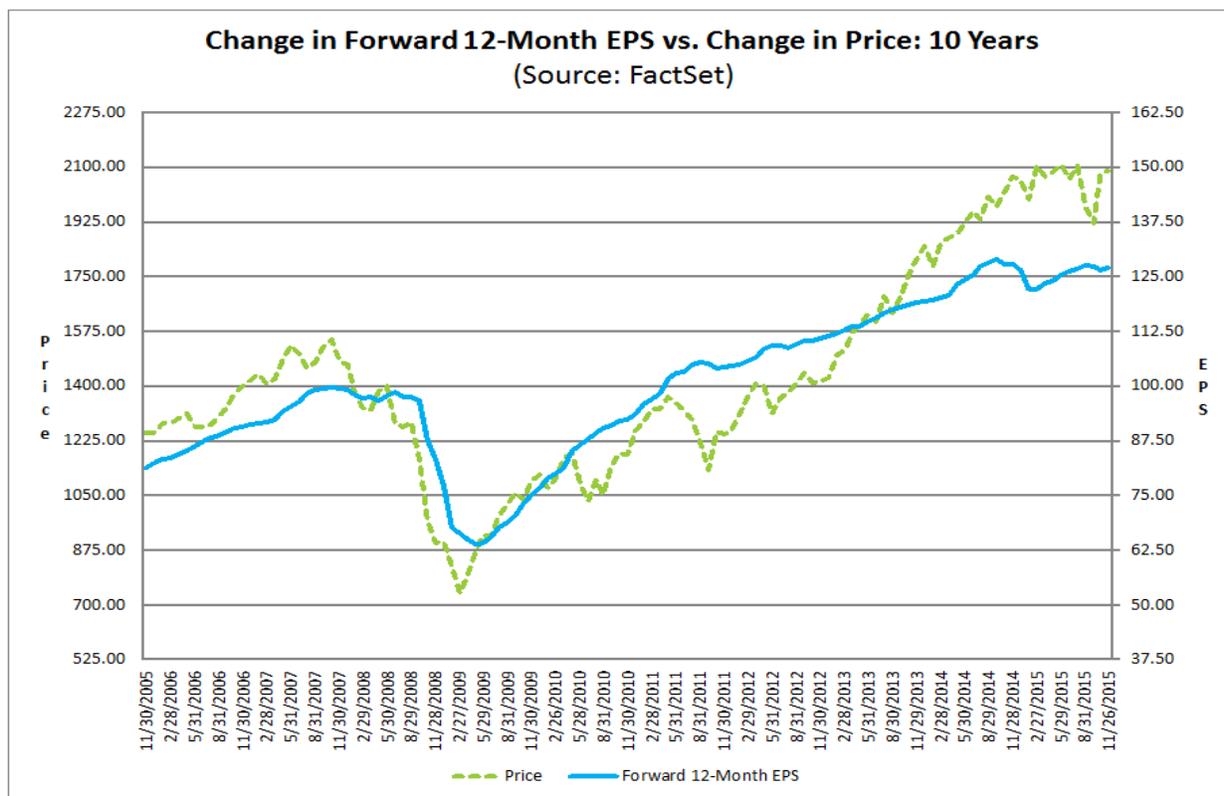


Key Metrics

- + **Earnings Scorecard:** With 98% of the companies in the S&P 500 reporting earnings to date for Q3 2015, 74% of the companies in the index have reported earnings above the mean estimate and 45% of the companies have reported sales above the mean estimate.
- + **Earnings Growth:** For Q3 2015, the blended earnings decline is -1.3%. The third quarter marks the first back-to-back quarters of earnings declines since 2009.
- + **Earnings Revisions:** On September 30, the estimated earnings decline for Q3 2015 was -5.1%. Eight sectors have higher growth rates today (compared to September 30) due to upside earnings surprises, led by the Health Care and Energy sectors.
- + **Earnings Guidance:** For Q4 2015, 81 companies have issued negative EPS guidance and 26 companies have issued positive EPS guidance.
- + **Valuation:** The 12-month forward P/E ratio is 16.4. This P/E ratio is based on Thursday's closing price (2088.87) and forward 12-month EPS estimate (\$127.14).



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Topic of the Week:

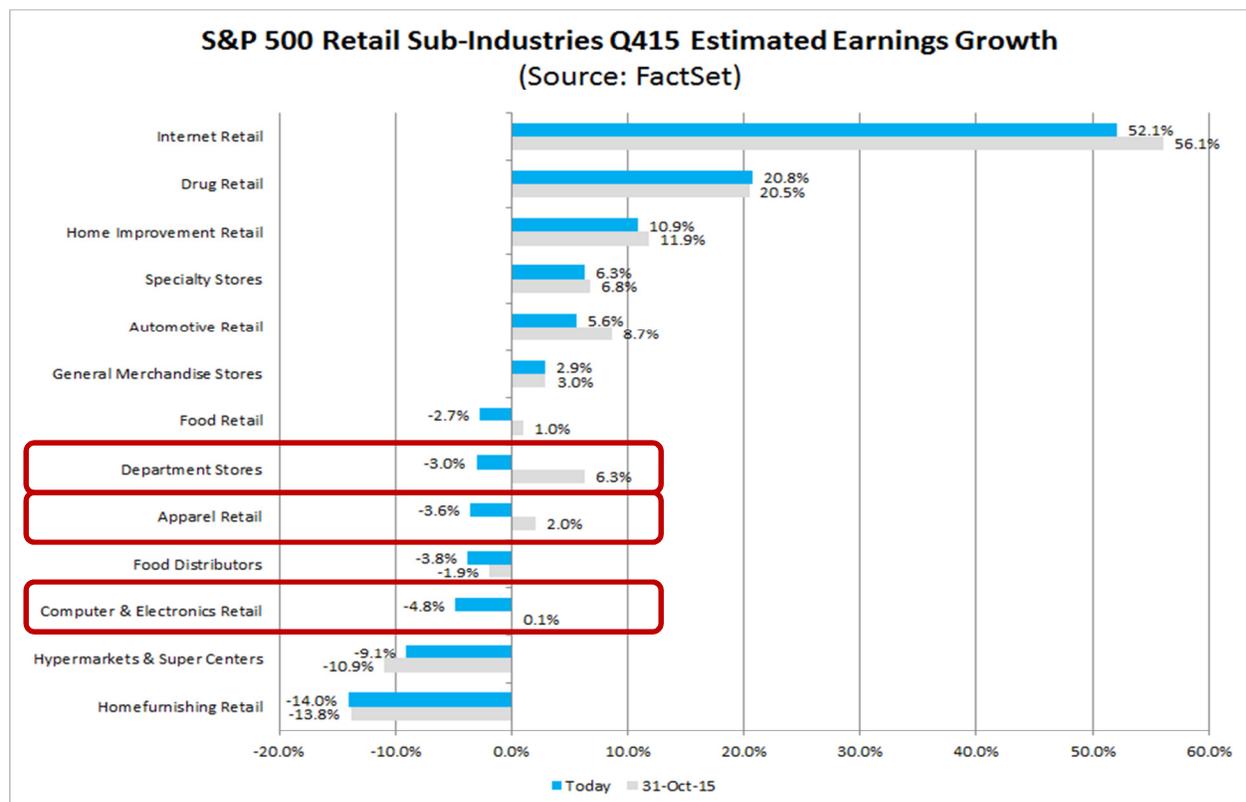
Heading into Black Friday, Which S&P 500 Retailers Have Recorded the Largest Cuts To Earnings Expectations for Q4?

With “Black Friday” today, the performance of retailers will be a focus for the markets. As of today, which retailers in the S&P 500 are projected to see the highest and lowest year-over-year earnings growth for the fourth quarter? Which retailers in the index have seen the largest upward and downward revisions to earnings estimates over the past month?

In terms of year-over-year earnings growth, six of the thirteen retail sub-industries in the S&P 500 are predicted to report growth in earnings for the fourth quarter, led by the Internet Retail (52.1%), Drug Retail (20.8%), and Home Improvement Retail (9.6%) sub-industries. On the other hand, seven of the thirteen retail sub-industries in the S&P 500 are predicted to report declines in earnings, led by the Home Furnishing Retail (-14.0%) and Hypermarkets & Super Centers (-9.0%) sub-industries.

In terms of upward revisions to earnings estimates, only one sub-industry has recorded an increase in expected earnings growth of more than one percentage point since the end of last month: Hypermarkets & Super Centers (to -9.0% from -10.9%). Within this sub-industry, Wal-Mart Stores has witnessed the largest upward revisions to EPS estimates over this time frame (to \$1.45 from \$1.42).

In terms of downward revisions to earnings estimates, eight sub-industries have recorded decreases in expected earnings growth of more than one percentage point since October 31, led by the Department Stores (to -3.0% from 6.1%), Apparel Retail (to -3.6% from 2.0%), and Computers & Electronics (to -4.9% from 0.1%) sub-industries. Within the Department Stores sub-industry, Macy’s (to \$2.58 from \$2.92) and Nordstrom (to \$1.30 from \$1.45) have recorded the largest downward revisions to EPS estimates during this period. Within the Apparel Retail subindustry, Gap (to \$0.58 from \$0.72) and Urban Outfitters (to \$0.58 from \$0.70) have recorded the largest downward revisions to EPS estimates over the past month. Within the Computer & Electronics sub-industry, Best Buy (to \$1.38 from \$1.47) has recorded the largest downward revisions to EPS estimates since October 31.



Q3 2015 Earnings Season: By the Numbers

Overview

With 98% of the companies in the S&P 500 reporting actual results for Q3 to date, more companies have reported actual EPS above estimates (74%) compared to the 5-year average, while fewer companies have reported sales above estimates (45%) relative to the 5-year average. In aggregate, companies have reported earnings that exceeded estimates by 5.7%.

The blended (combines actual results for companies that have reported and estimated results for companies yet to report) earnings decline for Q3 2015 is now -1.3%. At the sector level, the Energy and Materials sectors reported the largest year-over-year decreases in earnings of all ten sectors. On the other hand, the Telecom Services, Health Care, and Consumer Discretionary sectors are reporting the highest year-over-year growth in earnings for the quarter.

The blended revenue decline for Q3 2015 is now -3.9%. At the sector level, the Energy and Materials sectors reported the largest year-over-year decreases in sales of all ten sectors. On the other hand, the Telecom Services and Health Care sectors are reporting the highest year-over-year growth in sales for the quarter.

Looking at future quarters, analysts do not currently project earnings growth and revenue growth to return until Q1 2016. Analysts also expect the net profit margin for Q4 2015 to be below the level reported for Q3 2015 (based on per-share estimates).

The forward 12-month P/E ratio is 16.4, which is above the 5-year and 10-year averages.

During the upcoming week, 6 S&P 500 companies are scheduled to report results for the third quarter.

More Companies Beating EPS Estimates, But Fewer Companies Beating Sales Estimates

Percentage of Companies Beating EPS Estimates (74%) is Above 5-Year Average

Of the companies in the S&P 500 that have reported earnings to date for the third quarter, 74% have reported actual EPS above the mean EPS estimate and 26% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is equal to the 1-year (74%) average, but above the 5-year (72%) average.

At the sector level, the Health Care (87%) sector has the highest percentage of companies reporting earnings above estimates, while the Utilities (59%) and Materials (64%) sectors have the lowest percentages of companies reporting earnings above estimates.

Market Rewarded Earnings Beats and Did Not Punish Earnings Misses For Q3

For Q3, the market rewarded upside earnings surprises more than average and punished downside earnings surprises less than average.

Companies that reported upside earnings surprises for Q3 2015 saw an average price increase of 1.9% two days before the earnings release through two days after the earnings release. This percentage is well above the 5-year average price increase of 1.1% during this same window for companies reporting upside earnings surprises.

Companies in the index that reported downside earnings surprises for Q3 2015 saw an average price decrease of 1.7% two days before the earnings release through two days after the earnings release. This percentage decline is smaller than the 5-year average price decrease of 2.2% during this same window for companies reporting downside earnings surprises.

Earnings Surprise Percentage (+5.7%) is Above 5-Year Average

In aggregate, companies reported earnings that exceeded expectations by 5.7%. This surprise percentage (+5.7%) is above both the 1-year (+4.8%) average and the 5-year (+4.8%) average.

Companies in the Energy (+27.4%) sector reported the largest upside aggregate difference between actual earnings and estimated earnings. In this sector, Diamond Offshore Drilling (\$0.90 vs. \$0.66) and Chevron (\$1.25 vs. \$0.76) reported actual results above estimates by the widest margins.

Percentage of Companies Beating Revenue Estimates (45%) is Below 5-Year Average

In terms of revenues, 45% of companies have reported actual sales above estimated sales and 55% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is well below both the 1-year (53%) average and the 5-year average (57%).

At the sector level, the Telecom Services (80%) and Health Care (66%) sectors have the highest percentages of companies reporting revenues above estimates, while the Utilities (24%), Materials (25%), and Industrials (26%) sectors have the lowest percentages of companies reporting revenues above estimates.

Revenue Surprise Percentage (-0.1%) is Below 5-Year Average

In aggregate, companies reported sales that fell short of expectations by 0.1%. This surprise percentage (-0.1%) is below both the 1-year (+0.7%) average and the 5-year (+0.7%) average.

Companies in the Energy (+3.8%) sector reported the largest upside aggregate difference between actual sales and estimated sales, while companies in the Utilities (-4.7%) and Materials (-3.7%) sectors reported the largest downside aggregate differences between actual sales and estimated sales.

Second Consecutive Quarter of Earnings Declines (-1.3%)

The blended earnings decline for Q3 2015 is -1.3%. The third quarter marks the first time the index has seen two consecutive quarters of year-over-year declines in earnings since Q2 2009 and Q3 2009. It also marks the largest year-over-year decline in earnings since Q3 2009 (-15.5%). Five sectors are reporting or have reported year-over-year growth in earnings, led by the Telecom Services, Health Care, and Consumer Discretionary sectors. Five sectors are reporting or have reported a year-over-year decline in earnings, led by the Energy and Materials sectors.

Telecom Services: AT&T Leads Growth

The Telecom Services sector reported the highest earnings growth rate at 23.5%. Of the five companies in the sector, AT&T was the largest contributor to earnings growth. The company reported actual EPS of \$0.74 for Q3 2015 (which reflected the combination of AT&T and DIRECTV), compared to year-ago EPS of \$0.63 in Q3 2014 (which reflected standalone AT&T). If this company is excluded, the earnings growth rate for the Telecom Services sector would fall to 11.1%.

Health Care: Biotechnology Leads Growth

The Health Care sector is reporting the second highest earnings growth of all ten sectors at 14.7%. Five of the six industries in the sector are reporting or have reported earnings growth for the quarter, led by the Biotechnology (40%) and Health Care Technology (30%) industries. At the company level, Gilead Sciences is the largest contributor to earnings growth for the sector. The company reported actual EPS of \$3.22 for Q3 2015, compared to year-ago EPS of \$1.84 in Q3 2014. If this company is excluded, the blended earnings growth rate for the Health Care sector would drop to 9.9%.

Consumer Discretionary: Auto Manufacturers and Internet Retail Drive Growth

The Consumer Discretionary sector is reporting the third highest earnings growth rate at 13.3%. Of the 31 sub-industries in this sector, 17 are reporting or have reported earnings growth. Thirteen of these 17 sub-industries are reporting or have reported double-digit earnings growth, led by the Automobile Manufacturers (66%) and Internet Retail (58%) sub-industries. On the other hand, the Casinos & Gaming (-56%) and Publishing (-44%) sub-industries reported the largest year-over-year declines in earnings in the sector.

Energy: Largest Contributor to Earnings Decline for the S&P 500

The Energy sector reported the largest year-over-year decline in earnings (-56.8%) of all ten sectors. Five of the seven sub-industries reported a year-over-year drop in earnings: Coal & Consumable Fuels (-410%), Oil & Gas Exploration & Production (-120%), Oil & Gas Equipment & Services (-60%), Integrated Oil & Gas (-56%), and Oil & Gas Drilling (-39%). On the other hand, the Oil & Gas Refining & Marketing (45%) and Oil & Gas Storage & Transportation (2%) sub-industries were the only sub-industries that reported earnings growth for the quarter.

This sector is also the largest contributor to the earnings decline for the S&P 500 as a whole. If the Energy sector is excluded, the blended earnings growth rate for the S&P 500 would jump to 5.7% from -1.3%.

Materials: Weakness in Metals & Mining

The Materials sector reported the second largest year-over-year decline in earnings (-15.8%) of all ten sectors. At the industry level, three of the five industries reported a year-over-year decrease in earnings, led by the Metals & Mining industry (-82%). This industry was also the largest contributor to year-over-year decline in earnings for the sector. If the Metals & Mining industry is excluded, the blended earnings decline for the Materials sector would be -0.7%.

Third Consecutive Quarter of Revenue Declines (-3.9%)

The blended revenue decline for Q3 2015 is -3.9%. The third quarter marks the first time the index has seen three consecutive quarters of year-over-year revenue declines since Q1 2009 through Q3 2009. It also marks the largest year-over-year decline in revenue since Q3 2009 (-11.5%). Five sectors are reporting or have reported year-over-year growth in revenue, led by the Telecom Services and Health Care sectors. Five sectors are reporting a year-over-year decline in revenue, led by the Energy and Materials sectors.

Telecom Services: AT&T Leads Growth

The Telecom Services sector reported the highest revenue growth of all ten sectors at 11.8%. At the company level, AT&T was the largest contributor to revenue growth for the sector. AT&T reported revenues of \$39.1 billion for Q3 2015 (which reflected the combination of AT&T and DIRECTV), compared to year-ago revenue (which reflected standalone AT&T) of \$33.0 billion. If AT&T is excluded, the revenue growth rate for the sector would fall to 6.0%.

Health Care: Broad-Based Growth

The Health Care sector is reporting the second highest revenue growth of all ten sectors at 9.3%. Four of the six industries in the sector are reporting or have reported sales growth for the quarter. All four of these industries are reporting or have reported double-digit sales growth: Health Care Technology (34%), Biotechnology (23%), Health Care Providers & Services (11%), and Health Care Equipment & Supplies (10%).

Energy: Largest Contributor to Revenue Decline for the S&P 500

On the other hand, the Energy (-35.6%) sector reported the largest year-over-year decrease in sales for the quarter. All seven sub-industries in the sector reported a decrease in revenue: Oil & Gas Exploration & Production (-40%), Integrated Oil & Gas (-38%), Oil & Gas Equipment & Services (-34%), Oil & Gas Refining & Marketing (-33%), Oil & Gas Drilling (-30%), Oil & Gas Storage & Transportation (-22%), and Coal & Consumable Fuels (-8%).

This sector is also the largest contributor to the revenue decline for the S&P 500 as a whole. If the Energy sector is excluded, the blended revenue growth rate for the S&P 500 would jump to 1.2% from -3.9%.

Materials: Weakness in Metals & Mining

The Materials (-13.6%) sector reported the second largest year-over-year decrease in revenue of all ten sectors. Three of the five industries in the sector reported a decline in sales for the quarter: Metals & Mining (-20%), Chemicals (-16%), and Paper & Forest Products (-6%).

Q3 2015 Earnings Season: Themes

Overview

Similar to last quarter, companies have discussed the impact of slower global economic growth, the stronger dollar, and lower oil prices during their earnings conference calls.

"I certainly don't want to peg this type of decline in orders to any one thing. It's really sort of weakness on several fronts. I mean, we know that the dollar is strong and that affects certain customers that are selling in dollars. We know that the drop in oil has affected the energy business. We've got weakness in Europe, whether it's due to Greece or other reasons, we're not sure, but Europe is weak and now we're hearing that China is declining. The U.S. economy, it contracted last quarter. I mean, we could say that things are better than last year but things are not great out there. And they haven't been great all year. And I almost think it is sort of like the culmination of a lot of different things. So, I'm just going to attribute it to the macroeconomic environment." –Linear Technology (Oct. 13)

Economic Themes: U.S., Europe, and China

United States

According to FactSet Economic Estimates, real (year-over-year) GDP growth in the U.S. is projected to be 2.5% in 2015, which would be consistent with GDP growth of the past few years. The U.S. remains the key geographic market for the S&P 500. According to FactSet Geographic Revenue Exposure data (based on the most recent fiscal year data), companies in the S&P 500 in aggregate generate about 70% of sales from North America, almost all of which comes from the U.S.

"North America continued its disciplined approach to volume, price, and mix management, and I'm encouraged by the solid progress we've seen in this market over the past two years." –Coca-Cola (Oct. 21)

"Our U.S. revenue was down 4%, a decline in traditional enterprise app implementations is impacting our Consulting business and in the month of September we had a slowdown in our Software transactions." –IBM (Oct. 19)

"As it relates to the U.S. economy, our clients remain focused on the Federal Reserve interest rate policy. Over the course of the third quarter, clients' expectations for an interest rate hike began to shift. Mixed economic indicators drove uncertainty about the pace of U.S. economic growth. Ultimately, there was doubt about the timing and magnitude of a future rate increase." –Goldman Sachs (Oct. 15)

"Helane, let me go at it from a macro perspective, which is we have record margins in all of our hubs in the U.S. And virtually every part of the domestic business is performing at near record levels or at – above record levels. And that includes Seattle and L.A. and New York and Minneapolis and Detroit and Cincinnati and Salt Lake and Atlanta. And on top of that, the focus city flying we do in places like Raleigh, Durham and Indianapolis is performing extraordinarily well." –Delta Air Lines (Oct. 14)

"So, Mike, we would say that the U.S. economy is doing pretty well. We're seeing good demand for loans in the consumer space and reasonably good sentiment in the business banking space, and our core loan growth numbers do show that. So there's nothing particularly funky in the loan growth numbers." –JPMorgan Chase (Oct. 13)

"And we are proud to report that, during the third quarter, PepsiCo was the largest contributor to U.S. retail sales growth among all food and beverage manufacturers with over \$400 million of retail sales growth in all measured channels. This was double the next largest contributor to growth. Notably, North American Beverages was the key driver of U.S. retail sales growth within PepsiCo and the largest contributor to U.S. retail sales growth on a standalone basis." –PepsiCo (Oct. 6)

"In the Americas region, we had a solid performance but mixed result. The growth this quarter came from pricing, our Brand Aromatics acquisition and sales from our operation in Mexico. However, these gains were partially offset by lower sales to quick-service restaurant customers that are working through a period of weak consumer demand in the U.S." –McCormick & Co. (Oct. 1)

"In North America, we delivered 13% revenue growth for the year in the United States, where we have now delivered double-digit growth in four of the last five years. We have gained significant market share in the U.S. and are now positioned as the market leader." –Accenture (Sep. 24)

"North America had another great quarter with revenues up 9% and futures up 15%. This geography continues to drive strong growth across nearly all key categories." –NIKE (Sep. 24)

Europe

According to FactSet Economic Estimates, real (year-over-year) GDP growth in the Eurozone is projected to be 1.5% in 2015, which is a slight improvement relative to 2014. Europe is still an important geographic market for the S&P 500. According to FactSet Geographic Revenue Exposure data (based on the most recent fiscal year data), companies in the S&P 500 in aggregate generate about 12% of sales from Europe (combination of European Union and non-European Union countries).

"In Europe, we drove top-line growth through strong commercial and marketing activities whilst also benefiting from some good weather in much of the region. We are seeing green shoots in Europe, and our business in Central and Southern Europe delivered a particularly strong quarter due to investments in media, changes in our price/pack architecture, and favorable weather." –Coca-Cola (Oct. 21)

"Let me make a few comments on how we are seeing our markets more broadly. The U.S. is still okay and Europe is appreciably better." –General Electric (Oct. 16)

"Western Europe also had a great quarter, with Q1 revenue up 14% on a currency-neutral basis, driven by growth in every territory." –NIKE (Sep. 24)

"Well, overall, Continental Europe is probably more challenging. When you think about all the economic difficulties and the geopolitical issues and the growing refugee concerns, that's the area that has had the most challenges in terms of pricing for 2016." –Carnival (Sep.22)

China

According to FactSet Economic Estimates, real (year-over-year) GDP growth in China is projected to be 6.8%, which would be a continuation of the declining growth seen in recent years. China continues to be a vital geographic market for the S&P 500. According to FactSet Geographic Revenue Exposure data (based on the most recent fiscal year data), companies in the S&P 500 in aggregate generate about 10% of sales from the Asia Pacific region, most of which comes from China and Japan.

"We're pleased with our performance in China. Obviously, a lot of noise around China these days, but we have – as mentioned earlier in the script, we have an all-time high share for brand Coke in China. And we're growing in China, and we're gaining share in China, and we're investing in China and the same goes for India, two of the very large markets in Asia, certainly pleased with the results there." –Coca-Cola (Oct. 21)

"China was down 17% with fewer large transactions in the quarter." –IBM (Oct. 19)

"Business for us in China is still pretty good, which is a big market." –General Electric (Oct. 16)

"Of course, there are the usual seasonal drivers due to the summer slowdown, but in addition the third quarter also had more than its fair share of significant macroeconomic ailments. Both the Chinese economy and the country's monetary policy came into focus. Our clients evaluated the potential implications of a slowing Chinese economy, a decision by the People's Bank of China to devalue its currency, and the resulting volatility in global markets." –Goldman Sachs (Oct. 15)

“And so if you just take a look at China in general, it kind of mimics that in that – if you look at sales, they're down slightly. They're softer. And it's more of the consumer than the enterprise in that space. And across all the different segments, we saw it across the board.” –Intel (Oct. 13)

“In China, operating profit declined 25% prior to foreign currency translation, led by a same-store sales decrease of 10%, which was sequentially better than Q1's performance despite a more challenging lap.” –YUM! Brands (Oct.6)

“Another area of investor interest has been our consumer business in China. We continue to achieve double-digit constant currency sales growth in this market in contrast to some other consumer products companies. Given the broader impact of the economy on consumer retail purchases, to-date, our business has seen less of an impact and our leadership in China is cautiously optimistic.” –McCormick & Co. (Oct. 1)

“Now turning to China, where revenue grew an impressive 30% for the quarter on both a reported and currency neutral basis. While we are very mindful of the macroeconomic volatility in China, our brand has never been stronger and our marketplace has never been more healthy. We have momentum across nearly all key categories as well as continued strength in our DTC business.” –NIKE (Sep. 24)

“China has clearly made world news in recent weeks, but continues to be an aggressive growth region for us.” –Carnival (Sep. 22)

Currency Themes: Stronger U.S. Dollar

The dollar was stronger in Q3 2015 relative to year-ago values for both the euro and the yen. In the year-ago quarter (Q3 2014), one euro was equal to \$1.33 dollars on average. For Q3 2015, one euro was equal to \$1.11 dollars on average. In the year-ago quarter (Q3 2014), one dollar was equal to \$103.97 yen on average. For Q3 2015 to date, one dollar was equal to \$122.17 yen on average. Companies have continued to discuss the negative impact of the stronger dollar during their earnings calls for Q3.

“Our third quarter comparable EPS was \$0.51, which included a 12-point currency headwind.” –Coca-Cola (Oct. 21)

“So in the third quarter results, we have a pretty substantial headwind on the revenue line and quite a substantial EPS impact in currency in the third quarter. And in fact, when we look at the fourth quarter, there is still a significant impact in the fourth quarter in currency.” –IBM (Oct. 19)

“Foreign exchange was a \$1.2 billion drag on Industrial segment revenue and \$165 million impact on Industrial segment op profit.” –General Electric (Oct. 16)

“Our revenues were roughly flat despite facing a \$235 million headwind from foreign exchange.” –Delta Air Lines (Oct. 14)

“Now, I would like to review our results for the third quarter of 2015. Worldwide sales to customers were \$17.1 billion for the third quarter of 2015, down 7.4% versus third quarter 2014. On an operational basis, sales were up 0.8% and currency had a negative impact of 8.2%. In the U.S., sales were down 0.6%. In regions outside the U.S., our operational growth was 2.1% while the effective currency exchange rates negatively impacted our reported results by 15.8%.” –Johnson & Johnson (Oct. 13)

“Third quarter 2015 revenue totaled \$5.6 billion, down approximately 11% year over year. Organic growth in Aerospace, Automotive, and Alumina as well as acquisitions added 10% to the top line, but were more than offset by market headwinds from pricing, currency, and the impact of the divested closed businesses.” –Alcoa (Oct. 9)

“Assuming major currency rates remain relatively consistent with today's rate and the ratio of Brazilian reais to the U.S. dollar remains in the mid to high BRL 3s, we expect a \$0.35 to \$0.40 currency headwind in FY 2016.” –Monsanto (Oct. 6)

"As you model out the fourth quarter, I'd ask you to consider the following. First, we expect foreign exchange translation to have an approximate 8 point unfavorable impact on fourth quarter net revenue growth and an approximate 8 point unfavorable impact on fourth quarter core EPS growth based on current market consensus rates." –PepsiCo (Oct. 6)

"I do want to point out foreign currency translation remains a strong headwind as we continue to expect this to impact full year EPS by about 5 percentage points." –YUM! Brands (Oct. 6)

"Well, FX, obviously, is a large headwind on a reported basis because that, obviously, it's been a factor on both the reported top line and bottom line. So that obviously is one we continue to wrestle with. And as you heard in my comments, it's gotten slightly worse on the operating income line as we've upped the negative impact on the total company to 4% versus the prior 3%." –McCormick & Co. (Oct. 1)

"In terms of a year-over-year EPS comparison, a few items of note, and the biggest item of note, FX. In Q4 year over year, the foreign currencies where we operate were weaker versus the U.S. dollar, resulting in our reported foreign earnings this year in Q4 being lower by about \$53 million after tax or \$0.12 a share than these earnings would have been had FX exchange rates been flat year over year." –Costco (Sep. 30)

"Considering all of this activity, net earnings per diluted share increased to \$1.21 for the second quarter of fiscal 2015, in line with our modeled range. This includes an unfavorable impact of approximately \$0.01 from Canadian currency fluctuations." –Bed, Bath, & Beyond (Sep. 24)

"Let's take a look at the highlights from the first quarter. NIKE, Inc. revenues grew 5% to \$8.4 billion despite significant FX headwinds." –NIKE (Sep. 24)

"While sales in base currency were above plan this past year, the devaluation in the peso was much greater than we assumed at the start of the year. The peso devalued 28% over the course of the year. This created a headwind that caused our reported U.S. dollars and EBIT to be lower than last year. The EBIT dollar impact on the quarter assuming constant currency with last year's foreign exchange rate was meaningful, approximately double-digit millions of dollars." –AutoZone (Sep. 22)

"However, we do expect this will be partially offset by the stronger U.S. dollar which will cost us approximately \$0.10 based on current FX rates most of which will impact the first half of 2016." –Carnival (Sep. 22)

"In our Consumer Foods segment, net sales were approximately \$1.7 billion for the quarter, about flat with the year ago period, reflecting flat volume of 2% improvement in price/mix and a 2% negative impact from foreign exchange." –ConAgra (Sep. 22)

"At current exchange rates, we estimate a \$0.09 headwind to full-year adjusted diluted EPS growth in 2016." –General Mills (Sep. 22)

"Total revenue for the quarter was \$504 million, which grew 21% on a year-over-year basis in constant currency, or 13% in U.S. dollars. Taking into account the fluctuation in foreign exchange rates, total revenue would have been \$37 million or 820 basis points higher using the rates from Q2 of last year." –Red Hat (Sep. 21)

"From a year-over-year currency perspective, FX decreased revenue by \$58 million. Considering the \$9 million in hedge gains in Q3 FY 2015, versus \$1 million in hedge gains in Q3 FY 2014, the net year-over-year currency decrease to revenue considering hedging gains was \$50 million." –Adobe Systems (Sep. 17)

"Earnings per share was \$0.06 lower because of currency, \$0.01 worse than we anticipated." –Oracle (Sep. 16)

Commodity Themes: Lower Oil & Gas Prices

During the third quarter, the price of crude oil decreased by 21.5% (to \$45.09 on September 30 from \$56.96 on July 1). As a result, the average price of oil for Q3 2015 (\$46.53) was more than 50% lower than the average price in the year-ago quarter (\$97.10).

The impact of oil and gas prices varies by sector, industry, and company. The negative impact of lower oil prices relative to last year has already been seen in the Energy sector, where year-over-year earnings are expected to decline by more than 60%. What will be the impact of lower oil and gas prices in other sectors of the index for Q3?

“Next, Oil & Gas, the business continues to perform in a very difficult environment. Orders in the quarter were down 38% and down 32% organically. All segments saw lower orders given the constrained CapEx environment and project delays. Equipment orders were down 60%, with TMS down 57%, driven by a large Canadian LNG push out. Subsea was down 81%, with softness in both drilling and well stream. Downstream was down 58%, Surface was down 49% on lower rig counts, and M&C was down 22% on softness in flow and process technology.” –General Electric (Oct. 16)

“Turning to fuel, our total fuel expense declined by over \$1 billion in the quarter as lower market fuel prices more than offset higher consumption. Our all-in fuel price was \$1.80 per gallon, down from \$2.90 in the same period last year.” –Delta Air Lines (Oct. 14)

“Now switching to macro trends during the quarter, nationally unleaded gas prices started out at \$2.69 a gallon and ended the quarter at \$2.51 a gallon, an \$0.18 decrease....We continue to believe gas prices have a real impact on our customers' abilities to maintain their vehicles and cost reductions help all Americans. We hope to continue to benefit from this increase in disposable income.” –AutoZone (Sep. 22)

“Lastly, at the current spot prices for fuel, we expect a \$0.20 benefit in 2016.” –Carnival (Sep. 22)

“The corporate net impact of fuel was also slightly negative year-over-year.” –FedEx (Sep. 16)

Cost Themes: Higher Wages

A number of companies have commented on the impact of higher wages on earnings and revenues as well.

“Yeah, we don't have any plans right now for any kind of a national price increase to deal with wage pressure, but we do have a number of isolated markets, a number of which are coming up in January....We had a couple of markets that had pretty significant increases in minimum wage. Generally, we're not affected by minimum wage, but in some cases, the minimum wages are being increased to \$10, \$11, \$12 per hour, and those will have some impact.” –Chipotle Mexican Grill (Oct. 20)

“Fiscal year 2017 will represent our heaviest investment period. Operating income is expected to be impacted by approximately \$1.5 billion from the second phase of our previously announced investments in wages and training as well as our commitment to further developing a seamless customer experience. As a result of these investments, we expect earnings per share to decline between 6 and 12 percent in fiscal year 2017, however by fiscal year 2019 we would expect earnings per share to increase by approximately 5 to 10 percent compared to the prior year.” –Wal-Mart Stores (Oct.14)

“Looking ahead to the December quarter, we expect non-fuel CASM to be up about 2%. Expenses related to the pay increases that go into effect on December 1 are creating about a point of pressure, while international capacity reductions are also creating a temporary headwind for CASM, as the cost takeout associated with these changes comes at a lag.” –Delta Air Lines (Oct. 13)

“Wage pressure continues to be a problem. We'll continue to monitor it as we monitor the different states and the different cities and what they're doing with minimum wage.” –Darden Restaurants (Sep. 22)

Looking Ahead: Forward Estimates and Valuation

Earnings and Revenue Growth Not Expected to Return Until 2016

For Q3 2015, companies are reporting year-over-year declines in both earnings (-1.3%) and revenues (-3.9%). Analysts do not currently project earnings growth and revenue growth to return until Q1 2016. In terms of earnings, analysts are currently predicting a decline of 4.2% in Q4 2015, followed by growth of 2.1% in Q1 2016. In terms of revenues, analysts are currently projecting a decline of 2.9% in Q4 2015, followed by growth of 3.0% in Q1 2016.

For all of 2015, analysts are projecting earnings (-0.3%) and revenues (-3.3%) to decline year-over-year.

Guidance: Negative EPS Guidance (76%) for Q4 Above Average

At this point in time, 107 companies in the index have issued EPS guidance for Q4 2015. Of these 107 companies, 81 have issued negative EPS guidance and 26 have issued positive EPS guidance. Thus, the percentage of companies issuing negative EPS guidance to date for the fourth quarter is 76% (81 out of 107). This percentage is above the 5-year average of 72%.

Decrease in Profit Margins Projected for Q4

Analysts are also expecting profit margins for Q4 2015 to be below the level reported for Q3 2015. Using the bottom-up sales-per-share (SPS) and earnings-per-share (EPS) estimates for the S&P 500 as proxies for expected sales and earnings for the index for the fourth quarter, a profit margin estimate can be calculated by dividing the expected EPS by the expected SPS. Using this methodology, the estimated net profit margin for Q4 2015 is 10.0%. This number is below the net profit margin of 10.5% reported for Q3 2015.

Valuation: Forward P/E Ratio is 16.4, above the 10-Year Average (14.2)

The forward 12-month P/E ratio is 16.4. This P/E ratio is based on Thursday's closing price (2088.87) and forward 12-month EPS estimate (\$127.14).

At the sector level, the Energy (27.9) sector has the highest forward 12-month P/E ratio, while the Telecom Services (12.0) sector has the lowest forward 12-month P/E ratio.

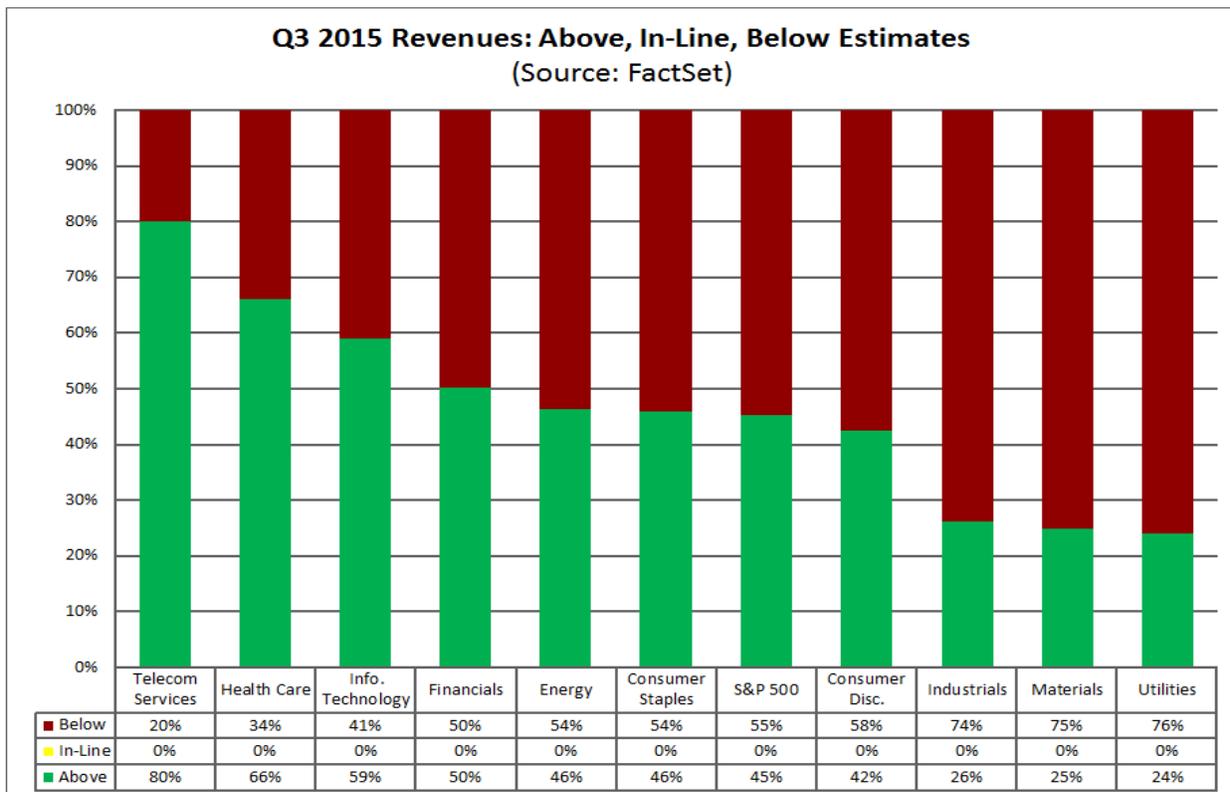
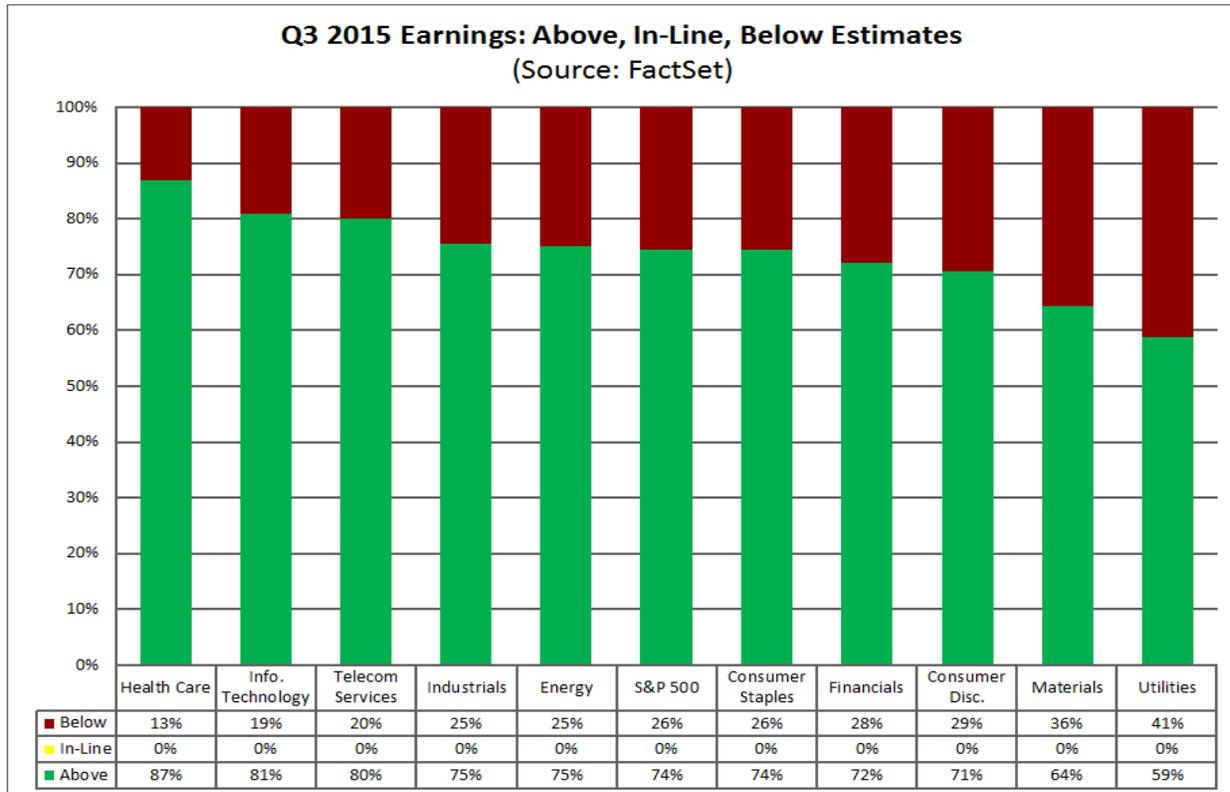
The P/E ratio of 16.4 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 14.2, and above the prior 10-year average forward 12-month P/E ratio of 14.2. It is also above the forward 12-month P/E ratio of 15.1 recorded at the start of the fourth quarter (September 30). Since the start of the fourth quarter, the price of the index has increased by 8.8%, while the forward 12-month EPS estimate has decreased by less than 0.1%.

Nine sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (27.9 vs. 13.0) sector. The Telecom Services (12.0 vs. 14.7) sector is the only sector with a forward 12-month P/E ratio below the 10-year average.

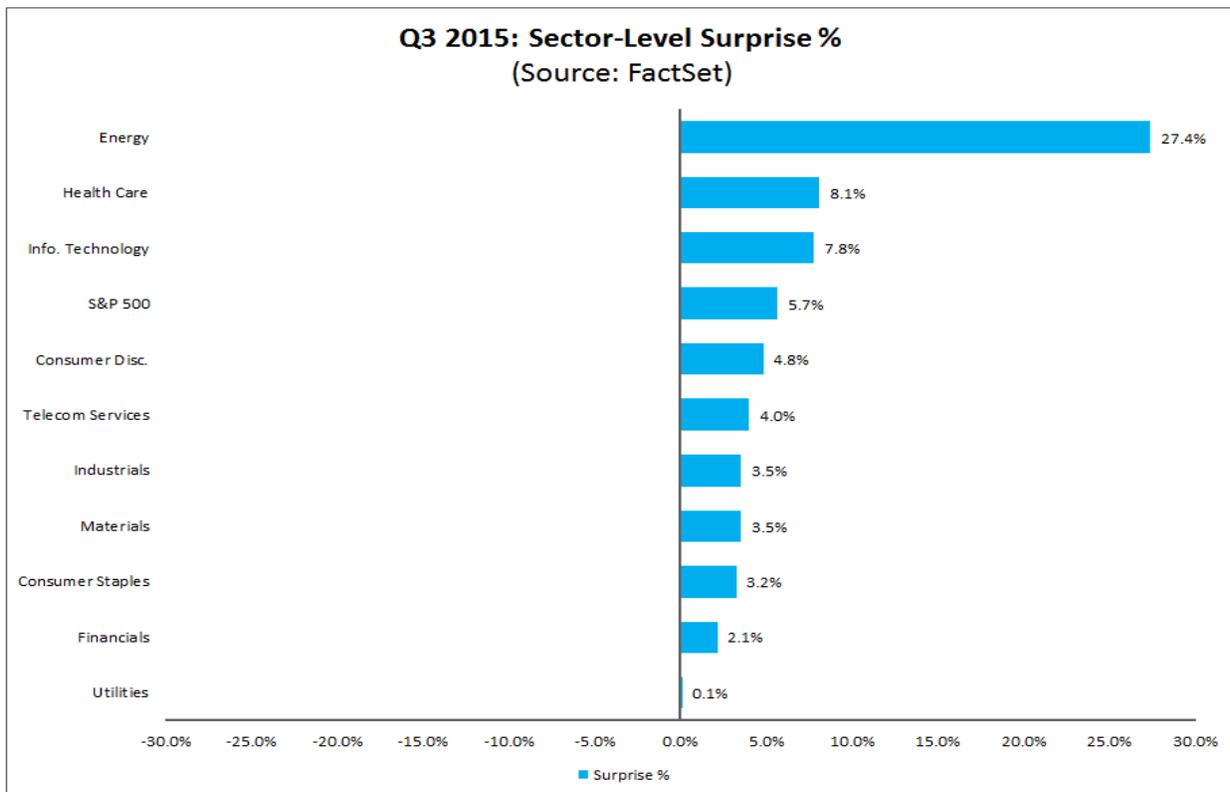
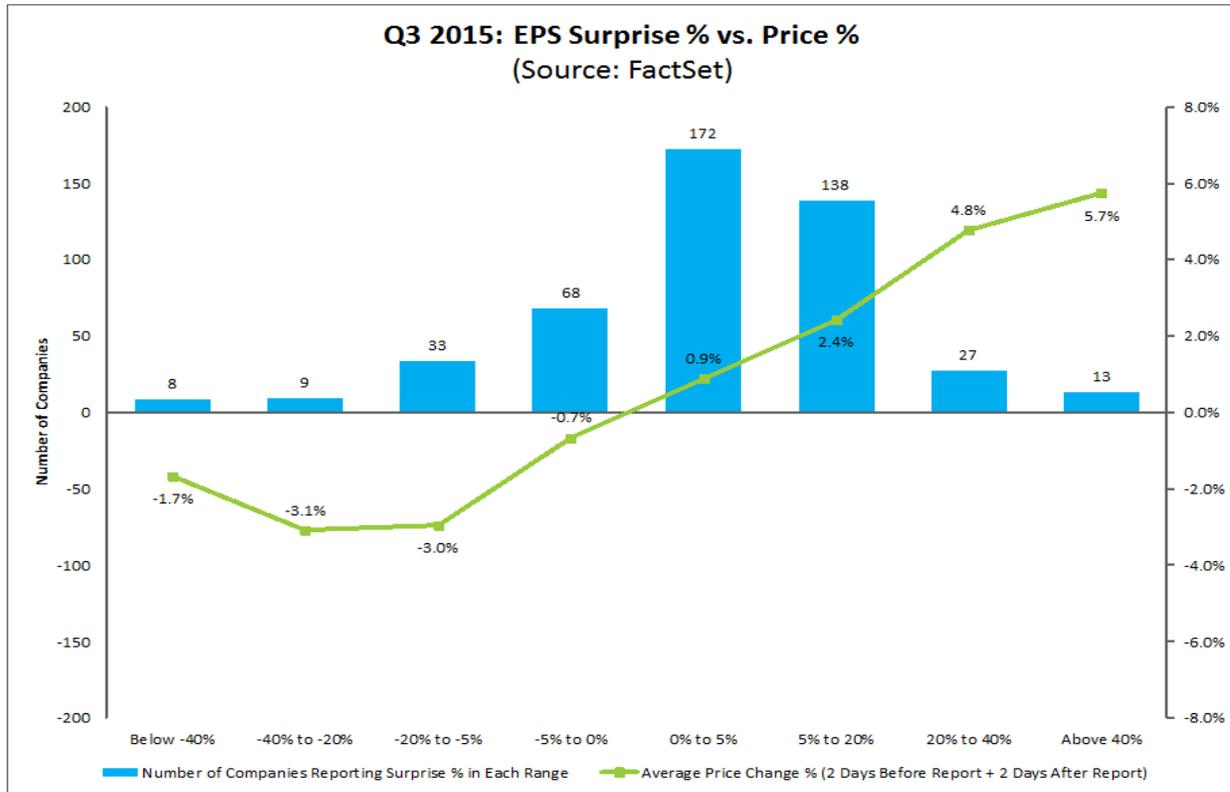
Companies Reporting Next Week: 6

During the upcoming week, 6 S&P 500 companies are scheduled to report results for the third quarter.

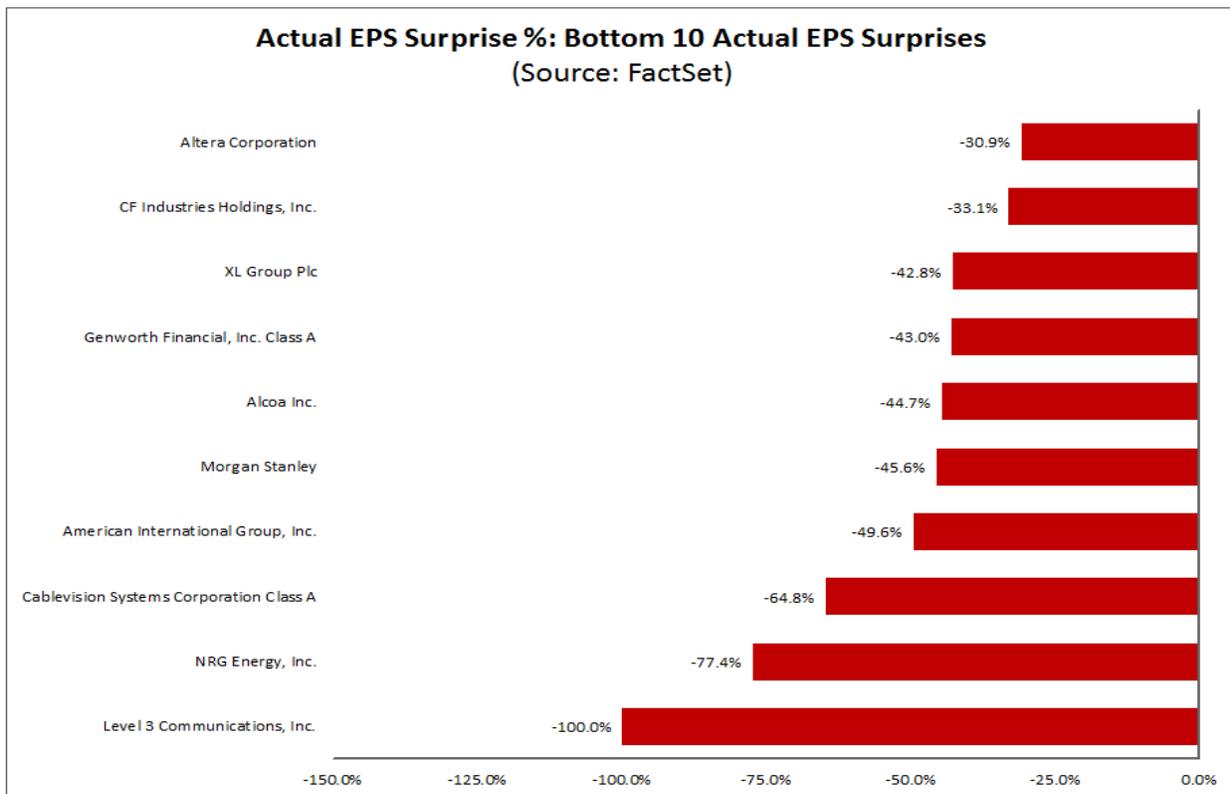
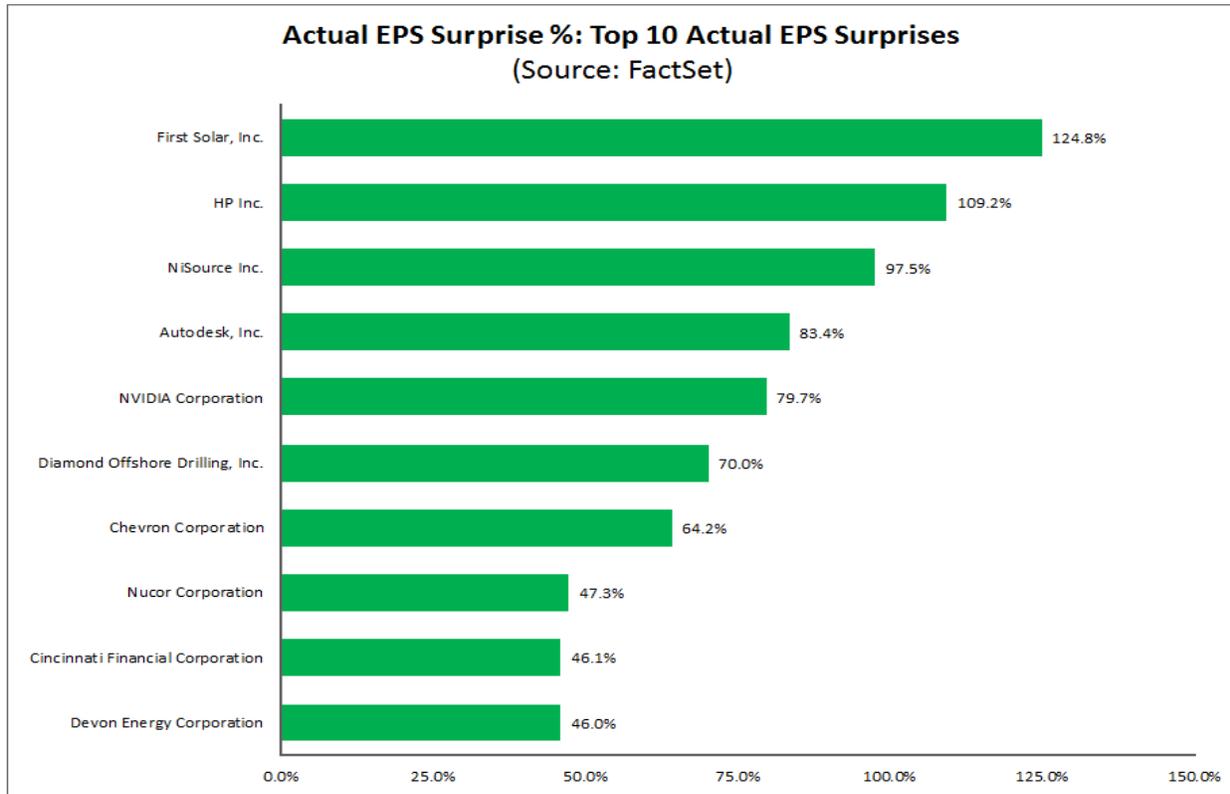
Q3 2015: Scorecard



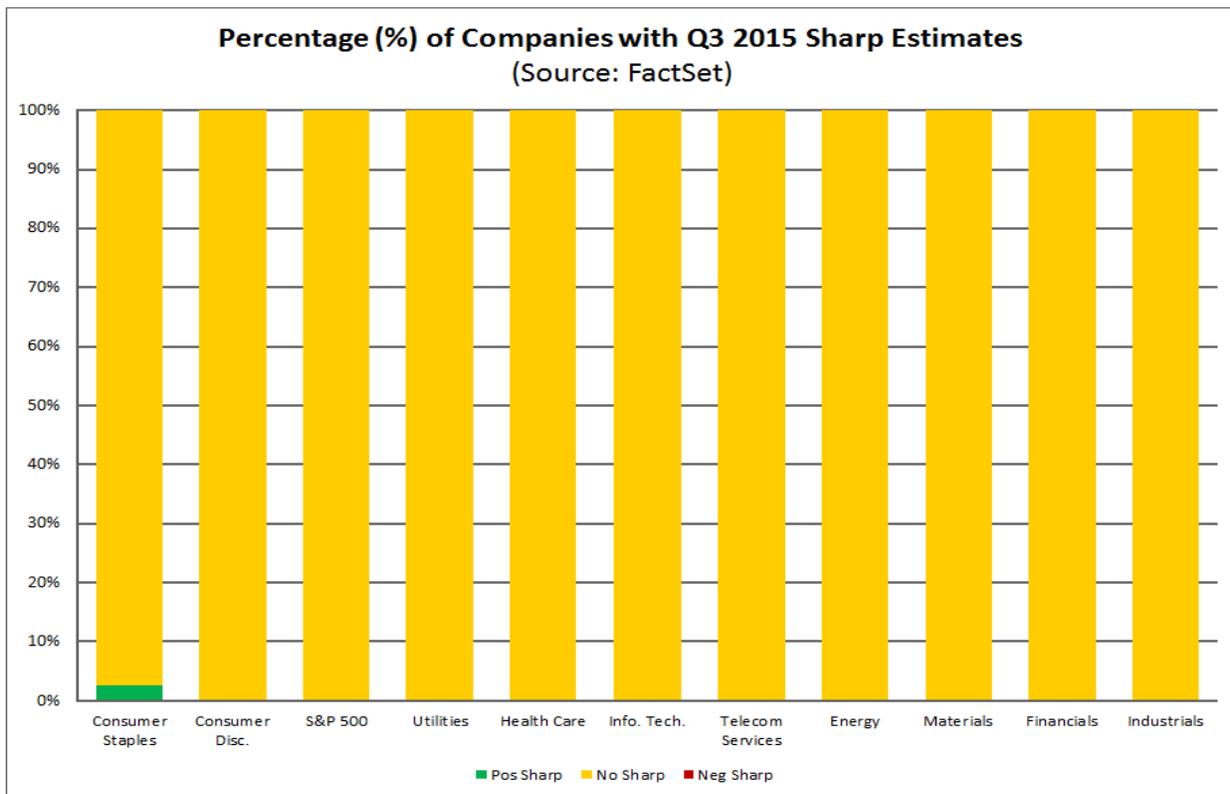
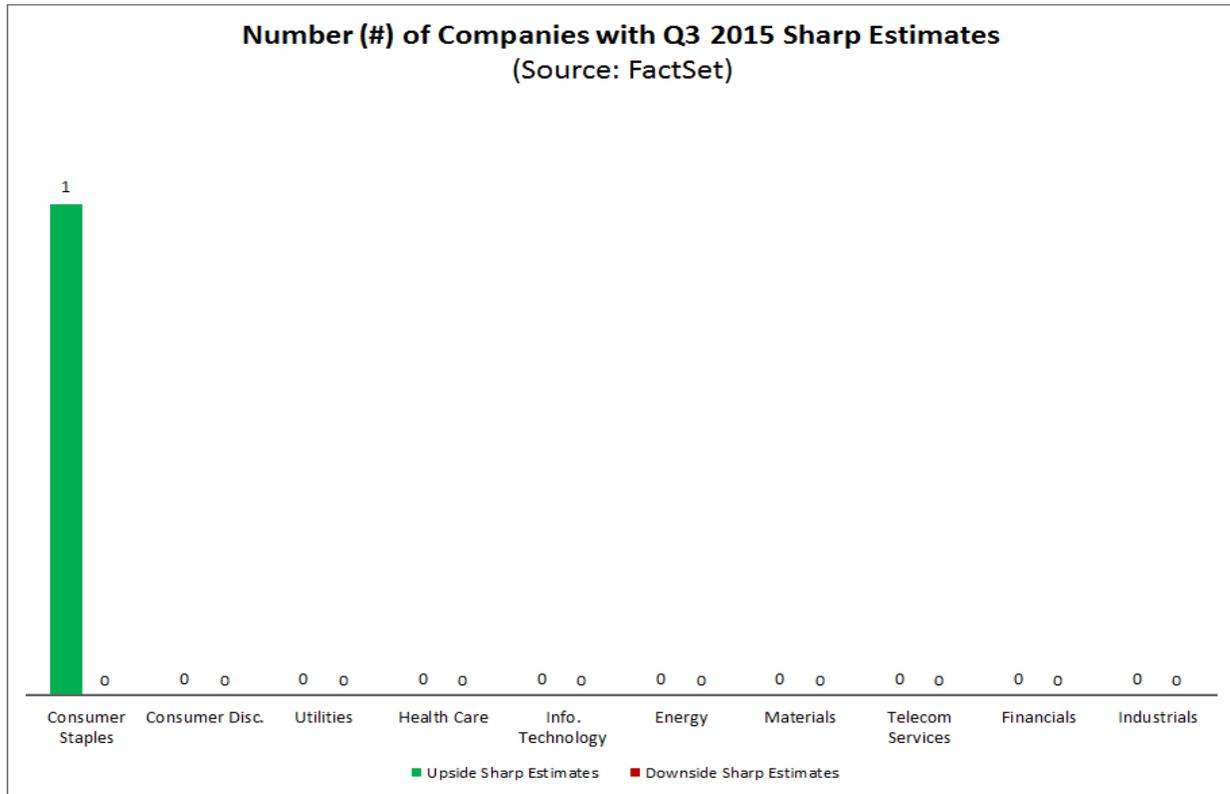
Q3 2015: Scorecard



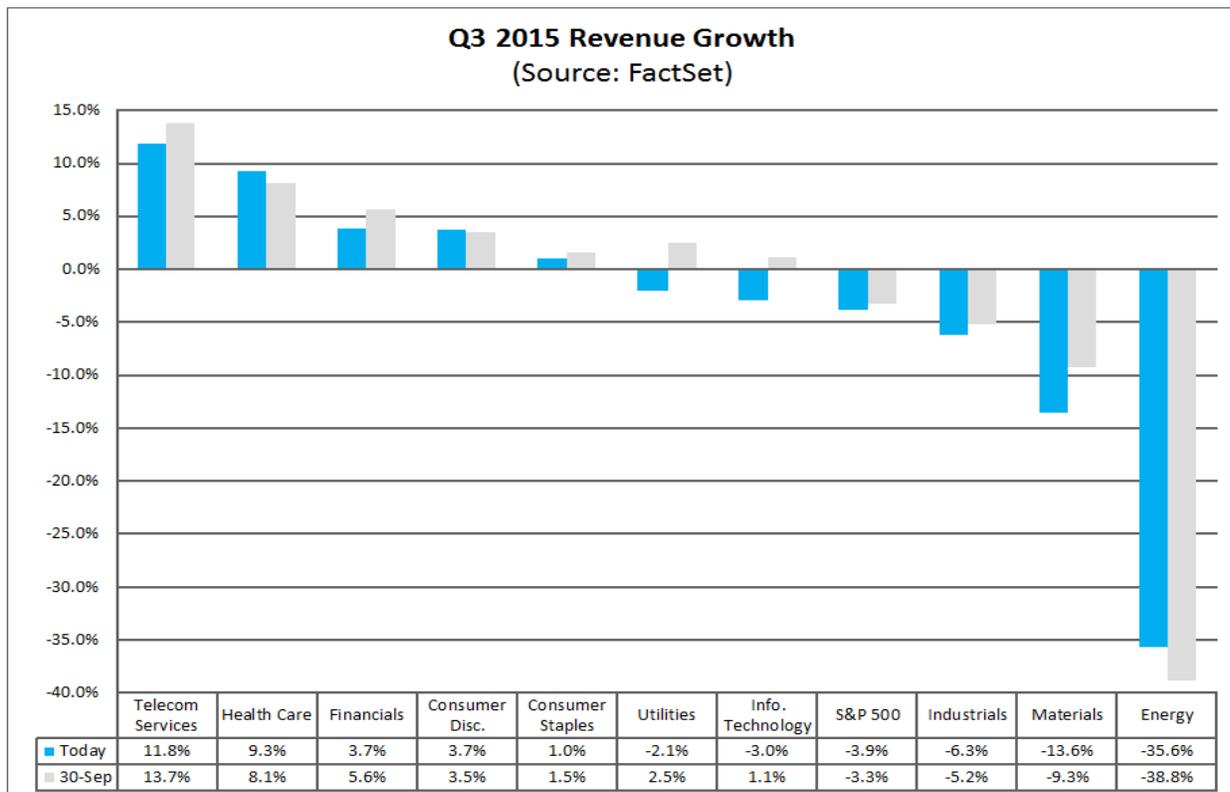
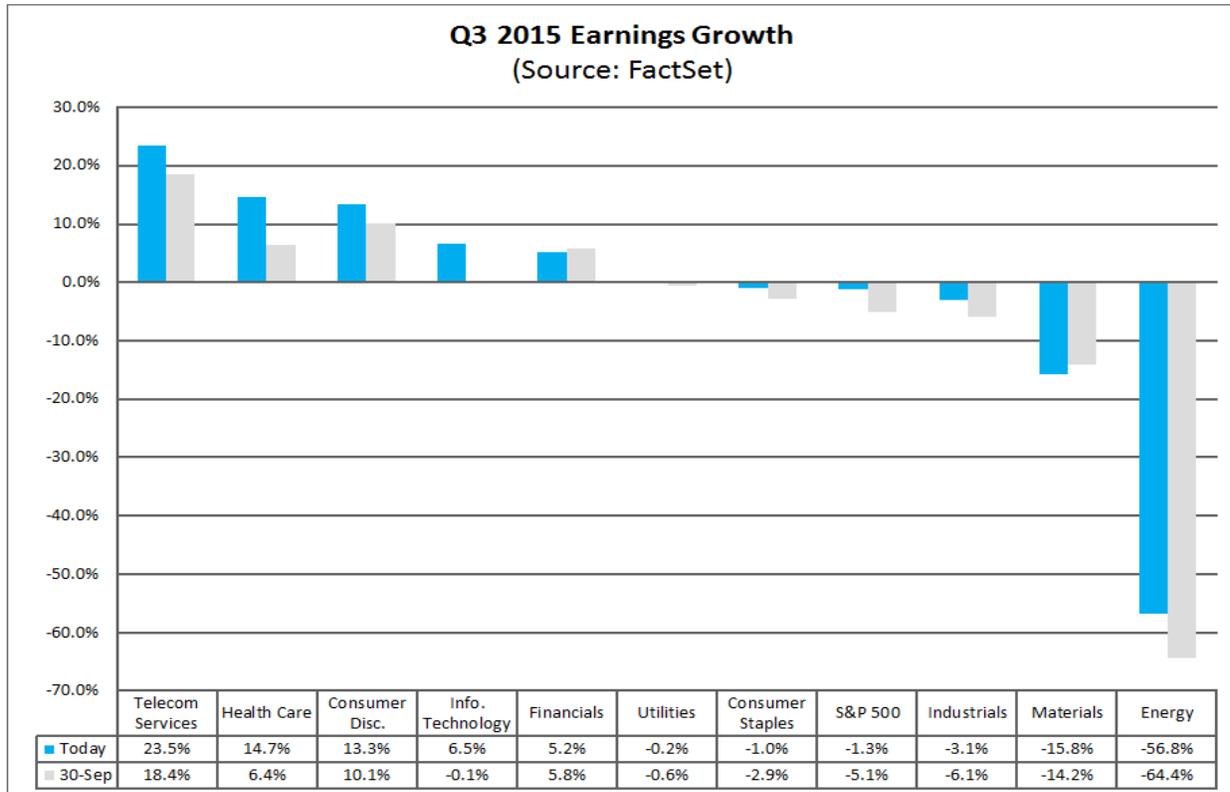
Q3 2015: Scorecard



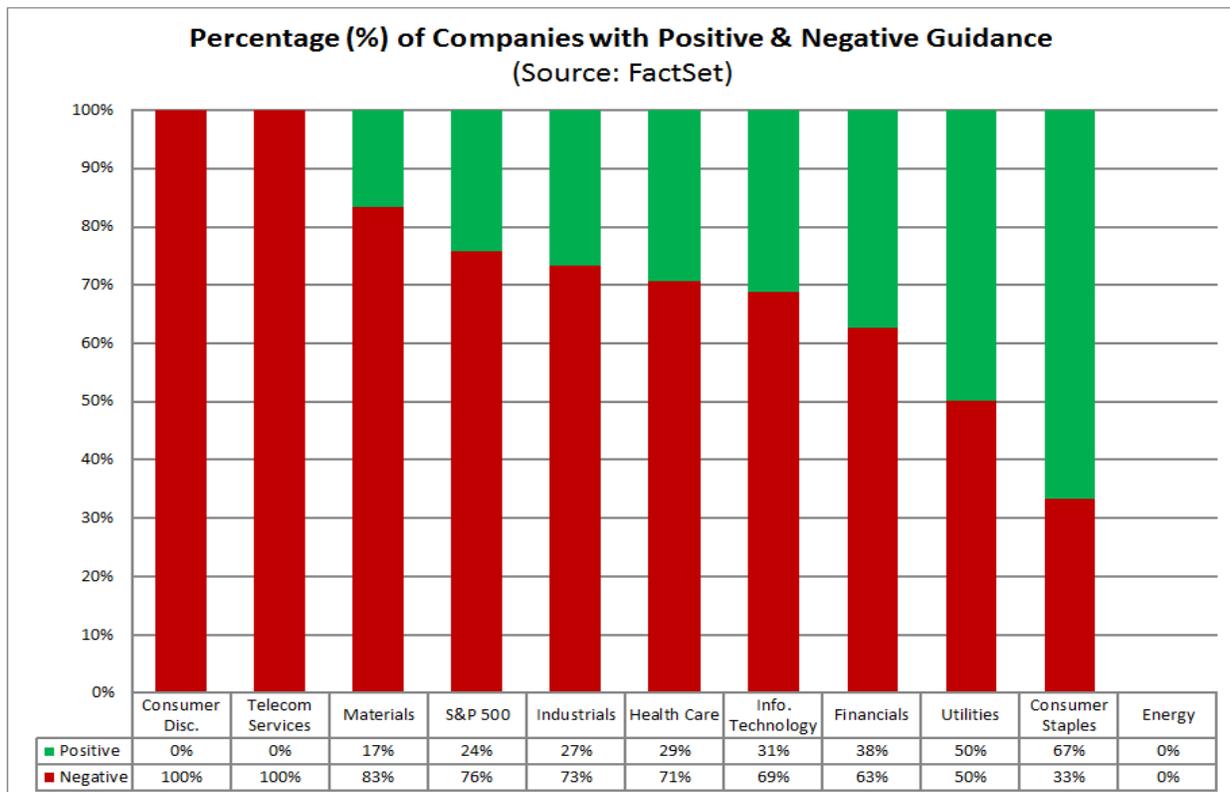
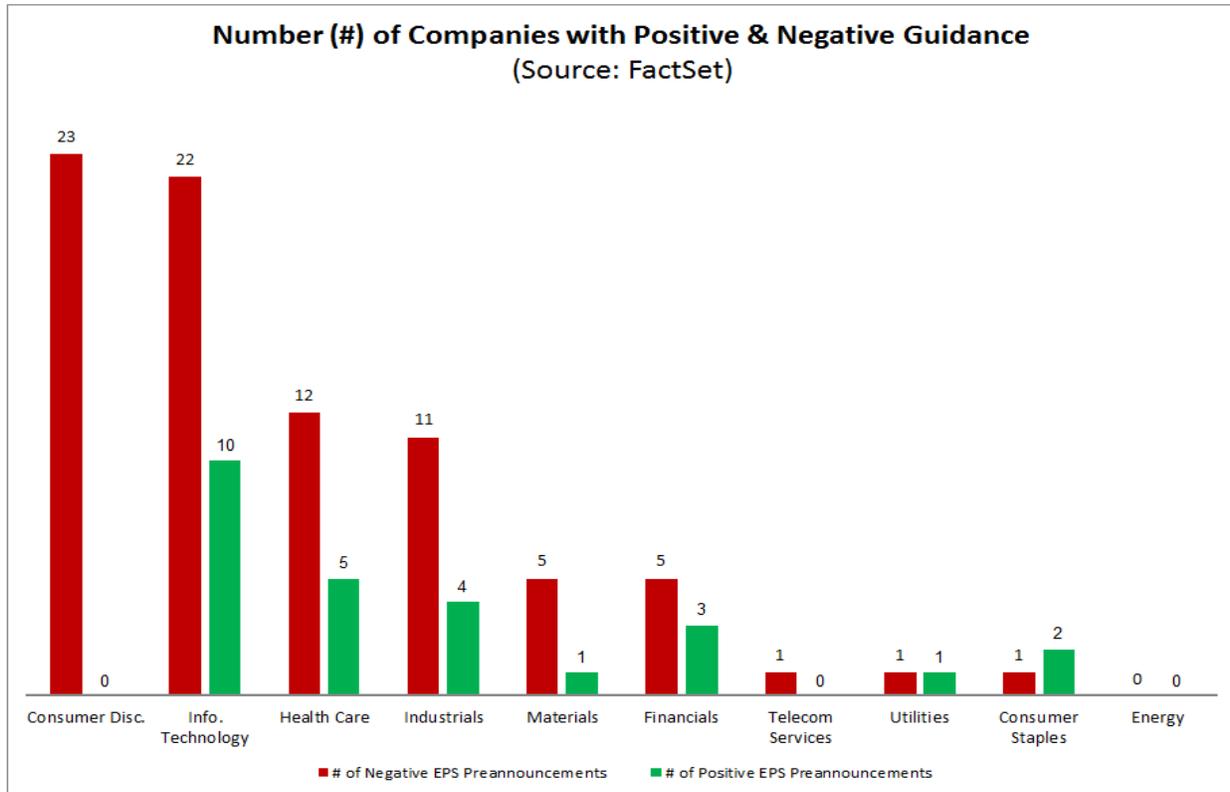
Q3 2015: Projected EPS Surprises (Sharp Estimates)



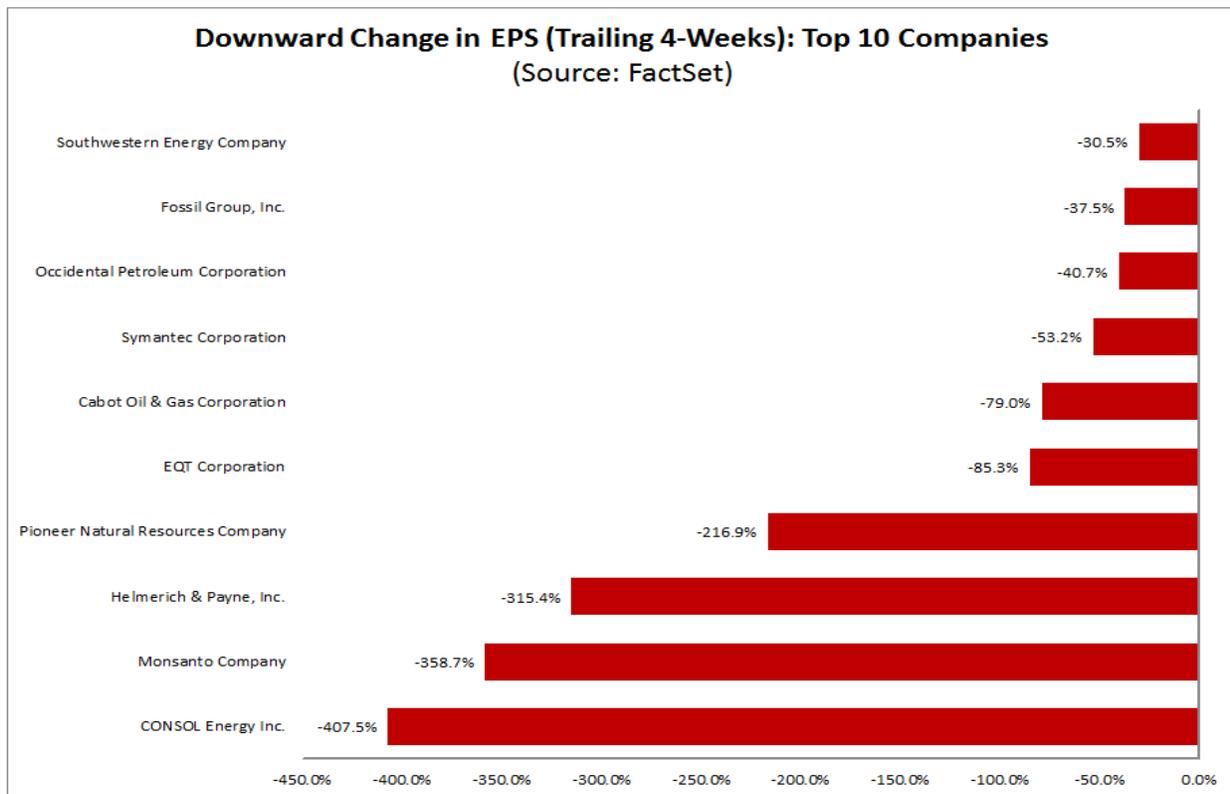
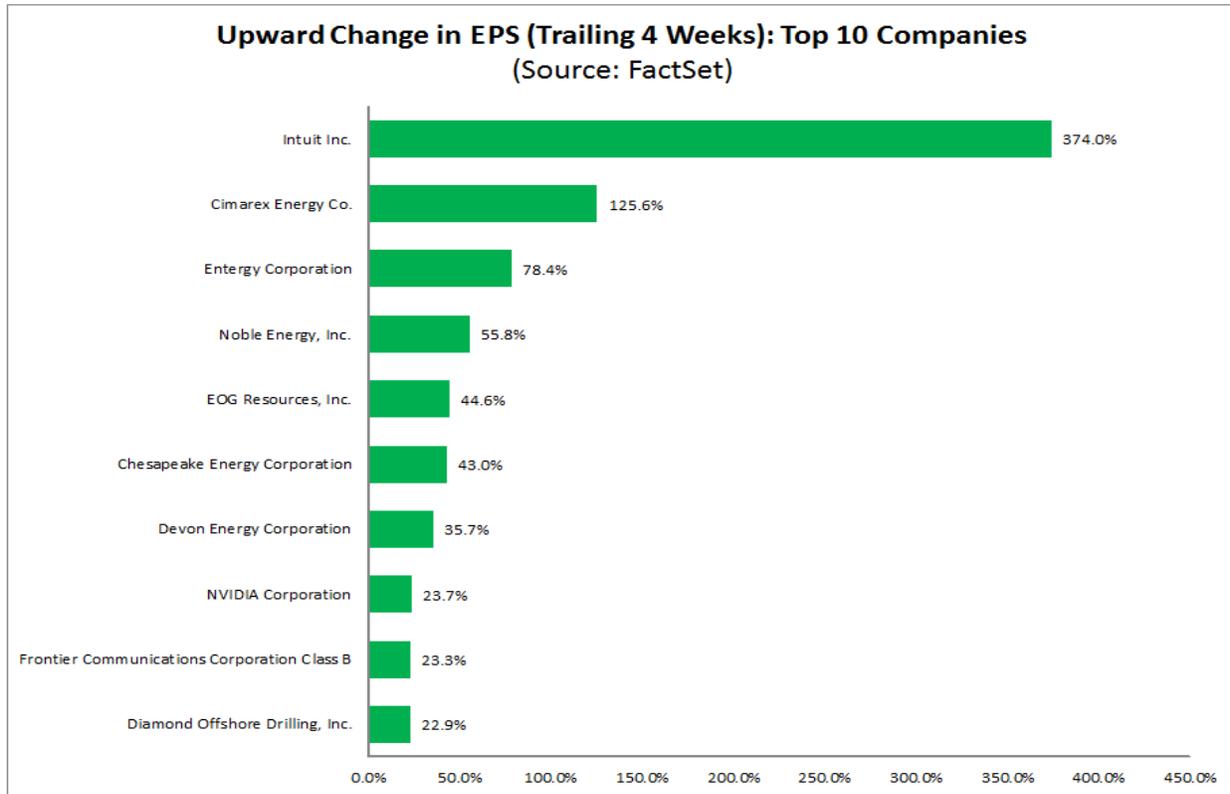
Q3 2015: Growth



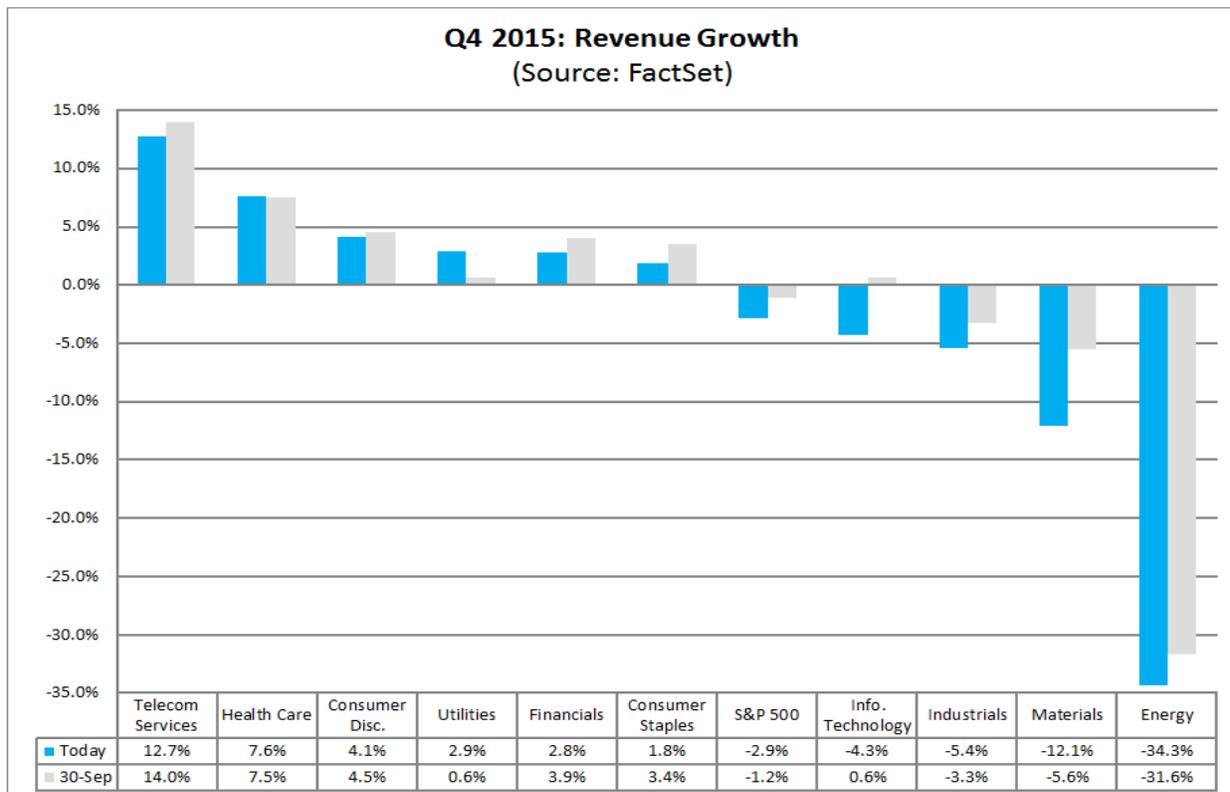
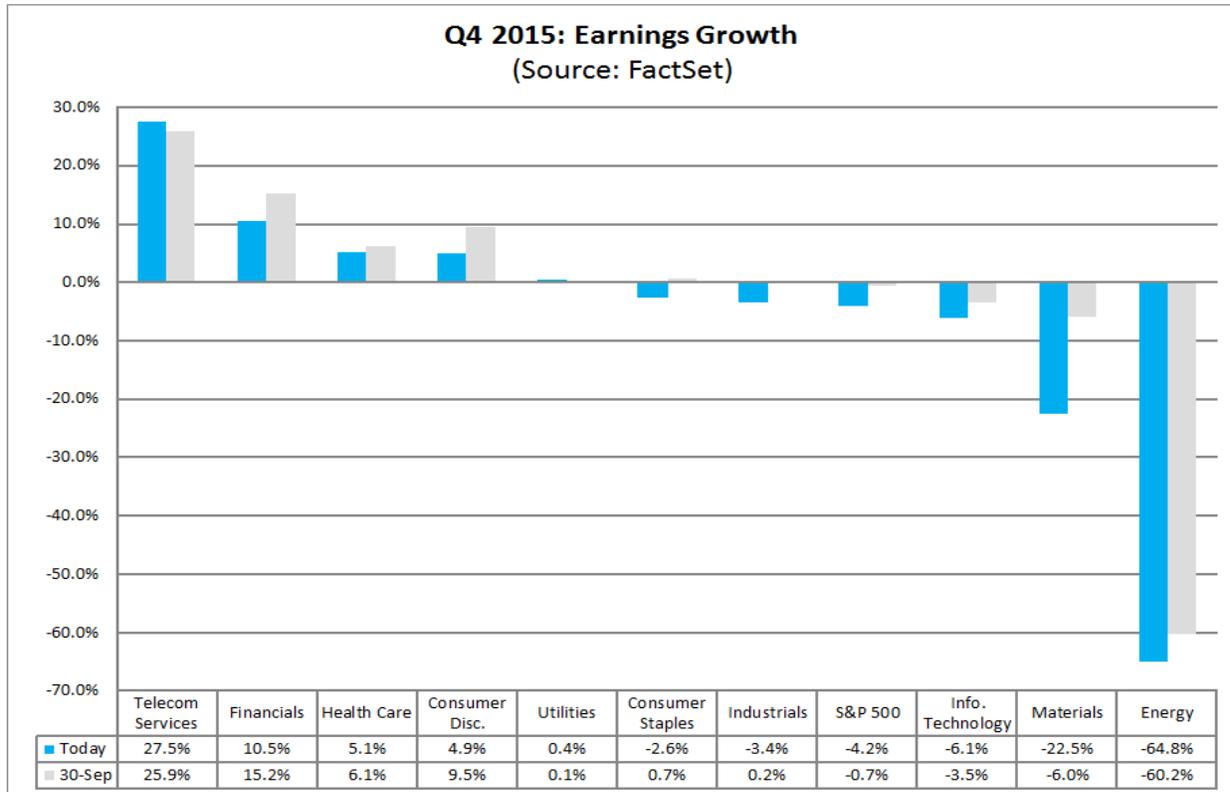
Q4 2015: EPS Guidance



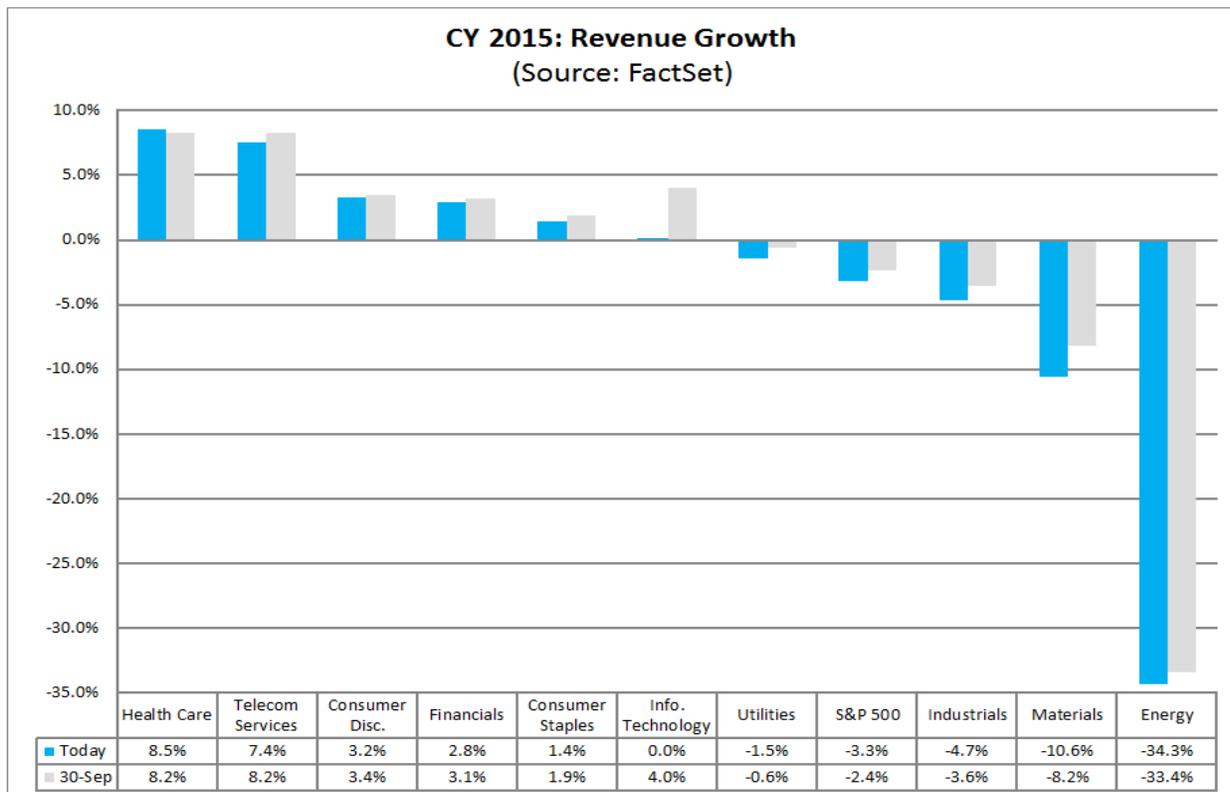
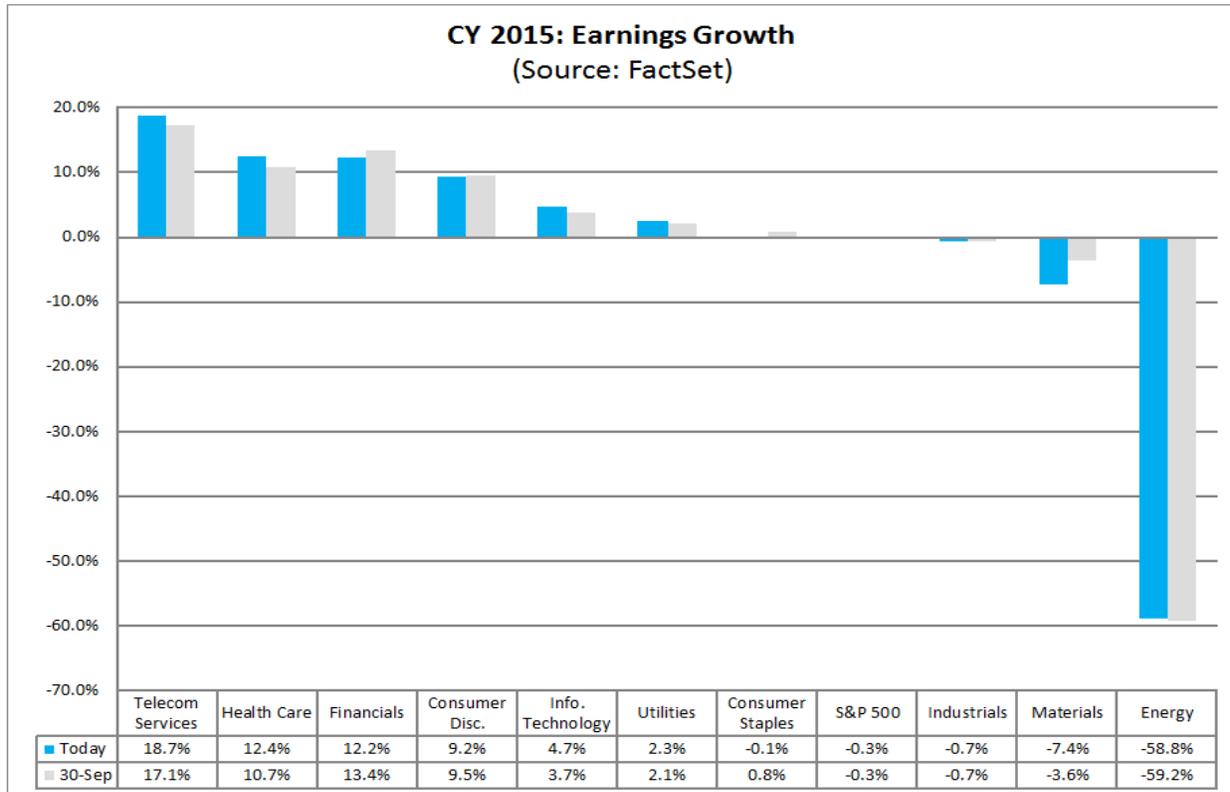
Q4 2015: EPS Revisions



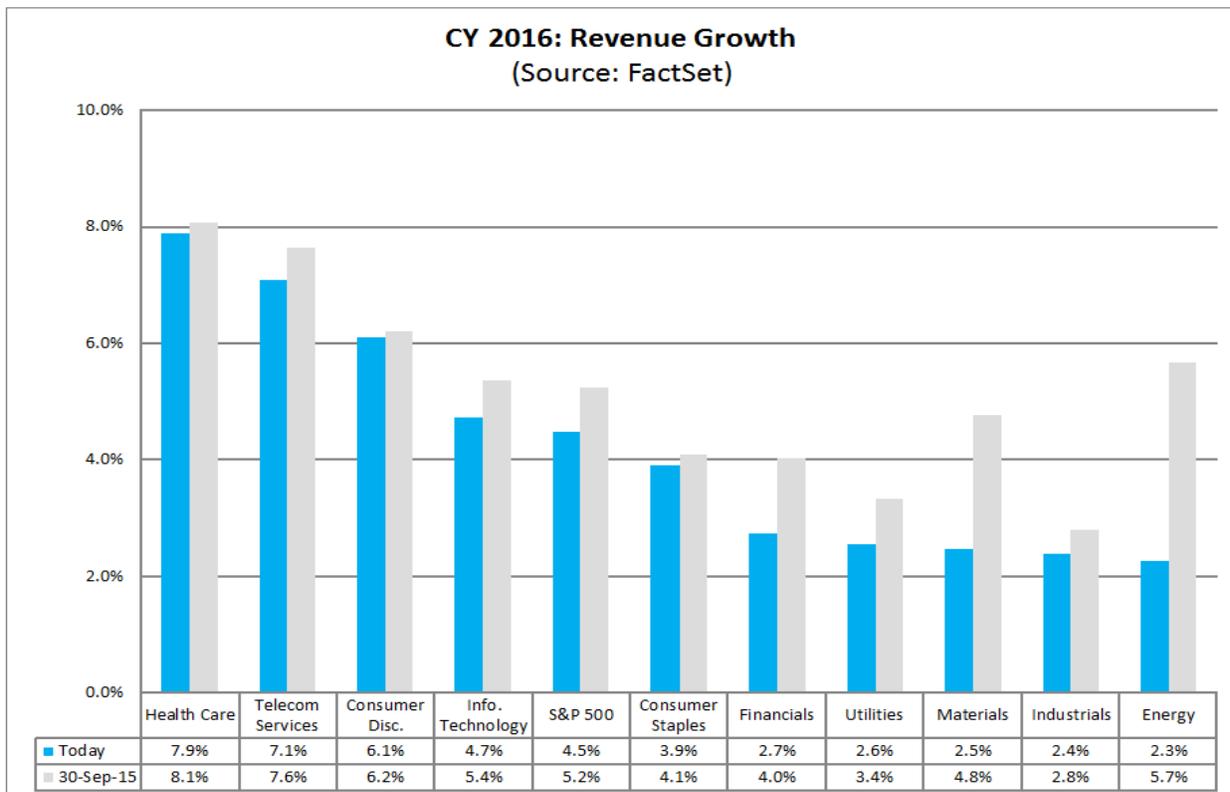
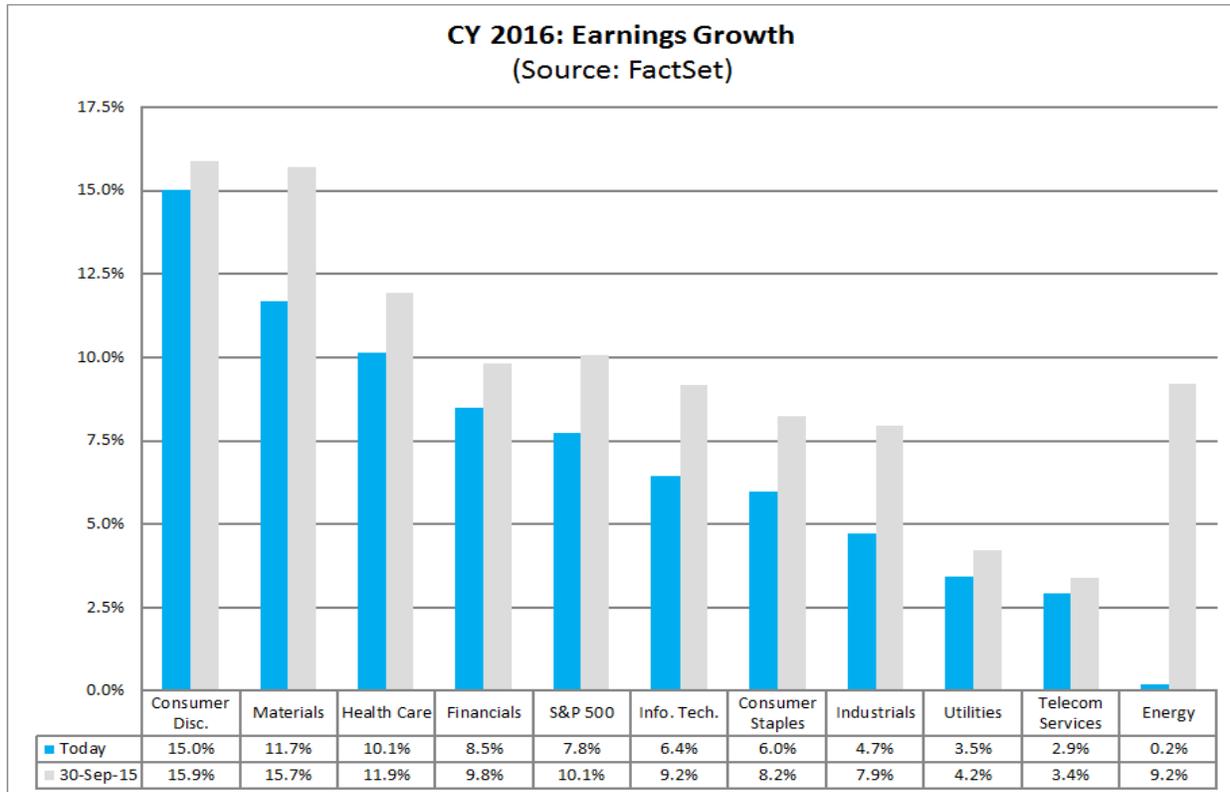
Q4 2015: Growth



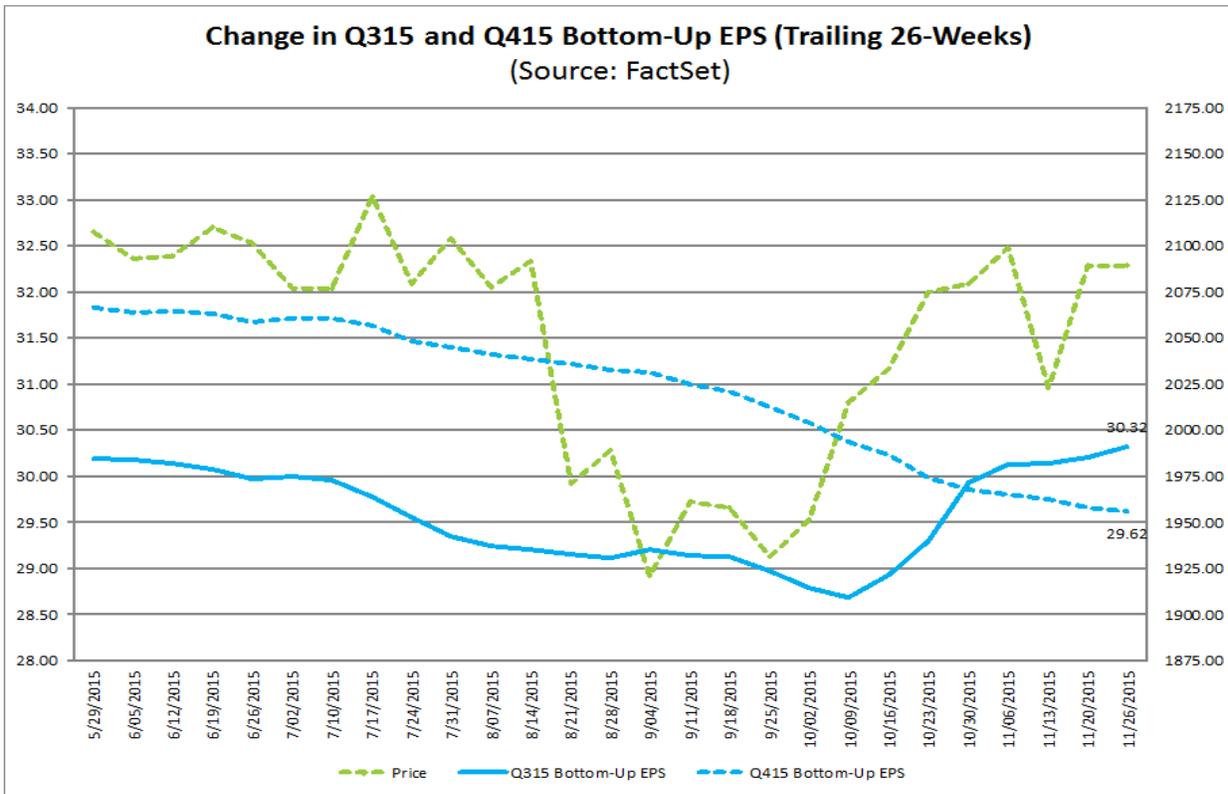
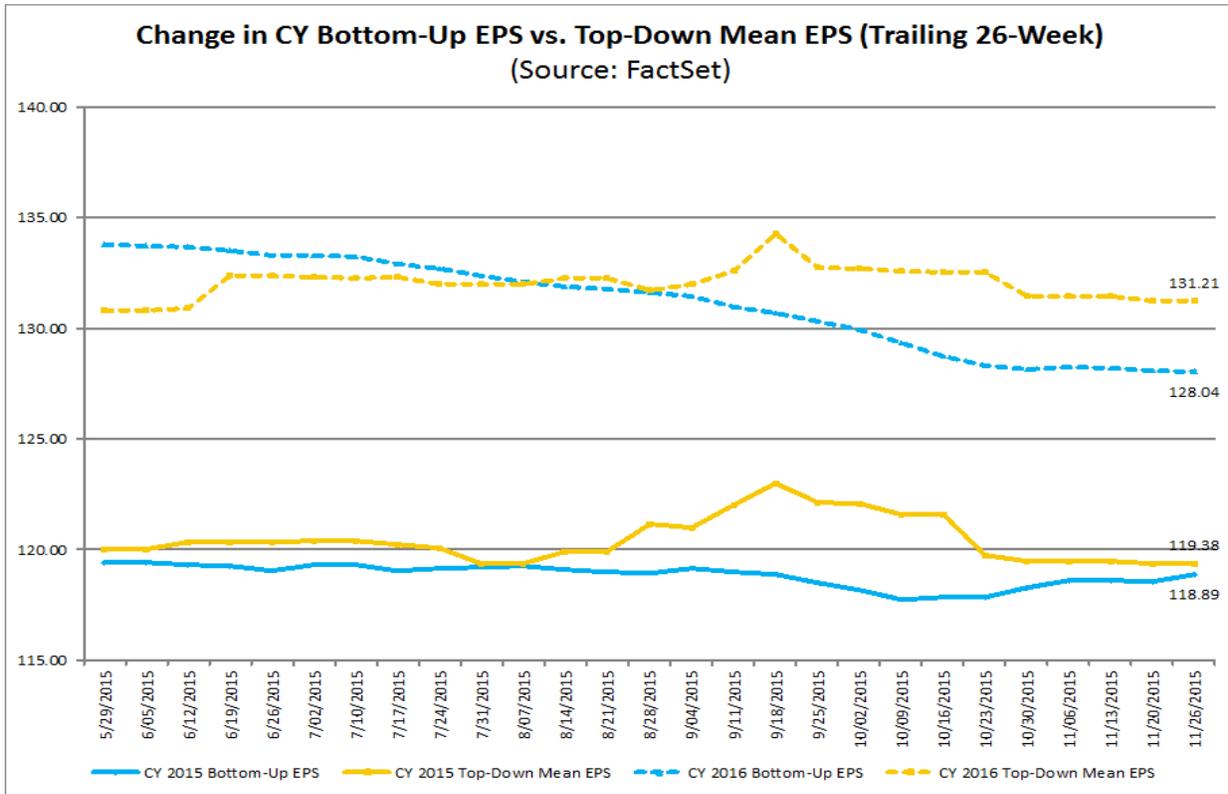
CY 2015: Growth



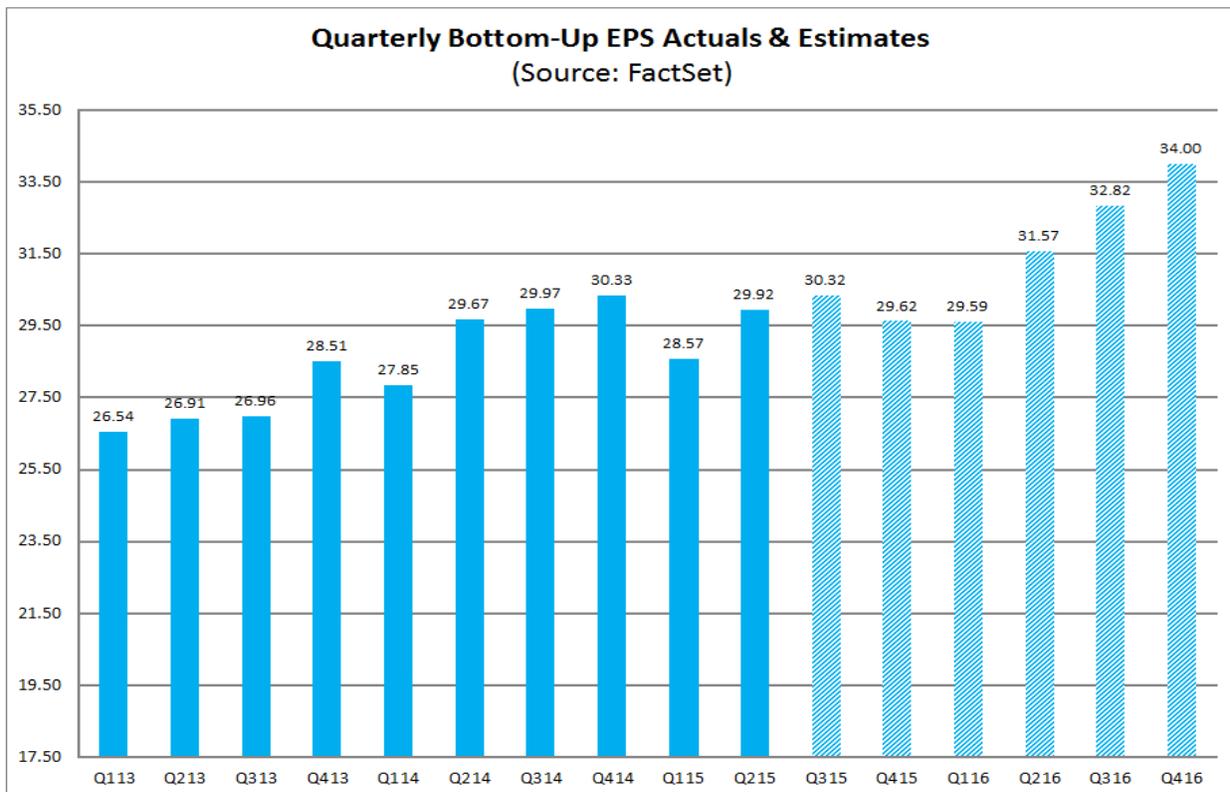
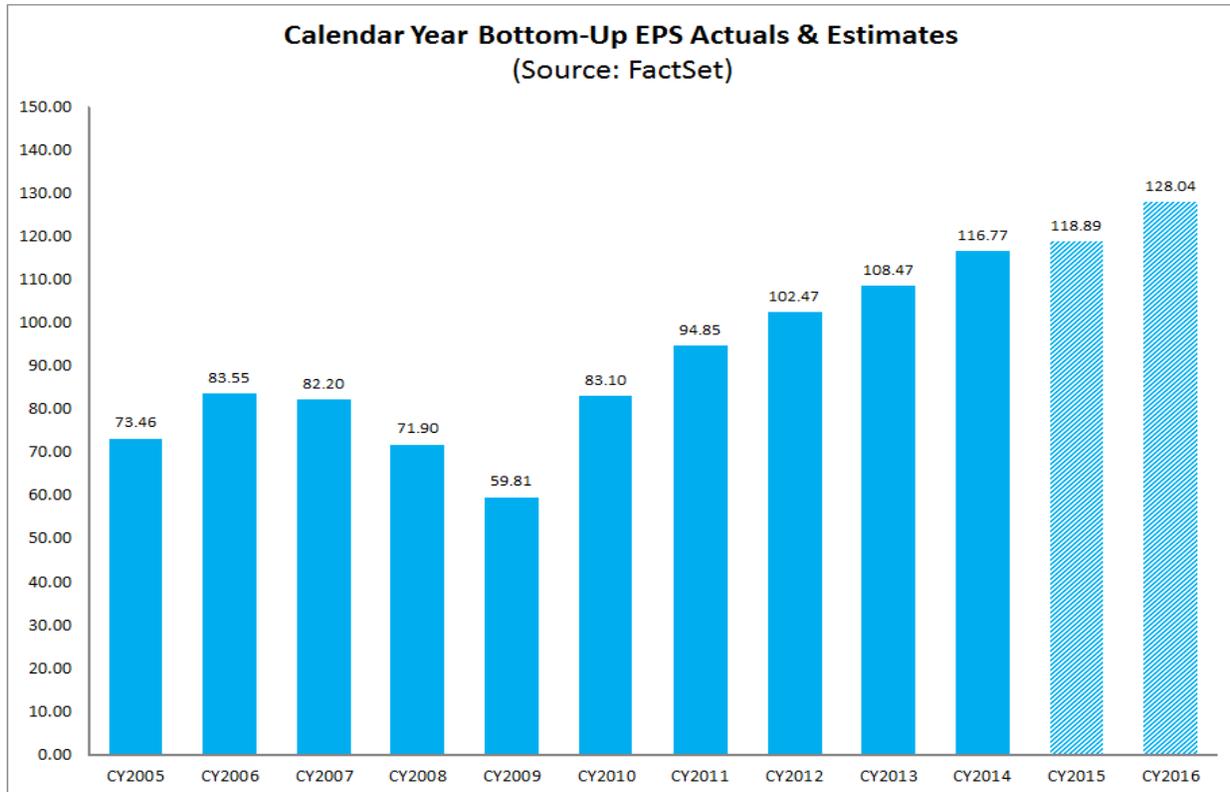
CY 2016: Growth



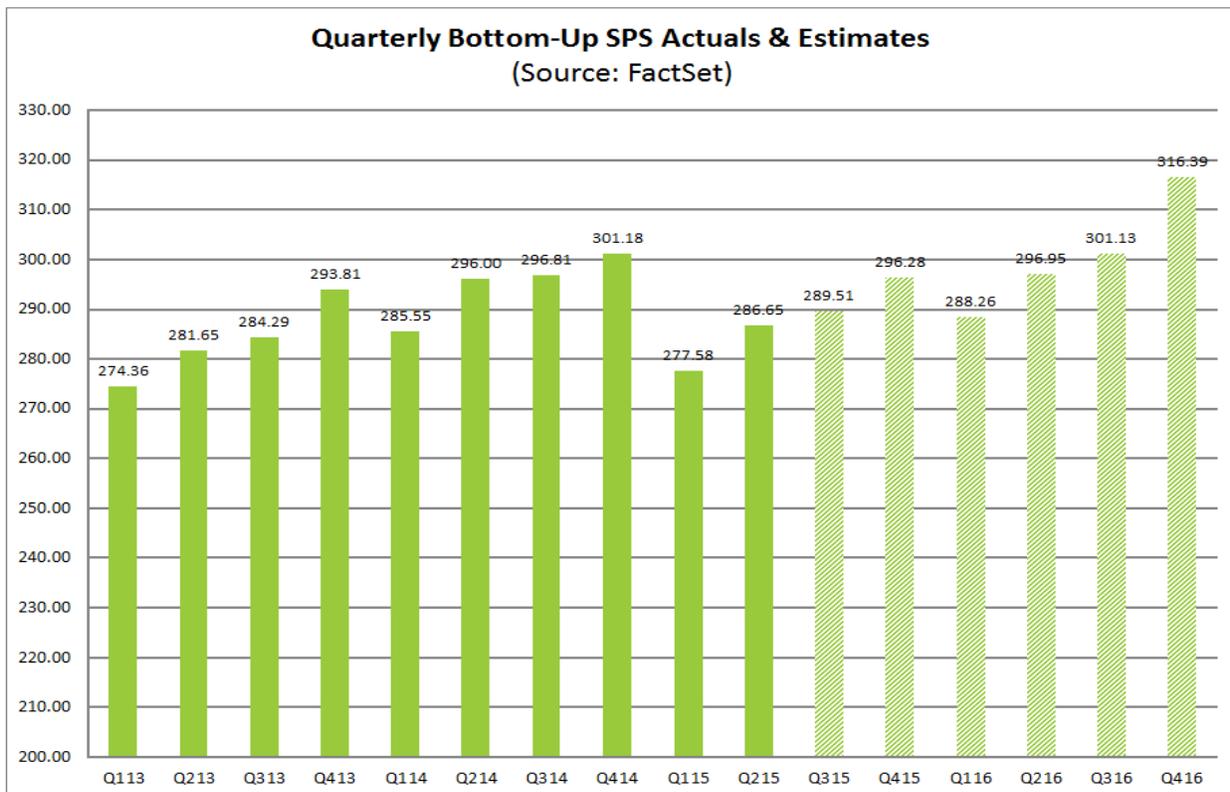
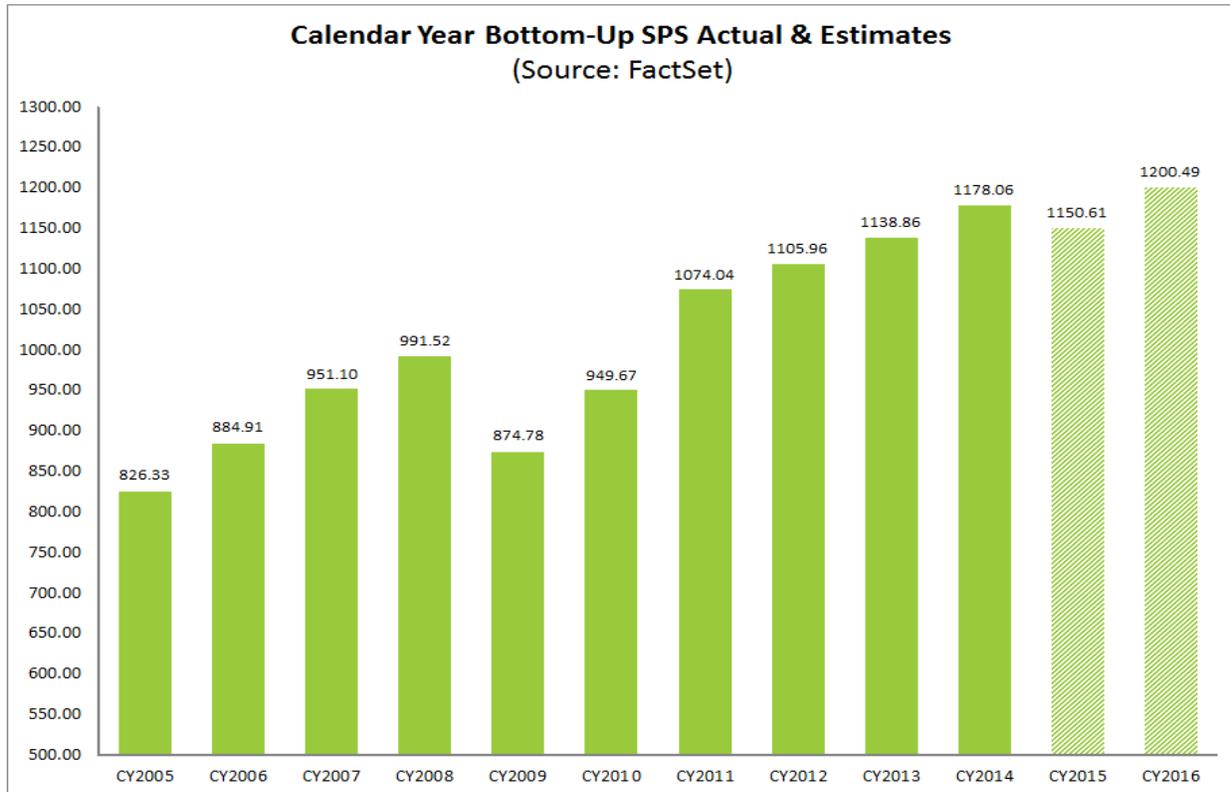
Bottom-Up EPS Estimates: Revisions



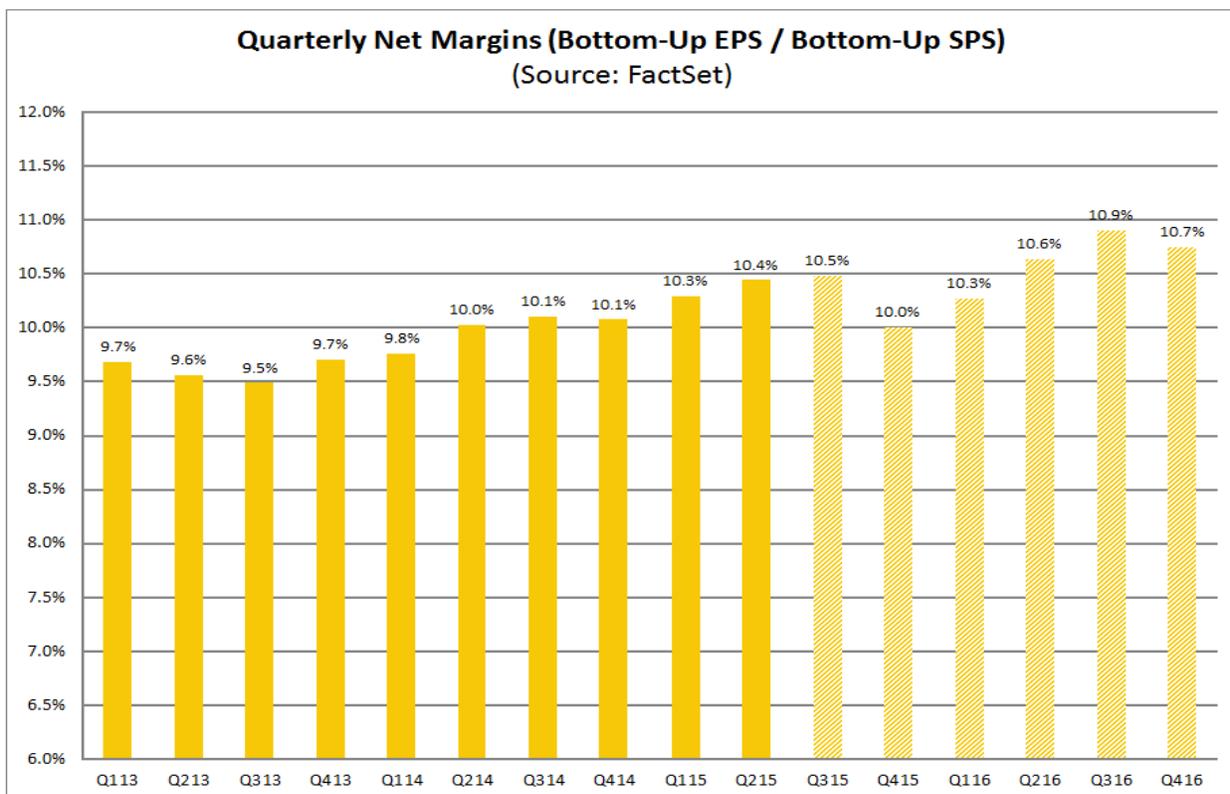
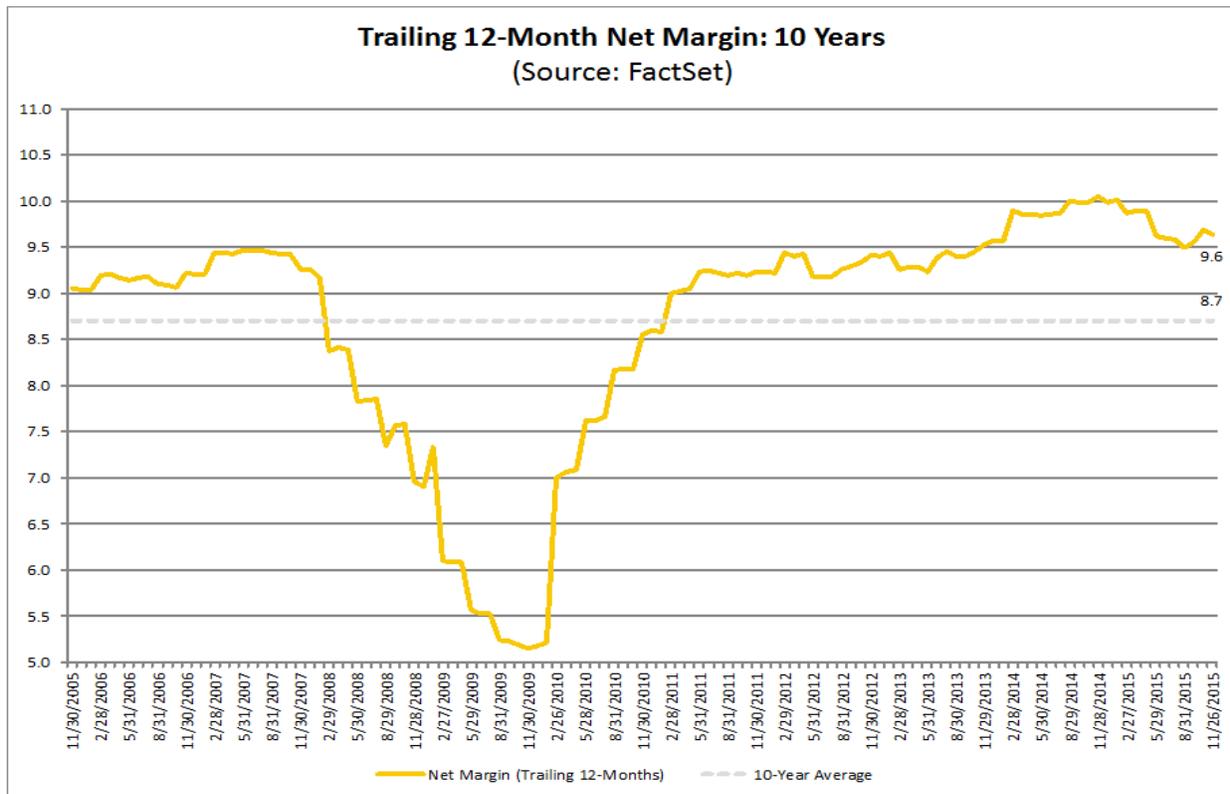
Bottom-Up EPS: Current & Historical



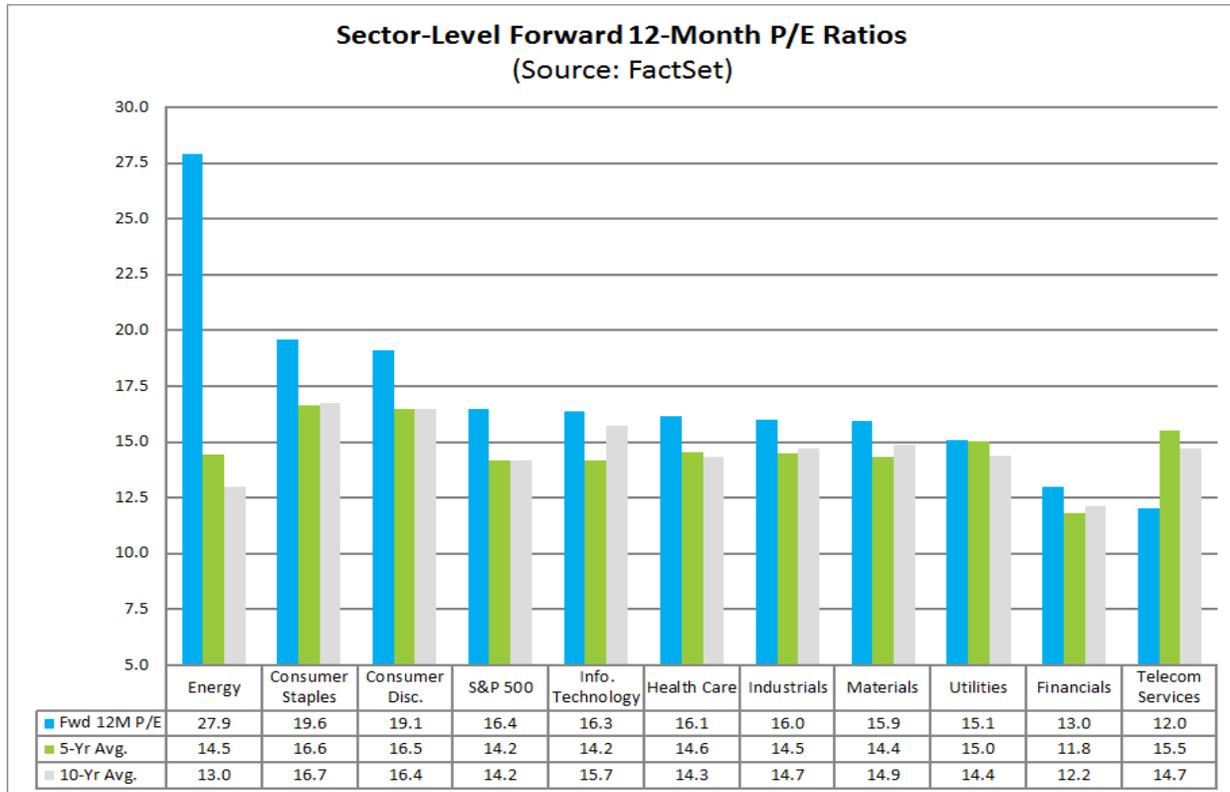
Bottom-Up SPS: Current & Historical



Net Margins: Current & Historical

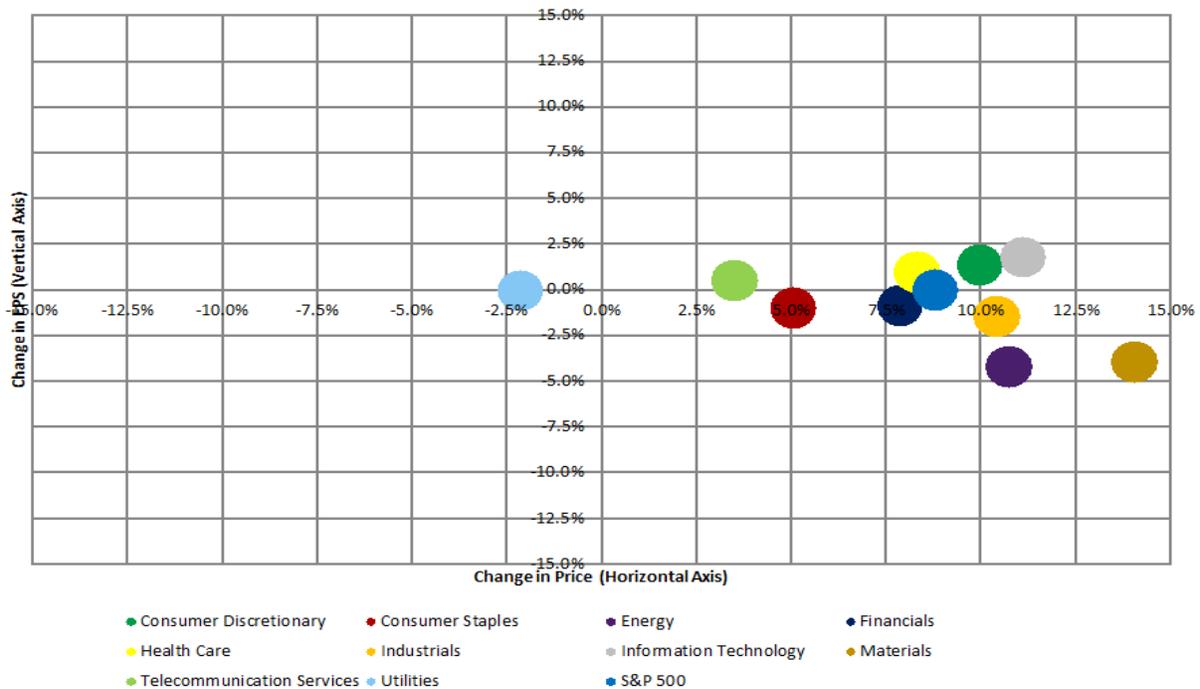


Forward 12M Price / Earnings Ratio: Sector Level

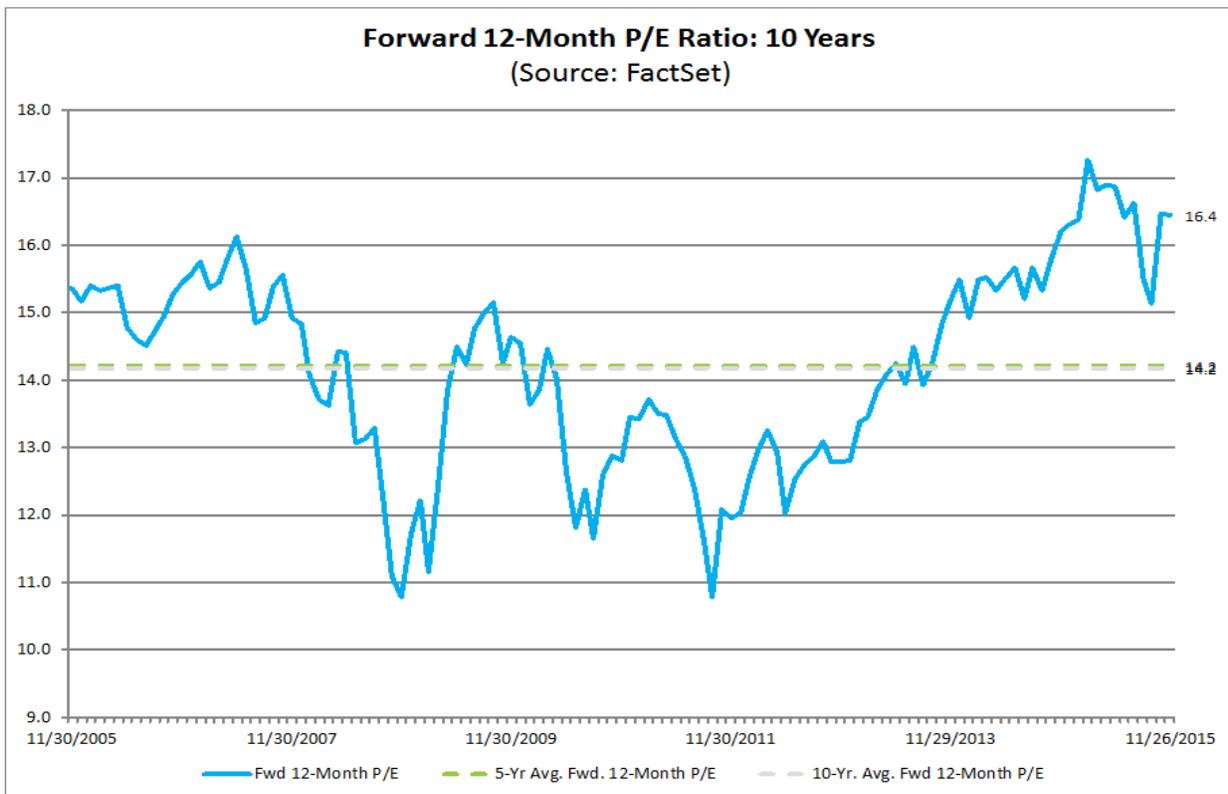
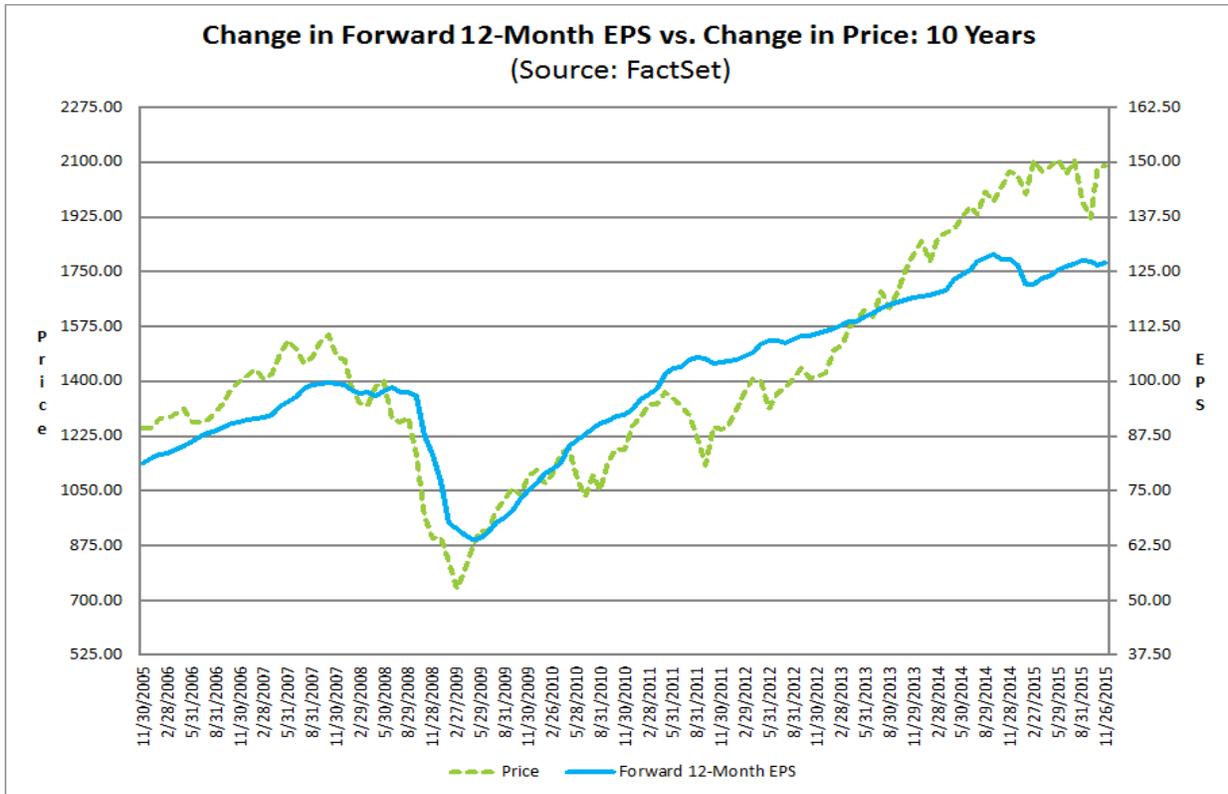


Sector-Level Change in Forward 12-Month EPS vs. Price: Since Jun. 30

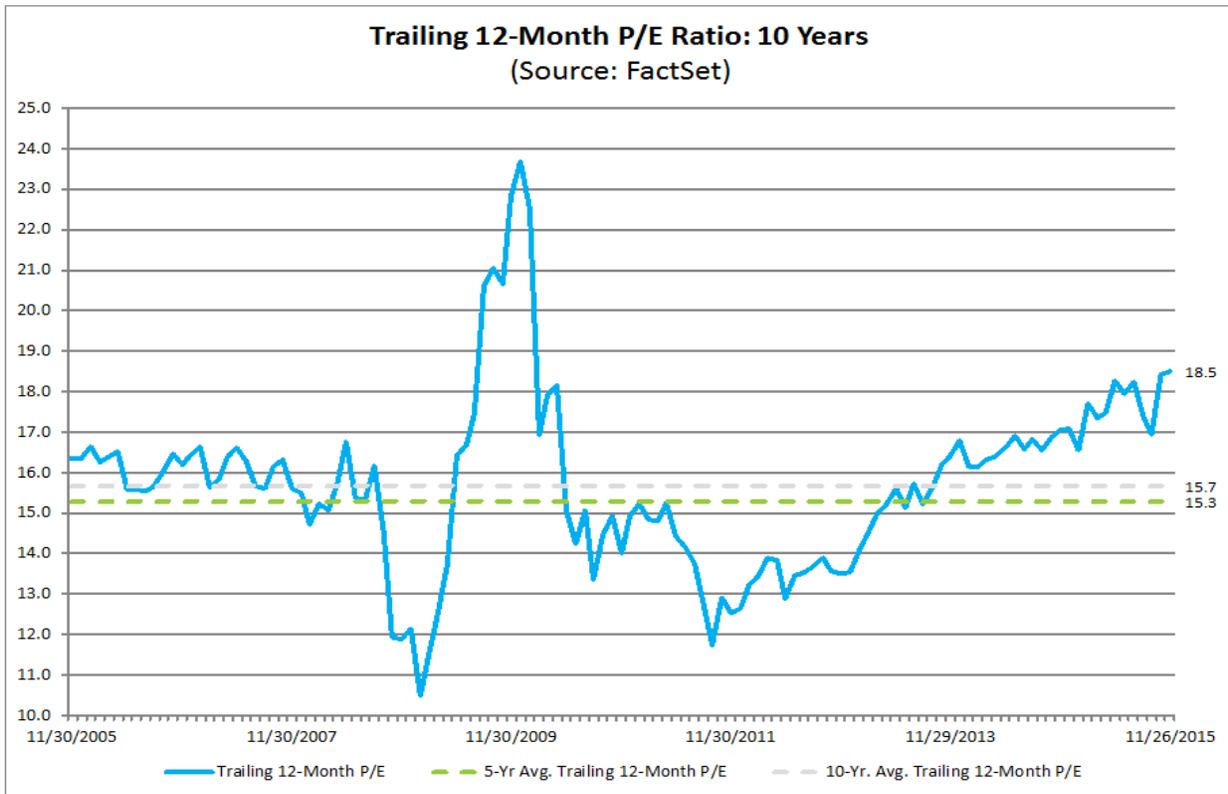
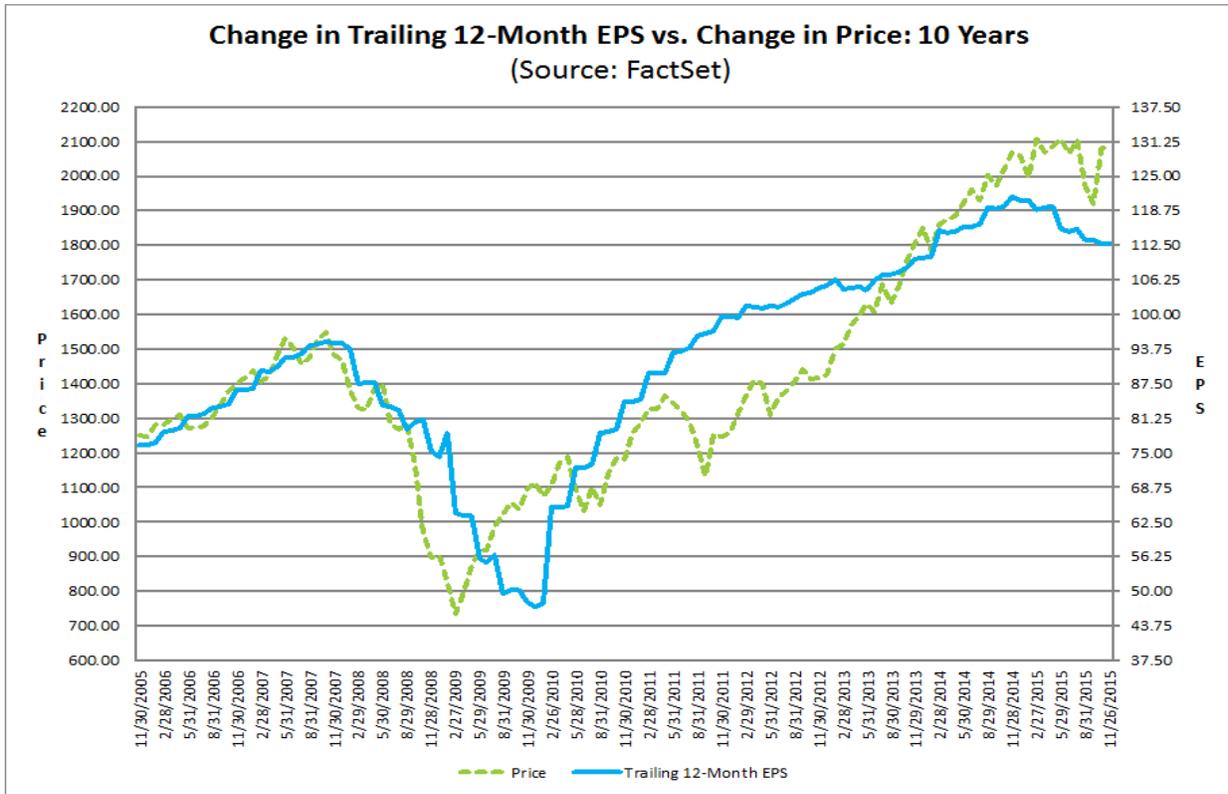
(Source: FactSet)



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



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



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