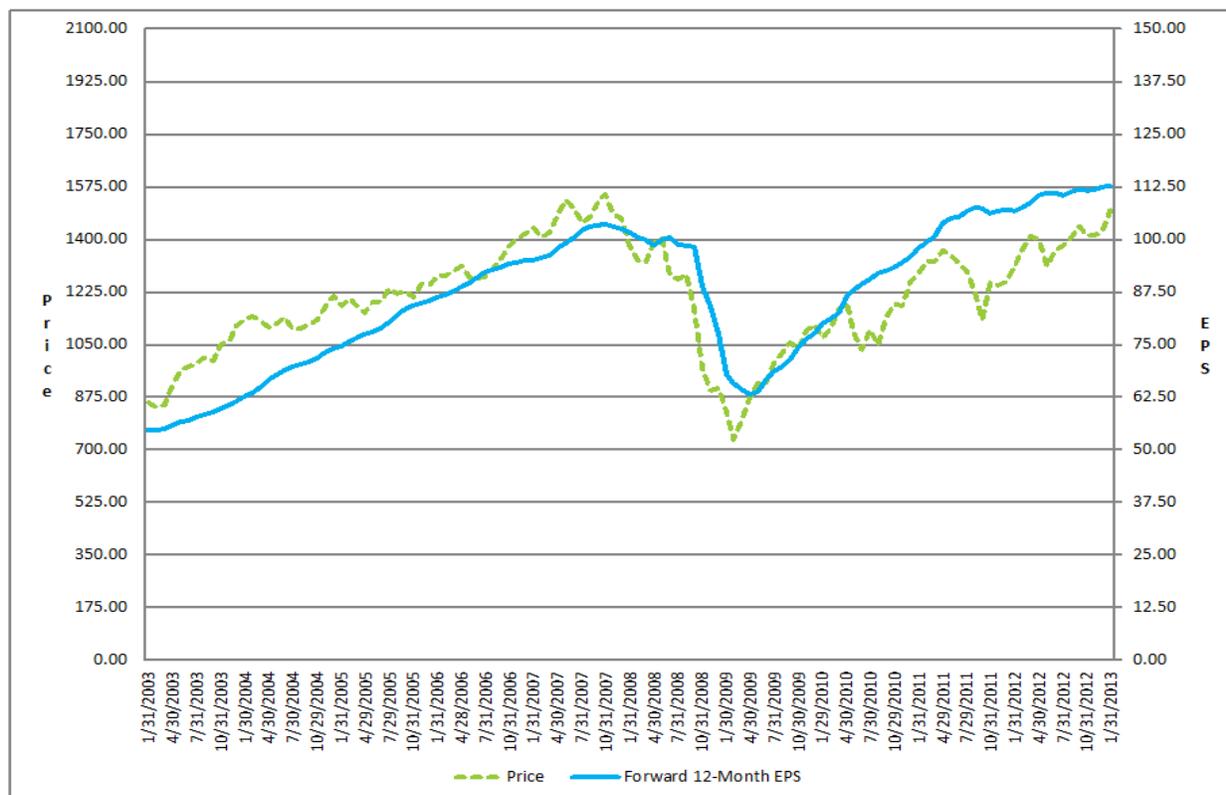


Key Metrics

- + **Earnings Scorecard:** Of the 234 companies that have reported earnings to date for Q4 2012, 70% have reported earnings above the mean estimate and 67% have reported revenues above the mean estimate.
- + **Earnings Growth:** The blended earnings growth rate for Q4 2012 is 4.0%. The Financials, Energy, and Materials sectors have the highest earnings growth rates for the quarter, while the Telecom Services and Industrials sectors have the lowest earnings growth rates for the quarter.
- + **Earnings Revisions:** On December 31, the earnings growth rate for Q4 2012 was 2.6%. The Energy sector has recorded the largest increase in earnings growth since the end of the fourth quarter, while the Telecom Services sector has recorded the largest drop in earnings growth during this time.
- + **Earnings Guidance:** For Q1 2013, 50 companies have issued negative EPS guidance and 11 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-month forward P/E ratio is 13.3. This P/E ratio is based on Thursday's closing price of 1498.11 and forward 12-month EPS estimate of \$112.79.

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



Q4 2012 Earnings Season: Overview

Companies Continue to Beat EPS and Revenue Estimates at Earnings Season Mid-Point

With just under 50% of the companies in the S&P 500 reporting actual results, the number of companies reporting earnings above estimates is in-line with recent averages, while the number of companies reporting revenues above estimates is above recent averages.

Large Upside Earnings Surprises Reported by Companies in Materials (9.8%) and Energy (8.6%) Sectors

Overall, 234 companies have reported earnings to date. Of these 234 companies, 70% have reported actual EPS above the mean EPS estimate and 30% have reported actual EPS below the mean EPS estimate. Over the past four quarters on average, 69% of companies have reported actual EPS above the mean EPS estimate.

At the sector level, the Utilities (100%) and Information Technology (87%) sectors have the highest percentages of companies reporting earnings above estimates, while the Telecom Services (0%) and Financials (55%) sectors have the lowest percentage of companies reporting earnings above estimates.

In aggregate, companies are reporting earnings that are 4.0% above expectations. Over the last four quarters on average, actual earnings have surpassed estimates by 4.2%. Companies in the Materials (+9.8%) and Energy (+8.6%) sectors are reporting the largest upside aggregate differences between actual earnings and estimated earnings. In the Materials sector, companies that have reported significant upside earnings surprises include Monsanto (+73%), DuPont (+52%), and Nucor (+47%). In the Energy sector, companies that have reported earnings substantially above estimates include Consol Energy (+80%) and Valero Energy (+54%).

On the other hand, companies in the Telecom Services (-7.1%) sector are reporting the largest downside aggregate differences between actual earnings and estimated earnings. Companies that reported earnings below expectations in this sector include Crown Castle International (-151%) and Verizon Communications (-10%).

More Companies Beating Revenue Estimates (67%) Relative to Q3 (41%) and Q2 (41%)

In terms of revenues, 67% of companies have reported actual sales above estimated sales and 33% have reported actual sales below estimated sales. The percentage of companies beating sales estimates to date reflects an improvement relative to recent quarters. Over the previous two quarters on average, just 41% of companies have reported sales above estimates. Over the past four quarters on average, 50% of companies have reported actual sales above the mean sales estimate.

At the sector level, companies in the Telecom Services (100%) and Energy (94%) sectors have the highest percentages of companies reporting revenue above estimates, while companies in the Utilities (0%) sector have the lowest percentages of companies reporting revenue above estimates.

In aggregate, companies are reporting sales that are 0.3% above expectations. Over the previous four quarters on average, actual sales have exceeded estimates by 0.4%.

Upside Earnings Surprises From Energy Drive Increase in Earnings Growth to 4.0%

The blended earnings growth rate for Q4 2012 is 4.0% this week, above last week's growth rate of 2.4%. The improvement in the growth rate during the week can mainly be attributed to upward earnings surprises reported by companies in the Energy sector.

In the Energy sector, the upside earnings surprise reported by Chevron (\$3.77 vs. \$3.06) was the most significant contributor to the increase in earnings growth for the index during the week. In addition, positive earnings surprises reported by Valero Energy (\$1.88 vs. \$1.21) and Exxon Mobil (\$2.07 vs. \$1.99) also contributed to the improvement in growth. Overall, the blended earnings growth rate for the Energy sector increased to 11.7% from 2.6% over this time frame.

The blended earnings growth rate of 4.0% today for the index as a whole is above the estimate of 2.6% at the end of the quarter (December 31). Seven of the ten sectors have witnessed a net increase in earnings growth over this time frame, led by the Energy (to 11.7% from 2.9%) and Materials (to 10.3% from 5.8%) sectors. On the other hand, the Telecom Services (to -11.5 from 9.0) and Financials (to 12.9% from 16.3%) sectors have recorded the largest decreases in earnings growth since the end of the quarter. However, it should be noted the earnings growth rate for the Financials sector has rebounded in recent weeks from a low of 8.3% on January 10 due to some of the large upside earnings surprise reported by companies in this sector.

Financials, Energy, and Materials Sectors Reporting Highest Earnings Growth

After reporting a small year-over-year decline in earnings growth in Q3 2012 (-1%), the index is reporting earnings growth for Q4 2012. The blended earnings growth rate stands at 4.0%. Seven of the ten sectors are reporting a year-over-year increase in earnings for the quarter, led by the Financials (12.9%), Energy (11.7%), and Materials (10.5%) sectors.

Financials Sector: Ex-Insurance Industry, Earnings Growth Rises to 38%

The Financials sector has the highest earnings growth of any sector at 12.9%. The sector is also the largest contributor to earnings growth for the entire index. If the Financials sector is excluded, the growth rate for the index falls to 2.5% from 4.0%. Earnings growth has been broad-based across the sector. Seven of the eight industries are reporting earnings growth. Five of these seven industries are reporting double-digit earnings growth, led by the Capital Markets (73%) and Commercial Banks (41%) industries.

On the other hand, the Insurance (-38%) industry is the only industry reporting a year-over-year decline in earnings in the sector. The earnings weakness in this industry can be attributed to losses related to Hurricane Sandy. This industry is also the largest detractor to earnings growth for the sector. If the Insurance industry is excluded, the earnings growth rate for the sector would improve to 38%.

Energy: Ex-Chevron and Valero Energy, Earnings Growth Falls to 0.0%

The Energy sector has the second highest earnings growth of any sector at 11.7%. However, two companies in the sector account for most of the reported earnings growth: Chevron and Valero Energy. If these two companies are excluded, the growth rate for the sector falls to 0%.

Materials: Chemicals Industry Leads Growth

The Materials sector has the third highest earnings growth of any sector at 10.3%. Within this sector, the Chemicals (15.9%) industry is the key driver of earnings growth. If this industry is excluded, the earnings growth for the sector would fall to 0.6%.

Telecom Services and Industrials Reporting Lowest Earnings Growth

On the other hand, three sectors are reporting earnings declines for the quarter: Telecom Services (-11.5%), Industrials (-5.6%), and Health Care (-0.2%). The Telecom Services and Industrials sectors are reporting the lowest earnings growth rates for the quarter.

The Telecom Services sector has the lowest earnings growth rate (-11.5%) of all ten sectors. The weakness in earnings is spread throughout the sector, as six of the eight companies that comprise the sector have reported or are predicted to report a year-over-year decline in EPS for the quarter.

The Industrials sector has the second lowest earnings growth rate (-5.6%) of all ten sectors. Five of the twelve industries are reporting a decrease in earnings for the quarter, led by the Machinery (-23%) and Aerospace & Defense (-15%) industries. On the other hand, the Industrial Conglomerates (10%) industry is the largest contributor to earnings growth for the sector. If this industry is excluded, the growth rate for the sector falls to -10.0%.

Revenue Growth: 2.3%

The blended revenue growth rate for Q4 2012 is 2.3%, slightly above an expectation of 2.2% on December 31. Nine of the ten sectors are reporting revenue growth for the quarter, led by the Utilities and Health Care sectors. On the other hand, the Energy sector is the only sector reporting a year-over-year decrease in revenue for the quarter.

The Utilities sector has the highest revenue growth at 8.7%. Three of the four industries in this sector are reporting growth, led by the Electric Utilities (12%) industry. Within the Electric Utilities industry, Duke Energy and Exelon Energy are the largest contributors to revenue growth for the sector. If these two companies are removed, the growth rate for the Utilities sector drops to 4.5%.

The Health Care sector has the second highest revenue growth rate at 8.0%. At the company level, Express Scripts is the largest contributor to growth in the sector. The company's revenues for Q4 2012 include the results of Medco, while the revenues for Q4 2011 are stand alone. Excluding Express Scripts, the revenue growth rate for the Health Care sector falls to 2.7%.

The Energy sector has the lowest revenue growth rate of all ten sectors at -9.6%. At the company level, Conoco Phillips is the largest detractor to growth in the sector. The company's revenues for Q4 2012 are stand alone for Conoco Phillips, while the year-ago revenues include Phillips 66. Excluding Conoco Phillips, the revenue growth rate for the Energy sector improves to -0.3%.

Global Concerns: Europe, F/X Rates, & China

Many companies in the index are reporting lower revenue growth outside of the U.S. for Q4 2012 due to weak economic growth in Europe and less favorable foreign exchange rates. In terms of emerging markets (China), a number of companies appear to be seeing improving conditions, and believe this trend will continue in 2013.

Europe: Still weak

Europe is reporting a decline in economic growth relative to last year. According to FactSet Economics, the European Union recorded a decrease in GDP of 0.4% in Q3 2012, compared to growth of 1.4% in Q3 2011. A number of companies have stated they saw weakness in Europe (overall or in specific segments) in the fourth quarter, or expect weakness to continue in 2013, including Illinois Tool Works, Harley-Davidson, Ford Motor, Honeywell, IBM, Google, Johnson & Johnson, Parker-Hannifin, Johnson Controls, Alcoa, and Carnival.

"The decline in Ford Europe's fourth quarter pre-tax results was more than explained by unfavorable volume and mix. The industry for the 19 markets Ford tracks in Europe was 13.5 million units, the lowest quarterly SAAR since 1995." – Ford Motor (Jan. 29)

F/X Rates: Negative Impact on Revenue

The continuing weakness in Europe contributed to another factor that had a negative impact on revenue and earnings growth in Q4 2012: less favorable foreign exchange rates. In 2011, many companies recorded a boost to revenues due to the weakness of the U.S. dollar relative to the Euro and other currencies. However, the ongoing weakness in Europe has led to the dollar gaining strength relative to the Euro over the past year. In Q4 2011, one Euro was equal to about \$1.35 U.S. dollars on average. For Q4 2012, one Euro was equal to about \$1.30 U.S. dollars on average. A number of companies have commented on the negative impact of F/X rates on Q4 revenues, or the expected negative impact in future quarters, including Pfizer, Illinois Tool Works, Caterpillar, Procter & Gamble, Honeywell, Microsoft, Stanley Black & Decker, 3M, United Technologies, Google, Johnson & Johnson, and DuPont.

"Fourth-quarter 2012 revenues were \$15.1 billion, a decrease of 7% compared with \$16.1 billion in the year-ago quarter, which reflects an operational decline of \$802 million, or 5%, and the unfavorable impact of foreign exchange of \$271 million, or 2%." –Pfizer (Jan. 29)

China and Emerging Markets: Signs of Optimism

Economic growth in countries in emerging markets has also been decreasing over the past year. According to FactSet Economics, three of the four “BRIC” countries recorded slower GDP growth during this time. For Q3 2011, China, India, and Brazil recorded GDP growth of 9.1%, 6.9% and 2.1%, respectively. By Q3 2012, GDP growth rates for China, India, and Brazil had fallen to 7.4%, 2.8% and 0.9%.

However, China did report GDP growth of 7.9% for Q4 2012, which reflected a sequential improvement relative to the GDP growth reported for Q3 2012 (7.4%). A number of companies have stated that they saw strength in emerging markets in the fourth quarter, or that they expect stronger economic growth and demand for goods in emerging markets (particularly China) in 2013, including Pfizer, Illinois Tool Works, Ford Motor, Starbucks, Apple, United Technologies, IBM, DuPont, General Electric, and Alcoa.

“Growth in China is showing signs of picking up with positive implications for the rest of Asia. The general consensus of our business leaders on China is the economy is improving and this will continue through 2013.” –DuPont (Jan. 22)

“So, Steve, I'd say – we definitely saw the China strengthen again at the end of the year. The big drivers of China continue to be Healthcare and Aviation, and we believe that the China momentum will likely continue into 2013.” –General Electric (Jan. 18)

“This year, we believe the [aluminum] demand is going to grow by 7%. This is 1% up from what we saw last year and when you go through this slide you see that, which is a breakdown on regions, you see that this is pretty much supported by all regions. I mean, obviously China sticks out. China, we believe, will rebound to 11% growth. We also see good growth in places like Russia, Brazil, India, Middle East.” –Alcoa (Jan. 8)

Domestic Concerns: Impact of Hurricane Sandy and Fiscal Policy Uncertainty

Companies have also commented on the impact on Q4 earnings of the damage caused by Hurricane Sandy and the fiscal policy uncertainty coming from Washington D.C.

“There are two overarching issues which impacted results. First was the muted consumer environment in the U.S. with a fiscal cliff uncertainty weighing on shoppers and a slow recovery from Hurricane Sandy in the Tri-State area.” – Coach (Jan. 23)

Hurricane Sandy

A number of companies have commented on the negative impact of Hurricane Sandy on fourth quarter results, including Travelers, ACE, Coach, Verizon, American Express, Paychex, Bed Bath & Beyond, and FedEx.

“Catastrophe losses in the current quarter were \$689 million after-tax (\$1.054 billion pre-tax), including losses resulting from Storm Sandy of \$669 million after-tax (\$1.024 billion pre-tax), compared to \$68 million after-tax (\$102 million pre-tax) in the prior year quarter.” –Travelers (Jan. 22)

“In terms of profitability, we did not see the margin improvement we were expecting in the second half of 2012, due primarily to the length of the time it took to reach an agreement with our unions and also to the significant business disruption caused by the challenges of Sandy.” – Verizon (Jan. 22)

Fiscal Policy Uncertainty

Some companies have also cited the uncertainty of the resolution to the “fiscal cliff” through the month of December as an impediment to earnings growth for the fourth quarter. Others have expressed concern about the ongoing uncertainty surrounding the current budget, particularly companies in the defense industry. Companies that have commented on fiscal policy include Northrop Grumman, Boeing, Raytheon, Lockheed Martin, Coach, Verizon, Parker-Hannifin, and Constellation Brands.

“Our top line guidance contemplates a \$500 million impact from lower volume on space programs, Joint STARS and the F/A-18, \$300 million for the impact of troop drawdowns and overseas contingency operations, \$200 million resulting from the current CR impacts, and approximately \$100 million each for the ICBM program restructure, and portfolio shaping, principally the de-emphasis of base and range operations in our Technical Services business, and the Park Air Norway divestiture in Information Systems.” –Northrop Grumman (Jan. 30)

“The IS&GS business segment has been impacted by the continuing downturn in the federal information technology budgets and the impact of the continuing resolution that was effective on Oct. 1, 2012, the start of the U.S. Government’s fiscal year.” –Lockheed Martin (Jan. 24)

Guidance: High Percentage (82%) Issued for Q1 to date

Of the 61 companies that have issued EPS guidance for the first quarter, 50 have issued projections below the mean EPS estimate and 11 have issued a projection above the mean EPS estimate. Thus, 82% of the companies that have issued EPS guidance to date for Q4 2012 have issued negative guidance. This percentage is well above the five-year average of 61%. At the sector level, eight of the nine companies (89%) in the Health Care sector that have issued EPS guidance have issued negative EPS guidance.

Analysts Cutting Estimates for 1st Half of 2013

Since the end of the fourth quarter (December 31), analysts have also reduced earnings growth expectations for Q1 2013 (to 0.5% from 2.4%) and Q2 2013 (to 5.4% from 6.7%).

Valuation: Forward P/E at 13.3, Slightly Above 5-Year Average

The current forward 12-month P/E ratio for the index is 13.3. The P/E ratio is based on Thursday’s closing price of 1498.11 and forward 12-month EPS estimate of 112.79.

This 13.3 P/E ratio is above the prior five-year average forward 12-month P/E ratio of 12.8, and above the P/E ratio of 12.7 recorded one month ago. Over the past four weeks, the price of the index has increased 5.0% (to 1498.11 from 1426.19) and the forward 12-month EPS estimate has increased 0.3% (to \$112.79 from \$112.48).

At the sector level, the Telecom Services sector has the highest forward 12-month P/E ratio at 16.6, while the Financials (11.4) and Energy (11.8) sectors have the lowest forward 12-month P/E ratios.

Over the past month, the Energy (to 11.8 from 11.0) and Health Care (to 13.6 from 12.8) sectors have seen the largest increases in forward 12-month P/E ratios of all ten sectors. No sector recorded a decline in the forward 12-month P/E ratio over the past month.

Companies Reporting Next Week: 87

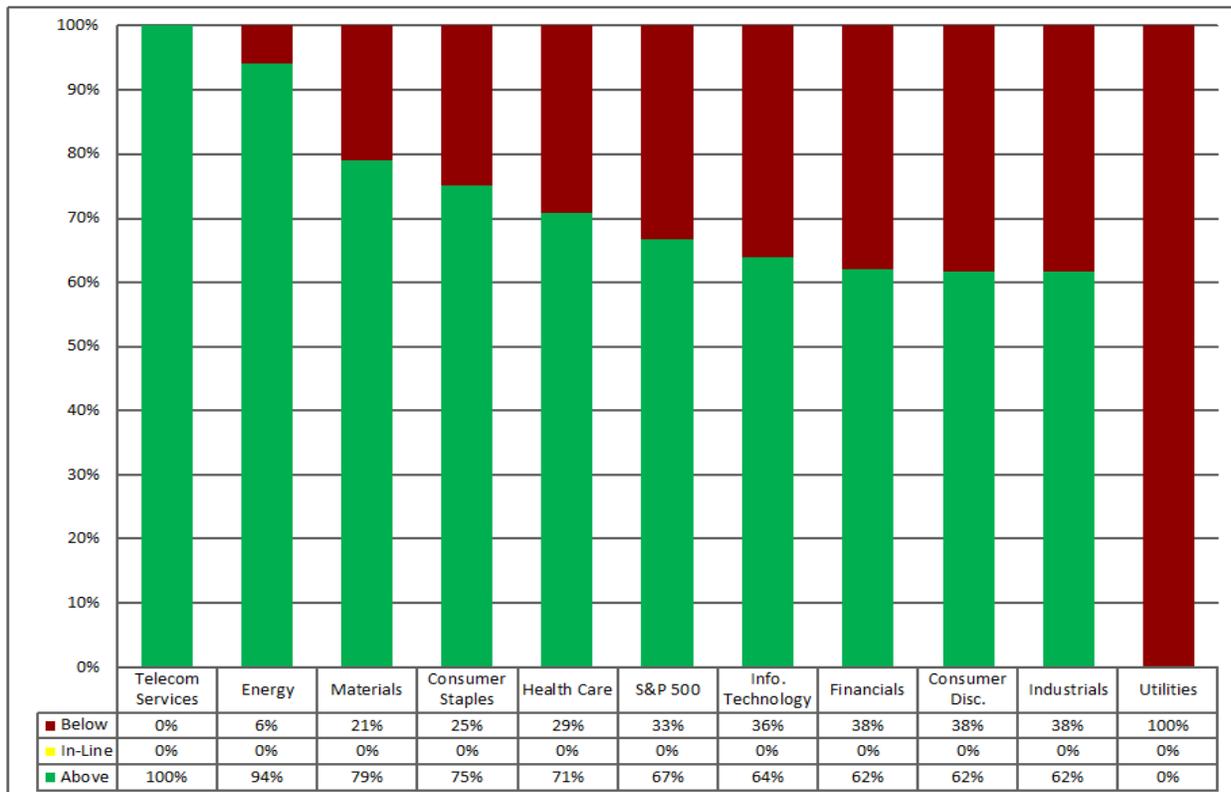
The upcoming week marks the third peak week of the Q4 2012 earnings season, as one Dow component (Walt Disney Co.) and 87 S&P 500 companies are scheduled to report earnings for Q4 2012.

Q4 2012: Scorecard

Q4 2012 Earnings: Above, In-Line, Below Estimates

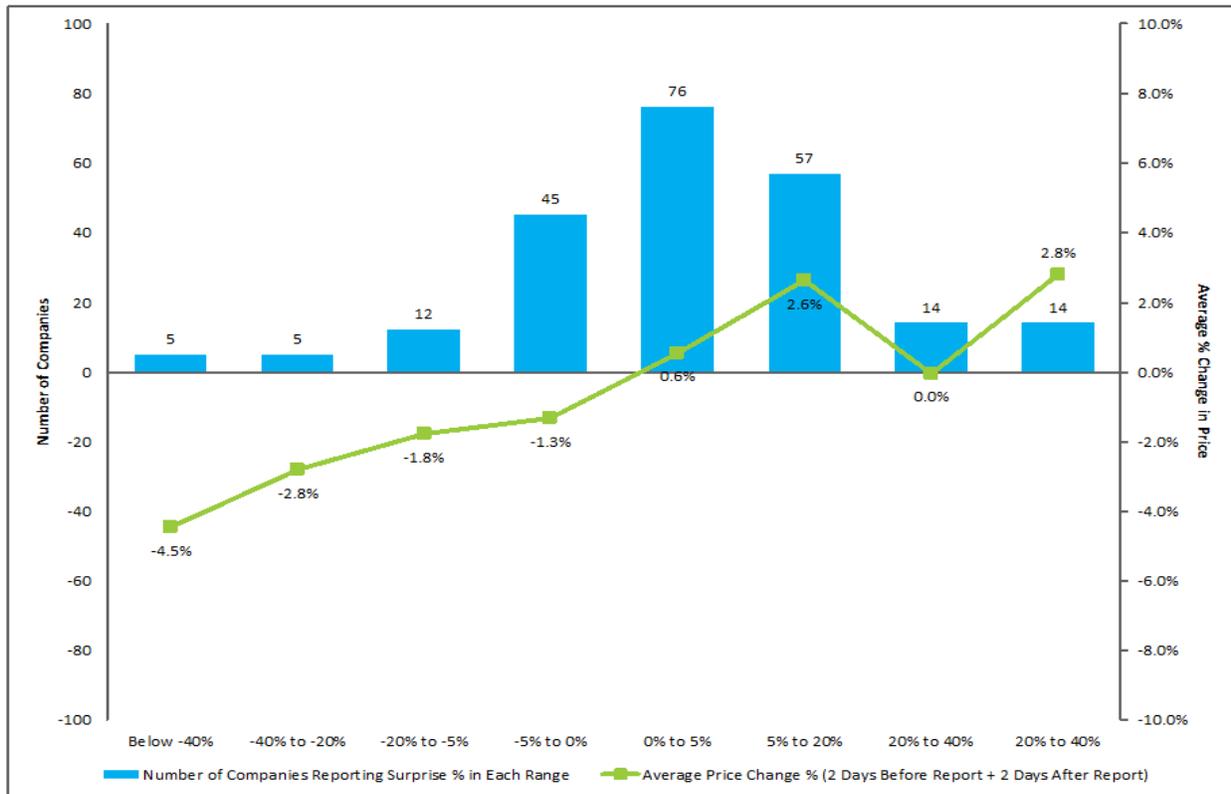


Q4 2012 Revenues: Above, In-Line, Below Estimates

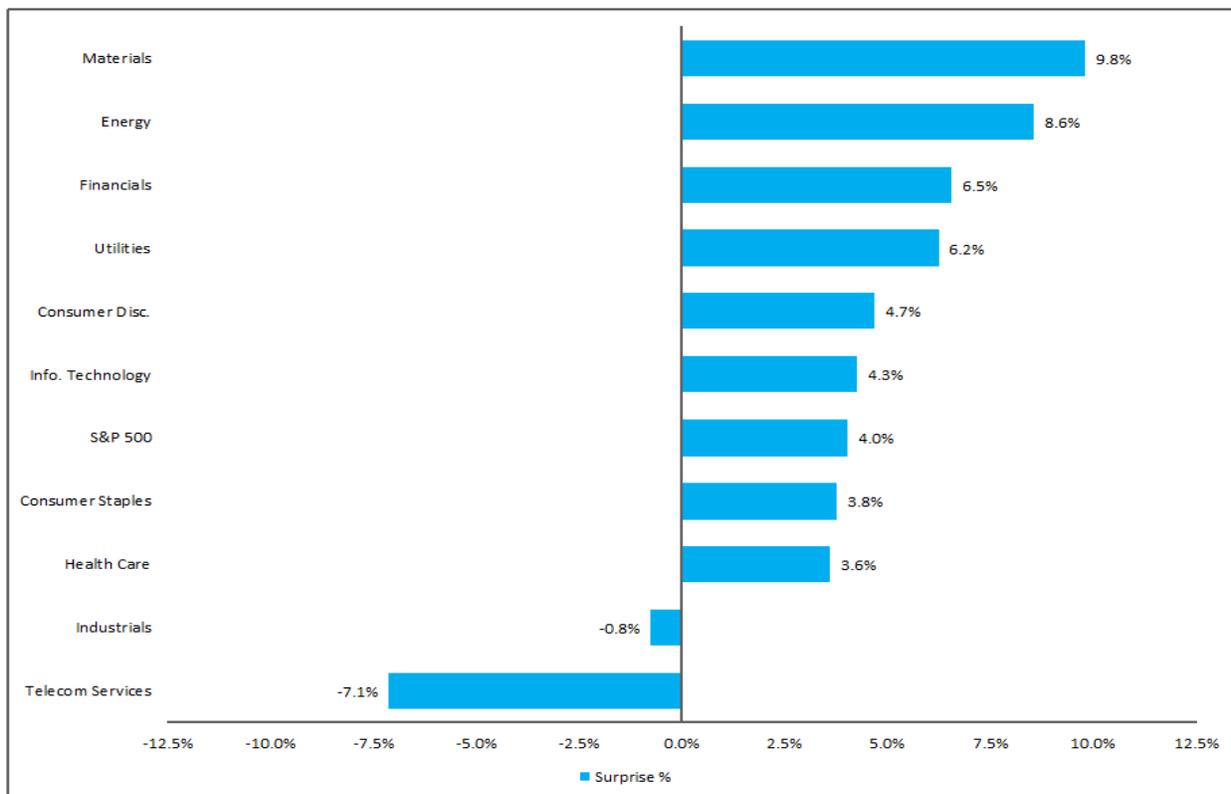


Q4 2012: Scorecard

Q4 2012: Surprise % vs. Average Price Change %

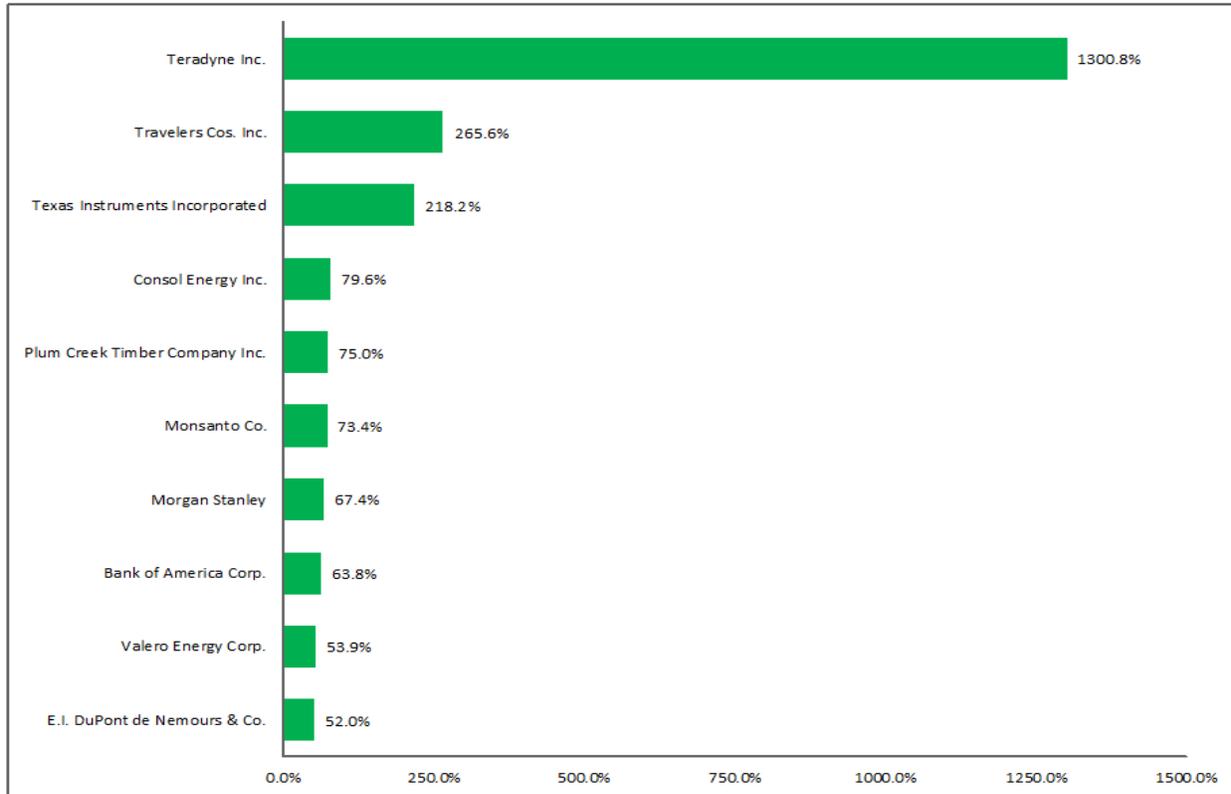


Q4 2012: Sector Level Surprise %

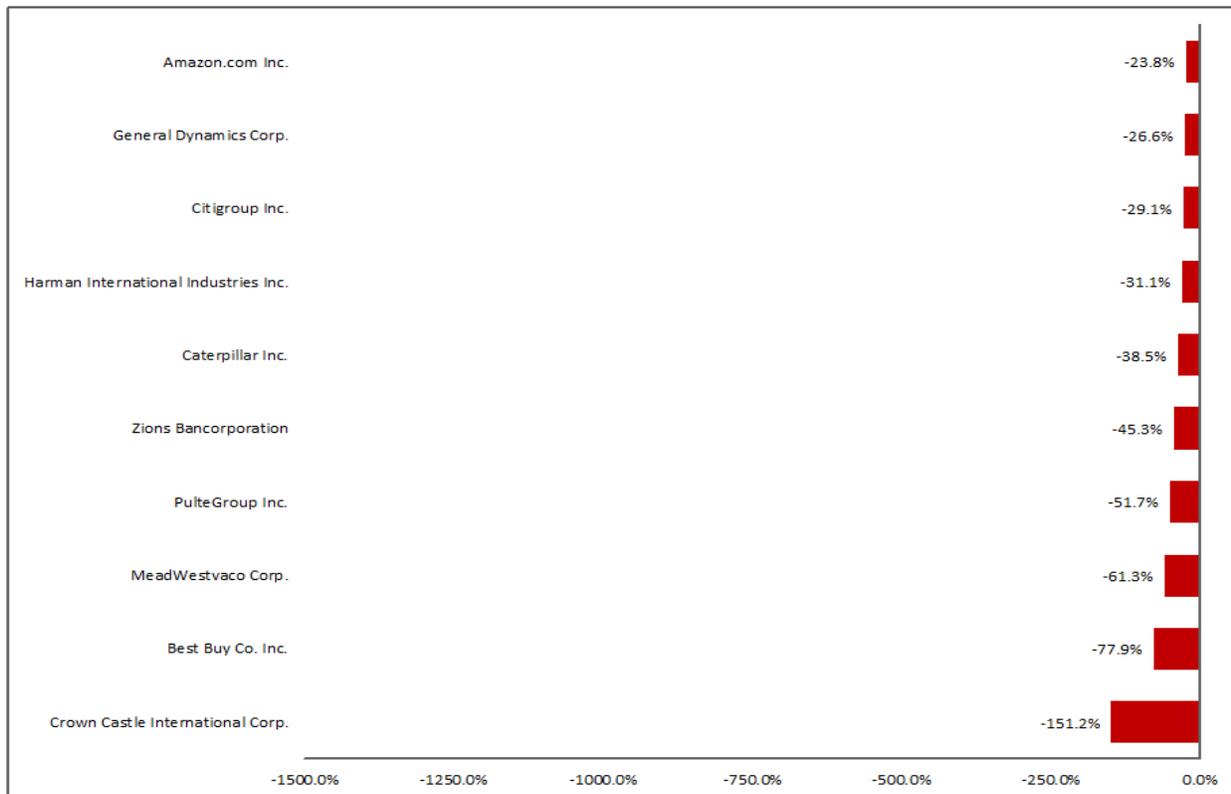


Q4 2012: Scorecard

Surprise %: Top 10 Companies

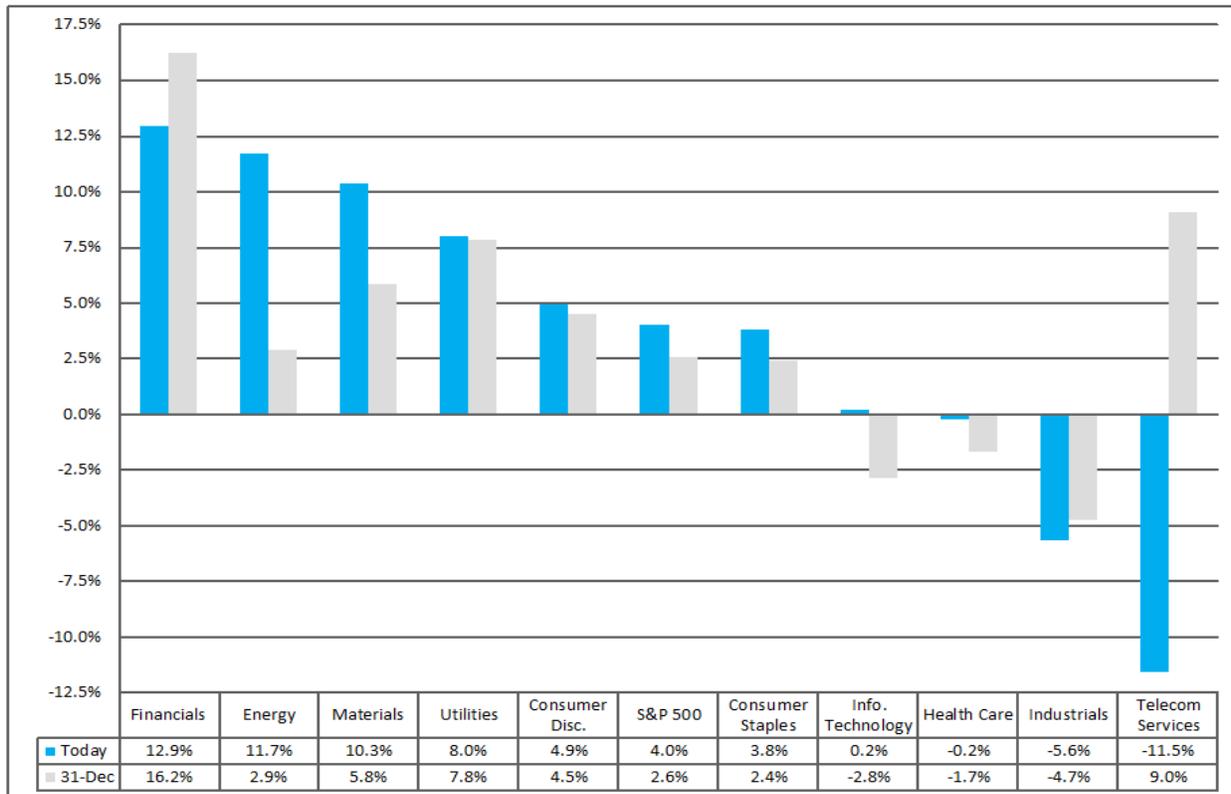


Surprise %: Bottom 10 Companies



Q4 2012: Growth

Q4 2012 Earnings Growth



Q4 2012 Revenue Growth

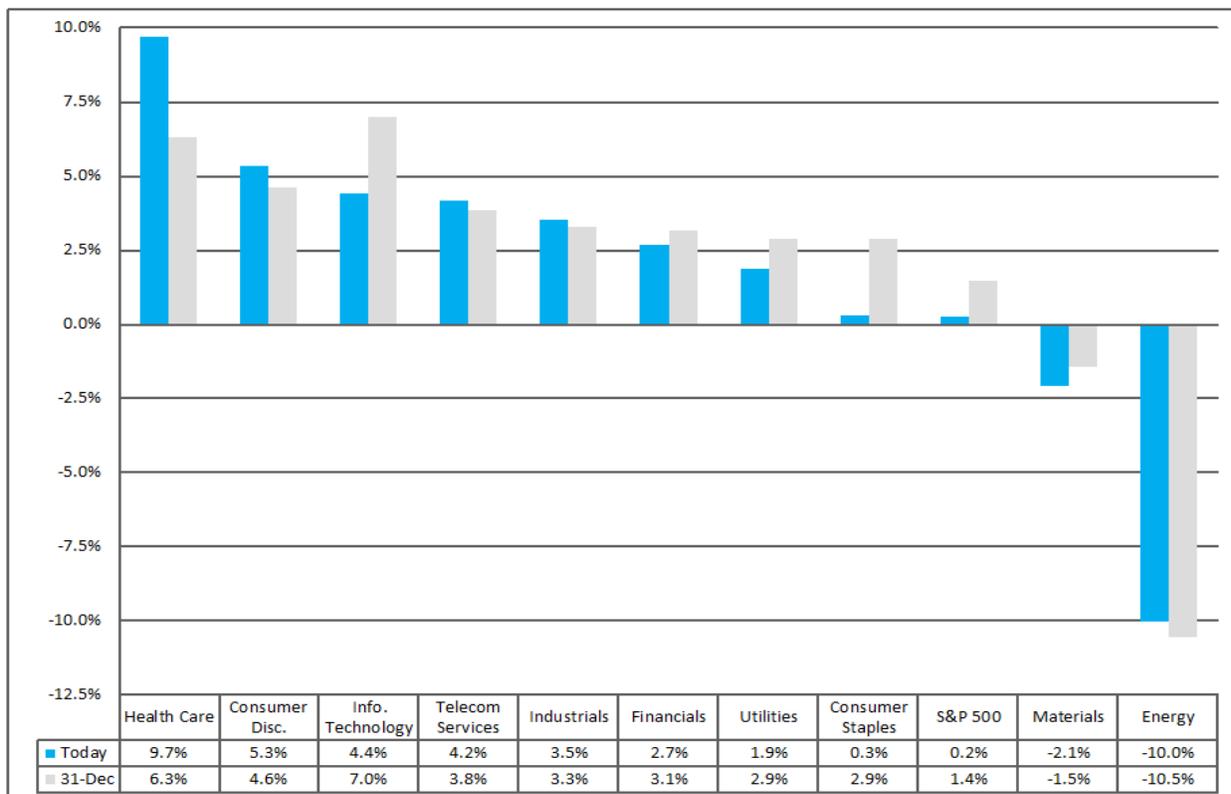


CY 2012: Growth

CY 2012 Earnings Growth

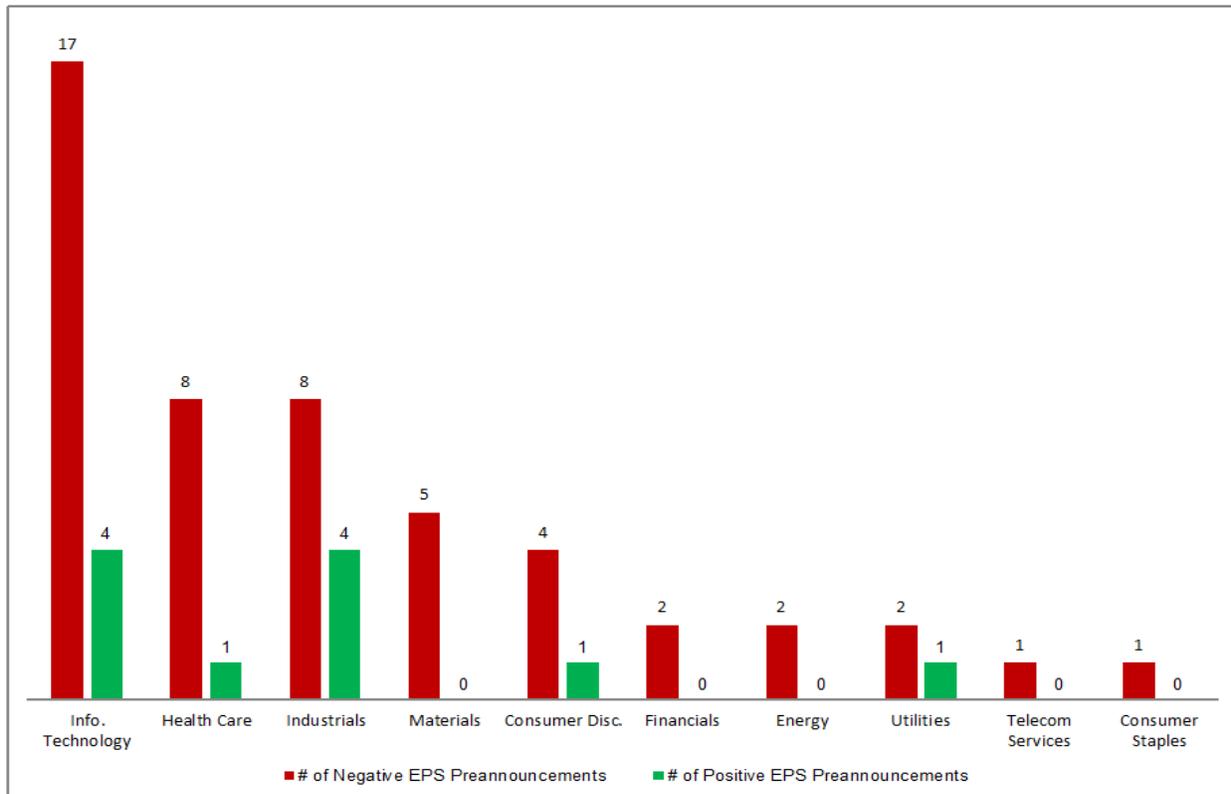


CY 2012 Revenue Growth

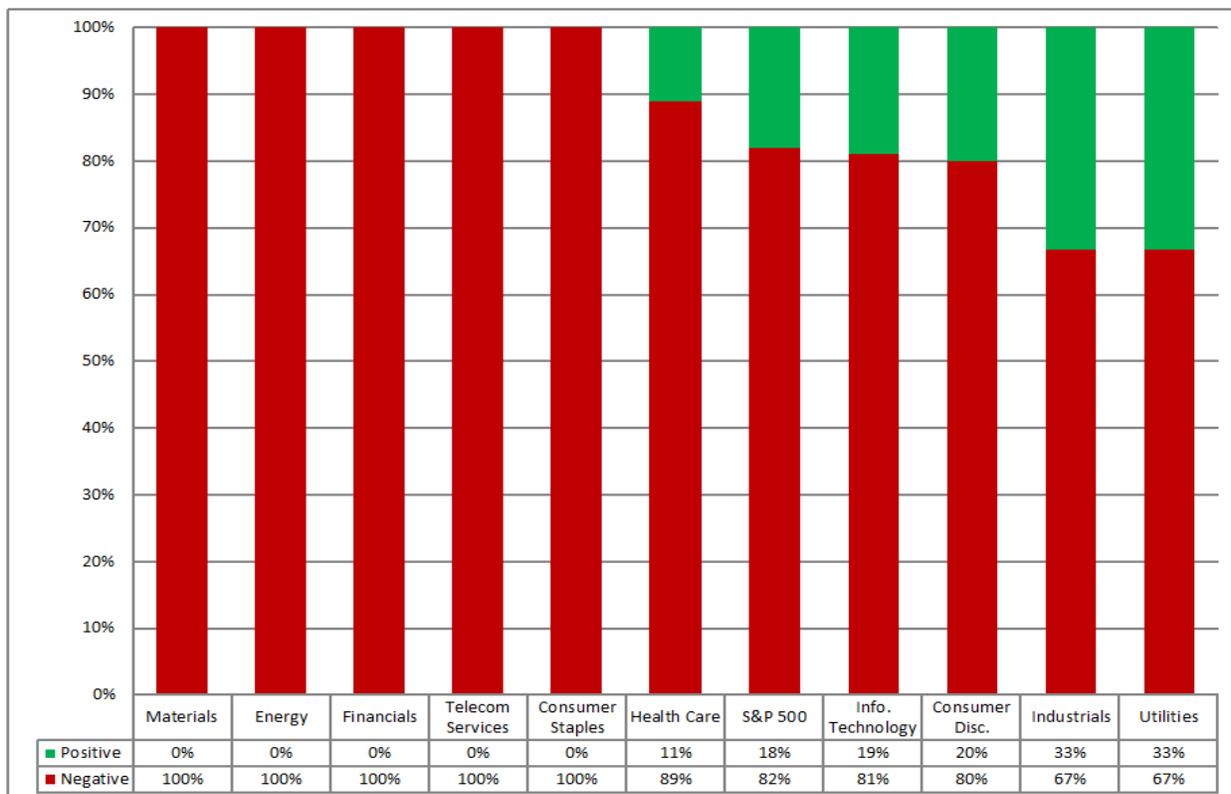


Q1 2013: Guidance

Number of Positive & Negative EPS Preannouncements: Q1 2013

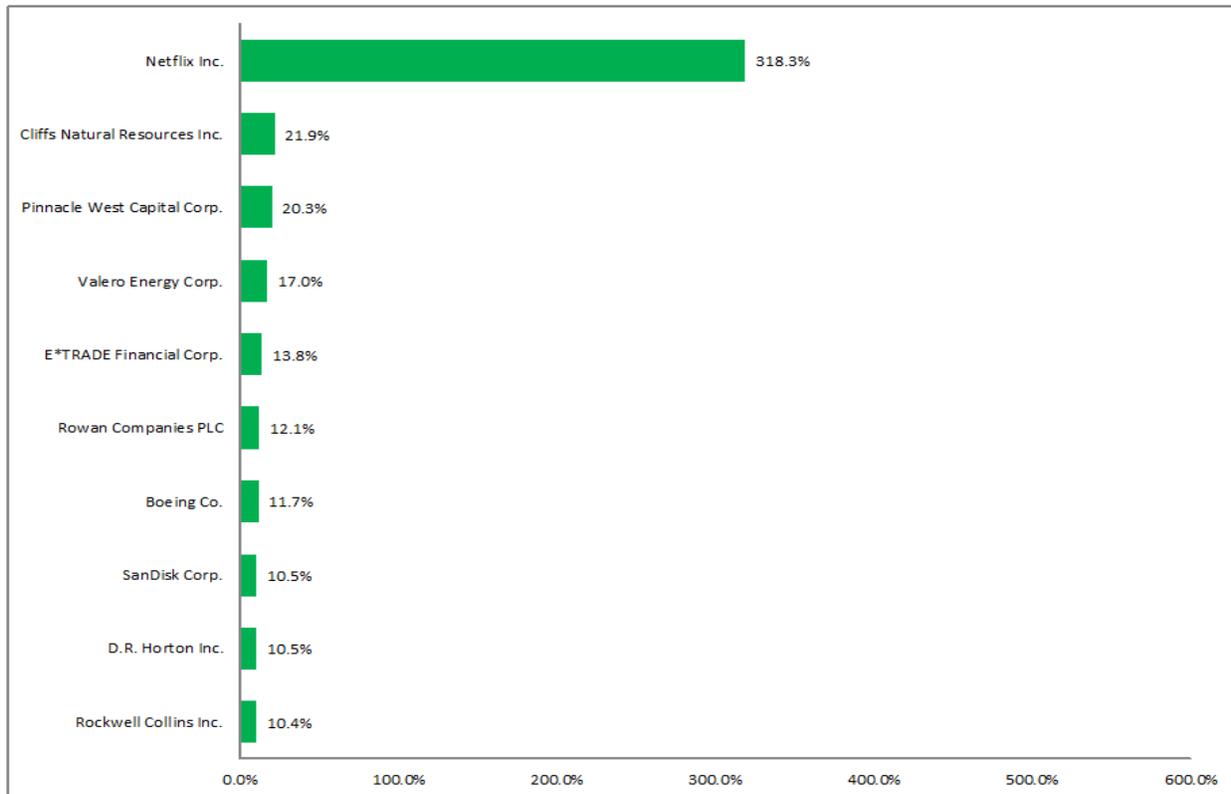


Percentage of Positive & Negative EPS Preannouncements: Q1 2013

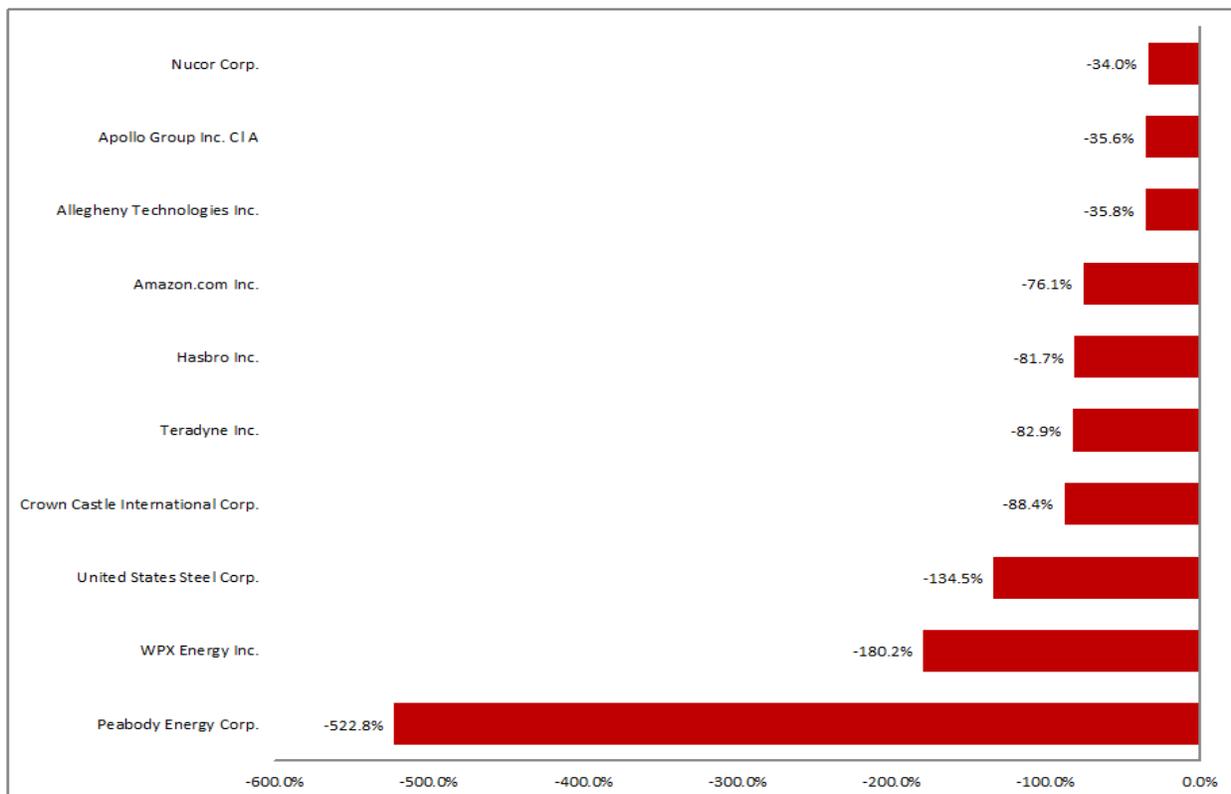


Q1 2013: EPS Revisions

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

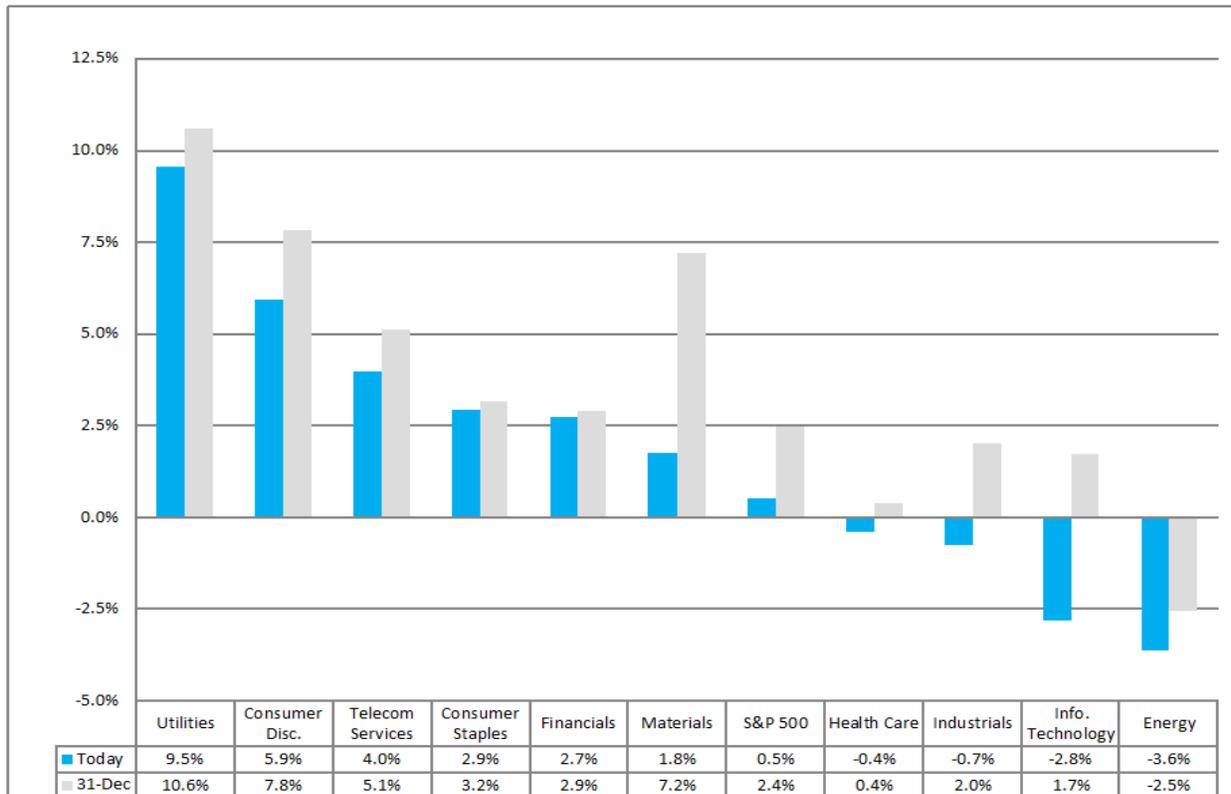


Highest Downward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

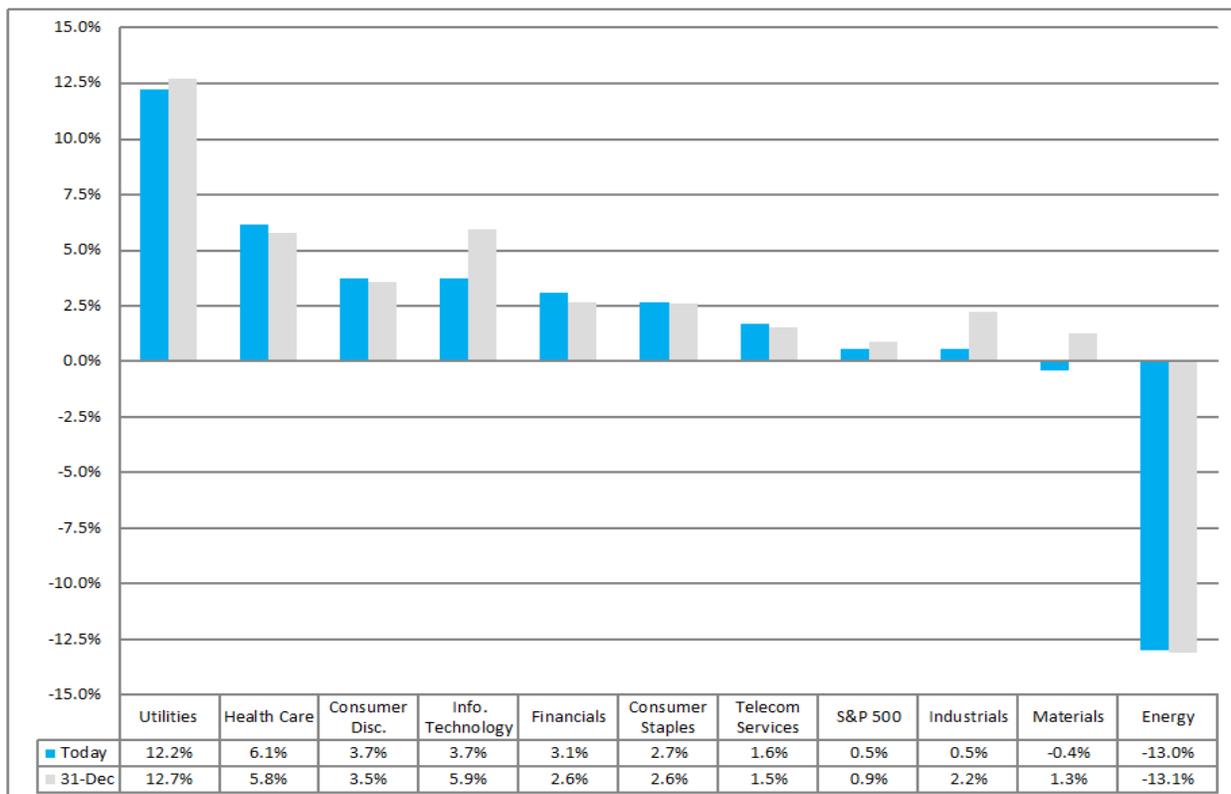


Q1 2013: Growth

Q1 2013 Earnings Growth

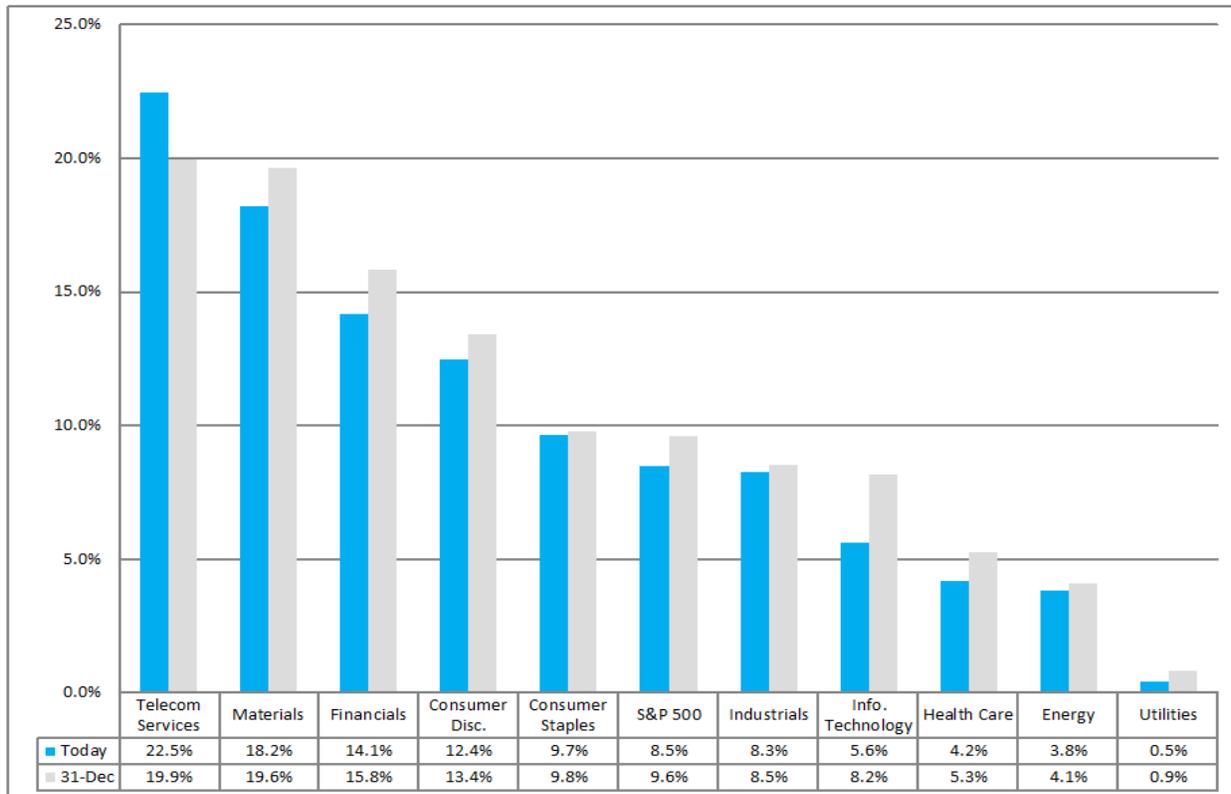


Q1 2013 Revenue Growth

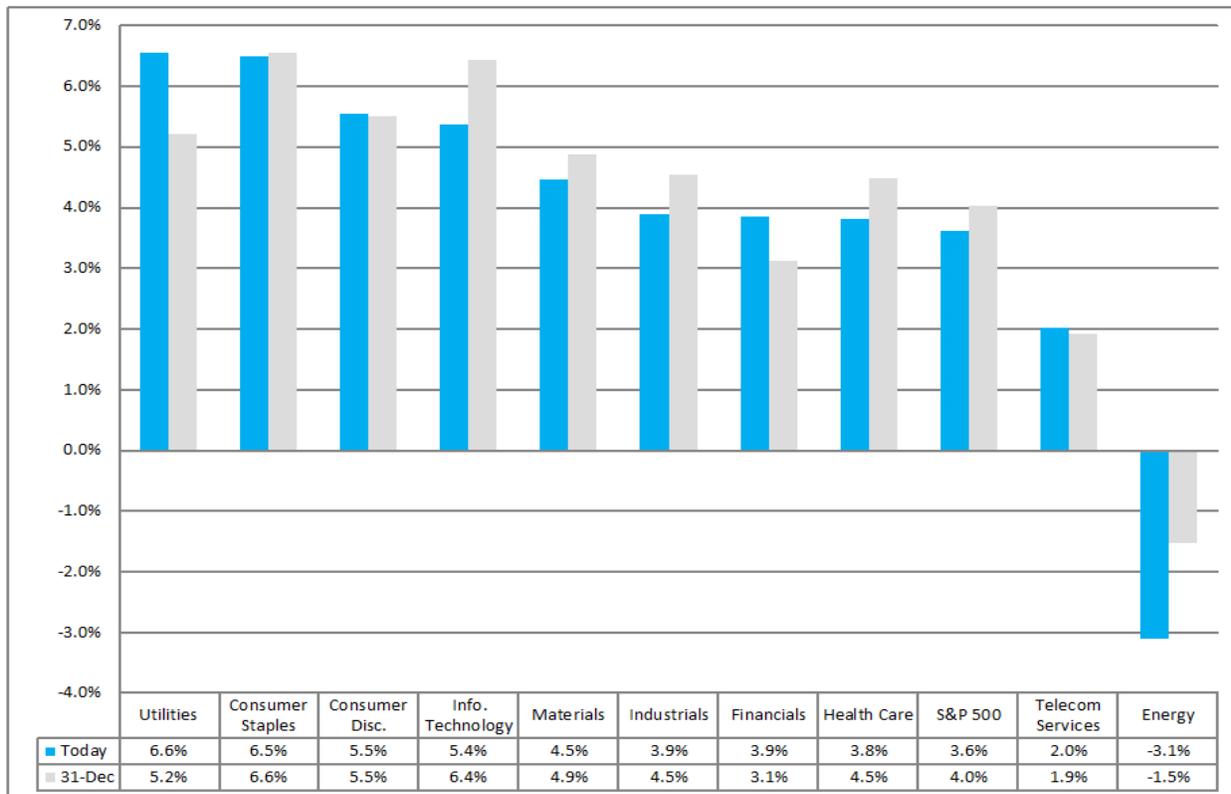


CY 2013: Growth

CY 2013 Earnings Growth

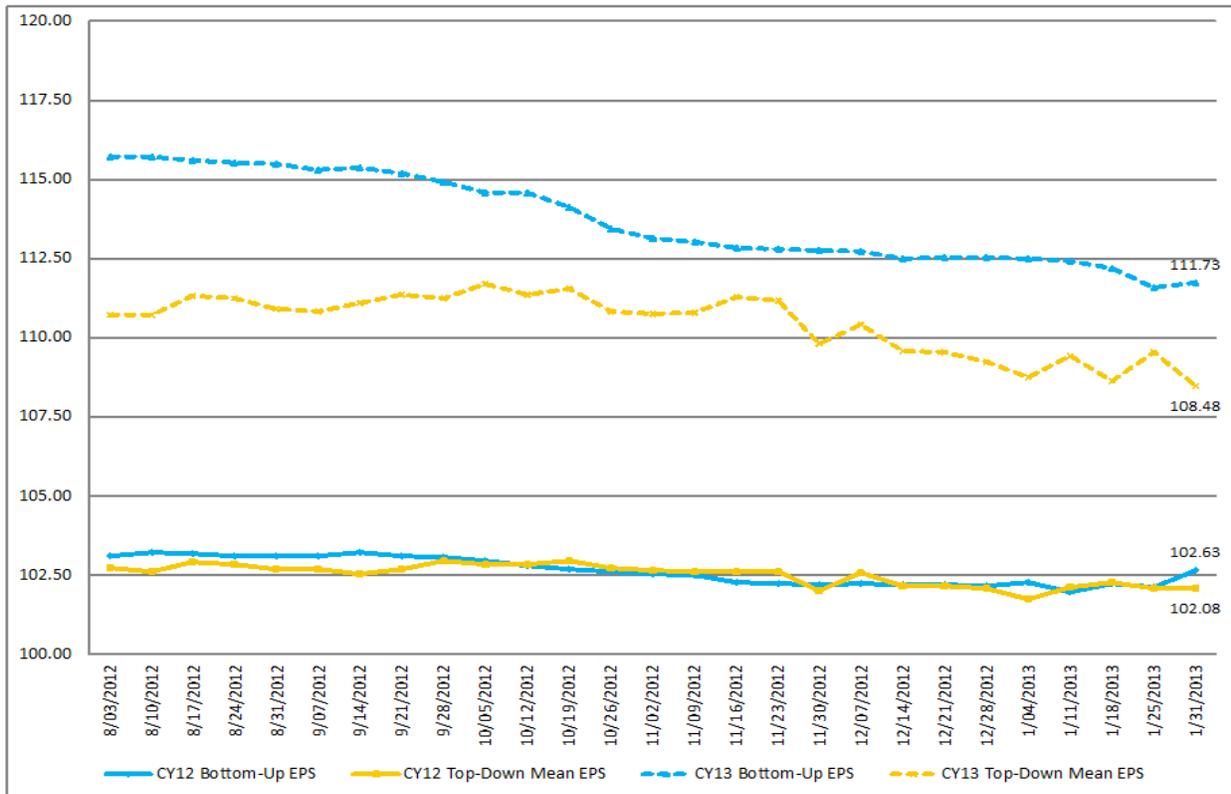


CY 2013 Revenue Growth

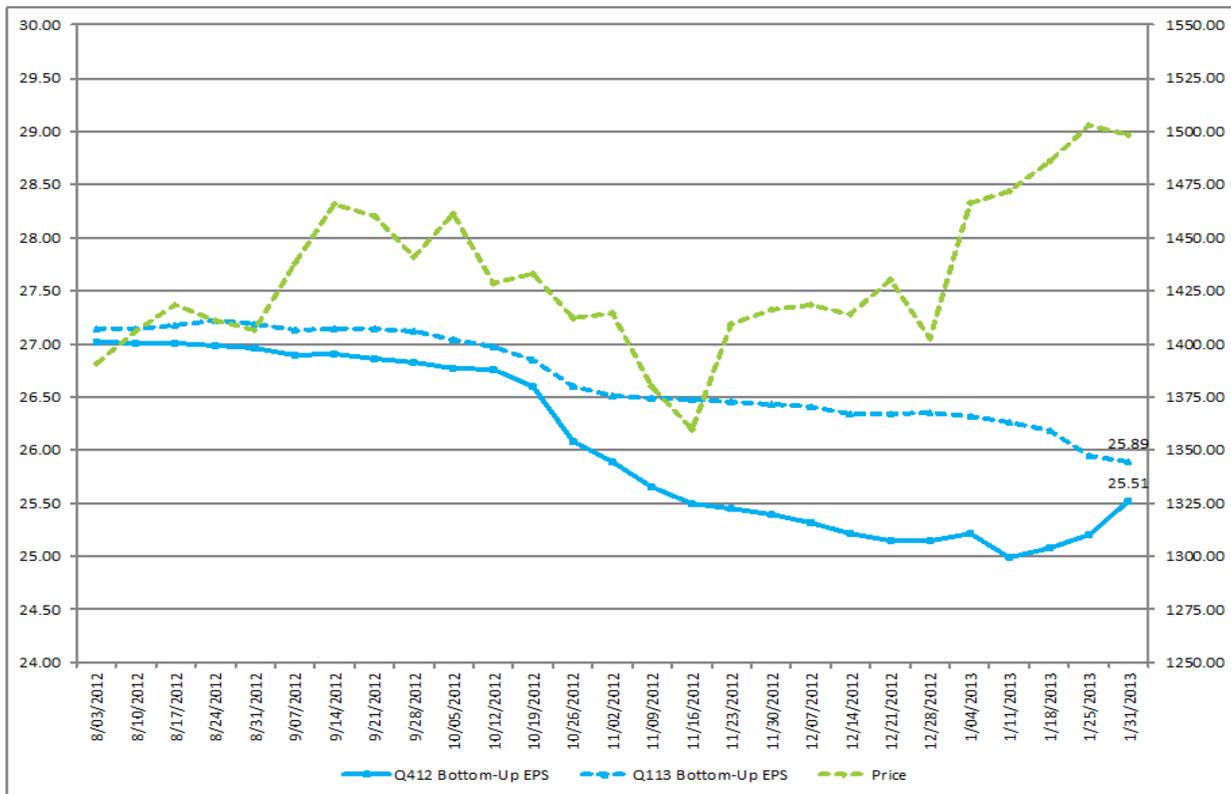


Bottom-up Estimates: Revisions

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

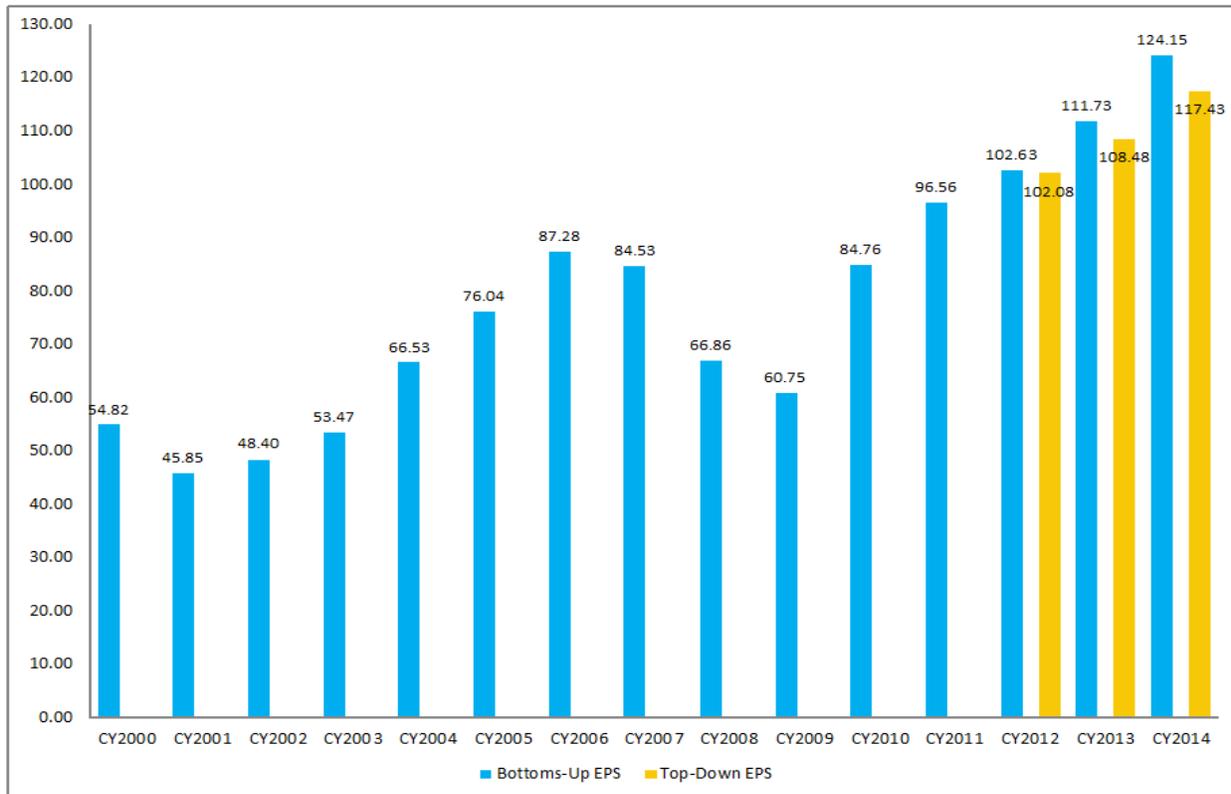


Change in Q412 and Q113 Bottom-Up EPS vs. Price (Trailing 26-Weeks)

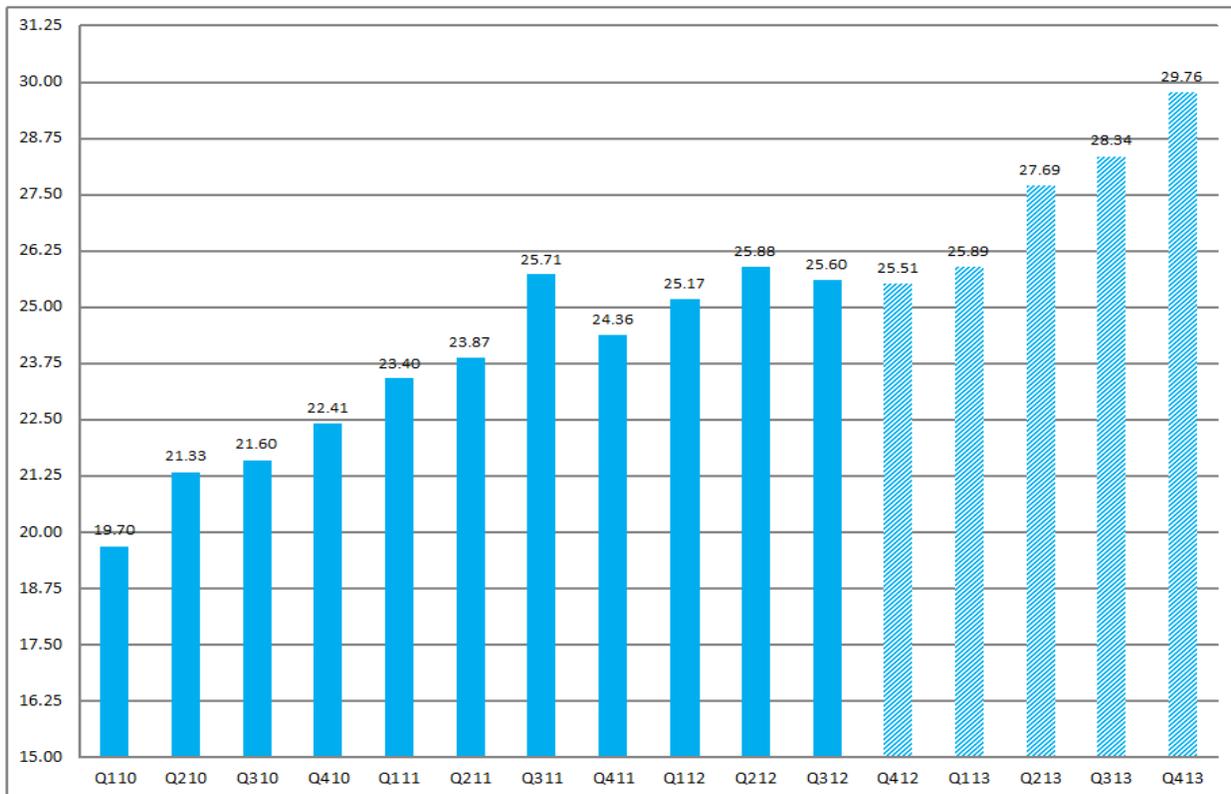


Bottom-up Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates

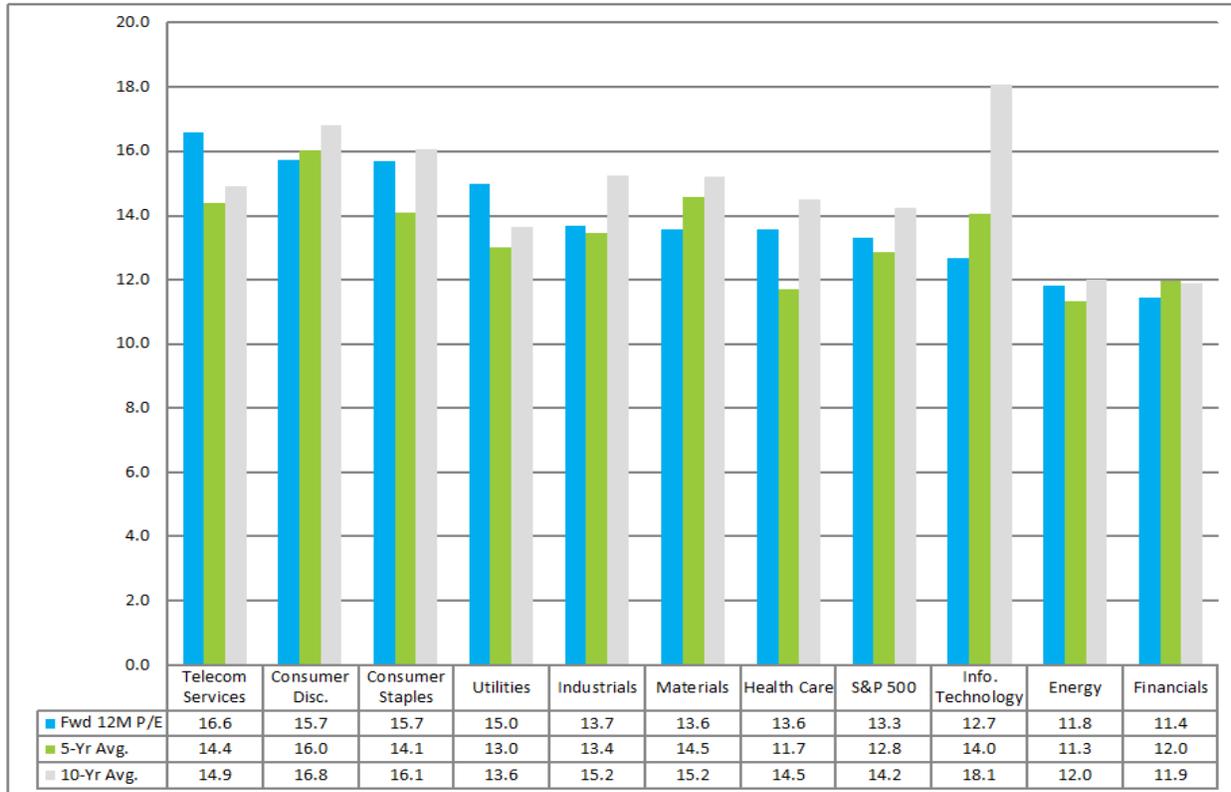


Calendar Year Bottom-Up EPS Actuals & Estimates

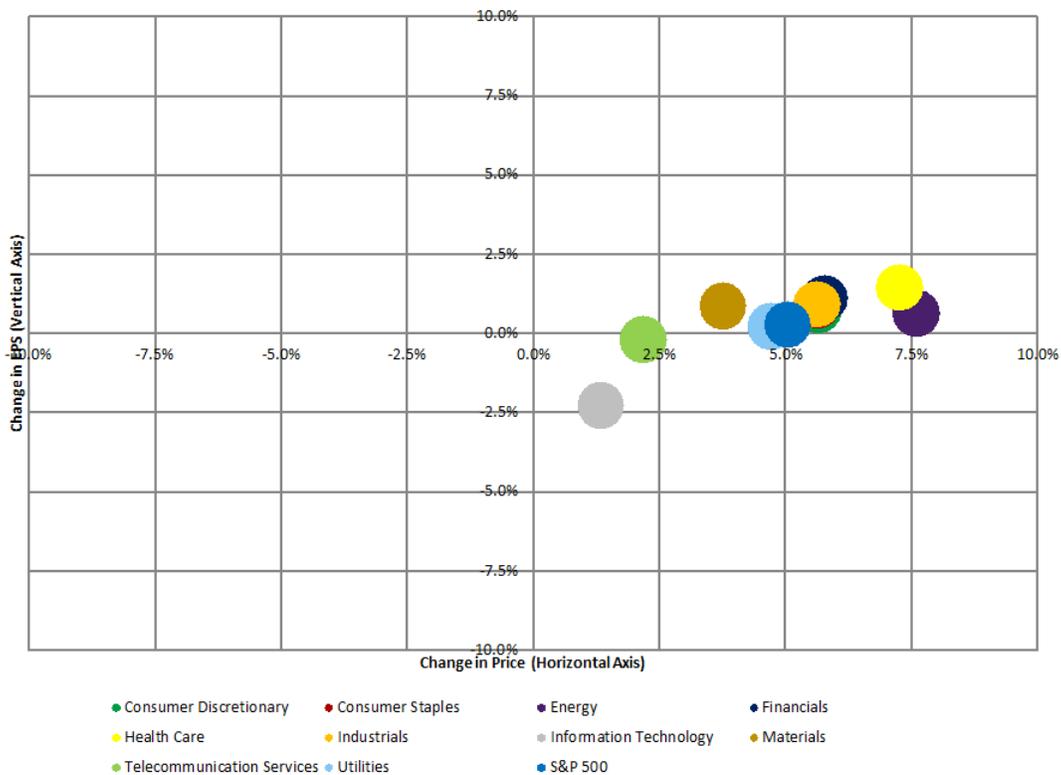


Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

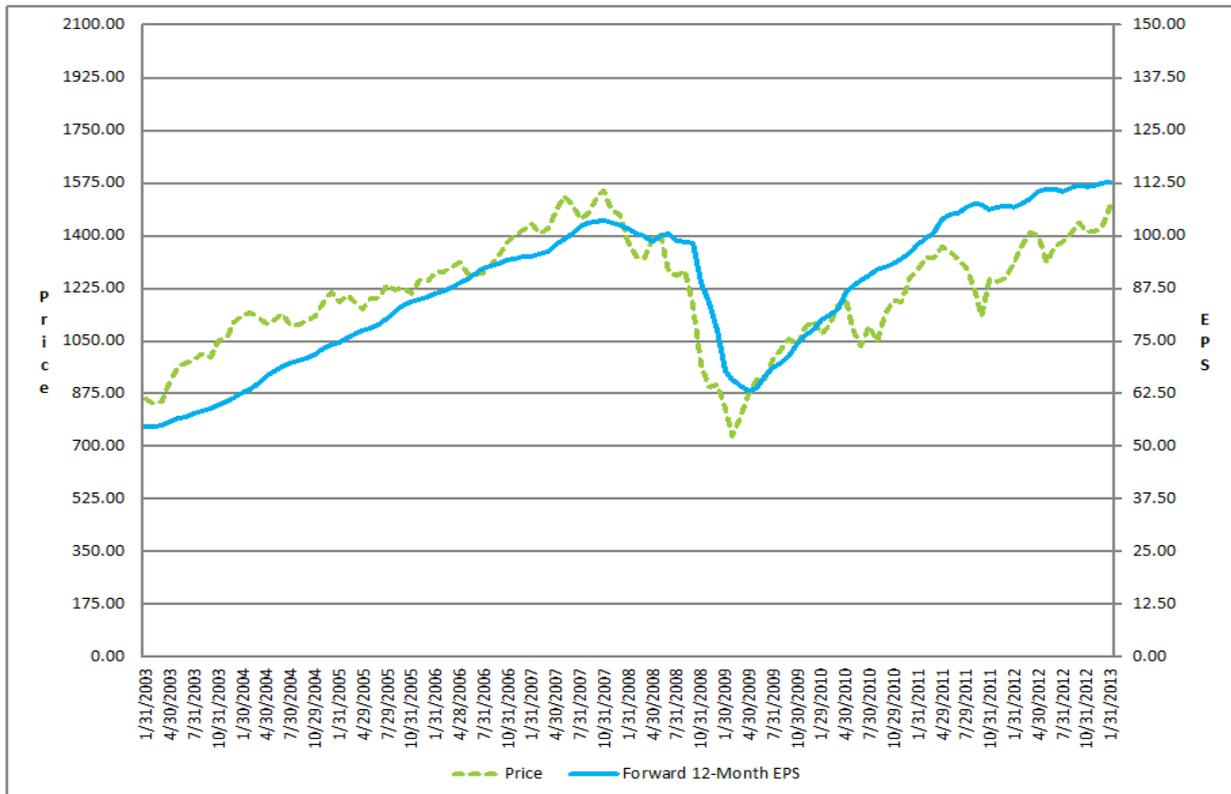


Sector-Level Change in Price vs. Change Forward 12M EPS: 1-Month

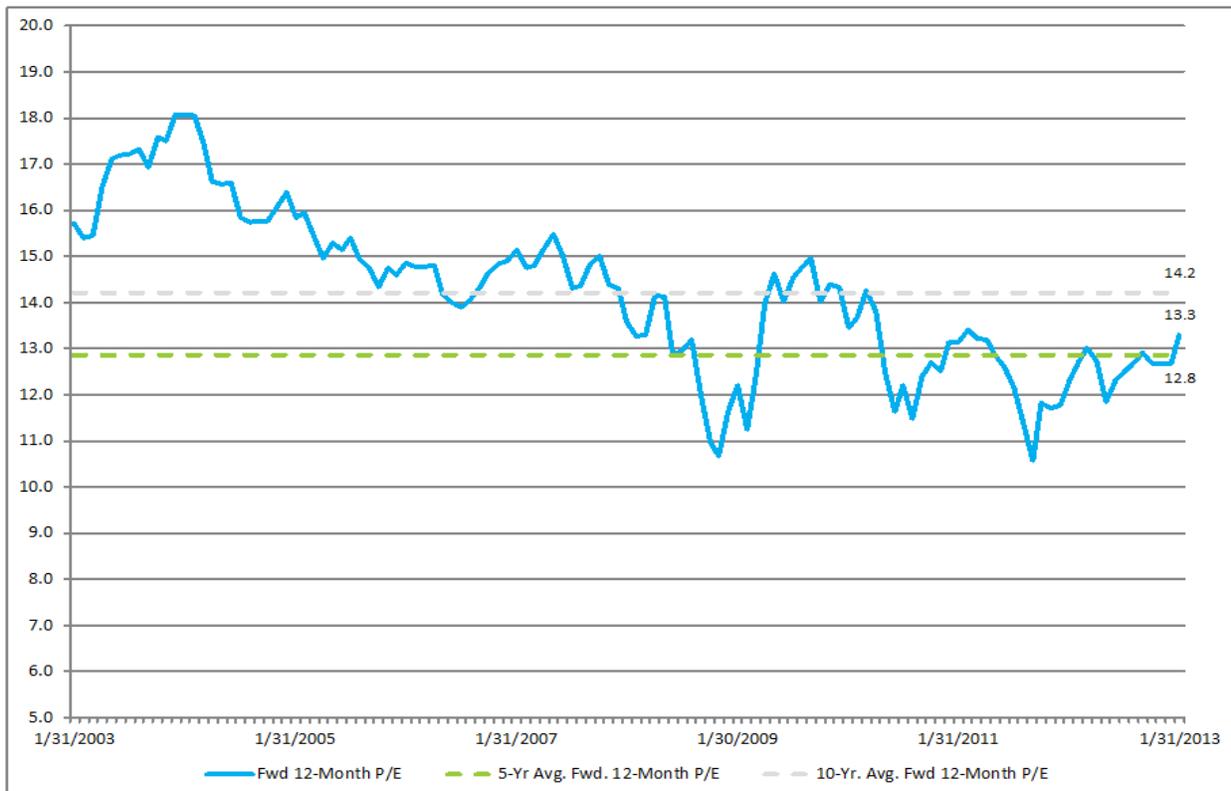


Price / Earnings Ratio: Long-Term Averages

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



Forward 12M P/E Ratio: 10-Years



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