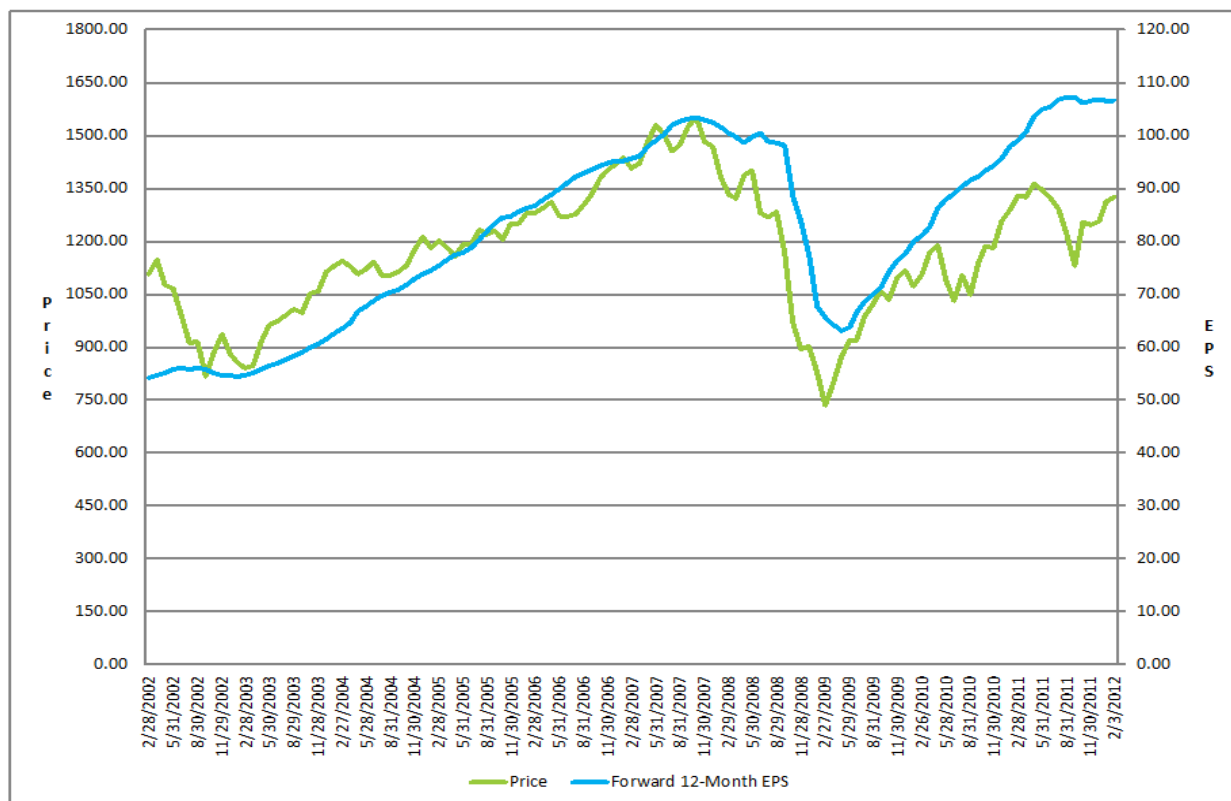


Key Metrics

- + **Earnings Scorecard:** Of the 272 companies that have reported earnings for Q4 2011 to date, 65% have reported earnings above the mean estimate.
- + **Earnings Growth:** The blended earnings growth rate for Q4 2011 is 5.8%. The Information Technology (12.3%) and Industrials (12.1%) sectors have the highest growth rates for the quarter, while the Telecommunications Services (-20.2%) and Materials (-14.0%) sectors have the lowest growth rates.
- + **Earnings Revisions:** The Q4 2011 earnings growth rate of 5.8% is slightly above the earnings growth rate on December 31 (5.7%). The Information Technology and Industrials sectors have seen the largest increases in earnings growth rates during this time, while the Telecom Services, Energy, and Financials sectors have recorded the largest declines in earnings growth rates during this time.
- + **Valuation:** The current 12-Month forward P/E ratio is 12.4. This P/E ratio is below the average forward 12-Month P/E ratio over the past 10 years (14.6).

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:

Is Market Optimism Due to Expected Rise in S&P 500 Earnings in late 2012?

During the Q4 2011 earnings season for the S&P 500, fewer companies (65%) have reported actual EPS above estimates relative to the average of the past four quarters (73%), and the current EPS for Q4 2011 of \$24.16 is virtually unchanged from the estimate on December 31 (\$24.10).

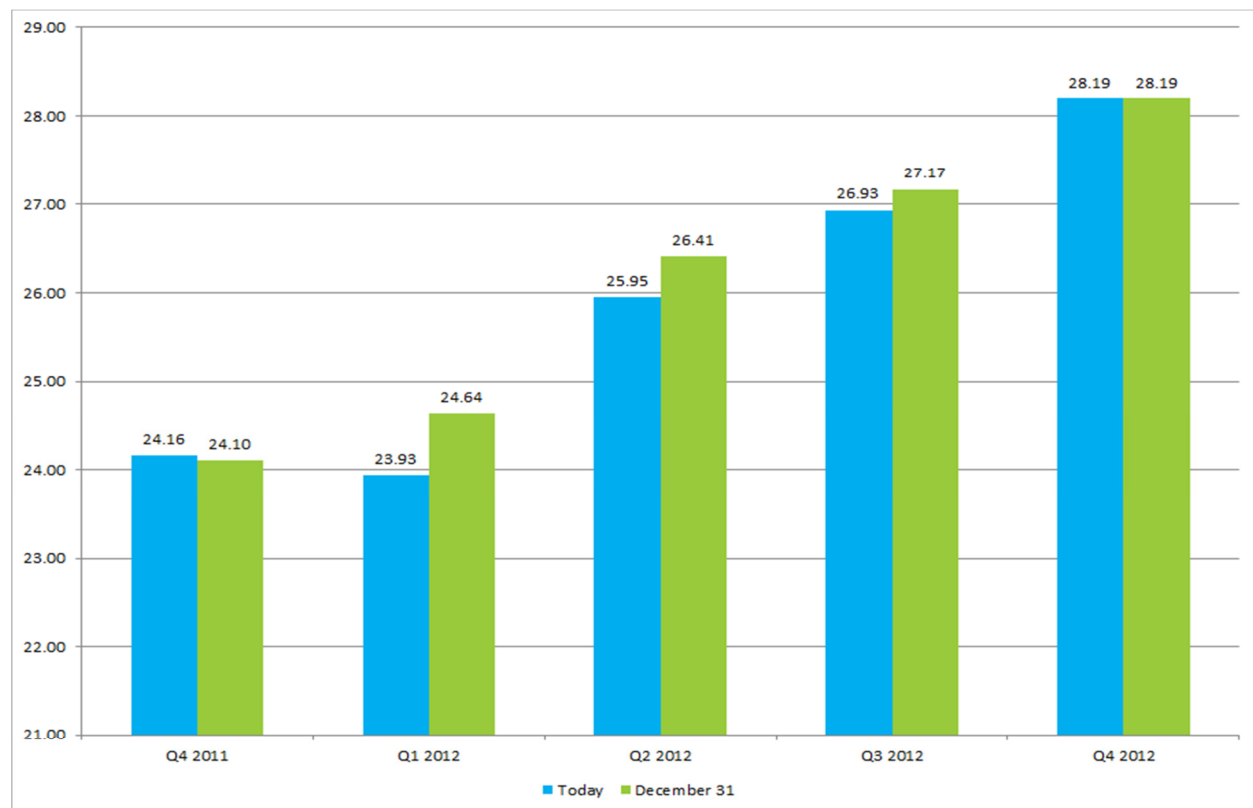
However, the price of the index has jumped 5.4% (to 1325.54 from 1257.60) during this same time frame (since December 31).

Given the moderate results of the earnings season to date, what is behind the rise in the market?

One possible explanation for the rise in price is the fact that analysts are expecting corporate earnings to rise through the later quarters of 2012. Looking at bottoms-up EPS estimates for the index, analysts are calling for a drop in earnings in Q1 2012 relative to Q4 2011. But after Q1 2012, earnings are projected to continue to increase for the remainder of 2012.

It is also interesting to note that while the bottoms-up EPS estimates for Q1 2012 through Q3 2012 have recorded declines since December 31, the bottoms-up EPS estimate for Q4 2012 has remained unchanged during this time frame.

S&P 500 Bottoms-Up EPS Estimates



Q4 2011 Earnings Season: Overview

Small Increase in Earnings Growth Rate This Week on Multiple Upside Surprises

The blended (combines actual results for companies that have reported and estimates for companies yet to report) earnings growth rate for the fourth quarter increased to 5.8% this week from 5.3% last week. Small upside earnings surprises from companies in the Health Care, Industrials, and Financials sectors were responsible for the jump in the growth rate during the week.

In the Health Care sector, companies such as Pfizer (\$0.50 vs. \$0.47), Eli Lilly (\$0.87 vs. \$0.81), and Merck (\$0.97 vs. \$0.95) reported upside earnings surprises relative to estimates. Overall, the blended earnings growth rate for the sector increased from 3.3% to 4.8% during the week.

In the Industrials sector, companies such as Northrop Grumman (\$2.09 vs. \$1.68) and Cummins (\$2.56 vs. \$2.24) reported actual earnings substantially above the mean estimate. The blended earnings growth rate for the Industrials sector improved to 12.1% from 10.6% over this time.

In the Financials sector, companies such as Allstate (\$1.48 vs. \$0.97) and ACE (\$1.94 vs. \$1.77) reported actual earnings well above projections. The blended earnings growth rate for the Financials sector rose to 6.5% from 5.5% during this time.

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

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

Of the 272 companies that have reported earnings to date, 65% have reported actual EPS above estimates and 35% have reported actual EPS below estimates. Over the past four quarters, 73% of companies have reported actual EPS above estimates, on average.

The Industrials (81%), Information Technology (78%), and Health Care (77%) sectors have the highest percentages of companies reporting upside earnings surprises.

However, the remaining seven sectors have seen less than 60% of companies report actual earnings above estimates to date, led by the Telecommunications Services (0%), Utilities (45%), and Financials (51%) sectors.

In aggregate, companies are reporting actual earnings that are 3.8% above estimates. Companies in the Information Technology (9.7%) and Industrials (8.3%) sectors are reporting the highest aggregate difference between actual and estimated earnings.

However, companies in five of the ten sectors are reporting aggregate earnings that are below projections, led by the Utilities (-2.9%) and Telecommunications Services (-1.9%) sectors.

Overall S&P 500 Earnings Growth is 5.8%, But Drops to 1.0% excluding AIG & Apple

The blended (combines actual results for companies that have reported and estimates for companies yet to report) earnings growth rate for the fourth quarter currently stands at 5.8%. If the final earnings growth rate is 5.8%, it will mark the end of the streak of consecutive quarter of double-digit earnings growth at eight for the index.

Eight of the ten sectors are reporting earnings growth for the quarter, led by the Information Technology (12.3%) and Industrials (12.1%) sectors. The Telecommunications Services (-20.2%) and Materials (-14.0%) sectors are reporting the lowest growth rates for the quarter.

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

If AIG and Apple are excluded from the index, the blended earnings growth rate for the S&P 500 would drop to 1.0% from 5.8%.

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

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

Global Concerns: Uncertainty and Economic Weakness in Europe

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

Here are some comments from S&P 500 companies that discussing all three of these concerns:

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

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

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

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

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

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

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

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

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

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

“On the positive side, however, growth rates in emerging geographies, regions that represented 35% of Dow's revenues in the fourth quarter are expected to remain healthy, driven by needs for growing populations, needs such as agriculture, food packaging and water to name a few. Taken on the whole, we believe demand growth will begin to gain momentum as we move through the second quarter and the remainder of the year and we see meaningful improvements in Asia, Latin America, Eastern Europe, Middle East and Africa and the United States...” –Dow Chemical (Feb 2)

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

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

For Q1 2012, Q2 2012, and Q3 2012, the estimated earnings growth rates are expected to fall to 0.4%, 7.2%, and 4.7%, respectively. However, the estimated earnings growth rates for Q4 2012 and Q1 2013 are predicted to jump to 16.3% and 14.9%.

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

The current forward 12-month P/E ratio of 12.4 is well below the prior ten-year average forward 12-month P/E ratio of 14.6, but is higher than the 11.8 P/E ratio recorded at the start of the first quarter (December 31). The P/E ratio has increased during this time due to the combination of an overall increase in the price of the index (up 5.4% since September 30) and a small drop to the forward 12-Month EPS estimate for the index (to 106.55 from 106.69).

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

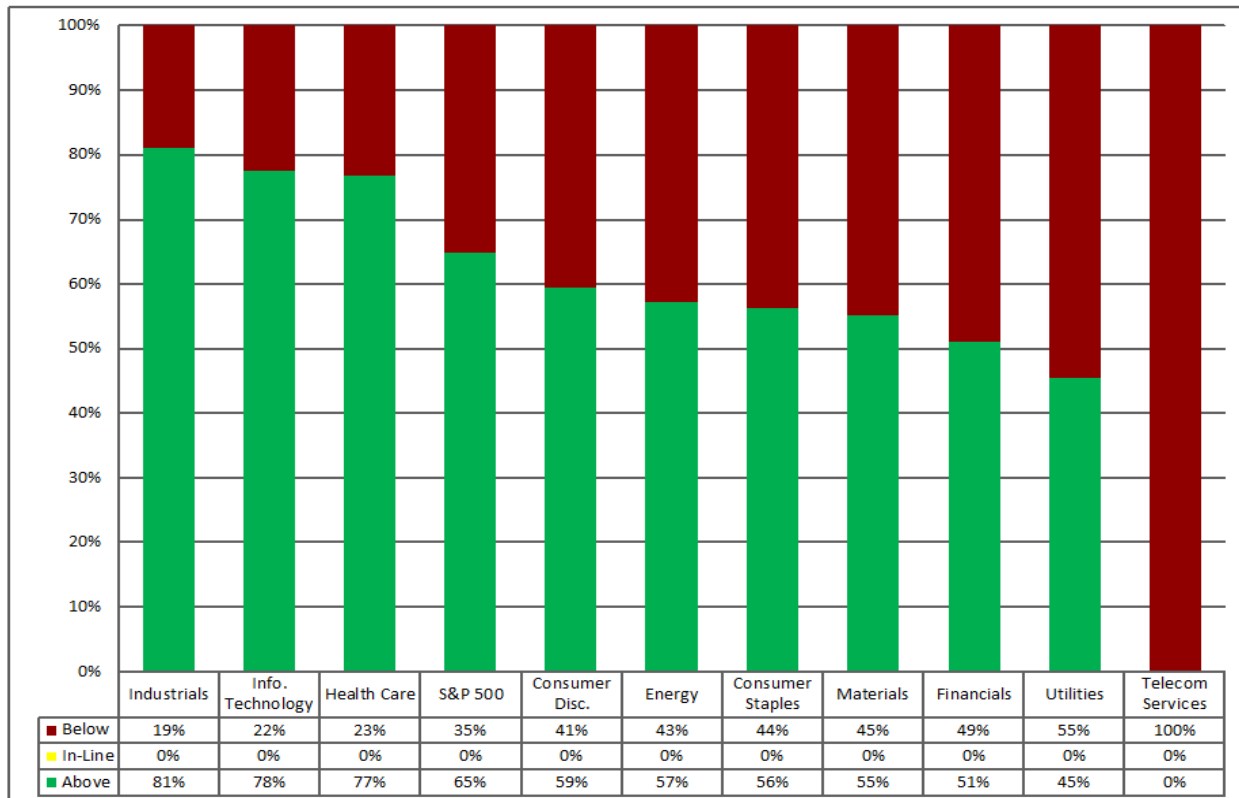
Will there be a return to the 10-year average valuation for the market anytime soon? If there is going to be a return to this average P/E ratio of 14.6, either future estimates will need to continue to decrease, the price of the index will need to continue to increase, or a combination of the two will need to occur.

Companies Reporting Next Week

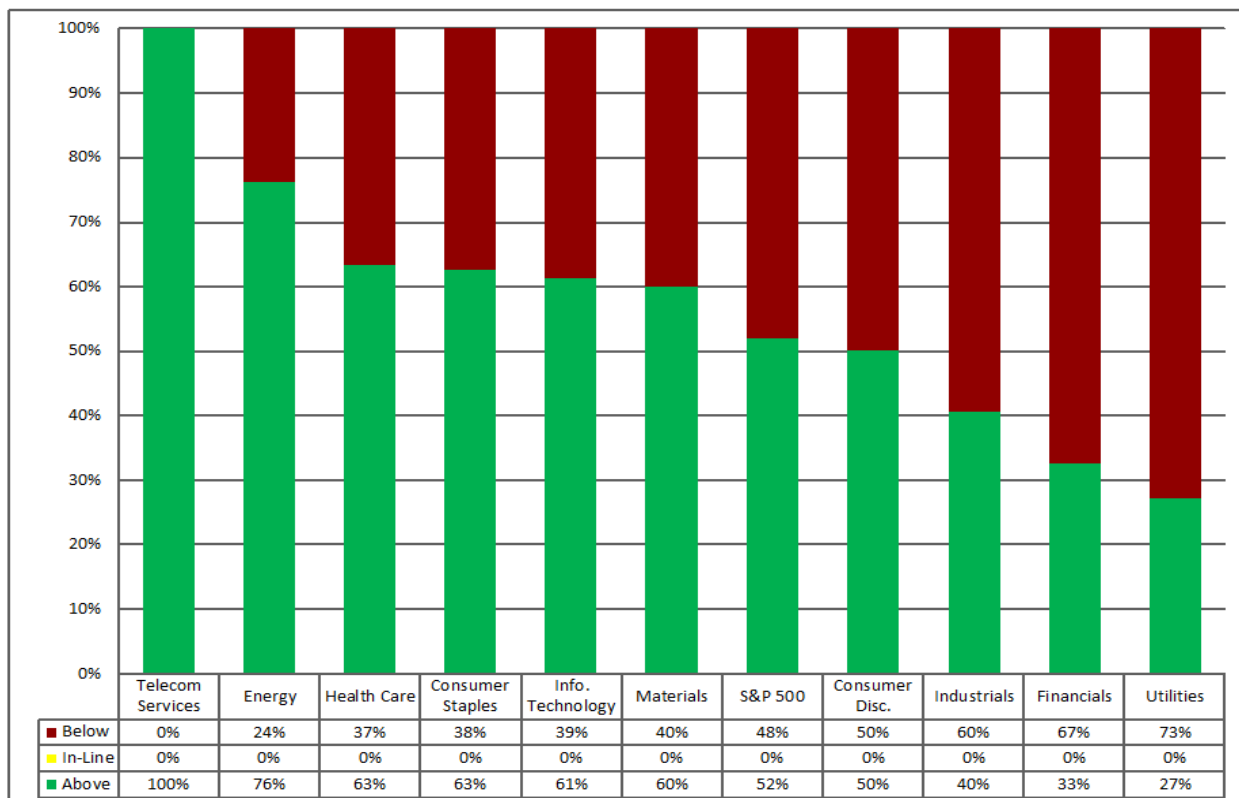
The Q4 2011 earnings season continues during the upcoming week, as 66 companies in the S&P 500 index and three Dow components (Coca-Cola, Walt Disney, and Cisco Systems) are scheduled to release earnings results.

Q4 2011: Scorecard

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

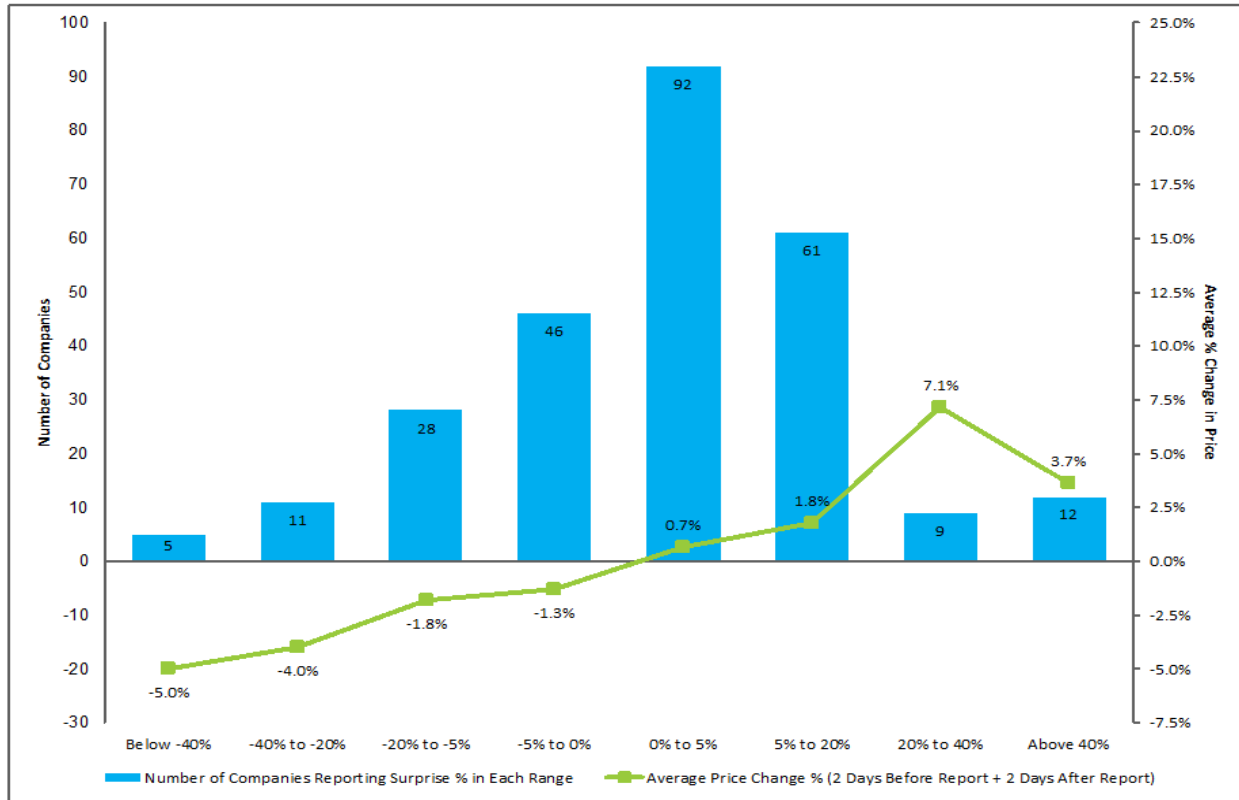


Q4 2011 Revenues: Above, In-Line, Below Estimates

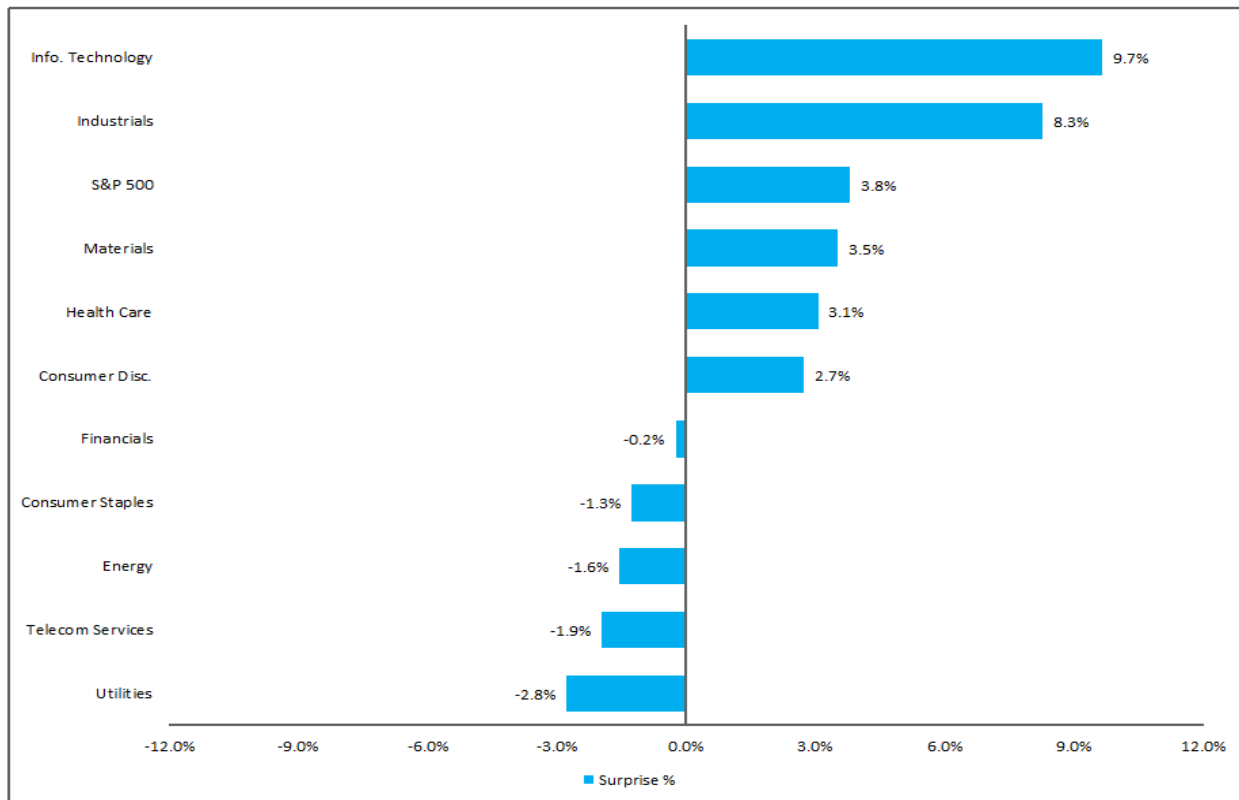


Q4 2011: Scorecard

Q4 2011: Surprise % vs. Average Price Change %

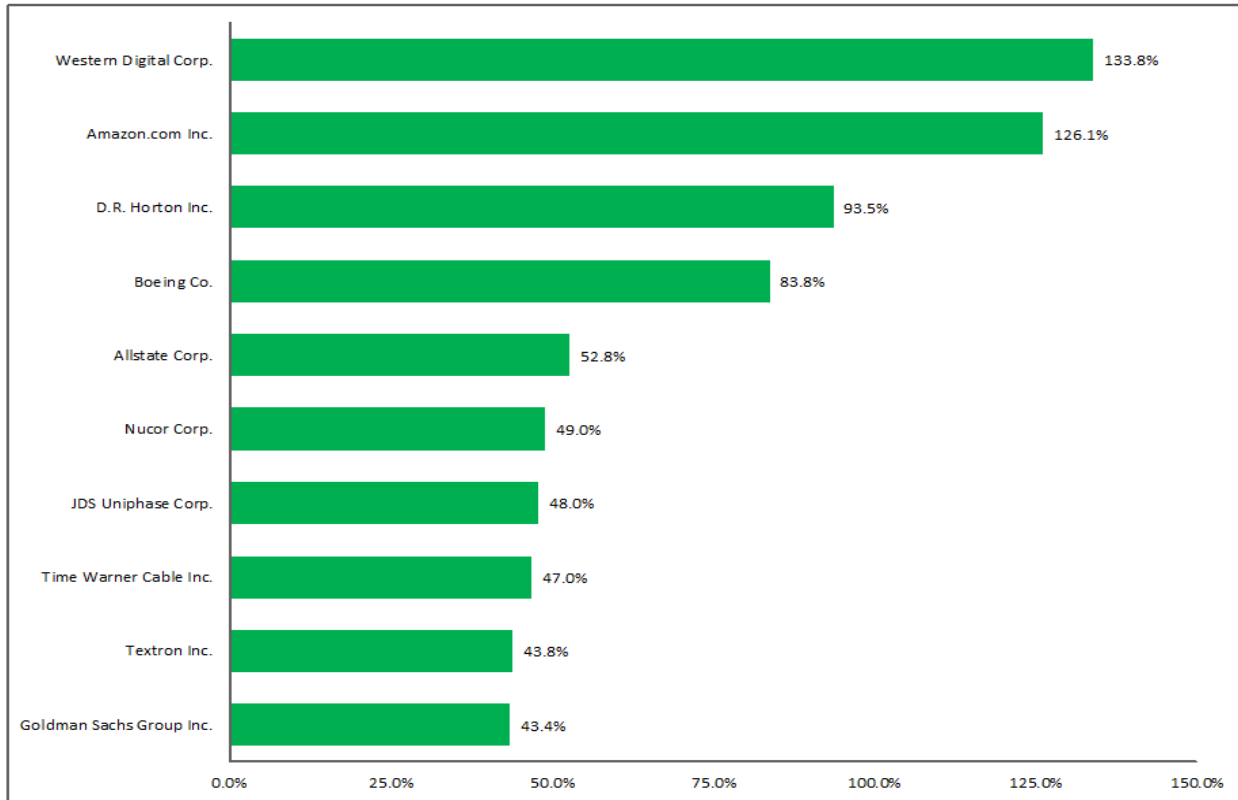


Q4 2011: Sector Level Surprise %

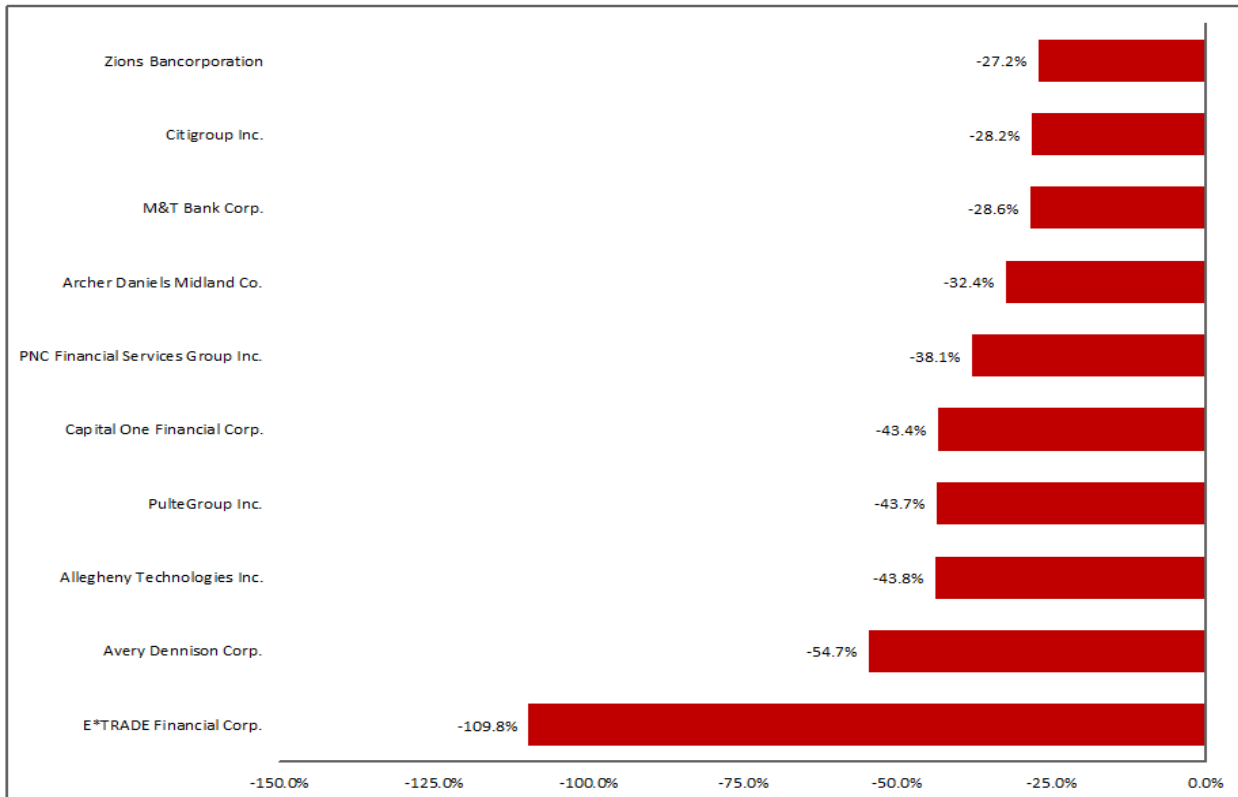


Q4 2011: Scorecard

Surprise %: Top 10 Companies



Surprise %: Bottom 10 Companies

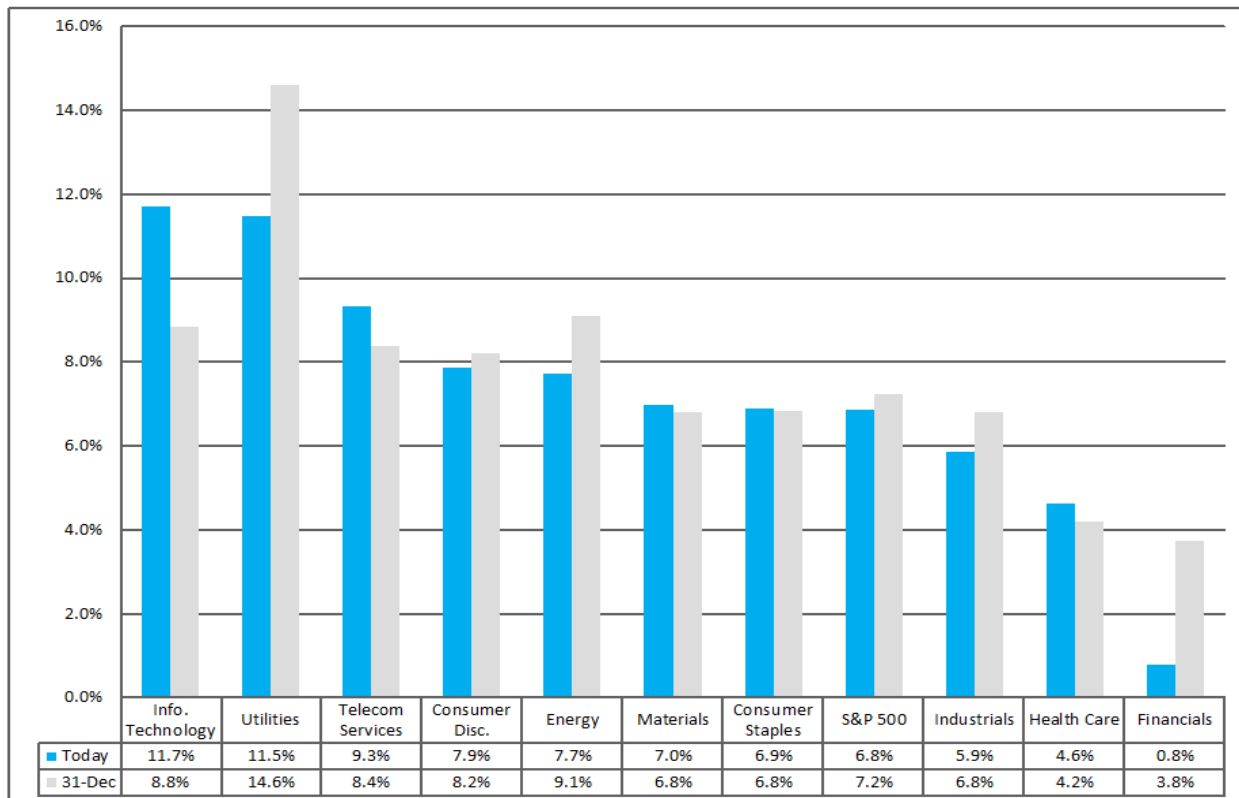


Q4 2011: Growth

Q4 2011 Earnings Growth

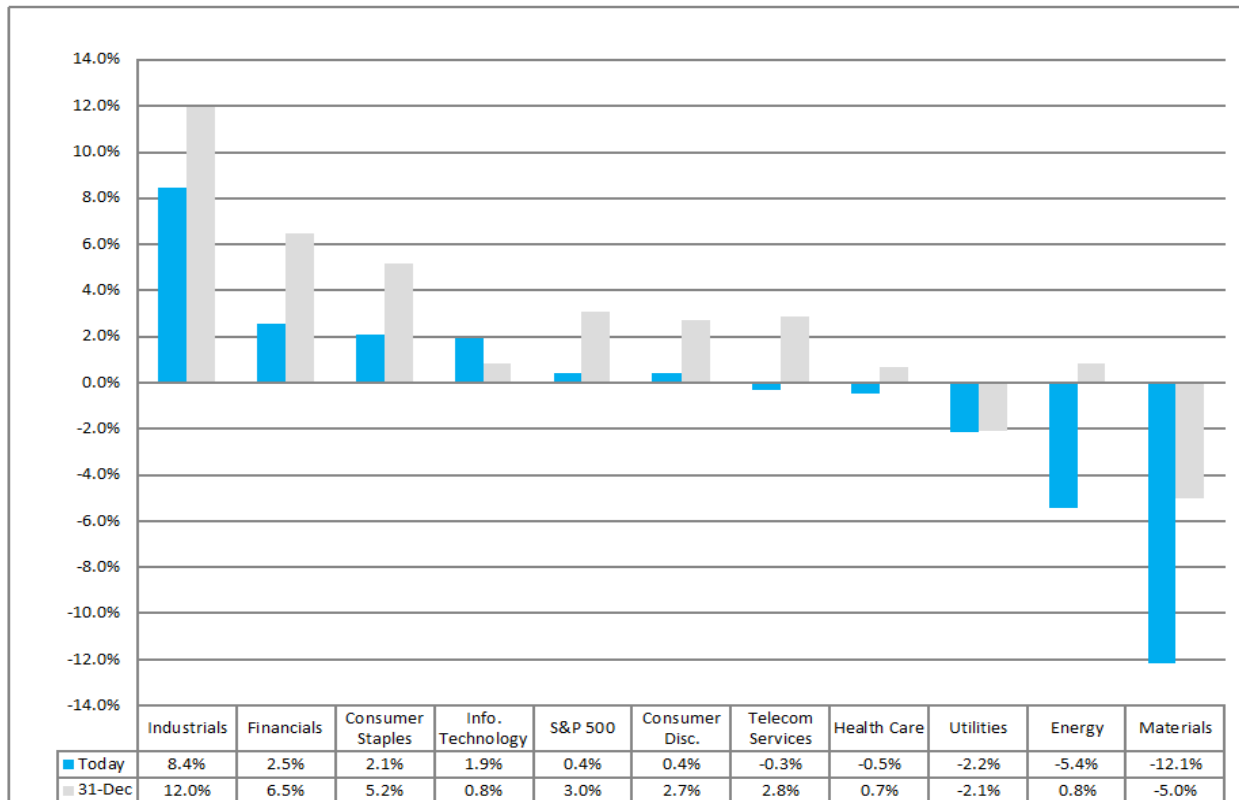


Q4 2011 Revenue Growth

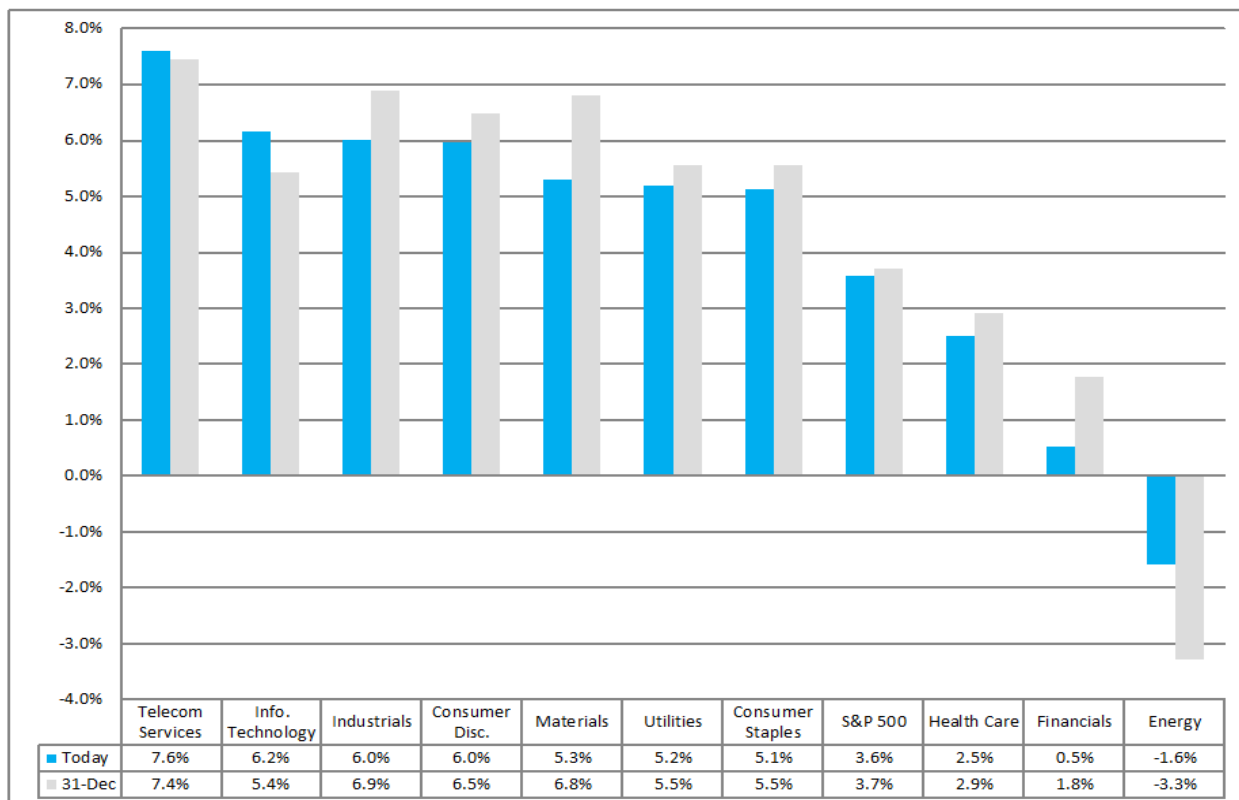


Q1 2012: Growth

Q1 2012 Earnings Growth

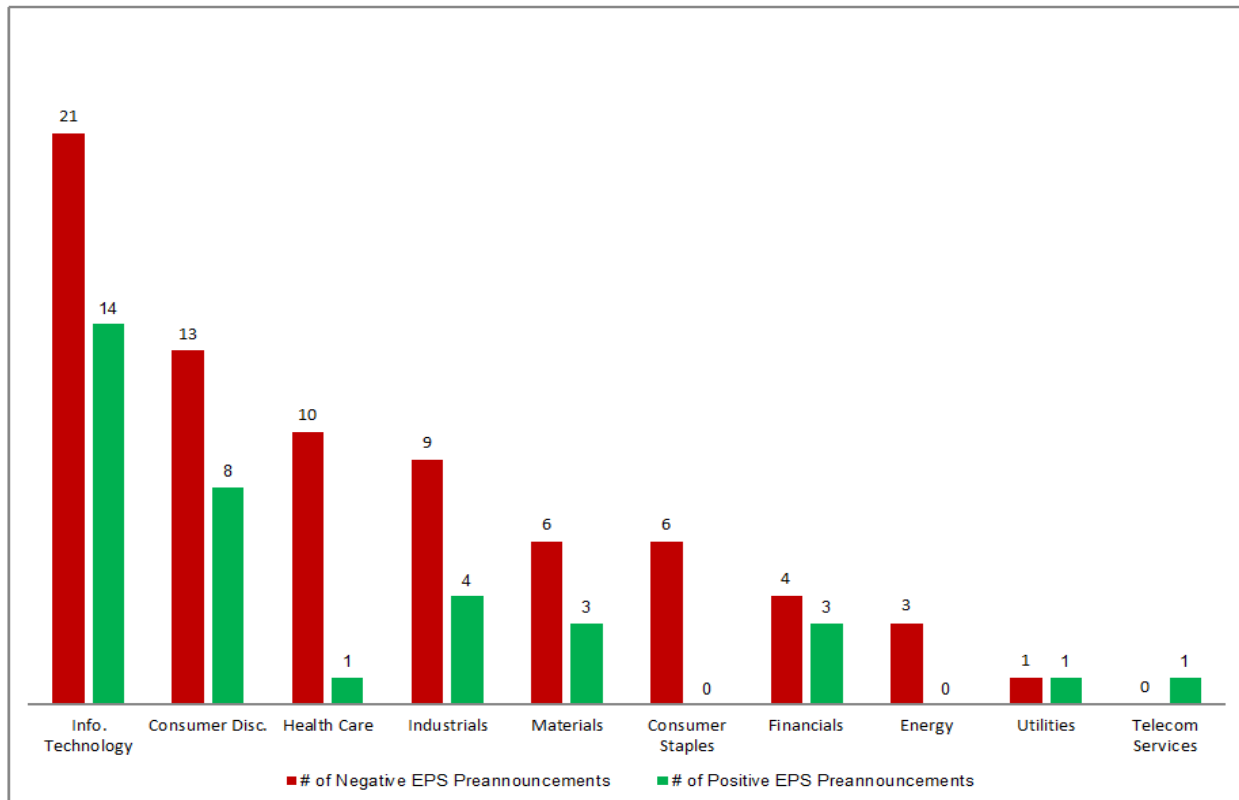


Q1 2012 Revenue Growth

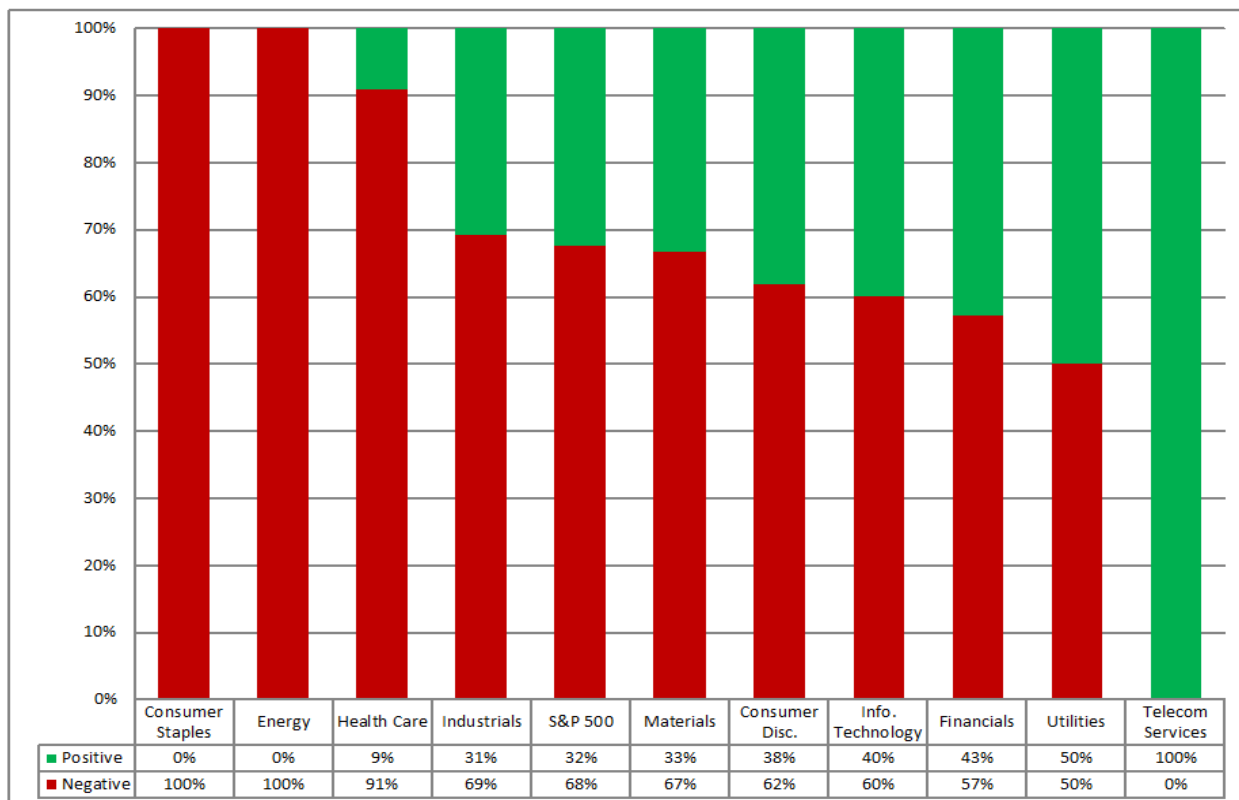


Guidance: Current Fiscal Quarter

Number of Positive & Negative EPS Preannouncements: Current Fiscal Quarter

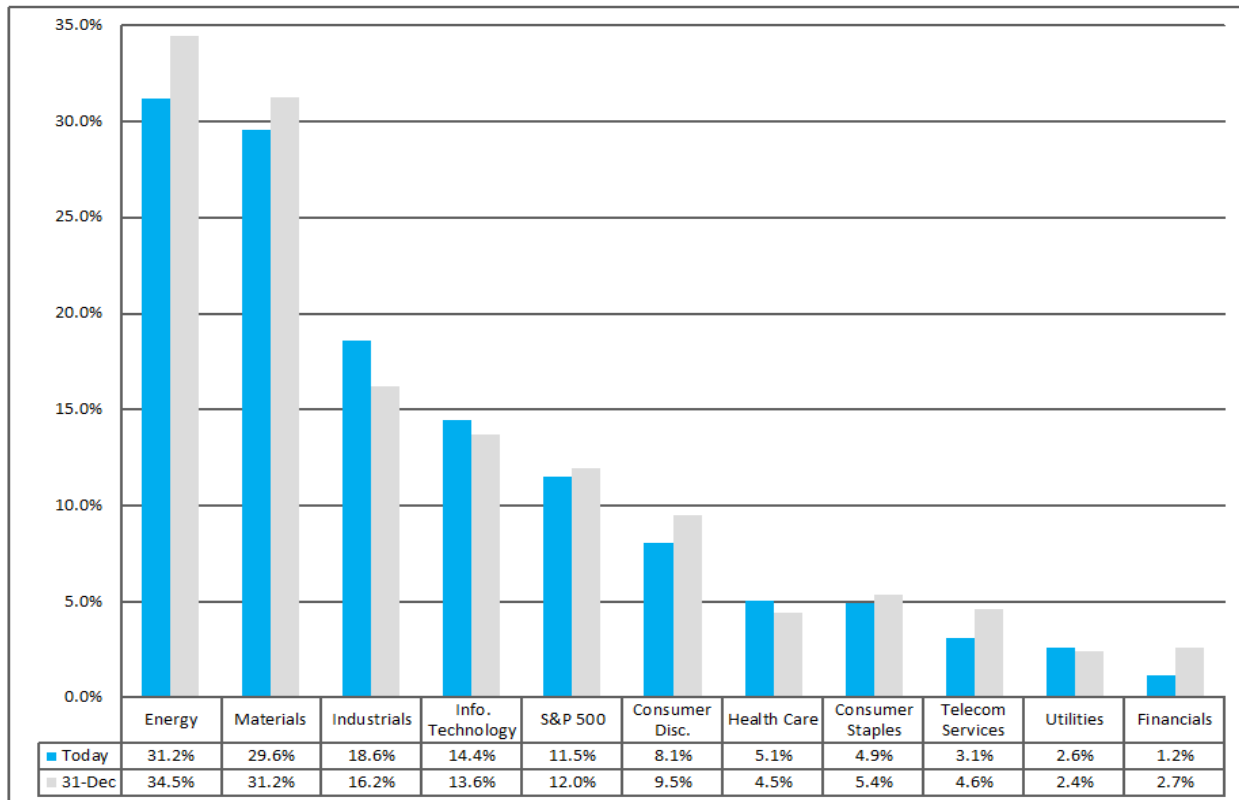


Percentage of Positive & Negative EPS Preannouncements: Current Fiscal Quarter

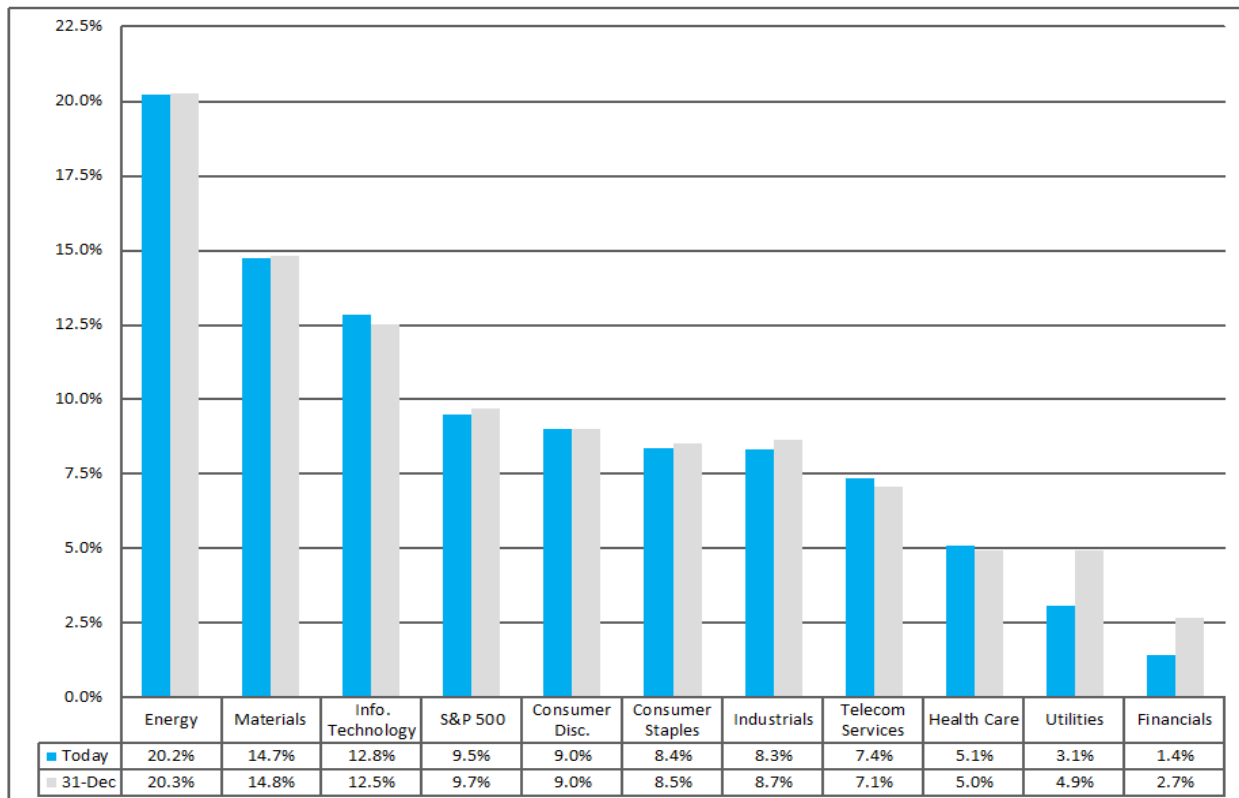


CY 2011: Growth

CY 2011 Earnings Growth



CY 2011 Revenue Growth

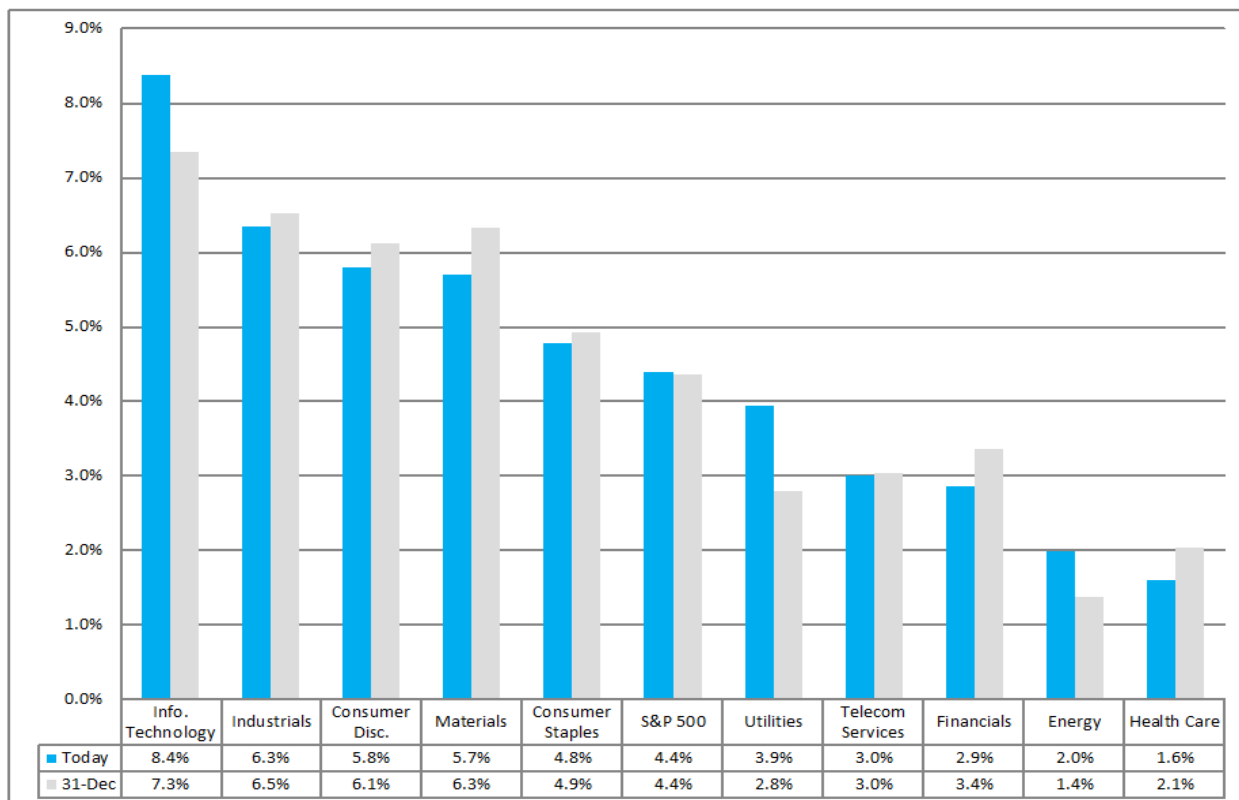


CY 2012: Growth

CY 2012 Earnings Growth

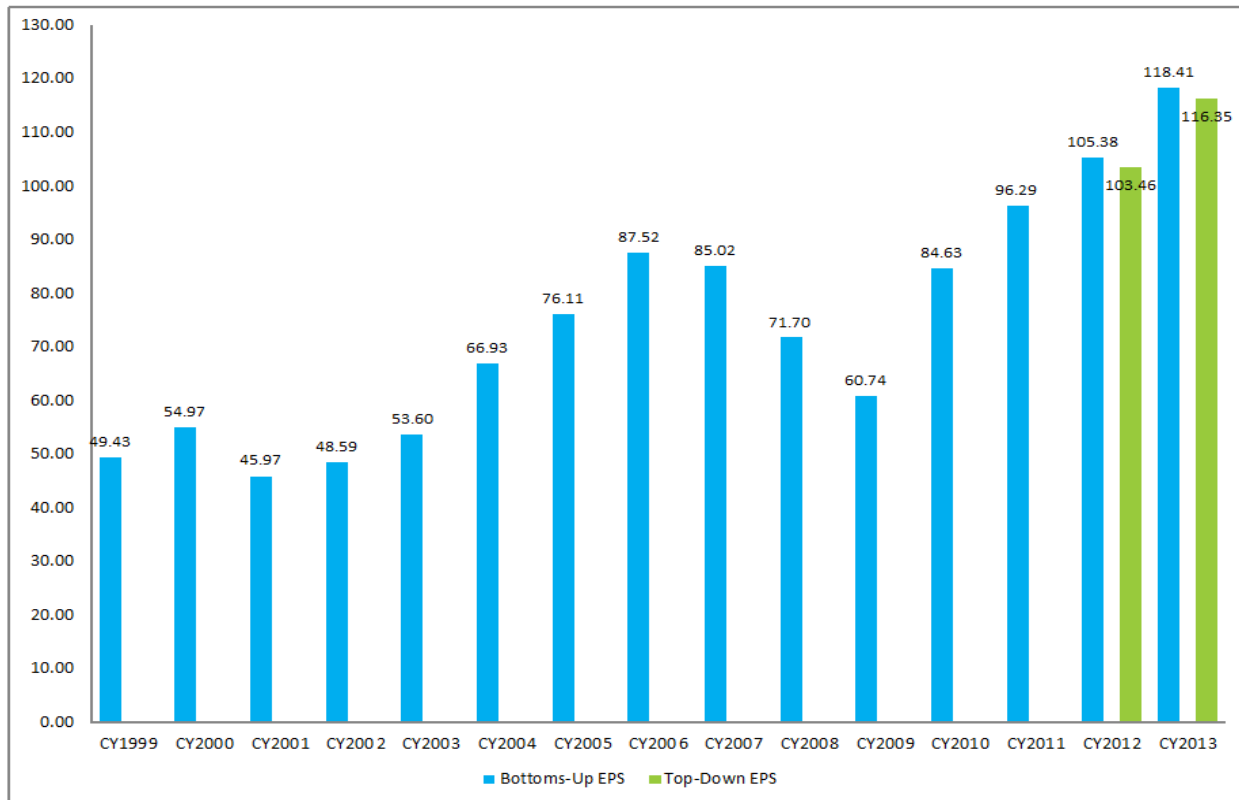


CY 2012 Revenue Growth

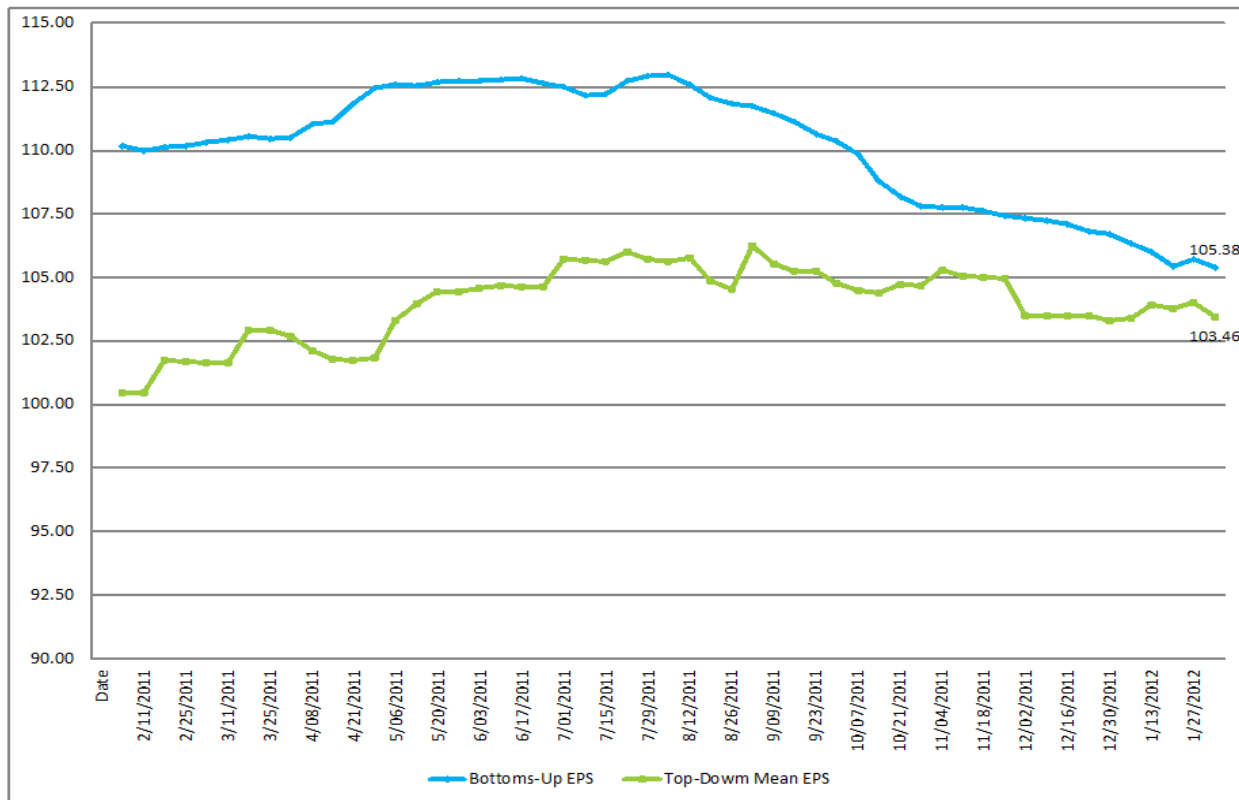


Bottoms-Up Estimates

Calendar Year Bottoms-Up EPS Actuals & Estimates

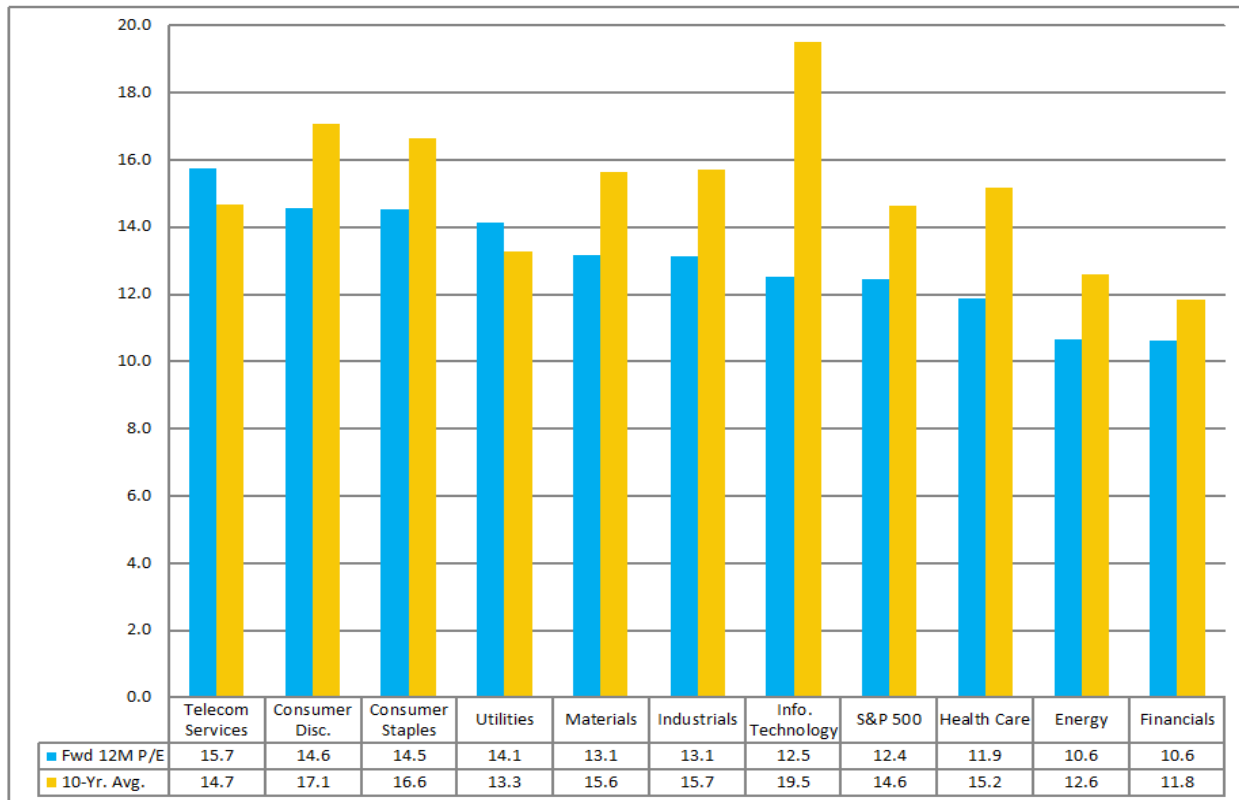


CY 2012 Estimates: Bottoms-Up EPS vs. Top Down EPS

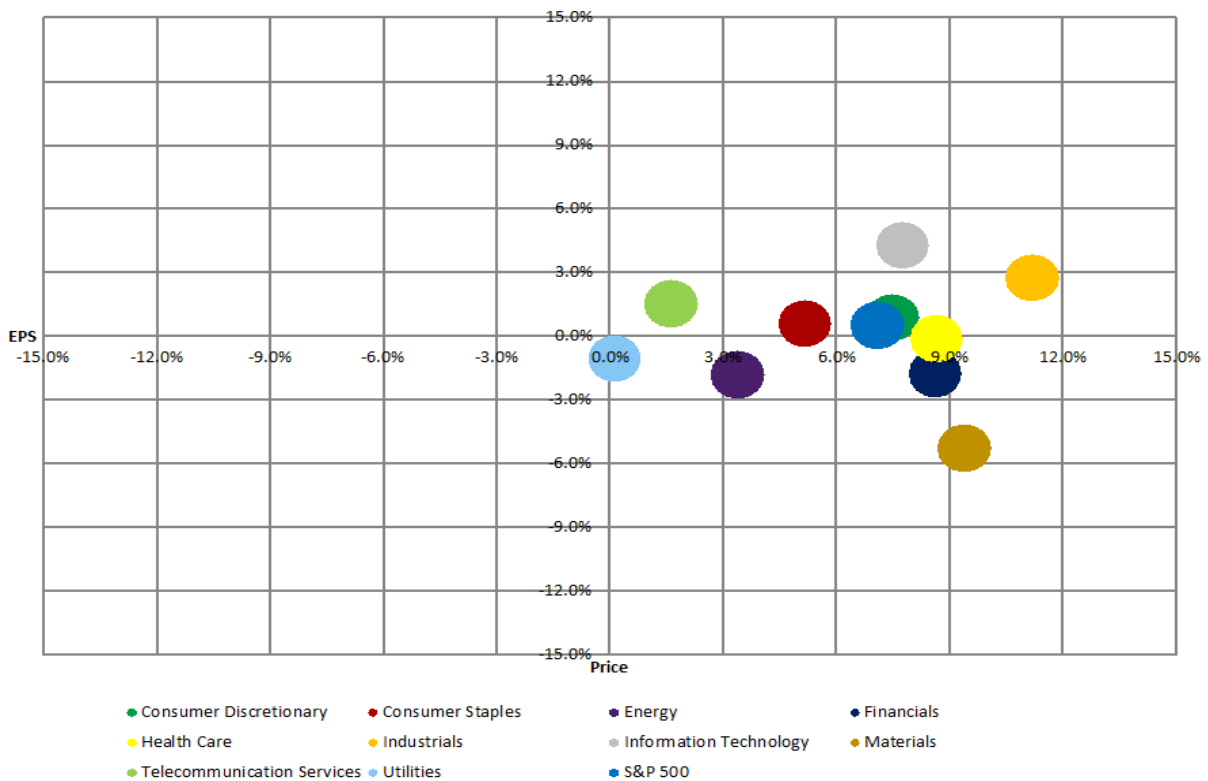


Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

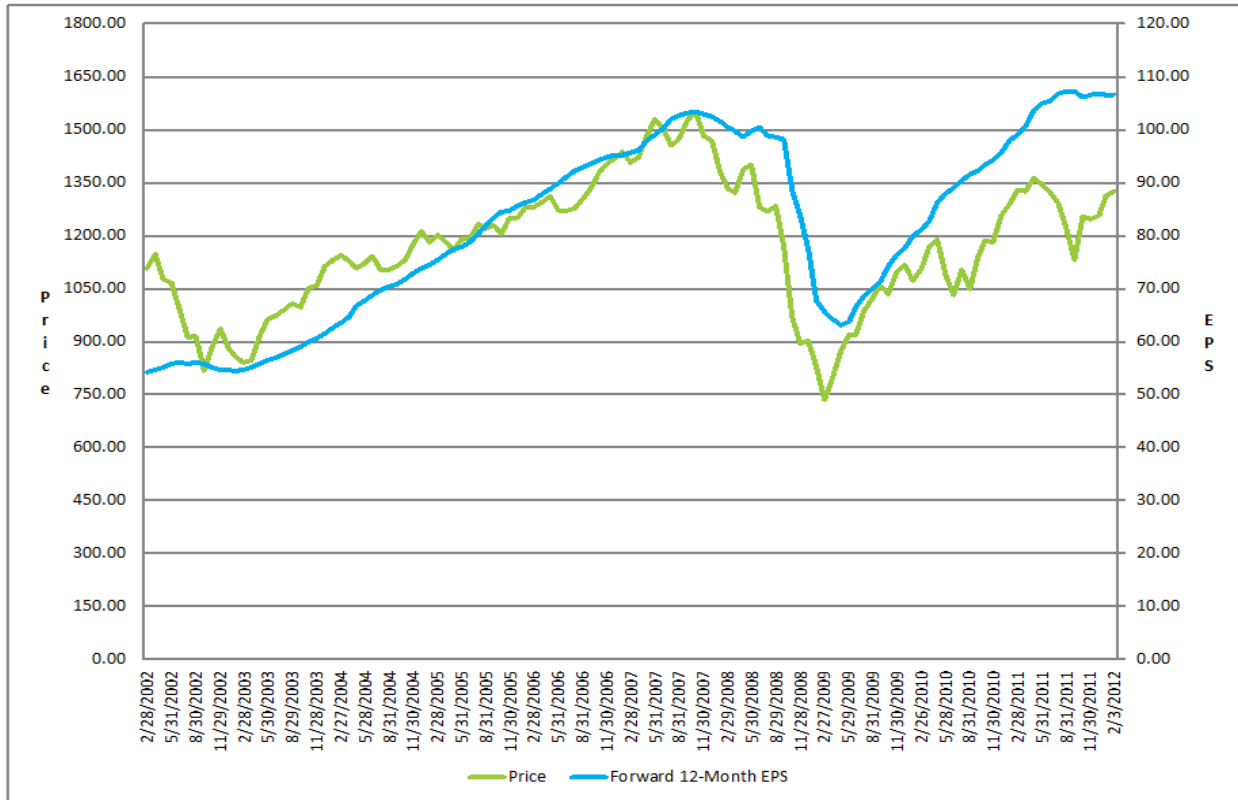


Sector-Level Change in Price vs. Change Forward 12M EPS: 3-Months

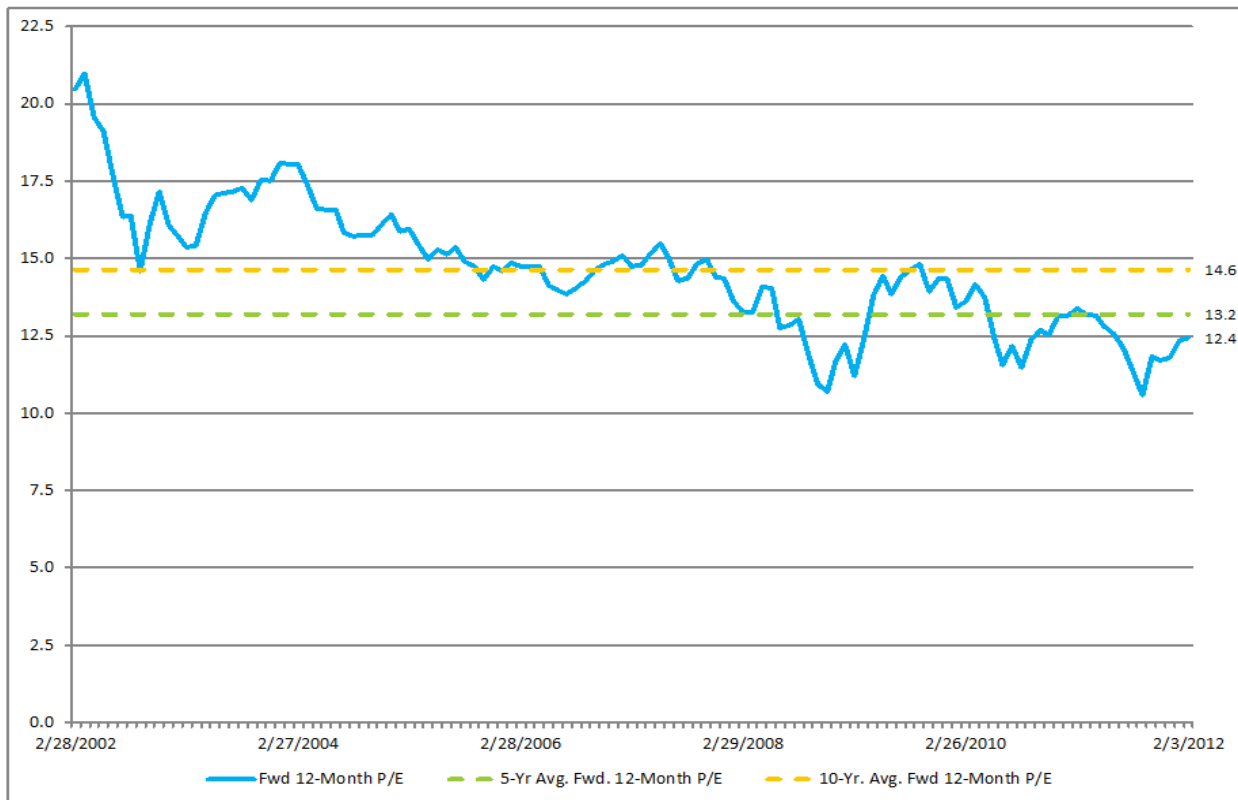


Price / Earnings Ratio: Long-Term Averages

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



Forward 12M P/E Ratio: 10-Years



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