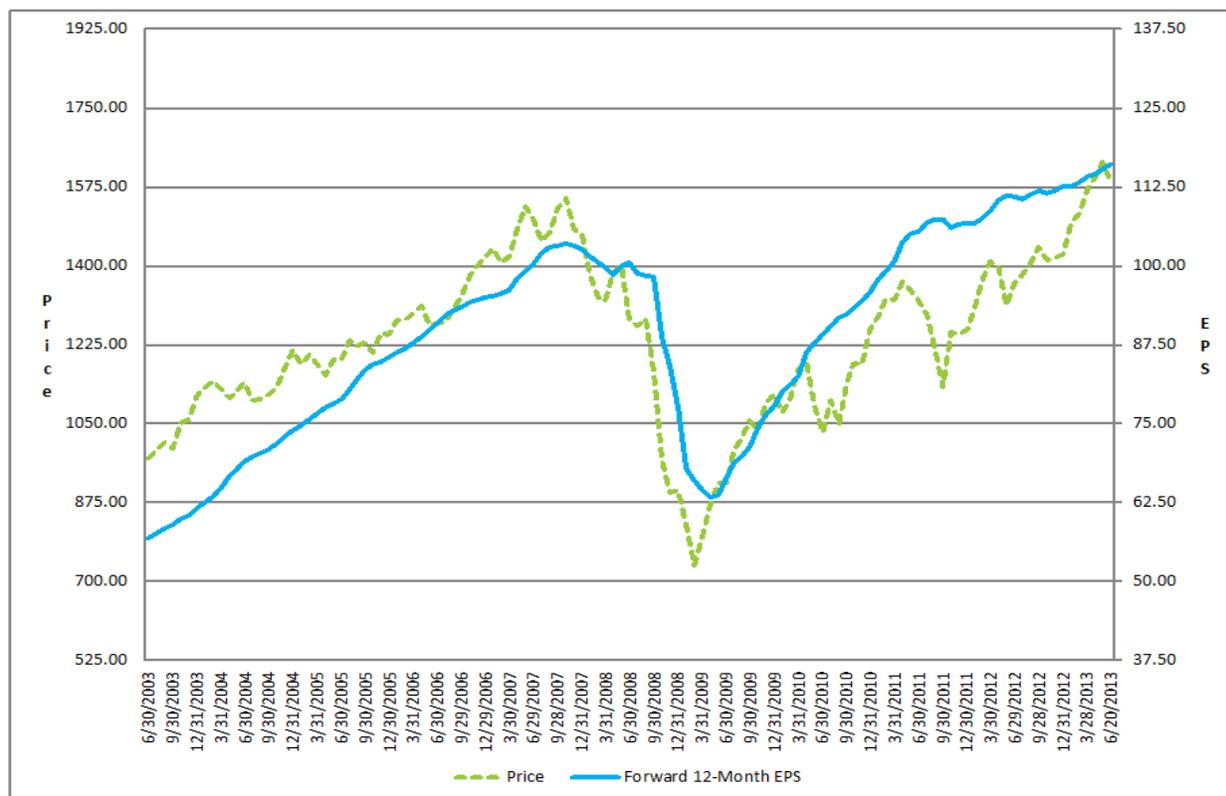


Key Metrics

- + **Earnings Growth:** The estimated earnings growth rate for Q2 2013 is 1.1%. If this is the final growth rate for the quarter, it will mark the third consecutive quarter of earnings growth for the index.
- + **Earnings Revisions:** On March 31, the earnings growth rate for Q2 2013 was 4.3%. Eight of the ten sectors have recorded a decrease in earnings growth during this time, led by the Materials, Information Technology, and Industrials sectors.
- + **Earnings Guidance:** For Q2 2013, 87 companies have issued negative EPS guidance and 21 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-month forward P/E ratio is 13.7. This P/E ratio is based on Thursday's closing price of 1588.19 and forward 12-month EPS estimate of \$116.09.
- + **Earnings Scorecard:** Of the 10 companies that have reported earnings to date for Q2 2013, 80% have reported earnings above the mean estimate and 60% have reported revenues above the mean estimate.

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

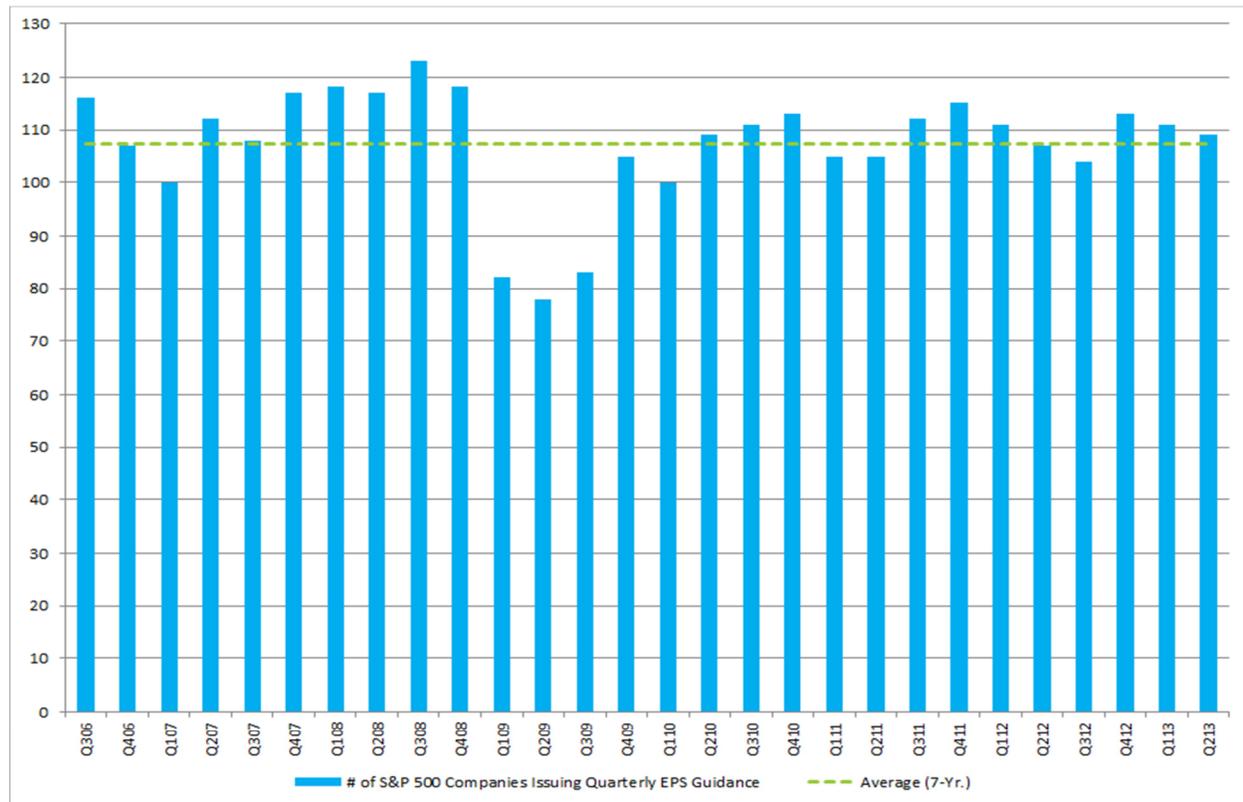
No Drop in Number of S&P 500 Companies Issuing Quarterly EPS Guidance over Past 7 Years

FedEx reported earnings for the second quarter during the past week, and also declared that the company will no longer provide quarterly EPS guidance. As Frederick Smith (Chairman, President, and CEO) stated during the company’s conference call, "Before I turn the call over....I’d like to note the FedEx is revising its practices on earnings guidance beginning this quarter. We will provide full-year projections with quarterly updates. We will no longer provide quarterly earnings guidance."

Given this announcement by FedEx, have other companies changed their policy on quarterly guidance in recent years? Are there significantly fewer S&P 500 companies issuing quarterly EPS guidance today compared to a few years ago?

Looking at the data over the past seven years, the answer is no. Over this time frame, the average number of S&P 500 companies issuing quarterly EPS guidance has been 107. Aside from a small spike in 2008 and a small dip in 2009, the number has stayed relatively consistent over the past seven years. During the first four quarters (Q306 – Q207) of this period, the number of S&P 500 companies issuing quarterly EPS guidance on average was 109. Over the most recent four quarters (Q312 – Q213) of this period, the number of S&P 500 companies issuing EPS guidance on average is 109.

S&P 500: # of Companies Issuing Quarterly EPS Guidance



Q2 2013 Earnings Season: Overview

No Change in Earnings Growth Rate This Week, But Cut by Almost 3/4 since March 31

The estimated earnings growth rate for the second quarter is 1.1%, unchanged from last week. Small upward revisions to earnings estimates for companies in the Financials sector were offset by small downward revisions to earnings estimates for companies in the Materials sectors during the week.

Largest Cuts to Estimates to date: Materials, Information Technology, and Industrials Sectors

Since the start of the second quarter (March 31), analysts have reduced earnings growth expectations for Q2 2013 by almost three-fourths (to 1.1% from 4.3%). Eight of the ten sectors have lower expected earnings growth rates today relative to the start of the quarter, led by the Materials, Information Technology, and Industrials sectors. All three of these sectors have also witnessed a high percentage of companies issue negative EPS guidance for the quarter.

The Materials sector has seen the largest drop in expected earnings growth (to -5.7% from 10.4%) since the start of the quarter. Companies in the Metals & Mining industry have witnessed the largest cuts to estimates during this time, including U.S. Steel (to -\$0.72 from \$0.39), Allegheny Technologies (to \$0.16 from \$0.38), Newmont Mining (to \$0.50 from \$0.93), and Nucor (to \$0.30 from \$0.55).

The Information Technology sector has witnessed the second largest decrease in expected earnings growth (to -6.3% from -0.2%) since March 31. Companies that have recorded substantial reductions in EPS estimates include Electronic Arts (to -\$0.60 from -\$0.37), First Solar (\$0.58 from \$1.26), Intuit (to \$0.06 from \$0.13), and Dell (to \$0.24 from \$0.40).

The Industrials sector has recorded the third highest decline in projected earnings growth (to -2.1% from 2.5%). Companies that have seen significant decreases in earnings estimates for the quarter include Textron (to \$0.38 from \$0.55), Caterpillar (to \$1.70 from \$2.14), Stanley Black & Decker (to \$1.20 from \$1.40), Joy Global (to \$1.37 from \$1.58), and General Electric (to \$0.36 from \$0.40).

Upward Revisions to Estimates for Companies in Financials and Utilities Sectors

On the other hand, the Financials (17.7% from 16.2%) and Utilities (to 0.1% from -1.4%) sectors are the only two sectors that have seen increases in expected earnings growth since the start of the quarter. In the Financials sector, companies that have witnessed significant increases to EPS estimates include SLM Corp. (to \$0.74 from \$0.58), Progressive (to \$0.40 from \$0.34), Cincinnati Financial (to \$0.44 from \$0.39), and AIG (to \$0.89 from \$0.83). In the Utilities sector, companies that have recorded upside revisions to EPS estimates include NRG Energy (to \$0.06 from -\$0.03), Sempra Energy (to \$1.25 from \$0.94), SCANA (to \$0.53 from \$0.47), and Public Service Enterprise Group (to \$0.45 from \$0.40).

EPS Guidance: High Percentage (81%) Issued for Q2 2013 to Date

One of the reasons for the drop in the expected earnings growth rate for the second quarter is the high percentage of companies issuing negative guidance, particularly companies in the Materials, Information Technology, and Industrials sectors.

Of the 108 companies that have issued EPS guidance for the second quarter, 87 have issued projections below the mean EPS estimate and 21 have issued projections above the mean EPS estimate. Thus, 81% (87 out of 108) of the companies that have issued EPS guidance to date for Q2 2013 have issued negative guidance. This percentage is well above the five-year average of 62%.

Three of the four sectors that have the highest percentages of negative guidance are the Materials (90%), Industrials (82%), and Information Technology (81%) sectors. These are the three sectors that have witnessed the largest decreases in estimated earnings growth rates for the second quarter to date.

Estimated Earnings Growth (1.1%), but Falls to -2.2% Excluding the Financials Sector

The estimated earnings growth rate for the index for Q2 2013 is 1.1%. If this is the final growth rate for the quarter, it will mark the third consecutive quarter of earnings growth for the index after reporting an earnings decline in Q3 2011. However, only five of the ten sectors are projected to report higher earnings relative to a year ago, led by the Financials and Telecom Services sectors. On the other hand, the Information Technology sector is expected to report the lowest earnings growth of all ten sectors for the second consecutive quarter.

Financials: Balanced Growth (17.7%) across Multiple Industries

The Financials sector is predicted to have the highest earnings growth rate (17.7%) of any sector for the second consecutive quarter. It is also the largest contributor to earnings growth for the entire index. If the Financials sector is excluded, the earnings growth rate for the S&P 500 falls to -2.2%.

Seven of the eight industries in the sector are expected to report earnings growth for the quarter. Six of these seven industries are projected to see double-digit earnings growth, led by the Consumer Finance (48%) and Capital Markets (31%) industries. The only industry predicted to report a year-over-year decline in earnings is the Thrift & Mortgage Finance (-26%) industry.

At the company level, Capital One Financial is the largest contributor to earnings growth for the sector, mainly due to an easy comparison to low earnings in Q2 2012. The mean EPS estimate for the company for Q2 2012 is \$1.67, relative to year-ago actual EPS of \$0.16. Other companies that are expected to be significant contributors to earnings growth for the sector include Bank of America, Citigroup, Goldman Sachs, and Morgan Stanley.

Telecom Services: Excluding Sprint Nextel, Earnings Growth Rate Drops to 0.4% from 10.3%

The Telecom Services sector has the second highest earnings growth rate of any sector at 10.3%. However, one company accounts for most of the expected growth in the sector: Sprint Nextel. The mean EPS estimate for Sprint Nextel is -\$0.29, compared to year-ago actual EPS of -\$0.46. If Sprint Nextel is removed, the growth rate for the sector falls to 0.4%.

Information Technology: Apple Leads Decline

The Information Technology sector has the lowest earnings growth of any sector at -6.3%. Four of the eight industries in this sector are predicted to report a decline in earnings, led by the Computers & Peripherals (-23%) and Semiconductor & Semiconductor Equipment (-21%) industries. On the other end of the spectrum, the Communications Equipment (13%) and Internet Software & Services (11%) industries are projected to have the highest earnings growth rates.

At the company level, Apple is the largest detractor to earnings growth for the sector, as the company is predicted to report a year-over-year decline in EPS (-21%) for the third consecutive quarter. The mean EPS estimate for Apple is \$7.36, relative to year-ago actual EPS of \$9.32. If Apple is excluded, the earnings growth rate for the sector improves to -3.1%. Other companies that are predicted to be substantial contributors to the earnings decline for the sector include Intel, Seagate Technology, Dell, and Western Digital.

Materials: Steel Sub-Industry Leads Decrease

The Materials sector has the second lowest earnings growth rate at -5.7%. Nine of the thirteen sub-industries in this sector are expected to report a decrease in earnings, led by the Steel (-76%) sub-industry. This sub-industry is also the top detractor to earnings growth for the sector. If this sub-industry is excluded, the growth rate for the sector improves to -1.6%. On the other hand, the Aluminum (60%) and Paper Packaging (45%) sub-industries are predicted to have the highest earnings growth rates of all the sub-industries in the sector.

Health Care: Pharmaceuticals Sub-Industry Leads Drop

The Health Care sector has the third lowest earnings growth rate at -3.9%. However, only four of the ten sub-industries in this sector are expected to report a decrease in earnings, led by the Pharmaceuticals (-7.8%) sub-industry. This sub-industry is also the top detractor to earnings growth for the sector. If this sub-industry is excluded, the growth rate for the sector improves to 0.3%. On the other hand, Health Care Facilities sub-industry is predicted to have the highest earnings growth (84%) of any sub-industry in the sector.

Estimated Revenue Growth Rate is 1.2%, but Jumps to 3.0% Ex-Energy

The estimated revenue growth rate for Q2 2013 is 1.2%, down from an estimate of 2.7% at the start of the quarter (March 31). However, the Energy sector is the only sector expected to report a decline in sales for the quarter.

The Energy sector has the lowest revenue growth rate of all ten sectors at -8.4%. It is also the largest detractor to the year-over-year increase in revenues for the index. If the Energy sector is excluded, the revenue growth rate for the S&P 500 would improve to 3.0%. At the sub-industry level, three of the seven sub-industries are predicted to report a decrease in revenues, led by the Integrated Oil & Gas (-16%) and Coal & Consumable Fuels (-12%) sub-industries. At the company level, Exxon Mobil is the largest detractor to growth in the sector. The mean revenue estimate is \$106.6 billion, compared to year-ago revenue of \$127.4 billion. Excluding Exxon Mobil, the revenue growth rate for the Energy sector improves to -4.8%. Other companies expected to see significant declines in revenues include Phillips 66, Chevron, and Hess Corporation.

On the other hand, the Financials sector (along with the Consumer Discretionary sector) has the highest revenue growth rate of all ten sectors at 5.6%. Seven of the eight industries in the sector are expected to report revenue growth, led by the Capital Markets (13%) industry. The only industry projected to reported a decline in revenue is the Thrifts & Mortgage Finance industry (-11%). Companies that are expected to be significant contributors to revenue growth for the quarter include Berkshire Hathaway, JPMorgan Chase, Goldman Sachs, and Morgan Stanley.

The Consumer Discretionary sector (along with the Financials sector) has the highest revenue growth rate at 5.6%. Growth is predicted to be broad-based. At the sub-industry level, 27 of the 32 sub-industries are expected to report earnings growth, led by the Homebuilding (41%), Internet Retail (22%), and Home Furnishing Retail (17%) sub-industries. At the other end of the spectrum, the Computer & Electronics Retail (-19%) and Education Services (-15%) sub-industries are predicted to see the lowest revenue growth for the quarter.

Global Themes: Europe vs. Emerging Markets

"The economy in Europe continues to be a challenge and China appears to be slowing down as well." –HP (May 22)

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 0.7% in Q1 2013, compared to growth of 0.2% in Q1 2012. Many companies confirmed that economic conditions were still weak in Europe during Q1. Will this trend continue in Q2?

"For the quarter, Europe's results were dampened by ongoing economic uncertainty. First quarter comparable sales were down 1.1%..." –McDonald's Corp. (Apr. 19)

"We planned for Europe to be similar to 2012, down again, but it was even weaker than we had expected." –General Electric (Apr. 19)

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. For Q1 2012, China and India recorded GDP growth of 8.1% and 5.2%, respectively. By Q1 2013, GDP growth rates for China and India had fallen to 7.7% and 3.0%.

On the other hand, Brazil has recorded an increase in GDP growth over the past year. For Q1 2013, Brazil reported GDP growth of 1.9%, above the 0.8% recorded in Q1 2012.

As a result, comments on business conditions in China and emerging markets were mixed during Q1. Some companies (such as Coca-Cola, IBM, and McDonald’s) reported weak conditions, while others (such as General Electric, United Technologies, and Coach) saw continued strength. Will companies see improving conditions in emerging markets in Q2?

“In Asia/Pacific, Middle East and Africa (APMEA), first quarter comparable sales declined 3.3% primarily due to ongoing weakness in Japan and negative results in China.” –McDonald’s Corp. (Apr. 19)

“But our growth markets revenue was up 1% at constant currency, clearly not what we expected or what we needed.” –IBM (Apr. 18)

“As we look ahead to the remainder of 2013, we continue to expect China’s economic slowdown to have a short-term effect on our industry and on our business, although we do expect to see some gradual improvement in consumer disposable income and, as a result, sequential improvement for our business as the year progresses.” –Coca-Cola (Apr. 16)

“Yeah, so in China, I think the market is very, very strong... I think property transactions in the first quarter were up 60% in China. So again, the market’s a lot better than what we had anticipated. We saw that starting in the fourth quarter.” –United Technologies (Apr. 23)

“China results continued very strong, with total sales growing 40% and comparable store sales rising at a double-digit rate.” –Coach (Apr. 23)

“Most of our emerging markets, including China, remained strong.” –General Electric (Apr. 19)

Earnings Growth Rebound Still Projected for 2nd Half 2013, But Little Revenue Growth

Although analysts have also reduced earnings growth expectations for Q3 2013 (to 7.6% from 9.9%) and Q4 2013 (to 13.3% from 14.3%), they still expect a significant improvement in earnings growth in the second half of 2013 relative to the 1st half of 2013.

For Q3 2013, four of the ten sectors are projected to see double-digit earnings growth: Materials (17.8%), Financials (11.6%), Consumer Discretionary (11.4%), and Telecom Services (10.8%).

For Q4 2013, five of the ten sectors are predicted to see double-digit earnings growth: Telecom Services (44.8%), Financials (26.9%), Materials (26.0%), Industrials (20.1%), and Consumer Discretionary (17.4%).

However, estimated revenue growth rates for both Q3 2013 (3.2%) and Q4 2013 (1.7%) are expected to be well below estimated earnings growth rates, particularly for Q4 2013. No sector is expected to see double-digit revenue growth in either quarter.

Valuation: Drop in Forward P/E Ratio to 13.7

The current forward 12-month P/E ratio for the index is 13.7. This P/E ratio is based on Thursday’s closing price of 1588.19 and forward 12-month EPS estimate of \$116.09.

At the sector level, the Telecom Services (16.3), Consumer Discretionary (16.2), and Consumer Staples (16.0) sectors have the highest forward 12-month P/E ratios, while the Energy (11.7) and Financials (11.9) sectors have the lowest forward 12-month P/E ratios.

The P/E ratio of 13.7 for the index as a whole is well above the prior 5-year average forward 12-month P/E ratio of 12.9, but below the prior 10-year average forward 12-month P/E ratio of 14.1.

It is also below the forward 12-month P/E ratio of 14.5 recorded one month ago. During the past month, the price of the index fell 4.7%, while the forward 12-month EPS estimate increased by 0.9%.

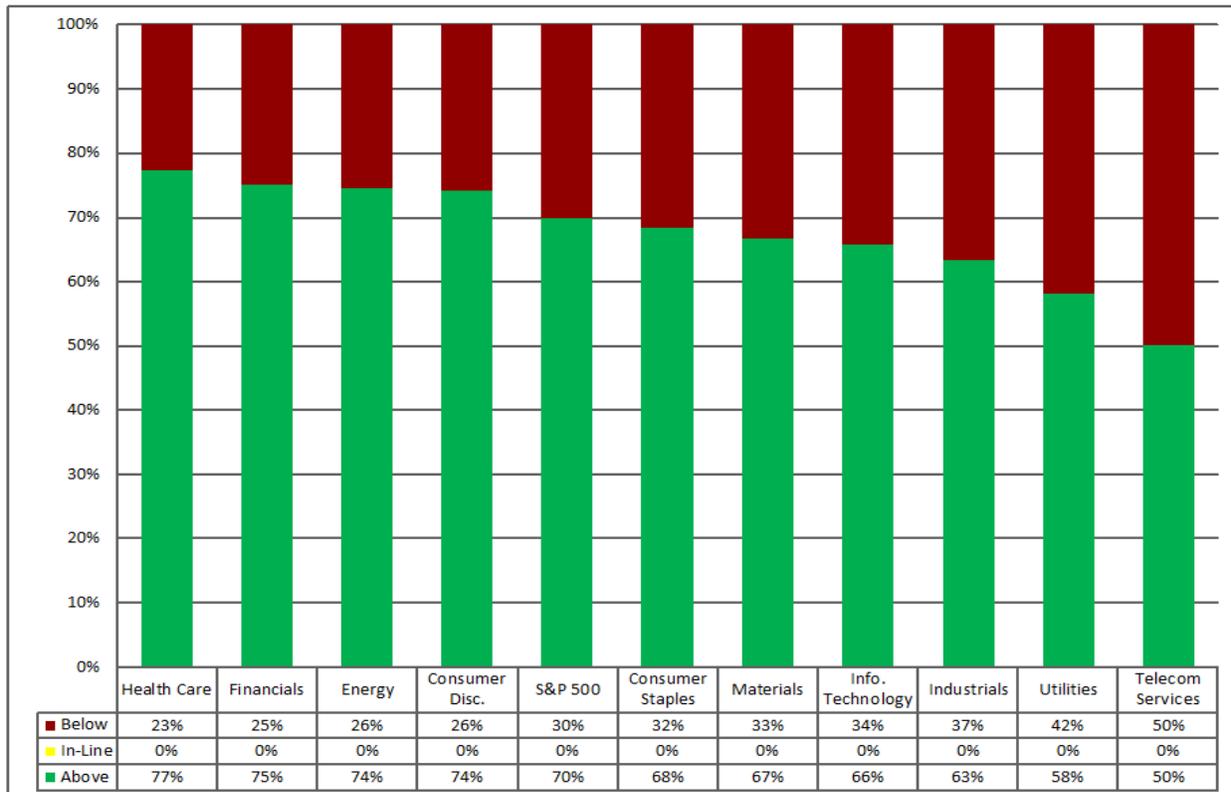
At the sector level, the Utilities (to 14.6 from 16.1) and Telecom Services (to 16.3 from 17.9) sectors saw the largest decreases in the forward 12-month P/E ratio over the past month. No sector recorded an increase in the forward 12-month P/E ratio over the past month.

Companies Reporting Next Week: 14

During the upcoming week, 14 S&P 500 companies are scheduled to release earnings results for Q2 2013.

Q1 2013: Scorecard

Q1 2013 Earnings: Above, In-Line, Below Estimates

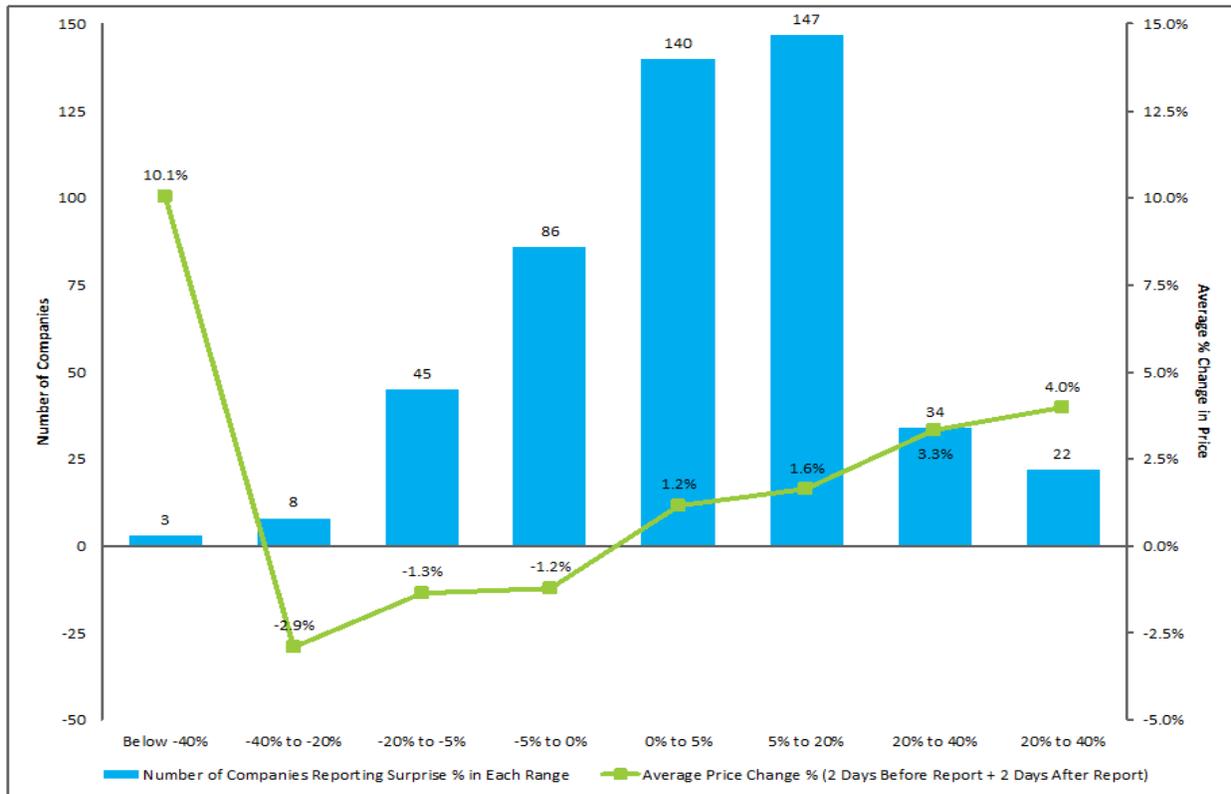


Q1 2013 Revenues: Above, In-Line, Below Estimates

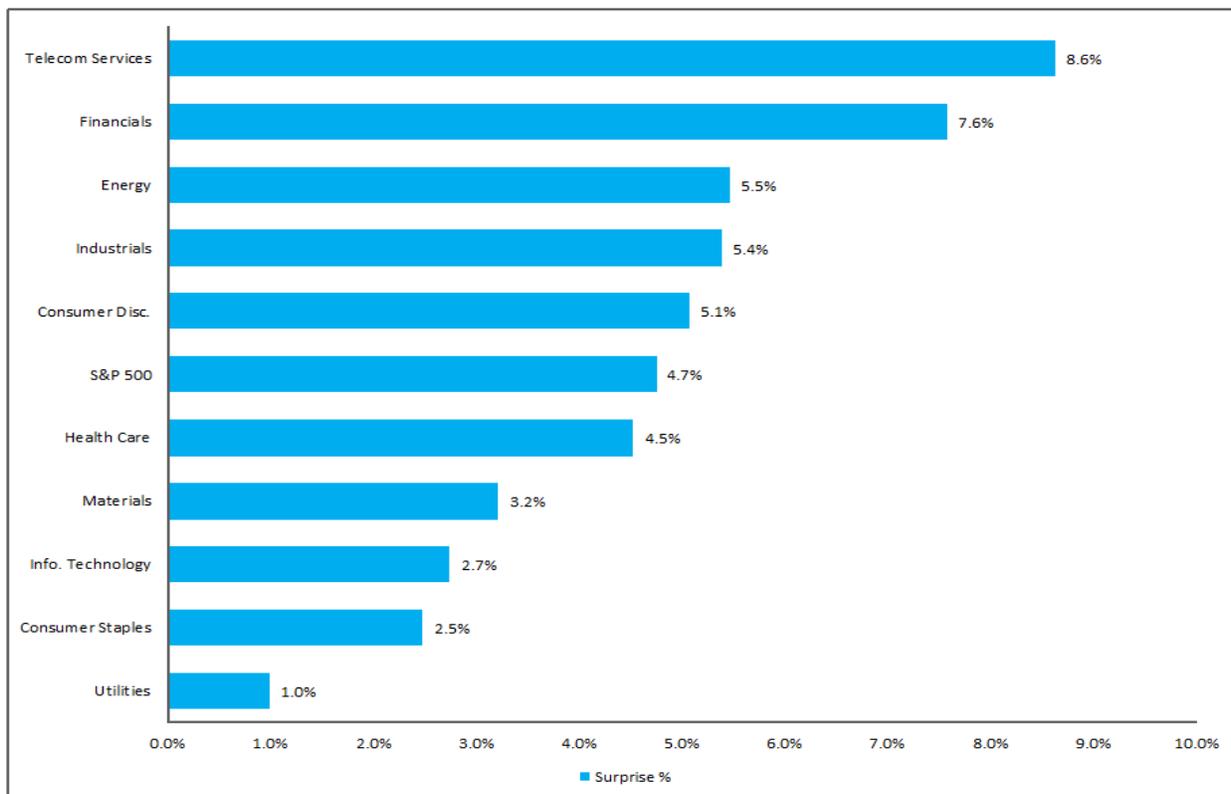


Q1 2013: Scorecard

Q1 2013: Surprise % vs. Average Price Change %

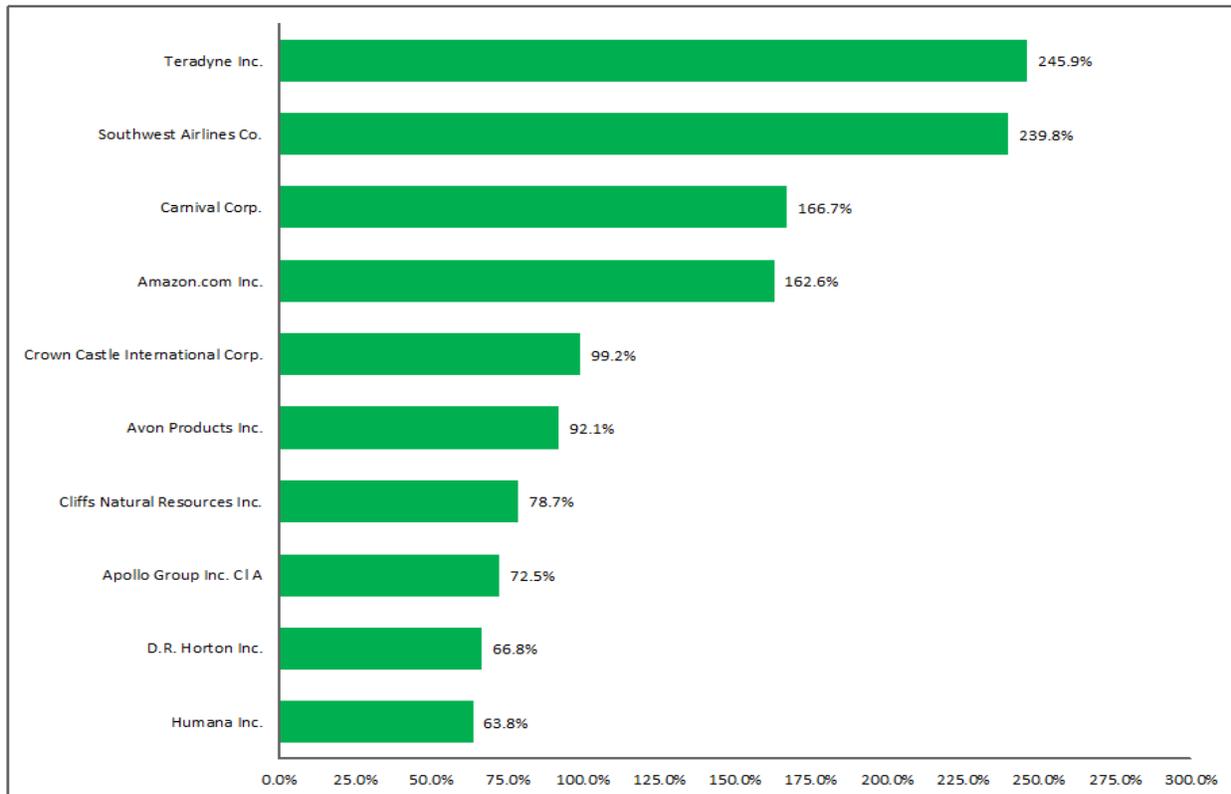


Q1 2013: Sector Level Surprise %

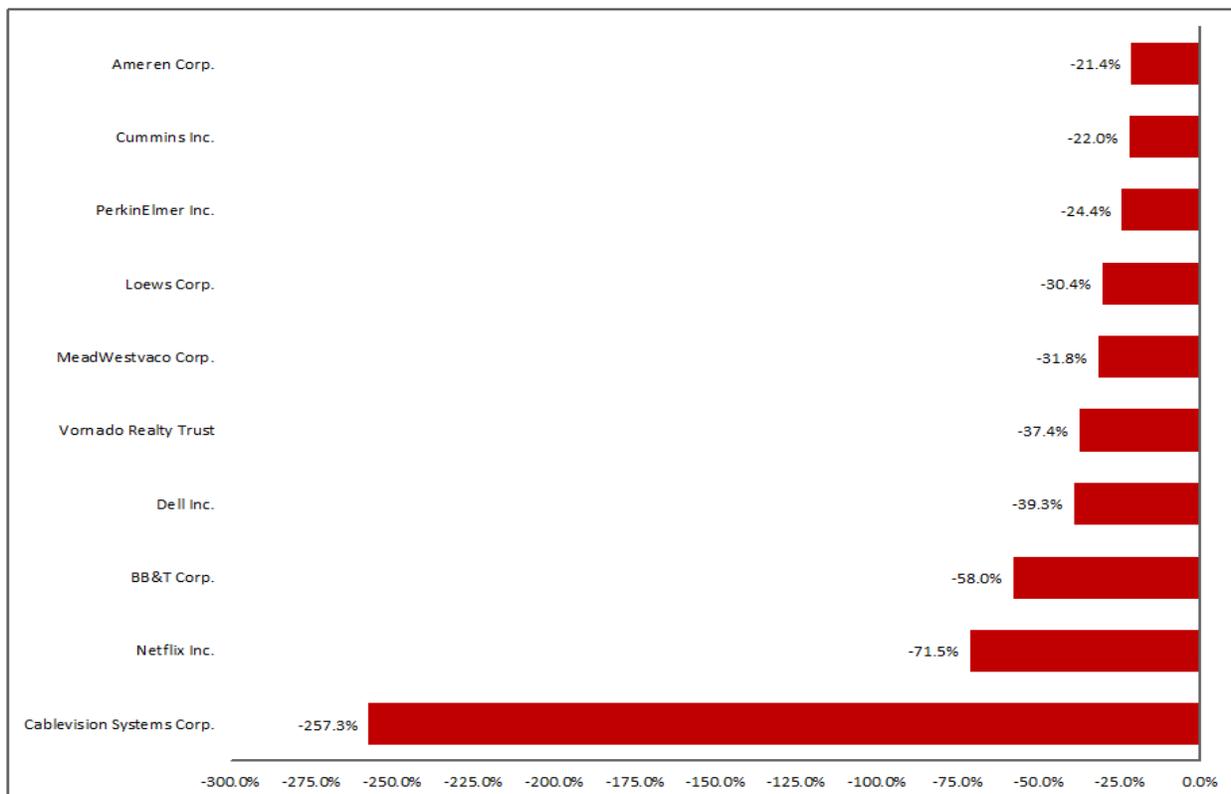


Q1 2013: Scorecard

EPS Surprise %: Top 10 Companies

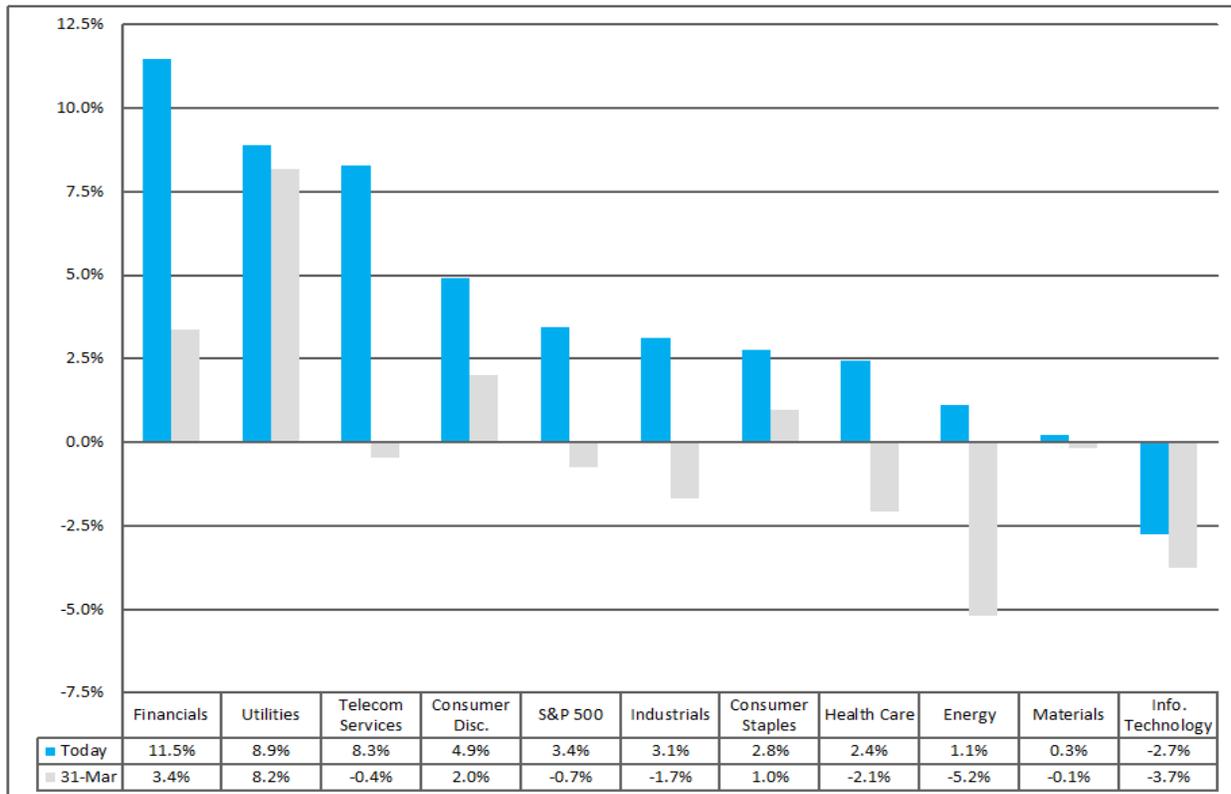


EPS Surprise %: Bottom 10 Companies

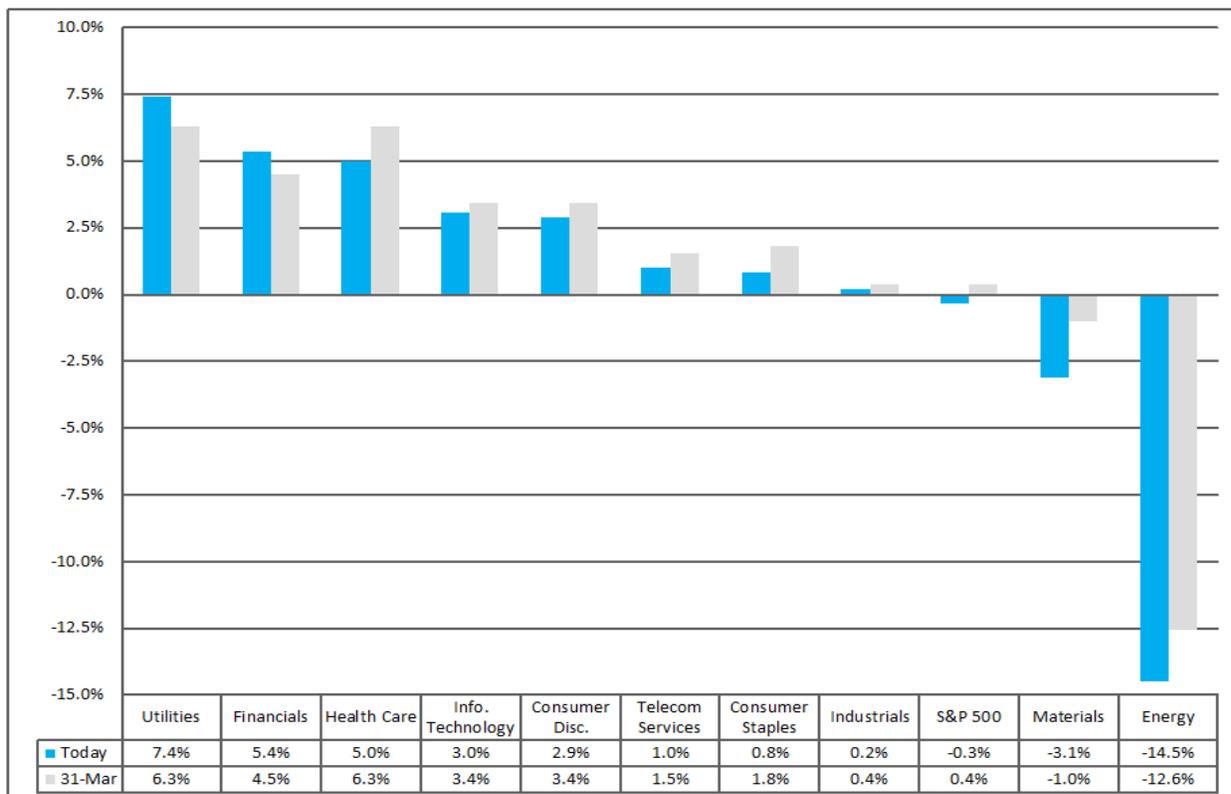


Q1 2013: Growth

Q1 2013 Earnings Growth

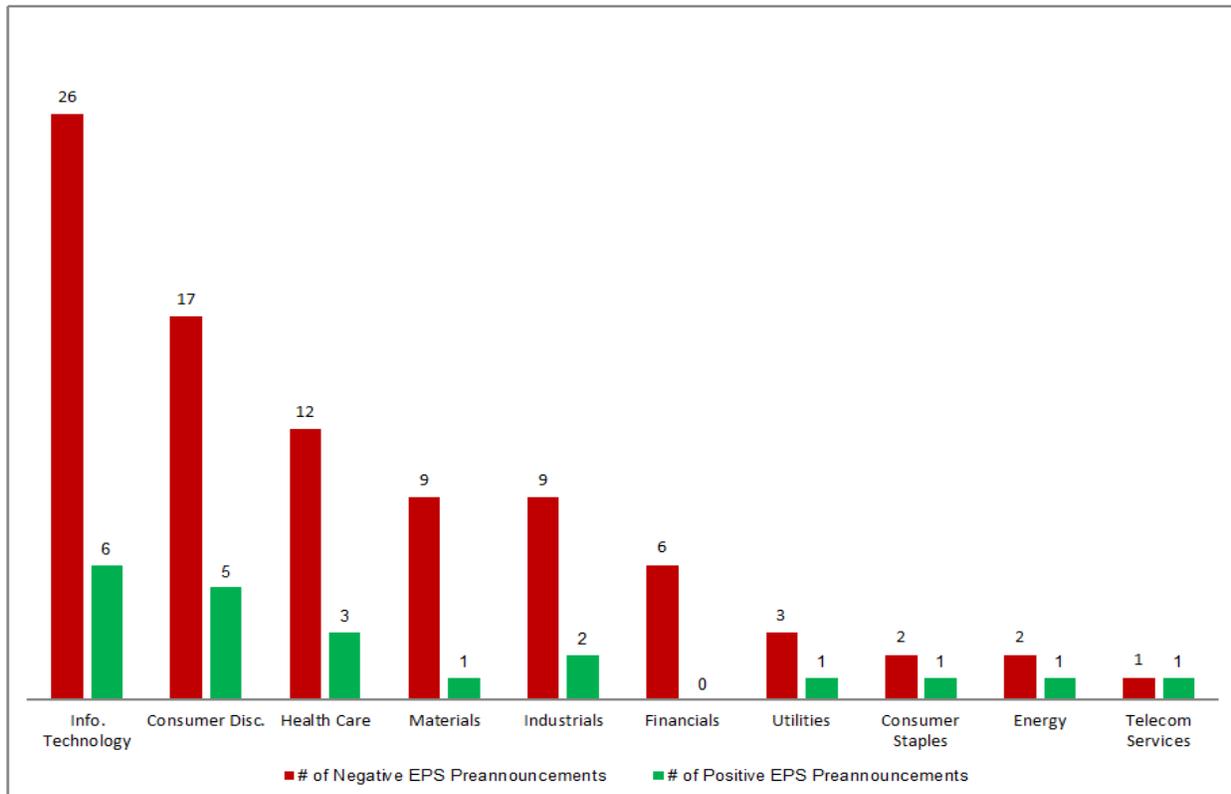


Q1 2013 Revenue Growth



Q2 2013: Guidance

Number of Positive & Negative EPS Preannouncements: Q2 2013

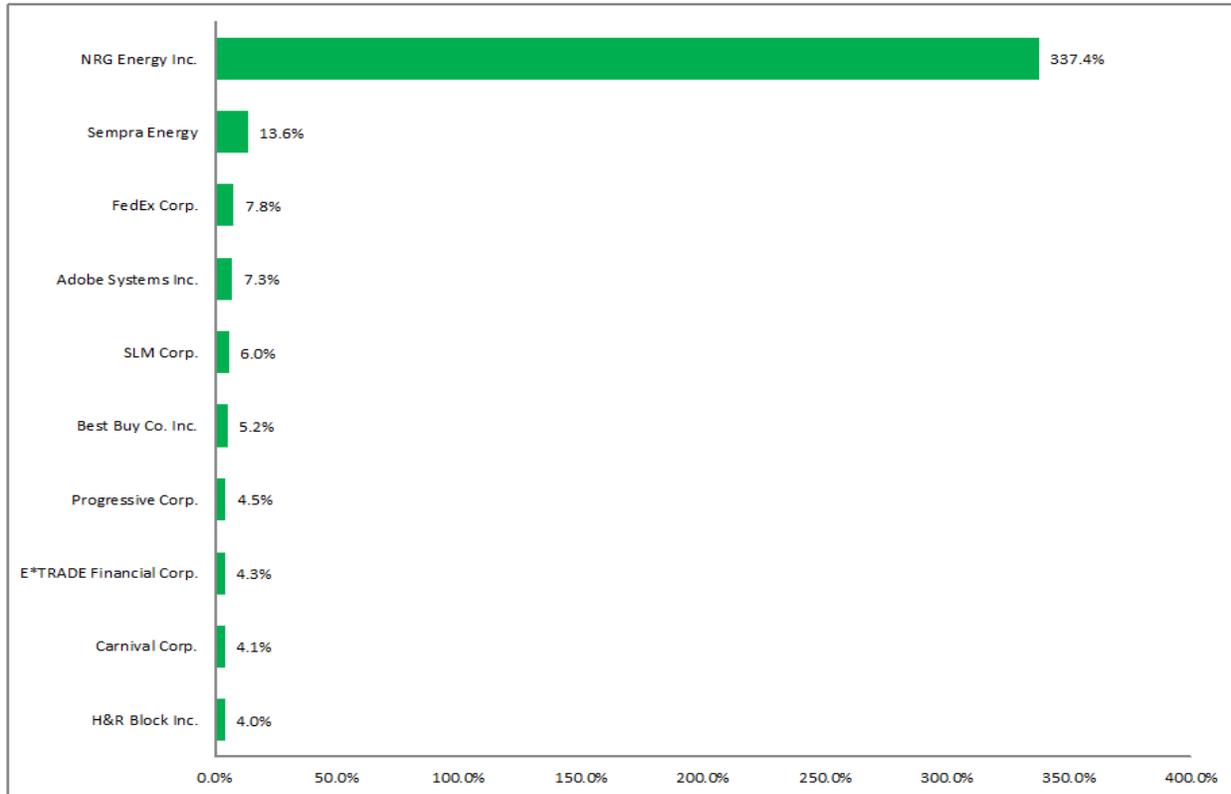


Percentage of Positive & Negative EPS Preannouncements: Q2 2013

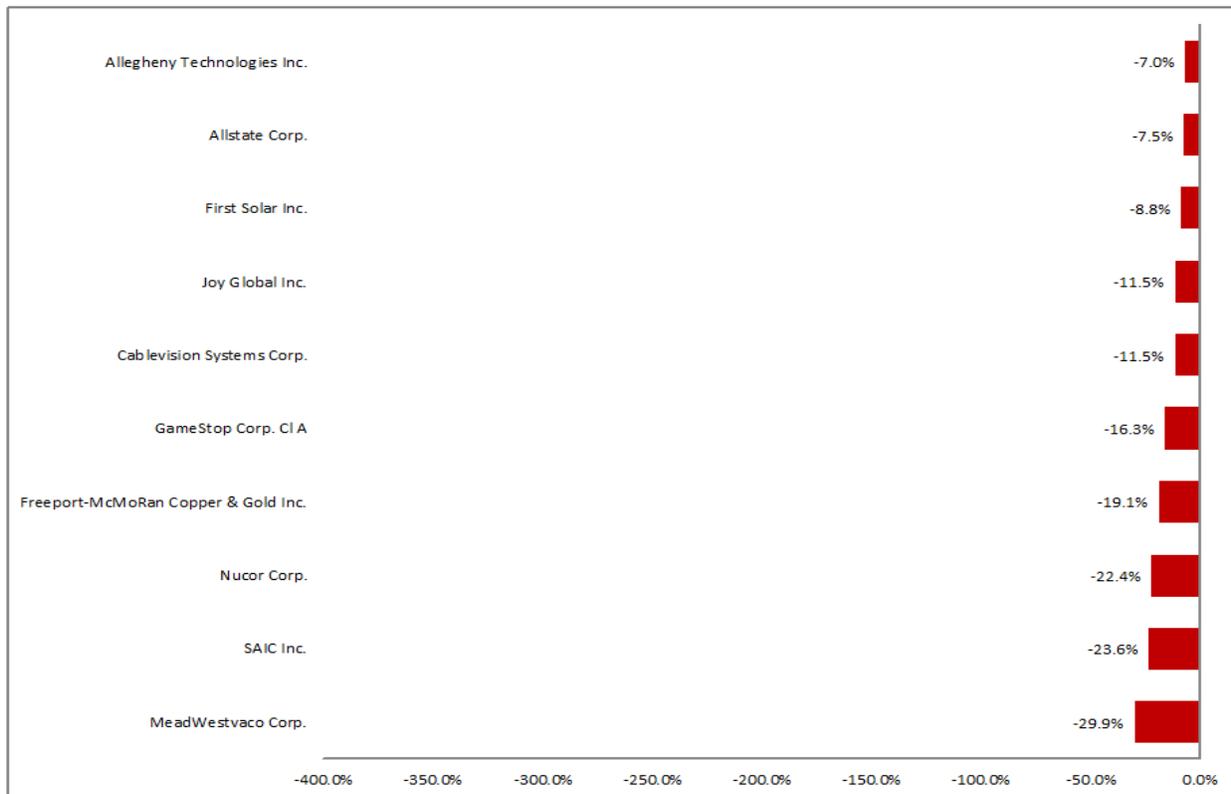


Q2 2013: EPS Revisions

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



Q2 2013: Growth

Q2 2013 Earnings Growth

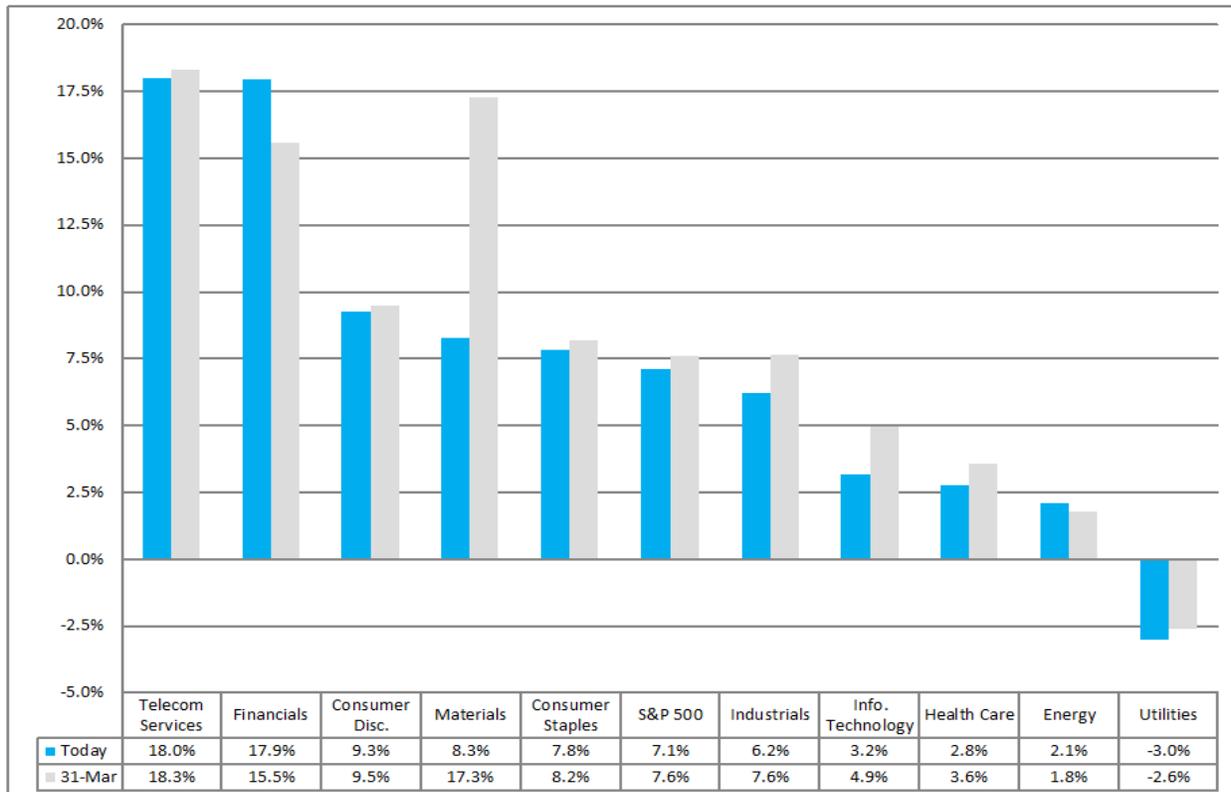


Q2 2013 Revenue Growth

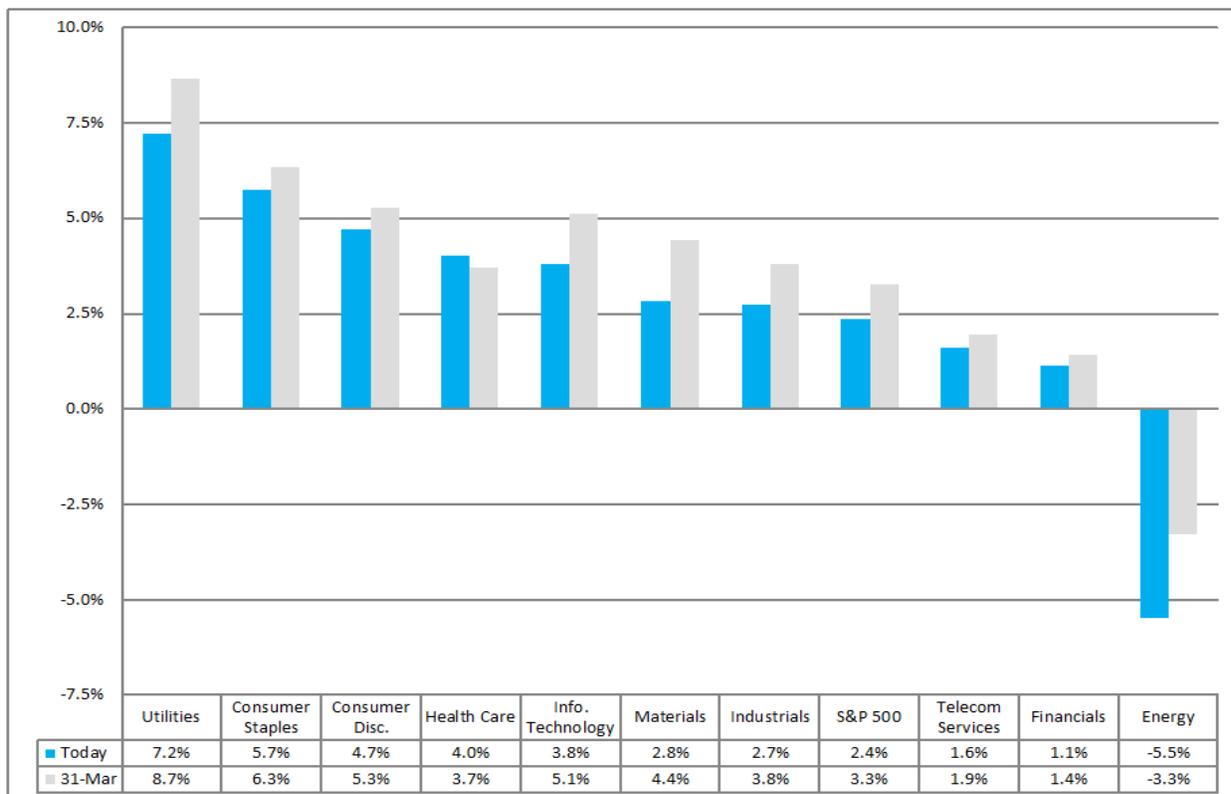


CY 2013: Growth

CY 2013 Earnings Growth

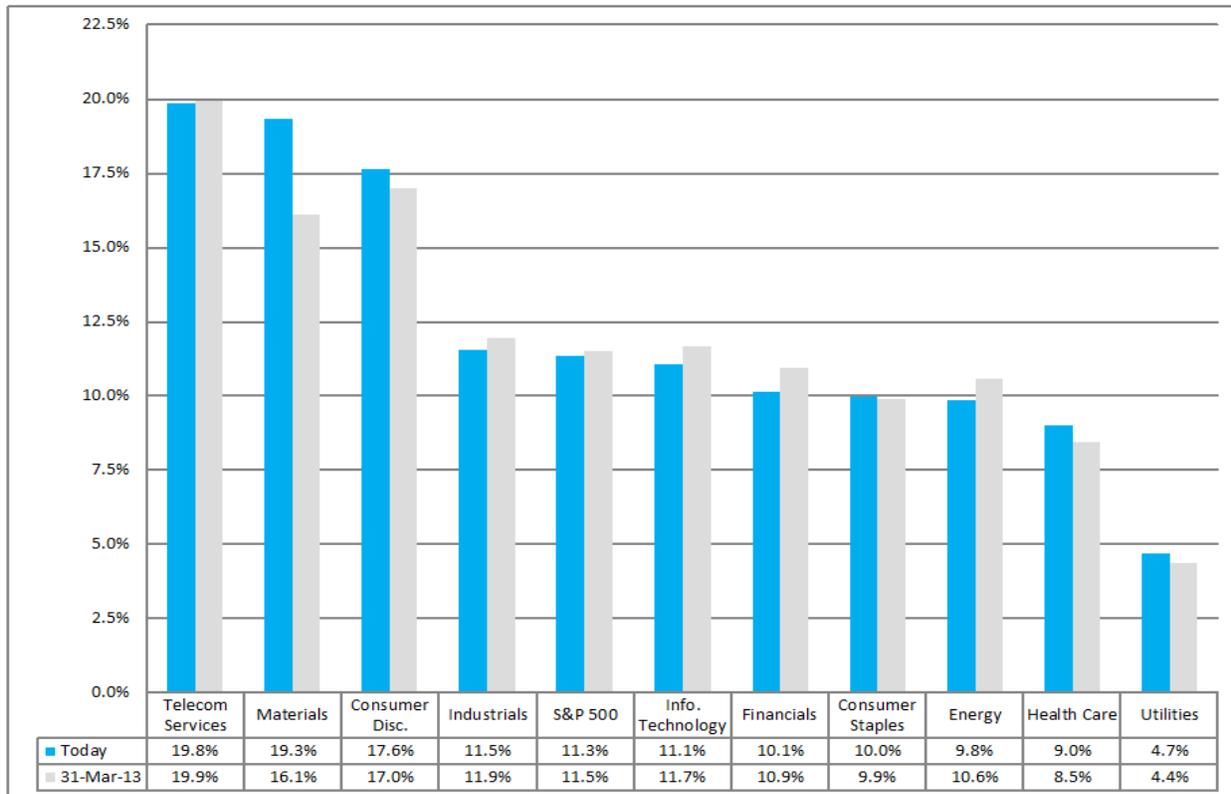


CY 2013 Revenue Growth

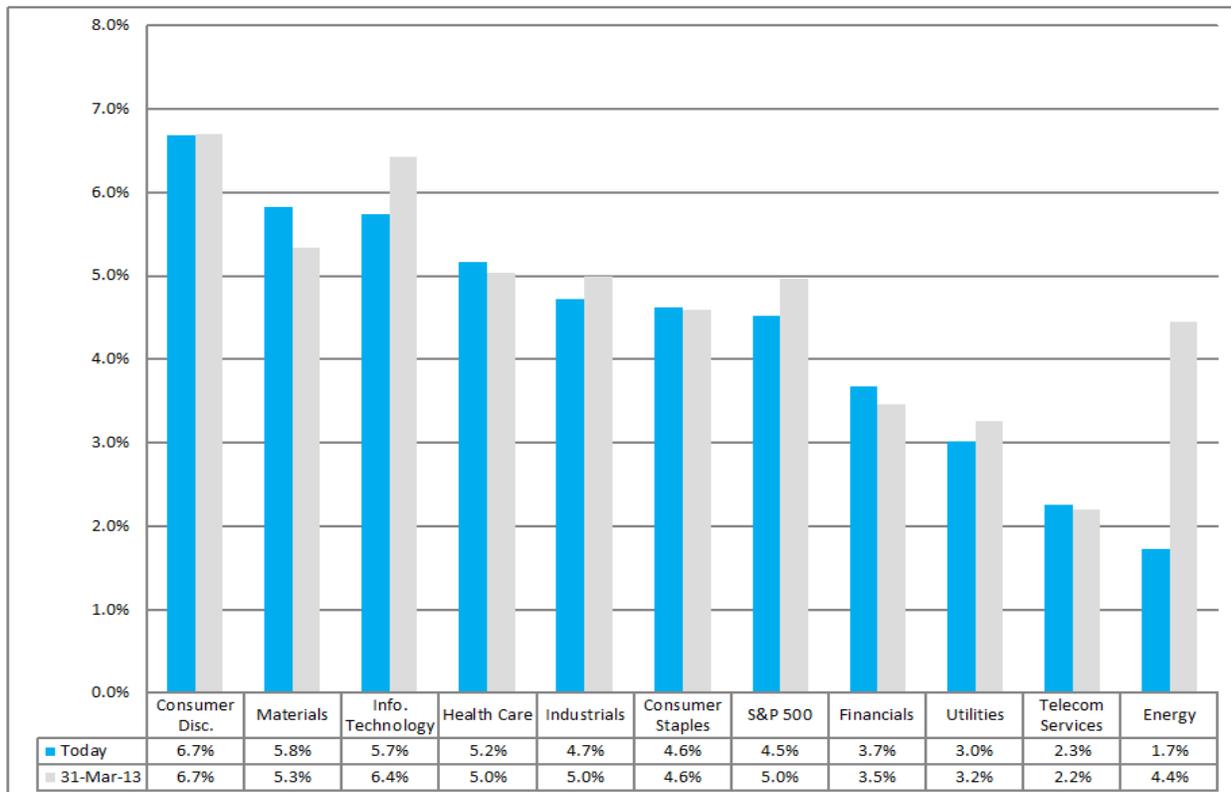


CY 2014: Growth

CY 2014 Earnings Growth

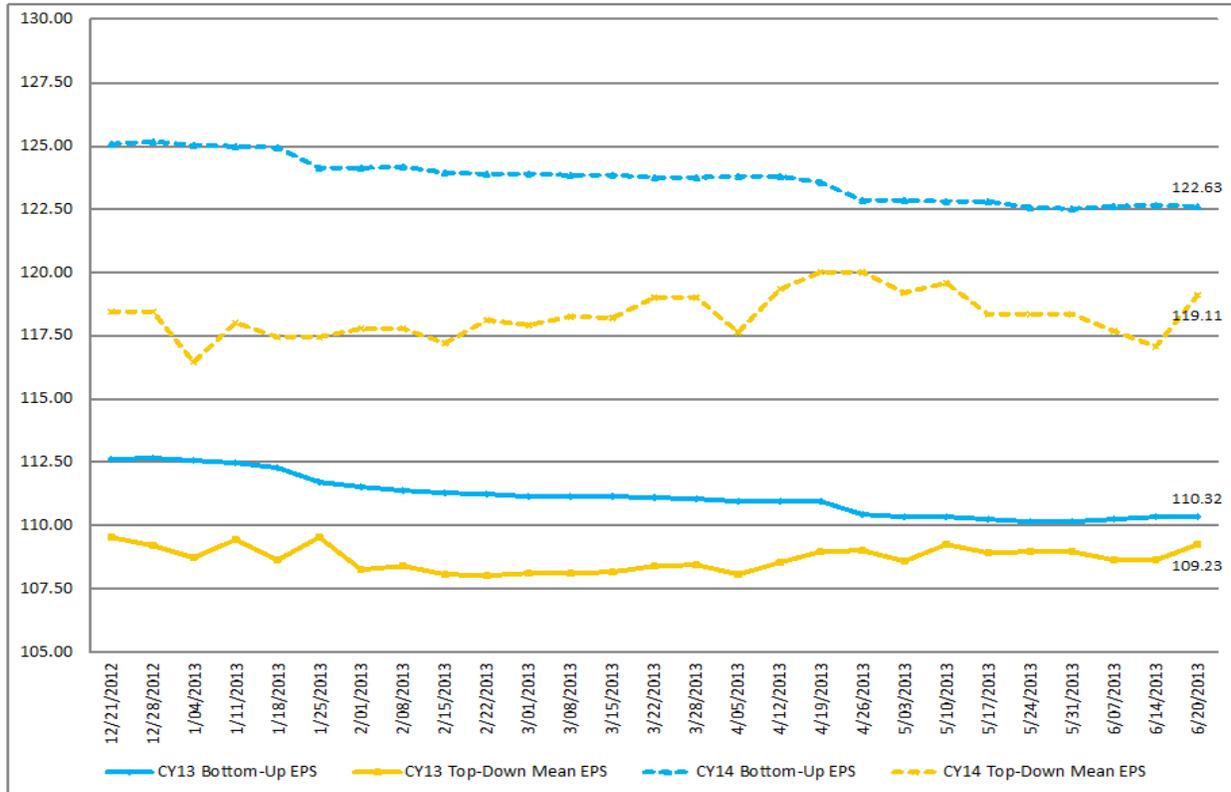


CY 2014 Revenue Growth



Bottom-up Estimates: Revisions

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

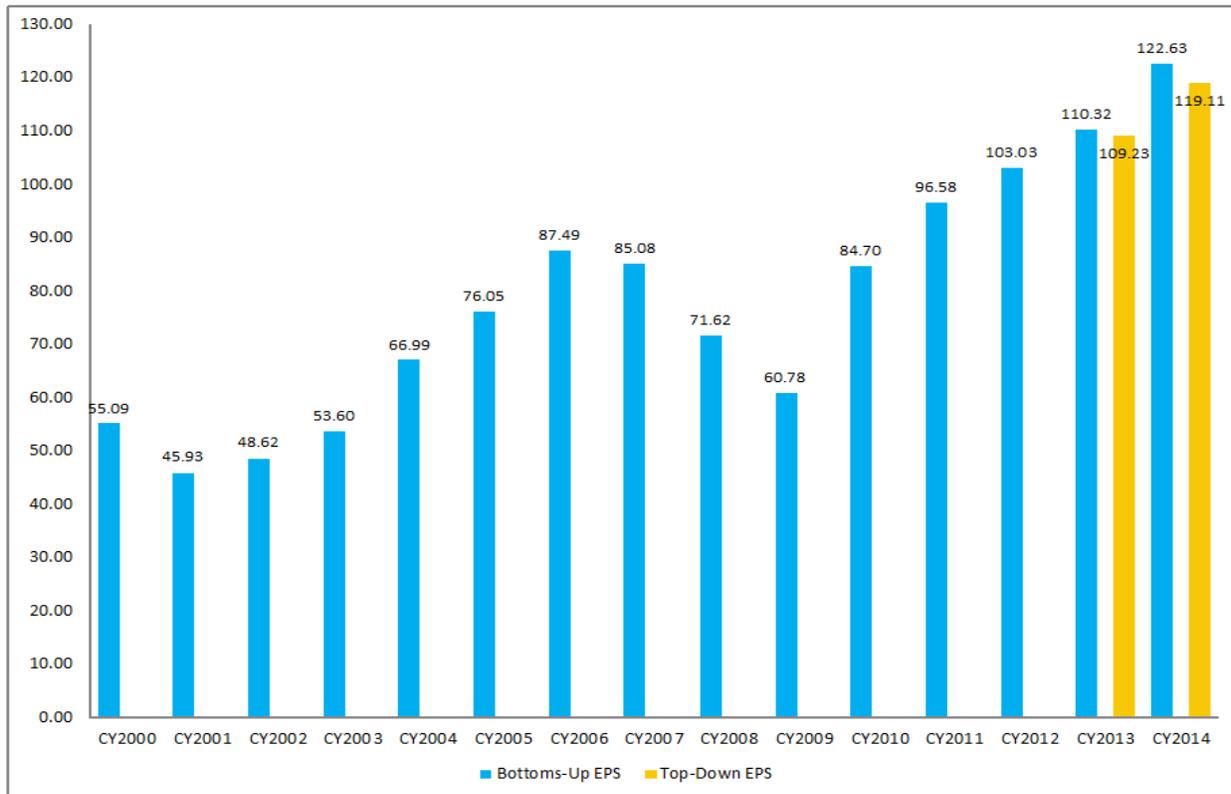


Change in Q213 Bottom-Up EPS vs. Price (Trailing 26-Weeks)

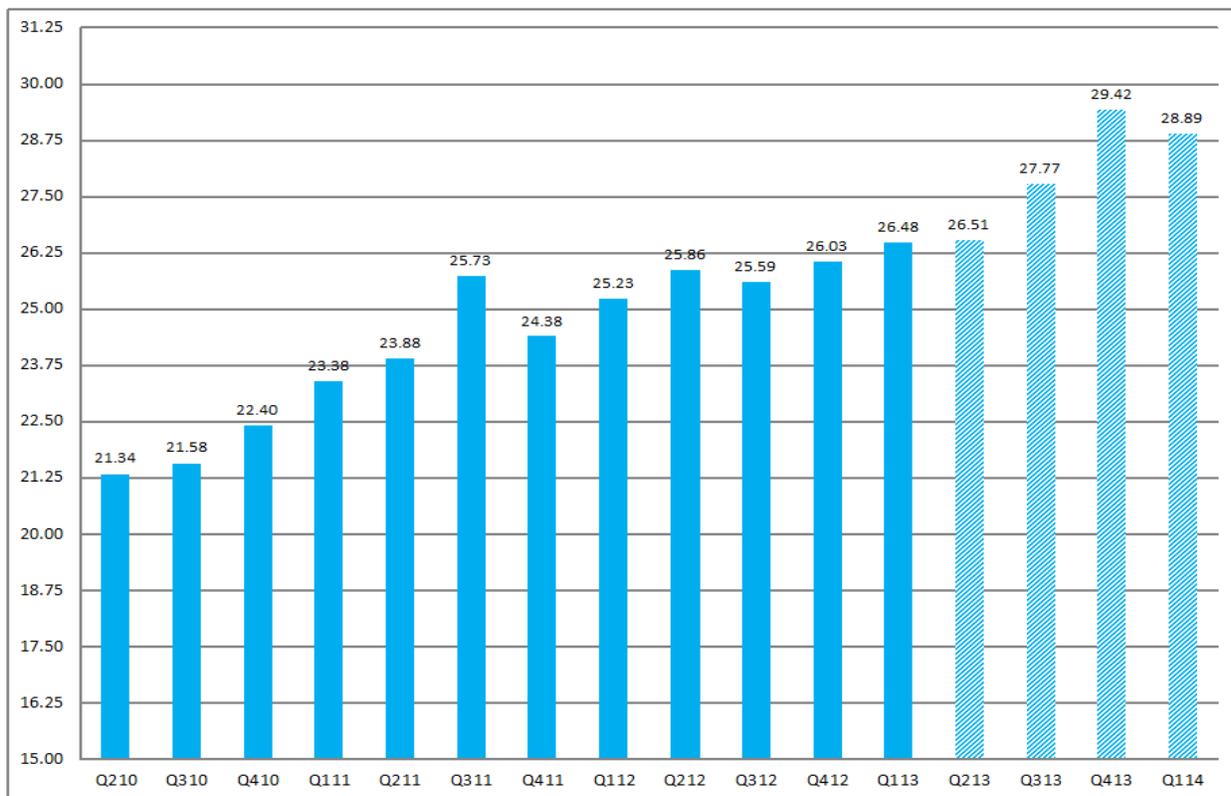


Bottom-up Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates

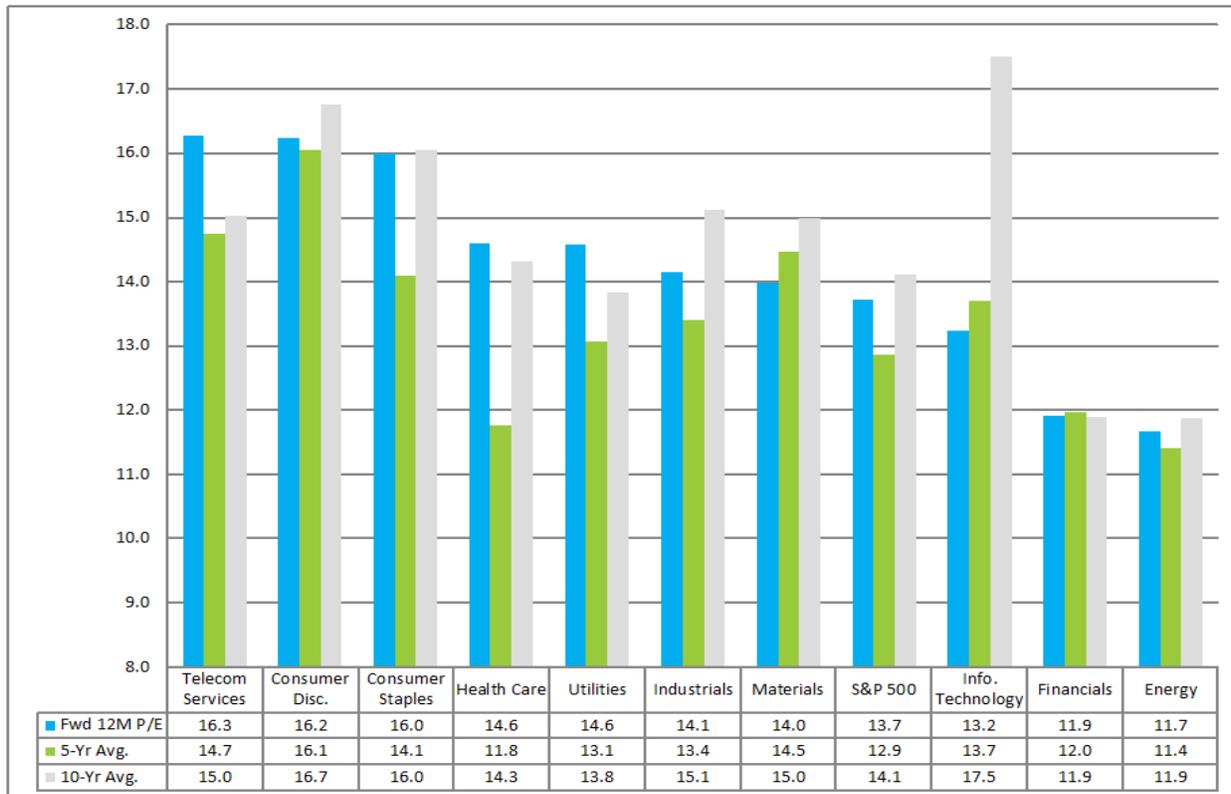


Calendar Year Bottom-Up EPS Actuals & Estimates

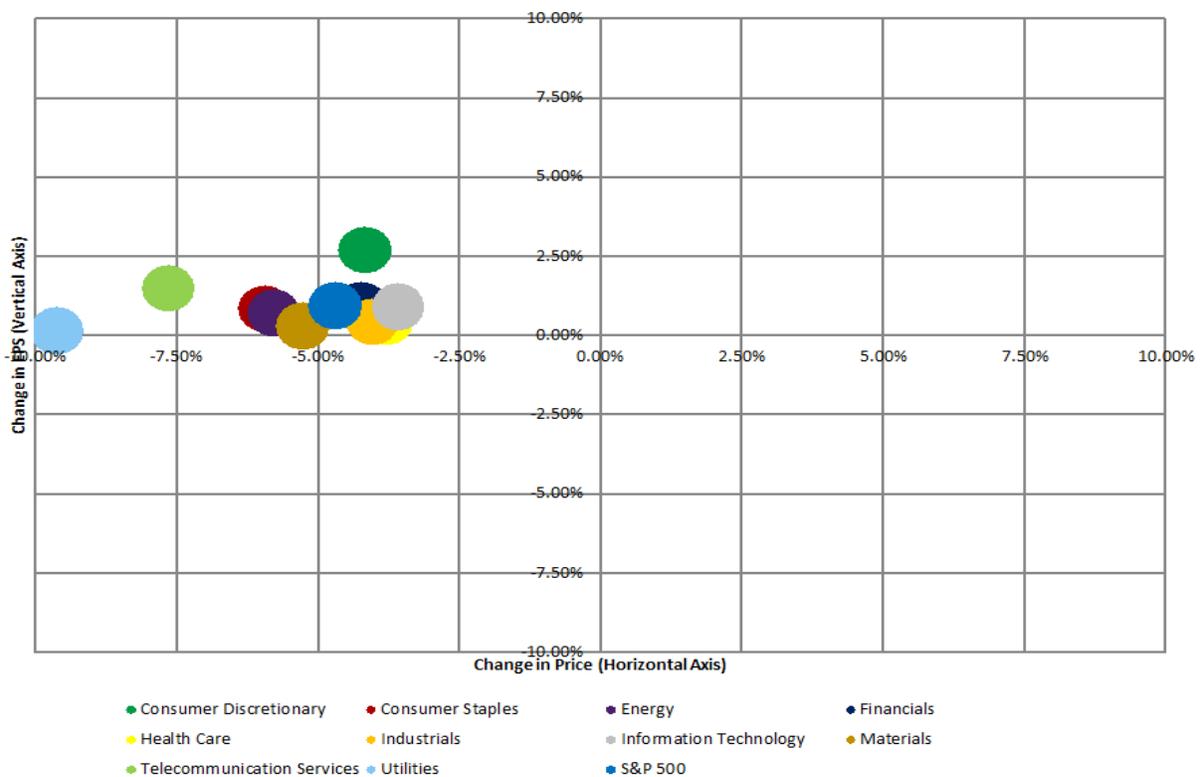


Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

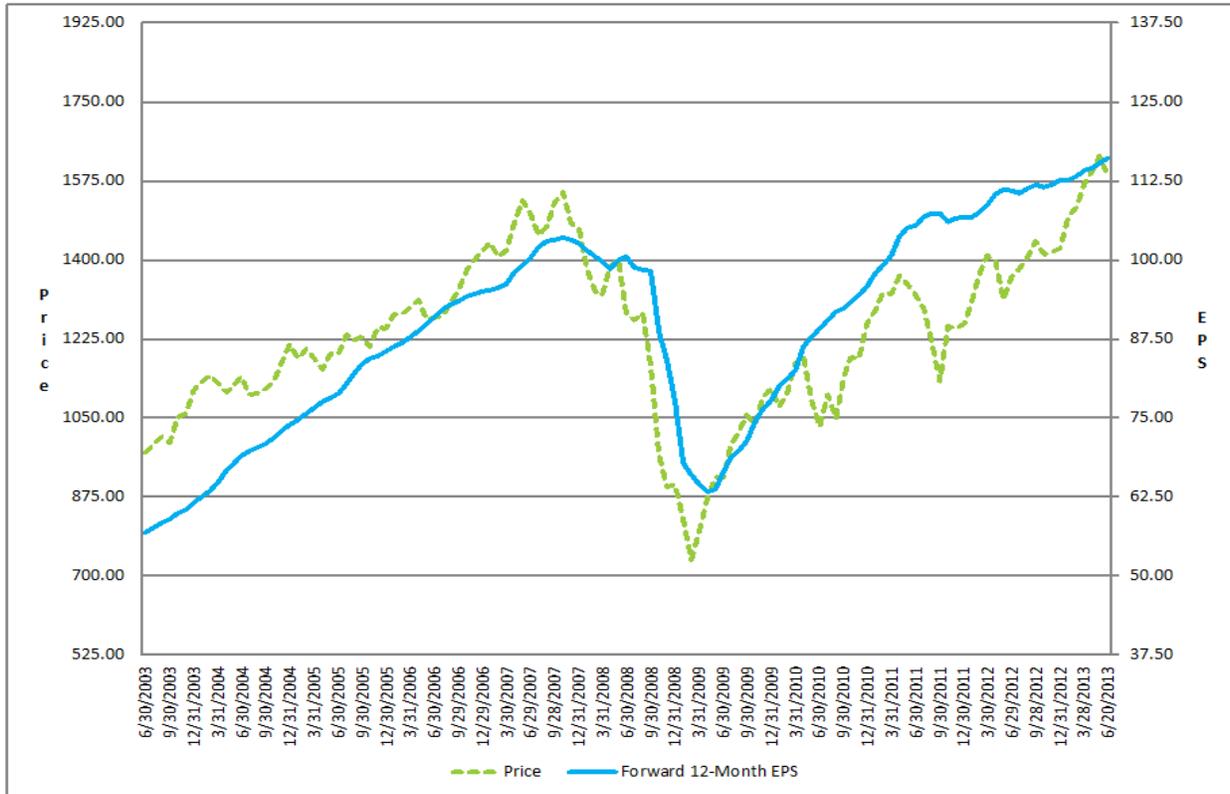


Sector-Level Change in Price vs. Change Forward 12M EPS: 1-Month

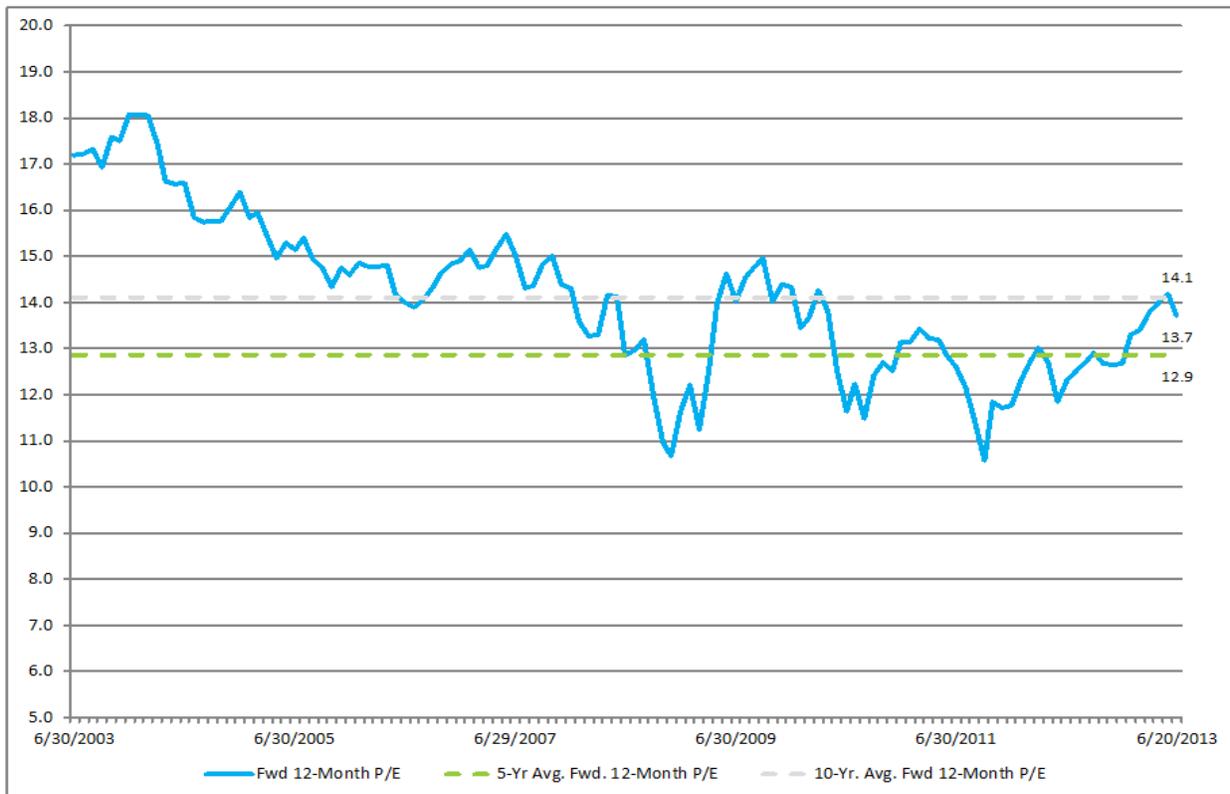


Price / Earnings Ratio: Long-Term Averages

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



Forward 12M P/E Ratio: 10-Year



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