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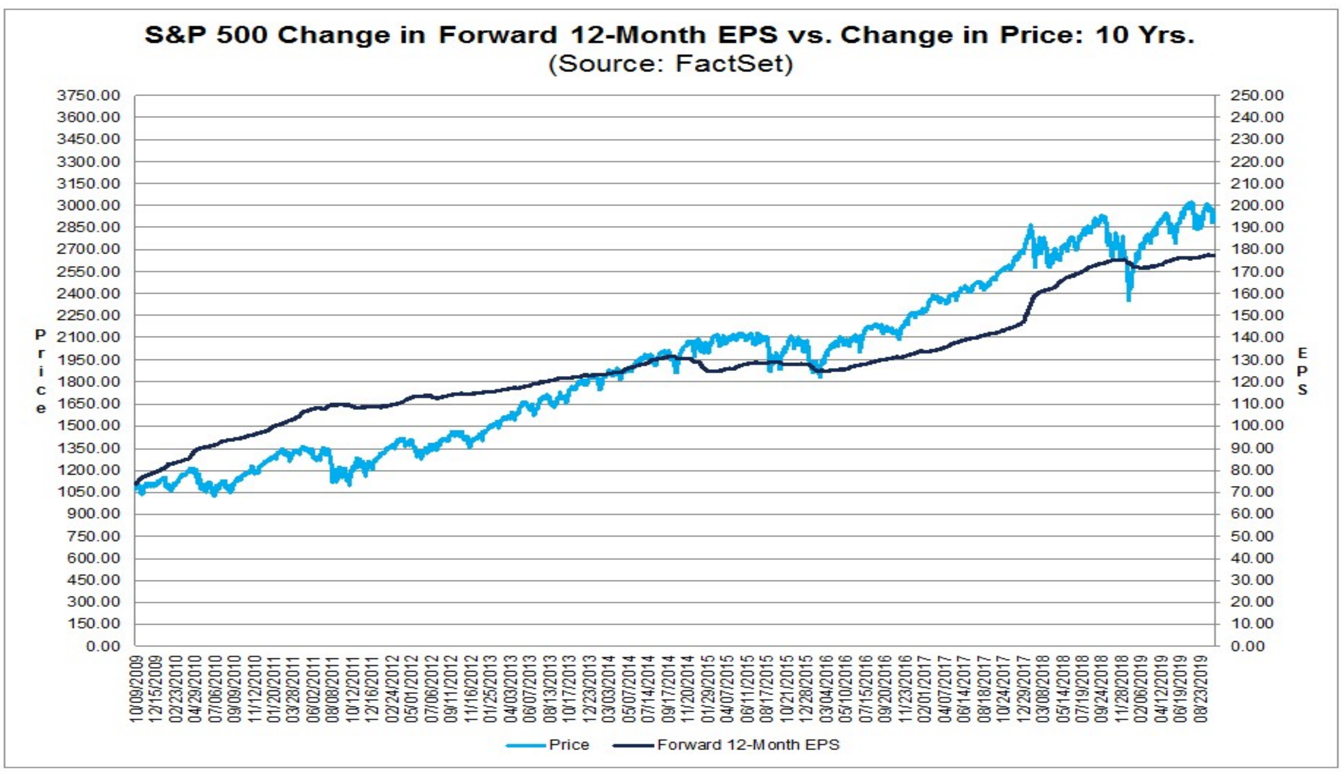
Key Metrics

- **Earnings Growth:** For Q3 2019, the estimated earnings decline for the S&P 500 is -4.6%. If -4.6% is the actual decline for the quarter, it will mark the first time the index has reported three straight quarters of year-over-year earnings declines since Q4 2015 through Q2 2016.
- **Earnings Revisions:** On June 30, the estimated earnings decline for Q3 2019 was -0.6%. All eleven sectors have lower growth rates today (compared to June 30) due to downward revisions to EPS estimates.
- **Earnings Guidance:** For Q3 2019, 83 S&P 500 companies have issued negative EPS guidance and 30 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.6. This P/E ratio is equal to the 5-year average (16.6) but above the 10-year average (14.8).
- **Earnings Scorecard:** For Q3 2019 (with 23 of the companies in the S&P 500 reporting actual results), 21 S&P 500 companies have reported a positive EPS surprise and 12 S&P 500 companies have reported a positive revenue surprise.



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Topic of the Week: 1

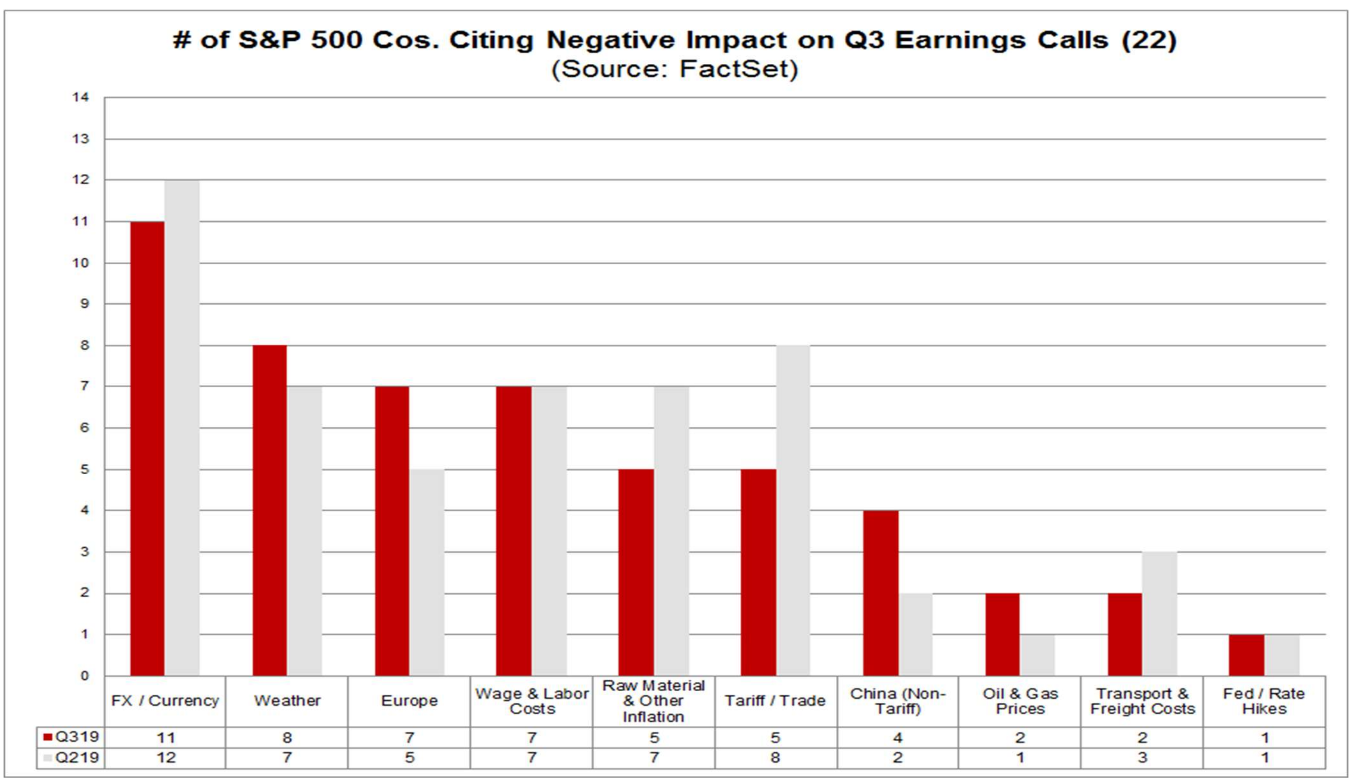
More Companies Citing Negative Impact from FX than Tariffs on Q3 Earnings Calls to Date

While most S&P 500 companies will report earnings results for Q3 2019 over the next few weeks, about 4% of the companies in the index (22 companies) had reported earnings results for the third quarter through yesterday. Given the current expectations for a year-over-year decline in earnings for Q3, have these companies discussed specific factors that had a negative impact on earnings or revenues in the third quarter (or are expected to have a negative impact in future quarters) during their earnings conference calls?

To answer this question, FactSet searched for specific terms related to several factors (i.e. “currency,” “China,” etc.) in the conference call transcripts of the 22 S&P 500 companies that had conducted third quarter earnings conference calls through yesterday (October 10) to see how many companies discussed these factors. FactSet then looked to see if the company cited a negative impact, expressed a negative sentiment (i.e. “volatility,” “uncertainty,” “pressure,” “headwind,” etc.), or discussed clear underperformance in relation to the factor for either the quarter just reported or in guidance for future quarters. FactSet also compared the number of companies citing these factors in the third quarter to the number of companies that cited these same factors in the second quarter through approximately the same point in time (through July 11). The results are shown below.

Foreign exchange has again been cited on the most earnings calls to date (11) as a factor that either had a negative impact on earnings or revenues in Q3 or is expected to have a negative impact on earnings and revenues in future quarters. Half (11 of 22) of the S&P 500 companies that have conducted earnings conference calls to date for the third quarter have cited some negative impact from foreign exchange rates. However, few of these companies discussed specific currencies that had weakened or were expected to weaken against the U.S. dollar. The number of companies citing a negative impact from FX in Q3 (11) is about equal to the number of companies that cited a negative impact from this factor in Q2 (12) at about the same point in time.

It is interesting to note that while ten companies discussed tariffs or trade (in relation to international trade), only five companies cited a negative impact. A list of the companies that discussed a negative impact from FX and from tariffs or trade can be found on the next page.



Foreign Exchange / FX (11)

"My guidance today is on a non-GAAP basis and in constant currency. Assuming current exchange rates remain the same as they are now, currency should have a 1% negative effect on total revenue and $0.01 negative on EPS." -Oracle (Sep. 11)

"From a year-over-year currency perspective, FX decreased revenue by $38.3 million. The $10.8 million in hedge gains in Q3 FY 2019 versus $16.8 million in hedge gains in Q3 FY 2018 resulted in a net year-over-year currency decrease to revenue considering hedging gains of $44.3 million." -Adobe (Sep. 17)

"Turning to the components of net sales growth on slide 7. Organic net sales were down 1% from a year ago driven by lower volume, partially offset by a positive price/mix across all five segments. Foreign exchange was a 1 point drag in the quarter." -General Mills (Sep. 18)

"We're updating our prior guidance to provide for revenue of $4.4 billion to $4.42 billion, which includes full year organic revenue growth of 5% to 6%. Absolute revenue is lower than prior guidance range due primarily to higher drag from FX as we expect full year negative FX impact of $35 million and also due to the anticipated lower revenue from the TMT Ag asset swap." -IHS Markit (Sep. 24)

"We expect reported revenue growth in Q2 to be in line with our Q1 reported revenue growth. That assumes our strong currency-neutral revenue growth will be dampened by roughly 3 points of FX headwinds." -NIKE (Sep. 24)

"We delivered very strong EPS of $1.74, which represents 10% growth even with an FX headwind of about 2%." -Accenture (Sep. 26)

"So now let me provide you an update on our full year 2019 September guidance. Our adjusted EPS for 2019 is $4.23 to $4.27 versus $4.26 for 2018. The midpoint of our September guidance is $0.05 lower than the midpoint of our June guidance. There are a number of puts and takes driving the changes in our guidance…Third, the combined impact of fuel price and currency cost $0.08. Fuel price is $0.07 and currency is $0.01." -Carnival (Sep. 26)

"The International segment was the only segment to see a decline in adjusted operating profit in the quarter, and that was driven by the impacts of divestitures, unfavorable FX, and the volume impact from the discrete items in the quarter." -Conagra Brands (Sep. 26)

"At the bottom line, our third quarter adjusted earnings per share of $1.46 was 14% higher than the $1.28 in the third quarter of 2018, driven primarily by our adjusted operating income growth and the lower adjusted tax rate. And this 14% adjusted earnings per share growth includes an unfavorable impact from currency." -McCormick & Company

"In terms of the Q4 comp sales metrics, fourth quarter traffic or shopping frequency increased 3.7% worldwide and 3.6% in the U.S. Weakening foreign currencies relative to the U.S. dollar negatively impacted sales by about 60 basis points, gas price deflation was a negative 50 basis points and rev rec benefited comp sales in the quarter by a plus 110 basis points." -Costco (Oct. 3)

"Internationally, revenues grew by 1.1% as 3.1% capacity growth offset a 1.9% decline in PRASM, including more than one point of currency headwind." -Delta Air Lines (Oct. 10)

Tariff / Trade (5)

"Looking ahead to the rest of fiscal 2020, we are now forecasting adjusted earnings per share of $11 to $13 per share. The new forecast reflects our lowered revenue outlook driven by increasing trade tensions and the corresponding weakening in global economic conditions, especially industrial production that has occurred since our June earnings release. With the increasing uncertainty of trade negotiations and government policies, forecasting customer demand and our corresponding earnings is exceedingly difficult." -FedEx (Sep. 23)

"We now expect to deliver full year gross margin expansion within the 50 to 75 basis point range. That assumes that the negative impact of recently implemented tariffs remains in effect for the balance of our fiscal year." -NIKE (Sep. 24)

“Before talking about the market outlook, I want to provide an update on our business with Huawei and the ongoing impact of trade uncertainties. As we noted last quarter, we started shipping some products to Huawei that are not subject to export administration regulations and Entity List restrictions. In the fiscal fourth quarter, sales to Huawei declined sequentially and were down meaningfully from the levels we anticipated prior to the addition of Huawei to the Entity List. We have applied for licenses with the Department of Commerce that would allow us to ship additional products, but there have been no decisions on licenses to-date. We see ongoing uncertainty surrounding US-China trade negotiations. If the Entity List restrictions against Huawei continue and we are unable to get licenses, we could see a worsening decline in our sales to Huawei over the coming quarters.” -Micron Technology (Sep. 26)

“Sure. I mean generally speaking, the bigger the ticket item where you also have a good portion of the tariff impacts the price, it raises the price. I mean this is an anecdotal example but there was one category of those types of items that typically is up mid-single digits year-over-year and instead was flat to down a couple percent. And that included some price increases. So probably it was down 10% in units. And that's a subset of a subset of a category…So it really has been over the board. But generally speaking, the bigger the item – when you take an item that retails for $999 and have to get it up, forget even about $1,249, using a 25% example, or it'd be 25% of the cost, but nonetheless, first thing you try to do is get it to $1,199 and then go from there, or $1,099. But it's really over the board. Net-net-net though, it's a slight negative impact.” -Costco (Oct. 3)

“Pacific is the only entity where revenue was down over prior year. This was due to a decline in corporate travel driven by tariff impacts on the automotive and manufacturing sectors and lower leisure demand to and from China.” -Delta Air Lines (Oct. 10)

Topic of the Week: 2

Industry Analysts Predict a 13% Price Increase for the S&P 500

The value of the S&P 500 has increased by 17.2% since the start of the year. Where do industry analysts believe the price of the index will go from here?

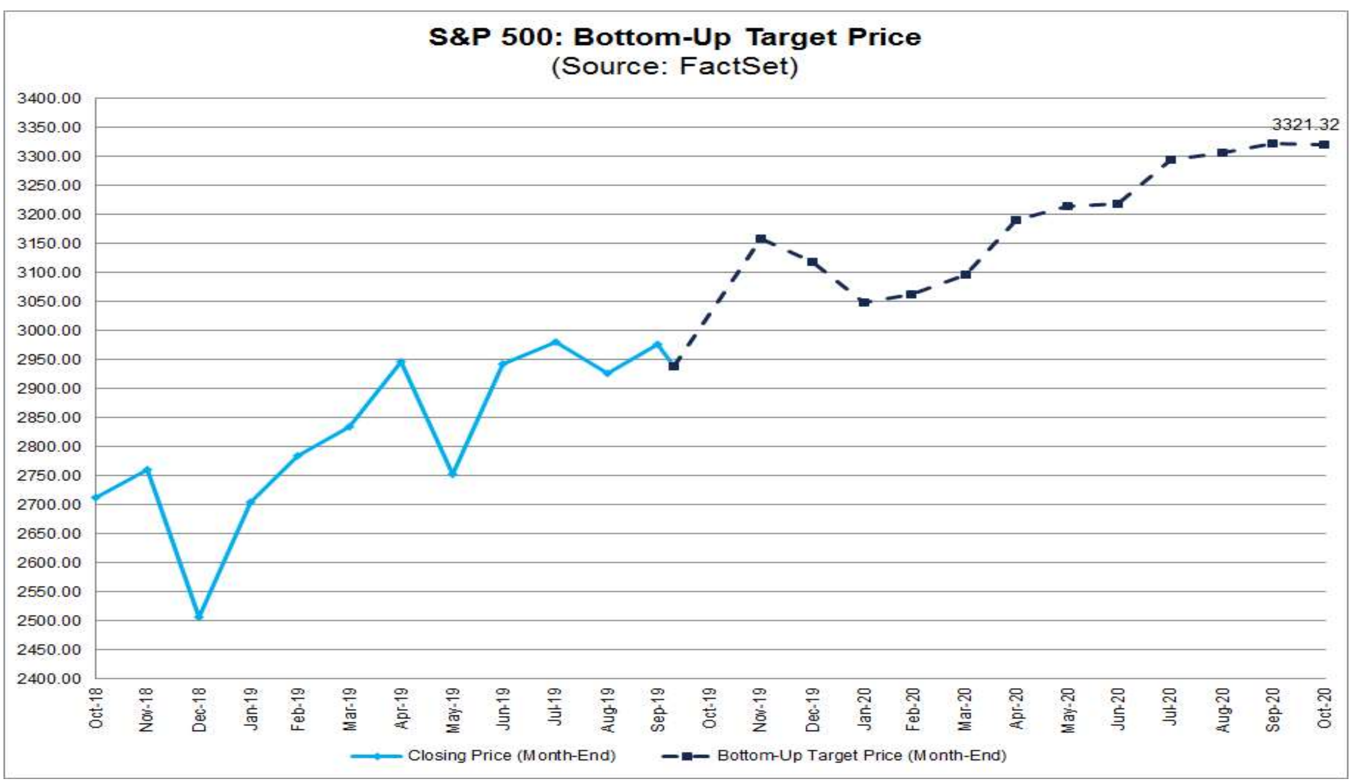
Industry analysts in aggregate predict the S&P 500 will see an 13.0% increase in price over the next twelve months. This percentage is based on the difference between the bottom-up target price and the closing price for the index as of yesterday (October 10). The bottom-up target price is calculated by aggregating the median target price estimates (based on company-level estimates submitted by industry analysts) for all the companies in the index. On October 10, the bottom-up target price for the S&P 500 was 3321.32, which was 13.0% above the closing price of 2938.13.

At the sector level, the Energy (+23.4%) sector is expected to see the largest price increase, as this sector had the largest upside difference between the bottom-up target price and the closing price on October 10. On the other hand, the Utilities (+2.0%) and Real Estate (+2.3%) sectors are expected to see the smallest price increases, as these sectors had the smallest upside differences between the bottom-up target price and the closing price on October 10.

At the company level, the ten stocks in the S&P 500 with the largest upside and downside differences between their median target price and closing price (on October 10) can be found on the next page. Six of the ten companies expected to see the largest prices increases are in the Energy sector.

How accurate have the industry analysts been in predicting the future value of the S&P 500?

Industry analysts have typically overestimated the future closing price of the S&P 500. Over the past 5 years, the average difference between the bottom-up target price estimate at the end of the month and the closing price 12 months later has been 2.8%. Over the past 10 years, the average difference between the bottom-up target price estimate at the end of the month and the closing price 12 months later has been 2.2%. Over the past 15 years, the average difference between the bottom-up target price estimate at the end of the month and the closing price 12 months later has been 9.9%. In other words, industry analysts have overestimated the price of the index by 2.8% on average over the past 5 years (using month-end values), by 2.2% on average over the past 10 years, and by 9.9% on average over the past 15 years.

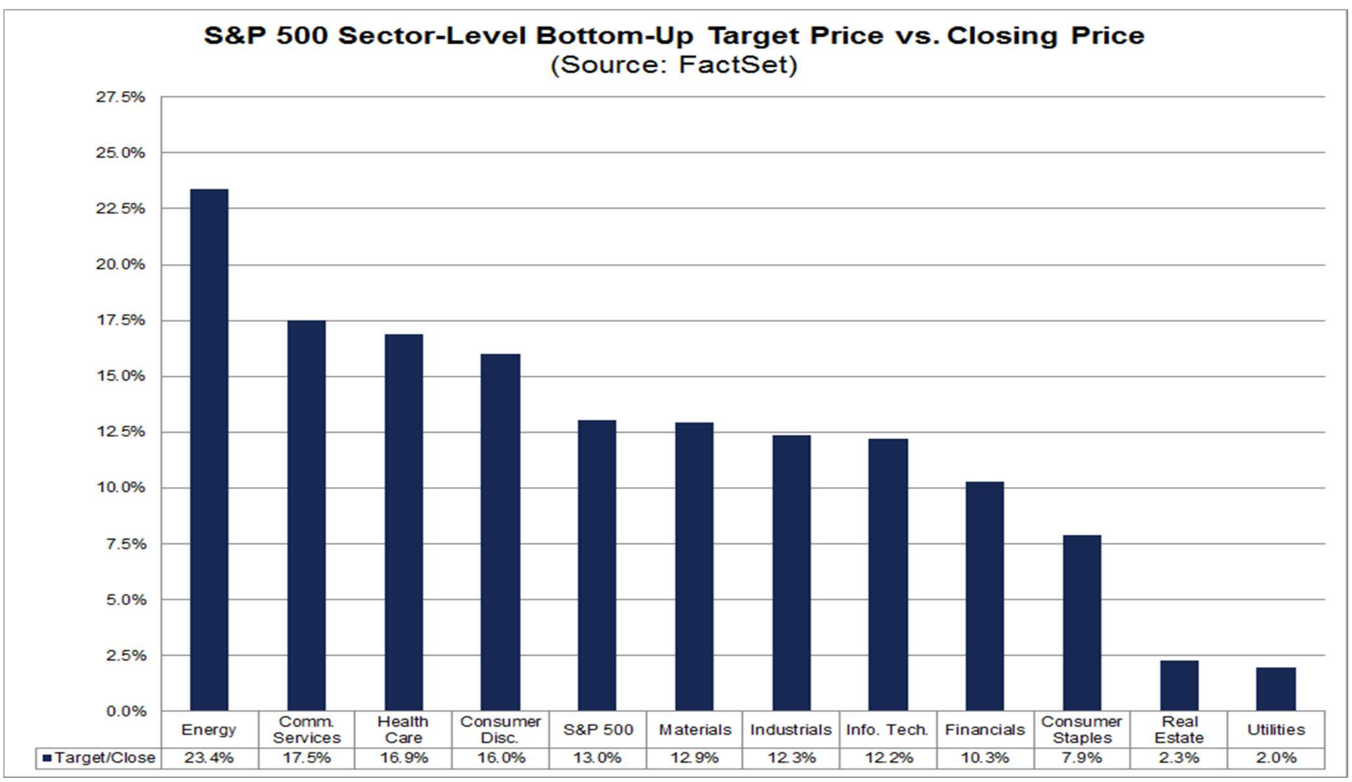


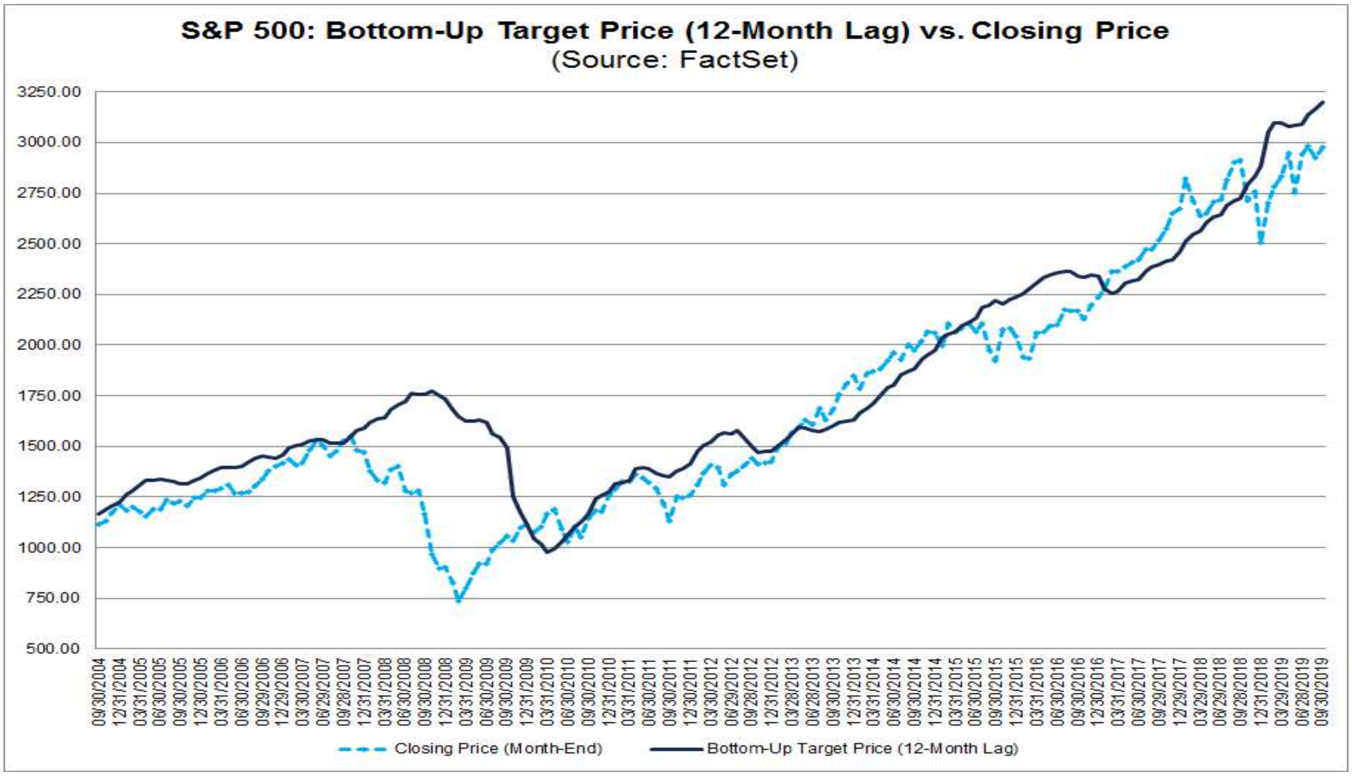
S&P 500: Difference Between Median Target Price & Closing Price: Top 10 (Source: FactSet)

Company	Target	Closing	Diff ($)	**Diff (%)**
DXC Technology Co.	48.00	26.59	21.41	**80.5%**
Diamondback Energy, Inc.	140.50	82.54	57.96	**70.2%**
Concho Resources Inc.	108.00	64.19	43.81	**68.3%**
Alexion Pharmaceuticals, Inc.	161.00	98.35	62.65	**63.7%**
Centene Corporation	69.00	44.09	24.91	**56.5%**
CBS Corporation Class B	58.00	37.66	20.34	**54.0%**
EOG Resources, Inc.	105.00	68.91	36.09	**52.4%**
Halliburton Company	28.00	18.43	9.57	**51.9%**
Marathon Oil Corporation	17.00	11.40	5.60	**49.1%**
Devon Energy Corporation	31.00	20.83	10.17	**48.8%**

S&P 500: Difference Between Median Target Price & Closing Price: Bottom 10 (Source: FactSet)

Company	Target	Closing	Diff ($)	**Diff (%)**
Garmin Ltd.	76.00	85.61	-9.61	**-11.2%**
Western Union Company	21.00	23.56	-2.56	**-10.9%**
Kimco Realty Corporation	18.75	20.54	-1.79	**-8.7%**
PulteGroup, Inc.	34.00	36.95	-2.95	**-8.0%**
Cincinnati Financial Corporation	107.00	116.23	-9.23	**-7.9%**
Hormel Foods Corporation	38.50	41.67	-3.17	**-7.6%**
Hershey Company	145.00	156.30	-11.30	**-7.2%**
Brown-Forman Corp. Class B	58.50	62.61	-4.11	**-6.6%**
McCormick & Company, Inc.	155.00	165.69	-10.69	**-6.5%**
MarketAxess Holdings Inc.	338.00	359.09	-21.09	**-5.9%**




S&P 500: Bottom-Up Target Price (12-Month Lag) vs. Closing Price
(Source: FactSet)
3250.00
3000.00
2750.00
2500.00
2250.00
2000.00
1750.00
1500.00
1250.00
1000.00
750.00
500.00
Closing Price (Month-End)
Bottom-Up Target Price (12-Month Lag)

Q3 Earnings Season: By The Numbers

Overview

In terms of estimate revisions for companies in the S&P 500, analysts made cuts to EPS estimates within average levels for Q3 2019 during the quarter. On a per-share basis, estimated earnings for the third quarter fell by 3.6% from June 30 through September 30. This percentage decline was larger than the 5-year average (-3.3%) and the 10-year average (-3.1%) for a quarter, but smaller than the 15-year average (-4.3%) for a quarter.

However, a larger percentage of S&P 500 companies have lowered the bar for earnings for Q3 2019 relative to recent quarters. Of the 113 companies that have issued EPS guidance for the third quarter, 83 have issued negative EPS guidance and 30 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 73% (83 out of 113), which is above the 5-year average of 70%.

Because of the net downward revisions to earnings estimates, the estimated (year-over-year) earnings decline for Q3 2019 is -4.6% today compared to the estimated (year-over-year) earnings decline of -0.6% on June 30. If -4.6% is the actual decline for the quarter, it will mark the first time the index has reported three straight quarters of year-over-year declines in earnings since Q4 2015 through Q2 2016. It will also mark the largest year-over-year decline in earnings reported by the index since Q1 2016 (-6.9%). Four sectors are predicted to report year-over-year earnings growth, led by the Utilities and Real Estate sectors. Six sectors are projected to report a year-over-year decline in earnings, led by the Energy, Information Technology, and Materials sectors. One sector (Industrials) is expected to report flat (0%) earnings.

Because of the net downward revisions to revenue estimates, the estimated (year-over-year) revenue growth rate for Q3 2019 is 2.7% today compared to the estimated (year-over-year) revenue growth rate of 3.5% on June 30. If 2.7% is the actual growth rate for the quarter, it will mark the lowest revenue growth rate for the index since Q3 2016 (also 2.7%). Eight sectors are projected to report year-over-year growth in revenues, led by the Health Care sector. Three sectors are predicted to report a year-over-year decline in revenues, led by the Materials sector.

Looking ahead, analysts see low single-digit earnings growth in the fourth quarter followed by high single-digit earnings growth for both Q1 2020 and Q2 2020.

The forward 12-month P/E ratio is 16.6, which is equal to the 5-year average but above the 10-year average.

During the upcoming week, 52 S&P 500 companies (including 7 Dow 30 components) are scheduled to report results for the third quarter.

Estimate Revisions: Largest Estimate Cuts in Energy Sector

Increase in Estimated Earnings Decline for Q3 This Week

The estimated earnings decline for the third quarter is -4.6% this week, which is larger than the estimated earnings decline of -4.2% last week.

The estimated earnings decline for Q3 2019 of -4.6% is larger than the estimated earnings decline of -0.6% at the start of the quarter (June 30). All eleven sectors have a recorded a decrease in expected earnings growth due to downward revisions to earnings estimates, led by the Energy, Materials, and Consumer Discretionary sectors.

Energy: 89% of Companies Have Seen a Decline in Q3 EPS Estimates since June 30

The Energy sector has recorded the largest decrease in expected earnings growth since the start of the quarter (to -35.2% from -13.9%). This sector has also witnessed the largest decrease in price of all eleven sectors since June 30 at -10.4%. Overall, 25 of the 28 companies (89%) in the Energy sector have seen a decrease in their mean EPS estimate during this time. Of these 25 companies, 19 have recorded a decrease in their mean EPS estimate of more than 10%, led by Noble Energy (to -$0.10 from $0.01), Hess Corporation (to -$0.26 from -$0.04), and Apache Corporation (to -$0.16 from $0.20). However, Exxon Mobil (to $0.73 from $1.15), Chevron (to $1.66 from $2.10), and Occidental Petroleum (to $0.51 from $1.00) have been the largest contributors to the decline in expected earnings for this sector since the start of the quarter. The stock prices of all three companies have decreased since June 30.

Materials: 79% of Companies Have Seen a Decline in Q3 EPS Estimates since June 30

The Materials sector has recorded the second largest decrease in expected earnings growth since the start of the quarter (to -9.3% from -1.7%). This sector has also witnessed the second largest decrease in price of all eleven sectors since June 30 at -3.9%. Overall, 22 of the 28 companies (79%) in the Materials sector have seen a decrease in their mean EPS estimate during this time. Of these 22 companies, 10 have recorded a decrease in their mean EPS estimate of more than 10%, led by Freeport-McMoRan (to $0.02 from $0.11), Mosaic (to $0.25 from $0.57), and International Paper (to $0.99 from $1.41). All three companies have also been the largest contributors to the decrease in expected earnings for this sector since the start of the quarter. The stock prices of all three companies have also decreased since June 30.

Consumer Discretionary: 69% of Companies Have Seen a Decline in Q3 EPS Estimates since June 30

The Consumer Discretionary sector has recorded the third largest decrease in expected earnings growth since the start of the quarter (to -2.5% from 3.7%). This sector has witnessed a decrease in price of -1.0% since June 30. Overall, 43 of the 62 companies (69%) in the Consumer Discretionary sector have seen a decrease in their mean EPS estimate during this time. Of these 43 companies, 14 have recorded a decrease in their mean EPS estimate of more than 10%, led by Macy's (to $0.01 from $0.10), L Brands (to $0.02 from $0.08), Wynn Resorts (to $0.84 from $1.54), Under Armour (to $0.18 from $0.27), and Amazon.com (to $4.58 from $6.67). Amazon.com (to $4.58 from $6.67), General Motors (to $1.64 from $1.93), and Ford Motor (to $0.26 from $0.33) have been the largest contributors to the decrease in expected earnings for this sector since the start of the quarter. The stock prices of all three companies have decreased since June 30.

Index-Level (Bottom-Up) EPS Estimate: Decline Within Average Levels

The Q3 bottom-up EPS estimate (which is an aggregation of the median earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) decreased by 3.6% (to $41.35 from $42.90) during the quarter. This percentage decline was larger than the 5-year average (-3.3%) and the 10-year average (-3.1%) for a quarter, but smaller than the 15-year average (-4.3%) for a quarter.

Guidance: Record-High Number of Technology Companies Issuing Negative EPS Guidance

The term "guidance" (or "preannouncement") is defined as a projection or estimate for EPS provided by a company in advance of the company reporting actual results. Guidance is classified as negative if the estimate (or mid-point of a range estimates) provided by a company is lower than the mean EPS estimate the day before the guidance was issued. Guidance is classified as positive if the estimate (or mid-point of a range of estimates) provided by the company is higher than the mean EPS estimate the day before the guidance was issued.

At this point in time, 113 companies in the index have issued EPS guidance for Q3 2019. Of these 113 companies, 83 have issued negative EPS guidance and 30 have issued positive EPS guidance.

The percentage of companies issuing negative EPS guidance is 73% (83 out of 113), which is above the 5-year average of 70%.

The number of companies issuing negative EPS guidance is above the 5-year average of 74. At the sector level, the Information Technology and Health Care sectors are the largest contributors to the overall increase in the number of S&P 500 companies issuing negative EPS guidance for Q3 relative to the 5-year average.

In the Information Technology sector, 29 companies have issued negative EPS guidance for the third quarter, which is above the 5-year average for the sector of 20.1. If 29 is the final number for the quarter, it will mark the highest number of companies issuing negative EPS guidance in this sector since FactSet began tracking this data in 2006.

In the Health Care sector, 15 companies have issued negative EPS guidance for the second quarter, which is above the 5-year average for the sector of 10.7. If 15 is the final number for the quarter, it will mark a tie for the second-highest number of companies issuing negative EPS guidance in this sector since FactSet began tracking this data in 2006.

Year-Over-Year Earnings Decline: -4.6%

The estimated (year-over-year) earnings decline for Q3 2019 is -4.6%, which is below the 5-year average earnings growth rate of 7.3%. If -4.6% is the actual decline for the quarter, it will mark the first time the index has reported three straight quarters of year-over-year declines in earnings since Q4 2015 through Q2 2016. It will also mark the largest year-over-year decline in earnings reported by the index since Q1 2016 (-6.9%).

Four sectors are predicted to report year-over-year earnings growth, led by the Utilities and Real Estate sectors. Six sectors are projected to report a year-over-year decline in earnings, led by the Energy, Information Technology, and Materials sectors. One sector (Industrials) is expected to report flat (0%) earnings.

Utilities: Gas Utilities Industry Leads Year-Over-Year Growth

The Utilities sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 4.2%. At the industry level, all five industries in this sector are projected to report growth in earnings. One of these five industries is predicted to report double-digit earnings growth: Gas Utilities (20%).

Real Estate: Industrial REITs Sub-Industry Leads Year-Over-Year Growth

The Real Estate sector is expected to report the second highest (year-over-year) earnings (FFO) growth of all eleven sectors at 3.4%. At the sub-industry level, six of the eight sub-industries in this sector are projected to report growth in earnings (FFO). One of these six sub-industries is predicted to report double-digit growth: Industrial REITs (25%). On the other hand, two sub-industries are expected to report a year-over-year decline in earnings (FFO): Hotel & Resort REITs (-9%) and Real Estate Services (-2%).

Energy: 3 of 6 Sub-Industries Expected to Report Year-Over-Year Decline

The Energy sector is expected to report the largest (year-over-year) decline in earnings of all eleven sectors at -35.2%. Lower oil prices are helping to drive the expected decline in earnings for the sector. The average price of oil in Q3 2019 ($56.44) was 19% lower than the average price of oil in Q3 2018 ($69.43). At the sub-industry level, three of the six sub-industries in the sector are expected to report a decline in earnings for the quarter: Oil & Gas Exploration & Production (-46%), Integrated Oil & Gas (-45%), and Oil & Gas Refining & Marketing (-15%). On the other hand, two of the three sub-industries in the sector are expected to report growth in earnings for the quarter: Oil & Gas Drilling (32%), Oil & Gas Storage & Transportation (24%). One sub-industry (Oil & Gas Equipment & Services) is expected to report flat (0%) earnings.

Information Technology: Micron Technology Leads Year-Over-Year Decline

The Information Technology sector is expected to report the second highest (year-over-year) earnings decline of all eleven sectors at -10.2%. At the industry level, four of the six industries in this sector are projected to report a decline in earnings: Semiconductors & Semiconductor Equipment (-30%), Technology Hardware, Storage, & Peripherals (-14%), Electronic Equipment, Instruments & Components (-9%), and Communications Equipment (<-1%). On the other hand, the other two industries in this sector are expected to reporting earnings growth: Software (8%) and IT Services (5%).

At the company level, Micron Technology is expected to be the largest contributor to the (year-over-year) decline in earnings for the sector. The company reported actual EPS of $0.56 in Q3 2019, compared to year-ago EPS of $3.53. If Micron Technology were excluded, the estimated earnings decline for the sector would improve to -5.6% from -10.2%.

Materials: Metals & Mining Industry Leads Year-Over-Year Decline

The Materials sector is expected to report the third highest (year-over-year) earnings decline of all eleven sectors at -9.3%. At the industry level, two of the four industries in this sector are projected to report a decline in earnings: Metals & Mining (-55%) and Containers & Packaging (-15%). On the other hand, the other two industries in this sector are expected to report earnings growth: Construction Materials (21%) and Chemicals (2%).

At the company level, Nucor and Freeport-McMoRan are expected to be the largest contributors to the (year-over-year) decline in earnings for the sector. The mean EPS estimate for Nucor for Q3 2019 is $0.87, compared to year-ago EPS of $2.33. The mean EPS estimate for Freeport-McMoRan for Q3 2019 is $0.02, compared to year-ago EPS of $0.35. If these two companies were excluded, the estimated earnings growth rate for the sector would improve to 1.5% from -9.3%.

Year-Over-Year Revenue Growth: 2.7%

The estimated (year-over-year) revenue growth rate for Q3 2019 is 2.7%, which is below the 5-year average revenue growth rate of 3.5%. If 2.7% is the actual growth rate for the quarter, it will mark the lowest revenue growth rate for the index since Q3 2016 (also 2.7%).

Eight sectors are projected to report year-over-year growth in revenues, led by the Health Care sector. Three sectors are predicted to report a year-over-year decline in revenues, led by the Materials sector.

Health Care: Cigna and CVS Lead Growth on Easy Comparisons to Year-Ago Pre-Merger Revenues

The Health Care sector is expected to report the highest (year-over-year) revenue growth of all eleven sectors at 12.5%. At the industry level, five of the six industries in this sector are predicted to report revenue growth for the quarter. However, the Health Care Providers & Services is the only industry projected to report double-digit revenue growth (17%). On the other hand, the Pharmaceuticals (-1%) industry is the only industry projected to report a decline in revenue.

At the company level, Cigna and CVS Health are predicted to be the largest contributors to (year-over-year) revenue growth for the sector. However, the revenue growth rates for both companies are being boosted by apples-to-oranges comparisons of post-merger revenues to pre-merger revenues. The revenue estimate for Cigna for Q3 2019 ($34.39 billion) reflects the combined revenues of Cigna and Express Scripts, while the actual revenue for Q3 2018 ($11.46 billion) reflects the standalone revenue for Cigna. The revenue estimate for CVS Health for Q3 2019 ($62.97 billion) reflects the combined revenues of CVS Health and Aetna, while the actual revenue for Q3 2018 ($47.27 billion) reflects the standalone revenue for CVS Health. These apples-to-oranges comparisons are the main reason Cigna and CVS Health are projected to be the largest contributors to revenue growth for the sector. If these companies were excluded, the estimated revenue growth rate for the sector would fall to 5.1% from 12.5%.

Materials: DuPont Leads Decline on Hard Comparison to Year-Ago Pre-Split Revenues

The Materials sector is expected to report the highest (year-over-year) decline in revenue of all eleven sectors at -12.8%. At the industry level, two of the four industries in this sector are predicted to report a decline in revenue for the quarter: Chemicals (-19%) and Metals & Mining (-9%).

At the company level, DuPont is predicted to be the largest contributor to the (year-over-year) decline in revenue for the sector. However, the revenue decline is being boosted by an apples-to-oranges comparison of post-split revenues to pre-split revenues. The revenue estimate for DuPont for Q3 2019 ($5.44 billion) reflects the standalone revenue for DuPont, while the actual revenue for Q3 2018 ($20.12 billion) reflects the combined revenue for DowDuPont (DuPont, Dow, and Corteva). This apples-to-oranges comparison is the main reason DuPont is projected to be the largest contributor to the revenue decline for the sector. If this company were excluded, the estimated revenue decline for the sector would improve to 3.9% from -12.8%.

Looking Ahead: Forward Estimates and Valuation

Earnings: Low Single-Digit Earnings Growth Projected for 2019

For the third quarter, S&P 500 companies are expected to report a decline in earnings of -4.6% and growth in revenues of 2.7%. Analysts see low single-digit earnings growth in the fourth quarter followed by high single-digit earnings growth for both Q1 2020 and Q2 2020.

For Q4 2019, analysts are projecting earnings growth of 2.3% and revenue growth of 3.5%.

For CY 2019, analysts are projecting earnings growth of 1.1% and revenue growth of 4.1%.

For Q1 2020, analysts are projecting earnings growth of 7.3% and revenue growth of 5.3%.

For Q2 2020, analysts are projecting earnings growth of 8.6% and revenue growth of 5.9%.

For CY 2020, analysts are projecting earnings growth of 10.6% and revenue growth of 5.6%.

Valuation: Forward P/E Ratio is 16.6, Above the 10-Year Average (14.8)

The forward 12-month P/E ratio is 16.6. This P/E ratio is equal to the 5-year average of 16.6 but above the 10-year average of 14.8. However, it is below the forward 12-month P/E ratio of 16.8 recorded at the end of the third quarter (September 30). Since the end of the third quarter (September 30), the price of the index has decreased by 1.3%, while the forward 12-month EPS estimate has decreased by 0.1%.

At the sector level, the Consumer Discretionary (20.8) sector has the highest forward 12-month P/E ratio, while the Financials (11.9) sector has the lowest forward 12-month P/E ratio.

Targets & Ratings: Analysts Project 13% Increase in Price Over Next 12 Months

The bottom-up target price for the S&P 500 is 3321.32, which is 13.0% above the closing price of 2938.13. At the sector level, the Energy (+23.4%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Utilities (+2.0%) and Real Estate (+2.3%) sectors are expected to see the smallest price increases, as these sectors have the smallest upside differences between the bottom-up target price and the closing price for this sector.

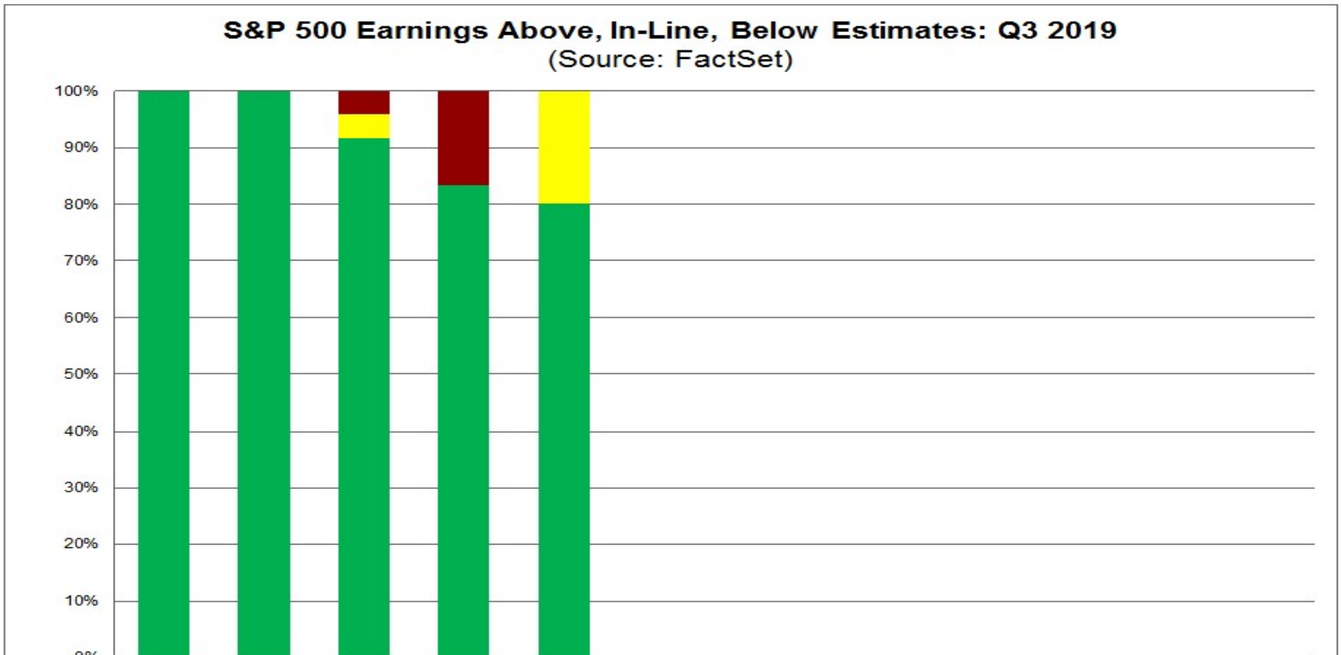
For more details, please see pages 5 through 7.

Overall, there are 10,305 ratings on stocks in the S&P 500. Of these 10,305 ratings, 51.5% are Buy ratings, 41.9% are Hold ratings, and 6.6% are Sell ratings. At the sector level, the Energy (66%) sector has the highest percentage of Buy ratings, while the Consumer Staples (41%) sector has the lowest percentage of Buy ratings.

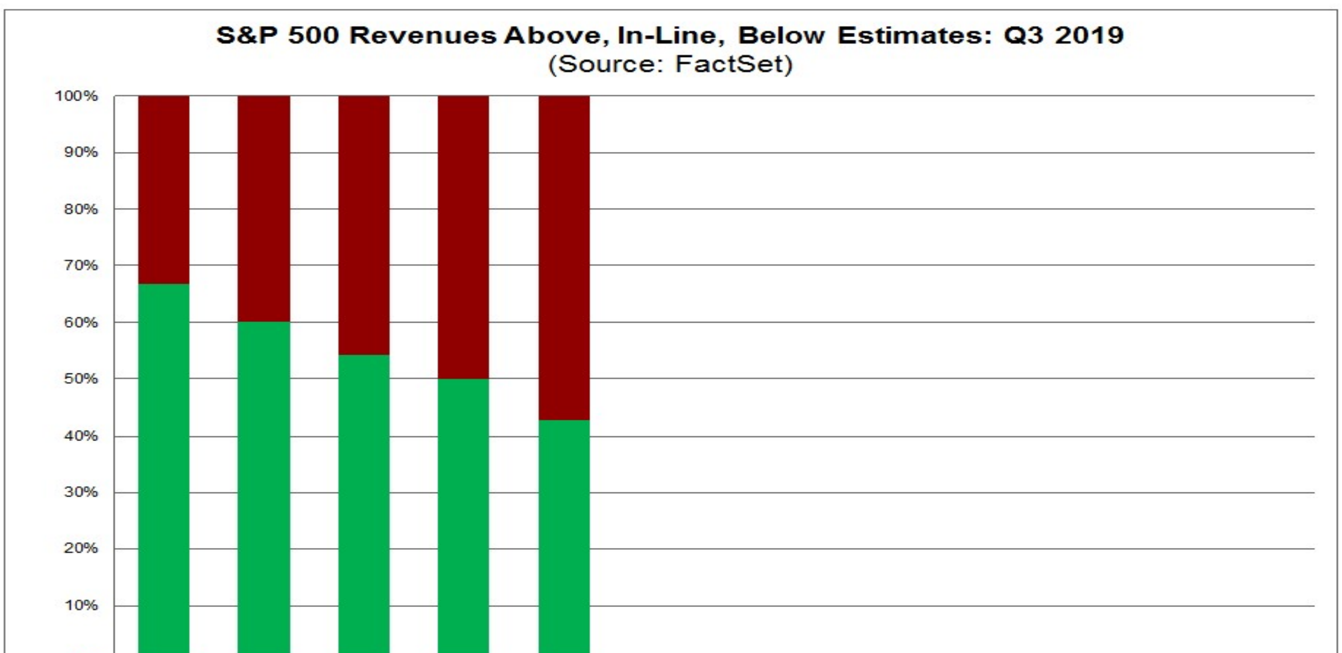
Companies Reporting Next Week: 52

During the upcoming week, 52 S&P 500 companies (including 7 Dow 30 components) are scheduled to report results for the third quarter.

Q3 2019: Scorecard

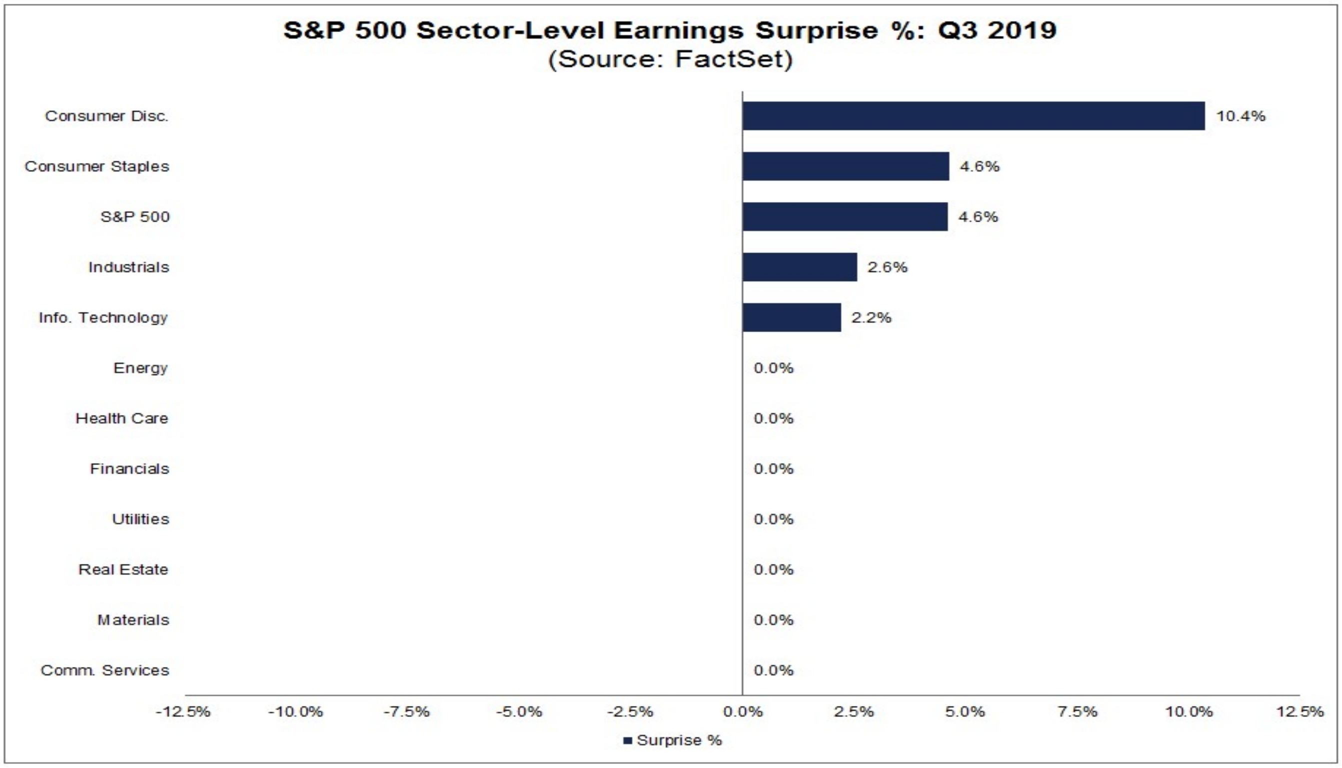


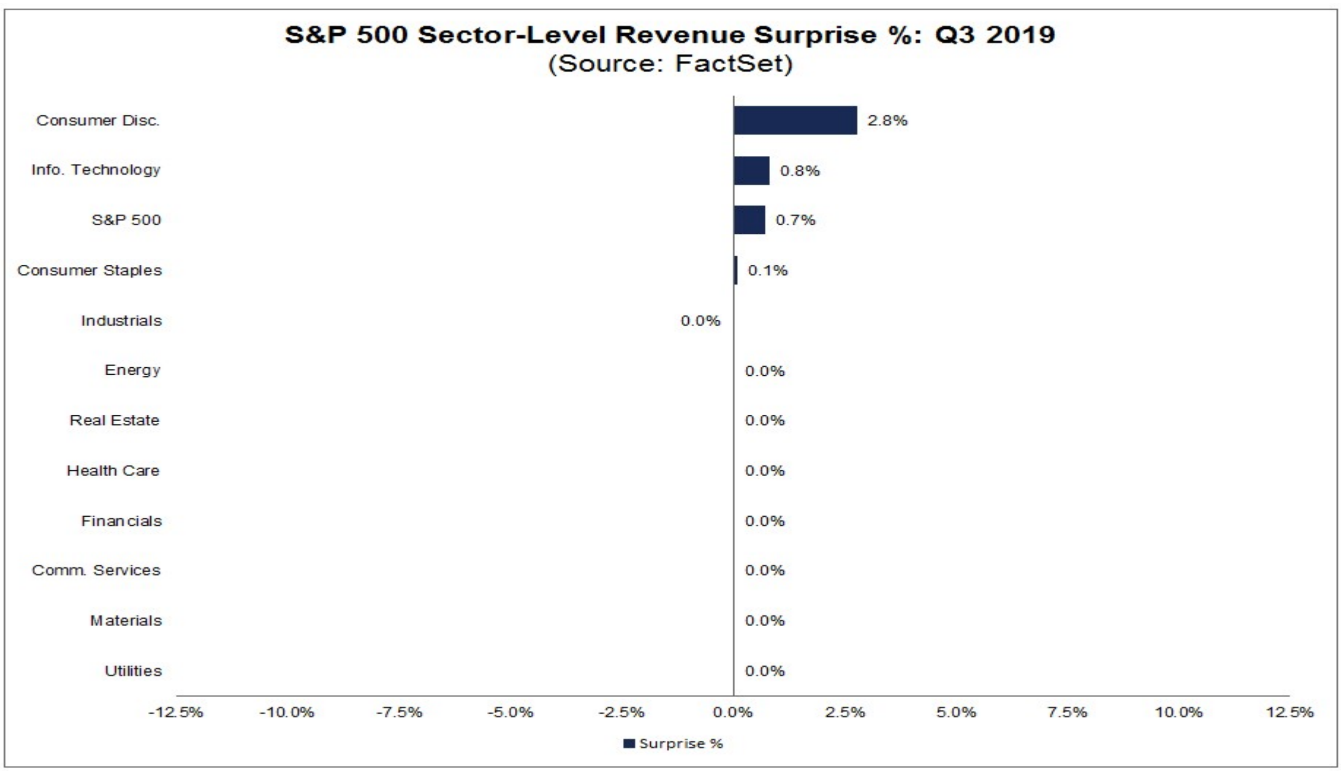
	Consumer Staples	Consumer Disc.	S&P 500	Industrials	Info. Technology	Health Care	Comm. Services	Real Estate	Financials	Energy	Materials	Utilities
Below	0%	0%	4%	17%	0%	0%	0%	0%	0%	0%	0%	0%
In-Line	0%	0%	4%	0%	20%	0%	0%	0%	0%	0%	0%	0%
Above	100%	100%	92%	83%	80%	0%	0%	0%	0%	0%	0%	0%



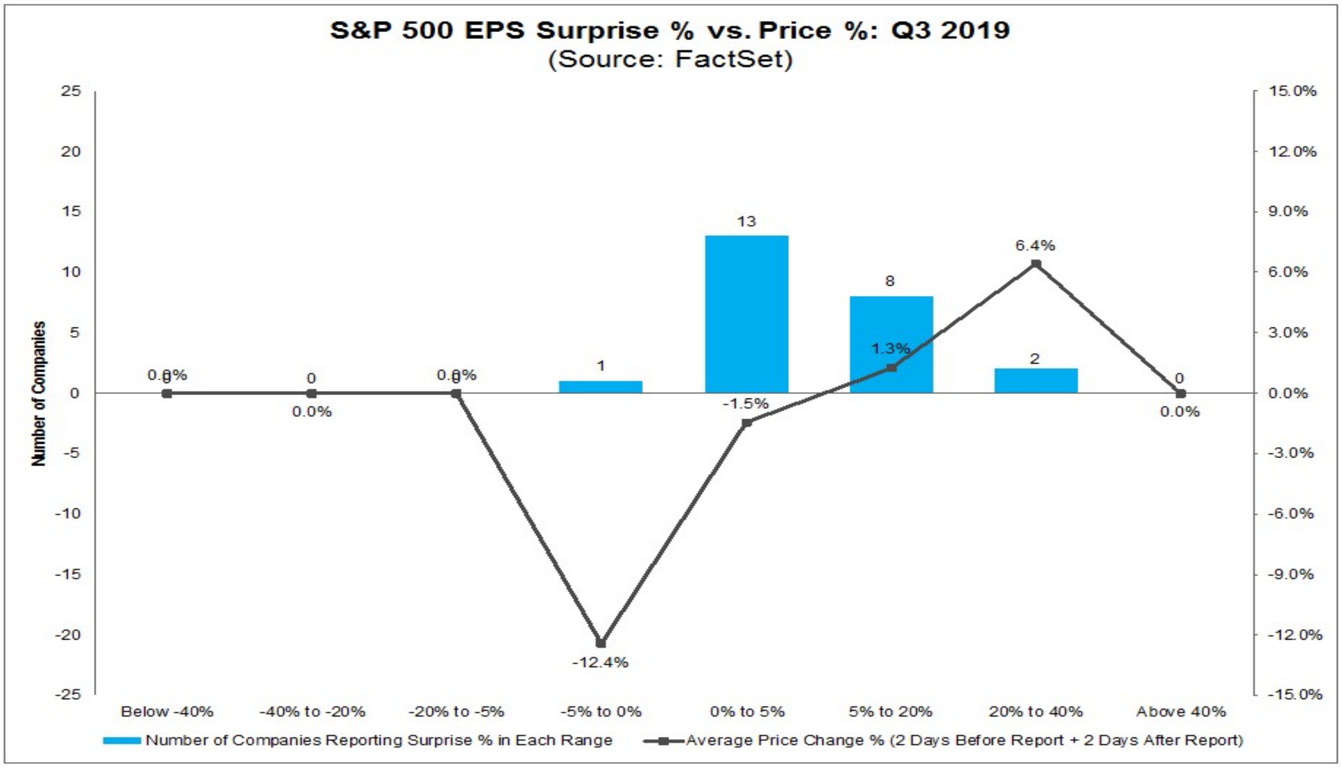
	Consumer Disc.	Info. Technology	S&P 500	Industrials	Consumer Staples	Financials	Health Care	Real Estate	Energy	Comm. Services	Materials	Utilities
Below	33%	40%	46%	50%	57%	0%	0%	0%	0%	0%	0%	0%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	67%	60%	54%	50%	43%	0%	0%	0%	0%	0%	0%	0%

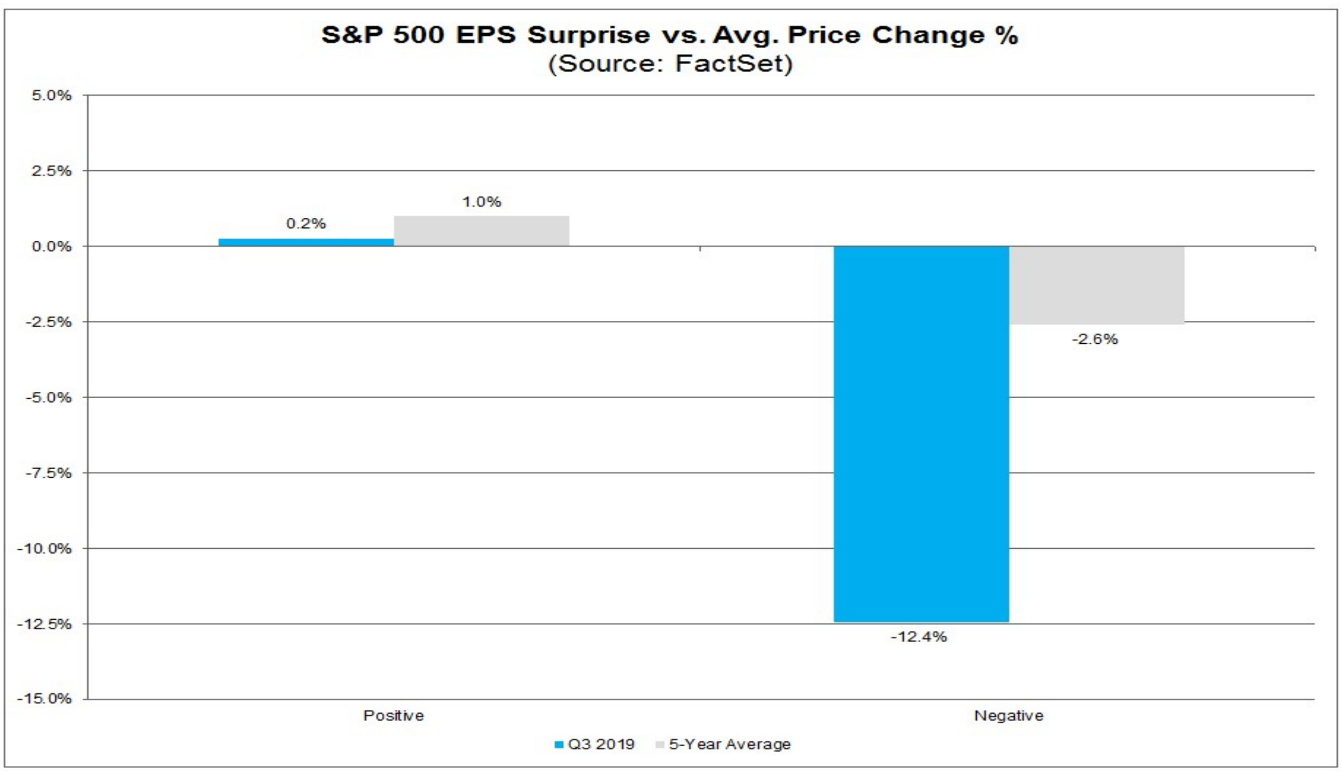
Q3 2019: Scorecard



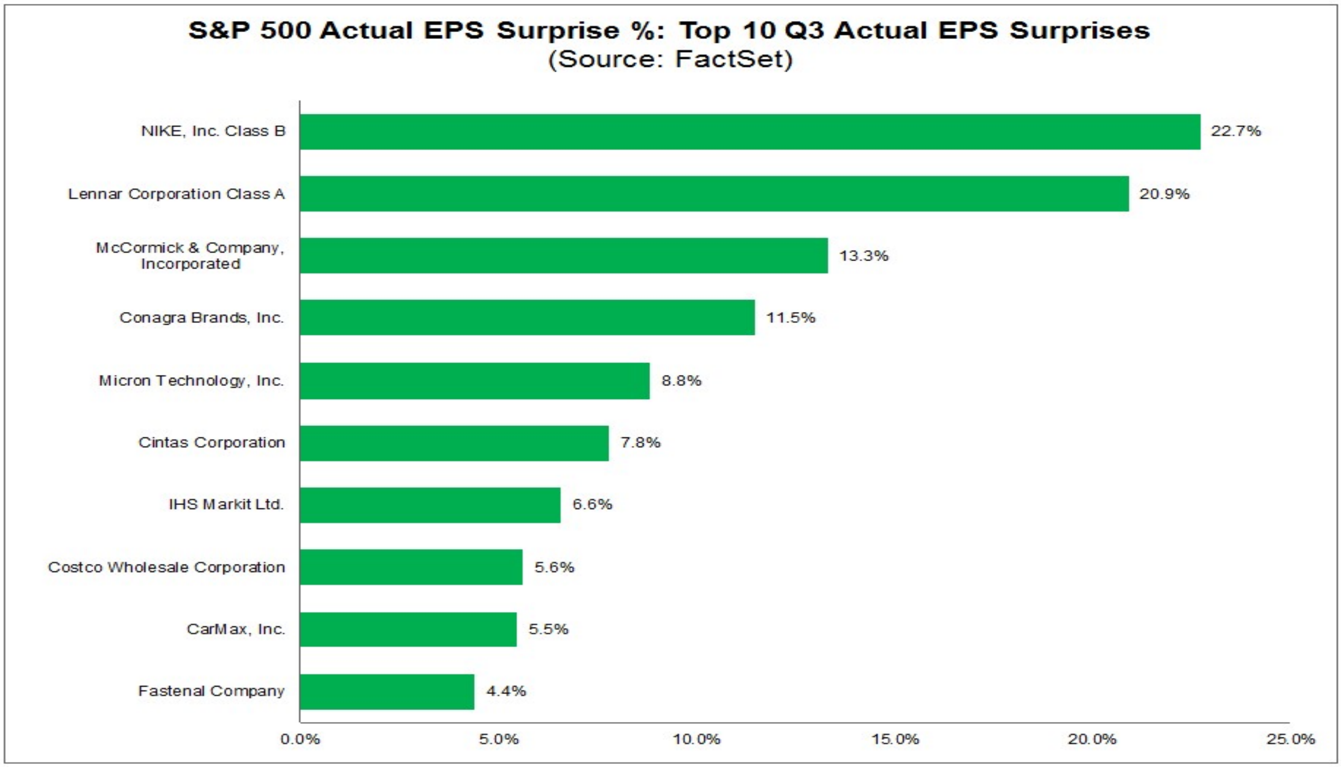


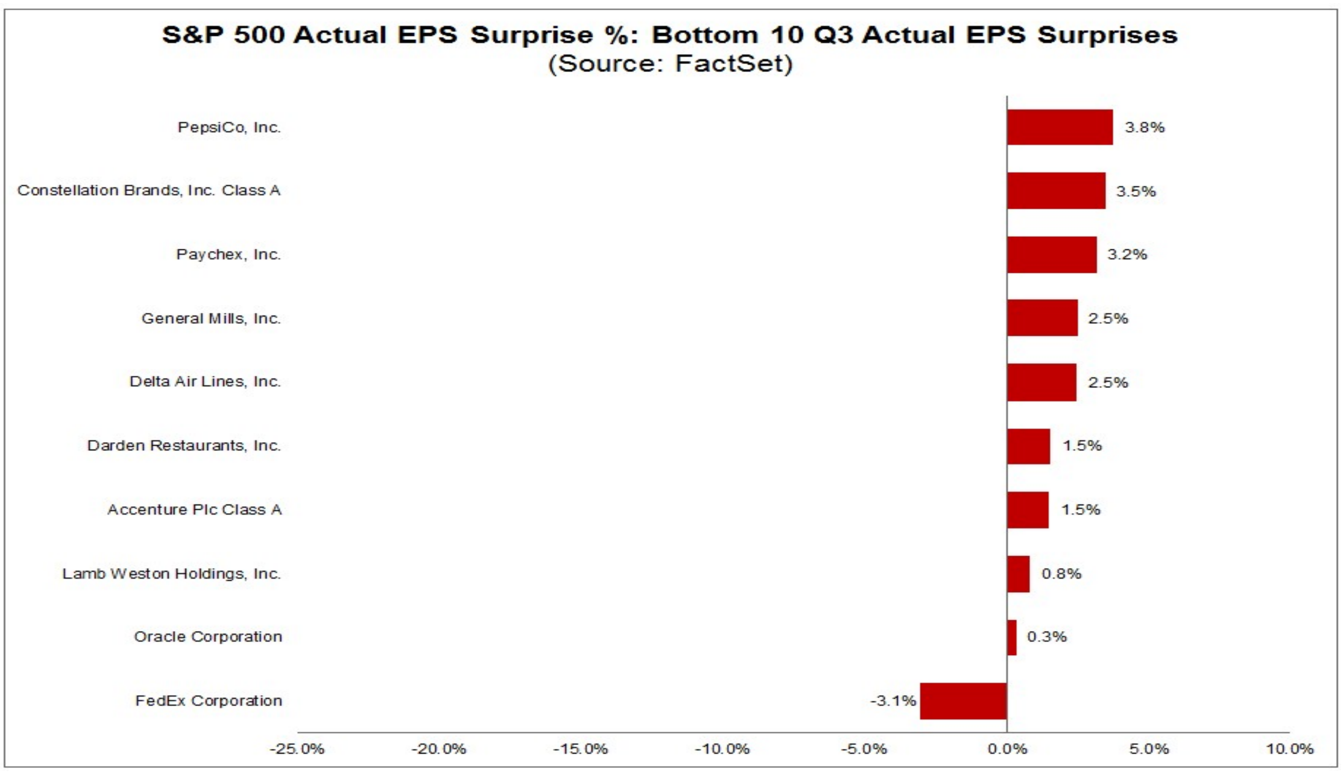
Q3 2019: Scorecard



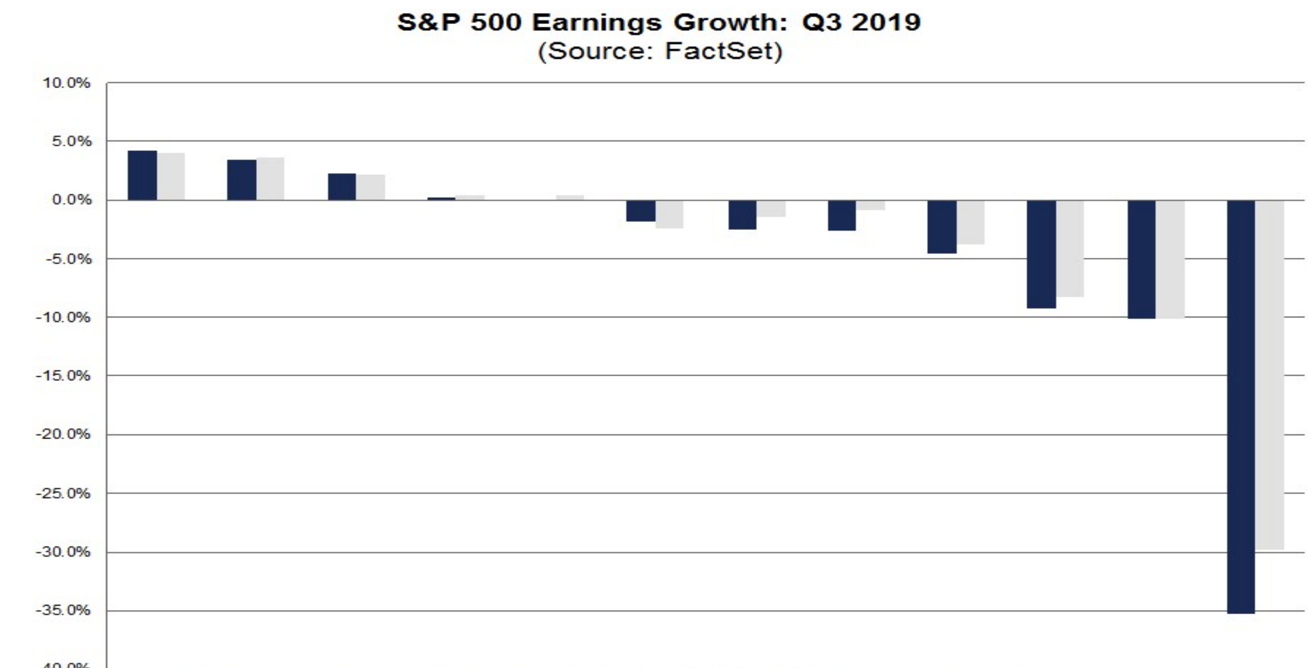


Q3 2019: Scorecard

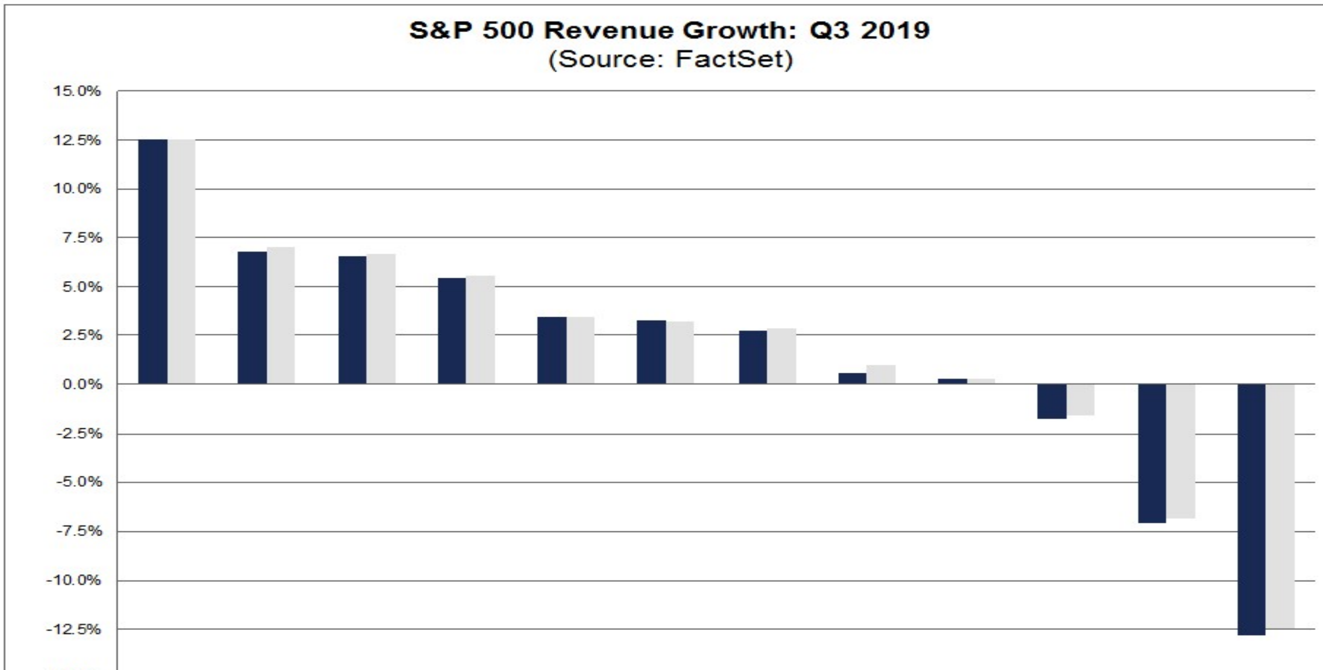




Q3 2019: Growth

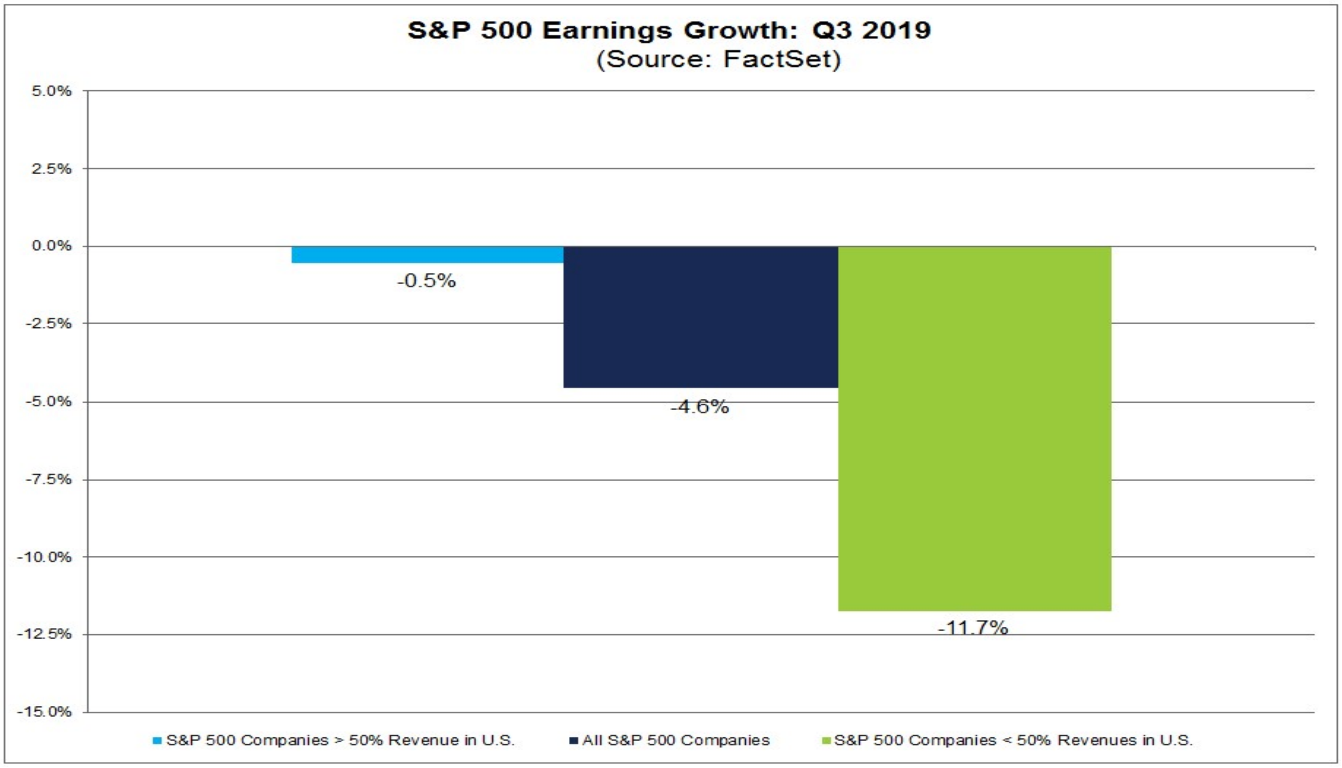


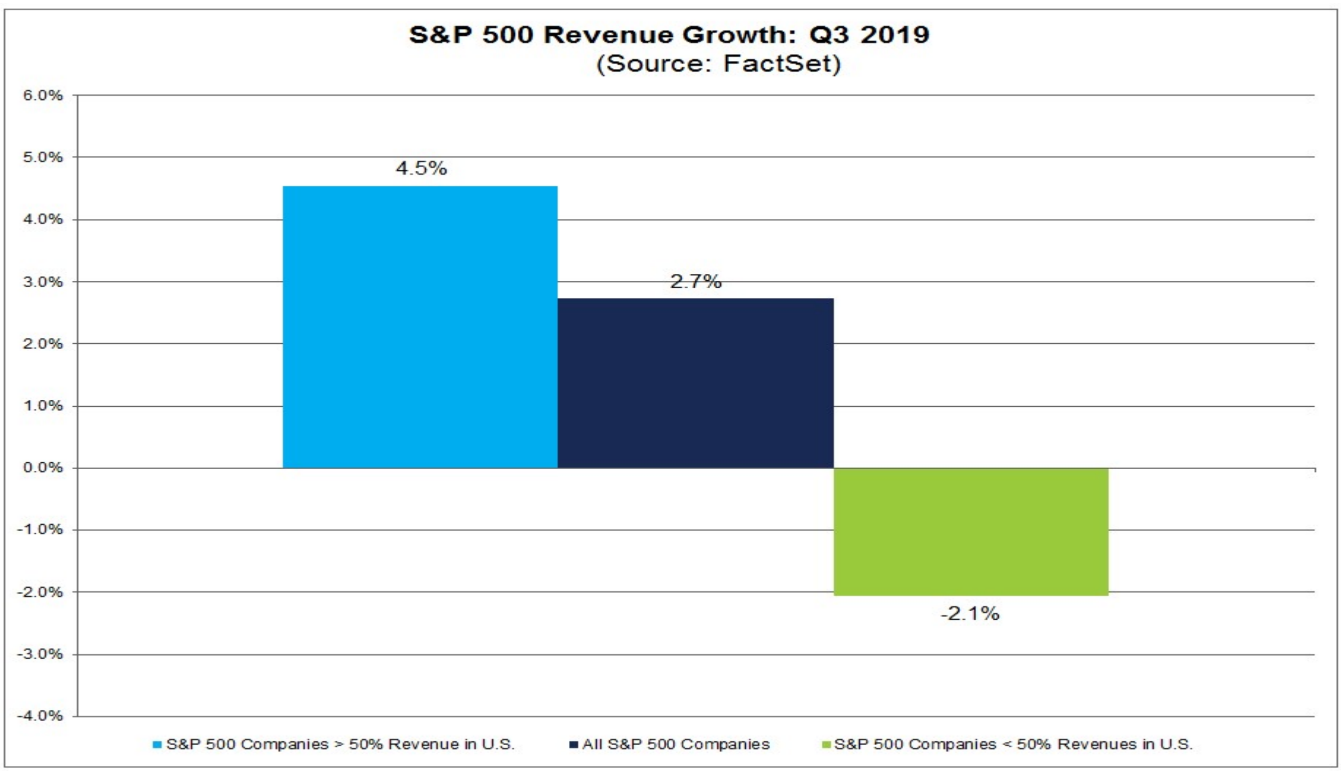
	Utilities	Real Estate	Health Care	Comm. Services	Industrials	Consumer Staples	Consumer Disc.	Financials	S&P 500	Materials	Info. Technology	Energy
Today	4.2%	3.4%	2.2%	0.2%	0.0%	-1.8%	-2.5%	-2.6%	-4.6%	-9.3%	-10.2%	-35.2%
30-Sep	4.1%	3.6%	2.2%	0.4%	0.4%	-2.4%	-1.5%	-0.9%	-3.8%	-8.3%	-10.2%	-29.8%



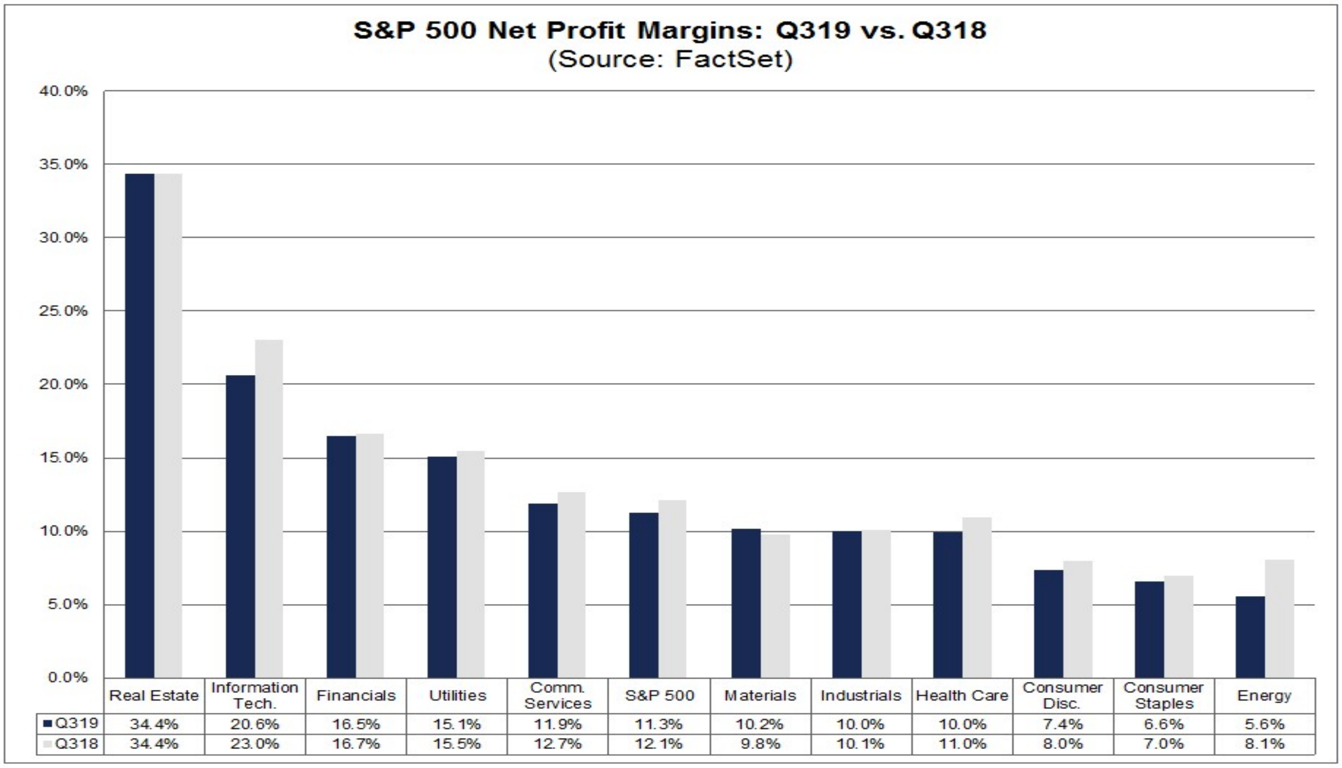
	Health Care	Utilities	Comm. Services	Consumer Disc.	Real Estate	Consumer Staples	S&P 500	Industrials	Info. Technology	Financials	Energy	Materials
Today	12.5%	6.8%	6.6%	5.5%	3.4%	3.3%	2.7%	0.6%	0.3%	-1.7%	-7.1%	-12.8%
30-Sep	12.5%	7.0%	6.7%	5.5%	3.4%	3.2%	2.8%	0.9%	0.3%	-1.6%	-6.8%	-12.4%

Q3 2019: Growth

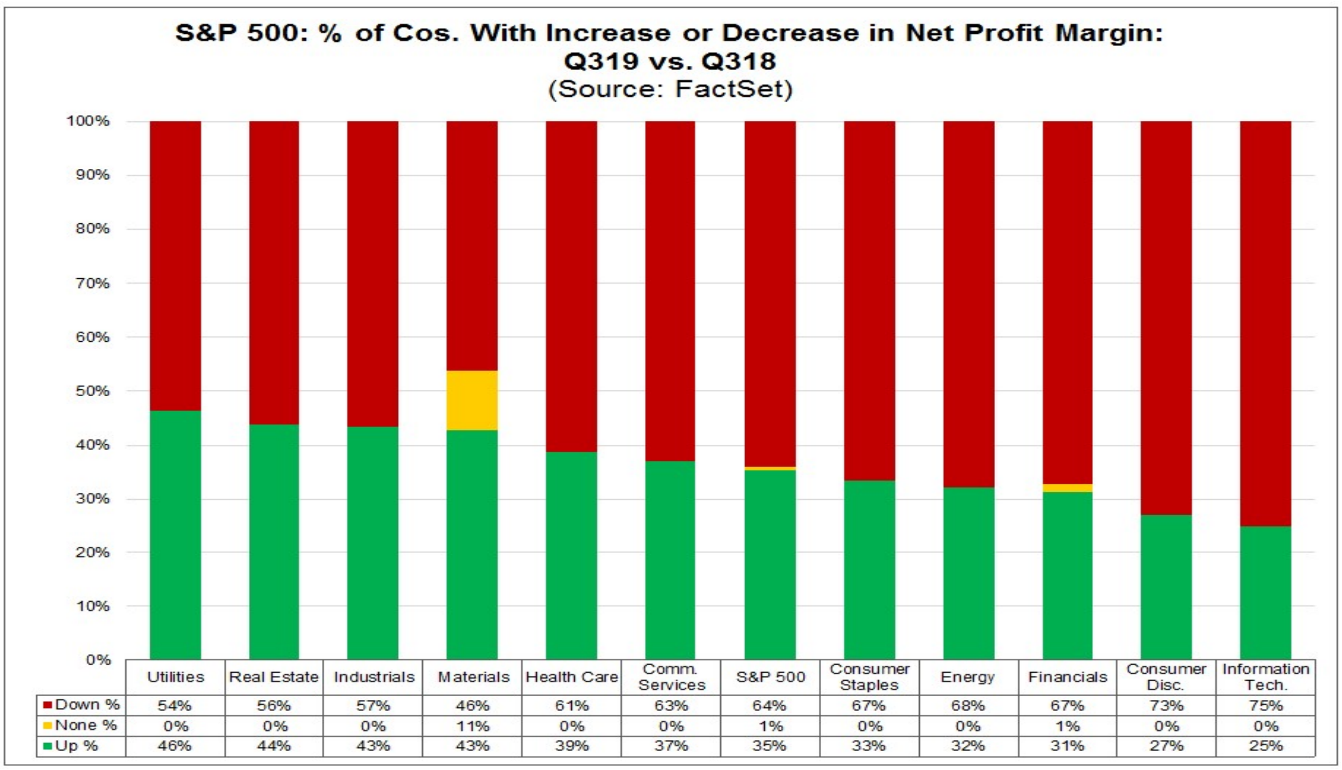




Q3 2019: Net Profit Margin

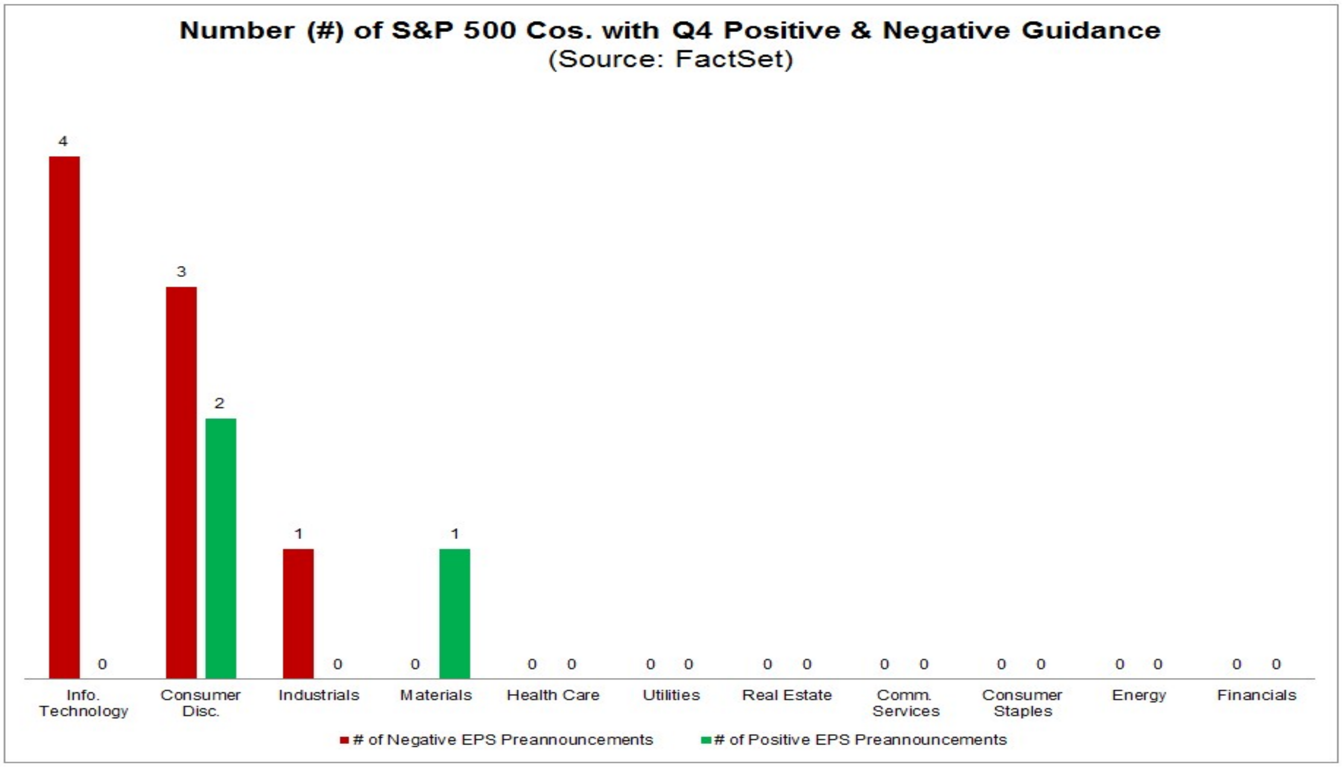


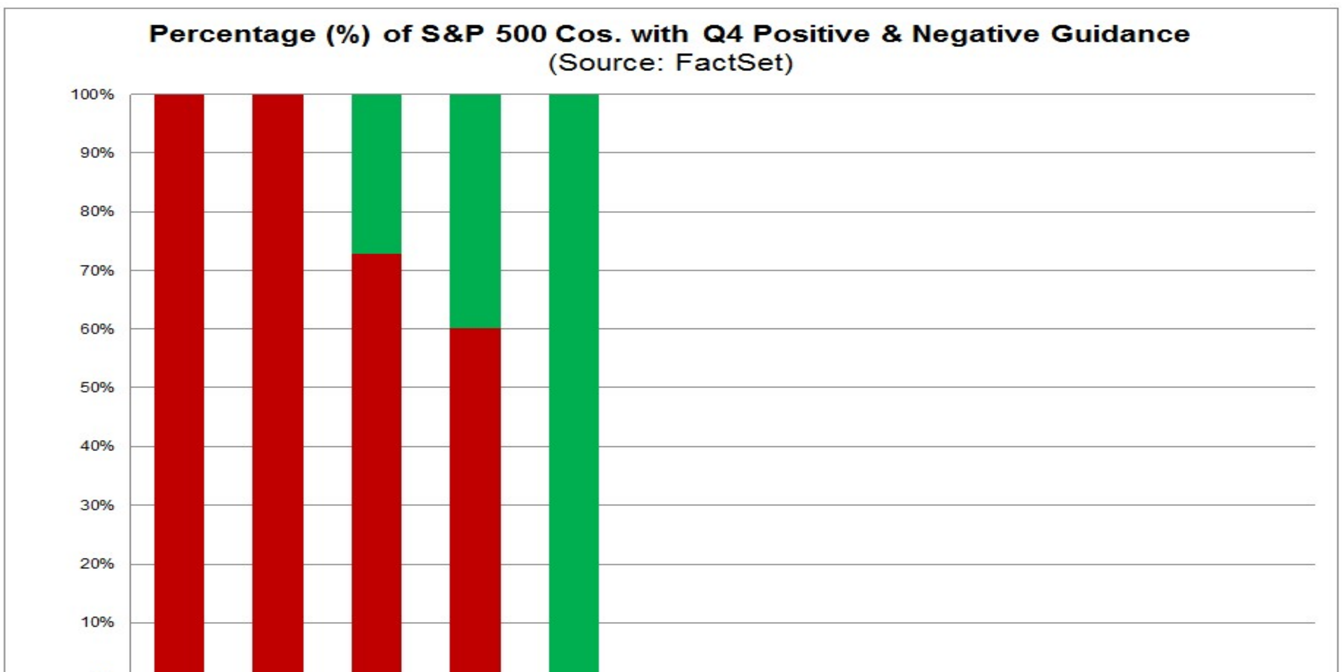
	Real Estate	Information Tech.	Financials	Utilities	Comm. Services	S&P 500	Materials	Industrials	Health Care	Consumer Disc.	Consumer Staples	Energy
Q319	34.4%	20.6%	16.5%	15.1%	11.9%	11.3%	10.2%	10.0%	10.0%	7.4%	6.6%	5.6%
Q318	34.4%	23.0%	16.7%	15.5%	12.7%	12.1%	9.8%	10.1%	11.0%	8.0%	7.0%	8.1%



	Utilities	Real Estate	Industrials	Materials	Health Care	Comm. Services	S&P 500	Consumer Staples	Energy	Financials	Consumer Disc.	Information Tech.
Down %	54%	56%	57%	46%	61%	63%	64%	67%	68%	67%	73%	75%
None %	0%	0%	0%	11%	0%	0%	1%	0%	0%	1%	0%	0%
Up %	46%	44%	43%	43%	39%	37%	35%	33%	32%	31%	27%	25%

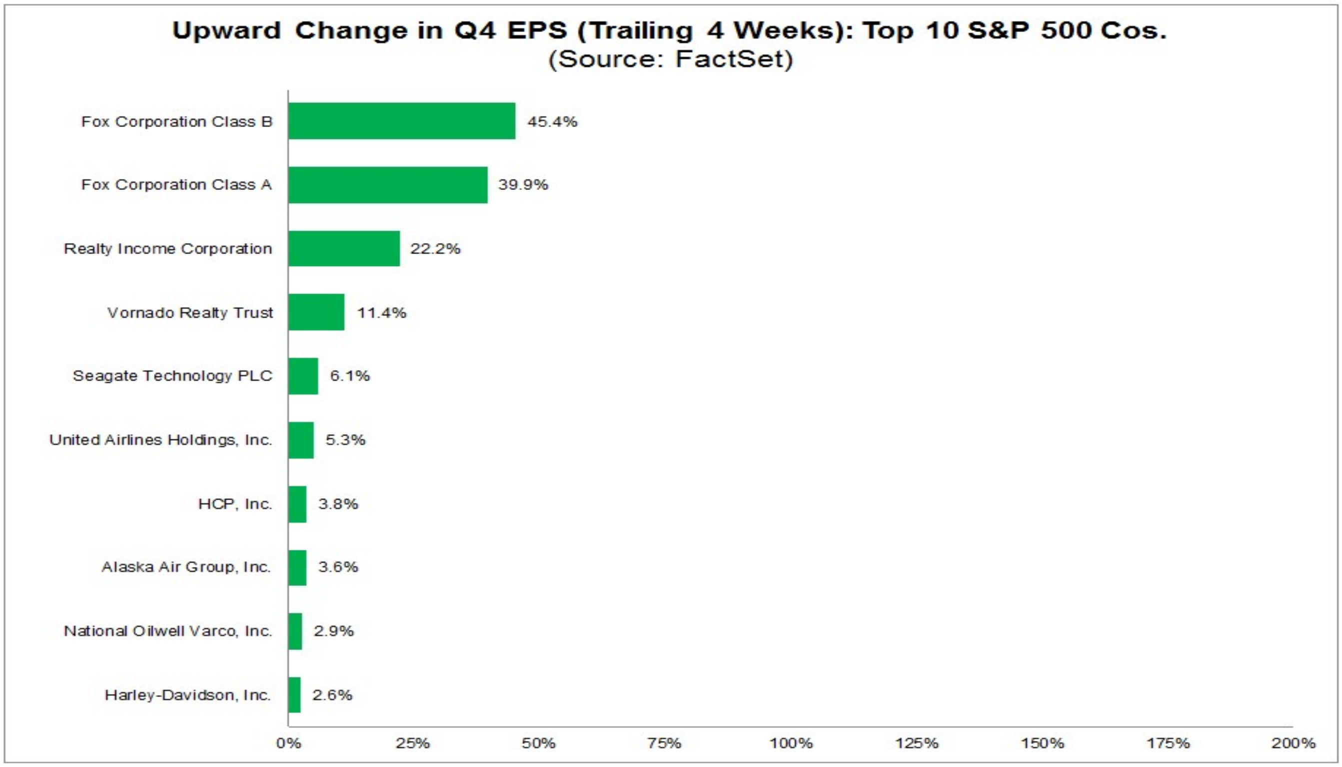
Q4 2019: EPS Guidance

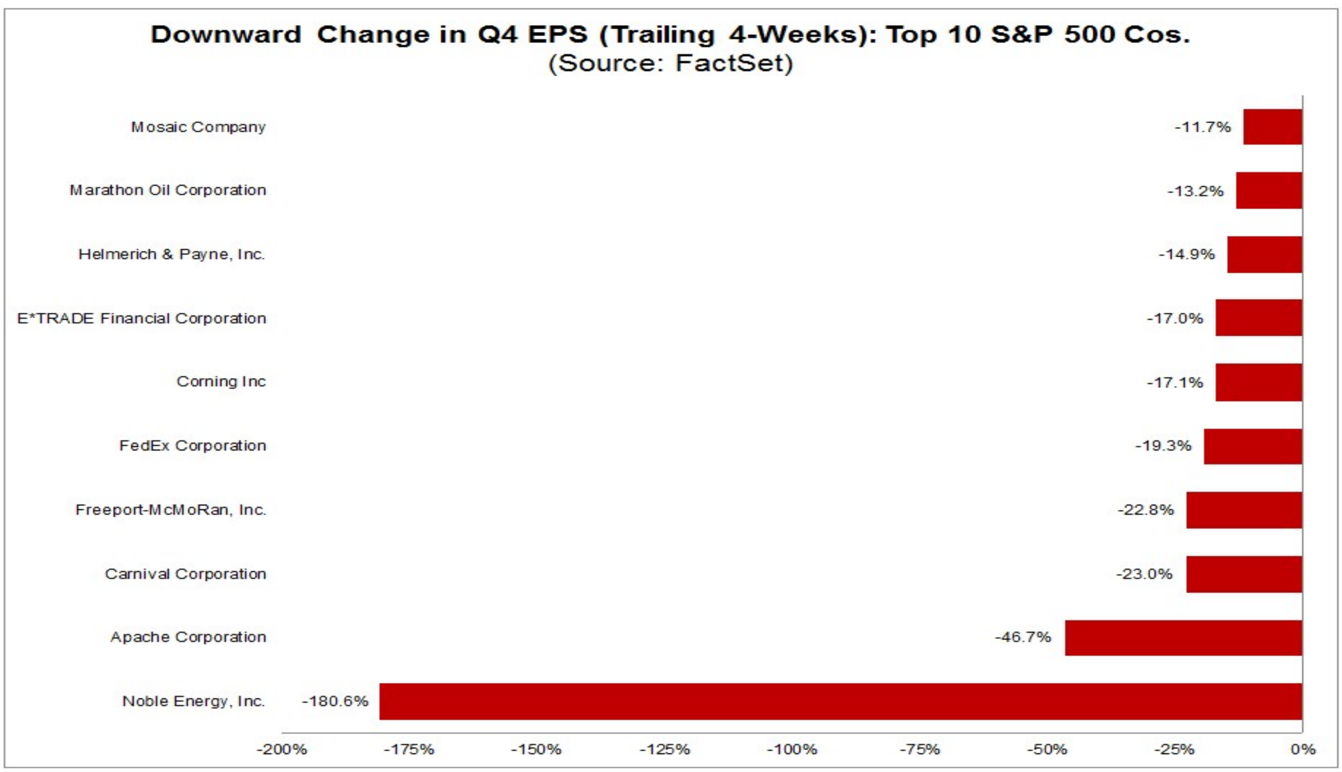




	Info. Technology	Industrials	S&P 500	Consumer Disc.	Materials	Utilities	Health Care	Comm. Services	Real Estate	Consumer Staples	Energy	Financials
Positive	0%	0%	27%	40%	100%	0%	0%	0%	0%	0%	0%	0%
Negative	100%	100%	73%	60%	0%	0%	0%	0%	0%	0%	0%	0%

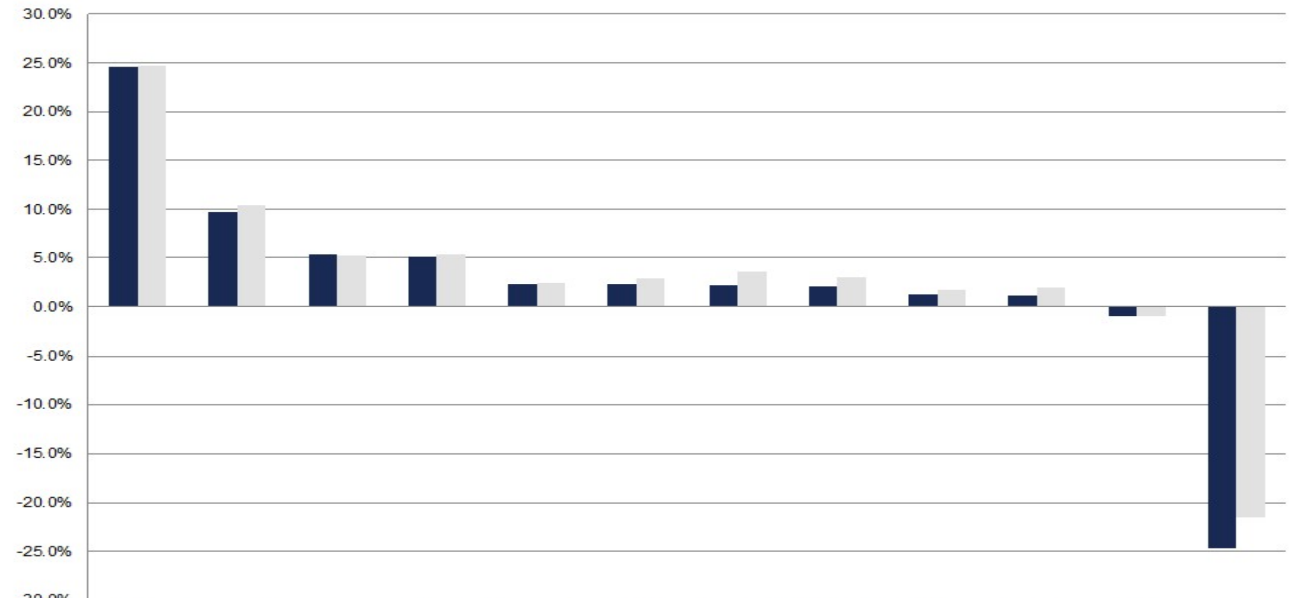
Q4 2019: EPS Revisions





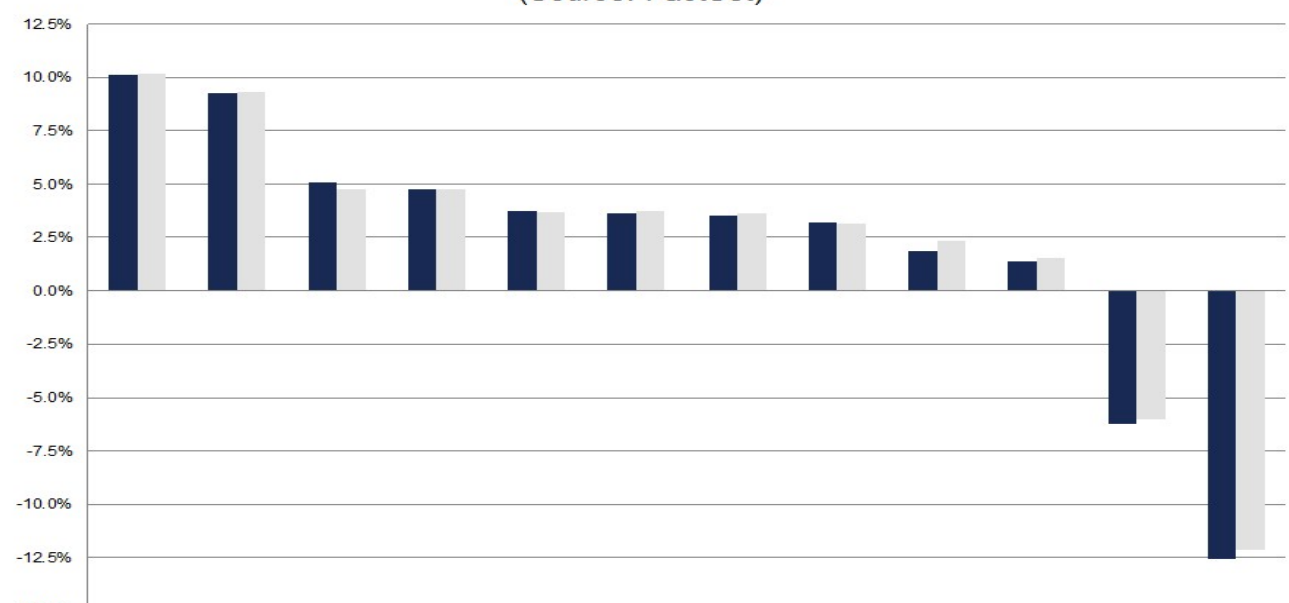
Q4 2019: Growth

S&P 500 Earnings Growth: Q4 2019
(Source: FactSet)



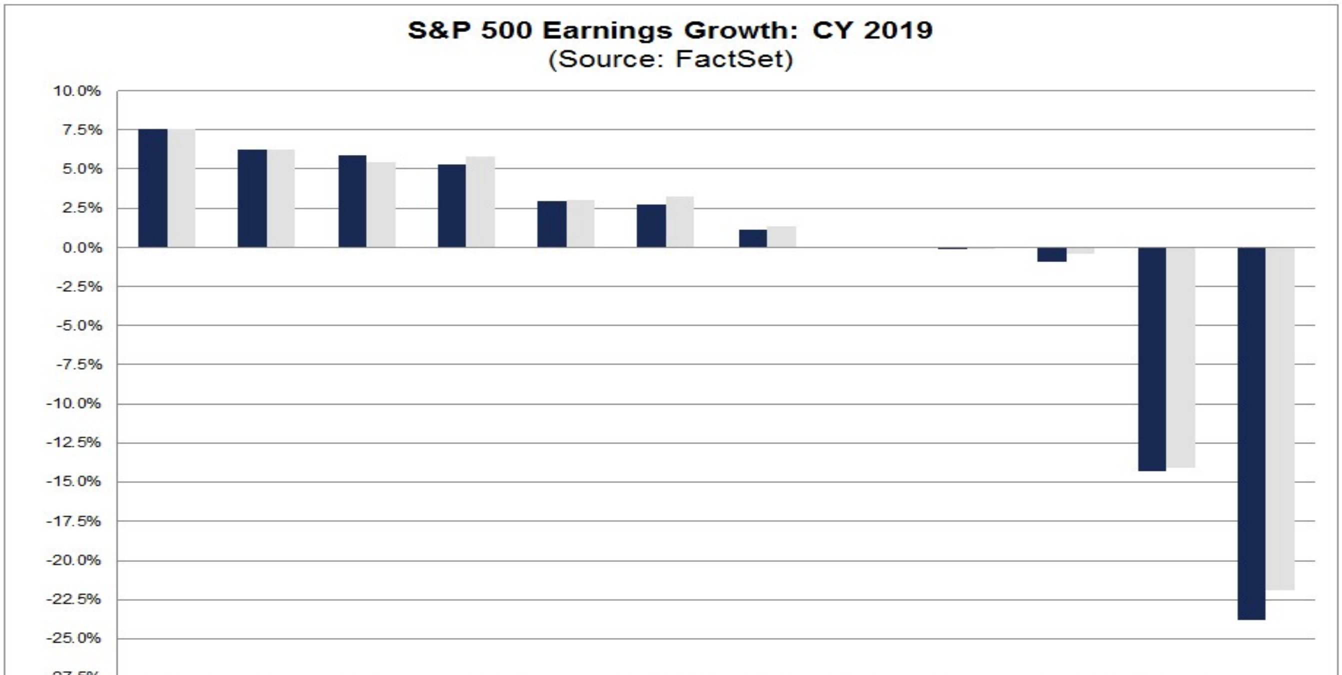
	Utilities	Financials	Health Care	Comm. Services	Real Estate	S&P 500	Industrials	Consumer Disc.	Consumer Staples	Materials	Info. Technology	Energy
Today	24.6%	9.7%	5.3%	5.1%	2.3%	2.3%	2.2%	2.1%	1.3%	1.2%	-0.9%	-24.7%
30-Sep	24.7%	10.4%	5.2%	5.4%	2.4%	2.8%	3.6%	3.0%	1.7%	1.9%	-1.0%	-21.5%

S&P 500 Revenue Growth: Q4 2019
(Source: FactSet)

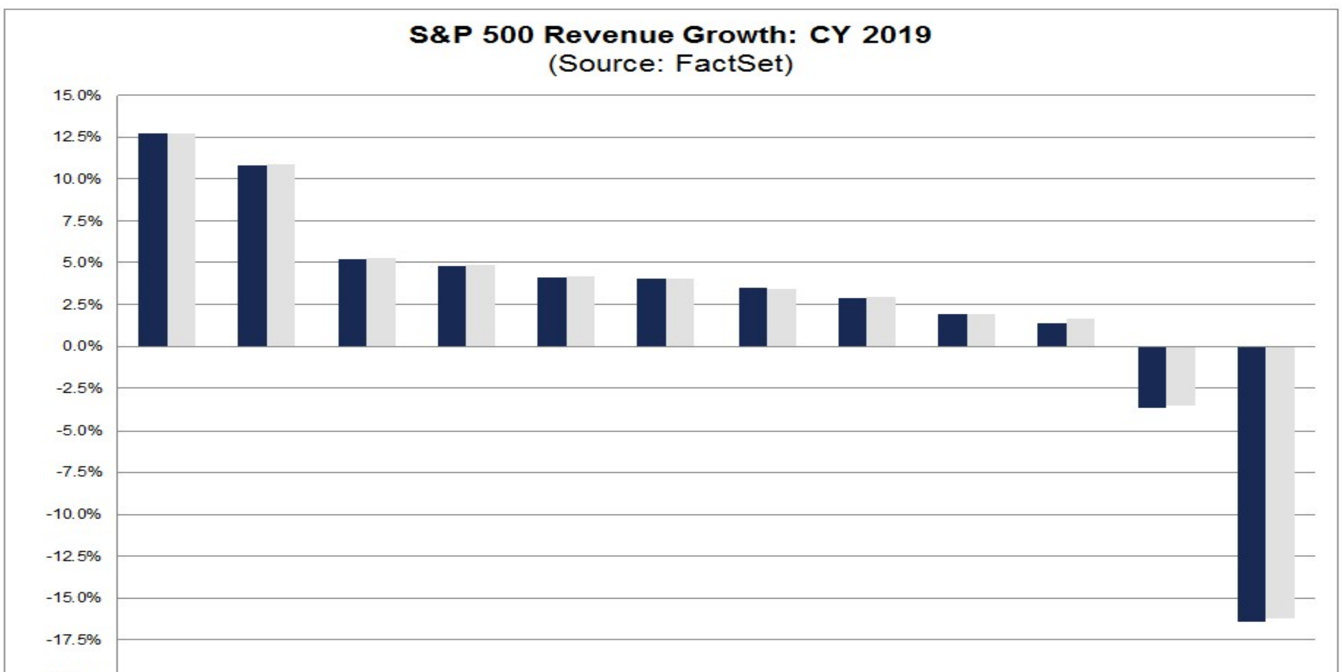


	Health Care	Comm. Services	Utilities	Consumer Disc.	Info. Technology	Consumer Staples	S&P 500	Real Estate	Industrials	Financials	Energy	Materials
Today	10.1%	9.2%	5.1%	4.7%	3.7%	3.6%	3.5%	3.2%	1.8%	1.4%	-6.2%	-12.6%
30-Sep	10.2%	9.3%	4.7%	4.7%	3.7%	3.7%	3.6%	3.1%	2.3%	1.5%	-6.0%	-12.1%

CY 2019: Growth

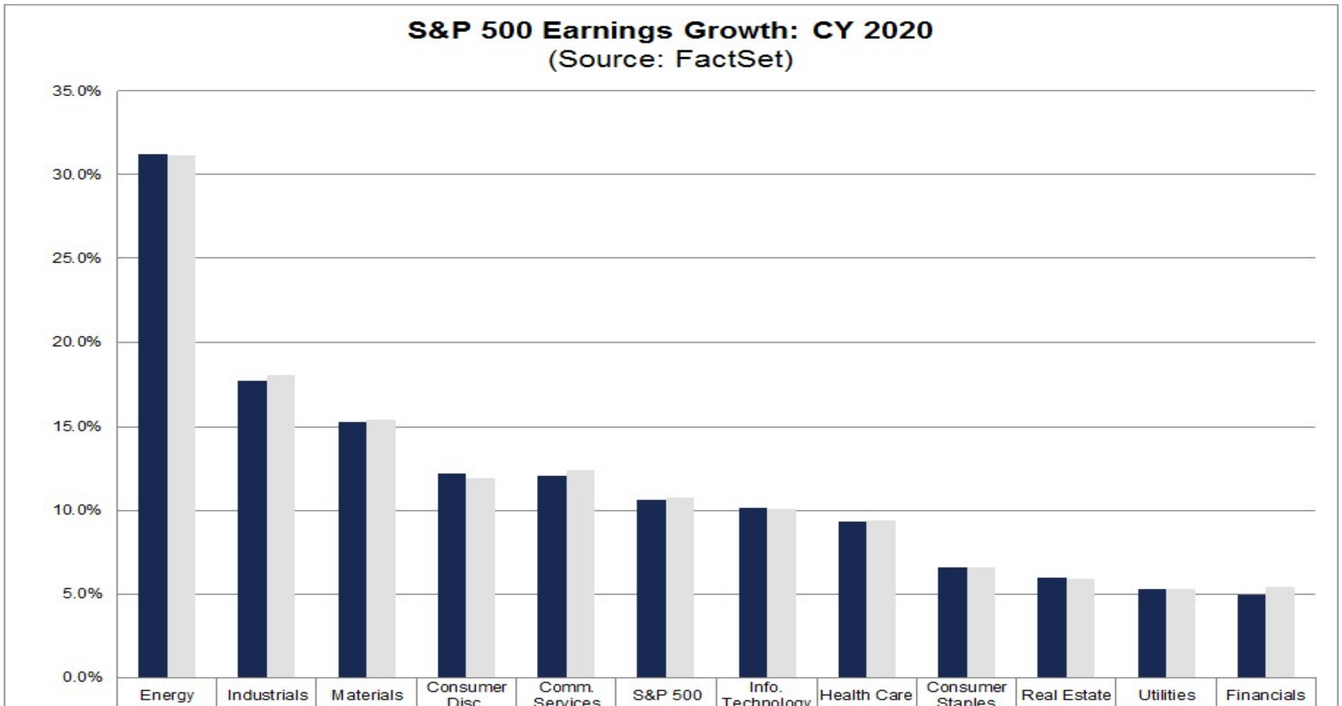


	Utilities	Health Care	Comm. Services	Financials	Real Estate	Consumer Disc.	S&P 500	Consumer Staples	Info. Technology	Industrials	Materials	Energy
Today	7.6%	6.3%	5.8%	5.3%	3.0%	2.7%	1.1%	-0.1%	-0.1%	-0.9%	-14.3%	-23.8%
30-Sep	7.6%	6.3%	5.4%	5.8%	3.0%	3.2%	1.3%	0.0%	-0.1%	-0.4%	-14.0%	-21.9%

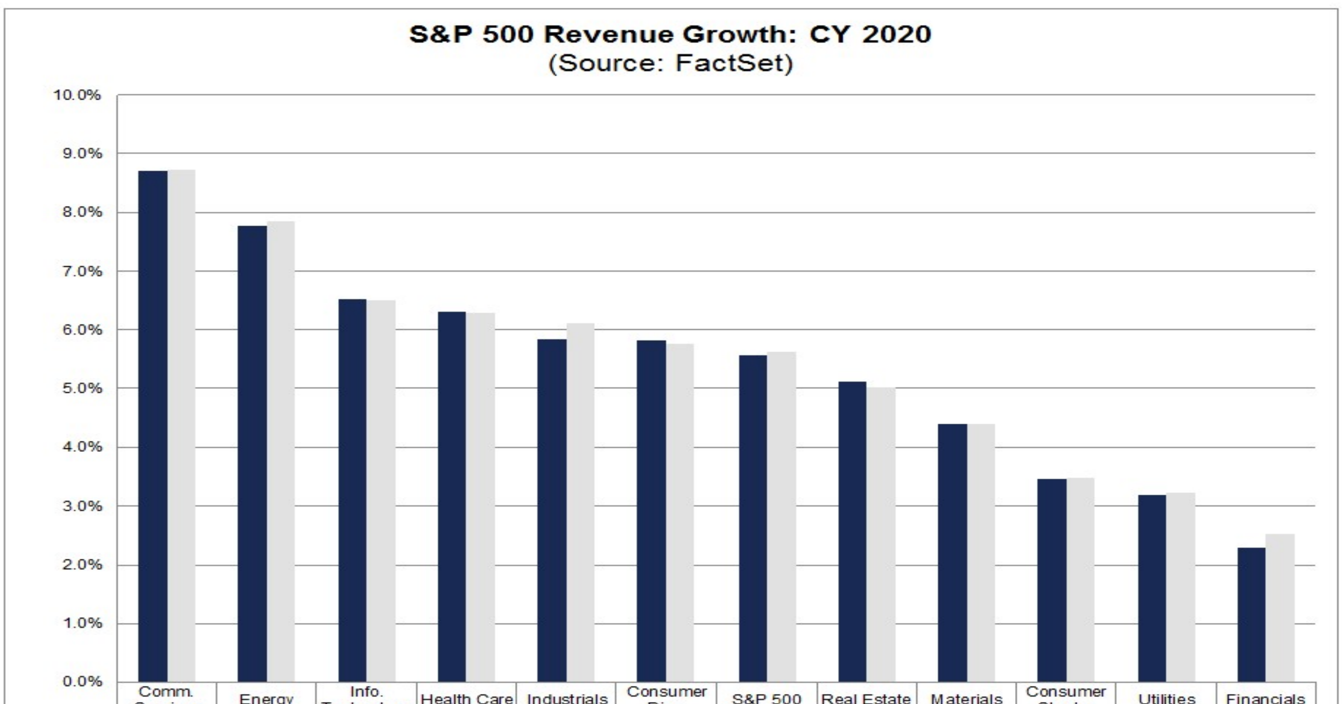


	Health Care	Comm. Services	Financials	Consumer Disc.	S&P 500	Real Estate	Utilities	Consumer Staples	Info. Technology	Industrials	Energy	Materials
Today	12.7%	10.8%	5.2%	4.8%	4.1%	4.0%	3.5%	2.9%	1.9%	1.4%	-3.6%	-16.4%
30-Sep	12.7%	10.9%	5.3%	4.9%	4.2%	4.0%	3.4%	2.9%	1.9%	1.6%	-3.5%	-16.2%

CY 2020: Growth

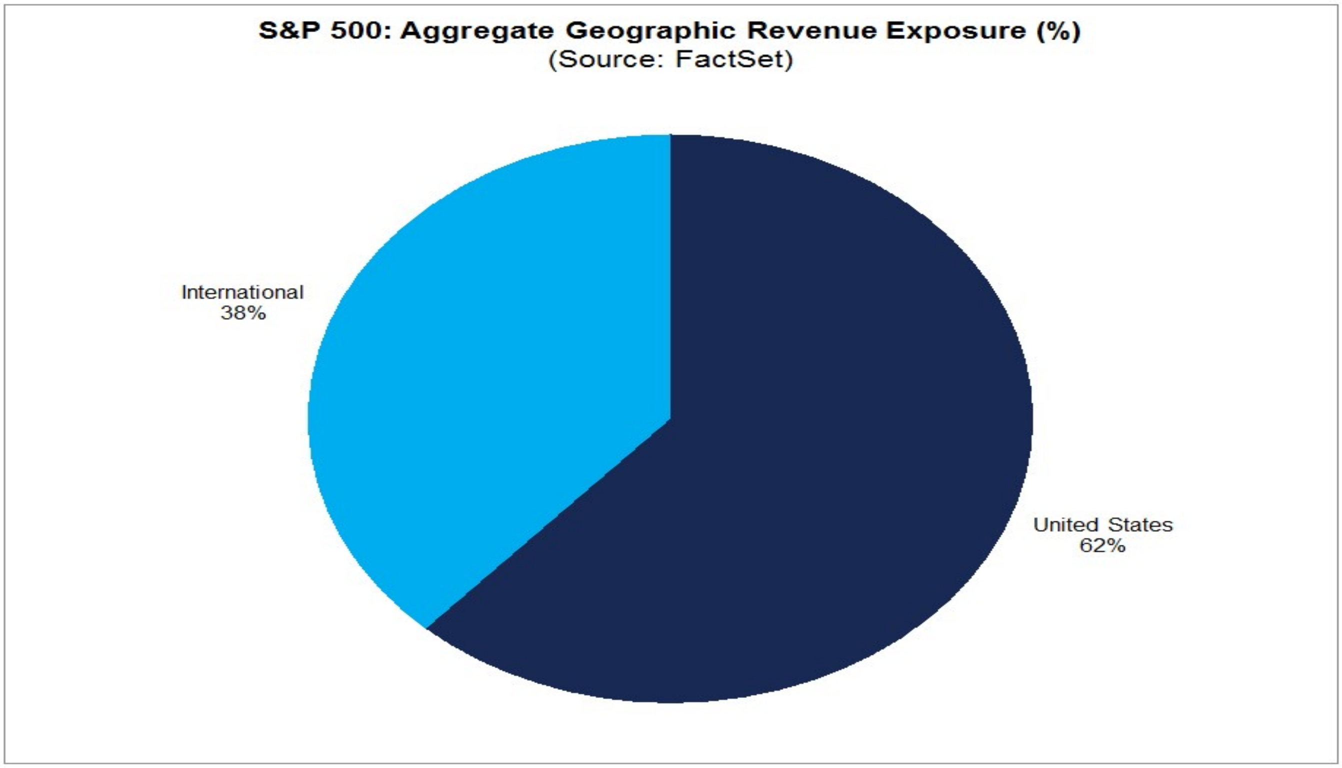


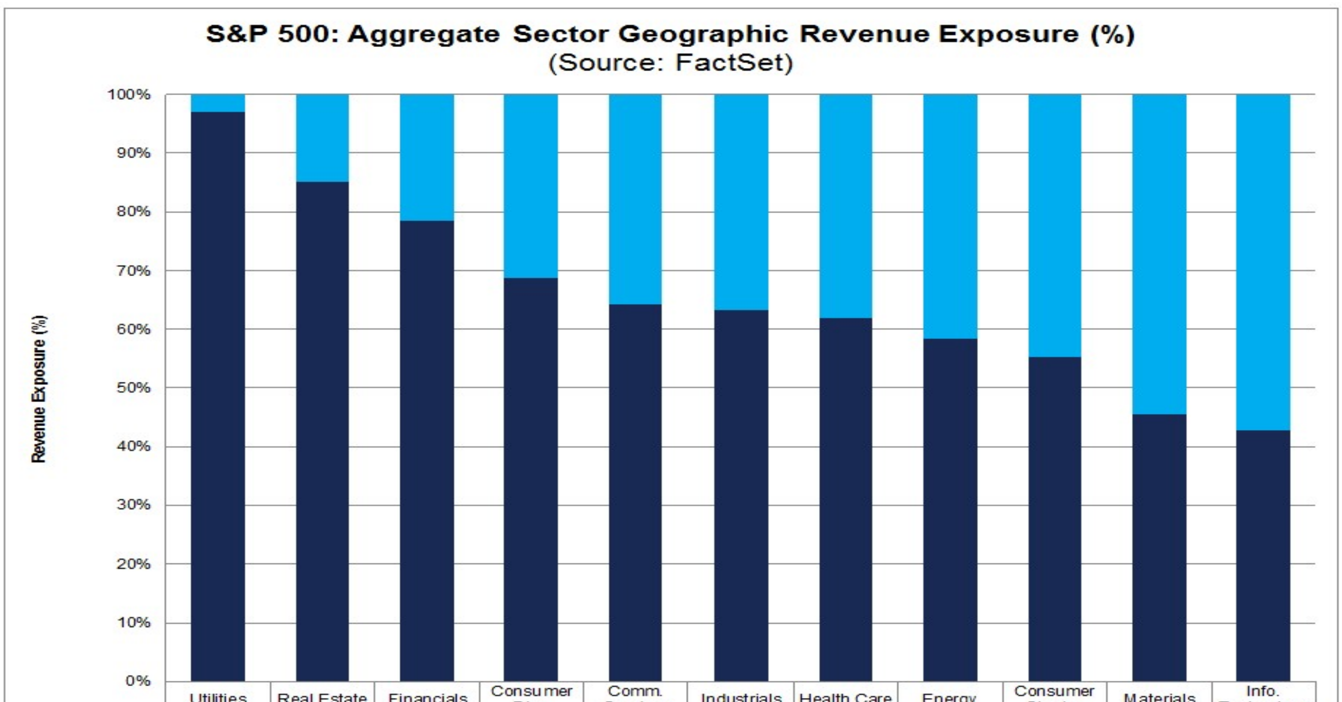
	Energy	Industrials	Materials	Consumer Disc.	Comm. Services	S&P 500	Info. Technology	Health Care	Consumer Staples	Real Estate	Utilities	Financials
Today	31.2%	17.7%	15.3%	12.2%	12.1%	10.6%	10.1%	9.3%	6.6%	6.0%	5.3%	5.0%
30-Sep	31.1%	18.0%	15.4%	11.9%	12.4%	10.8%	10.1%	9.4%	6.6%	5.9%	5.3%	5.4%



	Comm. Services	Energy	Info. Technology	Health Care	Industrials	Consumer Disc.	S&P 500	Real Estate	Materials	Consumer Staples	Utilities	Financials
Today	8.7%	7.8%	6.5%	6.3%	5.8%	5.8%	5.6%	5.1%	4.4%	3.5%	3.2%	2.3%
30-Sep	8.7%	7.8%	6.5%	6.3%	6.1%	5.8%	5.6%	5.0%	4.4%	3.5%	3.2%	2.5%

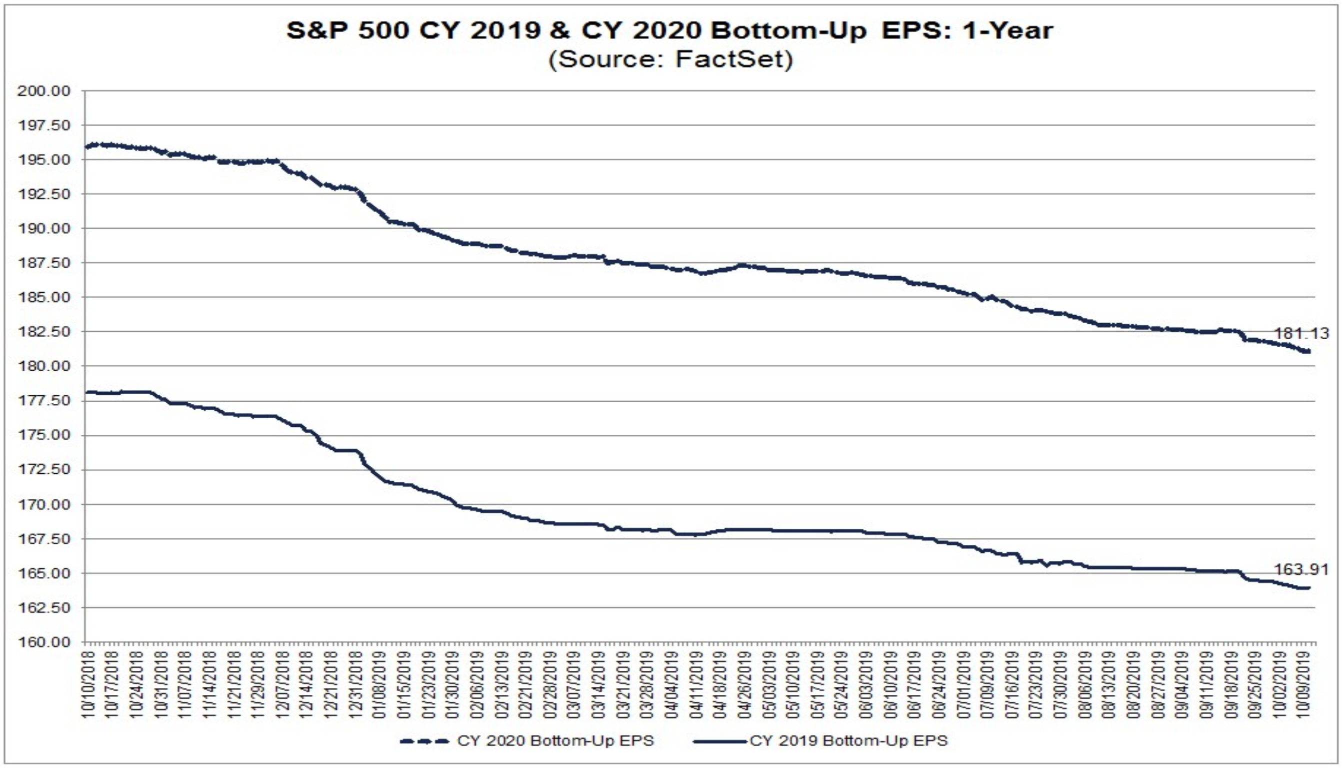
Geographic Revenue Exposure

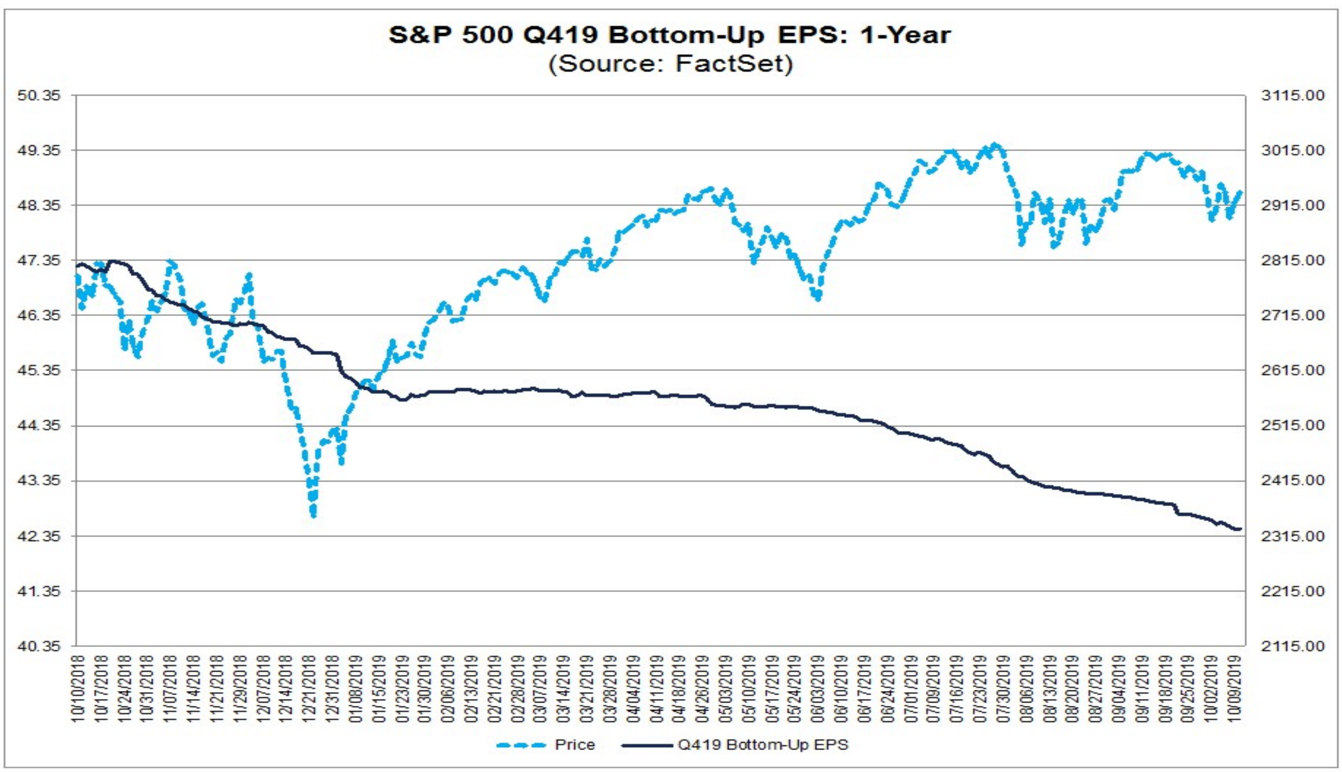




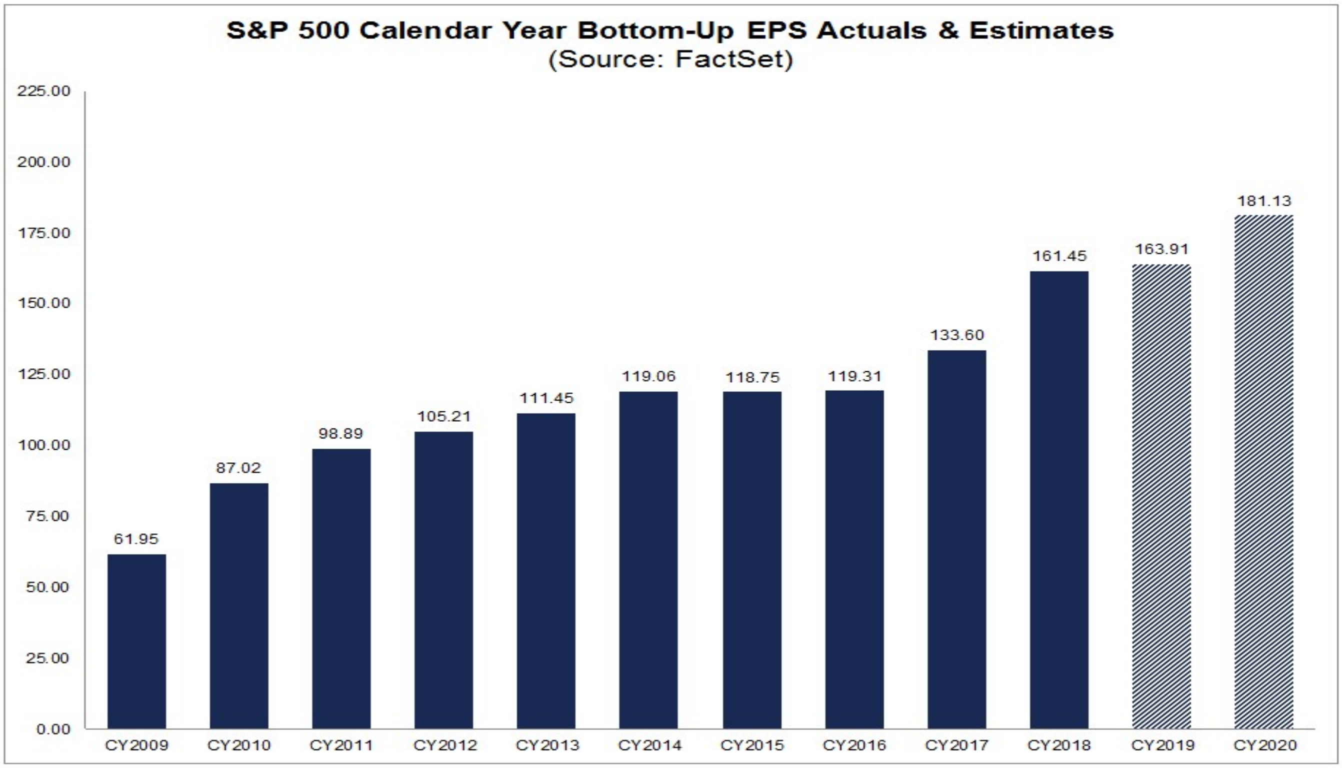
	Utilities	Real Estate	Financials	Consumer Disc.	Comm. Services	Industrials	Health Care	Energy	Consumer Staples	Materials	Info. Technology
International	3%	15%	22%	31%	36%	37%	38%	42%	45%	54%	57%
United States	97%	85%	78%	69%	64%	63%	62%	58%	55%	46%	43%

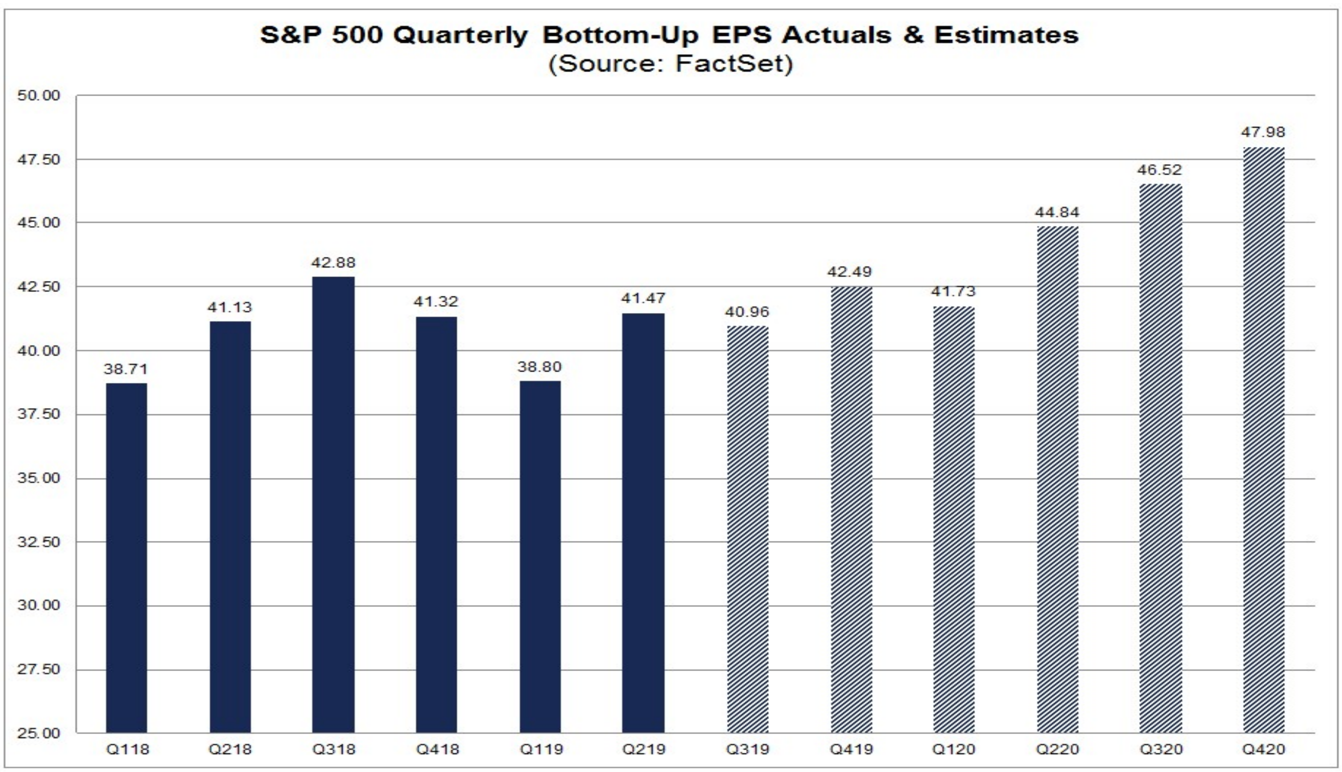
Bottom-up EPS Estimates: Revisions



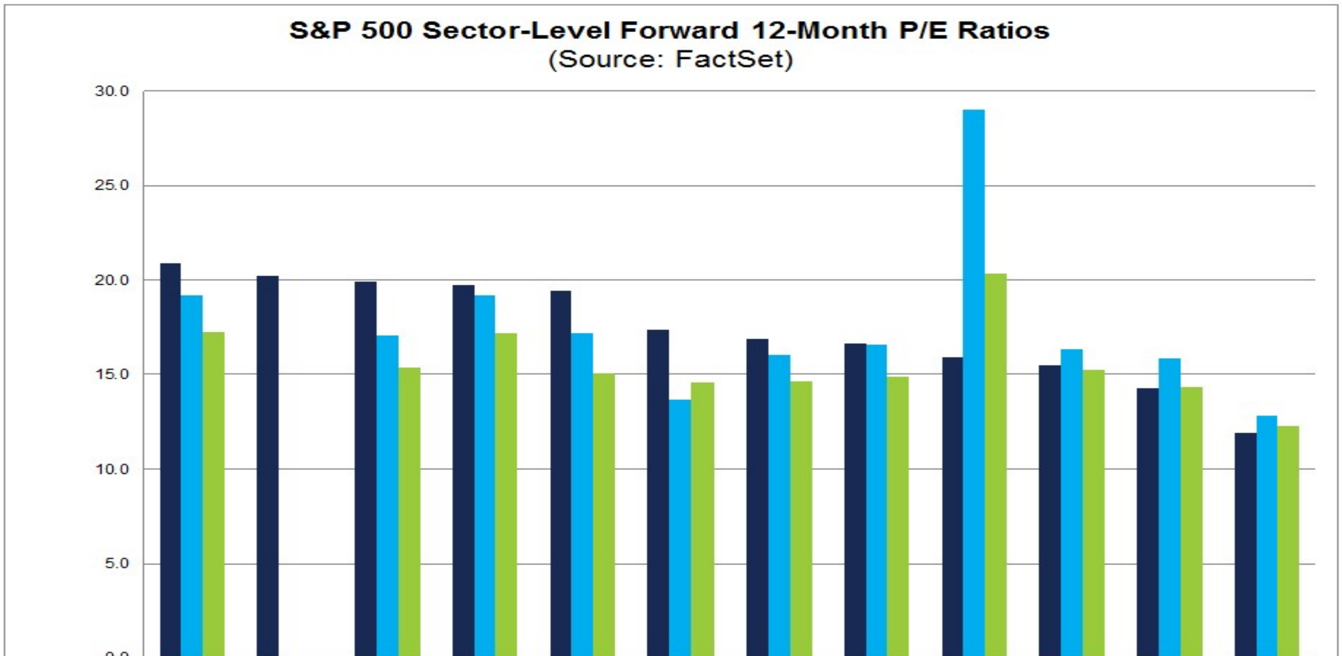


Bottom-up EPS Estimates: Current & Historical

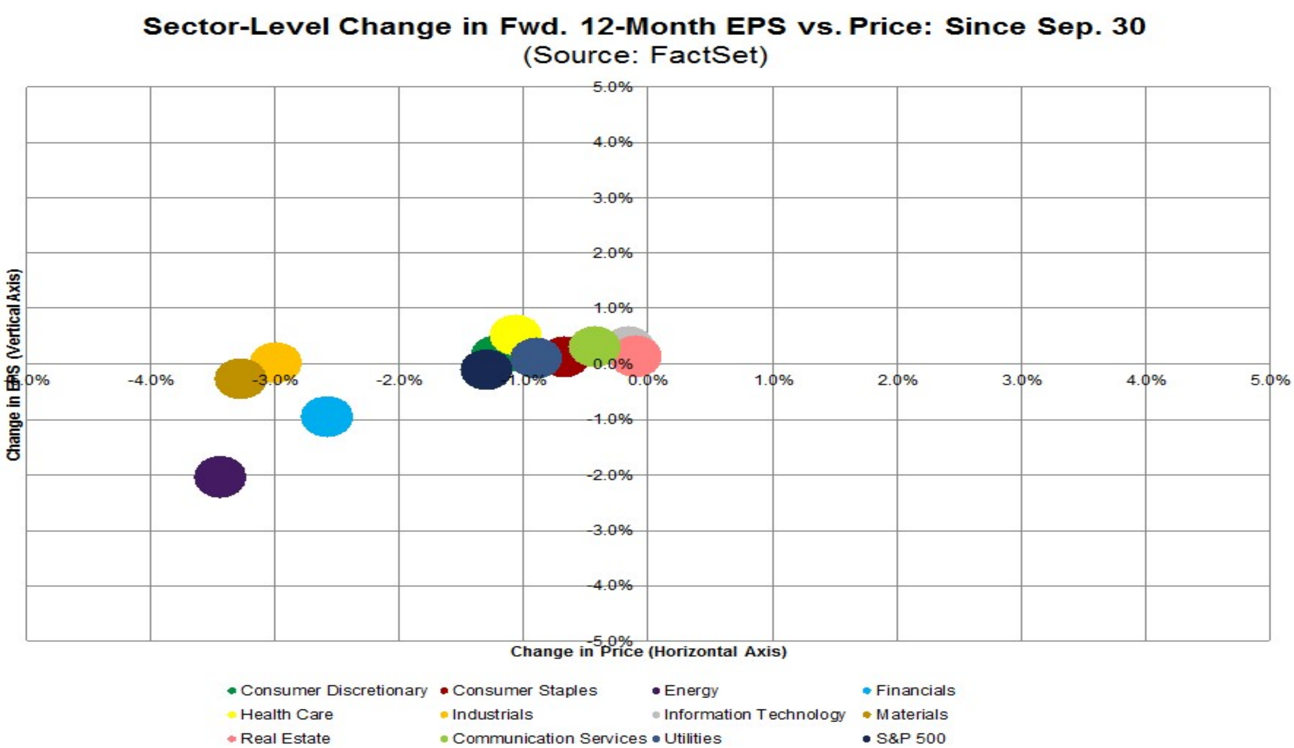




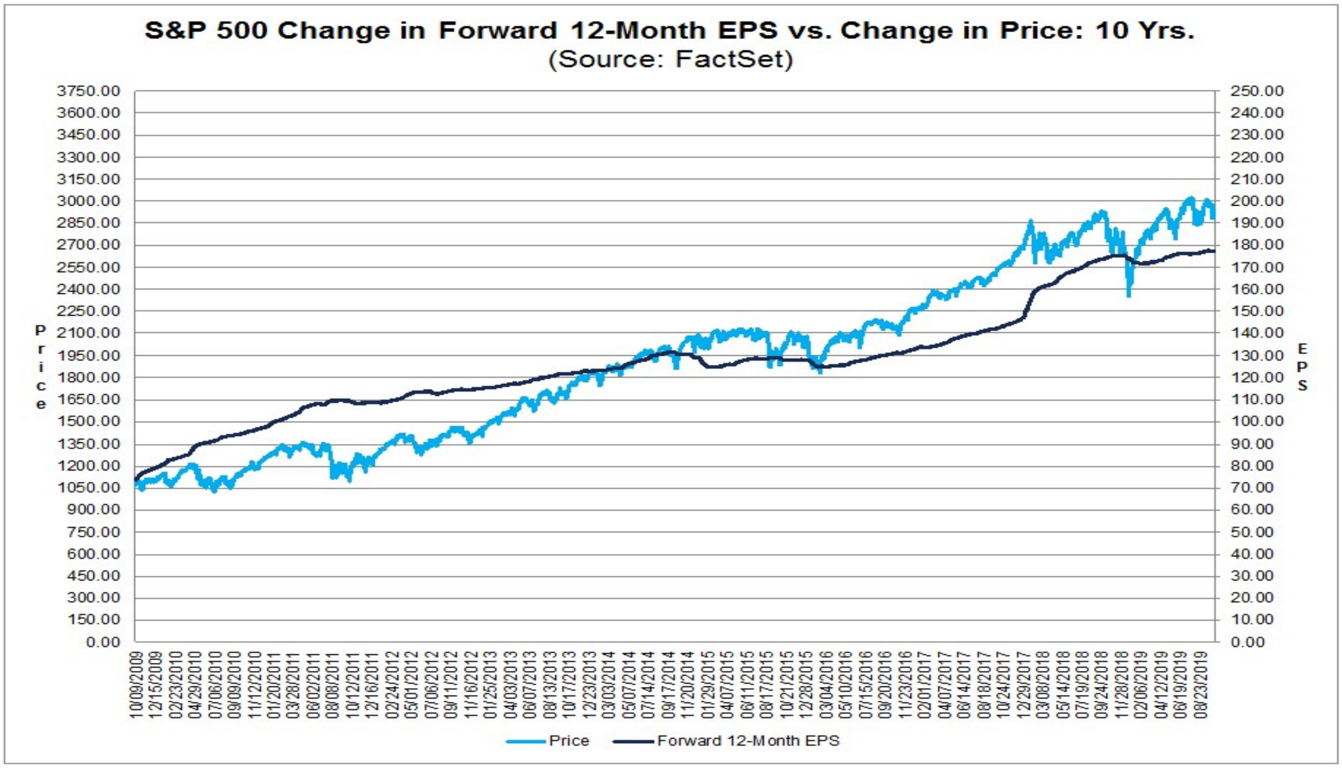
Forward 12M P/E Ratio: Sector Level

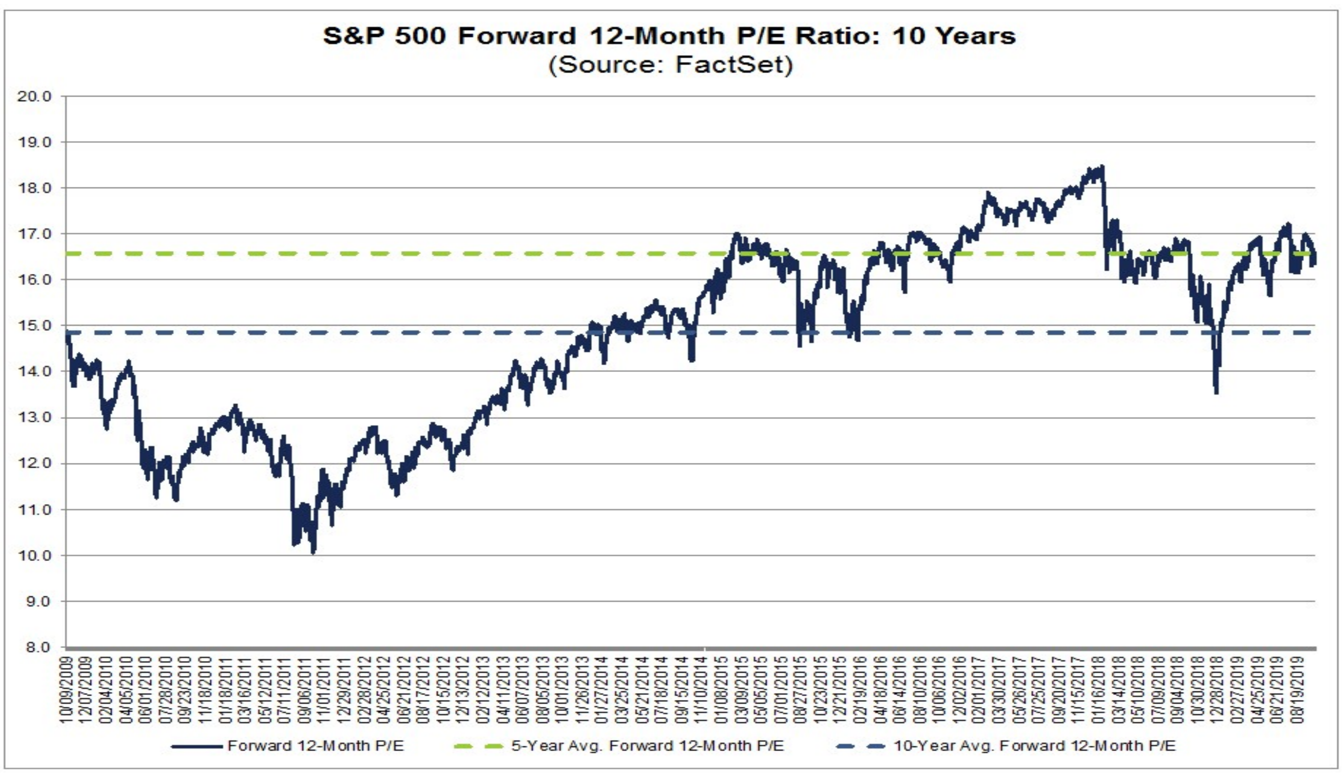


	Consumer Disc.	Real Estate	Utilities	Consumer Staples	Info. Technology	Comm. Services	Materials	S&P 500	Energy	Industrials	Health Care	Financials
Fwd P/E	20.8	20.2	19.9	19.7	19.4	17.3	16.8	16.6	15.9	15.5	14.3	11.9
5-Yr Avg.	19.2		17.0	19.2	17.2	13.7	16.0	16.6	29.0	16.3	15.8	12.9
10-Yr Avg.	17.2		15.4	17.1	15.0	14.6	14.6	14.8	20.3	15.2	14.3	12.3

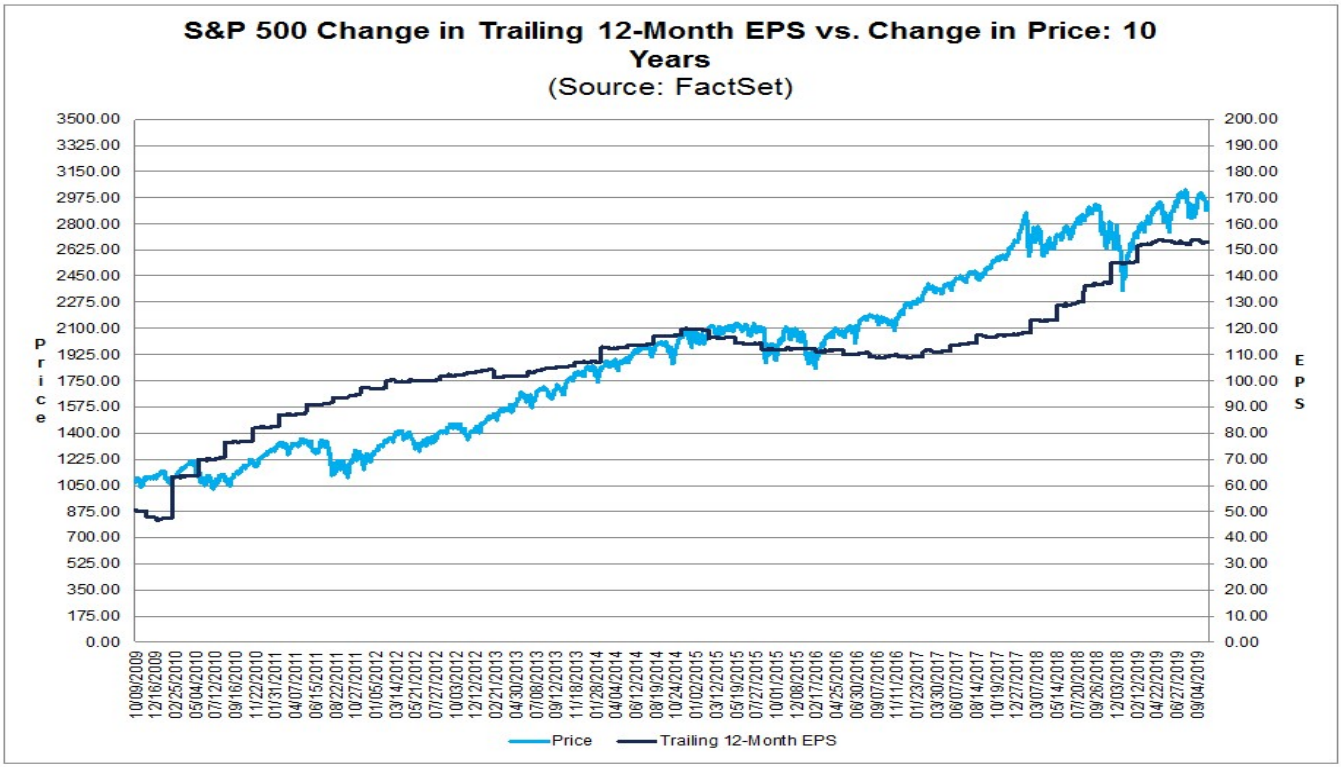


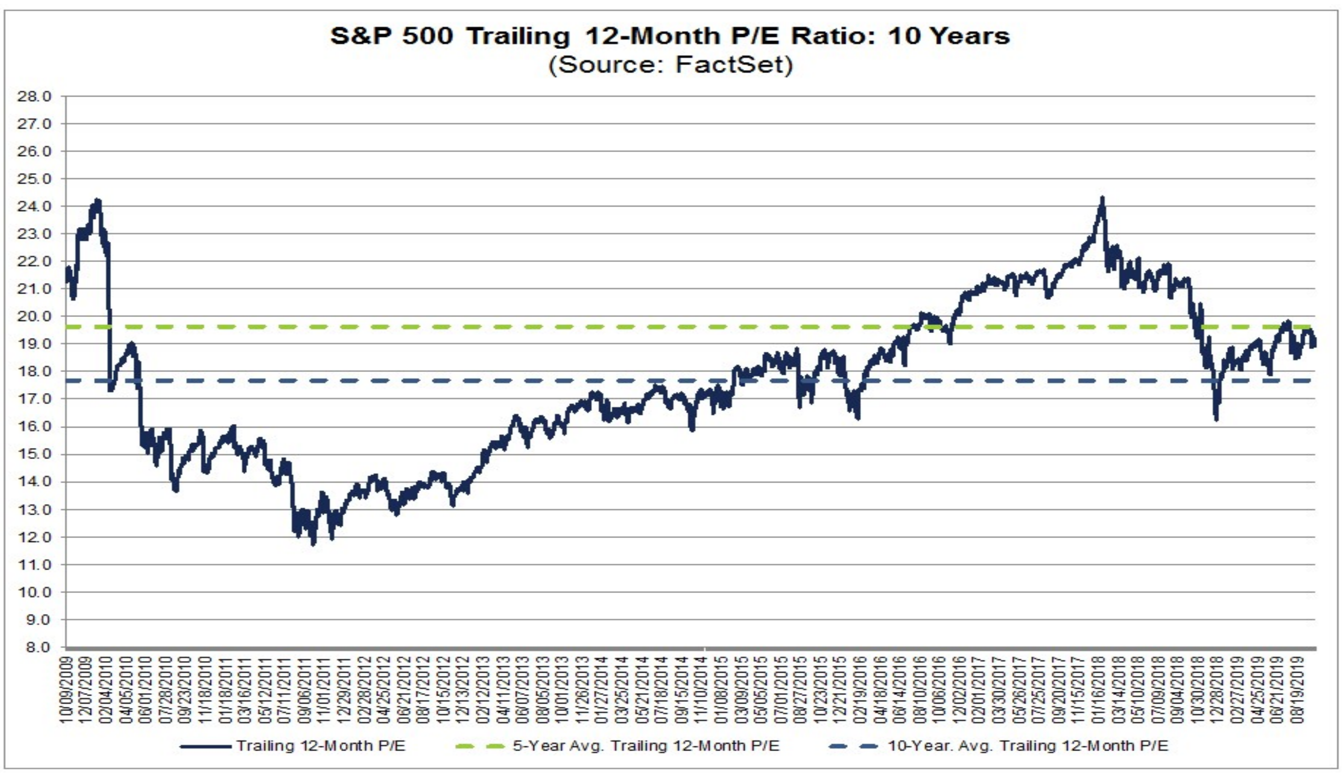
Forward 12M P/E Ratio: 10-Years



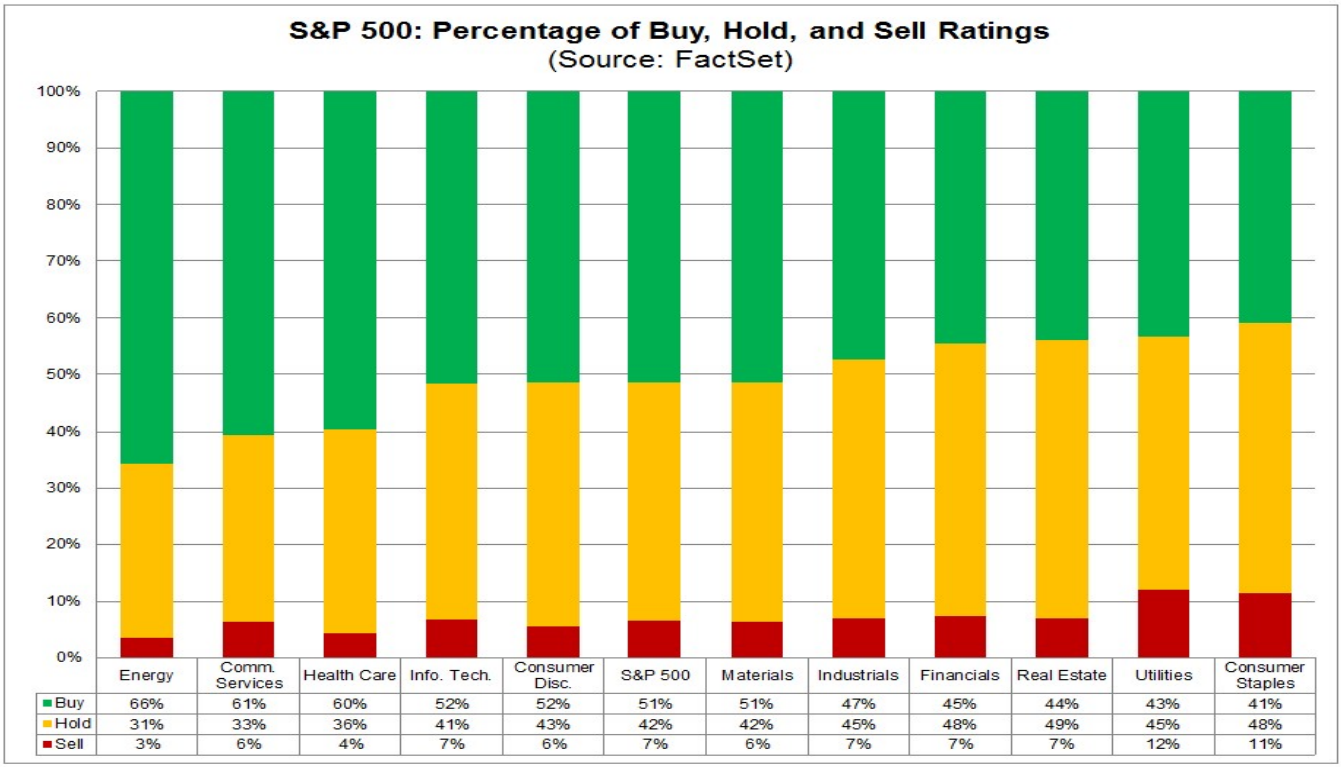


Trailing 12M P/E Ratio: 10-Years

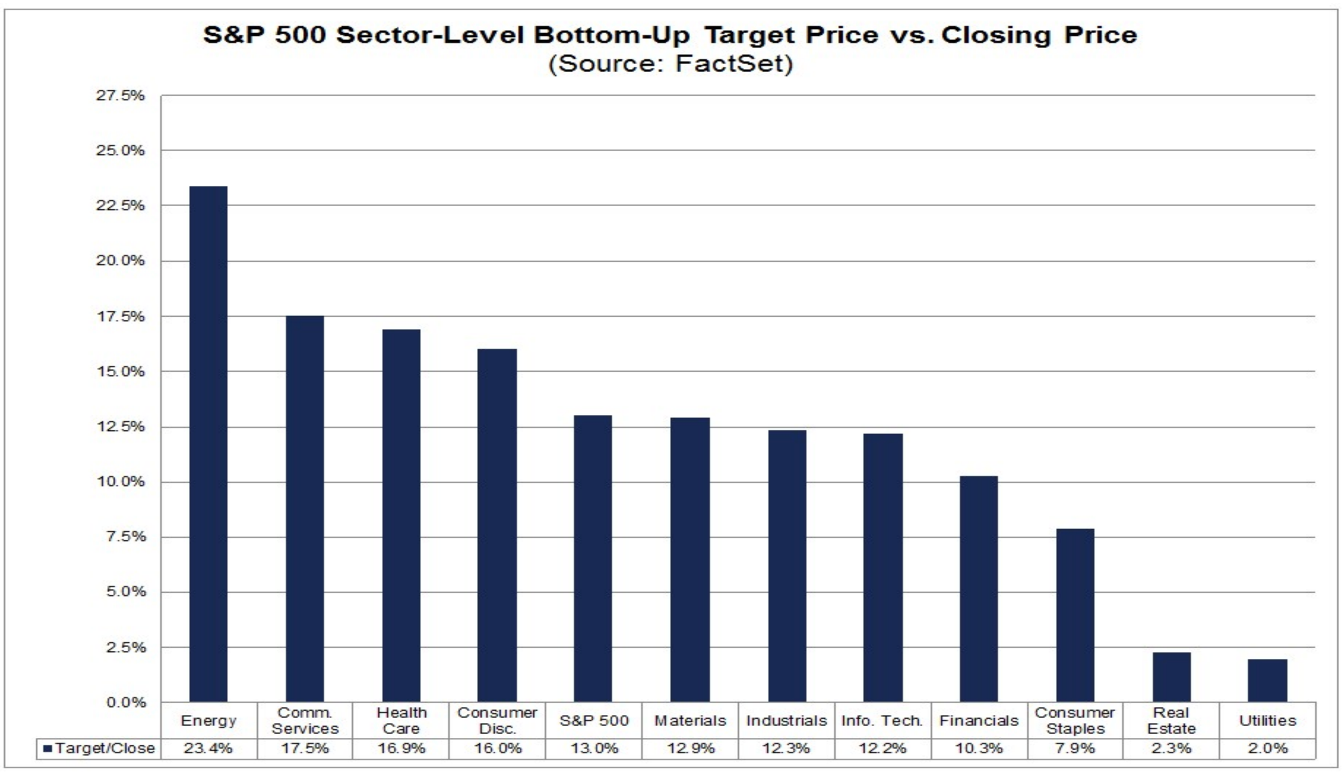




Targets & Ratings



	Energy	Comm. Services	Health Care	Info. Tech.	Consumer Disc.	S&P 500	Materials	Industrials	Financials	Real Estate	Utilities	Consumer Staples
Buy	66%	61%	60%	52%	52%	51%	51%	47%	45%	44%	43%	41%
Hold	31%	33%	36%	41%	43%	42%	42%	45%	48%	49%	45%	48%
Sell	3%	6%	4%	7%	6%	7%	6%	7%	7%	7%	12%	11%



	Energy	Comm. Services	Health Care	Consumer Disc.	S&P 500	Materials	Industrials	Info. Tech.	Financials	Consumer Staples	Real Estate	Utilities
Target/Close	23.4%	17.5%	16.9%	16.0%	13.0%	12.9%	12.3%	12.2%	10.3%	7.9%	2.3%	2.0%

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