

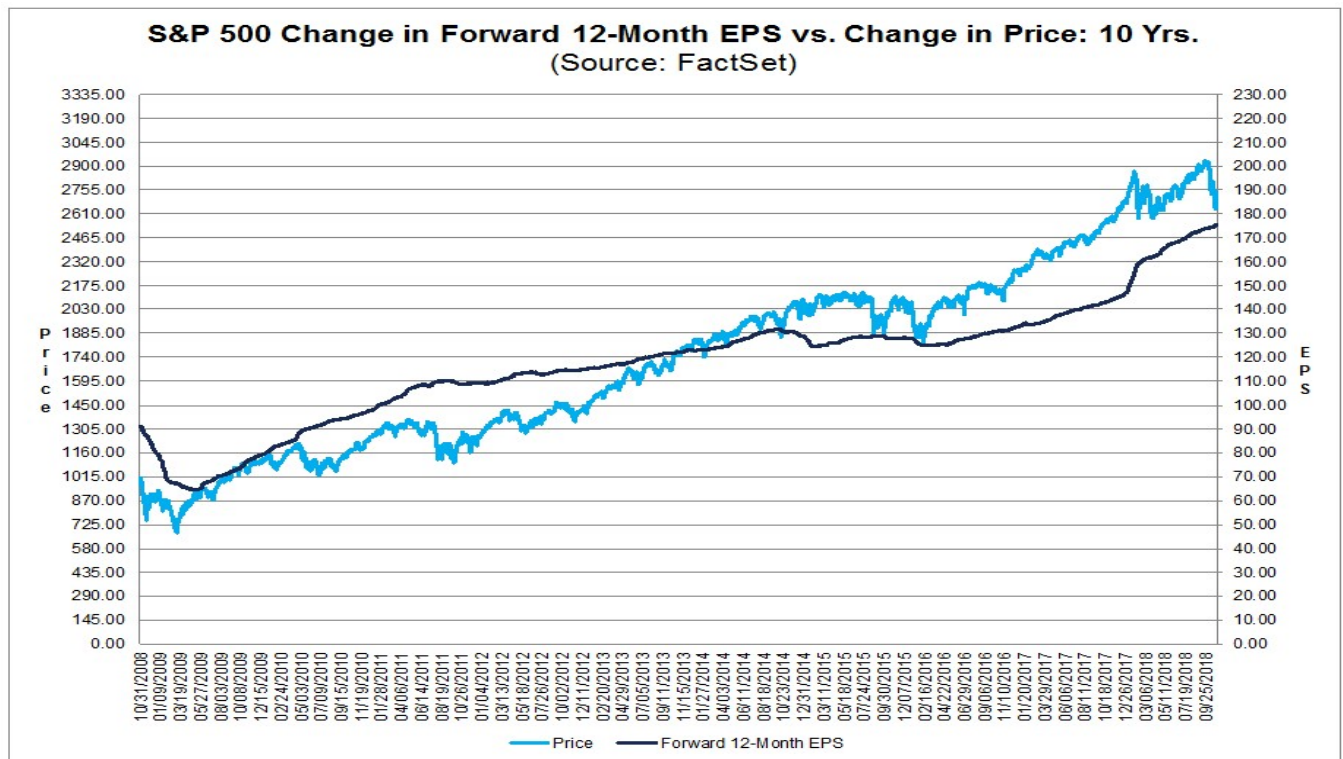
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## Key Metrics

- **Earnings Scorecard:** For Q3 2018 (with 74% of the companies in the S&P 500 reporting actual results for the quarter), 78% of S&P 500 companies have reported a positive EPS surprise and 61% have reported a positive sales surprise.
- **Earnings Growth:** For Q3 2018, the blended earnings growth rate for the S&P 500 is 24.9%. If 24.9% is the actual growth rate for the quarter, it will mark the second highest earnings growth since Q3 2010.
- **Earnings Revisions:** On September 30, the estimated earnings growth rate for Q3 2018 was 19.3%. All eleven sectors have higher growth rates today (compared to September 30) due to positive EPS surprises and upward revisions to EPS estimates.
- **Earnings Guidance:** For Q4 2018, 46 S&P 500 companies have issued negative EPS guidance and 24 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 15.6. This P/E ratio is below the 5-year average (16.4) but above the 10-year average (14.5).



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## Topic of the Week:

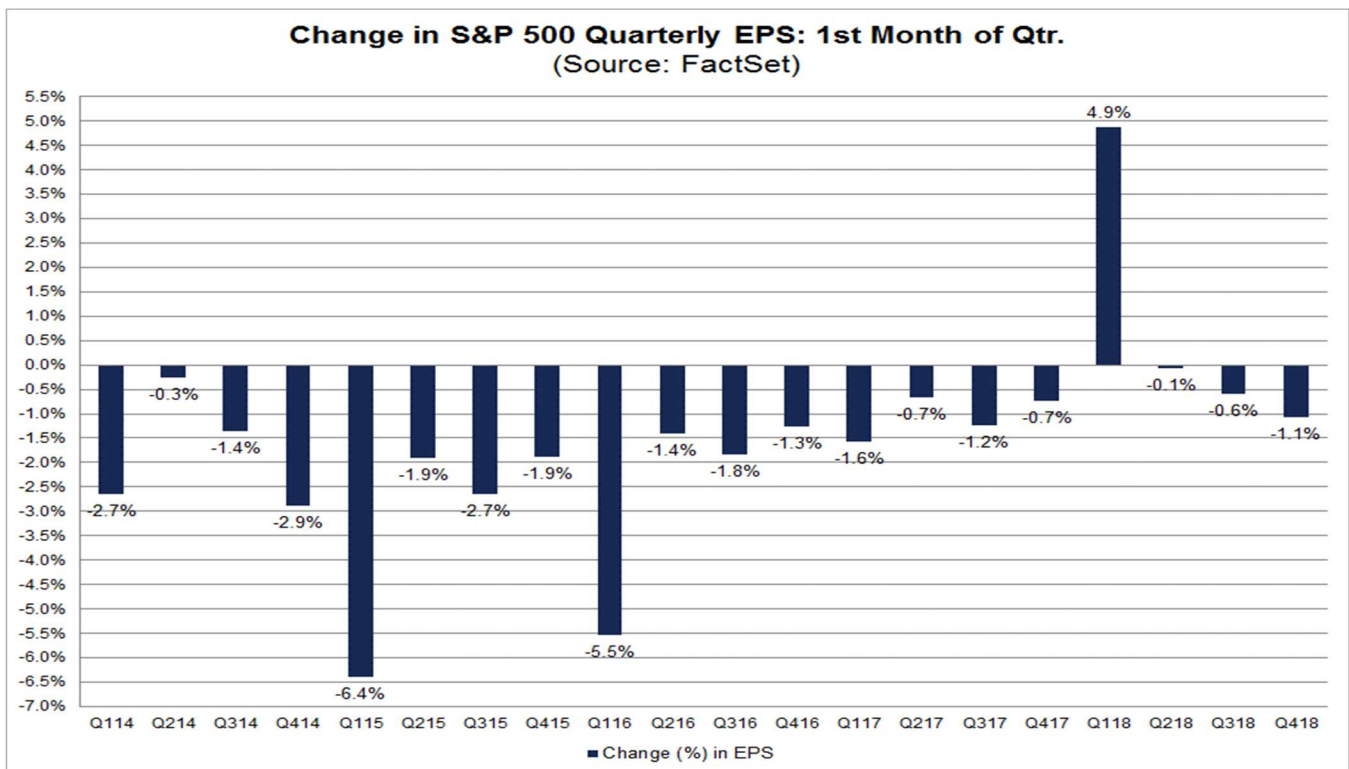
### Smaller Cuts Than Average to S&P 500 EPS Estimates for Q4 To Date

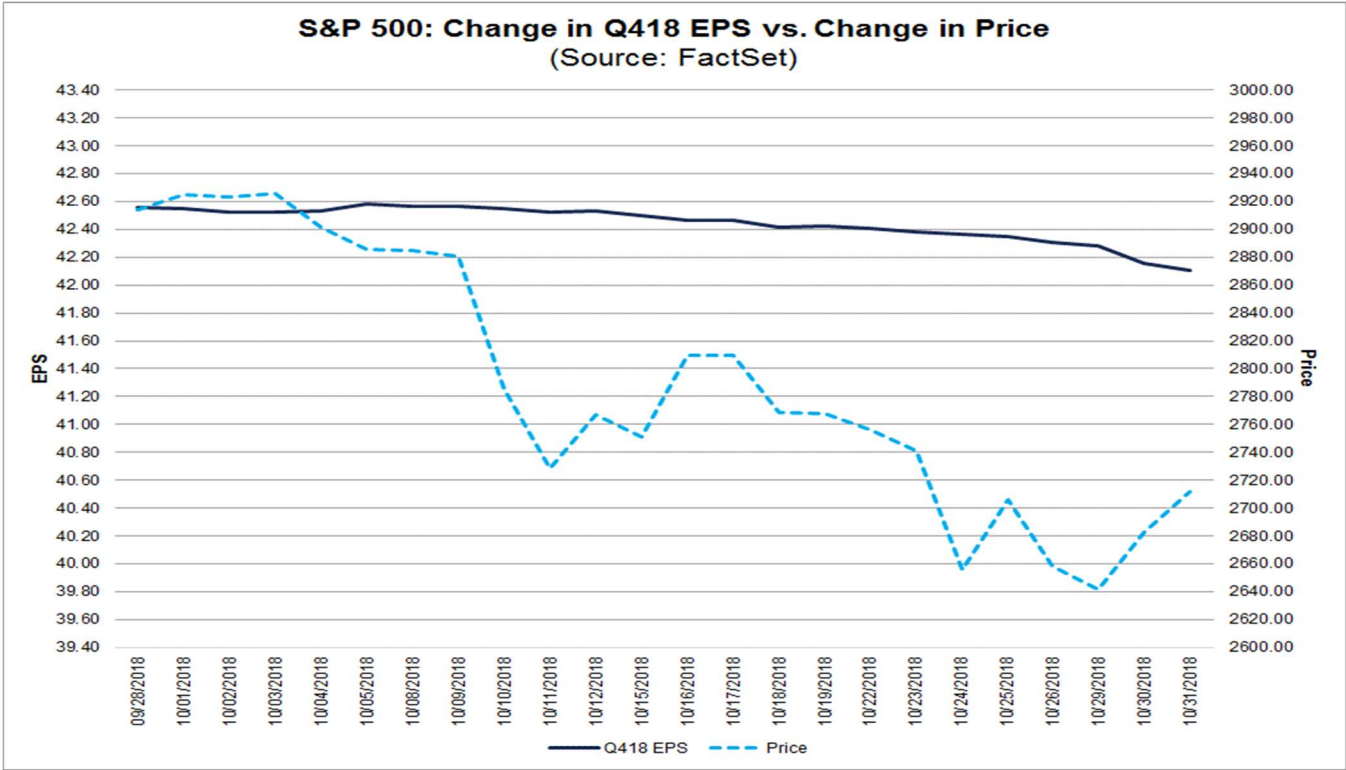
During the month of October, analysts lowered earnings estimates for companies in the S&P 500 for the fourth quarter. The Q4 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for all the companies in the index) dropped by 1.1% (to \$42.11 from \$42.56) during this period. How significant is a 1.1% decline in the bottom-up EPS estimate during the first month of a quarter? How does this decrease compare to recent quarters?

During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 1.6%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 2.1%. During the past fifteen years, (60 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 1.6%. Thus, the decline in the bottom-up EPS estimate recorded during the first month of the fourth quarter was smaller than the 5-year, 10-year, and 15-year averages.

At the sector level, nine sectors recorded a decline in their bottom-up EPS estimate during the first month of the quarter, led by the Utilities (-4.4%) and Industrials (-4.1%) sectors. On the other hand, the Energy (+5.4%) sector was the only sector that recorded an increase in its bottom-up EPS estimate during this time. The Information Technology (0.0%) saw no change in its bottom-up EPS estimate during this period. Overall, five sectors recorded a smaller decrease (or an increase) in their bottom-up EPS estimate relative to their 10-year average and their 15-year average for the first month of a quarter.

As the bottom-up EPS estimate for the index declined during the first month of the fourth quarter, the value of the S&P 500 also decreased during this same period. From September 30 through October 31, the value of the index decreased by 6.9% (to 2711.74 from 2913.98). The fourth quarter marked the 6th time in the past 20 quarters in which the both the bottom-up EPS estimate and the value of the index decreased during the first month of the quarter.





## Q3 Earnings Season: By The Numbers

### Overview

For the third quarter to date (with 74% of the companies in the S&P 500 reporting actual results), companies are outperforming recent averages in terms of the number of companies reporting positive surprises and the magnitude of the positive surprises. In terms of earnings, the percentage of companies reporting actual EPS above estimates (78%) is above the 5-year average. In aggregate, companies are reporting earnings that are 6.8% above the estimates, which is also above the 5-year average. In terms of sales, the percentage of companies reporting sales above estimates (61%) is above the 5-year average. In aggregate, companies are reporting sales that are 1.0% above estimates, which is also above the 5-year average.

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report), year-over-year earnings growth rate for the third quarter is 24.9% today, which is above the estimate of 19.3% at the end of the quarter. If 24.9% is the actual growth rate for the quarter, it will mark the second highest earnings growth since Q3 2010. All eleven sectors are reporting year-over-year earnings growth. Nine sectors are reporting double-digit earnings growth, led by the Energy, Financials, Communication Services, and Materials sectors.

The blended, year-over-year sales growth rate for the third quarter is 8.5% today, which is above the estimate of 7.8% at the end of the quarter. All eleven sectors are reporting year-over-year growth in revenues. Five sectors are reporting double-digit growth in revenues, led by the Energy, Communication Services, and Real Estate sectors.

Looking at future quarters, analysts see double-digit earnings growth for the fourth quarter, but also see single-digit earnings growth for the first half of 2019.

The forward 12-month P/E ratio is 15.6, which is below the 5-year average but above the 10-year average.

During the upcoming week, 77 S&P 500 companies (including 1 Dow 30 component) are scheduled to report results for the third quarter.

### Scorecard: More Companies Beating Estimates by Wider Margins Than Average

#### Percentage of Companies Beating EPS Estimates (78%) is Above 5-Year Average

Overall, 74% of the companies in the S&P 500 have reported earnings to date for the third quarter. Of these companies, 78% have reported actual EPS above the mean EPS estimate, 8% have reported actual EPS equal to the mean EPS estimate, and 14% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is above the 1-year (77%) average and above the 5-year (71%) average.

At the sector level, the Communication Services (92%) and Information Technology (91%) sectors have the highest percentages of companies reporting earnings above estimates, while the Materials (63%) and Energy (67%) sectors have the lowest percentages of companies reporting earnings above estimates.

#### Earnings Surprise Percentage (+6.8%) is Above 5-Year Average

In aggregate, companies are reporting earnings that are 6.8% above expectations. This surprise percentage is above the 1-year (+5.4%) average and above the 5-year (+4.6%) average.

The Consumer Discretionary (+18.0%) sector is reporting the largest upside aggregate difference between actual earnings and estimated earnings. Within this sector, Under Armour (\$0.25 vs. \$0.12), Amazon.com (\$5.75 vs. \$3.08), and General Motors (\$1.87 vs. \$1.22) have reported the largest upside differences between actual EPS and estimated EPS.

#### Market Not Rewarding Earnings Beats and Punishing Earnings Misses

To date, the market is rewarding positive earnings surprises less than average and punishing negative earnings surprises more than average.

Companies that have reported positive earnings surprises for Q3 2018 have seen an average price increase of +0.2% two days before the earnings release through two days after the earnings. This percentage is well below the 5-year average price increase of +1.0% during this same window for companies reporting upside earnings surprises.

Companies that have reported negative earnings surprises for Q3 2018 have seen an average price decrease of -3.8% two days before the earnings release through two days after the earnings. This percentage decrease is much larger than the 5-year average price decrease of -2.5% during this same window for companies reporting downside earnings surprises.

### Percentage of Companies Beating Revenue Estimates (61%) is Above 5-Year Average

In terms of revenues, 61% of companies have reported actual sales above estimated sales and 39% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is below the 1-year average (73%) but above the 5-year average (59%).

At the sector level, the Communication Services (85%) and Real Estate (74%) sectors have the highest percentages of companies reporting revenues above estimates, while the Industrials (53%) and Utilities (55%) sectors have the lowest percentages of companies reporting revenues above estimates.

### Revenue Surprise Percentage (+1.0%) is Above 5-Year Average

In aggregate, companies are reporting sales that are 1.0% above expectations. This surprise percentage is below the 1-year (+1.3%) average but above the 5-year (+0.7%) average.

The Communication Services (+1.6%) and Information Technology (+1.6%) sectors are reporting the largest upside aggregate differences between actual sales and estimated sales, while the Consumer Staples (+0.4%) sector is reporting the smallest upside aggregate difference between actual sales and estimated sales.

## Earnings Growth: 24.9%

The blended (year-over-year) earnings growth rate for Q3 2018 is 24.9%. If 24.9% is the final growth rate for the quarter, it will mark the second highest earnings growth reported by the index since Q3 2010, trailing only the previous quarter (25.2%). It will also mark the third straight quarter of earnings growth above 20%. All eleven sectors are reporting year-over-year growth in earnings. Nine sectors are reporting double-digit earnings growth for the quarter, led by the Energy, Financials, Communication Services, and Materials sectors.

### Energy: Higher Year-Over-Year Oil Prices Driving Broad-Based Growth

The Energy sector is reporting the highest (year-over-year) earnings growth of all eleven sectors at 123.4%. Higher oil prices are helping to drive the unusually high growth rate for the sector, as the average price of oil in Q3 2018 (\$69.43) was 44% higher than the average price of oil in Q3 2017 (\$48.20). At the sub-industry level, all six sub-industries in the sector are reporting earnings growth for the quarter: Oil & Gas Drilling (N/A due to year-ago loss), Oil & Gas Exploration & Production (4,005%), Integrated Oil & Gas (111%), Oil & Gas Storage & Transportation (68%), Oil & Gas Refining & Marketing (35%), and Oil & Gas Equipment & Services (15%).

### Financials: All 5 Industries Reporting Double-Digit Growth, Led by Insurance Industry

The Financials sector is reporting the second highest (year-over-year) earnings growth of all eleven sectors at 35.4%. At the industry level, all five industries in this sector are reporting double-digit growth in earnings: Insurance (142%), Diversified Financial Services (87%), Consumer Finance (26%), Banks (22%), and Capital Markets (20%). The unusually high growth rate for the Insurance industry can be attributed in part to an easy comparison to weak year-ago earnings due to catastrophic losses from Hurricanes Harvey and Irma. If the Insurance industry were excluded, the blended earnings growth rate for the Financials sector would fall to 24.7% from 35.4%.

### Communication Services: All 4 Industries Reporting Double-Digit Earnings Growth

The Communication Service sector is reporting the third highest (year-over-year) earnings growth of all eleven sectors at 30.3%. At the industry level, all four industries in the sector are reporting double-digit earnings growth: Diversified Telecommunication Services (36%), Media (33%), Interactive Media & Service (28%), and Entertainment (20%).

### Materials: All 4 Industries Reporting Double-Digit Earnings Growth

The Materials sector is reporting the fourth highest (year-over-year) earnings growth of all eleven sectors at 28.5%. At the industry level, all four industries in the sector are reporting double-digit earnings growth: Metals & Mining (53%), Containers & Packaging (31%), Construction Materials (25%), and Chemicals (22%).

### Revenue Growth: 8.5%

The blended (year-over-year) revenue growth rate for Q3 2018 is 8.5%. If 8.5% is the final growth rate for the quarter, it will mark the third highest revenue growth reported by the index since Q3 2011, trailing only the previous two quarters. All eleven sectors are reporting year-over-year growth in revenue. Five sectors are reporting double-digit growth in revenue, led by the Energy, Communication Services, and Real Estate sectors.

### Energy: 5 of 6 Sub-Industries Reporting Double-Digit Growth

The Energy sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 19.9%. At the sub-industry level, all six sub-industries are reporting revenue growth. Five of the six sub-industries in the sector are reporting double-digit revenue growth: Oil & Gas Exploration & Production (34%), Oil & Gas Drilling (28%), Oil & Gas Refining & Marketing (22%), Integrated Oil & Gas (19%), and Oil & Gas Storage & Transportation (18%).

### Communication Services: Interactive Media & Services Industry Leads Growth

The Communication Services sector is reporting the second highest (year-over-year) revenue growth of all eleven sectors at 19.1%. At the industry level, all four industries in this sector are reporting revenue growth. Two of these four industries are reporting double-digit revenue growth: Interactive Media & Services (47%) and Diversified Telecommunication Services (12%).

### Real Estate: CBRE Group Leads Growth

The Real Estate sector is reporting the third highest (year-over-year) revenue growth of all eleven sectors at 13.1%. At the company level, CBRE Group is the largest contributor to revenue growth for the sector. The company reported actual revenues of \$5.3 billion for Q3 2018, compared to year-ago revenues of \$3.5 billion in Q3 2017. If this company were excluded, the blended revenue growth rate for the sector would fall to 6.9% from 13.1%.

## Looking Ahead: Forward Estimates and Valuation

### Guidance: Lower % of S&P 500 Companies Issuing Negative EPS Guidance for Q4 than Average

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, 70 companies in the index have issued EPS guidance for Q4 2018. Of these 70 companies, 46 have issued negative EPS guidance and 24 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 66% (46 out of 70), which is below the 5-year average of 70%.

### 2018 Earnings Growth Estimate is 21%, But 2019 Earnings Growth Estimate is 9%

For the third quarter, companies are reporting earnings growth of 24.9% and revenue growth of 8.5%. While analysts currently expect earnings to grow at double-digit levels for Q4, they also expect more moderate growth in early 2019.

For Q4 2018, analysts are projecting earnings growth of 15.0% and revenue growth of 6.8%.

For CY 2018, analysts are projecting earnings growth of 20.6% and revenue growth of 8.6%.

For Q1 2019, analysts are projecting earnings growth of 6.0% and revenue growth of 6.6%.

For Q2 2019, analysts are projecting earnings growth of 6.5% and revenue growth of 5.1%.

For CY 2019, analysts are projecting earnings growth of 9.4% and revenue growth of 5.4%.

### Valuation: Forward P/E Ratio is 15.6, above the 10-Year Average (14.5)

The forward 12-month P/E ratio is 15.6. This P/E ratio is below the 5-year average of 16.4, but above the 10-year average of 14.5. It is also below the forward 12-month P/E ratio of 16.8 recorded at the start of the fourth quarter (September 30). Since the start of the fourth quarter, the price of the index has decreased by 6.0%, while the forward 12-month EPS estimate has increased by 0.9%.

At the sector level, the Consumer Discretionary (20.1) sector has the highest forward 12-month P/E ratio, while the Financials (11.6) sector has the lowest forward 12-month P/E ratio.

### Targets & Ratings: Analysts Project 16% Increase in Price Over Next 12 Months

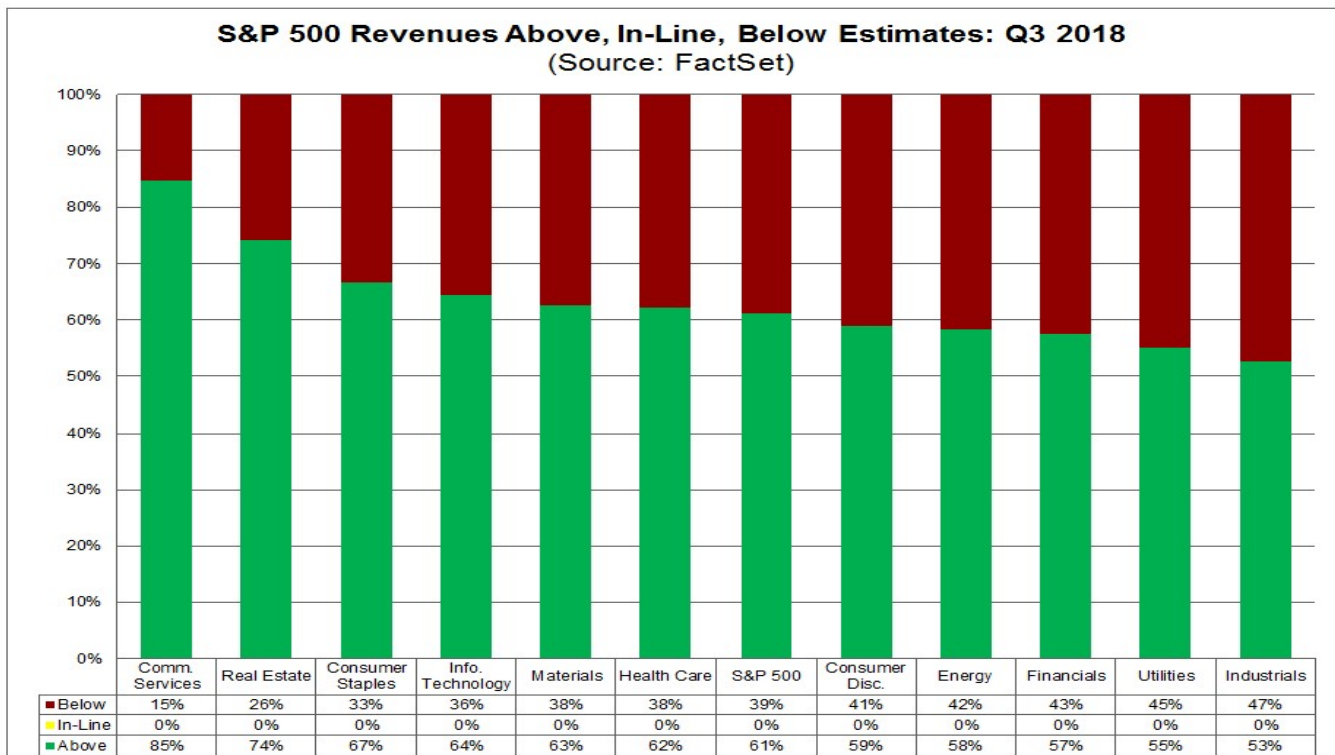
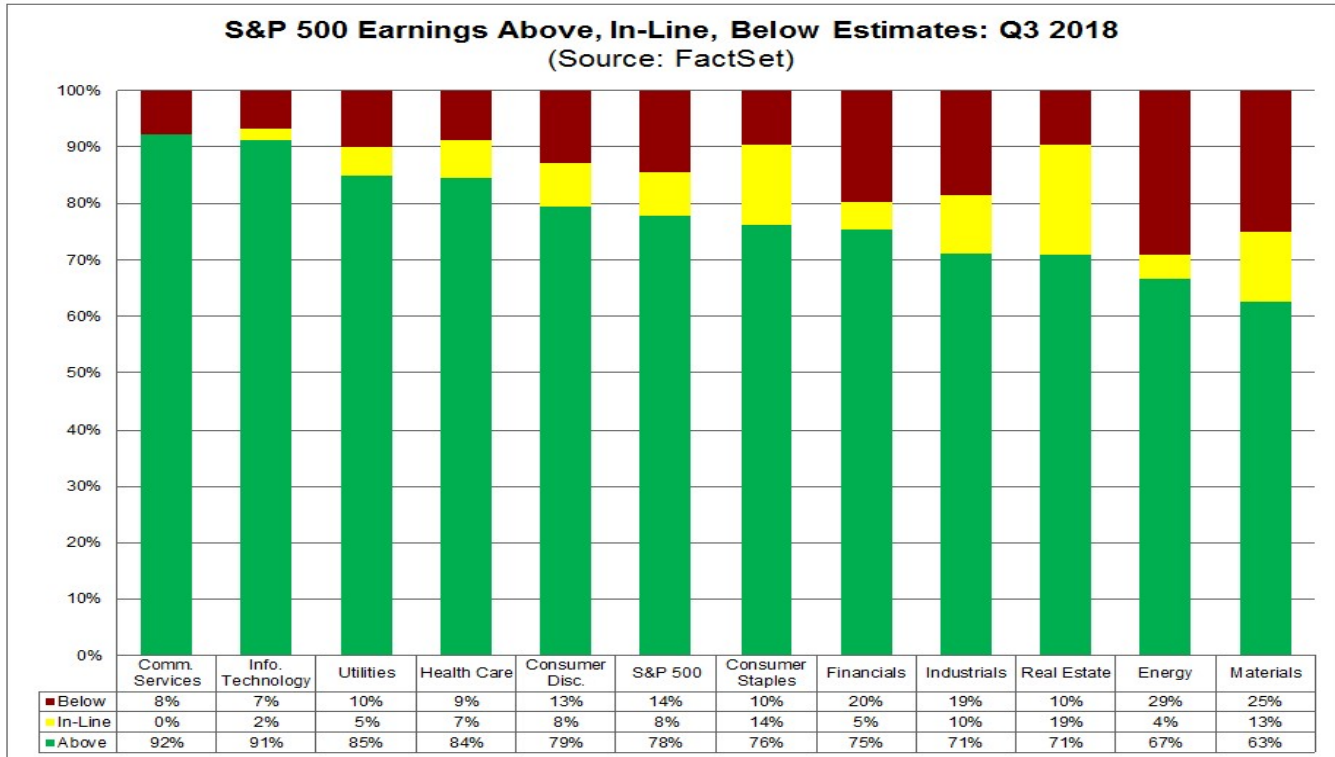
The bottom-up target price for the S&P 500 is 3188.68, which is 16.4% above the closing price of 2740.37. At the sector level, the Energy (+26.8%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Consumer Staples (+4.9%) and Utilities (+4.9%) 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.

Overall, there are 11,048 ratings on stocks in the S&P 500. Of these 11,048 ratings, 53.3% are Buy ratings, 41.3% are Hold ratings, and 5.4% are Sell ratings. At the sector level, the Energy (63%) 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: 77

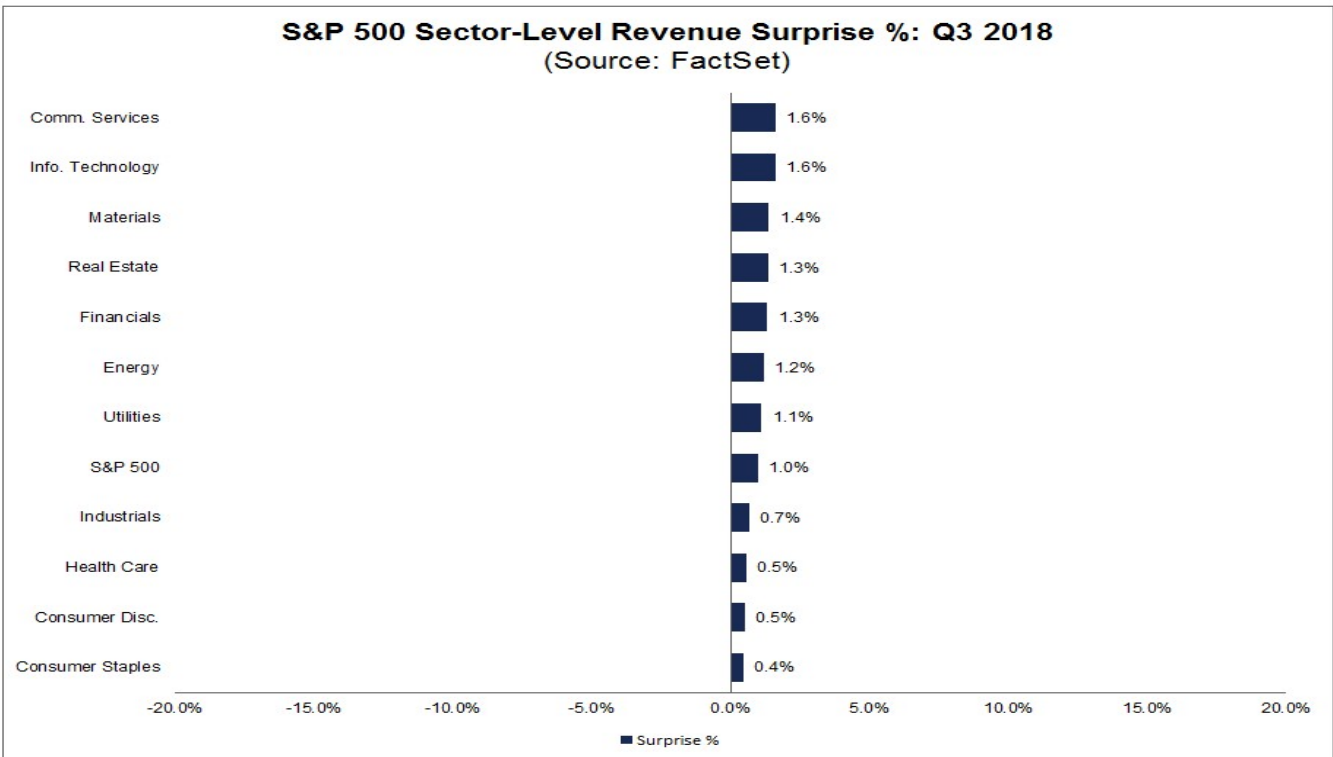
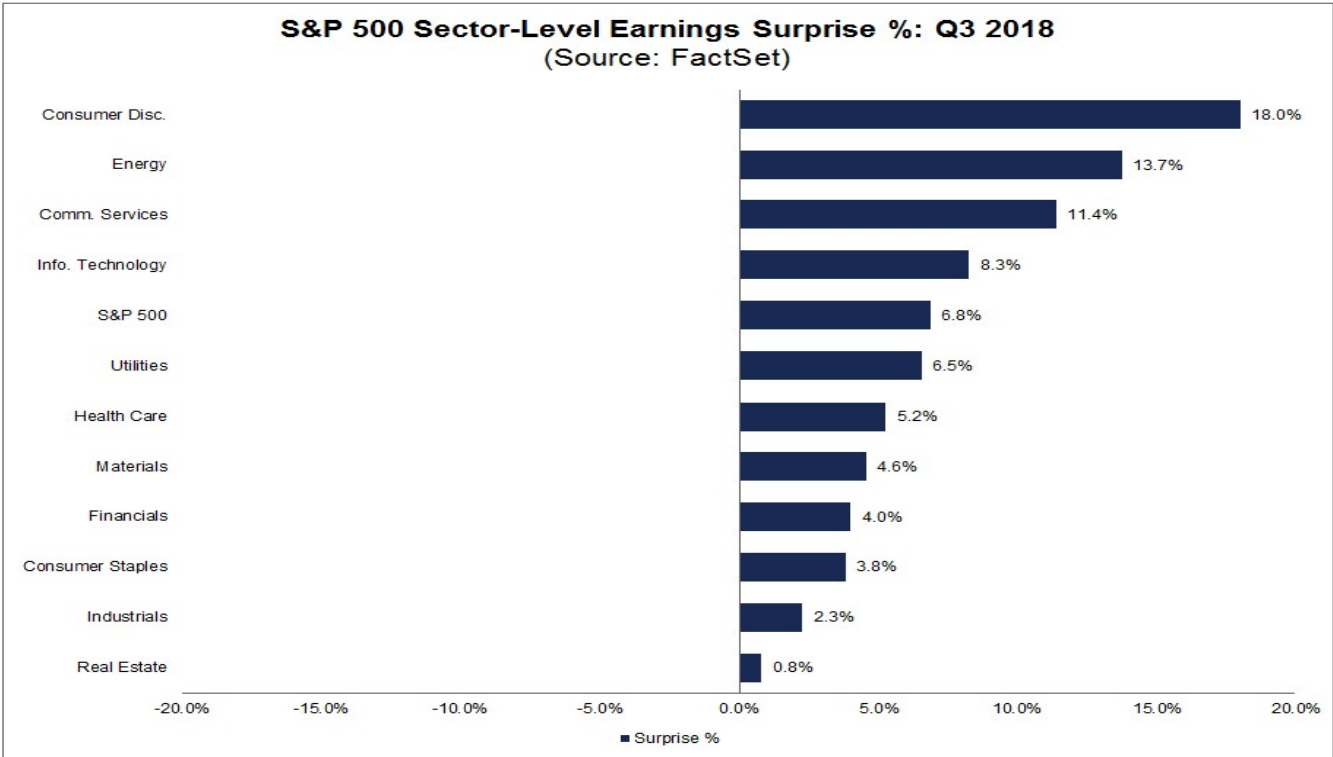
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## Q3 2018: Scorecard

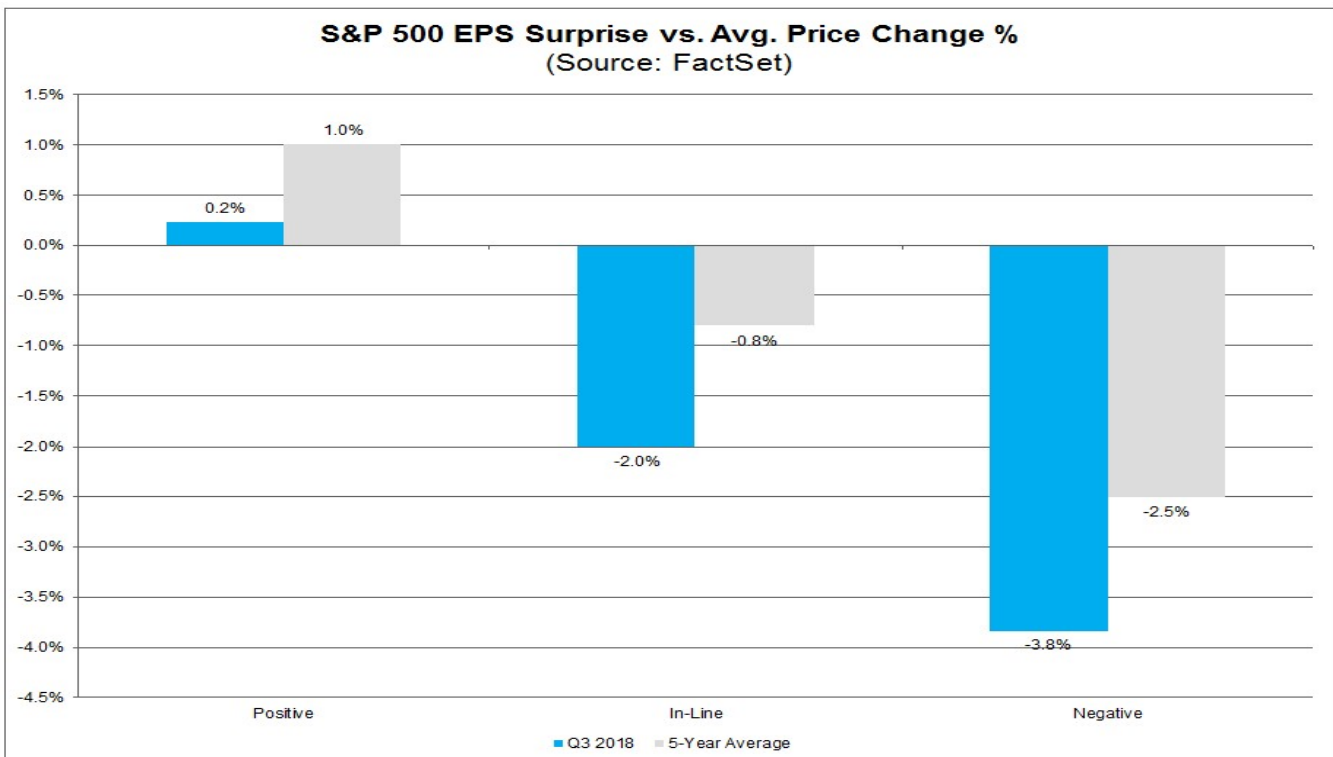
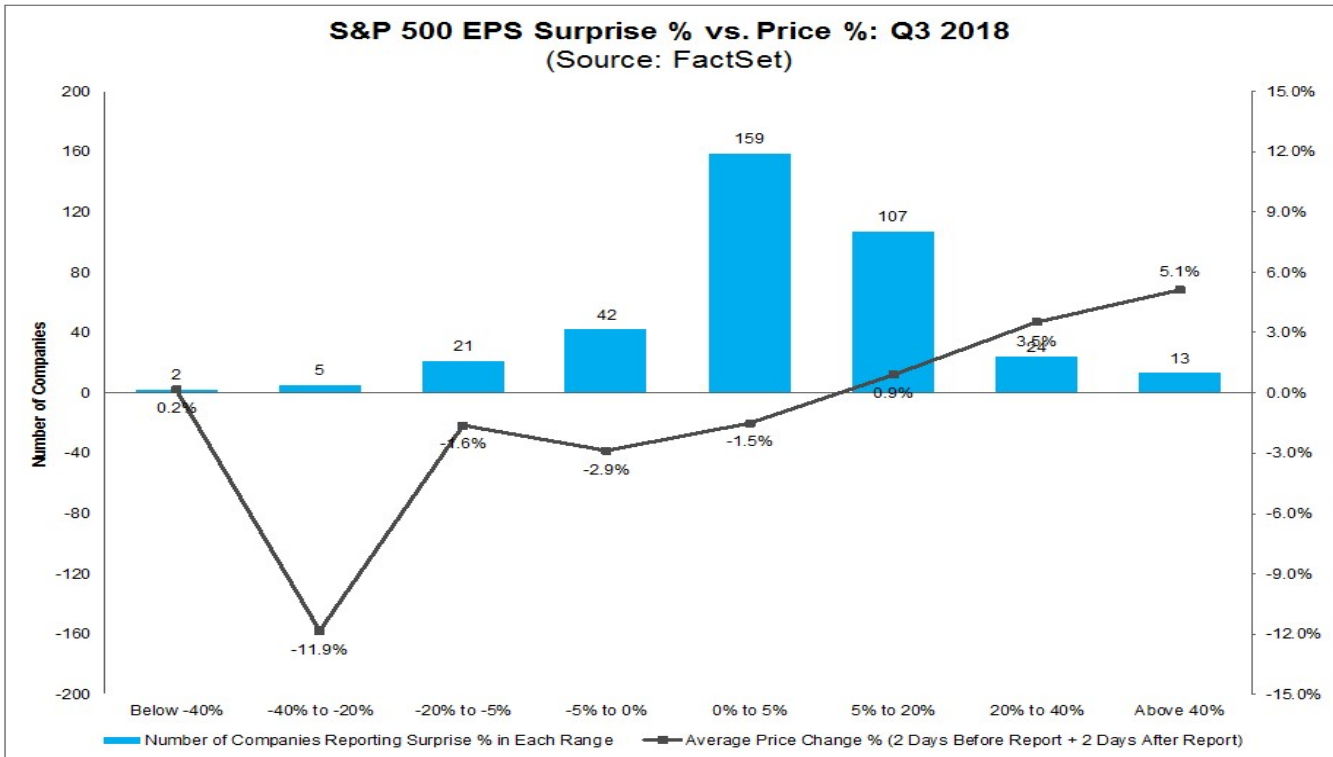




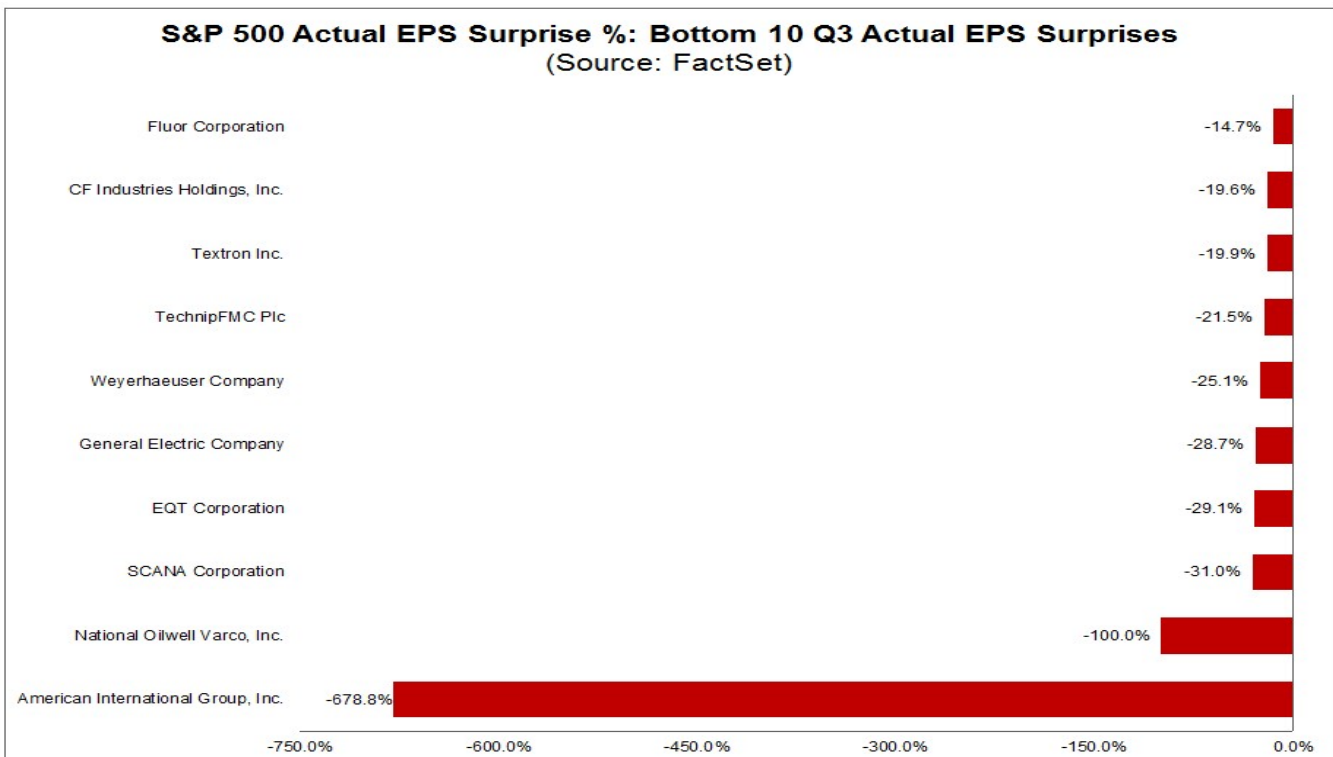
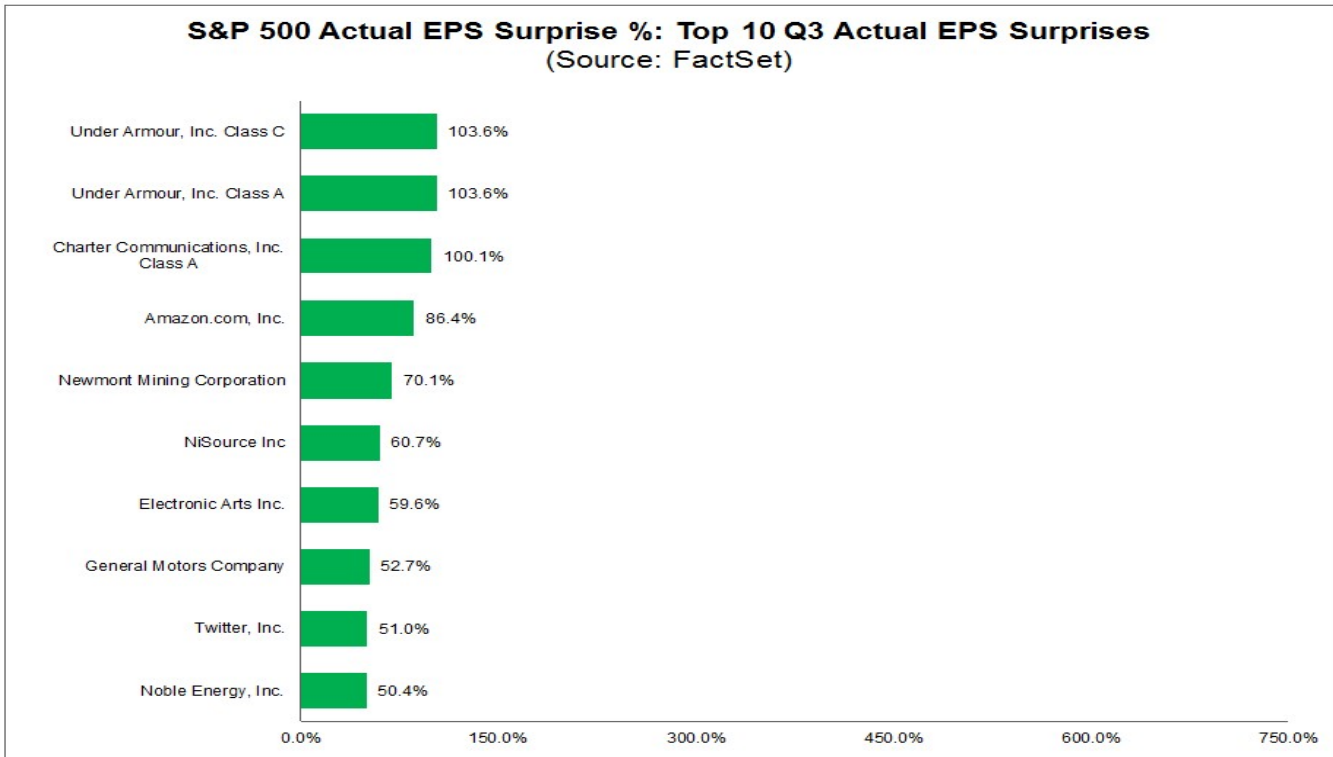
# Q3 2018: Scorecard



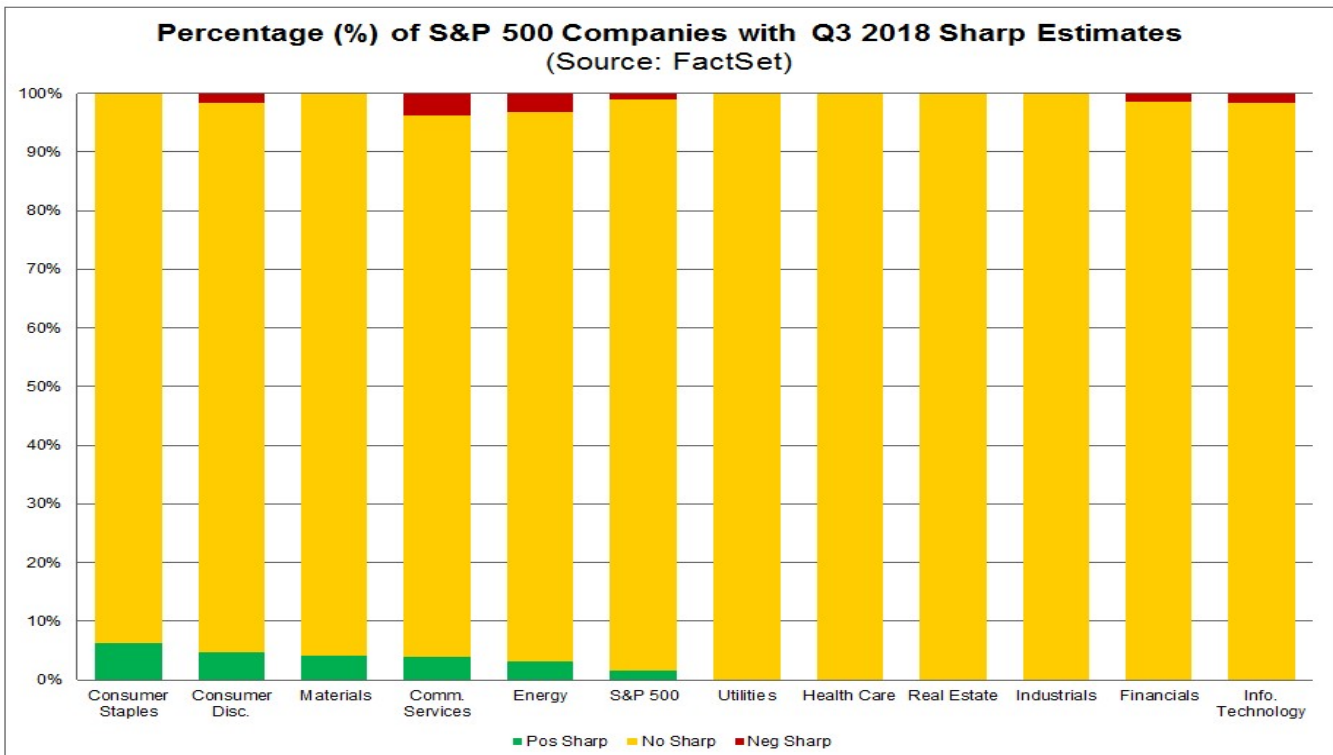
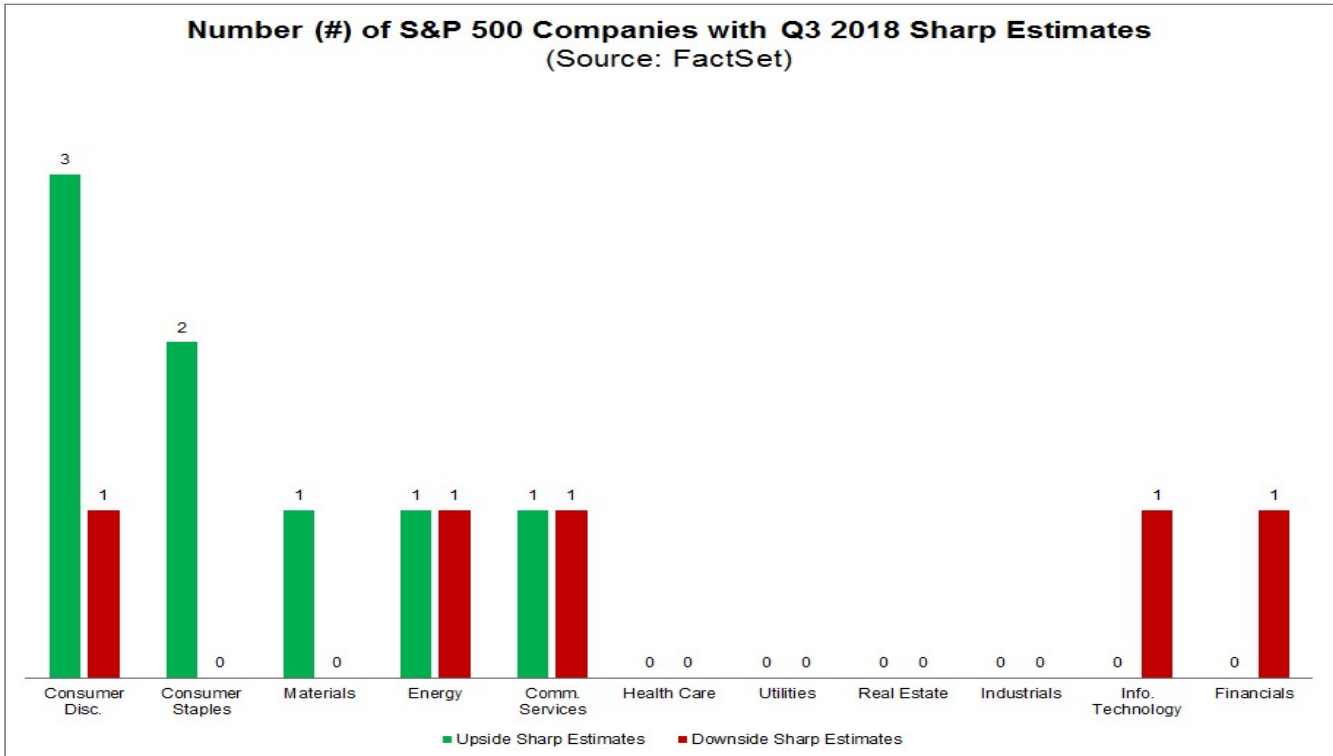
## Q3 2018: Scorecard



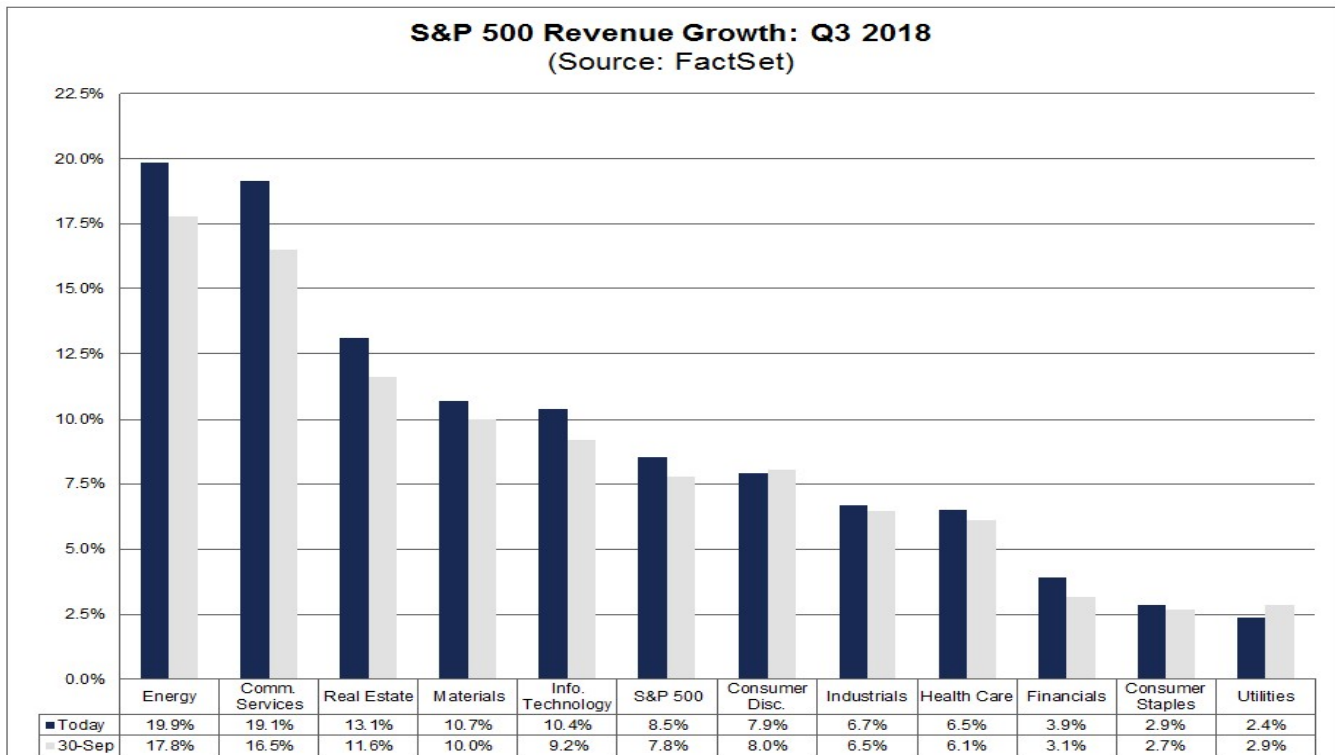
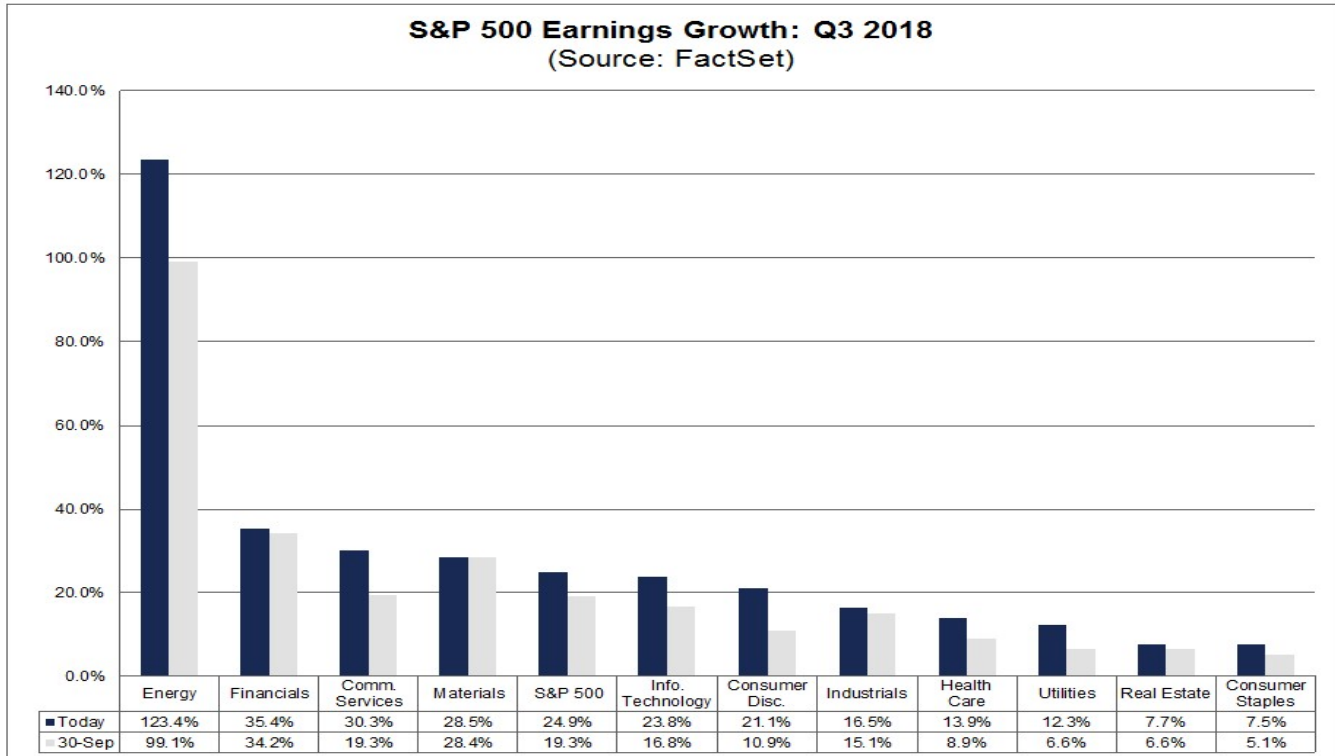
## Q3 2018: Scorecard



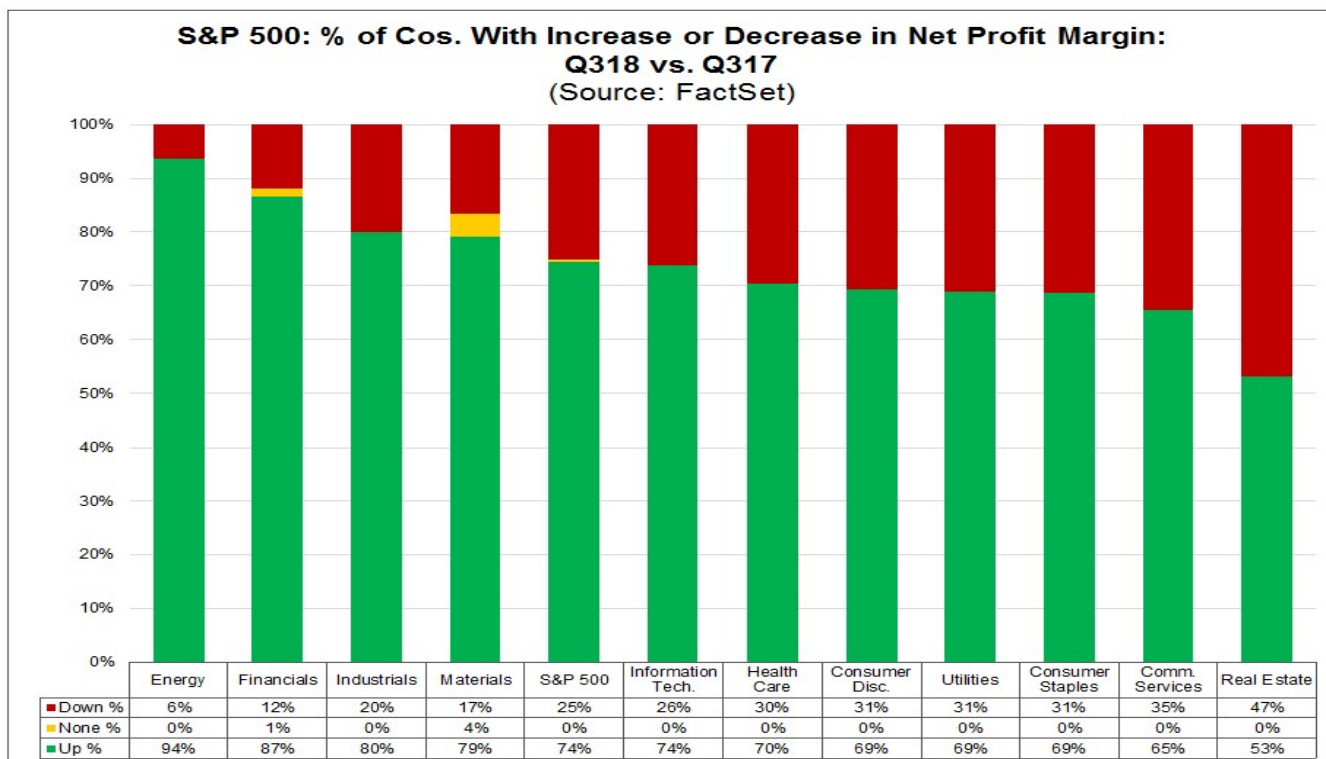
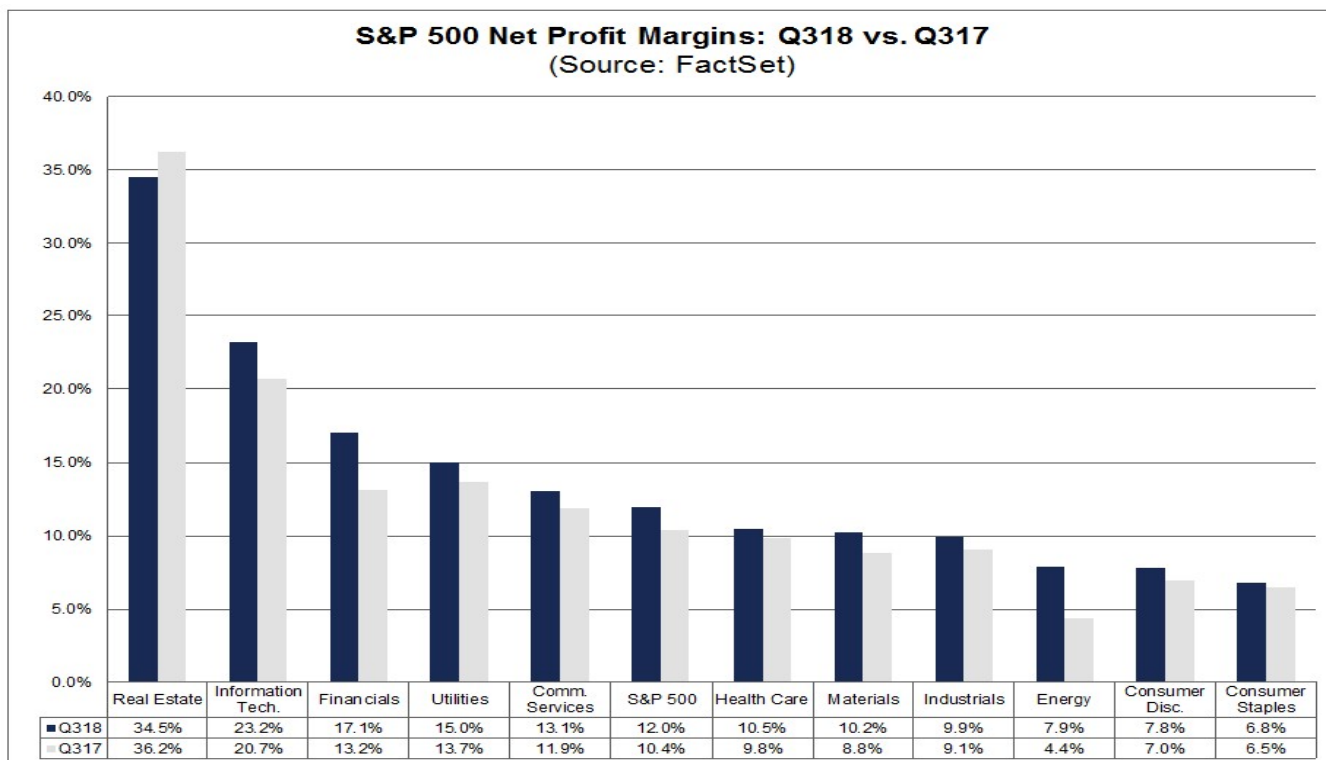
## Q3 2018: Projected EPS Surprises (Sharp Estimates)



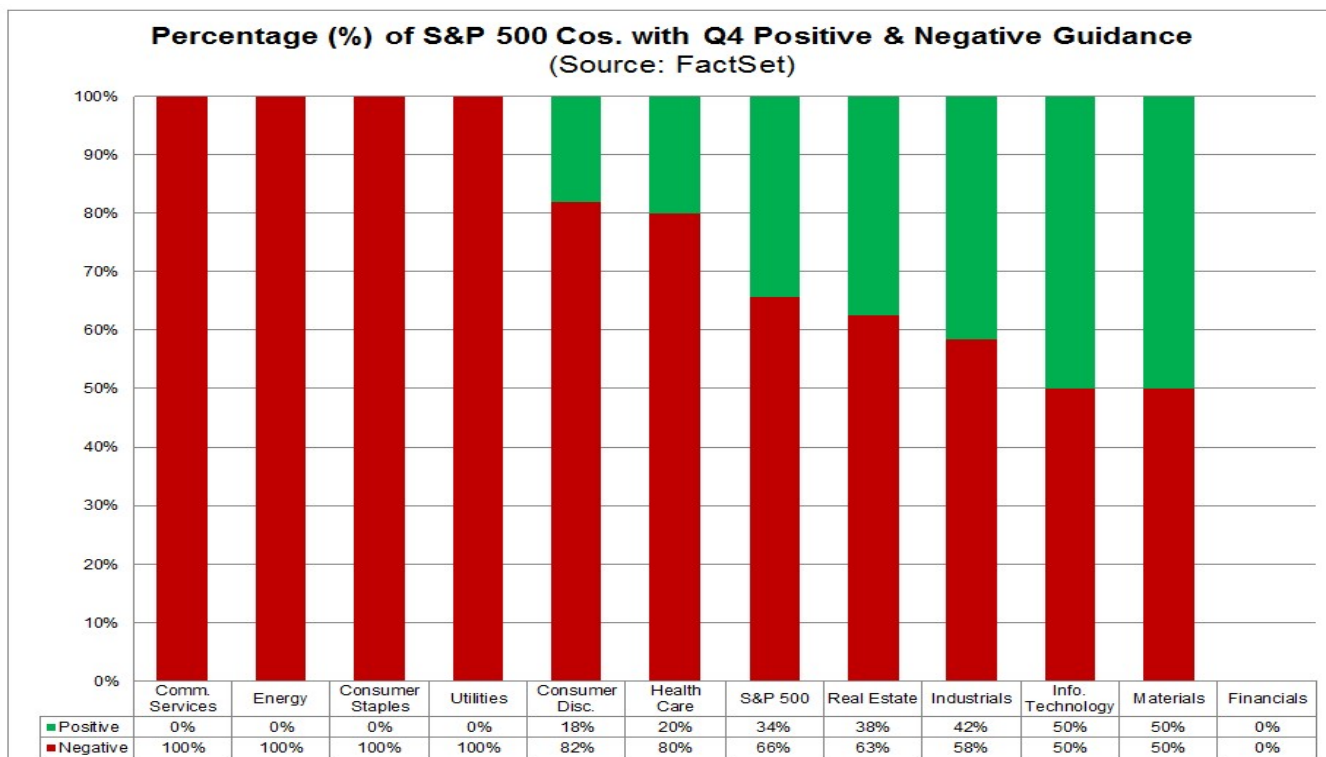
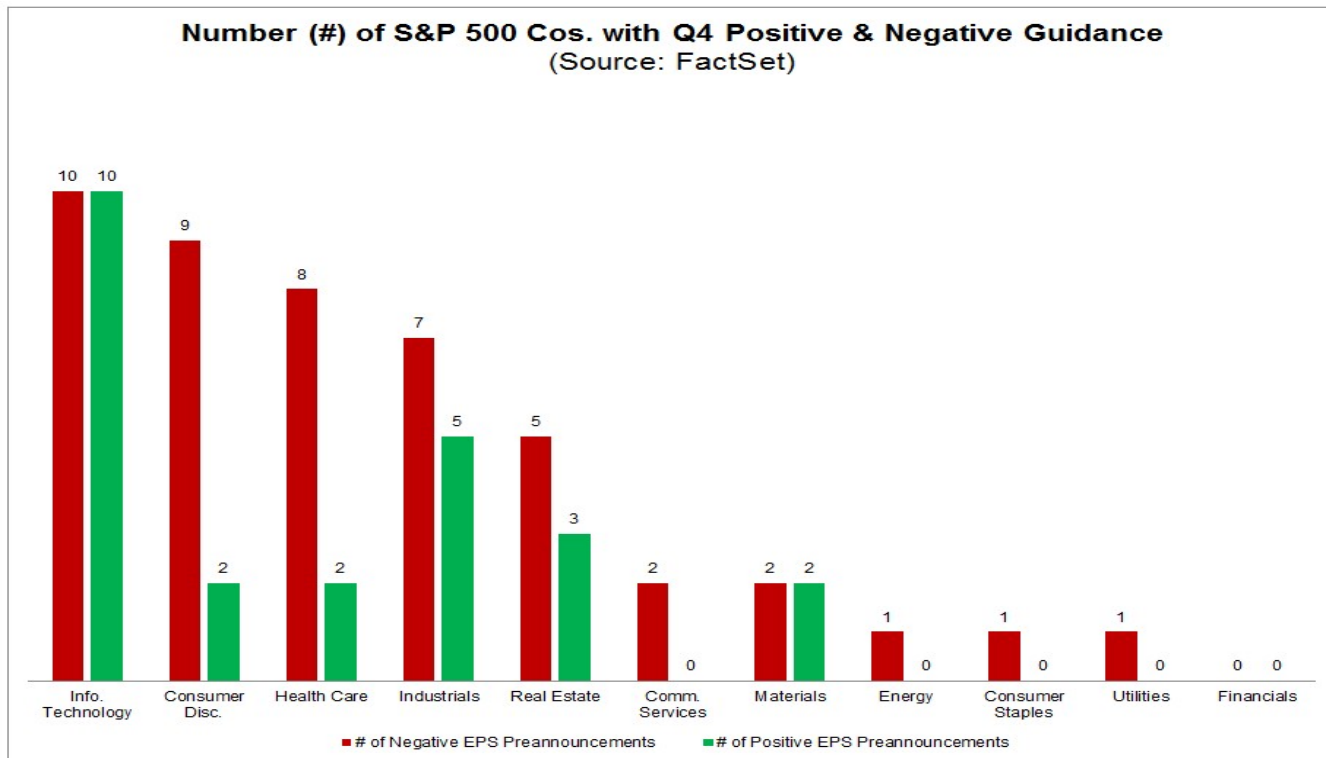
## Q3 2018: Growth



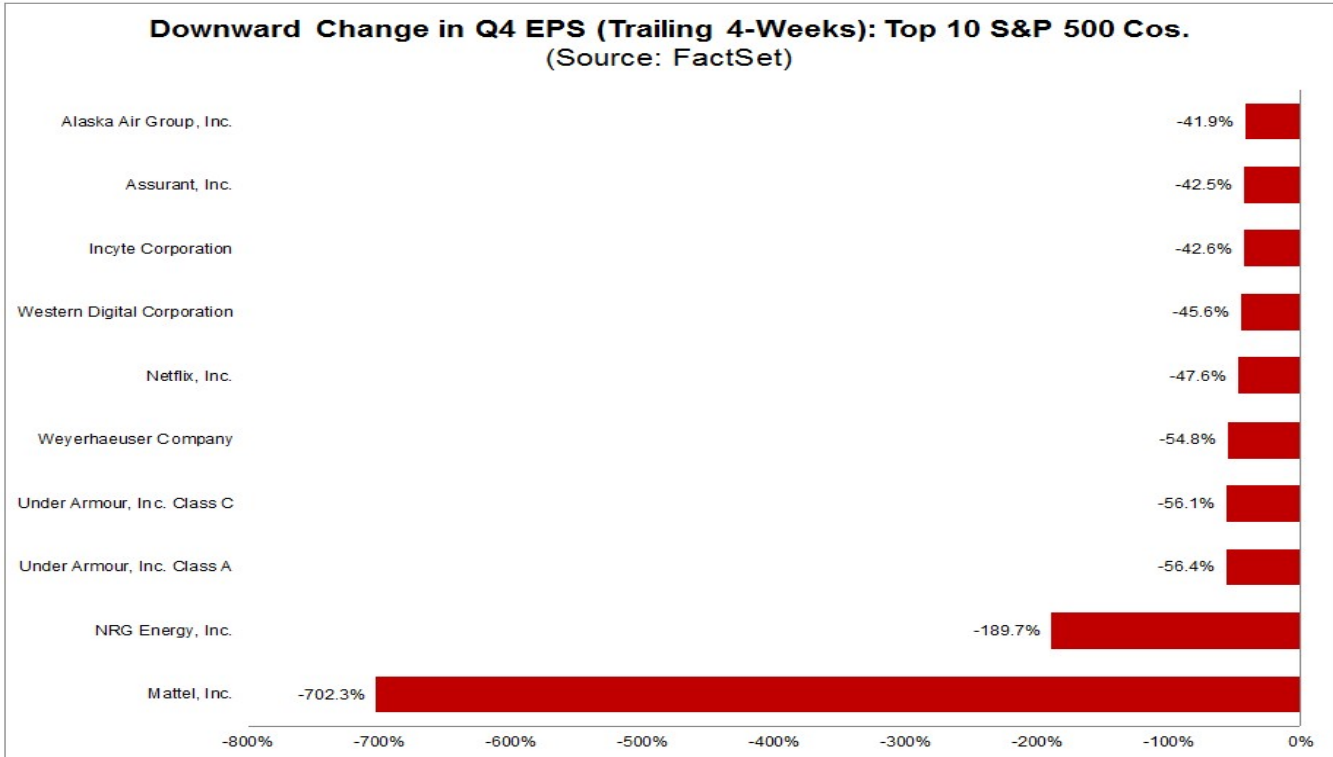
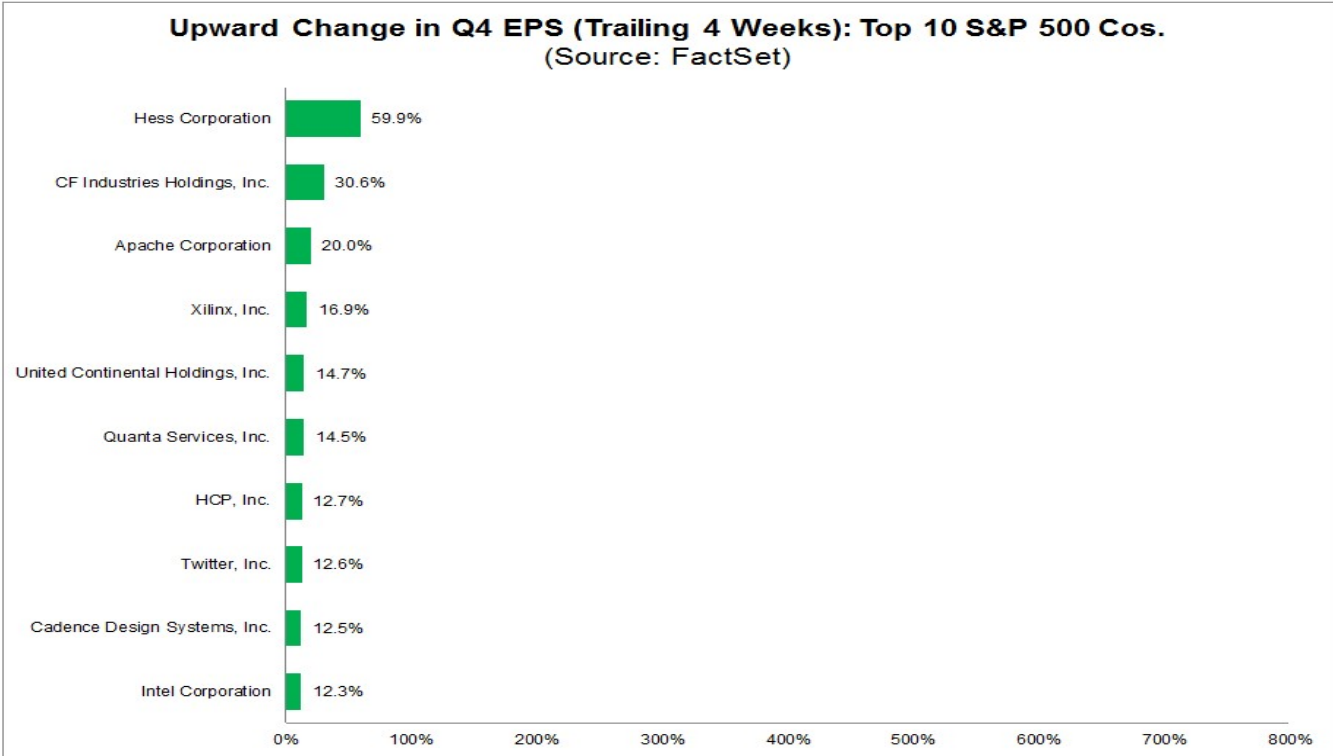
## Q3 2018: Net Profit Margin



## Q4 2018: EPS Guidance

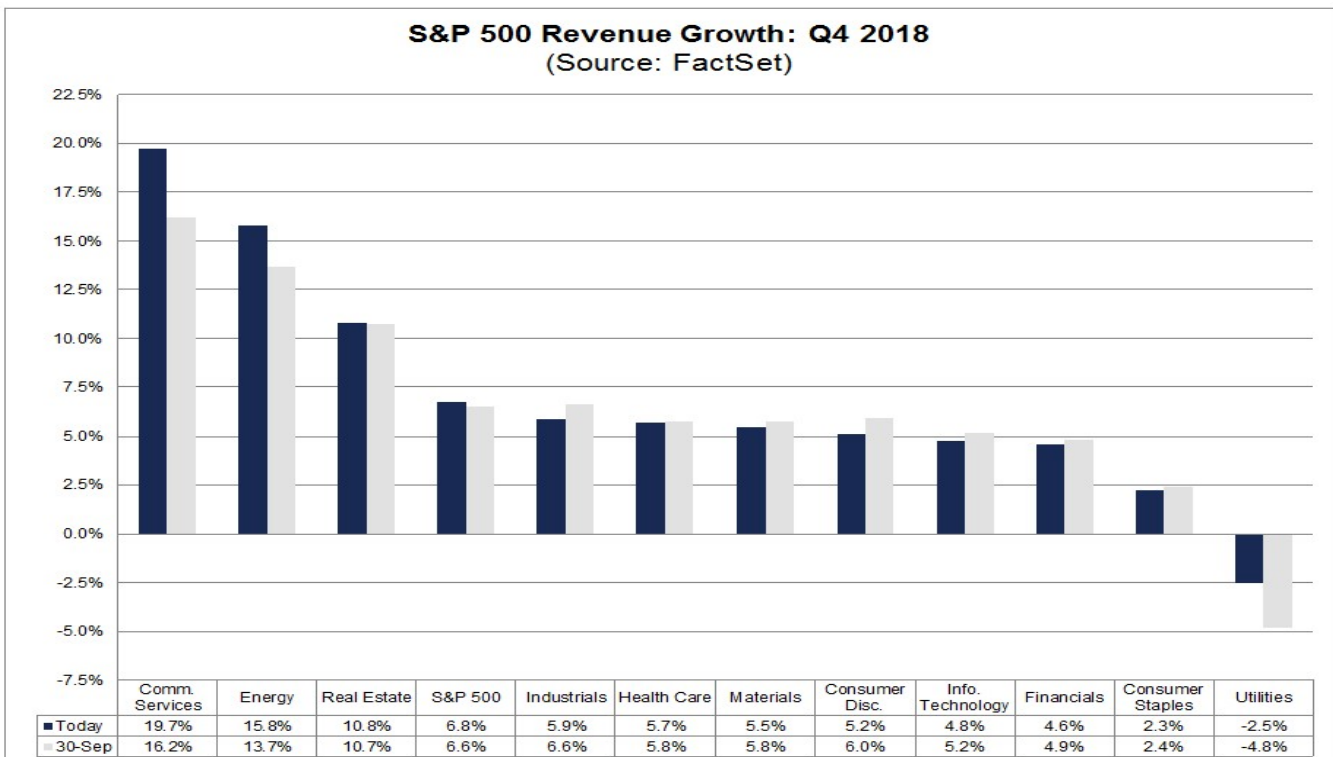
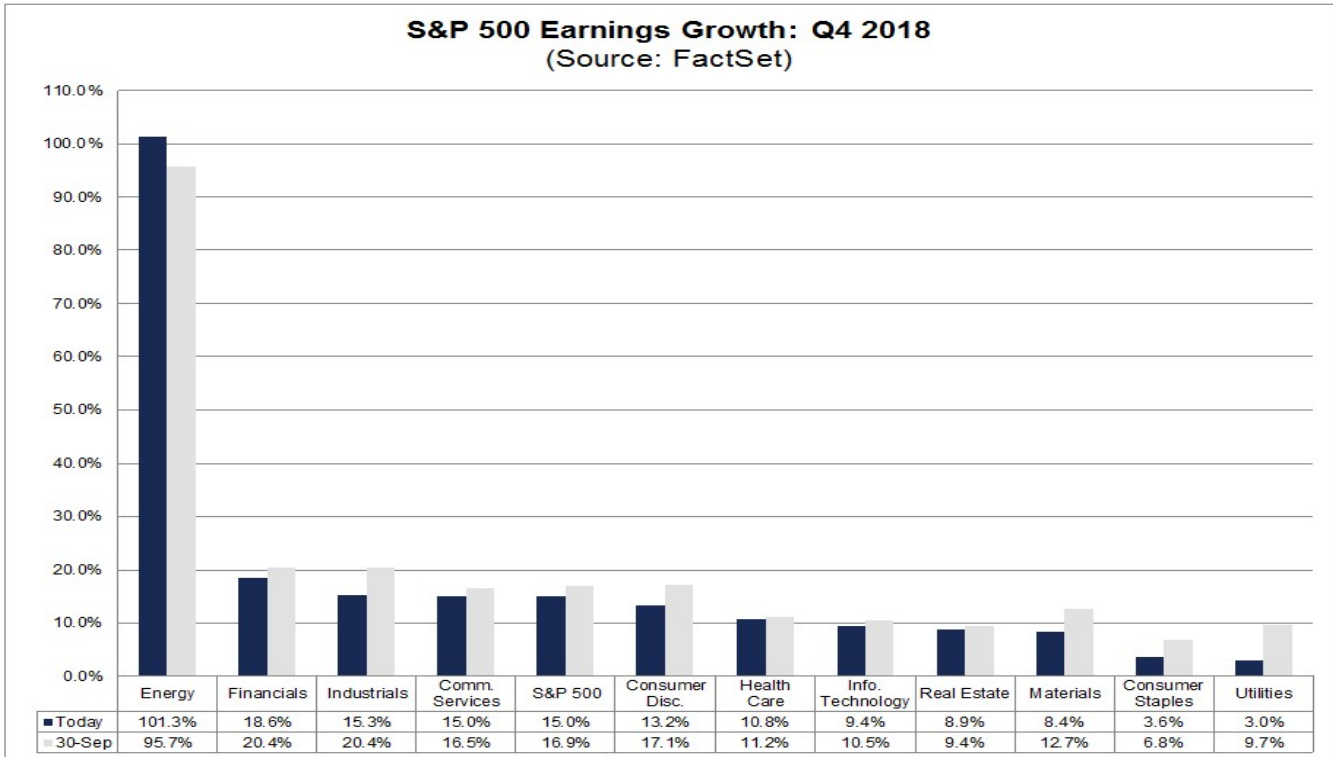


# Q4 2018: EPS Revisions

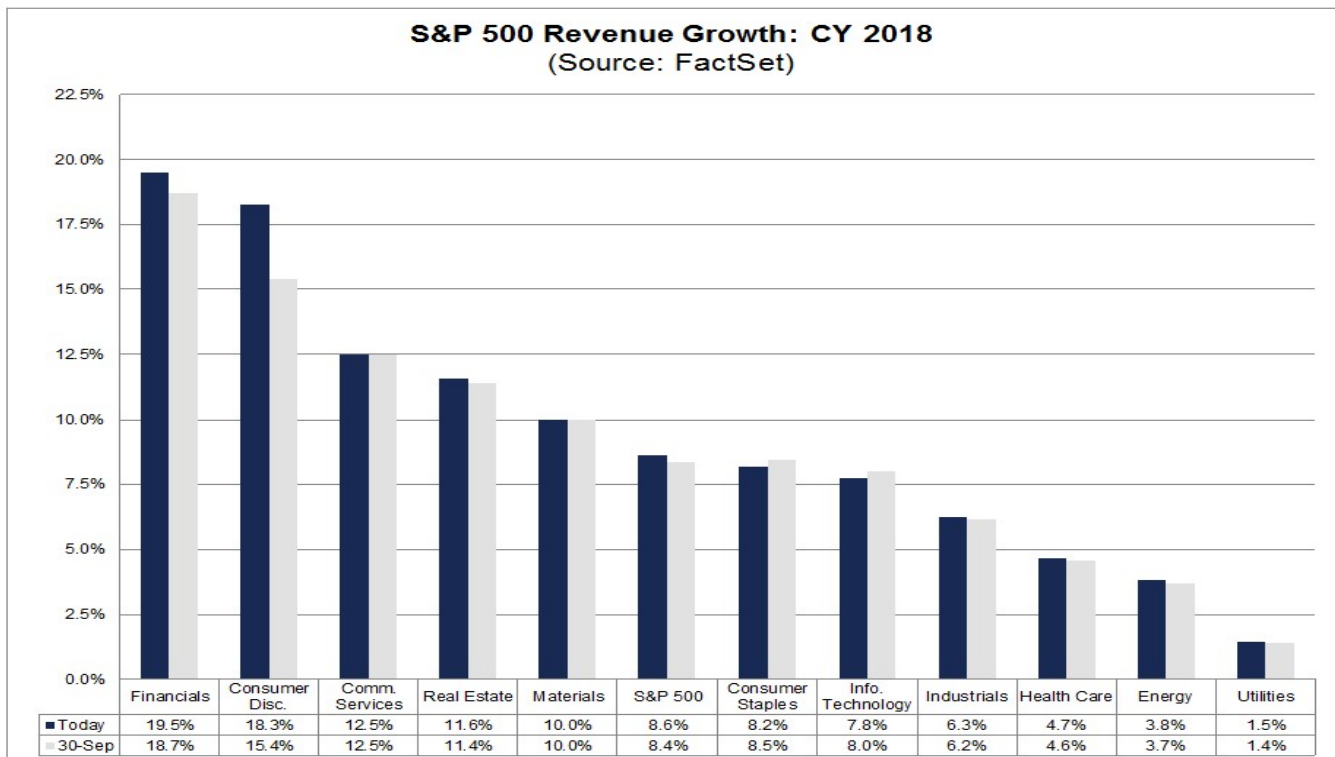
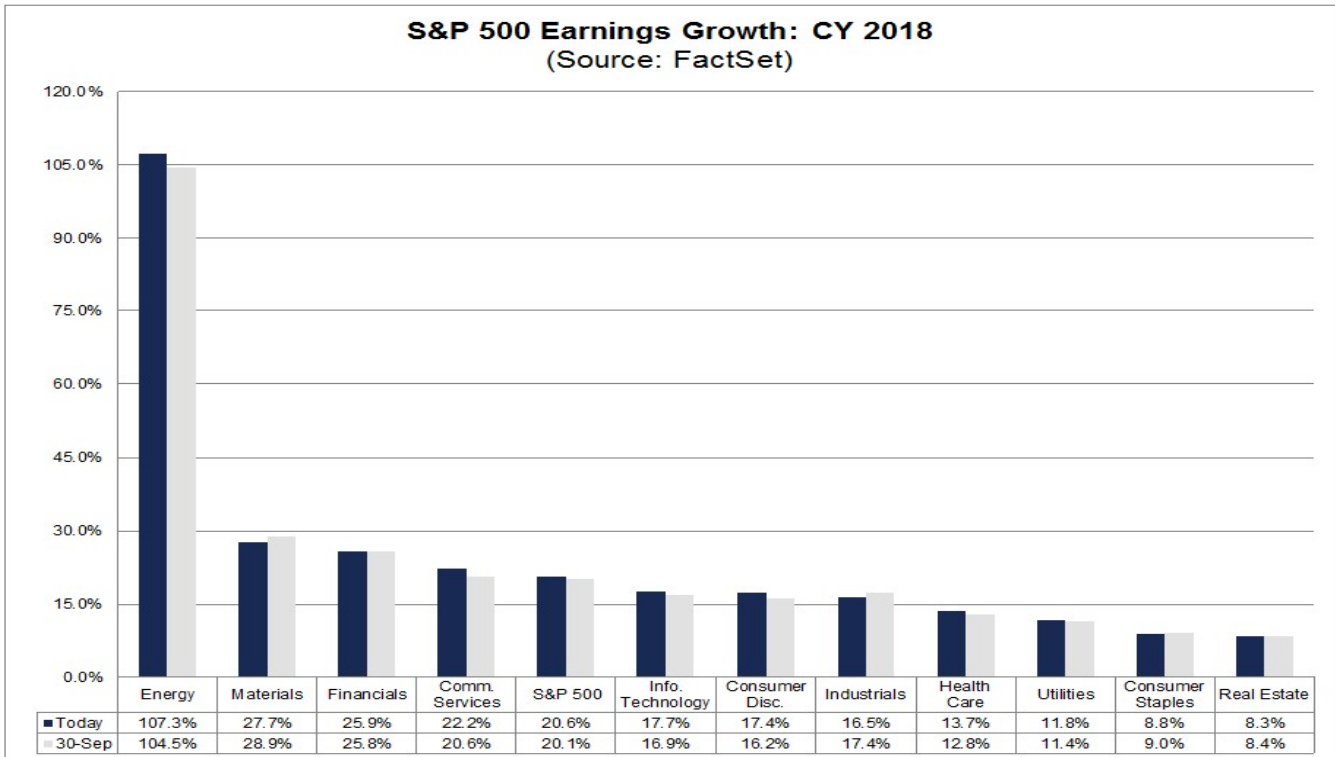




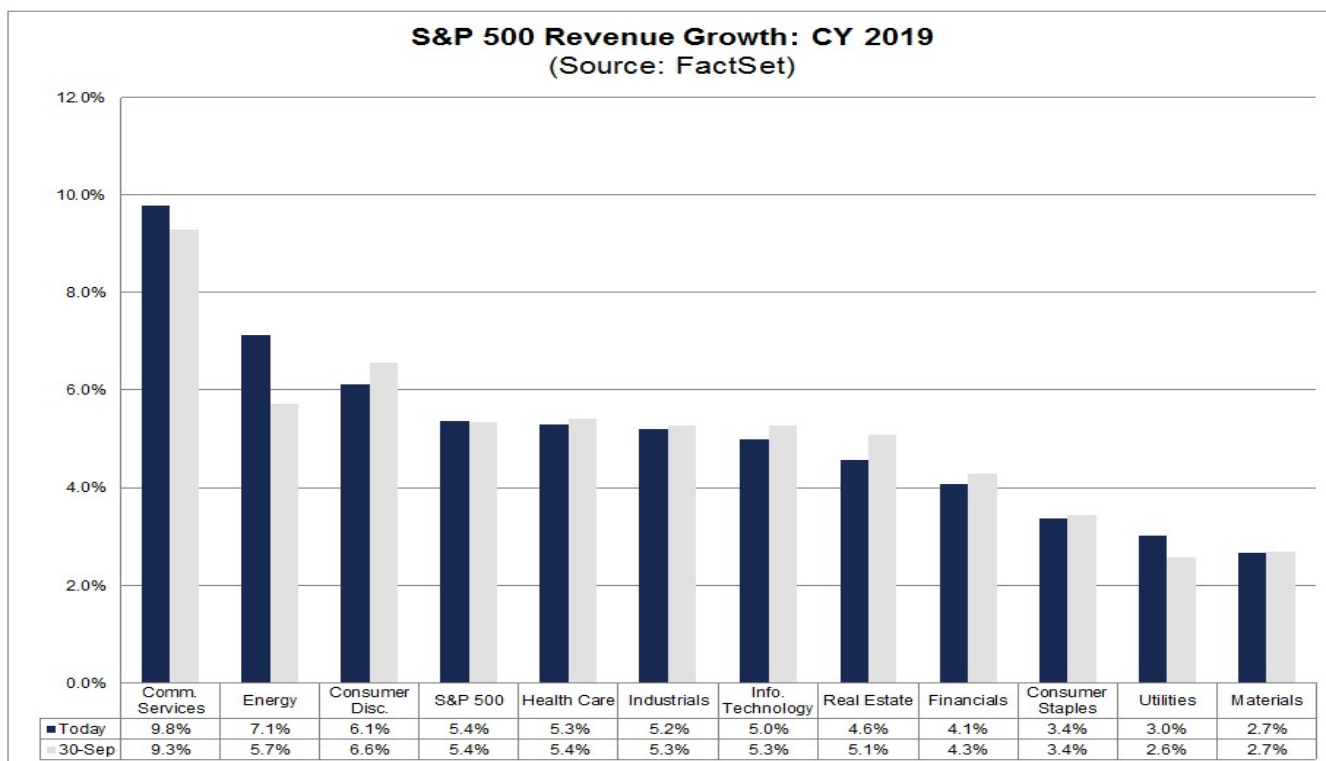
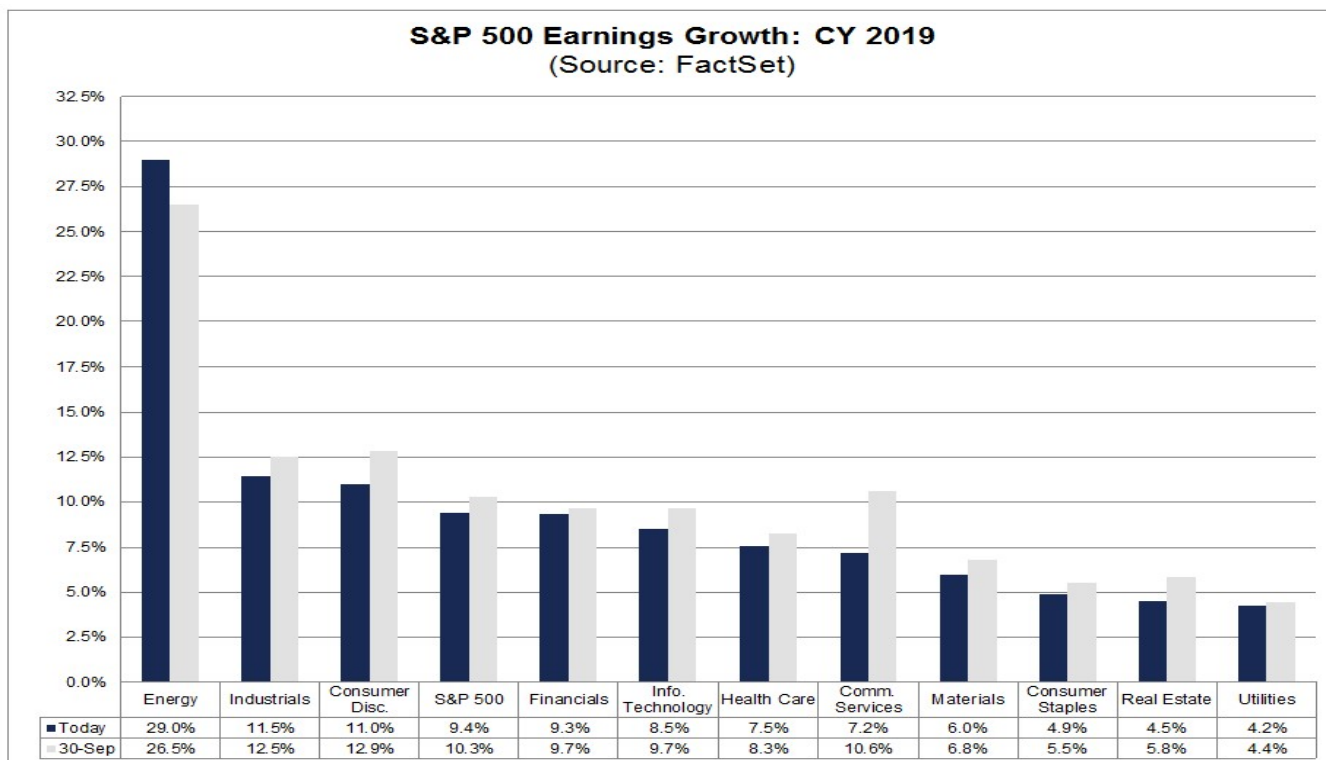
## Q4 2018: Growth



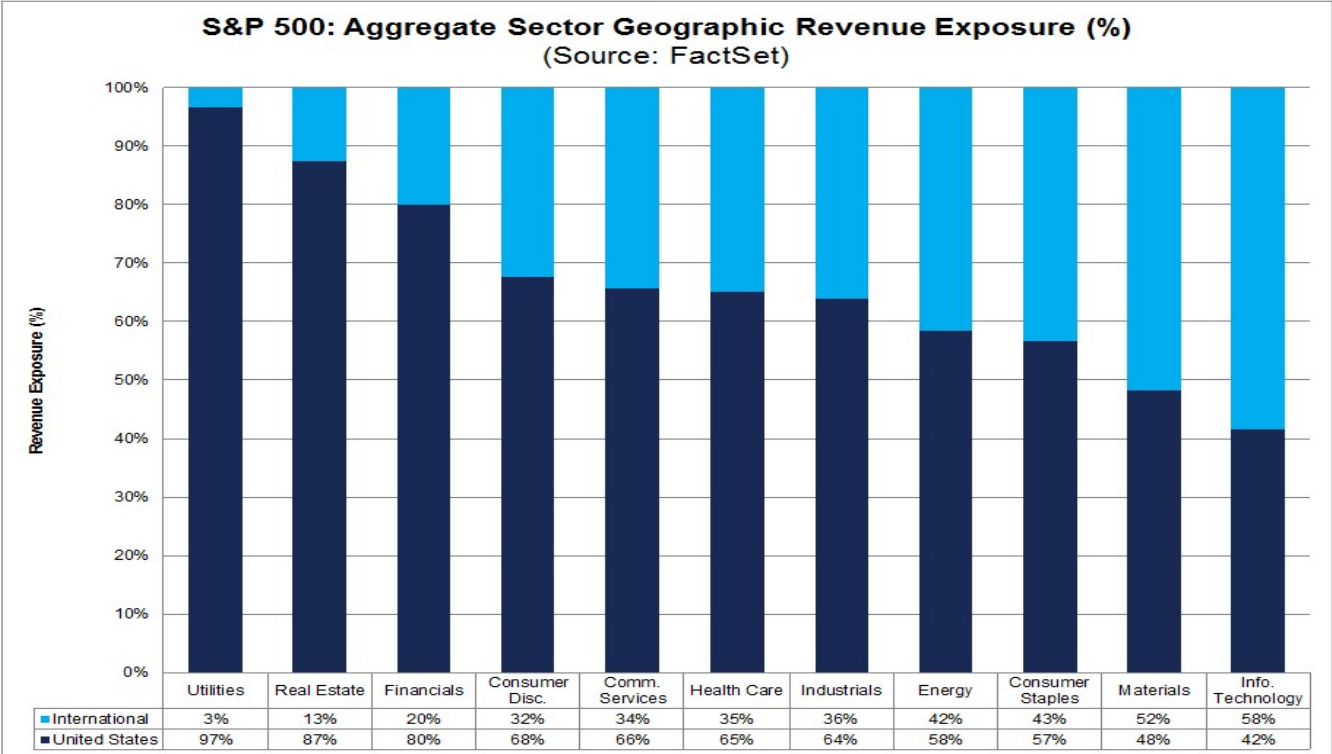
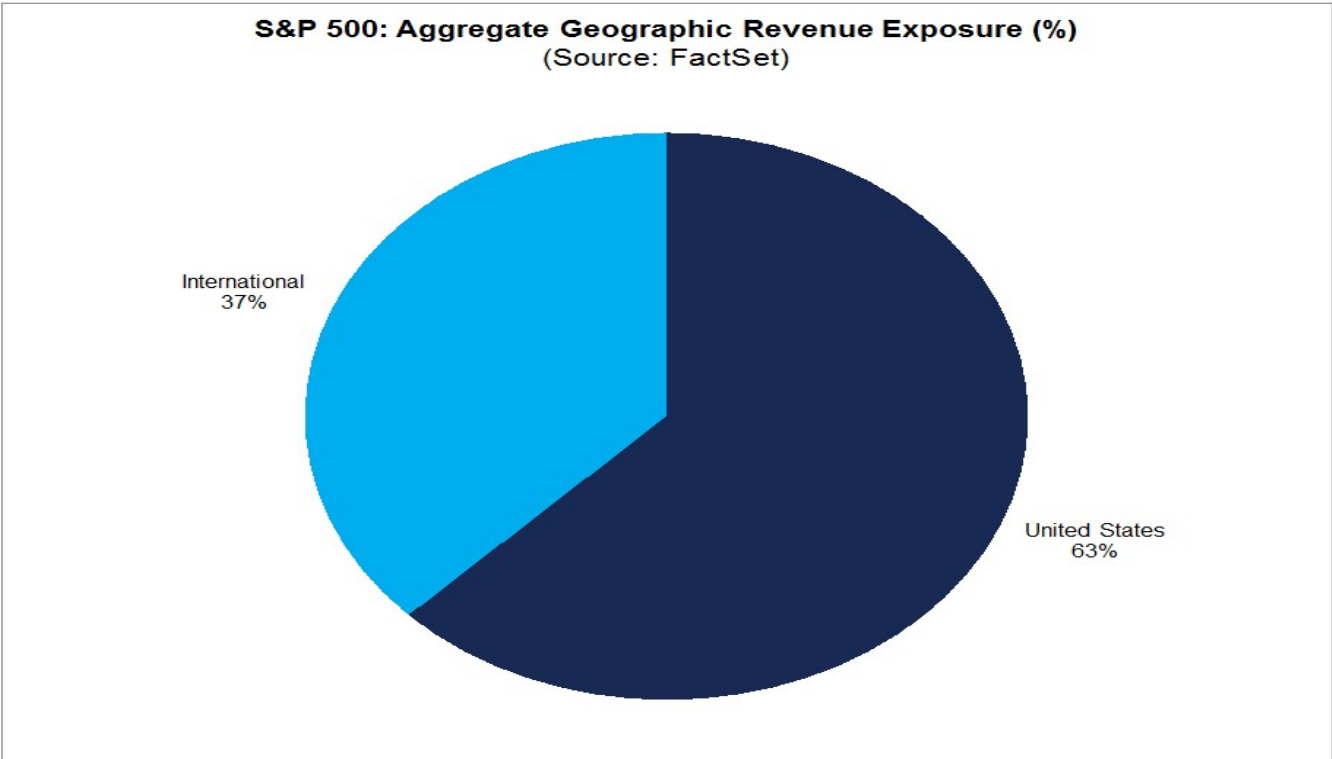
## CY 2018: Growth



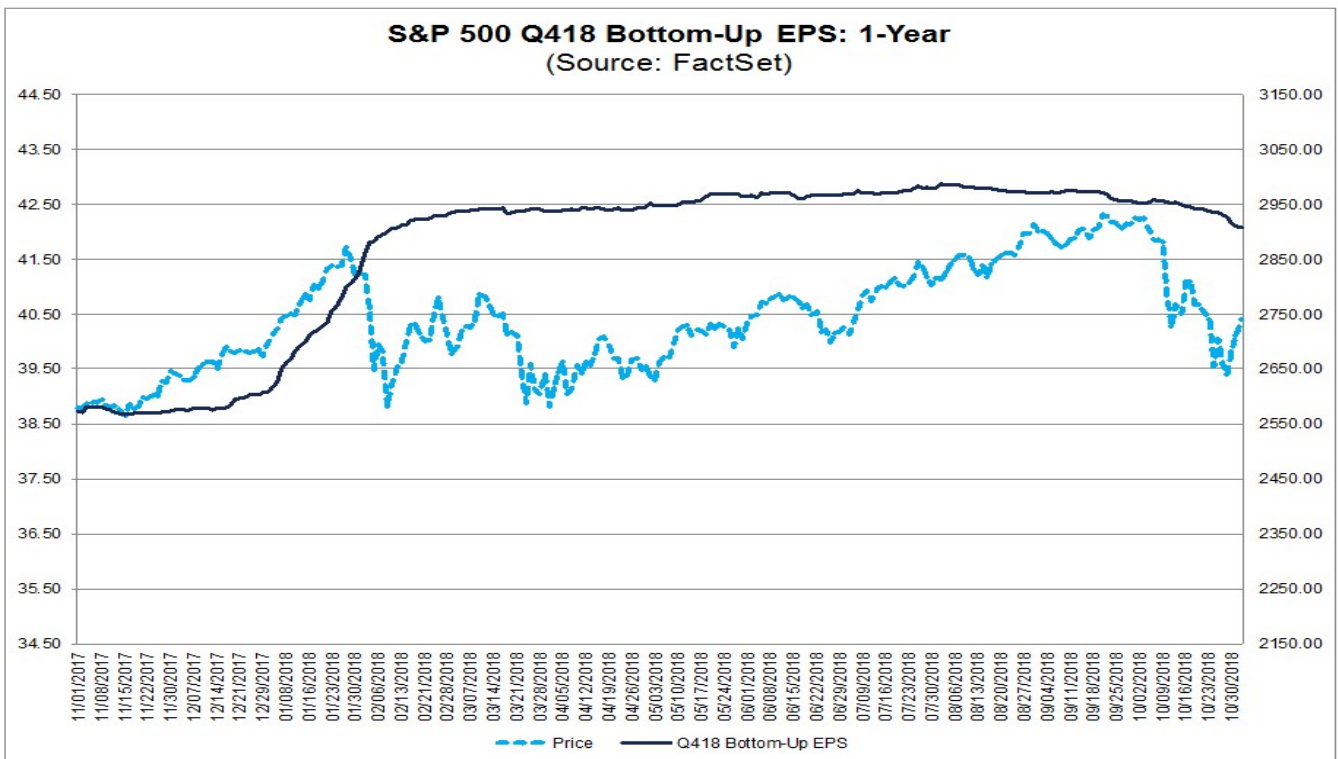
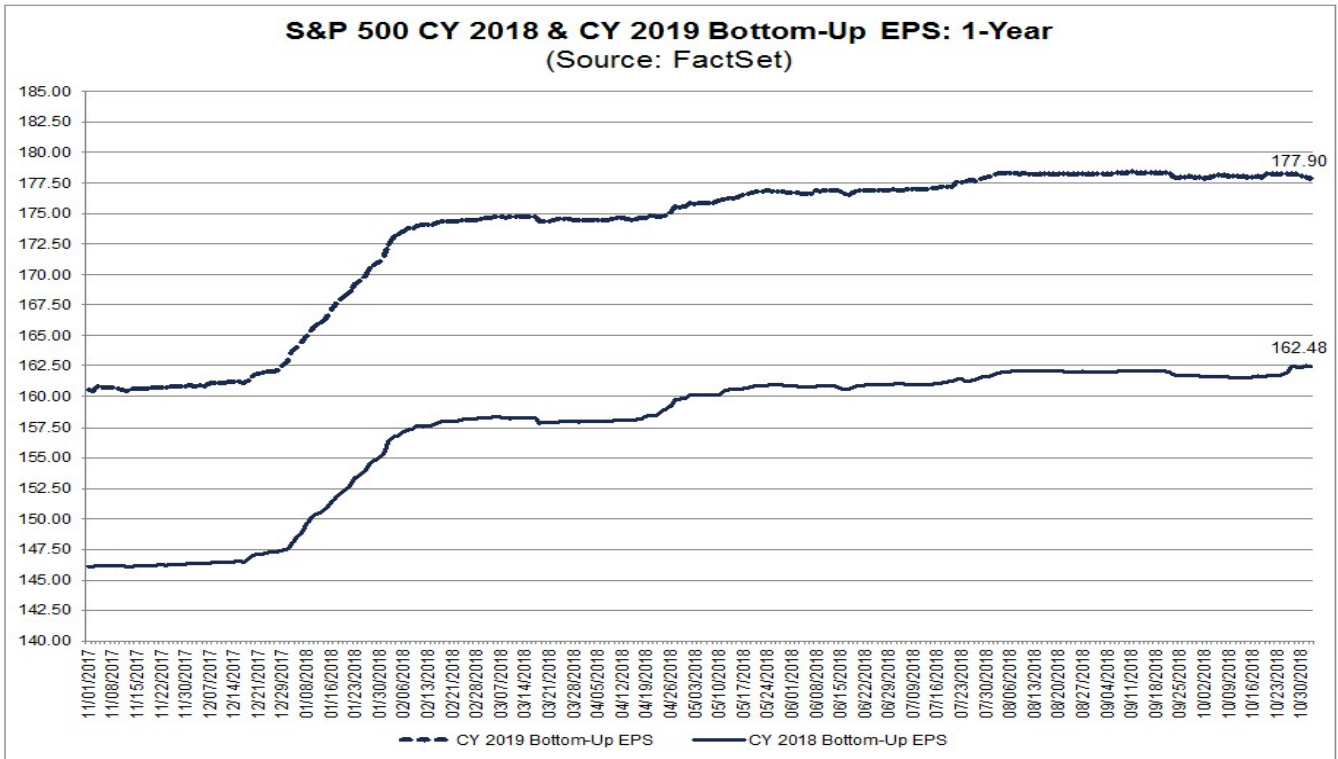
## CY 2019: Growth



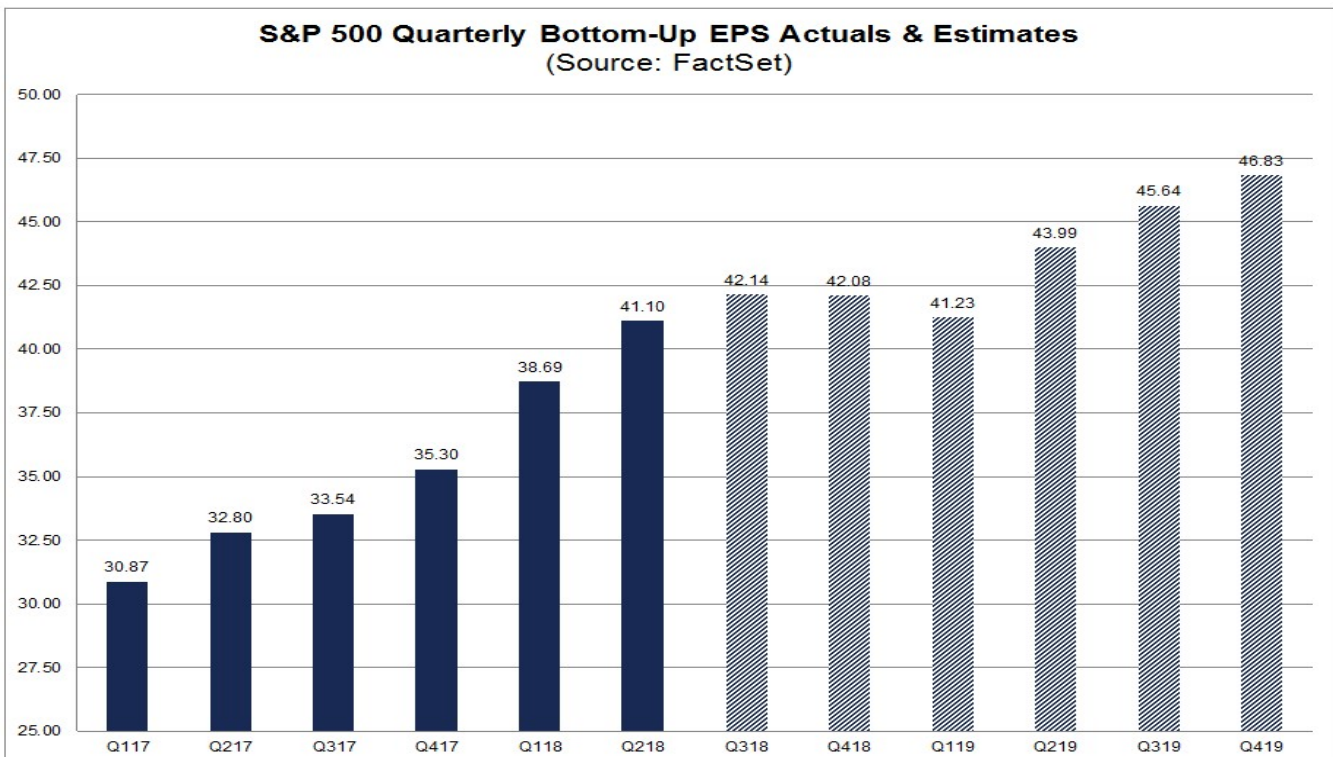
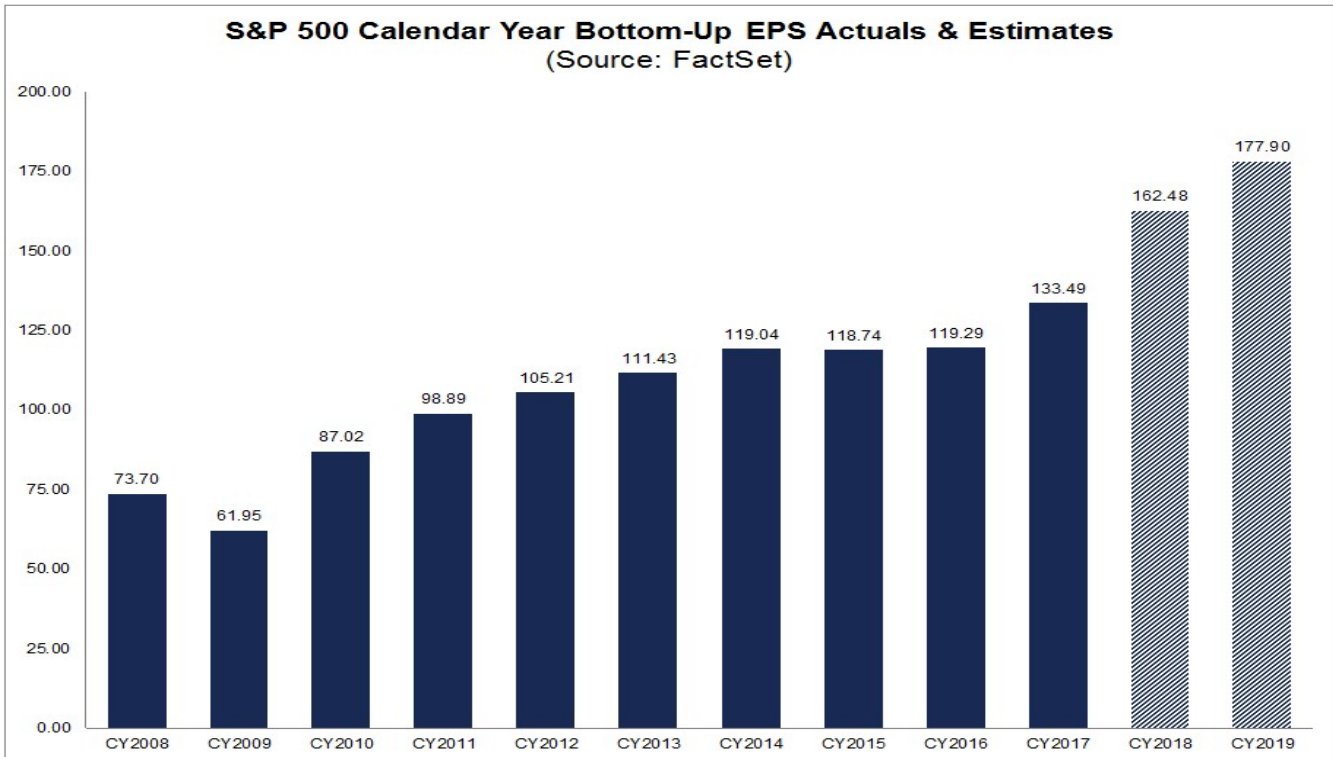
# Geographic Revenue Exposure



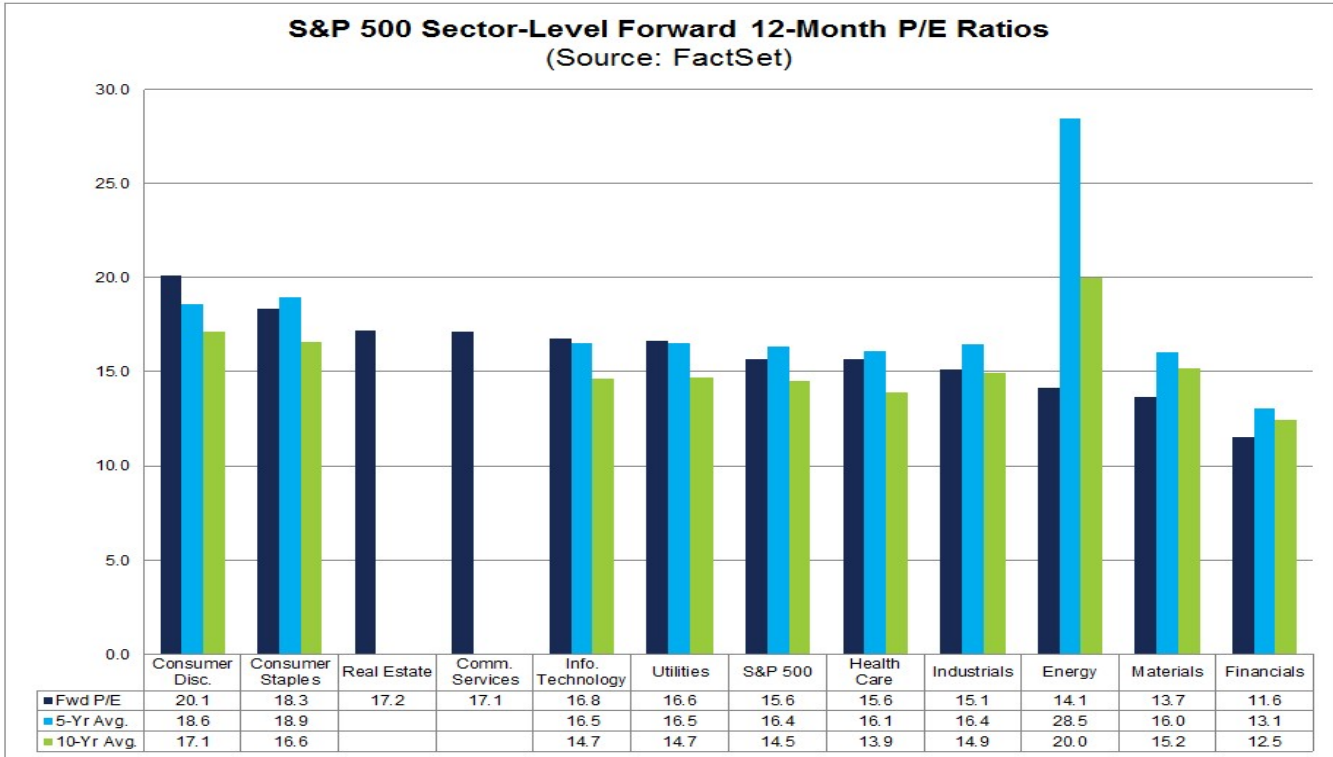
# Bottom-up EPS Estimates: Revisions



## Bottom-up EPS Estimates: Current & Historical

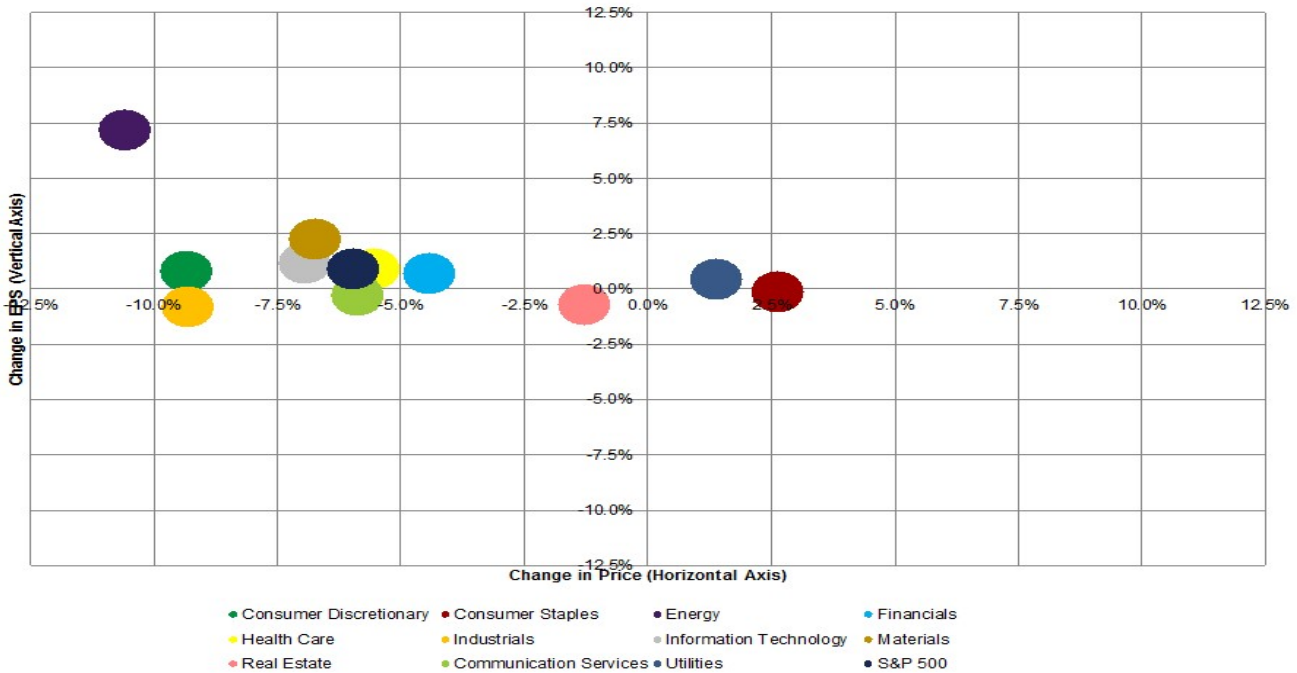


## Forward 12M P/E Ratio: Sector Level

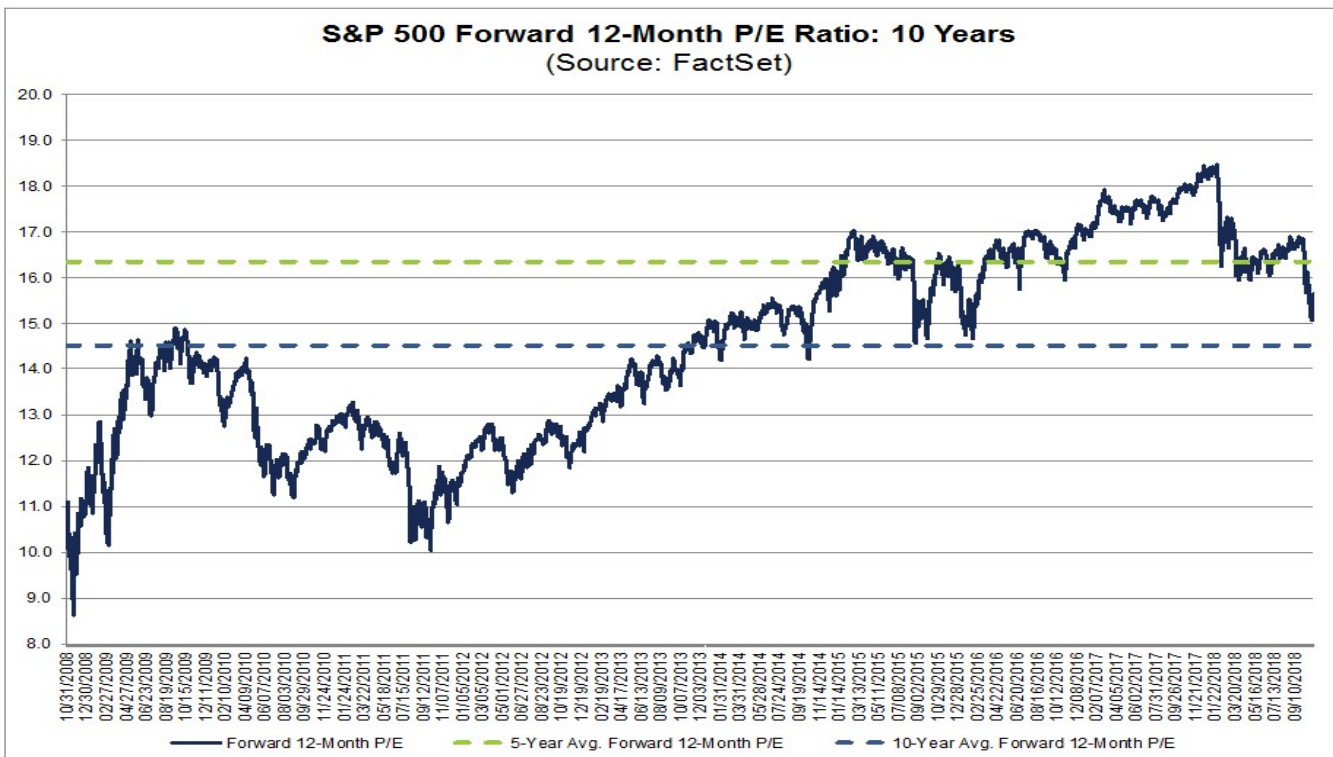
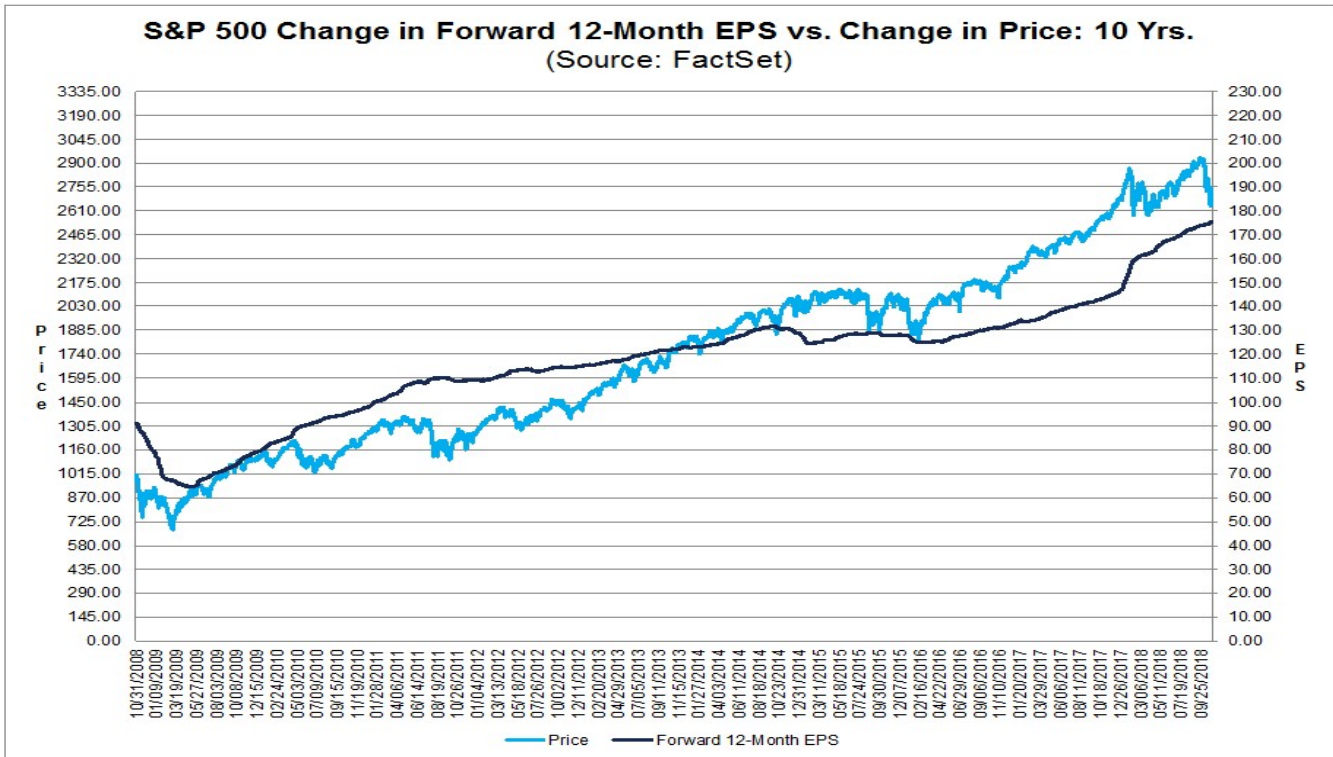


## Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Sep 30

(Source: FactSet)

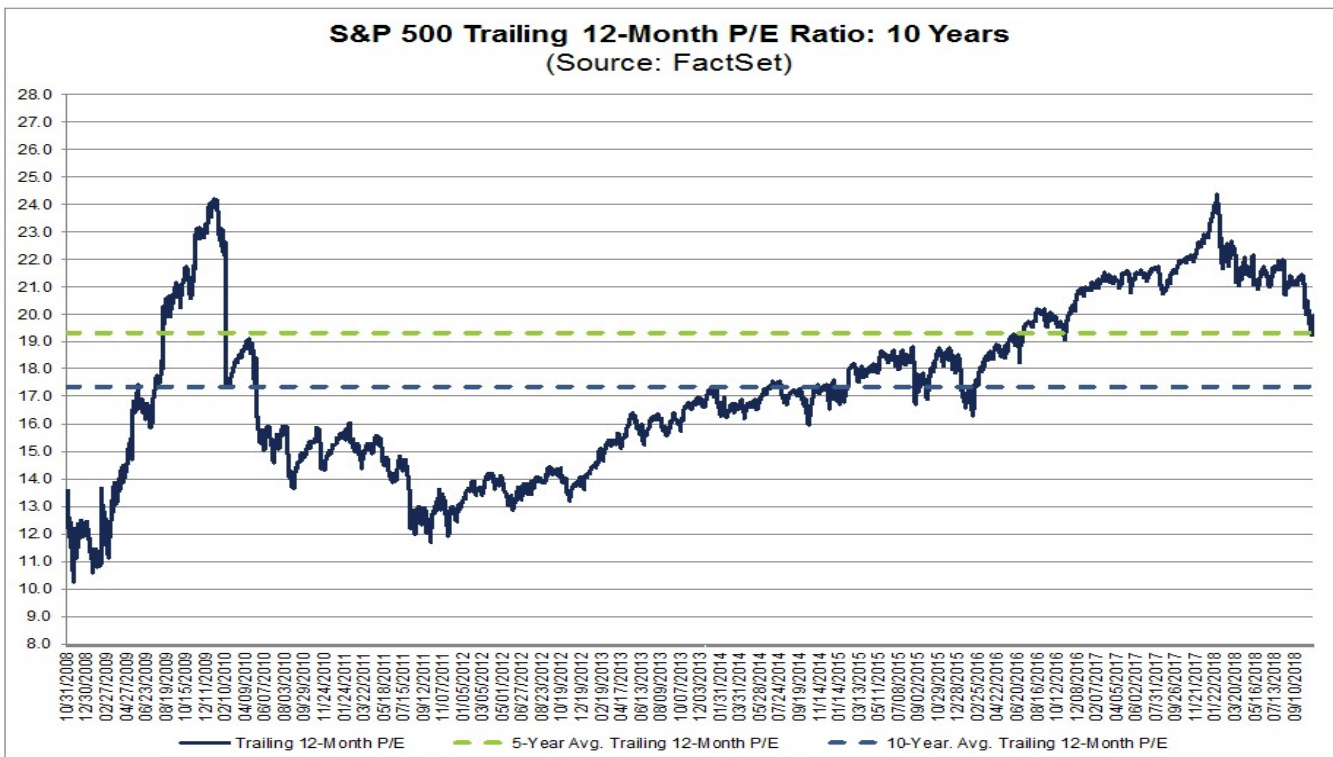
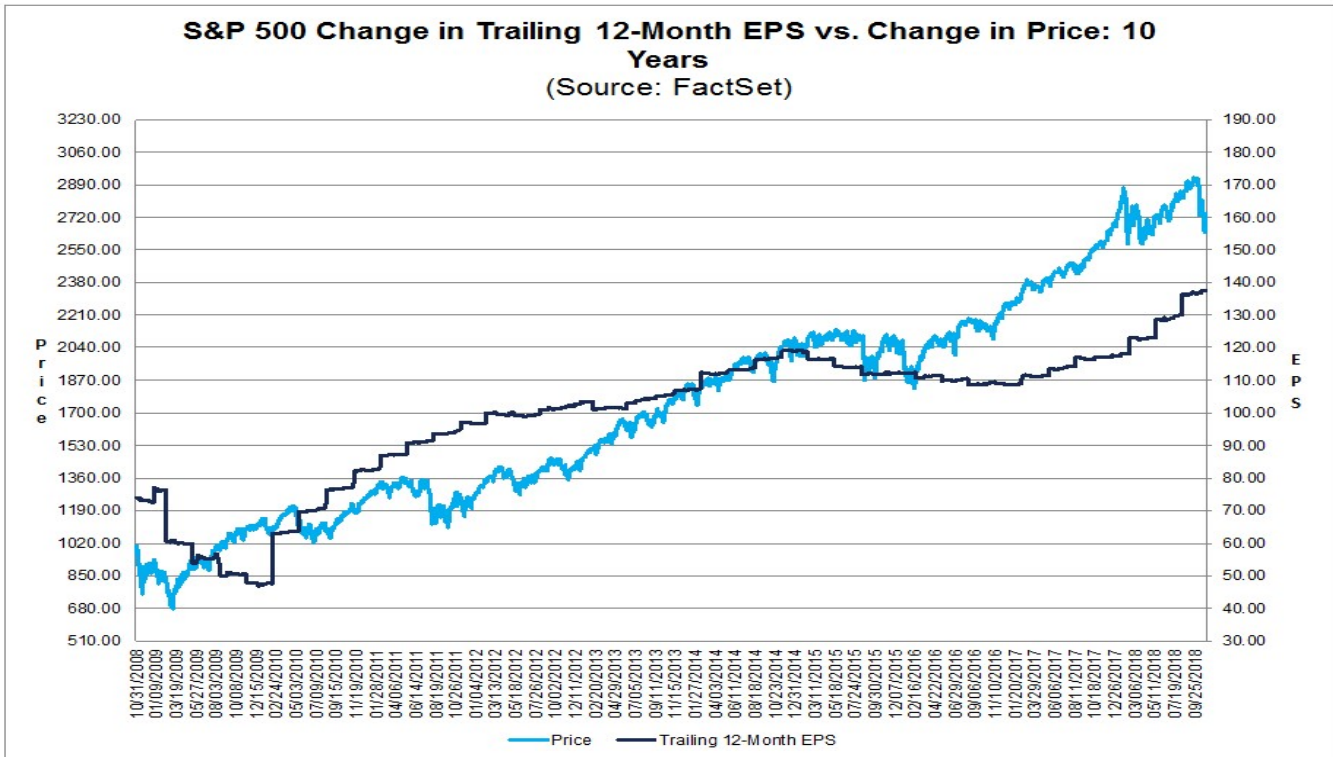


## Forward 12M P/E Ratio: Long-Term Averages

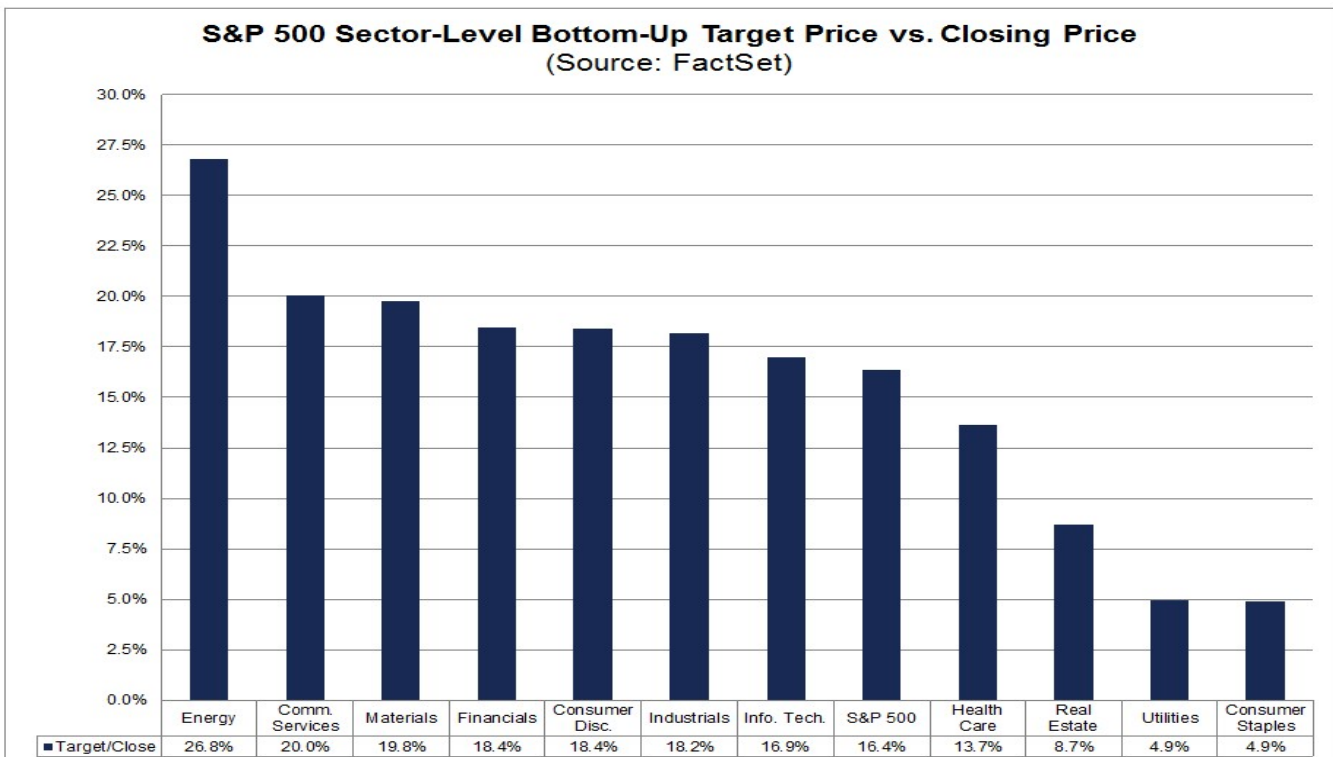
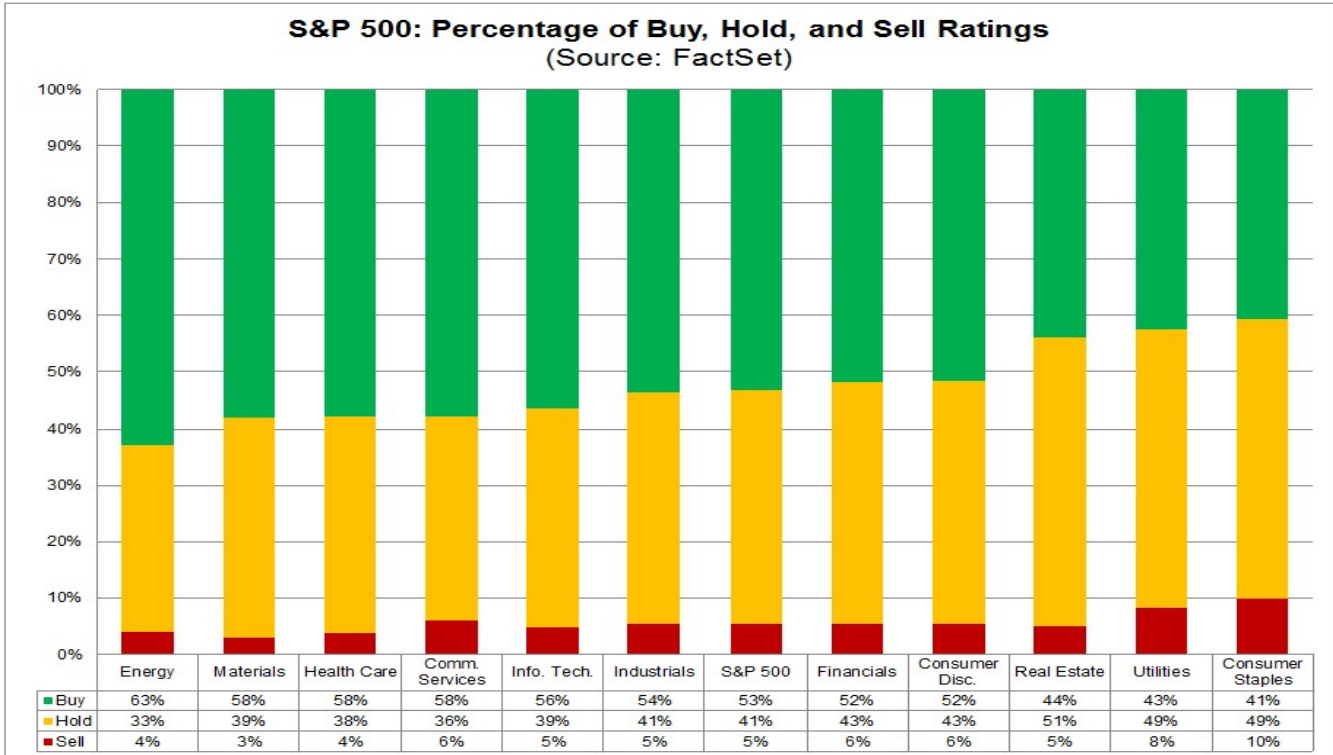




# Trailing 12M P/E Ratio: Long-Term Averages



## Targets & Ratings



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