

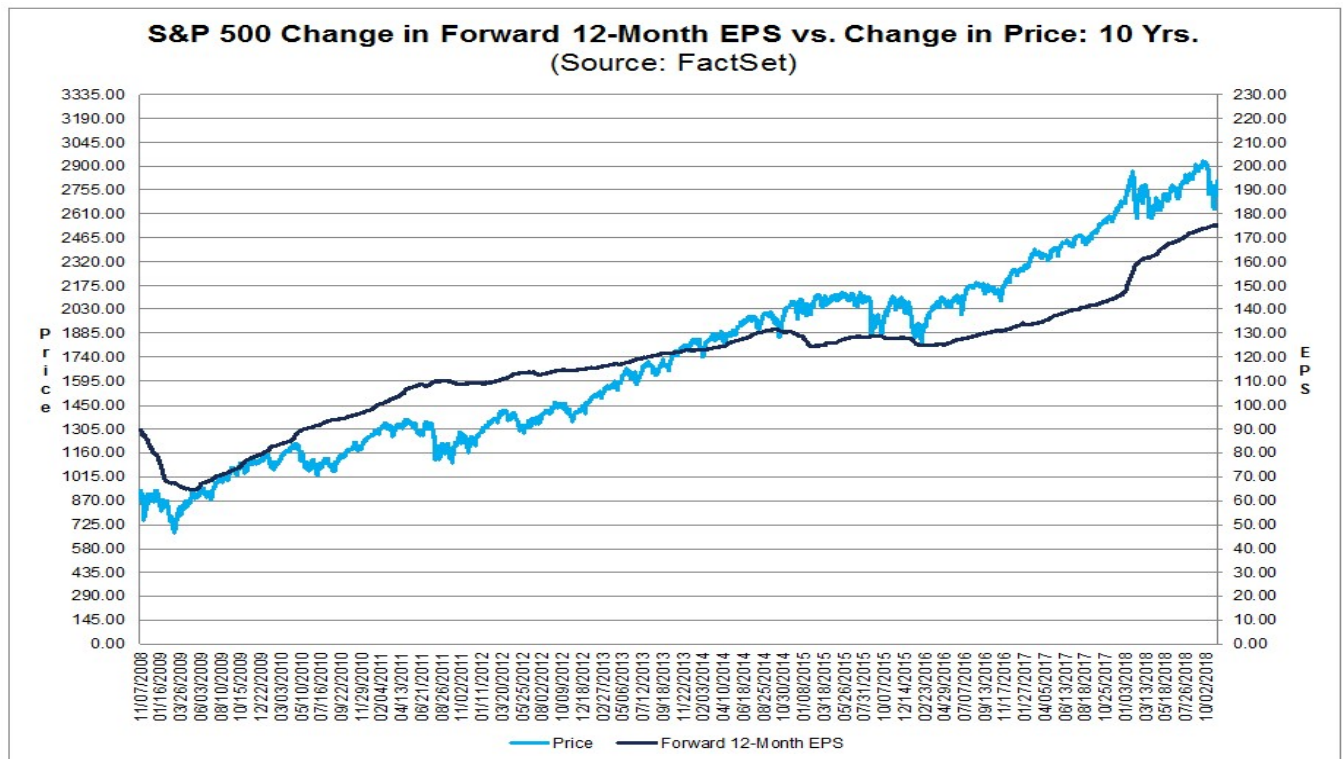
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## Key Metrics

- **Earnings Scorecard:** For Q3 2018 (with 90% 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 25.2%. If 25.2% is the actual growth rate for the quarter, it will mark the highest earnings growth since Q3 2010.
- **Earnings Revisions:** On September 30, the estimated earnings growth rate for Q3 2018 was 19.1%. 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, 58 S&P 500 companies have issued negative EPS guidance and 25 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.0. 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:

### Fewer S&P 500 Companies Have Discussed Tariffs on Earnings Calls for Q3 Compared to Q2

During each corporate earnings season, it is not unusual for companies to comment on subjects that had an impact on their earnings and revenues in a given quarter or may have an impact on earnings and revenues in future quarters. To date, 90% of the companies in the index had reported earnings results for the third quarter. Given the continued implementation of tariffs by the Trump administration, have companies in the S&P 500 commented on “tariffs” during their earnings conference calls for the third quarter?

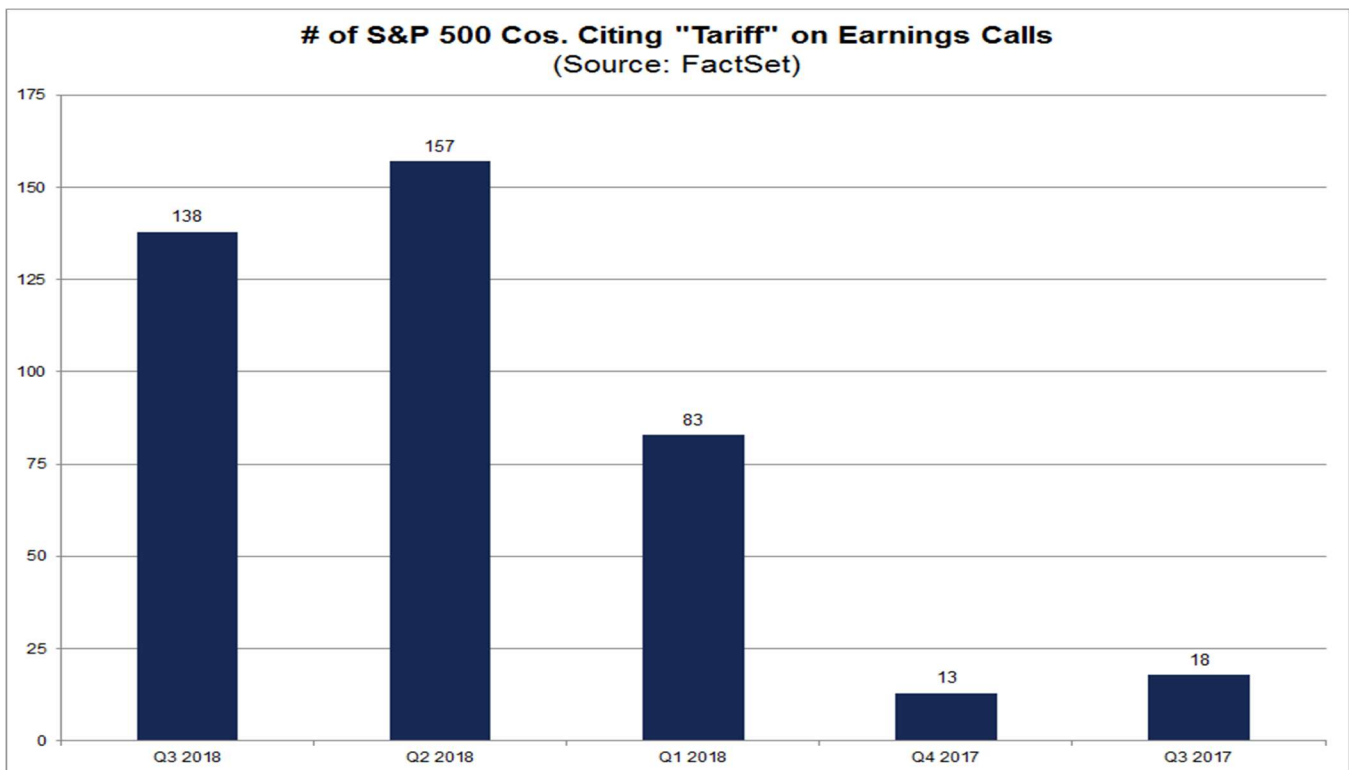
To answer this question, FactSet searched for the term “tariff” in the conference call transcripts of the 415 S&P 500 companies that had conducted earnings conference calls through Wednesday, November 7.

Of these 415 companies, 138 (or 33%) cited the term “tariff” during the call. It is interesting to note that both the number and percentage of S&P 500 companies discussing tariffs on Q3 earnings calls during this time are below the number and percentage through the same point in time in the second quarter. Through August 7, 157 of 417 S&P 500 companies (or 38%) had cited the term “tariff” during their Q2 earnings calls

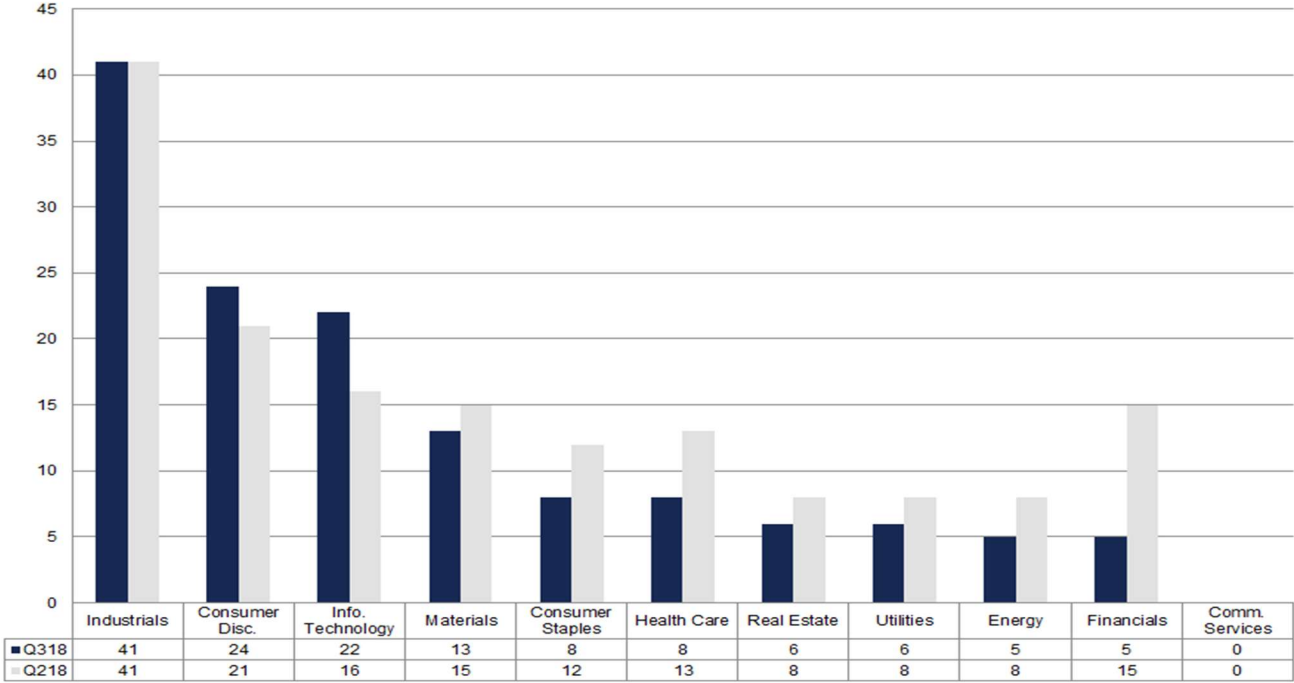
The small decline in the number and percentage of companies discussing tariffs in the third quarter relative to the second quarter may be a sign that there is slightly less concern in corporate America about widespread impacts from the tariffs throughout the economy.

At the sector level for the third quarter, four sectors have more than ten companies discussing tariffs on their earnings calls to date: Industrials (41), Consumer Discretionary (24), Information Technology (20), and Materials (13). At the same point in time in the second quarter, seven sectors had more than ten companies discussing tariffs on their earnings calls: Industrials (41), Consumer Discretionary (21), Information Technology (16), Materials (15), Financials (15), Health Care (13), and Consumer Staples (12).

While tariffs are still a concern in the sectors with the most companies discussing the topic in both quarters (led by the Industrials sector), other sectors have seen fewer companies discuss the topic in Q3 relative to Q2. Overall, seven sectors have seen a sequential decline in the number of companies citing tariffs, while just two sectors have seen a sequential increase.



**# of S&P 500 Cos. Citing "Tariff" on Earnings Calls: Q318 vs. Q218**  
(Source: FactSet)



## Q3 Earnings Season: By The Numbers

### Overview

For the third quarter to date (with 90% 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. If 78% is the final number for the quarter, it will mark a tie (with Q1 2018) for the second-highest percentage of companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008. In aggregate, companies are reporting earnings that are 6.7% above the estimates, which is also above the 5-year average. If 6.7% is the final number for the quarter, it will mark the second-highest EPS surprise percentage since Q1 2011.

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 1.5% 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 25.2% today, which is above the blended growth rate of 24.6% last week. Positive EPS surprises reported by companies in multiple sectors were responsible for the increase in the overall earnings growth rate during the week. If 25.2% is the actual growth rate for the quarter, it will mark the highest earnings growth since Q3 2010. All eleven sectors are reporting (or have reported) year-over-year earnings growth. Nine sectors are reporting (or have reported) 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 9.4% today, which is above the blended growth rate of 8.5% last week. Positive revenue surprises reported by companies in the Financials sector were mainly responsible for the increase in the overall revenue growth rate during the week. All eleven sectors are reporting (or have reported) year-over-year growth in revenues. Five sectors are reporting (or have reported) double-digit growth in revenues, led by the Energy, Communication Services, and Materials 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 16.0, which is below the 5-year average but above the 10-year average.

During the upcoming week, 12 S&P 500 companies (including the last 3 Dow 30 components) 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, 90% 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, 7% have reported actual EPS equal to the mean EPS estimate, and 15% 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.

If 78% is the final number for the quarter, it will mark a tie (with Q1 2018) for the second-highest percentage of companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008. The current record is 80%, which occurred in the previous quarter (Q2 2018).

At the sector level, the Information Technology (92%) sector has the highest percentage of companies reporting earnings above estimates, while the Real Estate (72%) and Energy (72%) sectors have the lowest percentages of companies reporting earnings above estimates.

### Earnings Surprise Percentage (+6.7%) is Above 5-Year Average

In aggregate, companies are reporting earnings that are 6.7% above expectations. This surprise percentage is above the 1-year (+5.4%) average and above the 5-year (+4.6%) average.

If 6.7% is the final number for the quarter, it will mark the second-highest EPS surprise percentage since Q1 2011.

The Consumer Discretionary (+15.6%) 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 +0.6% two days before the earnings release through two days after the earnings. This percentage is 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 -2.9% two days before the earnings release through two days after the earnings. This percentage decrease is 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 Real Estate (75%) sector has the highest percentage of companies reporting revenues above estimates, while the Utilities (54%) and Industrials (55%) sectors have the lowest percentages of companies reporting revenues above estimates.

### Revenue Surprise Percentage (+1.5%) is Above 5-Year Average

In aggregate, companies are reporting sales that are 1.5% above expectations. This surprise percentage is above the 1-year (+1.3%) average and above the 5-year (+0.7%) average.

The Financials (+5.2%) sector reported the largest upside aggregate difference between actual sales and estimated sales. Within this sector, Jefferies Financial Group (\$1.15 billion vs. \$895 million) and Berkshire Hathaway (\$78.1 billion vs. \$63.6 billion) reported the largest positive revenue surprises.

## Increase in Blended Revenue Growth Rate this Week Due to Financials & Materials Sectors

### Increase in Blended Earnings Growth Rate This Week Due to Multiple Sectors

The blended, year-over-year earnings growth rate for the third quarter is 25.2% today, which is above the earnings growth rate of 26.4% last week. Positive earnings surprises reported by companies in multiple sectors were responsible for the increase in the overall earnings growth rate during the week.

### Increase in Blended Revenue Growth Rate This Week Due to Financials & Materials Sectors

The blended, year-over-year sales growth rate for the third quarter is 9.4% today, which is above the sales growth rate of 8.5% last week. Positive revenue surprises reported by companies in the Financials sector and upward revisions to revenue estimates for companies in the Materials sector were mainly responsible for the increase in the overall revenue growth rate during the week.

In the Financials sector, the positive revenue surprise reported by Berkshire Hathaway (\$78.1 billion vs. \$63.6 billion) was the largest contributor to the increase in the overall revenue growth rate for the index during the past week. The \$78.1 billion revenue number included about \$14.7 billion in investment and derivative contract gains. However, this number was considered the apples-to-apples revenue number to estimates by the small number of analysts contributing revenue estimates to FactSet for Berkshire Hathaway. As a result of the magnitude of the surprise, the blended revenue growth rate for the Financials sector increased to 8.1% from 3.8% during the week.

In the Materials sector, upward revisions to revenue estimates for Linde plc (to \$8.02 billion from \$3.07 billion) to reflect the merger of Praxair and Linde were a significant contributor to the increase in the overall revenue growth rate for the index during the past week. Because Praxair was still in the S&P 500 at the end of the third quarter (the merger with Linde plc was not completed until October 31), changes to revenue estimates for this company for the third quarter are still reflected in the blended revenue growth rate (which combines actual results for companies that have reported and estimated results for companies that have yet to report). As a result, the blended revenue growth rate for the Materials sector increased to 16.5% from 10.5% during the week.

### Energy Sector Has Seen Largest Increase in Earnings Growth since September 30

The blended, year-over-year earnings growth rate for Q3 2018 of 25.3% is above the estimate of 19.1% at the end of the third quarter (September 30). All eleven sectors have recorded an increase in earnings growth since the end of the quarter due to upward revisions to earnings estimates and positive earnings surprises, led by the Energy (to 127.1% from 99.1%), Communication Services (to 31.8% from 19.3%), and Consumer Discretionary (to 19.9% from 9.3%) sectors.

### Materials Sector Has Seen Largest Increase in Revenue Growth since September 30

The blended, year-over-year sales growth rate for Q3 2018 of 9.4% is above the estimate of 8.0% at the end of the third quarter (September 30). Nine sectors have recorded an increase in sales growth since the end of the quarter due to upward revisions to revenue estimates and positive revenue surprises, led by the Materials (to 16.5% from 9.8%) and Financials (8.1% from 3.1%) sectors. Two sectors have recorded a decrease in sales growth during this time due to downward revisions to revenue estimates and negative revenue surprises: Utilities (to 1.7% from 3.1%) and Consumer Discretionary (to 7.9% from 8.0%).

### Highest Earnings Growth Since Q3 2010

The blended (year-over-year) earnings growth rate for Q3 2018 is 25.2%. If 25.2% is the final growth rate for the quarter, it will mark the highest earnings growth reported by the index since Q3 2010 (34.1%). It will also mark the third straight quarter of earnings growth above 20%. All eleven sectors are reporting (or have reported) year-over-year growth in earnings. Nine sectors are reporting (or have reported) 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 127.1%. 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 (or have reported) earnings growth for the quarter: Oil & Gas Drilling (N/A due to year-ago loss), Oil & Gas Exploration & Production (4,194%), Integrated Oil & Gas (114%), Oil & Gas Storage & Transportation (68%), Oil & Gas Refining & Marketing (35%), and Oil & Gas Equipment & Services (15%).

### Financials: All 5 Industries Reported 20% Growth or Higher, Led by Insurance Industry

The Financials sector reported the second highest (year-over-year) earnings growth of all eleven sectors at 35.7%. At the industry level, all five industries in this sector reported at least 20% growth in earnings: Insurance (139%), Diversified Financial Services (103%), 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 25.4% from 35.7%.

### Communication Services: All 4 Industries Reporting 25% Growth or Higher

The Communication Service sector is reporting the third highest (year-over-year) earnings growth of all eleven sectors at 31.8%. At the industry level, all four industries in the sector are reporting (or have reported) at least 25% growth in earnings: Diversified Telecommunication Services (36%), Media (35%), Interactive Media & Service (29%), and Entertainment (28%).

### Materials: All 4 Industries Reporting 20% Growth or Higher

The Materials sector is reporting the fourth highest (year-over-year) earnings growth of all eleven sectors at 28.8%. At the industry level, all four industries in the sector are reporting (or have reported) at least 20% growth in earnings: Metals & Mining (53%), Containers & Packaging (32%), Construction Materials (27%), and Chemicals (24%).

## Second Highest Revenue Growth Since Q3 2011

The blended (year-over-year) revenue growth rate for Q3 2018 is 9.4%. If 9.4% is the final growth rate for the quarter, it will mark the second highest revenue growth reported by the index since Q3 2011, trailing only the previous quarter (10.5%). All eleven sectors are reporting (or have reported) year-over-year growth in revenue. Five sectors are reporting (or have reported) double-digit growth in revenue, led by the Energy, Materials, and Communication Services 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 20.5%. At the sub-industry level, all six sub-industries are reporting (or have reported) revenue growth. Five of the six sub-industries in the sector are reporting (or have reported) double-digit revenue growth: Oil & Gas Exploration & Production (39%), Oil & Gas Drilling (28%), Oil & Gas Refining & Marketing (23%), Integrated Oil & Gas (19%), and Oil & Gas Storage & Transportation (14%).

### 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 19.3%. 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%).

### Materials: Linde Leads Growth on Easy Comparison to Standalone Revenue for Praxair

The Materials sector is reporting the third highest (year-over-year) revenue growth of all eleven sectors at 16.5%. At the industry level, all four industries in this sector are reporting (or have reported) revenue growth, led by the Chemicals (21%) and Metals & Mining (18%) industries. At the company level, Linde plc is the largest contributor to revenue growth for the sector. However, the estimated revenues for Q3 2018 (\$8.02 billion) reflect the combination of Praxair and Linde, while the actual revenues for Q3 2017 (\$2.92 billion) reflect the standalone Praxair company. This apple-to-orange comparison is the main reason Linde plc is the largest contributor to revenue growth for the sector. If this company were excluded, the blended revenue growth rate for the sector would fall to 10.7% from 16.5%.

## Looking Ahead: Forward Estimates and Valuation

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

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, 83 companies in the index have issued EPS guidance for Q4 2018. Of these 83 companies, 58 have issued negative EPS guidance and 25 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 70% (58 out of 83), which is equal to 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 25.2% and revenue growth of 9.4%. 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 14.2% and revenue growth of 6.7%.

For CY 2018, analysts are projecting earnings growth of 20.6% and revenue growth of 8.9%.

For Q1 2019, analysts are projecting earnings growth of 5.6% and revenue growth of 6.6%.

For Q2 2019, analysts are projecting earnings growth of 6.2% and revenue growth of 5.3%.

For CY 2019, analysts are projecting earnings growth of 9.2% and revenue growth of 5.3%.

### Valuation: Forward P/E Ratio is 16.0, above the 10-Year Average (14.5)

The forward 12-month P/E ratio is 16.0. 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 3.7%, while the forward 12-month EPS estimate has increased by 0.8%.

At the sector level, the Consumer Discretionary (20.9) sector has the highest forward 12-month P/E ratio, while the Financials (12.0) 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 3181.41, which is 13.3% above the closing price of 2806.83. At the sector level, the Energy (+24.7%) 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 (+2.4%) and Utilities (+2.6%) 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.

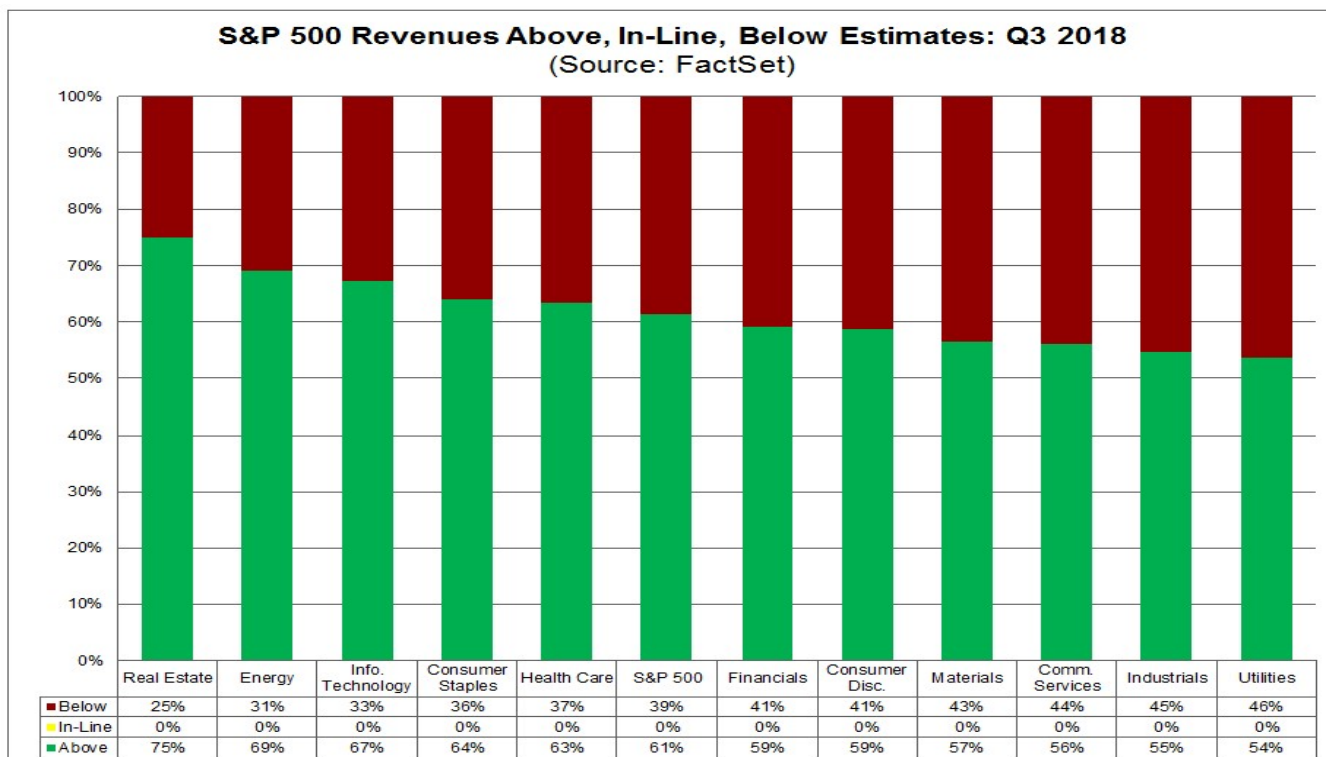
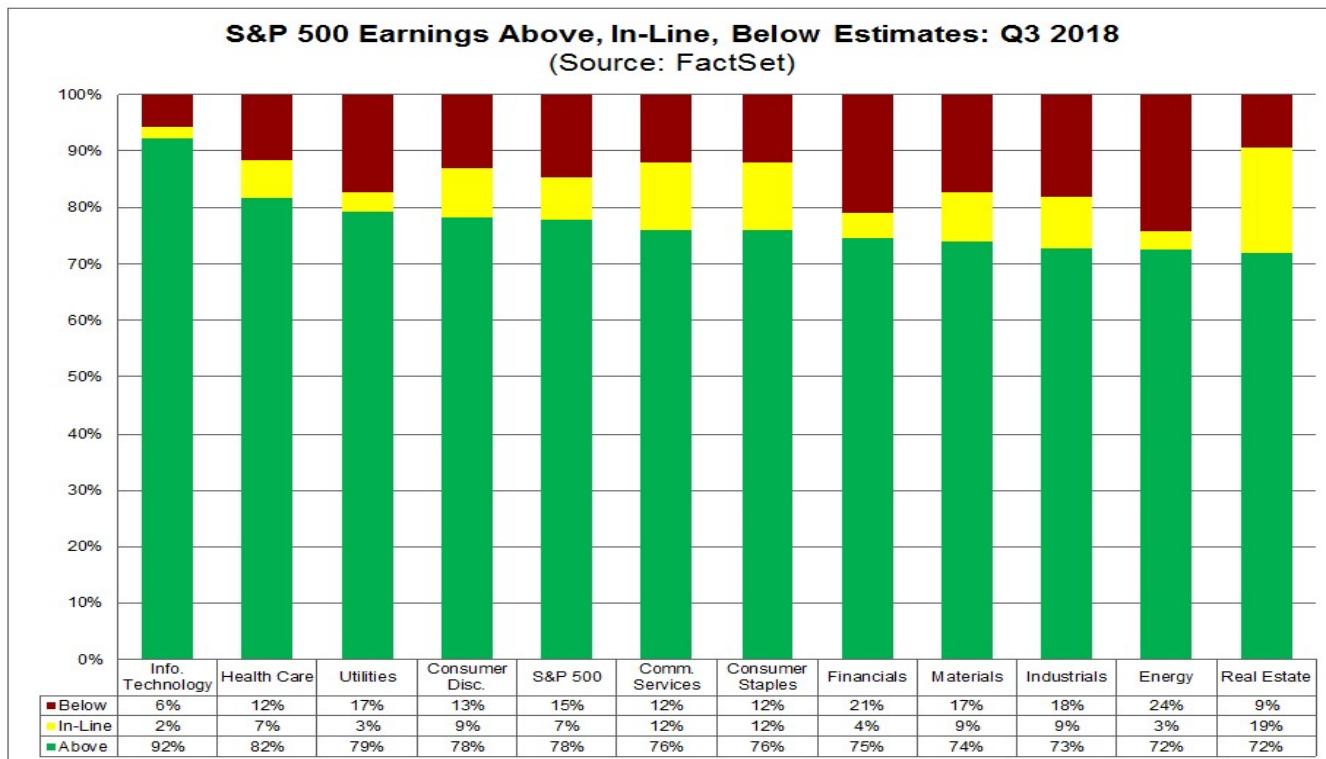
Overall, there are 11,002 ratings on stocks in the S&P 500. Of these 11,002 ratings, 53.4% are Buy ratings, 41.2% are Hold ratings, and 5.4% are Sell ratings. At the sector level, the Energy (63%) sector has the highest percentage of Buy ratings, while the Consumer Staples (40%) sector has the lowest percentage of Buy ratings.

### Companies Reporting Next Week: 12

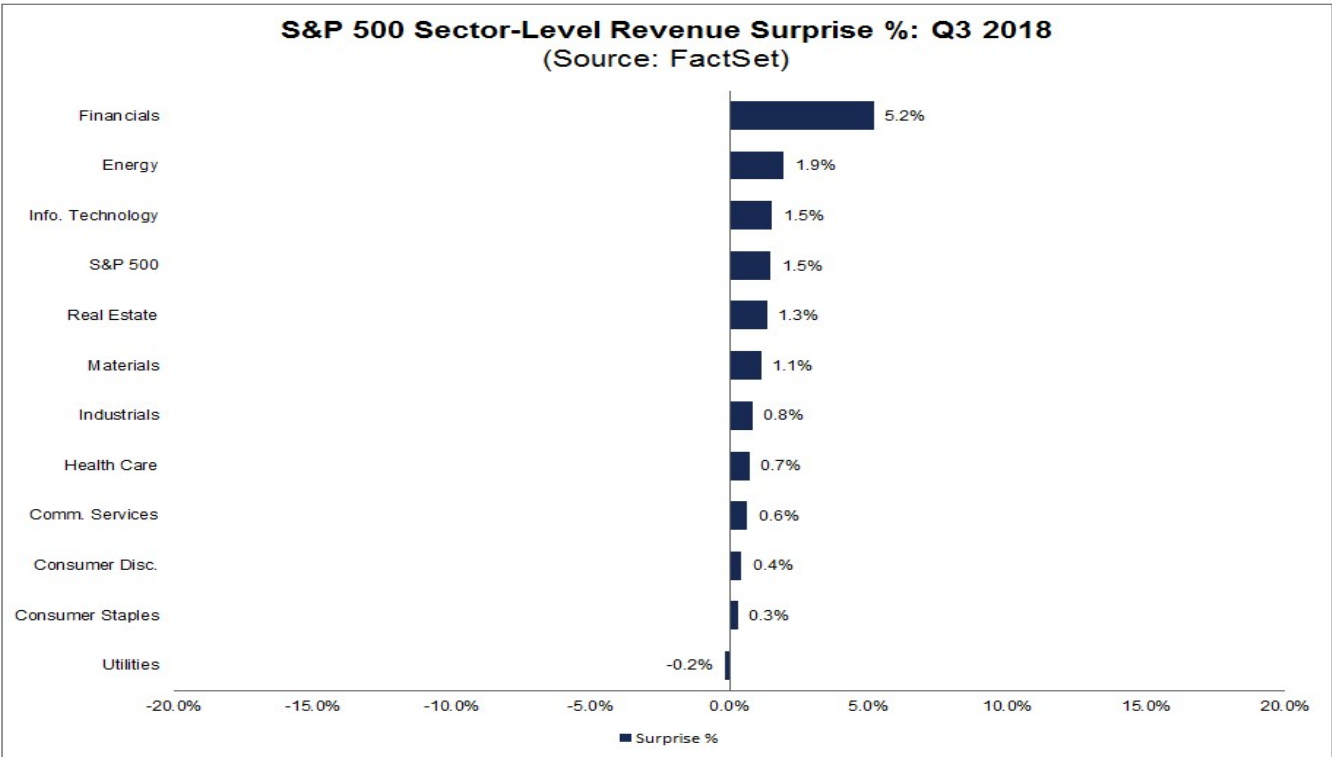
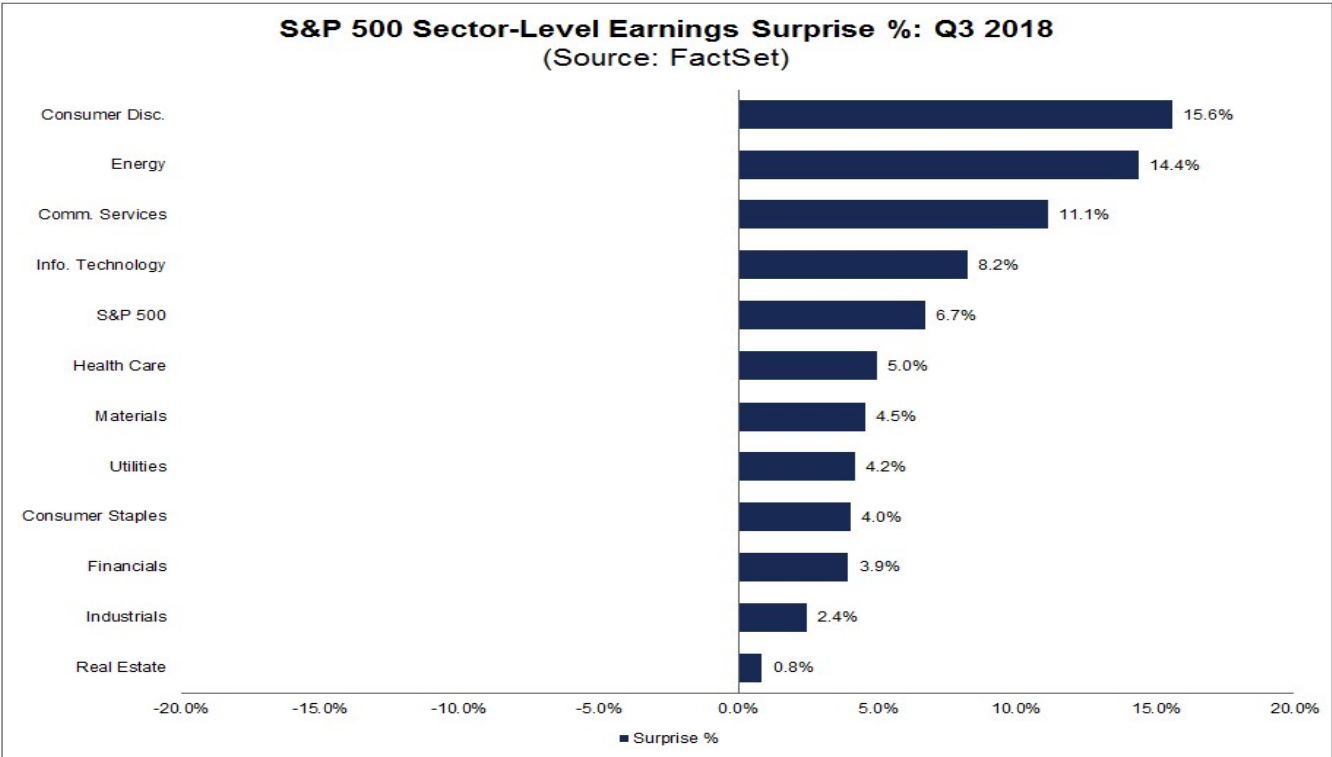
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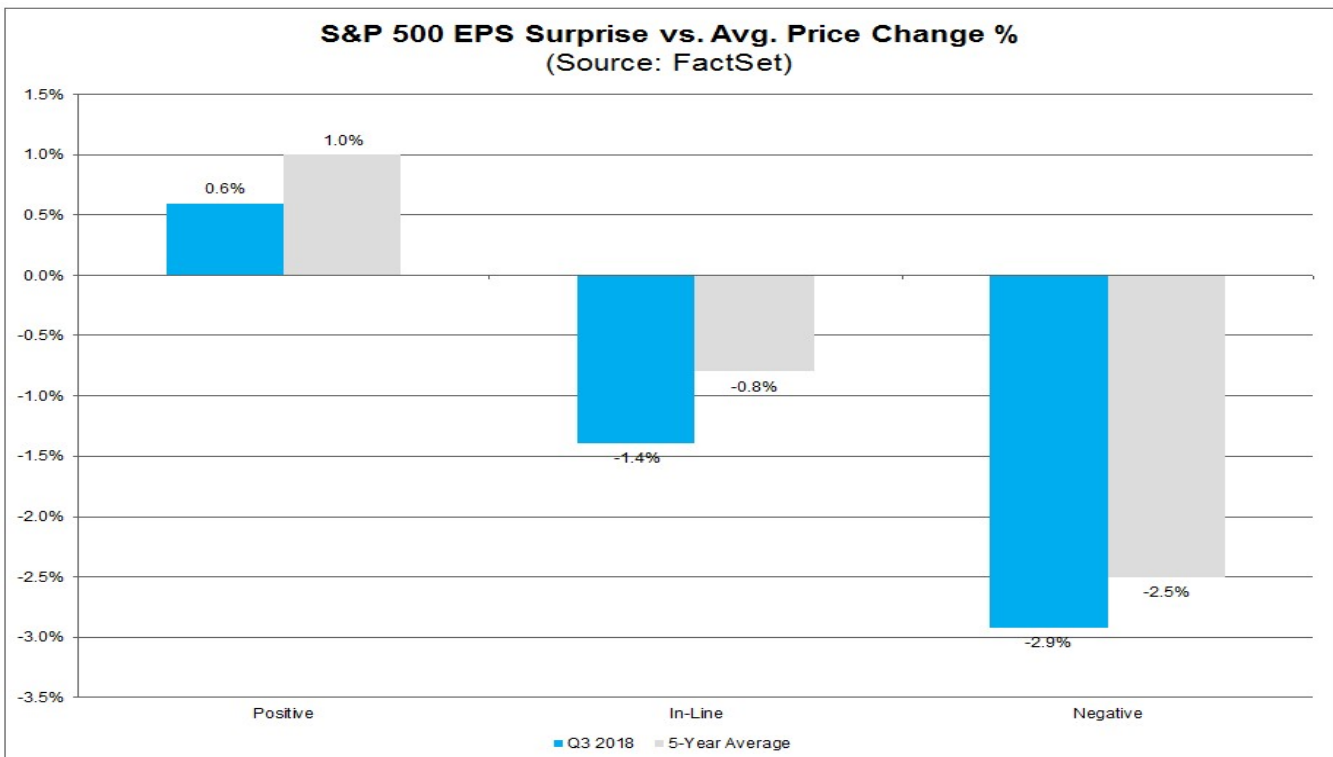
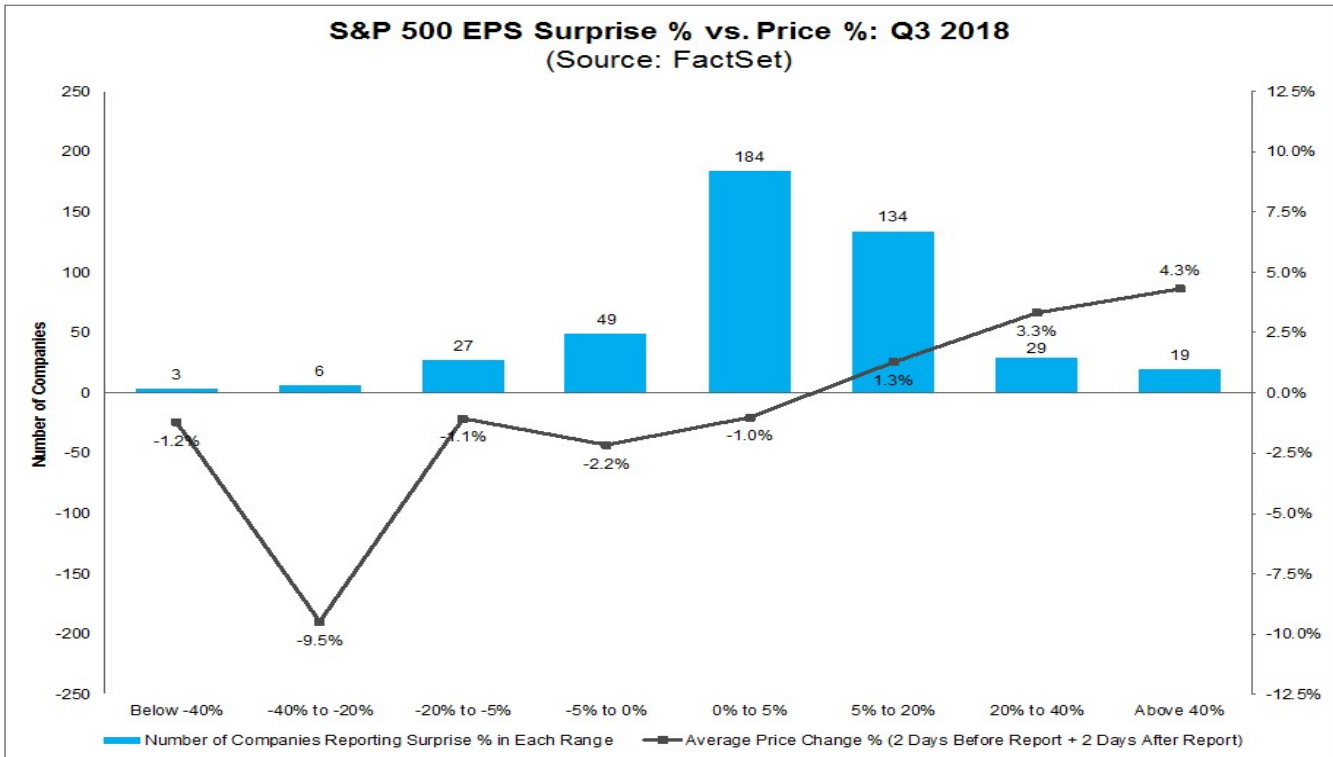
## Q3 2018: Scorecard



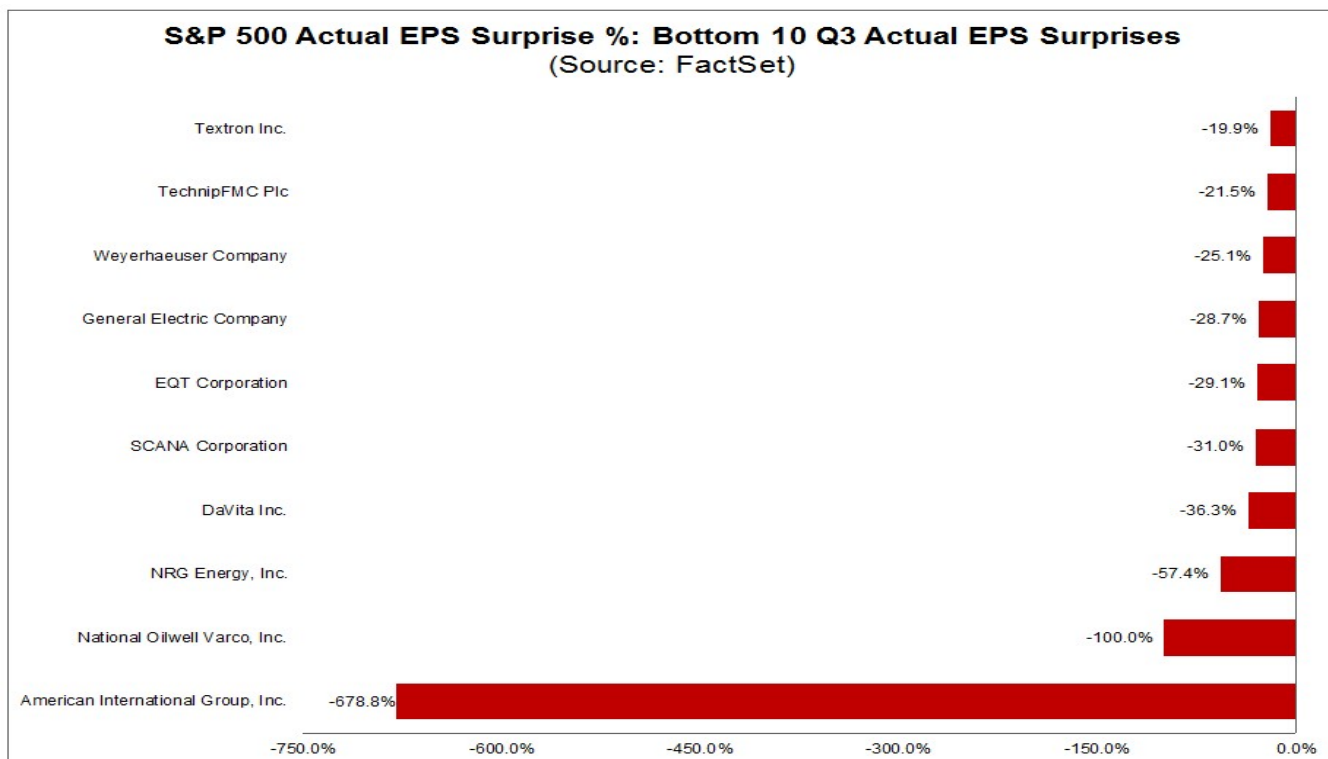
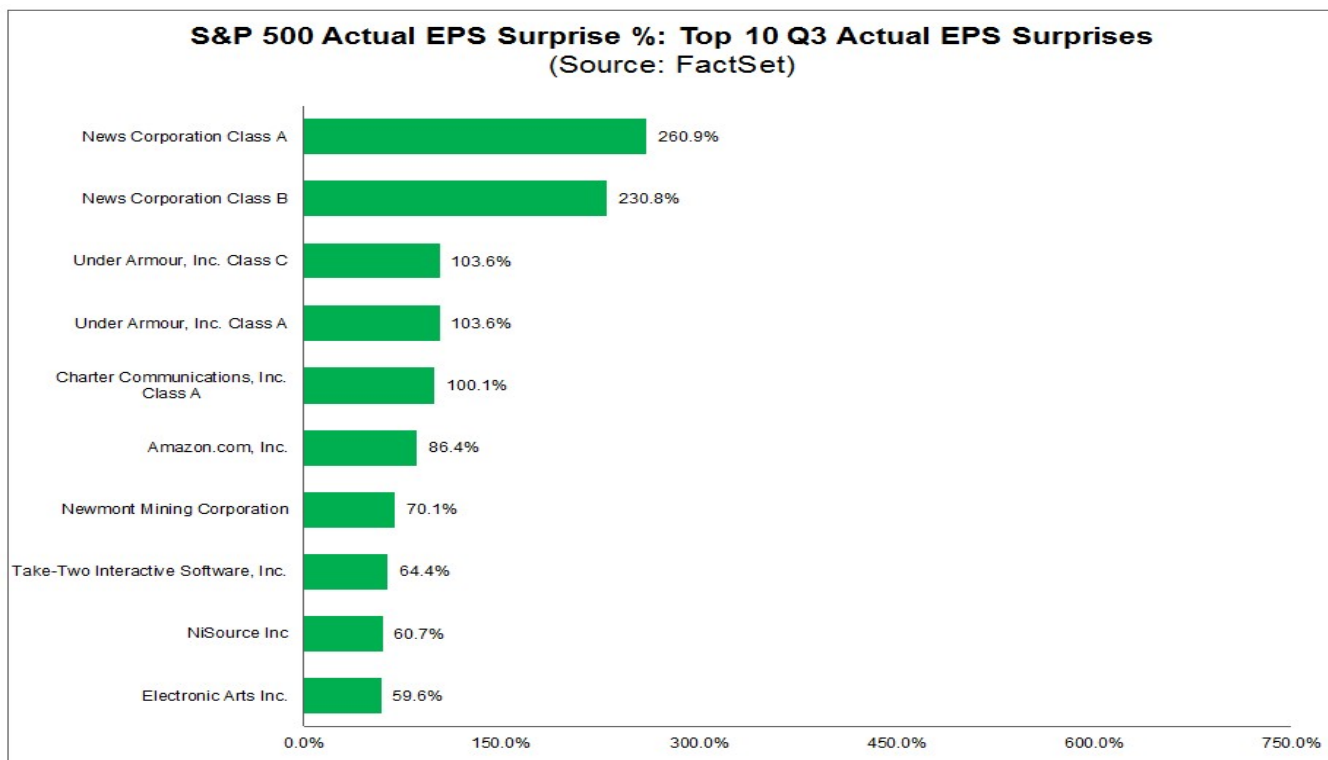
# Q3 2018: Scorecard



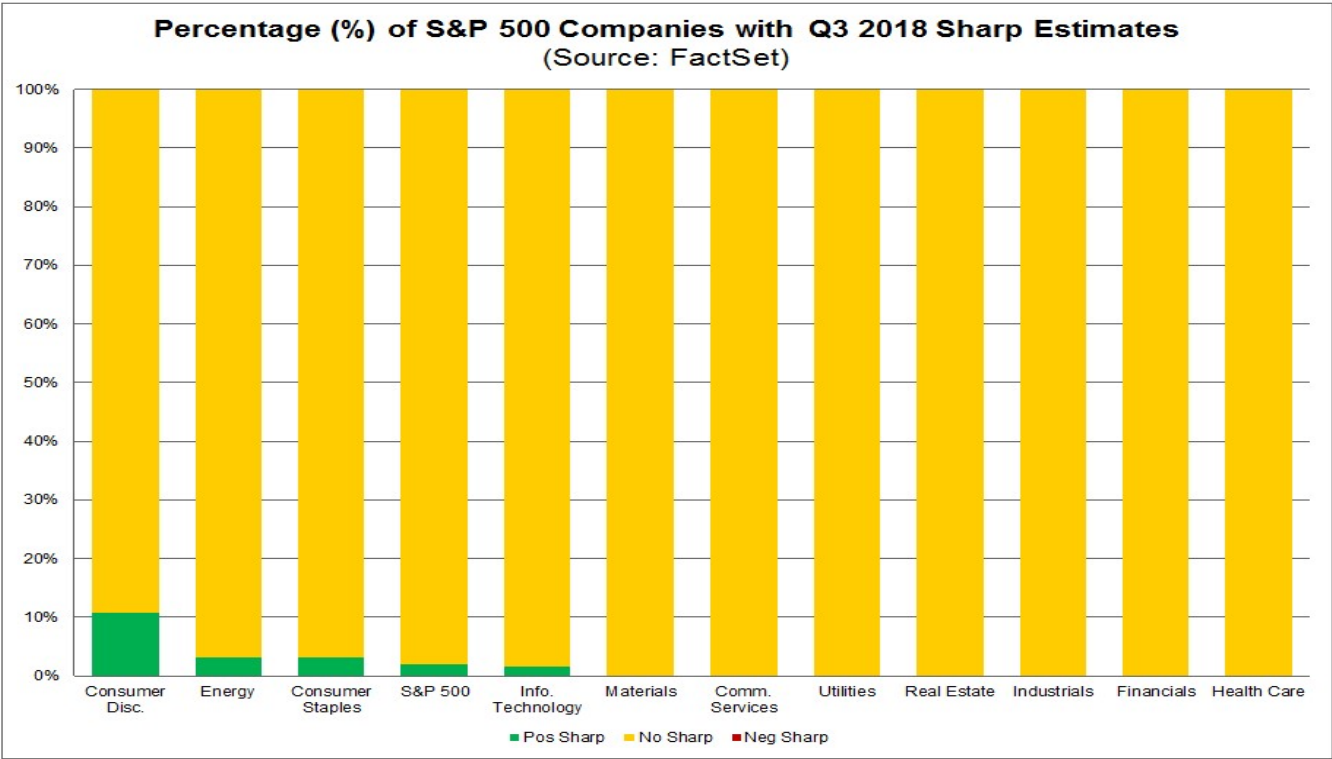
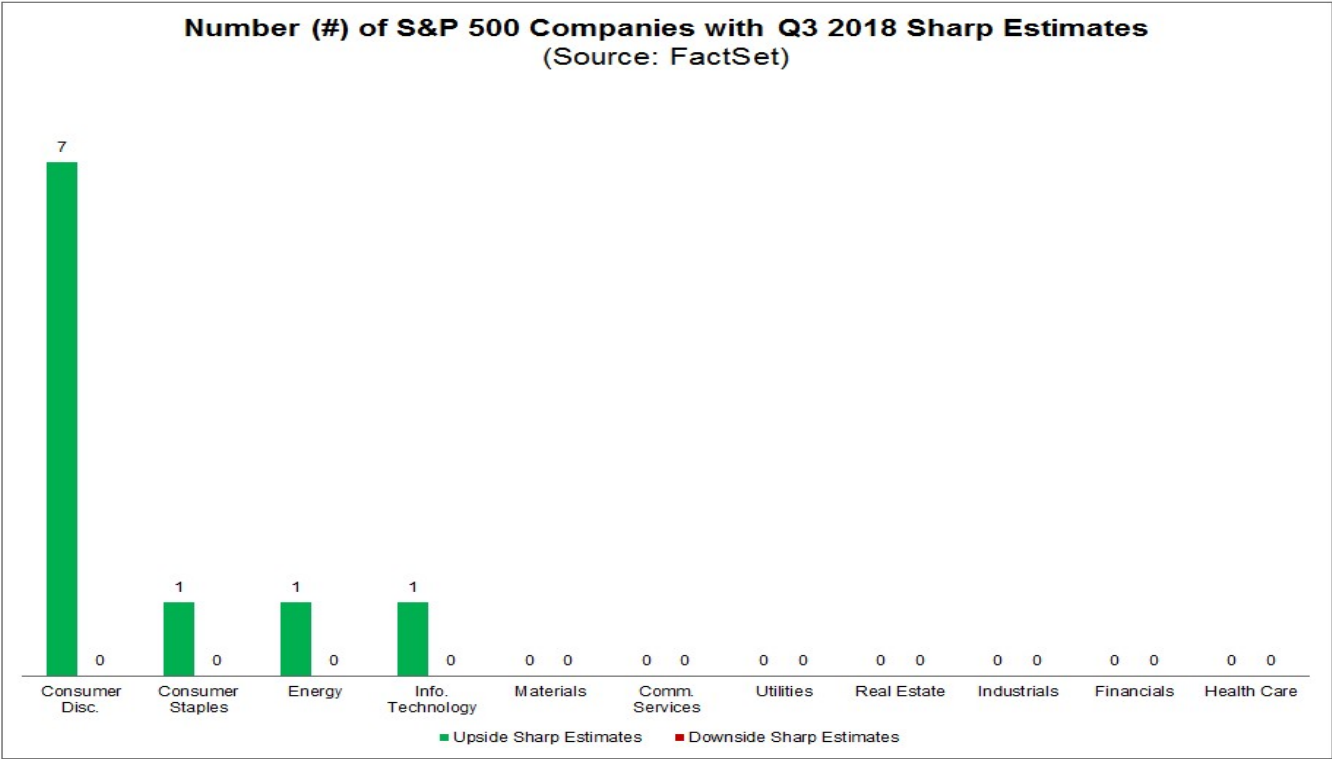
## Q3 2018: Scorecard



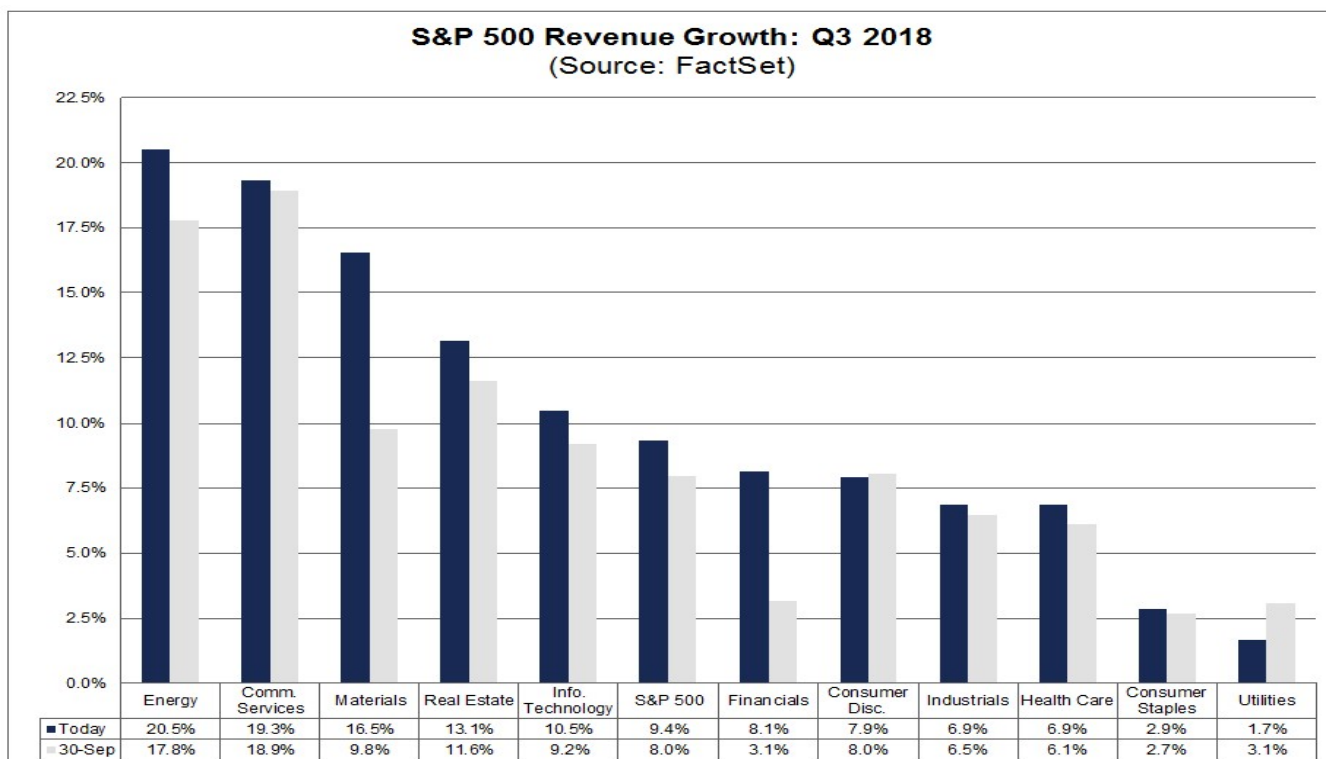
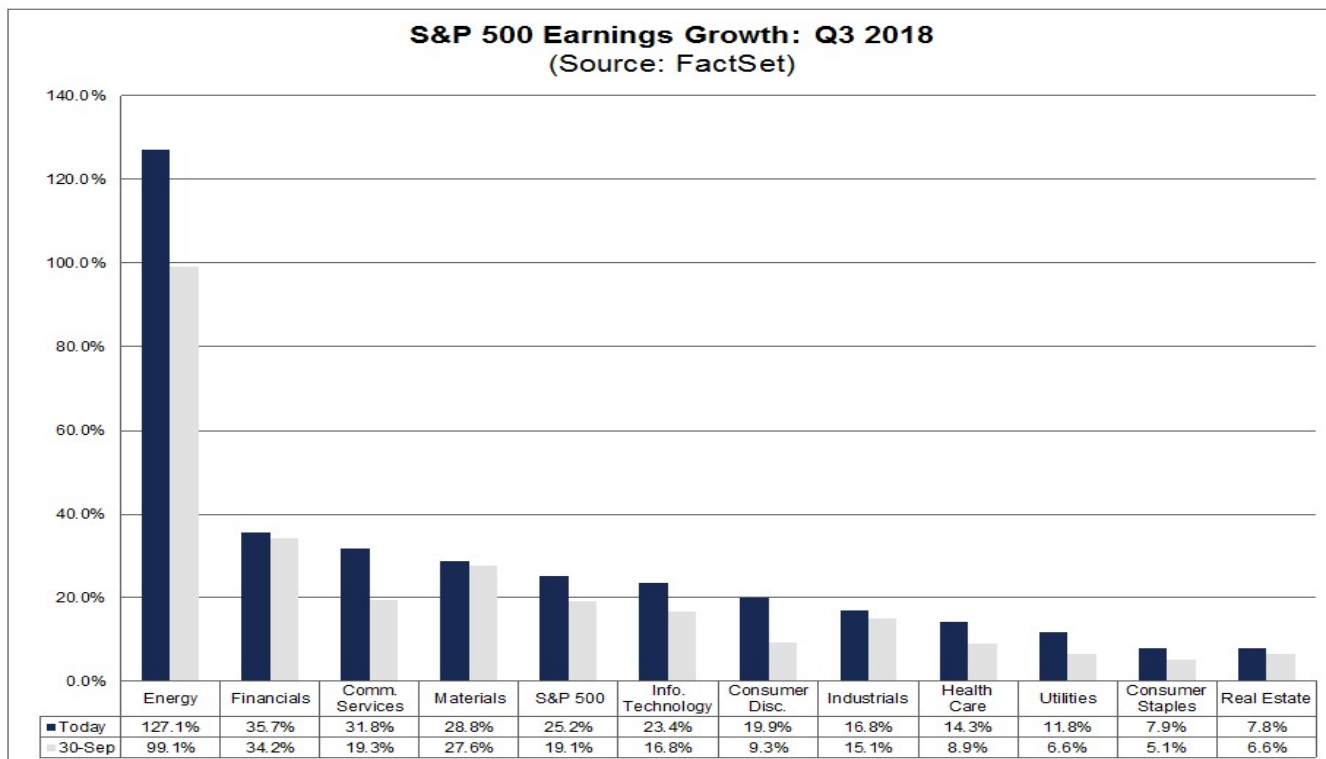
## Q3 2018: Scorecard



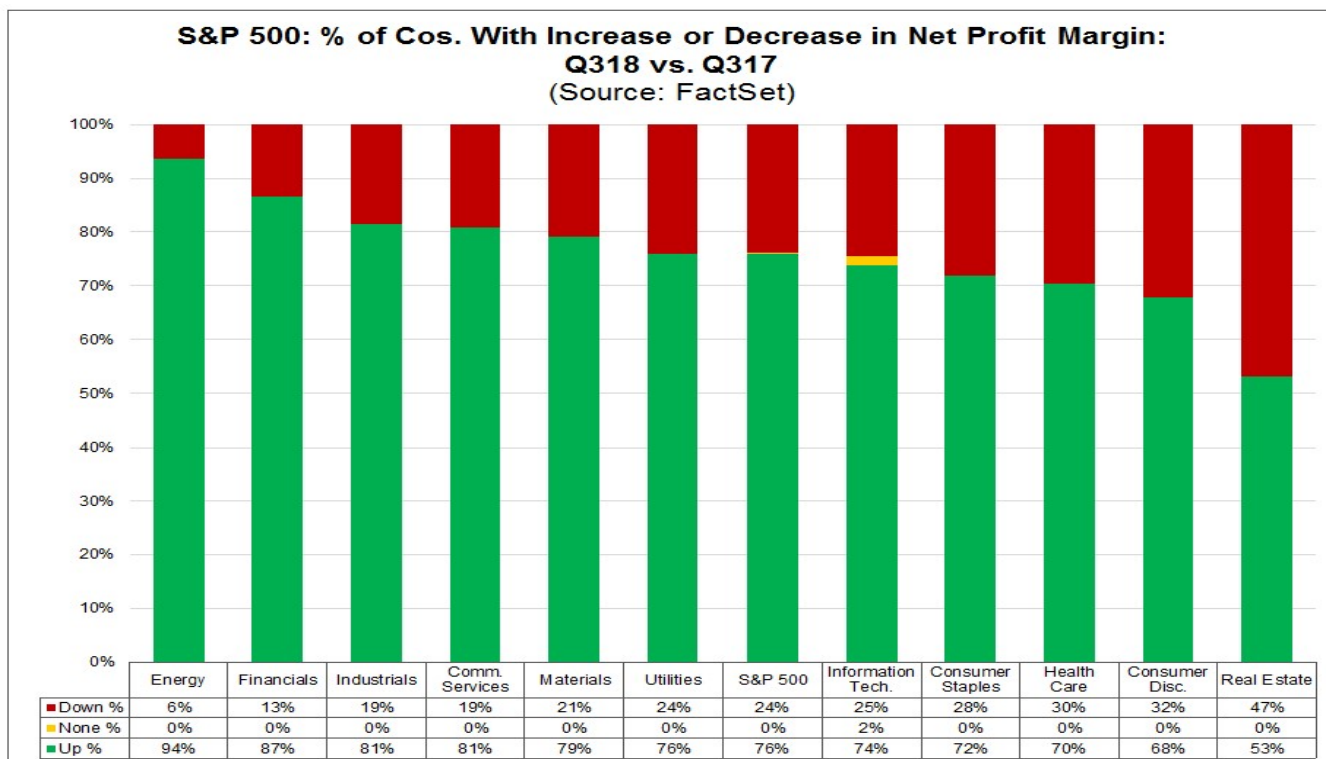
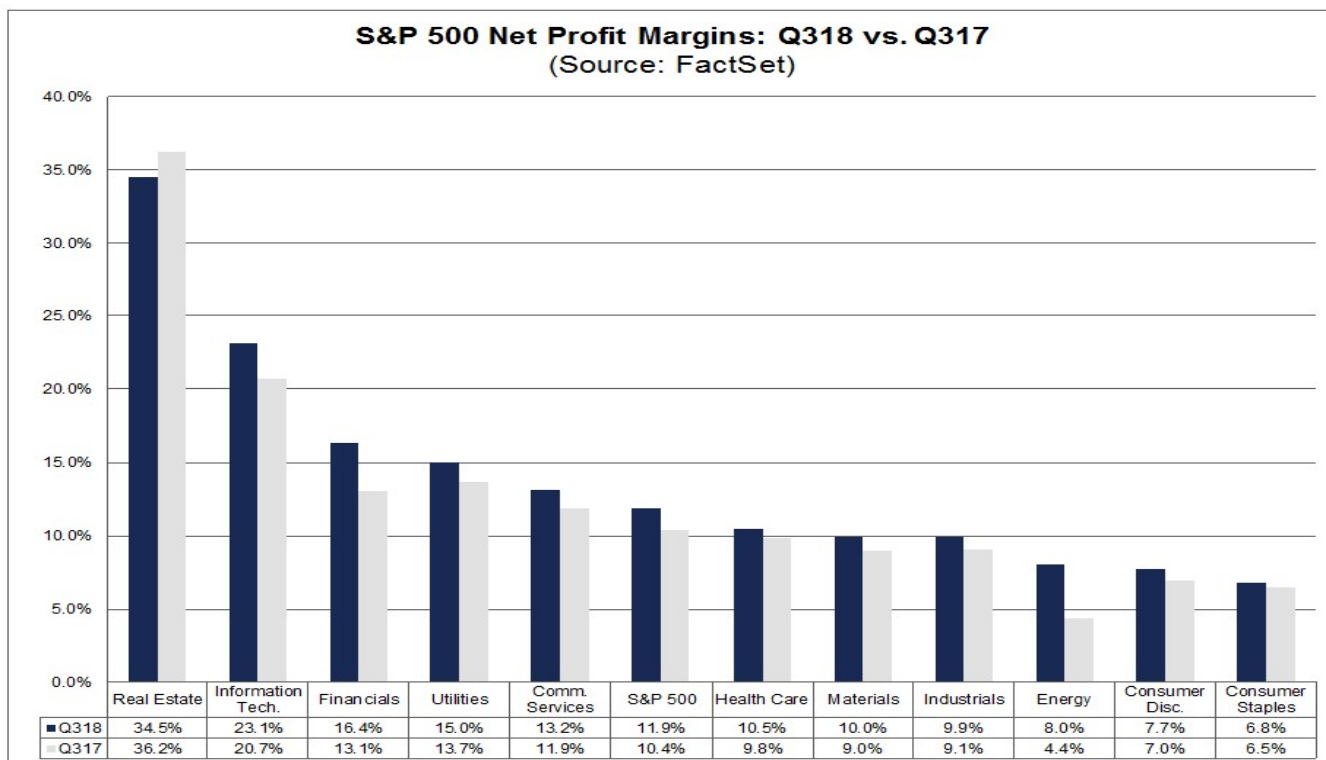
# Q3 2018: Projected EPS Surprises (Sharp Estimates)



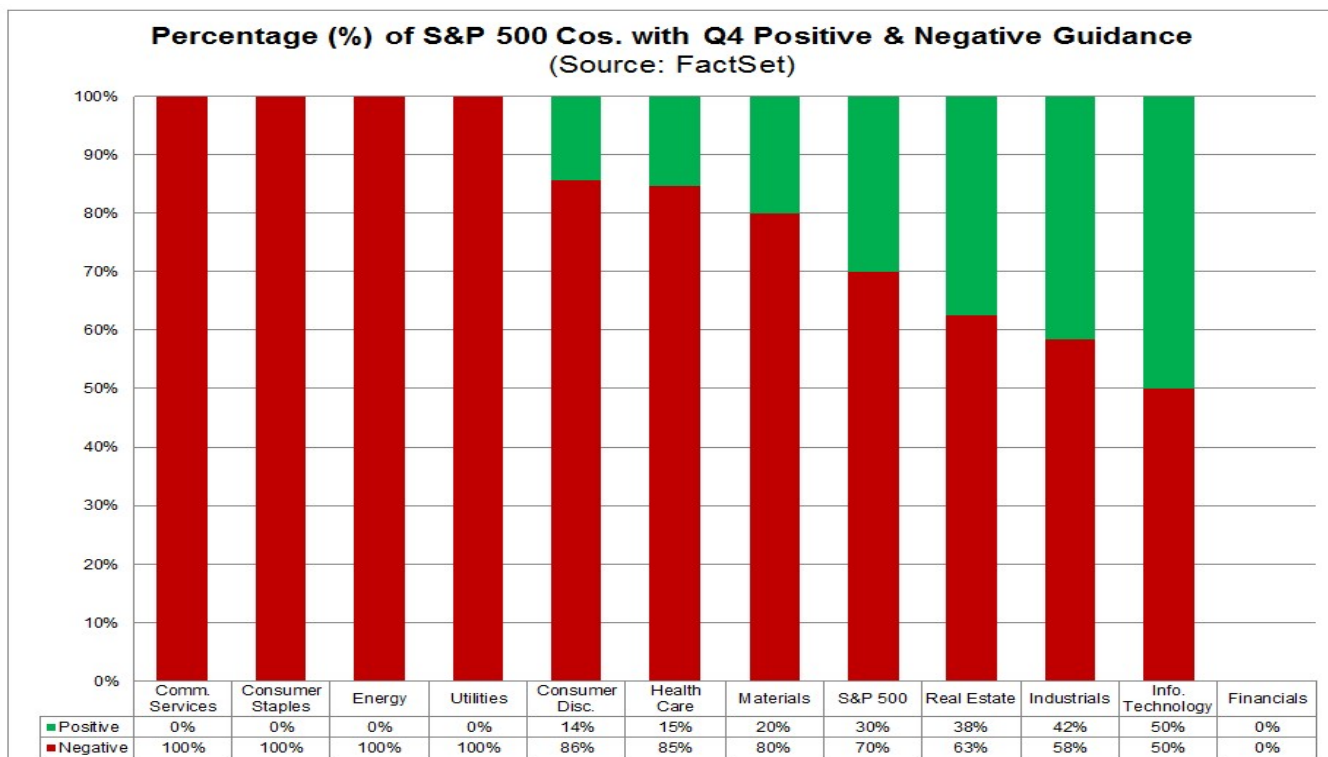
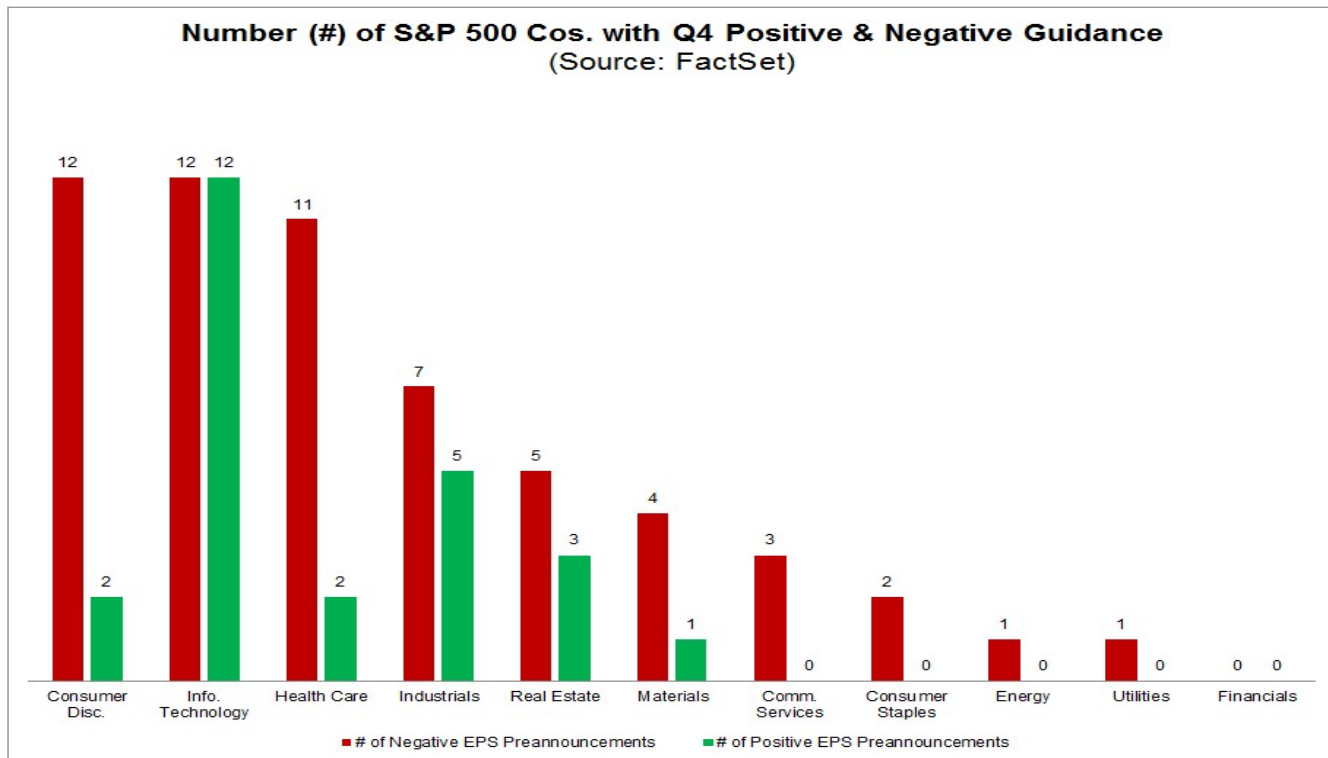
## Q3 2018: Growth



## Q3 2018: Net Profit Margin

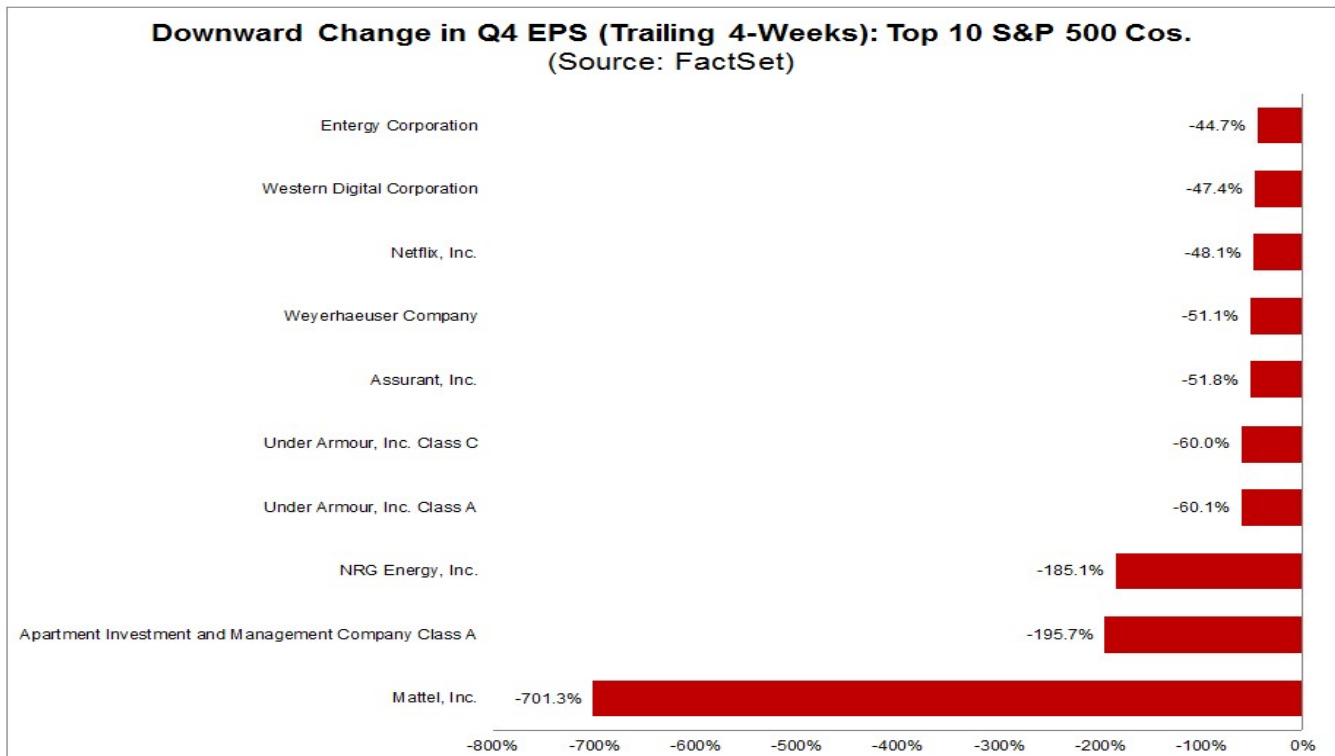
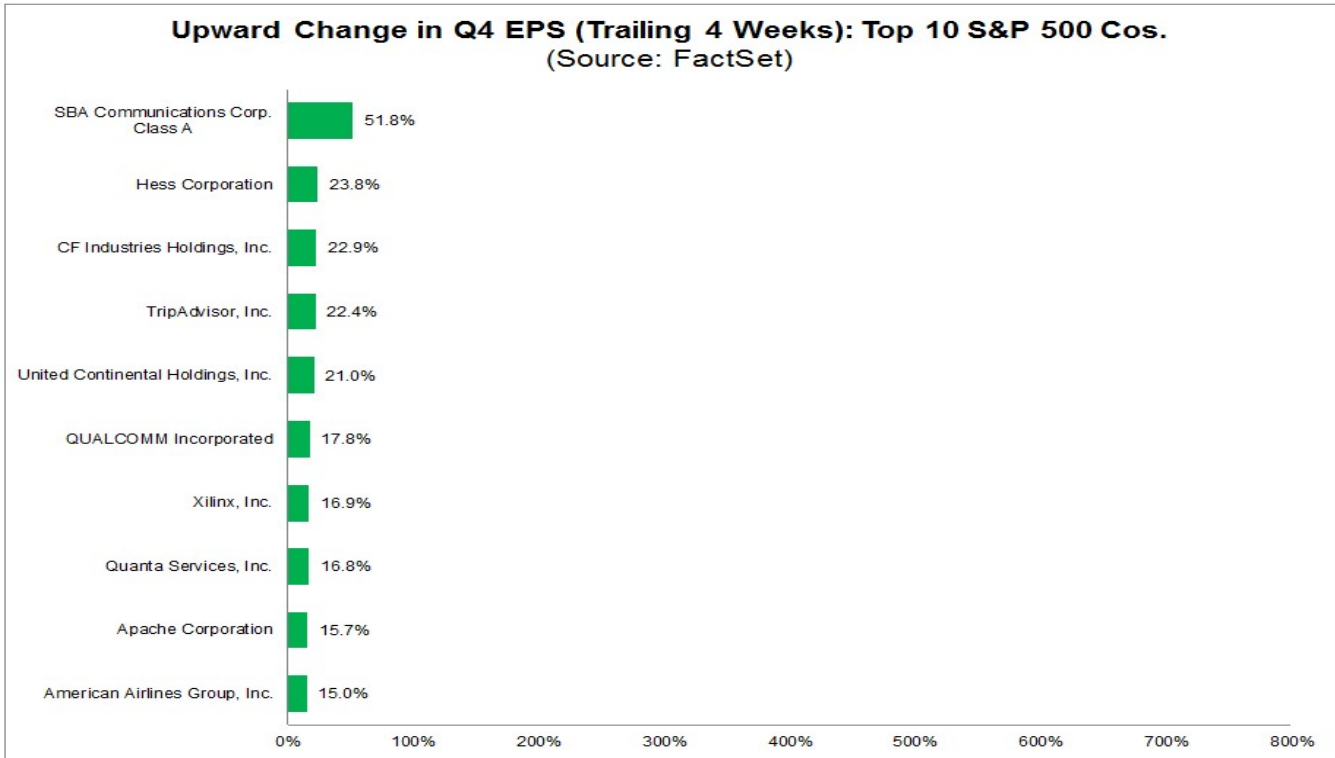


## Q4 2018: EPS Guidance

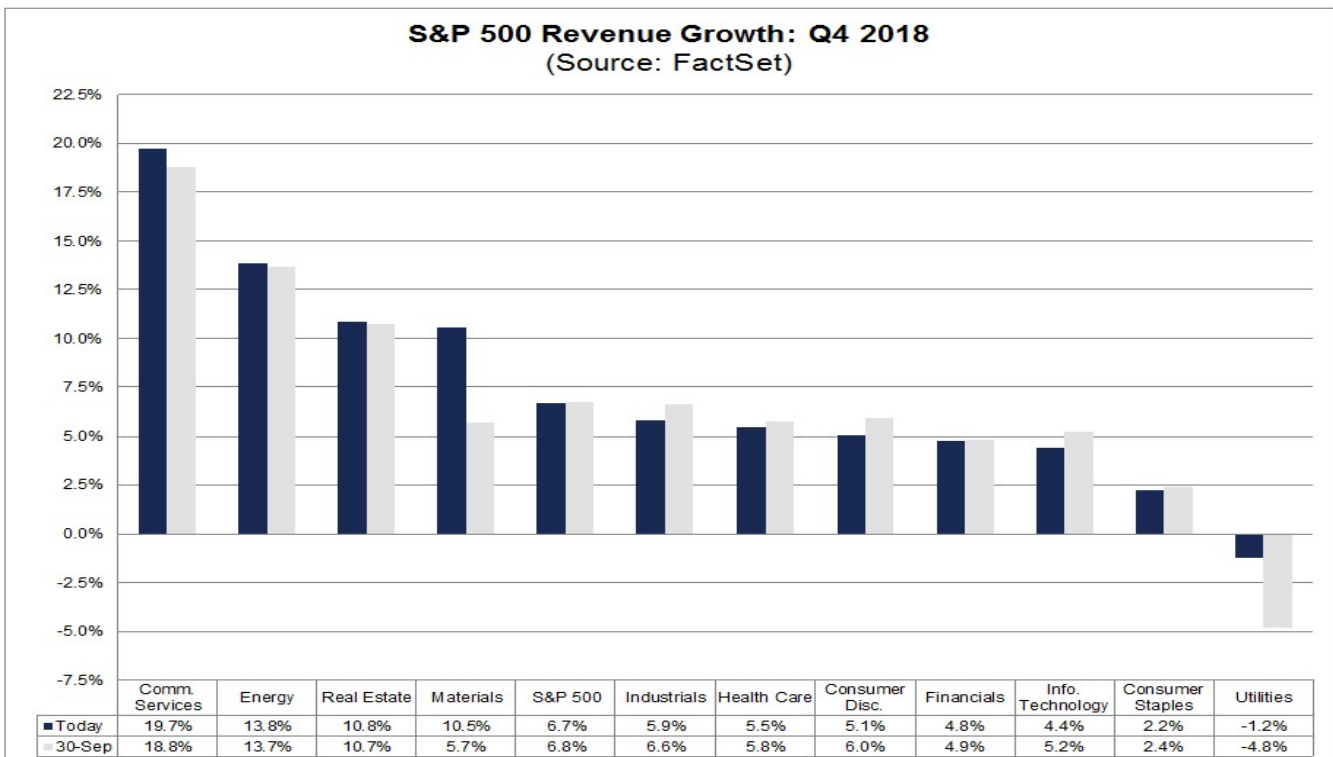
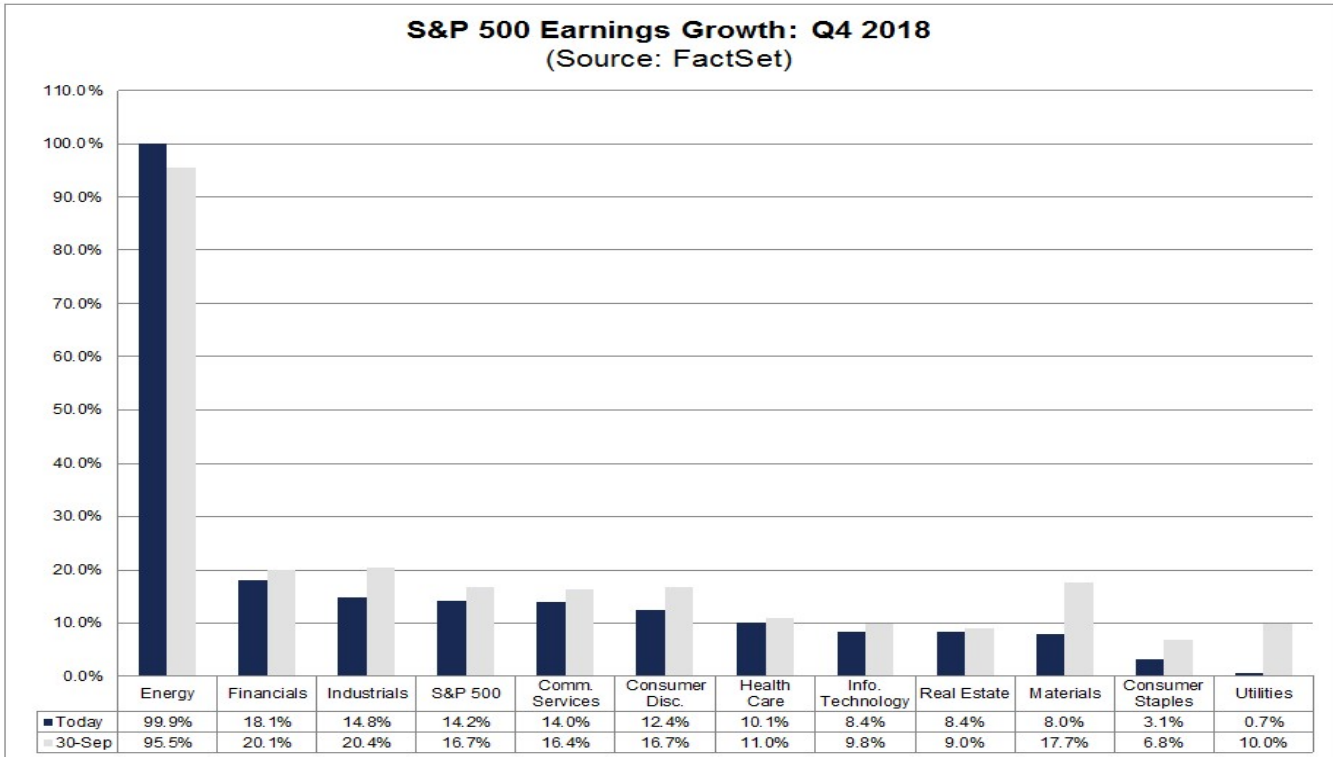




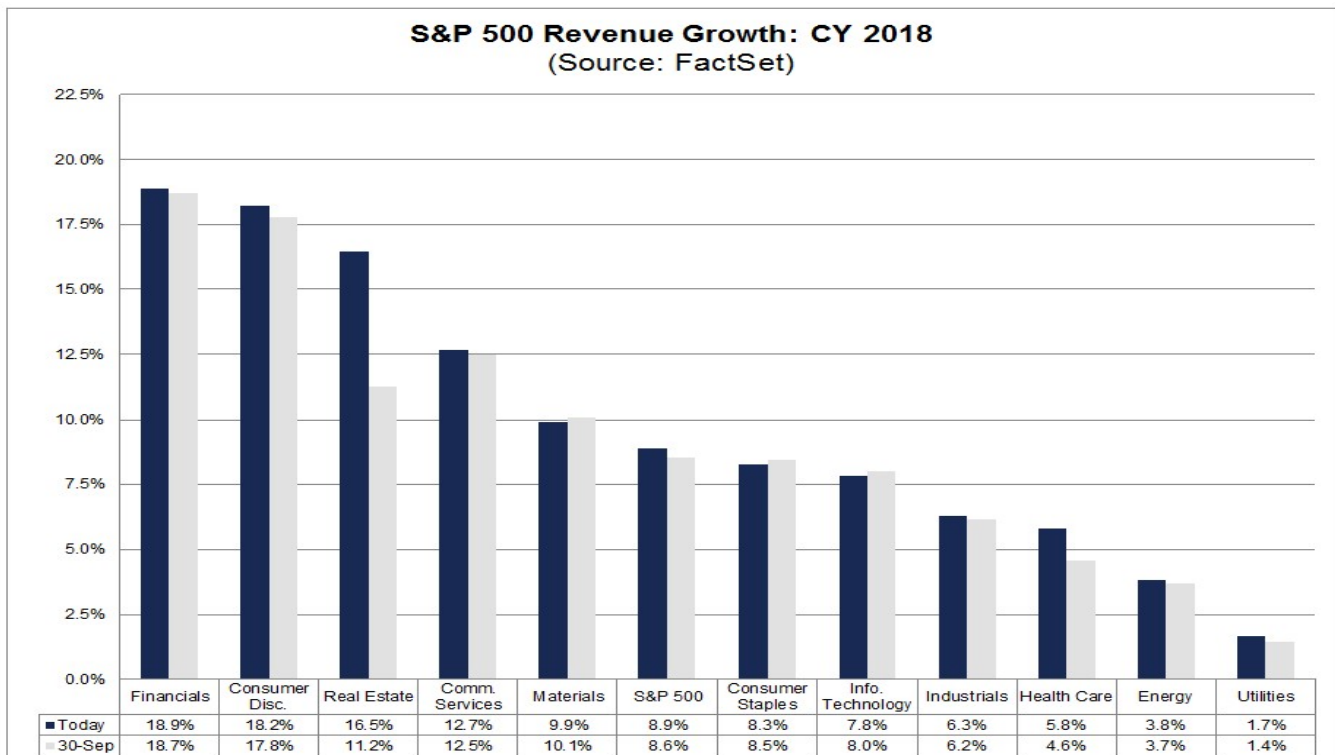
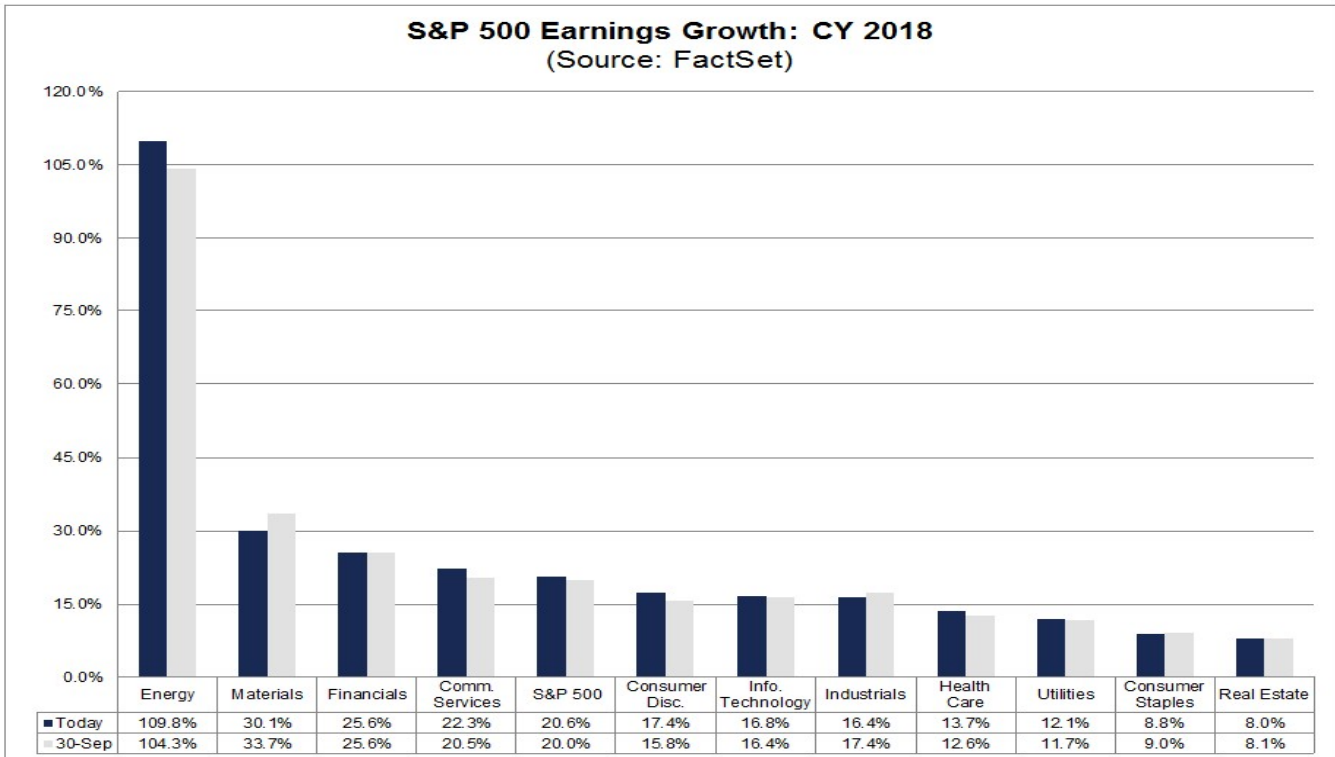
## Q4 2018: EPS Revisions



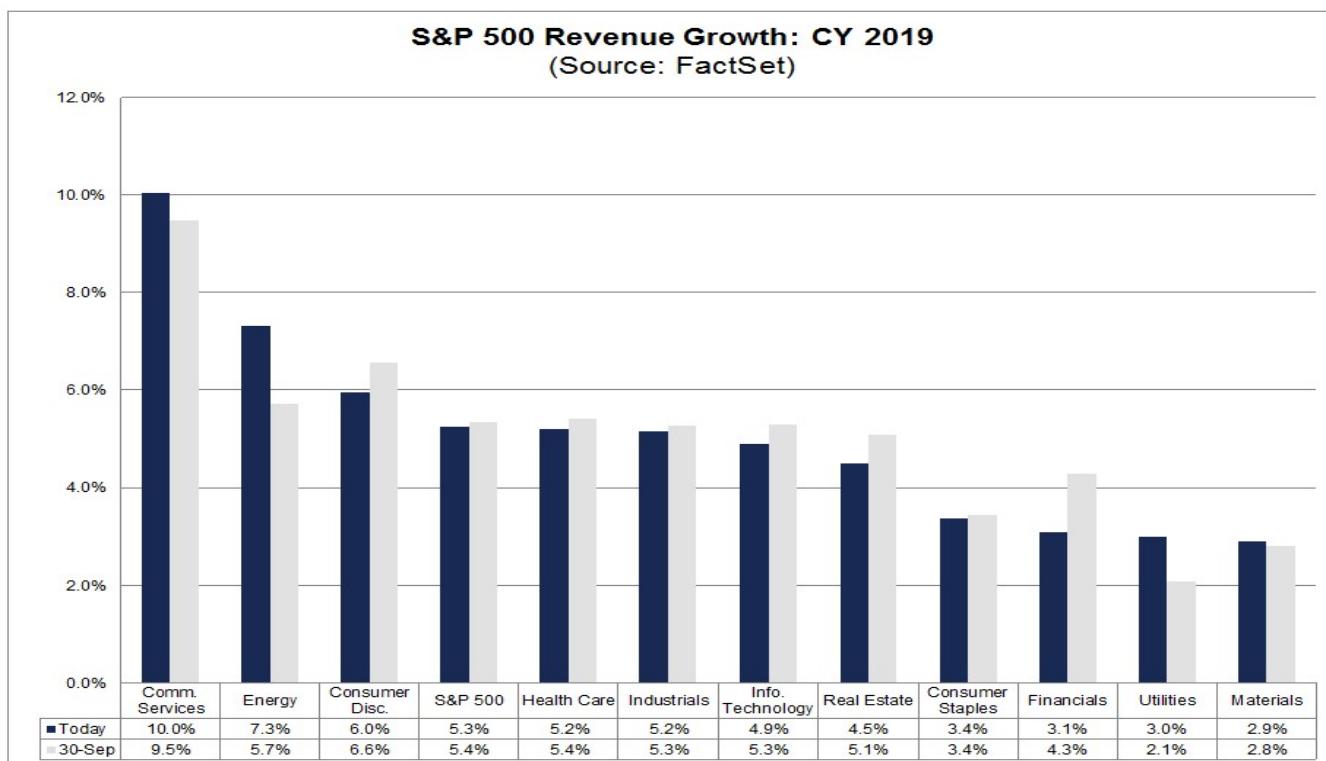
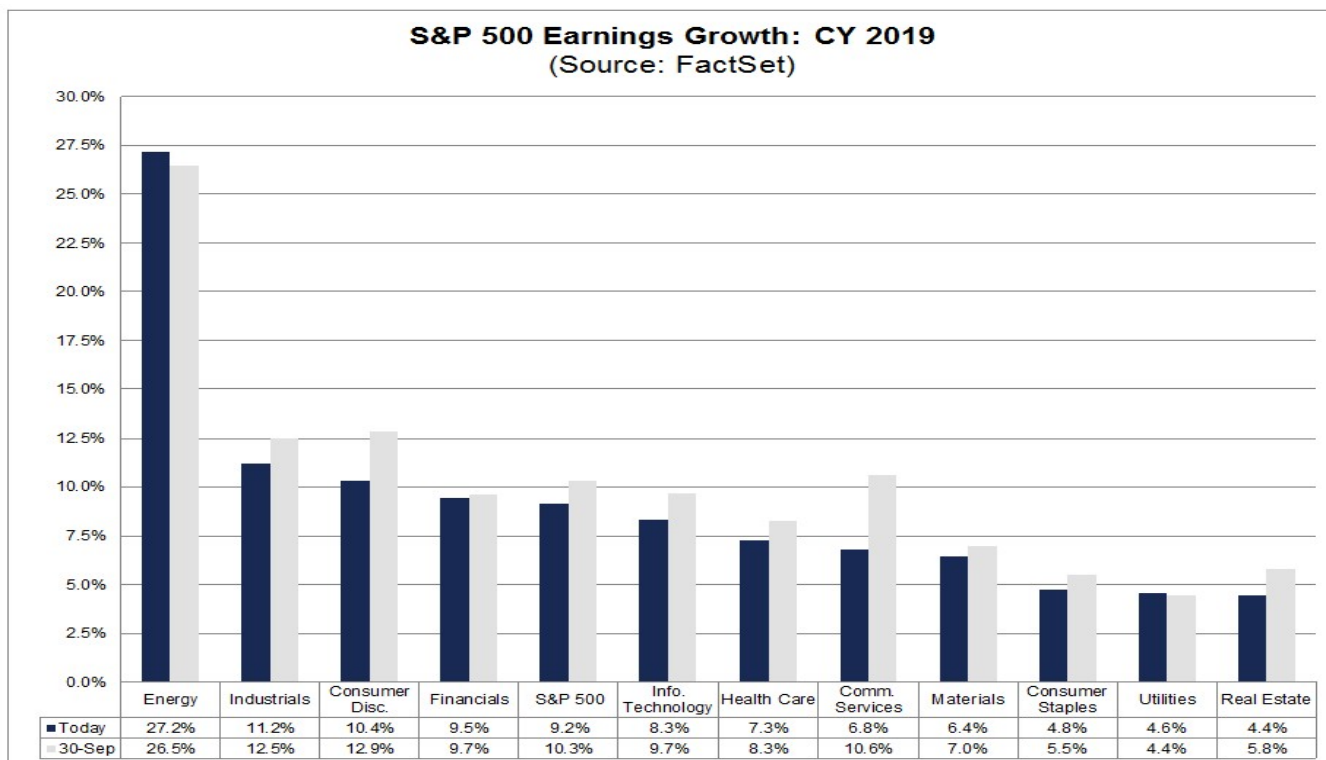
## Q4 2018: Growth



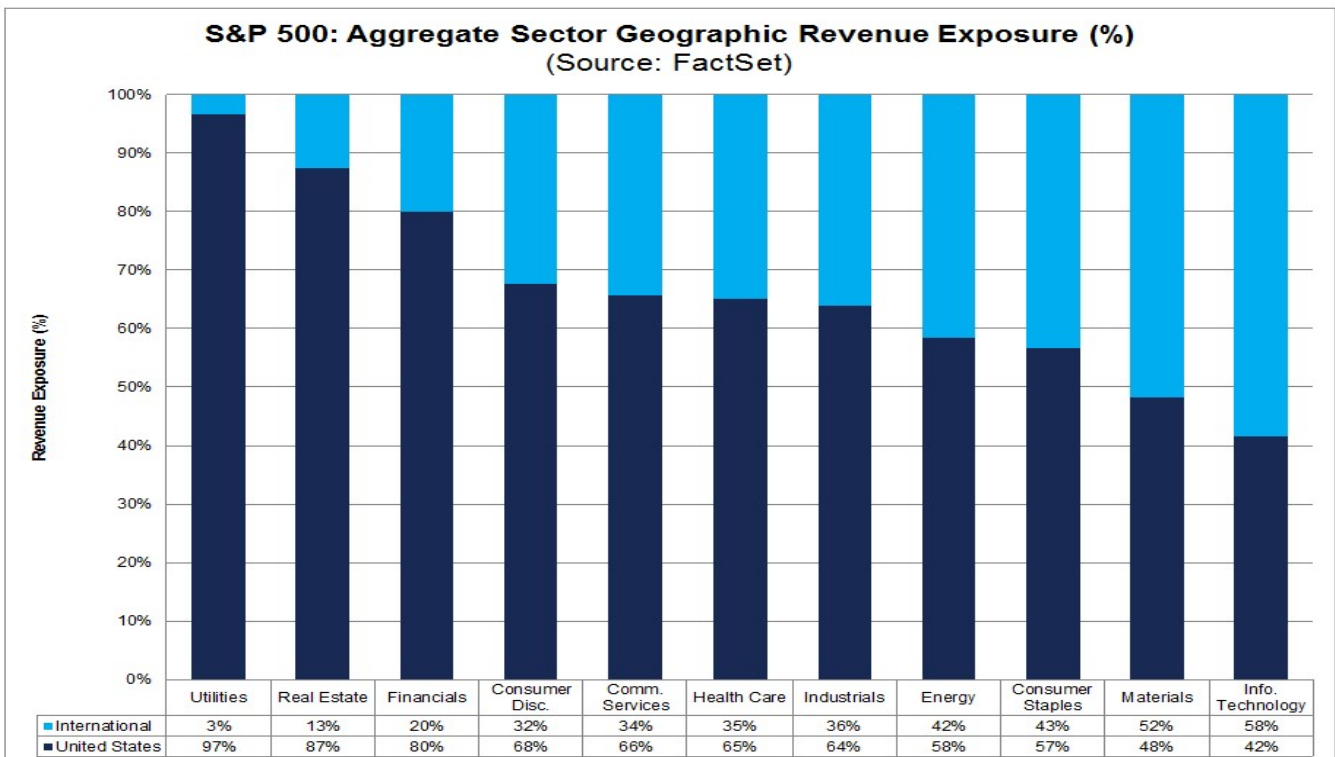
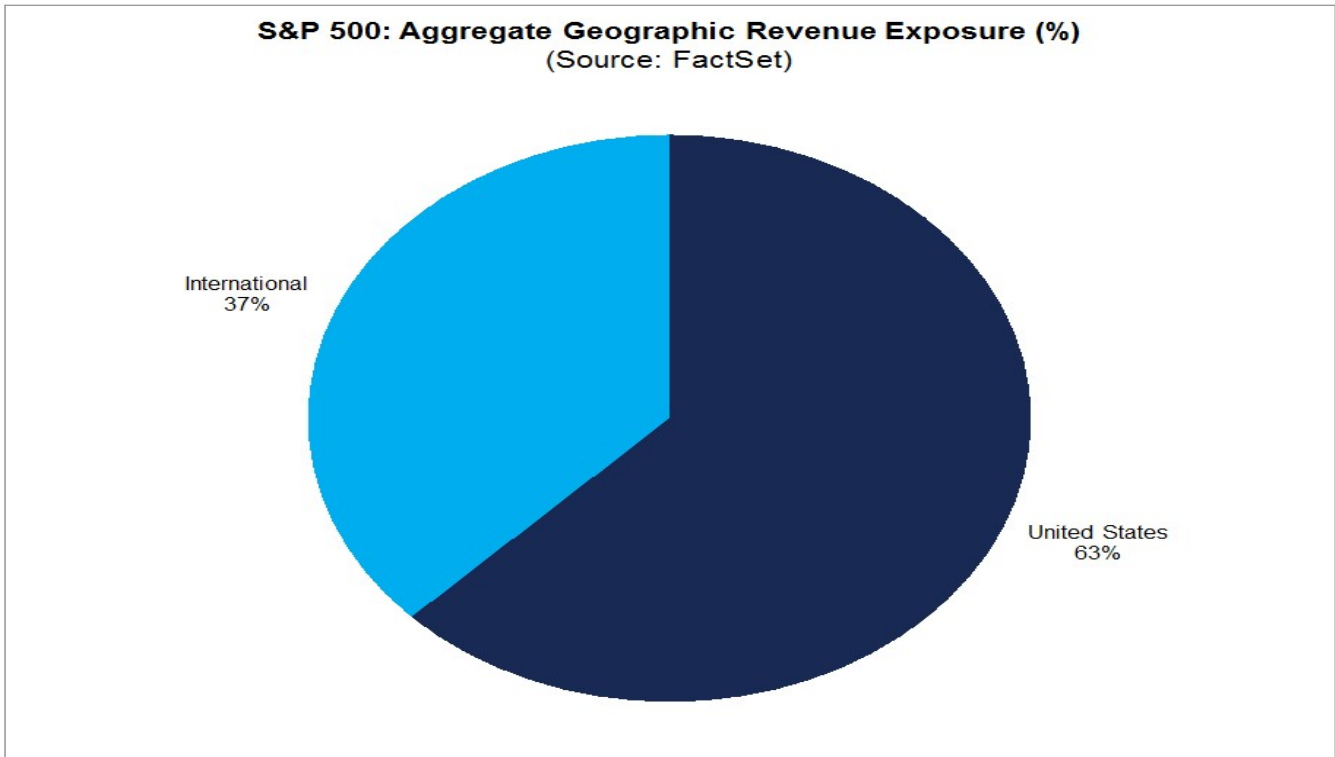
## CY 2018: Growth



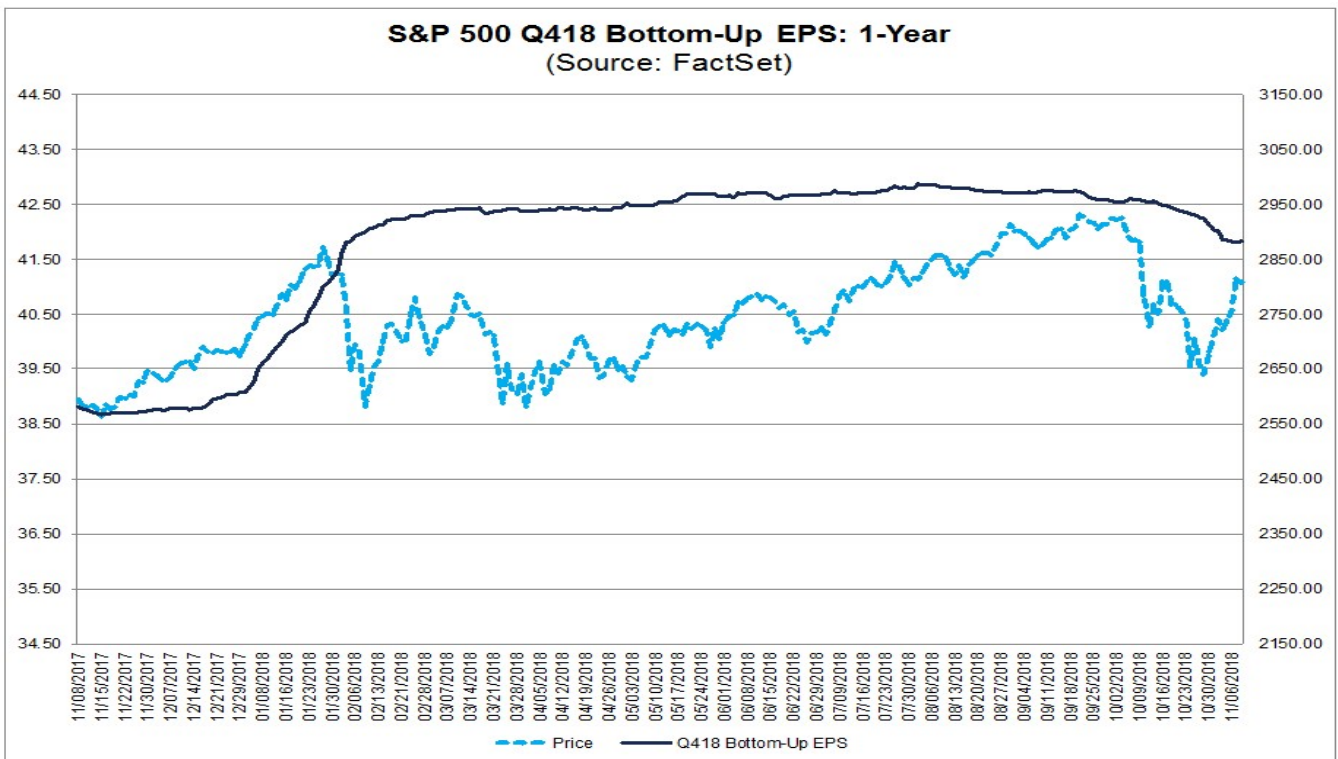
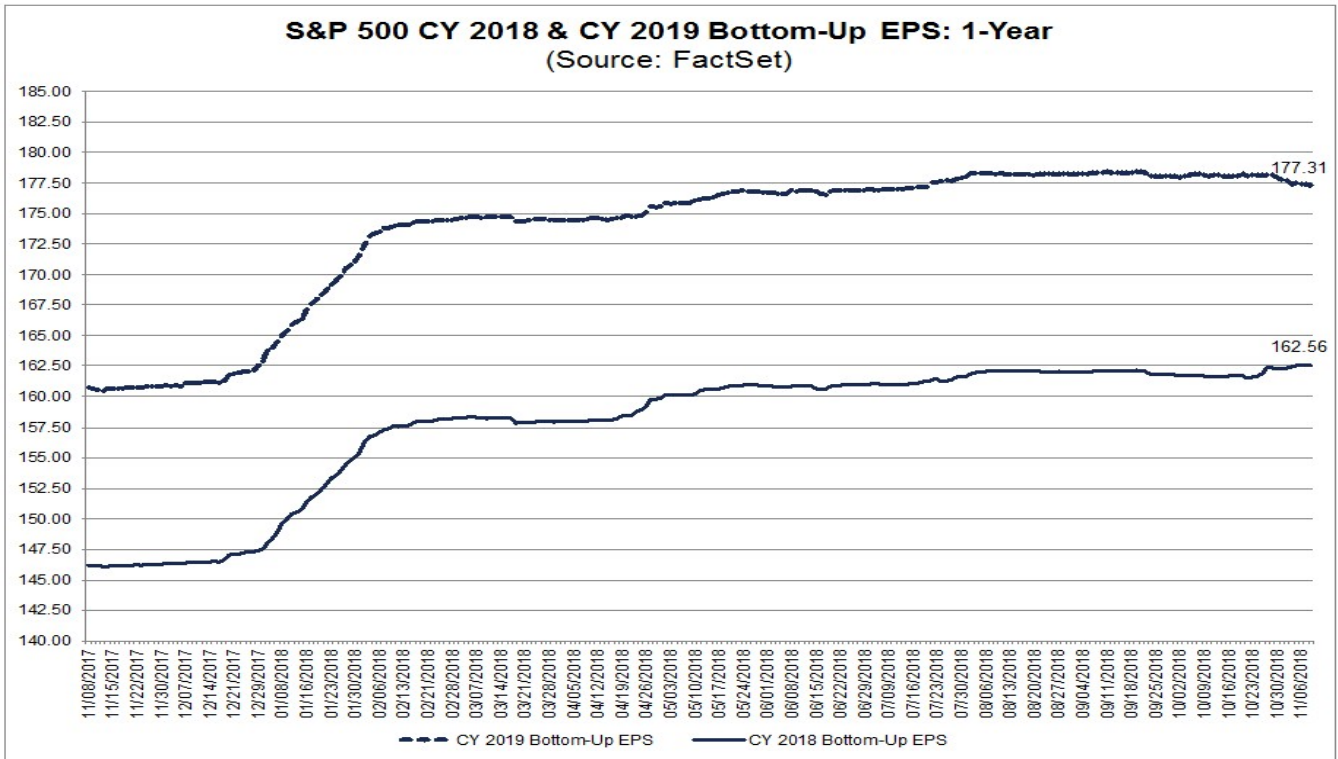
## CY 2019: Growth



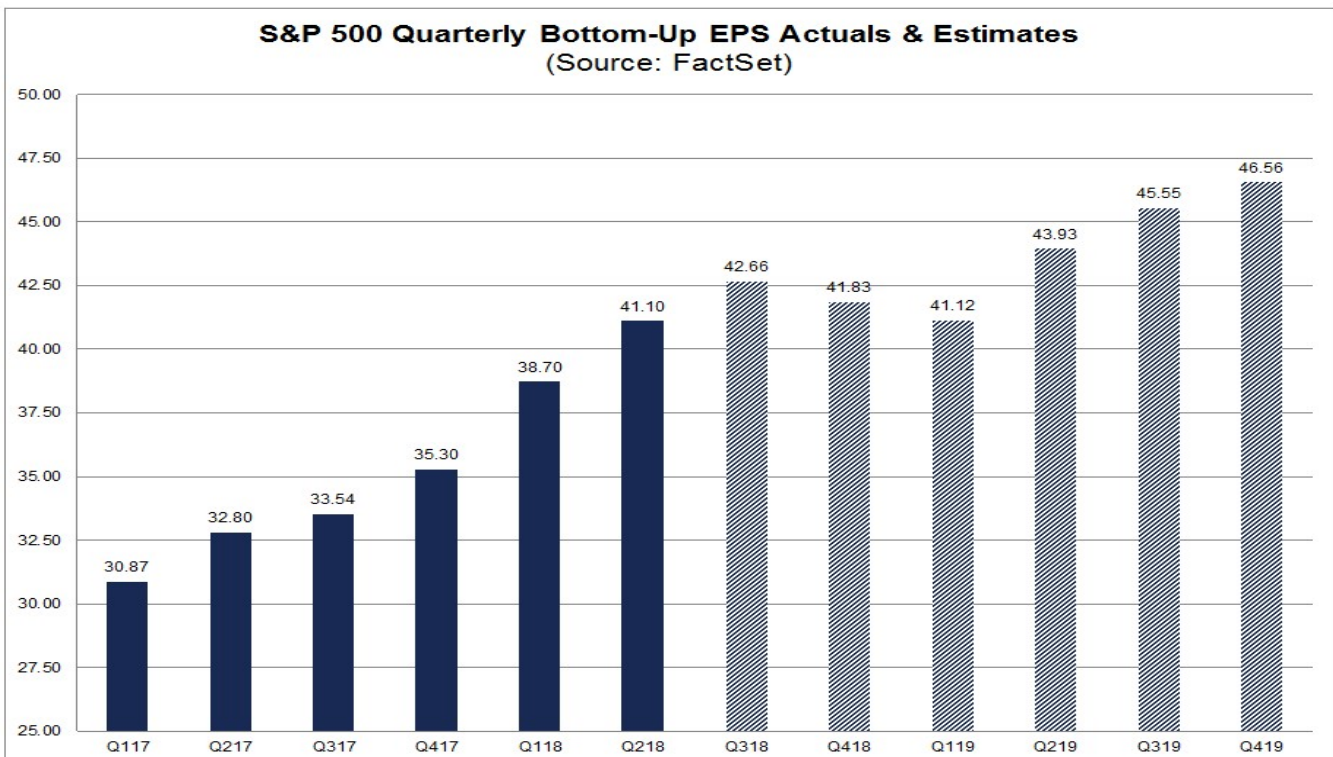
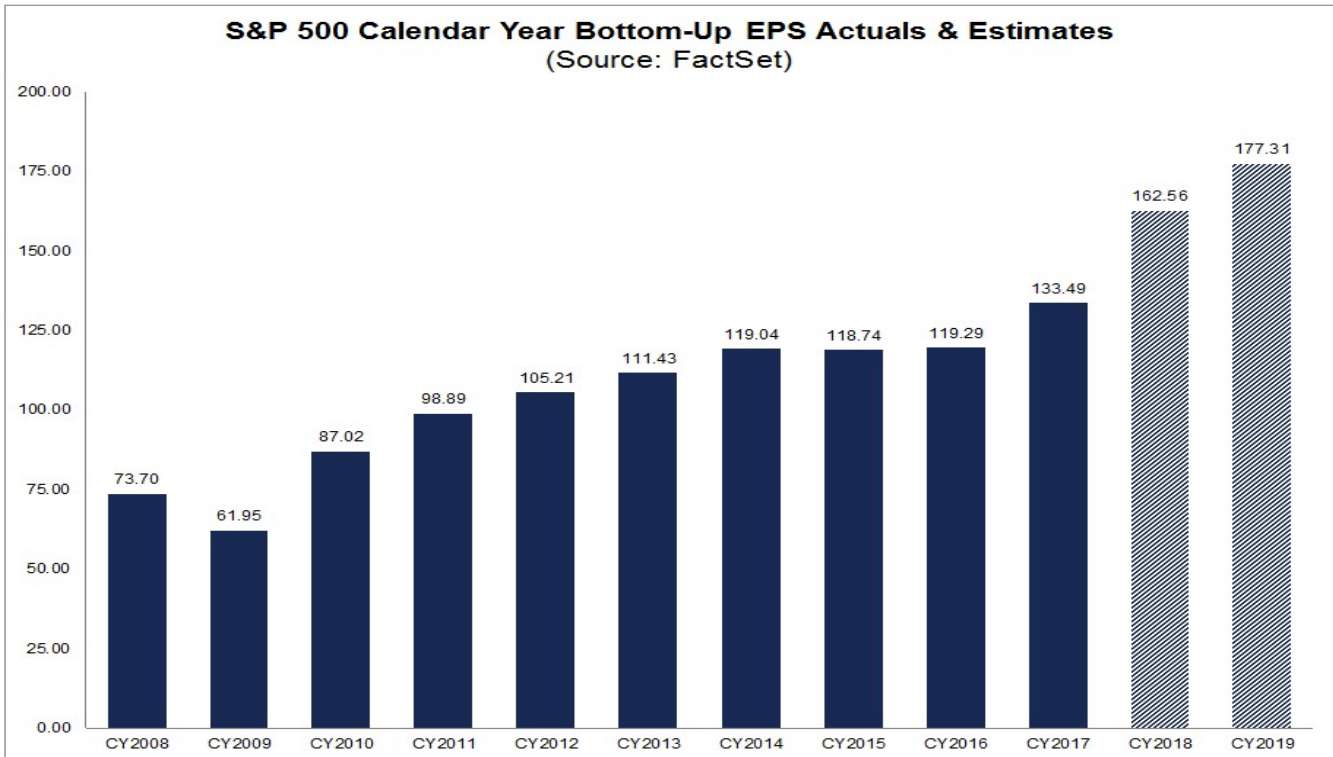
## Geographic Revenue Exposure



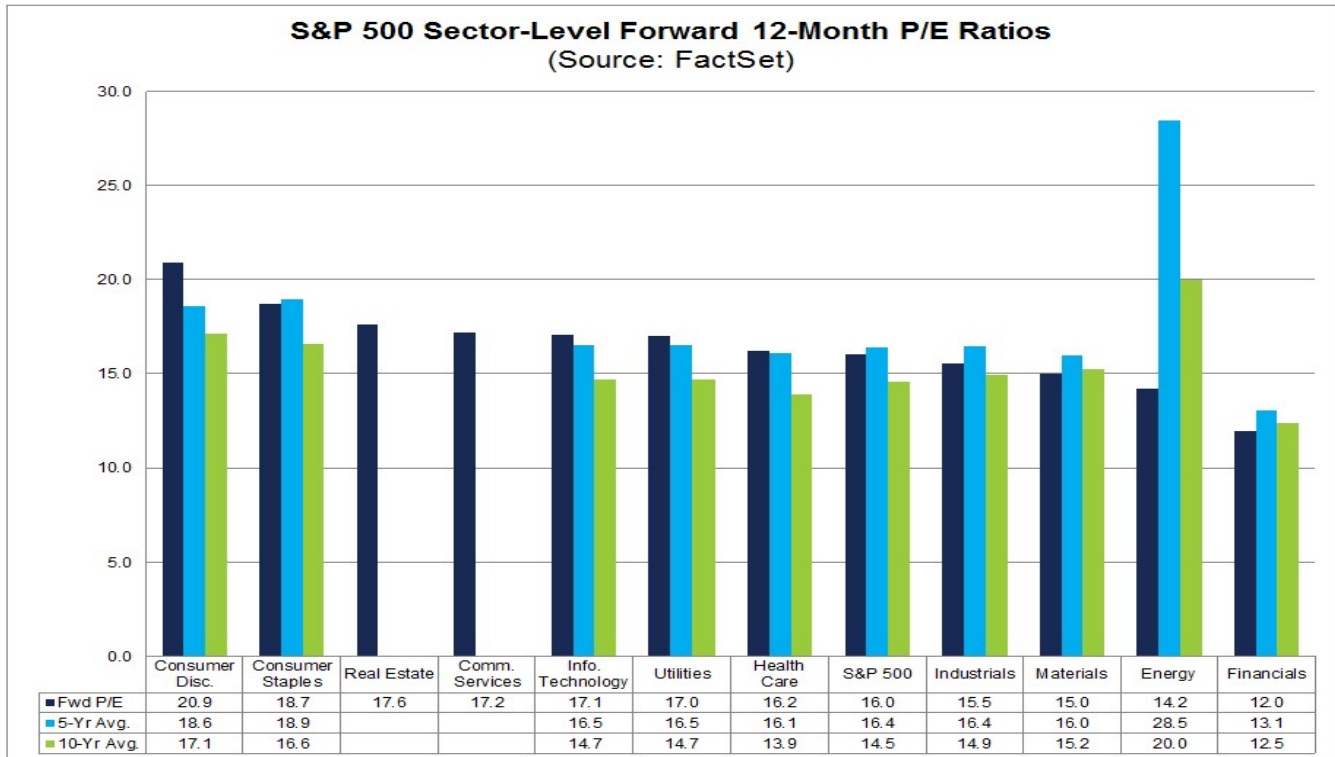
# Bottom-up EPS Estimates: Revisions



## Bottom-up EPS Estimates: Current & Historical

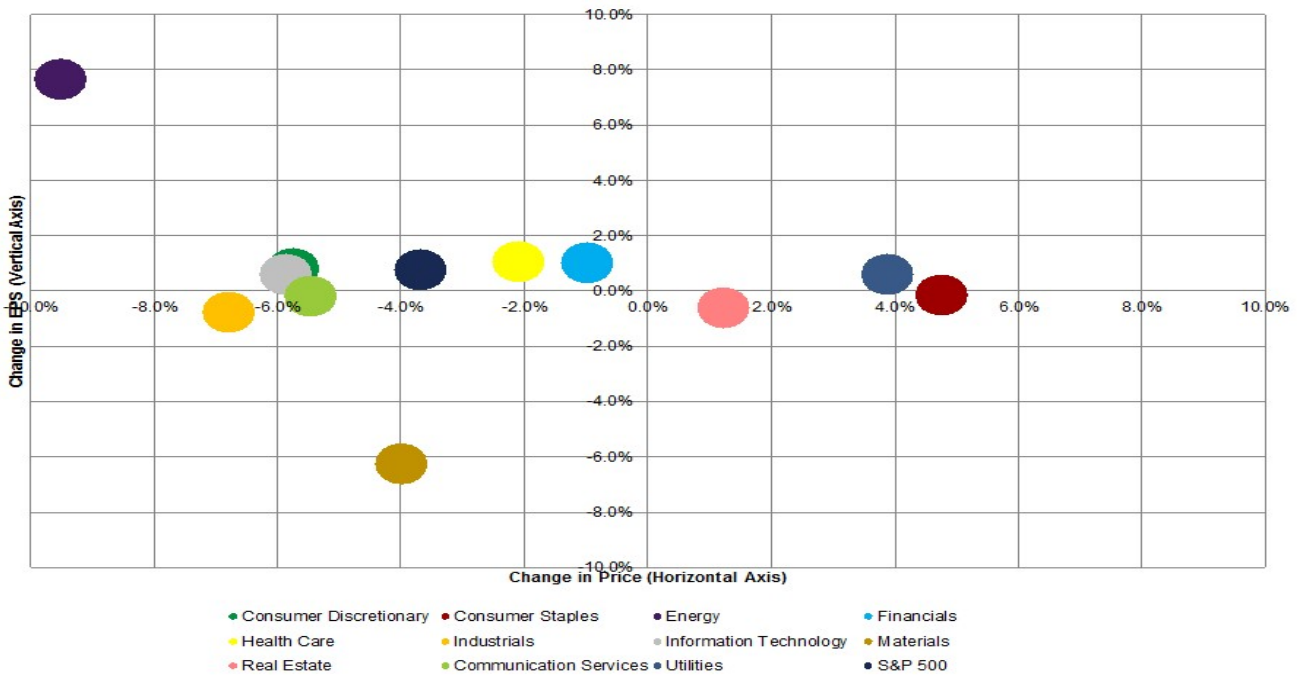


## Forward 12M P/E Ratio: Sector Level



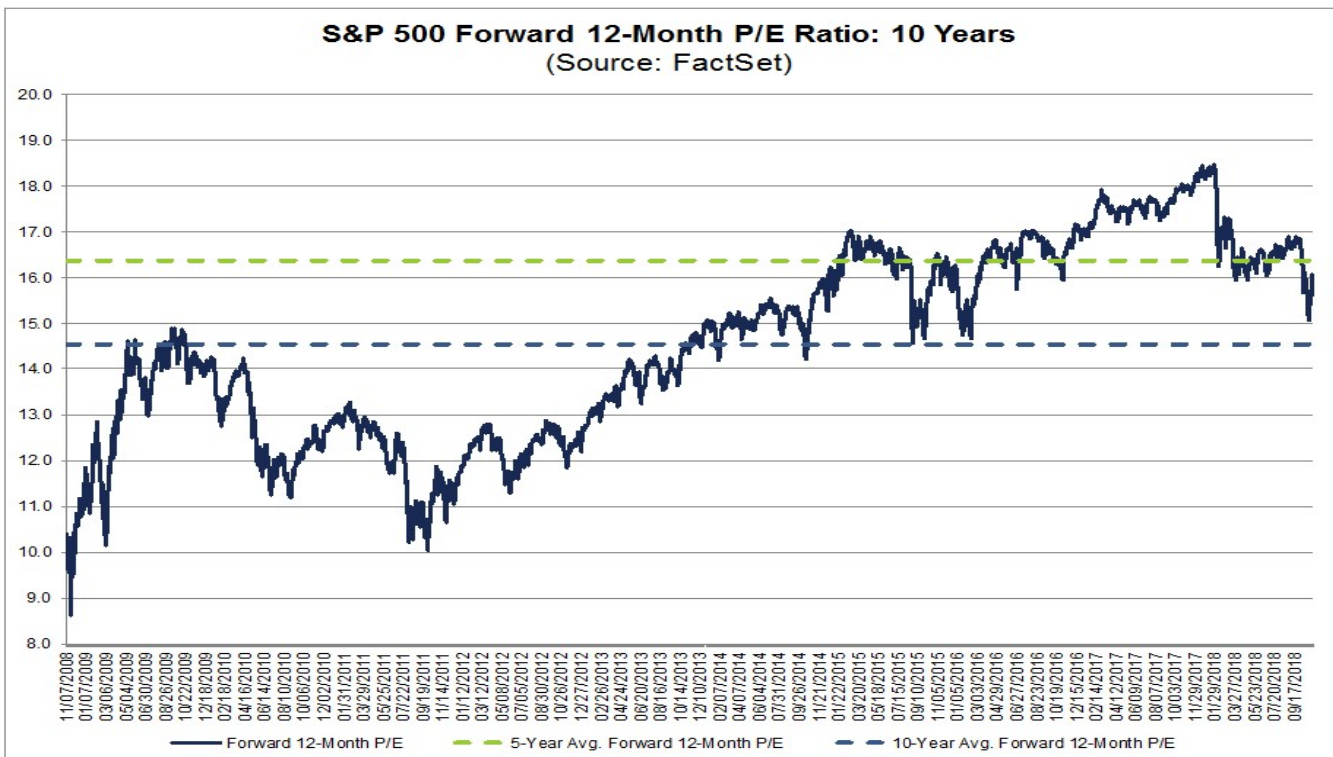
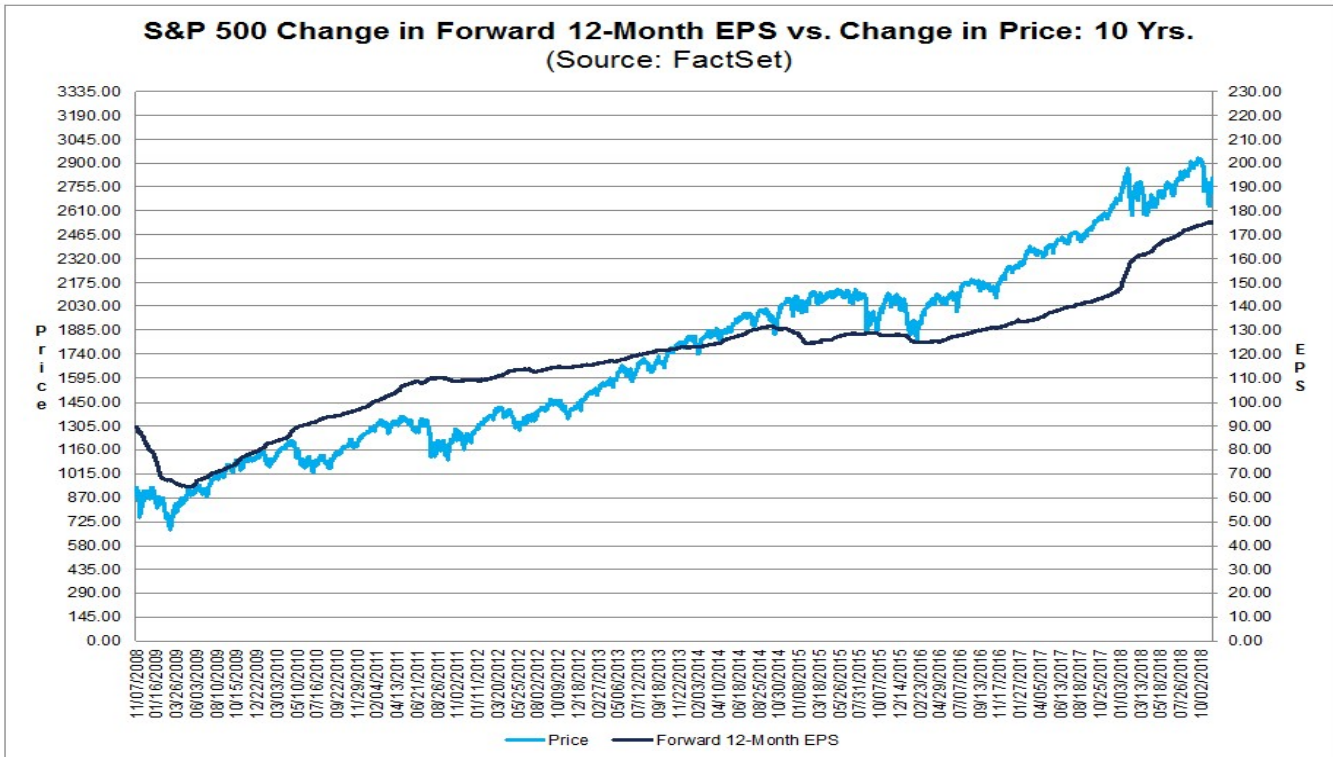
## Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Sep 30

(Source: FactSet)

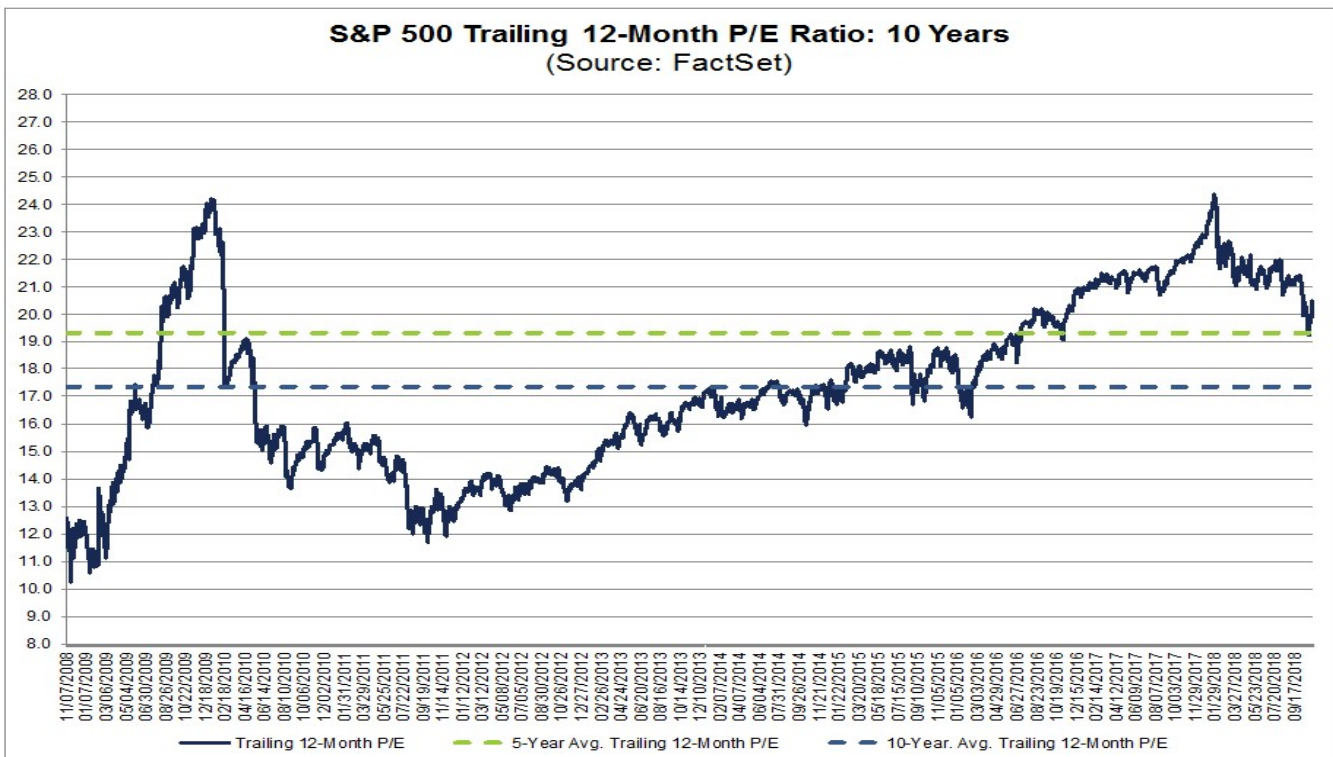
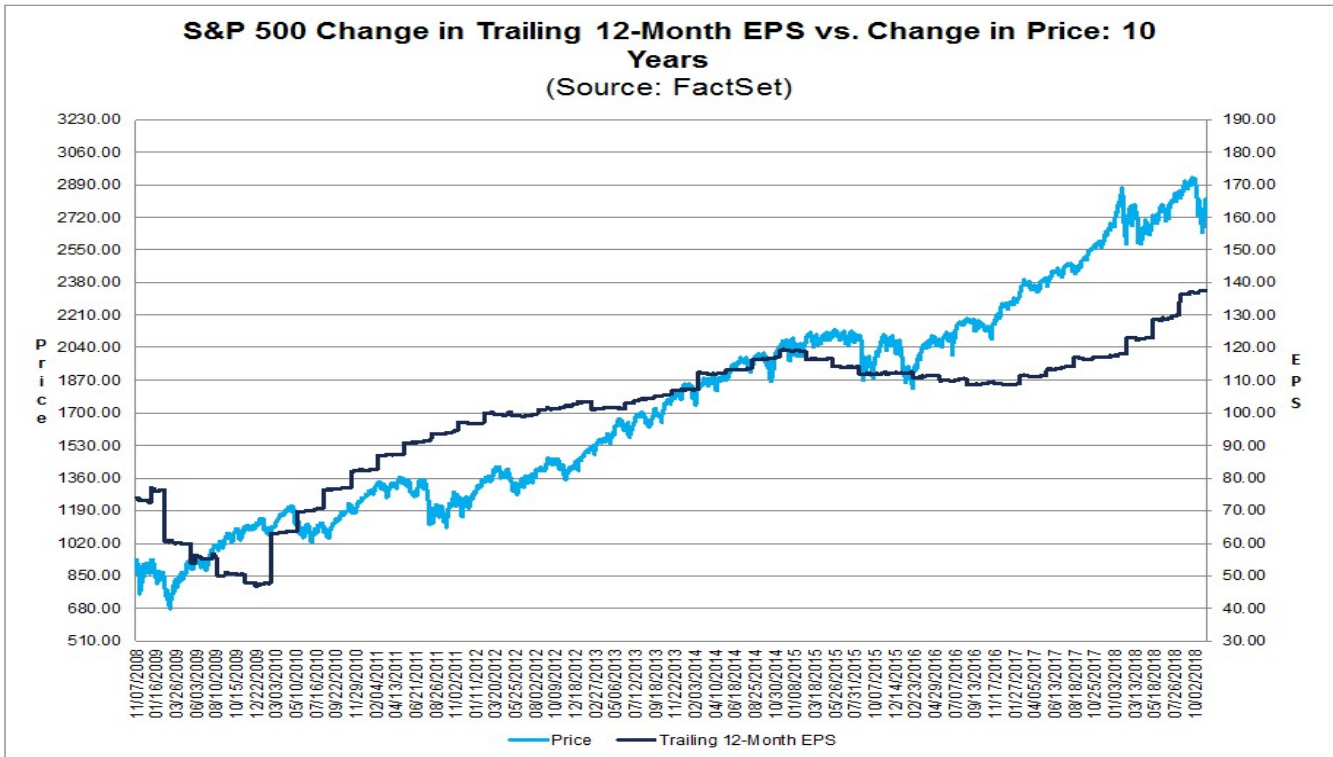




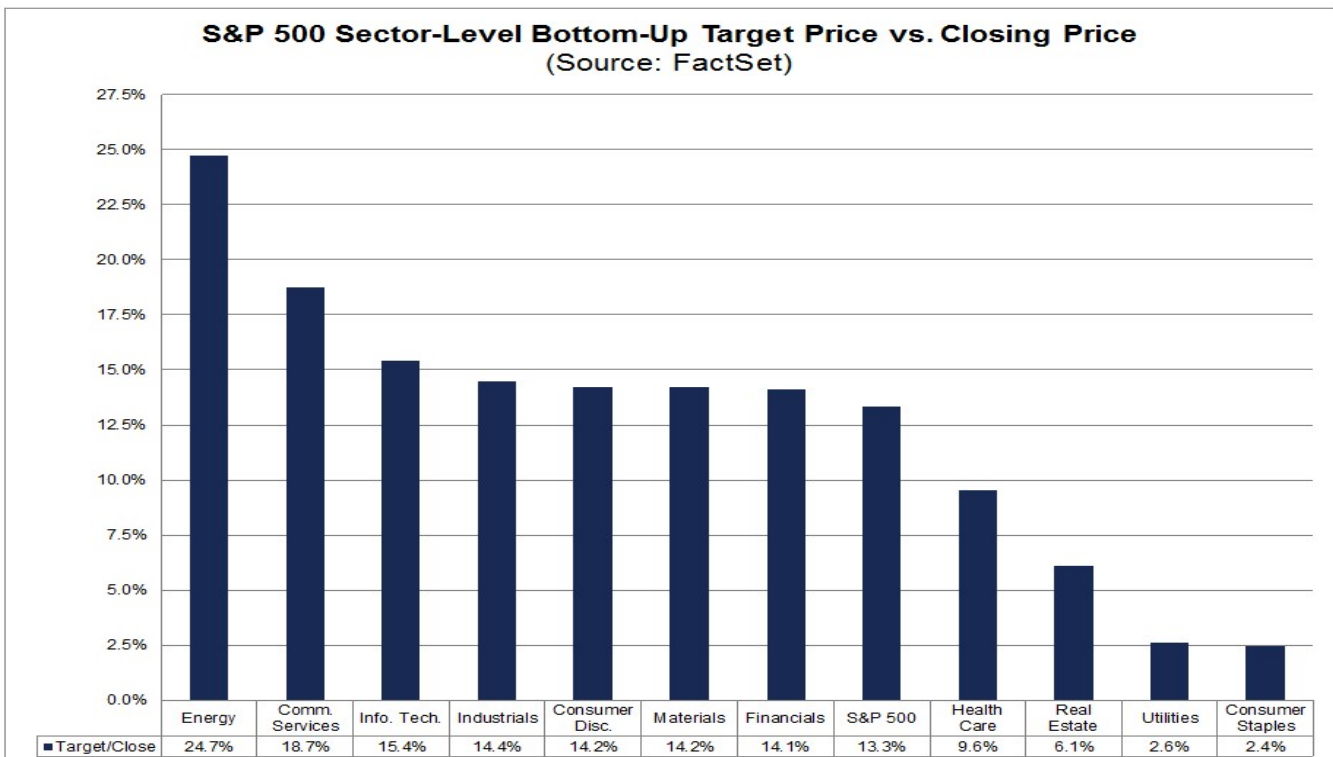
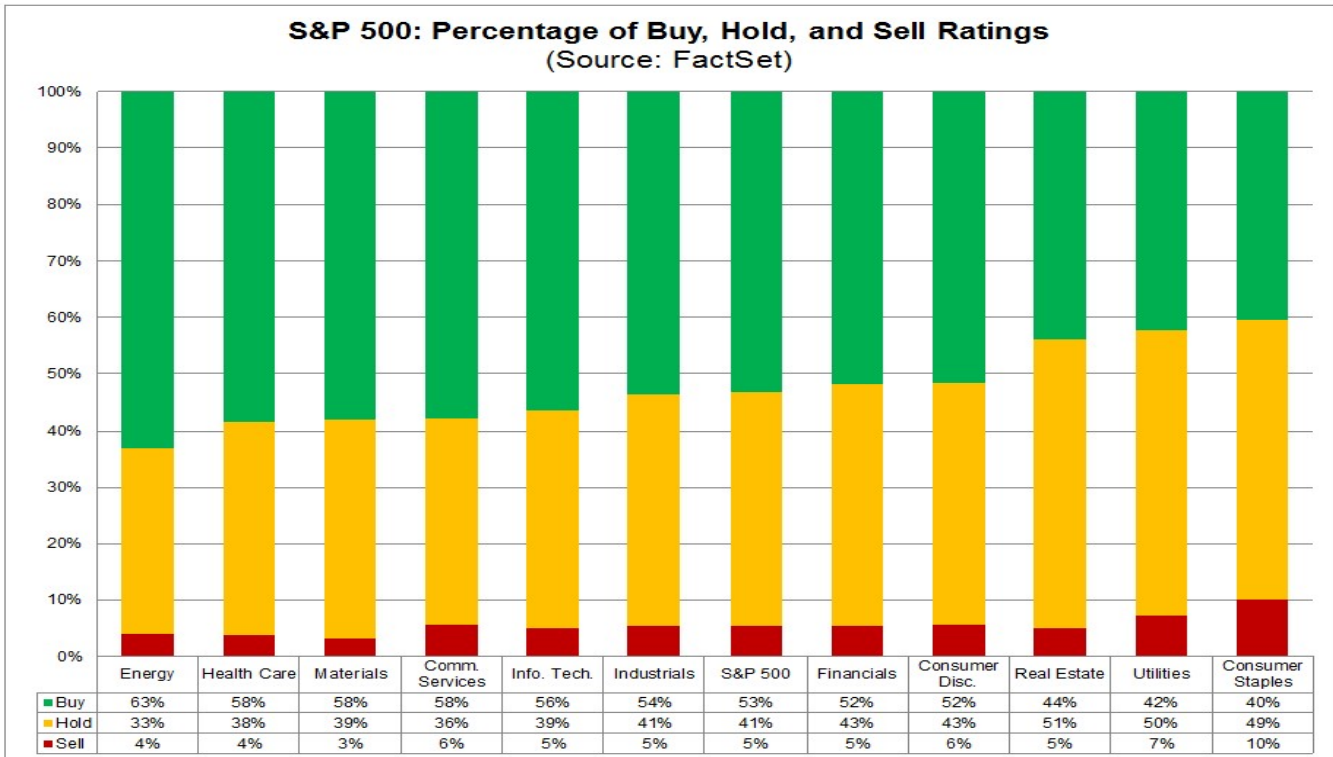
## Forward 12M P/E Ratio: Long-Term Averages



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



## Targets & Ratings



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