

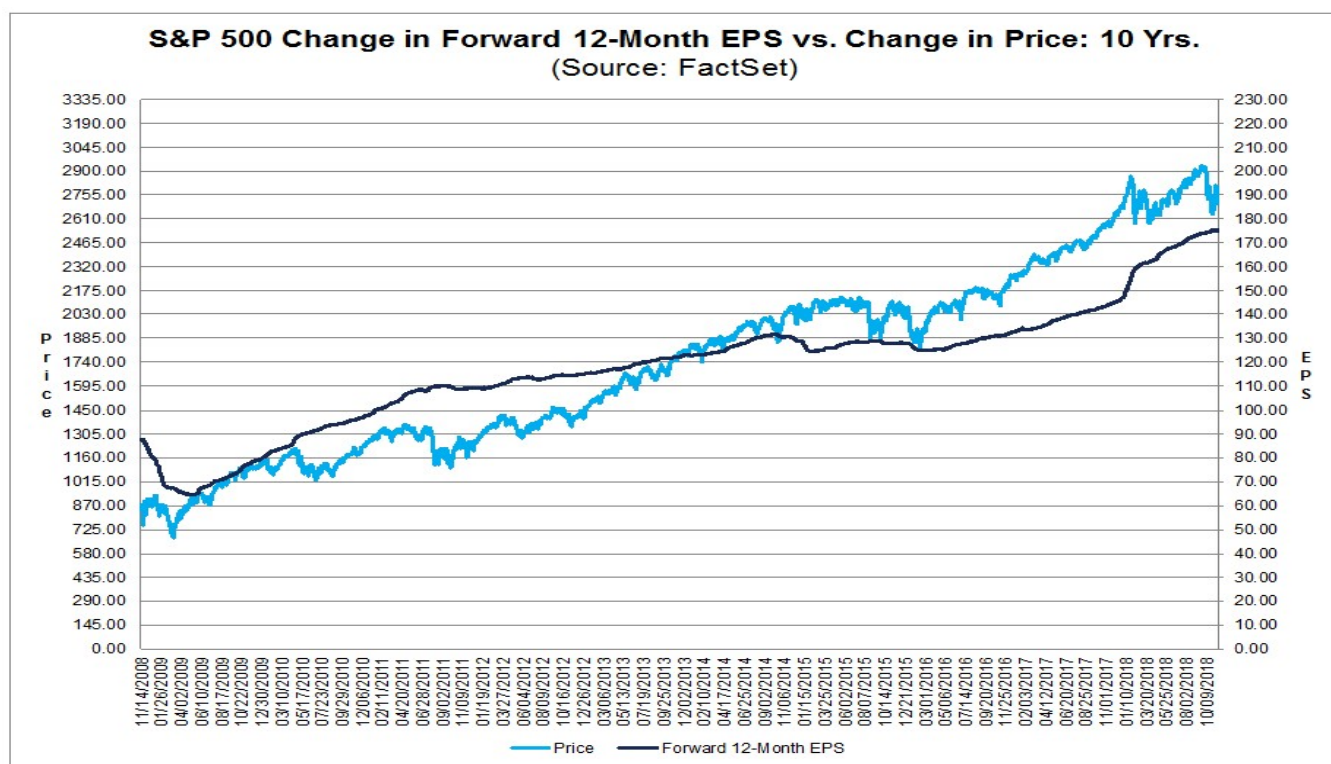
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## Key Metrics

- **Earnings Scorecard:** For Q3 2018 (with 92% 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 25.7%. If 25.7% 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 19.3%. 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, 61 S&P 500 companies have issued negative EPS guidance and 27 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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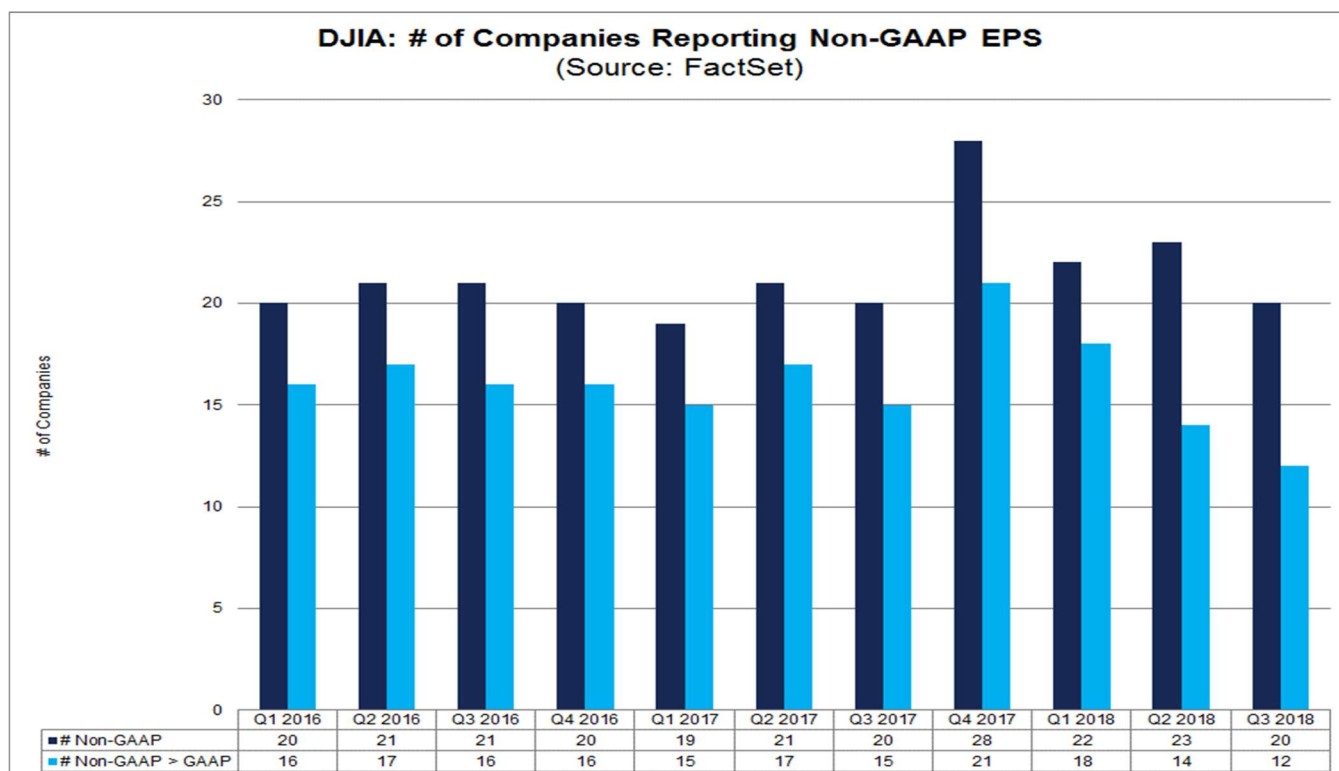
## Topic of the Week:

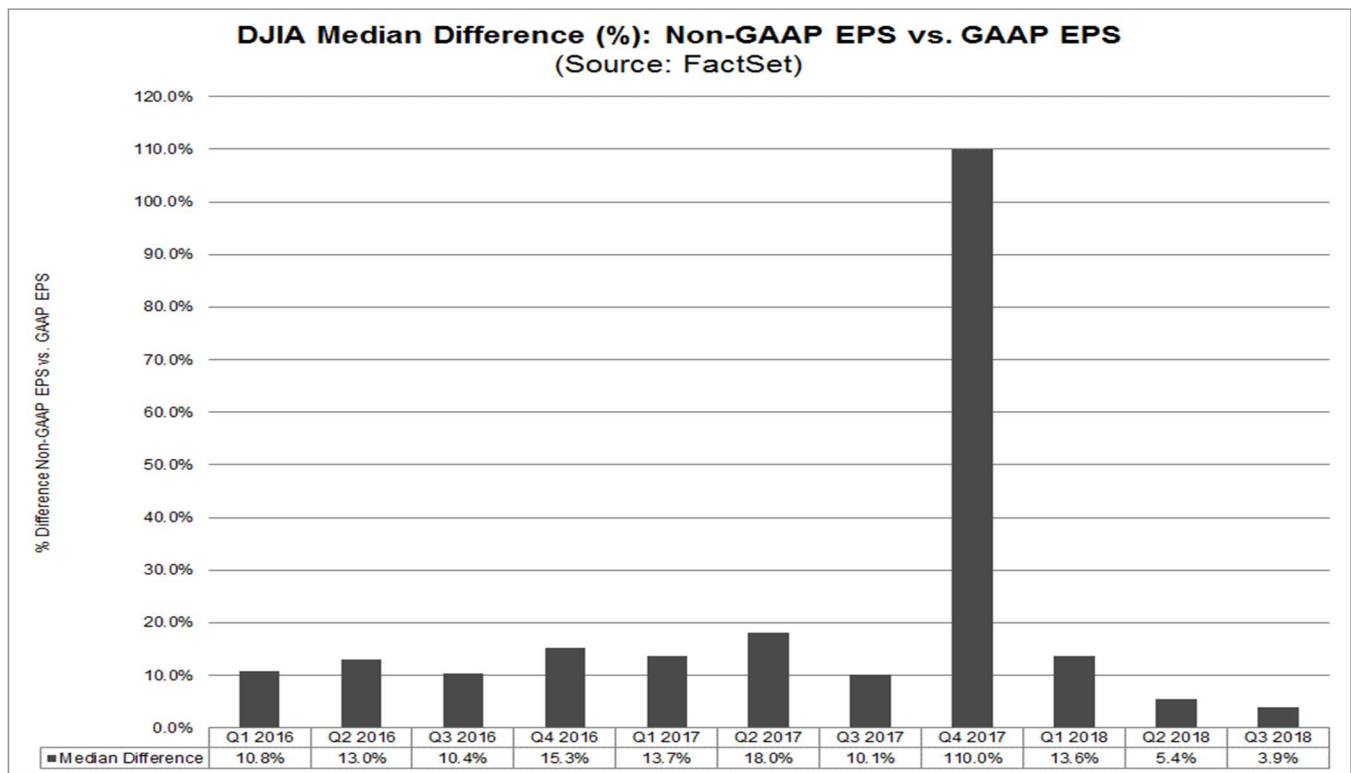
### How Much Did Non-GAAP EPS Exceed GAAP EPS for the DJIA in Q3?

While all publicly traded U.S. companies report EPS on a GAAP (generally accepted accounting principles) basis, many U.S. companies also choose to report EPS on a non-GAAP basis. There are mixed opinions in the market about the use of non-GAAP EPS. Supporters of the practice argue that it provides the market with a more accurate picture of earnings from the day-to-day operations of companies, as items that companies deem to be one-time events or nonoperating in nature are typically excluded from the non-GAAP EPS numbers. Critics of the practice argue that there is no industry-standard definition of non-GAAP EPS, and companies can take advantage of the lack of standards to exclude items that (more often than not) have a negative impact on earnings to boost non-GAAP EPS.

As of today, all of the companies in the Dow Jones Industrial Average (DJIA) have reported actual EPS for Q3 2018. What percentage of these companies reported non-GAAP EPS for Q3 2018? What was the median difference between non-GAAP EPS and GAAP EPS for companies in the DJIA for Q3 2018? How did this difference compare to recent quarters?

For Q3 2018, 20 (or 67%) of the 30 companies in the DJIA reported non-GAAP EPS in addition to GAAP EPS for the third quarter. Since Q1 2016, 72% of companies in the DJIA have reported non-GAAP EPS in addition to GAAP EPS on average. Of these 20 companies, only 12 (or 60%) reported non-GAAP EPS that exceeded GAAP EPS. Since Q1 2016, 77% of companies in the DJIA have reported non-GAAP EPS that exceeded GAAP EPS on average. The third quarter marked the lowest number of companies in the DJIA reporting non-GAAP EPS that exceeded GAAP EPS since FactSet began actively tracking this metric for the DJIA in Q1 2016. As a result, the median difference between non-GAAP EPS and GAAP EPS for all 20 companies was 3.9%. Since Q1 2016, the median difference between non-GAAP EPS and GAAP EPS has been 13.3%. Thus, the third quarter marked the lowest median difference between non-GAAP EPS and GAAP EPS since FactSet began actively tracking this metric for the DJIA in Q1 2016. All metrics reflect GAAP EPS (and non-GAAP EPS) from continuing operations when provided.





## Q3 Earnings Season: By The Numbers

### Overview

For the third quarter to date (with 92% 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 6.8% above the estimates, which is also above the 5-year average. If 6.8% 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 1.3% 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 25.7%. If 25.7% 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%. 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 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 15.6, which is below the 5-year average but above the 10-year average.

During the upcoming week, 20 S&P 500 companies 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, 92% 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.

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 (91%) sector has the highest percentage of companies reporting earnings above estimates, while the Energy (70%) sector has the lowest percentage 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.

If 6.8% is the final number for the quarter, it will mark the second-highest EPS surprise percentage since Q1 2011, trailing only Q1 2018 (+7.5%).

The Consumer Discretionary (+15.0%) and Energy (+14.5%) sectors are reporting the largest upside aggregate differences between actual earnings and estimated earnings. Within the Consumer Discretionary sector, Under Armour (\$0.25 vs. \$0.12), Amazon.com (\$5.75 vs. \$3.08), Macy's (\$0.27 vs. \$0.15), and General Motors (\$1.87 vs. \$1.22) have reported the largest upside differences between actual EPS and estimated EPS. Within the Energy sector, Devon Energy (\$0.65 vs. \$0.42) and Noble Energy (\$0.27 vs. \$0.18) have reported the largest positive EPS surprises.

### 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 +0.3% 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 -3.1% 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 (72%) sector has the highest percentage of companies reporting revenues above estimates, while the Utilities (52%) sector has the lowest percentage of companies reporting revenues above estimates.

### Revenue Surprise Percentage (+1.3%) is Above 5-Year Average

In aggregate, companies are reporting sales that are 1.3% above expectations. This surprise percentage is equal to 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.

### Highest Earnings Growth Since Q3 2010

The blended (year-over-year) earnings growth rate for Q3 2018 is 25.7%. If 25.7% 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 reported the highest (year-over-year) earnings growth of all eleven sectors at 126.9%. Higher oil prices helped 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 reported earnings growth for the quarter: Oil & Gas Drilling (N/A due to year-ago loss), Oil & Gas Exploration & Production (4,515%), 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 (138%), 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 Reported 25% Growth or Higher

The Communication Service sector reported the third highest (year-over-year) earnings growth of all eleven sectors at 31.9%. At the industry level, all four industries in the sector 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 Reported Double-Digit Growth

The Energy sector reported the highest (year-over-year) revenue growth of all eleven sectors at 20.7%. At the sub-industry level, all six sub-industries reported revenue growth. Five of the six sub-industries in the sector reported double-digit revenue growth: Oil & Gas Exploration & Production (40%), Oil & Gas Drilling (31%), Oil & Gas Refining & Marketing (23%), Integrated Oil & Gas (19%), and Oil & Gas Storage & Transportation (14%).

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

The Communication Services sector reported the second highest (year-over-year) revenue growth of all eleven sectors at 19.4%. At the industry level, all four industries in this sector reported revenue growth. Two of these four industries reported 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, 88 companies in the index have issued EPS guidance for Q4 2018. Of these 88 companies, 61 have issued negative EPS guidance and 27 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 69% (61 out of 88), which is slightly 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 25.7% 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 13.9% and revenue growth of 6.8%.

For CY 2018, analysts are projecting earnings growth of 20.5% and revenue growth of 8.9%.

For Q1 2019, analysts are projecting earnings growth of 5.3% and revenue growth of 6.4%.

For Q2 2019, analysts are projecting earnings growth of 5.8% and revenue growth of 4.8%.

For CY 2019, analysts are projecting earnings growth of 9.0% and revenue growth of 5.3%.

### 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 6.3%, while the forward 12-month EPS estimate has increased by 0.8%.

At the sector level, the Consumer Discretionary (19.9) sector has the highest forward 12-month P/E ratio, while the Financials (11.7) 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 3176.15, which is 16.3% above the closing price of 2730.20. At the sector level, the Energy (+28.6%) 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 (+4.0%) and Utilities (+4.2%) 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.

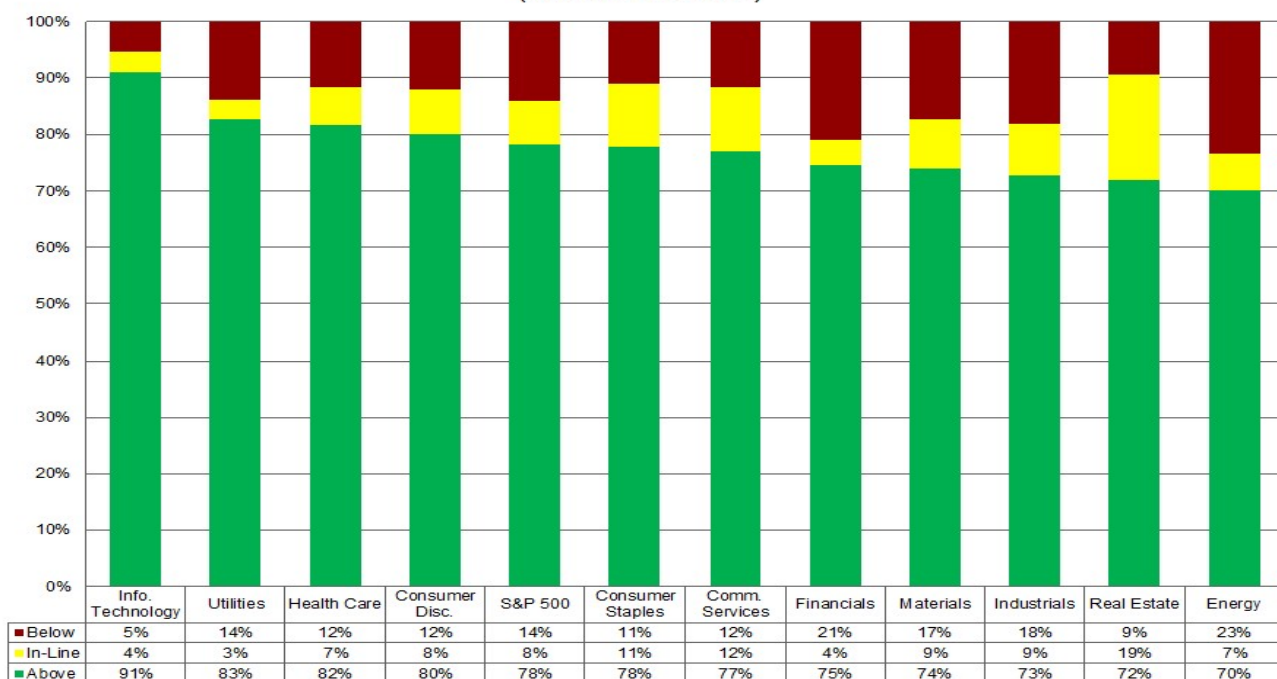
Overall, there are 11,010 ratings on stocks in the S&P 500. Of these 11,010 ratings, 53.4% are Buy ratings, 41.2% are Hold ratings, and 5.4% are Sell ratings. At the sector level, the Energy (63%) sector has the highest percentage of Buy ratings, while the Consumer Staples (41%) sector has the lowest percentage of Buy ratings.

### Companies Reporting Next Week: 20

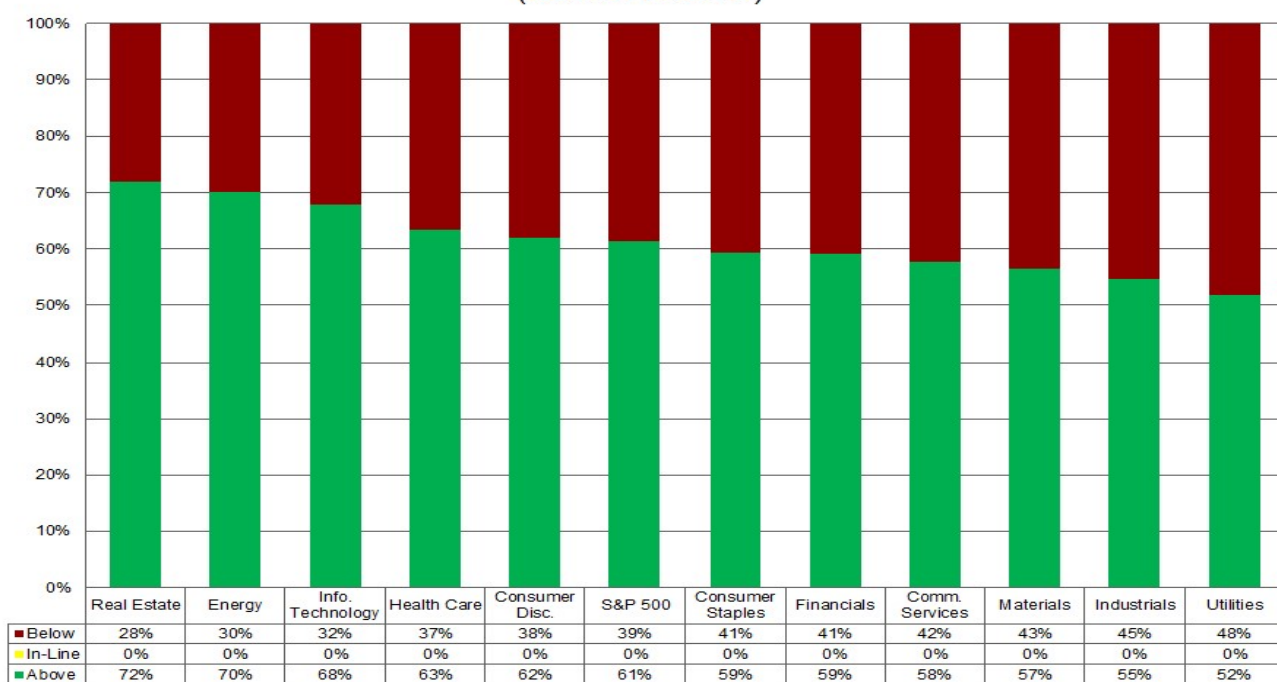
During the upcoming week, 20 S&P 500 companies are scheduled to report results for the third quarter.

## Q3 2018: Scorecard

**S&P 500 Earnings Above, In-Line, Below Estimates: Q3 2018**  
(Source: FactSet)

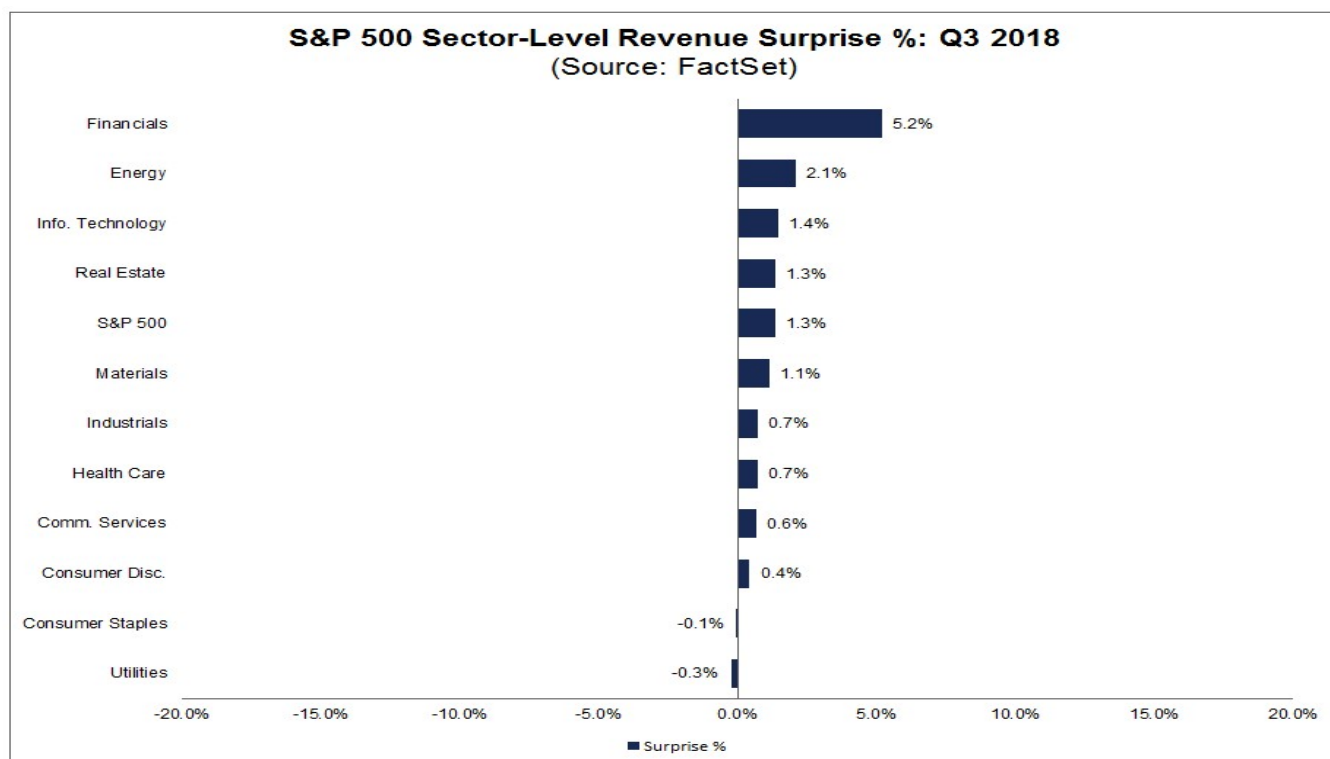
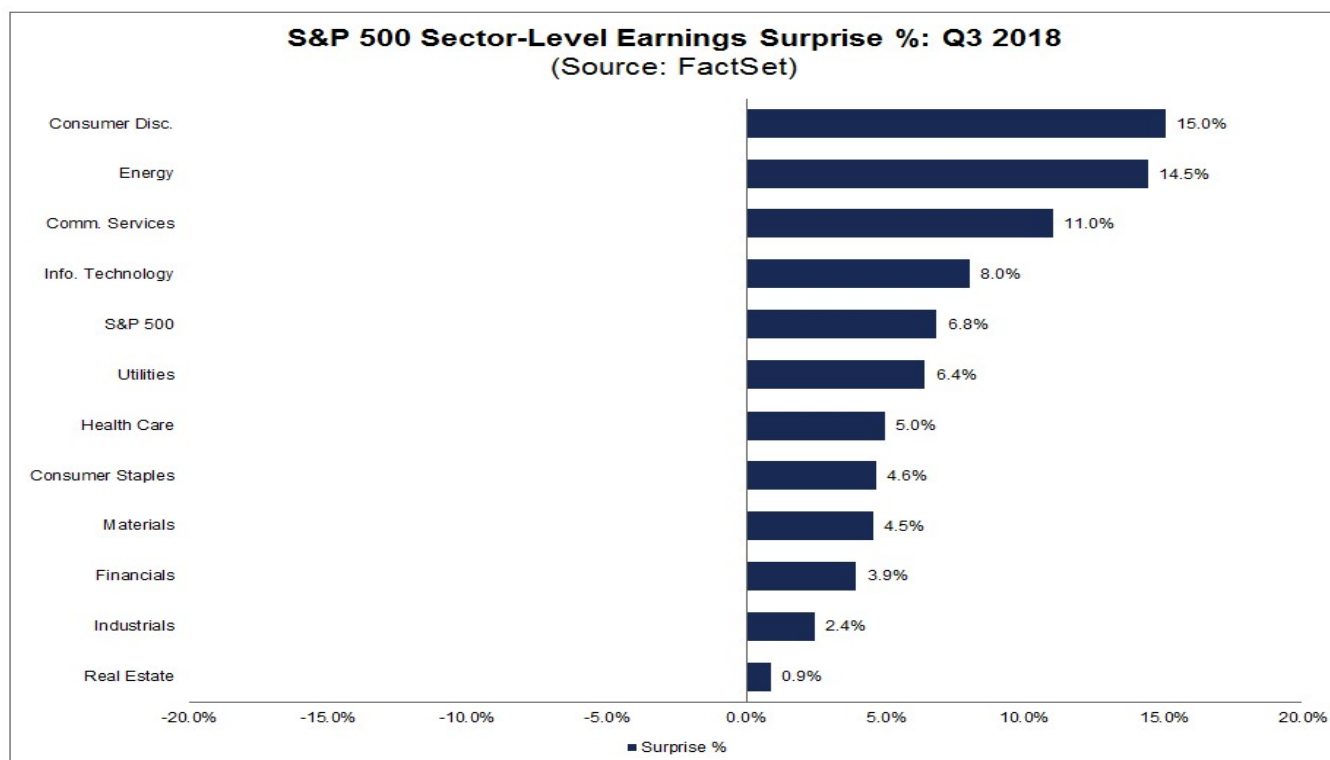


**S&P 500 Revenues Above, In-Line, Below Estimates: Q3 2018**  
(Source: FactSet)

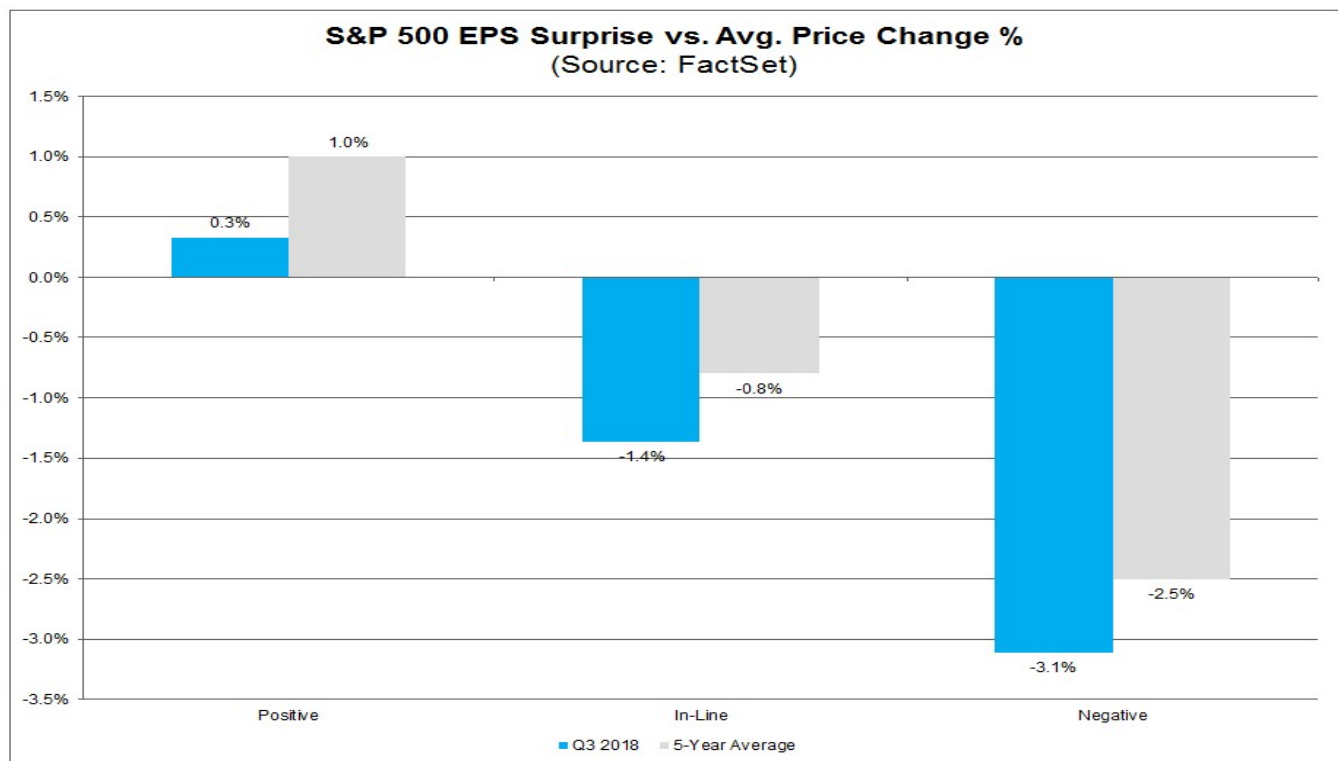
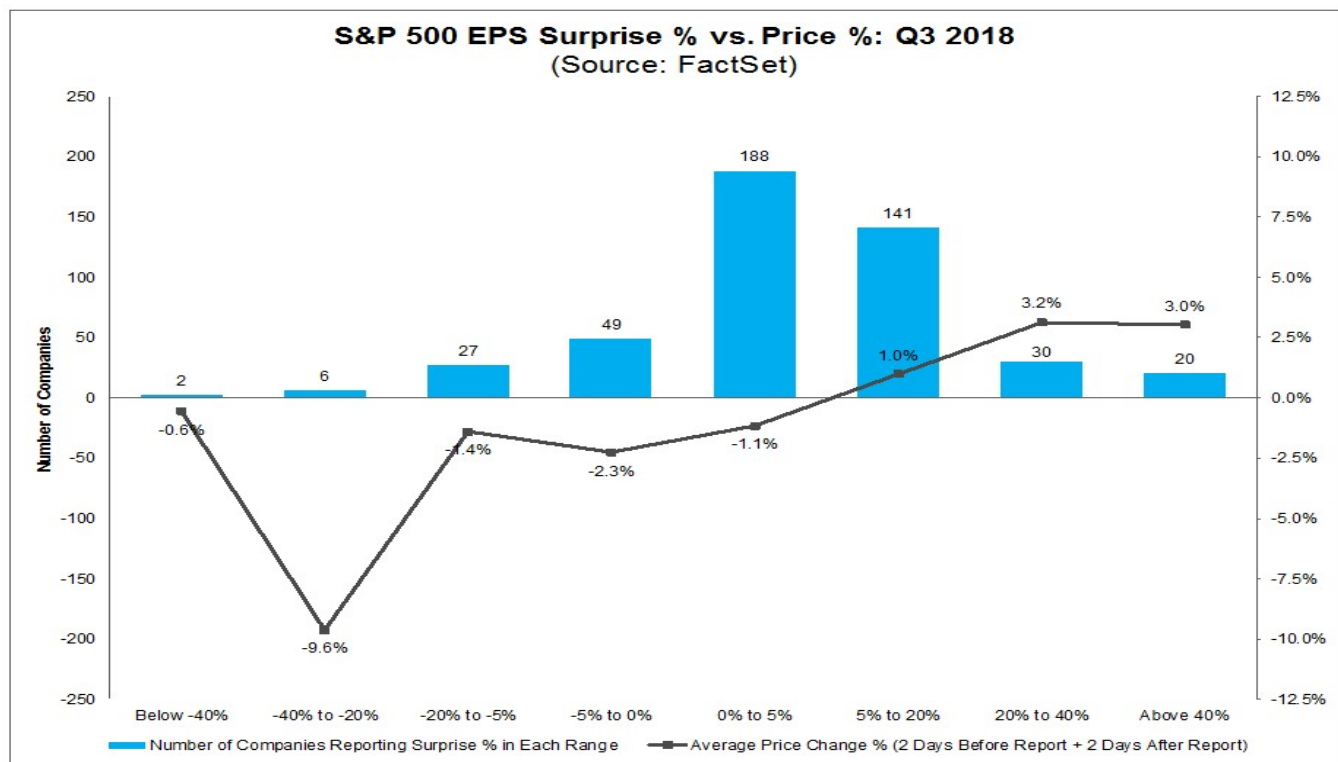




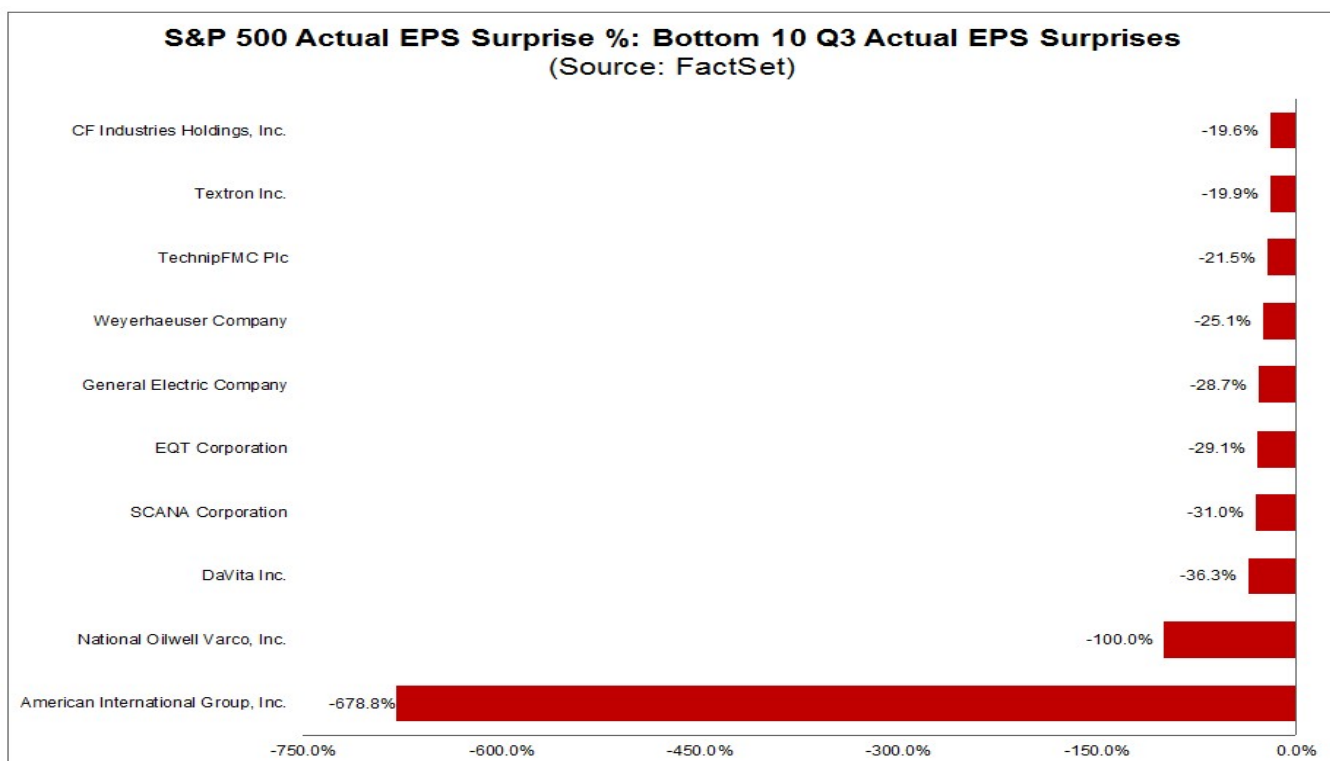
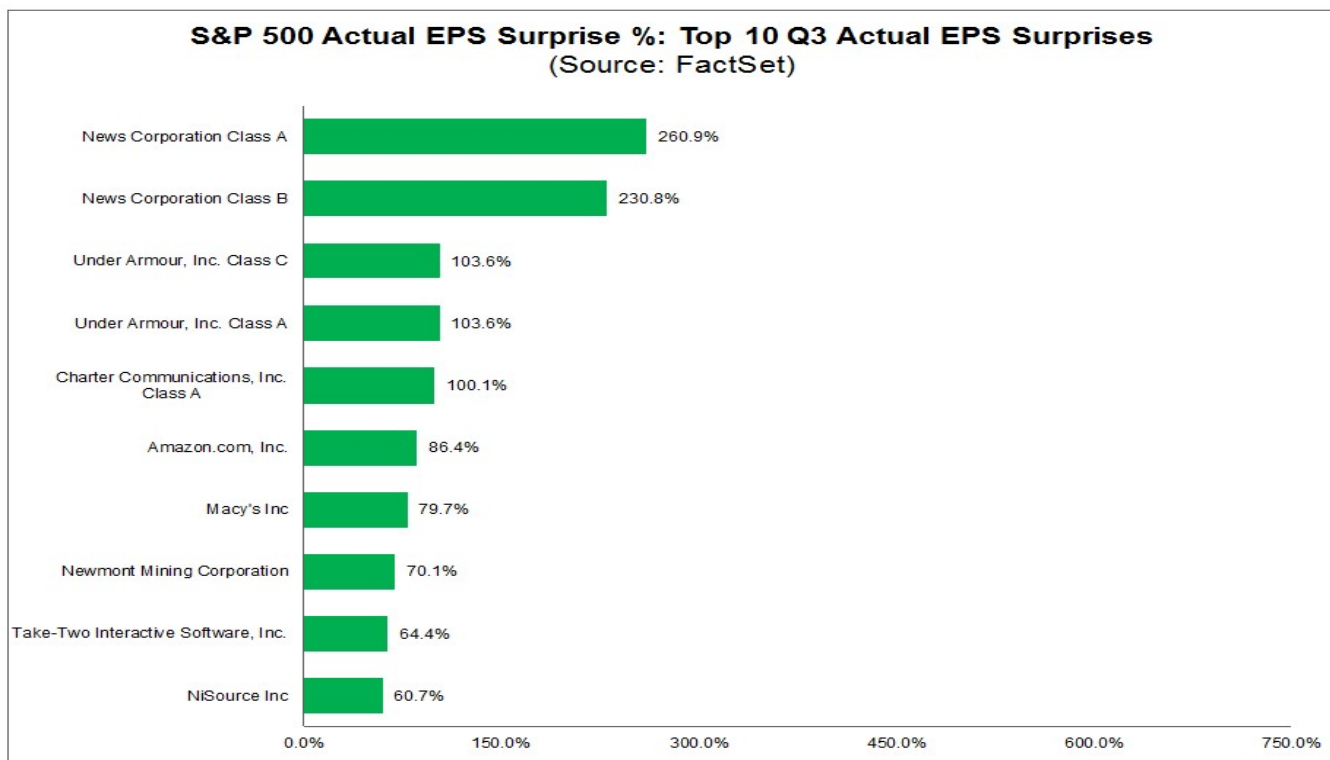
## Q3 2018: Scorecard



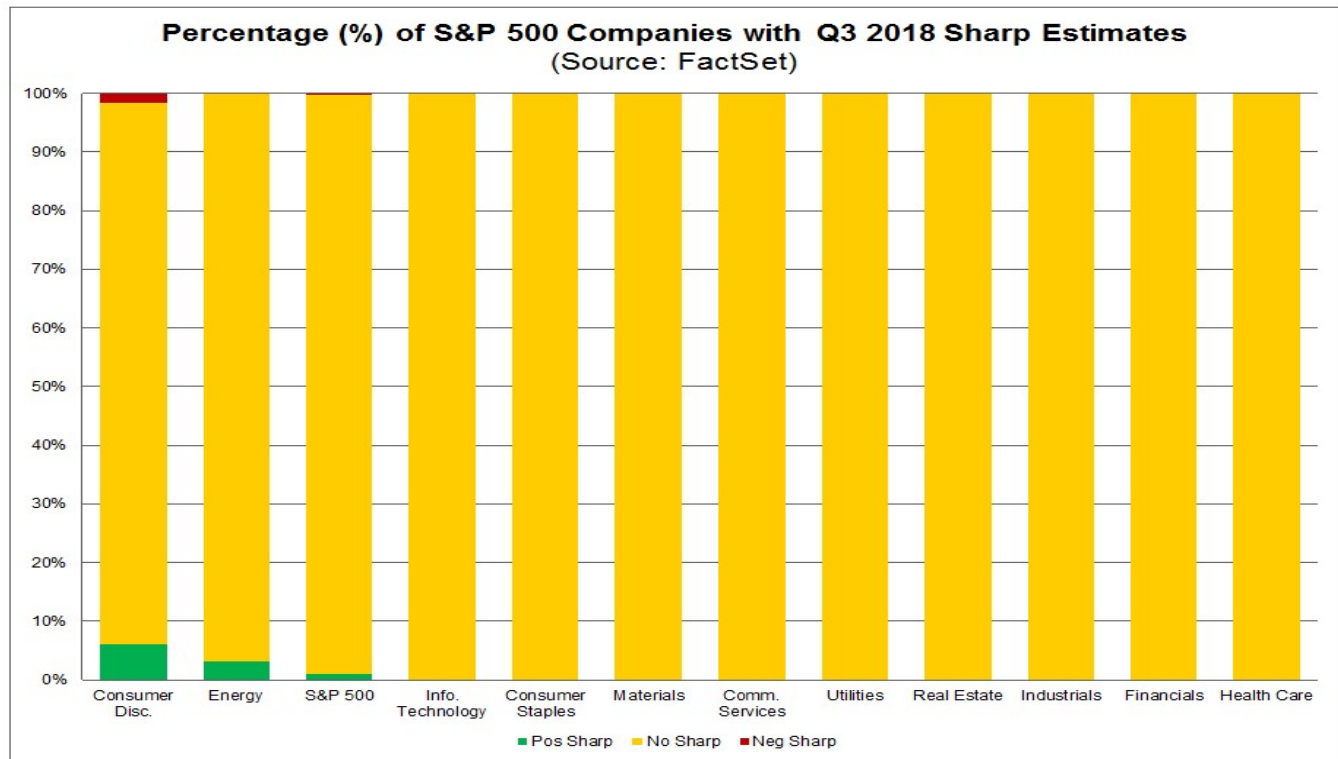
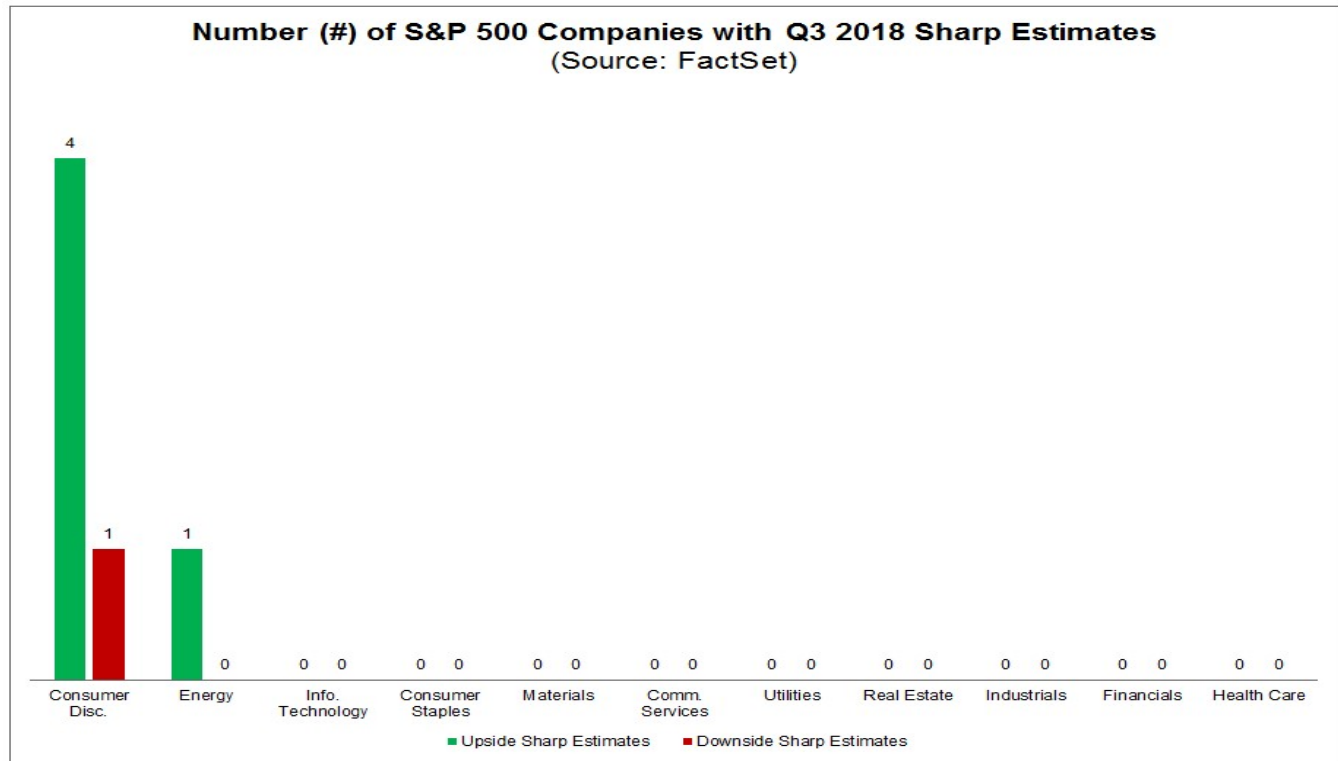
# Q3 2018: Scorecard



## Q3 2018: Scorecard

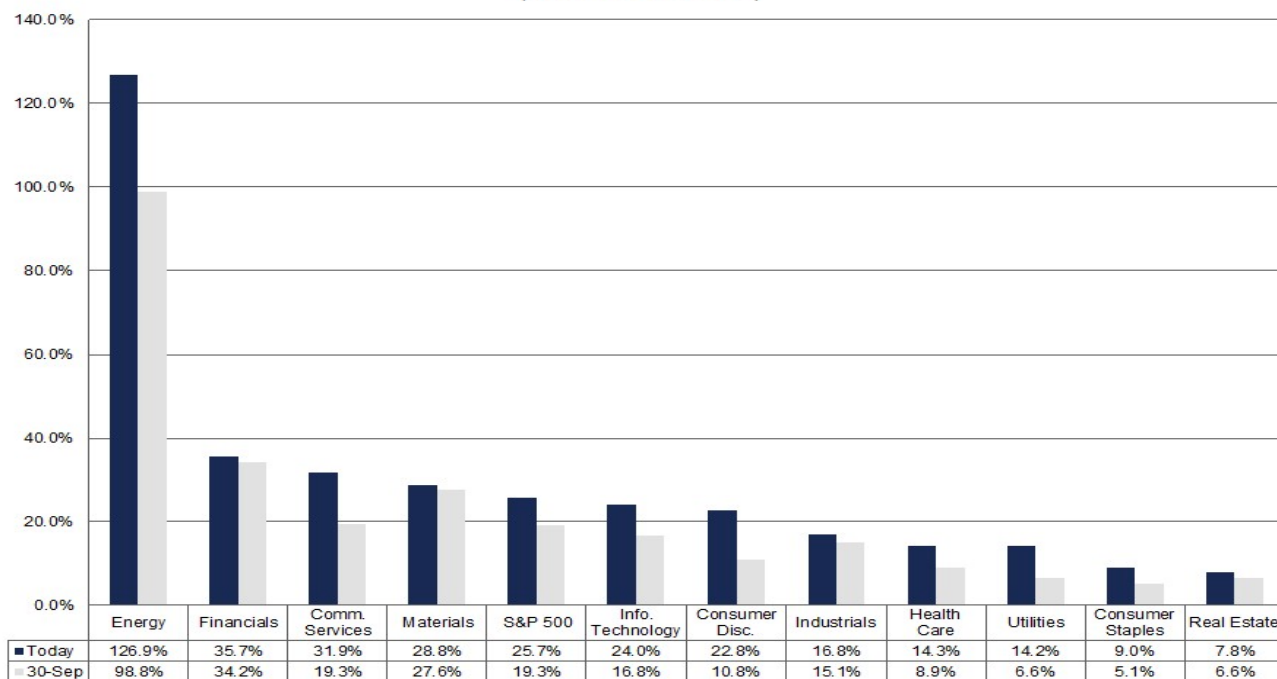


# Q3 2018: Projected EPS Surprises (Sharp Estimates)

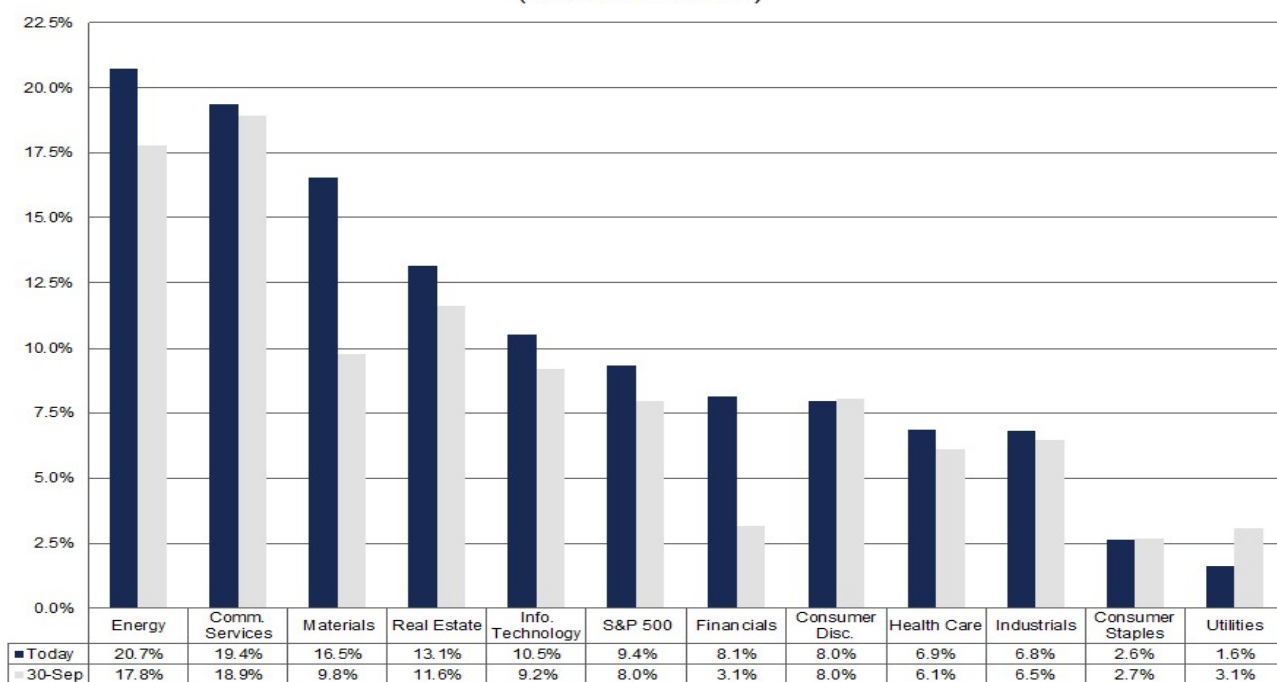


## Q3 2018: Growth

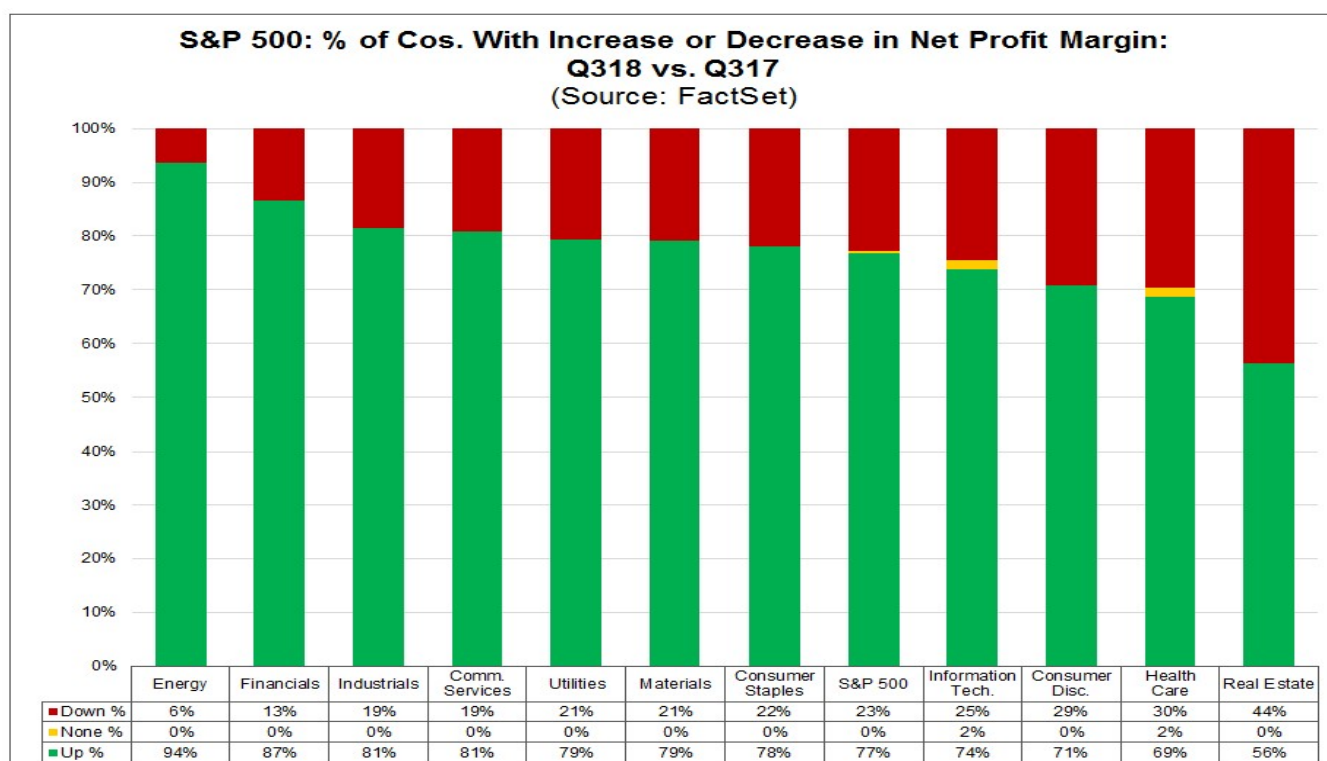
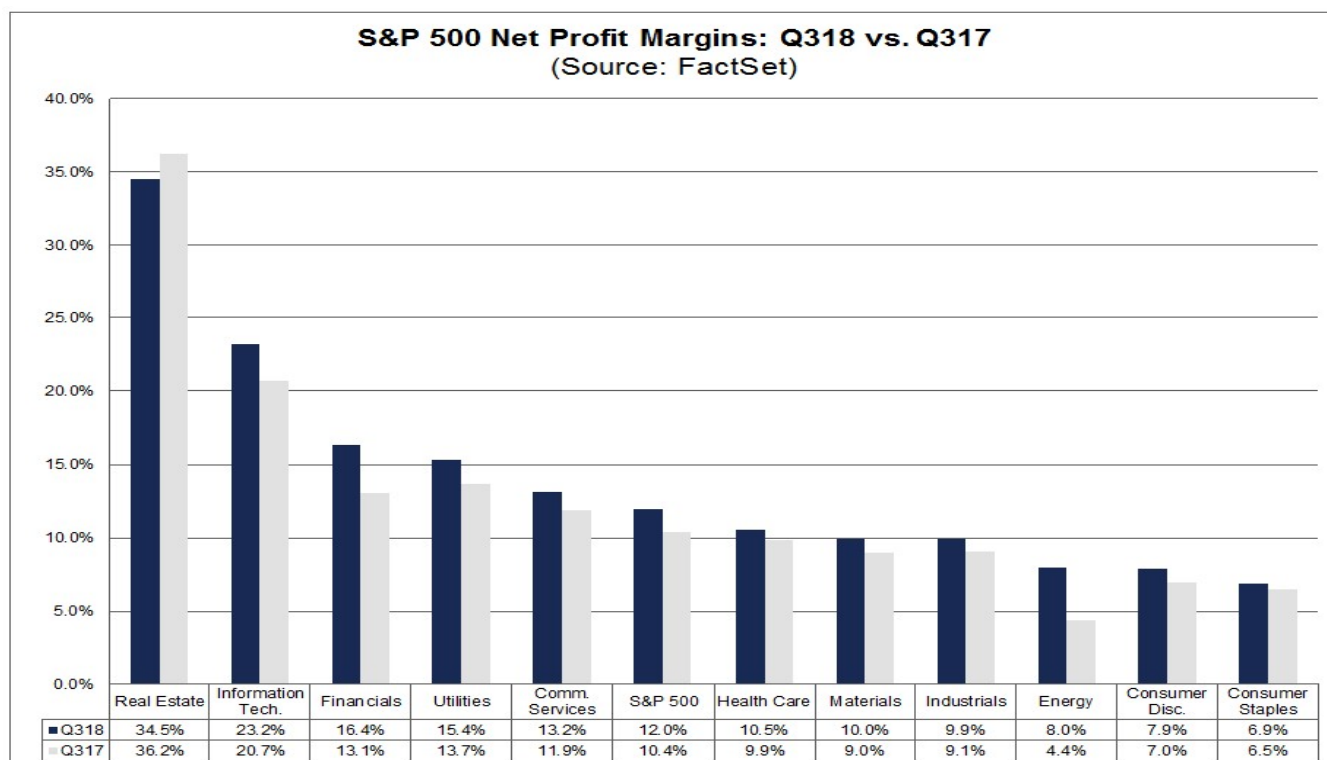
**S&P 500 Earnings Growth: Q3 2018**  
(Source: FactSet)



**S&P 500 Revenue Growth: Q3 2018**  
(Source: FactSet)

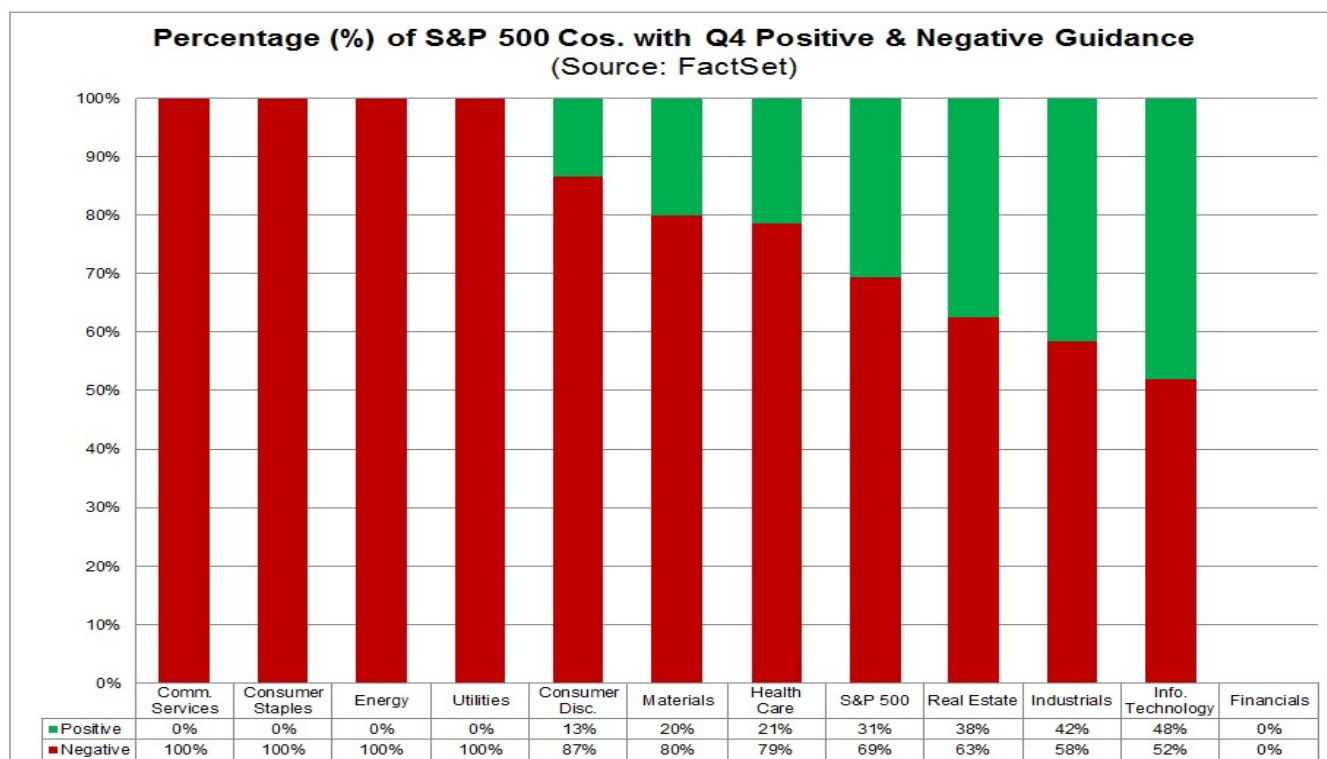
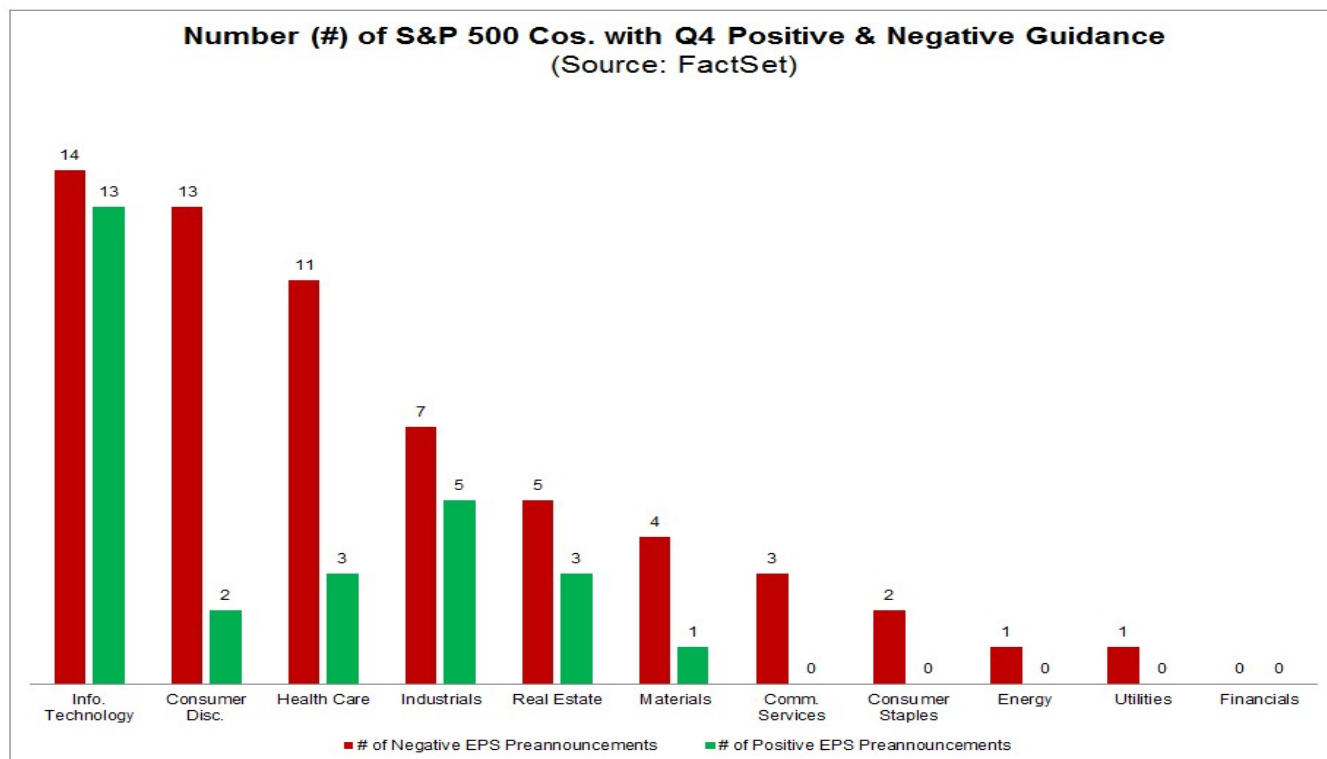


## Q3 2018: Net Profit Margin

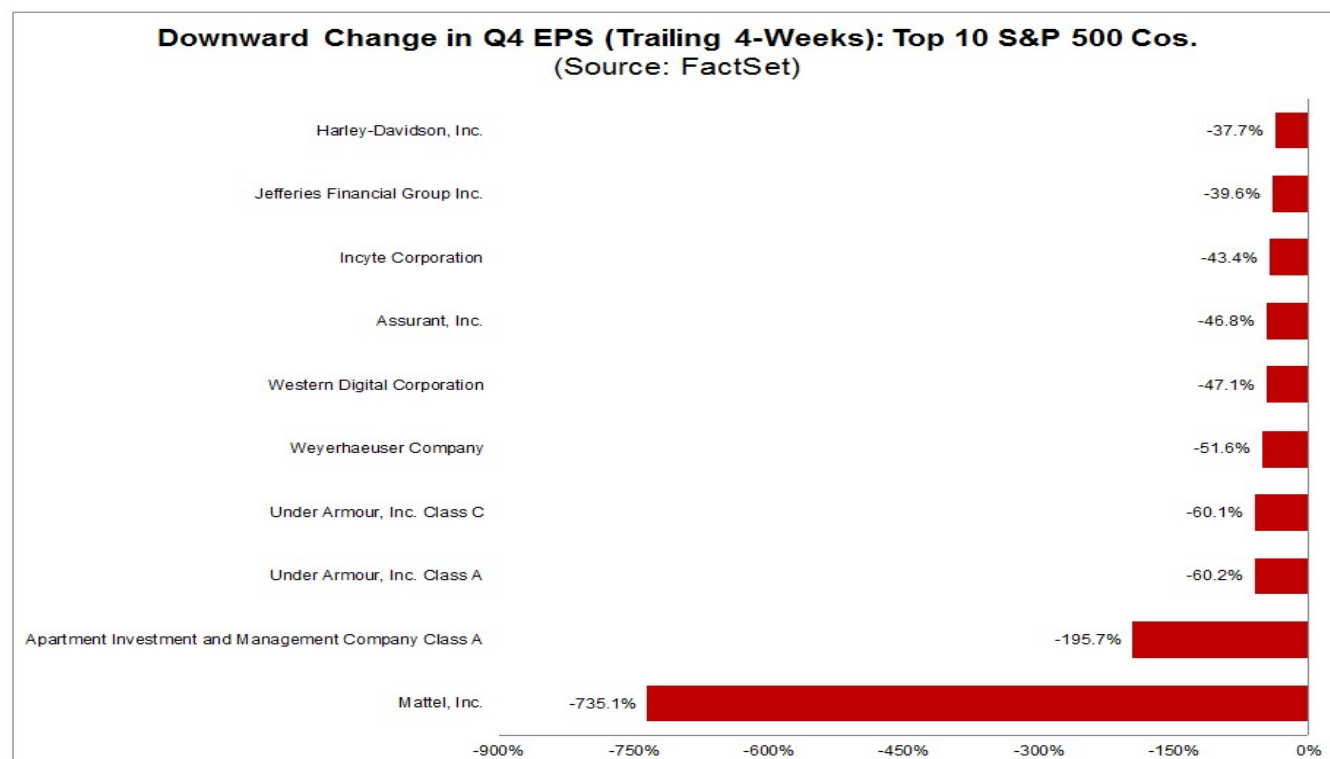
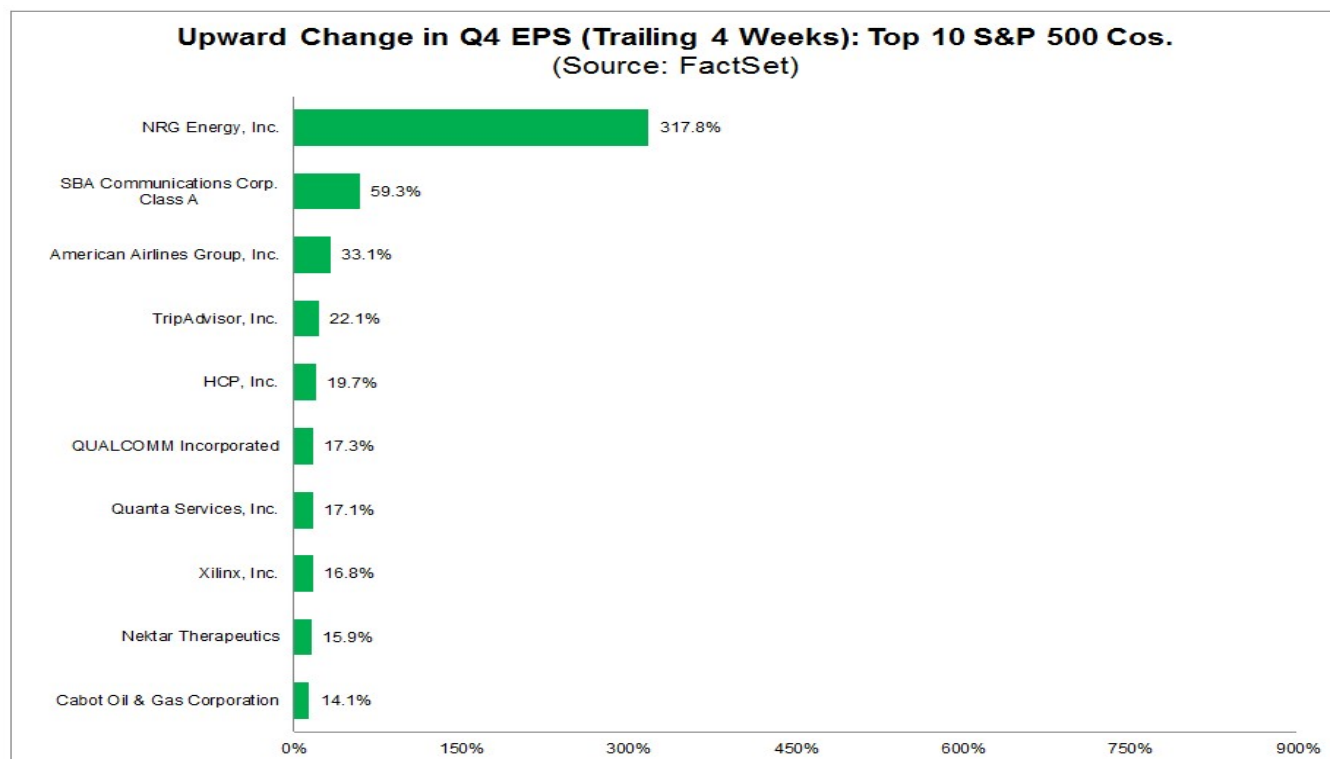




## Q4 2018: EPS Guidance

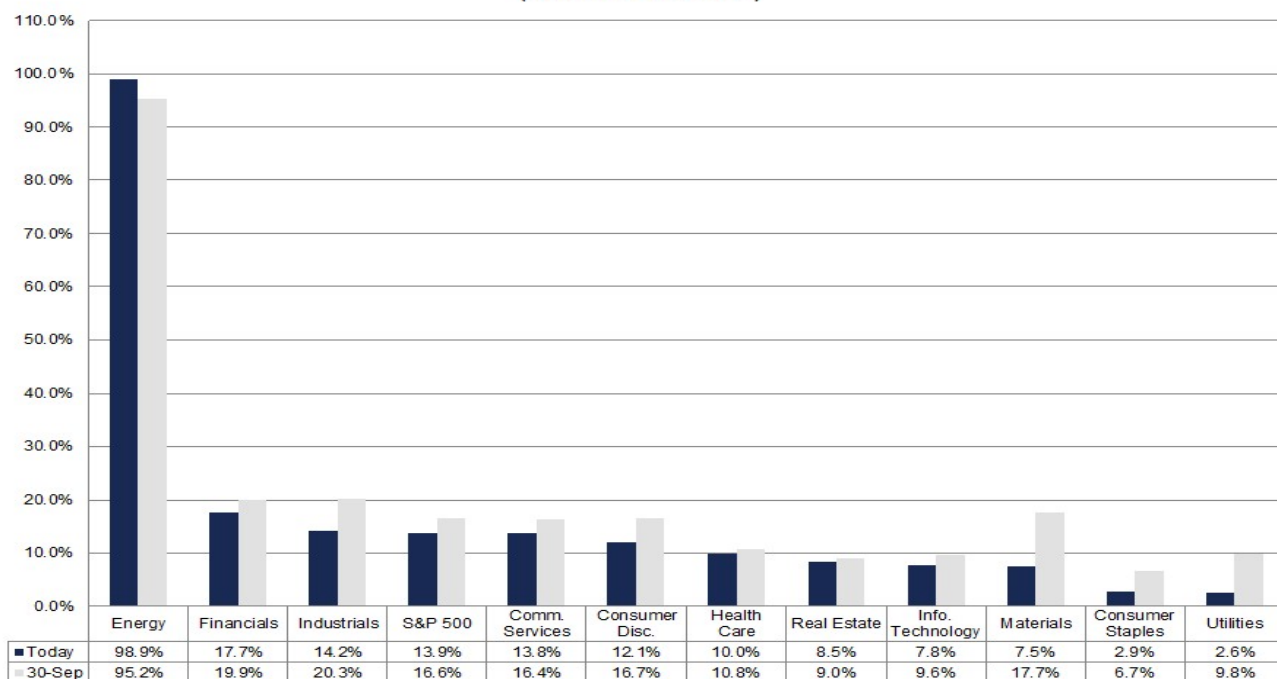


## Q4 2018: EPS Revisions

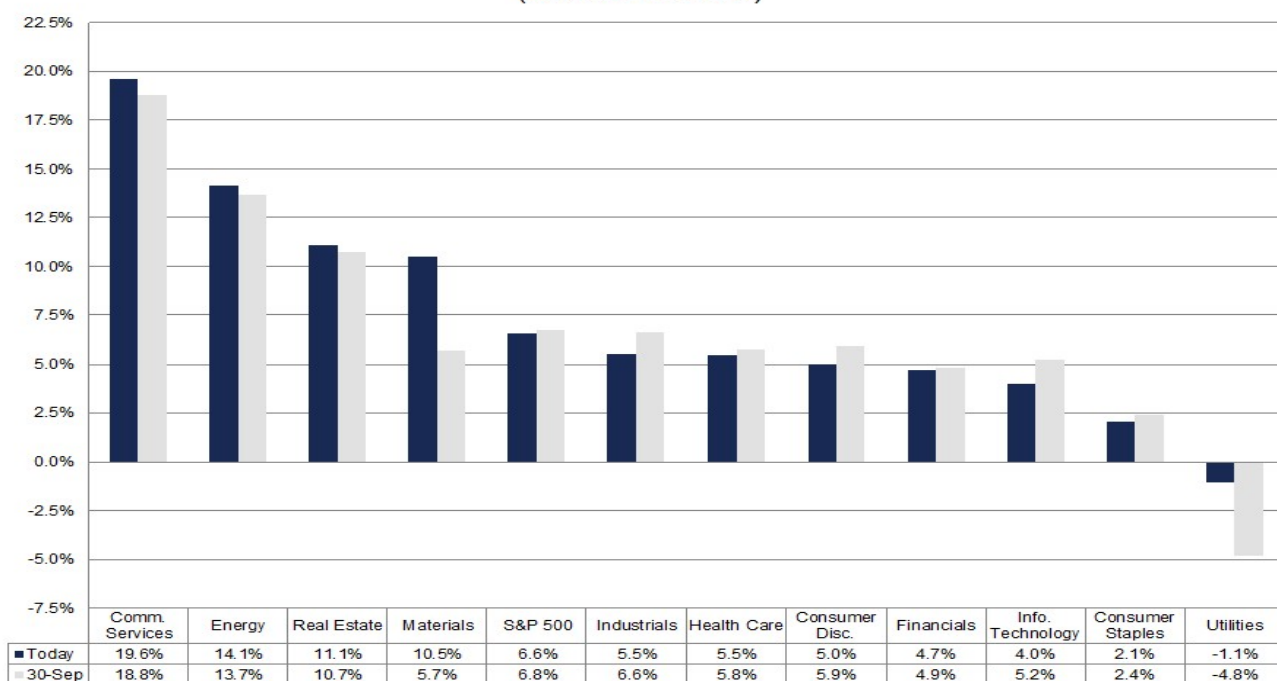


## Q4 2018: Growth

**S&P 500 Earnings Growth: Q4 2018**  
(Source: FactSet)



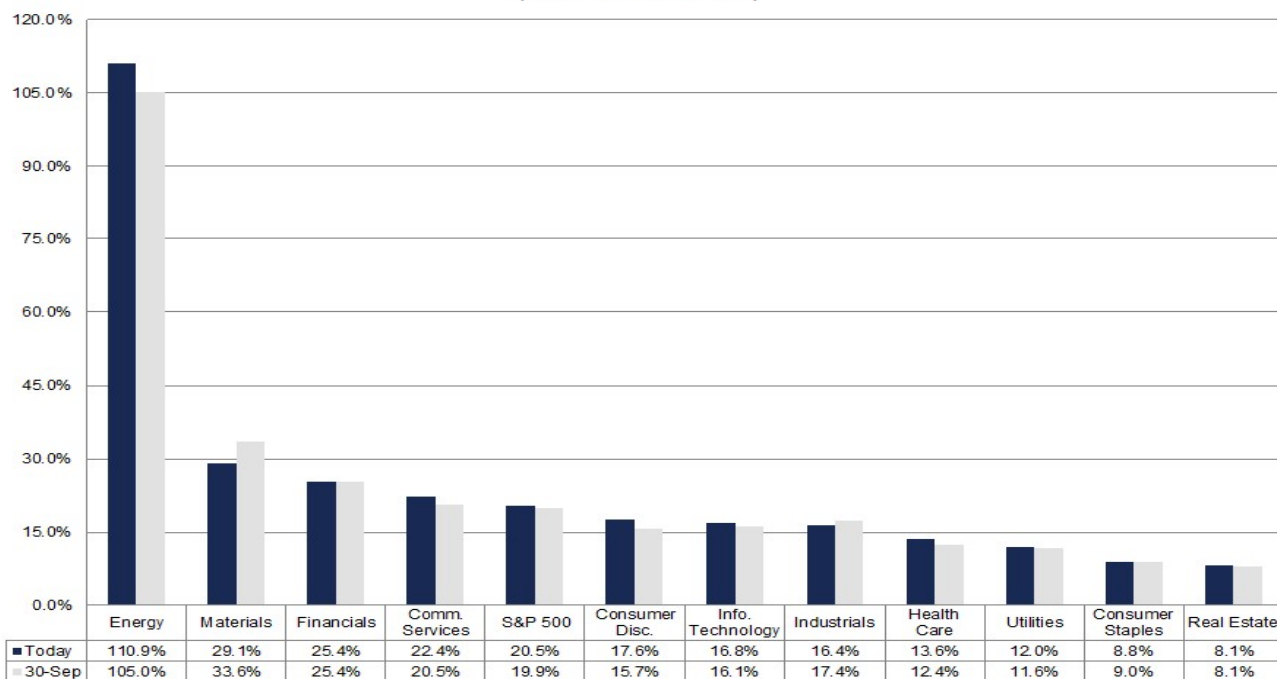
**S&P 500 Revenue Growth: Q4 2018**  
(Source: FactSet)



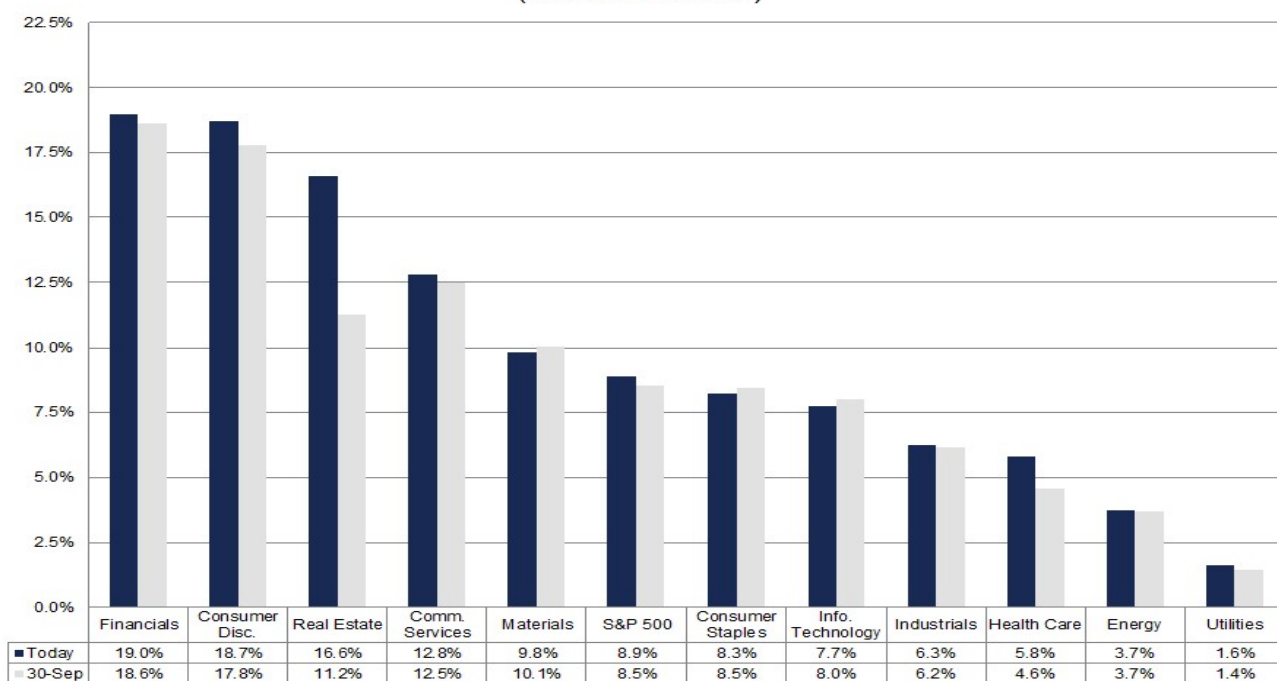
## CY 2018: Growth

**S&P 500 Earnings Growth: CY 2018**

(Source: FactSet)

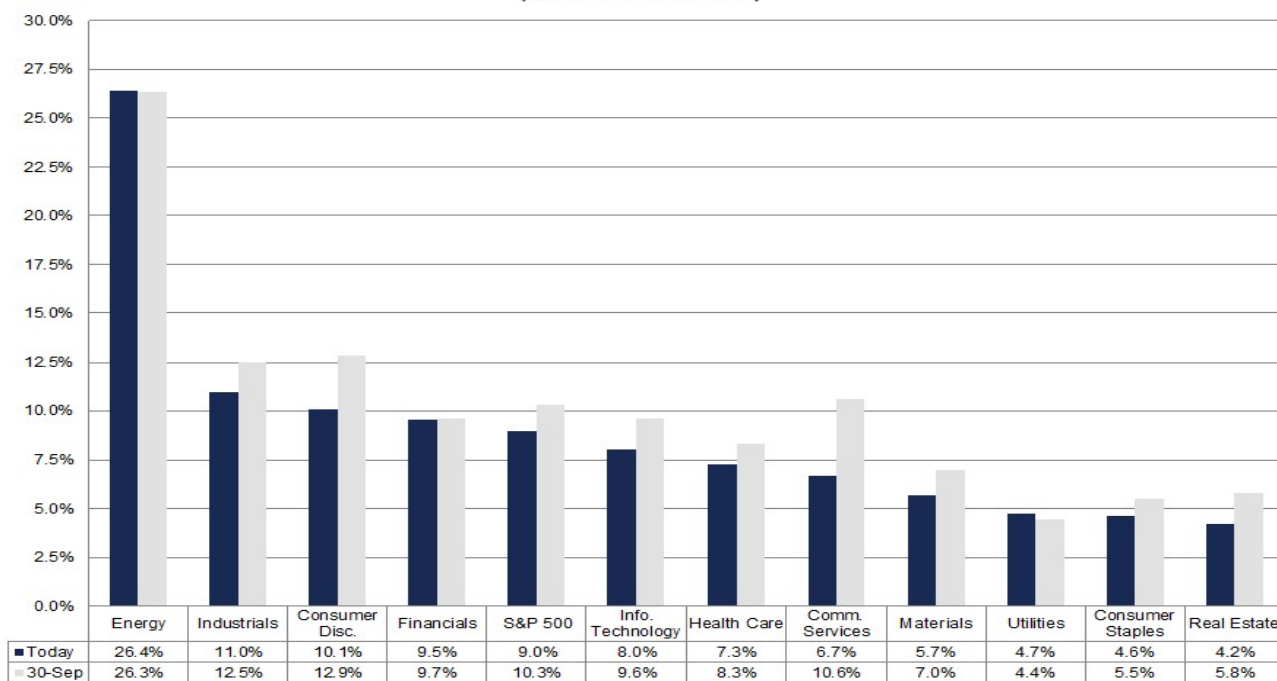
**S&P 500 Revenue Growth: CY 2018**

(Source: FactSet)

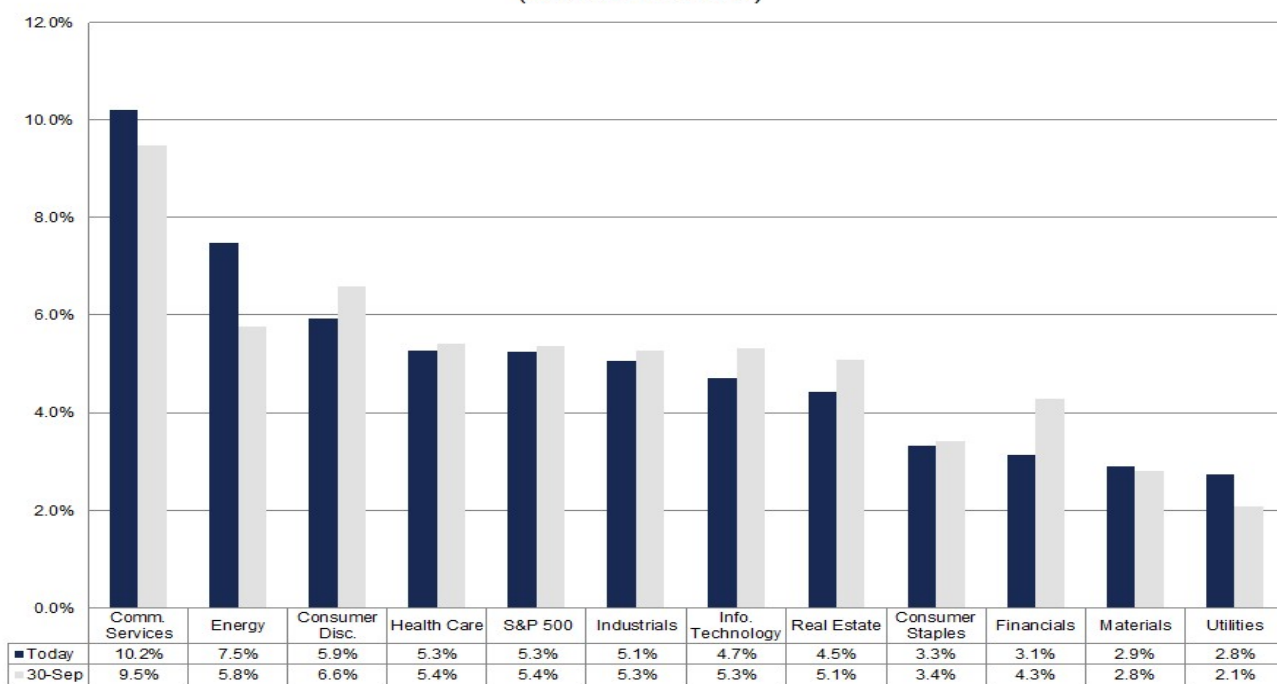


## CY 2019: Growth

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

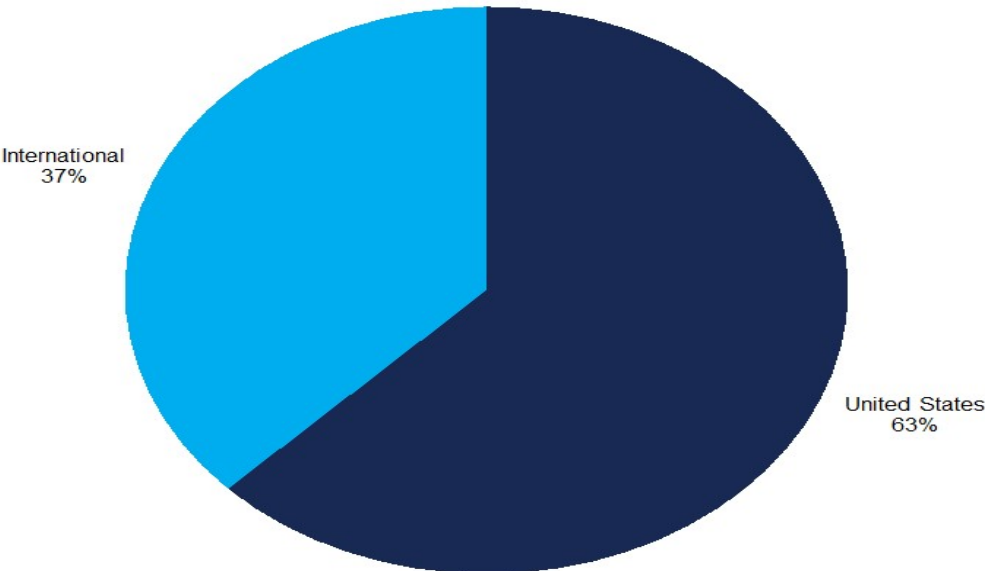


**S&P 500 Revenue Growth: CY 2019**  
(Source: FactSet)

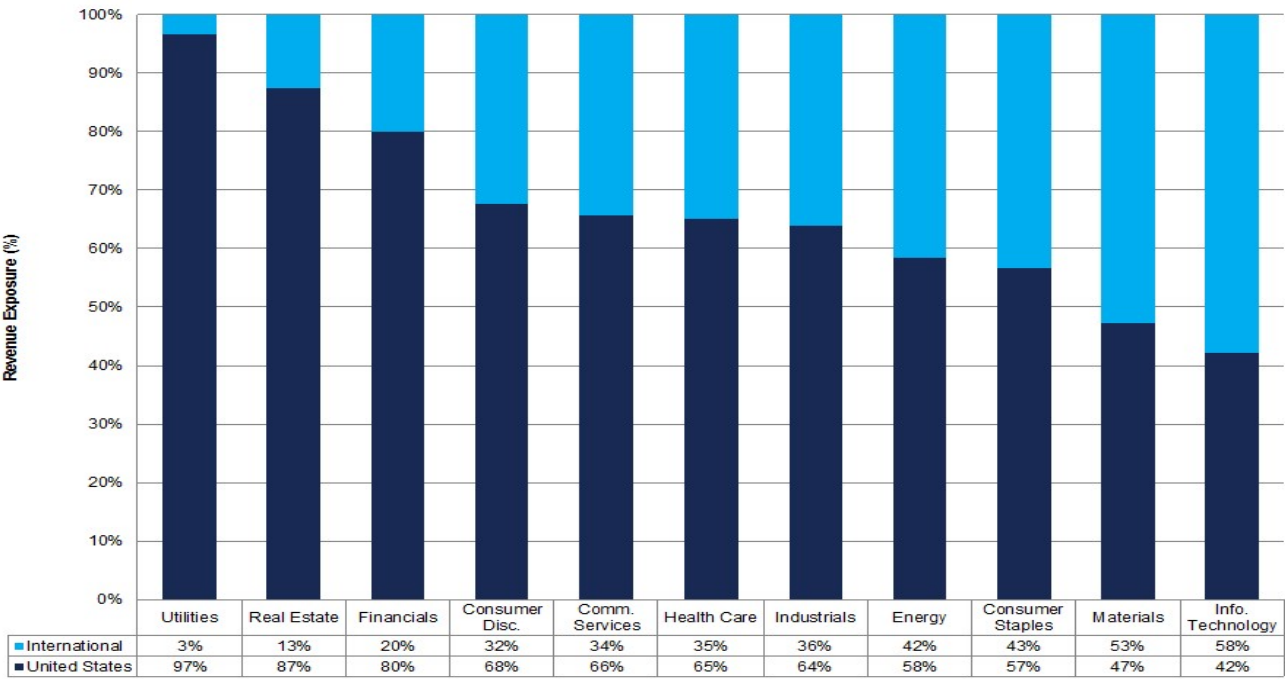


# Geographic Revenue Exposure

**S&P 500: Aggregate Geographic Revenue Exposure (%)**  
(Source: FactSet)

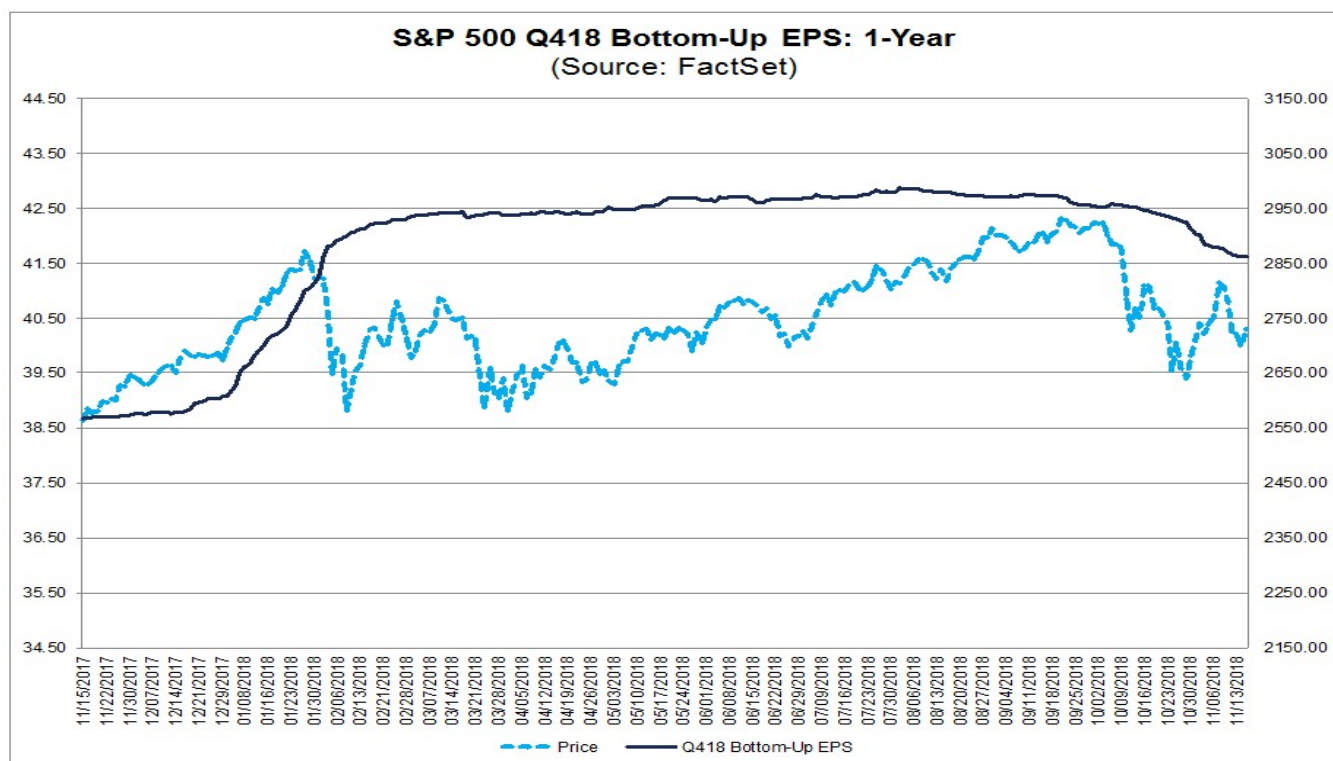
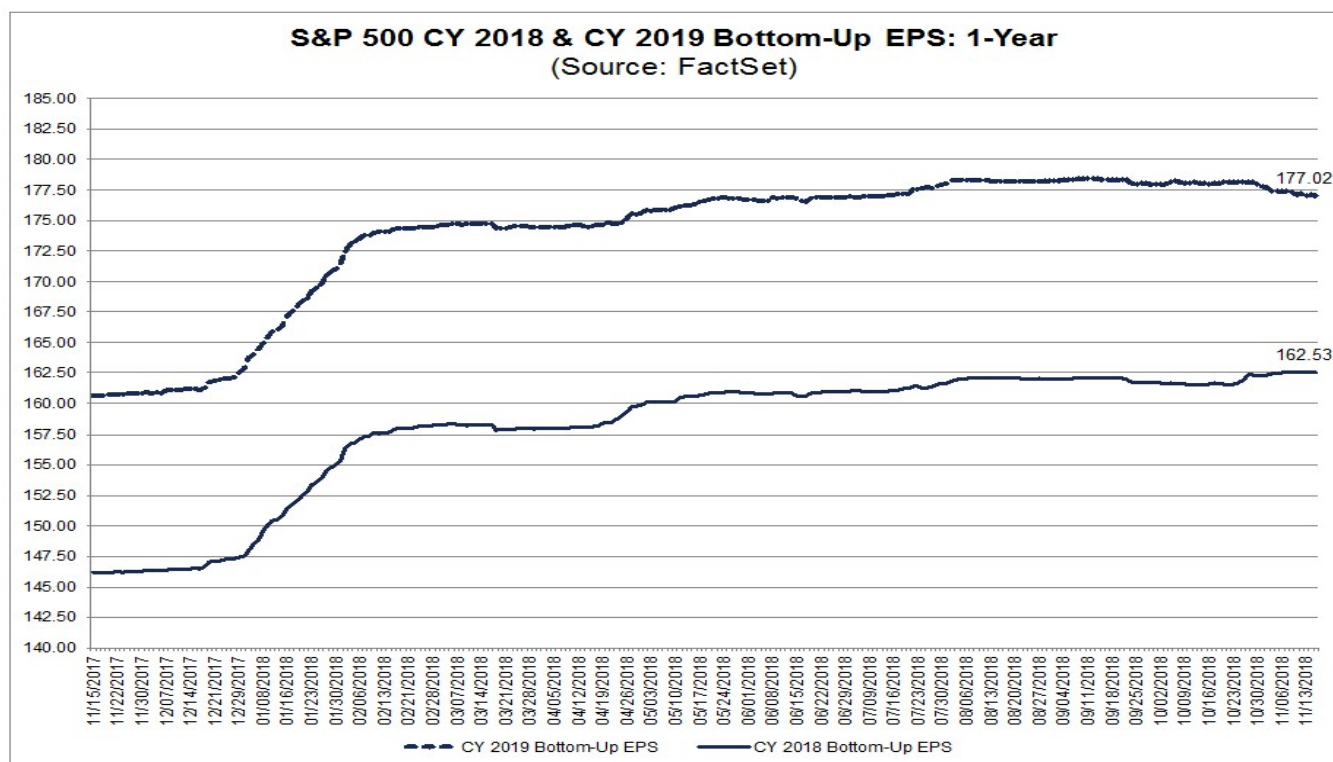


**S&P 500: Aggregate Sector Geographic Revenue Exposure (%)**  
(Source: FactSet)

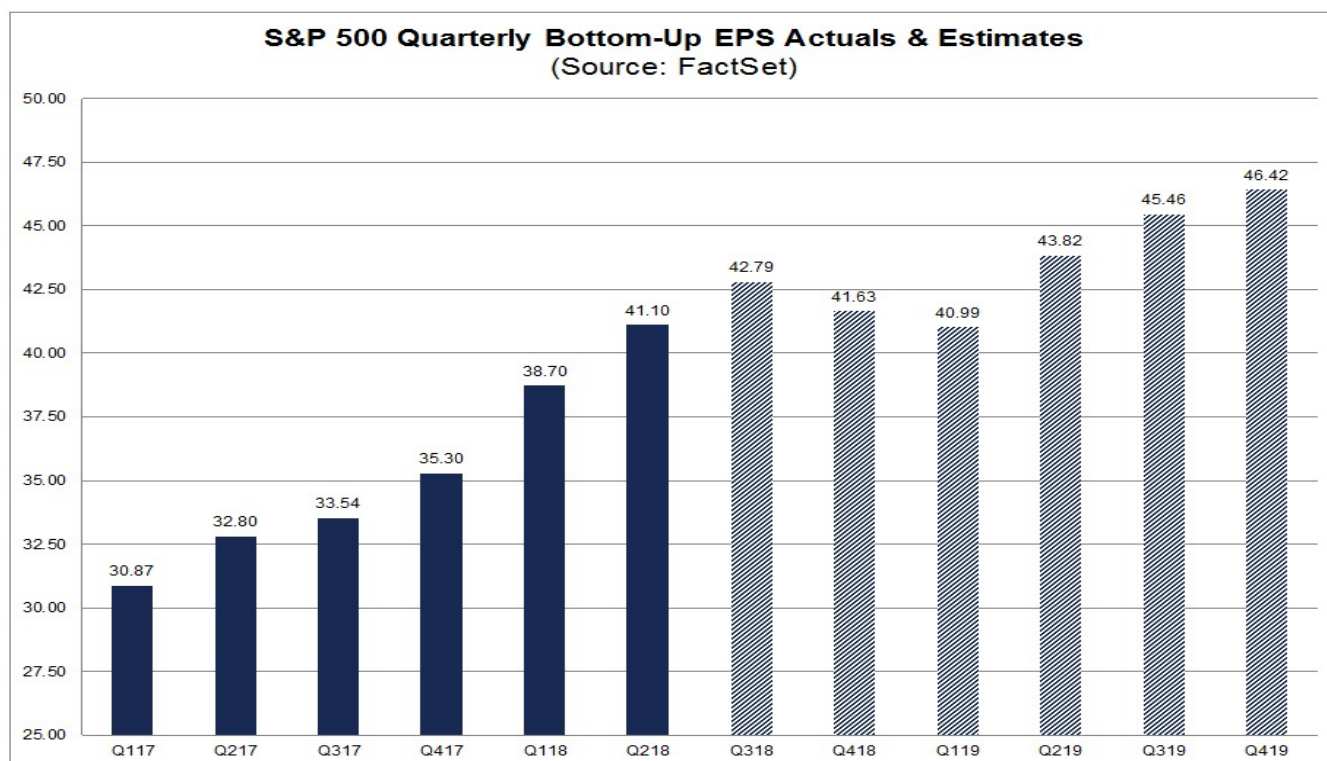
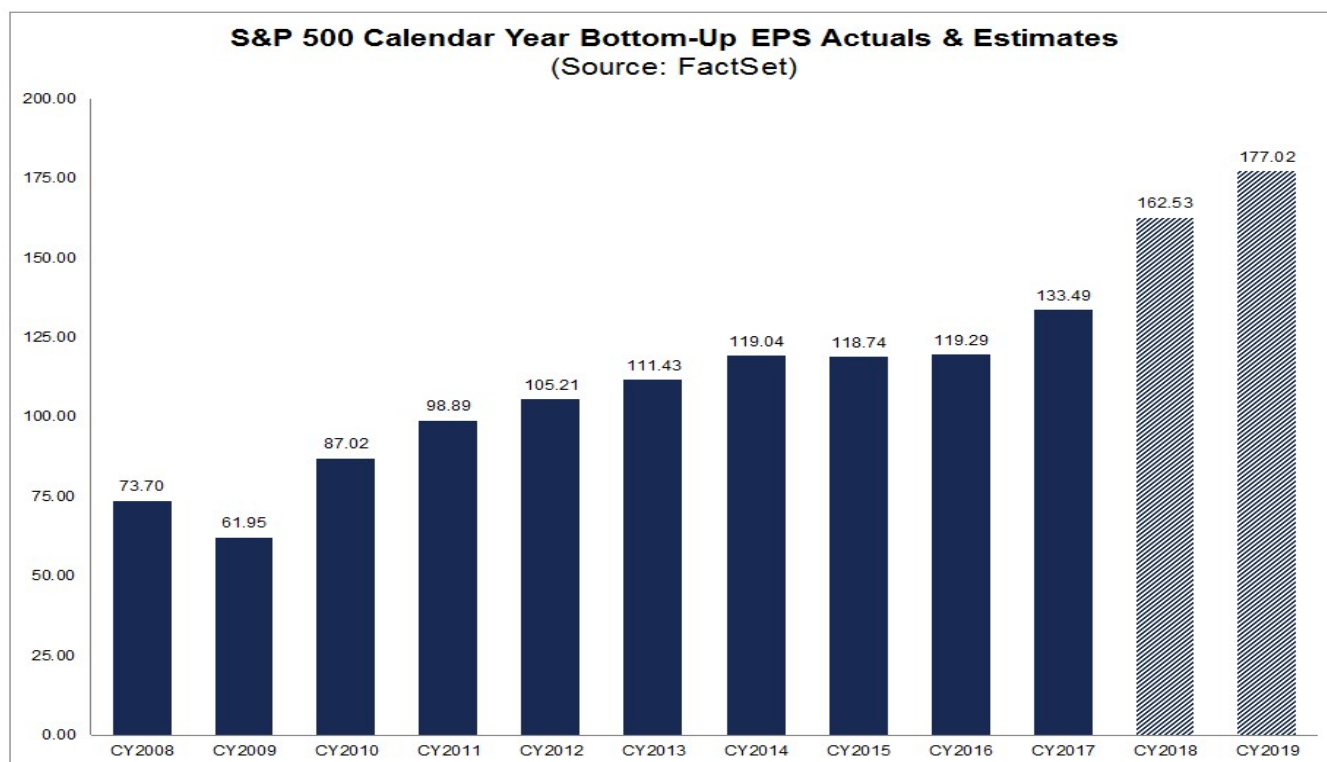




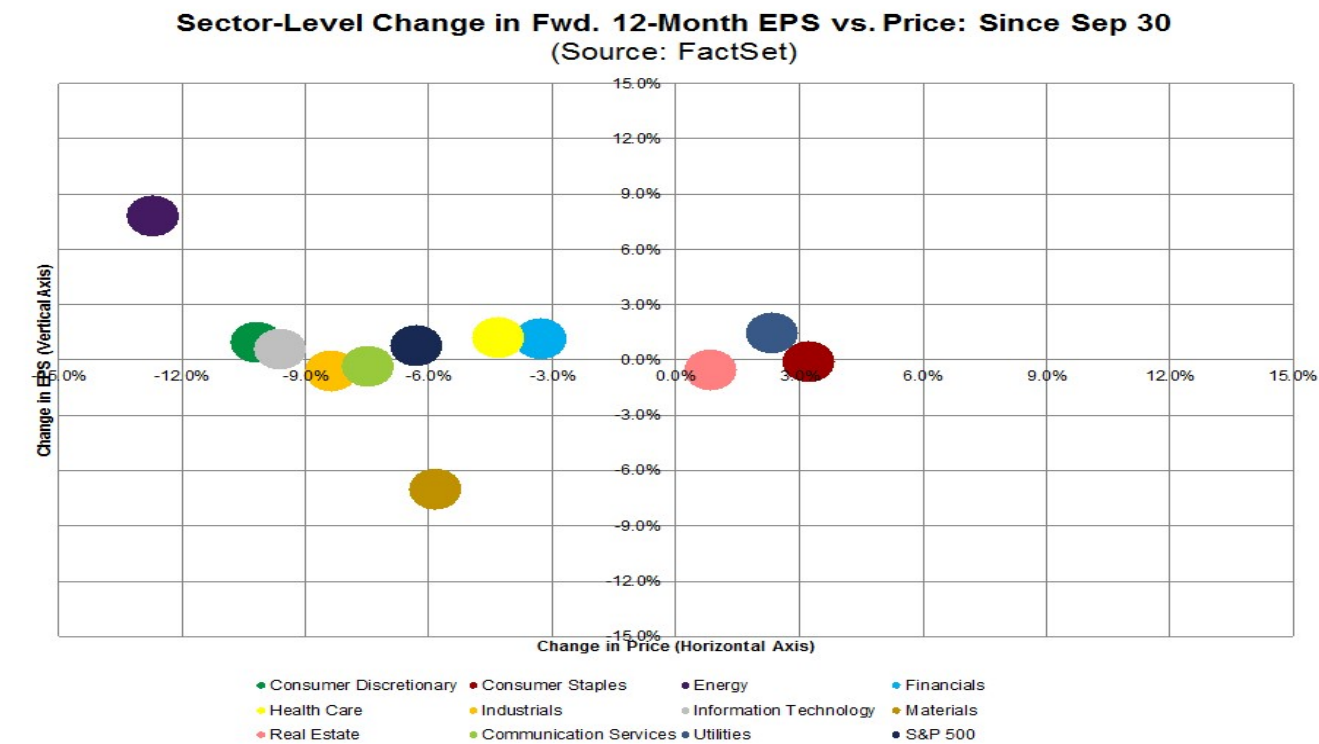
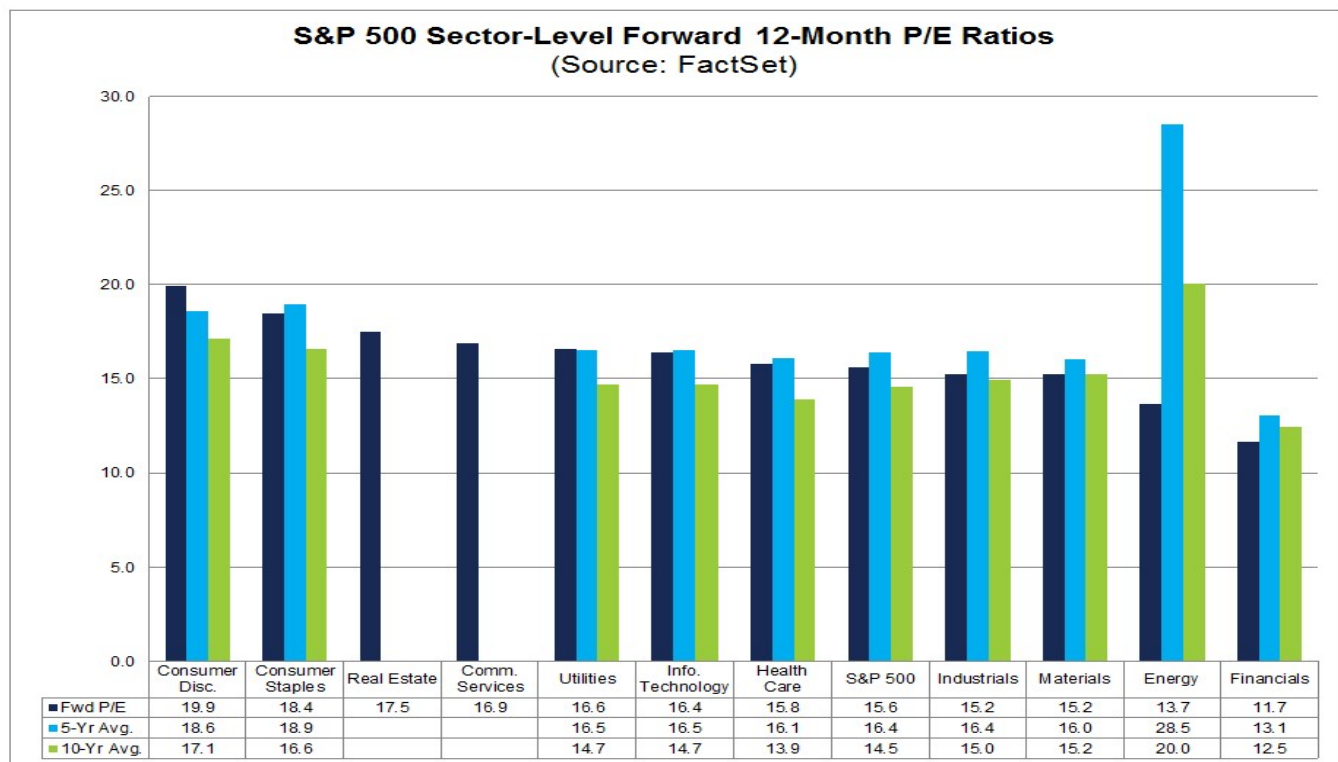
## Bottom-up EPS Estimates: Revisions



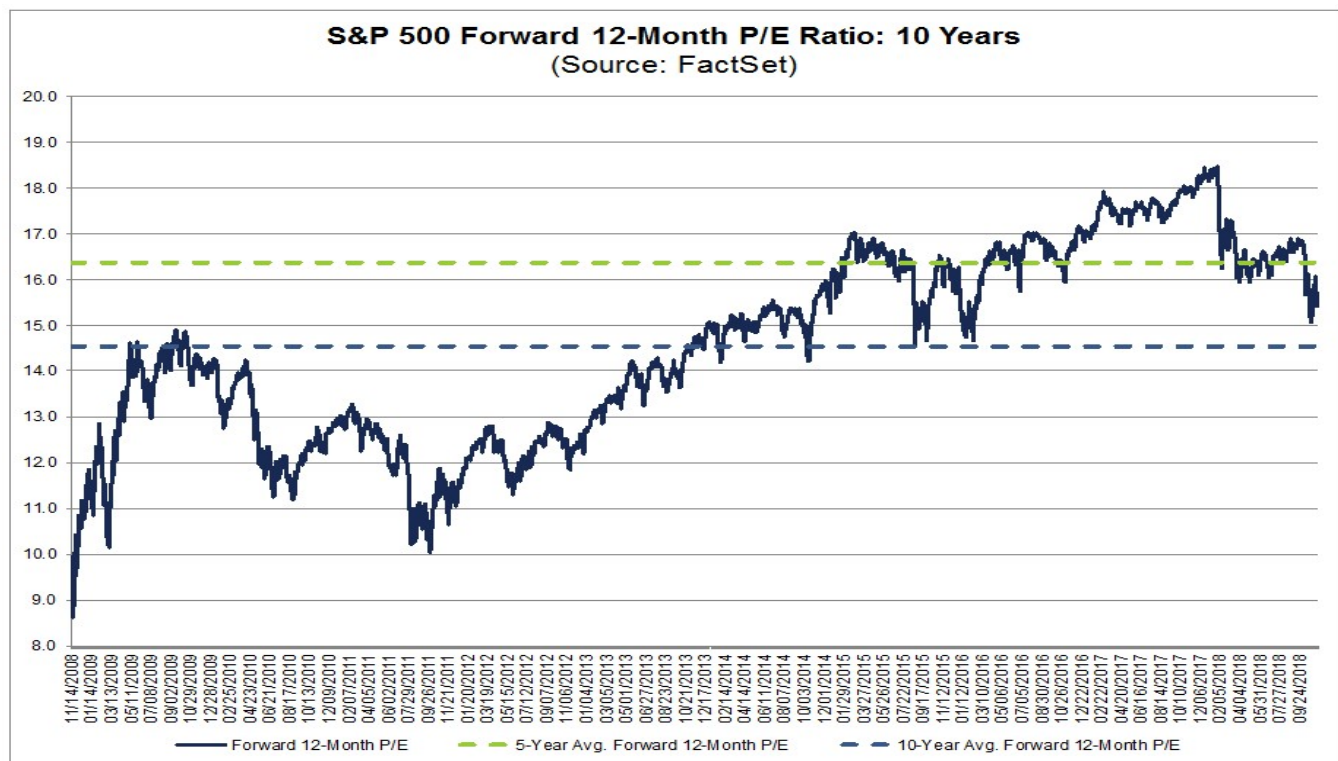
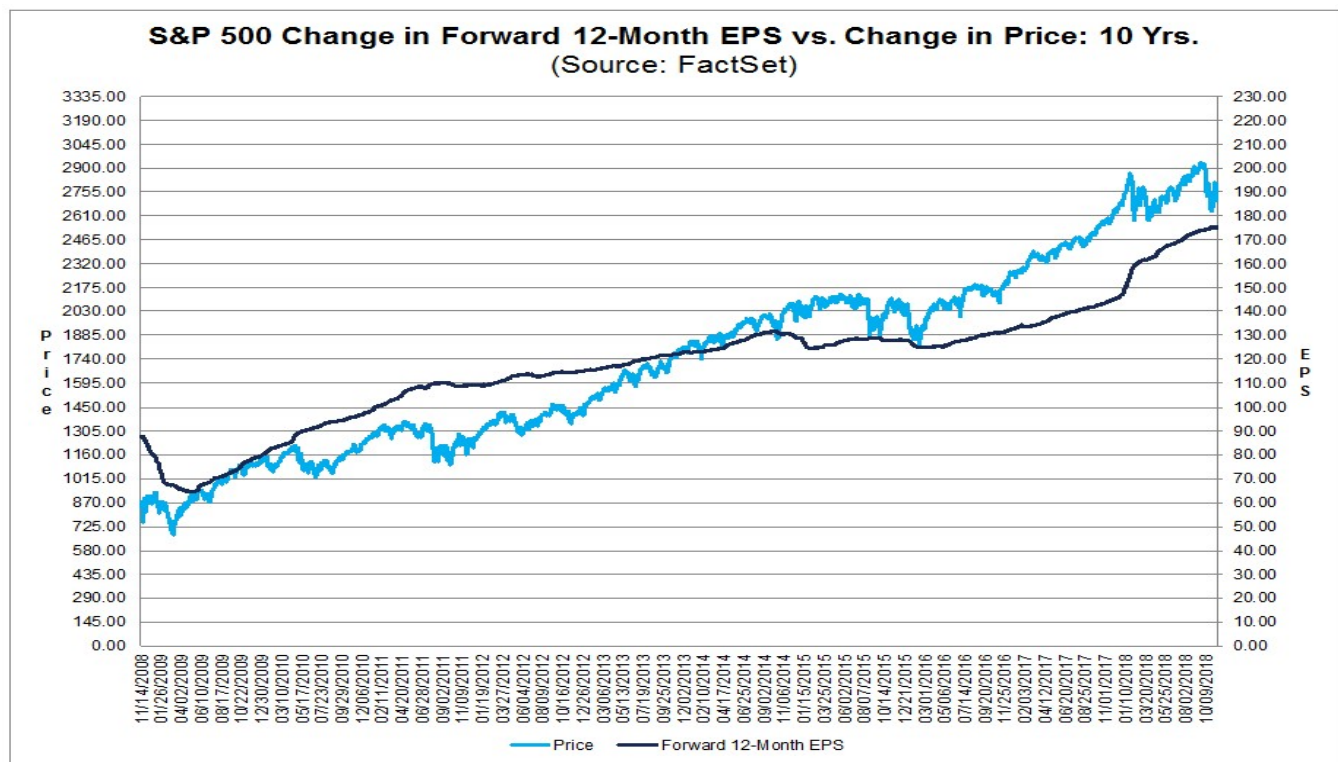
## Bottom-up EPS Estimates: Current & Historical



# Forward 12M P/E Ratio: Sector Level

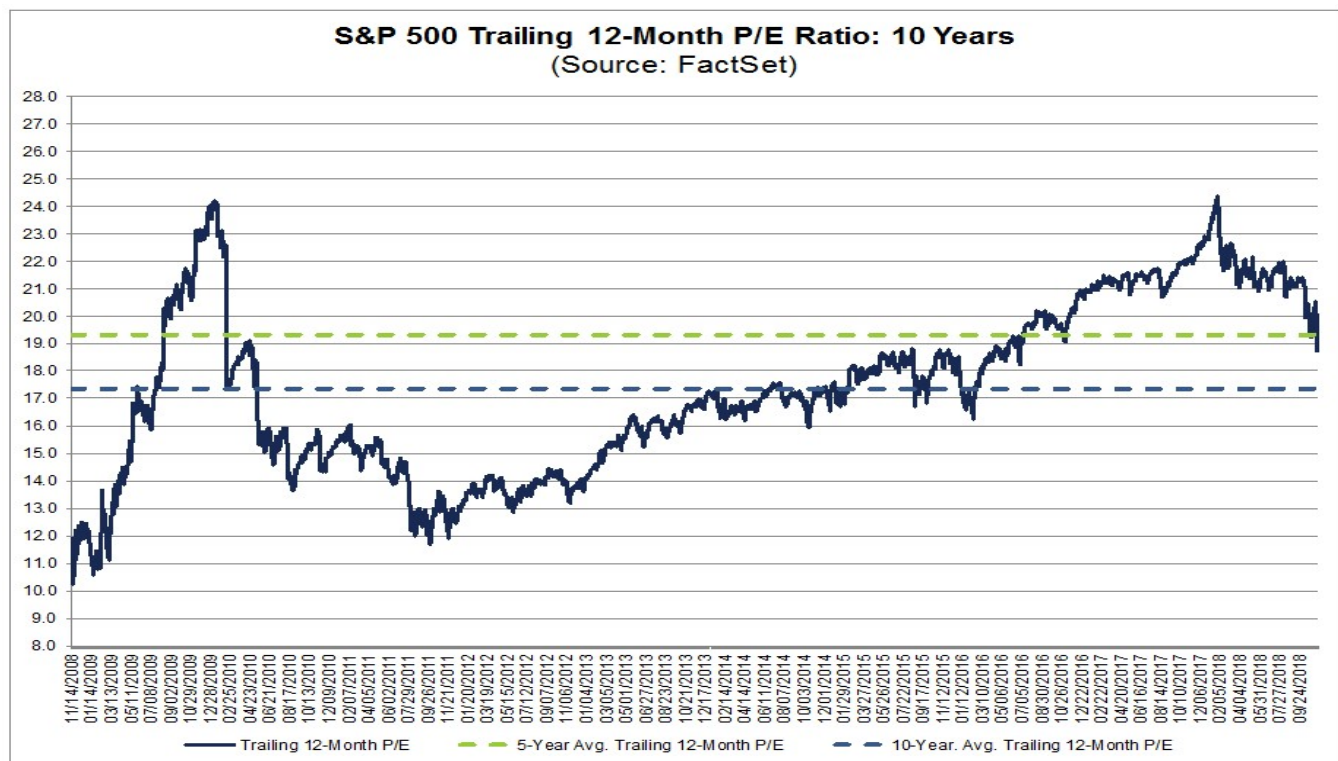
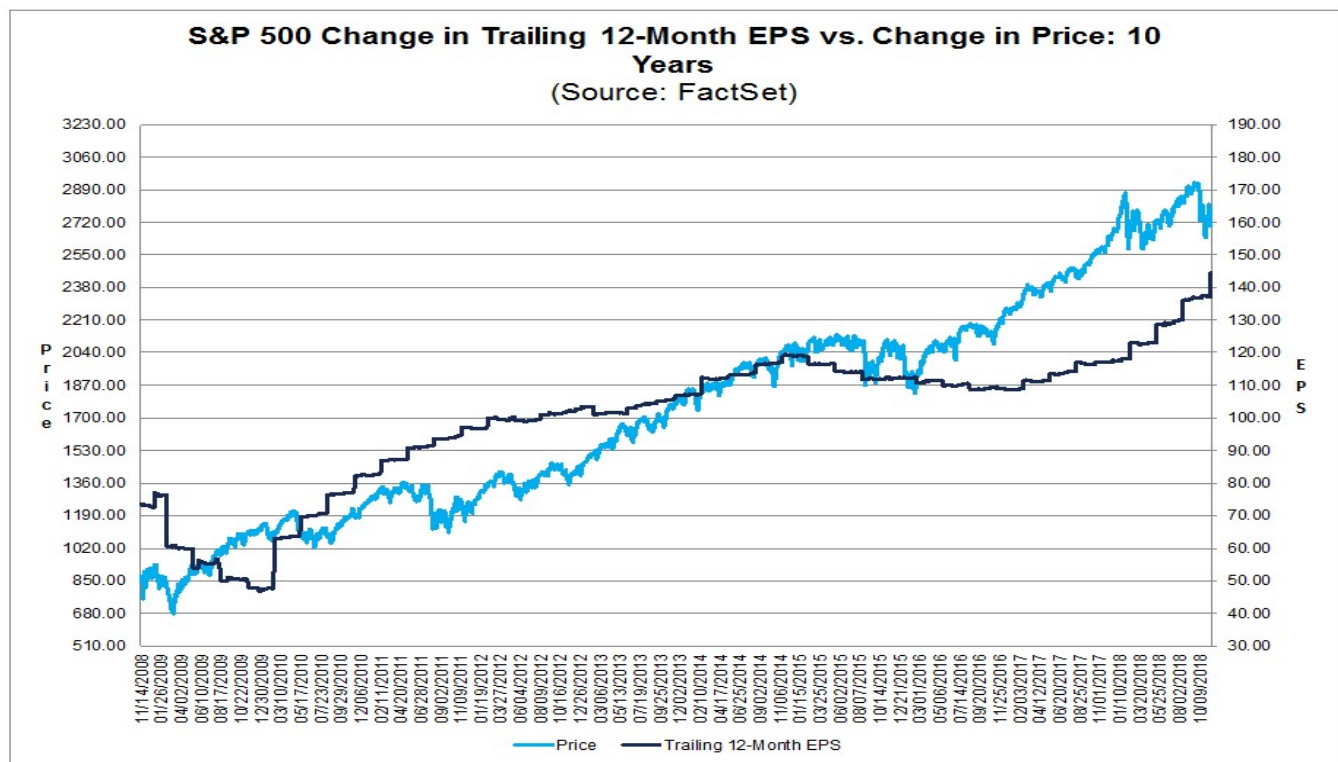


# Forward 12M P/E Ratio: Long-Term Averages

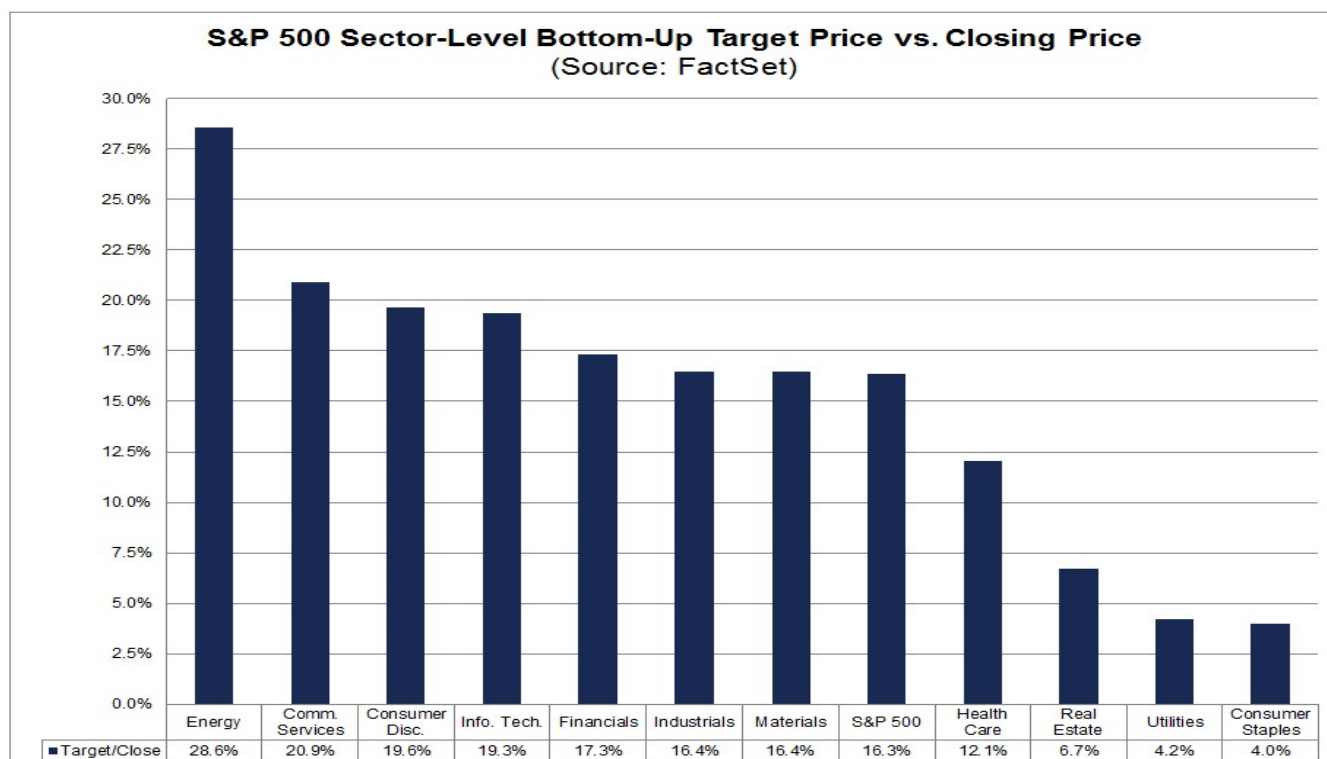
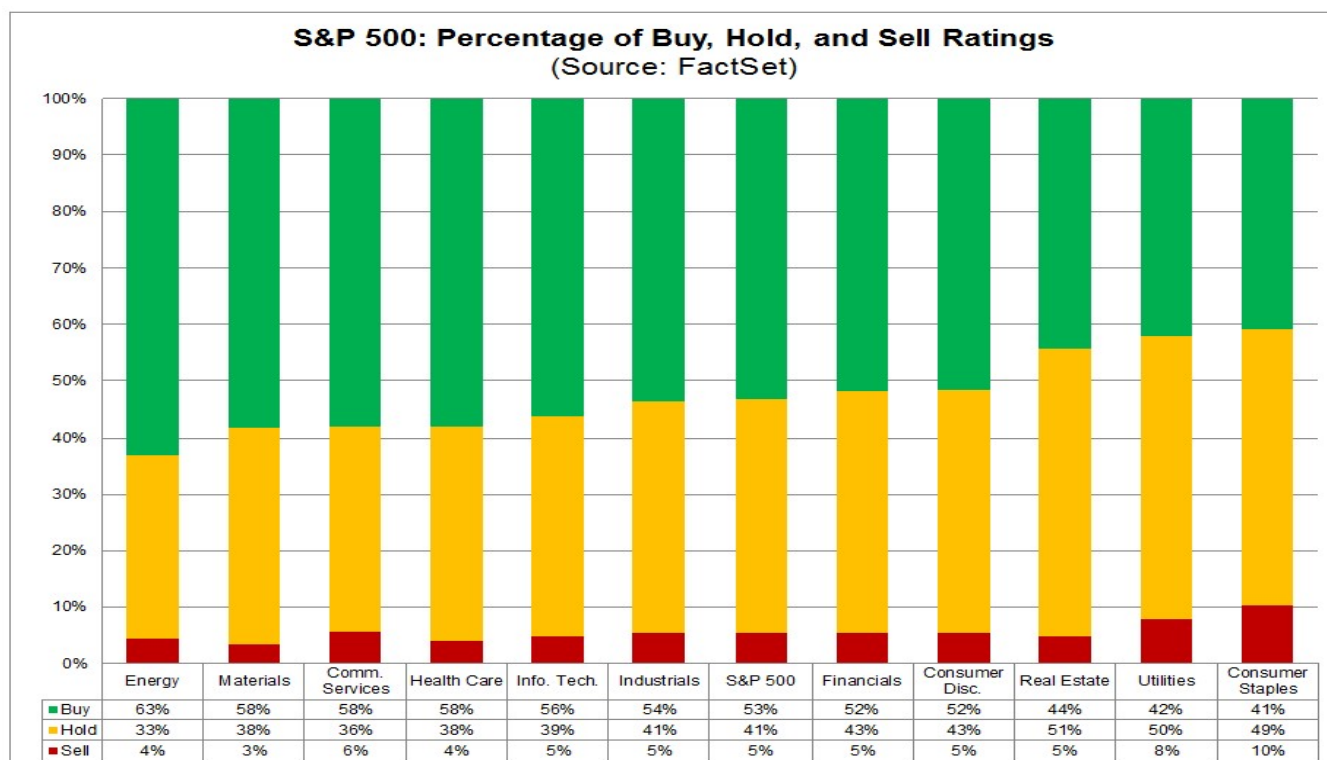




# Trailing 12M P/E Ratio: Long-Term Averages



## Targets & Ratings





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