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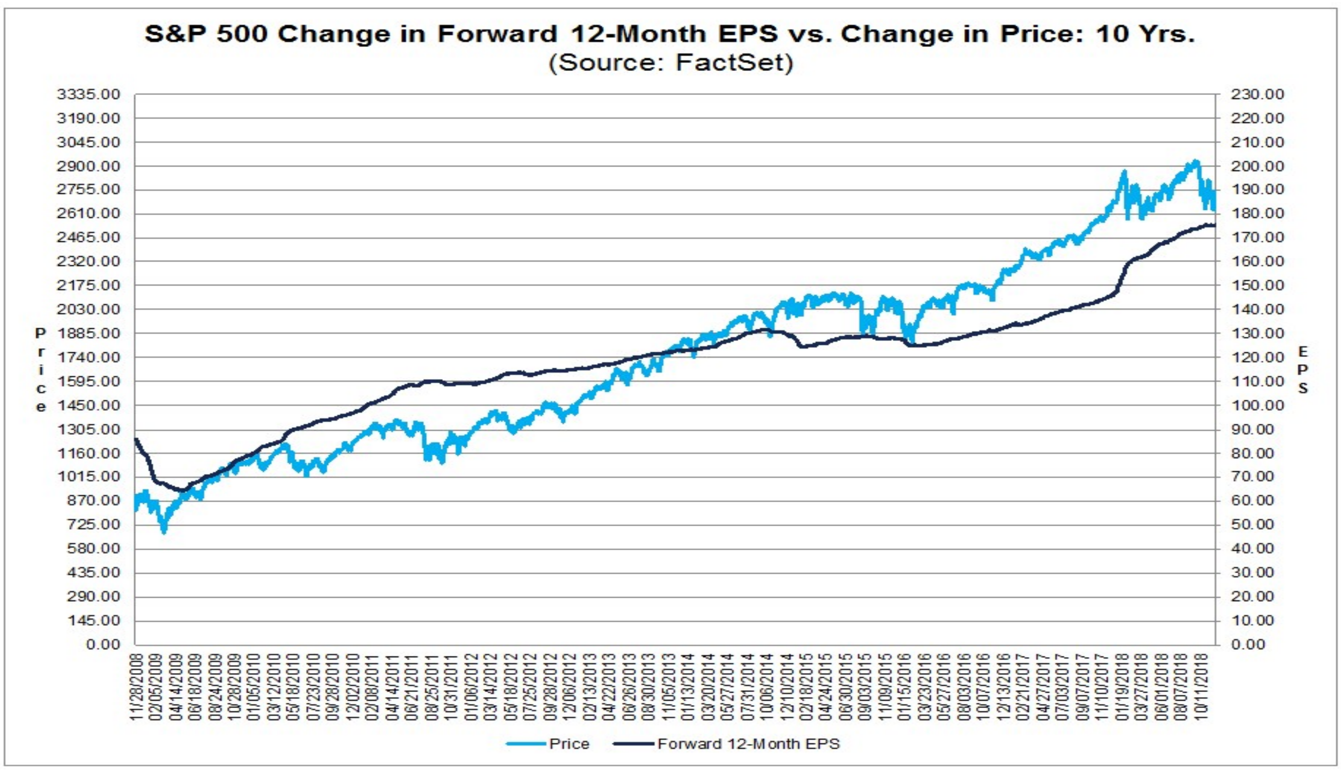
Key Metrics

- **Earnings Scorecard:** For Q3 2018 (with 97% 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 25.9%. If 25.9% 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, 68 S&P 500 companies have issued negative EPS guidance and 31 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 (14.6).



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Topic of the Week: 1

Largest Cuts to S&P 500 EPS Estimates Since Q1 2017

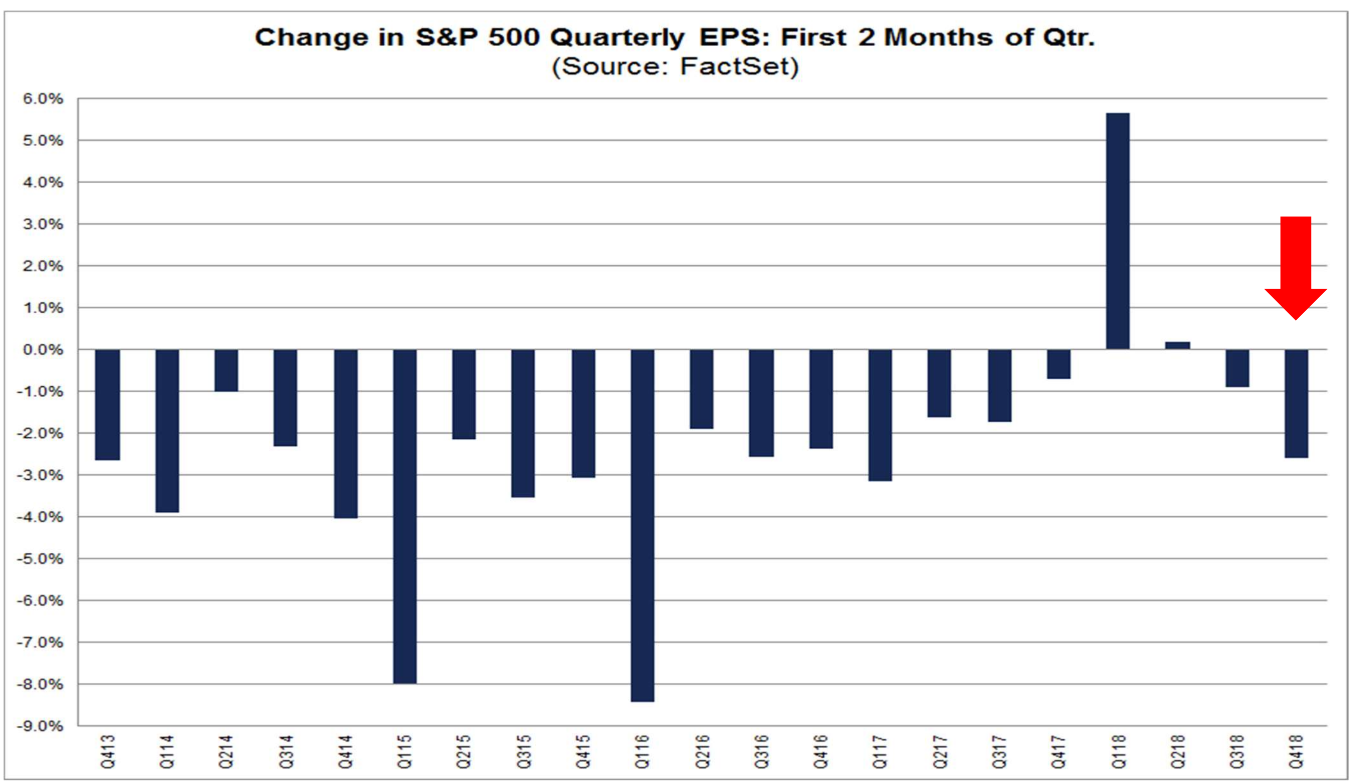
During the first two months of the fourth quarter, analysts lowered earnings estimates for companies in the S&P 500 for the quarter. The Q4 bottom-up EPS estimate (which is an aggregation of the median EPS estimates of all of the companies in the index) has dropped by 2.6% (to $41.45 from $42.56) during this period. How significant is a 2.6% decline in the bottom-up EPS estimate during the first two months of a quarter? How does this decrease compare to recent quarters?

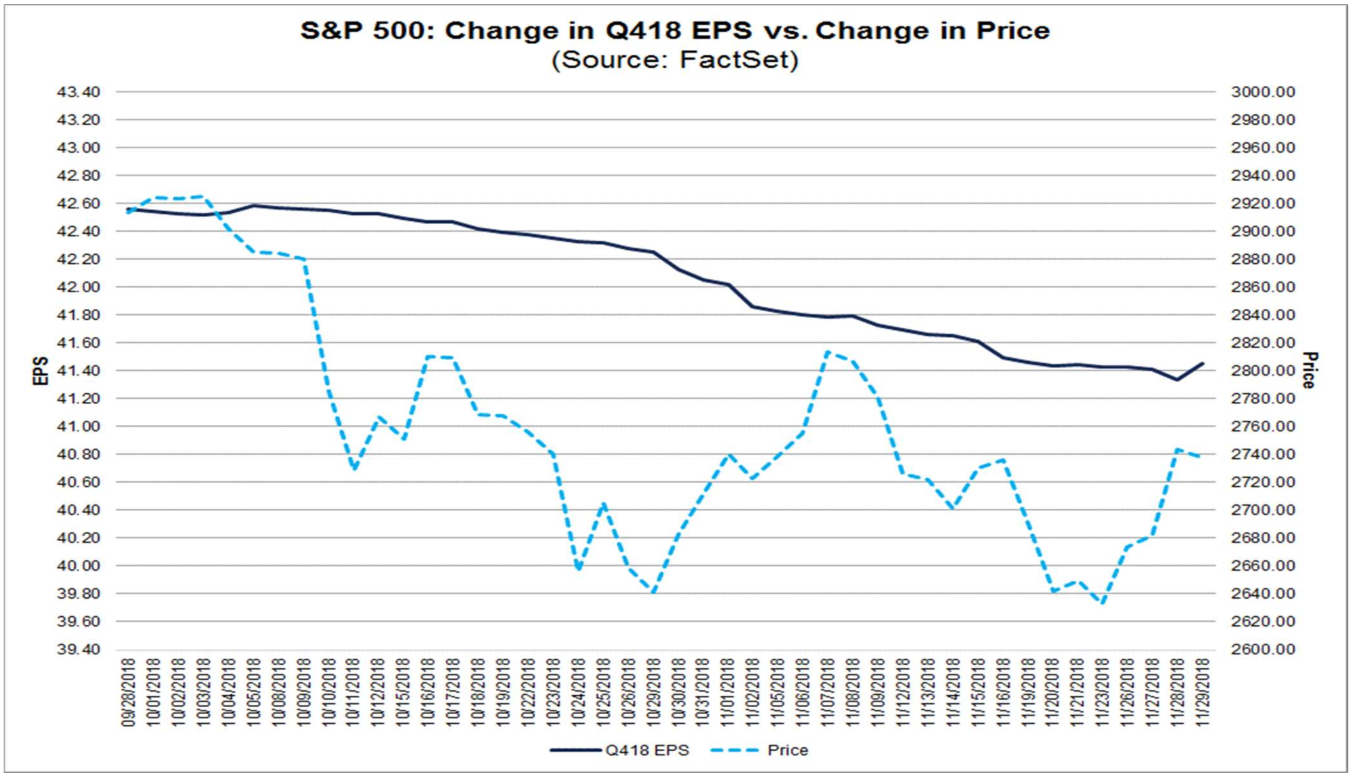
During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 2.4%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 3.3%. During the past fifteen years, (60 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 2.9%. Thus, the decline in the bottom-up EPS estimate recorded during the first two months of the fourth quarter was larger than the 5-year average, but smaller than the 10-year average and the 15-year average.

However, the fourth quarter does mark the largest percentage decline in the bottom-up EPS estimate over the first two months of a quarter since Q1 2017 (-3.2%).

At the sector level, ten sectors have recorded a decline in their bottom-up EPS estimate during the first two months of the quarter, led by the Materials (-10.1%), Utilities (-7.5%), and Industrials (-5.8%) sectors. On the other hand, the Energy (+2.1%) sector is the only sector that has recorded an increase in their bottom-up EPS estimate during this time.

As the bottom-up EPS estimate for the index declined during the first two months of the quarter, the value of the S&P 500 also decreased during this same period. From September 30 through November 29, the value of the index decreased by 6.0% (to 2737.76 from 2913.98). Assuming the value of the index does not rise above 2913.98 today, the fourth quarter will mark just the 3rd time in the past 20 quarters in which the both bottom-up EPS estimate and value of the index decreased during the first two months of the quarter.




S&P 500: Change in Q418 EPS vs. Change in Price
(Source: FactSet)
EPS
Price
Q418 EPS
Price

Topic of the Week: 2

What Factors May Have a Negative Impact on Revenue and Earnings Growth in Q4?

As of today, the third quarter earnings season is nearly finished. 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. Given the many concerns in the market, did companies in the Dow 30 discuss specific factors that had a negative impact on earnings or revenues for the third quarter or are expected to have a negative impact in future quarters during their earnings conference calls?

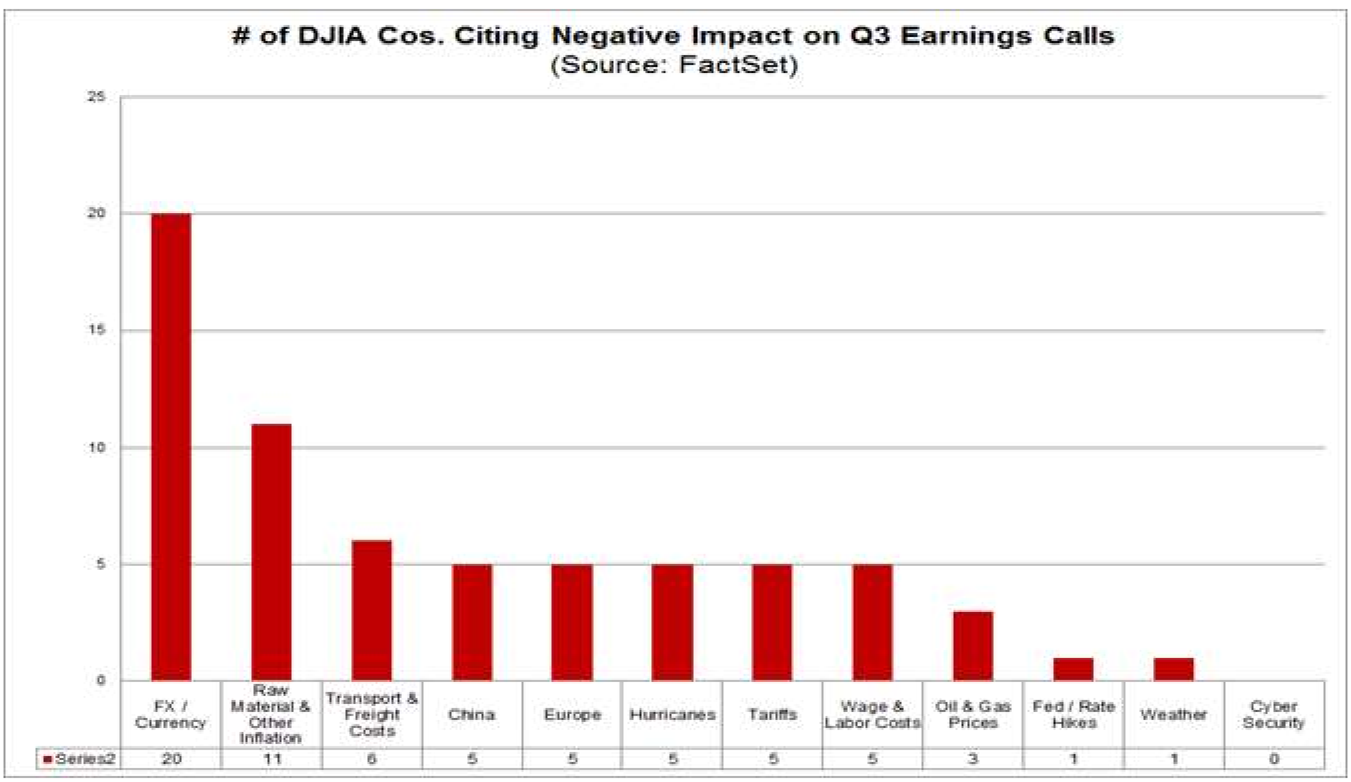
To answer this question, FactSet searched for specific terms related to a number of factors (i.e. “currency,” “China,” etc.) in the conference call transcripts of the 30 DJIA companies that conducted third quarter earnings conference calls to see how many companies discussed these factors. FactSet then 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.

Foreign exchange was cited by the largest number of DJIA companies 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. Twenty of the 30 DJIA companies (67%) cited this factor. Most of these companies did not cite a specific currency that devalued relative to the U.S. dollar. Of the companies that did mention a specific currency, four companies cited the lira (Turkey) and the peso (Argentina) while three companies cited the real (Brazil) and the euro.

Raw material and other inflation costs were cited by the second highest number of DJIA companies at 11 (or 37%).

It is interesting to note that the term “tariff” was mentioned during the earnings calls of ten DJIA companies, with five of these ten companies citing a negative impact linked to tariffs. However, even these five companies stated they were able to mitigate or would be able to mitigate some (if not all) of the negative impacts of the tariffs.

A list of the DJIA companies citing negative impacts from foreign exchange, raw materials and other inflation, and tariffs and their specific comments can be found on the next few pages.



Foreign Exchange (20)

"Specifically, we expect revenue growth in the high-single digits, albeit at the lower end of that range as operational upside will likely be somewhat offset by FX headwinds." -NIKE (Sep. 25)

"We are projecting constant currency adjusted EPS growth of 7% to 12% in fiscal 2019. Our currency assumptions result in an adverse EPS impact of approximately $0.04. This leads to an adjusted EPS range of $6.40 to $6.70 in reported dollars, and we will tighten the range during the course of the year." -Walgreens Boots Alliance (Oct. 11)

"First on revenue, on revenue as you've seen in our supplemental charts, the dollar continues to go against us and strengthen against foreign currencies. And right now, on revenue, we see about a 2-point currency headwind here in the fourth quarter, pretty consistent by the way with the third quarter." -IBM (Oct. 16)

"Worldwide sales were $20.3 billion for the third quarter of 2018, a 3.6% increase versus the third quarter of 2017. On an operational basis, sales were up 5.5% as currency had a negative impact of 1.9%." -Johnson & Johnson (Oct. 16)

"Third quarter revenues of $10.1 billion grew 10% on an FX-adjusted basis. With this growth, again, driven by a well-balanced mix of growth across discount revenue, fee revenue and net interest income, I would point out that the FX-adjusted growth rate now exceeds our reported growth of 9% given the strengthening of the U.S. dollar against the major currencies in which we operate." -American Express (Oct. 18)

"Moving to the bottom line, core earnings per share were $1.12, up 3% versus the prior year. Foreign exchange was a $260 million earnings headwind, about $0.10 a share." -Procter & Gamble (Oct. 19)

"Foreign currency, net of hedging, reduced per share earnings by $0.08 as the U.S. dollar strengthened against many currencies throughout the quarter. For the full year, we now expect an earnings headwind from foreign currency of minus $0.05 per share versus a prior estimated benefit of $0.10, or a reduction of $0.15 per share versus previous expectations." -3M (Oct. 23)

"Turning to foreign currencies, for the quarter, foreign currency translation hurt our results by $0.05 per share." –McDonald's (Oct. 23)

"Reported sales in the quarter of $16.5 billion were up 10% with 8% organic growth. 3 points of benefit came from the absence of last year's non-recurring charge at Pratt & Whitney and for the first time this year, foreign exchange translation was a headwind in the quarter, about a point." -United Technologies (Oct. 23)

"Now a few comments on the fiscal year. First FX. Assuming current rates remain stable, we expect a 1-point headwind to full-year revenue growth with any benefit in H1 offset in H2." -Microsoft (Oct. 24)

"Our financial outlook for fiscal 2019 includes annual net revenue growth of low double digits on a nominal basis, with approximately 1 percentage point of negative foreign currency impact, and a de minimis impact from the new revenue accounting standard. And we look for mid-teens earnings per share growth on a non-GAAP nominal dollar basis, also including approximately 1 percentage point of negative foreign currency impact." -Visa (Oct. 24)

"We now expect EPS to be between $4.30 and $4.36, including a roughly 1 percentage point negative impact from foreign exchange at mid-October rates." -Merck & Co. (Oct. 25)

"So all-in, good operational performance, coupled with a timing benefit and a lower effective tax rate, resulted in comparable EPS of $0.58 in the quarter, up 14%, which includes an 8% unfavorable impact from currency." -Coca-Cola (Oct. 30)

"Third quarter 2018 revenues were approximately $13.3 billion, which reflects operational growth of $243 million or 2%, and the unfavorable impact of foreign exchange, $113 million or 1%." -Pfizer (Oct. 30)

"The second point that needs to be kept in mind, it is a fact of life and we dealt with it for a number of years now, is the fact that when I look at currencies around the world, virtually every foreign currency has depreciated against the U.S. dollar in the last 12 months. And when we look at the impact of foreign exchange on our revenue for the December quarter, we're looking at 200 basis points of headwinds which translates, given our the size of our business, to almost $2 billion of headwind to our revenue." -Apple (Nov. 1)

“Drivers of our 35% EPS increase included volume and local price gains, cost synergies, and lower pension and OPEB costs. These gains more than offset higher raw material costs in all divisions and currency headwinds primarily in Agriculture from the Brazilian real.” -DowDuPont (Nov. 1)

“The quarter included the unfavorable impacts of a project write-off, an impairment, and a nonrecurring contract settlement, which totaled $930 million. These were partially offset by a $350 million gain on the sale of our Southern African refining and marketing assets. Foreign exchange losses for the quarter were $51 million.” -Chevron (Nov. 2)

“Total Media Networks affiliate revenues was up 5% in the quarter as a result of growth at both Cable and broadcasting. The increase in affiliate revenue was driven by seven points of growth due to higher rates partially offset by approximately a one-point decline due to a decrease in subscribers and a one point impact from foreign exchange.” -Walt Disney (Nov. 8)

“Further, during the third quarter a stronger U.S. dollar negatively impacted total sales growth by approximately $110 million or 0.4%.” -Home Depot (Nov. 13)

“On a constant currency basis, net revenue was up 2.4% or $2.9 billion year-over-year and exceeded plan. On a reported basis, this was just under $125 billion in revenue, and currency negatively affected the top line by about $1.2 billion and operating profit by $16 million.” -Walmart (Nov. 15)

Raw Material Costs & Other Inflation (11)

“In the first half of the year, there's one element of material, so to speak, that is a bit of a headwind and that's in the chemical space, namely rubber.” -NIKE (Sep. 25)

“Commodity costs are expected to be a $400 million headwind. Crude oil, a key feedstock for many raw materials, is up more than 50% from this time last year. Trucking costs will likely be up 25% or more versus last year's inflated levels. Combined FX and commodities are now a $1.3 billion after-tax or $0.50 per share headwind versus last fiscal. This excludes elevated transportation costs.” -Procter & Gamble (Oct. 19)

“For 2018, we now expect full-year raw material headwinds, inclusive of tariff impacts, of minus $0.15 per share versus a prior range of negative $0.05 to $0.10 per share. We continue to expect benefits from selling price to more than offset raw material headwinds.” -3M (Oct. 23)

“In all, material costs were up about 2% on higher steel prices and the impacts of tariffs. Freight costs continue to be elevated due to a variety of factors including being higher rates, less efficient loads, and expedited freight costs as we ramp up production to meet increased demand. Even though the midyear price increase had only a partial impact in the quarter, the drag of higher input costs and tariffs was just $50 million more than price realization.” -Caterpillar (Oct. 23)

“This quarter, we also had some commodity pressure, a little bit more than we had the previous two quarters and a little bit more than we expect to have next quarter. So the combination of the labor costs, productivity, depreciation and commodities all hit company-operated margins and put pressure on them this quarter.” -McDonald’s (Oct. 23)

“First, the bad news. Otis continues to see higher-than-expected materials cost as well as increased labor costs, including in Europe.” -United Technologies (Oct. 23)

“So on commodities, pressure on input costs, yes, we are seeing that primarily in North America, given the structure of the businesses there, the foodservice business as well as our Minute Maid business and in our BIG segment, is where we will primarily see that pressure from commodities.” -Coca-Cola (Oct. 30)

“Drivers of our 35% EPS increase included volume and local price gains, cost synergies, and lower pension and OPEB costs. These gains more than offset higher raw material costs in all divisions and currency headwinds primarily in Agriculture from the Brazilian real.” -DowDuPont (Nov. 1)

“In terms of pressures, inflationary pressures, I will say, we are continuing to see inflationary pressures, for example, in the Permian. And we do expect increases there, maybe in the order of 5% to 10% in the 2019 period.” -Chevron (Nov. 2)

"If you look at some of the cost pressures we're seeing on the one hand with certain commodities and tariffs, we've seen a dramatic decrease in wood fiber costs, so we went down." -Home Depot (Nov.13)

"We have seen some cost input increases, but similar to last quarter, that's largely been offset by price investment, which, as you can see in our gross margin, continues to be a factor, in fact, the leading factor for gross margin pressure." -Walmart (Nov. 15)

Tariffs (5)

"If I fast forward a little into 2019, we think tariffs will be having a negative impact on our total sourcing cost. There's a number of things we're doing around that; sourcing changes, supply chain changes, but also pricing changes. And I'll talk more about this on November 15, but our view is we have approximately $100 million headwind from tariffs and that our pricing will more than offset that, and raw material price increases into 2019." -3M (Oct. 23)

"In all, material costs were up about 2% on higher steel prices and the impacts of tariffs. Freight costs continue to be elevated due to a variety of factors including being higher rates, less efficient loads, and expedited freight costs as we ramp up production to meet increased demand. Even though the midyear price increase had only a partial impact in the quarter, the drag of higher input costs and tariffs was just $50 million more than price realization." -Caterpillar (Oct. 23)

"As always, of course, there are some things that we're monitoring; tariffs, logistics costs, exchange rates. Those all remain watch items. Specifically on tariffs, no change to our previously discussed expectation of about a $0.05 headwind in 2018. As we look to 2019, if the tariffs remain in place, we'd see about a $0.15 incremental headwind. However, we're still early in the process. We continue to look for ways to mitigate the impact of the tariffs as we move forward. And as you see, we've been able to offset most of the tariff impact this year. We'll work to do the same next year." -United Technologies (Oct. 23)

"If you look at some of the cost pressures we're seeing on the one hand with certain commodities and tariffs, we've seen a dramatic decrease in wood fiber costs, so we went down." -Home Depot (Nov.13)

"I'm sorry, the second part of your question was whether or not we would take some of the tariff pressure through price increases in other parts of the store, was that it?... So we would not take prices up in food to offset cost pressures in a category hit by tariffs, if that's – if I understand your question correctly. So we're going to deal with those that are affected by tariff – the products are affected by tariffs on a one-by-one basis – on a each basis and we'll try and take cost out where we can. We're going to maintain price gaps at or better than current levels and that's all I can really say at this point." -Walmart (Nov. 15)

Q3 Earnings Season: By The Numbers

Overview

For the third quarter to date (with 97% 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 1.2% 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 25.9%. If 25.9% 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, Materials, and Communication Services sectors.

The blended, year-over-year sales growth rate for the third quarter is 9.3%. If 9.3% 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 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, 9 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, 97% 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 (90%) sector has the highest percentage of companies reporting earnings above estimates, while the Energy (67%) sector has the lowest percentage 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, trailing only Q1 2018 (+7.5%).

The Energy (+13.8%) and Consumer Discretionary (+13.3%) sectors are reporting the largest upside aggregate differences between actual earnings and estimated earnings. 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. Within the Consumer Discretionary sector, Under Armour ($0.25 vs, $0.12), Amazon.com ($5.75 vs. $3.08), and Macy's ($0.27 vs. $0.15) 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 +0.1% 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 (+1.2%) is Above 5-Year Average

In aggregate, companies are reporting sales that are 1.2% above expectations. This surprise percentage is below the 1-year (+1.3%) average but 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 25.9%. If 25.9% is the final growth rate for the quarter, it will mark the highest earnings growth reported by the index since Q3 2010 (34.0%). 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, Materials, and Communication Services 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 120.1%. 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 (47%), Oil & Gas Refining & Marketing (29%), 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 earnings growth rate for the Financials sector would fall to 25.4% from 35.7%.

Materials: All 4 Industries Reported 25% Growth or Higher

The Materials sector reported the third highest (year-over-year) earnings growth of all eleven sectors at 34.2%. At the industry level, all four industries in the sector reported at least 25% growth in earnings: Metals & Mining (53%), Chemicals (32%), Containers & Packaging (32%), and Construction Materials (27%).

Communication Services: All 4 Industries Reported 25% Growth or Higher

The Communication Services sector reported the fourth highest (year-over-year) earnings growth of all eleven sectors at 31.8%. 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%).

Second Highest Revenue Growth Since Q3 2011

The blended (year-over-year) revenue growth rate for Q3 2018 is 9.3%. If 9.3% 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, Communication Services and Real Estate 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 22.0%. 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 (44%), Oil & Gas Drilling (31%), Oil & Gas Refining & Marketing (25%), 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%).

Real Estate: CBRE Group Led Growth

The Real Estate sector reported the third highest (year-over-year) revenue growth of all eleven sectors at 13.1%. At the company level, CBRE Group was 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 revenue growth rate for the sector would fall to 6.9% from 13.1%.

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, 99 companies in the index have issued EPS guidance for Q4 2018. Of these 99 companies, 68 have issued negative EPS guidance and 31 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 69% (68 out of 99), 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 25.9% and revenue growth of 9.3%. 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 13.6% and revenue growth of 6.7%.

For CY 2018, analysts are projecting earnings growth of 20.6% and revenue growth of 9.0%.

For Q1 2019, analysts are projecting earnings growth of 4.9% and revenue growth of 7.0%.

For Q2 2019, analysts are projecting earnings growth of 5.4% and revenue growth of 5.7%.

For CY 2019, analysts are projecting earnings growth of 8.6% and revenue growth of 5.6%.

Valuation: Forward P/E Ratio is 15.6, above the 10-Year Average (14.6)

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 14.6. 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 0.8%.

At the sector level, the Consumer Discretionary (20.0) 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 15% Increase in Price Over Next 12 Months

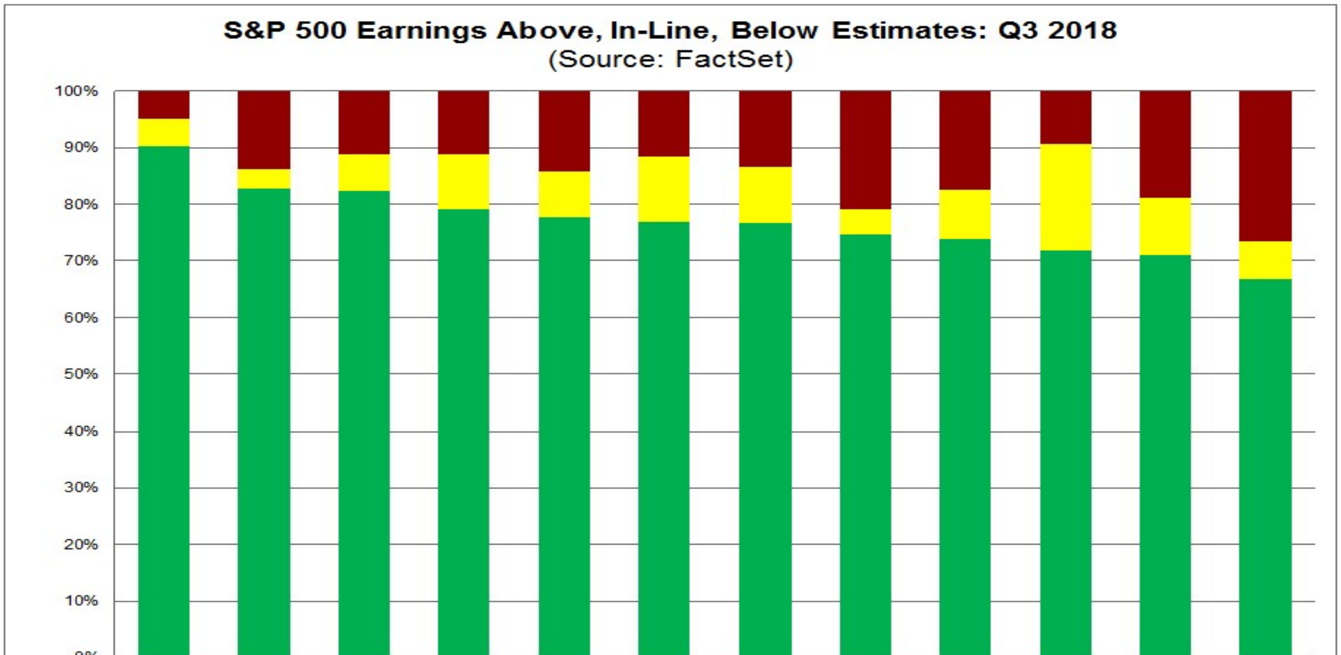
The bottom-up target price for the S&P 500 is 3158.67, which is 15.4% above the closing price of 2737.76. At the sector level, the Energy (+27.8%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Utilities (+2.8%) sector is expected to see the smallest price increase, as this sector has the smallest upside difference between the bottom-up target price and the closing price.

Overall, there are 11,042 ratings on stocks in the S&P 500. Of these 11,042 ratings, 53.4% are Buy ratings, 41.2% are Hold ratings, and 5.4% are Sell ratings. At the sector level, the Energy (64%) sector has the highest percentage of Buy ratings, while the Consumer Staples (40%) sector has the lowest percentage of Buy ratings.

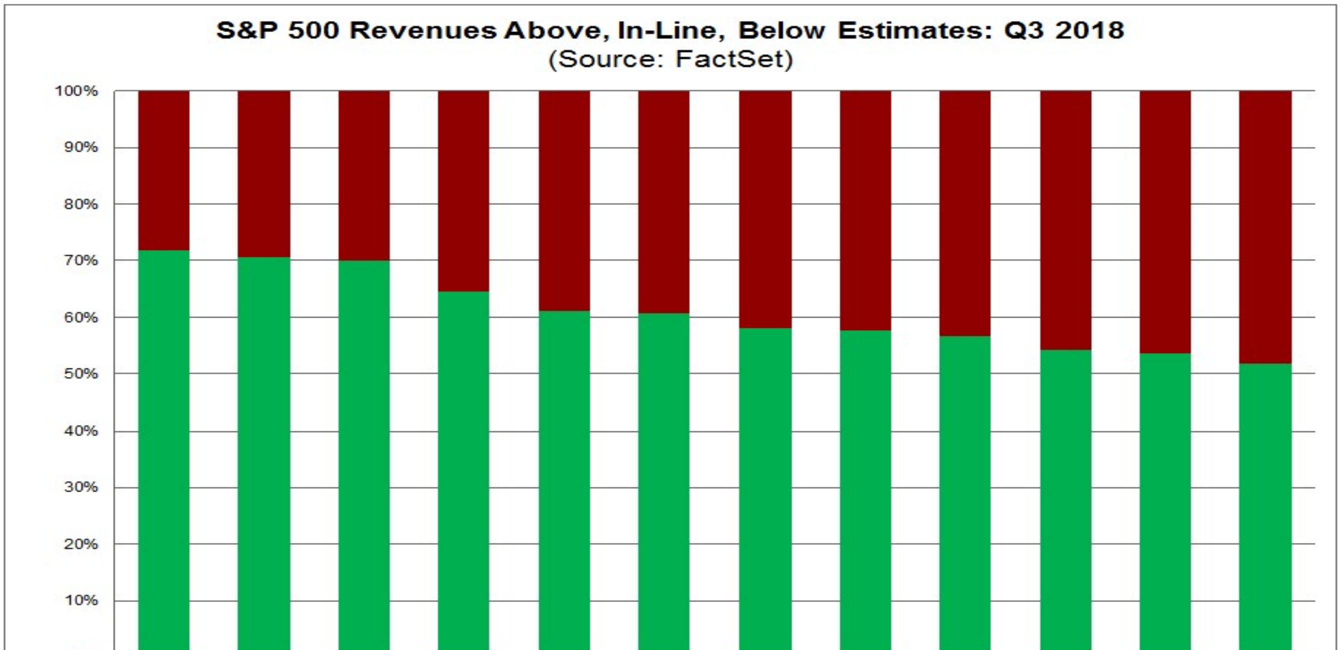
Companies Reporting Next Week: 9

During the upcoming week, 9 S&P 500 companies are scheduled to report results for the third quarter.

Q3 2018: Scorecard

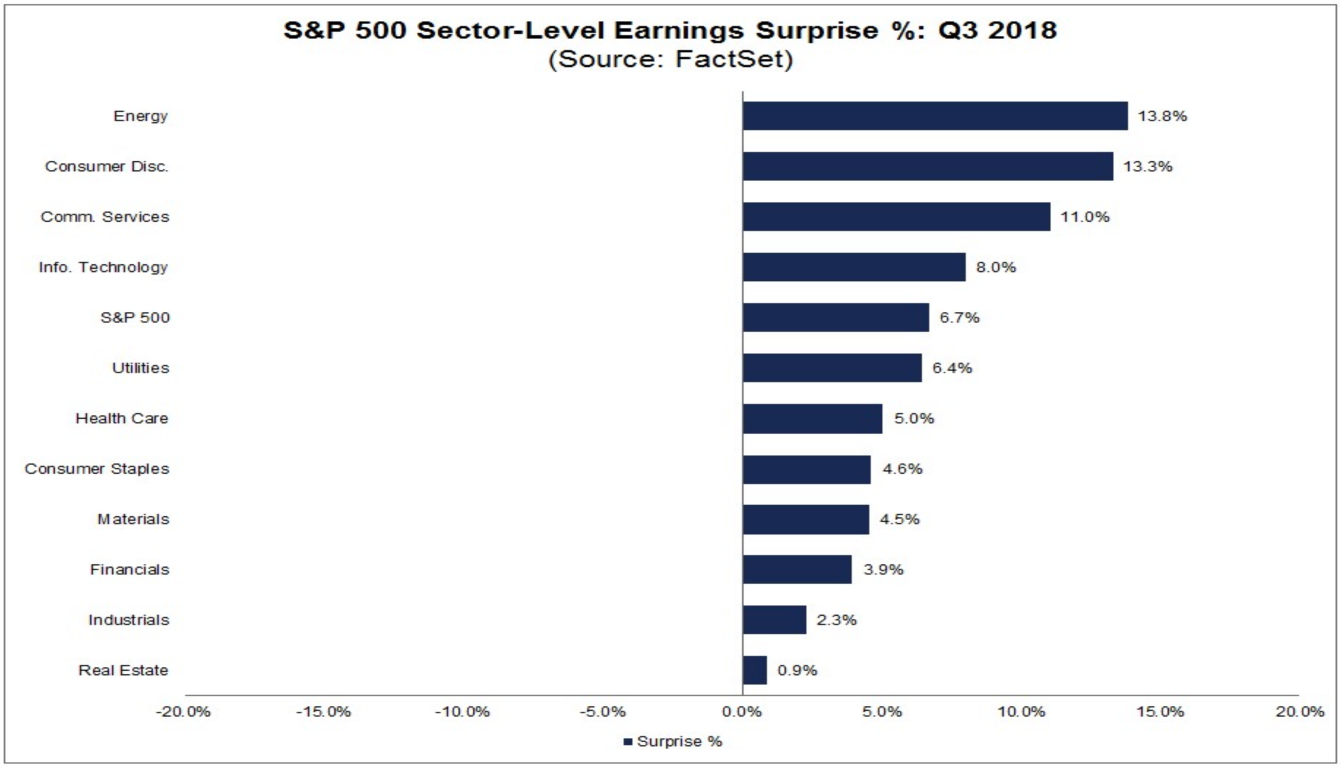


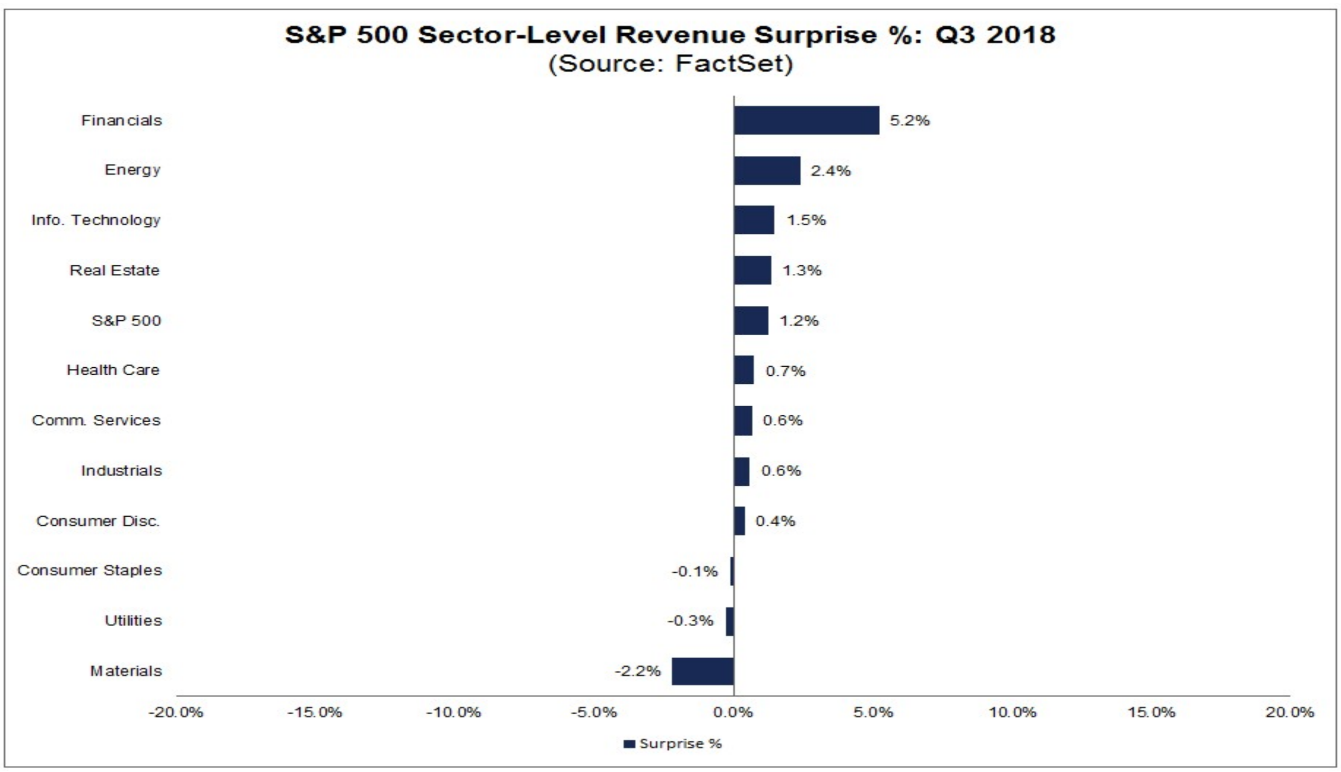
	Info. Technology	Utilities	Health Care	Consumer Disc.	S&P 500	Comm. Services	Consumer Staples	Financials	Materials	Real Estate	Industrials	Energy
Below	5%	14%	11%	11%	14%	12%	13%	21%	17%	9%	19%	27%
In-Line	5%	3%	6%	10%	8%	12%	10%	4%	9%	19%	10%	7%
Above	90%	83%	82%	79%	78%	77%	77%	75%	74%	72%	71%	67%



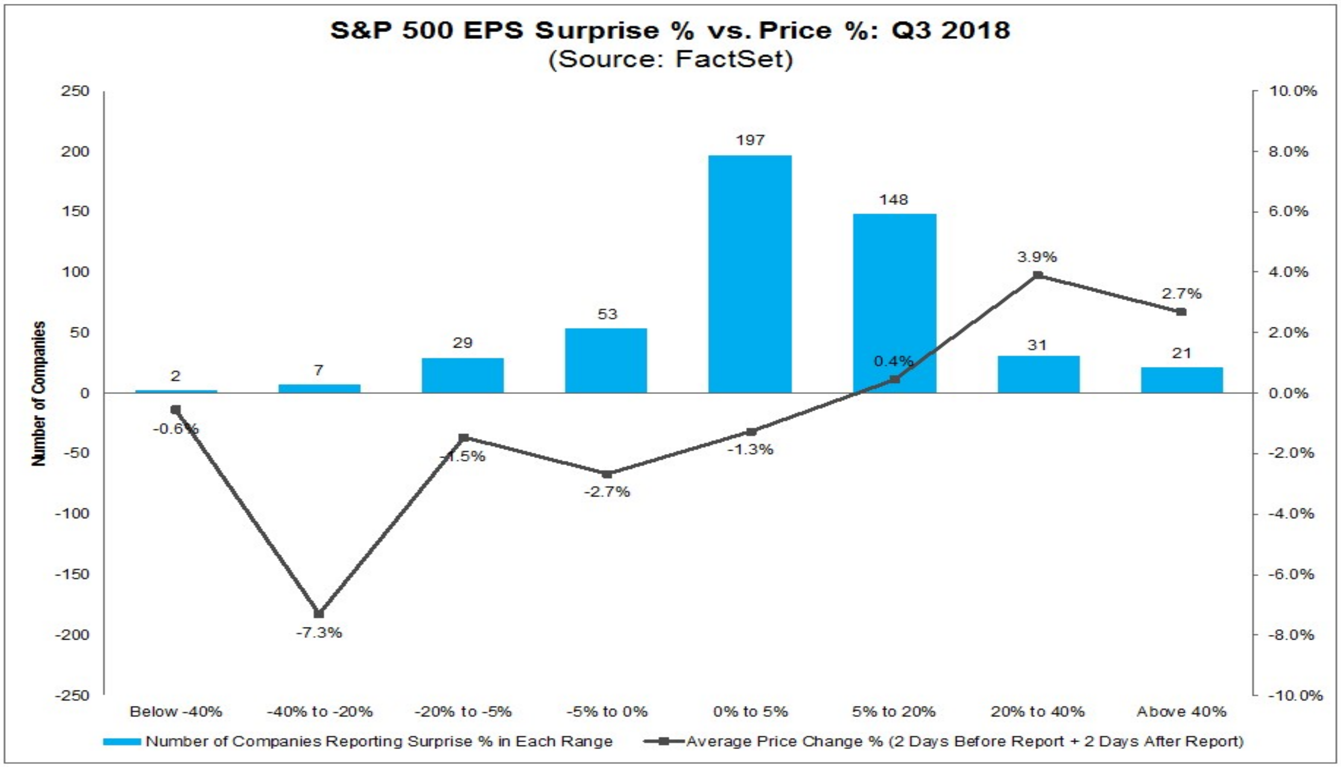
	Real Estate	Info. Technology	Energy	Health Care	S&P 500	Financials	Consumer Disc.	Comm. Services	Consumer Staples	Materials	Industrials	Utilities
Below	28%	30%	30%	35%	39%	39%	42%	42%	43%	46%	46%	48%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	72%	70%	70%	65%	61%	61%	58%	58%	57%	54%	54%	52%

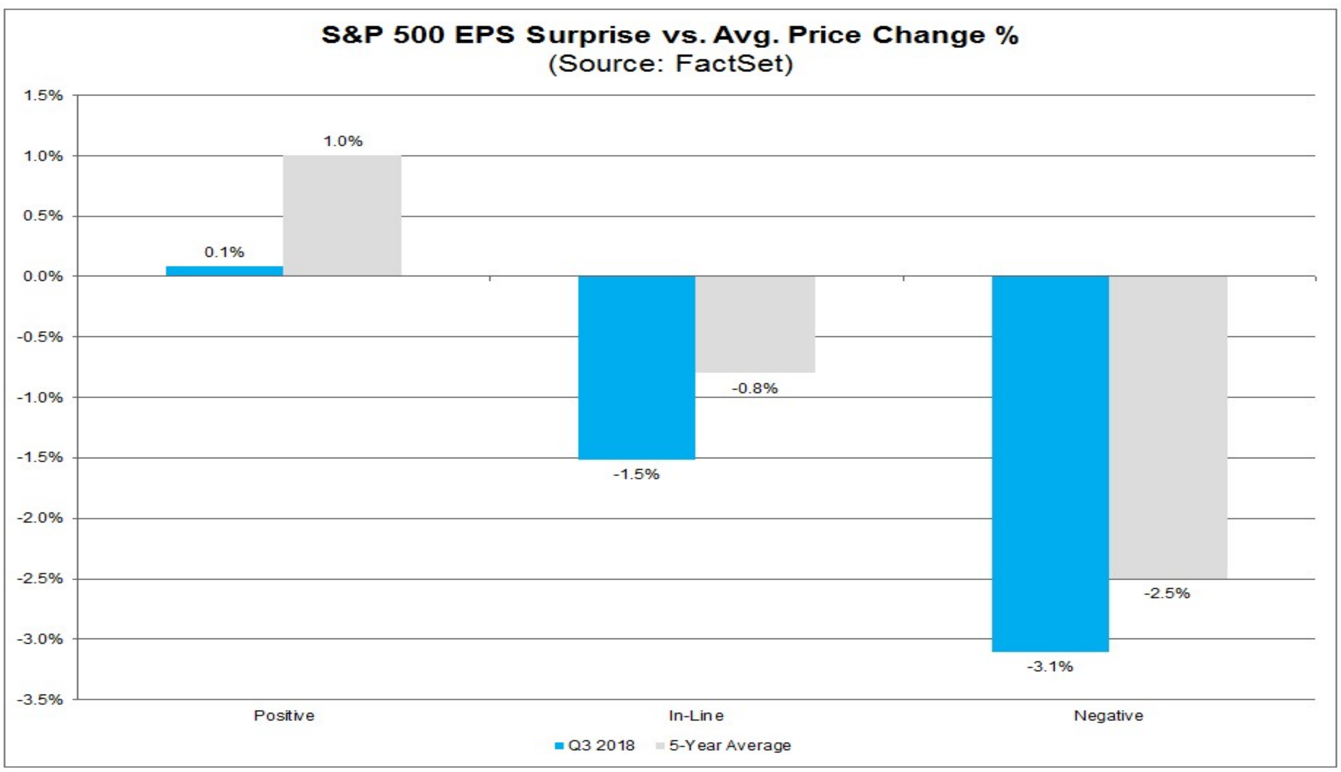
Q3 2018: Scorecard



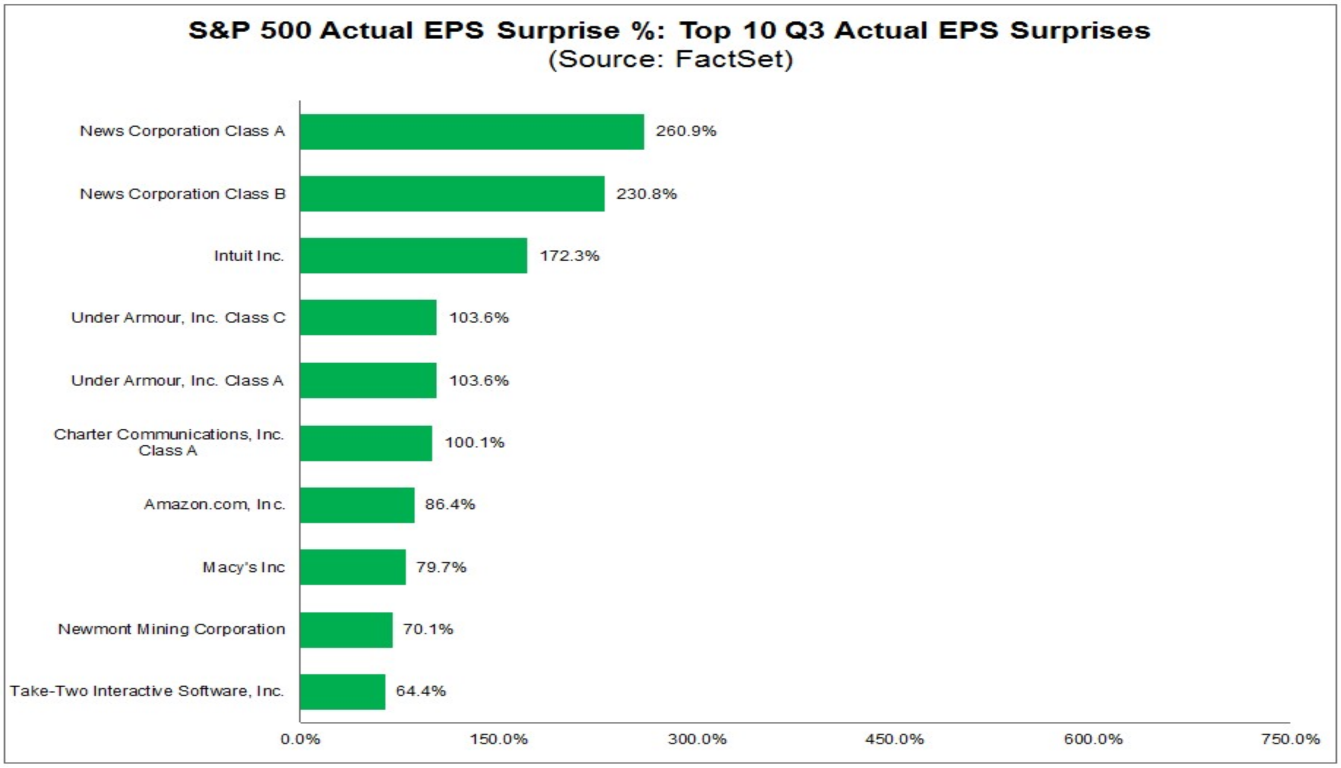


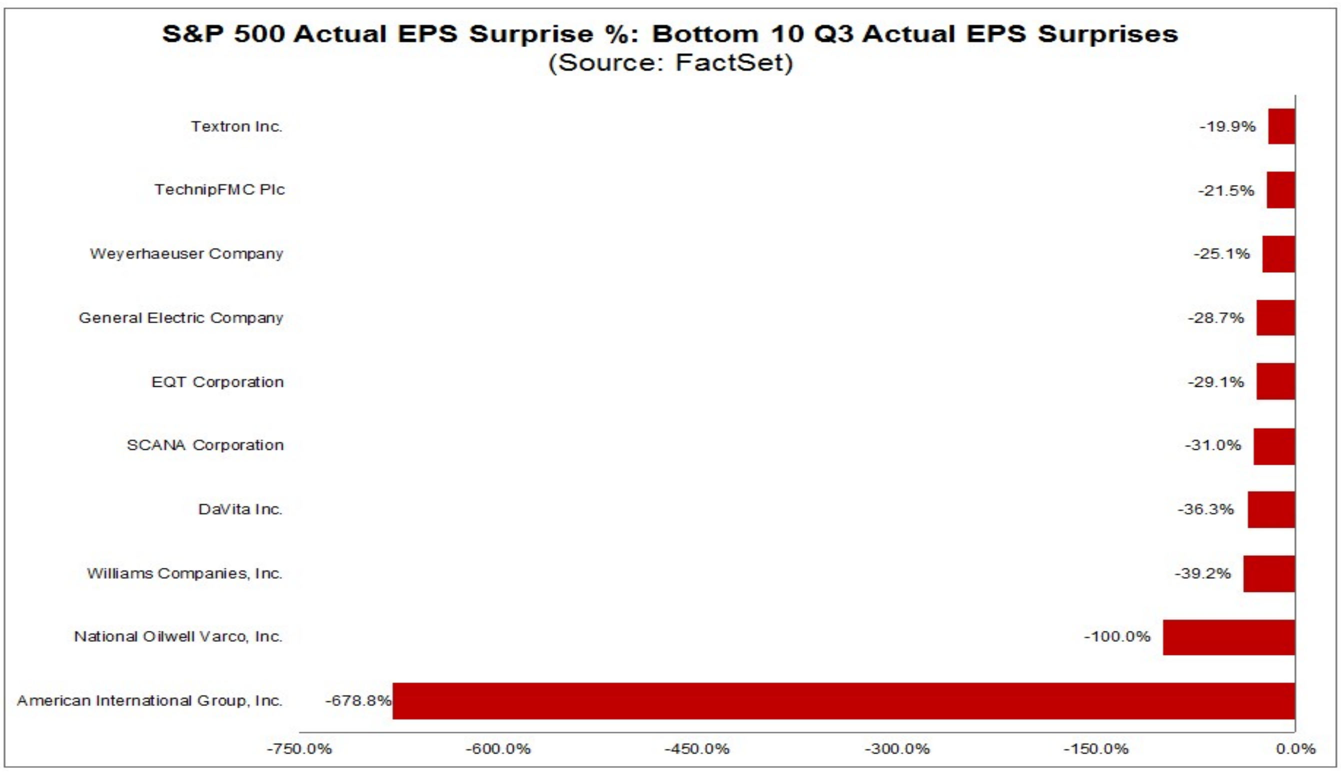
Q3 2018: Scorecard



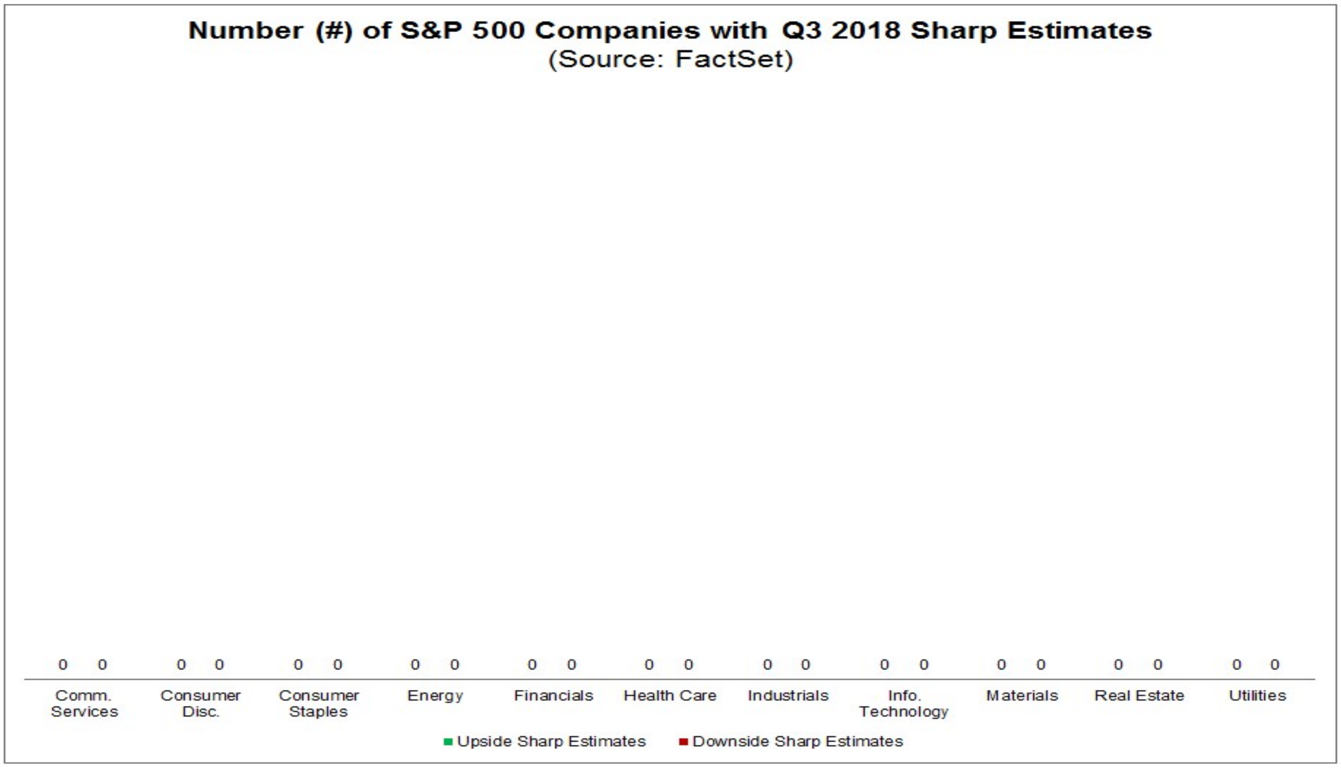


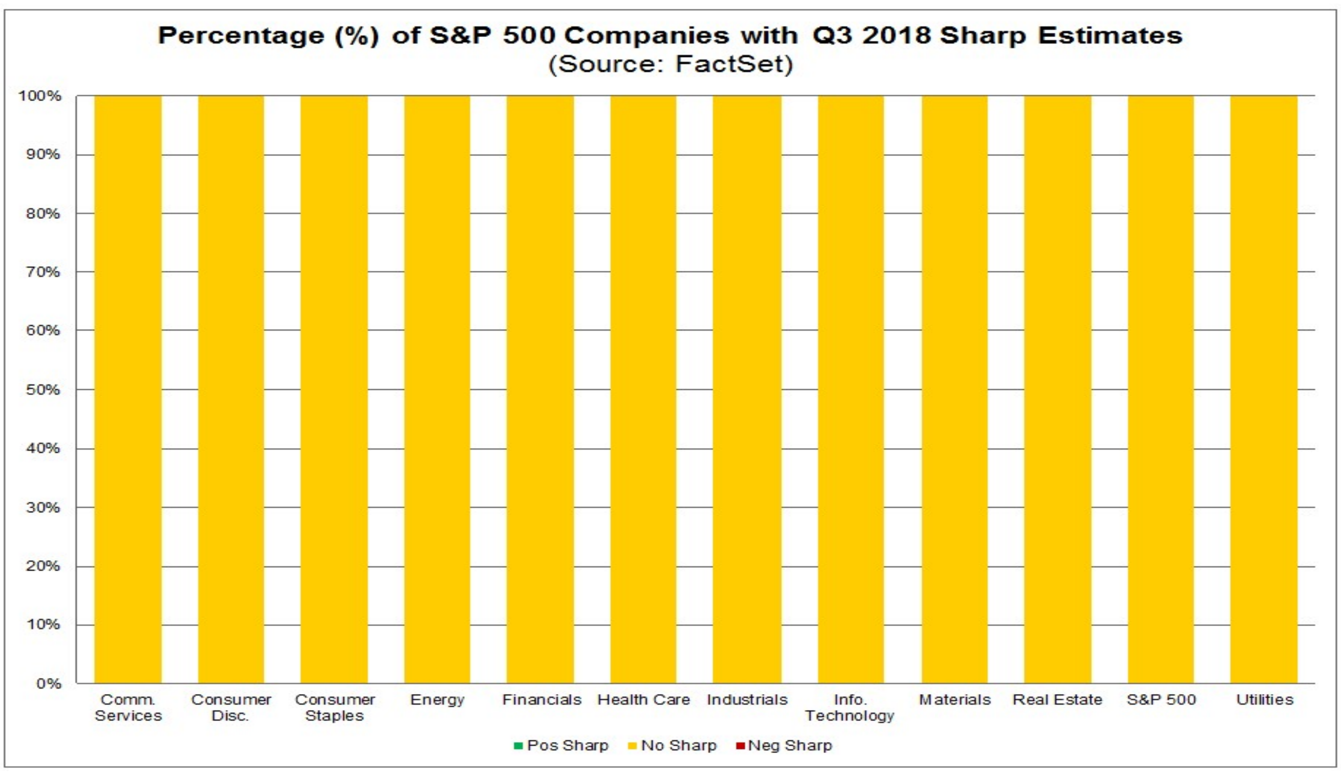
Q3 2018: Scorecard



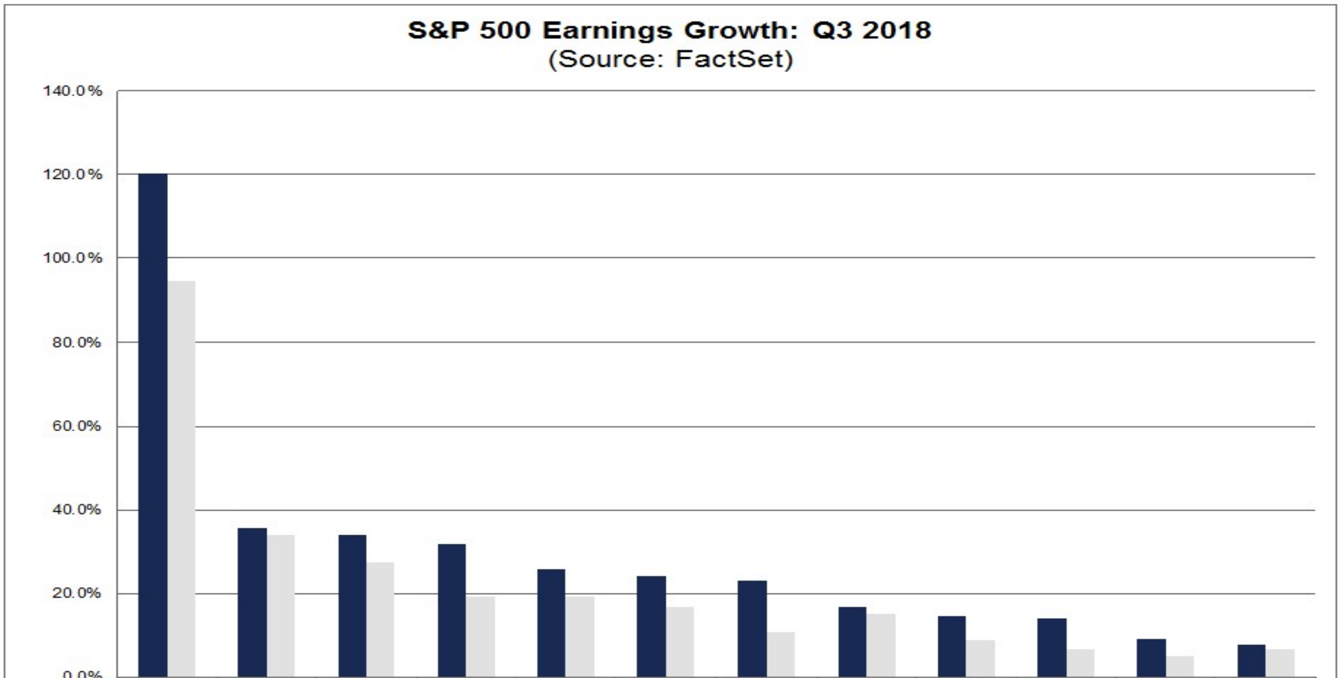


Q3 2018: Projected EPS Surprises (Sharp Estimates)

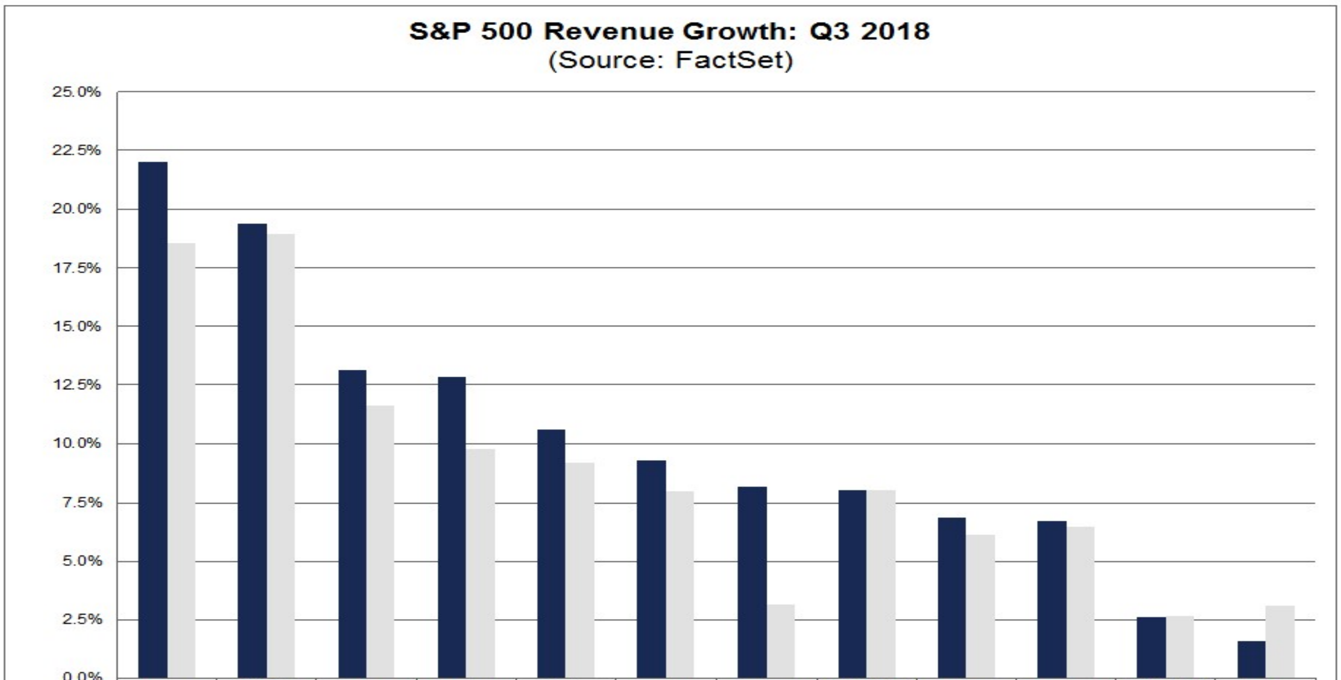




Q3 2018: Growth

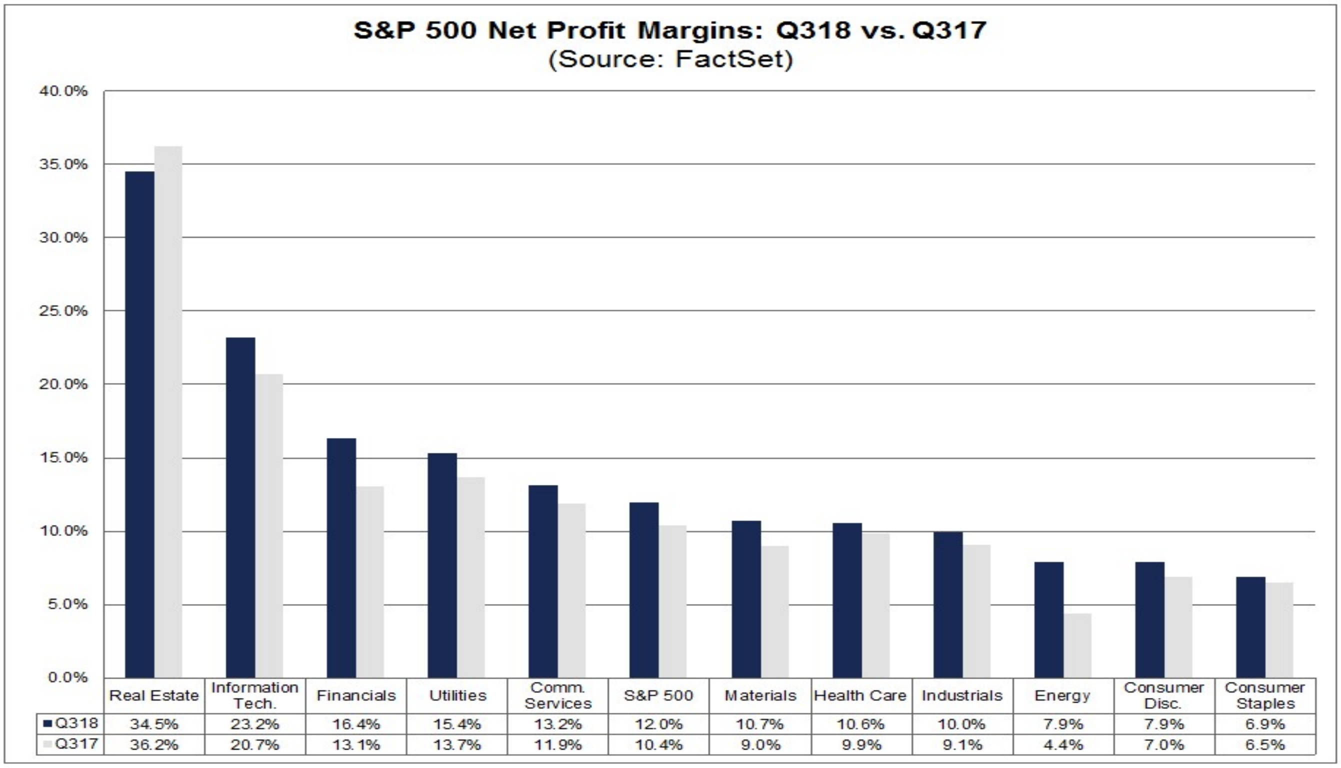


	Energy	Financials	Materials	Comm. Services	S&P 500	Info. Technology	Consumer Disc.	Industrials	Health Care	Utilities	Consumer Staples	Real Estate
Today	120.1%	35.7%	34.2%	31.8%	25.9%	24.3%	23.0%	16.7%	14.5%	14.2%	9.2%	7.8%
30-Sep	94.6%	34.2%	27.6%	19.3%	19.3%	16.8%	10.8%	15.1%	8.9%	6.6%	5.1%	6.6%

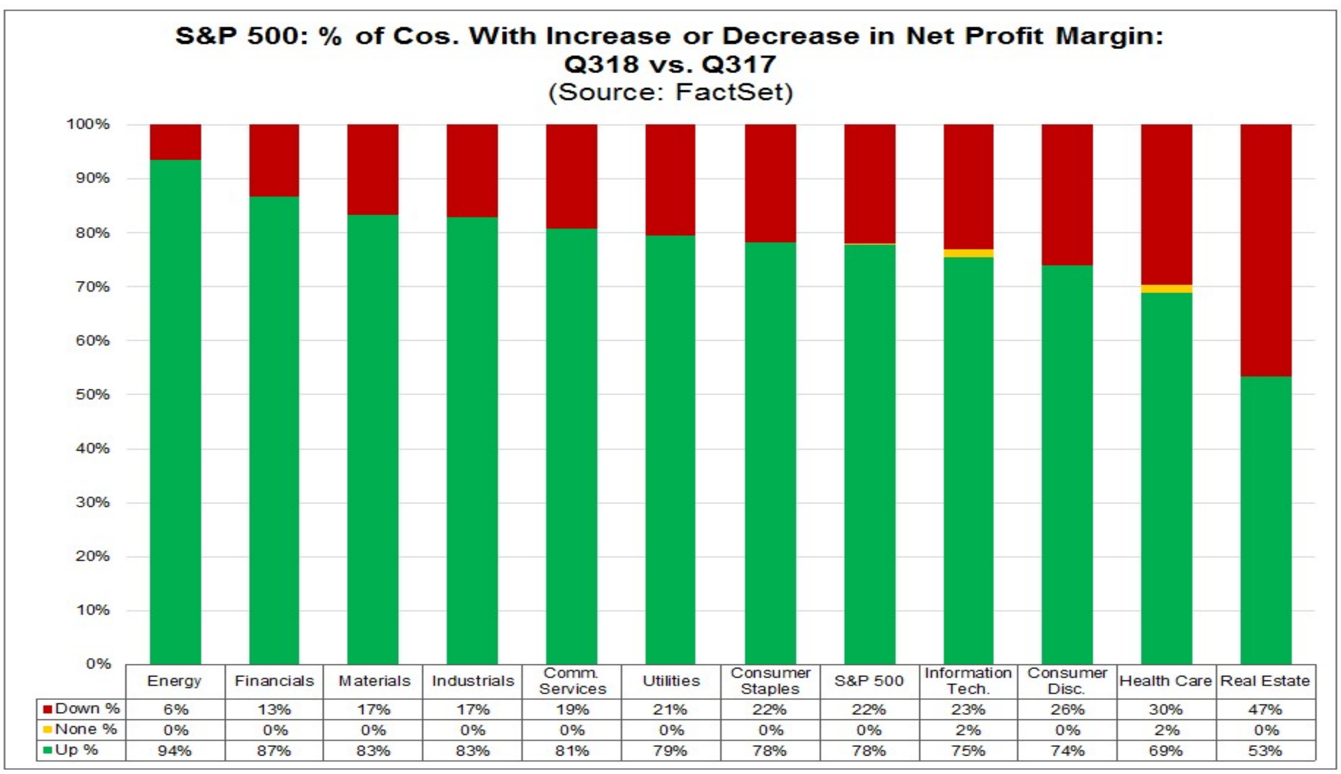


	Energy	Comm. Services	Real Estate	Materials	Info. Technology	S&P 500	Financials	Consumer Disc.	Health Care	Industrials	Consumer Staples	Utilities
Today	22.0%	19.4%	13.1%	12.8%	10.6%	9.3%	8.2%	8.1%	6.9%	6.7%	2.6%	1.6%
30-Sep	18.5%	18.9%	11.6%	9.8%	9.2%	8.0%	3.1%	8.0%	6.1%	6.5%	2.7%	3.1%

Q3 2018: Net Profit Margin

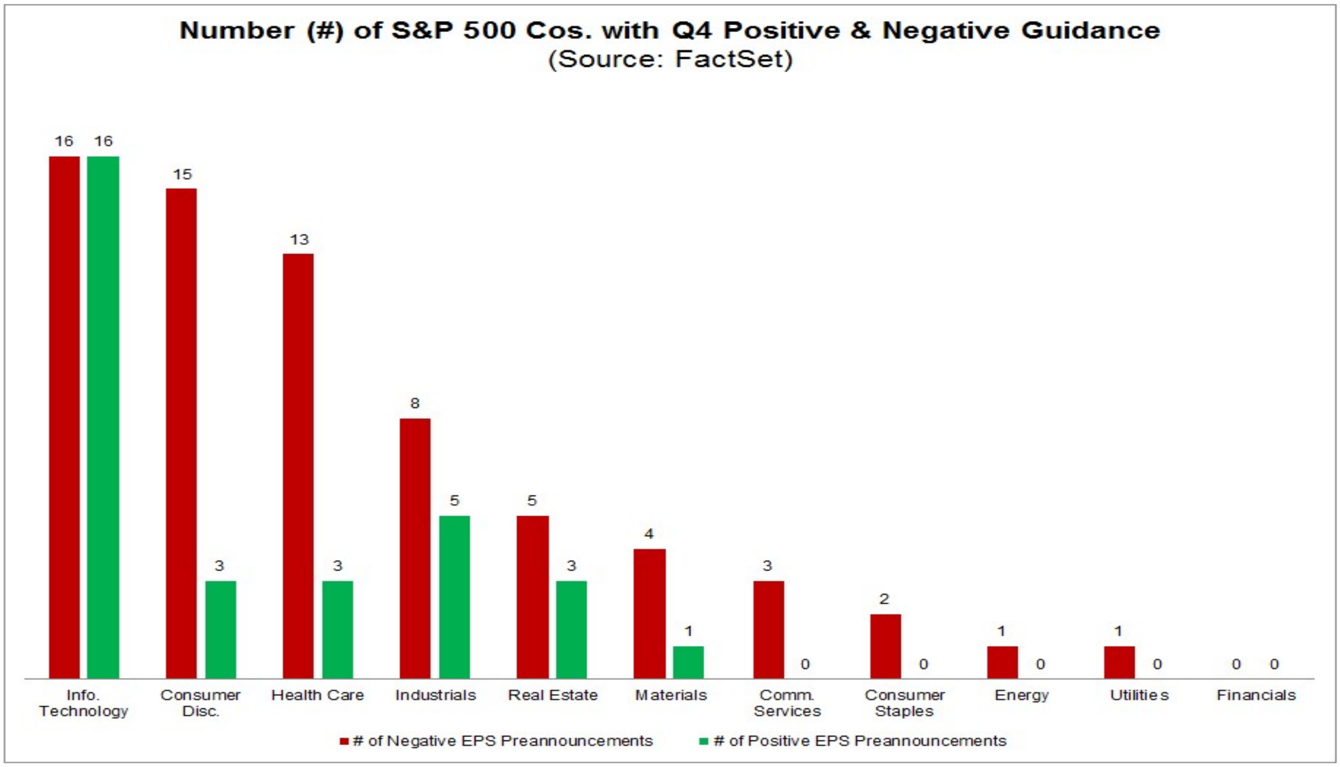


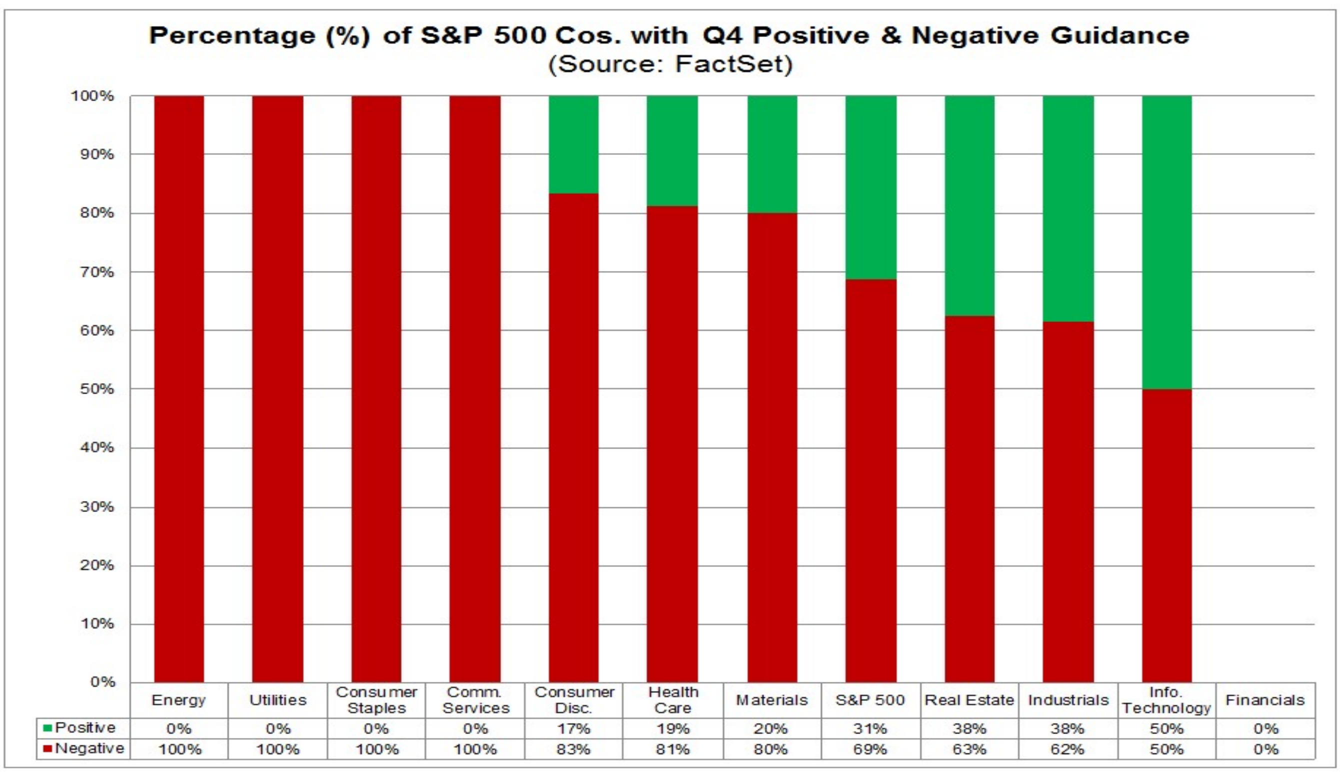
	Real Estate	Information Tech.	Financials	Utilities	Comm. Services	S&P 500	Materials	Health Care	Industrials	Energy	Consumer Disc.	Consumer Staples
Q318	34.5%	23.2%	16.4%	15.4%	13.2%	12.0%	10.7%	10.6%	10.0%	7.9%	7.9%	6.9%
Q317	36.2%	20.7%	13.1%	13.7%	11.9%	10.4%	9.0%	9.9%	9.1%	4.4%	7.0%	6.5%



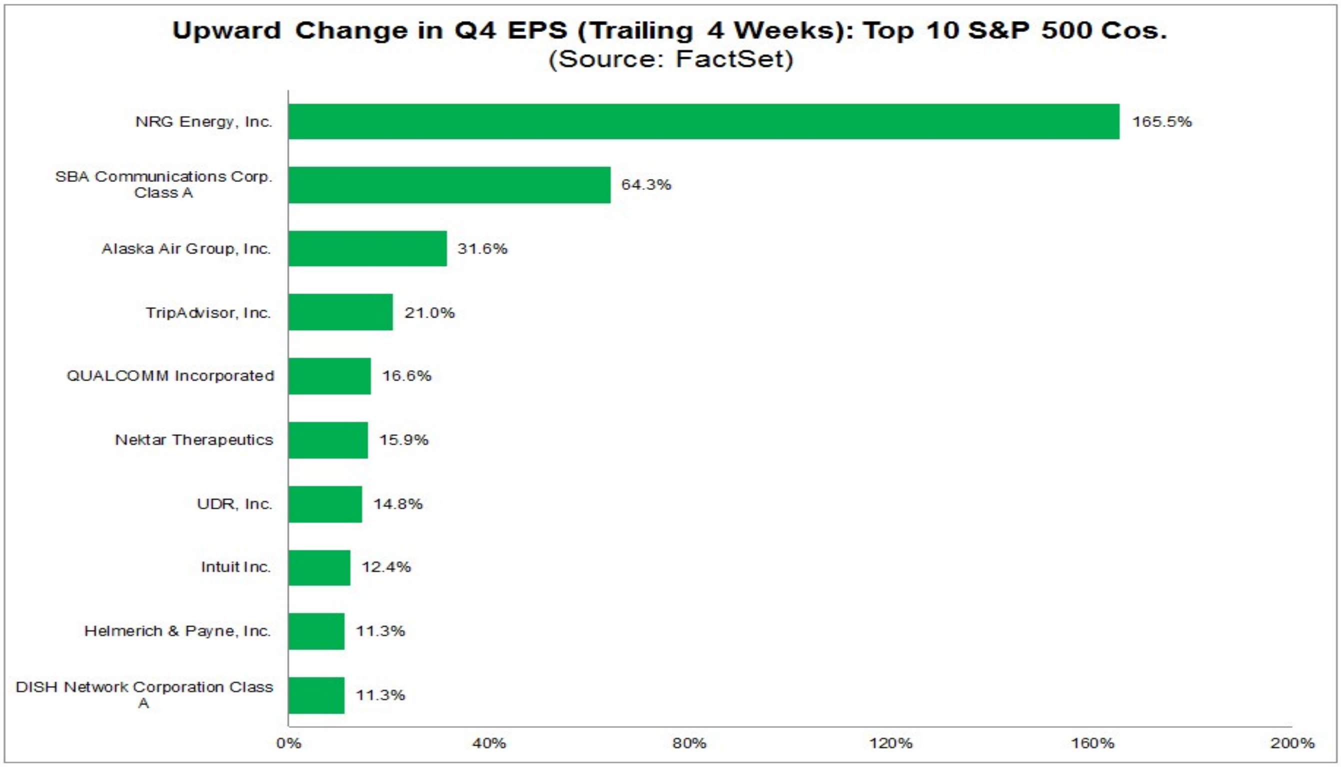
	Energy	Financials	Materials	Industrials	Comm. Services	Utilities	Consumer Staples	S&P 500	Information Tech.	Consumer Disc.	Health Care	Real Estate
Down %	6%	13%	17%	17%	19%	21%	22%	22%	23%	26%	30%	47%
None %	0%	0%	0%	0%	0%	0%	0%	0%	2%	0%	2%	0%
Up %	94%	87%	83%	83%	81%	79%	78%	78%	75%	74%	69%	53%

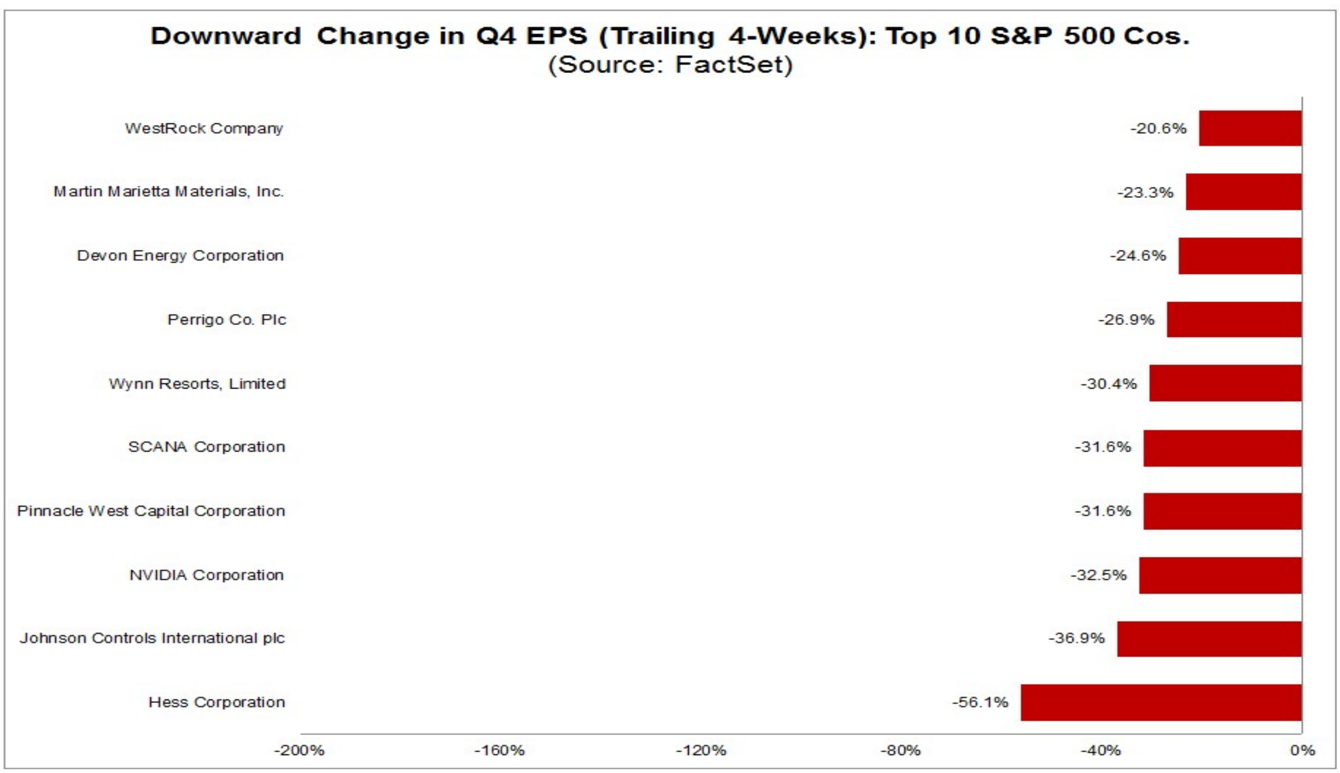
Q4 2018: EPS Guidance





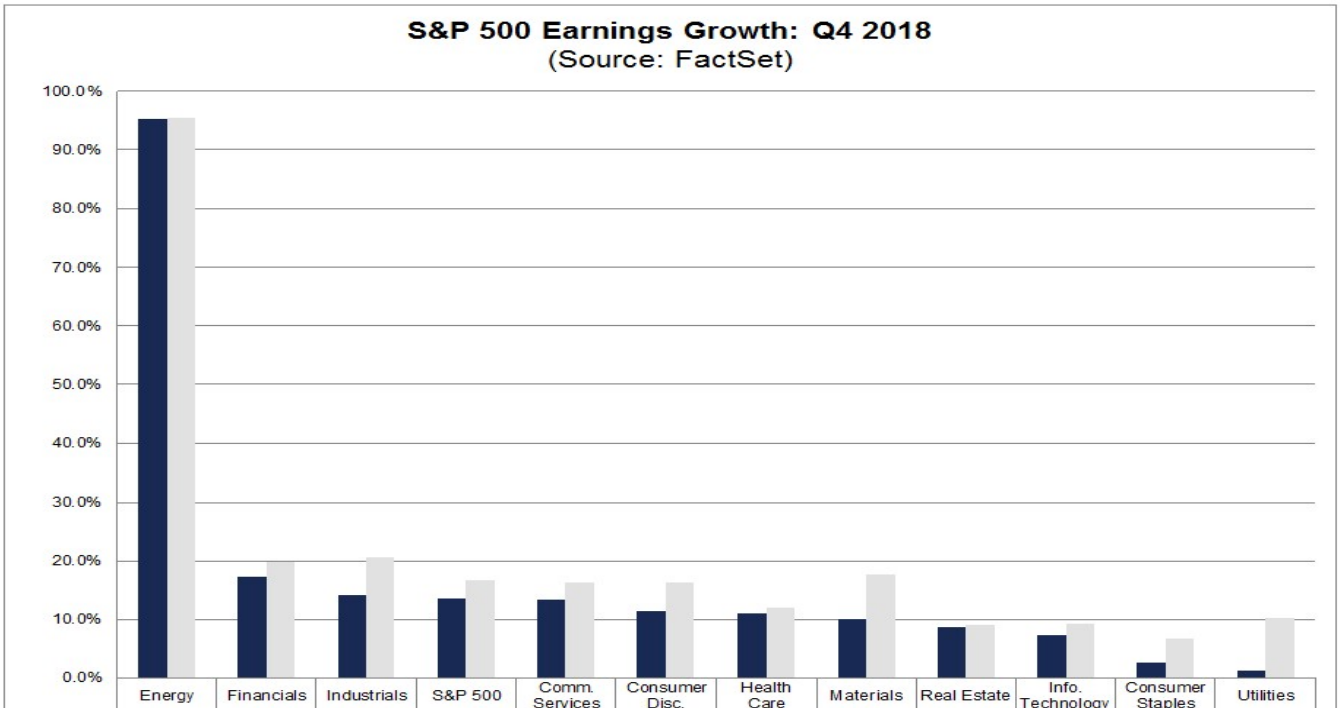
Q4 2018: EPS Revisions



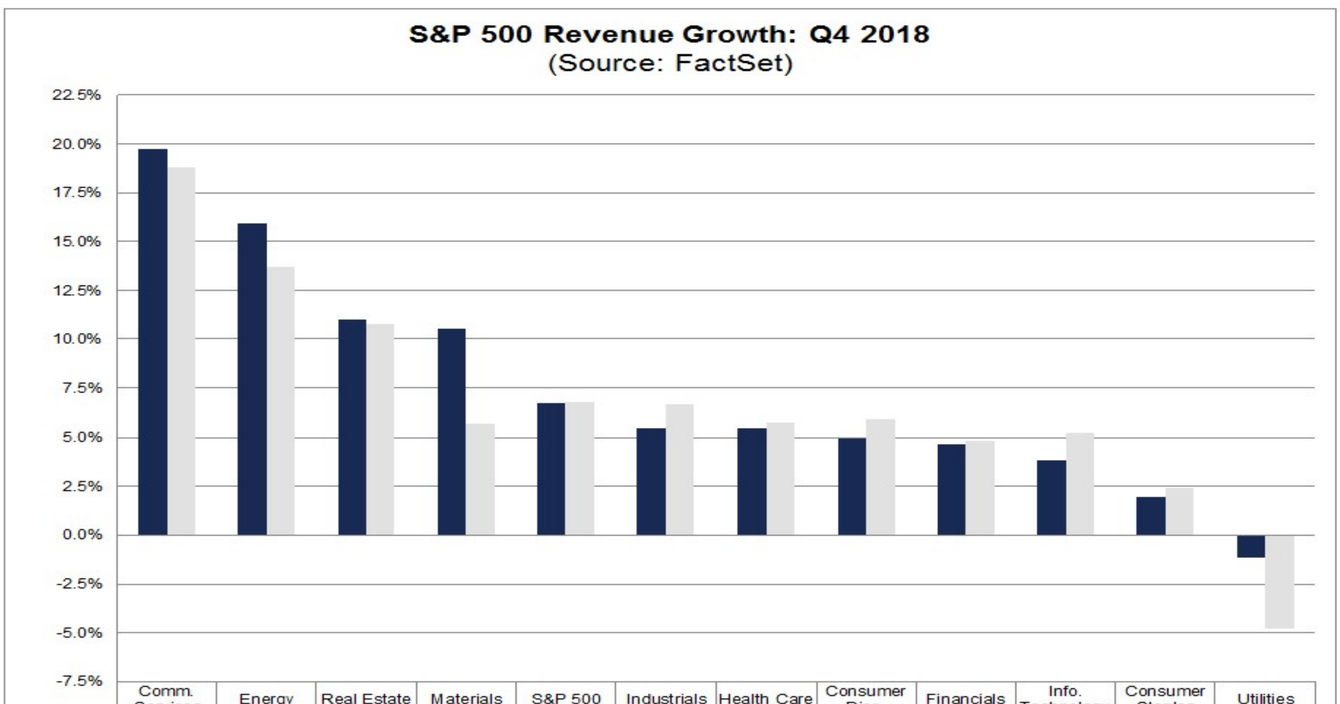


FACTSET

Q4 2018: Growth

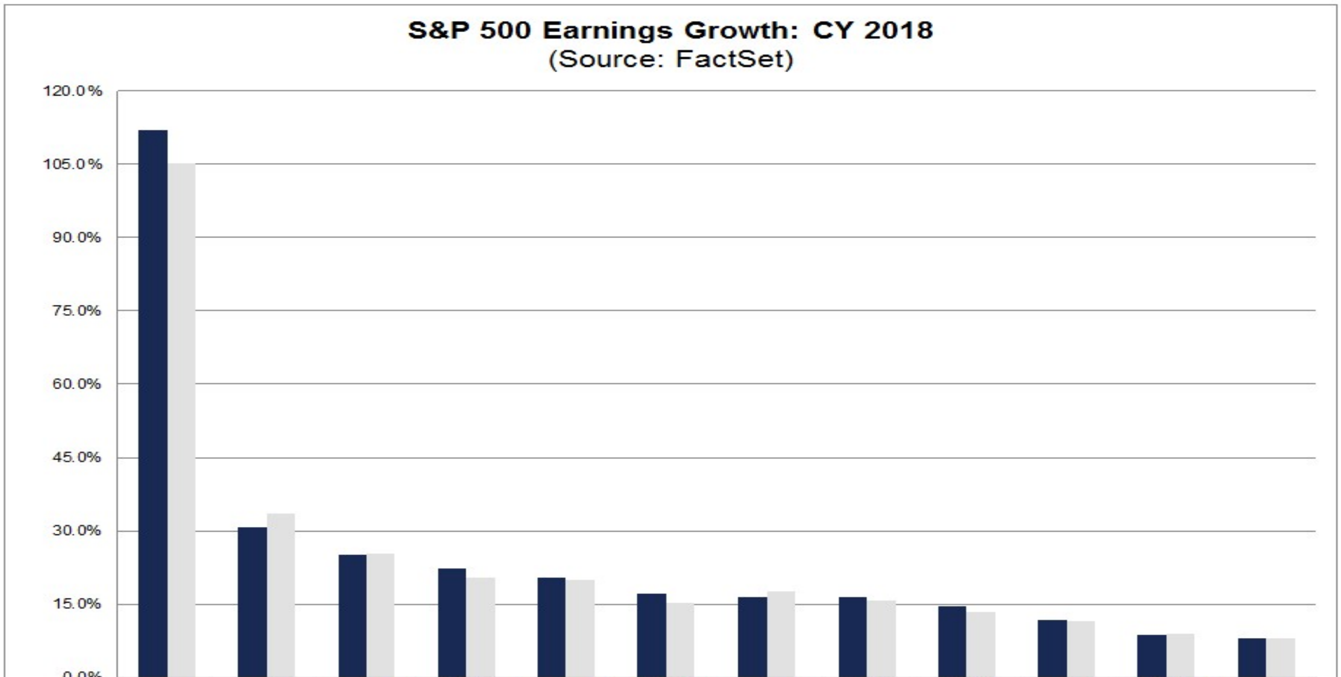


	Energy	Financials	Industrials	S&P 500	Comm. Services	Consumer Disc.	Health Care	Materials	Real Estate	Info. Technology	Consumer Staples	Utilities
Today	95.2%	17.3%	14.1%	13.6%	13.4%	11.4%	11.0%	10.1%	8.6%	7.3%	2.6%	1.4%
30-Sep	95.5%	19.9%	20.7%	16.7%	16.4%	16.3%	12.0%	17.6%	9.0%	9.3%	6.7%	10.2%

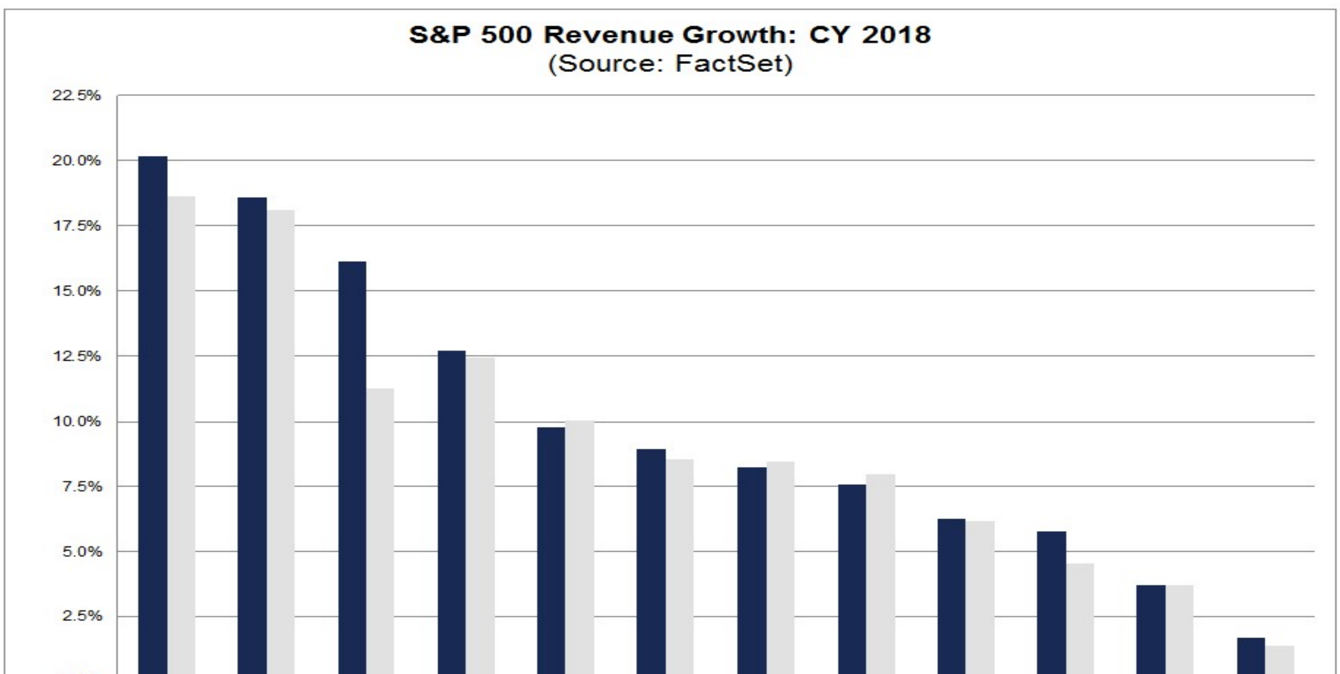


	Comm. Services	Energy	Real Estate	Materials	S&P 500	Industrials	Health Care	Consumer Disc.	Financials	Info. Technology	Consumer Staples	Utilities
Today	19.7%	15.9%	11.0%	10.5%	6.7%	5.5%	5.5%	5.0%	4.7%	3.9%	1.9%	-1.1%
30-Sep	18.8%	13.7%	10.7%	5.7%	6.8%	6.6%	5.8%	5.9%	4.9%	5.2%	2.4%	-4.8%

CY 2018: Growth

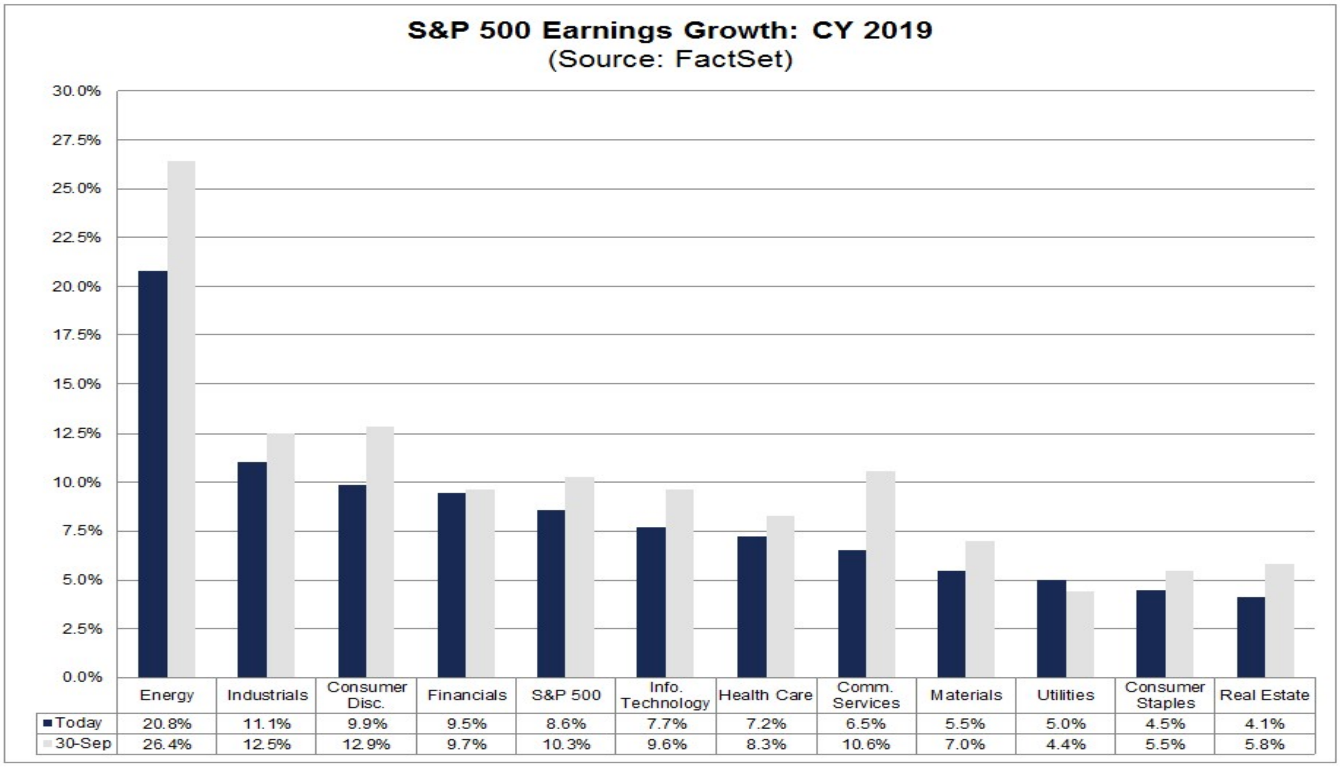


	Energy	Materials	Financials	Comm. Services	S&P 500	Consumer Disc.	Industrials	Info. Technology	Health Care	Utilities	Consumer Staples	Real Estate
Today	111.9%	30.8%	25.3%	22.3%	20.6%	17.3%	16.5%	16.4%	14.6%	11.9%	8.8%	8.2%
30-Sep	105.2%	33.6%	25.4%	20.5%	20.0%	15.3%	17.7%	15.8%	13.4%	11.6%	9.0%	8.1%

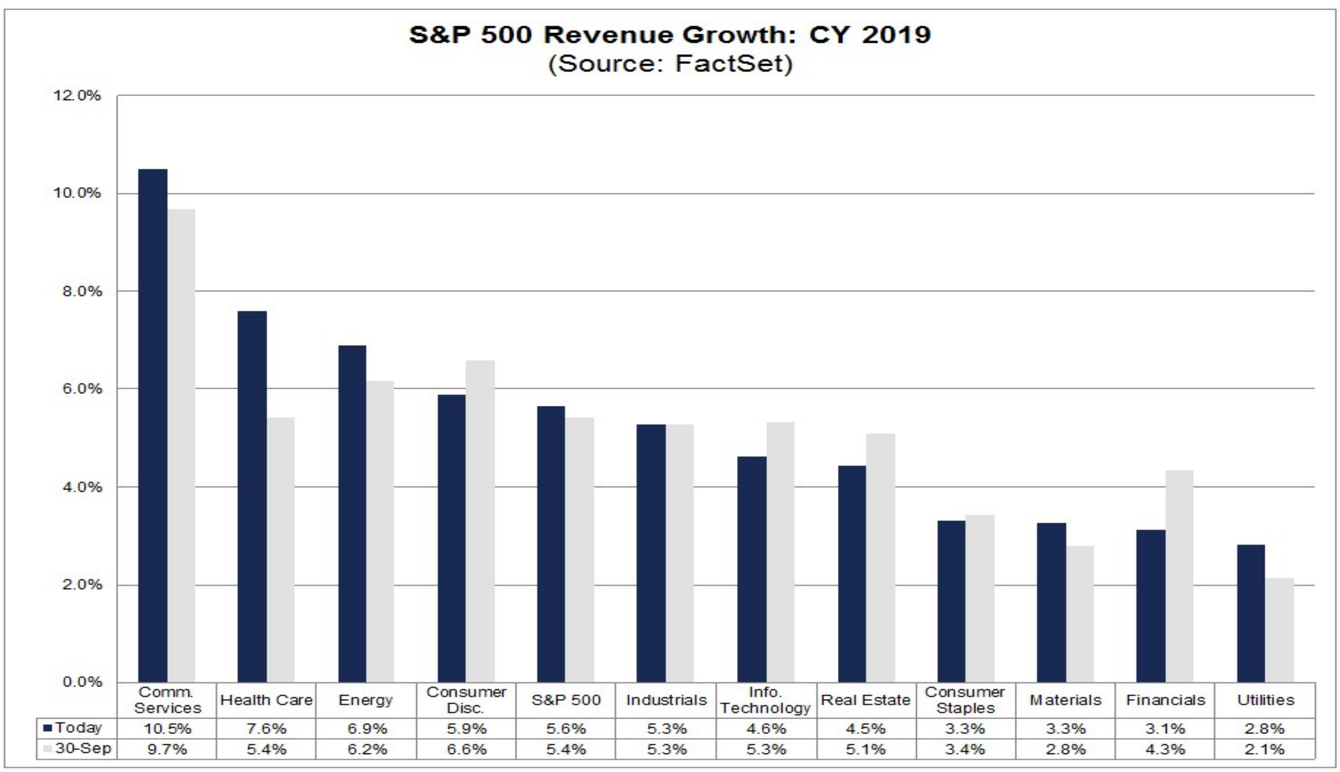


	Financials	Consumer Disc.	Real Estate	Comm. Services	Materials	S&P 500	Consumer Staples	Info. Technology	Industrials	Health Care	Energy	Utilities
Today	20.1%	18.6%	16.1%	12.7%	9.8%	9.0%	8.3%	7.6%	6.3%	5.8%	3.7%	1.7%
30-Sep	18.6%	18.1%	11.2%	12.4%	10.1%	8.6%	8.5%	8.0%	6.2%	4.5%	3.7%	1.4%

CY 2019: Growth



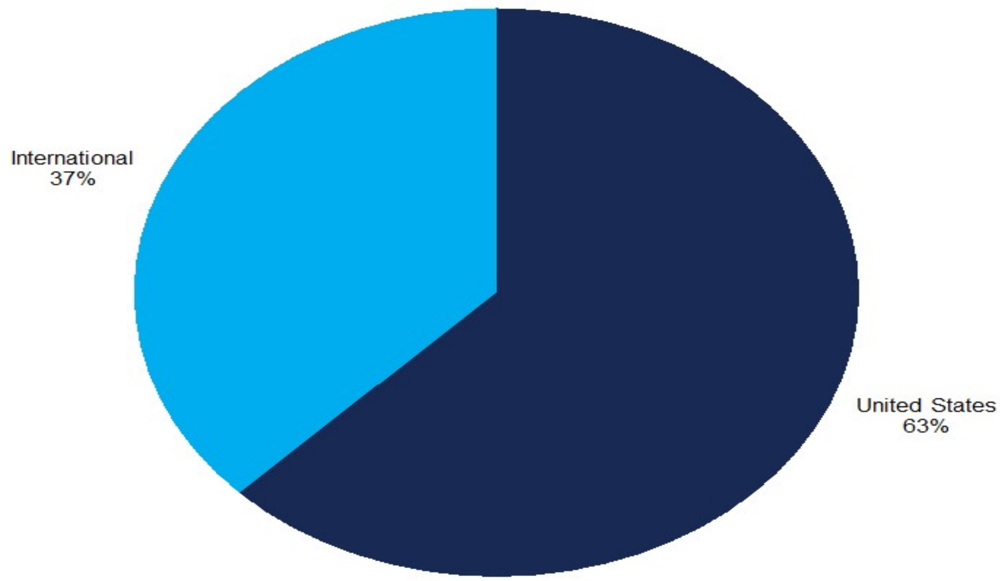
	Energy	Industrials	Consumer Disc.	Financials	S&P 500	Info. Technology	Health Care	Comm. Services	Materials	Utilities	Consumer Staples	Real Estate
Today	20.8%	11.1%	9.9%	9.5%	8.6%	7.7%	7.2%	6.5%	5.5%	5.0%	4.5%	4.1%
30-Sep	26.4%	12.5%	12.9%	9.7%	10.3%	9.6%	8.3%	10.6%	7.0%	4.4%	5.5%	5.8%



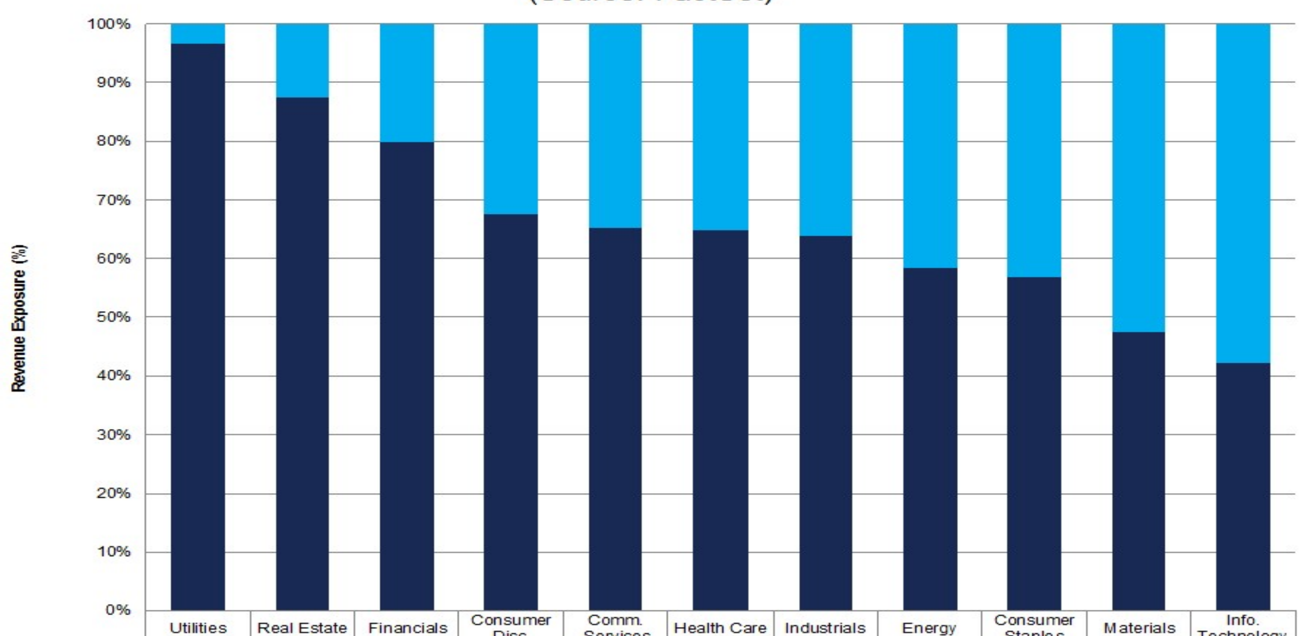
	Comm. Services	Health Care	Energy	Consumer Disc.	S&P 500	Industrials	Info. Technology	Real Estate	Consumer Staples	Materials	Financials	Utilities
Today	10.5%	7.6%	6.9%	5.9%	5.6%	5.3%	4.6%	4.5%	3.3%	3.3%	3.1%	2.8%
30-Sep	9.7%	5.4%	6.2%	6.6%	5.4%	5.3%	5.3%	5.1%	3.4%	2.8%	4.3%	2.1%

Geographic Revenue Exposure

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

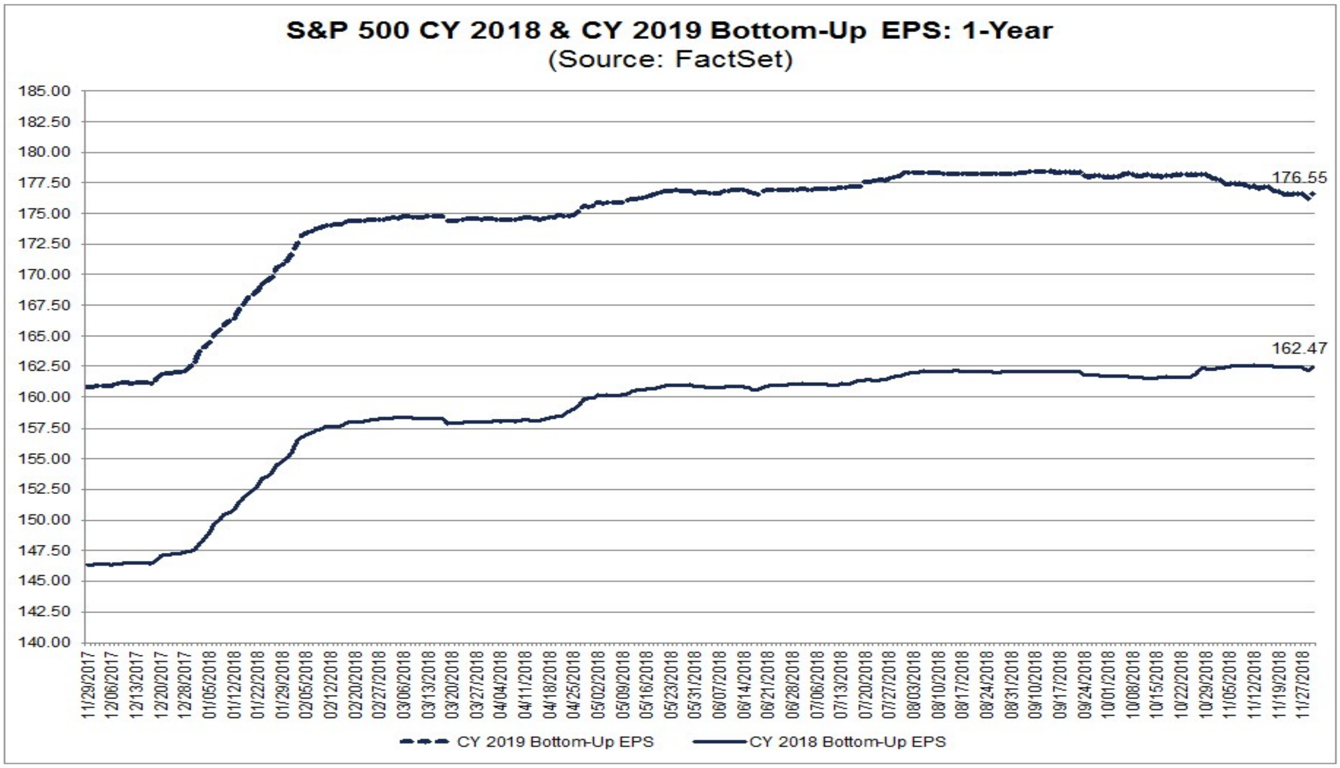


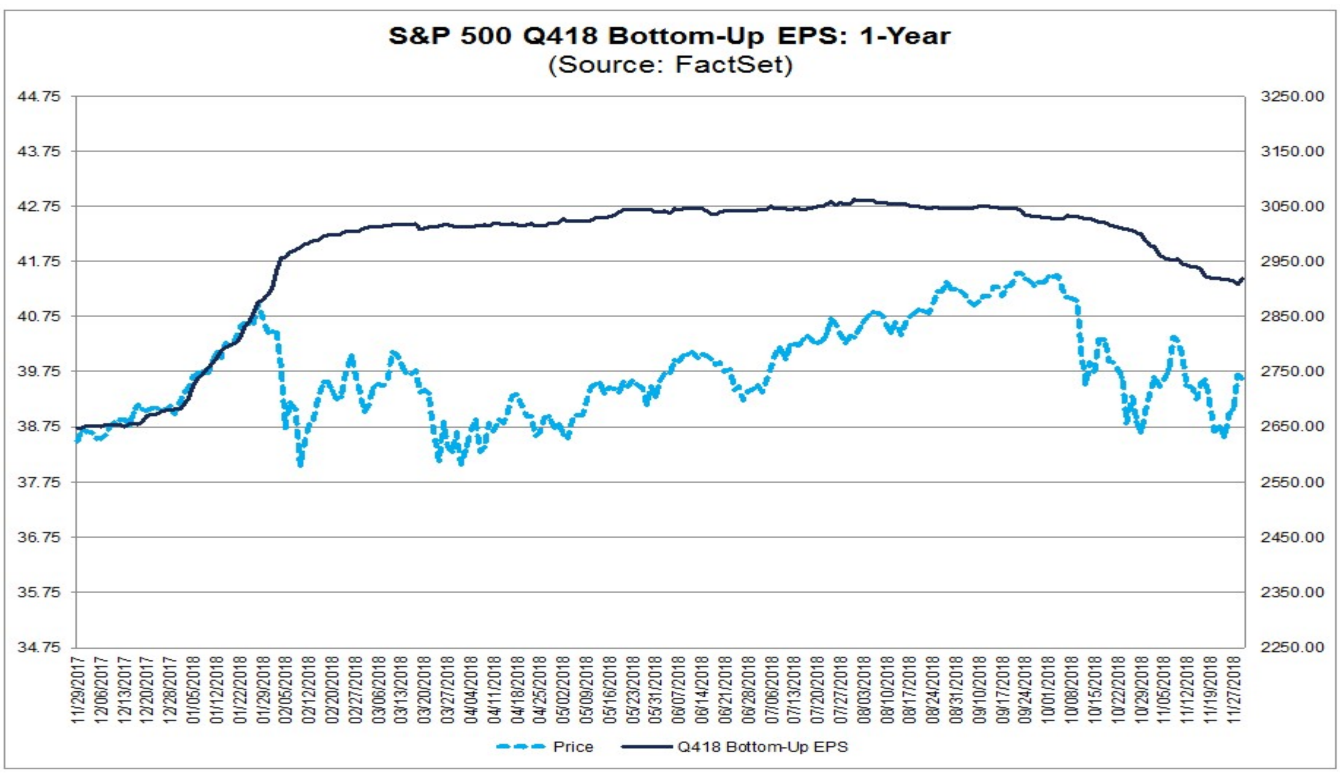
S&P 500: Aggregate Sector Geographic Revenue Exposure (%)
(Source: FactSet)



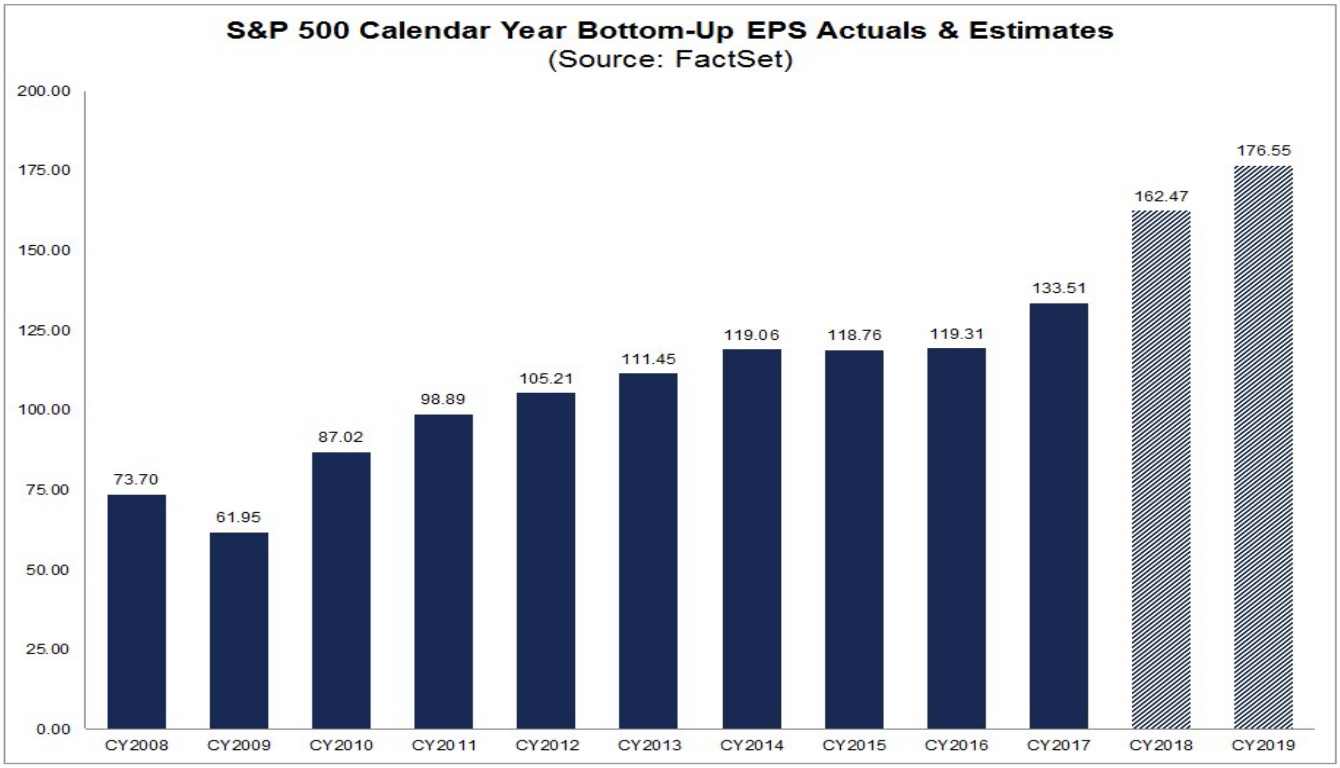
	Utilities	Real Estate	Financials	Consumer Disc.	Comm. Services	Health Care	Industrials	Energy	Consumer Staples	Materials	Info. Technology
International	3%	13%	20%	32%	35%	35%	36%	42%	43%	53%	58%
United States	97%	87%	80%	68%	65%	65%	64%	58%	57%	47%	42%

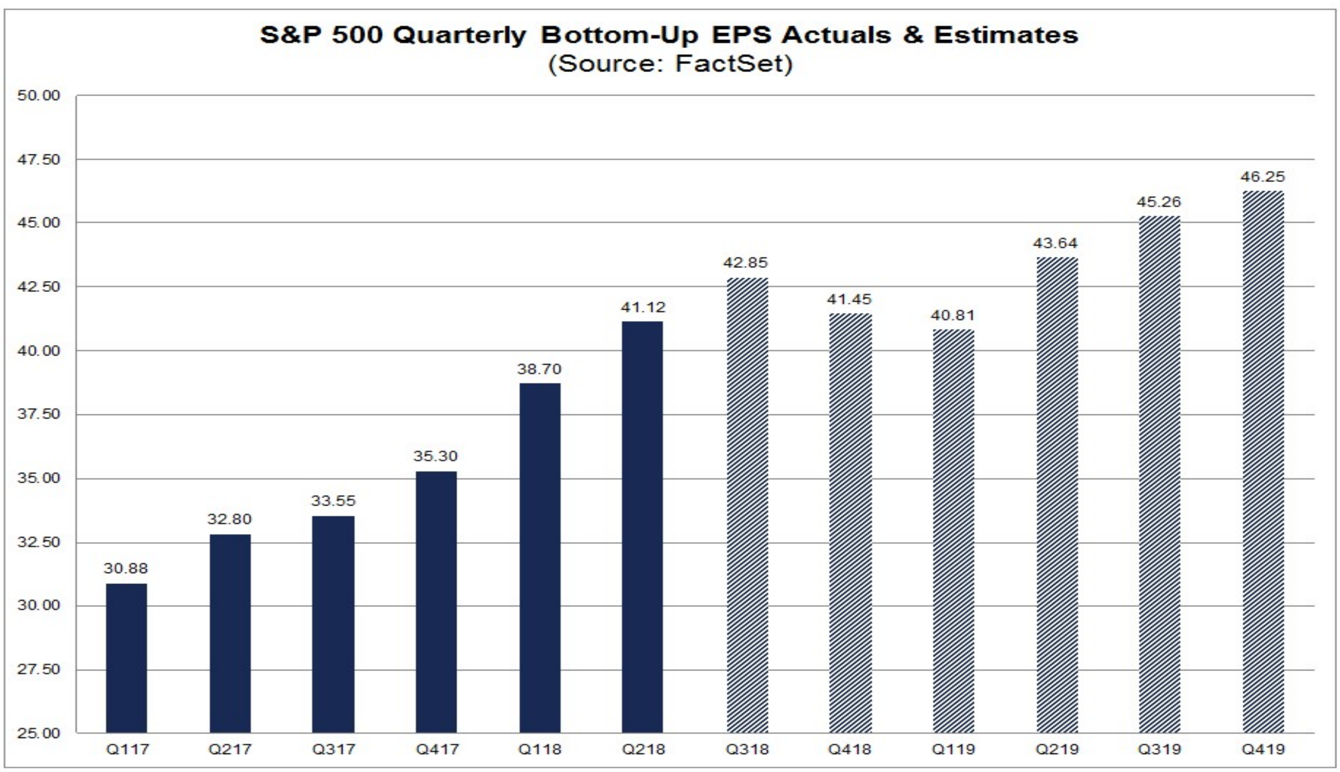
Bottom-up EPS Estimates: Revisions



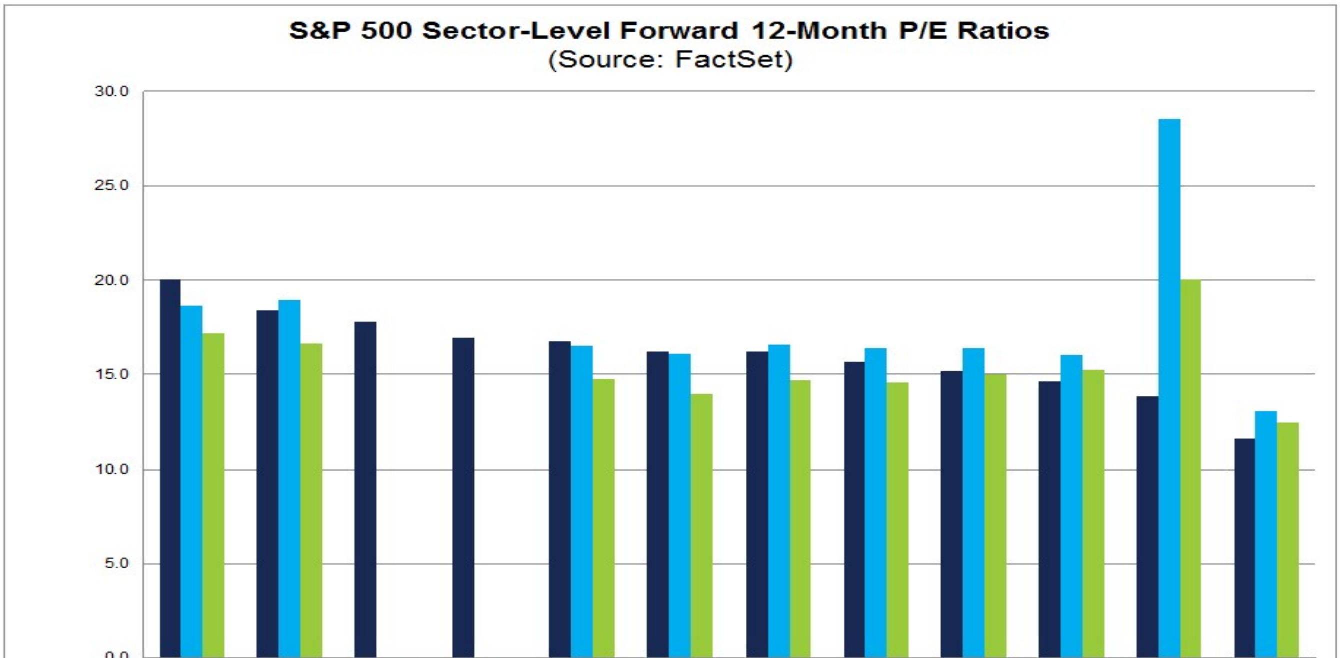


Bottom-up EPS Estimates: Current & Historical

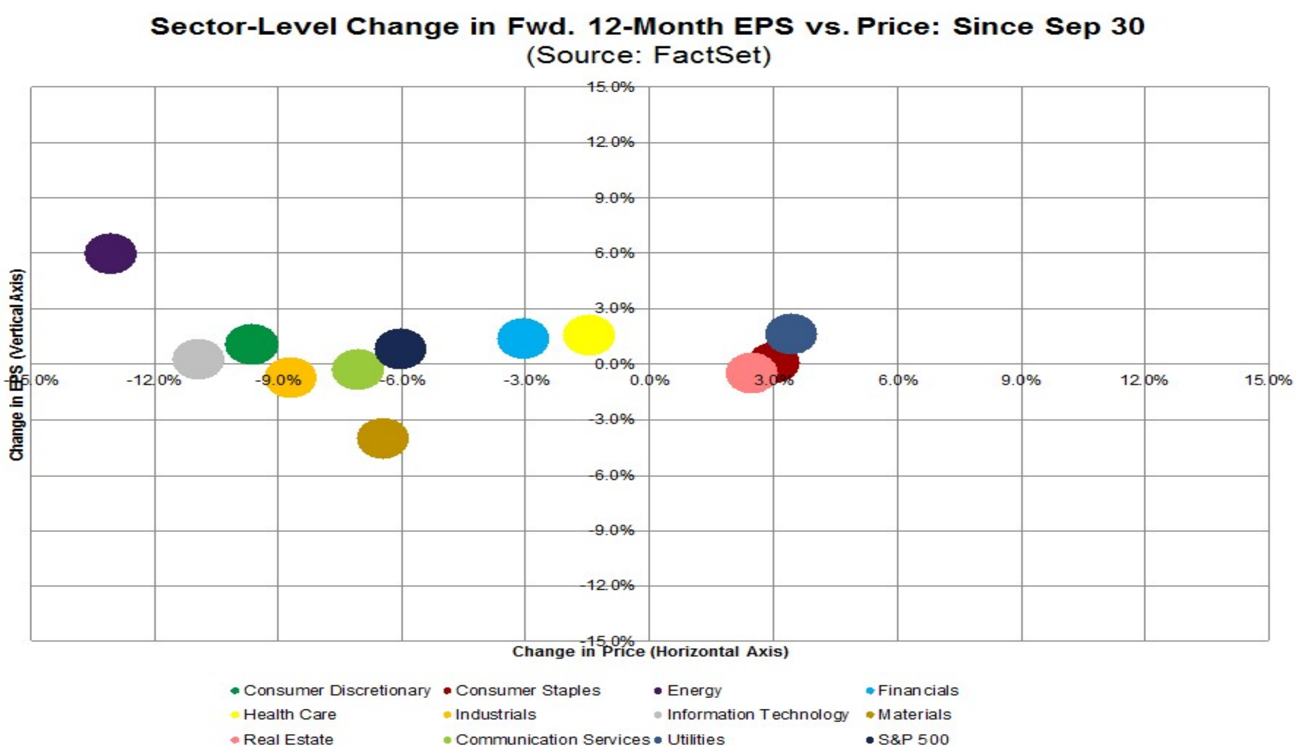




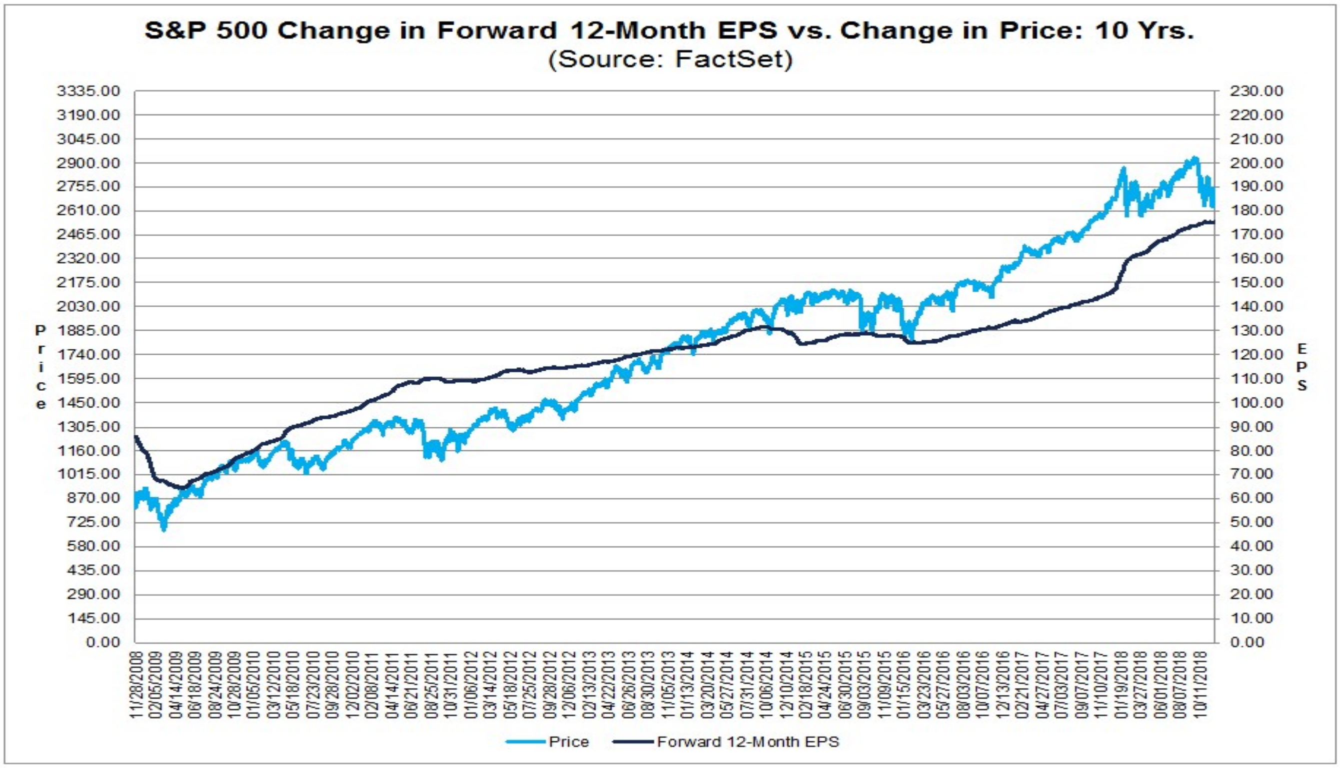
Forward 12M P/E Ratio: Sector Level

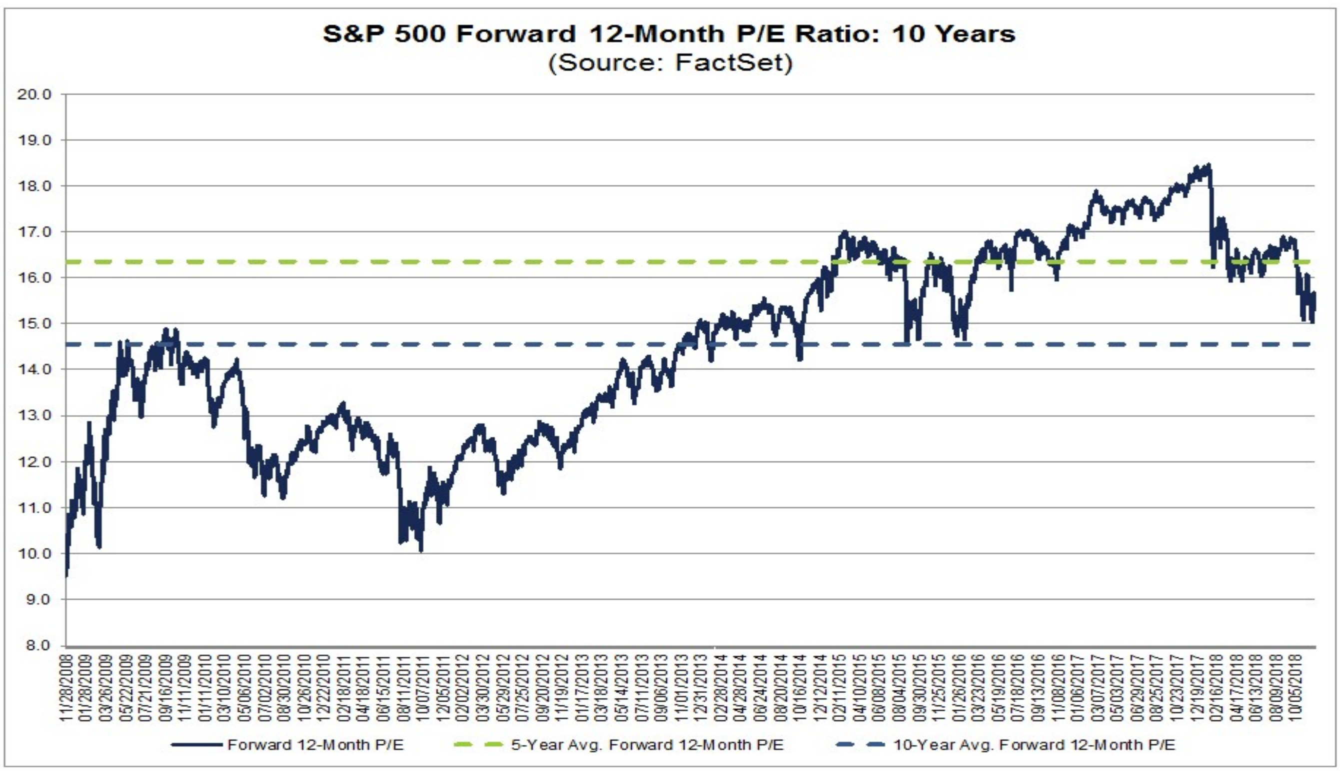


	Consumer Disc.	Consumer Staples	Real Estate	Comm. Services	Utilities	Health Care	Info. Technology	S&P 500	Industrials	Materials	Energy	Financials
Fwd P/E	20.0	18.4	17.8	16.9	16.8	16.2	16.2	15.6	15.2	14.6	13.8	11.7
5-Yr Avg.	18.6	18.9			16.5	16.1	16.5	16.4	16.4	16.0	28.5	13.1
10-Yr Avg.	17.2	16.6			14.7	13.9	14.7	14.6	15.0	15.2	20.0	12.5

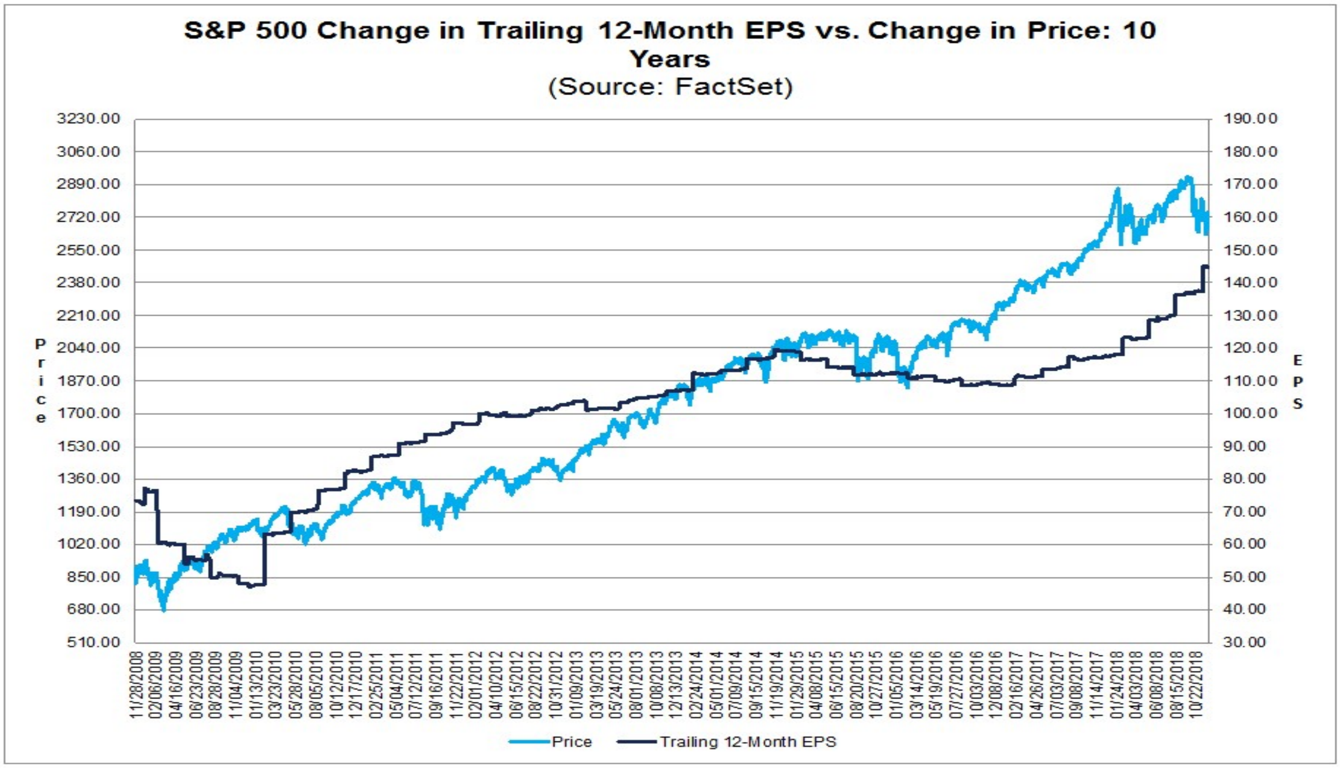


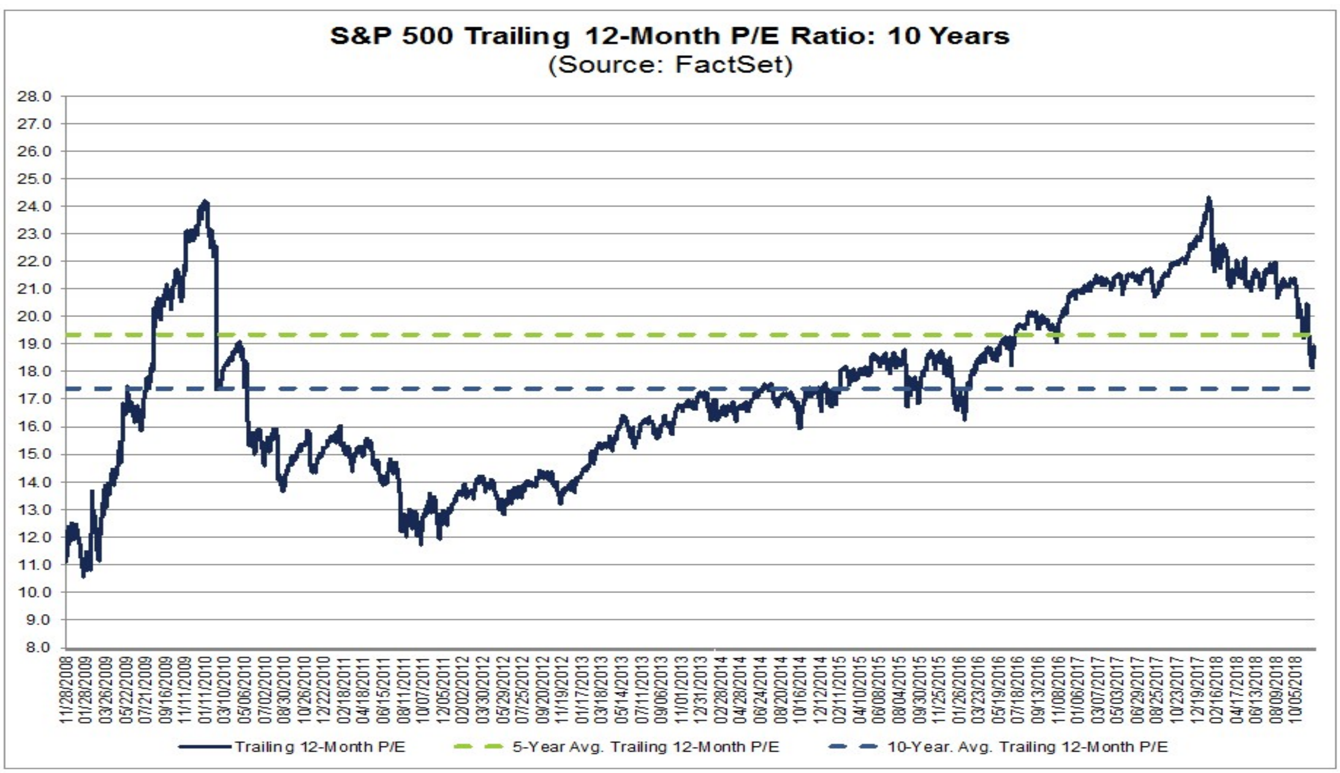
Forward 12M P/E Ratio: Long-Term Averages



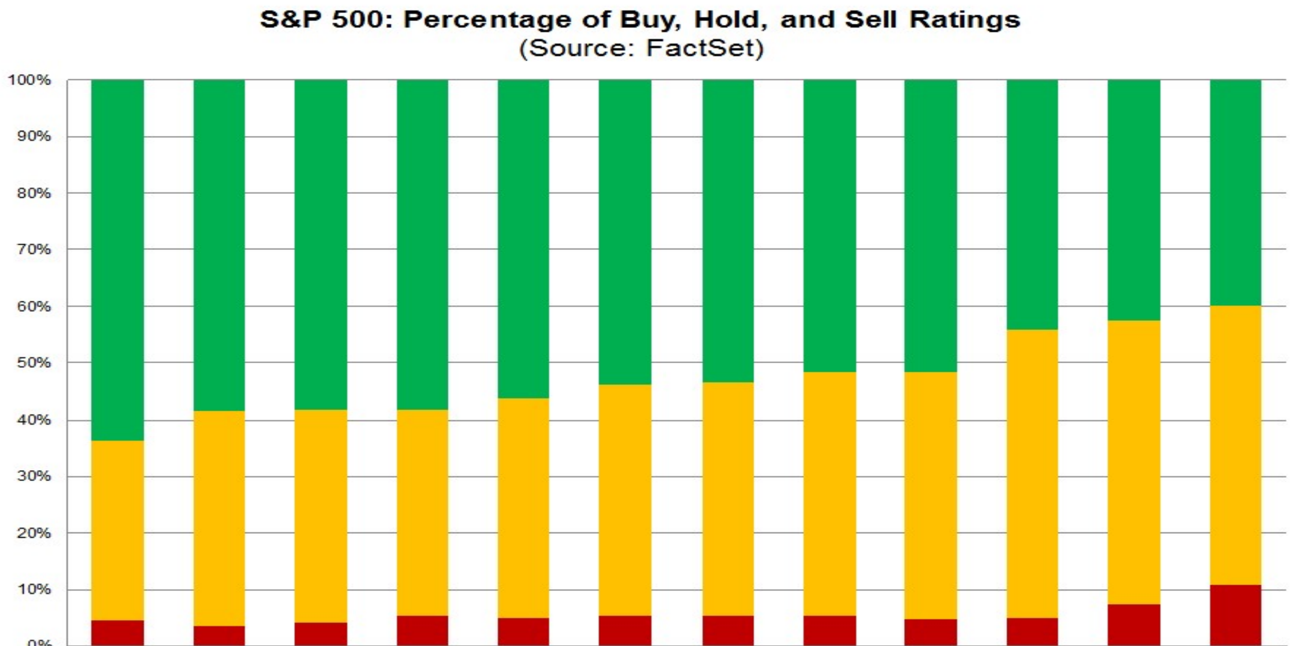


Trailing 12M P/E Ratio: Long-Term Averages





Targets & Ratings



	Energy	Materials	Health Care	Comm. Services	Info. Tech.	Industrials	S&P 500	Financials	Consumer Disc.	Real Estate	Utilities	Consumer Staples
Buy	64%	58%	58%	58%	56%	54%	53%	52%	52%	44%	43%	40%
Hold	32%	38%	38%	36%	39%	41%	41%	43%	44%	51%	50%	49%
Sell	5%	3%	4%	5%	5%	5%	5%	5%	5%	5%	7%	11%

	Energy	Comm. Services	Info. Tech.	Consumer Disc.	Materials	Financials	Industrials	S&P 500	Health Care	Real Estate	Consumer Staples	Utilities
Target/Close	27.8%	20.7%	19.3%	17.4%	16.9%	16.7%	16.6%	15.4%	8.9%	5.7%	4.0%	2.8%

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