

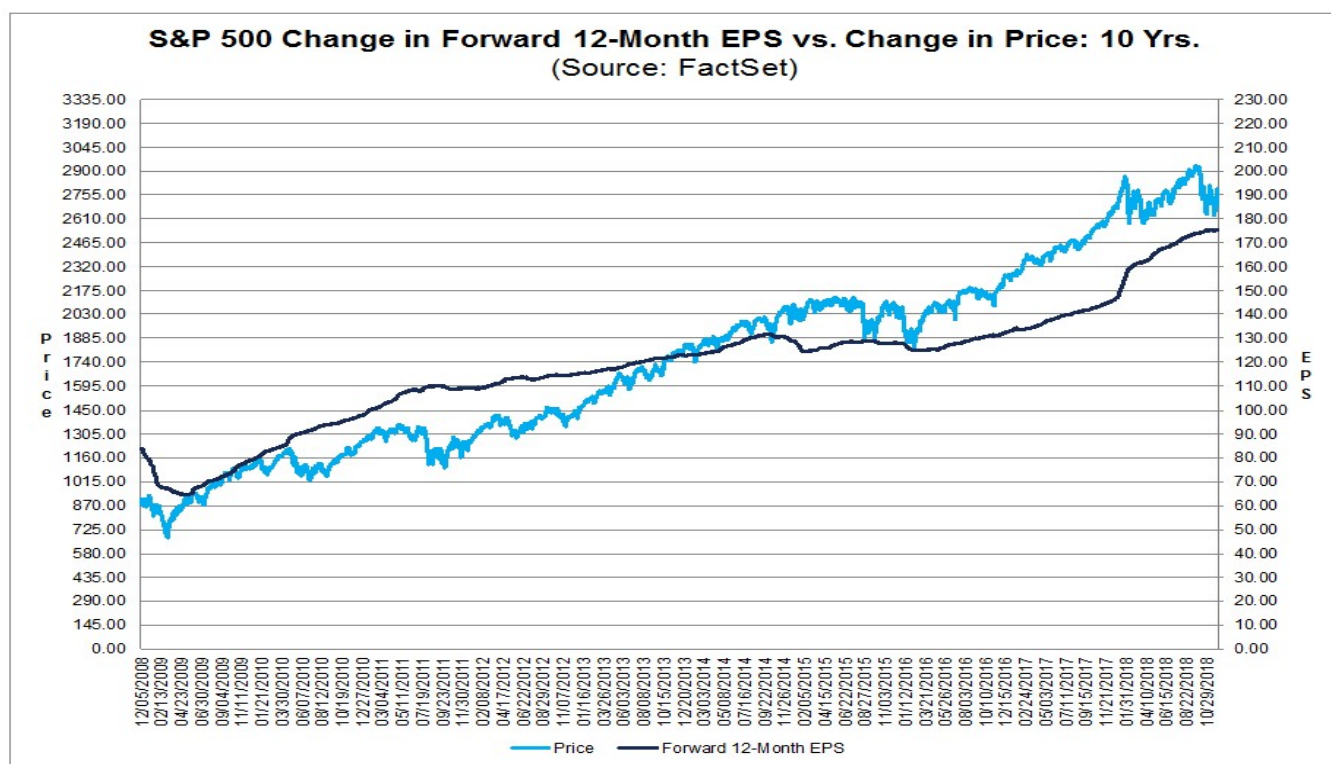
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## Key Metrics

- **Earnings Growth:** For Q4 2018, the estimated earnings growth rate for the S&P 500 is 13.4%. If 13.4% is the actual growth rate for the quarter, it will mark the fifth straight quarter of double-digit earnings growth for the index.
- **Earnings Revisions:** On September 30, the estimated earnings growth rate for Q4 2018 was 16.7%. All eleven sectors have lower growth rates today (compared to September 30) due to downward revisions to EPS estimates.
- **Earnings Guidance:** For Q4 2018, 72 S&P 500 companies have issued negative EPS guidance and 32 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 15.4. This P/E ratio is below the 5-year average (16.4) but above the 10-year average (14.6).
- **Earnings Scorecard:** For Q3 2018 (with 99% of the companies in the S&P 500 reporting actual results for the quarter), 77% of S&P 500 companies have reported a positive EPS surprise and 62% have reported a positive sales surprise.



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## Topic of the Week: 1

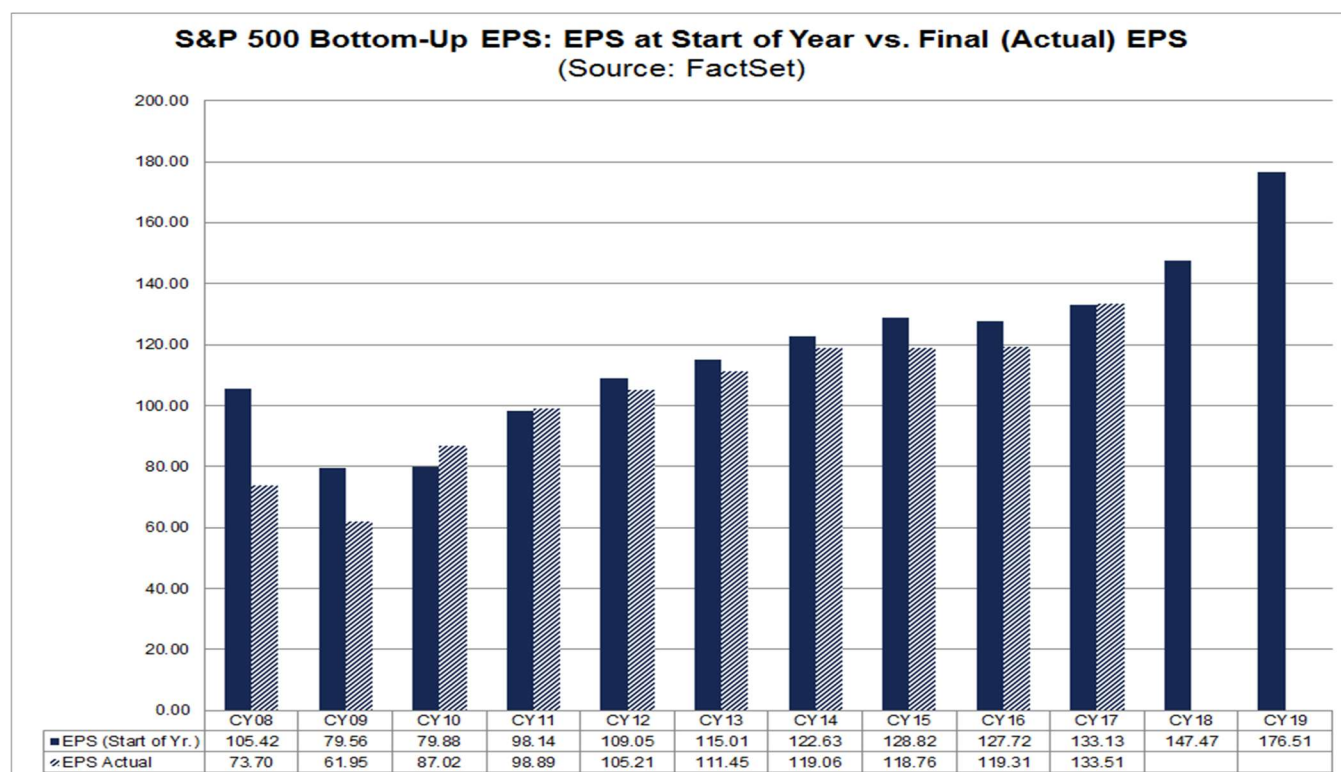
### Do Industry Analysts Predict the S&P 500 Will Report Record-High EPS in 2019?

For 2019, the bottom-up EPS estimate (which reflects an aggregation of the median EPS estimates for all the companies in the index) is \$176.51. If \$176.51 is the final number for the year, it will mark a record-high EPS number for the index. However, what is the likelihood that \$176.51 will be the final EPS value for the S&P 500 in 2019? How accurate is the bottom-up EPS estimate one year in advance?

Over the past 20 years (1998 – 2017), the average difference between the bottom-up EPS estimate at the beginning of the year (December 31) and the final EPS number for that same year has been 8.3%. In other words, industry analysts on average have overestimated the final EPS number by 8.3% one year in advance. Analysts overestimated the final value (i.e. the final value finished below the estimate) in 14 of the 20 years and underestimated the final value (i.e. the final value finished above the estimate) in the other 6 years. For the purposes of this analysis, the final EPS number for a year is the EPS number recorded two months after the end of each calendar year (February 28) to capture the actual annual EPS results reported by most companies during the fourth quarter earnings season.

However, this 8.3% average includes three years in which there were substantial differences between the bottom-up EPS estimate at the start of the year and the final EPS number: 2001 (+36%), 2008 (+43%), and 2009 (+28%). In 2001, the country endured the 9/11 attacks. In 2008 and 2009, the country was in the midst of an economic recession. If these three years were excluded, the average difference between the bottom-up EPS estimate one year prior to the end of that year and the final EPS number for that year would be 3.5%.

If one applies the average overestimation of 8.3% to the current 2019 EPS estimate (assuming the estimate changes little between now and December 31), the final value for 2019 would be \$161.81. If one applies the average overestimation of 3.5% (excluding the years 2001, 2008, and 2009) to the current 2019 EPS estimate, the final value for 2019 would be \$170.38. Based on estimates as of today, EPS of \$170.38 would reflect a record-high EPS for the S&P 500.



## Topic of the Week: 2

### Do Industry Analysts Believe the S&P 500 Will Close Above 3000 At the End of 2019?

For 2018, the S&P 500 has witnessed an increase in value of 0.8% (to 2695.95 from 2673.61) to date. Where do industry analysts believe the price of the index will go from here?

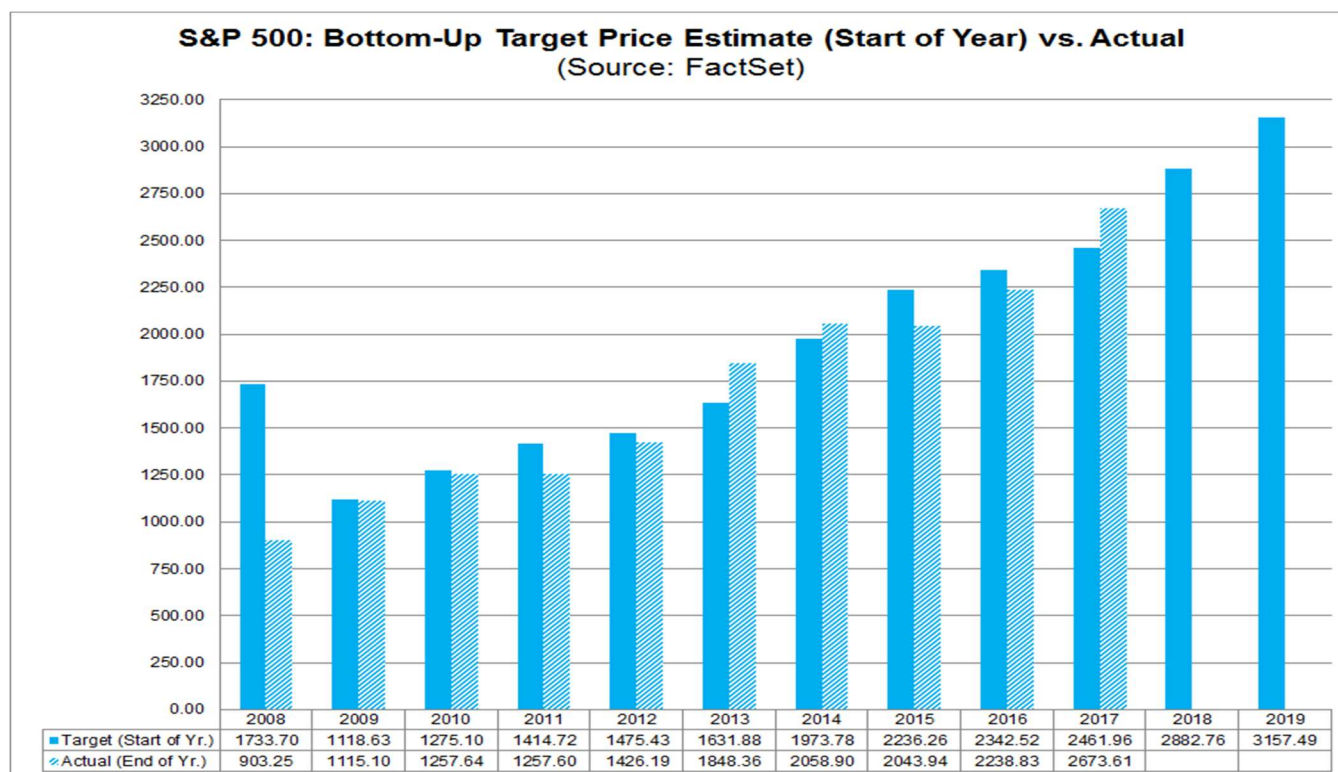
Industry analysts in aggregate predict the S&P 500 will see a 17.1% increase in price over the next twelve months. This percentage is based on the difference between the bottom-up target price and the closing price for the index as of yesterday. The bottom-up target price is calculated by aggregating the median target price estimates (based on company-level estimates submitted by industry analysts) for all the companies in the index. On December 6, the bottom-up target price for the S&P 500 was 3157.49, which was 17.1% above the closing price of 2695.95.

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

Over the previous 15 years (2003 – 2017), the average difference between the bottom-up target price estimate at the beginning of the year (December 31) and the final price for the index for that same year has been 7.9%. In other words, industry analysts on average have overestimated the final price of the index by about 7.9% one year in advance during the previous 15 years. Analysts overestimated the final value (i.e. the final value finished below the estimate) in 11 of the 15 years and underestimated the final value (i.e. the final value finished above the estimate) in the other 4 years.

However, this 7.9% average includes one year (2008) in which there was a substantial difference between the bottom-up target price estimate at the start of the year and the closing price for the index for that same year (+92%). If the year 2008 were excluded, the average difference between the bottom-up target price estimate one year prior to the end of that year and the closing price of the index for that same year would be 1.9%.

If one applies the average overestimation of 7.9% to the current 2019 bottom-up target price estimate (assuming the estimate changes little between now and December 31), the expected closing value for 2019 would be 2908.50. If one applies the average overestimation of 1.9% (excluding 2008) to the current 2019 bottom-up target price estimate, the expected closing value for 2019 would be 3098.07.



## Q4 Earnings Season: By The Numbers

### Overview

In terms of estimate revisions for companies in the S&P 500, analysts have reduced EPS estimates within average levels for Q4 2018 to date. On a per-share basis, estimated earnings for the fourth quarter have fallen by 2.8% since September 30. This percentage decline is larger than the 5-year average (-2.4%) for the first two months of a quarter, but smaller than the 10-year average (-3.3%) and the 15-year average (-2.9%) for this period.

In addition, an average percentage of S&P 500 companies have lowered the bar for earnings for Q4 2018 relative to recent quarters. Of the 104 companies that have issued EPS guidance for the fourth quarter, 72 have issued negative EPS guidance and 32 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 69% (72 out of 104), which is just slightly below the 5-year average of 70%.

Because of the net downward revisions to earnings estimates, the estimated year-over-year earnings growth rate for Q4 2018 has decreased to 13.4% today from 16.7% on September 30. All eleven sectors are predicted to report year-over-year earnings growth. Seven sectors are projected to report double-digit growth in earnings for the quarter, led by the Energy, Financials, and Industrials sectors.

The estimated year-over-year sales growth rate for Q4 2018 is 6.8%, which is equal to the estimate of 6.8% on September 30. Ten of the eleven sectors are projected to report year-over-year growth in revenues. Four sectors are predicted to report double-digit growth in revenues: Communication Services, Energy, Real Estate, and Materials.

Looking at future quarters, analysts see single-digit earnings growth for the first three quarters of 2019.

The forward 12-month P/E ratio is 15.4, which is below the 5-year average but above the 10-year average.

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

### Earnings Revisions: Largest Declines in Utilities, Materials, and Industrials Sectors

#### Slight Decline in Estimated Earnings Growth Rate for Q4 This Week

The estimated earnings growth rate for the fourth quarter is 13.4% this week, which is slightly below the estimated earnings growth rate of 13.5% last week. Downward revisions to estimates for companies in the Financials sector were mainly responsible for the slight decrease in the overall growth rate during the week.

The estimated earnings growth rate for Q4 2018 of 13.4% today is below the estimated earnings growth rate of 16.7% at the start of the quarter (September 30). All eleven sectors have recorded a decrease in expected earnings growth due to downward revisions to earnings estimates, led by the Utilities, Materials, and Industrials sectors.

#### Utilities: 90% of Companies Have Seen a Decline in Earnings Expectations

The Utilities sector has recorded the largest decrease in expected earnings growth since the start of the quarter (to 1.3% from 10.2%). Despite the decline in expected earnings, this sector has witnessed the largest increase in price since September 30 at 6.0%. Overall, 26 of the 29 companies (90%) in the Utilities sector have seen a decrease in their mean EPS estimate during this time. Of these 26 companies, 10 have recorded a decrease in their mean EPS estimate of more than 10%, led by SCANA (to \$0.36 from \$0.70), Entergy, (to \$0.46 from \$0.86), Evergy (to \$0.21 from \$0.35), and NRG Energy (to \$0.17 from \$0.28).

#### Materials: 75% of Companies Have Seen a Decline in Earnings Expectations

The Materials sector has recorded the second largest decrease in expected earnings growth since the start of the quarter (to 10.0% from 17.6%). This sector has also witnessed a decrease in price of 8.6% since September 30. Overall, 18 of the 24 companies (75%) in the Materials sector have seen a decrease in their mean EPS estimate during this time. Of these 18 companies, 7 have recorded a decrease in their mean EPS estimate of more than 10%, led by Freeport McMoRan (to \$0.21 from \$0.33), Martin Marietta Materials, (to \$1.86 from \$2.58), WestRock Company (to \$0.84 from \$1.13), and Newmont Mining (to \$0.25 from \$0.33).



### Industrials: GE Leads Decline

The Industrials sector has recorded the third largest decrease in expected earnings growth since the start of the quarter (to 14.5% from 20.7%). This sector has also witnessed a decrease in price of 11.2% since September 30. Overall, 42 of the 69 companies (61%) in the Industrials sector have seen a decrease in their mean EPS estimate during this time. Of these 42 companies, 7 have recorded a decrease in their mean EPS estimate of more than 10%, led by General Electric (to \$0.22 from \$0.36), Johnson Controls (to \$0.37 from \$0.60), Fluor (to \$0.61 from \$0.84), and Alaska Air Group (to \$0.61 from \$0.79). General Electric has also been the largest contributor to the decrease in earnings for this sector. The stock price for this company has fallen by 35.1% since September 30.

### Index-Level (Bottom-Up) EPS Estimate: Average Decline to Date

The Q4 bottom-up EPS estimate (which is an aggregation of the median earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) has decreased by 2.8% (to \$41.38 from \$42.56) since September 30. This percentage decline is larger than the 5-year average (-2.4%) for the first two months of a quarter, but smaller than the 10-year average (-3.3%) and the 15-year average (-2.9%) for the first two months of a quarter.

### 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, 104 companies in the index have issued EPS guidance for Q4 2018. Of these 104 companies, 72 have issued negative EPS guidance and 32 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 69% (72 out of 104), which is slightly below the 5-year average of 70%.

### Earnings Growth: 13.4%

The estimated (year-over-year) earnings growth rate for Q4 2018 is 13.4%. If 13.4% is the final growth rate for the quarter, it will mark the fifth straight quarter of double-digit earnings growth for the index. All eleven sectors are expected to report year-over-year growth in earnings. Seven sectors are projected to report double-digit earnings growth, led by the Energy, Financials, and Industrials sectors.

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

The Energy sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 95.1%. Higher oil prices are helping to drive the unusually high growth rate for the sector. Despite the recent decline in price, the average price of oil to date in Q4 2018 (\$63.31) is still 14% higher than the average price of oil in Q4 2017 (\$55.30). At the sub-industry level, five of the six sub-industries in the sector are projected to report earnings growth for the quarter: Oil & Gas Drilling (N/A due to \$0 earnings in year-ago), Oil & Gas Exploration & Production (188%), Integrated Oil & Gas (105%), Oil & Gas Storage & Transportation (68%), and Oil & Gas Refining & Marketing (52%). The Oil & Gas Equipment & Services (-4%) sub-industry is the only sub-industry expected to report a year-over-year decline in earnings in the sector.

### Financials: 4 of 5 Industries Expected to Report Double-Digit Growth

The Financials sector is expected to report the second highest (year-over-year) earnings growth of all eleven sectors at 15.9%. At the industry level, all five industries in this sector are predicted to report earnings growth for the quarter. Four of these five industries are projected to report double-digit growth in earnings: Diversified Financial Services (62%), Consumer Finance (26%), Banks (16%), and Capital Markets (16%).

### Industrials: 8 of 12 Industries Expected to Report Double-Digit Growth

The Industrials sector is expected to report the third highest (year-over-year) earnings growth of all eleven sectors at 14.5%. At the industry level, 9 of the 12 industries in this sector are predicted to report earnings growth for the quarter. Eight of these nine industries are projected to report double-digit growth in earnings, led by the Construction & Engineering (54%), Trading Companies & Distributors (38%), and Road & Rail (32%) industries. At the company level, General Electric is the largest detractor to earnings growth in the sector. The mean EPS estimate for GE for Q4 2018 is \$0.22, compared to actual EPS of \$0.27 in the year-ago quarter. If this company were excluded, the estimated earnings growth rate for the sector would improve to 17.3% from 14.5%.

### Revenue Growth: 6.8%

The estimated (year-over-year) revenue growth rate for Q4 2018 is 6.8%. Ten of the eleven sectors are expected to report year-over-year growth in revenues. Four sectors are projected to report double-digit growth in revenues: Communication Services, Energy, Real Estate, and Materials.

### Communication Services: Alphabet Leads Growth

The Communication Services sector is expected to report the highest (year-over-year) revenue growth of all eleven sectors at 19.8%. At the industry level, all four industries in this sector are predicted to report revenue growth. Two of these four industries are projected to report double-digit revenue growth: Interactive Media & Services (45%) and Media (15%). At the company level, Alphabet is projected to be the largest contributor to revenue growth for this sector. The mean revenue estimate for Alphabet for Q4 2018 is \$38.9 billion, compared to revenue of \$25.9 billion in the year-ago quarter. Because Alphabet is a dual-listed ticker in the index, the company's revenue numbers are counted twice in the growth rate calculation (once for GOOG and once for GOOGL). If this company were excluded, the estimated revenue growth rate for this sector would fall to 11.6% from 19.8%.

### Energy: 4 of 6 Sub-Industries Expected to Report Double-Digit Growth

The Energy sector is expected to report the second highest (year-over-year) revenue growth of all eleven sectors at 15.8%. At the sub-industry level, five of the six sub-industries are predicted to report revenue growth. Four of these five sub-industries are projected to report double-digit revenue growth: Oil & Gas Drilling (27%), Oil & Gas Refining & Marketing (18%), Integrated Oil & Gas (18%), and Oil & Gas Exploration & Production (18%).

### Real Estate: CBRE Group Leads Growth

The Real Estate sector is expected to report the third highest (year-over-year) revenue growth of all eleven sectors at 11.1%. At the company level, CBRE Group is projected to be the largest contributor to revenue growth for the sector. The mean revenue estimate for CBRE Group for Q4 2018 is \$5.95 billion, compared to revenue of \$4.34 billion in the year-ago quarter. If this company were excluded, the revenue growth rate for the sector would fall to 5.6% from 11.1%.

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

The Materials sector is expected to report the fourth highest (year-over-year) revenue growth of all eleven sectors at 10.5%. At the industry level, all four industries in this sector are predicted to report revenue growth, led by the Chemicals (14%) industry. At the company level, Linde plc is projected to be the largest contributor to revenue growth for the sector. However, the estimated revenues for Q4 2018 (\$7.25 billion) reflect the combination of Praxair and Linde, while the actual revenues for Q4 2017 (\$2.95 billion) reflect the standalone Praxair company. This apple-to-orange comparison is the main reason Linde plc is expected to be the largest contributor to revenue growth for the sector. If this company were excluded, the estimated revenue growth rate for the sector would fall to 5.6% from 10.5%.

## Looking Ahead: Forward Estimates and Valuation

### Single-Digit Growth Projected for First 3 Quarters of 2019

For the fourth quarter, analysts expect companies to report earnings growth of 13.4% and revenue growth of 6.8%. For CY 2018, analysts are projecting companies to report earnings growth of 20.6% and revenue growth of 9.0%. However, analysts expect single-digit earnings growth for the first three quarters of 2019.

For Q1 2019, analysts are projecting earnings growth of 4.8% and revenue growth of 7.0%.

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

For Q3 2019, analysts are projecting earnings growth of 5.5% and revenue growth of 5.4%.

For Q4 2019, analysts are projecting earnings growth of 11.8% and revenue growth of 5.8%.

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

### Valuation: Forward P/E Ratio is 15.4, above the 10-Year Average (14.6)

The forward 12-month P/E ratio is 15.4. 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 7.5%, while the forward 12-month EPS estimate has increased by 1.0%.

At the sector level, the Consumer Discretionary (19.8) sector has the highest forward 12-month P/E ratio, while the Financials (11.1) sector has the lowest forward 12-month P/E ratio.

### Targets & Ratings: Analysts Project 17% Increase in Price Over Next 12 Months

The bottom-up target price for the S&P 500 is 3157.49, which is 17.1% above the closing price of 2695.95. At the sector level, the Energy (+30.7%) 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 Utilities (+0.8%) 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.

For more details, please see page 3.

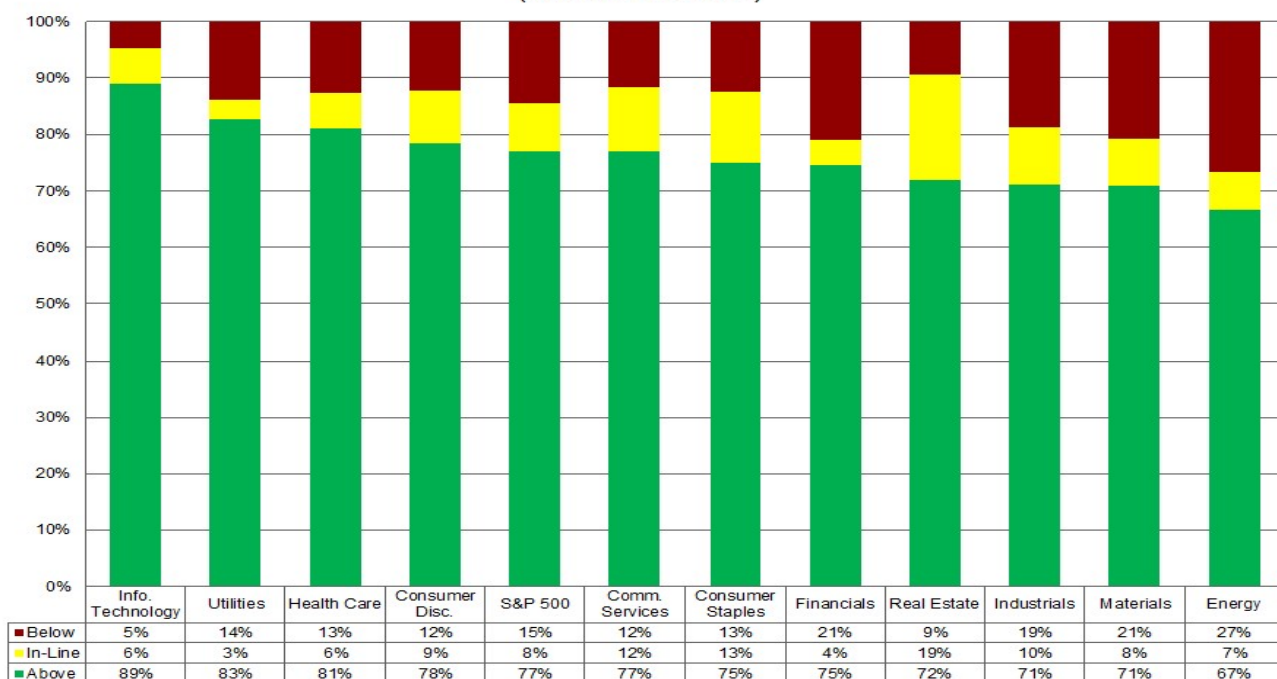
Overall, there are 11,125 ratings on stocks in the S&P 500. Of these 11,125 ratings, 53.7% are Buy ratings, 41.0% are Hold ratings, and 5.3% are Sell ratings. At the sector level, the Energy (65%) sector has the highest percentage of Buy ratings, while the Consumer Staples (40%) sector has the lowest percentage of Buy ratings.

### Companies Reporting Next Week: 2

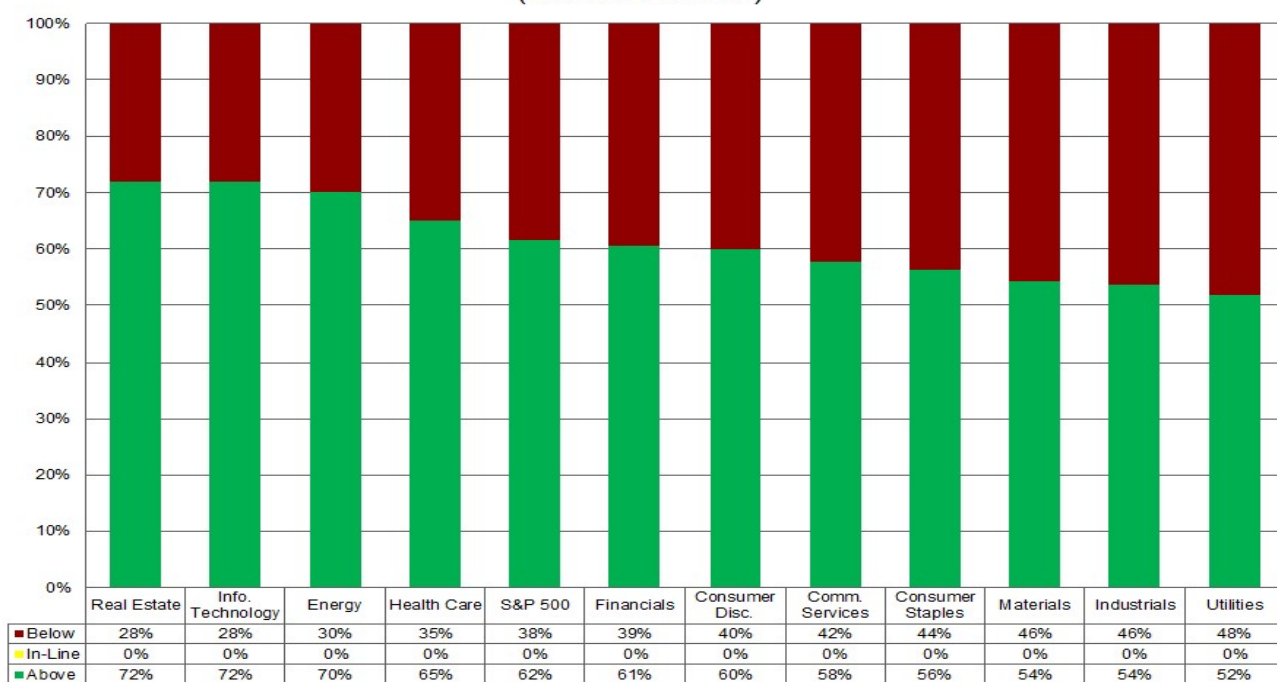
During the upcoming week, two S&P 500 companies are scheduled to report results for the fourth quarter.

## Q3 2018: Scorecard

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

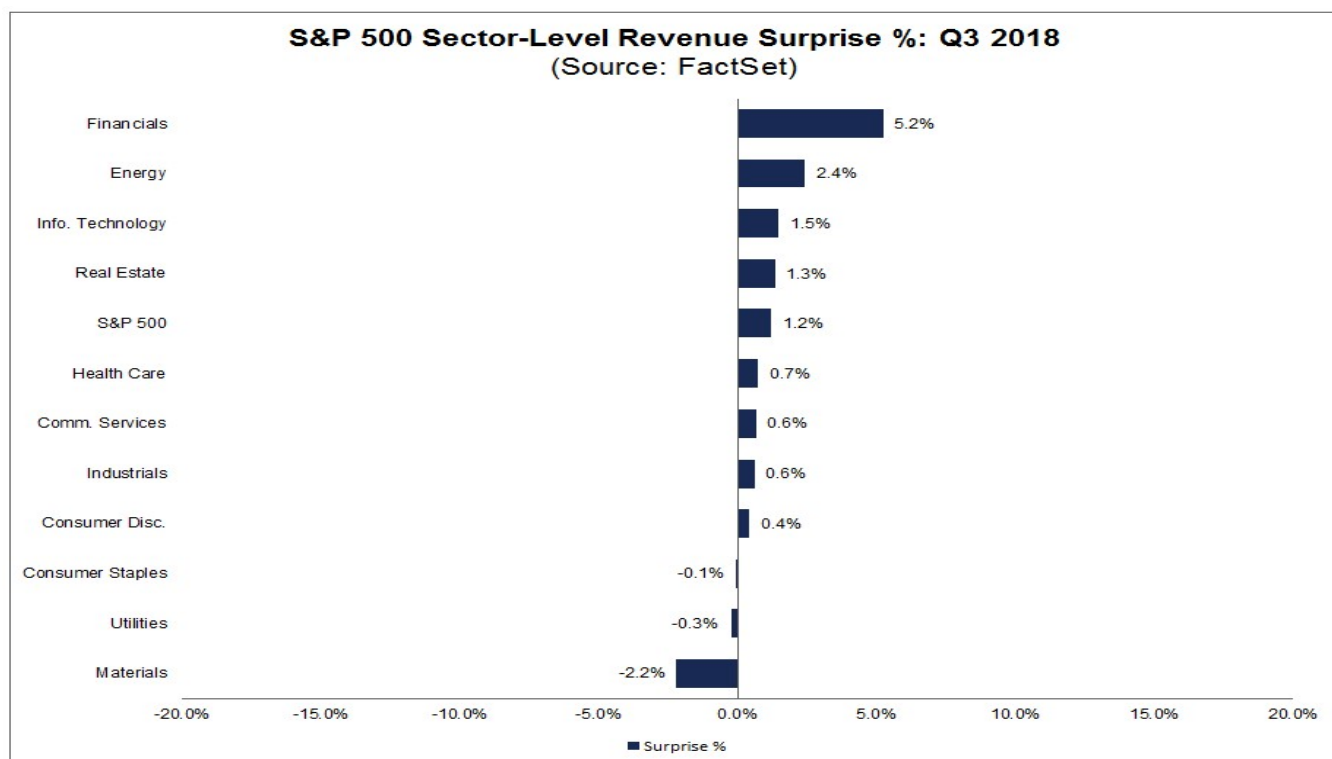
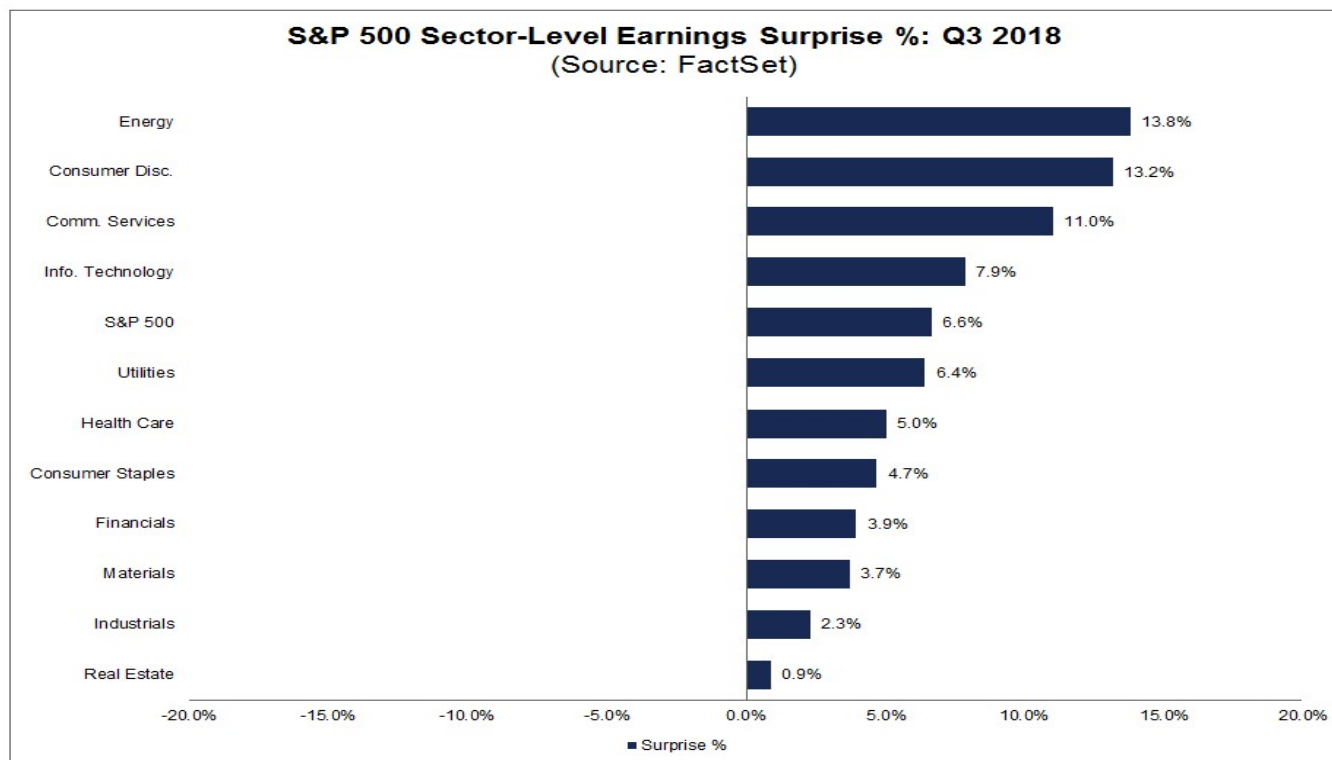


**S&P 500 Revenues Above, In-Line, Below Estimates: Q3 2018**  
(Source: FactSet)

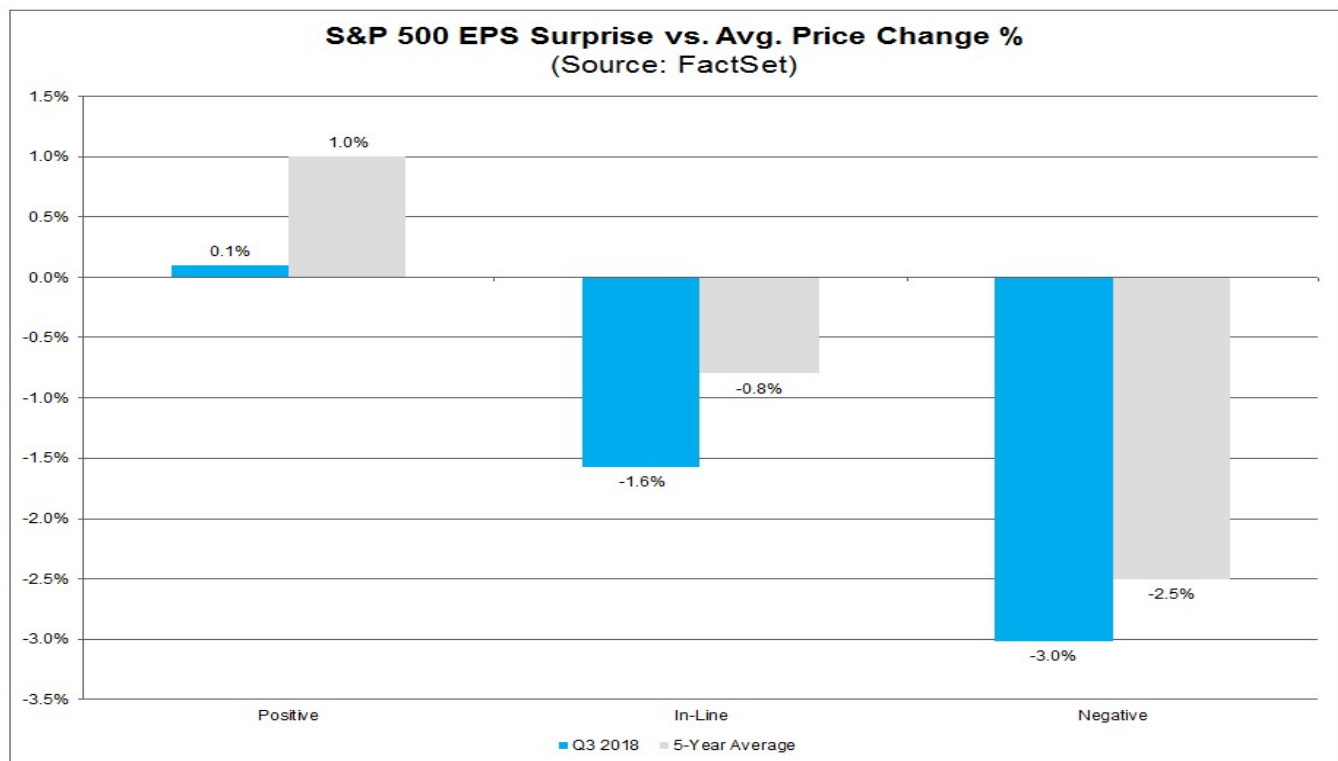
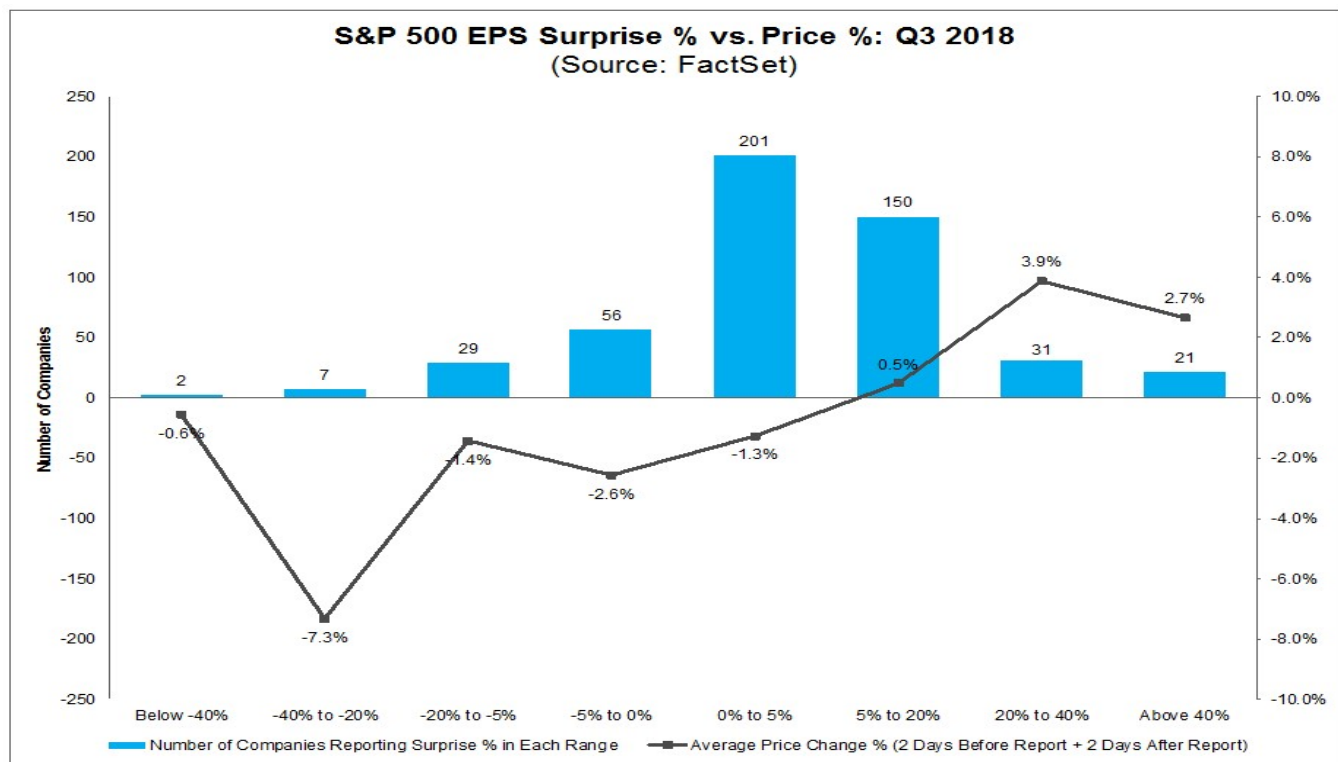




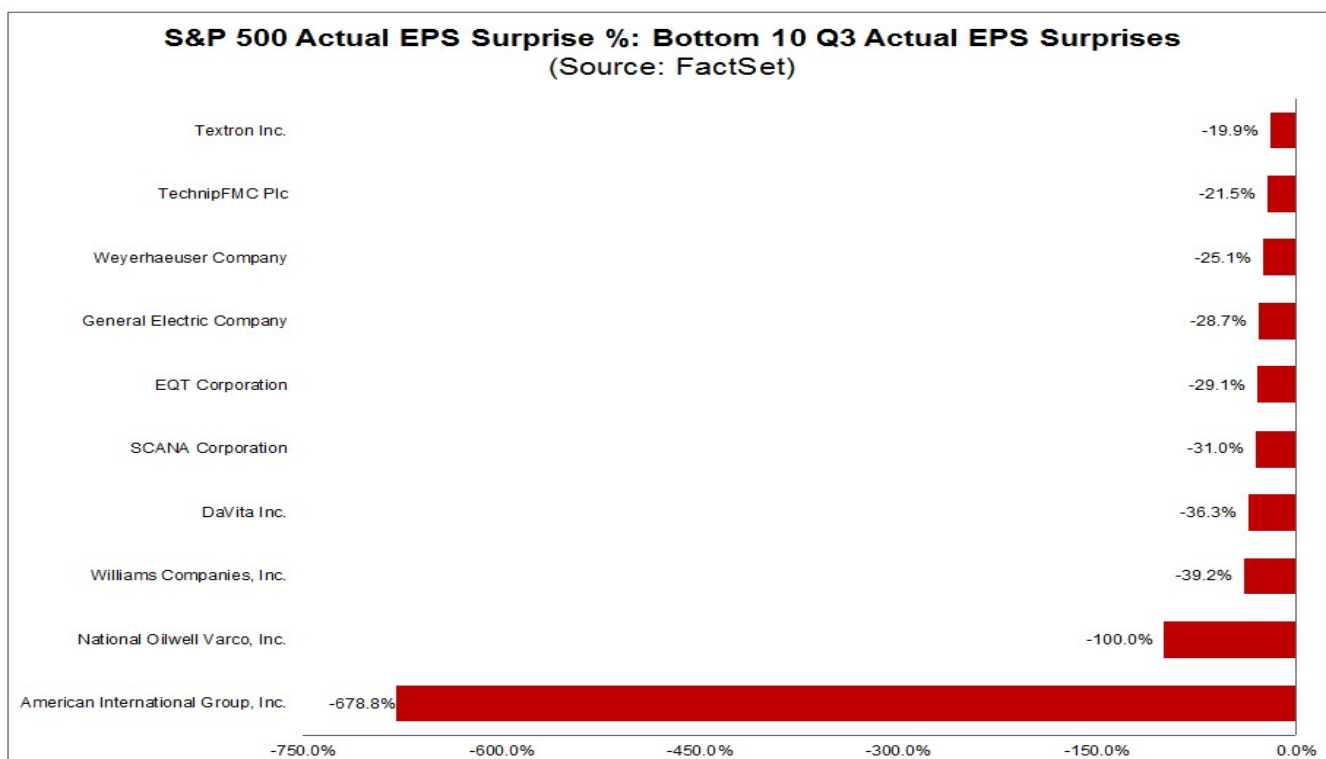
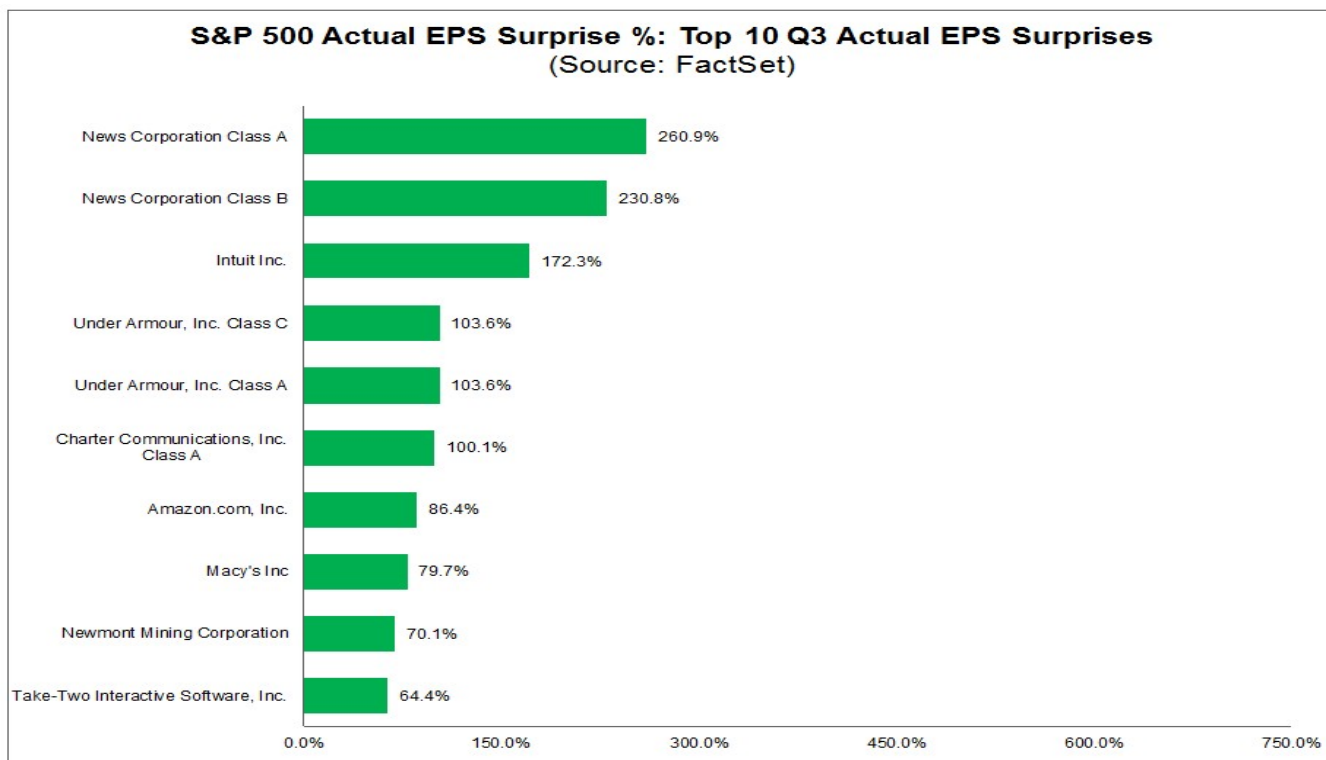
## Q3 2018: Scorecard



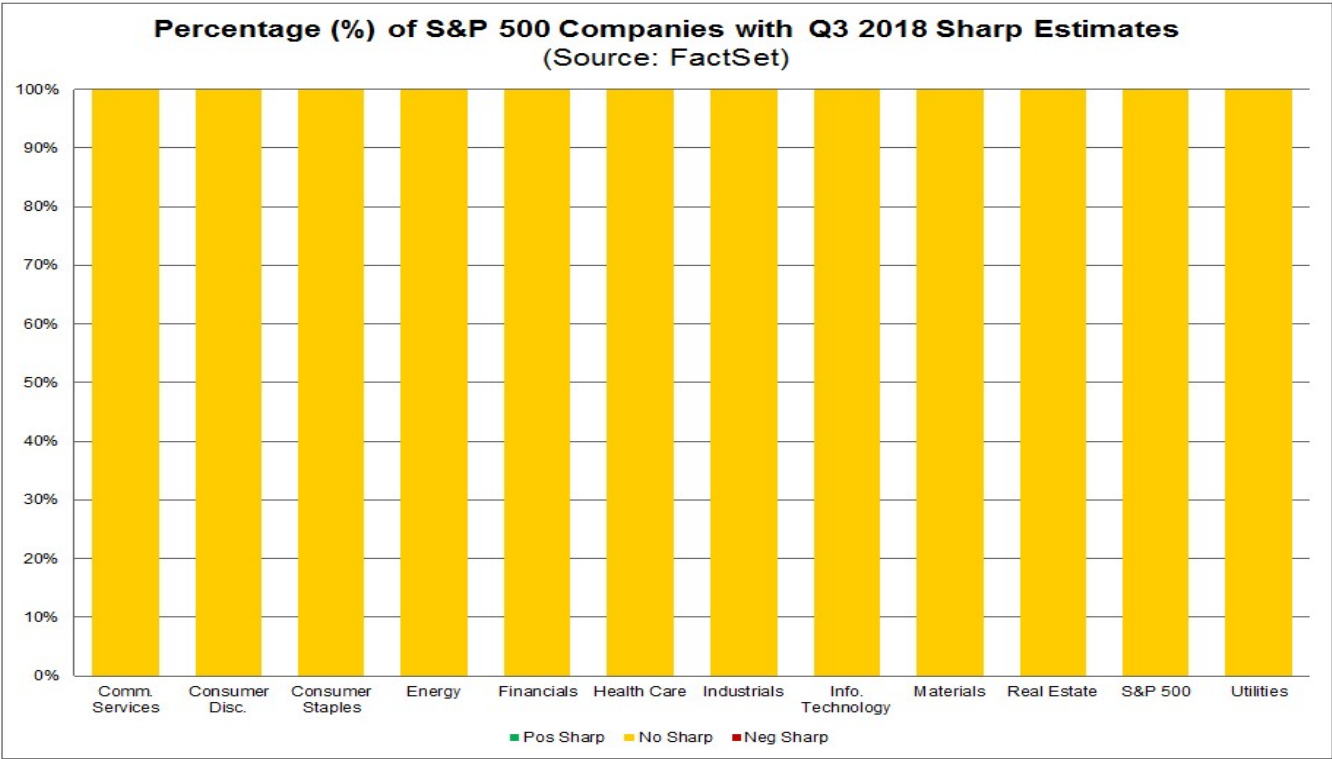
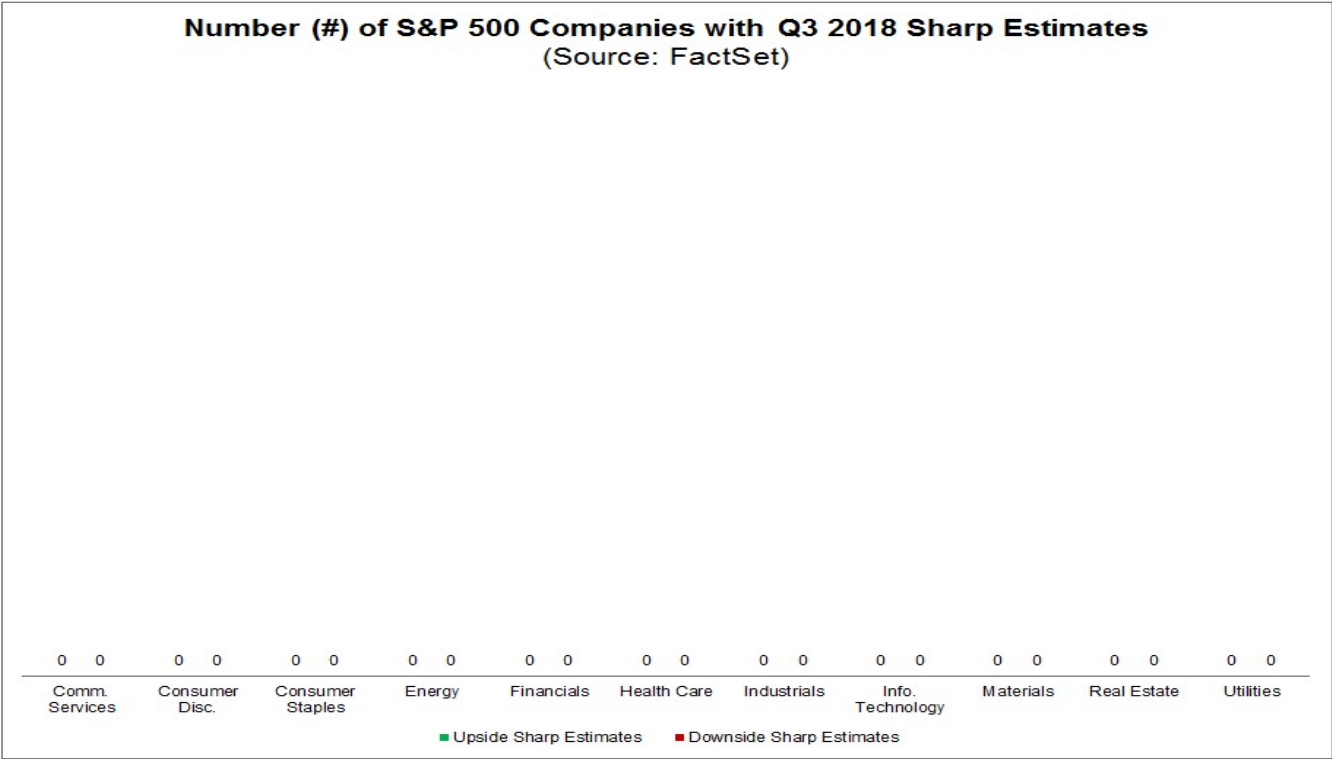
# Q3 2018: Scorecard



## Q3 2018: Scorecard

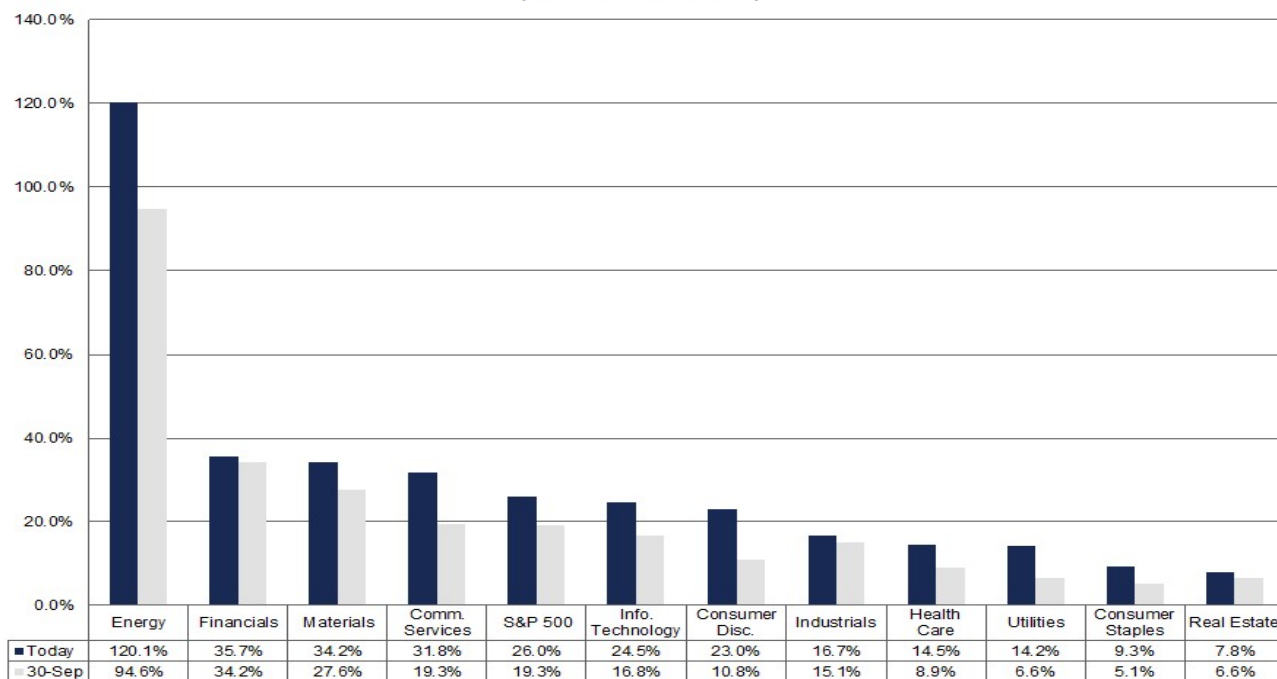


# Q3 2018: Projected EPS Surprises (Sharp Estimates)

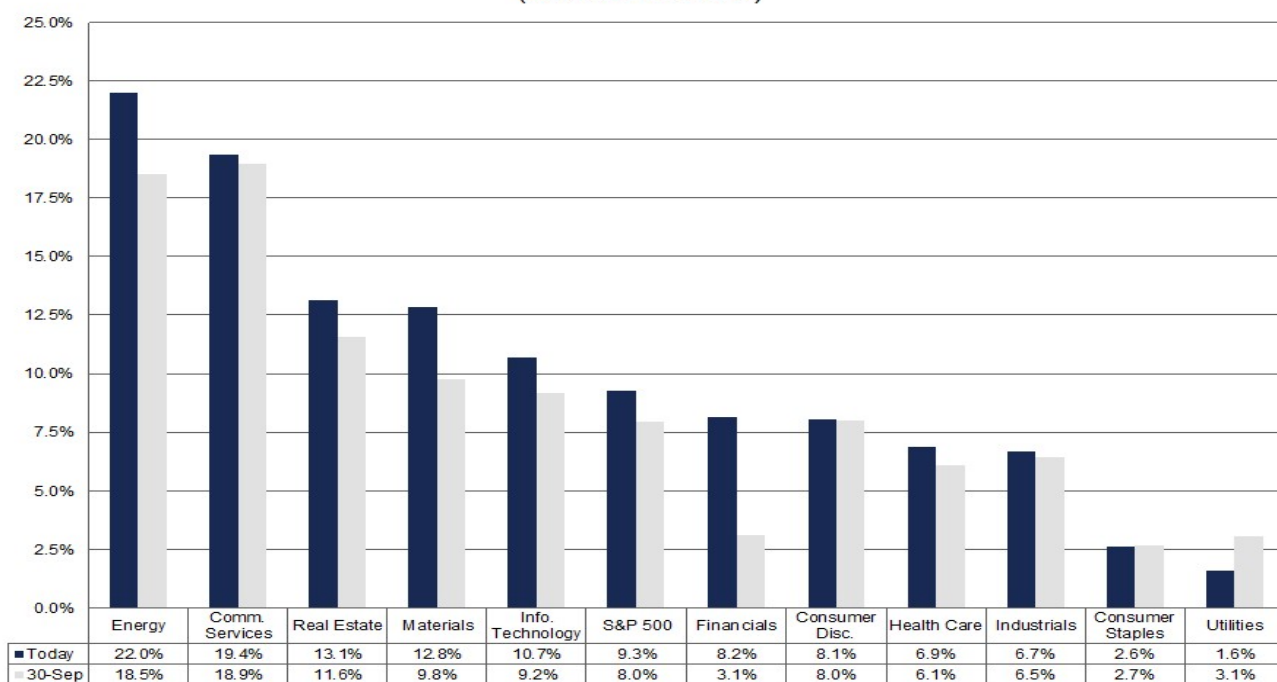


## Q3 2018: Growth

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

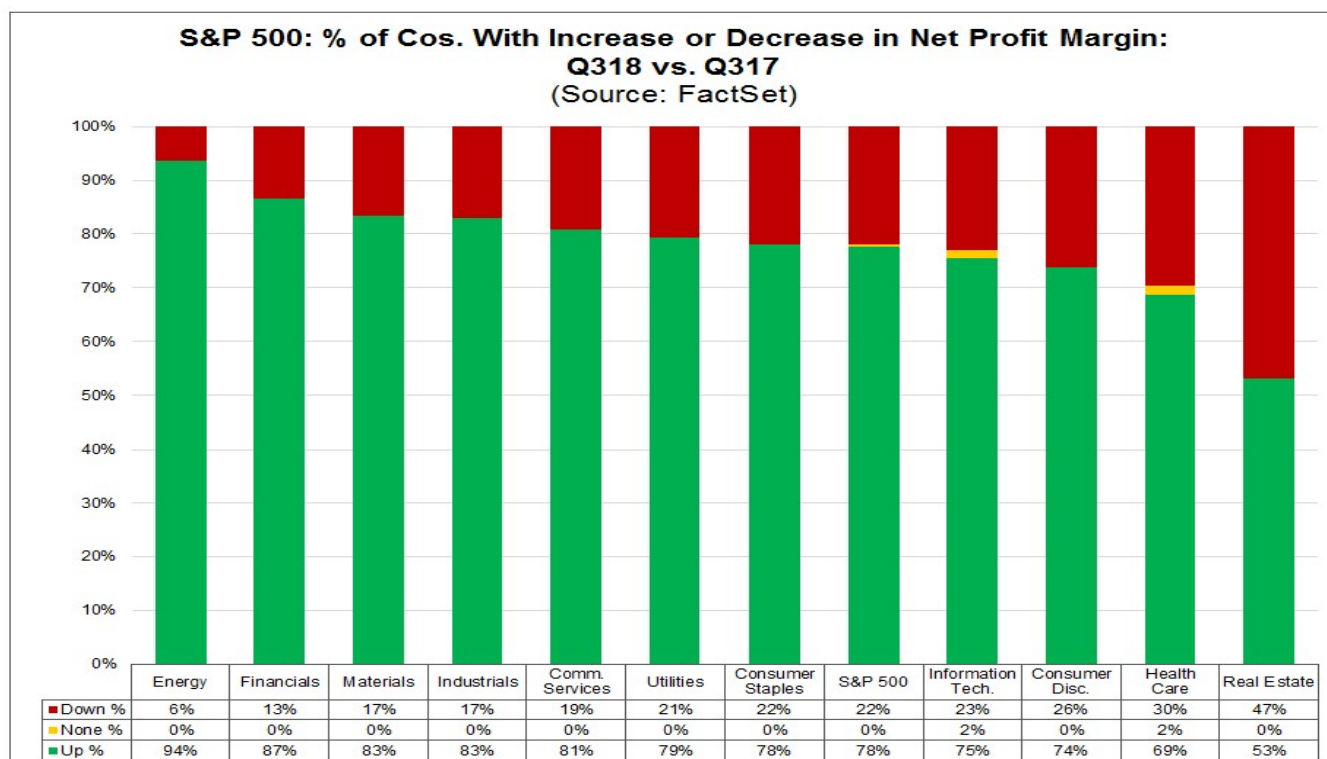
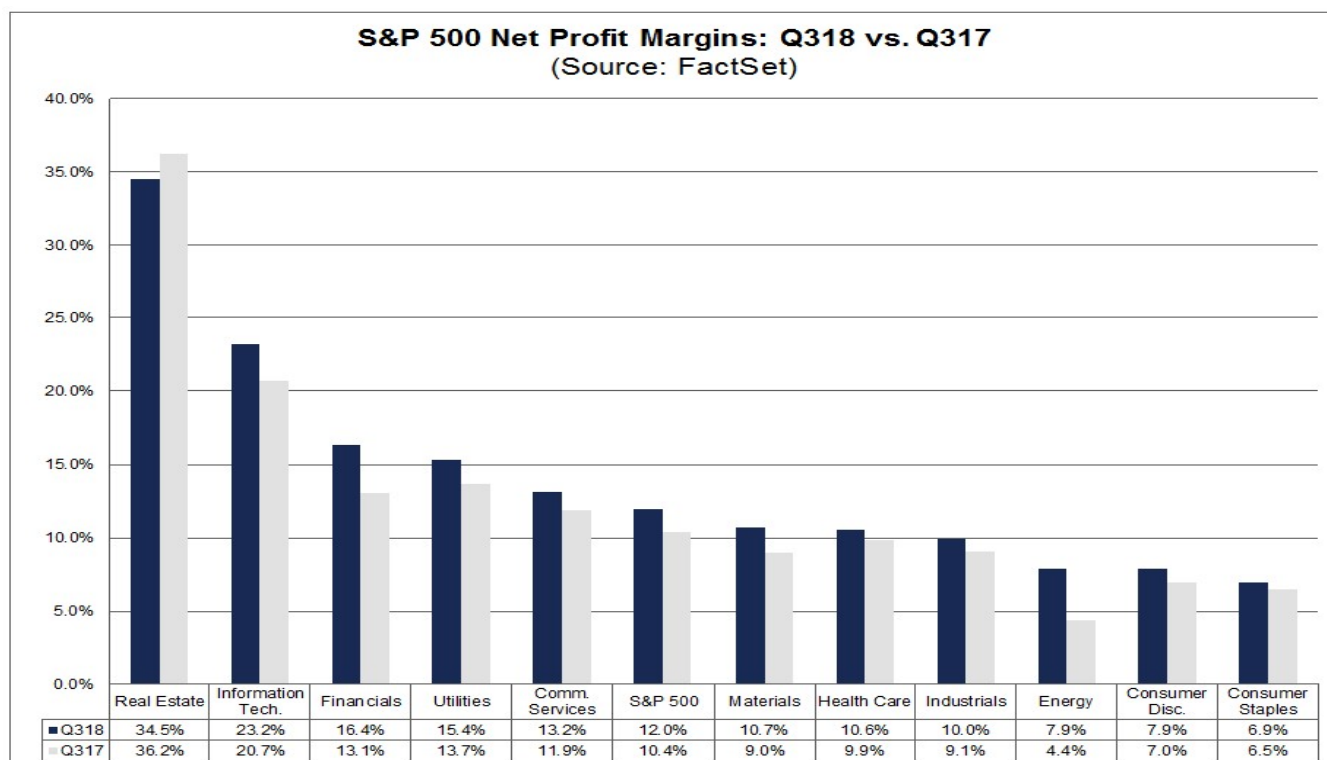


**S&P 500 Revenue Growth: Q3 2018**  
(Source: FactSet)

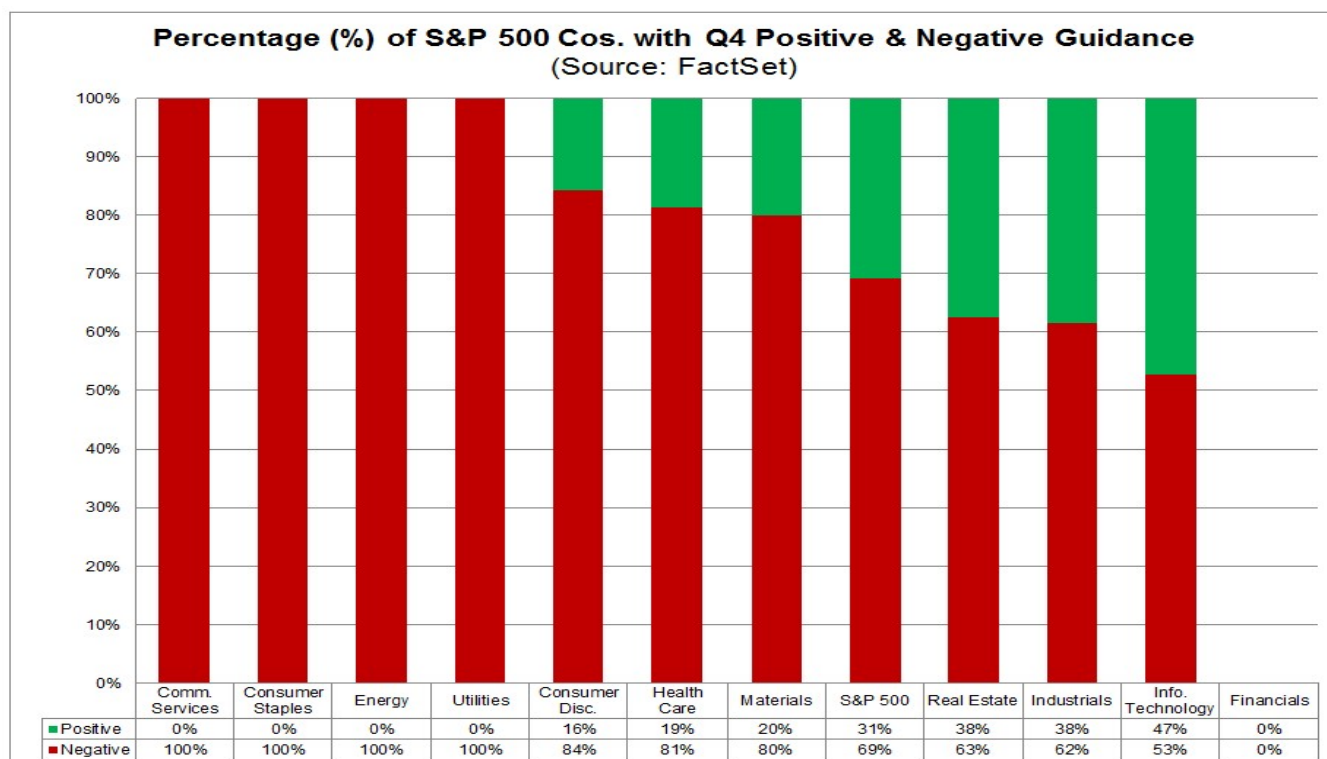
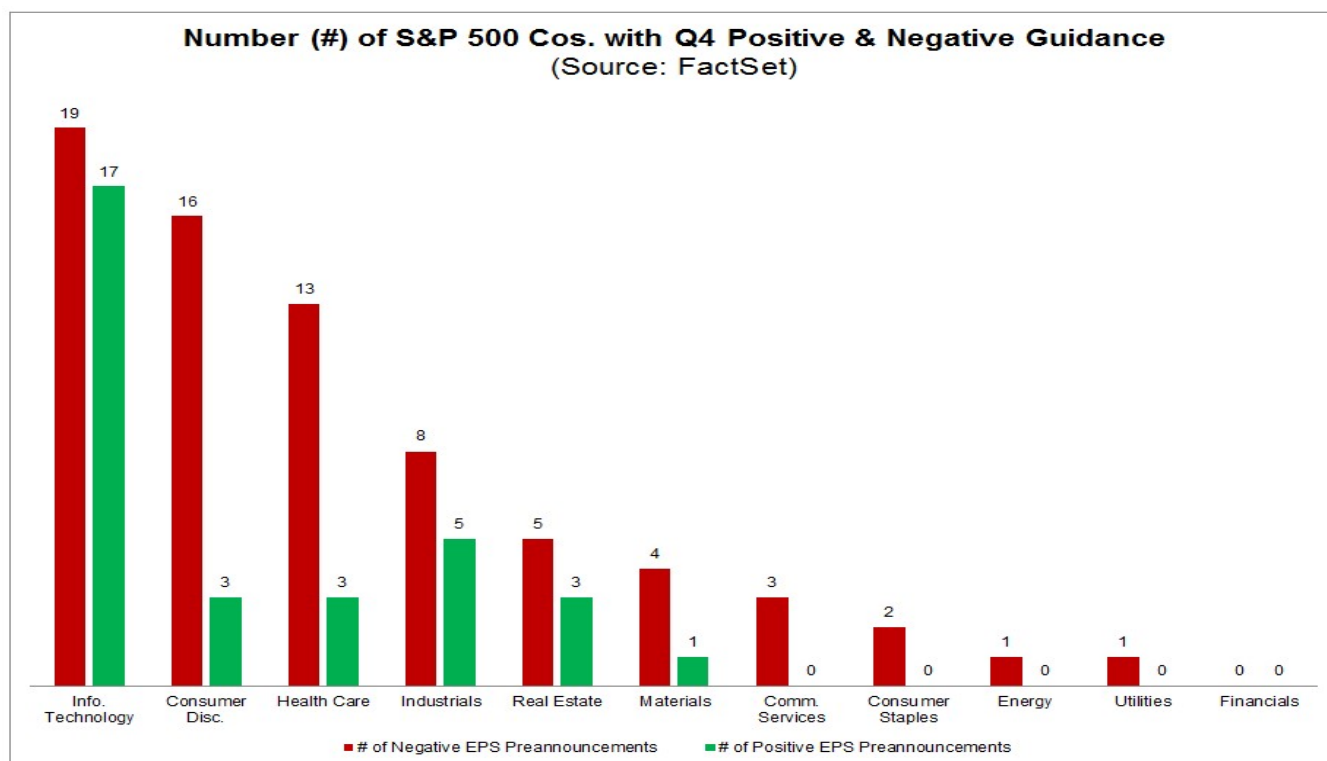




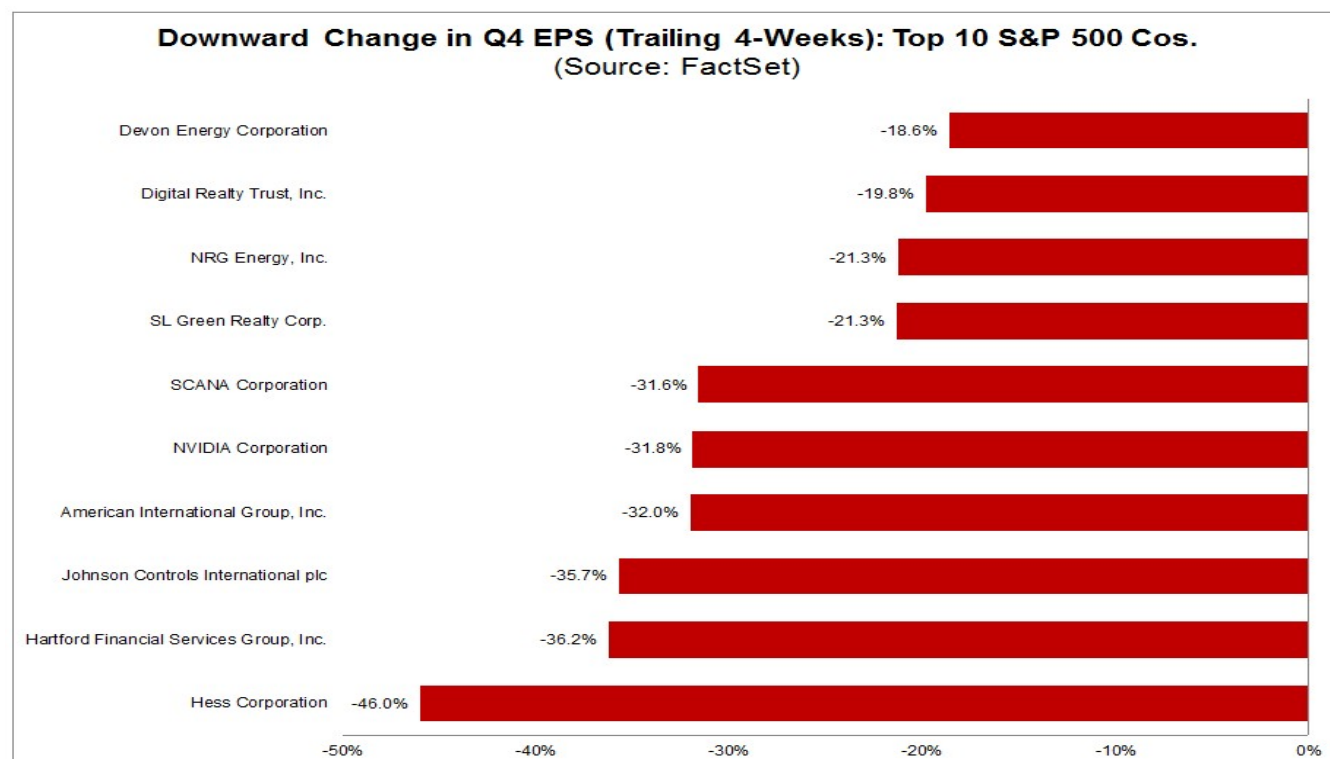
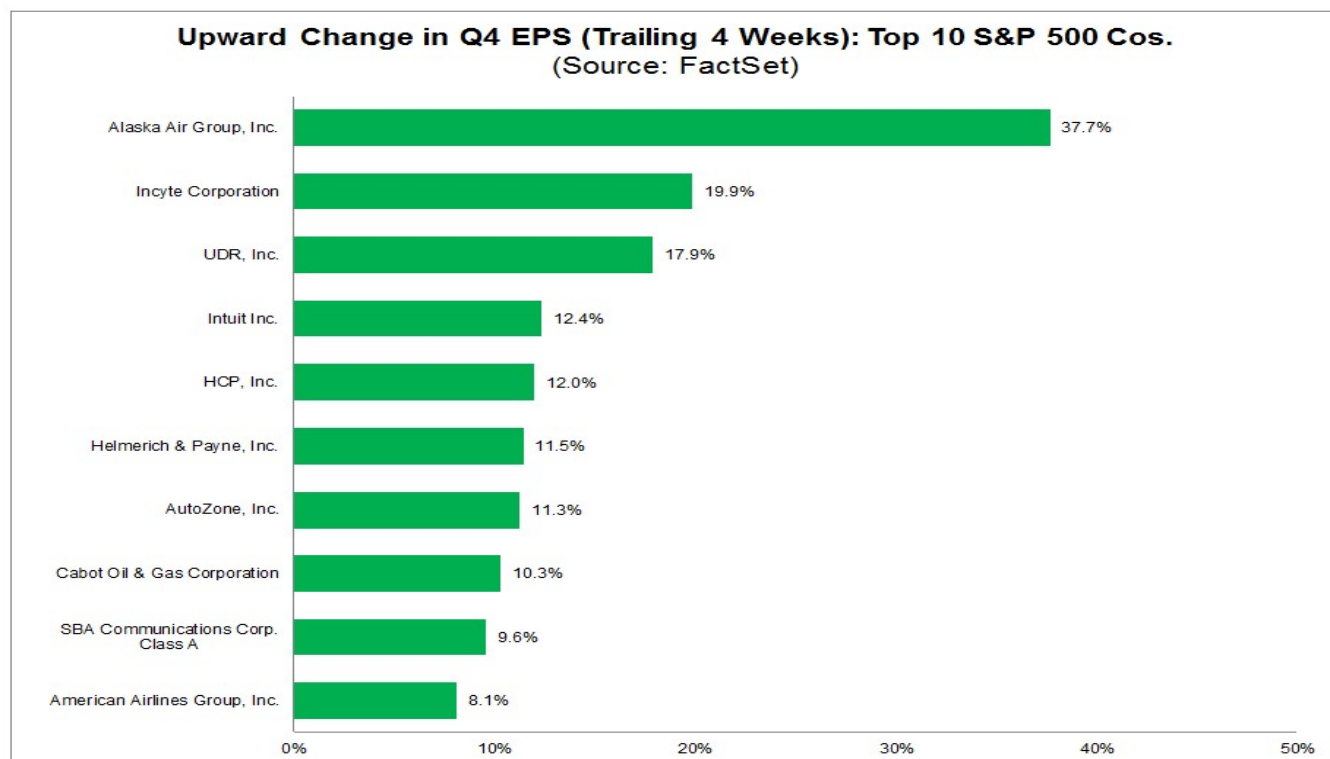
## Q3 2018: Net Profit Margin



## Q4 2018: EPS Guidance

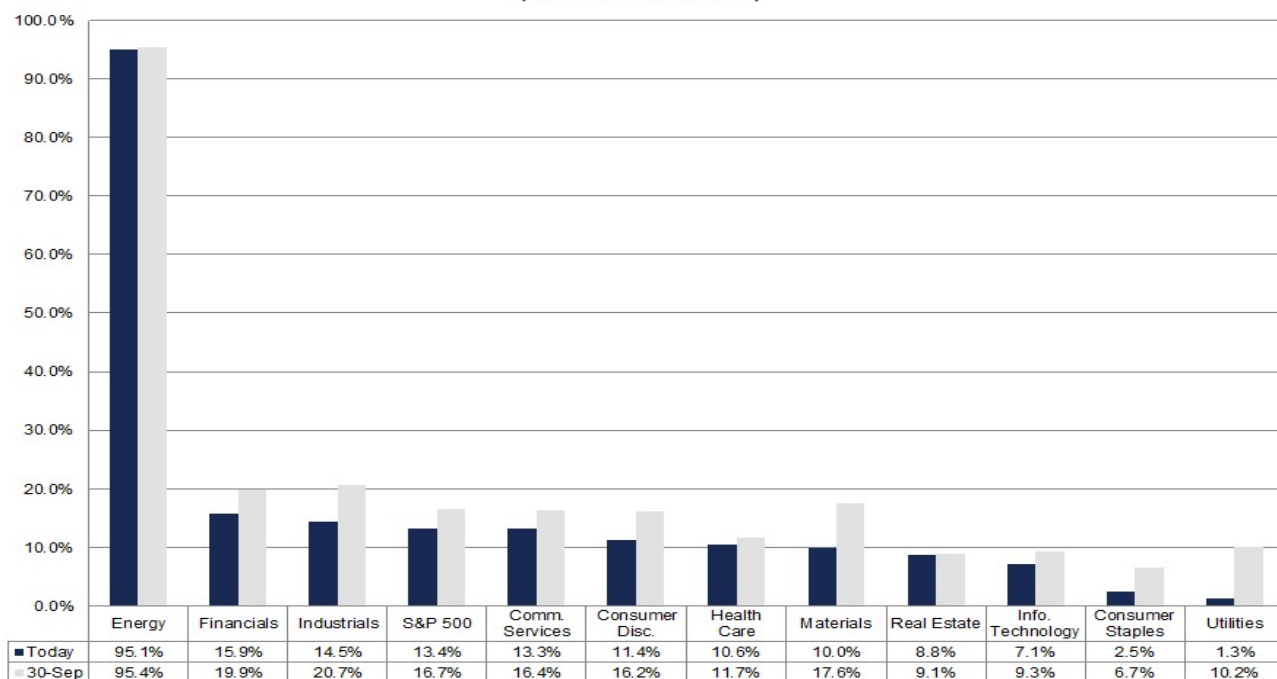


## Q4 2018: EPS Revisions

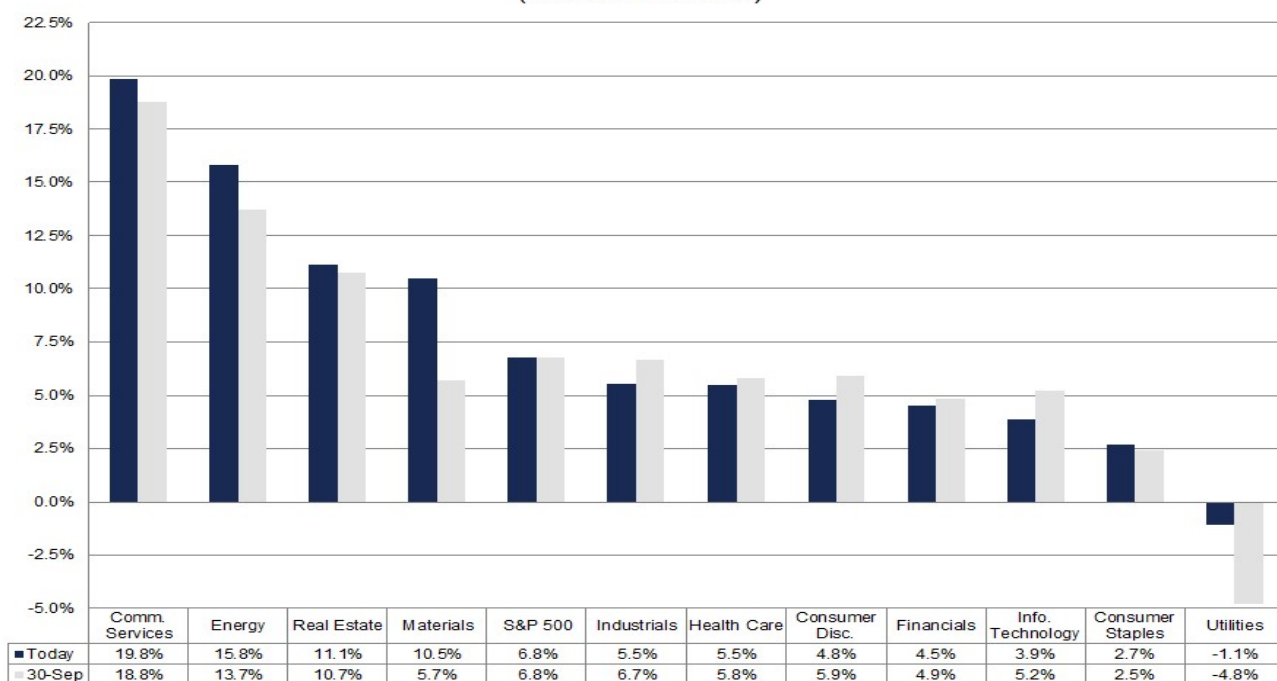


## Q4 2018: Growth

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

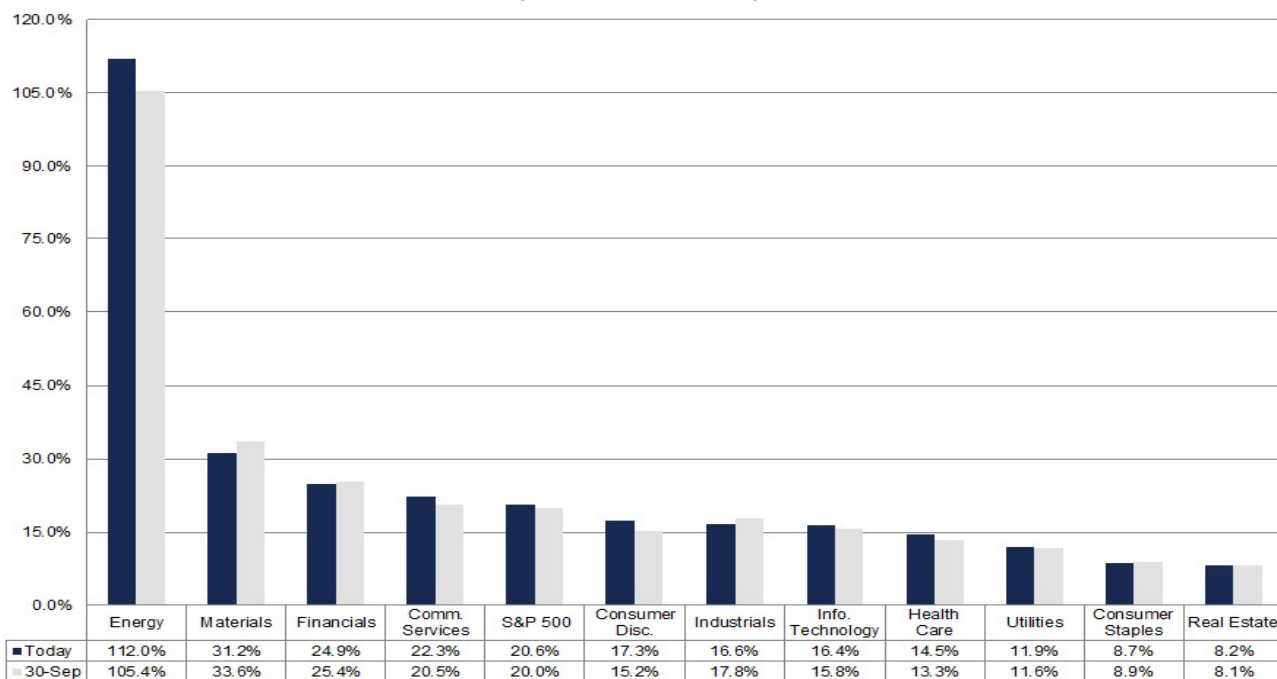


**S&P 500 Revenue Growth: Q4 2018**  
(Source: FactSet)

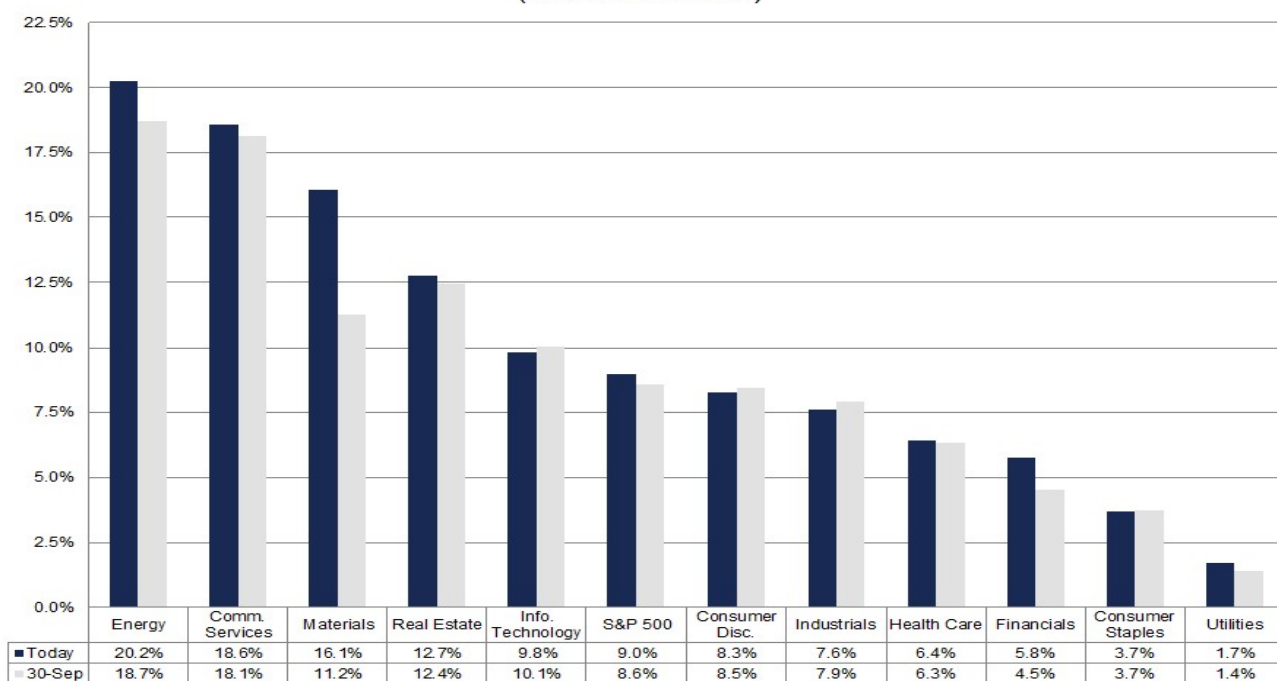


## CY 2018: Growth

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



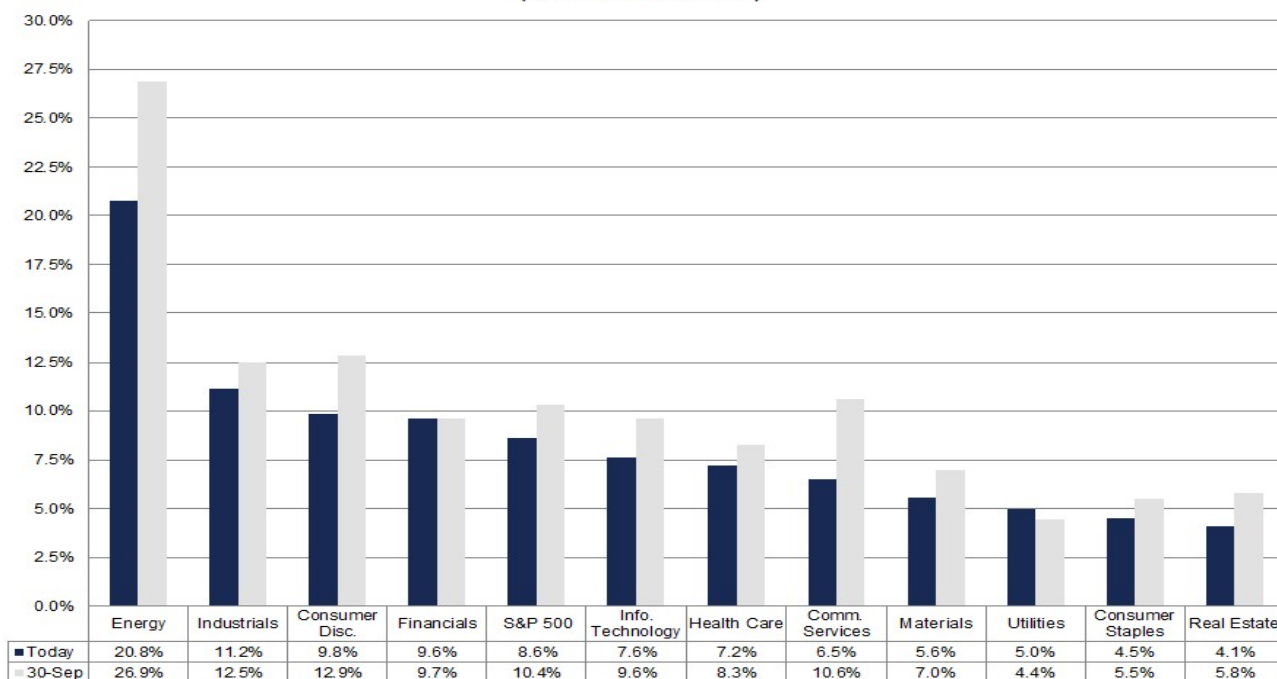
**S&P 500 Revenue Growth: CY 2018**  
(Source: FactSet)



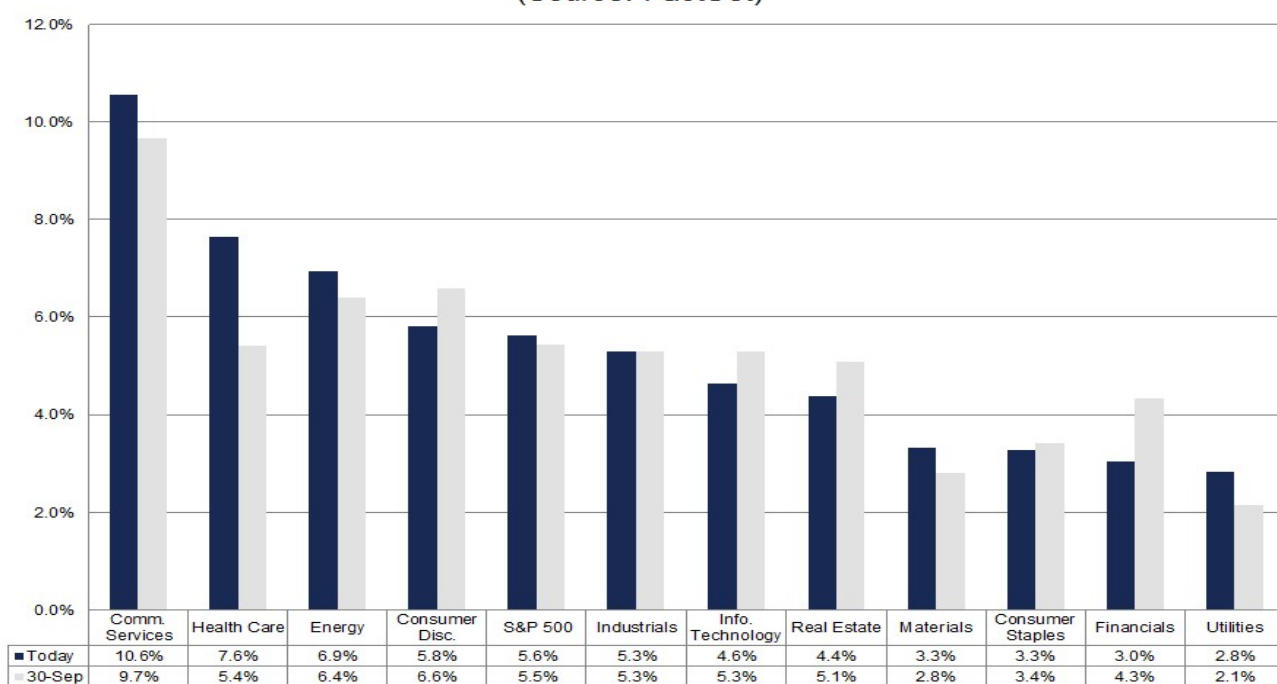


## CY 2019: Growth

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

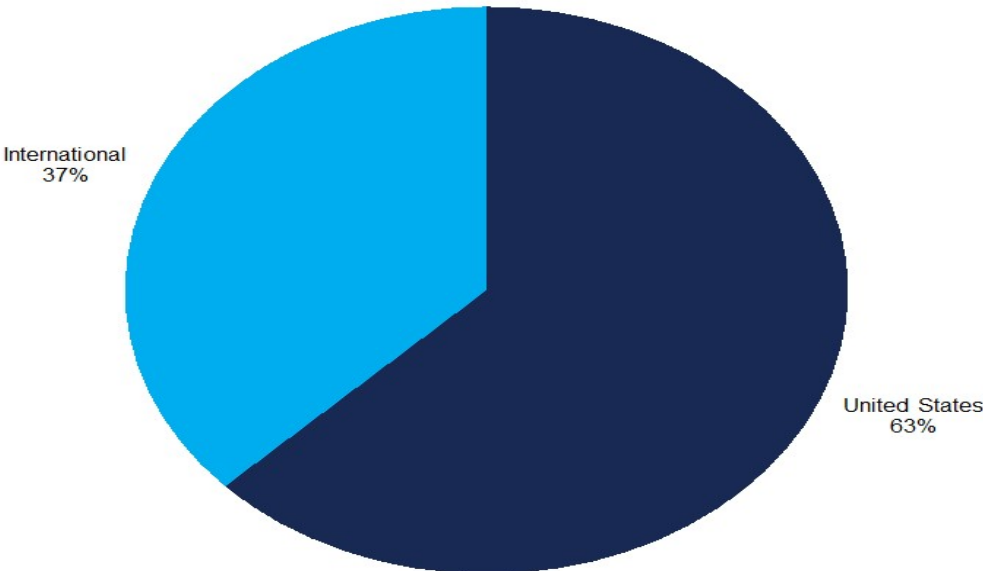


**S&P 500 Revenue Growth: CY 2019**  
(Source: FactSet)

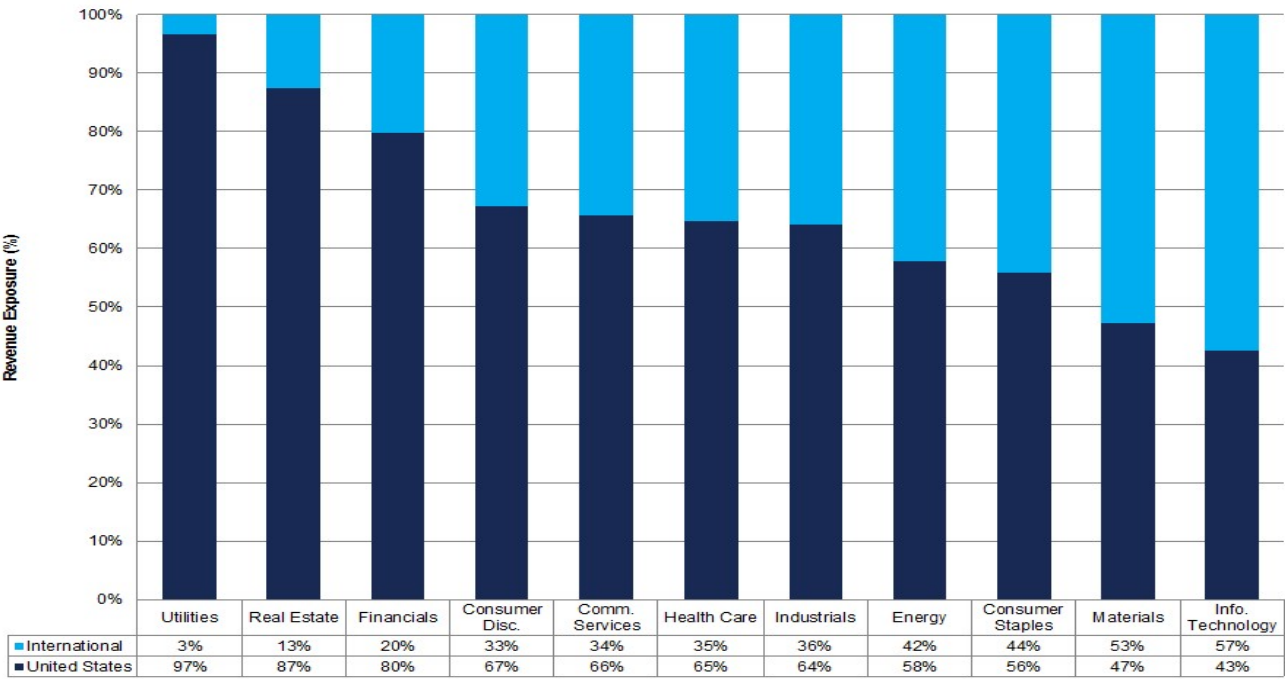


# Geographic Revenue Exposure

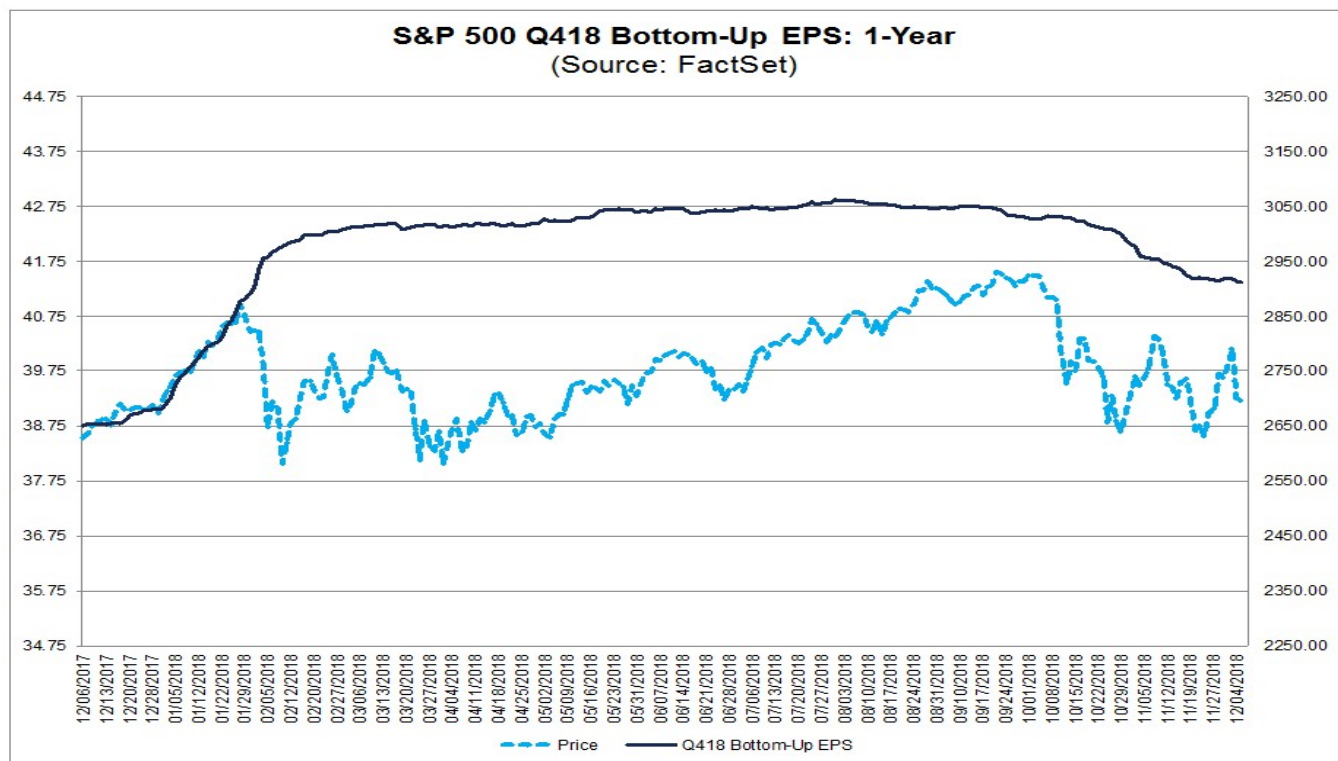
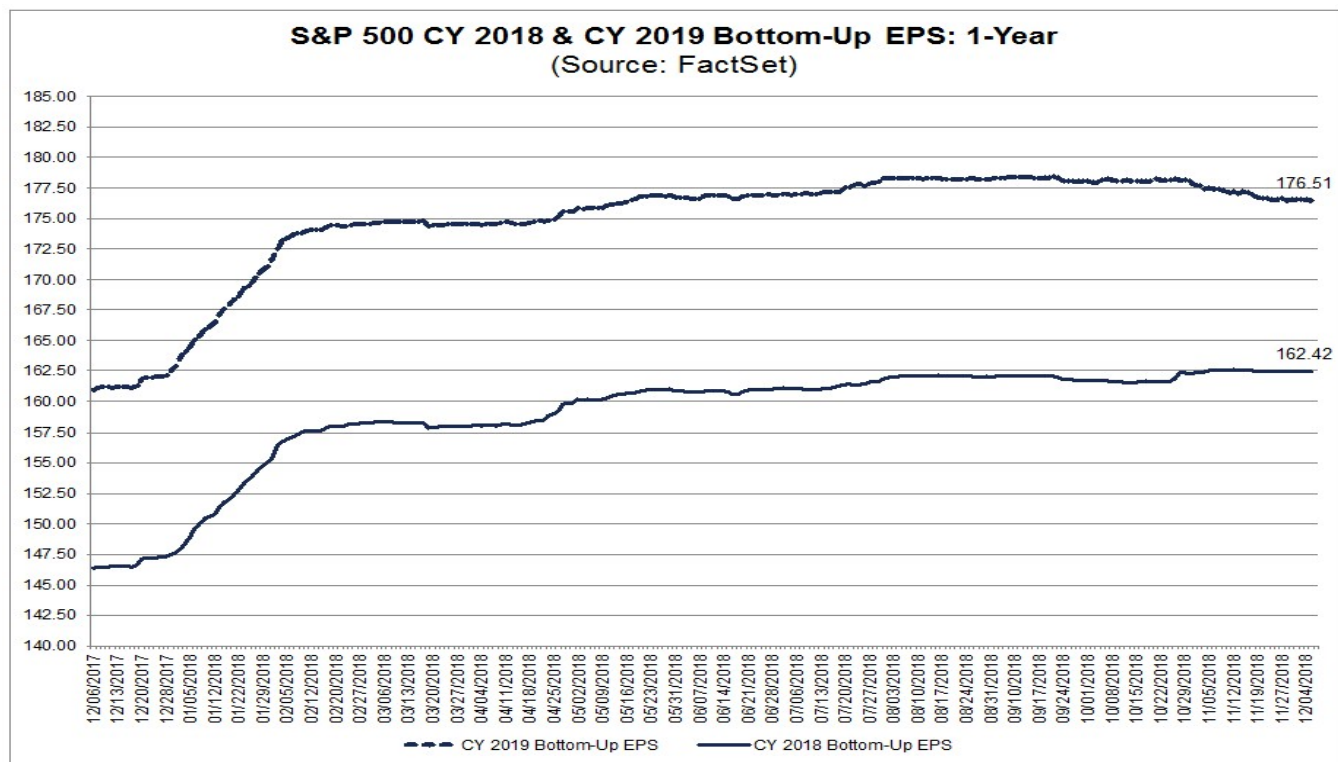
**S&P 500: Aggregate Geographic Revenue Exposure (%)**  
(Source: FactSet)



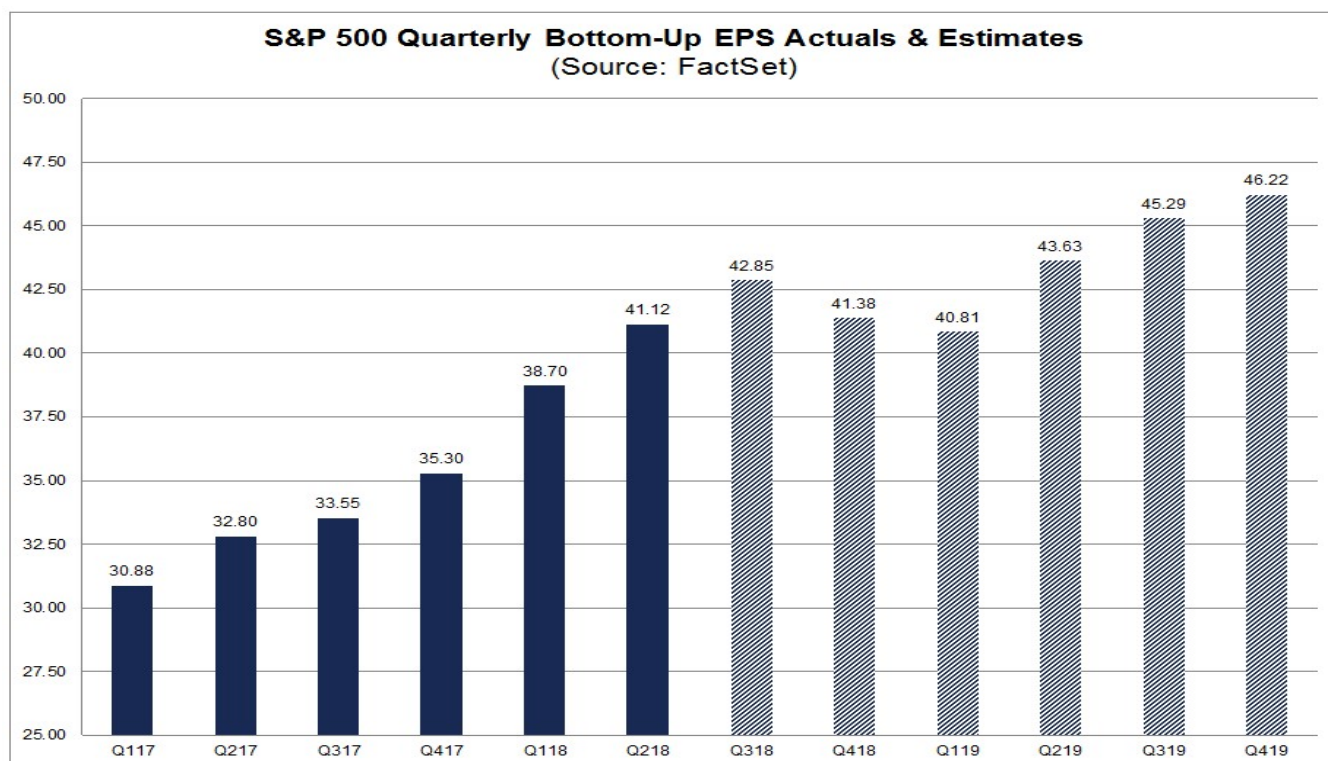
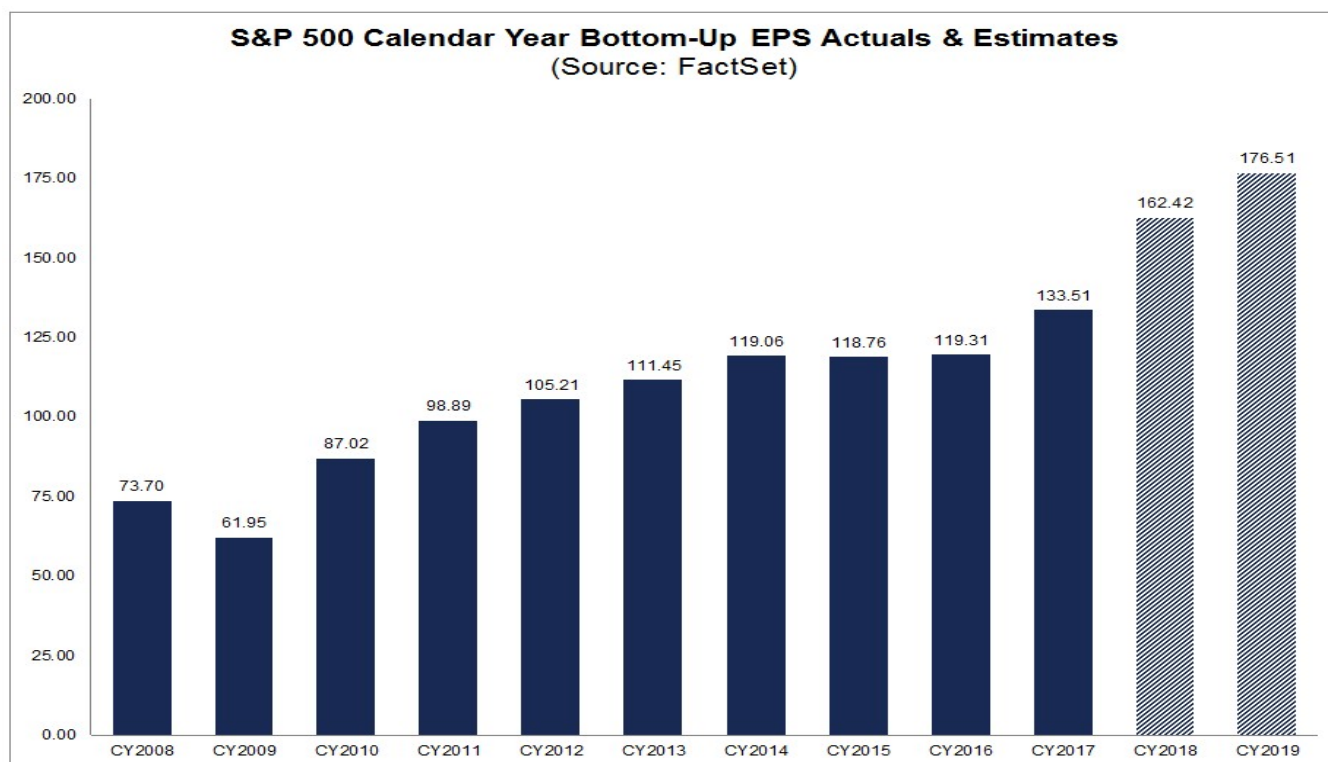
**S&P 500: Aggregate Sector Geographic Revenue Exposure (%)**  
(Source: FactSet)



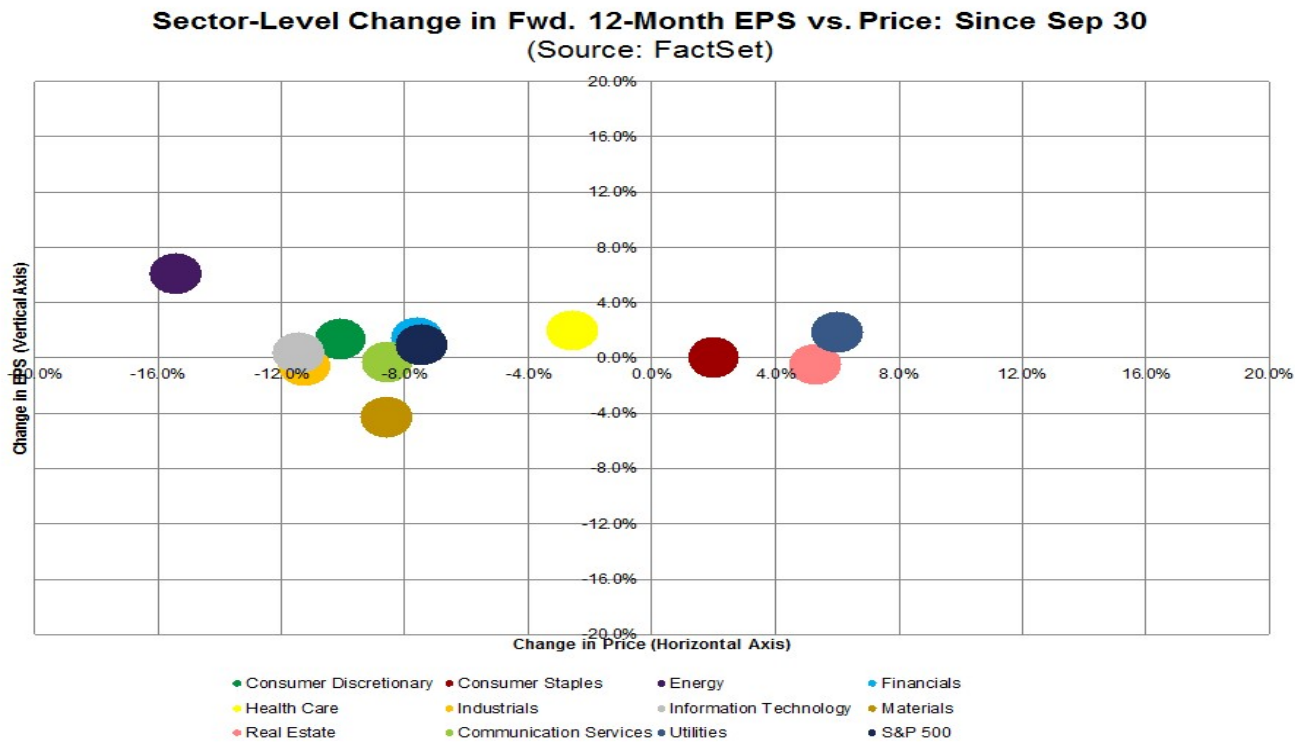
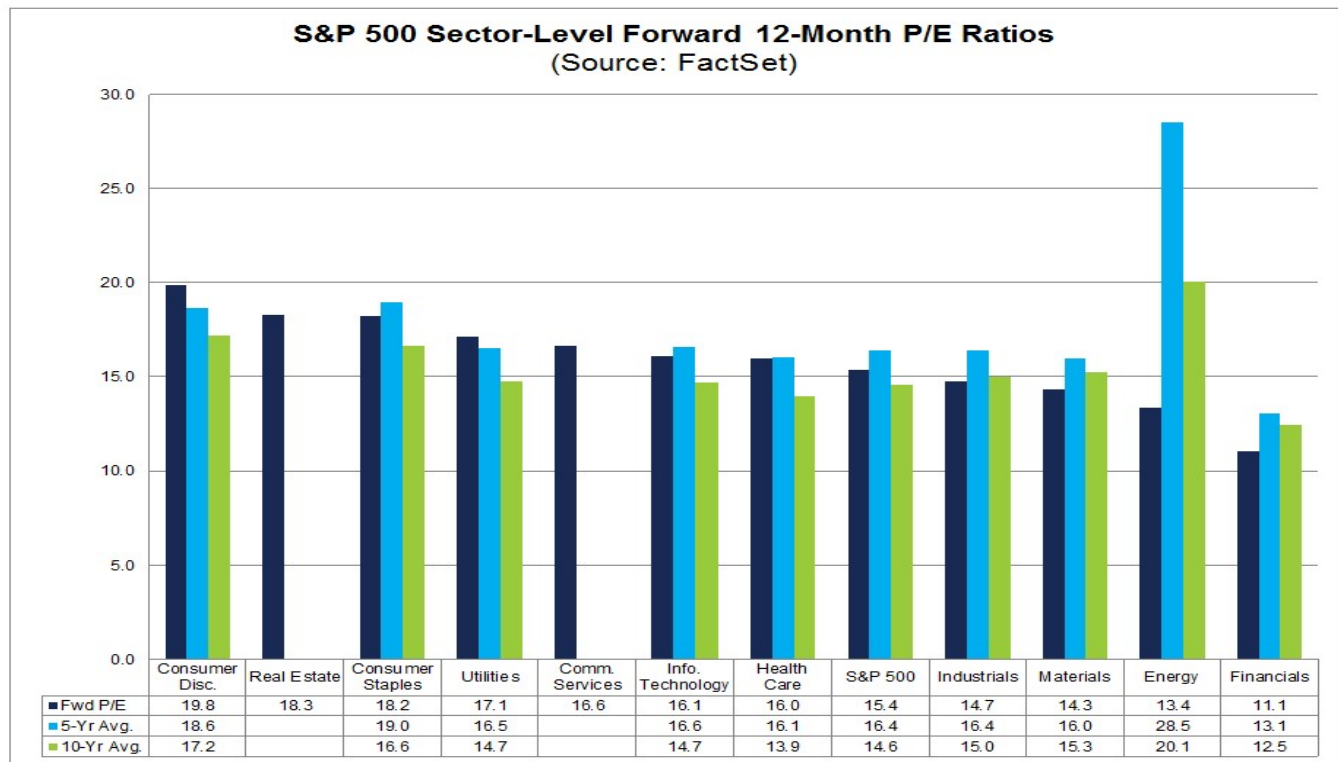
# Bottom-up EPS Estimates: Revisions



## Bottom-up EPS Estimates: Current & Historical

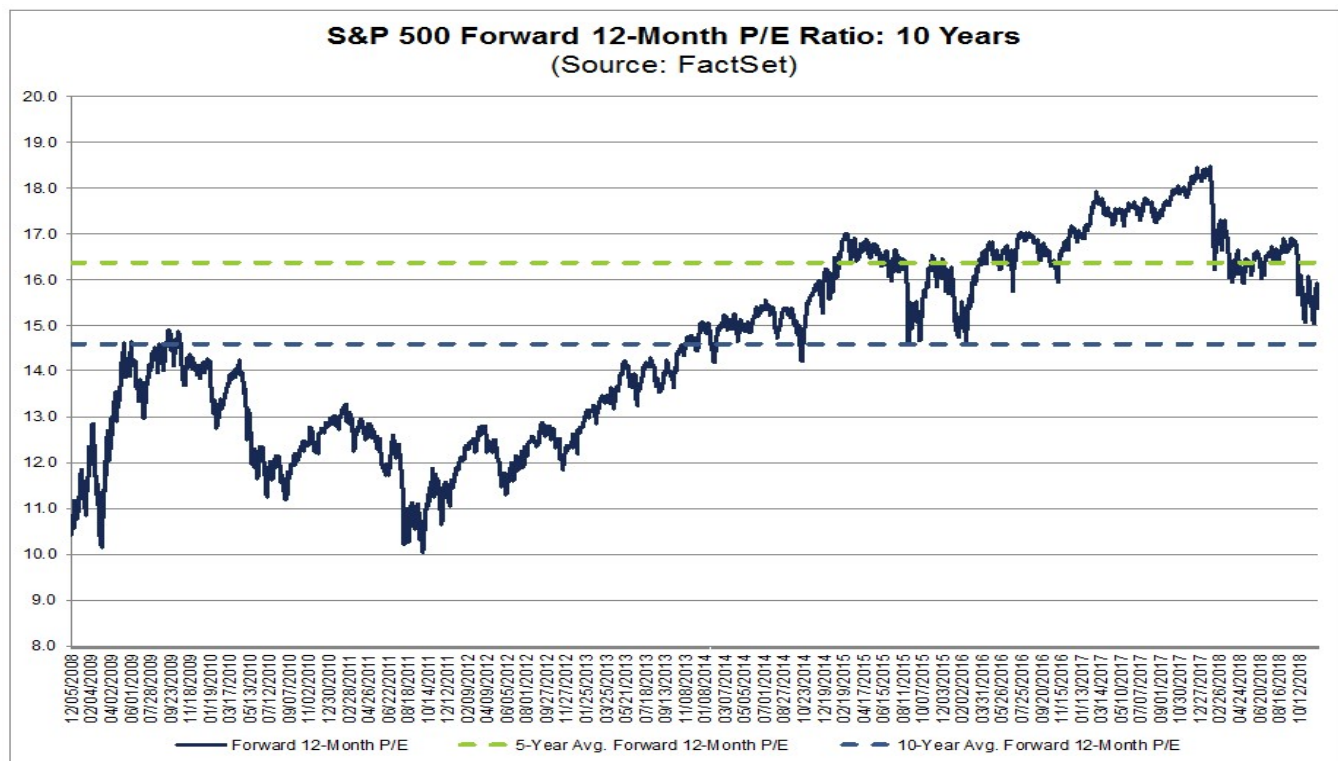
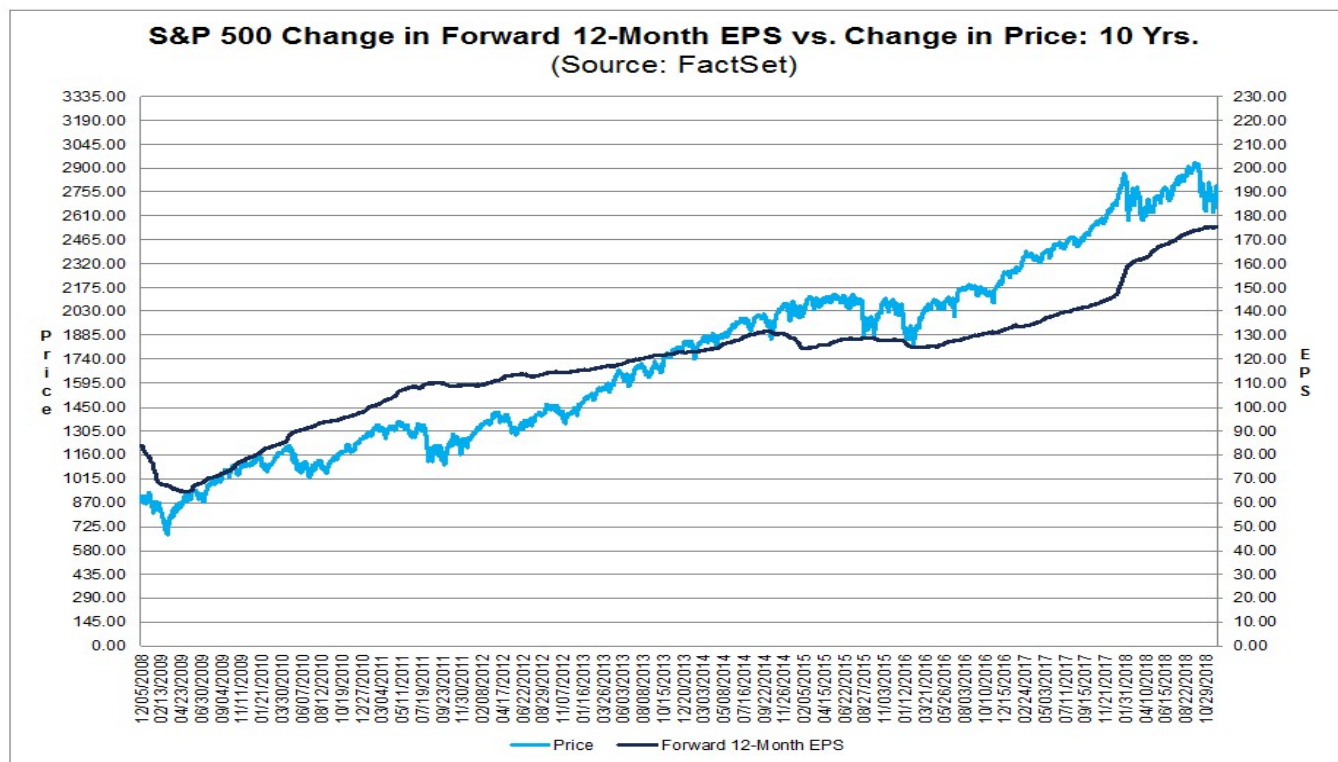


# Forward 12M P/E Ratio: Sector Level

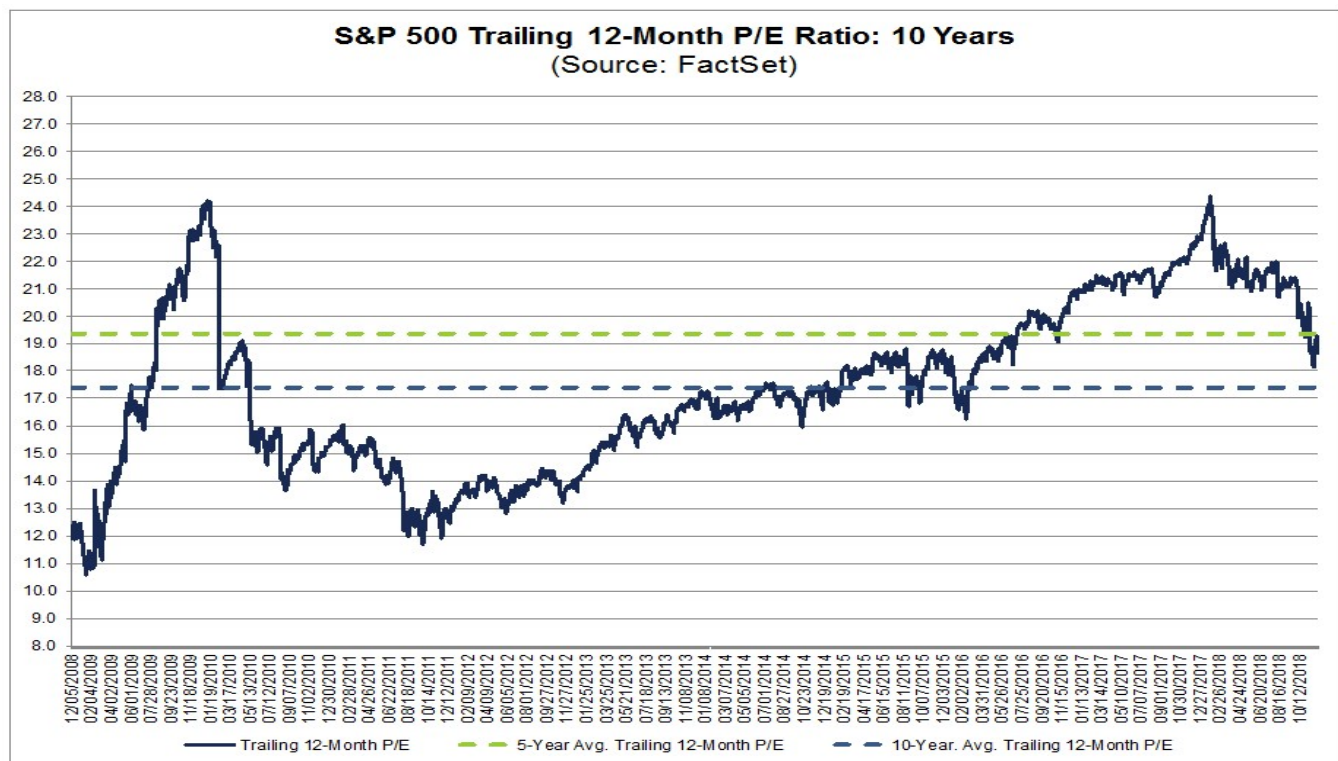
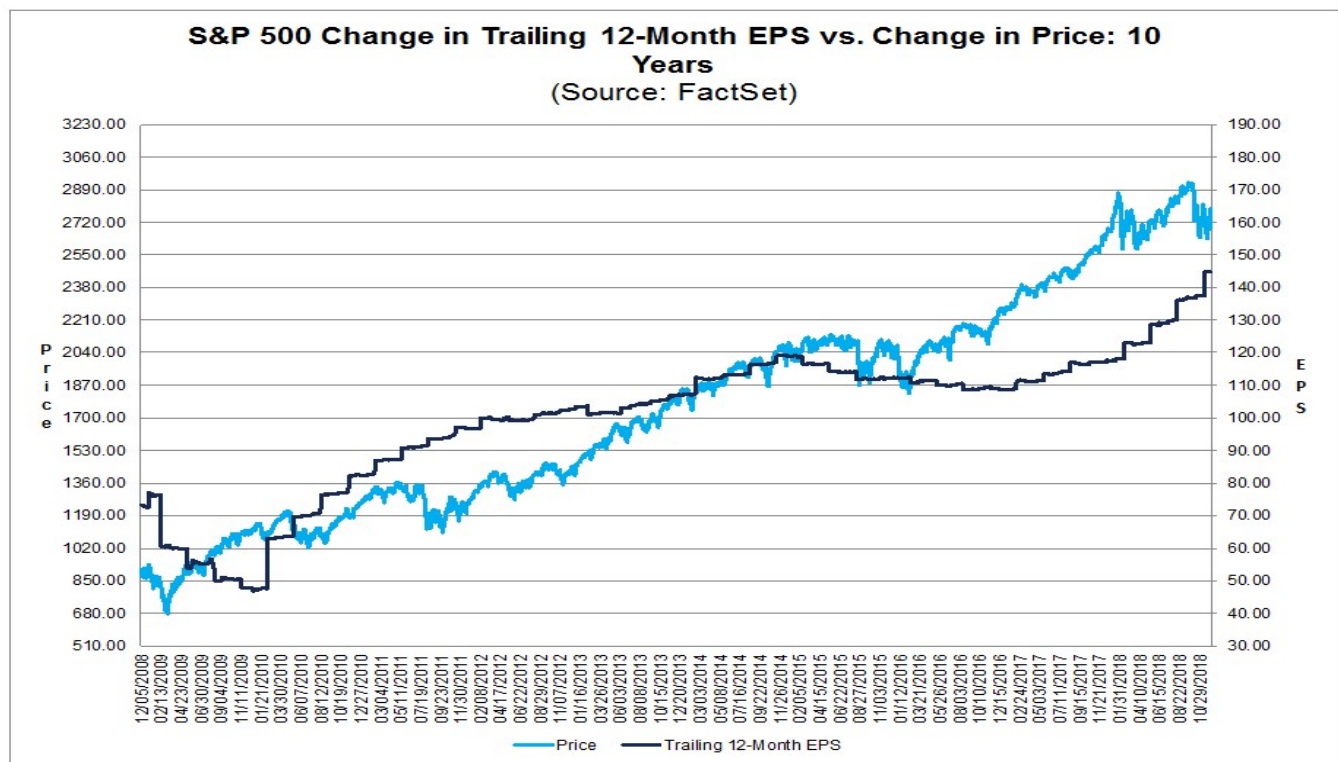




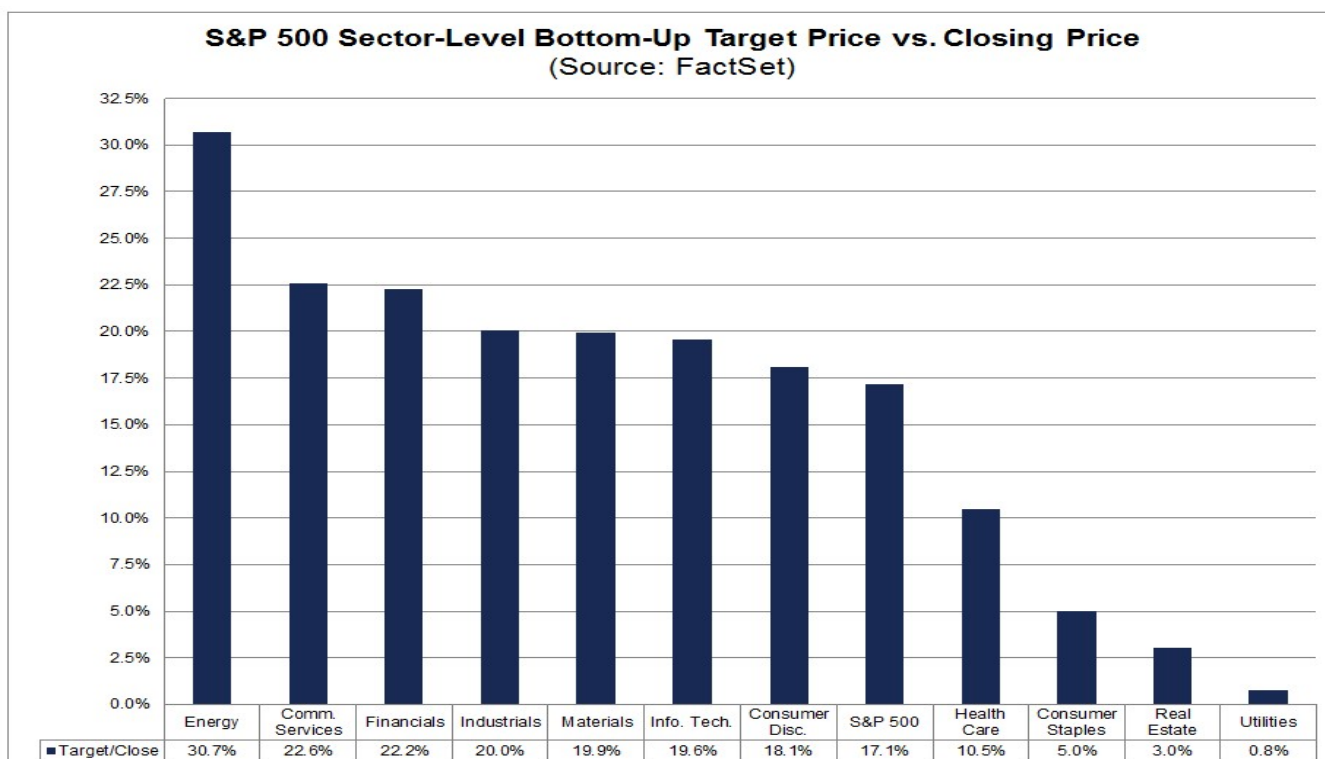
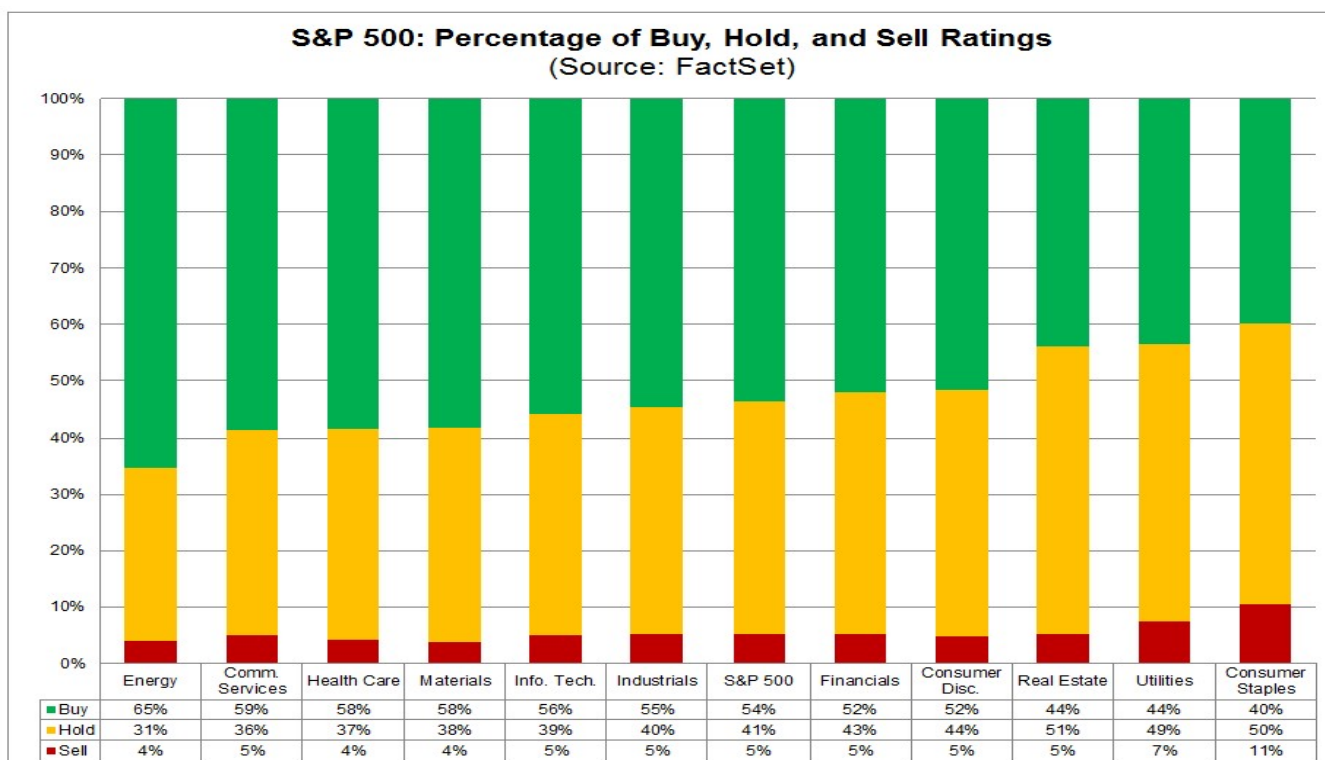
# Forward 12M P/E Ratio: Long-Term Averages



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



## Targets & Ratings



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