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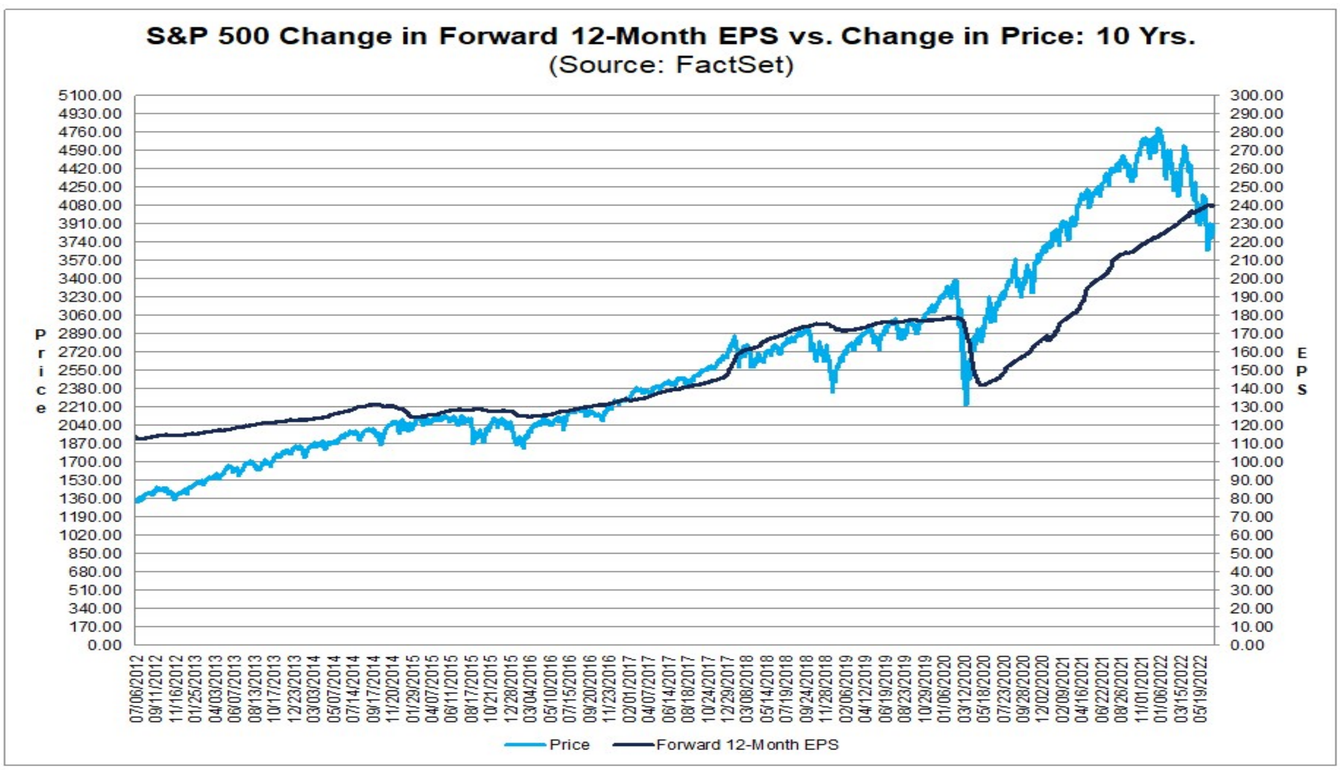
Key Metrics

- **Earnings Growth:** For Q2 2022, the estimated earnings growth rate for the S&P 500 is 4.3%. If 4.3% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q4 2020 (4.0%).
- **Earnings Revisions:** On March 31, the estimated earnings growth rate for Q2 2022 was 5.9%. Seven sectors are expected to report lower earnings today (compared to March 31) due to downward revisions to EPS estimates.
- **Earnings Guidance:** For Q2 2022, 71 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 16.3. This P/E ratio is below the 5-year average (18.6) and below the 10-year average (17.0).
- **Earnings Scorecard:** For Q2 2022 (with 18 S&P 500 companies reporting actual results), 13 S&P 500 companies have reported a positive EPS surprise and 14 S&P 500 companies have reported a positive revenue surprise.



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Topic of the Week: 1

S&P 500 Likely to Report Earnings Growth Between 9% and 12% for Q2 2022

As of today, the S&P 500 is expected to report (year over-year) earnings growth of 4.3% for the second quarter. Given that most S&P 500 companies report actual earnings above estimates, what is the likelihood the index will report actual growth in earnings of 4.3% for the quarter?

Based on the average improvement in earnings growth during each earnings season due to companies reporting positive surprises, it is likely the index will report earnings growth between 9% and 12% for the second quarter.

When companies in the S&P 500 report actual earnings above estimates during an earnings season, the overall earnings growth rate for the index increases because the higher actual EPS numbers replace the lower estimated EPS numbers in the calculation of the growth rate. For example, if a company is projected to report EPS of $1.05 compared to year ago EPS of $1.00, the company is projected to report earnings growth of 5%. If the company reports actual EPS of $1.10 (a $0.05 upside earnings surprise compared to the estimate), the actual earnings growth rate for the company for the quarter is now 10%, five percentage points above the estimated growth rate (10% - 5% = 5%).

In fact, the actual earnings growth rate has exceeded the estimated earnings growth rate at the end of the quarter in 39 of the past 40 quarters for the S&P 500. The only exception was Q1 2020.

Over the past five years, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 8.8% on average. During this same period, 77% of companies in the S&P 500 have reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has increased by 8.1 percentage points on average (over the past five years) due to the number and magnitude of positive earnings surprises.

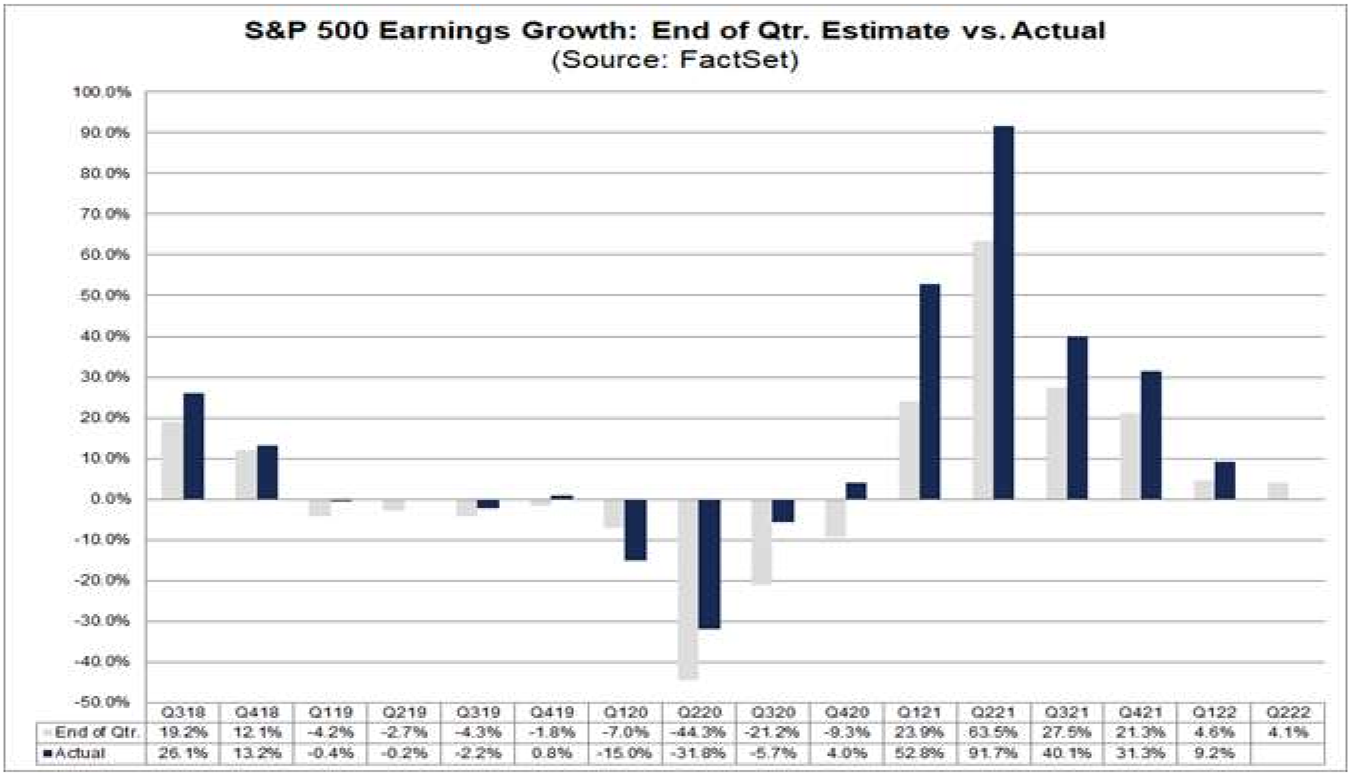
If this average increase is applied to the estimated earnings growth rate at the end of Q2 (June 30) of 4.1%, the actual earnings growth rate for the quarter would be 12.2% (4.1% + 8.1% = 12.2%). If the S&P 500 reports year-over-year growth in earnings of 12.2% for Q2, it would mark the fifth time in the past six quarters that the index has reported (year-over-year) earnings growth above 10%.

Over the past ten years, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 6.5% on average. During this same period, 72% of companies in the S&P 500 have reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has increased by 5.5 percentage points on average (over the past ten years) due to the number and magnitude of positive earnings surprises.

If this average increase is applied to the estimated earnings growth rate at the end of Q2 (June 30) of 4.1%, the actual earnings growth rate for the quarter would be 9.6% (4.1% + 5.5% = 9.6%). If the S&P 500 reports year-over-year growth in earnings of 9.6% for Q2, it would mark the second straight quarter that the index reported (year-over-year) earnings growth below 10%.

Of the 18 S&P 500 companies that have reported actual earnings for Q2 2022 to date, 72% have reported actual EPS above the mean EPS estimate. In aggregate, actual earnings reported by these 18 companies have exceeded estimated earnings by 3.5%.

Therefore, at this very early stage of the Q2 earnings season, the number of positive earnings surprises is closer to the 10-year average than the 5-year average, while the magnitude of the positive surprises is below both the 5-year average and the 10-year average. Since June 30, the earnings growth rate for the S&P 500 has increased by 0.2 percentage points (to 4.3% from 4.1%).


S&P 500 Earnings Growth: End of Qtr. Estimate vs. Actual
(Source: FactSet)
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
-10.0%
-20.0%
-30.0%
-40.0%
-50.0%
Q318 Q418 Q119 Q219 Q319 Q419 Q120 Q220 Q320 Q420 Q121 Q221 Q321 Q421 Q122 Q222
End of Qtr. 19.2% 12.1% -4.2% -2.7% -4.3% -1.8% -7.0% -44.3% -21.2% -9.3% 23.9% 63.5% 27.5% 21.3% 4.6% 4.1%
Actual 26.1% 13.2% -0.4% -0.2% -2.2% 0.8% -15.0% -31.8% -5.7% 4.0% 52.8% 91.7% 40.1% 31.3% 9.2%

Topic of the Week: 2

61% of S&P 500 Companies Cite Negative Impact of Labor Costs on Q2 Earnings Calls

While the majority of S&P 500 companies will report earnings results for Q2 2022 over the next few weeks, 4% of the companies in the index (18 companies) have already reported earnings results for the second quarter (through July 8). Given current expectations for single-digit earnings growth for the second quarter and the possibility of a recession, have these companies discussed specific factors that had a negative impact on earnings or revenues for the second quarter (or are expected to have a negative impact in future quarters) during their earnings conference calls?

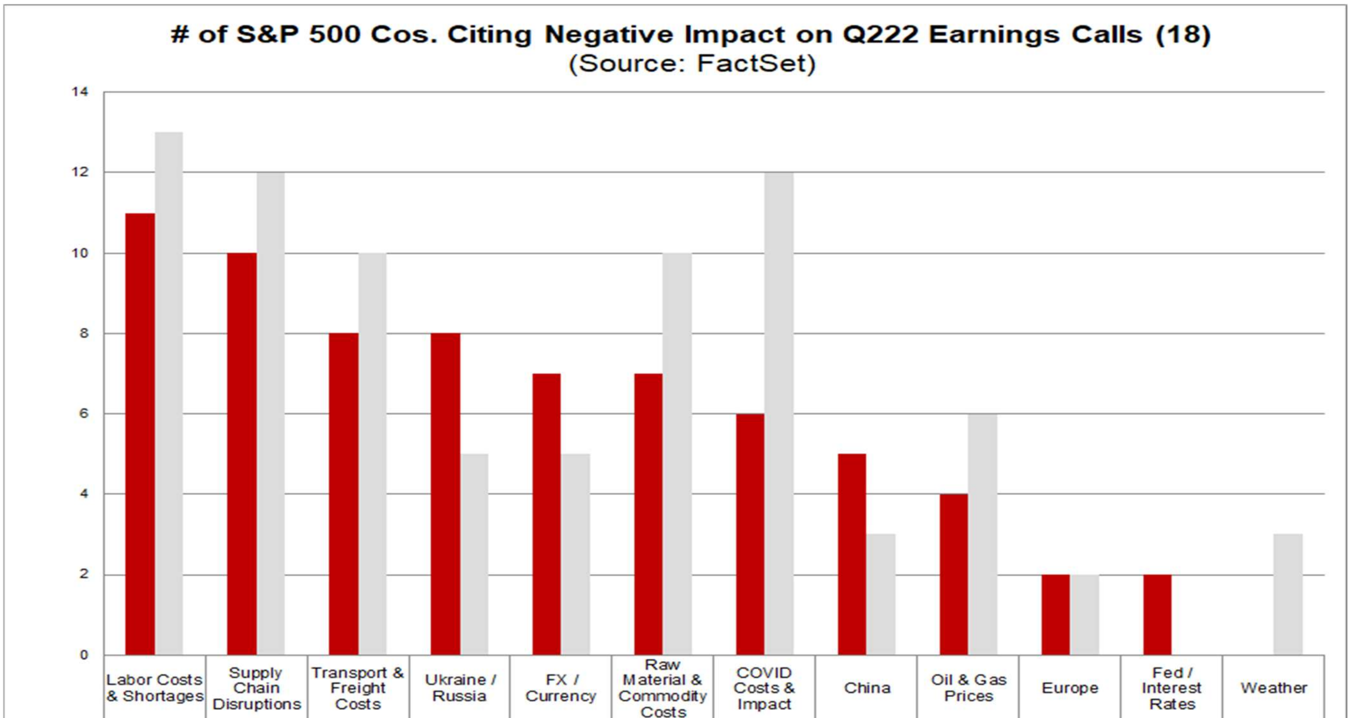
To answer this question, FactSet searched for specific terms related to a number of factors (e.g. “currency,” “labor,” etc.) in the conference call transcripts of the 18 S&P 500 companies that conducted second quarter earnings conference calls through July 8 to see how many companies discussed these factors. FactSet then looked to see if the company cited a negative impact, expressed a negative sentiment (e.g. “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. The results for Q2 and a comparison to the same time period in Q1 are shown in the chart on page 2.

Labor costs and shortages have been cited by the highest number companies in the index to date as a factor that either had a negative impact on earnings or revenues in Q2, or is expected to have a negative impact on earnings or revenues in future quarters. Of these 18 companies, 11 (or 61%) have discussed a negative impact from this factor. After labor shortages and costs, supply chain costs and disruptions (10) have been discussed by the second-highest number of S&P 500 companies.

Four factors witnessed an increase in the number of companies citing a negative impact relative to the previous quarter: the military conflict in Ukraine (+3), lockdowns in China (+2), rising interest rates (+2), and unfavorable foreign currency exchange (+2). These increases occurred despite that fact the fewer companies were surveyed for Q2 2022 (18) relative Q1 2022 (20) at the same point in time in the earnings season.

It is interesting to note that despite the negative impacts cited by these 18 companies, they have reported aggregate (year-over-year) earnings growth of 11.0% and average (year-over-year) earnings growth of 8.5% for Q2. Both of these numbers are above the current (blended) earnings growth rate of 4.3% for Q2 for the index as a whole. It appears that most of these companies are raising prices to offset these negative impacts, as 16 of these 18 companies (89%) discussed increasing prices or improving price realization on their earnings calls.

A list of the companies discussing the top factors and price increases can be found in Appendix 1 on pages 35-41.



	Labor Costs & Shortages	Supply Chain Disruptions	Transport & Freight Costs	Ukraine / Russia	FX / Currency	Raw Material & Commodity Costs	COVID Costs & Impact	China	Oil & Gas Prices	Europe	Fed / Interest Rates	Weather
Q222	11	10	8	8	7	7	6	5	4	2	2	0
Q122	13	12	10	5	5	10	12	3	6	2	0	3

Topic of the Week: 3

Higher Provisions for Loan Losses Are Lowering Earnings Growth for S&P 500 Banks for Q2

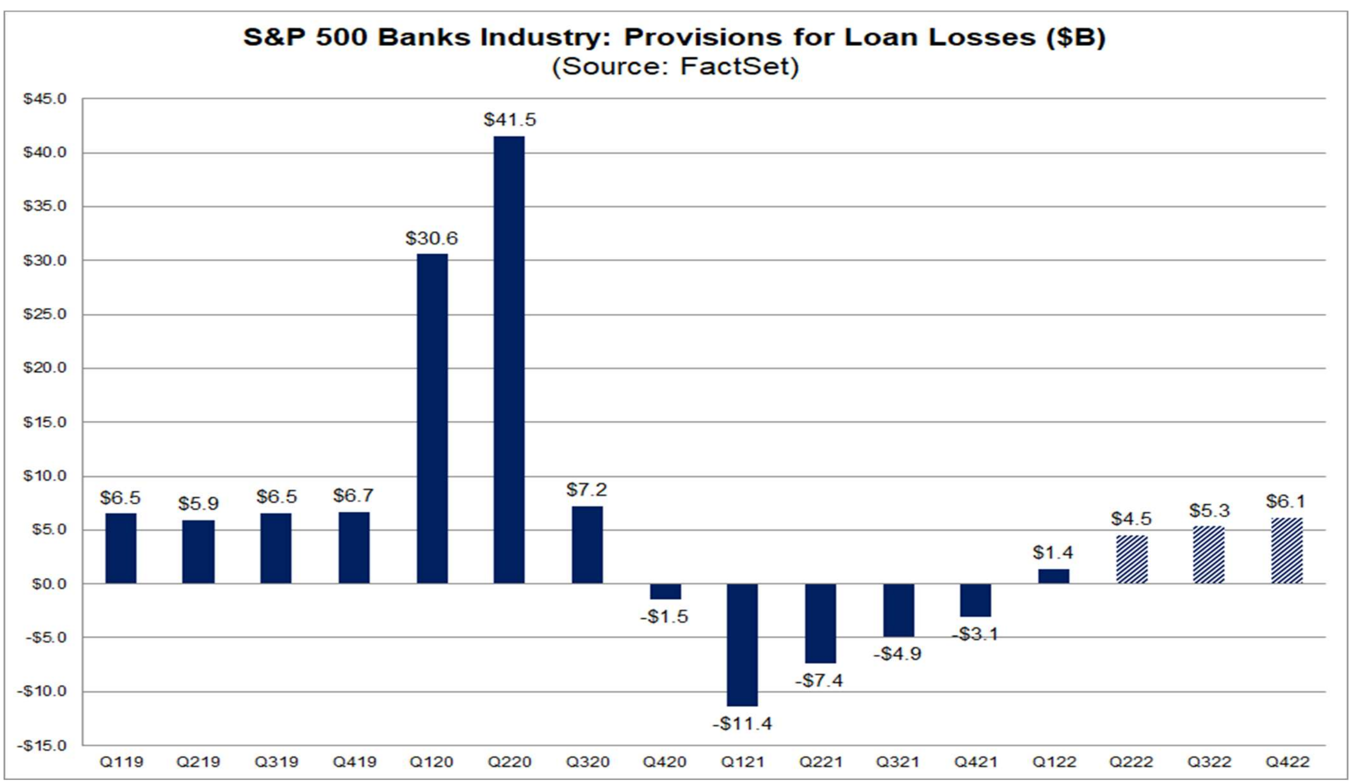
The Financials sector will be a sector in focus for the market this upcoming week, as 11 of the 17 companies in the S&P 500 that are scheduled to report earnings for Q2 during the week are in this sector. Most of these 11 companies are in the Banks industry, including Citigroup, JPMorgan Chase, and Wells Fargo. This industry is projected to report a year-over-year earnings decline of -26% for Q2. What is driving the expected decline in earnings for this industry?

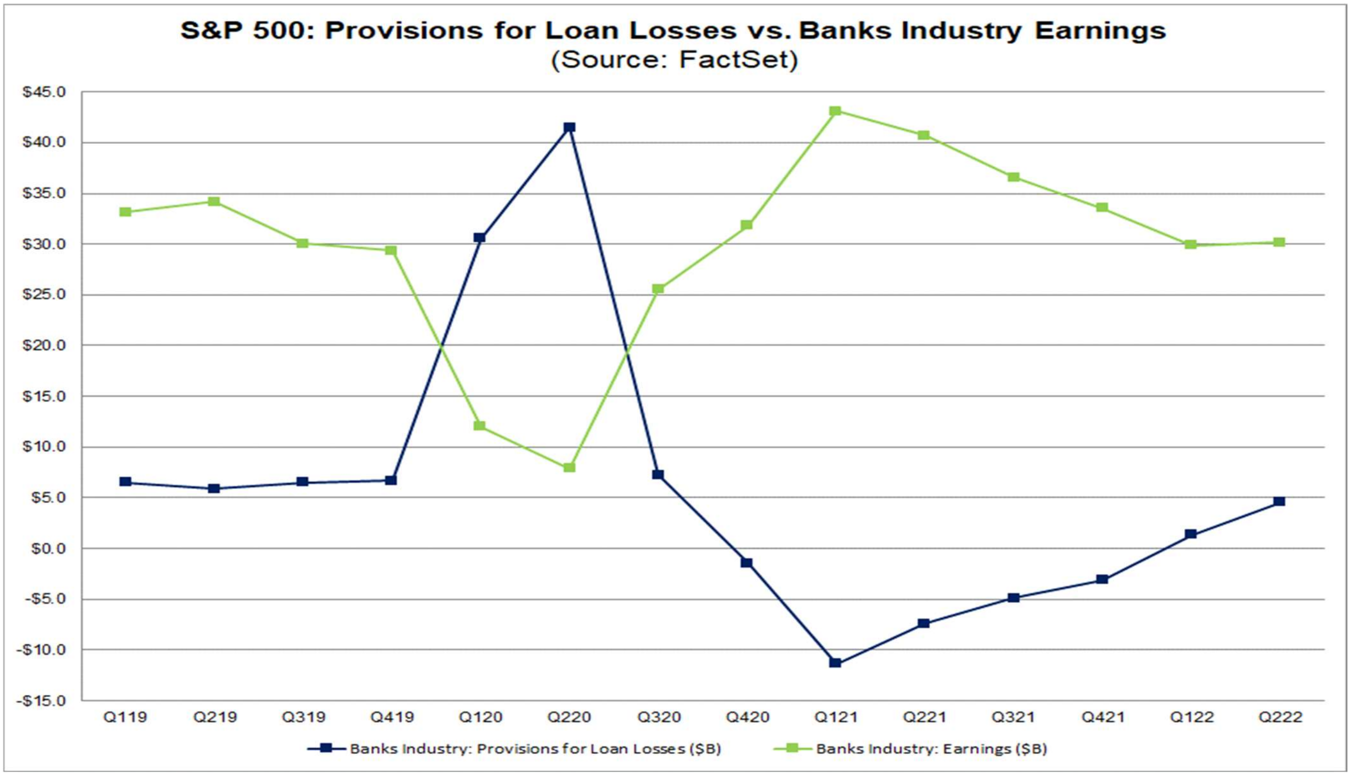
One factor contributing to the decline is that companies in the Banks industry are expected to report significantly higher provisions for loan losses in Q2 2022 relative to Q2 2021. Provisions for loan losses have no impact on top-line growth, but do have an impact on bottom-line growth, as they are treated like an expense on a company's income statement.

Banks dramatically increased their provisions for loan losses in the first half of 2020 in conjunction with the economic lockdowns caused by COVID-19. Banks then substantially reduced their provisions for loan losses during 2021, with restrictions easing and economic conditions improving during the year. Banks are now increasing these provisions back to near pre-pandemic levels for 2022 (and going forward), but are facing difficult comparisons to the much lower (negative) numbers from 2021.

For example, JPMorgan Chase reported $10.5 billion in provisions for loan losses in Q2 2020 and -$2.3 billion in provisions for loan losses in Q2 2021. For Q2 2022, the estimated provision for loan losses is $1.0 billion.

FactSet Estimates actively tracks this metric for all 18 companies in the Banks industry in the S&P 500. In aggregate, these 18 banks are projected to report $4.5 billion in provisions for loan losses in Q2 2022 compared to -$7.4 billion in Q2 2021. Based on current estimates, the Banks industry will likely continue to see a negative impact to earnings growth for the remainder of 2022 due to the year-over-year increase in provisions for loan losses for the remainder of 2022 compared to the remainder of 2021. However, the magnitude of the (year-over-year) difference is predicted to decline sequentially through the rest of the year.




S&P 500: Provisions for Loan Losses vs. Banks Industry Earnings
(Source: FactSet)
$45.0
$40.0
$35.0
$30.0
$25.0
$20.0
$15.0
$10.0
$5.0
$0.0
-$5.0
-$10.0
-$15.0
Q119 Q219 Q319 Q419 Q120 Q220 Q320 Q420 Q121 Q221 Q321 Q421 Q122 Q222
Banks Industry: Provisions for Loan Losses ($B)
Banks Industry: Earnings ($B)

Q2 Earnings Season: By The Numbers

Overview

Analysts and companies have lowered their earnings expectations for the second quarter to date. As a result, estimated earnings for the S&P 500 for the second quarter are below expectations at the start of the quarter. The index is predicted to report its lowest earnings growth since Q4 2020.

In terms of earnings estimate revisions for companies in the S&P 500, analysts decreased earnings estimates in aggregate for Q2 2022 during the quarter. On a per-share basis, estimated earnings for the second quarter decreased by 1.2% from March 31 to June 30. While this decline was smaller than the 5-year average (-2.4%), 10-year average (-3.3%), and the 15-year average (-4.7%) for a quarter, it was also the largest decline in the quarterly EPS estimate since Q2 2020 (-37.0%).

More S&P 500 companies have issued negative EPS guidance for Q2 2022 compared to recent quarters as well. At this point in time, 102 companies in the index have issued EPS guidance for Q2 2022, Of these 102 companies, 71 have issued negative EPS guidance and 31 have issued positive EPS guidance. This is the highest number of S&P 500 companies issuing negative EPS guidance for a quarter since Q4 2019 (73). The percentage of companies issuing negative EPS guidance for Q2 2022 is 70% (71 out of 102), which is above the 5-year average of 60% and above the 10-year average of 67%.

Because of the higher number of companies issuing negative EPS guidance and the net downward revisions to earnings estimates, the estimated (year-over-year) earnings growth rate for Q2 2022 is lower now relative to the start of the second quarter. As of today, the S&P 500 is expected to report (year-over-year) earnings growth of 4.3%, compared to the estimated (year-over-year) earnings growth rate of 5.9% on March 31.

If 4.3% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q4 2020 (4.0%). Five of the eleven sectors are projected to report year-over-year earnings growth, led by the Energy and Industrials sectors. On the other hand, six sectors are predicted to report a year-over-year decline in earnings, led by the Financials sector.

In terms of revenues, analysts have continued to be more optimistic than normal in their revenue estimate revisions. Because of the net upward revisions to revenue estimates, the estimated (year-over-year) revenue growth rate for Q2 2022 is higher now relative to the start of the second quarter. As of today, the S&P 500 is expected to report (year-over-year) revenue growth of 10.1%, compared to the estimated (year-over-year) revenue growth rate of 9.6% on March 31.

If 10.1% is the actual growth rate for the quarter, it will mark the sixth-straight quarter of year-over-year revenue growth above 10% for the index. All eleven sectors are projected to report year-over-year growth in revenues, led by the Energy and Materials sectors.

Looking ahead, analysts expect earnings growth of 10.2% for Q3 2022, and 9.4% for Q4 2022. For CY 2022, analysts are predicting earnings growth of 10.0%.

The forward 12-month P/E ratio is 16.3, which is below the 5-year average (18.6) and below the 10-year average (17.0). It is also below the forward P/E ratio of 19.4 recorded at the end of the first quarter (March 31), as prices have decreased while the forward 12-month EPS estimate has increased since March 31.

During the upcoming week, 17 S&P 500 companies (including 2 Dow 30 components) are scheduled to report results for the second quarter.

Earnings Revisions: Consumer Discretionary Sector Sees Largest EPS Estimate Decreases To Date

No Change in Estimated Earnings Growth Rate for Q2 This Week

During the past week, the estimated earnings growth rate for the S&P 500 for Q2 2022 remained unchanged at 4.3%.

The estimated earnings growth rate for the S&P 500 for Q2 2022 of 4.3% today is below the estimate of 5.9% at the start of the quarter (March 31), as estimated earnings for the index of $481.0 billion today are 1.5% below the estimate of $488.5 billion at the start of the quarter. Seven sectors have recorded a decrease in expected (dollar-level) earnings due to downward revisions to earnings estimates, led by the Consumer Discretionary and Communication Services sectors. On the other hand, four sectors have recorded an increase in expected (dollar-level) earnings due to upward revisions to earnings estimates, led by the Energy sector.

Consumer Discretionary: Amazon and Target Lead Earnings Decrease Since March 31

The Consumer Discretionary sector has recorded the largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -20.9% (to $32.1 billion from $40.6 billion). As a result, the estimated (year-over-year) earnings decline for this sector is now -10.5% compared to an earnings growth rate of 13.5% on March 31. This sector has also witnessed the largest decrease in price (-21.4%) of all eleven sectors since March 31. Overall, 41 of the 58 companies (71%) in the Consumer Discretionary sector have seen a decrease in their mean EPS estimate during this time. Of these 41 companies, 23 have recorded a decrease in their mean EPS estimate of more than 10%, led by Las Vegas Sands (to -$0.25 from -$0.05), Wynn Resorts (to -$1.08 from -$0.37), and Norwegian Cruise Line Holdings (to -0.87 from -$0.46). However, Amazon.com (to $0.17 from $0.56) and Target (to $0.92 from $3.93) have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since March 31.

Communication Services: Warner Bros. Discovery Leads Earnings Decrease Since March 31

The Communication Services sector has recorded the second-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -9.4% (to $44.1 billion from $48.7 billion). As a result, the estimated (year-over-year) earnings decline for this sector is now -9.1% compared to an earnings growth rate of 0.3% on March 31. This sector has also witnessed the third-largest decrease in price (-16.2%) of all eleven sectors since March 31. Overall, 20 of the 23 companies (87%) in the Communication Services sector have seen a decrease in their mean EPS estimate during this time. Of these 20 companies, 9 have recorded a decrease in their mean EPS estimate of more than 10%, led by Warner Bros. Discovery (to $0.23 from $0.81) and Electronic Arts (to $0.33 from $0.90). Warner Bros. Discovery and Alphabet (to $25.62 from $27.71) have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since March 31.

Energy: Exxon Mobil Leads Earnings Increase Since March 31

The Energy sector has recorded the largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 42.2% (to $53.8 billion from $37.8 billion). As a result, the estimated (year-over-year) earnings growth rate for this sector has increased to 237.6% from 137.4% during this time. Despite the increase in expected earnings, this sector has witnessed a decrease in price (-7.0%) since March 31. Rising oil prices are helping to drive the increase in expected earnings for this sector, as the price of oil increased by 5% during the quarter (to $105.76 from $100.28). Overall, 18 of the 21 companies (86%) in the Energy sector have seen an increase in their mean EPS estimate during this time. Of these 18 companies, 16 have recorded an increase in their mean EPS estimate of more than 10%, led by Marathon Petroleum (to $6.04 from $1.83), Valero Energy (to $7.75 from $2.48), and Phillips 66 (to $5.08 from $2.27). Exxon Mobil (to $3.42 from $2.30), Marathon Petroleum, Valero Energy, and Chevron (to $4.77 from $3.79) have been the largest contributors to the increase in estimated (dollar-level) earnings for this sector since March 31.

Index-Level EPS Estimate: 1.2% Decrease During Q2

The Q2 bottom-up EPS estimate (which is an aggregation of the median Q2 earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings of the index) decreased by 1.2% (to $55.41 from $56.06) from March 31 to June 30. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings expectations have fallen by 2.4% on average during a quarter. Over the past ten years, (40 quarters), earnings expectations have fallen by 3.3% on average during a quarter. Over the past fifteen years (60 quarters), earnings expectations have fallen by 4.7% on average during a quarter.

Thus, the decline in the bottom-up EPS estimate for the second quarter was smaller than the 5-year average, the 10-year average, and the 15-year average. However, it was also the largest decrease in the bottom-up EPS estimate for a quarter since Q2 2020 (-37.0%).

Guidance: % of S&P 500 Companies Issuing Negative EPS Guidance for Q2 is Above Average

At this point in time, 102 companies in the index have issued EPS guidance for Q2 2022. Of these 102 companies, 71 have issued negative EPS guidance and 31 have issued positive EPS guidance. This is the highest number of S&P 500 companies issuing negative EPS guidance for a quarter since Q4 2019 (73). The percentage of companies issuing negative EPS guidance for Q2 2022 is 70% (71 out of 102), which is above the 5-year average of 60% and above the 10-year average of 67%.

At this point in time, 243 companies in the index have issued EPS guidance for their current fiscal year (FY 2022 or FY 2023). Of these 243 companies, 137 have issued negative EPS guidance and 106 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance for their current fiscal year is 56% (137 out of 243).

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.

Earnings Growth: 4.3%

The estimated (year-over-year) earnings growth rate for Q2 2022 is 4.3%, which is below the 5-year average earnings growth rate of 14.8% and below the 10-year average earnings growth rate of 8.9%. If 4.3% is the actual growth rate for the quarter, it will mark the lowest (year-over-year) earnings growth rate reported by the index since Q4 2020 (4.0%).

The lower earnings growth rate for Q2 2022 relative to recent quarters can be attributed to both a difficult comparison to unusually high earnings growth in Q2 2021 and continuing macroeconomic headwinds. In Q2 2022, the S&P 500 reported (year-over-year) earnings growth of 91.7%, which is the second-highest year-over-year earnings growth rate reported by the index since 2008. Companies also continue to face macroeconomic headwinds, including higher costs, supply chain disruptions, labor shortages, and the military conflict in Ukraine. During the earnings season for Q1 2022, 85% of S&P 500 companies cited “inflation” on their earnings calls from March 15 to June 14, while 74% of S&P 500 companies cited “supply chain” on their earnings calls from March 15 to June 14. These are the highest percentages of S&P 500 companies citing “inflation” and “supply chain” on earnings calls going back to at least 2010.

Five of the eleven sectors are expected to report year-over-year earnings growth, led by the Energy and Industrials sectors. On the other hand, six sectors are expected to report a year-over-year decline in earnings, led by the Financials sector.

Energy: Largest Contributor to Year-Over-Year Earnings Growth for S&P 500 For Q2

The Energy sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 237.6%. Higher year-over-year oil prices are contributing to the year-over-year improvement in earnings for this sector, as the average price of oil in Q2 2022 ($108.52) was 64% above the average price for oil in Q2 2021 ($66.17). At the sub-industry level, all five sub-industries in the sector are expected to report a year-over-year increase in earnings of more than 20%. Three of these five sub-industries are projected to report a year-over-year increase in earnings of 225% or more: Oil & Gas Refining & Marketing (827%), Oil & Gas Exploration & Production (229%), and Integrated Oil & Gas (225%).

The Energy sector is also expected to be the largest contributor to earnings growth for the S&P 500 for the second quarter. If this sector were excluded, the index would be expected to report a decline in earnings of 4.1% rather than growth in earnings of 4.3%.

Industrials: Airlines Industry Is Largest Contributor to Year-Over-Year Growth

The Industrials sector is expected to report the second-highest (year-over-year) earnings growth rate of all eleven sectors at 26.8%. At the industry level, 10 of the 12 industries in the sector are expected to report a year-over-year increase in earnings. A growth rate is not being calculated for the Airlines industry due to the loss reported by the industry in the year-ago quarter. However, this industry is projected to report a profit of $3.0 billion in Q2 2022 compared to a loss of -$3.3 billion in Q2 2021. Four of the remaining nine industries are predicted to report earnings growth at or above 10%: Construction & Engineering (49%), Trading Companies & Distributors (35%), Air Freight & Logistics (16%), and Electrical Equipment (10%). On the other hand, two sectors are projected to a year-over-year decline in earnings: Aerospace & Defense (-4%) and Industrials Conglomerates (-3%).

At the industry level, the Airlines industry is predicted to be the largest contributor to earnings growth for the sector. If the five companies in this industry were excluded, the estimated earnings growth rate for the Industrials sector would fall to 5.7% from 26.8%.

Financials: Largest Detractor to Year-Over-Year Earnings Growth for S&P 500 For Q2

The Financials sector is expected to report the largest (year-over-year) earnings decline of all eleven sectors at -23.9%. At the industry level, four of the five industries in this sector are predicted to report a year-over-year earnings decline of 15% or more: Consumer Finance (-35%), Banks (-26%), Insurance (-26%), and Capital Markets (-18%). On the other hand, the Diversified Financial Services (4%) is the only industry in the sector projected to report (year-over-year) earnings growth.

The Financials sector is also expected to be the largest detractor to earnings growth for the S&P 500 for the second quarter. If this sector were excluded, the estimated earnings growth rate for the index would improve to 10.9% from 4.3%.

Revenue Growth: 10.1%

The estimated (year-over-year) revenue growth rate for Q2 2022 is 10.1%, which is above the 5-year average revenue growth rate of 7.1% and above the 10-year average revenue growth rate of 4.0%. If 10.1% is the actual growth rate for the quarter, it will mark the sixth-straight quarter of (year-over-year) revenue growth above 10% for the index.

All eleven sectors are expected to report year-over-year growth in revenues. Five sectors are predicted to report double-digit revenue growth, led by the Energy and Materials sectors.

Energy: All 5 Sub-Industries To Report Year-Over-Year Growth Above 10%

The Energy sector is expected to report the highest (year-over-year) revenue growth rate of all eleven sectors at 46.8%. Higher year-over-year oil prices are contributing to the year-over-year improvement in earnings for this sector, as the average price of oil in Q2 2022 ($108.52) was 64% above the average price for oil in Q2 2021 ($66.17). At the sub-industry level, all five sub-industries in the sector are predicted to report double-digit (year-over-year) growth in revenues: Oil & Gas Exploration & Production (82%), Oil & Gas Refining & Marketing (47%), Integrated Oil & Gas (44%), Oil & Gas Storage & Transportation (29%), and Oil & Gas Equipment & Services (13%).

Materials: 3 of 4 Industries To Report Year-Over-Year Growth Above 15%

The Materials sector is expected to report the second-highest (year-over-year) revenue growth of all eleven sectors at 16.0%. At the industry level, all four industries in this sector are predicted to report year-over-year growth in revenues. Three of these four industries are projected to report revenue growth above 15%: Construction Materials (28%), Metals & Mining (20%), and Chemicals (17%).

Net Profit Margin: 12.4%

The estimated net profit margin for the S&P 500 for Q2 2022 is 12.4%, which is above the 5-year average of 11.1% and the previous quarter's net profit margin of 12.3%, but below the year-ago net profit margin of 13.1%. If 12.4% is the actual net profit margin for the quarter, it will tie the mark (with Q4 2021) for the fourth-highest net profit margin reported by the index since FactSet began tracking this metric in 2008.

At the sector level, two sectors are expected to report a year-over-year increase in their net profit margins in Q2 2022 compared to Q2 2021, led by the Energy (to 14.9% vs. 6.5%) sector. On the other hand, nine sectors are expected to report a year-over-year decrease in their net profit margins in Q2 2022 compared to Q2 2021, led by the Financials (16.3% vs. 21.9%) sector.

Nine sectors are expected to report net profit margins in Q2 2022 that are above their 5-year averages, led by the Energy (14.9% vs. 5.7%) and Materials (14.3% vs. 10.1%) sectors. On the other hand, the Consumer Discretionary (6.3% vs. 6.7%) is the only sector expected to report a net profit margin in Q2 2022 that is below its 5-year average. The Financials sector is predicted to report a net profit margin in Q2 2022 that is equal to its 5-year average (16.3%).

Looking Ahead: Forward Estimates and Valuation

Earnings: S&P 500 Expected to Report Earnings Growth of 10% for CY 2022

For the second quarter, S&P 500 companies are expected to report earnings growth of 4.3% and revenue growth of 10.1%.

For Q3 2022, analysts are projecting earnings growth of 10.2% and revenue growth of 9.5%.

For Q4 2022, analysts are projecting earnings growth of 9.4% and revenue growth of 7.3%.

For CY 2022, analysts are projecting earnings growth of 10.0% and revenue growth of 10.7%.

Valuation: Forward P/E Ratio is 16.3, Below the 10-Year Average (17.0)

The forward 12-month P/E ratio for the S&P 500 is 16.3. This P/E ratio is below the 5-year average of 18.6 and below the 10-year average of 17.0. It is also below the forward 12-month P/E ratio of 19.4 recorded at the end of the first quarter (March 31). Since the end of the first quarter (March 31), the price of the index has decreased by 13.9%, while the forward 12-month EPS estimate has increased by 2.9%. At the sector level, the Consumer Discretionary (23.3) has the highest forward 12-month P/E ratio, while the Energy (8.2) sector has the lowest forward 12-month P/E ratio.

The trailing 12-month P/E ratio is 18.1, which is below the 5-year average of 23.0 and below the 10-year average of 20.3.

Targets & Ratings: Analysts Project 26% Increase in Price Over Next 12 Months

The bottom-up target price for the S&P 500 is 4921.81, which is 26.1% above the closing price of 3902.62. At the sector level, the Consumer Discretionary (+33.8%) and Communication Services (+33.3%) sectors are expected to see the largest price increases, as these two sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Utilities (+11.9%) and Consumer Staples (+12.1%) sectors are expected to see the smallest price increases, as these two sectors have the smallest upside differences between the bottom-up target price and the closing price.

Overall, there are 10,642 ratings on stocks in the S&P 500. Of these 10,642 ratings, 56.8% are Buy ratings, 37.8% are Hold ratings, and 5.4% are Sell ratings. At the sector level, the Information Technology (65%) and Energy (62%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (39%) sector has the lowest percentage of Buy ratings.

Companies Reporting Next Week: 17

During the upcoming week, 17 S&P 500 companies (including 2 Dow 30 components) are scheduled to report results for the second quarter.

Sector Spotlight

Information Technology

Analysts and companies in the Information Technology sector have lowered their earnings expectations for the second quarter to date. As a result, estimated earnings for the Information Technology sector for the second quarter are below expectations at the start of the quarter. The sector is predicted to report its lowest earnings growth since Q3 2019 (-5.1%).

In terms of earnings estimate revisions for companies in the Information Technology sector, analysts decreased earnings estimates in aggregate for Q2 2022 during the quarter. On a per-share basis, estimated earnings for the second quarter decreased by 3.4% from March 31 to June 30. This decline was larger than the 5-year average (+0.8%), 10-year average (-1.7%), and the 15-year average (-1.5%) for a quarter. It was also the largest decline in the quarterly EPS estimate for the sector since Q2 2020 (-12.0%).

More companies in the Information Technology sector have issued negative EPS guidance for Q2 2022 compared to recent quarters as well. At this point in time, 43 companies in the Information Technology sector have issued EPS guidance for Q2 2022, Of these 43 companies, 27 have issued negative EPS guidance and 16 have issued positive EPS guidance. This is the highest number of companies in this sector issuing negative EPS guidance since Q3 2019 (28). The percentage of companies in this sector issuing negative EPS guidance for Q2 2022 is 63% (27 out of 43), which is above the 5-year average of 48%.

Because of the higher number of companies in this sector issuing negative EPS guidance and the net downward revisions to earnings estimates, the estimated (year-over-year) earnings growth rate for Q2 2022 for the sector is lower now relative to the start of the second quarter. As of today, the Information Technology is expected to report (year-over-year) earnings growth of 1.4%, compared to the estimated (year-over-year) earnings growth rate of 4.2% on March 31.

If 1.4% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the sector since Q3 2019 (-5.1%). Four of the six industries in this sector are projected to report year-over-year earnings growth, led by the Semiconductors & Semiconductor Equipment (13%), Electronic Equipment, Instruments, & Components (9%), and IT Services (7%) industries. On the other hand, two industries are predicted to report a year-over-year decline in earnings, led by the Technology Hardware, Storage, & Peripherals (-13%) industry.

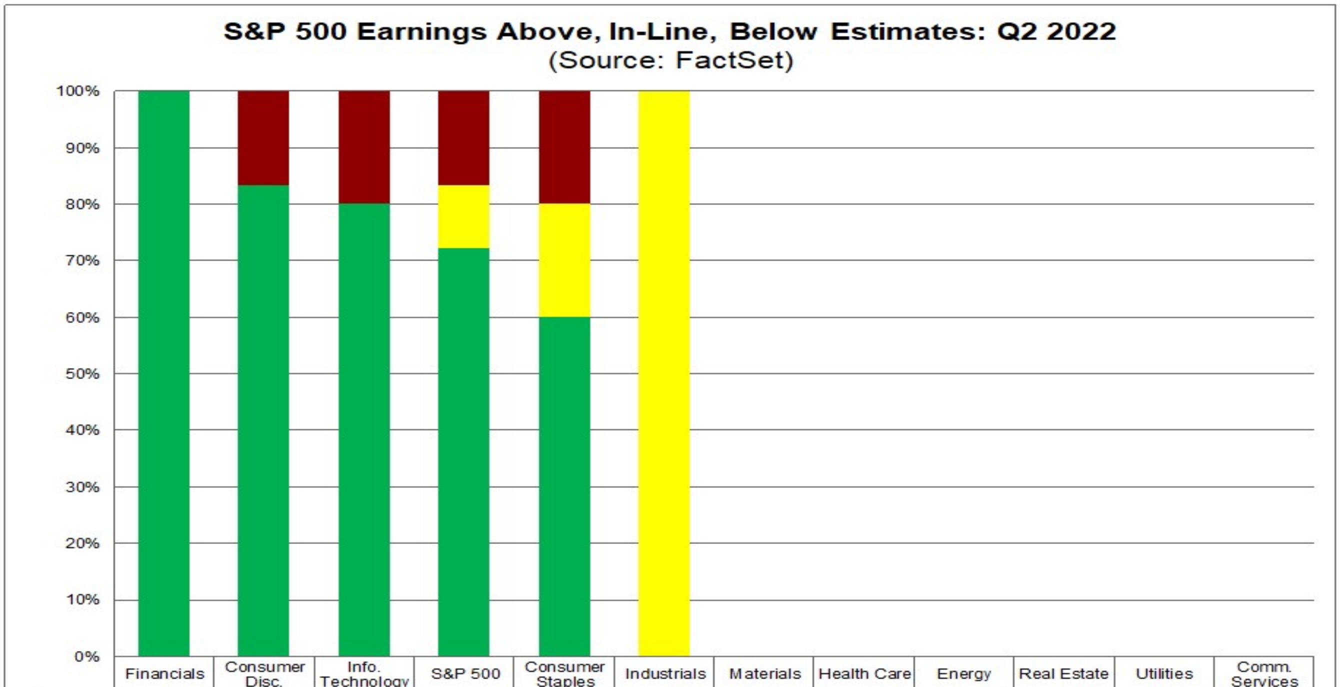
Because of the net downward revisions to revenue estimates, the estimated (year-over-year) revenue growth rate for Q2 2022 for the sector is also lower now relative to the start of the second quarter. As of today, the Information Technology is expected to report (year-over-year) revenue growth of 7.6%, compared to the estimated (year-over-year) revenue growth rate of 8.8% on March 31.

If 7.6% is the actual growth rate for the quarter, it will mark the lowest revenue growth reported by the Information Technology sector since Q3 2020 (4.0%). All six industries in the sector are projected to report year-over-year growth, with three industries projected to report double-digit growth: Semiconductors & Semiconductor Equipment (16%), Software (12%), and Electronic Equipment, Instruments, & Components (11%),

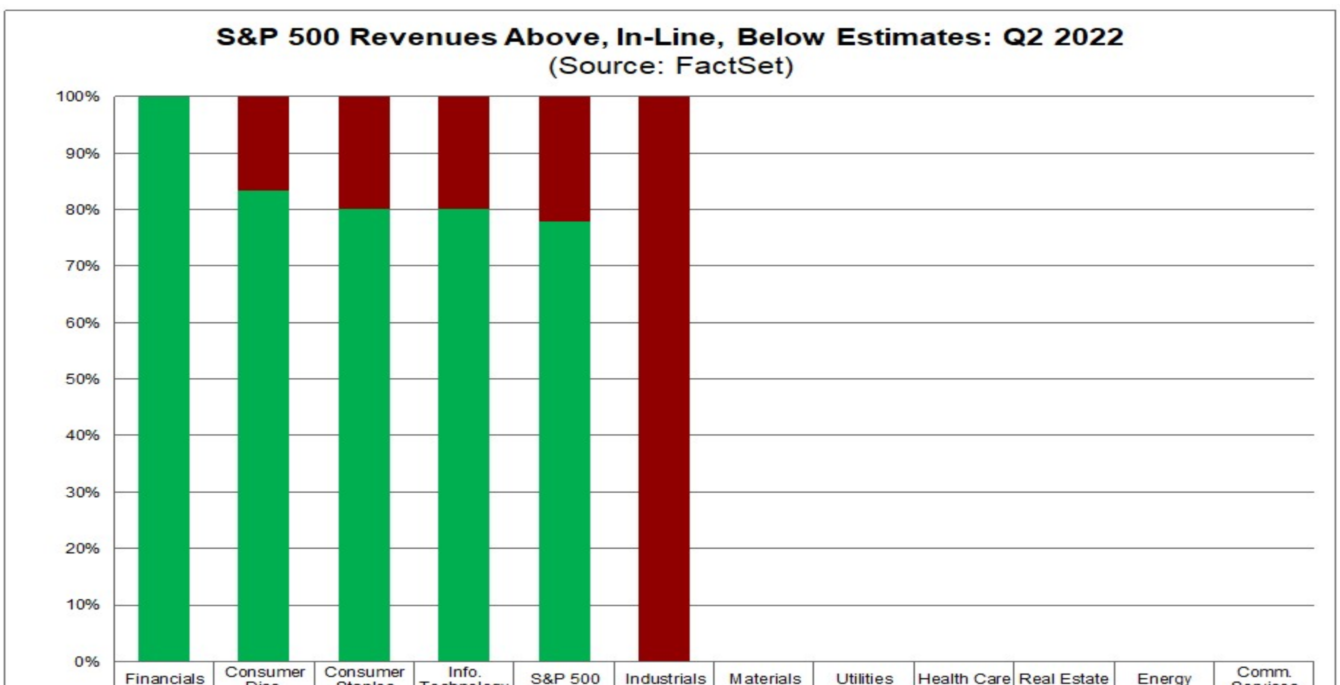
Looking ahead, analysts expect earnings growth of 4.4% for Q3 2022, and 6.8% for Q4 2022. For CY 2022, analysts are predicting earnings growth of 10.9%.

The forward 12-month P/E ratio for the sector is 20.0, which is below the 5-year average (21.7) but above the 10-year average (18.2). It is also below the forward P/E ratio of 24.4 recorded at the end of the first quarter (March 31), as the price of the sector has decreased by 16.9% while the forward 12-month EPS estimate for the sector has increased by 1.5% since March 31.

Q2 2022: Scorecard

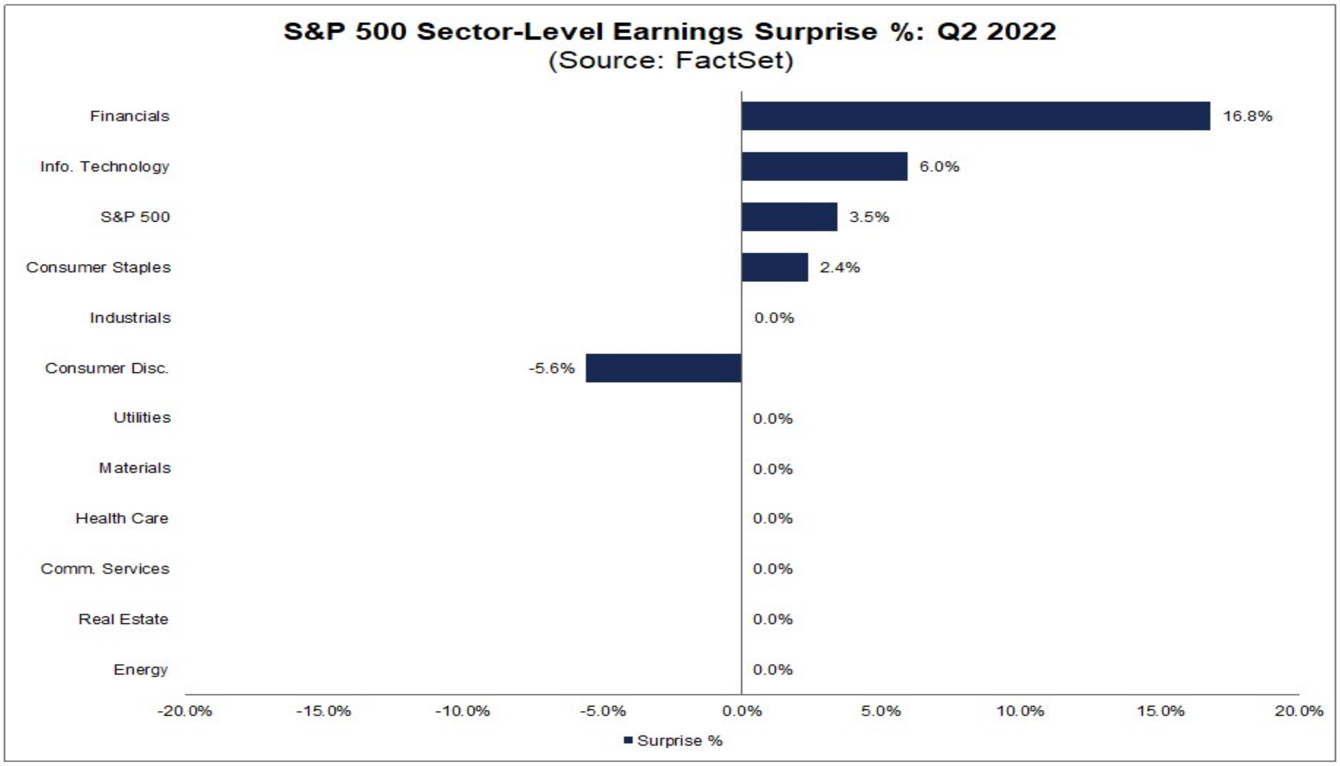


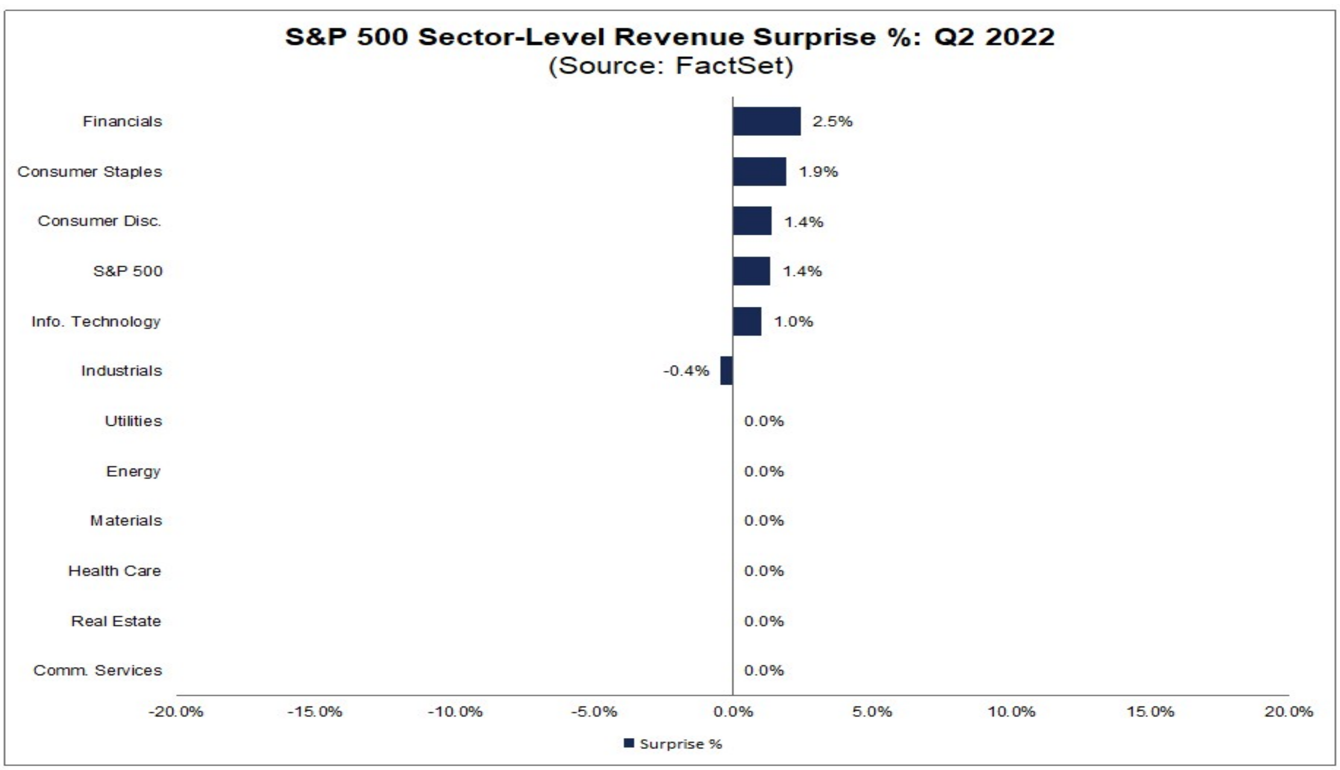
	Financials	Consumer Disc.	Info. Technology	S&P 500	Consumer Staples	Industrials	Materials	Health Care	Energy	Real Estate	Utilities	Comm. Services
Below	0%	17%	20%	17%	20%	0%	0%	0%	0%	0%	0%	0%
In-Line	0%	0%	0%	11%	20%	100%	0%	0%	0%	0%	0%	0%
Above	100%	83%	80%	72%	60%	0%	0%	0%	0%	0%	0%	0%



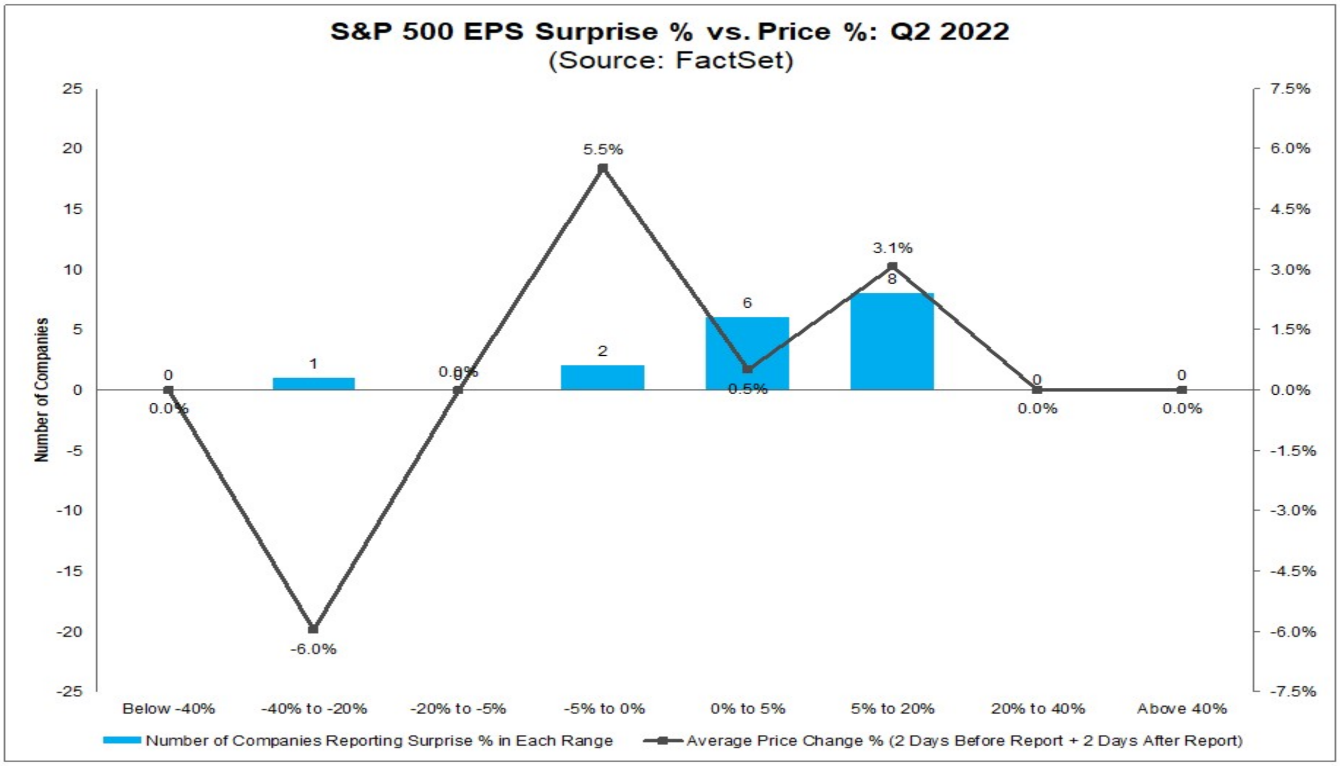
	Financials	Consumer Disc.	Consumer Staples	Info. Technology	S&P 500	Industrials	Materials	Utilities	Health Care	Real Estate	Energy	Comm. Services
Below	0%	17%	20%	20%	22%	100%	0%	0%	0%	0%	0%	0%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	100%	83%	80%	80%	78%	0%	0%	0%	0%	0%	0%	0%

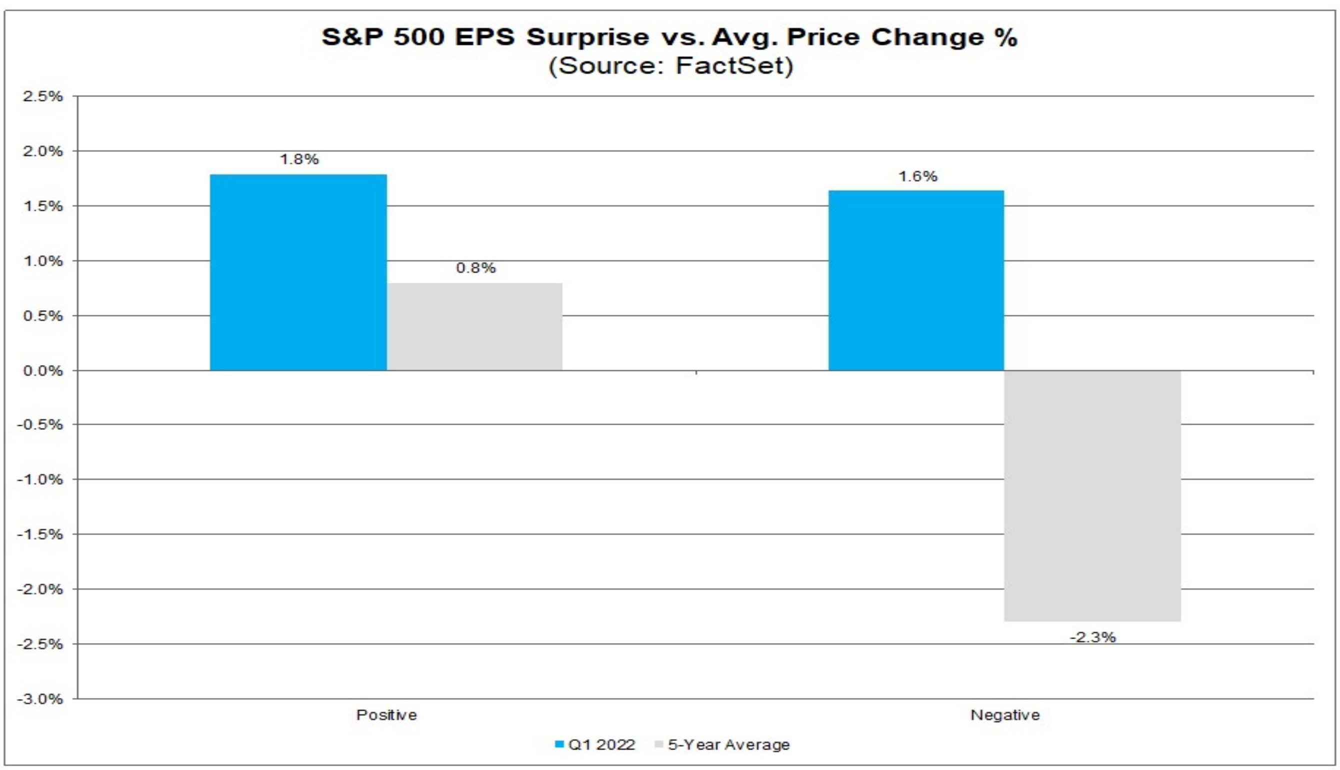
Q2 2022: Scorecard



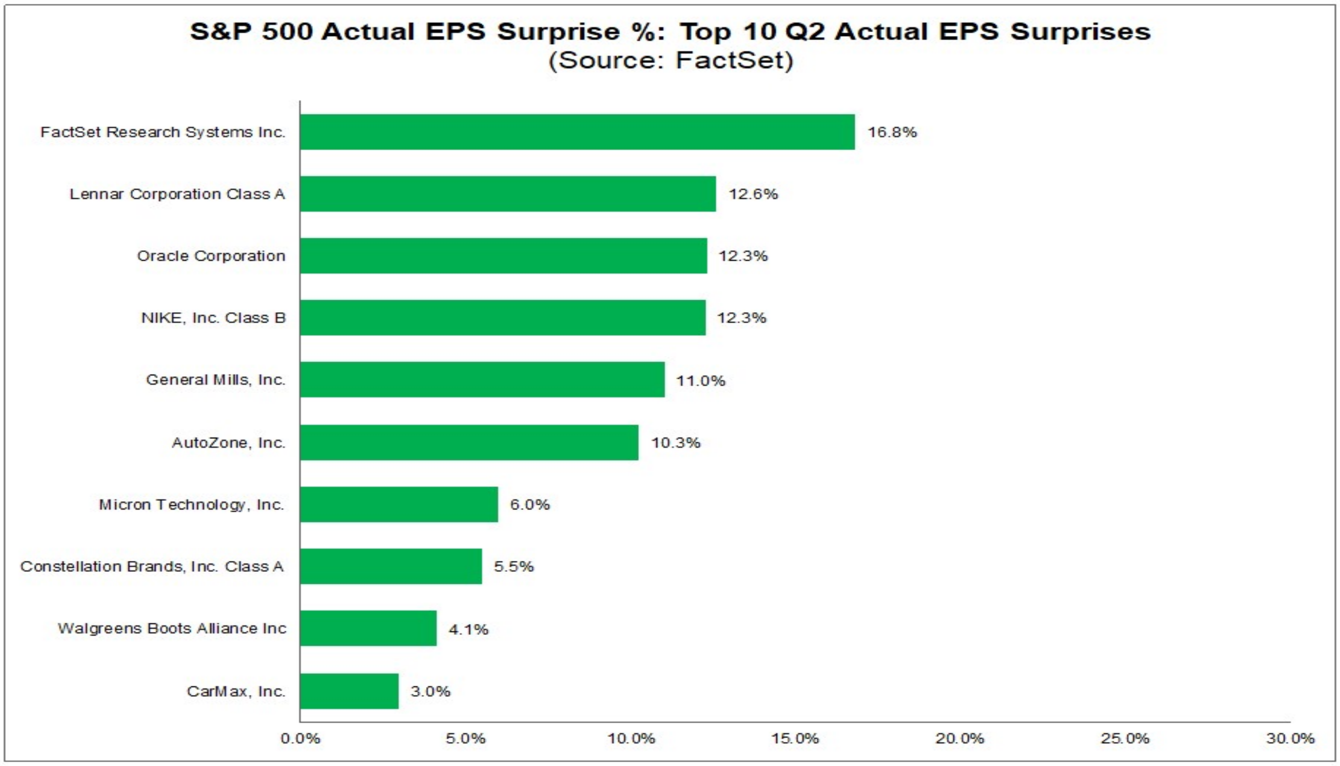


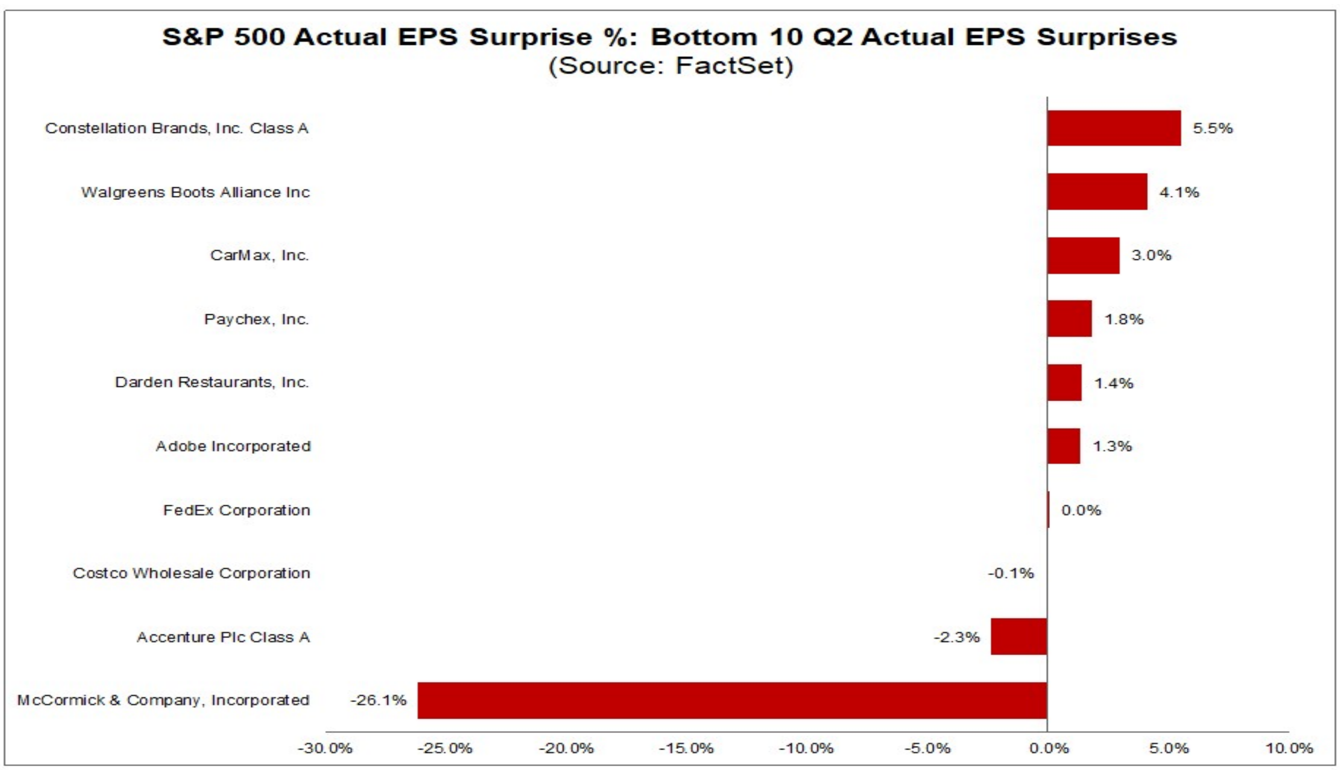
Q2 2022: Scorecard



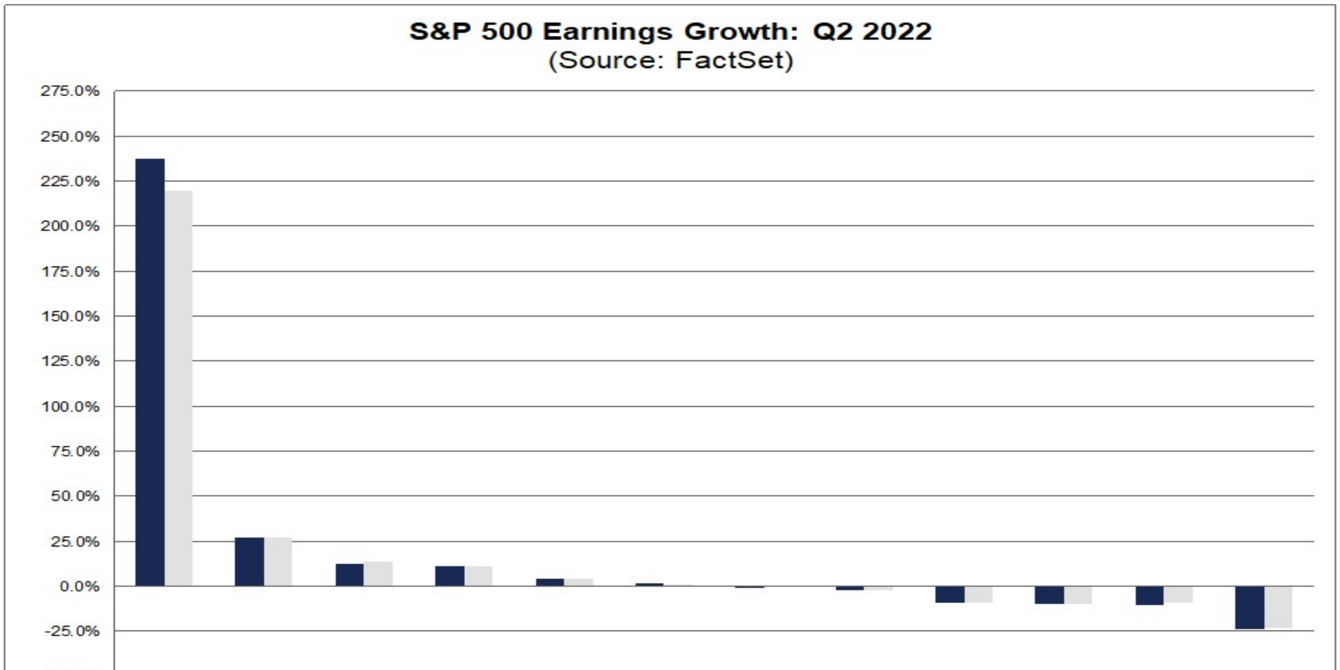


Q1 2022: Scorecard

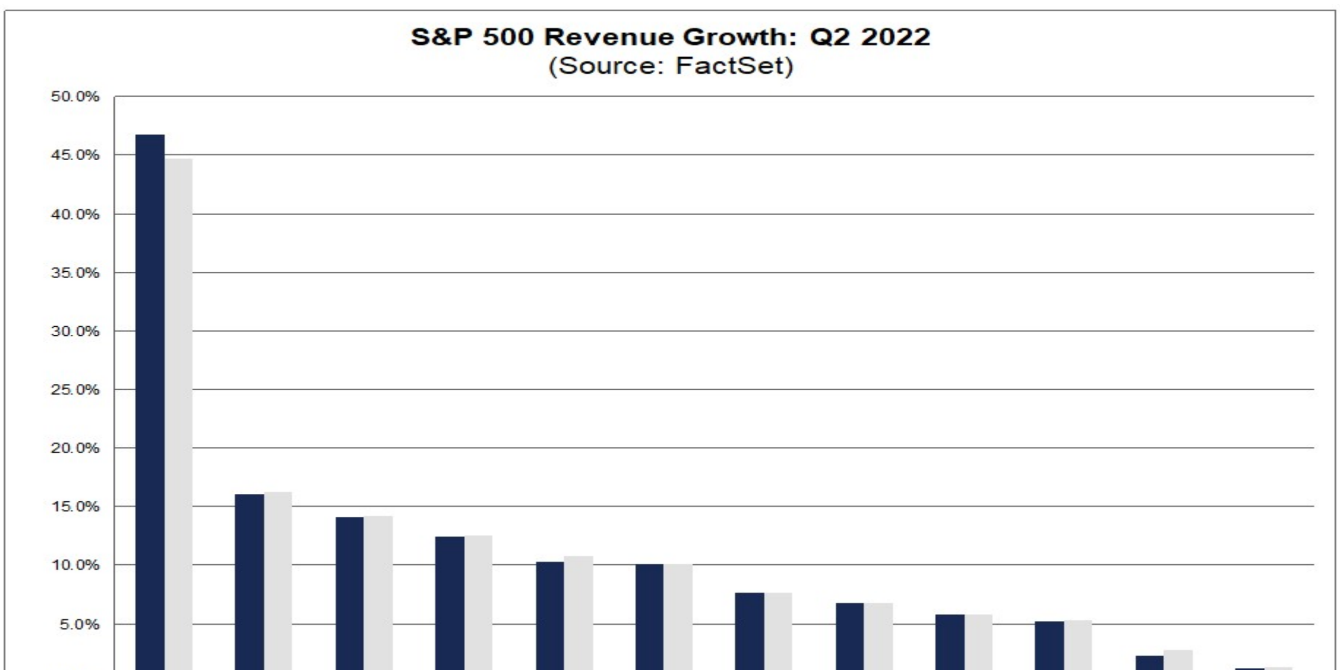




Q2 2022: Growth

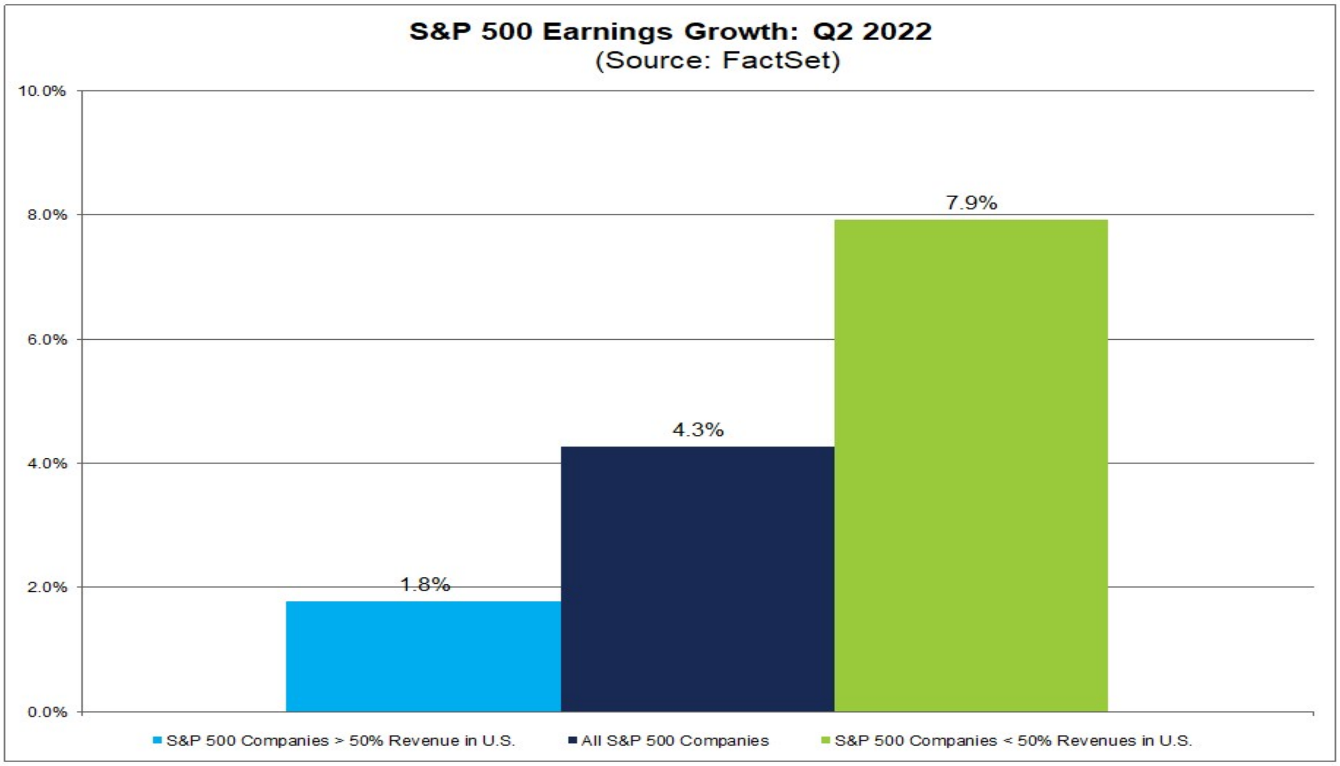


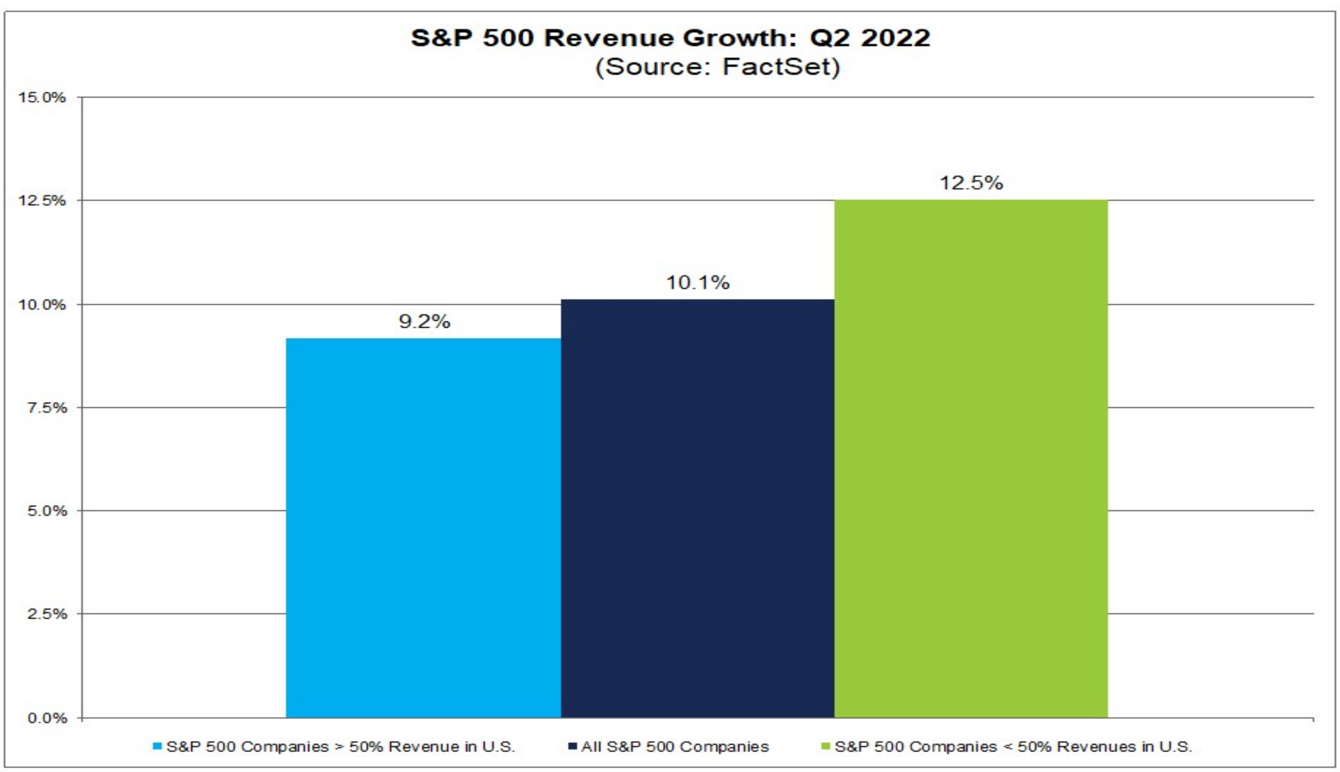
	Energy	Industrials	Materials	Real Estate	S&P 500	Info. Technology	Health Care	Consumer Staples	Comm. Services	Utilities	Consumer Disc.	Financials
Today	237.6%	26.8%	12.1%	11.0%	4.3%	1.4%	-0.2%	-2.4%	-9.1%	-9.6%	-10.2%	-23.9%
30-Jun	219.8%	27.0%	13.4%	10.9%	4.1%	1.3%	0.6%	-2.5%	-8.9%	-9.8%	-9.3%	-23.1%



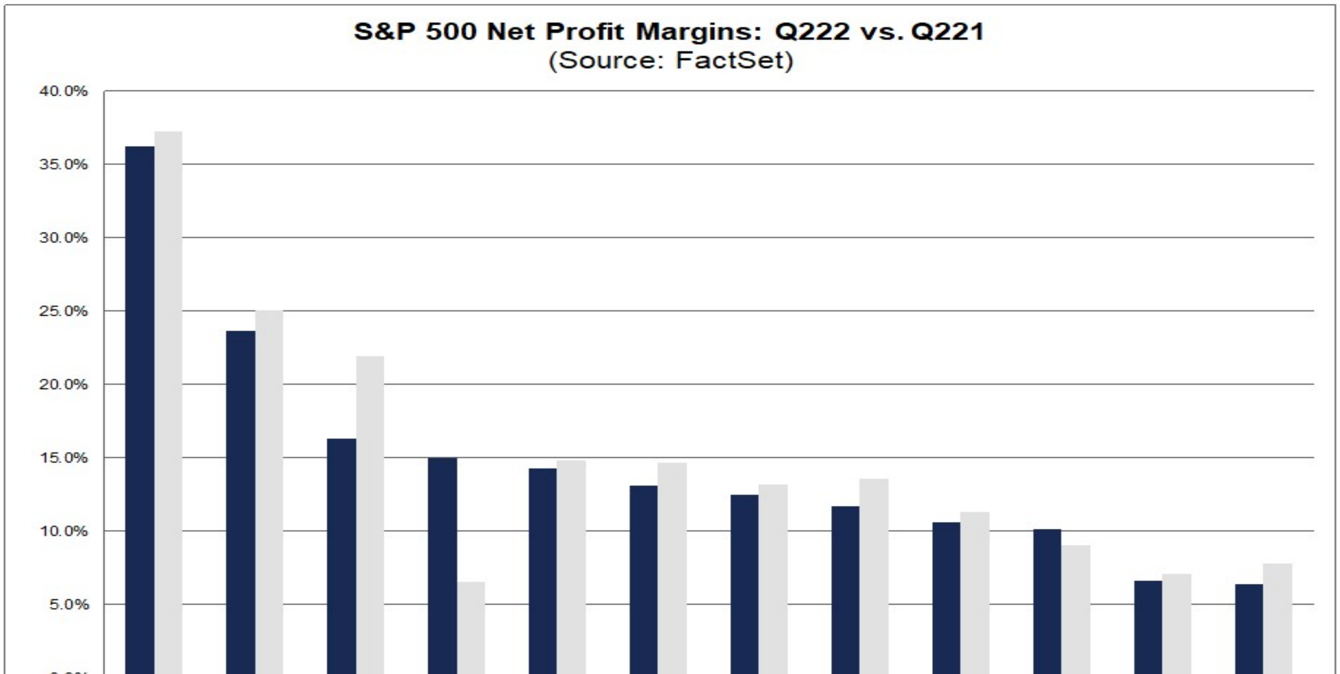
	Energy	Materials	Real Estate	Industrials	Consumer Disc.	S&P 500	Info. Technology	Health Care	Comm. Services	Consumer Staples	Financials	Utilities
Today	46.8%	16.0%	14.1%	12.5%	10.3%	10.1%	7.6%	6.7%	5.8%	5.2%	2.3%	1.2%
30-Jun	44.7%	16.2%	14.2%	12.5%	10.8%	10.1%	7.7%	6.7%	5.8%	5.3%	2.7%	1.3%

Q2 2022: Growth

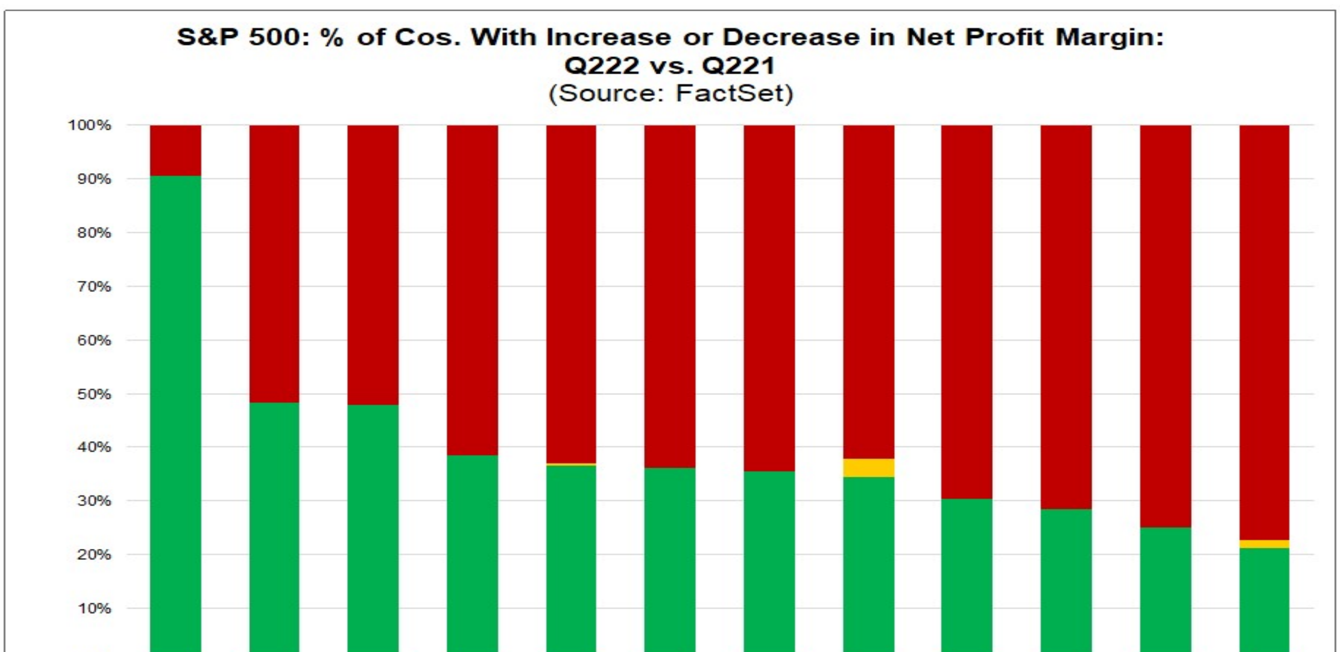




Q2 2022: Net Profit Margin

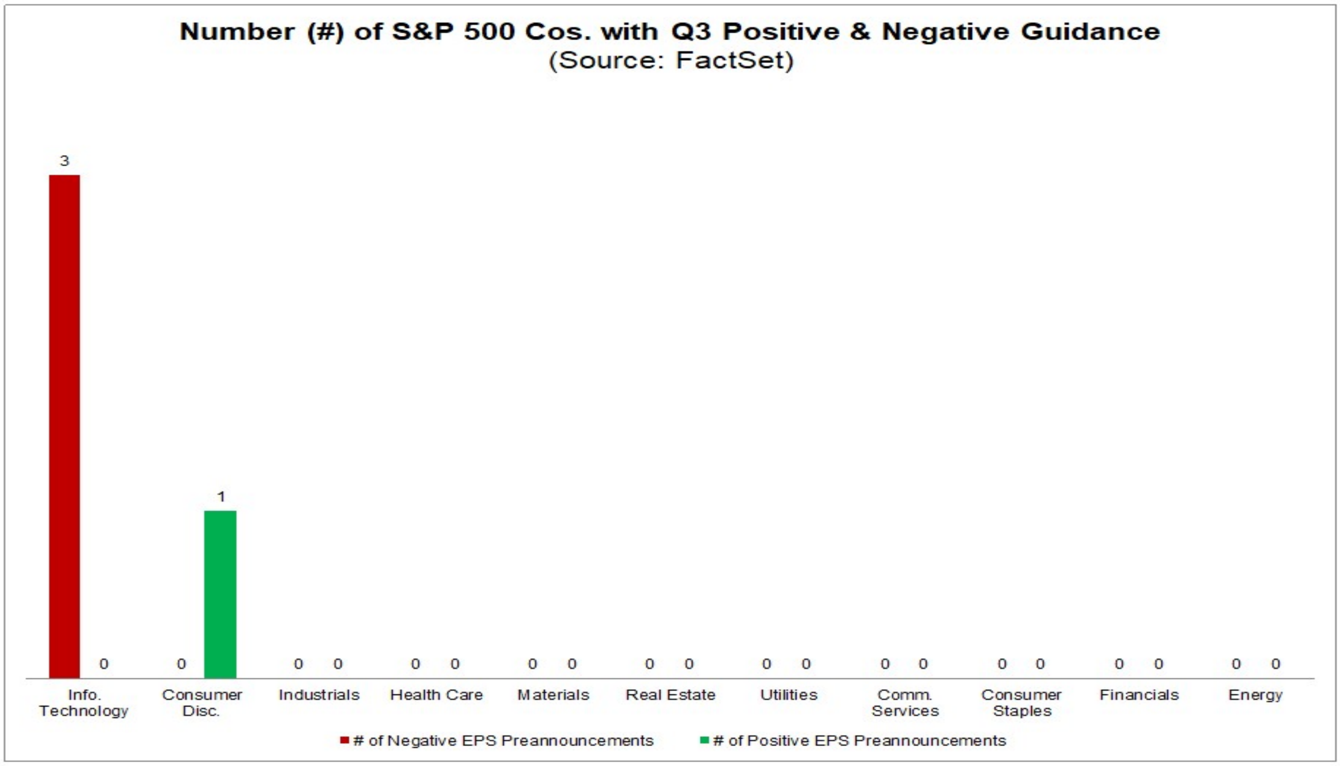


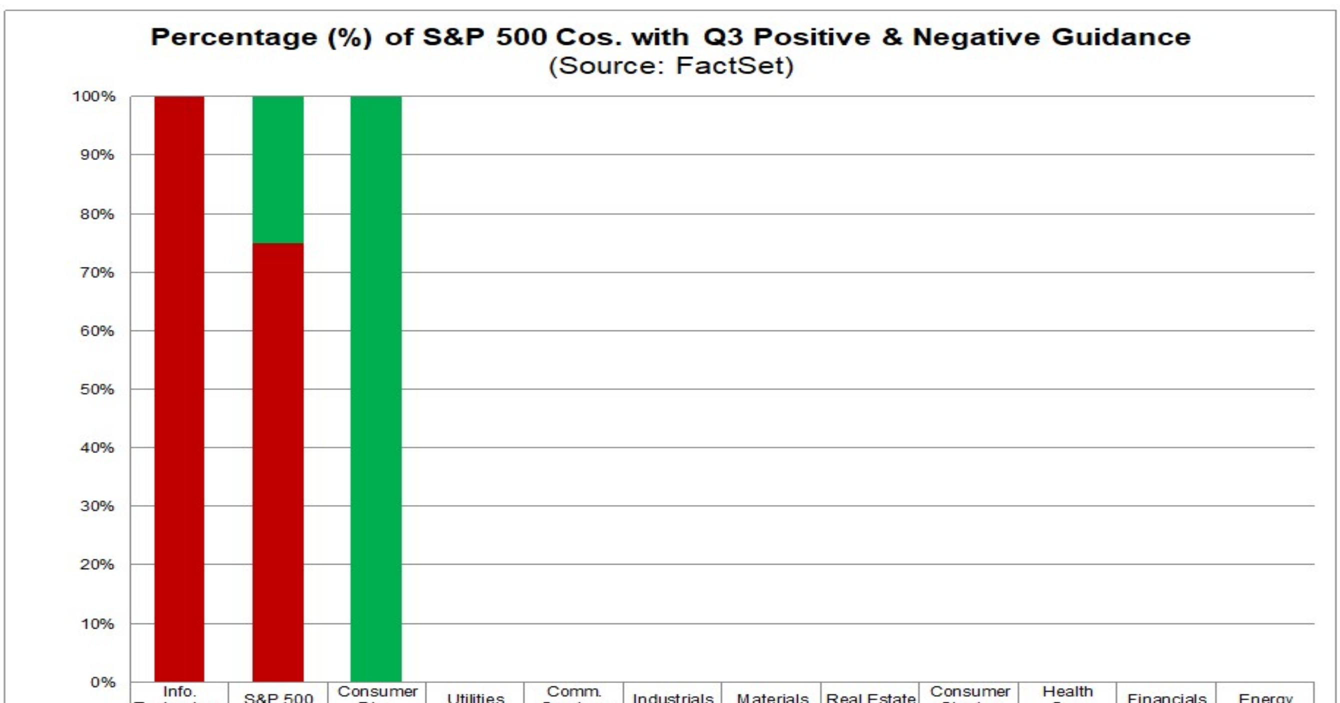
	Real Estate	Information Tech.	Financials	Energy	Materials	Utilities	S&P 500	Comm. Services	Health Care	Industrials	Consumer Staples	Consumer Disc.
Q222	36.2%	23.6%	16.3%	14.9%	14.3%	13.1%	12.4%	11.6%	10.6%	10.1%	6.6%	6.3%
Q221	37.3%	25.1%	21.9%	6.5%	14.8%	14.7%	13.1%	13.5%	11.3%	9.0%	7.1%	7.8%



	Energy	Real Estate	Industrials	Comm. Services	S&P 500	Consumer Disc.	Information Tech.	Utilities	Consumer Staples	Materials	Health Care	Financials
Down %	10%	52%	52%	62%	63%	64%	64%	62%	70%	71%	75%	77%
None %	0%	0%	0%	0%	0%	0%	0%	3%	0%	0%	0%	2%
Up %	90%	48%	48%	38%	37%	36%	36%	34%	30%	29%	25%	21%

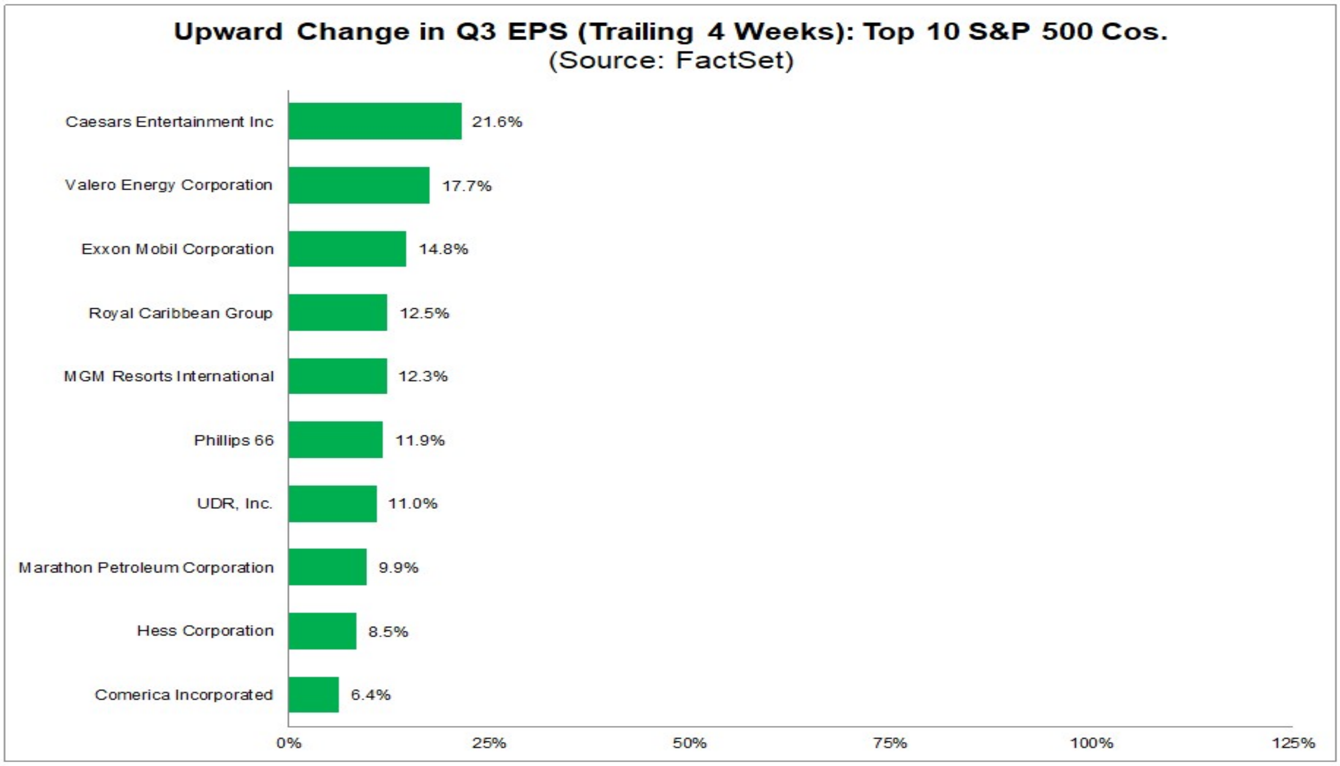
Q3 2022: Guidance

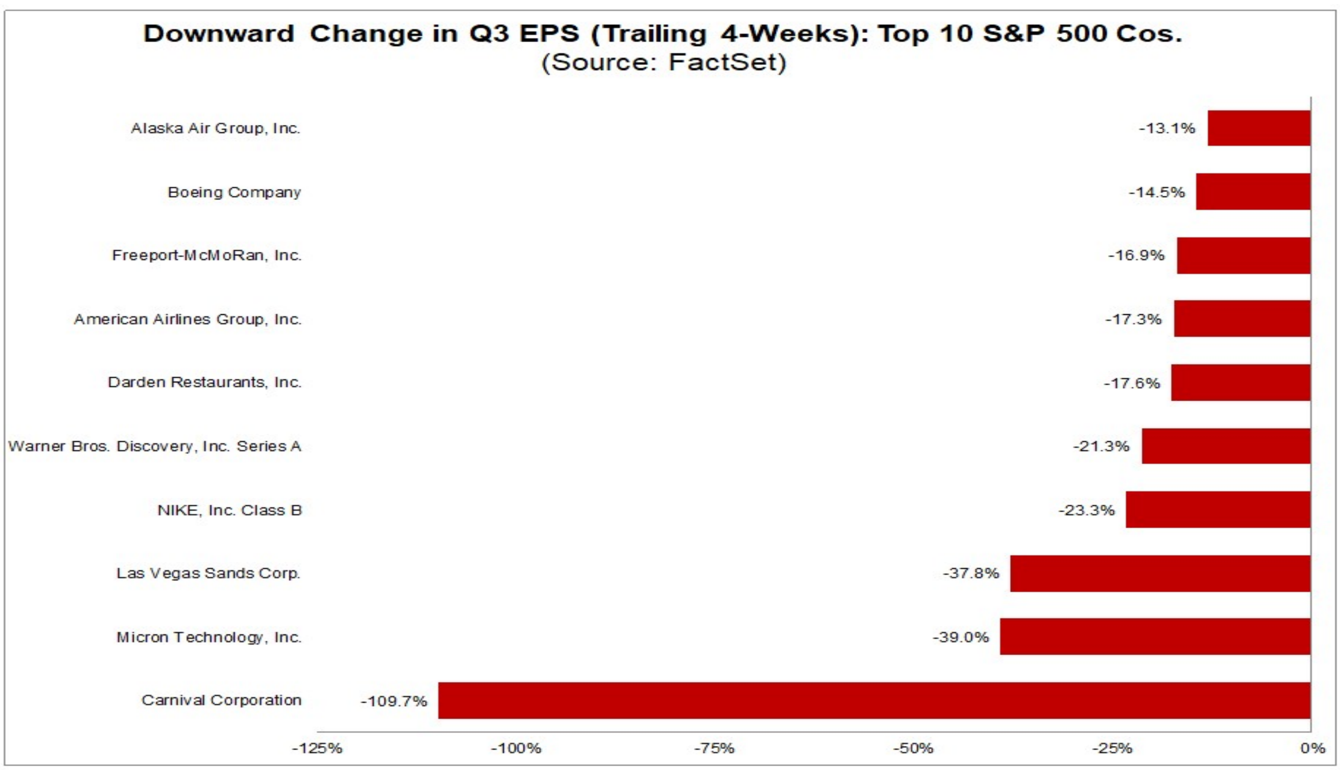




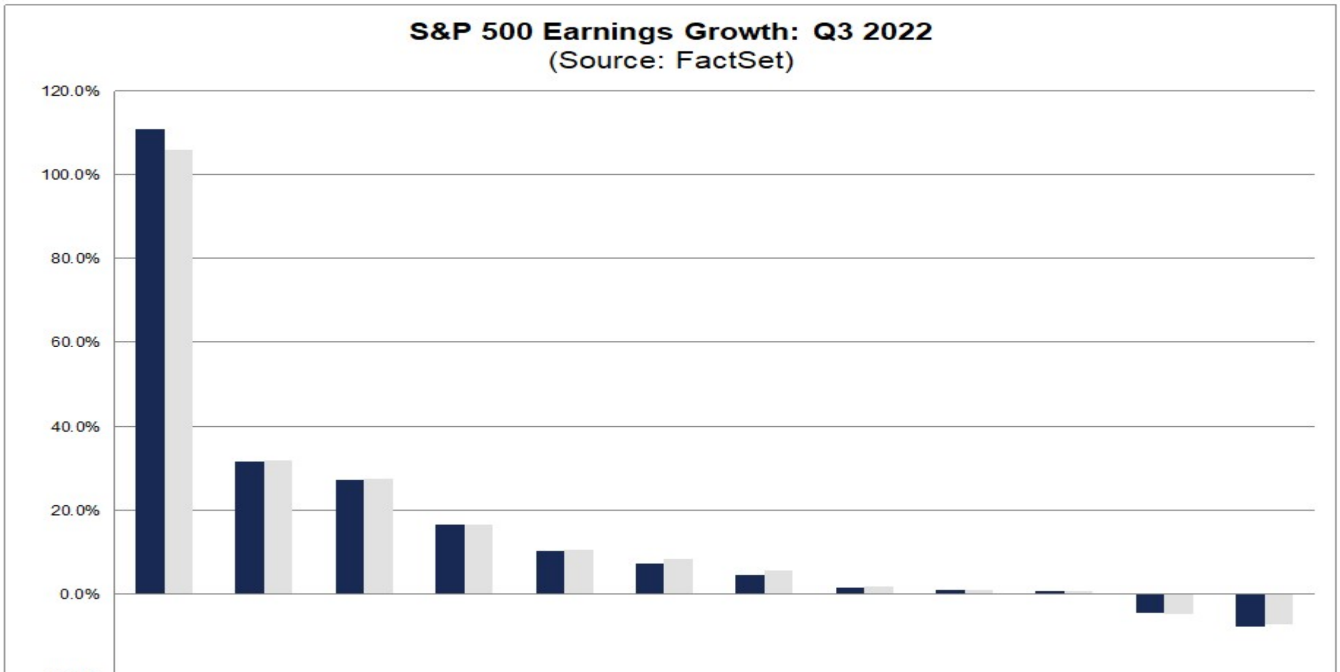
	Info. Technology	S&P 500	Consumer Disc.	Utilities	Comm. Services	Industrials	Materials	Real Estate	Consumer Staples	Health Care	Financials	Energy
Positive	0%	25%	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Negative	100%	75%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Q3 2022: EPS Revisions

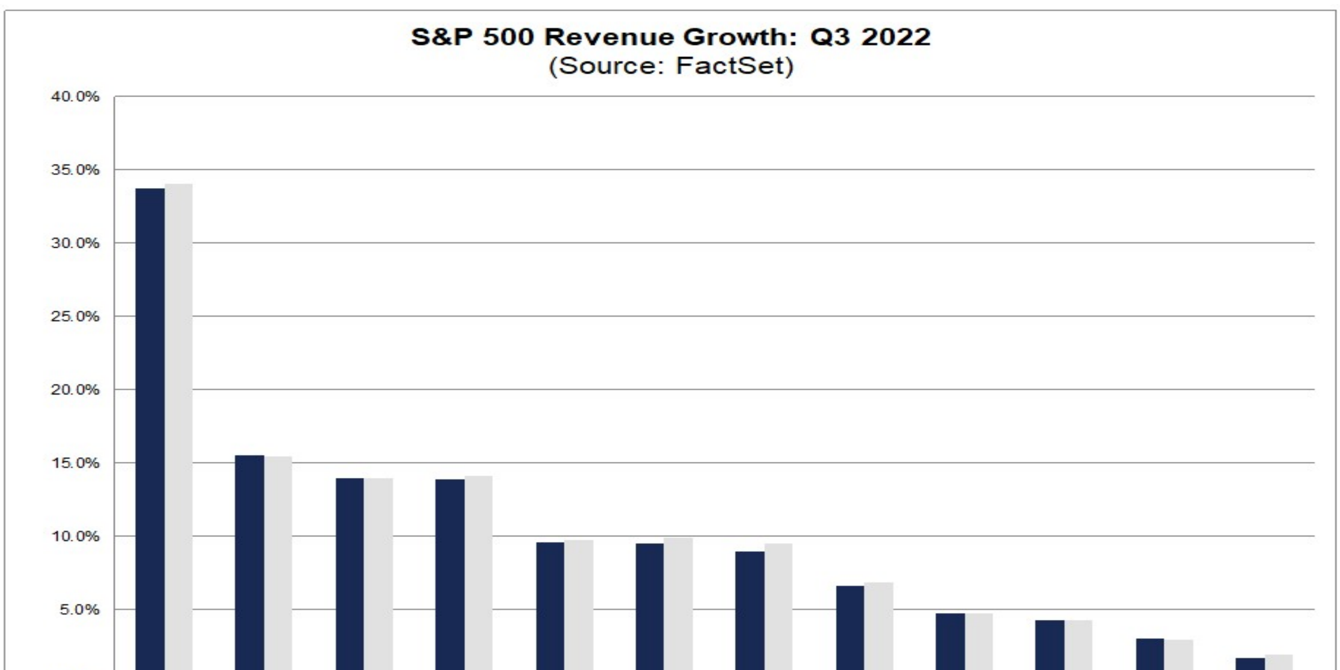




Q3 2022: Growth

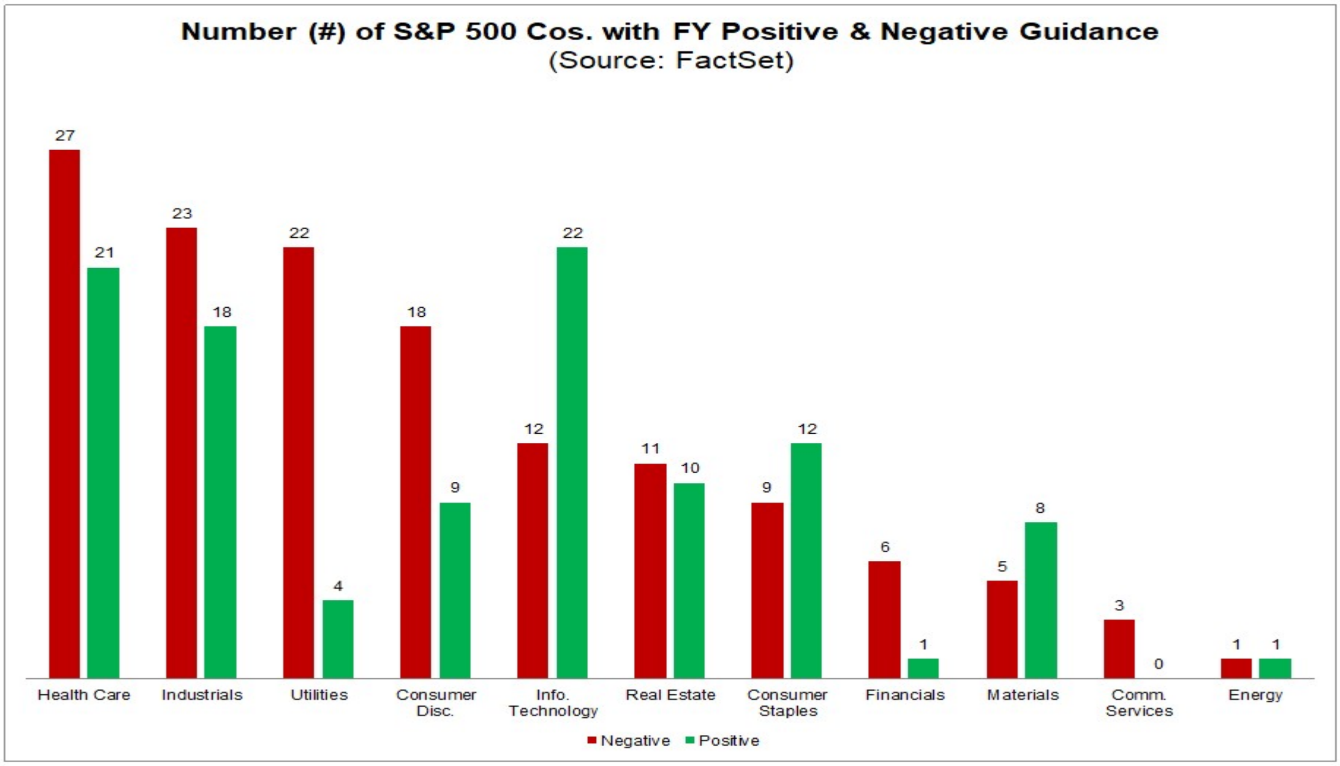


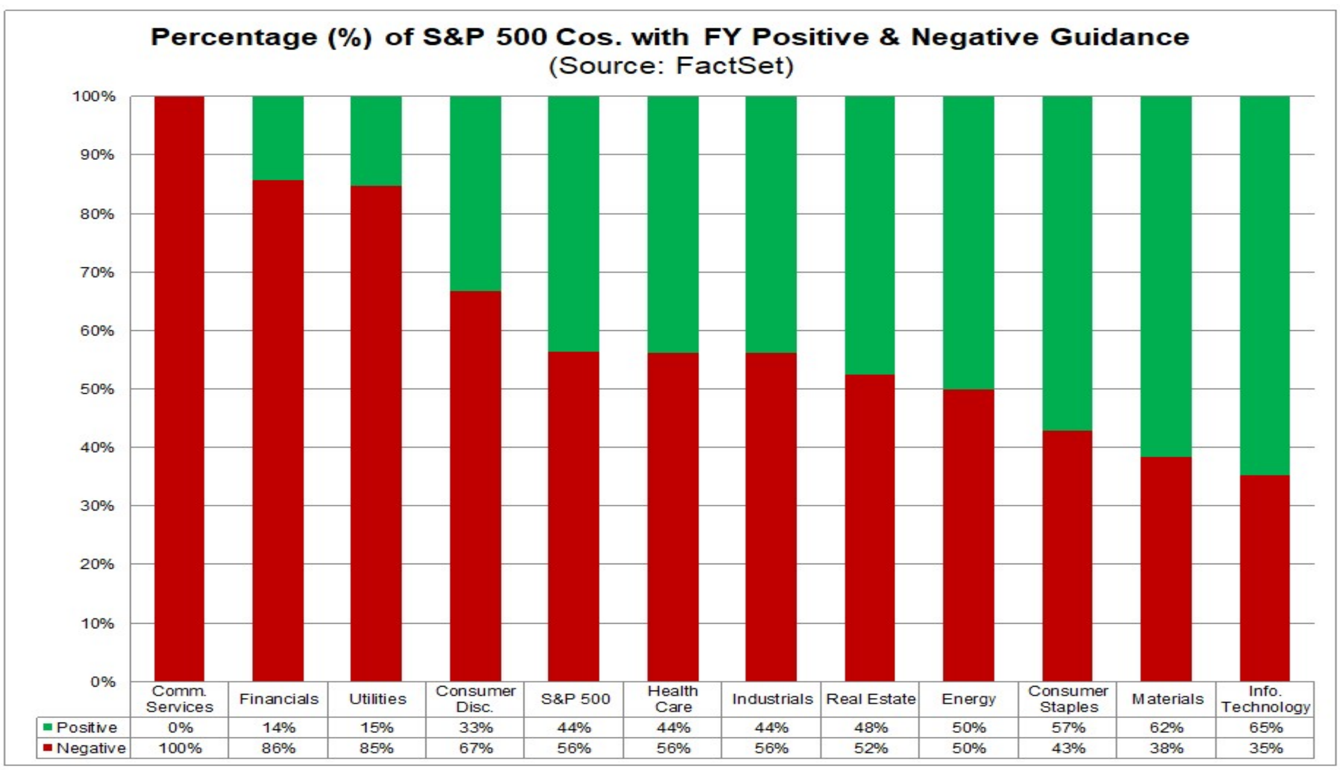
	Energy	Industrials	Consumer Disc.	Real Estate	S&P 500	Materials	Info. Technology	Consumer Staples	Comm. Services	Health Care	Utilities	Financials
Today	110.9%	31.4%	27.1%	16.4%	10.2%	7.1%	4.4%	1.4%	0.7%	0.5%	-4.7%	-7.8%
30-Jun	106.0%	31.8%	27.3%	16.4%	10.4%	8.4%	5.5%	1.6%	0.9%	0.7%	-4.8%	-7.3%



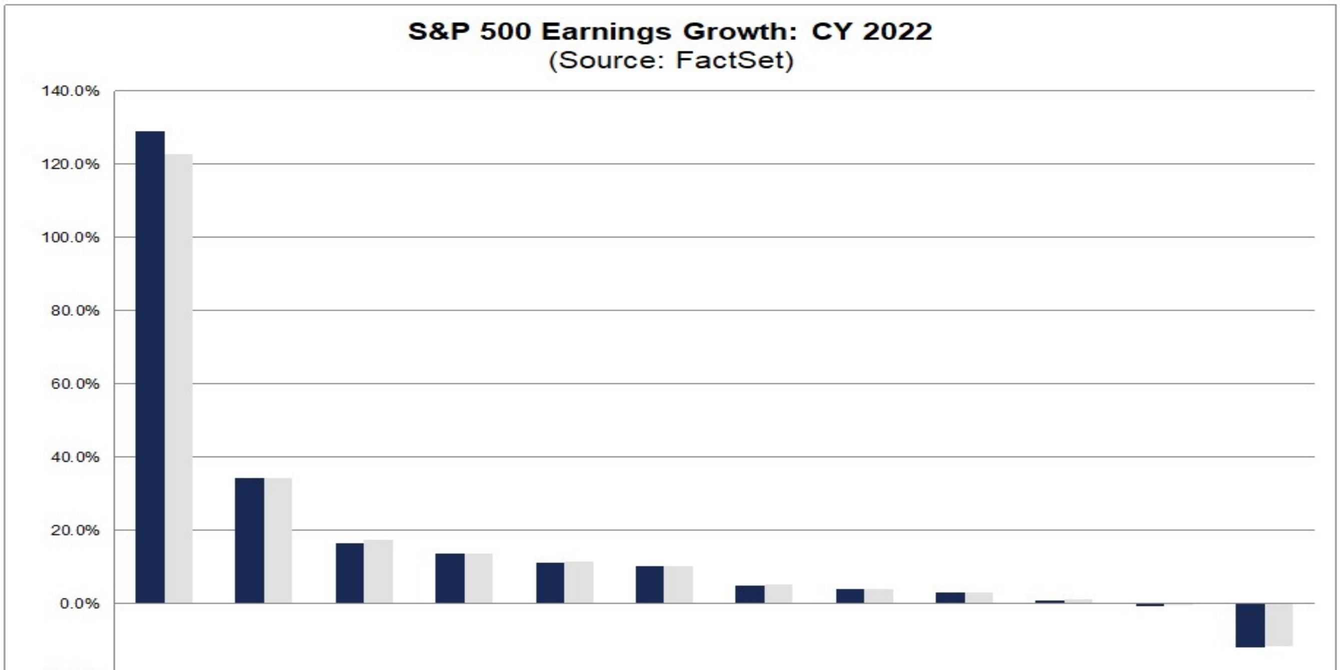
	Energy	Consumer Disc.	Industrials	Real Estate	S&P 500	Materials	Info. Technology	Comm. Services	Consumer Staples	Health Care	Utilities	Financials
Today	33.7%	15.5%	14.0%	13.9%	9.5%	9.5%	9.0%	6.6%	4.7%	4.2%	3.0%	1.6%
30-Jun	34.1%	15.5%	14.0%	14.1%	9.7%	9.9%	9.5%	6.8%	4.7%	4.2%	2.9%	1.9%

FY 2022 / 2023: EPS Guidance

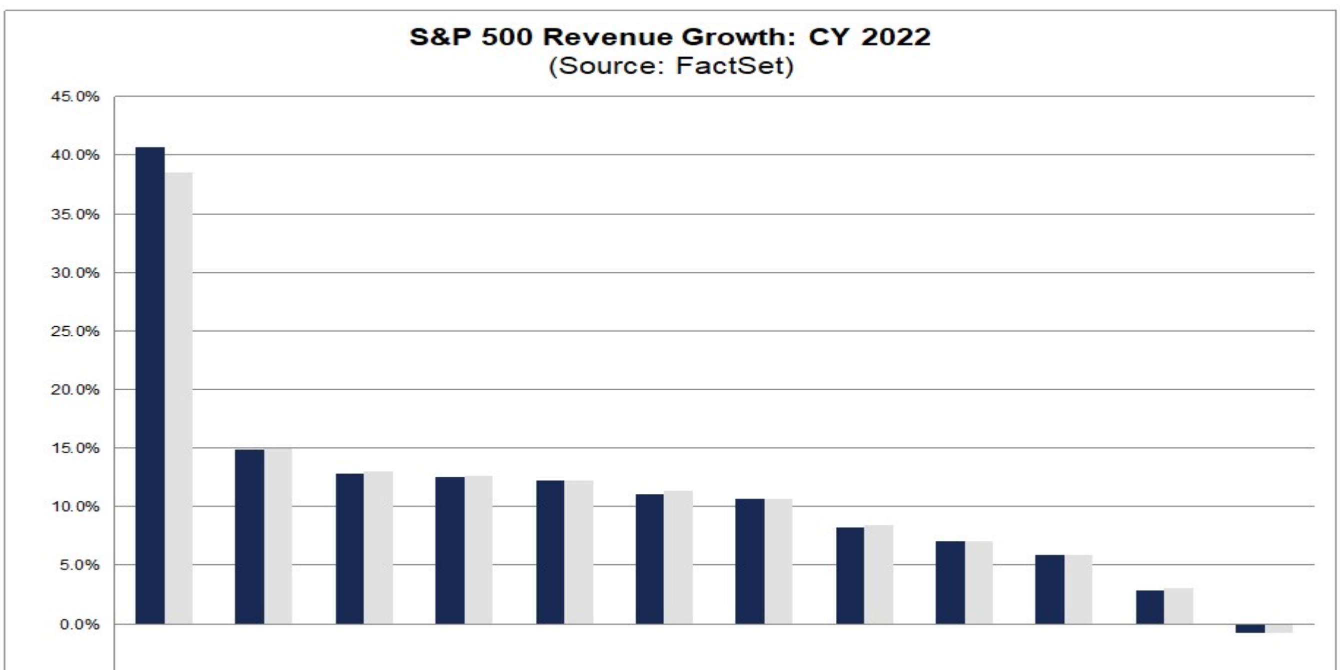




CY 2022: Growth

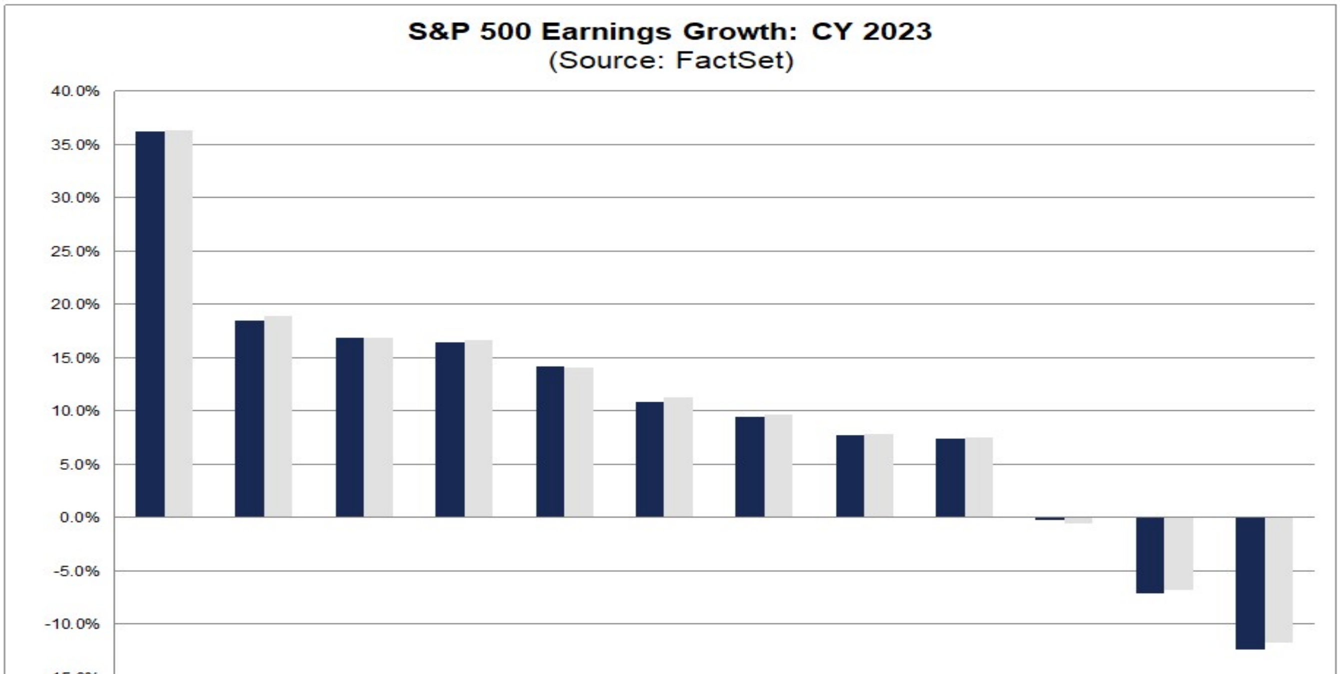


	Energy	Industrials	Materials	Real Estate	Info. Technology	S&P 500	Health Care	Utilities	Consumer Staples	Comm. Services	Consumer Disc.	Financials
Today	128.9%	34.3%	16.5%	13.5%	10.9%	10.0%	4.8%	3.7%	2.8%	0.7%	-0.9%	-12.1%
30-Jun	122.8%	34.3%	17.3%	13.5%	11.5%	10.1%	5.1%	3.7%	2.9%	1.1%	-0.5%	-11.7%

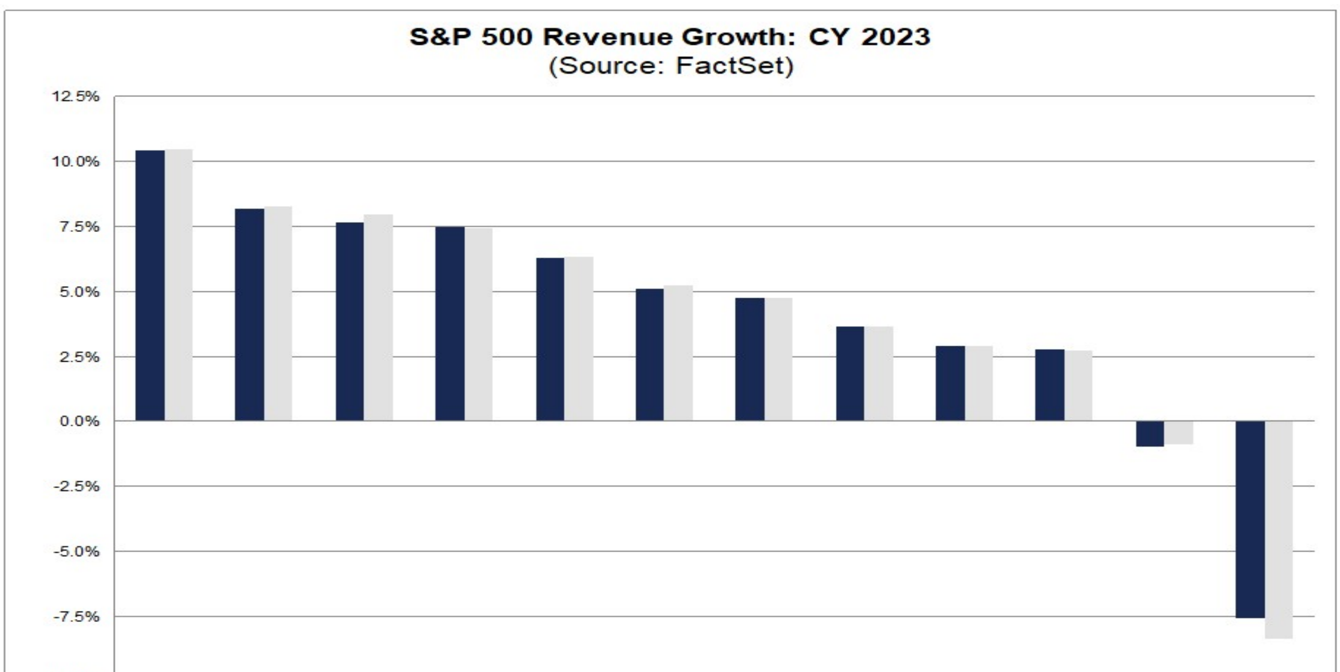


	Energy	Real Estate	Materials	Consumer Disc.	Industrials	Info. Technology	S&P 500	Comm. Services	Health Care	Consumer Staples	Financials	Utilities
Today	40.6%	14.9%	12.8%	12.6%	12.3%	11.0%	10.7%	8.3%	7.0%	5.9%	2.8%	-0.8%
30-Jun	38.5%	15.0%	13.0%	12.6%	12.2%	11.3%	10.6%	8.4%	7.1%	5.9%	3.1%	-0.8%

CY 2023: Growth

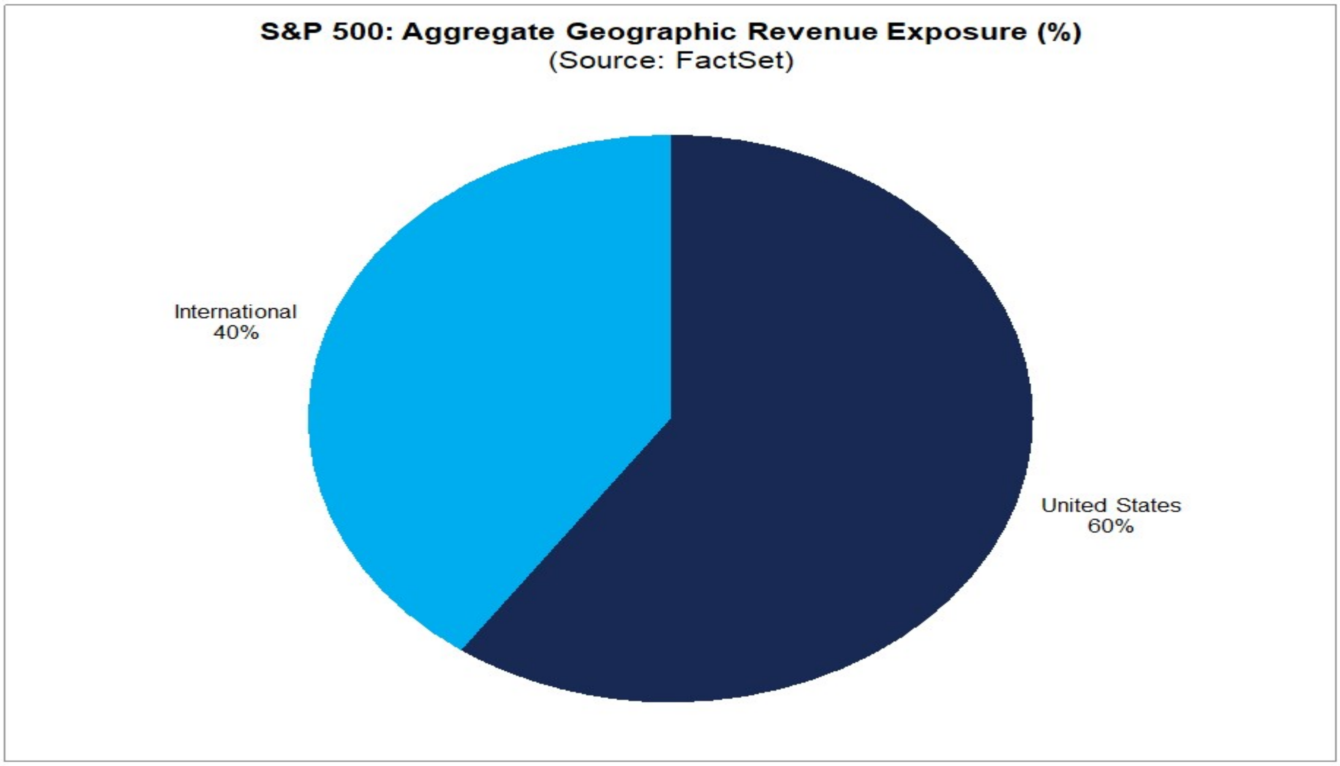


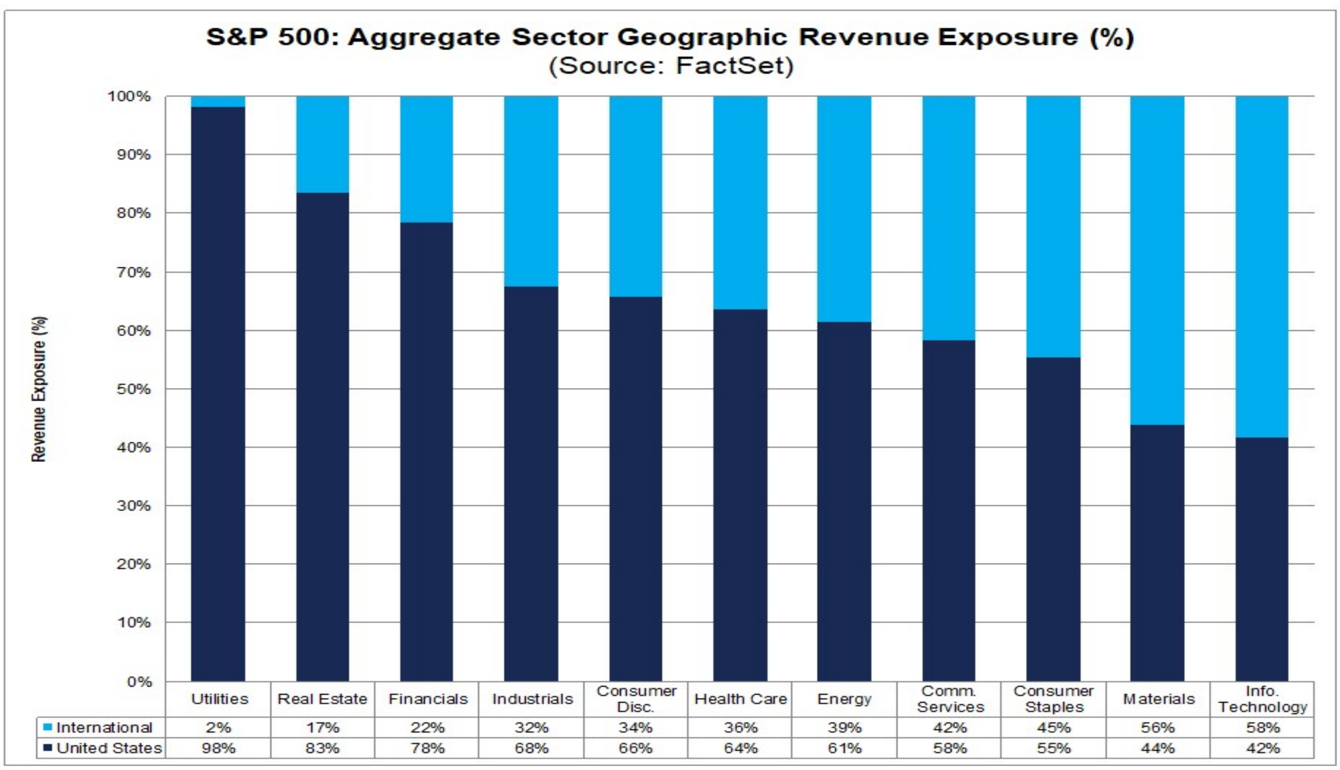
	Consumer Disc.	Industrials	Utilities	Comm. Services	Financials	Info. Technology	S&P 500	Real Estate	Consumer Staples	Health Care	Materials	Energy
Today	36.2%	18.5%	16.8%	16.4%	14.2%	10.8%	9.4%	7.8%	7.4%	-0.3%	-7.1%	-12.4%
30-Jun	36.3%	18.9%	16.8%	16.7%	14.0%	11.3%	9.7%	7.8%	7.5%	-0.6%	-6.9%	-11.7%



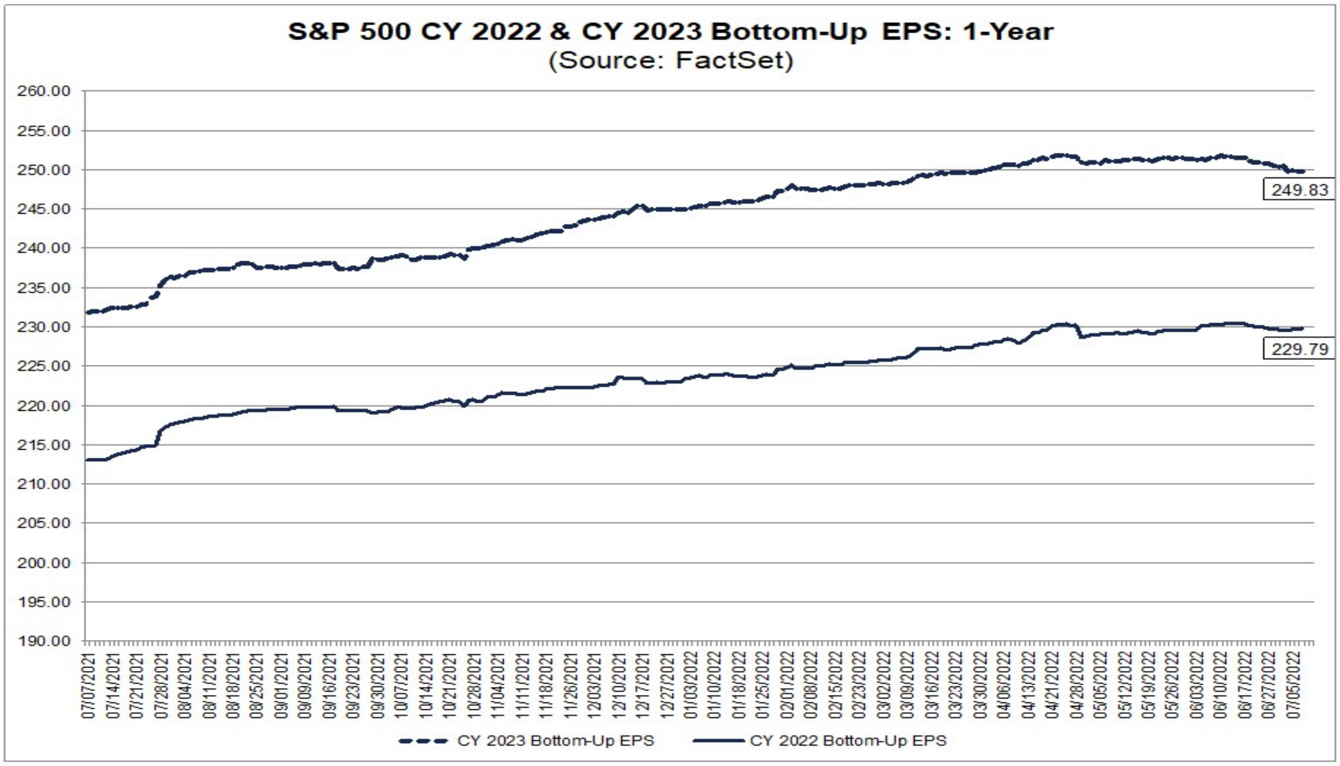
	Consumer Disc.	Comm. Services	Info. Technology	Financials	Industrials	Real Estate	S&P 500	Consumer Staples	Health Care	Utilities	Materials	Energy
Today	10.4%	8.2%	7.7%	7.5%	6.3%	5.1%	4.8%	3.7%	2.9%	2.8%	-1.0%	-7.6%
30-Jun	10.5%	8.3%	7.9%	7.4%	6.3%	5.2%	4.8%	3.6%	2.9%	2.7%	-0.9%	-8.3%

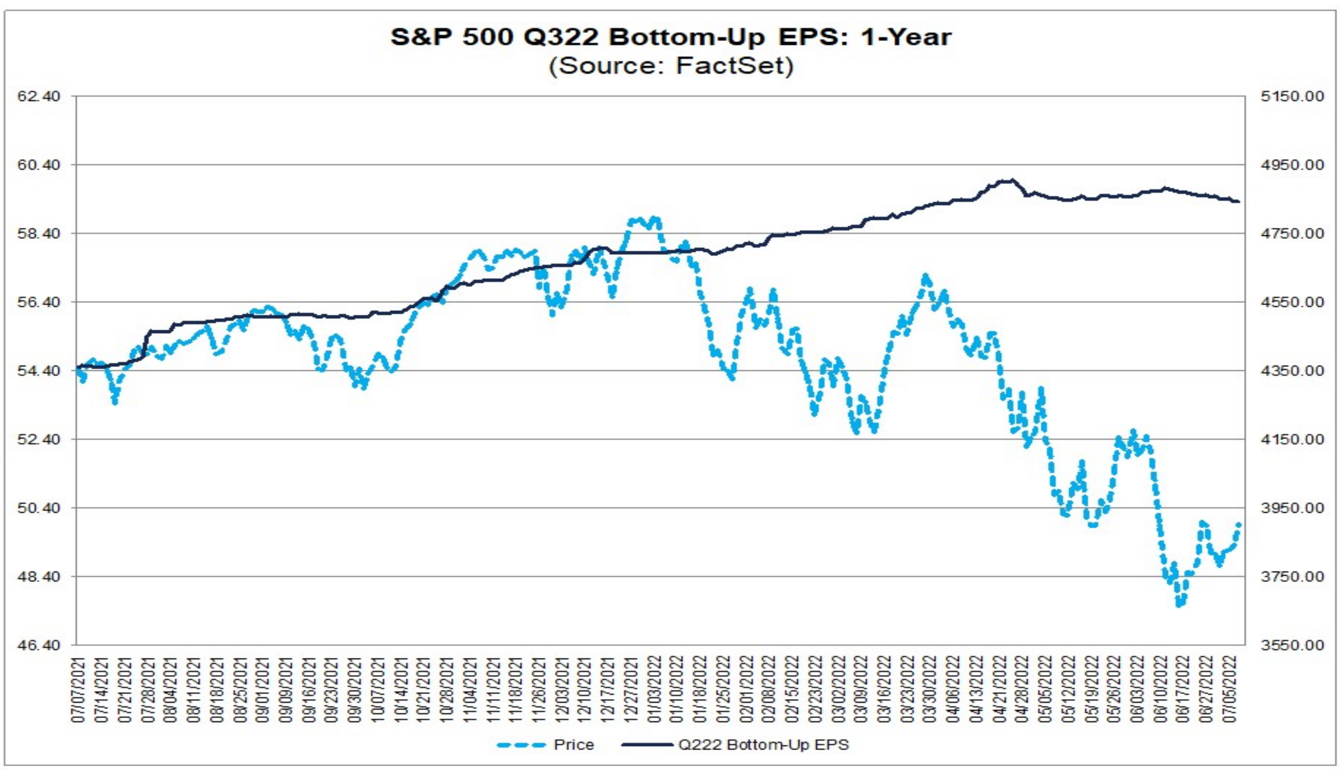
Geographic Revenue Exposure



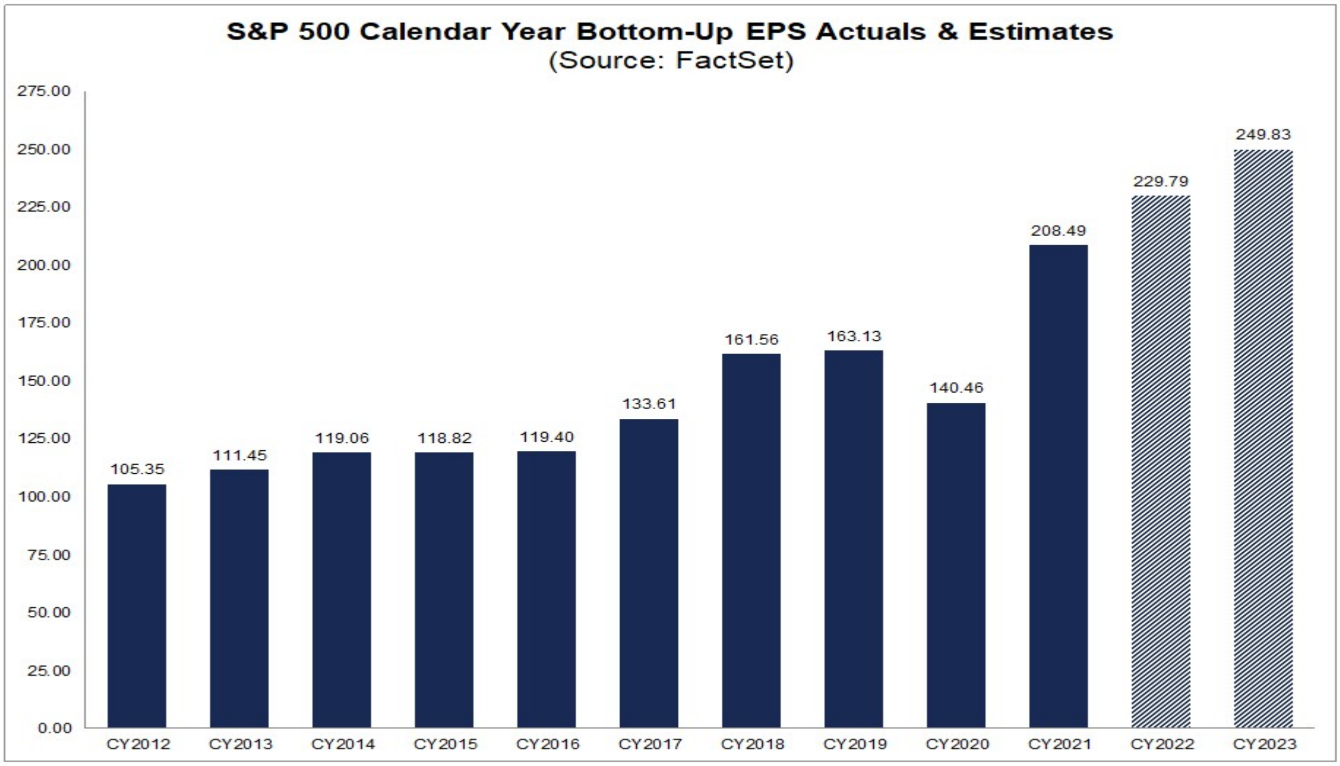


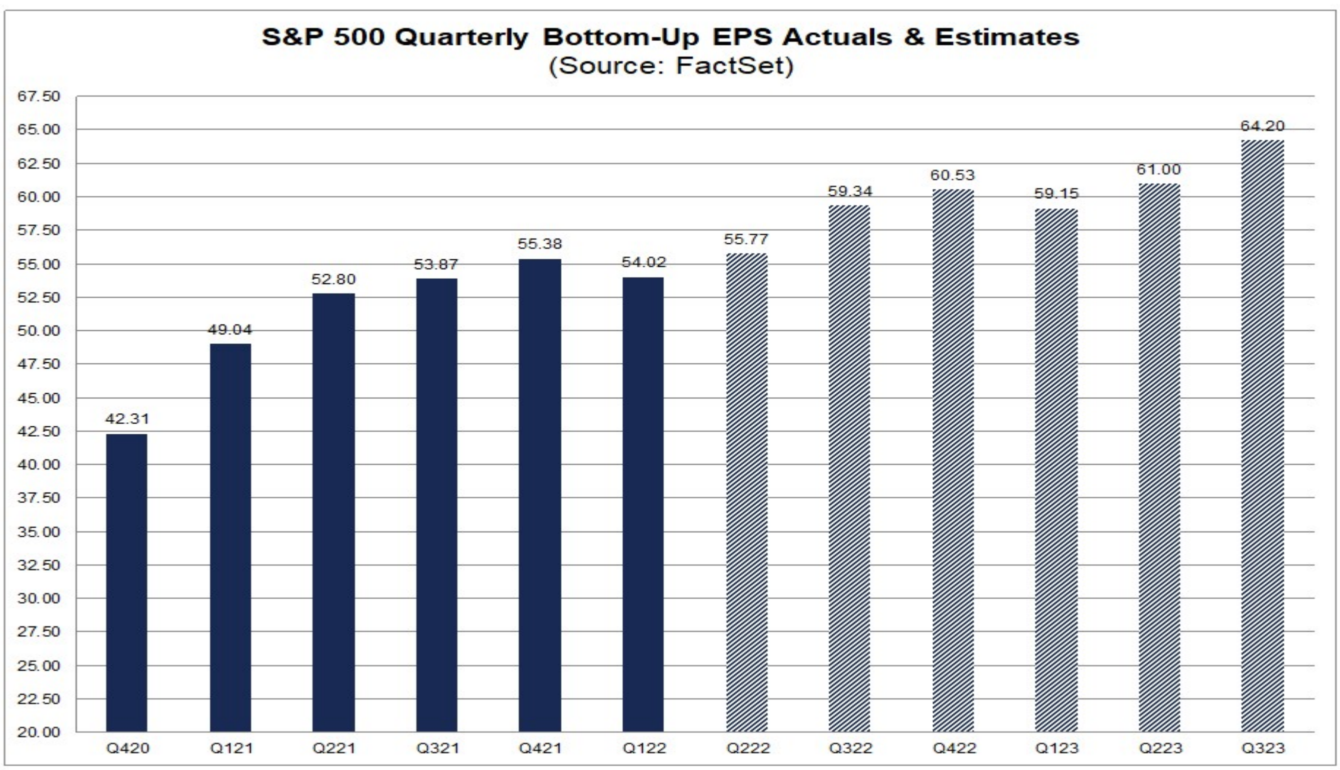
Bottom-Up EPS Estimates



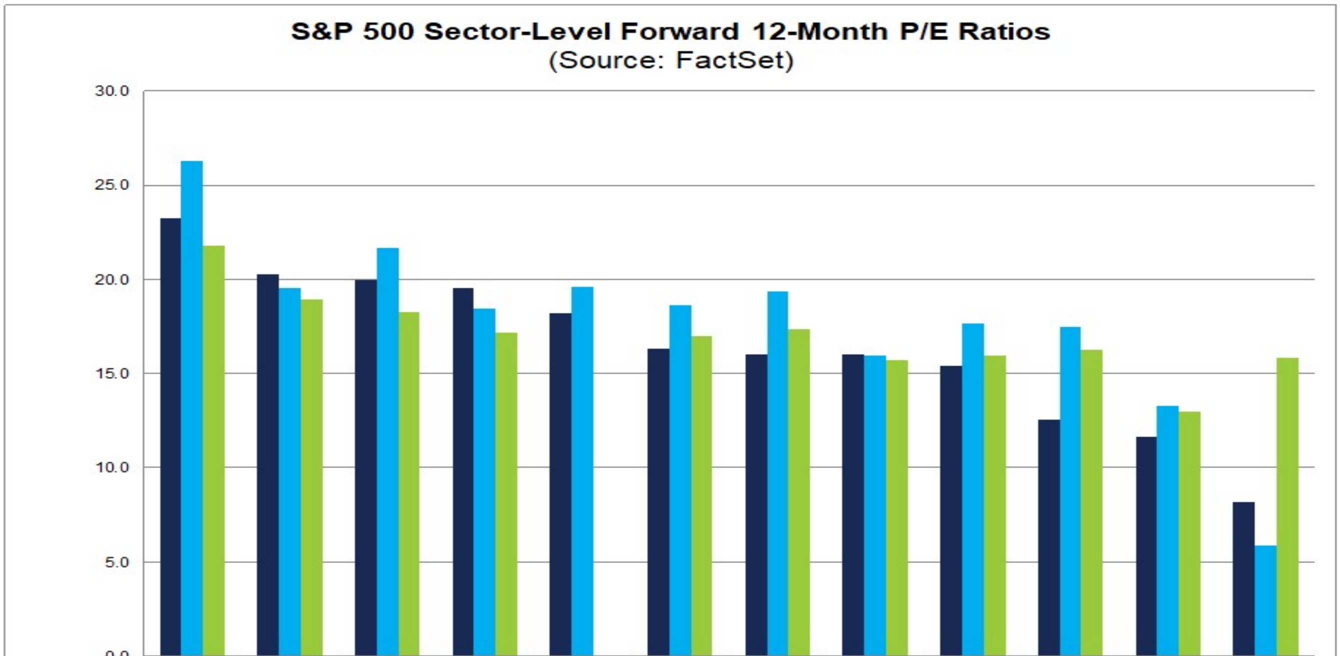


Bottom-Up EPS Estimates: Current & Historical

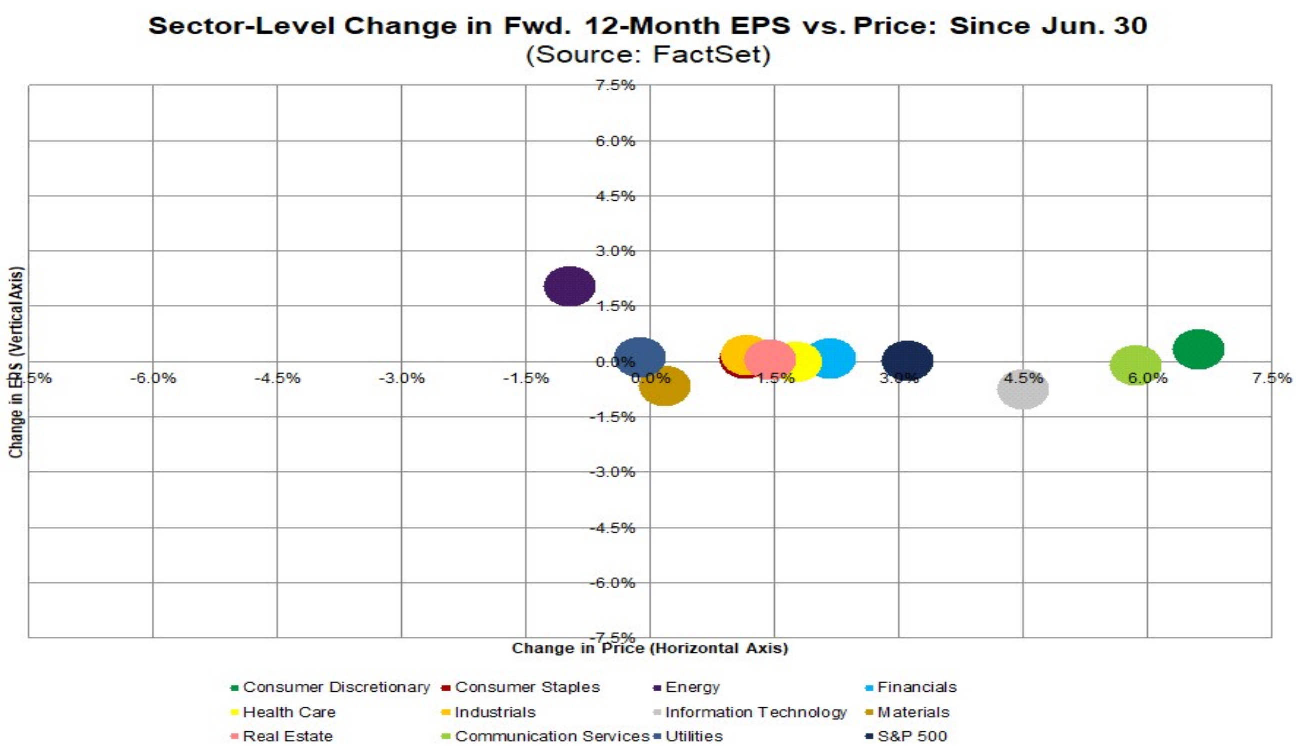




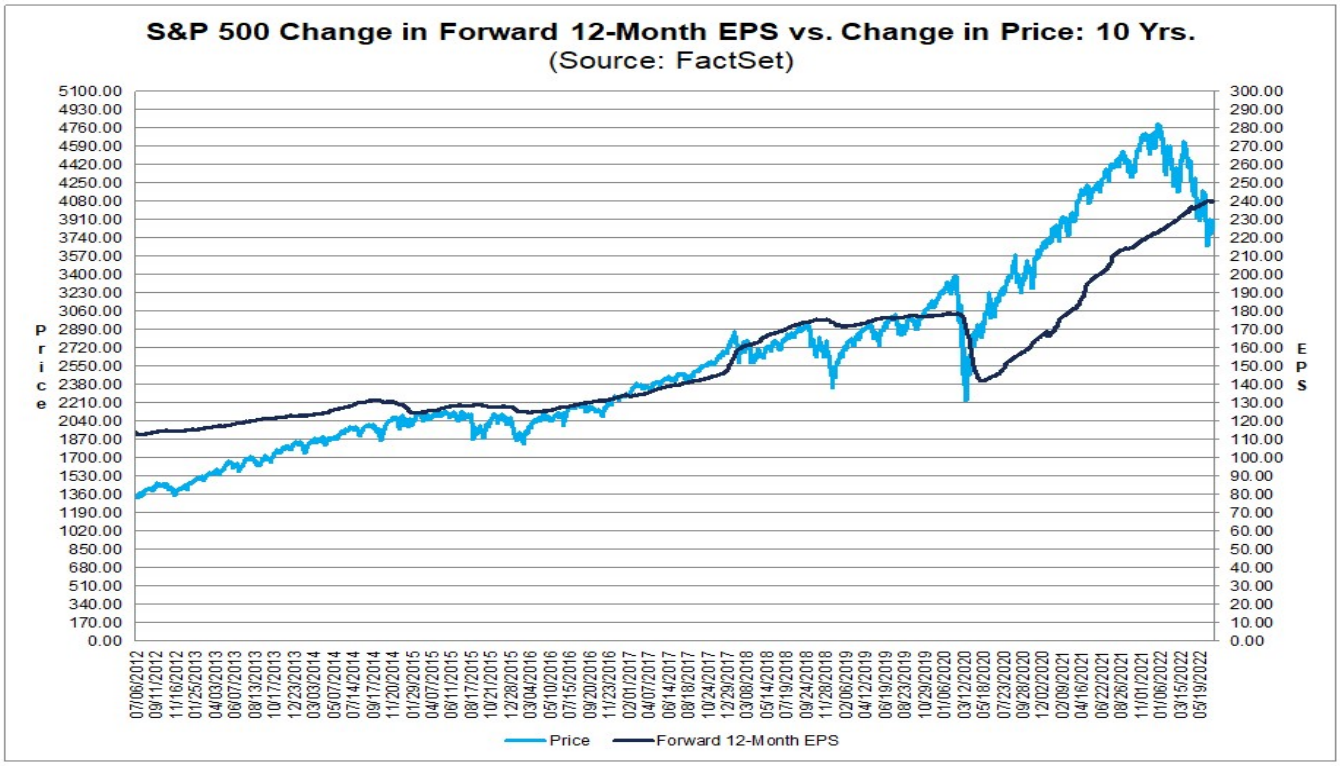
Forward 12M P/E Ratio: Sector Level

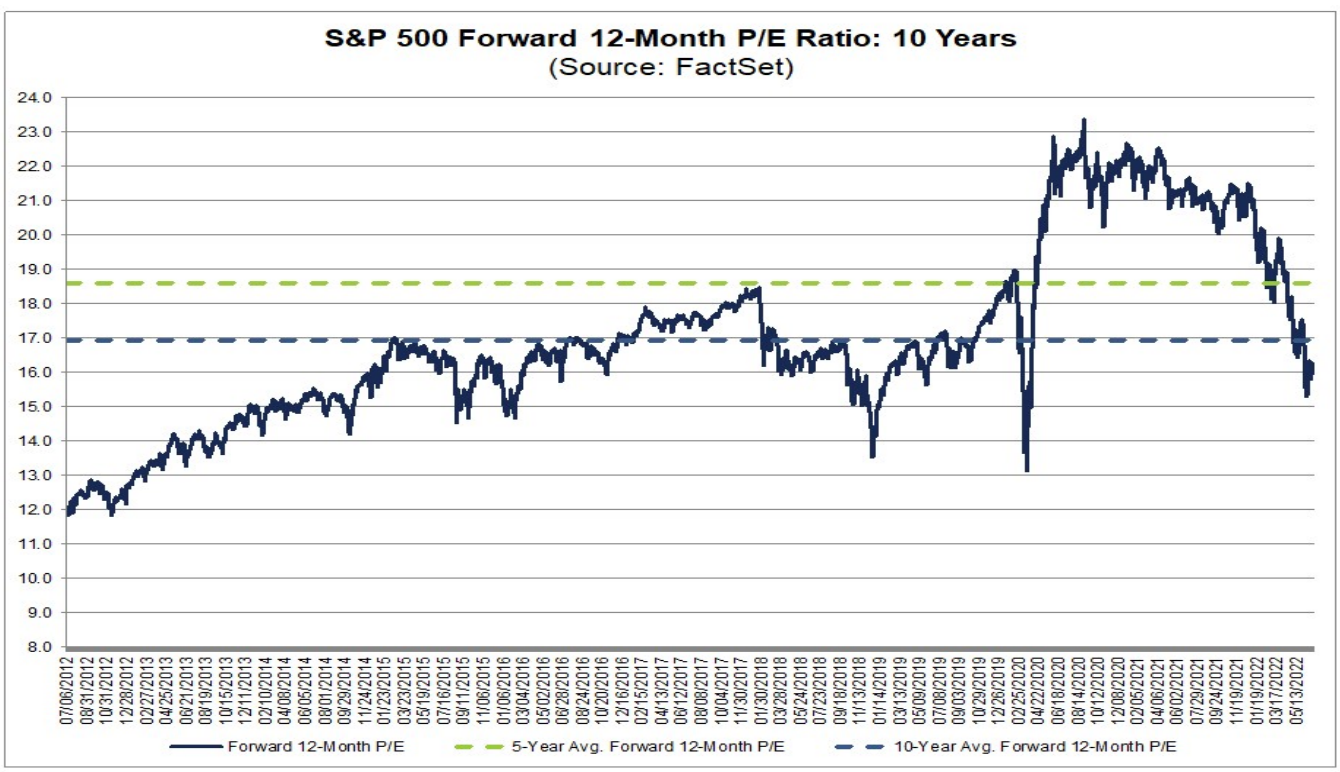


	Consumer Disc.	Consumer Staples	Info. Technology	Utilities	Real Estate	S&P 500	Industrials	Health Care	Comm. Services	Materials	Financials	Energy
Fwd P/E	23.3	20.3	20.0	19.6	18.2	16.3	16.0	16.0	15.4	12.6	11.6	8.2
5-Yr Avg.	26.3	19.5	21.7	18.4	19.6	18.6	19.3	16.0	17.6	17.5	13.3	5.8
10-Yr Avg.	21.8	18.9	18.2	17.2		17.0	17.4	15.7	15.9	16.2	12.9	15.8

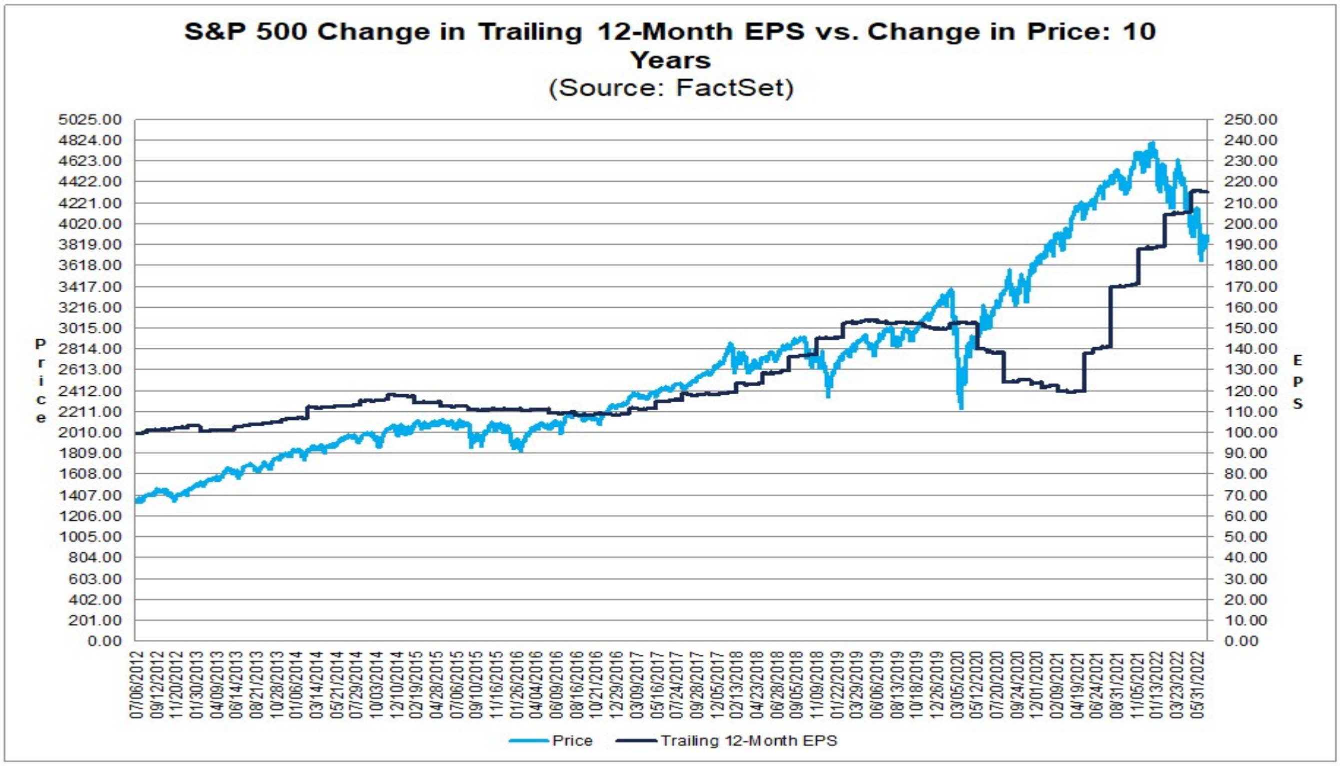


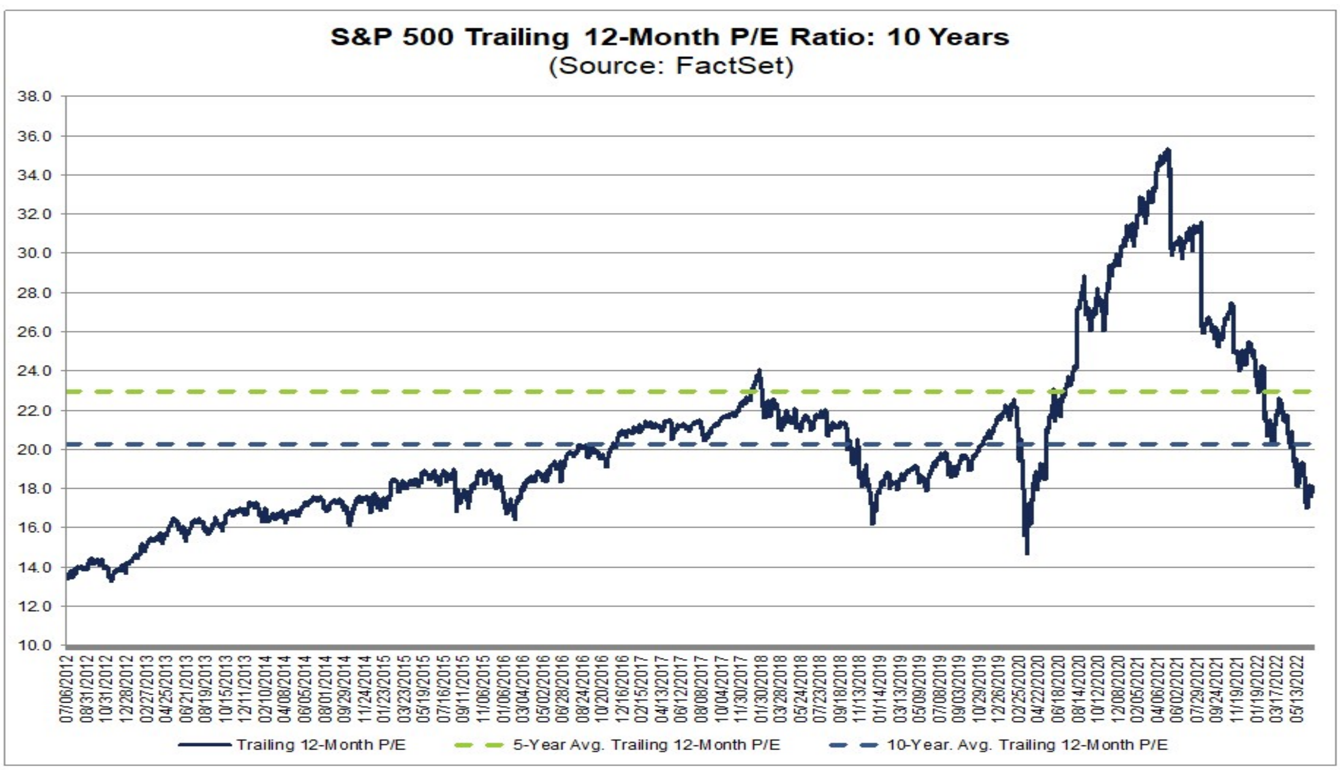
Forward 12M P/E Ratio: 10-Years



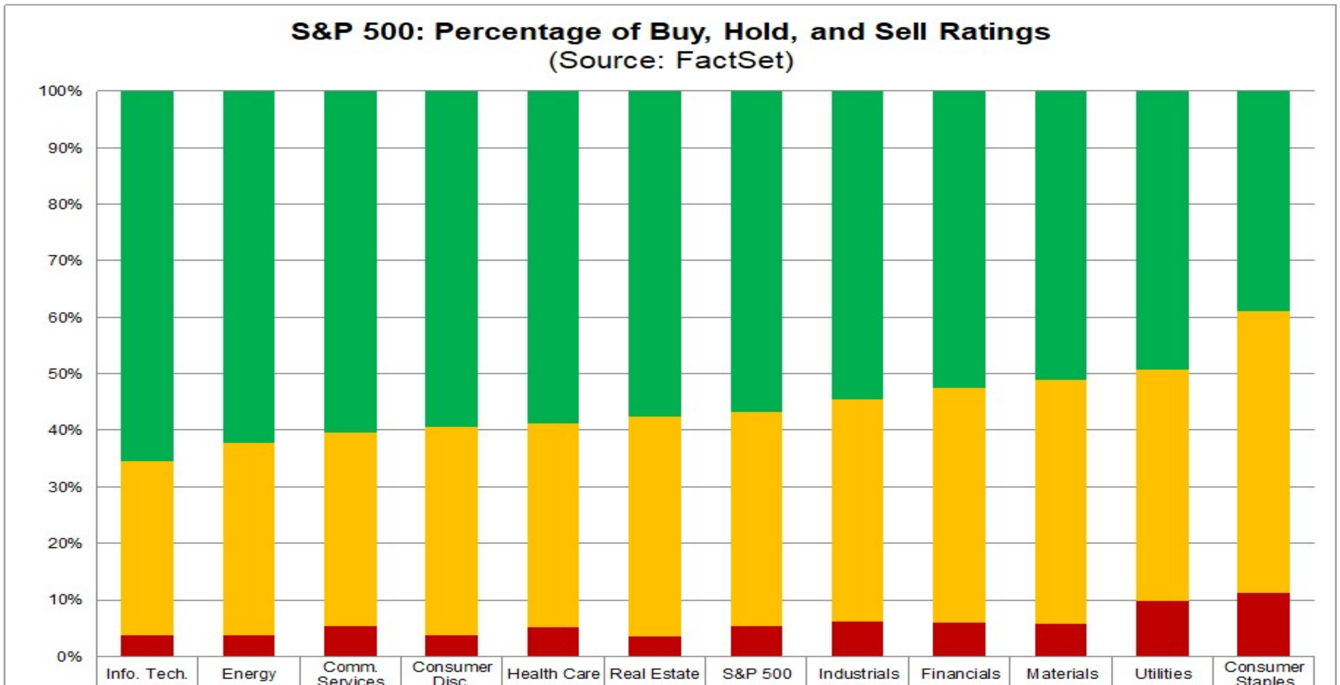


Trailing 12M P/E Ratio: 10-Years





Targets & Ratings



	Info. Tech.	Energy	Comm. Services	Consumer Disc.	Health Care	Real Estate	S&P 500	Industrials	Financials	Materials	Utilities	Consumer Staples
Buy	65%	62%	60%	59%	59%	58%	57%	55%	53%	51%	49%	39%
Hold	31%	34%	34%	37%	36%	39%	38%	39%	41%	43%	41%	50%
Sell	4%	4%	5%	4%	5%	3%	5%	6%	6%	6%	10%	11%

	Consumer Disc.	Comm. Services	Energy	Info. Tech.	Materials	Financials	Industrials	S&P 500	Real Estate	Health Care	Consumer Staples	Utilities
Target/Close	33.8%	33.3%	31.4%	30.4%	30.1%	26.6%	26.3%	26.1%	21.6%	15.8%	12.1%	11.9%

Appendix 1: Earnings Call Comments

Labor Costs & Shortages (11)

Moving on to Beer margins...Throughout the remainder of the year, gross margin will be negatively impacted as benefits from price and our cost savings agenda are expected to be more than offset by the following COGS headwinds. First, elevated inflationary pressures will continue...Second, we're expecting incremental brewery costs driven by labor inflation in Mexico as well as increased head count and training expenses to support our continued capacity expansion initiatives at both Nava and Obregón. -Constellation Brands (Jun. 30)

You are well aware of most of the challenges we are facing: ongoing reimbursement pressure, rising inflation and wages, consumer sentiment and manufacturer restrictions on the 340B program. These are all headwinds that we are facing today and we have created mitigation plans to address them. -Walgreens Boots Alliance (Jun. 30)

We saw challenges in our upstream suppliers, our internal and co-packer facilities, and our downstream transportation network, all of which were largely driven by labor shortages across the supply chain. -General Mills (Jun. 29)

And as a reminder, our branded foodservice demand is included in our Consumer segment in China. The lockdowns lasted roughly 75 days, with our Shanghai plant forced to close for two weeks at the onset with employees living in the facility. Once we were able to reopen, we were impacted by lockdown-related labor shortages due to workers being quarantined. -McCormick & Co. (Jun. 29)

The increase in SG&A dollars over the last year was mainly due to three factors. First, a $61 million increase in compensation and benefits, excluding share-based compensation driven by the annualization of the strong growth in staffing we experienced in the back half of last year, the inclusion of Edmunds payroll this quarter versus a year ago, wage pressures, and a ramp in field staffing in anticipation of a stronger tax season. -CarMax (Jun. 24)

And we really need to continue to focus on that, which is what we are doing, to offset what we're continuing to see in wage inflation in our business which, as we all know, is in all industries and is really across the globe….And at the same time, as you would expect, we're changing the mix of people on our contracts and also using technology to help offset the impact of wage increases. So again, very focused on pricing. That's the biggest lever that we have, but all of these improvements together are still lagging the compensation increases. -Accenture (Jun. 23)

Restaurant labor was 40 basis points lower, driven by hourly labor efficiencies gained from operational simplifications, which were partially offset by continued wage pressures. Total restaurant labor inflation was 7% versus last year, primarily driven by hourly wage inflation of approximately 9%. -Darden Restaurants (Jun. 23)

Ground operating expenses continue to be pressured by higher purchase transportation and wage rates although we see these pressures stabilizing. We continue to proactively address the labor availability head on through multiple levers. -FedEx (Jun. 23)

Our direct construction costs in the second quarter were up 1.6% sequentially and 20% year-over-year, both lower than the comparable increases for the same period in the first quarter and fourth quarter of 2021. Rising labor costs accounted for all of the increase in the second quarter. -Lennar (Jun. 21)

Now a few comments regarding inflation. First of all, it continues. Pressures from higher commodity prices, higher wages, higher transportation costs and supply chain disruptions, all still in play. -Costco (May 26)

As rising raw material pricing, labor, and transportation costs are all impacting us and our suppliers, inflation has been prevalent in the aftermarket space. -AutoZone (May 24)

Supply Chain Disruptions & Costs (10)

The Micron team delivered these excellent results despite supply chain challenges and COVID-19 control measures in China, which impacted our business on both the demand side and the supply side. -Micron (Jun. 30)

We're meeting our customers with robust in-stock levels that are slightly above last year despite ongoing supply chain headwinds. -Walgreens Boots Alliance (Jun. 30)

I think we're expecting, as a backdrop, that the supply chain disruptions, to the extent they are foreseeable, will in the near term not abate that much. So, that is a factor that even as we worked through this past year was a headwind to margins and even as we moved from quarter-to-quarter provided some volatility to our expectations. So, the guidance range primarily reflects that. -General Mills (Jun. 29)

Broadly, our results in the second quarter were in line with our sales and profit expectation despite certain global challenges, including a greater than expected level of high cost inflation and supply chain challenges, significant disruption in China from COVID-related lockdown and the conflict in Ukraine. As our second quarter progressed, the dynamics of these conditions intensified and negatively impacted our sales and profit results. -McCormick & Co. (Jun. 29)

Finally, inventories were $8.4 billion, up 23% compared to the prior-year period. This was driven by elevated in-transit inventories due to extended lead times from ongoing supply chain disruptions, partially offset by strong consumer demand. -NIKE (Jun. 27)

So if you back into the number, you'll be able to see where we are for the back half of the year which is a better reflection overall than the first half. Now, there's still noise in that because of supply chain disruption and other things. -Carnival (Jun. 24)

We do anticipate supply chain disruptions throughout the fiscal year. -FedEx (Jun. 23)

We also know the difficulties in the supply chain continue to persist and we know that land and labor remain in short supply. -Lennar (Jun. 21)

Now a few comments regarding inflation. First of all, it continues. Pressures from higher commodity prices, higher wages, higher transportation costs and supply chain disruptions, all still in play. -Costco (May 26)

Our in-stock positions, while still below historic norms, continue to improve as our supply chain and merchandising teams have made great progress in a challenging supply chain environment. -AutoZone (May 24)

Transportation & Freight Costs (8)

Moving on to Beer margins…Throughout the remainder of the year, gross margin will be negatively impacted as benefits from price and our cost savings agenda are expected to be more than offset by the following COGS headwinds. First, elevated inflationary pressures will continue throughout fiscal 2023 across numerous cost components but largely driven by aluminum, cartons, wood pallets and steel. In addition, we'll see increased logistic costs for fuel and freight rates for truck and rail. -Constellation Brands (Jun. 30)

And bear this in mind, international freight is up 200%. -Walgreens Boots Alliance (Jun. 30)

We saw challenges in our upstream suppliers, our internal and co-packer facilities, and our downstream transportation network, all of which were largely driven by labor shortages across the supply chain. -General Mills (Jun. 29)

In our Flavor Solutions segment, as we mentioned in our last earnings call, gross margin was unfavorably impacted by start-up and dual running costs as we transitioned production to our new UK Peterborough manufacturing facility…In addition to the net impact of the anticipated items I just detailed, gross margin was also unfavorably impacted by the following items. As Lawrence discussed, cost inflation and supply chain pressures escalated during the second quarter, impacting our results more than expected, primarily related to transportation costs and faster-turning materials. -McCormick & Co. (Jun. 29)

Since fiscal year 2020 our gross margins are up over 260 basis points and that includes in fiscal year 2022, 100 basis point headwind from elevated ocean freight costs. We're paying about five times the rate that we paid pre-pandemic to put product in a container on a boat and move it from Asia to the US, so up 260 basis points with 100 basis points of a headwind. -NIKE (Jun. 27)

Ground operating expenses continue to be pressured by higher purchase transportation and wage rates although we see these pressures stabilizing. We continue to proactively address the labor availability head on through multiple levers. -FedEx (Jun. 23)

Now a few comments regarding inflation. First of all, it continues. Pressures from higher commodity prices, higher wages, higher transportation costs and supply chain disruptions, all still in play. -Costco (May 26)

On the first part of your question, I mean, there's no question, we're seeing cost inflation in certain categories. We're also seeing higher transportation costs. We're seeing higher fuel costs. -AutoZone (May 24)

Ukraine / Russia (8)

Turning to the market outlook, our expectations for calendar 2022 industry bit demand growth have moderated since our last earnings call. Near the end of fiscal Q3, we saw a significant reduction in near-term industry bit demand, primarily attributable to end demand weakness in consumer markets, including PC and smartphone. These consumer markets have been impacted by the weakness in consumer spending in China, the Russia-Ukraine war, and rising inflation around the world. -Micron (Jun. 30)

Broadly, our results in the second quarter were in line with our sales and profit expectation despite certain global challenges, including a greater than expected level of high cost inflation and supply chain challenges, significant disruption in China from COVID-related lockdown and the conflict in Ukraine. As our second quarter progressed, the dynamics of these conditions intensified and negatively impacted our sales and profit results. -McCormick & Co. (Jun. 29)

Fourth quarter diluted earnings per share was $0.90. This includes a $0.10 non-recurring, non-cash charge related to both the deconsolidation of our Russian operations as well as the transition of our Argentina, Chile and Uruguay businesses to a strategic distributor model. -NIKE (Jun. 27)

For us, we have – as we've been hit with different variants and invasion of Ukraine and other things and bringing more capacity on board, we've had to consider all of that. -Carnival (Jun. 24)

Our international businesses continue to navigate a dynamic environment. Global trade growth has slowed from disruptions related to lockdowns in China and the conflict in Ukraine, limiting the flow of goods and reducing international export volumes. -FedEx (Jun. 23)

We delivered EPS of $2.79 which represents 16% growth over fiscal 2021 results, and includes $0.15 or 6% negative impact related to the disposition of our business in Russia. -Accenture (Jun. 23)

Second, in March, we outlined the impact of the ongoing war in Ukraine and our decision to cease all new sales in Russia and Belarus, resulting in an expected $75 million revenue impact on our Digital Media business. -Adobe (Jun. 16)

In addition, since we ceased operations in Russia in March and made other adjustments in the region, we have factored out around $100 million per quarter from guidance that we used to receive from these customers. -Oracle (Jun. 13)

Raw Material & Commodity Costs (7)

Moving on to Beer margins…Throughout the remainder of the year, gross margin will be negatively impacted as benefits from price and our cost savings agenda are expected to be more than offset by the following COGS headwinds. First, elevated inflationary pressures will continue throughout fiscal 2023 across numerous cost components but largely driven by aluminum, cartons, wood pallets and steel. In addition, we'll see increased logistic costs for fuel and freight rates for truck and rail. -Constellation Brands (Jun. 30)

On slide 32, we provided some key financial assumptions for fiscal 2023. As we mentioned earlier, we are forecasting approximately 14% inflation on our cost of goods sold, driven largely by ingredients, packaging, material and logistics. -General Mills (Jun. 29)

In our Flavor Solutions segment, as we mentioned in our last earnings call, gross margin was unfavorably impacted by start-up and dual running costs as we transitioned production to our new UK Peterborough manufacturing facility…In addition to the net impact of the anticipated items I just detailed, gross margin was also unfavorably impacted by the following items. As Lawrence discussed, cost inflation and supply chain pressures escalated during the second quarter, impacting our results more than expected, primarily related to transportation costs and faster-turning materials. -McCormick & Co. (Jun. 29)

Heading into 2023, we expect the commodities inflation rate to increase in the first quarter from the 12% we had in Q4 and then to moderate significantly, ending the year roughly flat. So, due to this significant unusual timing, we would like to provide some context on the cadence of quarterly earnings expectations. With the first quarter commodities inflation in the mid-teens, we expect a low double-digit percentage decline in EPS from last year. For the second quarter, commodities inflation eases a bit to the low double-digit range, resulting in flat EPS to last year. And for the back half of the year, we anticipate low single-digit commodity inflation and positive EPS growth. -Darden Restaurants (Jun. 23)

Throughout our second quarter, we continued to sell homes and still offset higher land, labor and material costs. -Lennar (Jun. 21)

Now a few comments regarding inflation. First of all, it continues. Pressures from higher commodity prices, higher wages, higher transportation costs and supply chain disruptions, all still in play. -Costco (May 26)

As rising raw material pricing, labor, and transportation costs are all impacting us and our suppliers, inflation has been prevalent in the aftermarket space. -AutoZone (May 24)

Unfavorable Foreign Exchange (7)

Foreign exchange reduced net sales growth by 1-point. -General Mills (Jun. 29)

Now, for more detail on our second quarter results, starting with sales on slide 7. Sales declined 1% from the second quarter of last year, including an unfavorable impact from currency. -McCormick & Co. (Jun. 29)

As such, we have factored various risk scenarios into our guidance for fiscal 2023. We expect revenue for the full-year to grow low-double digits on a currency-neutral basis, partially offset by foreign-exchange headwinds of approximately 400 basis points. In the first quarter, we expect real dollar revenue growth to be flat to slightly up versus the prior year, due to COVID disruption in Greater China and more than 500 basis points impact from foreign exchange translation. -NIKE (Jun. 27)

Turning to our business outlook. For the fourth quarter of fiscal 2022, we expect revenues to be in the range of $15 billion to $15.5 billion. This assumes the impact of FX will be about negative 8% compared to the fourth quarter of fiscal 2021 and reflects an estimated 20% to 24% growth in local currency. -Accenture (Jun. 23)

Third, as a result of the continued strength of the US dollar, we are now factoring in an incremental FX headwind of $175 million across Q3 and Q4 revenue. -Adobe (Jun. 16)

Now, let me turn to my guidance. I'll review Q1 on a non-GAAP basis, and if currency exchange rate remain the same as they are now, currency should have a 3% to 4% negative impact on total revenue and may be $0.05 to $0.06 negative effect on EPS in Q1. -Oracle (Jun. 13)

And foreign currencies relative to the US dollar negatively impacted sales by just a little over 1%. -Costco (May 26)

COVID-19 Costs & Impact (6)

However, these COVID-19 control measures in China impacted our outsourced assembly and test subcontractors and led to some impact to fiscal Q3 results. -Micron (Jun. 30)

George, I'm not sure we want to give out specific guidance because we have to go through a process with our board on this. But we will expect lower levels of activity on COVID vaccinations next year. And I think you can form your own assumptions on that. So, it does generate a sizable headwind next year. -Walgreens Boots Alliance (Jun. 30)

Broadly, our results in the second quarter were in line with our sales and profit expectation despite certain global challenges, including a greater than expected level of high cost inflation and supply chain challenges, significant disruption in China from COVID-related lockdown and the conflict in Ukraine. As our second quarter progressed, the dynamics of these conditions intensified and negatively impacted our sales and profit results. -McCormick & Co. (Jun. 29)

Next, I'll provide some deeper color around our results in Greater China. In Q4, revenue declined 20% on a currency-neutral basis and EBIT declined 55% on a reported basis. This follows the region's most widespread COVID disruptions since 2020, impacting over 100 cities and over 60% of our business. -NIKE (Jun. 27)

For us, we have – as we've been hit with different variants and invasion of Ukraine and other things and bringing more capacity on board, we've had to consider all of that. -Carnival (Jun. 24)

At FedEx Express, COVID lockdowns, geopolitical uncertainty and slower economic growth contributed to package volume declines of 11%. -FedEx (Jun. 23)

Higher Oil & Gas Prices (4)

Moving on to Beer margins…Throughout the remainder of the year, gross margin will be negatively impacted as benefits from price and our cost savings agenda are expected to be more than offset by the following COGS headwinds. First, elevated inflationary pressures will continue throughout fiscal 2023 across numerous cost components but largely driven by aluminum, cartons, wood pallets and steel. In addition, we'll see increased logistic costs for fuel and freight rates for truck and rail. -Constellation Brands (Jun. 30)

Fuel cost, if you go back to March, gasoline prices in the quarter versus March were up 25%. That stuff rolls through the P&L very quickly. And pricing will catch up on that, but a one-month lag in pricing could be $30 million to $40 million of impact, which is like $0.10 a share. -McCormick & Co. (Jun. 29)

Our reported gross margins in the third quarter were lower year over year by 99 basis points, this year coming in at 10.19% as a percentage of sales, and that compares to last year's 11.18% that we reported a year ago. So the 99 basis points down year over year and excluding the negative impact of gas inflation, we would have been down 53 basis points. -Costco (May 26)

On the first part of your question, I mean, there's no question, we're seeing cost inflation in certain categories. We're also seeing higher transportation costs. We're seeing higher fuel costs. -AutoZone (May 24)

Price Increases or Improved Price Realization (16)

For full year fiscal 2023, we continue to target net sales growth of 7% to 9%, which includes 1 to 2 points of pricing within our Mexican product portfolio and operating income growth of 2% to 4%. This implies an operating margin of approximately 38% for the year. Throughout the remainder of the year, gross margin will be negatively impacted as benefits from price and our cost savings agenda are expected to be more than offset by the following COGS headwinds. -Constellation Brands (Jun. 30)

And our pricing actions overall as a business, I think we've got zero impact on a full year basis. All the cost increases, shipping increases, goods not for resale, all of that, effectively, we've priced away through very effective margin management. -Walgreens Boots Alliance (Jun. 30)

We expect, as you mentioned, our price realization and a combination of HMM to largely offset the dollar cost of the 14% inflation that we've called. -General Mills (Jun. 29)

Consistent with the rest of the industry, high cost inflation and supply chain are continuing challenges. To partially offset cost pressures, we've taken multiple pricing actions and, as planned, we are raising prices again. -McCormick & Co. (Jun. 29)

On the price increase, we have always said that we're in the 2% to 4% range. I would say this is a year that certainly was at the high end of that range, and it varies depending on the product. I think the key thing there is to get the right mixture of value and price. And it's not just about raising prices, it's also about delivering better value. -Paychex (Jun. 29)

As we look ahead to fiscal 2023 and our guidance were flat to decline 50 bps, we're planning for mid-single-digit price increases. -NIKE (Jun. 27)

For the first quarter of FY 2023, our diversified business model delivered total sales of $9.3 billion, up 21% compared with last year's first quarter, driven by growth in average selling prices and wholesale volume gains partially offset by a decline in retail used unit sold. -CarMax (Jun. 24)

For the full year 2023, our cumulative advanced book position continues to be at the higher end of the historical range and at higher prices with or without FCCs normalized for bundled packages as compared to 2019 sailings. This is a great achievement given pricing on bookings for 2019 sailings is a tough comparison as that was a high watermark for historical yields. -Carnival (Jun. 24)

So we were pleased that we did see, again, improvement, Bryan, in our pricing. And again, reminder that pricing – when we talk about pricing, it's the margin on the work that we sold…And we are seeing some improvement coming from pricing in our P&L, so I'm pleased with that. -Accenture (Jun. 23)

We continue to see increasing cost pressures with total inflation for the fourth quarter of 7.5%. During the quarter, we took additional pricing to help offset a portion of the growing inflation that brought total pricing to 6% for the quarter and 3% for the full year. -Darden Restaurants (Jun. 23)

We grew third quarter organic ASV plus professional services at 10% year-over-year. This acceleration reflects disciplined execution of our sales pipeline and pricing plans. In addition, investments in content and workstation functionality continue to support both retention and better price realization. For example, our third quarter international price increase contributed $10 million in ASV, an increase of $3 million, or 30%, from last year. -FactSet (Jun. 23)

At FedEx Ground, we experienced modest revenue growth driven by higher yields as a result of pricing actions and improved volume mix. -FedEx (Jun. 23)

While the market has cooled, it has clearly not stopped. Demand remains reasonably strong, as buyers still have down payments and have attractive credit scores and can qualify. Household formation has continued to rise, and although we have adjusted some prices in many markets, those prices remain higher on a year-over-year basis. -Lennar (Jun. 21)

And on pricing, Alex, you're right. We did sort of introduce a modest price increase to a portion of our customer base in Q2. The new prices were in market for about a month and drove a little under $10 million of benefit, which is exactly what we were expecting and as you can see is a very small part of the $464 million that we drove in Q2. -Adobe (Jun. 16)

And while we continue to mitigate the impact of price increases as best as we can, we remain comfortable in our ability to pass through higher costs while providing great value to our members. -Costco (May 26)

However, as we reiterated on the call, the industry pricing is rational, and we're actually pricing to recover all of those inflationary impacts, just as we've done in the past. So, I mean, you've seen us move retail prices up as inflation has moved up mid single digits, so our pricing has moved. I think our entire industry has done that. And as I've said before, inflation has been a little bit of our friend in terms of what we see in terms of retail pricing. -AutoZone (May 24)

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