

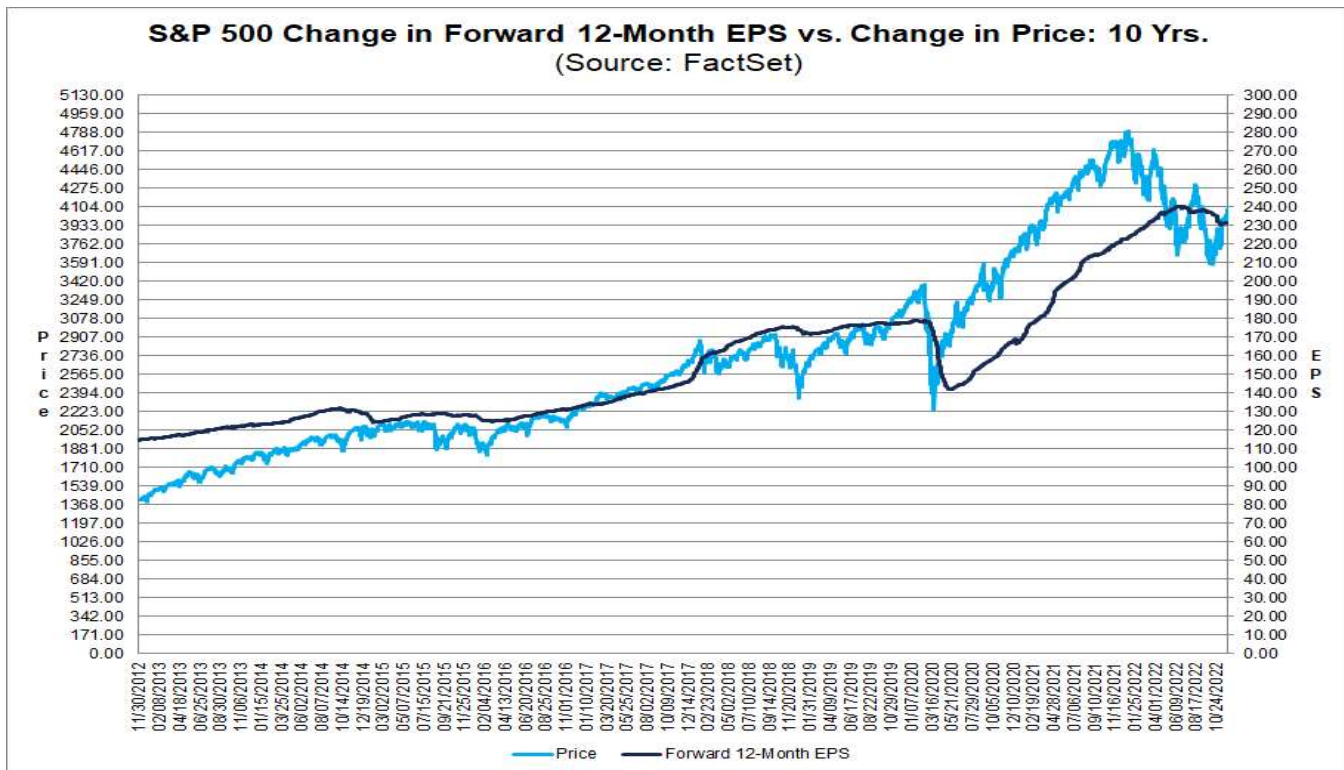
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Key Metrics

- **Earnings Scorecard:** For Q3 2022 (with 99% of S&P 500 companies reporting actual results), 70% of S&P 500 companies have reported a positive EPS surprise and 71% of S&P 500 companies have reported a positive revenue surprise.
- **Earnings Growth:** For Q3 2022, the blended earnings growth rate for the S&P 500 is 2.5%. If 2.5% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q3 2020 (-5.7%).
- **Earnings Revisions:** On September 30, the estimated earnings growth rate for Q3 2022 was 2.6%. Five sectors are reporting lower earnings today (compared to September 30) due to downward revisions to EPS estimates and negative EPS surprises.
- **Earnings Guidance:** For Q4 2022, 63 S&P 500 companies have issued negative EPS guidance and 34 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 17.6. This P/E ratio is below the 5-year average (18.5) but above the 10-year average (17.1).



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Topic of the Week: 1

Larger Cuts Than Average to EPS Estimates for S&P 500 Companies for Q4 To Date

Given continuing concerns in the market about a possible recession, are analysts lowering EPS estimates more than normal for S&P 500 companies for the fourth quarter?

The answer is yes. During the months of October and November, analysts lowered EPS estimates for S&P 500 companies for the fourth quarter by a larger margin than average. The Q4 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for Q4 for all the companies in the index) decreased by 5.6% (to \$54.58 from \$57.79) from September 30 to November 30.

In a typical quarter, analysts usually reduce earnings estimates during the first two months of a quarter. During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 2.1%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 2.7%. During the past fifteen years, (60 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 3.5%. During the past 20 years (80 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 2.9%.

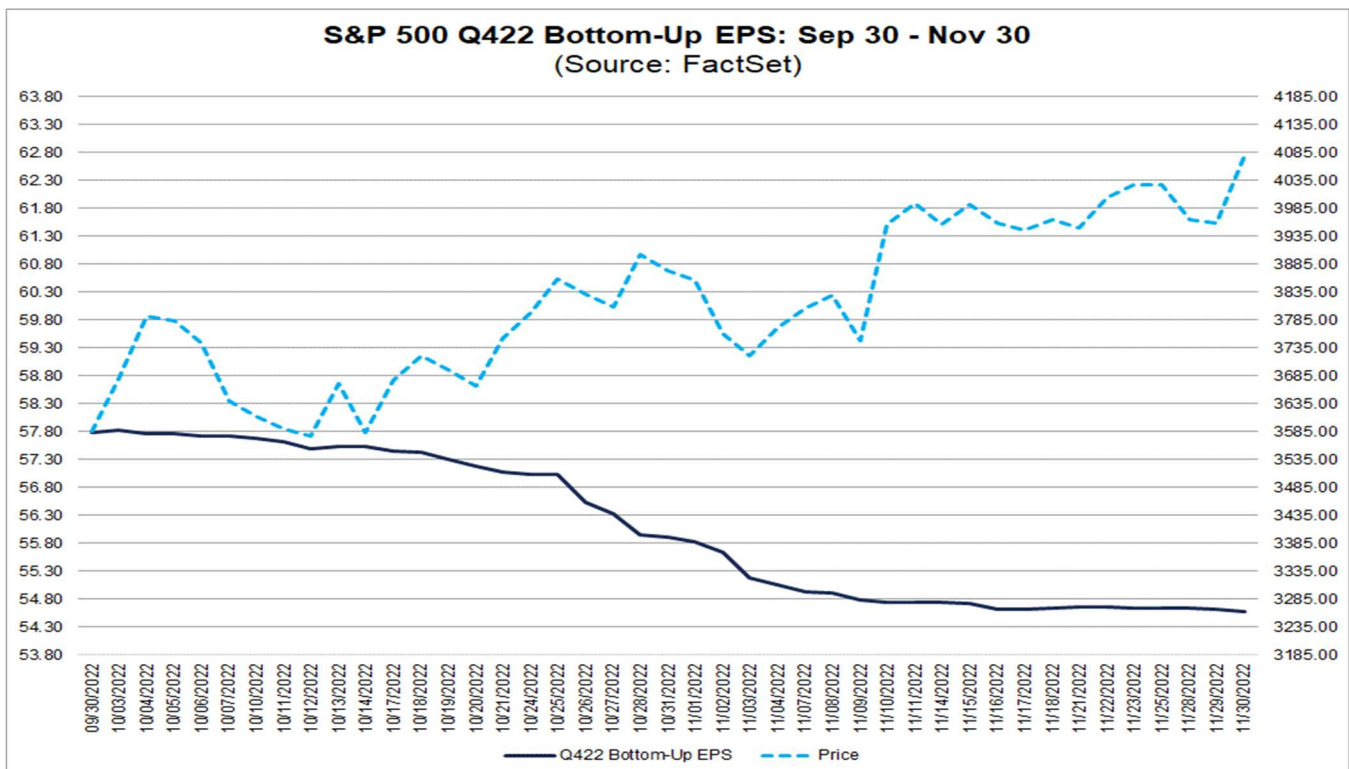
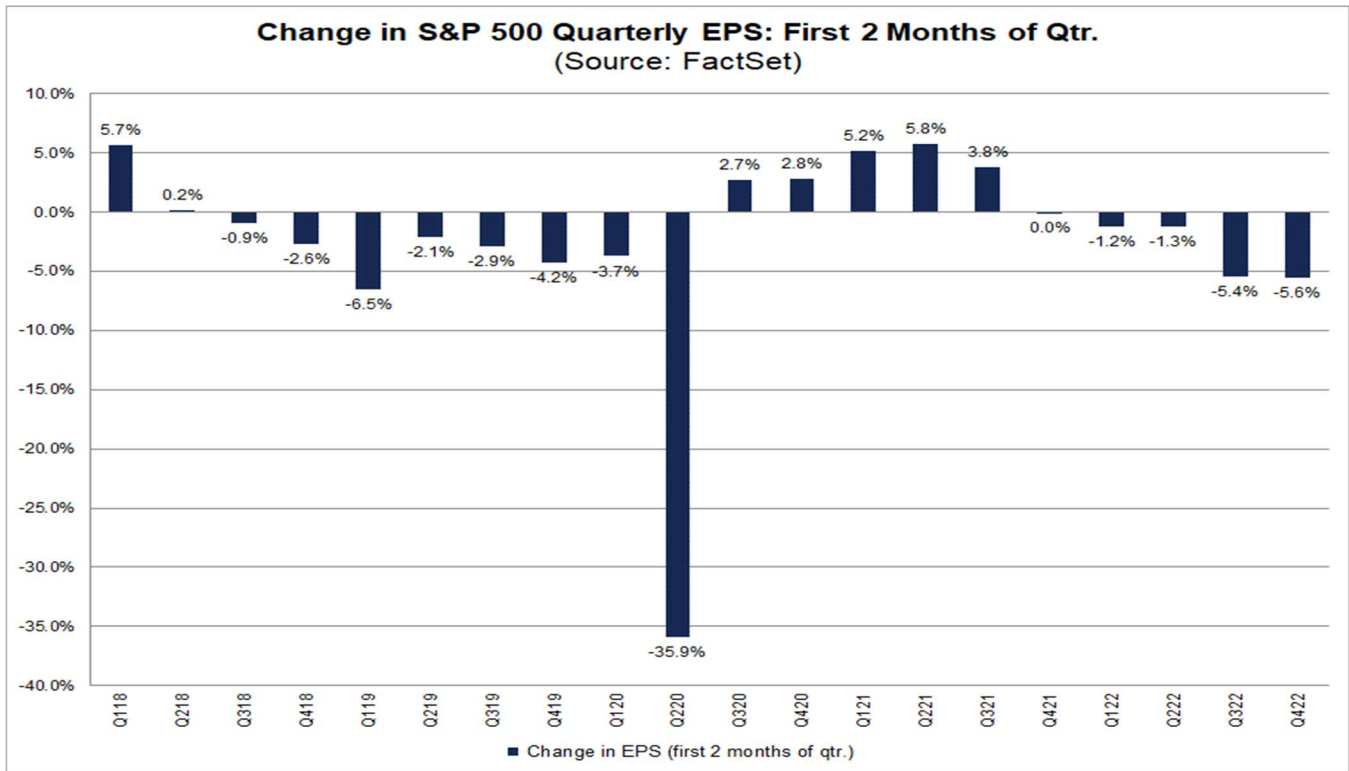
Thus, the decline in the bottom-up EPS estimate recorded during the first two months of the fourth quarter was larger than the 5-year average, the 10-year average, the 15-year average, and the 20-year average. The fourth quarter also marked the largest decrease in the bottom-up EPS estimate during the first two months of a quarter since Q2 2020 (-35.9%).

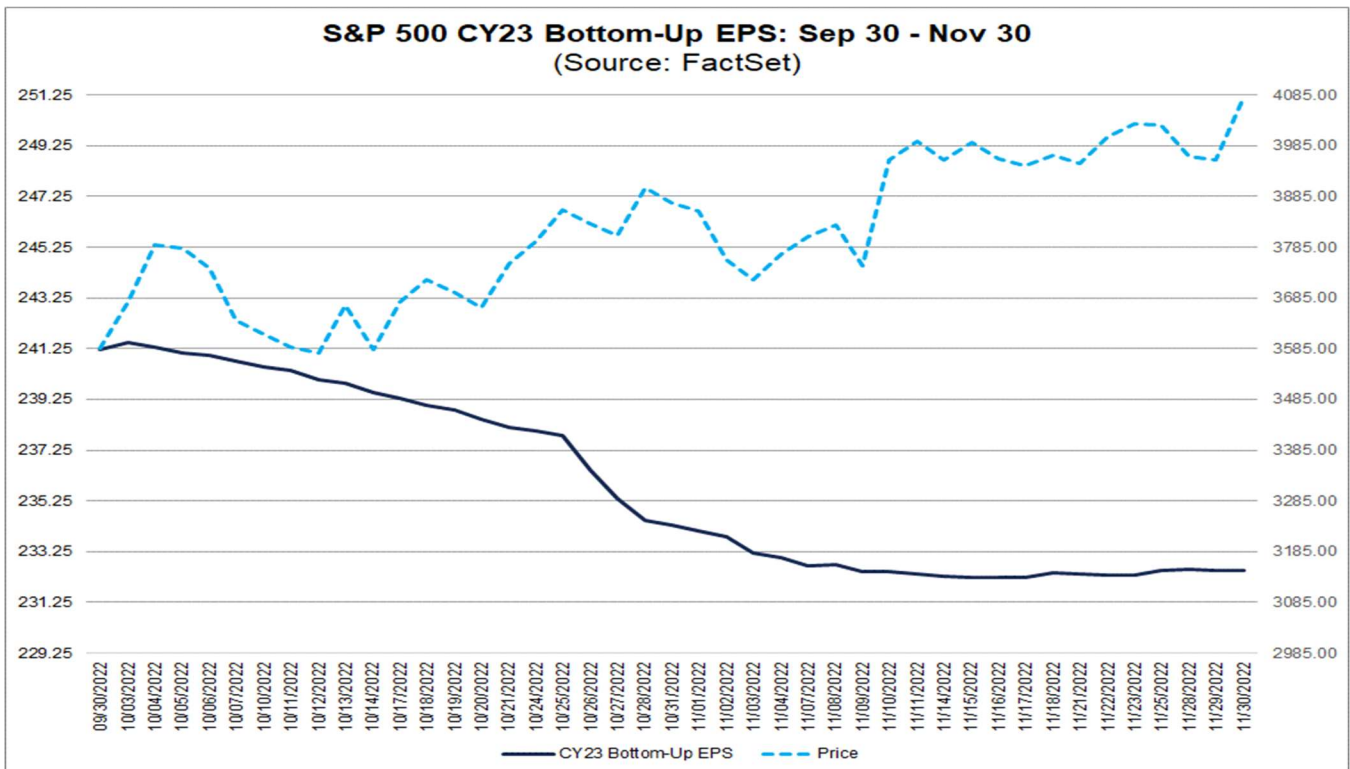
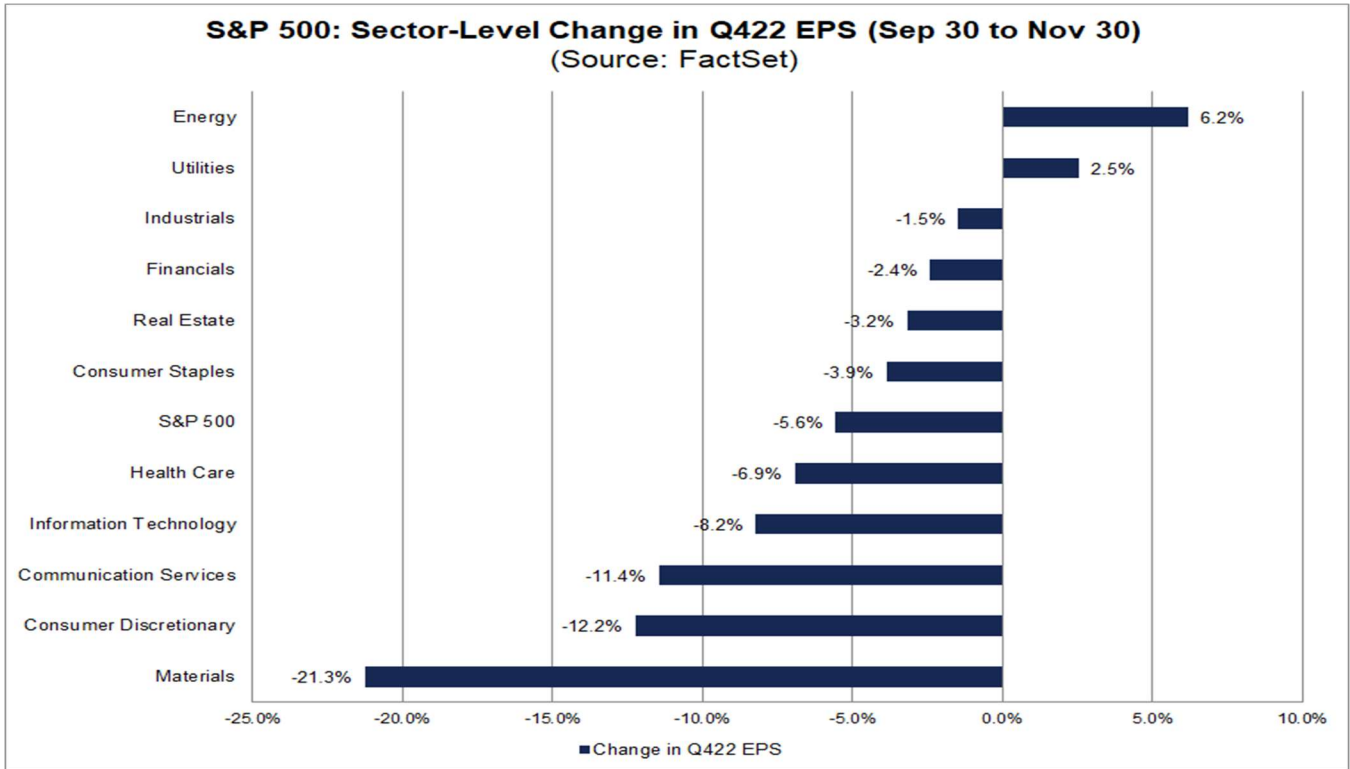
At the sector level, nine of the eleven sectors witnessed a decrease in their bottom-up EPS estimate for Q4 2022 from September 30 to November 30, led by the Materials (-21.3%), Consumer Discretionary (-12.2%), and Communication Services (-11.4%) sectors. On the other hand, two sectors recorded an increase in their bottom-up EPS estimate for Q4 2022 during this period, led by the Energy (+6.2%) sector.

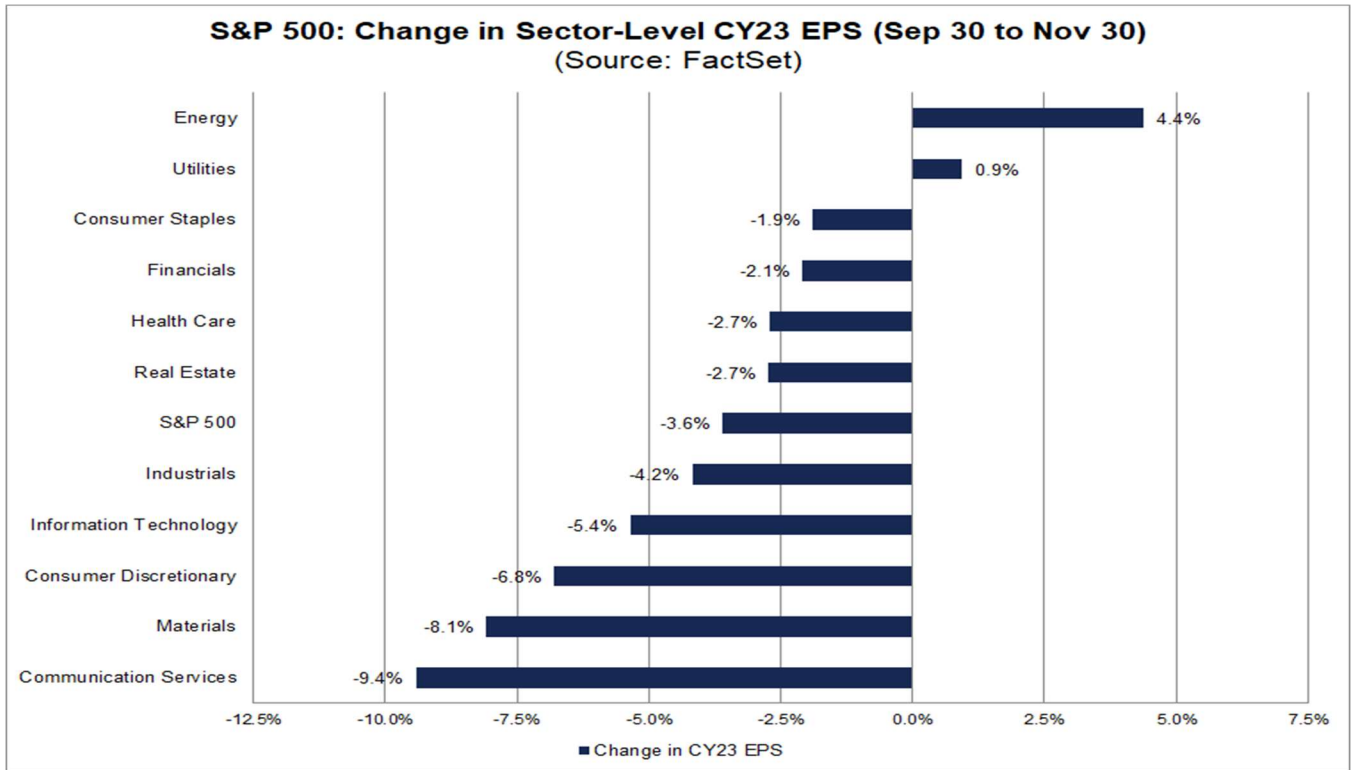
While analysts were decreasing EPS estimates in aggregate for the fourth quarter, they were also decreasing EPS estimates in aggregate for CY 2023. The bottom-up EPS estimate for CY 2023 declined by 3.6% (to \$232.52 from \$241.22) from September 30 to November 30.

At the sector level, nine sectors witnessed a decrease in their bottom-up EPS estimate for CY 2023 from September 30 to November 30, led by the Communication Services (-9.4%), Materials (-8.1%), and Consumer Discretionary (-6.8%) sectors. On the other hand, two sectors witnessed an increase in their bottom-up EPS estimate for CY 2023 during this time, led by the Energy (+4.4%) sector.

It is interesting to note that the forward 12-month P/E ratio for the S&P 500 has increased to 17.6 from 15.2 since September 30, as the price of the index has increased while EPS estimates for CY 2022 and CY 2023 have decreased during this time.







Topic of the Week: 2

Have Industry Analysts Overestimated S&P 500 EPS For 2023?

For 2023, the bottom-up EPS estimate for the S&P 500 (which reflects an aggregation of the median EPS estimates for CY 2023 for all of the companies in the index) is \$232.53. If \$232.53 is the final number for the year, it will mark the highest (annual) EPS number reported by the index since FactSet began tracking this metric in 1996. However, what is the likelihood that \$232.53 will be the final EPS value for the S&P 500 in 2023?

In other words, how accurate is the bottom-up EPS estimate for the S&P 500 one year in advance?

Over the past 25 years (1997 – 2021), 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 7.0%. In other words, industry analysts on average have overestimated the final EPS number by 7.0% one year in advance.

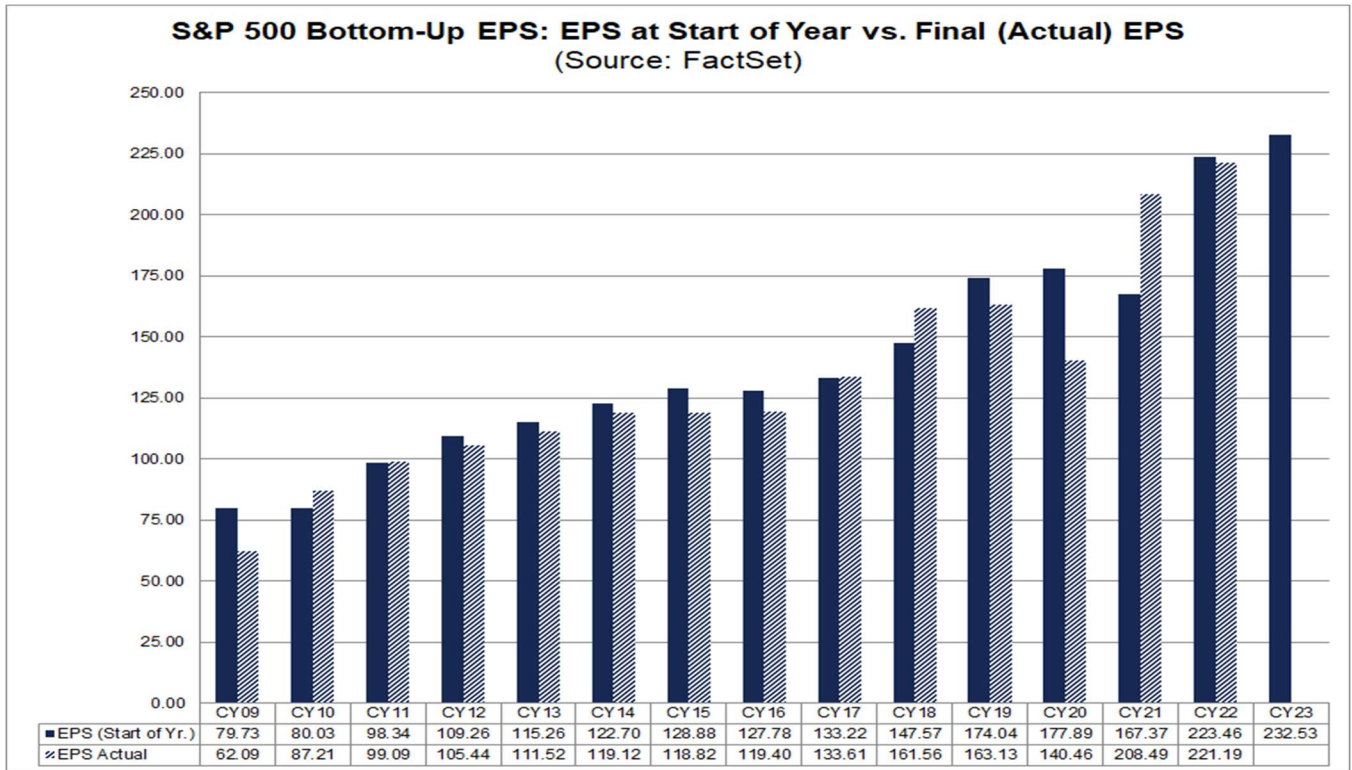
Analysts overestimated the final value (the final value finished below the estimate) in 17 of the 25 years and underestimated the final value (the final value finished above the estimate) in the other 8 years.

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 7.0% average includes four years in which the difference between the bottom-up EPS estimate at the start of the year and the final EPS number for that same year exceeded 25%: 2001 (+36%), 2008 (+43%), 2009 (+28%), and 2020 (+27%). These large differences can be attributed to events that may have been difficult for analysts to predict at the start of the year. In 2001, the country endured the 9/11 attacks. In 2008 and 2009, the country was in the midst of economic recession. In 2020, economic lockdowns were implemented due to the COVID-19 pandemic. If these four years with unusual circumstances were excluded, the average difference between the bottom-up EPS estimate at the start of the year and the final EPS number for that year would be 2.0%.

If one applies the average overestimation of 7.0% to the current 2023 EPS estimate (assuming the estimate changes little between now and December 31), the final value for 2023 would be \$216.16. Based on current estimates, this number would reflect the second-highest annual EPS number reported by the index since 1996, only trailing the current estimate of \$221.19 for CY 2022. Thus, it would also reflect a year-over-year decline in earnings for CY 2023 relative to CY 2022.

If one applies the average overestimation of 2.0% (excluding the years 2001, 2008, 2009, and 2020) to the current 2023 EPS estimate (again assuming the estimate changes little between now and December 31), the final value for 2023 would be \$227.88. Based on current estimates, this number would still reflect the highest annual EPS number reported by the index since 1996.



Q3 Earnings Season: By The Numbers

Overview

With about 1% of S&P 500 companies left to report actual earnings for the third quarter, the number of S&P 500 companies reporting a positive earnings surprise and the magnitude of these earnings surprises are below their 5-year and 10-year averages. As a result, earnings for the third quarter are lower today relative to the end of the quarter. On a year-over-year basis, the S&P 500 is reporting its lowest earnings growth since Q3 2020.

Overall, 99% of the companies in the S&P 500 have reported actual results for Q3 2022 to date. Of these companies, 70% have reported actual EPS above estimates, which is below the 5-year average of 77% and below the 10-year average of 73%. In aggregate, companies are reporting earnings that are 2.0% above estimates, which is well below the 5-year average of 8.7% and well below the 10-year average of 6.5%. If 2.0% is the final percentage for the quarter, it will mark the second-lowest surprise percentage reported by the index in the past nine years. The lower earnings surprise percentage is due to a number of companies reporting actual earnings below estimates by unusually wide margins.

As a result, the index is reporting lower earnings today relative to the end of the quarter. The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) earnings growth rate for the third quarter is 2.5% today, compared to an earnings growth rate of 2.6% at the end of the third quarter (September 30).

Since September 30, negative earnings surprises reported by companies in the Financials, Communication Services, and Industrials sectors have been mostly offset by positive earnings surprises reported by companies in the Energy, Health Care, and Information Technology sectors, resulting in a small decrease in the earnings growth rate for the index during this period.

If 2.5% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q3 2020 (-5.7%). Four of the eleven sectors are reporting (or have reported) year-over-year earnings growth, led by the Energy, Real Estate, and Industrials sectors. On the other hand, seven sectors are reporting (or have reported) a year-over-year decline in earnings, led by the Communication Services, Financials, and Materials sectors.

In terms of revenues, 71% of S&P 500 companies have reported actual revenues above estimates, which is above the 5-year average of 69% and above the 10-year average of 62%. In aggregate, companies are reporting revenues that are 2.5% above the estimates, which is above the 5-year average of 1.9% and above the 10-year average of 1.2%.

As a result, the index is reporting higher revenues today relative to the end of the quarter. The blended revenue growth rate for the third quarter is 10.9% today, compared to a revenue growth rate of 8.7% at the end of the third quarter (September 30).

Since September 30, positive revenue surprises reported by companies in multiple sectors (led by the Energy sector) have driven the increase in the overall revenue growth rate during this period.

If 10.9% is the actual growth rate for the quarter, it will mark the seventh straight quarter that the index has reported revenue growth above 10%. All eleven sectors are reporting (or have reported) year-over-year growth in revenues, led by the Energy sector.

Looking ahead, analysts expect a decline in earnings of -2.4% for Q4 2022 but earnings growth of 5.2% for CY 2022. For Q1 2023 and Q2 2023, analysts are projecting earnings growth of 1.5% and 0.8%. For CY 2023, analysts predict earnings growth of 5.6%.

The forward 12-month P/E ratio is 17.6, which is below the 5-year average (18.5) but above the 10-year average (17.1). It is also above the forward P/E ratio of 15.2 recorded at the end of the third quarter (September 30), as the price of the index has increased while the forward 12-month EPS estimate has decreased since September 30.

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

Scorecard: Number And Magnitude of Positive Earnings Surprises Are Below Average

Percentage of Companies Beating EPS Estimates (70%) is Below 5-Year Average

Overall, 99% of the companies in the S&P 500 have reported earnings to date for the third quarter. Of these companies, 70% have reported actual EPS above the mean EPS estimate, 5% have reported actual EPS equal to the mean EPS estimate, and 26% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is below the 1-year average (78%), below the 5-year average (77%), and below the 10-year average (73%).

If 70% is the final percentage for the quarter, it will mark the lowest percentage of S&P 500 companies reporting a positive EPS surprise since Q1 2020 (63%).

At the sector level, the Energy (81%) sector has the highest percentage of companies reporting earnings above estimates, while the Communication Services (48%) sector has the lowest percentage of companies reporting earnings above estimates.

Earnings Surprise Percentage (+2.0%) is Below 5-Year Average

In aggregate, companies are reporting earnings that are 2.0% above expectations. This surprise percentage is below the 1-year average (+6.5%), below the 5-year average (+8.7%), and below the 10-year average (6.5%).

If 2.0% is the final percentage for the quarter, it will mark the second-lowest surprise percentage reported by the index since Q3 2013, trailing only Q1 2020 (+1.1%). A number of companies that reported actual earnings below estimates by unusually wide margins lowered the overall earnings surprise percentage for the index for Q3.

The Energy (+10.2%) sector reported the largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Phillips 66 (\$6.46 vs. \$5.05), Exxon Mobil (\$4.45 vs. \$3.86), Schlumberger (\$0.63 vs. \$0.55), Chevron (\$5.56 vs. \$4.89), and APA (\$1.97 vs. \$1.74) reported the largest positive EPS surprises.

The Health Care (+8.1%) sector is reporting the second-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Gilead Sciences (\$1.90 vs. \$1.43), Hologic (\$0.82 vs. \$0.62), Pfizer (\$1.78 vs. \$1.39), and Cardinal Health (\$1.20 vs. \$0.94) have reported the largest positive EPS surprises.

The Communication Services (-8.6%) sector reported the largest negative (aggregate) difference between actual earnings and estimated earnings. Within this sector, Warner Bros. Discovery (-\$0.76 vs. -\$0.26), Lumen Technologies (\$0.14 vs. \$0.36), Walt Disney (\$0.30 vs. \$0.56), Alphabet (\$1.06 vs. \$1.26), Paramount Global (\$0.39 vs. \$0.46), and Meta Platforms (\$1.64 vs. \$1.90) reported the largest negative EPS surprises.

The Industrials (-6.1%) sector is reporting the second-largest negative (aggregate) difference between actual earnings and estimated earnings. Within this sector, Boeing (-\$6.18 vs. \$0.13), Cummins (\$3.21 vs. \$4.83), FedEx (\$3.44 vs. \$5.14), General Electric (\$0.35 vs. \$0.47), and A.O. Smith (\$0.69 vs. \$0.87) have reported the largest negative EPS surprises.

Market Rewarding Positive Surprises More Than Average

To date, the market is rewarding positive earnings surprises more than average and punishing negative earnings surprises more than average.

Companies that have reported positive earnings surprises for Q3 2022 have seen an average price increase of +2.4% two days before the earnings release through two days after the earnings release. This percentage increase is above the 5-year average price increase of +0.9% during this same window for companies reporting positive earnings surprises.

Companies that have reported negative earnings surprises for Q3 2022 have seen an average price decrease of -3.5% two days before the earnings release through two days after the earnings release. This percentage decrease is larger than the 5-year average price decrease of -2.2% during this same window for companies reporting negative earnings surprises.

Percentage of Companies Beating Revenue Estimates (71%) is Above 5-Year Average

In terms of revenues, 71% of companies have reported actual revenues above estimated revenues and 29% have reported actual revenues below estimated revenues. The percentage of companies reporting revenues above estimates is below the 1-year average (74%), but above the 5-year average (69%) and above the 10-year average (62%).

At the sector level, the Utilities (93%) sector has the highest percentage of companies reporting revenues above estimates, while the Communication Services (48%) sector has the lowest percentage of companies reporting revenues above estimates.

Revenue Surprise Percentage (+2.5%) is Above 5-Year Average

In aggregate, companies are reporting revenues that are 2.5% above expectations. This surprise percentage is below the 1-year average (+2.9%), but above the 5-year average (+1.9%) and above the 10-year average (+1.2%).

At the sector level, the Utilities (+12.1%) and Energy (+10.3%) sectors reported the largest positive (aggregate) differences between actual revenues and estimated revenues, while the Communication Services (-1.0%) sector reported the largest negative (aggregate) differences between actual revenues and estimated revenues.

Revisions: Financials Sector Has Seen Largest Decrease in Earnings Since September 30

Financials Sector Has Seen Largest Decrease in Earnings since September 30

The blended (year-over-year) earnings growth rate for Q3 2022 of 2.5% is slightly below the estimate of 2.6% at the end of the third quarter (September 30). Six sectors have recorded an increase in their earnings growth rate or a decrease in their earnings decline since the end of the quarter due to upward revisions to earnings estimates and positive earnings surprises, led by the Energy (to 137.3% from 114.1%) sector. The Energy, Health Care, and Information Technology sectors have witnessed the largest dollar-level increases in earnings since September 30. On the other hand, five sectors have recorded a decrease in their earnings growth rate or an increase in their earnings decline during this period, led by the Communication Services (to -23.0% from -13.5%), Materials (to -16.2% from -7.0%), Industrials (to 16.4% from 23.8%), and Financials (to -19.1% from -12.1%) sectors. The Financials, Communication Services, and Industrials sectors have also witnessed the largest dollar-level decreases in earnings since September 30.

In the Energy sector, the positive EPS surprises reported by Exxon Mobil (\$4.45 vs. \$3.86), Chevron (\$5.56 vs. \$4.89), Phillips 66 (\$6.46 vs. \$5.05), and the upward revisions to EPS estimates and positive EPS surprise for Marathon Petroleum (\$7.81 vs. \$7.08) were significant detractors to the decrease in the earnings growth rate for the index since September 30. As a result, the blended earnings growth rate for the Energy sector increased to 137.3% from 114.1% over this period.

In the Health Care sector, the positive EPS surprise reported by Pfizer (\$1.78 vs. \$1.39) was a substantial detractor to the decrease in the earnings growth rate for the index since September 30. As a result, the blended earnings decline for the Health Care sector has improved to -1.8% from -6.8% over this period.

In the Information Technology sector, the positive EPS surprise reported by Intel (\$0.59 vs. \$0.37) was a significant detractor to the decrease in the earnings growth rate for the index since September 30. As a result, the blended earnings decline for the Information Technology sector has improved to -1.7% from -3.9% over this period.

In the Financials sector, the negative EPS surprises reported by Lincoln Financial (-\$10.23 vs. \$1.81), Wells Fargo (\$0.85 vs. \$1.09), and Progressive (\$0.49 vs. \$0.99), along with the downward revisions to EPS estimates and the negative EPS surprise for Allstate (-\$1.56 vs. -\$1.42), have been substantial contributors to the decrease in the earnings growth rate for the index since September 30. As a result, the blended earnings decline for the Financials sector has increased to -19.1% from -12.1% over this period.

In the Communication Services sector, the negative EPS surprises reported by Alphabet (\$1.06 vs. \$1.26), Warner Bros. Discovery (-\$0.76 vs. -\$0.26), and Meta Platforms (\$1.64 vs. \$1.90) have been significant contributors to the decrease in the earnings growth rate for the index since September 30. As a result, the blended earnings decline for the Communication Services sector has increased to -23.0% from -13.5% over this period.

In the Industrials sector, the negative EPS surprise reported by Boeing (-\$6.18 vs. \$0.13) has been a substantial contributor to the decrease in the earnings growth rate for the index since September 30. As a result, the blended earnings growth rate for the Industrials sector has declined to 16.4% from 23.8% over this period.

Energy Sector Has Seen Largest Increase in Revenues since September 30

The blended (year-over-year) revenue growth rate for Q3 2022 of 10.9% is above the estimate of 8.7% at the end of the third quarter (September 30). Seven sectors have recorded an increase in revenue growth since the end of the quarter due to upward revisions to revenue estimates and positive revenue surprises, led by the Utilities (to 15.5% from 3.1%) and Energy (to 46.9% from 35.5%) sectors. The Energy sector has also been the largest contributor to the increase in revenues since September 30. On the other hand, four sectors have recorded a decrease in their revenue growth rate since the end of the quarter due to downward revisions to revenue estimates and negative revenue surprises, led by the Communication Services (to 2.8% from 4.3%) sector.

In the Energy sector, the positive revenue surprises reported by Marathon Petroleum (\$47.2 billion vs. \$35.8 billion), Exxon Mobil (\$112.1 billion vs. \$104.6 billion), Chevron (\$66.6 billion vs. \$57.4 billion), Valero Energy (\$42.3 billion vs. \$40.1 billion), and Phillips 66 (\$43.4 billion vs. \$39.3 billion) were significant contributors to the increase in the revenue growth rate for the index since September 30. As a result, the blended revenue growth rate for the Energy sector increased to 46.9% from 35.5% over this period.

Earnings Growth: 2.5%

The blended (year-over-year) earnings growth rate for Q3 2022 is 2.5%, which is below the 5-year average earnings growth rate of 14.6% and below the 10-year average earnings growth rate of 8.8%. If 2.5% is the actual growth rate for the quarter, it will mark the lowest (year-over-year) earnings growth rate reported by the index since Q3 2020 (-5.7%).

Four of the eleven sectors are reporting (or have reported) year-over-year earnings growth, led by the Energy, Real Estate, and Industrials sectors. On the other hand, seven sectors are reporting (or have reported) a year-over-year decline in earnings, led by the Communication Services, Financials, and Materials sectors.

Energy: Largest Contributor to Year-Over-Year Earnings Growth for S&P 500 For Q3

The Energy sector reported the highest (year-over-year) earnings growth of all eleven sectors at 137.3%. Higher year-over-year oil prices contributed to the year-over-year improvement in earnings for this sector, as the average price of oil in Q3 2022 (\$91.43) was 30% above the average price for oil in Q3 2021 (\$70.52). At the sub-industry level, all five sub-industries in the sector reported a year-over-year increase in earnings: Oil & Gas Refining & Marketing (302%), Integrated Oil & Gas (138%), Oil & Gas Exploration & Production (107%), Oil & Gas Equipment & Services (91%), and Oil & Gas Storage & Transportation (21%).

The Energy sector is also the largest contributor to earnings growth for the S&P 500 for the third quarter. If this sector were excluded, the index would be reporting a decline in earnings of 5.0% rather than growth in earnings of 2.5%.

Real Estate: 7 of 8 Sub-Industries Reported Year-Over-Year Growth At Or Above 10%

The Real Estate sector reported the second-highest (year-over-year) earnings (FFO) growth of all eleven sectors at 18.7%. At the sub-industry level, seven of the eight sub-industries in the sector reported a year-over-year increase in earnings (FFO) at or above 10%, led by the Industrial REITs (108%) and Hotel & Resort REITs (90%). On the other hand, the Real Estate Services (-22%) sub-industry is the only sub-industry that reported a year-over-year decline in earnings.

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

The Industrials sector is reporting the third-highest (year-over-year) earnings growth rate of all eleven sectors at 16.4%. At the industry level, 8 of the 12 industries in the sector are reporting (or have reported) 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, the Airlines industry reported a profit of \$3.0 billion in Q3 2022 compared to a loss of -\$731 million in Q3 2021. Six of the remaining seven industries are reporting (or have reported) earnings growth above 10%: Trading Companies & Distributors (34%), Machinery (27%), Construction & Engineering (23%), Road & Rail (21%), Electrical Equipment (18%), and Commercial Services & Supplies (13%). On the other hand, four industries have reported a year-over-year decline in earnings, led by the Aerospace & Defense (-42%) industry.

At the industry level, the Airlines industry is the largest contributor to earnings growth for the sector. If the five companies in this industry were excluded, the blended earnings growth rate for the Industrials sector would fall to 4.6% from 16.4%.

On the other hand, the Aerospace & Defense industry is the largest detractor to earnings growth for the sector. At the company level, Boeing is the largest detractor to earnings growth for this industry and for the sector as a whole. If this company were excluded, the blended earnings growth rate for the Industrials sector would improve to 26.7% from 16.4%.

Communication Services: All 5 Industries Reported Year-Over-Year Decline

The Communication Services sector reported the largest (year-over-year) earnings decline of all eleven sectors at -23.0%. At the industry level, all five industries in this sector reported a year-over-year decline in earnings, led by the Entertainment (-57%), Interactive Media & Services (-32%), and Wireless Telecommunication Services (-27%) industries.

At the company level, Alphabet, Meta Platforms, and Warner Bros. Discovery were the largest contributors to the earnings decline for the sector. If these three companies were excluded, the blended earnings decline for the sector would improve to -2.0% from -23.0%.

Financials: 4 of 5 Industries Reported Year-Over-Year Decline of More Than 10%

The Financials sector reported the second-largest (year-over-year) earnings decline of all eleven sectors at -19.1%. At the industry level, four of the five industries in this sector reported an earnings decline of more than 10%: Insurance (-44%), Consumer Finance (-27%), Capital Markets (-21%), and Banks (-13%). On the other hand, the Diversified Financial Services (21%) industry was the only industry that reported year-over-year earnings growth in the sector.

Materials: Metals & Mining Industry Led Year-Over-Year Decline

The Materials sector reported the third-largest (year-over-year) earnings decline of all eleven sectors at -16.2%. At the industry level, three of the four industries in this sector reported a year-over-year earnings decline: Metals & Mining (-43%), Chemicals (-9%), and Containers & Packaging (-8%). On the other hand, the Construction Materials (12%) industry is the only industry in the sector that reported (year-over-year) earnings growth.

At the company level, Dow, LyondellBasell Industries, and Freeport-McMoRan were the largest contributors to the earnings decline for this sector. If these three companies were excluded, the Materials sector would have reported earnings growth of 6.0% rather than an earnings decline of -16.2%.

Revenue Growth: 10.9%

The blended (year-over-year) revenue growth rate for Q3 2022 is 10.9%, which is above the 5-year average revenue growth rate of 7.8% and above the 10-year average revenue growth rate of 4.6%. If 10.9% is the actual growth rate for the quarter, it will mark the seventh straight quarter that the index has reported (year-over-year) revenue growth above 10%.

All eleven sectors are reporting (or have reported) year-over-year growth in revenues. Five sectors are reporting (or have reported) double-digit revenue growth, led by the Energy sector.

Energy: All 5 Sub-Industries Reported Year-Over-Year Growth Above 20%

The Energy sector reported the highest (year-over-year) revenue growth rate of all eleven sectors at 46.9%. Higher year-over-year oil prices contributed to the year-over-year improvement in revenues for this sector, as the average price of oil in Q3 2022 (\$91.43) was 30% above the average price for oil in Q3 2021 (\$70.52). At the sub-industry level, all five sub-industries in the sector reported year-over-year growth in revenues above 20%: Oil & Gas Exploration & Production (64%), Integrated Oil & Gas (50%), Oil & Gas Refining & Marketing (43%), Oil & Gas Storage & Transportation (30%), and Oil & Gas Equipment & Services (23%).

The Energy sector is also the largest contributor to revenue growth for the S&P 500 for the third quarter. If this sector were excluded, the blended revenue growth rate for the index would fall to 7.9% from 10.9%.

Net Profit Margin: 11.9%

The blended net profit margin for the S&P 500 for Q3 2022 is 11.9%, which is above the 5-year average of 11.3%, but below the previous quarter's net profit margin of 12.2% and below the year-ago net profit margin of 12.9%.

At the sector level, three sectors are reporting (or have reported) a year-over-year increase in their net profit margins in Q3 2022 compared to Q3 2021, led by the Energy (to 14.4% vs. 8.9%) sector. On the other hand, eight sectors are reporting (or have reported) a year-over-year decrease in their net profit margins in Q3 2022 compared to Q3 2021, led by the Financials (14.3% vs. 18.7%) sector.

Eight sectors are reporting (or have reported) net profit margins in Q3 2022 that are above their 5-year averages, led by the Energy (14.4% vs. 6.8%) sector. On the other hand, three sectors are reporting (or have reported) net profit margins in Q3 2022 that are below their 5-year averages, led by the Financials (14.3% vs. 16.5%) and Communication Services (9.6% vs. 11.7%) sectors.

Looking Ahead: Forward Estimates and Valuation

Guidance: % of S&P 500 Companies Issuing Negative EPS Guidance for Q4 is Above 5-Yr. Average

At this point in time, 97 companies in the index have issued EPS guidance for Q4 2022. Of these 97 companies, 63 have issued negative EPS guidance and 34 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance for Q4 2022 is 65% (63 out of 97), which is above the 5-year average of 60% but below the 10-year average of 67%.

At this point in time, 253 companies in the index have issued EPS guidance for the current fiscal year (FY 2022 or FY 2023). Of these 253 companies, 126 have issued negative EPS guidance and 127 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 50% (126 out of 253).

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: S&P 500 Expected to Report Earnings Growth of 5% for CY 2022

For the third quarter, S&P 500 companies are reporting earnings growth of 2.5% and revenue growth of 10.9%.

For Q4 2022, analysts are projecting an earnings decline of -2.4% and revenue growth of 4.4%.

For CY 2022, analysts are projecting earnings growth of 5.2% and revenue growth of 10.5%.

For Q1 2023, analysts are projecting earnings growth of 1.5% and revenue growth of 3.8%.

For Q2 2023, analysts are projecting earnings growth of 0.8% and revenue growth of 1.2%.

For CY 2023, analysts are projecting earnings growth of 5.6% and revenue growth of 3.3%.

Valuation: Forward P/E Ratio is 17.6, Above the 10-Year Average (17.1)

The forward 12-month P/E ratio for the S&P 500 is 17.6. This P/E ratio is below the 5-year average of 18.5 but above the 10-year average of 17.1. It is also above the forward 12-month P/E ratio of 15.2 recorded at the end of the third quarter (September 30). Since the end of the third quarter (September 30), the price of the index has increased by 13.7%, while the forward 12-month EPS estimate has decreased by 2.2%. At the sector level, the Consumer Discretionary (23.5) sector has the highest forward 12-month P/E ratio, while the Energy (9.7) sector has the lowest forward 12-month P/E ratio.

The trailing 12-month P/E ratio is 19.8, which is below the 5-year average of 22.8 and below the 10-year average of 20.5.

Targets & Ratings: Analysts Project 10% Increase in Price Over Next 12 Months

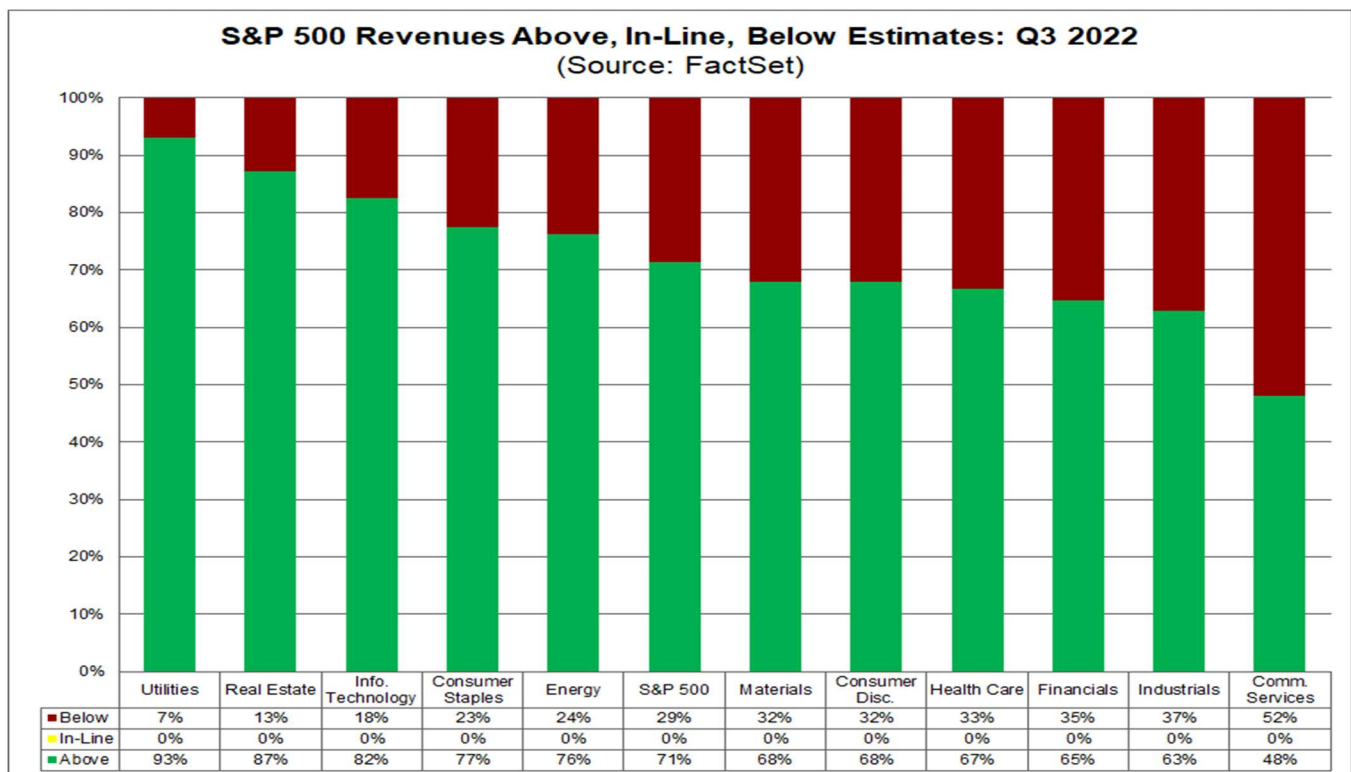
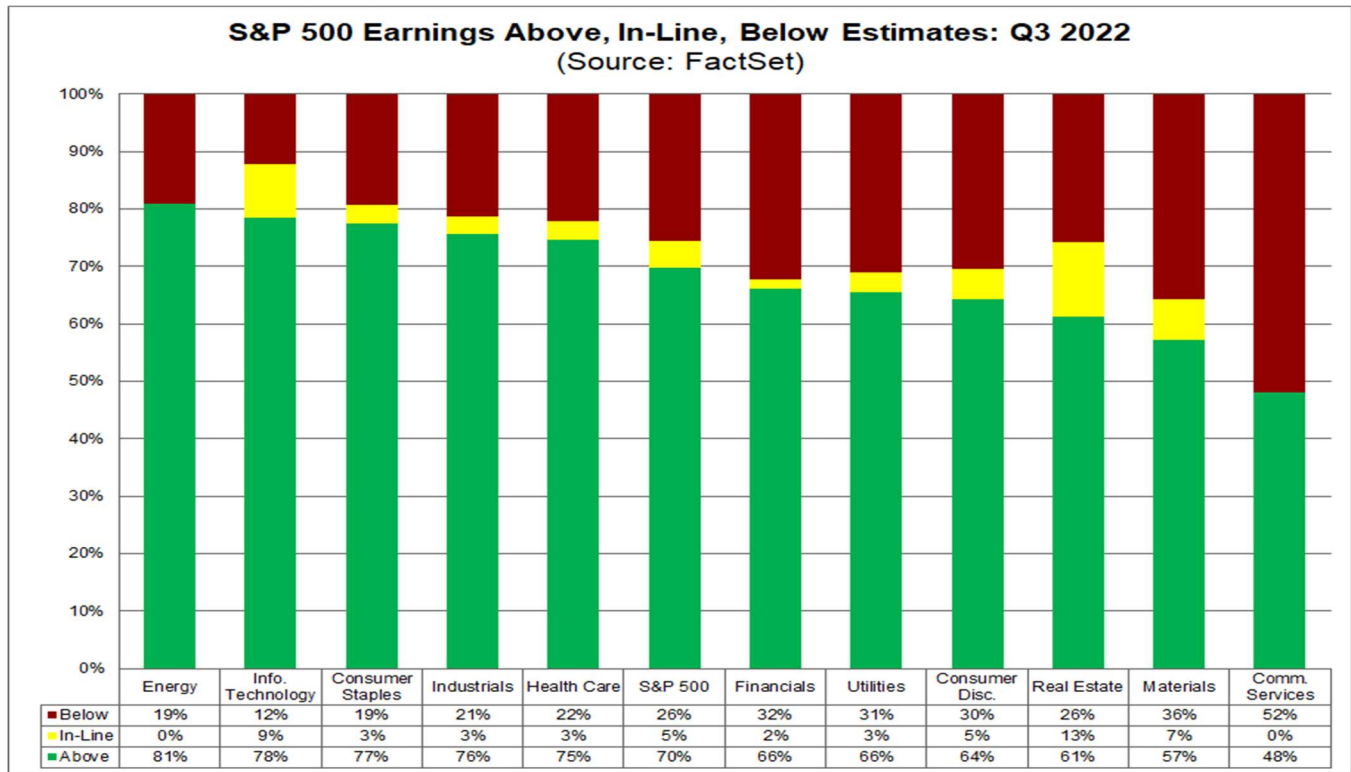
The bottom-up target price for the S&P 500 is 4482.28, which is 10.0% above the closing price of 4076.57. At the sector level, the Consumer Discretionary (+21.9%) and Communication Services (+18.3%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Consumer Staples (+2.5%), Materials (+2.6%), and Industrials (+2.9%) sectors are expected to see the smallest price increases, as these sectors have the smallest upside differences between the bottom-up target price and the closing price.

Overall, there are 10,765 ratings on stocks in the S&P 500. Of these 10,765 ratings, 55.5% are Buy ratings, 38.7% are Hold ratings, and 5.8% are Sell ratings. At the sector level, the Energy (64%), Information Technology (61%), and Communication Services (61%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (42%) sector has the lowest percentage of Buy ratings.

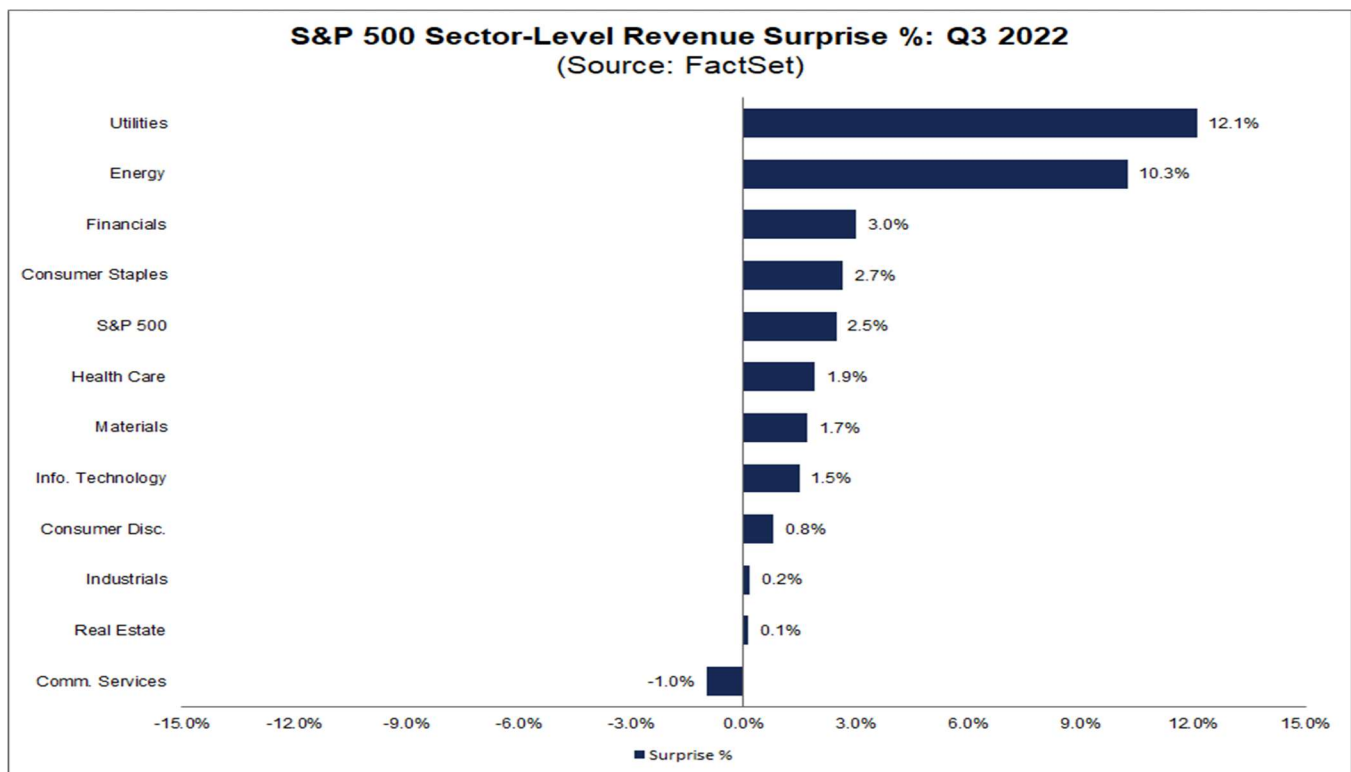
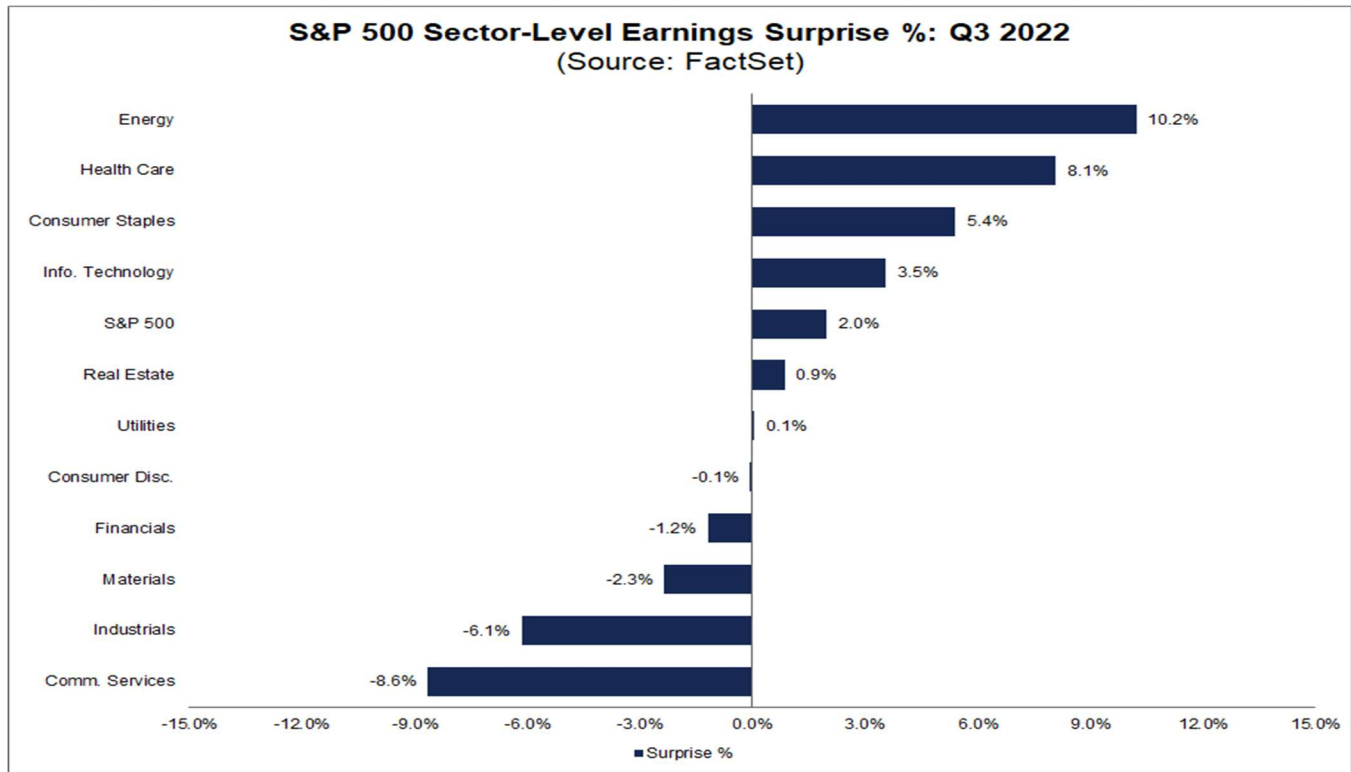
Companies Reporting Next Week: 6

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

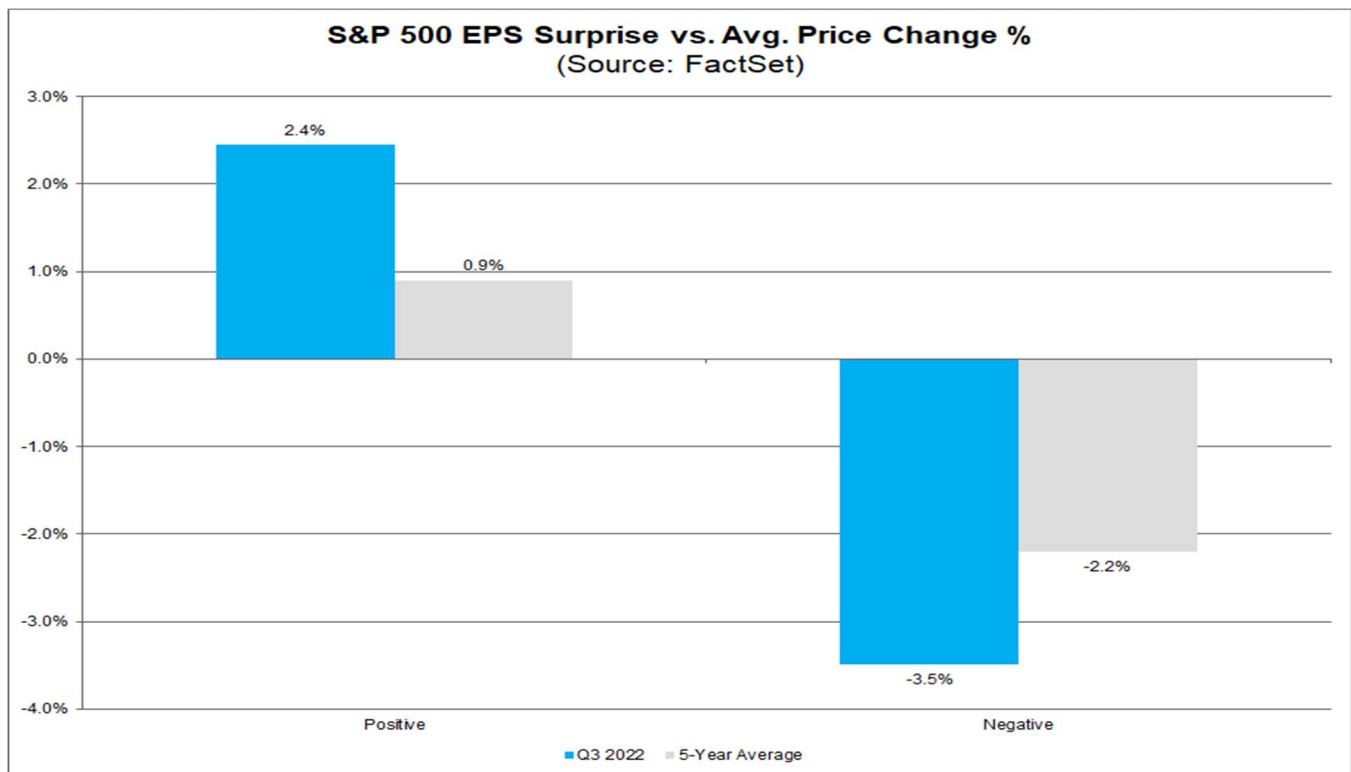
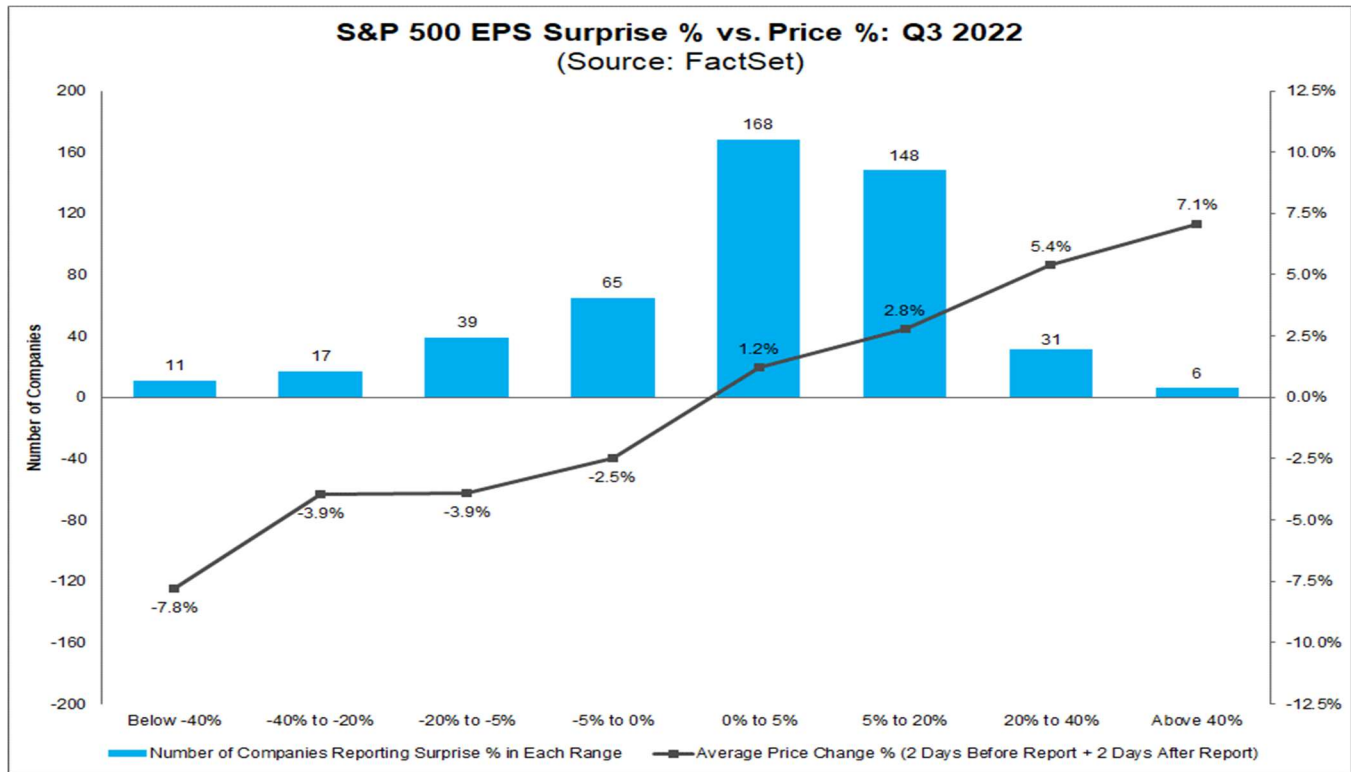
Q3 2022: Scorecard



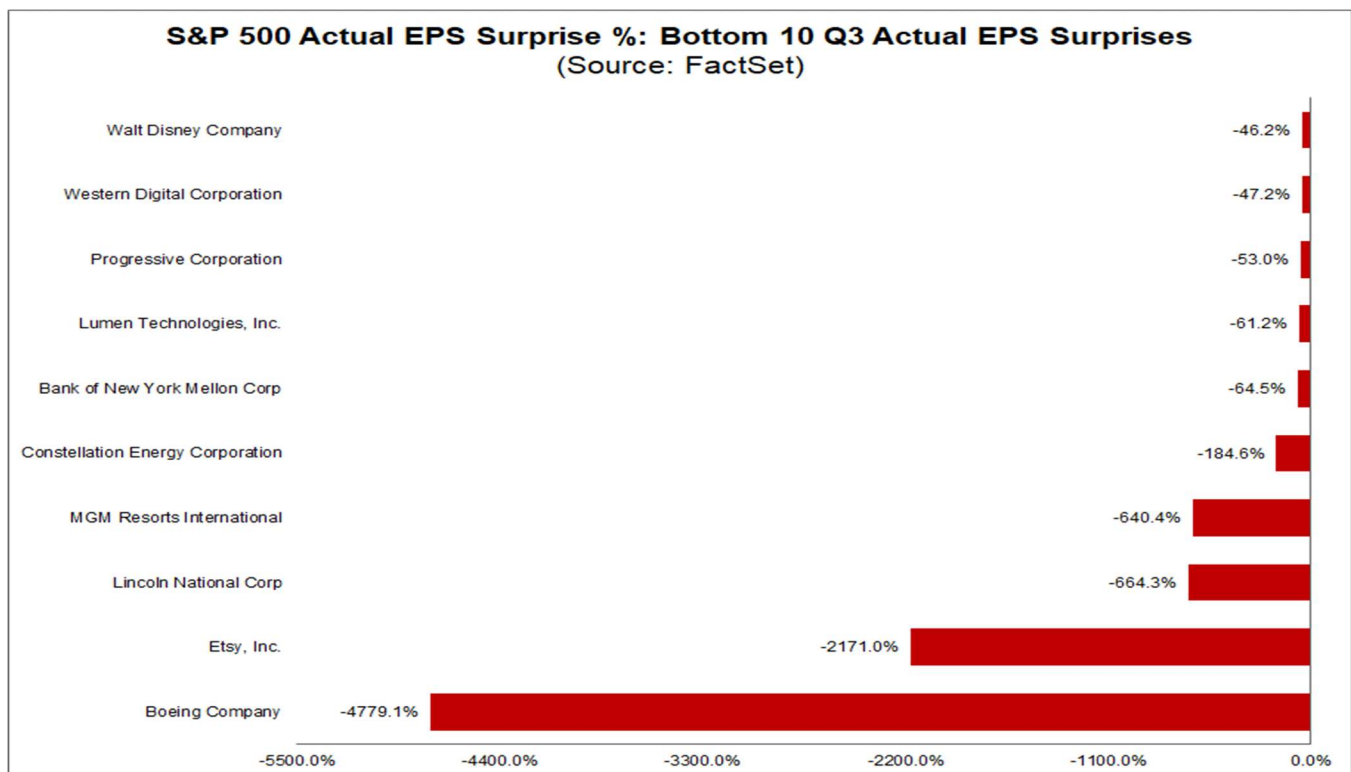
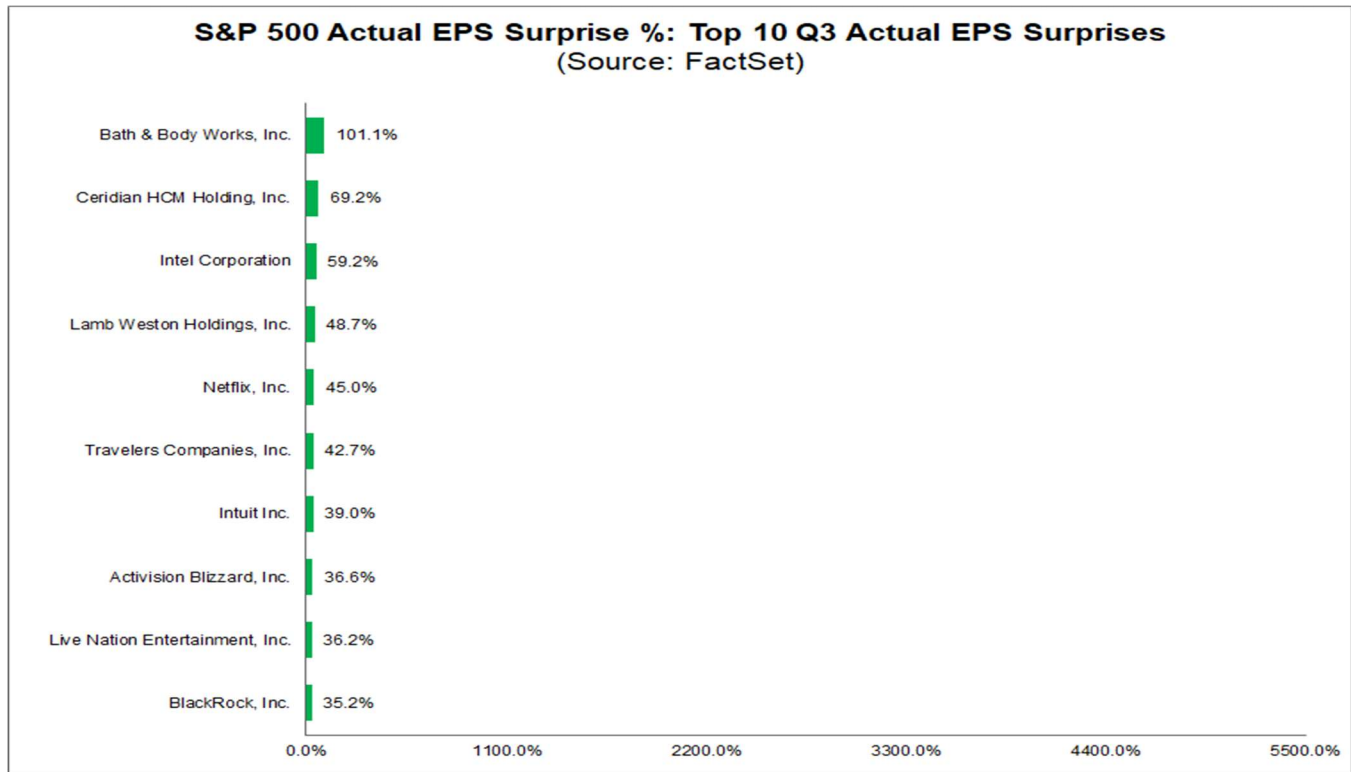
Q3 2022: Scorecard



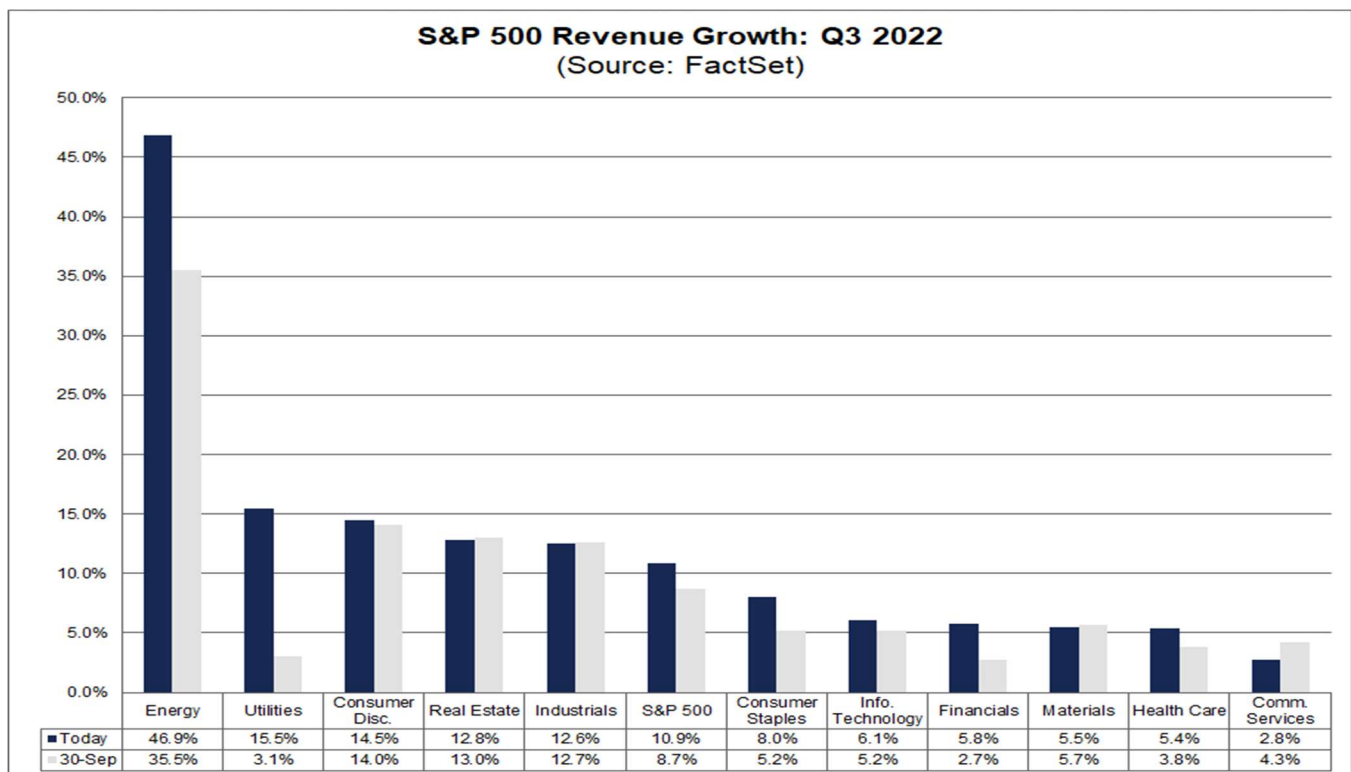
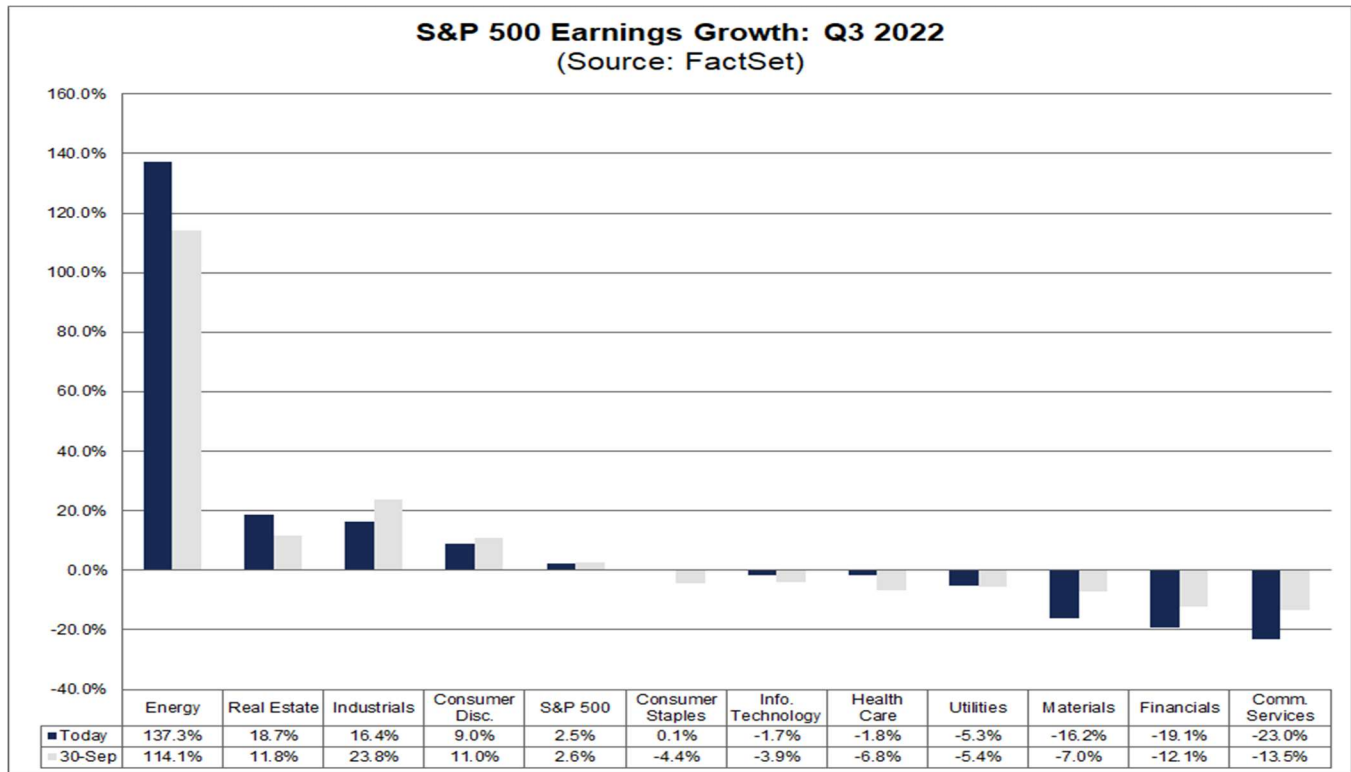
Q3 2022: Scorecard



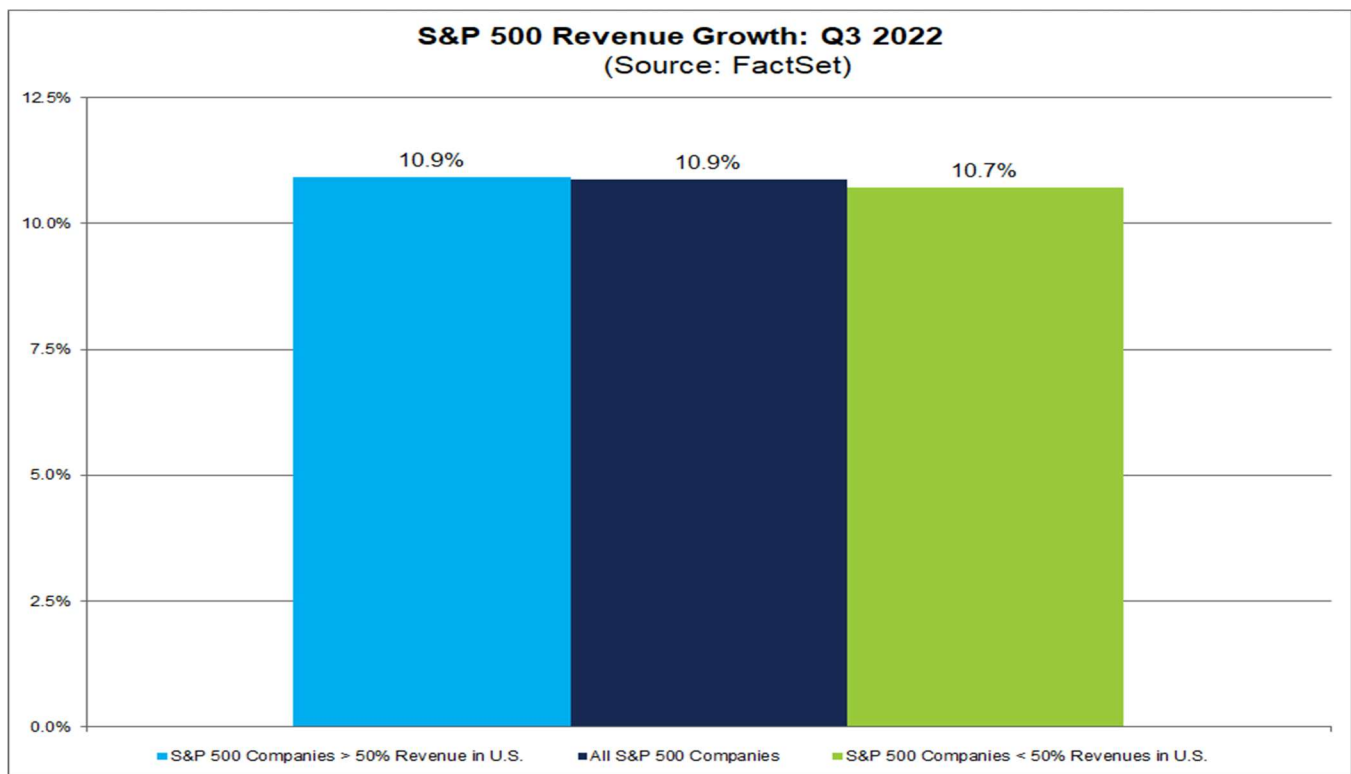
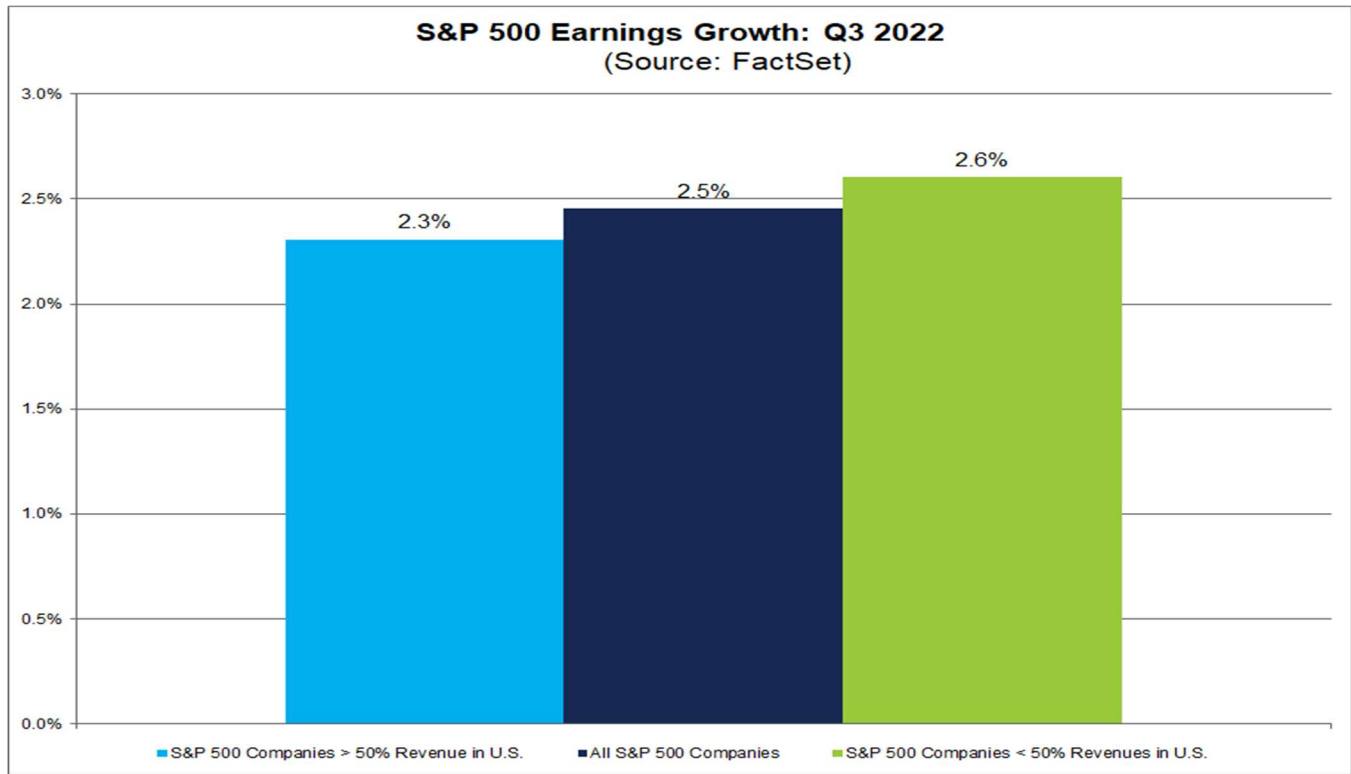
Q3 2022: Scorecard



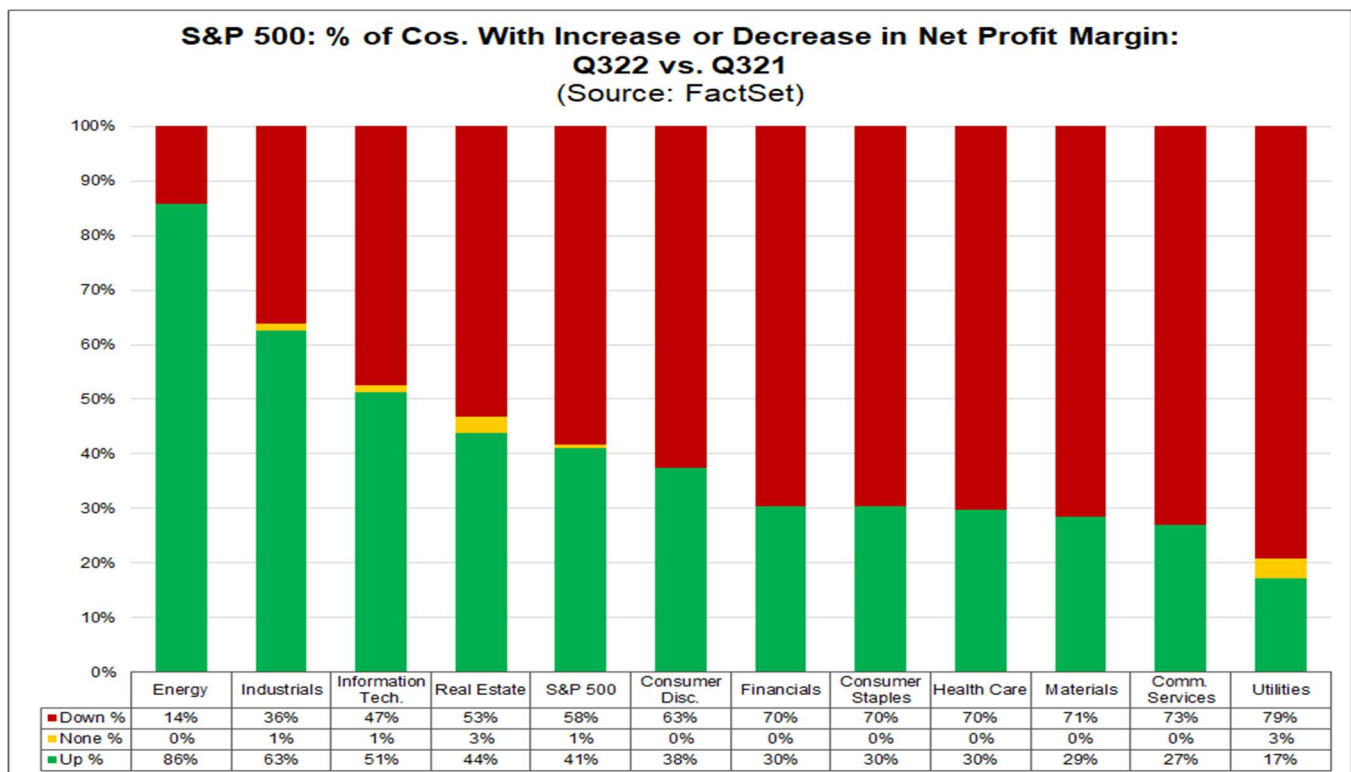
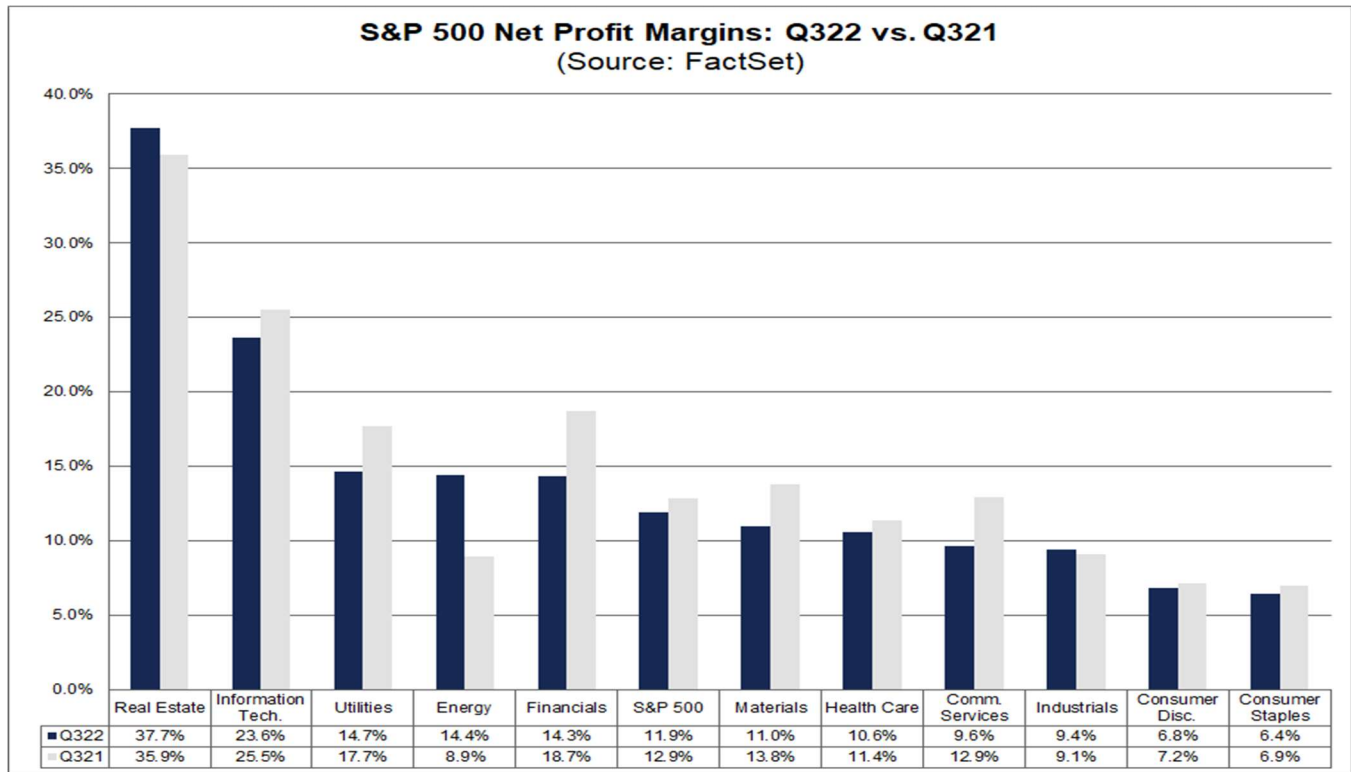
Q3 2022: Growth



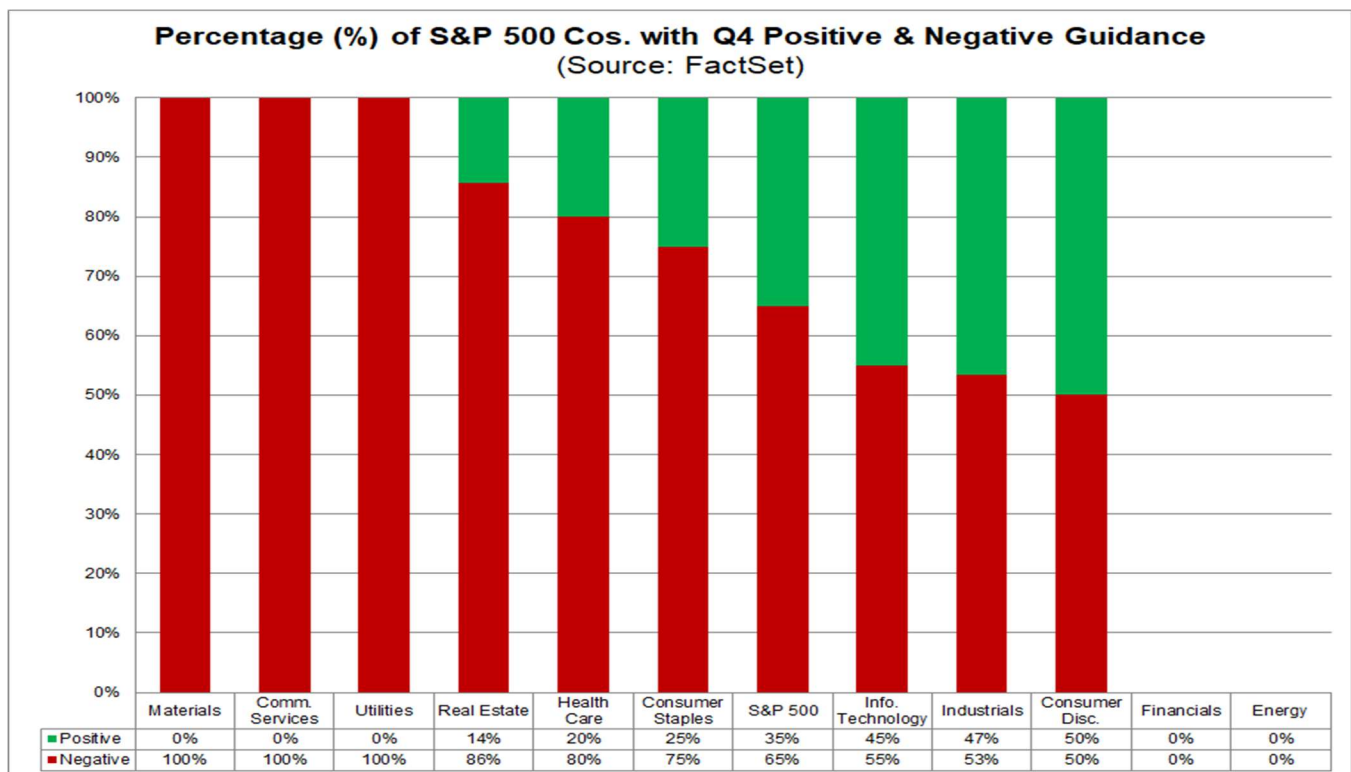
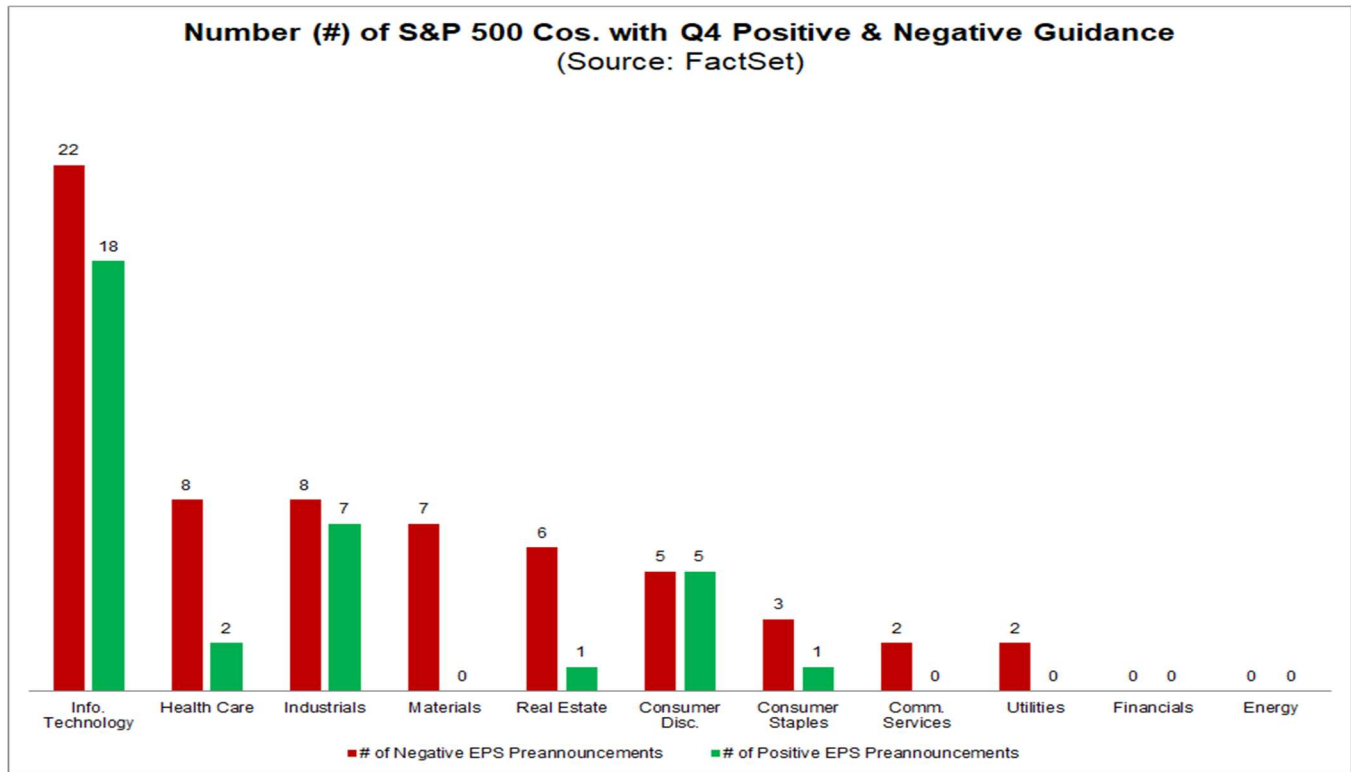
Q3 2022: Growth



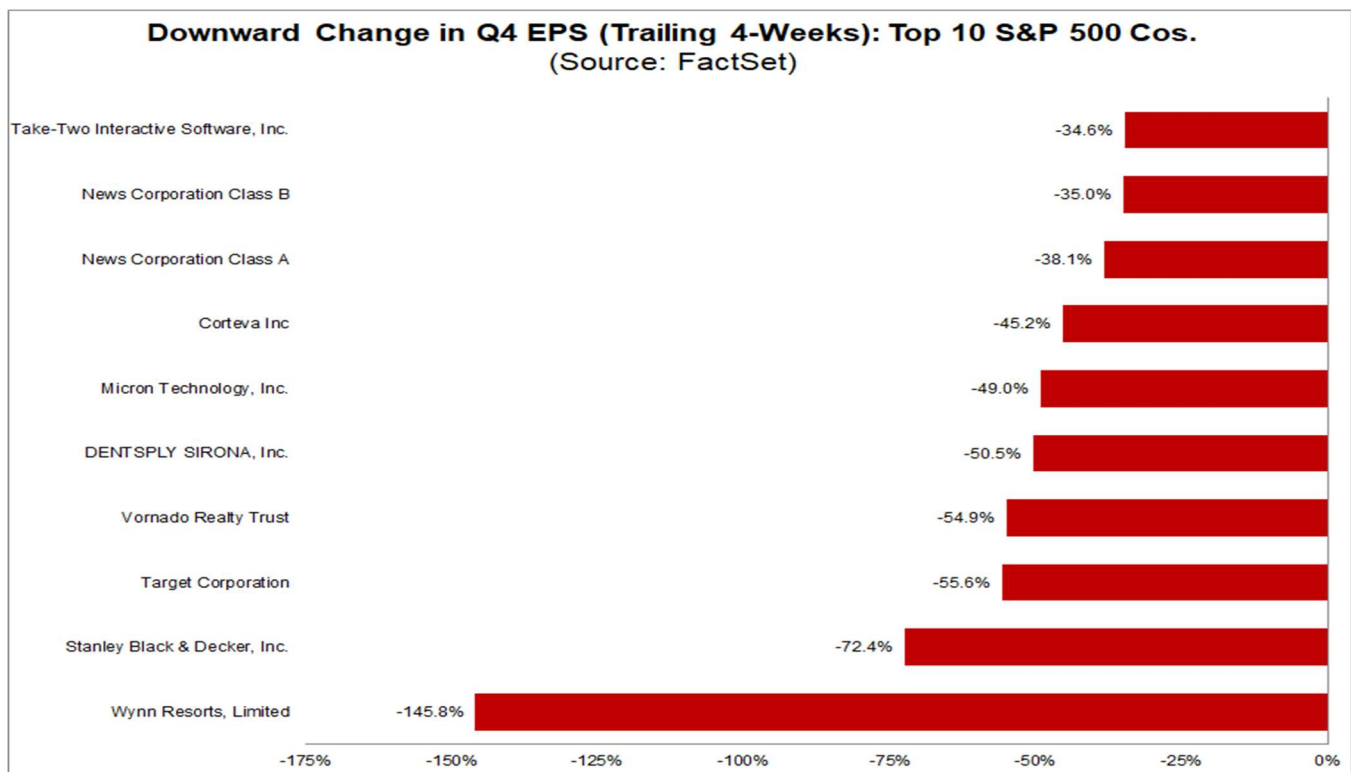
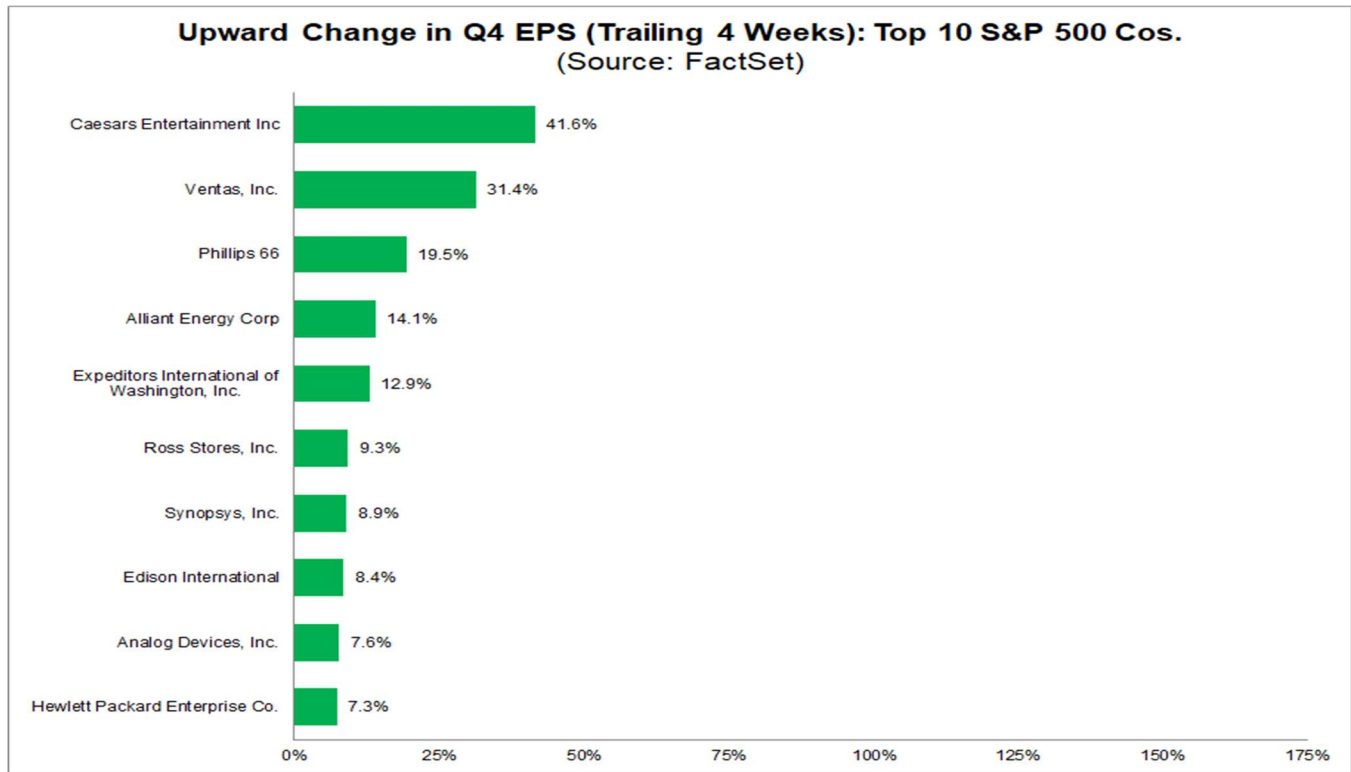
Q3 2022: Net Profit Margin



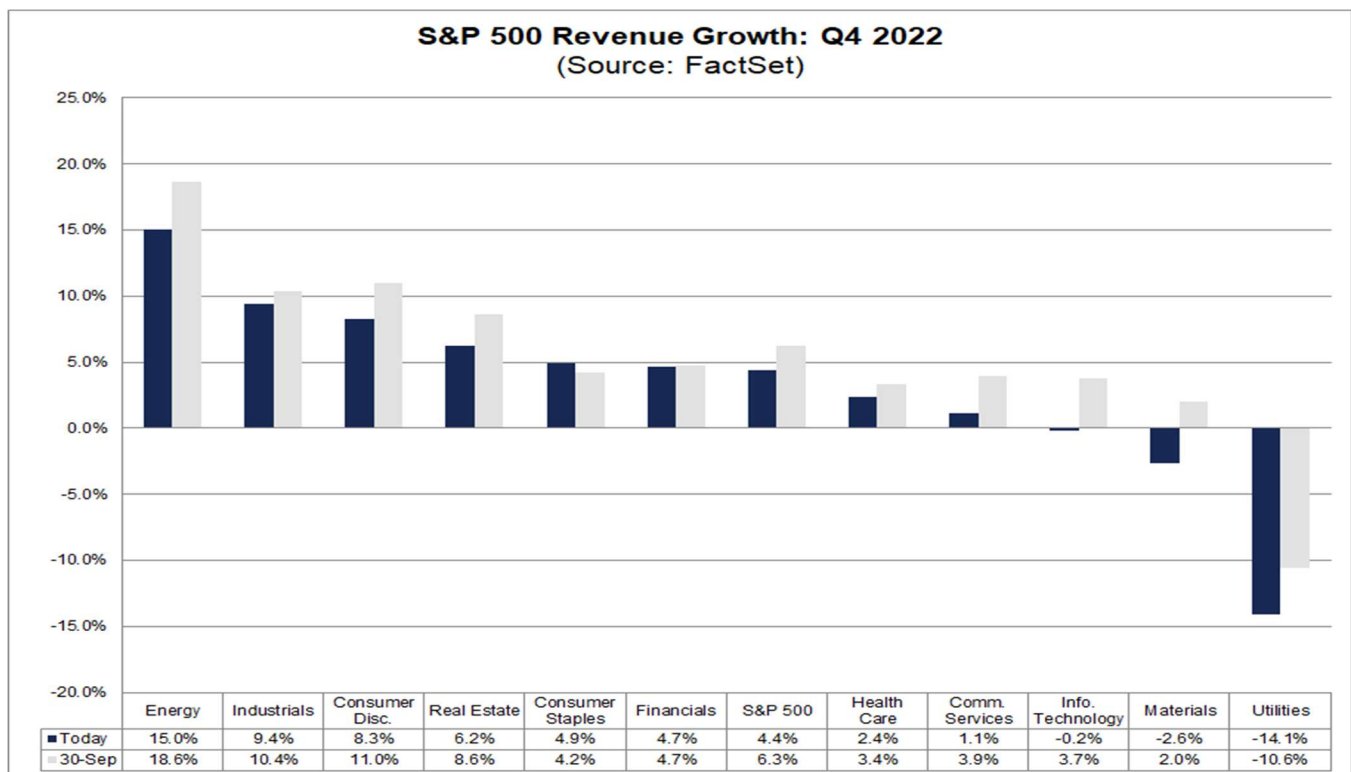
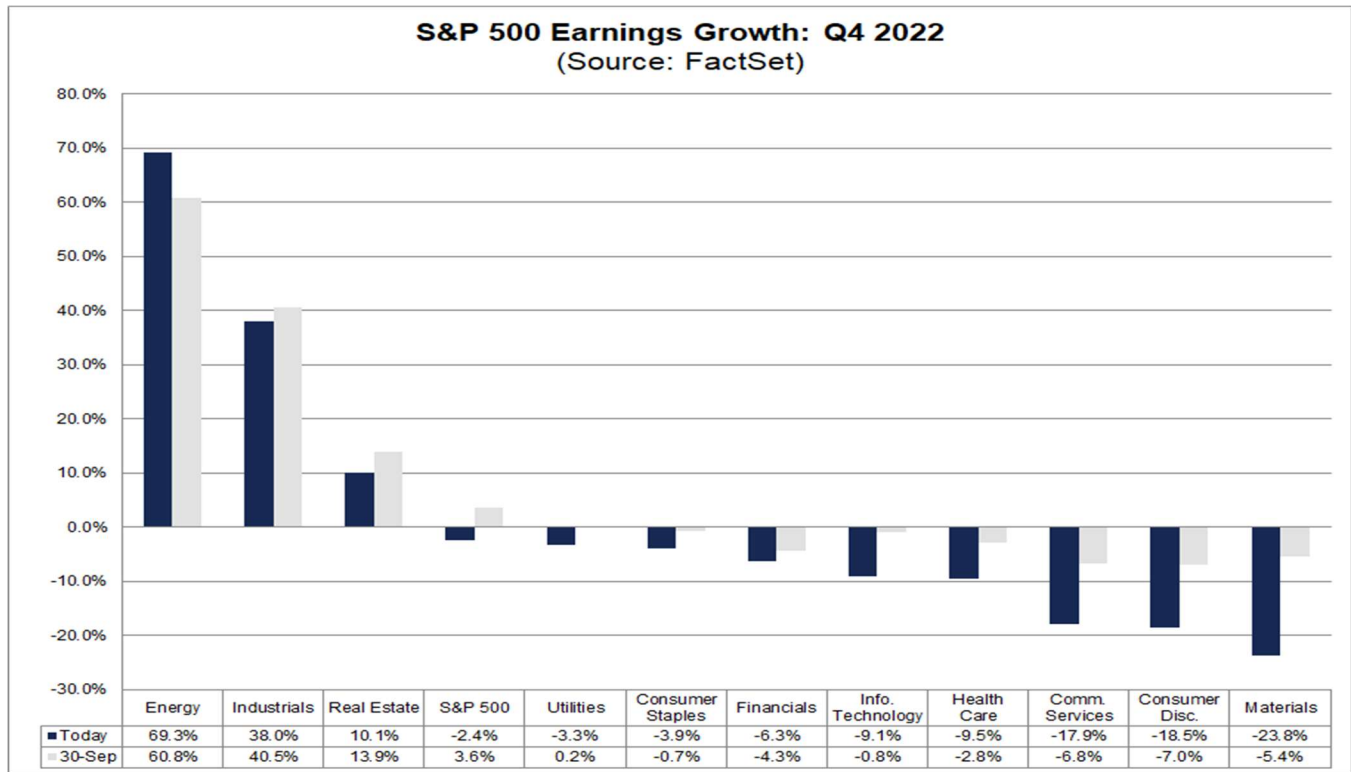
Q4 2022: Guidance



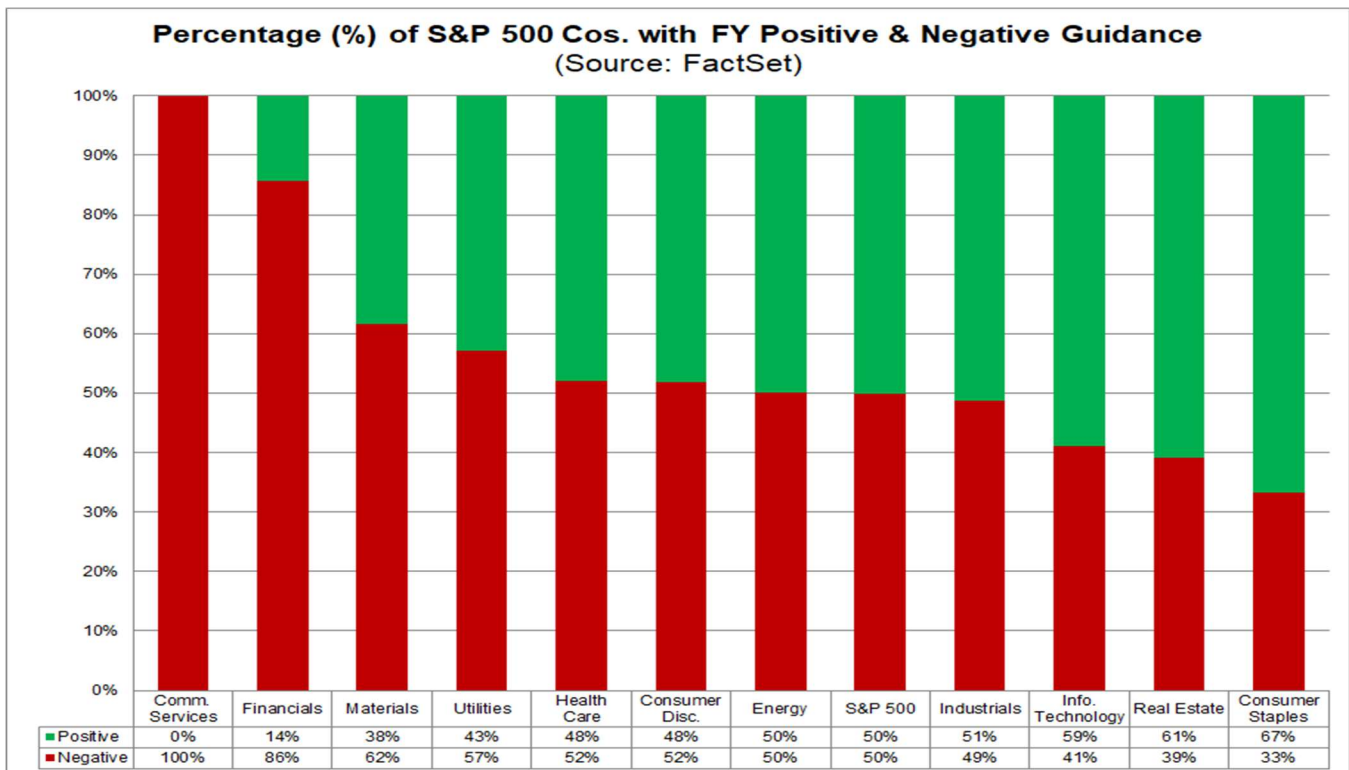
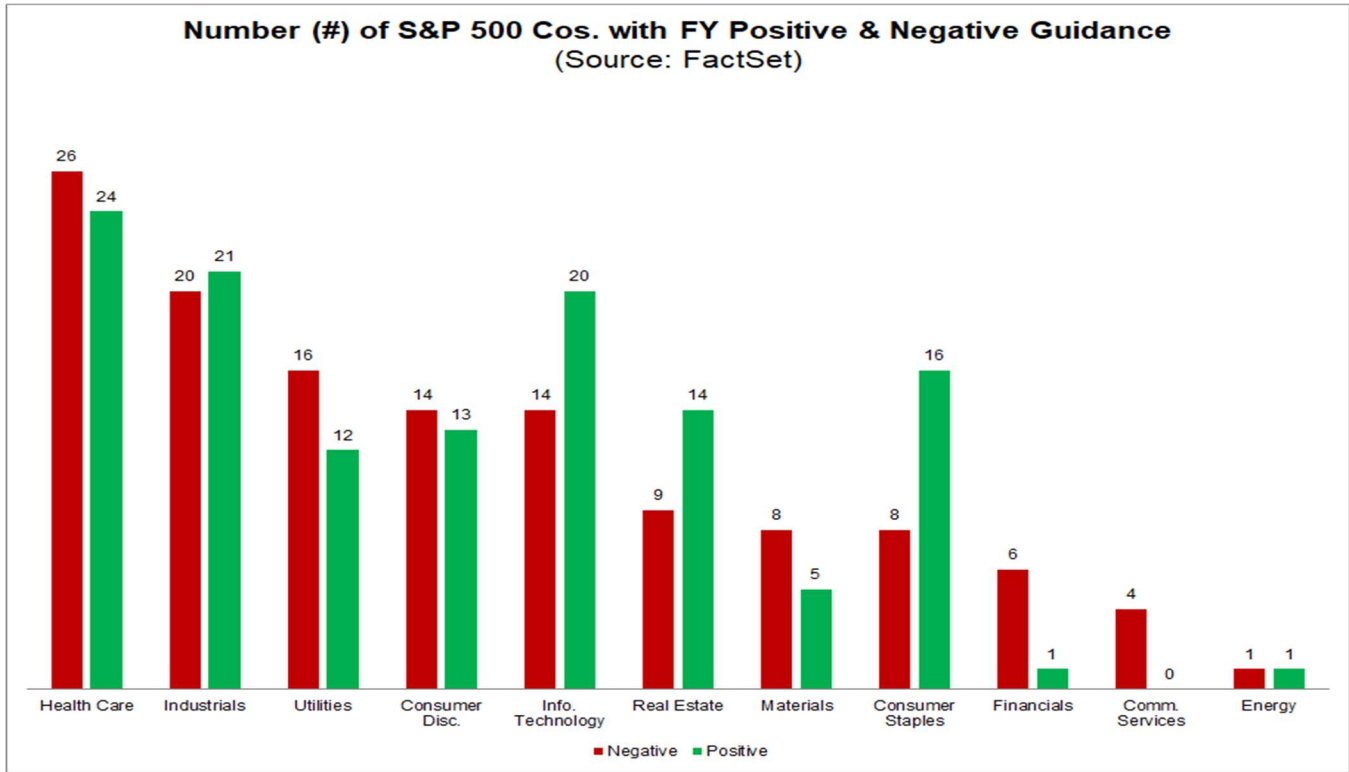
Q4 2022: EPS Revisions



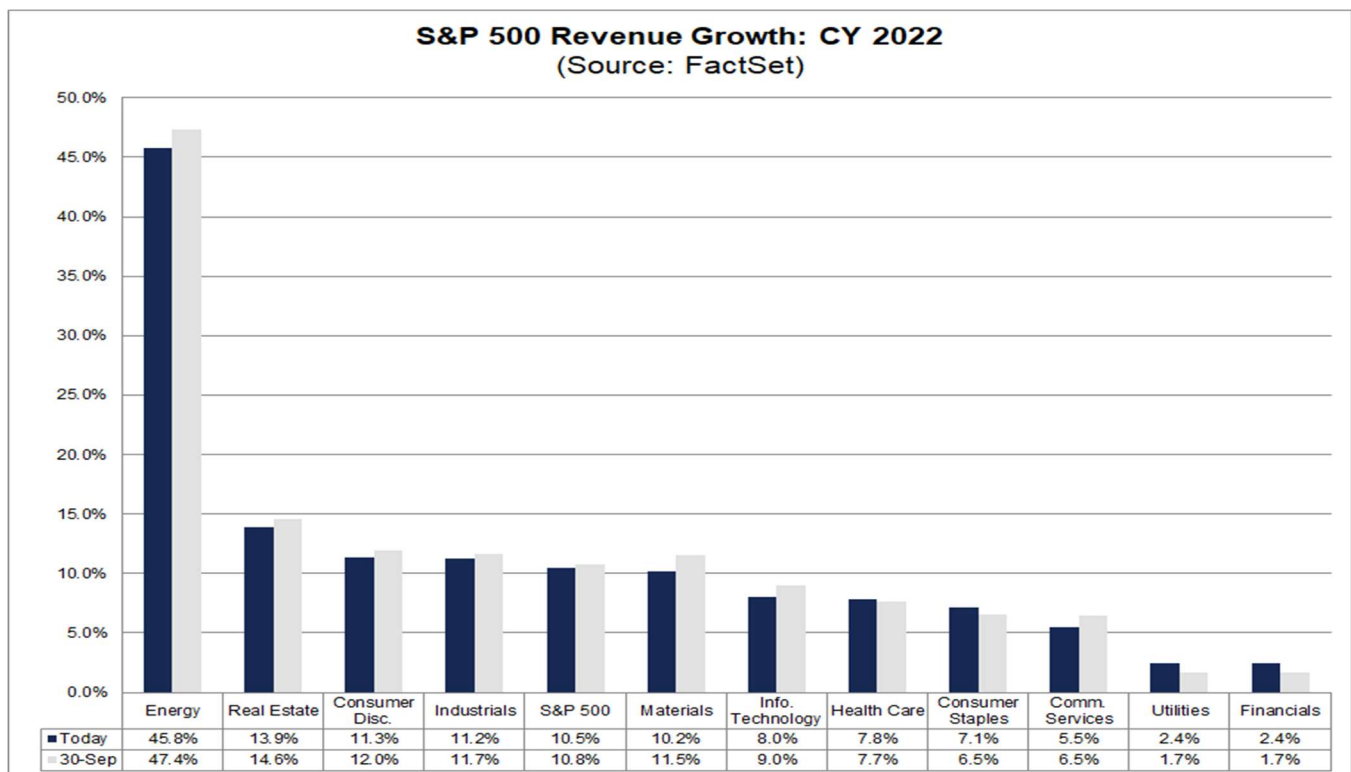
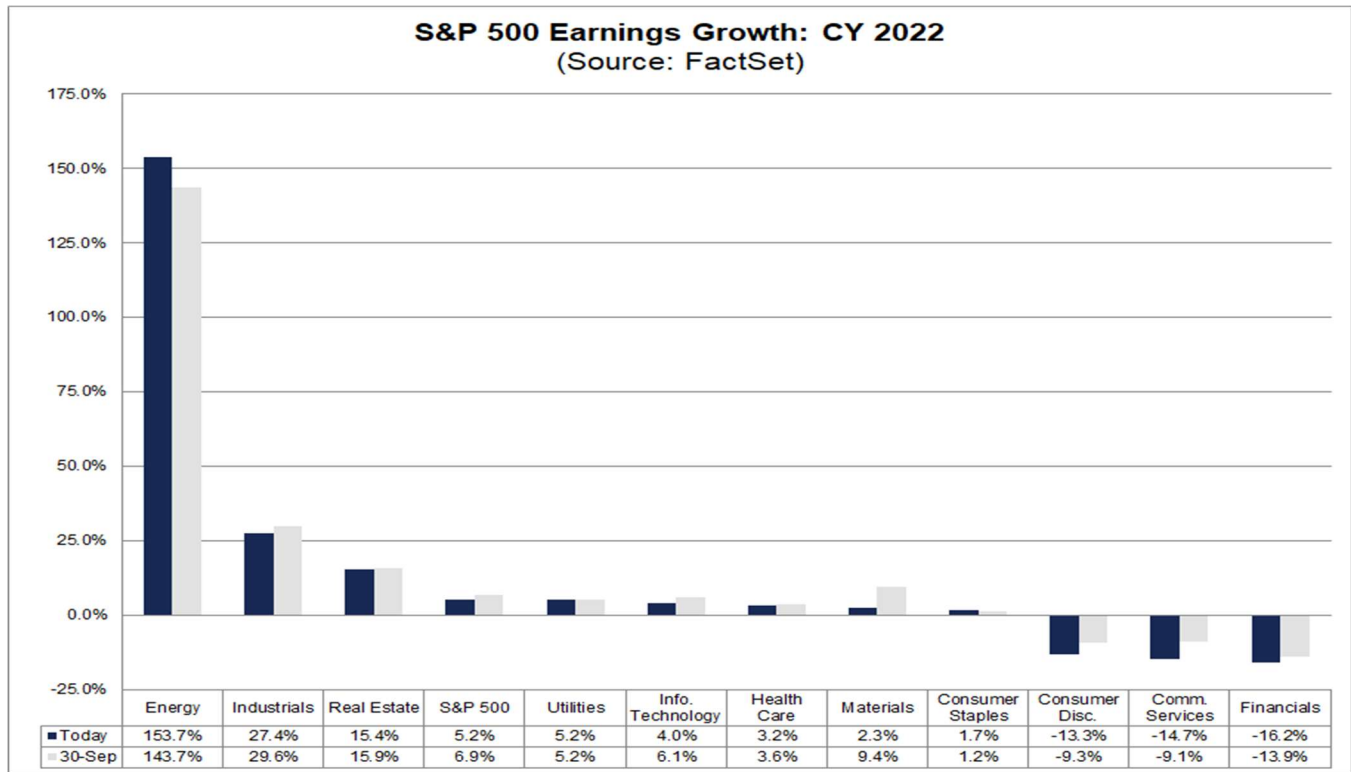
Q4 2022: Growth



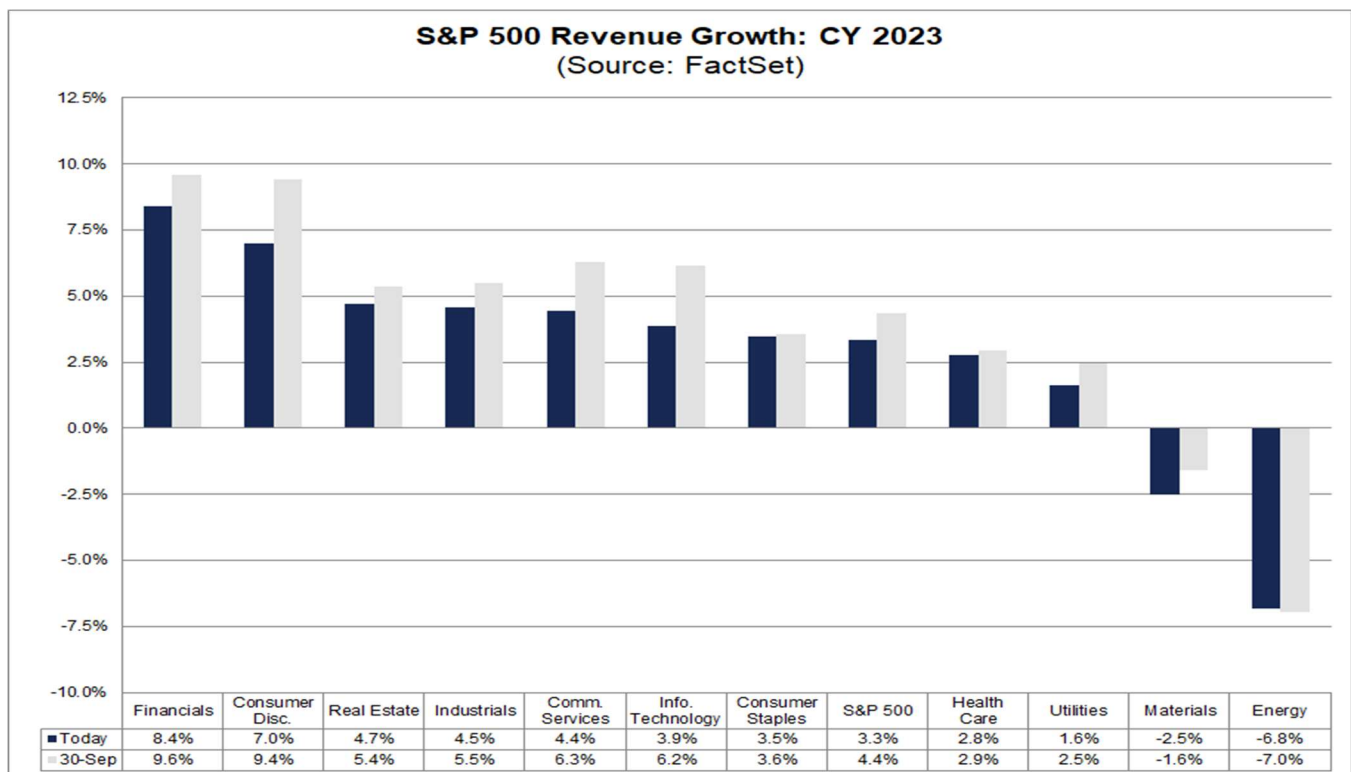
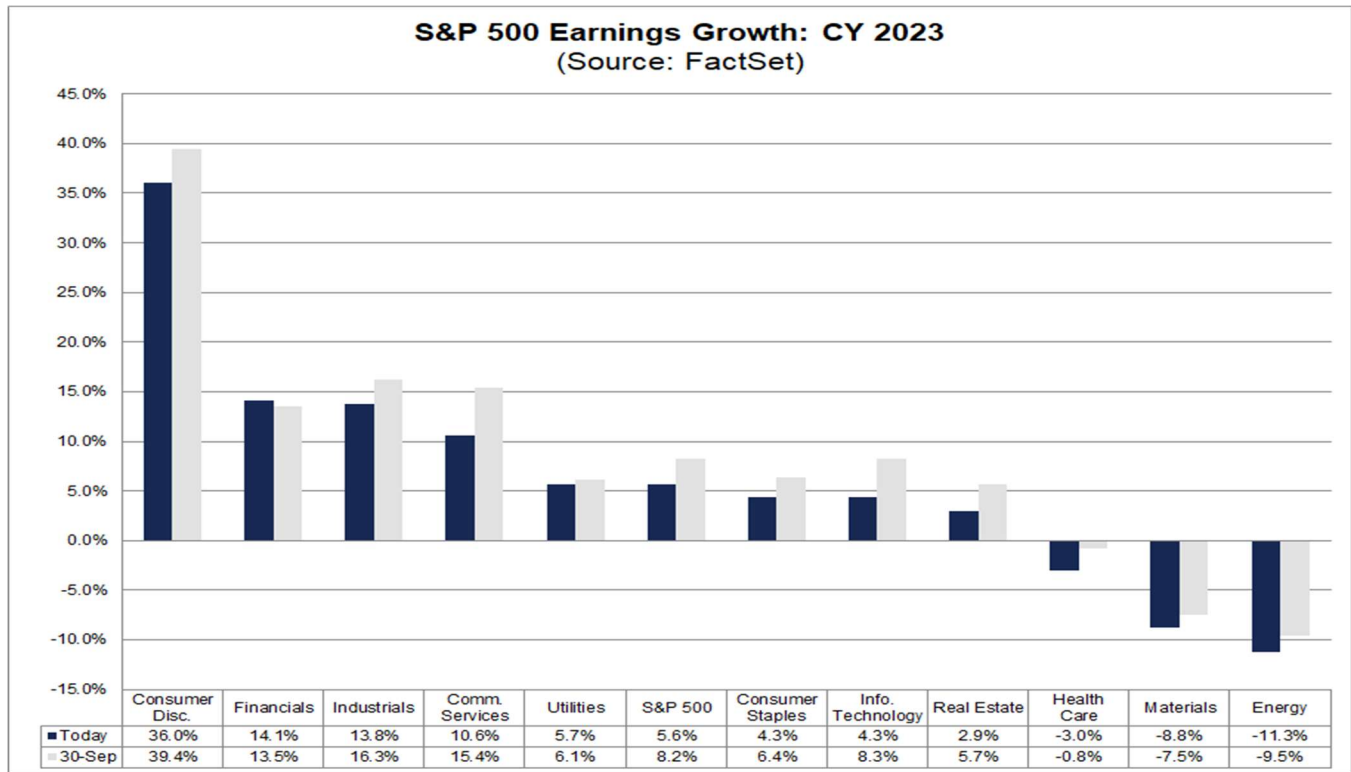
FY 2022 / 2023: EPS Guidance



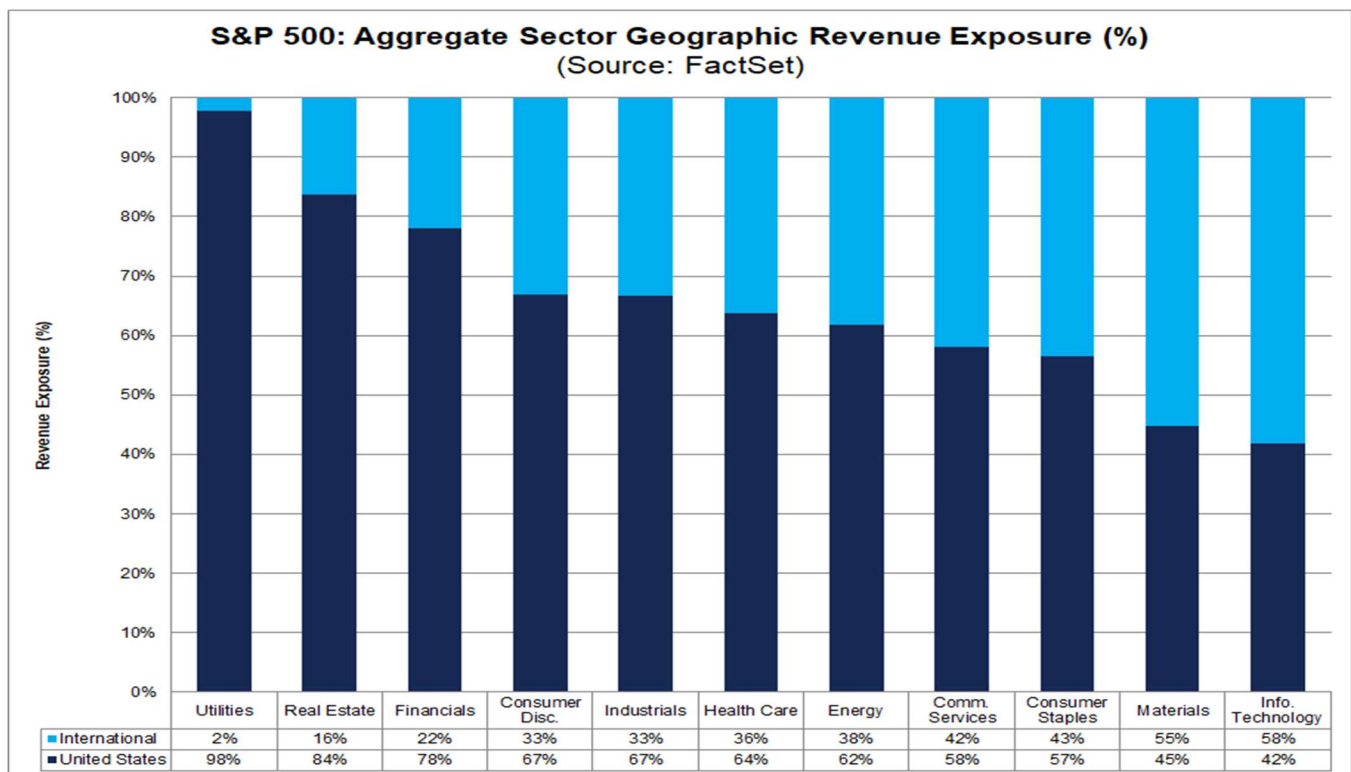
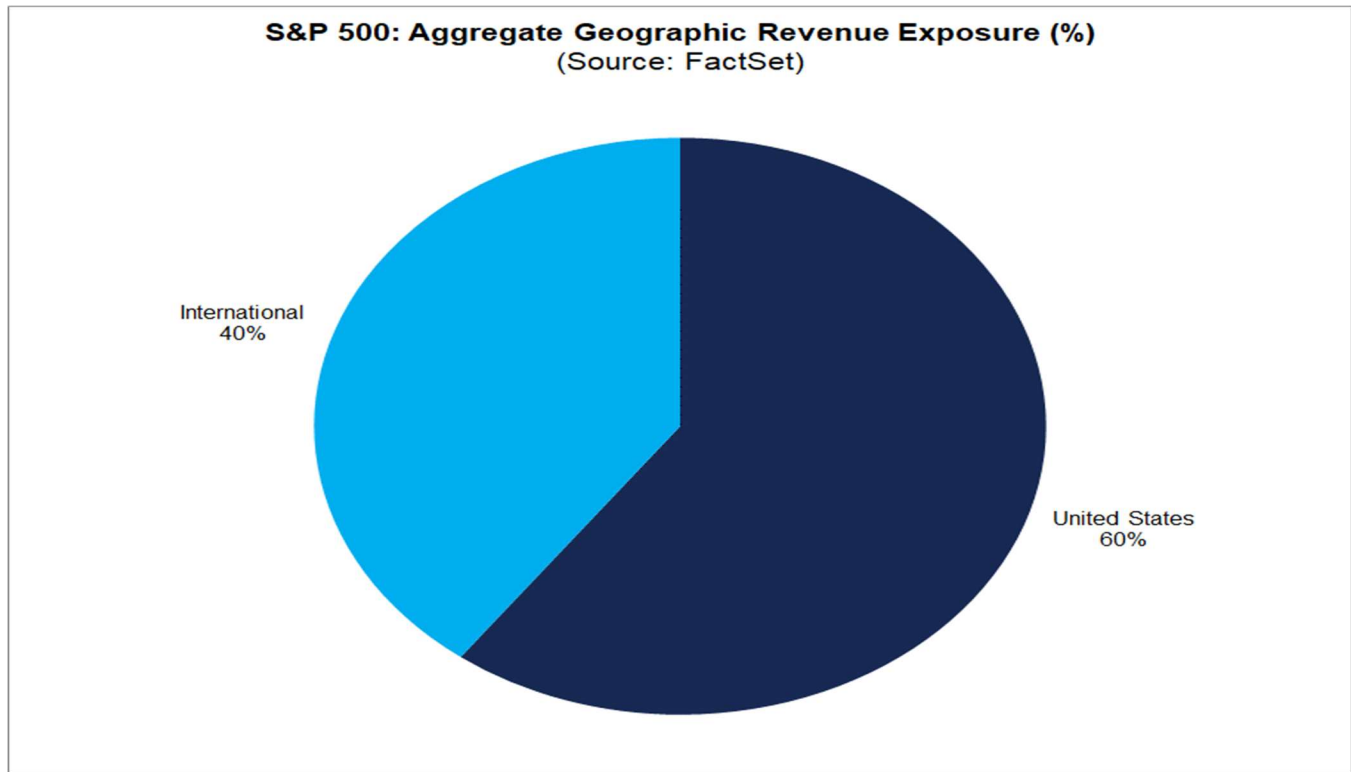
CY 2022: Growth



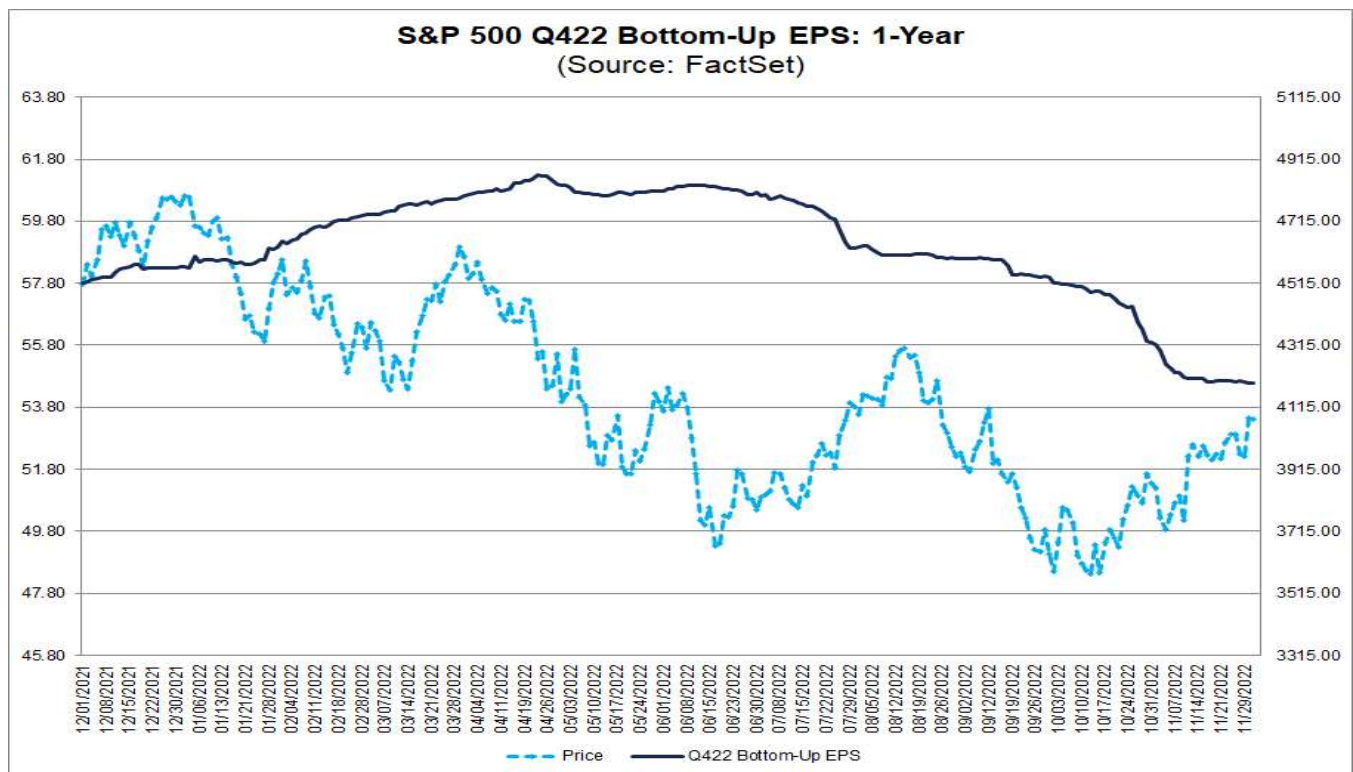
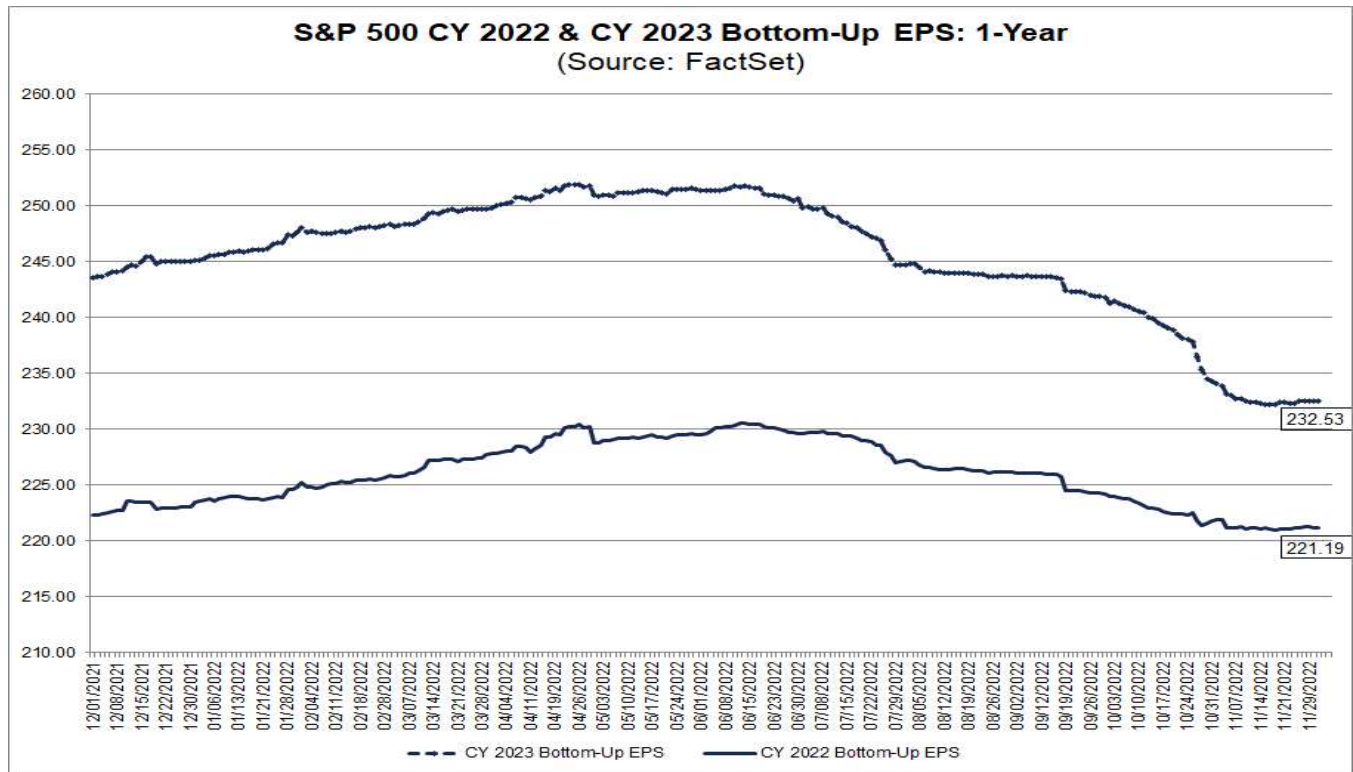
CY 2023: Growth



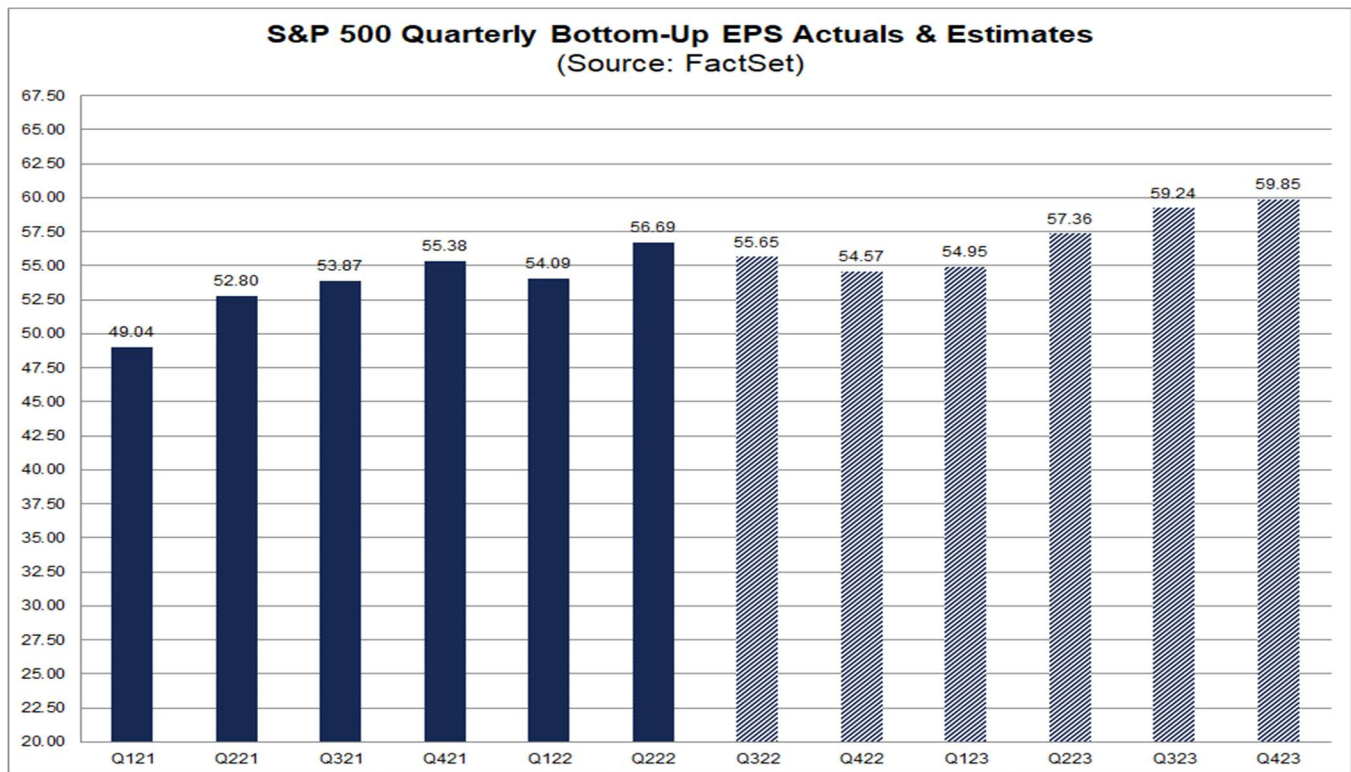
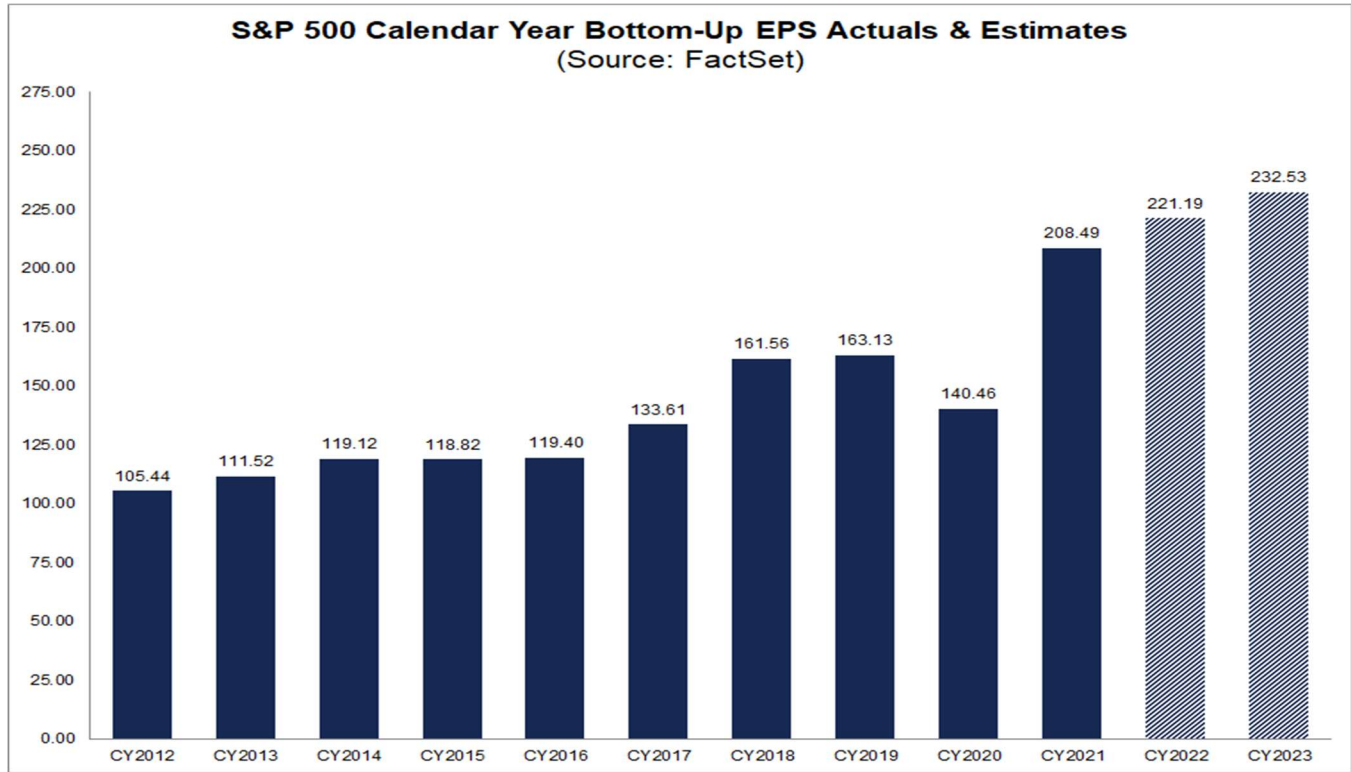
Geographic Revenue Exposure



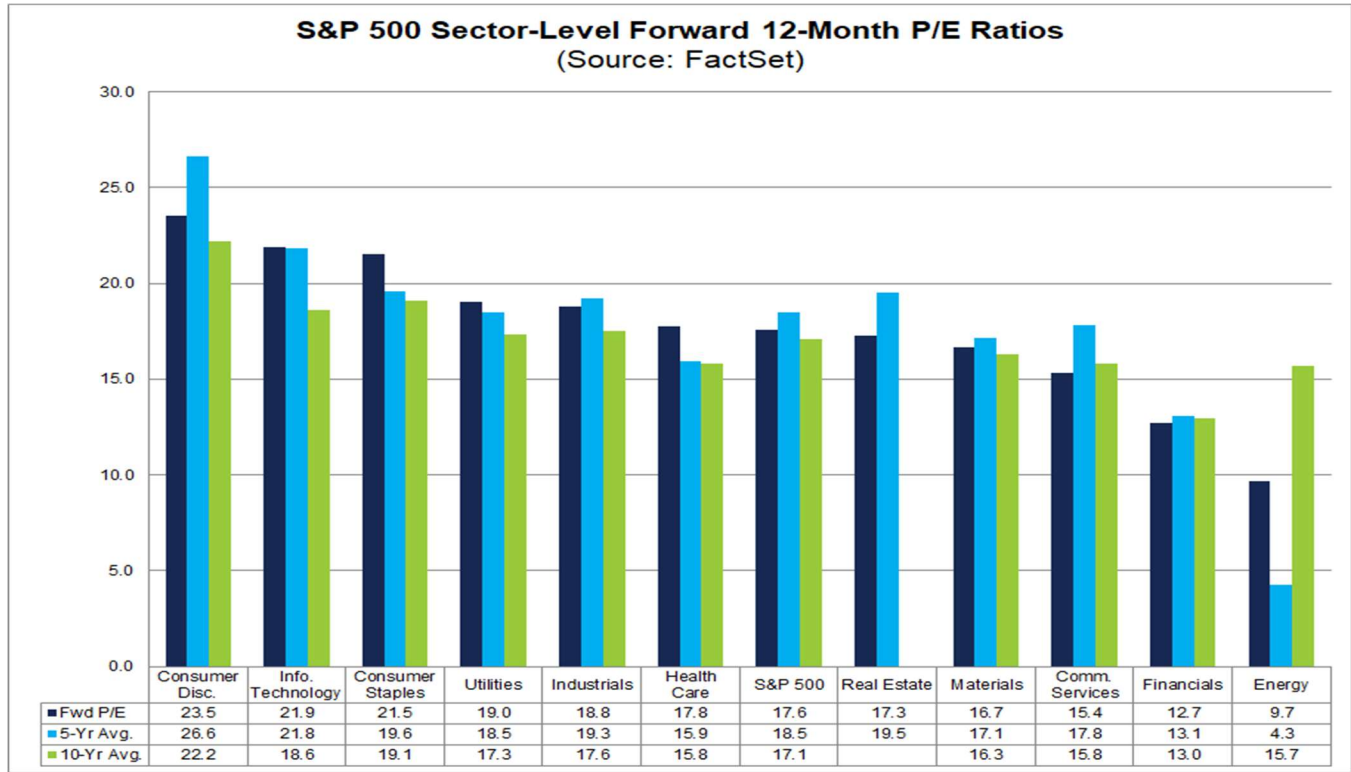
Bottom-Up EPS Estimates



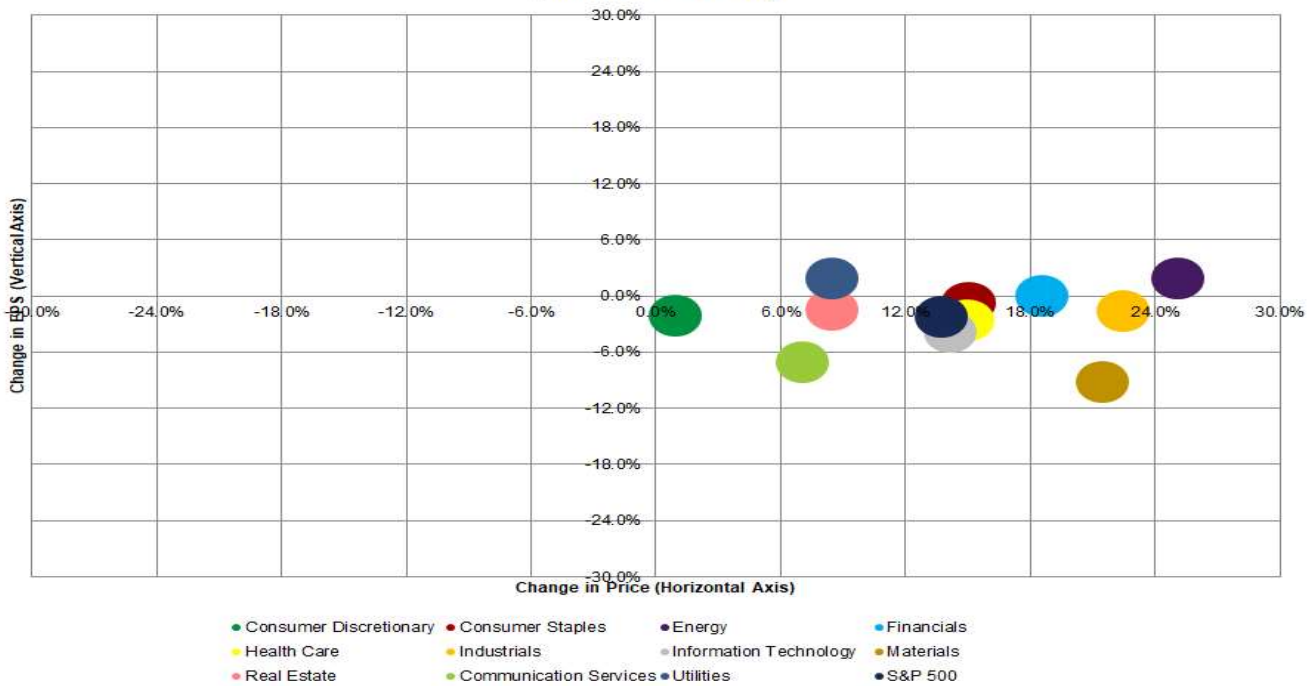
Bottom-Up EPS Estimates: Current & Historical



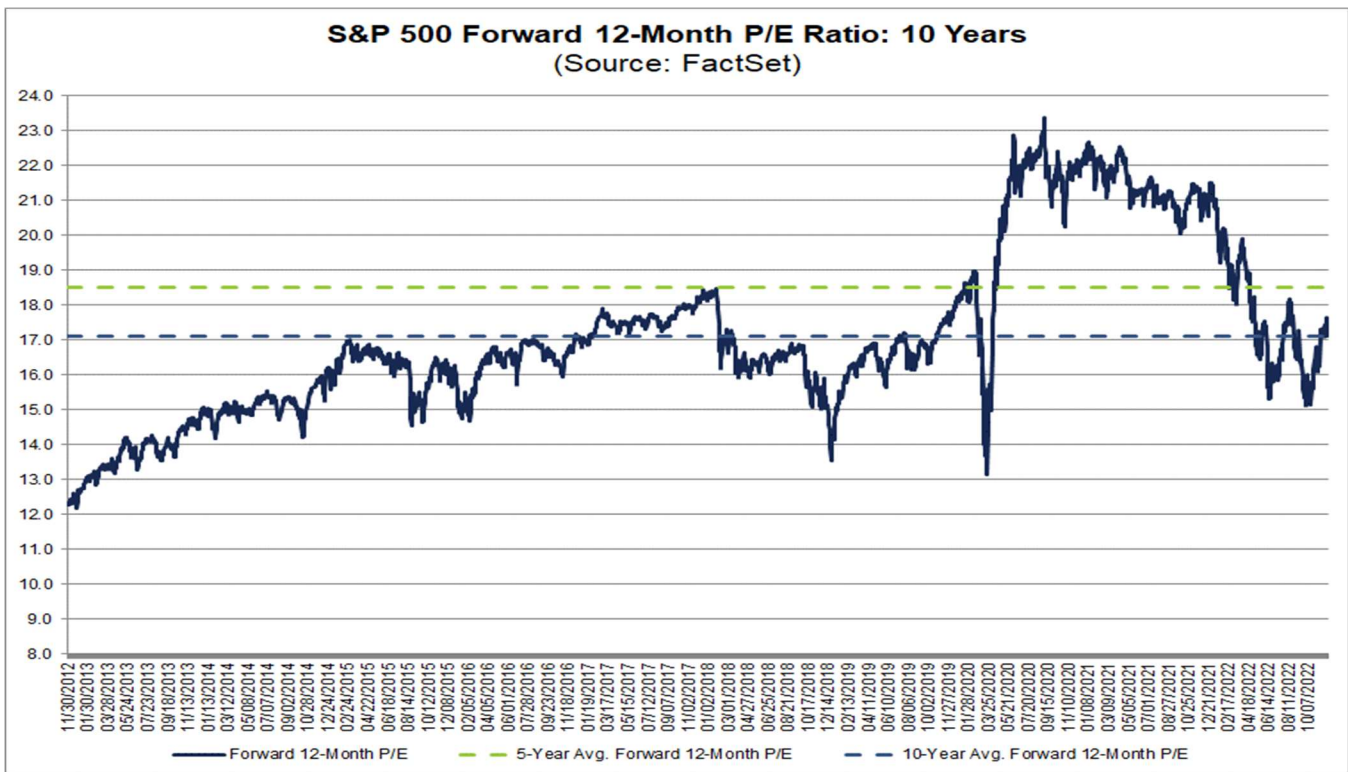
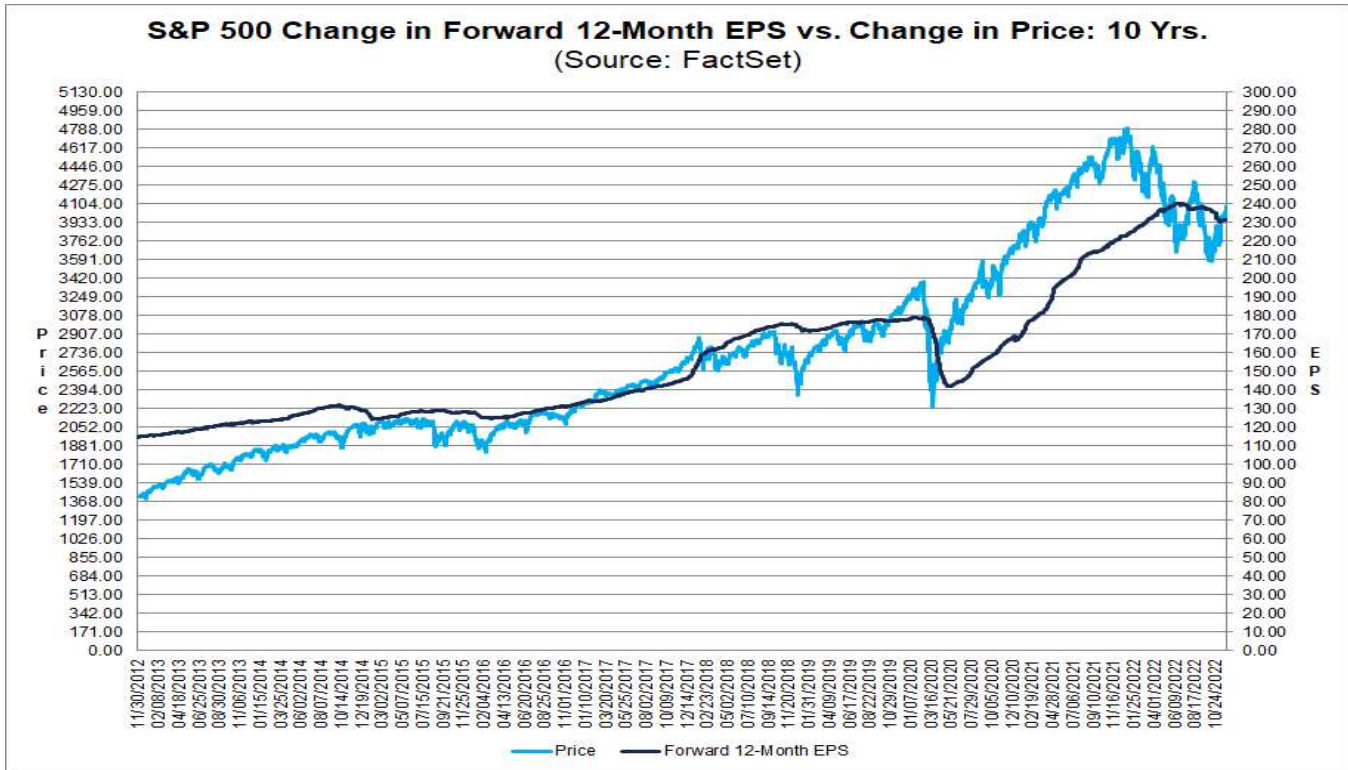
Forward 12M P/E Ratio: Sector Level



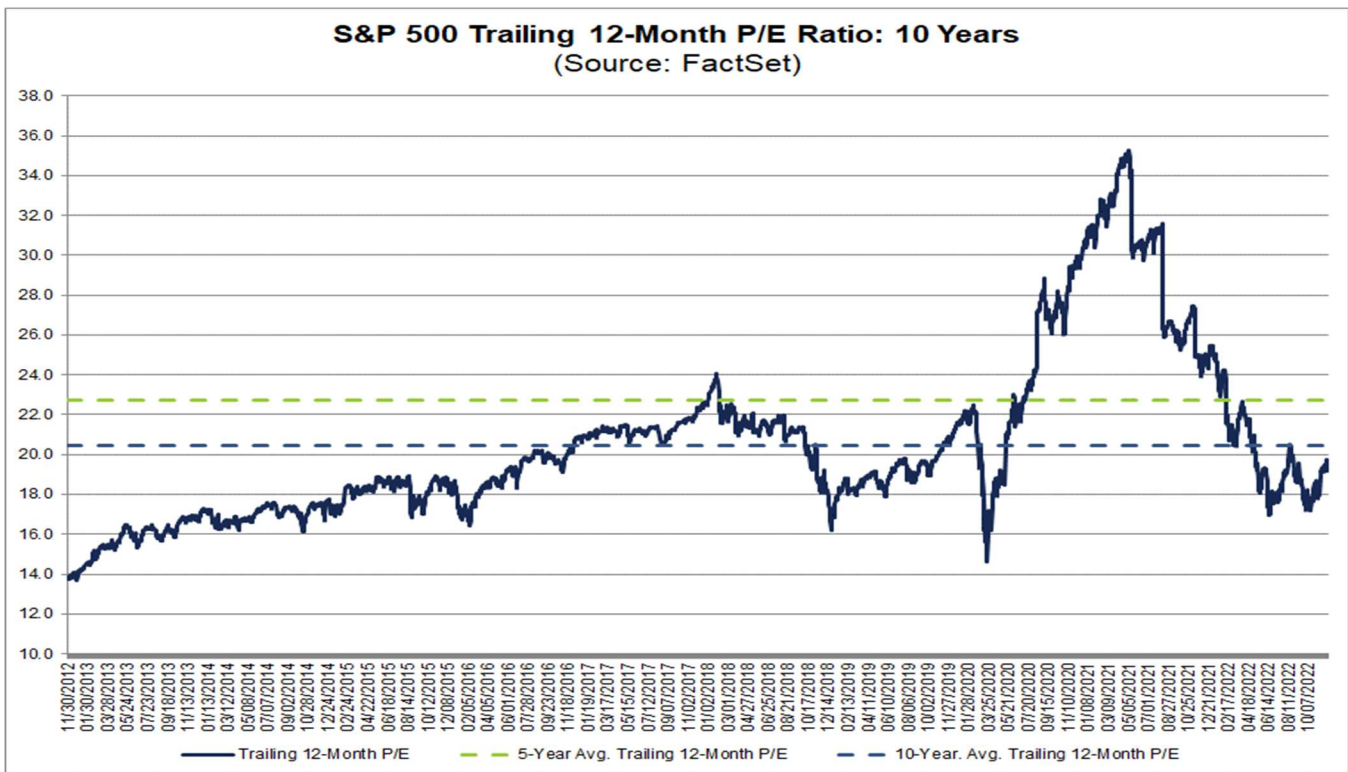
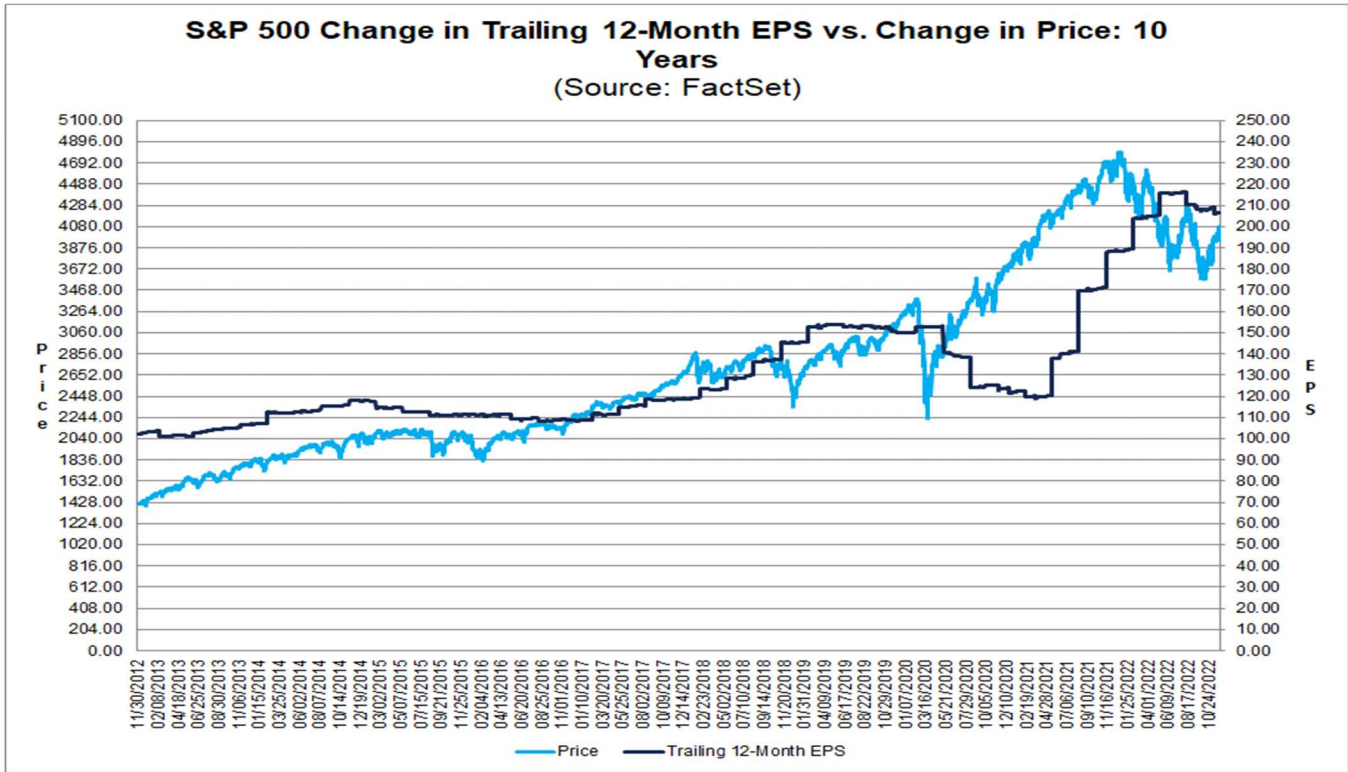
Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Sep. 30 (Source: FactSet)



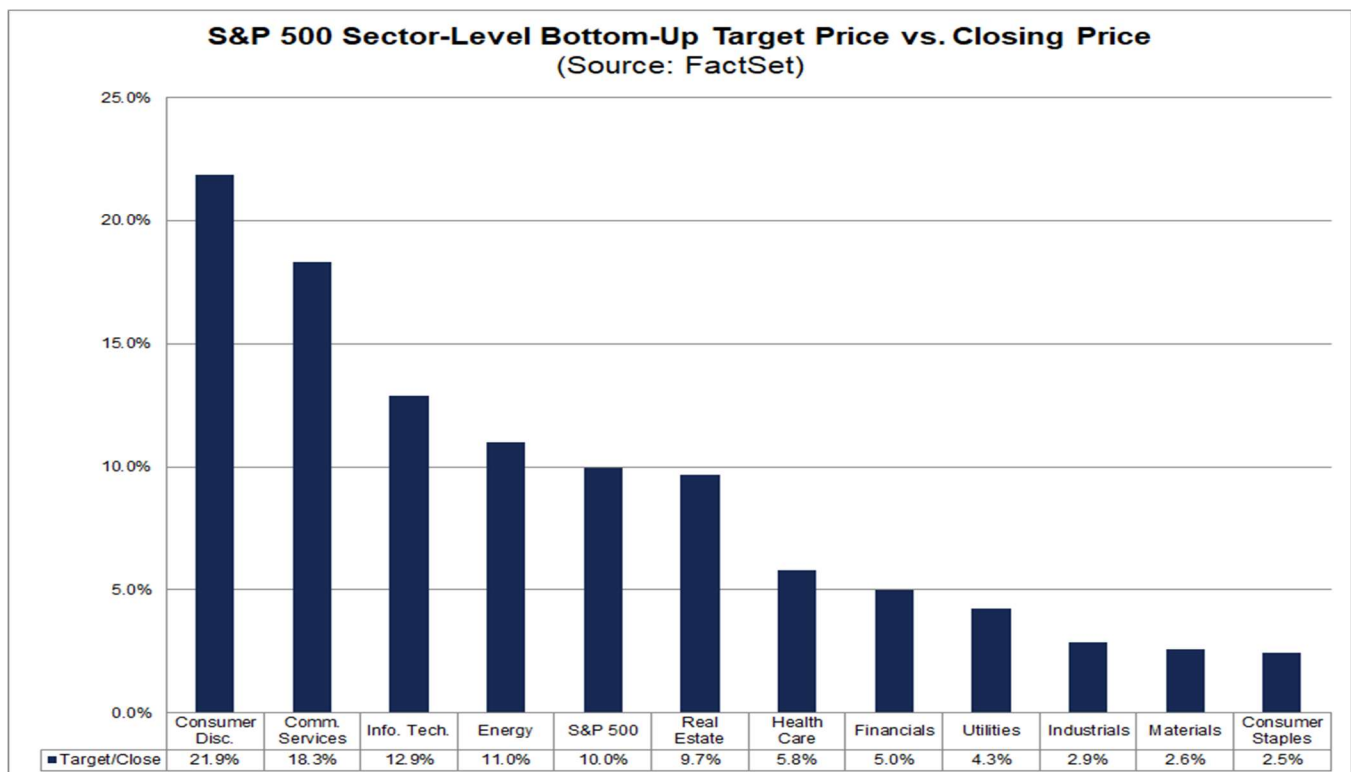
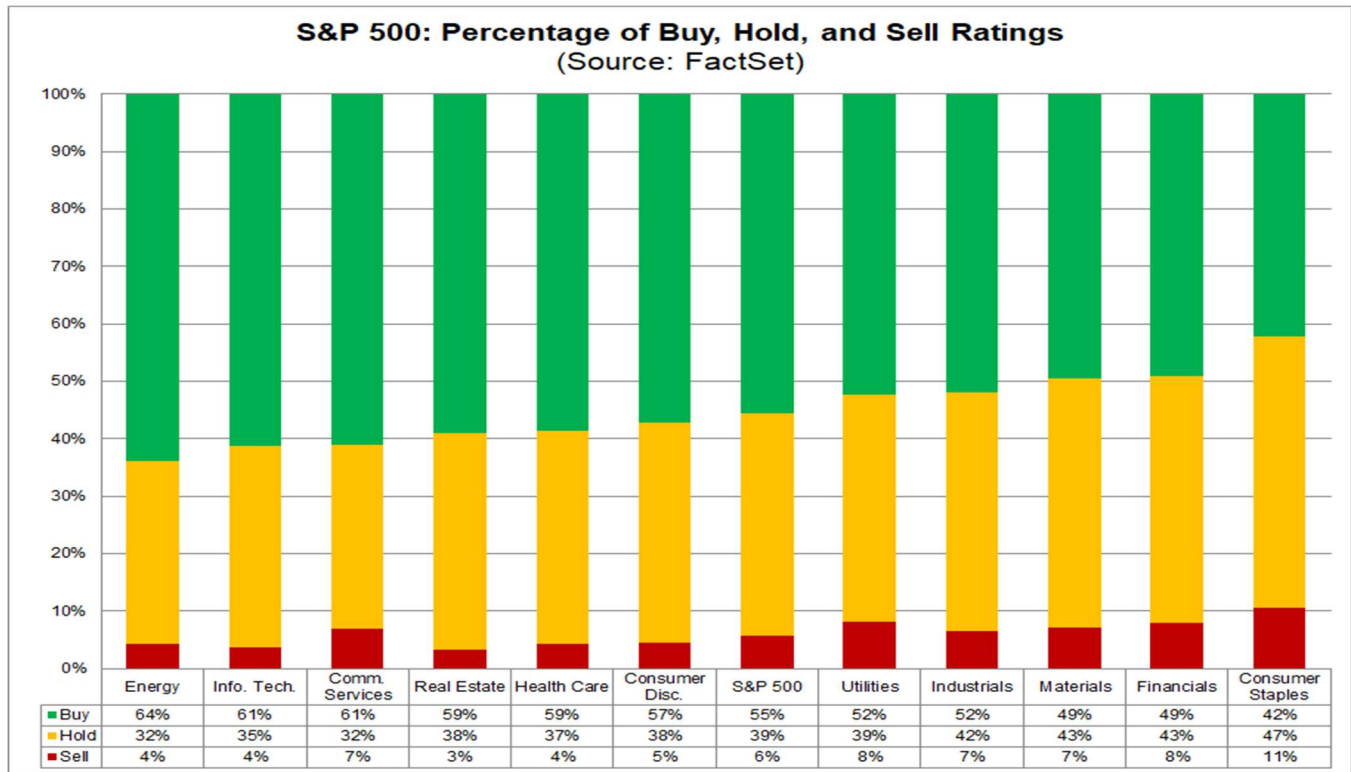
Forward 12M P/E Ratio: 10-Years



Trailing 12M P/E Ratio: 10-Years



Targets & Ratings



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