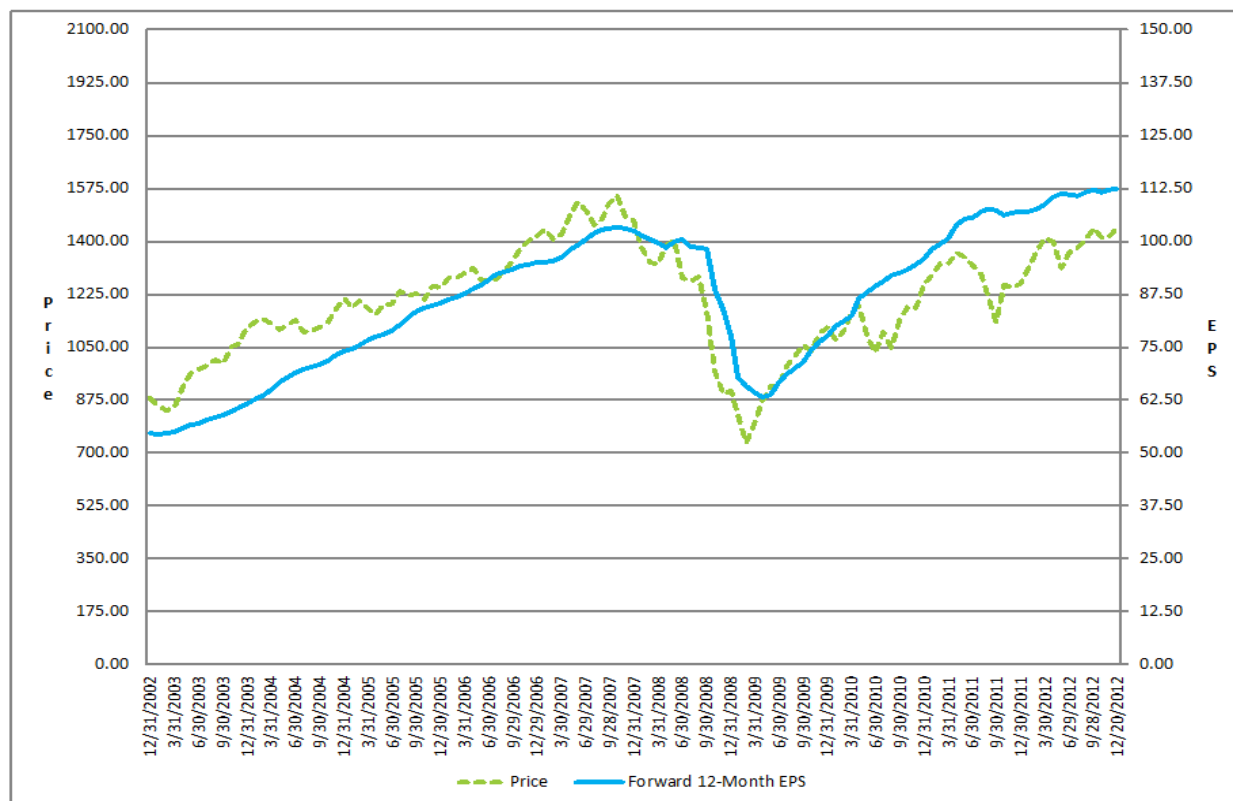


Key Metrics

- + **Earnings Growth:** The estimated earnings growth rate for Q4 2012 is 2.9%. The Financials sector is expecting the highest earnings growth for the quarter, while the Industrials and Information Technology sectors are projected to see the lowest earnings growth.
- + **Earnings Revisions:** On September 30, the estimated earnings growth for Q4 2012 was 9.2%. The Materials, Information Technology, and Financials sectors have recorded the largest reductions in expected earnings growth during this time.
- + **Earnings Guidance:** For Q4 2012, 80 companies have issued negative EPS guidance and 30 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-Month forward P/E ratio is 12.9. This P/E ratio is based on Thursday's closing price of 1443.69 and forward 12-month EPS estimate of \$112.32.
- + **Earnings Scorecard:** Of the 16 companies that have reported earnings to date for Q4 2012, 69% have reported earnings above the mean estimate and 75% have reported revenue above the mean estimate.

S&P 500 Forward 12-Month EPS vs. Price: 10-Year



All data published in this report is available on FactSet. Please contact media_request@factset.com or 1-877-FACTSET for more information.

Topic of the Week:

Excluding Insurance, Projected Earnings Growth for Financials Is Unchanged From Sep 30

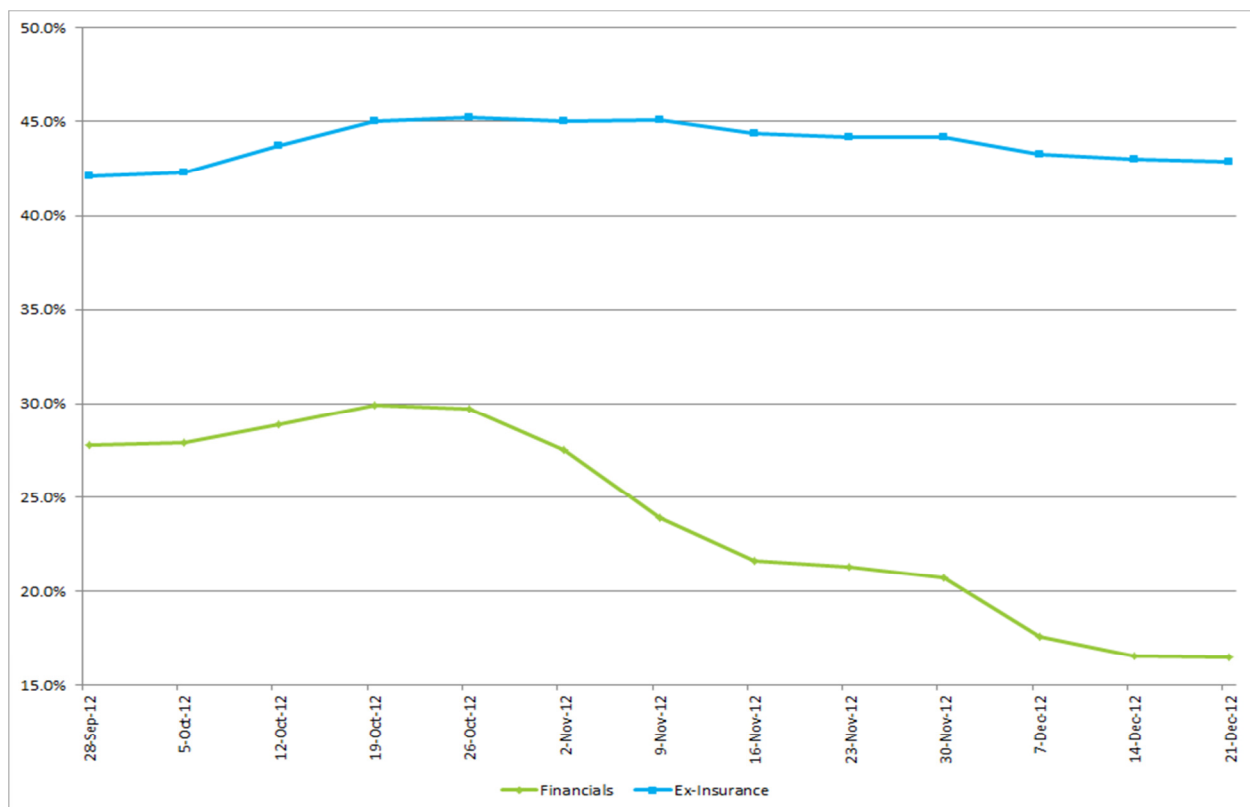
The Financials sector was a focus for the markets this past week, as Bank of America (\$11.52) and Citigroup (\$40.17) ended the day on Thursday at price levels not seen since mid-2011. Over the past three months, the S&P 500 Financials sector has recorded the largest increase in price of any sector in the index. Since September 25, the price of the sector has jumped 6.5% (to \$223.92 from \$210.22).

However, the projected earnings growth for the Financials sector in the S&P 500 has been cut by more than 1/3 over this time frame. On September 28, the projected earnings growth for the Financials sector was 27.8%. Today, the projected earnings growth rate is 16.5%. What accounts for the upward move in the price of the sector and the downward move in the expected earnings growth rate?

One explanation is that just one industry within the Financials sector accounts for almost the entire decline in expected earnings growth for the sector since the start of the quarter: the Insurance industry. On September 28, the projected earnings growth rate for the Insurance industry was -1.7%. Today, the projected earnings growth rate for the industry is -37.9%. The rapid decline in the expected earnings growth rate for the Insurance industry started after the week ending on October 26. Hurricane Sandy hit the northeast region of the U.S on October 29.

Excluding the Insurance industry, there has been little change in the expected earnings growth rate for the Financials sector over the past three months. On September 28, the projected earnings growth rate for the Financials sector excluding the Insurance industry was 42.1%. Today, the projected earnings growth rate for the Financials sector excluding the Insurance industry is 42.9%.

S&P 500 Financials Sector Q4 Earnings Growth: Ex-Insurance



Q4 2012 Earnings Season: Overview

Earnings Growth Rate Cut By More than 2/3 since September 30

The estimated earnings growth rate for Q4 2012 is 2.9% this week, unchanged from last week's estimate of 2.9%. Estimate cuts to companies in the Financials sector were mainly offset by the upward earnings surprise reported by Oracle.

Since the start of the quarter (September 30), the estimated earnings growth for the index has dropped to 2.9% from 9.3%. Seven of the ten sectors have witnessed a decline in expected earnings growth over this time frame. The Materials, Information Technology, and Financials sectors have recorded the largest decreases in expected growth since the start of the quarter.

The estimated earnings growth rate for the Materials sector is 6.1% today, down from an expectation of 23.9% at the start of the quarter. Within the Materials sector, the Metals & Mining (to 5% from 36%) industry has recorded the largest drop in expected earnings growth at the industry level. Companies that have witnessed significant cuts to estimates in the Materials sector include U.S. Steel (to -\$0.73 from \$0.08), DuPont (to \$0.08 from \$0.39), and Allegheny Technologies (to \$0.16 from \$0.49).

The predicted earnings growth rate for the Financials sector is 16.5%, below an expectation of 27.8% at the start of the quarter. Within the Financials sector, the Insurance (to -38% from -2%) industry has seen the highest decline in expected earnings growth at the industry level. Companies that have recorded deep cuts to estimates in the Financials sector include E*TRADE Financial (to -\$0.53 from \$0.11), XL Group (to -\$0.29 from \$0.57), Chubb (to -\$0.45 from \$1.50), Allstate (to \$0.01 from \$1.10), Travelers (to \$0.17 from \$1.69), and AIG (to \$0.11 from \$0.76).

The projected earnings growth for the Information Technology sector is -2.4%, down from an expectation of 8.5% at the beginning of the quarter. Within the Information Technology sector, the Semiconductor & Semiconductor Equipment (to -32% from -3%) and the Computers & Peripherals (to -6% from 11%) industries have witnessed the largest decreases in expected earnings growth at the industry level. Companies that have recorded substantial reductions to estimates in the Information Technology sector include Advanced Micro Devices (to -\$0.21 from \$0.06), Teradyne (to \$0.00 from \$0.25), and Texas Instruments (to \$0.07 from \$0.38).

Guidance: High Percentage of Information Technology Companies Guide Lower

The reduction in expected earnings growth for Q4 2012 can be attributed in part to a high percentage of companies issuing negative EPS guidance for the quarter, particularly in the Information Technology sector.

Of the 110 companies that have issued EPS guidance for the fourth quarter, 80 have issued projections below the mean EPS estimate and 30 have issued projections above the mean EPS estimate. Thus, 73% of the companies that have issued EPS guidance to date for Q4 2012 have issued negative guidance. This percentage is well above the five-year average of 61%, but actually below the percentage at this same point in time in Q3 2012 (80%).

An unusually high percentage of companies in the Information Technology sector have issued negative guidance. Of the 32 Information Technology sector companies that have issued EPS guidance, 29 (or 91%) have issued EPS projections below analyst estimates. This percentage is well above the five-year average of 56%.

Financials Sector: Ex-Insurance Industry, Earnings Growth of More than 40%

After reporting a small year-over-year decline in earnings growth in Q3 2012 (-0.9%), the index is projected to see a return to earnings growth in Q4 2012. The estimated earnings growth rate stands at 2.9%. Seven of the ten sectors are expected to report a year-over-year increase in earnings for the quarter, led by the Financials sector.

The Financials sector has the highest earnings growth rate (16.5%) of all ten sectors and is also the largest contributor to earnings growth for the index. If the Financials sector is excluded, the growth rate for the index falls to 0.5%. Earnings growth is expected to be broad-based across the sector. Seven of the eight industries are expected to report earnings growth. Five of these seven industries are projected to see double-digit earnings growth, led by Diversified Financial Services (54%), Capital Markets (46%), and Commercial Banks (44%) industries. Within the Diversified Financial Services industry, the Other Diversified Financial Services sub-industry accounts for more than half of the earnings growth for the entire sector. Excluding the three companies in this sub-industry (Bank of America, Citigroup, and JPMorgan Chase), the earnings growth rate for the Financials sector would drop to 6.8%.

On the other hand, The Insurance (-38%) industry is the only industry predicted to report a year-over-year decline in earnings in the sector. The earnings weakness in this industry can be attributed to losses related to Hurricane Sandy. This industry is also the largest detractor to earnings growth for the sector. If the Insurance industry is excluded, the earnings growth rate for the sector would improve to 43%.

For the first time in several quarters, the Financials sector as a whole is projected to see modest revenue growth in Q4 2012. The estimated revenue growth rate is 7.0%, which is the second highest revenue growth rate in the index. Seven of the eight industries are predicted to see growth in the quarter, led by the Consumer Finance (17%) and Capital Markets (15%) industries. Although the Diversified Financial Services industry is only projected to see revenue growth of 3%, both JPMorgan Chase (13%) and Citigroup (12%) are expected to report double-digit revenue growth.

Earnings Declines Projected for Industrials and Information Technology Sectors

On the other hand, the Industrials and Information Technology sectors are projected to report the lowest earnings growth rates of all ten sectors.

The Industrials sector has the lowest earnings growth rate (-4.5%) of all ten sectors. Five of the twelve industries are expected to report a decrease in earnings for the quarter, led by the Airlines (-21%), Aerospace & Defense (-16%) and Machinery (-13%) industries. The Industrial Conglomerates industry is predicted to be the largest contributor to earnings growth in the sector, as General Electric is expected to report EPS growth of 10%.

The Information Technology sector has the second lowest earnings growth rate (-2.4%) of all ten sectors. Five of the eight industries in this sector are expected to report a decline in earnings, led by the Semiconductors & Semiconductor Equipment (-32%), Office Electronics (-19%), and Computers & Peripherals (-6%) industries. In contrast to the past nine quarters, Apple is not predicted to be the largest contributor to earnings growth in the sector. Apple is projected to earn \$13.45 per share in Q4 2012, compared to year-ago actual earnings of \$13.87 per share. If Apple reports a year-over-year decline in Q4 2012, it will be the first time in more than nine years (Q3 2003).

Revenue Growth: 2.2%

The estimated revenue growth rate for Q4 2012 is 2.2%, down slightly from an expectation of 2.7% on September 30. Eight of the ten sectors are projected to report revenue growth for the quarter, led by the Utilities (12.2%), Financials (7.0%), and Health Care (6.8%) sectors. On the other hand, the Energy (-10.5%) and Materials (-0.9%) sectors are the only two sectors predicted to see a year-over-year decrease in revenue for the quarter.

Global Concerns: Europe, F/X Rates, & China

Many companies in the index will likely report lower revenue growth outside of the U.S. for Q4 2012 due to weak economic growth in Europe, less favorable foreign exchange rates, and slower economic growth in emerging markets (China).

Europe

Europe is reporting a decline in economic growth relative to last year. According to FactSet Economics, the European Union recorded a decrease in GDP of 0.4% in Q3 2012, compared to growth of 1.4% in Q3 2011. Europe has continued to be a weak geographic region in Q4 2012.

“However, the company’s European brands continue to be negatively impacted by a deteriorating economic environment.” –Carnival Corp. (Dec. 20)

Less Favorable F/X Rates

The continuing weakness in Europe is contributing to another factor that will likely have a negative impact on revenue and earnings growth in Q4 2012: less favorable foreign exchange rates. In 2011, many companies recorded a boost to revenues due to the weakness of the U.S. dollar relative to the Euro and other currencies. However, the ongoing weakness in Europe has led to the dollar gaining strength relative to the Euro over the past year. In Q4 2011, one Euro was equal to about \$1.35 U.S. dollars on average. For Q4 2012 to date, one Euro is equal to about \$1.30 U.S. dollars on average.

“Revenues before reimbursements (“net revenues”) for the first quarter of fiscal 2013 were \$7.22 billion, compared with \$7.07 billion for the first quarter of fiscal 2012, an increase of 2 percent in U.S. dollars and 5 percent in local currency and within the company’s guided range of \$7.1 billion to \$7.35 billion. The foreign-exchange impact of approximately negative 3 percent was consistent with the assumption provided in the company’s fourth-quarter earnings release.” –Accenture (Dec. 19)

“Without the impact of the US dollar strengthening compared to foreign currencies, Oracle’s reported Q2 GAAP earnings per share would have been \$0.01 higher at \$0.54, up 26%, and Q2 non-GAAP earnings per share would have been \$0.01 higher at \$0.65, up 19%.” –Oracle (Dec. 18)

However, the growing strength of the Euro relative to the U.S. dollar in recent weeks may result in foreign exchange rates having less of a negative impact on fourth quarter earnings and revenues for multi-national companies compared to recent quarters.

China and Emerging Markets

Economic growth in countries in emerging markets has also been decreasing over the past year. According to FactSet Economics, three of the four “BRIC” countries recorded slower GDP growth during this time. For Q3 2011, China, India, and Brazil recorded GDP growth of 9.1%, 6.9% and 2.1%, respectively. By Q3 2012, GDP growth rates for China, India, and Brazil had fallen to 7.4%, 2.8% and 0.9%.

“Excluding the impact of changes in foreign currency, NIKE Brand revenues rose 11 percent, with growth in all key categories, product types and geographies except Greater China.” –NIKE (Dec.20)

Domestic Concerns: Impact of Hurricane Sandy and “Fiscal Cliff”

Companies have also begun to comment on the impact on Q4 earnings of the damage caused by Hurricane Sandy and the tax policy uncertainty caused by the potential “fiscal cliff.”

Hurricane Sandy

In discussing the impact of Hurricane Sandy, companies have typically provided a specific dollar amount regarding the negative impact.

“Superstorm Sandy impacted the quarter’s results by \$0.11 per diluted share due to reduced shipment volumes and incremental operating costs.” –FedEx (Dec. 19)

“The Company estimates that the impact of Hurricane Sandy reduced its comparable store sales percentage during the fiscal third quarter by approximately 0.9%.” –Bed Bath & Beyond (Dec. 19)

“Growth in payroll service revenue was tempered by lost revenue from Hurricane Sandy, approximating 0.5% of payroll revenue growth, and the impact of client mix in the mid-market.” –Paychex (Dec. 19)

“Fiscal Cliff”

To date, most of the companies that have discussed the potential impact of the “fiscal cliff” during their Q4 earnings conference calls have made comments that fall into one or more of three categories: they haven’t seen an impact yet, they still believe a deal will get done and are not forecasting an impact yet, or they are unable to forecast an impact.

“Well, you know, as you can see in our numbers, folks wanted to spend their budgets, continue to want to spend their budgets. We were having an absolutely wonderful December so far. So what's going on in Washington, I don't know who it is necessarily influencing today, but I can tell you our customers have been spending money with us, even here in December.” –Oracle (Dec. 18)

“So in the U.S., we haven't seen a lot of impact from the fiscal cliff. I mean, we've assumed...that the executive and legislative branches of our government will reach an agreement and our guidance was based on the fact that positive growth will continue in the United States.” –Accenture (Dec. 19)

“Yes. If you knew, it would be really helpful for us if you could tell us, but it's really hard to say when you look at all the things that are in the fiscal cliff and you have to jump to a conclusion that therefore consumers are going to behave in a certain way....It's not – this is just what I believe. It's not – I can't go give you a statistic that says consumer sentiment added X amount to our sales, but it's just impossible to tell what will happen at the end of the year.” –CarMax (Dec. 20)

Analysts Cutting Estimates for 1st Half of 2013

Since the end of the third quarter (September 30), analysts have also reduced earnings growth expectations for Q1 2013 (to 2.7% from 5.3%) and Q2 2013 (to 7.1% from 9.1%).

For both quarters, the Materials and Information Technology sectors have witnessed the largest declines in earnings growth rates during this time.

Valuation: Forward P/E at 12.9, Below 10-Year Average

The current forward 12-month P/E ratio for the index is 12.9. The P/E ratio is based on Thursday’s closing price of 1419.45 and forward 12-month EPS estimate of 112.30.

This 12.9 P/E ratio is below the prior ten-year average forward 12-month P/E ratio of 14.2, but equal to the P/E ratio of 12.9 recorded at the start of the fourth quarter (September 30). Since September 30, the price of the index has increased 0.2% (to 1443.69 from 1440.67) and the forward 12-month EPS estimate has increased 0.3% (to \$112.32 from \$112.02).

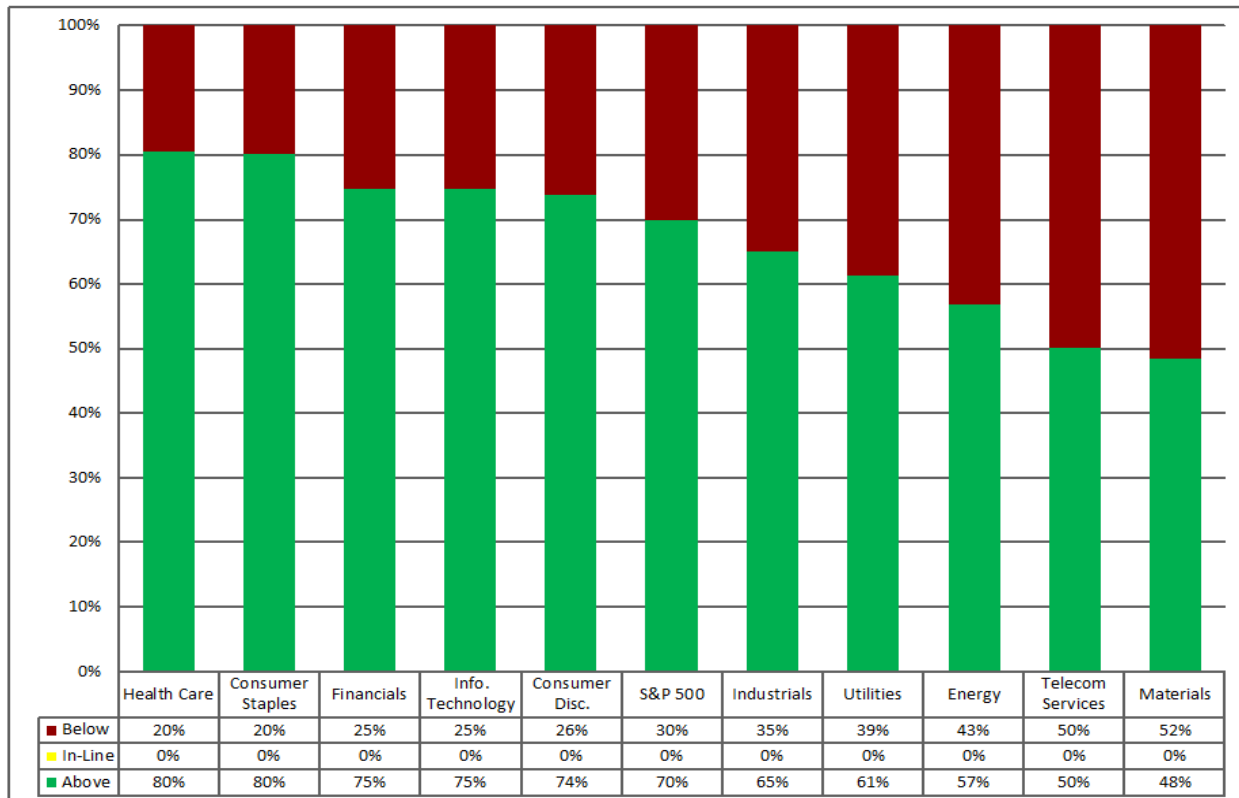
Will there be a return to the 10-year average valuation for the market anytime soon? If there is going to be a return to this average P/E ratio of 14.2, either future estimates will need to decrease, the price of the index will need to increase, or a combination of the two will need to occur.

Companies Reporting Next Week: 0

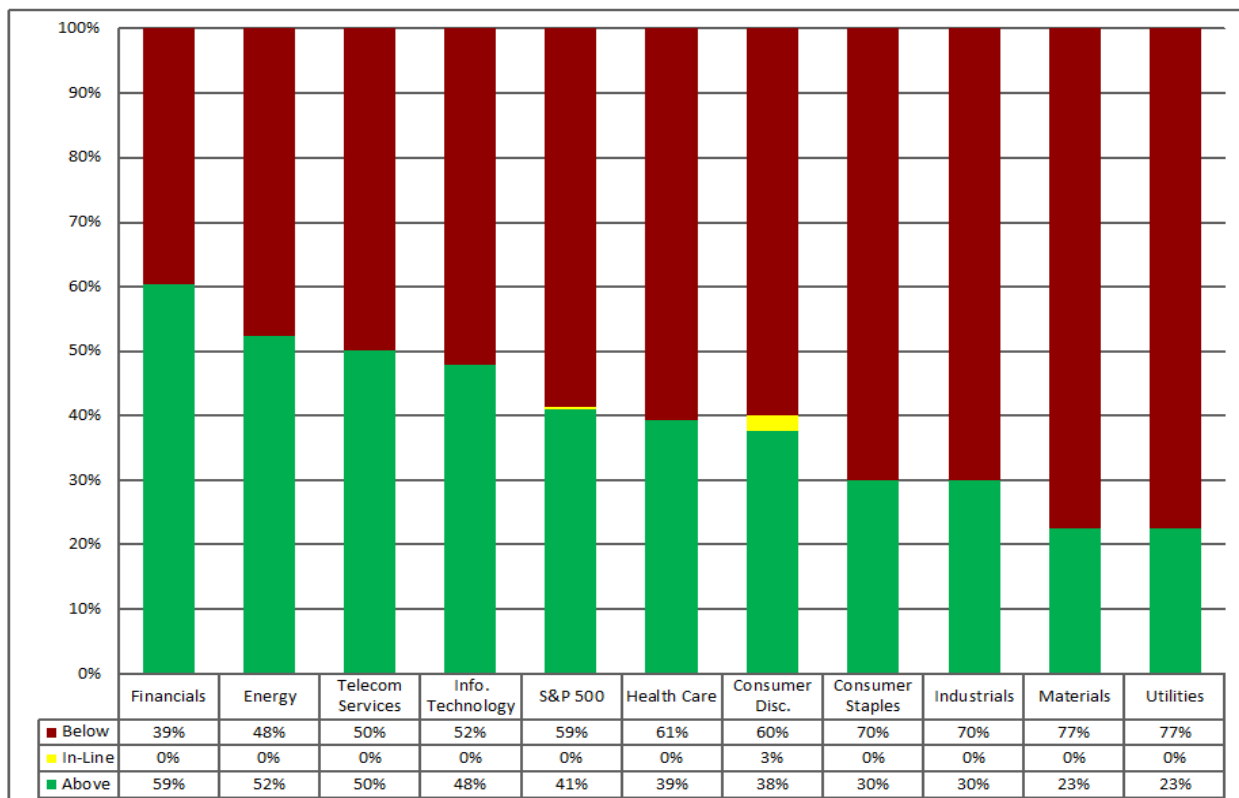
During the upcoming week, no S&P 500 companies are scheduled to report earnings for Q4 2012.

Q3 2012: Scorecard

Q3 2012 Earnings: Above, In-Line, Below Estimates

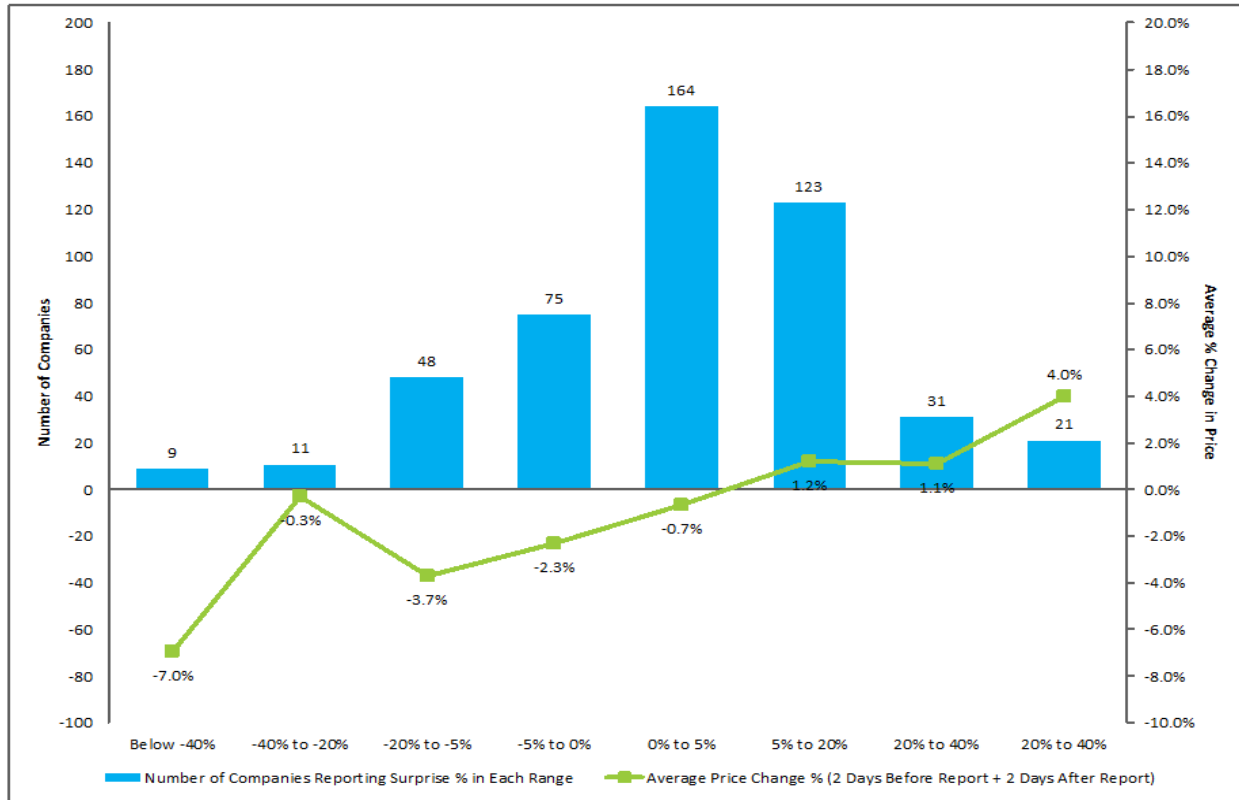


Q3 2012 Revenues: Above, In-Line, Below Estimates

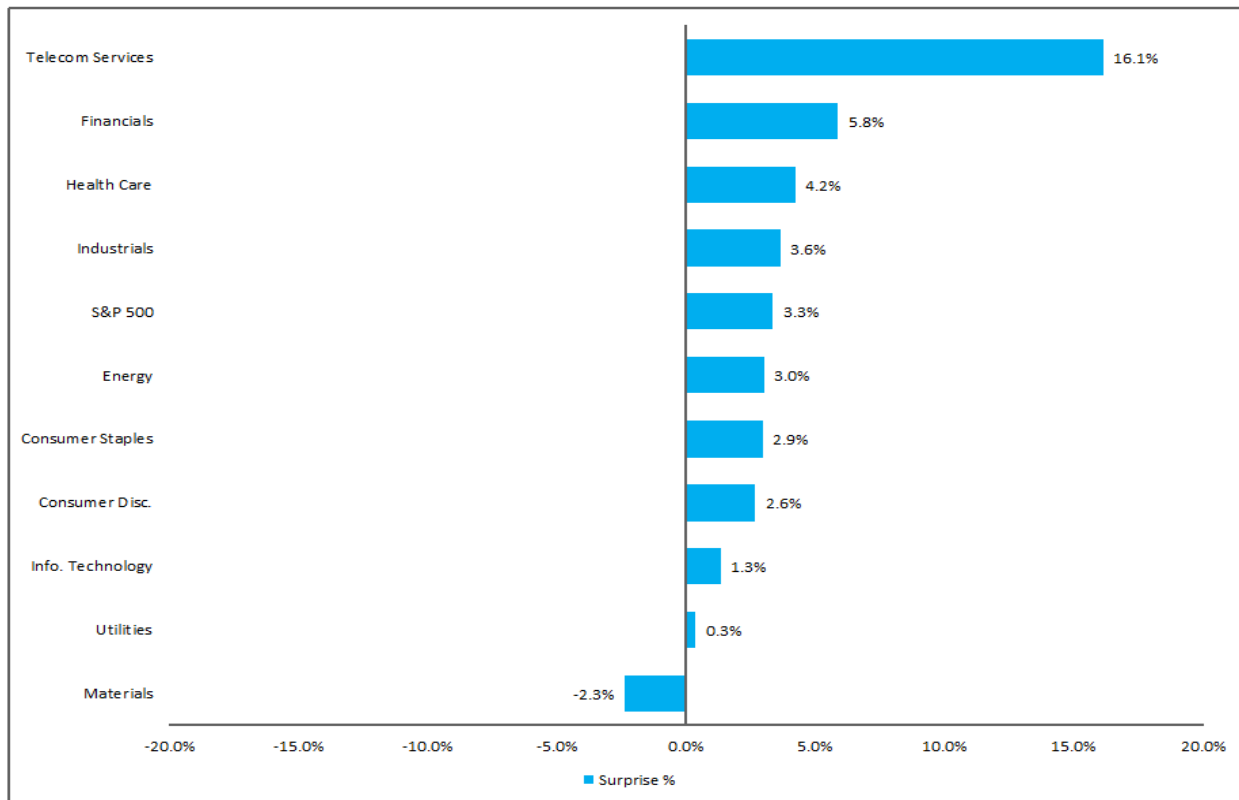


Q3 2012: Scorecard

Q3 2012: Surprise % vs. Average Price Change %

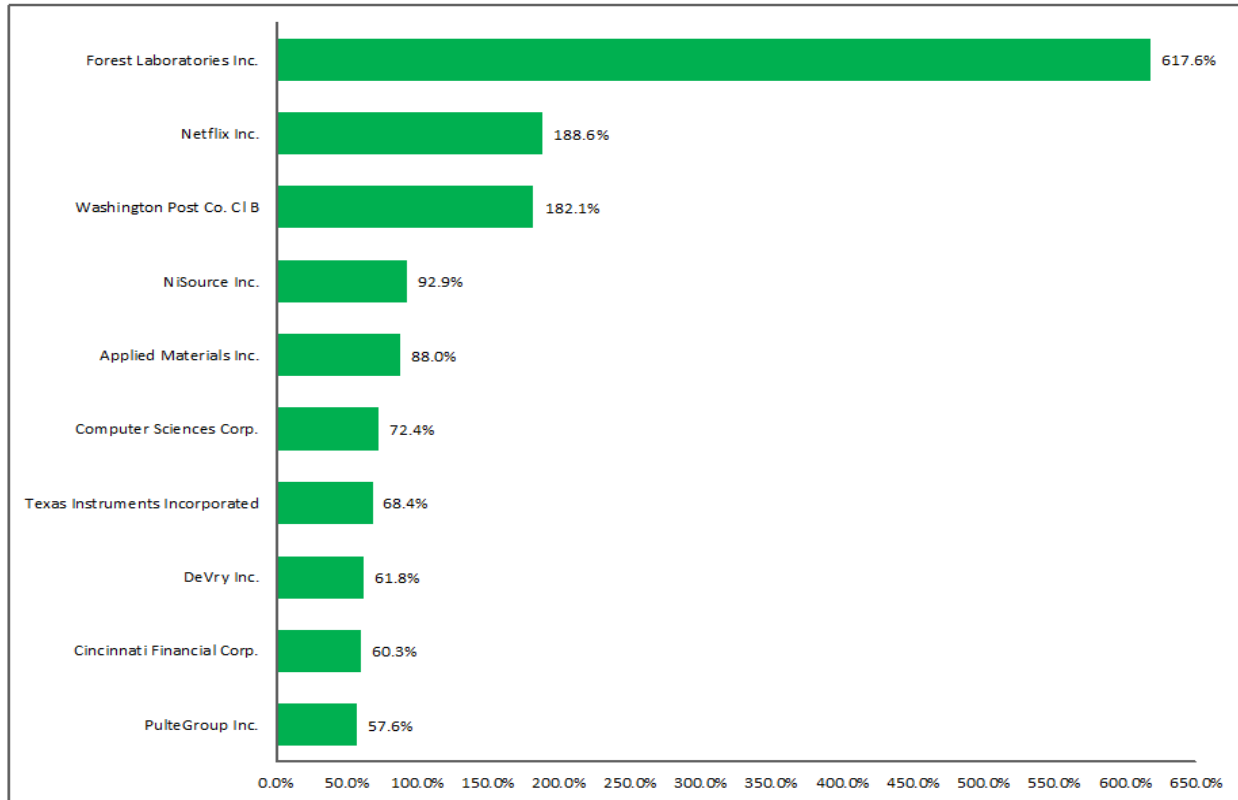


Q3 2012: Sector Level Surprise %

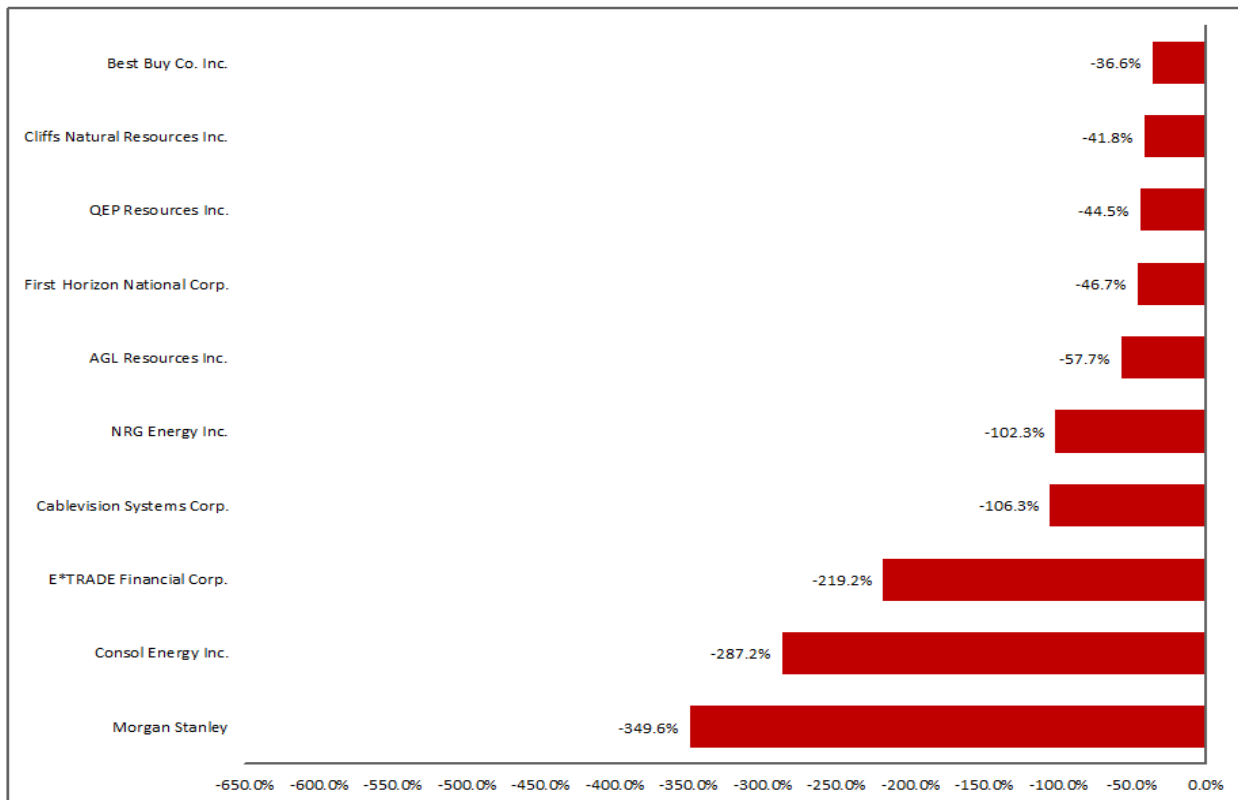


Q3 2012: Scorecard

Surprise %: Top 10 Companies

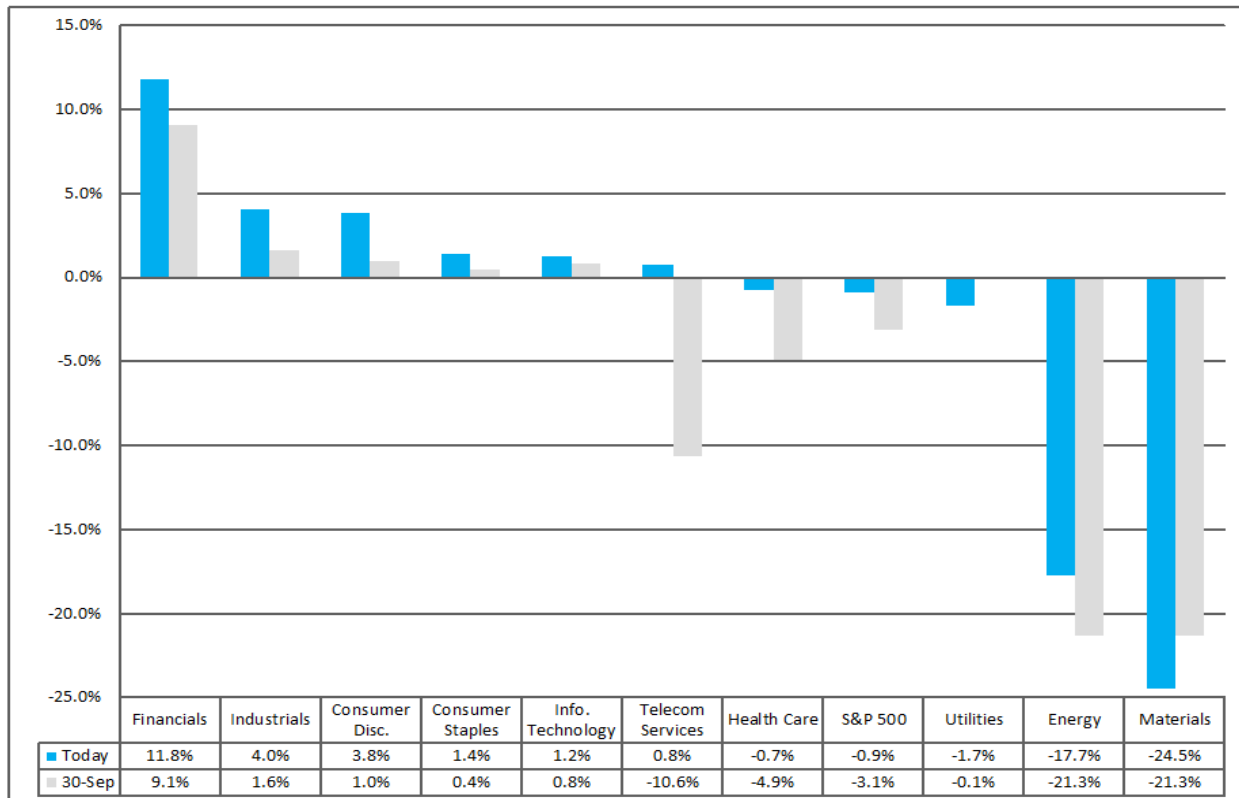


Surprise %: Bottom 10 Companies



Q3 2012: Growth

Q3 2012 Earnings Growth

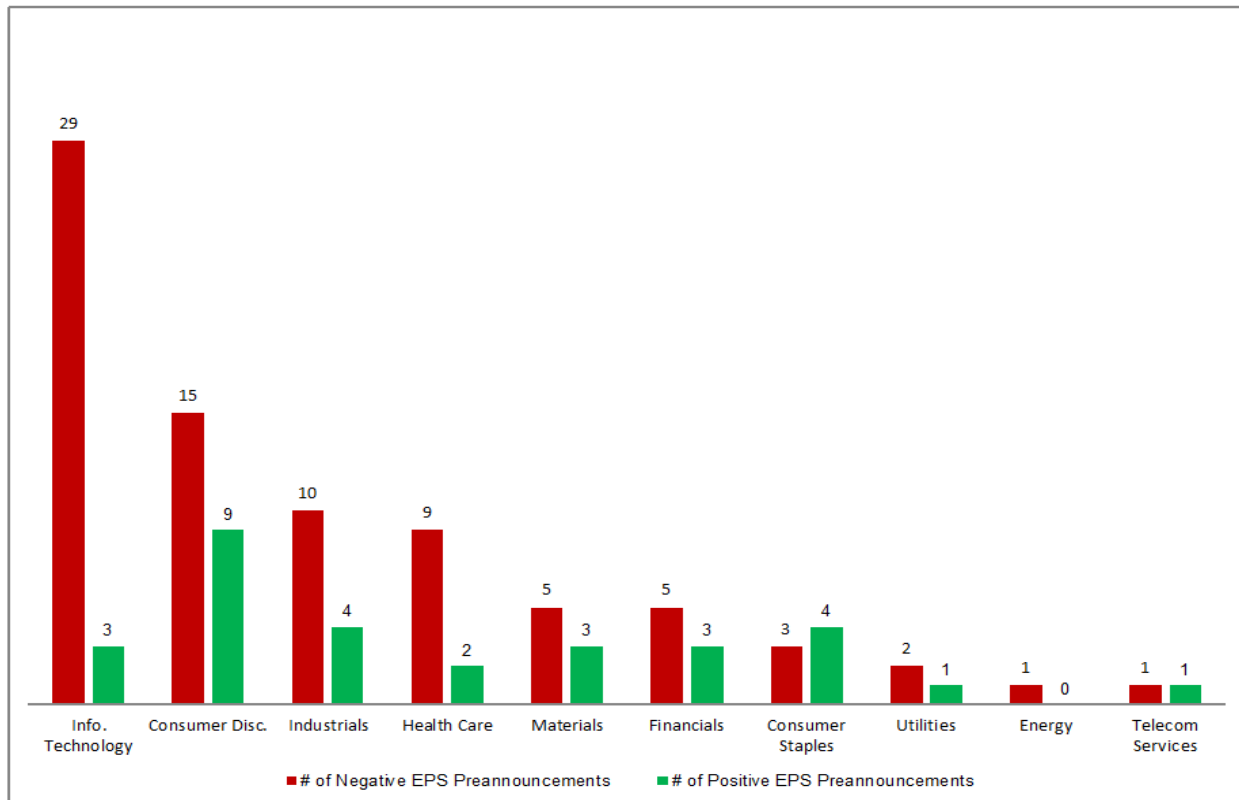


Q3 2012 Revenue Growth

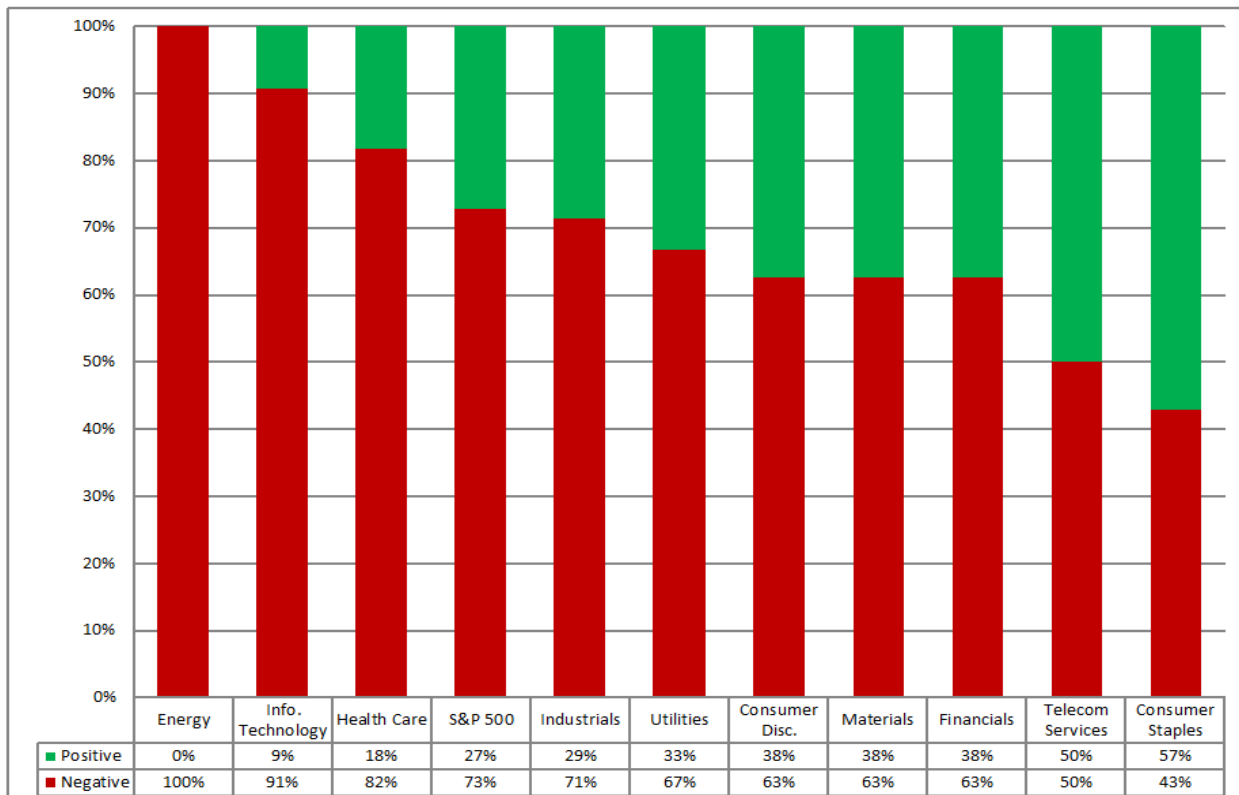


Q4 2012: Guidance

Number of Positive & Negative EPS Preannouncements: Q4 2012

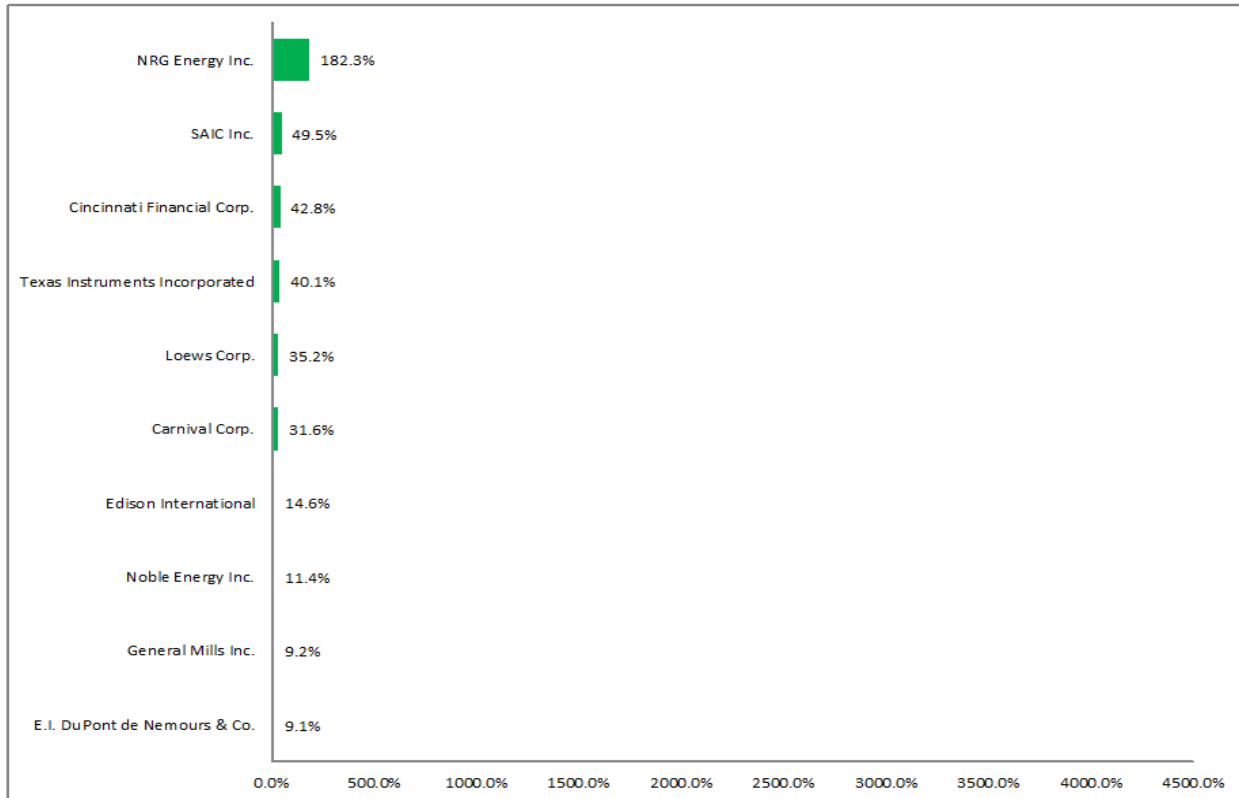


Percentage of Positive & Negative EPS Preannouncements: Q4 2012

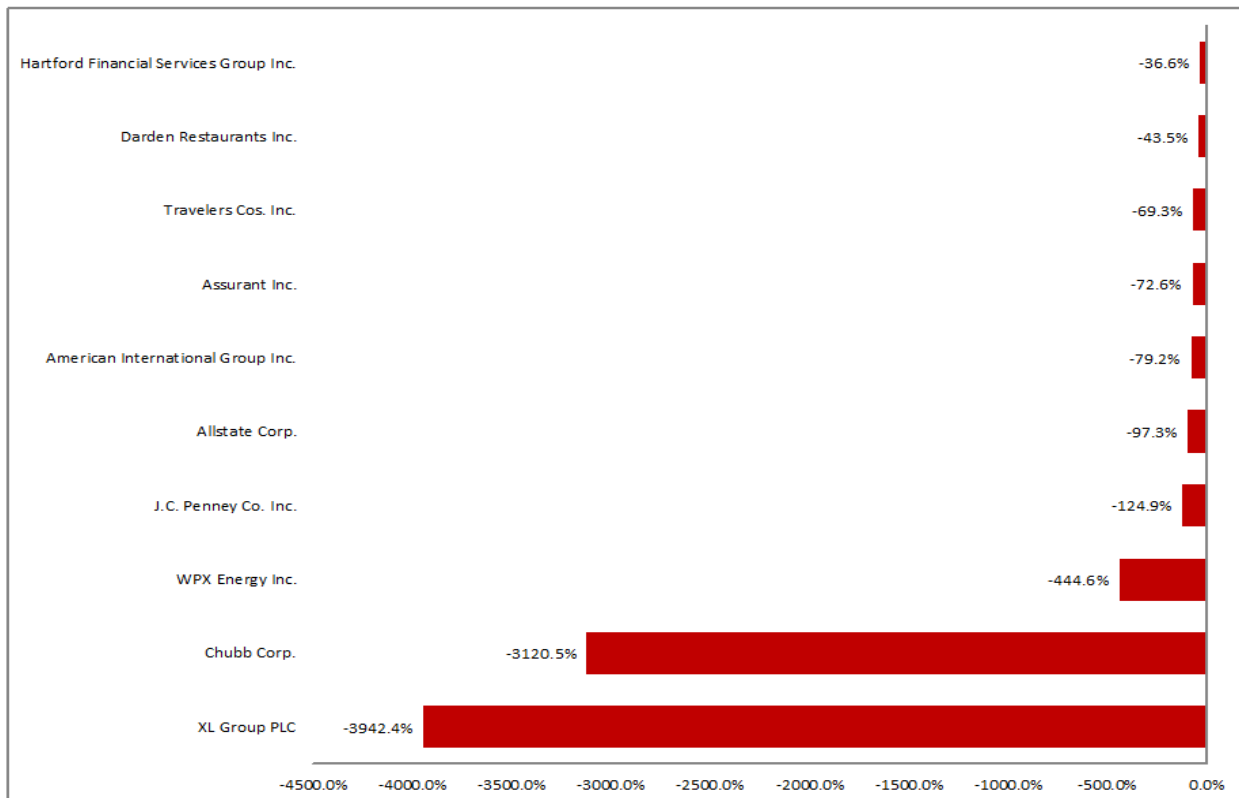


Q4 2012: EPS Revisions

Highest Upward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

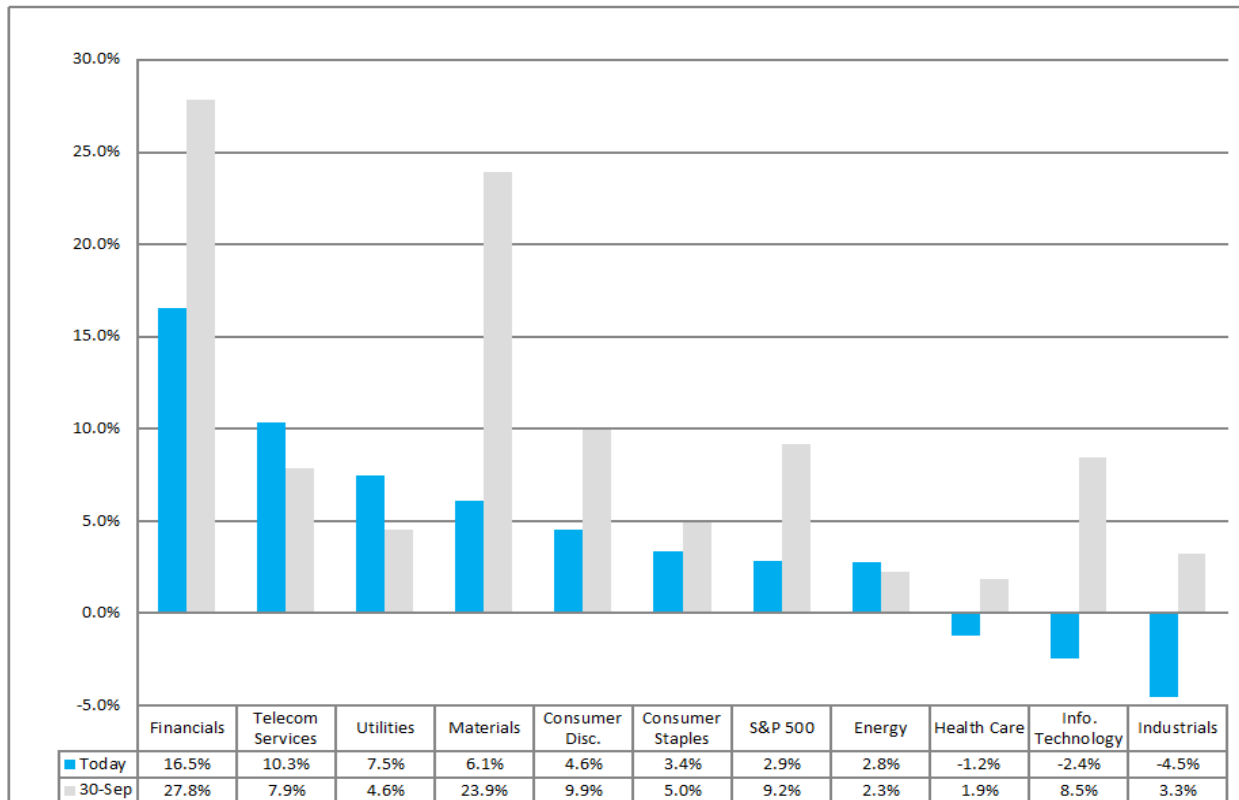


Highest Downward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies



Q4 2012: Growth

Q4 2012 Earnings Growth

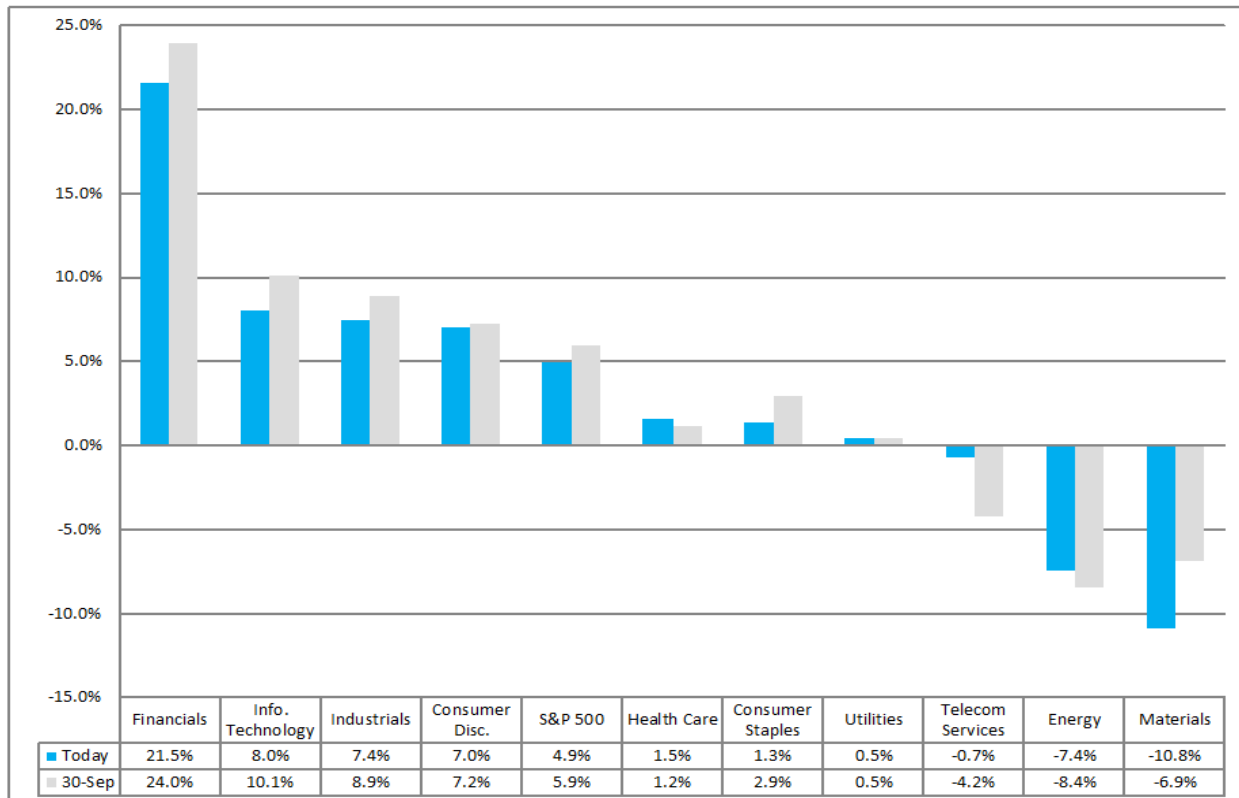


Q4 2012 Revenue Growth

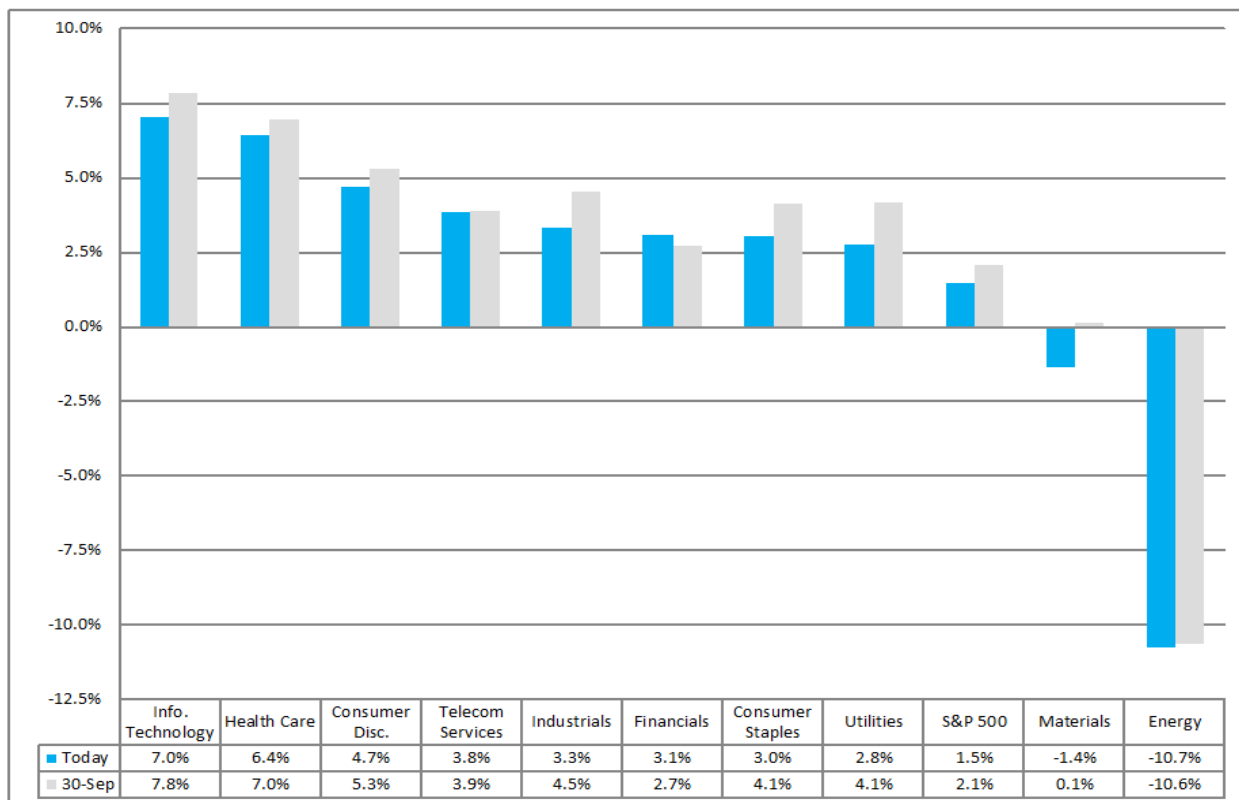


CY 2012: Growth

CY 2012 Earnings Growth

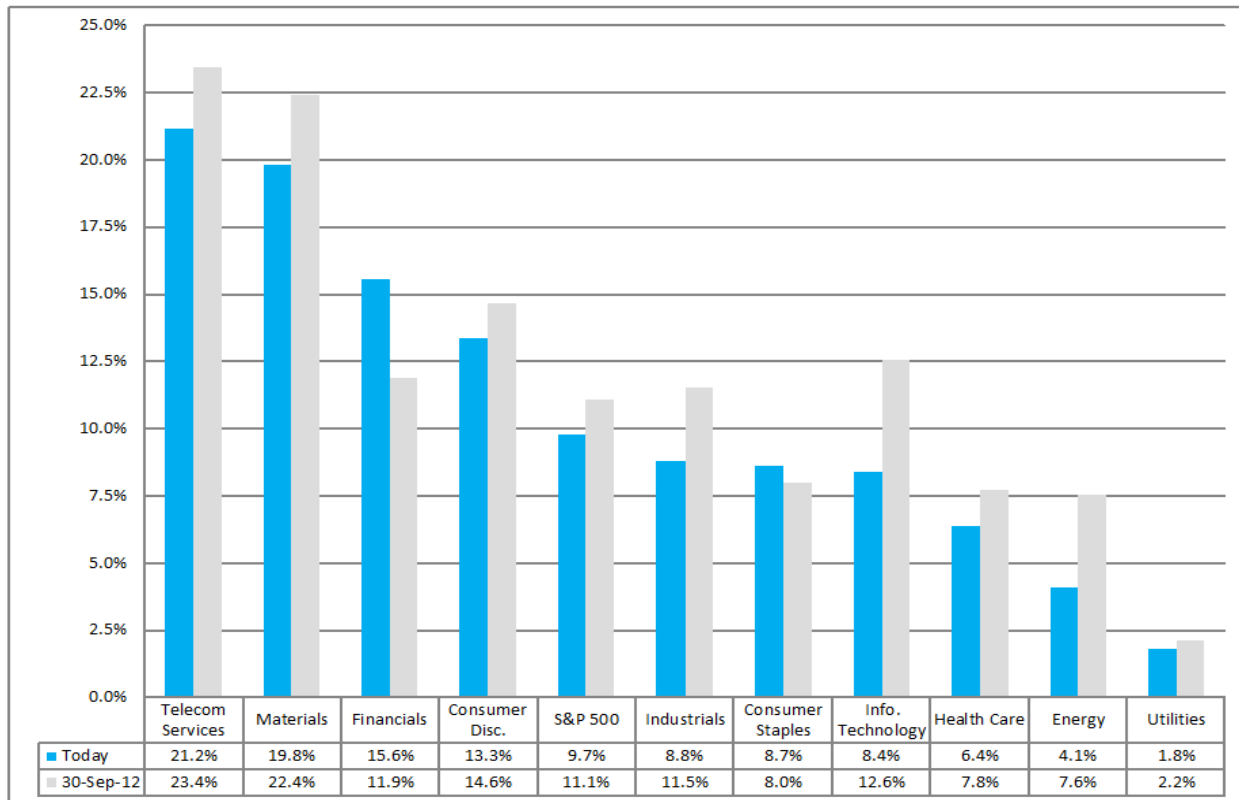


CY 2012 Revenue Growth

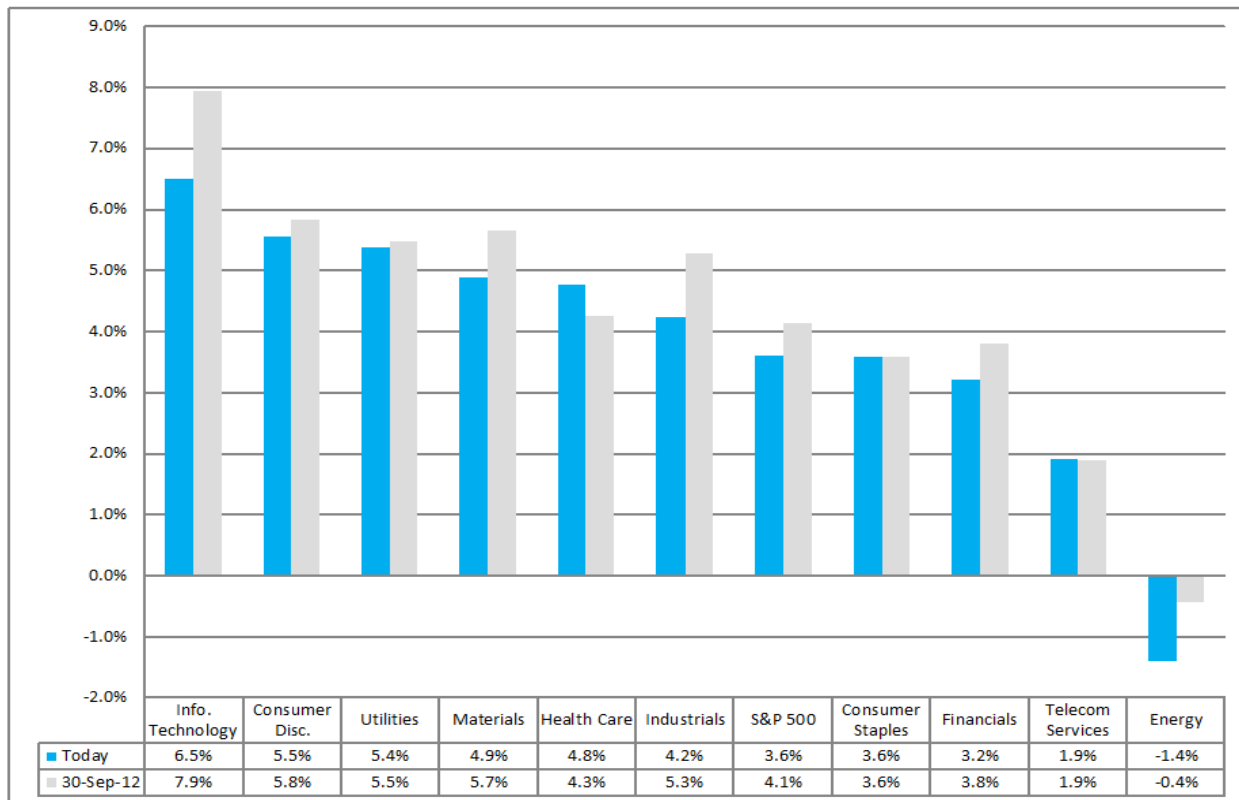


CY 2013: Growth

CY 2013 Earnings Growth

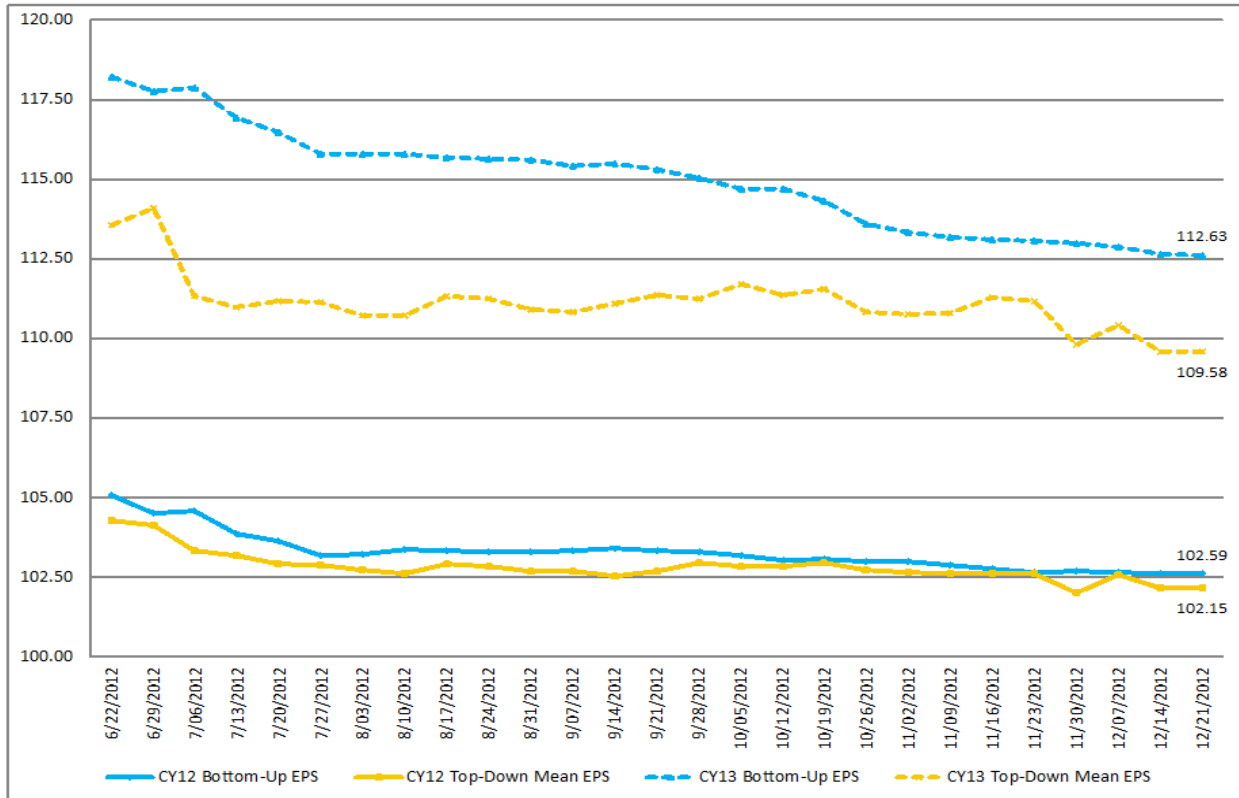


CY 2013 Revenue Growth

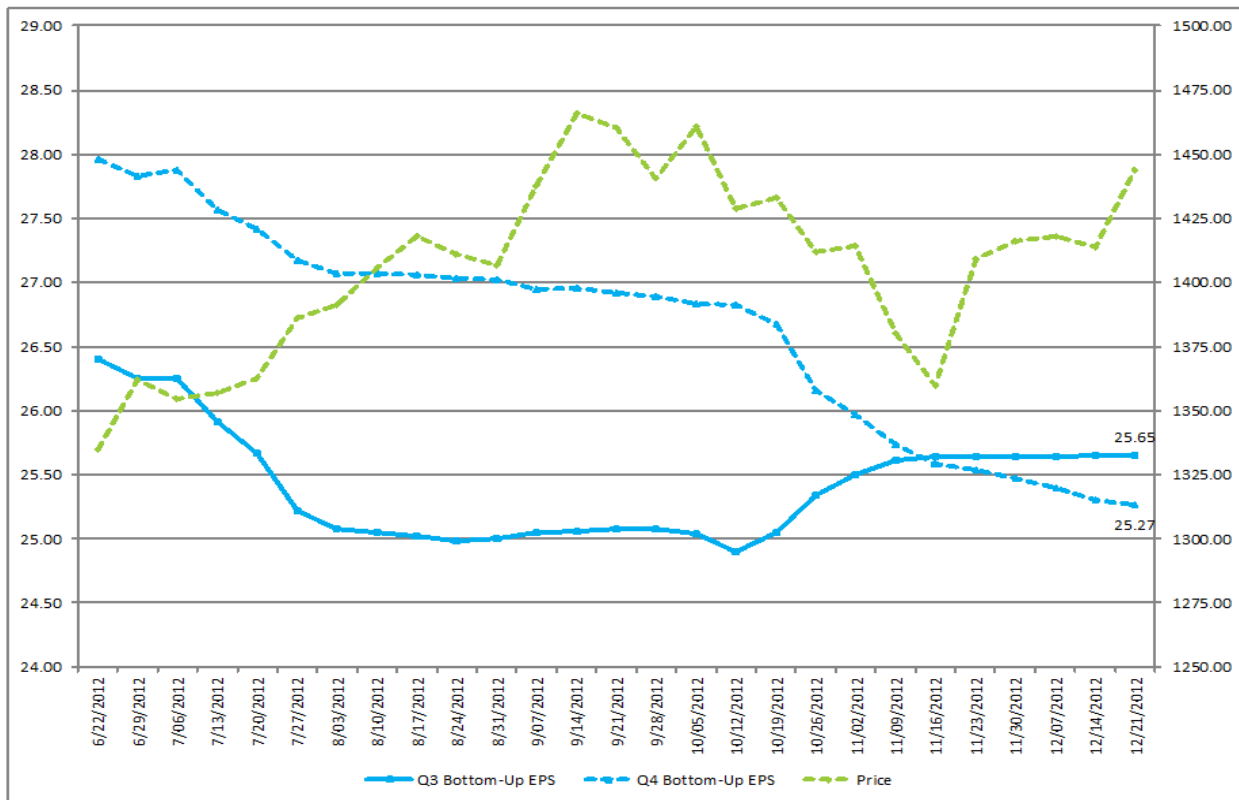


Bottom-up Estimates: Revisions

CY Bottom-Up EPS vs. Top-Down Mean EPS (Trailing 26-Weeks)

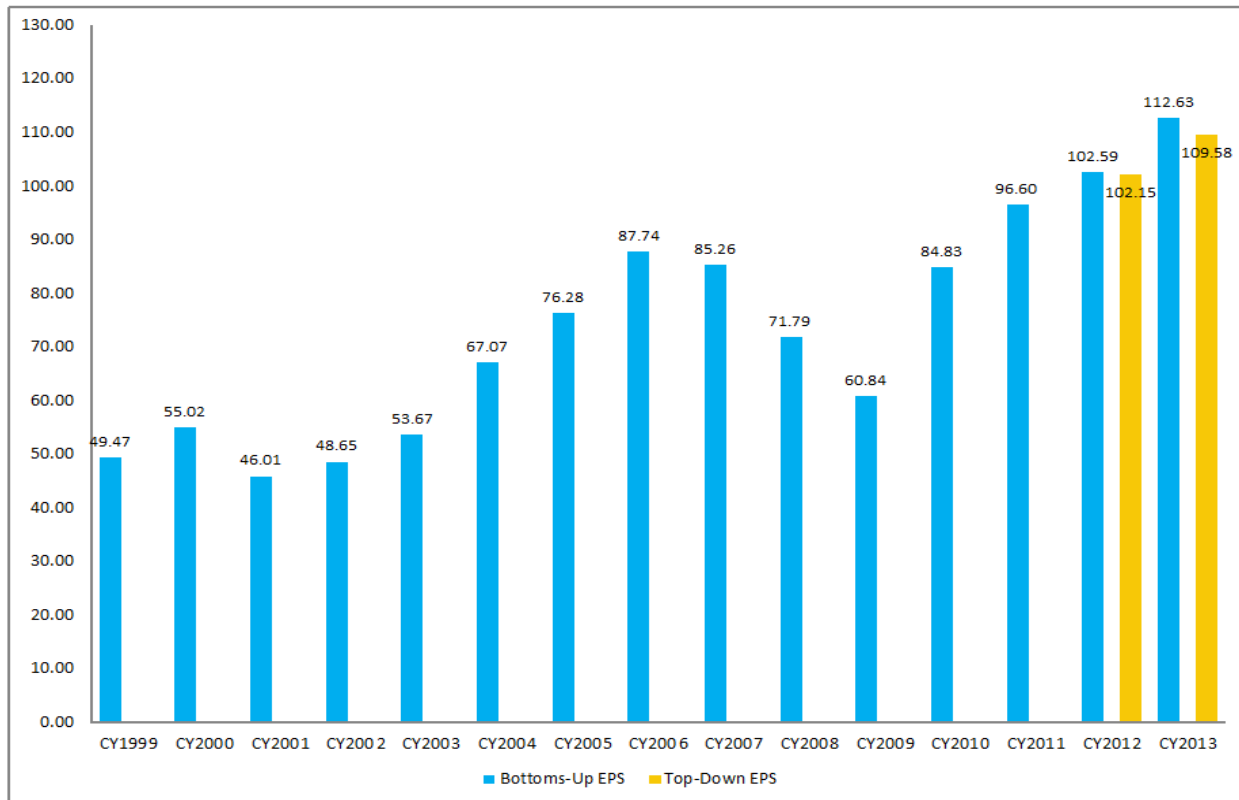


Change in Q312 and Q412 Bottom-Up EPS vs. Price (Trailing 26-Weeks)

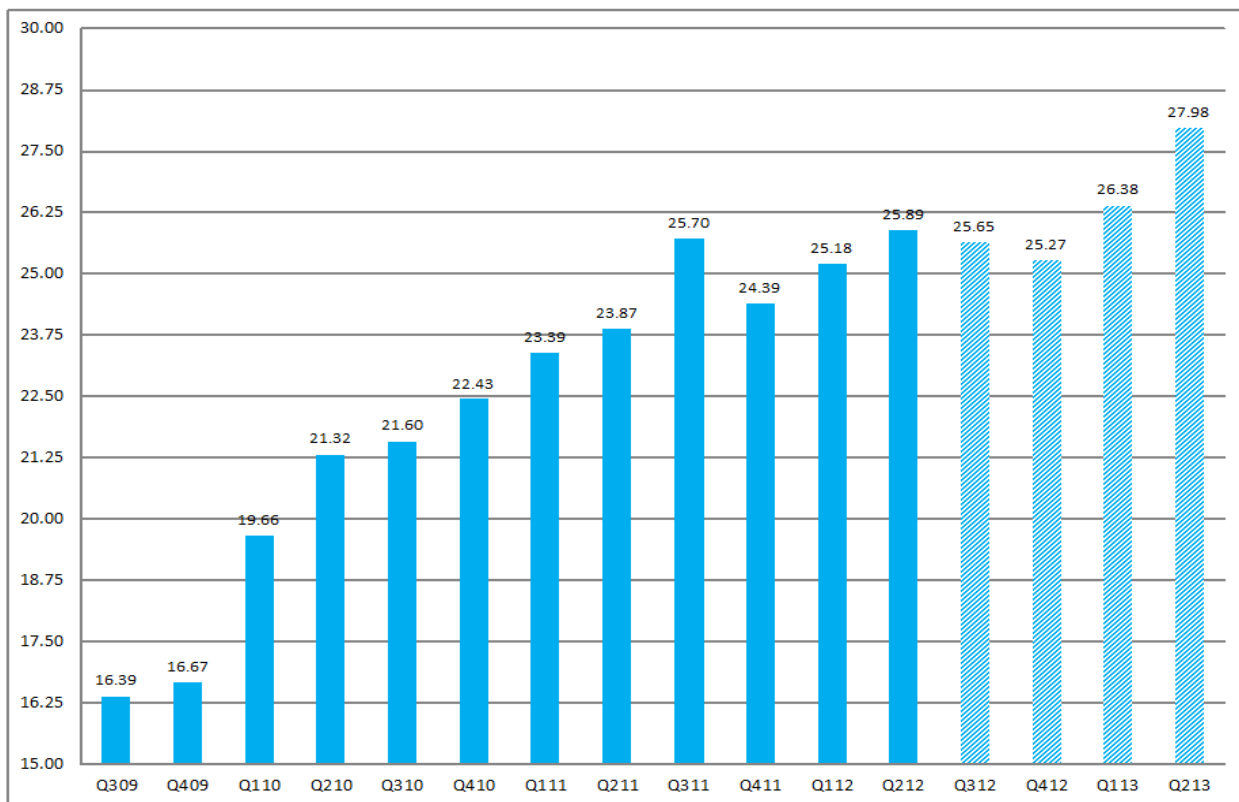


Bottom-up Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates

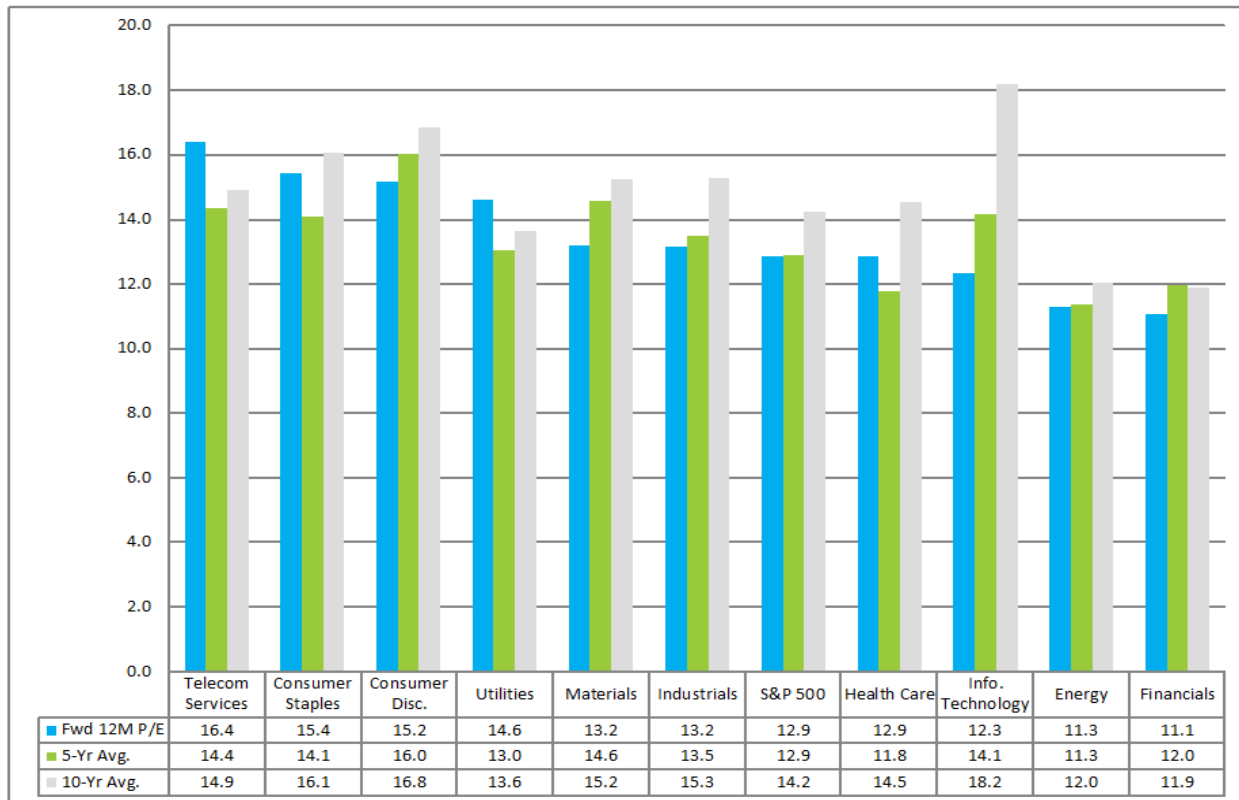


Calendar Year Bottom-Up EPS Actuals & Estimates

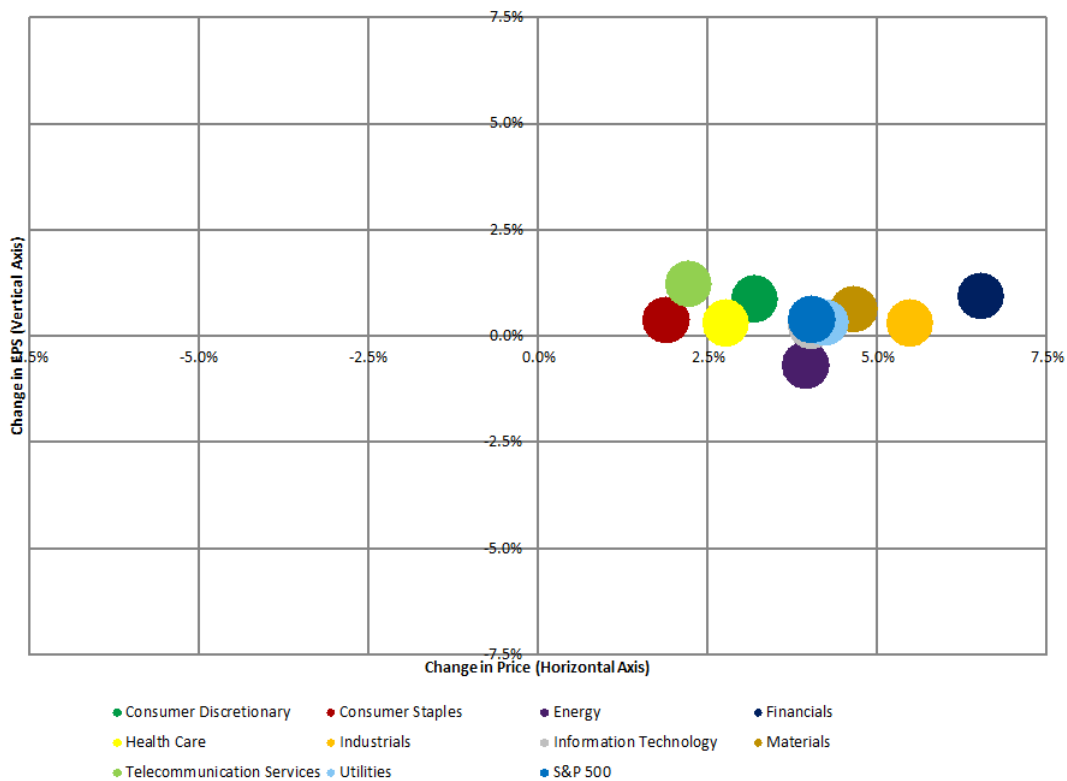


Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

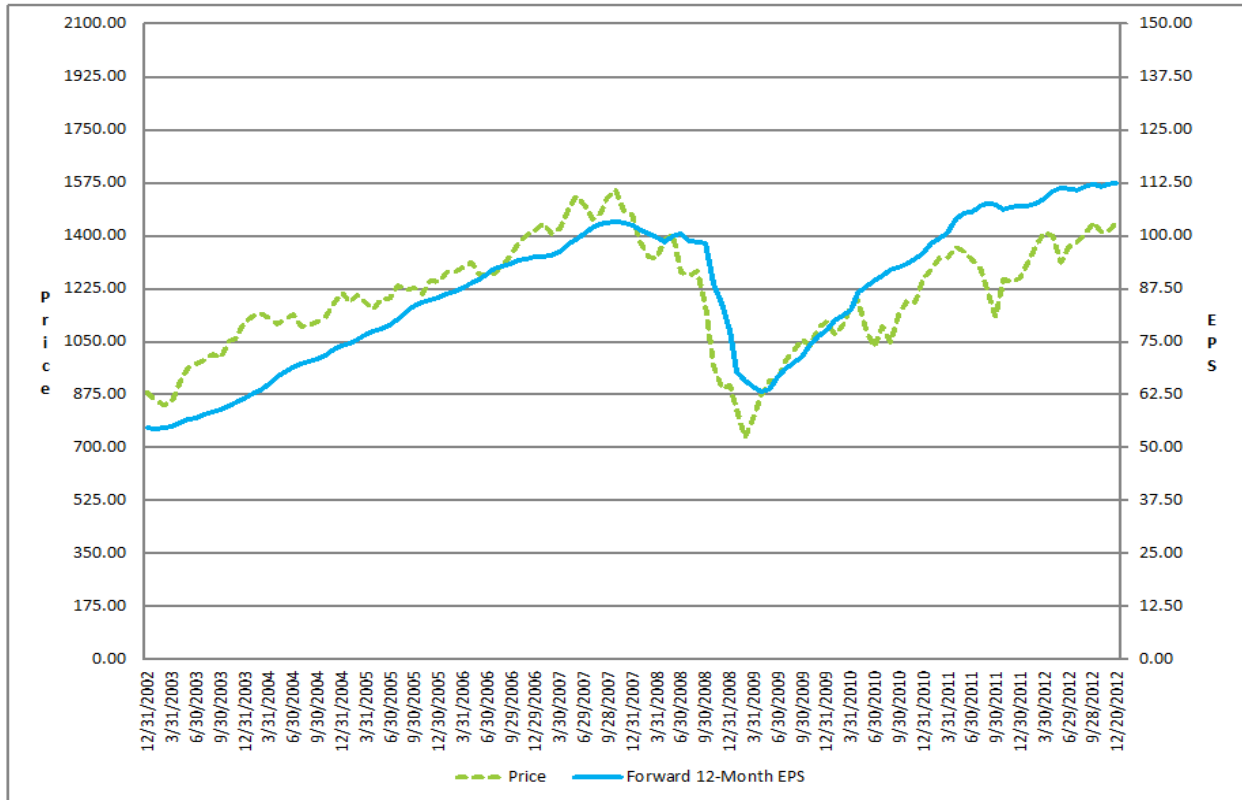


Sector-Level Change in Price vs. Change Forward 12M EPS: 1-Month

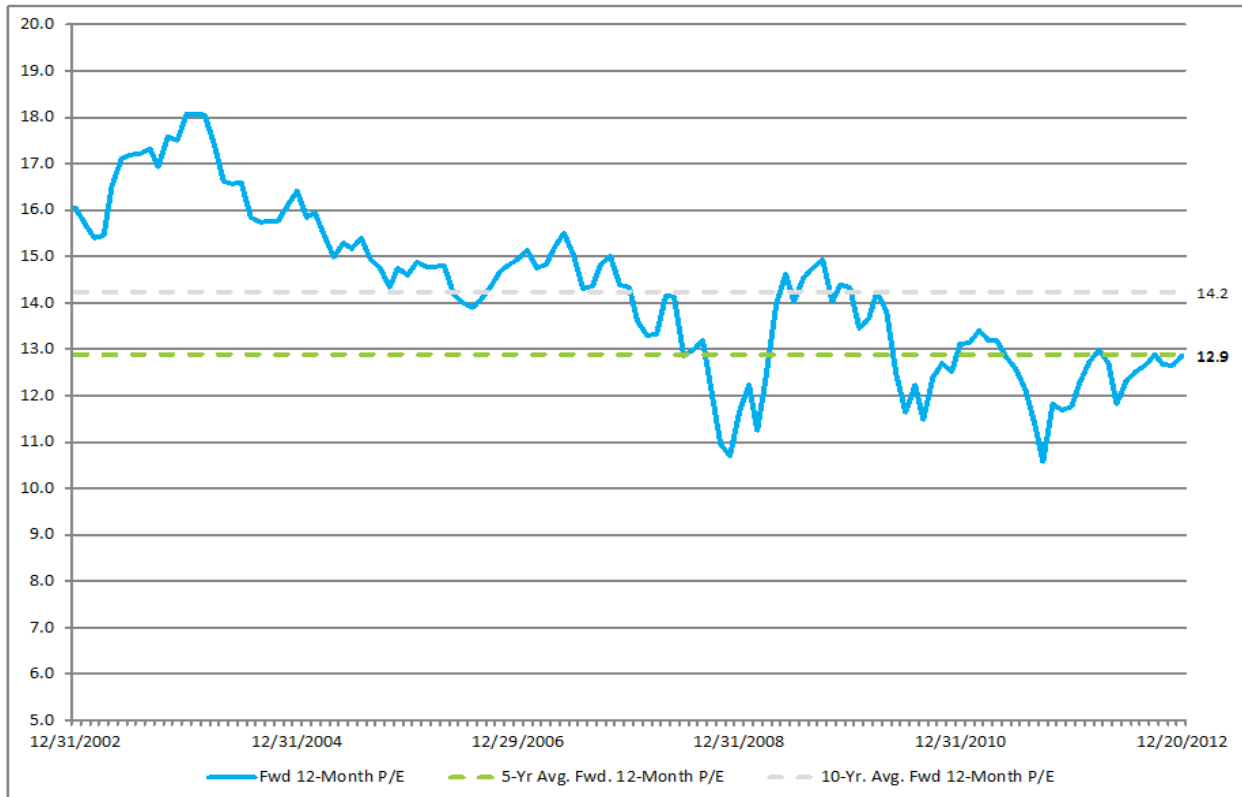


Price / Earnings Ratio: Long-Term Averages

Change in Price vs. Change in Forward 12M EPS: 10-Year



Forward 12M P/E Ratio: 10-Years



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