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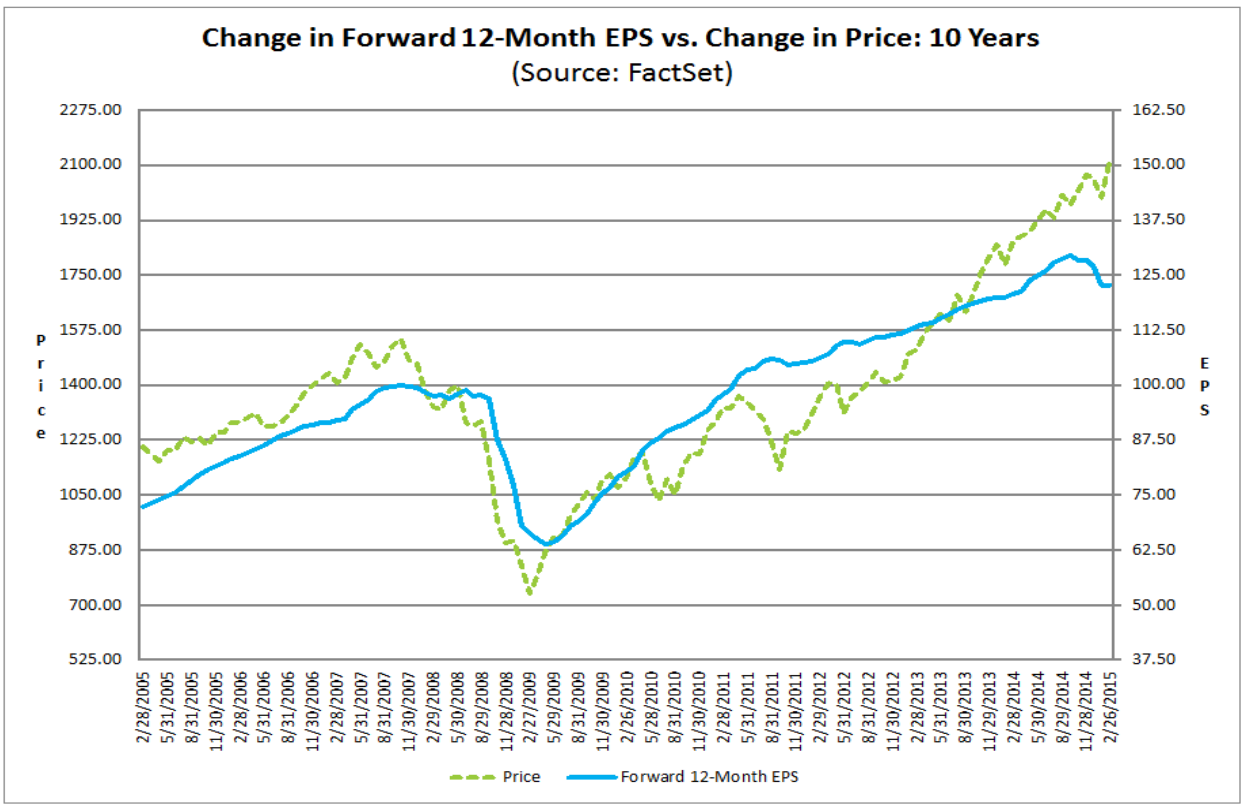
FACTSET
EARNINGS INSIGHT

S&P 500 February 27, 2015

Key Metrics

- **Earnings Scorecard:** Of the 485 companies that have reported earnings to date for Q4 2014, 76% have reported earnings above the mean estimate and 59% have reported sales above the mean estimate.
- **Earnings Growth:** The blended earnings growth rate for Q4 2014 is 3.7%. The Health Care and Telecom Services sectors are reporting the highest growth in earnings for the quarter, while the Energy sector is reporting the largest decline in earnings for the quarter.
- **Earnings Revisions:** On December 31, the estimated earnings growth rate for Q4 2014 was 1.7%. Seven sectors have higher growth rates today (compared to December 31) due to upside earnings surprises, led by the Information Technology and Health Care sectors.
- **Earnings Guidance:** For Q1 2015, 81 companies have issued negative EPS guidance and 15 companies have issued positive EPS guidance.
- **Valuation:** The current 12-month forward P/E ratio is 17.2. This P/E ratio is based on Thursday's closing price (2110.74) and forward 12-month EPS estimate ($122.73).



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Topic of the Week:

More Dow 30 Companies Reported Decline in Sales from Europe in Q4

"The third significant impact on McDonald's global results for 2014 was in Russia and the Ukraine. During 2014, McDonald's Europe experienced significant declines in company-operated margins driven by weakening currencies and economic slowdown and store closures in these two markets….We expect this currency impact to significantly pressure the segment's company-operated margins again in 2015, especially in the first half." –McDonald's Corp. (Jan. 23)

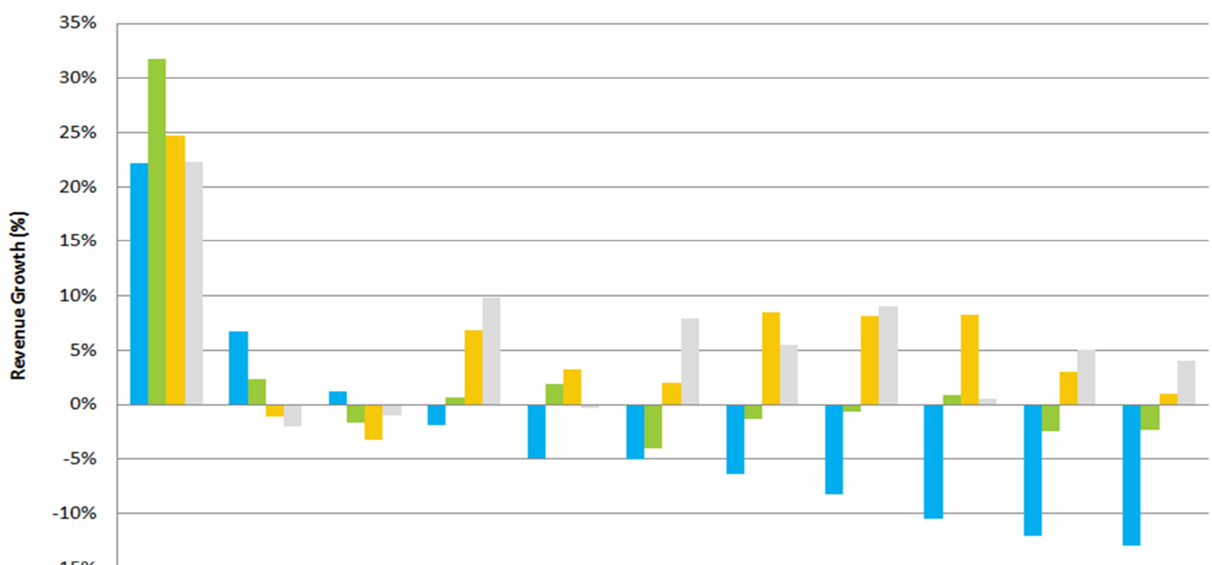
Coming into the Q4 earnings season, there were concerns in the market regarding the impact of weaker economic growth in Europe, the impact of the stronger dollar relative to the euro, and the impact of the crisis involving Russia and Ukraine on U.S. corporate earnings for the fourth quarter. With the final DJIA component (Home Depot) reporting results for Q4 this past week, how did companies in the DJIA perform in the fourth quarter in Europe in terms of sales? How did the revenue numbers for Q4 2014 compare to prior quarters?

Overall, 11 of the 30 companies in the DJIA provided revenue growth numbers for Europe for the fourth quarter. Of these eleven companies, eight reported a year-over-year decline in revenues. This number was above the number of Dow 30 companies reporting a year-over-year sales decrease in the previous quarter (6). In fact, this was the highest number of Dow 30 companies reporting a year-over-year decline in revenue from Europe since Q4 2012 (9).

On a sequential basis, nine of the eleven companies reported a lower year-over-year sales growth rate from Europe in Q4 2014 relative to Q3 2014. Five of these nine companies have reported lower year-over-year revenue growth for 3 consecutive quarters.

One bright spot for the DJIA in terms of sales performance in (Western) Europe was NIKE. Of the 11 Dow 30 companies providing sales figures for Europe, NIKE reported the highest revenue growth at 22%.

Dow 30: Revenue Growth in Europe
(Source: FactSet)



	NKE^	CSCO*	CAT*	KO	PFE	DD*	MMM*	JNJ	MRK+	MCD	IBM*
Q4 2014	22%	7%	1%	-2%	-5%	-5%	-6%	-8%	-10%	-12%	-13%
Q3 2014	32%	2%	-2%	1%	2%	-4%	-1%	-1%	1%	-2%	-2%
Q2 2014	25%	-1%	-3%	7%	3%	2%	9%	8%	8%	3%	1%
Q1 2014	22%	-2%	-1%	10%	0%	8%	6%	9%	1%	5%	4%

*EMEA (Europe, Middle East, & Africa) ^ Western Europe + Pharmaceutical Sales

Q4 2014 Earnings Season: By the Numbers

Overview

With 485 companies in the S&P 500 reporting actual results for Q4 to date, the percentage of companies reporting actual EPS above estimates (76%) is above the 5-year average, while the percentage of companies reporting actual sales above estimates (59%) is equal to the 5-year average. In aggregate, companies are surpassing earnings estimates by 3.8%.

As a result of these upside earnings surprises, the blended (combines actual results for companies that have reported and estimated results for companies yet to report) earnings growth rate for Q4 2014 is now 3.7%. This growth rate is above the estimate of 1.7% at the end of the fourth quarter (December 31). At the sector level, the Health Care and Telecom Services sectors are reporting the highest year-over-year growth in earnings, while the Energy sector is reporting the largest year-over-year decline in earnings.

As a result of upside revenue surprises, the blended revenue growth rate for Q4 2014 is now 2.1%, which is above the estimate of 1.1% at the end of the fourth quarter (December 31). At the sector level, the Health Care sector is reporting the highest year-over-year growth in revenue, while the Energy sector is reporting the largest year-over-year decline in revenue.

The market will likely continue watch for corporate comments regarding prospects for the current quarter. For Q1 2015, 81 S&P 500 companies have issued negative EPS guidance and 15 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance for Q1 2015 is 84% (81 out of 96), which is above the 5-year average of 68%.

Looking at the first half of 2015, analysts are now projecting year-over-year declines in both earnings and revenues for both Q1 2015 and Q2 2015, compared to expectations for earnings and revenue growth for both quarters back on December 31. Most of these downward estimate revisions have occurred in the Energy sector. Despite the estimate reductions in the first half of 2015, analysts are looking for record-level EPS in the second half of 2015. Analysts also expect net profit margins to rise (based on per-share estimates) starting in Q2 2015.

The forward 12-month P/E ratio is 17.2, which is well above the 5-year and 10-year averages.

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

More Companies (76%) Beating EPS Estimates than Average

With 485 companies in the S&P 500 reporting actual results for Q4 to date, the percentage of companies reporting actual EPS above estimates (76%) is above the 5-year average, while the percentage of companies reporting actual sales above estimates (59%) is equal to the 5-year average.

Percentage of Companies Beating EPS Estimates (76%) Above Recent Averages

Of the 485 companies that have reported earnings to date for Q4 2014, 76% have reported actual EPS above the mean EPS estimate and 24% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is above both the 1-year (74%) average and the 5-year (73%) average.

At the sector level, the Information Technology (89%), Materials (86%), and Health Care (85%) sectors have the highest percentages of companies reporting earnings above estimates, while the Telecom Services (17%) sector has the lowest percentage of companies reporting earnings above estimates.

Market Rewarding Earnings Beats and Not Punishing Earnings Misses

To date, the market is rewarding upside earnings surprises more than average and punishing downside earnings surprises less than average.

Companies that have reported upside earnings surprises for Q4 2014 have seen an average increase in price of 1.8% two days before the earnings release through two days after the earnings release. This percentage is above the 5-year average price increase of 1.0% during this same window for companies reporting upside earnings surprises.

Companies in the index that have reported downside earnings surprises for Q4 2014 have seen an average decline in price of 1.4% during this window. This percentage is below the 5-year average price decrease of 2.3% during this same window for companies reporting downside earnings surprises.

Earnings Surprise Percentage (3.8%) Below Recent Quarters Due to Financials Sector

In aggregate, companies are reporting earnings that are 3.8% above expectations. This surprise percentage is below the 1-year (+4.2%) average and below the 5-year (+5.5%) average.

Companies in the Materials (+8.2%), Information Technology (+7.8%), and Consumer Discretionary (+7.3%) sectors are reporting the largest upside aggregate differences between actual earnings and estimated earnings.

In the Materials sector, Newmont Mining ($0.17 vs. $0.10), Monsanto ($0.47 vs. $0.34), Sealed Air ($0.59 vs. $0.47), and Dow Chemical ($0.85 vs. $0.69) reported the largest upside differences between actual EPS and estimated EPS.

In the Information Technology sector, First Solar ($1.89 vs. $0.77), Juniper Networks ($0.41 vs. $0.31), KLA-Tencor ($0.68 vs. $0.51), and Electronic Arts ($1.22 vs. $0.92) reported the highest positive earnings surprises. However, the upside earnings surprise reported by Apple ($3.06 vs. $2.60) was the largest contributor to the 7.8% surprise percentage for the sector.

In the Consumer Discretionary sector, Netflix ($1.35 vs. $0.45), Amazon.com ($0.45 vs. $0.18), PulteGroup ($0.58 vs. $0.40), and General Motors ($1.19 vs. $0.83) have reported the largest positive surprises.

On the other hand, companies in the Financials (-2.9%) sector are reporting the largest downside aggregate difference between actual earnings and estimated earnings. In this sector, Assurant ($0.87 vs. $1.66), Citigroup ($0.06 vs. $0.10), Discover Financial Services ($0.87 vs. $1.30), Morgan Stanley ($0.39 vs. $0.56), and Bank of America ($0.25 vs. $0.31) have reported the largest downside earnings surprises.

Percentage of Companies Beating Revenue Estimates (59%) is Equal to 5-Year Average

In terms of revenues, 59% of companies have reported actual sales above estimated sales and 41% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is slightly below the 1-year (60%) average and equal to the 5-year average (59%).

At the sector level, the Health Care (74%) sector has the highest percentage of companies reporting revenue above estimates, while the Telecom Services (33%) sector has the lowest percentage of companies reporting revenue above estimates.

Revenue Surprise Percentage (1.7%) Above Recent Averages

In aggregate, companies are reporting sales that are 1.7% above expectations. This surprise percentage is well above the 1-year (+0.7%) average and the 5-year (+0.7%) average.

Companies in the Energy (+5.1%) sector are reporting the largest upside aggregate difference between actual sales and estimated sales, while companies in the Consumer Staples (-0.7%) and Materials (-0.6%) sectors are reporting the largest downside aggregate differences between actual sales and estimated sales.

Blended Earnings Growth Rises Slightly This Week

Blended Earnings Growth Rises Slightly This Week

The blended earnings growth rate for the fourth quarter is 3.7% this week, up from the blended earnings growth rate of 3.5% last week. Upside earnings surprises reported by companies in the Consumer Discretionary, Utilities, and Information Technology sectors were mainly responsible for the uptick in earnings growth for the index this past week.

Technology and Health Care Sectors Have Seen Largest Increases in Growth since December 31

The blended earnings growth rate for Q4 2014 of 3.7% is above the estimate of 1.7% at the end of the fourth quarter (December 31). Seven sectors have recorded an increase in earnings growth during this time due to upside earnings surprises, led by the Information Technology (to 9.8% from 2.2%) and Health Care (to 23.8% from 16.5%) sectors. Three sectors have recorded a decline in earnings growth since the end of the quarter due to downside earnings surprises and downward revisions to earnings estimates, led by the Telecom Services (to 20.7% from 27.7%) sector.

Blended Earnings Growth: 3.7%

The blended earnings growth rate for Q4 2014 is 3.7%. Six sectors are reporting higher earnings relative to a year ago, led by the Health Care, Telecom Services, Consumer Discretionary, and Information Technology sectors. Four sectors are reporting lower earnings relative to last year, led by the Energy sector.

Health Care: Gilead Sciences Leads Growth

The Health Care sector is reporting the highest earnings growth rate at 23.8%. At the industry level, all six industries in the sector are reporting earnings growth. Five of the six industries are reporting double-digit earnings growth, led by the Biotechnology industry (95%). At the company level, Gilead Sciences is the largest contributor to earnings growth for the sector. The company reported actual EPS of $2.43 for Q4 2014, compared to year-ago EPS of $0.55 in Q4 2013. If this company is excluded, the earnings growth rate for the sector would fall to 14.7%.

Telecom Services: Ex-Verizon, Growth Rate Drops to 0.5%

The Telecom Services sector reported the second highest earnings growth rate of all ten sectors at 20.7%. At the company level, Verizon Communications was the largest contributor to earnings growth for the sector. The company reported actual EPS of $0.71 for Q4 2014, compared to year-ago EPS of $0.66. If Verizon is excluded, the earnings growth rate for the sector would drop to 0.5%.

Consumer Discretionary: Broad-Based Growth in Earnings

The Consumer Discretionary sector is reporting the third highest earnings growth rate at 11.0%. At the sub-industry level, 23 of the 31 sub-industries are reporting earnings growth for the quarter. Of the 23 sub-industries reporting earnings growth for the quarter, 13 are reporting double-digit earnings growth, led by the Hotels, Resorts, & Cruise Lines (55%), Automobile Manufacturers (36%), General Merchandise Stores (35%), and Home Improvement Retail (30%) sub-industries. On the other hand, the Casinos & Gaming (-47%) and Leisure Products (-35%) sub-industries reported the largest year-over-year declines in earnings for the quarter.

Information Technology: Apple Largest Contributor to S&P 500 Earnings Growth

The Information Technology sector reported the fourth highest earnings growth rate at 9.8%. At the industry level, four of the seven industries in the sector reported earnings growth. Three of these four industries reported double-digit earnings growth: Semiconductor & Semiconductor Equipment (40%), Electronic Equipment, Instruments, & Components (31%), and Technology Hardware, Storage, and Peripherals (28%).

At the company level, Apple was the largest contributor to earnings growth for both the Information Technology sector and the S&P 500 as a whole. The company reported actual EPS of $3.06 for Q4 2014, compared to year-ago EPS of $2.07 in Q4 2013. If this company is excluded, the earnings growth rate for the Information Technology sector would fall to 2.2% (from 9.8%), while the earnings growth rate for the S&P 500 would drop to 2.0% (from 3.7%).

Energy: Broad-Based Decline in Earnings

The Energy sector is reporting the largest year-over-year decline in earnings (-22.1%) of all ten sectors. Four of the seven sub-industries reported a year-over-year drop in earnings: Coal & Consumable Fuels (-54%), Oil & Gas Exploration & Production (-40%), Integrated Oil & Gas (-35%), and Oil & Gas Storage & Transportation (-19%). However, two sub-industries did report double-digit earnings growth for the quarter: Oil & Gas Equipment & Services (22%) and Oil & Gas Refining & Marketing (19%).

This sector is also the largest detractor to earnings growth for the S&P 500 as a whole. If the Energy sector is excluded, the blended earnings growth rate for the S&P 500 would jump to 6.9% from 3.7%.

Blended Revenue Growth: 2.1%

The blended revenue growth rate for Q4 2014 is 2.1%, which is above the revenue growth rate of 1.1% on December 31. Upside revenue surprises reported by companies in the Financials, Health Care, and Information Technology sectors account for most of the increase in revenue growth since the end of the fourth quarter. Eight sectors are reporting revenue growth for the quarter, led by the Health Care sector. Two sectors are reporting year-over-year declines in revenue, led by the Energy sector.

The Health Care sector is reporting the highest revenue growth of all ten sectors at 12.3%. All six industries in the sector are reporting sales growth for the quarter. Four of these six industries are reporting double-digit sales growth: Biotechnology (43%), Health Care Technology (16%), Health Care Providers & Services (15%), and Health Care Equipment & Supplies (11%).

On the other hand, the Energy (-14.2%) sector is reporting the largest year-over-year decrease in sales for the quarter. Four of the seven sub-industries in the sector are reporting a decrease in revenue: Integrated Oil & Gas (-22%), Oil & Gas Refining & Marketing (-17%), Oil & Gas Storage & Transportation (-5%), and Oil & Gas Drilling (-4%). This sector is also the largest detractor to revenue growth for the S&P 500 as a whole. If the Energy sector is excluded, the blended revenue growth rate for the S&P 500 would jump to 4.8% from 2.1%.

Q4 2014 Earnings Season: Themes

"The following factors impact our guidance; on the macroeconomic front, the U.S. economy is strong and is projecting stronger growth than reported in recent years. On the other hand, Europe, China, and Japan are experiencing reductions in growth. The dollar is strong, which has pluses and minuses. Similarly, oil prices are low, which also has positive and negative economic effects." –Linear Technology (Jan. 14)

Economic Themes: U.S., Europe, and China

United States

With the exception of a decline in Q1 2014, economic growth in the U.S. has been relatively consistent in recent quarters. From Q3 2013 through Q3 2014 (excluding the first quarter of 2014), quarter-over-quarter (SAAR) GDP growth in the U.S. has averaged 4.4%. For Q4 2014, however, quarter-over-quarter (SAAR) GDP growth in the U.S. fell to 2.2%. This is the second lowest GDP growth rate for the U.S. since Q2 2013 (1.8%).

The U.S. remains the key geographic market for the S&P 500. According to FactSet Geographic Revenue Exposure data (based on the most recent fiscal year data), companies in the S&P 500 in aggregate generate about 69% of sales from North America, almost all of which comes from the U.S.

"While we serve our customers throughout the world, 97% of our revenue comes from the United States. And there have been many signs of strength in the U.S. economy. GDP growth accelerated during 2014 and may be even stronger in 2015. Last year was the strongest year of job growth in 15 years, and December was the 50th consecutive month of job creation, unprecedented in U.S. history." –Wells Fargo (Jan. 14)

"So, I think when you look overall, we think business is, if we look vis-à-vis the past couple of years, we think the macro outlook, particularly in the United States is a bit stronger. We think, we sense we're feeling that a little bit from U.S. customers. When I was driving home last night, they said this survey they do of the confidence level of American businessmen was at the highest it's been since 2008, this commentary I heard on the news driving home." –Linear Technology (Jan. 12)

I'm extremely pleased with the sustainability of our performance in the United States. It is very important. It's the largest market of Accenture, and it is, I would say, the global market where things are happening in our industry. This is where things are happening from a digital standpoint, from an innovation standpoint, as well from a disruption standpoint, from an energy standpoint… And it's, for us, all goodness that we are doing so well in the U.S. We are gaining market share and has been the case now for the last four years. So it's not the story of a quarter." –Accenture (Dec. 18)

"Now let's turn to a few of our key geographies. In North America, we delivered another great quarter with Q2 revenue growth of 16%." –NIKE (Dec. 18)

Europe:

There has been little to no economic growth in Europe in recent quarters. Over the past four quarters (Q4 2013 – Q3 2014), quarter-over-quarter GDP growth in the Eurozone has averaged 0.2%. For Q4 2014, the Eurozone reported quarter-over quarter GDP growth of 0.3%.

Europe is still an important geographic market for the S&P 500. According to FactSet Geographic Revenue Exposure data (based on the most recent fiscal year data), companies in the S&P 500 in aggregate generate about 13% of sales from Europe (combination of European Union and non-European Union countries)

"…clearly we feel the Costa recovery was impaired by the environment and economic environment in Europe, but we had a good year in Costa. We had an excellent improvement in profitability and expect to grow again next year." –Carnival Corporation (Dec. 19)

"I'm extraordinarily impressed with what we are doing in Europe. And I'm mentioning impressed because we all know that the economic context and conditions in Europe are very different from the U.S. And driving 9% local currency growth in the European market is very significant, including growth in our most mature market. I mean growing in Italy, double-digit; growing in France, double digit; growing in Germany, double-digit. It's a big achievement for Accenture." –Accenture (Dec. 18)

"In Western Europe, Q2 revenues increased 24% on a currency-neutral basis. The growth was broad-based, as every territory increased at a double-digit rate. Every key category also grew, led by double-digit growth for sportswear, football, and running." –NIKE (Dec. 18)

China

On a year-over-year basis, economic growth in China has been slowly declining in recent quarters. In Q3 2013, year-over-year growth GDP growth in China was 7.8%. For Q4 2014, year-over-year GDP growth in China dipped to 7.3%.

China continues to be a vital geographic market for the S&P 500. According to FactSet Geographic Revenue Exposure data (based on the most recent fiscal year data), companies in the S&P 500 in aggregate generate about 10% of sales from the Asia Pacific region, most of which comes from China and Japan.

"In Greater China, currency-neutral and reported revenue grew 21%, led by double-digit growth in Sportswear, Running and Basketball. As Trevor discussed, the NIKE Brand continues to lead the market, and we're pleased with the results of our work to reset the marketplace for sustainable profitable growth…Given the continuing benefits of our strategy to reset the market, we now expect full year FY 2015 revenue in China to grow at a mid-teens rate." –NIKE (Dec. 18)

Currency Themes: Stronger U.S. Dollar

During the course of the fourth quarter, the dollar strengthened relative to other currencies, including the euro and the yen. On September 30, one euro was equal to $1.26 dollars. By December 31, one euro was worth $1.21 dollars. On September 30, one dollar was worth $109.70 yen. By December 31, one dollar was worth $110.90 yen.

The dollar has also strengthened relative to year-ago values for both currencies. In the year-ago quarter (Q4 2013), one euro was equal to $1.36 dollars on average. For Q4 2014, one euro was equal to $1.25 dollars on average. In the year-ago quarter (Q4 2013), one dollar was equal to $100.39 yen on average. For Q4 2014, one dollar was equal to $114.44 yen on average. A number of companies have commented on the negative impact of the stronger dollar on revenue and earnings for the fourth quarter and in guidance for future quarters.

"Finally, we do see currency as a continued headwind. We factored into our guidance the headwind of approximately $0.15 to $0.20, which was roughly the same rate of devaluation we experienced in FY 2014." –Monsanto (Jan. 7)

"Before I share with you some of the highlights from the quarter, let me provide some background on the impact to our business from the volatile foreign exchange rates. Nearly every currency we do business in weakened against the U.S. dollar when compared against Q3 last year, last quarter or against guidance…These rate changes negatively impacted both the income statement, where we use an average rate for the quarter and the balance sheet, which is translated using spot rates at the end of the quarter. For instance, total revenue would have been $13 million higher using Q3 rates from last year, a $11 million higher using rates from last quarter, and $3 million higher using the rates given in September for guidance." –Red Hat (Dec. 18)

"Turning now to revenues, net revenues for the quarter were $7.9 billion, an increase of 7% in U.S. dollars and 10% in local currency, reflecting a negative 3% FX impact compared to the negative 2% impact provided in our business outlook last quarter." –Accenture (Dec. 18)

"Our Consumer Foods segment operating profit, adjusted for items impacting comparability, was $310 million or up about 7% from the year-ago period…Foreign exchange had a negative impact of $8 million on net sales and about $6 million on operating profit for this segment this fiscal quarter." –ConAgra Foods (Dec. 18)

"And as I mentioned, foreign exchange lowered reported sales by 2 percentage points." –General Mills (Dec. 17)

"The as reported numbers were heavily impacted by the strengthening of the U.S. dollar in comparison to other currencies. Total revenue saw a 4% currency headwind which would double what it was at the time of my guidance." –Oracle (Dec. 17)

Commodity Themes: Lower Oil & Gas Prices

During the course of the fourth quarter, the price of oil plummeted by 41.6% (to $53.27 from $91.16). The impact of lower oil and gas prices varies by sector, industry, and company. The negative impact of lower oil prices has already been seen in the Energy sector, where the earnings growth rate is -22.1%. On the other hand, a number of companies have cited a positive impact from lower oil and gas prices in Q4, or an expected positive impact in future quarters.

"Allison, we feel very positive about it. There's been some studies that come out that essentially only 10 states have employment that's directly impacted by the oil boom. It's less than 2% of the U.S. population. For us, the crude by rail is less than 2% of our business. For the average U.S. person, it's like getting a tax break of almost $2,000 a year, so it puts a lot of dollars into the economy. From any indication that we see, it's a positive experience for the American taxpayer, for the American economy, so I think lower crude oil prices is very positive for our economy and very positive for CSX." –CSX (Jan. 14)

"Well, as I mentioned in my comments, Joe, since the United States is a net consumer, a net importer of oil, we think it's a positive for the U.S. economy. Clearly, that's on average because there's going to be some states that are impacted, some customers are going to be impacted, and some business is going to be impacted. But we serve 70 million customers. Virtually all of them know how to fill a gas tank and go to a gas pump, and that's a real benefit. So we think net-net, it's an opportunity. Surely, there are offsets, like we've said, but even within the oil and gas business, and John mentioned that we are participating there. It's about 2% of our loans. There is still a lot of opportunity for consolidation there and we'll participate in that with our customers. We're looking at our portfolio. We analyze that. We've been through that over the past. But net-net, we think it's a positive." – Wells Fargo (Jan. 14)

"In summary, fourth quarter non-GAAP EPS was $0.23 higher than the prior year, driven by an improved net revenue yields worth $0.11, lower net cruise costs excluding fuel worth $0.04, and lower fuel prices worth $0.09." –Carnival Corporation (Dec. 19)

"Well, I mean, the big kahuna was gas. As I mentioned, I think five of six, or five of seven, or six of seven of our ancillary businesses all had up year-over-year gross margins. Most particularly was gas." –Costco (Dec. 10)

"Our belief is that the reduced gas prices are giving our customers additional disposable income and helping drive our sales." –AutoZone (Dec. 9)

Other companies have been more muted or balanced in their comments regarding lower oil and gas prices.

"Overall, oil, a reasonable positive for the economy and consumers, and so for JPMorgan from a financial perspective, a modest issue, positive or negative." –JPMorgan Chase (Jan. 14)

"I think we've got to keep in perspective that the energy costs – I tried to put that when I responded to Greg at the first question, is not as significant as some may believe; certainly, we would benefit from continued low gas prices. But it's not as significant as I think some people think, because our overall

energy costs are 2.5% of revenue, of which the delivery side of it is approximately 1.5%." –Cintas (Dec. 18)

"As we look forward, like anytime, there are puts and takes. And while it is certainly true that consumers, especially at the lower end of the economic scale, are still challenged, that I think will not change. Having said that, certainly having lower gas prices, if that remains to be the case going forward, that should be helpful, as should the fact that we're lapping reductions in the Snack program, which we started lapping in November. And so those two things I think are positive and help balance out what we still think will be a challenging environment." –General Mills (Dec. 17)

Now having said that, consumer confidence and so forth is a very big deal in our economy, which is 70% consumption. But just be a little bit careful there about assuming that the economy is off to the races with all of the pressure that's going to be on this oil and gas sector, which has been a huge part of the increase in GDP over the last several years." –FedEx (Dec. 17)

Looking Ahead: Forward Estimates and Valuation

Q1 Earnings Guidance: Negative Guidance (84%) Above Average

At this point in time, 96 companies in the index have issued EPS guidance for Q1 2015. Of these 96 companies, 81 have issued negative EPS guidance and 15 have issued positive EPS guidance. Thus, the percentage of companies issuing negative EPS guidance to date for the first quarter is 84% (81 out of 96). This percentage is above the 5-year average of 68%.

Earnings and Revenue Expected to Decline in 1st Half of 2015

For Q1 2015 and Q2 2015, analysts are now predicting year-over-year earnings declines of 4.6% and 1.5%, respectively. On December 31, analysts were projecting growth of 3.9% and 5.0% for these same two quarters. Most of the decline in the expected earnings growth rates for both quarters can be attributed to analysts lowering earnings forecasts for companies in the Energy sector.

Analysts are also expecting year-over-year declines in revenue for the first half of 2015 as well. For Q1 2015 and Q2 2015, analysts are currently predicting revenues to fall by 2.7% and 2.9%, respectively. On December 31, analysts were projecting growth of 1.6% and 1.0% for these same two quarters.

However, analysts currently project earnings growth to return starting in Q3 2015 and revenue growth to return starting in Q4 2015. In terms of earnings, analysts are currently predicting earnings growth of 1.8% and 6.6% for Q3 2015 and Q4 2015, respectively. In terms of revenue, analysts are currently projecting a decline in revenue of 1.1% in Q3 2015 and growth in revenue of 1.3% in Q4 2015.

Higher Margins Projected for Remainder of 2015

Analysts are also expecting profit margins to continue to expand in 2015. Using the bottom-up sales-per-share (SPS) and earnings-per-share (EPS) estimates for the S&P 500 as proxies for expected sales and earnings for the index over the next few quarters, profit margin estimates can be calculated by dividing the expected EPS by the expected SPS for each quarter. Using this methodology, the estimated net profit margins for Q1 2015 through Q4 2015 are 10.0%, 10.5%, 10.8%, and 10.9%. These numbers (starting in Q2 2015) are above the net profit margin for Q4 2014 (10.1%), and are also well above the average net profit margin of 9.4% recorded over the past four years.

Valuation: Forward P/E Ratio is 17.2, above the 10-Year Average (14.1)

The current 12-month forward P/E ratio is 17.2. This P/E ratio is based on Thursday's closing price (2110.74) and forward 12-month EPS estimate ($122.73).

At the sector level, the Energy (27.3) and Consumer Staples (20.1) sectors have the highest forward 12-month P/E ratios, while the Financials (13.5) and Telecom Services (14.1) sectors have the lowest forward 12-month P/E ratios.

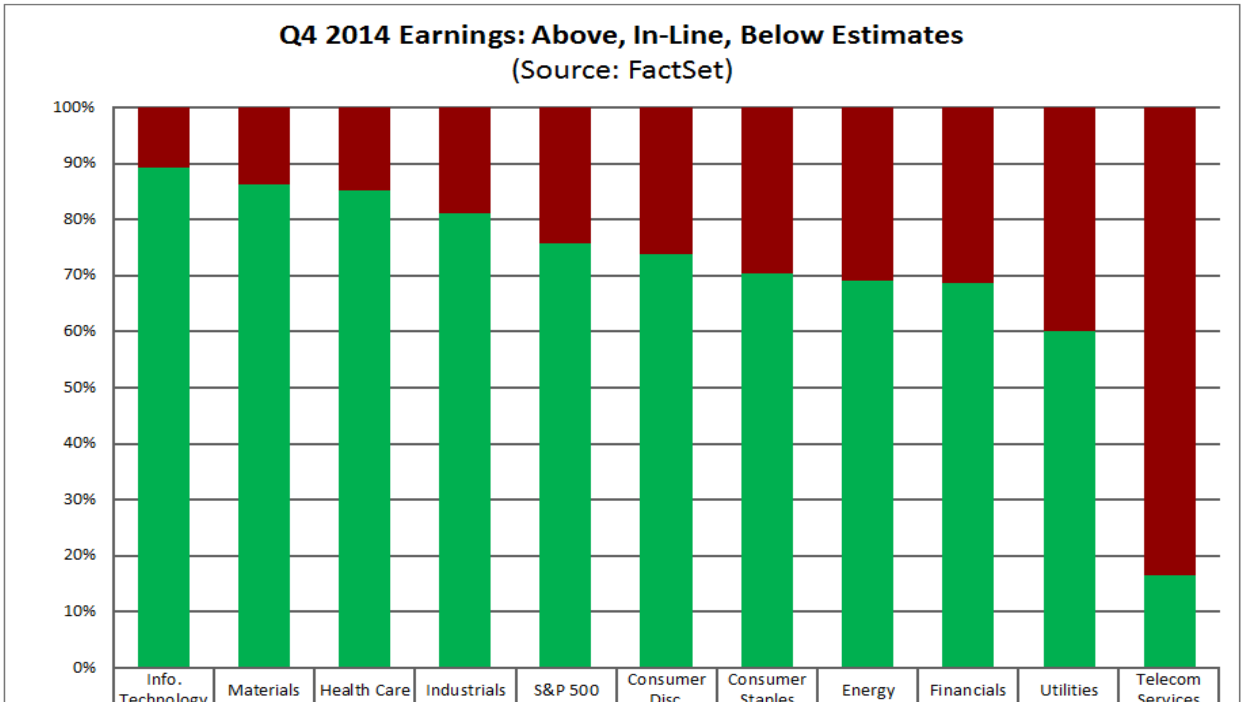
The P/E ratio of 17.2 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 13.6, and above the prior 10-year average forward 12-month P/E ratio of 14.1. It is also above the forward 12-month P/E ratio of 16.2 recorded at the start of the first quarter (December 31). Since the start of the first quarter, the price of the index has increased by 2.5%, while the forward 12-month EPS estimate has decreased by 3.3%.

Nine of the ten sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (27.3 vs. 12.0) sector. The only sector with a forward 12-month P/E ratio below the 10-year average is the Telecom Services (14.1 vs. 14.9) sector.

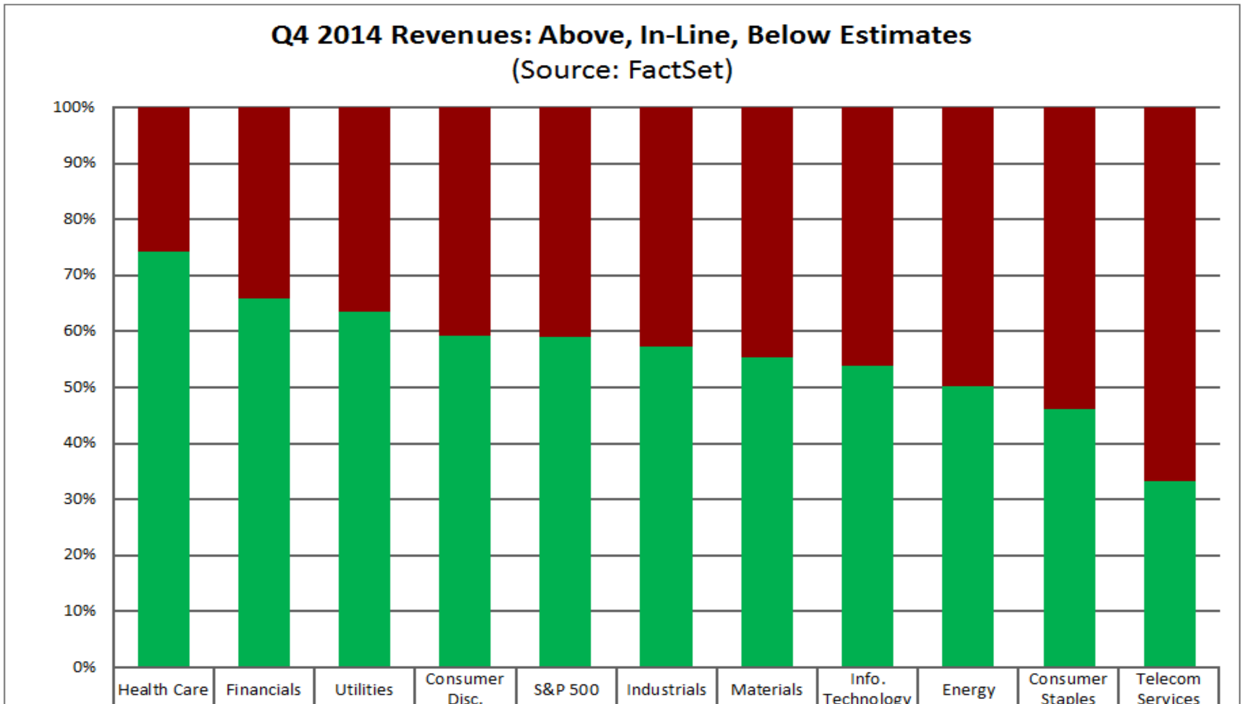
Companies Reporting Next Week: 9

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

Q4 2014: Scorecard

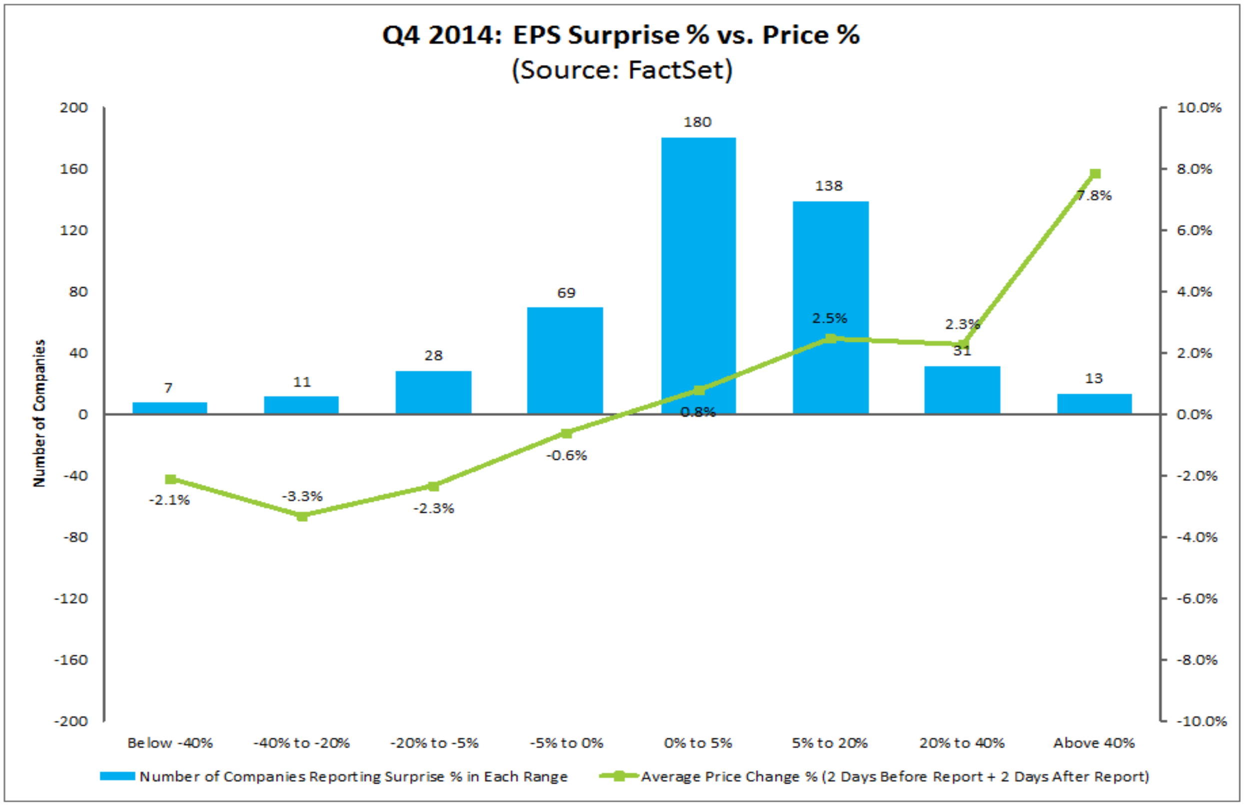


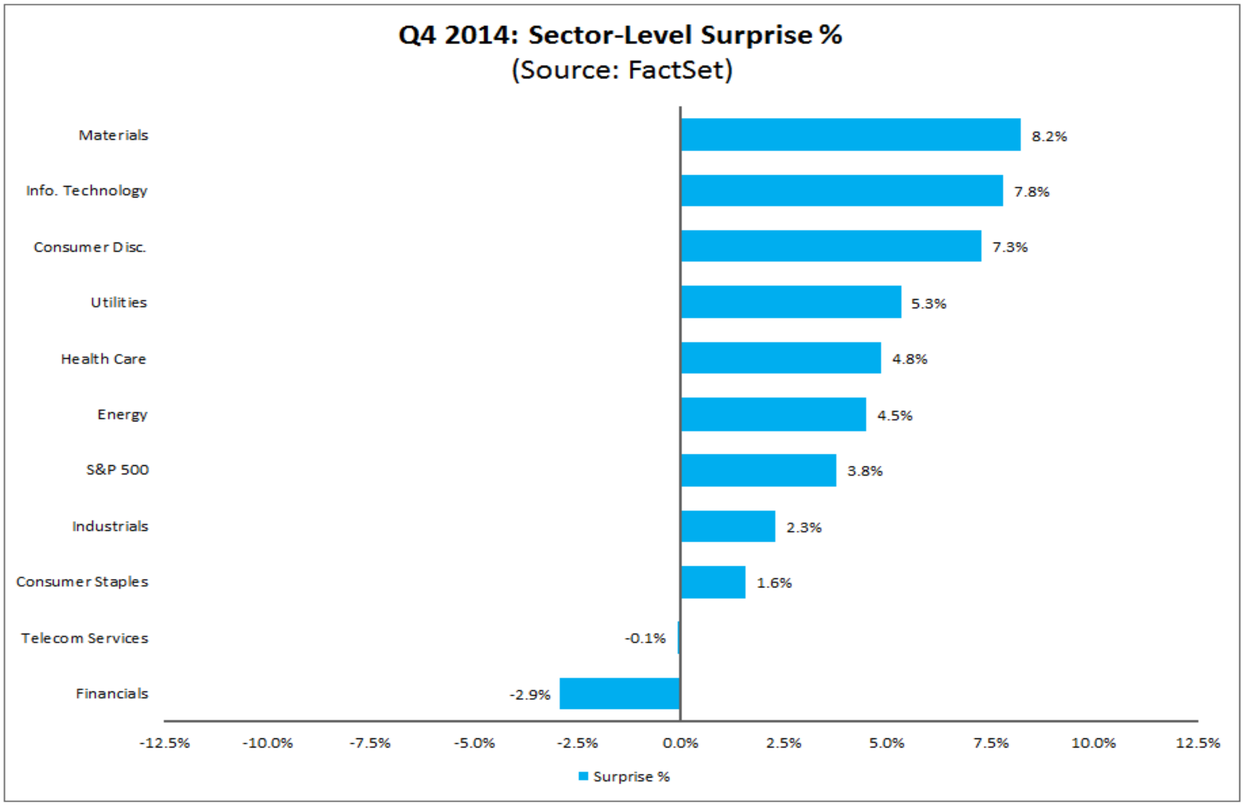
	Info. Technology	Materials	Health Care	Industrials	S&P 500	Consumer Disc.	Consumer Staples	Energy	Financials	Utilities	Telecom Services
Below	11%	14%	15%	19%	24%	26%	30%	31%	31%	40%	83%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	89%	86%	85%	81%	76%	74%	70%	69%	69%	60%	17%



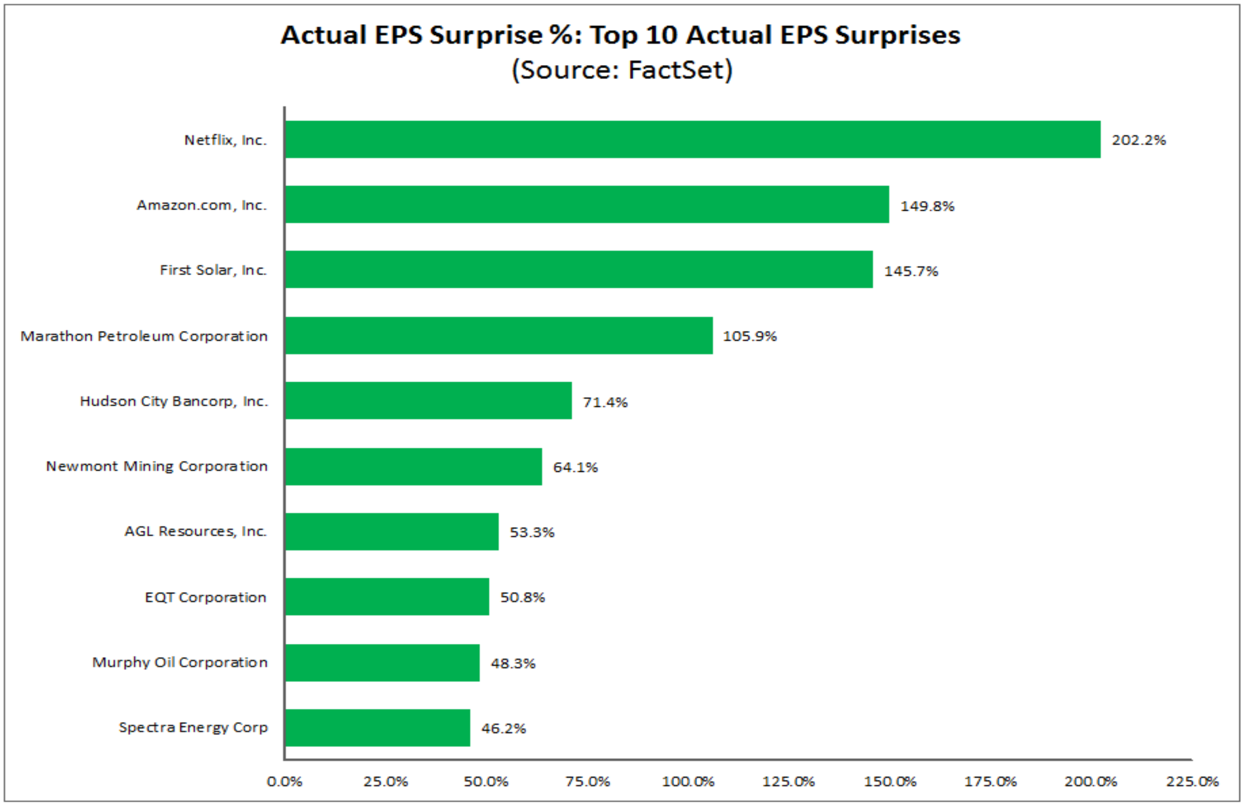
	Health Care	Financials	Utilities	Consumer Disc.	S&P 500	Industrials	Materials	Info. Technology	Energy	Consumer Staples	Telecom Services
Below	26%	34%	37%	41%	41%	43%	45%	46%	50%	54%	67%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	74%	66%	63%	59%	59%	57%	55%	54%	50%	46%	33%

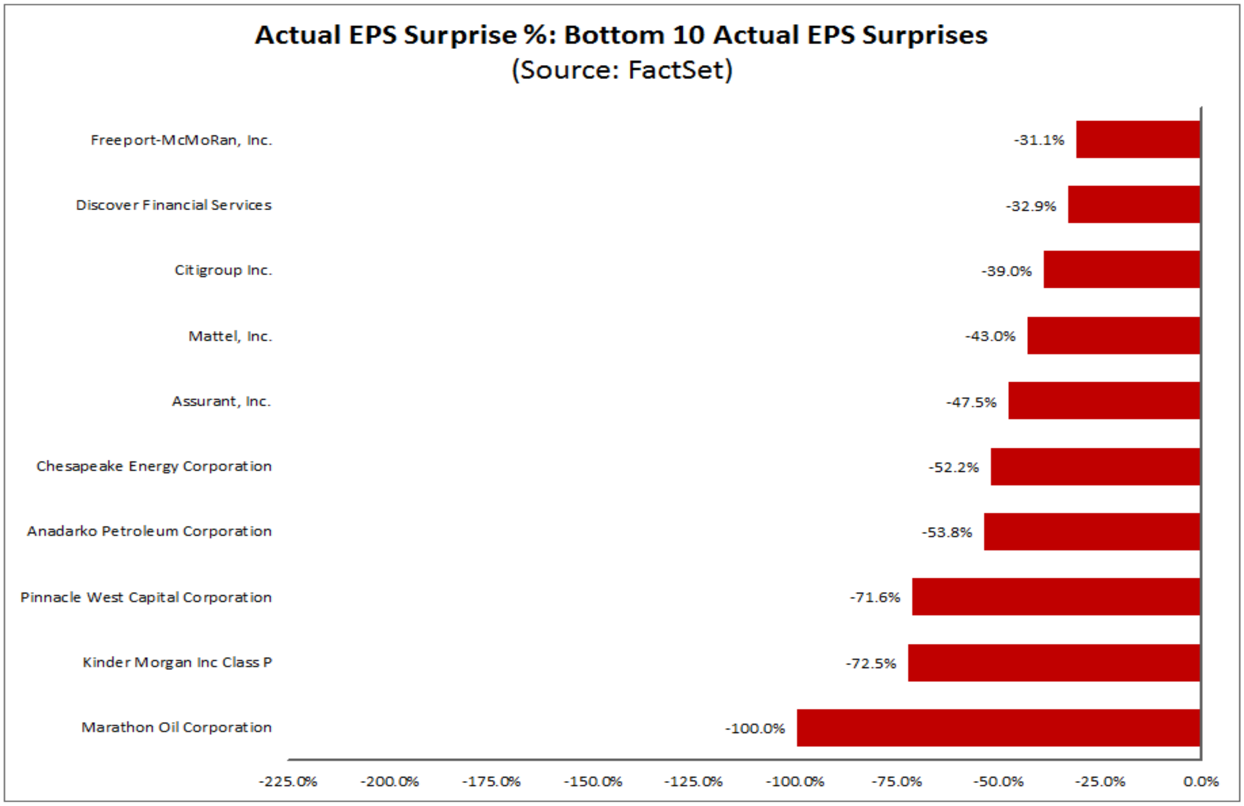
Q4 2014: Scorecard



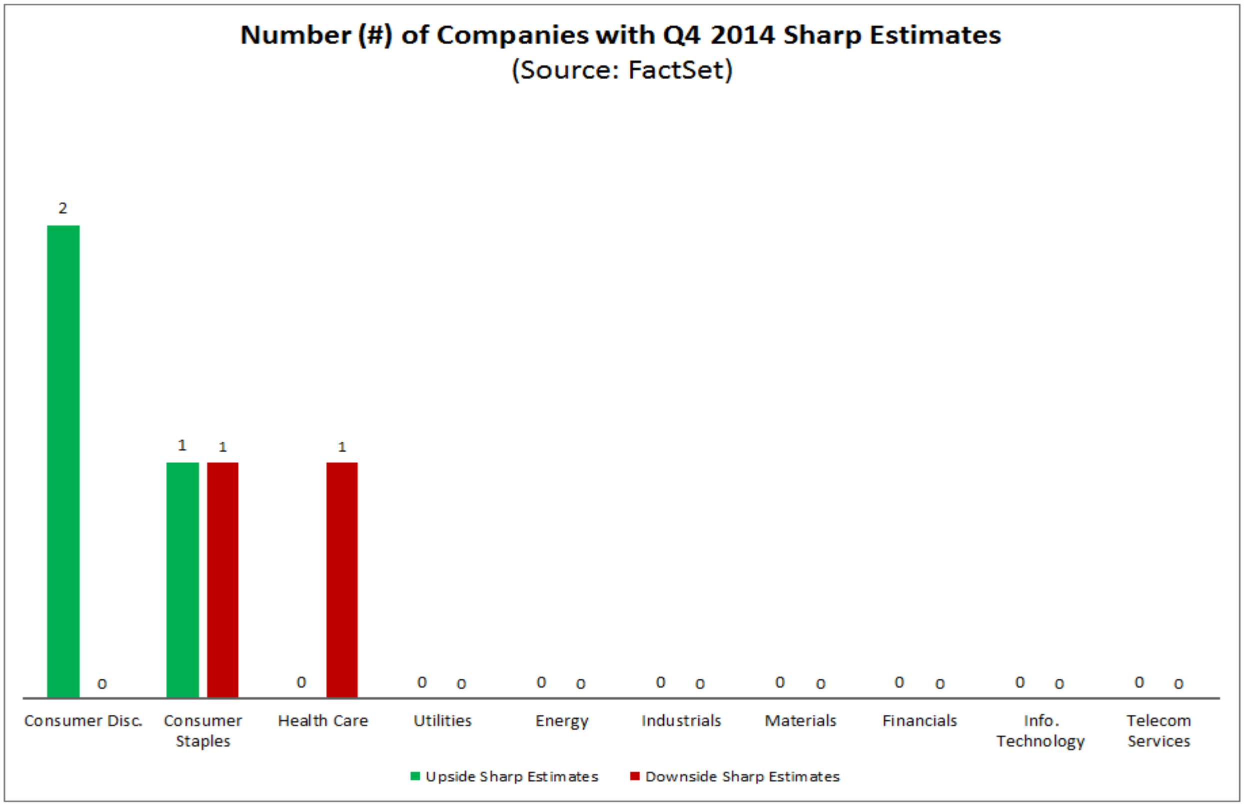


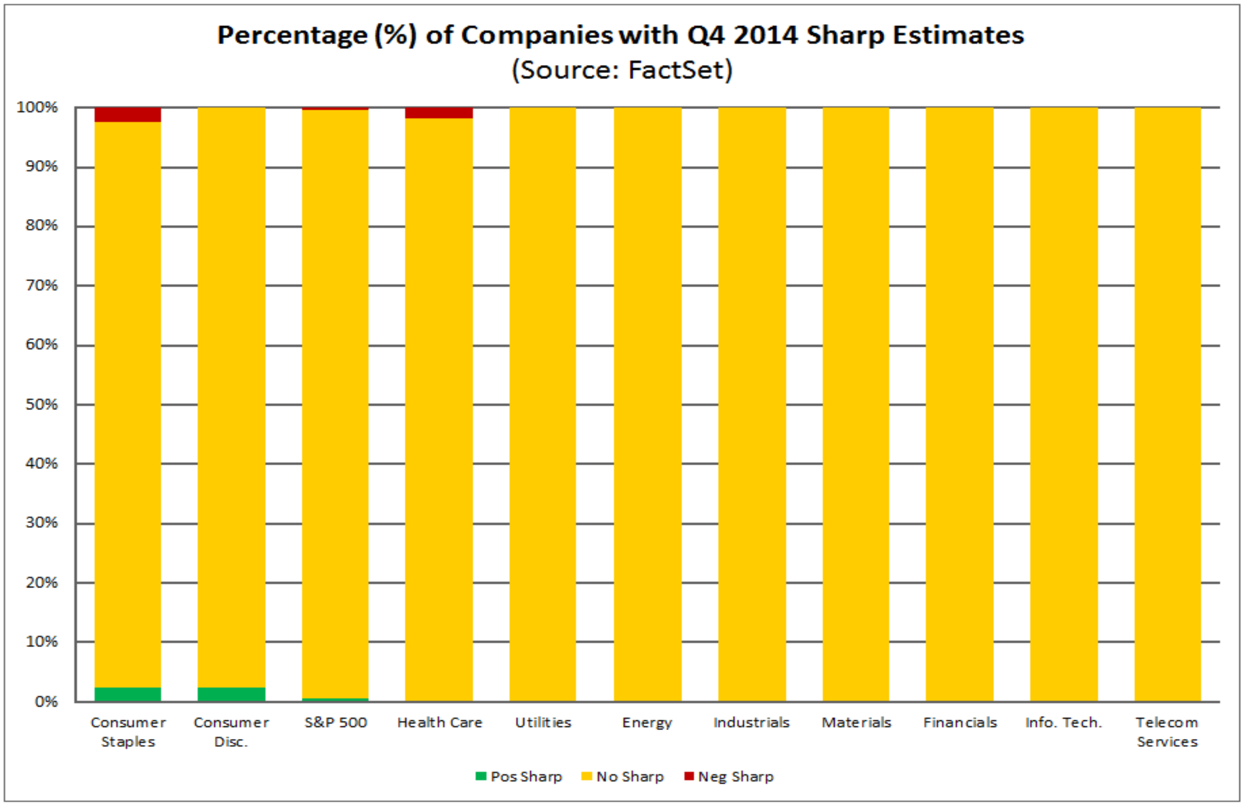
Q4 2014: Scorecard





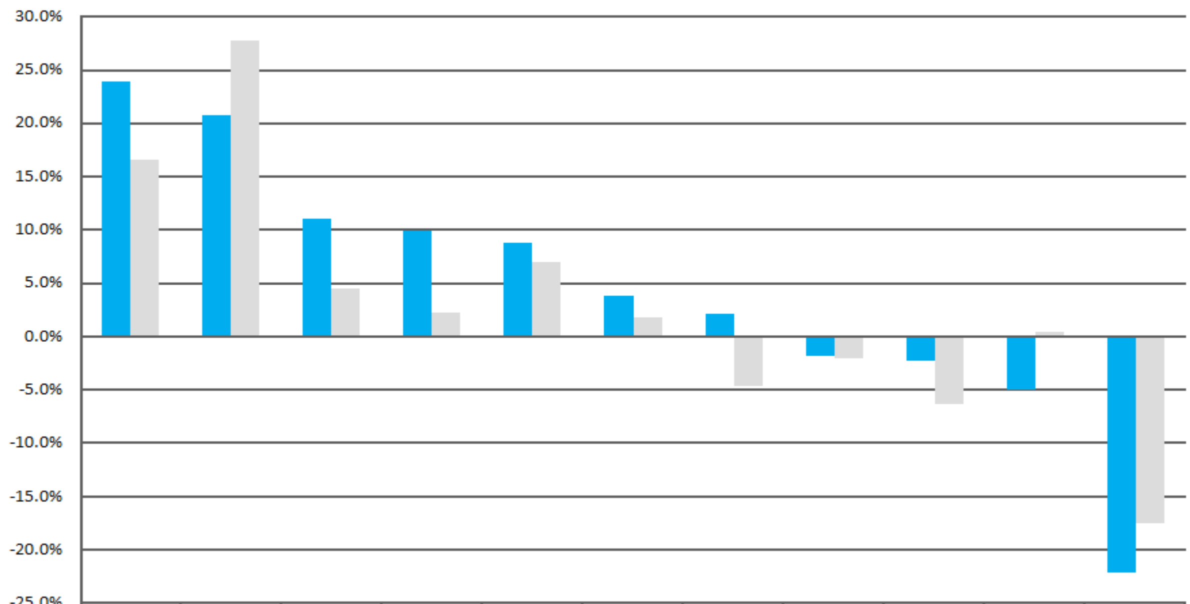
Q4 2014: Projected EPS Surprises (Sharp Estimates)





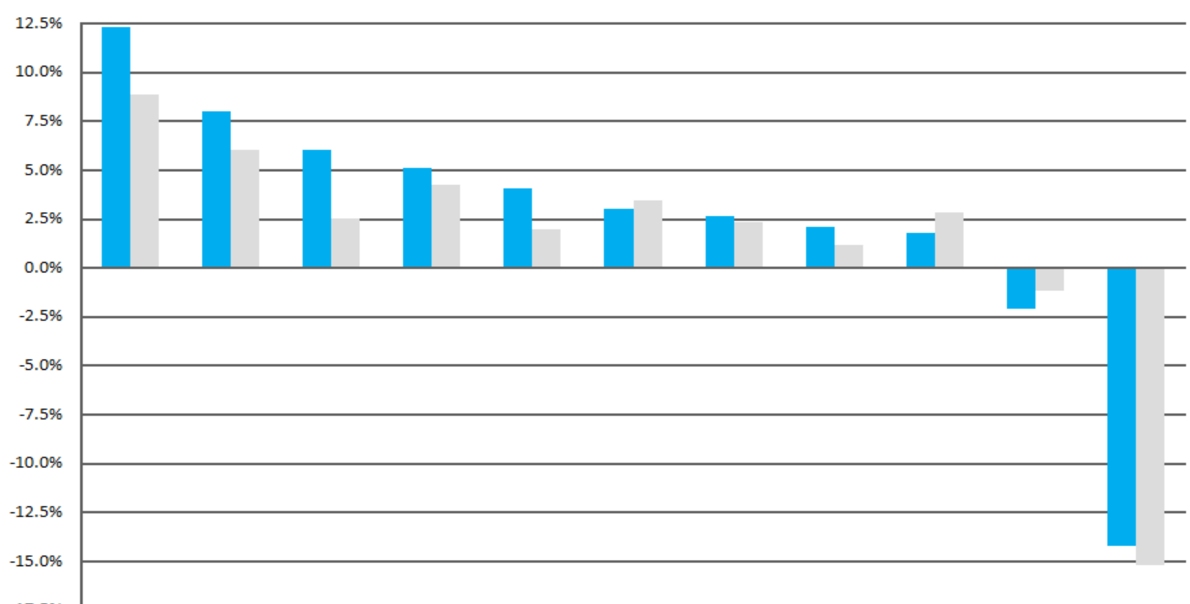
Q4 2014: Growth

Q4 2014 Earnings Growth
(Source: FactSet)



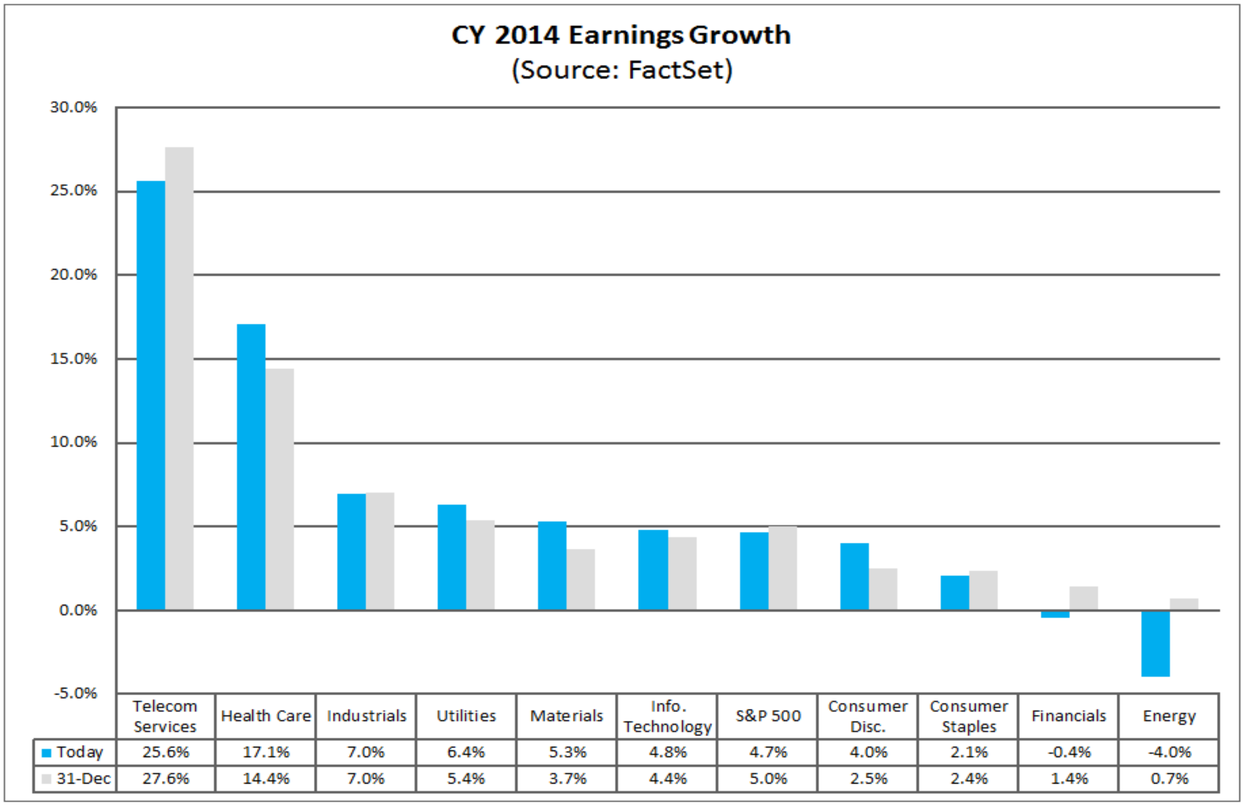
	Health Care	Telecom Services	Consumer Disc.	Info. Technology	Industrials	S&P 500	Materials	Consumer Staples	Utilities	Financials	Energy
Today	23.8%	20.7%	11.0%	9.8%	8.8%	3.7%	2.1%	-1.7%	-2.2%	-4.9%	-22.1%
31-Dec	16.5%	27.7%	4.4%	2.2%	7.0%	1.7%	-4.6%	-1.9%	-6.3%	0.4%	-17.5%

Q4 2014 Revenue Growth
(Source: FactSet)

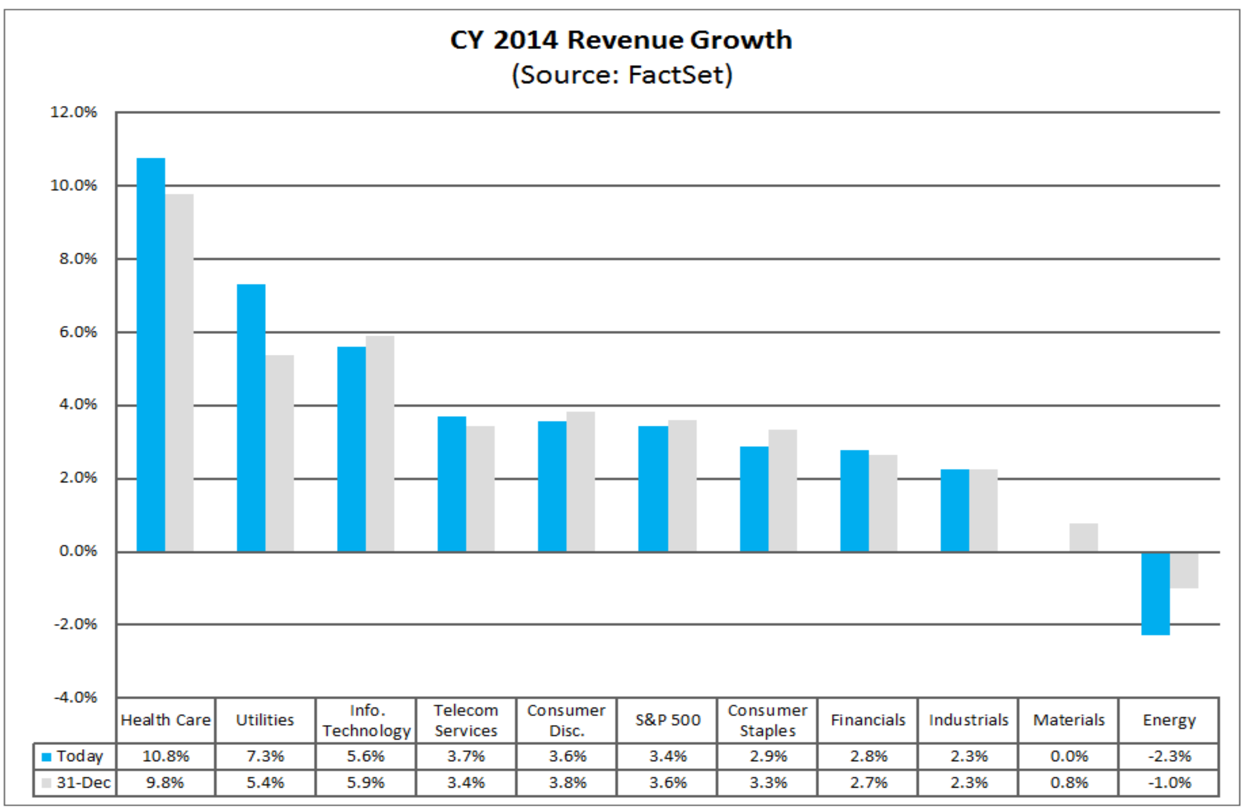


	Health Care	Info. Technology	Utilities	Telecom Services	Financials	Consumer Disc.	Industrials	S&P 500	Consumer Staples	Materials	Energy
Today	12.3%	8.0%	6.0%	5.1%	4.1%	3.0%	2.7%	2.1%	1.8%	-2.1%	-14.2%
31-Dec	8.8%	6.0%	2.5%	4.3%	2.0%	3.4%	2.3%	1.1%	2.8%	-1.2%	-15.2%

CY 2014: Growth

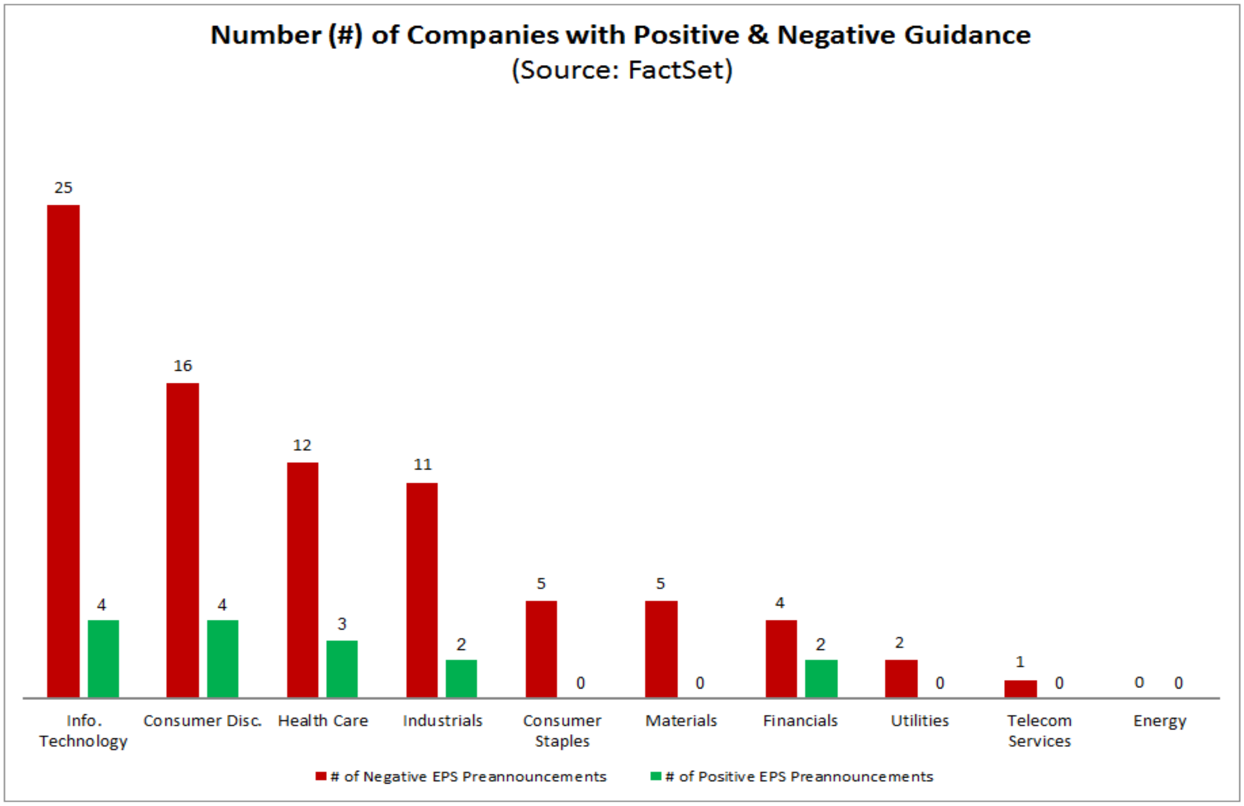


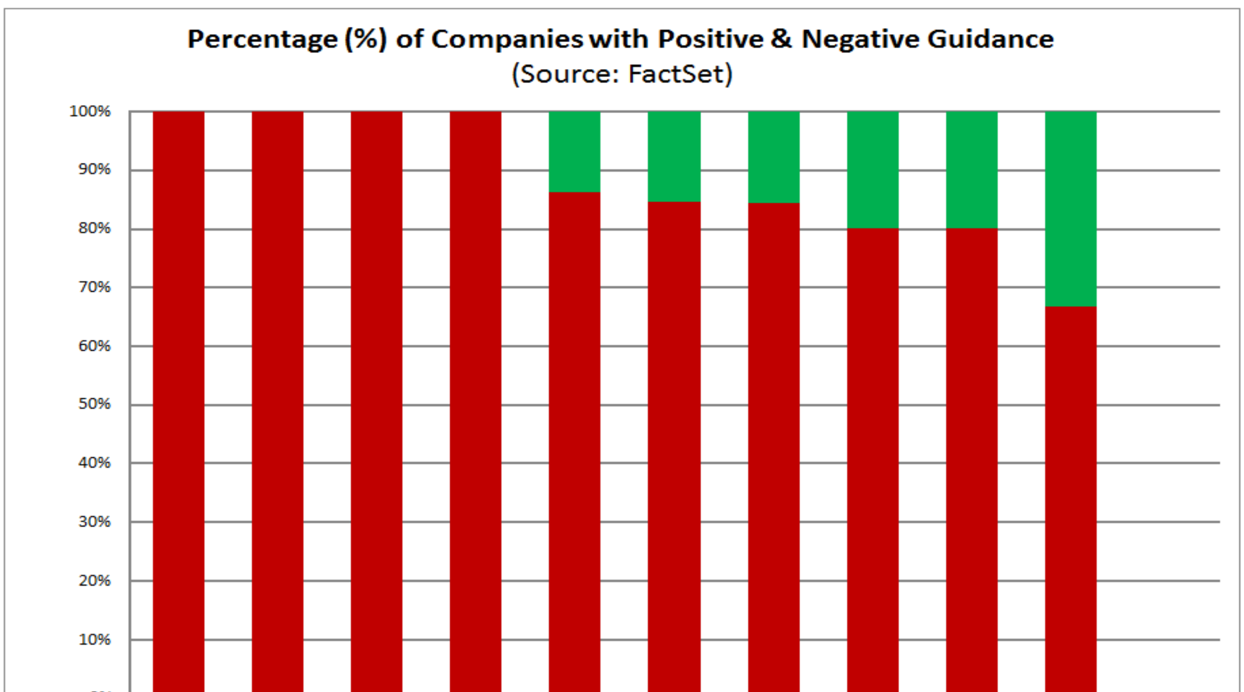
	Telecom Services	Health Care	Industrials	Utilities	Materials	Info. Technology	S&P 500	Consumer Disc.	Consumer Staples	Financials	Energy
Today	25.6%	17.1%	7.0%	6.4%	5.3%	4.8%	4.7%	4.0%	2.1%	-0.4%	-4.0%
31-Dec	27.6%	14.4%	7.0%	5.4%	3.7%	4.4%	5.0%	2.5%	2.4%	1.4%	0.7%



	Health Care	Utilities	Info. Technology	Telecom Services	Consumer Disc.	S&P 500	Consumer Staples	Financials	Industrials	Materials	Energy
Today	10.8%	7.3%	5.6%	3.7%	3.6%	3.4%	2.9%	2.8%	2.3%	0.0%	-2.3%
31-Dec	9.8%	5.4%	5.9%	3.4%	3.8%	3.6%	3.3%	2.7%	2.3%	0.8%	-1.0%

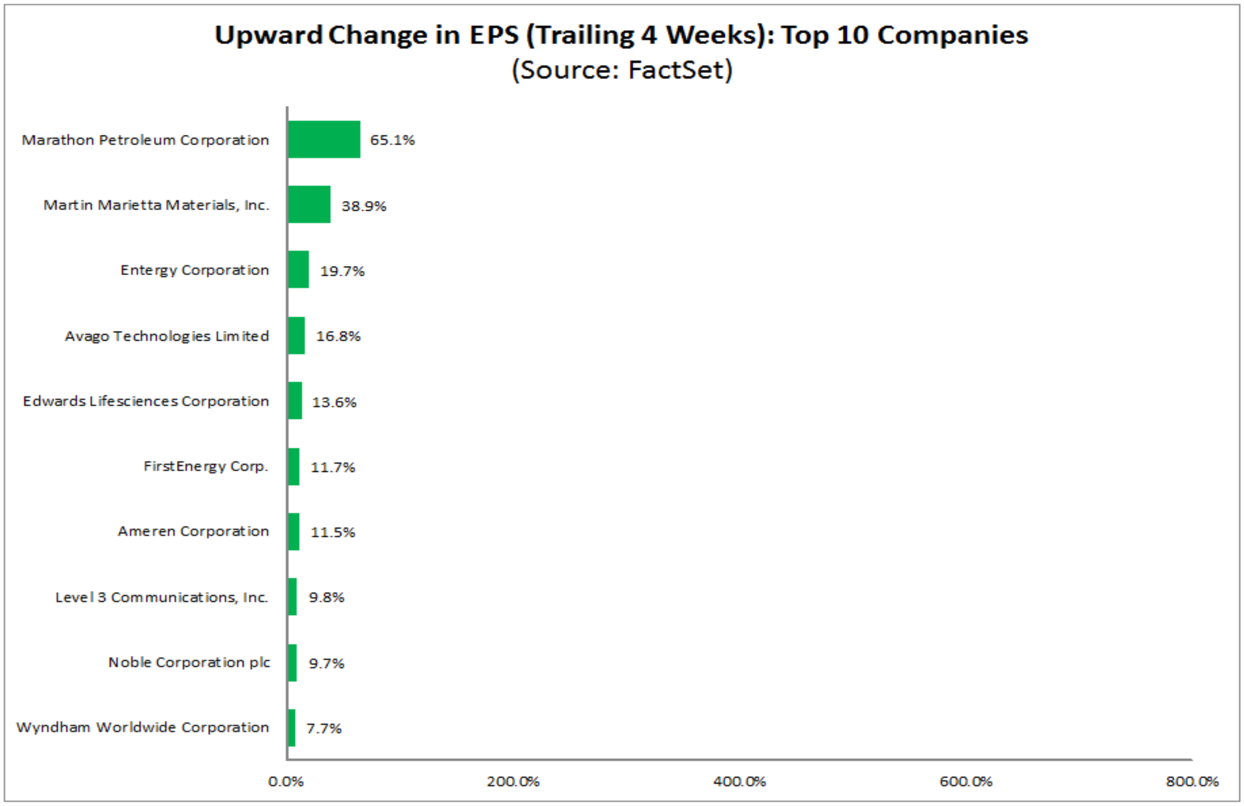
Q1 2015: EPS Guidance

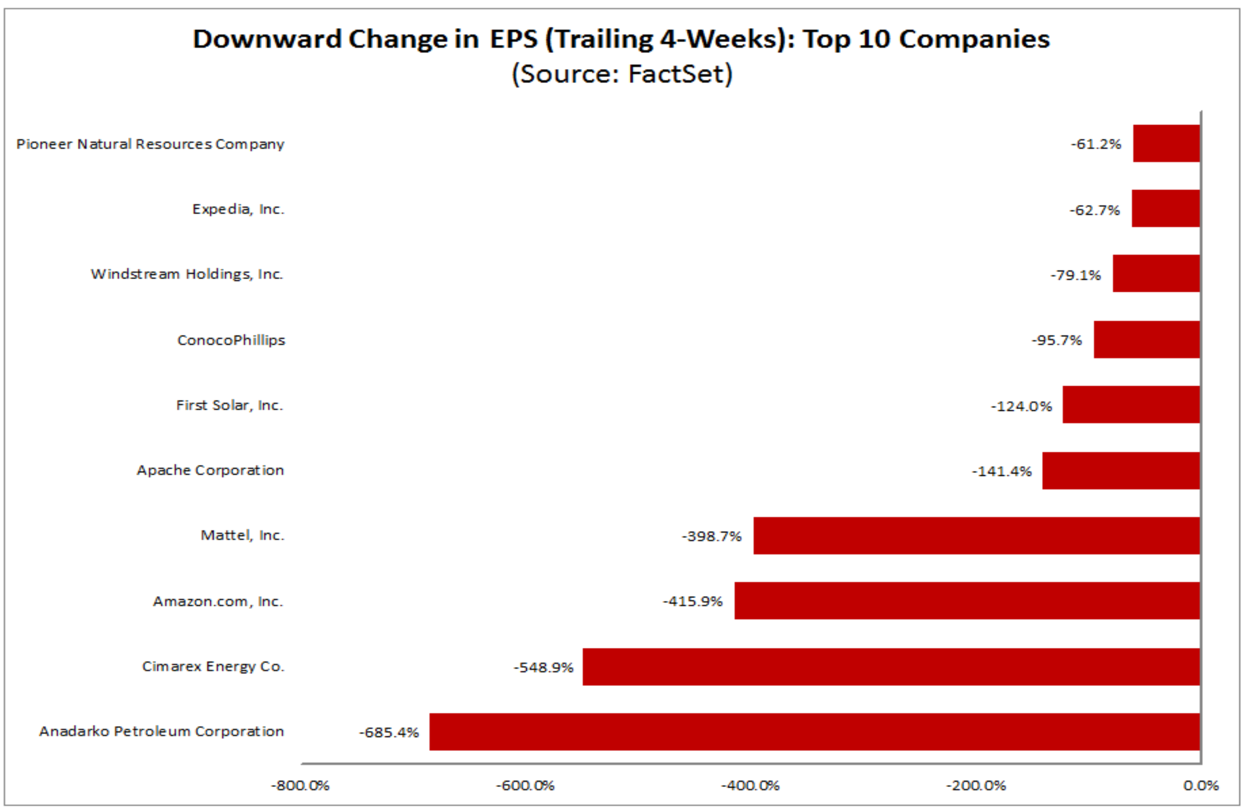




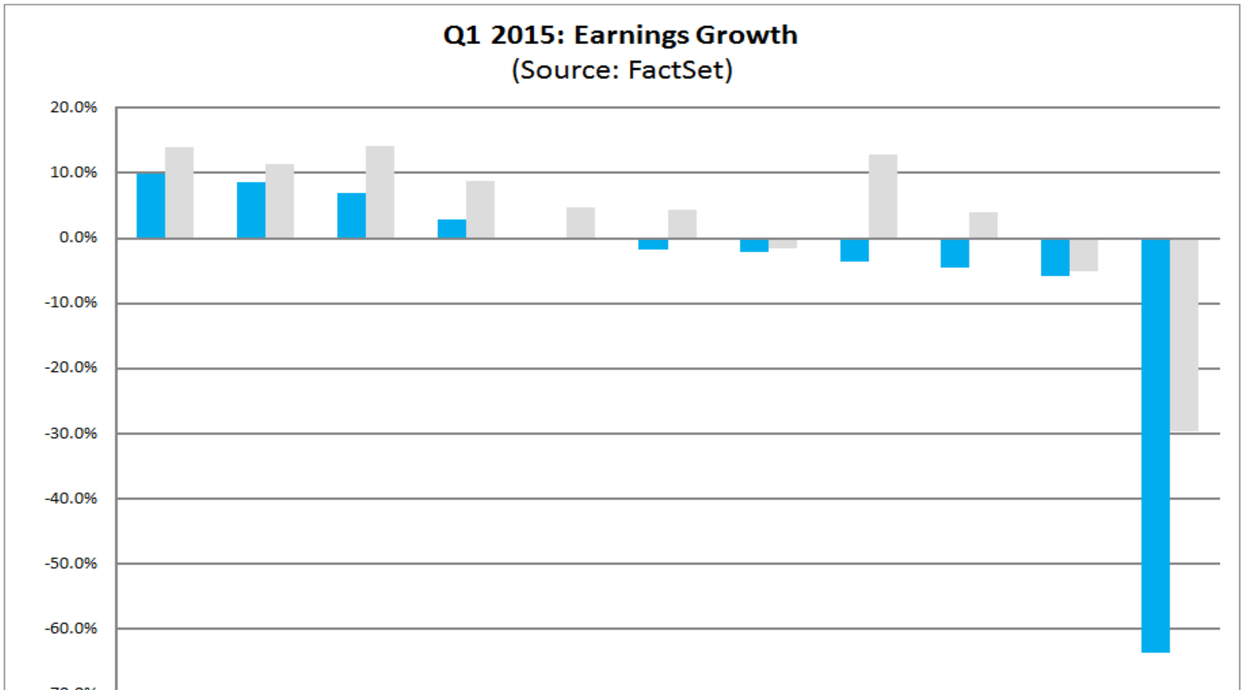
	Consumer Staples	Materials	Utilities	Telecom Services	Info. Technology	Industrials	S&P 500	Consumer Disc.	Health Care	Financials	Energy
Positive	0%	0%	0%	0%	14%	15%	16%	20%	20%	33%	0%
Negative	100%	100%	100%	100%	86%	85%	84%	80%	80%	67%	0%

Q1 2015: EPS Revisions

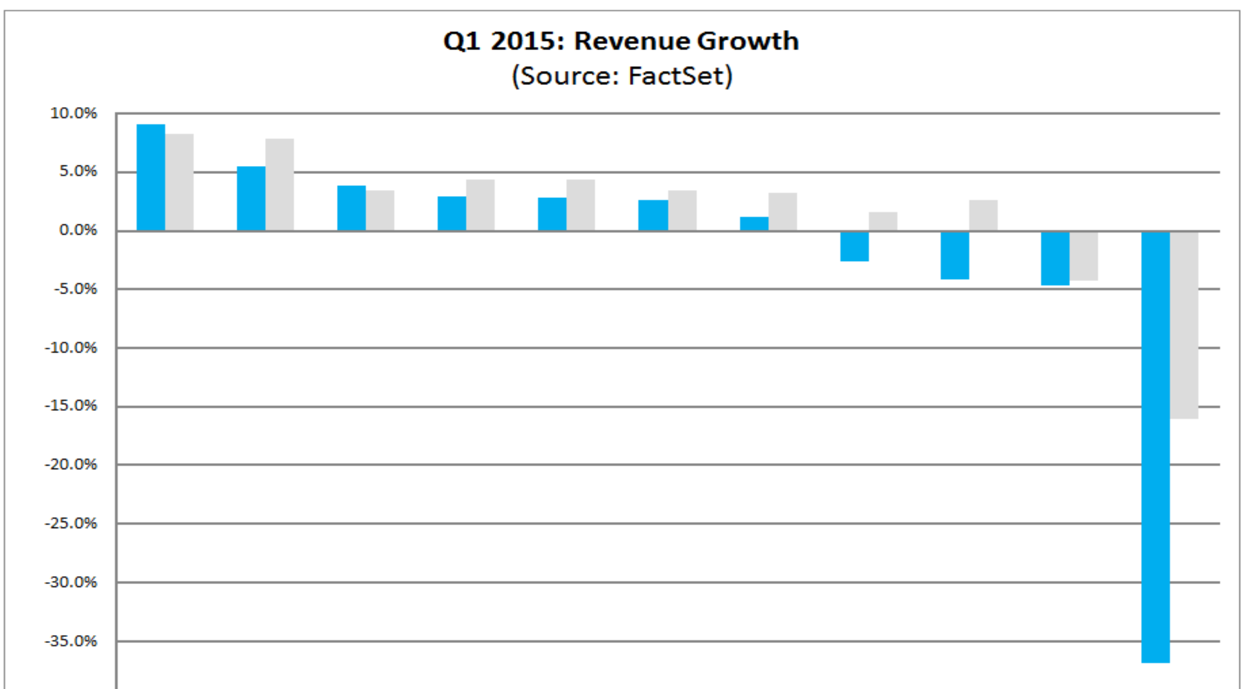




Q1 2015: Growth

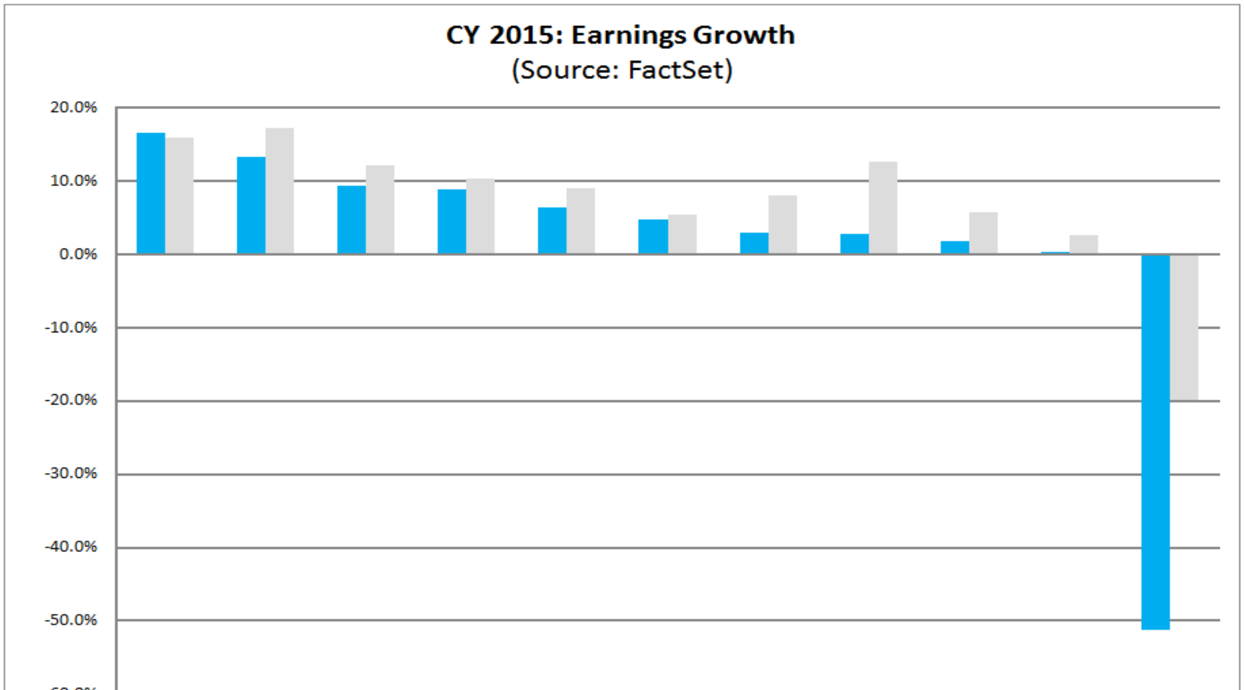


	Health Care	Financials	Consumer Disc.	Industrials	Info. Technology	Consumer Staples	Telecom Services	Materials	S&P 500	Utilities	Energy
Today	9.8%	8.5%	6.8%	2.9%	-0.1%	-1.9%	-2.2%	-3.6%	-4.6%	-5.9%	-63.5%
31-Dec	13.9%	11.4%	14.0%	8.6%	4.6%	4.3%	-1.7%	12.8%	3.9%	-5.1%	-29.5%

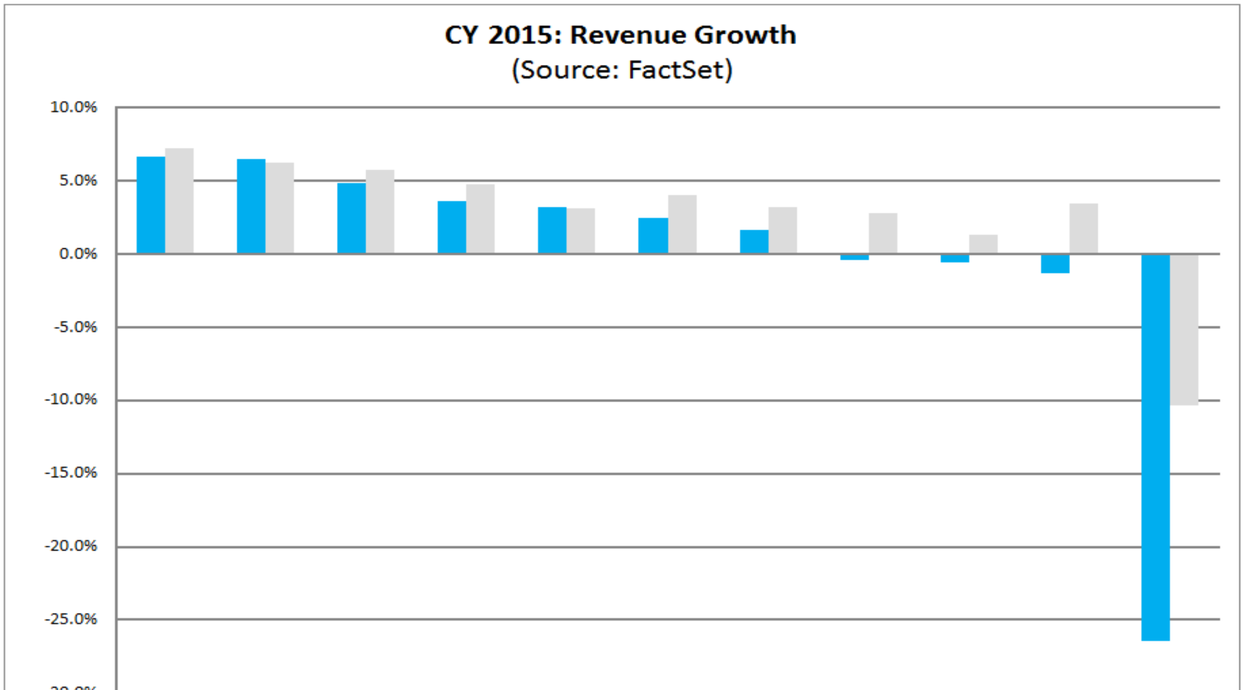


	Health Care	Info. Technology	Telecom Services	Consumer Staples	Consumer Disc.	Financials	Industrials	S&P 500	Materials	Utilities	Energy
Today	9.1%	5.5%	3.8%	2.9%	2.8%	2.6%	1.2%	-2.7%	-4.2%	-4.7%	-36.8%
31-Dec	8.3%	7.8%	3.4%	4.3%	4.4%	3.4%	3.2%	1.6%	2.6%	-4.3%	-16.1%

CY 2015: Growth



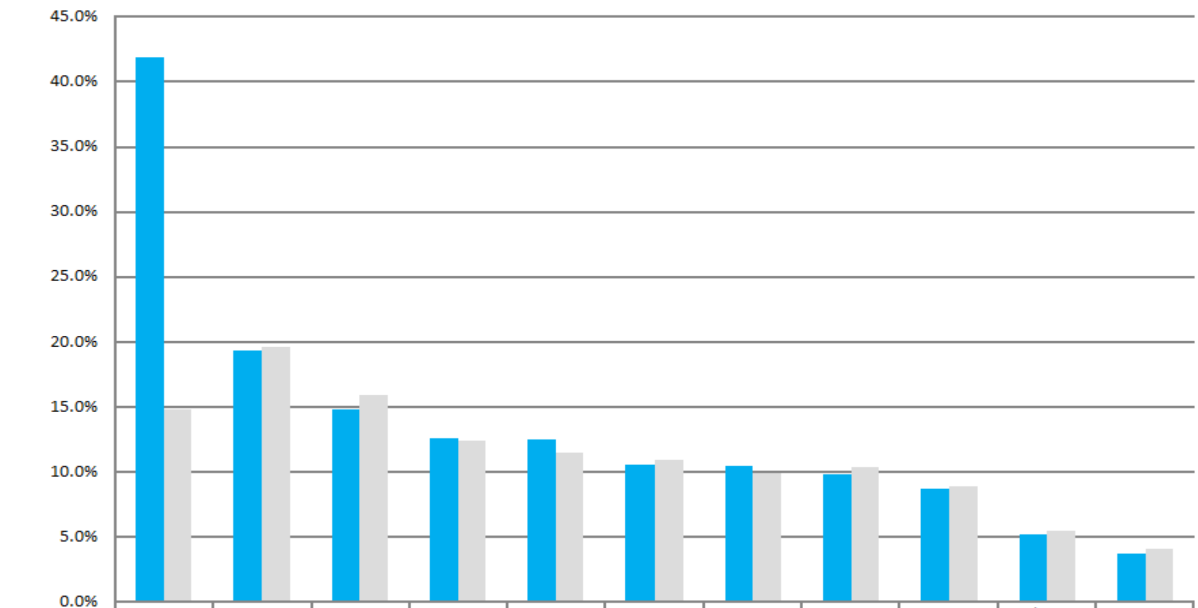
	Financials	Consumer Disc.	Health Care	Info. Technology	Industrials	Telecom Services	S&P 500	Materials	Consumer Staples	Utilities	Energy
Today	16.4%	13.3%	9.3%	8.8%	6.3%	4.7%	2.8%	2.7%	1.7%	0.3%	-51.2%
31-Dec	15.9%	17.2%	12.0%	10.3%	9.0%	5.3%	8.0%	12.6%	5.6%	2.5%	-19.9%



	Info. Technology	Health Care	Consumer Disc.	Consumer Staples	Telecom Services	Financials	Industrials	S&P 500	Utilities	Materials	Energy
Today	6.6%	6.5%	4.8%	3.5%	3.2%	2.4%	1.6%	-0.4%	-0.6%	-1.3%	-26.4%
31-Dec	7.2%	6.2%	5.7%	4.7%	3.1%	4.0%	3.2%	2.8%	1.3%	3.4%	-10.4%

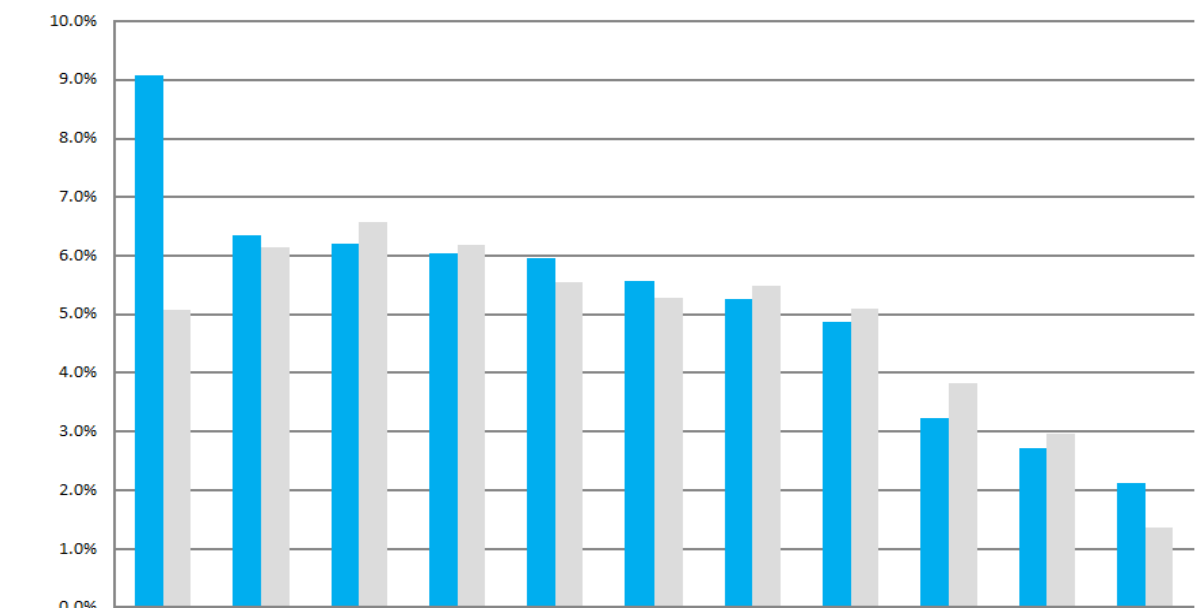
CY 2016: Growth

CY 2016: Earnings Growth
(Source: FactSet)



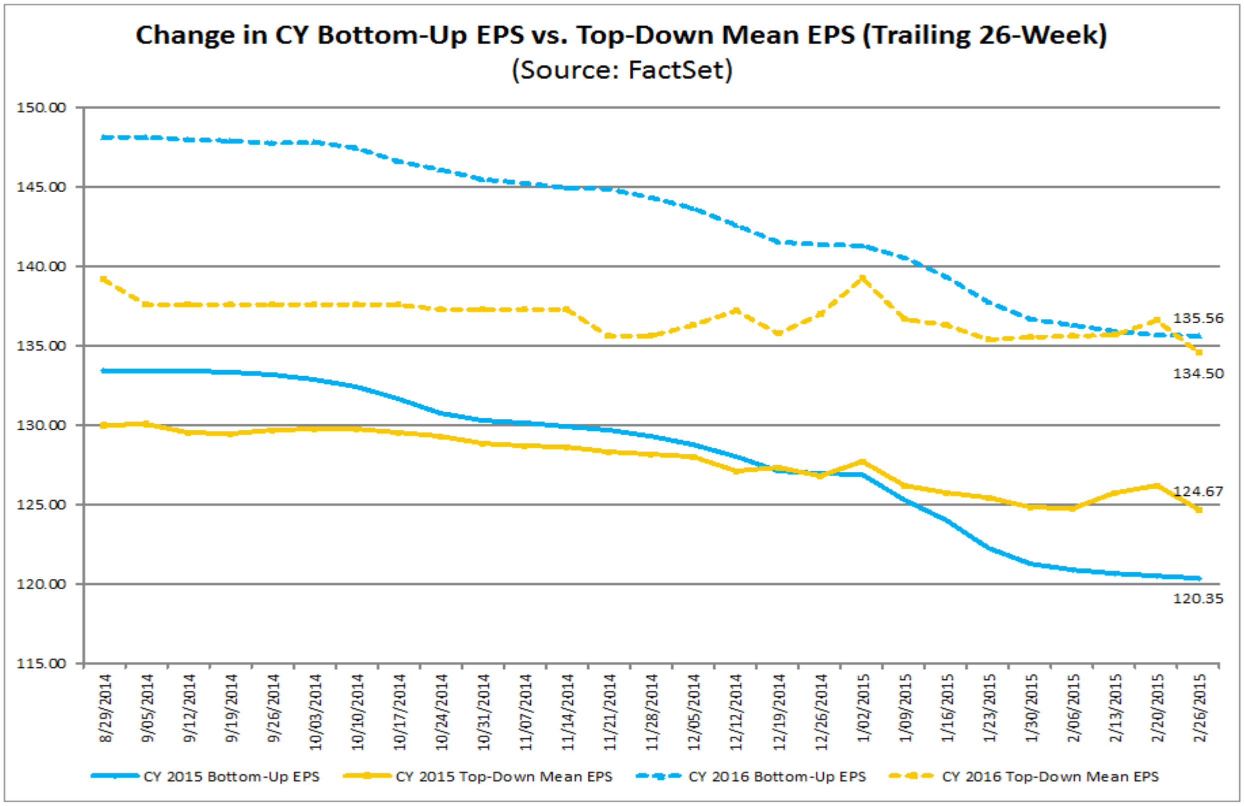
	Energy	Materials	Consumer Disc.	Health Care	S&P 500	Info. Tech.	Financials	Industrials	Consumer Staples	Telecom Services	Utilities
Today	41.9%	19.4%	14.9%	12.7%	12.6%	10.6%	10.5%	9.9%	8.8%	5.2%	3.8%
31-Dec-14	14.9%	19.7%	16.0%	12.4%	11.5%	11.0%	9.9%	10.4%	8.9%	5.6%	4.2%

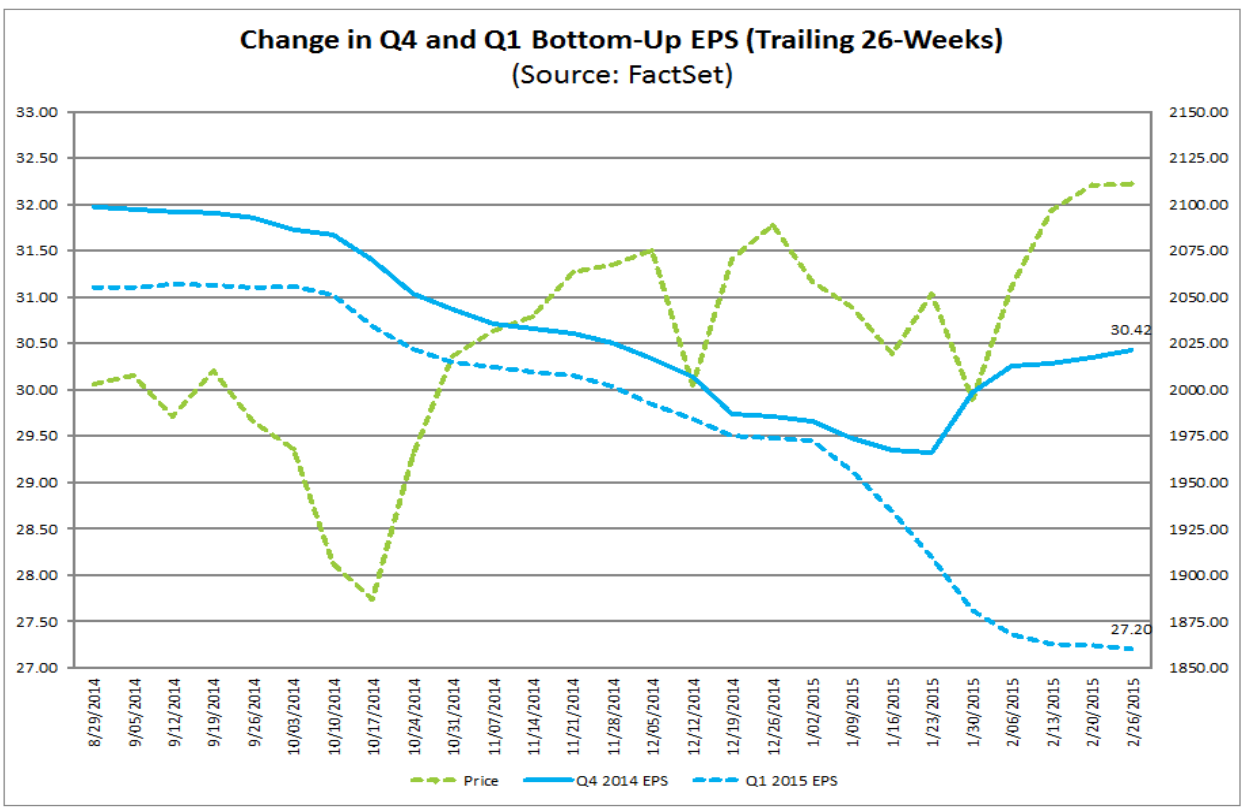
CY 2016: Revenue Growth
(Source: FactSet)



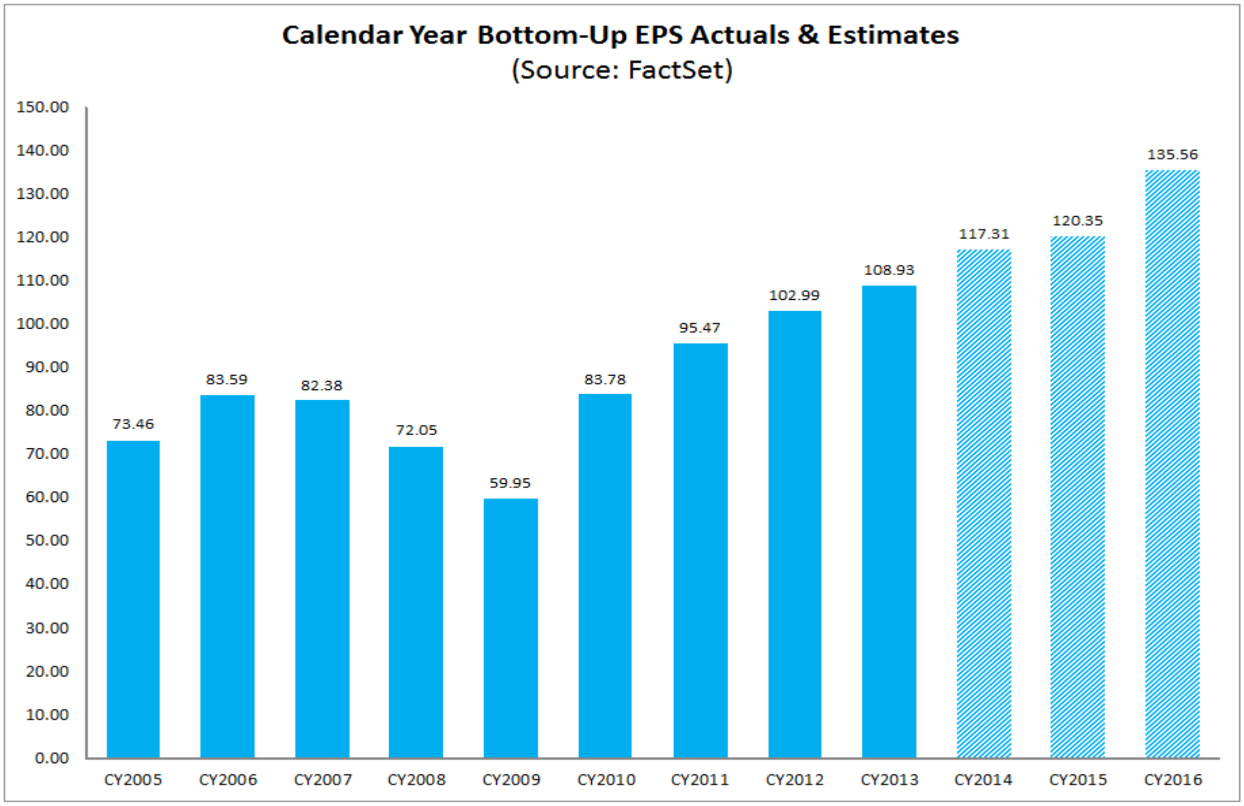
	Energy	Materials	Info. Technology	Consumer Disc.	Health Care	S&P 500	Financials	Consumer Staples	Industrials	Utilities	Telecom Services
Today	9.1%	6.3%	6.2%	6.0%	5.9%	5.6%	5.2%	4.9%	3.2%	2.7%	2.1%
31-Dec-14	5.1%	6.1%	6.6%	6.2%	5.5%	5.3%	5.5%	5.1%	3.8%	3.0%	1.4%

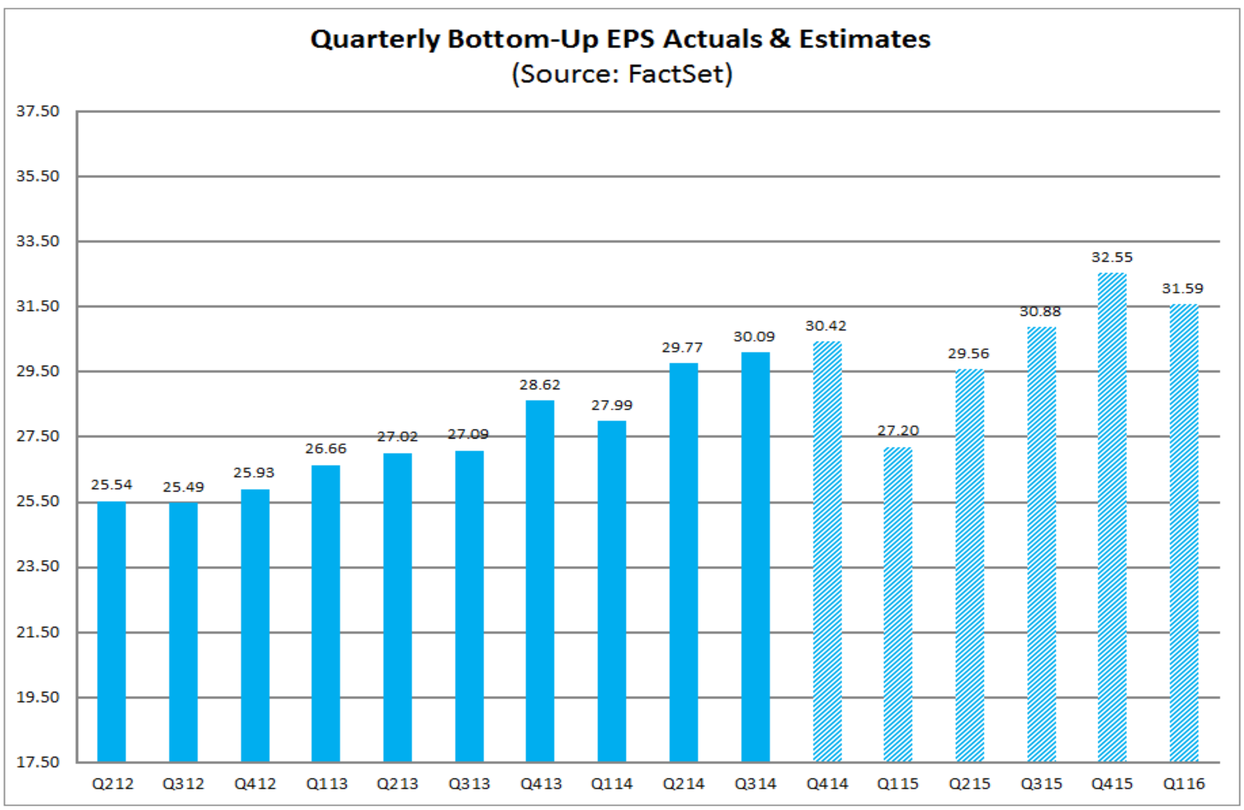
Bottom-up EPS Estimates: Revisions



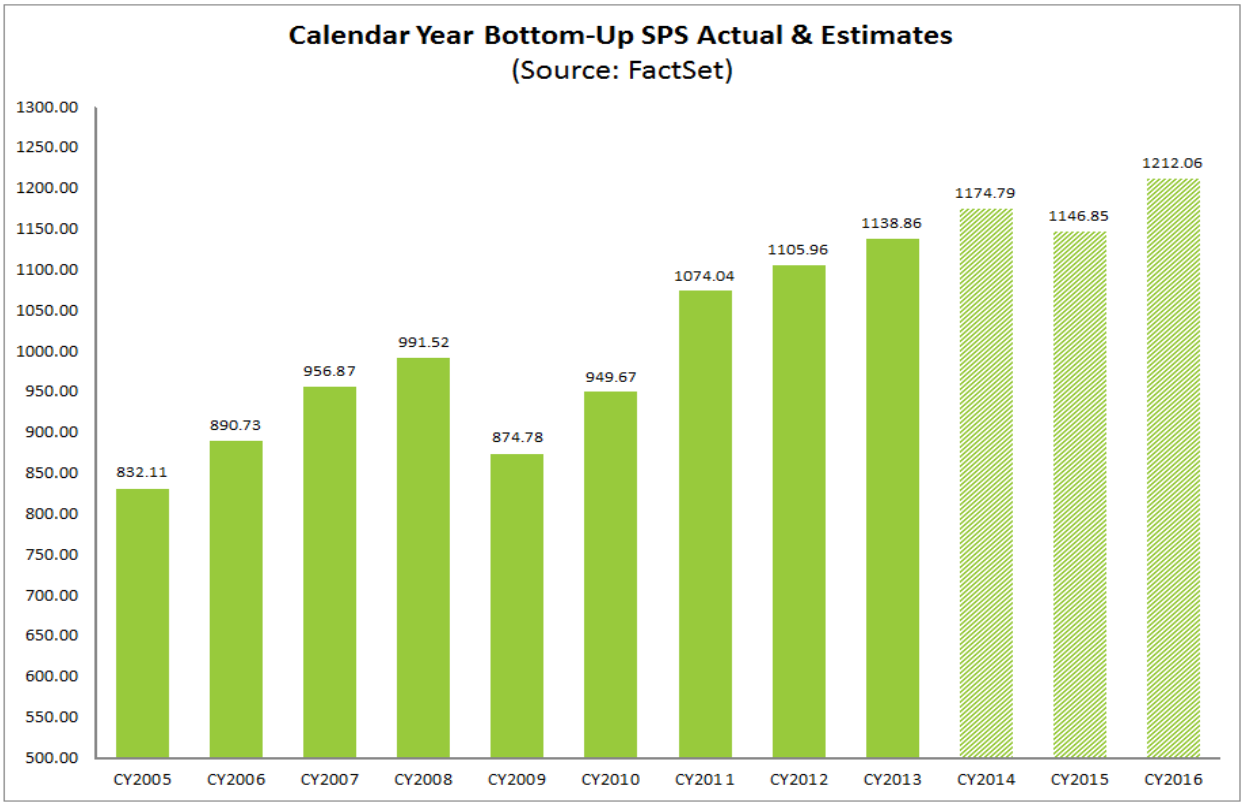


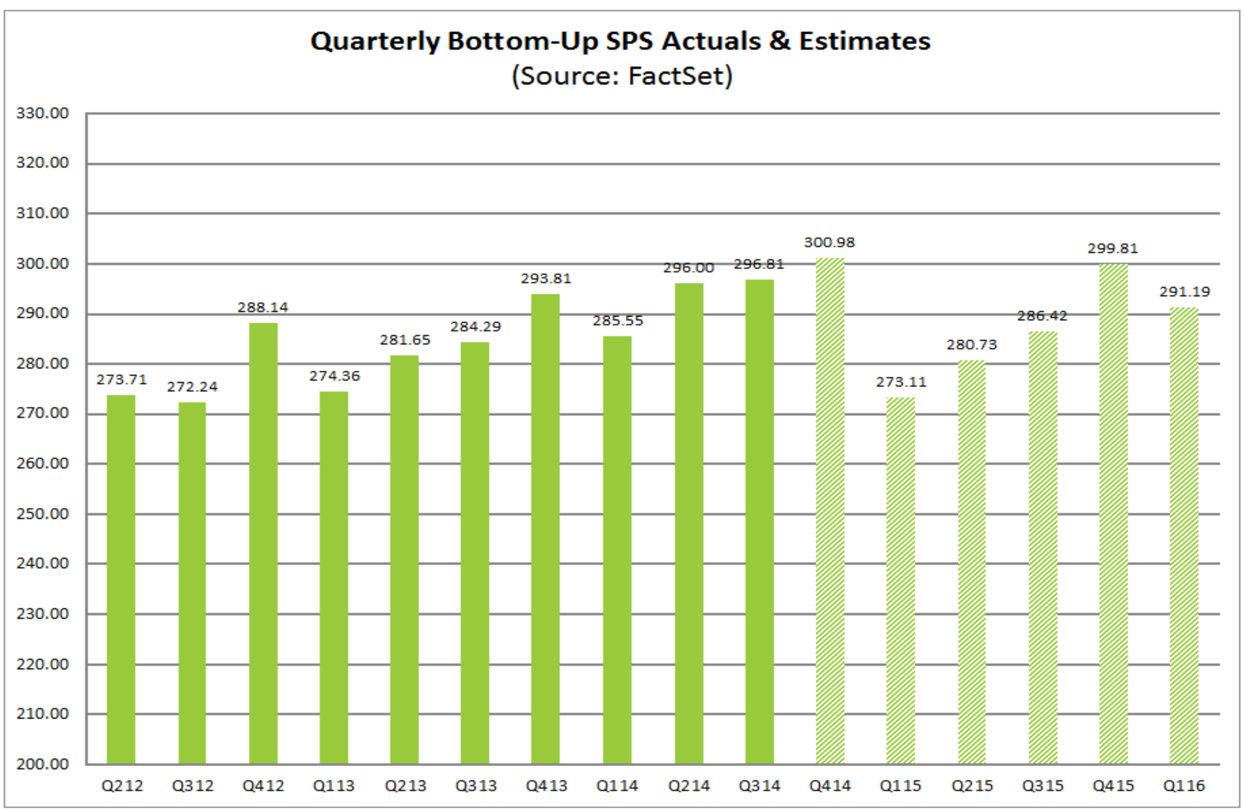
Bottom-up EPS Estimates: Current & Historical



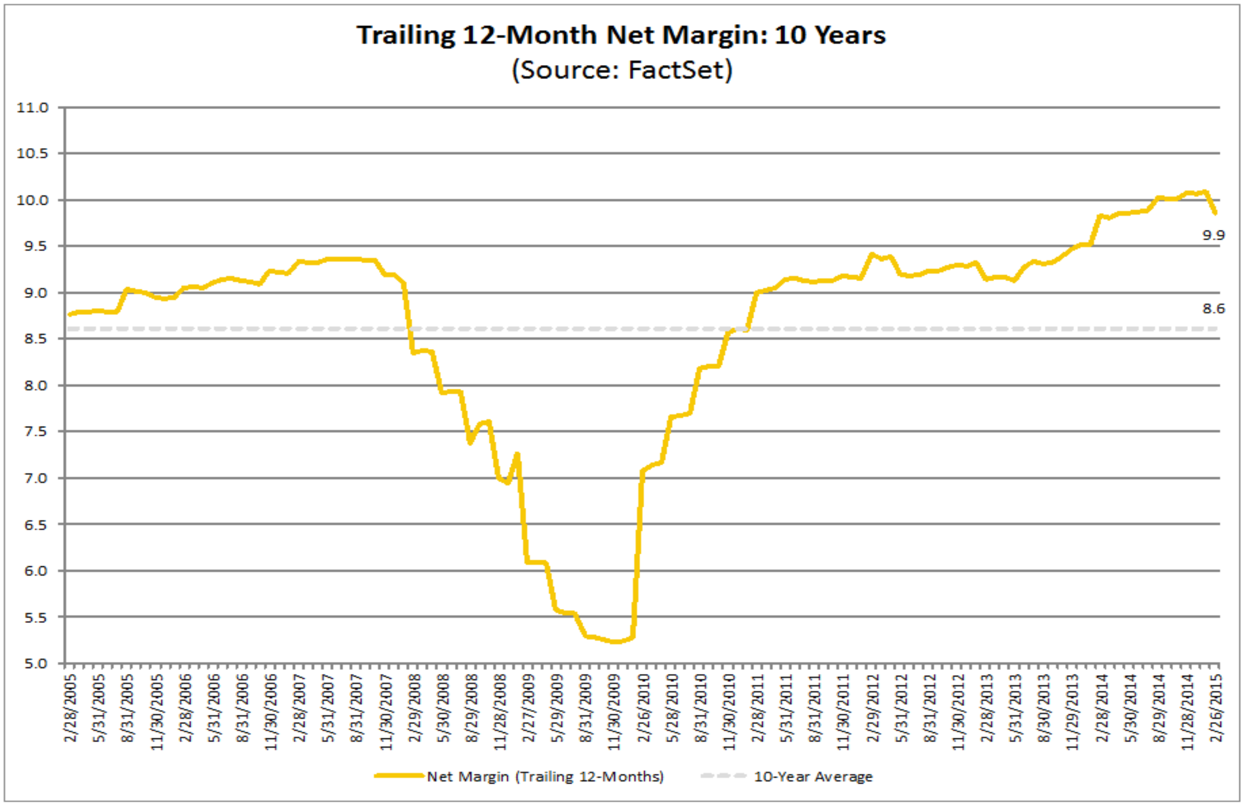


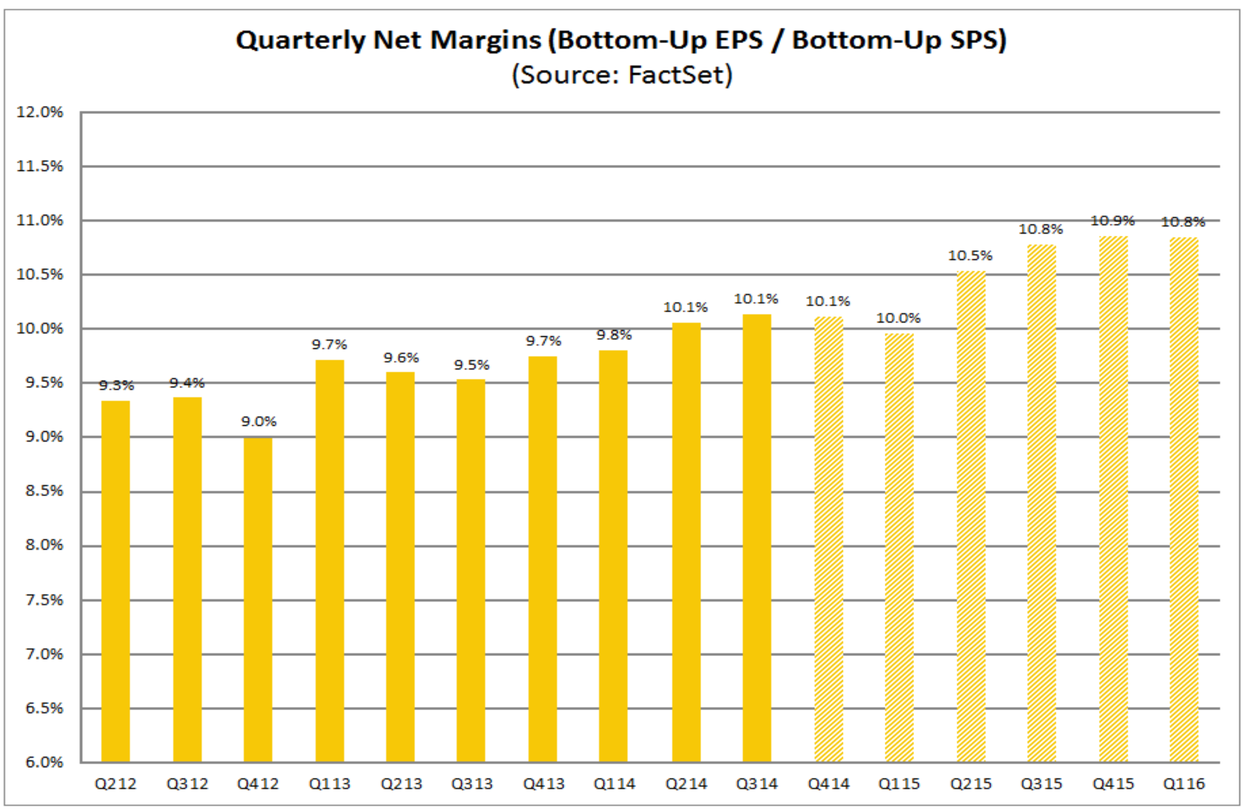
Bottom-up SPS Estimates: Current & Historical



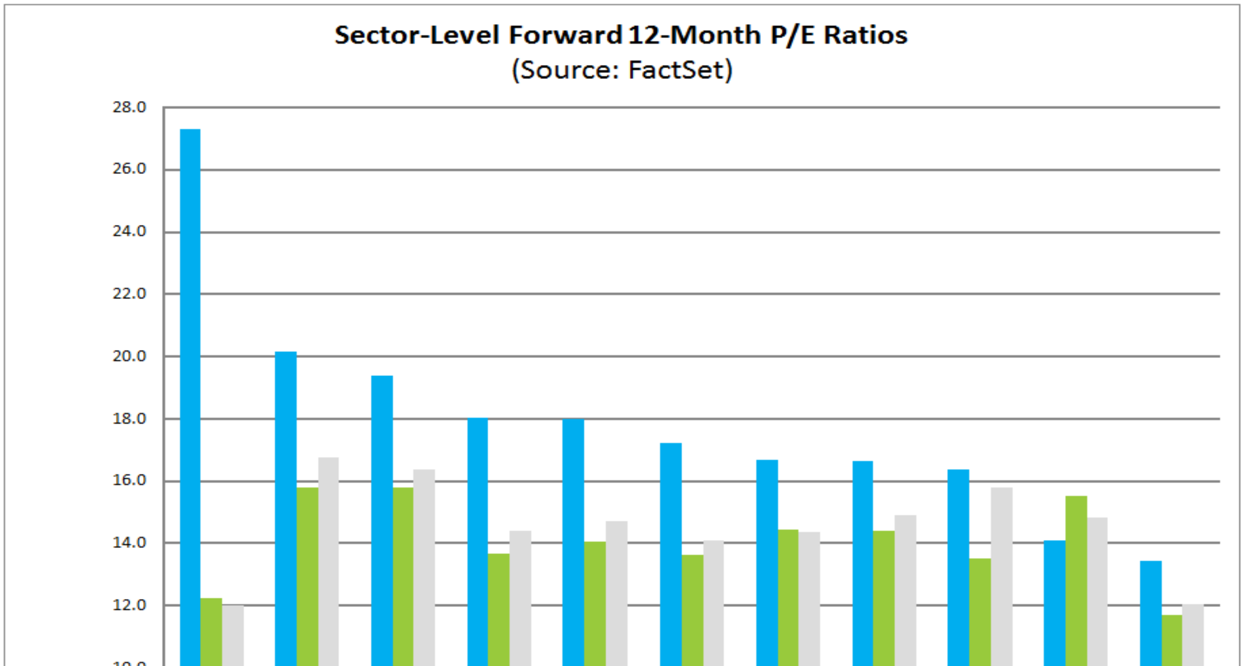


Net Margins: Current & Historical

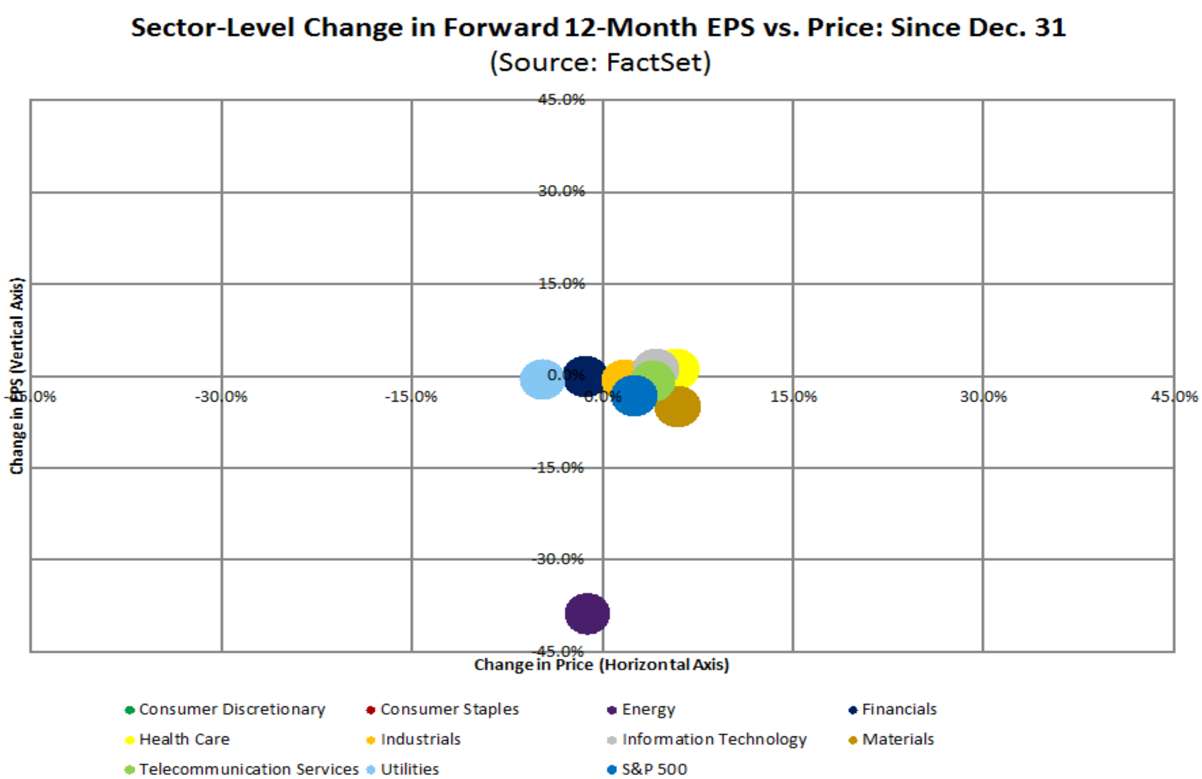




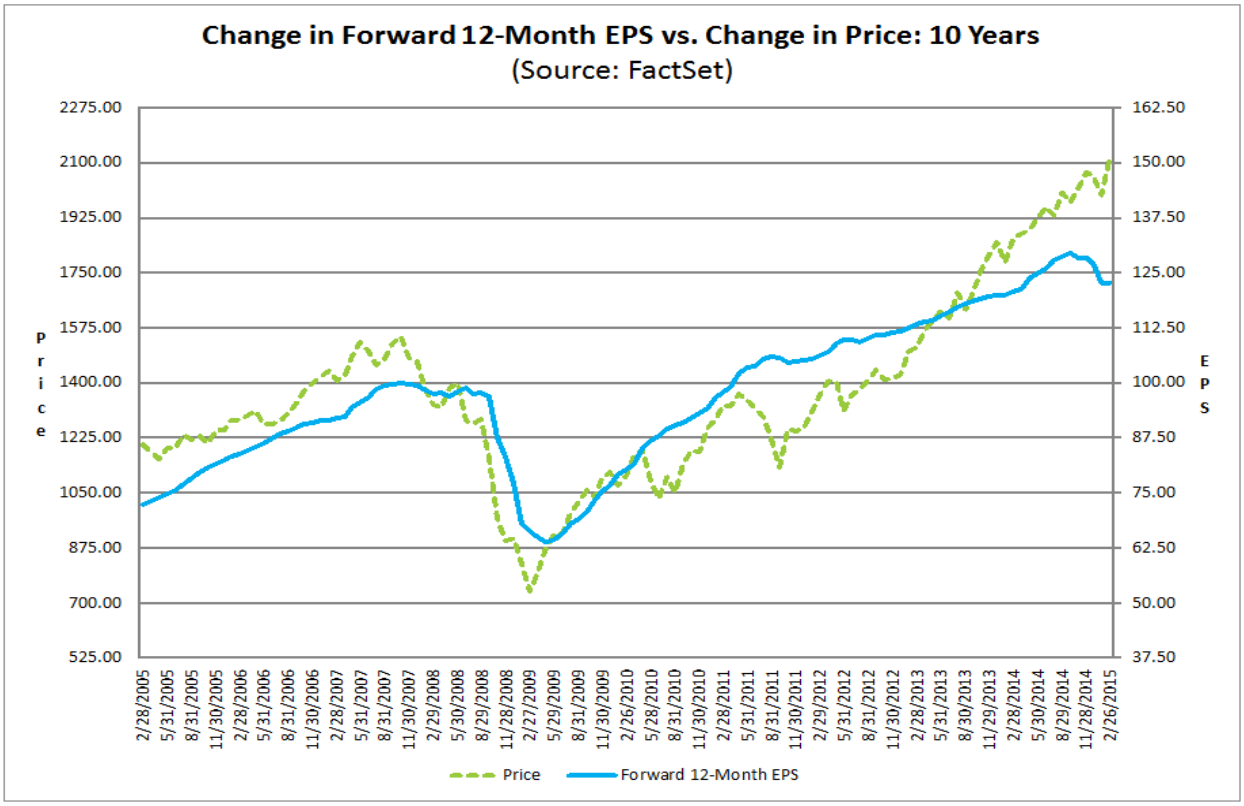
Forward 12M Price / Earnings Ratio: Sector Level

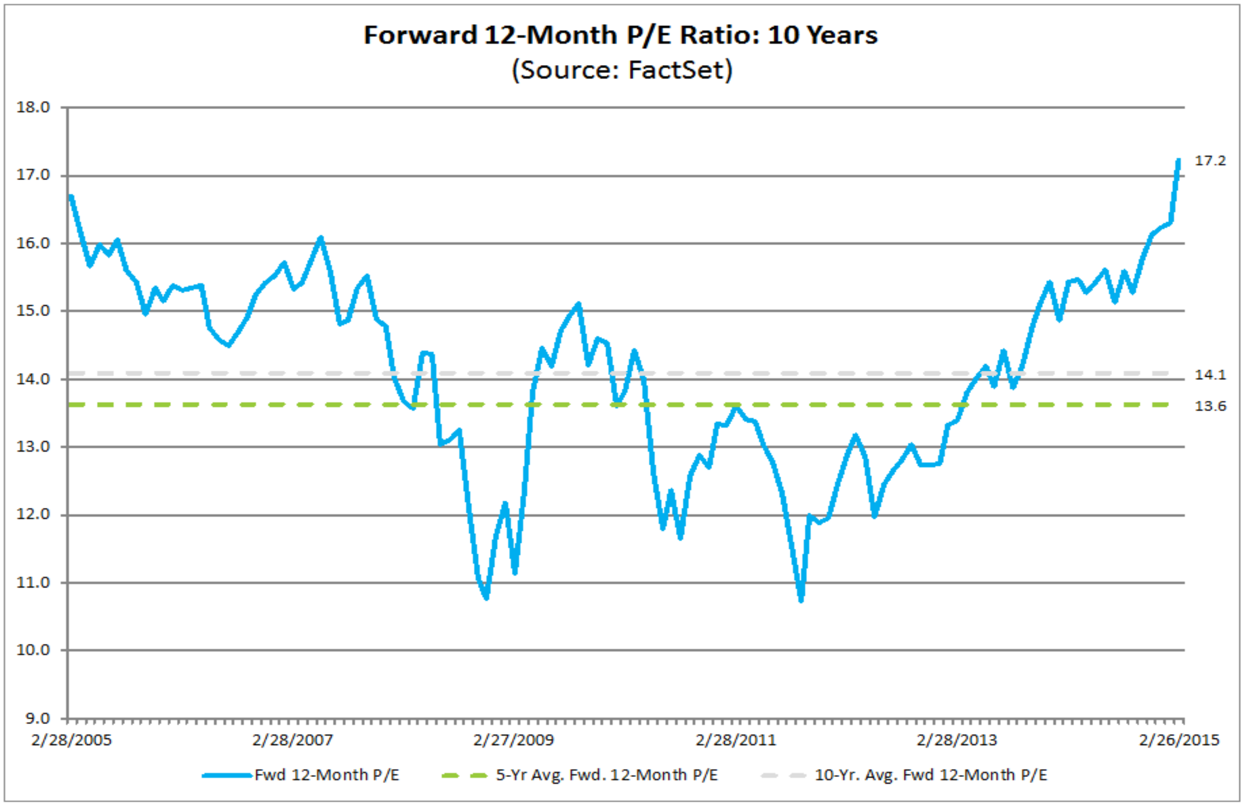


	Energy	Consumer Staples	Consumer Disc.	Health Care	Materials	S&P 500	Utilities	Industrials	Info. Technology	Telecom Services	Financials
Fwd 12M P/E	27.3	20.1	19.4	18.0	18.0	17.2	16.7	16.7	16.4	14.1	13.5
5-Yr Avg.	12.3	15.8	15.8	13.7	14.1	13.6	14.5	14.4	13.5	15.5	11.7
10-Yr Avg.	12.0	16.8	16.4	14.4	14.7	14.1	14.4	14.9	15.8	14.9	12.1

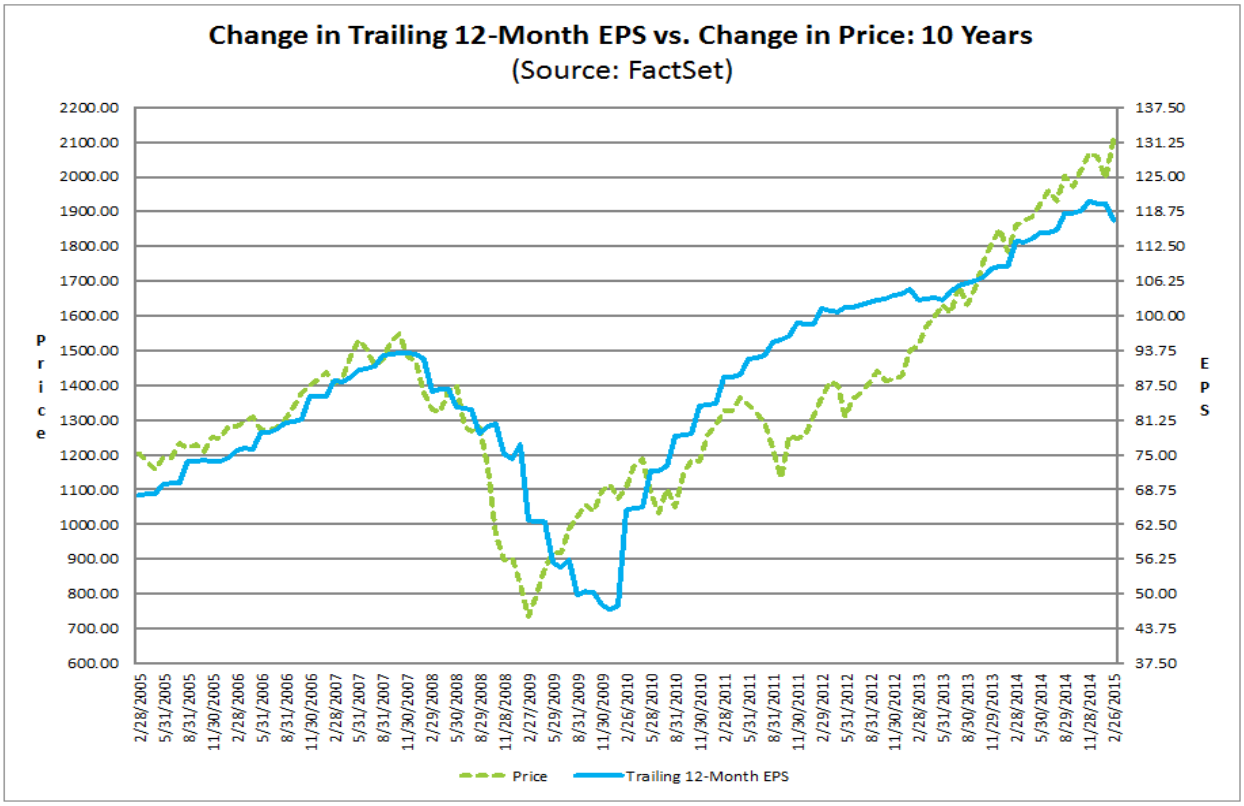


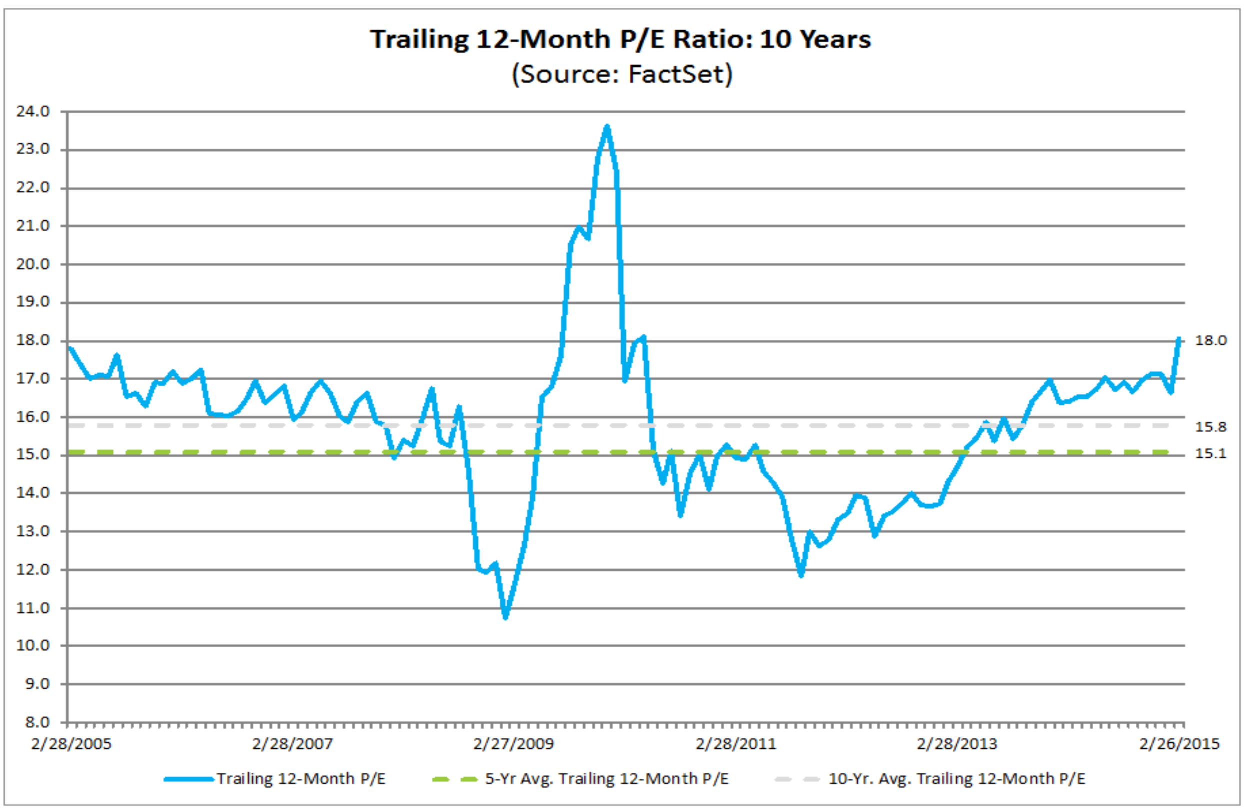
Forward 12M Price / Earnings Ratio: Long-Term Averages





Trailing 12M Price / Earnings Ratio: Long-Term Averages





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