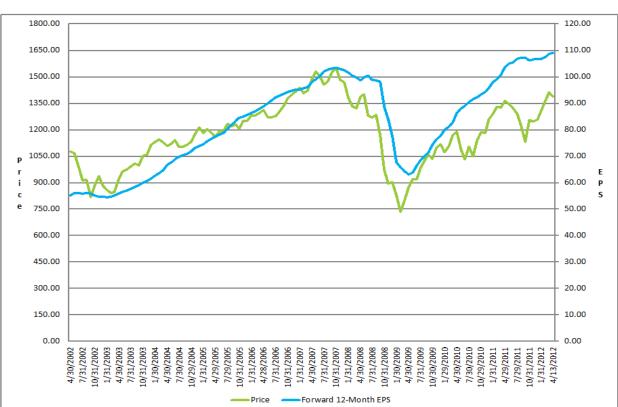


S&P 500

April 13, 2012

Key Metrics

- + **Earnings Scorecard:** Of the 32 companies that have reported earnings for Q1 2012 to date, 75% have reported earnings above the mean estimate.
- + Earnings Growth: The blended earnings growth rate for Q1 2012 is 0.0%. Seven of the ten sectors are predicted to see a decline in earnings in Q1 2012, led by the Materials (-13.2%) and Telecom Services (-9.8%) sectors.
- + Earnings Revisions: Since the start of Q1 2012, the estimated earnings growth has fallen to 0.0% from 3.0%. The Telecom Services and Materials sectors have recorded the largest downward revisions to estimates during the quarter.
- **+ Earnings Guidance:** For the current fiscal quarter, 67 companies have issued negative EPS guidance and 38 companies have issued positive EPS guidance.
- + Valuation: The current 12-Month forward P/E ratio is 12.7. This P/E ratio is below the average forward 12-Month P/E ratio over the past 10 years (14.5).



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:

Is Market Optimism Due to Expected Rebound in Earnings Growth in Late 2012 / Early 2013?

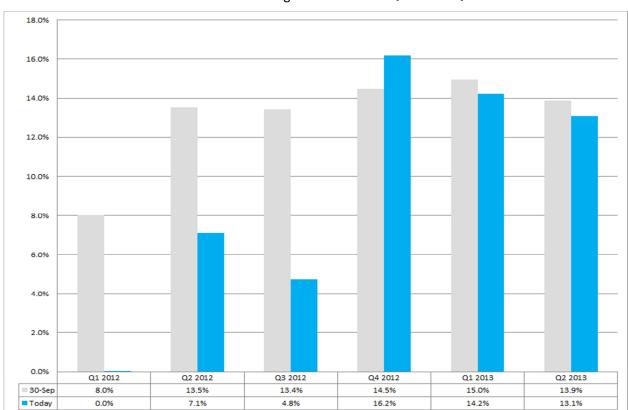
At the start of the "peak" weeks of the Q1 2012 earnings season, the blended earnings growth rate currently stands at 0.0%. This earnings growth rate is below the expectations on January 1 (3.0%), as analysts reduced estimates for nine of the ten sectors in the S&P 500 over the course of the quarter. During this same time frame, the price of the index has increased 10.3% (to 1387.57 from 1257.60).

Given the decline in earnings expectations for Q1 2012, what has driven the rally in the S&P 500 over the past three and a half months?

One possible explanation is that the market is looking ahead to the rebound in earnings growth projected for late 2012 and early 2013. While analysts are predicting a modest recovery in earnings growth for Q2 2012 (7.1%) and Q3 2012 (4.8%), they are calling for double-digit earnings growth in Q4 2012 (16.2%), Q1 2013 (14.2%) and Q2 2013 (13.1%).

And although analysts have substantially taken down their earnings estimates for the first three quarters of 2012 over the past six months (see chart below), they have not significantly decreased their estimates for Q4 2012 and the first-half of 2013. In fact, the estimated earnings growth rate for Q4 2012 has actually increased over this time frame.

As a result, the markets will continue to closely watch earnings guidance issued by companies during the upcoming earnings season that could put these expected double-digit growth rates at risk.



S&P 500 Estimated Earnings Growth Rates: Q1 2012 – Q2 2013



Q1 2012 Earnings Season: Overview

High Profile Companies Surpass Estimates to Kickoff Strong Start to Earnings Season

The past week marked the "official" start of the Q1 2012 earnings season with Alcoa's report on Tuesday. Although it was a light week in terms of the number of companies that reported earnings (just seven S&P 500 companies announced results), four high profile companies reported actual EPS above the mean EPS estimate: Alcoa, Google, JPMorgan Chase, and Wells Fargo.

Overall, 32 companies in the S&P 500 have reported earnings to date. Of these 32 companies, 75% have reported actual EPS above the mean EPS estimate while 25% have reported actual EPS below the mean EPS estimate. At the same point in time in the previous quarter (January 13), just 53% of companies had reported actual EPS above the mean EPS estimate (though the final percentage for Q4 2011 was 65%). Over the last four quarters, 72% of companies in the S&P 500 reported actual EPS above the mean EPS estimate on average.

In aggregate, companies are reporting earnings that are 7.8% above expectations. Over the past four quarters on average, actual earnings for the S&P 500 surpassed estimates by 5.1%.

In terms of revenues, 84% of companies have reported actual sales above estimated sales. Over the past four quarters, 63% of companies in the S&P 500 reported actual revenue above estimated revenues on average.

However, Little Change in the Q1 Earnings Growth Rate during the week

The blended earnings growth rate for the first quarter currently stands at 0.0%, slightly above last week's estimate of -0.1%. Better-than-expected results from Alcoa accounted for much of the slight increase in the earnings growth rate. The blended earnings growth rate for the Materials sector improved to -13.2% from -14.7% during this time. It is important to note that the actual results from Google, JPMorgan Chase, and Wells Fargo are not included in today's blended growth rate.

At the start of the first quarter, the estimated earnings growth rate for the S&P 500 was 3.0%. Nine of the ten sectors have recorded declines in estimates for earnings growth during this time, led by the Telecom Services (to -9.8% from 3.2%) and Materials (to -13.2% from -1.5%) and sectors. The only sector that has witnessed an increase in expected earnings growth since December 31 is the Information Technology sector (to 2.9% from 0.1%), mainly due to upward revisions to estimates for Apple.

7 of 10 Sectors Expected to see Year-Over-Year Decline in Earnings

If the final earnings growth rate is 0.0%, it will mark the end of the streak of consecutive quarters of earnings growth at nine.

Seven of the ten sectors are predicted to see a decrease in year-over-year earnings for the quarter, led by the Materials (-13.2%) and Telecom Services (-9.8%) sectors. Only three sectors are projected to see earnings growth for the quarter: Industrials (7.7%), Financials (5.7%), and Information Technology (2.9%).

In terms of revenues, the blended growth rate stands at 4.0%. If the final revenue growth rate is 4.0%, it will mark the tenth consecutive quarter of sales growth for the index.

All ten sectors are expected to see sales growth for the quarter, led by the Telecom Services (7.9%) and Information Technology (6.8%) sectors.

This difference in earnings and revenue growth rates for Q1 2012 highlights two of the three key themes to watch during the upcoming earnings season: the impact of Apple, higher costs, slower global GDP growth.



Ex-Apple, Earnings Growth Rate for S&P 500 Drops to -1.5%.

For the Q4 2011, Apple was the largest contributor to overall earnings growth for the S&P 500 at the company level. Once again, Apple is expected to be the largest contributor to earnings growth for Q1 2012. The S&P 500 is projected to have an earnings growth rate of 0.0%. Excluding Apple, the earnings growth rate for the index would fall to -1.5%. At the sector-level, the Information Technology sector is current expecting earnings growth of 2.9% for Q1 2012. Excluding Apple, the earnings growth rate for the sector would fall to -5.2%.

Apple has reported actual EPS above the mean EPS estimate in 15 of the past 16 quarters. For these 15 quarters, Apple has reported an average upside surprise of 23.3%. If Apple reports another upside earnings surprise for the Q1 2012 quarter, it will on increase the company's impact on the earnings growth rates for the Information Technology sector and the S&P 500 as a whole. Apple is scheduled to release earnings results on April 24.

High (Energy) Costs May Negatively Impact Earnings Growth in Q1 2012

With all ten sectors expecting revenue growth but only three sectors expecting earnings growth, companies are expected to have difficulty converting sales growth to revenue growth in Q1 2012. Higher costs are the likely cause of this dichotomy between revenue and earnings growth.

Two other metrics show the impact of increased costs impacting the bottom-line in Q1 2012: company-level data on sales growth and earnings declines and net profit margins (excluding Financials).

Revenue Increase, Earnings Decrease

At the company level, 101 companies are projected to see growth in sales but a decline in earnings in Q1 2012. If this is the final number, it would be the highest number recorded in the past nine quarters and would reflect a 49% increase compared to the number of companies recording this difference in the year-ago quarter (68). At the sector-level, the Consumer Discretionary (19) and Consumer Staples (19) sectors have the largest number of companies predicted to see this difference.

The estimated net profit margin (excluding Financials) for Q1 2012 is 8.4%. If this is the final number, it will mark the lowest net profit margin (excluding Financials) for the S&P 500 since Q1 2010 (8.2%). The Consumer Discretionary (5.8%) and Consumer Staples (5.4%) sectors are predicted to see their lowest net profit margins in more than two years.

"Total expenses increased 8% to \$359.1 million for the third quarter compared to the prior year quarter. A portion of this increase is attributable to the inclusion of SurePayroll and ePlan in the third quarter. In addition, continued investment in product development and supporting technology contributed to the increase in total expenses." —Paychex (Mar. 28)

Higher Energy and Commodity Costs

One of the factors that may be contributing to these rising costs is higher energy and fuel costs. The average weekly price for Brent Oil (ICE) was \$106.27 during Q1 2011. For Q1 2012, the average weekly price for Brent Oil (ICE) was \$118.86. Higher fuel costs typically detract from earnings for companies in the Consumer Discretionary and Consumer Staples sectors, so it is not surprising to see those sectors with lower net profit margins and higher numbers of companies seeing sales growth and earnings declines relative to recent quarters.

"Our third-quarter results reflect strong worldwide sales growth for our business, but the 10-11 percent input cost inflation we're experiencing this year pressured our margins." – General Mills (Mar. 21)

"Fuel prices increased 30 percent to \$707 per metric ton for 1Q 2012 from \$543 per metric ton in 1Q 2011, costing the company an additional \$137 million. They were also higher than December guidance of \$652 per metric ton, costing an additional \$46 million." -Carnival Corp. (Mar. 9)



However, it is interesting to note that there hasn't been an uptick in negative EPS guidance from companies in the Consumer Discretionary and Consumer Staples sectors during Q1 2011. In fact, there have only been slightly more negative preannouncements (10) than positive preannouncements (8) issued by companies in the Consumer Discretionary sector. In the Consumer Staples sector, companies have issued three negative preannouncements compared to one positive preannouncement. The lack of a significant increase in negative guidance from companies in these two sectors could indicate that higher energy and fuel costs may not have a significant impact on earnings for these sectors in Q1 2012.

Slower GDP Growth in Emerging Markets and Europe

Another factor contributing to the expectation for flat earnings in Q1 2012 is slower economic growth in emerging markets and Europe.

Emerging Markets

Over the last few years, companies in the index have reported their largest revenue growth rates in "emerging markets" regions, as these countries had been recording strong economic growth.

However, economic growth in countries in emerging markets has been decreasing over the past year. According to FactSet Economics, three of the four "BRIC" countries have recorded slower GDP growth during this time. For Q1 2011, China, India and Brazil recorded GDP growth of 9.7%, 9.7% and 4.1%, respectively. By Q4 2011, GDP growth rates for China, India, and Brazil had fallen to 8.9%, 6.3% and 1.4%.

For Q1 2012, China recently announced that GDP growth was 8.1%, below year-ago GDP growth of 9.7%.

If these trends continue, companies may see weaker revenue and earnings growth from this region relative to prior quarters.

"BRIC countries (Brazil, Russia, India and China) generated revenue of \$3.1 billion, down 13% from the year-ago period, and representing 10% of total HP revenue." —HP (Feb. 22)

"The outlook also assumes a slowing growth trend of the Chinese economy." —Estee Lauder Cos. (Feb. 3)

Europe and F/X Rates

Economic growth in Europe has also fallen over the past year. In Q1 2011, the European Union recorded GDP growth of 2.4%. By Q4 2011, GDP growth in the European Union had fallen to 0.9%.

The continuing weakness in Europe is contributing to another factor that will have a negative impact on revenue and earnings growth in Q1 2012: less favorable foreign exchange rates. Over the past year, companies have recorded a boost to revenues due to the weakness of the 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 in recent months. In Q1 2011, one Euro was equal to about \$1.37 U.S. dollars on average (weekly basis). For Q1 2012, one Euro was equal to about \$1.31 U.S. dollars on average (weekly basis).

"Changes in foreign currency exchange rates reduced reported futures orders by 3 percentage points." -NIKE (Mar. 22)

"The company is providing guidance about its expectations for the first quarter of 2012 to help investors understand the impact of exchange in the quarter. With a first quarter Euro exchange rate of approximately \$1.31/Euro, currency is expected to have approximately a 1 to 2 percent unfavorable impact on sales in the first quarter." – Merck (Mar. 6)



EPS Guidance: Fewer Negative Preannouncements Compared to Last Quarter

In terms of earnings guidance, the percentage of companies that have issued negative EPS guidance for their current fiscal quarter stands at 64%. To date, 104 companies (or 21%) of the 500 companies in the index have provided quarterly EPS guidance for their current fiscal quarter. Of these 104 companies, 67 companies have issued negative EPS guidance and 37 companies have issued positive EPS guidance.

At the sector-level, companies in the Health Care sector have been unusually pessimistic in their outlooks. All 13 companies that have issued EPS guidance in this sector issued projections below the expectations of analysts.

However, the number (and percentage) of companies issuing negative EPS guidance for the current fiscal quarter today is much lower than the number recorded at the same point in time in the previous quarter. On January 13, 110 companies had issued EPS guidance for the current fiscal quarter. Of these 110 companies, 82 (or 75%) had issued negative EPS guidance.

Return to Double-Digit Earnings Growth Projected for Q412 through Q213

Growth Rates Projected to Improve After Q1

While analysts are calling for flat earnings (0.0%) for Q1 2012, they expect earnings growth rates for Q2 2012 and Q3 2012 to be in the single-digit range at 7.1% and 4.8%.

However, the estimated earnings growth rates for Q4 2012 through Q2 2013 are predicted to jump to double-digit numbers at 16.2%, 14.2%, and 13.1%. For Q4 2012, analysts currently believe six of the ten sectors will report double-digit earnings growth, led by the Telecom Services (43.7%) and Materials (41.6%) sectors.

"Taken on the whole, we believe demand growth will begin to gain momentum as we move through the second quarter and the remainder of the year and we see meaningful improvements in Asia, Latin America, Eastern Europe, Middle East and Africa and the United States..." –Dow Chemical (Feb. 2)

Downward Revisions to Estimates for Q112 - Q312, Little Change to Estimates for Q412 and Q113

It is interesting to note that while analysts have substantially reduced their earnings estimates for Q1 2012 through Q3 2012 since September 30, they have left their estimates for Q4 2012 through Q2 2013 relatively unchanged during the time.

Since September 30, the Q1 2012 growth rate has dropped to 0.0% from 8.0%, the Q2 2012 growth rate has fallen to 7.1% from 13.5%, and the Q3 2012 growth rate has decreased to 4.8% from 13.4%.

During this same time frame, the Q4 2012 growth rate has actually increased to 16.2% from 14.5%, the Q1 2013 growth rate has dropped slightly to 14.2% from 15.0%, and the Q2 2013 growth rate has seen a small drop to 13.1% from 13.9%. To date, analysts have maintained confidence in these double-digit growth rate for the end of 2012 and early 2013. The markets will likely be watching for any changes to these expectations during the upcoming earnings season.

Valuation: Forward P/E Below 10-Year Average, But Up Since December 31

The current forward 12-month P/E ratio of 12.7 is well below the prior ten-year average forward 12-month P/E ratio of 14.5, but is higher than the 11.8 P/E ratio recorded at the start of the first quarter (December 31). The P/E ratio has increased during this time due to a significant increase in the price of the index (up 10.3% since December 31), combined with a small increase (2.3%) in the forward 12-Month EPS estimate for the index (to 109.07 from 106.72).

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 14.5, either future estimates will need to continue to decrease, the price of the index will need to continue to increase, or a combination of the two will need to occur.



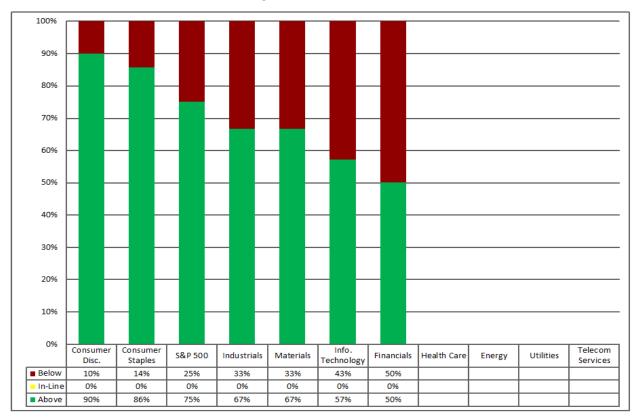
Companies Reporting Next Week

The upcoming week marks the start of the "peak" weeks of the Q1 2012 earnings season. During the upcoming week, 84 companies in the S&P 500 and 12 companies in the Dow 30 are scheduled to report earnings during the week.

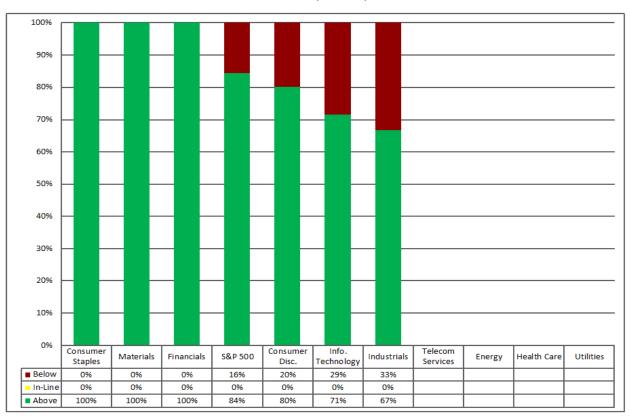
FACTSET

Q1 2012: Scorecard

Q1 2012 Earnings: Above, In-Line, Below Estimates



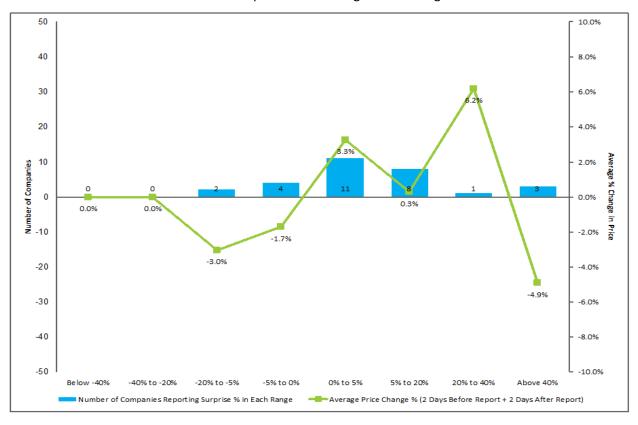
Q1 2012 Revenues: Above, In-Line, Below Estimates



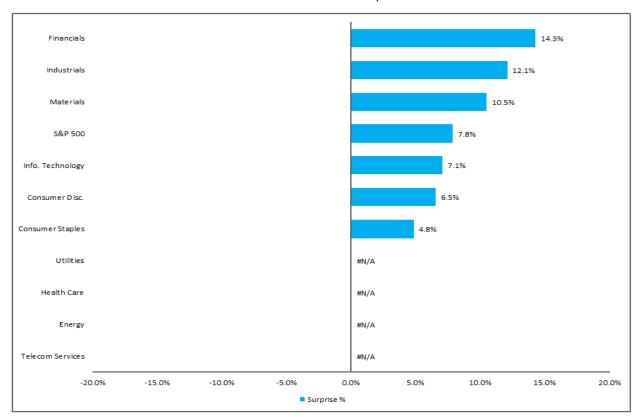


Q1 2012: Scorecard

Q1 2012: Surprise % vs. Average Price Change %



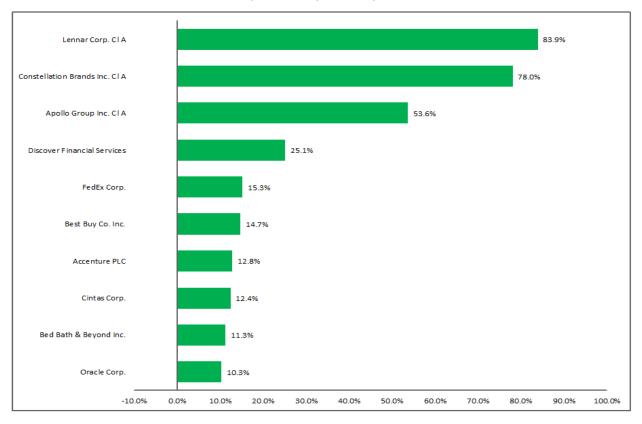
Q1 2012: Sector Level Surprise %



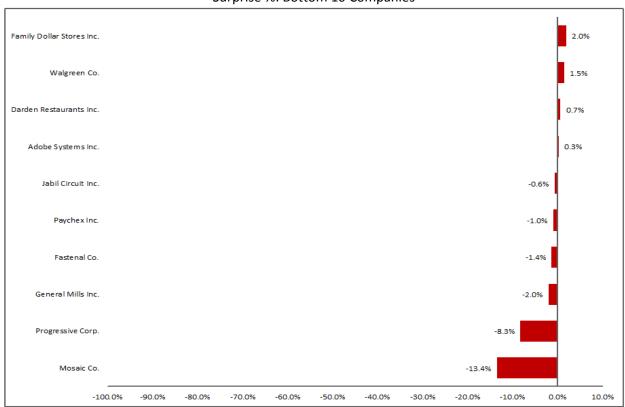


Q1 2012: Scorecard

Surprise %: Top 10 Companies



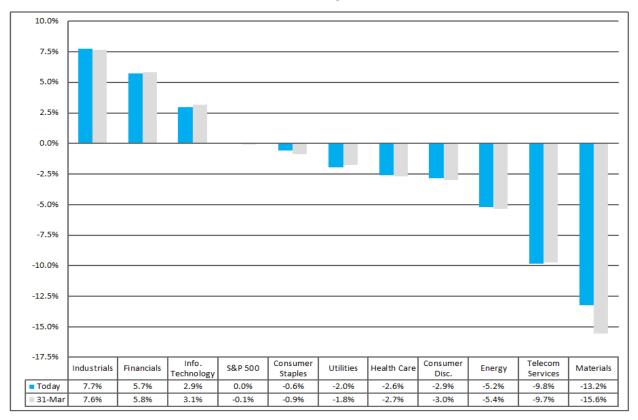
Surprise %: Bottom 10 Companies



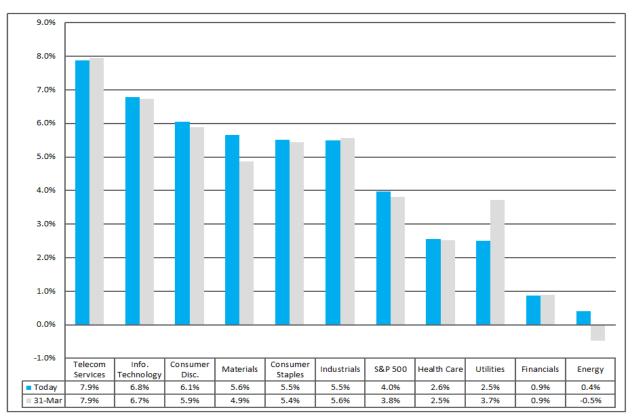


Q1 2012: Growth

Q1 2012 Earnings Growth



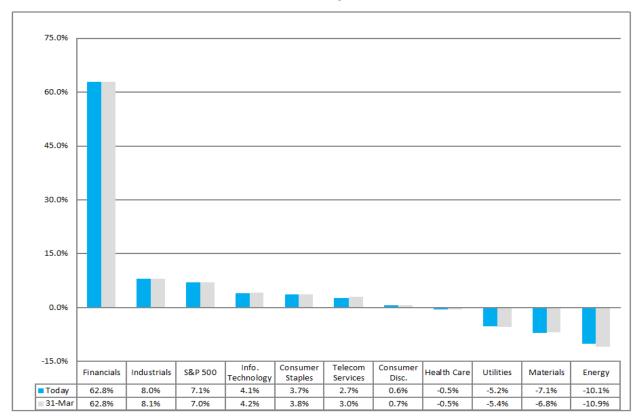
Q1 2012 Revenue Growth



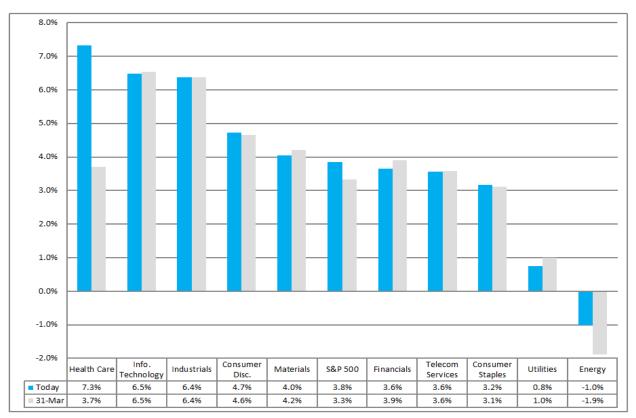


Q2 2012: Growth

Q2 2012 Earnings Growth



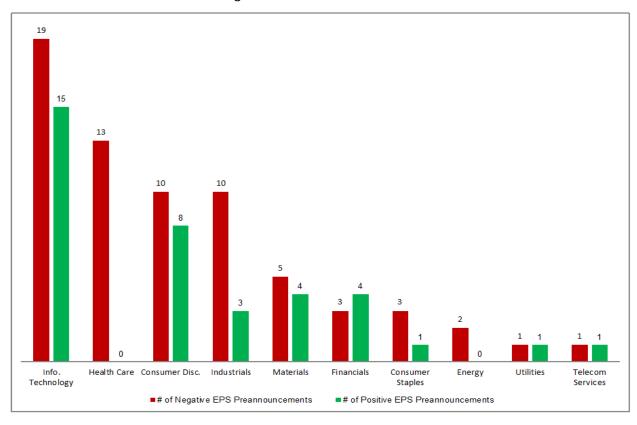
Q2 2012 Revenue Growth





Guidance: Current Fiscal Quarter

Number of Positive & Negative EPS Preannouncements: Current Fiscal Quarter



Percentage of Positive & Negative EPS Preannouncements: Current Fiscal Quarter



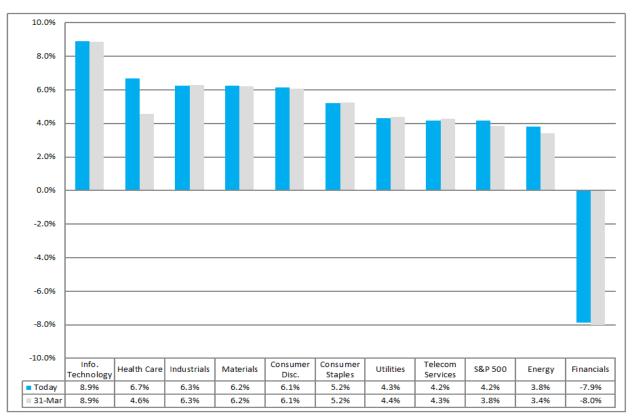


CY 2012: Growth

CY 2012 Earnings Growth



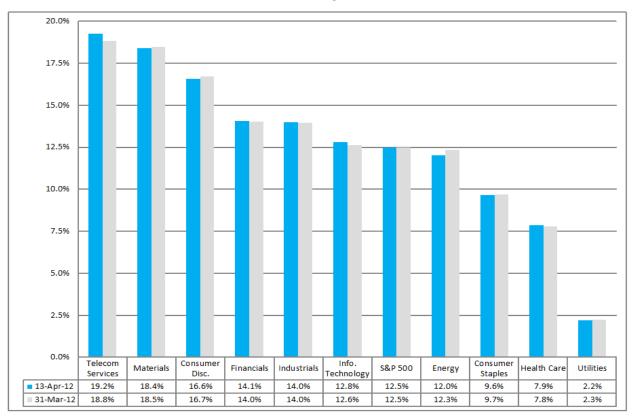
CY 2012 Revenue Growth



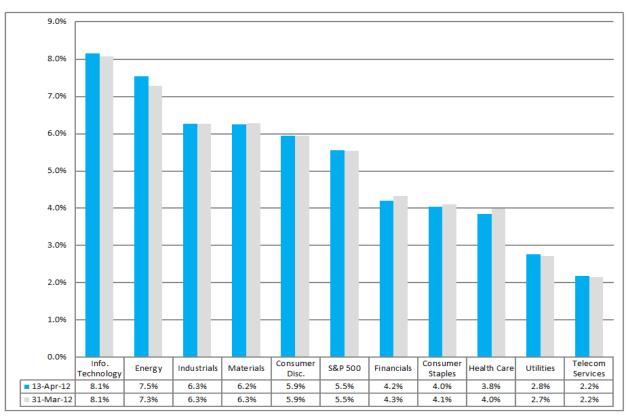


CY 2013: Growth

CY 2013 Earnings Growth



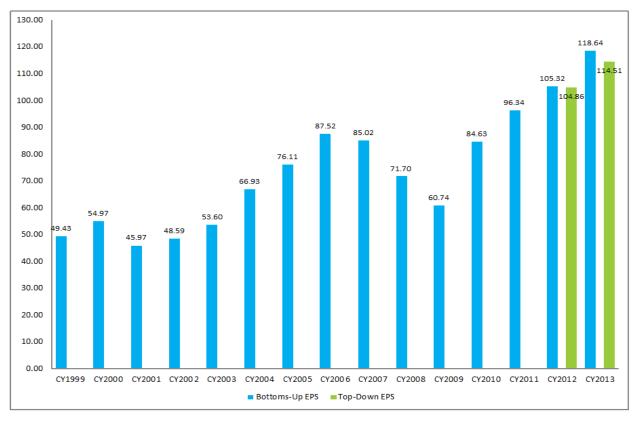
CY 2013 Revenue Growth



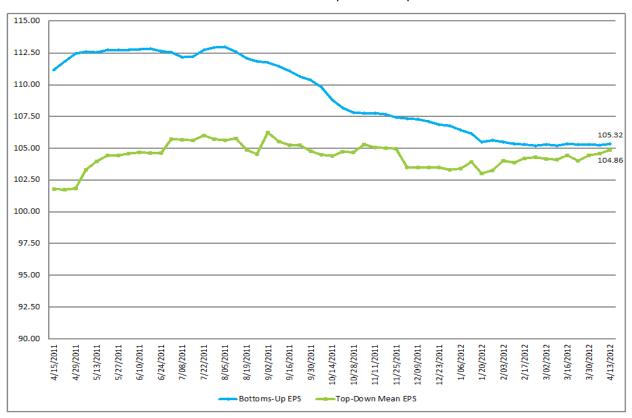


Bottoms-Up Estimates

Calendar Year Bottoms-Up EPS Actuals & Estimates



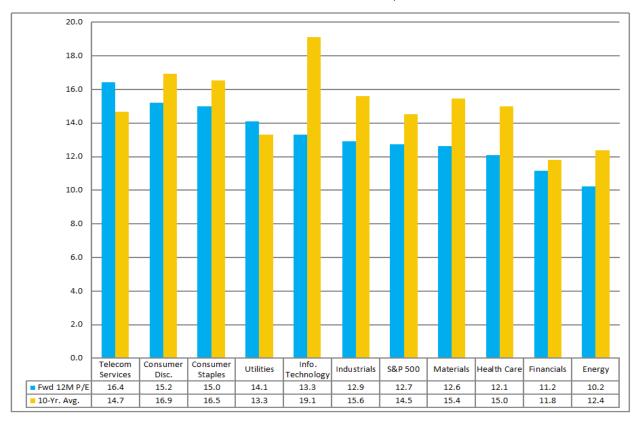
CY 2012 Estimates: Bottoms-Up EPS vs. Top Down EPS



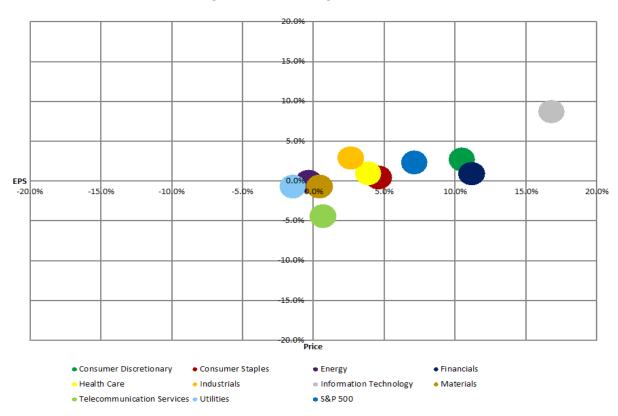


Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios



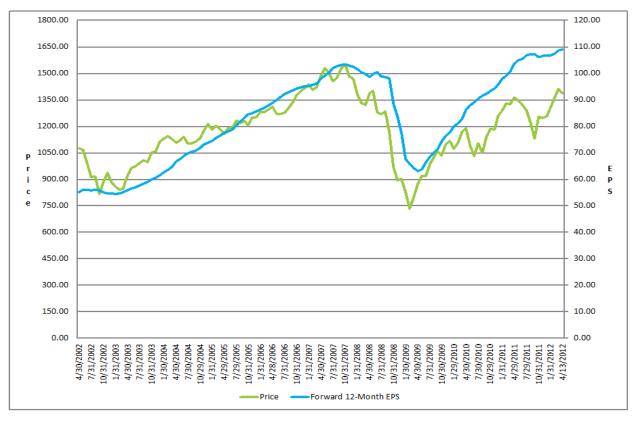
Sector-Level Change in Price vs. Change Forward 12M EPS: 3-Months



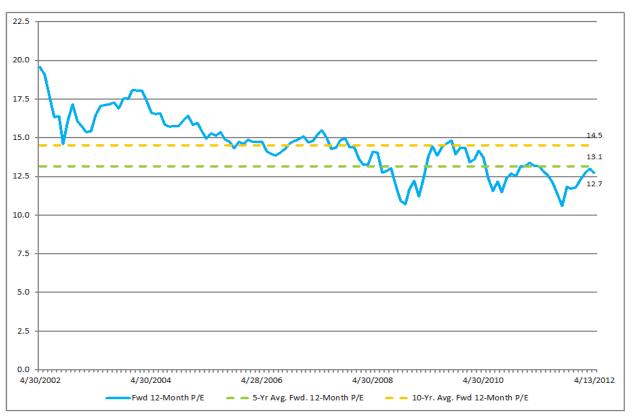


Price / Earnings Ratio: Long-Term Averages





Forward 12M P/E Ratio: 10-Years





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