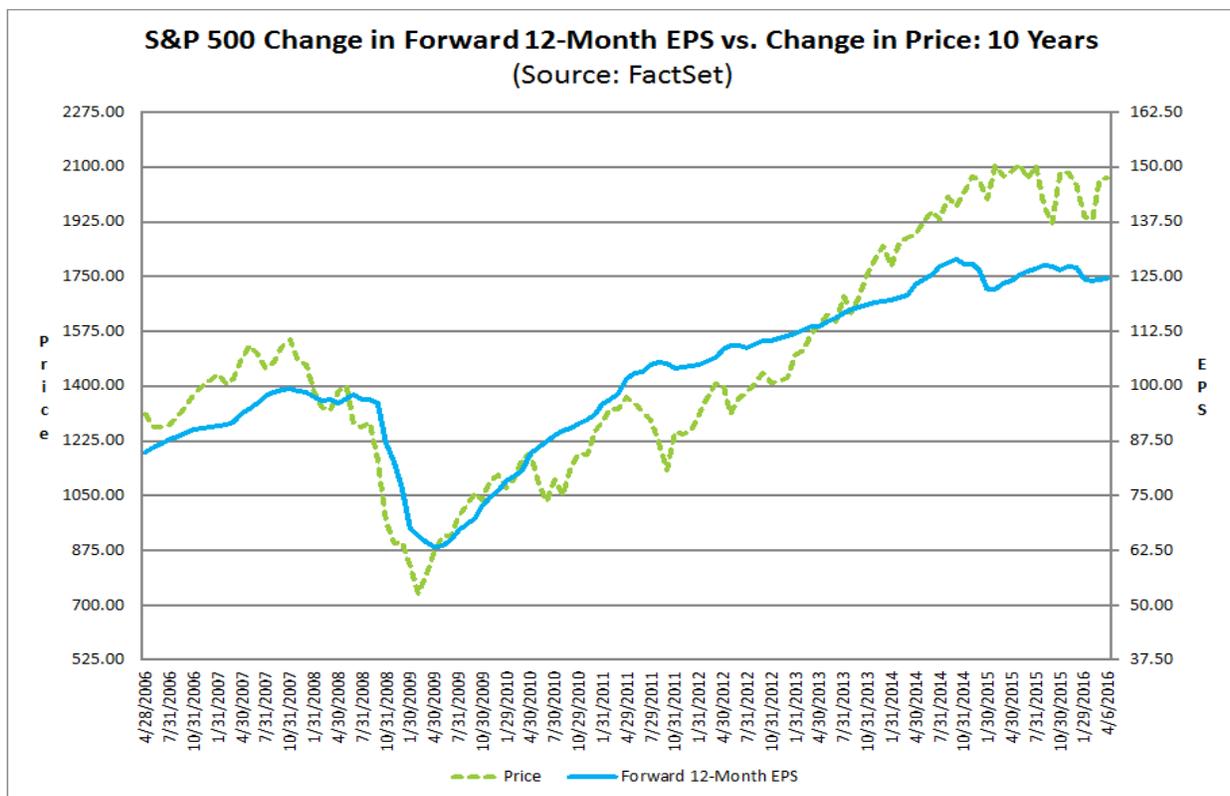


Key Metrics

- **Earnings Growth:** For Q1 2016, the estimated earnings decline is -9.1%. If the index reports a decline in earnings for Q1, it will mark the first time the index has seen four consecutive quarters of year-over-year declines in earnings since Q4 2008 through Q3 2009.
- **Earnings Revisions:** On December 31, the estimated earnings growth rate for Q1 2016 was 0.7%. All ten sectors have lower growth rates today (compared to December 31) due to downward revisions to earnings estimates, led by the Energy sector.
- **Earnings Guidance:** For Q1 2016, 94 companies have issued negative EPS guidance and 27 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio is 16.7. This P/E ratio is above the 5-year average (14.4) and the 10-year average (14.2)
- **Earnings Scorecard:** With 22 companies in the S&P 500 reporting earnings to date for Q1 2016, 19 have reported earnings above the mean estimate and 14 have reported sales above the mean estimate.



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Topic of the Week:

Will the S&P 500 Actually Report a Decline in Earnings for Q1 2016?

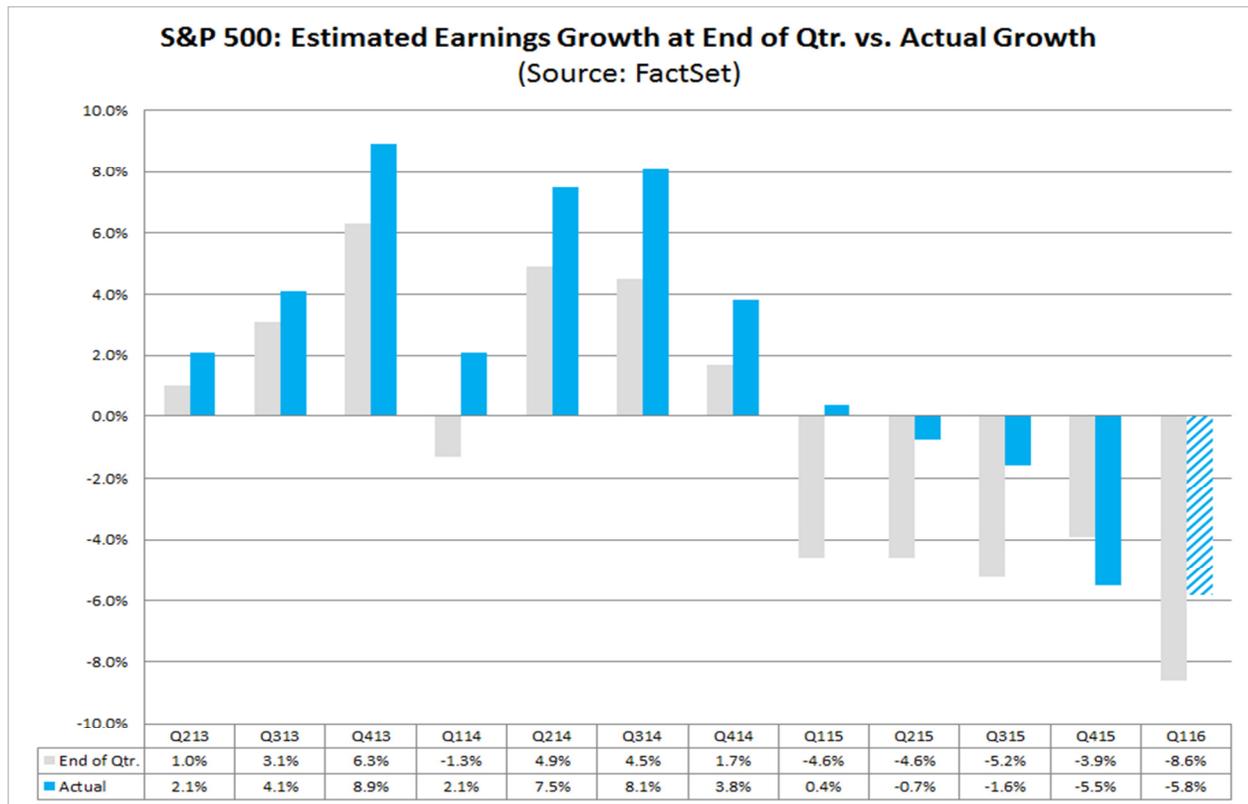
As of today, the S&P 500 is expected to report a year-over-year decline in earnings of 9.1% for the first quarter. What is the likelihood the index will report an actual earnings decrease of 9.1% for the quarter?

Based on the average change in earnings growth due to companies reporting actual earnings above estimated earnings, it is likely the index will report a smaller decline in earnings than 9.1%. However, based on this average, the index is still likely to report a year-over-year decrease in earnings for Q1.

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

Over the past four years on average, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 4.0%. During this same time frame, 67% of companies in the S&P 500 have reported actual EPS above the mean EPS estimates on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has typically increased by 2.8 percentage points on average (over the past 4 years) due to the number and magnitude of upside earnings surprises.

If this average increase is applied to the estimated earnings decline at the end of Q1 (March 31) of -8.6%, the actual earnings decline for the quarter would be -5.8% (-8.6% + 2.8% = -5.8%). If -5.8% is the actual earnings decline for the quarter, it will still mark the largest year-over-year decline in earnings for a quarter since Q3 2009 (-15.7%).



Q1 2016 Earnings Season: By the Numbers

Overview

In terms of estimate revisions for companies in the S&P 500, analysts have made higher cuts than average to earnings estimates for Q1 2016 to date. On a per-share basis, estimated earnings for the S&P 500 for the first quarter fell by 9.8% (to \$26.28 from \$29.13) during the quarter. This percentage decline was larger than the trailing 5-year average (-4.0%) and trailing 10-year average (-5.3%) for a quarter. In fact, this was the largest percentage decline in the bottom-up EPS estimate during a quarter since Q1 2009 (-26.9%).

In addition, a higher number and percentage of S&P 500 companies have lowered the bar for earnings for Q1 2016 relative to recent averages. Of the 121 companies that have issued EPS guidance for the first quarter, 94 have issued negative EPS guidance and 27 have issued positive EPS guidance. If 94 is the final number for the quarter, it will mark the second highest number of S&P 500 companies issuing negative EPS guidance for a quarter since FactSet began tracking the data in 2006. The percentage of companies issuing negative EPS guidance is 78% (94 out of 121), which is above the 5-year average of 73%.

As a result of the downward revisions to earnings estimates, the estimated year-over-year earnings decline for Q1 2016 is -9.1% today, which is below the expected earnings growth rate of 0.7% at the start of the quarter (December 31). Seven sectors are projected to report a year-over-year decline in earnings, led by the Energy and Materials sectors. Three sectors are predicted to report year-over-year earnings growth, led by the Telecom Services and Consumer Discretionary sectors.

As a result of downward revisions to sales estimates, the estimated sales decline for Q1 2016 is -1.2% today, which is below the estimated year-over-year sales growth rate of 2.7% at the start of the quarter. Five sectors are projected to report year-over-year growth in revenues, led by the Telecom Services and Health Care sectors. Five sectors are predicted to report a year-over-year decline in revenues, led by the Energy and Materials sectors.

Looking at future quarters, analysts do not currently project earnings and revenue growth to return until Q3 2016.

The forward 12-month P/E ratio is 16.7, which is still above the 5-year and 10-year averages.

During the upcoming week, 18 S&P 500 companies (including 1 Dow 30 component) are scheduled to report results for the first quarter.

Estimate Revisions: All 10 Sectors Have Seen Declines in Earnings Growth Expectations to Date

Small Increase in Projected Earnings Decline This Week for S&P 500

The estimated earnings decline for the first quarter is -9.1% this week, which is a slightly larger than the estimated earnings decline of -8.7% last week. Downward revisions to earnings estimates for companies in the Financials sector were mainly responsible for the small increase in the expected earnings decline for the index during the week. As a result, the projected earnings decline for the Financials sector increased to -10.9% from -9.1% over this time frame.

All 10 Sectors Have Seen Cuts to Earnings Growth Expectations to Date, Led By Energy

The current estimated earnings decline for Q1 2016 of -9.1% is well below the estimated earnings growth rate of 0.7% at the start of the quarter (December 31). All ten sectors have recorded a decline in expected earnings growth since the beginning of the quarter due to downward revisions to earnings estimates, led by the Energy, Materials, and Financials sectors.

The Energy sector has recorded the largest decrease in expectations for year-over-year earnings since the start of the quarter (to -103.8% from -43.8%). Overall, 34 of the 39 companies in this sector have seen downward revisions to EPS estimates for Q1 to date. Of these 34 companies, 25 have recorded EPS estimate cuts of 40% or more, led by EOG Resources (to -\$0.80 from -\$0.06), Cimarex Energy (to -\$0.38 from -\$0.05), and Occidental Petroleum (to -\$0.32 from \$0.06). However, the downward revisions to estimates for Exxon Mobil (to \$0.32 from \$0.75), Chevron (to -0.08 from \$0.55), and ConocoPhillips (to -\$0.82 from -\$0.19) have been the largest contributors to the increase in the projected earnings decline for this sector since December 31. Despite this significant drop in expected earnings, the Energy sector has witnessed an increase in price (+2.5%) since the start of the quarter.

The Materials sector has seen the second largest decrease in expectations for year-over-year earnings since the start of the quarter (to -21.9% from -1.3%). Overall, 26 of the 27 companies in this sector have recorded downward revisions to EPS estimates to date for Q1. Of these 26 companies, 17 have witnessed EPS estimate cuts of 10% or more, led by Freeport-McMoRan (to -\$0.17 from \$0.11), Mosaic (to \$0.14 from \$0.60), and Alcoa (to \$0.02 from \$0.08). The downward revisions to estimates for Freeport-McMoRan, DuPont (to \$1.04 from \$1.34), and Monsanto (to \$2.42 from \$3.01) have been the largest contributors to the increase in the projected earnings decline for this sector. Despite this substantial decrease in expected earnings, the Materials sector has also recorded an increase in price (+2.8%) since the start of the quarter.

The Financials sector has seen the third largest decrease in expectations for year-over-year earnings since the start of the quarter (to -10.9% from 1.5%). Overall, 70 of the 90 companies in this sector have seen downward revisions to EPS estimates to date for Q1. Of these 70 companies, 22 have recorded EPS estimate cuts of 10% or more, led by Leucadia (to -0.43 from 0.21) and Legg Mason (to -\$0.43 from \$0.73). However, the downward revisions to estimates for Citigroup (to \$1.09 from \$1.50), Bank of America (to \$0.22 from \$0.33), JPMorgan Chase (to \$1.26 from \$1.54), Goldman Sachs (to \$2.71 from \$4.98), and Morgan Stanley (to \$0.51 from \$0.91) have been the largest contributors to the decrease in the projected earnings growth rate for this sector. The Financials sector has witnessed the largest decrease in price (-6.2%) of all ten sectors since the start of the quarter.

Index-Level (Bottom-Up) EPS Estimate: Largest Decline since Q1 2009

Downward revisions to earnings estimates in aggregate for the first quarter were well above recent averages. The percentage decline in the Q1 bottom-up EPS estimate (which is an aggregation of the earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) for the quarter was -9.8% (to \$26.28 from \$29.13). This decline in the EPS estimate for Q116 was above the trailing 1-year (-4.4%) average, the trailing 5-year (-4.0%), and the trailing 10-year average (-5.3%) for the bottom-up EPS estimate for an entire quarter.

In fact, this was the largest percentage decline in the bottom-up EPS estimate for a quarter since Q1 2009 (-26.9%).

Guidance: Negative EPS Guidance (78%) for Q1 above Average

At this point in time, 121 companies in the index have issued EPS guidance for Q1 2016. Of these 121 companies, 94 have issued negative EPS guidance and 27 have issued positive EPS guidance. If 94 is the final number for the quarter, it will mark the second highest number of S&P 500 companies issuing negative EPS guidance for a quarter since FactSet began tracking the data in 2006. The percentage of companies issuing negative EPS guidance is 78% (94 out of 121), which is above the 5-year average of 73%.

For more details on guidance, please see our FactSet Guidance Quarterly report at the following link: www.factset.com/websitefiles/PDFs/guidance/guidance_3.31.16

Earnings: Projected Fourth Consecutive Quarter of Year-Over-Year Earnings Declines (-9.1%)

The estimated earnings decline for Q1 2016 is -9.1%. If this is the final earnings decline for the quarter, it will mark the first time the index has seen four consecutive quarters of year-over-year declines in earnings since Q4 2008 through Q3 2009. It will also mark the largest year-over-year decline in earnings since Q3 2009 (-15.7%). Only three sectors are projected to report year-over-year growth in earnings, led by the Telecom Services and Consumer Discretionary sectors. Seven sectors are projected to report a year-over-year decline in earnings, led by the Energy and Materials sectors.

Telecom Services: AT&T Leads Growth

The Telecom Services sector is expected to report the highest earnings growth at 13.2%. Of the five companies in the sector, AT&T is predicted to be the largest contributor to earnings growth. The mean EPS estimate for Q1 2016 (which reflects the combination of AT&T and DIRECTV) is \$0.69, compared to year-ago EPS (which reflects standalone AT&T) of \$0.63. If this company is excluded, the estimated earnings growth rate for the Telecom Services sector would fall to 1.5%.

Consumer Discretionary: Internet Retail and Auto Manufacturers Lead Growth

The Consumer Discretionary sector is projected to report the second highest earnings growth at 10.0%. At the sub-industry level, 22 of the 31 sub-industries are expected to report earnings growth for the quarter. Of these 22 sub-industries, 12 are predicted to report double-digit earnings growth, led by the Internet Retail (81%) and Automobile Manufacturers (49%) sub-industries. On the other hand, the Department Stores sub-industry (-37%) is expected to report the largest year-over-year decline in earnings for the quarter.

Energy: Largest Contributor to Earnings Decline for the S&P 500

The Energy sector is expected to report the largest year-over-year decline in earnings (-103.8%) of all ten sectors. The projected year-over-year decline is larger than -100% because the sector is now expected to report a small aggregate loss for Q1 2016 (-\$485 million), compared to year-ago aggregate earnings \$12.9 billion. All the sub-industries in this sector are projected to report a year-over-year drop in earnings: Integrated Oil & Gas (-87%), Oil & Gas Drilling (-79%), Oil & Gas Equipment & Services (-76%), Oil & Gas Refining & Marketing (-53%), Oil & Gas Storage & Transportation (-8%), and Oil & Gas Exploration & Production (NA).

This sector is also expected to be the largest contributor to the earnings decline for the S&P 500 as a whole. If the Energy sector is excluded, the estimated earnings decline for the S&P 500 would improve to -4.2% from -9.1%.

Materials: Weakness in Metals & Mining

The Materials sector is predicted to report the second largest year-over-year decline in earnings (-21.9%) of all ten sectors. At the industry level, three of the four industries in the sector are expected to report a year-over-year decrease in earnings: Metals & Mining (-102%), Chemicals (-17%), and Containers & Packaging (-11%).

Revenues: Projected Fifth Consecutive Quarter of Year-Over-Year Revenue Declines (-1.2%)

The estimated revenue decline for Q1 2016 is -1.2%. If this is the final sales decline for the quarter, it will mark the first time the index has seen five consecutive quarters of year-over-year declines in sales since FactSet began tracking the data in Q3 2008. Five sectors are projected to report year-over-year growth in revenues, led by the Telecom Services and Health Care sectors. Five sectors are predicted to report a year-over-year decline in revenues, led by the Energy and Materials sectors.

Telecom Services: AT&T Leads Growth

The Telecom Services sector is expected to report the highest revenue growth of all ten sectors at 12.2%. At the company level, AT&T is predicted to be the largest contributor to revenue growth for the sector. The company is expected to report sales of \$40.8 billion for Q1 2016 (which reflects the combination of AT&T and DIRECTV), compared to year-ago sales (which reflects standalone AT&T) of \$32.6 billion. If AT&T is excluded, the estimated revenue growth rate for the sector would fall to 1.6%.

Health Care: Broad-Based Growth

The Health Care sector is projected to report the second highest revenue growth of all ten sectors at 8.9%. All six industries in this sector are expected to report sales growth for the quarter, led by the Health Care Technology (17%), Biotechnology (12%), and Health Care Providers & Services (10%) industries.

Energy: Largest Contributor to Revenue Decline for the S&P 500

The Energy sector is expected to report the largest year-over-year decrease in sales (-29.0%) for the quarter. Five of the six sub-industries in the sector are projected to report a decrease in revenues: Oil & Gas Drilling (-45%), Oil & Gas Equipment & Services (-37%), Integrated Oil & Gas (-35%), Oil & Gas Exploration & Production (-31%), and Oil & Gas Refining & Marketing (-19%). On the other hand, the Oil & Gas Storage & Transportation (+5%) is the only sub-industry in the sector projected to see year-over-year growth in revenues for the quarter.

This sector is also expected to be the largest contributor to the revenue decline for the S&P 500 as a whole. If the Energy sector is excluded, the estimated revenue growth rate for the S&P 500 would jump to 1.7% from -1.2%.

Materials: Weakness in Metals & Mining and Chemicals

The Materials (-8.9%) sector is predicted to report the second largest year-over-year decrease in revenue of all ten sectors. Two of the four industries in the sector are expected to report a decline in sales for the quarter: Metals & Mining (-13%) and Chemicals (-12%).

Looking Ahead: Forward Estimates and Valuation

Earnings and Revenue Growth Not Expected to Return Until 2nd Half of 2016

For Q1 2016, S&P 500 companies are predicted to report year-over-year declines in both earnings (-9.1%) and revenues (-1.2%). Analysts currently do not expect earnings growth and revenue growth to return until Q3 2016.

As is usually the case, analysts are predicting significant increases in earnings and revenue growth in the 2nd half of the year. In terms of earnings, the estimated declines for Q1 2016 and Q2 2016 are -9.1% and -2.7%, while the estimated growth rates for Q3 2016 and Q4 2016 are 3.8% and 11.0%. In terms of revenues, the estimated declines for Q1 2016 and Q2 2016 are -1.2% and -0.7%, while the estimated growth rates for Q3 2016 and Q4 2016 are 1.9% and 4.3%.

For all of 2016, analysts are projecting earnings (+2.1%) and revenues (+1.6%) to increase year-over-year.

Valuation: Forward P/E Ratio is 16.7, above the 10-Year Average (14.2)

The forward 12-month P/E ratio is 16.7. At the sector level, the Energy (62.7) sector has the highest forward 12-month P/E ratio, while the Financials (12.4) sector has the lowest forward 12-month P/E ratio.

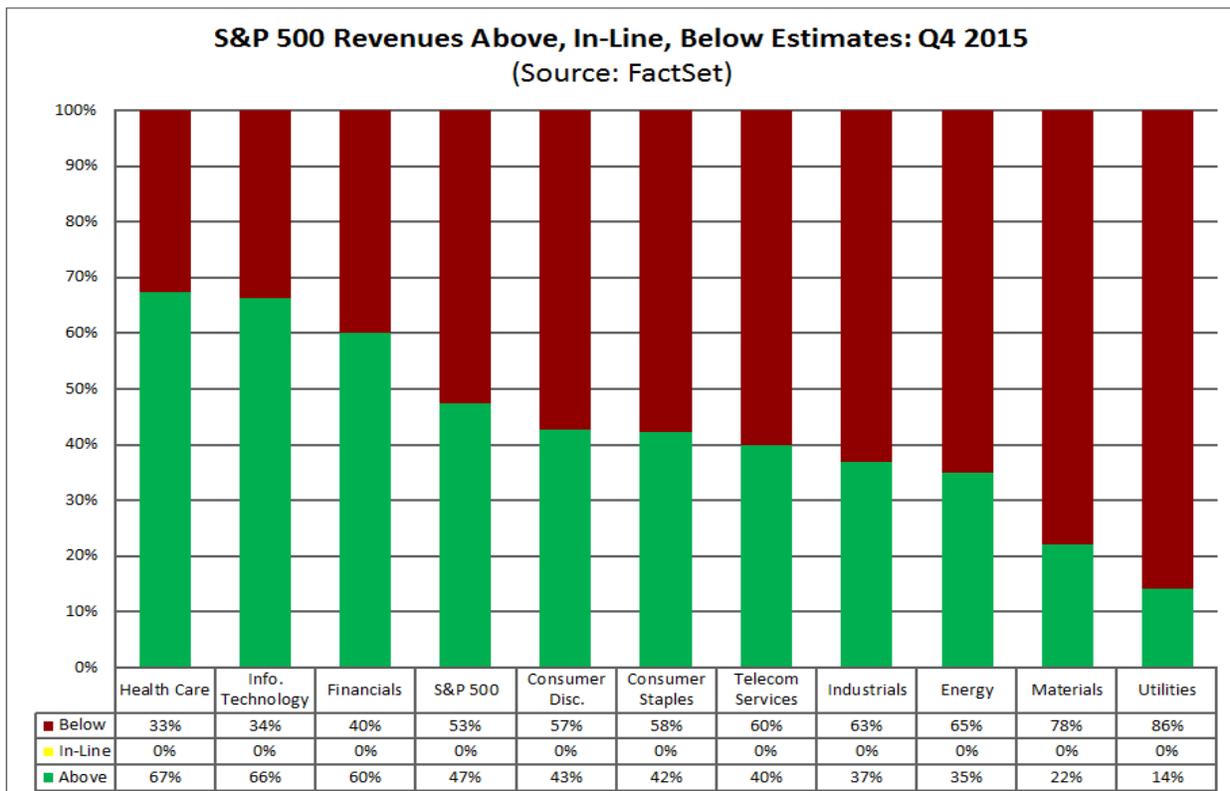
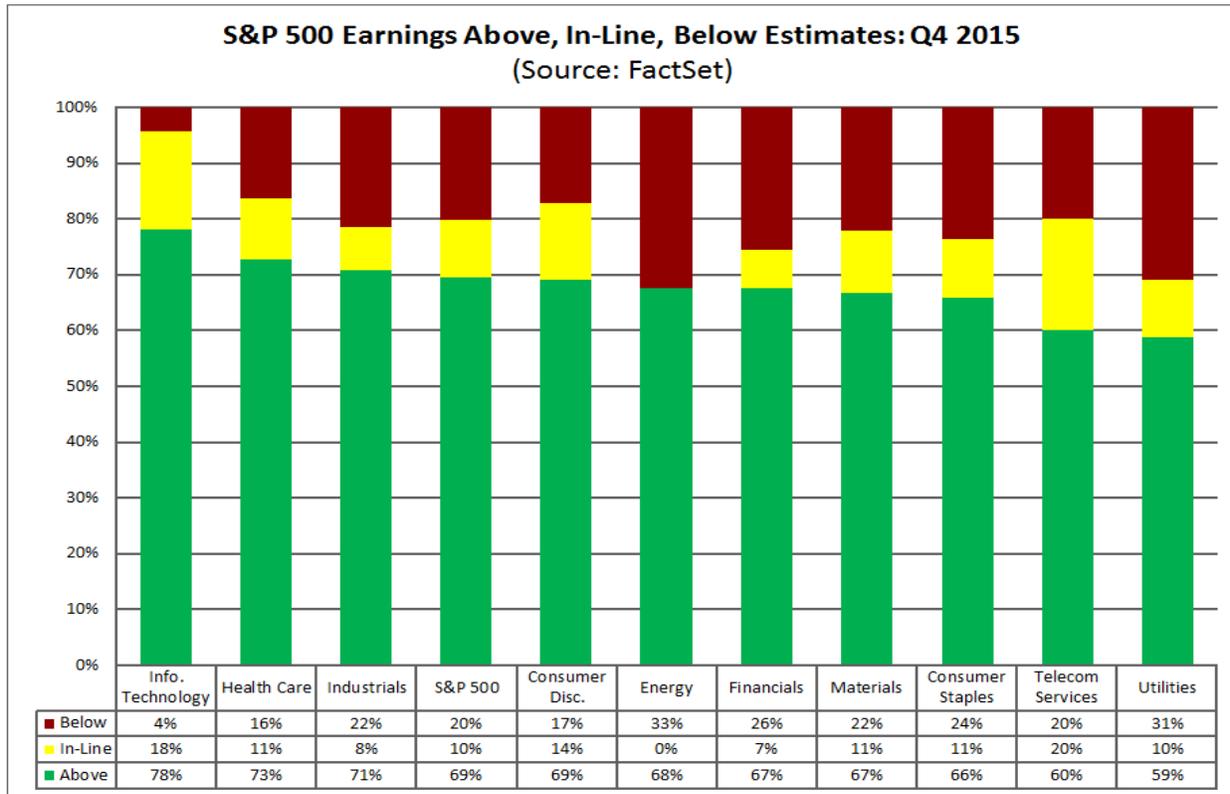
The P/E ratio of 16.7 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 14.4, and above the prior 10-year average forward 12-month P/E ratio of 14.2. It is also above the forward 12-month P/E ratio of 16.1 recorded at the start of the first quarter (December 31). Since the start of the first quarter, the price of the index has increased by 1.1%, while the forward 12-month EPS estimate has decreased by 1.9%.

Nine sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (62.7 vs. 14.4) sector. The only sector that has a forward 12-month P/E ratio below the 10-year average is Telecom Services (13.8 vs. 14.6).

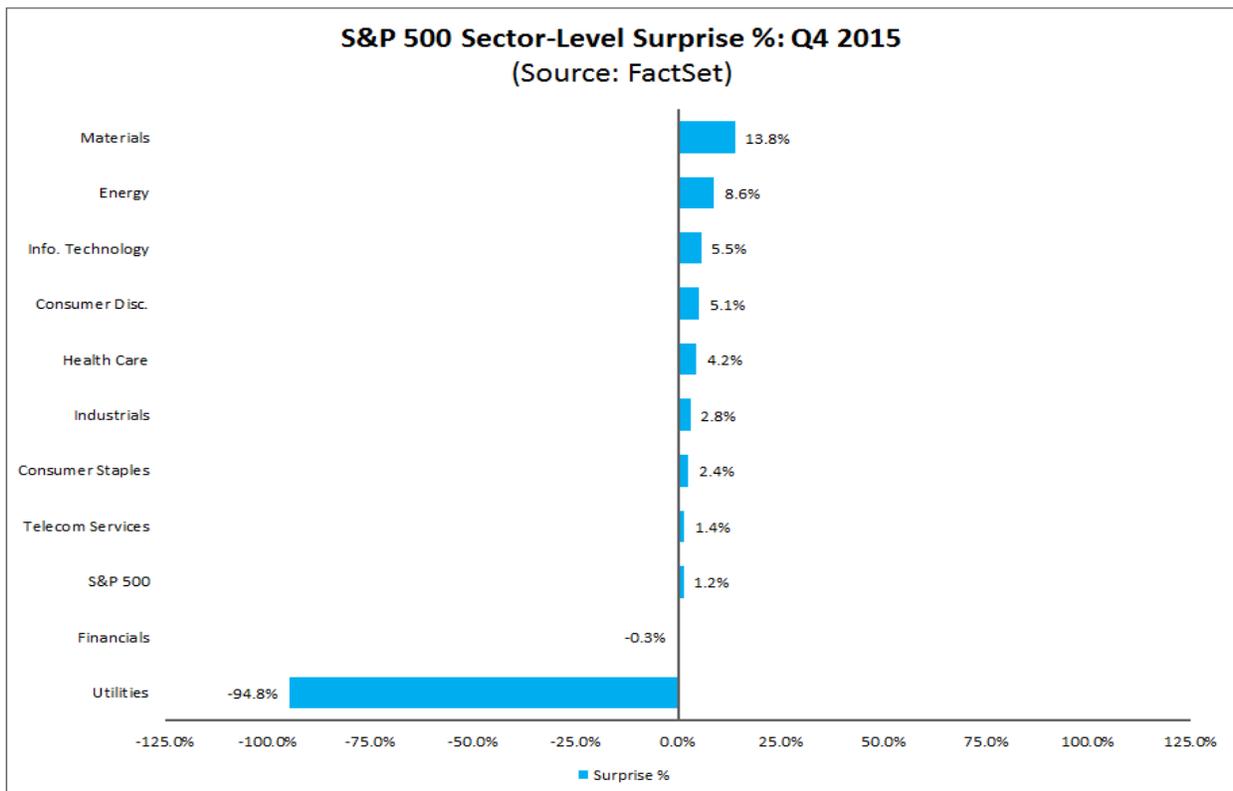
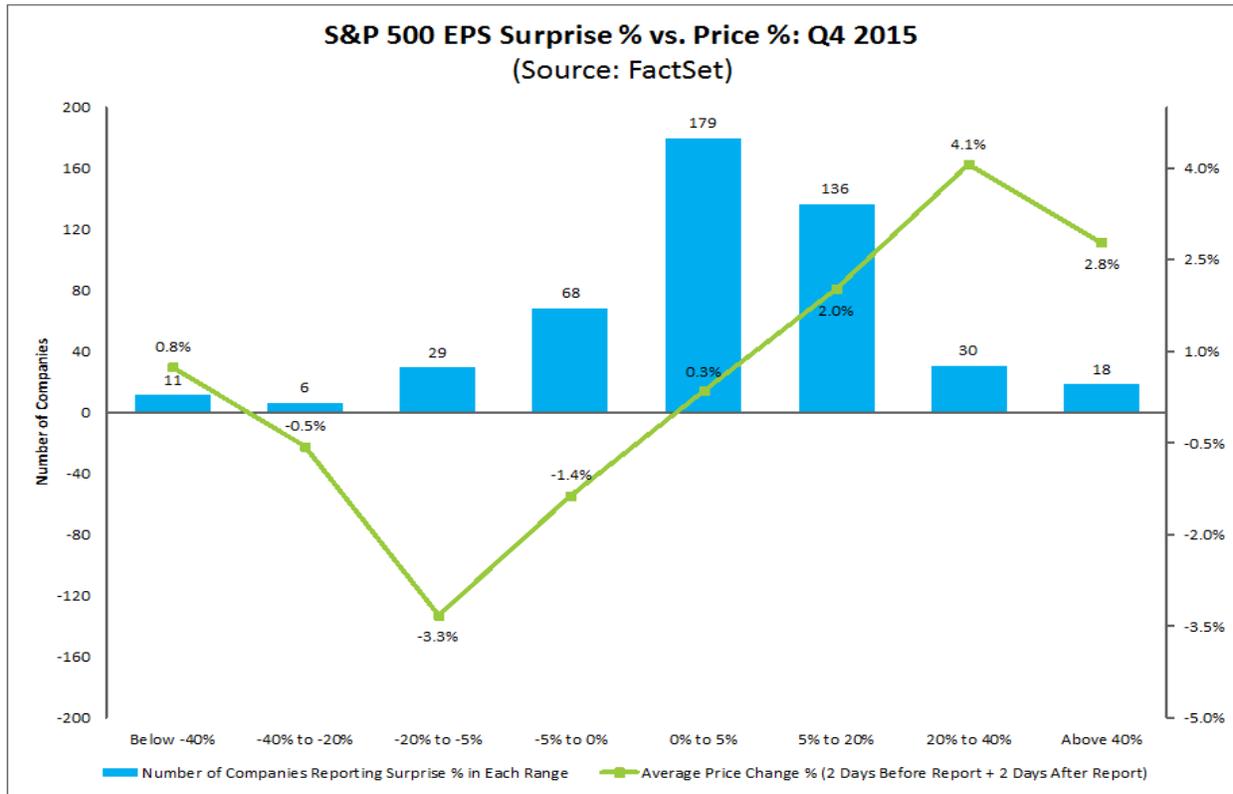
Companies Reporting Next Week: 18

During the upcoming week, 18 S&P 500 companies (including 1 Dow 30 component) are scheduled to report results for the first quarter.

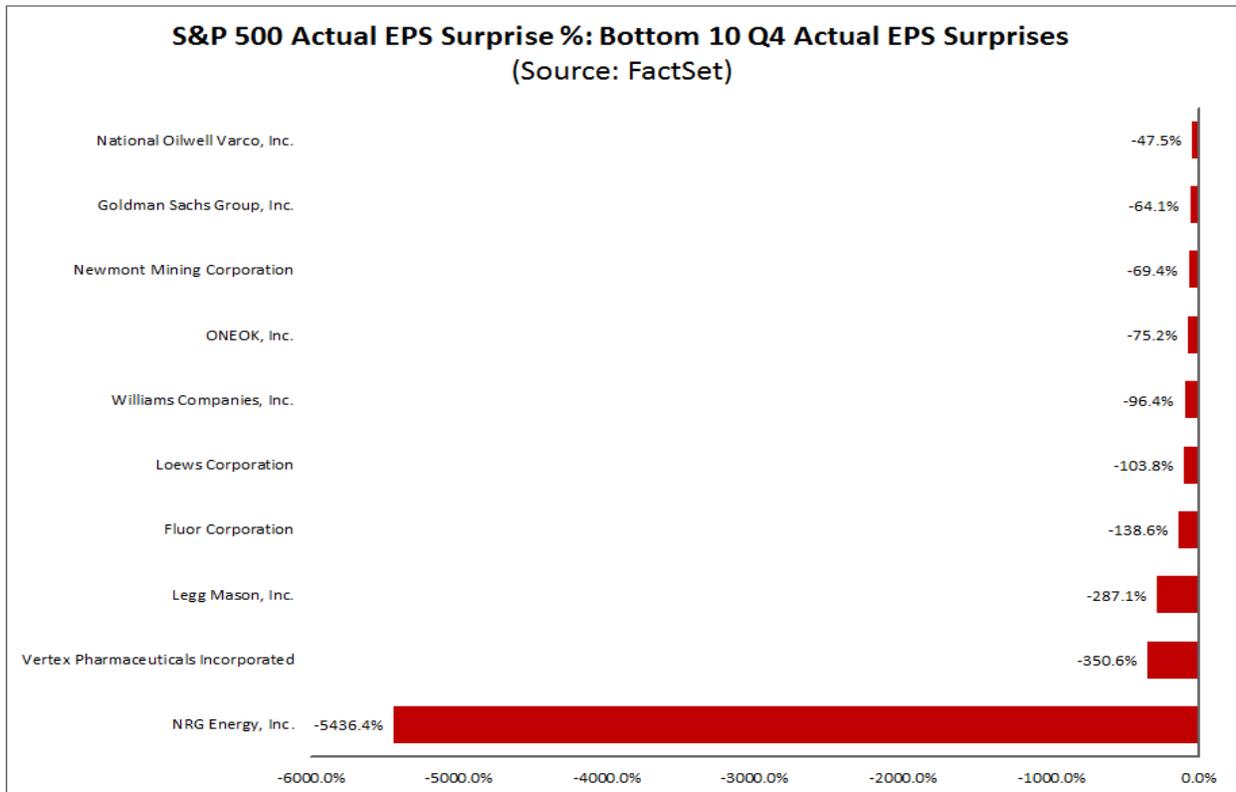
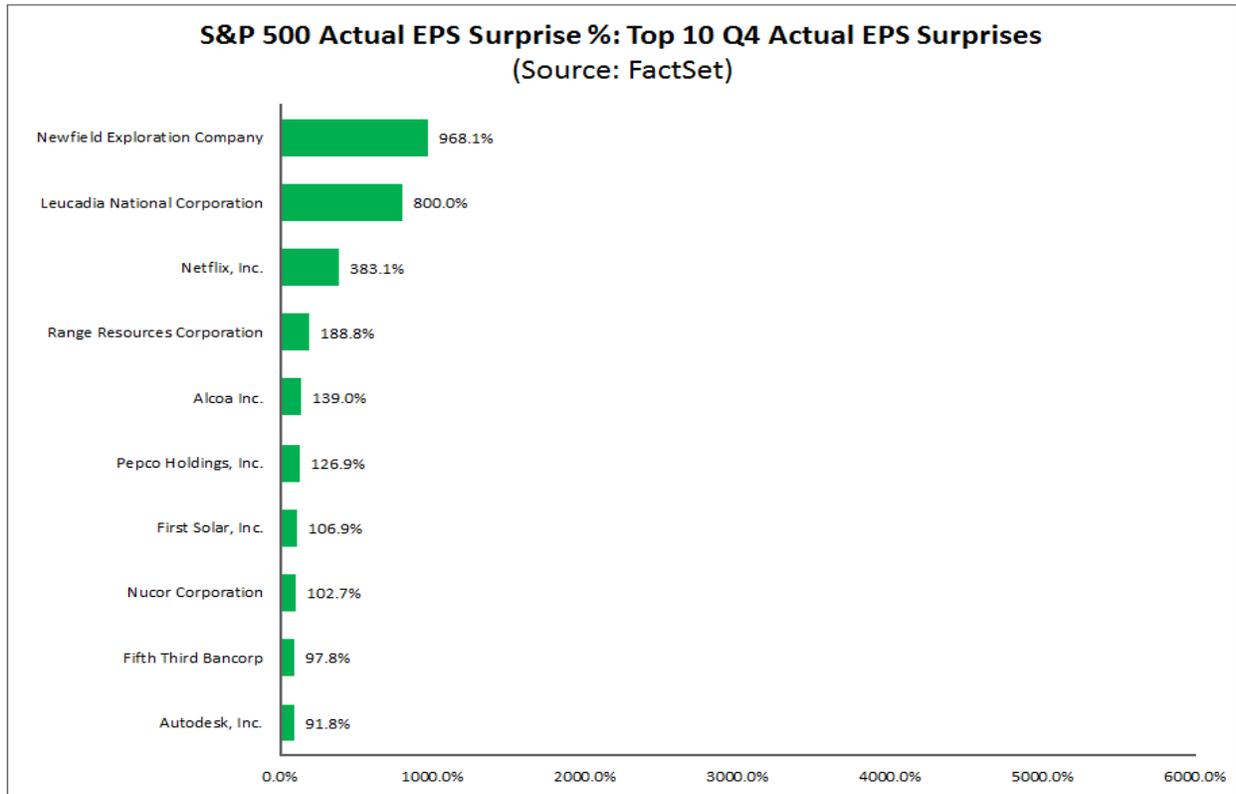
Q4 2015: Scorecard



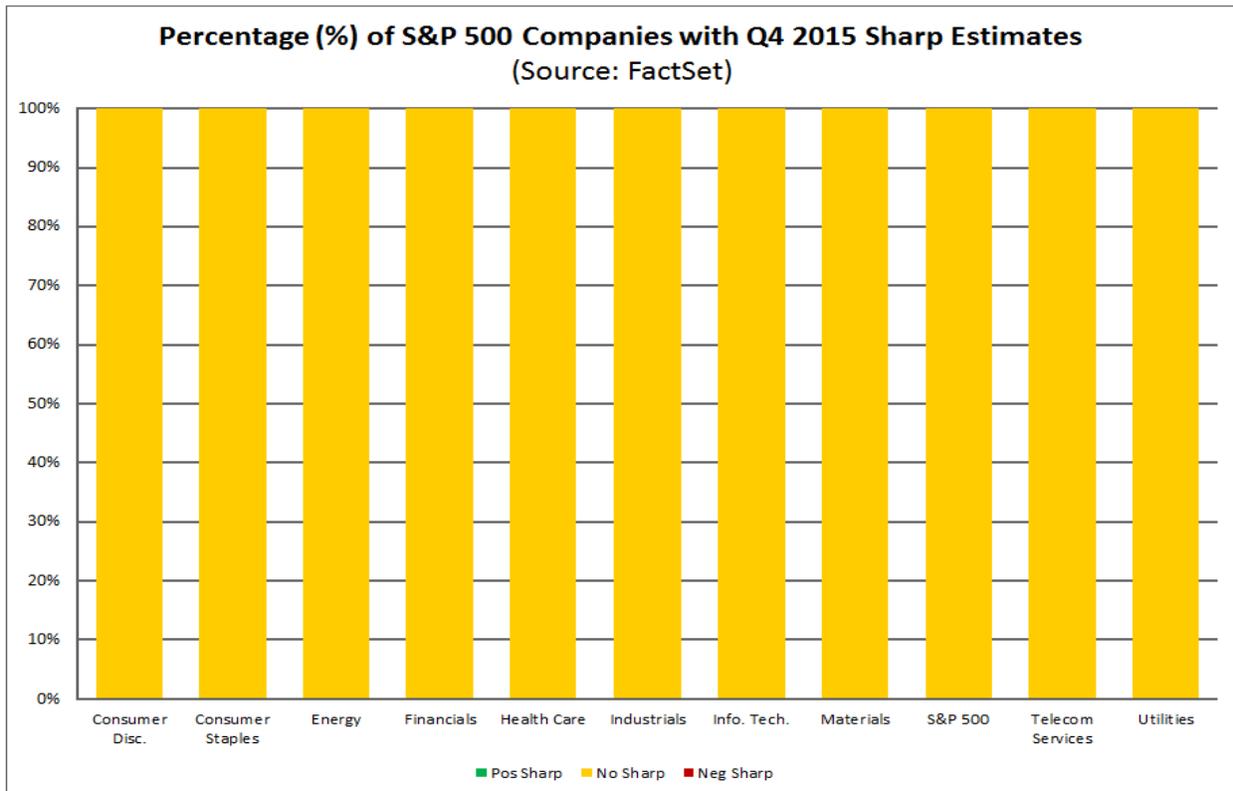
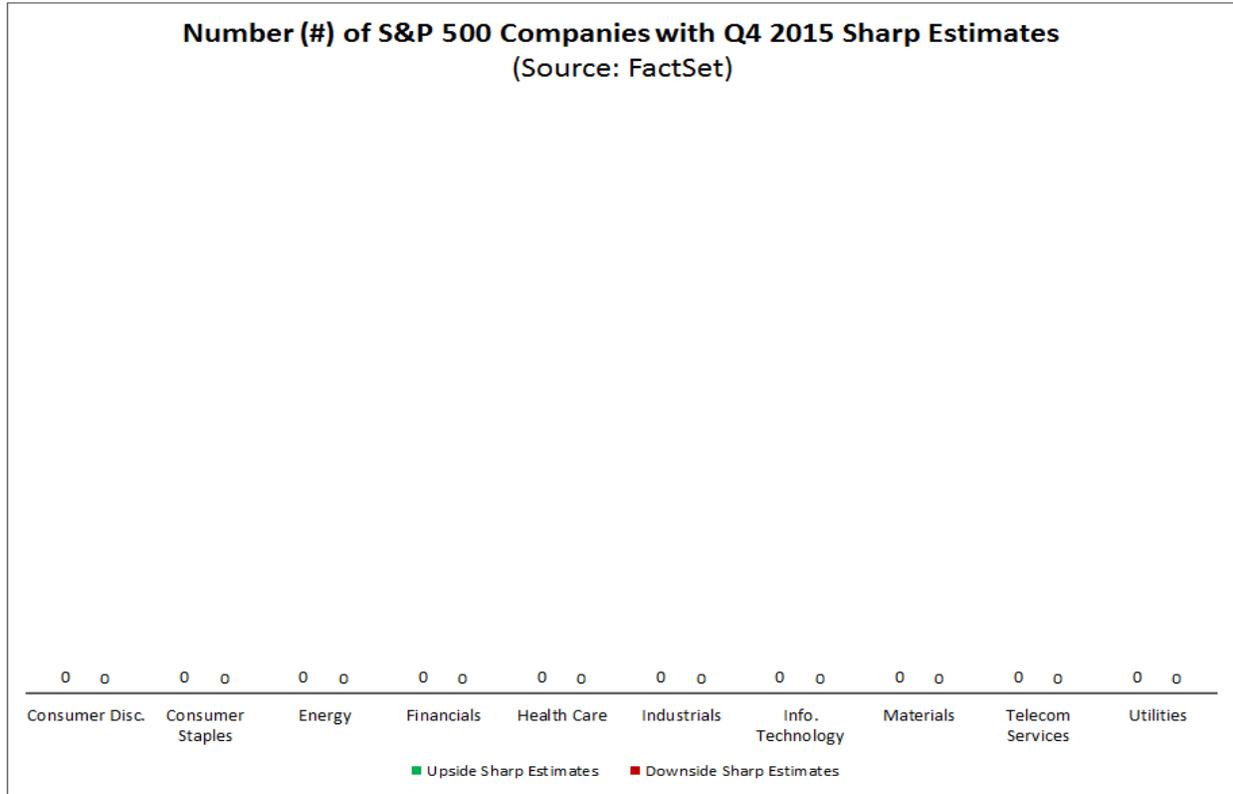
Q4 2015: Scorecard



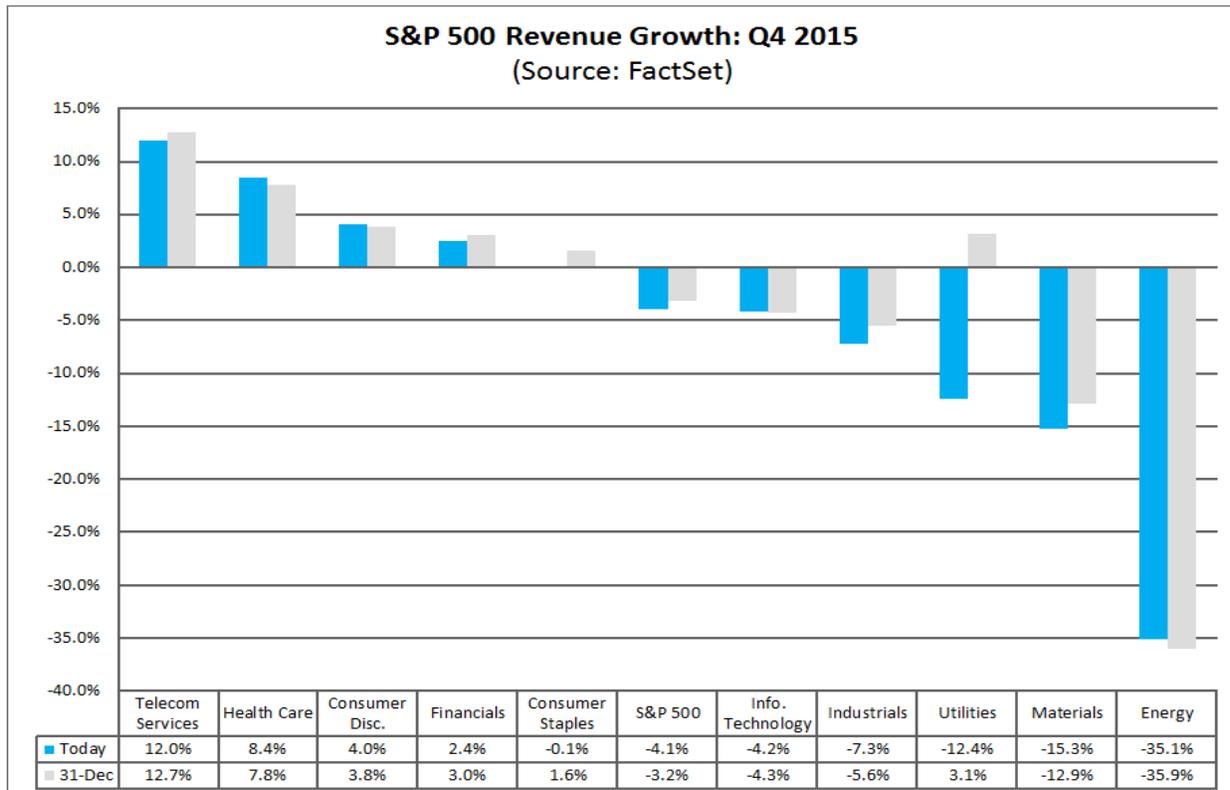
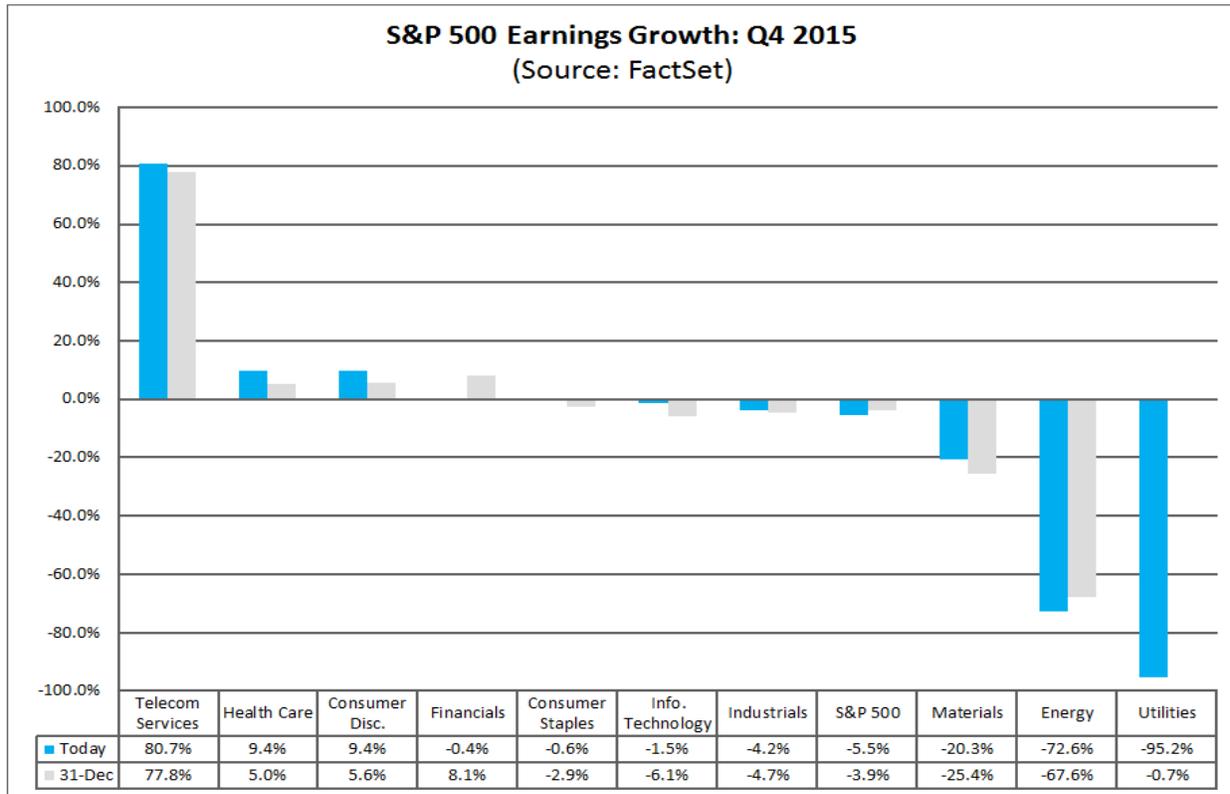
Q4 2015: Scorecard



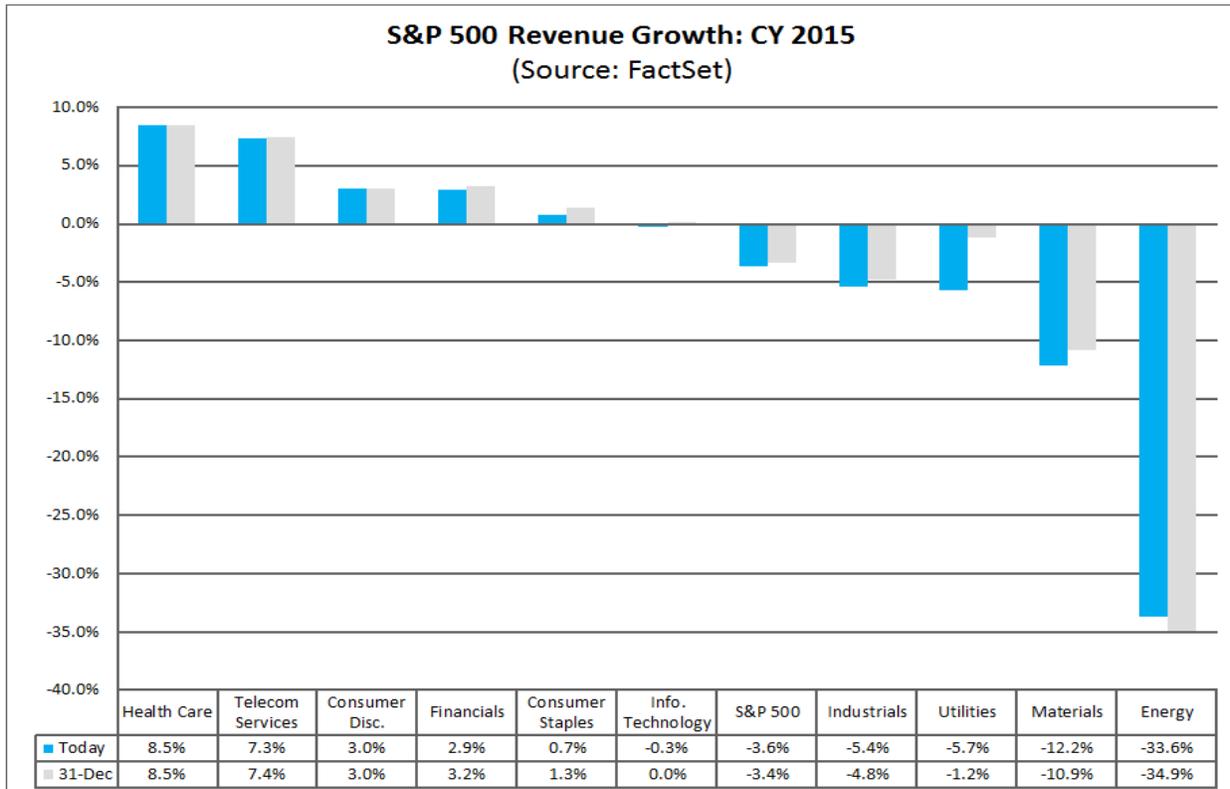
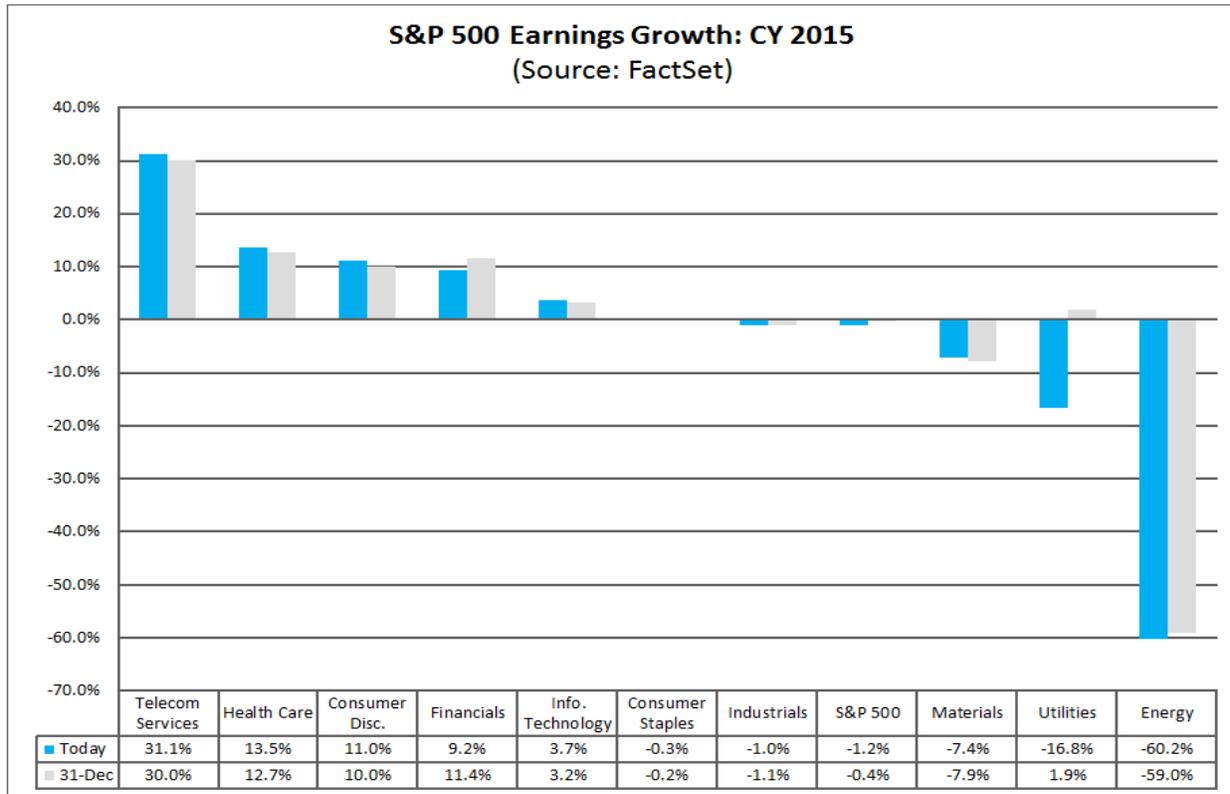
Q4 2015: Projected EPS Surprises (Sharp Estimates)



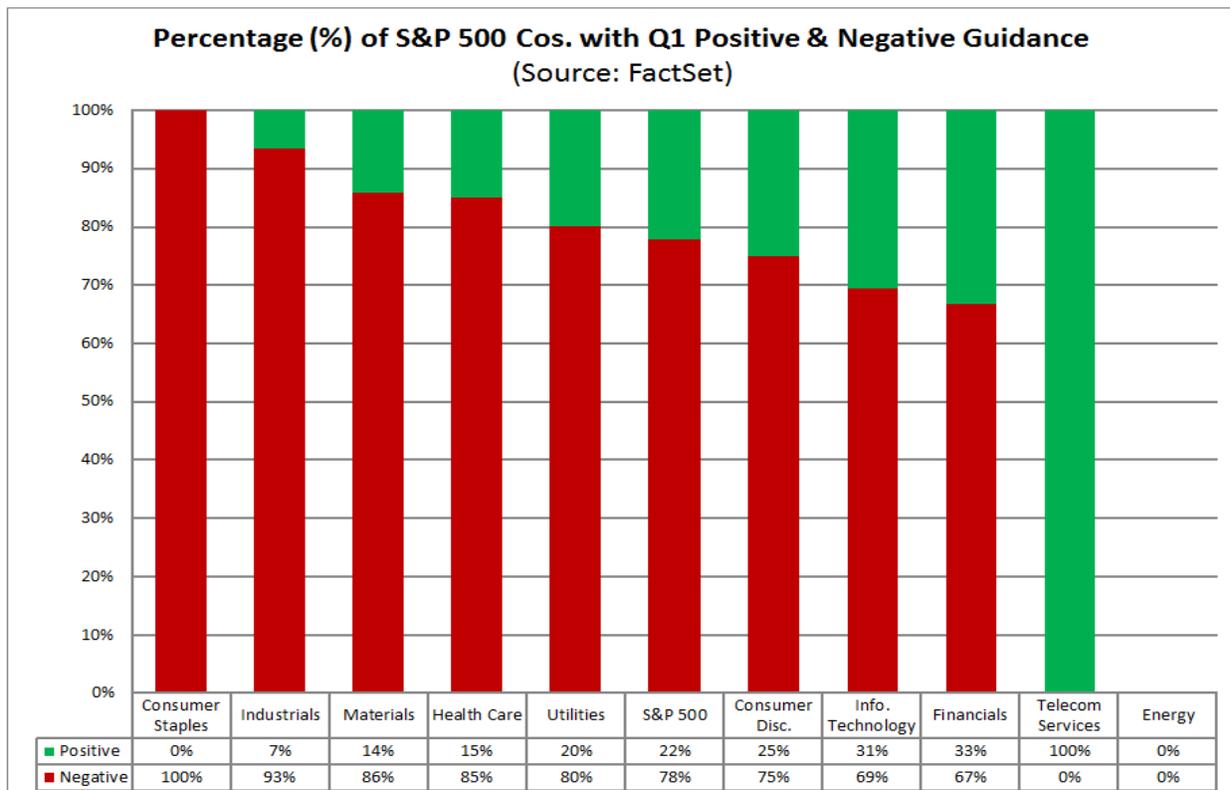
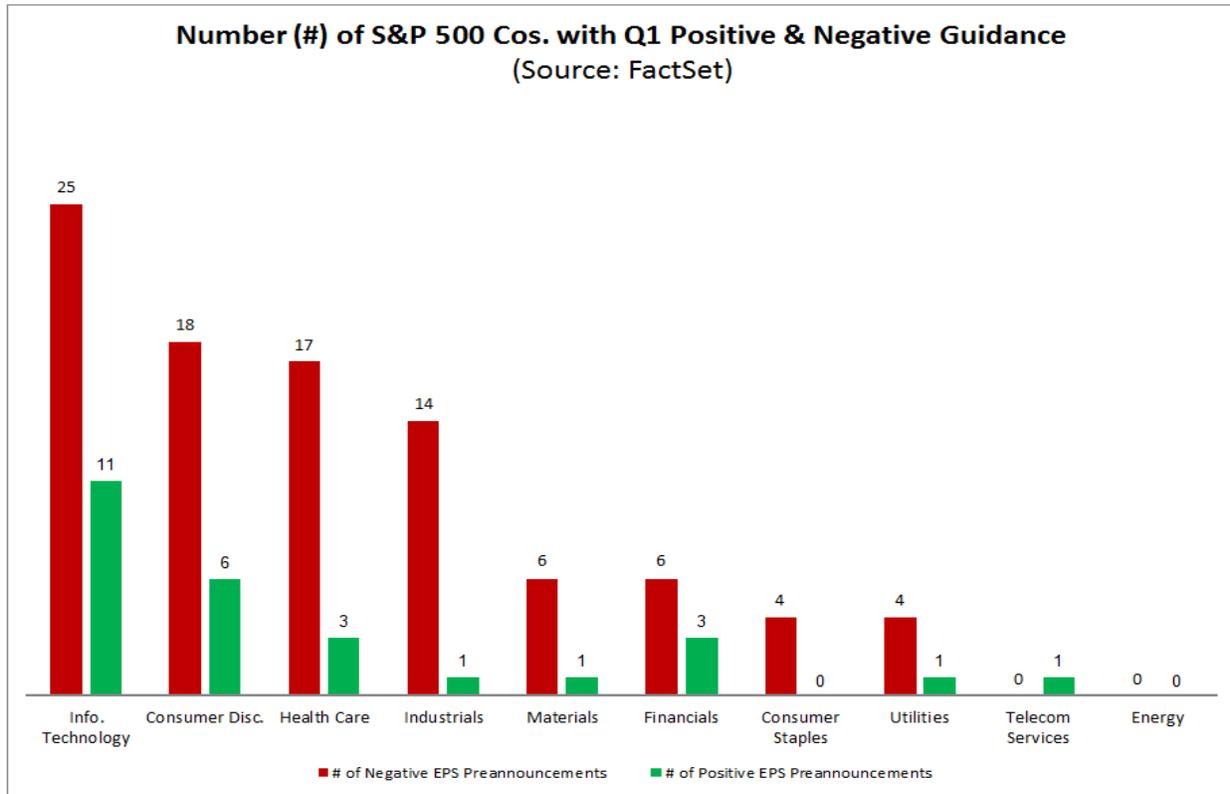
Q4 2015: Growth



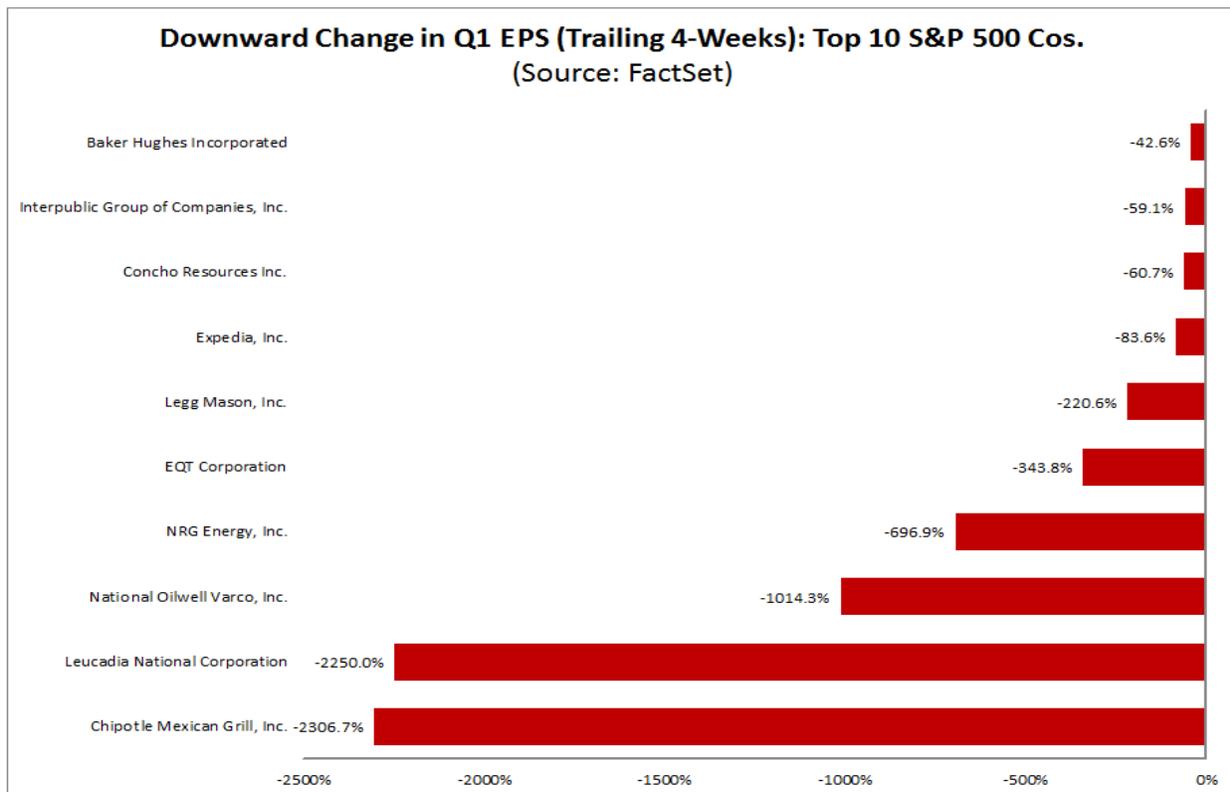
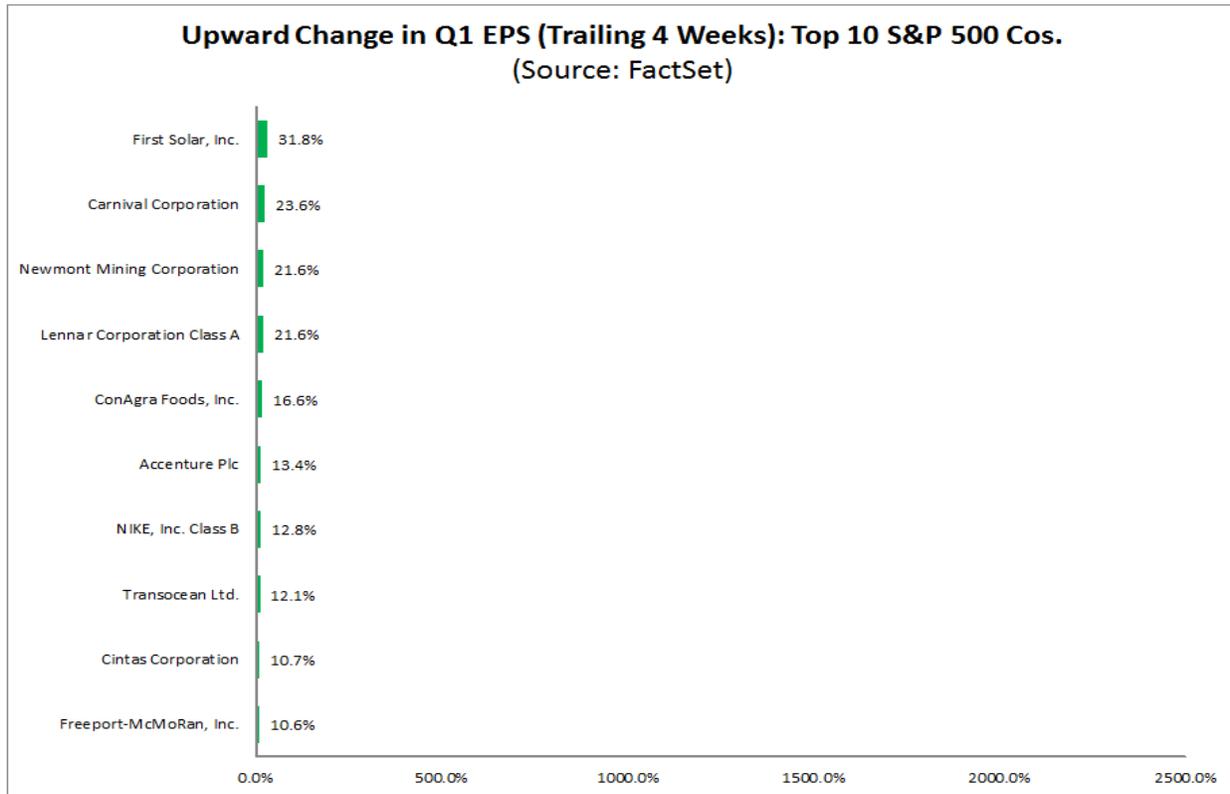
CY 2015: Growth



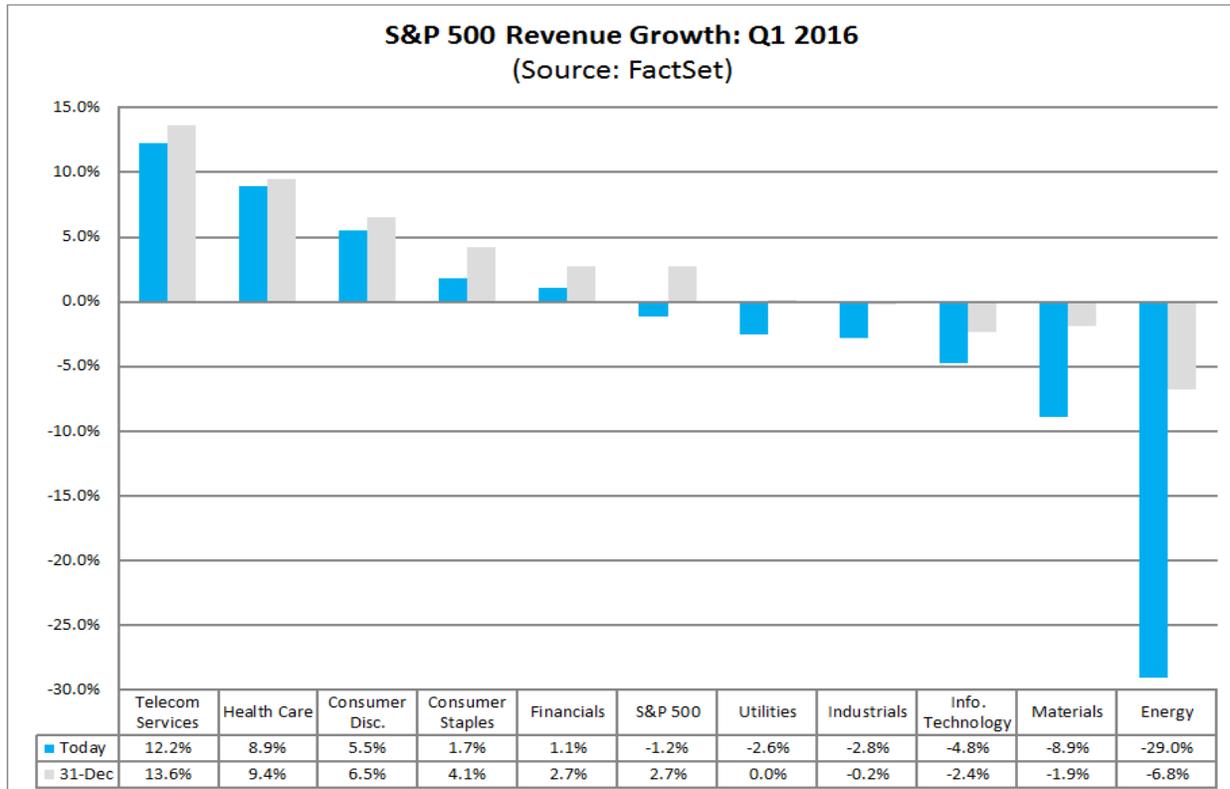
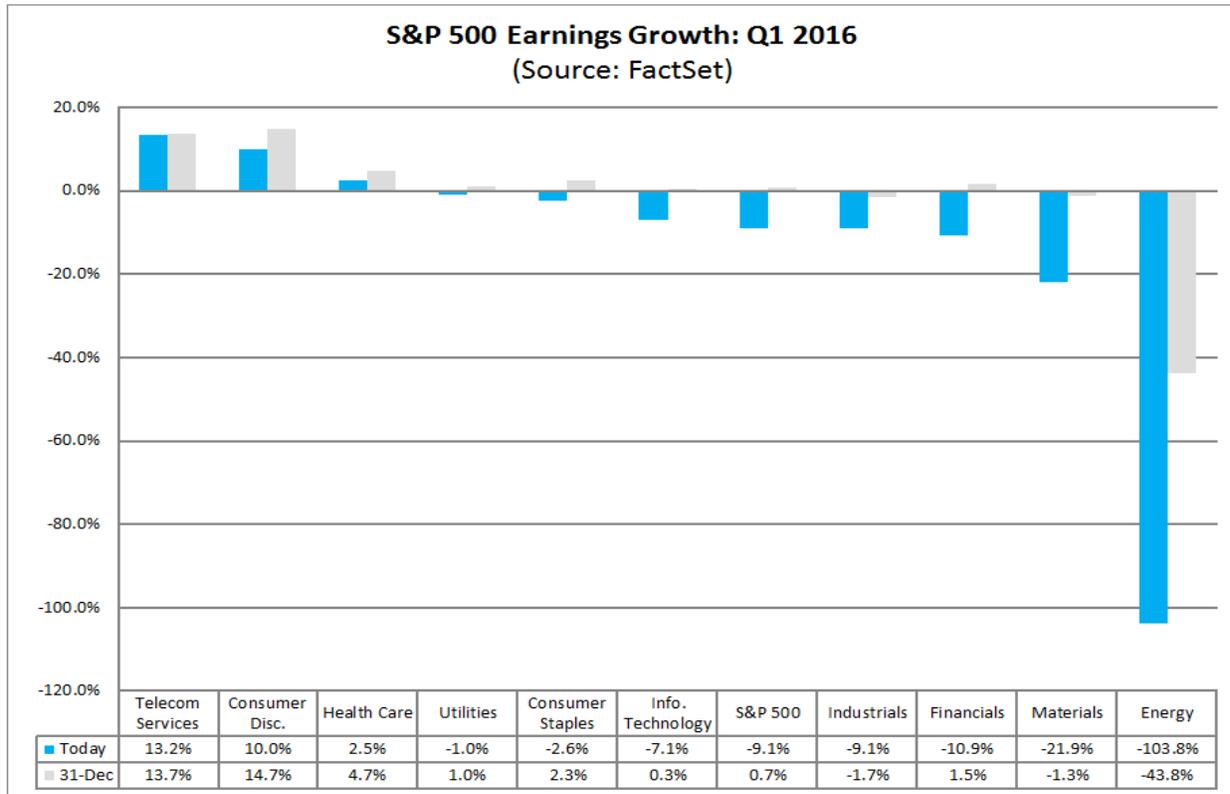
Q1 2016: EPS Guidance



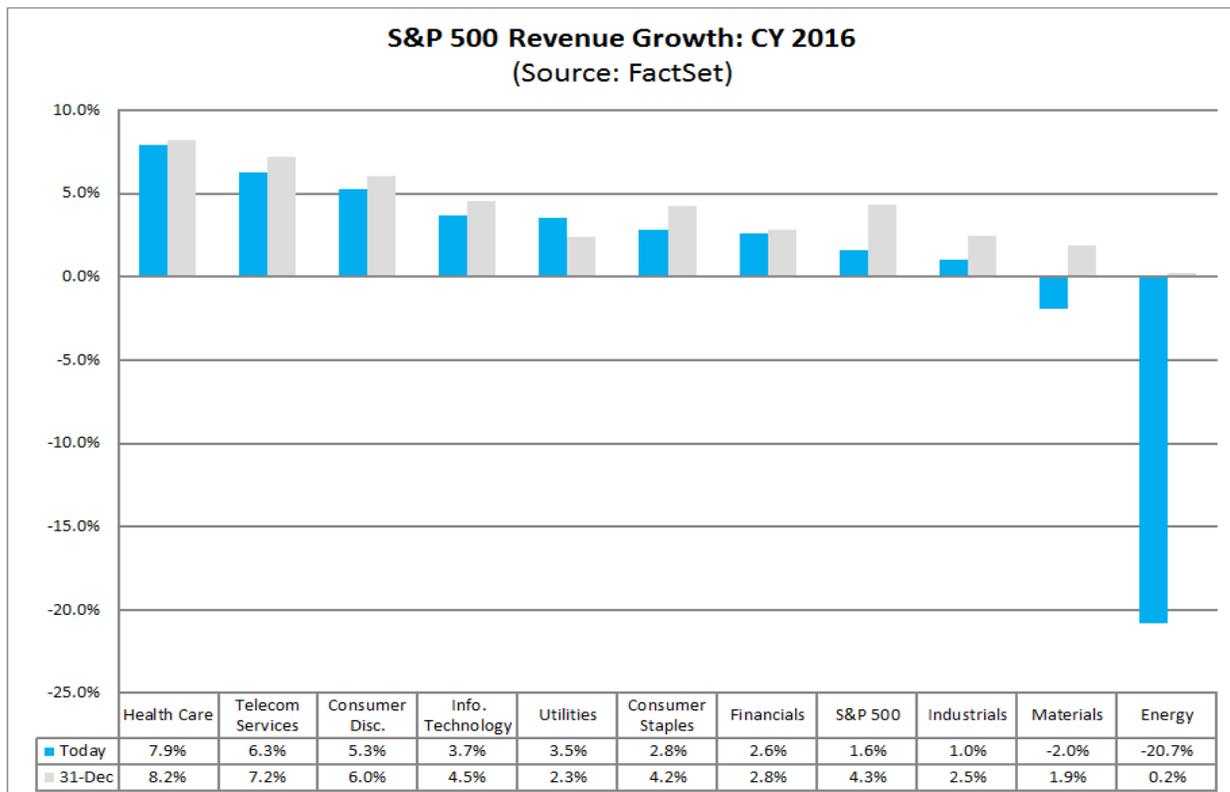
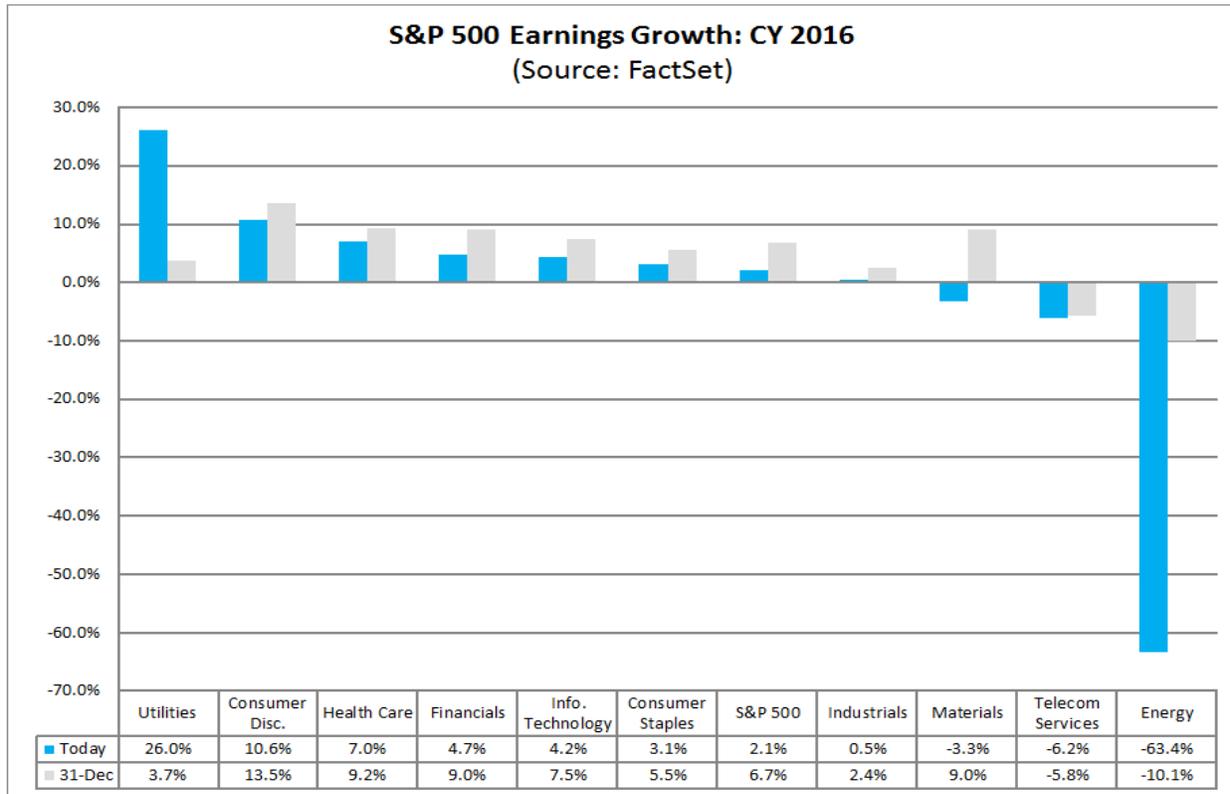
Q1 2016: EPS Revisions



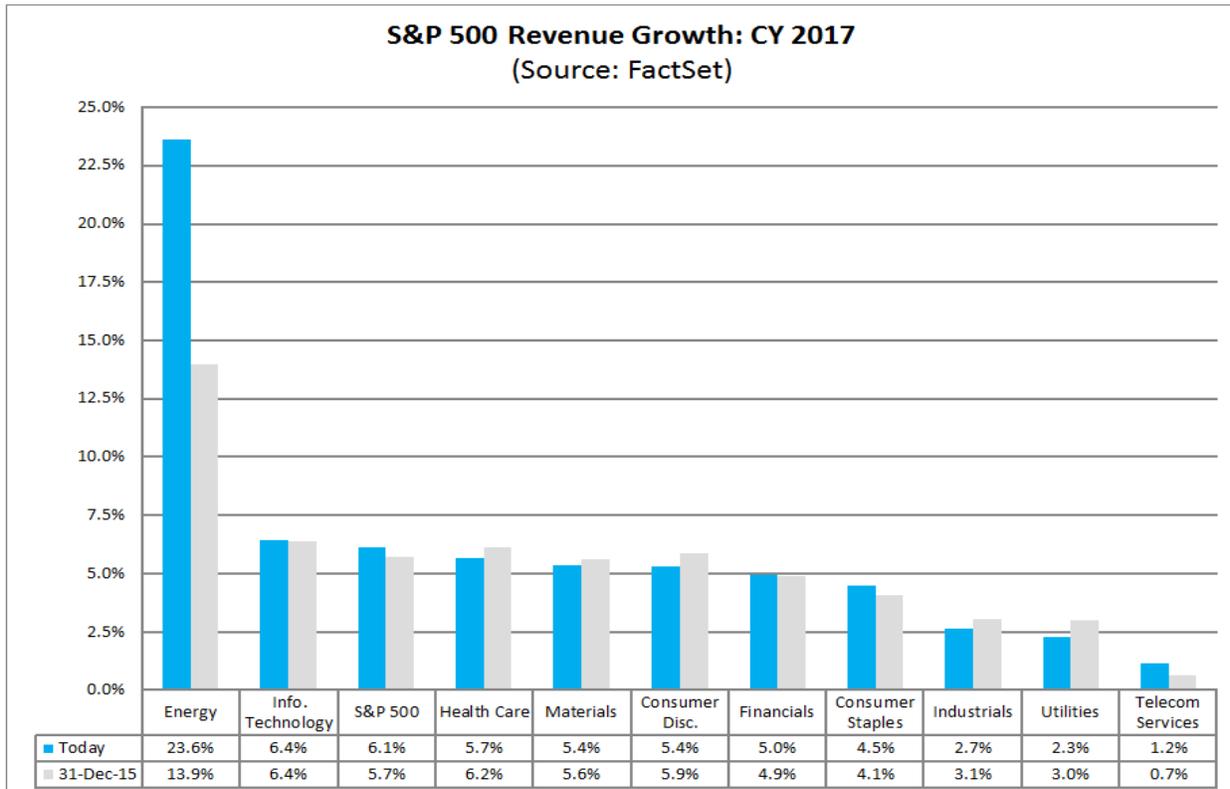
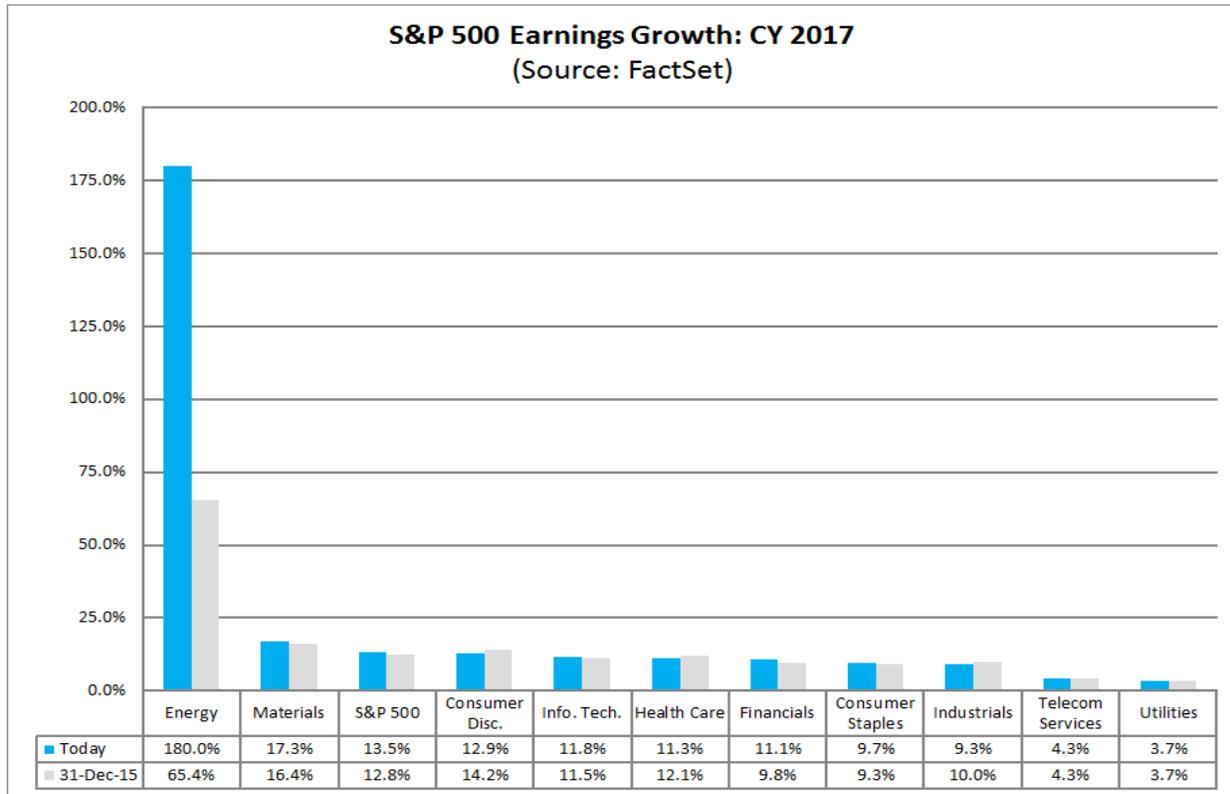
Q1 2016: Growth



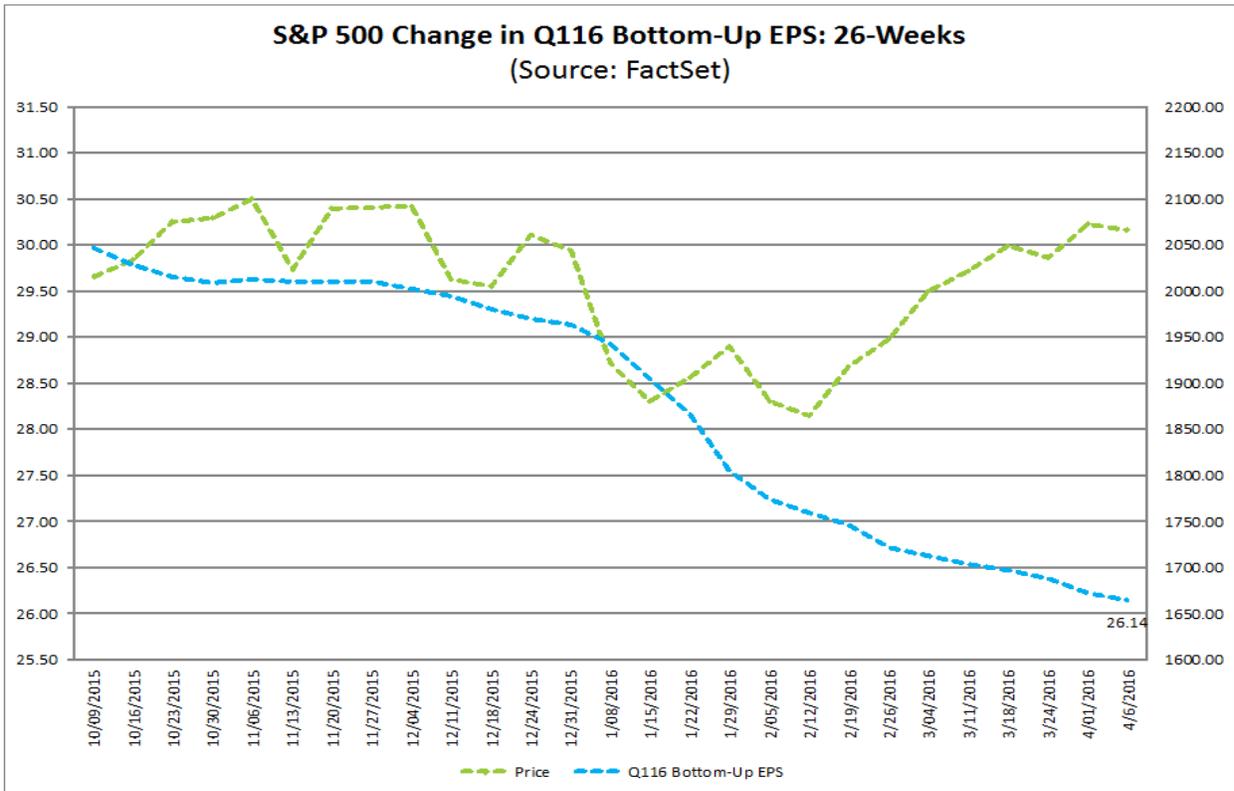
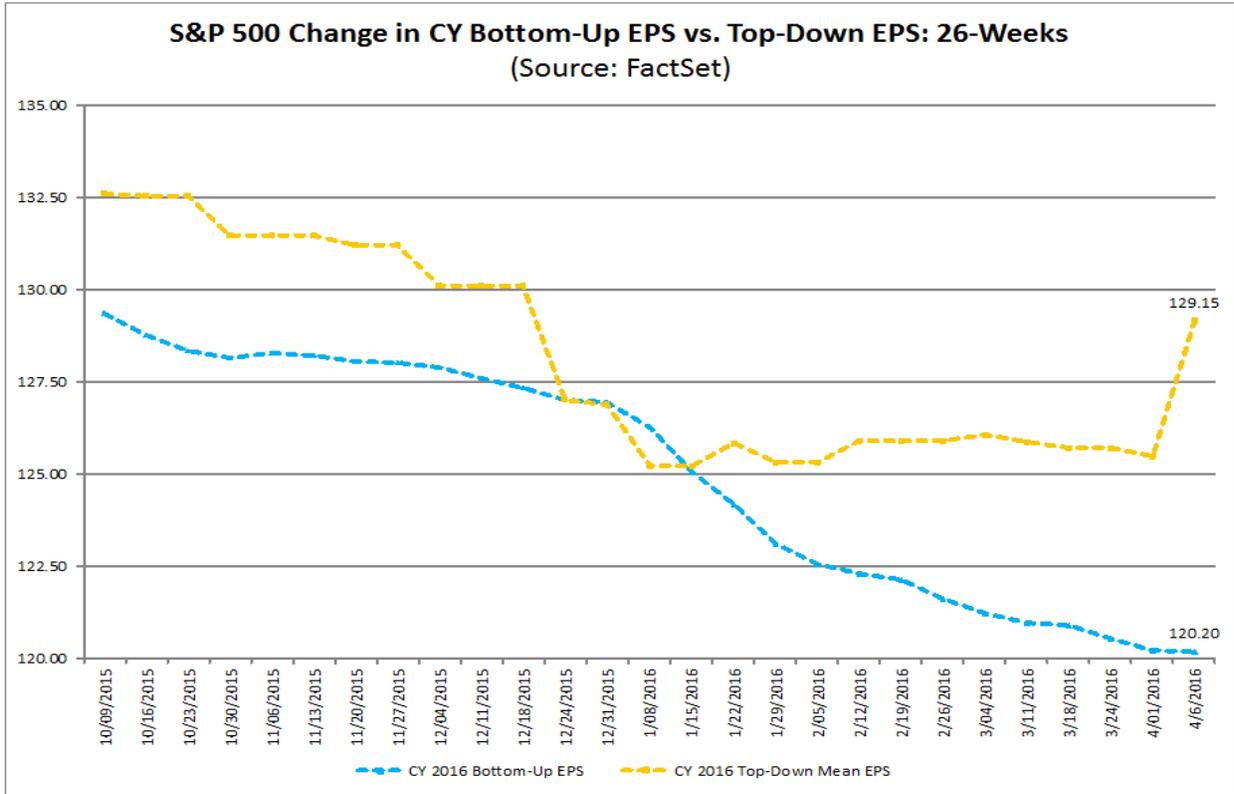
CY 2016: Growth



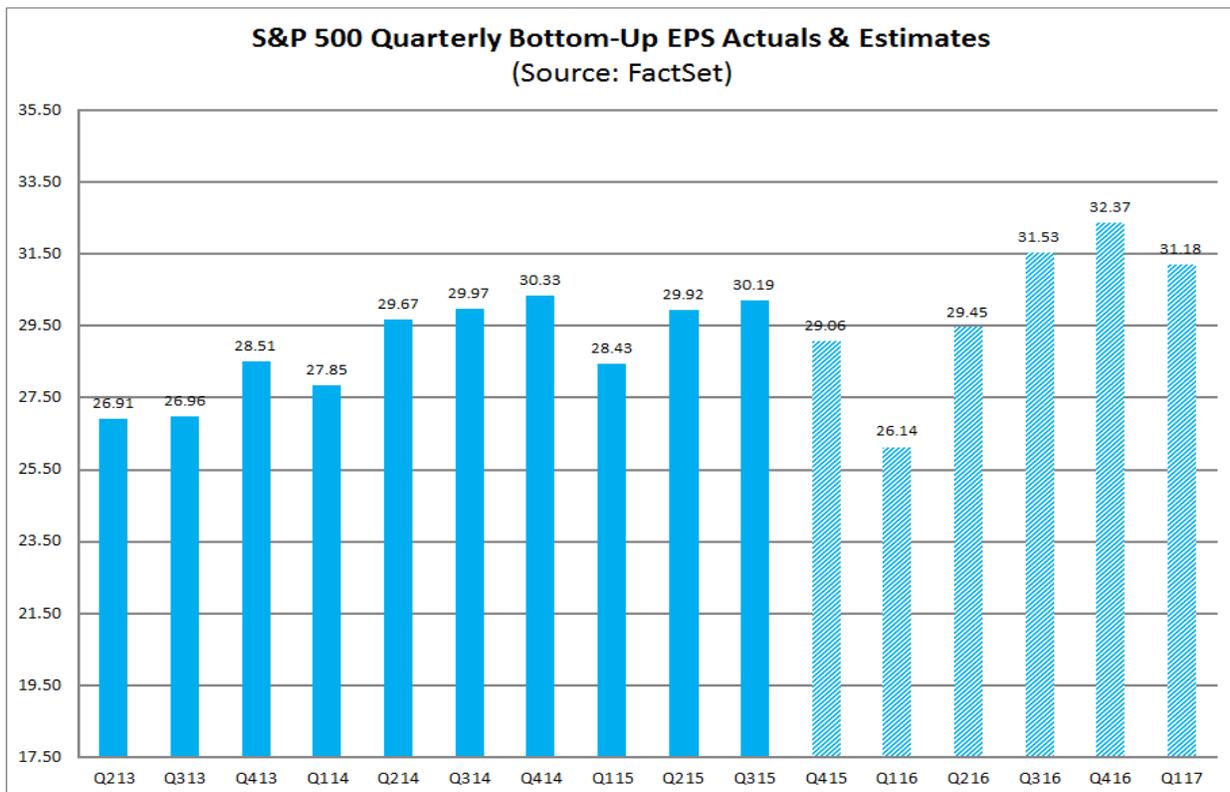
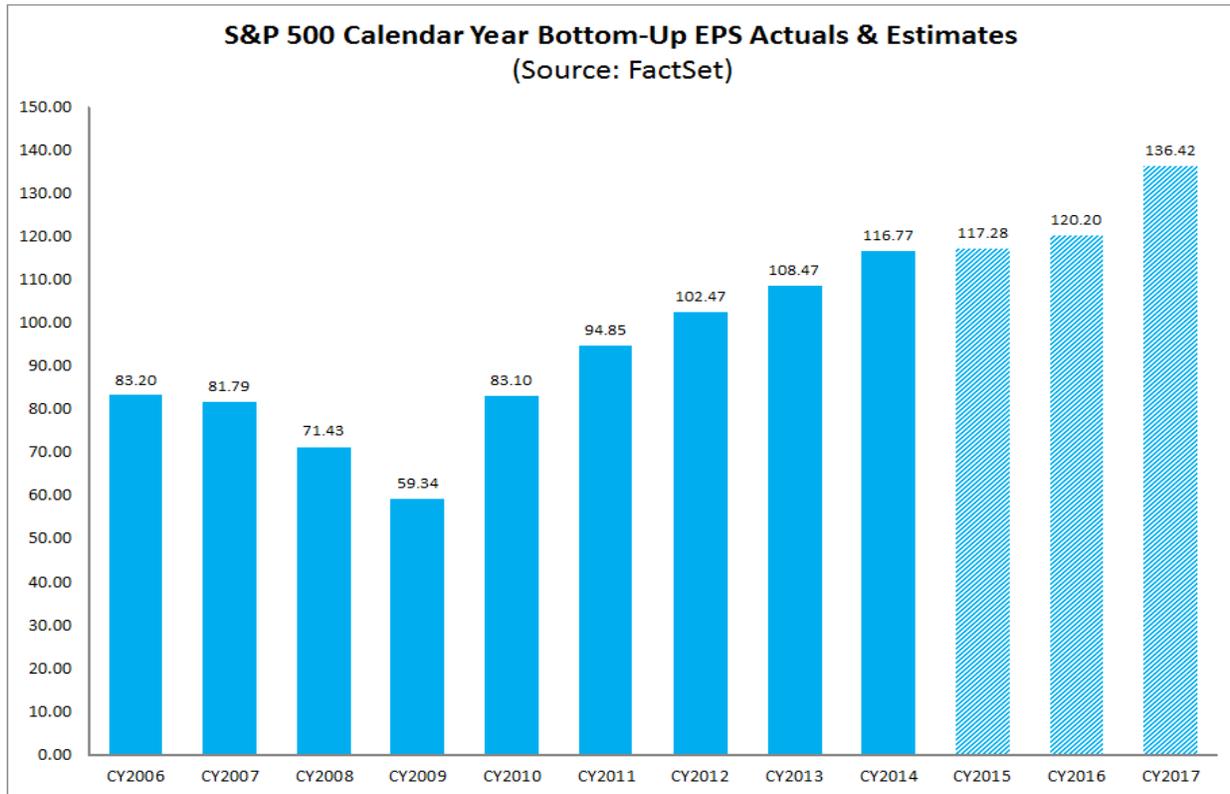
CY 2017: Growth



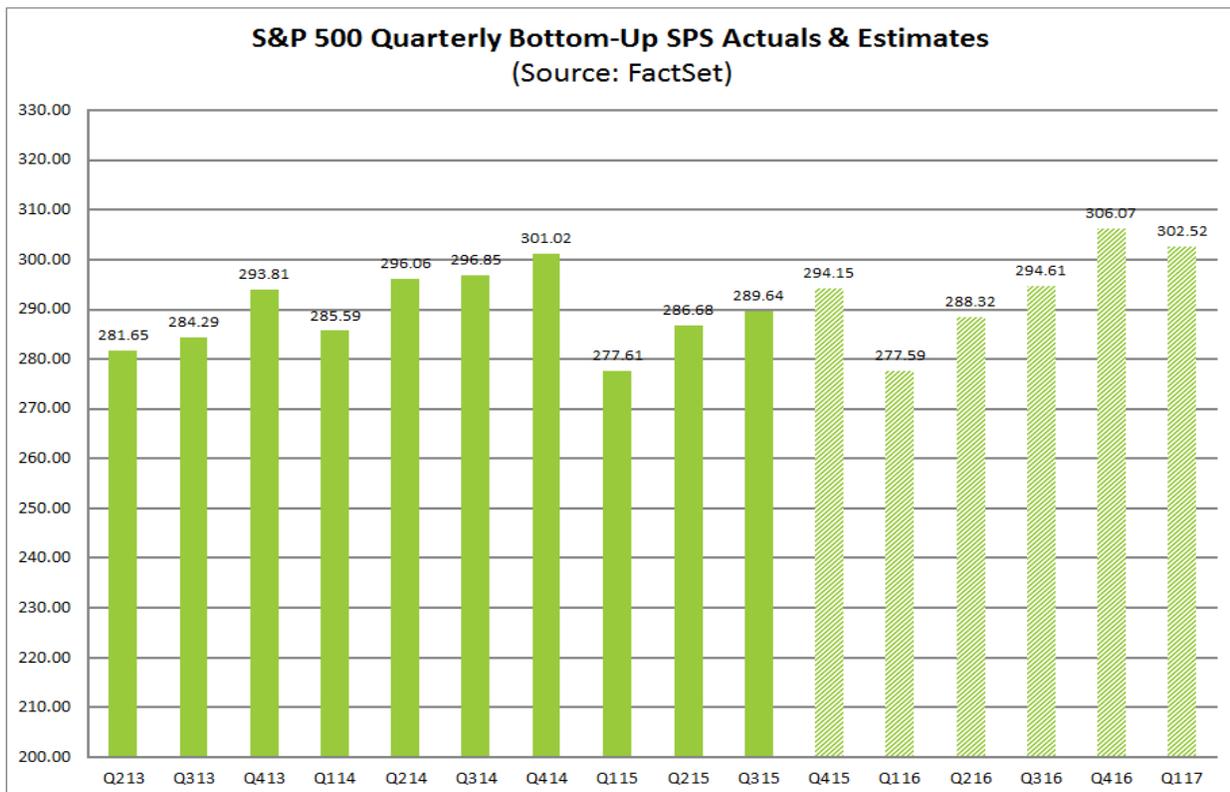
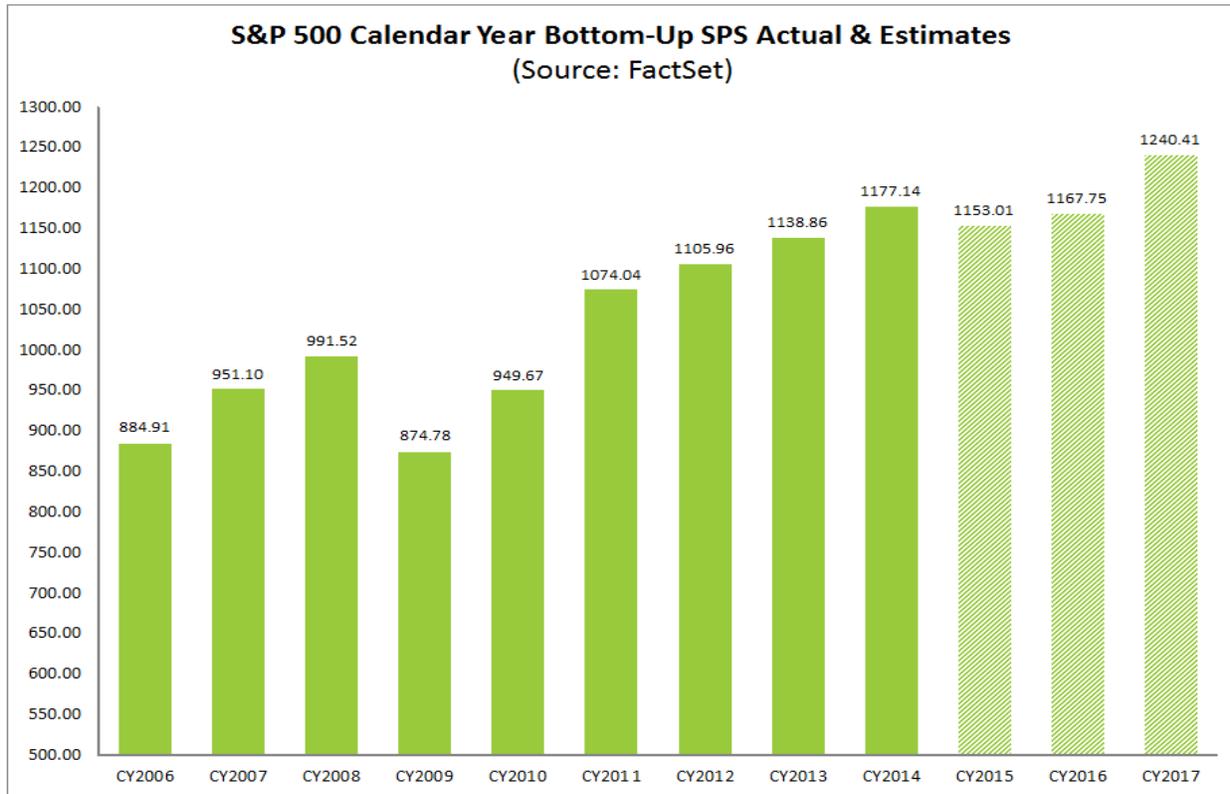
Bottom-Up EPS Estimates: Revisions



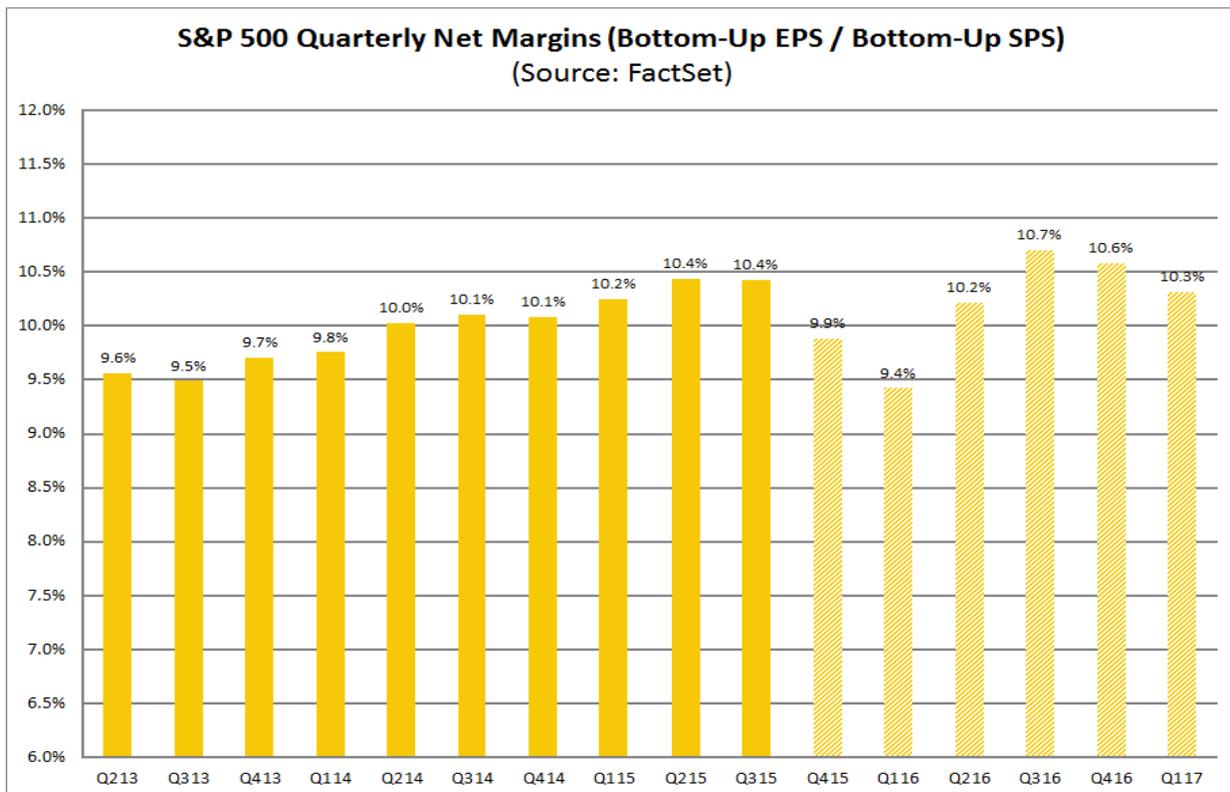
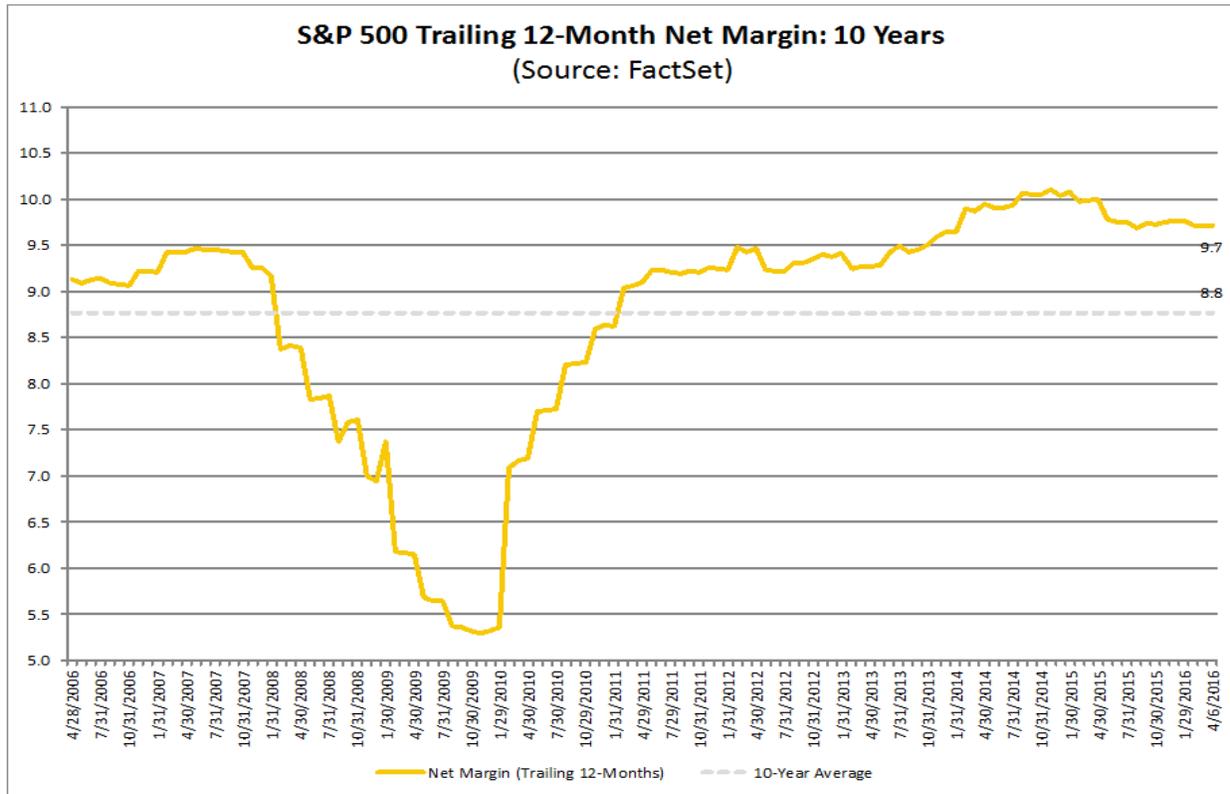
Bottom-Up EPS: Current & Historical



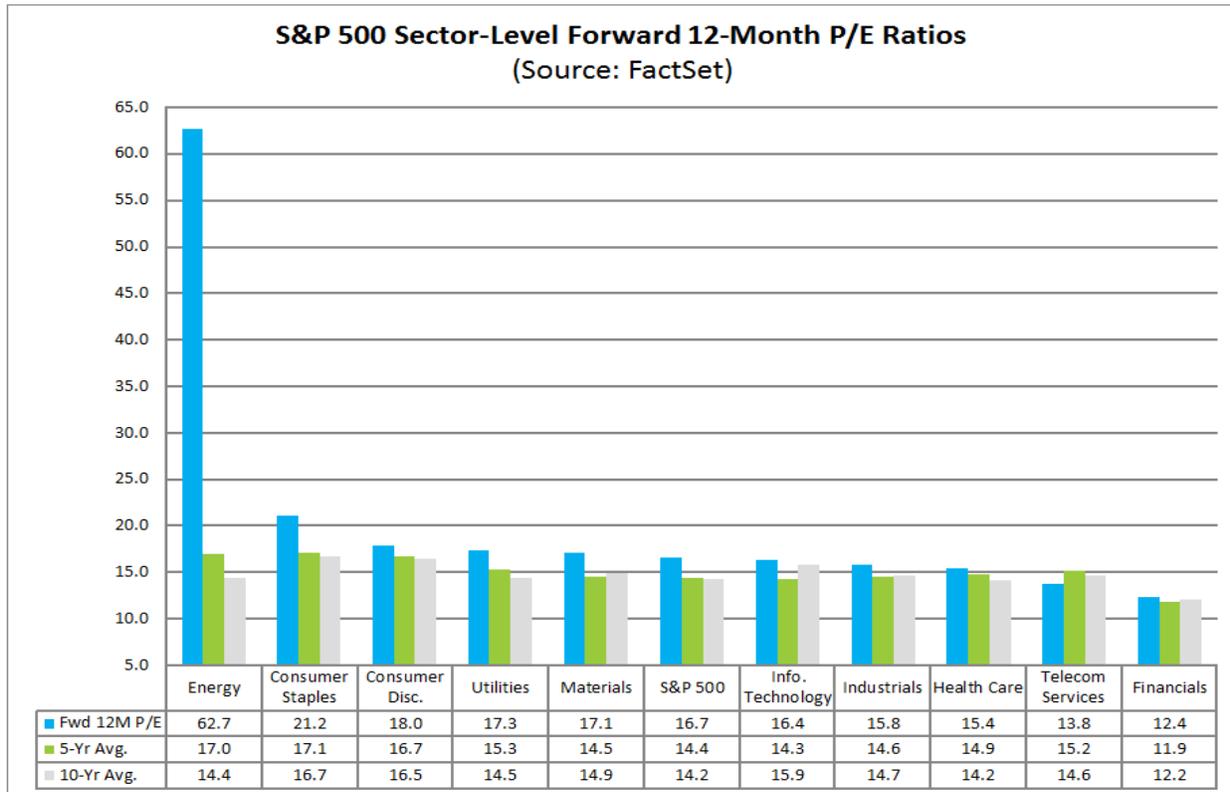
Bottom-Up SPS: Current & Historical



Net Margins: Current & Historical

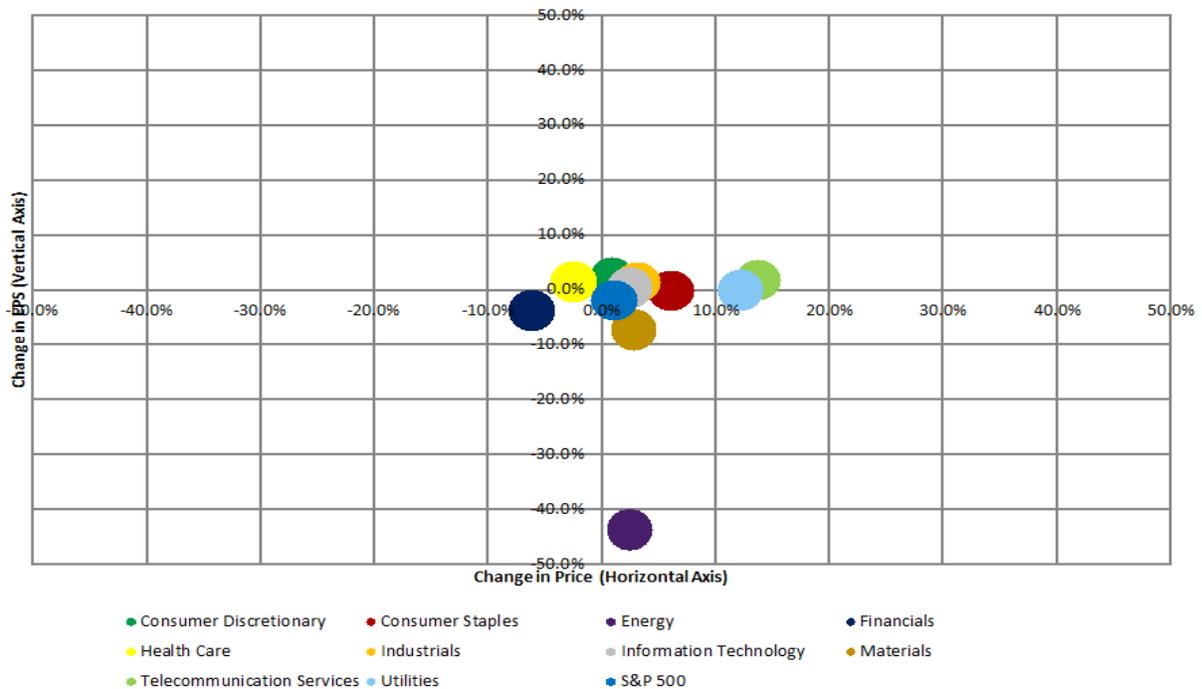


Forward 12M Price / Earnings Ratio: Sector Level

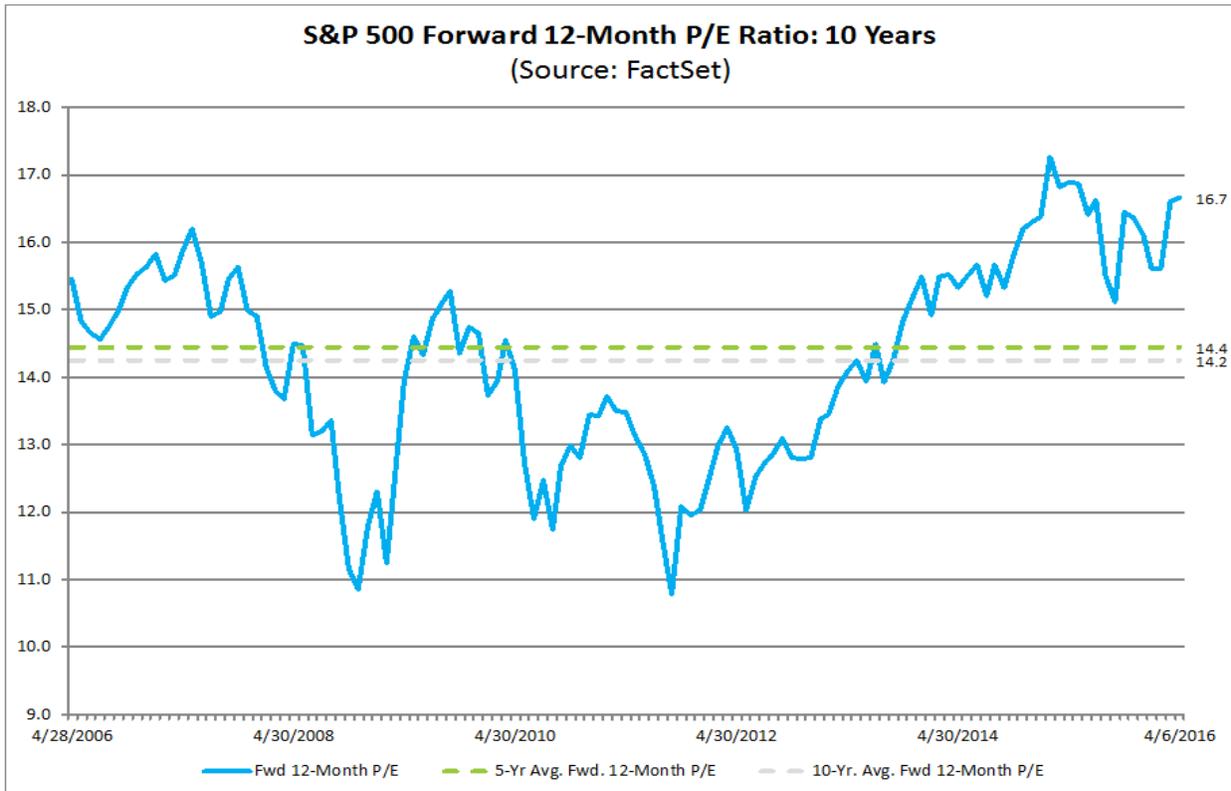
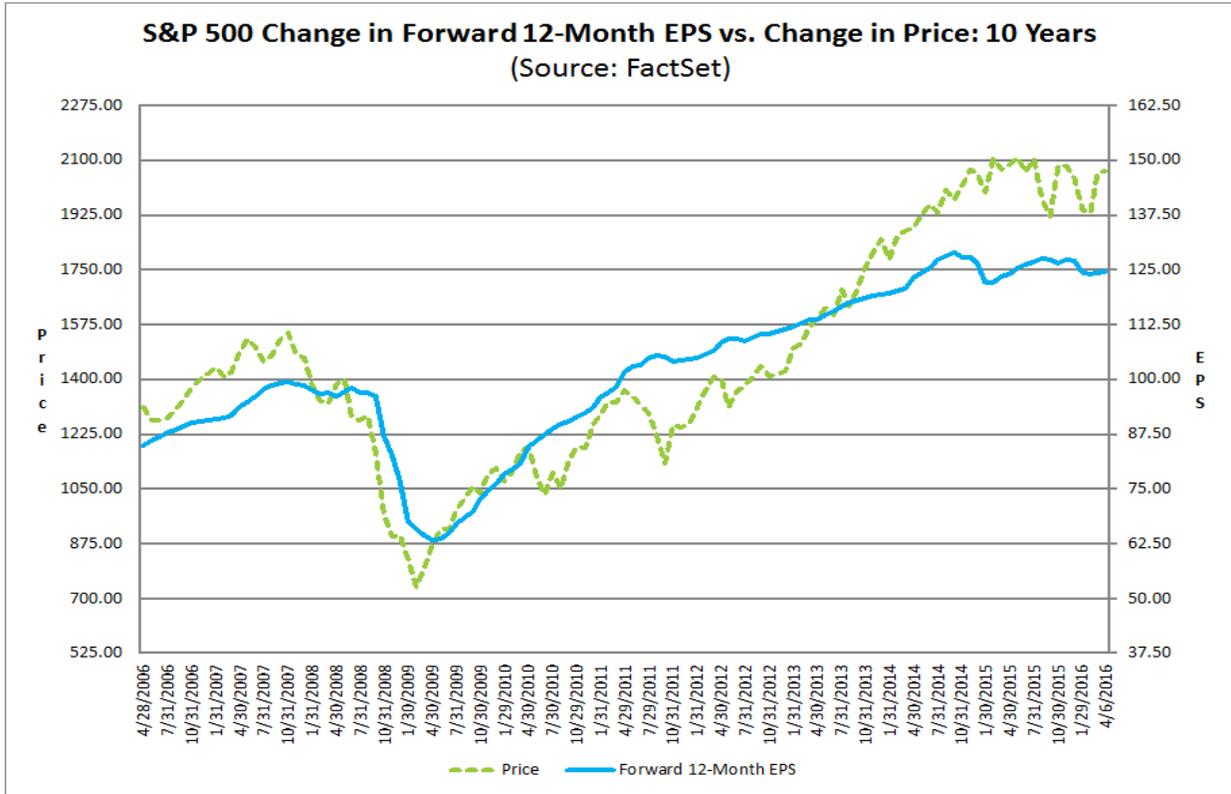


Sector-Level Change in Forward 12-Month EPS vs. Price: Since Dec. 31

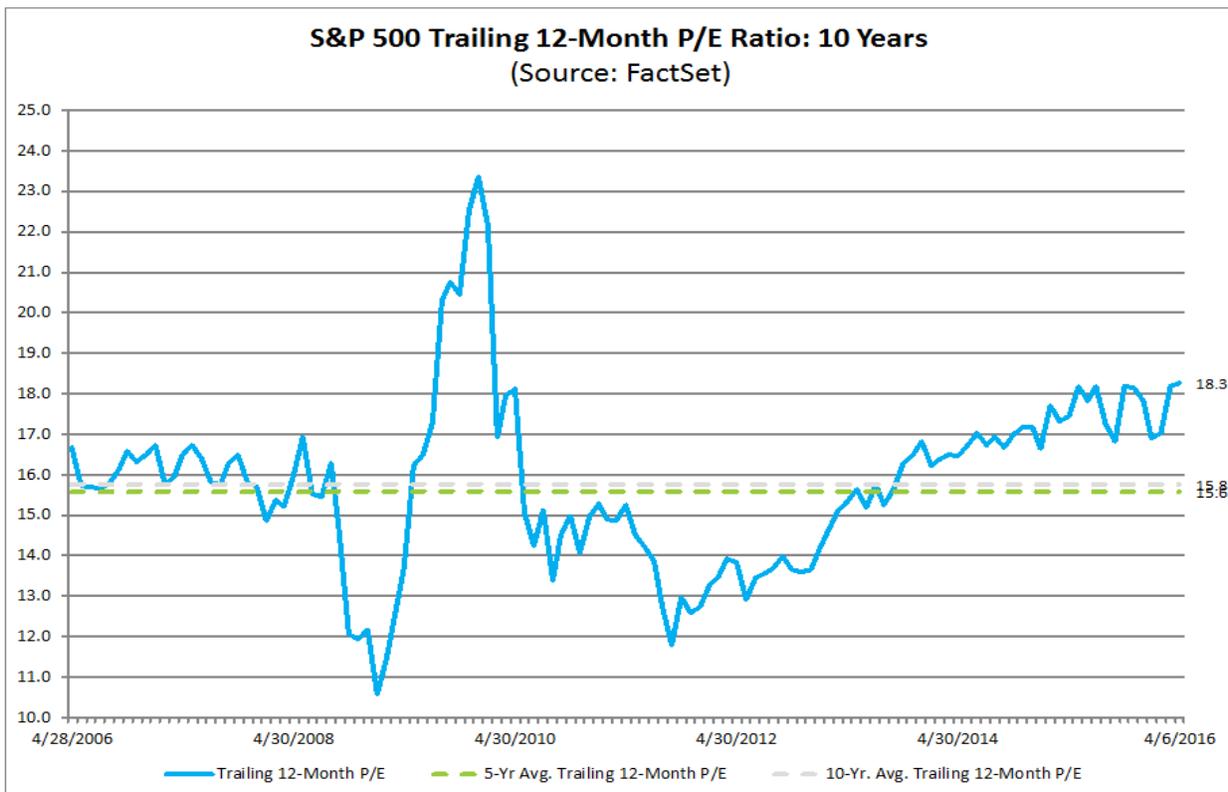
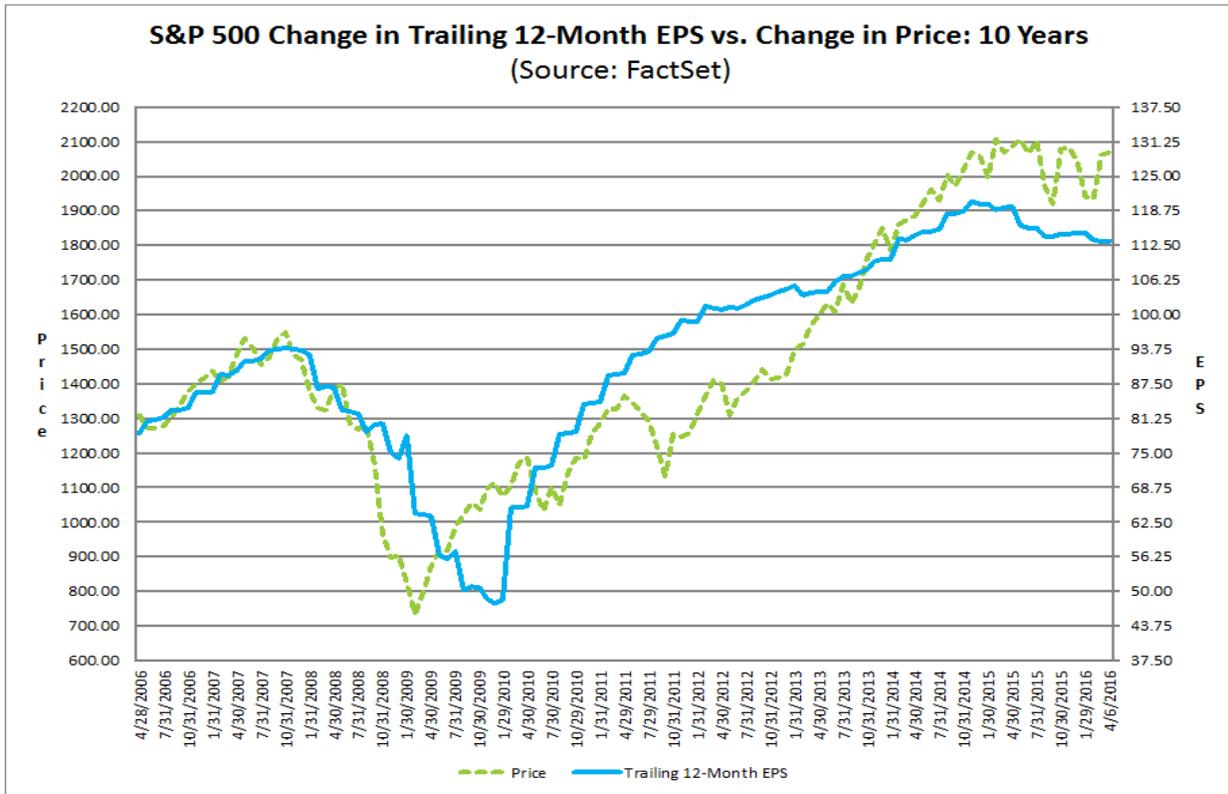
(Source: FactSet)



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



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



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