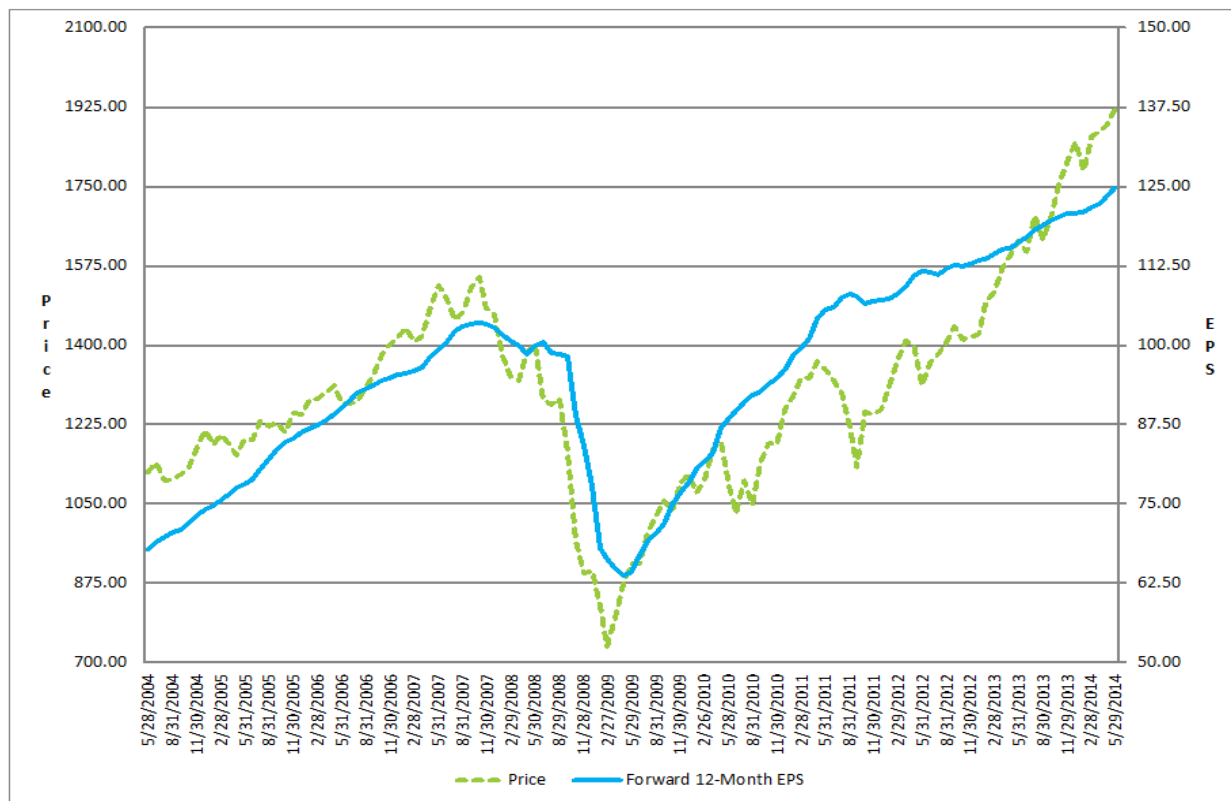


Key Metrics

- + **Earnings Growth:** The estimated earnings growth rate for Q2 2014 is 5.7%. The Telecom Services sector is expected to report the highest earnings growth for the quarter, while the Financials sector is expected to report the lowest earnings growth for the quarter
- + **Earnings Revisions:** On March 31, the estimated earnings growth rate for Q2 2014 was 6.9%. Seven of the ten sectors have lower growth rates today (compared to March 31) due to downward revisions to earnings estimates, led by the Materials sector.
- + **Earnings Guidance:** For Q2 2014, 81 companies have issued negative EPS guidance and 27 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-month forward P/E ratio is 15.4. This P/E ratio is based on Thursday's closing price (1920.03) and forward 12-month EPS estimate (124.69).
- + **Earnings Scorecard:** Of the 492 companies that have reported earnings to date for Q1 2014, 74% have reported earnings above the mean estimate and 54% have reported sales above the mean estimate.

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



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

Topic of the Week

Is the Market Rising on Inflated Earnings Growth Expectations for the 2nd Half of 2014?

On Thursday, the S&P 500 closed at yet another all-time high value (1920.03). Looking at the market through the lens of corporate earnings, it appears the recent increase in value is not due to the results reported for Q1, as S&P 500 companies only recorded modest earnings growth (2.1%) for the quarter. However, the market may be looking ahead to projections of more robust earnings growth in future quarters, particularly the 2nd half of 2014. For Q2 2014, analysts are call for earnings growth of 5.7%. Earnings growth rates are then expected to jump to 9.6% in Q3 2014 and 10.1% in Q4 2014.

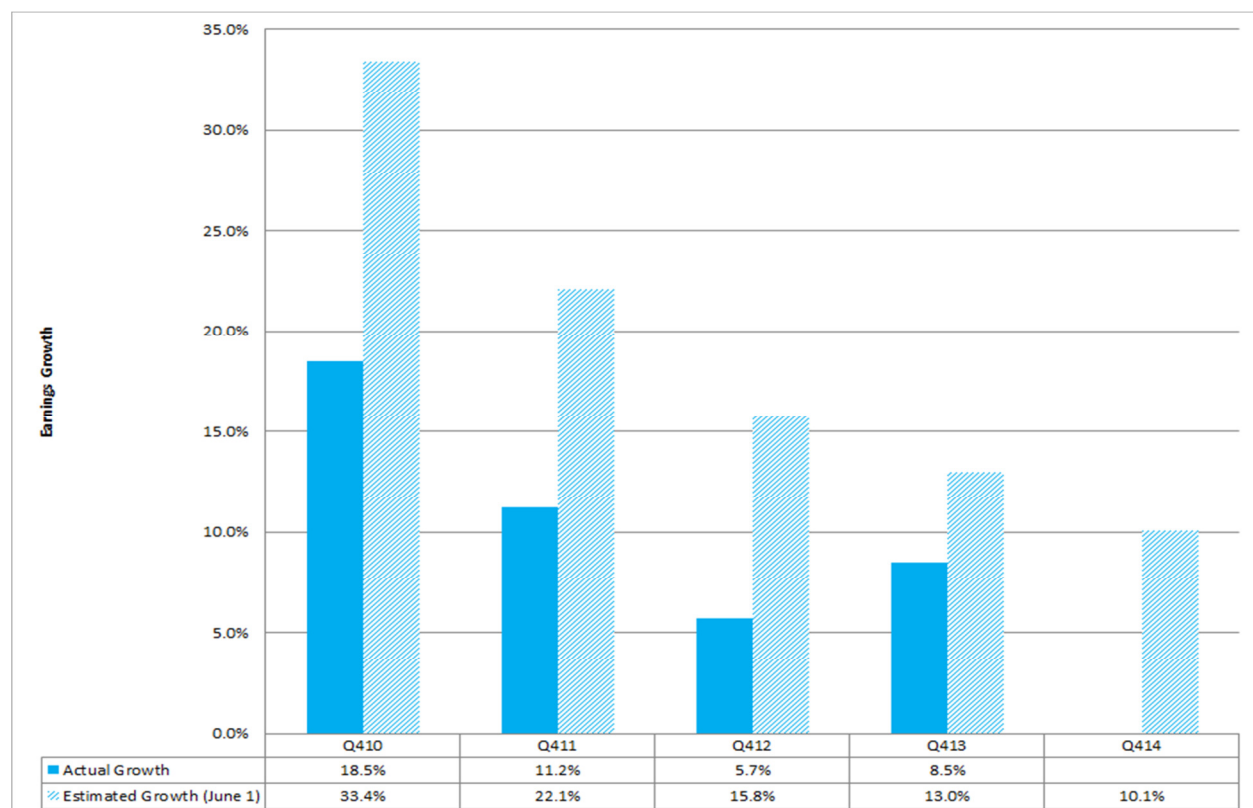
But, should the market have confidence that corporations will meet the expectations of analysts for higher earnings growth in the second-half of the year? Have analysts been accurate in recent years in their projections for earnings growth in the second-half of the year at this point time?

Based on the track record of the past four years, the answer to both questions is no.

Looking at projections for earnings growth for Q3 on June 1st over the past four years (2010- 2013), analysts overestimated actual earnings growth for the third quarter in three of the past four years. Over the four-year period, analysts overestimated earnings growth for Q3 by an average of 43%. If this average overestimation is applied to the current earnings growth estimate of 9.6% for Q3 2014, actual earnings growth for Q3 2014 would be 5.5%.

Looking at projections for earnings growth for Q4 on June 1st over the past four years (2010- 2013), analysts overestimated actual earnings growth for the fourth quarter in all four years. Over the four-year period, analysts overestimated earnings growth for Q4 by an average of 48%. If this average overestimation is applied to the earnings growth estimate of 10.1% for Q4 2014, actual earnings growth for Q4 2014 would be 5.2%.

S&P 500 Q4 Earnings Growth (2010 – 2014): Estimate (June 1) vs Actual



Q2 2014 Earnings Season: Overview

Analysts Not Slashing Earnings Expectations for Q2

No Change in Earnings Growth Rate This Week

The estimated earnings growth rate for the second quarter is 5.7% this week, unchanged from the estimated growth rate of 5.7% last week.

Materials Sector Has Seen Largest Cuts to Earnings Estimates since March 31

The estimated earnings growth rate for Q2 2014 of 5.7% is below the estimate of 6.9% at the start of the quarter (March 31). Seven of the ten sectors have recorded a decline in expected earnings growth since the start of the quarter due to downward revisions to earnings estimates, led by the Materials and Consumer Discretionary sectors. Three sectors have recorded an increase in expected earnings growth over this time due to upward revisions to earnings estimates, led by the Health Care sector.

The Materials sector has witnessed the largest dip in expected earnings growth (to 10.9% from 17.7%) since the start of the quarter. Companies in the Metals & Mining industry have seen major reductions to EPS estimates during this time, including U.S. Steel (to -\$0.21 from \$0.52), Allegheny Technologies (to \$0.00 from \$0.02), and Freeport McMoRan Copper (to \$0.54 from \$0.71).

The Consumer Discretionary sector has witnessed the second largest decline in expected earnings growth (to 10.0% from 13.4%) since the beginning of the quarter. Companies that have seen the largest cuts to estimates during this time include Amazon.com (to -\$0.13 from \$0.22), News Corporation (to 0.04 from 0.06), Under Armour (to \$0.07 from \$0.11), Coach (to \$0.54 from \$0.70), and Staples (to \$0.12 from \$0.15).

On the other hand, the Health Care sector has seen the largest increase in expected earnings growth (to 5.9% from 3.6%) since the start of the quarter. However, only two companies have recorded substantial increases to estimates during this time: Gilead Sciences (to \$1.59 from \$0.93) and Boston Scientific (to \$0.19 from \$0.13). After these two companies, no other company in the sector has seen an increase in the mean EPS estimate of larger than 6.2% over this time frame.

Lowest Cuts to Earnings Estimates to Date since Q2 2011

Although the growth rate for the second quarter has dropped since March 31, analysts are cutting earnings estimates by the lowest amount since Q2 2011. The percentage decline in the Q2 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) has decreased by 1.2% over the first two months of the quarter. This decline in the EPS estimate is lower than the trailing 1-year (-3.1%), 5-year (-1.9%), and 10-year (-3.3%) averages for the first two months of a quarter. In fact, this marks the lowest decline in the bottom-up EPS estimate during the first two months of a quarter since Q2 2011, when the bottom-up EPS estimate actually increased by 1.5%.

Q2 EPS Guidance: Negative Guidance (75%) Above Average

At this point in time, 108 companies in the index have issued EPS guidance for the second quarter. Of these 108 companies, 81 have issued negative EPS guidance and 27 have issued positive EPS guidance. Thus, the percentage of companies issuing negative EPS guidance to date for the first quarter is 75% (81 out of 108). This percentage is above the 5-year average of 65%, but below the percentages recorded for Q1 2014 (83%) and Q4 2013 (88%) at the same point in time in the quarter.

Estimated Earnings Growth: 5.7%

The estimated earnings growth rate for Q2 2014 is 5.7%. Nine of the ten sectors are projected to report higher earnings relative to a year ago, led by the Telecom Services, Materials, Consumer Discretionary, and Energy sectors. The only sector predicted to report lower earnings relative to a year ago is the Financials sector.

Telecom Services: Ex-Verizon, Growth Rate Drops to -0.3%

The Telecom Services sector is expected to report the highest earnings growth rate of all ten sectors at 26.9%. At the company level, Verizon Communications is the largest contributor to earnings growth for the sector. The mean EPS estimate for the company for Q2 2014 is \$0.91, compared to actual EPS of \$0.73 in the year-ago quarter. If Verizon is excluded, the earnings growth rate for the sector would drop to -0.3%.

Materials: Metals & Mining Lead Growth

Despite recording the largest drop in expected earnings growth since the start of the quarter, the Materials sector is still projected to have the second highest earnings growth rate of all ten sectors at 10.9%. All five industries in the sector are predicted to report growth in earnings. However, the Metals & Mining industry (+90%) is expected to be the largest contributor to earnings growth for the sector. Within this industry, Freeport-McMoRan Copper (+145%) and Nucor (+119%) are projected to see the largest percentage growth in EPS. If this industry is excluded, the earnings growth rate for the sector would fall to 5.8%.

Consumer Discretionary: Broad-Based Growth

The Consumer Discretionary sector is predicted to report the third highest earnings growth of any sector at 10.0%. Growth is projected to be broad-based across the sector. Twenty-three of the 32 sub-industries in the sector are expected to report earnings growth for the quarter, led by the Homebuilding (28%), Internet Retail (22%), and Household Appliances (21%) sub-industries. On the other end of the spectrum, the Apparel, Accessories, and Luxury Good (-8%) sub-industry is projected to have the largest decline in earnings for the quarter.

Energy: Growth Expected for 1st Time since Q1 2013

The Energy sector is expected to have the fourth highest growth rate at 9.5%. If the sector reports any earnings growth for the quarter, it will mark the first time since Q1 2013 (1.1%). Five of the seven sub-industries in the sector are predicted to report growth for the quarter, led by the Oil & Gas Refining & Marketing (47%) sub-industry. On the other hand, the Coal & Consumable Fuels (-118%) sub-industry is expected to see the largest decline in earnings.

Financials: 2nd Consecutive Decline in Earnings

The Financials sector is the only sector expected to report a year-over-year decline in earnings (-0.8%). If the sector does report a decline, it will mark the second consecutive quarter the sector has reported a year-over-year drop in earnings. Four of the eight industries in the sector are predicted to report a decrease for the quarter, led by the Thrifts & Mortgage Finance (-17%) and Banks (-6%) industries. At the company level, JPMorgan Chase is the largest contributor to the decrease in earnings. The mean EPS estimate for the company for Q2 2014 is \$1.35, compared to \$1.60 in the year-ago quarter. If JPMorgan Chase is excluded, the growth rate for the sector would improve to 1.2%.

Estimated Revenue Growth: 3.1%

The estimated revenue growth rate for Q2 2014 is 3.1%, which is below the estimated growth rate of 3.7% at the start of the quarter (March 31). Nine of the ten sectors are expected to report revenue growth for the quarter, led by the Health Care sector. On the other hand, the Energy sector is the only sector predicted to report a decline in revenue for the quarter.

Highest Sales Growth: Health Care

The Health Care sector is expected to report the highest revenue growth at 8.3%. All six industries in the sector are predicted to report sales growth for the quarter, led by the Biotechnology (32%) industry.

Lowest Sales Growth: Energy

The Energy sector is the only sector that is predicted to report a decrease in revenue at -0.5%. However, only two of the seven sub-industries in the sector are expected to report a decline in revenue: Oil & Gas Exploration & Production (-18%) and Coal & Consumable Fuels (-13%).

Global Concerns: F/X Rates, Europe (Ukraine/Russia), and Emerging Markets

Less Favorable F/X Rates

The U.S. dollar has strengthened relative to number of currencies over the past year, particularly in emerging markets. A number of companies in the S&P 500 cited a negative impact from foreign exchange activity in their earnings releases or conference calls in Q1. Will this trend continue in Q2?

"This quarter, currency was a 1% headwind to new software license, and a 2% headwind to hardware and total revenue. In addition, EPS this year was reduced by \$0.02 due to a currency remeasurement non-operating loss for Venezuela that obviously had not been included in my guidance." – Oracle (Mar. 19)

"Foreign exchange translation reduced net sales growth by 1 percentage point." – General Mills (Mar. 19)

"From a year-over-year currency perspective, FX decreased revenue by \$10.9 million." –Adobe Systems (Mar. 18)

Europe: Will Russia/Ukraine Conflict Derail Growth?

Europe reported an improvement in economic growth relative to last year. According to FactSet Economics, the European Union recorded an increase in GDP of 1.4% in Q1 2014, relative to the decline of 0.7% reported in Q1 2013.

While acknowledging difficult conditions still exist in the region, some companies were optimistic in their comments regarding Europe for Q1.

"I also want to speak to our results in Europe, where our volume was down 4% as our business was adversely impacted due to the Easter shift and by ongoing macroeconomic challenges...As we look ahead, we are cautiously optimistic about our outlook in Europe, despite the continuing volatile operating environment." –Coca-Cola (Apr. 15)

"Yeah, Costa has picked up as well, but Costa had the double-whammy of the disruption and then obviously the European economy. And the European economy is still choppy, but it's obviously strengthened.... And I would say in general, in Europe, we do, as I mentioned earlier on the call, with the booking curves being moved out, we see strength in Europe. And again, it's reflected in our guidance, but we actually see a strong performance collectively in Europe this year." –Carnival Corp. (Mar. 25)

However, will there be an escalation in the crisis in Ukraine that could derail the rebound in economic growth in Europe? Few companies cited a negative impact from the region in Q1 (please see our Market Insight on the topic for more details: http://www.factset.com/insight/2014/5/marketinsight_5.21.14), but some did express concerns about the potential impact of an escalation of the crisis.

"While we're hopeful that the situation in Russia and the Ukraine will be resolved, if it does get worse and has an impact on business confidence, world trade and world growth, it could certainly be a negative for us." –Caterpillar (Apr. 24)

"In Europe, the economy is showing signs of recovery and faster growth. Yet, if the situation in the Ukraine deteriorates, that pace may slow." –UPS (Apr. 24)

Emerging Markets

Economic growth for countries in emerging markets regions has been flat or slightly below year-ago levels in recent quarters. According to FactSet Economics, China recorded GDP growth of 7.7% in Q1 2013. By Q1 2014, GDP growth for China stood at 7.4%. Will companies see a slowdown in sales growth in emerging markets in Q2 2014?

First, emerging markets. From a macroeconomic perspective, continue to be challenging. Orders in our emerging markets declined 7% with the BRICs plus Mexico down 13%. As we said for several quarters we expect these challenges to continue. The challenges we saw in Brazil, down 27%, and Russia down 28%, are consistent with those we are hearing and seeing from our peers and customers. While China declined 8%, Mexico declined 3%, and India declined 1%. –Cisco Systems (May 14)

"The growth markets were down 5%. And within the growth markets we had high single digit growth in Latin America. But revenue from the Asia-Pacific countries declined at a double-digit rate with continued weakness in China. Our revenue in China was down 20%. So pretty consistent with the last couple of quarters." –IBM (Apr. 16)

"But also, importantly, we are driving not just volume growth, but we're driving immediate consumption growth, which is really important for our business. When you look at, say, in this past quarter, with top five countries growing at – China up 18% in IC growth, Indonesia up 9% in IC growth, Vietnam up 8%, Brazil up 5%. These are really important numbers, because it's sustainable growth, it's profitable growth, and it's growth in transactions, which is directly married to the health of the brands and health of our portfolio." –Coca-Cola (Apr. 15)

"In greater China we continue to see encouraging signs as our market reset actions take hold. In Q3, currency neutral revenue grew 7% led by expansion in sportswear, basketball and running. On a reported basis, greater China revenue grew 9% and EBIT increased 7% as revenue growth and gross margin expansion were partially offset by higher SG&A spending reflecting investments in our new China headquarters facility and DTC operations." –NIKE (Mar. 20)

Near Double-Digit Earnings Growth Expected in 2nd Half of 2014

Although companies are reporting slight earnings growth (2.1%) for Q1, earnings growth for the S&P 500 is projected to be much higher for the remainder of the year. For Q2 2014, Q3 2014, and Q4 2014, analysts are predicting earnings growth rates of 5.7%, 9.6%, and 10.1%. For all of 2014, the projected earnings growth rate is 7.7%.

Valuation: Forward P/E Ratio is 15.4, above the 10-Year Average (13.8)

The current 12-month forward P/E ratio is 15.4. This P/E ratio is based on Thursday's closing price (1920.03) and forward 12-month EPS estimate (124.69).

At the sector level, the Consumer Staples (17.8) and Consumer Discretionary (17.7) sectors have the highest forward 12-month P/E ratios, while the Financials (12.9) and Telecom Services (13.5) sectors have the lowest forward 12-month P/E ratios.

The P/E ratio of 15.4 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 13.2, and above the prior 10-year average forward 12-month P/E ratio of 13.8. It is also above the forward 12-month P/E ratio of 15.3 recorded one month ago. During the past month, the price of the index increased by 2.2%, while the forward 12-month EPS estimate increased by 1.0%.

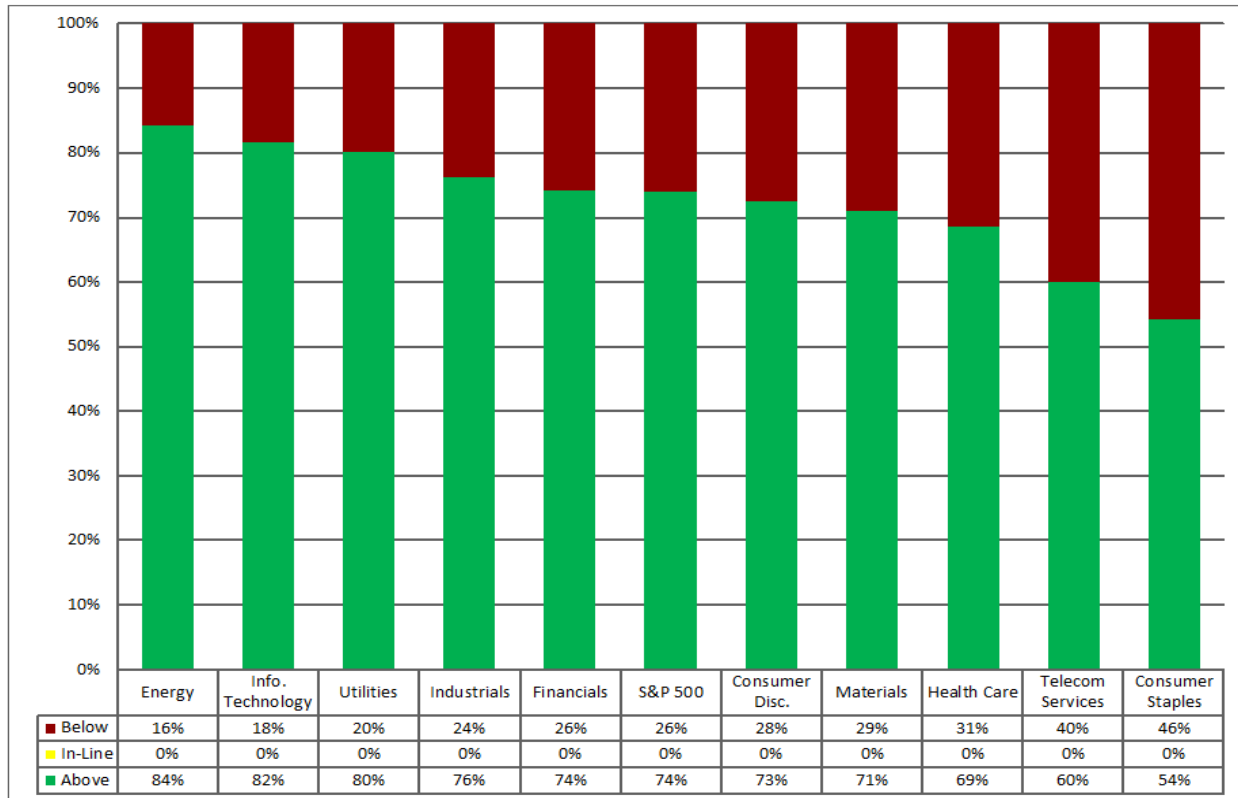
At the sector level, seven sectors recorded an increase in the forward 12-month P/E ratio over the past month, led by the Telecom Services (to 13.5 from 13.1), Materials (to 17.1 from 16.6), and Information Technology (to 15.3 from 14.9) sectors. Two sectors witnessed a decrease in the forward 12-month P/E ratio over the past month, led by the Utilities (to 15.9 from 16.4) and Health Care (to 16.3 from 16.8) sectors. The Financials (12.9) sector saw no change in the forward 12-month P/E ratio over this time frame.

Companies Reporting Next Week: 5

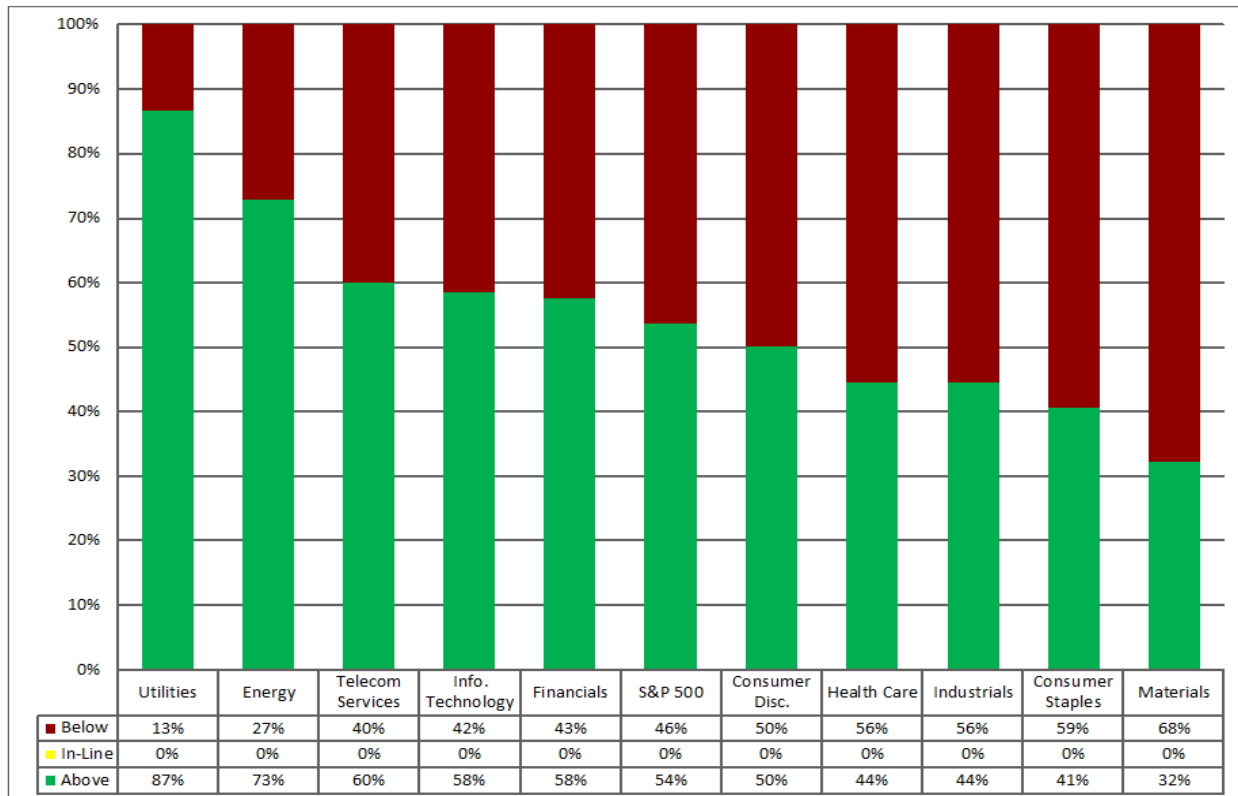
During the upcoming week, five S&P 500 companies are scheduled to report earnings for the first quarter.

Q1 2014: Scorecard

Q1 2014 Earnings: Above, In-Line, Below Estimates

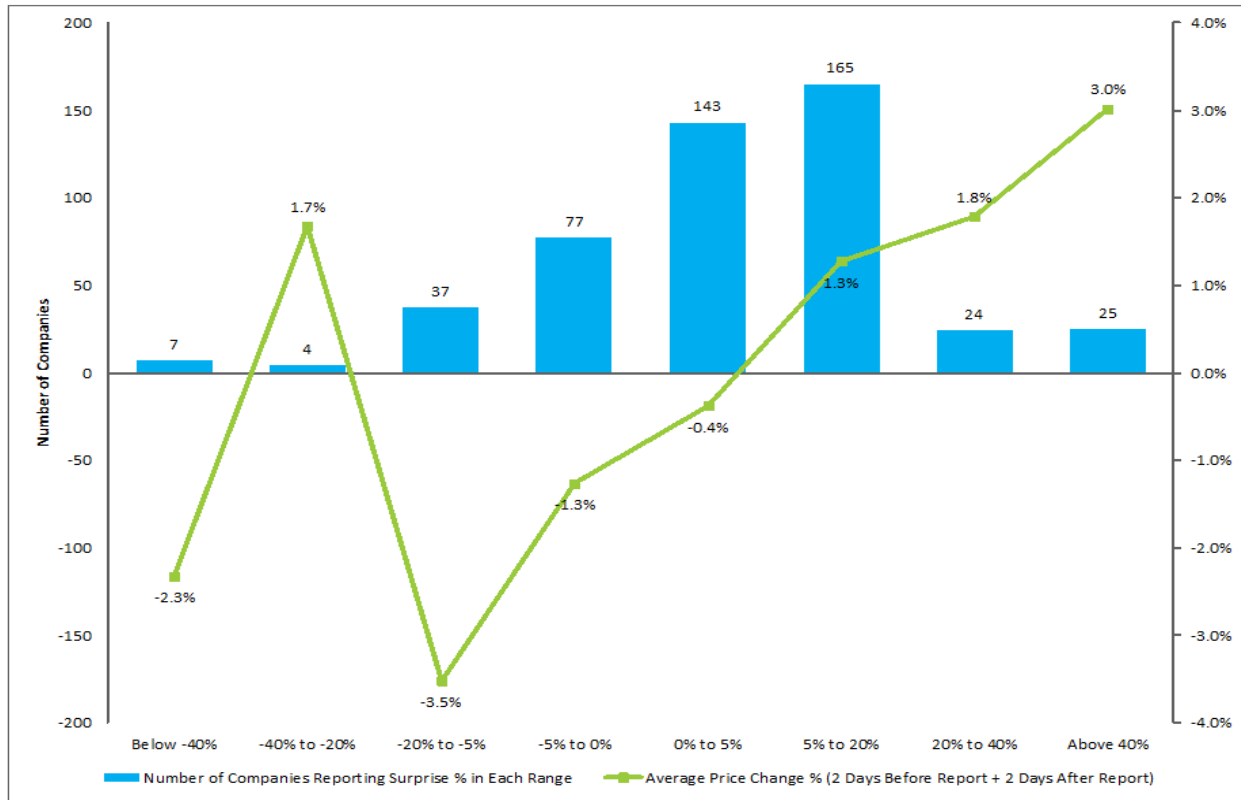


Q1 2014 Revenues: Above, In-Line, Below Estimates

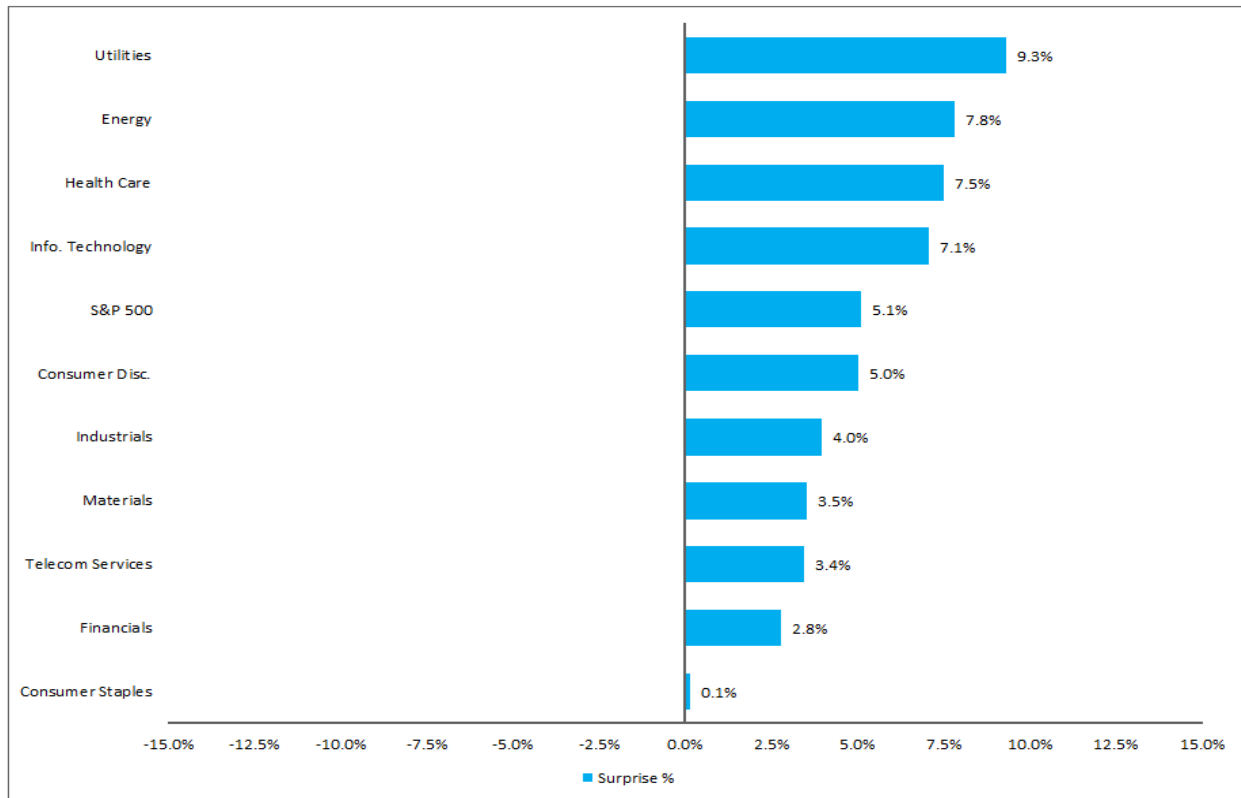


Q1 2014: Scorecard

Q1 2014: EPS Surprise % vs. Price %

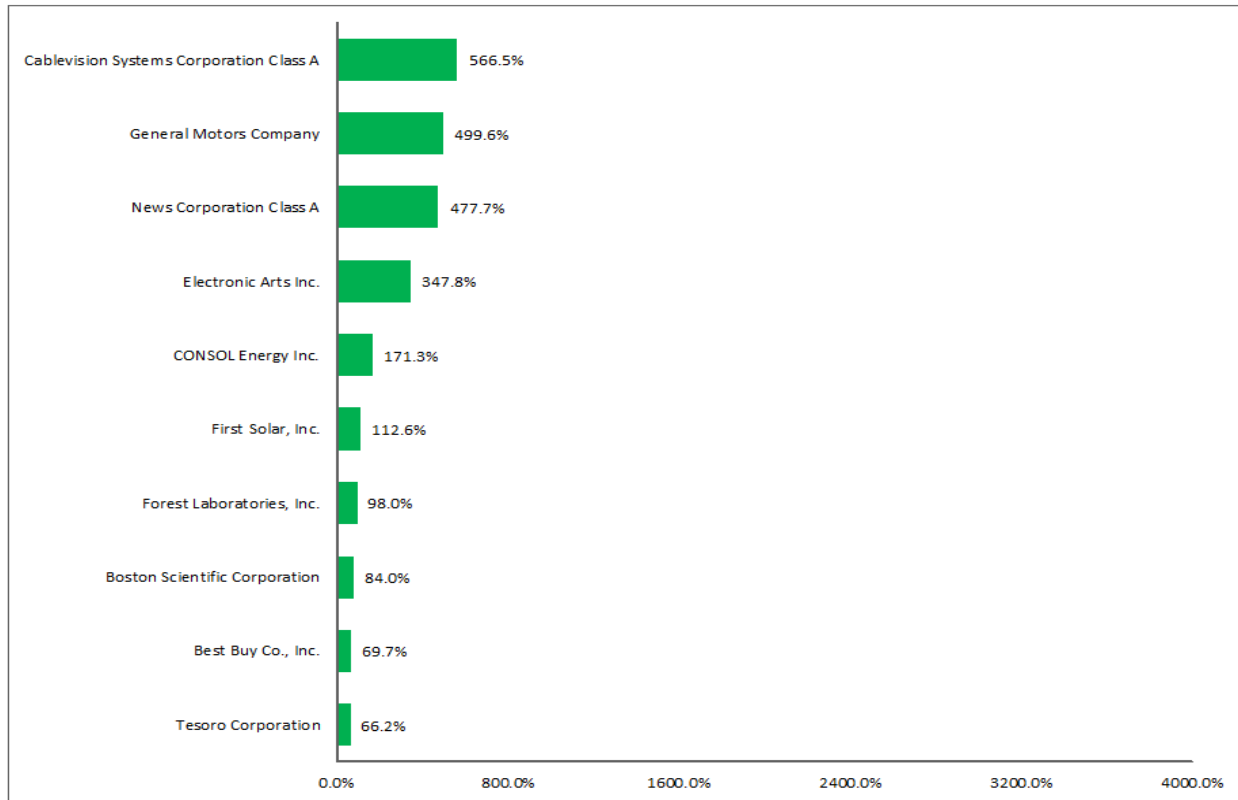


Q1 2014: Sector Level EPS Surprise %

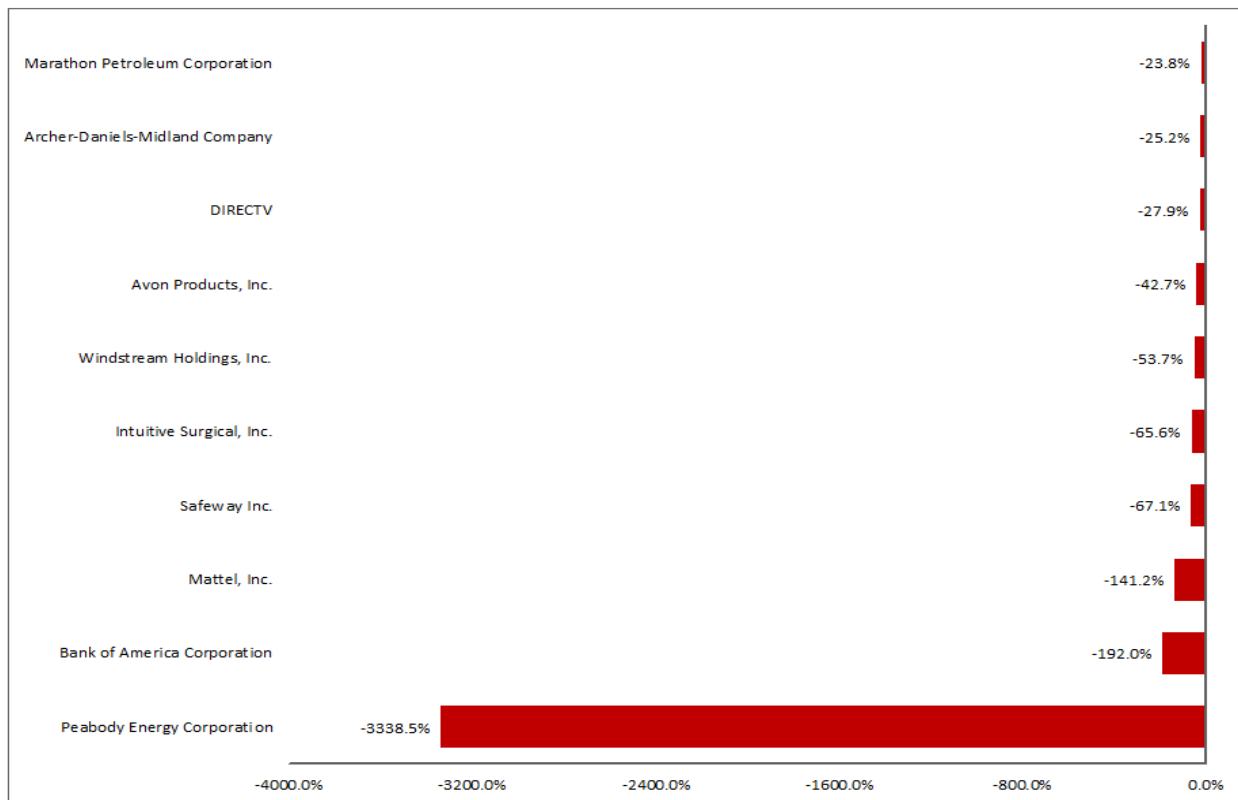


Q1 2014: Scorecard

EPS Surprise %: Top 10 Companies



EPS Surprise %: Bottom 10 Companies

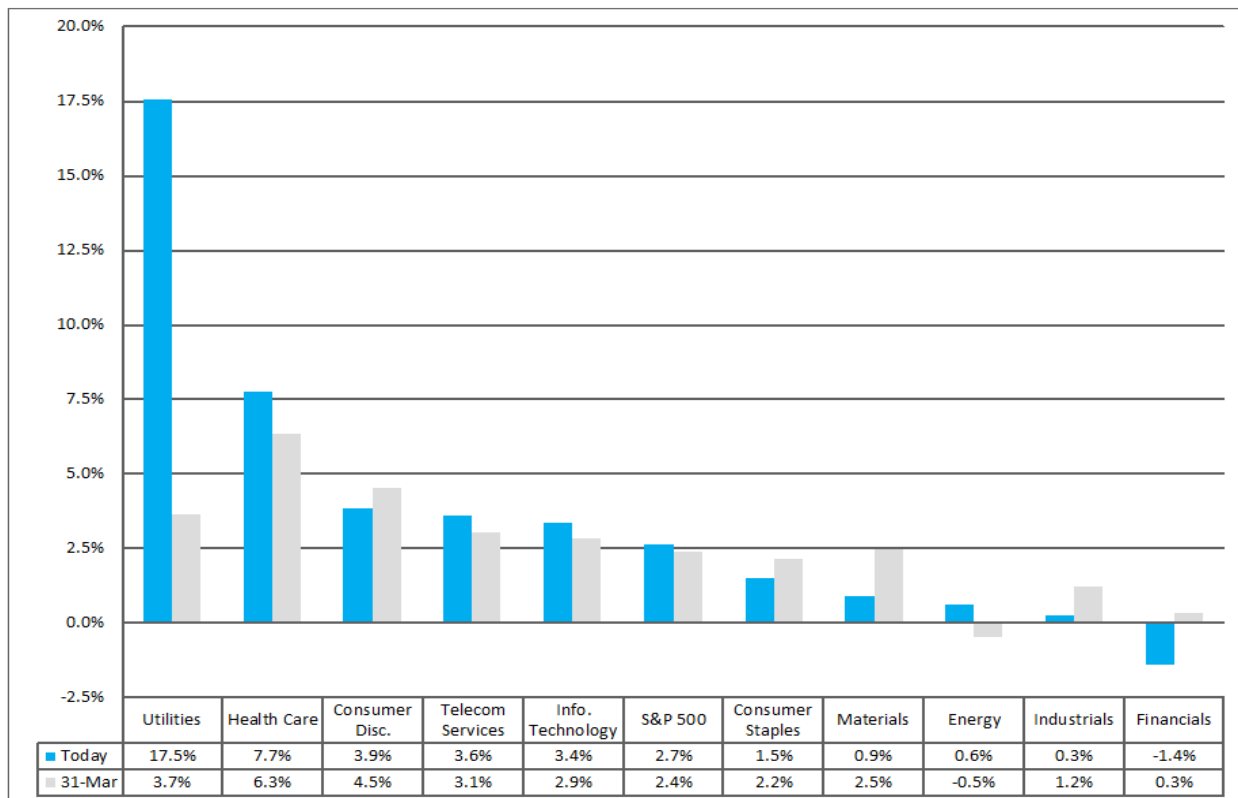


Q1 2014: Growth

Q1 2014 Earnings Growth

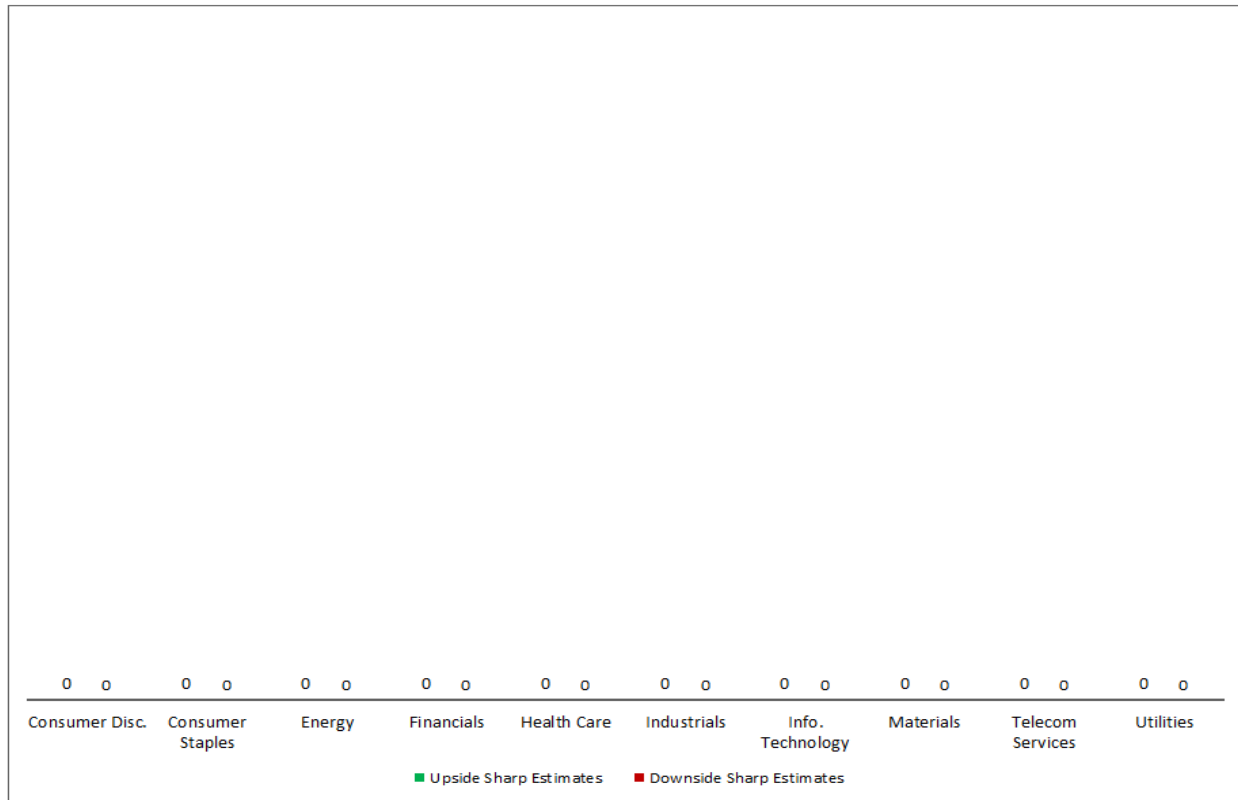


Q1 2014 Revenue Growth

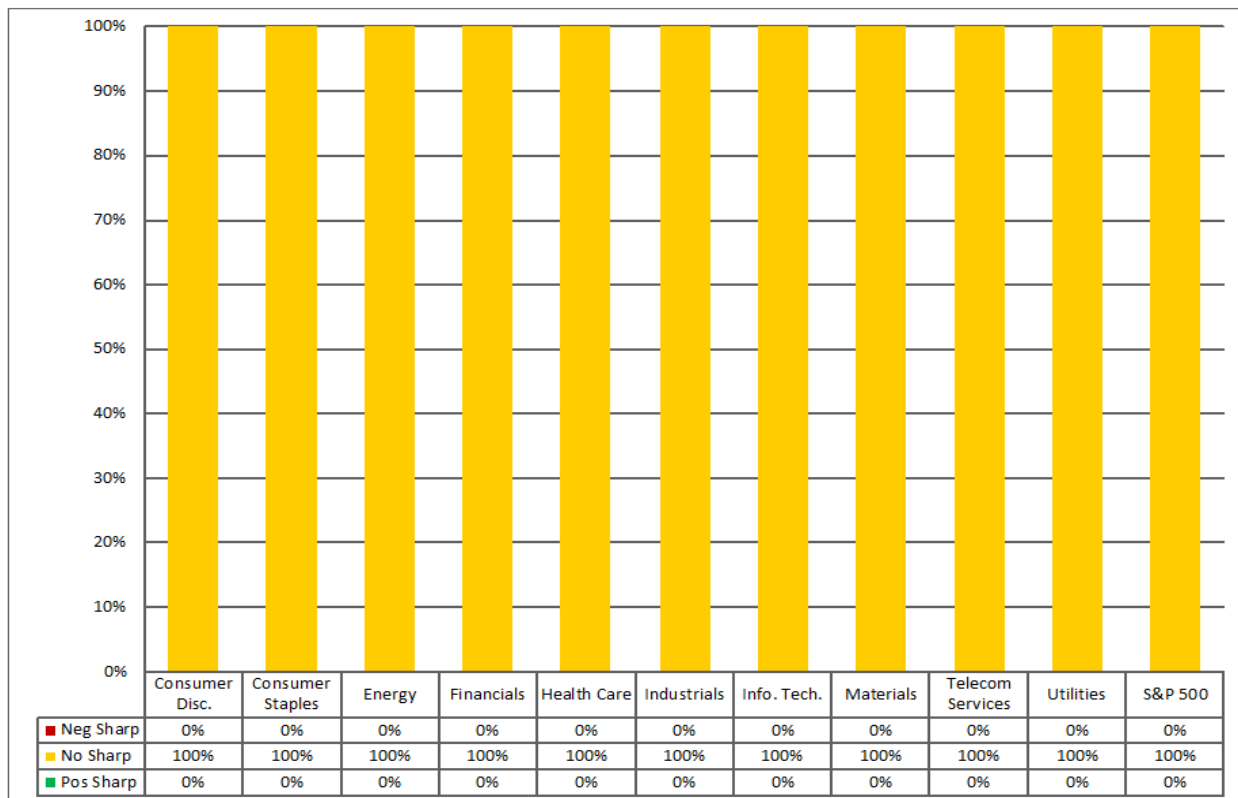


Q1 2014: Projected EPS Surprises (Sharp Estimates)

Number (#) of Companies with Sharp Estimates

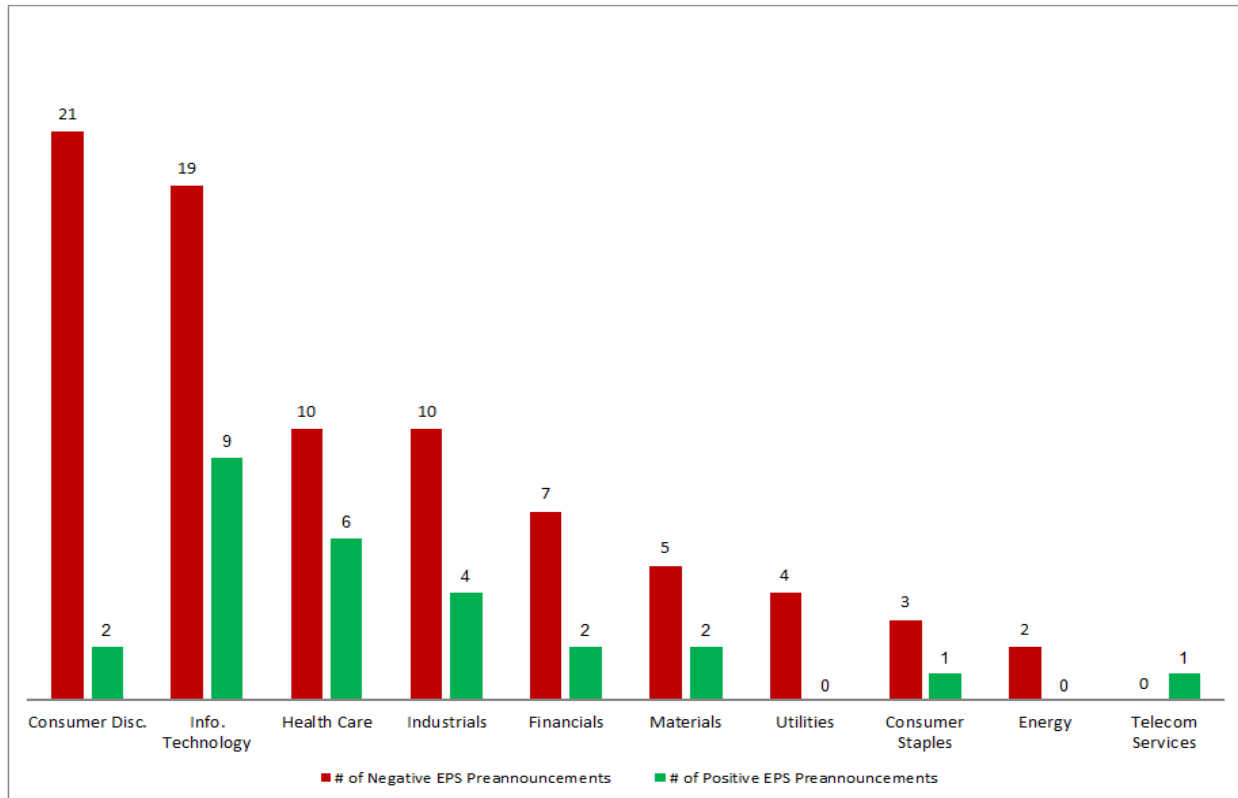


Percentage (%) of Companies with Sharp Estimates



Q2 2014: EPS Guidance

Number of Positive & Negative EPS Preannouncements: Q2 2014

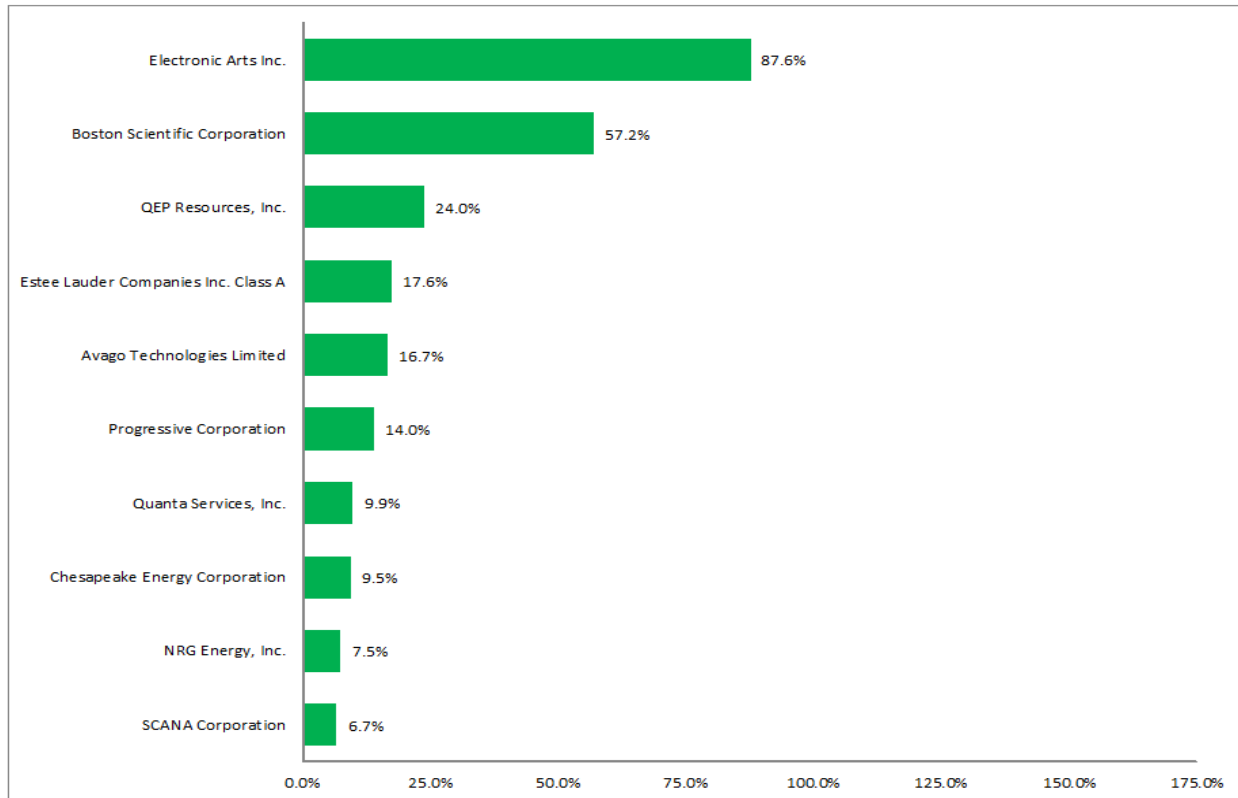


Percentage of Positive & Negative EPS Preannouncements: Q2 2014

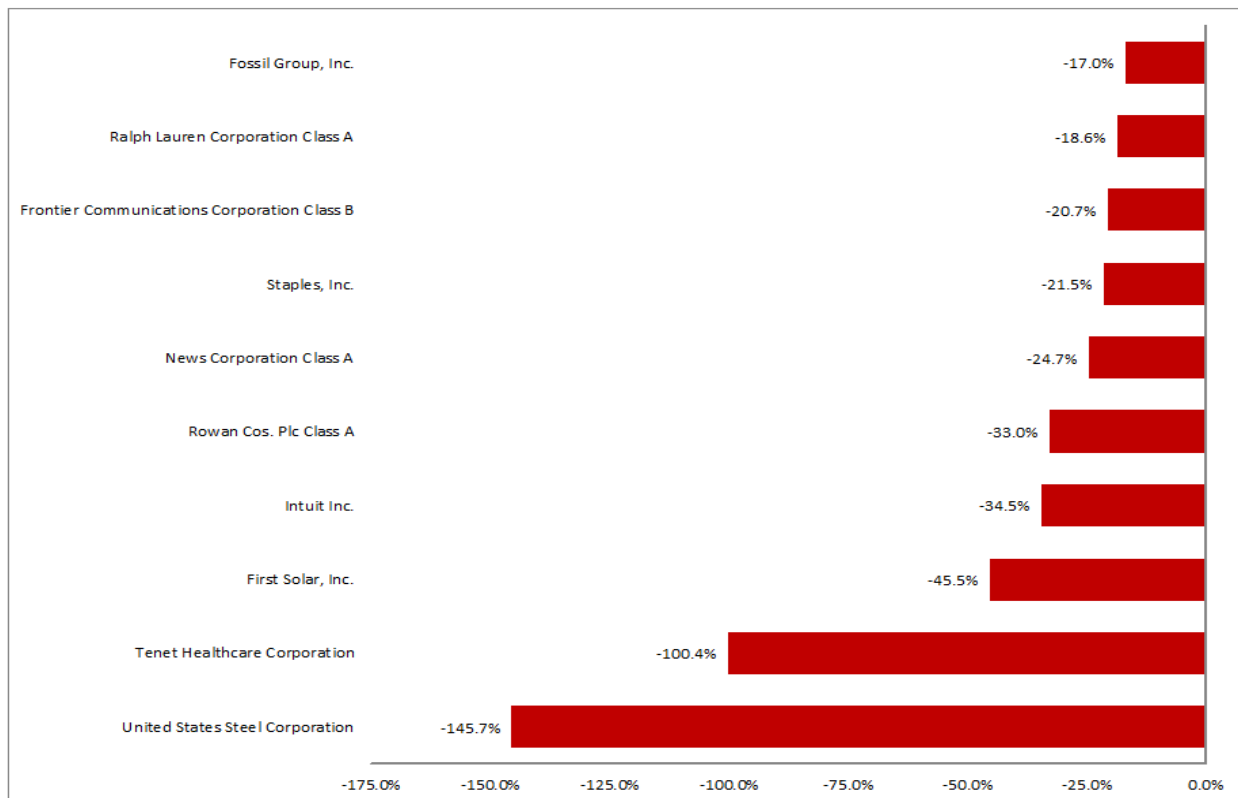


Q2 2014: EPS Revisions

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

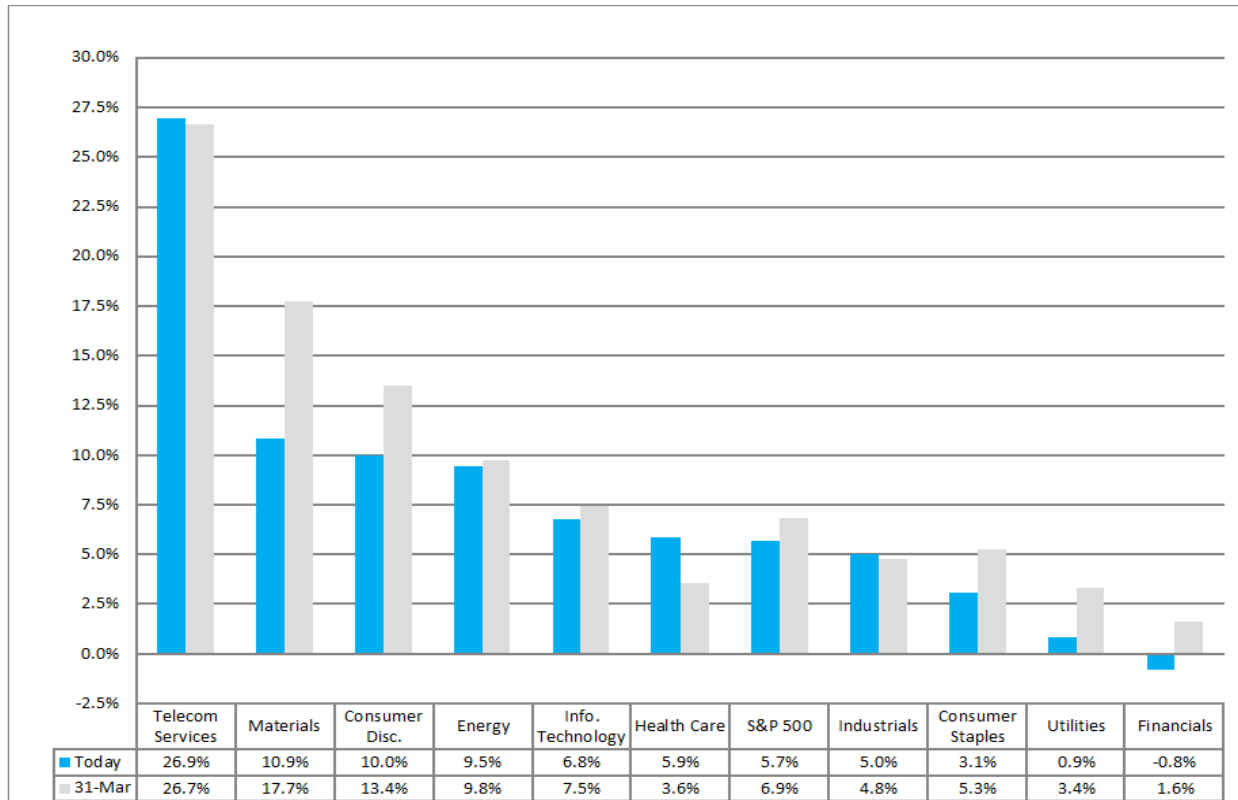


Highest Downward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

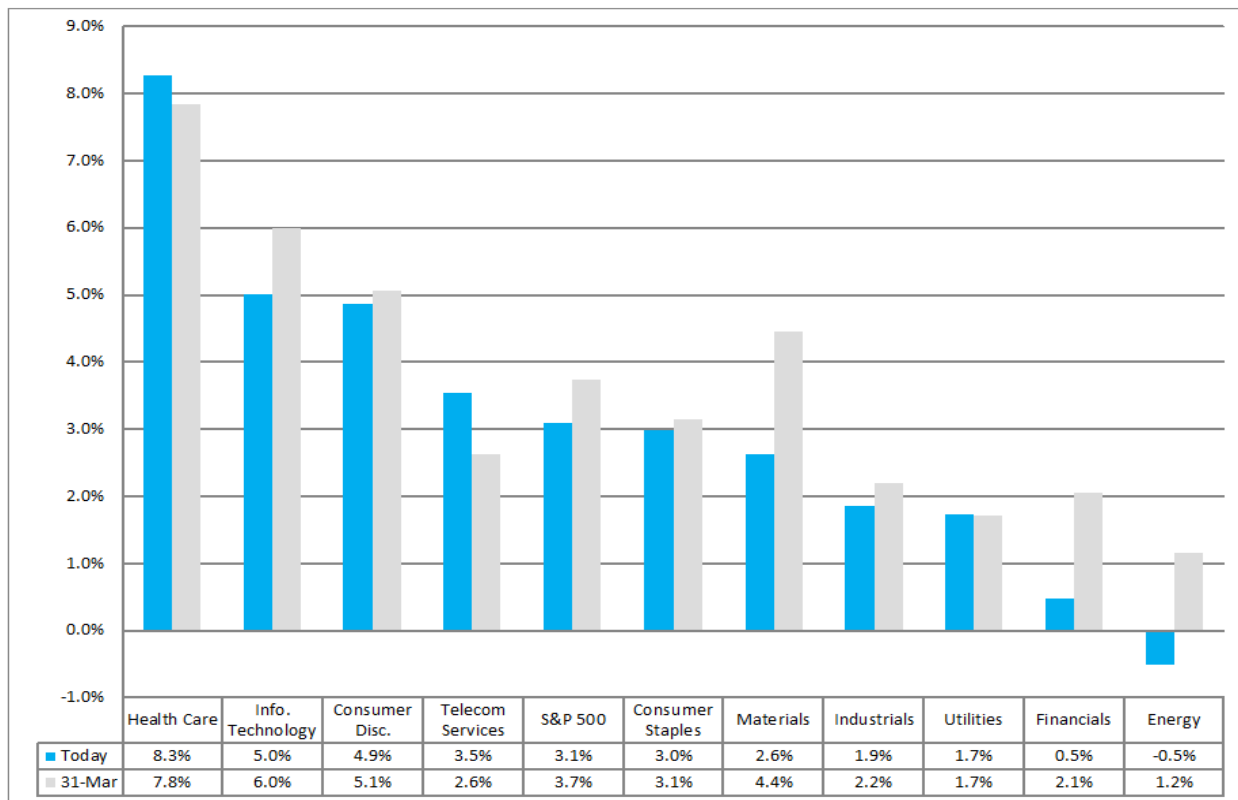


Q2 2014: Growth

Q2 2014 Earnings Growth

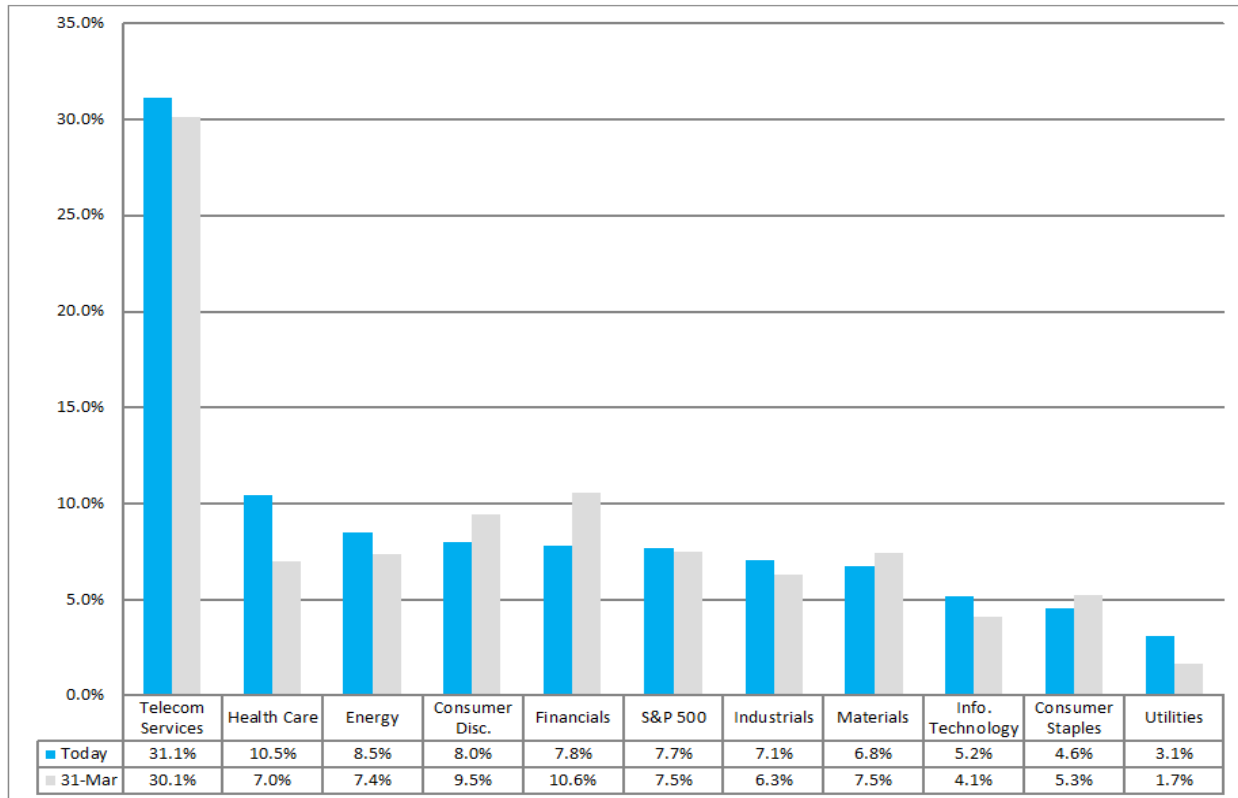


Q2 2014 Revenue Growth

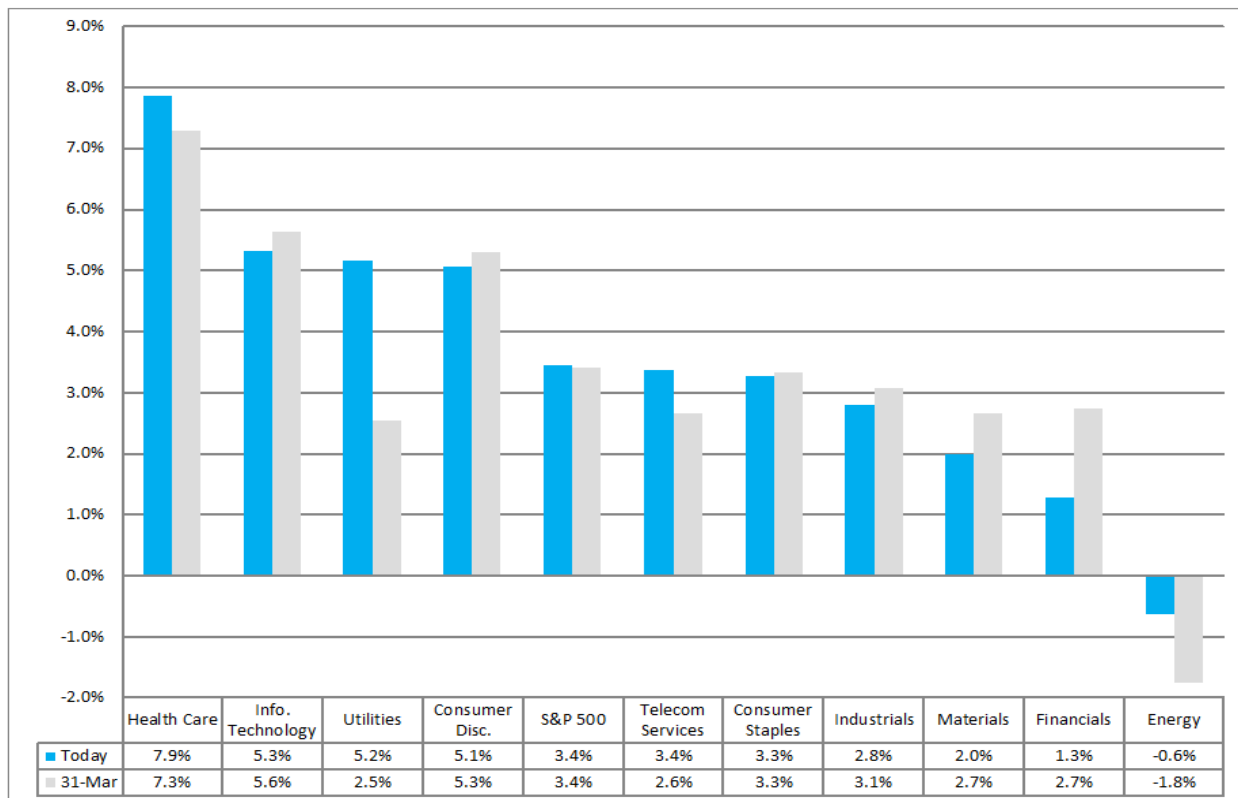


CY 2014: Growth

CY 2014 Earnings Growth

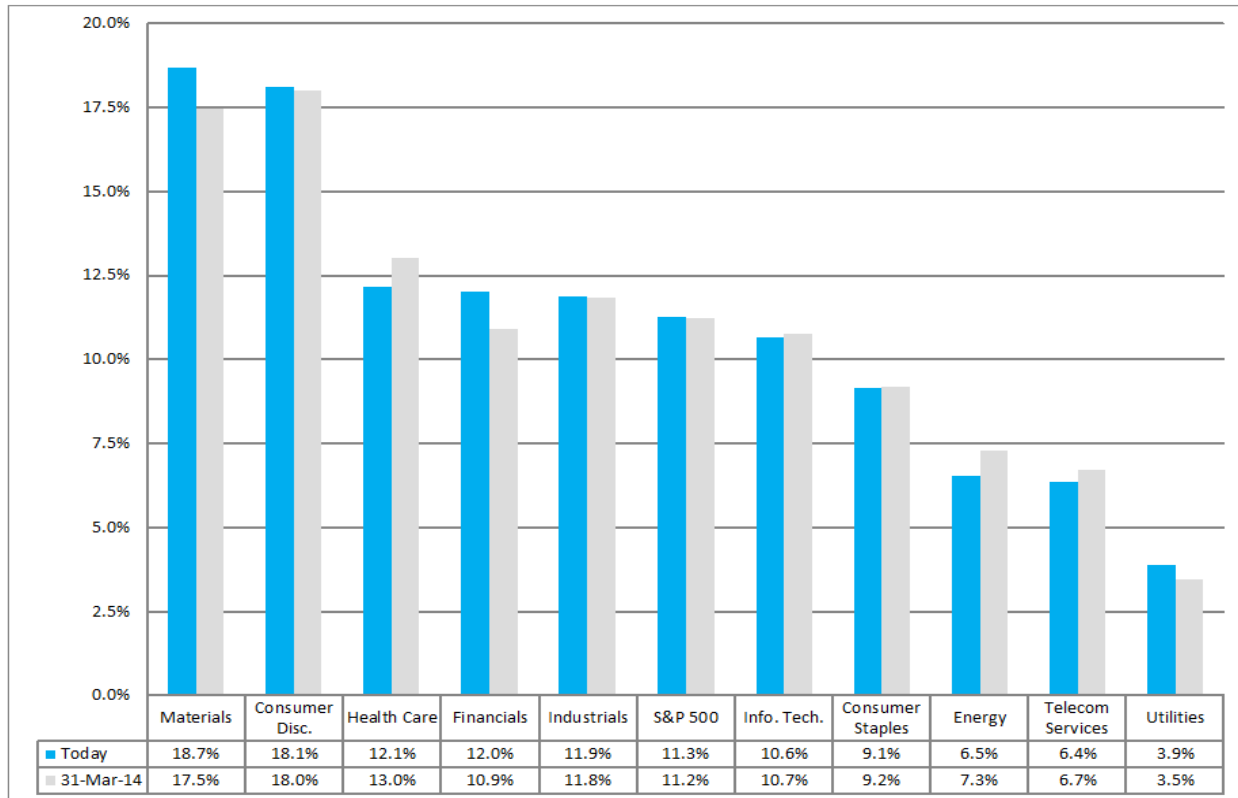


CY 2014 Revenue Growth

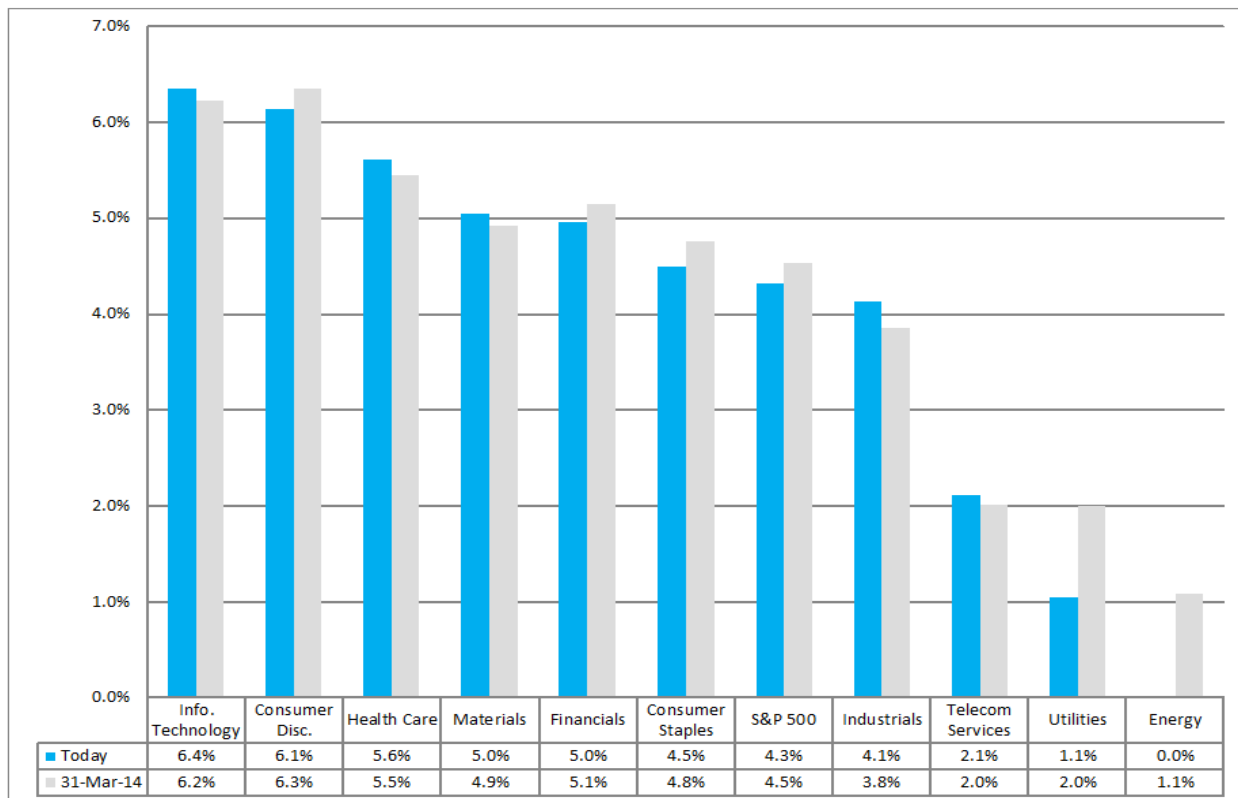


CY 2015: Growth

CY 2015 Earnings Growth

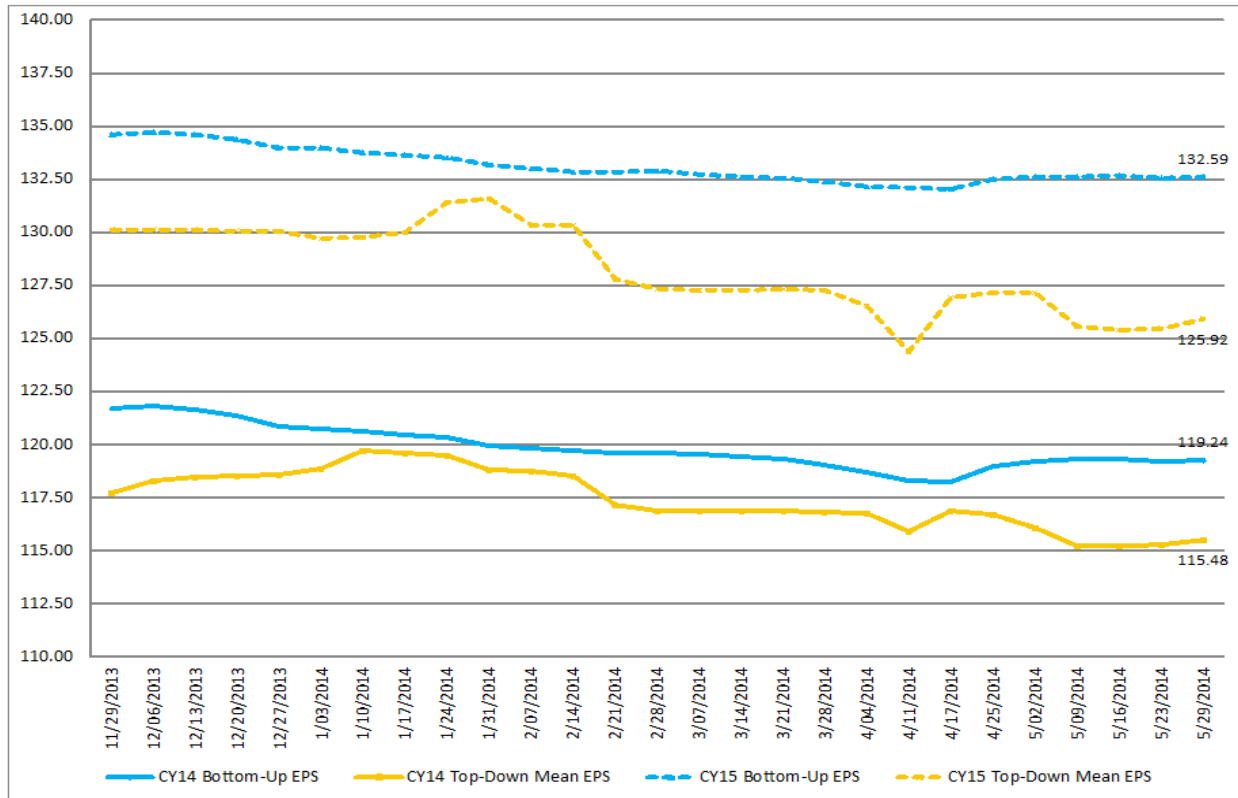


CY 2014 Revenue Growth

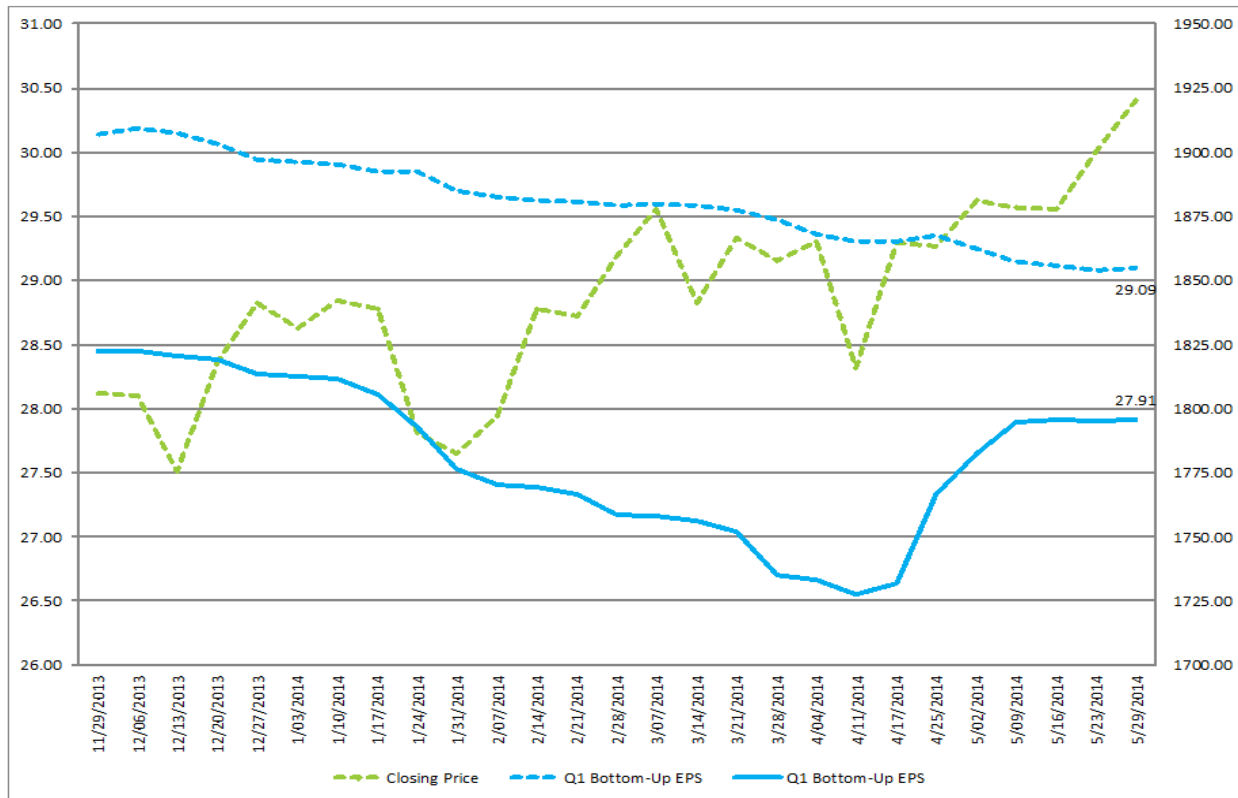


Bottom-up EPS Estimates: Revisions

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

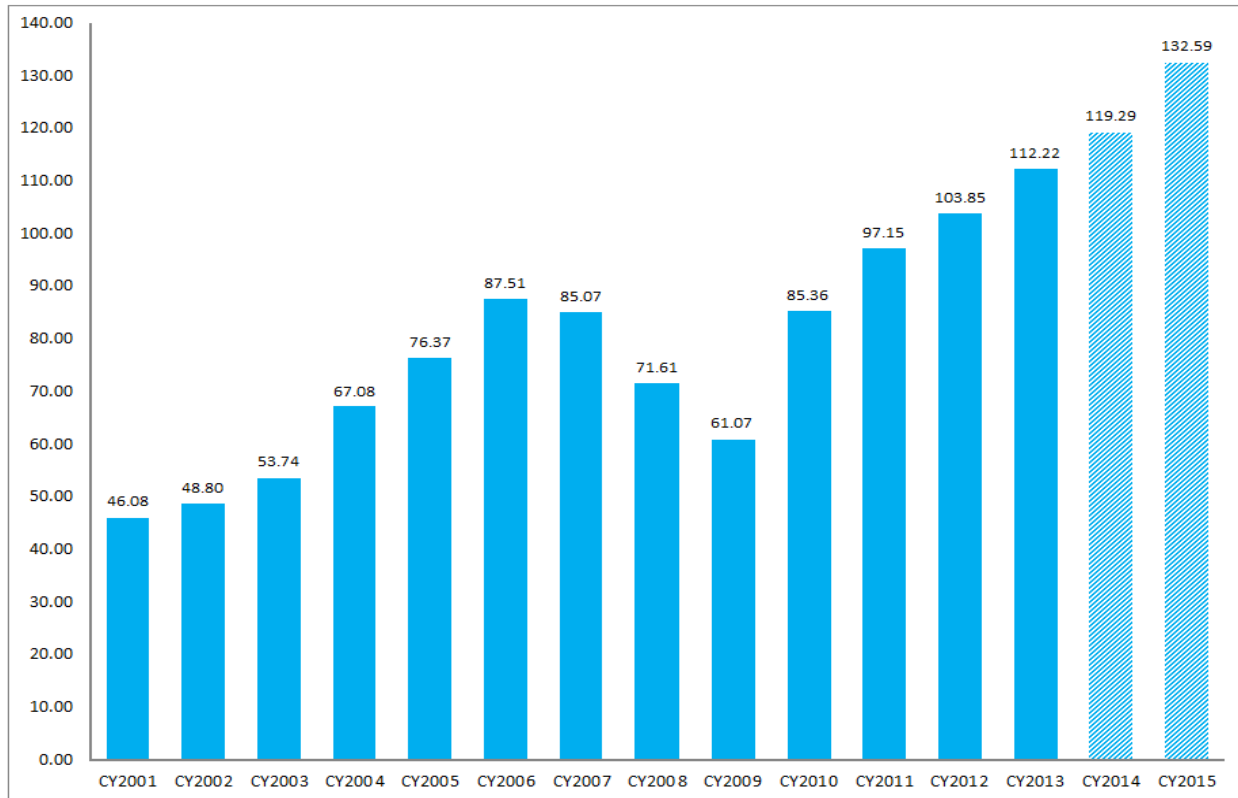


Change in Q114 & Q214 Bottom-Up EPS vs. Price (Trailing 26-Weeks)

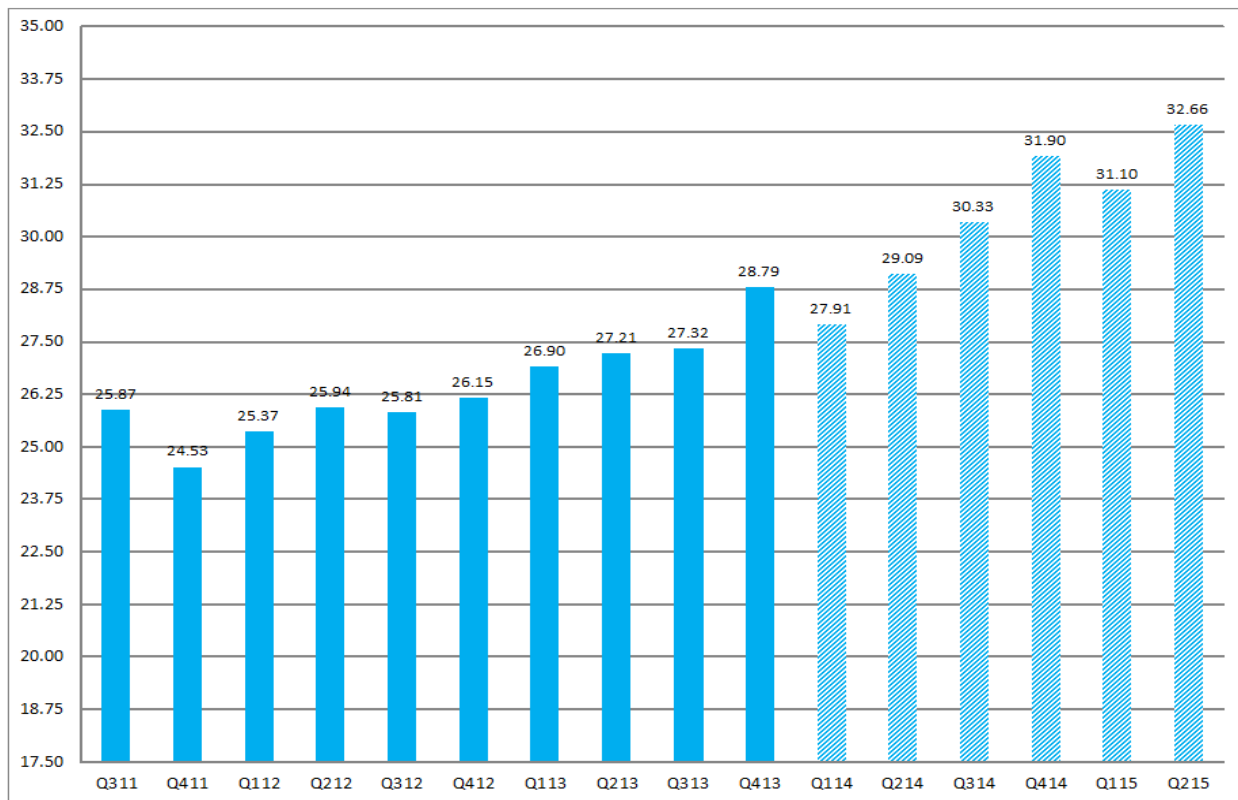


Bottom-up EPS Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates

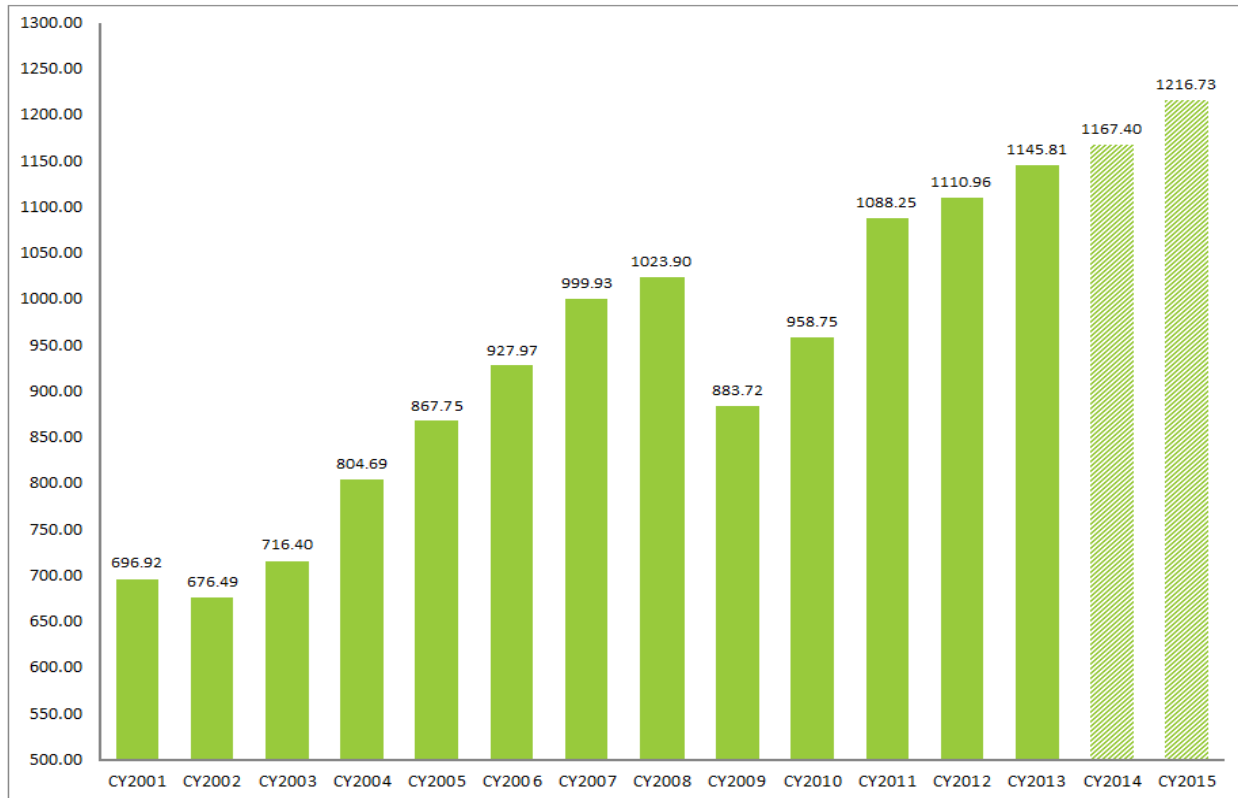


Quarterly Bottom-Up EPS Actuals & Estimates

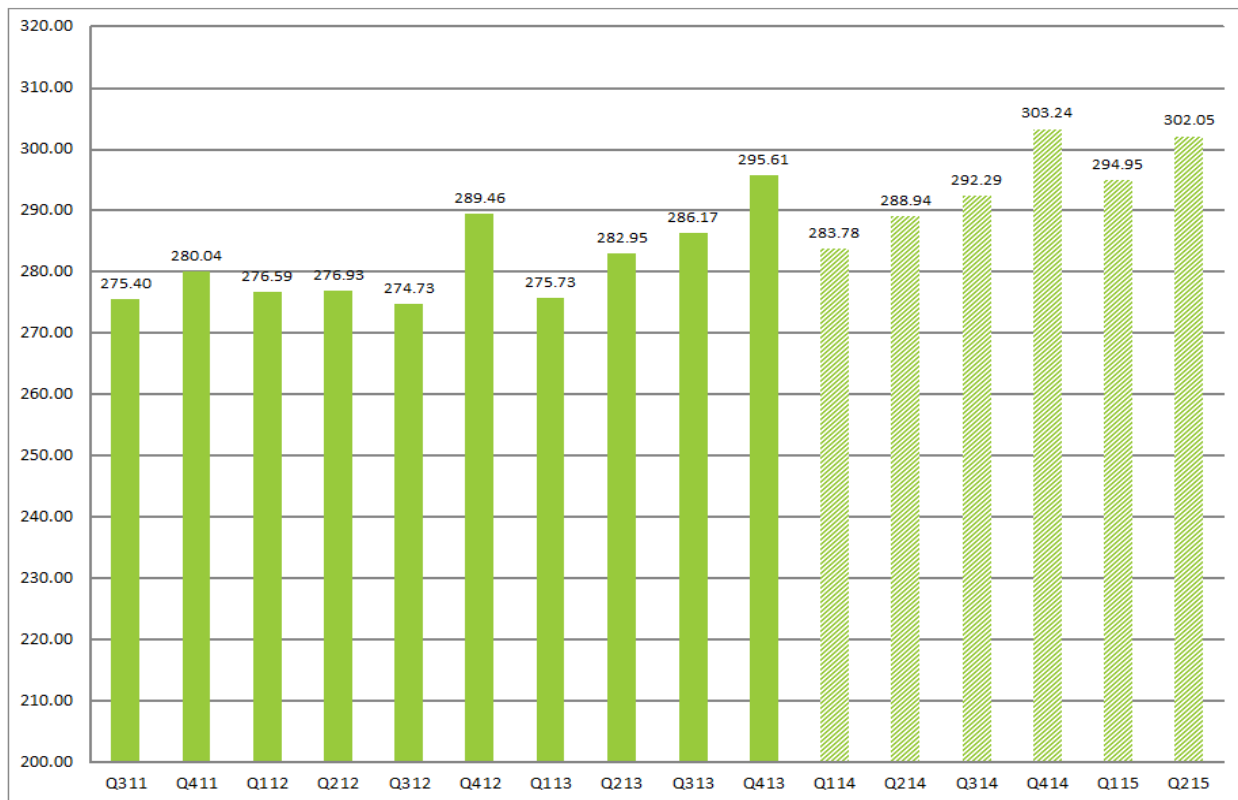


Bottom-up SPS Estimates: Current & Historical

Calendar Year Bottom-Up SPS Actuals & Estimates

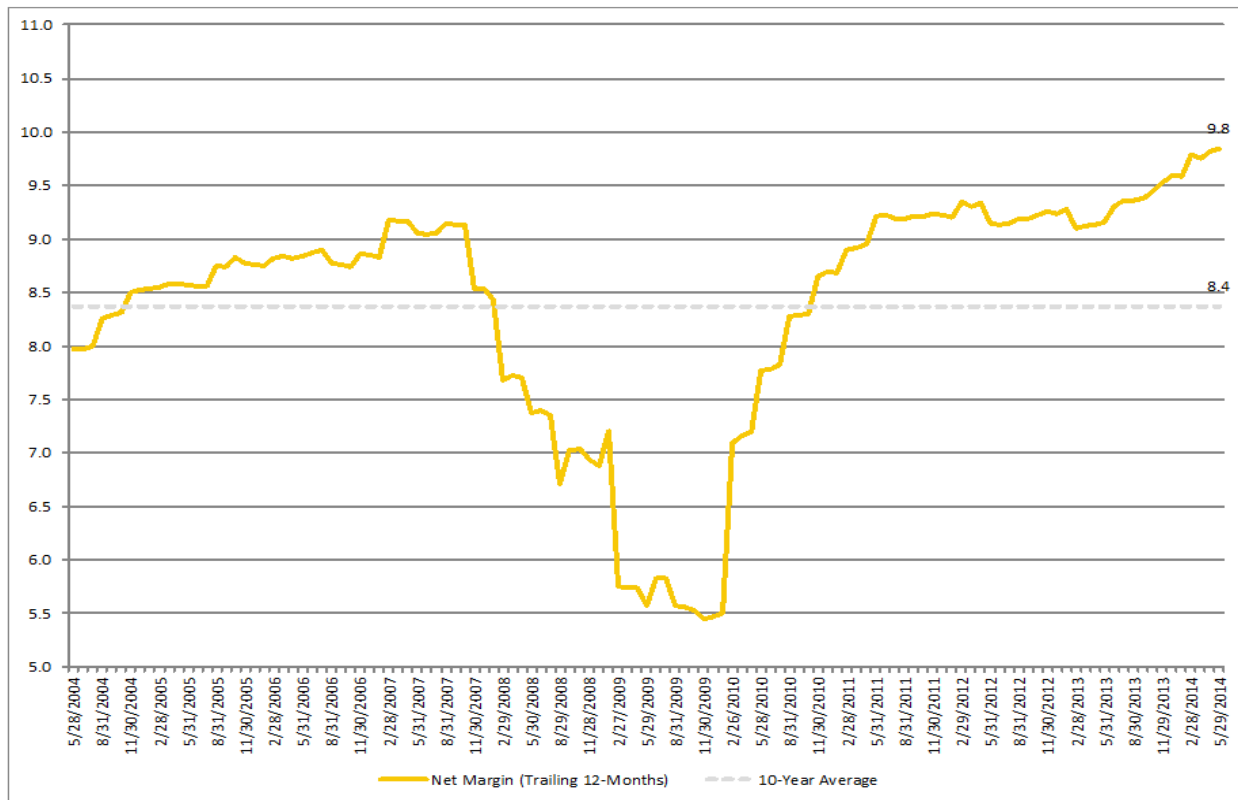


Quarterly Bottom-Up SPS Actuals & Estimates

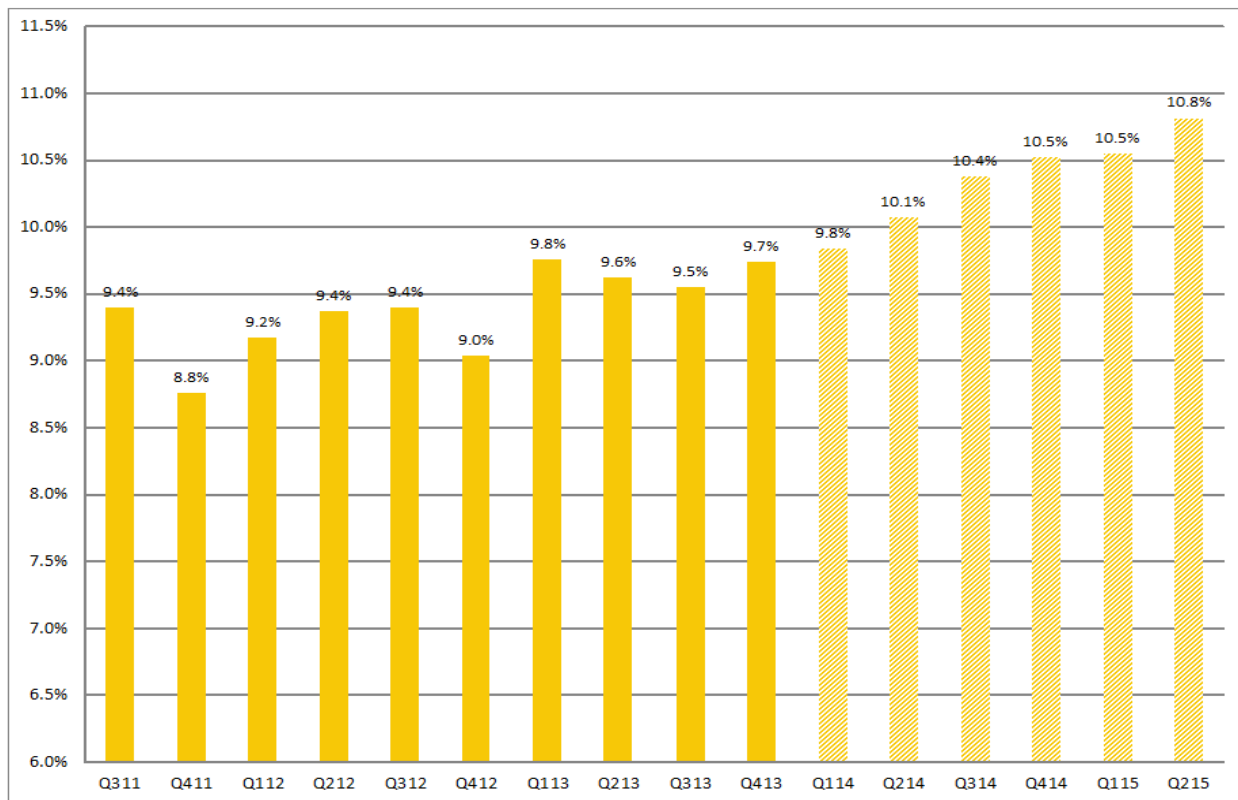


Net Margins: Current & Historical

Trailing 12M Net Margin: 10 Years

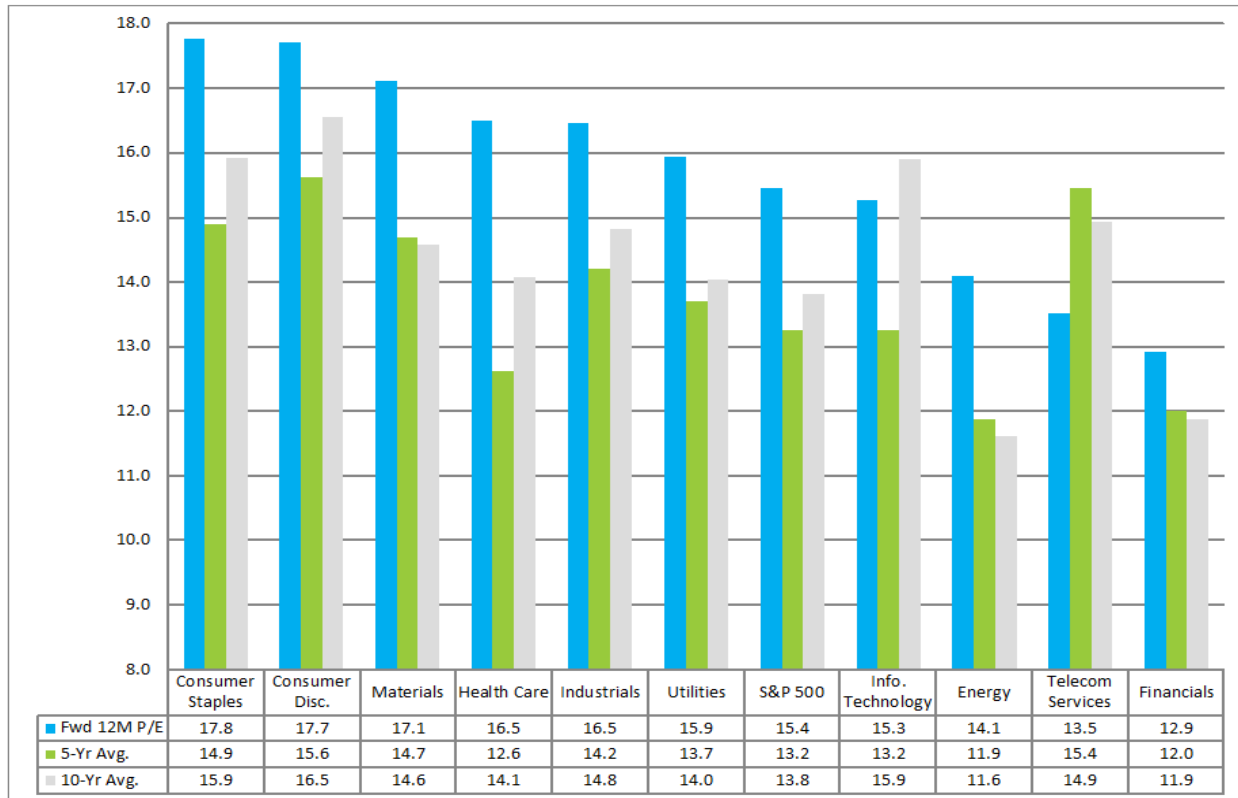


Quarterly Net Margins (Bottom-Up EPS / Bottom-Up SPS)

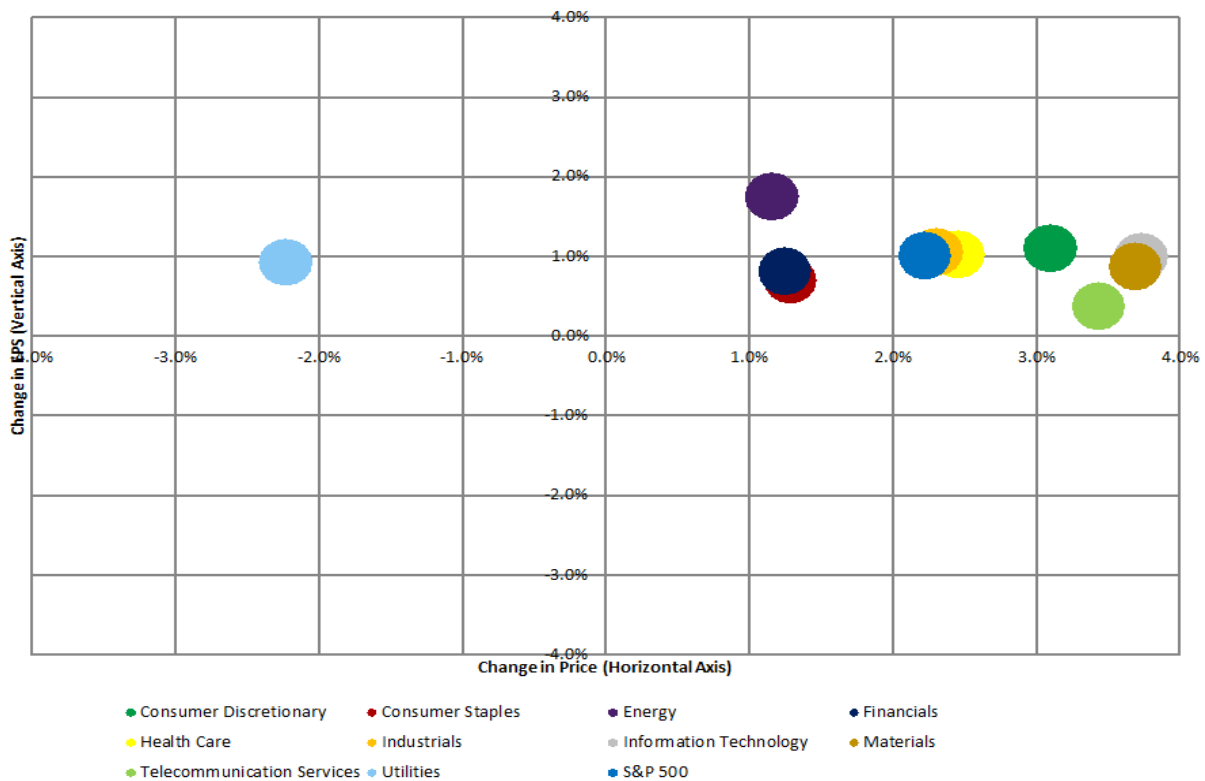


Forward 12M Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

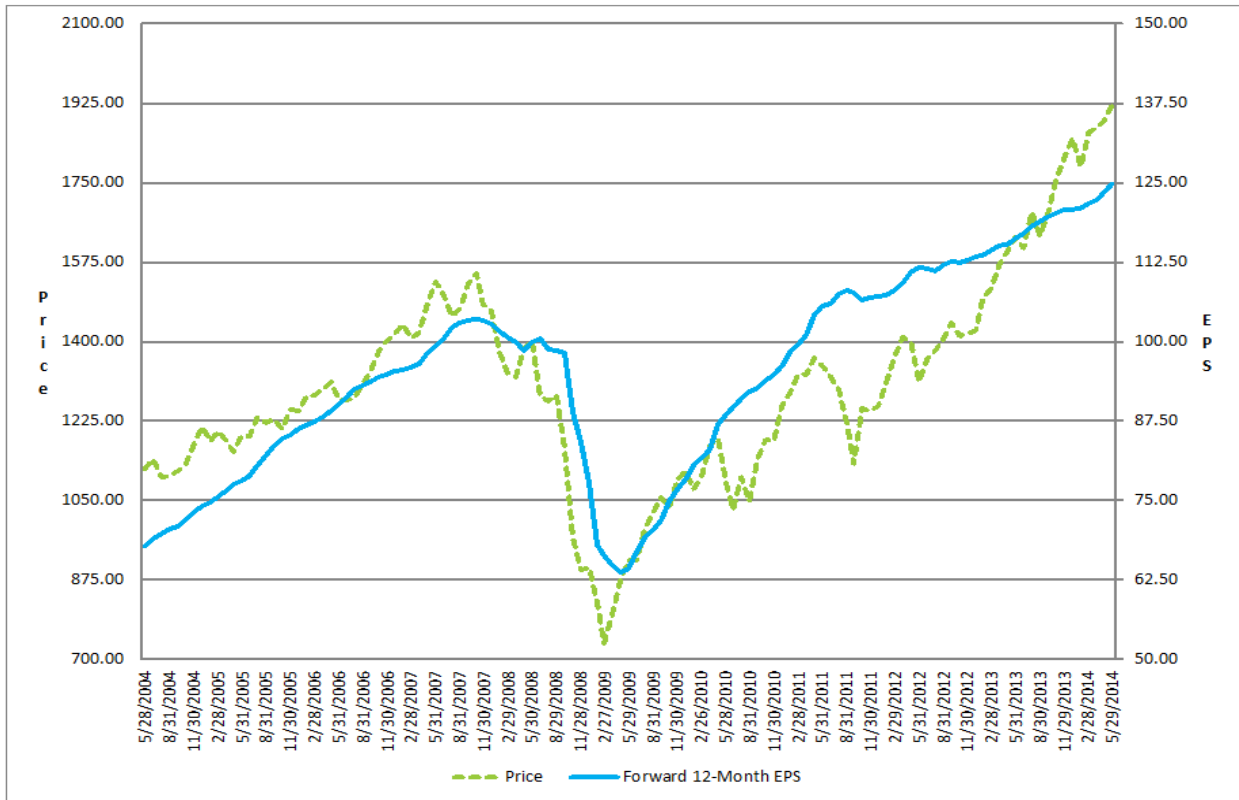


Sector-Level Change in Price vs. Change Forward 12M EPS: 1-Month

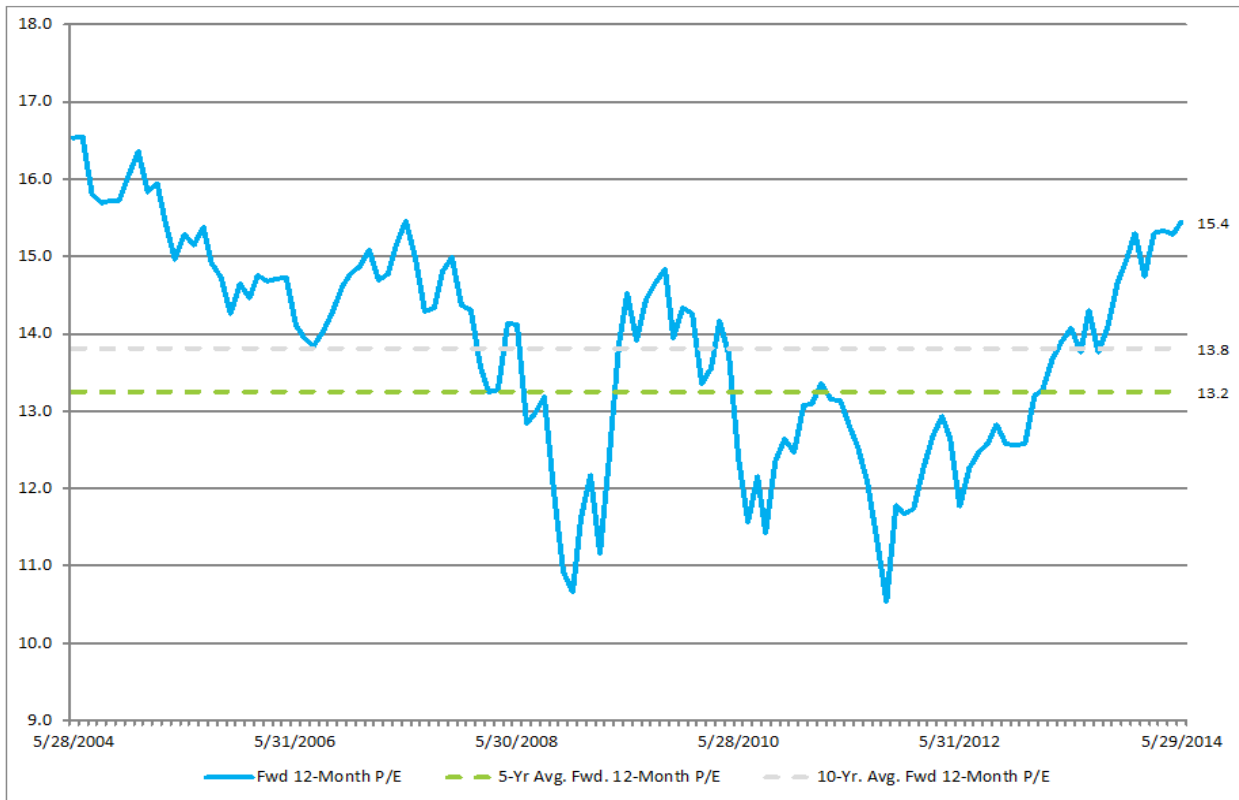


Forward 12M Price / Earnings Ratio: Long-Term Averages

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

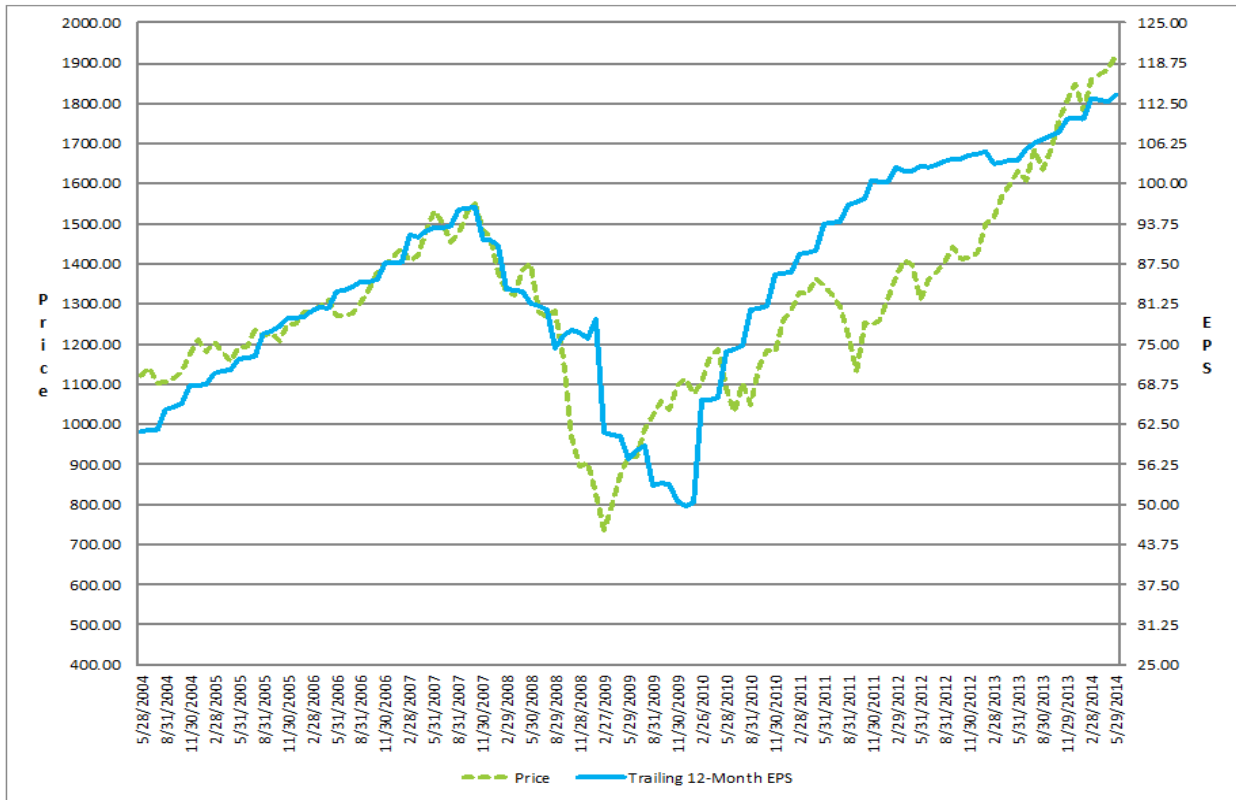


Forward 12M P/E Ratio: 10-Year

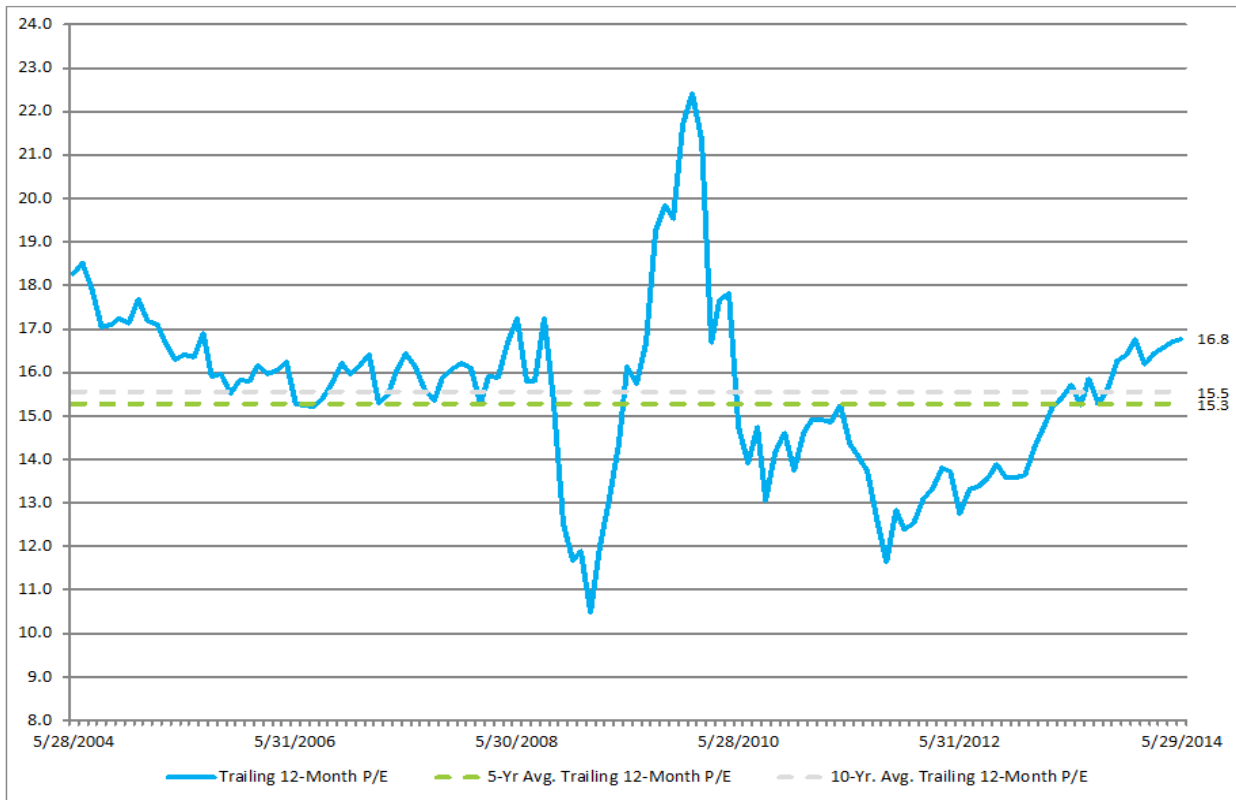


Trailing 12M Price / Earnings Ratio: Long-Term Averages

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



Trailing 12M P/E Ratio: 10-Year



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