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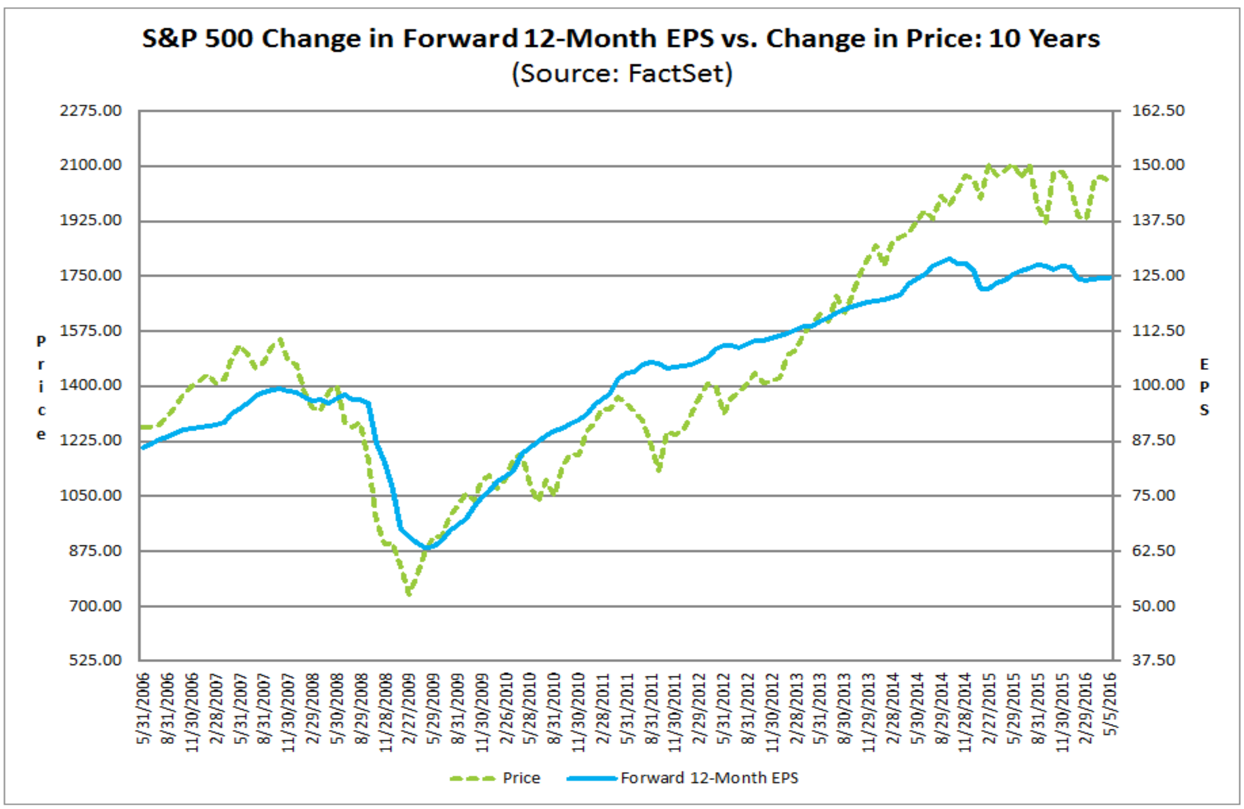
FACTSET EARNINGS INSIGHT

S&P 500 May 6, 2016

Key Metrics

- **Earnings Scorecard:** With 87% of companies in the S&P 500 reporting earnings to date for Q1 2016, 71% have reported earnings above the mean estimate and 53% have reported sales above the mean estimate.
- **Earnings Growth:** For Q1 2016, the blended earnings decline is -7.1%. The first quarter marks 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 March 31, the estimated earnings decline for Q1 2016 was -8.7%. Six sectors have higher growth rates today (compared to March 31) due to upside earnings surprises, led by the Consumer Discretionary sector.
- **Earnings Guidance:** For Q2 2016, 55 companies have issued negative EPS guidance and 24 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio is 16.5. This P/E ratio is based on Thursday's closing price (2050.63) and forward 12-month EPS estimate ($124.64).



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Topic of the Week:

Auto Manufacturers Largest Positive Contributor to Year-Over-Year Earnings for S&P 500 for Q1

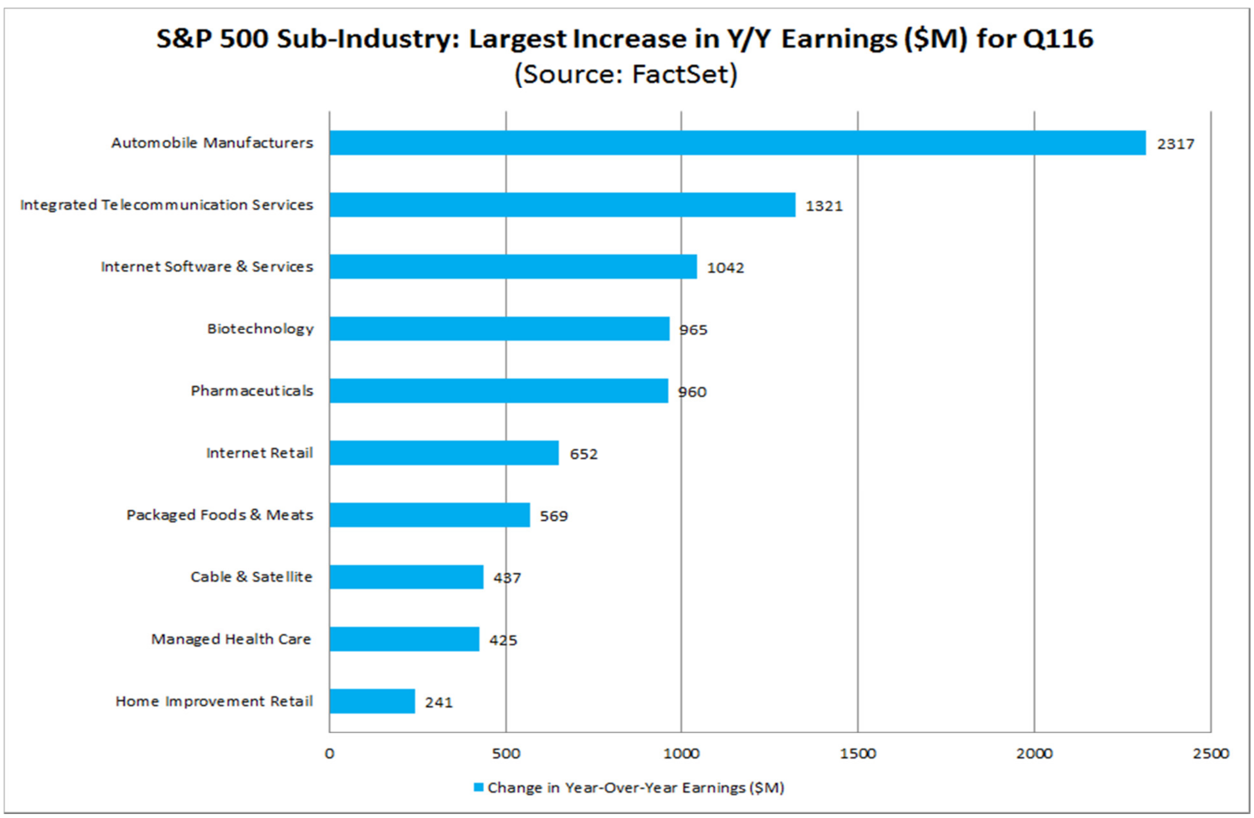
The auto industry was a focus topic for the markets this past week, as Ford Motor and General Motors reported the number of vehicles sold in the U.S. and China for the month of April during the week. In the U.S., Ford reported an increase of 4% in the number of vehicles sold compared to last year, while General Motors reported a decrease of 3.5%. In China, Ford reported a decrease of 11% in the number of vehicles sold compared to last year, while General Motors reported an increase of 7.5%.

Both companies have already reported earnings results for Q1 2016. Ford Motor reported EPS of $0.68 for Q1 2016, which reflected EPS growth in excess of 130%. General Motors reported EPS of $1.26 for Q1 2016, which reflected EPS growth in excess of 40%. Ford Motor and General Motors comprise the Automobile Manufacturers sub-industry in the S&P 500. Given the high EPS growth reported by both Ford Motor and General Motors, what is the aggregate earnings growth rate for this sub-industry? Where does this sub-industry rank in the S&P 500 in terms of earnings growth for Q1 2016?

On a percentage basis, the Automobile Manufacturers sub-industry reported year-over-year earnings growth of 101.5% for Q1 2016. This is the 3rd highest blended (combines actual results for companies that have reported results and estimates for companies yet to report) earnings growth rate at the sub-industry level for the S&P 500 for Q1 2016, trailing only the Independent Power Producers & Energy Traders (303.7%) and the Internet Retail (143.0%) sub-industries.

On a dollar-level basis, the Automobile Manufacturers sub-industry reported year-over-year earnings growth of $2.3 billion dollars. This is the largest year-over-year increase in dollar-level earnings of all the sub-industries in the S&P 500.

As a result, the Automobile Manufacturers sub-industry is the largest positive contributor to year-over-year earnings for the S&P 500 at the sub-industry level. If this sub-industry is removed, the blended earnings decline for the S&P 500 would increase to -8.1% from -7.1%.



Q1 2016 Earnings Season: By the Numbers

Overview

With 87% of the companies in the S&P 500 reporting actual results for Q1 to date, the percentage of companies reporting actual EPS above estimates (71%) is above the 5-year average, while the percentage of companies reporting sales above estimates (53%) is below the 5-year average. In aggregate, companies are reporting earnings that are 4.1% above the estimates. This percentage is slightly below the 5-year average (+4.2%).

The blended (combines actual results for companies that have reported and estimated results for companies yet to report) year-over-year earnings decline for Q1 2016 is -7.1%, which is smaller than the expected earnings decline of -8.7% at the end of the quarter (March 31). Seven sectors are reporting a year-over-year decline in earnings, led by the Energy, Materials, and Financials sectors. Three sectors are reporting year-over-year growth in earnings, led by the Consumer Discretionary and Telecom Services sectors.

The blended sales decline for Q1 2016 is -1.6%, which is larger the estimated sales decline of -1.0% at the end of the quarter (March 31). Five sectors are reporting year-over-year growth in revenues, led by the Telecom Services and Health Care sectors. Five sectors are reporting a year-over-year decline in revenues, led by the Energy, Utilities, 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 16.5, which is above the 5-year and 10-year averages.

During the upcoming week, 20 S&P 500 companies (including 1 DJIA component) are scheduled to report results for the first quarter.

More Companies Beating EPS Estimates and Missing Sales Estimates than Average

Percentage of Companies Beating EPS Estimates (71%) is Above 5-Year Average

Overall, 87% of the companies in the S&P 500 have reported earnings to date for the first quarter. Of these companies, 71% have reported actual EPS above the mean EPS estimate, 7% have reported actual EPS equal to the mean EPS estimate, and 22% 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 (69%) average and the 5-year (67%) average.

At the sector level, the Materials (84%), Consumer Staples (83%), Consumer Discretionary (82%), and Health Care (81%) sectors have the highest percentages of companies reporting earnings above estimates, while the Utilities (52%) and Energy (53%) sectors have the lowest percentages of companies reporting earnings above estimates.

Earnings Surprise Percentage (+4.1%) is Slightly Below 5-Year Average

In aggregate, companies are reporting earnings that are 4.1% above expectations. This surprise percentage is slightly below both the 1-year (+4.2%) average and the 5-year (+4.2%) average.

The Consumer Discretionary (+14.2%) and Materials (+9.5%) sectors are reporting the largest upside aggregate differences between actual earnings and estimated earnings. In the Consumer Discretionary sector, Amazon.com ($1.07 vs. $0.58), Cablevision Systems ($0.34 vs. $0.19), and Royal Caribbean Cruises ($0.57 vs. $0.32) have reported actual results above estimates by the widest margins. In the Materials sector, Vulcan Materials ($0.26 vs. $0.06), Alcoa ($0.07 vs. $0.02), Martin Marietta Materials ($0.69 vs. $0.36), and Newmont Mining ($0.34 vs. $0.18) have reported the largest upside earnings surprises.

Market Not Rewarding Earnings Beats and Punishing Earnings Misses

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

Companies that have reported upside earnings surprises for Q1 2016 have seen an average price increase of +0.6% two days before the earnings release through two days after the earnings. This percentage increase is below the 5-year average price increase of +1.2% during this same window for companies reporting upside earnings surprises.

Companies that have reported downside earnings surprises for Q1 2016 have seen an average price decrease of -2.3% two days before the earnings release through two days after the earnings. This percentage decrease is slightly larger than the 5-year average price decrease of -2.2% during this same window for companies reporting downside earnings surprises.

Percentage of Companies Beating Revenue Estimates (53%) is Below 5-Year Average

In terms of revenues, 53% of companies have reported actual sales above estimated sales and 47% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is above the 1-year (50%) average but below the 5-year average (56%).

At the sector level, the Health Care (68%) sector has the highest percentage of companies reporting revenues above estimates, while the Utilities (17%) and Energy (32%) sectors have the lowest percentages of companies reporting revenues above estimates.

Revenue Surprise Percentage (-0.3%) is Below 5-Year Average

In aggregate, companies are reporting sales that are 0.3% below expectations. This surprise percentage is below both the 1-year (+0.6%) average and above the 5-year (+0.7%) average.

The Industrials (+0.7%), Health Care (+0.7%), and Consumer Discretionary (+0.6%) sectors are reporting the largest upside aggregate differences between actual sales and estimated sales, while the Utilities (-5.3%) sector is reporting the largest downside aggregate difference between actual sales and estimated sales.

Decrease in Blended Earnings Decline This Week Led By Health Care Sector

Decrease in Blended Earnings Decline This Week Led By Health Care Sector

The blended earnings decline for the first quarter is -7.1% this week, which is smaller than the blended earnings decline of -7.7% last week. Upside earnings surprises reported by companies in the Health Care sector, partially offset by downside earnings surprises reported by companies in the Financials sector, were mainly responsible for the decrease in the overall earnings decline for the index during the past week.

In the Health Care sector, the upside earnings surprises reported by Pfizer ($0.67 vs. $0.55), Merck ($0.89 vs. $0.85), and HCA Holdings ($1.71 vs. $1.49) were substantial contributors to the decrease in the blended earnings decline for the index during the week. As a result, the blended earnings growth rate for the Health Care sector improved to 7.1% from 4.6% over this period.

In the Financials sector, the downside earnings surprises reported by AIG ($0.65 vs. $1.00) and MetLife ($1.20 vs. $1.38), were significant detractors to the decrease in the blended earnings decline for the index during the week. As a result, the blended earnings decline for the Financials sector increased to -11.7% from -10.7% over this period.

Consumer Discretionary Sector Has Seen Largest Increase in Earnings since March 31

The blended earnings decline for Q1 2016 of -7.1% is smaller than the estimate of -8.7% at the end of the first quarter (March 31). Six sectors have recorded an increase in earnings growth during this time due to upside earnings surprises, led by the Consumer Discretionary (to 19.1% from 9.7%) and Materials (to -14.5% from -22.1%) sectors. Four sectors have recorded a decrease in earnings growth since the end of the quarter due to downside earnings surprises and downward revisions to earnings estimates, led by the Energy (to -107.2% from -103.0%) and Financials (to -11.7% from -8.9%) sectors.

Earnings: Fourth Consecutive Quarter of Year-Over-Year Earnings Declines (-7.1%)

The blended earnings decline for Q1 2016 is -7.1%. The first quarter marks the first time the index has seen four consecutive quarters of year-over-year declines in earnings since Q4 2008 through Q3 2009. It also marks the largest year-over-year decline in earnings since Q3 2009 (-15.7%). Only three sectors are reporting year-over-year growth in earnings, led by the Consumer Discretionary and Telecom Service sectors. Seven sectors are reporting a year-over-year decline in earnings, led by the Energy, Materials, and Financials sectors.

Consumer Discretionary: Internet Retail and Auto Manufacturers Lead Growth

The Consumer Discretionary sector is reporting the highest earnings growth at 19.1%. At the sub-industry level, 21 of the 31 sub-industries in this sector are reporting or are expected to report earnings growth for the quarter. Of these 21 sub-industries, 13 are reporting or are predicted to report double-digit earnings growth, led by the Internet Retail (143%) and Automobile Manufacturers (101%) sub-industries. On the other hand, the Department Stores (-39%) and Publishing (-20%) sub-industries are reporting or are expected to report the largest year-over-year declines in earnings for the quarter.

Telecom Services: AT&T Leads Growth

The Telecom Services sector reported the second highest earnings growth at 16.6%. Of the five companies in the sector, AT&T was the largest contributor to earnings growth. The company reported actual EPS of $0.72 for Q1 2016 (which reflects the combination of AT&T and DIRECTV), compared to year-ago EPS (which reflects standalone AT&T) of $0.63. If this company is excluded, the blended earnings growth rate for the Telecom Services sector would fall to 3.4%.

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

The Energy sector is reporting the largest year-over-year decline in earnings (-107.2%) of all ten sectors. The year-over-year decline is larger than -100% because the sector is reporting an aggregate loss (-$932 million) for Q1 2016, compared to year-ago aggregate earnings $12.9 billion. All the sub-industries in this sector are reporting a year-over-year drop in earnings: Integrated Oil & Gas (-86%), Oil & Gas Equipment & Services (-77%), Oil & Gas Drilling (-77%), Oil & Gas Refining & Marketing (-71%), Oil & Gas Storage & Transportation (-20%), and Oil & Gas Exploration & Production (NA).

This sector is also the largest contributor to the earnings decline for the S&P 500 as a whole. If the Energy sector is excluded, the blended earnings decline for the S&P 500 would improve to -1.9% from -7.1%.

Materials: Weakness in Metals & Mining

The Materials sector is reporting the second largest year-over-year decline in earnings (-14.5%) of all ten sectors. At the industry level, three of the four industries in the sector are reporting a year-over-year decrease in earnings, led by the Metals & Mining (-71%) industry.

Financials: Weakness in Metals & Mining

The Financials sector is reporting the third largest year-over-year decline in earnings (-11.7%) of all ten sectors. At the industry level, four of the seven industries in the sector are reporting a year-over-year decrease in earnings, led by the Capital Markets (-31%), Insurance (-14%), and Banks (-13%) industries.

Revenues: Fifth Consecutive Quarter of Year-Over-Year Revenue Declines (-1.6%)

The blended revenue decline for Q1 2016 is -1.6%. The first quarter marks 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 reporting year-over-year growth in revenues, led by the Telecom Services and Health Care sectors. Five sectors are reporting a year-over-year decline in revenues, led by the Energy, Utilities, and Materials sectors.

Telecom Services: AT&T Leads Growth

The Telecom Services sector reported the highest revenue growth of all ten sectors at 11.2%. At the company level, AT&T was the largest contributor to revenue growth for the sector. The company reported actual sales of $40.5 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 blended revenue growth rate for the sector would fall to 0.3%.

Health Care: Broad-Based Growth

The Health Care sector is reporting the second highest revenue growth of all ten sectors at 9.2%. All six industries in this sector are reporting sales growth for the quarter, led by the Health Care Technology (14%), Biotechnology (12%), and Health Care Providers & Services (10%) industries.

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

The Energy sector is reporting the largest year-over-year decrease in sales (-29.5%) for the quarter. All six sub-industries in the sector are reporting a year-over-year decrease in revenues: Oil & Gas Equipment & Services (-39%), Oil & Gas Drilling (-37%), Oil & Gas Exploration & Production (-36%), Integrated Oil & Gas (-29%), Oil & Gas Refining & Marketing (-25%), and Oil & Gas Storage & Transportation (-8%).

This sector is also the largest contributor to the revenue decline 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 1.3% from -1.6%.

Utilities: Broad-Based Weakness

The Utilities (-9.0%) sector is reporting the second largest year-over-year decrease in revenue of all ten sectors. Four of the five industries in this sector are reporting a year-over-year decline in sales for the quarter, led by the Gas Utilities (-23%) industry.

Materials: Weakness in Metals & Mining and Chemicals

The Materials (-8.5%) sector is reporting the third largest year-over-year decrease in revenue of all ten sectors. Two of the four industries in this sector are reporting a year-over-year decline in sales for the quarter: Metals & Mining (-13%) and Chemicals (-11%).

Q1 2016 Earnings Season: Key Themes

Stronger U.S. Dollar

Negative Impact of U.S. Dollar for Q1

Over the past few quarters, numerous companies in the S&P 500 have discussed the negative impact of the stronger U.S. dollar on earnings and revenues. However, the dollar did weaken relative to a number of currencies during the month of March.

"Foreign exchange negatively impacted first quarter reported revenues by approximately $729 million or 7%, and positively impacted adjusted cost of sales, adjusted SI&A expenses, and adjusted R&D expenses in the aggregate by $197 million or 3%. As a result, foreign exchange negatively impacted first quarter adjusted diluted EPS by approximately $0.07 compared with the year-ago quarter." –Pfizer (May 3)

"Worldwide revenue increased 28% to $29.1 billion or 29% excluding the $210 million unfavorable impact from year-over-year changes in foreign exchange." –Amazon.com (Apr. 28)

"Total reported sales of $13.4 billion were flat versus the prior year, as 2% organic growth was offset by 2 points of headwind from the stronger U.S. dollar." –United Technologies (Apr. 27)

"Revenue for the quarter landed within our guidance range of $50.6 billion compared to $58 billion in the year-ago quarter, a decline of 13%. As we had expected, our comparisons to last year were influenced by the continued strength of the U.S. dollar against foreign currencies. As Tim said, in constant currency, our revenue declined by 9%." –Apple (Apr. 26)

"Despite continued challenges in the macroeconomic environment, we delivered operating earnings of $1.26 per share, even with last year's quarter. Excluding $0.10 per share of negative currency, operating earnings rose 8%. Sales declined 2%, excluding currency, reflecting the current environment. The weakening U.S. dollar gave us some relief." –DuPont (Apr. 26)

"Acquisitions net of divestitures added two percentage points to first quarter sales while foreign exchange reduced sales by 3%. As a result, our company total sales was $7.4 billion, down 2% year-on-year." -3M (Apr. 26)

"Core earnings per share were $0.86, down 3% versus the prior year…This quarter's core earnings per share results included a net FX headwind of approximately $90 million after tax or $0.03 per share, comprised of a negative spot rate impact of about $230 million, which was partially offset by a $140 million balance sheet revaluation impact in the base period that did not recur this year." –Procter & Gamble (Apr. 26)

"GE had a good performance in a slow growth environment. EPS of $0.21 was up 5%. This includes $0.02 of headwind due through foreign exchange." –General Electric (Apr. 22)

"As a result of the ongoing strength of the U.S. dollar, we realized a negative currency impact on our revenues year-over-year of $762 million or $593 million after the benefit of our hedging program…Once again, Alphabet revenues by geography highlight both the strength of our business around the globe as well as the impact that currency headwinds continue to have on our non-U.S. business." –Alphabet (Apr. 21)

"In Q3, the FX impact of 3 points on year-over-year revenue growth was generally in line with the guidance, as the recent weakening in the US dollar created less than 1 point of impact overall and across segments." –Microsoft (Apr. 21)

"At gross profit, our comparable margin declined, as we were impacted by currency headwinds, the effects from North America refranchising and the sale of our legacy energy brands to Monster." –Coca-Cola (Apr. 20)

"In regions outside the U.S., our operational growth was 0.6%, while the effect of currency exchange rates negatively impacted our reported results by 6.6%." –Johnson & Johnson (Apr. 19)

"Obviously, we're still impacted by the devaluation of the real. That affects both our revenues and then you can see it there probably best, where in local currency, we have a 16% increase in our revenues, but when you translate into the U.S. dollars, it's a 15% decrease." –UnitedHealth Group (Apr. 19)

"Our revenue for the quarter was $18.7 billion. Currency continues to be a headwind to our reported revenue performance, over 2.5 points this quarter. This is 0.5 point better than the low end of the range we provided in mid-January, or about $90 million translation benefit." –IBM (Apr. 18)

"Our revenues for the quarter were roughly flat to last year, including $125 million headwind from currency and a $5 million impact from the recent events in Brussels." –Delta Air Lines (Apr. 14)

"CSX's first quarter results reflect challenging freight conditions with low commodity prices and the strong U.S. dollar continuing to impact most markets, resulting in a 5% volume decline this quarter." -CSX (Apr. 13)

"In our Consumer Foods segment, net sales were approximately $1.9 billion for the quarter, down about 2% from the year ago period. This reflects a 4% decline in volume and a negative 1% impact from foreign exchange, partially offset by a 3% improvement in price mix." –ConAgra (Apr. 7)

"As we had modeled, our unfavorable foreign currency exchange rate impact in the quarter was approximately $0.02 per diluted share." –Bed Bath & Beyond (Apr. 6)

"We delivered ongoing earnings per share of $2.42, in line with our guidance. And when setting aside significant currency headwinds, particularly, the devaluation of the Argentine peso, it's essentially in line with the prior year." –Monsanto (Apr. 6)

"Net sales were $30.2 billion, up 13.6% versus the same quarter a year ago. This increase was largely due to the consolidation of Alliance Boots for the entire second quarter this year and to sales growth in our Retail Pharmacy USA division. Foreign currency translation adversely affected sales by approximately $750 million or 2.4%. This was due to the strengthening of the U.S. dollar." –Walgreens Boots Alliance (Apr. 5)

"At the bottom line, adjusted earnings per share of $0.74 was up 6% from $0.70 in the first quarter of 2015. This includes the unfavorable impact of foreign exchange rates, and the underlying increase was quite strong." –McCormick & Co. (Mar. 29)

"So turning now to revenue, net revenues for the quarter were $7.95 billion, a 6% increase in USD and 12% in local currency reflecting a negative 6% foreign exchange impact." –Accenture (Mar. 24)

"Net sales, total segment operating profit, and adjusted diluted EPS results declined, reflecting the effects of foreign exchange and the Green Giant divestiture." –General Mills (Mar. 23)

"Q3 diluted EPS grew 22% to $0.55, despite significant headwinds from FX." –NIKE (Mar. 22)

Less Negative Impact from U.S. Dollar Going Forward

Are S&P 500 companies expecting to continue to see a negative impact from the stronger dollar for the remainder of the year?

"Moving on to our 2016 financial guidance, we are updating our 2016 reported revenues and adjusted diluted EPS ranges due to our strong performance to date and improved business outlook for 2016 as well as the favorable impact from foreign exchange rates since mid-January 2016. Consequently, we raised the midpoint of our 2016 revenue guidance by $2 billion and the midpoint of our 2016 diluted adjusted EPS guidance range by $0.18….Favorable changes in foreign exchange rates since mid-January 2016 also favorably impacted the midpoint of the reported revenue guidance range by approximately $1 billion and the adjusted diluted EPS guidance range by $0.06." –Pfizer (May 3)

"For Q2 2016, we expect net sales of between $28 billion and $30.5 billion, or growth of between 21% and 32%. This guidance anticipates approximately 70 basis points of favorable impact from foreign exchange rates." –Amazon.com (Apr. 28)

"As Greg said, we are confident in our full-year outlook: Sales of $56 billion to $58 billion, and adjusted EPS range of $6.30 to $6.60. With a solid first quarter under our belt and a weaker than expected U.S. dollar thus far, our contingency at $6.45, the midpoint of our range, is now up to $250 million, assuming the current FX rates hold for the rest of the year." –United Technologies (Apr. 27)

"As we move ahead into the June quarter, I'd like to review our outlook, which includes the types of forward-looking information that Nancy referred to at the beginning of the call. We expect revenue to be between $41 billion and $43 billion. The revenue guidance implies a year-over-year decline as we lap an incredibly strong June quarter last year where revenue grew 33%, due in part to accelerated iPhone upgrade purchases. This tough compare is compounded by the continued weak macro environment this year and the strong U.S. dollar, which affects our revenue growth in international markets." –Apple (Apr. 26)

"On slide 7, the company now expects full year 2016 operating earnings to be in the range of $3.05 per share to $3.20 per share from $2.95 per share to $3.10 per share previously announced. The estimated negative currency impact for the full year 2016 is now expected to be $0.20 per share versus a previously communicated estimate of $0.30 per share. The U.S. dollar has weakened against most currencies since the estimate we provided in January." –DuPont (Apr. 26)

"On slide 15, we are reaffirming our 2016 planning estimates…Organic growth is expected to be up 1% to 3% with acquisitions net of divestitures adding 1% to sales. We estimate that foreign currency translation will reduce sales by 1% to 3%." -3M (Apr. 26)

"If currency exchange rates hold steady through next fiscal year, FX should be much more manageable than it's been for the past few years, but we'll still have a headwind on both the top and bottom line, particularly in the first two quarters." –Procter & Gamble (Apr. 26)

"Turning now to foreign currencies, more recently, the U.S. dollar has weakened against most of the world's other major foreign currencies. At current rates, currency translation is expected to be less of a headwind on full-year results, and is now estimated to negatively impact second quarter by $0.02 to $0.04, and full-year by $0.05 to $0.07. As always, please take this as directional guidance only, because rates will change as we move throughout the year." –McDonald's (Apr. 22)

"Now let's move to the outlook. First, on FX. Consistent with our guidance last quarter, we still expect FX to negatively impact year-over-year growth in Q4 by 3 points." –Microsoft (Apr. 21)

"Based on current spot rates, hedging activity and what we are cycling, we now expect the full year impact of currency to be a two to three point headwind on net revenue versus our previous expectation of four points. Relative to income before tax, we now expect an eight to nine point headwind as compared to our previous expectation of a nine point headwind." –Coca-Cola (Apr. 20)

"If currency exchange rates for all of 2016 were to remain where they were as of last week, then our reported adjusted EPS would be negatively impacted by approximately $0.03 per share due to currency movements, a better outlook than the approximate $0.10 negative impact we discussed in our January guidance." –Johnson & Johnson (Apr. 19)

"And one positive is that we will get a big help from currency as it turns from a headwind into a tailwind beginning in the next quarter." –Delta Air Lines (Apr. 14)

"Looking ahead, we expect macroeconomic and coal headwinds to continue this year. Low commodity prices and the strength of the U.S. dollar are expected to continue impacting many of CSX's markets, in particular we now expect total coal volume to decline around 25% for the full year." –CSX (Apr. 13)

"As we look to the full year, we continue to expect $4.40 to $5.10 of ongoing earnings per share as shown on slide 16, which still assumes $0.90 to $1 of currency headwinds." –Monsanto (Apr. 6)

"As you have seen from our press release, we have narrowed our fiscal 2016 guidance range to between $4.35 and $4.55 by raising the bottom end of the range by a further $0.05…Our guidance reflects current currency rates and so factors in a headwind of $0.06, since we provided our initial fiscal year 2016 guidance back in October 2015." – Walgreens Boots Alliance (Apr. 5)

"Due to the lower impact from currency, our guidance range for adjusted earnings per share has increased by $0.03 to $3.68 to $3.75." –McCormick & Co. (Mar. 29)

"For the full fiscal year 2016, based upon how the rates have been trending over the last few weeks, we continue to assume the impact of FX on our results in U.S. dollars will be negative 5% compared to fiscal 2015." –Accenture (Mar. 24)

"We now expect the impact of currency translation to result in a $0.08 headwind to full year adjusted diluted EPS growth in 2016." –General Mills (Mar. 23)

"Accordingly, we anticipate currency neutral revenue to grow in the high-single to low-double digit range in fiscal year 2017, and we expect reported revenue to grow at a high-single digit rate due to continued strength of the U.S. dollar. We currently expect EPS to grow at a low-teens rate, reflecting continued strong operational performance, partially offset by unfavorable FX-related impacts. Further, we expect that our EPS growth will be more heavily weighted toward the back half of fiscal year 2017…due to unfavorable FX comparisons being more pronounced in the first half of the fiscal year." –NIKE (Mar. 22)

Lower Oil & Gas Prices

During the first quarter, the price of crude oil increased by 3.5% (to $38.34 from $37.04). Despite this increase, the average price of oil for Q1 2016 ($33.69) was more than 30% lower than the average price in the year-ago quarter ($48.79).

The impact of oil and gas prices varies by sector, industry, and company. The negative impact of lower oil prices relative to last year can clearly be seen in the Energy sector, where year-over-year earnings are down by more than 100%. What are companies in other sectors saying about the impact of the price of oil on results for Q1?

"Excluding special items and foreign exchange, upstream earnings decreased approximately $1.6 billion between quarters. Lower crude realizations were partially offset by higher sales volumes and lower operating and exploration expenses. The realization change was in line with our sensitivity of $350 million per $1 change in Brent." –Chevron (Apr. 29)

"Turning now to the Upstream financial and operating results starting on slide nine, Upstream earnings decreased $2.9 billion from a year-ago quarter, resulting in a segment loss of $76 million. Sharply lower realizations decreased earnings by $2.6 billion. Crude prices declined by almost $18 per barrel and gas realizations fell more than $2.25 per thousand cubic feet." –Exxon Mobil (Apr. 29)

"Great, let's go on to the next region, Middle East & Africa. This is a region also that has many, many challenges external deal, geopolitical issues, weak currencies, a number of the markets are major oil producers and so they are suffering, if you will, in terms of the low oil prices." –Ford Motor (Apr. 28)

"With regard to oil prices, while we have seen a rebound from the February lows, prices are still well below the 15-year average. With that said, our customers are telling us that current oil prices have not substantially changed their views on future fleet planning or their commitment to existing delivery schedules." –Boeing (Apr. 27)

"Globally, the Fire & Security business was down 4% with a high single-digit decline in the global Fire Products business from tougher compares in EMEA and continuing weakness in the oil and gas sector." –United Technologies (Apr. 27)

"Our Advanced Materials business declined low double-digits impacted by ongoing weakness in the Oil and Gas end market." -3M (Apr. 26)

"So this page then primarily covers this year versus first quarter of last year, and sales were down $3.2 billion. $1.6 billion of that was Energy & Transportation, $1 billion Construction, $0.5 billion Resource Industries, and I'll cover those in a little more detail on the next page….Energy & Transportation had the most significant decline, and that was $1.6 billion. Now oil and gas and transportation made up over 80% of that." –Caterpillar (Apr. 22)

"Next is Oil & Gas. We're operating in an incredibly difficult environment. In the first quarter, U.S. onshore rig counts were down another 27% from year end and down 72% from the 2014 peak. U.S. well counts are down 64% versus the first quarter 2015, and CapEx and investment decisions continue to be pushed out in virtually every segment… Revenue in the quarter was down 18%, down 14% organically." –General Electric (Apr. 22)

There's a final bunch of markets where we face clear macro headwinds in 2016…The lower oil price continues to weigh on the Middle East and other oil-driven economies. –Coca-Cola (Apr. 20)

"This morning we reported a $1.56 billion pre-tax profit, our 12th consecutive record quarterly result as the business continues to benefit from low fuel prices and solid demand. We held our top line roughly flat and realized substantial fuel savings, which allowed us to expand operating margins by nearly 10 points to 18.5% and generate $1.4 billion in operating cash flows." –Delta Air Lines (Apr. 14)

"The firm's results included one significant item, $773 million of wholesale credit costs, of which $529 million related to Oil & Gas reserve and $162 million related to Metals & Mining reserve, which were generally in line with our guidance….While oil prices have improved somewhat in March, they do remain near historically low levels and the market is not expecting the recovery to be strong. Further natural gas, which is a meaningful portion of our portfolio, does remain depressed. We don't feel that current prices are sufficient to spur a meaningful restart of production, and many of the cost reductions and conservation actions that have been taken are not easily and quickly reversed. Therefore, the impact of oil prices is somewhat asymmetric on credit costs." –JPMorgan Chase (Apr. 13)

"Total company gross margin was 43.1% for the third quarter of this year compared to 42.9% last year. Total company energy-related expenses including gas, diesel, and nature gas for this year's third quarter were 1.8% of revenue, about 50 basis points lower than last year's third quarter. Note, however, that we continue to see the impact of head count reduction in the oil, gas, and coal industries. We estimate that the resulting decrease in revenue from customers in these industries lowered our organic growth rate by about 80 basis points in the third quarter and reduced our operating margin by about 40 basis points. So on a net basis the low fuel prices benefited our operating margin by about 10 basis points." –Cintas (Mar. 22)

"Switching over to macro trends, during the quarter, nationally unleaded gas prices started out at $2.09 a gallon, and ended the quarter at $1.72 a gallon, a $0.37 decrease. Last year, gas prices decreased $0.55 per gallon during the second quarter, starting at $2.82 a gallon and ending at $2.27 a gallon. We continue to believe gas prices have a real impact on our customers' ability to maintain their vehicles. And, as cost reductions help all Americans, we hope to continue to benefit from this increase in disposable income." –AutoZone (Mar. 1)

Looking Ahead: Forward Estimates and Valuation

Guidance: Negative EPS Guidance (70%) for Q2 below Average

At this point in time, 79 companies in the index have issued EPS guidance for Q2 2016. Of these 79 companies, 55 have issued negative EPS guidance and 24 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 70% (55 out of 79), which is below the 5-year average of 73%.

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

For Q1 2016, S&P 500 companies are reporting year-over-year declines in both earnings (-7.1%) and sales (-1.6%). Analysts currently do not expect earnings growth and revenue growth to return until Q3 2016.

Analysts are predicting increases in earnings and revenue growth in the 2nd half of the year. In terms of earnings, the estimated decline for Q2 2016 is -4.7%, while the estimated growth rates for Q3 2016 and Q4 2016 are 1.4% and 7.5%. In terms of revenues, the estimated decline for Q2 2016 is -1.3%, while the estimated growth rates for Q3 2016 and Q4 2016 are 1.7% and 4.3%.

For all of 2016, analysts are projecting earnings (+0.9%) and revenues (+1.5%) to increase year-over-year.

Valuation: Forward P/E Ratio is 16.5, above the 10-Year Average (14.3)

The forward 12-month P/E ratio is 16.5. This P/E ratio is based on Thursday's closing price (2050.63) and forward 12-month EPS estimate ($124.64).

At the sector level, the Energy (74.1) sector has the highest forward 12-month P/E ratio, while the Financials (12.7) sector has the lowest forward 12-month P/E ratio.

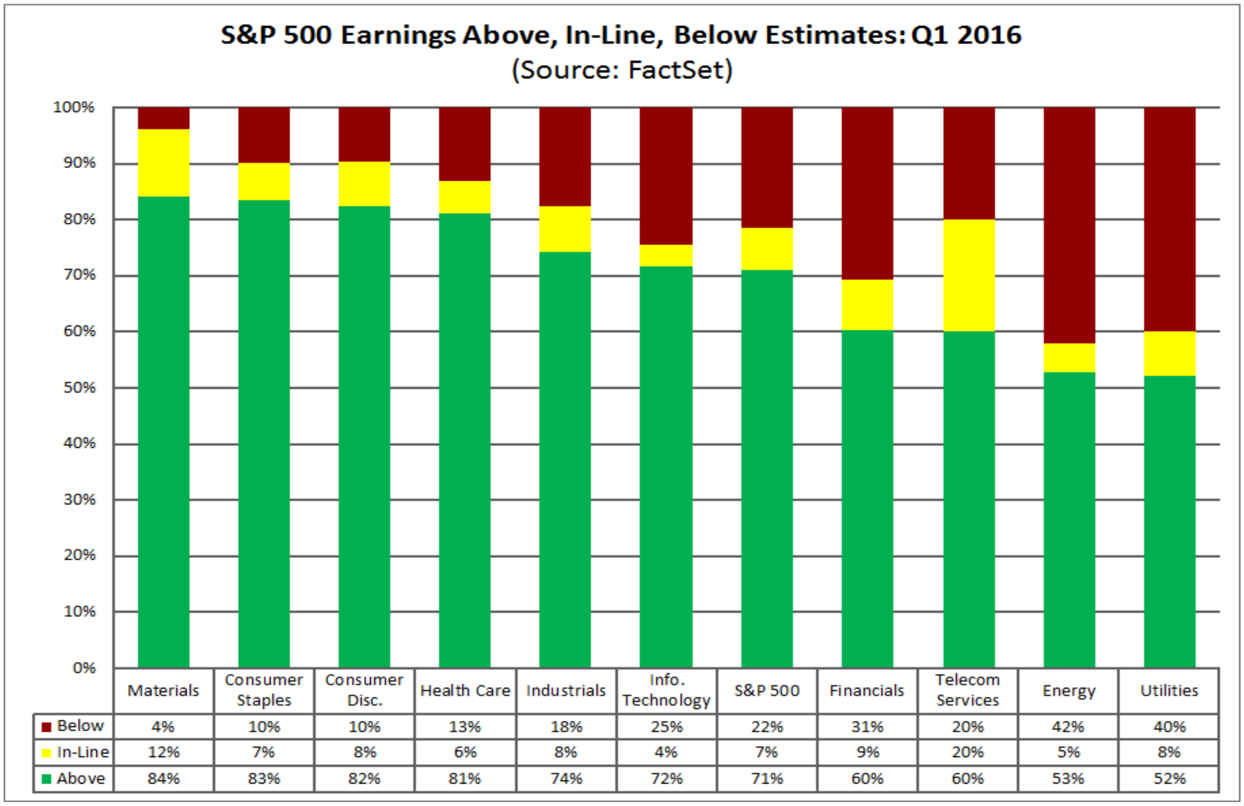
The P/E ratio of 16.5 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 14.5, and above the prior 10-year average forward 12-month P/E ratio of 14.3. However, it is below the forward 12-month P/E ratio of 16.6 recorded at the start of the second quarter (March 31). Since the start of the second quarter, the price of the index has decreased by 0.4%, while the forward 12-month EPS estimate has increased by 0.2%.

Eight sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (74.1 vs. 15.0) sector. Two sectors have forward 12-month P/E ratios that are below their 10-year averages, led by the Telecom Services (13.4 vs. 14.6) sector.

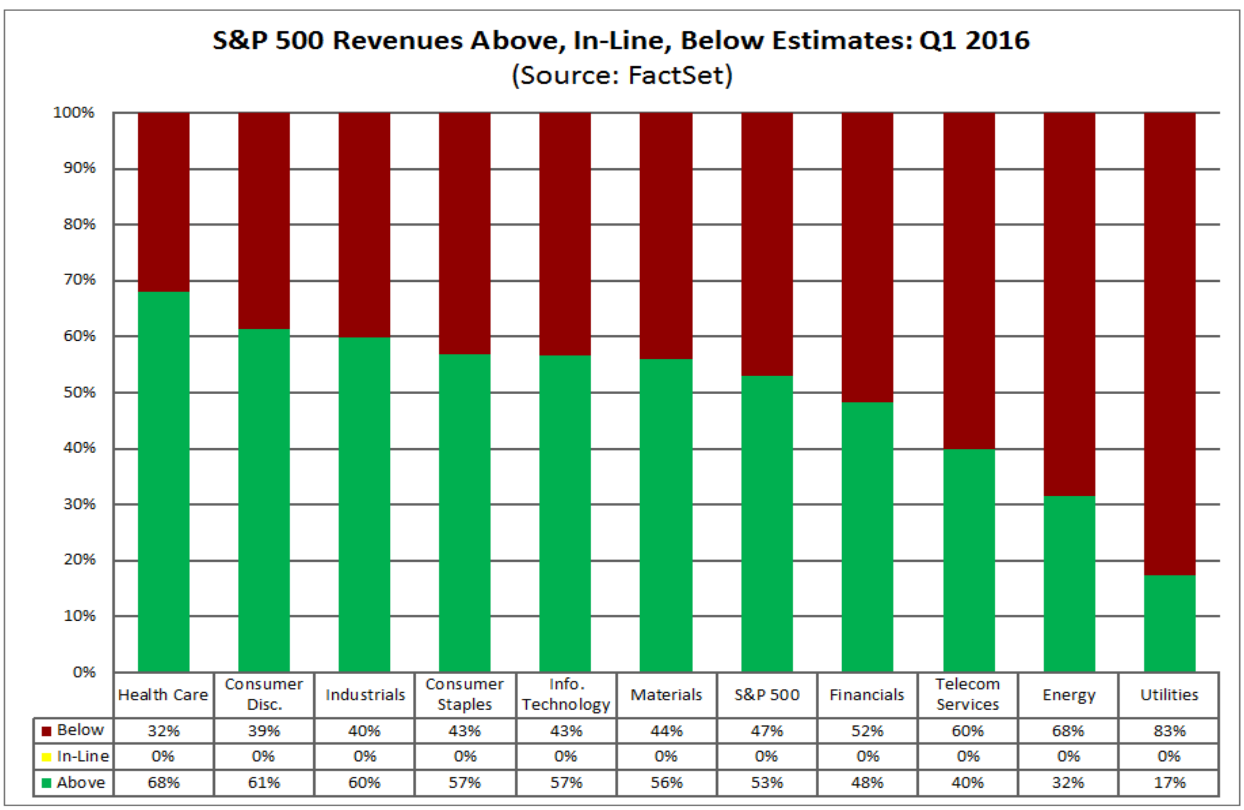
Companies Reporting Next Week: 20

During the upcoming week, 20 S&P 500 companies (including 1 DJIA component) are scheduled to report results for the first quarter.

Q1 2016: Scorecard

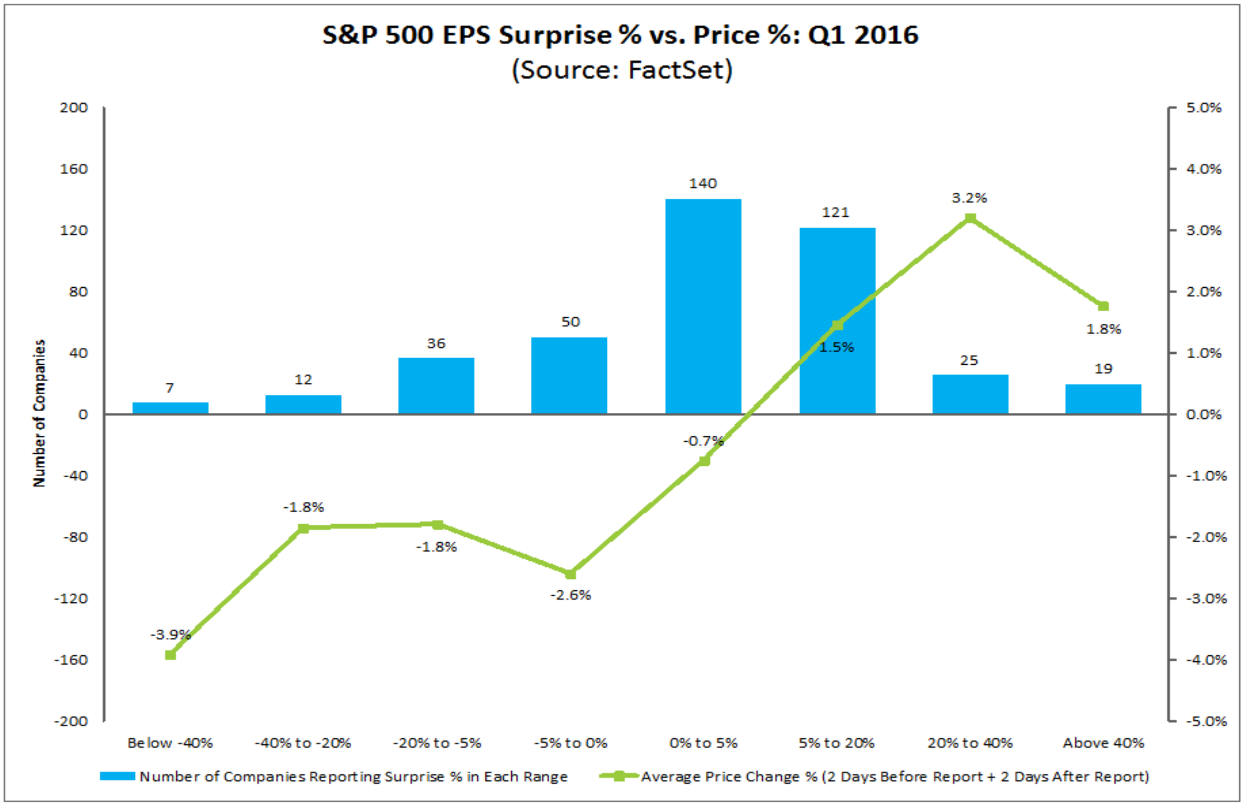


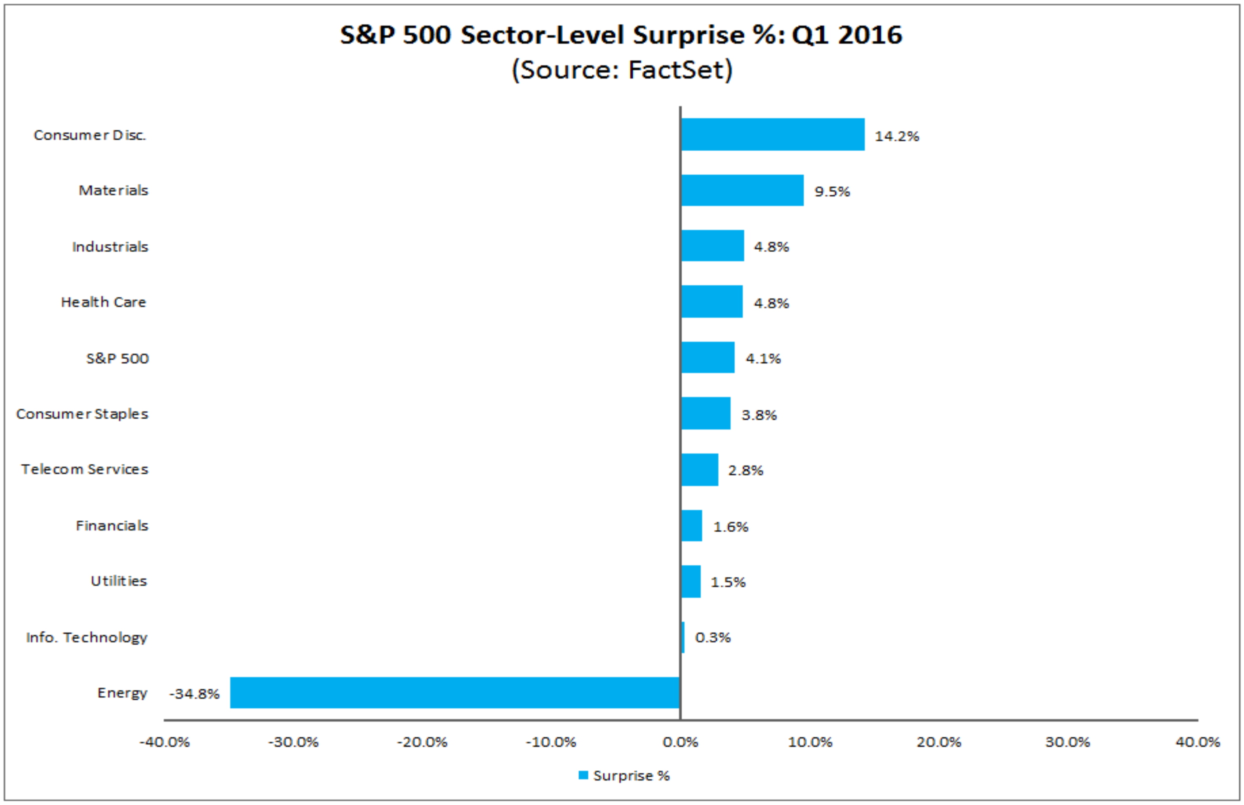
	Materials	Consumer Staples	Consumer Disc.	Health Care	Industrials	Info. Technology	S&P 500	Financials	Telecom Services	Energy	Utilities
Below	4%	10%	10%	13%	18%	25%	22%	31%	20%	42%	40%
In-Line	12%	7%	8%	6%	8%	4%	7%	9%	20%	5%	8%
Above	84%	83%	82%	81%	74%	72%	71%	60%	60%	53%	52%



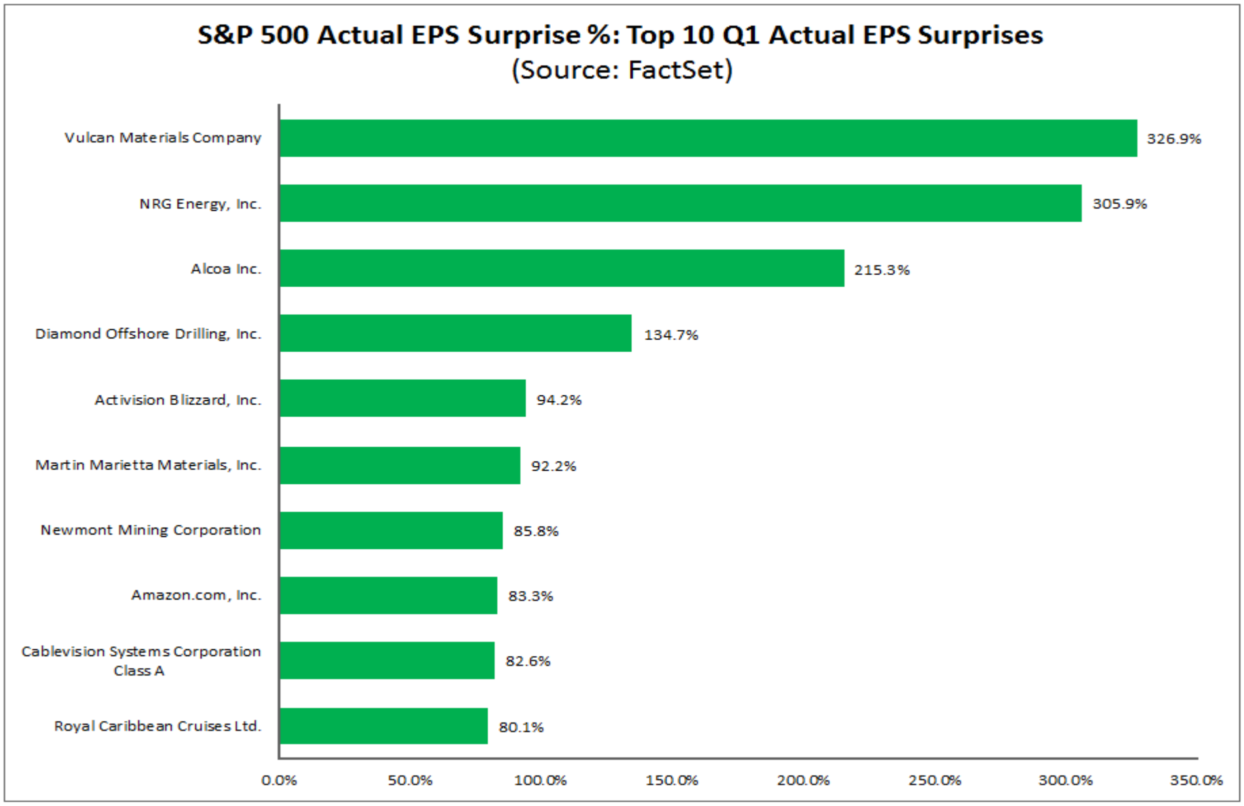
	Health Care	Consumer Disc.	Industrials	Consumer Staples	Info. Technology	Materials	S&P 500	Financials	Telecom Services	Energy	Utilities
Below	32%	39%	40%	43%	43%	44%	47%	52%	60%	68%	83%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	68%	61%	60%	57%	57%	56%	53%	48%	40%	32%	17%

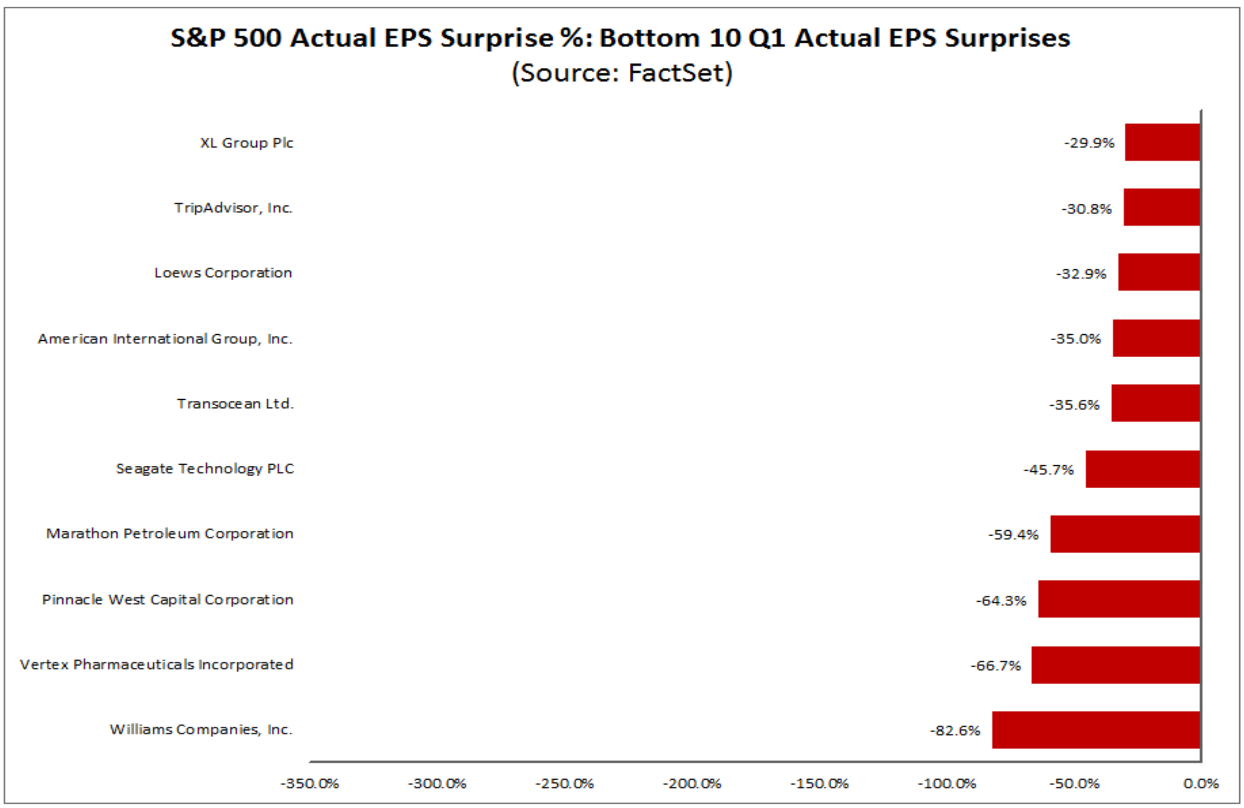
Q1 2016: Scorecard



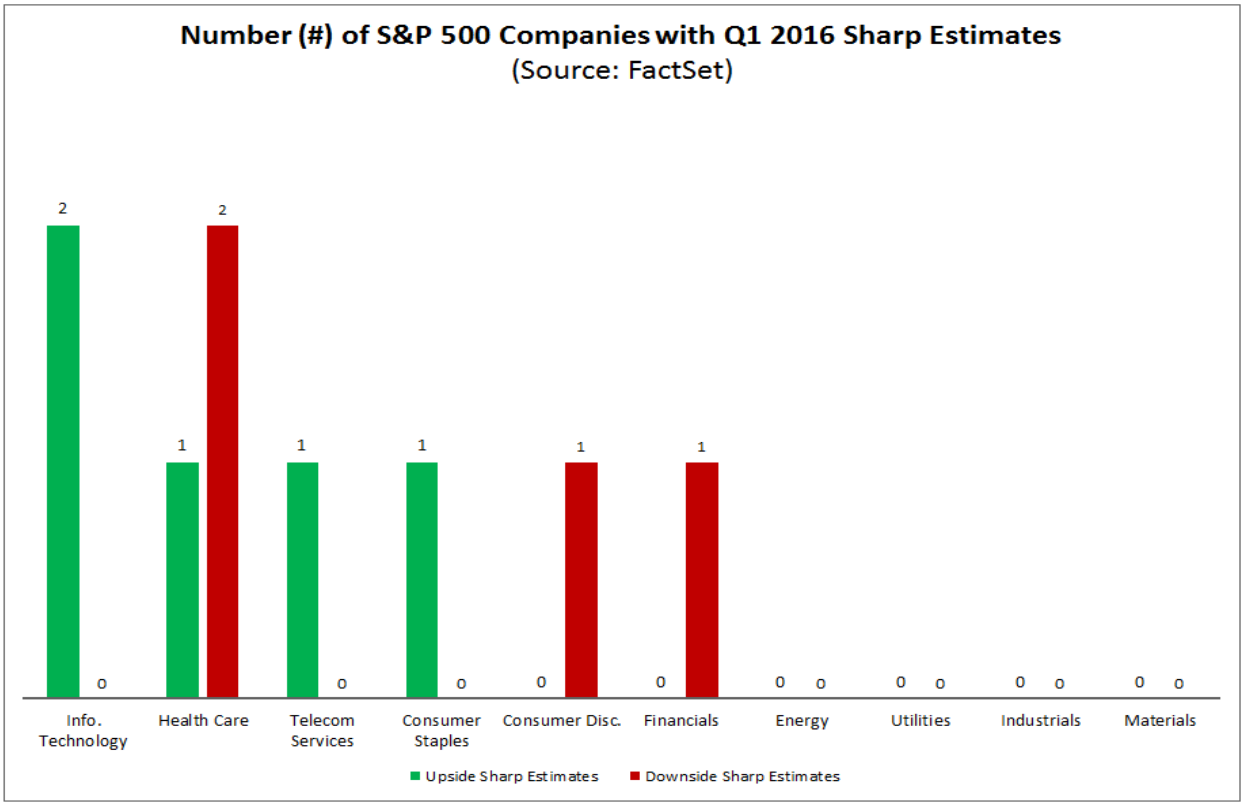


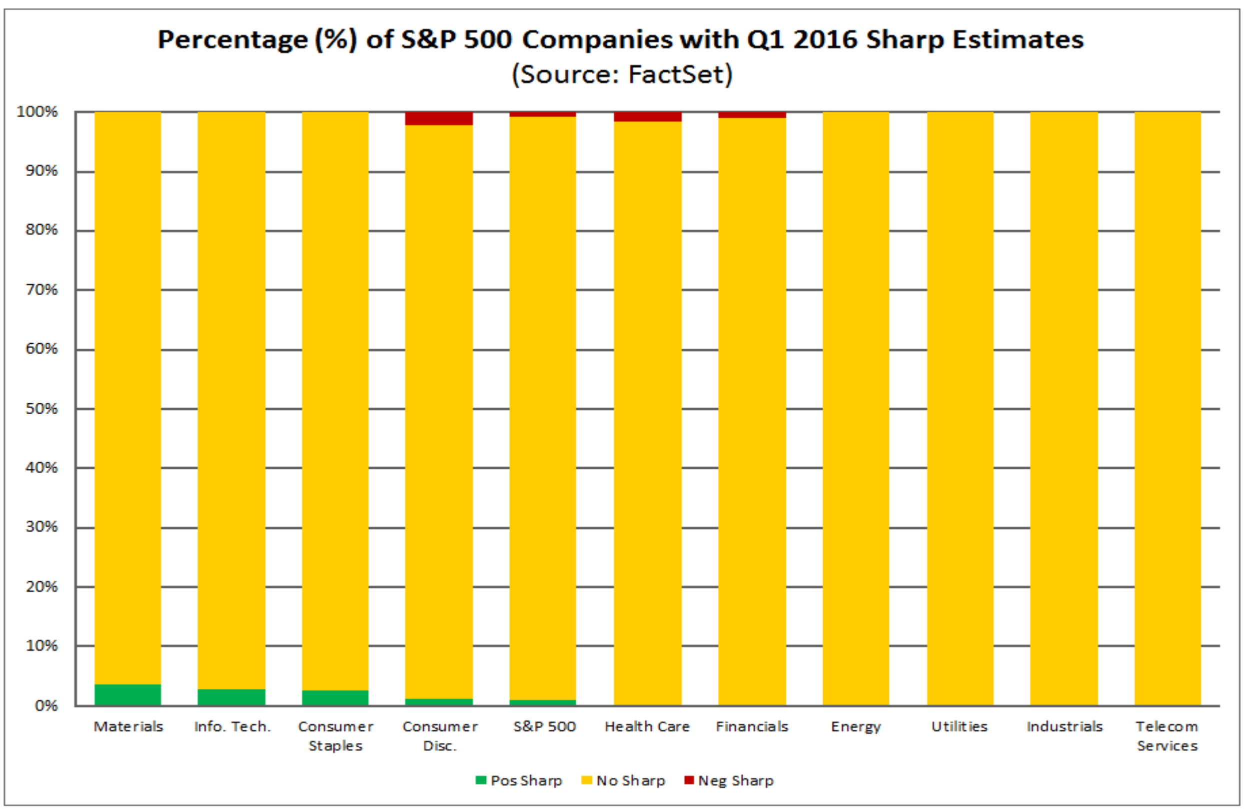
Q1 2016: Scorecard



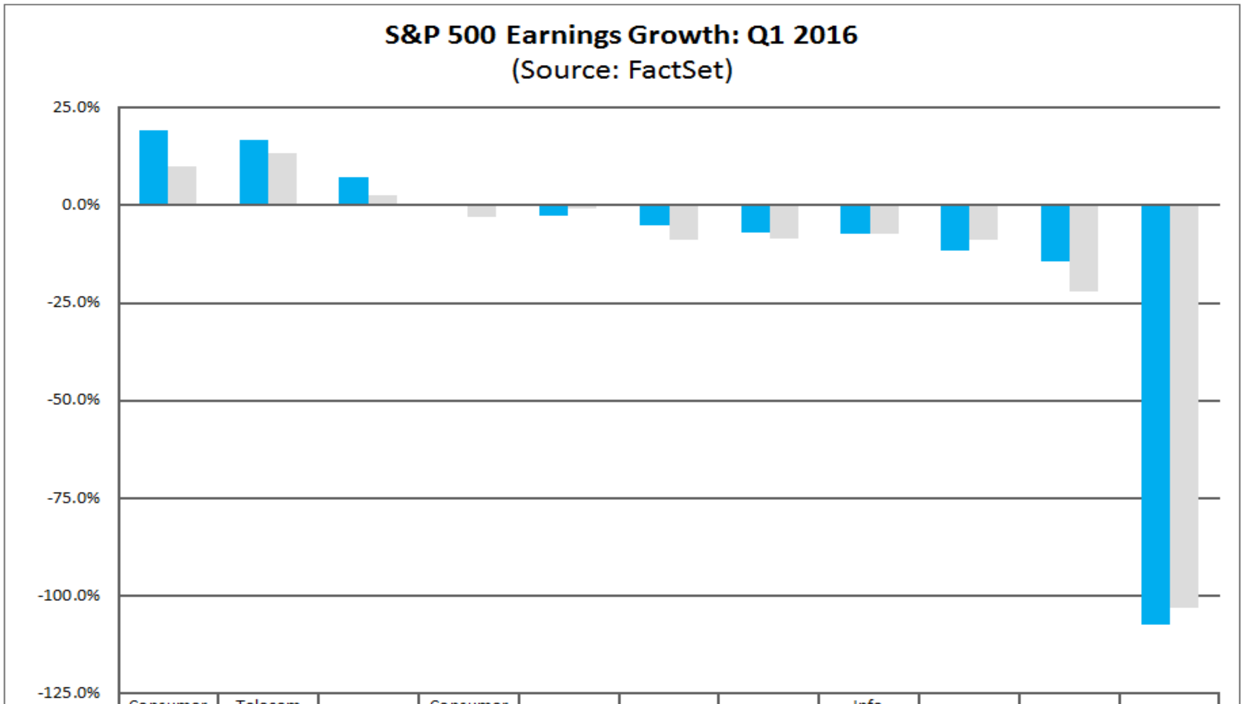


Q1 2016: Projected EPS Surprises (Sharp Estimates)

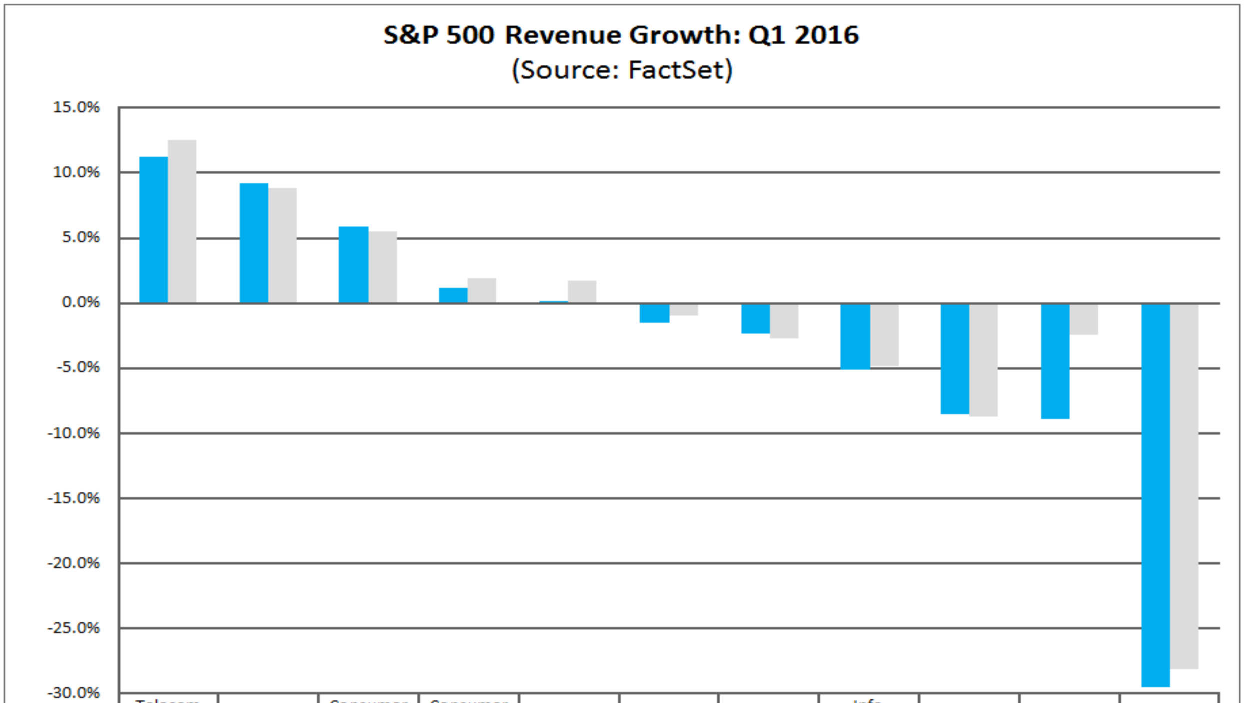




Q1 2016: Growth

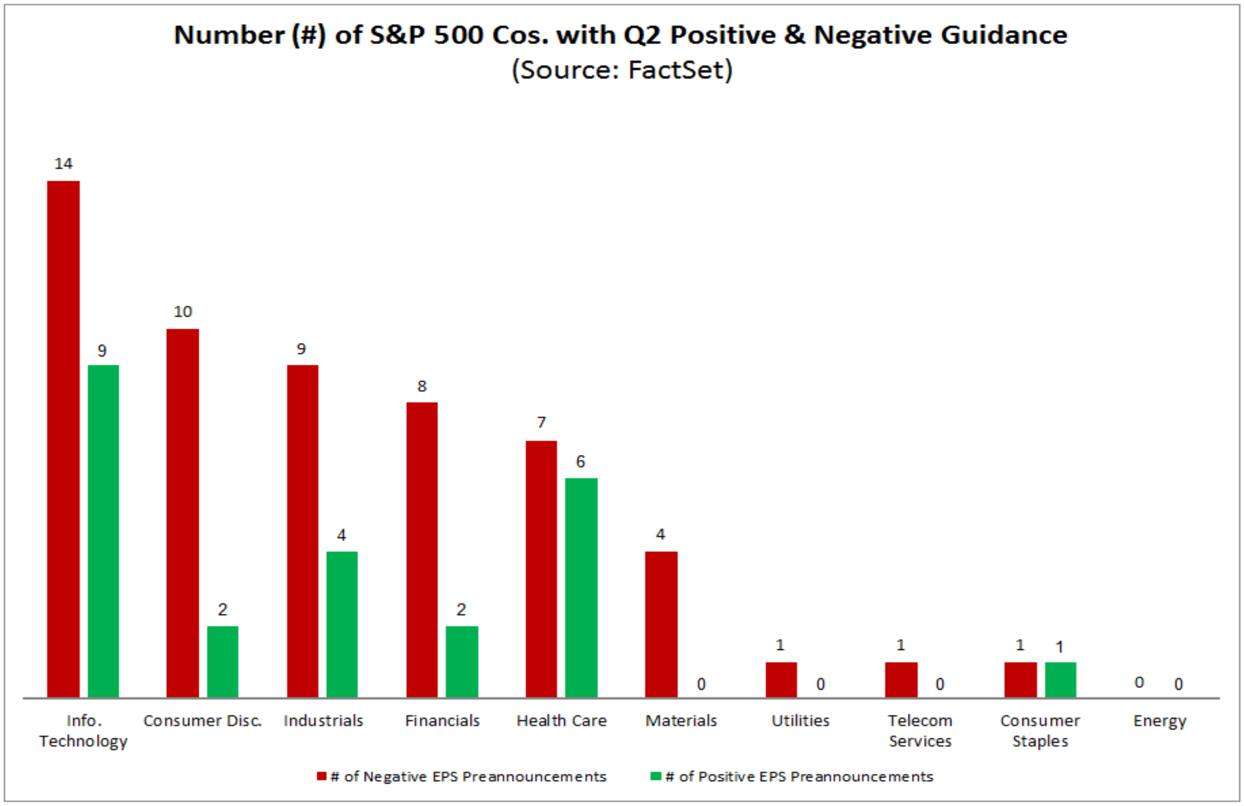


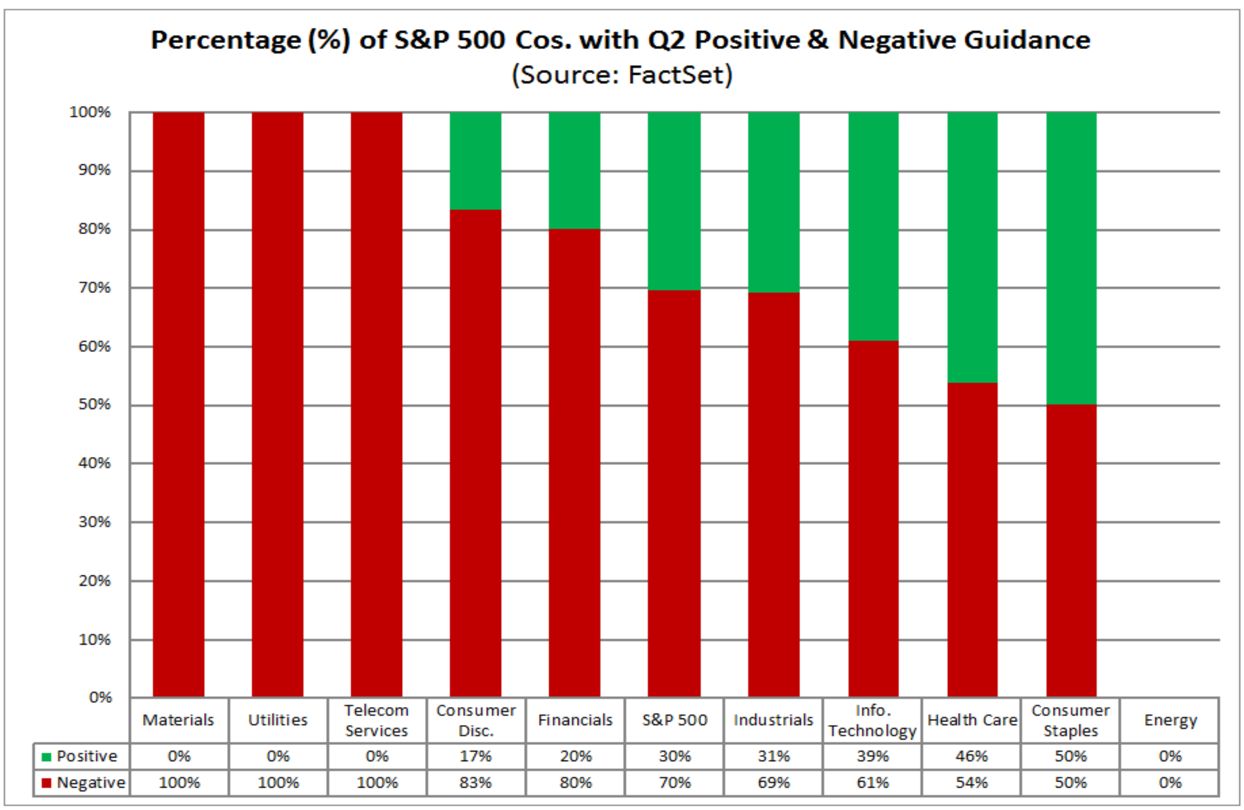
	Consumer Disc.	Telecom Services	Health Care	Consumer Staples	Utilities	Industrials	S&P 500	Info. Technology	Financials	Materials	Energy
Today	19.1%	16.6%	7.1%	-0.2%	-2.7%	-5.4%	-7.1%	-7.5%	-11.7%	-14.5%	-107.2%
31-Mar	9.7%	13.1%	2.4%	-3.2%	-0.8%	-8.9%	-8.7%	-7.3%	-8.9%	-22.1%	-103.0%



	Telecom Services	Health Care	Consumer Disc.	Consumer Staples	Financials	S&P 500	Industrials	Info. Technology	Materials	Utilities	Energy
Today	11.2%	9.2%	5.8%	1.1%	0.1%	-1.6%	-2.4%	-5.2%	-8.5%	-9.0%	-29.5%
31-Mar	12.5%	8.8%	5.4%	1.9%	1.7%	-1.0%	-2.8%	-4.8%	-8.7%	-2.5%	-28.1%

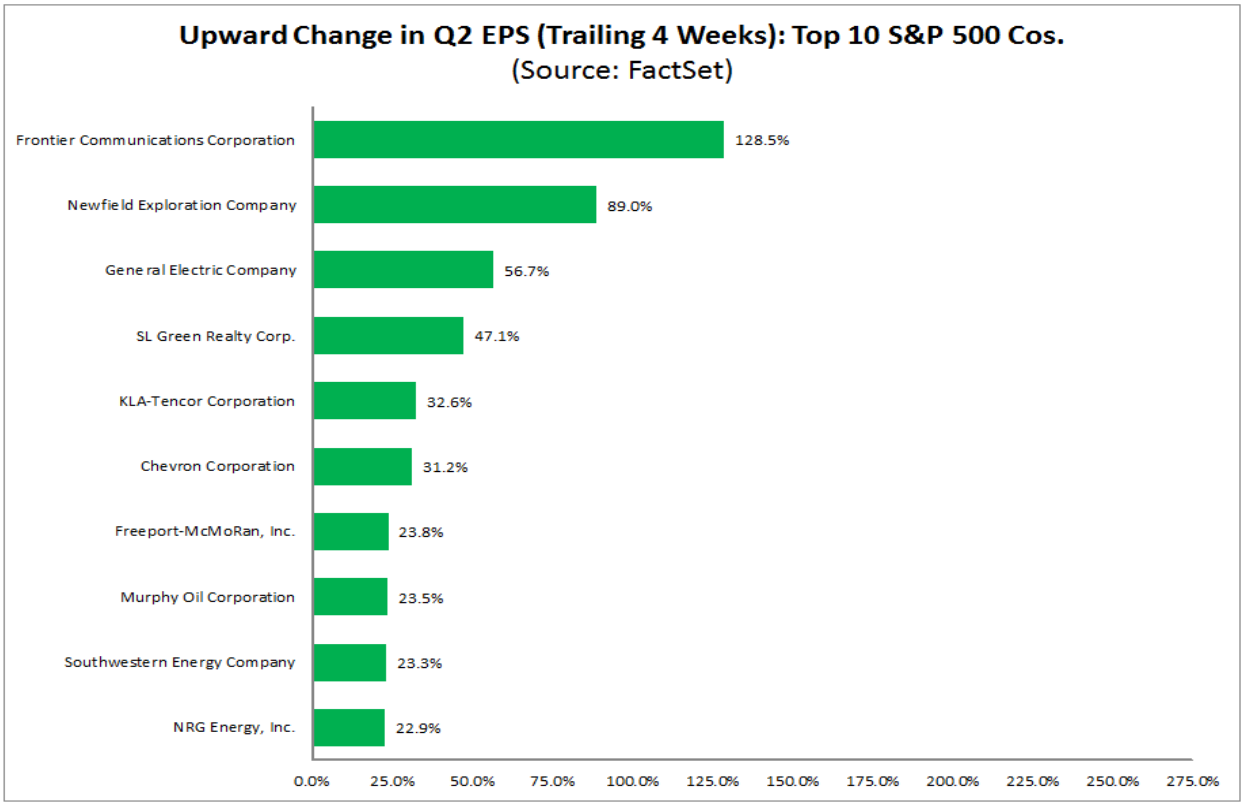
Q2 2016: EPS Guidance

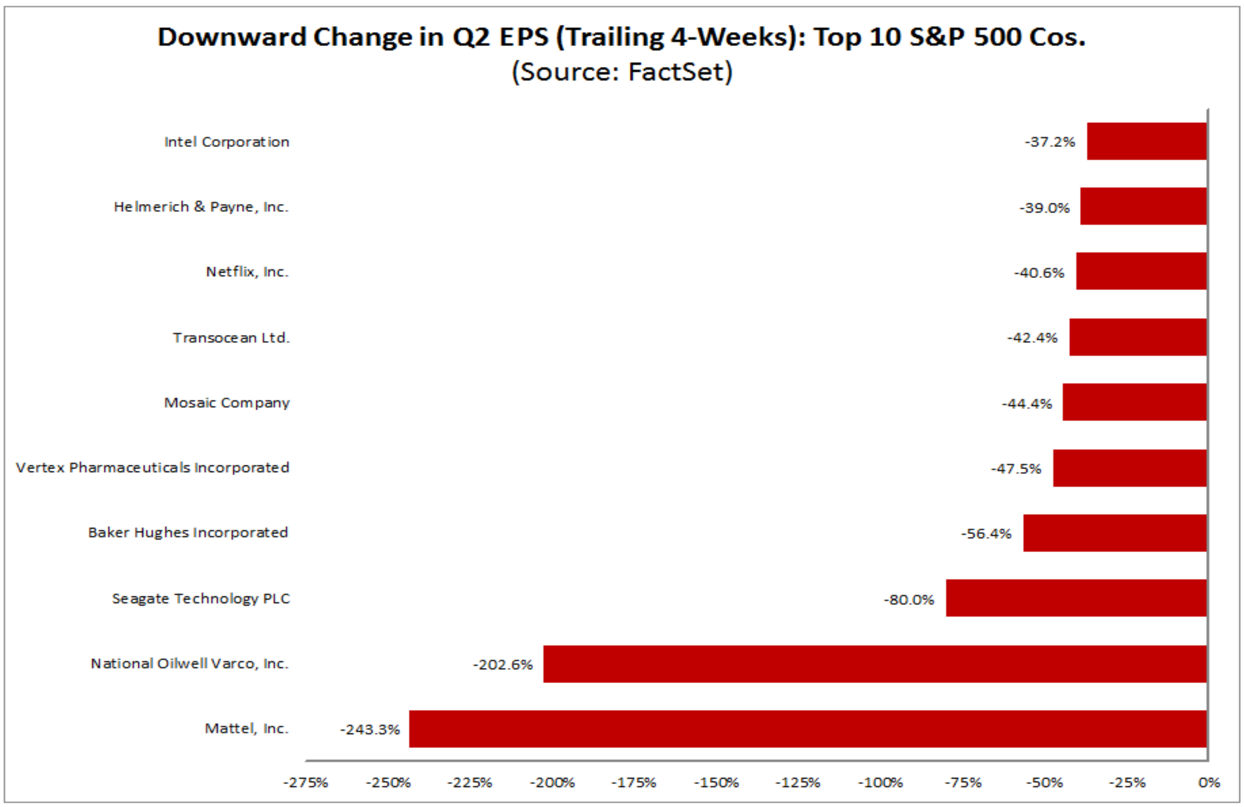




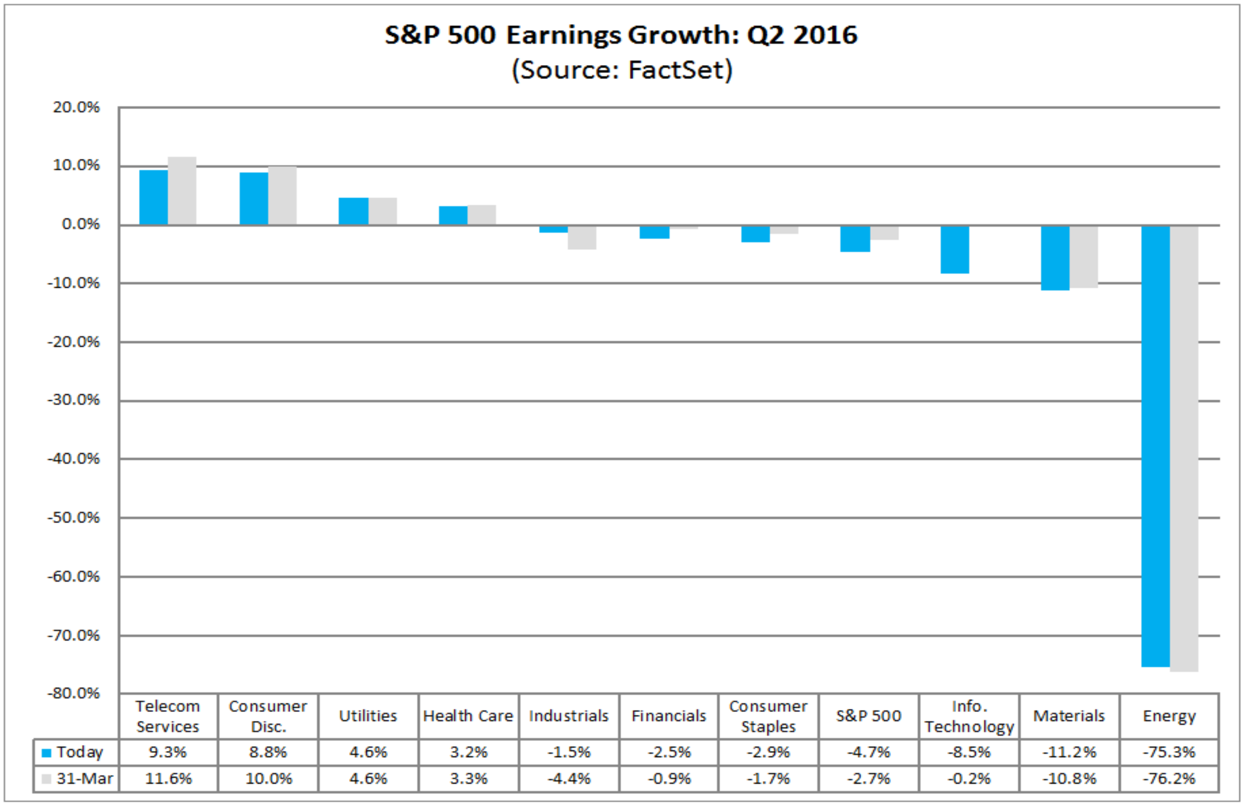
	Materials	Utilities	Telecom Services	Consumer Disc.	Financials	S&P 500	Industrials	Info. Technology	Health Care	Consumer Staples	Energy
Positive	0%	0%	0%	17%	20%	30%	31%	39%	46%	50%	0%
Negative	100%	100%	100%	83%	80%	70%	69%	61%	54%	50%	0%

Q2 2016: EPS Revisions

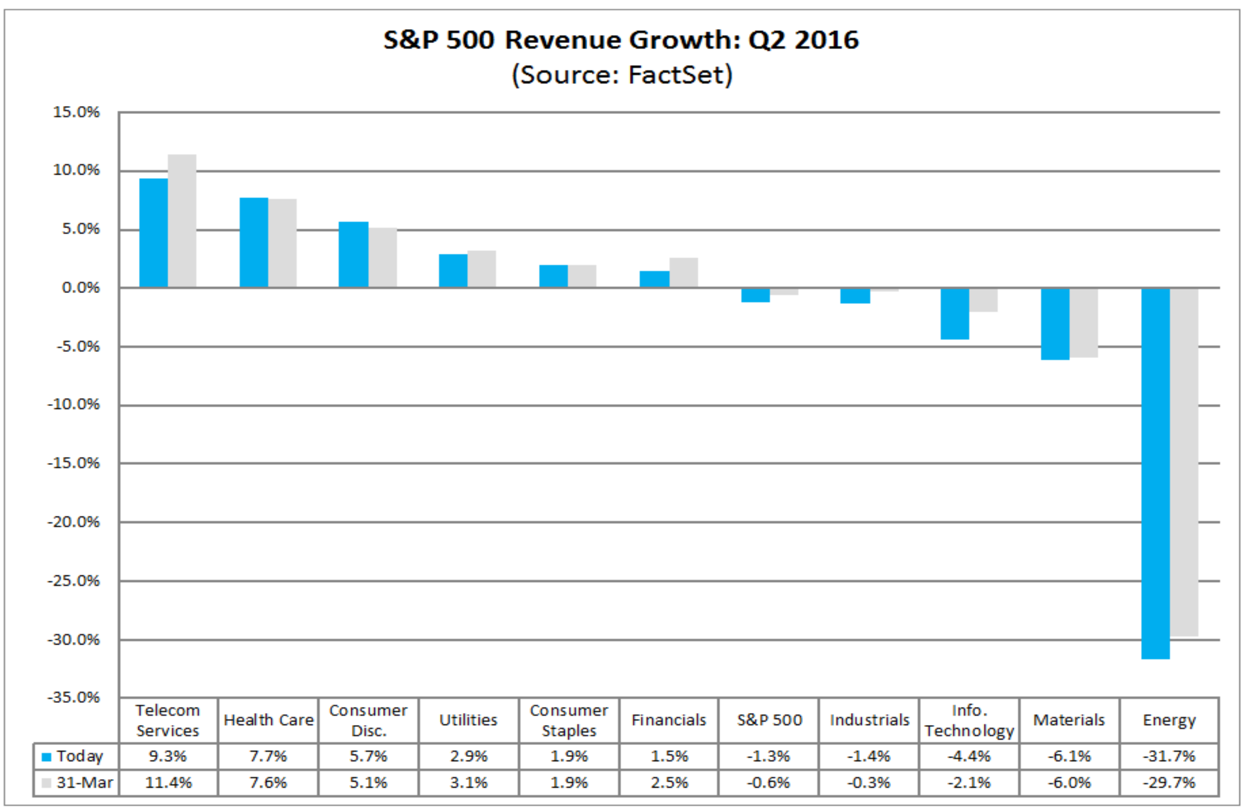




Q2 2016: Growth

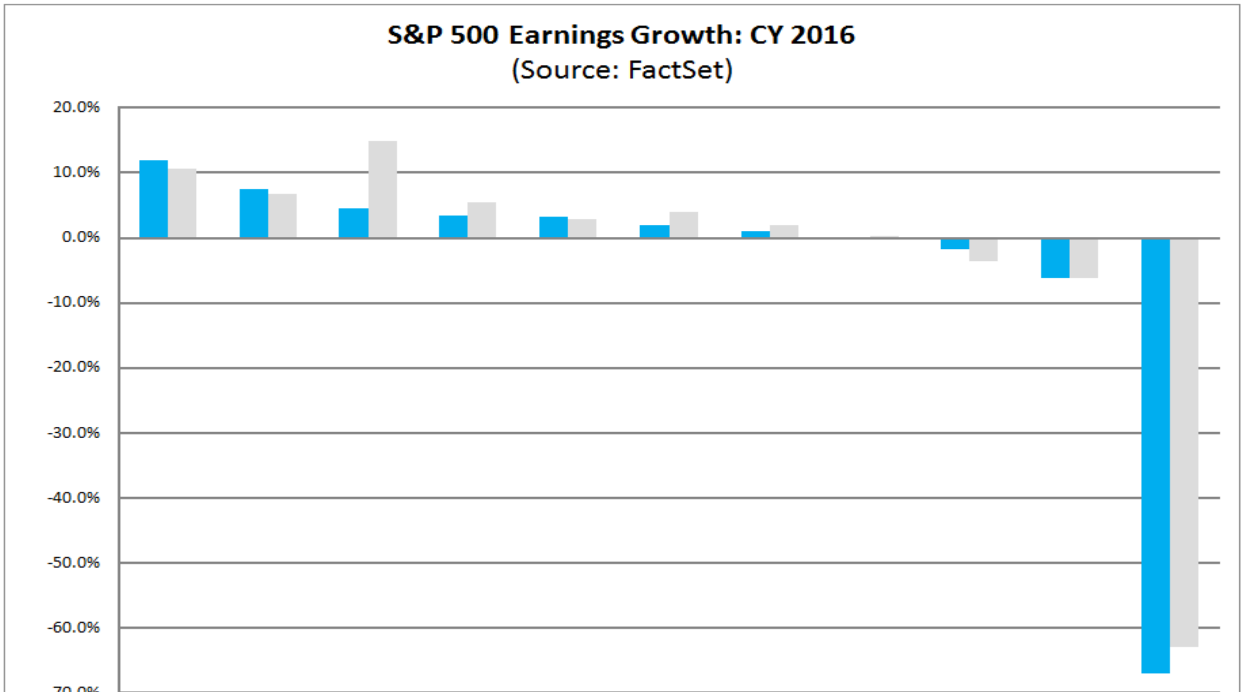


	Telecom Services	Consumer Disc.	Utilities	Health Care	Industrials	Financials	Consumer Staples	S&P 500	Info. Technology	Materials	Energy
Today	9.3%	8.8%	4.6%	3.2%	-1.5%	-2.5%	-2.9%	-4.7%	-8.5%	-11.2%	-75.3%
31-Mar	11.6%	10.0%	4.6%	3.3%	-4.4%	-0.9%	-1.7%	-2.7%	-0.2%	-10.8%	-76.2%

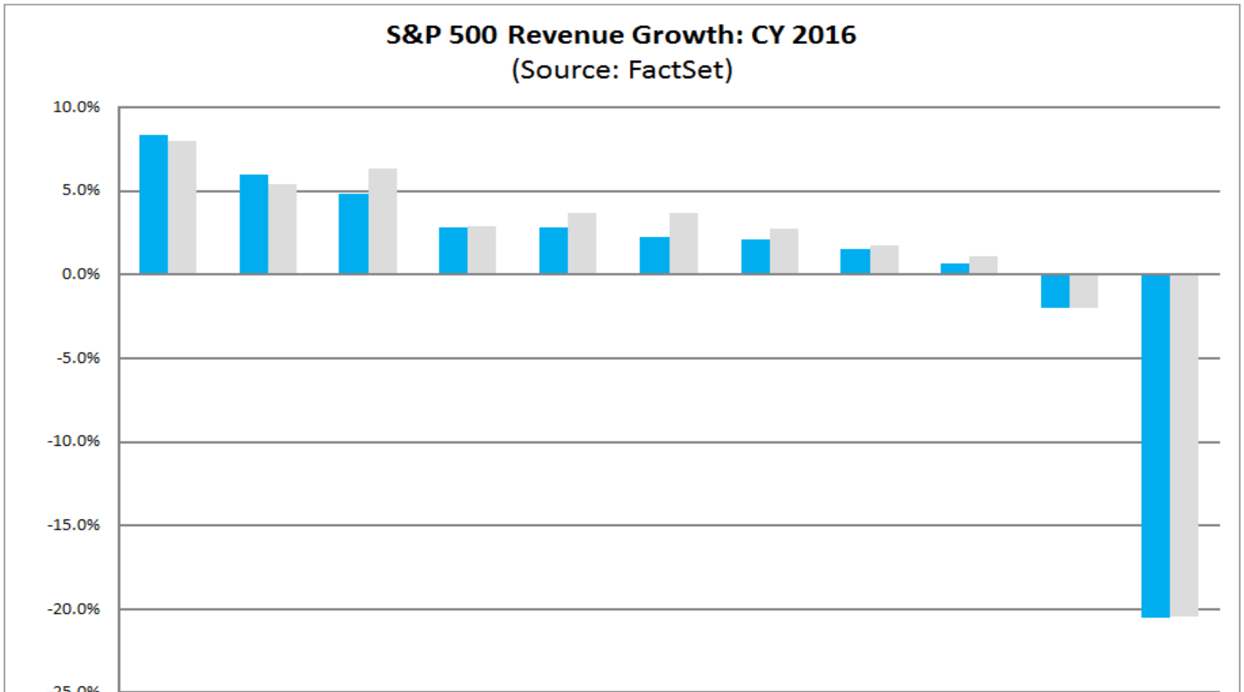


	Telecom Services	Health Care	Consumer Disc.	Utilities	Consumer Staples	Financials	S&P 500	Industrials	Info. Technology	Materials	Energy
Today	9.3%	7.7%	5.7%	2.9%	1.9%	1.5%	-1.3%	-1.4%	-4.4%	-6.1%	-31.7%
31-Mar	11.4%	7.6%	5.1%	3.1%	1.9%	2.5%	-0.6%	-0.3%	-2.1%	-6.0%	-29.7%

CY 2016: Growth

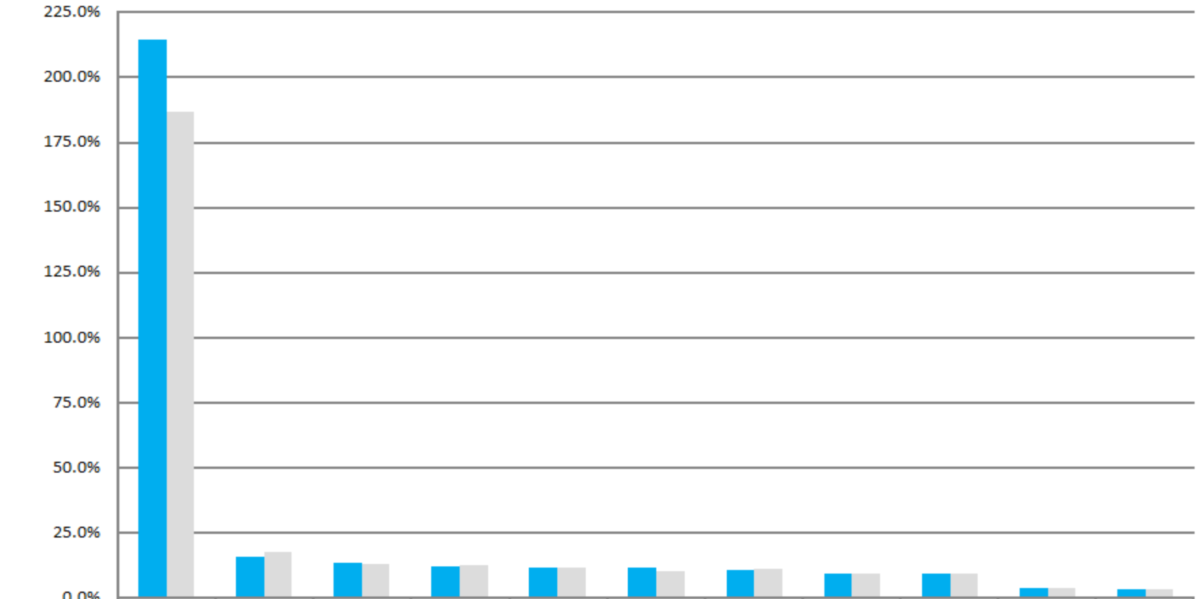


	Consumer Disc.	Health Care	Utilities	Financials	Consumer Staples	Info. Technology	S&P 500	Industrials	Materials	Telecom Services	Energy
Today	11.8%	7.5%	4.5%	3.4%	3.2%	1.8%	0.9%	-0.2%	-1.8%	-6.3%	-67.0%
31-Mar	10.6%	6.7%	14.9%	5.4%	2.7%	4.0%	1.8%	0.0%	-3.7%	-6.3%	-62.9%

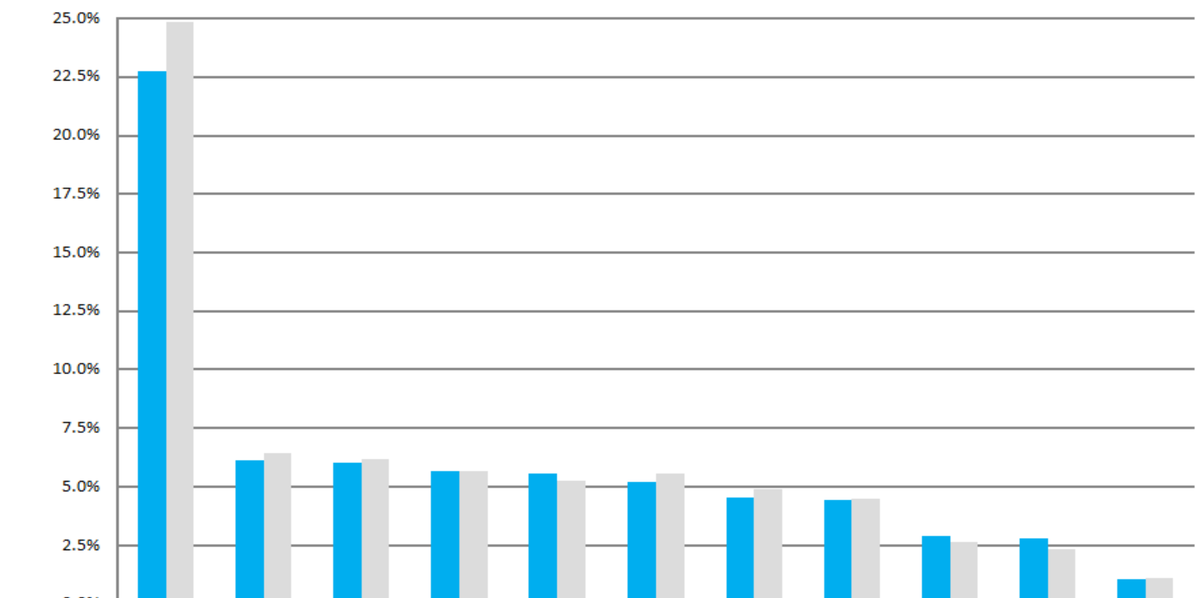


	Health Care	Consumer Disc.	Telecom Services	Consumer Staples	Info. Technology	Utilities	Financials	S&P 500	Industrials	Materials	Energy
Today	8.3%	5.9%	4.8%	2.8%	2.8%	2.2%	2.1%	1.5%	0.6%	-2.0%	-20.5%
31-Mar	8.0%	5.4%	6.3%	2.8%	3.7%	3.7%	2.7%	1.7%	1.1%	-2.0%	-20.4%

CY 2017: Growth

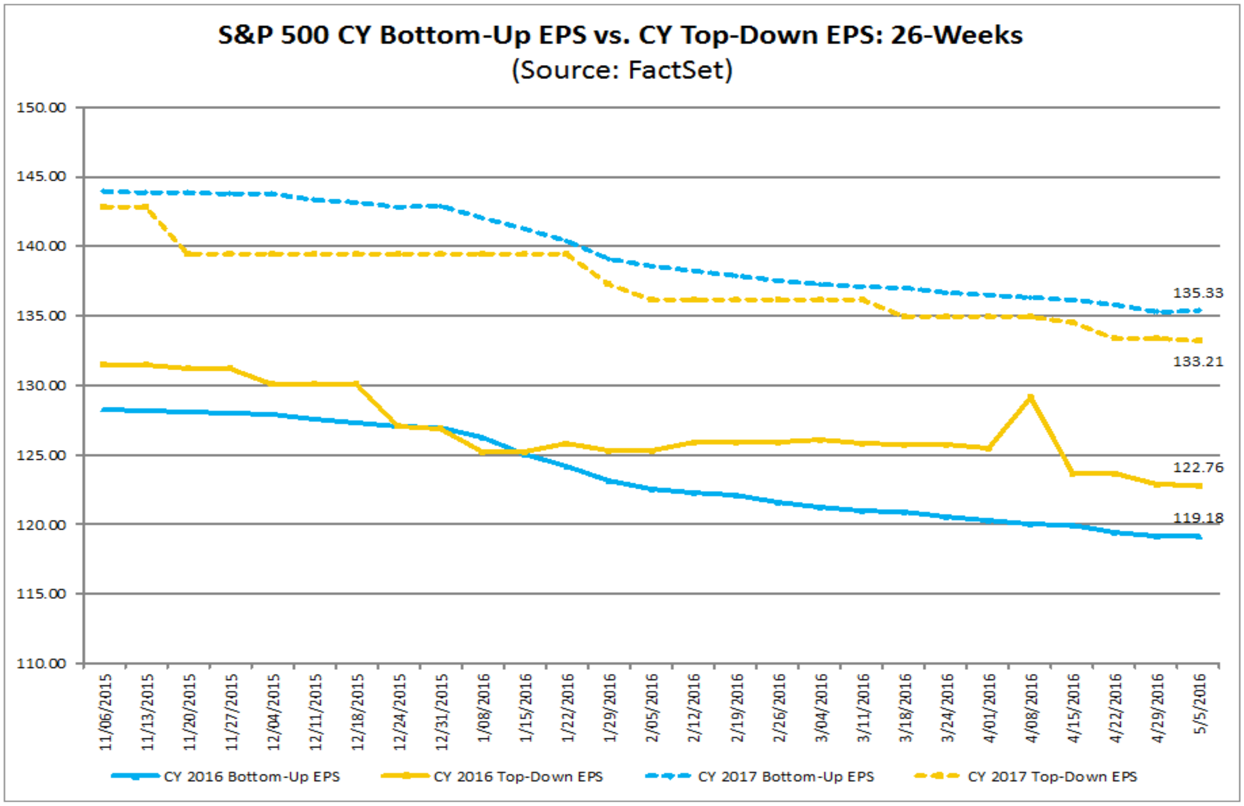


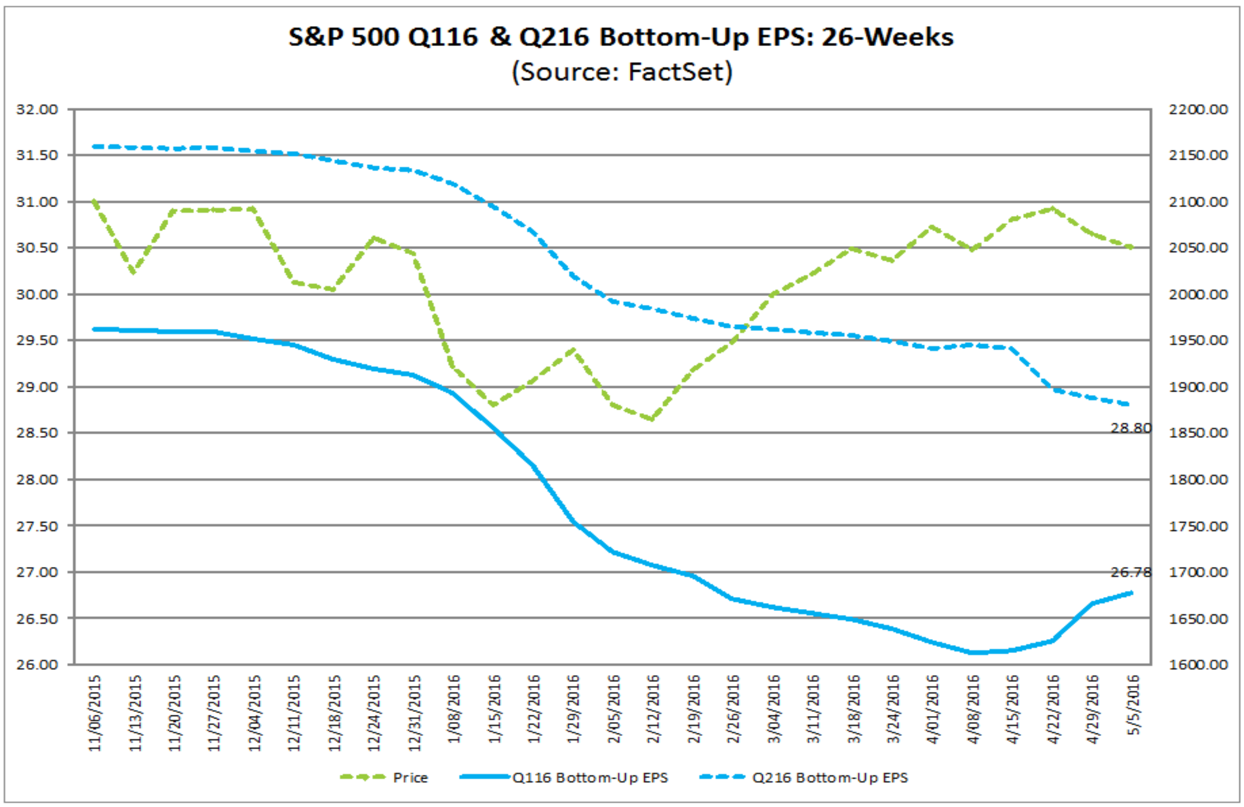
	Energy	Materials	S&P 500	Consumer Disc.	Info. Tech.	Financials	Health Care	Industrials	Consumer Staples	Telecom Services	Utilities
Today	214.1%	16.2%	13.6%	12.5%	11.9%	11.9%	10.8%	9.5%	9.5%	4.2%	3.7%
31-Mar-16	186.8%	17.7%	13.4%	12.8%	11.8%	10.7%	11.4%	9.5%	9.6%	4.1%	3.7%



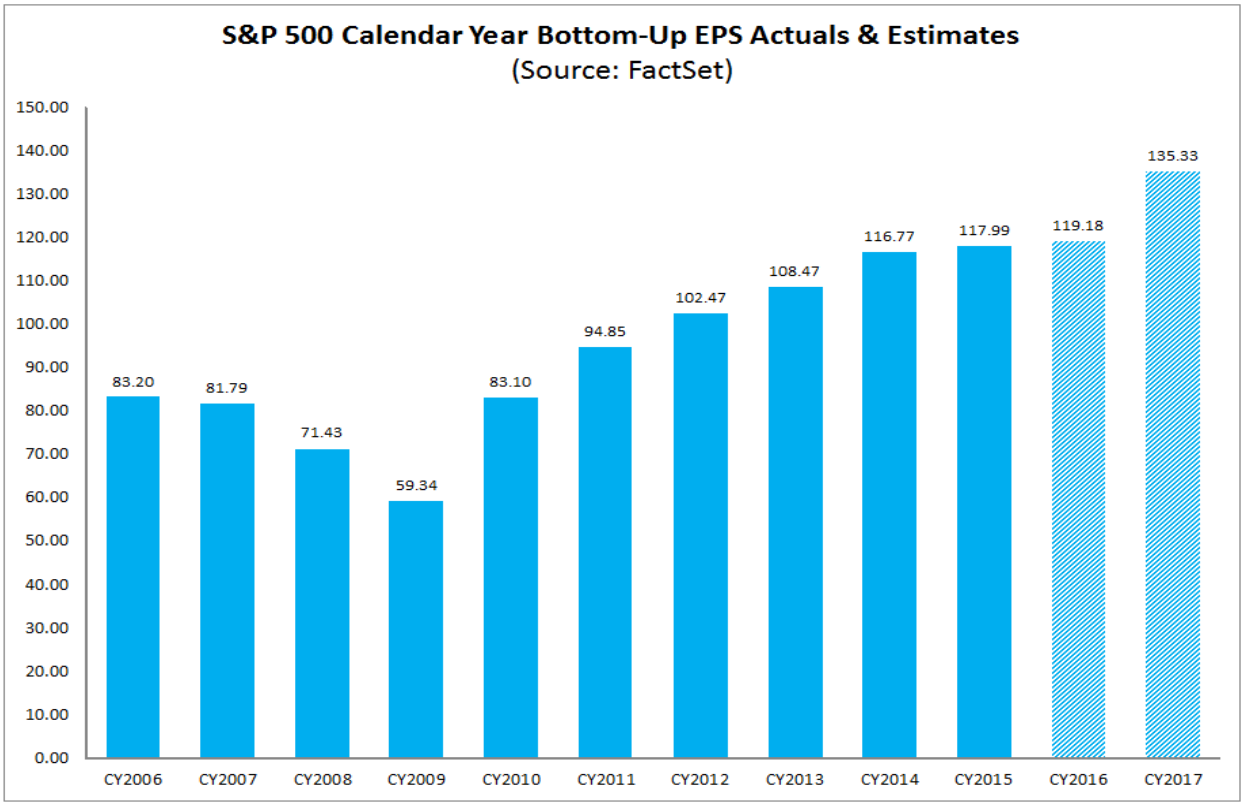
	Energy	Info. Technology	S&P 500	Health Care	Consumer Disc.	Materials	Financials	Consumer Staples	Industrials	Utilities	Telecom Services
Today	22.7%	6.2%	6.1%	5.7%	5.6%	5.2%	4.5%	4.4%	2.9%	2.8%	1.1%
31-Mar-16	24.8%	6.5%	6.2%	5.7%	5.3%	5.6%	4.9%	4.5%	2.7%	2.4%	1.1%

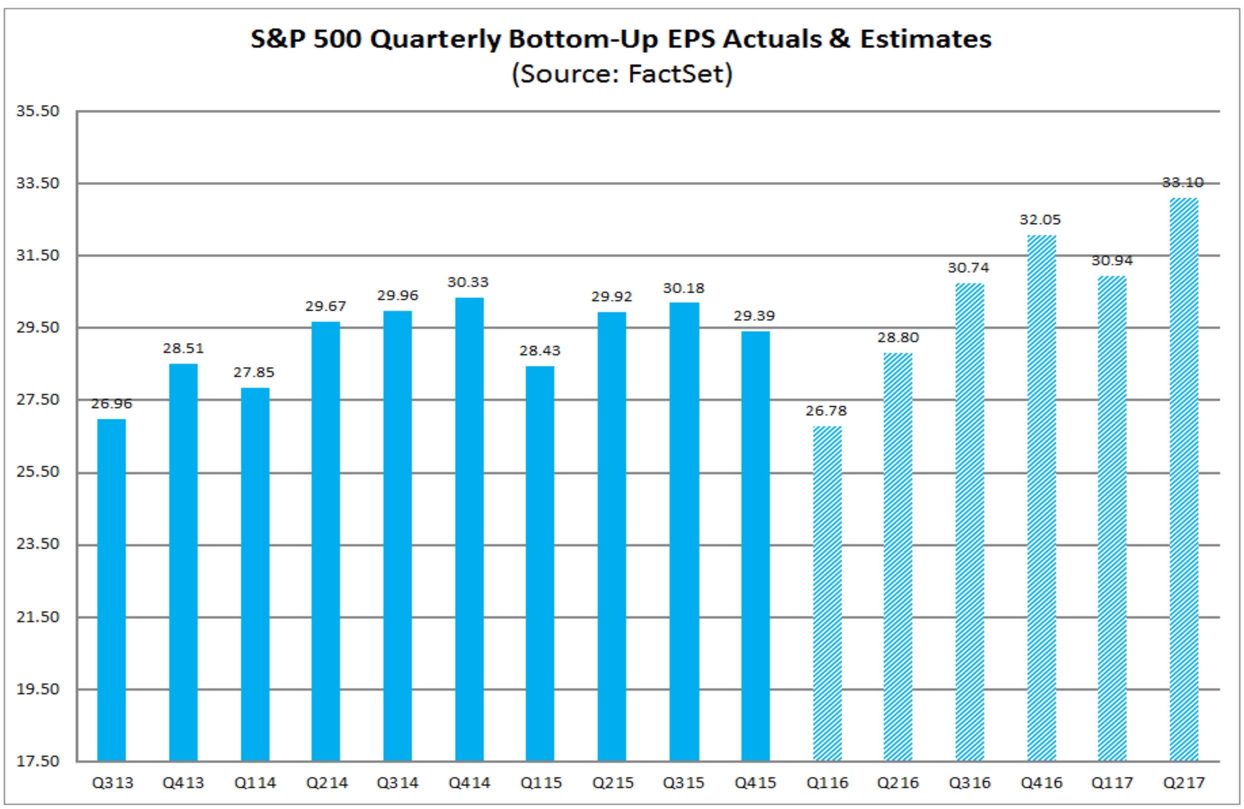
Bottom-Up EPS Estimates: Revisions



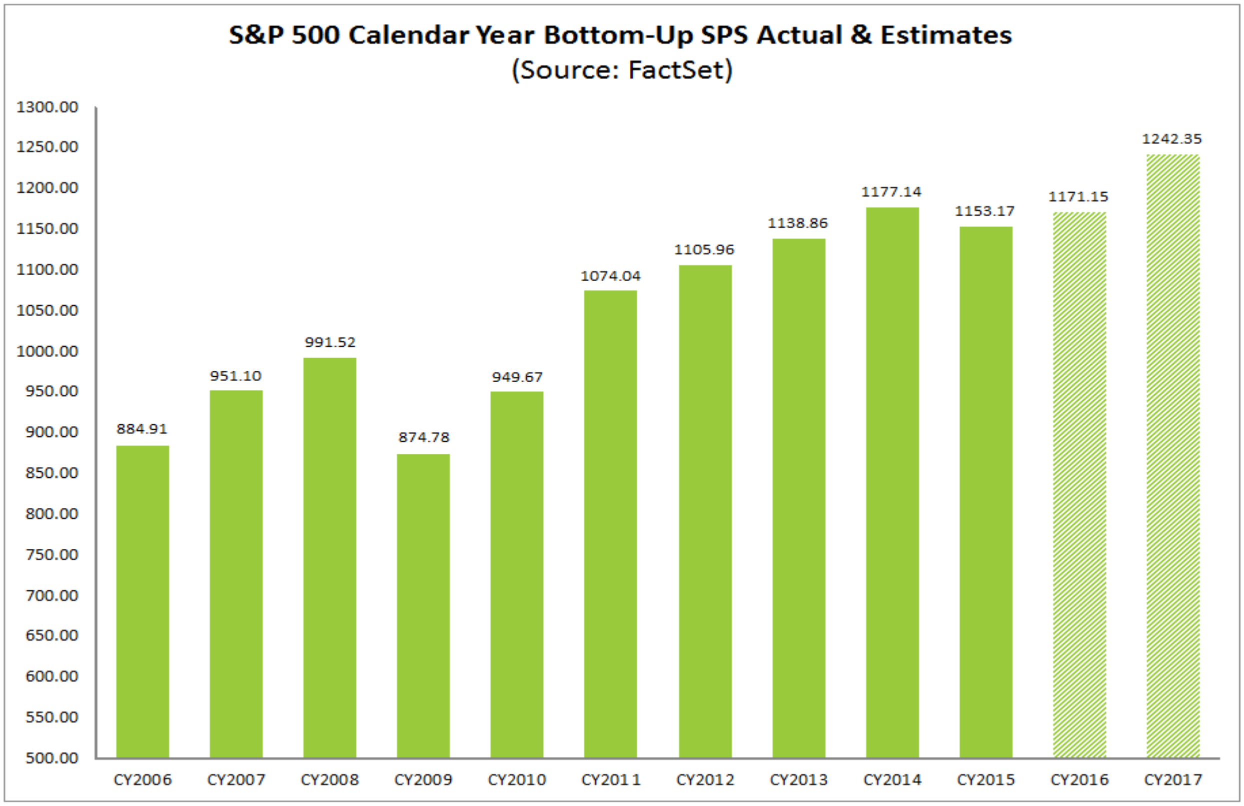


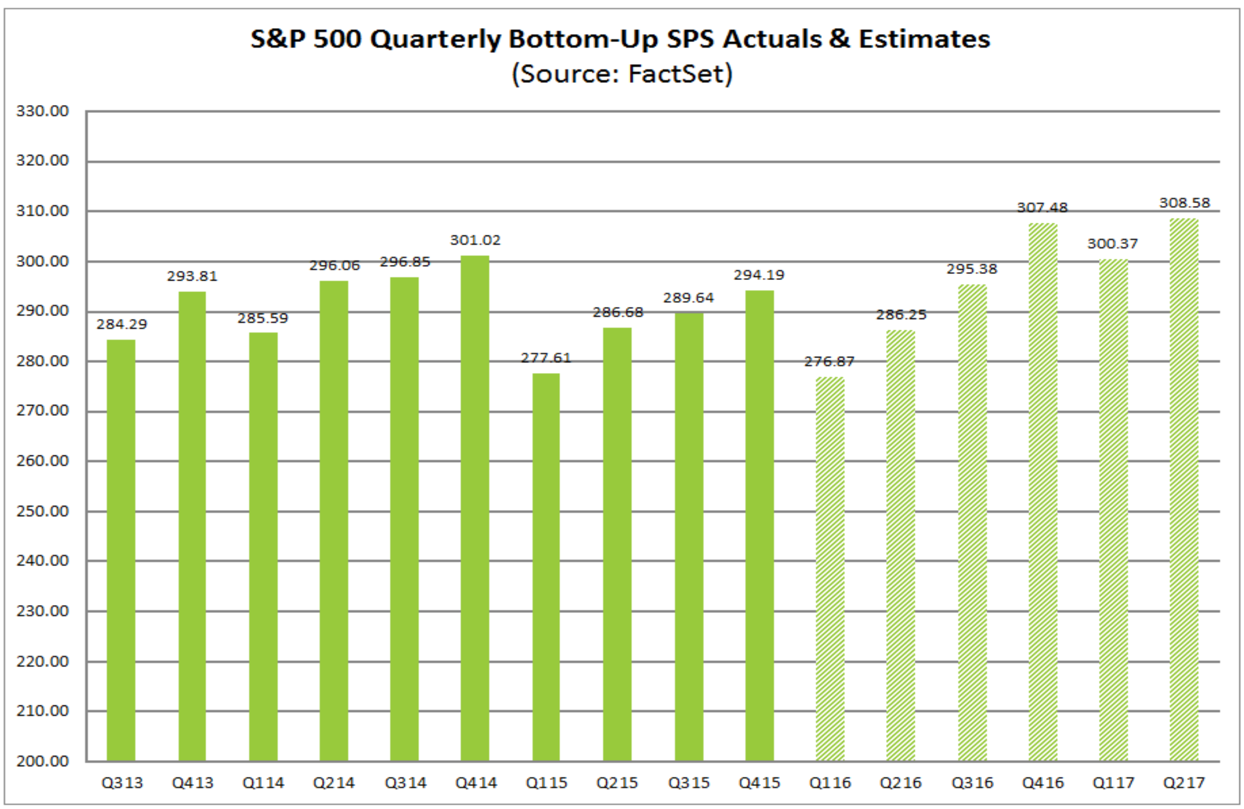
Bottom-Up EPS: Current & Historical



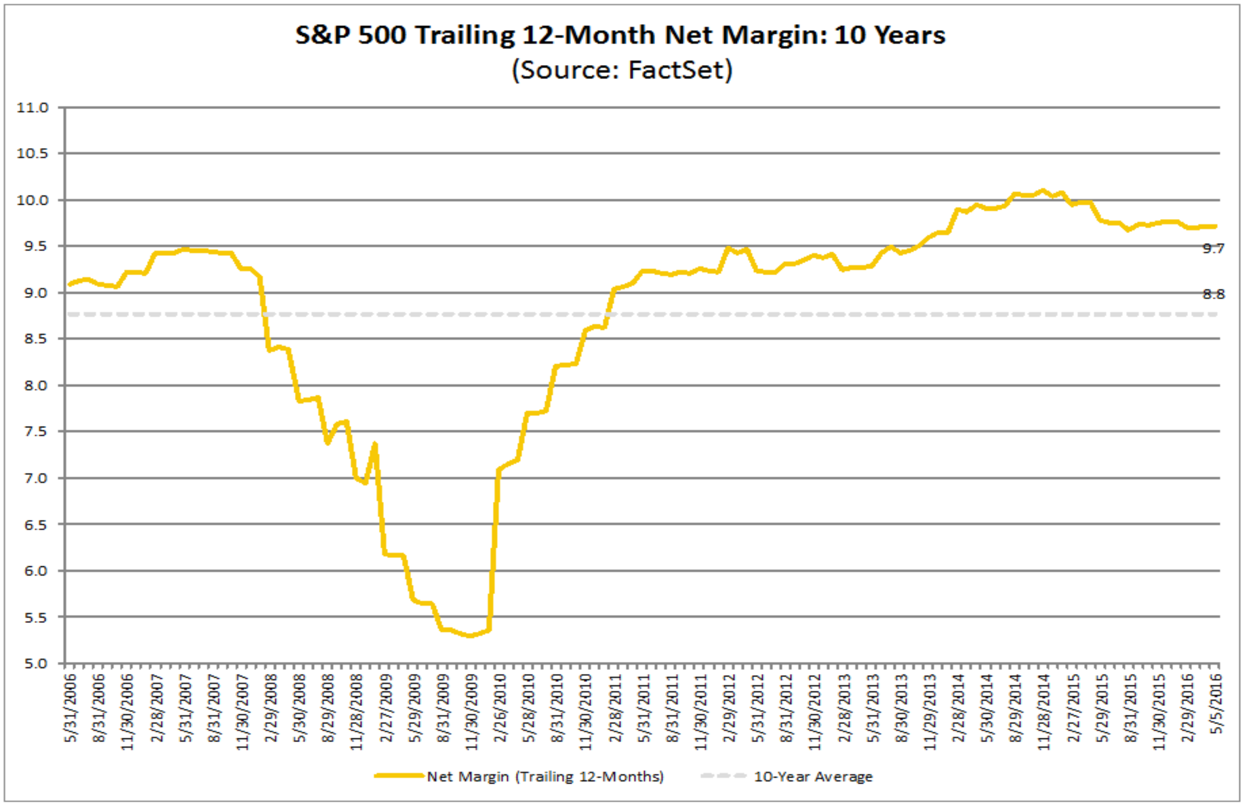


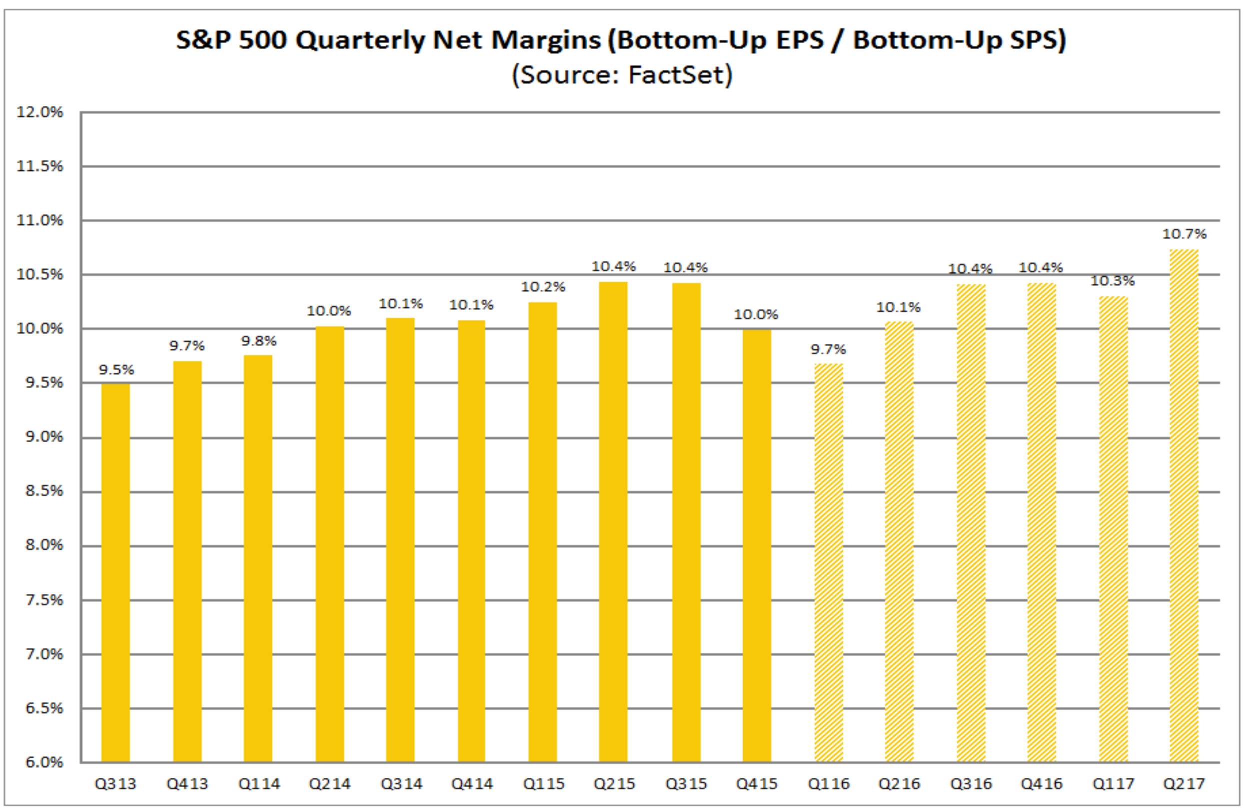
Bottom-Up SPS: Current & Historical





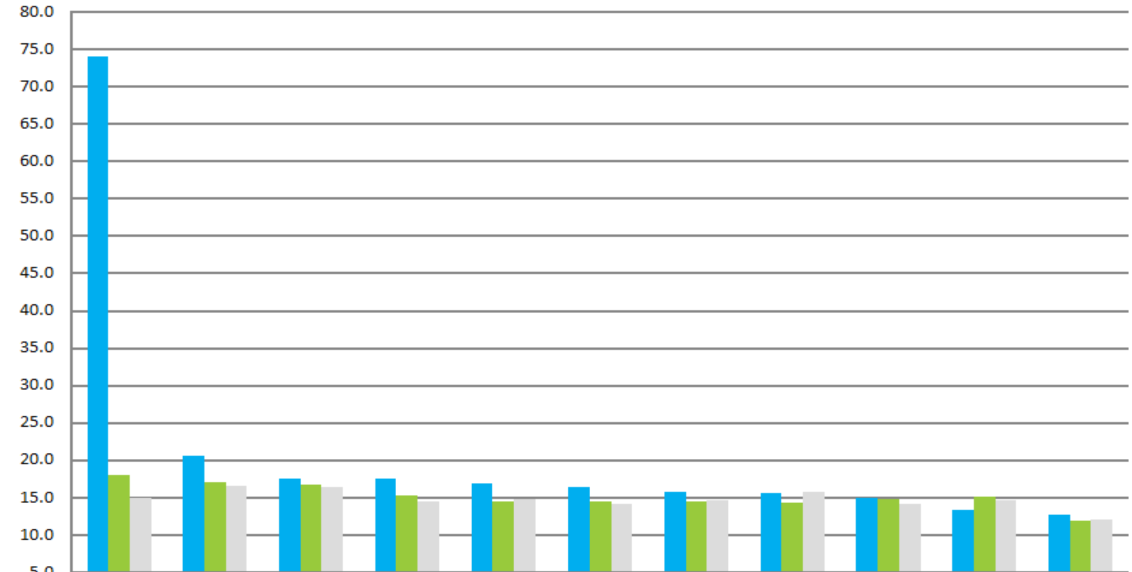
Net Margins: Current & Historical





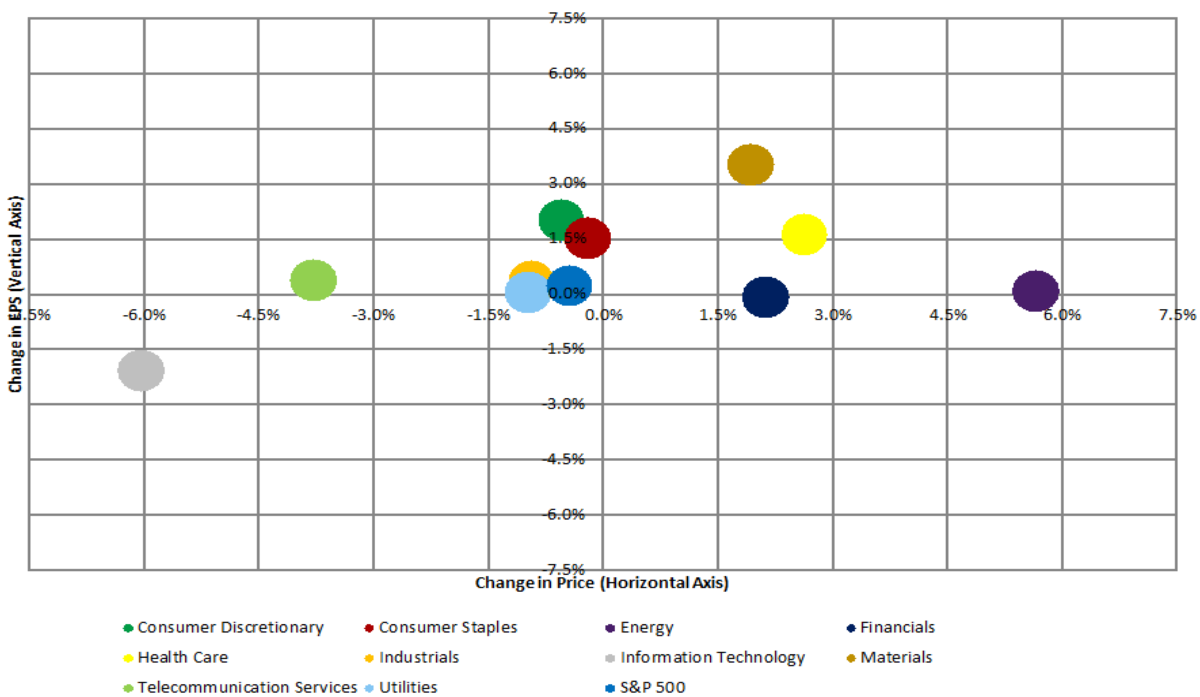
Forward 12M Price / Earnings Ratio: Sector Level

S&P 500 Sector-Level Forward 12-Month P/E Ratios
(Source: FactSet)

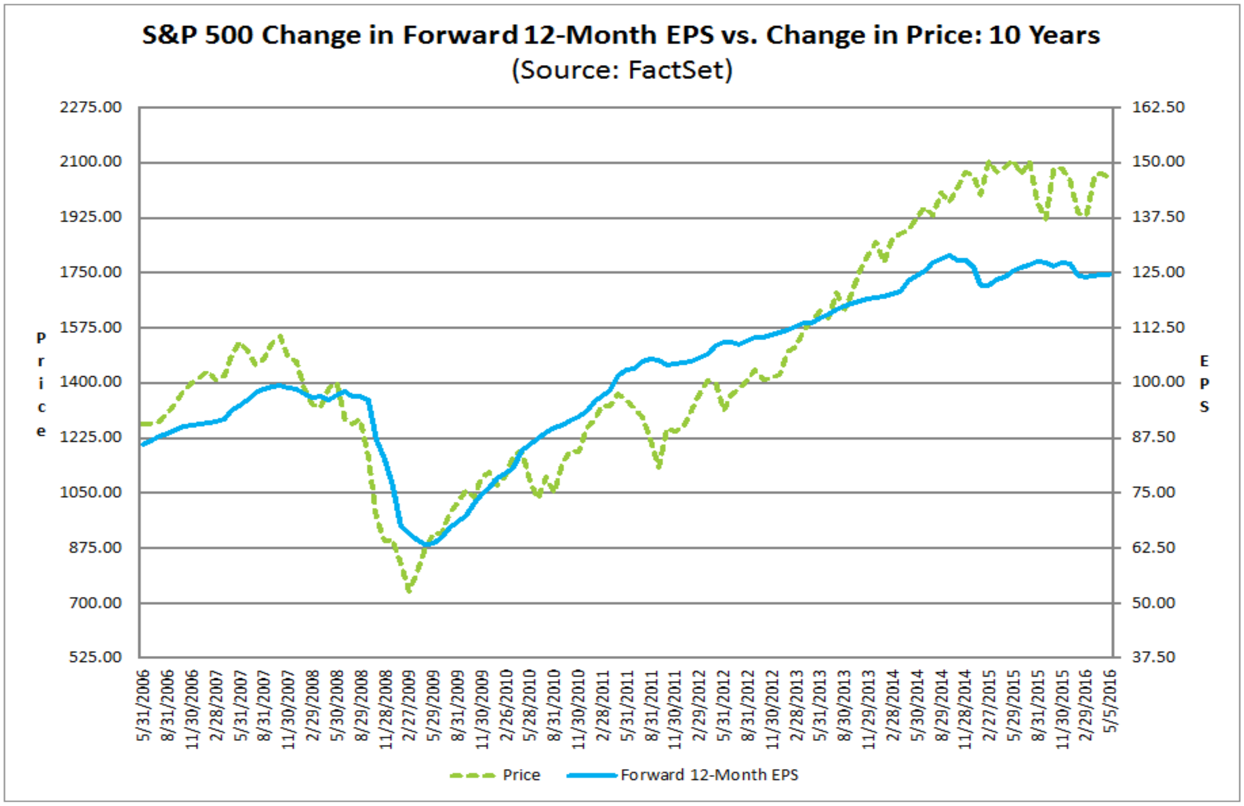


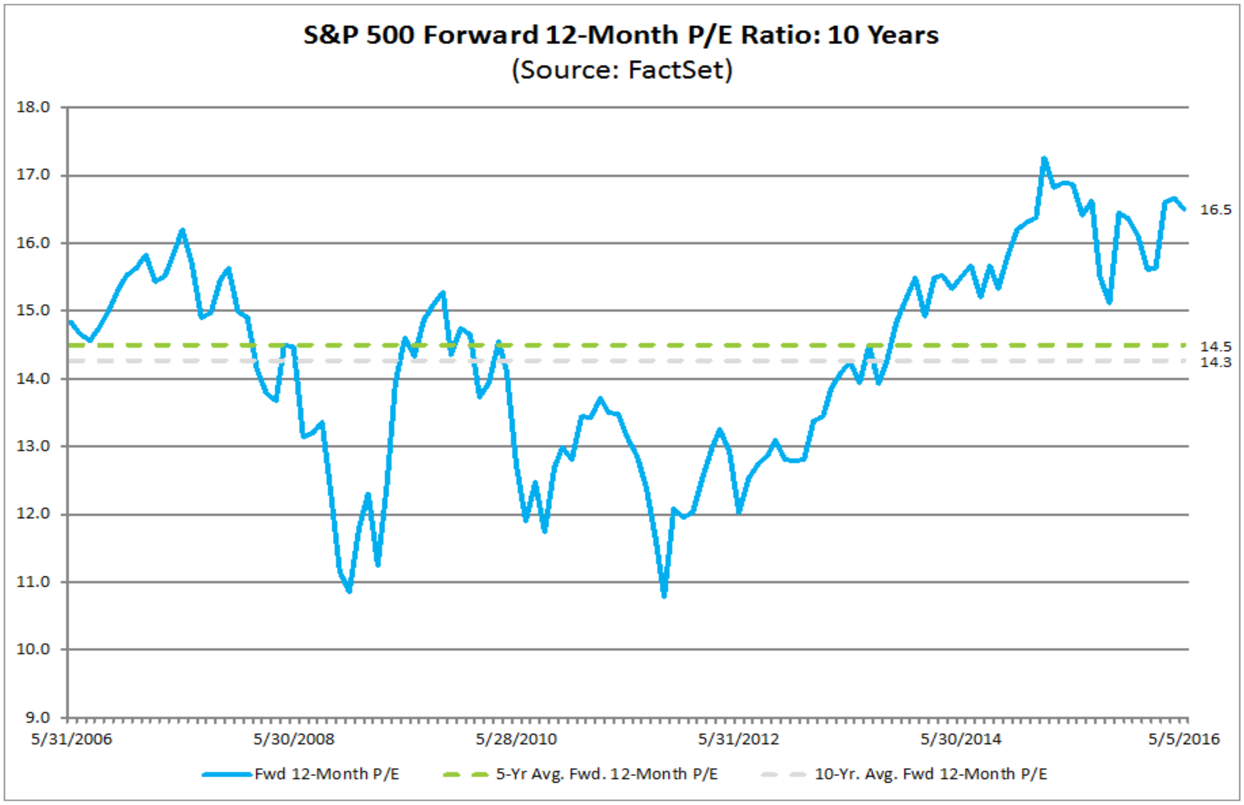
	Energy	Consumer Staples	Consumer Disc.	Utilities	Materials	S&P 500	Industrials	Info. Technology	Health Care	Telecom Services	Financials
Fwd 12M P/E	74.1	20.6	17.7	17.5	16.9	16.5	15.8	15.7	15.1	13.4	12.7
5-Yr Avg.	18.0	17.2	16.8	15.4	14.6	14.5	14.6	14.4	14.9	15.1	11.9
10-Yr Avg.	15.0	16.7	16.5	14.5	14.9	14.3	14.7	15.9	14.2	14.6	12.2

Sector-Level Change in Forward 12-Month EPS vs. Price: Since Mar. 31
(Source: FactSet)

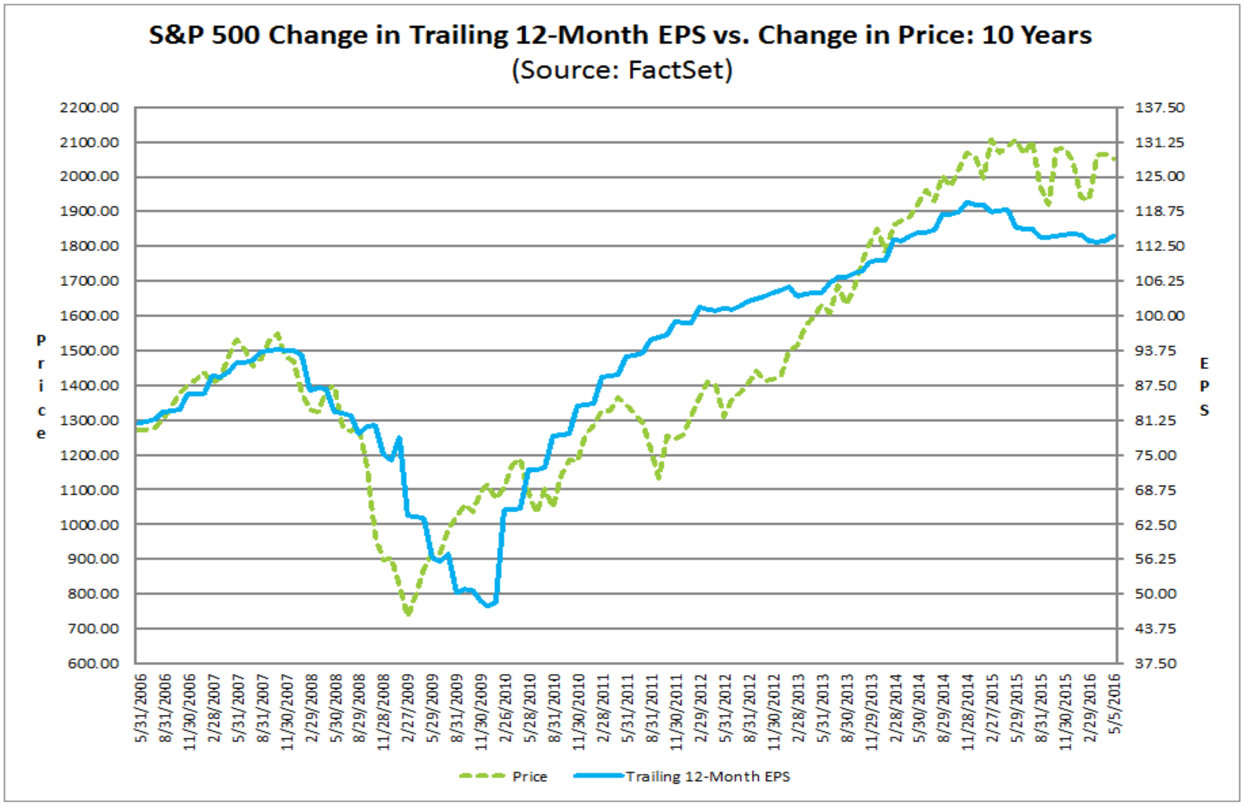


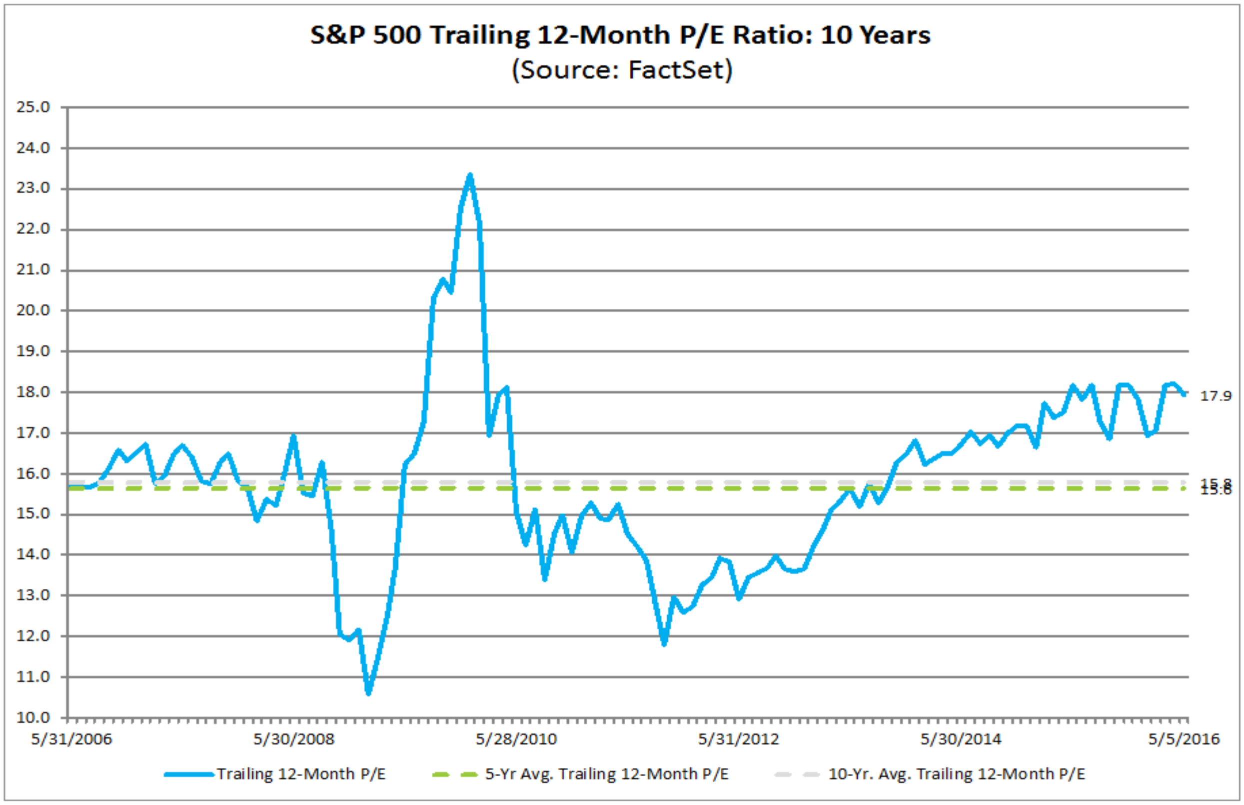
Forward 12M Price / Earnings Ratio: Long-Term Averages





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





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