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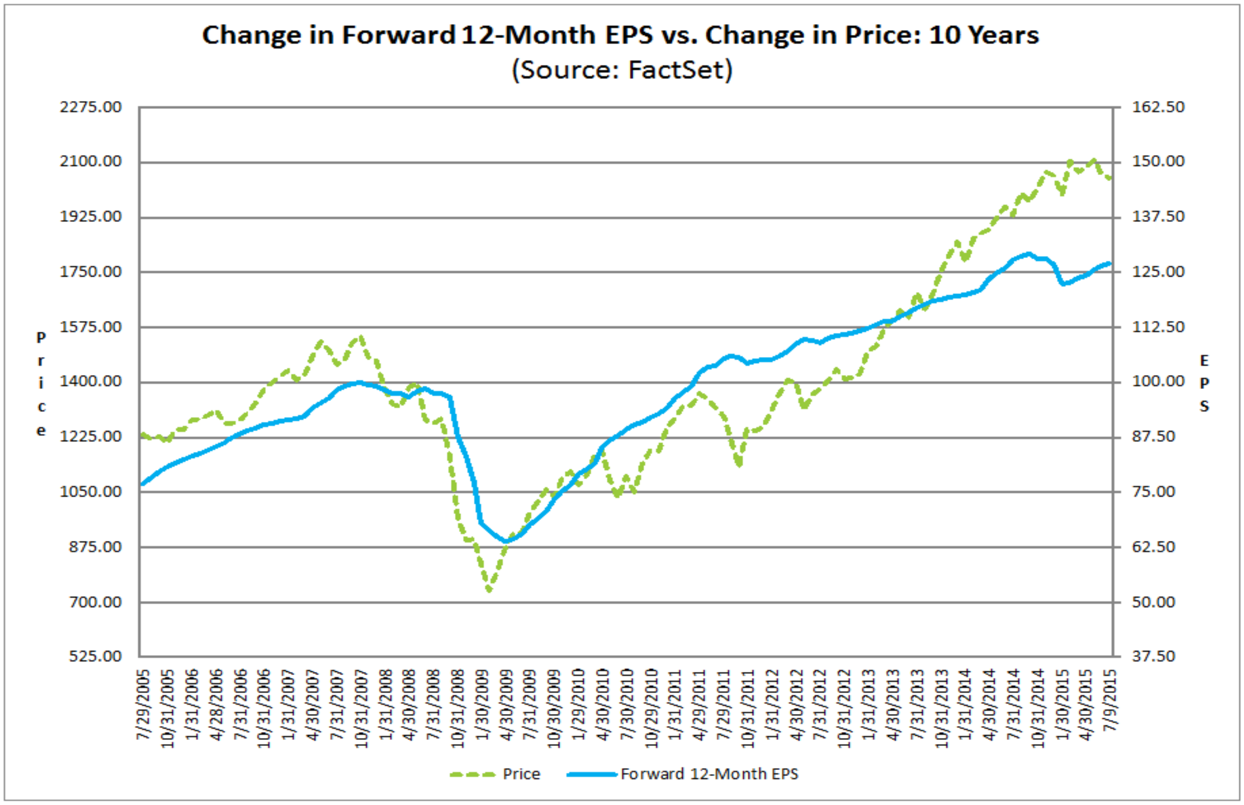
Key Metrics

- **Earnings Growth:** For Q2 2015, year-over-year earnings for the S&P 500 are projected to decline by 4.4%. The last time the index reported a year-over-year decrease in earnings was Q3 2012 (-1.0%).
- **Earnings Revisions:** On March 31, the estimated earnings decline for Q2 2015 was -2.2%. Seven sectors have lower growth rates today (compared to March 31) due to downward revisions to earnings estimates, led by the Industrials sector.
- **Earnings Guidance:** For Q2 2015, 80 companies have issued negative EPS guidance and 27 companies have issued positive EPS guidance.
- **Valuation:** The current 12-month forward P/E ratio is 16.2. This P/E ratio is based on Thursday's closing price (2051.31) and forward 12-month EPS estimate ($126.99).
- **Earnings Scorecard:** Of the 24 companies that have reported earnings to date for Q2 2015, 16 have reported earnings above the mean estimate and 12 have reported sales above the mean estimate.



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Topic of the Week: 1

Will the S&P 500 Actually Report a Decline in Earnings for Q2 2015?

As of today, the S&P 500 is projected to report a year-over-year decline in earnings of 4.4% for the second quarter. What is the likelihood the index will report an actual earnings decrease of 4.4% for the quarter?

Based on the average number of companies reporting actual earnings above estimated earnings in recent years, it is likely the index will report a smaller decline in earnings than 4.4%. However, based on this average, the index is still likely to report a year-over-year decrease in earnings for Q2.

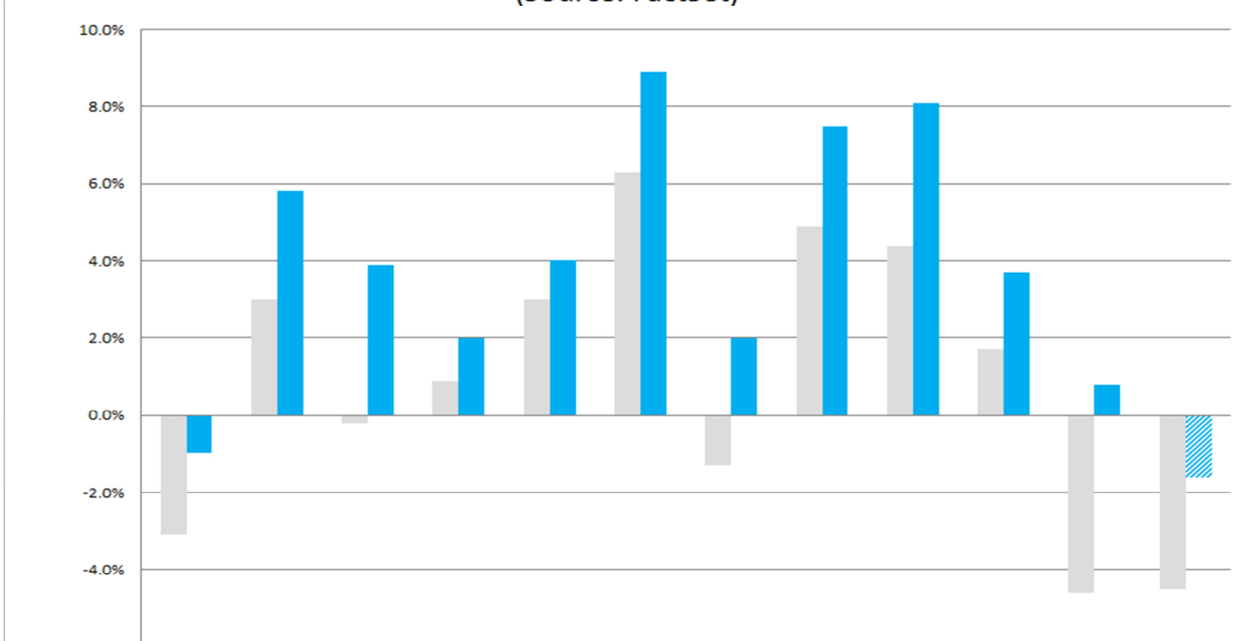
When companies in the S&P 500 report actual earnings above estimates during an earnings season, the overall earnings growth rate for the index increases because the higher actual EPS numbers replace the lower estimated EPS numbers in the calculation of the growth rate. For example, if a company is projected 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, 72% of companies in the S&P 500 have reported actual EPS above the mean EPS estimates on average. As a result, the earnings growth rate has increased by 2.9 percentage points on average over the past four years from the end of the quarter through the end of the earnings season due to the large number of upside earnings surprises.

If this average increase is applied to the estimated earnings growth rate at the end of Q2 (June 30) of -4.5%, the actual earnings growth rate for the quarter would be -1.6% (-4.5% + 2.9% = -1.6%).

It is interesting to note that for Q1 2015, the actual growth rate for the quarter of 0.8% was above the projected decline of -1.5% on April 10 (based on this expected average increase in the earnings growth): http://www.factset.com/websitefiles/PDFs/earningsinsight/earningsinsight_4.10.15

S&P 500: Estimated Earnings Growth at End of Qtr. vs. Actual Growth
(Source: FactSet)



	Q312	Q412	Q113	Q213	Q313	Q413	Q114	Q214	Q314	Q414	Q115	Q215
End of Qtr.	-3.1%	3.0%	-0.2%	0.9%	3.0%	6.3%	-1.3%	4.9%	4.4%	1.7%	-4.6%	-4.5%
Actual	-1.0%	5.8%	3.9%	2.0%	4.0%	8.9%	2.0%	7.5%	8.1%	3.7%	0.8%	-1.6%

Topic of the Week: 2

What Factors Will S&P 500 Companies Cite as Negative Impacts on Q2 Earnings and Sales?

While the majority of S&P 500 companies will report earnings results for Q2 2015 over the next few weeks, approximately 5% of the companies in the index (24 companies) have already reported earnings results for the second quarter.

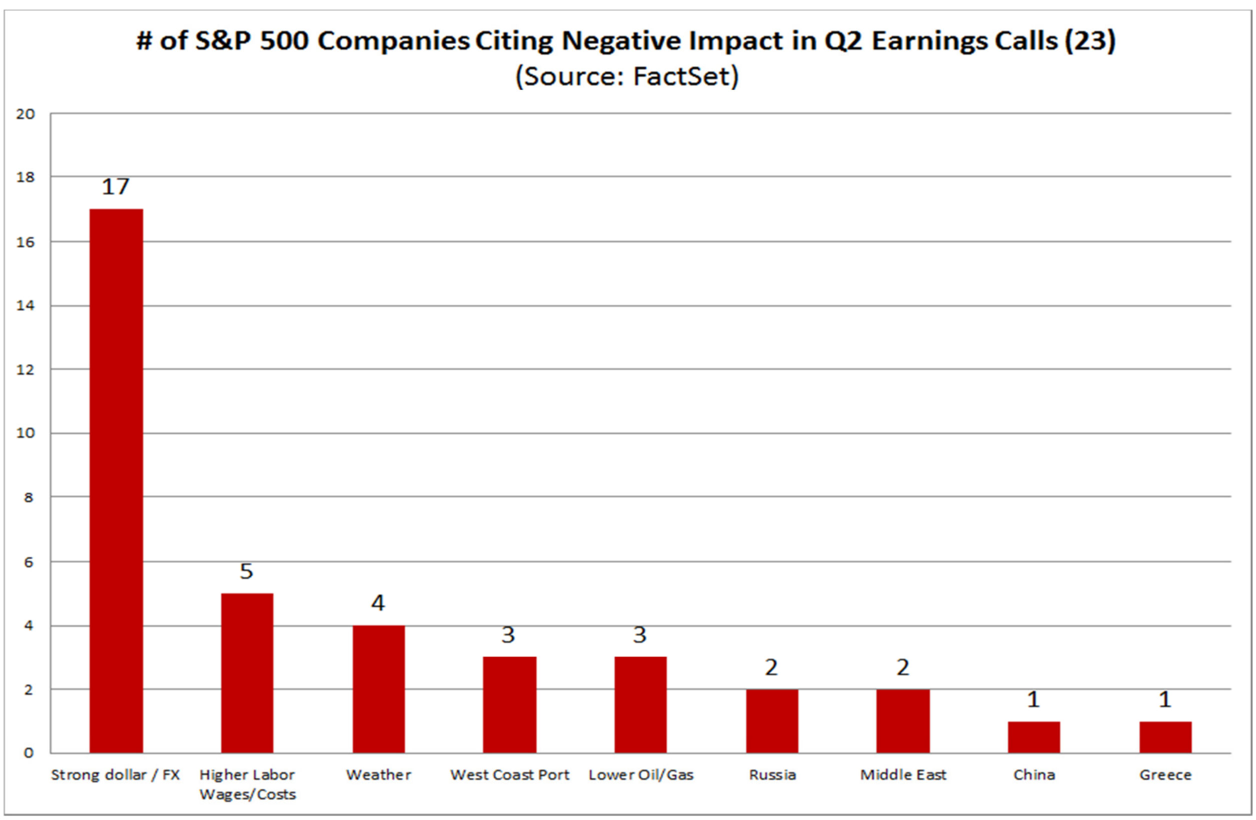
Given the number of concerns in the market, including the debt crisis in Greece, have these companies discussed specific factors that had a negative impact on earnings or revenues for the second quarter during their earnings conference calls?

To answer this question, FactSet searched for specific terms related to a number of factors (i.e. "currency" "Greece," etc.) in the conference call transcripts of the 23 S&P 500 companies that have conducted second quarter earnings conference calls through July 10 to see how many companies discussed these factors. FactSet then looked to see if the company cited a negative impact or expressed a negative sentiment (i.e. "volatility," "uncertainty," "headwind," etc.) regarding the factor for either the quarter just reported or in guidance for future quarters. The results are listed below.

Based on the earnings calls to date, the stronger U.S. dollar has been cited by the most companies (17) in the index as a factor that either had a negative impact on earnings or revenues for Q2, or is expected to have a negative impact on earnings and revenues in future quarters. For examples of companies that have cited the negative impact of the stronger U.S dollar on earnings results, please see pages 9.

It is interesting to note that only one company (Walgreens Boots Alliance) in the index has commented on the crisis in Greece during an earnings call to date.

"Given the current situation in Greece, where we fortunately have no business interest, we anticipate a certain level of volatility in the currency markets in the forthcoming months." -Walgreens Boots Alliance (Jul. 9)



Q2 2015 Earnings Season: By the Numbers

Overview

Analysts lowered earnings estimates for the S&P 500 for Q2 2015 by a smaller margin relative to recent quarters. On a per-share basis, estimated earnings for the second quarter fell by 2.3% during the quarter. This percentage decline was much smaller than the percentage decline during Q1 (-8.2%), and it was also smaller than the trailing 5-year and 10-year averages.

Fewer companies have lowered the bar for earnings for Q2 2015 relative to last quarter as well. Of the 107 companies that have issued EPS guidance for Q2 2015, 80 have issued negative EPS guidance and 27 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 75% (80 out of 107). This percentage is above the 5-year average of 69%, but below the percentage recorded at the same point in time in the first quarter of 84%.

As a result of the downward revisions to earnings estimates, the estimated year-over-year earnings decline of -4.4% today is larger than the expected decline of -2.2% at the start of the second quarter (March 31). The Energy sector is expected to report the largest year over-year decrease in earnings of all ten sectors, while the Health Care sector is predicted to have the highest earnings growth rate of all ten sectors for the quarter.

The estimated sales decline for Q2 2015 of -4.2% is also higher than the estimated year-over-year decline of -3.1% at the start of the quarter. The Energy sector is expected to report the largest year-over-year decrease in sales of all ten sectors. On the other hand, the Health Care sector is expected to report the highest growth in sales of all ten sectors for the quarter.

Looking at future quarters, analysts are expecting year-over-year declines in earnings to continue through Q315, and year-over-year declines in revenue to continue through Q415. Despite the estimate reductions, analysts are looking for record level EPS to resume in Q4 2015. Analysts also expect net profit margins to continue to rise to record levels (based on per-share estimates) starting in Q3 2015.

The forward 12-month P/E ratio is now 16.2, which is above the 5-year and 10-year averages.

During the upcoming week, 42 S&P 500 companies (including 6 Dow 30 components) are scheduled to report results for the second quarter.

Smaller Cuts to Earnings Estimates than Average For Q2

No Change in Projected Earnings Decline This Week

The estimated earnings decline for the second quarter is -4.4% this week, unchanged from last week. Downward revisions to estimates for companies in the Industrials sector were offset by upward revisions to estimates for companies in the Energy sector and upside earnings surprises reported by companies in the Consumer Staples sector during the week.

Industrials Sector Largest Cuts to Earnings Growth Expectations since March 31

The estimated earnings decline for Q2 2015 of -4.4% is higher than the estimated earnings decline of -2.2% at the start of the quarter (March 31). Seven 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 Industrials sector.

The Industrials sector has witnessed the largest decrease in expected earnings growth (to -5.8% from 4.2%) since the start of the quarter. Overall, 17 of the 65 companies in this sector have seen EPS estimates cut by 10% or more to date, led by General Electric (to $0.28 from $0.39) and Norfolk Southern (to $1.44 from $1.84).

The downward revisions to estimates for General Electric (to $0.28 from $0.39) and American Airlines Group (to $2.62 from $3.23) have been the largest contributors to the decrease in the earnings growth rate for the sector. It is interesting to note that while both companies have witnessed declines in expected earnings since the start of the second quarter, the price of the two stocks have moved in opposite directions. The price of General Electric has increased by 4.9% (to 26.02 from 24.81) since March 31, which is the sixth largest price increase of all the companies in the Industrials sector over this period. On the other hand, the price of American Airlines Group has decreased by 24.8% (to $39.67 from $52.78) since March 31, which is the second largest price decrease of all the companies in the Industrials sector over this period.

The Consumer Discretionary sector has recorded the second largest drop in expected earnings growth (to 4.5% from 8.9%) since the start of the quarter. At the company level, Netflix (to $0.28 from $0.86) and Under Armour (to 0.05 from $0.09) have seen the largest percentage declines to earnings estimates during this time. However, the downward revisions to General Motors (to $1.10 from $1.24) and Ford Motor (to $0.37 from $0.42) have been the largest contributors to the decrease in the earnings growth rate for the sector. Despite recording the second largest drop in expected earnings growth since March 31, the Consumer Discretionary sector has witnessed the second highest price increase (+1.6%) of all ten sectors since the start of the second quarter.

On the other hand, the Energy sector has witnessed the largest improvement in expected earnings of all ten sectors since March 31. The projected year-over-year decline for the sector has fallen to -57.4% from -62.3% over this period. Overall, 22 of the 41 companies in this sector have seen an increase in EPS estimates to date. Thirteen of these 18 companies have seen a double-digit increase in EPS estimates, led by EOG Resources (to $0.04 from $0.01), ConocoPhillips (to $0.09 from $0.03), and Transocean (to $0.45 from $0.24). However, the upward revisions to estimates for Exxon Mobil (to $1.04 from $0.81) and Chevron (to $1.07 from $0.79) have been the largest contributors to the decrease in the year-over-year earnings decline for the sector. Despite recording the largest improvement in estimated earnings since March 31, the Energy sector has witnessed the second largest price decrease (-5.3%) of all ten sectors since the start of the second quarter.

EPS Estimate Cuts: Smaller than Average for Q2

Downward revisions to earnings estimates in aggregate for the second quarter were smaller than recent averages. 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) declined by 2.3% (to $28.72 from $29.39) during the quarter. This percentage decline in the EPS estimate for the second quarter was below the trailing 1-year (-5.0%), 5-year (-3.4%), and 10-year averages (-5.0%) for the bottom-up EPS estimate during the course of a quarter.

Guidance: Negative EPS Guidance (75%) for Q2 Above Average But Below Q1

At this point in time, 107 companies in the index have issued EPS guidance for Q2 2015. Of these 107 companies, 80 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 second quarter is 75% (80 out of 107). This percentage is above the 5-year average of 69%, but is below the percentage recorded at the same point in time in the previous quarter (84%).

For more details on guidance, please see our “FactSet Guidance Quarterly” report at the following link: www.factset.com/websitefiles/PDFs/guidance/guidance_6.30.15

Largest Decline in Earnings (-4.4%) Expected Since Q3 2009 (-15.5%)

The estimated earnings decline for Q2 2015 is -4.4%. If this is the final earnings decline for the quarter, it will mark the first year-over-year decrease in earnings since Q3 2012 (-1.0%), and the largest year-over-year decline in earnings since Q3 2009 (-15.5%). Seven sectors are projected to report year-over-year growth in earnings, led by the Health Care sector. Three sectors are predicted to report a year-over-year decline in earnings, led by the Energy sector.

Health Care: Allergan Projected to Lead Growth

The Health Care sector is expected to report the highest earnings growth rate at 8.2%. At the industry level, five of the six industries in the sector are predicted to report earnings growth, led by the Health Care Technology industry (29%). At the company level, Allergan PLC is the largest contributor to earnings growth for the sector. The EPS estimate for Allergan PLC for Q2 2015 is $4.39, compared to year-ago EPS of $3.42 in Q2 2014. If this company is excluded, the estimated earnings growth rate for the sector would fall to 5.1%.

Energy: Largest Contributor to Earnings Decline for the Index

The Energy sector is predicted to report the largest year-over-year decline in earnings (-57.4%) of all ten sectors. Four of the seven sub-industries are projected to report a year-over-year drop in earnings: Oil & Gas Exploration & Production (-108%), Oil & Gas Equipment & Services (-56%), Oil & Gas Drilling (-55%), and Integrated Oil & Gas (-51%). On the other hand, the Oil & Gas Refining & Marketing (34%), Oil & Gas Storage & Transportation (20%), and Coal & Consumable Fuels (2%) sub-industries are expected to report earnings growth for the quarter.

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 growth rate for the S&P 500 would jump to 2.0% from -4.4%.

Largest Decline in Revenue (-4.2%) Expected Since Q3 2009 (-11.5%)

The estimated revenue decline for Q2 2015 is -4.2%. If this is the final revenue decline for the quarter, it will mark the first time the index has seen two consecutive quarters of year-over-year revenue declines since Q2 2009 and Q3 2009. It will also mark the largest year over-year decline in revenue since Q3 2009 (-11.5%). Seven sectors are projected to report year-over-year growth in revenue, led by the Health Care sector. Three sectors are predicted to report a year-over-year decline in revenue, led by the Energy sector.

The Health Care sector is predicted to report the highest revenue growth of all ten sectors at 7.0%. Five of the six industries in the sector are projected to report sales growth for the quarter. Three of these six industries are expected to report double-digit sales growth: Health Care Technology (41%), Biotechnology (13%), and Health Care Equipment & Supplies (11%).

On the other hand, the Energy (-38.4%) sector is projected to report the largest year-over-year decrease in sales for the quarter. Six of the seven sub-industries in the sector are predicted to report a decrease in revenue: Integrated Oil & Gas (-43%), Oil & Gas Refining & Marketing (-40%), Oil & Gas Exploration & Production (-40%), Oil & Gas Drilling (-26%), Oil & Gas Equipment & Services (-26%), and Coal & Consumable Fuels (-12%). The only sub-industry expected to report year-over-year growth in revenue is the Oil & Gas Storage & Transportation sub-industry at 3%.

This sector is also the predicted to be the largest contributor to the estimated 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 1.6% from -4.2%.

Q2 2015 Earnings Season: Themes

Overview

Similar to last quarter, companies will likely discuss the impact of slower global economic growth, the stronger dollar, and lower oil prices during their earnings conference calls.

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

United States

According to FactSet Economic Estimates, real (year-over-year) GDP growth in the U.S. is projected to be 2.4% in 2015, which would be consistent with GDP growth of the past few years. The U.S. remains the key geographic market for the S&P 500. According to FactSet Geographic Revenue Exposure data (based on the most recent fiscal year data), companies in the S&P 500 in aggregate generate about 70% of sales from North America, almost all of which comes from the U.S.

"In the second quarter, PepsiCo was once again the largest contributor to US retail sales growth among all food and beverage manufacturers, with over $400 million of retail sales growth in all major channels. This was more than two times the next largest contributor to growth, and represented more growth than the next 14 largest manufacturers combined. Notably, North American beverages was the key driver of US retail sales growth within PepsiCo and the largest contributor to US retail sales growth on the standalone basis." –PepsiCo (Jul. 1)

"Our U.S. Retail segment had a disappointing year. But as you can see on slide eight, trends did improve in H2, most notably for yogurt and cereal….But overall sales trends in many categories were weak, reflecting the impact of changing consumer food preference." –General Mills (Jul 1)

"*North America had a great quarter and another remarkable year. Revenues were up 14% for the quarter and 12% for the year, despite the headwind from the West Coast port congestion. Growth in the quarter was driven by nearly every key category." –NIKE (Jun. 25)*

"In North America, we delivered very strong 12% revenue growth in local currency, driven by continued double-digit growth in the United States, where we are strengthening our position as the market leader." –Accenture (Jun. 25)

"All of our North American brands had a strong performance led by the Carnival brand, which achieved a double digit improvement in ticket revenue yield, a testament to the strength of the Carnival Cruise Line product and the brand team's incredible execution in delivering a vacation experience that truly resonates with our guests." –Carnival Corp. (Jun. 23)

Europe

According to FactSet Economic Estimates, real (year-over-year) GDP growth in the Eurozone is projected to be 1.5% in 2015, which is a slight improvement relative to 2014. Europe is still an important geographic market for the S&P 500. According to FactSet Geographic Revenue Exposure data (based on the most recent fiscal year data), companies in the S&P 500 in aggregate generate about 13% of sales from Europe (combination of European Union and non-European Union countries).

There are also concerns in the market about the debt crisis in Greece. However, only one S&P 500 company (Walgreens Boots Alliance) has specifically commented on Greece to date.

"Given the current situation in Greece, where we fortunately have no business interest, we anticipate a certain level of volatility in the currency markets in the forthcoming months." -Walgreens Boots Alliance (Jul. 9)

"The thing I'll tell you is Europe is a difficult economy between East and the West. There's some sort of volatility there all the time. I think today, year-to-date, we are the best performing European CPG company, based on all the numbers we've looked at. If you combine East and West, or whether you look at them individually, both from the top line and the profit performance, we are performing the best…I think on a year-to-date basis, we are performing at or above our expectations in Europe. And we feel comfortable with what the team is doing and that's what we intend to keep doing, balance the year." – PepsiCo (Jul. 9)

"Our International segment generated 6% constant currency net sales growth in 2015. We had a strong year in Europe where constant currency sales rose 5%." –General Mills (Jul. 1)

"In Europe, Middle East and Africa, EMEA, economic and retail conditions remain challenging in parts of the region. However, in constant currency, we had strong volume-driven sales growth this period particularly in France, Poland and Russia." –McCormick & Company (Jul. 1)

"Now let's turn to Western Europe, where we've seen broad-based demand with growth of 17% in the quarter and 21% for the year. Growth in the quarter and throughout the year was fueled by our continued efforts to transform the marketplace in line with the Category Offense. We saw strong growth across most key categories, led by Sportswear, Running, Women's Training, and Basketball, and in the territories, particularly in AGS, that's Austria, Germany and Switzerland, as well as in the UK and Ireland." –NIKE (Jun. 25)

"In Europe, I'm very pleased with our growth of 7% in local currency, driven primarily by Spain, the United Kingdom, Germany, and the Netherlands." –Accenture (Jun. 25)

"As we had said before in the notes, there is a lot of macroeconomic difficulties in Europe. The economy seems to be bouncing along at the bottom. Our Costa brand is doing very well. But as a result of the geopolitical risk and other things, they have had some challenges on the yield side this year." –Carnival Corp. (Jun 23)

China

According to FactSet Economic Estimates, real (year-over-year) GDP growth in China is projected to be 6.9%, which would be a continuation of the declining growth seen in recent years. China continues to be a vital geographic market for the S&P 500. According to FactSet Geographic Revenue Exposure data (based on the most recent fiscal year data), companies in the S&P 500 in aggregate generate about 9% of sales from the Asia Pacific region, most of which comes from China and Japan.

There are also concerns in the market about the impact of the decline in the Chinese stock market on economic growth and consumer spending in China. However, S&P 500 companies have generally been positive in their comments regarding China to date.

"And we're experiencing really broad-based growth on both our McCormick brand and on our acquired brands across China. And we recognize that there's been some slowdown in economic growth in China, but our categories continued to do well, and our brands in particular had really broad-based growth in this quarter. And we don't really see any change in that trend." –McCormick & Company (Jul. 1)

"*And finally in China, where Q4 revenue grew 20%, and we posted a full year growth of 19%. Our strong growth in the quarter was driven primarily by Running, Basketball and Sportswear." –NIKE (Jun. 25)*

"With the additional capacity redeployed to China in 2016, we will offer an industry-leading approximately 4 million-passenger cruise days dedicated to the burgeoning China cruise market." – Carnival Corp. (Jun. 23)

Currency Themes: Stronger U.S. Dollar

The dollar was stronger in Q2 2015 relative to year-ago values for both the euro and the yen. In the year-ago quarter (Q2 2014), one euro was equal to $1.37 dollars on average. For Q2 2015, one euro was equal to $1.11 dollars on average. In the year-ago quarter (Q2 2014), one dollar was equal to $102.10 yen on average. For Q2 2015, one dollar was equal to $121.42 yen on average.

A number of companies have already commented on the negative impact of the stronger dollar on earnings and sales for Q2, or the expected negative impact of the stronger dollar in future periods.

"As you model out the third quarter, I'd ask you to consider the following: Foreign exchange translation should have an approximate 11 point unfavorable impact on the third quarter net revenue growth, and approximate 12 point unfavorable impact on third quarter core EPS growth based on current market consensus rates." –PepsiCo (Jul.9)

"At current exchange rates, we'd estimated $0.04 headwind to full-year adjusted diluted EPS growth in 2016." –General Mills (Jul. 1)

"We continued to estimate that currency will reduce our sales growth rate by 5 percentage points in 2015." –McCormick & Company (Jul. 1)

"Foreign exchange had a negative impact of $24mm on net sales, and about $14mm on operating profit for the [Consumer Foods] segment this fiscal quarter." –ConAgra (Jun.30)

"Specifically, for FY2016, we expect reported revenue growth in a mid-single-digit rate reflecting low double-digit growth on a currency-neutral basis, partially offset by the impact of the stronger dollar." – NIKE (Jun. 26)

"Turning now to revenues, net revenues for the quarter were $7.8B, slightly positive growth in U.S. dollars and an increase of 10% in local currency, reflecting a negative 10% foreign exchange impact compared to the negative 11% impact provided in our business outlook last quarter." –Accenture (Jun. 25)

"As anticipated, y-over-y Canadian currency fluctuations unfavorably impacted our comparable sales by approximately 30BPS in Q1." –Bed Bath & Beyond (Jun. 24)

"First, let me update you on the impact of foreign currency on Q1 results. As I previewed in Q4, nearly every currency in which we do business weakened significantly against the U.S. dollar when compared against both Q1 last year and last quarter. This significant change in exchange rates impacted not only our financial statements, but also the statistics we provide on a quarterly basis. For instance, the y-over-y foreign exchange impact on total revenue was 850BPS or $36mm headwind." –Red Hat (Jun. 18)

"As you probably remember, I didn't provide U.S. dollar guidance for Q3, given the unusually high volatility in exchange rates. The currency headwind ended up being 6% for software and cloud revenues as well as total revenue, 7% for total hardware revenue, and $0.06 per share – and $0.06 for EPS." – Oracle (Jun. 17)

"From a q-over-q currency perspective, FX decreased revenue by $16mm. We had $22mm in hedge gains in Q2 FY2015 vs. $24mm in hedge gains in Q1 FY2015. Thus the net sequential currency decreased to revenue considering hedging gains was $18mm. From a y-over-y currency perspective, FX decreased revenue by $48mm. Considering the $22mm in hedge gains in Q2 FY2015 vs. roughly $2mm in hedge gains in Q2 FY2014, the net y-over-y currency decrease to revenue, considering hedging gains, was $28mm." –Adobe Systems (Jun. 16)

"As compared to a year ago in Q3 this year, the foreign currencies where we operate weakened vs. the U.S. dollar, in fact in all countries, but primarily in Canada, Mexico, Korea and Japan, resulting in our foreign earnings in Q3 when converted into U.S. dollars being lower by about $33mm pre-tax or $0.06 per share than these earnings would have been had FX rates been flat y-over-y." – Costco (May 28)

"As with other international companies, the strengthening dollar has negatively impacted our U.S. dollar earnings from these operations recently." –AutoZone (May 26)

Commodity Themes: Lower Oil & Gas Prices

During the course of the second quarter, the price of crude oil increased by 20.5% (to $59.47 from $47.60). However, the average price of oil in Q2 2015 ($58.02) was still more than 40% lower than the average price in the year-ago quarter ($102.96).

The impact of oil and gas prices varies by sector, industry, and company. The negative impact of lower oil prices relative to last year has already been seen in the Energy sector, where year-over-year earnings are expected to decline by 58%. What has been the impact of lower oil and gas prices in other sectors of the index? Are companies seeing an increase in consumer spending relative to last year?

"We're still seeing a bifurcated consumer with some level of growth in premium, and our gourmet brand is an example of that and niche category, so there is some growth. We're seeing some recovery in food service with people eating out. So we are seeing some of those lower gas prices find their way in." – McCormick & Company (Jul. 1)

"We've had a lot of discussion around the gas – what we call the gas dividend that's going back to the consumer. I think there's a lot of expectation that that was going to stimulate traffic. And what I've been saying is we haven't seen it stimulate traffic, but we have seen it change the consumer behavior once they're in our building. And they're not seeking the deals the way they were years ago. We're seeing consumers buy more add-ons. They're buying wine, dessert, apps." –Darden Restaurants (Jun. 23)

"*Declining prices at the pump have benefited our customers, especially those most financially stressed. The lower end customer benefits the most from lower gas prices relative to income. This trend is encouraging, but we understand this is just one of many factors that impact our business. While gas prices have increased more recently, prices are still around $1 a gallon below last year" –AutoZone (May 26)*

Looking Ahead: Forward Estimates and Valuation

Revenue Growth Not Expected to Return Until 2016

For Q2 2015, analysts are predicting year-over-year declines in earnings (-4.4%) and revenues (-4.2%). Analysts do not currently project earnings growth to return until Q4 2015 and revenue growth to return until Q1 2016. In terms of earnings, analysts are currently predicting a decline of 1.0% in Q3 2015, followed by growth of 4.4% in Q4 2015. In terms of revenue, analysts are currently projecting a decline of 2.6% in Q3 2015 and a decline of 0.5% in Q4 2015, followed by growth of 5.8% in Q1 2016.

For all of 2015, analysts are projecting earnings to grow by 1.7%, but revenues to decline by 1.8%.

Higher Margins Projected for 2nd Half of 2015

Analysts are also expecting profit margins to continue to expand in the 2nd half of 2015. Using the bottom-up sales-per-share (SPS) and earnings-per-share (EPS) estimates for the S&P 500 as proxies for expected sales and earnings for the index over the next few quarters, profit margin estimates can be calculated by dividing the expected EPS by the expected SPS for each quarter. Using this methodology, the estimated net profit margins for Q2 2015 through Q4 2015 are 10.2%, 10.4%, and 10.6%. These numbers (starting in Q3 2015) are above the net profit margin for Q1 2015 (10.3%), and are also well above the average net profit margin of 9.5% recorded over the past five years.

Valuation: Forward P/E Ratio is 16.2, above the 10-Year Average (14.1)

The current 12-month forward P/E ratio is 16.2. This P/E ratio is based on Thursday's closing price (2051.31) and forward 12-month EPS estimate ($126.99).

At the sector level, the Energy (23.8) sector has the highest forward 12-month P/E ratio, while the Financials (12.9) and Telecom Services (13.0) sectors have the lowest forward 12-month P/E ratios.

The P/E ratio of 16.2 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 13.9, and above the prior 10-year average forward 12-month P/E ratio of 14.1. However, it is below the forward 12-month P/E ratio of 16.4 recorded at the start of the third quarter (June 30). Since the start of the third quarter, the price of the index has decreased by 0.6%, while the forward 12-month EPS estimate has increased by 0.5%.

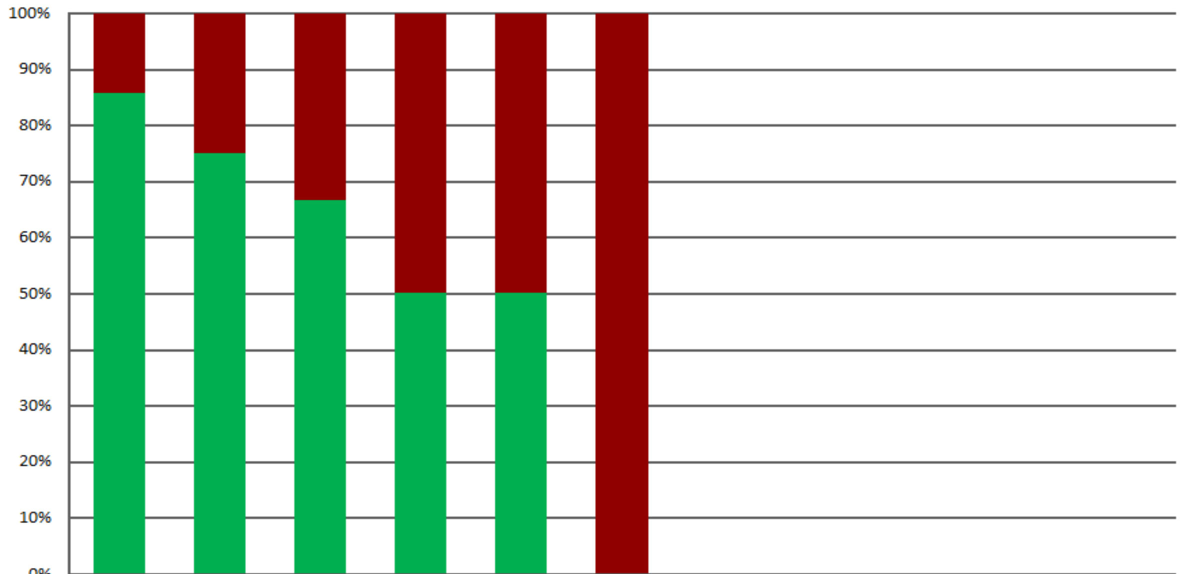
Eight of the ten sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (23.8 vs. 12.6) sector. The only two sectors with a forward 12-month P/E ratio below the 10-year average are the Telecom Services (13.0 vs. 14.8) and Information Technology (15.3 vs. 15.7) sectors.

Companies Reporting Next Week: 42

During the upcoming week, 42 S&P 500 companies (including 6 Dow 30 components) are scheduled to report results for the second quarter.

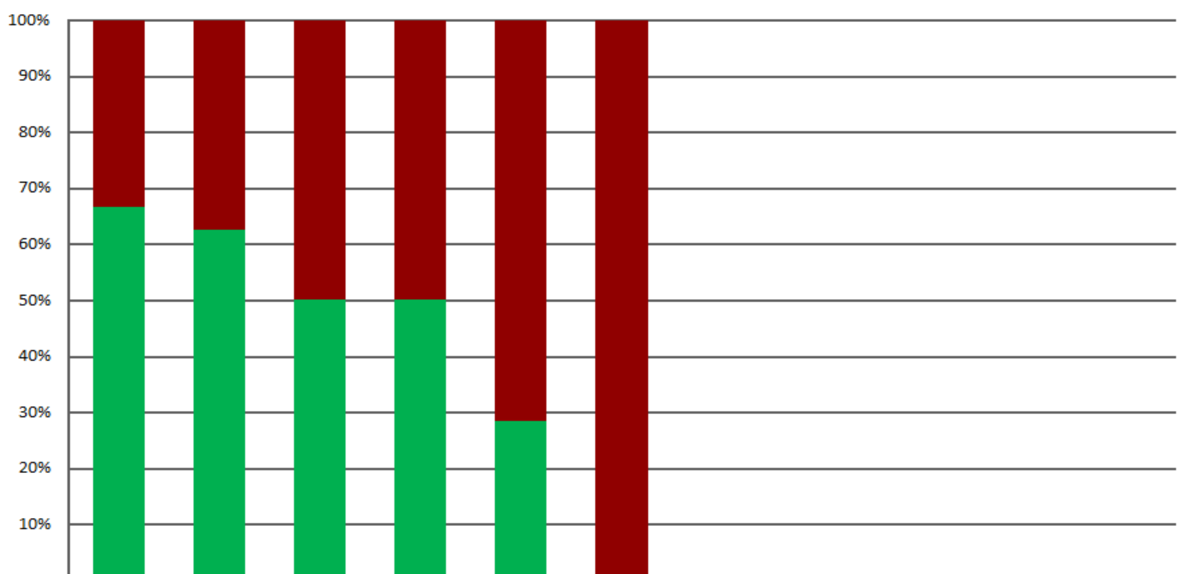
Q2 2015: Scorecard

Q2 2015 Earnings: Above, In-Line, Below Estimates
(Source: FactSet)



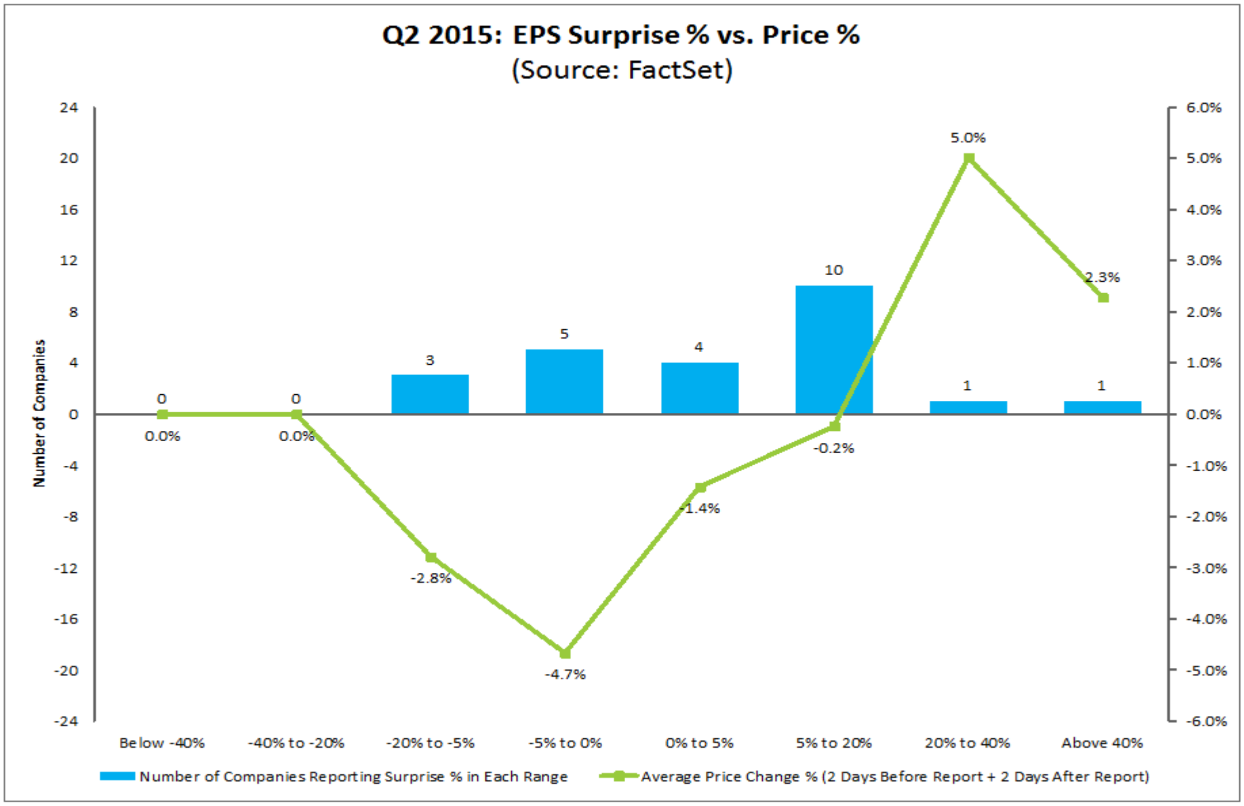
	Consumer Staples	Consumer Disc.	S&P 500	Materials	Info. Technology	Industrials	Health Care	Telecom Services	Utilities	Energy	Financials
Below	14%	25%	33%	50%	50%	100%	0%	0%	0%	0%	0%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	86%	75%	67%	50%	50%	0%	0%	0%	0%	0%	0%

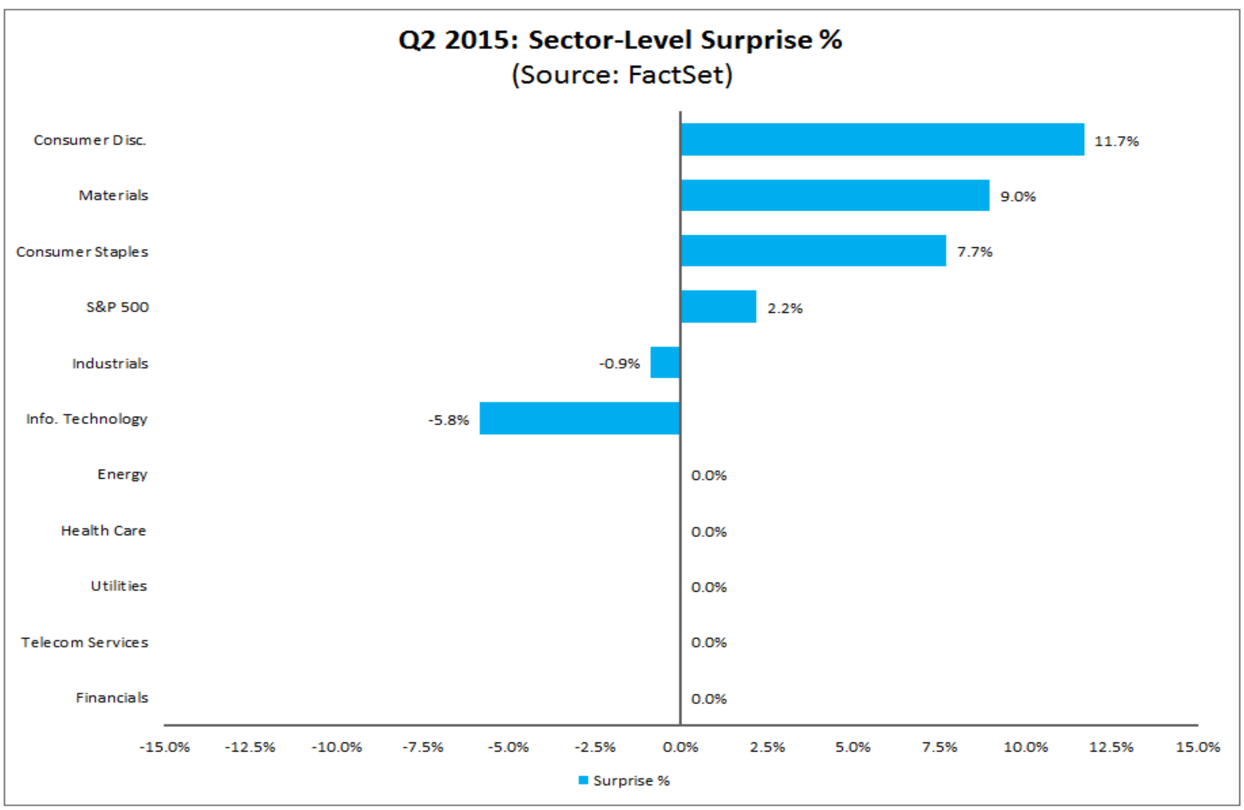
Q2 2015 Revenues: Above, In-Line, Below Estimates
(Source: FactSet)



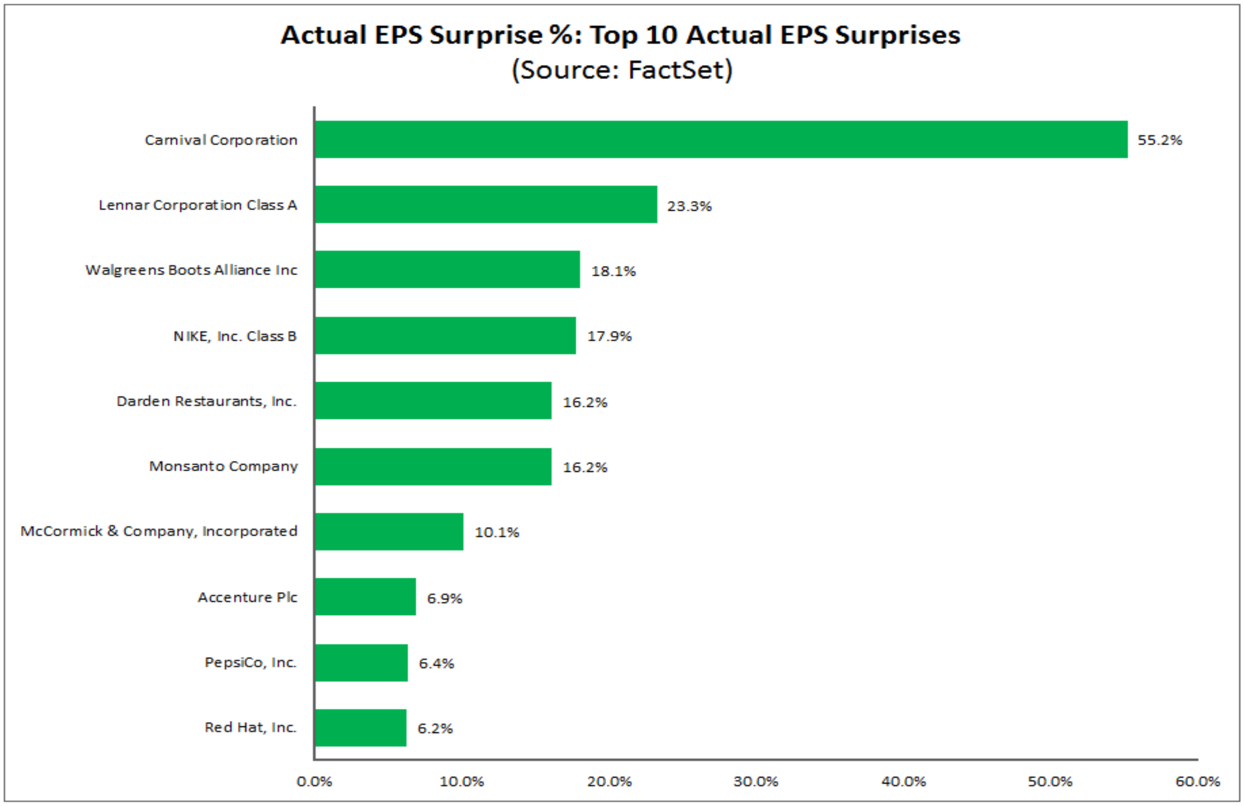
	Info. Technology	Consumer Disc.	S&P 500	Materials	Consumer Staples	Industrials	Health Care	Financials	Energy	Utilities	Telecom Services
Below	33%	38%	50%	50%	71%	100%	0%	0%	0%	0%	0%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	67%	63%	50%	50%	29%	0%	0%	0%	0%	0%	0%

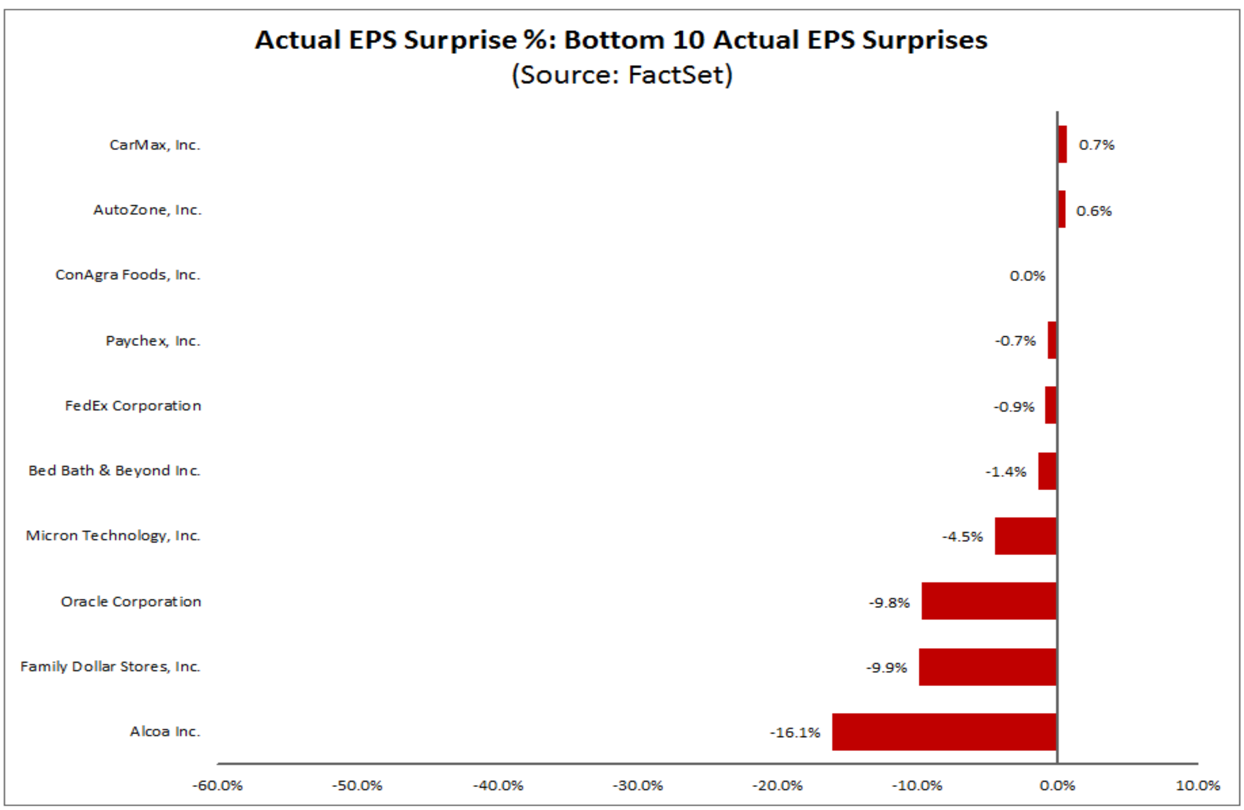
Q2 2015: Scorecard



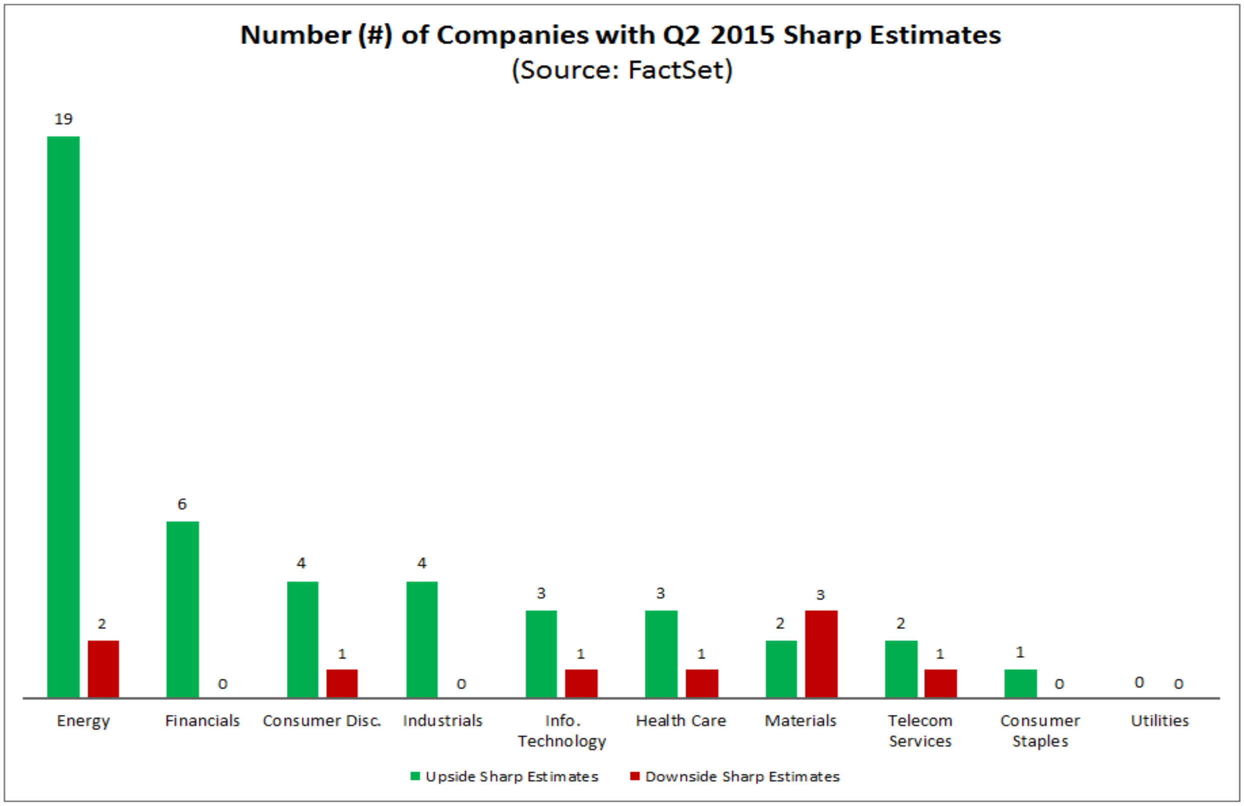


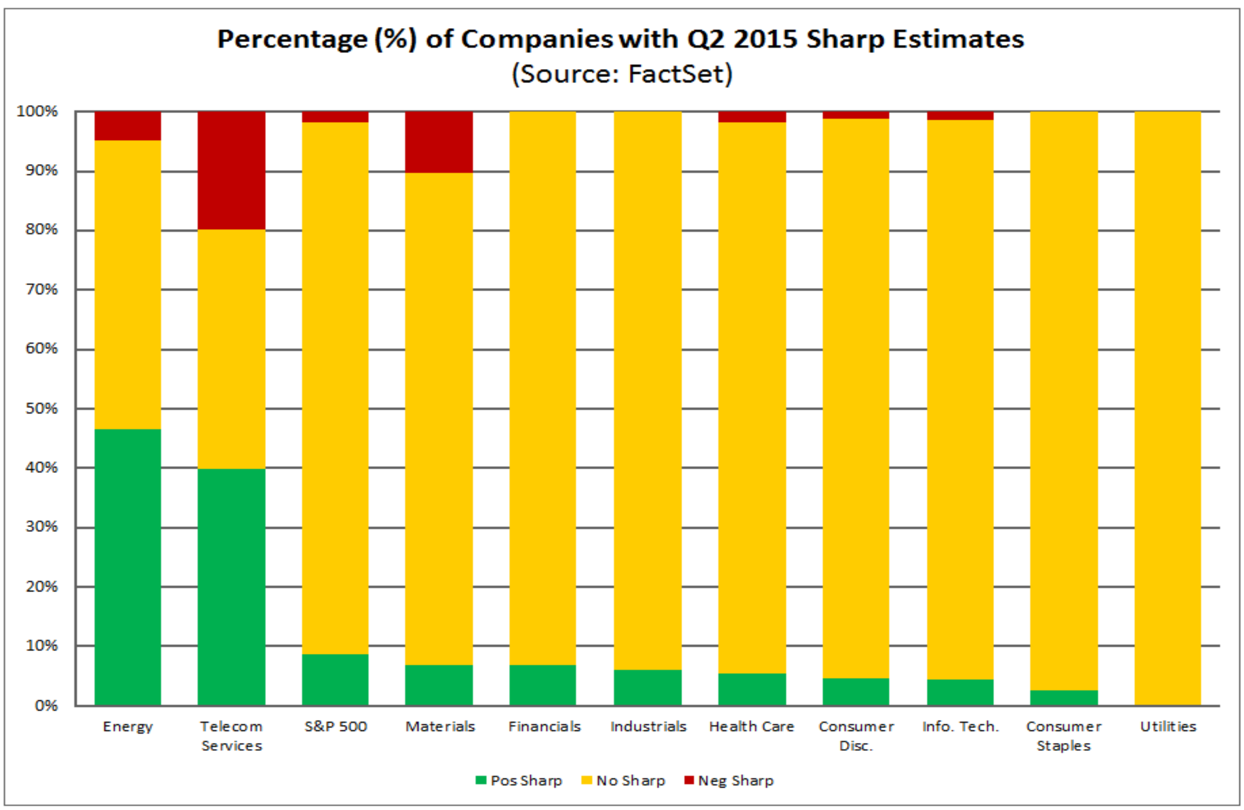
Q2 2015: Scorecard



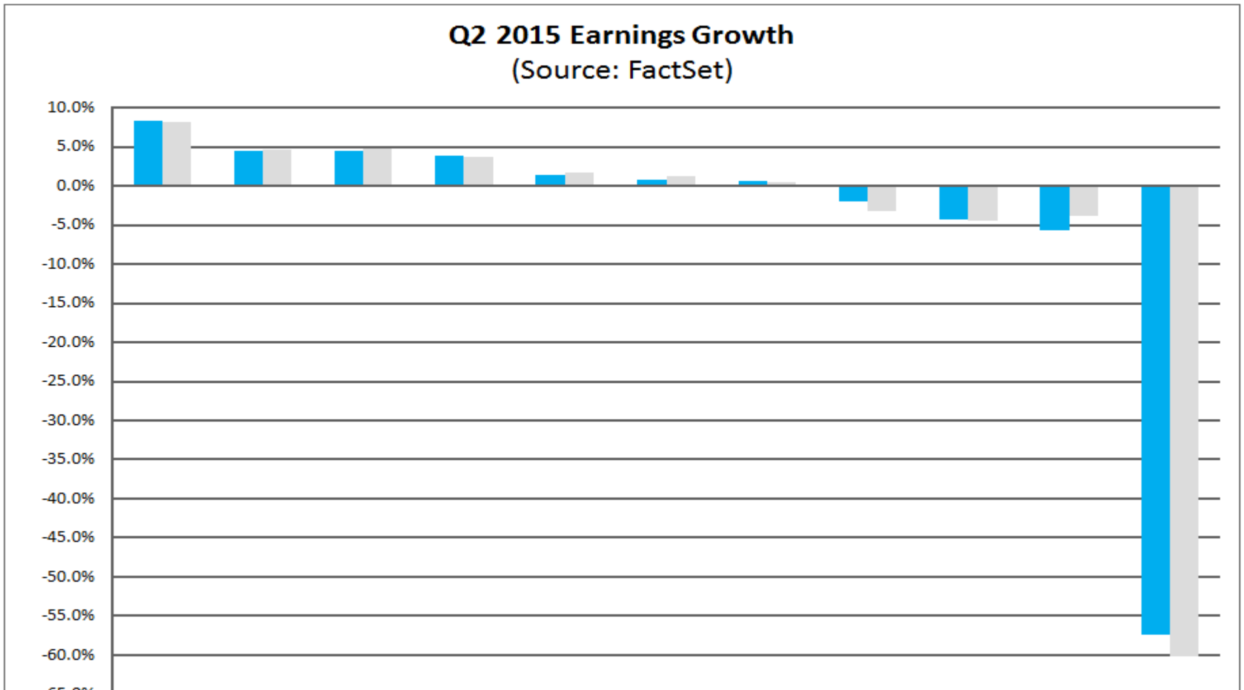


Q2 2015: Projected EPS Surprises (Sharp Estimates)

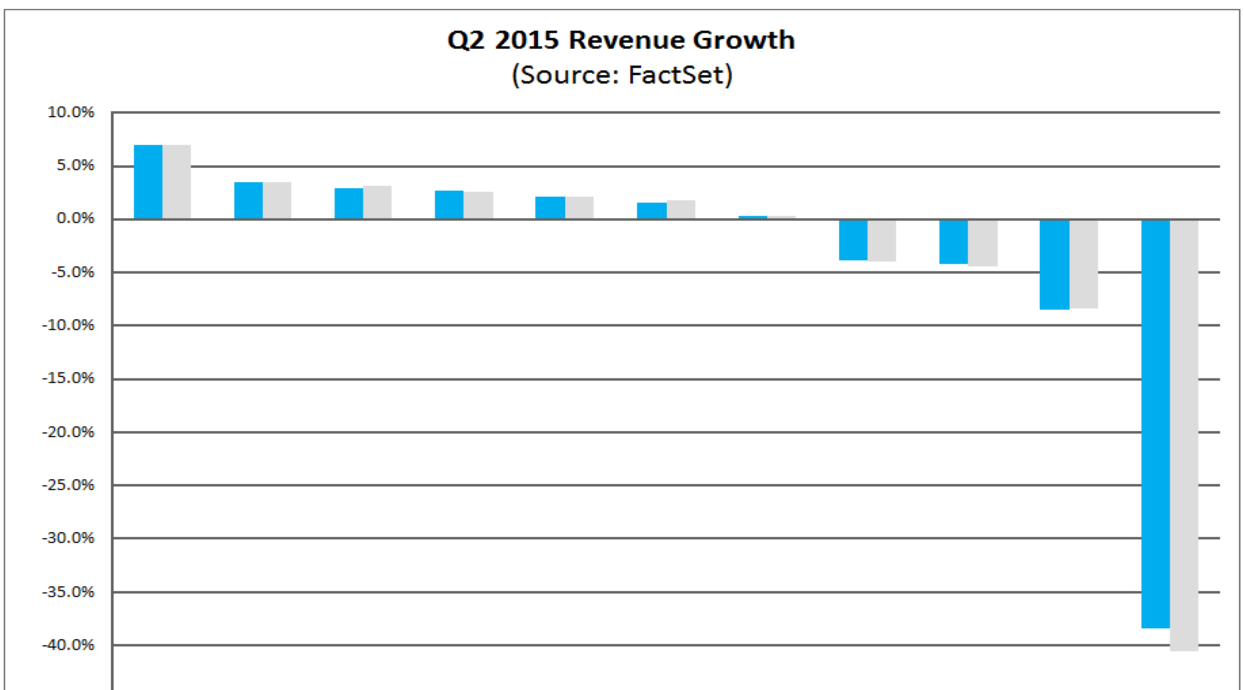




Q2 2015: Growth

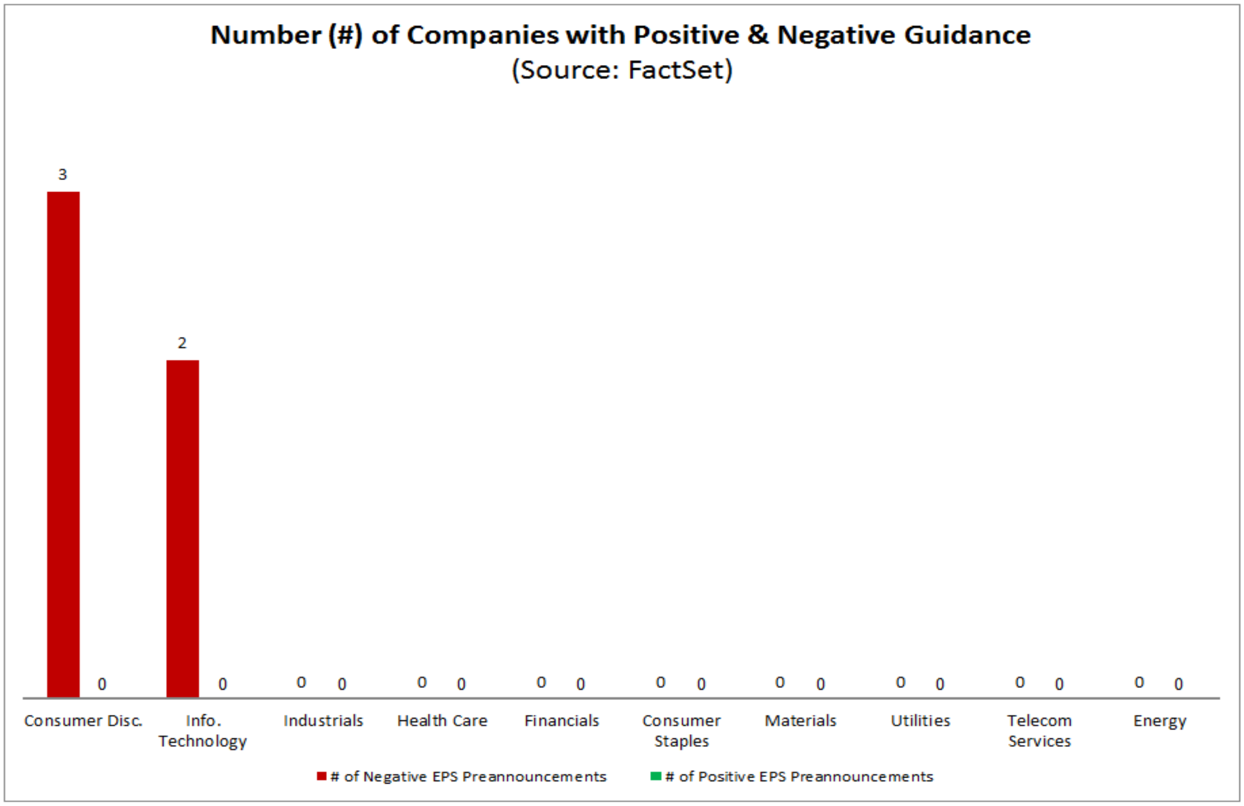


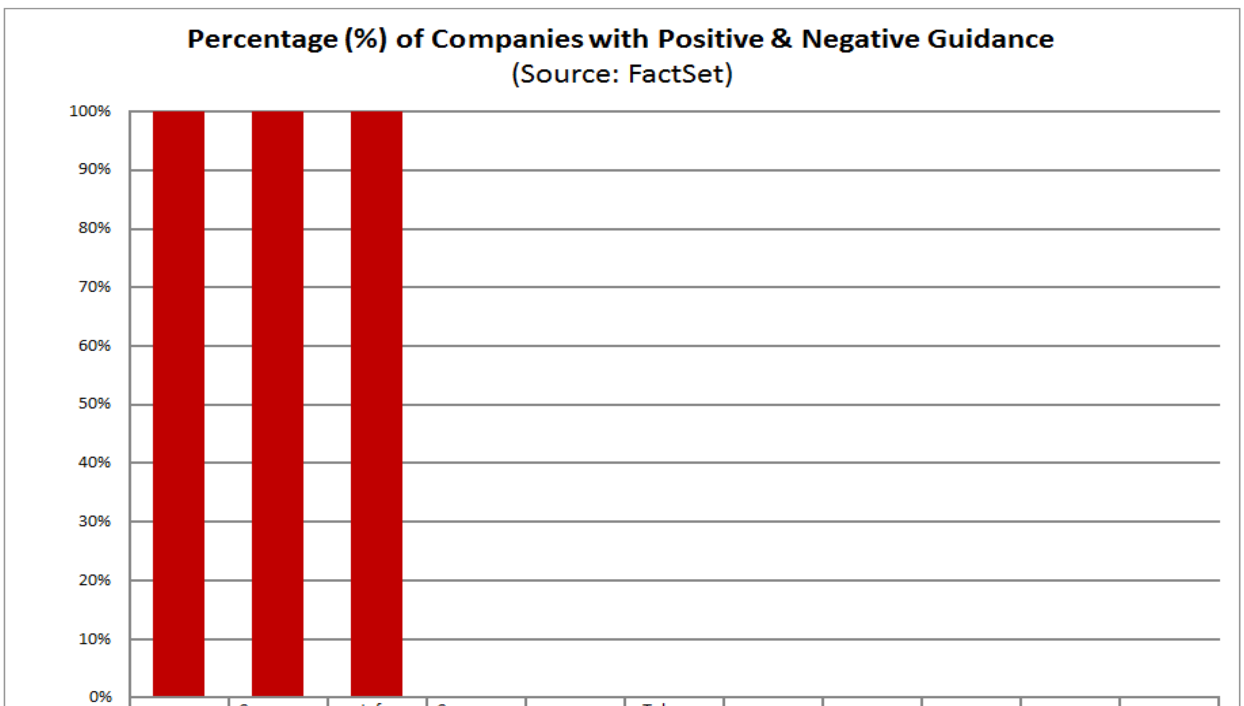
	Health Care	Financials	Consumer Disc.	Telecom Services	Utilities	Materials	Info. Technology	Consumer Staples	S&P 500	Industrials	Energy
Today	8.2%	4.5%	4.5%	3.8%	1.4%	0.8%	0.5%	-2.0%	-4.4%	-5.8%	-57.4%
30-Jun	8.1%	4.5%	4.7%	3.7%	1.7%	1.2%	0.5%	-3.3%	-4.5%	-3.9%	-60.0%



	Health Care	Financials	Telecom Services	Info. Technology	Consumer Disc.	Consumer Staples	Utilities	Industrials	S&P 500	Materials	Energy
Today	7.0%	3.4%	2.9%	2.6%	2.0%	1.5%	0.3%	-3.9%	-4.2%	-8.6%	-38.4%
30-Jun	6.9%	3.5%	3.1%	2.5%	2.1%	1.8%	0.3%	-4.0%	-4.5%	-8.4%	-40.5%

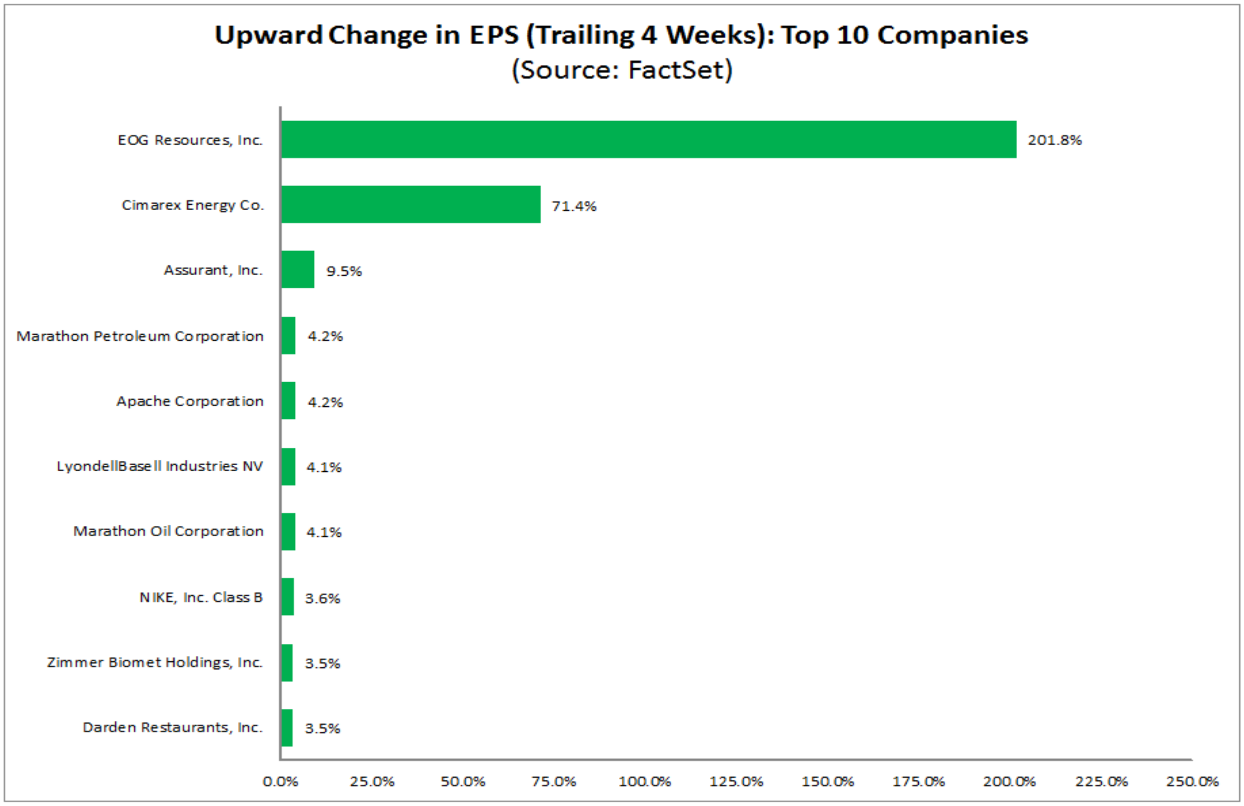
Q3 2015: EPS Guidance

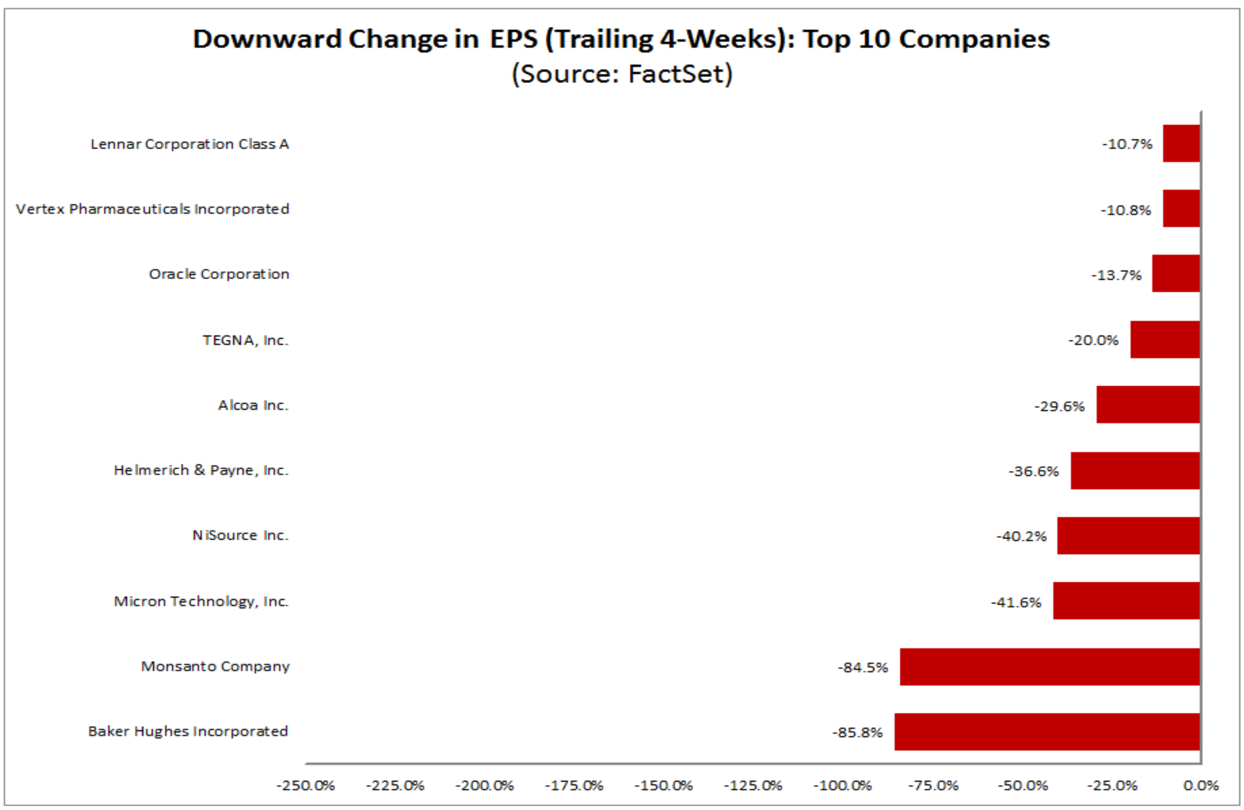




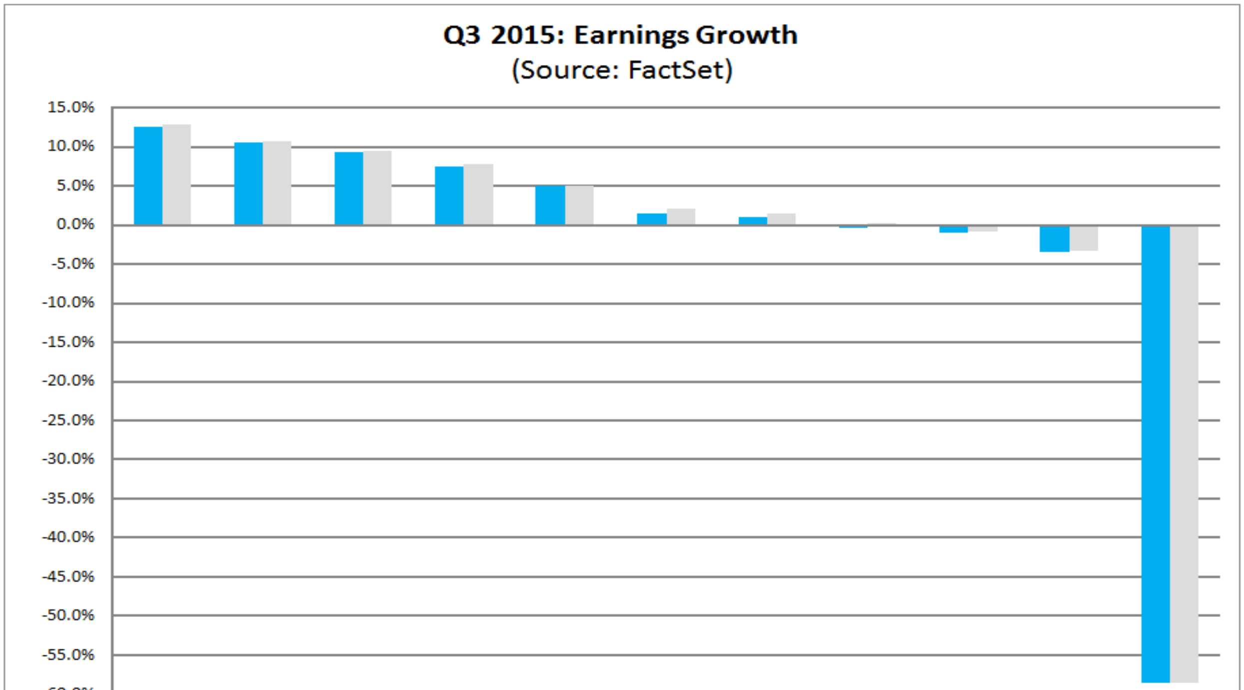
	S&P 500	Consumer Disc.	Info. Technology	Consumer Staples	Utilities	Telecom Services	Industrials	Financials	Materials	Health Care	Energy
Positive	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Negative	100%	100%	100%	0%	0%	0%	0%	0%	0%	0%	0%

Q3 2015: EPS Revisions

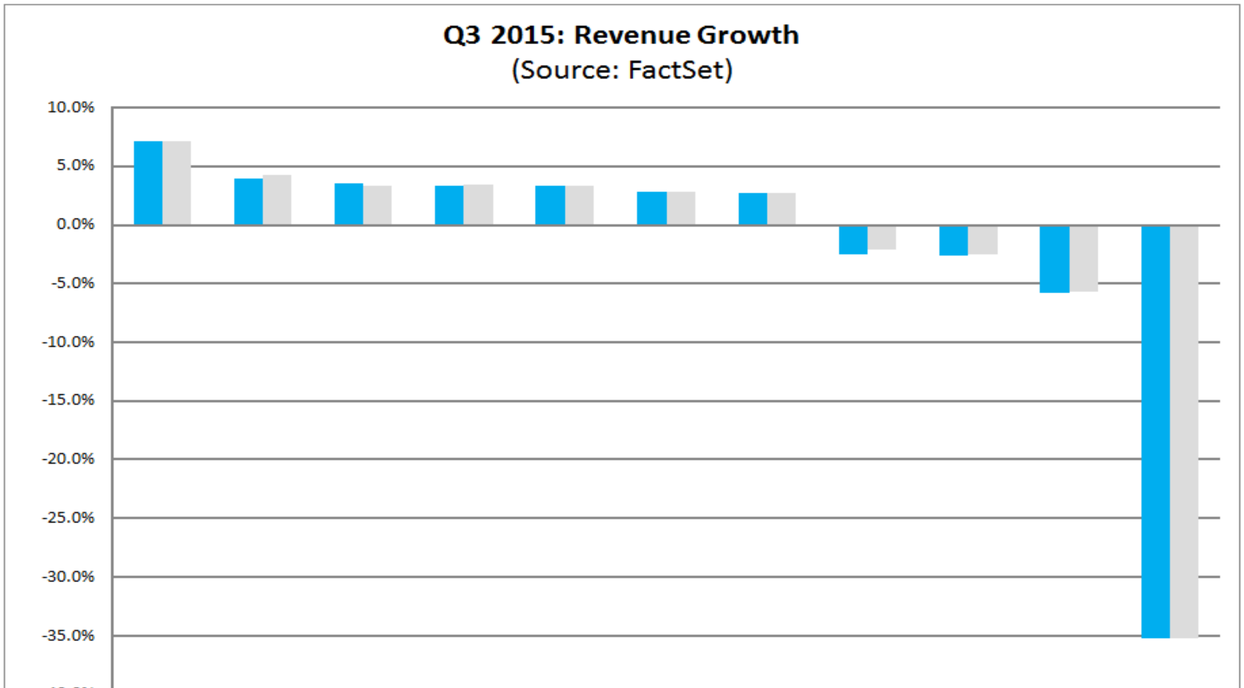




Q3 2015: Growth

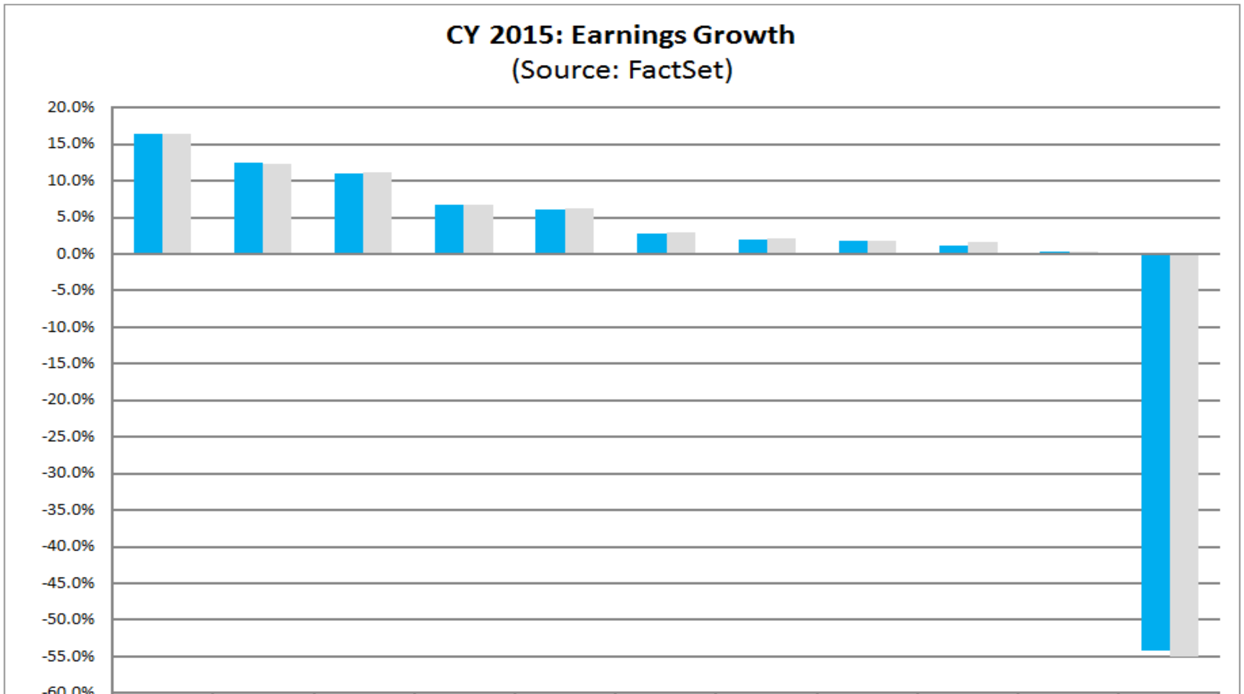


	Consumer Disc.	Financials	Health Care	Telecom Services	Info. Technology	Utilities	Consumer Staples	Industrials	S&P 500	Materials	Energy
Today	12.6%	10.5%	9.3%	7.5%	5.0%	1.5%	0.9%	-0.4%	-1.0%	-3.5%	-58.5%
30-Jun	12.8%	10.6%	9.4%	7.8%	5.0%	2.0%	1.4%	0.1%	-0.9%	-3.4%	-58.5%

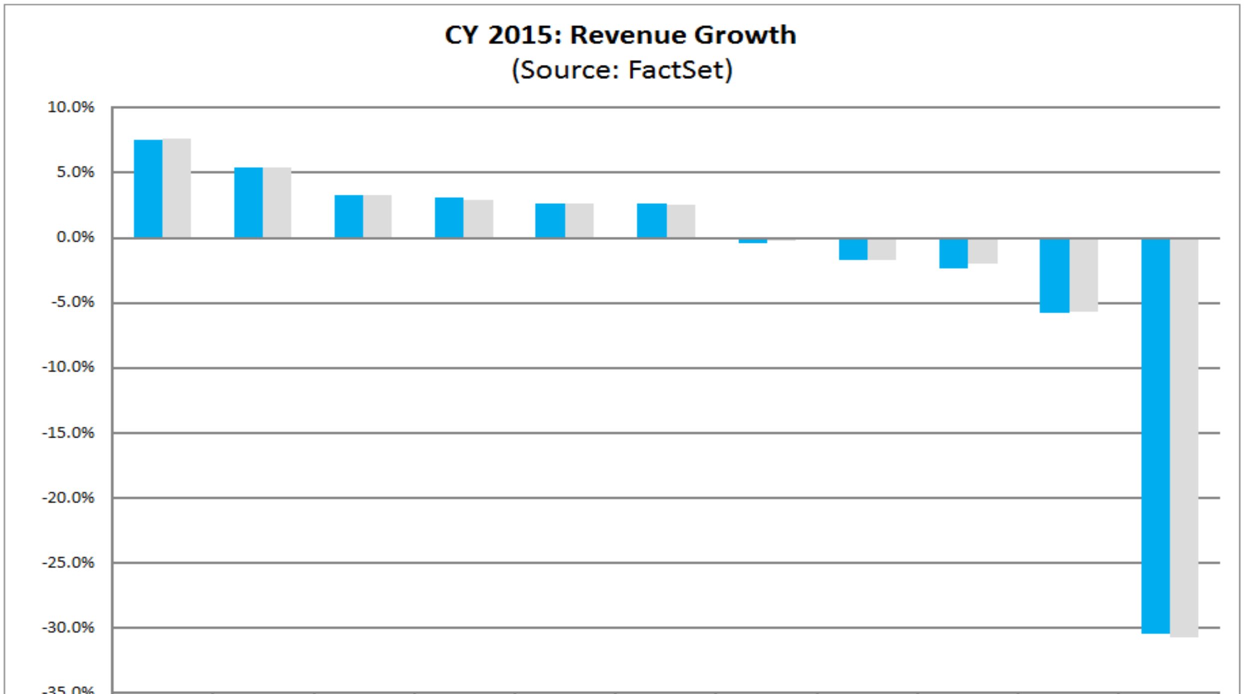


	Health Care	Financials	Telecom Services	Info. Technology	Consumer Disc.	Consumer Staples	Utilities	Industrials	S&P 500	Materials	Energy
Today	7.2%	3.9%	3.5%	3.3%	3.3%	2.7%	2.7%	-2.5%	-2.6%	-5.8%	-35.2%
30-Jun	7.1%	4.2%	3.3%	3.4%	3.3%	2.8%	2.7%	-2.2%	-2.5%	-5.7%	-35.2%

CY 2015: Growth



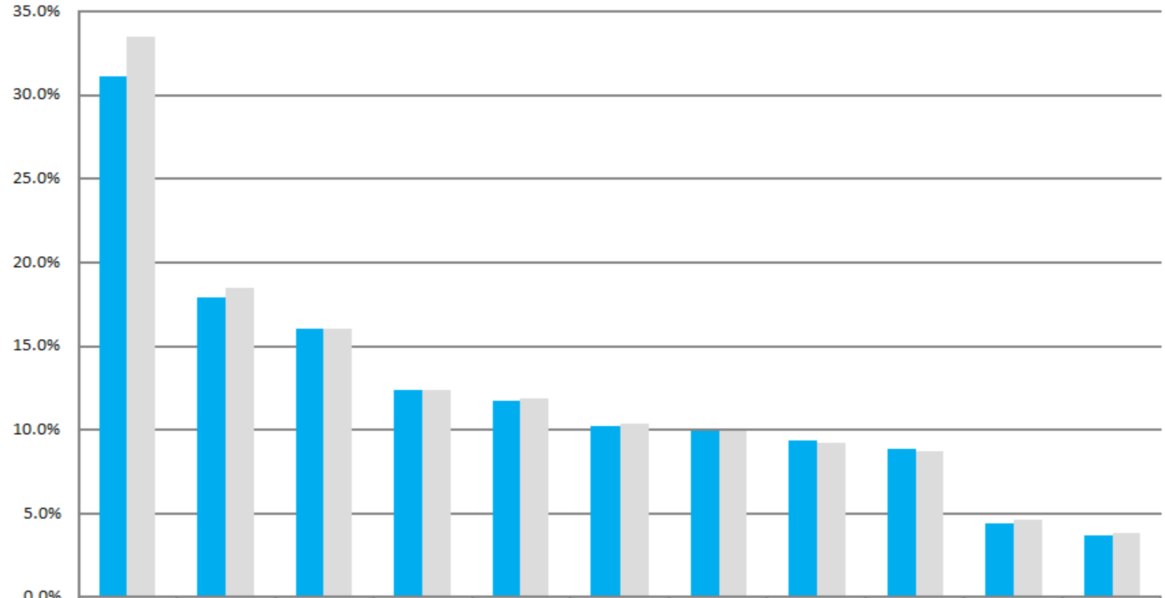
	Financials	Health Care	Consumer Disc.	Info. Technology	Telecom Services	Consumer Staples	Utilities	S&P 500	Industrials	Materials	Energy
Today	16.3%	12.4%	10.9%	6.7%	6.1%	2.7%	1.9%	1.7%	1.0%	0.3%	-54.2%
30-Jun	16.3%	12.3%	11.1%	6.7%	6.2%	2.9%	2.1%	1.8%	1.5%	0.3%	-55.0%



	Health Care	Info. Technology	Consumer Disc.	Consumer Staples	Telecom Services	Financials	Utilities	S&P 500	Industrials	Materials	Energy
Today	7.5%	5.3%	3.2%	3.1%	2.6%	2.6%	-0.4%	-1.8%	-2.4%	-5.8%	-30.4%
30-Jun	7.6%	5.4%	3.3%	2.9%	2.6%	2.5%	-0.2%	-1.8%	-2.1%	-5.7%	-30.6%

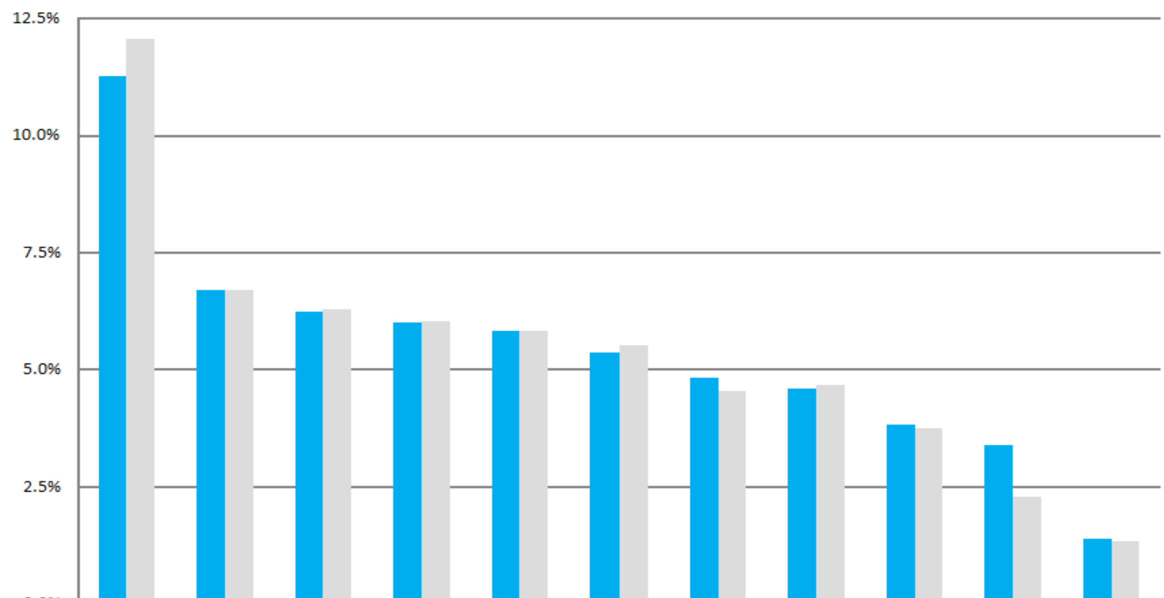
CY 2016: Growth

CY 2016: Earnings Growth
(Source: FactSet)



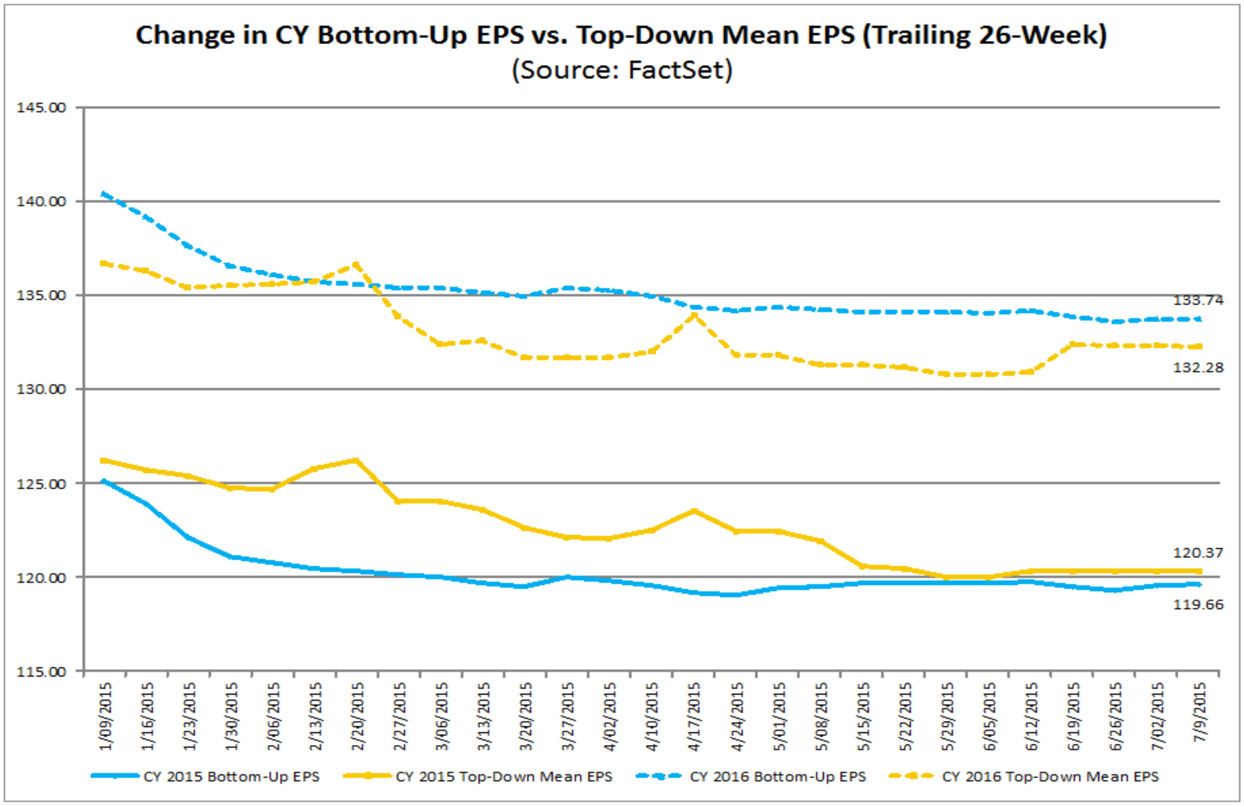
	Energy	Materials	Consumer Disc.	Health Care	S&P 500	Info. Tech.	Financials	Industrials	Consumer Staples	Telecom Services	Utilities
Today	31.1%	17.9%	16.0%	12.4%	11.8%	10.3%	10.0%	9.4%	8.9%	4.4%	3.7%
30-Jun-15	33.5%	18.4%	16.0%	12.4%	11.9%	10.4%	10.0%	9.2%	8.7%	4.6%	3.9%

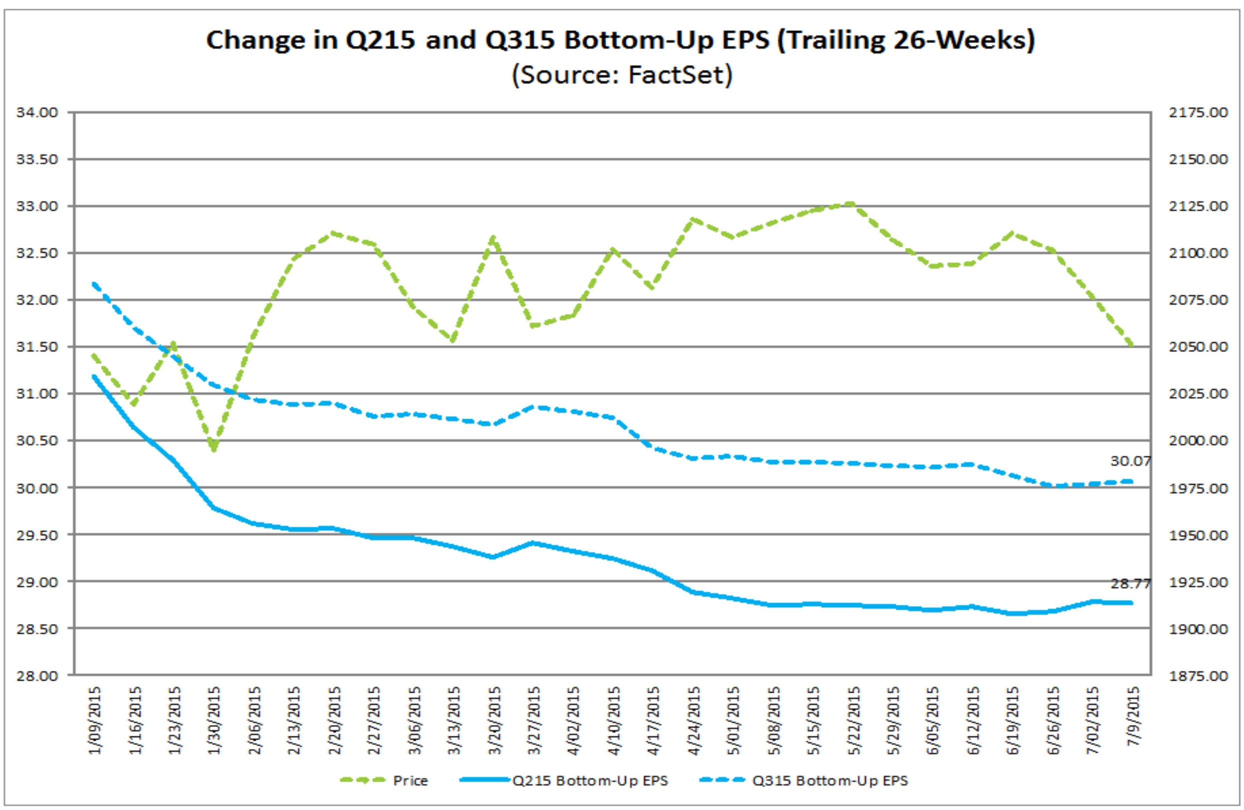
CY 2016: Revenue Growth
(Source: FactSet)



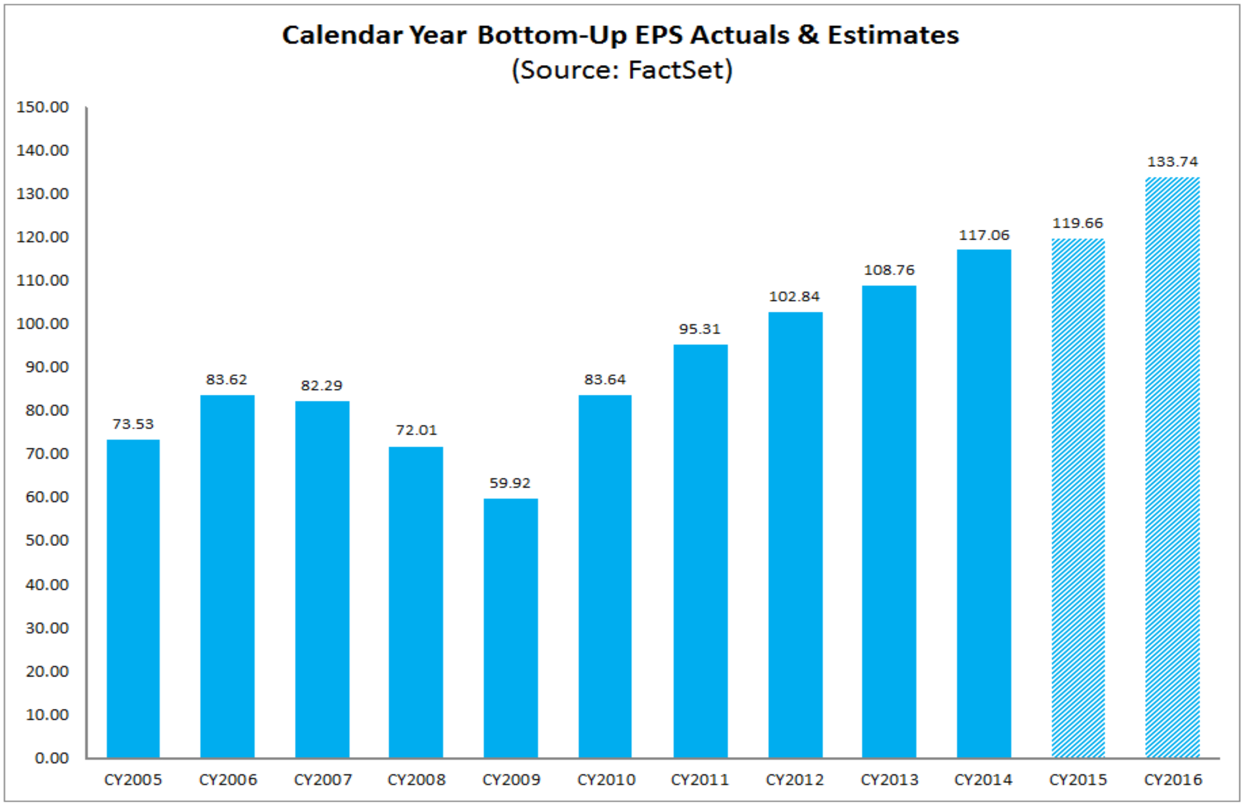
	Energy	Health Care	Consumer Disc.	Info. Technology	S&P 500	Materials	Consumer Staples	Financials	Industrials	Utilities	Telecom Services
Today	11.3%	6.7%	6.2%	6.0%	5.8%	5.4%	4.8%	4.6%	3.8%	3.4%	1.4%
30-Jun-15	12.0%	6.7%	6.3%	6.0%	5.8%	5.5%	4.6%	4.7%	3.8%	2.3%	1.4%

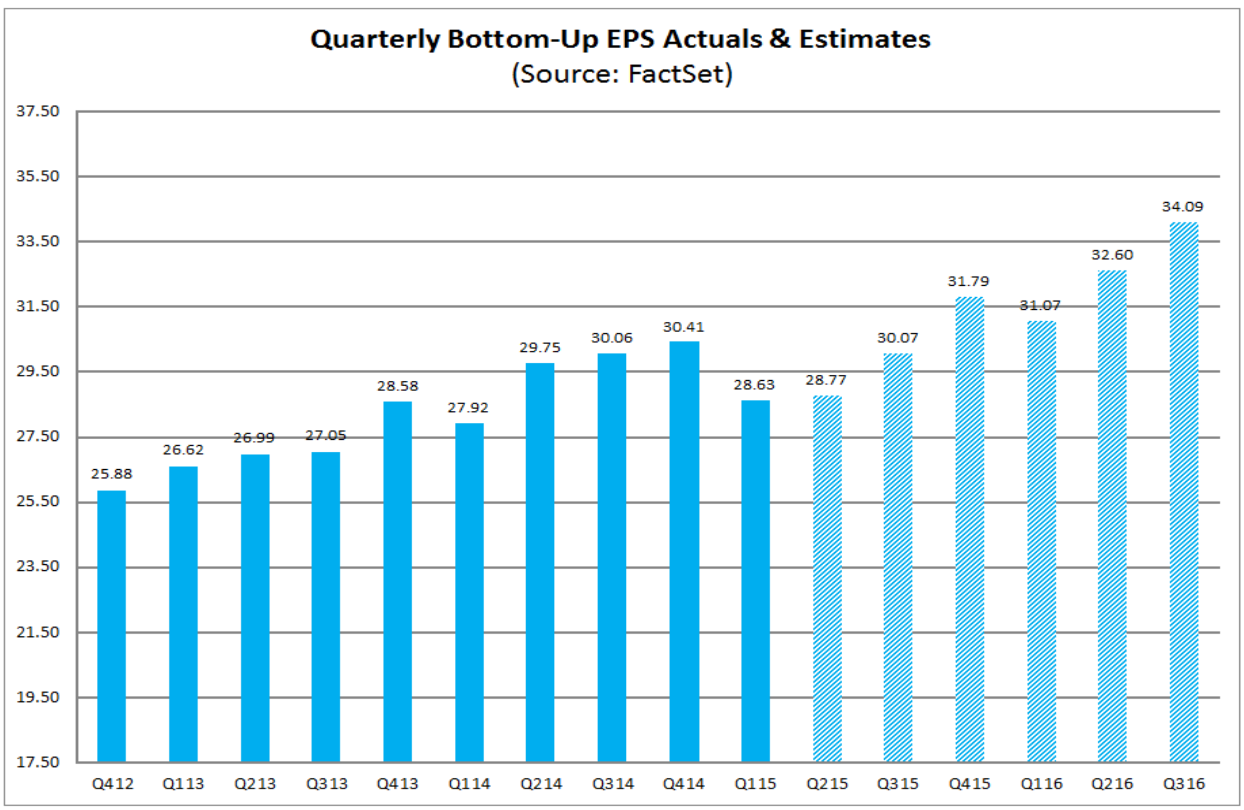
Bottom-up EPS Estimates: Revisions



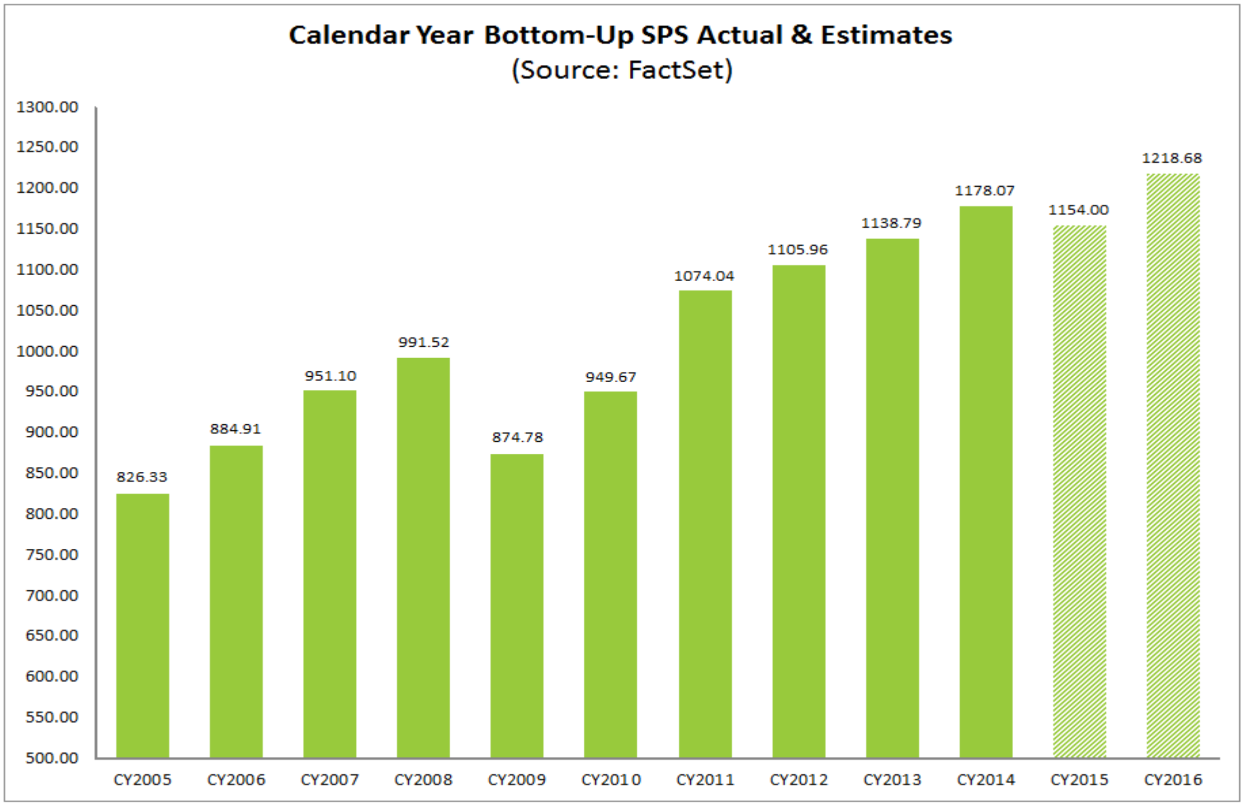


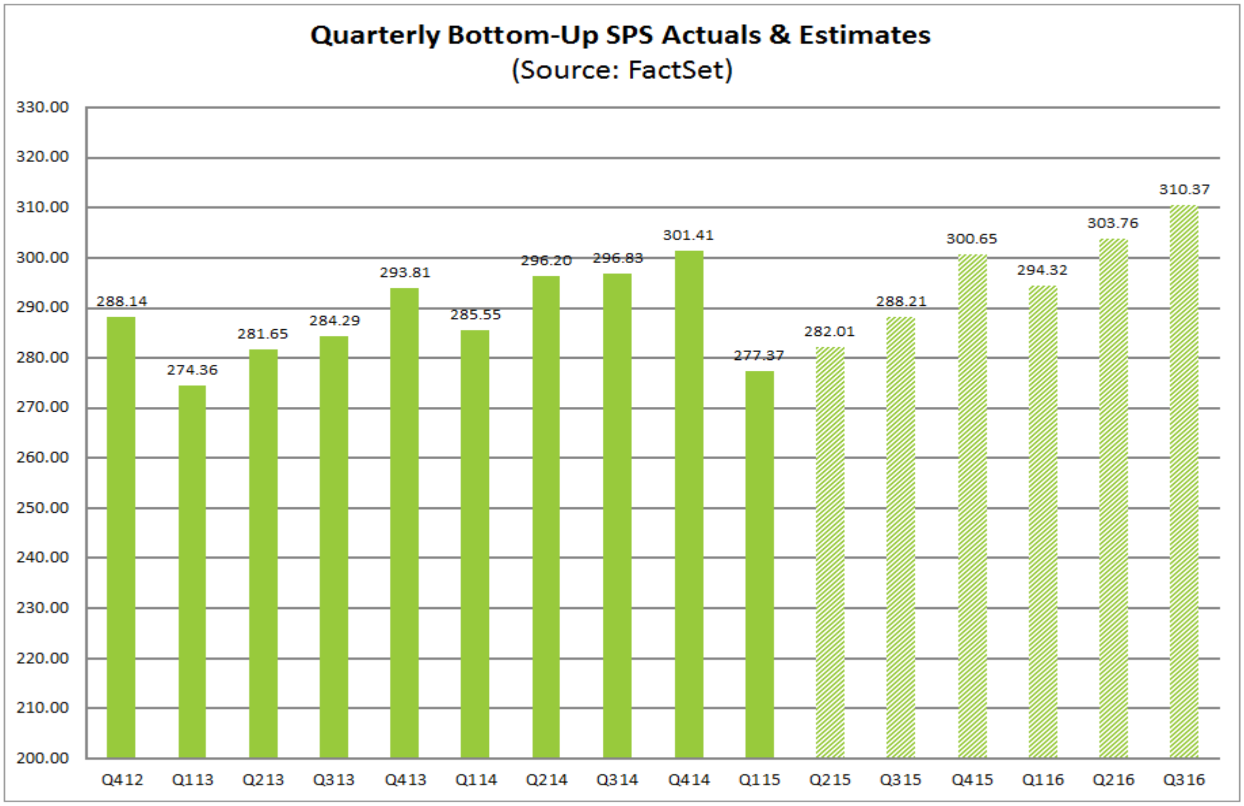
Bottom-up EPS Estimates: Current & Historical



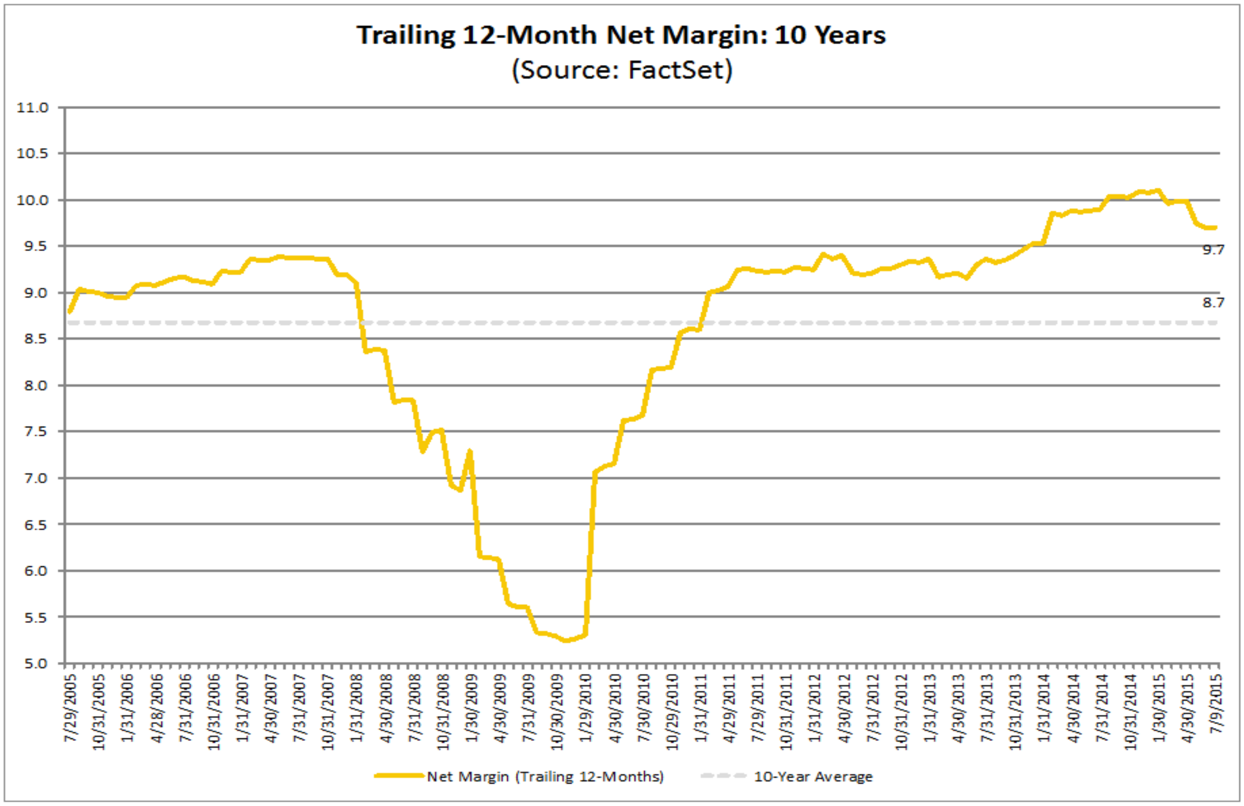


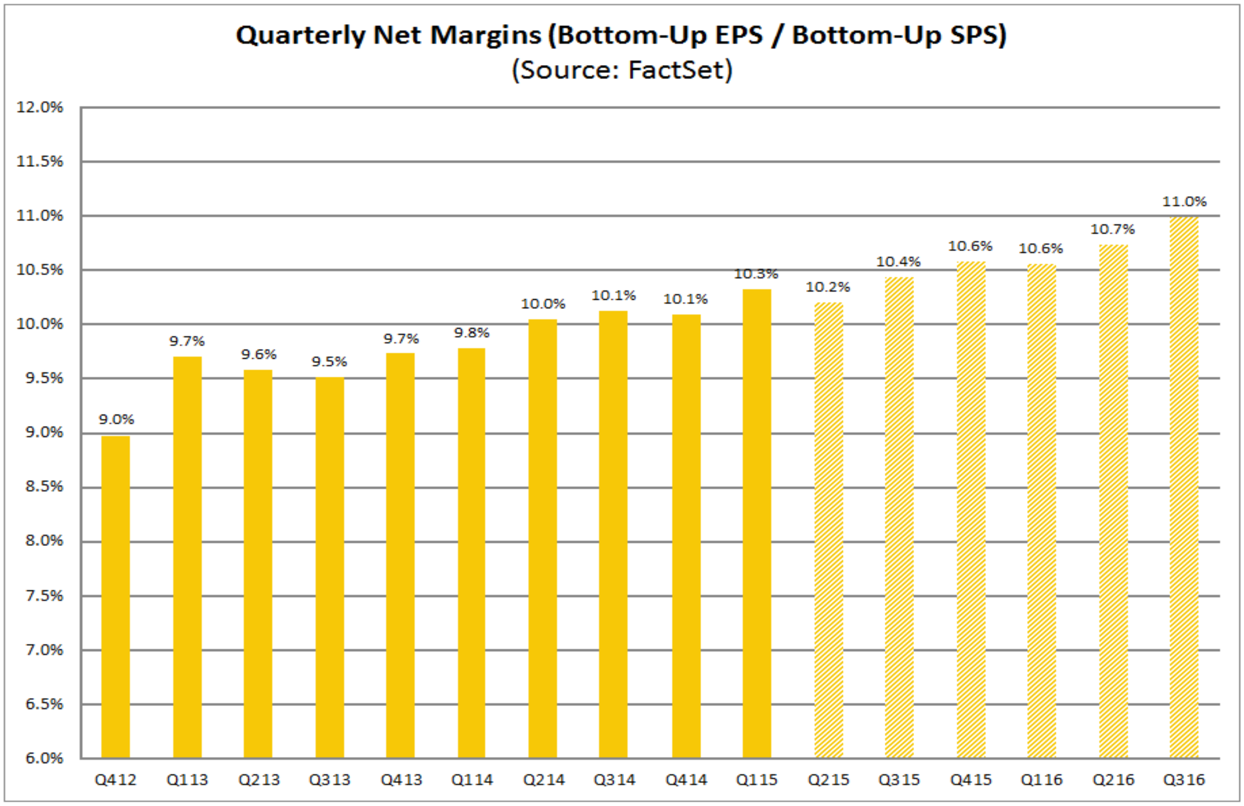
Bottom-up SPS Estimates: Current & Historical



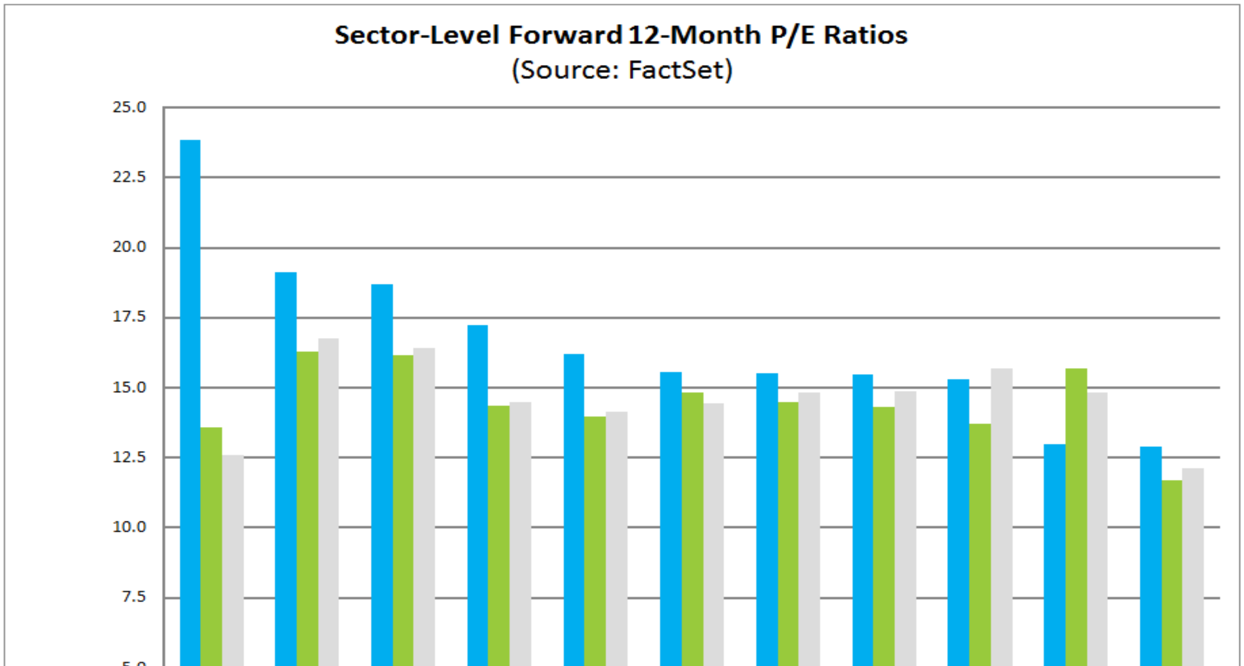


Net Margins: Current & Historical

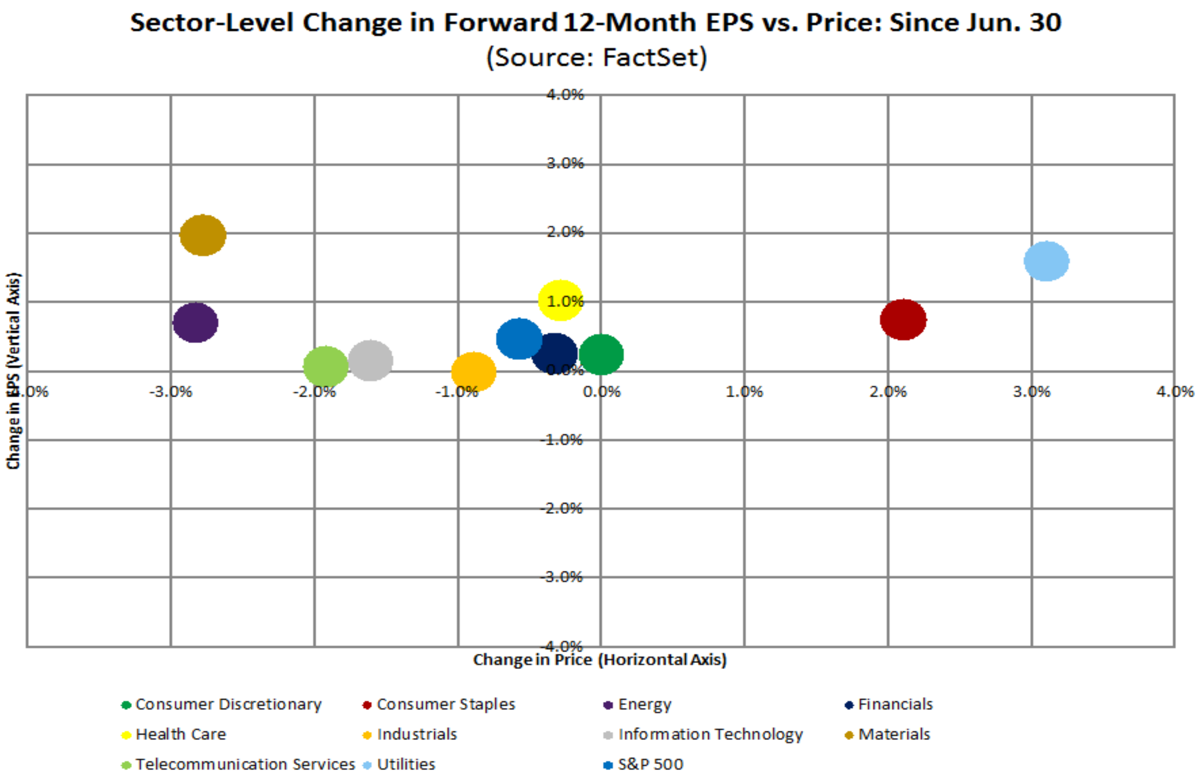




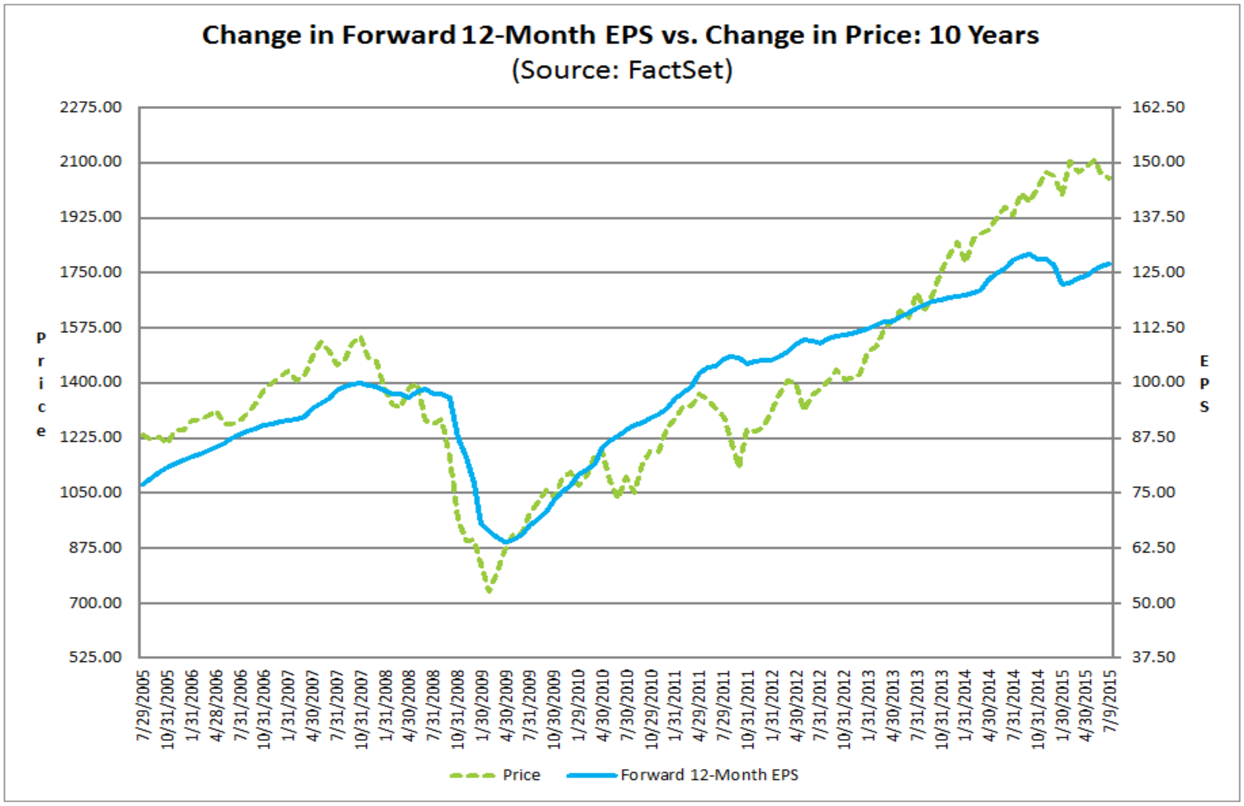
Forward 12M Price / Earnings Ratio: Sector Level

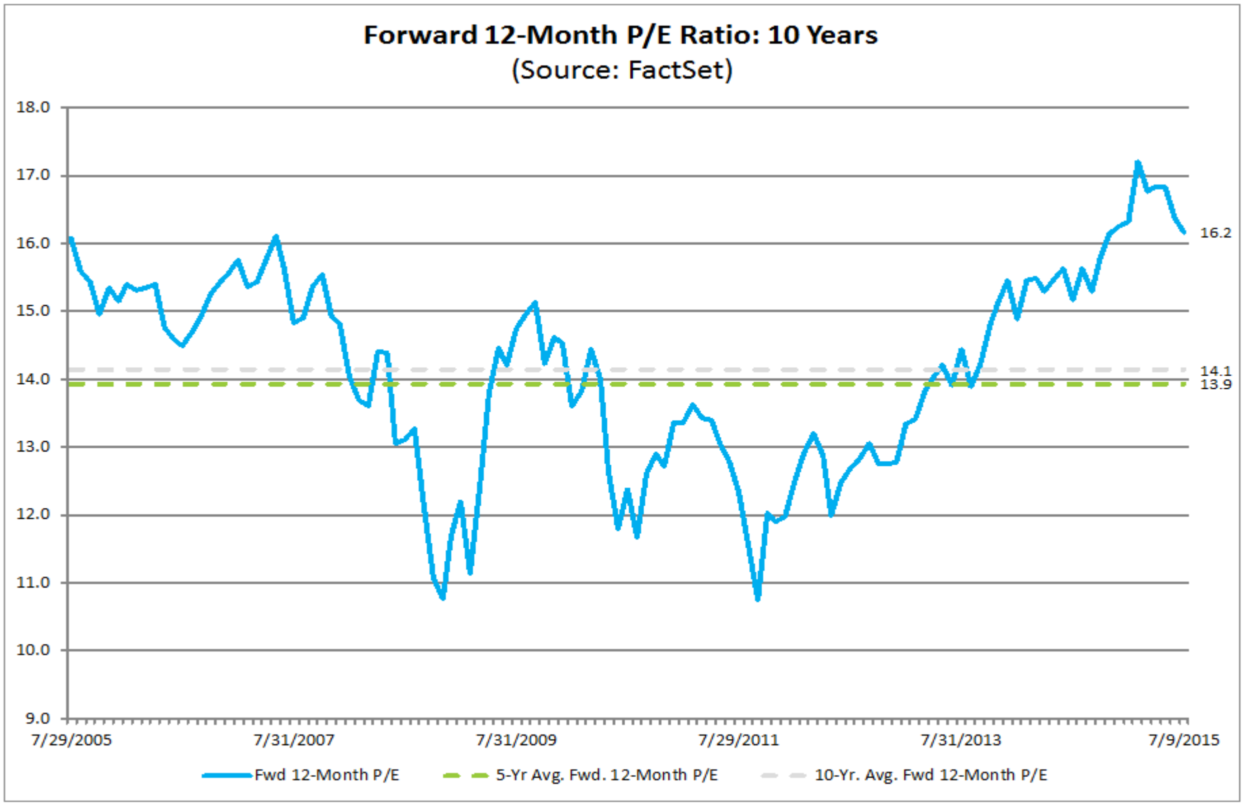


	Energy	Consumer Staples	Consumer Disc.	Health Care	S&P 500	Utilities	Industrials	Materials	Info. Technology	Telecom Services	Financials
Fwd 12M P/E	23.8	19.1	18.7	17.2	16.2	15.5	15.5	15.5	15.3	13.0	12.9
5-Yr Avg.	13.6	16.3	16.1	14.3	13.9	14.8	14.5	14.3	13.7	15.7	11.7
10-Yr Avg.	12.6	16.7	16.4	14.5	14.1	14.4	14.8	14.9	15.7	14.8	12.1

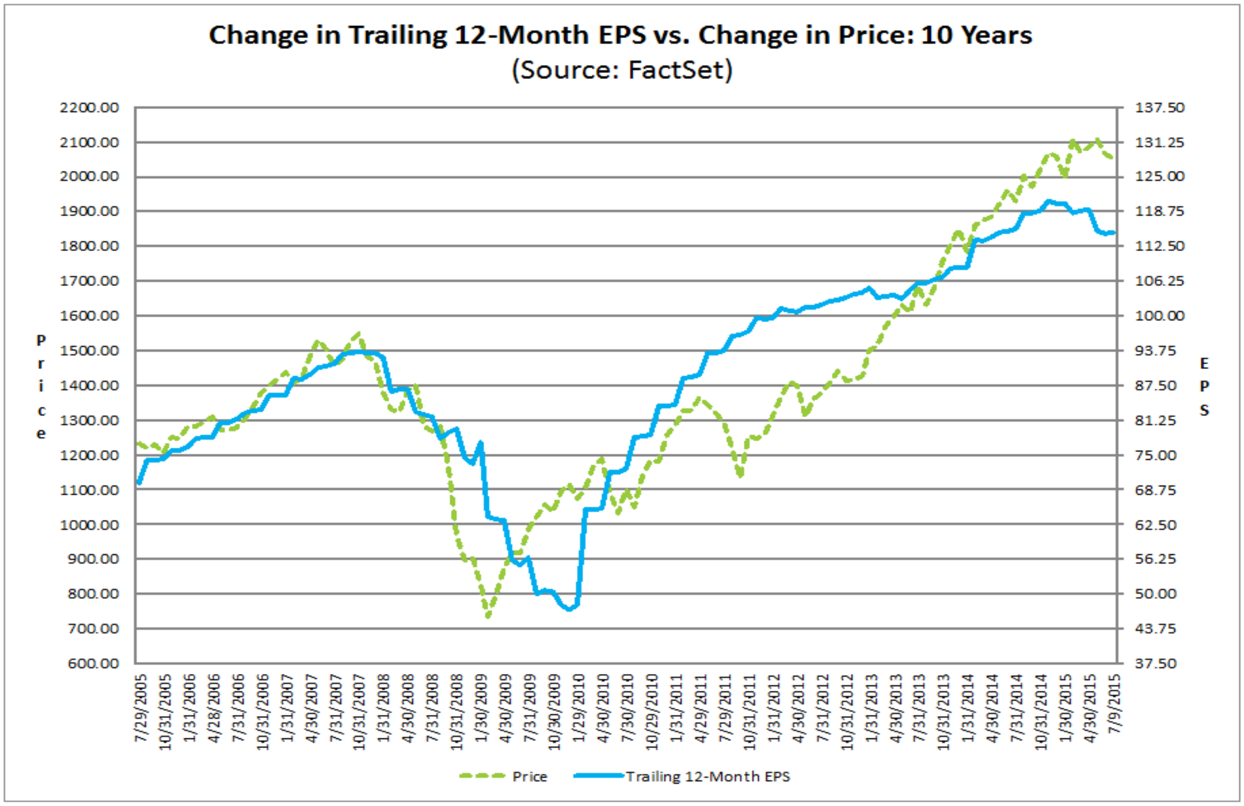


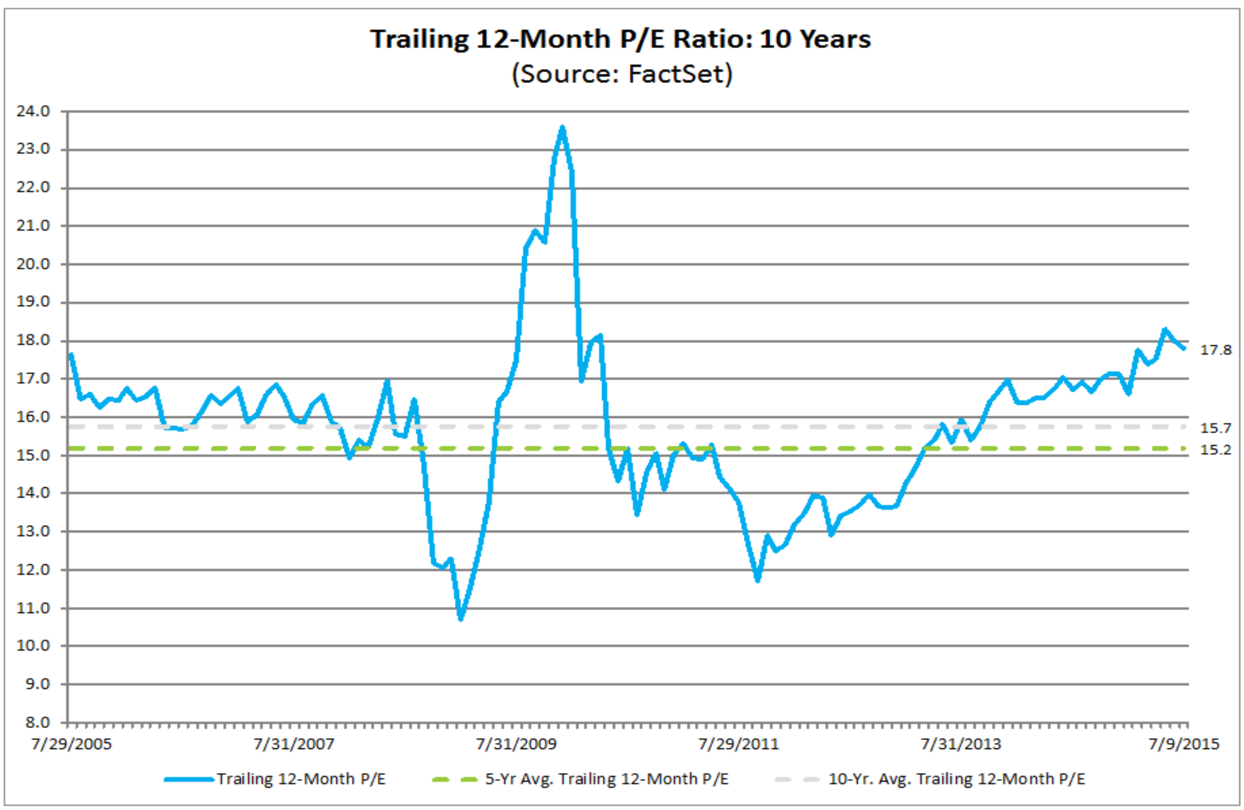
Forward 12M Price / Earnings Ratio: Long-Term Averages





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





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