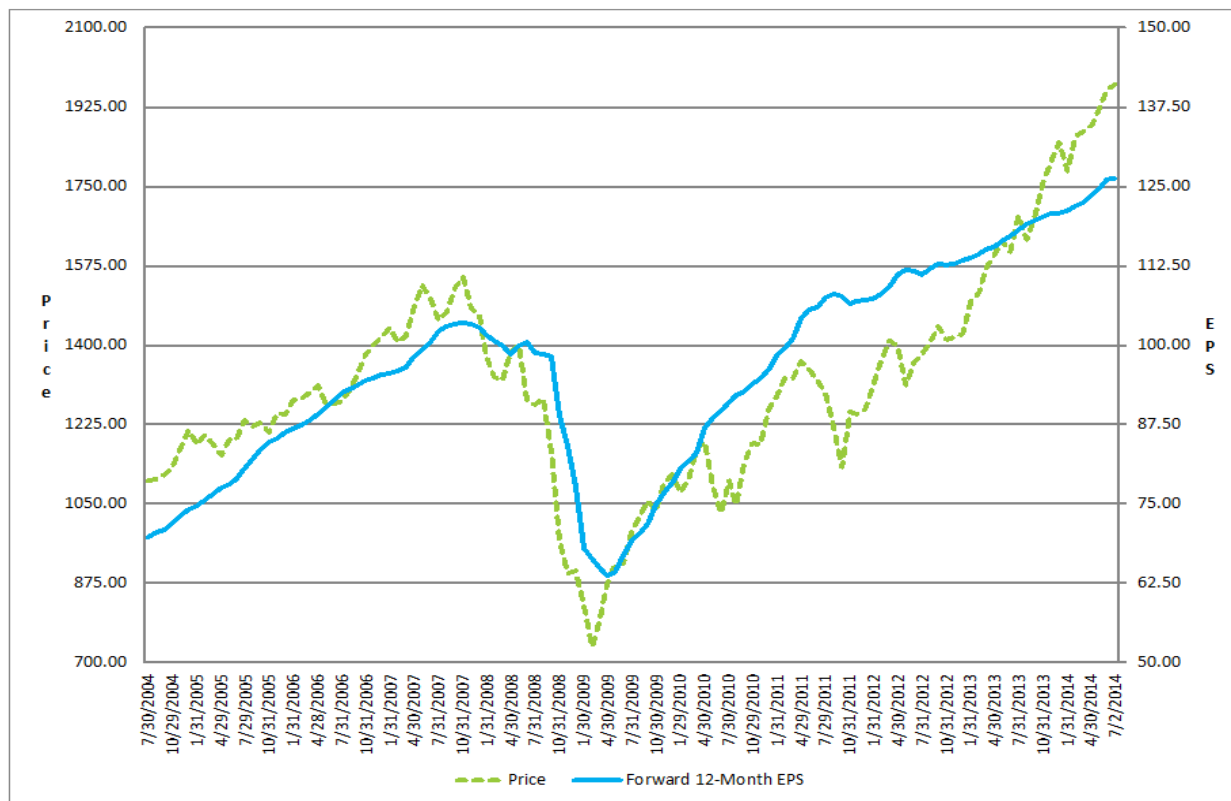


Key Metrics

- + **Earnings Growth:** The estimated earnings growth rate for Q2 2014 is 4.9%. The Telecom Services sector is expected to report the highest earnings growth for the quarter, while the Financials sector is expected to report the lowest earnings growth for the quarter.
- + **Earnings Revisions:** On March 31, the estimated earnings growth rate for Q2 2014 was 6.8%. Seven of the ten sectors have lower growth rates today (compared to March 31) due to downward revisions to earnings estimates, led by the Materials sector.
- + **Earnings Guidance:** For Q2 2014, 84 companies have issued negative EPS guidance and 27 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-month forward P/E ratio is 15.7. This P/E ratio is based on Wednesday's closing price (1974.62) and forward 12-month EPS estimate (\$126.17).
- + **Earnings Scorecard:** Of the 22 companies that have reported earnings to date for Q2 2014, 73% have reported earnings above the mean estimate and 68% have reported sales above the mean estimate.

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



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

Topic of the Week

Is the S&P 500 Overvalued?

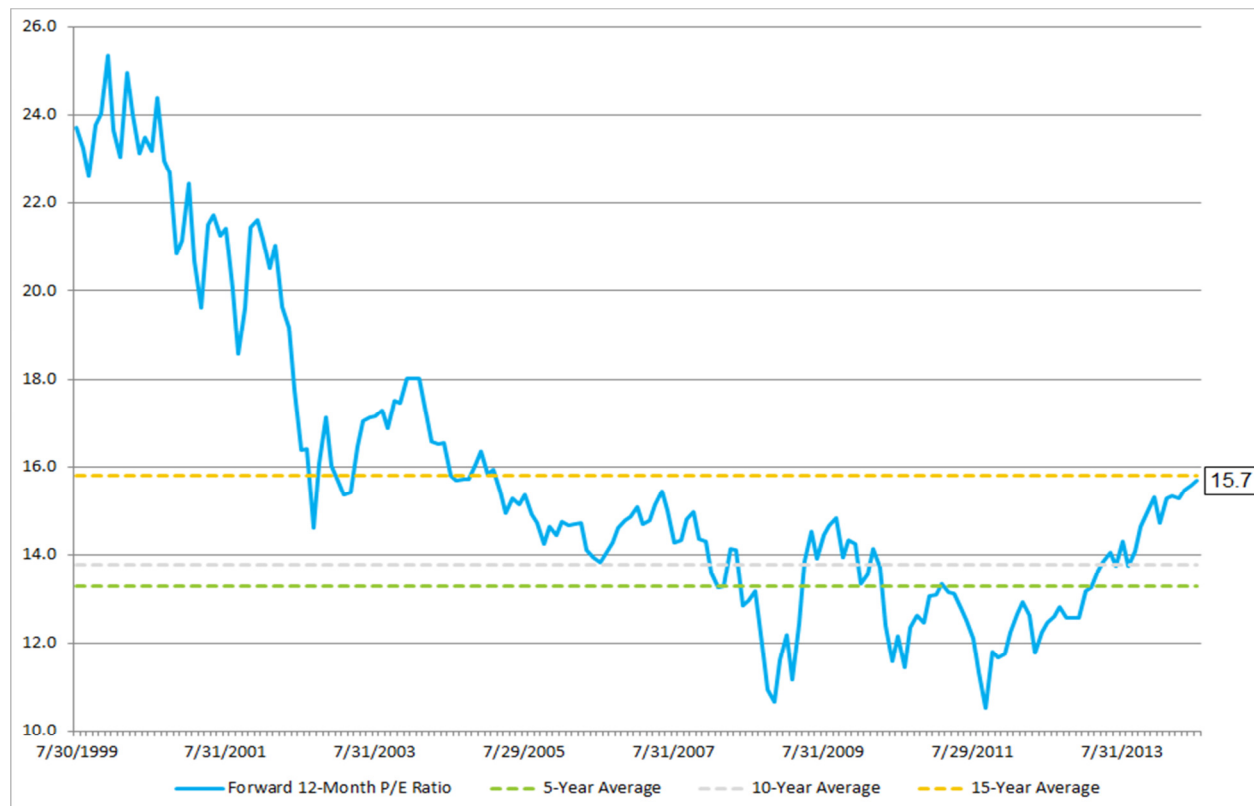
Yesterday, the value of the S&P 500 index closed at yet another all-time high. The forward 12-month P/E ratio for the S&P 500 now stands at 15.7, based on yesterday's closing price (1974.62) and forward 12-month EPS estimate (\$126.17). Given the record high values driving the "P" in the P/E ratio, how does this 15.7 P/E ratio compare to historical averages?

The current forward 12-month P/E ratio is above both the 5-year average (13.3) and the 10-year average (13.8). The P/E ratio has been above the 5-year average for more than a year (since January 2013), while it has been above the 10-year average for the past ten months (since August 2013). With the forward P/E ratio well above the 5-year and 10-year averages, one could argue that the index may now be overvalued.

On the other hand, the current forward 12-month P/E ratio is still (slightly) below the 15-year average (15.8). During the first two years of this time frame (1999 – 2001), the forward 12-month P/E ratio was consistently above 20.0, peaking at around 25.0 at various points in time. With the forward P/E ratio still below the 15-year average and not close to the higher P/E ratios recorded in the early years of this period, one could argue that the index may still be undervalued.

It is interesting to note that the forward 12-month P/E ratio would be even higher if analysts were not projecting record-level EPS for the next four quarters. At this time, the Q4 2013 quarter has the record for the highest bottom-up EPS at \$28.80. However, industry analysts are projecting EPS for each of the next four quarters to exceed this record amount. In aggregate, they are calling for 11.7% growth in EPS over the next four quarters (Q314 – Q215), compared to the previous four quarters (Q313 – Q214). For more details on the quarterly bottom-up EPS estimates, please see page 19.

S&P 500 Forward 12-Month P/E Ratio: 15 Years



Q2 2014 Earnings Season: Overview

Analysts Have Not Slashed Earnings Expectations for Q2 to Date

Slight Drop in Earnings Growth Rate This Week

The estimated earnings growth rate for the second quarter is 4.9% this week, slightly below the estimated growth rate of 5.1% last week. Small downward revisions to EPS estimates for companies in the Financials and Consumer Discretionary sectors were partially offset by small upward revisions to EPS estimates for companies in the Energy sector, resulting in the small decline in the overall earnings growth rate for the index during the week.

In the Financials sector, analysts lowered estimates for Bank of America (to \$0.28 from \$0.29), JPMorgan Chase (to \$1.30 from \$1.31), and Citigroup (to \$1.11 from \$1.12) during the week. As a result, the estimated earnings growth rate for the Financials sector fell to -3.2% from -2.7% over this period.

In the Consumer Discretionary sector, analysts cut estimates for General Motors (to \$0.86 from \$0.91) during the week. As a result, the estimated earnings growth rate for the Consumer Discretionary sector decreased to 9.3% from 9.7% over this period.

In the Energy sector, analysts raised estimates for ExxonMobil (to \$1.86 from \$1.84), Chevron (to \$2.74 from \$2.71), and ConocoPhillips (to \$1.59 from \$1.57) during the week. As a result, the estimated earnings growth rate for the Energy sector rose to 8.6% from 8.2% over this period.

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

The estimated earnings growth rate for Q2 2014 of 4.9% is below the estimate of 6.8% at the start of the quarter (March 31). Seven of the ten sectors have recorded a decline in expected earnings growth since the start of the quarter due to downward revisions to earnings estimates, led by the Materials, Financials, Telecom Services, and Consumer Discretionary sectors. Two sectors have recorded an increase in expected earnings growth over this time due to upward revisions to earnings estimates, led by the Health Care sector. The Information Technology sector has recorded no net change in expected earnings growth (7.4%) since March 31.

The Materials sector has witnessed the largest dip in expected earnings growth (to 7.4% from 17.7%) since the start of the quarter. Companies in the Metals & Mining industry have seen major reductions to EPS estimates during this time, including Allegheny Technologies (to \$0.00 from \$0.02), Nucor (to \$0.46 from \$0.66), and Freeport McMoRan Copper (to \$0.54 from \$0.71).

The Financials sector (along with the Telecom Services Sector) has seen the second largest decline in expected earnings growth (to -3.2% from 1.6%) since the beginning of the quarter. Companies in the Insurance industry have recorded large cuts to EPS estimates during this time, including Allstate (to \$0.89 from \$1.19) and Hartford Financial Services (to \$0.66 from \$0.85).

The Telecom Services sector (along with the Financials sector) has recorded the second largest drop in expected earnings growth (to 21.9% from 26.7%) since the beginning of the quarter. Companies that have seen the sharpest cuts to estimates during this time include Frontier Communications (to \$0.04 from \$0.06), Windstream Holdings (to 0.08 from 0.09), and AT&T (to \$0.64 from \$0.70).

The Consumer Discretionary sector has witnessed the third largest decline in expected earnings growth (to 9.3% from 13.4%) since the beginning of the quarter. Companies that have seen the largest cuts to estimates during this time include Amazon.com (to -\$0.13 from \$0.22), News Corporation (to 0.03 from 0.06), and Under Armour (to \$0.07 from \$0.11).

On the other hand, the Health Care sector has seen the largest increase in expected earnings growth (to 5.9% from 3.6%) since the start of the quarter. However, only two companies have recorded substantial increases to estimates during this time: Gilead Sciences (to \$1.61 from \$0.93) and Boston Scientific (to \$0.19 from \$0.13). After these two companies, no other company in the sector has seen an increase in the mean EPS estimate of larger than 6.2% over this time frame.

Lowest Cuts to Earnings Estimates during a Quarter since Q1 2011

Although the growth rate for the second quarter has dropped since March 31, analysts cut earnings estimates for the quarter by the lowest amount since Q2 2011. The percentage decline in the Q2 bottom-up EPS estimate (which is an aggregation of the earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings for the index) was 1.7% during the quarter (to \$28.96 from \$29.45). This decline in the EPS estimate was lower than the trailing 1-year (-3.9%), 5-year (-2.9%), and 10-year (-4.6%) averages for a quarter. In fact, this marked the lowest decline in the bottom-up EPS estimate during a quarter since Q1 2011, when the bottom-up EPS estimate only decreased by 0.6% during the quarter (to \$22.08 from \$22.20).

Q2 EPS Guidance: Negative Guidance (76%) Above Average but Below Recent Quarters

At this point in time, 111 companies in the index have issued EPS guidance for the second quarter. Of these 111 companies, 84 have issued negative EPS guidance and 27 have issued positive EPS guidance. Thus, the percentage of companies issuing negative EPS guidance to date for the first quarter is 76% (84 out of 111). This percentage is above the 5-year average of 66%, but below the percentages recorded for Q1 2014 (84%) and Q4 2013 (88%) at the same point in time in the quarter.

For more details on guidance, please see our "Guidance Quarterly" report, which was published on June 30 (http://www.factset.com/insight/2014/6/guidance_6.30.14).

Estimated Earnings Growth: 4.9%

The estimated earnings growth rate for Q2 2014 is 4.9%. Nine of the ten sectors are projected to report higher earnings relative to a year ago, led by the Telecom Services, Consumer Discretionary, and Energy sectors. The only sector predicted to report lower earnings relative to a year ago is the Financials sector.

Telecom Services: Ex-Verizon, Growth Rate Drops to -7.9%

The Telecom Services sector is expected to report the highest earnings growth rate of all ten sectors at 21.9%. At the company level, Verizon Communications is the largest contributor to earnings growth for the sector. The mean EPS estimate for the company for Q2 2014 is \$0.91, compared to actual EPS of \$0.73 in the year-ago quarter. If Verizon is excluded, the earnings growth rate for the sector would drop to -7.9%.

Consumer Discretionary: Broad-Based Growth

The Consumer Discretionary sector is predicted to report the second highest earnings growth of any sector at 9.3%. Growth is projected to be broad-based across the sector. Twenty-five of the 32 sub-industries in the sector are expected to report earnings growth for the quarter, led by the Casino & Gaming (36%), Homebuilding (34%), Internet Retail (21%), and Household Appliances (20%) sub-industries. On the other end of the spectrum, the Apparel, Accessories, and Luxury Goods (-9%) and Homefurnishing Retail (-7%) sub-industries are projected to have the largest declines in earnings.

Energy: Growth Expected for 1st Time since Q1 2013

The Energy sector is expected to have the third highest earnings growth rate at 8.6%. If the sector reports any earnings growth for the quarter, it will mark the first time since Q1 2013 (1.1%). Five of the seven sub-industries in the sector are predicted to report growth for the quarter, led by the Oil & Gas Refining & Marketing (27%) sub-industry. On the other hand, the Coal & Consumable Fuels (-118%) sub-industry is expected to see the largest decline in earnings.

Financials: 2nd Consecutive Decline in Earnings

The Financials sector is the only sector expected to report a year-over-year decline in earnings (-3.2%). If the sector does report a decline, it will mark the second consecutive quarter the sector has reported a year-over-year drop in earnings. However, only three of the eight industries in the sector are predicted to report a decrease for the quarter, led by the Thrifts & Mortgage Finance (-17%) and Banks (-9%) industries.

Estimated Revenue Growth: 2.7%

The estimated revenue growth rate for Q2 2014 is 2.7%, which is below the estimated growth rate of 3.5% at the start of the quarter (March 31). Nine of the ten sectors are expected to report revenue growth for the quarter, led by the Health Care sector. On the other hand, the Energy sector is the only sector predicted to report a decline in revenue for the quarter.

Highest Sales Growth: Health Care

The Health Care sector is expected to report the highest revenue growth at 8.5%. All six industries in the sector are predicted to report sales growth for the quarter, led by the Biotechnology (32%) industry.

Lowest Sales Growth: Energy

The Energy sector is the only sector that is predicted to report a decrease in revenue at -3.5%. Four of the seven sub-industries in the sector are expected to report a decline in revenue: Oil & Gas Exploration & Production (-17%) and Coal & Consumable Fuels (-13%).

Domestic Themes: Cost Cutting

With earnings growth (4.9%) expected to rise at a faster rate than revenue growth (2.7%) in Q2 and in future quarters, companies (particularly in food-oriented industries) have continued to discuss cost-cutting initiatives to maintain earnings growth rates and profit margins.

“Cost savings from the company's CCI program and the impact of higher-margin industrial products improved gross profit margin, which rose to 39.9% from 39.3% in the year-ago period.” –McCormick & Co. (Jun. 26)

“Our Consumer Foods supply chain cost reduction programs continue to yield good results, and delivered cost savings of approximately \$50 million for the quarter.” –ConAgra Foods (Jun. 26)

“In addition, supply chain cost-savings from our ongoing Holistic Margin Management (HMM) program are expected to exceed \$400 million in 2015. We anticipate these savings will offset input cost inflation, which we estimate at 3 percent for the new year.” –General Mills (Jun. 25)

“We remain focused on cost discipline to offset the negative effects of our gross profit dollar growth. We will be accelerating our optimization efforts, taking additional steps to lower our expenses company-wide.” –Walgreen (Jun. 24)

“We've continued to achieve a more cost-effective platform. Transformative changes that we've talked about the past in Darden's operations have significantly reduced costs by over \$150 million annually in selected operating areas around support including supply chain, facilities management, water and energy usage.” –Darden Restaurants (Jun. 20)

Global Themes: F/X Rates, Europe, and Emerging Markets**F/X Rates: Mixed Impact**

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

“Despite the negative impact of changes in foreign exchange rates, diluted earnings per share for the quarter increased 3 percent...” –NIKE (Jun. 26)

“Foreign currency exchange reduced net sales growth by 2 points in the quarter.” – General Mills (Jun. 25)

“Non-GAAP earnings per share were up 6% to \$0.92, but would have been \$0.94 if not for the currency loss in Venezuela.” –Oracle (Jun. 19)

However, a few companies have noted that foreign exchange activity was neutral or even had a positive impact on sales and earnings for the quarter.

“The foreign-exchange impact for the quarter was approximately zero percent, consistent with the assumption provided in the company’s second-quarter earnings release.” –Accenture (Jun. 26)

“First, let me share with you some of the highlights from this quarter. For the first time in a long time, changes in foreign exchange rates have had minimal impact on our results when comparing them against Q1 last year, last quarter or against guidance” –Red Hat (Jun. 18)

“From a year-over-year currency perspective, FX increased revenue by \$3.1 million.” –Adobe Systems (Jun. 17)

Europe: Continued Improvement

Europe reported an improvement in economic growth relative to last year. According to FactSet Economics, the European Union recorded an increase in GDP of 1.4% in Q1 2014, relative to the decline of 0.7% reported in Q1 2013. Based on some of the early earnings reports and conference calls, a number of companies continued to see improving conditions in Europe in Q2.

“And finally, there is the outstanding results we’re seeing in Western Europe. Q4 revenue grew 18%, a truly remarkable finish to an incredible year, as revenues in this important geography increased 14% to nearly \$5 billion for the year, with growth across all key categories and nearly every territory.” –NIKE (Jun. 26)

“Now, turning to the geographic dimension of our business. Our growth in Q3 was broad-based and I’m particularly pleased that we delivered strong results in Europe.” –Accenture (Jun. 26)

“We were pleased to see our European brands revenue yields turn positive in the second quarter and particularly encouraged by the favorable pricing trends emerging not only in Europe but in North America as well.” –Carnival Corp. (Jun. 24)

Emerging Markets: Strong Performances Despite Slowing Growth

Economic growth for countries in emerging markets regions has been flat or slightly below year-ago levels in recent quarters. According to FactSet Economics, China recorded GDP growth of 7.7% in Q1 2013. By Q1 2014, GDP growth for China stood at 7.4%. However, based on some of the early earnings reports and conference calls, a number of companies continued to perform well in emerging markets and China.

“Now let’s turn to the emerging markets which delivered exceptional Q4 results, with revenue up 25%. These results were very well balanced, with double-digit growth in almost every territory and increased revenues in nearly every key category.” –NIKE (Jun. 26)

“Our base consumer business in China also achieved double-digit growth this period, continuing the momentum from previous quarters...China’s on track to be our second largest country this year in terms of annual sales when both consumer and industrial businesses are included.” –McCormick & Co. (Jun. 26)

“In the Asia-Pacific region, constant currency sales grew 9% to exceed \$980 million driven by another year of double-digit growth in Greater China.” – General Mills (Jun. 25)

Higher Earnings Growth Expected in 2nd Half of 2014, But Little Improvement in Sales Growth

While companies are expected to report earnings growth of 4.9% for Q2 2014, earnings growth for the S&P 500 is projected to be much higher for the remainder of the year. For Q3 2014 and Q4 2014, analysts are predicting earnings growth rates of 9.2%, and 10.2%. For all of 2014, the projected earnings growth rate is 7.5%.

However, revenue growth is not expected to improve dramatically in the second half of the year. Analysts are currently projecting revenue growth of 2.7% for Q2 2014. For Q3 2014 and Q4 2014, analysts are predicting revenue growth of 3.4% and 3.1%. For all of 2014, the projected revenue growth rate is 3.3%.

Valuation: Forward P/E Ratio is 15.7, above the 10-Year Average (13.8)

The current 12-month forward P/E ratio is 15.7. This P/E ratio is based on Wednesday's closing price (1974.62) and forward 12-month EPS estimate (\$126.17).

At the sector level, the Consumer Discretionary (18.0) and Consumer Staples (17.8) sectors have the highest forward 12-month P/E ratios, while the Financials (13.3) and Telecom Services (13.5) sectors have the lowest forward 12-month P/E ratios.

The P/E ratio of 15.7 for the index as a whole is above the prior 5-year average forward 12-month P/E ratio of 13.3, and above the prior 10-year average forward 12-month P/E ratio of 13.8. It is also above the forward 12-month P/E ratio of 15.6 recorded at the start of the second quarter (June 30). During the quarter, the price of the index has increased by 0.7%, while the forward 12-month EPS estimate increased by 0.1%.

At the sector level, seven sectors have recorded an increase in the forward 12-month P/E ratio since the start of the second quarter, led by the Health Care (to 17.0 from 16.7) sector. The Utilities (to 16.2 from 16.6) sector was the only sector that saw a decline in the forward 12-month P/E ratio over this time frame, while the Industrials (16.3) and Energy (14.7) sectors were the only sectors that recorded no change in the forward 12-month P/E ratio over this time frame.

Companies Reporting Next Week: 5

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

Predicted EPS Surprises for Q2: None for Next Week, 55 for the Quarter

The FactSet Sharp estimate predicts the direction of upside and downside EPS surprises relative to the mean EPS estimate.

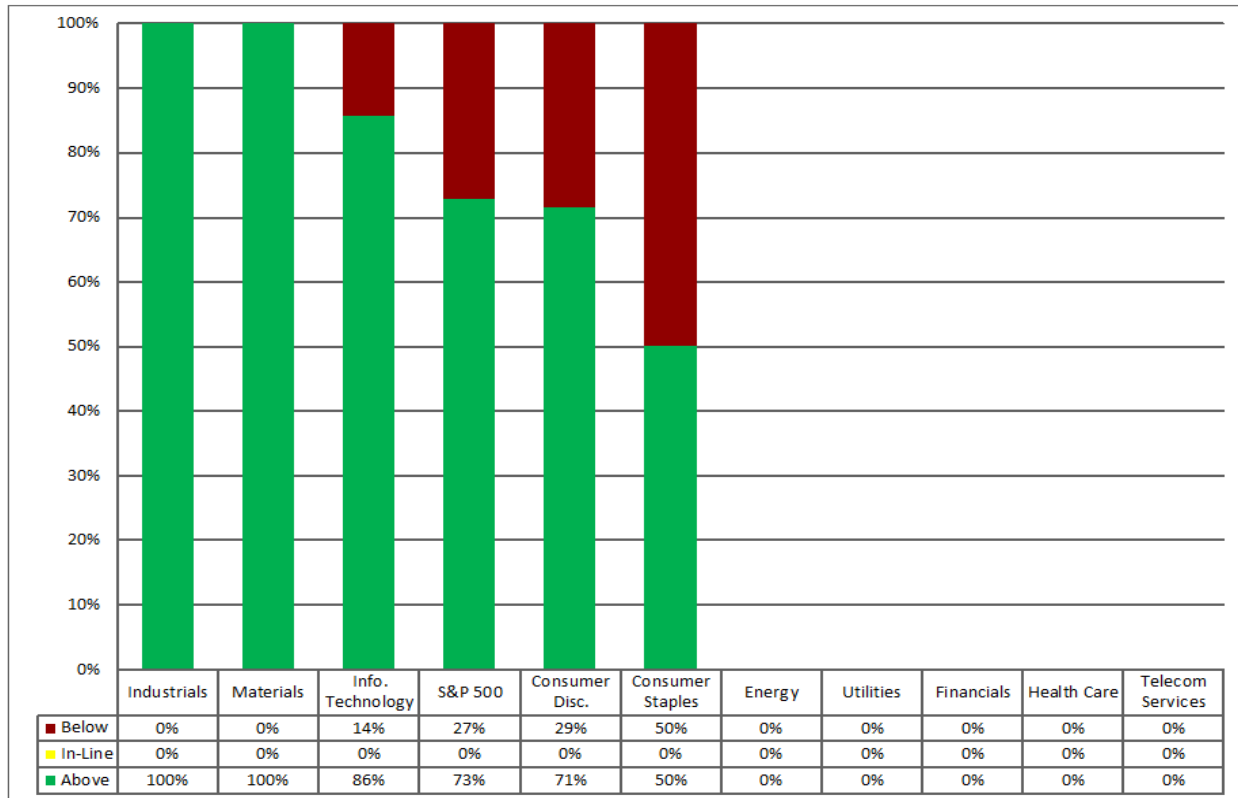
For the upcoming week, no companies have a Sharp EPS estimate for Q2.

For the S&P 500 overall, 55 companies have a Sharp EPS estimate above the mean EPS estimate (upside surprise indicator) for Q2 and 6 companies have a Sharp EPS estimate below the mean EPS estimate (downside surprise indicator) for Q2. The remaining 440 companies in the index do not have a Sharp estimate at this time for Q2 (no surprise predicted) or have already reported actual EPS for Q2.

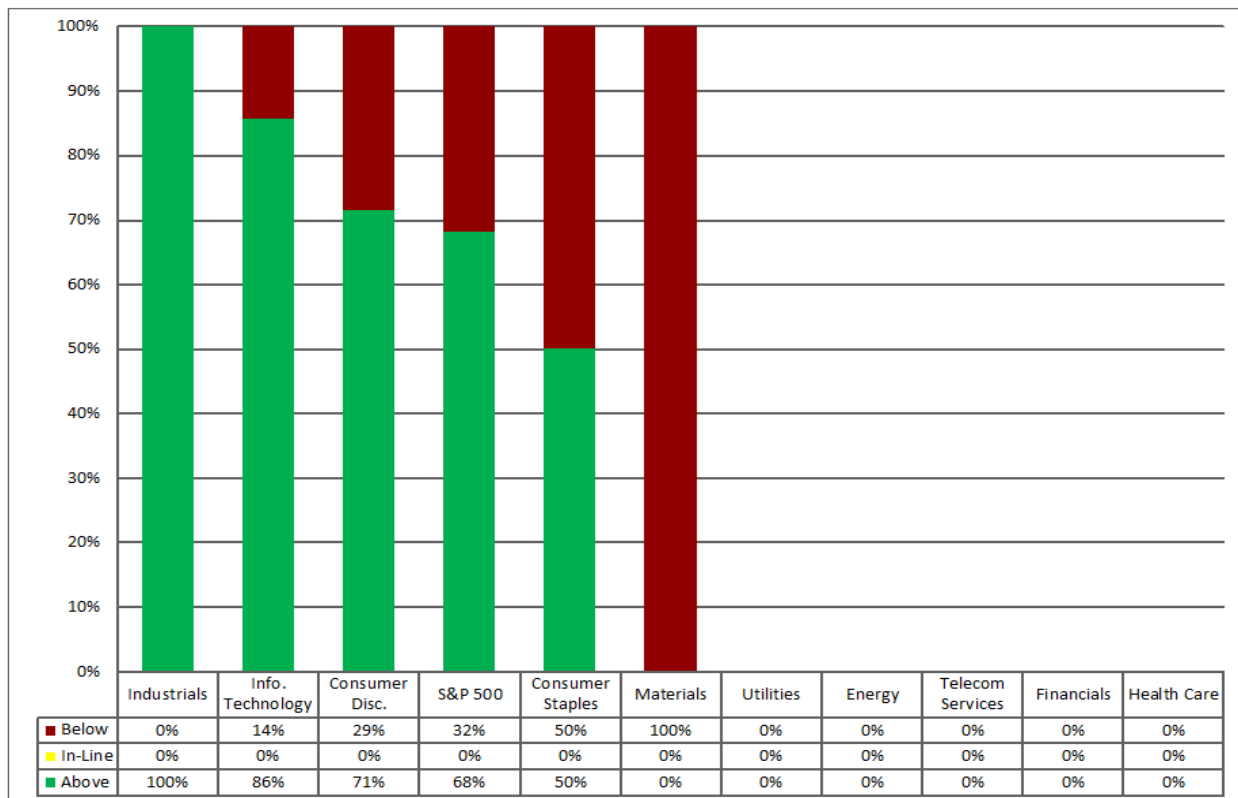
At the sector level, the Energy sector currently has the highest number (16) and the highest percentage (36%) of companies with a Sharp estimate above the mean EPS estimate for the second quarter. Eleven of these 16 companies are in the Oil & Gas Exploration & Production sub-industry.

Q2 2014: Scorecard

Q2 2014 Earnings: Above, In-Line, Below Estimates

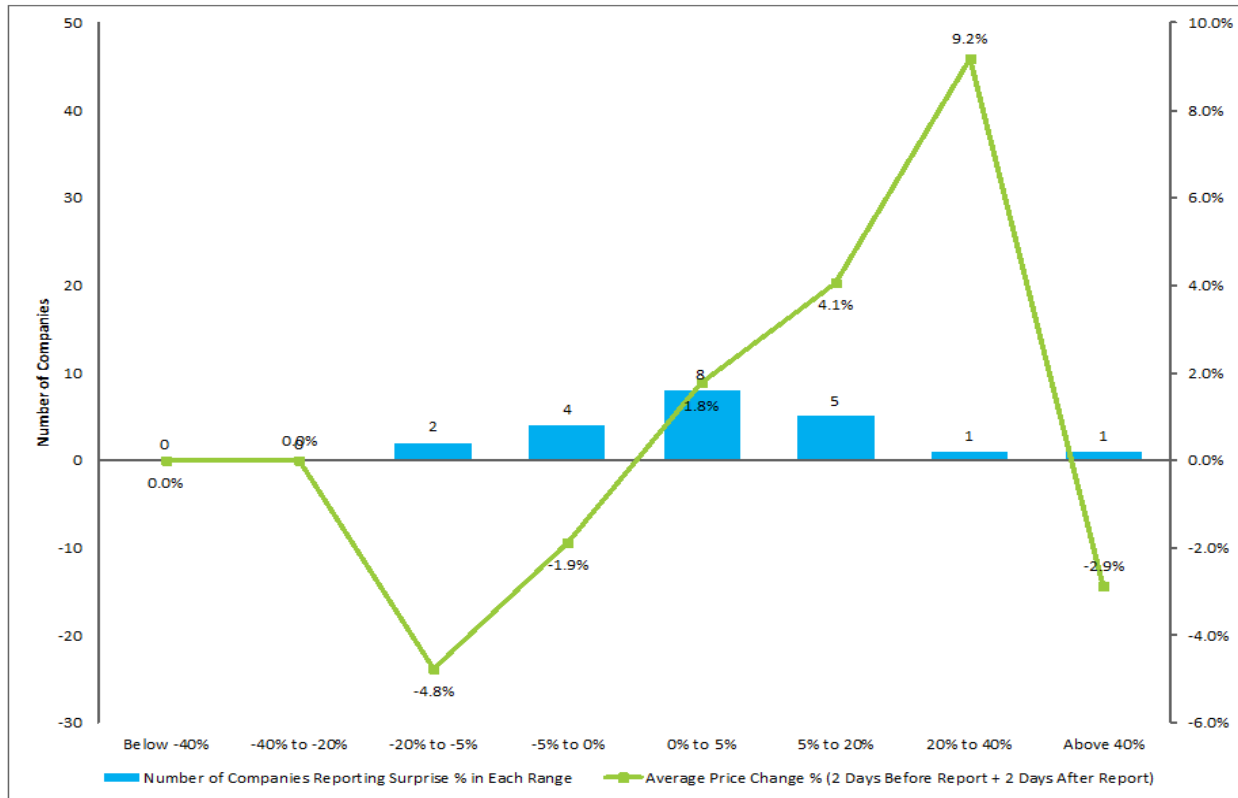


Q2 2014 Revenues: Above, In-Line, Below Estimates

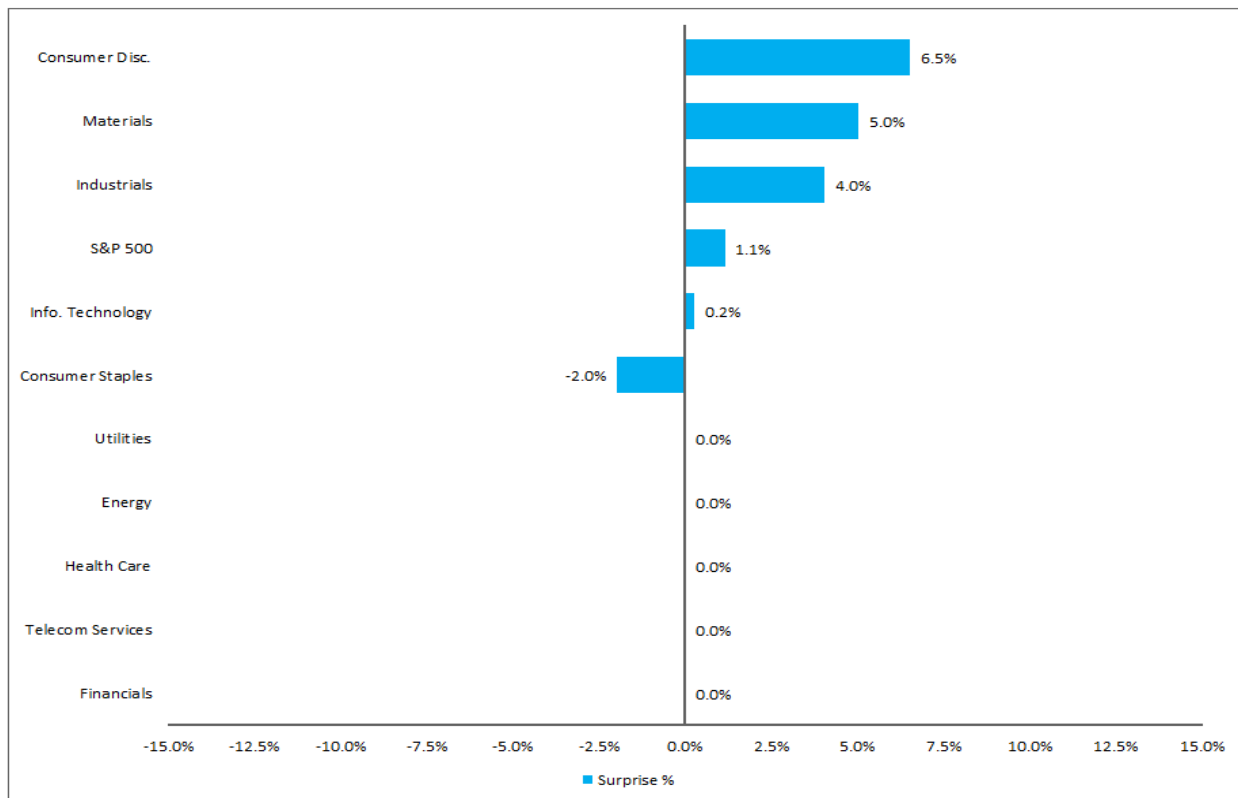


Q2 2014: Scorecard

Q2 2014: EPS Surprise % vs. Price %

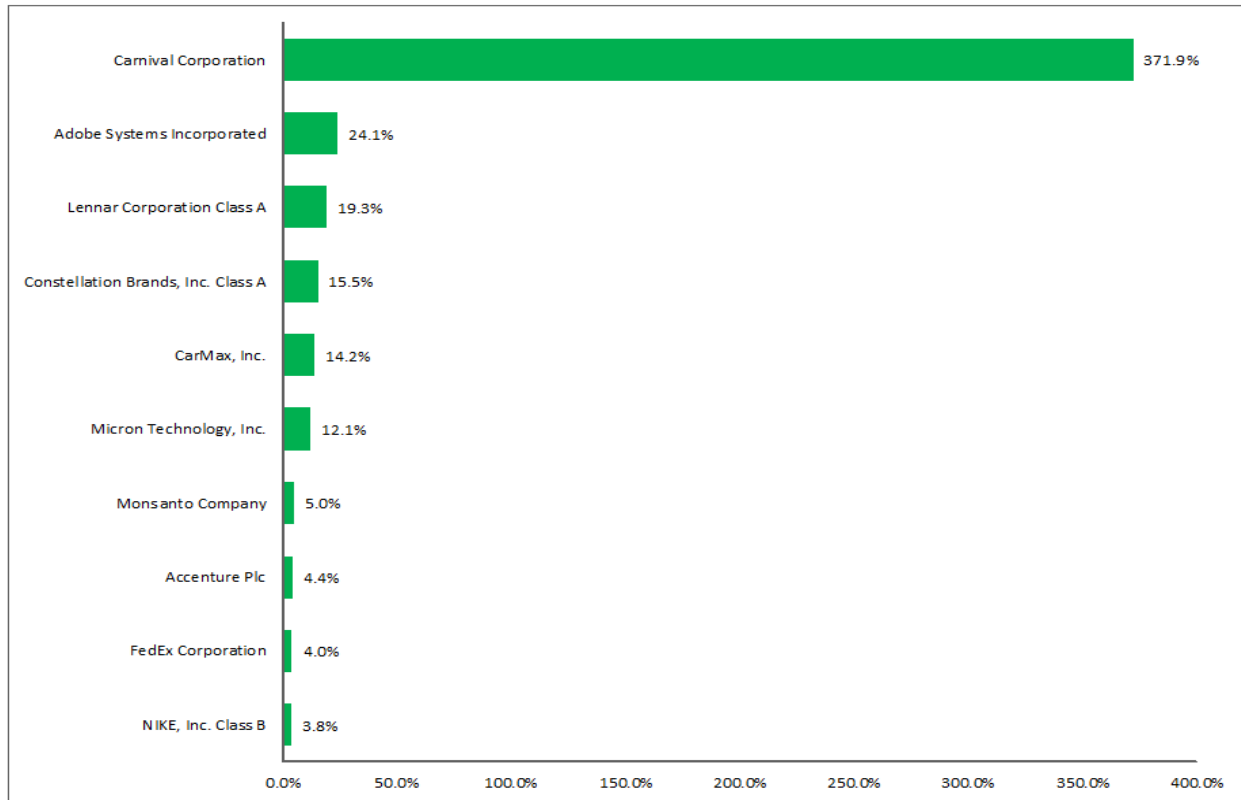


Q2 2014: Sector Level EPS Surprise %



Q2 2014: Scorecard

EPS Surprise %: Top 10 Companies

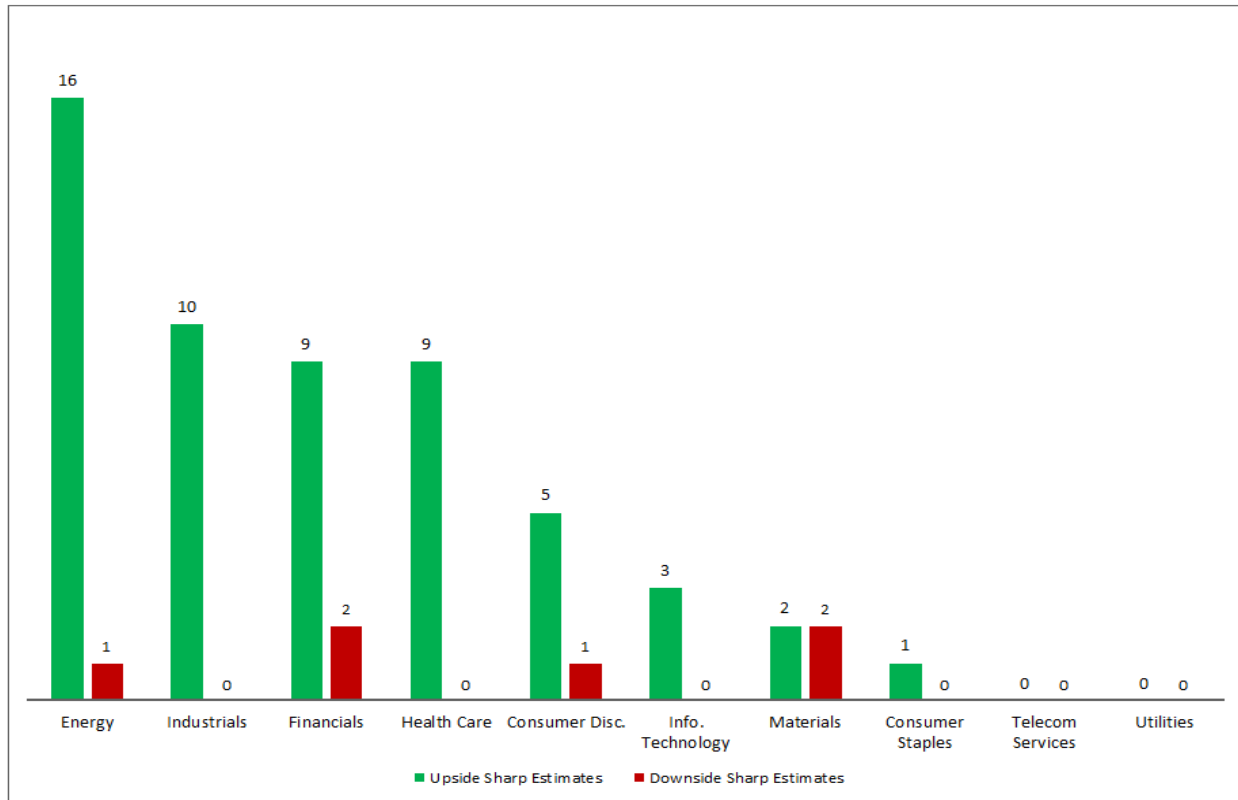


EPS Surprise %: Bottom 10 Companies

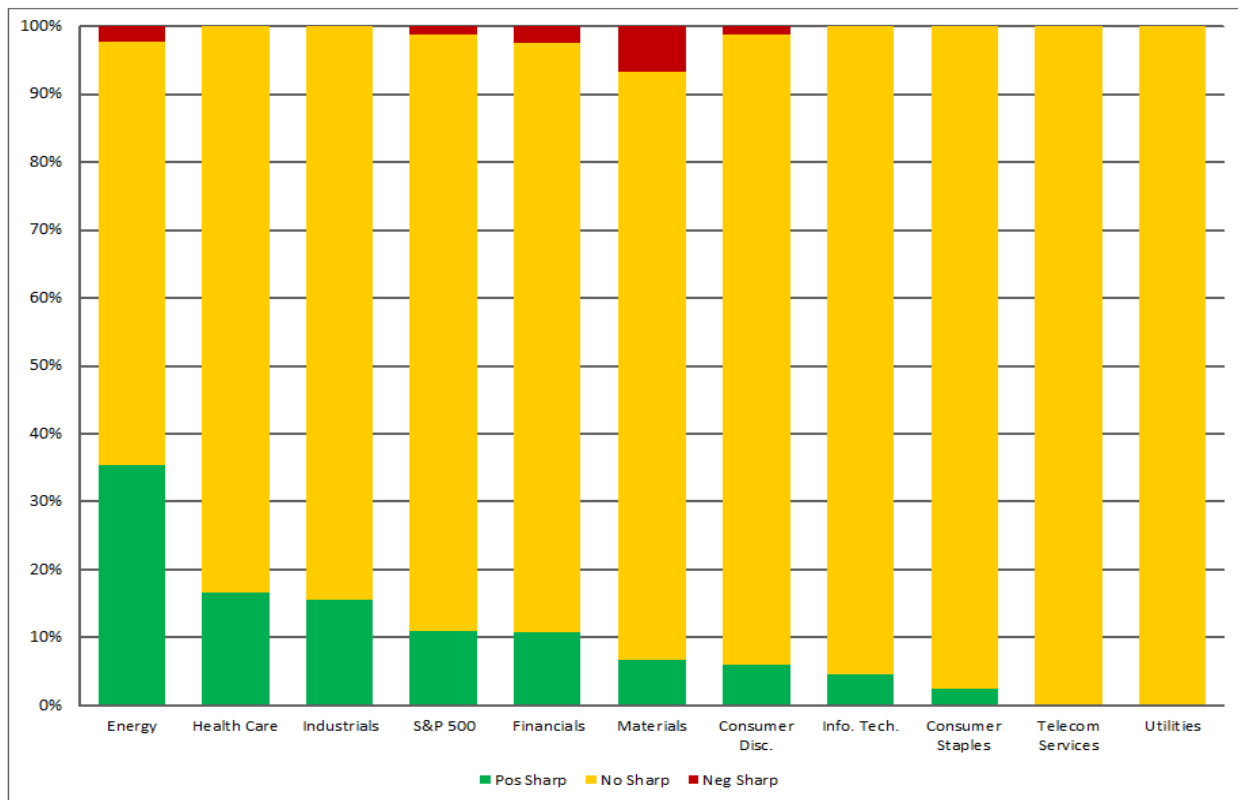


Q2 2014: Projected EPS Surprises (Sharp Estimates)

Number (#) of Companies with Sharp Estimates

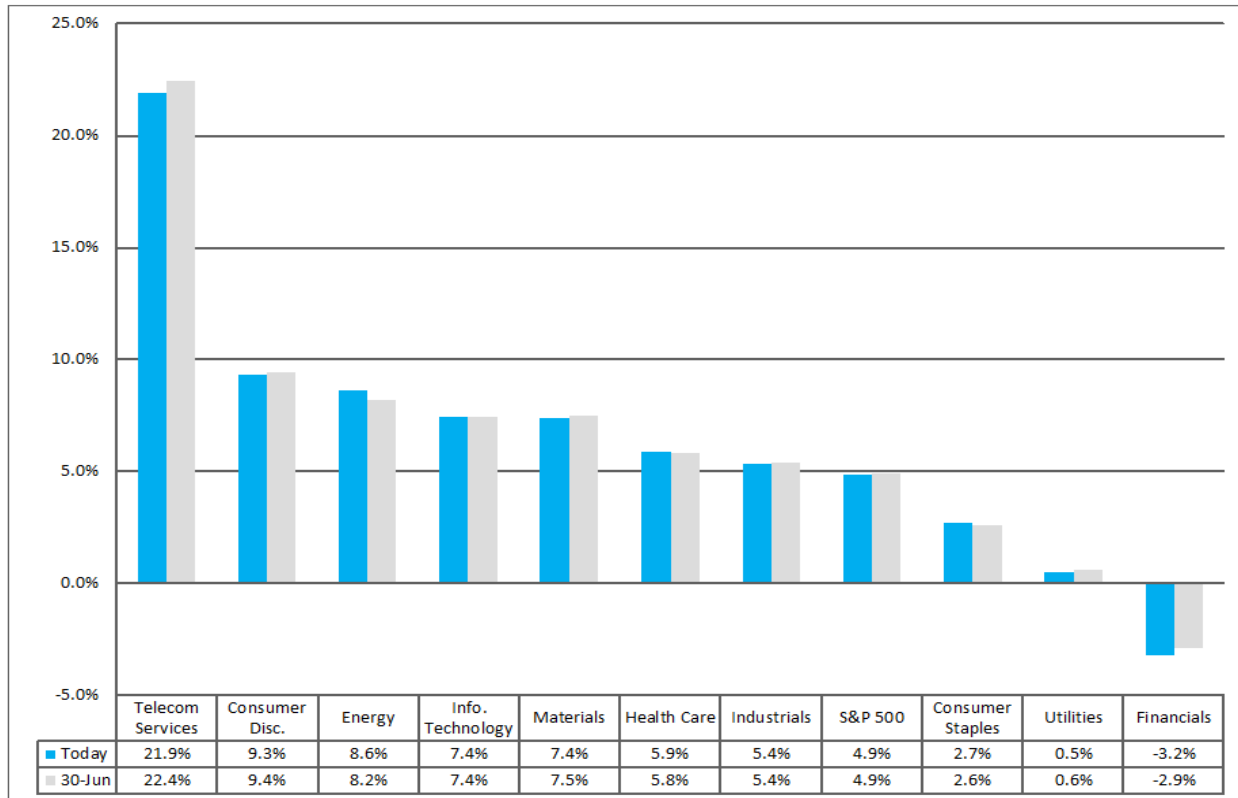


Percentage (%) of Companies with Sharp Estimates

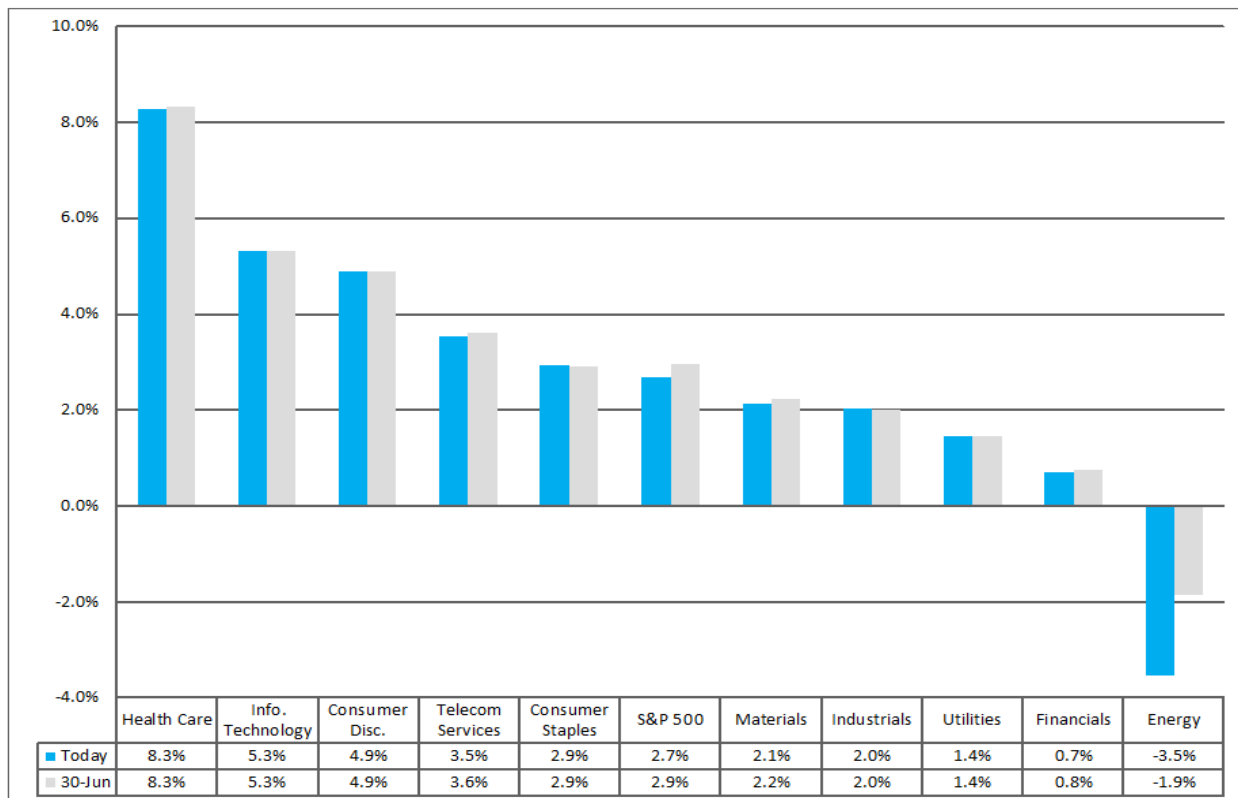


Q2 2014: Growth

Q2 2014 Earnings Growth

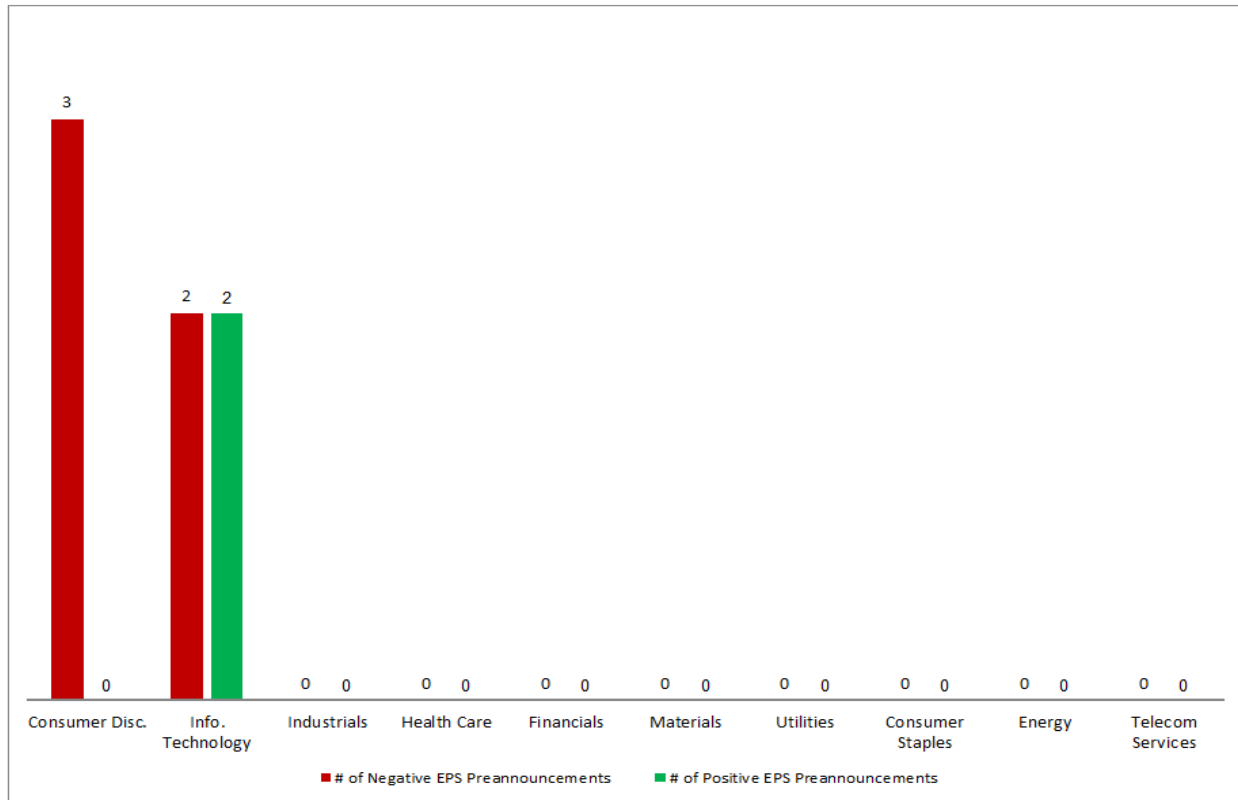


Q2 2014 Revenue Growth

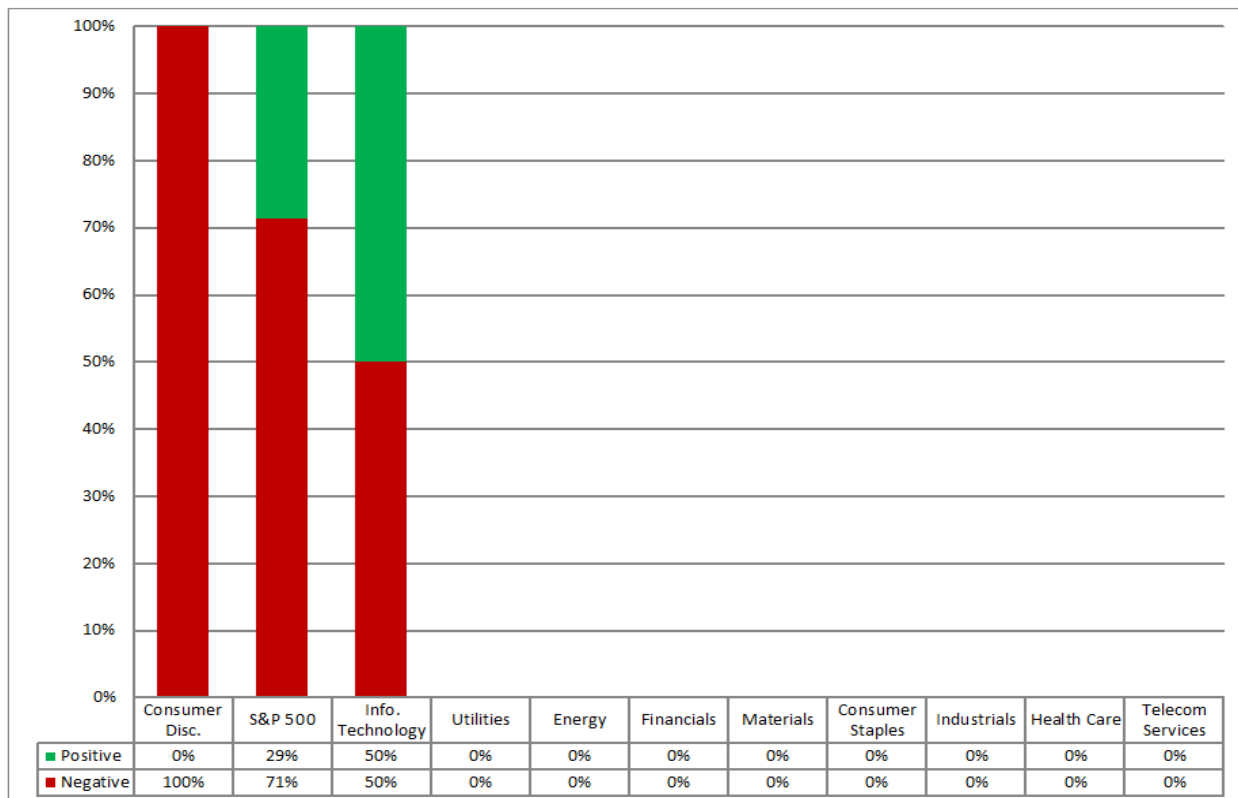


Q3 2014: EPS Guidance

Number of Positive & Negative EPS Preannouncements: Q3 2014

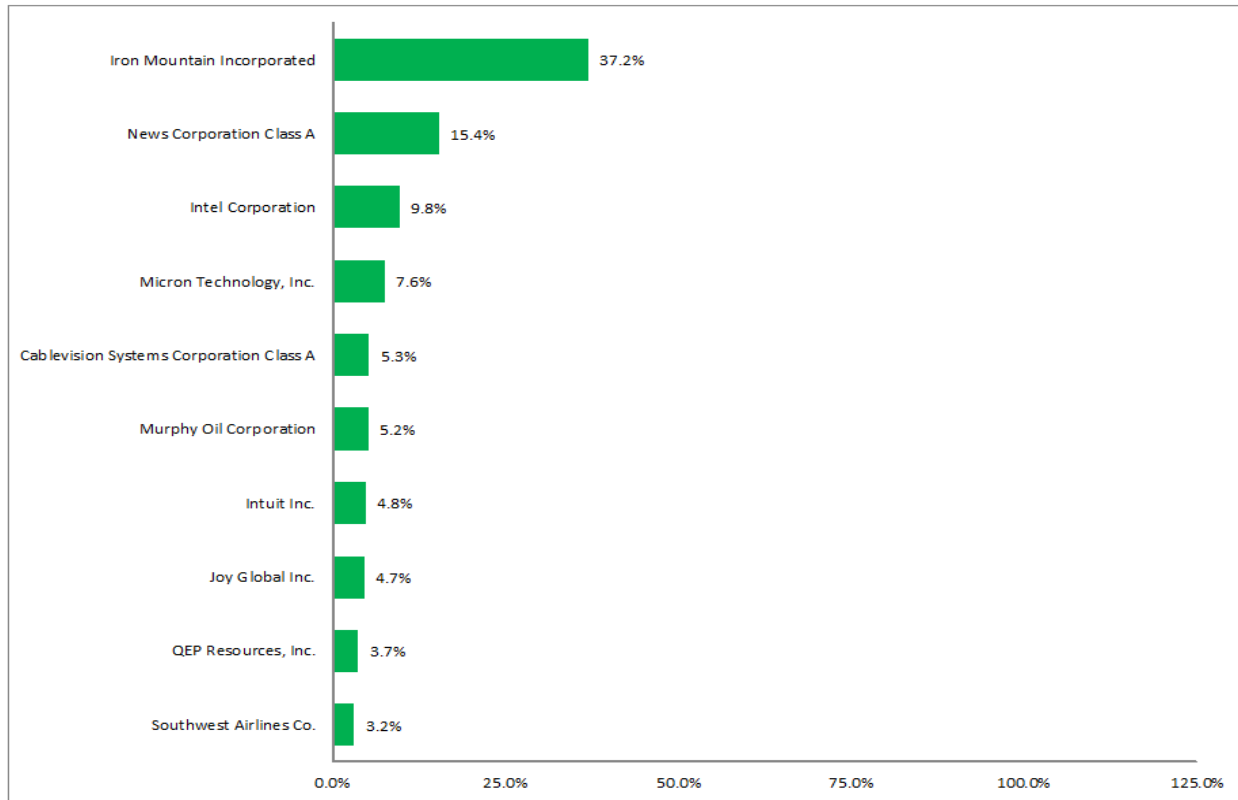


Percentage of Positive & Negative EPS Preannouncements: Q3 2014

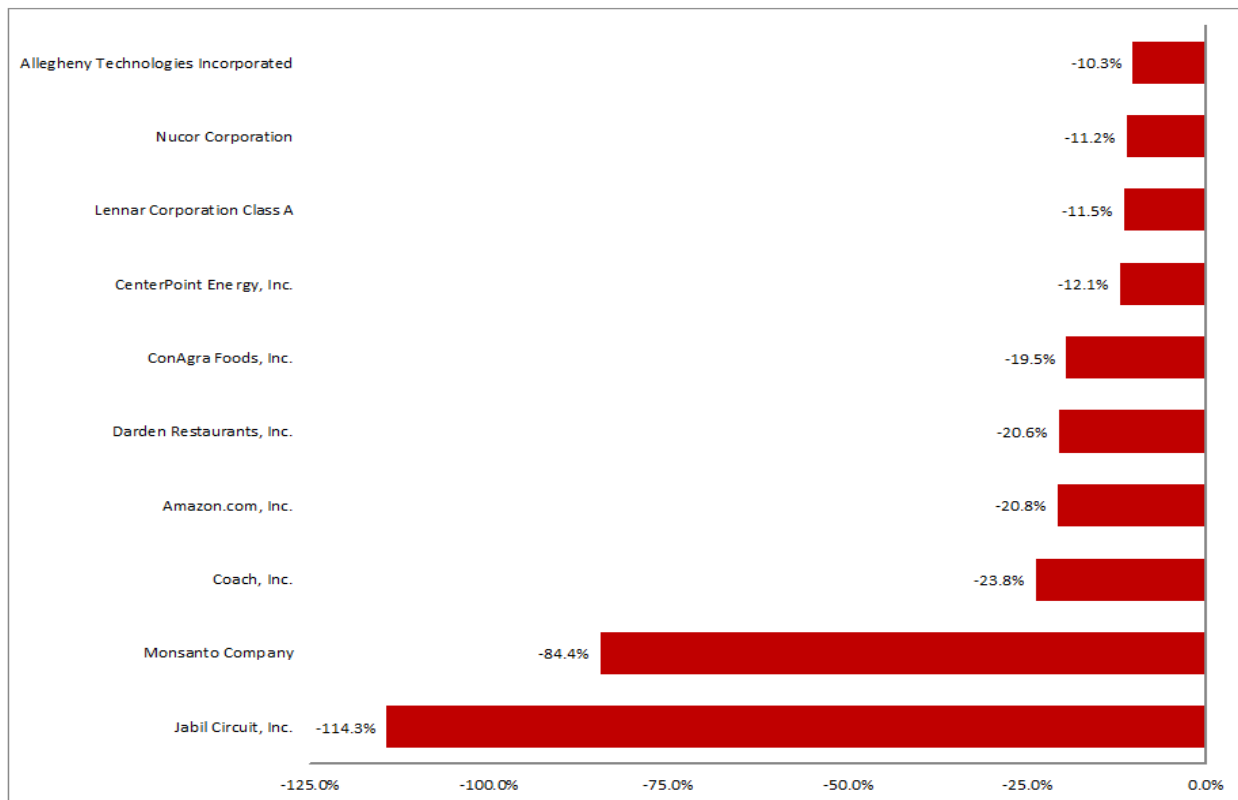


Q3 2014: EPS Revisions

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

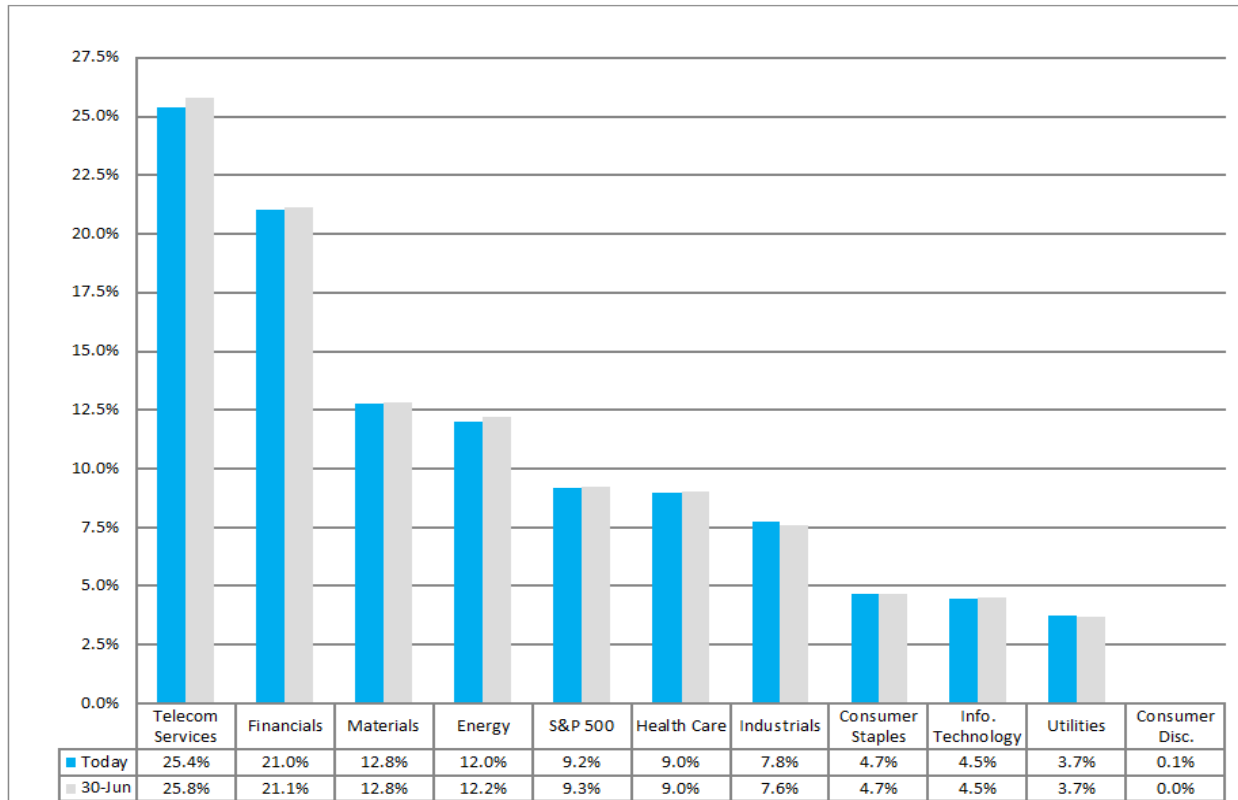


Highest Downward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies



Q3 2014: Growth

Q3 2014 Earnings Growth

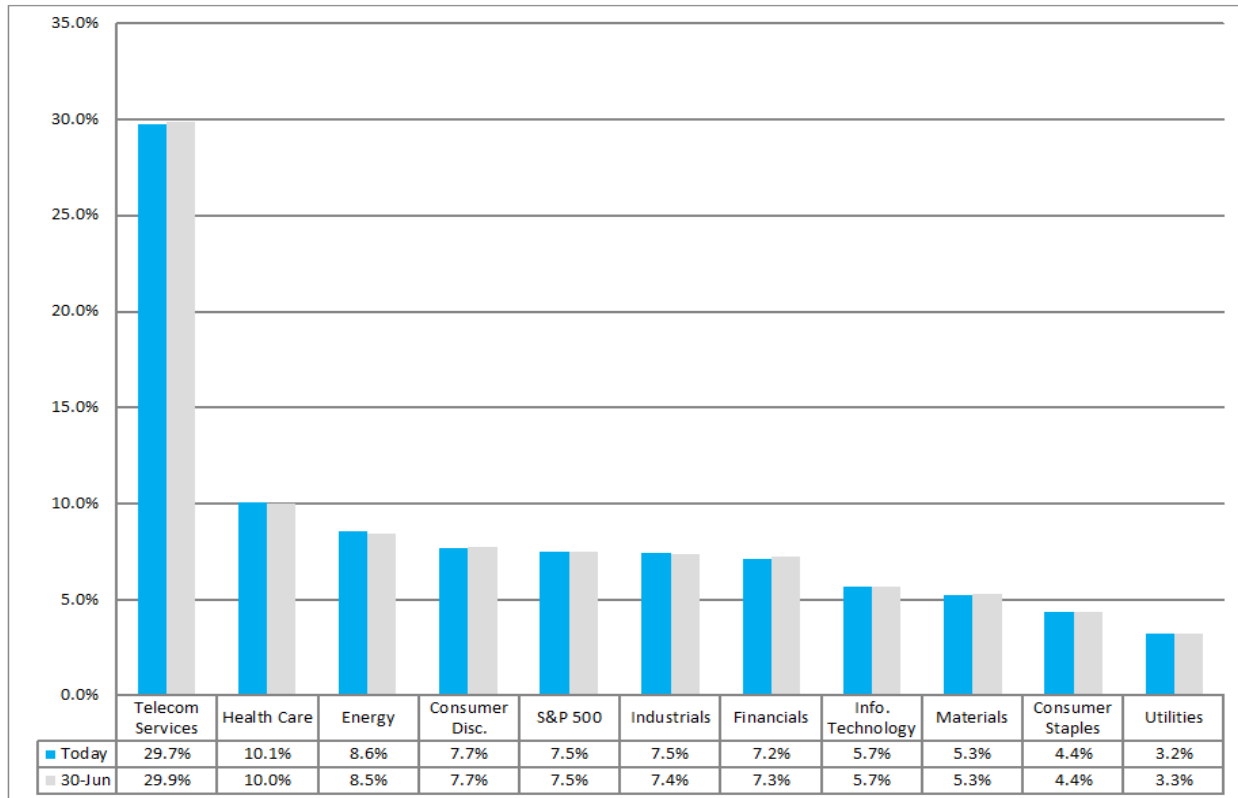


Q3 2014 Revenue Growth

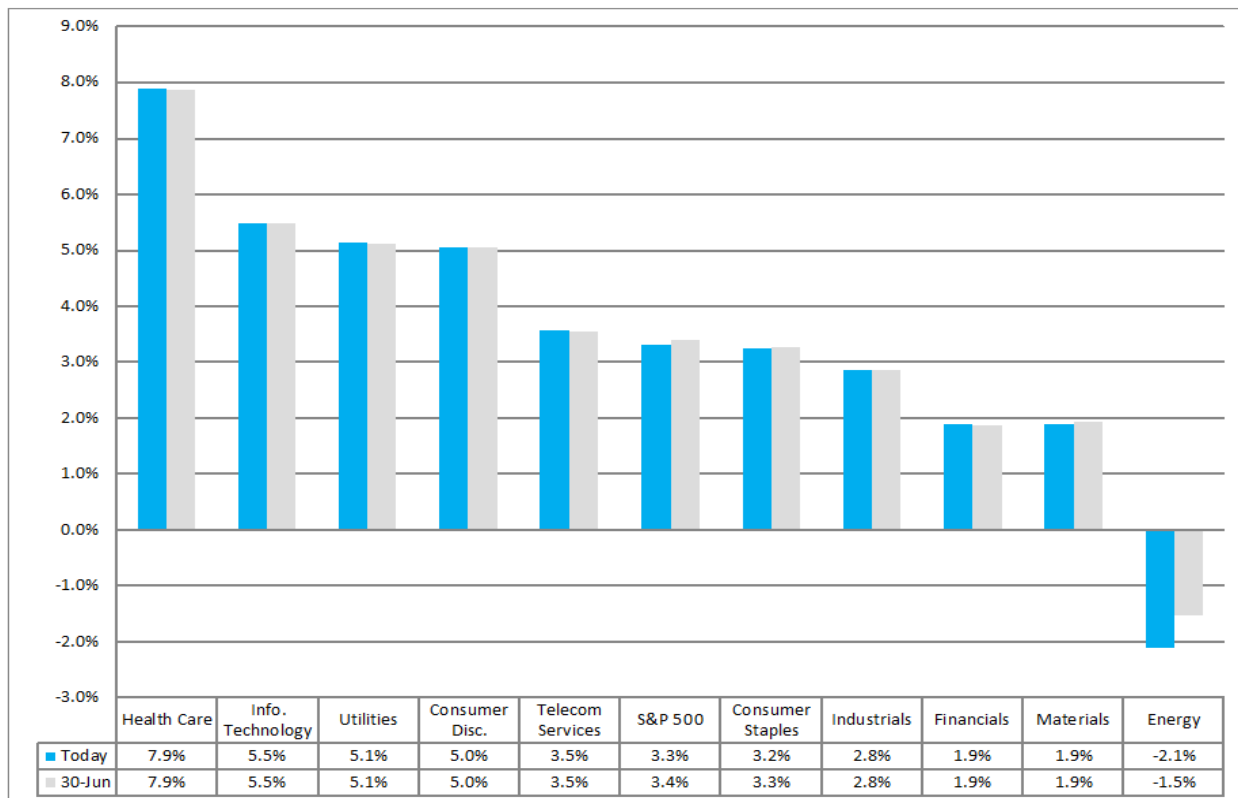


CY 2014: Growth

CY 2014 Earnings Growth

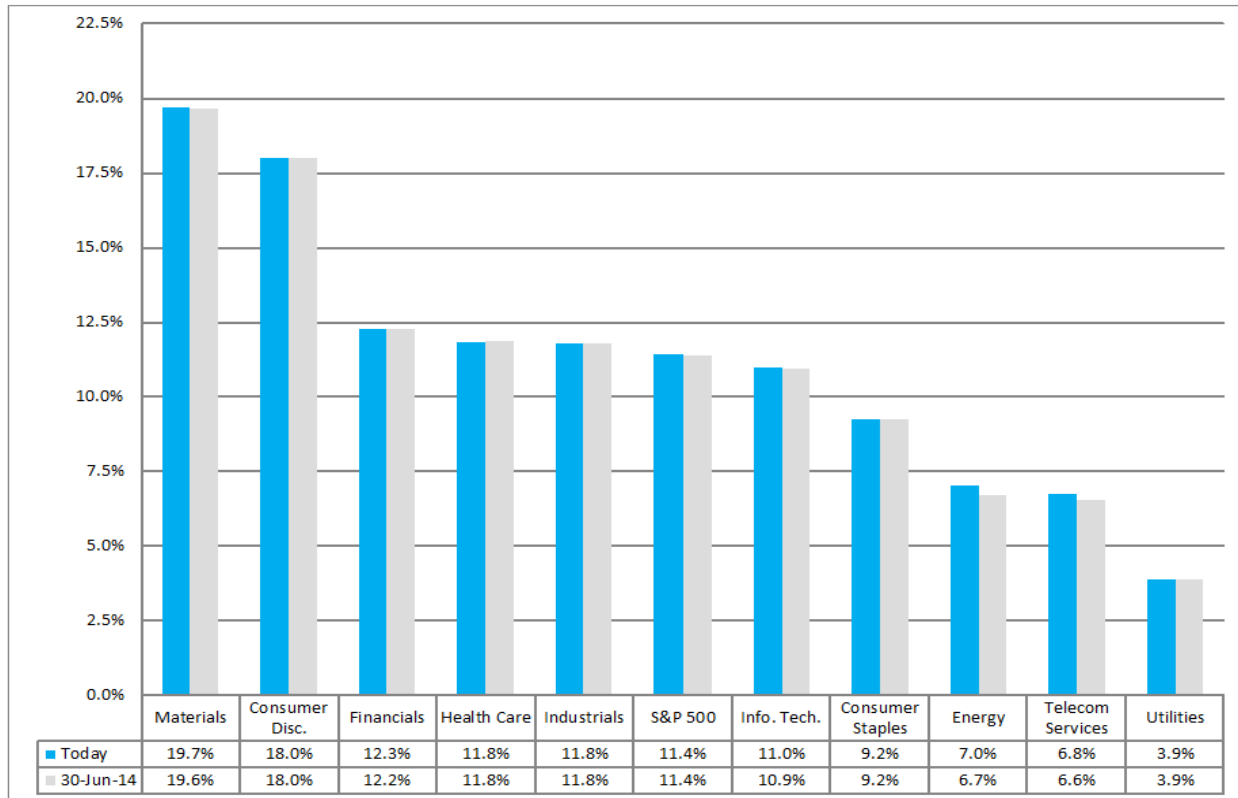


CY 2014 Revenue Growth

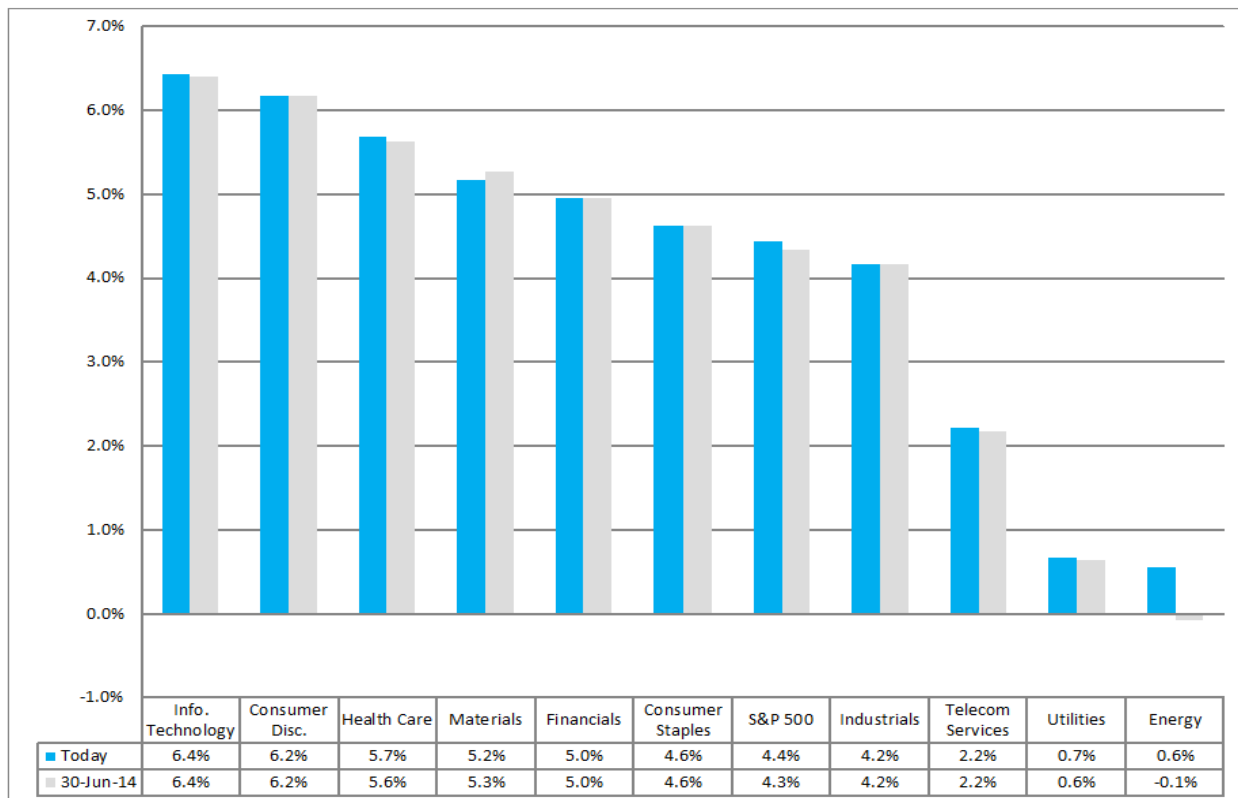


CY 2015: Growth

CY 2015 Earnings Growth

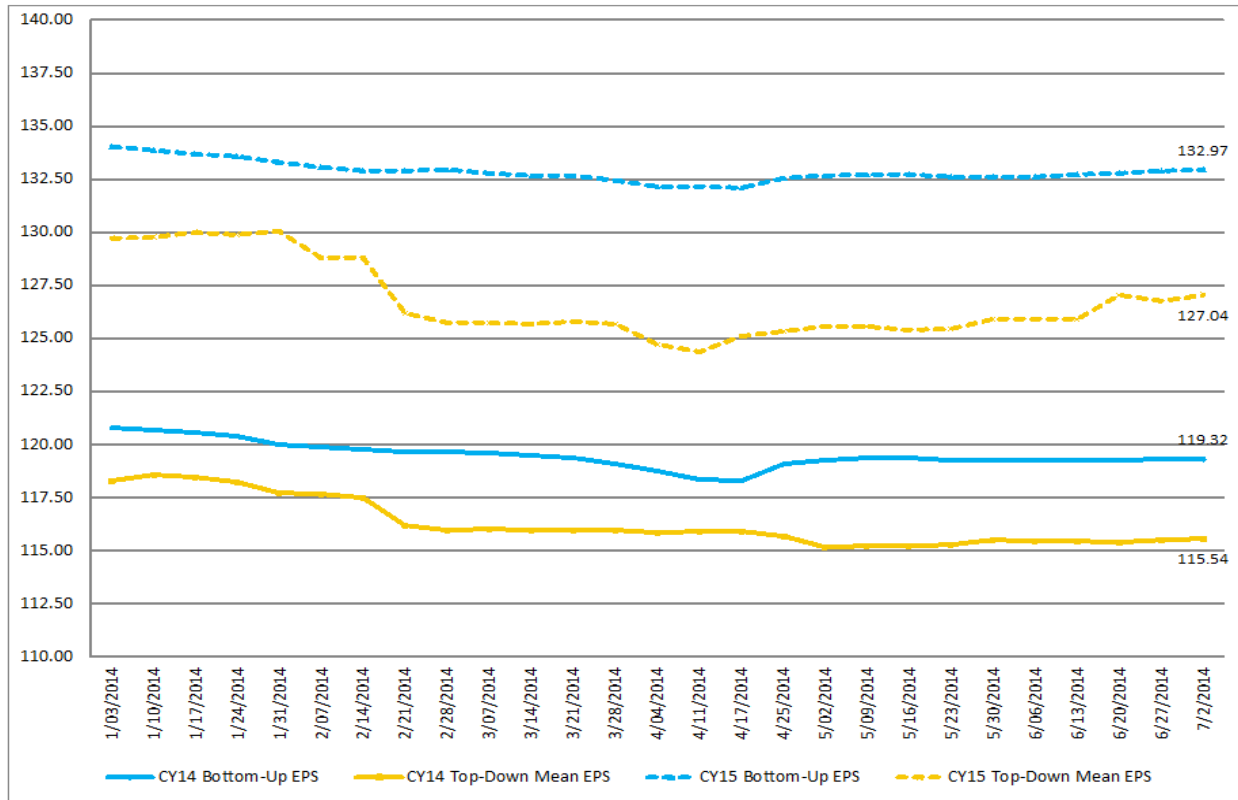


CY 2015 Revenue Growth

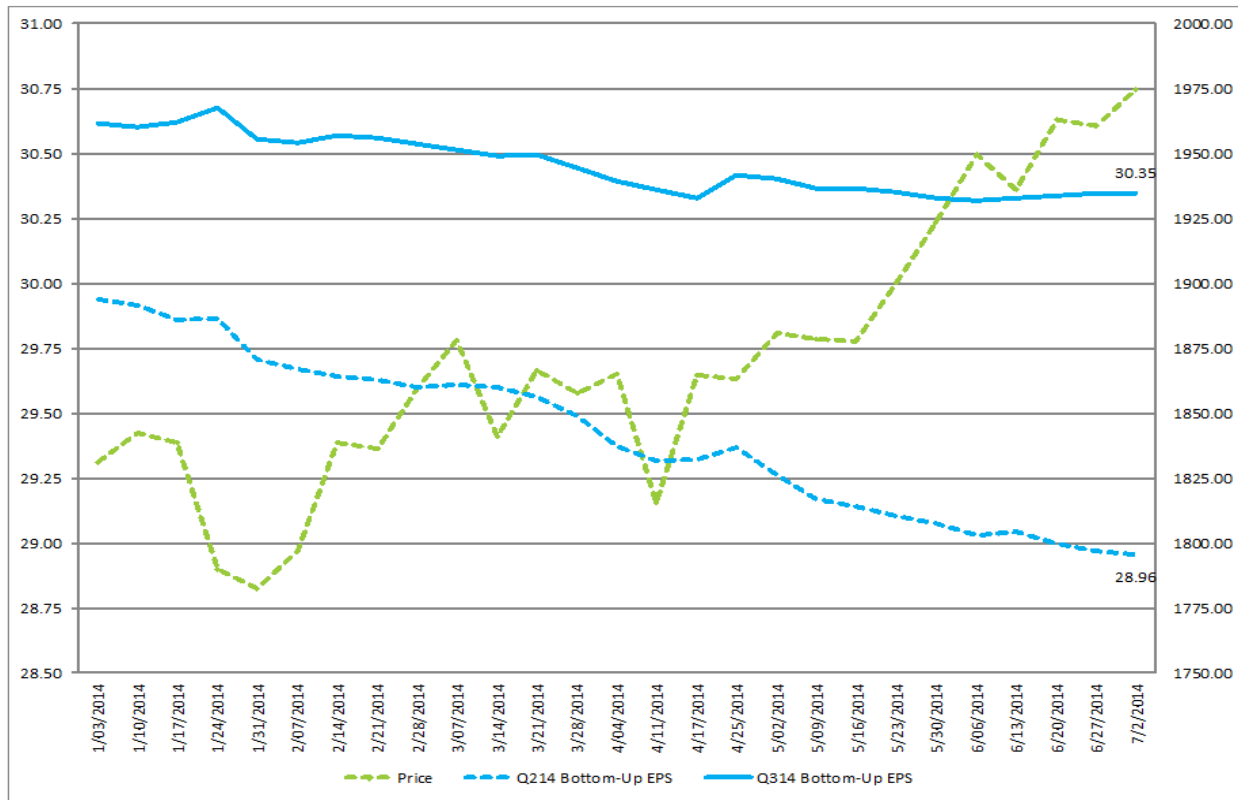


Bottom-up EPS Estimates: Revisions

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

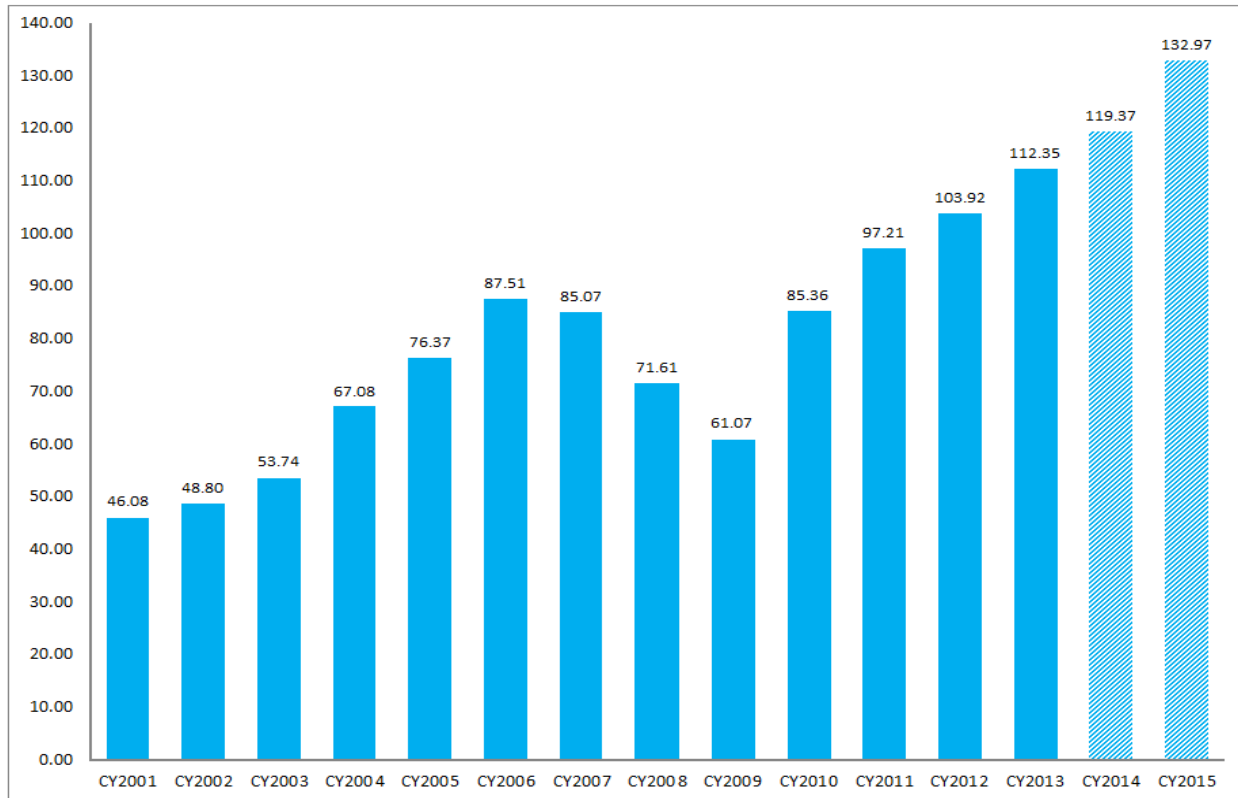


Change in Q214 and Q314 Bottom-Up EPS vs. Price (Trailing 26-Weeks)

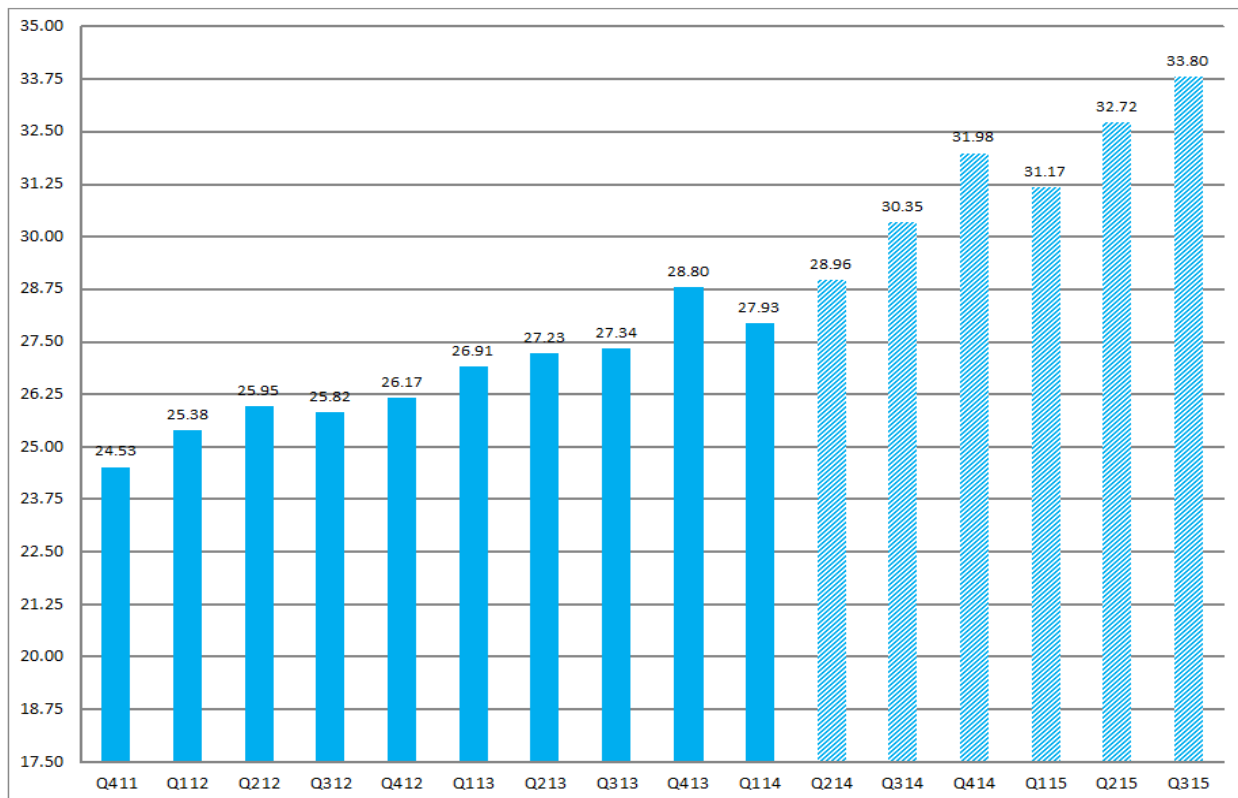


Bottom-up EPS Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates

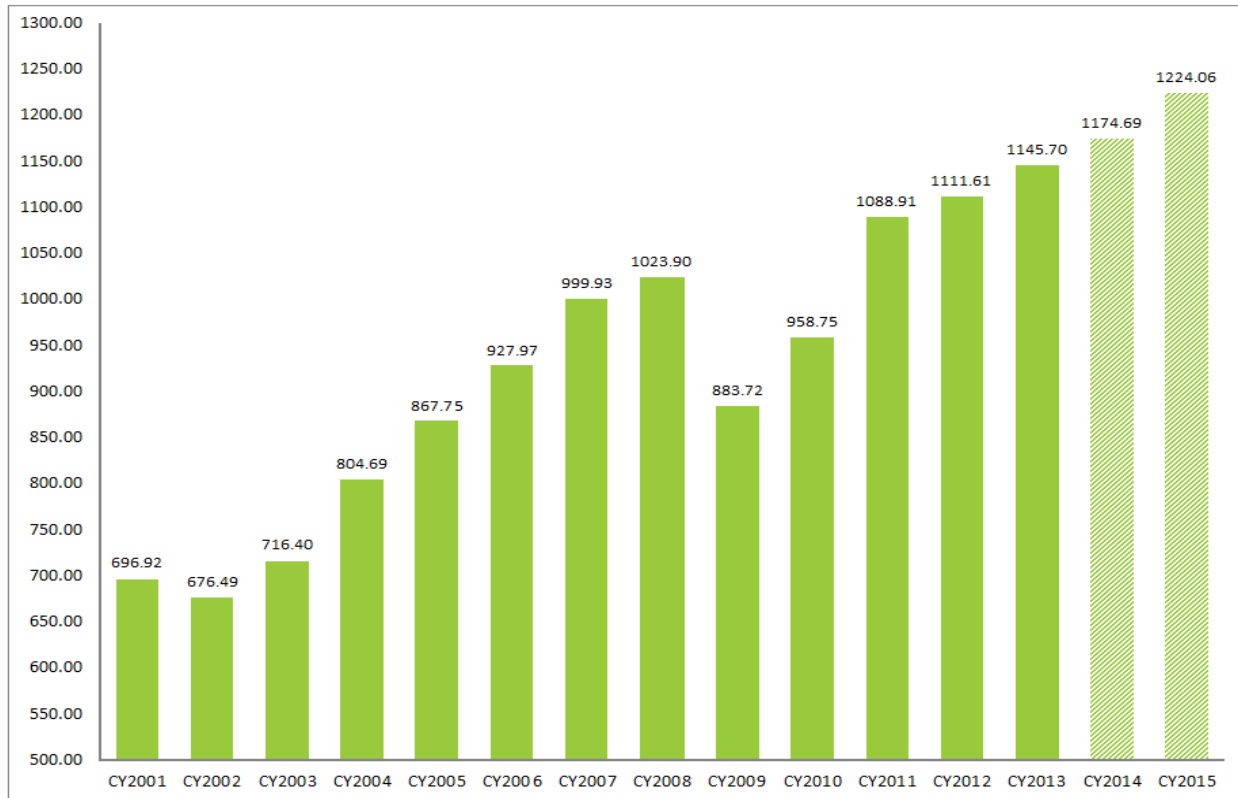


Quarterly Bottom-Up EPS Actuals & Estimates

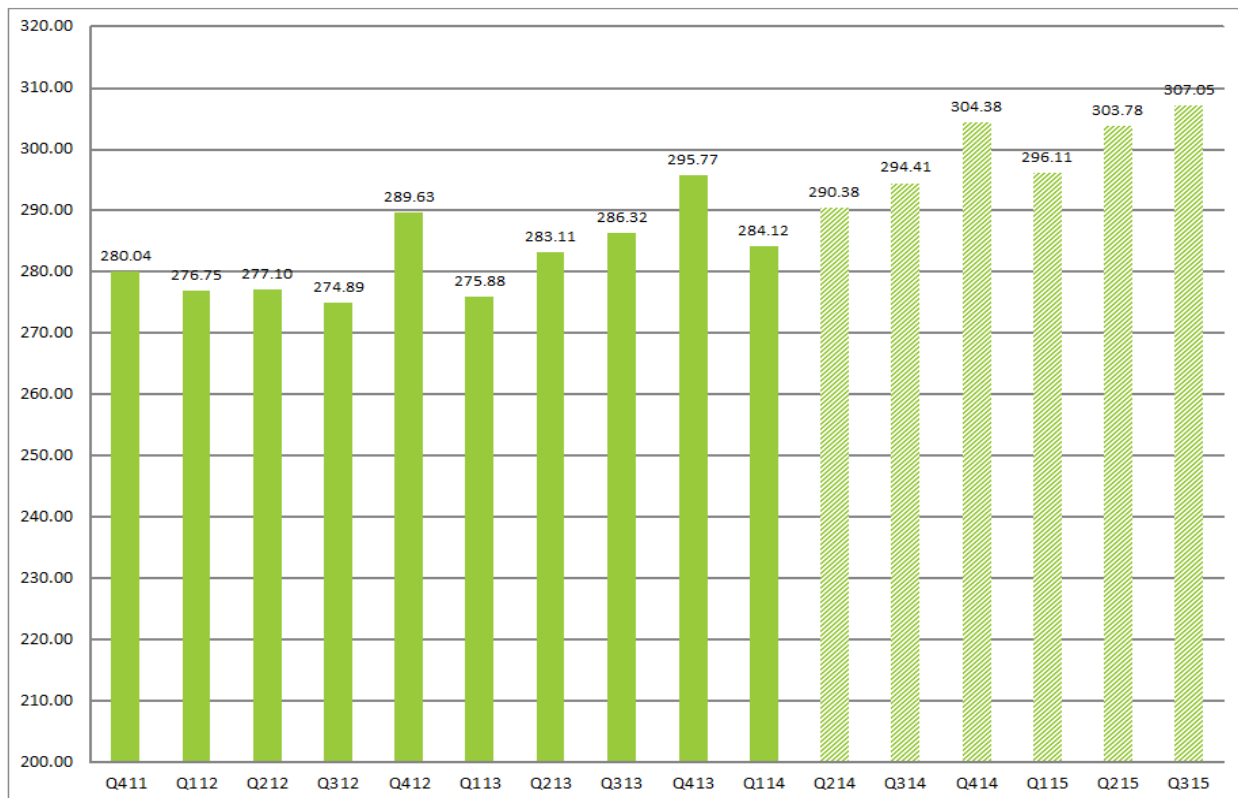


Bottom-up SPS Estimates: Current & Historical

Calendar Year Bottom-Up SPS Actuals & Estimates

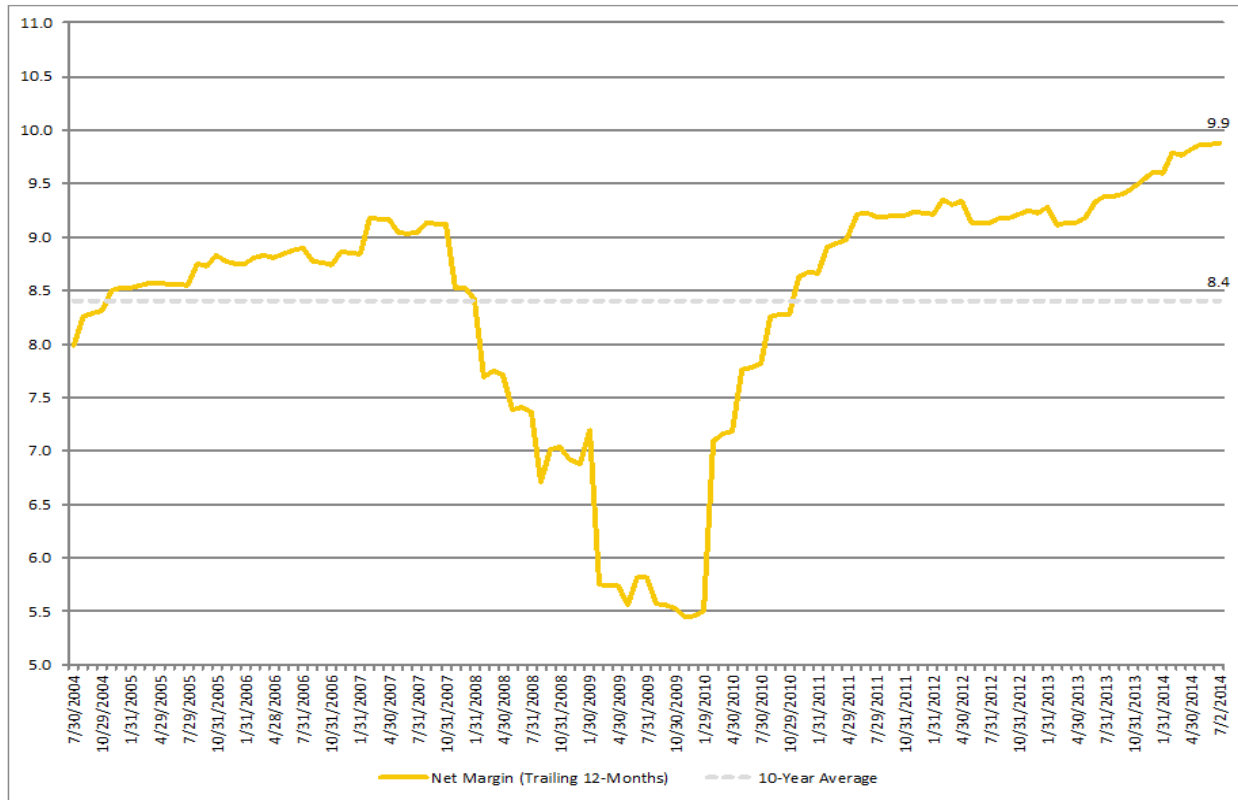


Quarterly Bottom-Up SPS Actuals & Estimates

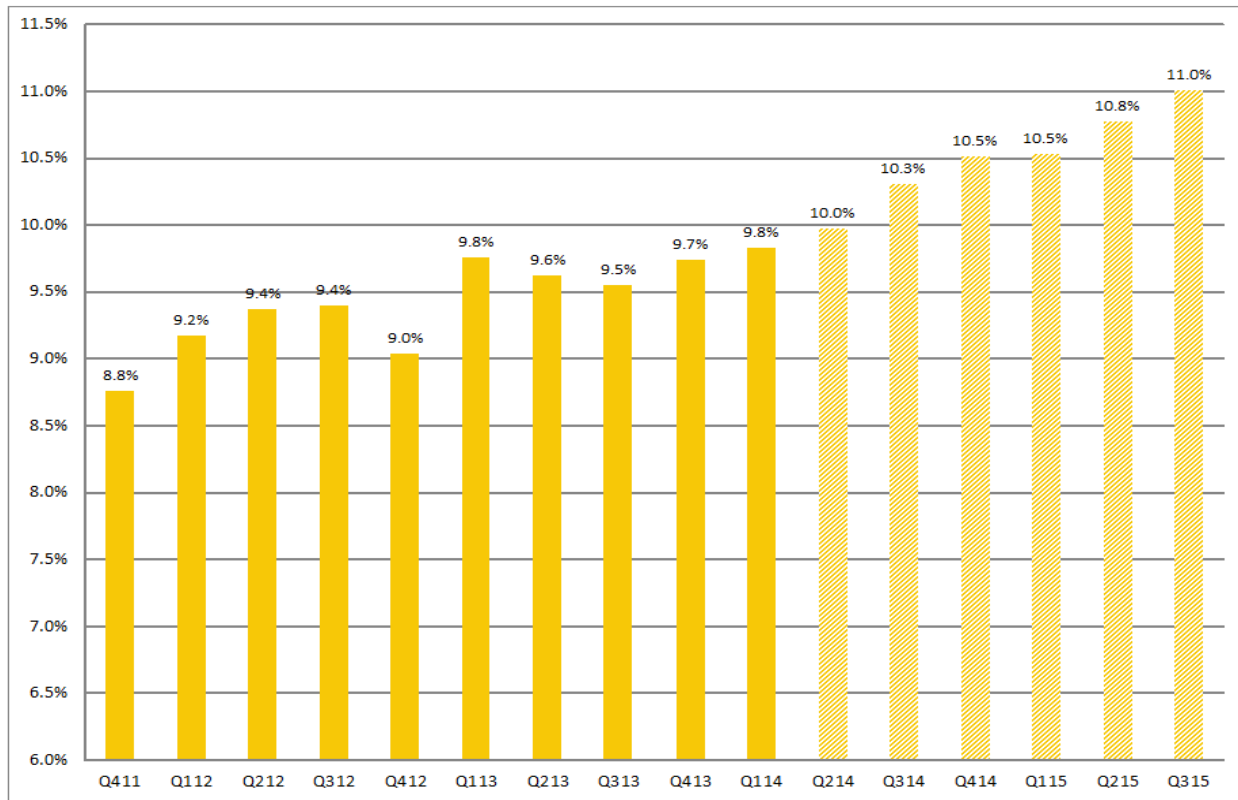


Net Margins: Current & Historical

Trailing 12M Net Margin: 10 Years

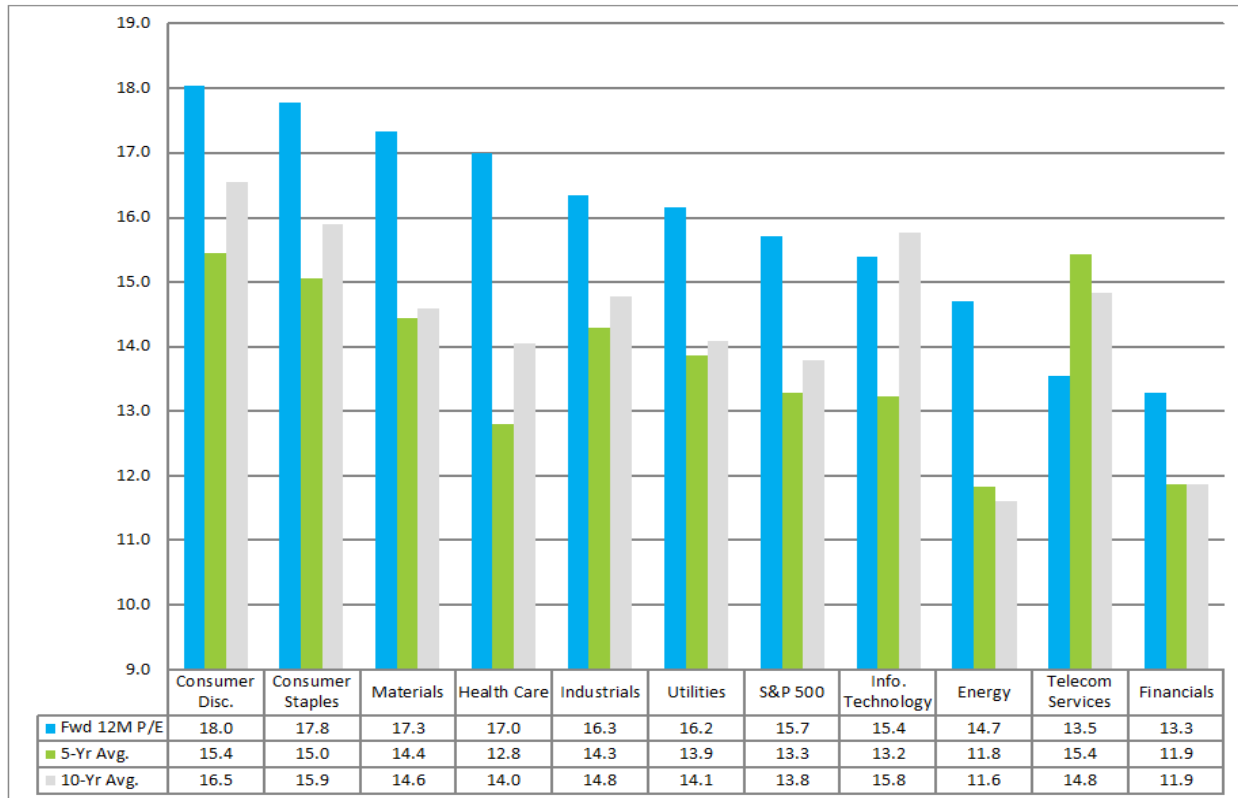


Quarterly Net Margins (Bottom-Up EPS / Bottom-Up SPS)

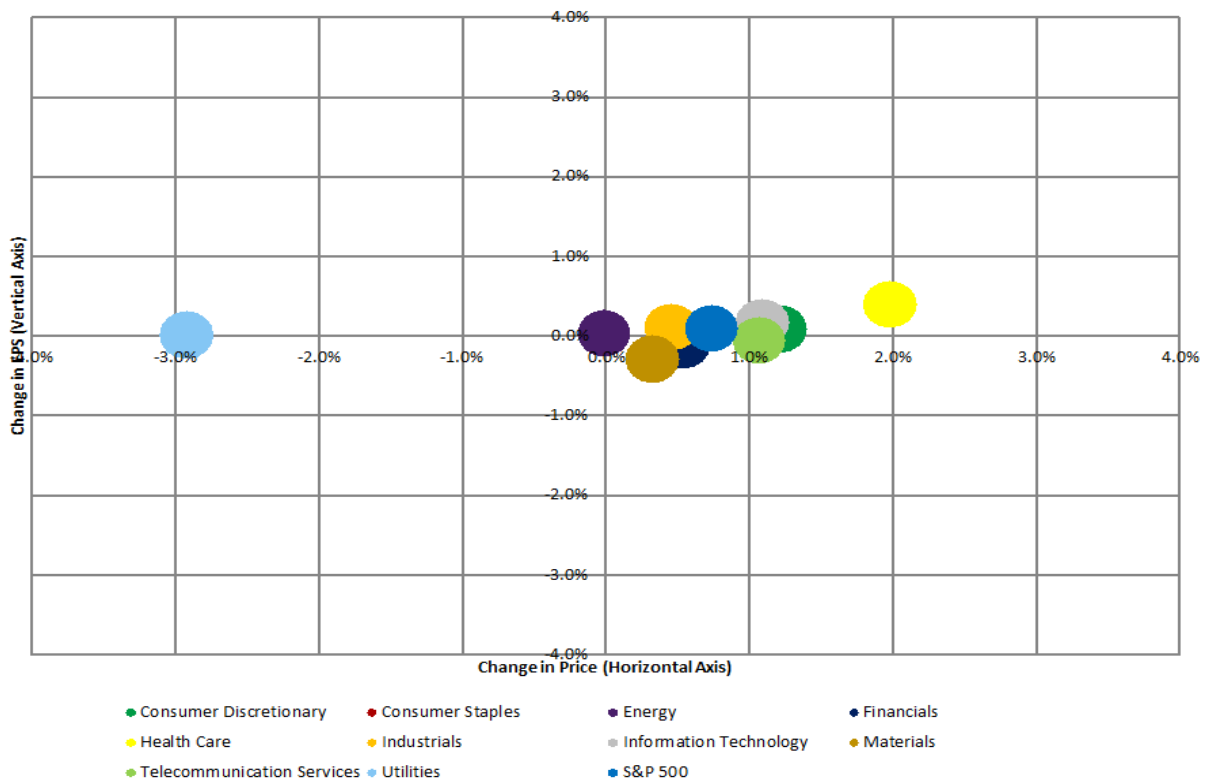


Forward 12M Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

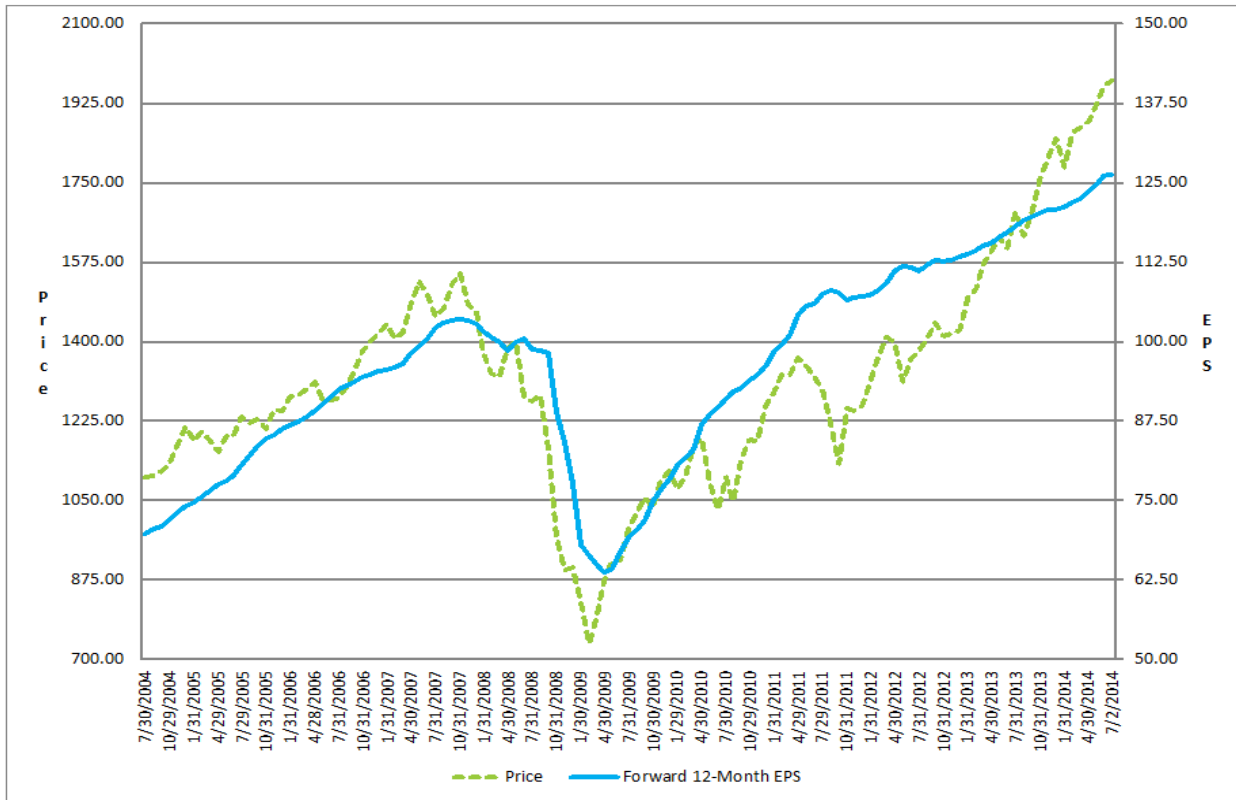


Sector-Level Change in Price vs. Change Forward 12M EPS: Since Jun. 30

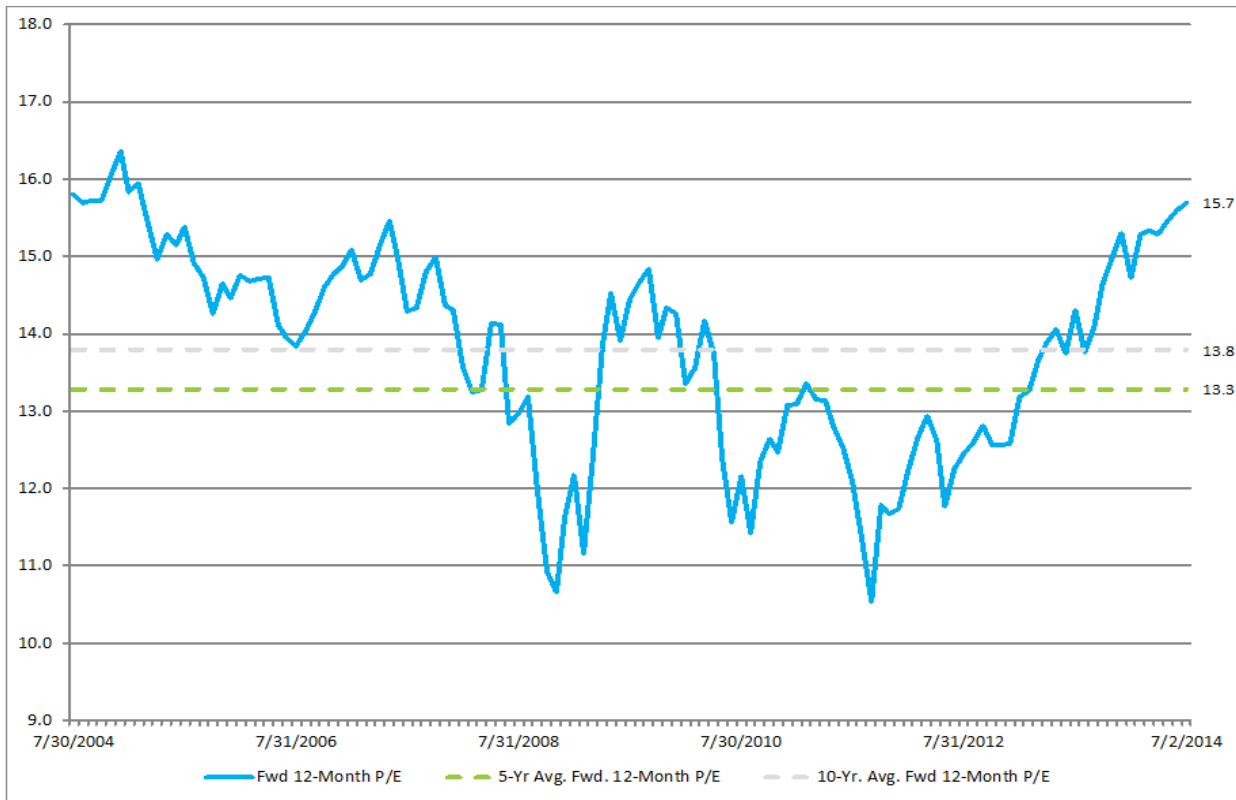


Forward 12M Price / Earnings Ratio: Long-Term Averages

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

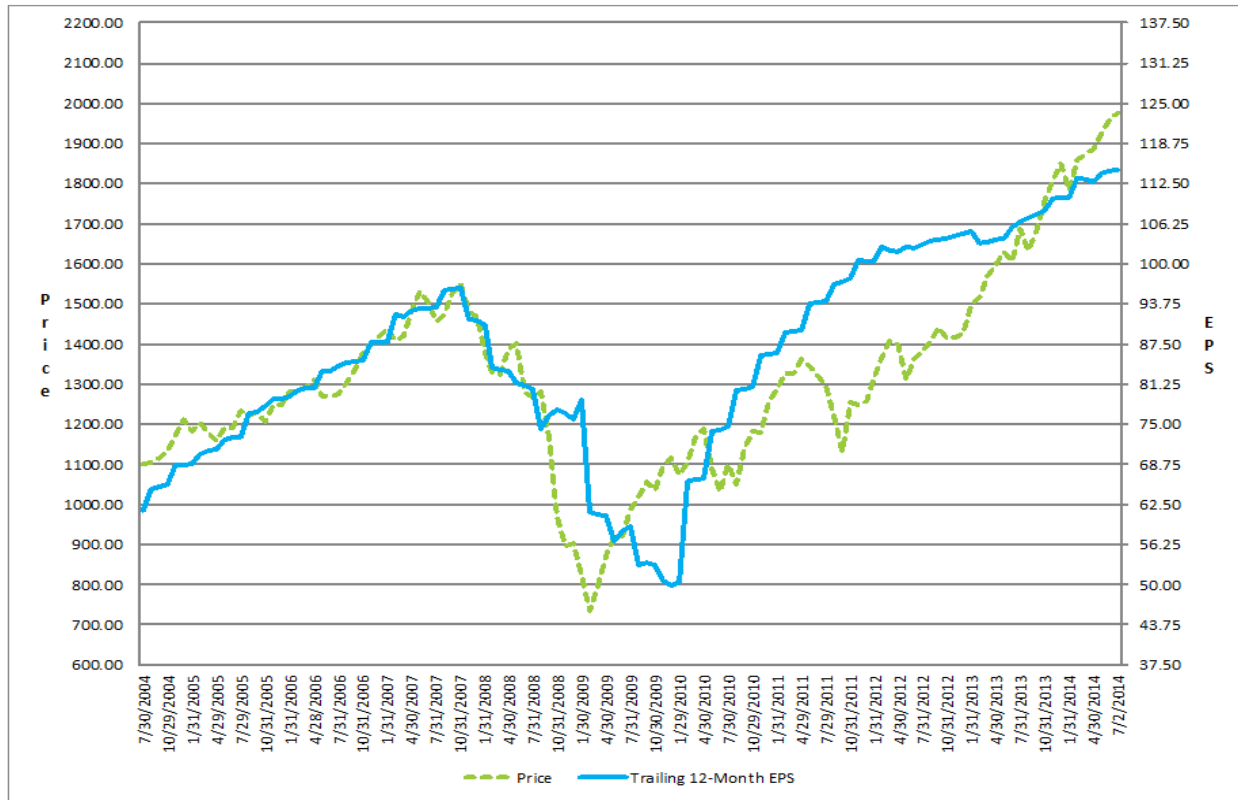


Forward 12M P/E Ratio: 10-Year

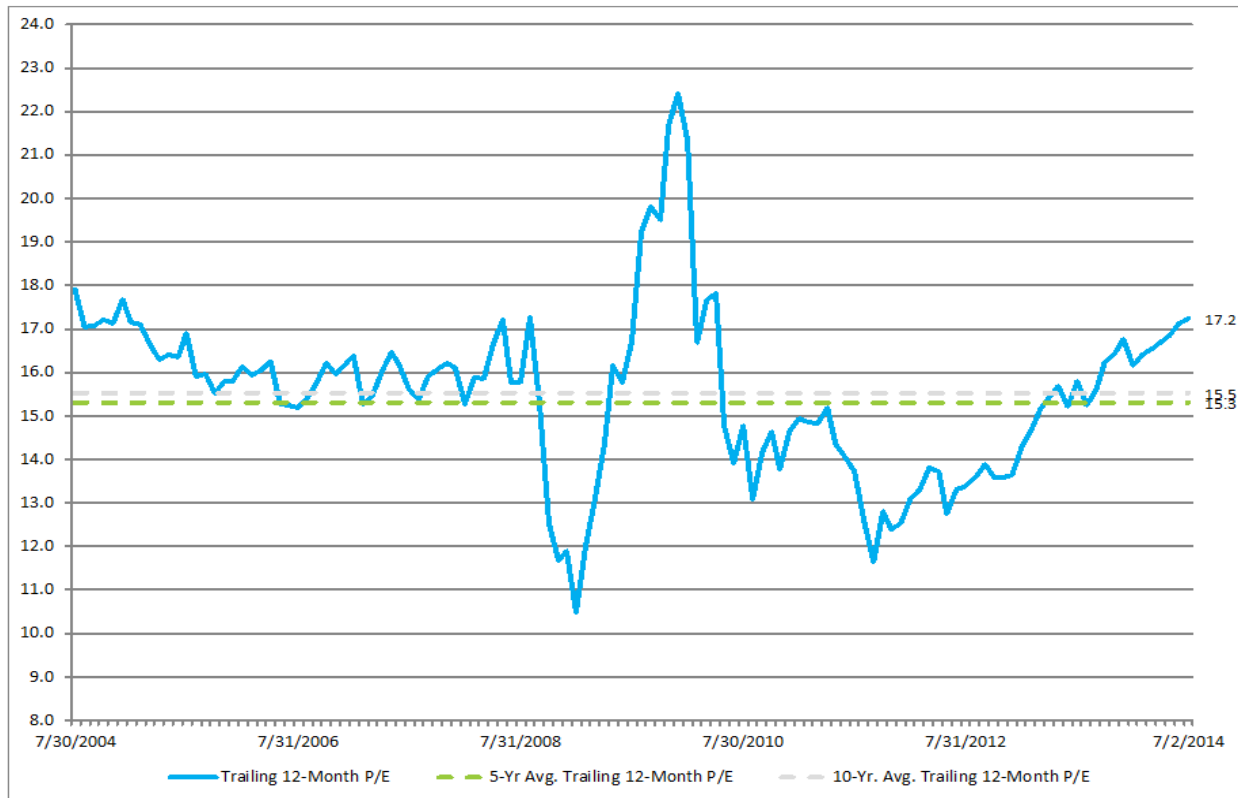


Trailing 12M Price / Earnings Ratio: Long-Term Averages

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



Trailing 12M P/E Ratio: 10-Year



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