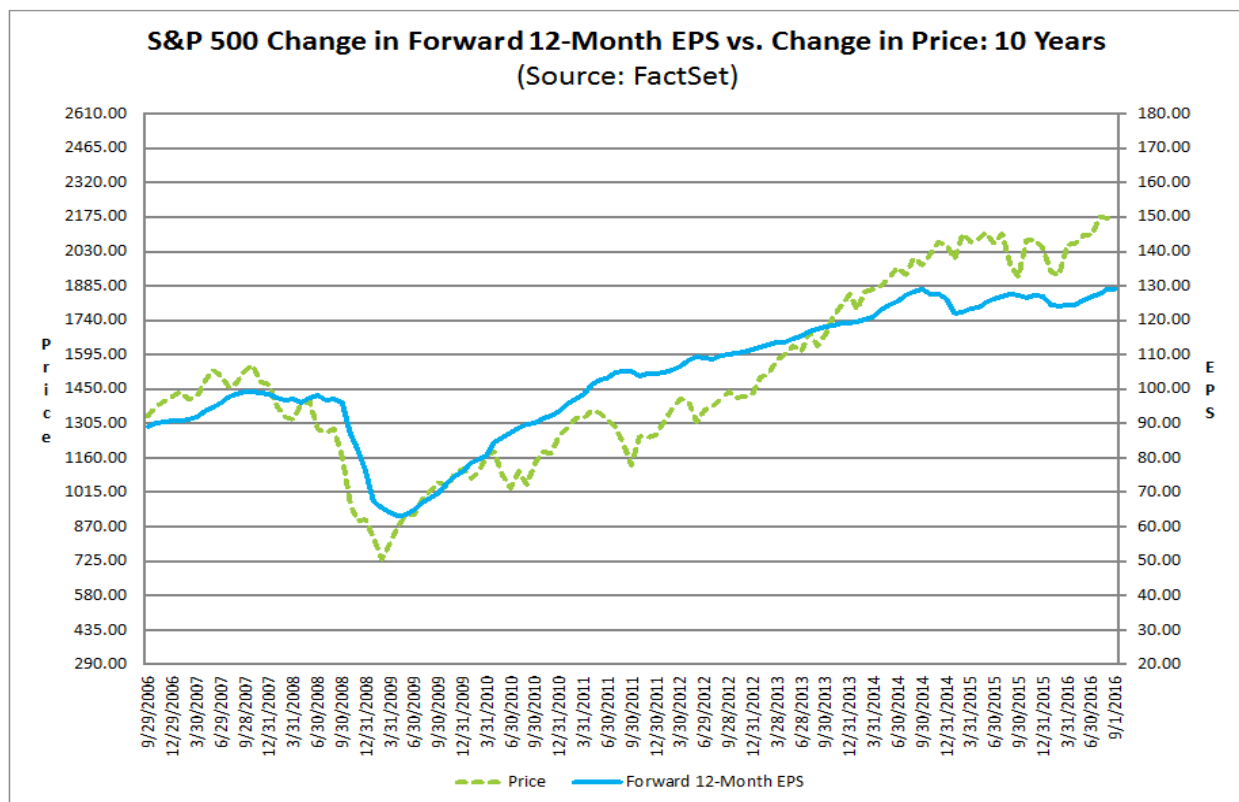


Key Metrics

- **Earnings Scorecard:** With 498 of the companies in the S&P 500 reporting earnings to date for Q2 2016, 70% have reported earnings above the mean estimate and 53% have reported sales above the mean estimate.
- **Earnings Growth:** For Q2 2016, the blended earnings decline for the S&P 500 is -3.2%. The second quarter marked the first time the index has recorded five consecutive quarters of year-over-year declines in earnings since Q3 2008 through Q3 2009.
- **Earnings Revisions:** On June 30, the estimated earnings decline for Q2 2016 was -5.5%. Seven sectors have higher growth rates today (compared to June 30) due to upside earnings surprises, led by the Information Technology and Consumer Discretionary sectors.
- **Earnings Guidance:** For Q3 2016, 78 S&P 500 companies have issued negative EPS guidance and 33 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 16.9. This P/E ratio is above the 5-year average (14.8) and the 10-year average (14.3).



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Topic of the Week:

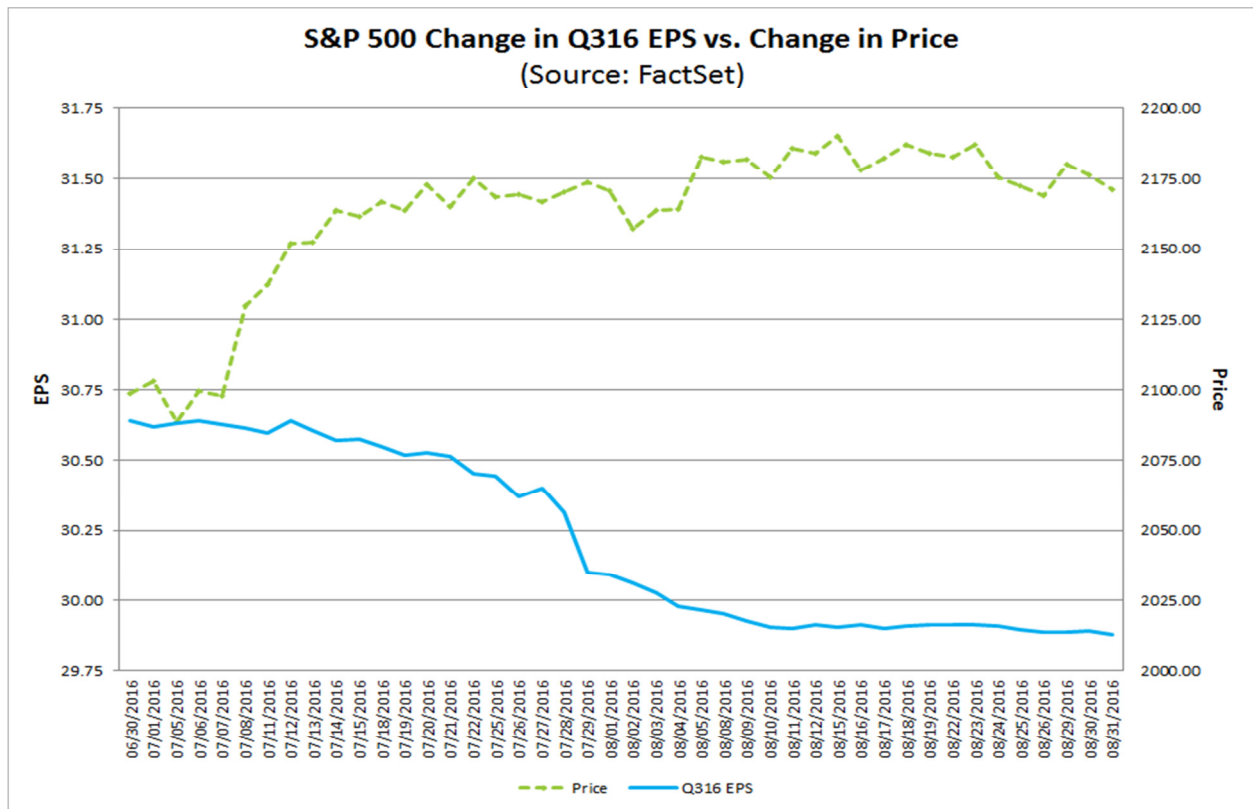
Below Average Drop in S&P 500 EPS Estimate For Q3 2016 to Date

During the first two months of the third quarter, analysts lowered earnings estimates for companies in the S&P 500 for the quarter. The Q3 bottom-up EPS estimate (which is an aggregation of the EPS estimates for all the companies in the index) dropped by 2.5% (to \$29.88 from \$30.64) during this period. How significant is a 2.5% decline in the bottom-up EPS estimate during the first two months of a quarter? How does this decrease compare to recent quarters?

During the past year (4 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 3.9%. During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 3.4%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has also been 3.8%. Thus, the decline in the bottom-up EPS estimate recorded during the first two months of the third quarter was smaller than the 1-year, 5-year, and 10-year averages.

As the bottom-up EPS estimate declined during the first two months of the quarter, the value of the S&P 500 increased during this same time frame. From June 30 through August 31, the value of the index increased by 3.4% (to 2170.95 from 2098.86). This quarter marked the 16th time in the past 20 quarters in which the bottom-up EPS estimate decreased during the first two months of the quarter while the value of the index increased during the first two months of the quarter.

At the sector level, the Energy sector witnessed the largest percentage decline in the bottom-up EPS estimate of all ten sectors at -24.0% (to \$1.63 from \$2.15). The value of the S&P 500 Energy sector also declined during this time frame. From June 30 through August 31, the value of the S&P 500 Energy sector decreased by 1.4% (to 505.45 from 512.39).



Q2 2016 Earnings Season: By the Numbers

Overview

For the second quarter, more S&P 500 companies reported actual EPS (70%) above estimates compared to the 5-year average (67%), while fewer S&P 500 companies reported actual sales (53%) above estimates compared to the 5-year average (55%). In aggregate, companies reported earnings that were 4.1% above the estimates. This percentage was slightly below the 5-year average (+4.2%).

The blended, year-over-year earnings decline for Q2 2016 is -3.2%, which is smaller than the expected earnings decline of -5.5% at the end of the quarter (June 30). Five sectors reported year-over-year earnings growth, led by the Consumer Discretionary and Telecom Services sectors. Five sectors reported a year-over-year decline in earnings, led by the Energy and Materials sectors.

The blended, year-over-year revenue decline for Q2 2016 is -0.2%, which is smaller than the expected revenue decline of -0.8% at the end of the quarter (June 30). Five sectors reported year-over-year growth in revenues, led by the Telecom Services and Health Care sectors. Five sectors reported a year-over-year decline in revenues, led by the Energy and Materials sectors.

Analysts currently project revenue growth to return in Q3 2016 and earnings growth to return in Q4 2016.

The forward 12-month P/E ratio is now 16.9, which is above the 5-year and 10-year averages.

During the upcoming week, 2 S&P 500 companies are scheduled to report results for the second quarter.

More Companies Beat EPS Estimates But Missed Sales Estimates

Percentage of Companies Beating EPS Estimates (70%) Was Above 5-Year Average

Overall, 498 of the companies in the S&P 500 have reported earnings to date for the second quarter. Of these companies, 70% reported actual EPS above the mean EPS estimate, 11% reported actual EPS equal to the mean EPS estimate, and 19% reported actual EPS below the mean EPS estimate. The percentage of companies that reported EPS above the mean EPS estimate was equal to the 1-year (70%) average, but above the 5-year (67%) average.

At the sector level, the Information Technology (85%) and Health Care (84%) sectors had the highest percentages of companies reporting earnings above estimates, while the Telecom Services (40%), Utilities (56%), and Materials (58%) sectors had the lowest percentages of companies reporting earnings above estimates.

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

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

The Industrials (+7.3%) and Information Technology (+7.2%) sectors reported the largest upside aggregate differences between actual earnings and estimated earnings, while the Energy (-25.8%) sector reported the largest downside aggregate difference between actual earnings and estimated earnings.

Market Rewarded Earnings Beats and Punished Earnings Misses

The market rewarded upside earnings surprises slightly more than average during the Q2 earnings season, but also punished downside earnings surprises more than average during this period.

Companies that reported upside earnings surprises for Q2 2016 saw an average price increase of +1.3% two days before the earnings release through two days after the earnings release. This percentage was slightly below the 5-year average price increase of +1.2% during this same window for companies reporting upside earnings surprises.

Companies in the index that reported downside earnings surprises for Q2 2016 saw an average price decrease of -2.9% two days before the earnings release through two days after the earnings release. This percentage decrease was 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%) Was Below 5-Year Average

In terms of revenues, 53% of companies reported actual sales above estimated sales and 47% reported actual sales below estimated sales. The percentage of companies that reported sales above estimates was above the 1-year average (49%), but below the 5-year average (55%).

At the sector level, the Information Technology (75%) and Health Care (74%) sectors had the highest percentages of companies reporting revenues above estimates, while the Utilities (7%) and Telecom Services (20%) sectors had the lowest percentages of companies reporting revenues above estimates.

Revenue Surprise Percentage (+0.5%) Was Below 5-Year Average

In aggregate, companies reported sales that were 0.5% above expectations. This surprise percentage was above the 1-year (0.0%) average, but below the 5-year (+0.6%) average.

The Energy (+2.0%) and Information Technology (+1.8%) sectors reported the largest upside aggregate differences between actual sales and estimated sales, while the Utilities (-7.5%) sector reported the largest downside aggregate difference between actual sales and estimated sales.

Information Technology Sector Saw Largest Increase in Earnings Growth During Earnings Season

The blended earnings decline for Q2 2016 of -3.2% is smaller than the estimated earnings decline of -5.5% at the end of the second quarter (June 30). Seven sectors recorded an increase in earnings growth during this time due to upside earnings surprises, led by the Information Technology (to -0.6% from -7.3%) and Consumer Discretionary (to 11.7% from 6.3%) sectors. Three sectors recorded a decrease in earnings growth during this time due to downside earnings surprises and downward revisions to estimates, led by the Energy (to -84.1% from -78.1%) sector.

Earnings Growth: Fifth Consecutive Quarter of Year-Over-Year Earnings Declines (-3.2%)

The blended earnings decline for Q2 2016 is -3.2% (with 2 companies yet to report). The second quarter marked the first time the index has seen five consecutive quarters of year-over-year declines in earnings since Q3 2008 through Q3 2009. Five sectors reported year-over-year growth in earnings, led by the Consumer Discretionary and Telecom Services sectors. Five sectors reported a year-over-year decline in earnings, led by the Energy and Materials sectors.

Consumer Discretionary: Internet Retail, Home Goods, and Autos Led Growth

The Consumer Discretionary sector reported the highest earnings growth at 11.7%. At the industry level, 8 of the 12 industries in this sector reported earnings growth for the quarter. Of these 8 industries, 5 reported double-digit earnings growth: Internet & Catalog Retail (86%), Household Durables (32%), Automobiles (24%), Auto Components (16%), and Distributors (15%).

Telecom Services: AT&T Led Growth

The Telecom Services sector reported the second highest earnings growth at 7.2%. Of the five companies in the sector, AT&T was the largest contributor to earnings growth. The company reported actual EPS of \$0.72 (which reflected the combination of AT&T and DIRECTV) for Q2 2016, compared to year-ago EPS of \$0.69 (which reflected standalone AT&T) for Q2 2015. If this company is excluded, the blended earnings growth rate for the Telecom Services sector would fall to -5.7%.

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

The Energy sector reported the largest year-over-year decline in earnings (-84.1%) of all ten sectors. Five of the six sub-industries in this sector reported a year-over-year decrease in earnings: Oil & Gas Exploration & Production (-657%), Oil & Gas Equipment & Services (-114%), Oil & Gas Drilling (-94%), Integrated Oil & Gas (-59%), and Oil & Gas Refining & Marketing (-53%). The Oil & Gas Storage & Transportation (9%) sub-industry was the only sub-industry in the sector that reported earnings growth for the quarter.

This sector was 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 growth rate for the S&P 500 would improve to 0.8% from -3.2%.

Materials: Weakness in Chemicals

The Materials sector reported the second largest year-over-year decline in earnings (-8.8%) of all ten sectors. At the industry level, two of the four industries in the sector reported a year-over-year decrease in earnings, led by the Chemicals (-13%) industry.

Revenue Growth: Sixth Consecutive Quarter of Year-Over-Year Revenue Declines (-0.2%)

The blended sales decline for Q2 2016 is -0.2% (with 2 companies yet to report). The second quarter marked the first time the index has seen six consecutive quarters of year-over-year declines in sales since FactSet began tracking the data in Q3 2008. Five sectors reported year-over-year growth in revenues, led by the Telecom Services and Health Care sectors. Five sectors reported a year-over-year decline in revenues, led by the Energy and Materials sectors.

Telecom Services: AT&T Led Growth

The Telecom Services sector reported the highest revenue growth of all ten sectors at 9.6%. 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 (which reflected the combination of AT&T and DIRECTV), compared to year-ago sales (which reflected standalone AT&T) of \$33.0 billion for Q2 2015. If AT&T is excluded, the blended revenue growth rate for the sector would fall to -1.2%.

Health Care: Broad-Based Growth

The Health Care sector reported the second highest revenue growth of all ten sectors at 8.5%. All six industries in this sector reported sales growth for the quarter, led by the Health Care Providers & Services (11%) industry.

Energy: Largest Detractor to Revenue Growth in the S&P 500

The Energy sector reported the largest year-over-year decrease in sales (-24.6%) for the quarter. All six sub-industries in the sector reported a year-over-year decrease in revenues: Oil & Gas Drilling (-47%), Oil & Gas Equipment & Services (-34%), Oil & Gas Exploration & Production (-28%), Integrated Oil & Gas (-24%), Oil & Gas Refining & Marketing (-23%), and Oil & Gas Storage & Transportation (-5%).

This sector was also the largest contributor to the sales 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 improve to 2.6% from -0.2%.

Materials: Weakness in Chemicals and Metals & Mining

The Materials (-7.3%) reported the second largest year-over-year decrease in revenues of all ten sectors. Two of the four industries in this sector reported a year-over-year decline in sales for the quarter: Chemicals (-10%) and Metals & Mining (-9%).

Looking Ahead: Forward Estimates and Valuation

Earnings Growth Not Expected to Return Until Q4 2016

For Q2 2016, S&P 500 companies reported a year-over-year decline in earnings (-3.2%) and revenues (-0.2%). Analysts currently expect revenue growth to return in Q3 2016 and earnings growth to return in Q4 2016. In terms of earnings, the estimated growth rates for Q3 2016 and Q4 2016 are -2.1% and 5.5%. In terms of revenues, the estimated growth rates for Q3 2016 and Q4 2016 are 2.0% and 4.8%.

For all of 2016, analysts are projecting earnings to decline year-over-year (-0.4%), but revenues to increase year-over-year (+1.7%).

Guidance: Negative EPS Guidance (70%) for Q3 Below Average to Date

At this point in time, 111 companies in the index have issued EPS guidance for Q3 2016. Of these 111 companies, 78 have issued negative EPS guidance and 33 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 70% (78 out of 111), which is below the 5-year average of 74%.

Valuation: Forward P/E Ratio is 16.9, above the 10-Year Average (14.3)

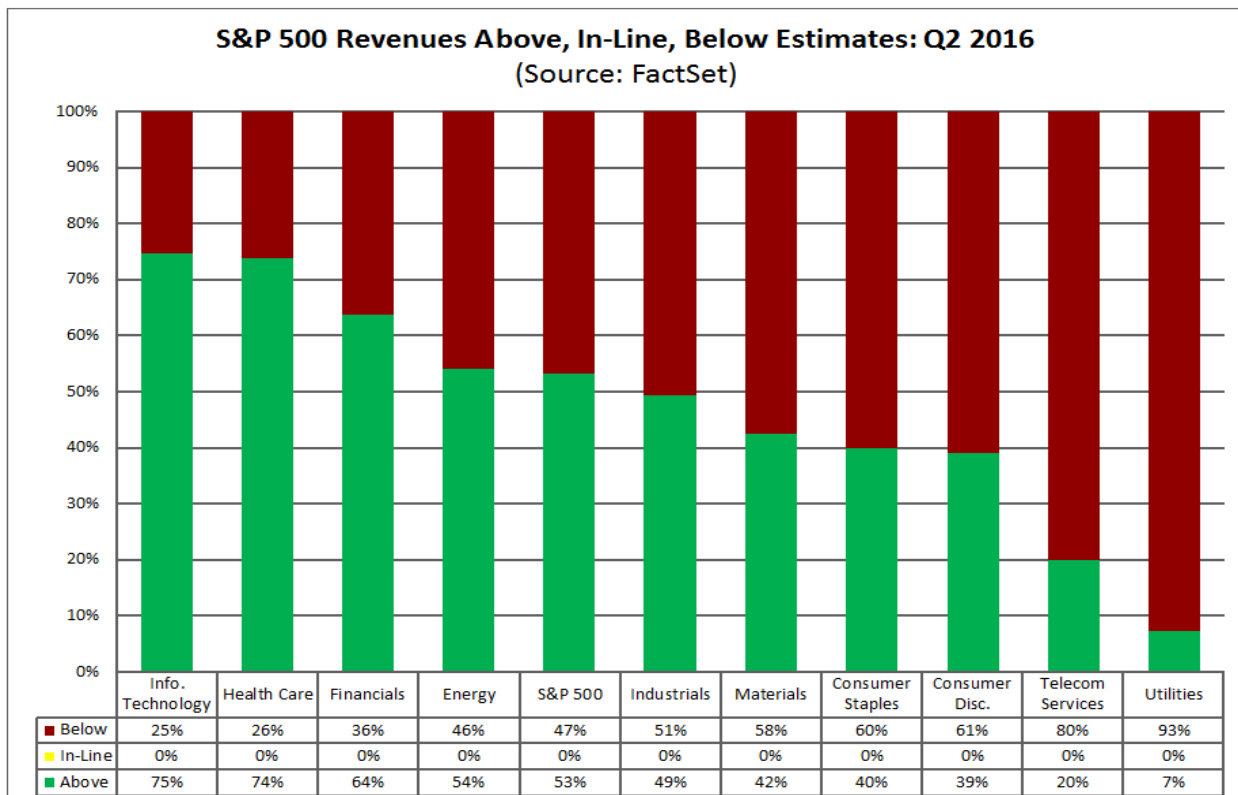
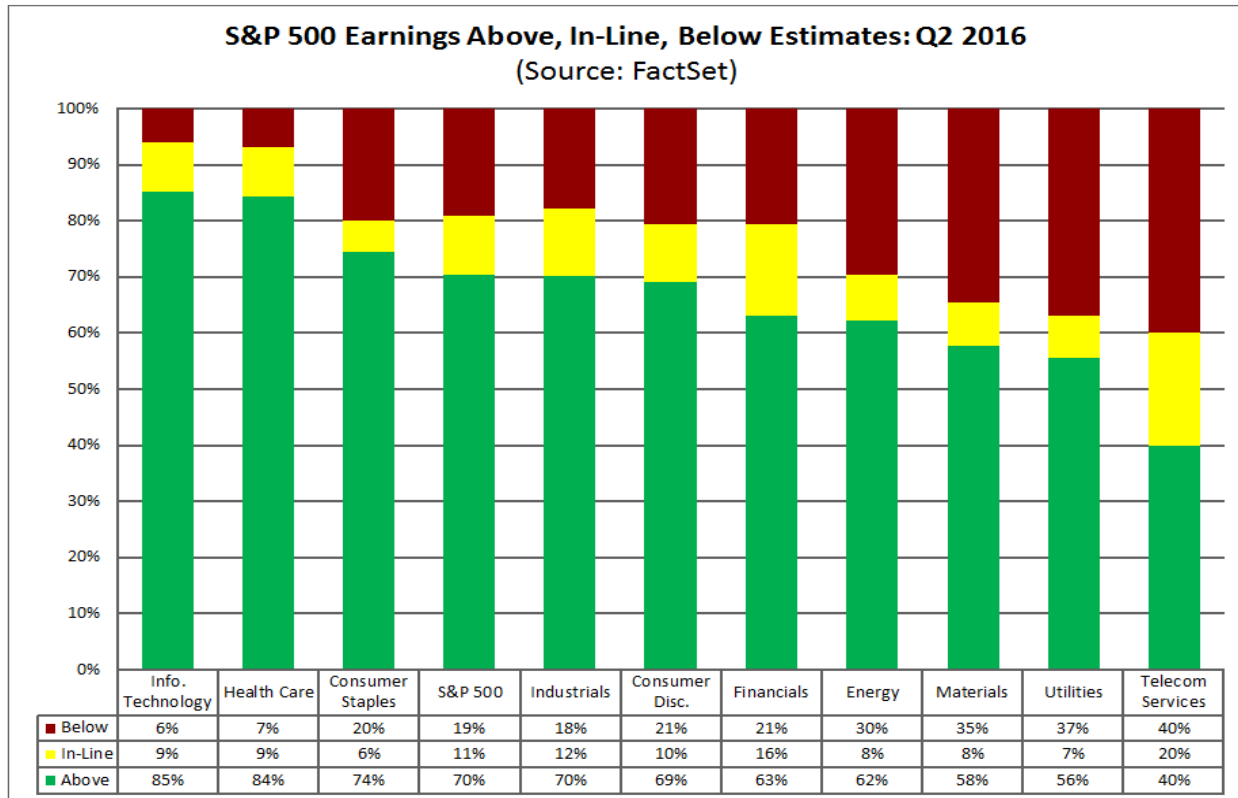
The forward 12-month P/E ratio is 16.9. This P/E ratio is above the 5-year average forward 12-month P/E ratio of 14.8, and above the 10-year average forward 12-month P/E ratio of 14.3. It is also above the forward 12-month P/E ratio of 16.6 recorded at the start of the third quarter (June 30). Since the start of the third quarter, the price of the index has increased by 3.4%, while the forward 12-month EPS estimate has increased by 1.8%.

At the sector level, the Energy (59.3) sector has the highest forward 12-month P/E ratio, while the Financials (13.4) sector has the lowest forward 12-month P/E ratio. Nine of the ten sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (59.3 vs. 16.8) sector. The Telecom Services (13.8) is the only sector with a forward 12-month P/E ratio below its 10-year average (14.6).

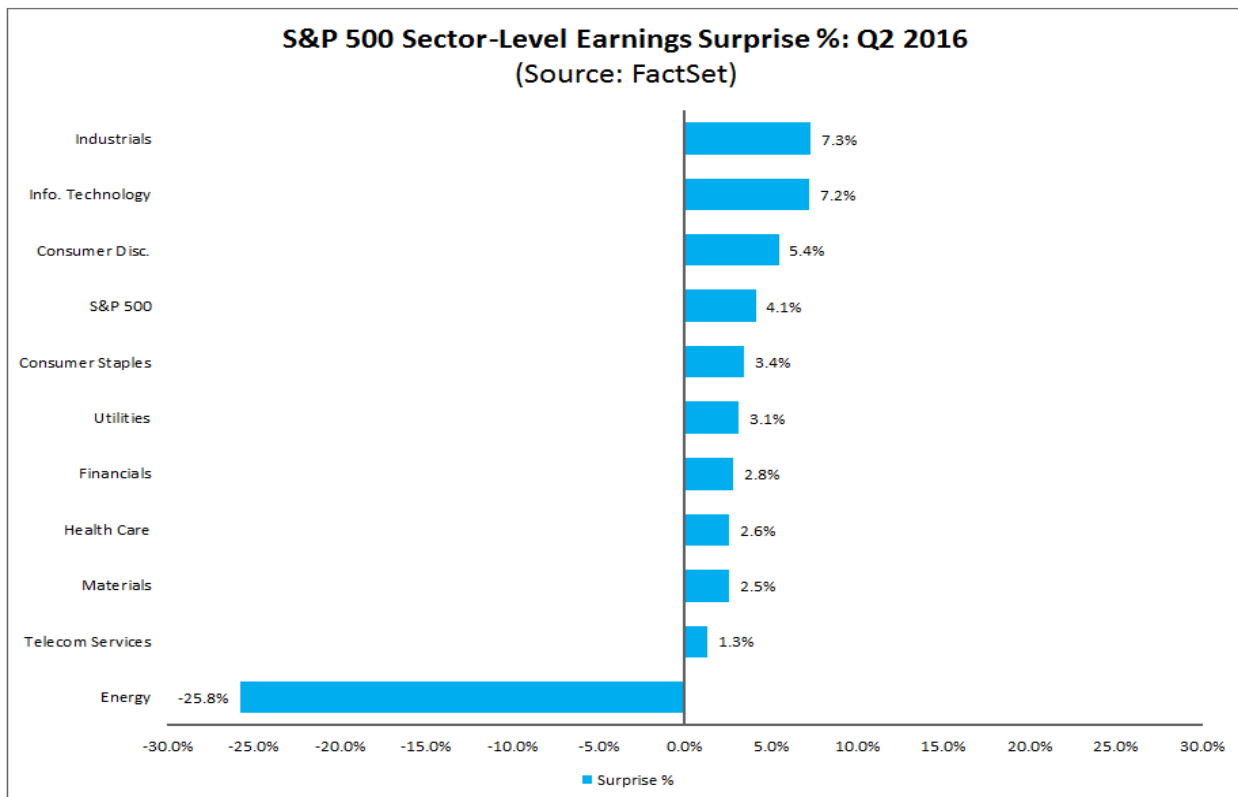
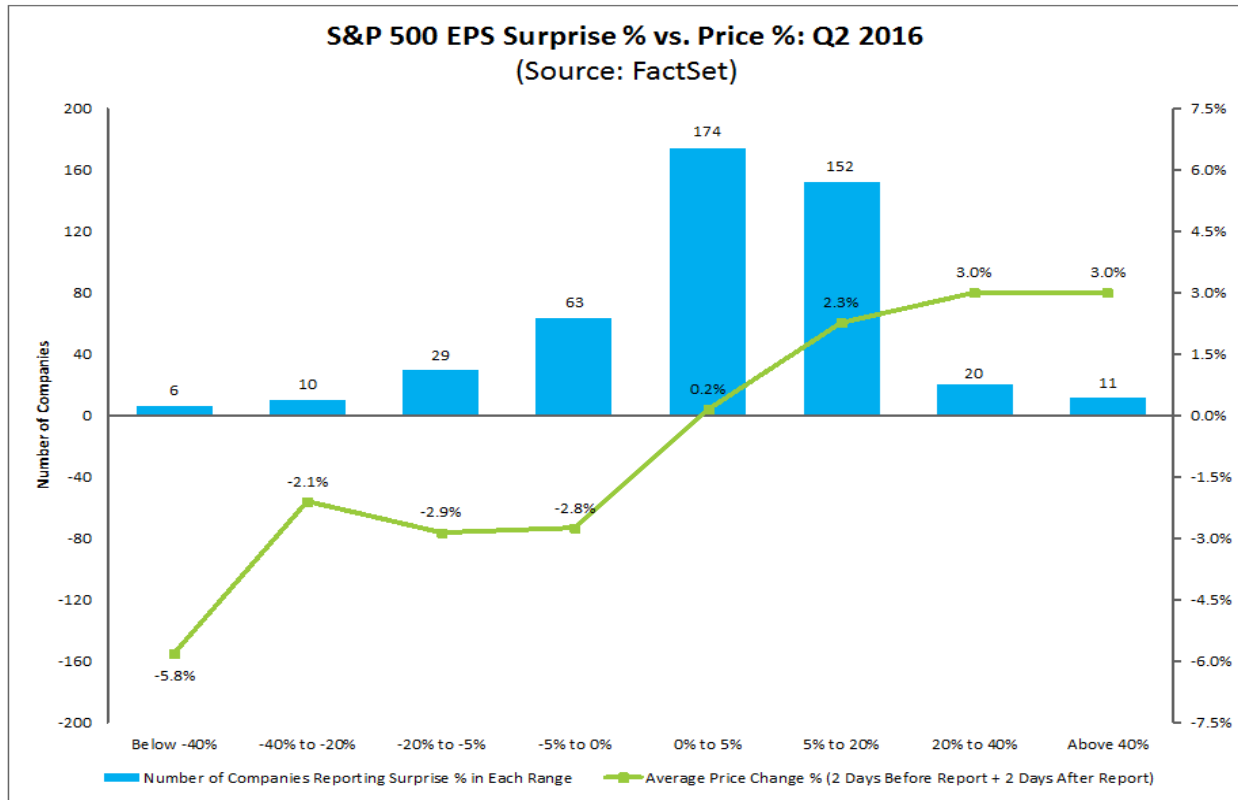
Companies Reporting Next Week: 2

During the upcoming week, 2 S&P 500 companies are scheduled to report results for the second quarter.

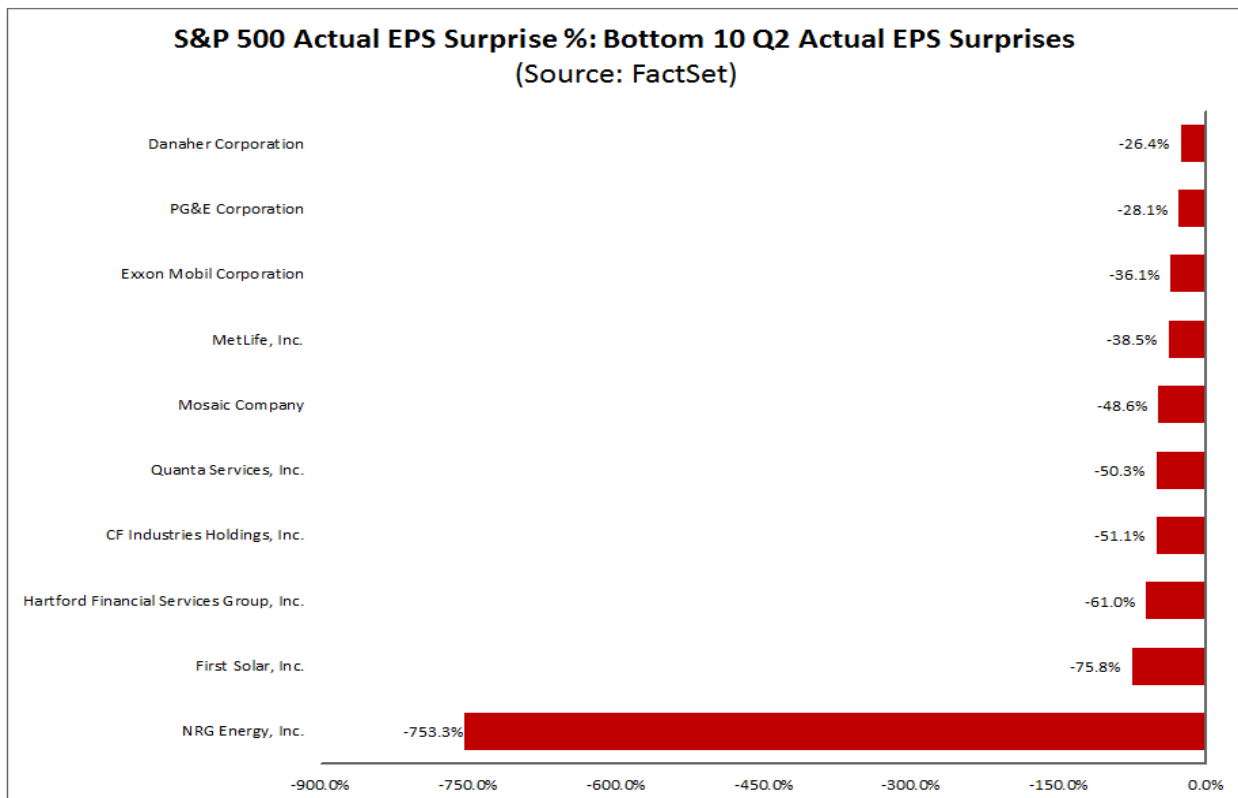
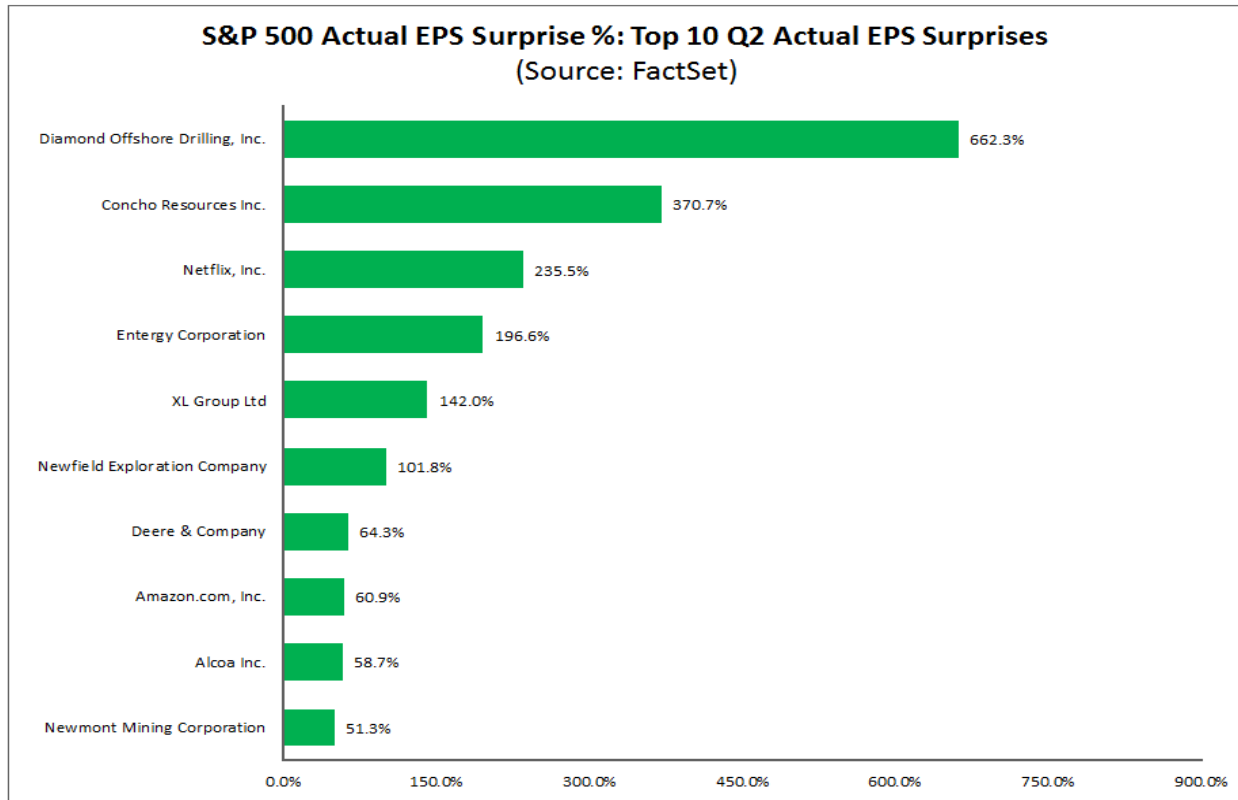
Q2 2016: Scorecard



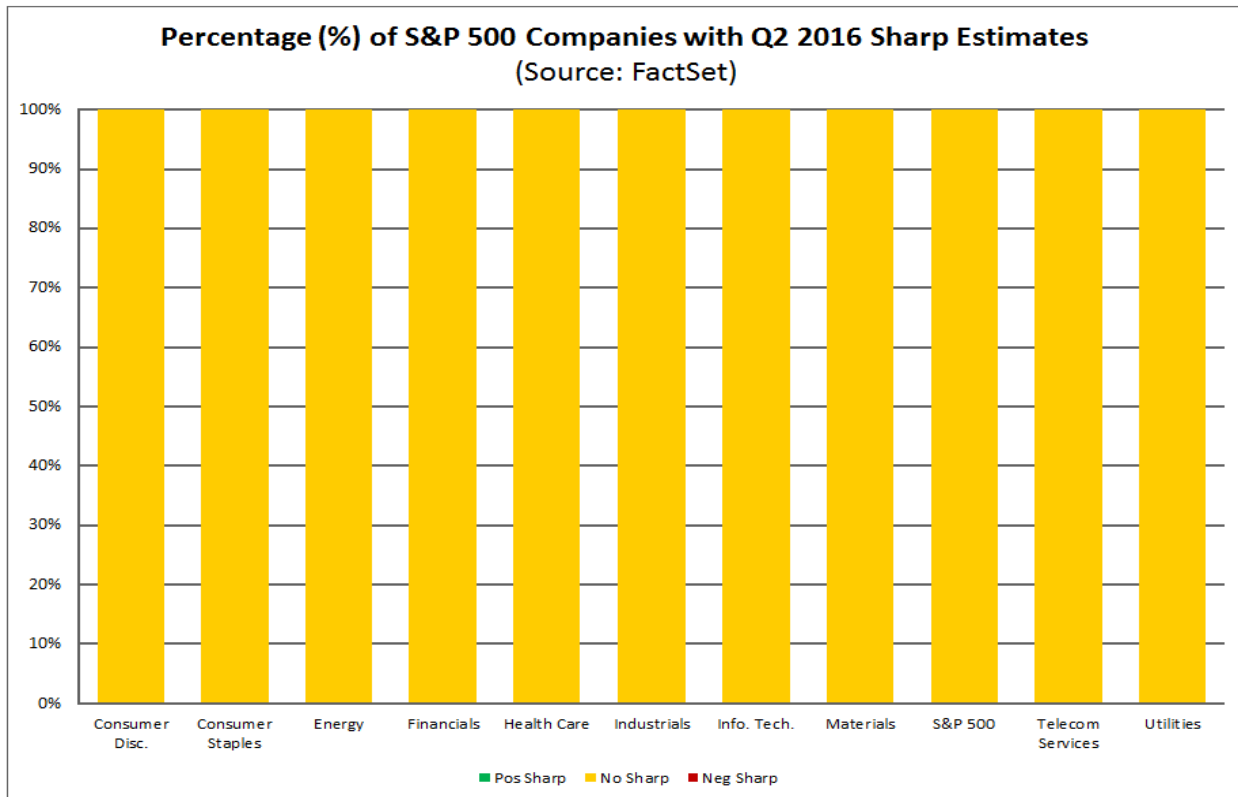
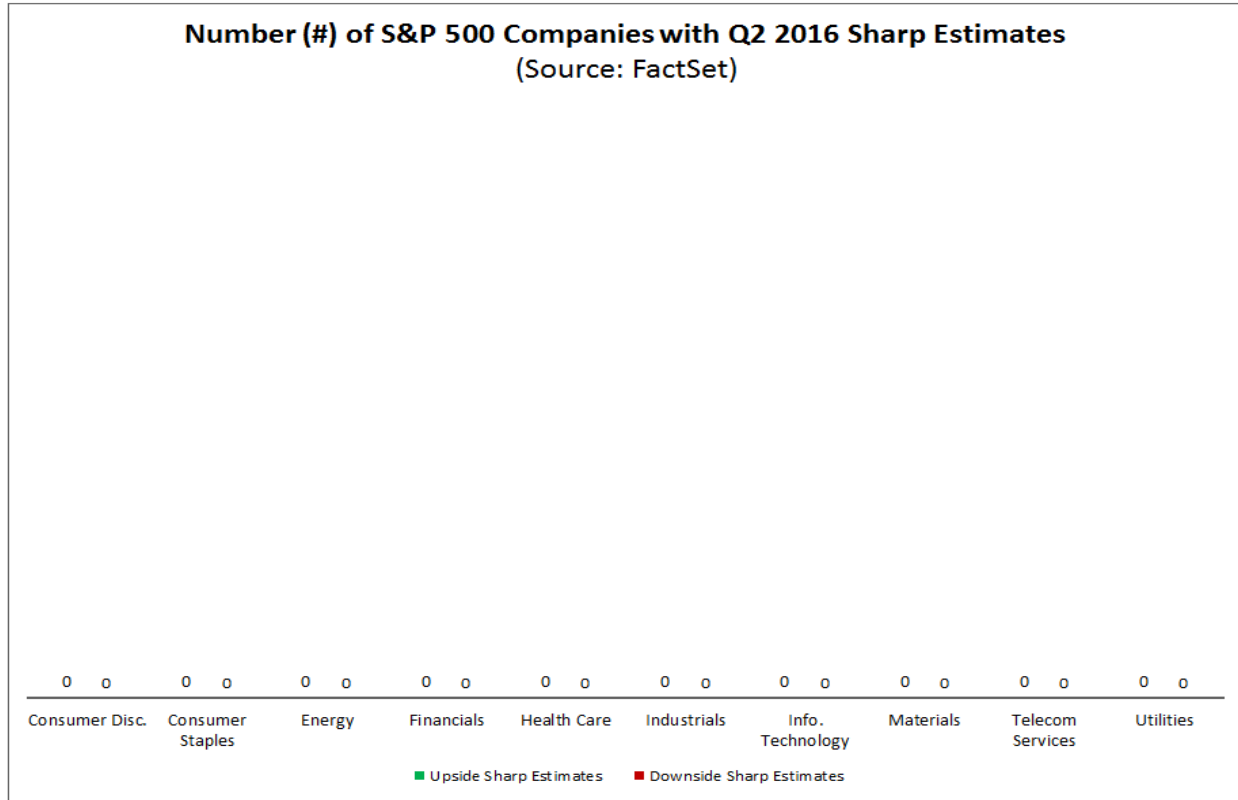
Q2 2016: Scorecard



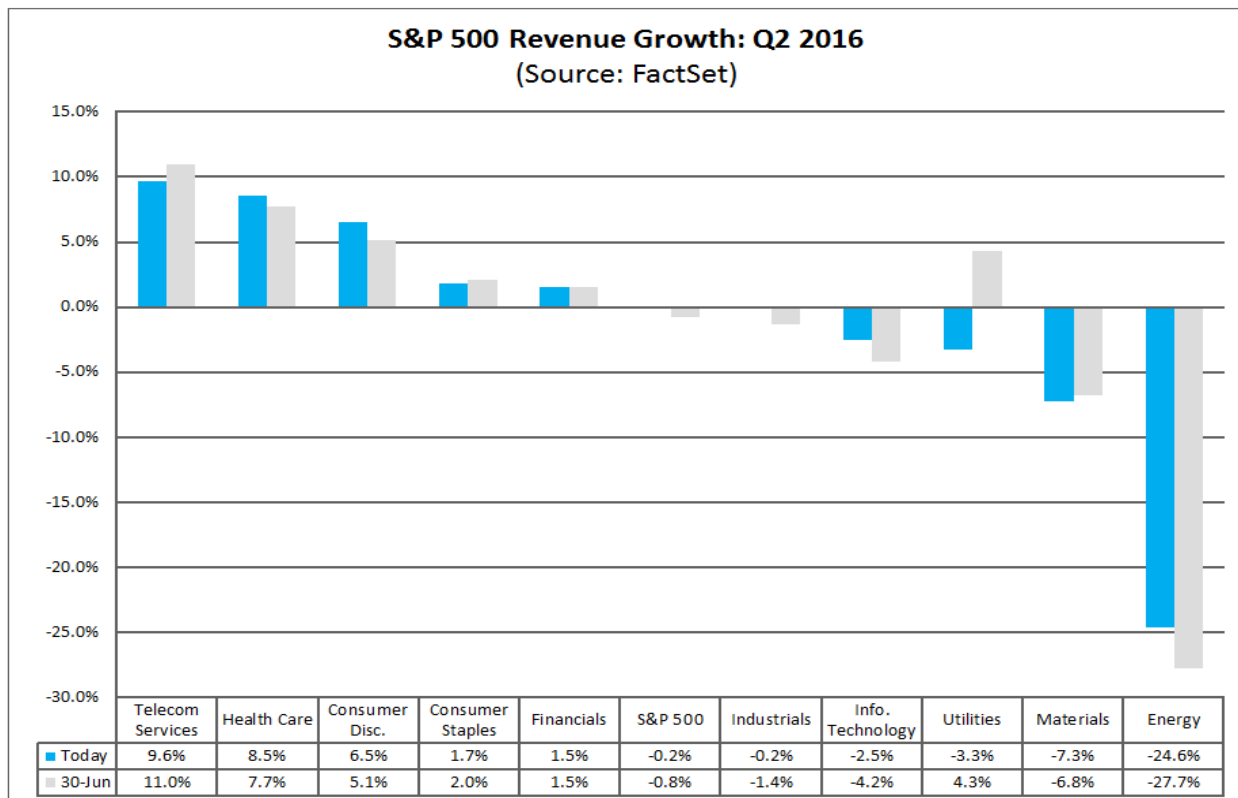
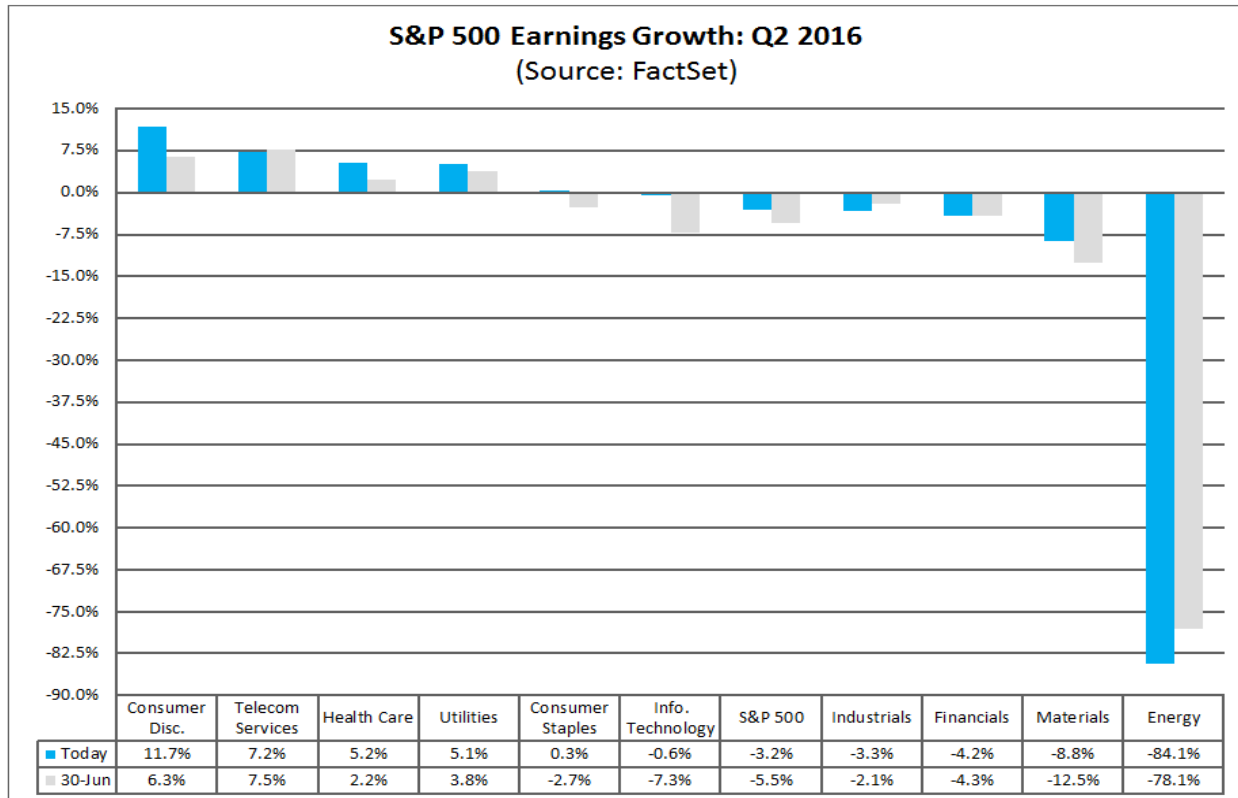
Q2 2016: Scorecard



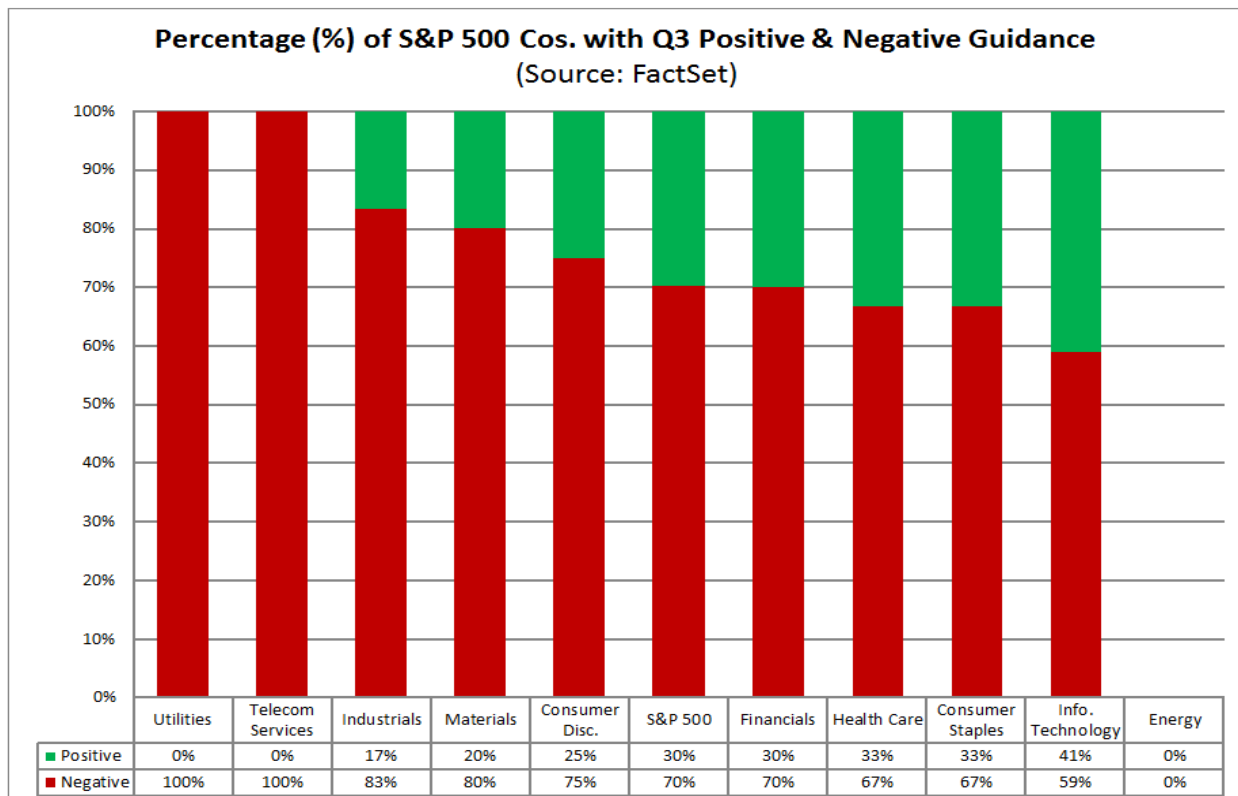
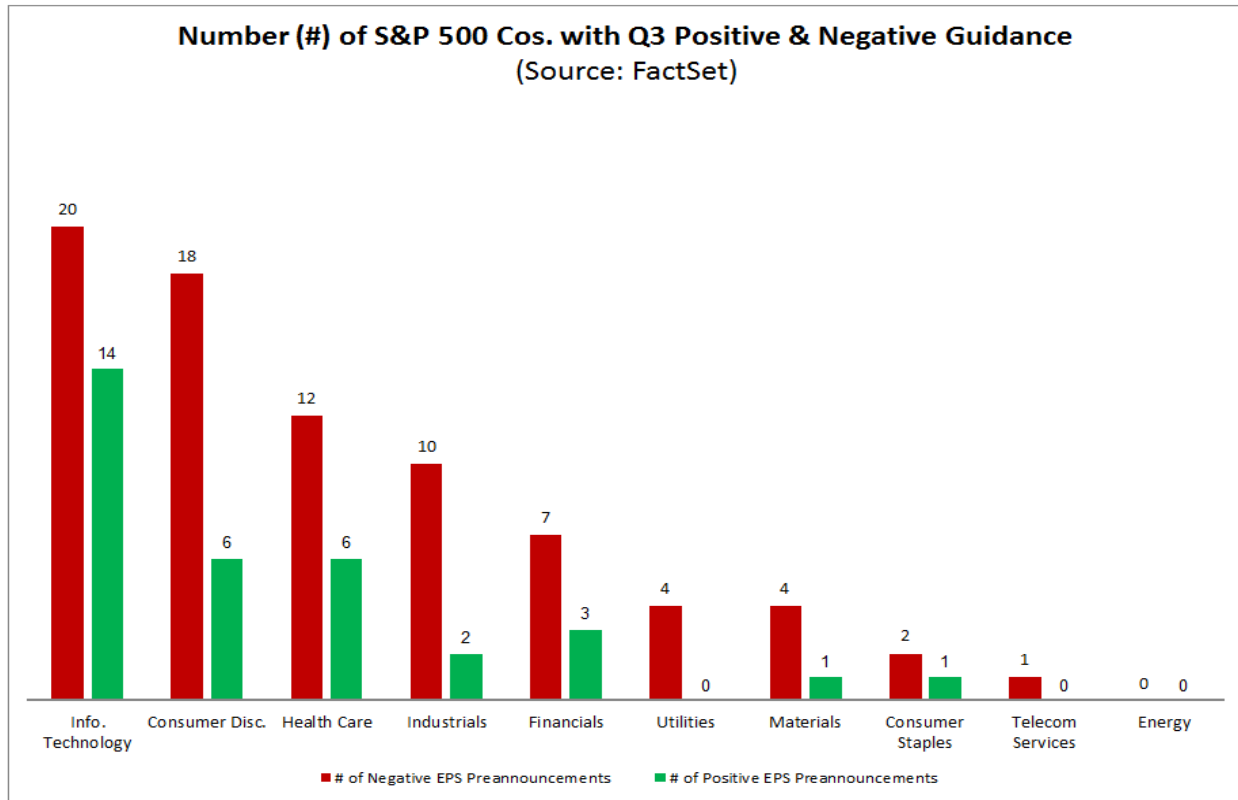
Q2 2016: Projected EPS Surprises (Sharp Estimates)



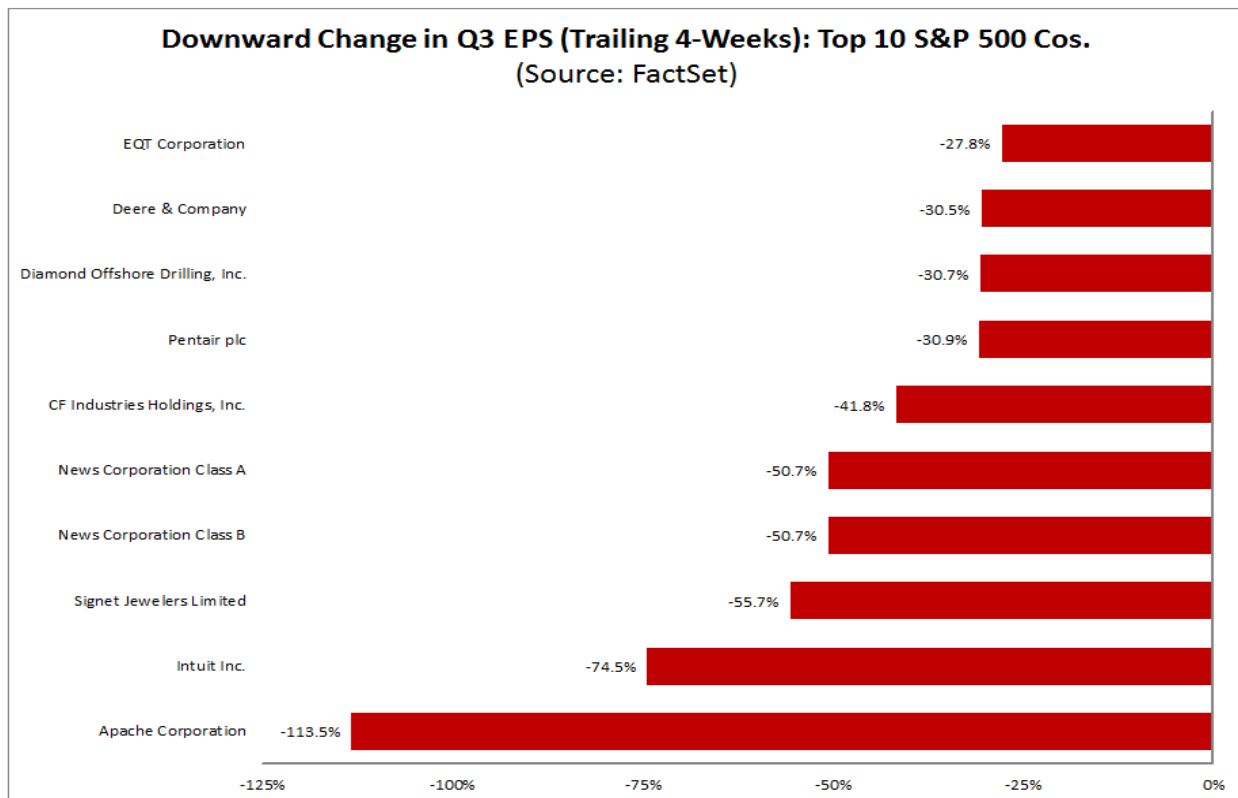
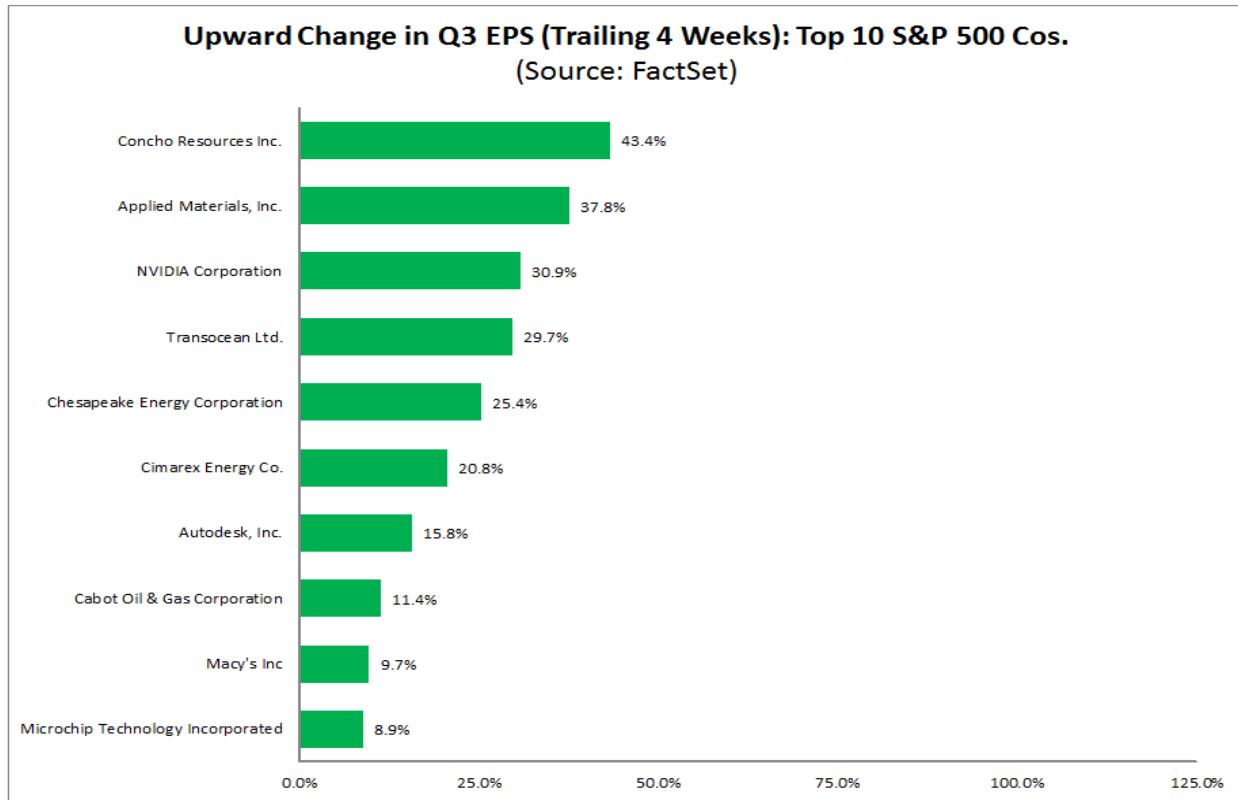
Q2 2016: Growth



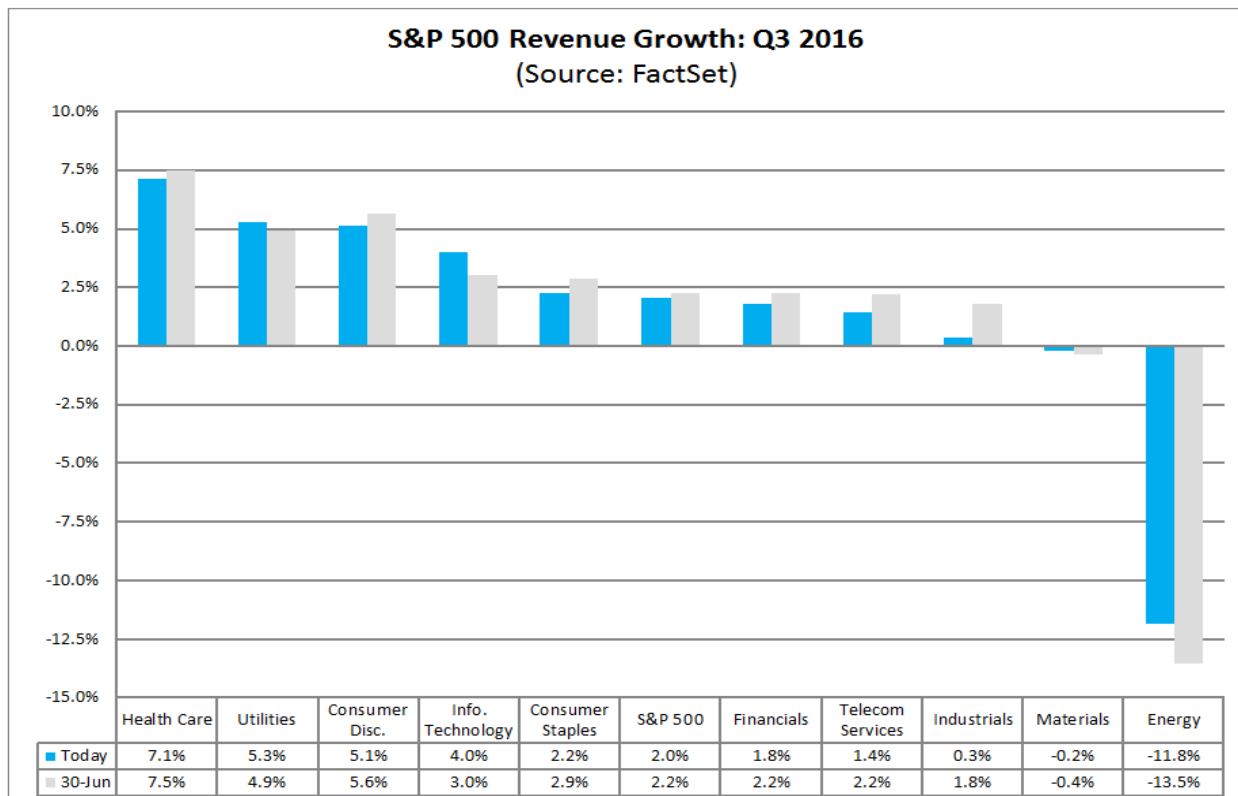
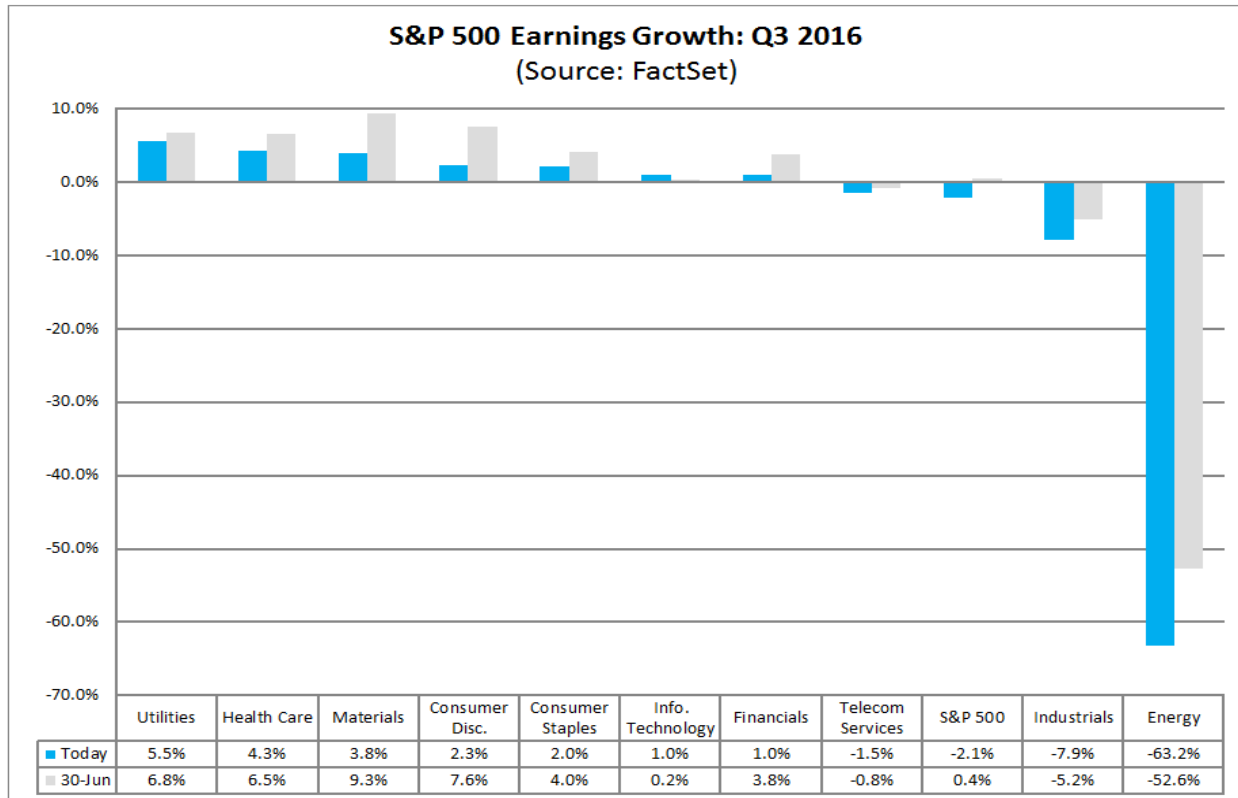
Q3 2016: EPS Guidance



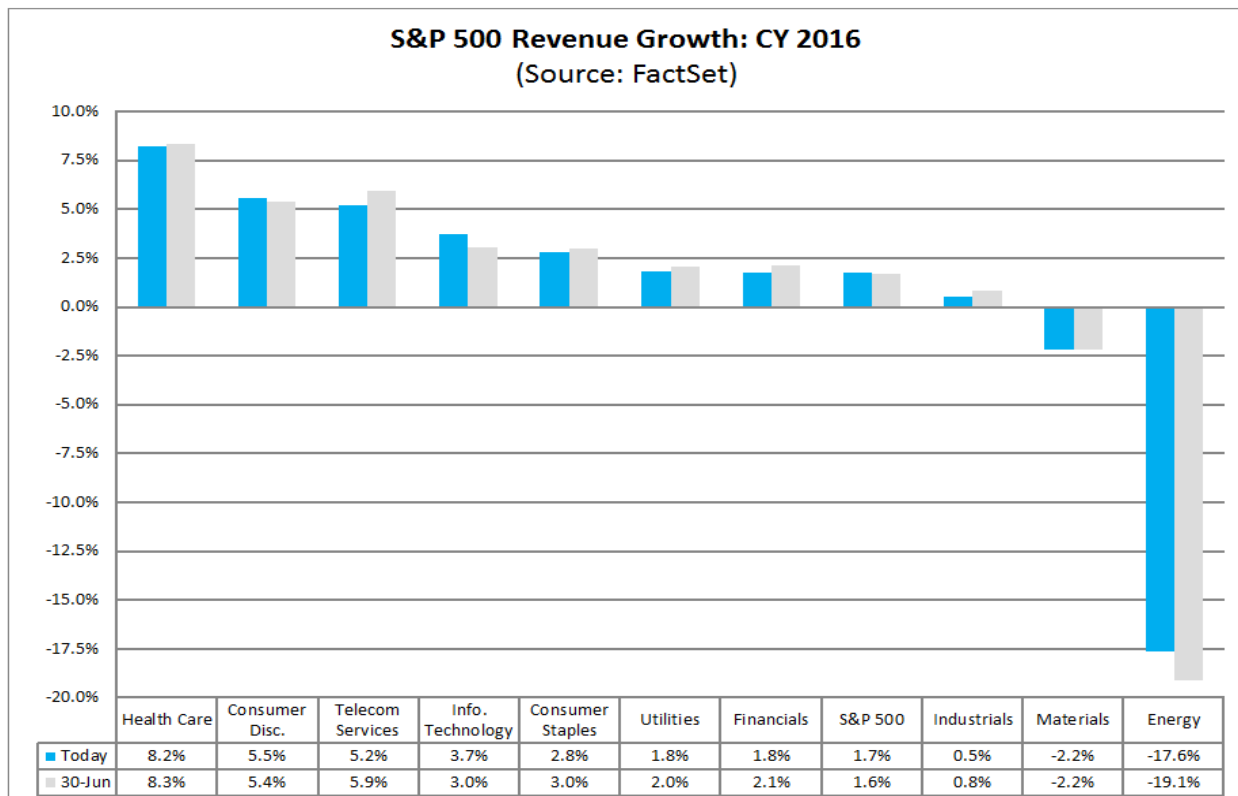
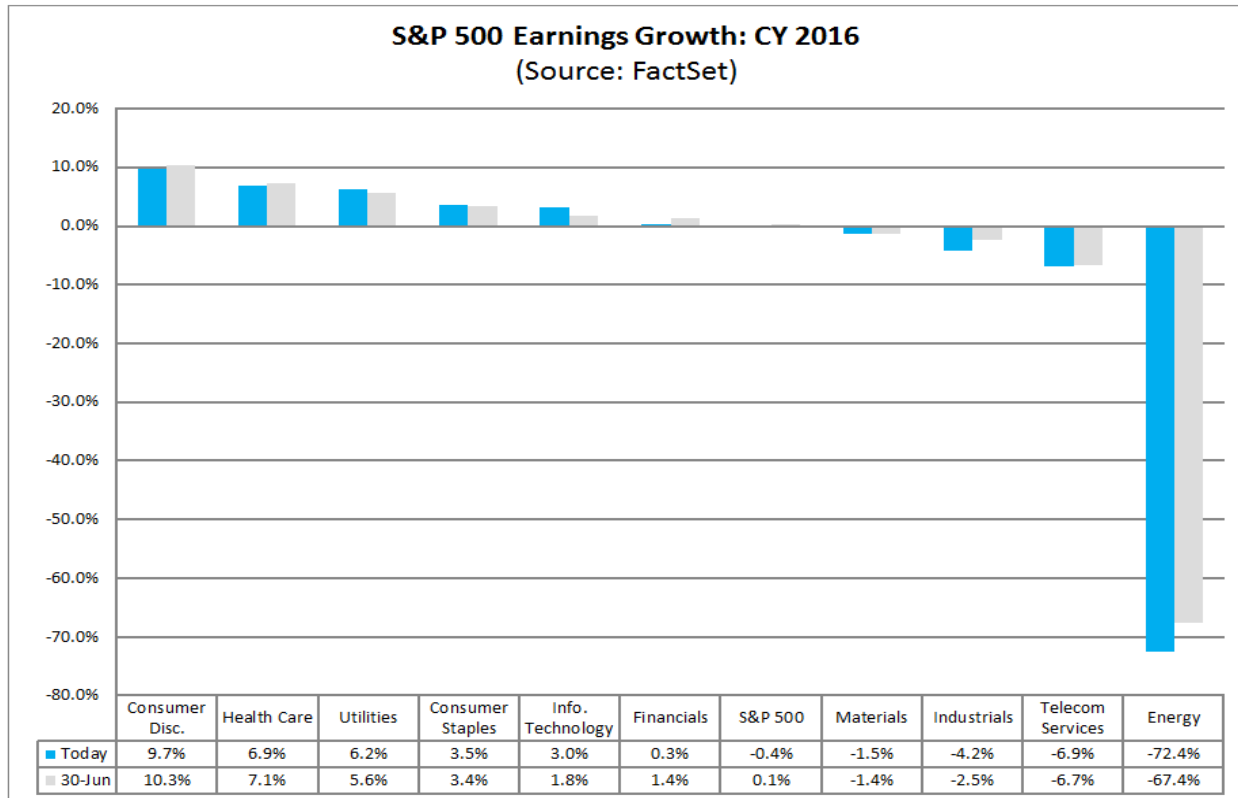
Q3 2016: EPS Revisions



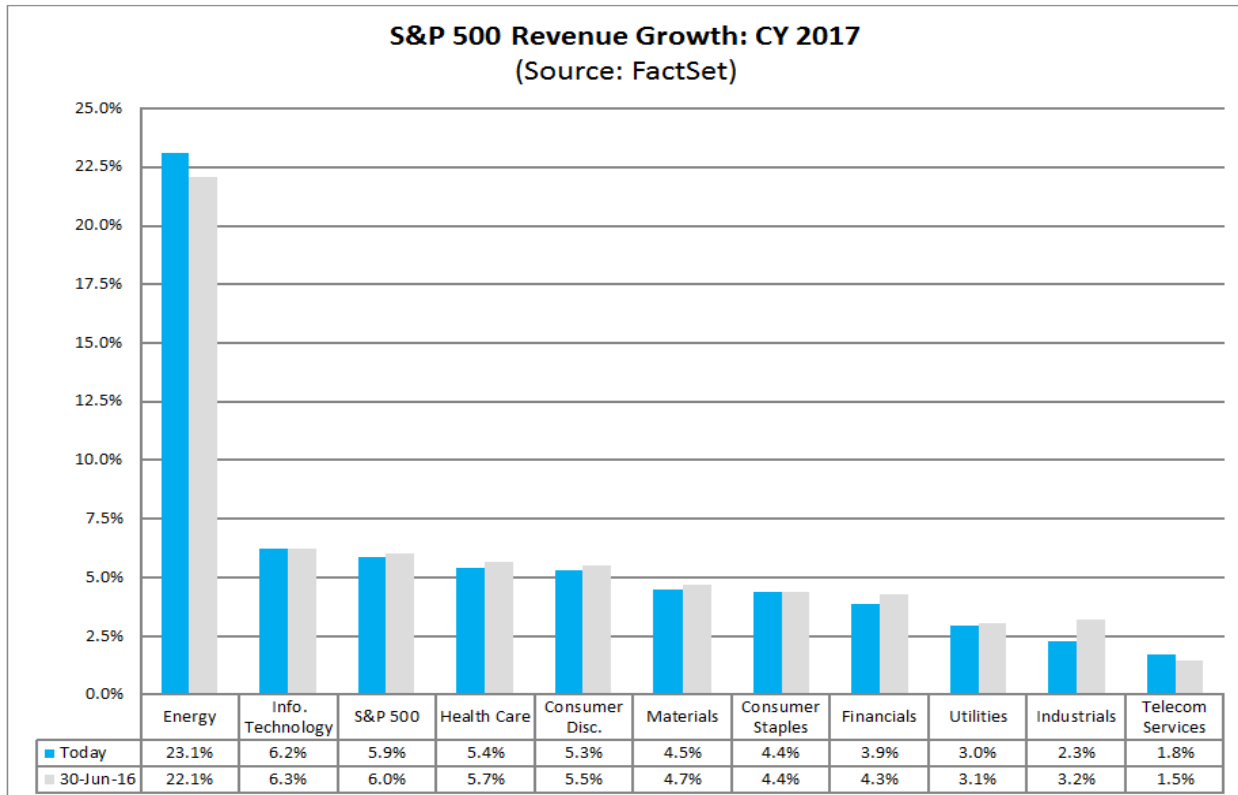
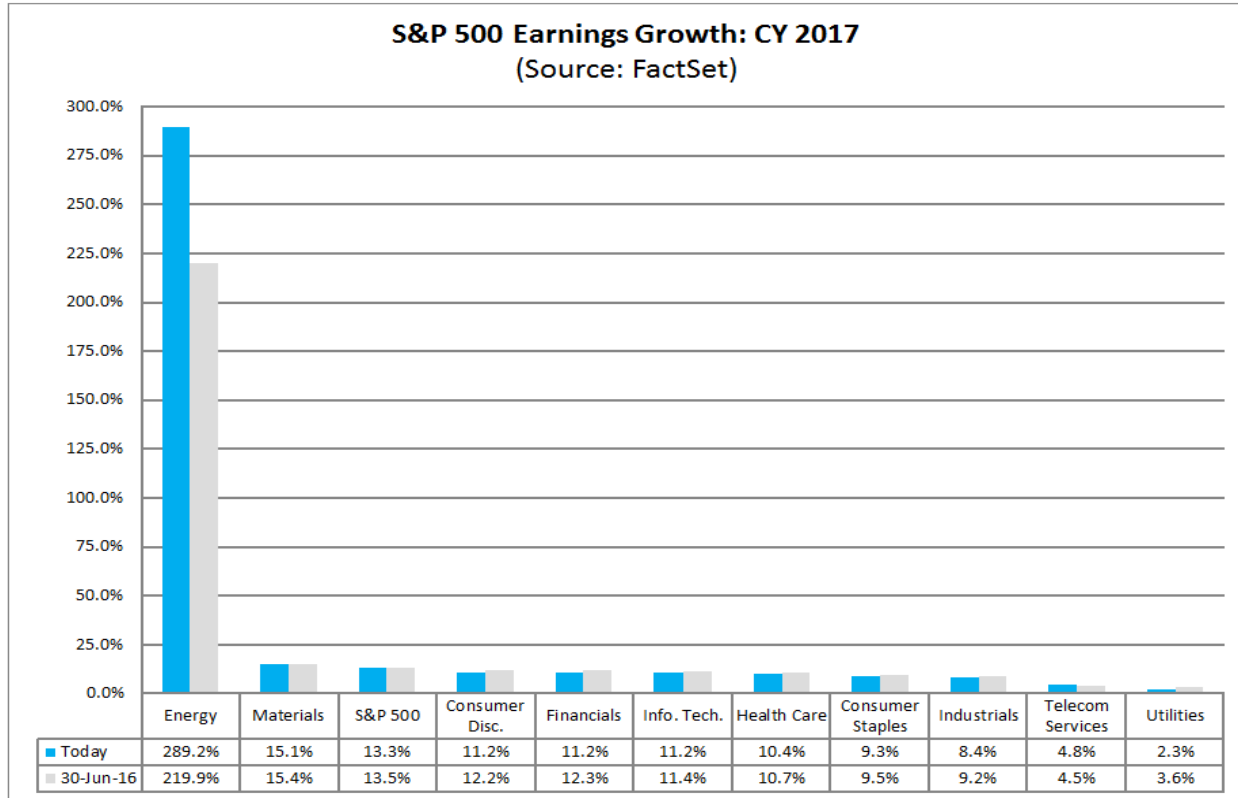
Q3 2016: Growth



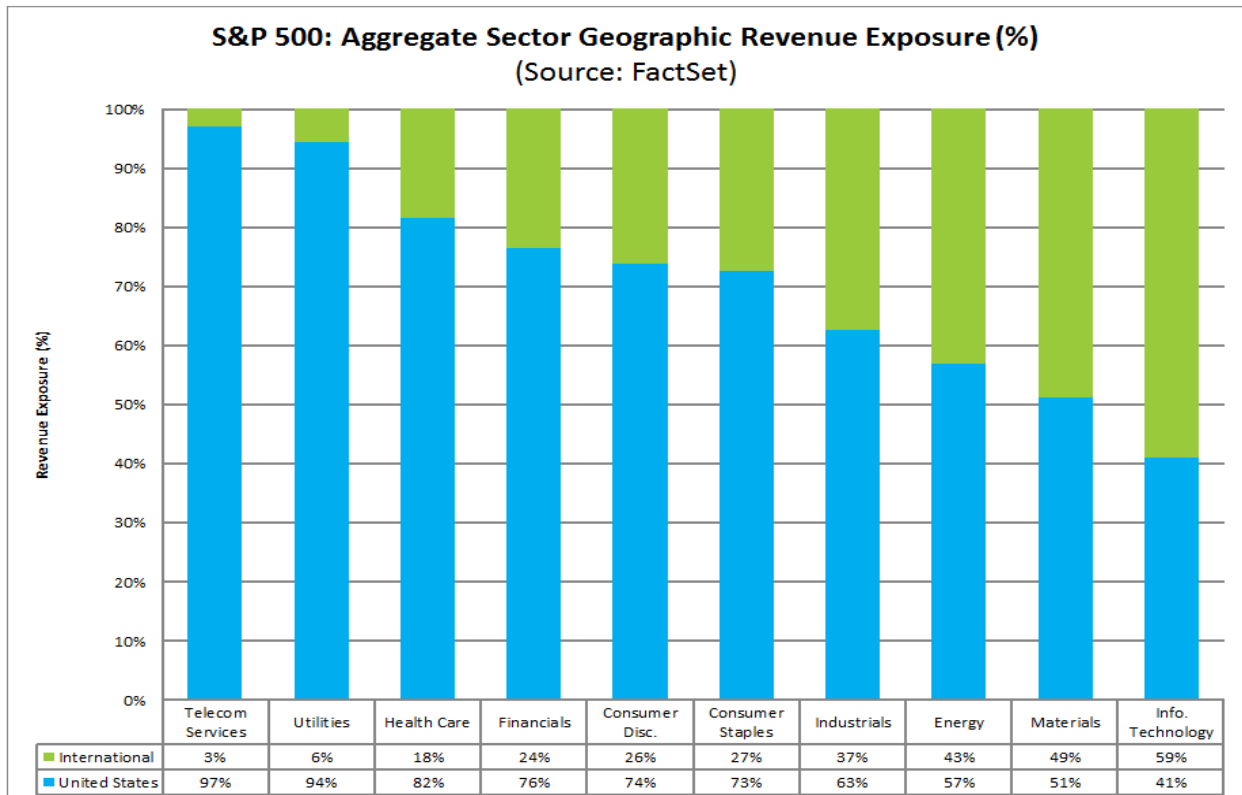
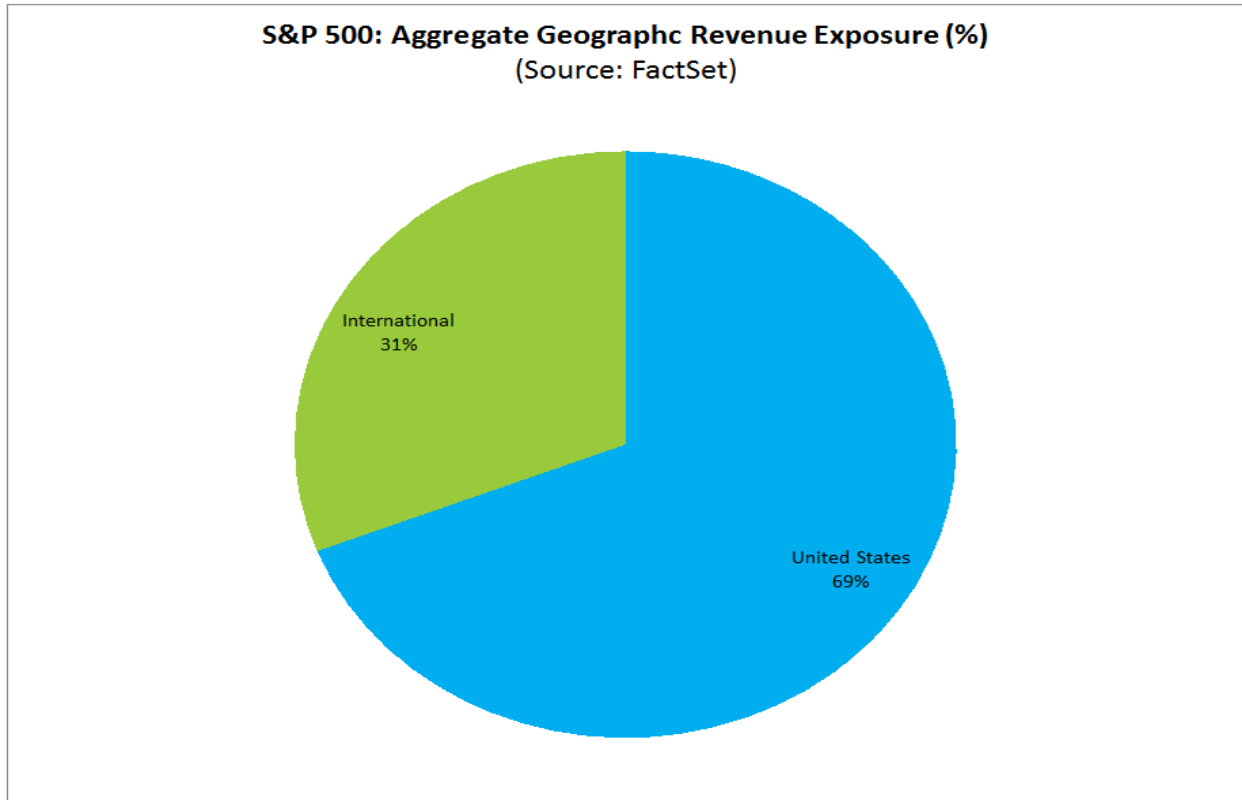
CY 2016: Growth



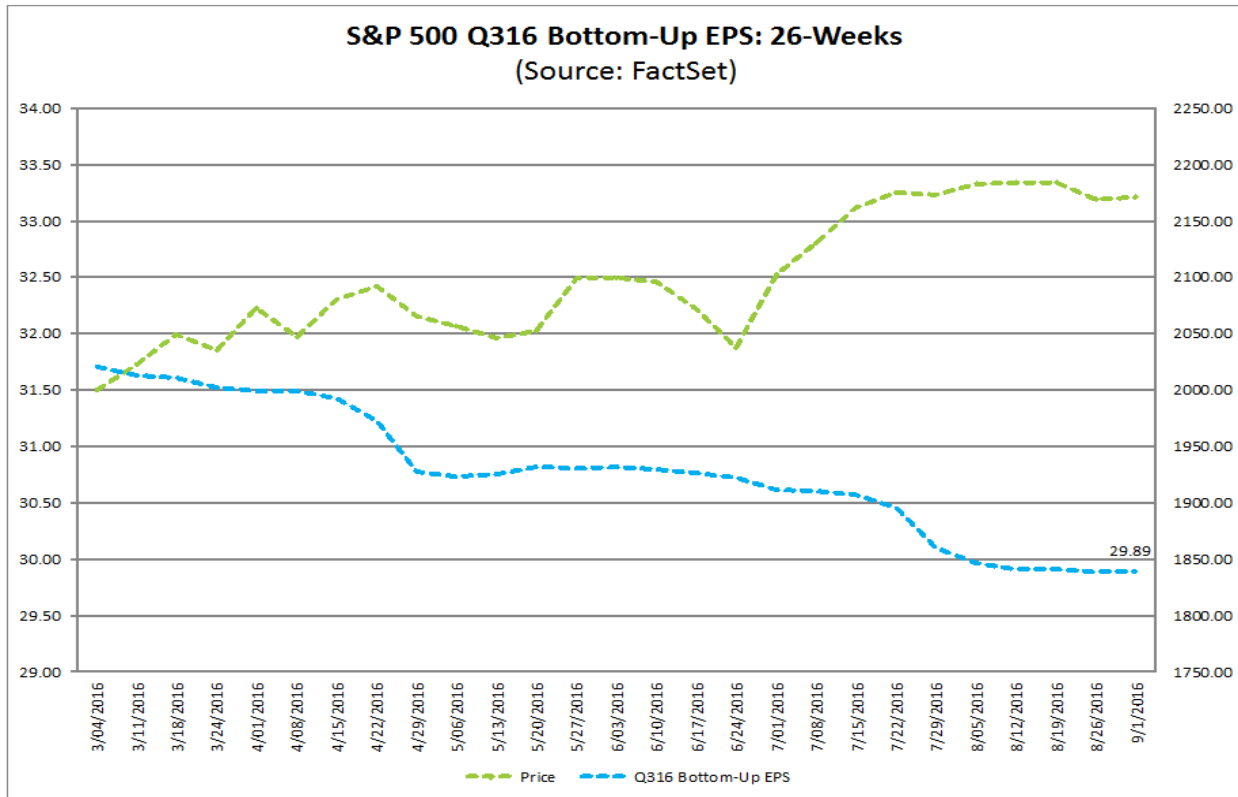
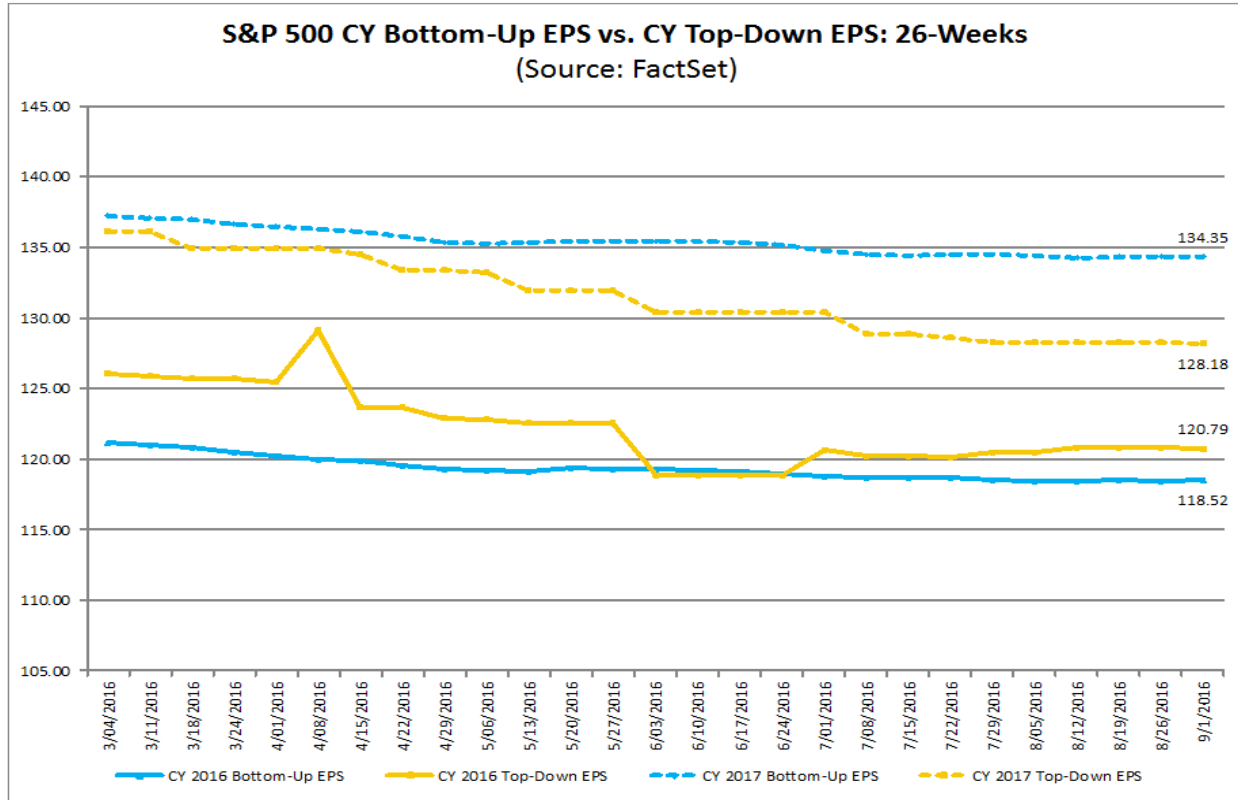
CY 2017: Growth



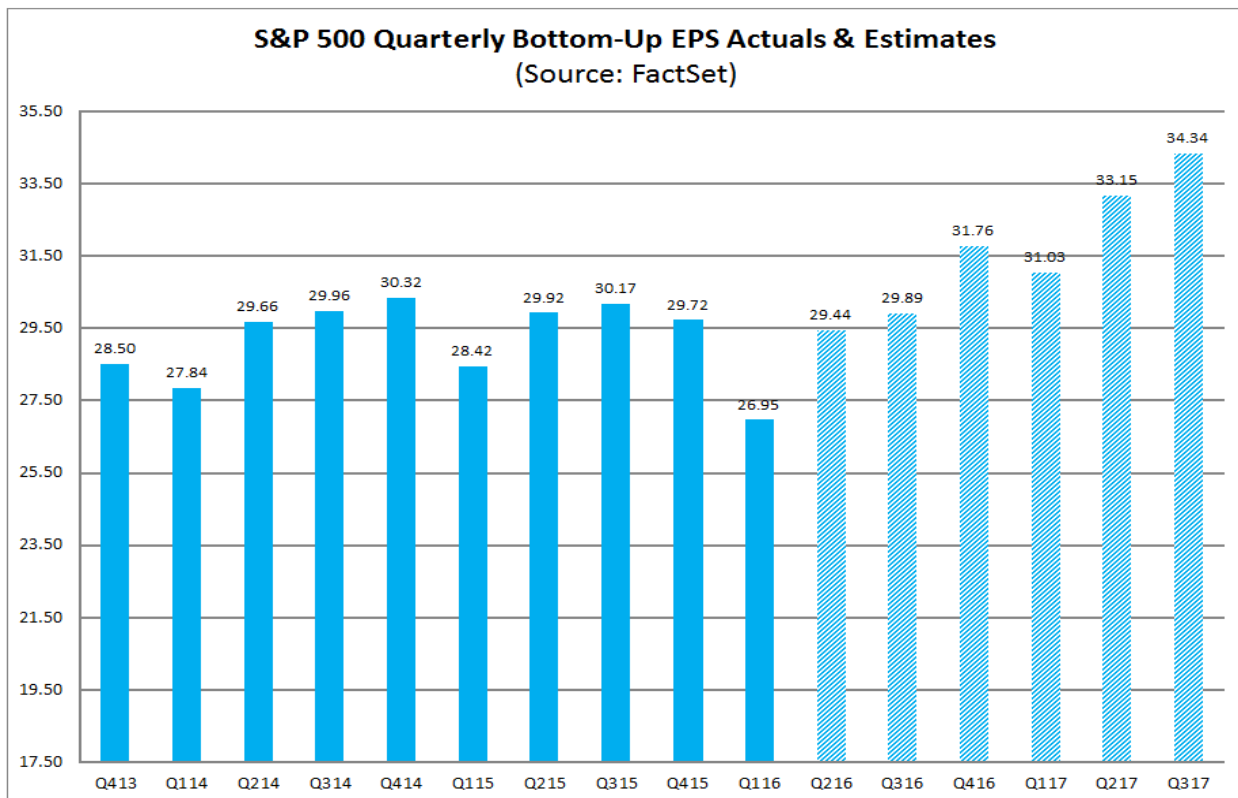
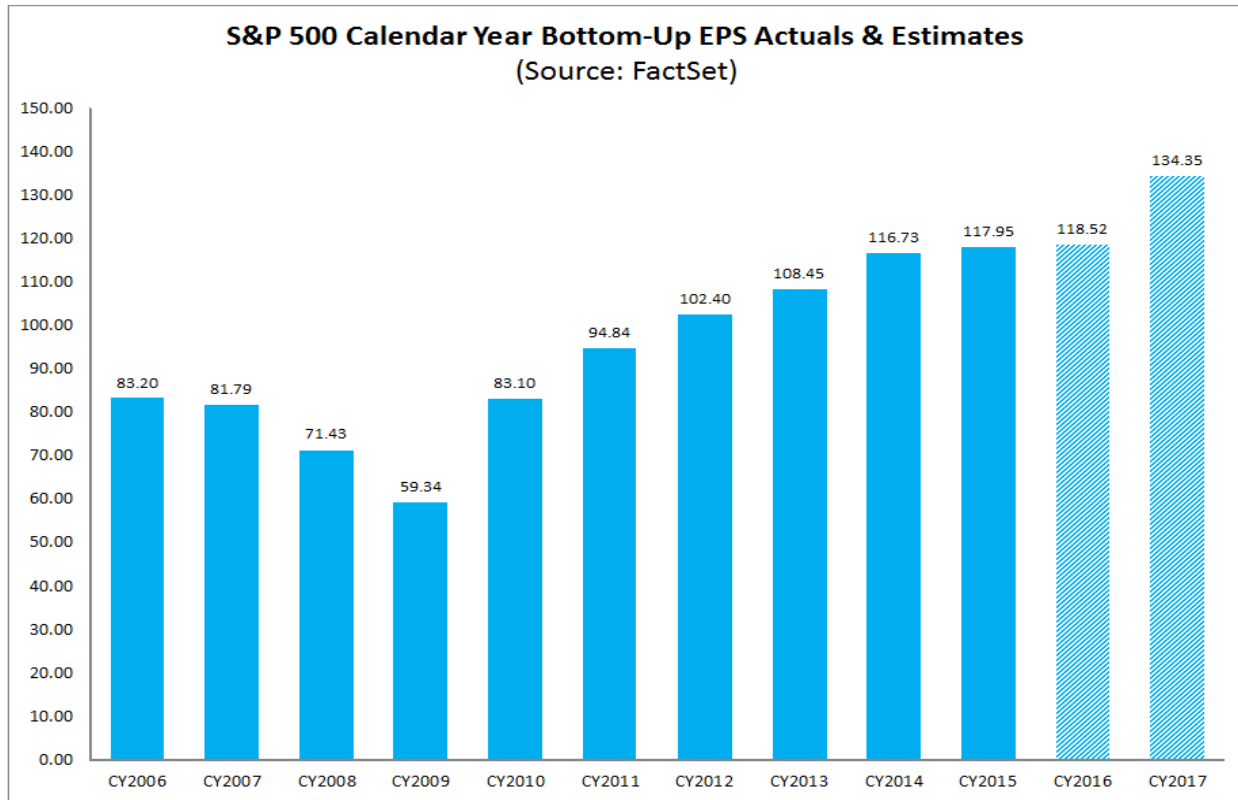
Geographic Revenue Exposure



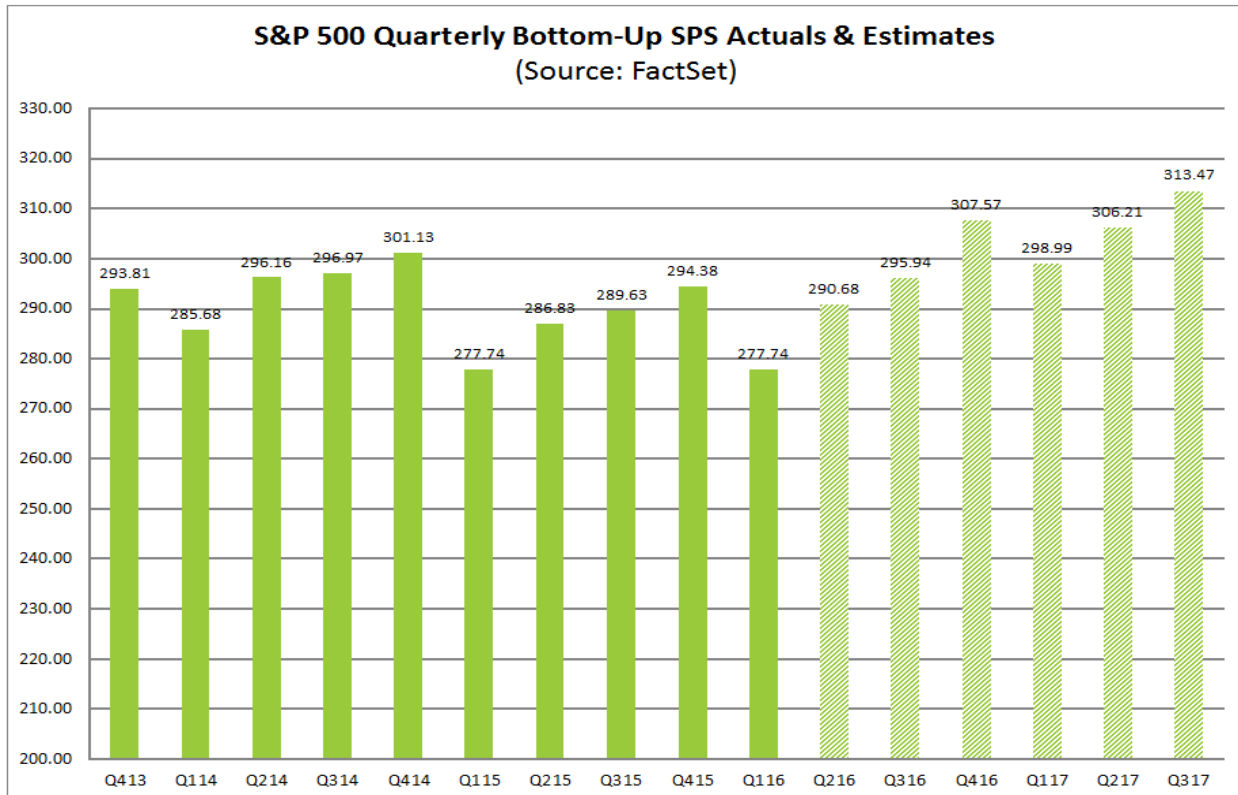
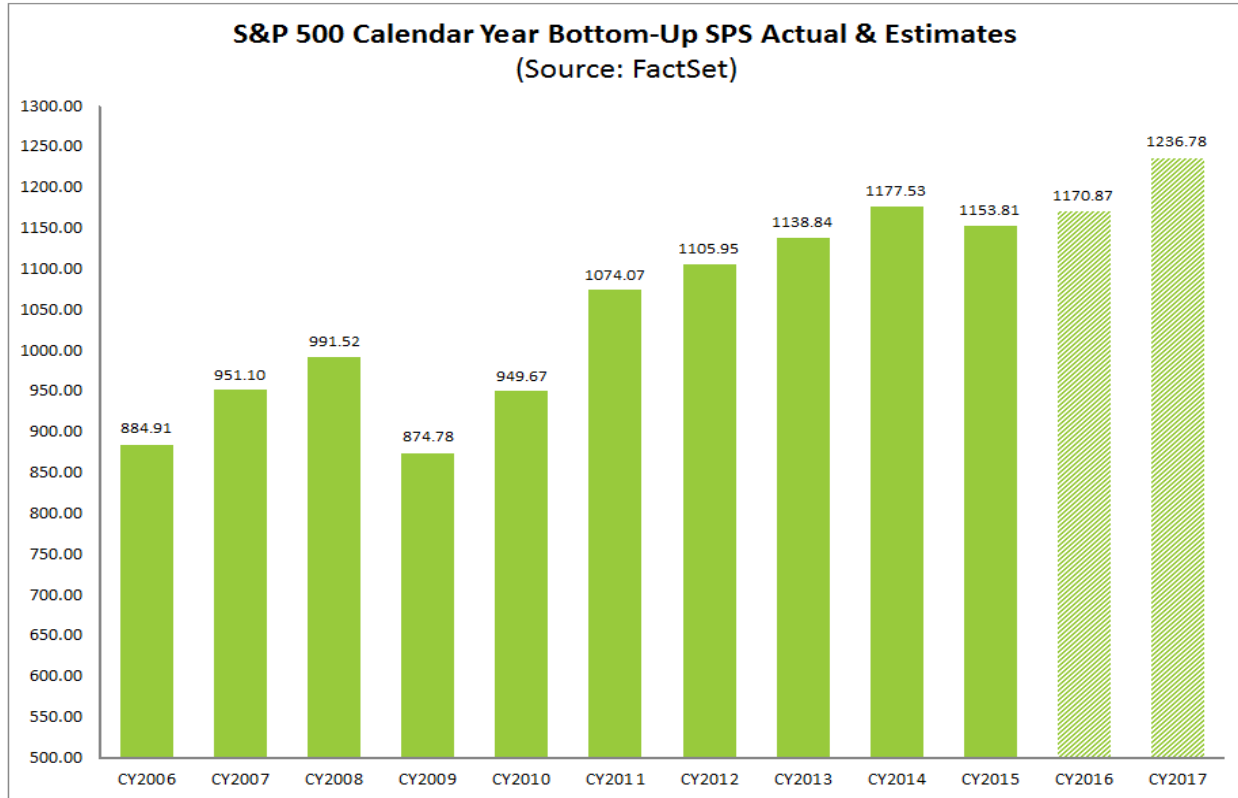
Bottom-Up EPS Estimates: Revisions



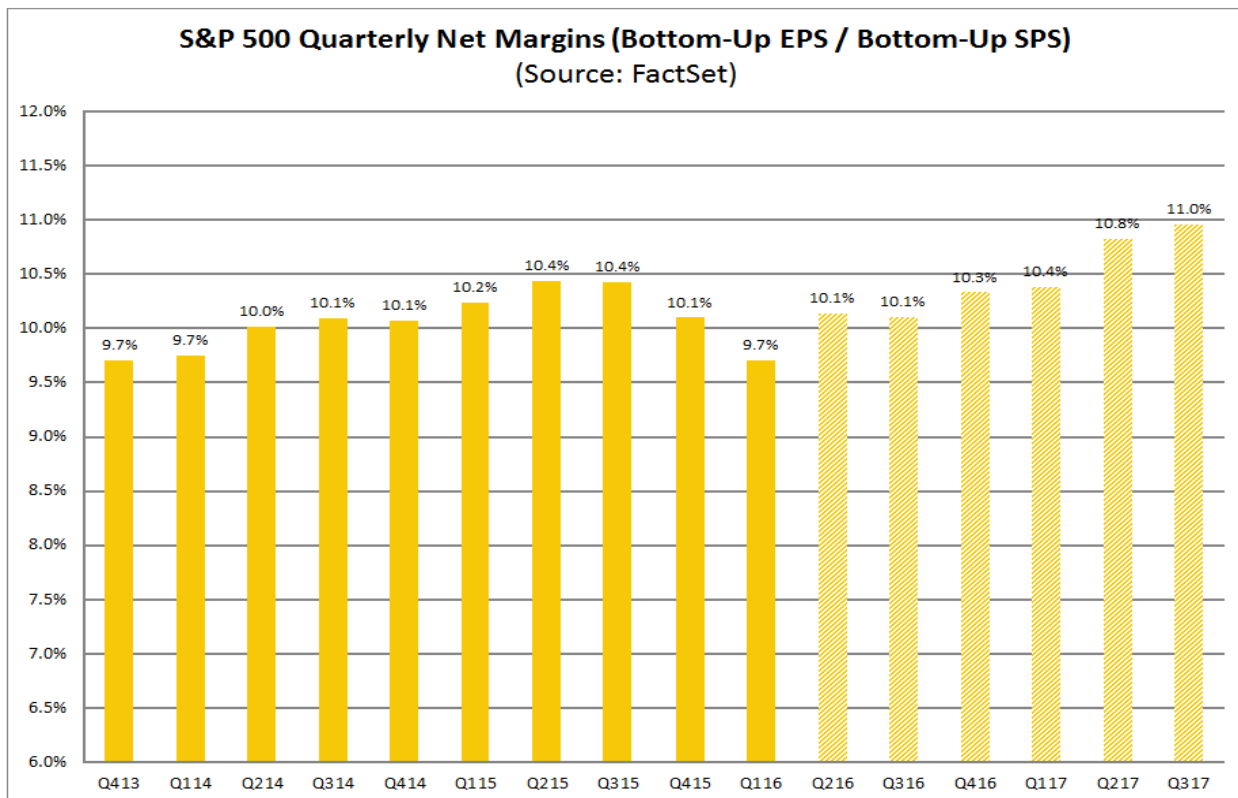
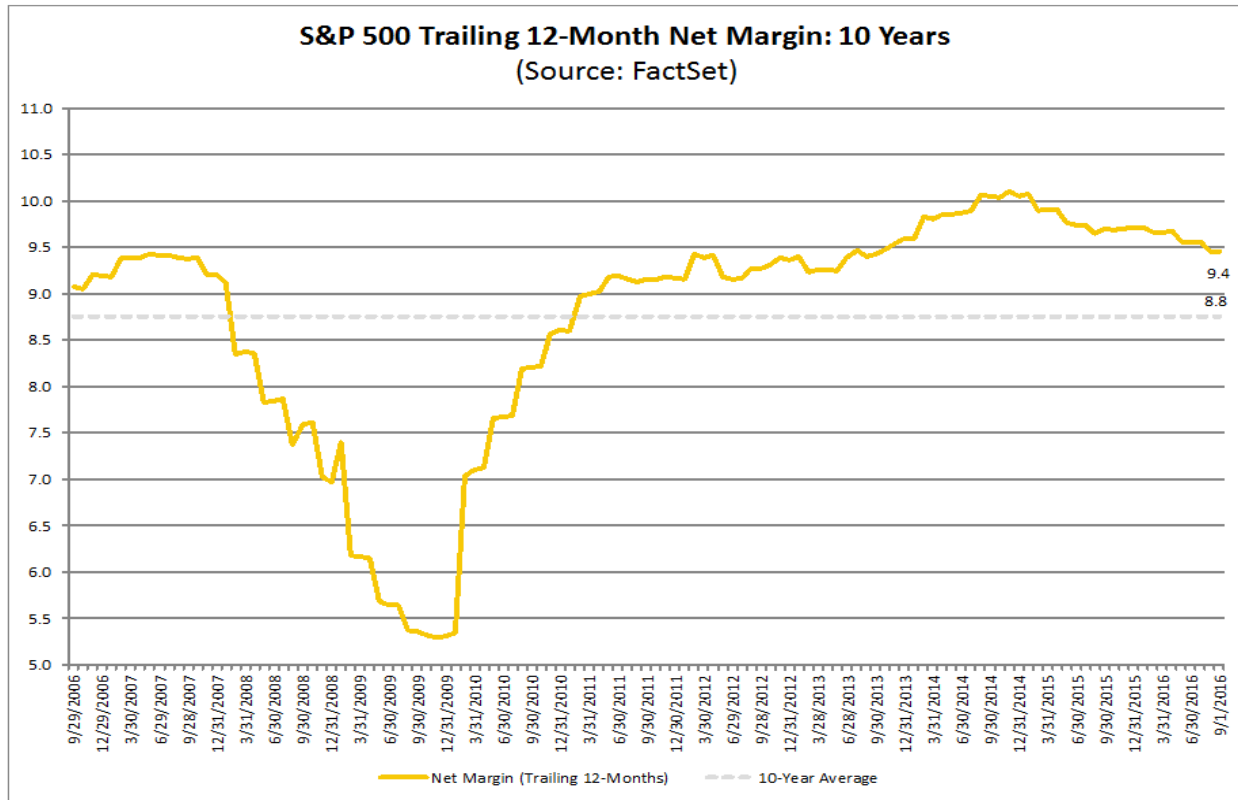
Bottom-Up EPS: Current & Historical



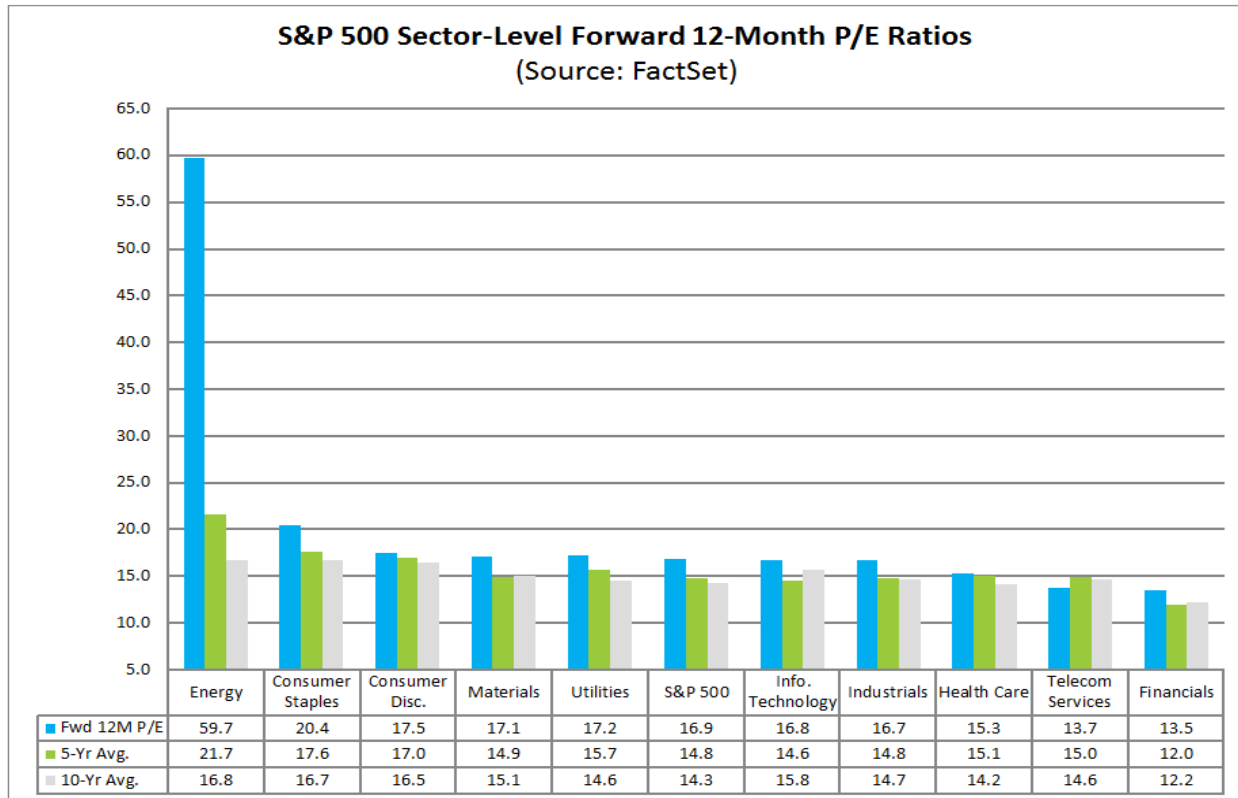
Bottom-Up SPS: Current & Historical



Net Margins: Current & Historical

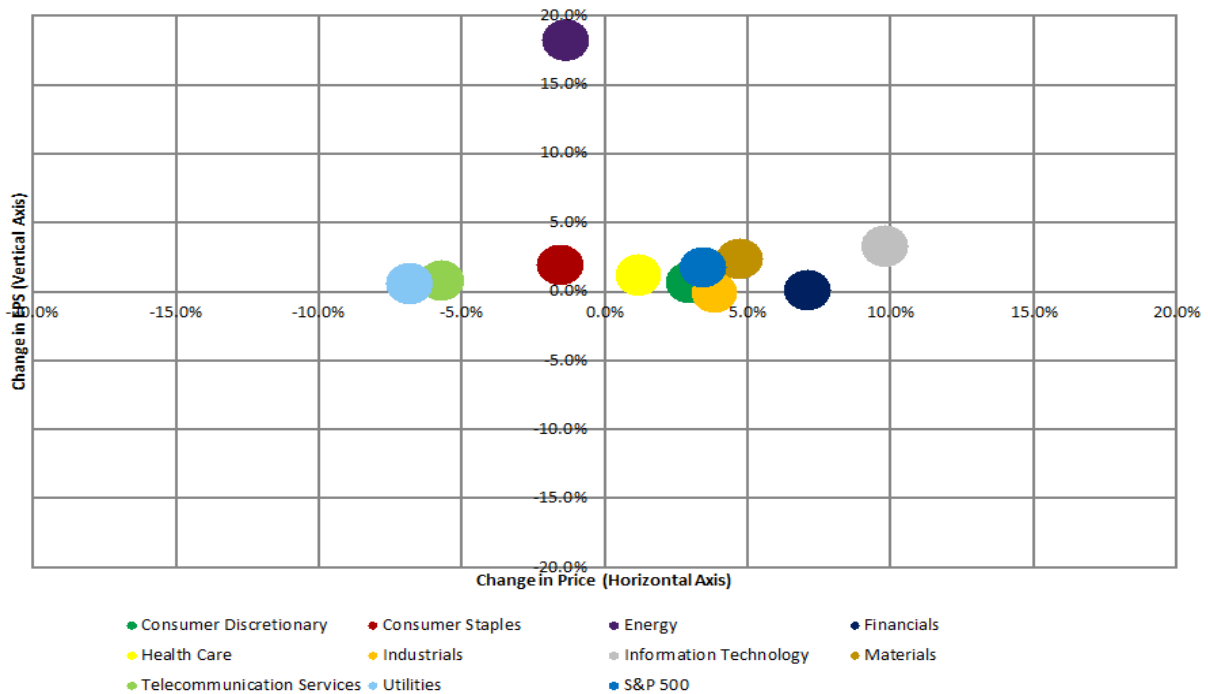


Forward 12M Price / Earnings Ratio: Sector Level

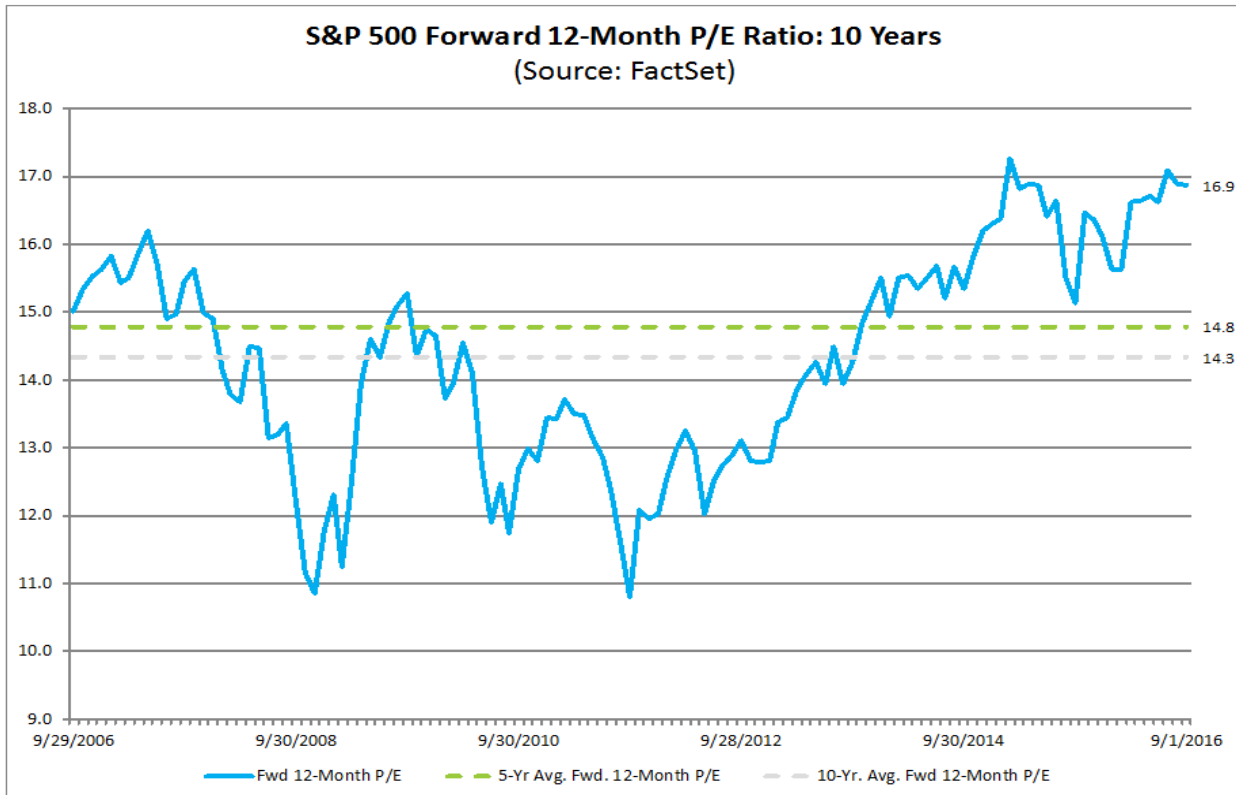
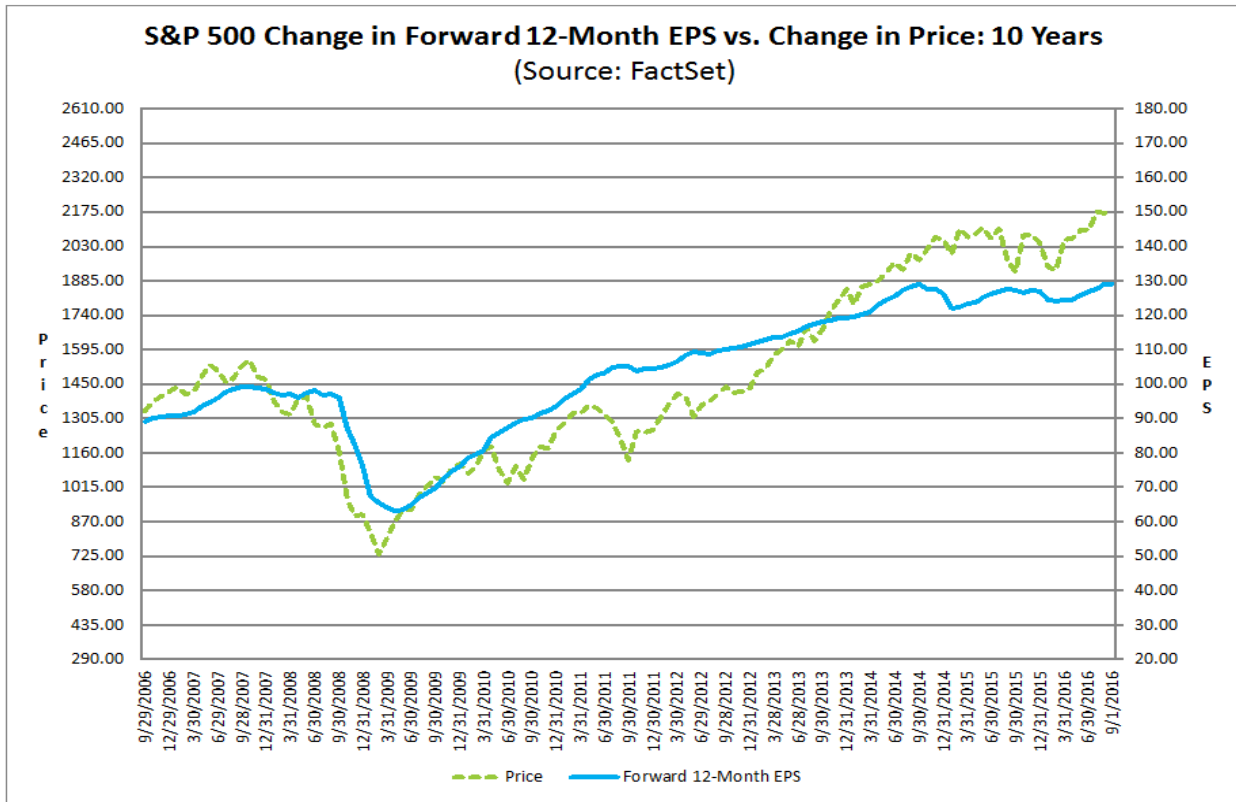


Sector-Level Change in Forward 12-Month EPS vs. Price: Since Jun. 30

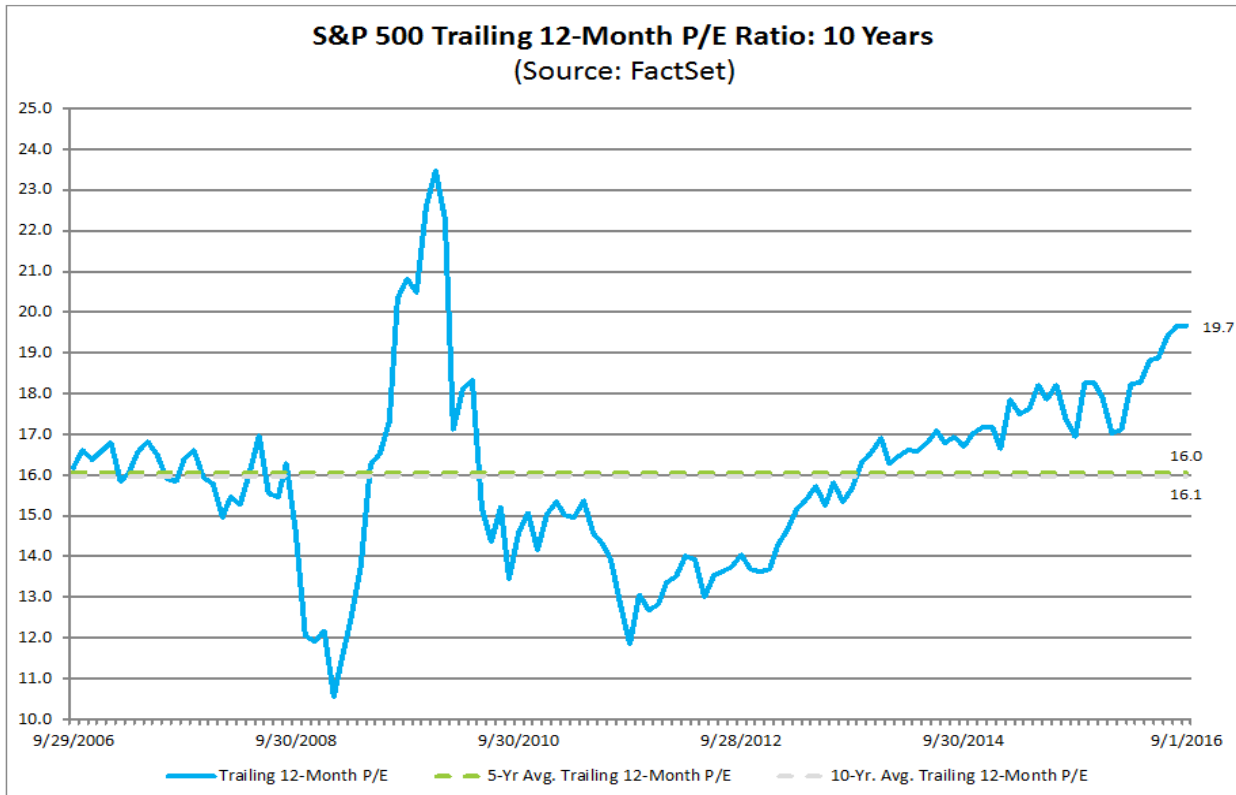
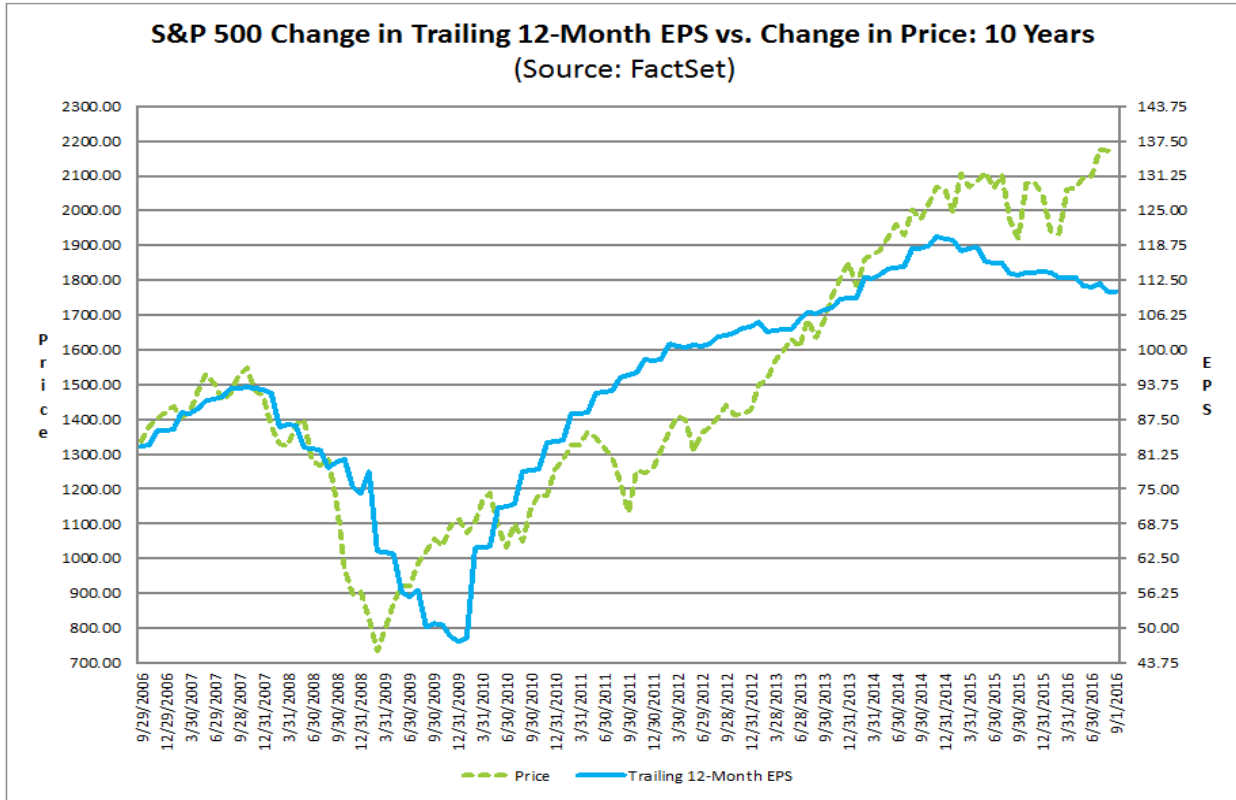
(Source: FactSet)



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



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



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