

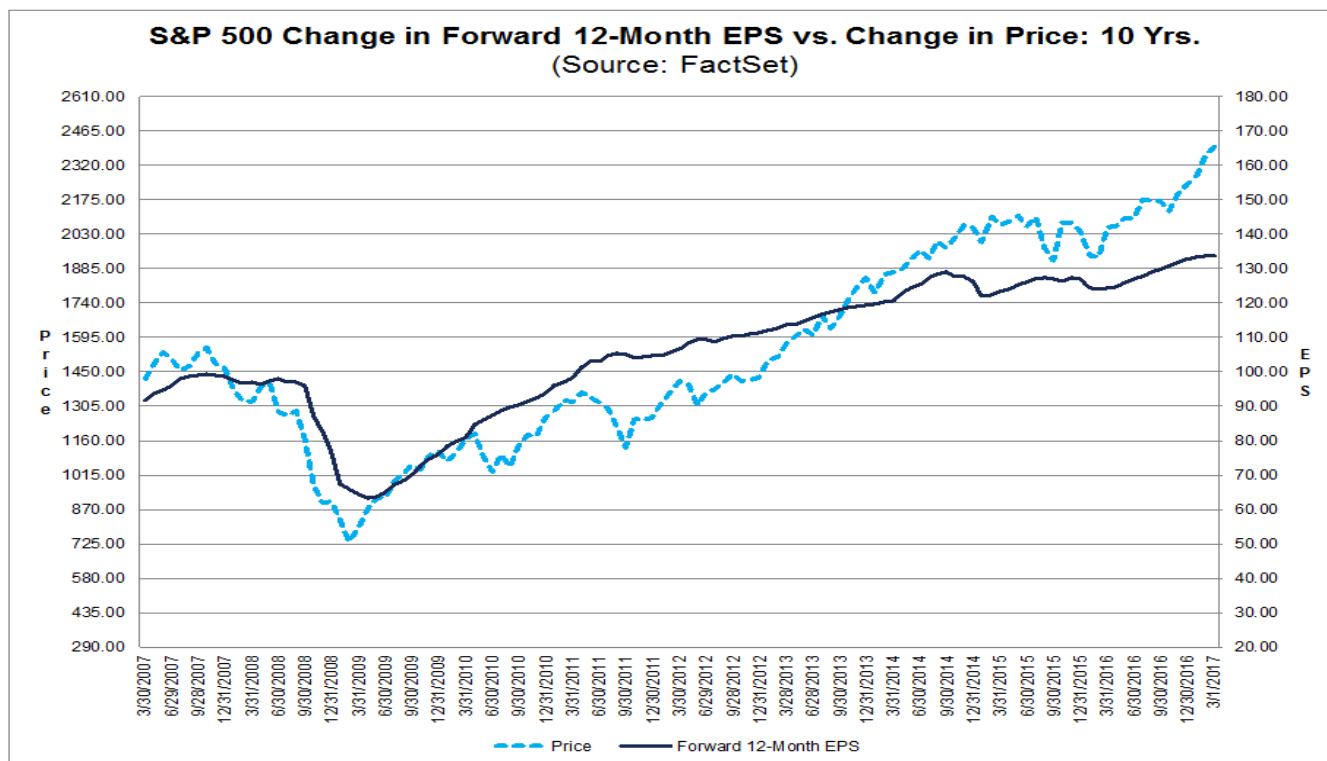
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March 2, 2017

## Key Metrics

- Earnings Scorecard:** As of today (with 98% of the companies in the S&P 500 reporting actual results for Q4 2016), 65% of S&P 500 companies have beat the mean EPS estimate and 53% of S&P 500 companies have beat the mean sales estimate.
- Earnings Growth:** For Q4 2016, the blended earnings growth rate for the S&P 500 is 4.9%. The fourth quarter will mark the first time the index has seen year-over-year growth in earnings for two consecutive quarters since Q4 2014 and Q1 2015.
- Earnings Revisions:** On December 31, the estimated earnings growth rate for Q4 2016 was 3.1%. Eight of the eleven sectors have higher growth rates today (compared to December 31) due to upside earnings surprises and upward revisions to earnings estimates, led by the Real Estate sector.
- Earnings Guidance:** For Q1 2017, 75 S&P 500 companies have issued negative EPS guidance and 30 S&P 500 companies have issued positive EPS guidance.
- Valuation:** The forward 12-month P/E ratio for the S&P 500 is 17.9. This P/E ratio is based on Wednesday's closing price (2395.96) and forward 12-month EPS estimate (\$133.78).



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## Topic of the Week:

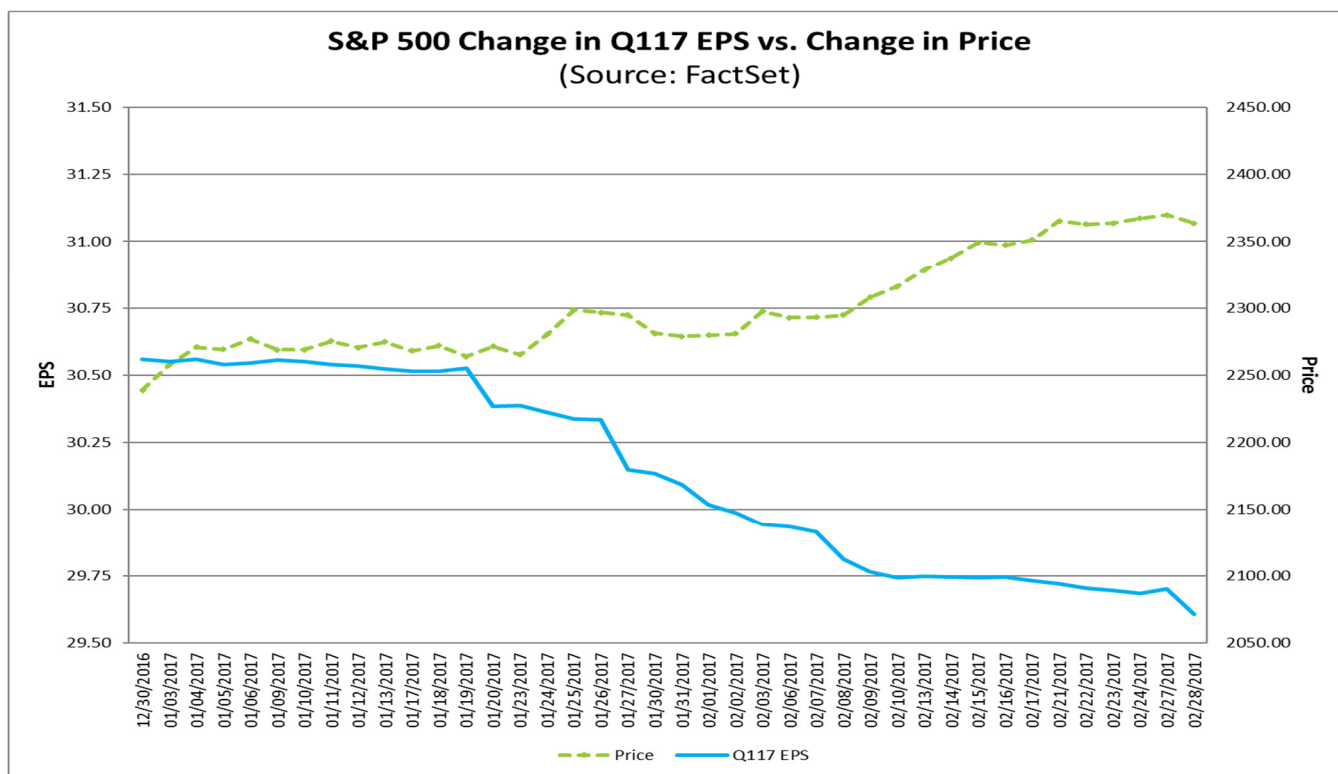
### Below Average Cuts to S&P 500 Earnings Estimates for Q1 2017 to Date

During the first two months of the first quarter, analysts lowered earnings estimates for companies in the S&P 500 for the quarter. The Q1 bottom-up EPS estimate (which is an aggregation of the EPS estimates for all the companies in the index) dropped by 3.1% (to \$29.61 from \$30.56) during this period. How significant is a 3.1% 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 3.7%. 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 3.3%. 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 been 3.9%. Thus, the decline in the bottom-up EPS estimate recorded during the first two months of the first quarter was smaller than the 1-year, 5-year, and 10-year averages.

One sector that contributed to the below average decline in the bottom-up EPS estimate for the S&P 500 over the past two months is the Energy sector. This sector recorded a decrease in the bottom-up EPS estimate of 2.4% (to \$3.09 from \$3.17) during the first two months of the quarter. This 2.4% decrease is much smaller than the average decline of 39.0% over the past year and the average decline of 13.6% over the past five years in the bottom-up EPS estimate for this sector for an entire quarter.

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 December 31 through February 28, the value of the index increased by 5.6% (to 2363.64 from 2238.83). This 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 over this same time frame.



## Q4 2016 Earnings Season: By the Numbers

### Overview

To date, 98% of the companies in the S&P 500 have reported actual results for Q4. In terms of earnings, the percentage of companies reporting actual EPS above the mean estimate (65%) is below the 5-year average. In aggregate, companies are reporting earnings that are 2.8% above the estimates, which is below the 5-year average. In terms of sales, the percentage of companies reporting actual sales above the mean estimate (53%) is equal to the 5-year average. In aggregate, companies are reporting sales that are 0.3% above the estimates, which is below the 5-year average.

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) year-over-year earnings growth rate for Q4 2016 is 4.9% today, which is above the estimated earnings growth rate of 3.1% on December 31. Nine sectors are reporting or have reported year-over-year earnings growth, led by the Real Estate, Utilities, and Financials sectors. Two sectors reported a year-over-year decline in earnings, led by the Telecom Services sector.

The blended sales growth rate for Q4 2016 is 4.9% today, which is equal to the estimated sales growth rate of 4.9% on December 31. Ten sectors are reporting or have reported year-over-year growth in revenues, led by the Consumer Discretionary, Information Technology, and Utilities sectors. The Telecom Services sector is the only that reported a year-over-year decline in revenues.

Looking at future quarters, analysts currently project earnings growth to continue through 2017.

The forward 12-month P/E ratio is now 17.9, which is above the 5-year average and the 10-year average.

During the upcoming week, 6 S&P 500 companies are scheduled to report results for the fourth quarter.

### Scorecard: Fewer Companies Beating EPS Estimates than Average

#### Percentage of Companies Beating EPS Estimates (65%) is Below the 5-Year Average

Overall, 98% of the companies in the S&P 500 have reported earnings to date for the fourth quarter. Of these companies, 65% have reported actual EPS above the mean EPS estimate, 12% have reported actual EPS equal to the mean EPS estimate, and 23% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is below the 1-year (71%) average and below the 5-year (67%) average.

At the sector level, the Information Technology (86%) and Health Care (79%) sectors have the highest percentages of companies reporting earnings above estimates, while the Telecom Services (20%) and Utilities (32%) sectors have the lowest percentages of companies reporting earnings above estimates.

#### Earnings Surprise Percentage (+2.8%) is Below the 5-Year Average

In aggregate, companies are reporting earnings that are 2.8% above expectations. This surprise percentage is below the 1-year (+4.4%) average and below the 5-year (+4.2%) average.

The Energy (+15.4%) and Real Estate (+8.8%) sectors reported the largest upside aggregate differences between actual earnings and estimated earnings, while the Utilities (-3.8%) and Telecom Services (-0.7%) sectors reported the largest downside aggregate differences between actual earnings and estimated earnings.

#### Percentage of Companies Beating Revenue Estimates (53%) is Equal to the 5-Year Average

In terms of revenues, 53% of companies have reported actual sales above estimated sales and 47% have reported actual sales below estimated sales. The percentage of companies reporting sales above estimates is above the 1-year average (52%), but equal to the 5-year average (53%).

At the sector level, the Information Technology (68%) and Real Estate (66%) sectors have the highest percentages of companies reporting revenues above estimates, while the Utilities (14%) and Telecom Services (20%) sectors have the lowest percentages of companies reporting revenue above estimates.

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

In aggregate, companies are reporting sales that are 0.3% above expectations. This surprise percentage is above the 1-year (+0.1%) average, but below the 5-year (+0.5%) average.

The Materials (+1.7%), Financials (+1.7%), and Energy (+1.7%) sectors reported the largest upside aggregate differences between actual sales and estimated sales, while the Utilities (-10.9%) sector reported the largest downside aggregate difference between actual sales and estimated sales.

## No Change in Blended Earnings Growth This Week

### No Change in Blended Earnings Growth This Week

The blended earnings growth rate for the fourth quarter is 4.9% this week, which is equal to the earnings growth rate of 4.9% last week.

### Real Estate Sector Has Seen Largest Increase in Earnings since December 31

The blended earnings growth rate for Q4 2016 of 4.9% is higher than the estimate of 3.1% at the end of the fourth quarter (December 31). Eight sectors have recorded an increase in earnings growth since the end of the quarter due to upside earnings surprises and upward revisions to earnings estimates, led by the Real Estate (to 15.2% from 5.9%) sector. Three sectors have recorded a decrease in earnings growth during this time due to downside earnings surprises and downward revisions to estimates, led by the Utilities (to 13.8% from 19.8%) sector.

## Earnings Growth: Second Straight Quarter of Year-Over-Year Earnings Growth (4.9%)

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) earnings growth rate for Q4 2016 is 4.9%. The fourth quarter will mark the first time the index has seen year-over-year growth in earnings for two consecutive quarters since Q4 2014 (3.8%) and Q1 2015 (0.5%). Nine sectors are reporting year-over-year growth in earnings, led by the Real Estate, Utilities, and Financials sectors. Two sectors reported a year-over-year decline in earnings, led by the Telecom Services sector.

### Real Estate: Vornado Realty Led Growth

The Real Estate sector reported the highest (year-over-year) earnings (FFO) growth of all eleven sectors at 15.2%. At the sub-industry level, six of the eight industries in this sector reported FFO growth. Three of these five sub-industries reported double-digit FFO growth: Office REITs (91%), Specialized REITs (23%), and Real Estate Services (16%). At the company level, Vornado Realty was the largest contributor to FFO growth for this sector. The company reported actual FFO of \$4.20 for Q4 2016, compared to year-ago FFO of \$1.37. If this company is excluded, the FFO growth rate for the Real Estate sector would drop to 8.2% from 15.2%.

### Utilities: Three Companies Led Growth

The Utilities sector reported the second highest (year-over-year) earnings growth of all eleven sectors at 13.8%. Three companies drove the earnings growth for the entire sector: PG&E, Dominion, and NRG Energy. PG&E reported actual EPS of \$1.33 for Q4 2016, compared to year-ago EPS of \$0.50. Dominion Resources reported actual EPS of \$0.99 for Q4 2016, compared to year-ago EPS of \$0.70. NRG Energy reported actual EPS of -\$1.17 for Q4 2016, compared to year-ago EPS of -\$1.35. If these three companies are excluded, the earnings growth rate for the Utilities sector would drop to -0.4% from 13.8%.

### Financials: Three Companies Led Growth

The Financials sector reported the third highest (year-over-year) earnings growth of all eleven sectors at 11.1%. At the company level, Goldman Sachs, JPMorgan Chase, and Bank of America were the largest contributors to earnings growth for this sector. Goldman Sachs reported actual EPS of \$5.08 for Q4 2016, compared to year-ago EPS of \$1.27. JPMorgan Chase reported actual EPS of \$1.71 for Q4 2016, compared to year-ago EPS of \$1.32. Bank of America reported actual EPS of \$0.40 for Q4 2016, compared to year-ago EPS of \$0.28. If these three companies are excluded, the earnings growth rate for the Financials sector would drop to 2.2% from 11.1%.

### Telecom Services: Level 3 Communications Led Decline on Comparison to High Year-Ago EPS

The Telecom Services sector reported the largest (year-over-year) earnings decline of all eleven sectors at -28.7%. Overall, 4 of the 5 companies (80%) in the sector reported a decrease in EPS for the quarter. The one company that drove the earnings decline for this sector was Level 3 Communications. However, the EPS decrease for this company was exacerbated by a comparison to unusually high earnings in Q4 2015. The company reported actual EPS of \$0.69 for Q4 2016, compared to year-ago EPS of \$9.24. In the company's earnings release from Q4 2015, Level 3 Communications stated (regarding EPS for the quarter), "This includes a non-cash benefit to the fourth quarter Income Tax Expense of approximately \$3.3 billion related to the release of the company's valuation allowance against U.S. federal and state deferred tax assets..." If this company is excluded, the earnings decline for the Telecom Services sector would drop to -2.5% from -28.7%.

### Revenues: Second Straight Quarter of Year-Over-Year Earnings Growth (4.9%)

The blended revenue growth rate for Q4 2016 is 4.9%. The fourth quarter will mark the first time the index has seen year-over-year growth in sales for two consecutive quarters since Q3 2014 (4.0%) and Q4 2014 (2.0%). If 4.9% is the actual revenue growth rate for the quarter, it will mark the highest year-over-year revenue growth reported by the index since Q1 2012 (5.3%). Ten sectors are reporting or have reported year-over-year growth in revenues, led by the Consumer Discretionary, Information Technology, and Utilities sector. The only sector that reported a decline in revenues was the Telecom Services sector.

### Consumer Discretionary: Internet and Household Durables Lead Growth

The Consumer Discretionary sector is reporting the highest (year-over-year) revenue growth of all eleven sectors at 8.1%. At the industry level, 9 of the 12 industries in the sector are reporting or have reported sales growth. Three of these nine industries reported double-digit sales growth: Internet & Direct Marketing Retail (23%), Household Durables (22%), and Media (13%).

### Information Technology: Internet and Household Durables Lead Growth

The Information Technology sector is reporting the second highest (year-over-year) revenue growth of all eleven sectors at 7.8%. At the industry level, six of the seven industries in the sector are reporting or have reported sales growth. Two of these six industries reported double-digit sales growth: Internet Software & Services (25%) and Semiconductors & Semiconductor Equipment (19%).

### Utilities: Electric Utilities Led Growth

The Utilities sector reported the third highest (year-over-year) revenue growth of all eleven sectors at 7.6%. At the industry level, three of the four industries in the sector reported sales growth, led by the Electric Utilities (10%) industry.

### Telecom Services: Verizon Led Decline

The Telecom Services sector reported the largest (year-over-year) sales decline of all eleven sectors at -1.7%. Overall, four of the five companies in the sector (80%) reported a decline in sales for the quarter, led by Verizon (-6%).

## Looking Ahead: Forward Estimates and Valuation

### Guidance: Negative EPS Guidance (71%) for Q1 below Average

At this point in time, 105 companies in the index have issued EPS guidance for Q1 2017. Of these 105 companies, 75 have issued negative EPS guidance and 30 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 71% (75 out of 105), which is below the 5-year average of 74%.

### Growth Expected to Continue in 2017

For the fourth quarter, companies are reporting earnings growth of 4.9% and revenue growth of 4.9%. For all of 2016, companies are reporting earnings growth of 0.4% and revenue growth of 2.4%.

Analysts currently expect earnings and revenue growth to continue in 2017.

For Q1 2017, analysts are projecting earnings growth of 9.0% and revenue growth of 7.3%.

For Q2 2017, analysts are projecting earnings growth of 8.5% and revenue growth of 5.3%.

For all of 2017, analysts are projecting earnings growth of 9.8% and revenue growth of 5.3%.

### Valuation: Forward P/E Ratio is 17.9, above the 10-Year Average (14.4)

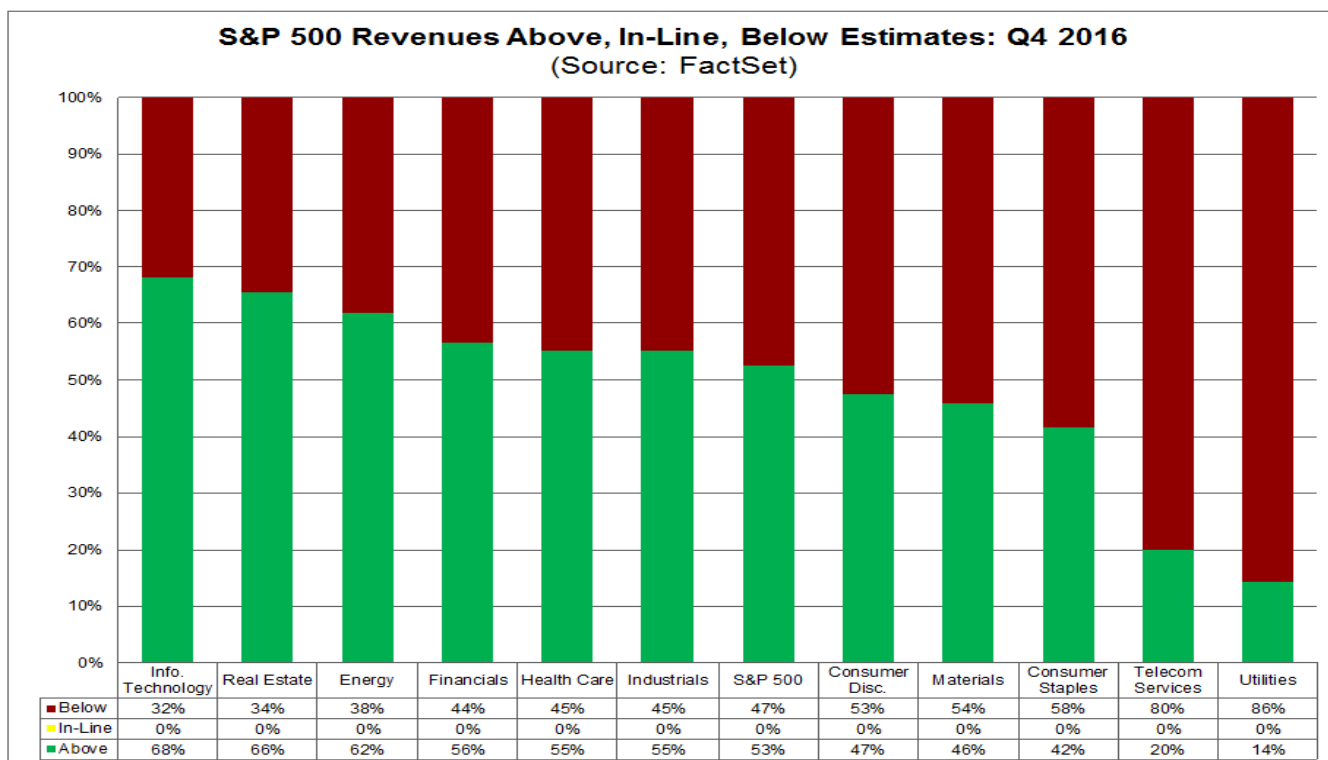
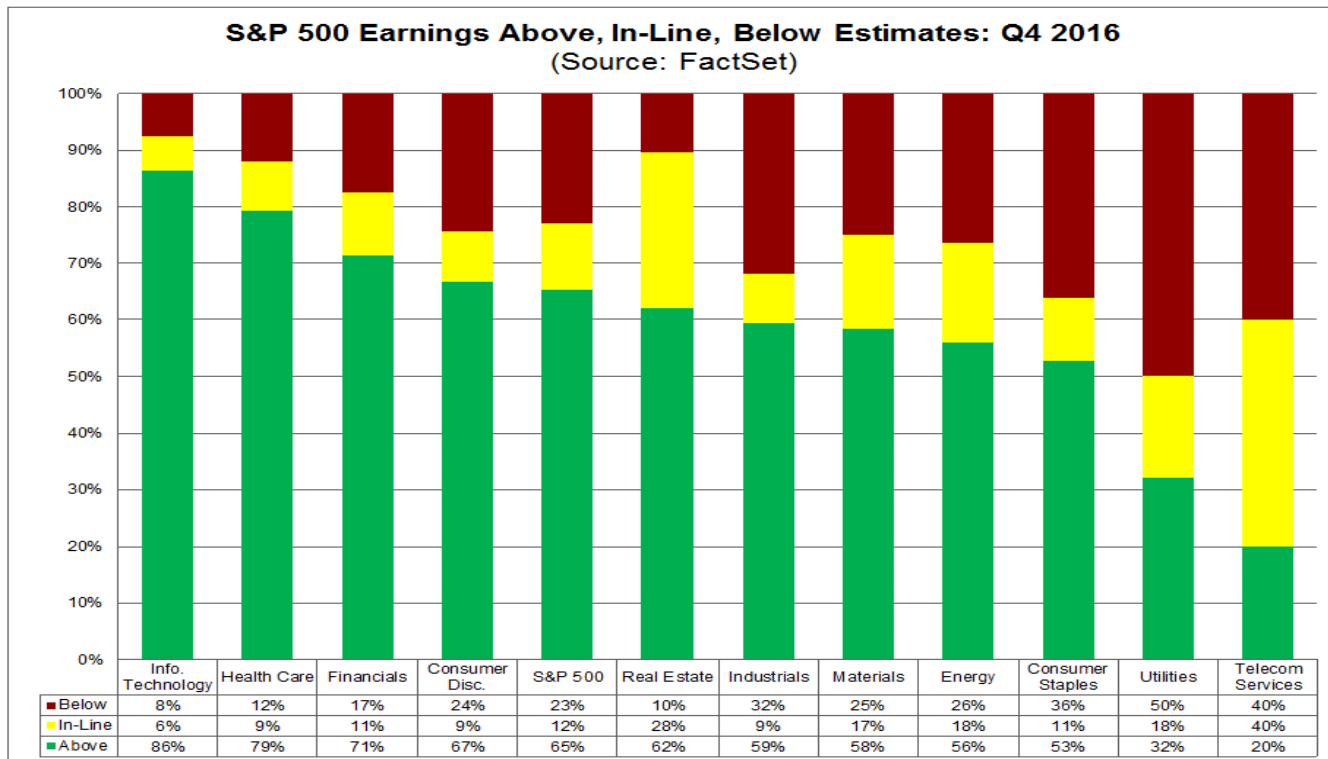
The forward 12-month P/E ratio is 17.9. This P/E ratio is based on Wednesday's closing price (2395.96) and forward 12-month EPS estimate (\$133.78). It is above the 5-year average of 15.3, and above the 10-year average of 14.4. It is also above the forward 12-month P/E ratio of 16.9 recorded at the start of the first quarter (December 31). Since the start of the first quarter, the price of the index has increased by 7.0%, while the forward 12-month EPS estimate has increased by 0.7%.

At the sector level, the Energy (29.6) sector has the highest forward 12-month P/E ratio, while the Telecom Services (13.9) sector has the lowest forward 12-month P/E ratio. Nine sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (29.6 vs. 18.3) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (13.9 vs. 14.5). Historical averages are not available for the Real Estate sector.

### Companies Reporting Next Week: 6

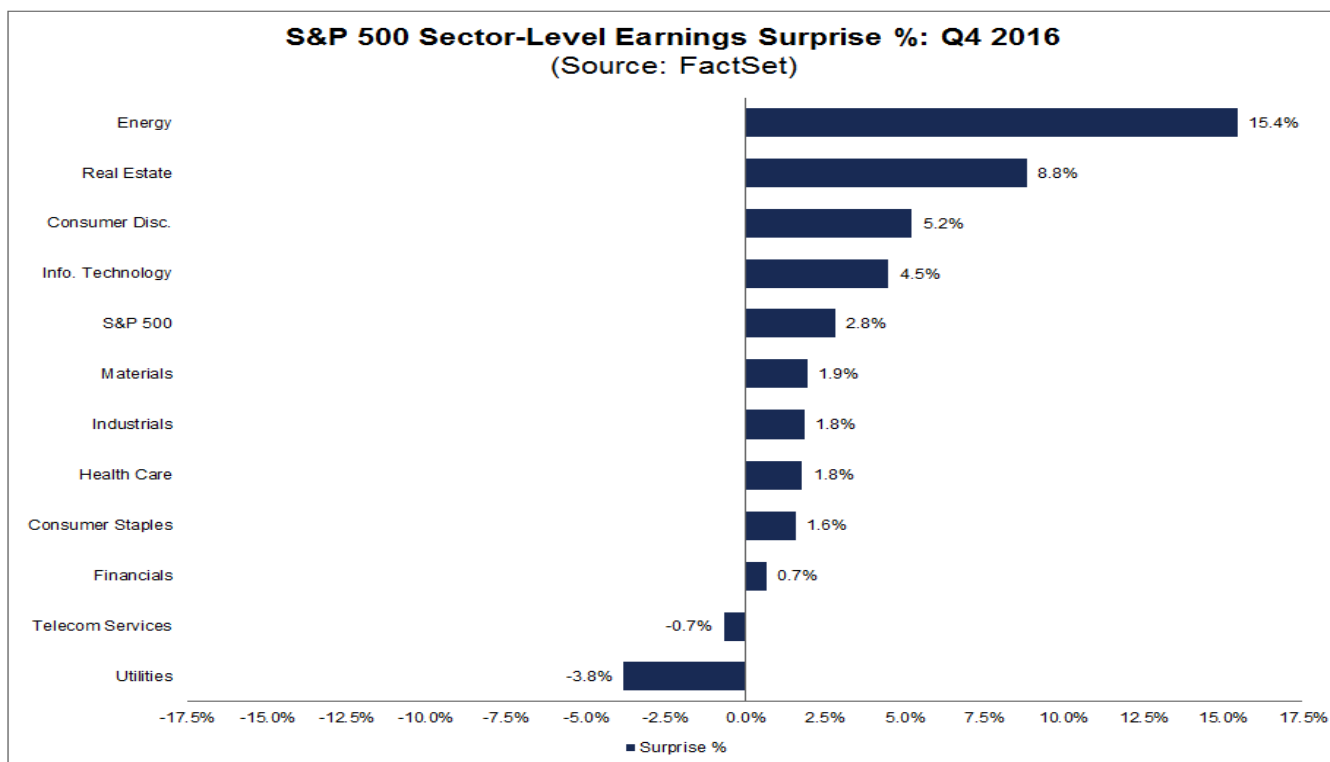
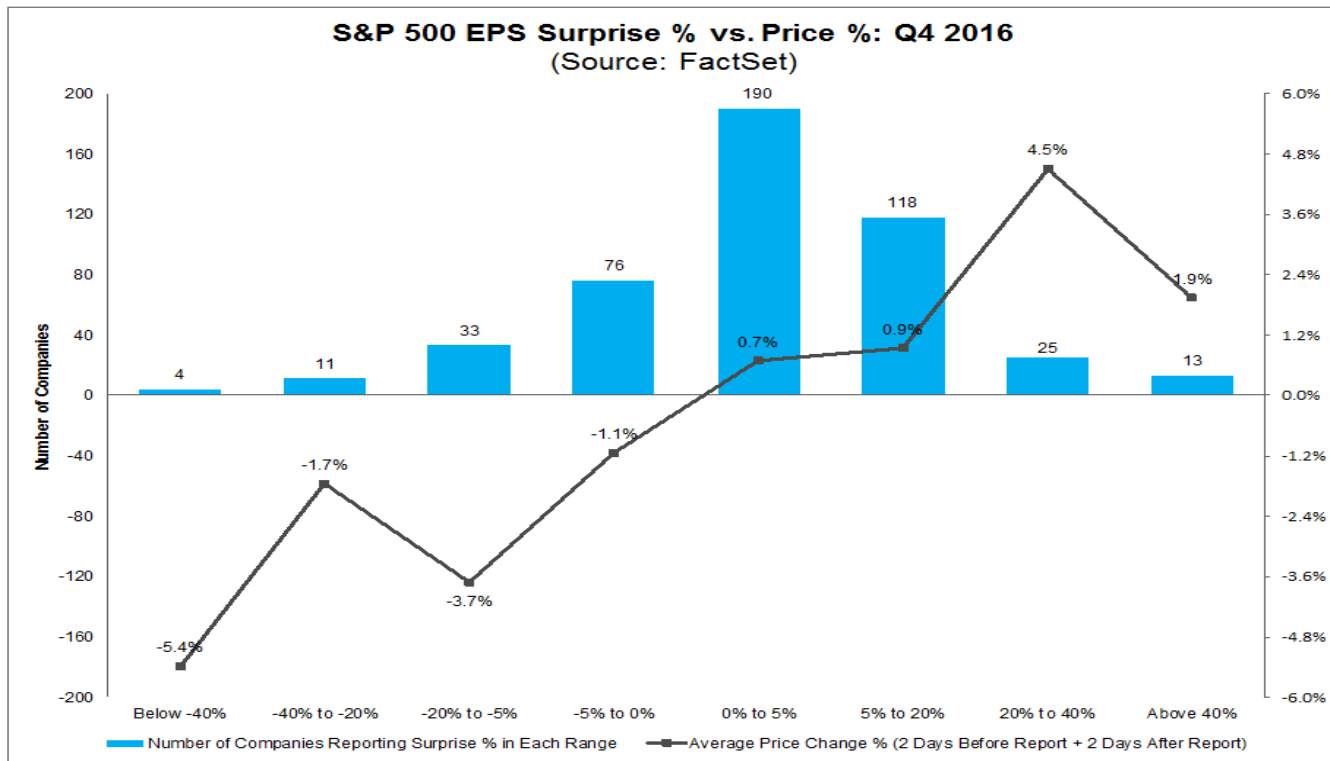
During the upcoming week, 6 S&P 500 companies are scheduled to report results for the fourth quarter.

# Q4 2016: Scorecard



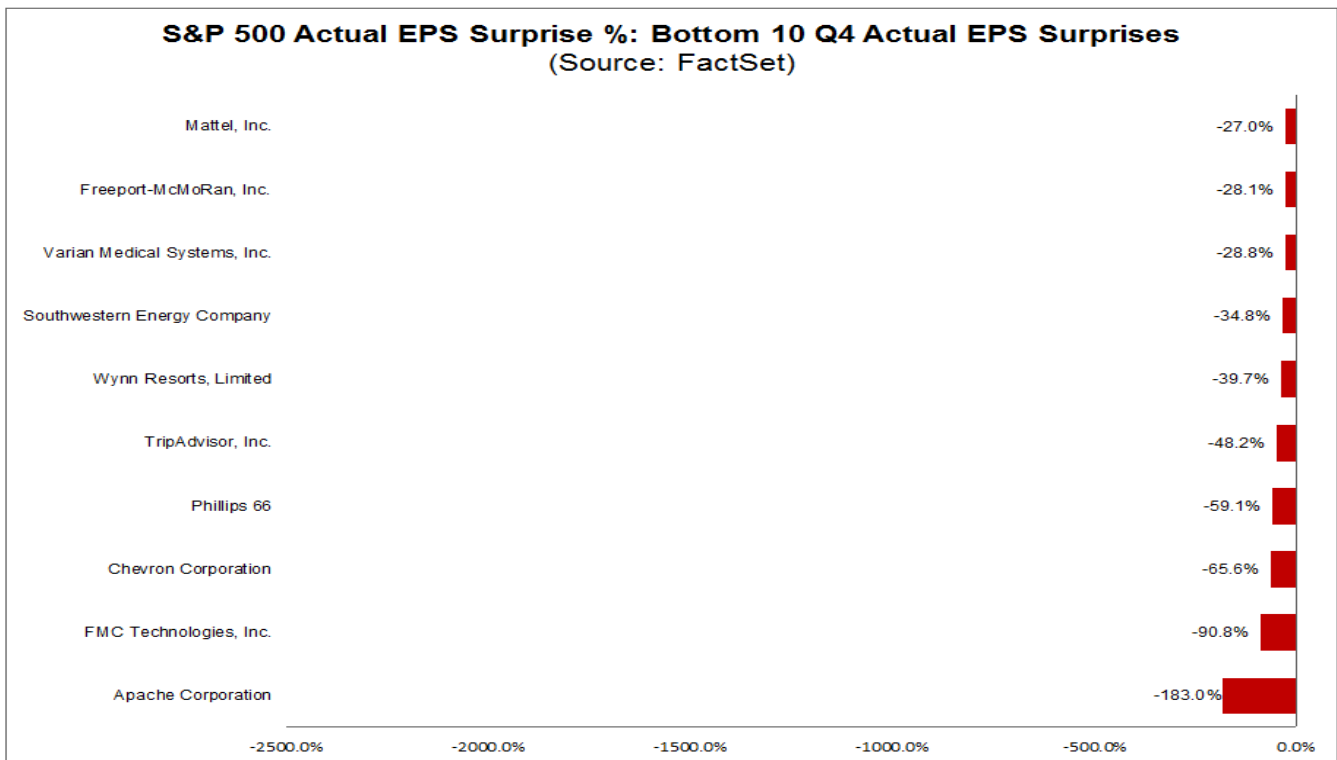
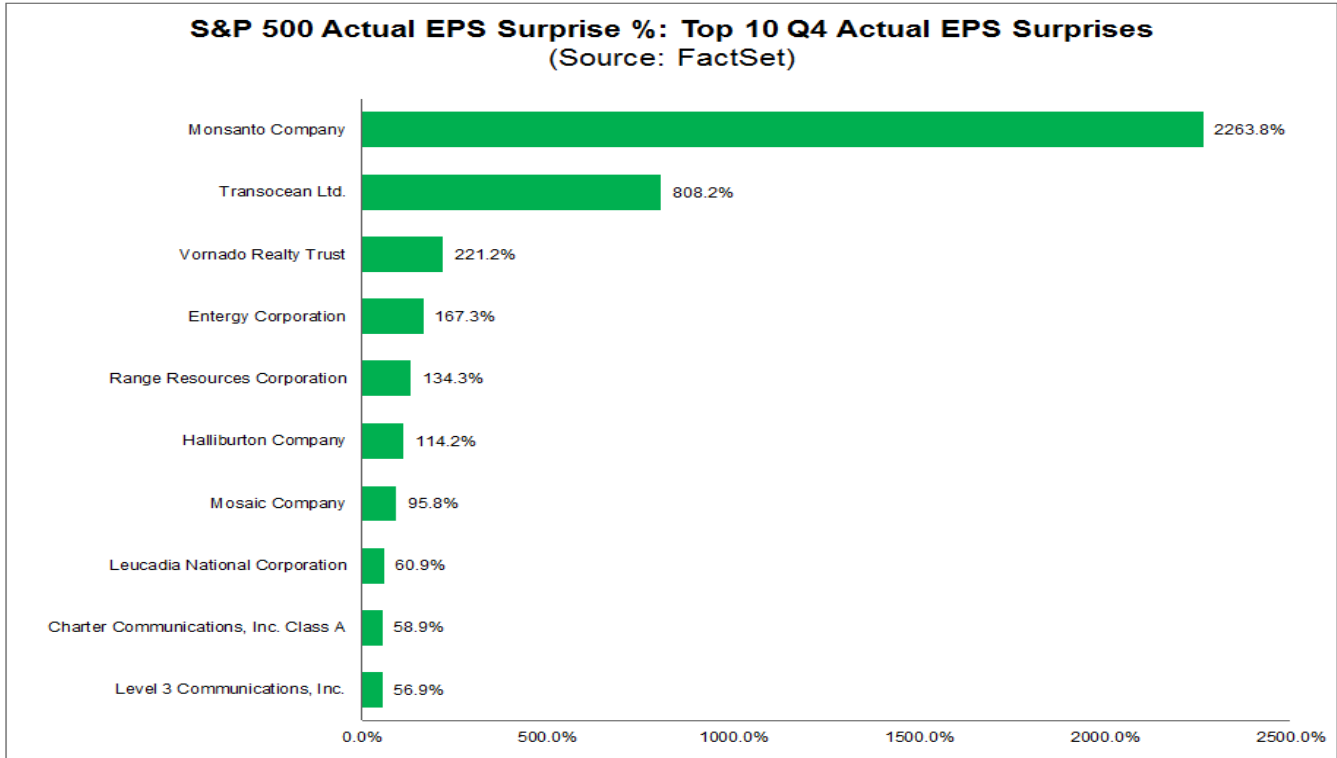


## Q4 2016: Scorecard

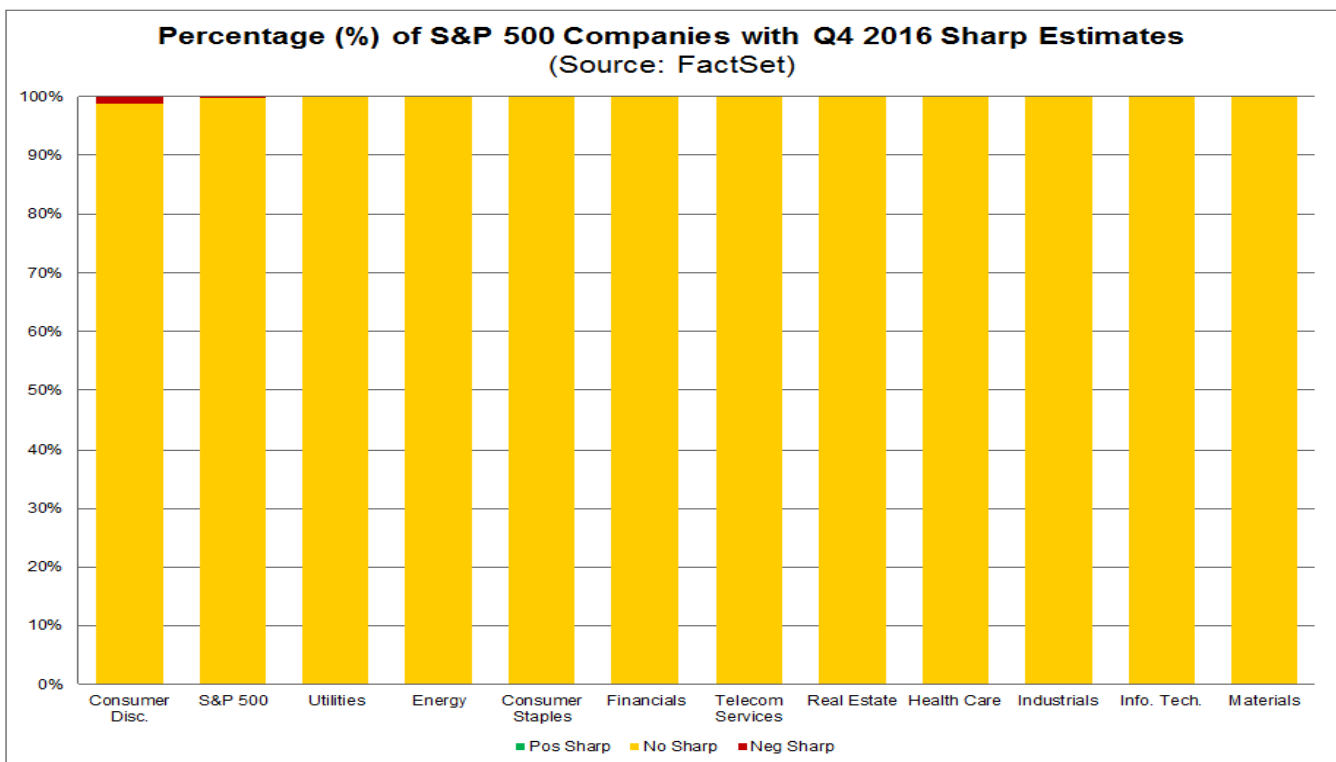
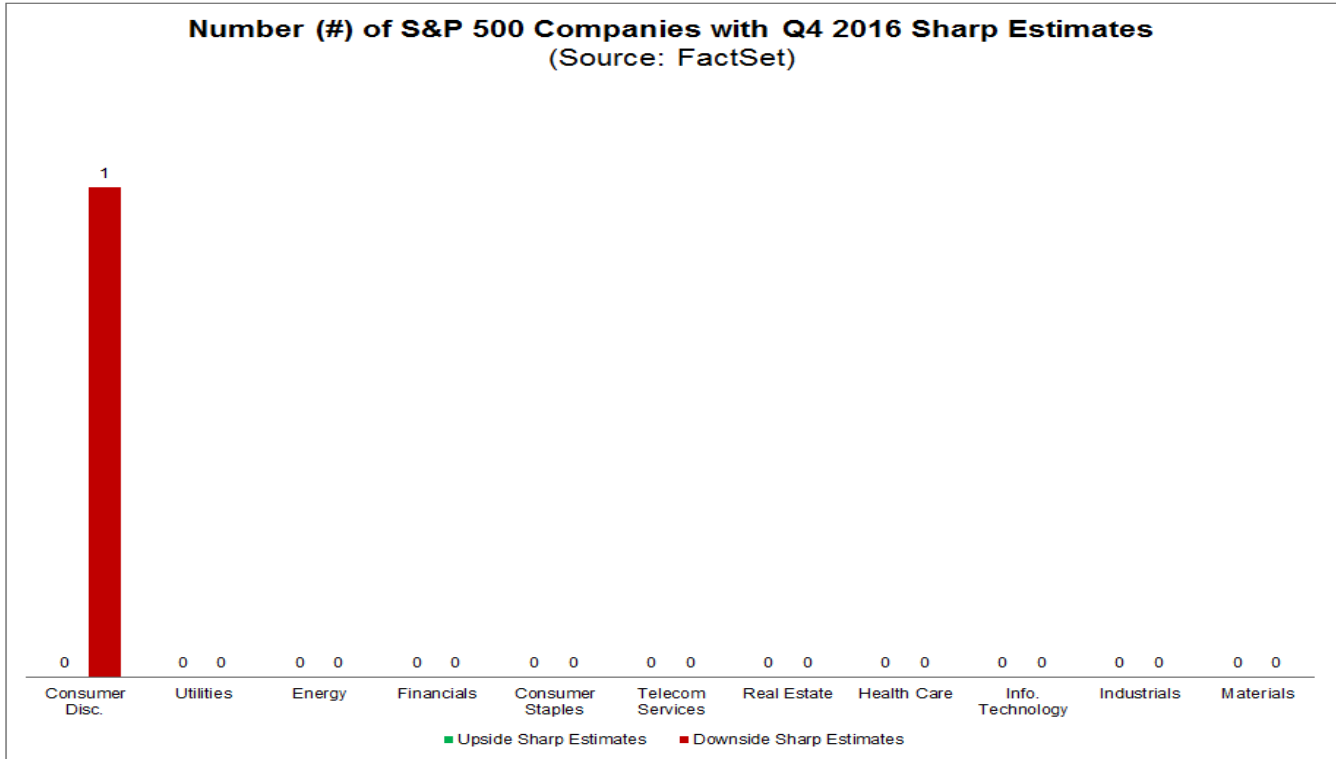




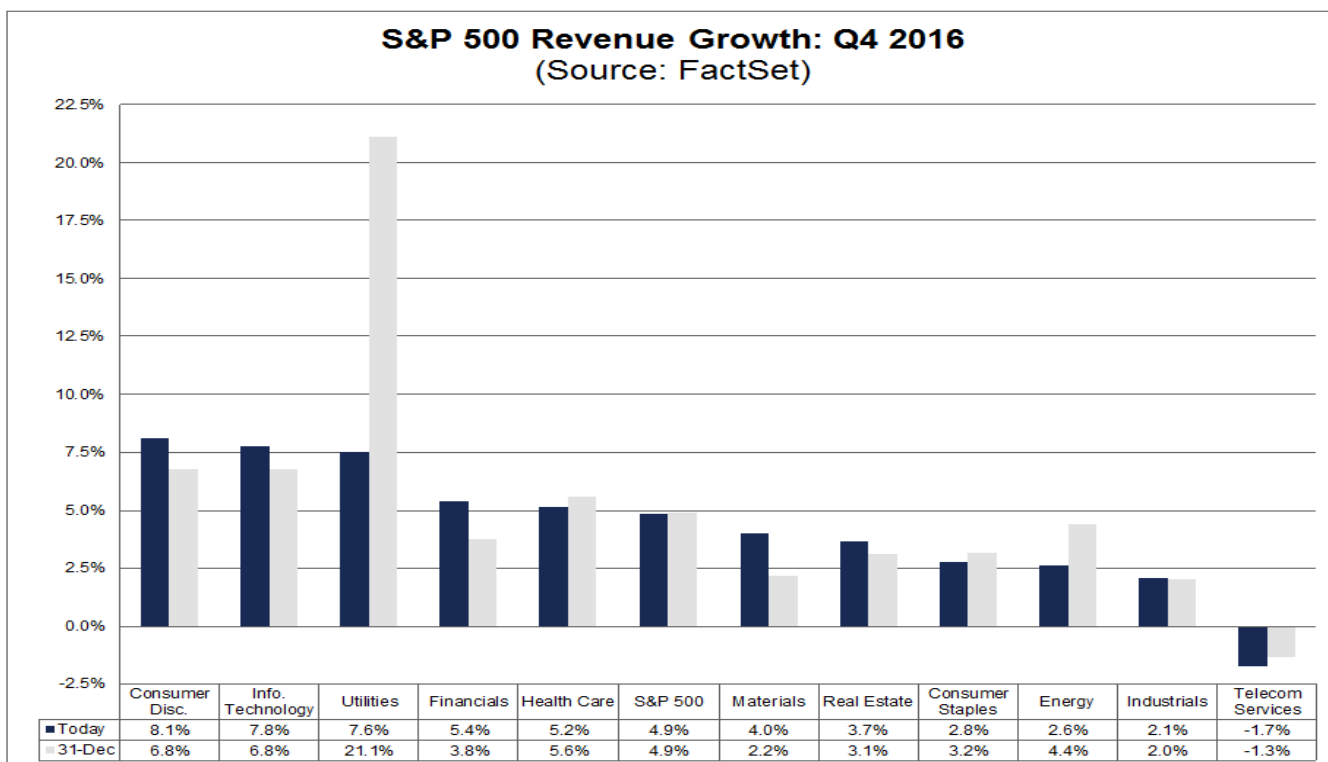
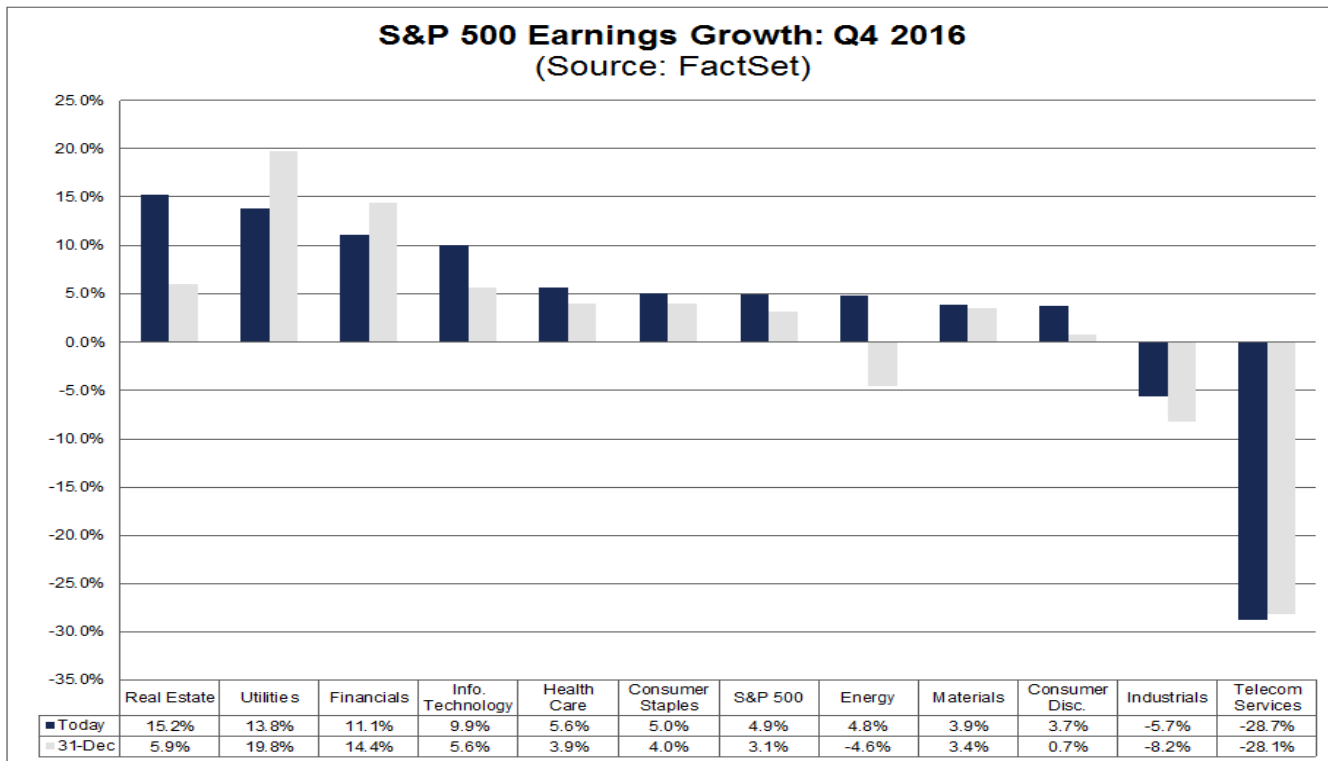
## Q4 2016: Scorecard



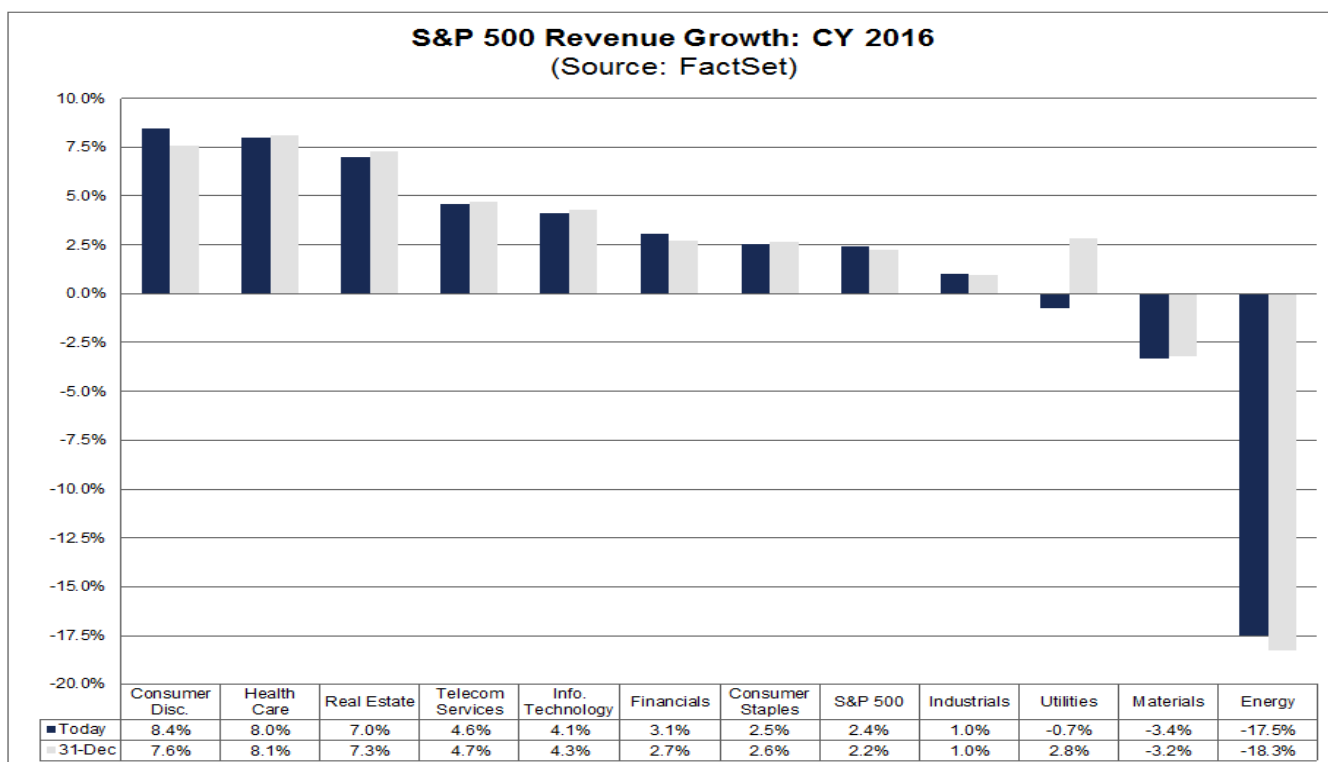
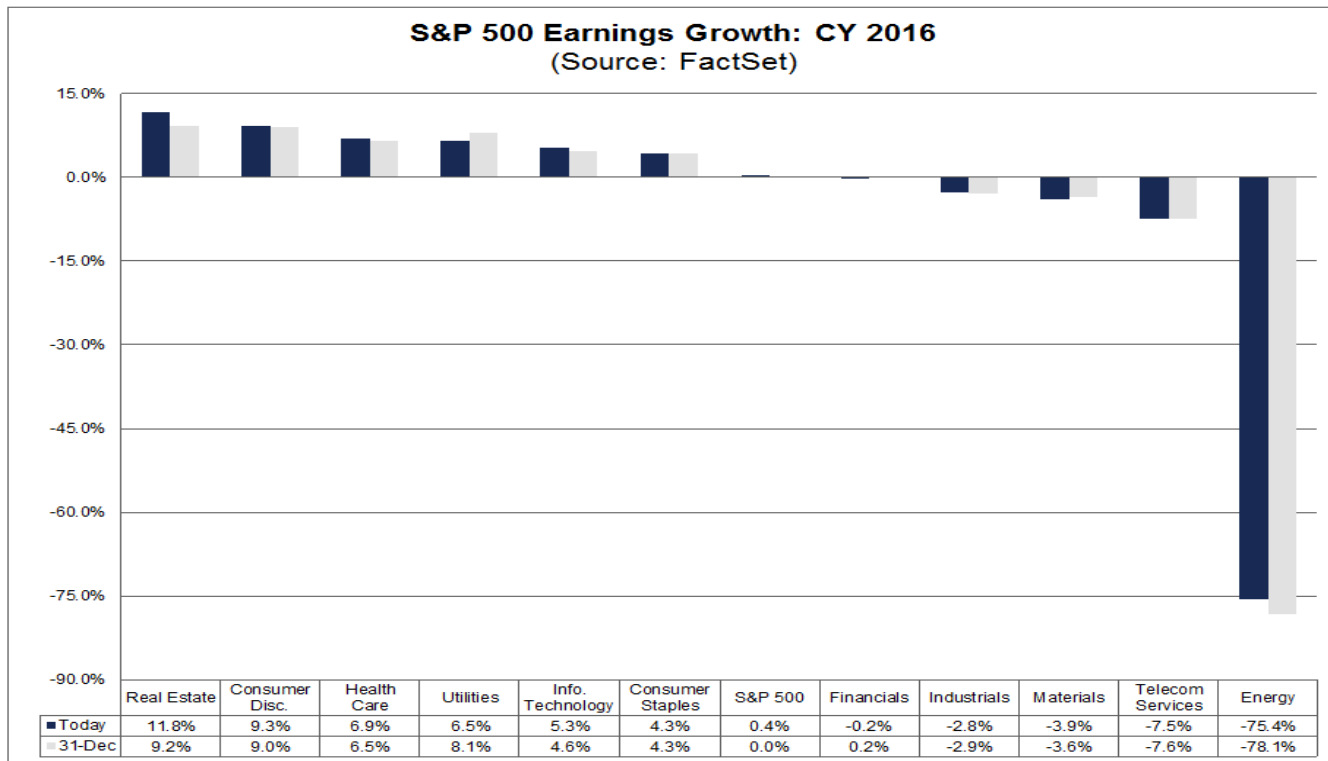
## Q4 2016: Projected EPS Surprises (Sharp Estimates)



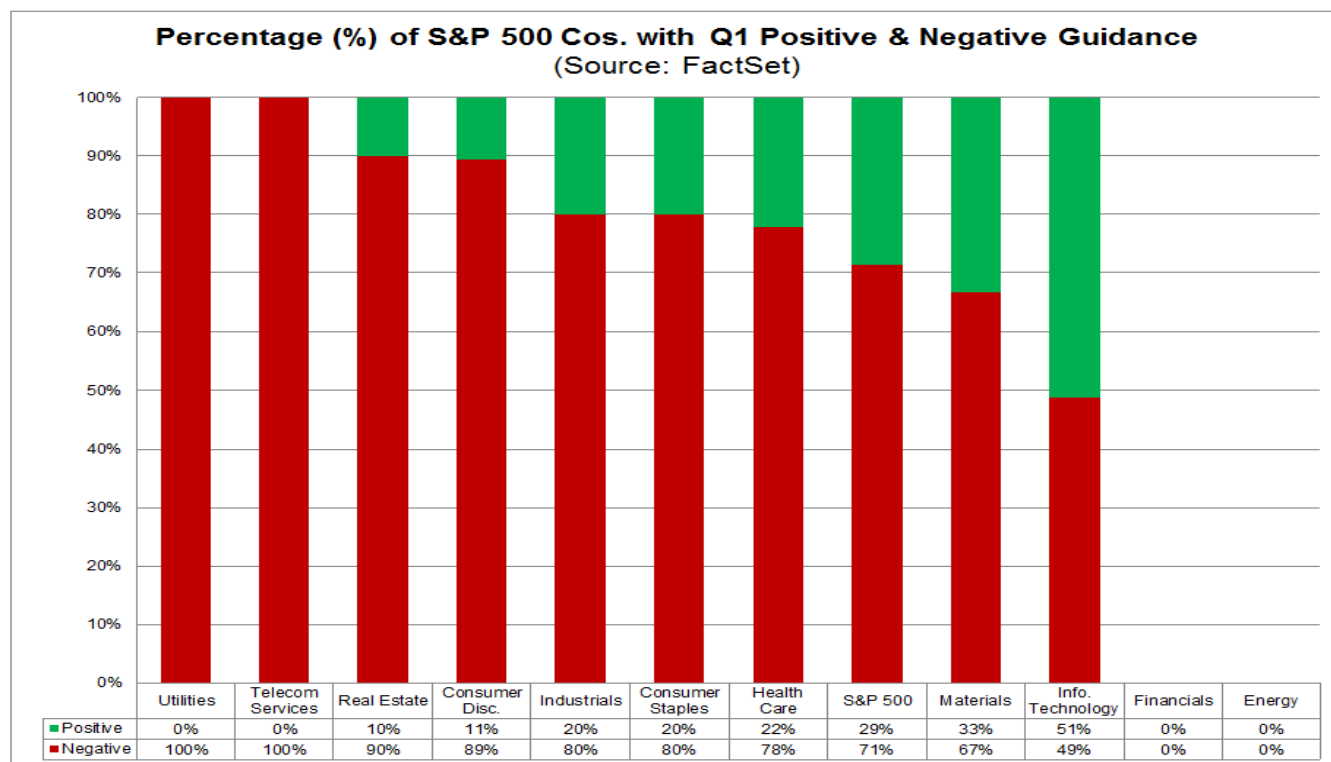
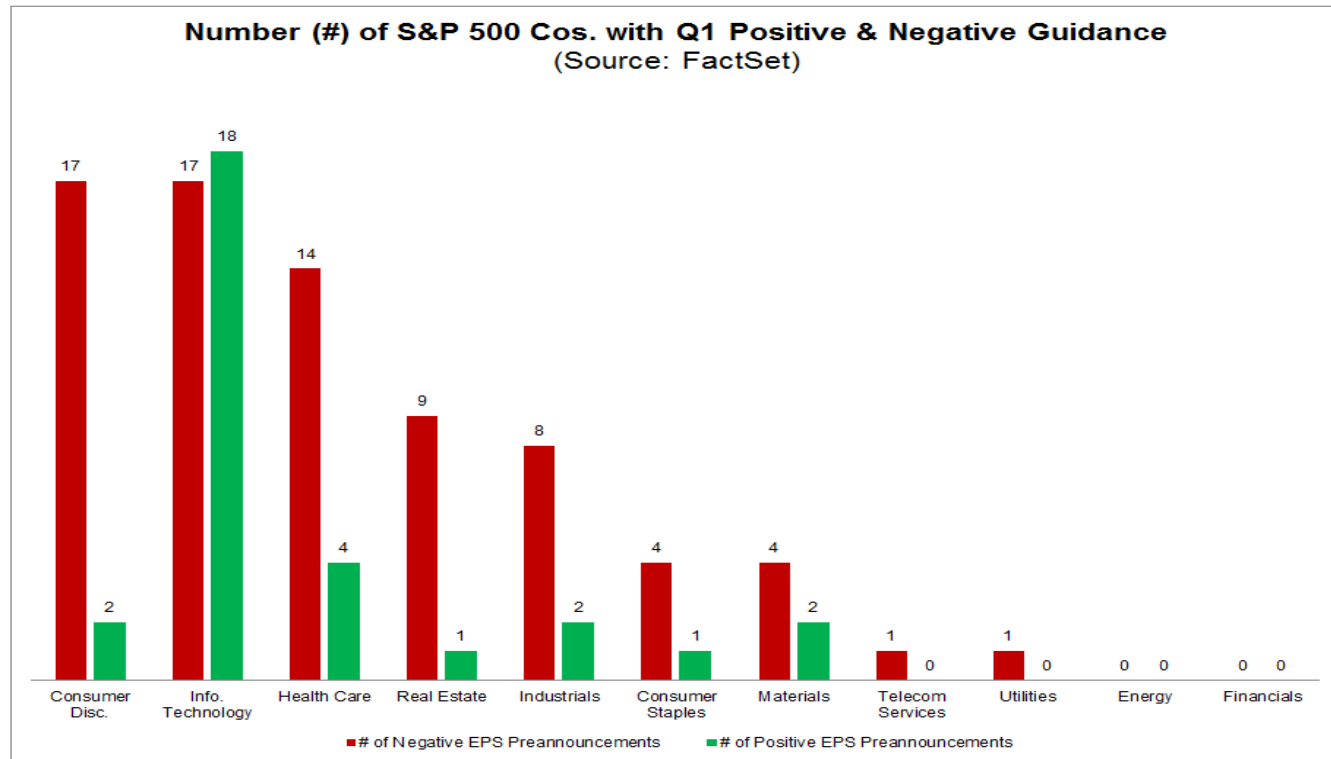
## Q4 2016: Growth



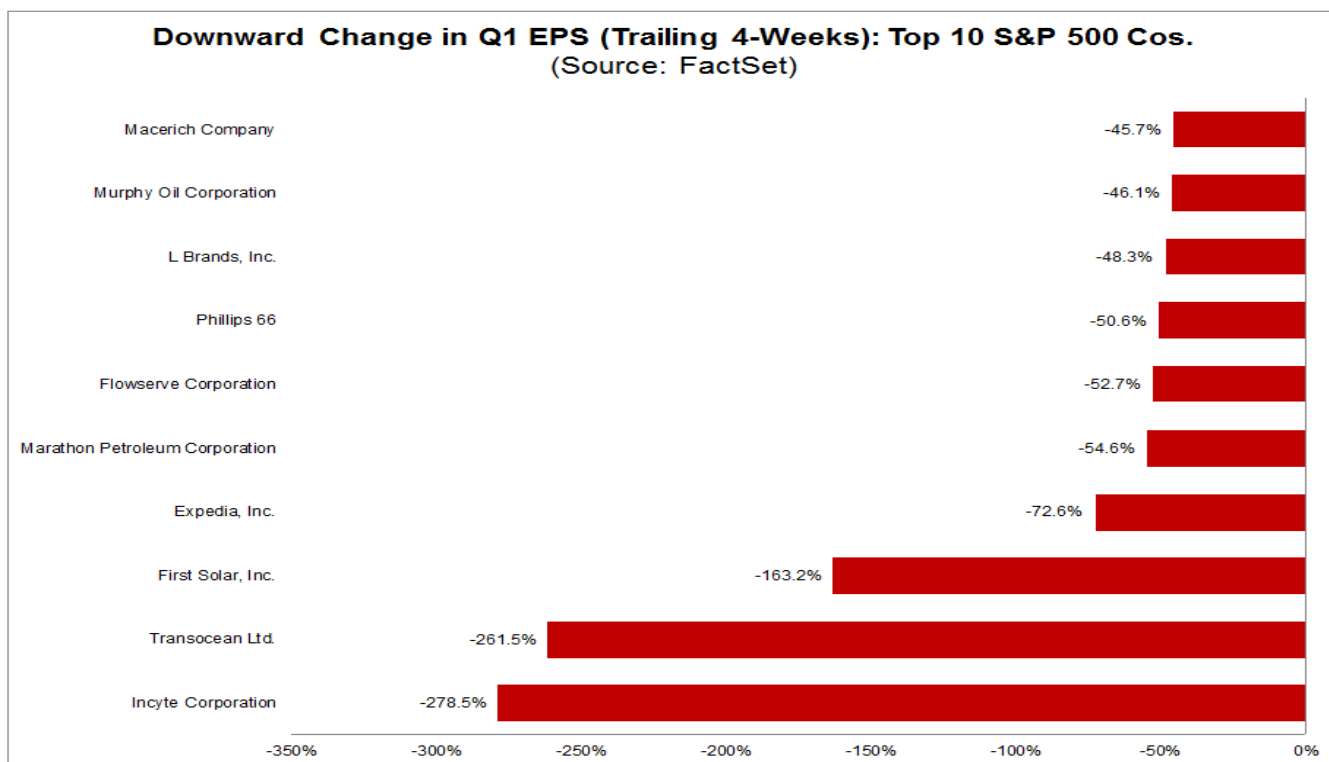
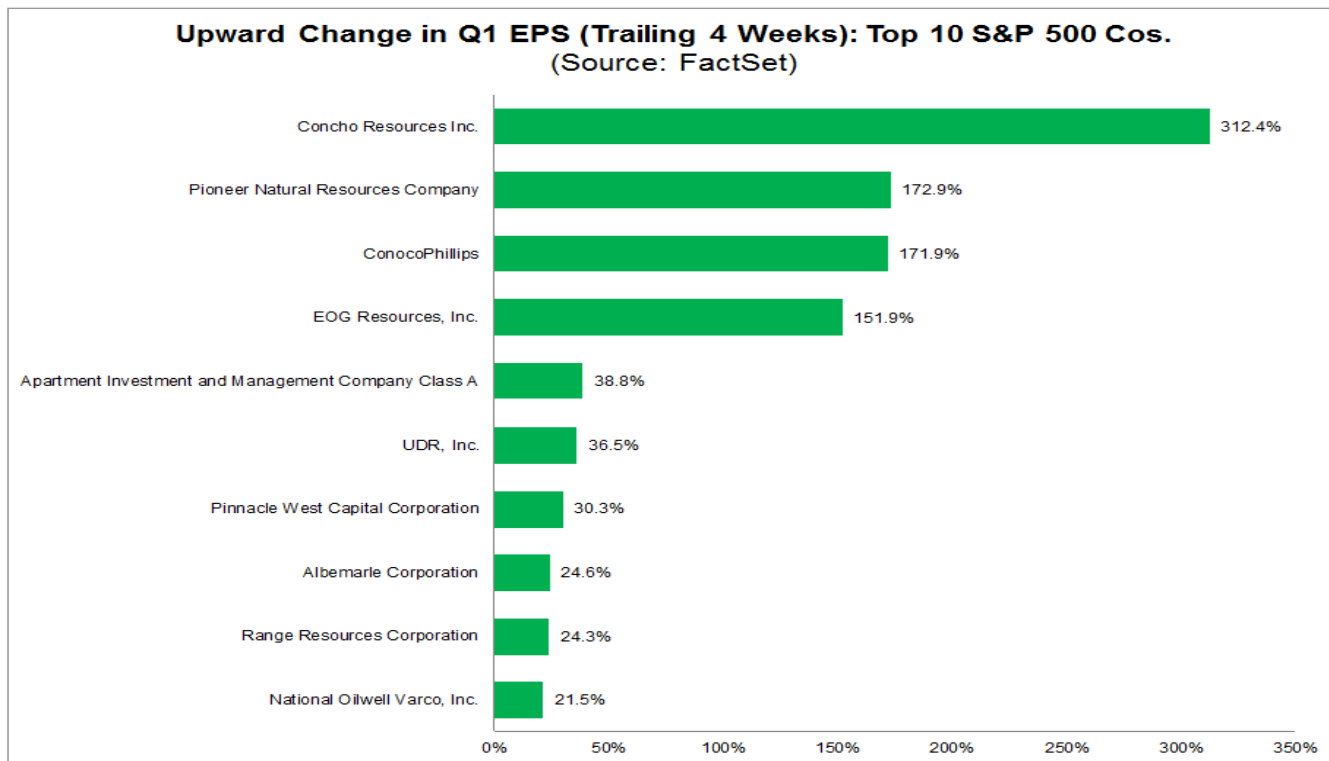
## CY 2016: Growth



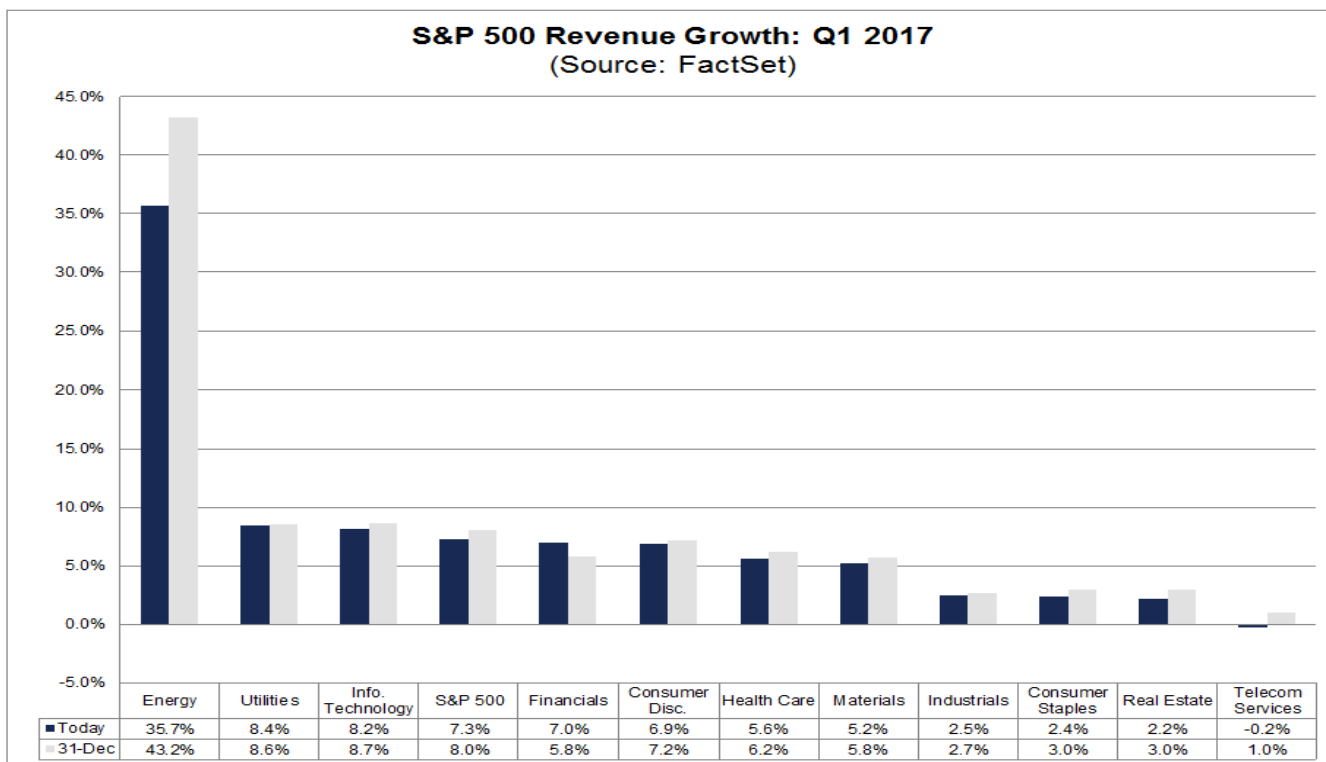
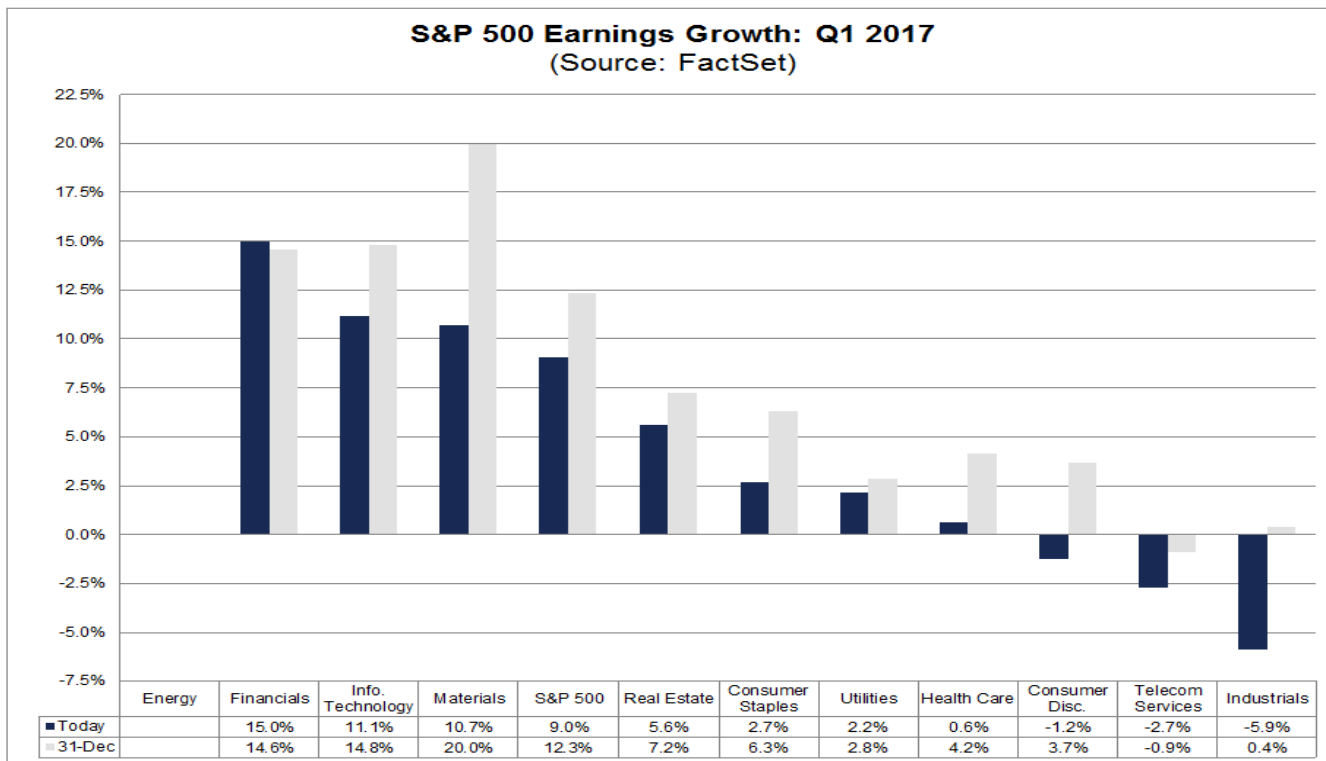
# Q1 2017: Guidance



## Q1 2017: EPS Revisions

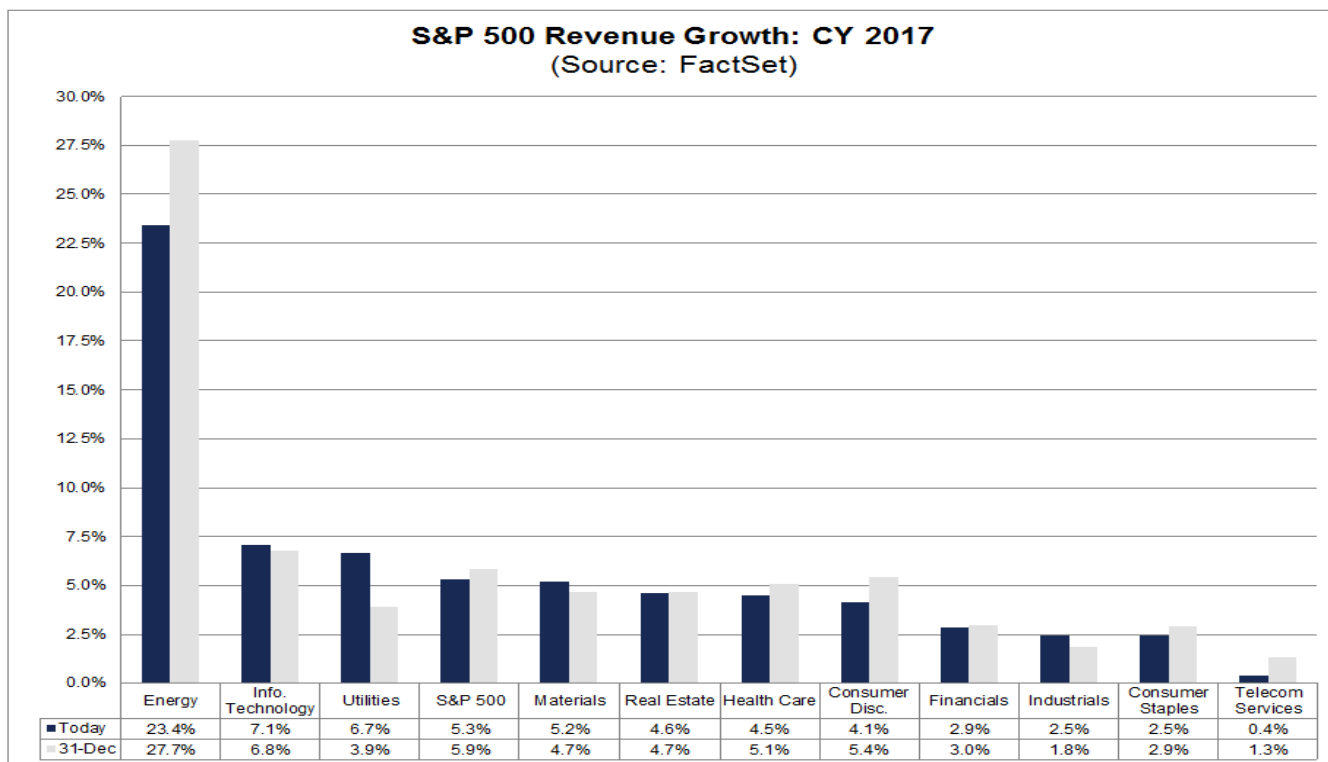
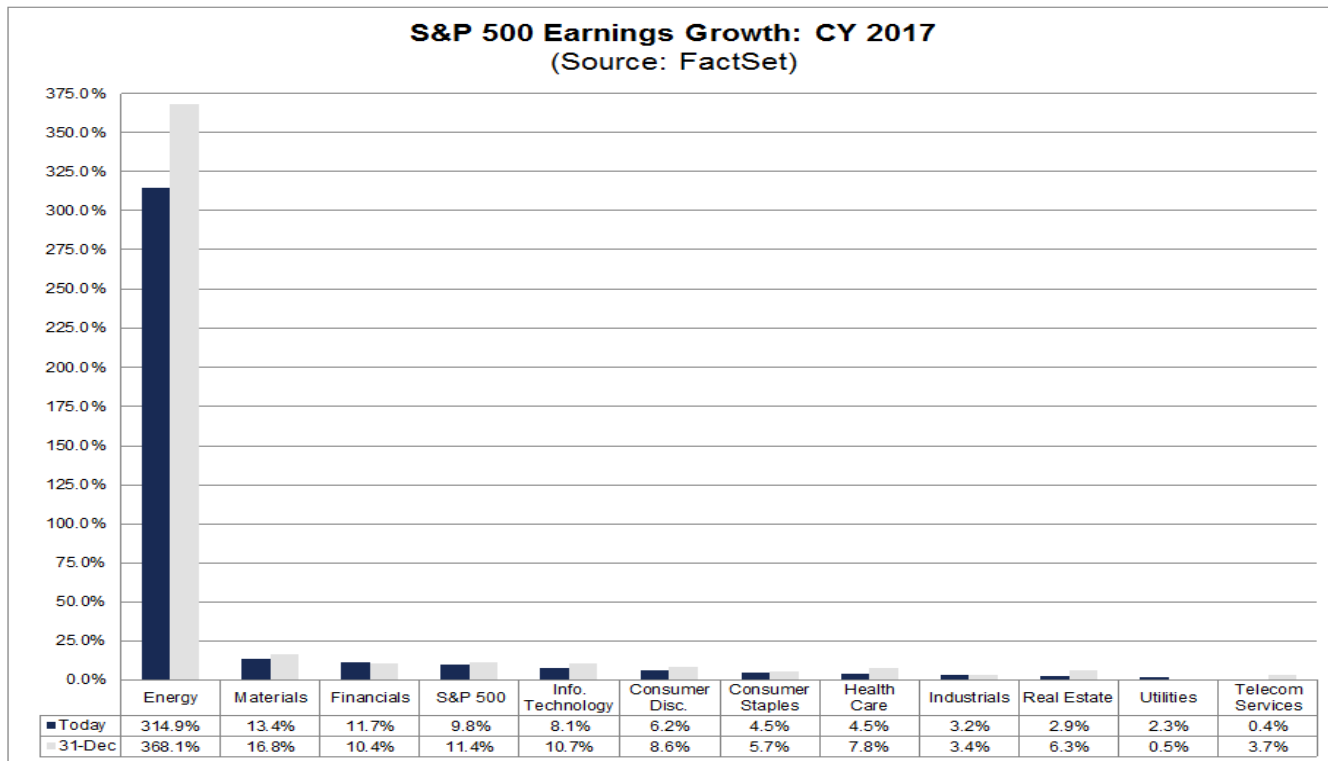


## Q1 2017: Growth

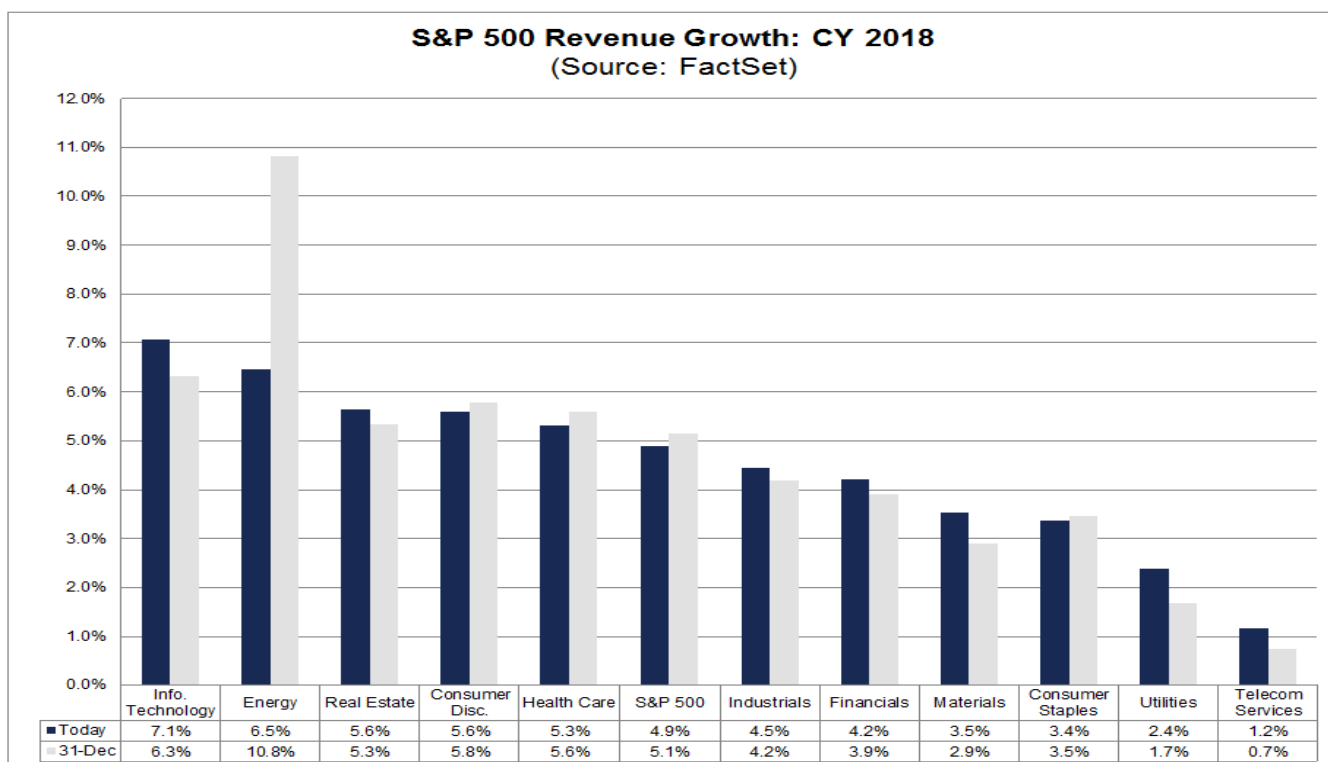
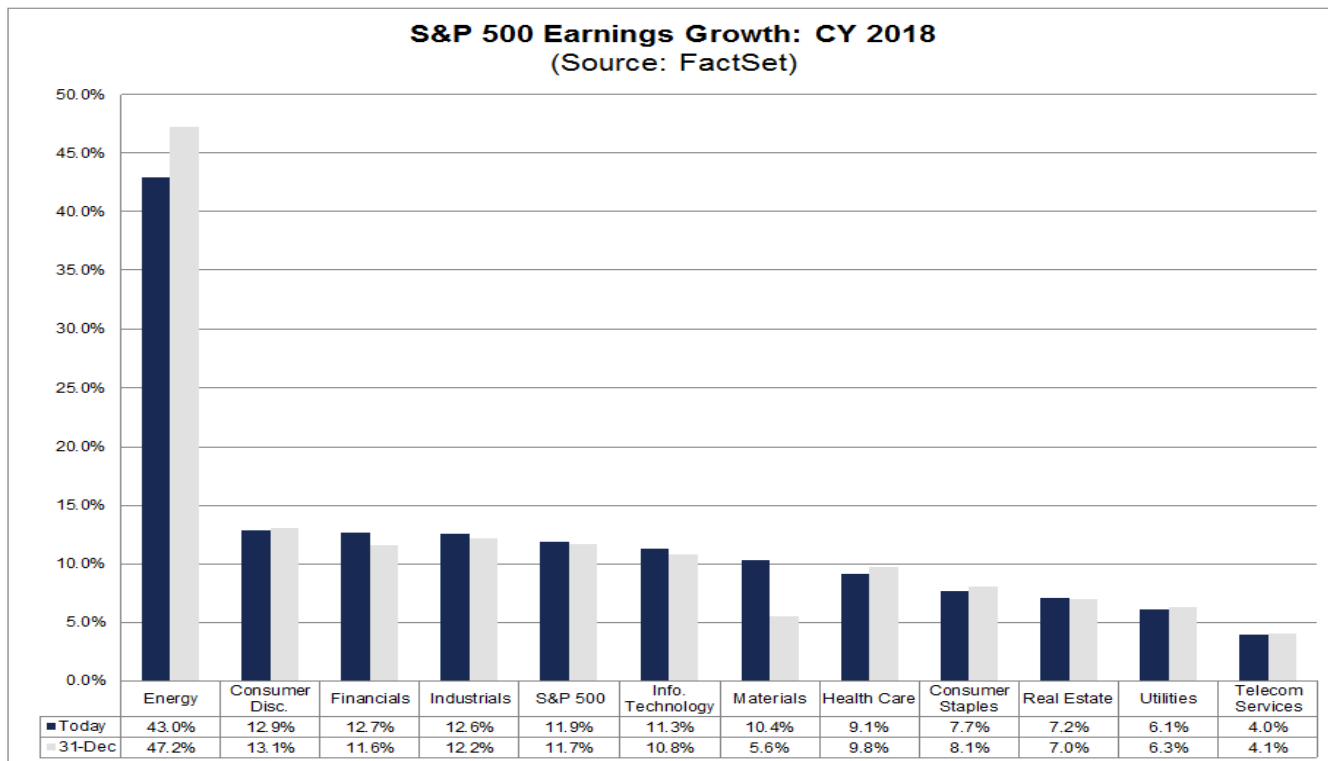




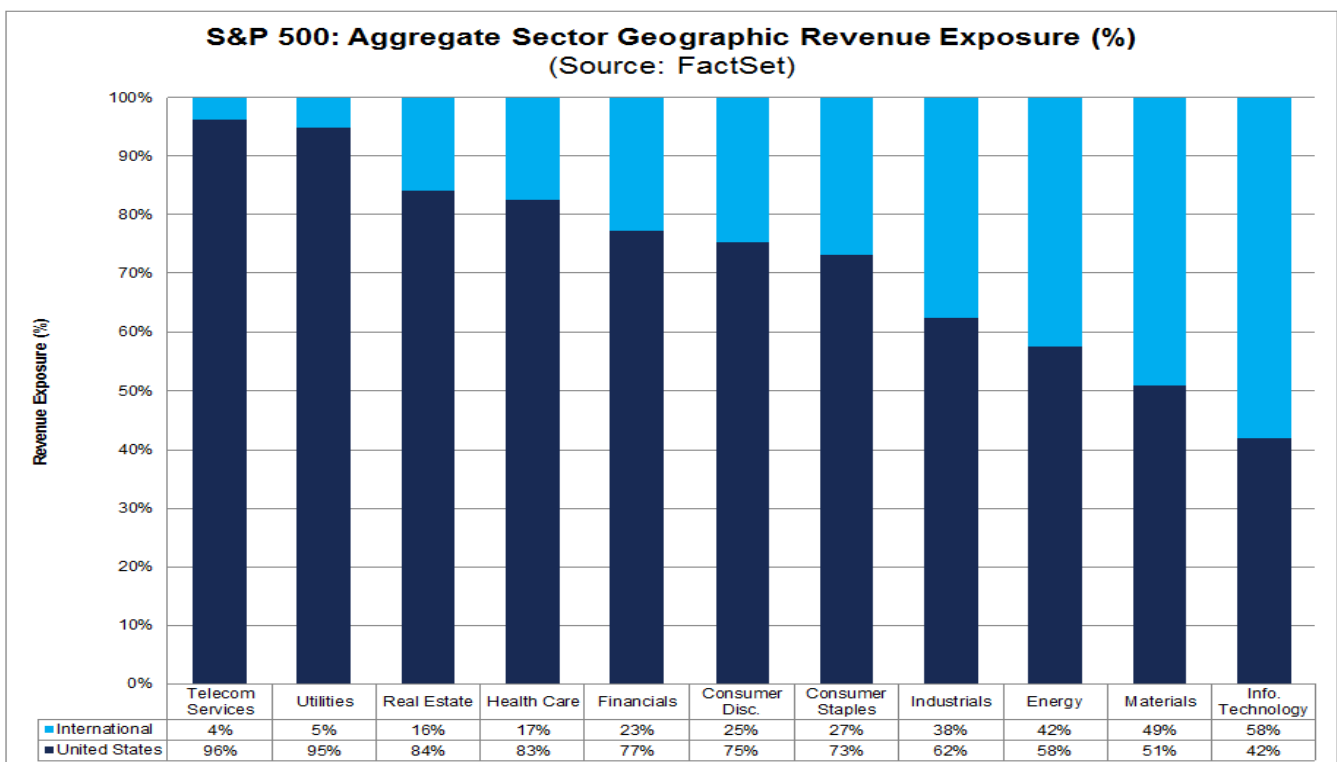
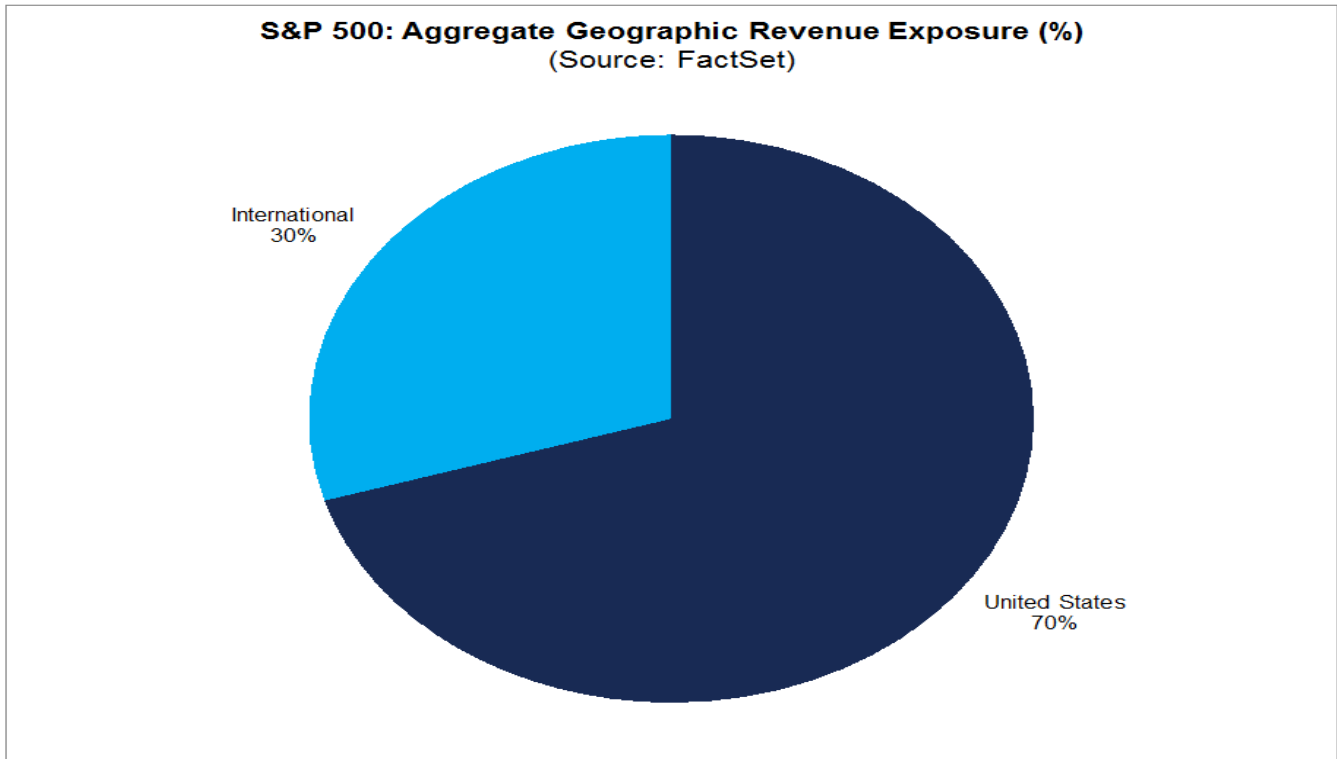
# CY 2017: Growth



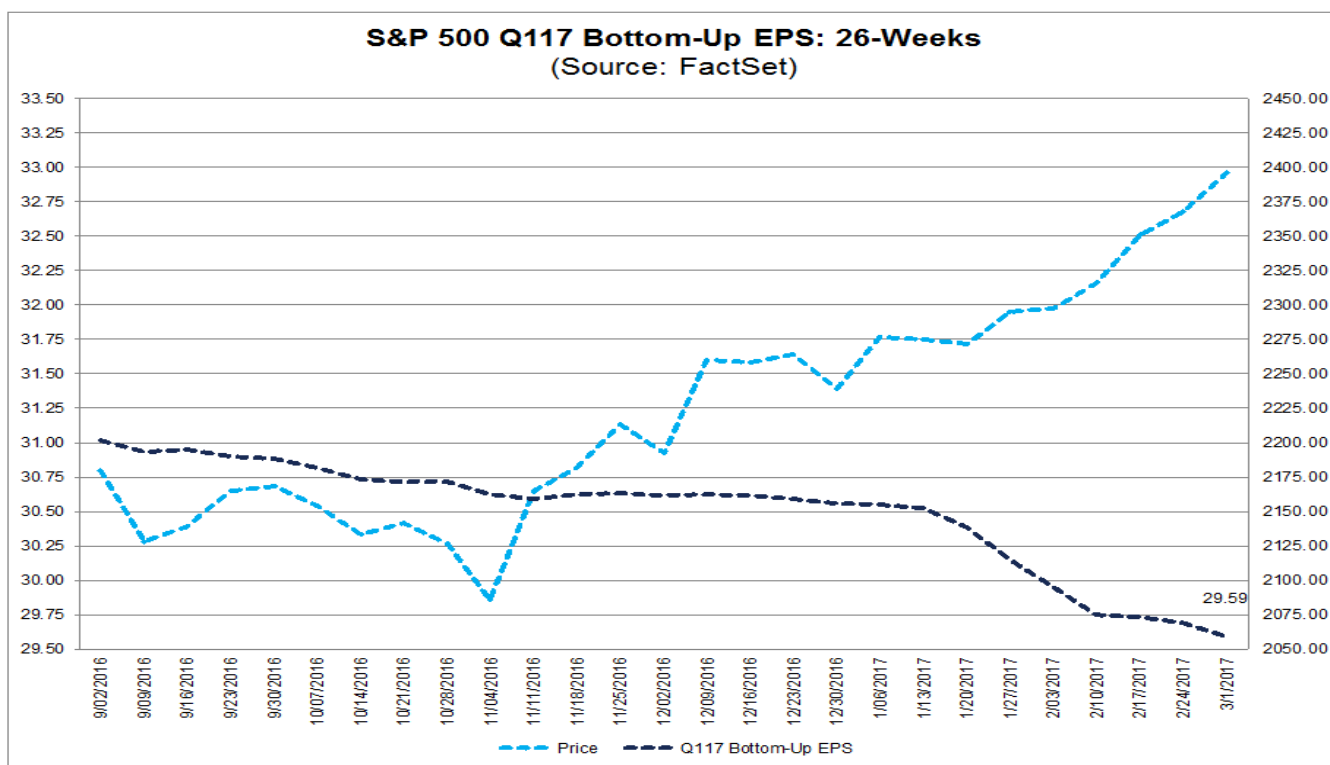
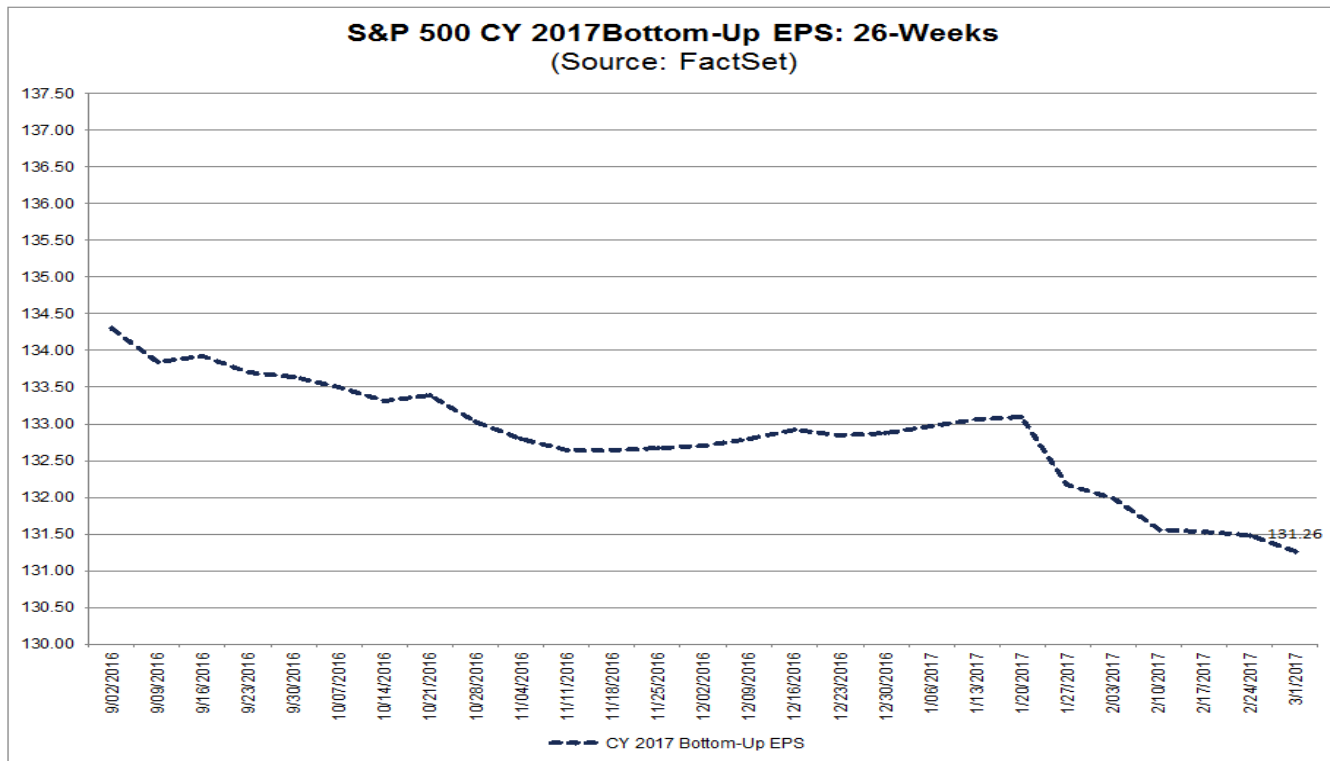
## CY 2018: Growth



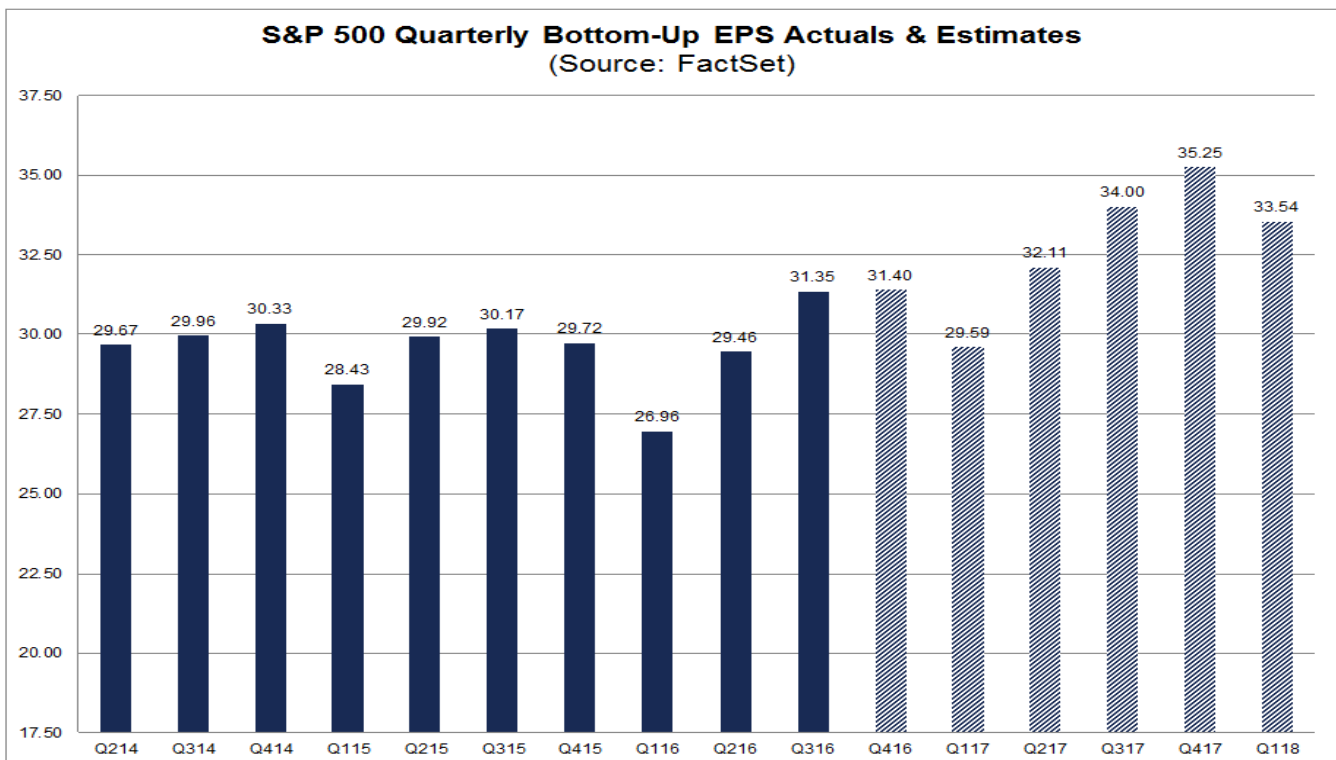
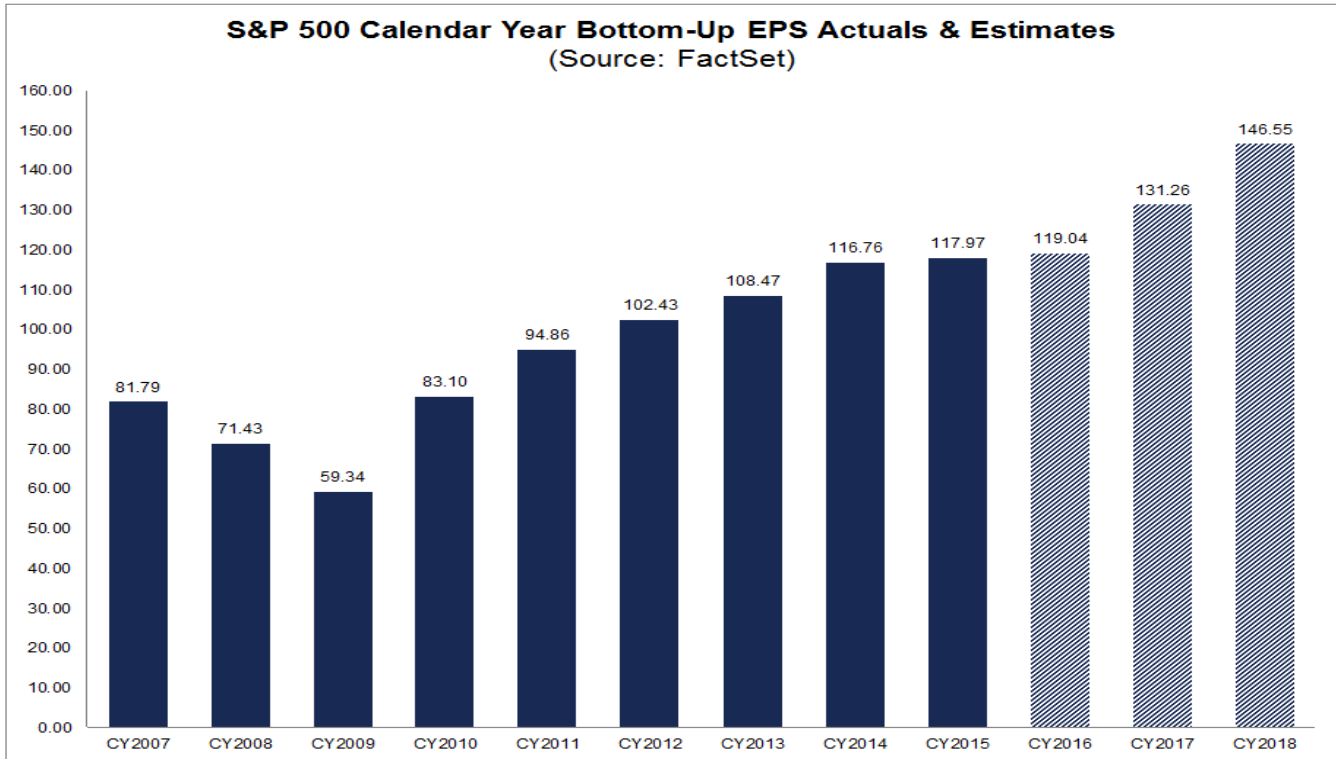
## Geographic Revenue Exposure



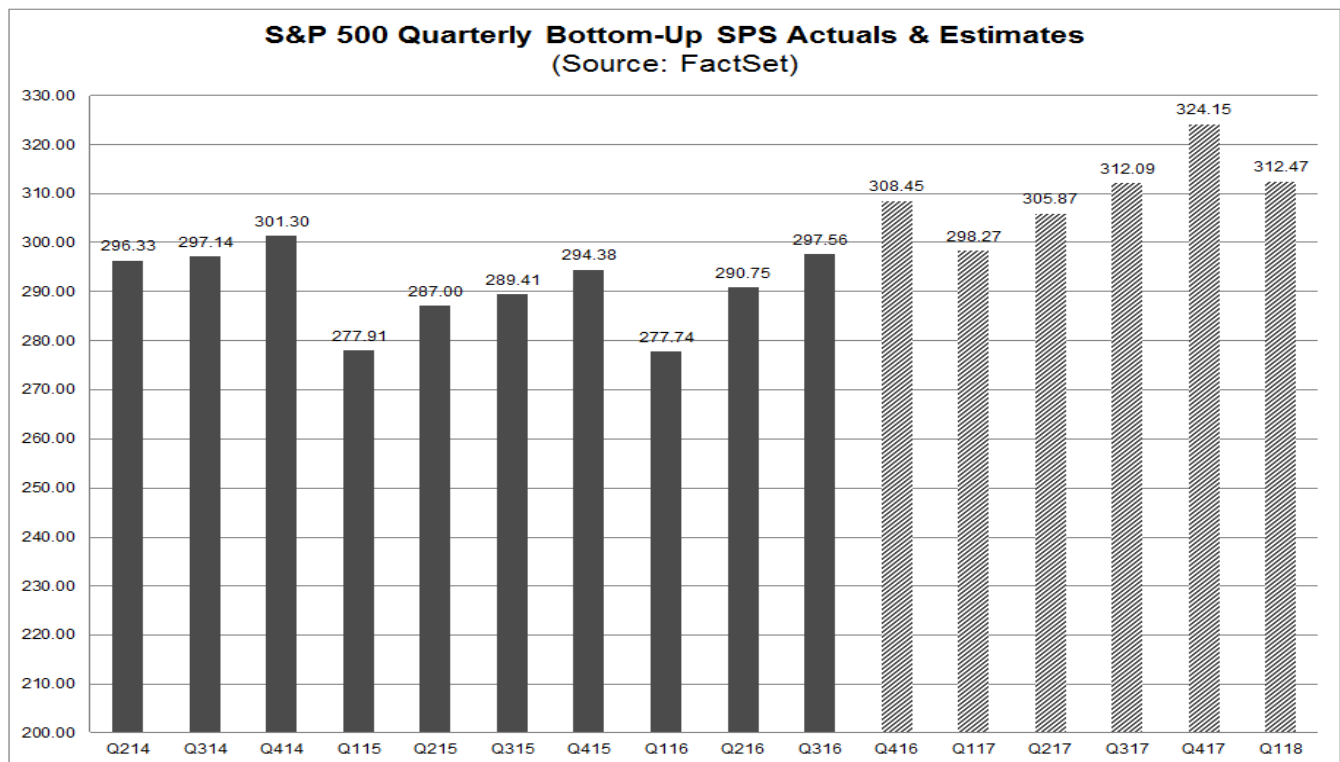
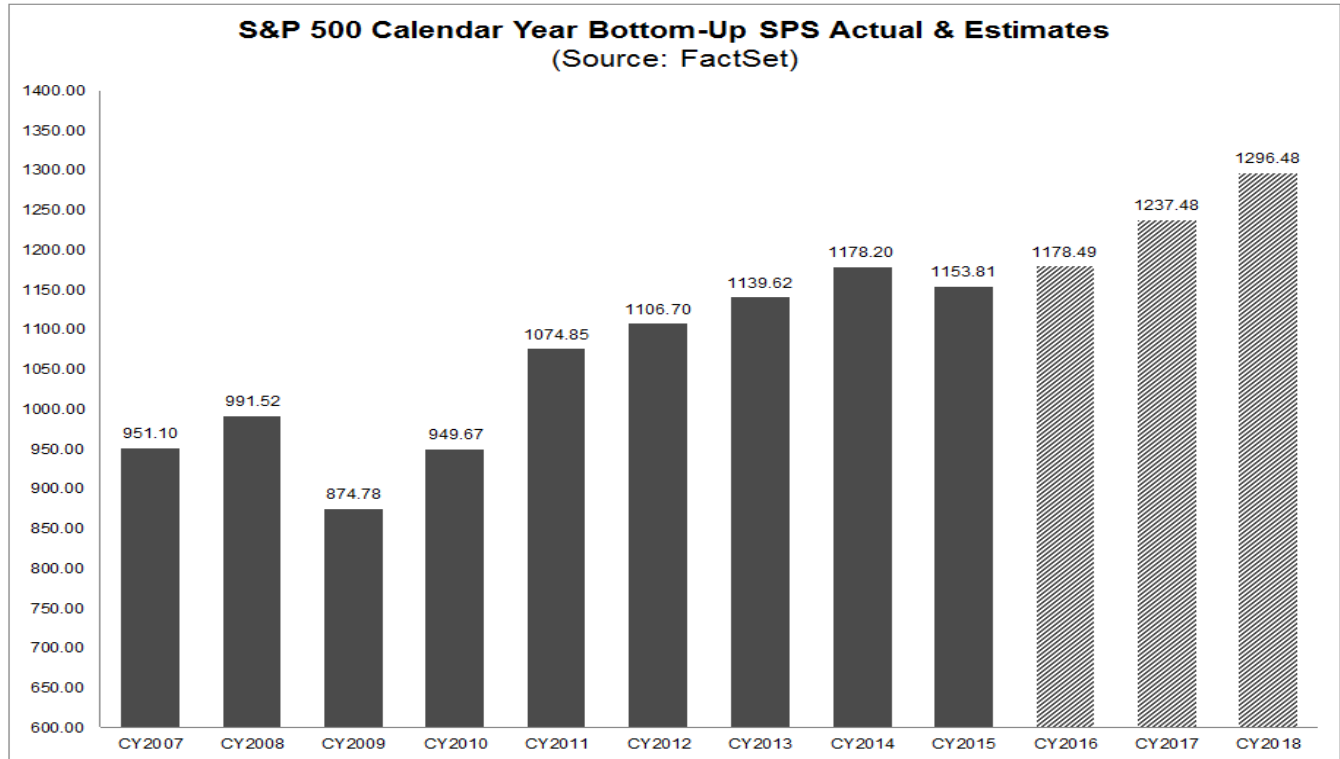
## Bottom-up EPS Estimates: Revisions



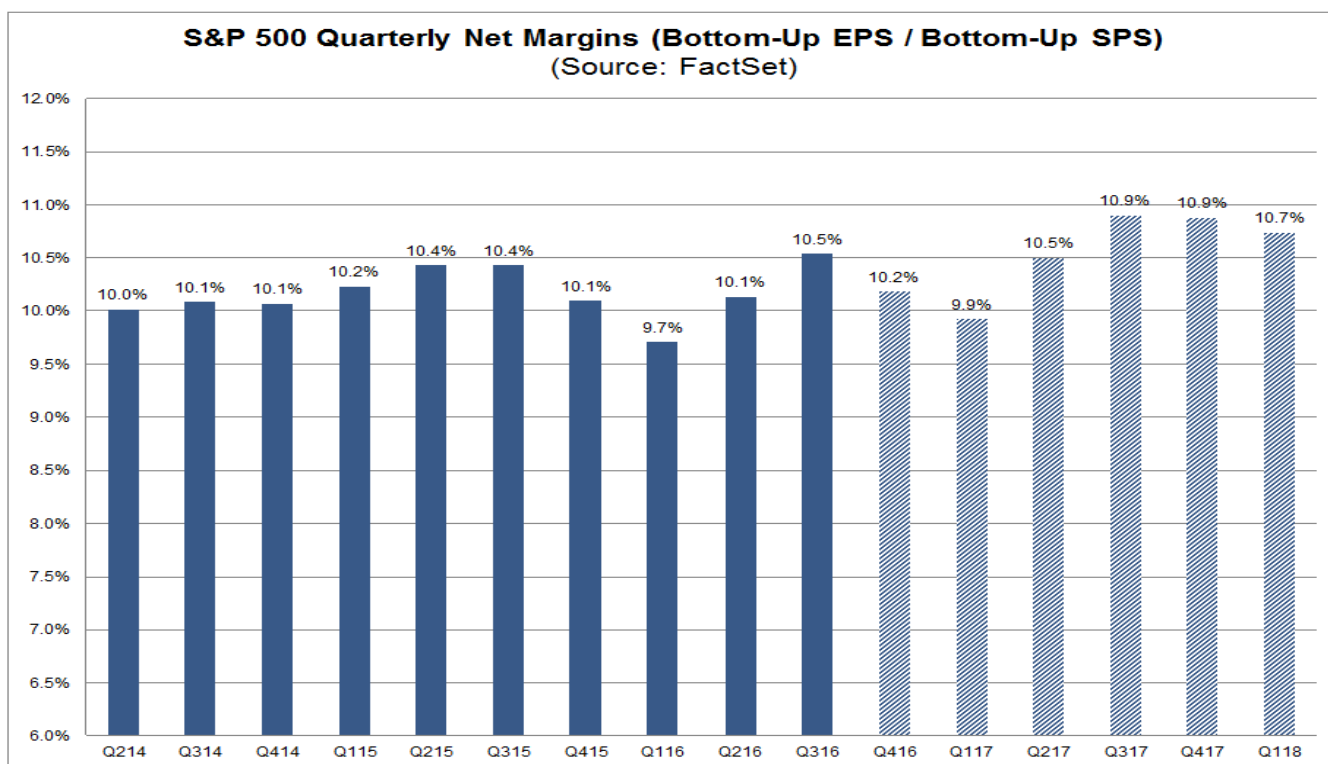
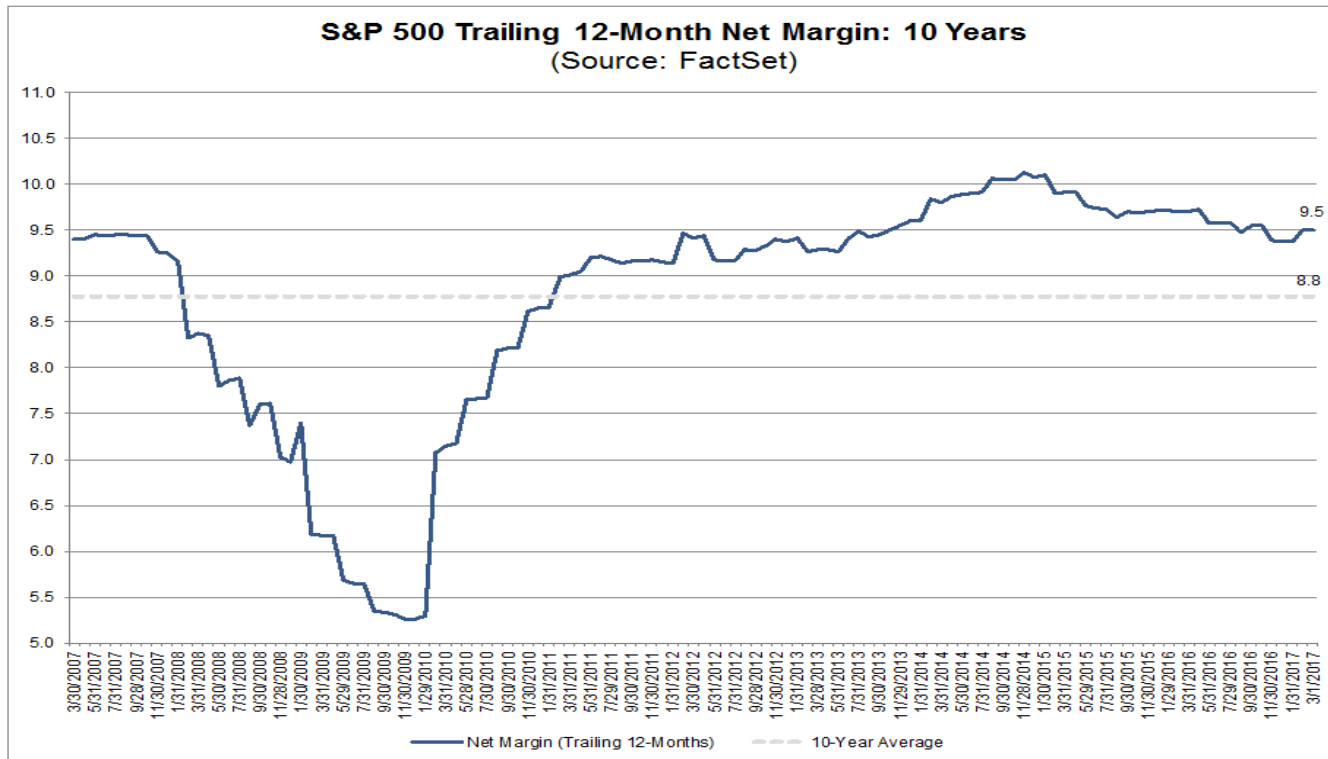
## Bottom-up EPS Estimates: Current & Historical



## Bottom-up SPS Estimates: Current & Historical

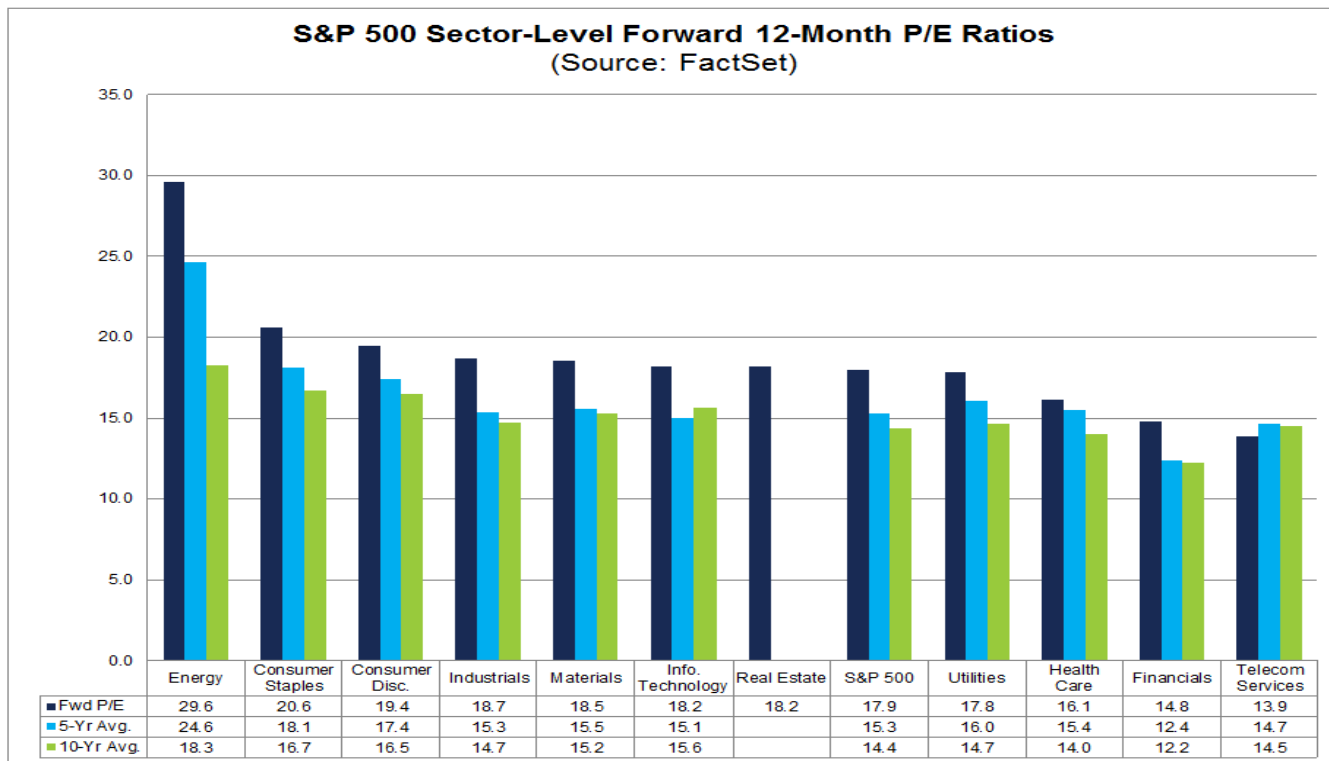


# Net Margins: Current & Historical



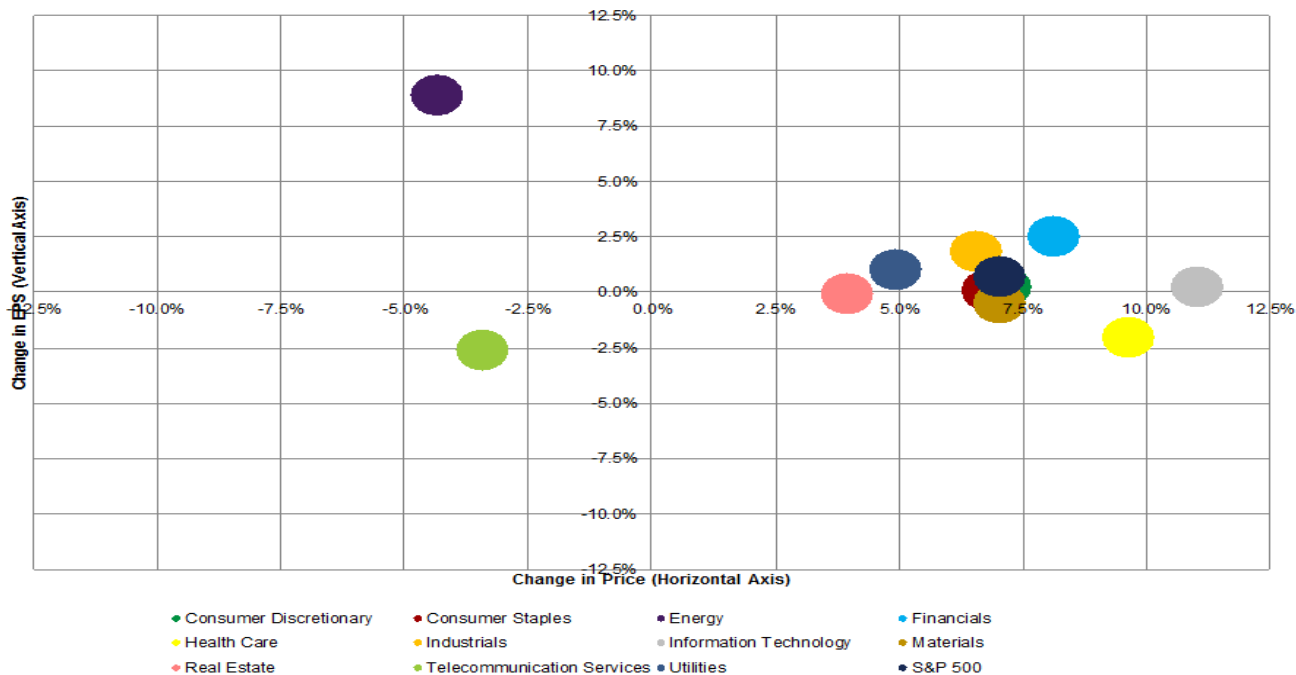


## Forward 12M P/E Ratio: Sector Level

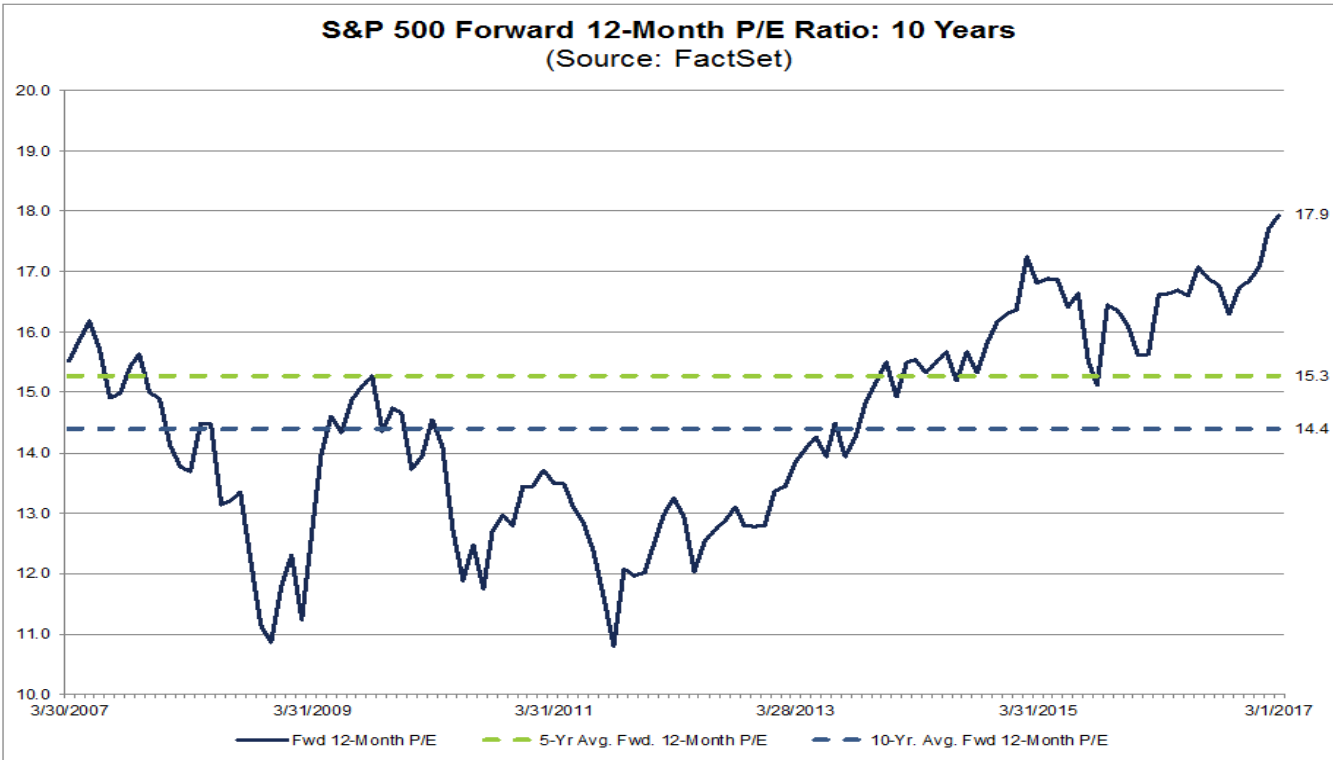
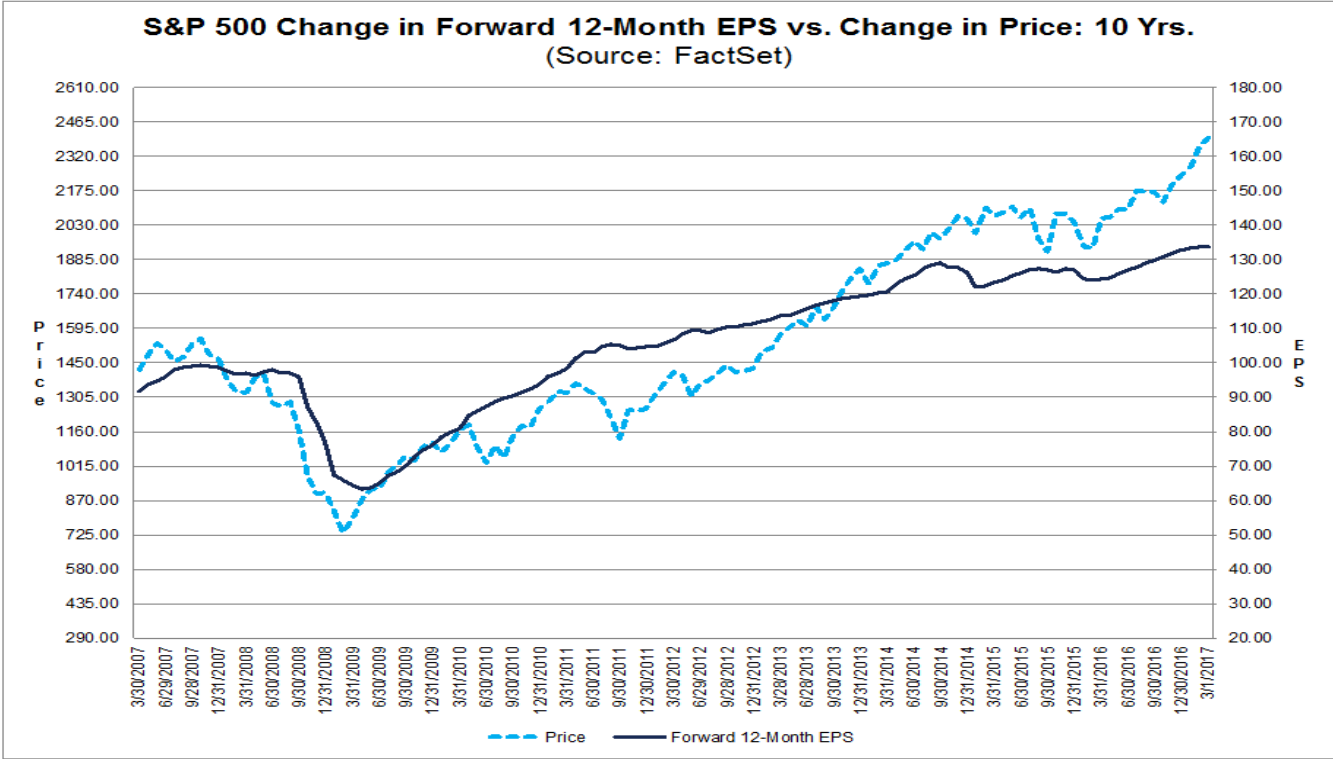


## Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Dec. 31

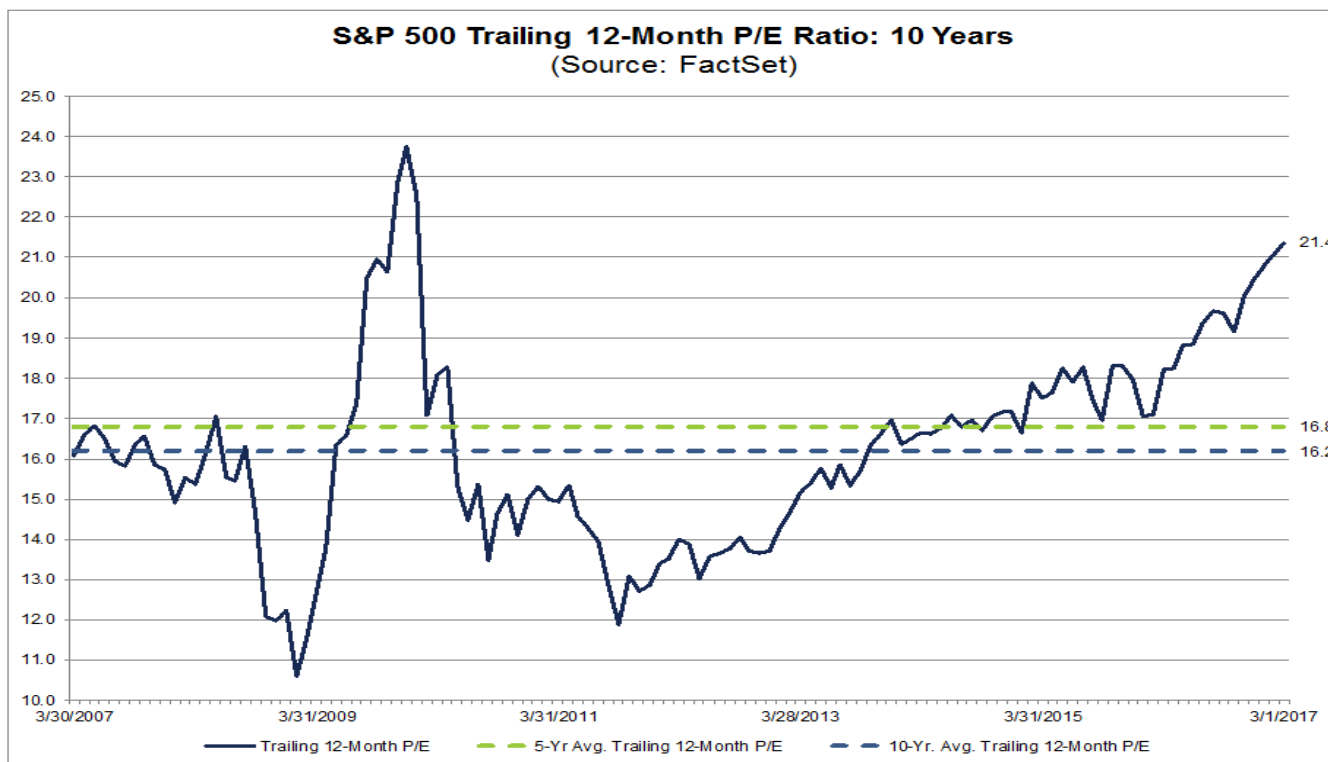
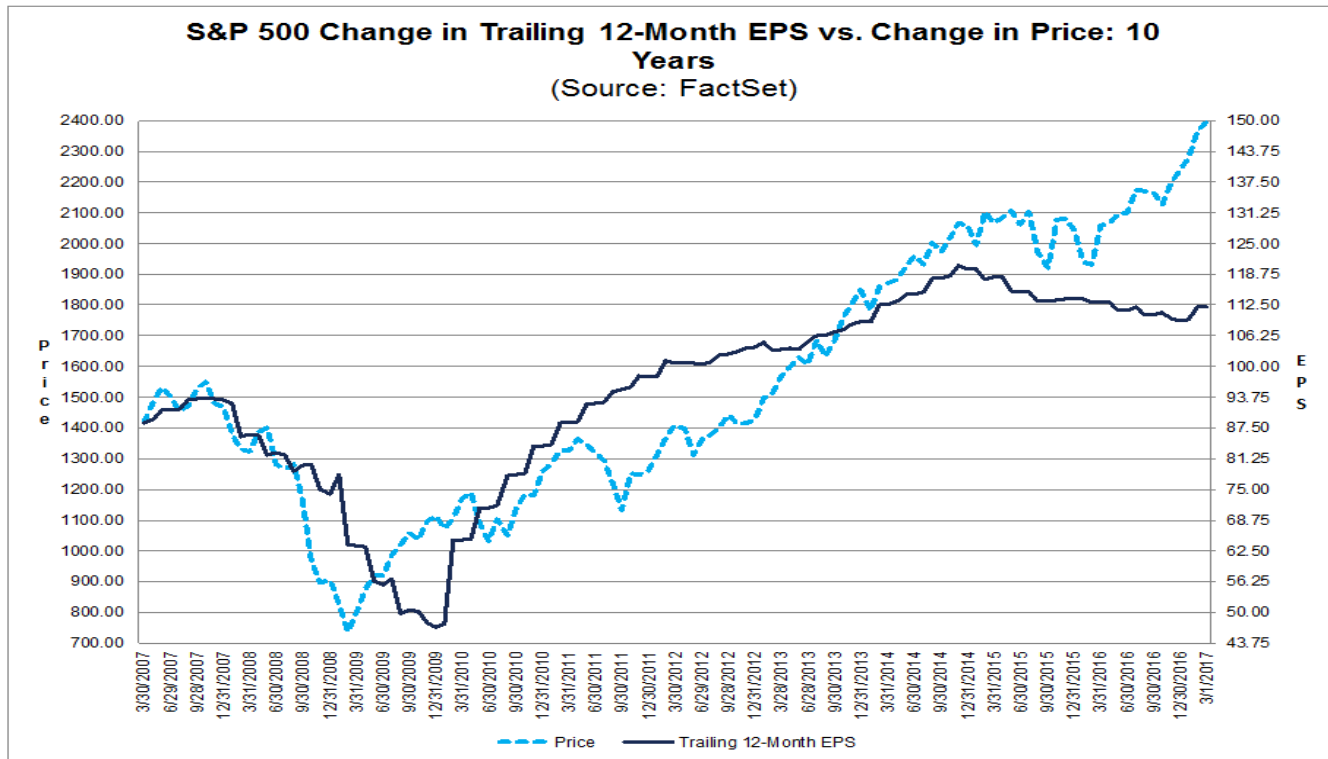
(Source: FactSet)



# Forward 12M P/E Ratio: Long-Term Averages



# Trailing 12M P/E Ratio: Long-Term Averages



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