

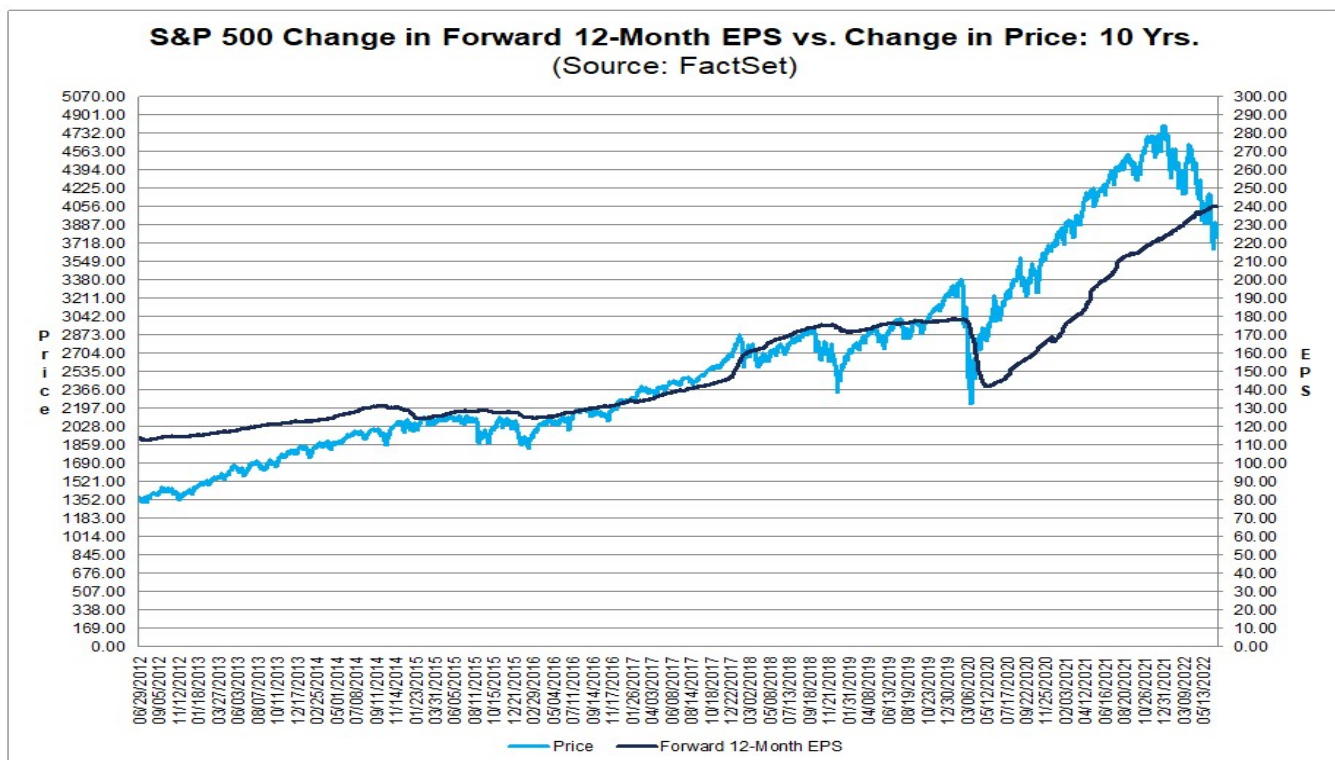
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Key Metrics

- **Earnings Growth:** For Q2 2022, the estimated earnings growth rate for the S&P 500 is 4.1%. If 4.1% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q4 2020 (3.8%).
- **Earnings Revisions:** On March 31, the estimated earnings growth rate for Q2 2022 was 5.9%. Seven sectors are expected to report lower earnings today (compared to March 31) due to downward revisions to EPS estimates.
- **Earnings Guidance:** For Q2 2022, 71 S&P 500 companies have issued negative EPS guidance and 32 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 15.8. This P/E ratio is below the 5-year average (18.6) and below the 10-year average (16.9).
- **Earnings Scorecard:** For Q2 2022 (with 18 S&P 500 companies reporting actual results), 13 S&P 500 companies have reported a positive EPS surprise and 15 S&P 500 companies have reported a positive revenue surprise.



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Topic of the Week: 1

Analysts Lowered EPS Estimates for Q222 But Raised EPS Estimates for CY22 During Q2

Given concerns in the market about a possible recession, did analysts lower EPS estimates for S&P 500 companies more than normal for the second quarter and for the full year during the second quarter?

The answer is no. Over the past three months, analysts lowered EPS estimates for the second quarter by a smaller margin than average and increased EPS estimates for the full year.

During the second quarter, analysts decreased earnings estimates for companies in the S&P 500 for the quarter. The Q2 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for Q2 for all the companies in the index) decreased by 1.1% (to \$55.44 from \$56.06) from March 31 to June 30.

In a typical quarter, analysts usually reduce earnings estimates during the quarter. During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 2.4%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 3.3%. During the past fifteen years, (60 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 4.7%.

Thus, the decline in the bottom-up EPS estimate for Q2 recorded during the second quarter was smaller than the 5-year average, the 10-year average, and the 15-year average. However, it should be noted that the second quarter also marked the largest decrease in the bottom-up EPS estimate during a quarter since Q2 2020 (-37.0%), when there were widespread lockdowns in the U.S. due to COVID-19.

At the sector level, seven of the eleven sectors witnessed a decrease in their bottom-up EPS estimate for Q2 2022 from March 31 to June 30, led by the Consumer Discretionary (-19.3%) and Communication Services (-8.1%) sectors. On the other hand, four sectors recorded an increase in their bottom-up EPS estimate for Q2 2022 during this period, led by the Energy (+38.6%) and Materials (+8.6%) sectors.

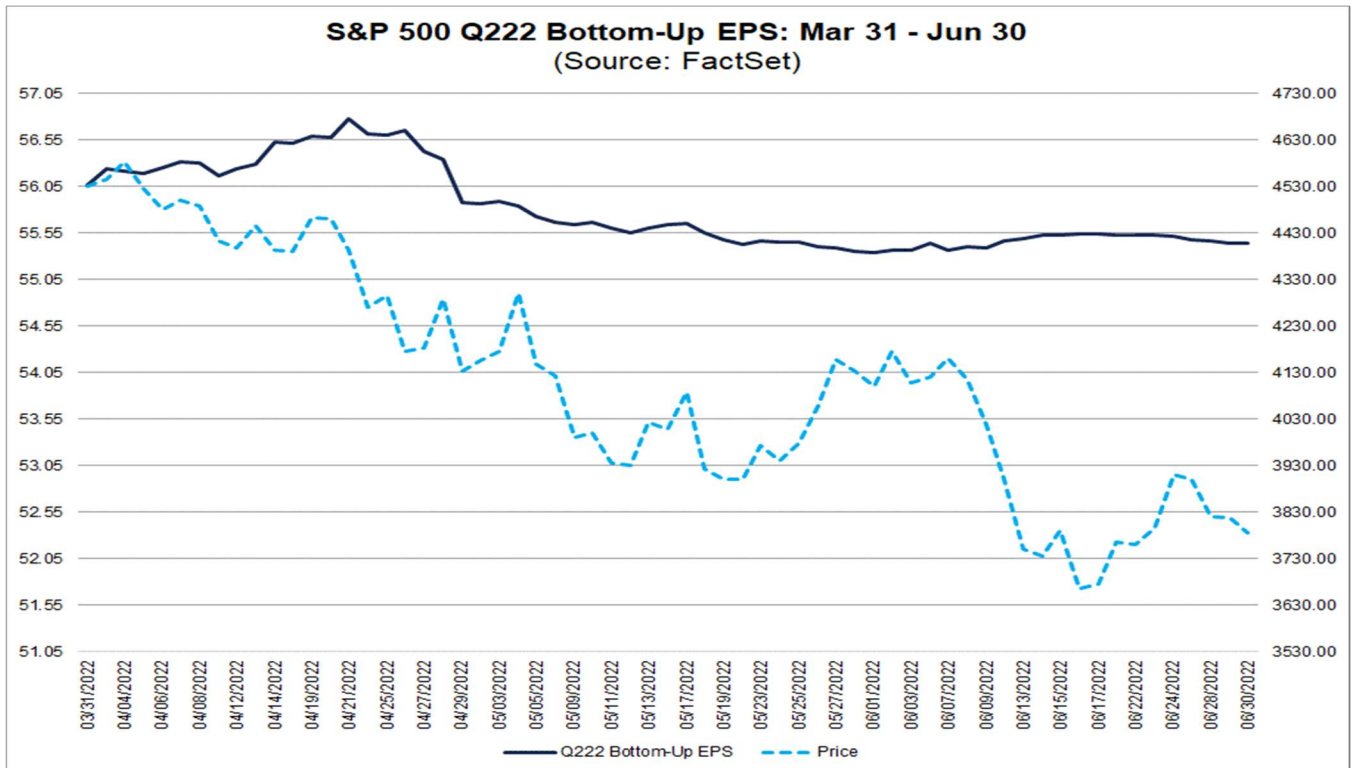
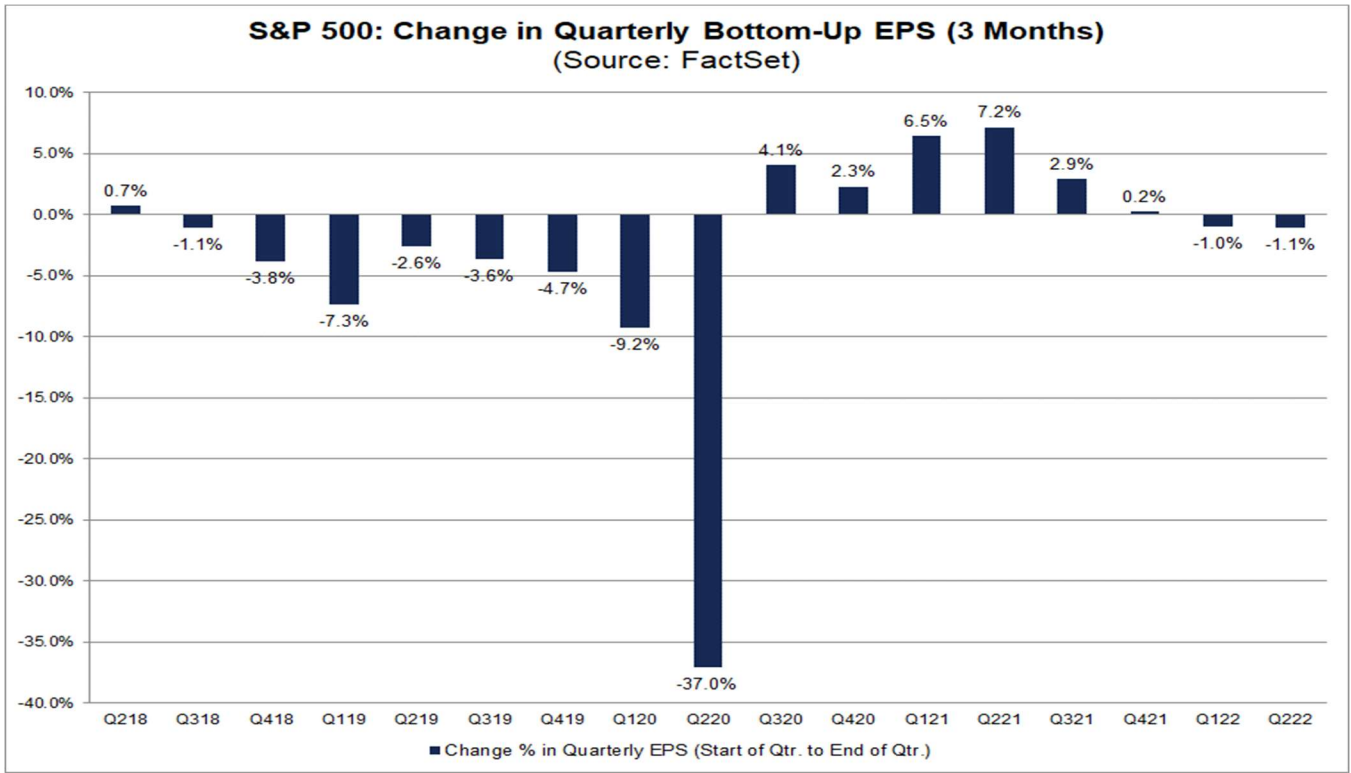
While analysts were decreasing EPS estimates in aggregate for the second quarter, they were also slightly increasing EPS estimates in aggregate for the second half of 2022. The bottom-up EPS estimate for the third quarter increased by 0.4% (to \$59.49 from \$59.26) from March 31 to June 30, while the bottom-up EPS estimate for the fourth quarter did not change (\$60.64) during this period.

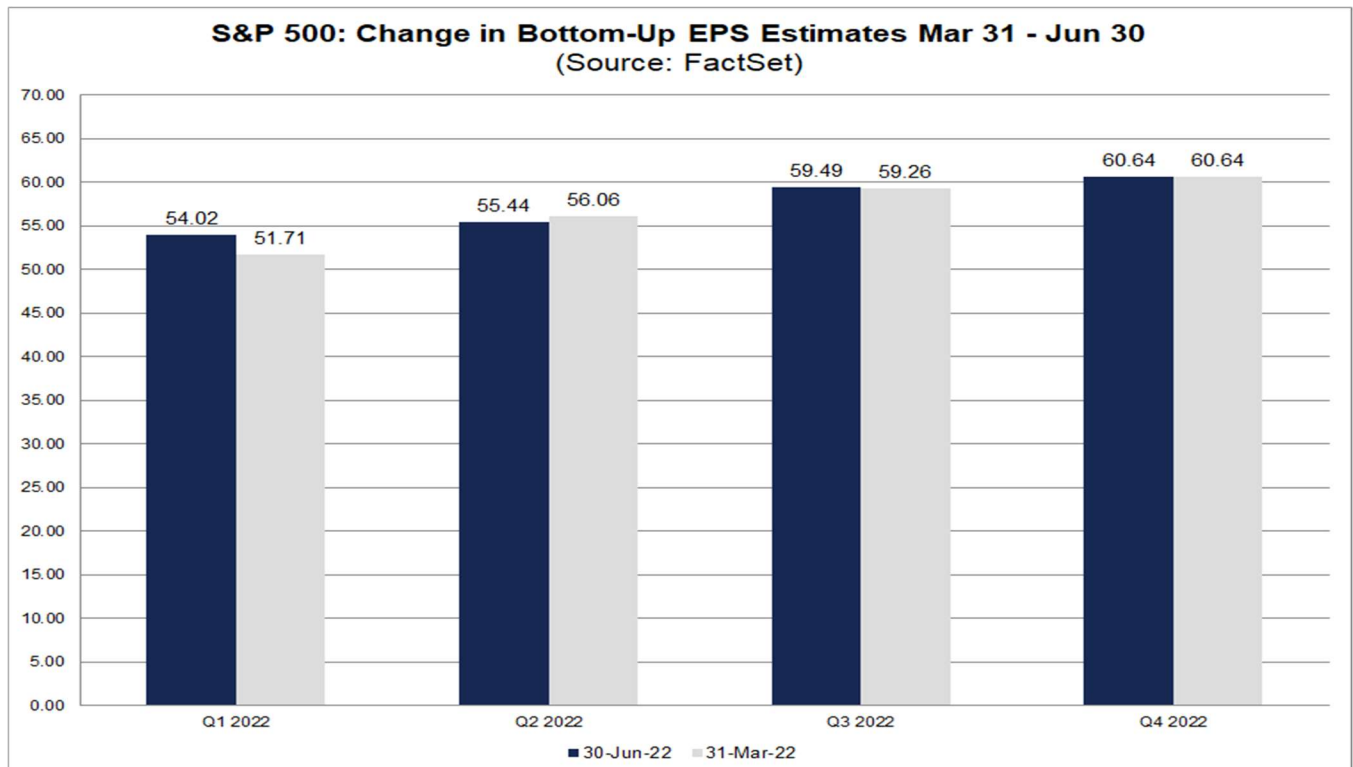
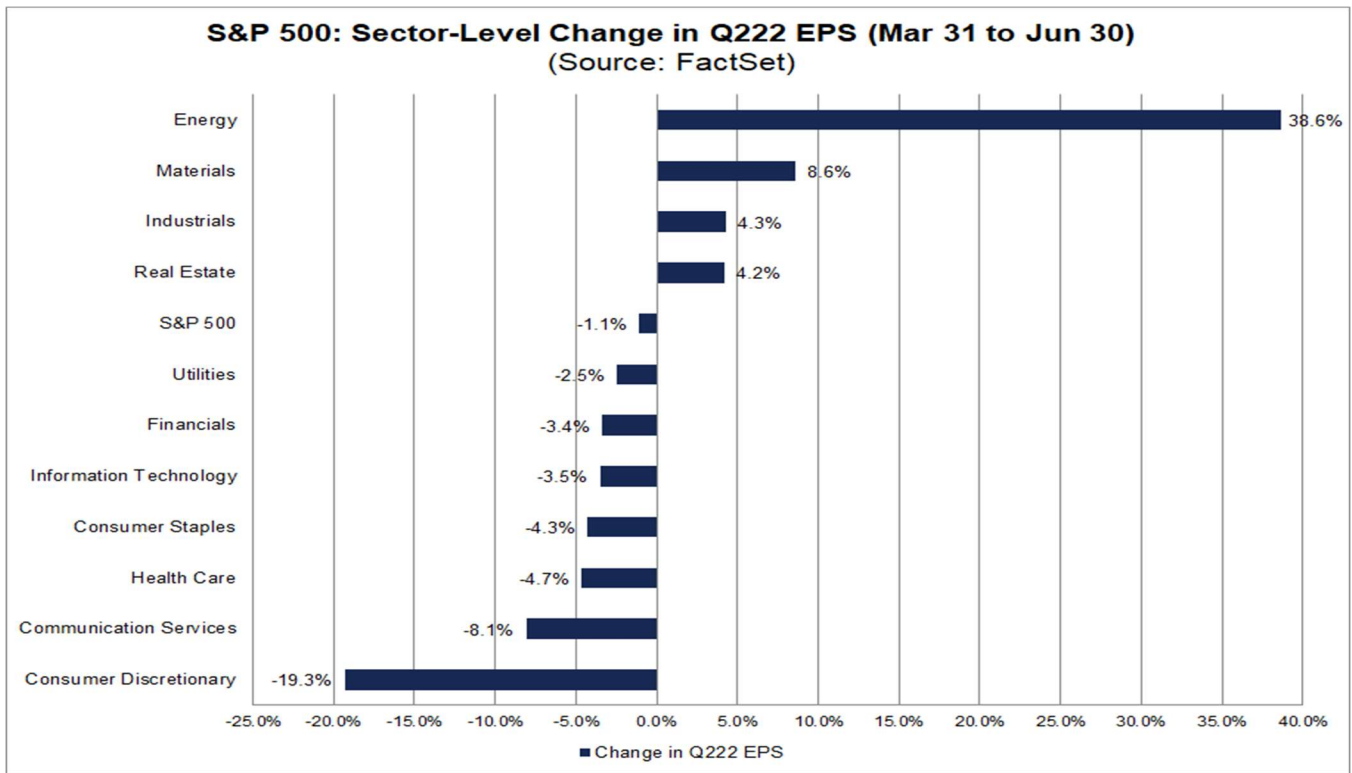
Given the small increase in bottom-up EPS estimate for third quarter and the larger increase in the bottom-up EPS estimate for the first quarter (+4.5%) due to companies reporting positive earnings surprises, analysts also increased EPS estimates for all of 2022 during this period. The CY 2022 bottom-up EPS estimate increased by 0.8% (to \$229.63 from \$227.83) from March 31 to June 30.

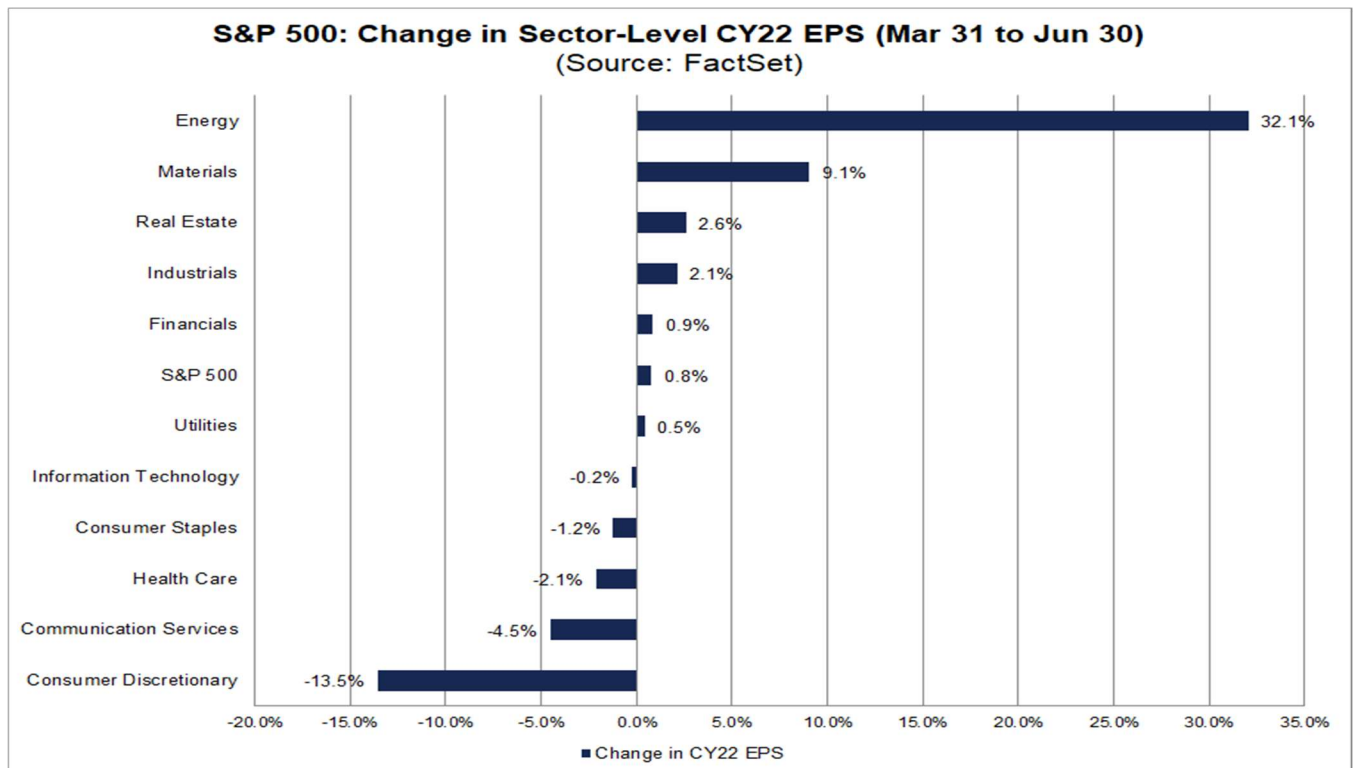
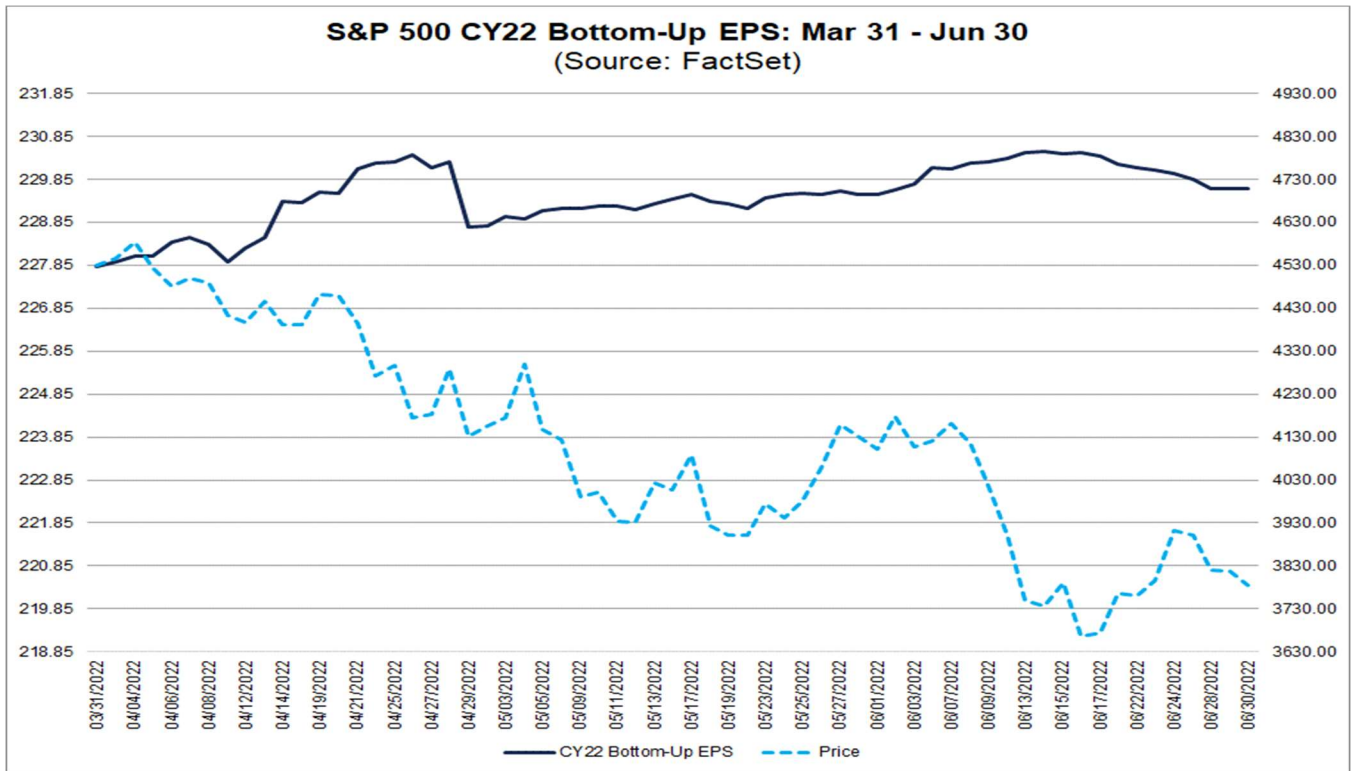
At the sector level, five sectors witnessed a decrease in their bottom-up EPS estimate for CY 2022 from March 31 to June 30, led by the Consumer Discretionary (-13.5%) sector. On the other hand, six sectors witnessed an increase in their bottom-up EPS estimate for CY 2022 during this time, led by the Energy (+32.1%) and Materials (+9.1%) sectors.

In addition, analysts increased earnings estimates slightly for CY 2023 during this time, as the bottom-up EPS estimate for CY 2023 rose by 0.2% (to \$250.48 from \$250.03) from March 31 to June 30.

Although the bottom-up EPS estimates for CY 2022 and CY 2023 are higher today compared to March 31, both estimates are lower today compared to the middle of June. Since June 14, the bottom-up EPS estimate for CY 2022 has declined by 0.4% (to \$229.63 from \$230.51), while the bottom-up EPS estimates for CY 2023 has declined by 0.5% (to \$250.48 from \$251.78) during this period. The market will certainly be watching EPS estimate revisions over the next few weeks to see if mid-June marks an inflection point in the direction of the bottom-up EPS estimates for CY 2022 and CY 2023.







Topic of the Week: 2

S&P 500 Negative EPS Guidance is Above Average But Not At Peak Levels

Given concerns in the market about a possible recession, are more S&P 500 companies than normal issuing negative EPS guidance for the second quarter and for the full year?

The answer is yes. More S&P 500 companies are issuing negative EPS guidance for the second quarter and for the full year compared to recent averages. However, the numbers are not at record-high or peak levels.

In terms of quarterly EPS guidance, 103 S&P 500 companies have issued quarterly EPS guidance for the second quarter. Of these companies, 71 have issued negative EPS guidance and 32 have issued positive EPS guidance. The number of companies issuing negative EPS guidance is above the 5-year average of 59 and above the 10-year average of 66. In fact, the second quarter has the highest number of S&P 500 companies issuing negative EPS guidance for a quarter since Q4 2019 (73),

However, it should also be noted that the number of S&P 500 companies issuing negative EPS guidance for the second quarter is below the peak number of the last ten years of 87 (Q1 2016). In fact, the number for the second quarter does not currently rank in the top ten for the highest number of S&P 500 companies issuing negative EPS guidance for a quarter in the past ten years.

At the sector level, the Information Technology (27), Consumer Discretionary (10), and Industrials (10) sectors have the highest number of companies issuing negative EPS guidance for the second quarter. On the other hand, the Information Technology sector also has the highest number of companies issuing positive EPS guidance (18) for the second quarter.

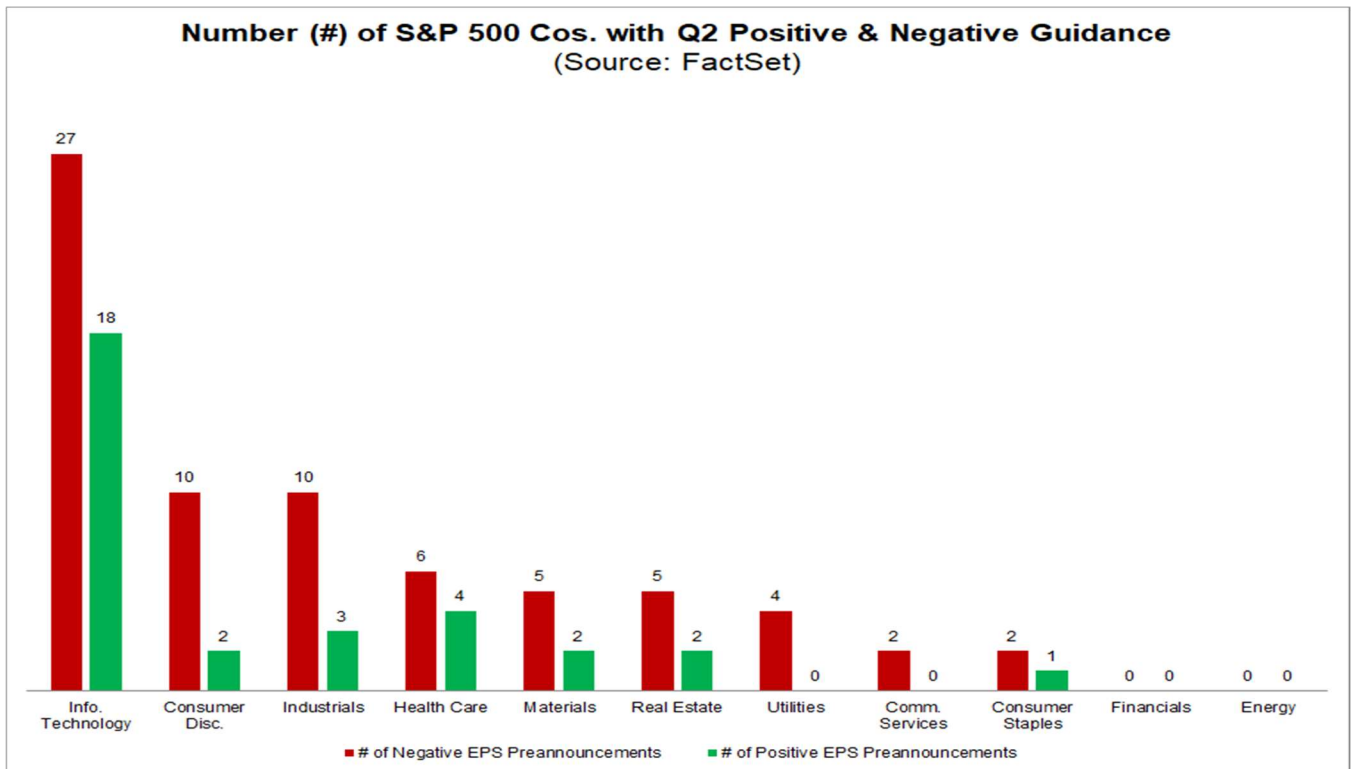
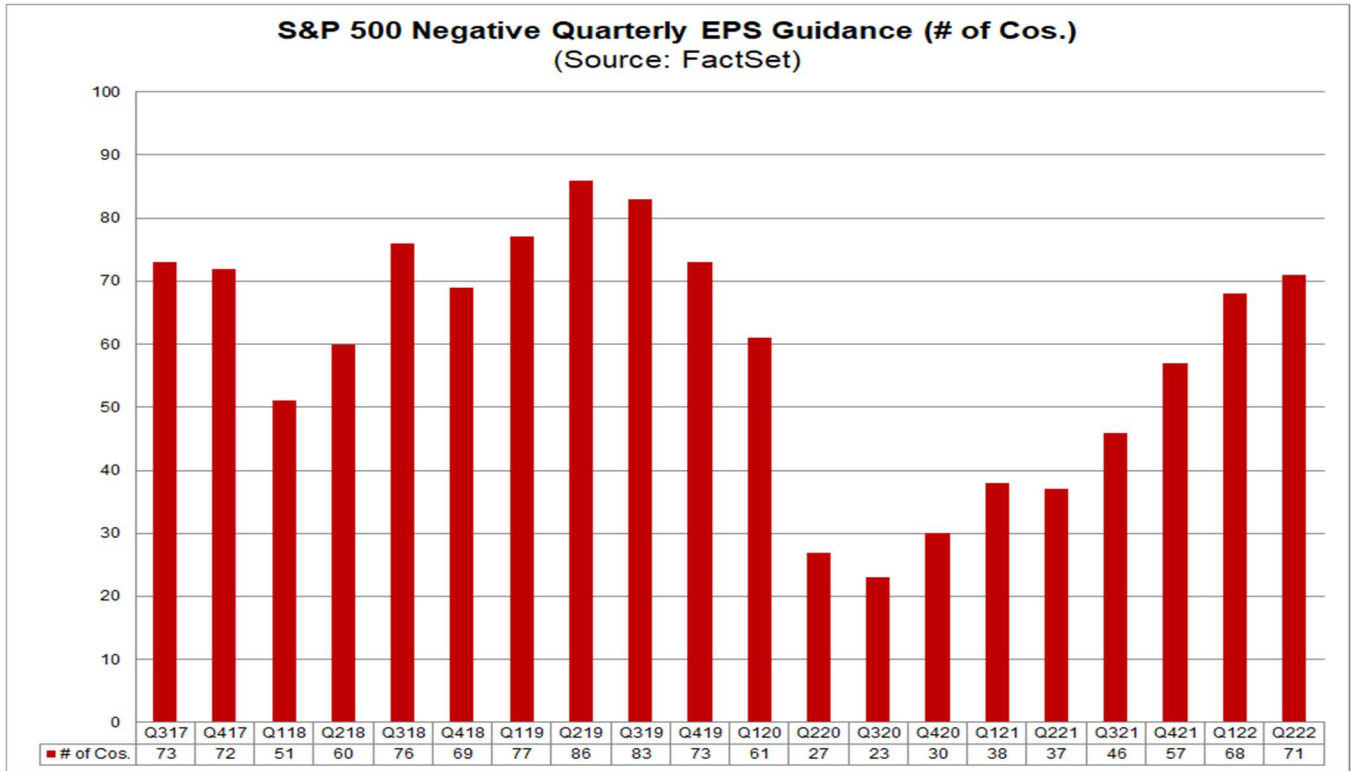
In terms of annual EPS guidance, 238 S&P 500 companies have issued annual EPS guidance for CY 2022 through June 30. Of these companies, 132 have issued negative EPS guidance and 106 have issued positive EPS guidance. The number of companies issuing negative EPS guidance is above the 5-year average of 105 and above the 10-year average of 117 for this point in time of the calendar year (June 30). The current year has also witnessed the highest number of S&P 500 companies issuing negative annual EPS guidance through June 30 since CY 2019 (138).

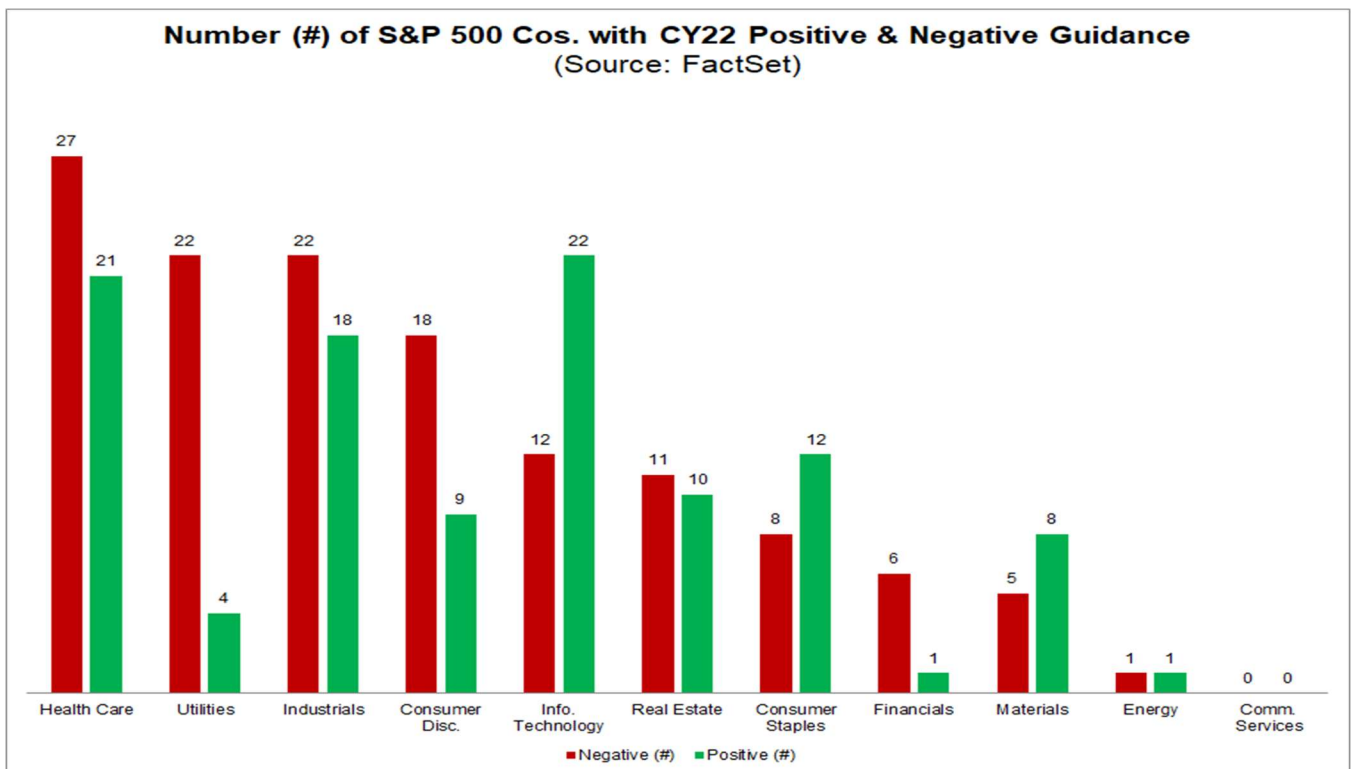
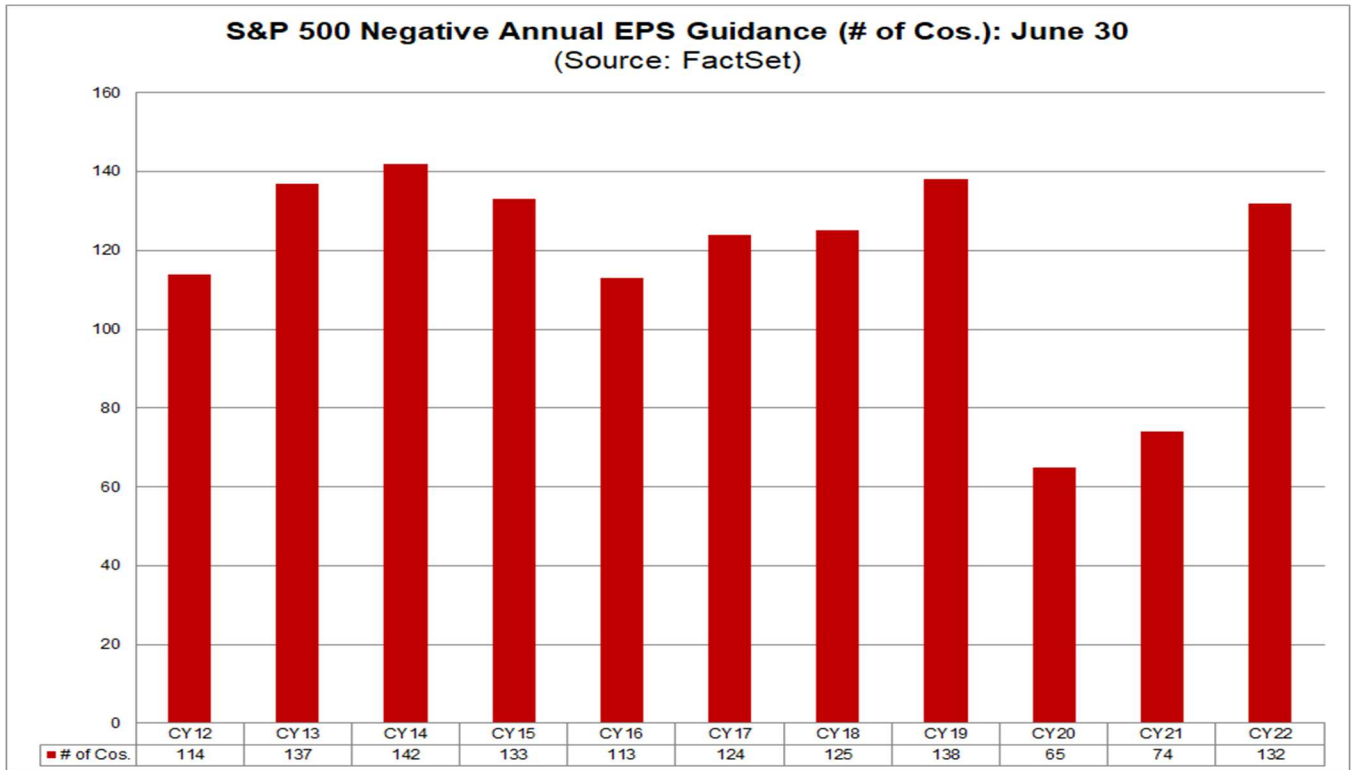
Again, it should be noted that the number of S&P 500 companies issuing negative EPS guidance for the full year is below the peak number of the last ten years on June 30 of 142 (CY 2014). In fact, the number of S&P 500 companies issuing negative EPS guidance for CY 2022 currently ranks as the fifth-highest number in the past ten years at the mid-point of the year.

At the sector level, the Health Care (27), Industrials (22), and Utilities (22) sectors have the highest number of companies issuing negative EPS guidance for CY 2022. On the other hand, the Information Technology (22), Health Care (21) and Industrials (18) sectors have the highest numbers of companies issuing positive EPS guidance for the year.

The market will certainly be watching for quarterly and updated annual EPS guidance issued by S&P 500 companies during the second quarter earnings season over the next few weeks for the potential impact of revised guidance on earnings estimates for the rest of this year and for next year.

The term “guidance” (or “preannouncement”) is defined as a projection or estimate for EPS (or revenue) provided by a company in advance of the company reporting actual results. Guidance is classified as negative if the estimate (or midpoint of a range estimates) provided by a company is lower than the mean EPS estimate (or revenue estimate) the day before the guidance was issued. Guidance is classified as positive if the estimate (or mid-point of a range of estimates) provided by the company is higher than the mean EPS estimate (or revenue estimate) the day before the guidance was issued.





Q2 Earnings Season: By The Numbers

Overview

Analysts and companies have lowered their earnings expectations for the second quarter to date. As a result, estimated earnings for the S&P 500 for the second quarter are below expectations at the start of the quarter. The index is predicted to report its lowest earnings growth since Q4 2020.

In terms of earnings estimate revisions for companies in the S&P 500, analysts decreased earnings estimates in aggregate for Q2 2022 during the quarter. On a per-share basis, estimated earnings for the second quarter decreased by 1.1% from March 31 to June 30. While this decline was smaller than the 5-year average (-2.4%), 10-year average (-3.3%), and the 15-year average (-4.7%) for a quarter, it was also the largest decline in the quarterly EPS estimate since Q2 2020 (-37.0%).

More S&P 500 companies have issued negative EPS guidance for Q2 2022 compared to recent quarters as well. At this point in time, 103 companies in the index have issued EPS guidance for Q2 2022. Of these 103 companies, 71 have issued negative EPS guidance and 32 have issued positive EPS guidance. This is the highest number of S&P 500 companies issuing negative EPS guidance for a quarter since Q4 2019 (73). The percentage of companies issuing negative EPS guidance for Q2 2022 is 69% (71 out of 103), which is above the 5-year average of 60% and above the 10-year average of 67%.

Because of the higher number of companies issuing negative EPS guidance and the net downward revisions to earnings estimates, the estimated (year-over-year) earnings growth rate for Q2 2022 is lower now relative to the start of the second quarter. As of today, the S&P 500 is expected to report (year-over-year) earnings growth of 4.1%, compared to the estimated (year-over-year) earnings growth rate of 5.9% on March 31.

If 4.1% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q4 2020 (3.8%). Six of the eleven sectors are projected to report year-over-year earnings growth, led by the Energy, Industrials, and Materials sectors. On the other hand, five sectors are predicted to report a year-over-year decline in earnings, led by the Financials sector.

In terms of revenues, analysts have continued to be more optimistic than normal in their revenue estimate revisions. Because of the net upward revisions to revenue estimates, the estimated (year-over-year) revenue growth rate for Q2 2022 is higher now relative to the start of the second quarter. As of today, the S&P 500 is expected to report (year-over-year) revenue growth of 10.1%, compared to the estimated (year-over-year) revenue growth rate of 9.6% on March 31.

If 10.1% is the actual growth rate for the quarter, it will mark the sixth-straight quarter of year-over-year revenue growth above 10% for the index. All eleven sectors are projected to report year-over-year growth in revenues, led by the Energy and Materials sectors.

Looking ahead, analysts expect earnings growth of 10.5% for Q3 2022, and 9.7% for Q4 2022. For CY 2022, analysts are predicting earnings growth of 10.2%.

The forward 12-month P/E ratio is 15.8, which is below the 5-year average (18.6) and below the 10-year average (16.9). It is also below the forward P/E ratio of 19.4 recorded at the end of the first quarter (March 31), as prices have decreased while the forward 12-month EPS estimate has increased since March 31.

During the upcoming week, no S&P 500 companies are scheduled to report results for the second quarter.

Earnings Revisions: Consumer Discretionary Sector Sees Largest EPS Estimate Decreases To Date

Slight Decrease in Estimated Earnings Growth Rate for Q2 This Week

During the past week, the estimated earnings growth rate for the S&P 500 for Q2 2022 declined slightly to 4.1% from 4.3%.

The estimated earnings growth rate for the S&P 500 for Q2 2022 of 4.1% today is below the estimate of 5.9% at the start of the quarter (March 31), as estimated earnings for the index of \$480.2 billion today are 1.7% below the estimate of \$488.6 billion at the start of the quarter. Seven sectors have recorded a decrease in expected (dollar-level) earnings due to downward revisions to earnings estimates, led by the Consumer Discretionary and Communication Services sectors. On the other hand, four sectors have recorded an increase in expected (dollar-level) earnings due to upward revisions to earnings estimates, led by the Energy and Materials sectors.

Consumer Discretionary: Amazon and Target Lead Earnings Decrease Since March 31

The Consumer Discretionary sector has recorded the largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -20.1% (to \$32.5 billion from \$40.6 billion). As a result, the estimated (year-over-year) earnings decline for this sector is now -9.3% compared to an earnings growth rate of 13.5% on March 31. This sector has also witnessed the largest decrease in price (-26.3%) of all eleven sectors since March 31. Overall, 41 of the 58 companies (71%) in the Consumer Discretionary sector have seen a decrease in their mean EPS estimate during this time. Of these 41 companies, 22 have recorded a decrease in their mean EPS estimate of more than 10%, led by Las Vegas Sands (to -\$0.24 from -\$0.05), Wynn Resorts (to -\$1.10 from -\$0.37), and Norwegian Cruise Line Holdings (to -0.88 from -\$0.46). However, Amazon.com (to \$0.17 from \$0.56) and Target (to \$0.91 from \$3.93) have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since March 31.

Communication Services: Warner Bros. Discovery Leads Earnings Decrease Since March 31

The Communication Services sector has recorded the second-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -9.1% (to \$44.3 billion from \$48.7 billion). As a result, the estimated (year-over-year) earnings decline for this sector is now -8.8% compared to an earnings growth rate of 0.3% on March 31. This sector has also witnessed the second-largest decrease in price (-20.9%) of all eleven sectors since March 31. Overall, 20 of the 23 companies (87%) in the Communication Services sector have seen a decrease in their mean EPS estimate during this time. Of these 20 companies, 8 have recorded a decrease in their mean EPS estimate of more than 10%, led by Warner Bros. Discovery (to \$0.23 from \$0.81) and Electronic Arts (to \$0.33 from \$0.90). Warner Bros. Discovery, Alphabet (to \$25.64 from \$27.71), Meta Platforms (to \$2.60 from \$2.86), and Walt Disney (to \$1.00 from \$1.29) have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since March 31.

Energy: Exxon Mobil Leads Earnings Increase Since March 31

The Energy sector has recorded the largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 33.5% (to \$50.5 billion from \$37.8 billion). As a result, the estimated (year-over-year) earnings growth rate for this sector has increased to 217.0% from 137.4% during this time. Despite the increase in expected earnings, this sector has witnessed a decrease in price (-6.1%) since March 31. Rising oil prices are helping to drive the increase in expected earnings for this sector, as the price of oil increased by 5% during the quarter (to \$105.76 from \$100.28). Overall, 18 of the 21 companies (86%) in the Energy sector have seen an increase in their mean EPS estimate during this time. Of these 18 companies, 16 have recorded an increase in their mean EPS estimate of more than 10%, led by Marathon Petroleum (to \$5.68 from \$1.83), Valero Energy (to \$6.48 from \$2.48), and Phillips 66 (to \$4.42 from \$2.27). Exxon Mobil (to \$2.96 from \$2.30), Marathon Petroleum, Chevron (to \$4.67 from \$3.79), and Valero Energy have been the largest contributors to the increase in estimated (dollar-level) earnings for this sector since March 31.

Materials: Nucor Leads Earnings Increase Since March 31

The Materials sector has recorded the second-largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 7.1% (to \$19.4 billion from \$18.1 billion). As a result, the estimated (year-over-year) earnings growth rate for this sector has increased to 13.5% from 5.9% during this time. Despite the increase in expected earnings, this sector has witnessed a decrease in price (-16.3%) since March 31. Overall, 18 of the 28 companies (64%) in the Materials sector have seen an increase in their mean EPS estimate during this time. Of these 18 companies, 8 have recorded an increase in their mean EPS estimate of more than 10%, led by Albemarle Corporation (to \$2.93 from \$1.35), Nucor (to \$8.28 from \$5.69), and Mosaic (to \$4.05 from \$3.32). Nucor has also been the largest contributor to the increase in estimated (dollar-level) earnings for this sector since March 31.

Index-Level EPS Estimate: 1.1% Decrease During Q2

The Q2 bottom-up EPS estimate (which is an aggregation of the median Q2 earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings of the index) decreased by 1.1% (to \$55.44 from \$56.06) from March 31 to June 30. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings expectations have fallen by 2.4% on average during a quarter. Over the past ten years (40 quarters), earnings expectations have fallen by 3.3% on average during a quarter. Over the past fifteen years (60 quarters), earnings expectations have fallen by 4.7% on average during a quarter.

Thus, the decline in the bottom-up EPS estimate for the second quarter was smaller than the 5-year average, the 10-year average, and the 15-year average. However, it was also the largest decrease in the bottom-up EPS estimate for a quarter since Q2 2020 (-37.0%).

Guidance: % of S&P 500 Companies Issuing Negative EPS Guidance for Q2 is Above Average

At this point in time, 103 companies in the index have issued EPS guidance for Q2 2022. Of these 103 companies, 71 have issued negative EPS guidance and 32 have issued positive EPS guidance. This is the highest number of S&P 500 companies issuing negative EPS guidance for a quarter since Q4 2019 (73). The percentage of companies issuing negative EPS guidance for Q2 2022 is 69% (71 out of 103), which is above the 5-year average of 60% and above the 10-year average of 67%.

At this point in time, 243 companies in the index have issued EPS guidance for their current fiscal year (FY 2022 or FY 2023). Of these 243 companies, 137 have issued negative EPS guidance and 106 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 56% (137 out of 243).

The term “guidance” (or “preannouncement”) is defined as a projection or estimate for EPS provided by a company in advance of the company reporting actual results. Guidance is classified as negative if the estimate (or mid-point of a range estimates) provided by a company is lower than the mean EPS estimate the day before the guidance was issued. Guidance is classified as positive if the estimate (or mid-point of a range of estimates) provided by the company is higher than the mean EPS estimate the day before the guidance was issued.

Earnings Growth: 4.1%

The estimated (year-over-year) earnings growth rate for Q2 2022 is 4.1%, which is below the 5-year average earnings growth rate of 15.0% and below the 10-year average earnings growth rate of 8.8%. If 4.3% is the actual growth rate for the quarter, it will mark the lowest (year-over-year) earnings growth rate reported by the index since Q4 2020 (3.8%).

The lower earnings growth rate for Q2 2022 relative to recent quarters can be attributed to both a difficult comparison to unusually high earnings growth in Q2 2021 and continuing macroeconomic headwinds. In Q2 2022, the S&P 500 reported (year-over-year) earnings growth of 91.1%, which is the second-highest year-over-year earnings growth rate reported by the index since 2008. Companies also continue to face macroeconomic headwinds, including higher costs, supply chain disruptions, labor shortages, and the military conflict in Ukraine. During the earnings season for Q1 2022, 85% of S&P 500 companies cited “inflation” on their earnings calls from March 15 to June 14, while 74% of S&P 500 companies cited “supply chain” on their earnings calls from March 15 to June 14. These are the highest percentages of S&P 500 companies citing “inflation” and “supply chain” on earnings calls going back to at least 2010.

Six of the eleven sectors are expected to report year-over-year earnings growth, led by the Energy, Industrials, and Materials sectors. On the other hand, five sectors are expected to report a year-over-year decline in earnings, led by the Financials sector.

Energy: Largest Contributor to Year-Over-Year Earnings Growth for S&P 500 For Q2

The Energy sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 217.0%. Higher year-over-year oil prices are contributing to the year-over-year improvement in earnings for this sector, as the average price of oil in Q2 2022 (\$108.52) was 64% above the average price for oil in Q2 2021 (\$66.17). At the sub-industry level, all five sub-industries in the sector are expected to report a year-over-year increase in earnings of more than 20%. Three of these five sub-industries are projected to report a year-over-year increase in earnings of more than 190%: Oil & Gas Refining & Marketing (719%), Oil & Gas Exploration & Production (226%), and Integrated Oil & Gas (195%).

The Energy sector is also expected to be the largest contributor to earnings growth for the S&P 500 for the second quarter. If this sector were excluded, the index would be expected to report a decline in earnings of 3.5% rather than growth in earnings of 4.1%.

Industrials: Airlines Industry Is Largest Contributor to Year-Over-Year Growth

The Industrials sector is expected to report the second-highest (year-over-year) earnings growth rate of all eleven sectors at 27.1%. At the industry level, 10 of the 12 industries in the sector are expected to report a year-over-year increase in earnings. A growth rate is not being calculated for the Airlines industry due to the loss reported by the industry in the year-ago quarter. However, this industry is projected to report a profit of \$3.0 billion in Q2 2022 compared to a loss of -\$3.3 billion in Q2 2021. Four of the remaining nine industries are predicted to report earnings growth above 10%: Construction & Engineering (49%), Trading Companies & Distributors (35%), Air Freight & Logistics (16%), and Electrical Equipment (12%). On the other hand, two sectors are projected to a year-over-year decline in earnings: Aerospace & Defense (-4%) and Industrials Conglomerates (-2%).

At the industry level, the Airlines industry is predicted to be the largest contributor to earnings growth for the sector. If the five companies in this industry were excluded, the estimated earnings growth rate for the Industrials sector would fall to 6.0% from 27.1%.

Materials: All 4 Industries To Report Year-Over-Year Growth At or Above 10%

The Materials sector is expected to report the third-highest (year-over-year) earnings growth rate of all eleven sectors at 13.5%. At the industry level, all four industries in this sector are predicted to report year-over-year earnings growth at or above 10%: Metals & Mining (25%), Construction Materials (15%), Chemicals (11%), and Containers & Packaging (10%).

Financials: 4 of 5 Industries To Report Year-Over-Year Decline of More Than 10%

The Financials sector is expected to report the largest (year-over-year) earnings decline of all eleven sectors at -22.6%. At the industry level, four of the five industries in this sector are predicted to report a year-over-year earnings decline of 10% or more: Consumer Finance (-35%), Banks (-25%), Insurance (-25%), and Capital Markets (-15%). On the other hand, the Diversified Financial Services (2%) is the only industry in the sector projected to report (year-over-year) earnings growth.

The Financials sector is also expected to be the largest detractor to earnings growth for the S&P 500 for the second quarter. If this sector were excluded, the estimated earnings growth rate for the index would improve to 10.4% from 4.1%.

Revenue Growth: 10.1%

The estimated (year-over-year) revenue growth rate for Q2 2022 is 10.1%, which is above the 5-year average revenue growth rate of 7.1% and above the 10-year average revenue growth rate of 4.0%. If 10.1% is the actual growth rate for the quarter, it will mark the sixth-straight quarter of (year-over-year) revenue growth above 10% for the index.

All eleven sectors are expected to report year-over-year growth in revenues. Five sectors are predicted to report double-digit revenue growth, led by the Energy and Materials sectors.

Energy: All 5 Sub-Industries To Report Year-Over-Year Growth Above 10%

The Energy sector is expected to report the highest (year-over-year) revenue growth rate of all eleven sectors at 44.9%. Higher year-over-year oil prices are contributing to the year-over-year improvement in earnings for this sector, as the average price of oil in Q2 2022 (\$108.52) was 64% above the average price for oil in Q2 2021 (\$66.17). At the sub-industry level, all five sub-industries in the sector are predicted to report double-digit (year-over-year) growth in revenues: Oil & Gas Exploration & Production (81%), Oil & Gas Refining & Marketing (46%), Integrated Oil & Gas (41%), Oil & Gas Storage & Transportation (28%), and Oil & Gas Equipment & Services (13%).

Materials: 3 of 4 Industries To Report Year-Over-Year Growth Above 15%

The Materials sector is expected to report the second-highest (year-over-year) revenue growth of all eleven sectors at 16.2%. At the industry level, all four industries in this sector are predicted to report year-over-year growth in revenues. Three of these four industries are projected to report revenue growth above 15%: Construction Materials (28%), Metals & Mining (21%), and Chemicals (17%).

Net Profit Margin: 12.4%

The estimated net profit margin for the S&P 500 for Q2 2022 is 12.4%, which is above the 5-year average of 11.1% and the previous quarter's net profit margin of 12.3, but below the year-ago net profit margin of 13.1%. If 12.4% is the actual net profit margin for the quarter, it will tie the mark (with Q4 2021) for the fourth-highest net profit margin reported by the index since FactSet began tracking this metric in 2008.

At the sector level, two sectors are expected to report a year-over-year increase in their net profit margins in Q2 2022 compared to Q2 2021, led by the Energy (to 14.2% vs. 6.5%) sector. On the other hand, nine sectors are expected to report a year-over-year decrease in their net profit margins in Q2 2022 compared to Q2 2021, led by the Financials (16.5% vs. 21.9%) sector.

Ten sectors are expected to report net profit margins in Q2 2022 that are above their 5-year averages, led by the Energy (14.2% vs. 5.7%) and Materials (14.4% vs. 10.1%) sectors. On the other hand, the Consumer Discretionary (6.4% vs. 6.7%) is the only sector expected to report a net profit margin in Q2 2022 that is below its 5-year average.

Looking Ahead: Forward Estimates and Valuation

Earnings: S&P 500 Expected to Report Earnings Growth of 10% for CY 2022

For the second quarter, S&P 500 companies are expected to report earnings growth of 4.1% and revenue growth of 10.1%.

For Q3 2022, analysts are projecting earnings growth of 10.5% and revenue growth of 9.7%.

For Q4 2022, analysts are projecting earnings growth of 9.7% and revenue growth of 7.5%.

For CY 2022, analysts are projecting earnings growth of 10.2% and revenue growth of 10.7%.

Valuation: Forward P/E Ratio is 15.8, Below the 10-Year Average (16.9)

The forward 12-month P/E ratio for the S&P 500 is 15.8. This P/E ratio is below the 5-year average of 18.6 and below the 10-year average of 16.9. It is also below the forward 12-month P/E ratio of 19.4 recorded at the end of the first quarter (March 31). Since the end of the first quarter (March 31), the price of the index has decreased by 16.4%, while the forward 12-month EPS estimate has increased by 2.9%. At the sector level, the Consumer Discretionary (21.9) has the highest forward 12-month P/E ratio, while the Energy (8.5) sector has the lowest forward 12-month P/E ratio.

The trailing 12-month P/E ratio is 17.6, which is below the 5-year average of 23.0 and below the 10-year average of 20.3.

Targets & Ratings: Analysts Project 31% Increase in Price Over Next 12 Months

The bottom-up target price for the S&P 500 is 4949.19, which is 30.7% above the closing price of 3785.38. At the sector level, the Consumer Discretionary (+43.4%), Communication Services (+43.2%), and Information Technology (+36.8%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Utilities (+12.2%) and Consumer Staples (+13.8%) sectors are expected to see the smallest price increases, as these sectors have the smallest upside differences between the bottom-up target price and the closing price.

Overall, there are 10,674 ratings on stocks in the S&P 500. Of these 10,674 ratings, 56.9% are Buy ratings, 37.7% are Hold ratings, and 5.3% are Sell ratings. At the sector level, the Information Technology (65%) and Energy (63%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (39%) sector has the lowest percentage of Buy ratings.

Companies Reporting Next Week: 0

During the upcoming week, no S&P 500 companies are scheduled to report results for the second quarter.

Sector Spotlight

Information Technology

Analysts and companies in the Information Technology sector have lowered their earnings expectations for the second quarter to date. As a result, estimated earnings for the Information Technology sector for the second quarter are below expectations at the start of the quarter. The sector is predicted to report its lowest earnings growth since Q3 2019 (-5.1%).

In terms of earnings estimate revisions for companies in the Information Technology sector, analysts decreased earnings estimates in aggregate for Q2 2022 during the quarter. On a per-share basis, estimated earnings for the second quarter decreased by 3.5% from March 31 to June 30. This decline was larger than the 5-year average (+0.8%), 10-year average (-1.7%), and the 15-year average (-1.5%) for a quarter. It was also the largest decline in the quarterly EPS estimate for the sector since Q2 2020 (-12.0%).

More companies in the Information Technology sector have issued negative EPS guidance for Q2 2022 compared to recent quarters as well. At this point in time, 45 companies in the Information Technology sector have issued EPS guidance for Q2 2022. Of these 45 companies, 27 have issued negative EPS guidance and 18 have issued positive EPS guidance. This is the highest number of companies in this sector issuing negative EPS guidance since Q3 2019 (28). The percentage of companies in this sector issuing negative EPS guidance for Q2 2022 is 60% (27 out of 45), which is above the 5-year average of 48%.

Because of the higher number of companies in this sector issuing negative EPS guidance and the net downward revisions to earnings estimates, the estimated (year-over-year) earnings growth rate for Q2 2022 for the sector is lower now relative to the start of the second quarter. As of today, the Information Technology is expected to report (year-over-year) earnings growth of 1.5%, compared to the estimated (year-over-year) earnings growth rate of 4.1% on March 31.

If 1.5% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the sector since Q3 2019 (-5.1%). Four of the six industries in this sector are projected to report year-over-year earnings growth, led by the Semiconductors & Semiconductor Equipment (13%), Electronic Equipment, Instruments, & Components (9%), and IT Services (7%) industries. On the other hand, two industries are predicted to report a year-over-year decline in earnings, led by the Technology Hardware, Storage, & Peripherals (-13%) industry.

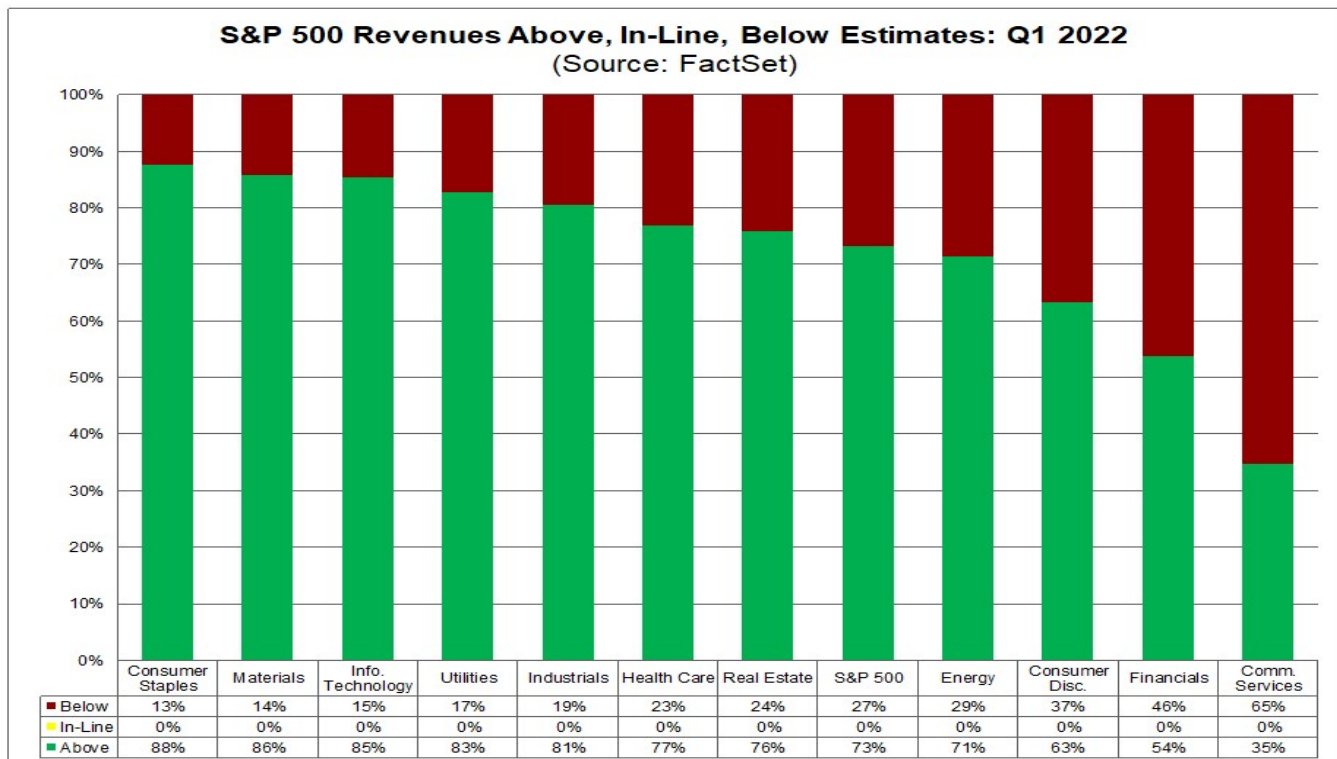
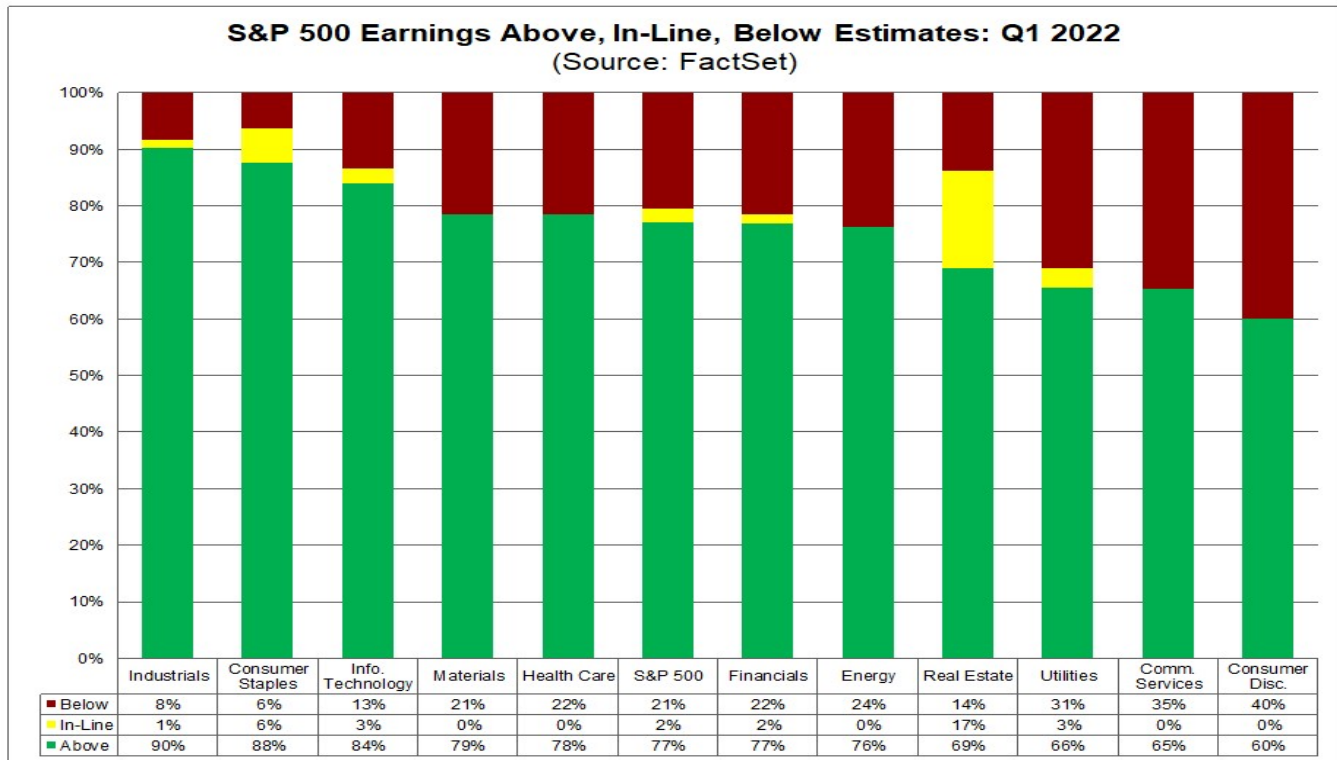
Because of the net downward revisions to revenue estimates, the estimated (year-over-year) revenue growth rate for Q2 2022 for the sector is also lower now relative to the start of the second quarter. As of today, the Information Technology is expected to report (year-over-year) revenue growth of 7.7%, compared to the estimated (year-over-year) revenue growth rate of 8.8% on March 31.

If 7.7% is the actual growth rate for the quarter, it will mark the lowest revenue growth reported by the Information Technology sector since Q3 2020 (4.0%). All six industries in the sector are projected to report year-over-year growth, with three industries projected to report double-digit growth: Semiconductors & Semiconductor Equipment (16%), Software (13%), and Electronic Equipment, Instruments, & Components (11%),

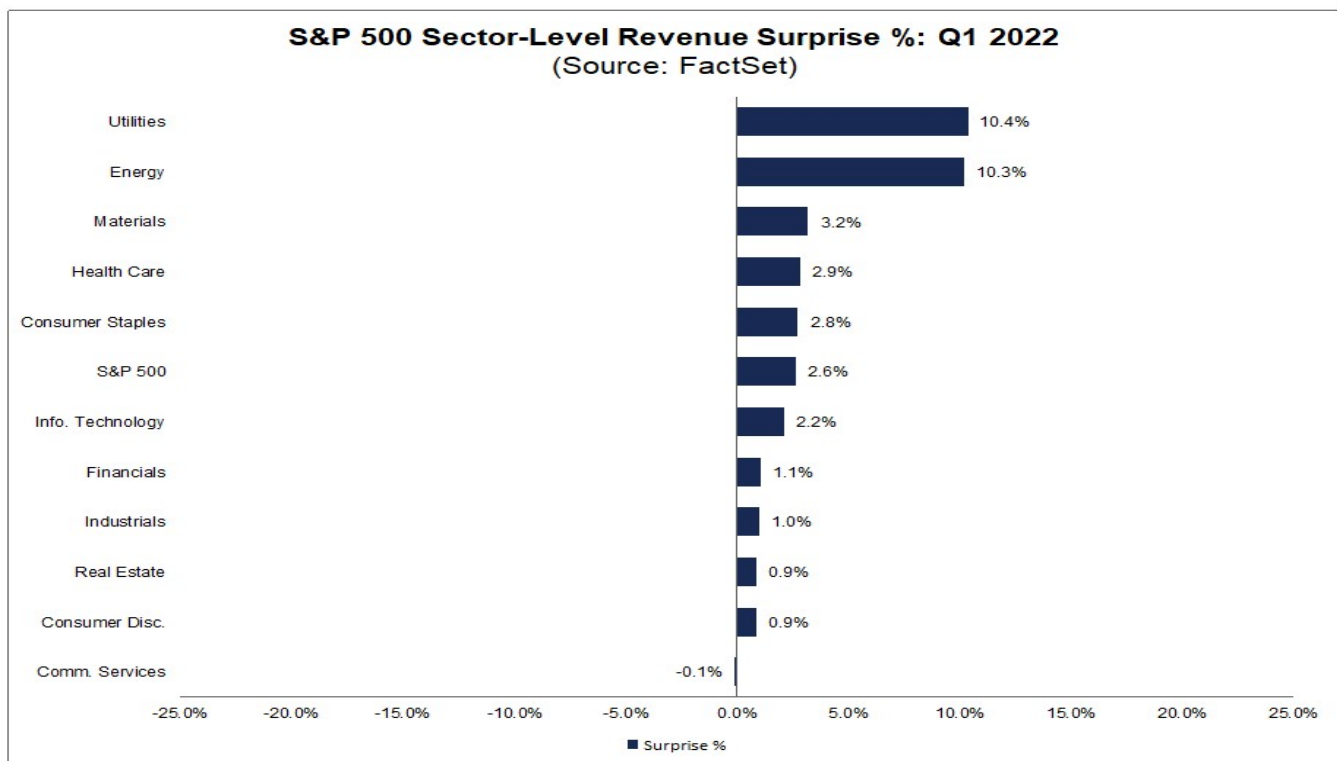
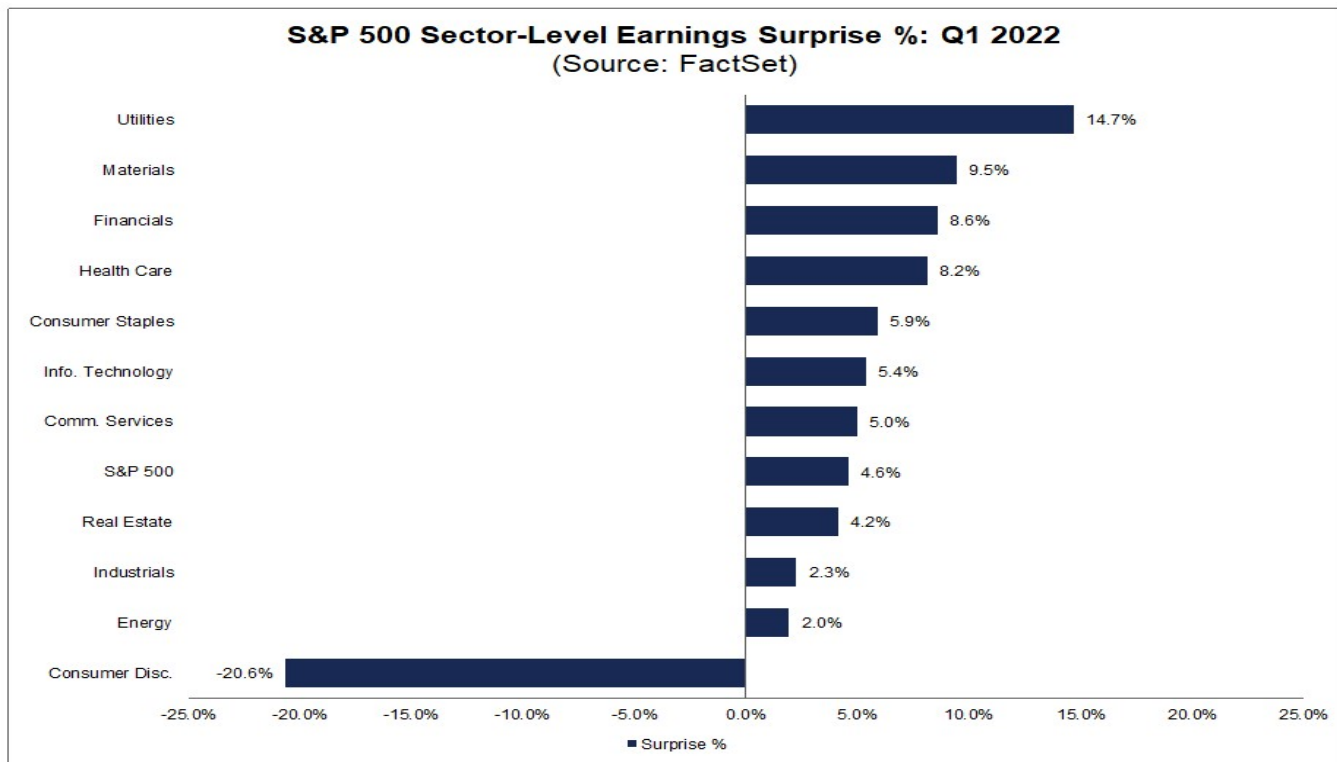
Looking ahead, analysts expect earnings growth of 5.6% for Q3 2022, and 8.3% for Q4 2022. For CY 2022, analysts are predicting earnings growth of 11.5%.

The forward 12-month P/E ratio for the sector is 19.0, which is below the 5-year average (21.7) but above the 10-year average (18.2). It is also below the forward P/E ratio of 24.4 recorded at the end of the first quarter (March 31), as the price of the sector has decreased by 20.4% while the forward 12-month EPS estimate for the sector has increased by 2.3% since March 31.

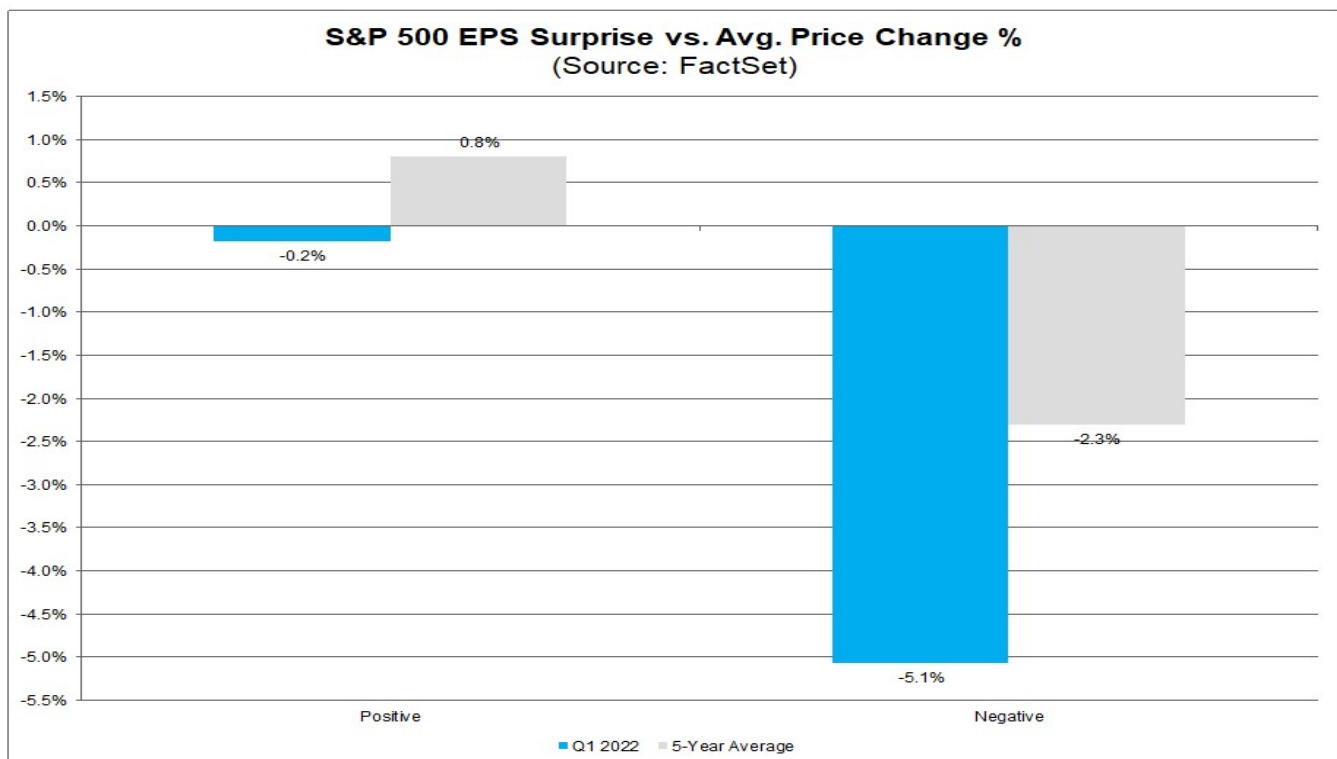
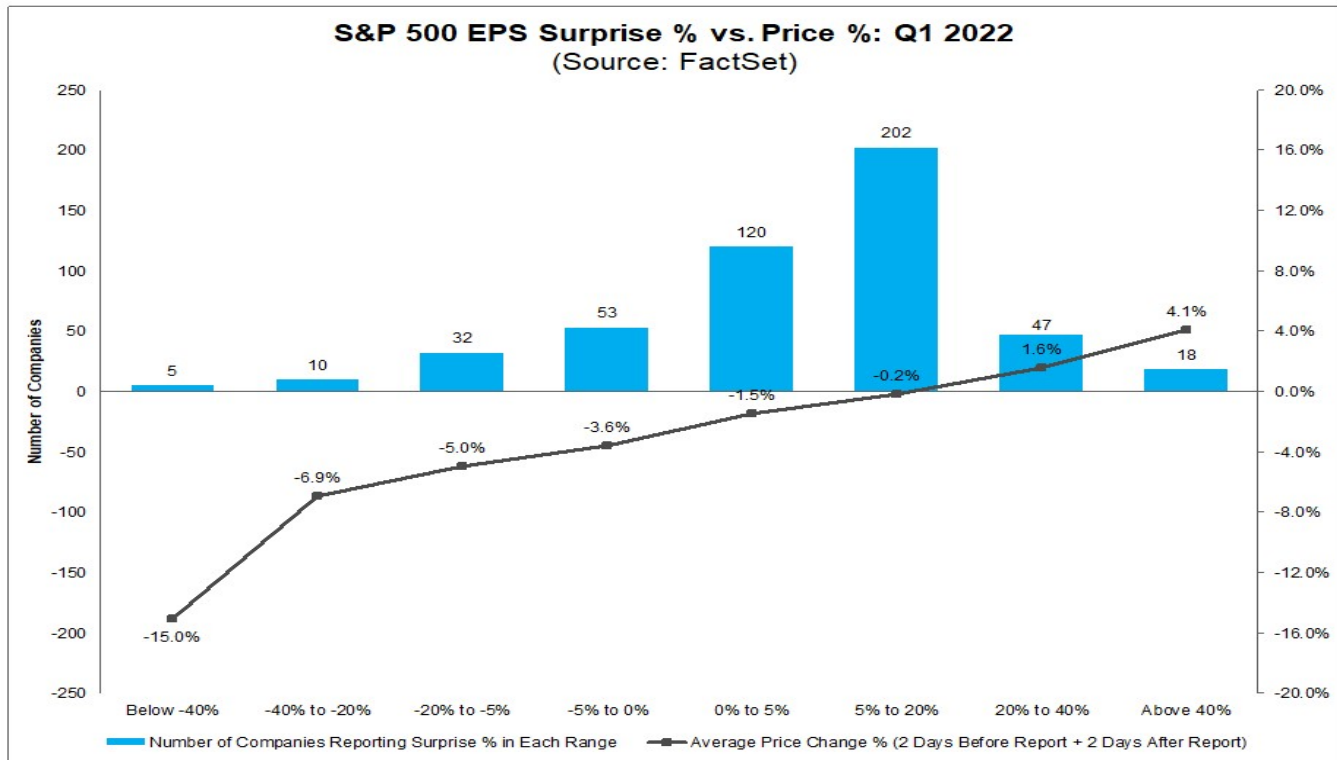
Q1 2022: Scorecard



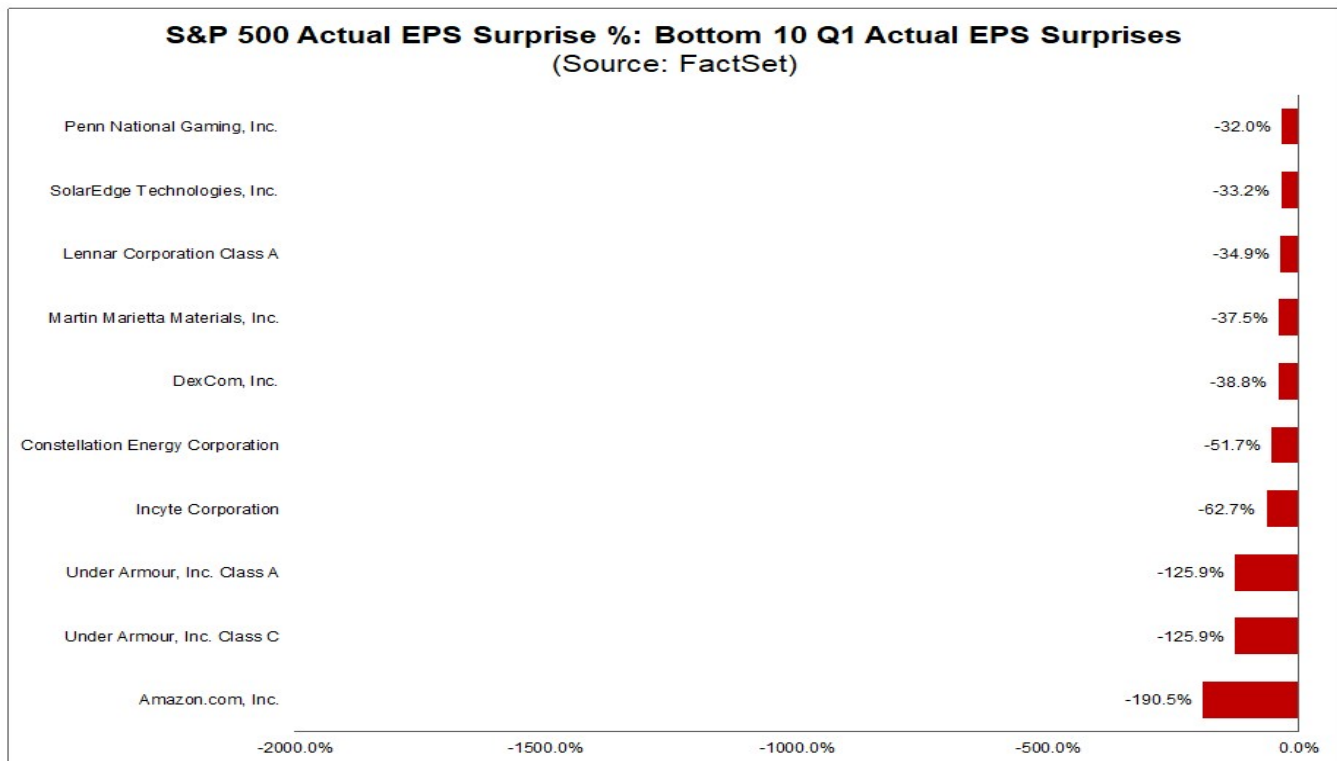
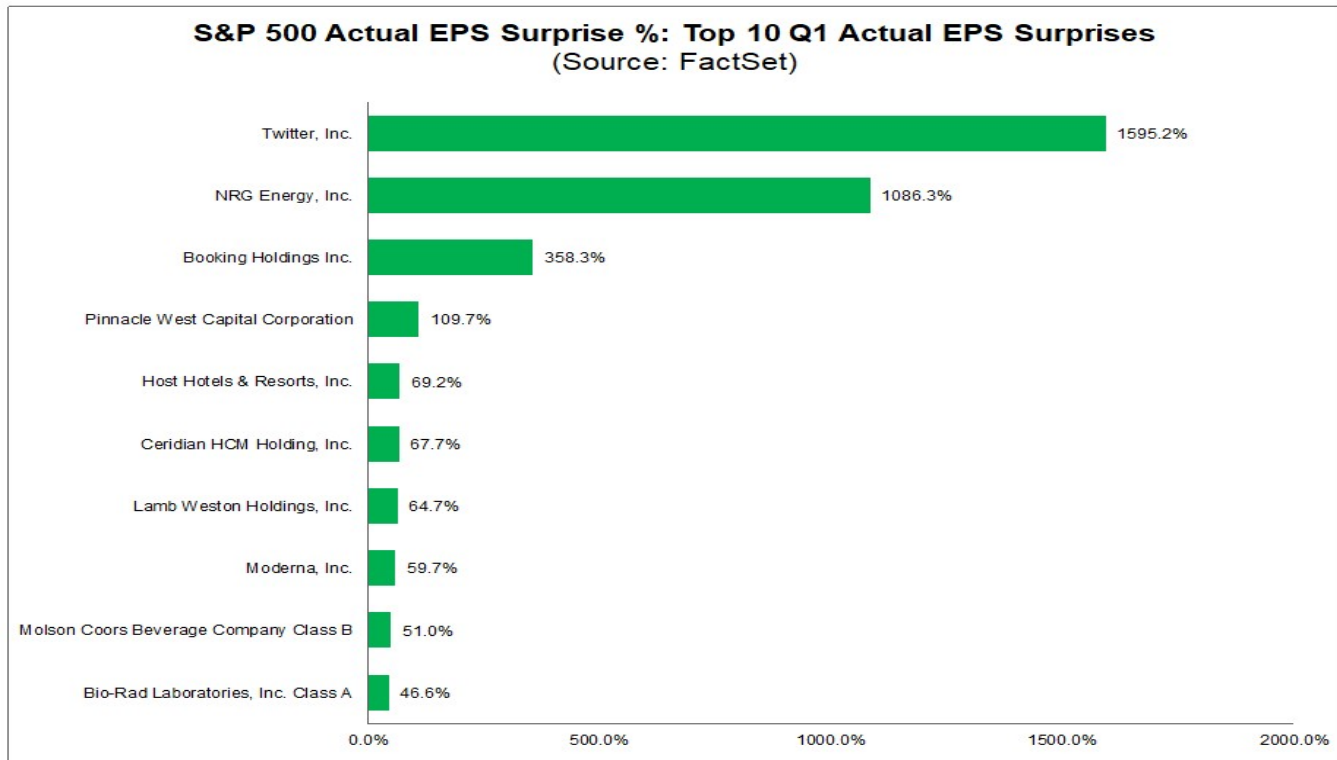
Q1 2022: Scorecard



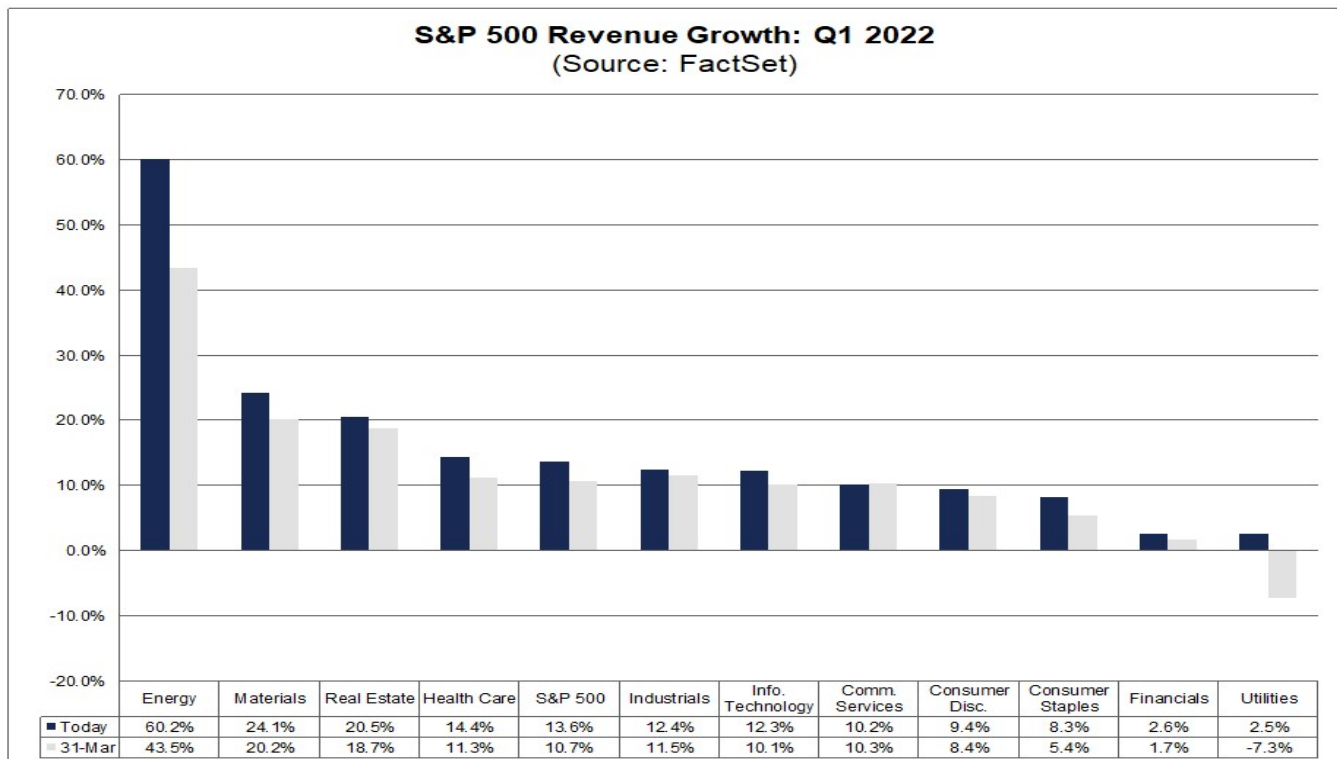
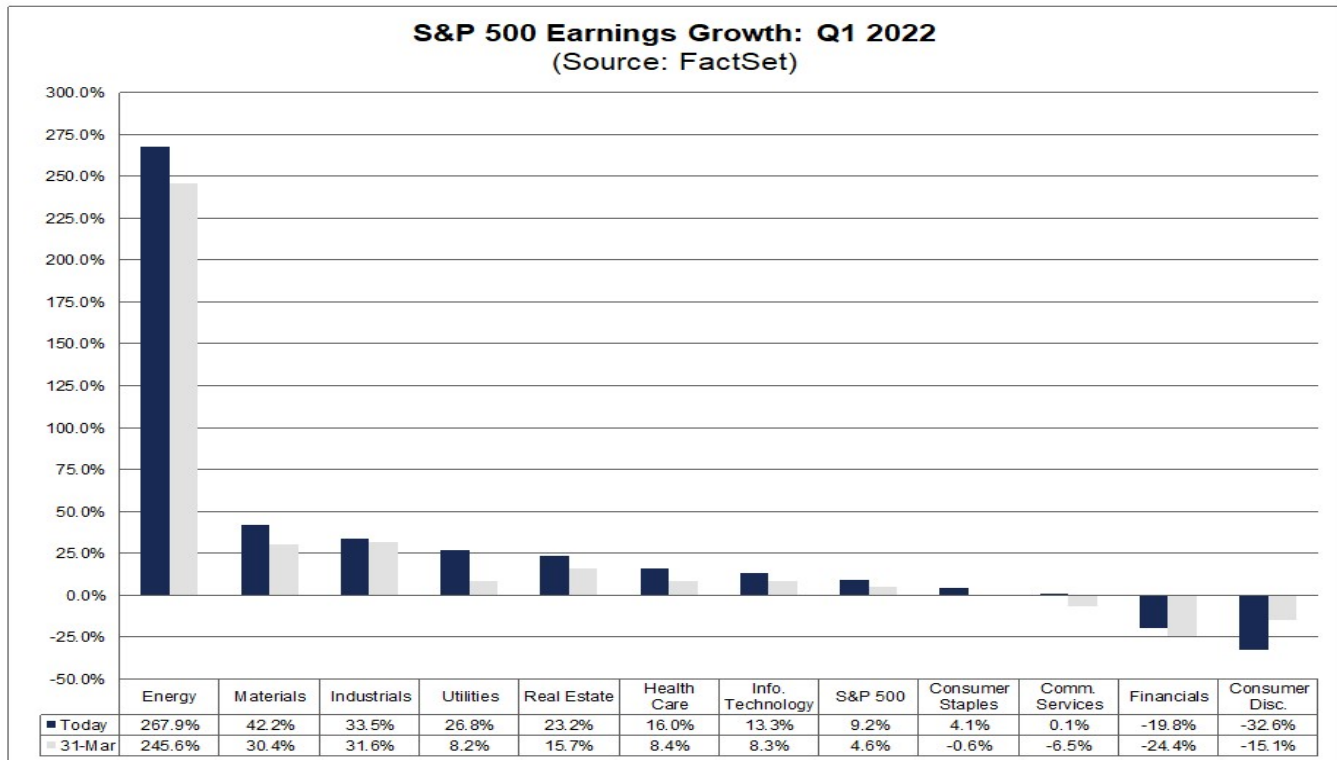
Q1 2022: Scorecard



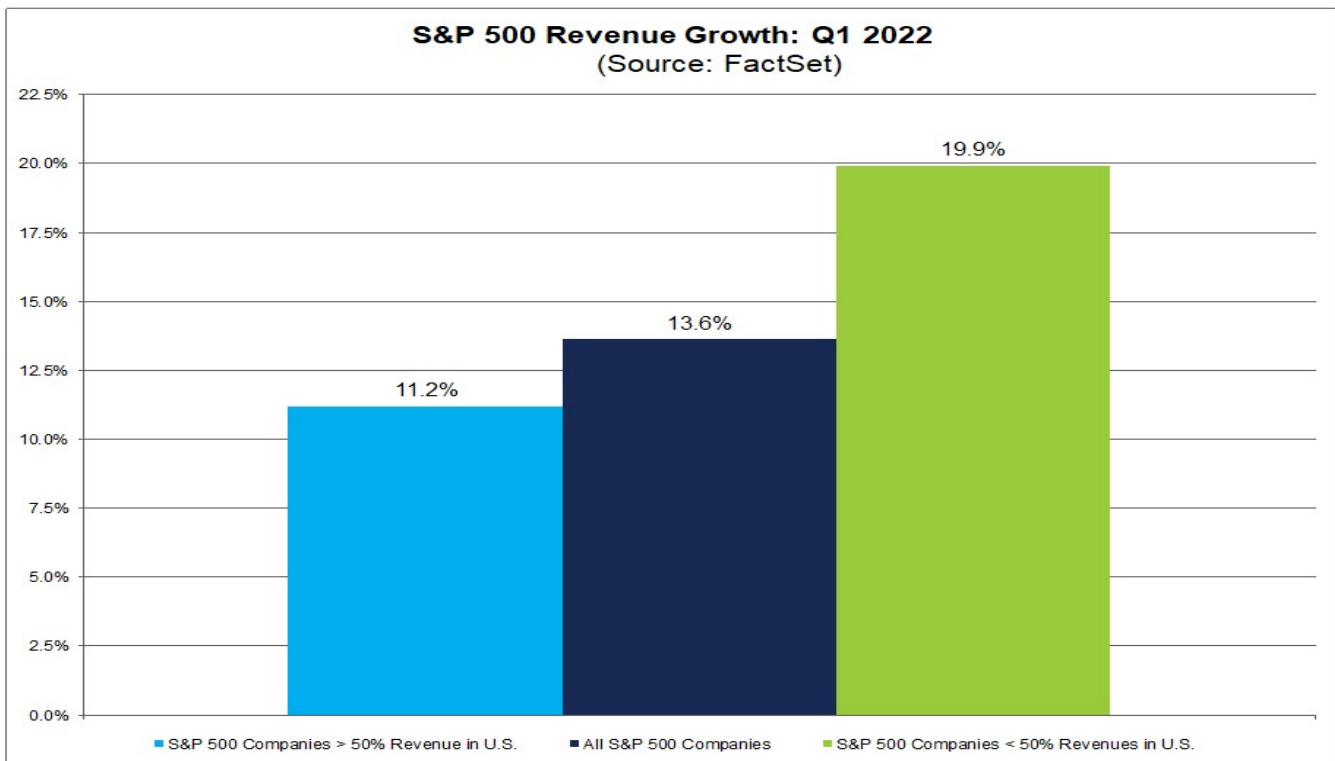
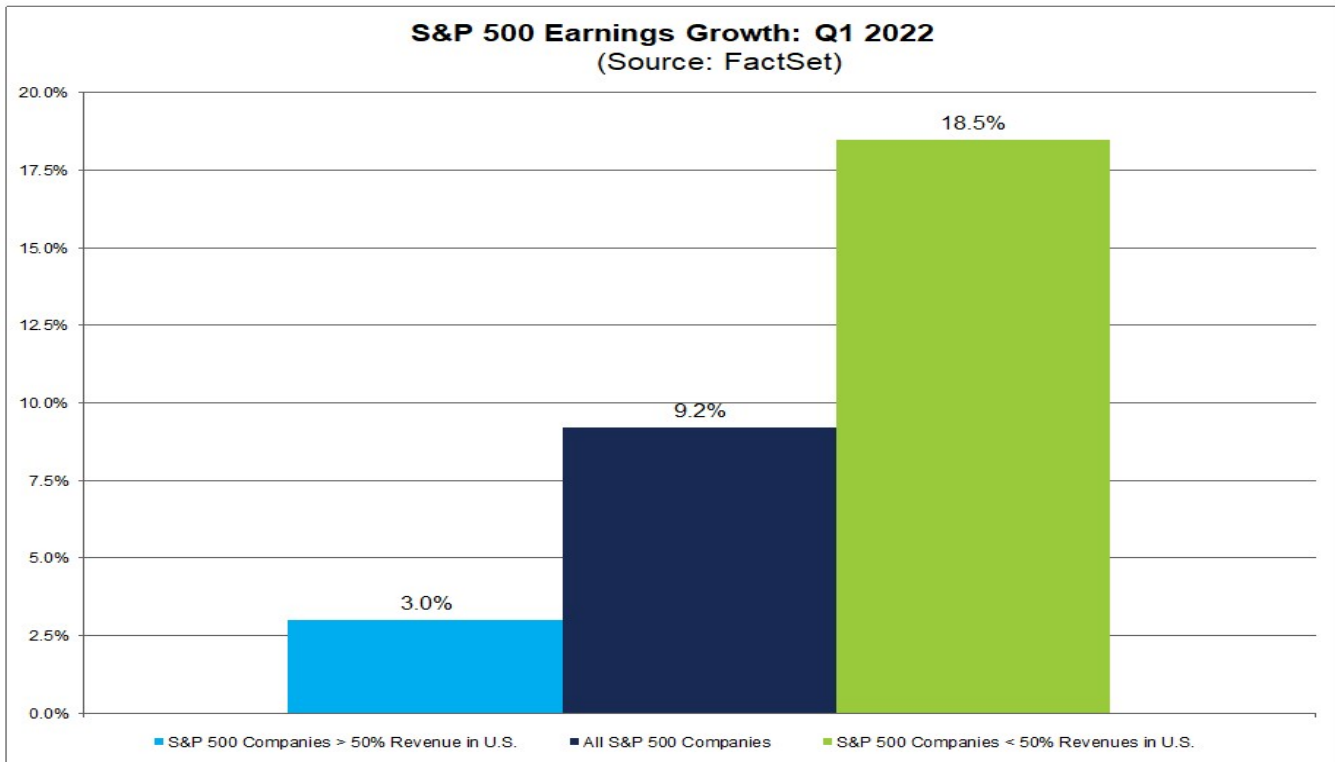
Q1 2022: Scorecard



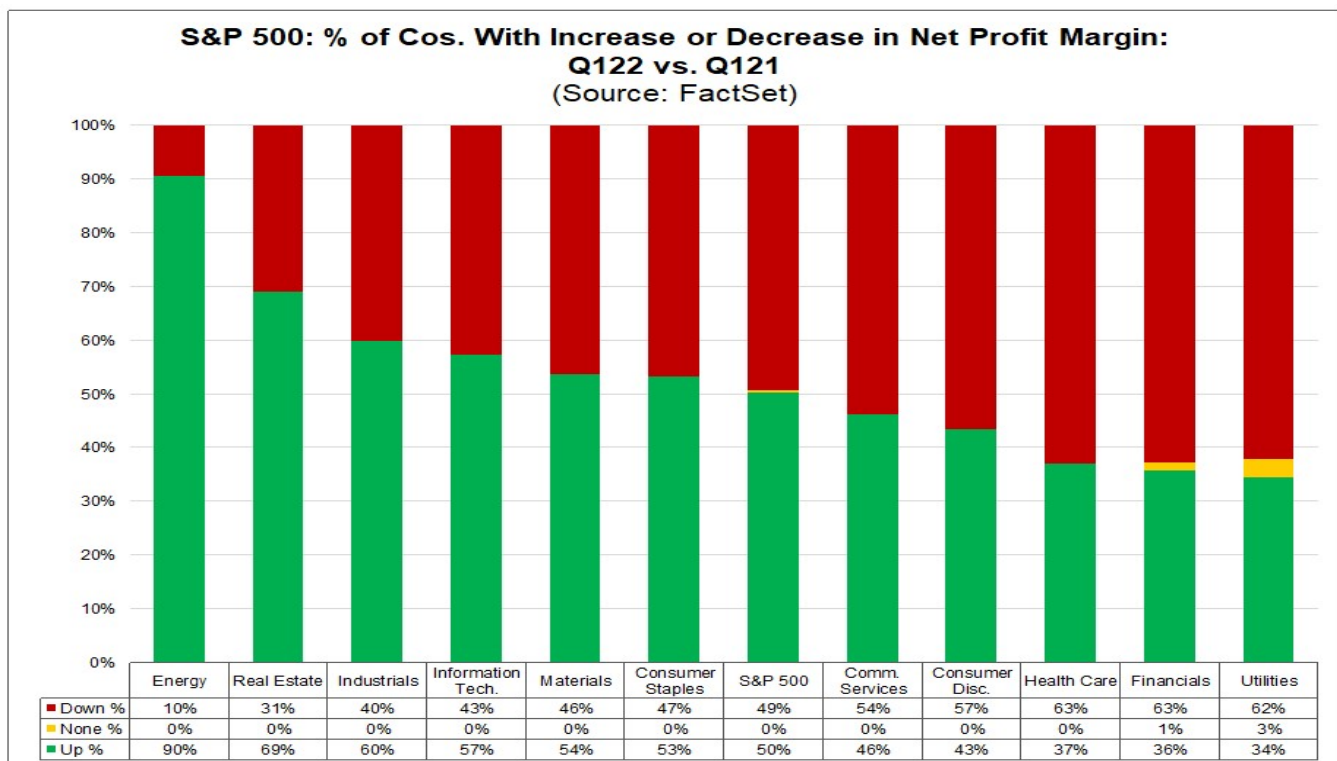
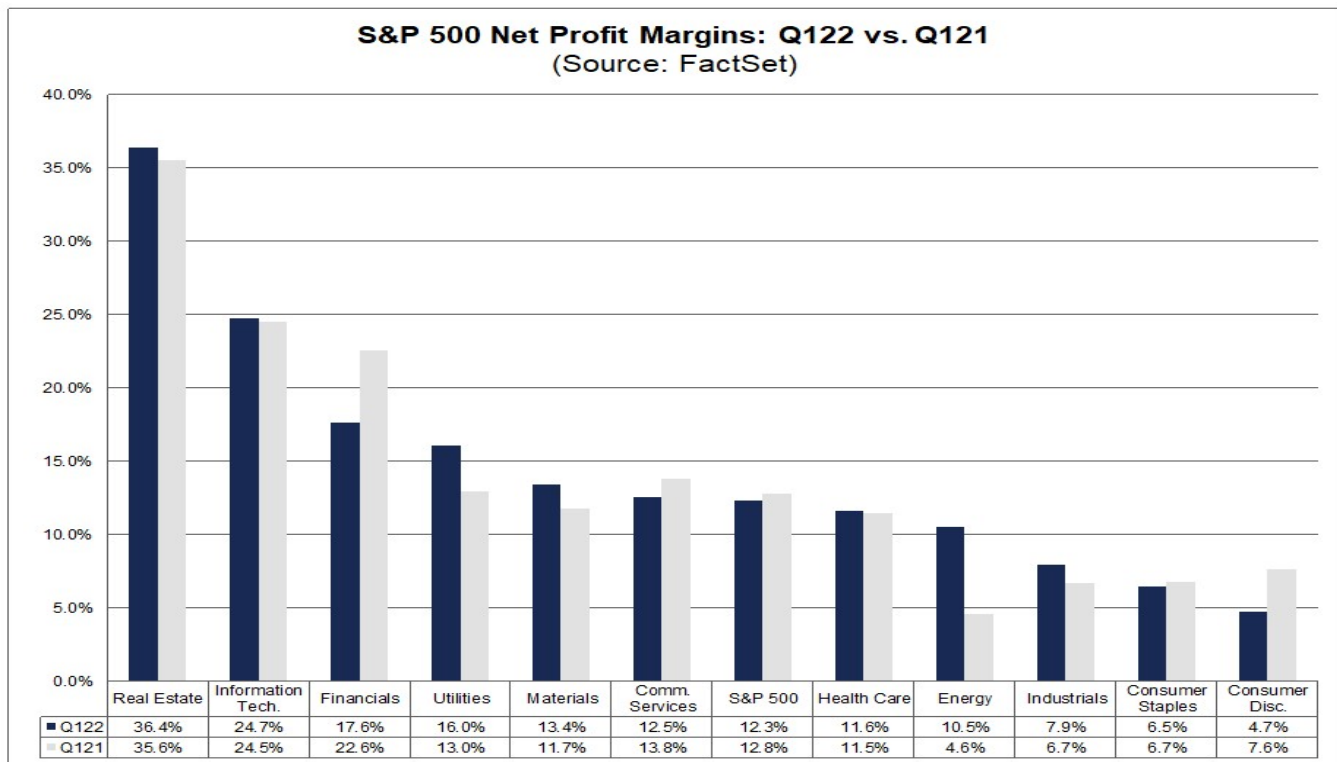
Q1 2022: Growth



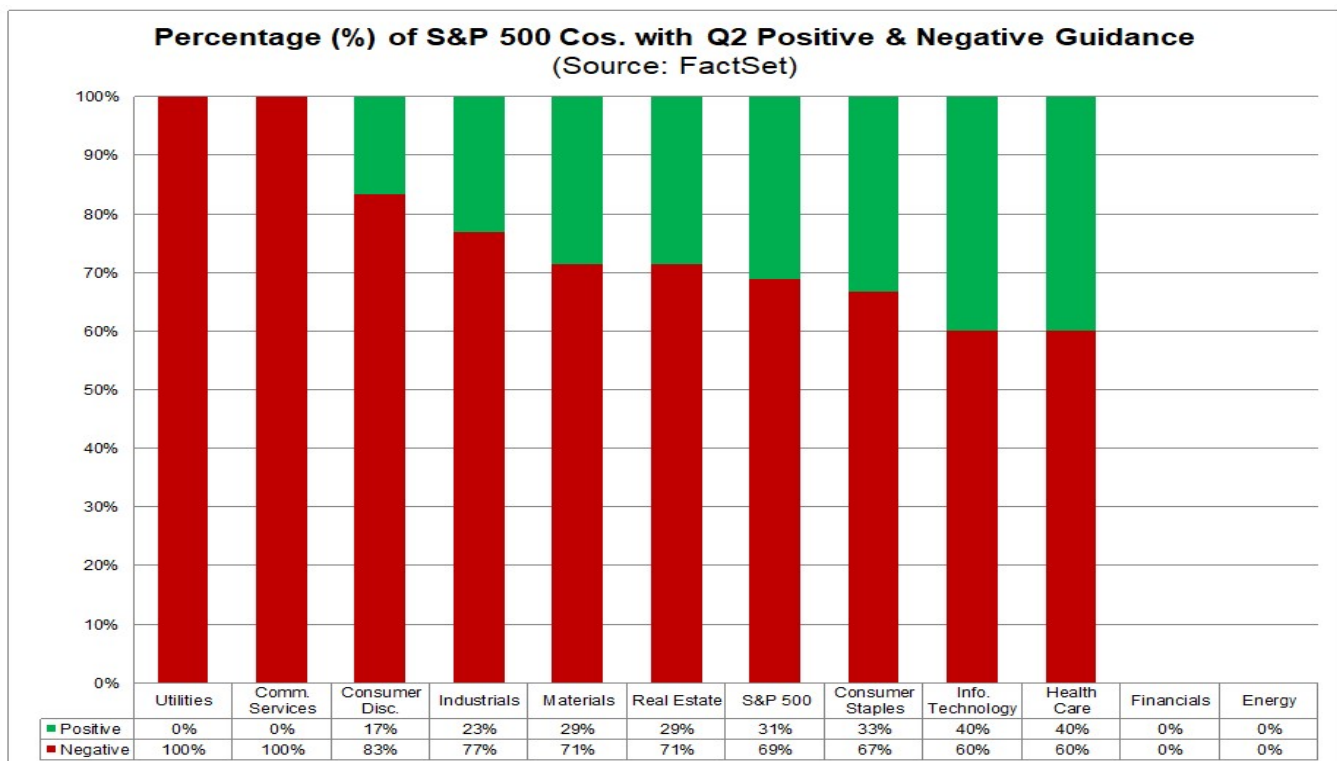
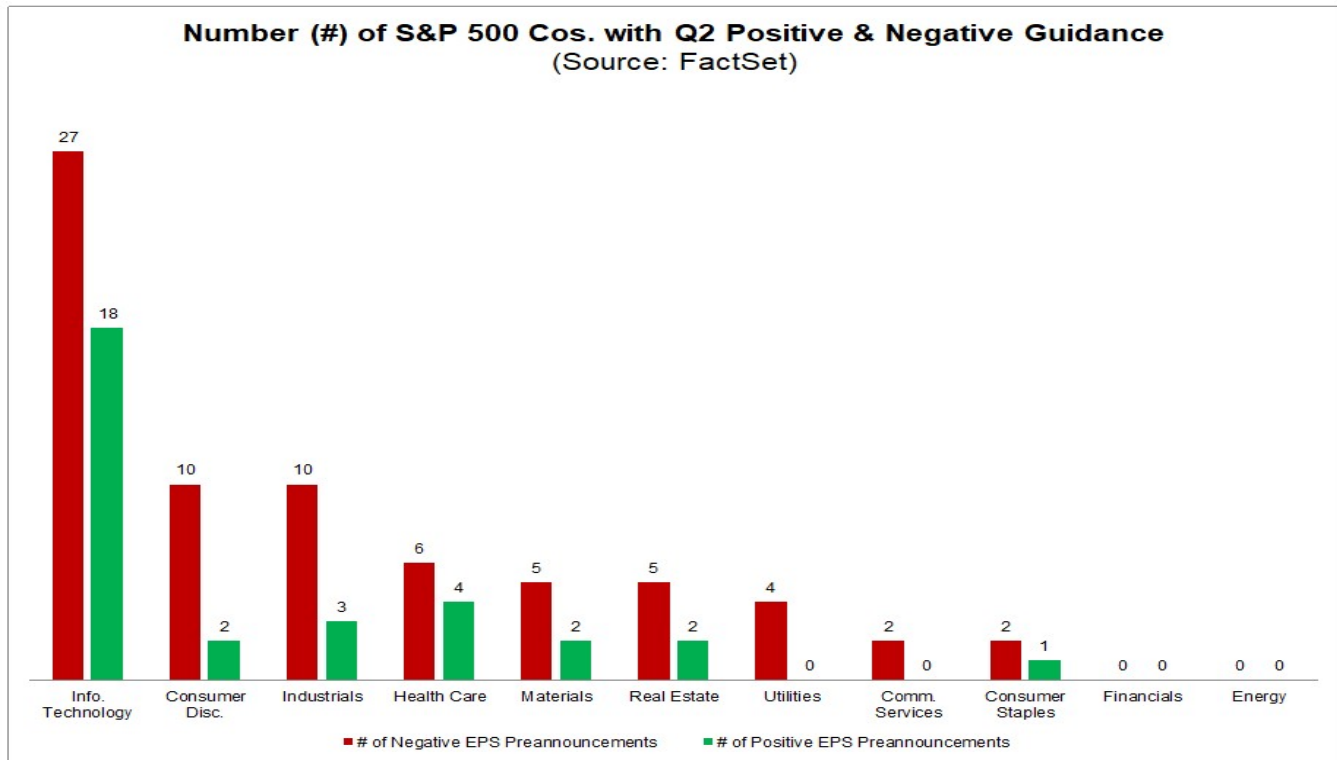
Q1 2022: Growth



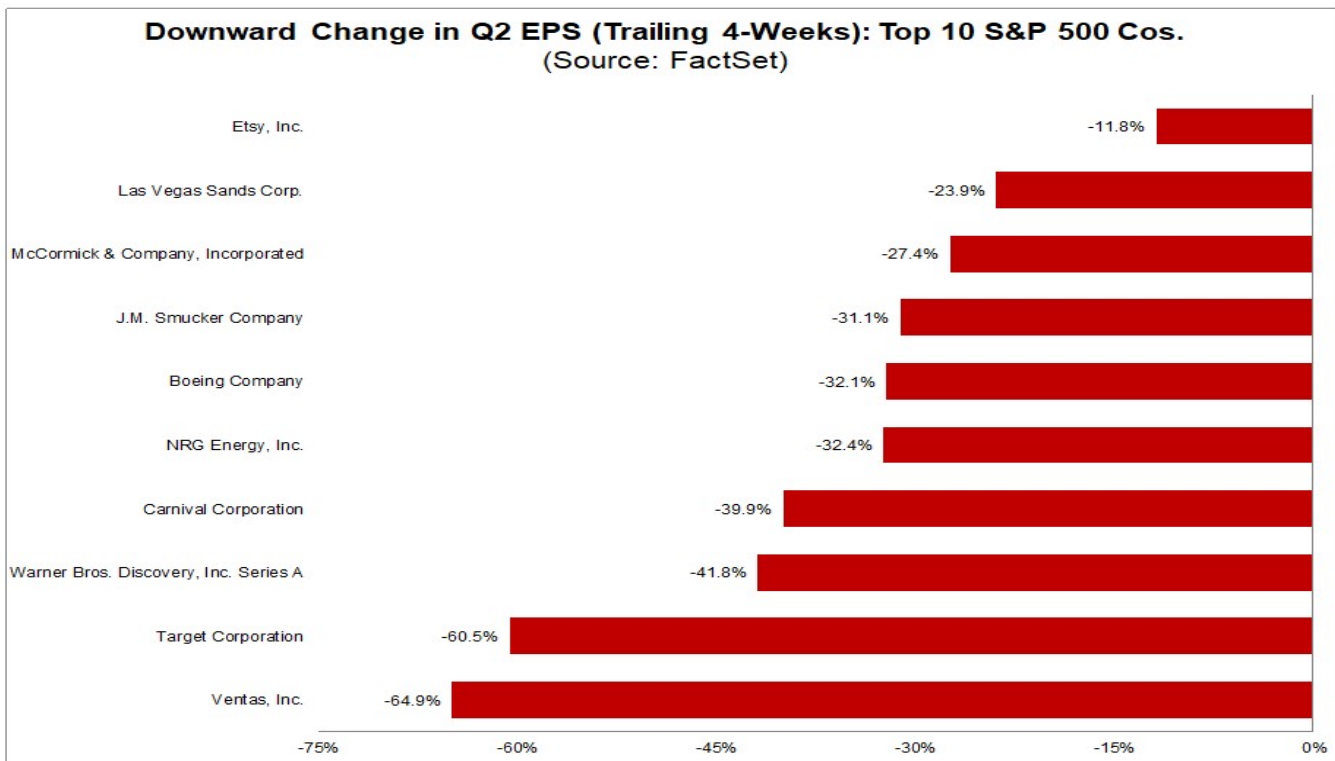
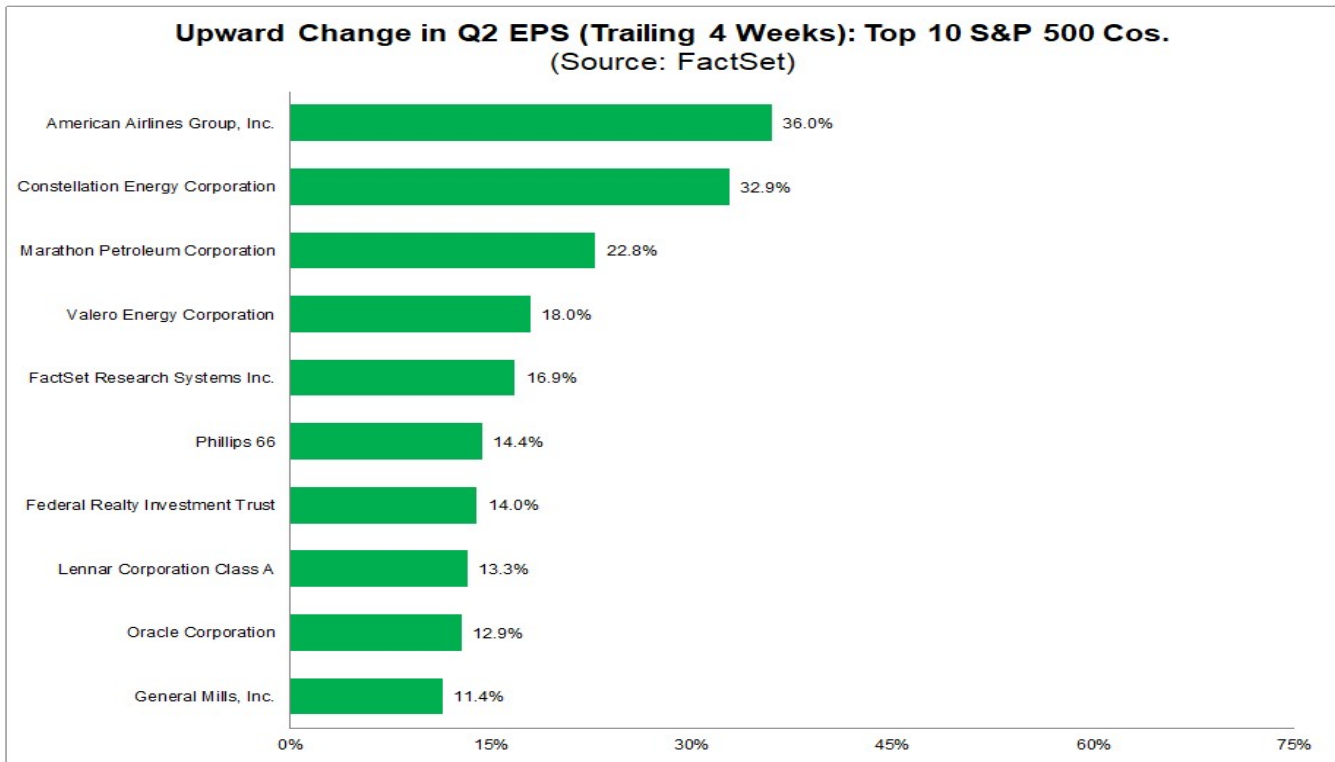
Q1 2022: Net Profit Margin



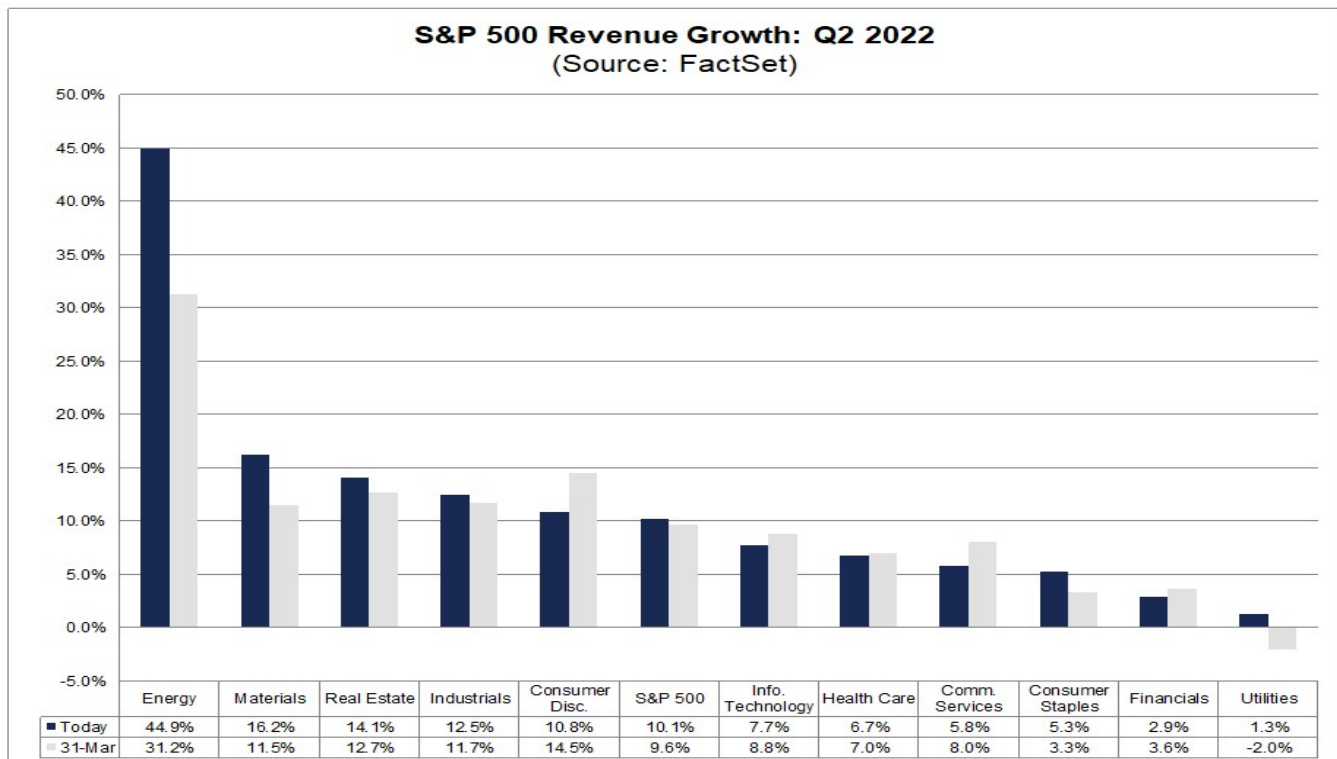
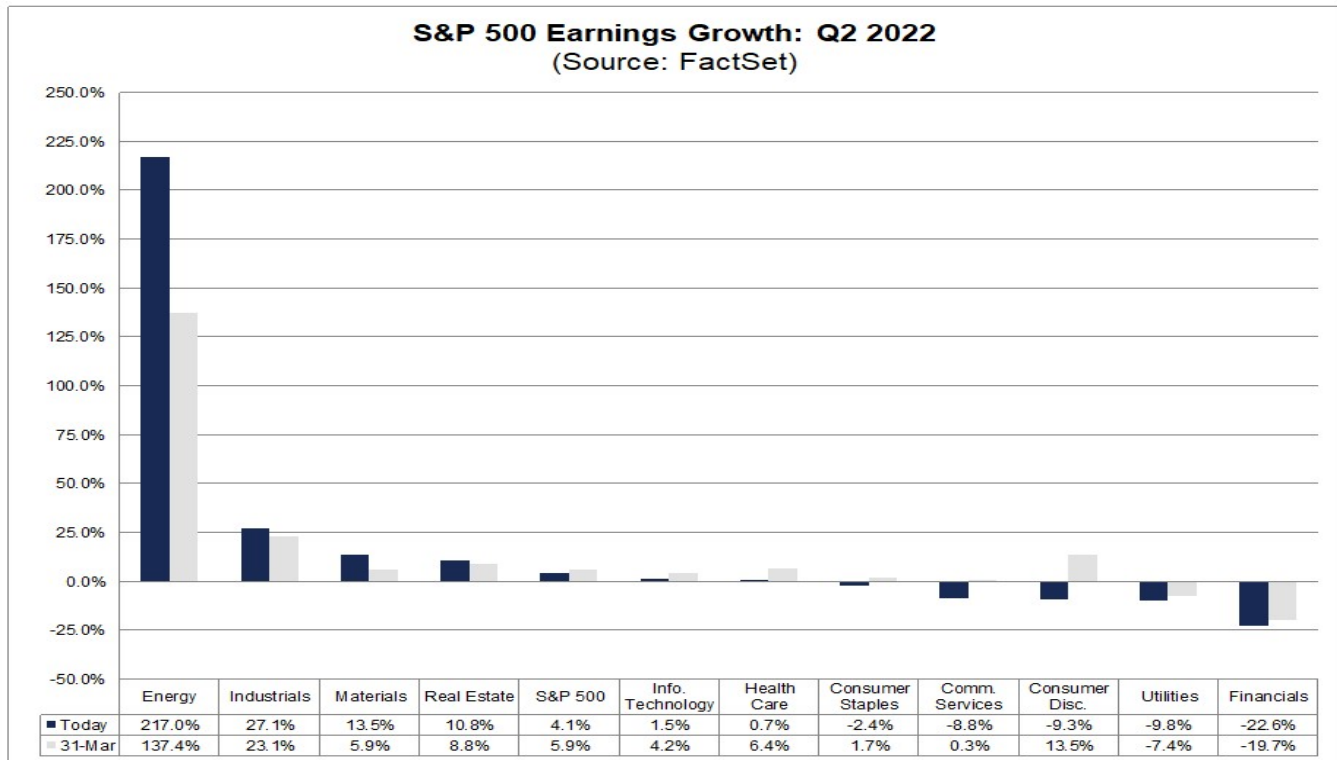
Q2 2022: Guidance



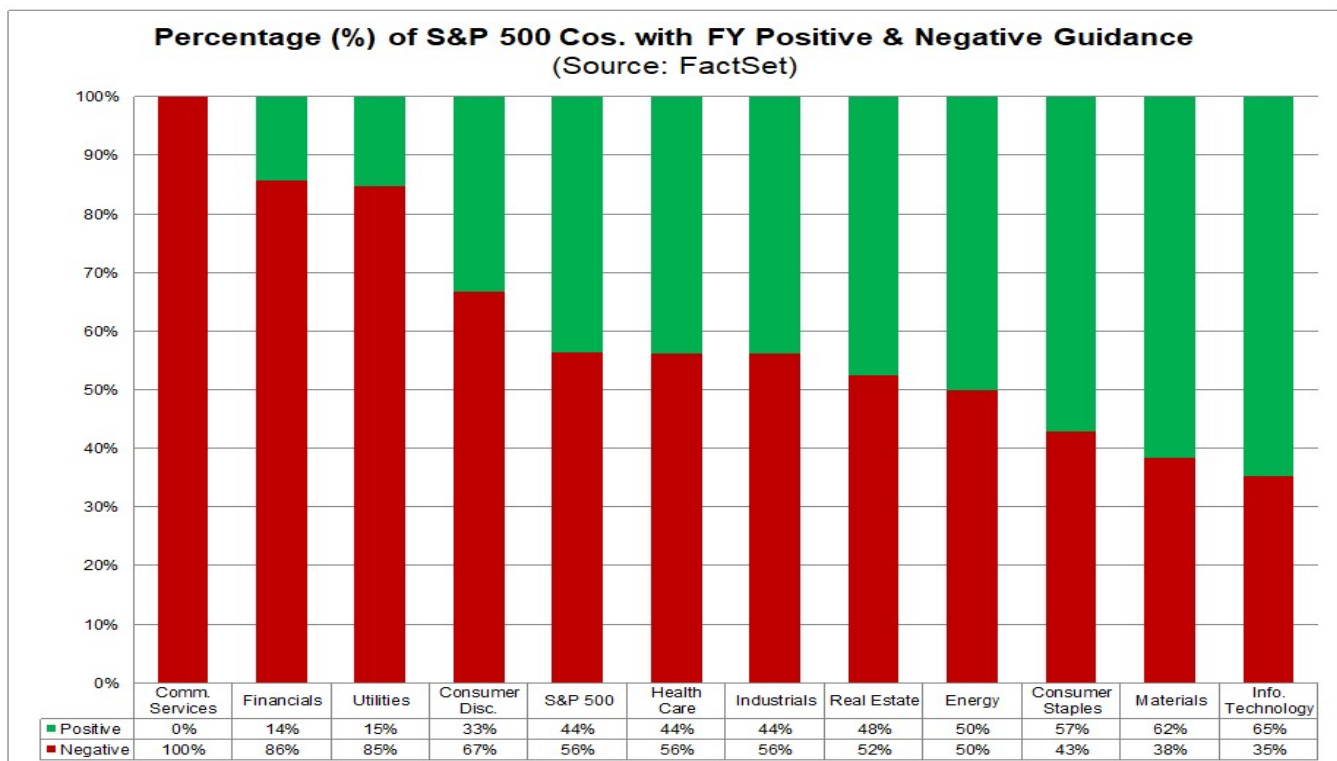
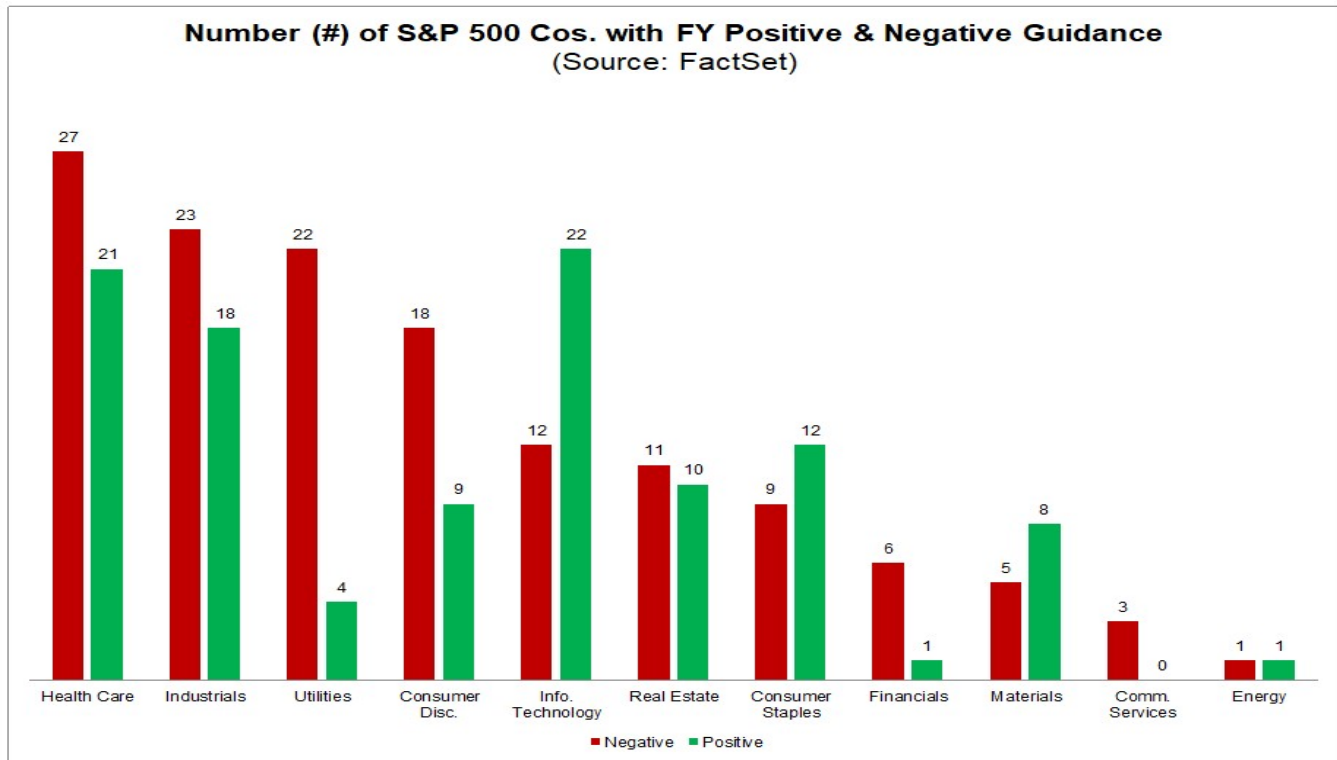
Q2 2022: EPS Revisions



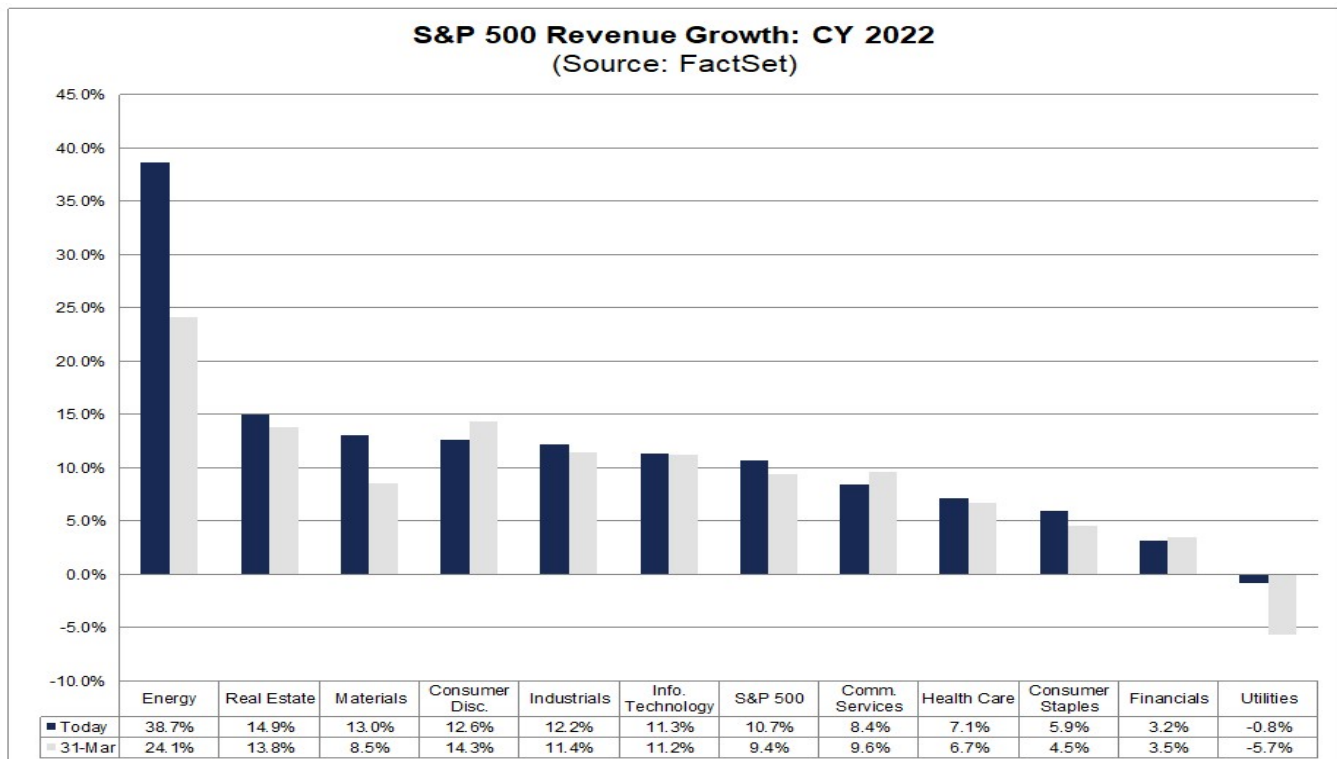
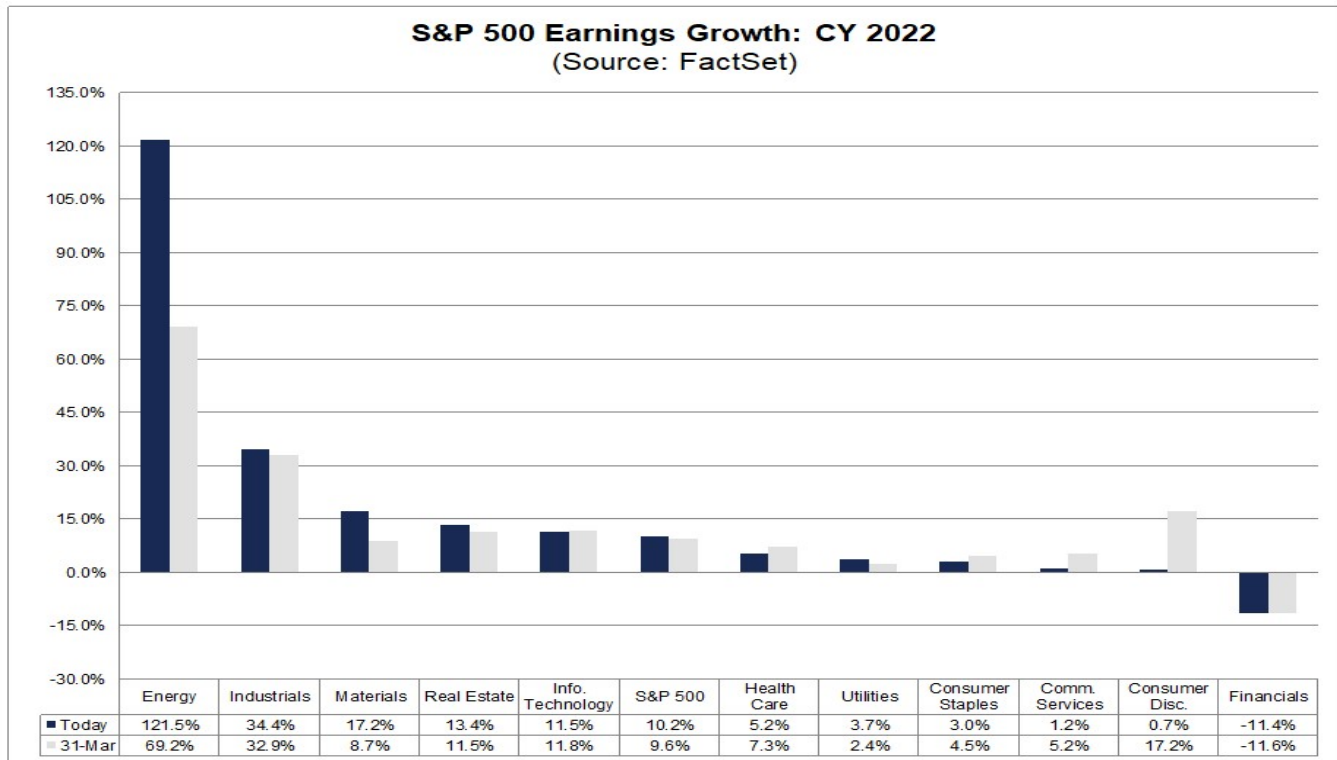
Q2 2022: Growth



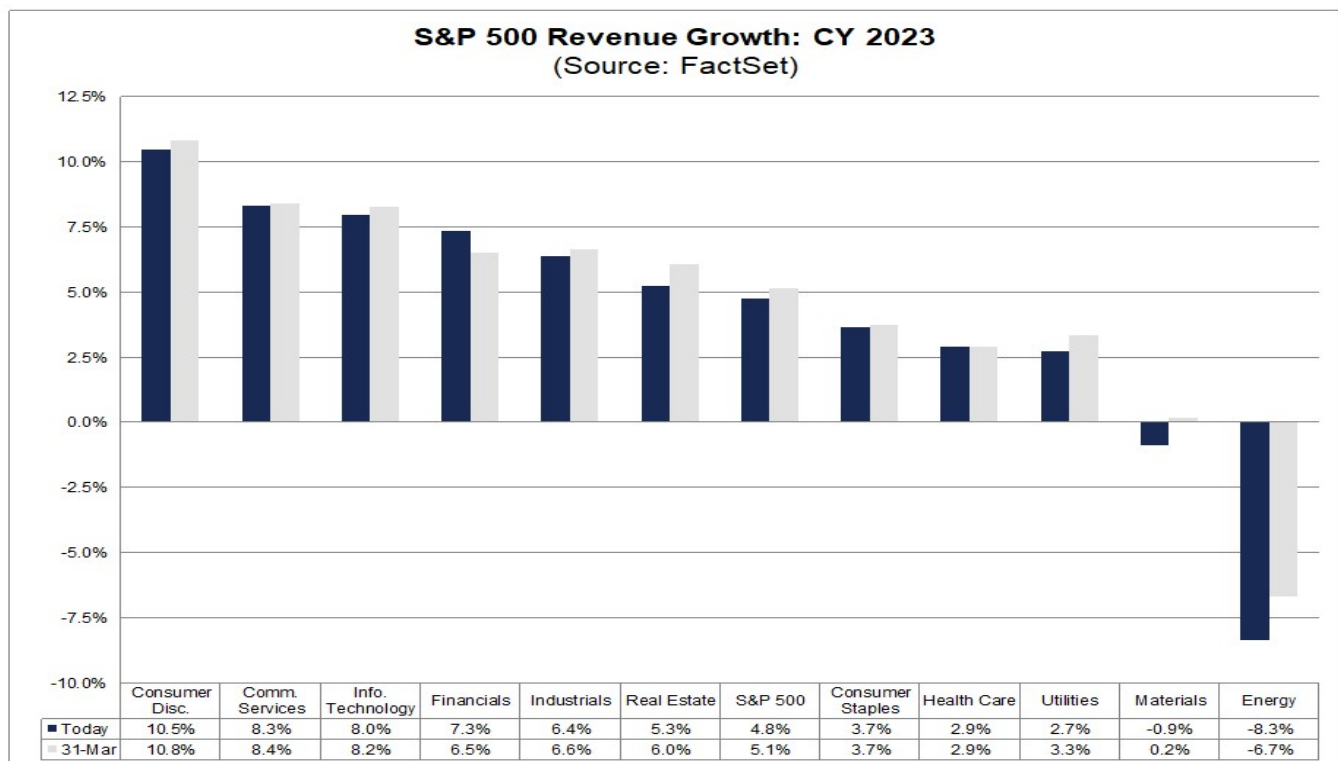
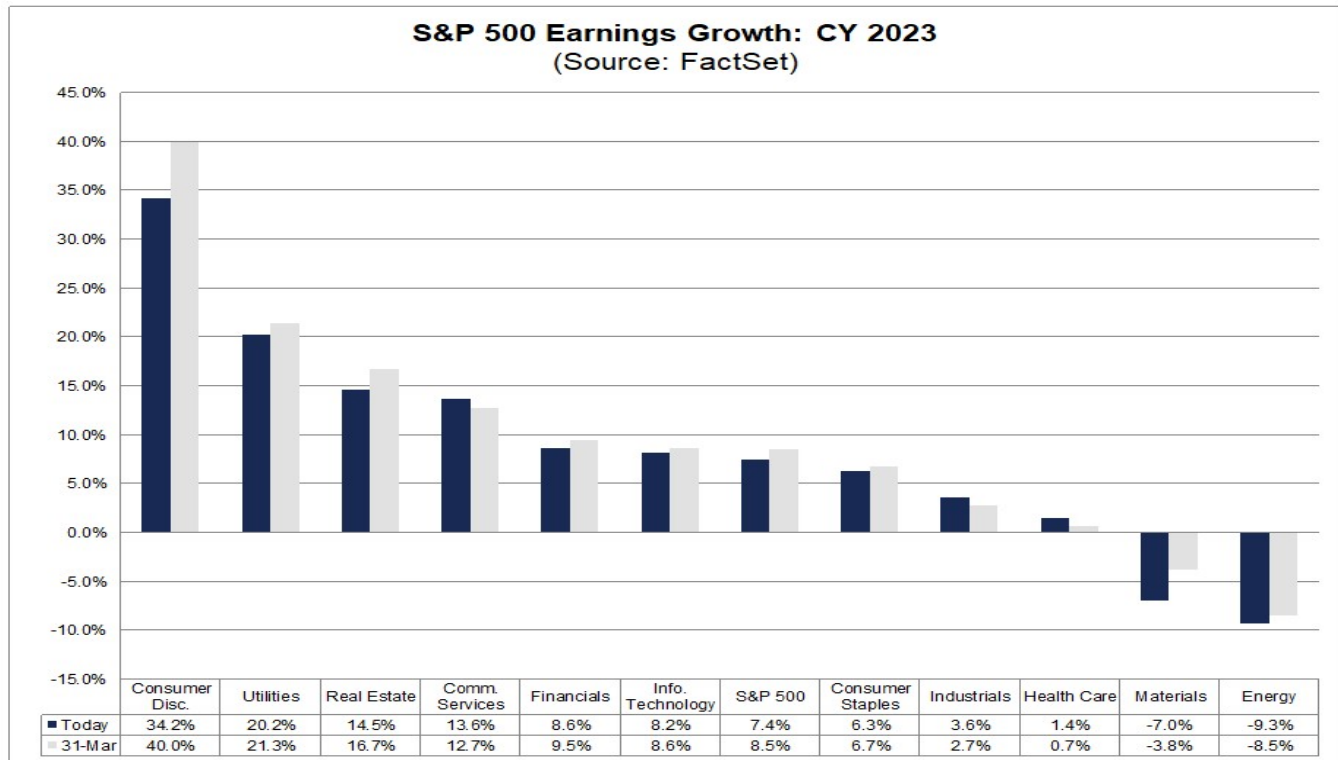
FY 2022 / 2023: EPS Guidance



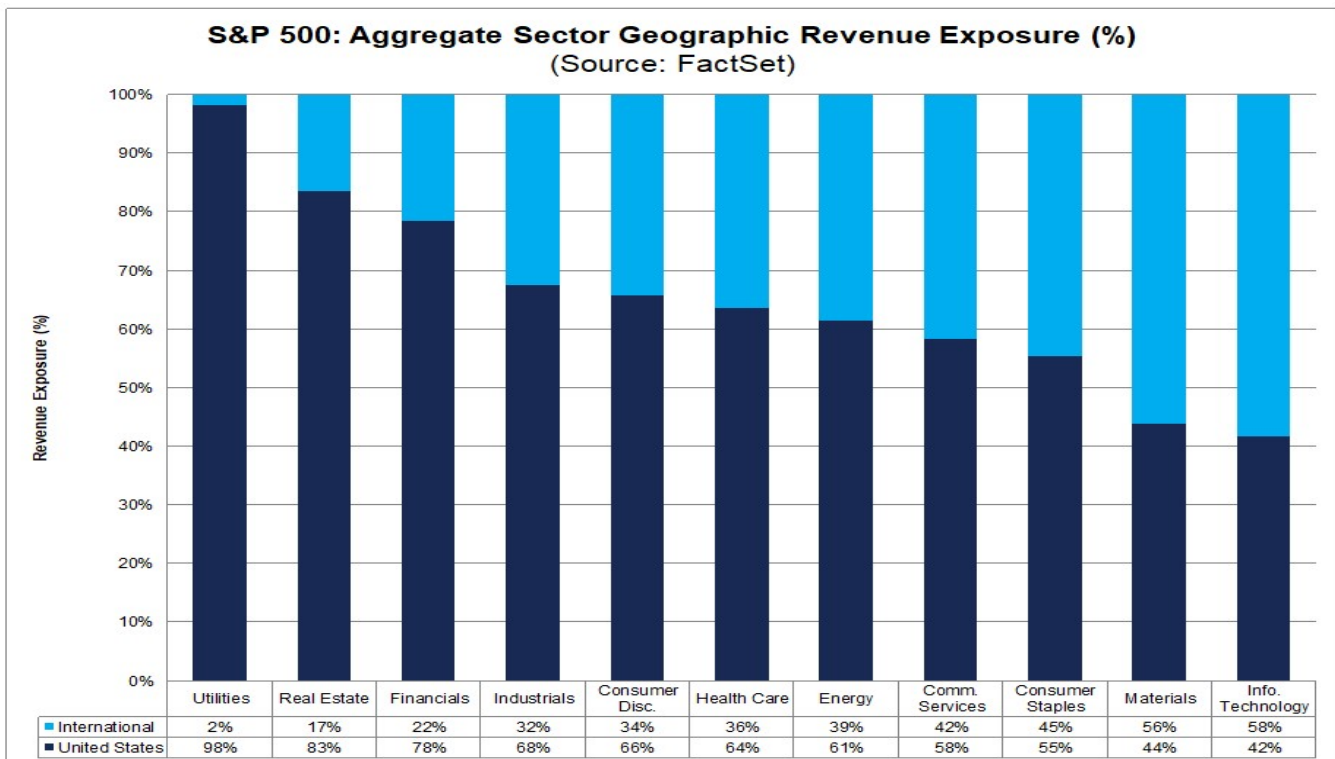
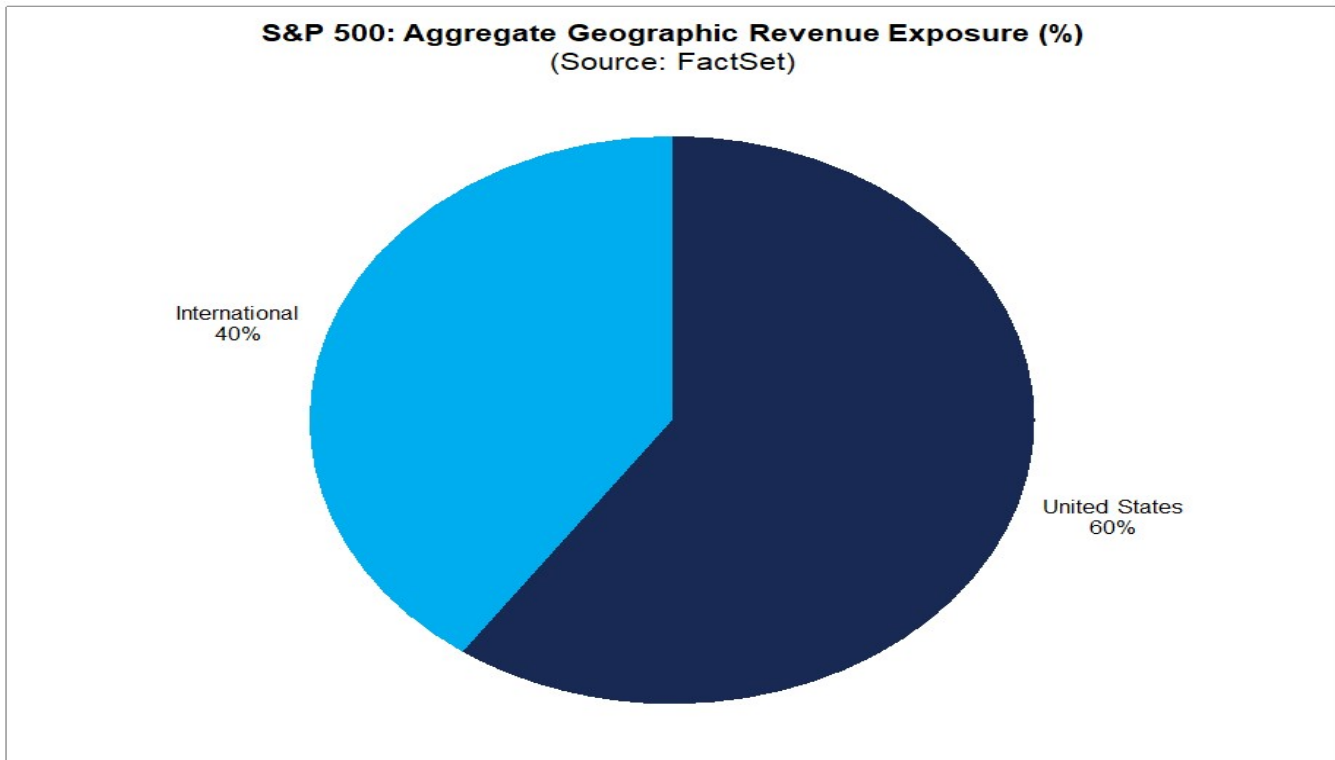
CY 2022: Growth



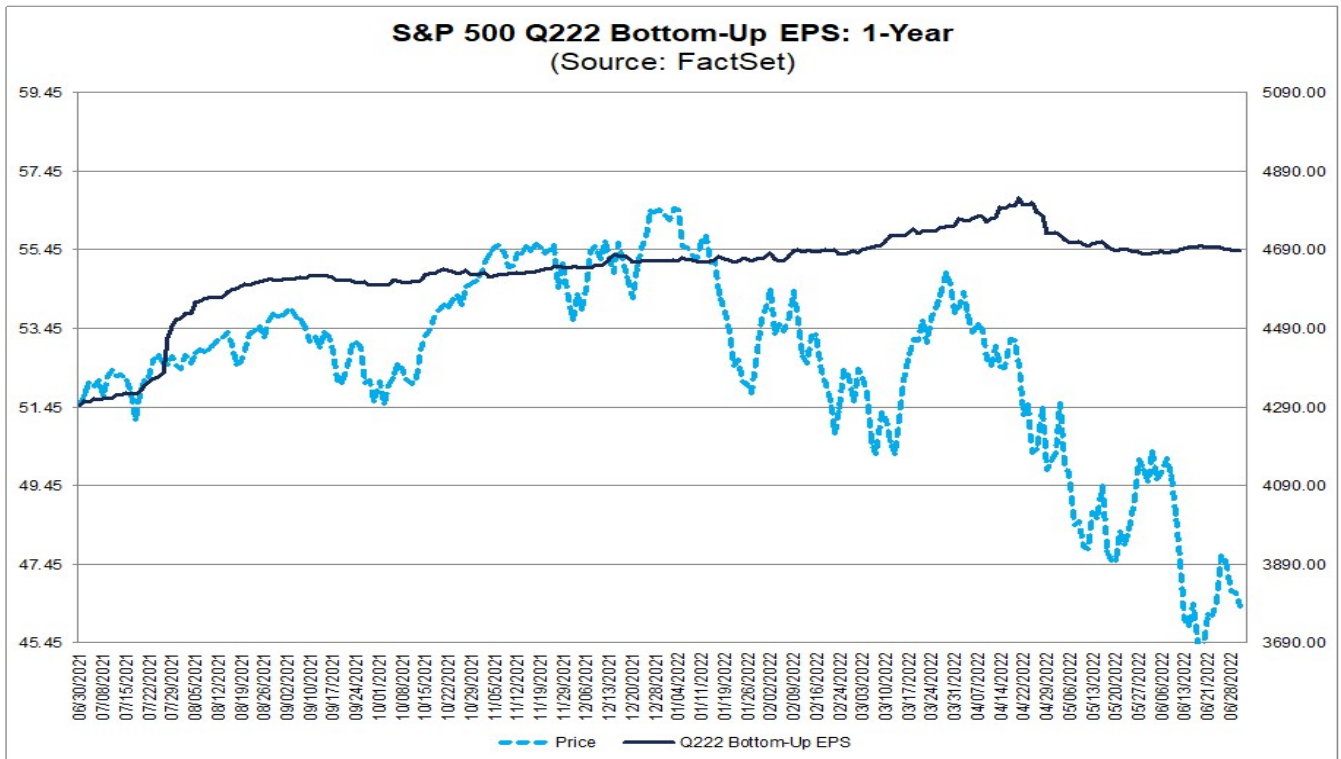
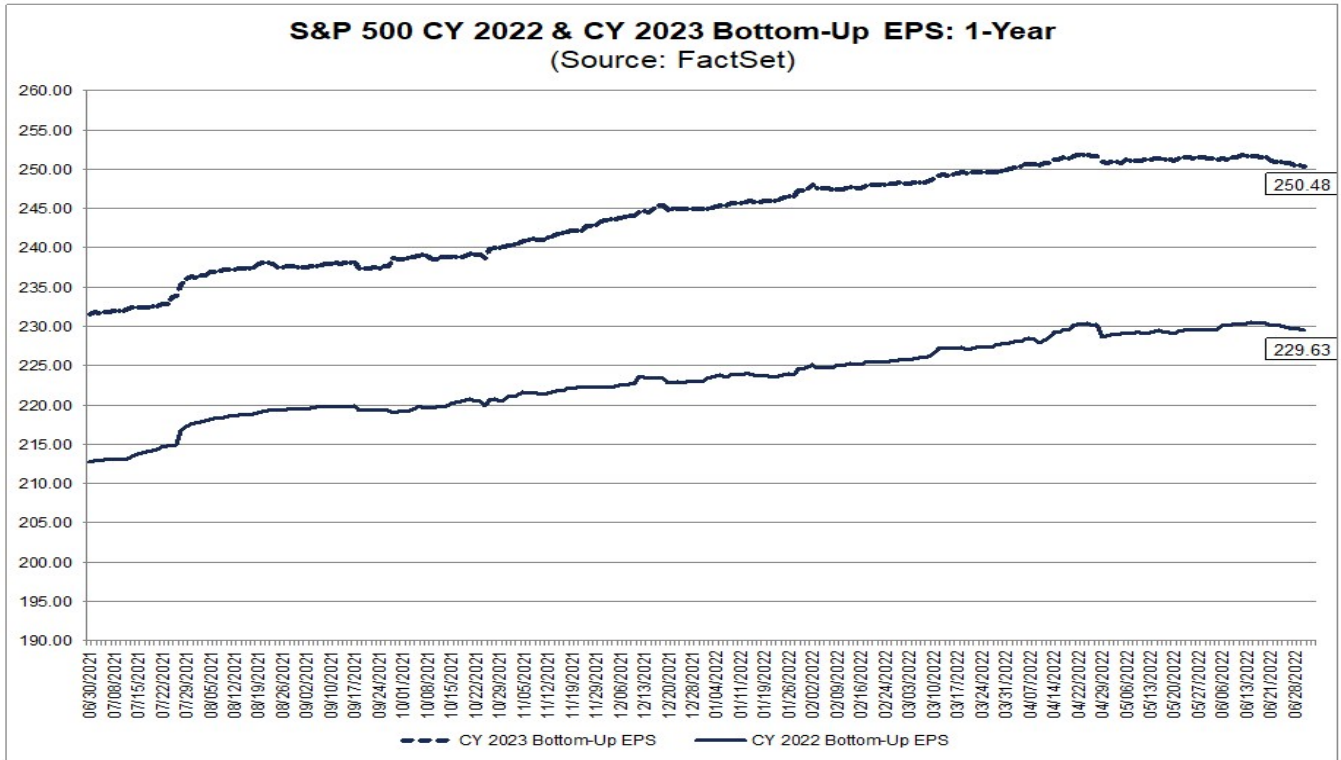
CY 2023: Growth



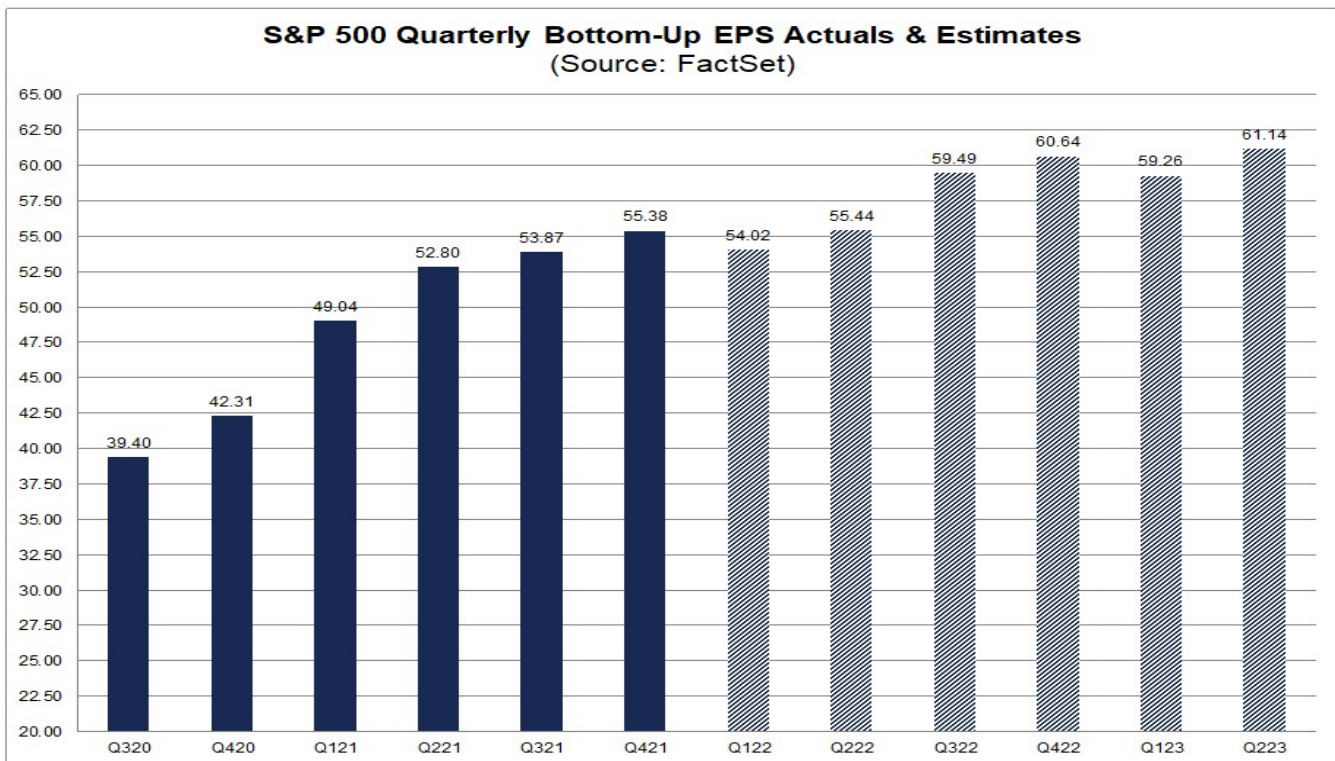
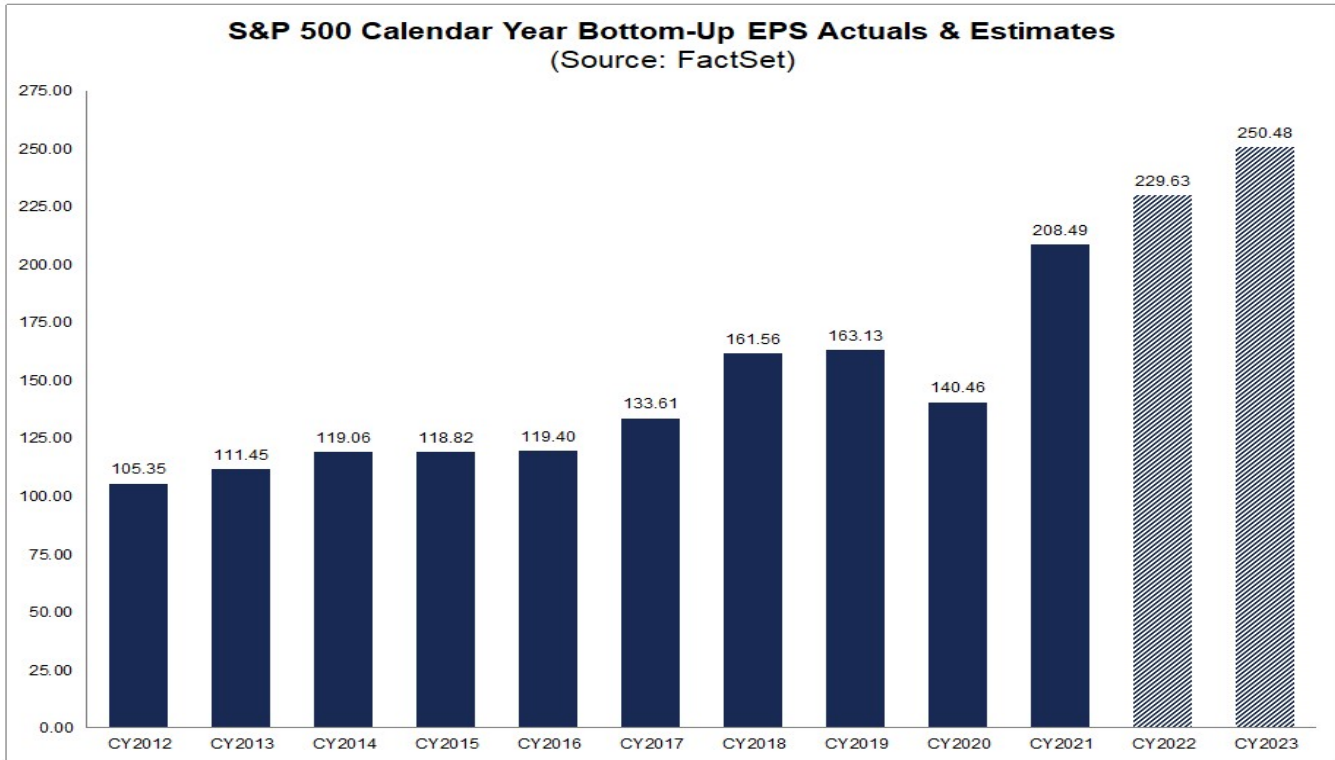
Geographic Revenue Exposure



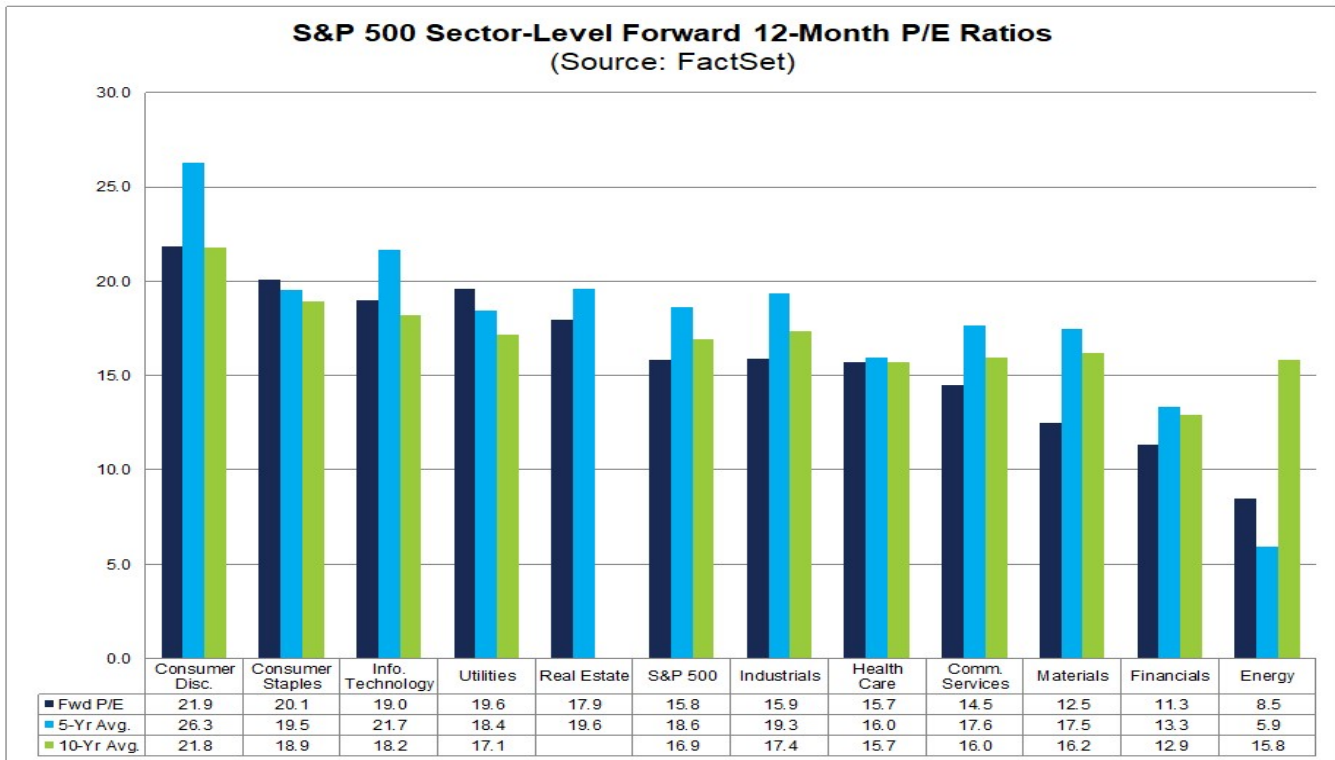
Bottom-Up EPS Estimates



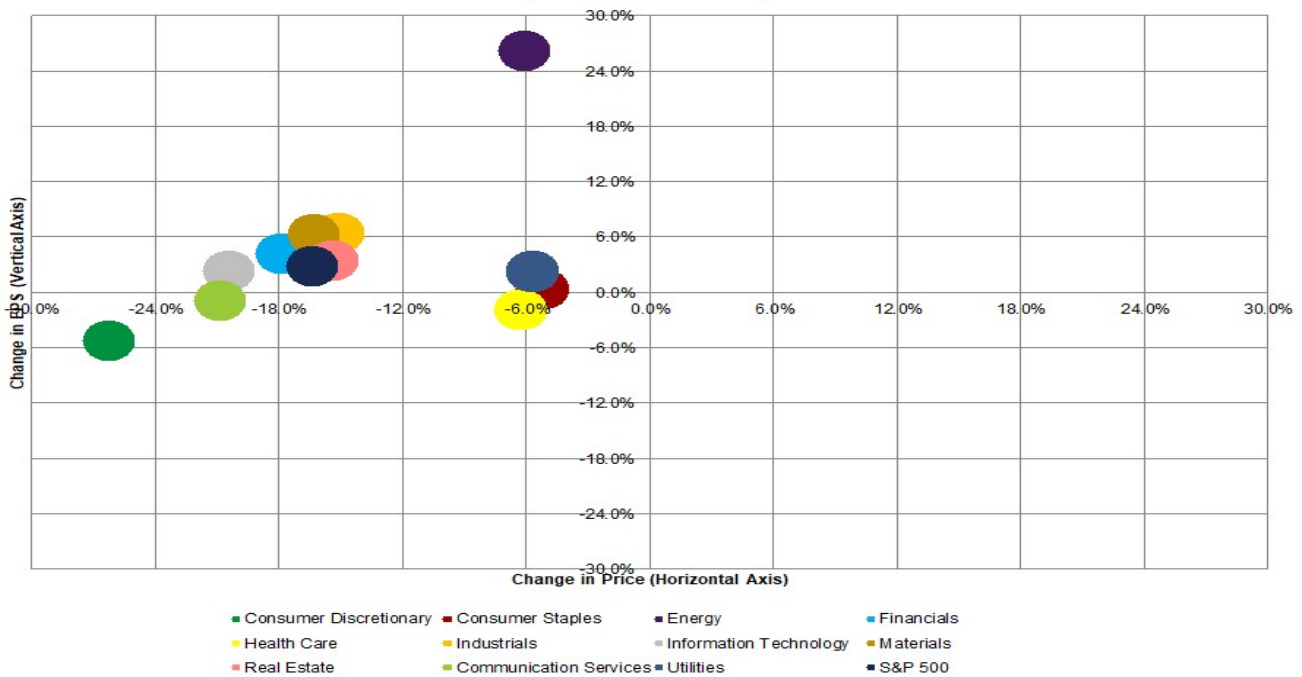
Bottom-Up EPS Estimates: Current & Historical



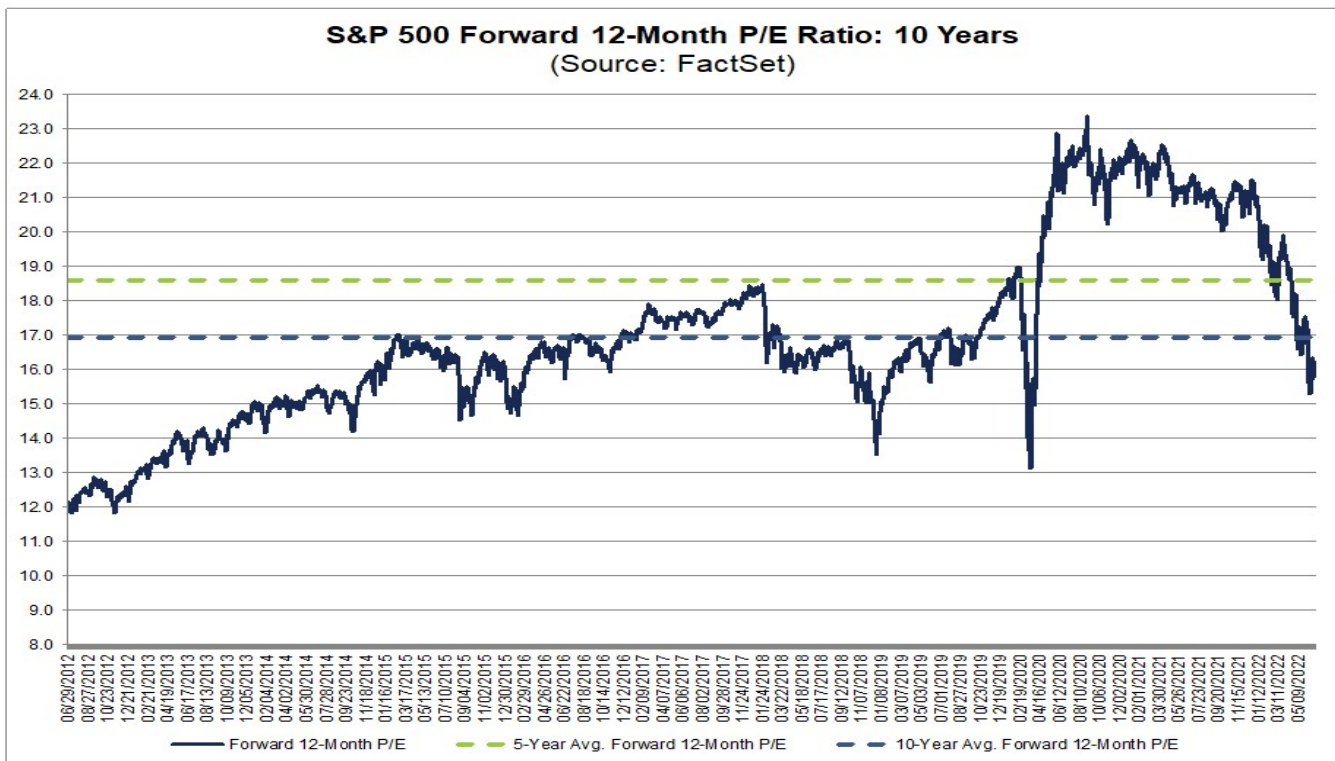
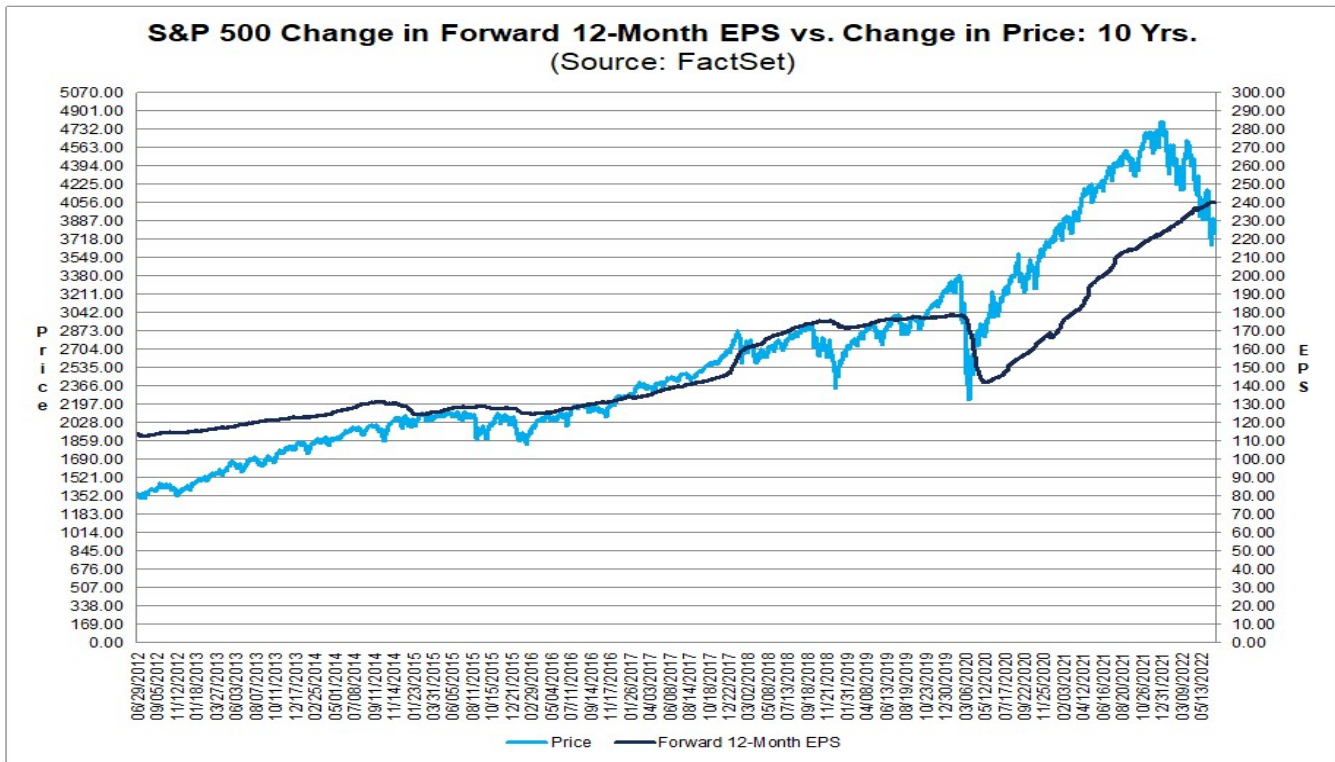
Forward 12M P/E Ratio: Sector Level



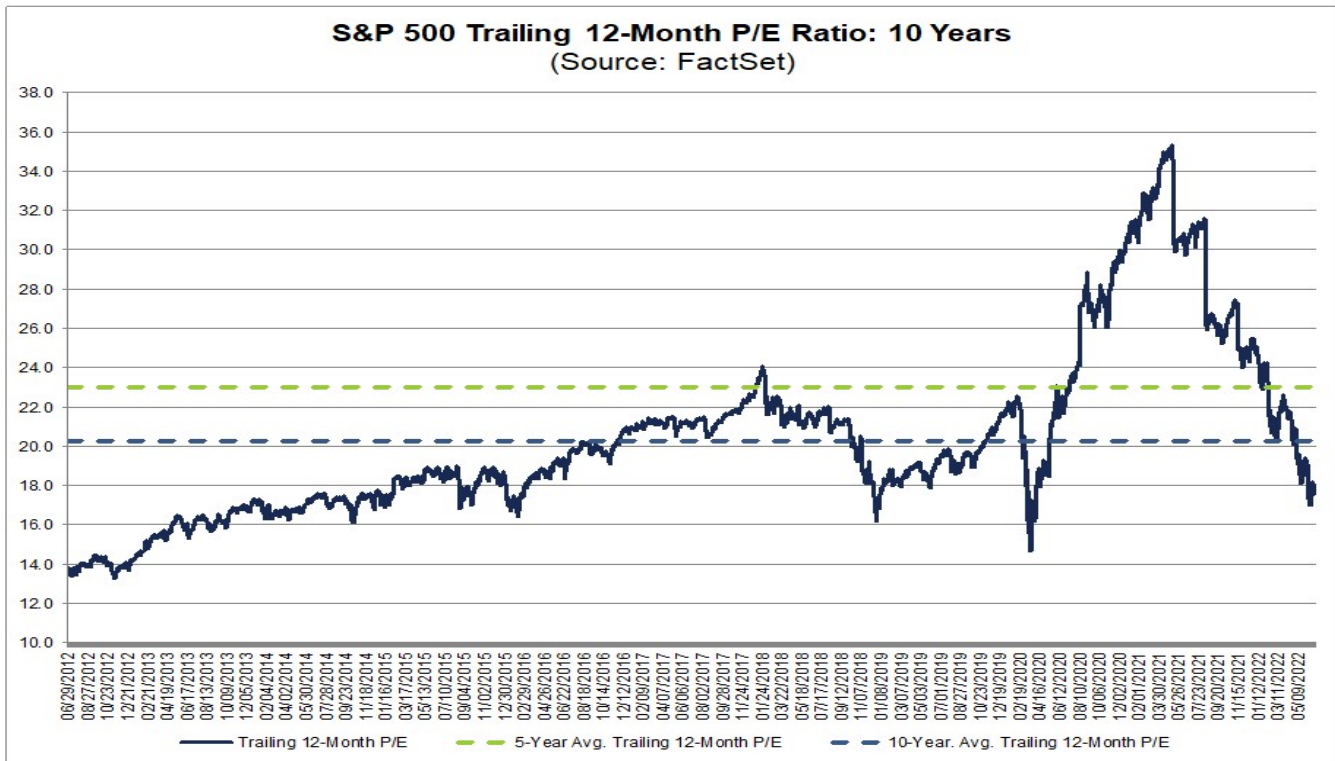
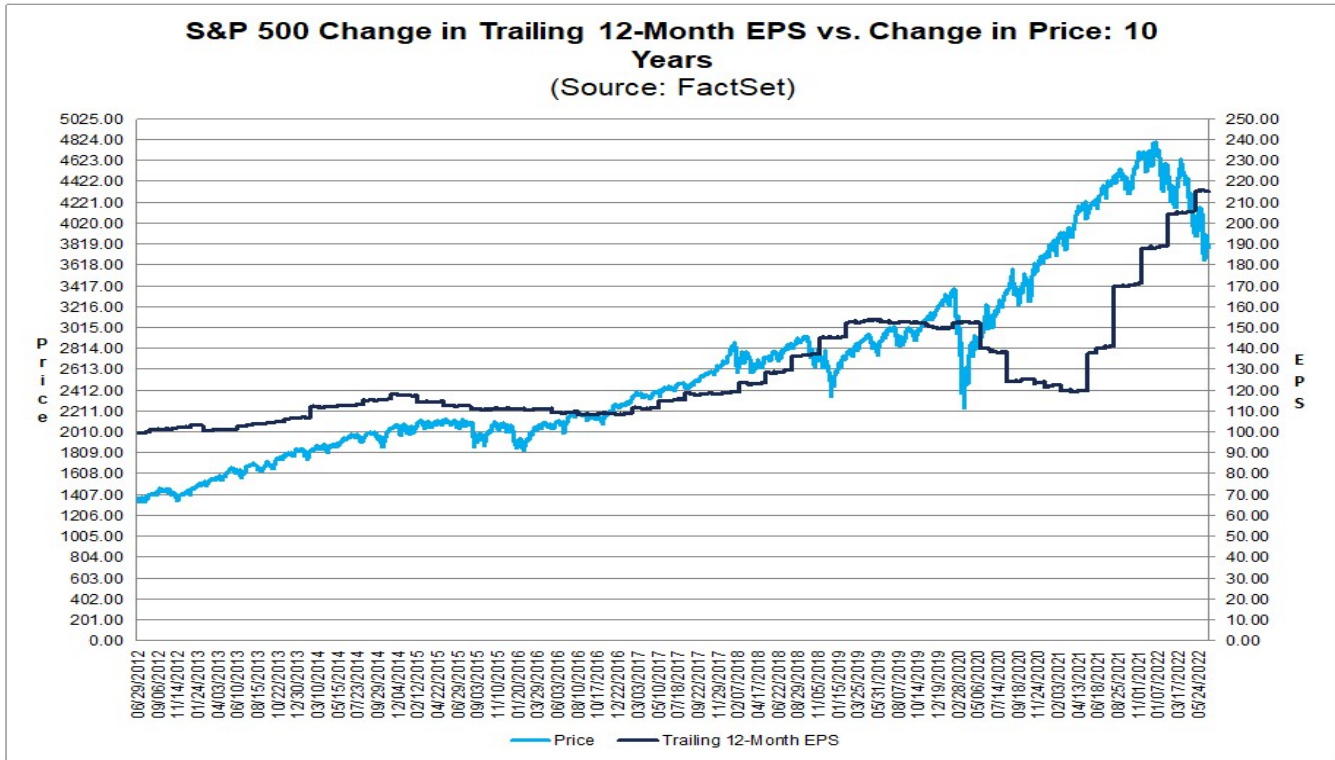
Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Mar. 31 (Source: FactSet)



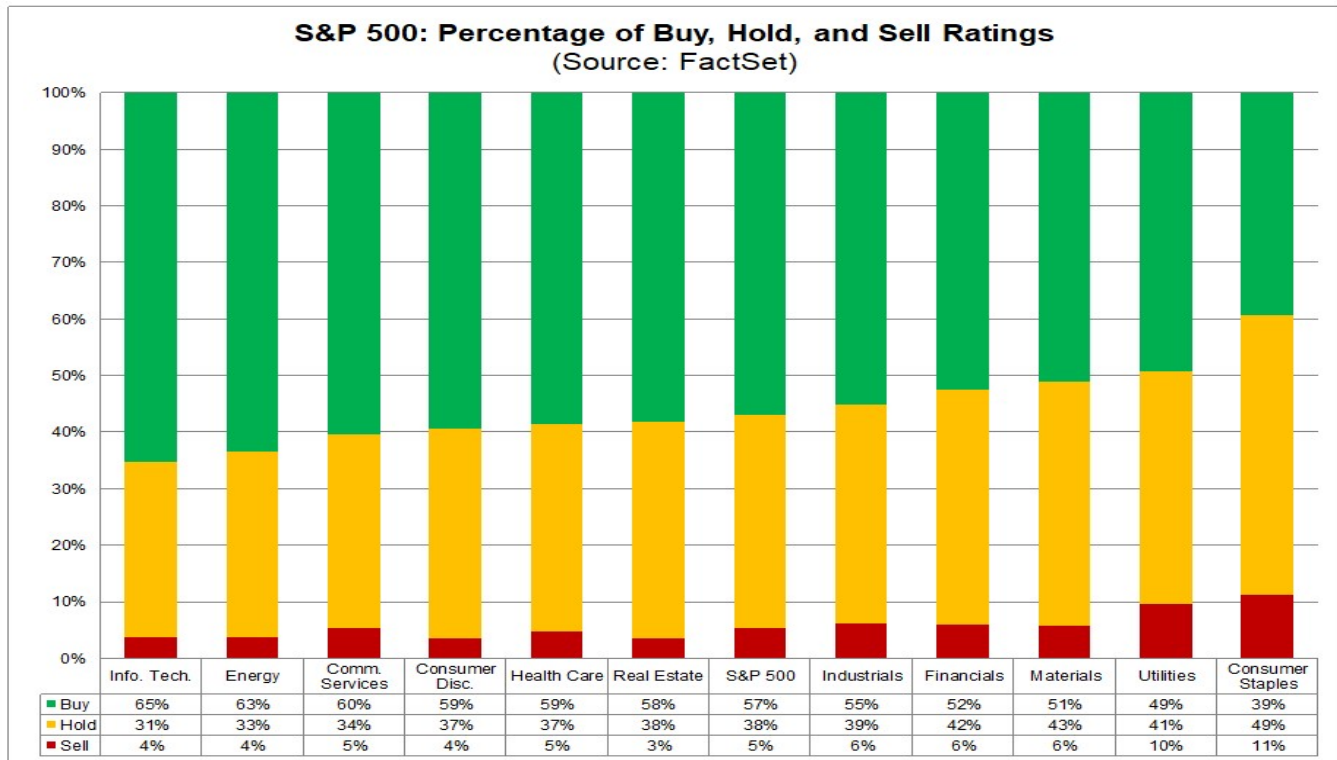
Forward 12M P/E Ratio: 10-Years



Trailing 12M P/E Ratio: 10-Years



Targets & Ratings



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