

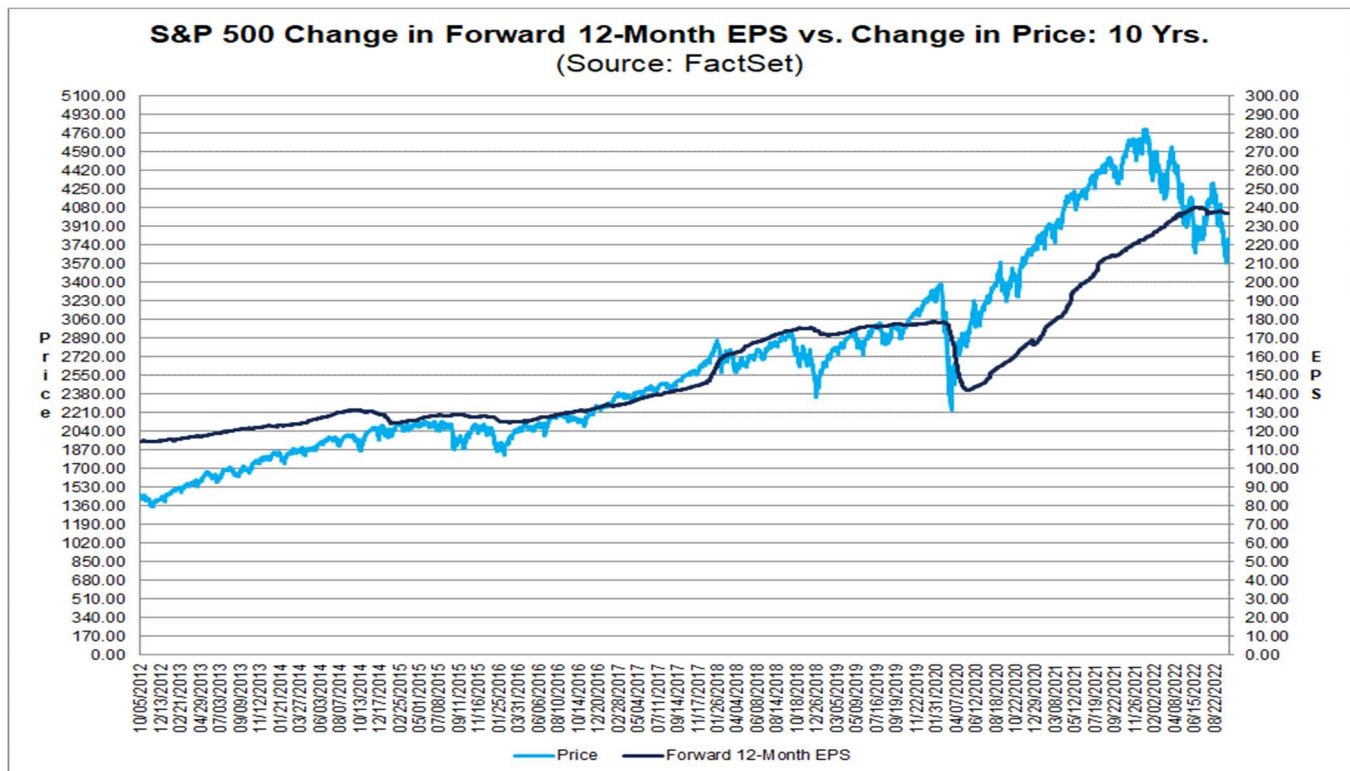
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## Key Metrics

- **Earnings Growth:** For Q3 2022, the estimated earnings growth rate for the S&P 500 is 2.4%. If 2.4% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q3 2020 (-5.7%).
- **Earnings Revisions:** On June 30, the estimated earnings growth rate for Q3 2022 was 9.9%. Ten sectors are expected to report lower earnings today (compared to June 30) due to downward revisions to EPS estimates.
- **Earnings Guidance:** For Q3 2022, 65 S&P 500 companies have issued negative EPS guidance and 41 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 (18.5) and below the 10-year average (17.1).
- **Earnings Scorecard:** For Q3 2022 (with 20 S&P 500 companies reporting actual results), 14 S&P 500 companies have reported a positive EPS surprise and 13 S&P 500 companies have reported a positive revenue surprise.



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## Topic of the Week: 1

### 50% of S&P 500 Companies Citing A Negative Impact From FX on Q3 Earnings Calls To Date

While the majority of S&P 500 companies will report earnings results for Q3 2022 over the next few weeks, 4% of the companies in the index (20 companies) have already reported earnings results for the third quarter (through October 6). Given current expectations for low, single-digit earnings growth for the third quarter and concerns about a prolonged recession, have these companies discussed specific factors that had a negative impact on earnings, revenues, or profit margins for the third quarter (or are expected to have a negative impact in future quarters) during their earnings calls?

To answer this question, FactSet searched for specific terms related to a number of factors (e.g. “currency,” “labor,” etc.) in the conference call transcripts of the 20 S&P 500 companies that conducted third quarter earnings conference calls through October 6 to see how many companies discussed these factors. FactSet then looked to see if the company cited a negative impact, expressed a negative sentiment (e.g. “volatility,” “uncertainty,” “pressure,” “headwind,” etc.), or discussed underperformance in relation to the factor for either the quarter just reported or in guidance for future quarters. The results for Q3 and a comparison to the same time period in Q2 are shown in the chart on page 3.

Labor costs have been cited by the highest number of companies in the index to date as a factor that either had a negative impact on earnings, revenues, or profit margins in Q3, or is expected to have a negative impact on earnings, revenues, or profit margins in future quarters. Overall, 13 companies (or 65%) cited a negative impact from this factor. This number is consistent with the trailing four-quarter average for this factor of 13 through this same point in time in the earnings season.

Supply chain disruptions and costs have been cited by the second-highest number of companies in terms of a negative impact at 11 (or 55%). This number is also consistent with the trailing four-quarter average for this factor of 12 through this same point in time in the earnings season.

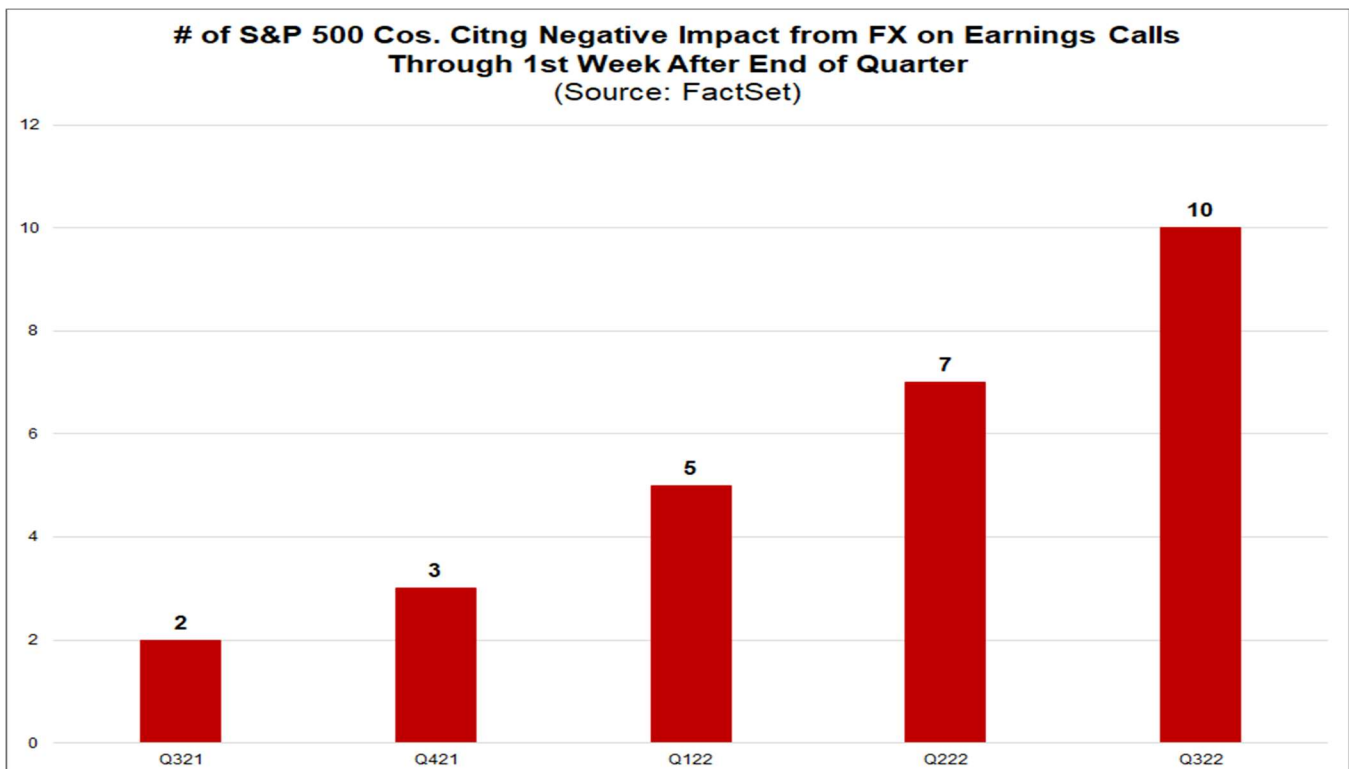
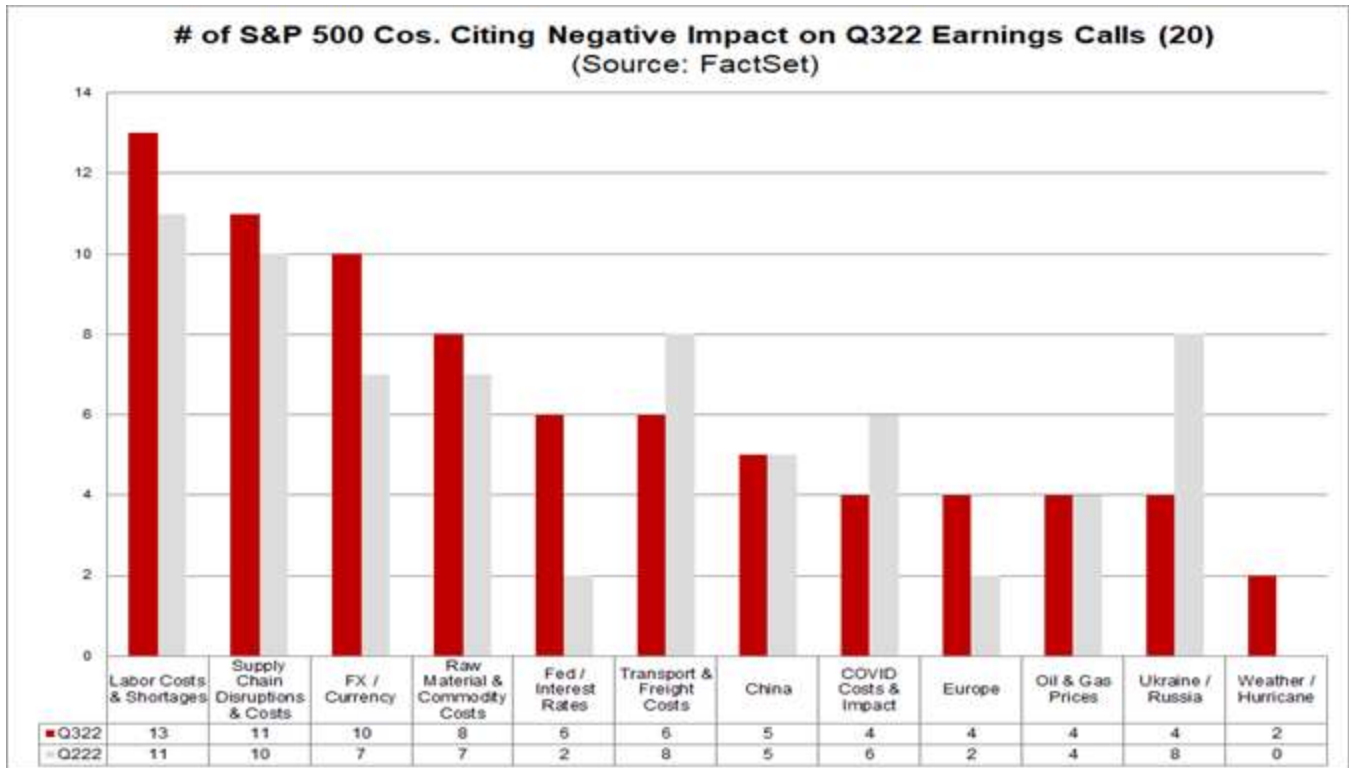
Unfavorable foreign exchange rates have been cited by the third-highest number of S&P 500 companies in terms of a negative impact at 10 (or 50%). However, this number is well above the trailing four-quarter average of 4 for this factor through this same point in time in the earnings season. In fact, the third quarter marked the fourth consecutive quarter that this number has increased and the first time in the past four quarters that the number reflected at least 50% of the companies reporting at this point in time in the earnings season. Of the 12 factors tracked for this analysis, only higher interest rates witnessed a larger quarter-over-quarter increase in Q3 2022 relative to Q2 2022.

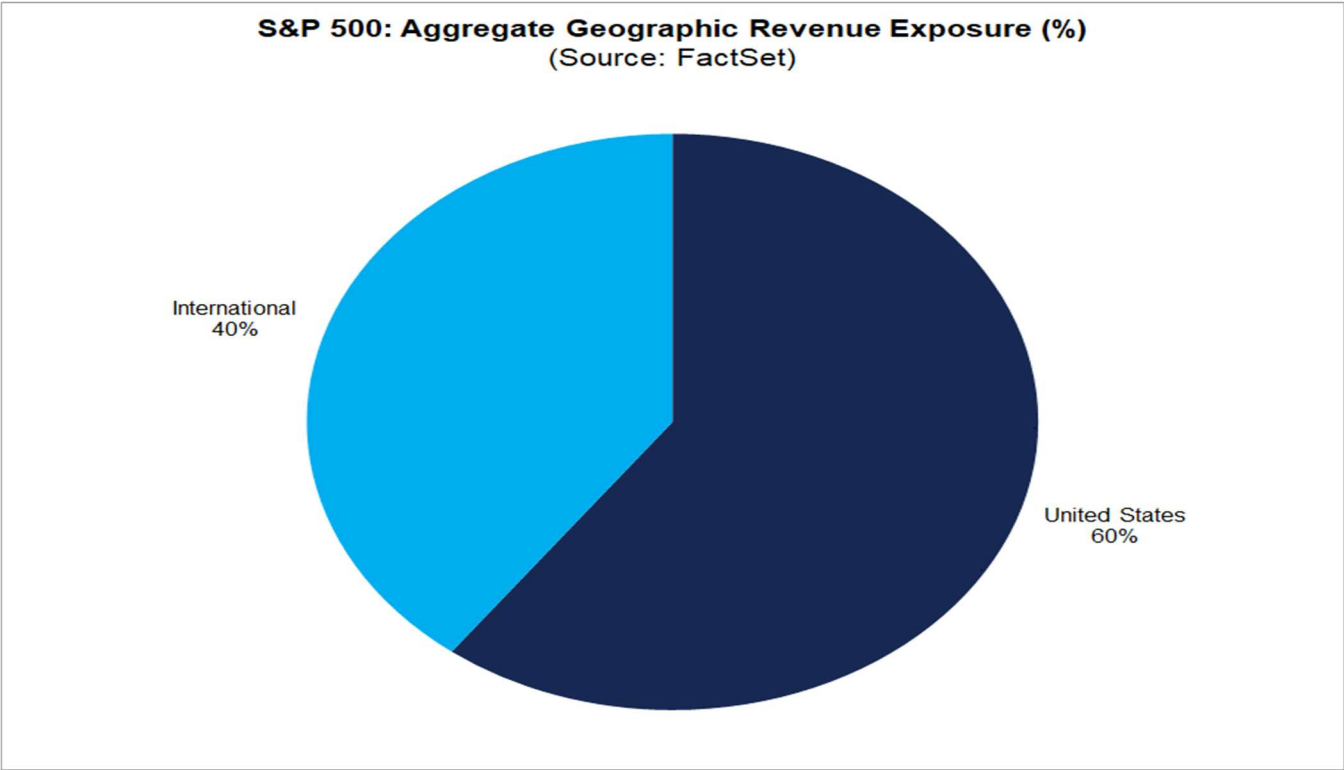
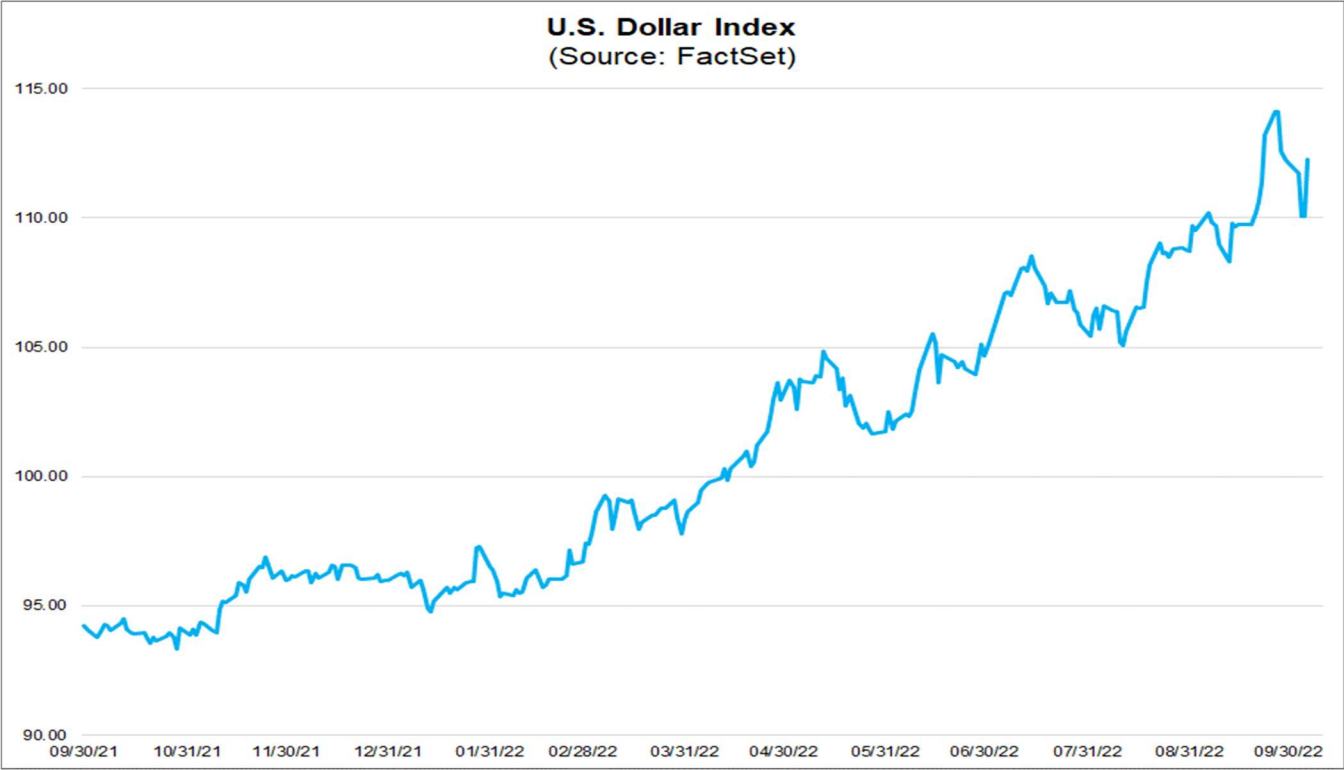
Given the strengthening of the U.S. dollar in recent months (as indicated by the rise in the U.S. Dollar Index) and the 40% international revenue exposure of the S&P 500 overall, it is not surprising to see an increase in the number of (early-reporting) companies citing a negative impact to earnings, revenues, or profit margins due to unfavorable foreign exchange rates. The market will likely continue to watch for more commentary on foreign exchange throughout the earnings season. Here are a few recent examples of S&P 500 companies citing a negative impact from foreign exchange on earnings calls.

*The unfavorable impact of foreign exchange was reflected in the net sales decrease for our International segment.*  
-Conagra Brands (Oct. 6)

*Now turning to our 2022 financial outlook on slide 25. We are projecting strong top line growth with profit impacted by cost inflation and supply chain challenges. We also expect there will be a 3 percentage point unfavorable impact of currency rates on sales and a 2 percentage point unfavorable impact on adjusted operating income and adjusted earnings per share.*  
-McCormick & Co. (Oct. 6)

*Headwinds from foreign exchange have also shifted significantly in the last 90 days, as the trend of US dollar strengthening has accelerated. Based on current spot rates, net of hedging activity, we estimate the full-year negative impact of foreign exchange on reported revenue and EBIT to now be approximately \$4 billion and \$900 million, respectively, creating a wide divergence in constant versus real dollar performance.* -NIKE (Sep. 29)





## Topic of the Week: 2

### S&P 500 Likely to Report Earnings Growth of 6% to 7% for Q3 2022

As of today, the S&P 500 is expected to report (year over-year) earnings growth of 2.4% for the third quarter, which would be the lowest earnings growth reported by the index since Q3 2020. Given that most S&P 500 companies report actual earnings above estimates, what is the likelihood the index will report actual growth in earnings of 2.4% for the quarter?

Based on the average improvement in earnings growth during the past few earnings seasons due to companies reporting positive surprises, it is likely the index will report earnings growth between 6% and 7% for Q3.

When companies in the S&P 500 report actual earnings above estimates during an earnings season, the overall earnings growth rate for the index increases because the higher actual EPS numbers replace the lower estimated EPS numbers in the calculation of the growth rate. For example, if a company is projected to report EPS of \$1.05 compared to year ago EPS of \$1.00, the company is projected to report earnings growth of 5%. If the company reports actual EPS of \$1.10 (a \$0.05 upside earnings surprise compared to the estimate), the actual earnings growth rate for the company for the quarter is now 10%, five percentage points above the estimated growth rate ( $10\% - 5\% = 5\%$ ).

In fact, the actual earnings growth rate has exceeded the estimated earnings growth rate at the end of the quarter in 39 of the past 40 quarters for the S&P 500. The only exception was Q1 2020.

Over the past ten years, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 6.5% on average. During this same period, 73% of companies in the S&P 500 have reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has increased by 5.5 percentage points on average (over the past ten years) due to the number and magnitude of positive earnings surprises. If this average increase is applied to the estimated earnings growth rate at the end of Q3 (September 30) of 2.8%, the actual earnings growth rate for the quarter would be 8.3% ( $2.8\% + 5.5\% = 8.3\%$ ).

Over the past five years, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 8.7% on average. During this same period, 77% of companies in the S&P 500 have reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has increased by 8.0 percentage points on average (over the past five years) due to the number and magnitude of positive earnings surprises. If this average increase is applied to the estimated earnings growth rate at the end of Q3 (September 30) of 2.8%, the actual earnings growth rate for the quarter would be 10.8% ( $2.8\% + 8.0\% = 10.8\%$ ).

However, it should be noted that both the 5-year average improvement and the 10-year average improvement in the earnings growth rates during an earning season have skewed higher recently due to the unusually strong performance of actual earnings relative to earnings estimates for S&P 500 companies coming out of the lockdowns caused by the COVID-19 pandemic. From Q2 2020 through Q4 2021, actual earnings reported by S&P 500 companies exceeded estimated earnings by 16.2% on average. During this same period, 83% of companies in the S&P 500 reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate increased by 17.3 percentage points on average (during these seven quarters) due to the number and magnitude of positive earnings surprises.

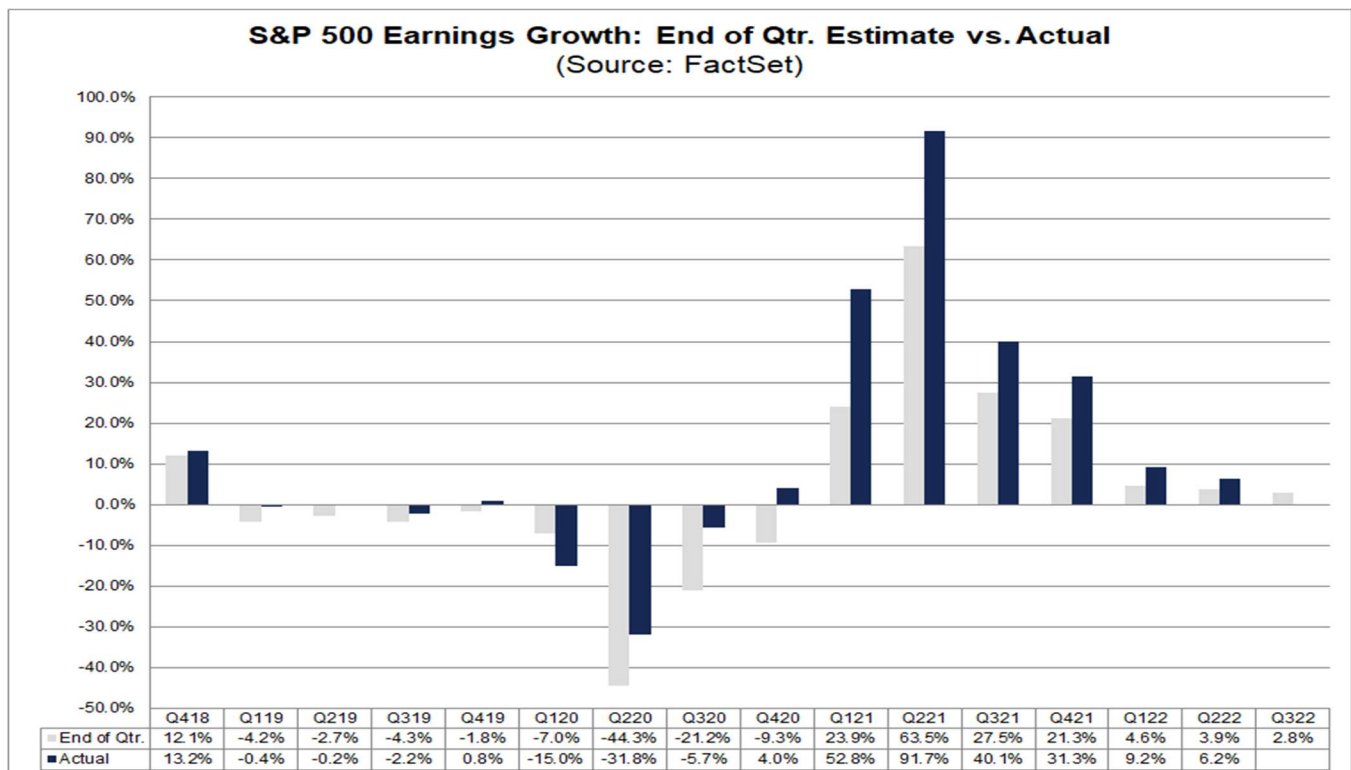
More recently, the improvement in the earnings growth rate has been below the 5-year average and below the 10-year average. Over the past two quarters (Q1 2022 and Q2 2022), actual earnings reported by S&P 500 companies exceeded estimated earnings by only 4.0% on average. During this same period, 76% of companies in the S&P 500 reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate only increased by 3.5 percentage points on average (during the past two quarters) due to the number and magnitude of positive earnings surprises.

If this average increase is applied to the estimated earnings growth rate at the end of Q3 (September 30) of 2.8%, the actual earnings growth rate for the quarter would be 6.3% ( $2.8\% + 3.5\% = 6.3\%$ ). If the S&P 500 reports year-over-year growth in earnings of 6.3% for Q3, it would mark the third straight quarter that the index reported earnings growth below 10%.

Will the performance of actual earnings relative to earnings estimates trend closer to the last few quarters or closer to the 5-year and 10-year averages in Q3 2022?

Of the 20 S&P 500 companies that have reported actual earnings for Q3 2022 to date, 70% have reported actual EPS above the mean EPS estimate. In aggregate, however, actual earnings reported by these 20 companies have come in below estimated earnings by 4.5%.

Therefore, at this very early stage of the Q3 earnings season, the number of positive earnings surprises and the magnitude of positive earnings surprises are below the 10-year average, the 5-year average, and the trailing two-quarter average. Since June 30, the earnings growth rate for the S&P 500 has declined by 0.4 percentage points (to 2.4% from 2.8%). Thus, it would seem likely that the improvement in the earnings growth rate during the Q3 earnings season will trend closer to the lower numbers of the past two quarters than the higher numbers of the 5-year average and the 10-year average.





## Q3 Earnings Season: By The Numbers

### Overview

Analysts have been more pessimistic in their revisions to earnings estimates for S&P 500 companies for the third quarter compared to recent quarters, while companies have been less pessimistic in their earnings outlooks for the third quarter compared to recent quarters. However, both analysts and companies have been more pessimistic in their earnings expectations for Q3 compared to recent averages. As a result, estimated earnings for the S&P 500 for the third quarter are lower today compared to expectations at the start of the quarter. On a year-over-year basis, the index is expected to report its lowest earnings growth since Q3 2020.

In terms of estimate revisions for companies in the S&P 500, analysts lowered earnings estimates for Q3 2022 by a larger margin compared to recent quarters and the 5-year average. On a per-share basis, estimated earnings for the third quarter decreased by 6.8% from June 30 through September 30. This was the largest decline in the quarterly EPS estimate for a quarter since Q2 2020. This decrease was also larger than the 5-year average of -2.3%.

The number of S&P 500 companies that have issued negative EPS guidance for Q3 2022 is lower compared to the last few quarters, but higher than the 5-year average. At this point in time, 106 companies in the index have issued EPS guidance for Q3 2022. Of these 106 companies, 65 have issued negative EPS guidance and 41 have issued positive EPS guidance. The number of S&P 500 companies issuing negative EPS guidance for Q3 2022 (65) is lower than the numbers for Q1 2022 (68) and Q2 2022 (72), but higher than the 5-year average (58).

Because of the downward revisions to earnings estimates by analysts and the negative EPS guidance issued by companies, the estimated (year-over-year) earnings growth rate for Q3 2022 is lower now relative to the start of the third quarter. As of today, the S&P 500 is expected to report (year-over-year) earnings growth of 2.4%, compared to the estimated (year-over-year) earnings growth rate of 9.9% on June 30.

If 2.4% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q3 2020 (-5.7%). Four of the eleven sectors are projected to report year-over-year earnings growth, led by the Energy and Industrials sectors. On the other hand, seven sectors are predicted to report a year-over-year decline in earnings, led by the Communication Services and Financials sectors.

In terms of revenues, analysts have also lowered their estimates during the quarter. As a result, the estimated (year-over-year) revenue growth rate for Q3 2022 is lower now relative to the start of the third quarter. As of today, the S&P 500 is expected to report (year-over-year) revenue growth of 8.5%, compared to the estimated (year-over-year) revenue growth rate of 9.7% on June 30.

If 8.5% is the actual growth rate for the quarter, it will mark the first time the index has reported revenue growth below 10% since Q4 2020 (3.2%). All eleven sectors are projected to report year-over-year growth in revenues, led by the Energy sector.

Looking ahead, analysts expect earnings growth of 3.6% for Q4 2022, and 7.3% for CY 2022. For Q1 2023 and Q2 2023, analysts are projecting earnings growth of 6.2% and 5.1%. For CY 2023, analysts expect earnings growth of 7.9%.

The forward 12-month P/E ratio is 15.8, which is below the 5-year average (18.5) and below the 10-year average (17.1). However, it is above the forward P/E ratio of 15.2 recorded at the end of the third quarter (September 30), as the price of the index has increased while the forward EPS estimate has remained flat since September 30.

During the upcoming week, 15 S&P 500 companies (including three Dow 30 components) are scheduled to report results for the third quarter.

## Earnings Revisions: Materials Sector Sees Largest Estimate Decreases

### Decline in Estimated Earnings Growth Rate for Q3 This Week Due to Financials

During the past week, the estimated earnings growth rate for the S&P 500 for Q3 2022 decreased to 2.4% from 2.8%. Downward revisions to EPS estimates for companies in the Financials sector were the largest contributor to the decline in the earnings growth rate during the past week.

The estimated earnings growth rate for the S&P 500 for Q3 2022 of 2.4% today is below the estimate of 9.9% at the start of the quarter (June 30), as estimated earnings for the index of \$480.2 billion today are 6.8% below the estimate of \$515.1 billion at the start of the third quarter. Ten sectors have recorded a decrease in expected (dollar-level) earnings due to downward revisions to earnings estimates, led by the Materials, Communication Services, Consumer Discretionary, and Information Technology sectors. On the other hand, the Energy sector is the only sector that has recorded an increase in expected (dollar-level) earnings due to upward revisions to earnings estimates.

### Materials: Freeport-McMoRan Leads Earnings Decrease Since June 30

The Materials sector has recorded the largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the third quarter at -15.1% (to \$14.8 billion from \$17.4 billion). As a result, the estimated (year-over-year) earnings decline for this sector is now -9.2% compared to an earnings growth rate of 6.9% on June 30. This sector has also witnessed a decrease in price of 3.2% since June 30. Overall, 25 of the 28 companies (89%) in the Materials sector have seen a decrease in their mean EPS estimate during this time. Of these 25 companies, 17 have recorded a decrease in their mean EPS estimate of more than 10%, led by Freeport-McMoRan (to \$0.35 from \$0.93), Corteva (to -\$0.22 from -\$0.15), Newmont (to 0.53 from \$0.90), Dow (to \$1.26 from \$1.92), and FMC Corporation (to \$1.12 from \$1.63). Freeport-McMoRan has also been the largest contributor to the decrease in expected (dollar-level) earnings for this sector since June 30.

### Communication Services: Meta Platforms Leads Earnings Decrease Since June 30

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 -13.7% (to \$40.8 billion from \$47.3 billion). As a result, the estimated (year-over-year) earnings decline for this sector is now -13.6% compared to an earnings growth rate of 0.1% on June 30. This sector has also witnessed the second-largest decrease in price (-9.0%) of all eleven sectors since June 30. 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, 11 have recorded a decrease in their mean EPS estimate of more than 10%, led by Warner Bros. Discovery (to -\$0.17 from \$0.21), Twitter (to \$0.01 from \$0.19), and T-Mobile (to \$0.43 from \$0.80). However, Meta Platforms (to \$1.92 from \$2.71), Alphabet (to \$1.28 from \$1.39), and Warner Bros. Discovery have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since June 30.

### Consumer Discretionary: Amazon Leads Earnings Decrease Since June 30

The Consumer Discretionary sector has recorded the third-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -13.2% (to \$36.0 billion from \$41.5 billion). As a result, the estimated (year-over-year) earnings growth rate for this sector has declined to 10.0% today from 26.7% on June 30. Despite the decrease in expected earnings, this sector has witnessed the second-largest increase in price (+6.7%) of all eleven sectors since June 30. Overall, 44 of the 56 companies (79%) in the Consumer Discretionary sector have seen a decrease in their mean EPS estimate during this time. Of these 44 companies, 24 have recorded a decrease in their mean EPS estimate of more than 10%, led by Carnival (to -\$0.58 from \$0.05), Norwegian Cruise Line Holdings (to -0.70 from \$0.29), Las Vegas Sands (to -\$0.23 from -\$0.08), and Royal Caribbean Group (to \$0.19 from \$0.78). However, Amazon.com (to \$0.22 from \$0.37) has been the largest contributor to the decrease in expected (dollar-level) earnings for this sector since June 30.



**Information Technology: Intel Leads Earnings Decrease Since June 30**

The Information Technology sector has recorded the fourth-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -8.9% (to \$96.7 billion from \$106.1 billion). As a result, the estimated (year-over-year) earnings decline for this sector is now -4.1% compared to an earnings growth rate of 5.3% on June 30. This sector has also witnessed a decrease in price of 0.8% since June 30. Overall, 39 of the 76 companies (51%) in the Information Technology sector have seen a decrease in their mean EPS estimate during this time. Of these 39 companies, 14 have recorded a decrease in their mean EPS estimate of more than 10%, led by Western Digital (to \$0.41 from \$2.16), Seagate Technology (to \$0.78 from \$2.30), and Intel (to \$0.35 from \$0.90). Intel, NVIDIA (to \$0.73 from \$1.37), Microsoft (to \$2.33 from \$2.50), Micron Technology (to \$1.45 from \$2.59), and Apple (to \$1.26 from \$1.32) have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since June 30.

**Energy: Exxon Mobil Leads Earnings Increase Since June 30**

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 7.0% (to \$53.1 billion from \$50.1 billion). As a result, the estimated (year-over-year) earnings growth rate for this sector has increased to 117.6% from 103.4% during this time. This increase in estimated earnings has occurred despite a 25% decline in the price of oil from June 30 to September 30 (from \$105.76 to \$79.49). This sector has also witnessed the largest increase in price (+16.0%) of all eleven sectors since June 30. Overall, 9 of the 21 companies (43%) in the Energy sector have seen an increase in their mean EPS estimate during this time. Of these 9 companies, 4 have recorded an increase in their mean EPS estimate of more than 10%: Marathon Petroleum (to \$6.36 from \$4.15), Valero Energy (to \$7.65 from \$5.10), Phillips 66 (to \$4.76 from \$3.84) and Exxon Mobil (to \$3.58 from \$2.99). These four companies have also been the largest contributors to the increase in estimated (dollar-level) earnings for this sector since June 30.

**Index-Level EPS Estimate: 6.8% Decrease During Q3**

The Q3 bottom-up EPS estimate (which is an aggregation of the median Q3 earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings of the index) decreased by 6.8% (to \$55.51 from \$59.44) during the third quarter. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings expectations have fallen by 2.3% 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 4.8% on average during a quarter. Over the past twenty years (60 quarters), earnings expectations have fallen by 3.8% on average during a quarter.

Thus, the decline in the bottom-up EPS estimate for the third quarter was larger than the 5-year average, the 10-year average, the 15-year average, and the 20-year average. It was also the largest decrease in the bottom-up EPS estimate for a quarter since Q2 2020 (-37.0%).

**Guidance: More S&P 500 Companies Issuing Positive EPS Guidance for Q3 vs 5-Yr. Average**

At this point in time, 106 companies in the index have issued EPS guidance for Q3 2022. Of these 106 companies, 65 have issued negative EPS guidance and 41 have issued positive EPS guidance. The number of S&P 500 companies issuing negative EPS guidance for Q3 2022 (65) is lower than the numbers for Q1 2022 (68) and Q2 2022 (72), but higher than the 5-year average (58). The number of S&P 500 companies issuing positive EPS guidance for Q3 2022 (41) is higher than the numbers for Q1 2022 (29) and Q2 2022 (32), and higher than the 5-year average (39).

At this point in time, 243 companies in the index have issued EPS guidance for the current fiscal year (FY 2022 or FY 2023). Of these 243 companies, 136 have issued negative EPS guidance and 107 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 56% (136 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: 2.4%

The estimated (year-over-year) earnings growth rate for Q3 2022 is 2.4%, which is below the 5-year average earnings growth rate of 14.6% and below the 10-year average earnings growth rate of 8.8%. If 2.4% is the actual growth rate for the quarter, it will mark the lowest (year-over-year) earnings growth rate reported by the index since Q3 2020 (-5.7%).

Four of the eleven sectors are expected to report year-over-year earnings growth, led by the Energy and Industrials sectors. On the other hand, seven sectors are expected to report a year-over-year decline in earnings, led by the Communication Services and Financials sectors.

### Energy: Largest Contributor to Year-Over-Year Earnings Growth for S&P 500 For Q3

The Energy sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 117.6%. 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 Q3 2022 (\$91.43) was 30% above the average price for oil in Q3 2021 (\$70.52). 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%: Oil & Gas Refining & Marketing (259%), Oil & Gas Exploration & Production (121%), Integrated Oil & Gas (103%), Oil & Gas Equipment & Services (72%), and Oil & Gas Storage & Transportation (22%).

The Energy sector is also expected to be the largest contributor to earnings growth for the S&P 500 for the third quarter. If this sector were excluded, the index would be expected to report a decline in earnings of 4.0% rather than growth in earnings of 2.4%.

### 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 24.1%. 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, the Airlines industry is projected to report a profit of \$2.6 billion in Q3 2022 compared to a loss of -\$731 million in Q3 2021. Seven of the remaining nine industries are predicted to reporting earnings growth above 10%: Trading Companies & Distributors (27%), Aerospace & Defense (26%), Construction & Engineering (23%), Machinery (20%), Electrical Equipment (17%), Road & Rail (15%), and Commercial Services & Supplies (11%). On the other hand, the Air Freight & Logistics (-4%) and Professional Services (-2%) industries are the only industries in the sector projected to report a year-over-year decline in earnings.

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 13.2% from 24.1%.

### Communication Services: 3 of 5 Industries To Report Year-Over-Year Decline of More Than 15%

The Communication Services sector is expected to report the largest (year-over-year) earnings decline of all eleven sectors at -13.6%. At the industry level, all five industries in this sector are predicted to report a year-over-year decline in earnings. Three of these five industries are projected to report a decline in earnings of more than 15%: Wireless Telecommunication Services (-22%), Interactive Media & Services (-19%) and Entertainment (-16%).

At the company level, Meta Platforms is the largest contributor to the expected earnings decline for the sector. If this company were excluded, the estimated earnings decline for the sector would improve to -7.9% from -13.6%.

### **Financials: 3 of 5 Industries To Report Year-Over-Year Decline of More Than 10%**

The Financials sector is expected to report the second-largest (year-over-year) earnings decline of all eleven sectors at -13.5%. At the industry level, four of the five industries in this sector are predicted to report a year-over-year earnings decline: Consumer Finance (-22%), Capital Markets (-21%), Banks (-13%), and Insurance (-6%). On the other hand, the Diversified Financial Services (17%) is the only industry in the sector projected to report (year-over-year) earnings growth.

### **Revenue Growth: 8.5%**

The estimated (year-over-year) revenue growth rate for Q3 2022 is 8.5%, which is above the 5-year average revenue growth rate of 7.8% and above the 10-year average revenue growth rate of 4.6%. However, if 8.5% is the actual growth rate for the quarter, it will mark the first time the index has reported (year-over-year) revenue growth below 10% since Q4 2020 (3.2%).

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

### **Energy: All 5 Sub-Industries To Report Year-Over-Year Growth Above 20%**

The Energy sector is expected to report the highest (year-over-year) revenue growth rate of all eleven sectors at 33.7%. 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 Q3 2022 (\$91.43) was 30% above the average price for oil in Q3 2021 (\$70.52). At the sub-industry level, all five sub-industries in the sector are predicted to report (year-over-year) growth in revenues above 20%: Oil & Gas Exploration & Production (58%), Integrated Oil & Gas (38%), Oil & Gas Storage & Transportation (27%), Oil & Gas Refining & Marketing (23%), and Oil & Gas Equipment & Services (21%).

### **Net Profit Margin: 12.2%**

The estimated net profit margin for the S&P 500 for Q3 2022 is 12.2%, which is above the 5-year average of 11.3%, equal to the previous quarter's net profit margin of 12.2%, but below the year-ago net profit margin of 12.9%.

At the sector level, three sectors are expected to report a year-over-year increase in their net profit margins in Q3 2022 compared to Q3 2021, led by the Energy (to 14.5% vs. 8.9%) sector. On the other hand, seven sectors are expected to report a year-over-year decrease in their net profit margins in Q3 2022 compared to Q3 2021, led by the Financials (15.8% vs. 18.8%), Information Technology (23.3% vs. 25.5%), and Communication Services (10.7% vs. 12.9%) sectors.

Seven sectors are expected to report net profit margins in Q3 2022 that are above their 5-year averages, led by the Energy (14.5% vs. 6.8%) sector. On the other hand, four sectors are expected to report net profit margins in Q3 2022 that are below their 5-year averages, led by the Communication Services (10.7% vs. 11.7%) sector.

## Looking Ahead: Forward Estimates and Valuation

### Earnings: S&P 500 Expected to Report Earnings Growth of 7% for CY 2022

For the third quarter, S&P 500 companies are expected to report earnings growth of 2.4% and revenue growth of 8.5%.

For Q4 2022, analysts are projecting earnings growth of 3.6% and revenue growth of 6.0%.

For CY 2022, analysts are projecting earnings growth of 7.3% and revenue growth of 10.6%.

For Q1 2023, analysts are projecting earnings growth of 6.2% and revenue growth of 5.8%.

For Q2 2023, analysts are projecting earnings growth of 5.1% and revenue growth of 3.2%.

For CY 2023, analysts are projecting earnings growth of 7.9% and revenue growth of 4.3%.

### Valuation: Forward P/E Ratio is 15.8, Below the 10-Year Average (17.1)

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 18.5 and below the 10-year average of 17.1. However, it is above the forward 12-month P/E ratio of 15.2 recorded at the end of the third quarter (September 30). Since the end of the third quarter (September 30), the price of the index has increased by 4.4%, while the forward 12-month EPS estimate has increased by 0.1%. At the sector level, the Consumer Discretionary (23.6) sector has the highest forward 12-month P/E ratio, while the Energy (9.1) sector has the lowest forward 12-month P/E ratio.

The trailing 12-month P/E ratio is 18.0, which is below the 5-year average of 22.8 and below the 10-year average of 20.4.

### Targets & Ratings: Analysts Project 25% Increase in Price Over Next 12 Months

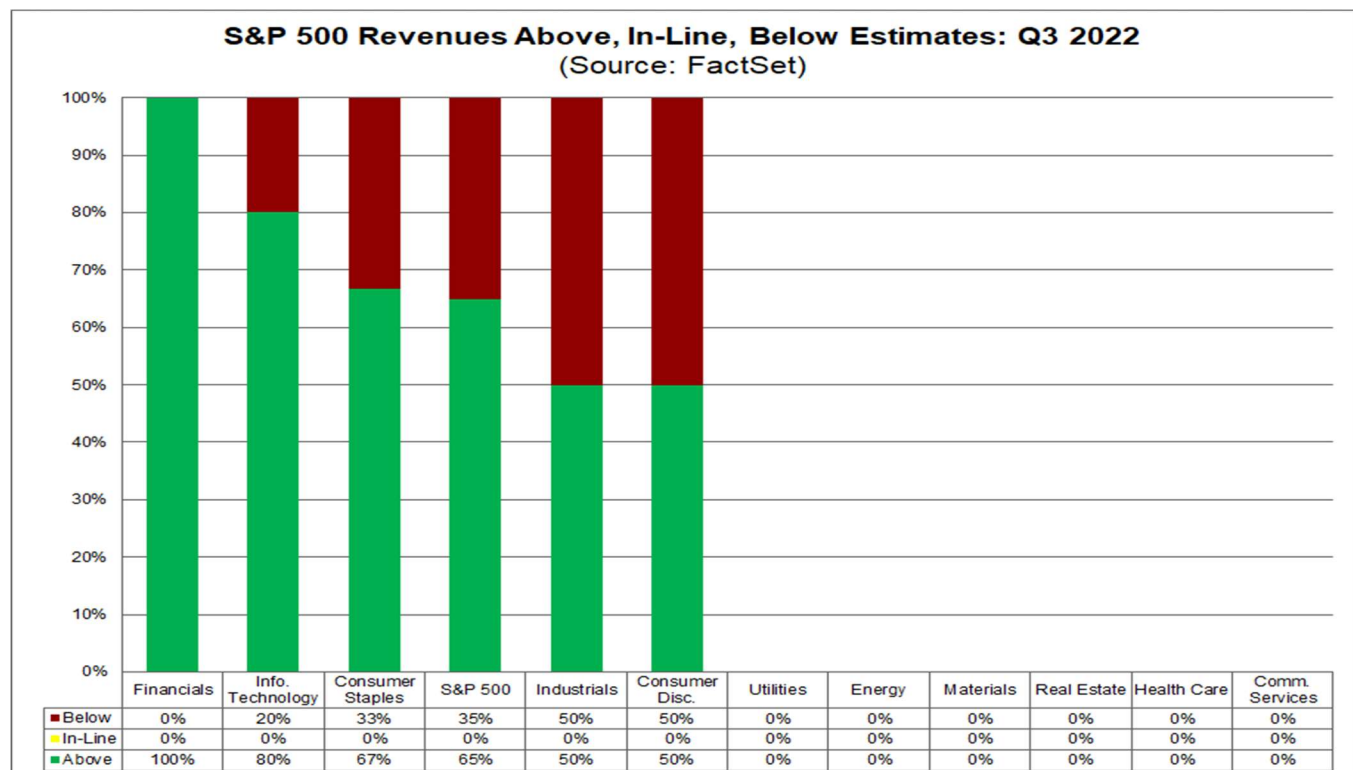
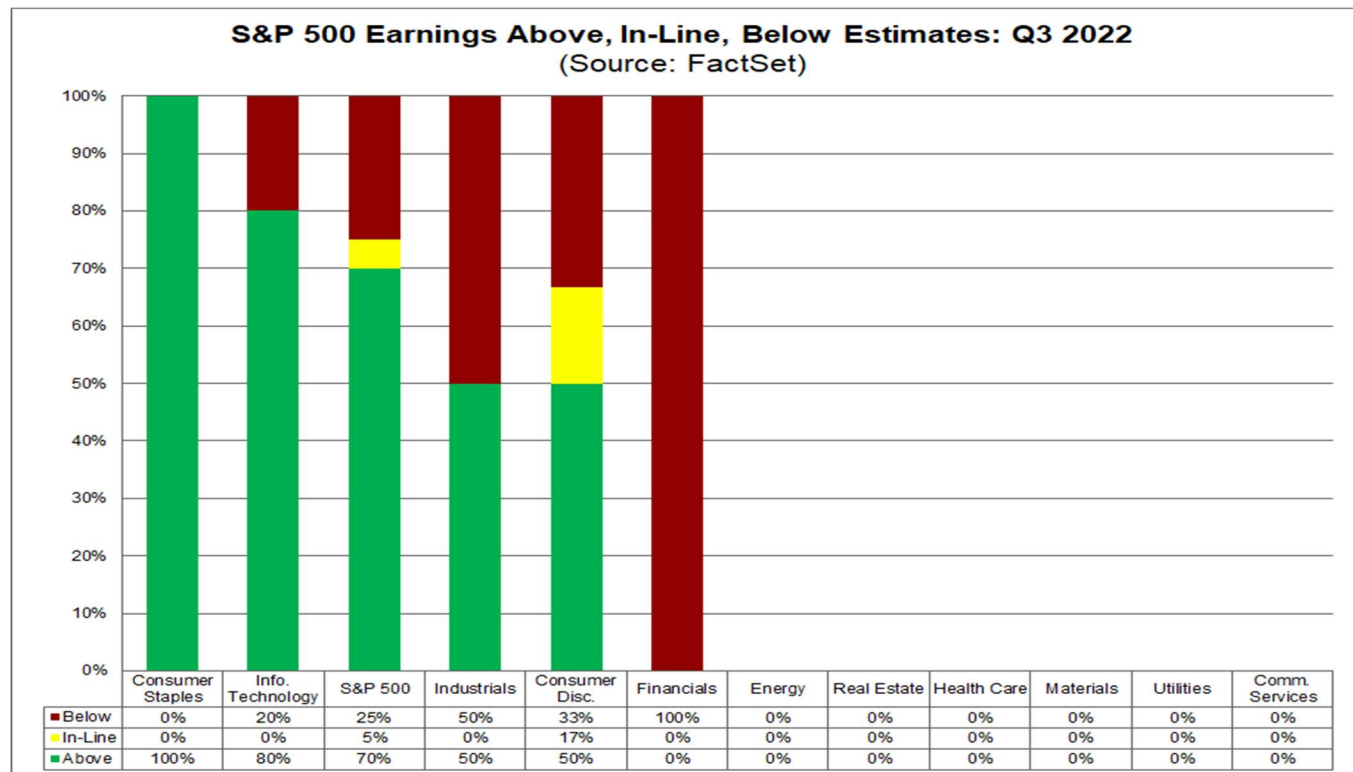
The bottom-up target price for the S&P 500 is 4696.78, which is 25.4% above the closing price of 3744.52. At the sector level, the Communication Services (+38.1%) and Real Estate (+37.7%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Energy (+12.9%) sector is expected to see the smallest price increase, as this sector has the smallest upside difference between the bottom-up target price and the closing price.

Overall, there are 10,676 ratings on stocks in the S&P 500. Of these 10,676 ratings, 55.6% are Buy ratings, 38.7% are Hold ratings, and 5.7% are Sell ratings. At the sector level, the Energy (64%), Real Estate (62%), and Information Technology (62%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (40%) sector has the lowest percentage of Buy ratings.

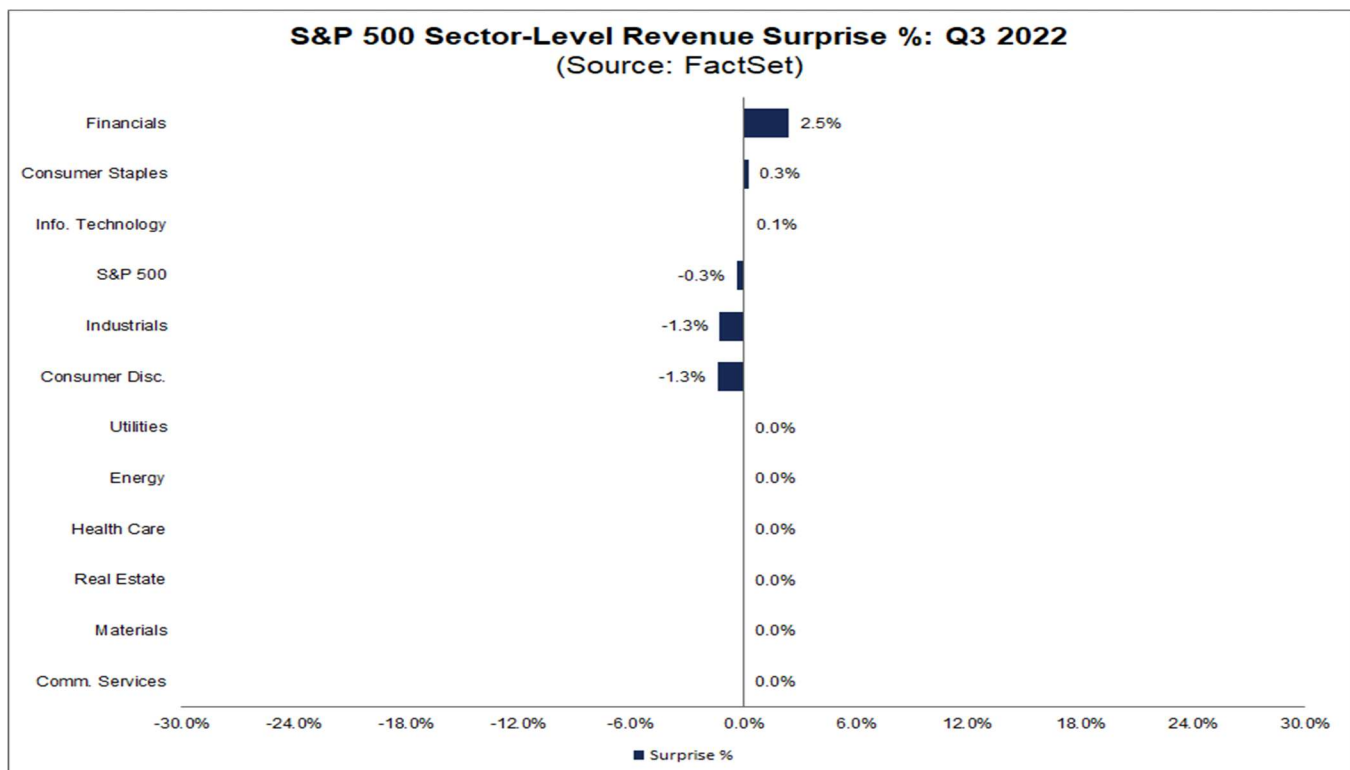
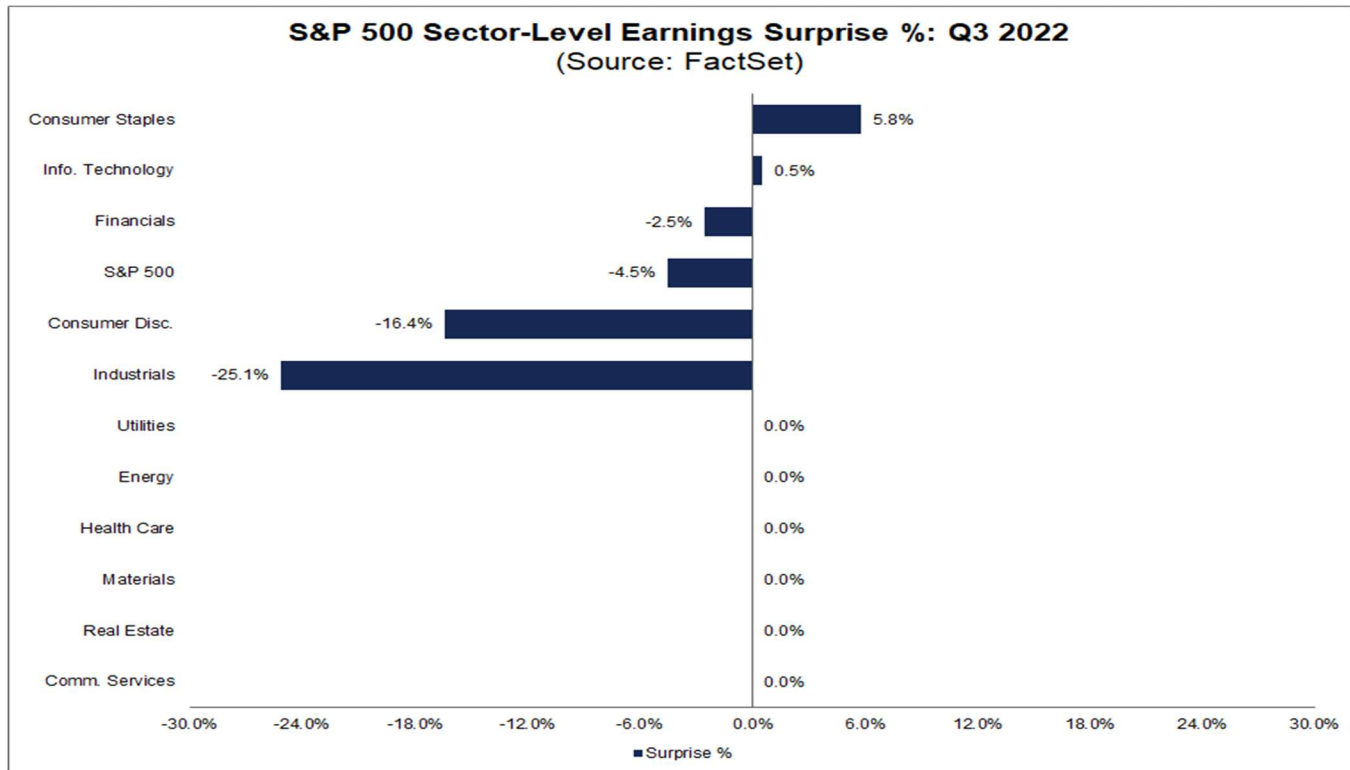
### Companies Reporting Next Week: 15

During the upcoming week, 15 S&P 500 companies (including three Dow 30 components) are scheduled to report results for the third quarter.

## Q3 2022: Scorecard

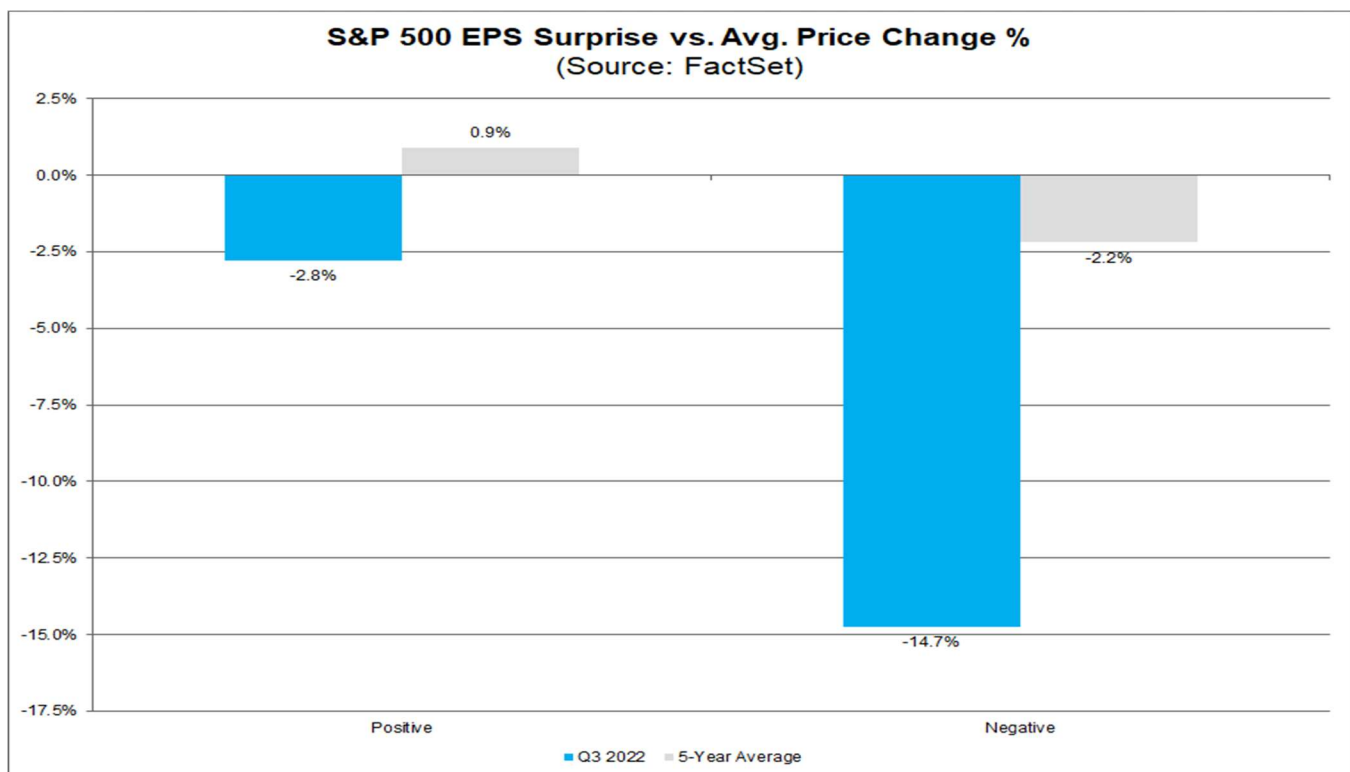
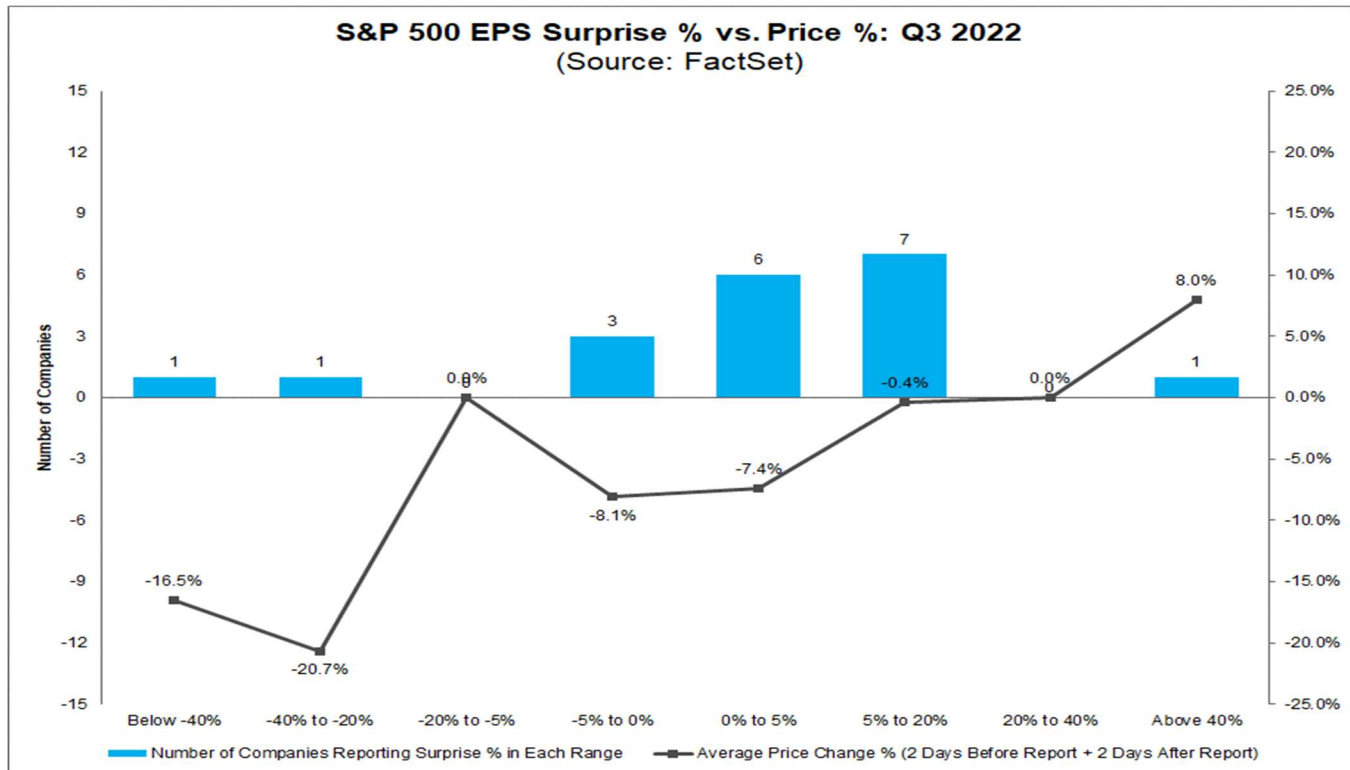


## Q3 2022: Scorecard

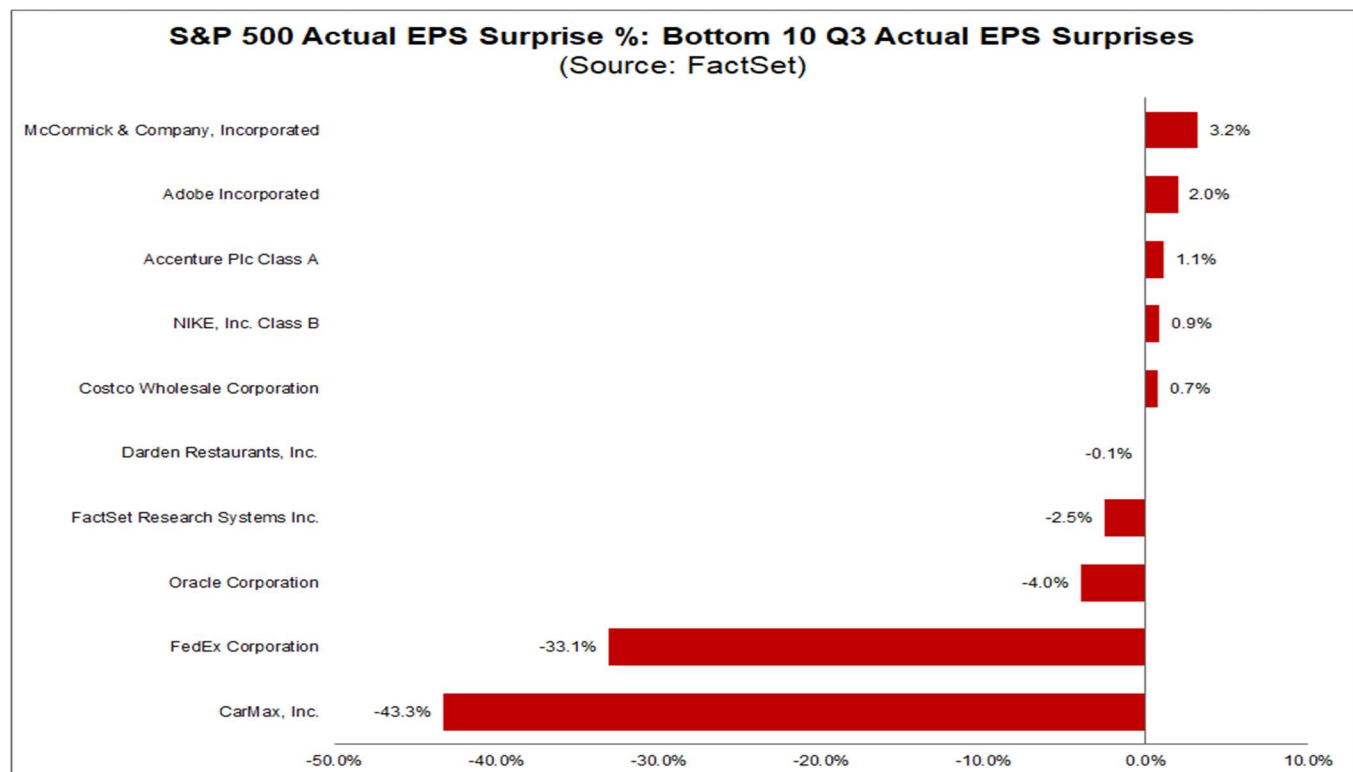
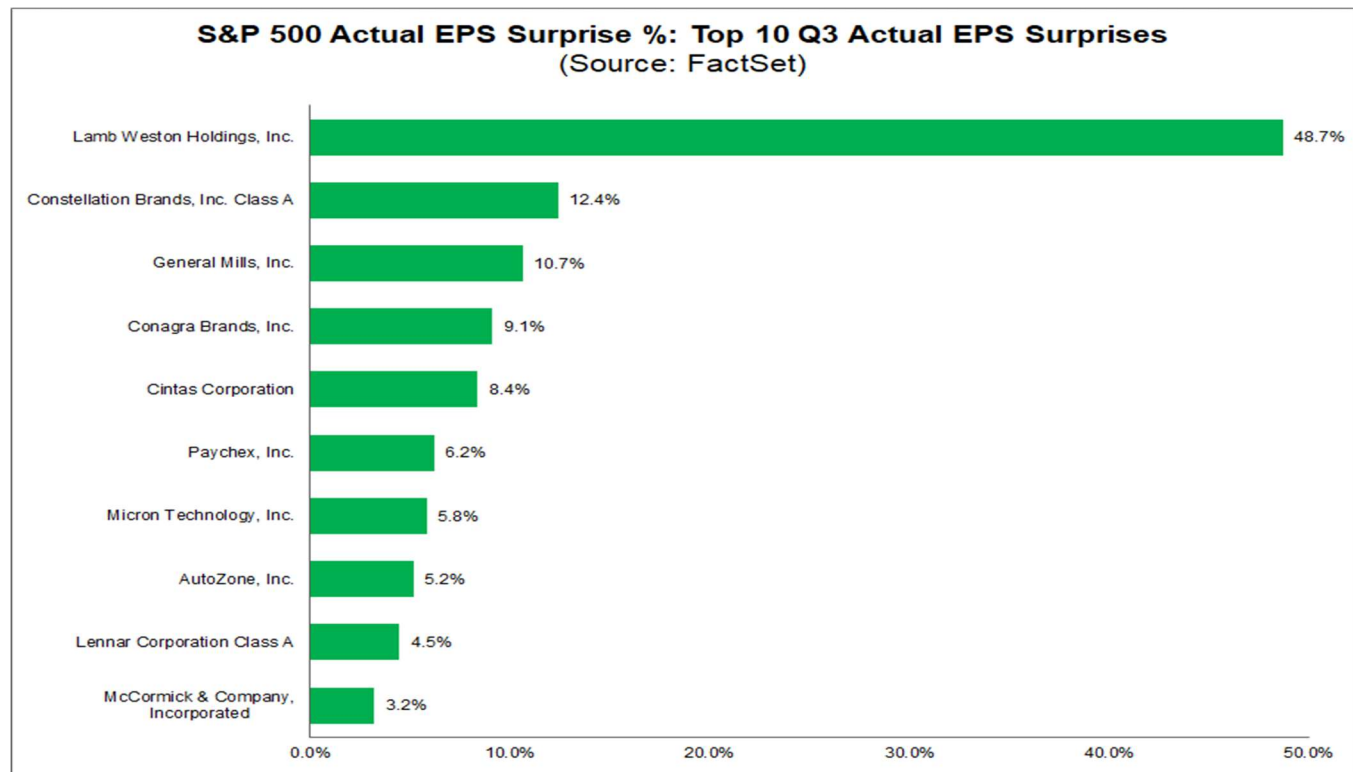




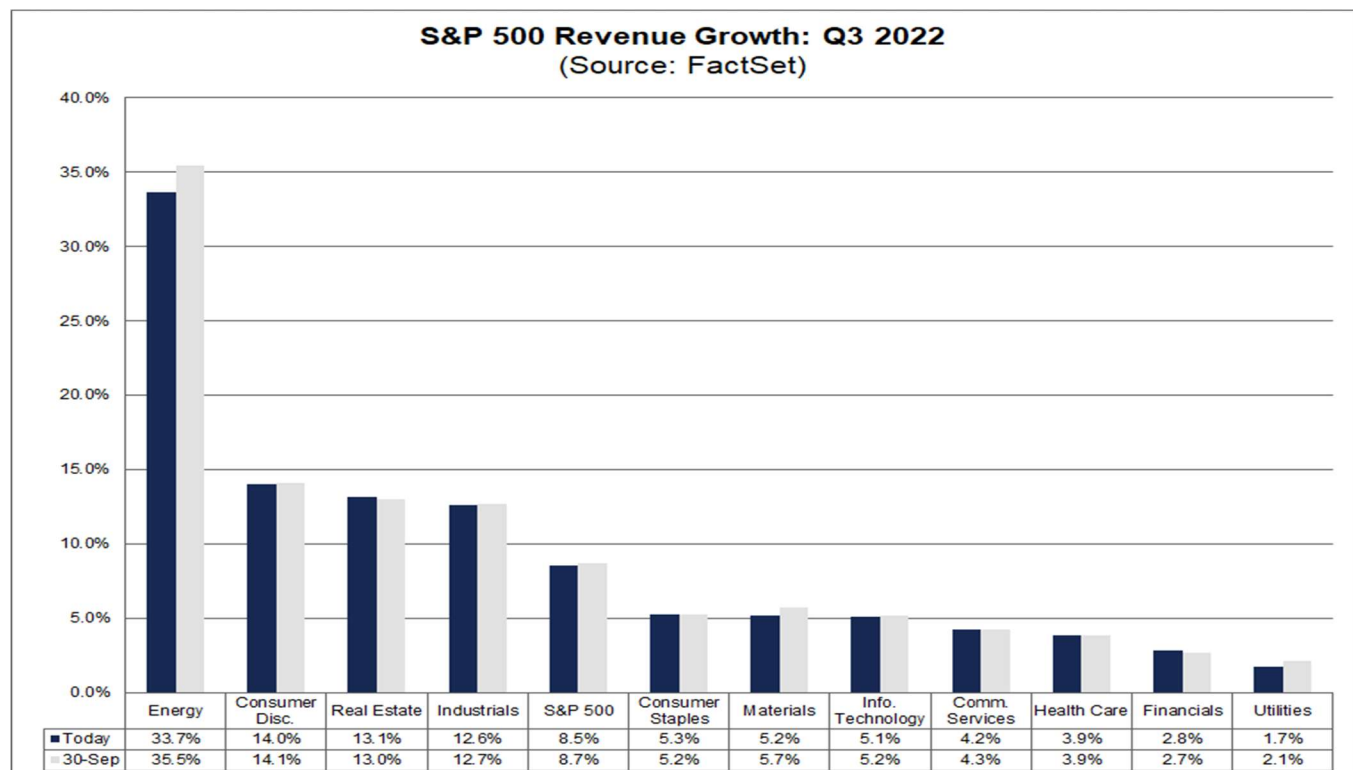
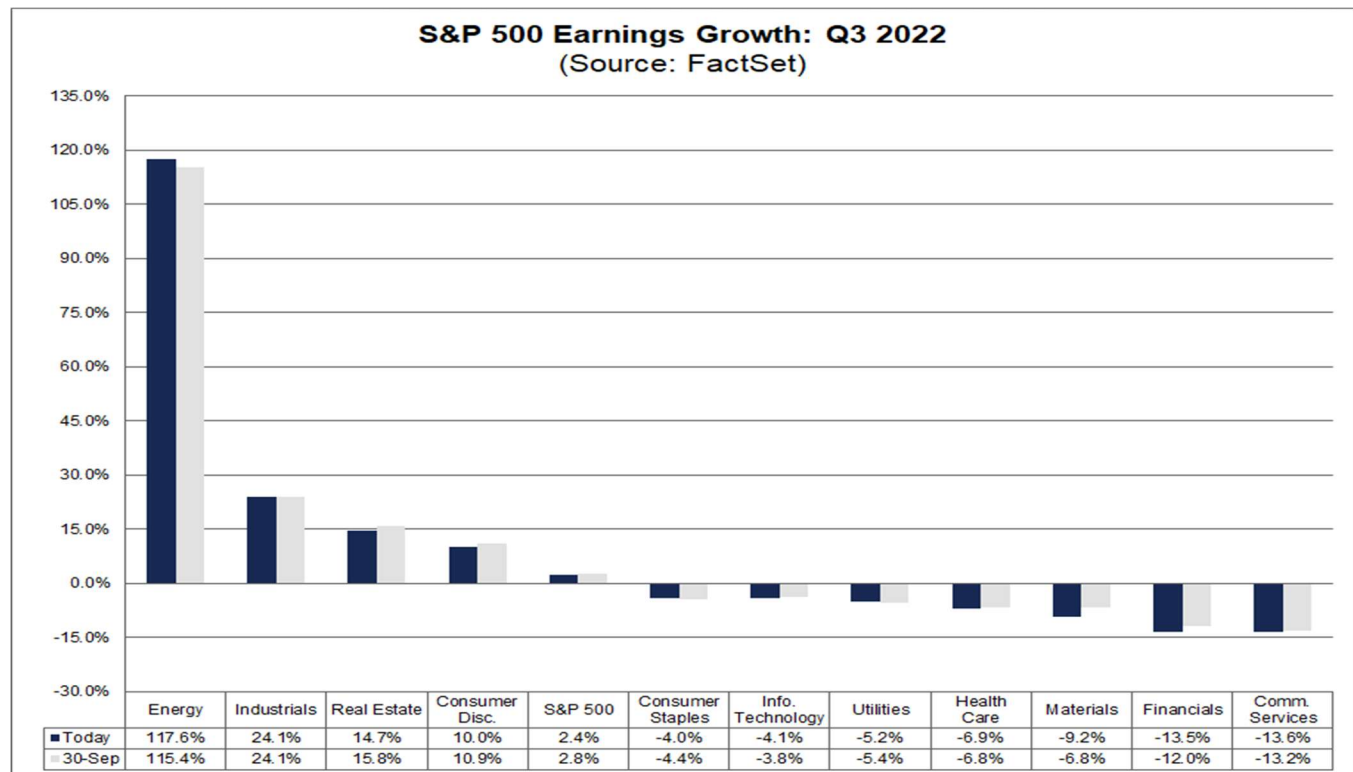
## Q3 2022: Scorecard



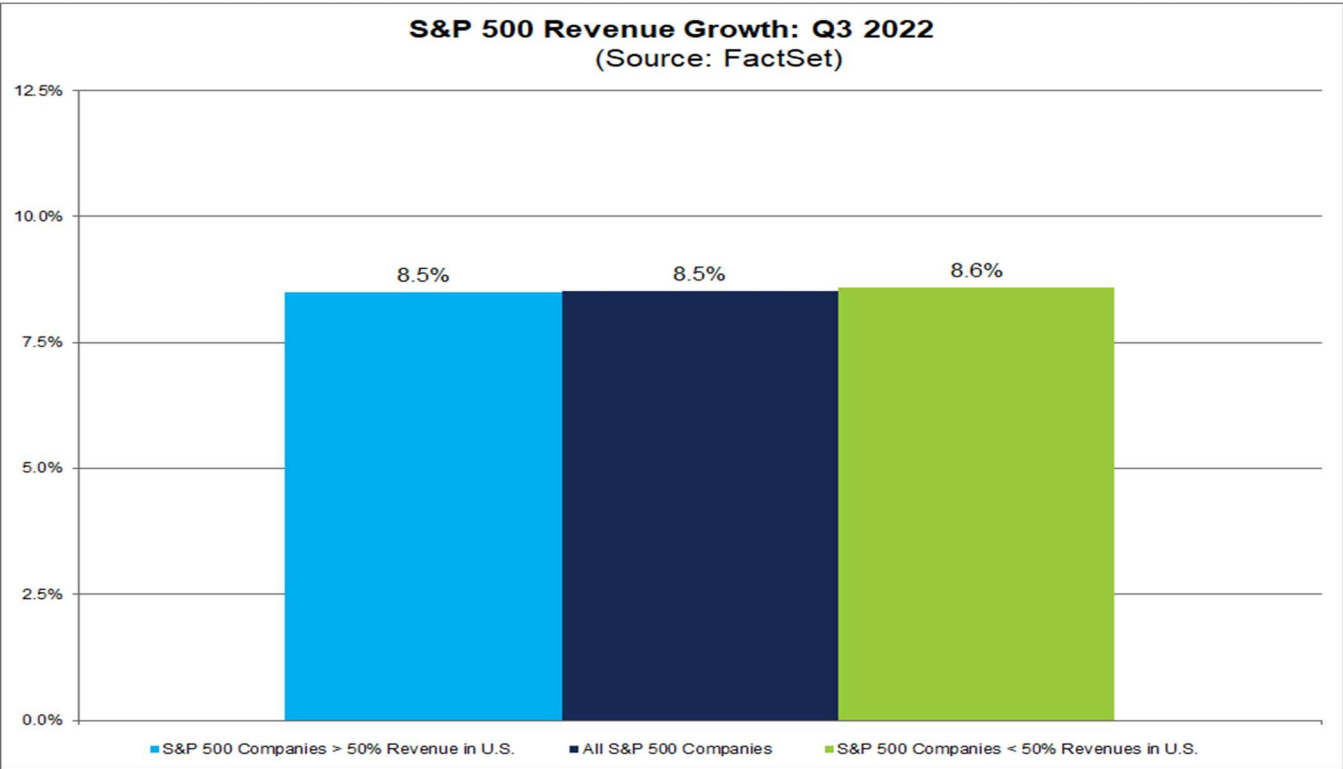
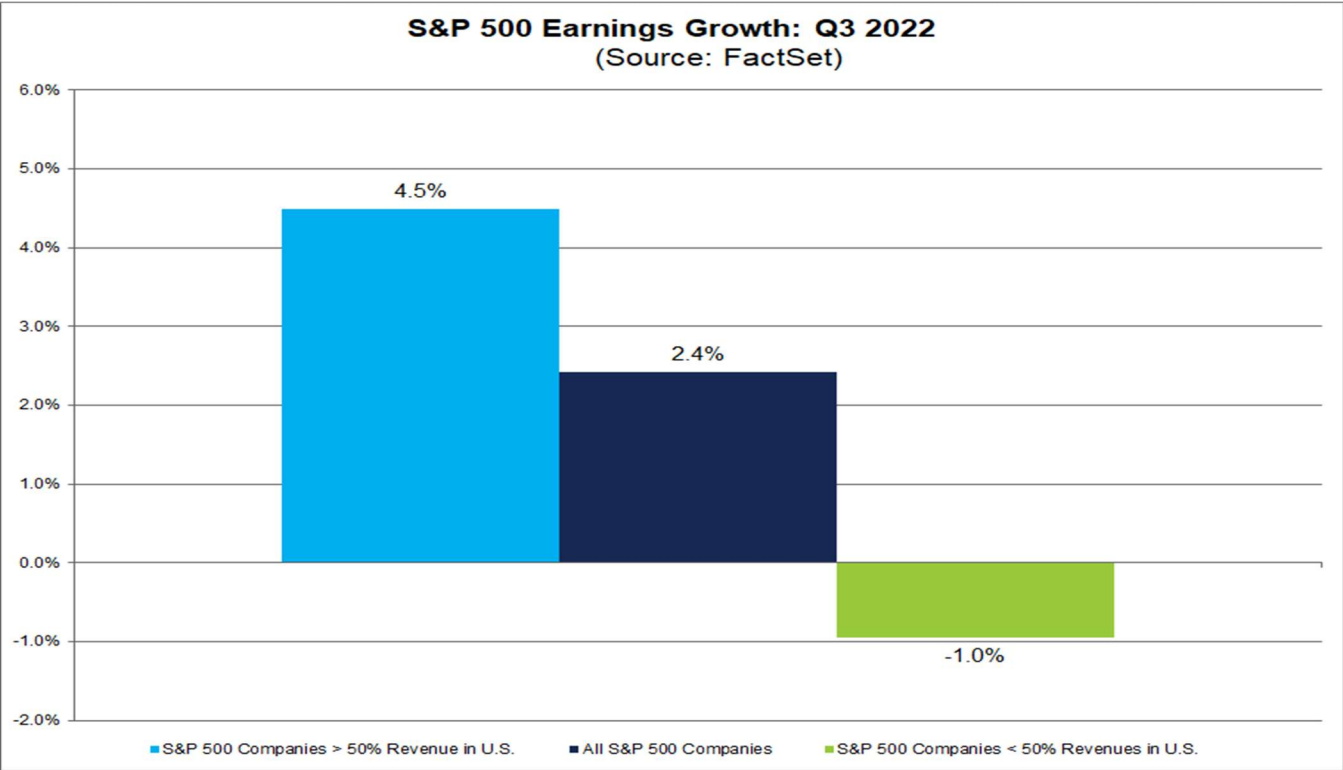
## Q3 2022: Scorecard



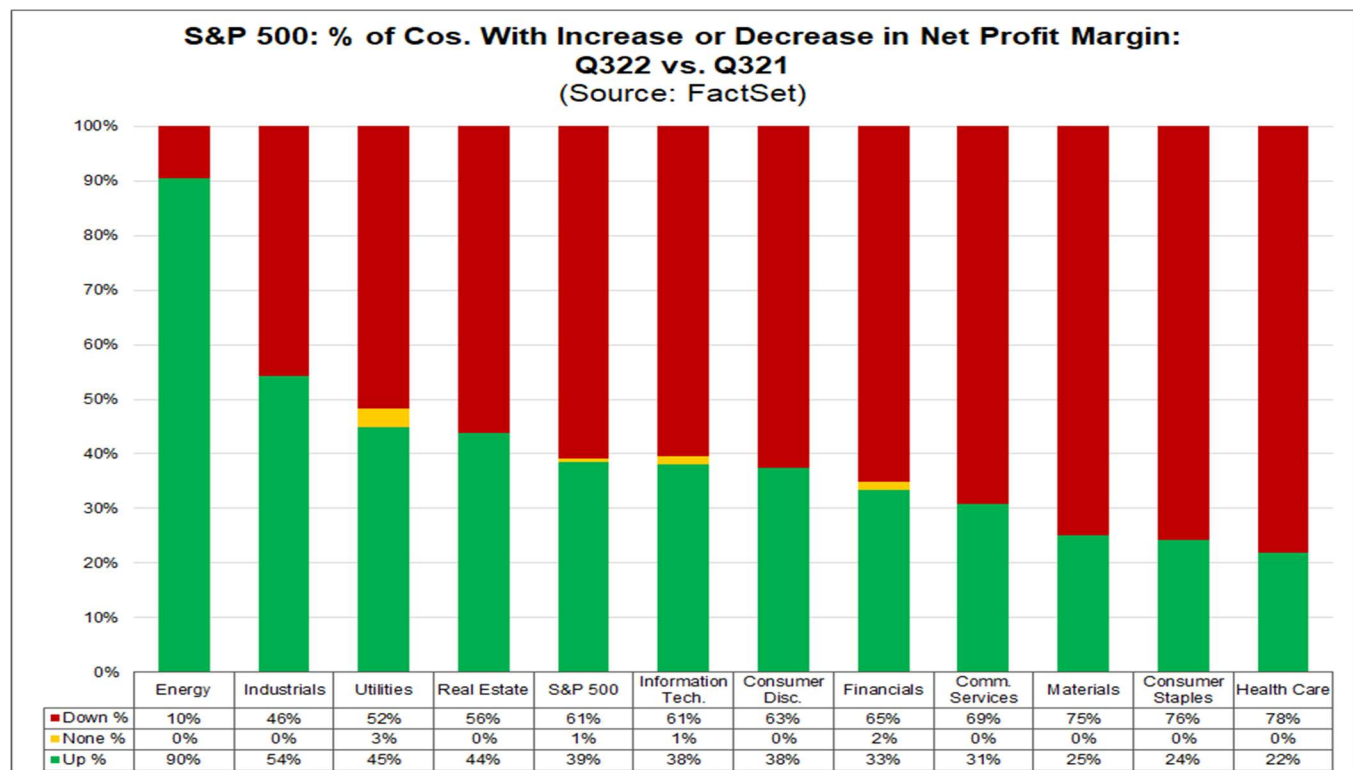
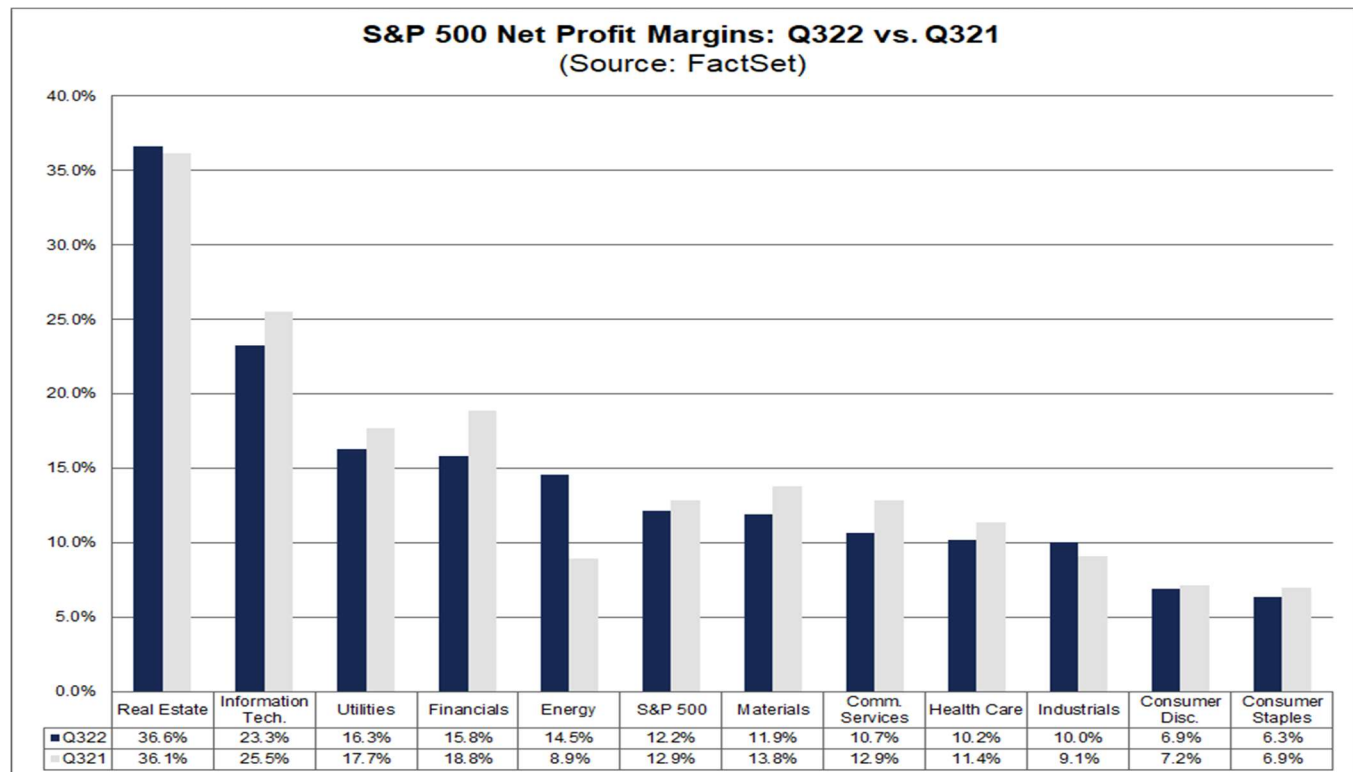
## Q3 2022: Growth



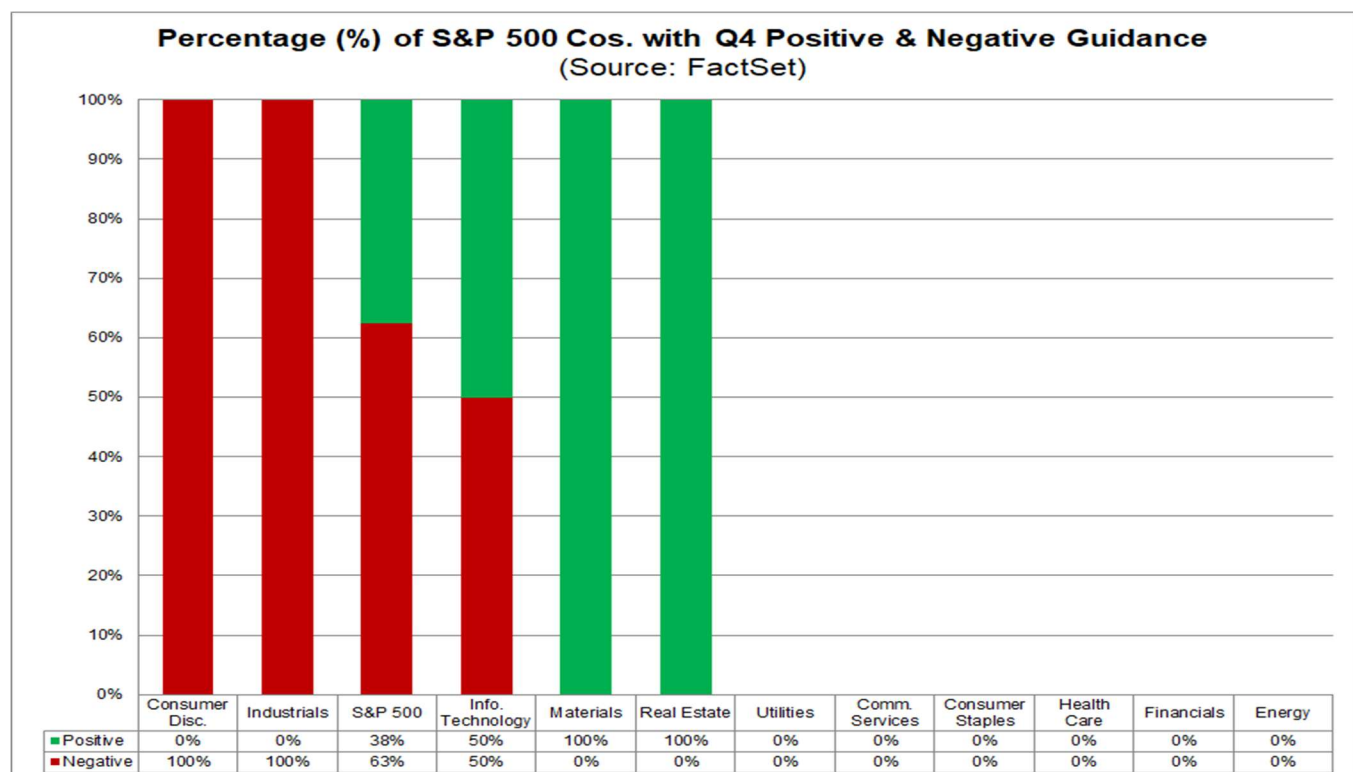
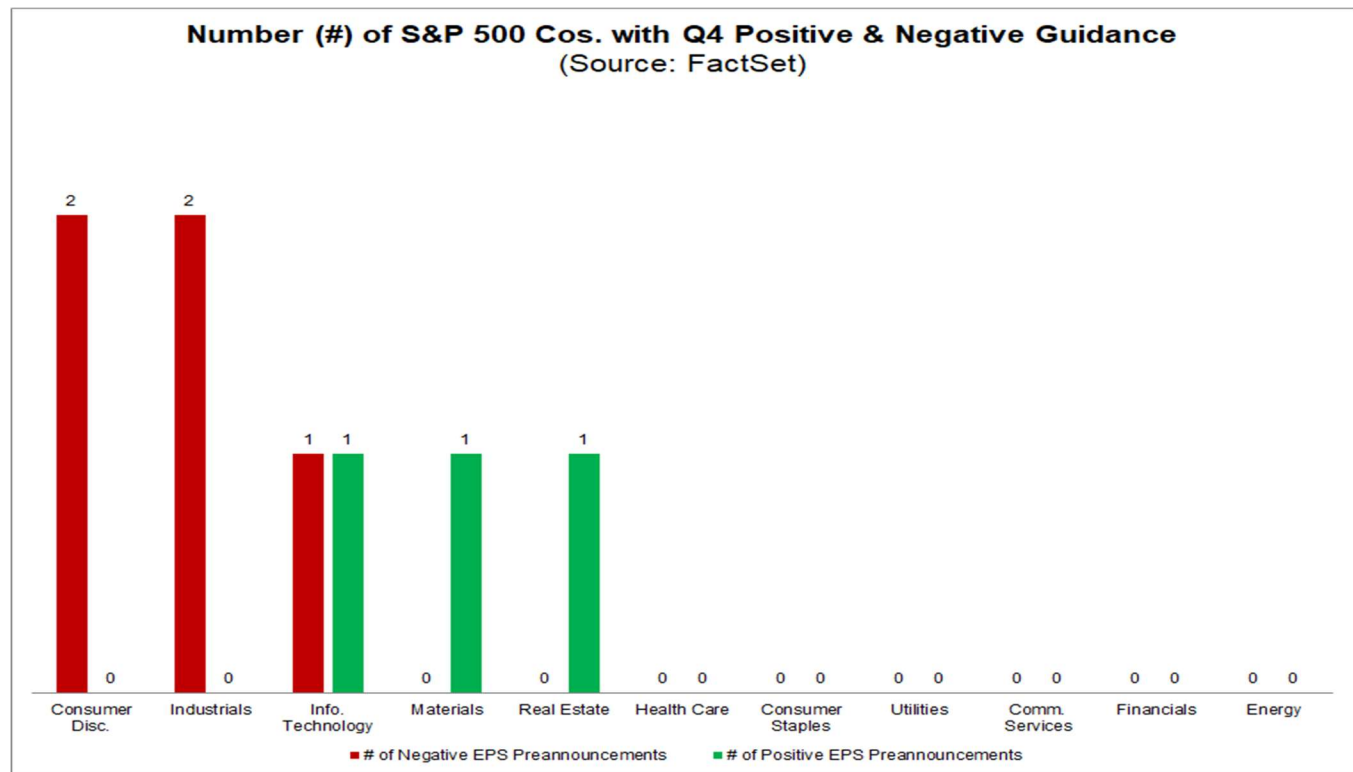
Q3 2022: Growth



## Q3 2022: Net Profit Margin

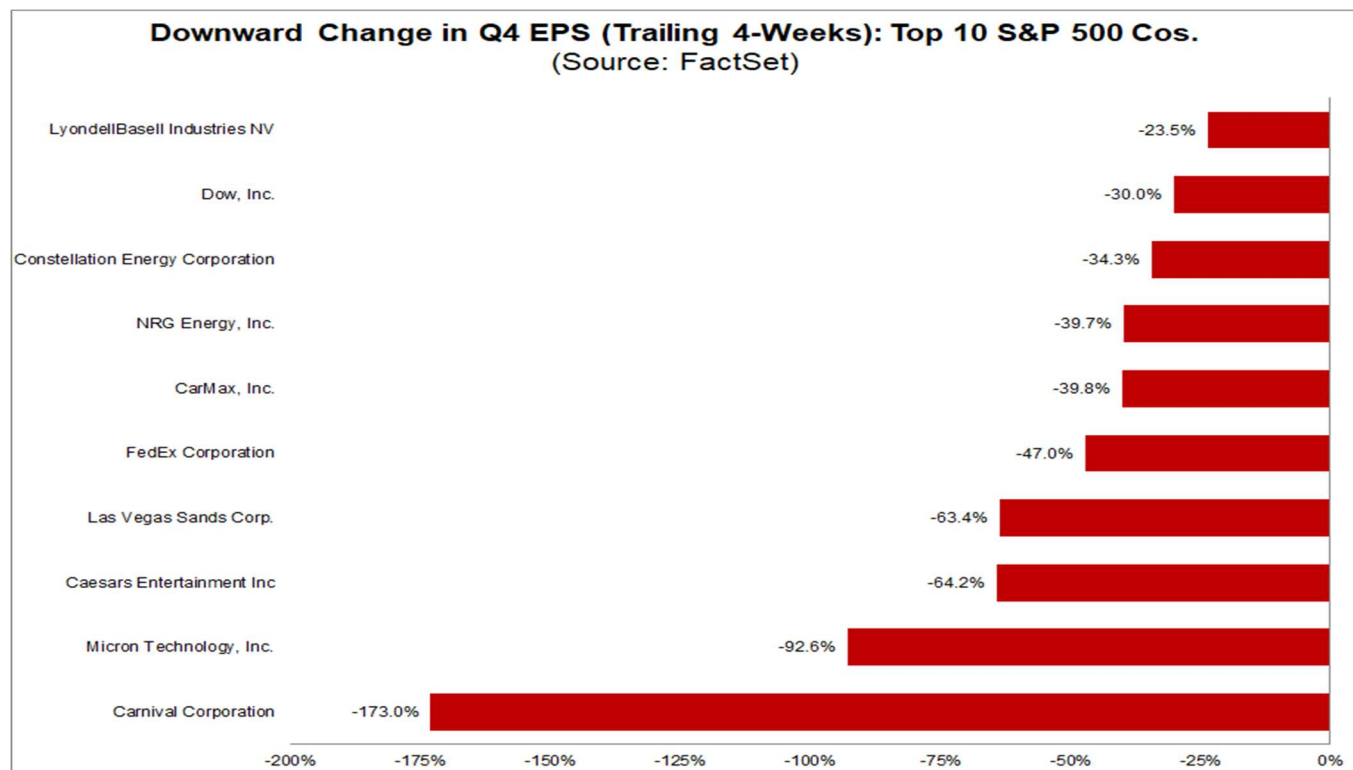
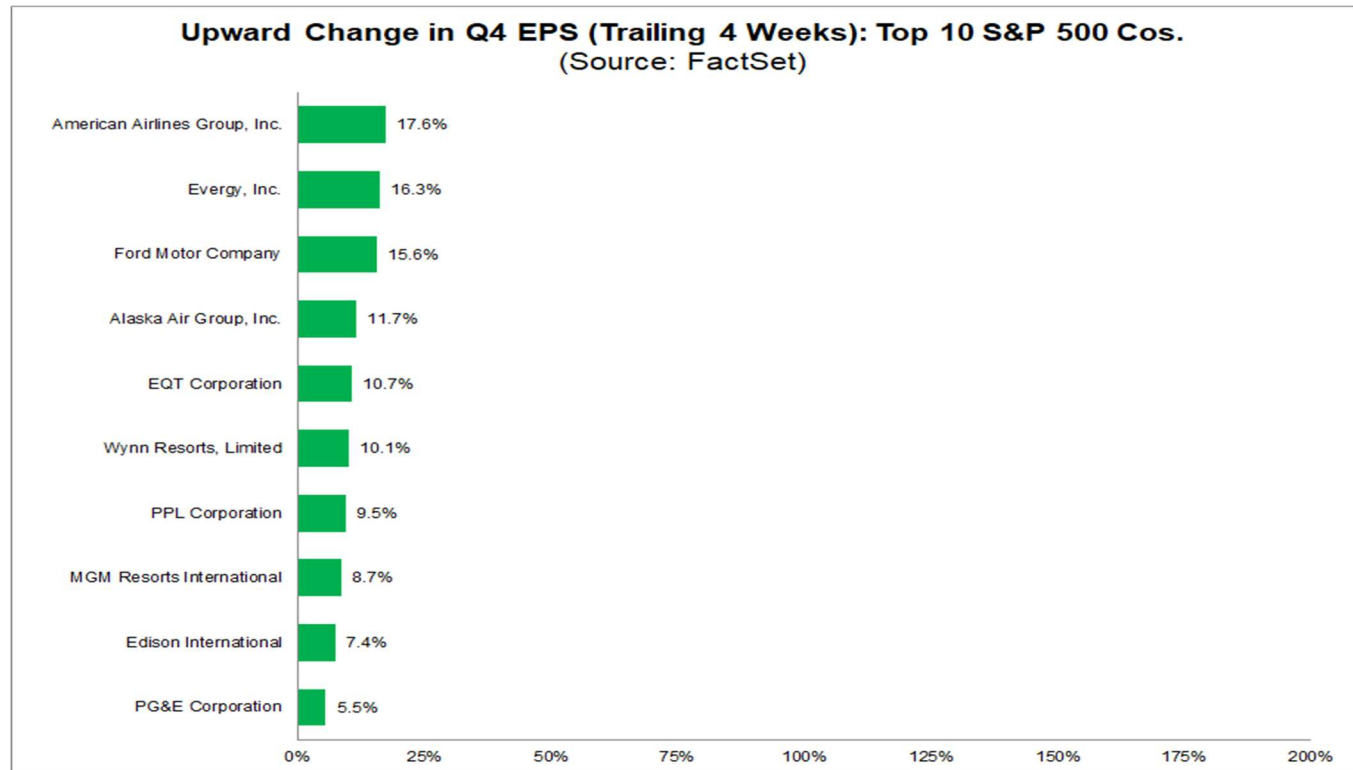


## Q4 2022: Guidance

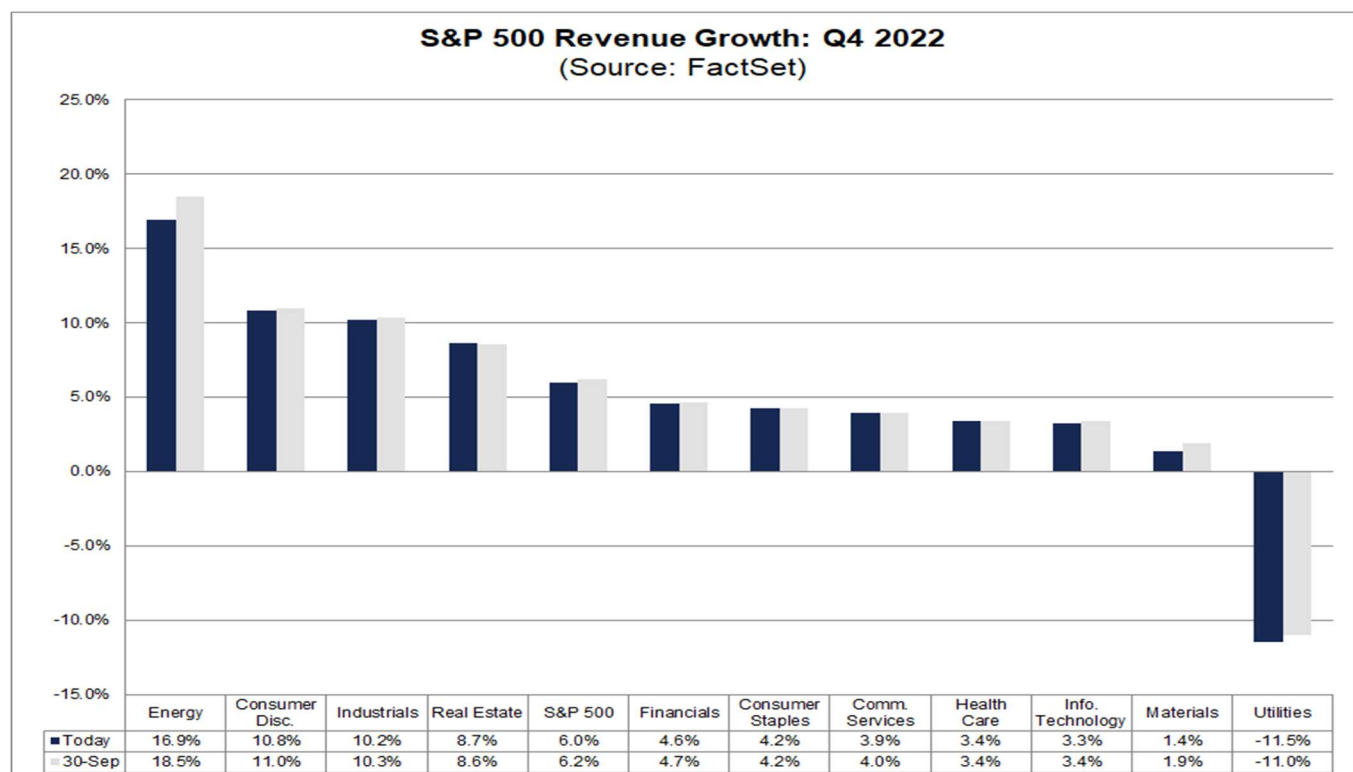
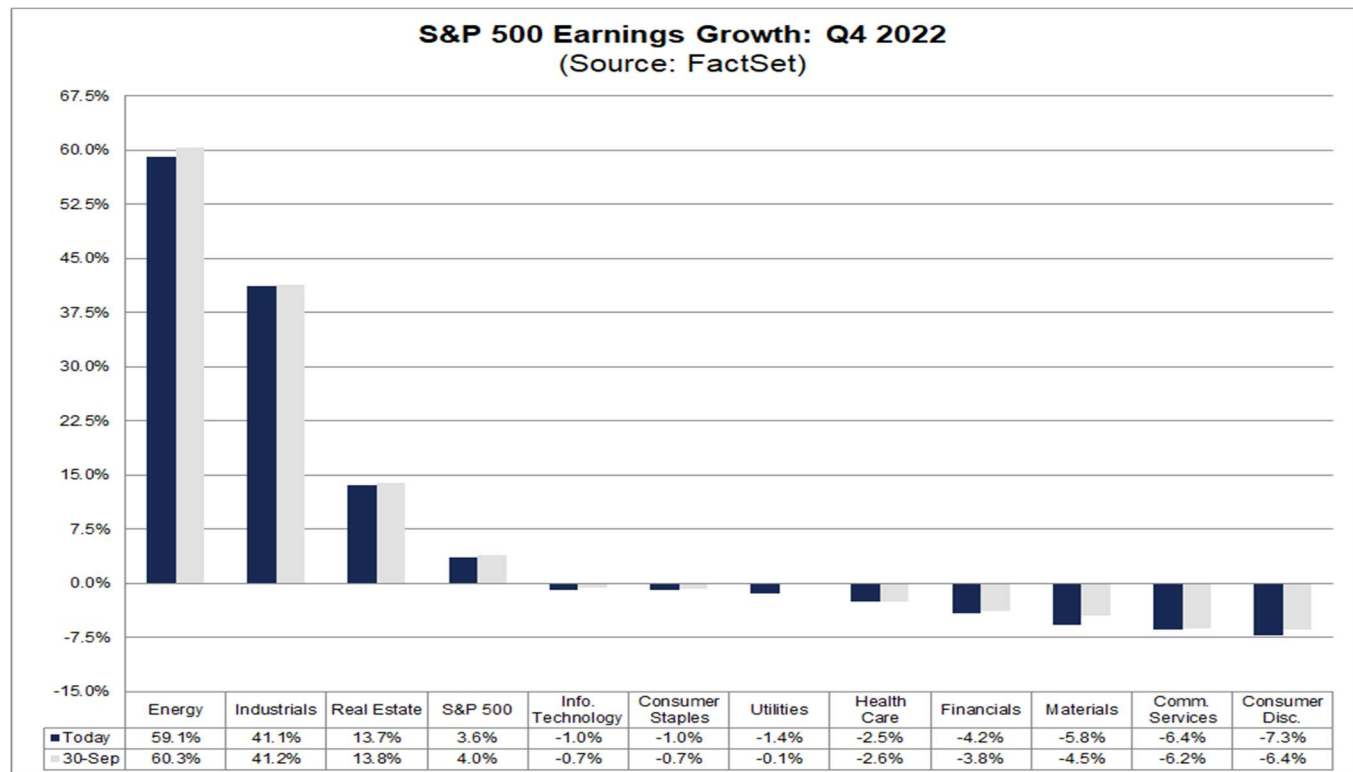




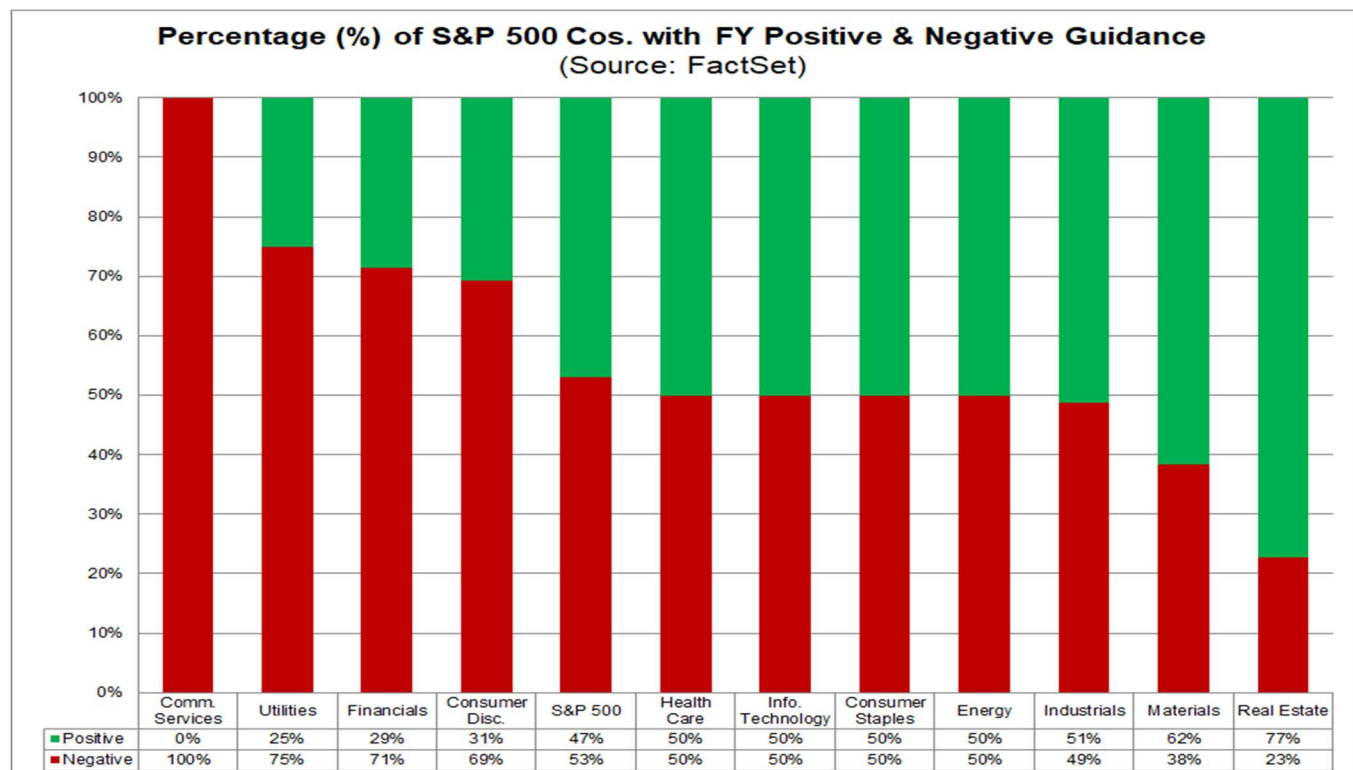
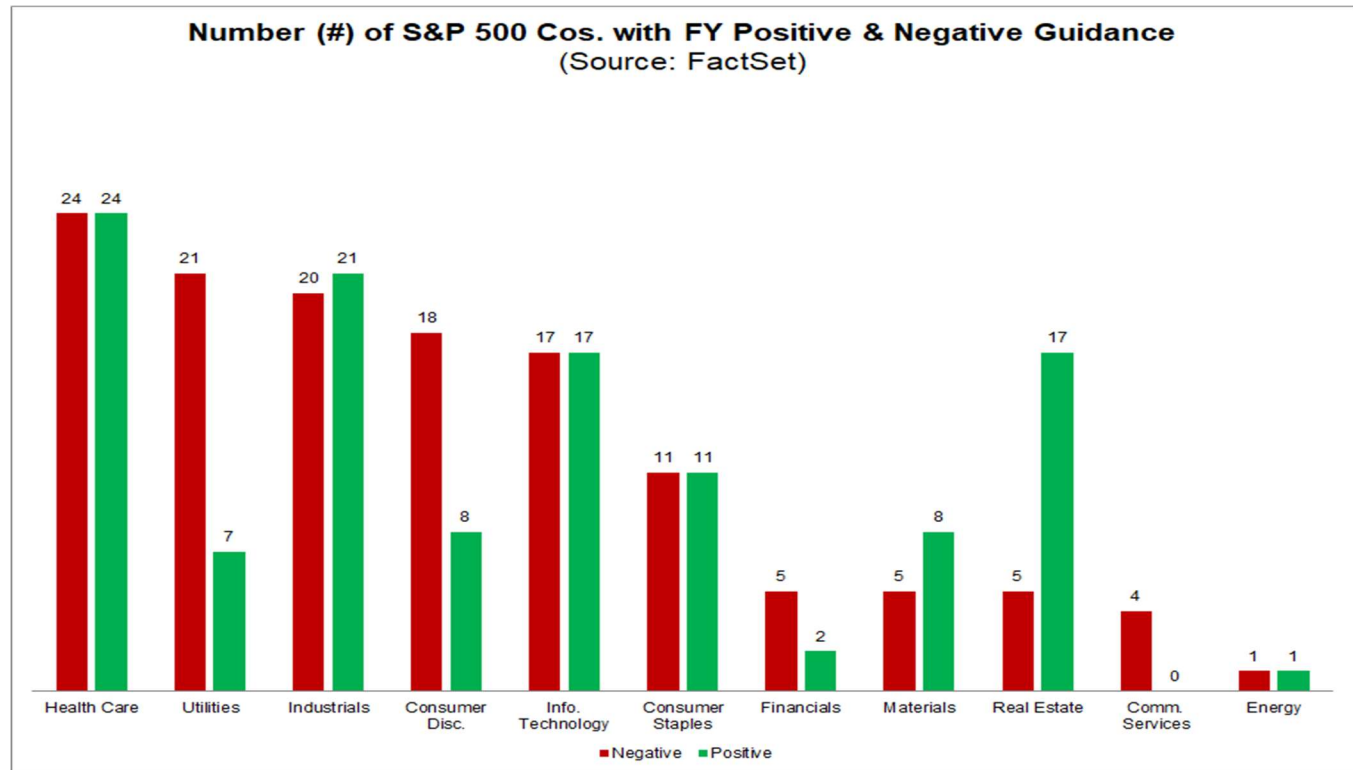
## Q4 2022: EPS Revisions



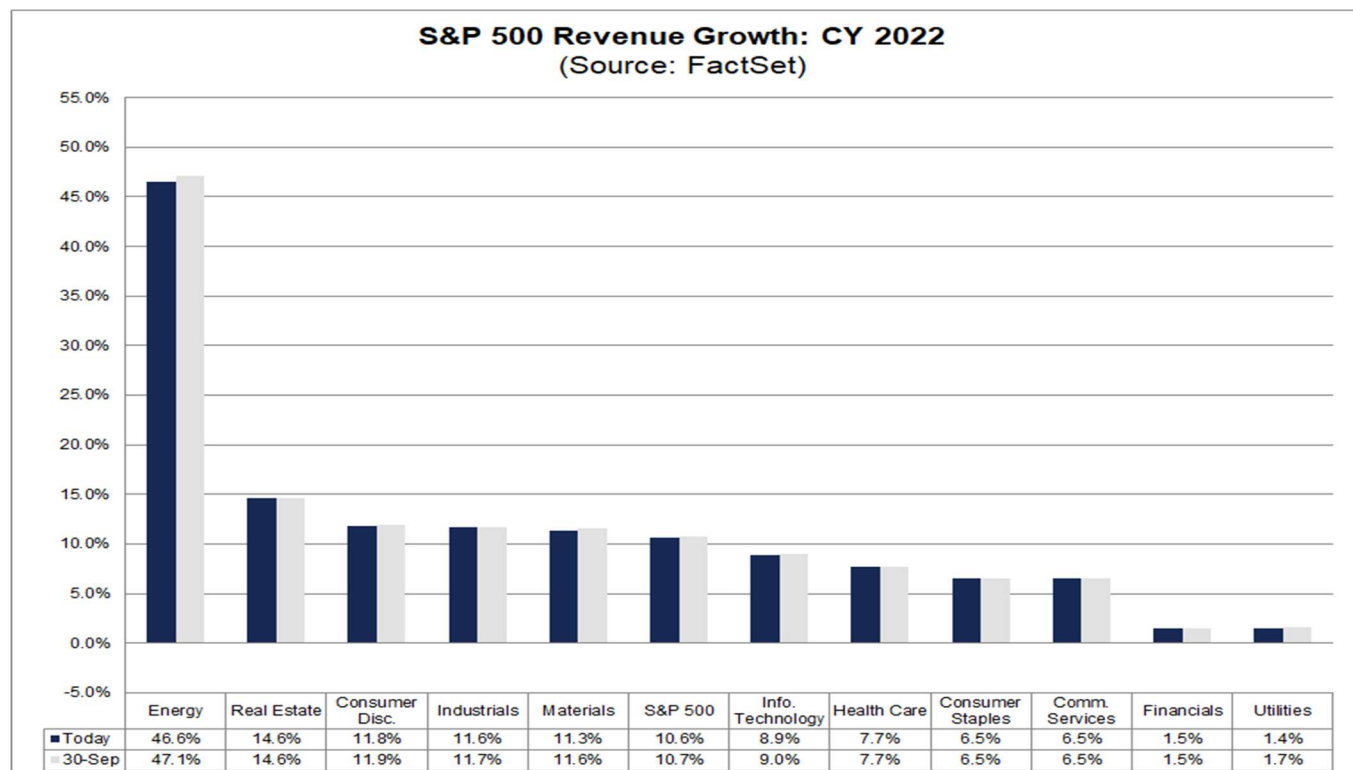
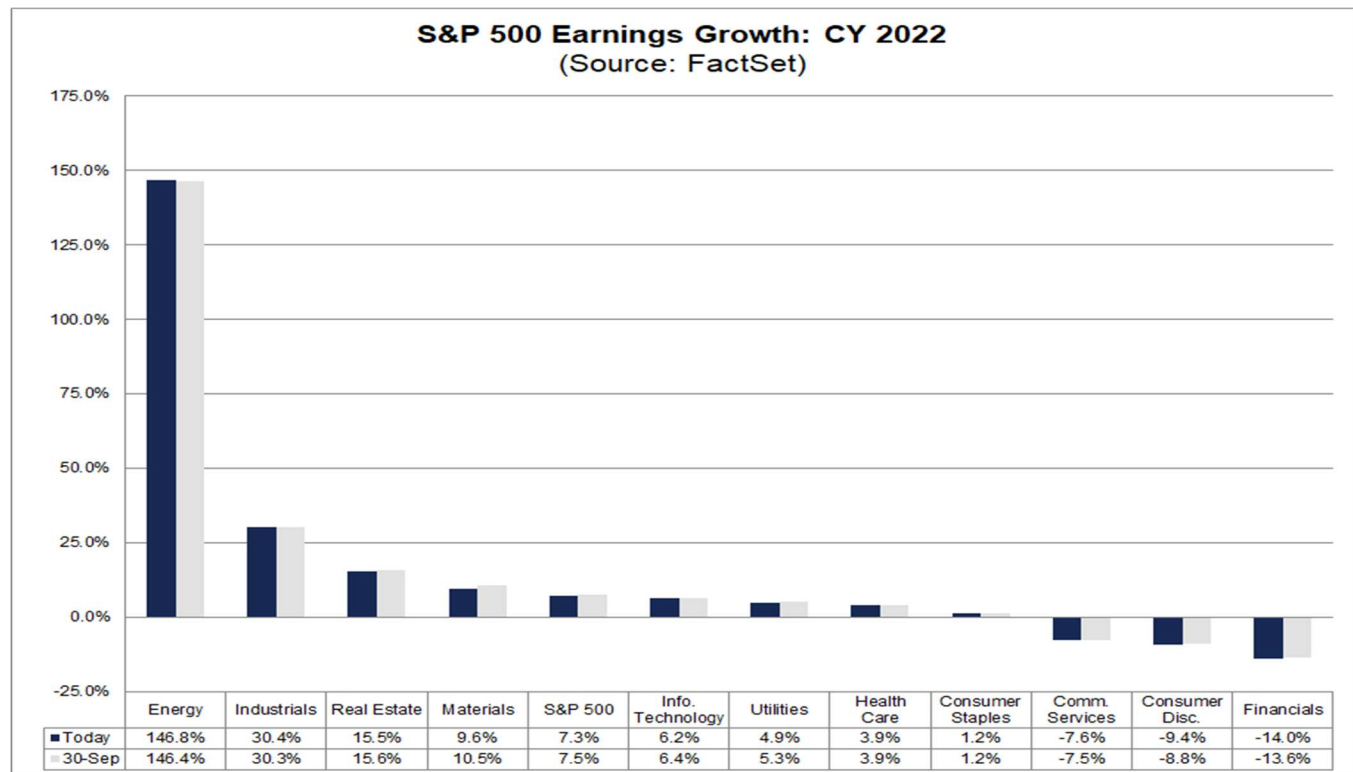
## Q4 2022: Growth



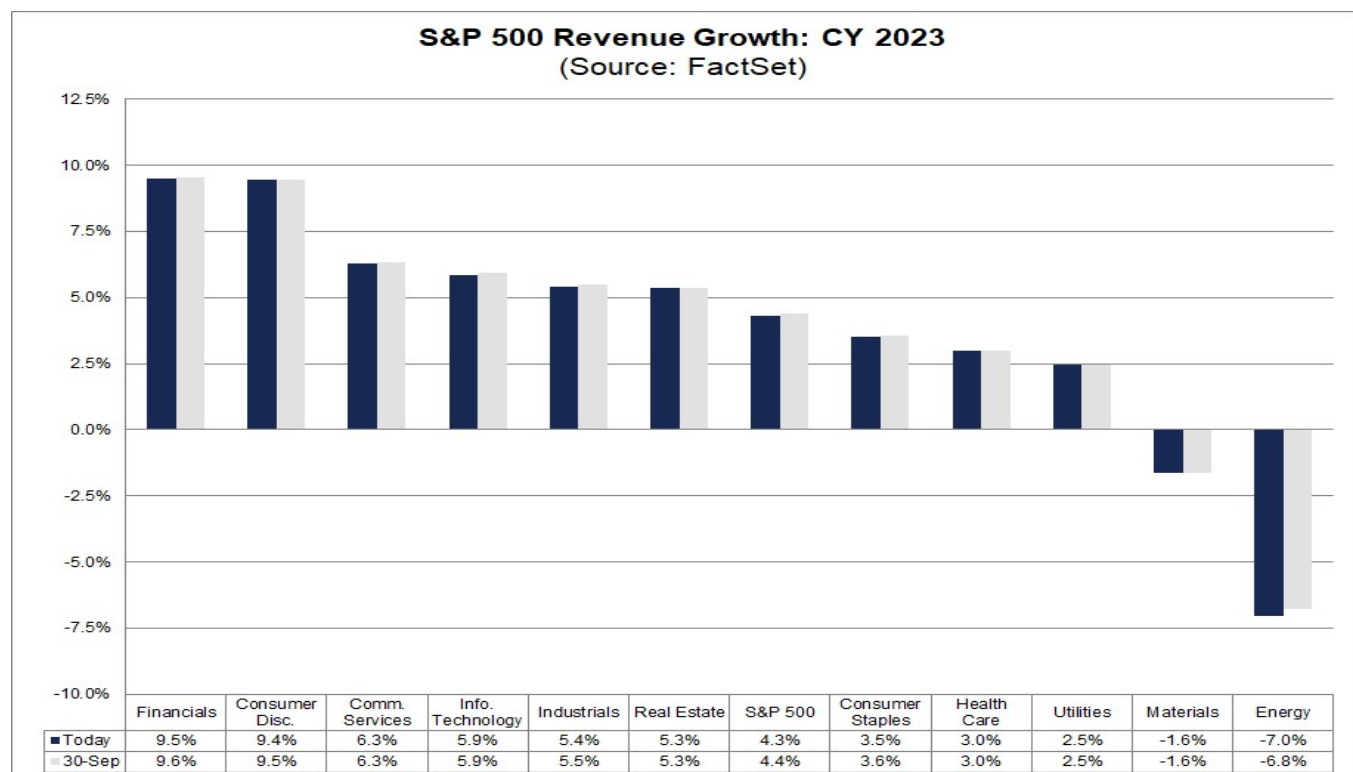
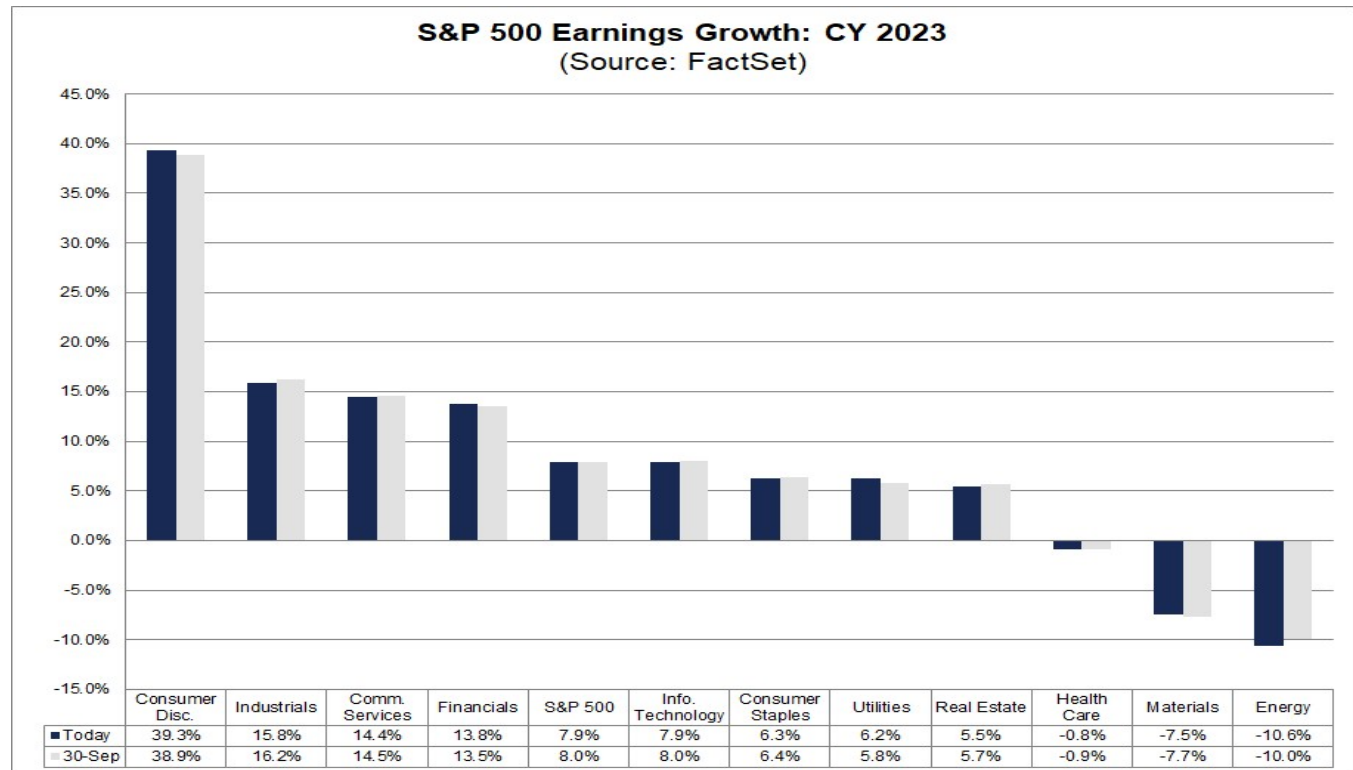
## FY 2022 / 2023: EPS Guidance



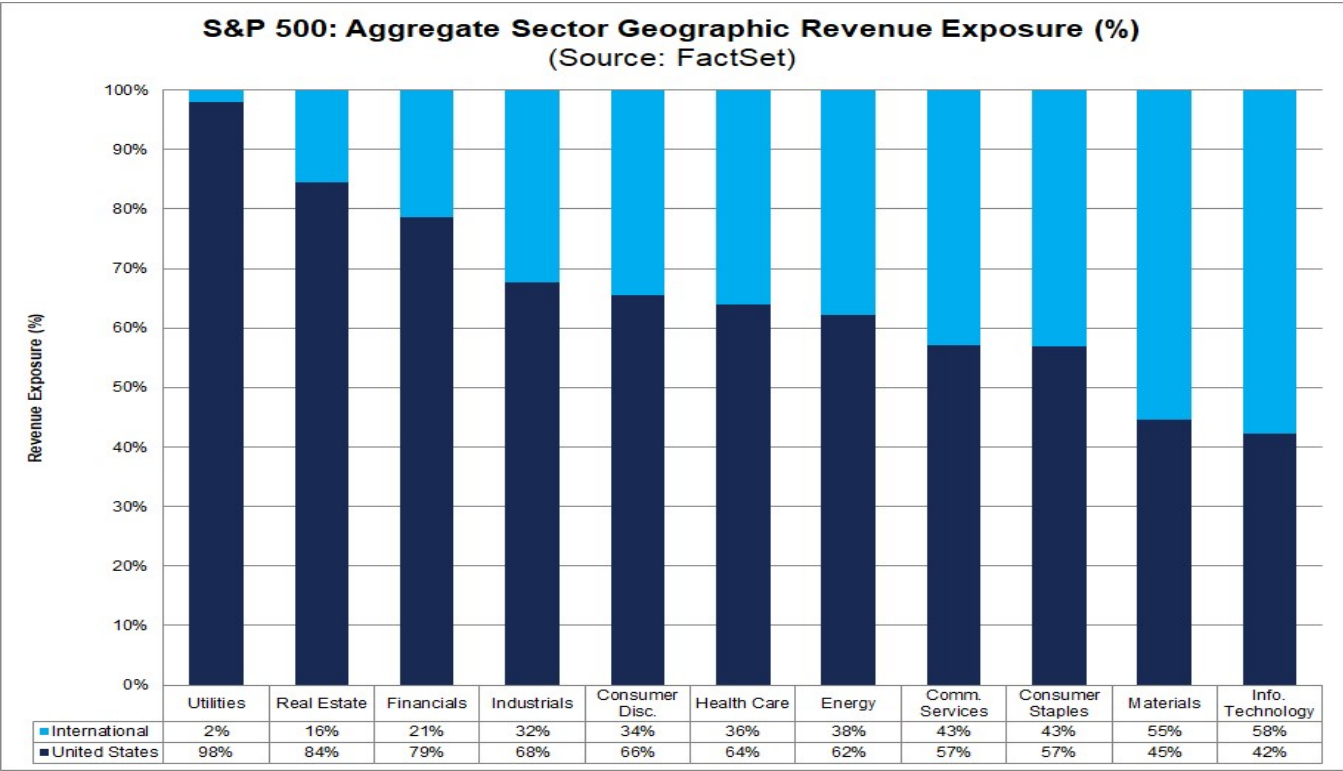
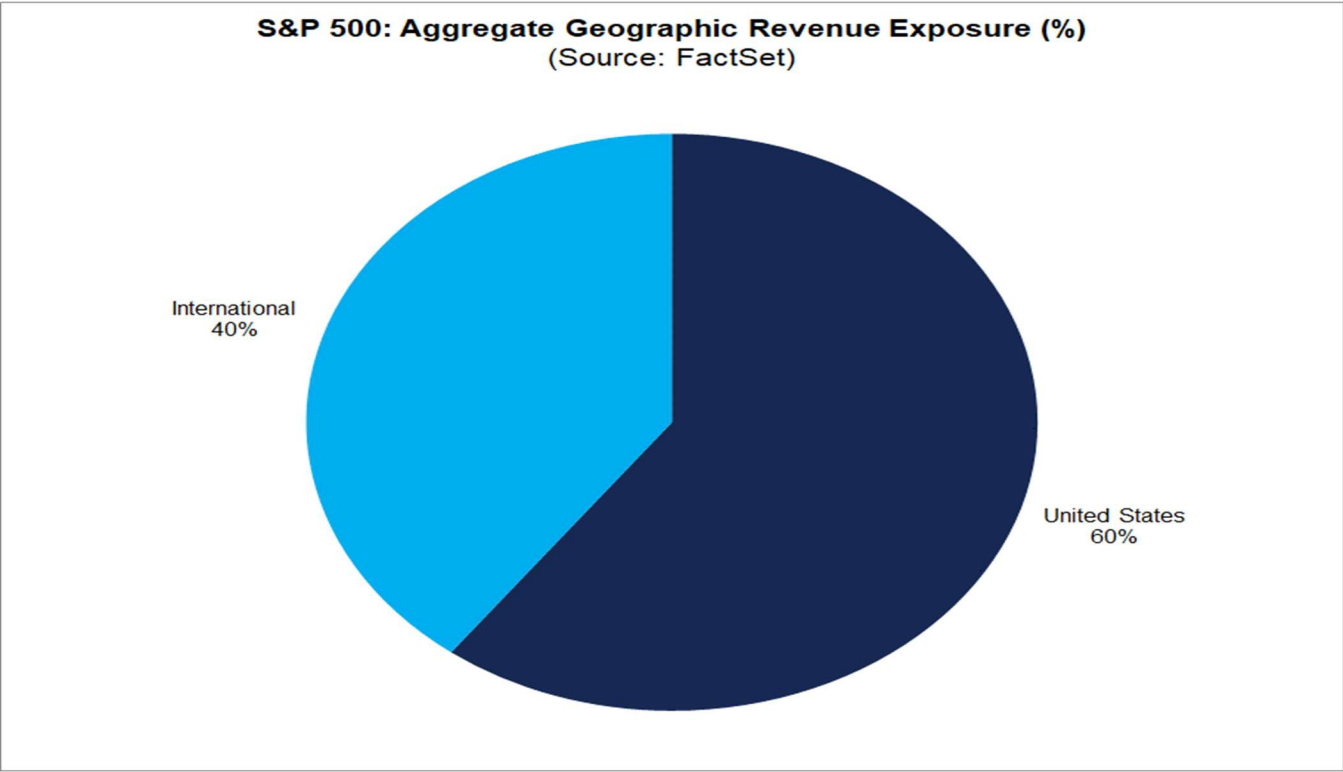
## CY 2022: Growth



## CY 2023: Growth

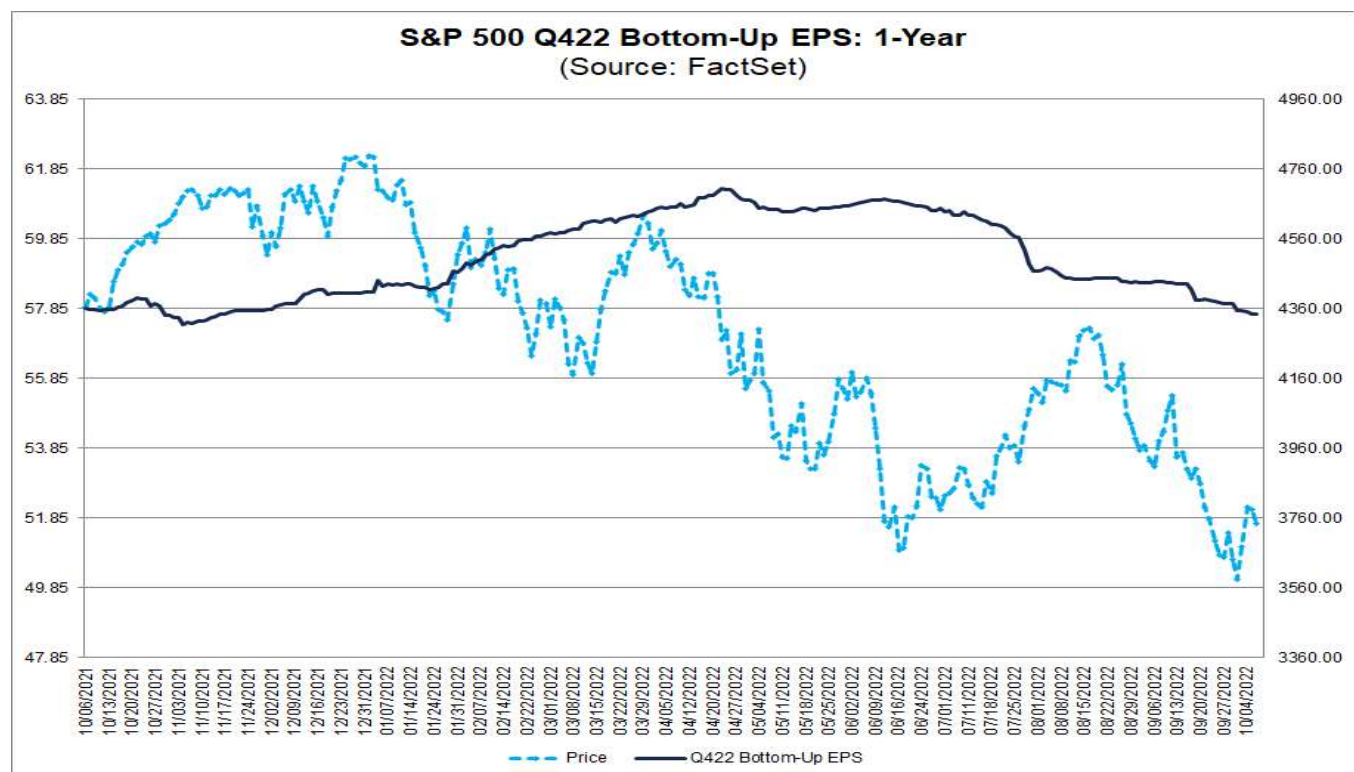
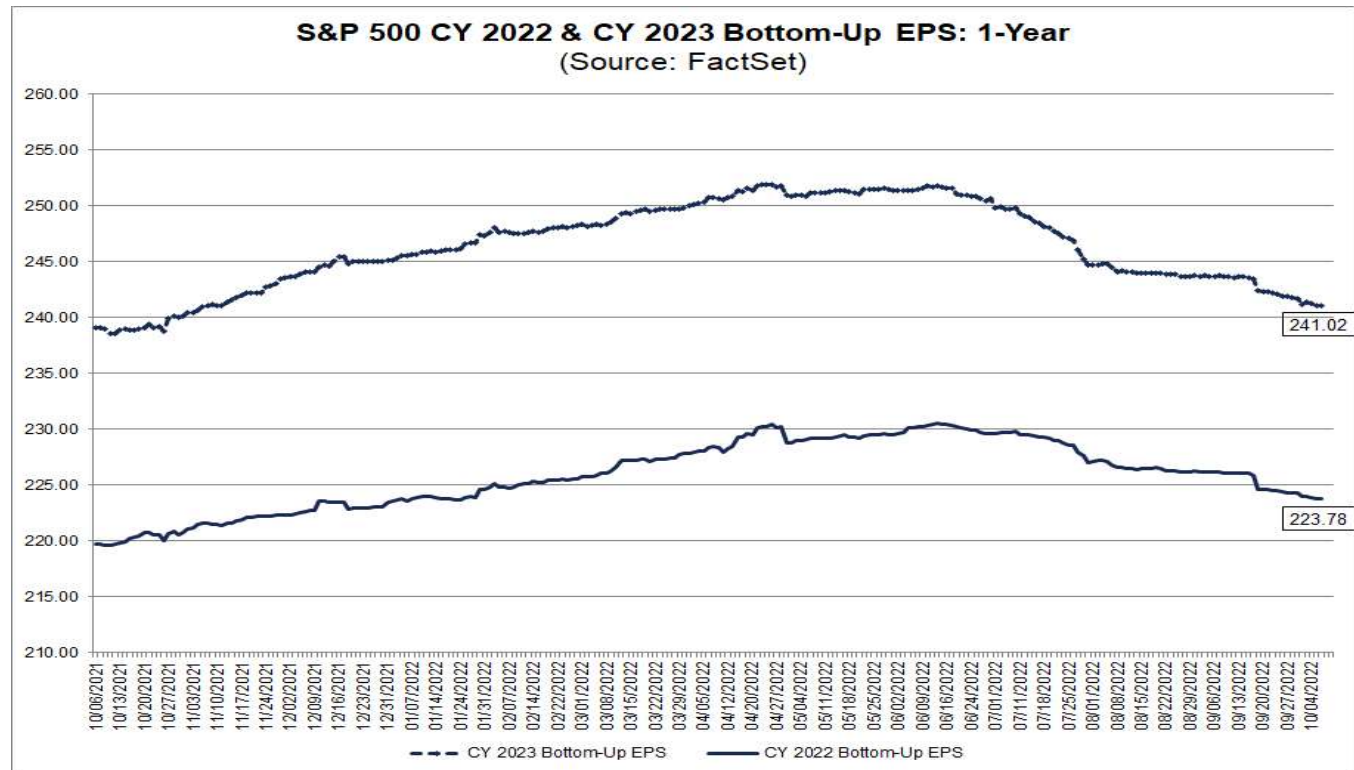


Geographic Revenue Exposure

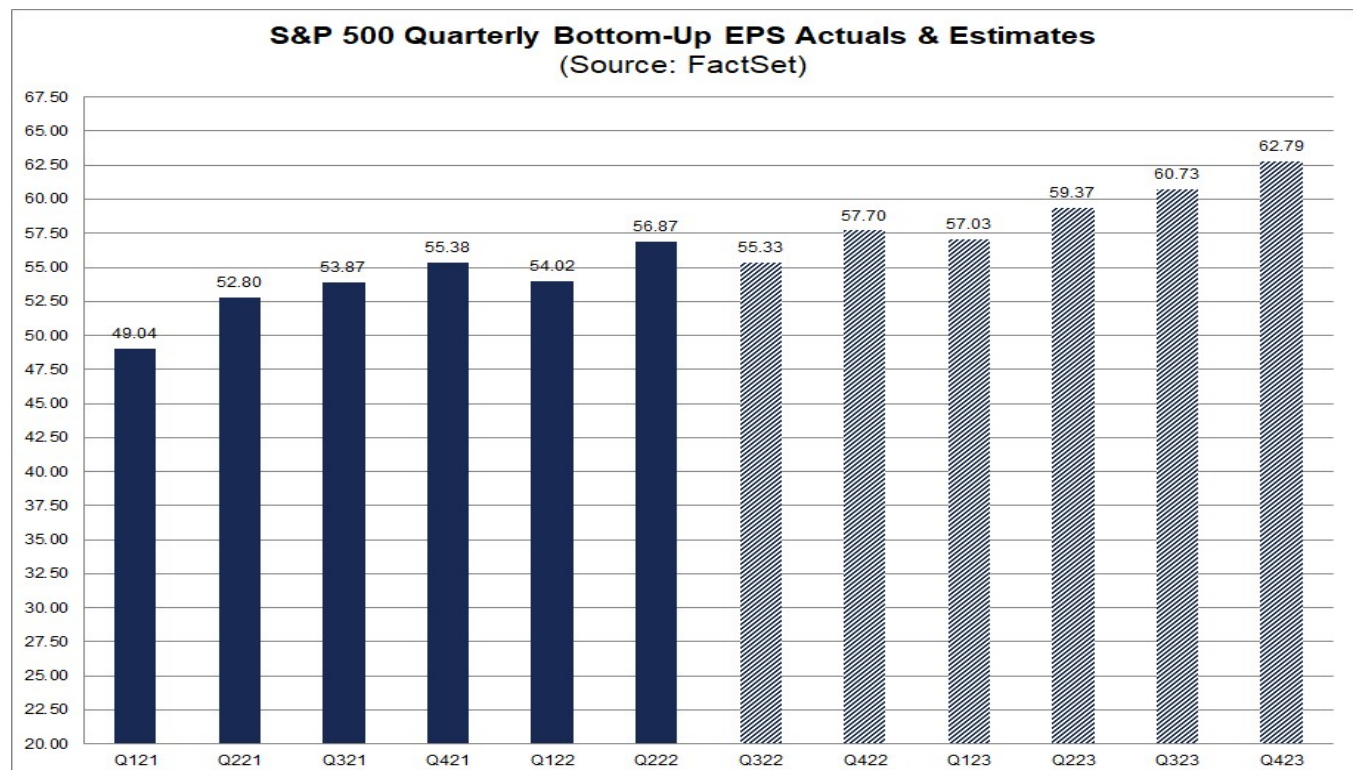
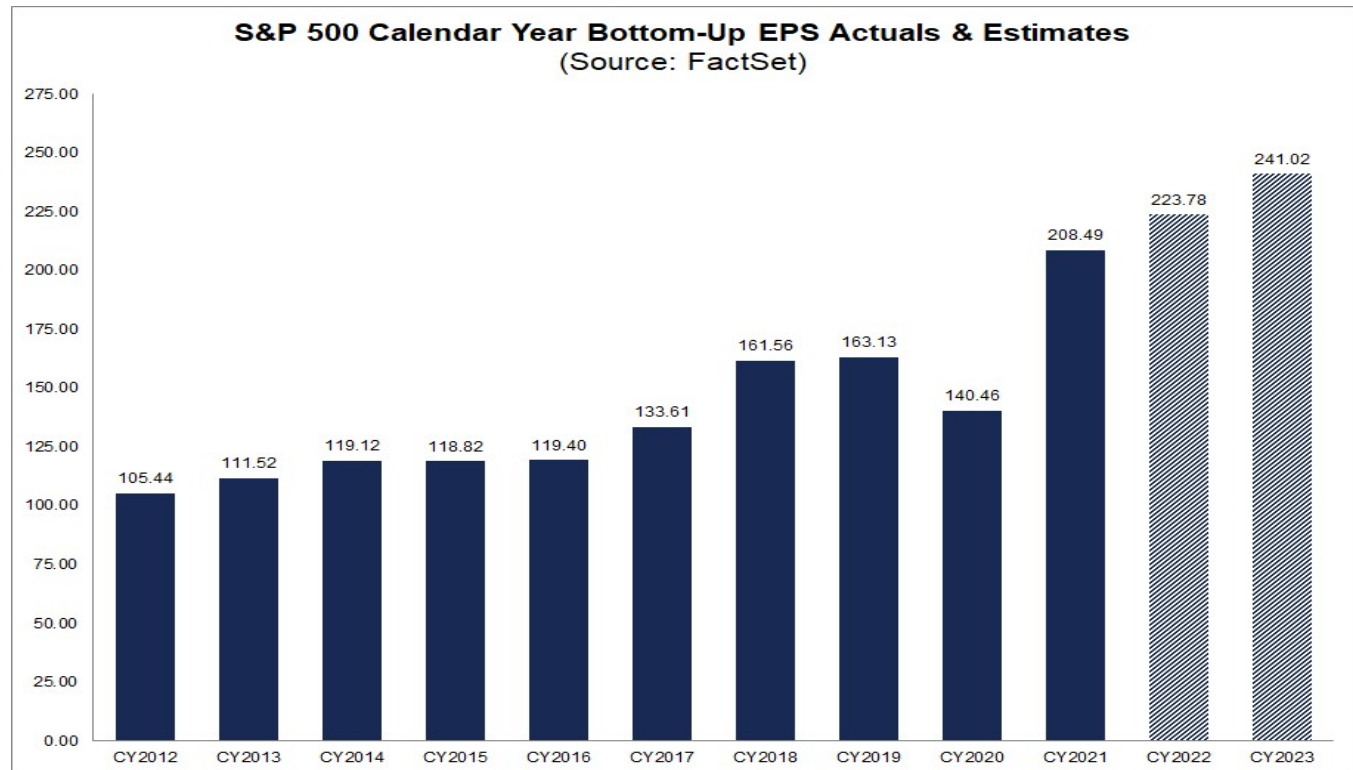




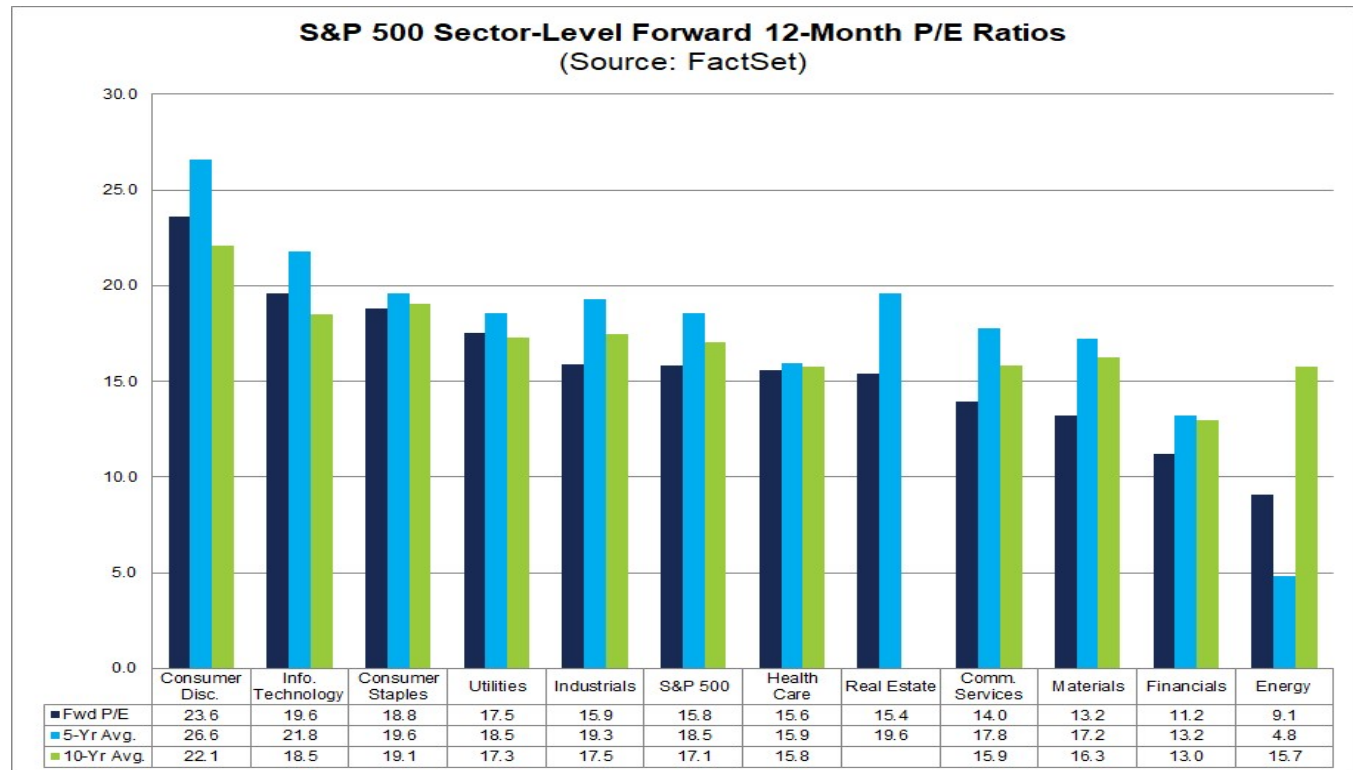
## Bottom-Up EPS Estimates



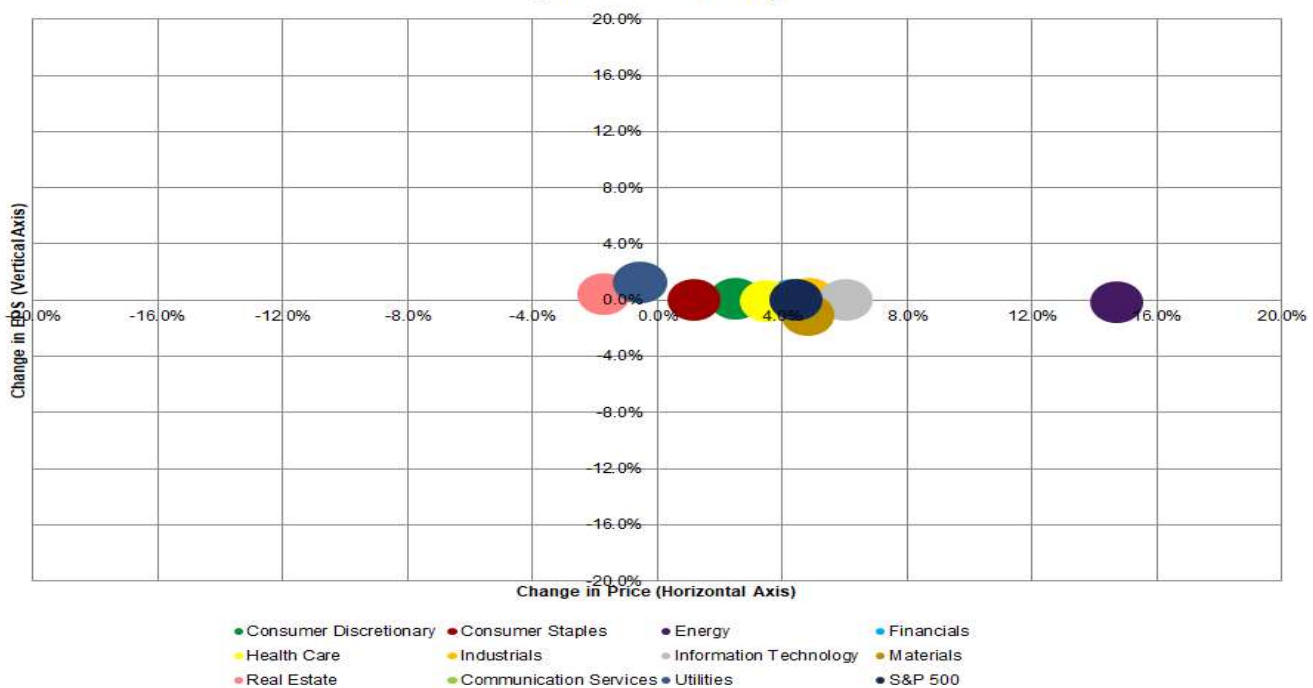
## Bottom-Up EPS Estimates: Current &amp; Historical



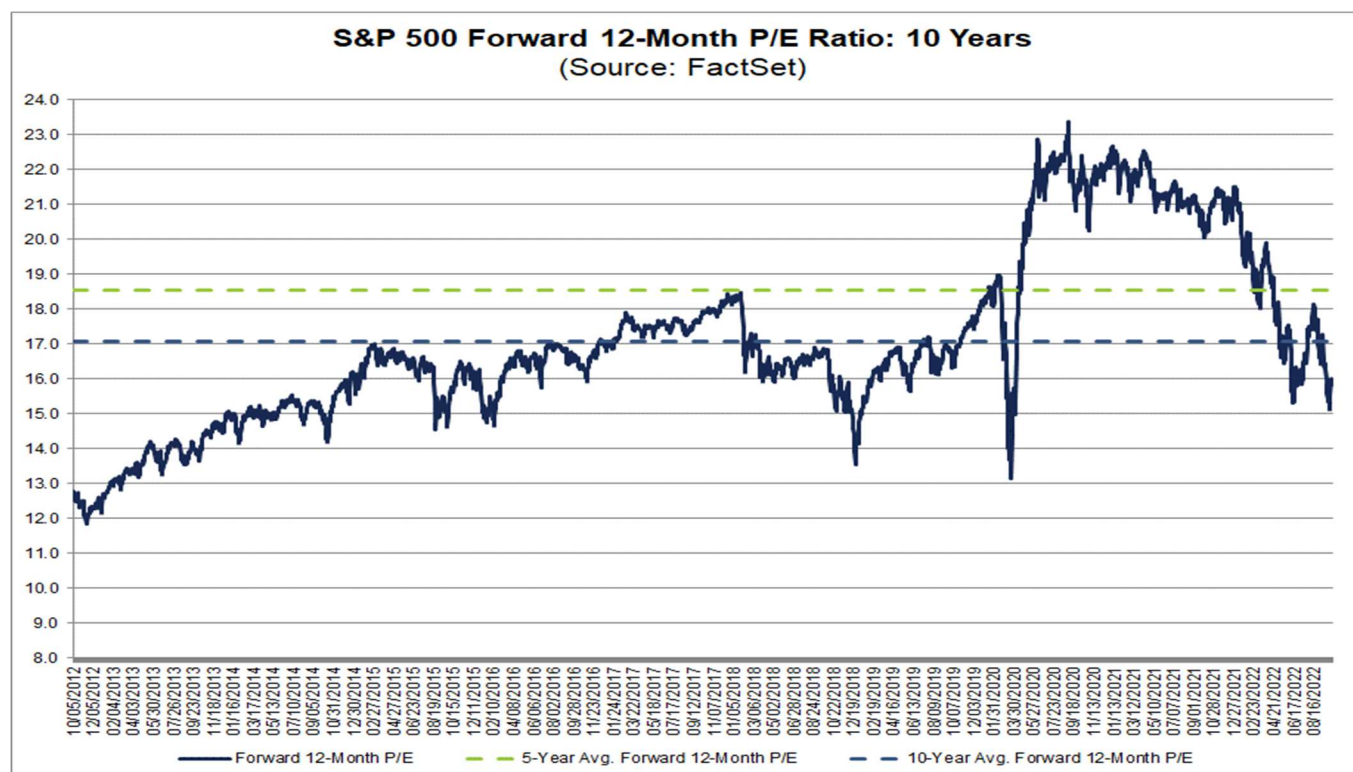
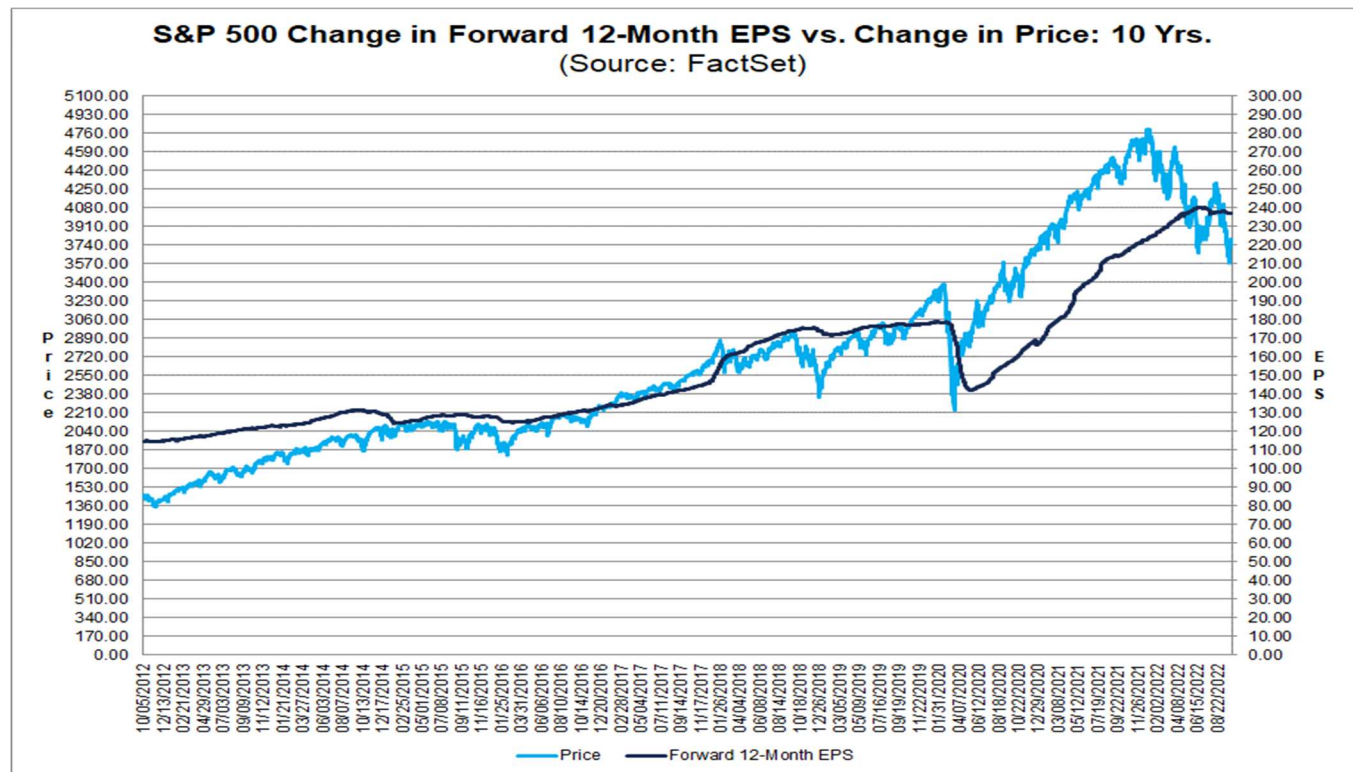
## Forward 12M P/E Ratio: Sector Level



**Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Sep. 30**  
(Source: FactSet)

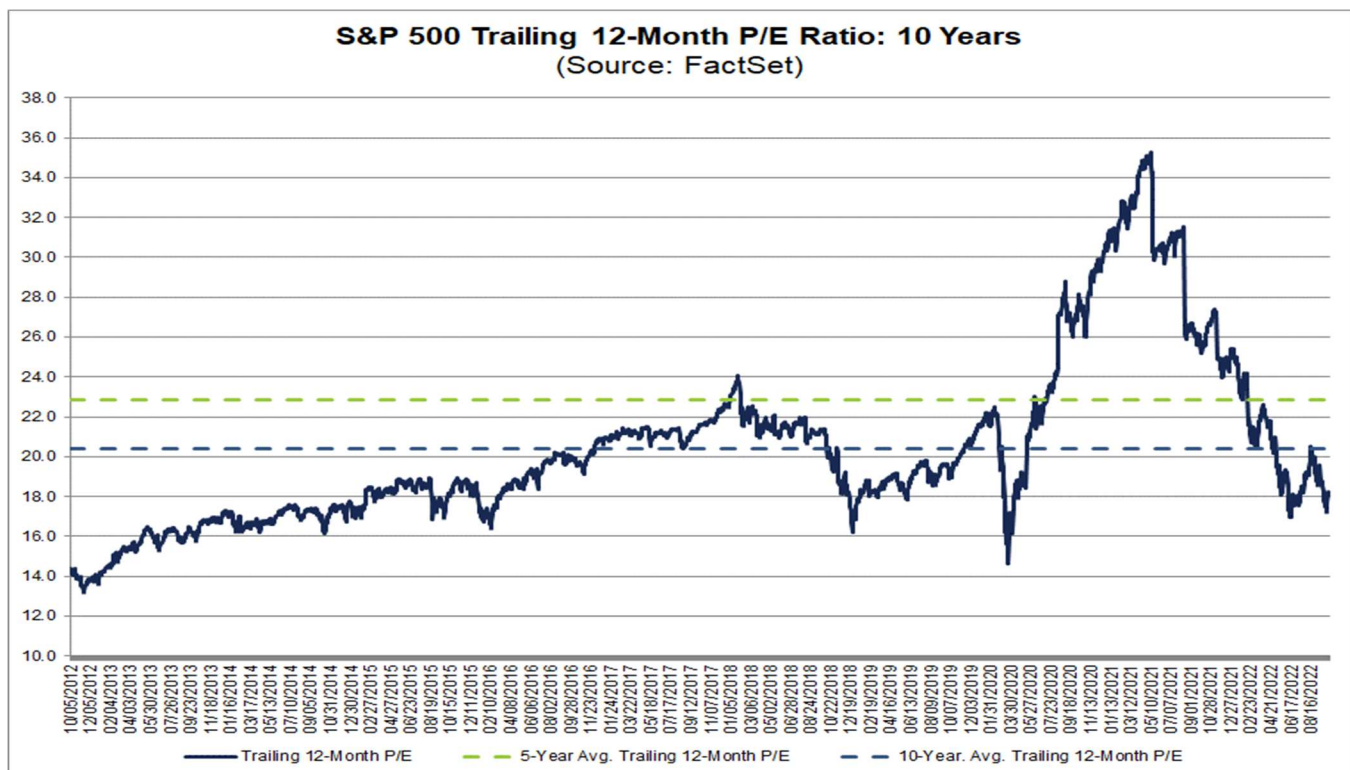
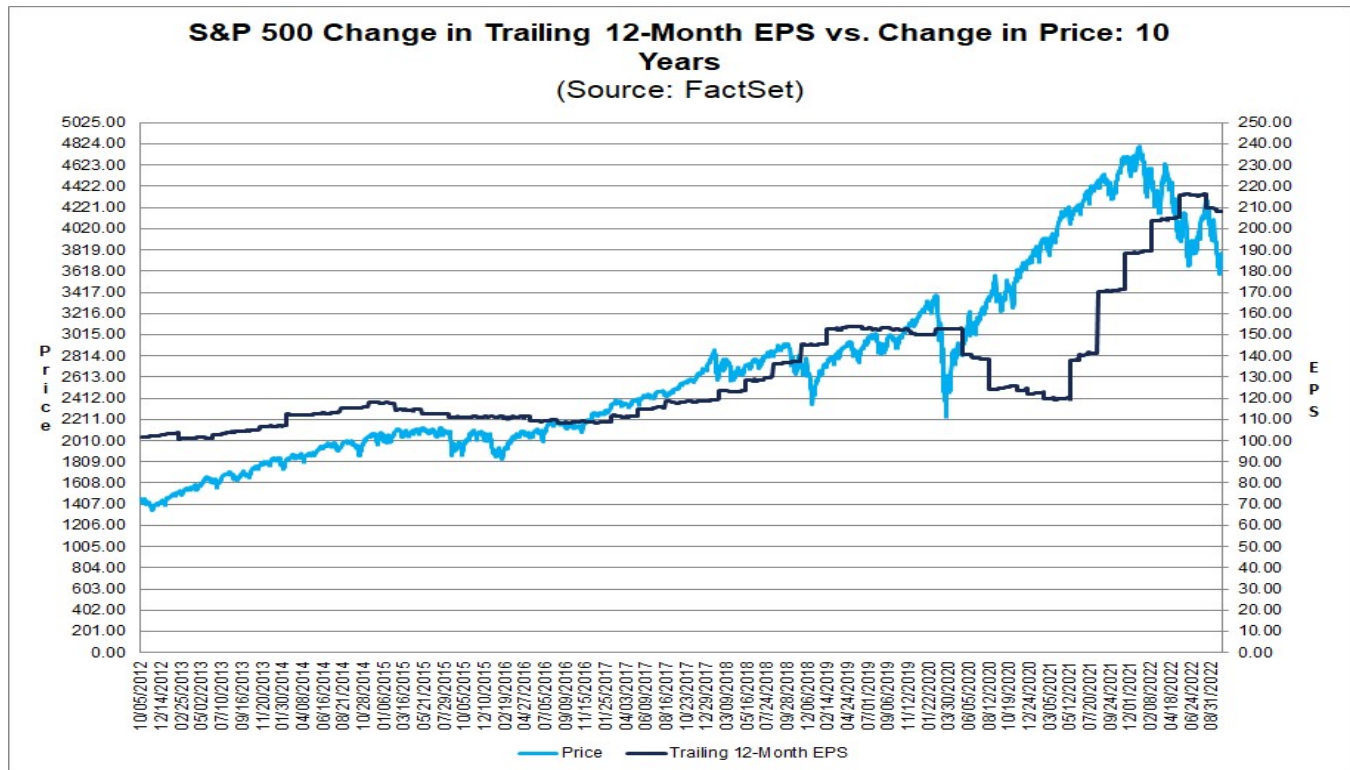


## Forward 12M P/E Ratio: 10-Years

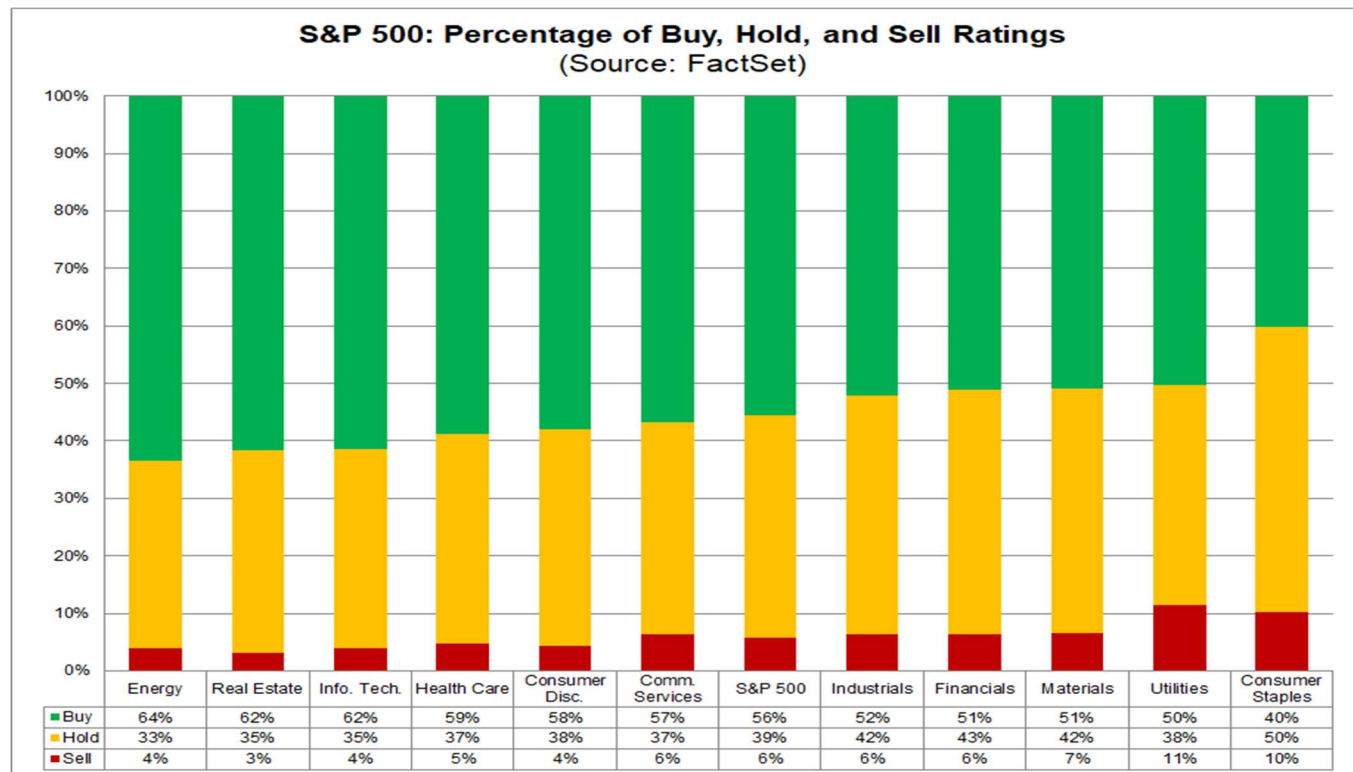




## Trailing 12M P/E Ratio: 10-Years



## Targets &amp; Ratings





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