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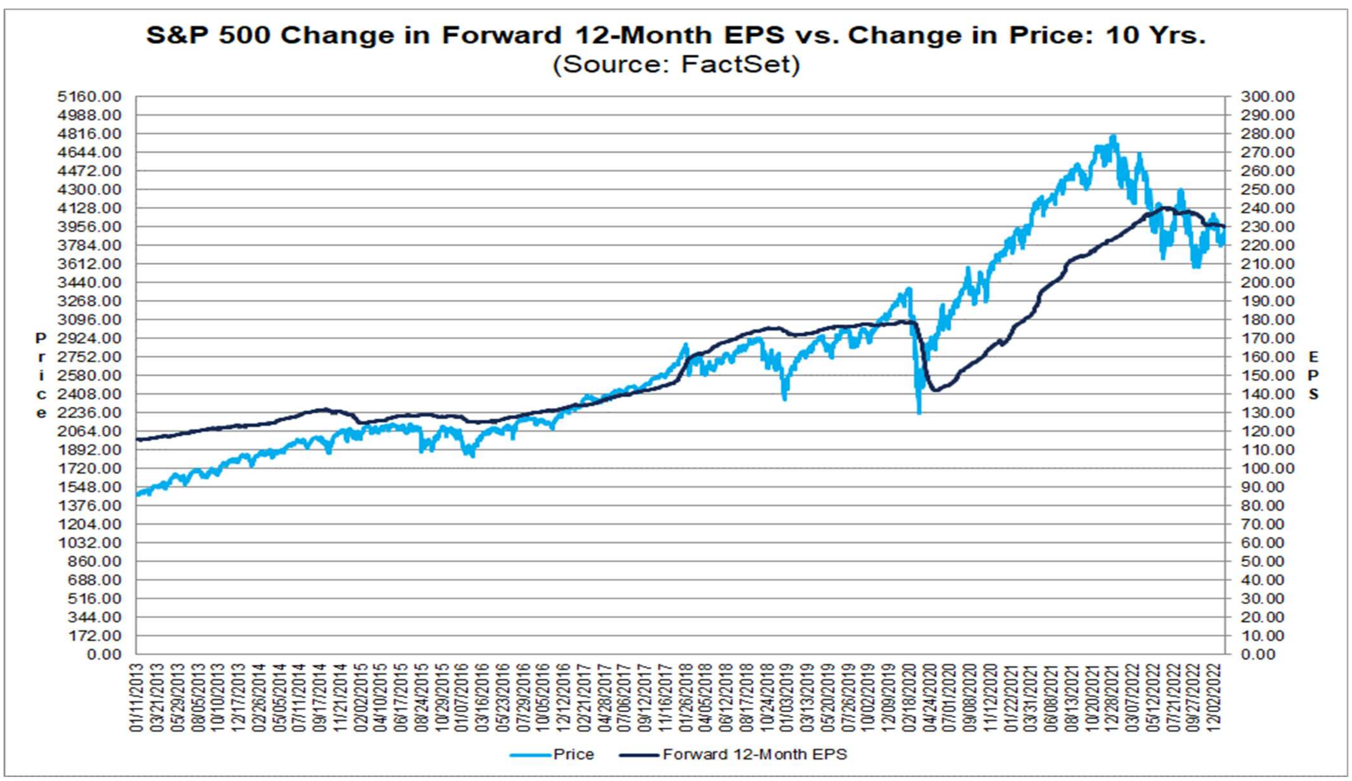
Key Metrics

- **Earnings Growth:** For Q4 2022, the estimated earnings decline for the S&P 500 is -3.9%. If -3.9% is the actual decline for the quarter, it will mark the first time the index has reported a year-over-year decline in earnings since Q3 2020 (-5.7%).
- **Earnings Revisions:** On September 30, the estimated earnings growth rate for Q4 2022 was 3.5%. Ten sectors are expected to report lower earnings today (compared to September 30) due to downward revisions to EPS estimates.
- **Earnings Guidance:** For Q4 2022, 67 S&P 500 companies have issued negative EPS guidance and 34 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 17.3. This P/E ratio is below the 5-year average (18.5) but above the 10-year average (17.2).
- **Earnings Scorecard:** For Q4 2022 (with 29 S&P 500 companies reporting actual results), 23 S&P 500 companies has reported a positive EPS surprise and 20 S&P 500 companies have reported a positive revenue surprise.



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Topic of the Week: 1

Will the S&P 500 Actually Report a Decline in Earnings For Q4?

As of today, the S&P 500 is expected to report a year-over-year decline in earnings of -3.9% for the fourth quarter, which would mark the first year-over-year decline in earnings reported by the index since Q3 2020 (-5.7%). Given that most S&P 500 companies report actual earnings above estimates, what is the likelihood the index will report an actual decline in earnings of -3.9% for the quarter?

Based on the average improvement in the earnings growth rate during earnings seasons over the past five to ten years, the index would report earnings growth for Q4. However, based on the below-average improvement in the earnings growth rate over the past two earnings seasons, the index would still report a year-over-year earnings decline for Q4.

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%).

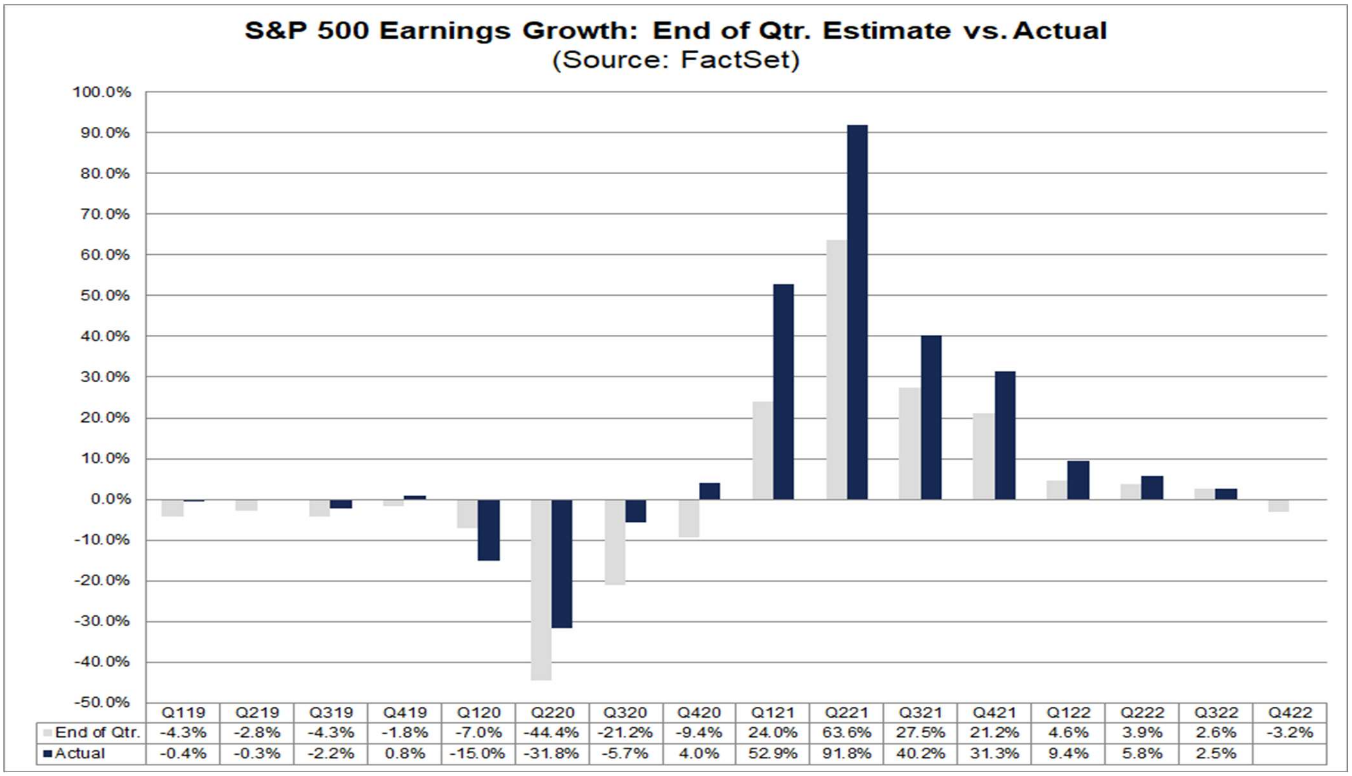
In fact, the actual earnings growth rate has exceeded the estimated earnings growth rate at the end of the quarter in 38 of the past 40 quarters for the S&P 500. The only exceptions were Q1 2020 and last quarter (Q3 2022).

Over the past ten years, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 6.4% 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 5.4 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 decline at the end of Q4 (December 31) of -3.2%, the actual earnings growth rate for the quarter would be 2.2% (-3.2% + 5.4% = 2.2%).

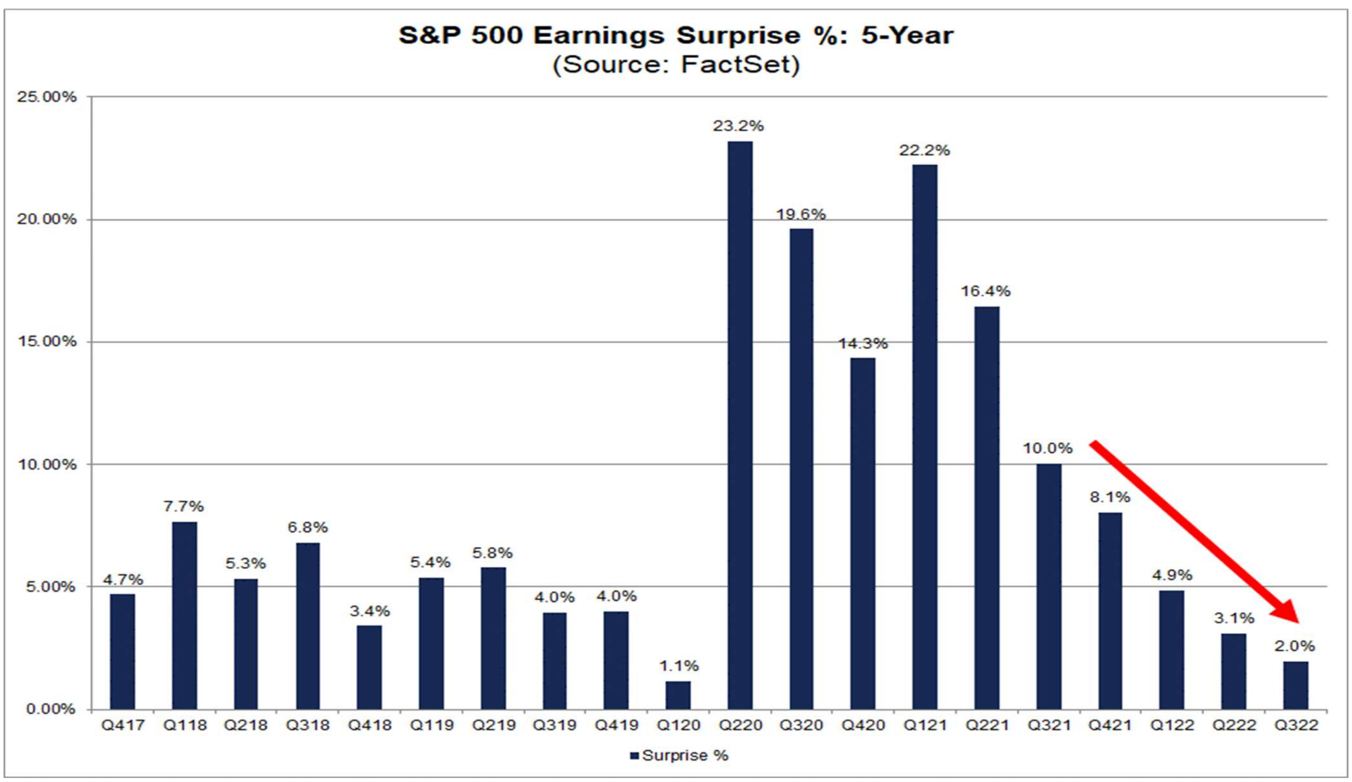
Over the past five years, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 8.6% on average. During this same period, 77% of companies in the S&P 500 have reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has increased by 7.8 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 decline at the end of Q4 (December 31) of -3.2%, the actual earnings growth rate for the quarter would be 4.6% (-3.2% + 7.8% = 4.6%).

Over the past two quarters (Q2 2022 and Q3 2022), however, actual earnings reported by S&P 500 companies have exceeded estimated earnings by only 2.5% on average. During these two quarters, 72% 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 0.9 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 decline at the end of Q4 (December 31) of -3.2%, the index would report an actual decline in earnings of -2.3% (-3.2% + 0.9% = -2.3%).

How are the numbers trending to date? Of the 29 S&P 500 companies that have reported actual earnings for Q4 2022 through January 13, 79% have reported actual EPS above the mean EPS estimate. In aggregate, actual earnings reported by these 29 companies have exceeded estimated earnings by 7.7%. Thus, at this very early stage of the earnings season for Q4, the number of companies reporting positive EPS surprises and the magnitude of these EPS surprises are trending closer to their 5-year averages. Since December 31, the earnings decline for the S&P 500 has increased by 0.7 percentage points (to -3.9% from -3.2%).



	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221	Q321	Q421	Q122	Q222	Q322	Q422
End of Qtr.	-4.3%	-2.8%	-4.3%	-1.8%	-7.0%	-44.4%	-21.2%	-9.4%	24.0%	63.6%	27.5%	21.2%	4.6%	3.9%	2.6%	-3.2%
Actual	-0.4%	-0.3%	-2.2%	0.8%	-15.0%	-31.8%	-5.7%	4.0%	52.9%	91.8%	40.2%	31.3%	9.4%	5.8%	2.5%	



Topic of the Week: 2

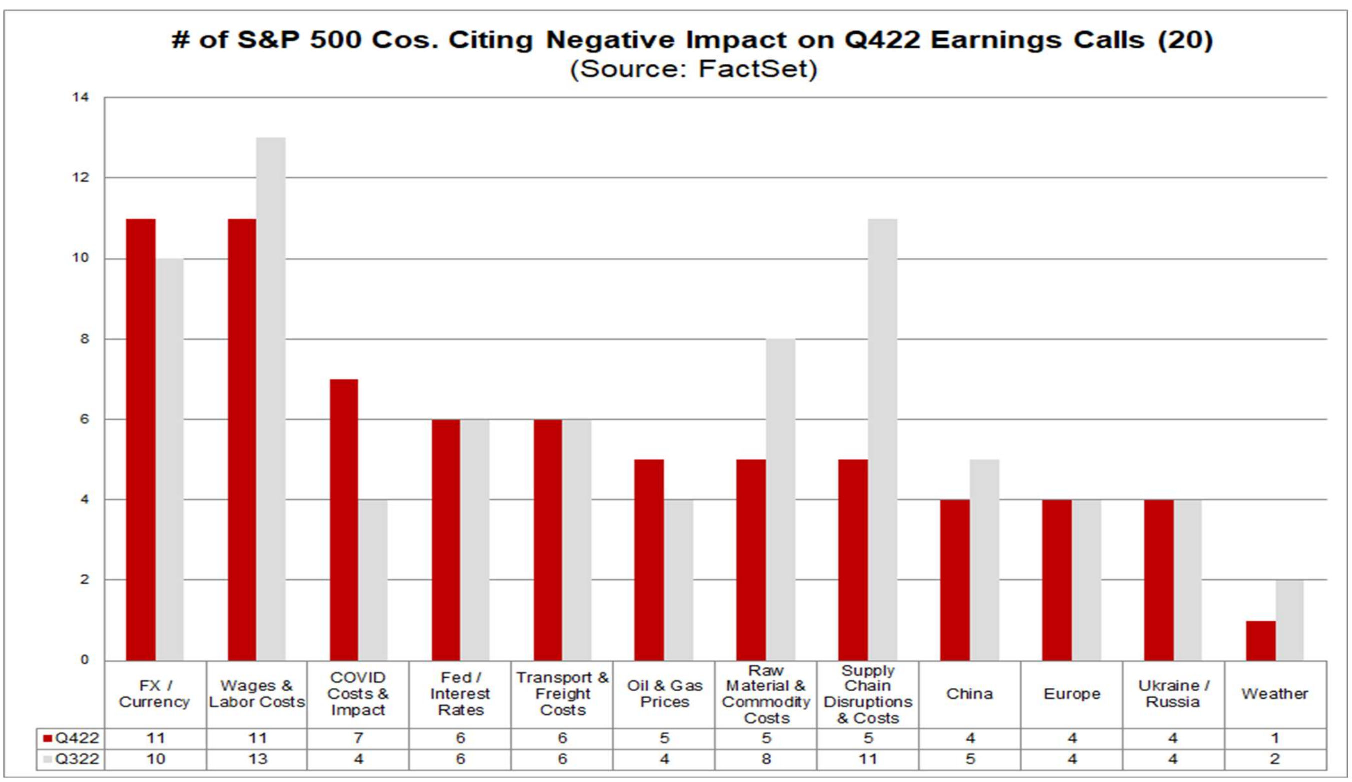
55% of S&P 500 Cos. Are Citing Negative Impacts From FX and Labor Costs on Q4 Earnings Calls

While the majority of S&P 500 companies will report earnings results for Q4 2022 over the next few weeks, 4% of the companies in the index (20 companies) had reported earnings results for the fourth quarter through January 12. Given current expectations for a decline in earnings for the fourth quarter and concerns about a recession in 2023, have these companies discussed specific factors that had a negative impact on earnings, revenues, or profit margins for the fourth 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 fourth quarter earnings conference calls through January 12 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 Q4 and a comparison to the same time period in Q3 are shown in the chart below.

Unfavorable foreign exchange rates and higher labor costs have been cited by the highest number companies in the index (through January 12) as a factor that either had a negative impact on earnings, revenues, or profit margins in Q4, or is expected to have a negative impact on earnings, revenues, or profit margins in future quarters. Overall, 11 companies (or 55%) cited a negative impact from each of these factors.

Given concerns in the market about a possible recession, it is interesting to note that the term “recession” was cited on the earnings calls of ten of these companies (or 50%). However, it should be noted that in many cases the term “recession” was either cited directly by an analyst or was cited in response to a question from an analyst during the call.



	FX / Currency	Wages & Labor Costs	COVID Costs & Impact	Fed / Interest Rates	Transport & Freight Costs	Oil & Gas Prices	Raw Material & Commodity Costs	Supply Chain Disruptions & Costs	China	Europe	Ukraine / Russia	Weather
Q422	11	11	7	6	6	5	5	5	4	4	4	1
Q322	10	13	4	6	6	4	8	11	5	4	4	2

Topic of the Week: 3

S&P 500 Now Projected to Report Year-Over-Year Earnings Declines in Q1 2023 and Q2 2023

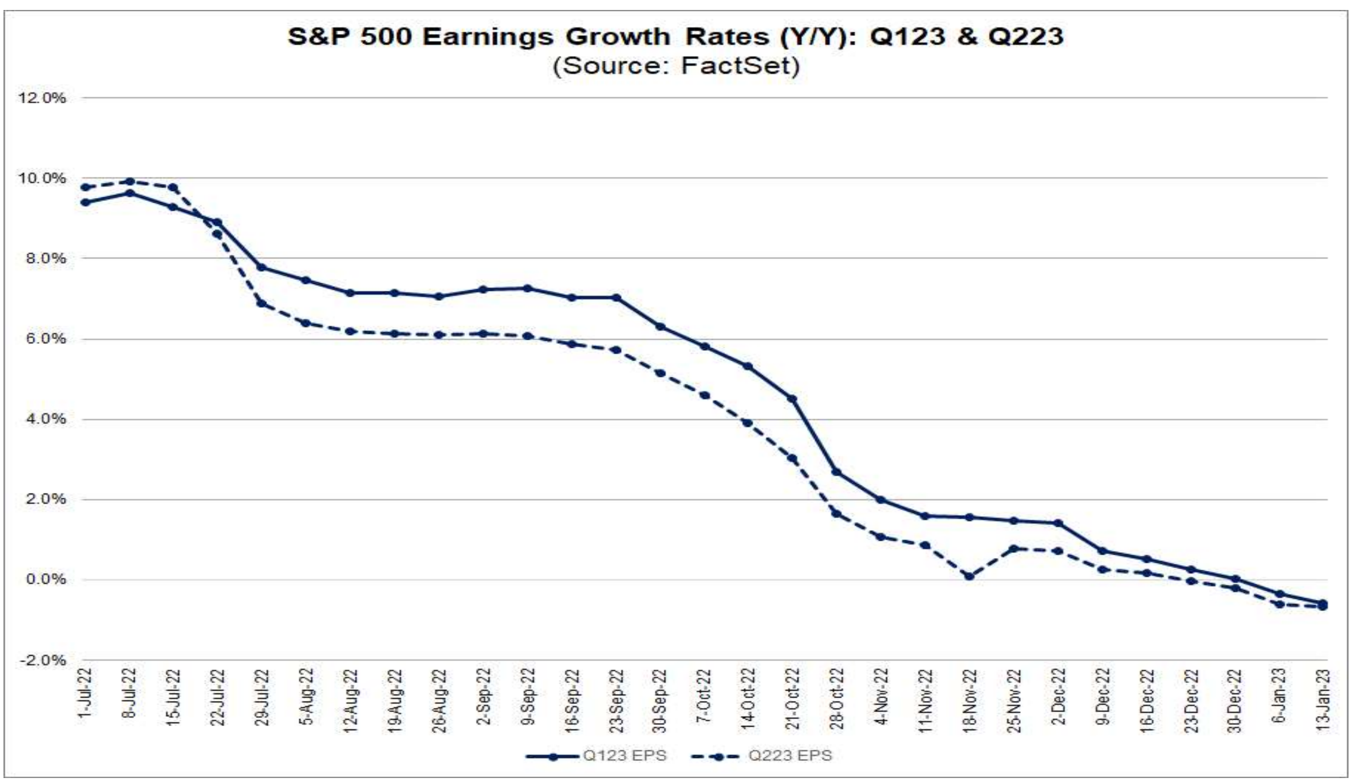
The estimated earnings decline for the S&P 500 for the fourth quarter is -3.9%, which would mark the first year-over-year earnings decline reported by the index since Q3 2020 (-5.7%). Looking ahead to the first quarter and beyond, what are analyst expectations for year-over-year earnings? Do analysts believe earnings declines will continue in 2023?

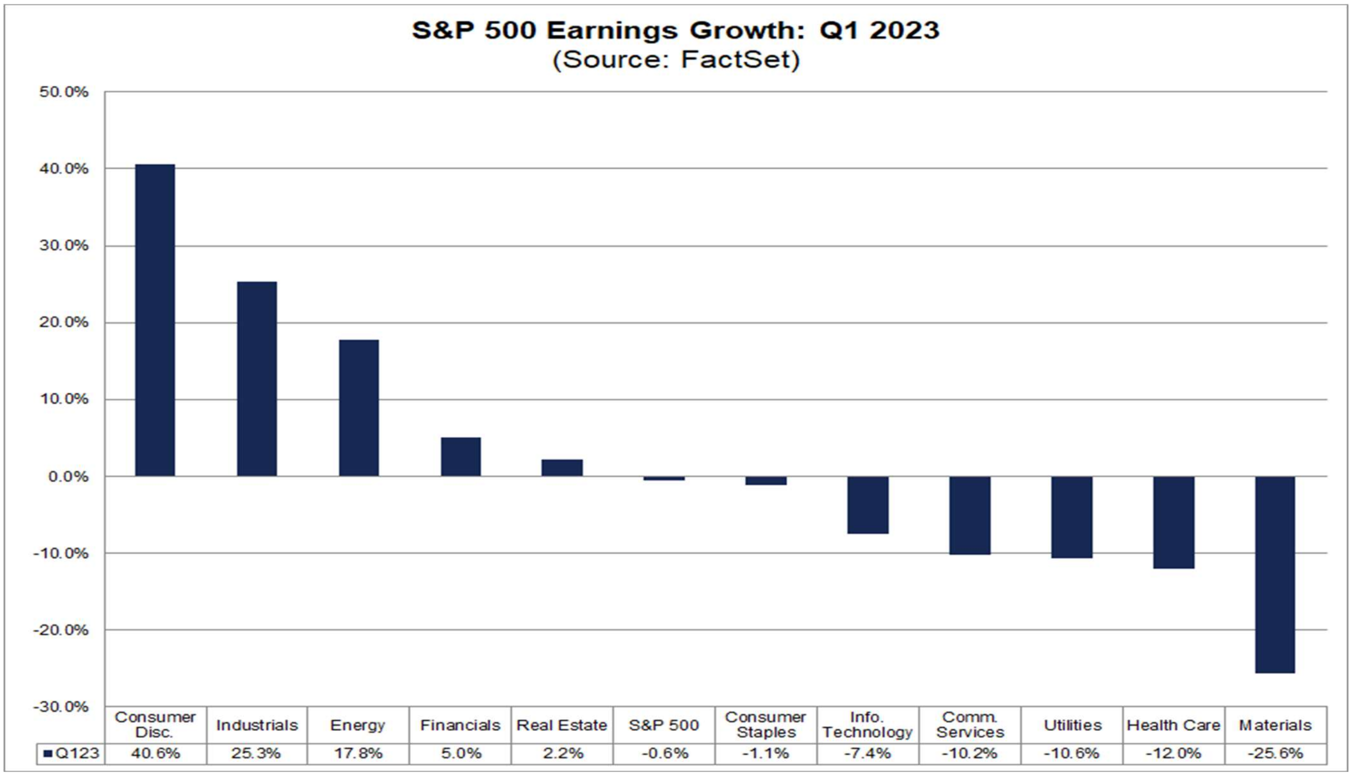
The answer is yes. Over the past few weeks, earnings expectations for the first quarter and the second quarter of 2023 switched from year-over-year growth to year-over-year declines. However, expectations for earnings for both Q1 2023 and Q2 2023 have been falling over the past few months. On June 30, the estimated earnings growth rate for Q1 2023 was 9.6% and the estimated earnings growth rate for Q2 2023 was 10.3%. By September 30, the estimated earnings growth rate for Q1 2023 was 6.3% and the estimated earnings growth rate for Q2 2023 was 5.1%. Today, the estimated earnings decline for Q1 2023 is -0.6% and the estimated earnings decline for Q2 2023 is -0.7%.

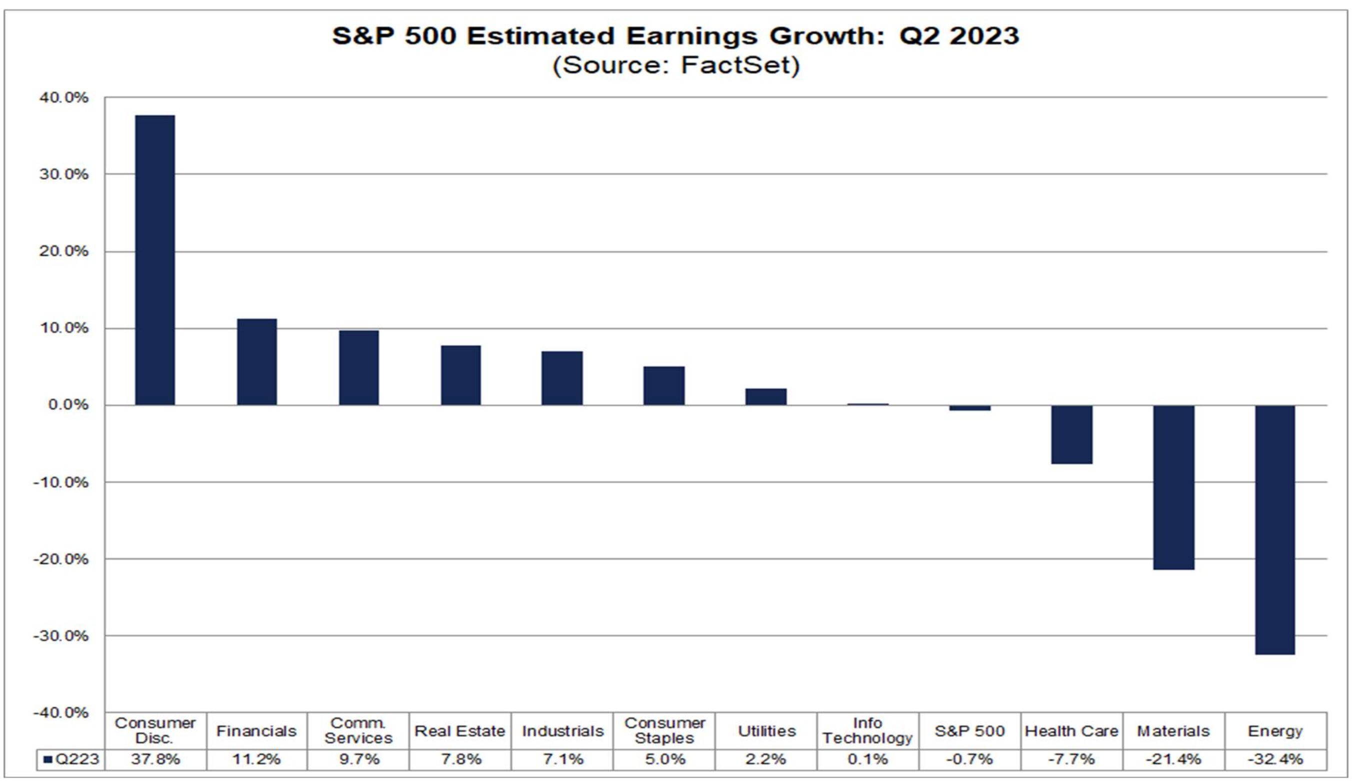
At the sector level, 10 of the 11 sectors have witnessed a decline in estimated earnings for the first half of 2023 since September 30, led by the Consumer Discretionary, Communication Services, and Materials sectors. Overall, six sectors are now projected to report a year-over-year decrease in earnings for the first quarter and three sectors are predicted to report a year-over-year decrease in earnings for the second quarter. The Materials and Health Care sectors are the only two sectors predicted to report a year-over-year decrease in earnings for both quarters.

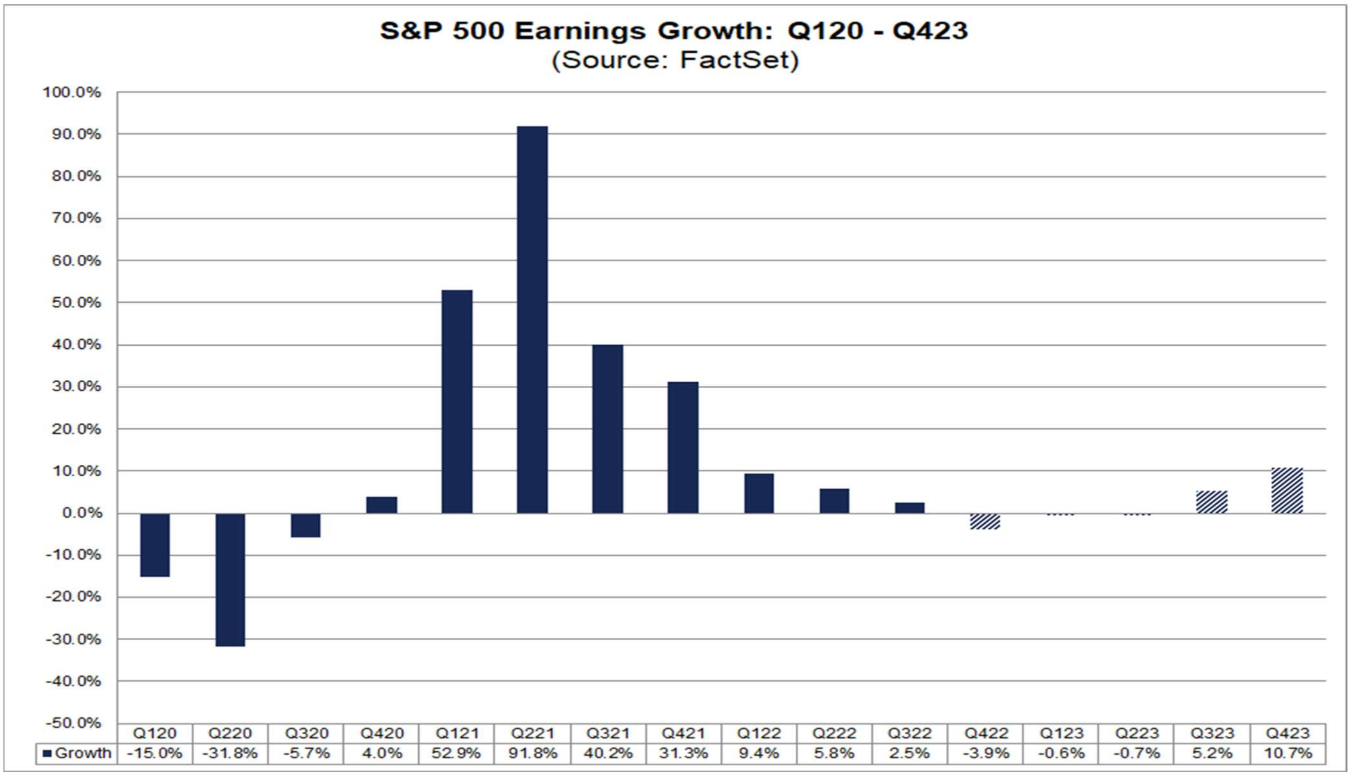
As of today, the index is expected to report three straight quarters (Q4 2022 through Q2 2023) of year-over-year earnings declines. If this happens, it will mark the fourth time it has occurred since 2015. The last time the index reported at least three straight quarters of year-over-year earnings declines was Q1 2020 through Q3 2020.

However, it should be noted that analysts believe earnings growth will return in Q3 2023 (5.2%) and Q4 2023 (10.7%). As a result, they expect the index to report earnings growth of 4.6% for all of 2023. Obviously, all of this earnings growth is projected for the 2nd half of 2023.




S&P 500 Earnings Growth: Q1 2023
(Source: FactSet)
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
-10.0%
-20.0%
-30.0%
Consumer Disc.
Industrials
Energy
Financials
Real Estate
S&P 500
Consumer Staples
Info. Technology
Comm. Services
Utilities
Health Care
Materials
Q123
40.6%
25.3%
17.8%
5.0%
2.2%
-0.6%
-1.1%
-7.4%
-10.2%
-10.6%
-12.0%
-25.6%


S&P 500 Estimated Earnings Growth: Q2 2023
(Source: FactSet)
40.0%
30.0%
20.0%
10.0%
0.0%
-10.0%
-20.0%
-30.0%
-40.0%
Consumer Disc.
Financials
Comm. Services
Real Estate
Industrials
Consumer Staples
Utilities
Info Technology
S&P 500
Health Care
Materials
Energy
Q223
37.8%
11.2%
9.7%
7.8%
7.1%
5.0%
2.2%
0.1%
-0.7%
-7.7%
-21.4%
-32.4%


S&P 500 Earnings Growth: Q120 - Q423
(Source: FactSet)
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
-10.0%
-20.0%
-30.0%
-40.0%
-50.0%
Q120 Q220 Q320 Q420 Q121 Q221 Q321 Q421 Q122 Q222 Q322 Q422 Q123 Q223 Q323 Q423
Growth -15.0% -31.8% -5.7% 4.0% 52.9% 91.8% 40.2% 31.3% 9.4% 5.8% 2.5% -3.9% -0.6% -0.7% 5.2% 10.7%

Q4 Earnings Season: By The Numbers

Overview

Analysts and companies have been more pessimistic in their earnings outlooks for Q4 compared to recent averages. As a result, estimated earnings for the S&P 500 for the fourth 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 a decline in earnings for the first time since Q3 2020.

In terms of estimate revisions for companies in the S&P 500, analysts lowered earnings estimates for Q4 2022 by a larger margin compared to their 5-year and 10-year averages. On a per-share basis, estimated earnings for the fourth quarter decreased by 6.5% from September 30 to December 31. This decline was larger than the 5-year average of -2.5% and the 10-year average of -3.3% for a quarter.

The number of S&P 500 companies that have issued negative EPS guidance for Q4 2022 is also higher than recent averages. At this point in time, 101 companies in the index have issued EPS guidance for Q4 2022, Of these 101 companies, 67 have issued negative EPS guidance and 34 have issued positive EPS guidance. The number of S&P 500 companies issuing negative EPS guidance for Q4 2022 is higher than the 5-year average of 57 and the 10-year average of 65.

Because of the downward revisions to earnings estimates by analysts and the negative EPS guidance issued by companies, estimated earnings for Q4 2022 are lower now relative to the start of the fourth quarter. As of today, the S&P 500 is expected to report a year-over-year earnings decline of -3.9%, compared to estimated (year-over-year) earnings growth of 3.5% on September 30.

If -3.9% is the actual decline for the quarter, it will mark the first time the index has reported a (year-over-year) decline in earnings 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 Materials, Consumer Discretionary, and Communication Services sectors.

In terms of revenues, analysts have also lowered their estimates during the quarter. As a result, estimated revenues for Q4 2022 are lower now relative to the start of the fourth quarter. As of today, the S&P 500 is expected to report (year-over-year) revenue growth of 3.9%, compared to the estimated (year-over-year) revenue growth rate of 6.3% on September 30.

If 3.9% is the actual growth rate for the quarter, it will mark the lowest (year-over-year) revenue growth rate reported by the index since Q4 2020 (3.2%). Eight of the eleven sectors are projected to report year-over-year growth in revenues, led by the Energy and Industrials sectors. On the other hand, three sectors are predicted to a report a year-over-year decline in revenues, led by the Utilities sector.

The forward 12-month P/E ratio is 17.3, which is below the 5-year average (18.5) but above the 10-year average (17.2). It is also 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 12-month EPS estimate has decreased since September 30.

During the upcoming week, 26 S&P 500 companies (including two Dow 30 components) are scheduled to report results for the fourth quarter.

Earnings Revisions: Estimates Decreasing in 10 Sectors, Led by Materials Sector

Decrease in Estimated Earnings Decline for Q4 This Week

During the past week, the estimated earnings decline for the S&P 500 for Q4 2022 decreased to -3.9% from -4.2%. Positive earnings surprises reported by companies in the Financials sector were the largest contributor to the decrease in the earnings decline during the week.

The estimated earnings decline for the S&P 500 for Q4 2022 of -3.9% today is below the estimated earnings growth rate of 3.5% at the start of the quarter (September 30), as estimated earnings for the index of $466.3 billion today are 7.2% below the estimate of $502.3 billion at the start of the quarter. Ten sectors have recorded a decrease in expected (dollar-level) earnings due to downward revisions to earnings estimates, led by the Materials, Consumer Discretionary, Communication Services, 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: 97% of Companies Have Recorded a Decrease in Earnings Since September 30

The Materials sector has recorded the largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -20.3% (to $12.3 billion from $15.4 billion). As a result, the estimated (year-over-year) earnings decline for this sector has increased to -26.7% today from -8.0% on September 30. Despite the decrease in expected earnings, this sector has witnessed the third-largest increase in price (+22.6%) of all 11 sectors since September 30. Overall, 28 of the 29 companies (97%) in the Materials sector have seen a decrease in their mean EPS estimate during this time. Of these 28 companies, 19 have recorded a decrease in their mean EPS estimate of more than 10%, led by Corteva (to $0.05 from $0.15), LyondellBasell Industries (to $1.21 from $2.77), Celanese (to $1.66 from $3.31), and Dow (to $0.57 from $1.08). LyondellBasell Industries and Mosaic (to $2.41 from $3.69) have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since September 30.

Consumer Discretionary: Amazon Leads Earnings Decrease Since September 30

The Consumer Discretionary sector has recorded the second-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -14.6% (to $31.5 billion from $37.0 billion). As a result, the estimated (year-over-year) earnings decline for this sector has increased to -20.7% today from -7.1% on September 30. This sector has also witnessed the largest decrease in price (-4.0%) of all 11 sectors since September 30. Overall, 34 of the 56 companies (61%) in the Consumer Discretionary sector have seen a decrease in their mean EPS estimate during this time. Of these 34 companies, 20 have recorded a decrease in their mean EPS estimate of more than 10%, led by MGM Resorts (to -$1.47 from $0.17), Wynn Resorts (to -$1.19 from -$0.38), Las Vegas Sands (to -$0.09 from -$0.03), and Royal Caribbean (to -$1.30 from -$0.68). However, Amazon.com (to $0.19 from $0.38) and Target (to $1.39 from $3.33) have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since September 30.

Communication Services: Alphabet Leads Earnings Decrease Since September 30

The Communication Services sector has recorded the third-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -13.4% (to $39.5 billion from $45.7 billion). As a result, the estimated (year-over-year) earnings decline for this sector has increased to -19.3% today from -6.8% on September 30. This sector has also witnessed the smallest increase in price (+5.6%) of all 11 sectors since September 30. Overall, 17 of the 22 companies (71%) in the Communication Services sector have seen a decrease in their mean EPS estimate during this time. Of these 15 companies, 12 have recorded a decrease in their mean EPS estimate of more than 10%, led by Warner Bros. Discovery (to -$0.22 from $0.03), Netflix (to $0.58 from $1.20), and Paramount (to $0.30 from $0.58). However, Alphabet (to $1.18 from $1.41), Meta Platforms (to $2.26 from $2.67), and Walt Disney (to $0.81 from $1.29) have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since September 30.

Information Technology: Apple, Intel, and Microsoft Lead Earnings Decrease Since September 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 -8.6% (to $107.1 billion from $117.1 billion). As a result, the estimated (year-over-year) earnings decline for this sector has increased to -9.5% today from -1.0% on September 30. This sector has also witnessed the second-smallest increase in price (+9.1%) of all 11 sectors since September 30. Overall, 44 of the 76 companies (58%) in the Information Technology sector have seen a decrease in their mean EPS estimate during this time. Of these 44 companies, 23 have recorded a decrease in their mean EPS estimate of more than 10%, led by First Solar (to -0.15 from $0.00), Micron Technology (to -$0.04 from $0.06), Western Digital (to -$0.11 from $0.47), Seagate Technology (to $0.12 from $1.05), and Intel (to $0.21 from $0.74). However, Apple (to $1.98 from $2.13), Intel, Microsoft (to $2.33 from $2.59), and QUALCOMM (to $2.36 from $3.47) have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since September 30.

Energy: Marathon Petroleum and Exxon Mobil Lead Earnings Increase Since September 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 0.2% (to $48.4 billion from $48.3 billion). As a result, the estimated (year-over-year) earnings growth rate for this sector has increased to 61.2% today from 60.8% on September 30. This sector has also witnessed the largest increase in price (+24.7%) of all eleven sectors since September 30. Overall, 8 of the 23 companies (35%) in the Energy sector have seen an increase in their mean EPS estimate during this time. Of these 8 companies, 3 have recorded an increase in their mean EPS estimate of more than 10%: Marathon Petroleum (to $5.70 from $3.48), Phillips 66 (to $4.74 from $3.09), and Valero Energy (to $7.05 from $4.71). Exxon Mobil (to $3.32 from $3.08) and these three companies have been the largest contributors to the increase in estimated (dollar-level) earnings for this sector since September 30.

Index-Level EPS Estimate: 6.5% Decrease During Q4

The Q4 bottom-up EPS estimate (which is an aggregation of the median Q4 earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings of the index) decreased by 6.5% (to $54.04 from $57.78) from September 30 to December 31. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings expectations have fallen by 2.5% 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 fourth 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 second-largest decrease in the bottom-up EPS estimate for a quarter since Q2 2020 (-37.0%).

Guidance: Number of Companies Issuing Negative EPS Guidance Above 10-Year Average

At this point in time, 101 companies in the index have issued EPS guidance for Q4 2022. Of these 101 companies, 67 have issued negative EPS guidance and 34 have issued positive EPS guidance. The number of S&P 500 companies issuing negative EPS guidance for Q4 2022 is higher than the number for Q3 2022 (66), the 5-year average (57), and the 10-year average (65). The percentage of companies issuing negative EPS guidance for Q4 2022 is 66% (67 out of 101), which is above the 5-year average of 59% but below the 10-year average of 67%.

At this point in time, 254 companies in the index have issued EPS guidance for the current fiscal year (FY 2022 or FY 2023). Of these 254 companies, 127 have issued negative EPS guidance and 127 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 50% (127 out of 254).

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 Decline: -3.9%

The estimated (year-over-year) earnings decline for Q4 2022 is -3.9%, which is below the 5-year average earnings growth rate of 14.3% and below the 10-year average earnings growth rate of 8.9%. If -3.9% is the actual decline for the quarter, it will mark the first time the has reported a (year-over-year) decline in earnings 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 Materials, Consumer Discretionary, and Communication Services sectors.

Energy: Largest Positive Contributor to Year-Over-Year Earnings for S&P 500 For Q4

The Energy sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 61.2%. 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 Q4 2022 ($82.64) was 7% above the average price for oil in Q4 2021 ($77.10). 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 30%: Oil & Gas Refining & Marketing (147%), Oil & Gas Storage & Transportation (81%), Oil & Gas Equipment & Services (75%), Integrated Oil & Gas (60%), and Oil & Gas Exploration & Production (32%).

The Energy sector is also expected to be the largest positive contributor to estimated earnings for the S&P 500 for the fourth quarter. If this sector were excluded, the expected earnings decline for the index would increase to -8.2% from -3.9%.

Industrials: Boeing and Airlines Are Largest Contributors 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 38.7%. At the industry level, 9 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 $2.2 billion in Q4 2022 compared to a loss of -$1.2 billion in Q4 2021. Four of the remaining eight industries are predicted to report earnings growth above 10%: Aerospace & Defense (215%), Machinery (24%), Trading Companies & Distributors (24%), and Industrial Conglomerates (21%). On the other hand, three industries are projected to report a (year-over-year) decline in earnings for the quarter, led by the Air Freight & Logistics (-14%) industry.

At the company level, Boeing, American Airlines Group, United Airlines Holdings, and Delta Air Lines are predicted to be the largest contributors to earnings growth for the sector. If these four companies were excluded, the estimated earnings growth rate for the Industrials sector would fall to 7.4% from 38.7%.

Materials: Metals & Mining Industry Leads Year-Over-Year Earnings Decline

The Materials sector is expected to report the largest (year-over-year) earnings decline of all eleven sectors at -26.7%. At the industry level, three of the four industries in this sector are predicted to report a year-over-year decline in earnings of more than 15%: Metals & Mining (-49%), Chemicals (-17%), and Containers & Packaging (-16%). On the other hand, the Construction Materials (1%) industry is the only industry in the sector projected to report (year-over-year) earnings growth.

The Metals & Mining industry is also the largest contributor to the expected earnings decline for the sector. If this industry were excluded, the estimated earnings decline for the Materials sector would improve to -16.2% from -26.7%.

Consumer Discretionary: Amazon Leads Year-Over-Year Earnings Decline

The Consumer Discretionary sector is expected to report the second-largest (year-over-year) earnings decline of all eleven sectors at -20.7%. At the industry level, 6 of the 10 industries in the sector are expected to report a year-over-year decrease in earnings. Four of these six industries are predicted to report a decline in earnings or more than 10%: Internet & Direct Marketing Retail (-83%), Multiline Retail (-30%), Household Durables (-17%), and Textiles, Apparel, & Luxury Goods (-11%), and. On the other hand, four industries are projected to report (year-over-year) earnings growth for the quarter. All four of these industries are expected to report earnings growth of 30% or more: Hotels, Restaurants, & Leisure (959%), Automobiles (54%), Auto Components (42%), and Leisure Products (30%).

At the company level, Amazon.com is predicted to be the largest contributor to the expected earnings decline for the sector. If this company were excluded, the Consumer Discretionary sector would be reporting (year-over-year) earnings growth of 15.4% instead of an earnings decline of -20.7%.

On the other hand, the Automobiles and Hotels, Restaurants, & Leisure industries are predicted to be the largest detractors to the expected earnings decline for the sector at the industry level. If these two industries were excluded, the estimated earnings decline for the Consumer Discretionary sector would increase to -41.7% from -20.7%.

Communication Services: Alphabet and Meta Platforms Lead Year-Over-Year Decline

The Communication Services sector is expected to report the third-largest (year-over-year) earnings decline of all eleven sectors at -19.3%. At the industry level, four of the five industries in this sector are predicted to report a year-over-year decline in earnings, led by the Interactive Media & Services (-29%) and Entertainment (-28%) industries. On the other hand, the Wireless Telecommunication Services (215%) industry is the only industry in the sector projected to report (year-over-year) earnings growth.

At the company level, Alphabet and Meta Platforms are predicted to be the largest contributors to the expected earnings decline for the sector. If these two companies were excluded, the estimated earnings decline for the sector would improve to -5.8% from -19.3%.

Revenue Growth: 3.9%

The estimated (year-over-year) revenue growth rate for Q4 2022 is 3.9%, which is below the 5-year average revenue growth rate of 7.8% and below the 10-year average revenue growth rate of 4.6%. If 3.9% is the actual growth rate for the quarter, it will mark the lowest (year-over-year) revenue growth reported by the index since Q4 2020 (3.2%).

Eight of the eleven sectors are expected to report year-over-year growth in revenues, led by the Energy and Industrials sectors. On the other hand, three sectors are predicted to report a year-over-year decline in revenues, led by the Utilities sector.

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

The Energy sector is expected to report the highest (year-over-year) revenue growth rate of all eleven sectors at 12.4%. Higher year-over-year oil prices are contributing to the year-over-year improvement in earnings for this sector, as the average price in Q4 2022 ($82.64) was 7% above the average price for oil in Q4 2021 ($77.10). At the sub-industry level, all five sub-industries in the sector are predicted to report (year-over-year) growth in revenues: Oil & Gas Equipment & Services (21%), Integrated Oil & Gas (13%), Oil & Gas Refining & Marketing (11%), Oil & Gas Exploration & Production (11%), and Oil & Gas Storage & Transportation (8%).

Industrials: Airlines Industry Leads Year-Over-Year Growth

The Industrials sector is expected to report the second-highest (year-over-year) revenue growth rate of all eleven sectors at 9.2%. At the industry level, 10 of the 12 industries in the sector are expected to report (year-over-year) growth in revenues. Six of these ten industries are projected to report revenue growth of 10% or more: Airlines (36%), Trading Companies & Distributors (14%), Machinery (13%), Aerospace & Defense (11%), Commercial Services & Supplies (11%), and Road & Rail (10%).

Utilities: 4 of 5 Industries To Report Year-Over-Year Decline

The Utilities sector is expected to report the largest (year-over-year) revenue decline of all eleven sectors at -18.2%. At the industry level, 4 of the 5 industries in the sector are expected to report a (year-over-year) decline in revenues: Electric Utilities (-21%), Independent Power & Renewable Electricity Producers (-15%), Multi-Utilities (-13%), and Water Utilities (-5%). On the other hand, the Gas Utilities (12%) industry is the only industry projected to report (year-over-year) revenue growth for the quarter.

Net Profit Margin: 11.5%

The estimated net profit margin for the S&P 500 for Q4 2022 is 11.5%, which is above the 5-year average of 11.3%, but below the previous quarter's net profit margin of 11.9% and below the year-ago net profit margin of 12.4%. If 11.5% is the actual net profit margin for the quarter, it will mark the lowest net profit margin reported by the index since Q4 2020 (10.9%).

At the sector level, four sectors are expected to report a year-over-year increase in their net profit margins in Q4 2022 compared to Q4 2021, led by the Energy (to 13.3% vs. 9.3%) sector. On the other hand, seven sectors are expected to report a year-over-year decrease in their net profit margins in Q4 2022 compared to Q4 2021, led by the Materials (10.1% vs. 13.2%) sector.

Four sectors are expected to report net profit margins in Q4 2022 that are above their 5-year averages, led by the Energy (13.3% vs. 6.8%) sector. On the other hand, seven sectors are expected to report net profit margins in Q4 2022 that are below their 5-year averages, led by the Communication Services (9.7% vs. 11.7%) sector.

Looking Ahead: Forward Estimates and Valuation

Earnings: S&P 500 Expected to Report Earnings Growth of 5% for CY 2022

For the third quarter, S&P 500 companies reported earnings growth of 2.5% and revenue growth of 11.0%.

For Q4 2022, analysts are projecting an earnings decline of -3.9% and revenue growth of 3.9%.

For CY 2022, analysts are projecting earnings growth of 4.8% and revenue growth of 10.3%.

For Q1 2023, analysts are projecting an earnings decline of -0.6% and revenue growth of 3.1%.

For Q2 2023, analysts are projecting an earnings decline of -0.7% and revenue growth of 0.7%.

For CY 2023, analysts are projecting earnings growth of 4.6% and revenue growth of 3.2%.

Valuation: Forward P/E Ratio is 17.3, Above the 10-Year Average (17.2)

The forward 12-month P/E ratio for the S&P 500 is 17.3. This P/E ratio is below the 5-year average of 18.5 but above the 10-year average of 17.2. It is also 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 11.1%, while the forward 12-month EPS estimate has decreased by 2.8%. At the sector level, the Consumer Discretionary (22.3) sector have the highest forward 12-month P/E ratio, while the Energy (10.3) and Financials (12.7) sectors have the lowest forward 12-month P/E ratios.

The trailing 12-month P/E ratio is 19.4, which is below the 5-year average of 22.7 and below the 10-year average of 20.5.

Targets & Ratings: Analysts Project 13% Increase in Price Over Next 12 Months

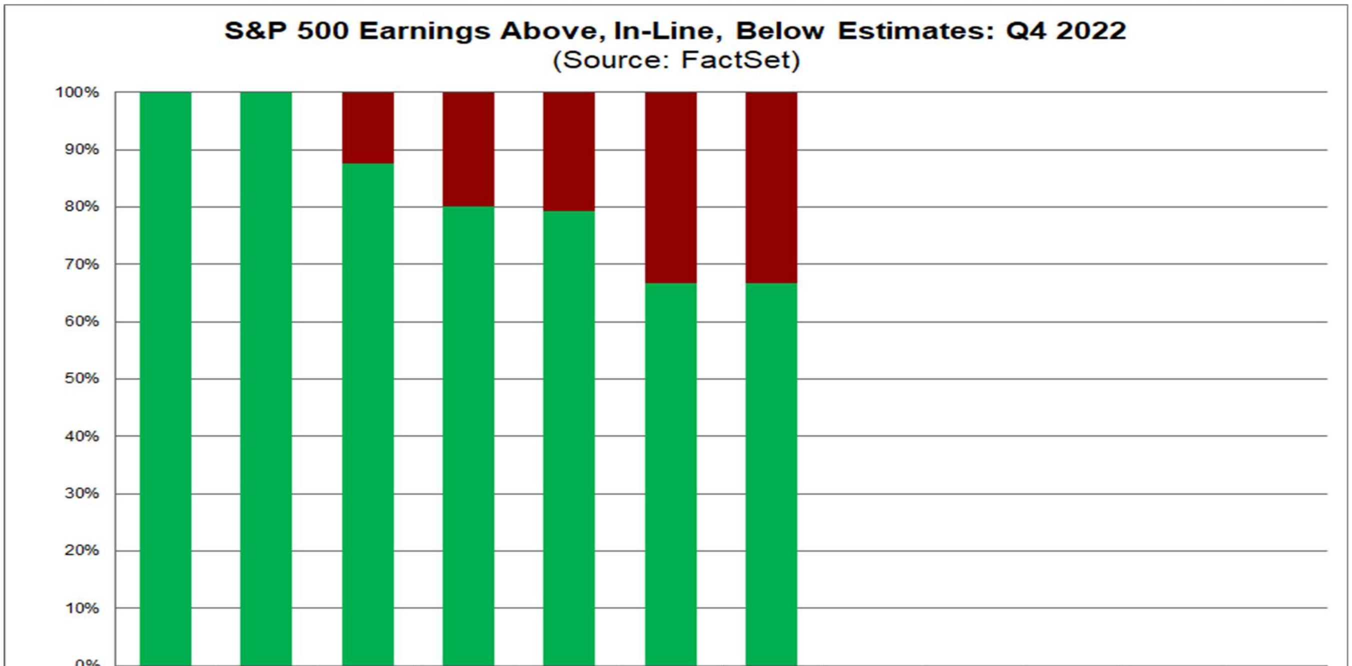
The bottom-up target price for the S&P 500 is 4515.52, which is 13.4% above the closing price of 3983.17. At the sector level, the Consumer Discretionary (+24.6%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Materials (+4.4%) and Industrials (+4.8%) 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 10,949 ratings on stocks in the S&P 500. Of these 10,949 ratings, 54.4% are Buy ratings, 39.4% are Hold ratings, and 6.1% are Sell ratings. At the sector level, the Communication Services (62%), Energy (62%), and Information Technology (61%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (42%) sector has the lowest percentage of Buy ratings.

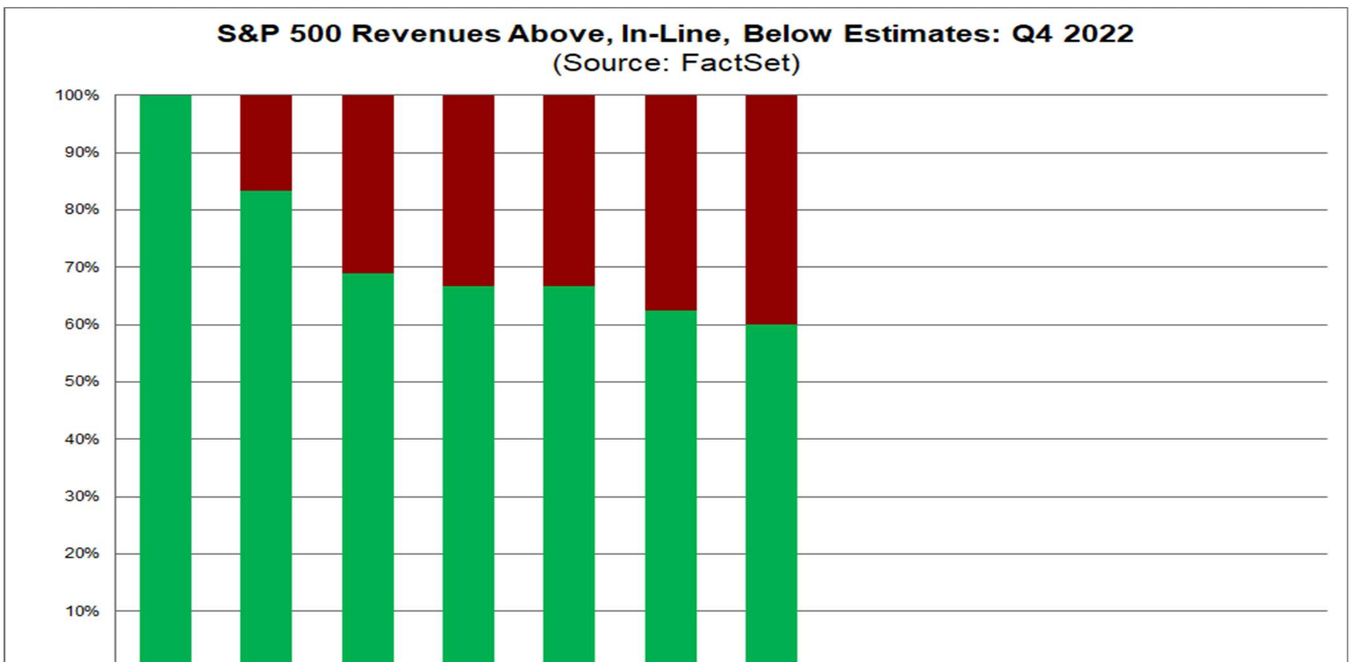
Companies Reporting Next Week: 26

During the upcoming week, 26 S&P 500 companies (including two Dow 30 components) are scheduled to report results for the fourth quarter.

Q4 2022: Scorecard

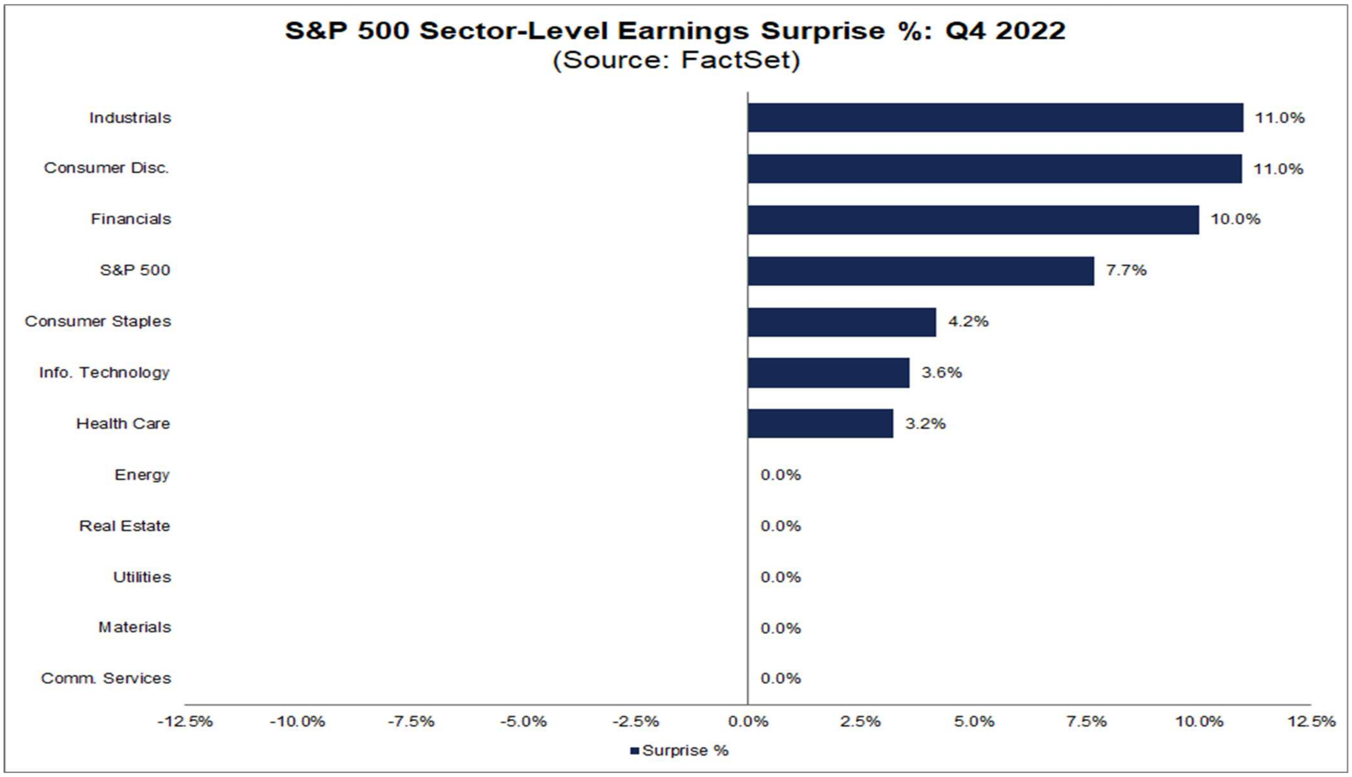


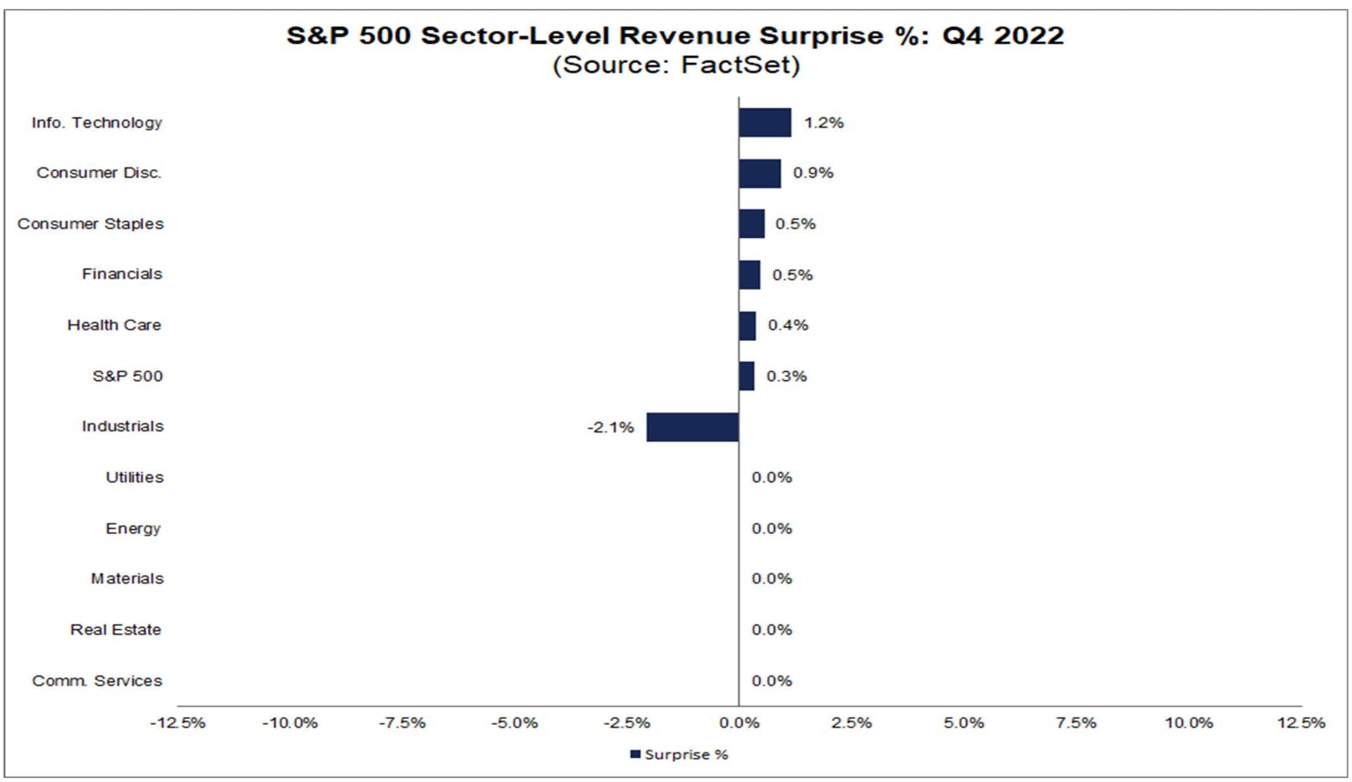
	Industrials	Health Care	Financials	Info. Technology	S&P 500	Consumer Staples	Consumer Disc.	Energy	Utilities	Real Estate	Materials	Comm. Services
Below	0%	0%	13%	20%	21%	33%	33%	0%	0%	0%	0%	0%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	100%	100%	88%	80%	79%	67%	67%	0%	0%	0%	0%	0%



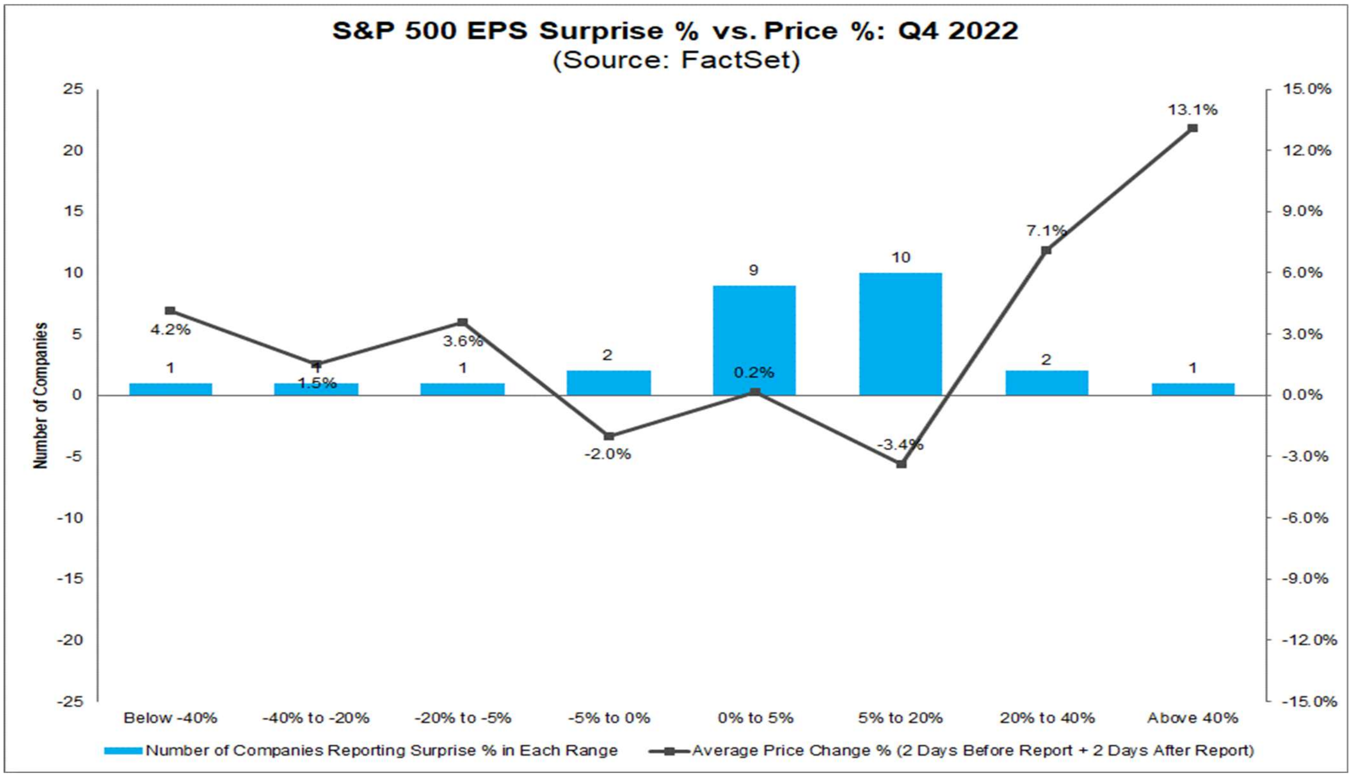
	Health Care	Consumer Staples	S&P 500	Consumer Disc.	Industrials	Financials	Info. Technology	Utilities	Real Estate	Energy	Materials	Comm. Services
Below	0%	17%	31%	33%	33%	38%	40%	0%	0%	0%	0%	0%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	100%	83%	69%	67%	67%	63%	60%	0%	0%	0%	0%	0%

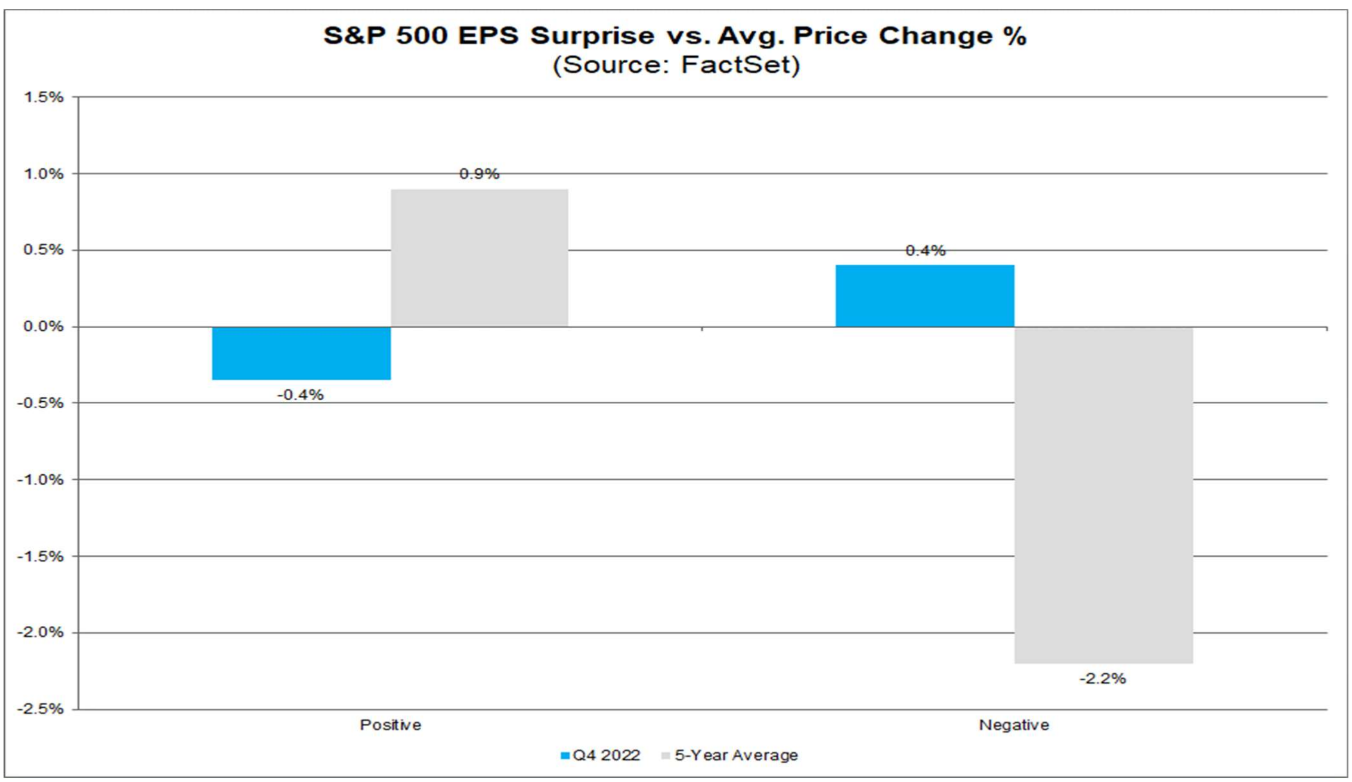
Q4 2022: Scorecard



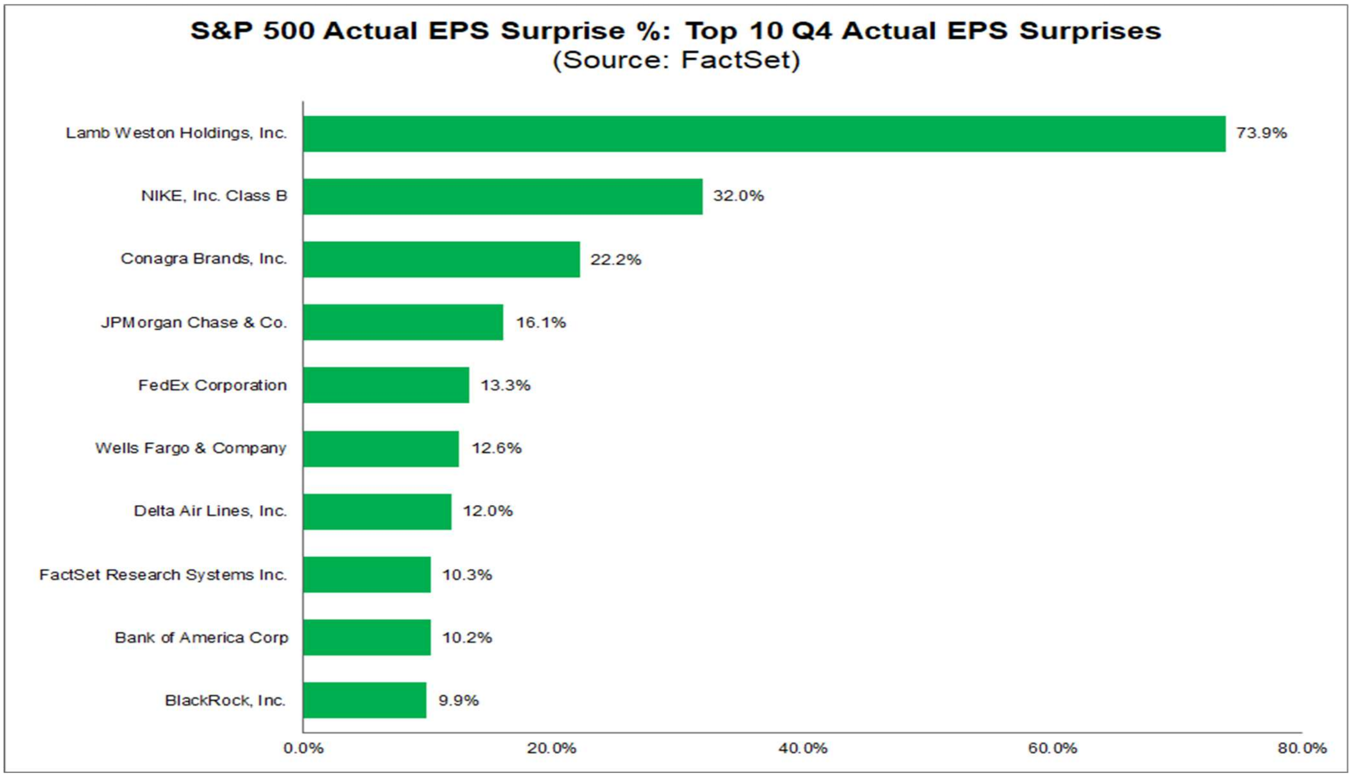


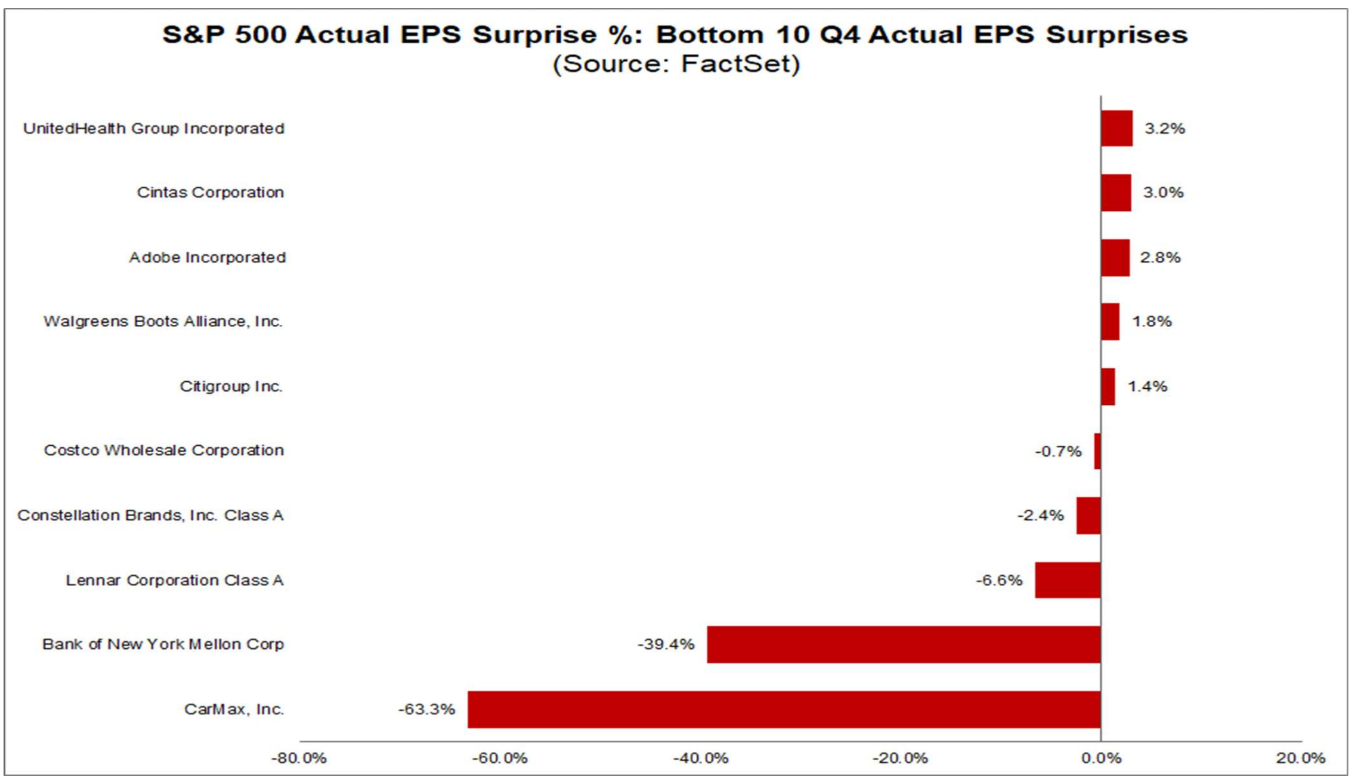
Q4 2022: Scorecard



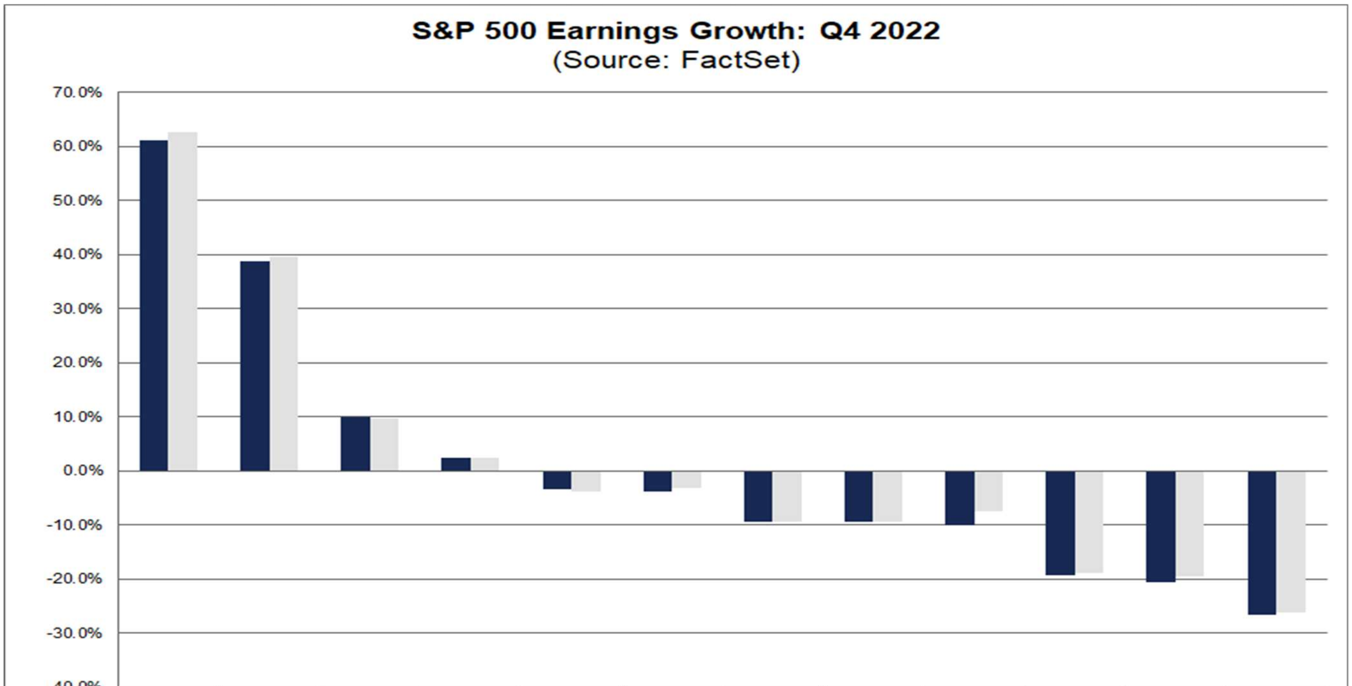


Q4 2022: Scorecard

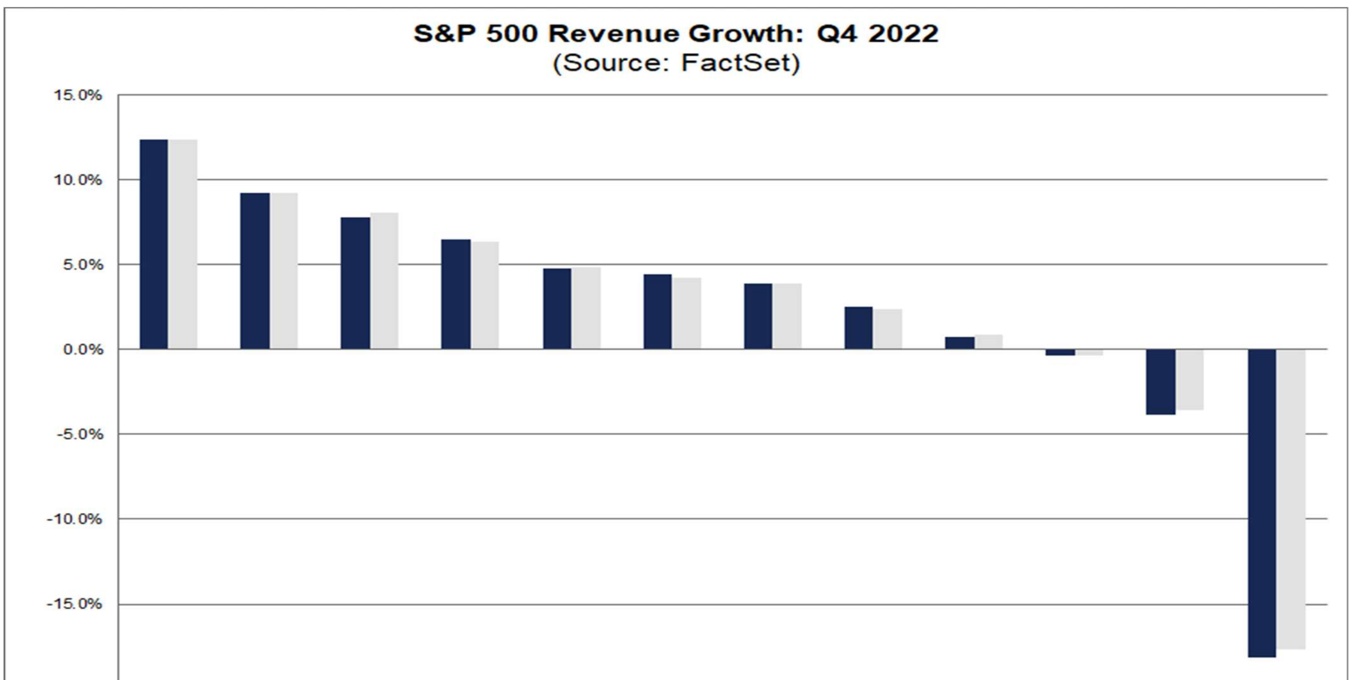




Q4 2022: Growth

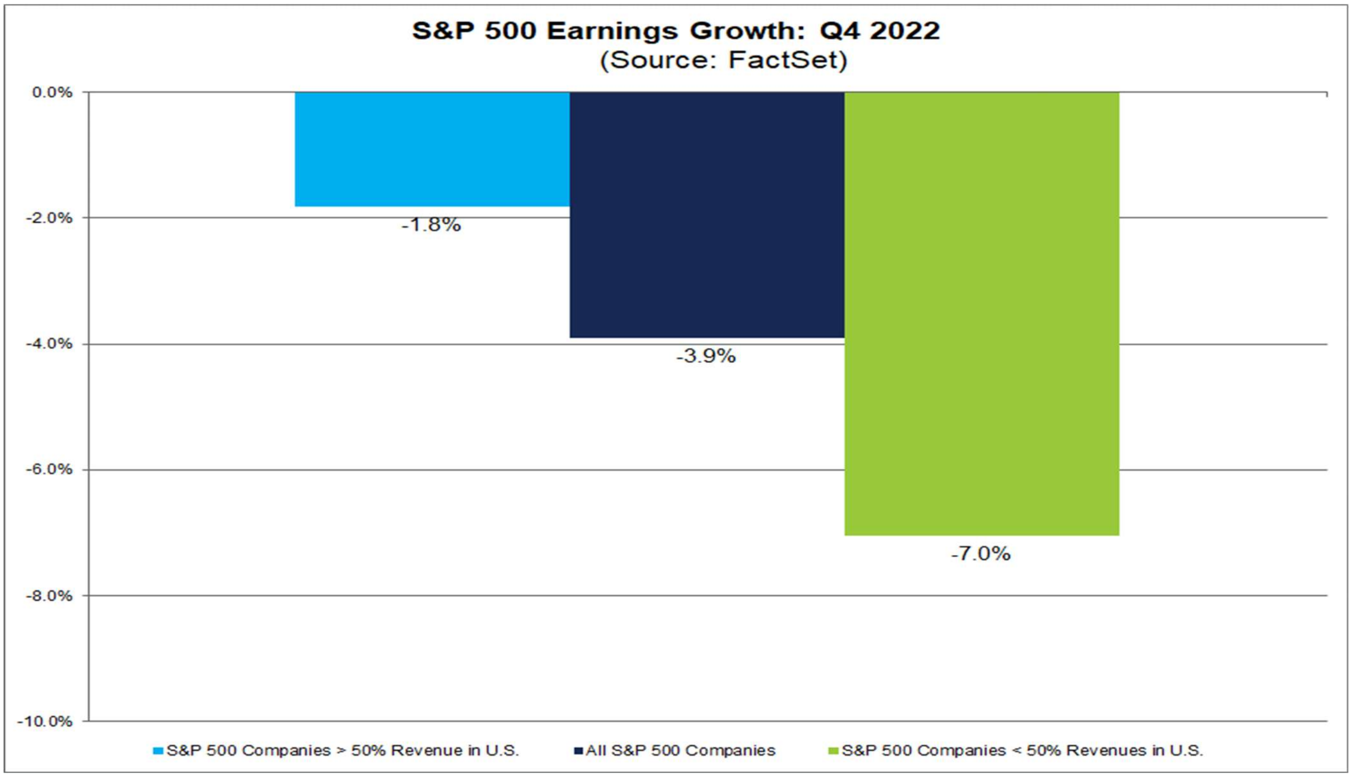


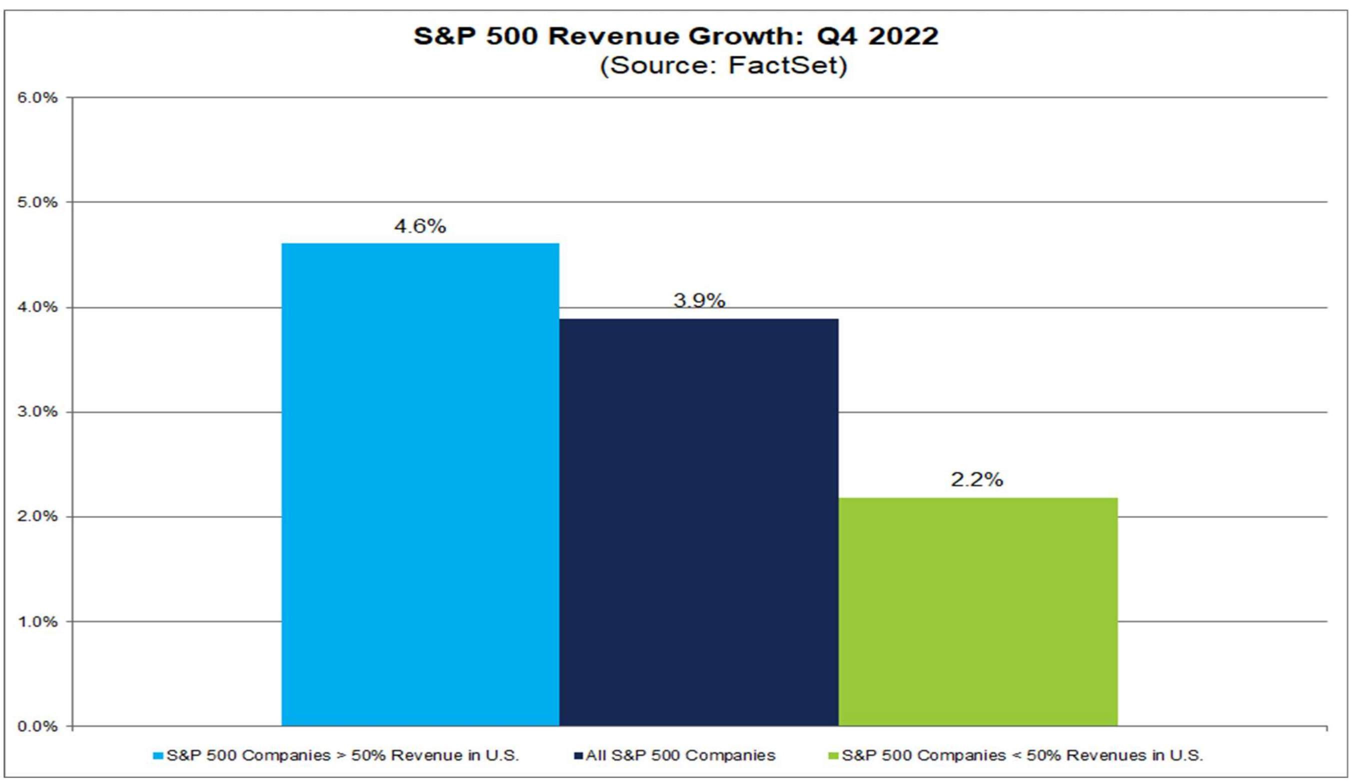
	Energy	Industrials	Real Estate	Utilities	Consumer Staples	S&P 500	Health Care	Info. Technology	Financials	Comm. Services	Consumer Disc.	Materials
Today	61.2%	38.7%	10.0%	2.4%	-3.4%	-3.9%	-9.4%	-9.5%	-10.0%	-19.3%	-20.7%	-26.7%
31-Dec	62.6%	39.5%	9.8%	2.5%	-3.9%	-3.2%	-9.5%	-9.4%	-7.5%	-18.8%	-19.6%	-26.2%



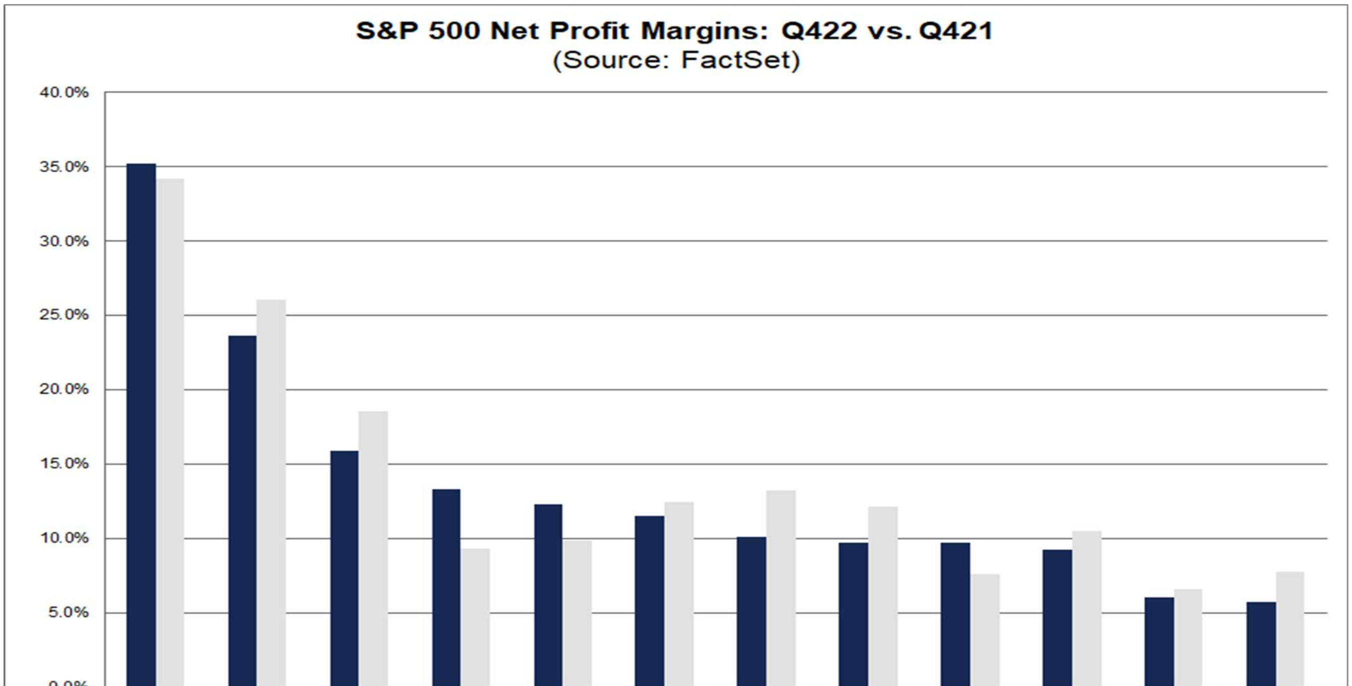
	Energy	Industrials	Consumer Disc.	Real Estate	Financials	Consumer Staples	S&P 500	Health Care	Comm. Services	Info. Technology	Materials	Utilities
Today	12.4%	9.2%	7.8%	6.5%	4.8%	4.4%	3.9%	2.5%	0.8%	-0.4%	-3.8%	-18.2%
31-Dec	12.4%	9.2%	8.0%	6.4%	4.8%	4.2%	3.9%	2.4%	0.9%	-0.4%	-3.6%	-17.7%

Q4 2022: Growth

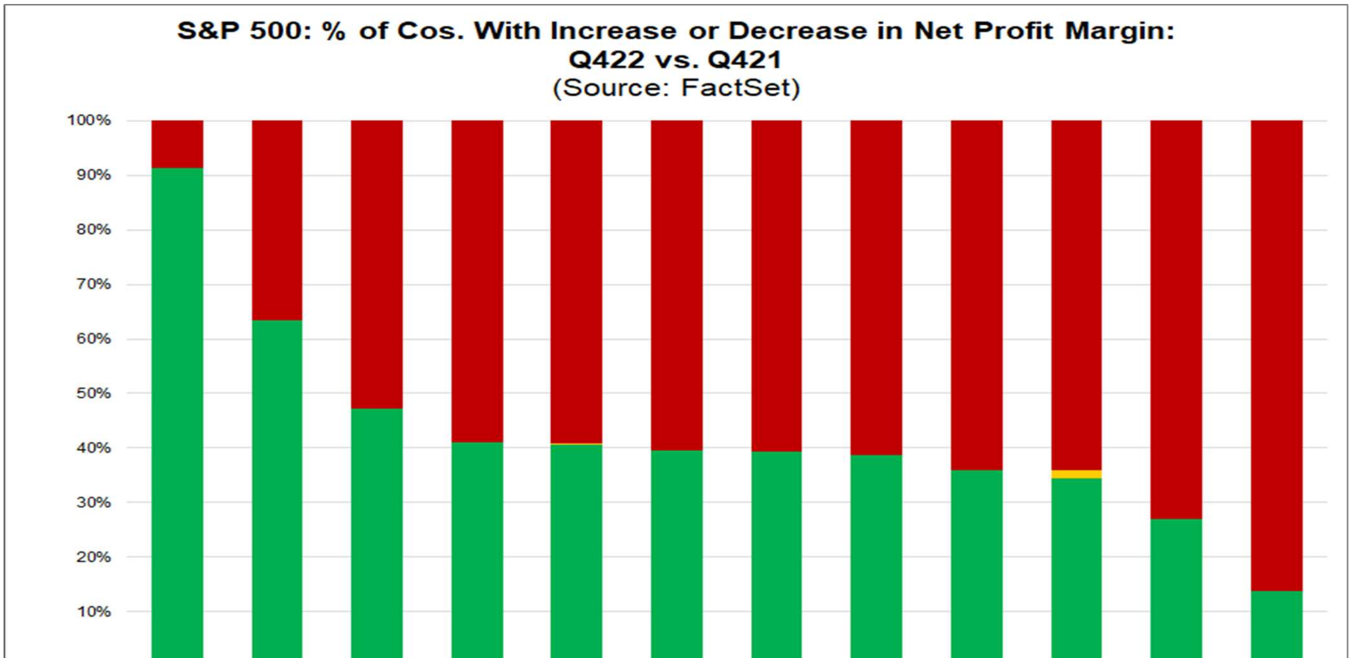




Q4 2022: Net Profit Margin

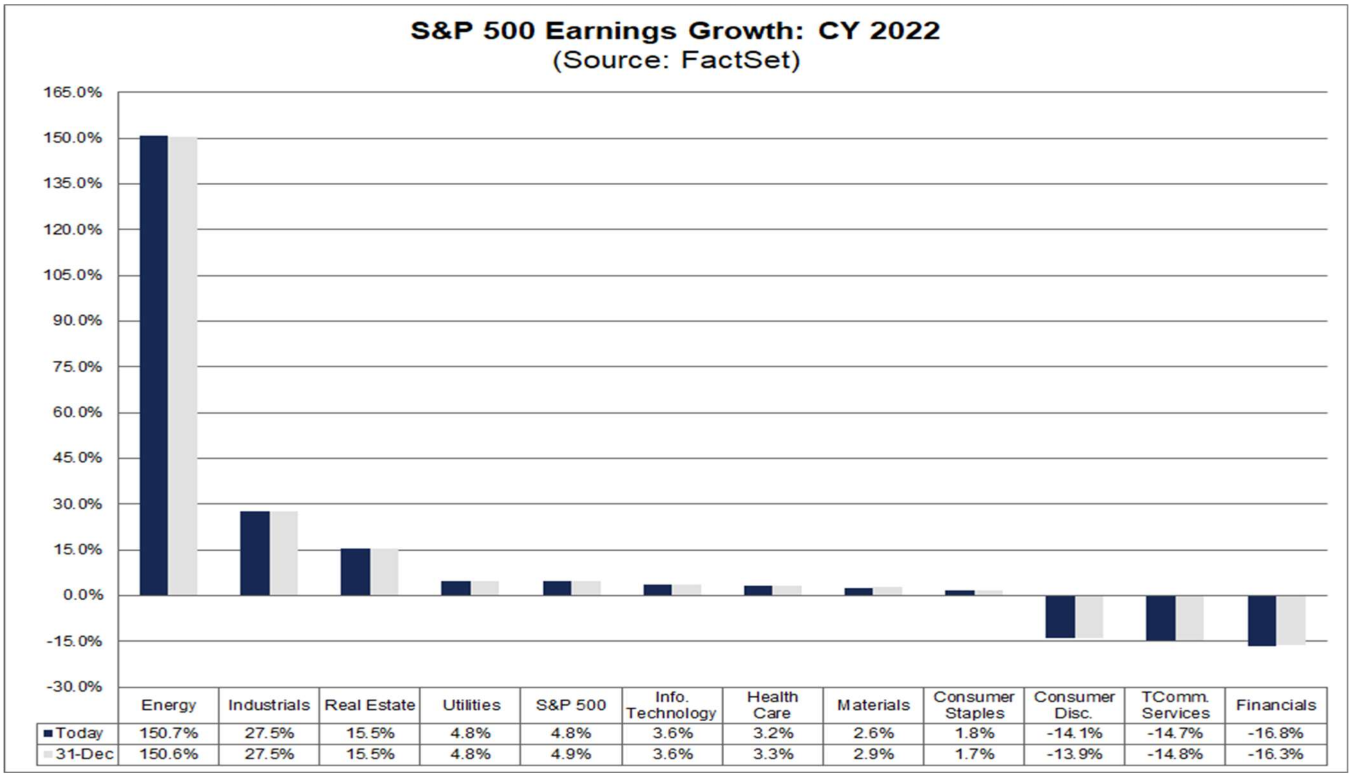


	Real Estate	Information Tech.	Financials	Energy	Utilities	S&P 500	Materials	Comm. Services	Industrials	Health Care	Consumer Staples	Consumer Disc.
Q322	35.2%	23.7%	15.9%	13.3%	12.3%	11.5%	10.1%	9.7%	9.7%	9.3%	6.1%	5.7%
Q321	34.2%	26.0%	18.5%	9.3%	9.8%	12.4%	13.2%	12.1%	7.6%	10.5%	6.6%	7.8%

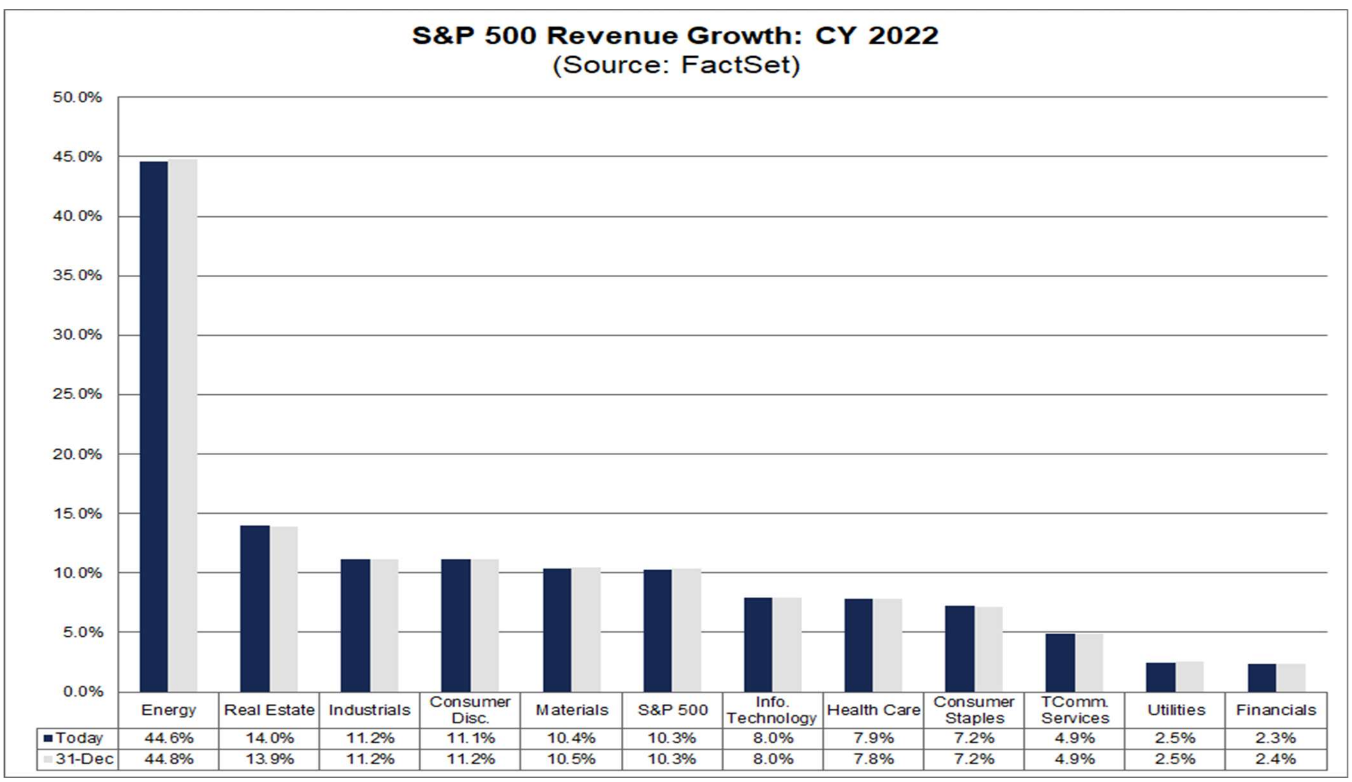


	Energy	Utilities	Industrials	Consumer Disc.	S&P 500	Information Tech.	Consumer Staples	Real Estate	Comm. Services	Financials	Health Care	Materials
Down %	9%	37%	53%	59%	59%	61%	61%	61%	64%	64%	73%	86%
None %	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%
Up %	91%	63%	47%	41%	41%	39%	39%	39%	36%	34%	27%	14%

CY 2022: Growth

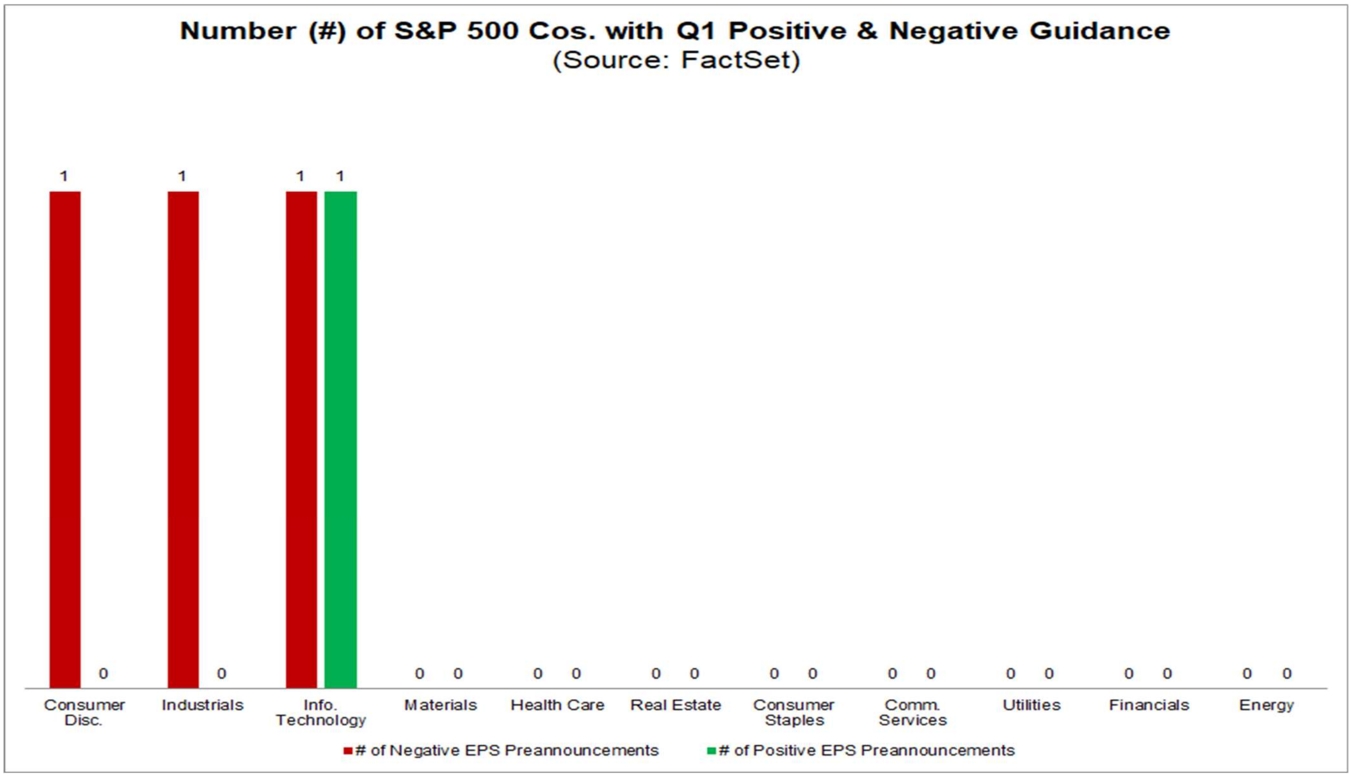


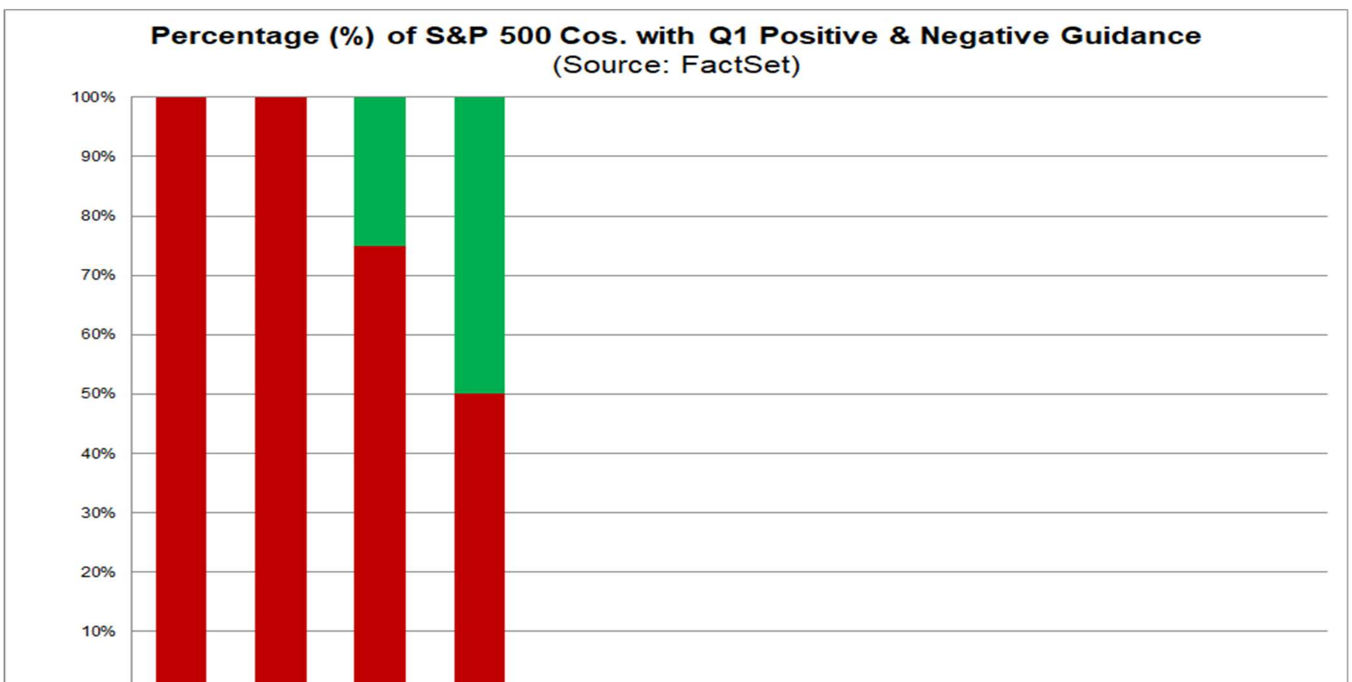
	Energy	Industrials	Real Estate	Utilities	S&P 500	Info. Technology	Health Care	Materials	Consumer Staples	Consumer Disc.	TComm. Services	Financials
Today	150.7%	27.5%	15.5%	4.8%	4.8%	3.6%	3.2%	2.6%	1.8%	-14.1%	-14.7%	-16.8%
31-Dec	150.6%	27.5%	15.5%	4.8%	4.9%	3.6%	3.3%	2.9%	1.7%	-13.9%	-14.8%	-16.3%



	Energy	Real Estate	Industrials	Consumer Disc.	Materials	S&P 500	Info. Technology	Health Care	Consumer Staples	TComm. Services	Utilities	Financials
Today	44.6%	14.0%	11.2%	11.1%	10.4%	10.3%	8.0%	7.9%	7.2%	4.9%	2.5%	2.3%
31-Dec	44.8%	13.9%	11.2%	11.2%	10.5%	10.3%	8.0%	7.8%	7.2%	4.9%	2.5%	2.4%

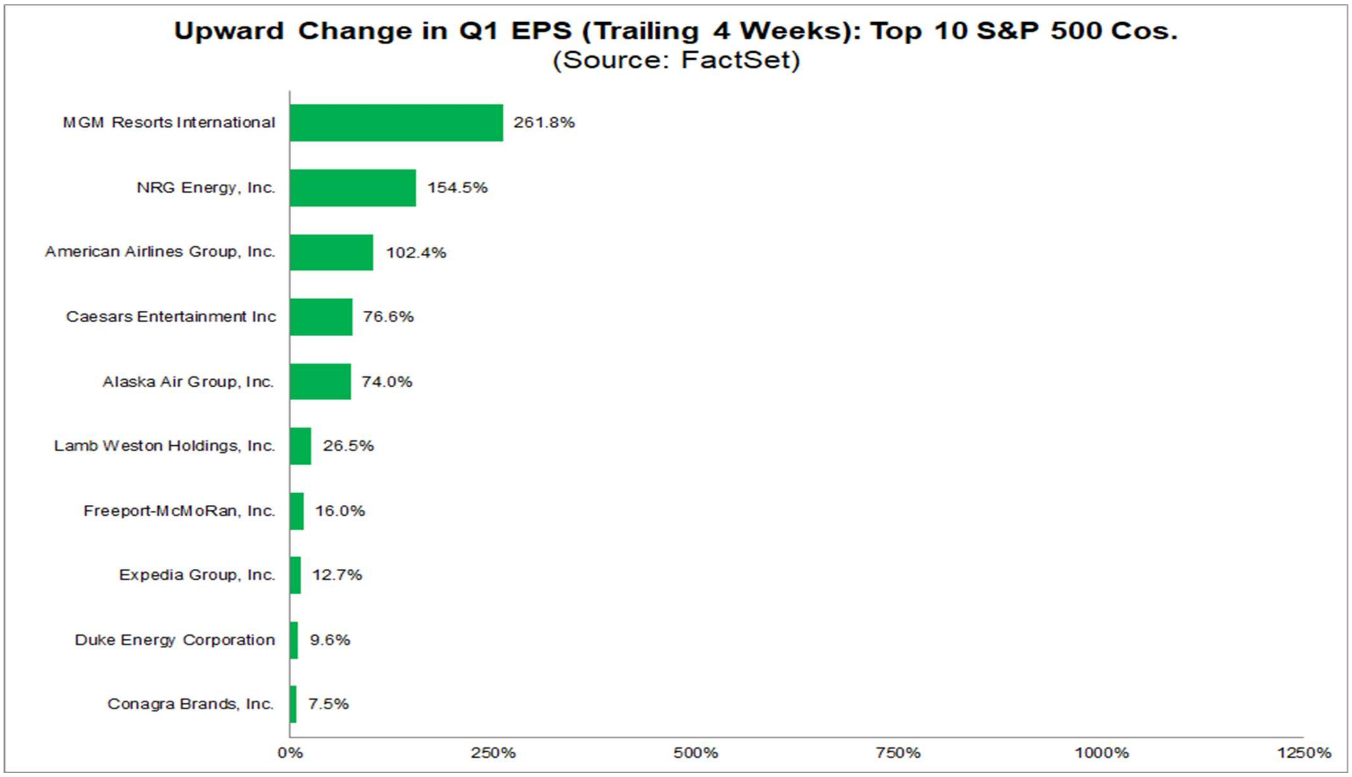
Q1 2023: Guidance

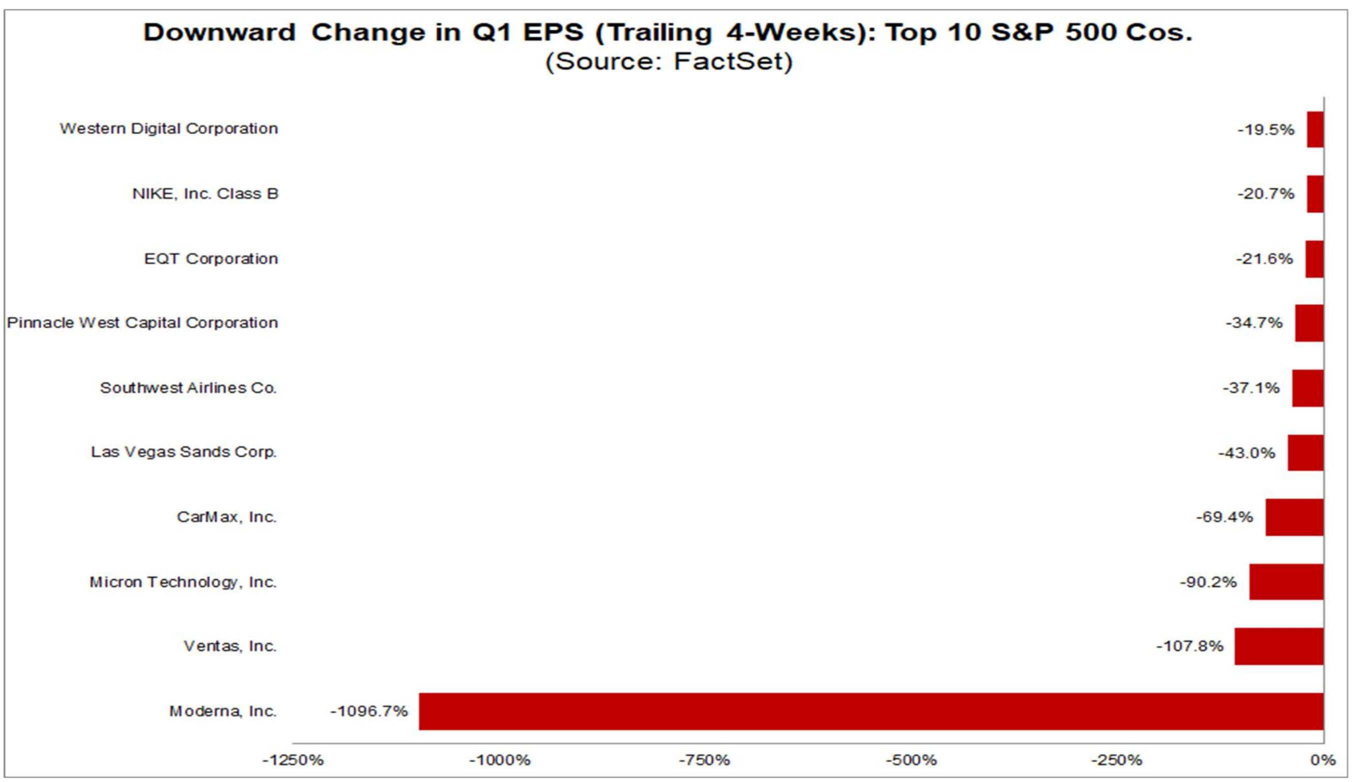




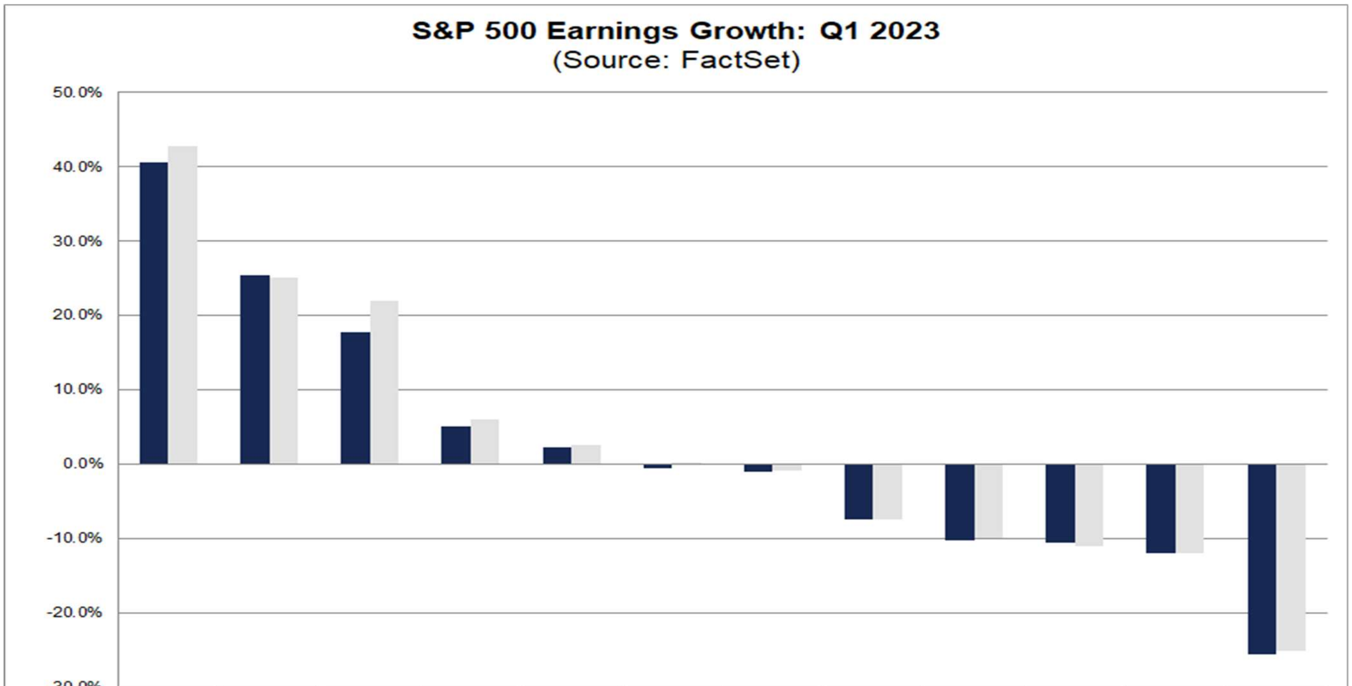
	Consumer Disc.	Industrials	S&P 500	Info. Technology	Comm. Services	Utilities	Materials	Real Estate	Health Care	Consumer Staples	Financials	Energy
Positive	0%	0%	25%	50%	0%	0%	0%	0%	0%	0%	0%	0%
Negative	100%	100%	75%	50%	0%	0%	0%	0%	0%	0%	0%	0%

Q1 2023: EPS Revisions

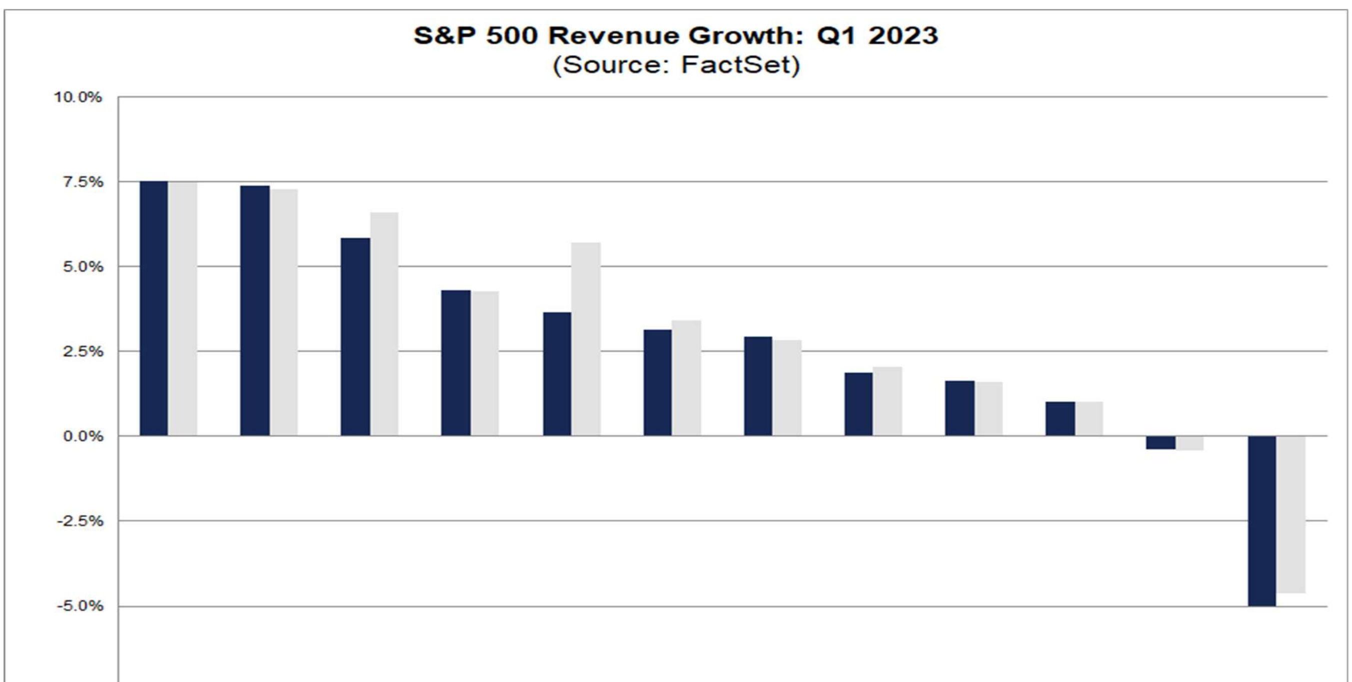




Q1 2023: Growth

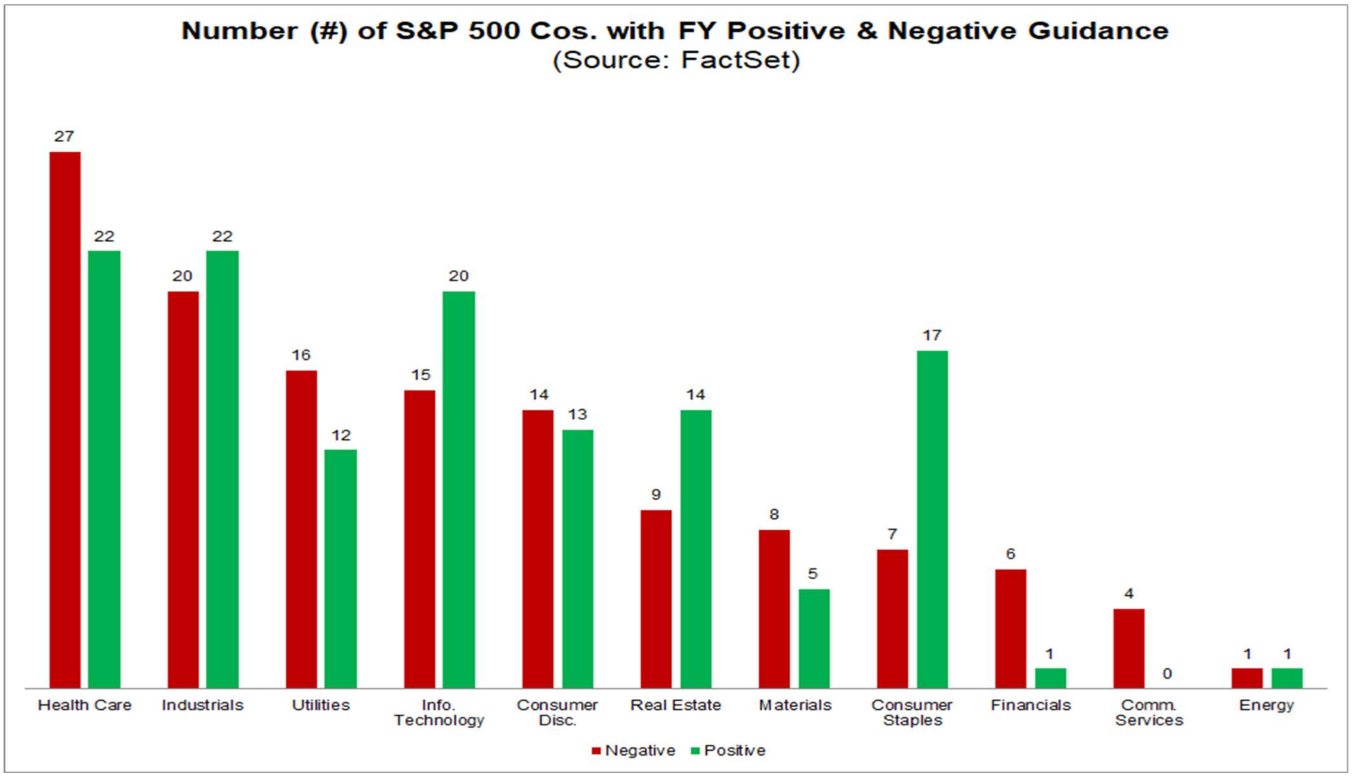


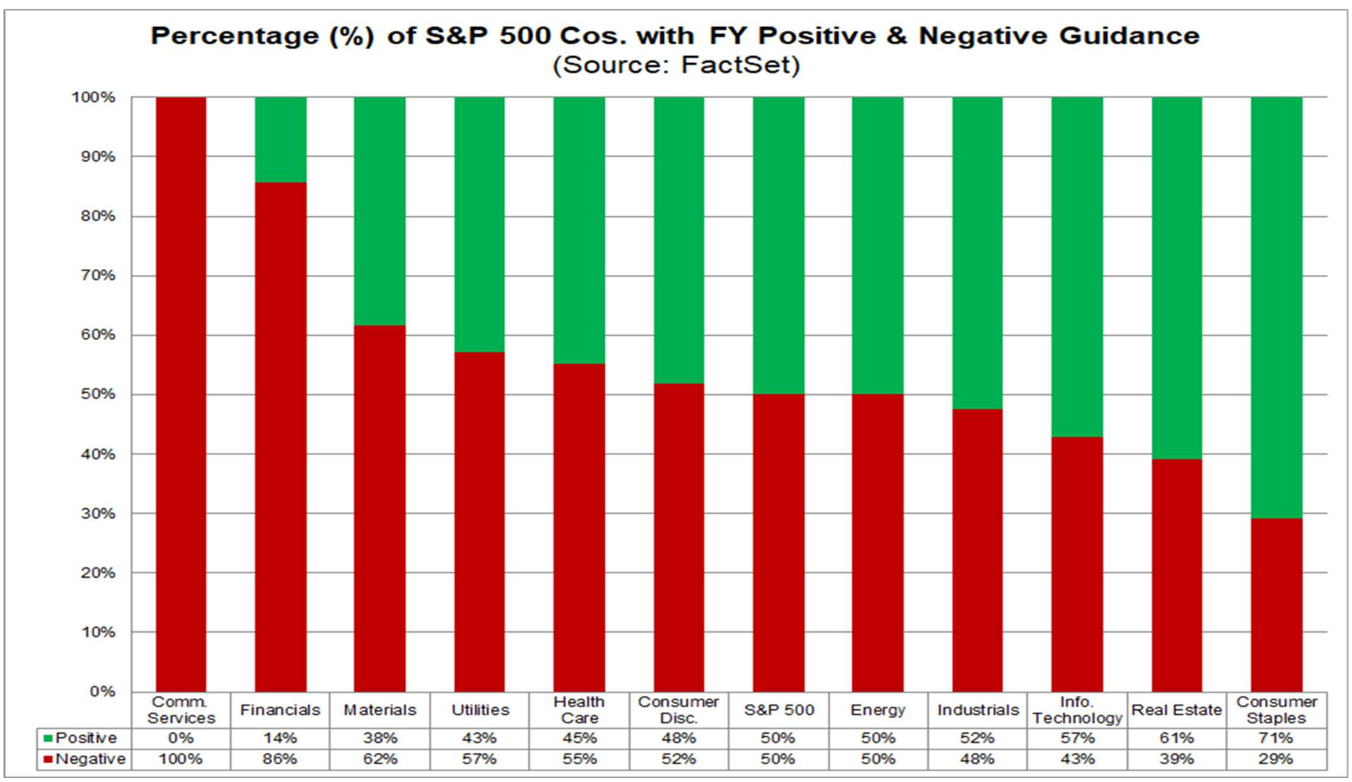
	Consumer Disc.	Industrials	Energy	Financials	Real Estate	S&P 500	Consumer Staples	Info. Technology	Comm. Services	Utilities	Health Care	Materials
Today	40.6%	25.3%	17.8%	5.0%	2.2%	-0.6%	-1.1%	-7.4%	-10.2%	-10.6%	-12.0%	-25.6%
31-Dec	42.7%	25.2%	22.0%	6.1%	2.5%	0.0%	-0.9%	-7.4%	-10.0%	-11.0%	-12.0%	-25.2%



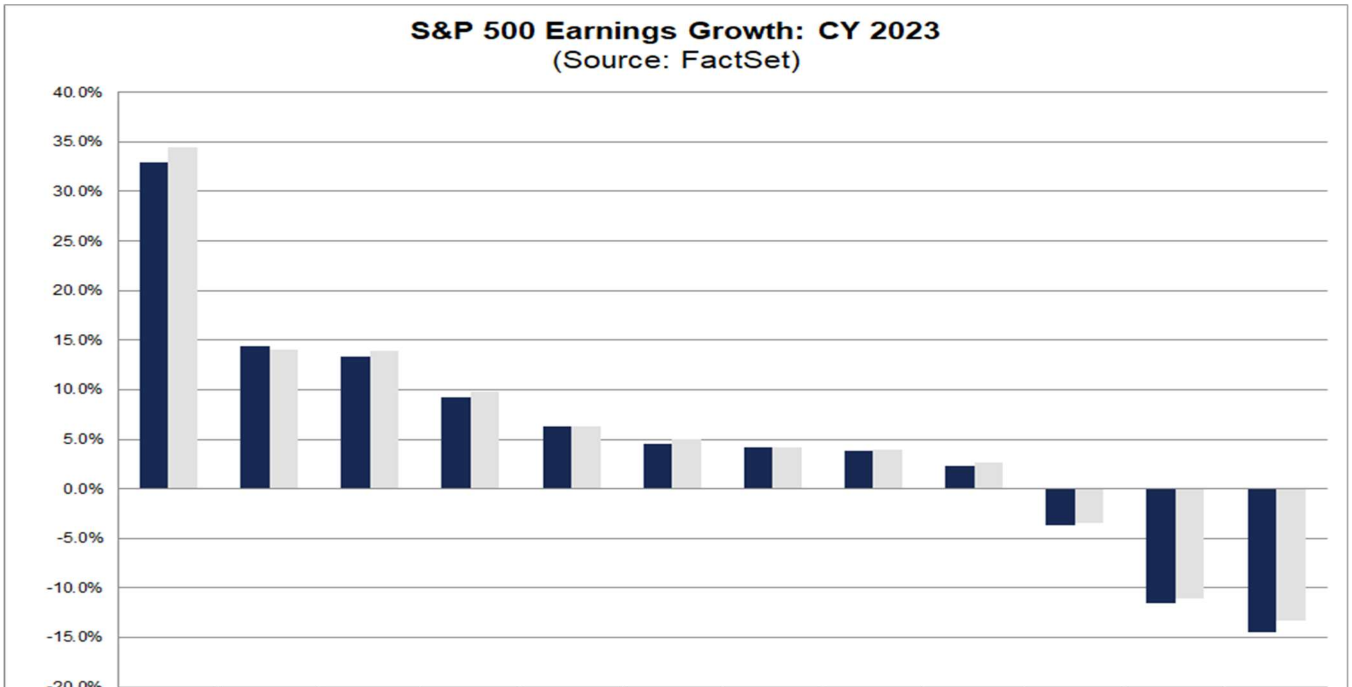
	Financials	Industrials	Consumer Disc.	Real Estate	Energy	S&P 500	Consumer Staples	Comm. Services	Utilities	Health Care	Info. Technology	Materials
Today	7.5%	7.4%	5.9%	4.3%	3.7%	3.1%	2.9%	1.9%	1.6%	1.0%	-0.4%	-5.0%
31-Dec	7.5%	7.3%	6.6%	4.3%	5.7%	3.4%	2.8%	2.0%	1.6%	1.0%	-0.4%	-4.6%

FY 2022 / 2023: EPS Guidance

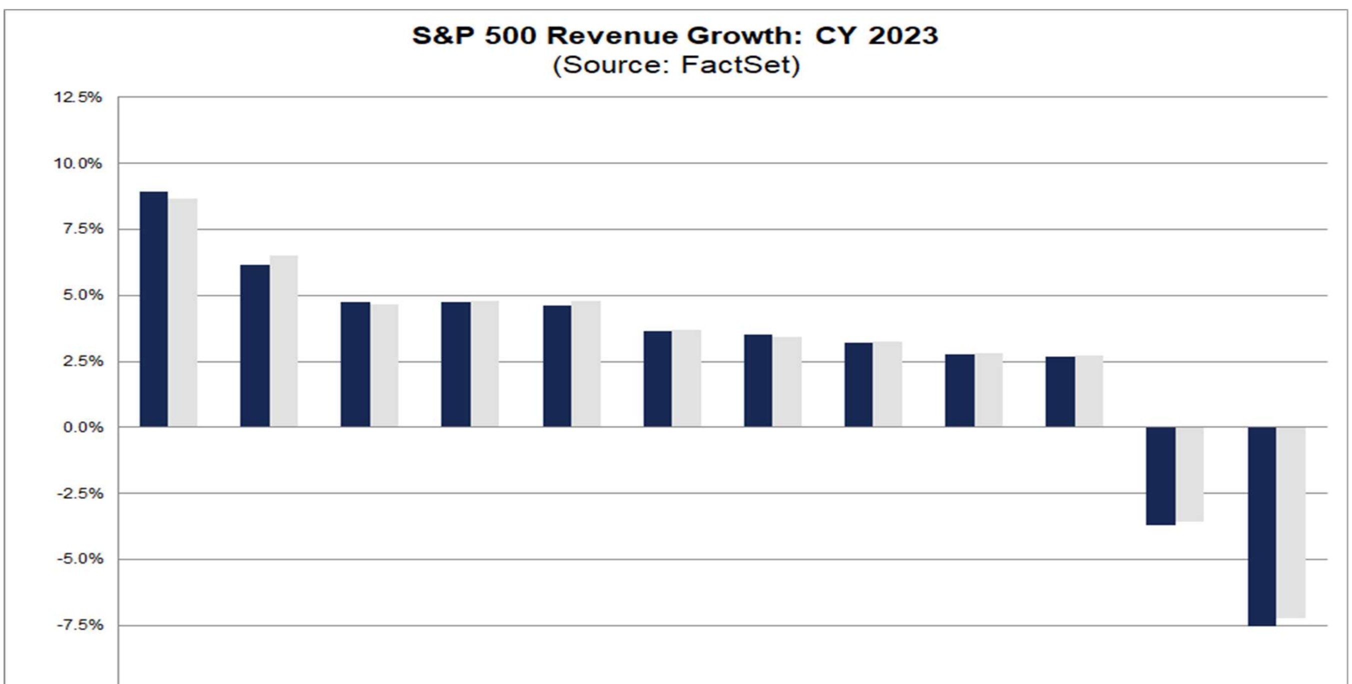




CY 2023: Growth

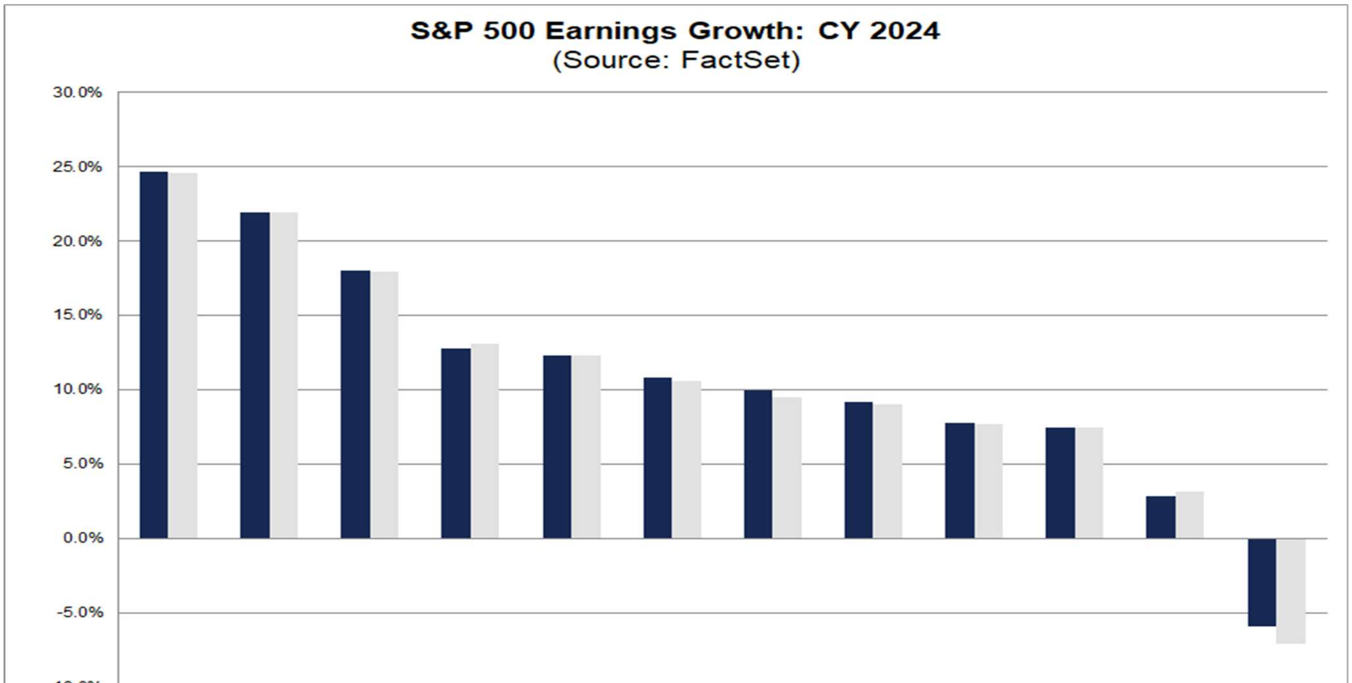


	Consumer Disc.	Industrials	Financials	Comm. Services	Utilities	S&P 500	Consumer Staples	Info. Technology	Real Estate	Health Care	Materials	Energy
Today	32.9%	14.4%	13.3%	9.3%	6.3%	4.6%	4.2%	3.9%	2.3%	-3.6%	-11.5%	-14.5%
31-Dec	34.4%	14.0%	13.9%	9.8%	6.3%	5.0%	4.1%	4.0%	2.6%	-3.5%	-11.1%	-13.3%

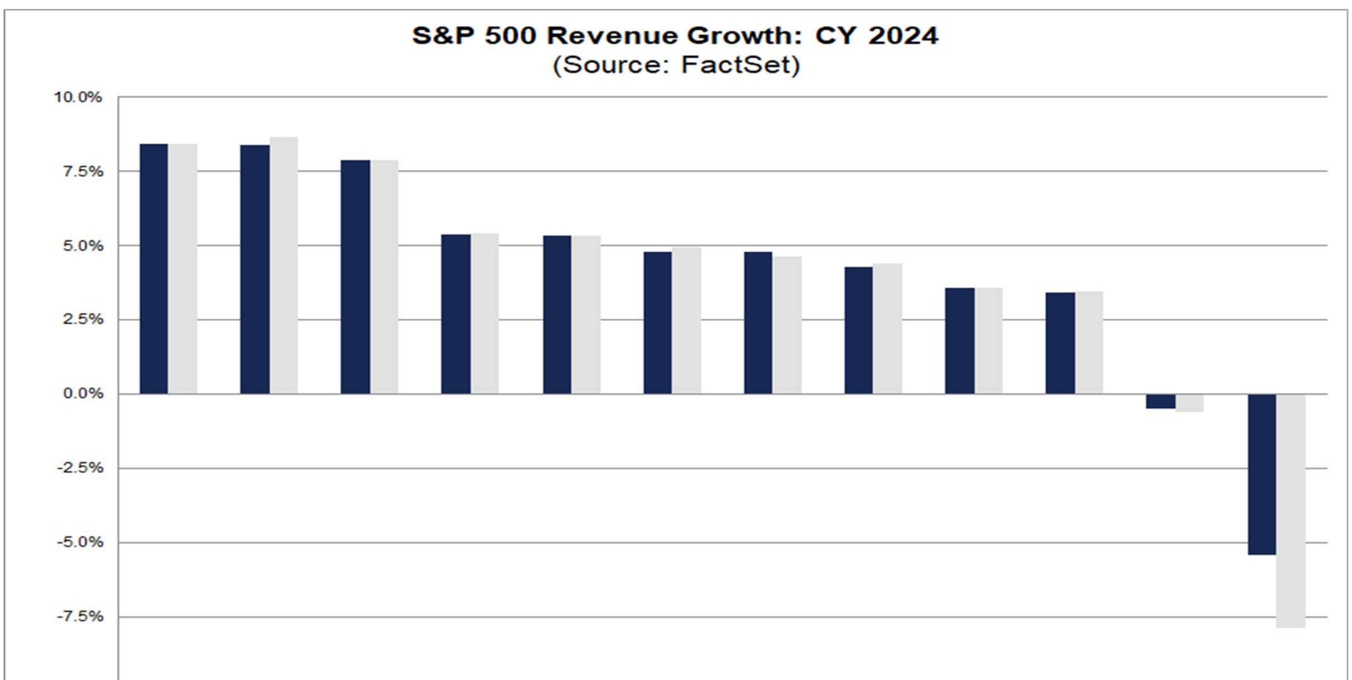


	Financials	Consumer Disc.	Industrials	Real Estate	Comm. Services	Info. Technology	Consumer Staples	S&P 500	Health Care	Utilities	Materials	Energy
Today	8.9%	6.1%	4.7%	4.7%	4.6%	3.7%	3.5%	3.2%	2.8%	2.7%	-3.7%	-7.5%
31-Dec	8.7%	6.5%	4.6%	4.8%	4.8%	3.7%	3.4%	3.3%	2.8%	2.7%	-3.6%	-7.2%

CY 2024: Growth

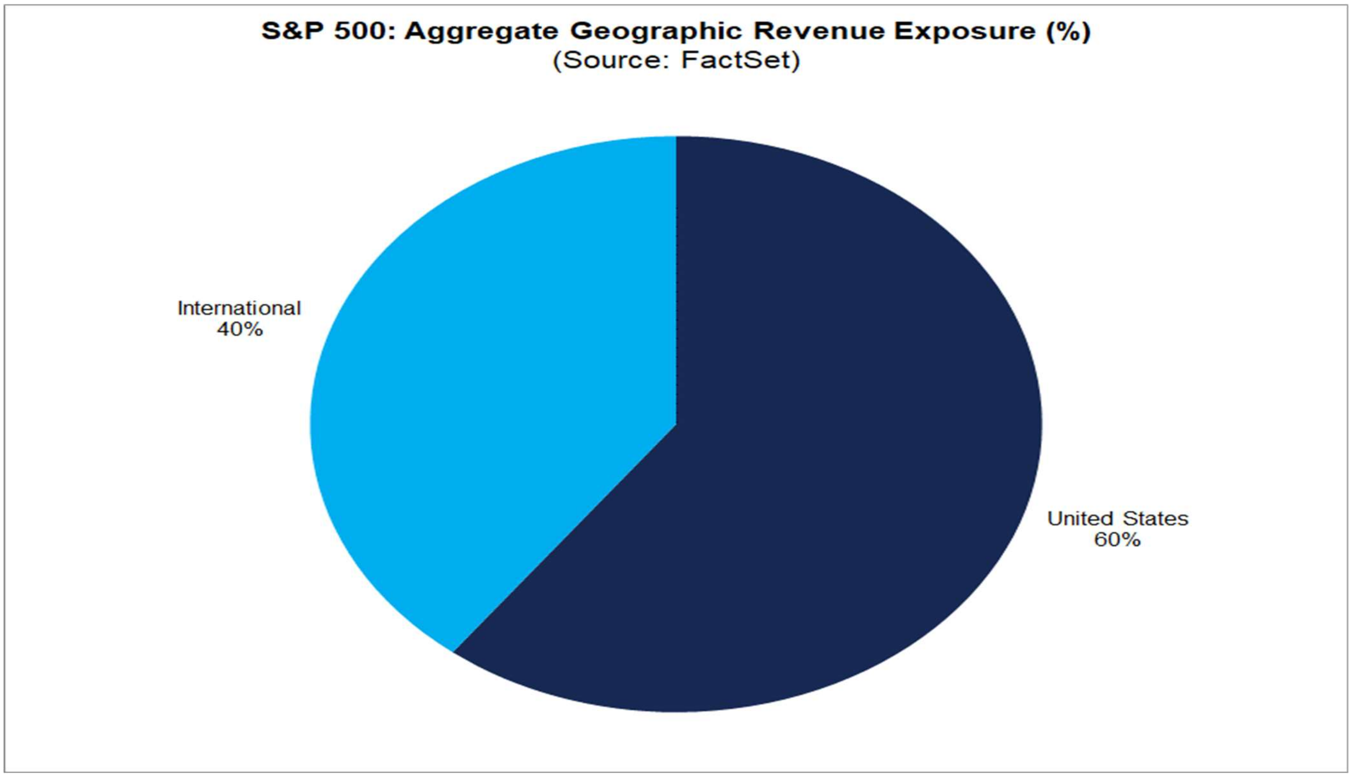


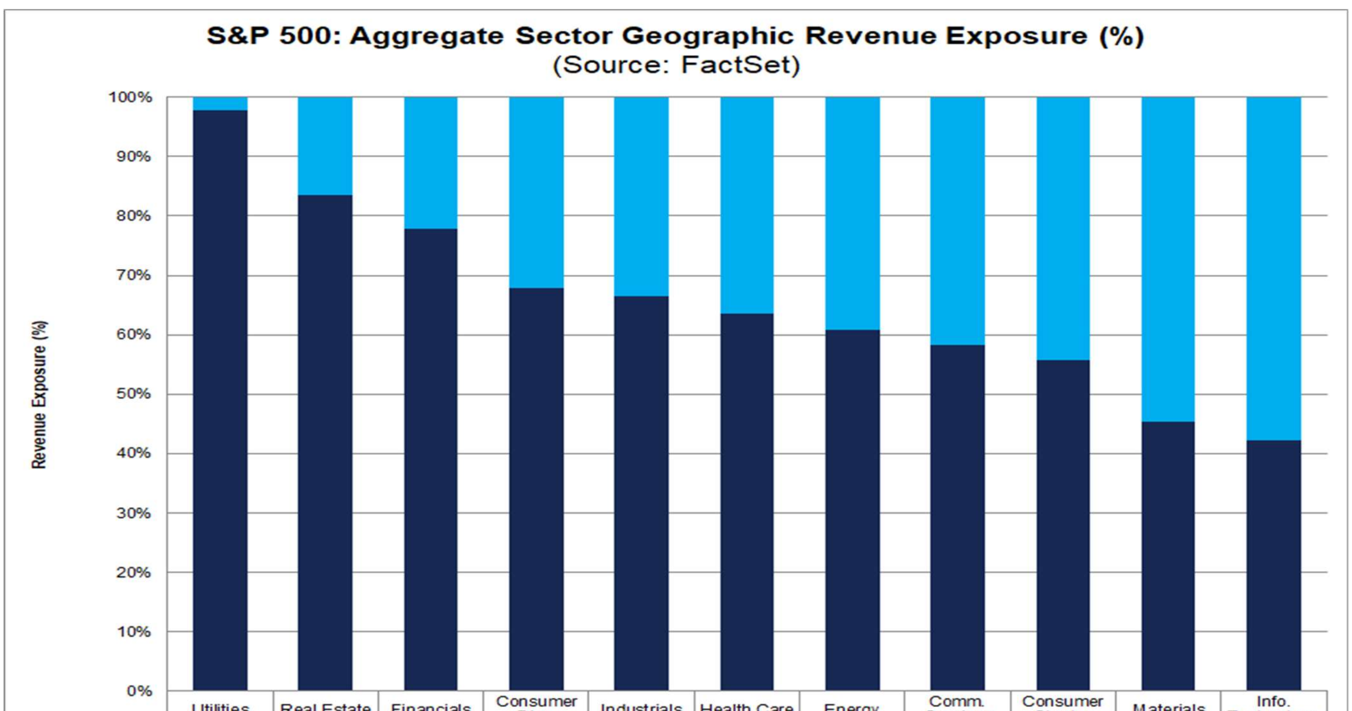
	Utilities	Consumer Disc.	Comm. Services	Industrials	Info. Technology	S&P 500	Financials	Health Care	Consumer Staples	Real Estate	Materials	Energy
Today	24.7%	21.9%	18.0%	12.8%	12.3%	10.8%	10.0%	9.2%	7.8%	7.5%	2.9%	-6.0%
31-Dec	24.6%	21.9%	17.9%	13.0%	12.3%	10.6%	9.5%	9.0%	7.7%	7.5%	3.1%	-7.1%



	Info. Technology	Consumer Disc.	Comm. Services	Real Estate	Health Care	Industrials	S&P 500	Financials	Consumer Staples	Utilities	Materials	Energy
Today	8.4%	8.4%	7.9%	5.4%	5.4%	4.8%	4.8%	4.3%	3.6%	3.4%	-0.5%	-5.4%
31-Dec	8.4%	8.7%	7.9%	5.4%	5.3%	4.9%	4.6%	4.4%	3.6%	3.4%	-0.6%	-7.9%

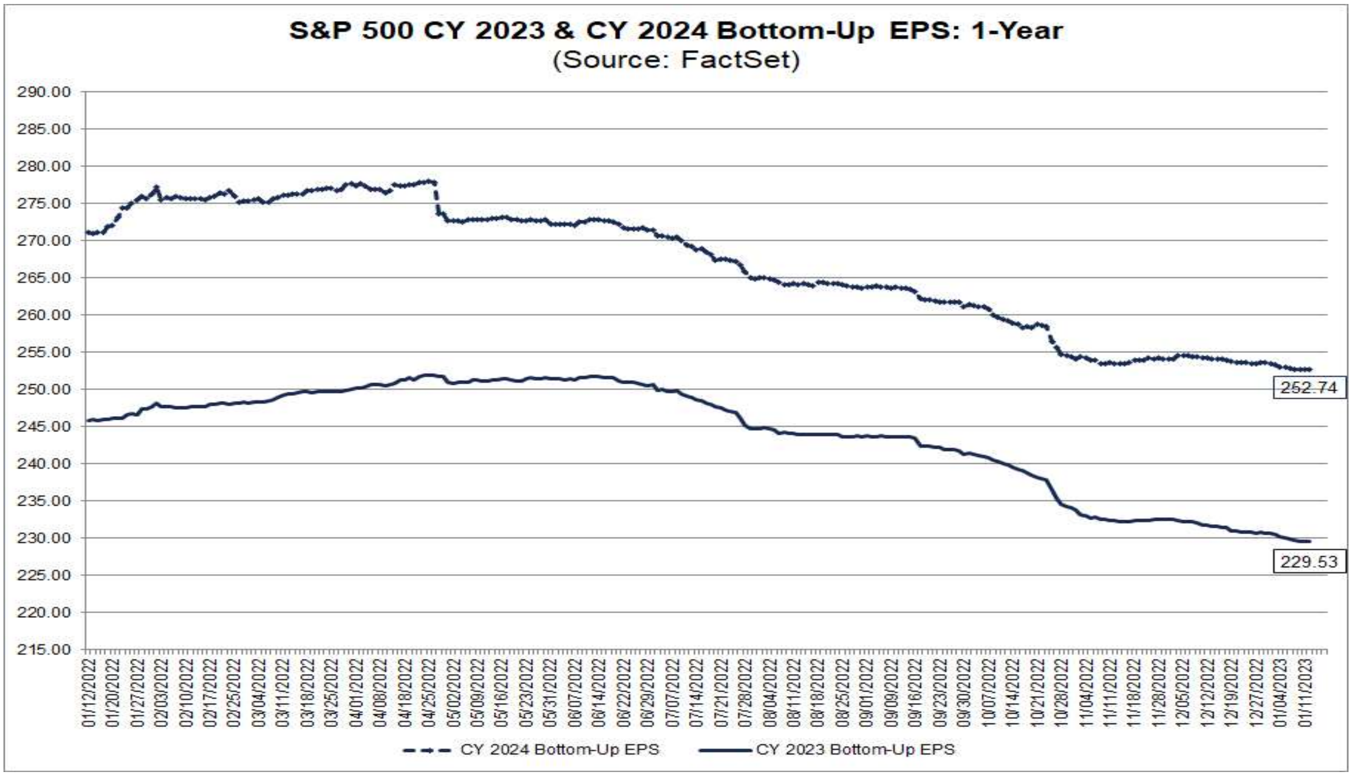
Geographic Revenue Exposure

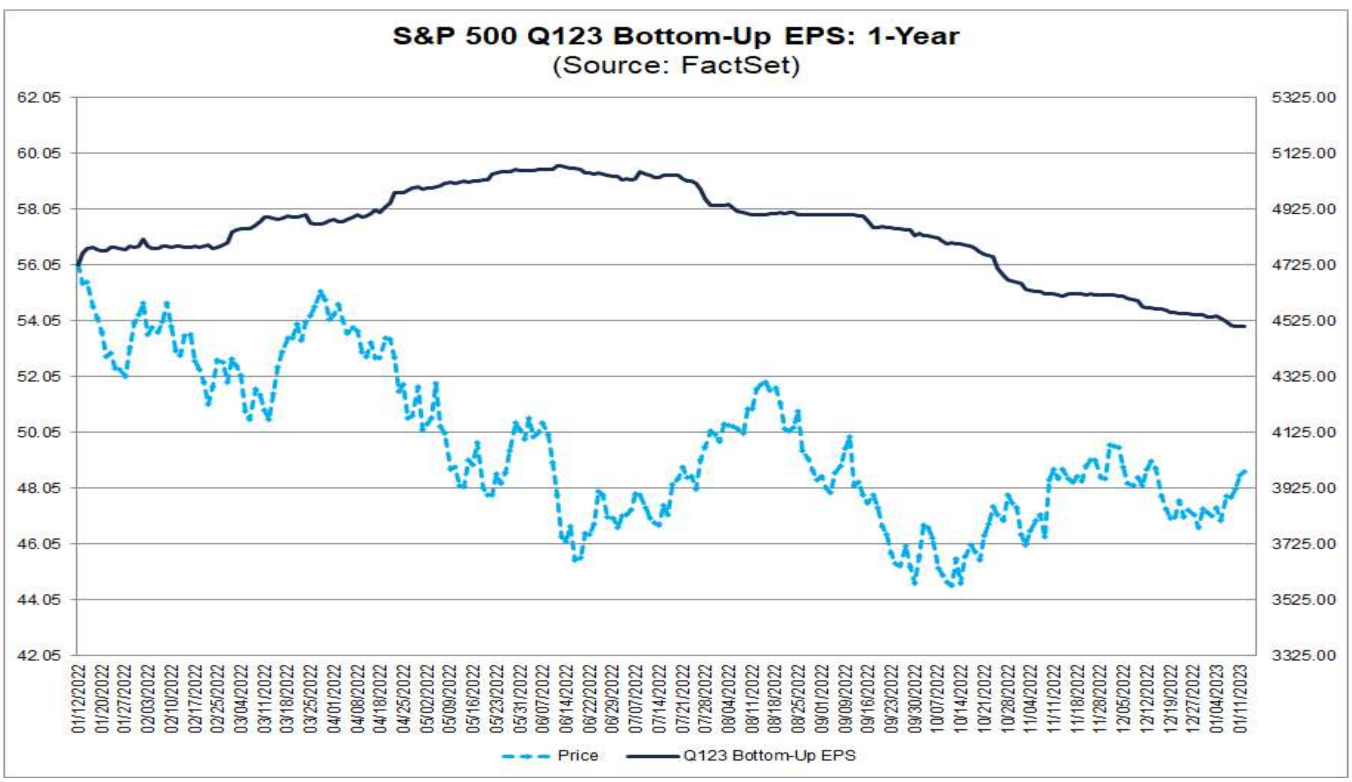




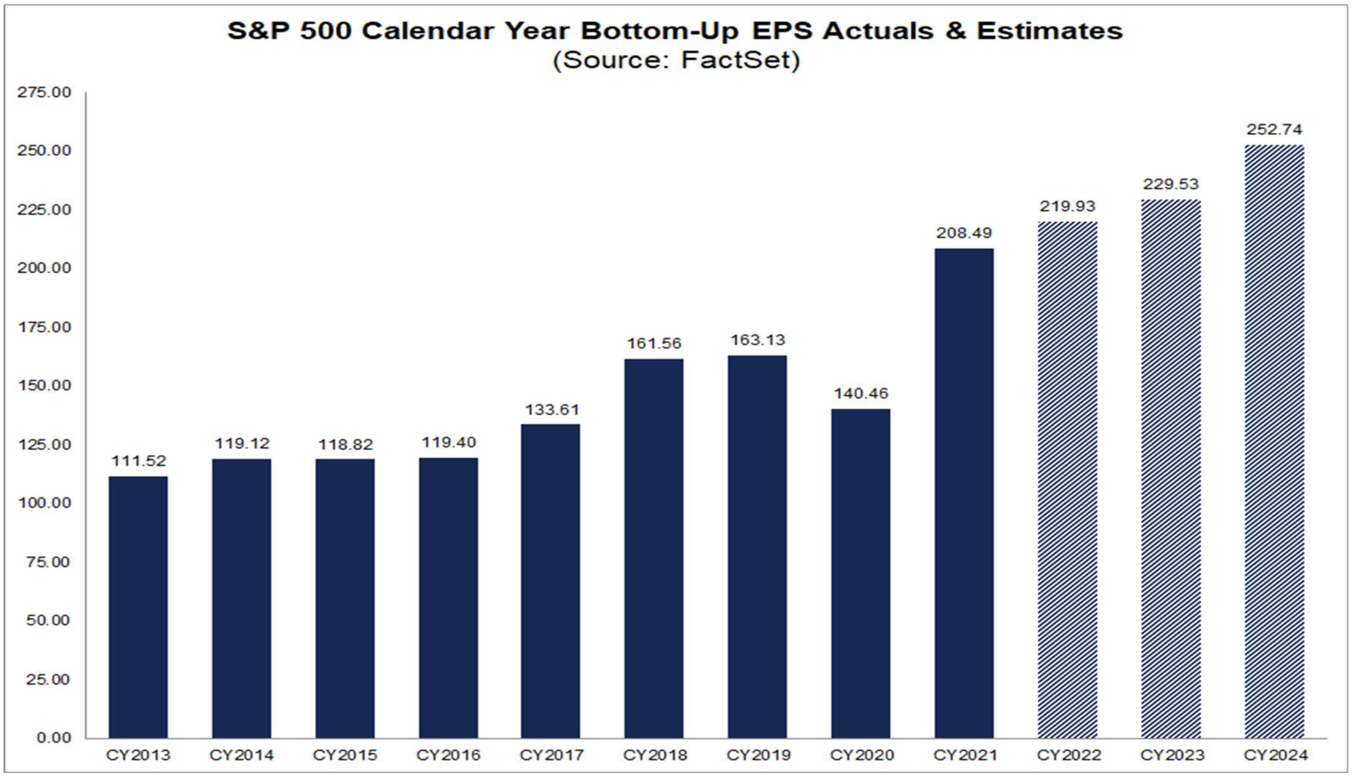
	Utilities	Real Estate	Financials	Consumer Disc.	Industrials	Health Care	Energy	Comm. Services	Consumer Staples	Materials	Info. Technology
International	2%	16%	22%	32%	34%	36%	39%	42%	44%	55%	58%
United States	98%	84%	78%	68%	66%	64%	61%	58%	56%	45%	42%

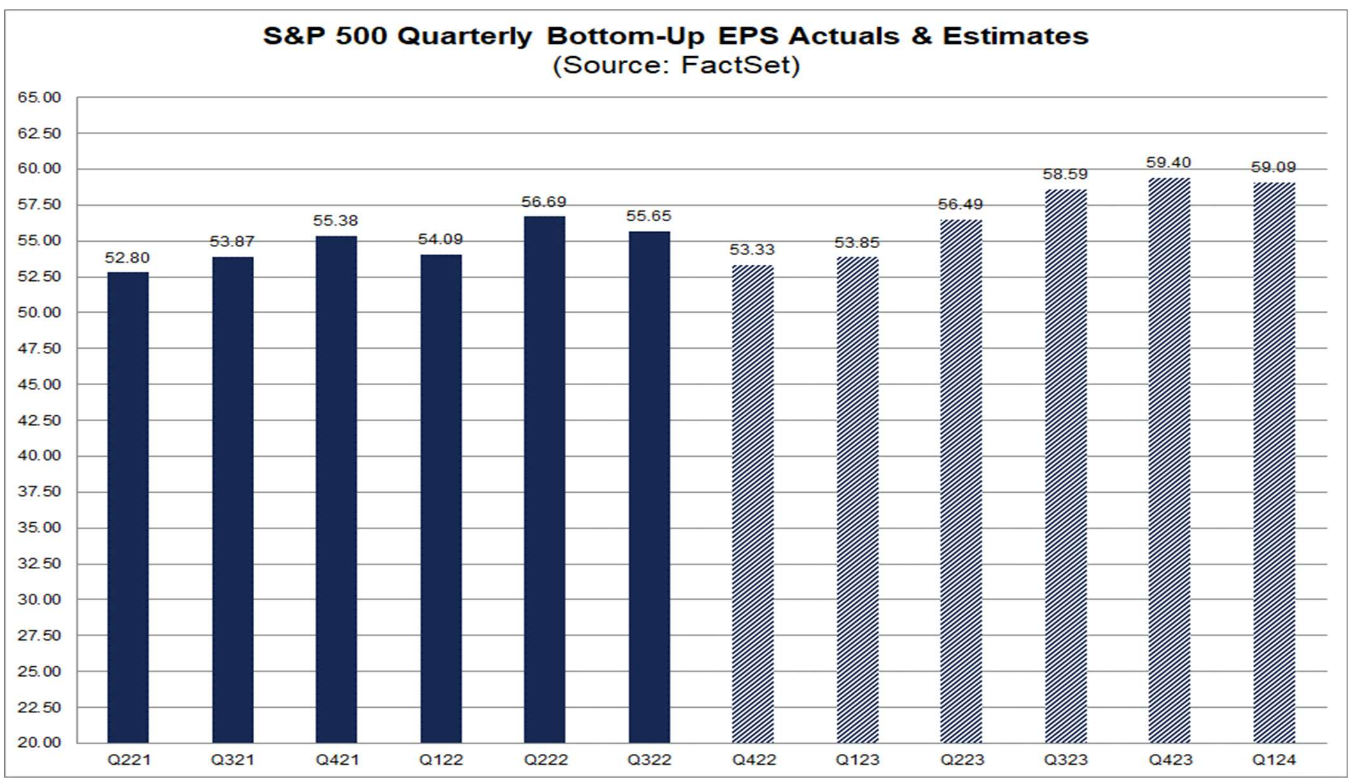
Bottom-Up EPS Estimates



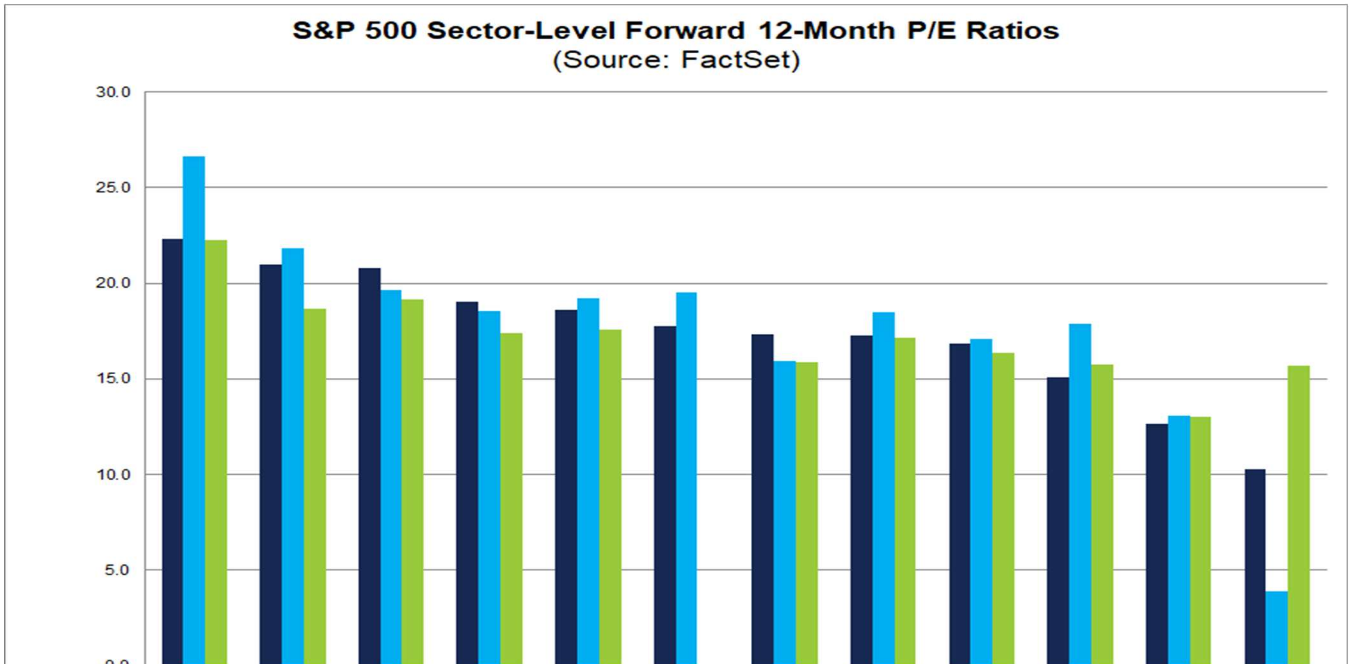


Bottom-Up EPS Estimates: Current & Historical

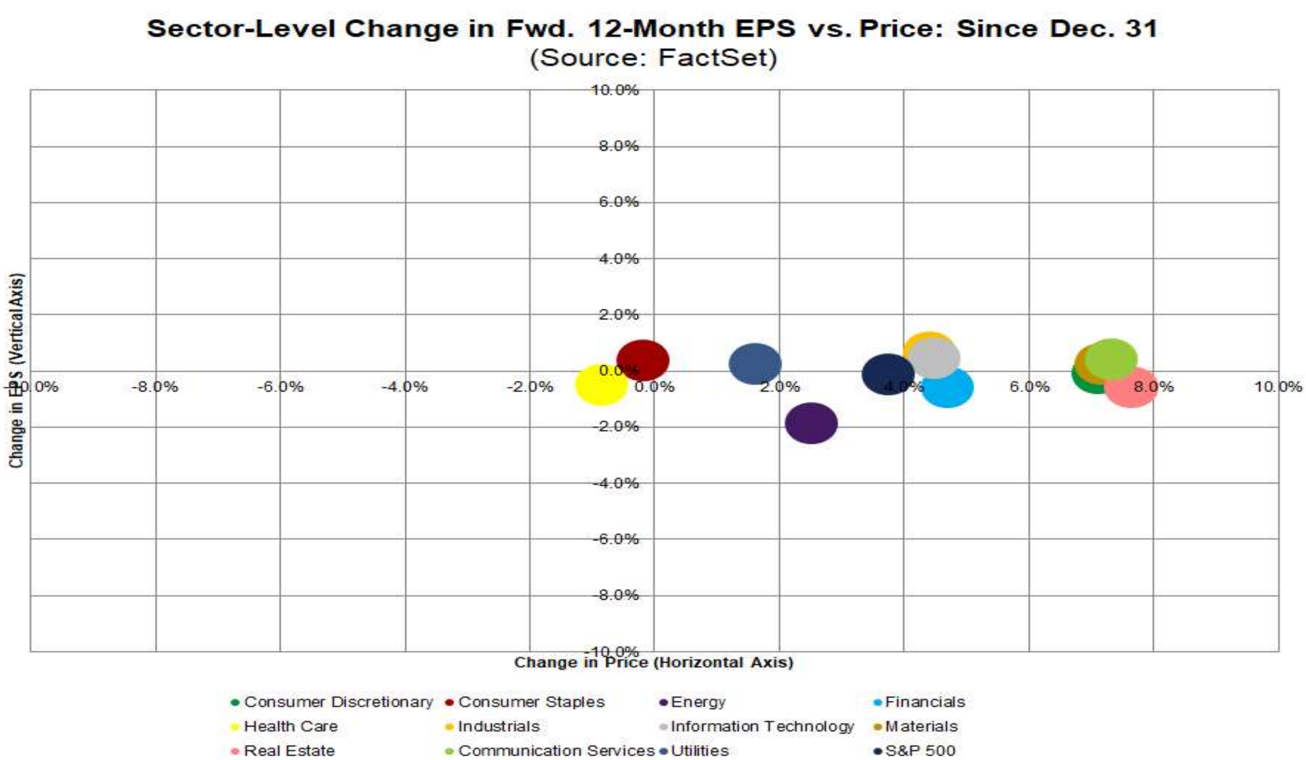




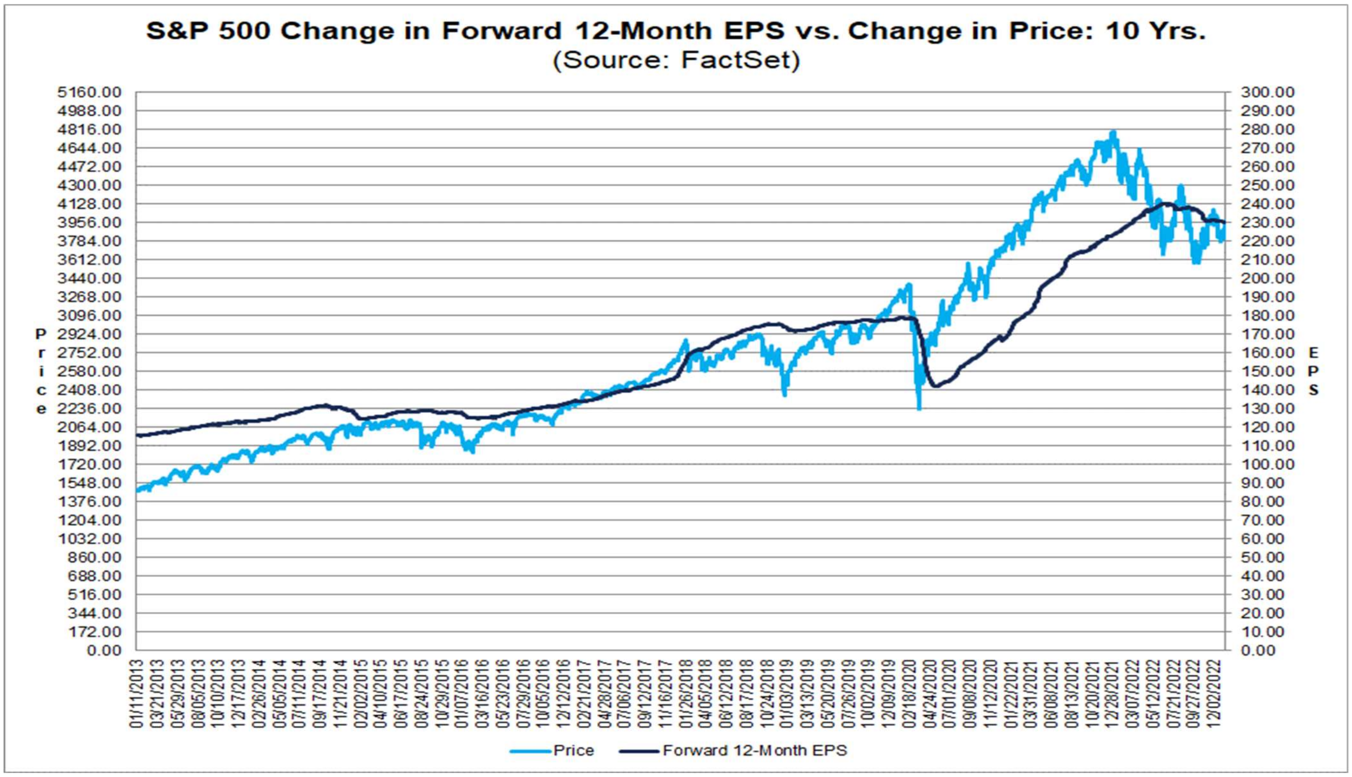
Forward 12M P/E Ratio: Sector Level

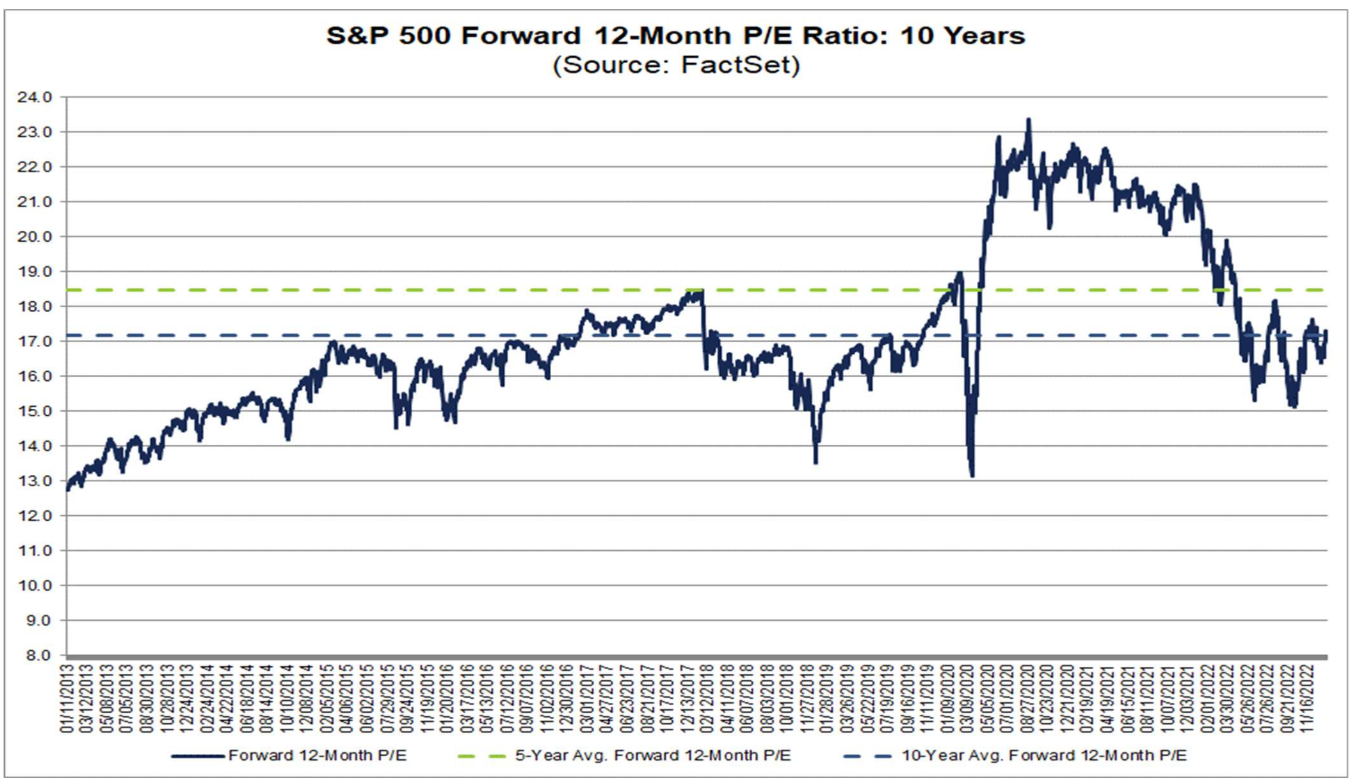


	Consumer Disc.	Info. Technology	Consumer Staples	Utilities	Industrials	Real Estate	Health Care	S&P 500	Materials	Comm. Services	Financials	Energy
Fwd P/E	22.3	21.0	20.8	19.1	18.6	17.8	17.3	17.3	16.9	15.1	12.7	10.3
5-Yr Avg.	26.7	21.9	19.6	18.5	19.2	19.5	16.0	18.5	17.1	17.9	13.1	3.9
10-Yr Avg.	22.3	18.7	19.2	17.4	17.6		15.9	17.2	16.3	15.8	13.0	15.7

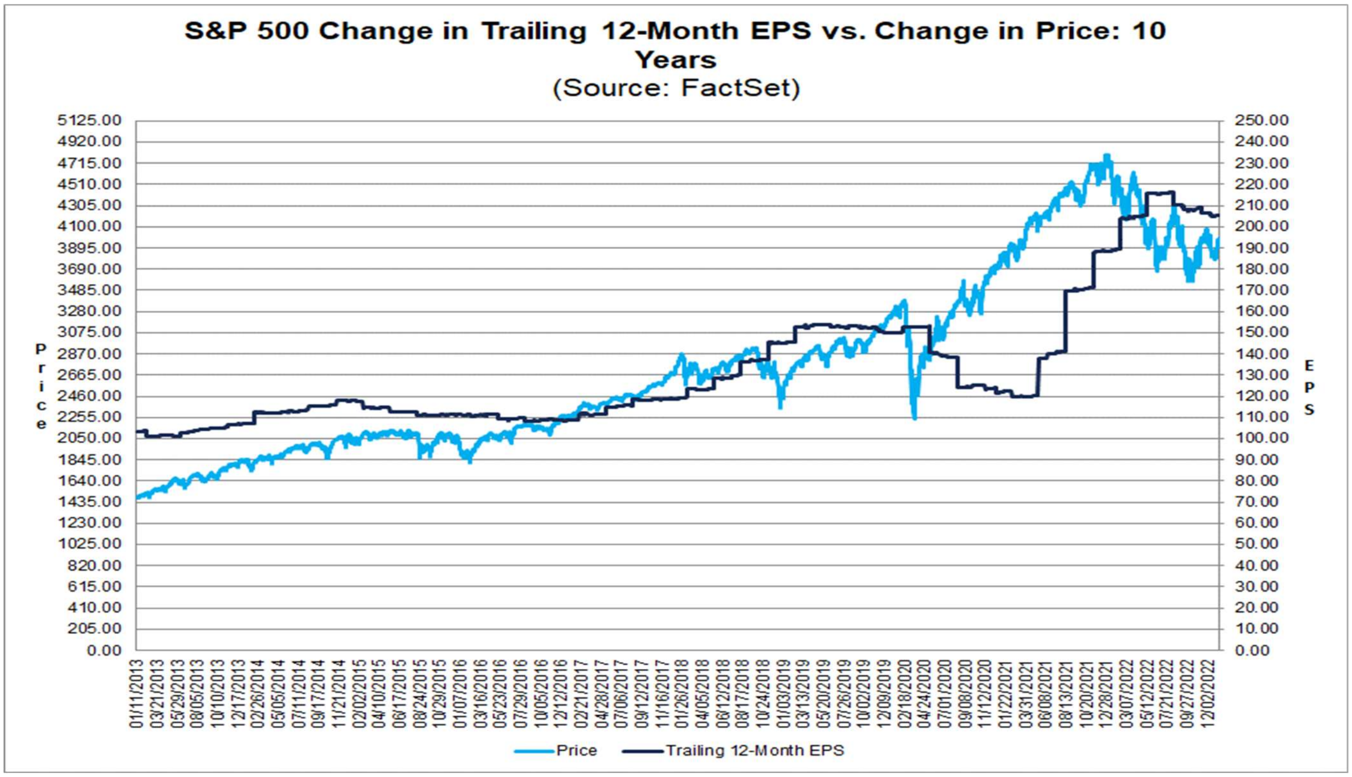


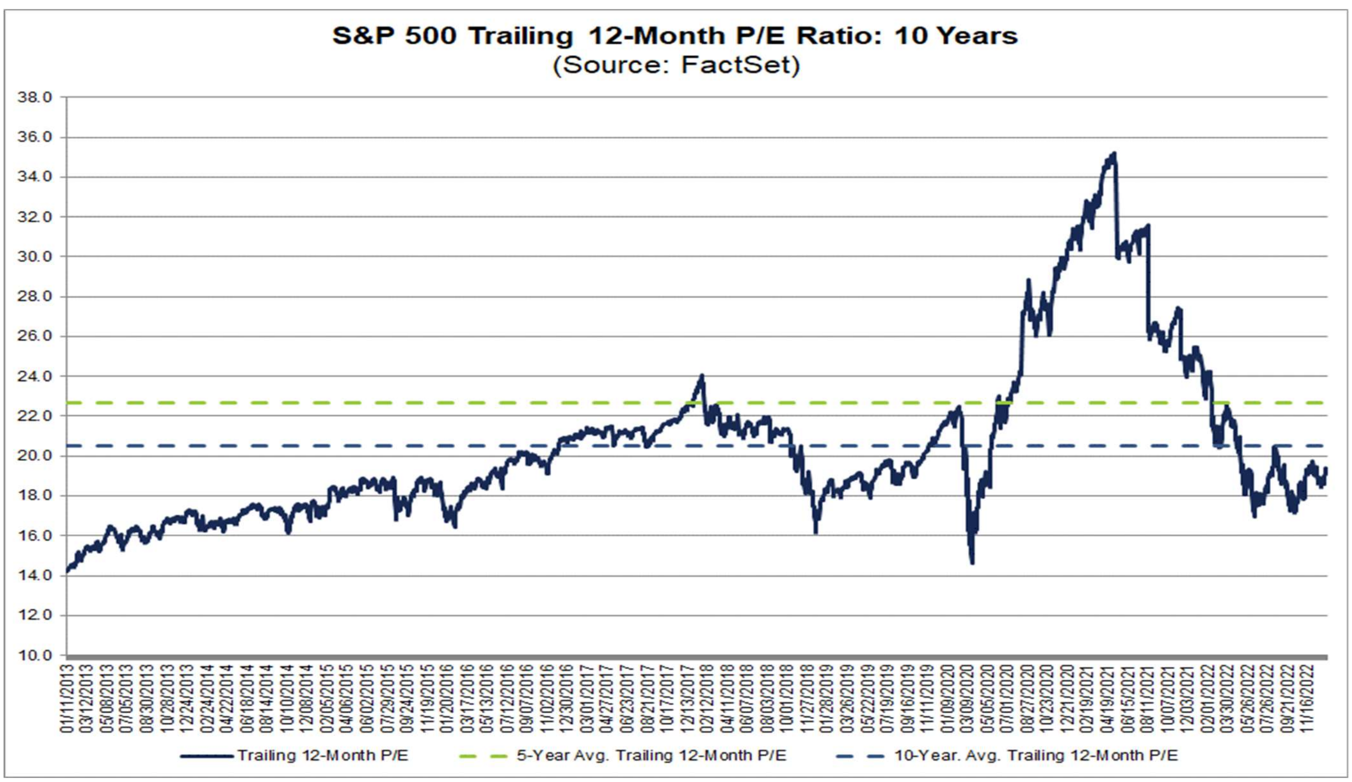
Forward 12M P/E Ratio: 10-Years



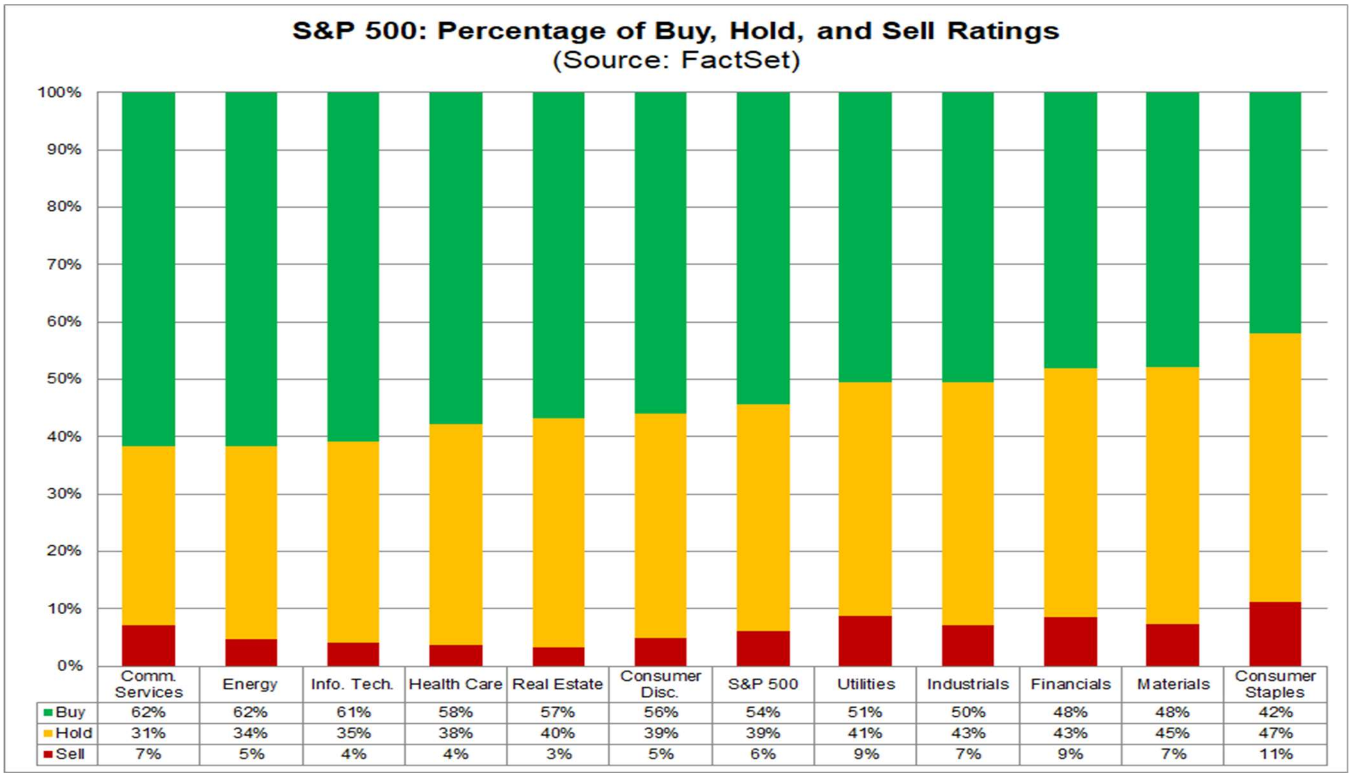


Trailing 12M P/E Ratio: 10-Years

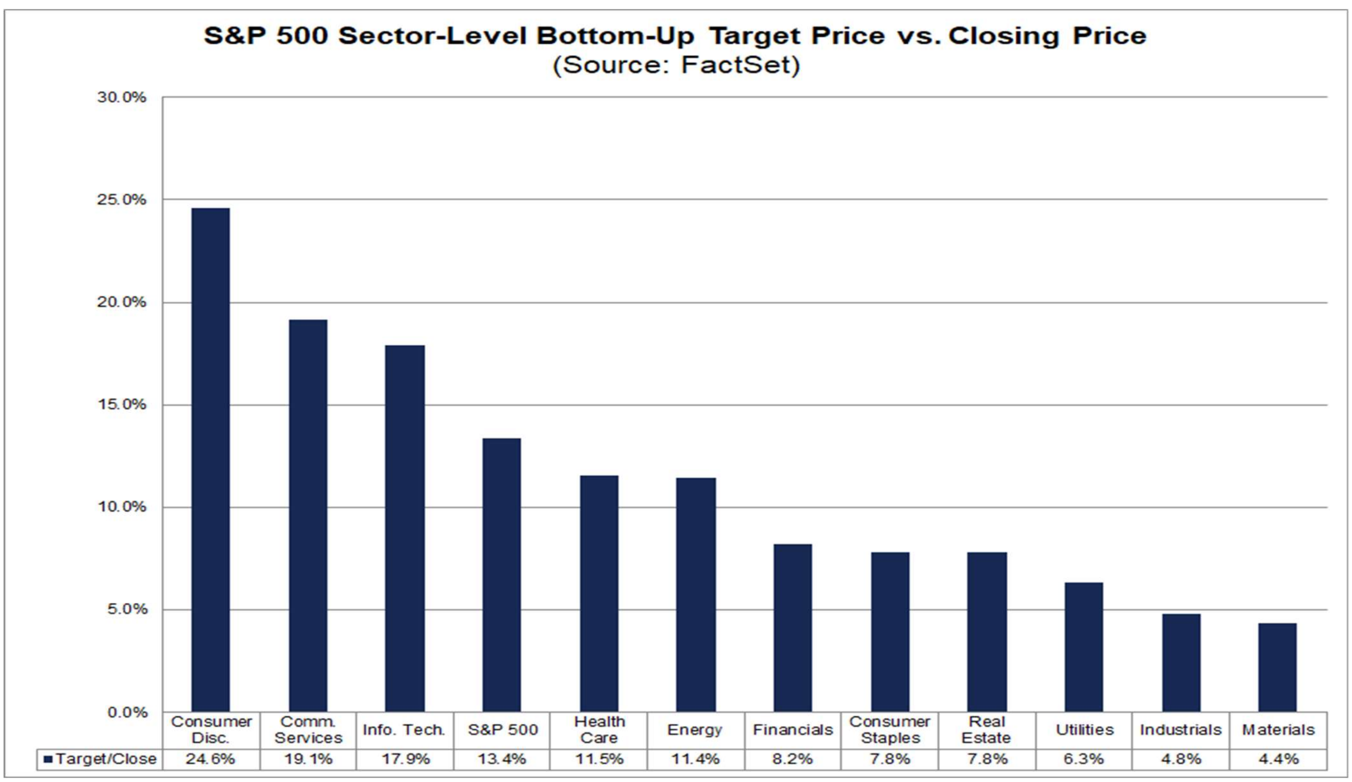




Targets & Ratings



	Comm. Services	Energy	Info. Tech.	Health Care	Real Estate	Consumer Disc.	S&P 500	Utilities	Industrials	Financials	Materials	Consumer Staples
Buy	62%	62%	61%	58%	57%	56%	54%	51%	50%	48%	48%	42%
Hold	31%	34%	35%	38%	40%	39%	39%	41%	43%	43%	45%	47%
Sell	7%	5%	4%	4%	3%	5%	6%	9%	7%	9%	7%	11%



	Consumer Disc.	Comm. Services	Info. Tech.	S&P 500	Health Care	Energy	Financials	Consumer Staples	Real Estate	Utilities	Industrials	Materials
Target/Close	24.6%	19.1%	17.9%	13.4%	11.5%	11.4%	8.2%	7.8%	7.8%	6.3%	4.8%	4.4%

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