EARNINGS INSIGHT

January 20, 2023

Key Metrics

- **Earnings Scorecard**: For Q4 2022 (with 11% of S&P 500 companies reporting actual results), 67% of S&P 500 companies have reported a positive EPS surprise and 64% of S&P 500 companies have reported a positive revenue surprise.

- **Earnings Growth**: For Q4 2022, the blended earnings decline for the S&P 500 is -4.6%. If -4.6% 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 December 31, the estimated earnings decline for Q4 2022 was -3.2%. Nine sectors are reporting lower earnings today (compared to December 31) due to downward revisions to EPS estimates and negative EPS surprises.

- **Earnings Guidance**: For Q1 2023, 5 S&P 500 companies have issued negative EPS guidance and 2 S&P 500 companies have issued positive EPS guidance.

- **Valuation**: The forward 12-month P/E ratio for the S&P 500 is 17.0. This P/E ratio is below the 5-year average (18.5) and below the 10-year average (17.2).

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Topic of the Week:
S&P 500 Reporting A Lower Net Profit Margin For 6th Straight Quarter

The market continues to be concerned about higher inflation. Consumer prices increased by 6.5% in December. Although the number has been falling in recent months, it still marked the 15th consecutive month in which the percentage exceeded 6% (year-over-year). Given these concerns, what is the S&P 500 reporting for a net profit margin for the fourth quarter?

The (blended) net profit margin for the S&P 500 for Q4 2022 is 11.4%, which is below the previous quarter’s net profit margin of 11.9% and below the year-ago net profit margin of 12.4%. However, it is equal to the 5-year average net profit margin (11.4%).

If 11.4% is the actual net profit margin for the quarter, it will mark the sixth straight quarter in which the net profit margin for the index has declined quarter-over-quarter. It will also mark the lowest net profit margin reported by the index since Q4 2020 (10.9%).

At the sector level, four sectors are reporting a year-over-year increase in their net profit margins in Q4 2022 compared to Q4 2021, led by the Energy (to 13.4% vs. 9.3%) sector. On the other hand, seven sectors are reporting 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%) and Financials (15.5% vs. 18.5%) sectors.

Four sectors are reporting net profit margins in Q4 2022 that are above their 5-year averages, led by the Energy (13.4% vs. 7.4%) sector. On the other hand, seven sectors are reporting net profit margins in Q4 2022 that are below their 5-year averages, led by the Communication Services (9.6% vs. 11.7%) sector.

Only two sectors are reporting a quarter-over-quarter increase in their net profit margins in Q4 2022 compared to Q3 2022, led by the Financials (to 15.5% vs. 14.2%) sector. On the other hand, seven sectors are reporting a quarter-over-quarter decrease in their net profit margins in Q4 2022 compared to Q3 2022, led by the Real Estate (35.1% vs. 37.7%) sector. Two sectors (Communication Services and Information Technology) are reporting no change in net profit margins quarter-over-quarter.

What is driving the continuing decline in net profit margins for the S&P 500? Higher costs are likely having a negative impact on net profit margins. Producer prices increased by 6.2% in December. Again, although the number has been falling over the past several months, the percentage has exceeded 6.0% (year-over-year) for 21 straight months. During the previous earnings season, 402 S&P 500 companies cited “inflation” on earnings calls for the third quarter, which was the third-highest number in more than 10 years. Companies may be having more difficulty raising prices to offset higher costs, as the S&P 500 is reporting its lowest revenue growth for Q4 2022 (3.7%) since Q4 2020 (3.2%).

In addition, companies are facing a difficult year-over-year comparison to unusually high net profit margins in 2021. In Q4 2021, the S&P 500 recorded the fourth-highest net profit margin (12.4%) reported by the index since FactSet began tracking this metric in 2008.

It is interesting to note that analysts believe net profit margins for the S&P 500 will be higher going forward. As of today, the estimated net profit margins for Q1 2023, Q2 2023, Q3 2023, and Q4 2023 are 11.9%, 12.1%, 12.3%, and 12.2%, respectively.
Q4 Earnings Season: By The Numbers

Overview

The fourth quarter earnings season for the S&P 500 is not off to a strong start. To date, the number and magnitude of positive earnings surprises reported by S&P 500 companies are below their 5-year and 10-year averages. Overall, the index is reporting a year-over-year decline in earnings for the first time since Q3 2020. The earnings decline for the fourth quarter is larger today compared to the end of last week and compared to the end of the quarter due to a combination of negative earnings surprises reported by companies and downward revisions to earnings estimates by analysts during the past few weeks.

Overall, 11% of the companies in the S&P 500 have reported actual results for Q4 2022 to date. Of these companies, 67% have reported actual EPS above estimates, which is below the 5-year average of 77% and below the 10-year average of 73%. In aggregate, companies are reporting earnings that are 3.3% above estimates, which is below the 5-year average of 8.6% and below the 10-year average of 6.4%.

The index is reporting lower earnings for the fourth quarter today relative to the end of last week and relative to the end of the quarter. The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) earnings decline for the fourth quarter is -4.6% today, compared to an earnings decline of -4.0% last week and an earnings decline of -3.2% at the end of the fourth quarter (December 31).

Negative earnings surprises and downward revisions to earnings estimates for companies in the Financials sector have been the largest contributors to the increase in the overall earnings decline for the index over the past week and since December 31.

If -4.6% is the actual decline for the quarter, it will mark the first time the index has reported a year-over-year decrease in earnings since Q3 2020 (-5.7%). Four of the eleven sectors are reporting (or are expected to report) year-over-year earnings growth, led by the Energy and Industrials sectors. On the other hand, seven sectors are reporting a year-over-year decline in earnings, led by the Materials, Consumer Discretionary, and Communication Services sectors.

In terms of revenues, 64% of S&P 500 companies have reported actual revenues above estimates, which is below the 5-year average of 69%, but above the 10-year average of 63%. In aggregate, companies are reporting revenues that are 0.3% above the estimates, which is below the 5-year average of 1.9% and below the 10-year average of 1.3%.

The index is also reporting lower revenues for the fourth quarter today relative to the end of last week and relative to the end of the quarter. The blended revenue growth rate for the fourth quarter is 3.7% today, compared to a revenue growth rate of 3.8% last week and a revenue growth rate of 3.9% at the end of the fourth quarter (December 31).

Downward revisions to revenue estimates for companies in the Energy and Utilities sectors have been the largest contributors to the decrease in the overall revenue growth rate for the index over the past week and since December 31.

If 3.7% is the actual growth rate for the quarter, it will mark the lowest revenue growth rate reported by the index since Q4 2020 (3.2%). Eight sectors are reporting year-over-year growth in revenues, led by the Energy and Industrials sectors. Three sectors are reporting (or are expected to report) year-over-year declines in revenues, led by the Utilities sector.

Looking ahead, analysts expect earnings declines for the first half of 2023, but earnings growth for the second half of 2023. For Q1 2023 and Q2 2023, analysts are projecting earnings declines of -1.1% and -1.2%. For Q3 2023 and Q4 2023, analysts are projecting earnings growth of 4.6% and 10.5%. For all of CY 2023, analysts predict earnings growth of 4.2%.
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The forward 12-month P/E ratio is 17.0, which is below the 5-year average (18.5) and below the 10-year average (17.2). However, it is above the forward P/E ratio of 16.7 recorded at the end of the fourth quarter (December 31), as the price of the index has increased while the forward 12-month EPS estimate has decreased since December 31.

During the upcoming week, 93 S&P 500 companies (including 12 Dow 30 components) are scheduled to report results for the fourth quarter.

Scorecard: Number And Magnitude of Positive Surprises Are Below 5-Year Averages

Percentage of Companies Beating EPS Estimates (67%) is Below 5-Year Average
Overall, 11% of the companies in the S&P 500 have reported earnings to date for the fourth quarter. Of these companies, 65% have reported actual EPS above the mean EPS estimate, 2% have reported actual EPS equal to the mean EPS estimate, and 31% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is below the 1-year average (75%), below the 5-year average (77%), and below the 10-year average (73%).

At the sector level, the Energy (100%), Health Care (100%), Materials (100%), and Real Estate (100%) sectors have the highest percentages of companies reporting earnings above estimates, while the Communication Service (0%) sector has the lowest percentage of companies reporting earnings above estimates.

Earnings Surprise Percentage (+3.3%) is Below 5-Year Average
In aggregate, companies are reporting earnings that are 3.3% above expectations. This surprise percentage is below the 1-year average (+4.5%), below the 5-year average (+8.6%), and below the 10-year average (6.4%).

The Consumer Discretionary (+11.0%) sector is reporting the largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, NIKE ($0.85 vs. $0.64) has reported the largest positive EPS surprise.

The Industrials (+8.9%) sector is reporting the second-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, United Airlines Holdings ($2.46 vs. $2.11), FedEx ($3.18 vs. $2.81), and Delta Air Lines ($1.48 vs. $1.32) have reported the largest positive EPS surprises.

The Materials (+8.1%) sector is reporting the third-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, PPG Industries ($1.22 vs. $1.13) has reported the largest positive EPS surprise.

The Communication Services (-78.2%) sector is reporting the largest negative (aggregate) difference between actual earnings and estimated earnings. Within this sector, Netflix ($0.12 vs. $0.55) has reported the largest negative EPS surprise.

Market Punishing Positive and Negative EPS Surprises To Date
To date, the market is punishing positive and negative earnings surprises reported by S&P 500 companies for the fourth quarter.

Companies that have reported positive earnings surprises for Q4 2022 have seen an average price decrease of -0.2% two days before the earnings release through two days after the earnings release. This percentage decrease is much lower than the 5-year average price increase of +0.9% during this same window for companies reporting positive earnings surprises.

Companies that have reported negative earnings surprises for Q4 2022 have seen an average price decrease of -2.5% two days before the earnings release through two days after the earnings. This percentage decrease is larger than the 5-year average price decrease of -2.2% during this same window for companies reporting negative earnings surprises.
Percentage of Companies Beating Revenue Estimates (64%) is Below 5-Year Average

In terms of revenues, 64% of companies have reported actual revenues above estimated revenues and 36% have reported actual revenues below estimated revenues. The percentage of companies reporting revenues above estimates is below the 1-year average (73%) and below the 5-year average (69%), but above the 10-year average (63%).

At the sector level, the Health Care (100%), Materials (100%), and Real Estate (100%) sectors have the highest percentages of companies reporting revenues above estimates, while the Communication Services (0%) sector has the lowest percentage of companies reporting revenues above estimates.

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

In aggregate, companies are reporting revenues that are 0.3% above expectations. This surprise percentage is below the 1-year average (+2.8%), below the 5-year average (+1.9%), and below the 10-year average (+1.3%).

At the sector level, the Real Estate (+12.1%) is reporting the largest positive (aggregate) difference between actual revenues and estimated revenues, while the Energy (-2.1%) and Industrials (-1.4%) sectors are reporting the largest negative (aggregate) differences between actual revenues and estimated revenues.

Revisions: Increase in Blended Earnings Decline This Week Due to Financials

Increase in Blended Earnings Decline This Week Due to Financials Sector

The blended (year-over-year) earnings decline for the fourth quarter is -4.6%, which is larger than the earnings decline of -4.0% last week. Negative earnings surprises and downward revisions to earnings estimates for companies in the Financials sector were the largest contributors to the increase in the overall earnings decline during the week.

In the Financials sector, the negative EPS surprise reported by Goldman Sachs ($3.32 vs. $5.56) and downward revisions to earnings estimates for Allstate (to -$0.65 from $1.90) were substantial contributors to the increase in the earnings decline for the index during the week. As a result, the blended earnings decline for the Financials sector increased to -12.4% from -10.0% over this period.

Decrease in Blended Revenue Growth Rate This Week Due to Energy and Utilities Sectors

The blended (year-over-year) revenue growth rate for the fourth quarter is 3.7%, which is slightly below the revenue growth rate of 3.8% last week. Downward revisions to revenue estimates for companies in the Energy and Utilities sectors were the largest contributor to the decrease in the overall revenue growth rate during the past week.

Financials Sector Has Seen Largest Decrease in Earnings since December 31

The blended (year-over-year) earnings decline for Q4 2022 of -4.6% is below the estimate of -3.2% at the end of the fourth quarter (December 31). The Consumer Staples sector is the only sector that has recorded an increase in its earnings growth rate or a decrease in its earnings decline (to -3.4% from -3.9%) since the end of the quarter due to upward revisions to earnings estimates and positive earnings surprises. On the other hand, nine sectors have recorded a decrease in their earnings growth rate or an increase in their earnings decline during this period, led by the Financials (to -12.4% from -7.5%) and Energy (to 59.3% from 62.6%) sectors. The Financials sector is also the largest contributor to the decrease in earnings for the index since December 31.

In the Financials sector, the negative EPS surprise reported by Goldman Sachs ($3.32 vs. $5.56) and the downward revisions to EPS estimates for Wells Fargo (to $0.59 from $1.26) and Allstate (to -$0.65 from $01.90) have been substantial contributors to the increase in the earnings decline for the index since December 31. As a result, the blended earnings decline for the Financials sector increased to -12.4% from -7.5% over this period.
Energy Sector Has Seen Largest Decrease in Revenues since December 31

The blended (year-over-year) revenue growth rate for Q4 2022 of 3.7% is slightly below the estimate of 3.9% at the end of the fourth quarter (September 30). Three sectors have recorded an increase in revenue growth since the end of the quarter due to upward revisions to revenue estimates and positive revenue surprises, led by the Real Estate (to 6.9% from 6.4%) sector. On the other hand, eight sectors have recorded a decrease in their revenue growth rate since the end of the quarter due to downward revisions to revenue estimates and negative revenue surprises, led by the Utilities (to -20.0% from -17.7%) and Energy (to 10.7% from 12.4%) sectors. These two sectors have also been the largest contributors to the decrease in revenues for the index since December 31.

In the Energy sector, downward revisions to revenue estimates for Phillips 66 (to $39.2 billion from $40.8 billion), Chevron (to $53.2 billion from $53.8 billion), and Marathon Petroleum (to $33.9 billion from $34.5 billion) have been substantial contributors to the decrease in the revenue growth rate for the index since December 31. As a result, the blended revenue growth rate for the Energy sector has decreased to 10.7% from 12.4%.

In the Utilities sector, downward revisions to revenue estimates for DTE Energy (to $1.9 billion from $2.9 billion) and AES Corporation (to $2.3 billion from $2.9 billion) have been significant contributors to the decrease in the revenue growth rate for the index since December 31. As a result, the estimated revenue decline for the Utilities sector has increased to -20.0% from -17.7%.

Earnings Decline: -4.6%

The blended (year-over-year) earnings decline for Q4 2022 is -4.6%, 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 -4.6% 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 reporting (or are expected to report) year-over-year earnings growth, led by the Energy and Industrials sectors. On the other hand, seven sectors are reporting 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 reporting the highest (year-over-year) earnings growth of all eleven sectors at 59.3%. 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 reporting (or are expected to report) a year-over-year increase in earnings of 25% or more: Oil & Gas Refining & Marketing (149%), Oil & Gas Storage & Transportation (82%), Oil & Gas Equipment & Services (79%), Integrated Oil & Gas (59%), and Oil & Gas Exploration & Production (25%).

The Energy sector is also the largest positive contributor to year-over-year earnings for the S&P 500 for the fourth quarter. If this sector were excluded, the blended earnings decline for the index would increase to -8.8% from -4.6%.

Industrials: Boeing and Airlines Are Largest Contributors to Year-Over-Year Growth

The Industrials sector is reporting the second-highest (year-over-year) earnings growth rate of all eleven sectors at 38.9%. At the industry level, 9 of the 12 industries in the sector are reporting (or 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 reporting 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 reporting (or are predicted to report) earnings growth above 20%: Aerospace & Defense (213%), Machinery (25%), Trading Companies & Distributors (24%), and Industrial Conglomerates (21%). On the other hand, three industries are reporting (or are projected to report) a year-over-year decline in earnings for the quarter, led by the Air Freight & Logistics (-15%) industry.
At the company level, Boeing, American Airlines Group, United Airlines Holdings, and Delta Air Lines are the largest contributors to earnings growth for the sector. If these four companies were excluded, the blended earnings growth rate for the Industrials sector would fall to 7.1% from 38.9%.

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

The Materials sector is reporting the largest (year-over-year) earnings decline of all eleven sectors at -26.5%. At the industry level, three of the four industries in this sector are reporting (or 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 earnings decline for the sector. If this industry were excluded, the blended earnings decline for the Materials sector would improve to -16.1% from -26.5%.

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

The Consumer Discretionary sector is reporting the second-largest (year-over-year) earnings decline of all eleven sectors at -20.9%. At the industry level, 6 of the 10 industries in the sector are reporting (or are expected to report) a year-over-year decrease in earnings. Four of these six industries are reporting (or 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 reporting (or are projected to report) year-over-year earnings growth for the quarter. All four of these industries are reporting (or expected to report) earnings growth of 25% or more: Hotels, Restaurants, & Leisure (963%), Automobiles (53%), Auto Components (42%), and Leisure Products (26%).

At the company level, Amazon.com is the largest contributor to the earnings decline for the sector. If this company were excluded, the Consumer Discretionary sector would be reporting (year-over-year) earnings growth of 15.2% instead of an earnings decline of -20.9%.

On the other hand, the Automobiles and Hotels, Restaurants, & Leisure industries are the largest detractors to the earnings decline for the sector at the industry level. If these two industries were excluded, the blended earnings decline for the Consumer Discretionary sector would increase to -41.8% from -20.9%.

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

The Communication Services sector is reporting the third-largest (year-over-year) earnings decline of all eleven sectors at -20.1%. At the industry level, four of the five industries in this sector are reporting (or are predicted to report) a year-over-year decline in earnings, led by the Entertainment (-35%) and Interactive Media & Services (-29%) industries. On the other hand, the Wireless Telecommunication Services (214%) 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 the largest contributors to the earnings decline for the sector. If these two companies were excluded, the blended earnings decline for the sector would improve to -7.5% from -20.1%.

**Revenue Growth: 3.7%**

The blended (year-over-year) revenue growth rate for Q4 2022 is 3.7%, 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 3.7% 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 reporting year-over-year growth in revenues, led by the Energy and Industrials sectors. On the other hand, three sectors are reporting (or 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 reporting the highest (year-over-year) revenue growth rate of all eleven sectors at 10.7%. 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 reporting (or are predicted to report) year-over-year growth in revenues: Oil & Gas Equipment & Services (22%), Integrated Oil & Gas (13%), Oil & Gas Exploration & Production (9%), Oil & Gas Refining & Marketing (8%), and Oil & Gas Storage & Transportation (6%).

**Industrials: Airlines Industry Leads Year-Over-Year Growth**

The Industrials sector is reporting the second-highest (year-over-year) revenue growth rate of all eleven sectors at 9.1%. At the industry level, 10 of the 12 industries in the sector are reporting (or are expected to report) year-over-year growth in revenues. Five of these ten industries are reporting (or are projected to report) revenue growth of 10% or more: Airlines (36%), Trading Companies & Distributors (14%), Machinery (14%), Aerospace & Defense (11%), and Commercial Services & Supplies (11%).

**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 -20.0%. 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 (-23%), Multi-Utilities (-16%), Independent Power & Renewable Electricity Producers (-15%), 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: 11.4%**

The blended net profit margin for the S&P 500 for Q4 2022 is 11.4%, which is equal to the 5-year average of 11.4%, but below the previous quarter’s net profit margin of 11.9% and below the year-ago net profit margin of 12.4%. If 11.4% 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 reporting (or 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 13.4% vs. 9.3%) sector. On the other hand, seven sectors are reporting 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%) and Financials (15.5% vs. 18.5%) sectors.

Four sectors are reporting net profit margins in Q4 2022 that are above their 5-year averages, led by the Energy (13.4% vs. 6.8%) sector. On the other hand, seven sectors are reporting (or are expected to report) net profit margins in Q4 2022 that are below their 5-year averages, led by the Communication Services (9.6% vs. 11.7%) sector.
Looking Ahead: Forward Estimates and Valuation

Guidance: % of Companies Issuing Negative EPS Guidance for Q1 Above 10-Year Average
At this point in time, 7 companies in the index have issued EPS guidance for Q1 2023. Of these 7 companies, 5 have issued negative EPS guidance and 2 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance for Q1 2023 is 71% (5 out of 7), which is above the 5-year average of 59% and above the 10-year average of 67%.

At this point in time, 255 companies in the index have issued EPS guidance for the current fiscal year (FY 2022 or FY 2023). Of these 255 companies, 127 have issued negative EPS guidance and 128 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 50% (127 out of 255).

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: S&P 500 Expected to Report Earnings Growth of 4% for CY 2023
For the fourth quarter, S&P 500 companies are reporting a year-over-year earnings decline of -4.6% and revenue growth of 3.7%. For CY 2022, S&P 500 companies are reporting earnings growth of 4.6% and revenue growth of 10.3%.

For Q1 2023, analysts are projecting an earnings decline of -1.1% and revenue growth of 2.7%.

For Q2 2023, analysts are projecting an earnings decline of -1.2% and revenue growth of 0.3%.

For Q3 2023, analysts are projecting earnings growth of 4.6% and revenue growth of 1.5%.

For Q4 2023, analysts are projecting earnings growth of 10.5% and revenue growth of 4.6%.

For CY 2023, analysts are projecting earnings growth of 4.2% and revenue growth of 2.9%.

Valuation: Forward P/E Ratio is 17.0, Below the 10-Year Average (17.2)
The forward 12-month P/E ratio for the S&P 500 is 17.0. This P/E ratio is below the 5-year average of 18.5 and below 10-year average of 17.2. However, it is above the forward 12-month P/E ratio of 16.7 recorded at the end of the fourth quarter (September 30). Since the end of the fourth quarter (December 31), the price of the index has increased by 1.5%, while the forward 12-month EPS estimate has decreased by 0.7%. At the sector level, the Consumer Discretionary (22.1) sector have the highest forward 12-month P/E ratio, while the Energy (10.5) and Financials (12.4) sectors have the lowest forward 12-month P/E ratios.

The trailing 12-month P/E ratio is 19.1, which is below the 5-year average of 22.7 and below the 10-year average of 20.5.

Targets & Ratings: Analysts Project 15.5% Increase in Price Over Next 12 Months
The bottom-up target price for the S&P 500 is 4504.39, which is 15.5% above the closing price of 3898.85. At the sector level, the Consumer Discretionary (+22.6%), Communication Services (+20.8%), and Information Technology (+18.9%) 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 Materials (+7.6%) sector ais 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 11,019 ratings on stocks in the S&P 500. Of these 11,019 ratings, 54.4% are Buy ratings, 39.5% are Hold ratings, and 6.1% are Sell ratings. At the sector level, the Energy (63%), Communication Services (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: 93**

During the upcoming week, 93 S&P 500 companies (including 12 Dow 30 components) are scheduled to report results for the fourth quarter.
Q4 2022: Scorecard

S&P 500 Earnings Above, In-Line, Below Estimates: Q4 2022
(Source: FactSet)

S&P 500 Revenues Above, In-Line, Below Estimates: Q4 2022
(Source: FactSet)
Q4 2022: Scorecard

S&P 500 Sector-Level Earnings Surprise %: Q4 2022
(Source: FactSet)

- Consumer Discretionary: 11.0%
- Industrials: 8.9%
- Materials: 8.1%
- Information Technology: 3.6%
- Energy: 3.3%
- S&P 500: 3.3%
- Health Care: 3.2%
- Financials: 3.2%
- Consumer Staples: 2.2%
- Real Estate: 2.0%
- Communication Services: -78.2%
- Utilities: 0.0%

S&P 500 Sector-Level Revenue Surprise %: Q4 2022
(Source: FactSet)

- Real Estate: 12.1%
- Materials: 1.7%
- Information Technology: 1.2%
- Consumer Discretionary: 0.9%
- Consumer Staples: 0.5%
- Health Care: 0.4%
- Financials: 0.3%
- S&P 500: 0.3%
- Communication Services: -0.1%
- Industrials: -1.4%
- Energy: -2.1%
- Utilities: 0.0%
Q4 2022: Scorecard

S&P 500 EPS Surprise % vs. Price %: Q4 2022
(Source: FactSet)

S&P 500 EPS Surprise vs. Avg. Price Change %
(Source: FactSet)
Q4 2022: Scorecard

### S&P 500 Actual EPS Surprise %: Top 10 Q4 Actual EPS Surprises
(Source: FactSet)

- Lamb Weston Holdings, Inc.: 73.9%
- NIKE, Inc. Class B: 32.0%
- Conagra Brands, Inc.: 22.2%
- United Airlines Holdings, Inc.: 16.7%
- JPMorgan Chase & Co.: 16.1%
- Wells Fargo & Company: 14.1%
- FedEx Corporation: 13.3%
- Delta Air Lines, Inc.: 12.0%
- FactSet Research Systems Inc.: 10.3%
- Bank of America Corp.: 10.2%

### S&P 500 Actual EPS Surprise %: Bottom 10 Q4 Actual EPS Surprises
(Source: FactSet)

- Northern Trust Corporation: -4.4%
- Lennar Corporation Class A: -5.6%
- PNC Financial Services Group, Inc.: -12.1%
- SVB Financial Group: -12.7%
- J.B. Hunt Transport Services, Inc.: -21.4%
- KeyCorp: -30.6%
- Bank of New York Mellon Corp: -39.4%
- Goldman Sachs Group, Inc.: -40.3%
- CarMax, Inc.: -53.3%
- Netflix, Inc.: -78.2%
Q4 2022: Growth

**S&P 500 Earnings Growth: Q4 2022**
(Source: FactSet)

**S&P 500 Revenue Growth: Q4 2022**
(Source: FactSet)
Q4 2022: Growth

**S&P 500 Earnings Growth: Q4 2022**
(Source: FactSet)

-2.8%  
-4.6%  
-7.3%

**S&P 500 Revenue Growth: Q4 2022**
(Source: FactSet)

4.3%  
3.7%  
2.1%
Q4 2022: Net Profit Margin

**S&P 500 Net Profit Margins: Q422 vs. Q421**
(Source: FactSet)

- **Q422:**
  - Real Estate: 35.1%
  - Information Tech: 23.6%
  - Financials: 15.6%
  - Energy: 13.4%
  - Utilities: 12.5%
  - S&P 500: 11.4%
  - Materials: 10.1%
  - Industrials: 9.7%
  - Comm. Services: 9.6%
  - Health Care: 9.3%
  - Consumer Staples: 6.1%
  - Consumer Disc: 5.7%

- **Q421:**
  - Real Estate: 34.2%
  - Information Tech: 26.0%
  - Financials: 18.5%
  - Energy: 9.3%
  - Utilities: 9.6%
  - S&P 500: 12.4%
  - Materials: 13.2%
  - Industrials: 7.6%
  - Comm. Services: 12.1%
  - Health Care: 10.5%
  - Consumer Staples: 6.6%
  - Consumer Disc: 7.8%

**S&P 500: % of Cos. With Increase or Decrease in Net Profit Margin:**
(Q422 vs. Q421)
(Source: FactSet)

- **Down %:**
  - Energy: 9%
  - Utilities: 3%
  - Industrials: 5%
  - Consumer Staples: 59%
  - Consumer Disc: 59%
  - Information Tech: 59%
  - S&P 500: 61%
  - Real Estate: 64%
  - Comm. Services: 67%
  - Financials: 73%
  - Health Care: 86%
  - Materials: 86%

- **None %:**
  - Energy: 0%
  - Utilities: 0%
  - Industrials: 0%
  - Consumer Staples: 0%
  - Consumer Disc: 0%
  - Information Tech: 0%
  - S&P 500: 0%
  - Real Estate: 0%
  - Comm. Services: 0%
  - Financials: 0%
  - Health Care: 0%
  - Materials: 0%

- **Up %:**
  - Energy: 91%
  - Utilities: 63%
  - Industrials: 46%
  - Consumer Staples: 42%
  - Consumer Disc: 41%
  - Information Tech: 41%
  - S&P 500: 40%
  - Real Estate: 39%
  - Comm. Services: 36%
  - Financials: 31%
  - Health Care: 27%
  - Materials: 14%
CY 2022: Growth

S&P 500 Earnings Growth: CY 2022
(Source: FactSet)

S&P 500 Revenue Growth: CY 2022
(Source: FactSet)
Earnings Insight

Q1 2023: Guidance

Number (#) of S&P 500 Cos. with Q1 Positive & Negative Guidance
(Source: FactSet)

Percentage (%) of S&P 500 Cos. with Q1 Positive & Negative Guidance
(Source: FactSet)
Q1 2023: EPS Revisions

Upward Change in Q1 EPS (Trailing 4 Weeks): Top 10 S&P 500 Cos. (Source: FactSet)

- MGM Resorts International: 321.8%
- American Airlines Group, Inc.: 105.8%
- Caesars Entertainment Inc.: 76.7%
- Alaska Air Group, Inc.: 74.0%
- Moderna, Inc.: 66.2%
- Lamb Weston Holdings, Inc.: 30.8%
- Marathon Petroleum Corporation: 29.5%
- Valero Energy Corporation: 24.0%
- Expedia Group, Inc.: 18.5%
- Freeport-McMoRan, Inc.: 14.5%

Downward Change in Q1 EPS (Trailing 4-Weeks): Top 10 S&P 500 Cos. (Source: FactSet)

- CarMax, Inc.: -28.3%
- EQT Corporation: -30.2%
- Western Digital Corporation: -33.4%
- Pinnacle West Capital Corporation: -36.9%
- Southwest Airlines Co.: -37.1%
- Las Vegas Sands Corp.: -43.3%
- Delta Air Lines, Inc.: -45.9%
- General Electric Company: -73.3%
- Stanley Black & Decker, Inc.: -82.4%
- Ventas, Inc.: -166.7%
Q1 2023: Growth

**S&P 500 Earnings Growth: Q1 2023**
(Source: FactSet)

**S&P 500 Revenue Growth: Q1 2023**
(Source: FactSet)
FY 2022 / 2023: EPS Guidance

**Number (#) of S&P 500 Cos. with FY Positive & Negative Guidance**
(Source: FactSet)

**Percentage (%) of S&P 500 Cos. with FY Positive & Negative Guidance**
(Source: FactSet)
EARNINGS INSIGHT

CY 2023: Growth

S&P 500 Earnings Growth: CY 2023
(Source: FactSet)

S&P 500 Revenue Growth: CY 2023
(Source: FactSet)
CY 2024: Growth

S&P 500 Earnings Growth: CY 2024
(Source: FactSet)

S&P 500 Revenue Growth: CY 2024
(Source: FactSet)
Geographic Revenue Exposure

S&P 500: Aggregate Geographic Revenue Exposure (%)
(Source: FactSet)

- United States: 60%
- International: 40%

S&P 500: Aggregate Sector Geographic Revenue Exposure (%)
(Source: FactSet)

<table>
<thead>
<tr>
<th>Sector</th>
<th>International</th>
<th>United States</th>
</tr>
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<tbody>
<tr>
<td>Utilities</td>
<td>2%</td>
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<tr>
<td>Real Estate</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>Financials</td>
<td>22%</td>
<td>78%</td>
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<tr>
<td>Consumer Disc.</td>
<td>32%</td>
<td>56%</td>
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<tr>
<td>Industrials</td>
<td>24%</td>
<td>66%</td>
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<tr>
<td>Health Care</td>
<td>36%</td>
<td>64%</td>
</tr>
<tr>
<td>Energy</td>
<td>39%</td>
<td>61%</td>
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<tr>
<td>Comm. Services</td>
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<td>59%</td>
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<tr>
<td>Info. Technology</td>
<td>56%</td>
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</tbody>
</table>
Bottom-Up EPS Estimates
Bottom-Up EPS Estimates: Current & Historical

S&P 500 Calendar Year Bottom-Up EPS Actuals & Estimates
(Source: FactSet)

S&P 500 Quarterly Bottom-Up EPS Actuals & Estimates
(Source: FactSet)
Forward 12M P/E Ratio: Sector Level

S&P 500 Sector-Level Forward 12-Month P/E Ratios
(Source: FactSet)

Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Dec. 31
(Source: FactSet)
Forward 12M P/E Ratio: 10-Years
Trailing 12M P/E Ratio: 10-Years
Targets & Ratings

S&P 500: Percentage of Buy, Hold, and Sell Ratings
(Source: FactSet)

S&P 500 Sector-Level Bottom-Up Target Price vs. Closing Price
(Source: FactSet)
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