February 3, 2023

Key Metrics

- **Earnings Scorecard**: For Q4 2022 (with 50% of S&P 500 companies reporting actual results), 70% of S&P 500 companies have reported a positive EPS surprise and 61% 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 -5.3%. If -5.3% 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 -3.3%. Seven 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, 37 S&P 500 companies have issued negative EPS guidance and 6 S&P 500 companies have issued positive EPS guidance.

- **Valuation**: The forward 12-month P/E ratio for the S&P 500 is 18.4. This P/E ratio is below the 5-year average (18.5) but above the 10-year average (17.2).
EARNINGS INSIGHT

Topic of the Week:
Analysts Making Larger Cuts Than Average to EPS Estimates for S&P 500 Companies for Q1

Given concerns in the market about a possible economic slowdown or recession, have analysts lowered EPS estimates more than normal for S&P 500 companies for the first quarter?

The answer is yes. During the month of January, analysts lowered EPS estimates for the first quarter by a larger margin than average. The Q1 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for Q1 for all the companies in the index) decreased by 3.3% (to $52.41 from $54.20) from December 31 to January 31.

In a typical quarter, analysts usually reduce earnings estimates during the first month of a quarter. During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 1.5%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 1.8%. During the past fifteen years, (60 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 2.2%. During the past 20 years (80 quarters), the average decline in the bottom-up EPS estimate during the first month of a quarter has been 1.7%.

Thus, the decline in the bottom-up EPS estimate recorded during the first month of the first quarter was larger than the 5-year average, the 10-year average, the 15-year average, and the 20-year average.

At the sector level, ten of the eleven sectors witnessed a decrease in their bottom-up EPS estimate for Q1 2023 from December 31 to January 31, led by the Industrials (-6.9%) and Energy (-6.7%) sectors. On the other hand, the Utilities (+2.3%) sector was the only sector that recorded an increase in its bottom-up EPS estimate for Q1 2023 during this period.

While analysts were decreasing EPS estimates in aggregate for the first quarter, they were also decreasing EPS estimates in aggregate for all of 2023. The bottom-up EPS estimate for CY 2023 declined by 2.5% (to $224.88 from $230.57) from December 31 to January 31.

Over longer timeframes, analysts usually reduce earnings estimates modestly for the year during the month of January. During the past five years, the average increase in the bottom-up EPS estimate for the year during the month of January has been 1.2%. During the past ten years, the average decline in the bottom-up EPS estimate for the year during the month of January quarter has been 0.3%. During the past fifteen years, the average decline in the bottom-up EPS estimate for the year during the month of January has been 1.2%. During the past 20 years, the average decline in the bottom-up EPS estimate for the year during the month of January has been 1.0%.

Thus, the decline in the CY 2023 bottom-up EPS estimate recorded during the month of January was larger than the 5-year average, the 10-year average, the 15-year average, and the 20-year average for the month. It also marked the largest decline in the bottom-up EPS estimate for the year during the month of January since 2016, when the bottom-up EPS estimate for CY 2016 decreased by 3.0% during the month.

At the sector level, nine sectors witnessed a decrease in their bottom-up EPS estimates for CY 2023 from December 31 to January 31, led by the Energy (-3.6%) and Health Care (-3.5%) sectors. On the other hand, two sectors witnessed an increase in their bottom-up EPS estimates for CY 2023 during this time: Consumer Staples (+0.2%) and Utilities (+0.1%).

It is interesting to note that the forward 12-month P/E ratio for the S&P 500 has increased to 18.4 from 16.7 since December 31, as the price of the index has increased while EPS estimates for CY 2023 have decreased during this time.
Q4 Earnings Season: By The Numbers

Overview

At the midpoint of the Q4 earnings season, the performance of S&P 500 companies continues to be subpar. While the percentage of S&P 500 companies reporting positive earnings surprises remained flat over the past week, the magnitude of these earnings surprises decreased during this time, mainly due to negative EPS surprises reported by a number of large technology companies. Both metrics are below their 5-year and 10-year averages. As a result, 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. If the index reports an actual decline in earnings for Q4 2022, it will mark the first year-over-year decline in earnings reported by the index since Q3 2020.

Overall, 50% of the companies in the S&P 500 have reported actual results for Q4 2022 to date. Of these companies, 70% have reported actual EPS above estimates, which is equal to the percentage of 70% at the end of last week, but below the 5-year average of 77% and below the 10-year average of 73%. In aggregate, companies are reporting earnings that are 0.6% above estimates, which is below the percentage of 1.5% at the end of last week, below the 5-year average of 8.6%, and below the 10-year average of 6.4%. If 0.6% is the actual surprise percentage for the quarter, it will mark the lowest surprise percentage reported by the index since 2008.

As a result, 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 -5.3% today, compared to an earnings decline of -5.1% last week and an earnings decline of -3.3% at the end of the fourth quarter (December 31).

Negative earnings surprises reported by companies in the Communication Services, Information Technology, and Consumer Discretionary sectors, partially offset by positive earnings surprises reported by companies in the Health Care sector, were the top contributors to the increase in the earnings decline for the index during the past week. Negative earnings surprises and downward revisions to earnings estimates for companies in the Financials and Communication Services sectors have been the largest contributors to the increase in the overall earnings decline since December 31.

If -5.3% 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 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 Communication Services, Materials, and Consumer Discretionary sectors.

In terms of revenues, 61% of S&P 500 companies have reported actual revenues above estimates, which is below the 5-year average of 69% and below 10-year average of 63%. In aggregate, companies are reporting revenues that are 1.1% above the estimates, which is below the 5-year average of 1.9% and below the 10-year average of 1.3%.

Despite the below-average performance compared to estimates, the index is reporting higher 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 4.3% today, compared to a revenue growth rate of 3.9% last week and a revenue growth rate of 3.9% at the end of the fourth quarter (December 31).

Positive revenue surprises reported by companies in multiple sectors (led by the Consumer Discretionary, Energy, and Health Care sectors) were the largest contributors to the increase in the revenue growth rate for the index during the past week. Positive revenue surprises reported by companies in the Consumer Discretionary, Energy, and Health Care sectors have also been the top contributors to the increase in the overall revenue growth rate since December 31.
If 4.3% 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, Consumer Discretionary, and Industrials sectors. Three sectors are reporting a year-over-year decline 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 -4.2% and -2.9%, respectively. For Q3 2023 and Q4 2023, analysts are projecting earnings growth of 3.4% and 10.5%, respectively. For all of CY 2023, analysts predict earnings growth of 3.0%.

The forward 12-month P/E ratio is 18.4, 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 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, 95 S&P 500 companies (including one Dow 30 component) are scheduled to report results for the fourth quarter.

Scorecard: Number And Magnitude of Positive Surprises Are Below Averages

Percentage of Companies Beating EPS Estimates (70%) is Below 5-Year Average

Overall, 50% of the companies in the S&P 500 have reported earnings to date for the fourth quarter. Of these companies, 70% have reported actual EPS above the mean EPS estimate, 3% have reported actual EPS equal to the mean EPS estimate, and 27% 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 Utilities (100%) sector has the highest percentage of companies reporting earnings above estimates, while the Communication Services (36%) sector has the lowest percentage of companies reporting earnings above estimates.

Earnings Surprise Percentage (+0.6%) is Below 5-Year Average

In aggregate, companies are reporting earnings that are 0.6% 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%).

If 0.6% is the actual surprise percentage for the quarter, it will mark the lowest surprise percentage reported by the index since Q4 2008.

The Health Care (+6.3%) sector is reporting the largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Regeneron Pharmaceuticals ($12.56 vs. $10.17), Hologic ($1.07 vs. $0.91), Eli Lilly ($2.09 vs. $1.78), and Cardinal Health ($1.32 vs. $1.14) have reported the largest positive EPS surprises.

The Materials (+5.9%) sector is reporting the second-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Corteva ($0.16 vs. $0.05), International Paper ($0.87 vs. $0.73), Nucor ($4.89 vs. $4.16), Steel Dynamics ($4.37 vs. $3.76), and Freeport-McMoRan ($0.52 vs. $0.47) have reported the largest positive EPS surprises.

The Communication Services (-6.8%) sector is reporting the largest negative (aggregate) difference between actual earnings and estimated earnings. Within this sector, Netflix ($0.12 vs. $0.55), Match Group ($0.30 vs. $0.46), and Meta Platforms ($1.76 vs. $2.26) have reported the largest negative EPS surprises.
The Consumer Discretionary (-2.0%) sector is reporting the second-largest negative (aggregate) difference between actual earnings and estimated earnings. Within this sector, Amazon.com ($0.03 vs. $0.17), CarMax ($0.24 vs. $0.65), and Ford Motor (0.51 vs. $0.62) have reported the largest negative EPS surprises.

The Industrials (-0.9%) sector is reporting the third-largest negative (aggregate) difference between actual earnings and estimated earnings. Within this sector, Boeing (-$1.75 vs. $0.20), Southwest Airlines (-$0.38 vs. -$0.07), C.H. Robinson Worldwide ($1.03 vs. $1.36), and J.B. Hunt Transport Services ($1.92 vs. $2.44) have reported the largest negative EPS surprises.

**Market Rewarding Positive and Negative EPS Surprises More Than Average**

To date, the market is rewarding positive and negative earnings surprises reported by S&P 500 companies for the fourth quarter more than average.

Companies that have reported positive earnings surprises for Q4 2022 have seen an average price increase of +1.8% two days before the earnings release through two days after the earnings release. This percentage increase larger 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 increase of +0.8% two days before the earnings release through two days after the earnings. This percentage increase is much 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 (61%) is Below 5-Year Average**

In terms of revenues, 61% of companies have reported actual revenues above estimated revenues and 39% have reported actual revenues below estimated revenues. The percentage of companies reporting revenues above estimates is below the 1-year average (73%), below the 5-year average (69%), and below the 10-year average (63%).

At the sector level, the Consumer Staples (78%), Utilities (75%), Consumer Discretionary (74%), and Information Technology (72%) sectors have the highest percentages of companies reporting revenues above estimates, while the Communication Services (27%) and Materials (33%) sectors have the lowest percentages of companies reporting revenues above estimates.

**Revenue Surprise Percentage (+1.1%) is Below 5-Year Average**

In aggregate, companies are reporting revenues that are 1.1% 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 Utilities (+14.3%) sector is reporting the largest positive (aggregate) difference between actual revenues and estimated revenues, while the Information Technology (-0.9%) and Materials (-0.7%) sectors are reporting the largest negative (aggregate) differences between actual revenues and estimated revenues.

**Revisions: Increase in Blended Earnings Decline Due to Negative Surprises in Multiple Sectors**

**Increase in Blended Earnings Decline This Week Due to Negative Surprises in Multiple Sectors**

The blended (year-over-year) earnings decline for the fourth quarter is -5.3%, which is larger than the earnings decline of -5.1% last week. Negative earnings surprises reported by companies in the Communication Services, Information Technology, and Consumer Discretionary sectors, partially offset by positive earnings surprises reported by companies in the Health Care sector, were the top contributors to the increase in the earnings decline for the index during the past week.
In the Communication Services sector, the negative EPS surprises reported by Alphabet ($1.05 vs. $1.18) and Meta Platforms ($1.76 vs. $2.26) were significant contributors to the increase in the earnings decline for the index during the week. As a result, the blended earnings decline for the Communication Services sector increased to -25.2% from -19.9% over this period.

In the Information Technology sector, the negative EPS surprise reported by Apple ($1.88 vs. $1.94) was a substantial contributor to the increase in the earnings decline for the index during the week. As a result, the blended earnings decline for the Information Technology sector increased to -10.6% from -9.8% over this period.

In the Consumer Discretionary sector, the negative EPS surprises reported by Amazon.com ($0.03 vs. $0.17) and Ford Motor ($0.51 vs. $0.62), partially offset by the positive EPS surprise reported by General Motors ($2.12 vs. $1.71), were significant contributors to the increase in the earnings decline for the index during the week. As a result, the blended earnings decline for the Consumer Discretionary sector increased to -22.6% from -20.4% over this period.

In the Health Care sector, the positive EPS surprises reported by Pfizer ($1.14 vs. $1.05), Eli Lilly ($2.09 vs. $1.78), Regeneron Pharmaceuticals ($12.56 vs. $10.17), Merck ($1.62 vs. $1.53), Bristol-Myers Squibb ($1.82 vs. $1.73), and Gilead Sciences ($1.67 vs. $1.52) were substantial detractors to the increase in the earnings decline for the index during the week. As a result, the blended earnings decline for the Health Care sector decreased to -6.4% from -9.3% over this period.

Increase in Blended Revenue Growth Rate This Week Due to Positive Surprises in Multiple Sectors

The blended (year-over-year) revenue growth rate for the fourth quarter is 4.3%, which is above the revenue growth rate of 3.9% last week. Positive revenue surprises reported by companies in multiple sectors (led by the Consumer Discretionary, Energy, and Health Care sectors) were the largest contributors to the increase in the revenue growth rate for the index 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 -5.3% is below the estimate of -3.3% at the end of the fourth quarter (December 31). Four sectors have recorded an increase in their earnings growth rate or a decrease in their earnings decline since the end of the quarter due to upward revisions to earnings estimates and positive earnings surprises, led by the Health Care (to -6.4% from -9.5%) sector. On the other hand, seven 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 -13.9% from -7.5%) and Communication Services (to -25.2% from -19.0%) sectors. The Financials and Communication Services sectors have also been the largest contributors to the decrease in earnings for the index since December 31.

In the Financials sector, the negative EPS surprises reported by Goldman Sachs ($3.32 vs. $5.56) and U.S. Bancorp ($0.57 vs. $1.12) and the downward revisions to EPS estimates for Wells Fargo (to $0.59 from $1.26) and Allstate (to -$1.36 from $1.94) 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 has increased to -13.9% from -7.5% over this period.

In the Communication Services sector, the negative EPS surprises reported by Alphabet ($1.05 vs. $1.18) and Meta Platforms ($1.76 vs. $2.26) have been significant contributors to the increase in the earnings decline for the index since December 31. As a result, the blended earnings decline for the Communication Services sector has increased to -25.2% from -19.0% over this period.

In the Health Care sector, the positive EPS surprises reported by Pfizer ($1.14 vs. $1.05), Johnson & Johnson ($2.35 vs. $2.24), and Danaher Corporation ($2.87 vs. $2.55) have been substantial detractors to the increase in the earnings decline for the index since December 31. As a result, the blended earnings decline for the Health Care sector has decreased to -6.4% from -9.3% over this period.
Consumer Discretionary Sector Has Seen Largest Increase in Revenues since December 31

The blended (year-over-year) revenue growth rate for Q4 2022 of 4.3% is above estimate of 3.9% at the end of the fourth quarter (December 31). Seven 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 Energy (to 14.1% from 12.4%) and Consumer Discretionary (to 9.7% from 8.0%) sectors. On the other hand, three sectors have recorded a decrease in their revenue growth or an increase in their revenue decline since the end of the quarter due to downward revisions to revenue estimates and negative revenue surprises, led by the Information Technology (to -1.6% from -0.4%) sector. The Financials sector has the same revenue growth rate today (4.8%) compared to December 31. The Consumer Discretionary, Energy, and Health Care sectors have been the top contributors to the increase in the overall revenue growth rate since December 31, while the Information Technology sector has been the top detractor to the increase in overall revenue growth since December 31.

Earnings Decline: -5.3%

The blended (year-over-year) earnings decline for Q4 2022 is -5.3%, 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 -5.3% 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 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 Communication Services, Materials, and Consumer Discretionary 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 57.7%. Higher year-over-year oil prices are contributing to the year-over-year improvement in earnings for this sector, as the average price of oil in 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 a year-over-year increase in earnings of 15% or more: Oil & Gas Refining & Marketing (167%), Oil & Gas Storage & Transportation (82%), Oil & Gas Equipment & Services (81%), Integrated Oil & Gas (57%), and Oil & Gas Exploration & Production (18%).

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 -9.4% from -5.3%.

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 36.8%. At the industry level, 10 of the 12 industries in the sector are reporting 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 reported a profit of $2.4 billion in Q4 2022 compared to a loss of -$1.2 billion in Q4 2021. Four of the remaining nine industries are reporting earnings growth above 20%: Aerospace & Defense (173%), Machinery (29%), Trading Companies & Distributors (23%), and Industrial Conglomerates (22%). On the other hand, two industries are reporting a year-over-year decline in earnings for the quarter: Air Freight & Logistics (-15%) and Professional Services (9%).

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 8.5% from 36.8%.
Communication Services: Alphabet and Meta Platforms Lead Year-Over-Year Decline

The Communication Services sector is reporting the largest (year-over-year) earnings decline of all eleven sectors at -25.2%. At the industry level, four of the five industries in this sector are reporting a year-over-year decline in earnings, led by the Interactive Media & Services (-39%) and Entertainment (-38%) industries. On the other hand, the Wireless Telecommunication Services (246%) industry is the only industry in the sector that reported (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 -6.5% from -25.2%.

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

The Materials sector is reporting the second-largest (year-over-year) earnings decline of all eleven sectors at -24.8%. At the industry level, all four industries in this sector are reporting a year-over-year decline in earnings: Metals & Mining (-41%), Containers & Packaging (-20%), Chemicals (-17%), and Construction Materials (-1%).

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

The Consumer Discretionary sector is reporting the third-largest (year-over-year) earnings decline of all eleven sectors at -22.6%. At the industry level, 6 of the 10 industries in the sector are reporting a year-over-year decrease in earnings. Three of these six industries are reporting a decline in earnings or more than 10%: Internet & Direct Marketing Retail (-93%), Multiline Retail (-30%), and Textiles, Apparel, & Luxury Goods (-11%). On the other hand, four industries are reporting year-over-year earnings growth for the quarter. Three of these four industries are reporting earnings growth of 45% or more: Hotels, Restaurants, & Leisure (975%), Automobiles (59%), and Auto Components (46%).

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 18.6% instead of an earnings decline of -22.6%.

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 -44.8% from -22.6%.

Revenue Growth: 4.3%

The blended (year-over-year) revenue growth rate for Q4 2022 is 4.3%, 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 4.3% 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, Consumer Discretionary, and Industrials sectors. On the other hand, three sectors are reporting a year-over-year decline in revenues, led by the Utilities sector.

Energy: All 5 Sub-Industries Reporting Year-Over-Year Growth

The Energy sector is reporting the highest (year-over-year) revenue growth rate of all eleven sectors at 14.1%. 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 year-over-year growth in revenues: Oil & Gas Equipment & Services (21%), Oil & Gas Refining & Marketing (17%), Integrated Oil & Gas (14%), Oil & Gas Exploration & Production (10%), and Oil & Gas Storage & Transportation (3%).
Consumer Discretionary: Automobiles Industry Leads Year-Over-Year Growth

The Consumer Discretionary sector is reporting the second-highest (year-over-year) revenue growth rate of all eleven sectors at 9.7%. At the industry level, 8 of the 10 industries in the sector are reporting year-over-year growth in revenues, led by the Automobiles (25%) and Hotels, Restaurants, & Leisure (22%) industries.

Industrials: Airlines Industry Leads Year-Over-Year Growth

The Industrials sector is reporting the third-highest (year-over-year) revenue growth rate of all eleven sectors at 9.6%. At the industry level, 10 of the 12 industries in the sector are reporting year-over-year growth in revenues. Five of these ten industries are reporting revenue growth of 10% or more: Airlines (37%), Machinery (17%), Trading Companies & Distributors (15%), Aerospace & Defense (13%), and Commercial Services & Supplies (10%).

Utilities: 4 of 5 Industries Reporting Year-Over-Year Decline

The Utilities sector is reporting the largest (year-over-year) revenue decline of all eleven sectors at -17.8%. At the industry level, 4 of the 5 industries in the sector are reporting a (year-over-year) decline in revenues: Electric Utilities (-20%), Independent Power & Renewable Electricity Producers (-15%), Multi-Utilities (-13%), and Water Utilities (-4%). 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: 11.3%

The blended net profit margin for the S&P 500 for Q4 2022 is 11.3%, which is below the 5-year average of 11.4%, below the previous quarter’s net profit margin of 11.9% and below the year-ago net profit margin of 12.4%. If 11.3% 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 a year-over-year increase in their net profit margins in Q4 2022 compared to Q4 2021, led by the Energy (to 12.9% 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 Financials (15.2% vs. 18.5%) and Communication Services (9.0% vs. 12.1%) sectors.

Four sectors are reporting net profit margins in Q4 2022 that are above their 5-year averages, led by the Energy (12.9% 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 (9.0% 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, 43 companies in the index have issued EPS guidance for Q1 2023. Of these 43 companies, 37 have issued negative EPS guidance and 6 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance for Q1 2023 is 86% (37 out of 43), which is above the 5-year average of 59% and above the 10-year average of 67%. At the sector level, the Information Technology (18) and Industrials (8) sectors have the highest number of companies issuing negative EPS guidance.

At this point in time, 251 companies in the index have issued EPS guidance for the current fiscal year (FY 2022 or FY 2023). Of these 251 companies, 129 have issued negative EPS guidance and 122 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 51% (129 out of 251).

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 3% for CY 2023

For the fourth quarter, S&P 500 companies are reporting a year-over-year earnings decline of -5.3% and revenue growth of 4.3%. For CY 2022, S&P 500 companies are reporting earnings growth of 4.2% and revenue growth of 10.6%.

For Q1 2023, analysts are projecting an earnings decline of -4.2% and revenue growth of 2.0%.

For Q2 2023, analysts are projecting an earnings decline of -2.9% and a revenue decline of -0.1%.

For Q3 2023, analysts are projecting earnings growth of 3.4% and revenue growth of 1.3%.

For Q4 2023, analysts are projecting earnings growth pf 10.5% and revenue growth of 4.0%.

For CY 2023, analysts are projecting earnings growth of 3.0% and revenue growth of 2.5%.

Valuation: Forward P/E Ratio is 18.4, Above the 10-Year Average (17.2)

The forward 12-month P/E ratio for the S&P 500 is 18.4. This P/E ratio is below the 5-year average of 18.5 but above 10-year average of 17.2. It is also above the forward 12-month P/E ratio of 16.7 recorded at the end of the fourth quarter (December 31). Since the end of the fourth quarter (December 31), the price of the index has increased by 8.9%, while the forward 12-month EPS estimate has decreased by 1.4%. At the sector level, the Consumer Discretionary (25.5) sector has the highest forward 12-month P/E ratio, while the Energy (10.1) and Financials (13.1) sectors have the lowest forward 12-month P/E ratios.

The trailing 12-month P/E ratio is 20.4, which is below the 5-year average of 22.6 and below the 10-year average of 20.5.

Targets & Ratings: Analysts Project 9% Increase in Price Over Next 12 Months

The bottom-up target price for the S&P 500 is 4553.83, which is 8.9% above the closing price of 4179.76. At the sector level, the Energy (+18.1%) 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 Real Estate (3.8%) and Materials (+4.6%) 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 11,058 ratings on stocks in the S&P 500. Of these 11,058 ratings, 53.9% are Buy ratings, 39.8% are Hold ratings, and 6.3% are Sell ratings. At the sector level, the Communication Services (63%) and Energy (62%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (43%) sector has the lowest percentage of Buy ratings.

**Companies Reporting Next Week: 95**

During the upcoming week, 95 S&P 500 companies (including one Dow 30 component) are scheduled to report results for the fourth quarter.
EARNINGS INSIGHT

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)

- Health Care: 6.3%
- Materials: 5.9%
- Utilities: 4.2%
- Consumer Staples: 3.3%
- Real Estate: 2.4%
- Energy: 2.2%
- S&P 500: 0.6%
- Financials: 0.6%
- Info. Technology: -0.1%
- Industrials: -0.9%
- Consumer Disc.: -2.0%
- Comm. Services: -6.8%

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

- Utilities: 4.2%
- Energy: 3.4%
- Consumer Disc.: 2.2%
- Real Estate: 1.1%
- S&P 500: 1.0%
- Health Care: 0.7%
- Industrials: 0.2%
- Financials: 0.2%
- Comm. Services: 0.0%
- Materials: -0.7%
- Info. Technology: -0.9%
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)

- Corteva Inc: 208.3%
- Seagate Technology Holdings PLC: 74.0%
- Lamb Weston Holdings, Inc.: 73.9%
- Clorox Company: 48.7%
- NVR, Inc.: 34.9%
- Weyerhaeuser Company: 34.1%
- NIKE, Inc. Class B: 32.0%
- Putnam Group, Inc.: 31.4%
- Rockwell Automation, Inc.: 25.7%
- General Motors Company: 24.1%

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

- KeyCorp: -30.6%
- Match Group, Inc.: -34.5%
- Bank of New York Mellon Corp: -39.4%
- Goldman Sachs Group, Inc.: -40.3%
- U.S. Bancorp: -49.1%
- Intel Corporation: -50.7%
- CarMax, Inc.: -63.3%
- Netflix, Inc.: -78.2%
- Amazon.com, Inc.: -82.7%
- Boeing Company: -985.2%
EARNINGS INSIGHT

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)

-2.9%
-5.3%
-8.8%

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

5.3%
4.3%
1.8%
EARNINGS INSIGHT

Q4 2022: Net Profit Margin

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

S&P 500: % of Cos. With Increase or Decrease in Net Profit Margin:
Q422 vs. Q421
(Source: FactSet)
CY 2022: Growth

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

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

- NRG Energy, Inc.: 1066.7%
- United Airlines Holdings, Inc.: 218.3%
- American Airlines Group, Inc.: 128.3%
- Las Vegas Sands Corp.: 59.9%
- Moderna, Inc.: 58.0%
- Marathon Petroleum Corporation: 42.5%
- Valero Energy Corporation: 42.0%
- MGM Resorts International: 38.9%
- Warner Bros. Discovery, Inc. Series A: 38.4%
- Meta Platforms Inc. Class A: 26.8%

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

(Source: FactSet)

- Pinnacle West Capital Corporation: -50.4%
- Estee Lauder Companies Inc. Class A: -59.4%
- General Electric Company: -78.3%
- Goovo, Inc.: -80.9%
- Alaska Air Group, Inc.: -95.9%
- Stanley Black & Decker, Inc.: -130.7%
- Intel Corporation: -152.0%
- Southwest Airlines Co.: -165.1%
- Boeing Company: -181.5%
- Western Digital Corporation: -426.1%
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

![Earnings Growth Chart](chart.png)

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

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

- International: 40%
- United States: 60%

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

- Utilities: 17% United States, 2% International
- Real Estate: 32% United States, 17% International
- Financials: 22% United States, 9% International
- Consumer Disc.: 6% United States, 24% International
- Industrials: 33% United States, 24% International
- Health Care: 36% United States, 37% International
- Energy: 37% United States, 2% International
- Comm. Services: 42% United States, 44% International
- Consumer Staples: 4% United States, 5% International
- Materials: 52% United States, 54% International
- Info. Technology: 50% United States, 56% International
Bottom-Up EPS Estimates

S&P 500 CY 2023 & CY 2024 Bottom-Up EPS: 1-Year
(Source: FactSet)

S&P 500 Q123 Bottom-Up EPS: 1-Year
(Source: FactSet)
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

S&P 500 Change in Forward 12-Month EPS vs. Change in Price: 10 Yrs.
(Source: FactSet)

S&P 500 Forward 12-Month P/E Ratio: 10 Years
(Source: FactSet)
EARNINGS INSIGHT

Trailing 12M P/E Ratio: 10-Years

S&P 500 Change in Trailing 12-Month EPS vs. Change in Price: 10 Years
(Source: FactSet)

S&P 500 Trailing 12-Month P/E Ratio: 10 Years
(Source: FactSet)
Targets & Ratings

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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Buy</th>
<th>Hold</th>
<th>Sell</th>
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</thead>
<tbody>
<tr>
<td>Comm. Services</td>
<td>53%</td>
<td>30%</td>
<td>7%</td>
</tr>
<tr>
<td>Energy</td>
<td>62%</td>
<td>34%</td>
<td>5%</td>
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<tr>
<td>Info. Tech</td>
<td>60%</td>
<td>36%</td>
<td>4%</td>
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<tr>
<td>Health Care</td>
<td>57%</td>
<td>39%</td>
<td>3%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>56%</td>
<td>41%</td>
<td>3%</td>
</tr>
<tr>
<td>Consumer Disc.</td>
<td>56%</td>
<td>40%</td>
<td>6%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>54%</td>
<td>41%</td>
<td>6%</td>
</tr>
<tr>
<td>Utilities</td>
<td>50%</td>
<td>44%</td>
<td>8%</td>
</tr>
<tr>
<td>Industrials</td>
<td>49%</td>
<td>44%</td>
<td>8%</td>
</tr>
<tr>
<td>Financials</td>
<td>47%</td>
<td>44%</td>
<td>9%</td>
</tr>
<tr>
<td>Materials</td>
<td>46%</td>
<td>47%</td>
<td>7%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>43%</td>
<td>46%</td>
<td>12%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Target/Close</th>
</tr>
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<tbody>
<tr>
<td>Energy</td>
<td>18.1%</td>
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<tr>
<td>Health Care</td>
<td>13.5%</td>
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<td>Comm. Services</td>
<td>11.0%</td>
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<td>Utilities</td>
<td>10.7%</td>
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<tr>
<td>Consumer Staples</td>
<td>9.3%</td>
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<tr>
<td>S&amp;P 500</td>
<td>8.9%</td>
</tr>
<tr>
<td>Financials</td>
<td>8.0%</td>
</tr>
<tr>
<td>Info. Tech</td>
<td>7.5%</td>
</tr>
<tr>
<td>Consumer Disc.</td>
<td>6.5%</td>
</tr>
<tr>
<td>Industrials</td>
<td>5.2%</td>
</tr>
<tr>
<td>Materials</td>
<td>4.5%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>3.8%</td>
</tr>
</tbody>
</table>
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