Key Metrics

- **Earnings Scorecard**: For Q2 2023 (with over 99% of S&P 500 companies reporting actual results), 79% 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 Decline**: For Q2 2023, the blended (year-over-year) earnings decline for the S&P 500 is -4.1%. The second quarter will mark the third straight quarter of earnings declines reported by the index.

- **Earnings Revisions**: On June 30, the estimated earnings decline for Q2 2023 was -7.0%. Eight sectors are reporting (or have reported) higher earnings today (compared to June 30) due to positive EPS surprises or positive revisions to EPS estimates.

- **Earnings Guidance**: For Q3 2023, 73 S&P 500 companies have issued negative EPS guidance and 42 S&P 500 companies have issued positive EPS guidance.

- **Valuation**: The forward 12-month P/E ratio for the S&P 500 is 18.8. This P/E ratio is above the 5-year average (18.7) and above the 10-year average (17.5).
Analysts Are Raising Quarterly S&P 500 EPS Estimates for the First Time Since Q3 2021

At the end of the earnings season for the second quarter, have analysts lowered EPS estimates more than normal for S&P 500 companies for the third quarter?

The answer is no. During the months of July and August, analysts increased EPS estimates for S&P 500 companies for the third quarter. The Q3 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for Q3 for all the companies in the index) increased by 0.4% (to $56.10 from $55.86) from June 30 to August 31.

In a typical quarter, analysts usually reduce earnings estimates during the first two months of a quarter. During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 3.0%. During the past ten years (40 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 2.7%. During the past fifteen years, (60 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 3.4%. During the past 20 years (80 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 2.9%.

In fact, this quarter marked the first increase in the bottom-up EPS estimate over the first two months of a quarter since Q3 2021 (+3.8%).

At the sector level, four of the eleven sectors witnessed an increase in their bottom-up EPS estimate for Q3 2023 from June 30 to August 31, led by the Consumer Discretionary (+6.4%), Communication Services (+5.3%), and Information Technology (+3.8%) sectors. On the other hand, seven sectors recorded a decrease in their bottom-up EPS estimate for Q3 2023 during this period, led by the Materials (-12.4%) sector.

While analysts were raising EPS estimates in aggregate for the third quarter, they were also increasing EPS estimates for the fourth quarter. The bottom-up EPS estimate for the fourth quarter increased by 0.6% (to $58.07 from $57.72) from June 30 to August 31.

Given the increases in bottom-up EPS estimates for the third and fourth quarters due to upward revisions to EPS estimates and the larger increase in the bottom-up EPS estimate for the second quarter (+3.6%) due to companies reporting positive earnings surprises, analysts also increased EPS estimates for all of CY 2023 during this time. The bottom-up EPS estimate for CY 2023 rose by 0.9% (to $222.45 from $220.42) from June 30 to August 31.

At the sector level, seven sectors witnessed an increase in their bottom-up EPS estimate for CY 2023 from June 30 to August 31, led by the Consumer Discretionary (+8.2%), Communication Services (+4.2%), and Information Technology (+2.7%) sectors. On the other hand, four sectors recorded a decrease in their bottom-up EPS estimate for CY 2023 during this period, led by the Health Care (-4.3%) and Materials (-3.7%) sectors.

Analysts also increased EPS estimates for CY 2024 during this period, as the bottom-up EPS estimate for CY 2024 rose by 0.9% (to $248.54 from $246.16) from June 30 to August 31.
Topic of the Week: 2
Fewer S&P 500 Companies Discussing “Recession” on Earnings Calls for 4th Straight Quarter

Given continuing concerns in the market about a possible economic slowdown or recession, did more S&P 500 companies comment on recession during their earnings conference calls for the second quarter relative to recent quarters?

The answer is no. FactSet Document Search (which allows users to search for key words or phrases across multiple document types) was used to answer this question. Through Document Search, FactSet searched for the term “recession” in the conference call transcripts of all the S&P 500 companies that conducted earnings conference calls from June 15 through August 31.

Of these companies, 62 cited the term “recession” during their earnings call for the second quarter. After peaking in Q2 2022, the number of S&P 500 companies citing “recession” on earnings calls has declined for four straight quarters. The number of S&P 500 companies citing “recession” on earnings calls for Q2 2023 is 45% below the number in Q1 2023 (113), 58% below the number in Q4 2022 (147), 66% below the number in Q3 2022 (184), and 74% below the number in Q2 2022 (238). In fact, this quarter will mark the lowest number of S&P 500 companies citing “recession” on earnings calls for a quarter since Q4 2021 (14).

It is also interesting to note the number of S&P 500 companies citing “recession” on earnings calls for Q2 2023 is below the 5-year average of 82 and just slightly above the 10-year average of 60.

At the sector level, the Financials sector has the highest number (22) of S&P 500 companies citing “recession” on Q2 earnings calls and the highest percentage (32%) of companies citing “recession” on Q2 earnings calls.
Q2 Earnings Season: By The Numbers

Overview

At this late stage of the Q2 earnings season for the S&P 500, both the number of companies reporting positive earnings surprises and the magnitude of these earnings surprises are above their 10-year averages. As a result, the index is reporting higher earnings for the second quarter today relative to the end of the quarter. However, the index is also reporting its third straight quarter of year-over-year declines in earnings.

Overall, more than 99% of the companies in the S&P 500 have reported actual results for Q2 2023 to date. Of these companies, 79% have reported actual EPS above estimates, which is above the 5-year average of 77% and above the 10-year average of 73%. In aggregate, companies are reporting earnings that are 7.5% above estimates, which is below the 5-year average of 8.4% but above the 10-year average of 6.4%.

Positive earnings surprises reported by companies in multiple sectors (led by the Consumer Discretionary and Information Technology sectors), partially offset by downward revisions to EPS estimates for a company in the Health Care sector, have been responsible for the decrease in the earnings decline for the index since the end of the quarter (June 30).

As a result, the index is reporting higher earnings for the second quarter today 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), year-over-year earnings decline for the second quarter is -4.1% today, compared to an earnings decline of -7.0% at the end of the second quarter (June 30).

The second quarter will mark the third straight quarter in which the index has reported a year-over-year decrease in earnings.

Eight of the eleven sectors are reporting (or have reported) year-over-year earnings growth, led by the Consumer Discretionary and Communication Services sectors. On the other hand, three sectors reported a year-over-year decline in earnings: Energy, Materials, and Health Care.

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 1.6% above the estimates, which is below the 5-year average of 2.0% but above the 10-year average of 1.3%.

Positive revenue surprises reported by S&P 500 companies in multiple sectors (led by the Health Care, Financials, and Consumer Discretionary sectors), partially offset by downward revisions to revenue estimates for companies in the Energy sector, have been responsible for the increase in revenues for the index since the end of the quarter (June 30).

As a result, the index is reporting higher revenues for the second quarter today relative to the end of the quarter. The blended (year-over-year) revenue growth rate for the second quarter is 0.9% today, compared to a revenue decline of -0.4% at the end of the second quarter (June 30).

The second quarter will mark the lowest year-over-year revenue growth rate reported by the index since Q3 2020 (-1.1%).

Eight sectors are reporting (or have reported) year-over-year growth in revenues, led by the Financials and Consumer Discretionary sectors. On the other hand, three sectors reported a year-over-year decline in revenues, led by the Energy and Materials sectors.

Looking ahead, analysts still expect earnings growth for the second half of 2023. For Q3 2023 and Q4 2023, analysts are projecting earnings growth of 0.5% and 8.2%, respectively. For all of CY 2023, analysts predict earnings growth of 1.2%.
The forward 12-month P/E ratio is 18.8, which is above the 5-year average (18.7) and above the 10-year average (17.5). However, it is below the forward P/E ratio of 19.1 recorded at the end of the second quarter (June 30).

During the upcoming week, two S&P 500 companies are scheduled to report results for the second quarter.

Scorecard: More Companies Beating EPS Estimates Than Average

Percentage of Companies Beating EPS Estimates (79%) is Above 5-Year Average

Overall, more than 99% of the companies in the S&P 500 have reported earnings to date for the second quarter. Of these companies, 79% have reported actual EPS above the mean EPS estimate, 5% have reported actual EPS equal to the mean EPS estimate, and 16% have reported actual EPS below the mean EPS estimate. The percentage of companies reporting EPS above the mean EPS estimate is above the 1-year average (73%), above the 5-year average (77%), and above the 10-year average (73%).

If 79% if the final percentage for the quarter, it will mark the highest percentage of S&P 500 companies reporting a positive EPS surprise since Q3 2021 (82%).

At the sector level, the Information Technology (91%) sector has the highest percentage of companies reporting earnings above estimates, while the Utilities (60%) sector has the lowest percentage of companies reporting earnings above estimates.

Earnings Surprise Percentage (+7.5%) is Below 5-Year Average

In aggregate, companies are reporting earnings that are 7.5% above expectations. This surprise percentage is above the 1-year average (+3.2%), below the 5-year average (+8.4%), and above the 10-year average (6.4%).

If 7.5% if the final percentage for the quarter, it will mark the highest surprise percentage reported by S&P 500 companies since Q4 2021 (8.1%).

The Consumer Discretionary (+20.9%) sector reported the largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Caesars Entertainment ($4.26 vs. $0.33), Amazon.com ($0.65 vs. $0.33), CarMax ($1.44 vs. $0.79), Newell Brands ($0.24 vs. $0.13), and Wynn Resorts ($0.91 vs. $0.64) reported the largest positive EPS surprises.

The Information Technology (+8.5%) sector reported the second-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Intel ($0.13 vs. -$0.04), Qorvo ($0.34 vs. $0.15), First Solar ($1.59 vs. $1.00), Seagate Technology (-$0.18 vs. -$0.27), and NVIDIA ($2.70 vs. $2.08) reported the largest positive EPS surprises.

The Industrials (+8.4%) sector is reporting the third-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, Axon Enterprise ($1.11 vs. $0.62), Stanley Black & Decker (-$0.11 vs. -$0.36), General Electric ($0.68 vs. $0.46), 3M ($2.17 vs. $1.73), and United Airlines Holdings ($5.03 vs. $4.03) have reported the largest positive EPS surprises.

Market Punishing Positive EPS Surprises on Average

To date, the market is punishing positive earnings surprises reported by S&P 500 companies on average.

Companies that have reported positive earnings surprises for Q2 2023 have seen an average price decrease of -0.3% two days before the earnings release through two days after the earnings release. This percentage decrease is much smaller than the 5-year average price increase of +1.0% during this same window for companies reporting positive earnings surprises.
Companies that have reported negative earnings surprises for Q2 2023 have seen an average price decrease of -2.6% two days before the earnings release through two days after the earnings. This percentage decrease is also 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 (71%) and below the 5-year average (69%), but above the 10-year average (63%).

At the sector level, the Health Care (83%) and Information Technology (78%) sectors have the highest percentages of companies reporting revenues above estimates, while the Materials (28%) sector has the lowest percentage of companies reporting revenues above estimates.

**Revenue Surprise Percentage (+1.6%) is Below 5-Year Average**

In aggregate, companies are reporting revenues that are 1.6% above expectations. This surprise percentage is below the 1-year average (+2.5%) and below the 5-year average (+2.0%), but above the 10-year average (+1.3%).

At the sector level, the Financials (+3.7%), Health Care (2.7%), and Consumer Discretionary (+2.5%) sectors have reported the largest positive (aggregate) differences between actual revenues and estimated revenues, while the Utilities (-3.1%) and Materials (-2.3%) sectors have reported the largest negative (aggregate) differences between actual revenues and estimated revenues.

**Revisions: Decrease in Blended Earnings Decline Since June 30 Due to Multiple Sectors**

The blended (year-over-year) earnings decline for Q2 2023 of -4.1% is smaller than the estimate of -7.0% at the end of the second quarter (June 30). Eight 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 Consumer Discretionary (to 53.6% from 26.2%) sector. The Consumer Discretionary and Information Technology sectors have also been the largest contributors to the decrease in the earnings decline for the index since June 30. On the other hand, two sectors have recorded a decrease in their earnings growth rate or an increase in their earnings decline since the end of the quarter due to downward revisions to EPS estimates or negative earnings surprises: Health Care (to -27.2% from -16.8%) and Energy (to -51.5% from -48.0%). The Health Care sector has also been the largest detractor to the decrease in the earnings decline for the index since June 30. The Utilities sector finished the quarter with same earnings growth rate expected on June 30 (1.3%).

In the Consumer Discretionary sector, the positive EPS surprises reported by Amazon.com ($0.65 vs. $0.33), Ford Motor ($0.72 vs. $0.54), and Caesars Entertainment ($4.26 vs. $0.33) have been significant contributors to the decrease in the earnings decline for the index since June 30. As a result, the blended earnings growth rate for the Consumer Discretionary sector increased to 53.6% from 26.2% over this period.

In the Information Technology sector, the positive EPS surprises reported by NVIDIA ($2.70 vs. $2.08), Apple ($1.26 vs. $1.20), Microsoft ($2.69 vs. $2.55), and Intel ($0.13 vs. -$0.04) have been substantial contributors to the decrease in the earnings decline for the index since June 30. As a result, the blended earnings growth rate for the Information Technology sector improved to 4.0% from -3.5% over this period.
In the Health Care sector, downward revisions to EPS estimates (partially offset by a positive EPS surprise) for Merck & Co. have been the largest detractor to the decrease in the earnings decline for the index since June 30. During the week of July 17, the majority of analysts covering Merck & Co. elected to include a $4.00 charge related to the acquisition of Prometheus in their non-GAAP EPS estimates for the company for the second quarter. As a result, the company reported actual EPS of -$2.06 compared to mean EPS estimate of -$2.18 on August 1 and compared to the mean EPS estimate of $1.83 on July 14. Mainly due to the decrease in the mean EPS estimate for Merck, the blended earnings decline for the Health Care sector has increased to -27.2% today from -16.8% on June 30.

Health Care Sector Has Seen Largest Increase in Revenues since June 30

The blended (year-over-year) revenue growth rate for Q2 2023 of 0.9% is above the estimate of -0.4% at the end of the second quarter (June 30). Eight sectors have recorded an increase in their revenue growth rate or a decrease in their revenue decline since the end of the quarter due to upward revisions to revenue estimates and positive revenue surprises, led by the Financials (to 11.2% from 7.6%), Consumer Discretionary (to 9.8% from 6.7%), and Health Care (to 5.4% from 2.5%) sectors. These three sectors have also been the largest contributors to the increase in the revenues for the index since the end of the quarter. On the other hand, three sectors have recorded a decrease in their revenue growth rate 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 Materials (to -12.7% from -9.0%) and Utilities (to -3.7% from -0.1%) sectors. However, the Energy sector has been the largest detractor to the increase revenues for the index since the end of the quarter.

In the Health Care sector, the positive revenue surprises reported by McKesson ($74.48 billion vs. $70.28 billion), Cencora ($66.95 billion vs. $63.93 billion), CVS Health ($88.92 billion vs. $86.53 billion), UnitedHealth Group ($92.90 billion vs. $90.97 billion), and Elevance Health ($43.38 billion vs. $41.64 billion) have been significant positive contributors to revenues for the index since June 30. As a result, the blended revenue growth rate for the Health Care sector has increased to 5.4% from 2.5% over this period.

In the Financials sector, the positive revenue surprises reported by Berkshire Hathaway ($92.50 billion vs. $82.12 billion), and JPMorgan Chase ($41.31 billion vs. $38.62 billion) have been substantial positive contributors to revenues for the index since June 30. As a result, the blended revenue growth rate for the Financials sector increased to 11.2% from 7.6% over this period.

In the Consumer Discretionary sector, the upward revisions to revenue estimates and positive revenue surprises reported by Ford Motor (to $44.95 billion from $42.64 billion) and General Motors (to $44.75 billion from $41.06 billion), and the positive revenue surprises reported by Amazon.com ($134.38 billion vs. $129.47 billion) and D.R. Horton ($9.73 billion vs. $8.27 billion), have been substantial positive contributors to revenues for the index since June 30. As a result, the blended revenue growth rate for the Consumer Discretionary sector increased to 9.8% from 6.7% over this period.

In the Energy sector, the downward revisions to revenue estimates (partially offset by a positive revenue surprise) for Exxon Mobil (to $82.91 billion from $91.07 billion) and the negative revenue surprise reported by ConocoPhillips ($12.88 billion vs. $14.74 billion) have been substantial negative contributors to revenues for the index since June 30. As a result, the blended revenue decline for the Energy sector increased to -28.9% from -26.3% over this period.

Earnings Decline: -4.1%

The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) year-over-year earnings decline for Q2 2023 is -4.1%, which is below the 5-year average earnings growth rate of 12.0% and below the 10-year average earnings growth rate of 8.5%. The second quarter mark the third consecutive quarter in which earnings have declined year-over-year.
Eight of the eleven sectors are reporting (or have reported) year-over-year earnings growth, led by the Consumer Discretionary and Communication Services sectors. On the other hand, three sectors reported a year-over-year decline in earnings: Energy, Materials, and Health Care.

**Consumer Discretionary: Amazon Was Largest Contributor to Year-Over-Year Growth**

The Consumer Discretionary sector reported the highest (year-over-year) earnings growth rate of all eleven sectors at 53.6%. At the industry level, 4 of the 9 industries in the sector reported a year-over-year increase in earnings. A growth rate is not being calculated for the Broadline Retail industry due to the loss reported by the industry in the year-ago quarter. However, this industry reported a profit of $7.3 billion in Q2 2023 compared to a loss of -$1.4 billion in Q2 2022. The other three industries that reported year-over-year earnings growth are the Hotels, Restaurants, & Leisure (245%), Automobile Components (114%), and Automobiles (25%) industries. On the other hand, five industries reported a year-over-year decline in earnings. Three of these five industries reported a decrease in earnings of 20% or more: Leisure Products (-58%), Textiles, Apparel, & Luxury Goods (-27%), and Household Durables (-20%).

At the industry level, the Broadline Retail and Hotels, Restaurants, & Leisure industries were the largest contributors to earnings growth for the sector. If these two industries were excluded, the Consumer Discretionary sector would have reported a (year-over-year) decline in earnings of -1.3% instead of year-over-year earnings growth of 53.6%.

At the company level, Amazon.com was the largest contributor to earnings growth for the sector. If this company were excluded, the blended earnings growth rate for the sector would fall to 20.9% from 53.6%.

**Communication Services: 3 of 5 Industries Reported Year-Over-Year Growth**

The Communication Services sector reported the second-largest (year-over-year) earnings growth rate of all eleven sectors at 19.3%. At the industry level, 3 of the 5 industries in the sector reported a year-over-year increase in earnings. A growth rate is not being calculated for the Wireless Telecommunication Services industry due to the loss reported by the industry in the year-ago quarter. However, this industry reported a profit of $2.2 billion in Q2 2023 compared to a loss of -$113 million in Q2 2022. The other two industries that reported year-over-year earnings growth are the Entertainment (560%) and Interactive Media & Services (15%) industries. On the other hand, two industries reported a year-over-year decline in earnings: Diversified Telecommunication Services (-6%) and Media (-5%).

At the company level, Warner Bros. Discovery and T-Mobile were the largest contributors to earnings growth for the sector. If these two companies were excluded, the blended earnings growth rate for the sector would fall to 6.5% from 19.3%.

**Energy: 3 of 5 Sub-Industries Reported Year-Over-Year Decline of More Than 50%**

The Energy sector reported the largest (year-over-year) earnings decline of all eleven sectors at -51.5%. Lower year-over-year oil prices contributed to the year-over-year decrease in earnings for this sector, as the average price of oil in Q2 2023 ($73.56) was 32% below the average price for oil in Q2 2022 ($108.52). At the sub-industry level, four of the five sub-industries in the sector reported a year-over-year decrease in earnings. Three of these four sub-industries reported year-over-year earnings declines above -50%: Oil & Gas Refining & Marketing (-58%), Integrated Oil & Gas (-55%), and Oil & Gas Exploration & Production (-54%). On the other hand, the Oil & Gas Equipment & Services (68%) sub-industry is the only sub-industry that reported (year-over-year) earnings growth in the sector.

**Materials: 3 of 4 Industries Reported Year-Over-Year Decline of More Than 25%**

The Materials sector reported the second-largest (year-over-year) earnings decline of all eleven sectors at -29.0%. At the industry level, three of the four industries in this sector reported a year-over-year decline in earnings of more than 25%: Metals & Mining (-39%), Containers & Packaging (-36%), and Chemicals (-27%). On the other hand, the Construction Materials (45%) industry is the only industry in the sector that reported (year-over-year) earnings growth.
Health Care: Merck, Pfizer, and Moderna Were Largest Contributors to Year-Over-Year Decline

The Health Care sector reported the third-largest (year-over-year) earnings decline of all eleven sectors at -27.2%. At the industry level, four of the five industries in this sector reported a year-over-year decline in earnings. Three of these four industries reported year-over-year declines in earnings above -10%: Pharmaceuticals (-56%), Biotechnology (-29%), and Life Sciences, Tools, and Services (-14%). On the other hand, the Health Care Providers & Services (3%) industry is the only industry in the sector reporting (year-over-year) earnings growth.

At the company level, Merck & Co., Pfizer, and Moderna were the largest contributors to the decline in earnings for the sector. If these three companies were excluded, the blended earnings decline for the Health Care sector would improve to -1.2% from -27.2%.

Revenue Growth: 0.9%

The blended (year-over-year) revenue growth rate for Q2 2023 is 0.9%, which is below the 5-year average revenue growth rate of 7.7% and below the 10-year average revenue growth rate of 5.0%. The second quarter will mark the lowest year-over-year revenue growth rate reported by the index since Q3 2020 (-1.1%).

At the sector level, eight sectors are reporting (or have reported) year-over-year growth in revenues, led by the Financials and Consumer Discretionary sectors. On the other hand, three sectors reported a year-over-year decline in revenues, led by the Energy and Materials sectors.

Financials: All 5 Industries Reported Year-Over-Year Growth

The Financials sector reported the highest (year-over-year) revenue growth rate of all eleven sectors at 11.2%. At the industry level, all five industries in the sector reported year-over-year growth in revenues. Three of these five industries reported revenue growth above 10%: Financial Services (18%), Banks (16%), and Consumer Finance (13%).

Consumer Discretionary: 6 of 9 Industries Reported Year-Over-Year Growth

The Consumer Discretionary sector reported the second-highest (year-over-year) revenue growth rate of all eleven sectors at 9.8%. At the industry level, 6 of the 9 industries in the sector reported a year-over-year increase in revenues. Four of these six industries reported revenue growth above 10%: Hotels, Restaurants, & Leisure (25%), Automobiles (23%), Automobile Components (14%), and Broadline Retail (11%).

Energy: 4 of 5 Sub-Industries Reported Year-Over-Year Decline of 25% or More

The Energy sector reported the largest (year-over-year) revenue decline of all eleven sectors at -28.9%. Lower year-over-year oil prices contributed to the year-over-year decrease in revenues for this sector, as the average price of oil in Q2 2023 ($73.56) was 32% below the average price for oil in Q2 2022 ($108.52). At the sub-industry level, four of the five sub-industries in the sector reported a year-over-year decrease in revenues of more than 25%: Oil & Gas Exploration & Production (-35%), Oil & Gas Storage & Transportation (-34%), Oil & Gas Refining & Marketing (-31%), and Integrated Oil & Gas (-29%). On the other hand, the Oil & Gas Equipment & Services (20%) sub-industry is the only sub-industry that reported (year-over-year) revenue growth in the sector.

Materials: 3 of 4 Industries Reported Year-Over-Year Decline

The Materials sector reported the second-highest (year-over-year) decline in revenues at -12.7%. At the industry level, three of the four industries in the sector reported a year-over-year decrease in revenues: Chemicals (-14%), Metals & Mining (-13%), and Containers & Packaging (-10%). On the other hand, the Construction Materials (13%) industry is the only industry that reported a year-over-year growth in revenues.
EARNINGS INSIGHT

Net Profit Margin: 11.6%

The blended net profit margin for the S&P 500 for Q2 2023 is 11.6%, which is below the year-ago net profit margin of 12.2%, but above the previous quarter’s net profit margin of 11.5% and above the 5-year average net profit margin of 11.4%.

At the sector level, seven sectors are reporting (or have reported) a year-over-year increase in their net profit margins in Q2 2023 compared to Q2 2022, led by the Consumer Discretionary (8.4% vs. 6.0%) and Real Estate (to 37.3% vs. 35.3%) sectors. On the other hand, four sectors are reporting a year-over-year decrease in their net profit margins in Q2 2023 compared to Q2 2022, led by the Energy (9.8% vs. 14.4%) and Health Care (7.6% vs. 11.0%) sectors.

Seven sectors are also reporting (or have reported) net profit margins in Q2 2023 that are above their 5-year averages, led by the Industrials (11.2% vs. 8.2%) sector. On the other hand, four sectors are reporting net profit margins in Q2 2023 that are below their 5-year averages, led by the Health Care (7.6% vs. 10.4%) sector.
Looking Ahead: Forward Estimates and Valuation

Quarterly Guidance: % of S&P 500 Companies Issuing Negative Guidance for Q3 Above 5-Year Average

At this point in time, 115 companies in the index have issued EPS guidance for Q3 2023. Of these 115 companies, 73 have issued negative EPS guidance and 42 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance for Q3 2023 is 63% (73 out of 115), which is above the 5-year average of 59% but below the 10-year average of 64%.

At this point in time, 269 companies in the index have issued EPS guidance for the current fiscal year (FY 2023 or FY 2024). Of these 269 companies, 106 have issued negative EPS guidance and 163 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 39% (106 out of 269).

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 1% for CY 2023

For the second quarter, S&P 500 companies are reporting a year-over-year earnings decline of -4.1% and a year-over-year revenue growth of 0.9%.

For Q3 2023, analysts are projecting earnings growth of 0.5% and revenue growth of 1.6%.

For Q4 2023, analysts are projecting earnings growth of 8.2% and revenue growth of 3.7%.

For CY 2023, analysts are projecting earnings growth of 1.2% and revenue growth of 2.4%.

For CY 2024, analysts are projecting earnings growth of 12.0% and revenue growth of 5.6%.

Valuation: Forward P/E Ratio is 18.8, Above the 10-Year Average (17.5)

The forward 12-month P/E ratio for the S&P 500 is 18.8. This P/E ratio is above the 5-year average of 18.7 and above the 10-year average of 17.5. However, it is below the forward 12-month P/E ratio of 19.1 recorded at the end of the second quarter (June 30). Since the end of the second quarter (June 30), the price of the index has increased by 1.3%, while the forward 12-month EPS estimate has increased by 2.8%. At the sector level, the Information Technology (26.3) and Consumer Discretionary (25.0) sectors have the highest forward 12-month P/E ratios, while the Energy (11.8) and Financials (13.4) sectors have the lowest forward 12-month P/E ratios.

The trailing 12-month P/E ratio is 22.6, which is equal to the 5-year average of 22.6 but above the 10-year average of 20.9.

Targets & Ratings: Analysts Project 14% Increase in Price Over Next 12 Months

The bottom-up target price for the S&P 500 is 5148.10, which is 14.2% above the closing price of 4507.66. At the sector level, the Utilities (+16.8%) and Consumer Discretionary (+16.7%) sectors are expected to see the largest price increases, as these two sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Industrials (+11.1%), Energy (11.3%), and Materials (11.4%) sectors are expected to see the smallest price increases, as these three sectors have the smallest upside differences between the bottom-up target price and the closing price.
Overall, there are 10,995 ratings on stocks in the S&P 500. Of these 10,995 ratings, 54.0% are Buy ratings, 40.4% are Hold ratings, and 5.6% are Sell ratings. At the sector level, the Energy (64%) sector has the highest percentage of Buy ratings, while the Consumer Staples (45%) sector has the lowest percentage of Buy ratings.

Companies Reporting Next Week: 2

During the upcoming week, two S&P 500 companies are scheduled to report results for the second quarter.
Q2 2023: Scorecard

S&P 500 Earnings Above, In-Line, Below Estimates: Q2 2023
(Source: FactSet)

S&P 500 Revenues Above, In-Line, Below Estimates: Q2 2023
(Source: FactSet)
Q2 2023: Scorecard

**S&P 500 Sector-Level Earnings Surprise %: Q2 2023**
(Source: FactSet)

- Consumer Disc.: 20.9%
- Info. Technology: 8.5%
- Industrials: 8.4%
- S&P 500: 7.5%
- Materials: 7.3%
- Comm. Services: 6.5%
- Financials: 6.2%
- Utilities: 5.7%
- Consumer Staples: 5.7%
- Health Care: 4.8%
- Energy: 2.7%
- Real Estate: 2.7%

**S&P 500 Sector-Level Revenue Surprise %: Q2 2023**
(Source: FactSet)

- Financials: 3.7%
- Health Care: 2.7%
- Consumer Disc.: 2.5%
- Real Estate: 1.8%
- S&P 500: 1.6%
- Industrials: 1.5%
- Info. Technology: 1.5%
- Comm. Services: 1.0%
- Energy: 0.5%
- Consumer Staples: 0.2%
- Materials: -2.3%
- Utilities: -3.1%
Q2 2023: Scorecard

**S&P 500 EPS Surprise % vs. Price %: Q2 2023**
(Source: FactSet)

- Number of Companies Reporting Surprise % in Each Range
- Average Price Change % (2 Days Before Report + 2 Days After Report)

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

- Q2 2023
- 5-Year Average

Positive:
- 1.0%

Negative:
- 2.6%
- 2.2%
Q2 2023: Scorecard

**S&P 500 Actual EPS Surprise %: Top 10 Q2 Actual EPS Surprises**

- Illumina, Inc.: 1873.5%
- Caesars Entertainment Inc: 1183.7%
- Constellation Energy Corporation: 249.4%
- Qorvo, Inc.: 124.8%
- Amazon.com, Inc.: 83.7%
- CarMax, Inc.: 82.3%
- WestRock Company: 80.0%
- Newell Brands Inc: 79.3%
- Axon Enterprise Inc: 78.6%
- News Corporation Class A: 64.2%

**S&P 500 Actual EPS Surprise %: Bottom 10 Q2 Actual EPS Surprises**

- U.S. Bancorp: -19.1%
- Take-Two Interactive Software, Inc.: -19.7%
- International Flavors & Fragrances Inc.: -21.6%
- Invesco Ltd.: -21.6%
- Newmont Corporation: -21.7%
- DXC Technology Co.: -23.4%
- Tyson Foods, Inc. Class A: -42.7%
- Progressive Corporation: -51.9%
- NRG Energy, Inc.: -57.2%
- Travelers Companies, Inc.: -97.1%
Q2 2023: Growth

**S&P 500 Earnings Growth (Y/Y): Q2 2023**
(Source: FactSet)

**S&P 500 Revenue Growth (Y/Y): Q2 2023**
(Source: FactSet)
EARNINGS INSIGHT

Q2 2023: Growth

**S&P 500 Earnings Growth (Y/Y): Q2 2023**
(Source: FactSet)

- **3.8%** for S&P 500 Companies > 50% Revenue in U.S.
- **4.1%** for All S&P 500 Companies
- **-17.7%** for S&P 500 Companies < 50% Revenues in U.S.

**S&P 500 Revenue Growth (Y/Y): Q2 2023**
(Source: FactSet)

- **3.3%** for S&P 500 Companies > 50% Revenue in U.S.
- **0.9%** for All S&P 500 Companies
- **-5.6%** for S&P 500 Companies < 50% Revenues in U.S.
Q2 2023: Net Profit Margin

S&P 500 Net Profit Margins: Q223 vs. Q222
(Source: FactSet)

S&P 500: % of Cos. With Increase or Decrease in Net Profit Margin:
Q223 vs. Q222
(Source: FactSet)
Q3 2023: Guidance

Number (#) of S&P 500 Cos. with Q3 Positive & Negative Guidance
(Source: FactSet)

Percentage (%) of S&P 500 Cos. with Q3 Positive & Negative Guidance
(Source: FactSet)
Q3 2023: EPS Revisions

**Upward Change in Q3 EPS (Trailing 4 Weeks): Top 10 S&P 500 Cos.**
(Source: FactSet)

- EOG Corporation: 58.6%
- NVIDIA Corporation: 43.4%
- Progressive Corporation: 30.6%
- Eli Lilly and Company: 24.3%
- Applied Materials, Inc.: 23.1%
- Wynn Resorts, Limited: 22.3%
- Valero Energy Corporation: 17.1%
- Marathon Petroleum Corporation: 14.0%
- Salesforce, Inc.: 11.2%
- Phillips 66: 10.9%

**Downward Change in Q3 EPS (Trailing 4-Weeks): Top 10 S&P 500 Cos.**
(Source: FactSet)

- Sealed Air Corporation: -31.5%
- News Corporation Class B: -32.1%
- News Corporation Class A: -32.1%
- Dollar General Corporation: -35.3%
- International Flavors & Fragrances Inc.: -41.4%
- Paramount Global Class B: -58.0%
- Illumina, Inc.: -65.4%
- Extra Space Storage Inc.: -76.8%
- Estee Lauder Companies Inc. Class A: -111.2%
- Catalent Inc: -603.6%
Q3 2023: Growth

S&P 500 Earnings Growth (Y/Y): Q3 2023
(Source: FactSet)

S&P 500 Revenue Growth (Y/Y): Q3 2023
(Source: FactSet)
FY 2023 / 2024: 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)
CY 2023: Growth
EARNINGS INSIGHT

CY 2024: Growth

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

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

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

- United States: 59%
- International: 41%

**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>1%</td>
<td>99%</td>
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<tr>
<td>Real Estate</td>
<td>16%</td>
<td>82%</td>
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<tr>
<td>Financials</td>
<td>29%</td>
<td>71%</td>
</tr>
<tr>
<td>Industrials</td>
<td>32%</td>
<td>68%</td>
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<td>Consumer Disc.</td>
<td>34%</td>
<td>66%</td>
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<td>Health Care</td>
<td>35%</td>
<td>65%</td>
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<td>61%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>Comm. Services</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Materials</td>
<td>52%</td>
<td>48%</td>
</tr>
<tr>
<td>Info. Technology</td>
<td>59%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Revenue Exposure (%)
Bottom-Up EPS Estimates

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

S&P 500 Q323 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 Jun. 30
(Source: FactSet)
Forward 12M P/E Ratio: 10-Years

![Graph showing S&P 500 Forward 12-Month P/E Ratio: 10 Years](image_url)

(Source: FactSet)
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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