

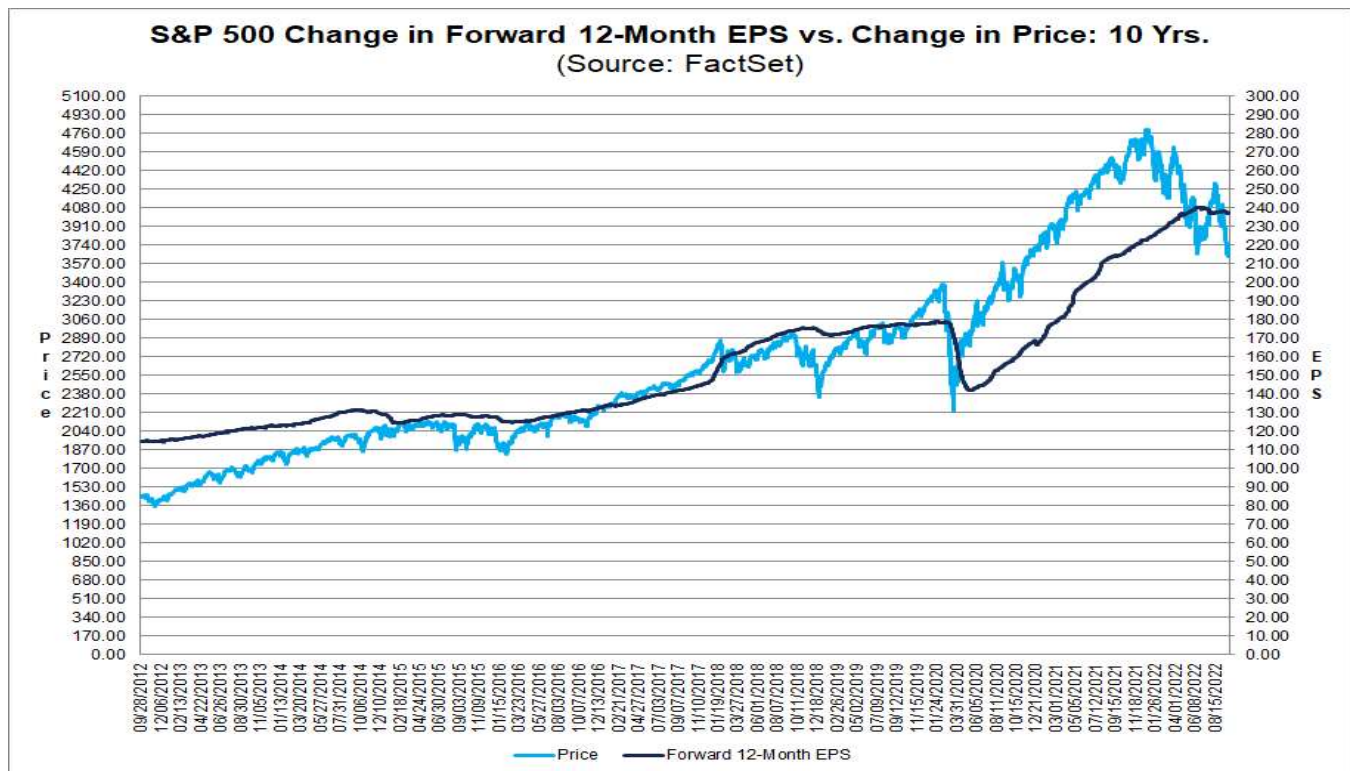
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## Key Metrics

- **Earnings Growth:** For Q3 2022, the estimated earnings growth rate for the S&P 500 is 2.9%. If 2.9% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q3 2020 (-5.7%).
- **Earnings Revisions:** On June 30, the estimated earnings growth rate for Q3 2022 was 9.8%. Ten sectors are expected to report lower earnings today (compared to June 30) due to downward revisions to EPS estimates.
- **Earnings Guidance:** For Q3 2022, 65 S&P 500 companies have issued negative EPS guidance and 41 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 15.4. This P/E ratio is below the 5-year average (18.6) and below the 10-year average (17.1).
- **Earnings Scorecard:** For Q3 2022 (with 16 S&P 500 companies reporting actual results), 10 S&P 500 companies has reported a positive EPS surprise and 10 S&P 500 companies have reported a positive revenue surprise.



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## Topic of the Week: 1

### Largest Cuts to EPS Estimates for S&P 500 Companies for Q3 2022 in More Than Two Years

Given the decline in U.S. GDP in the first quarter and the second quarter, did analysts lower EPS estimates more than normal for S&P 500 companies for the third quarter?

The answer is yes. During the third quarter, analysts lowered EPS estimates for the quarter by a larger margin than average. The Q3 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for Q3 for all the companies in the index) decreased by 6.6% (to \$55.51 from \$59.44) from June 30 to September 29.

In a typical quarter, analysts usually reduce earnings estimates during the quarter. During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 2.3%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 3.3%. During the past fifteen years, (60 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 4.8%. During the past 20 years (80 quarters), the average decline in the bottom-up EPS estimate during a quarter has been 3.8%.

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

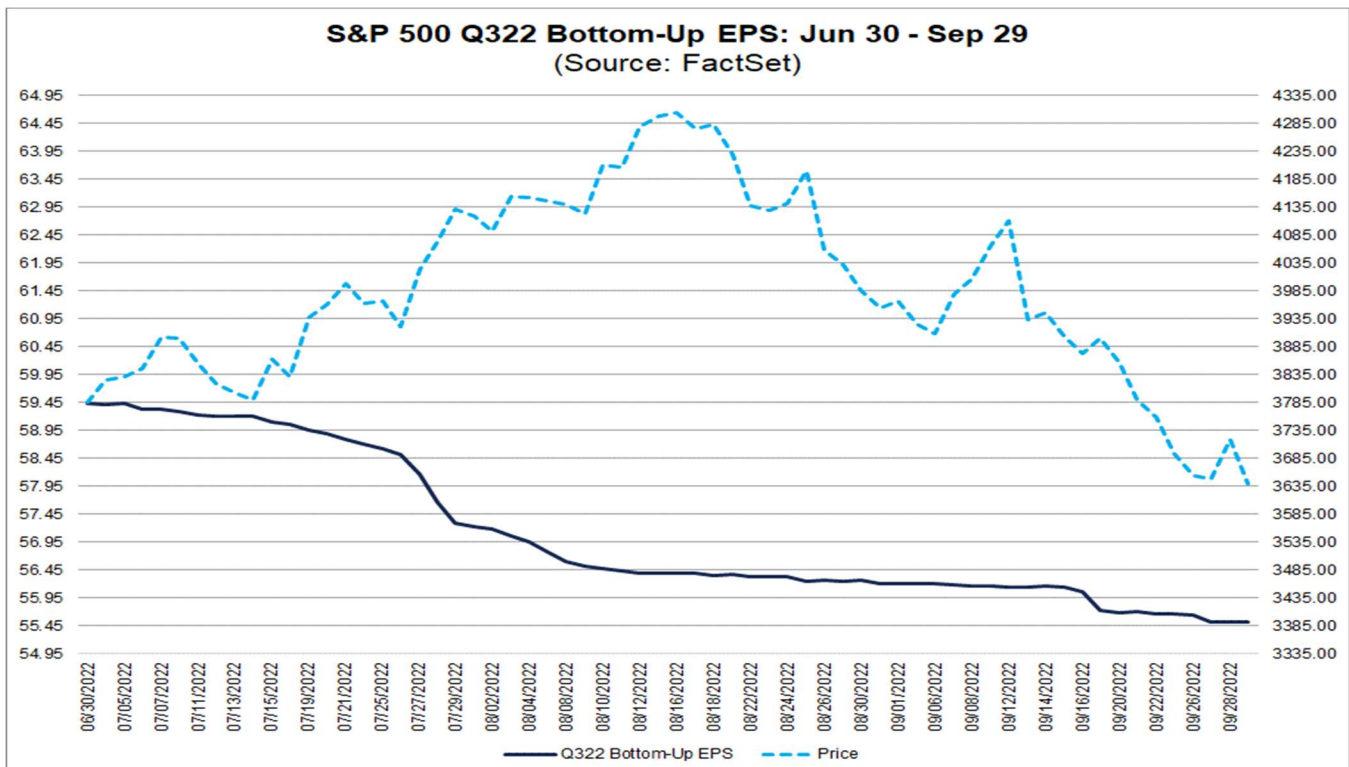
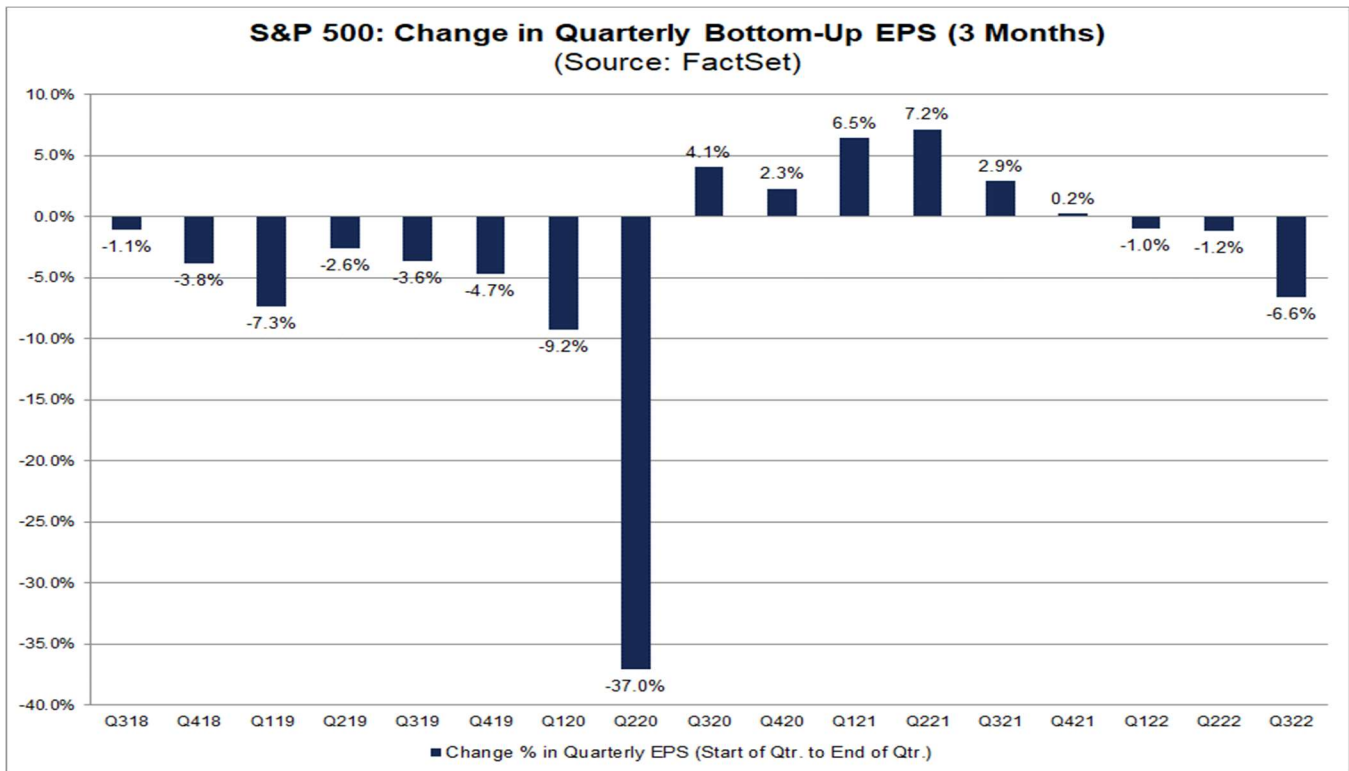
At the sector level, ten of the eleven sectors witnessed a decrease in their bottom-up EPS estimate for Q3 2022 from June 30 to September 29, led by the Materials (-14.9%), Communication Services (-13.1%), and Consumer Discretionary (-11.9%) sectors. On the other hand, the Energy (+7.9%) sector is the only sector that recorded an increase in its bottom-up EPS estimate for Q3 2022 during the quarter.

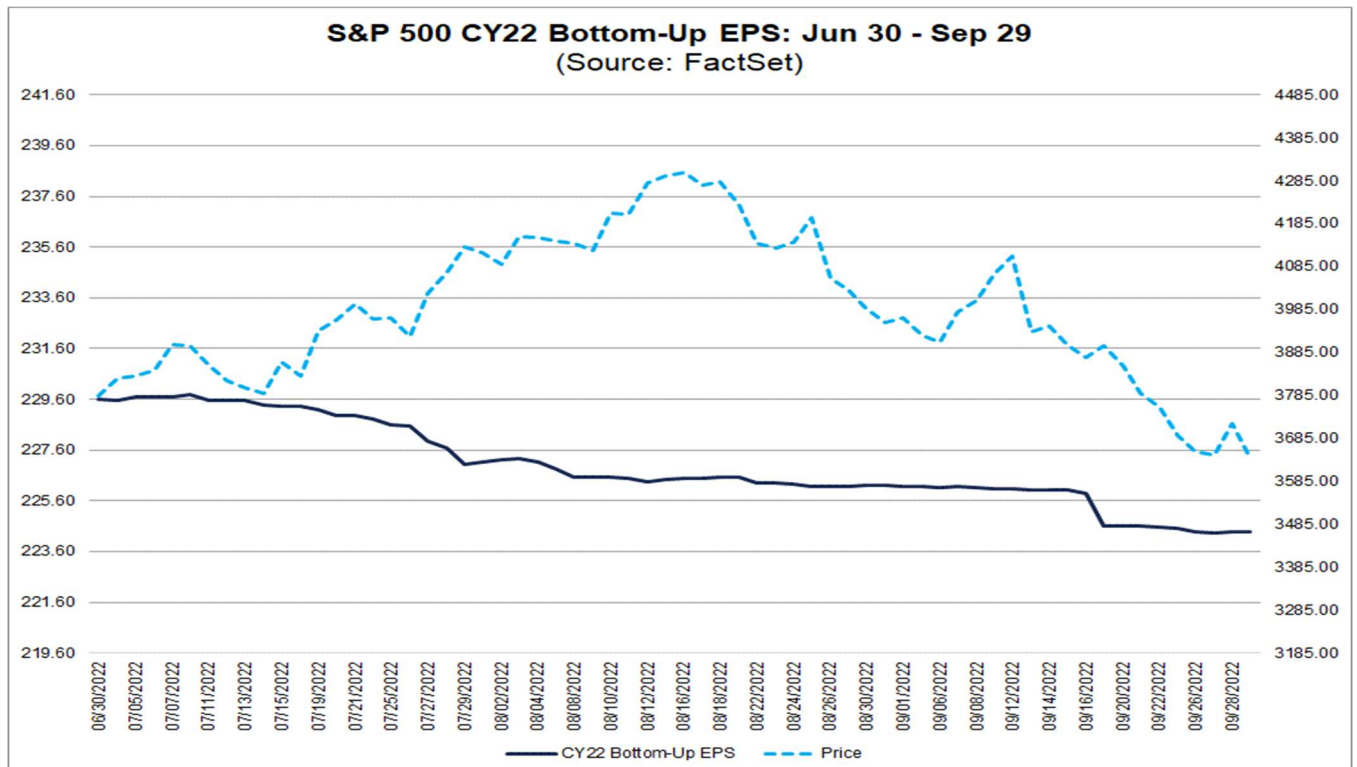
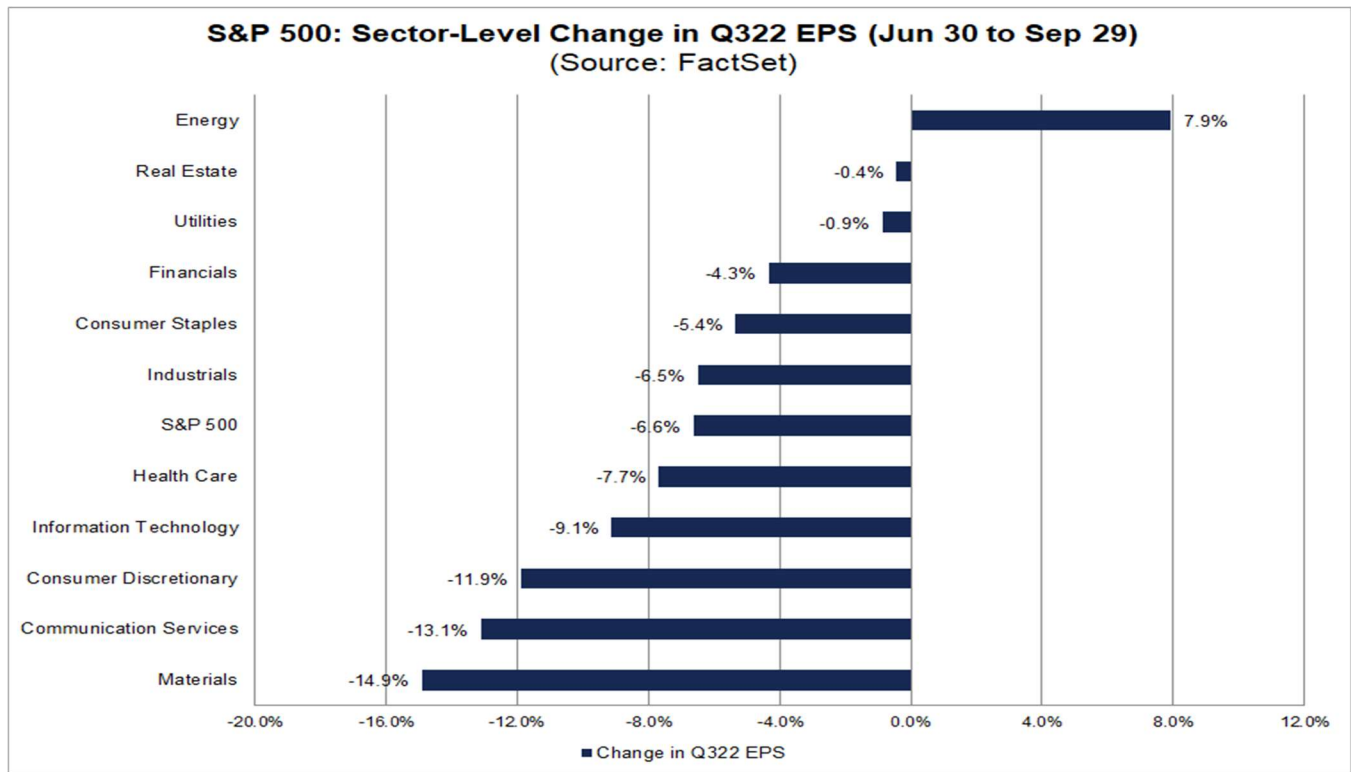
While analysts were decreasing EPS estimates in aggregate for the third quarter, they were also decreasing EPS estimates in aggregate for the fourth quarter. The bottom-up EPS estimate for the fourth quarter declined by 4.5% (to \$58.01 from \$60.73) from June 30 to September 29.

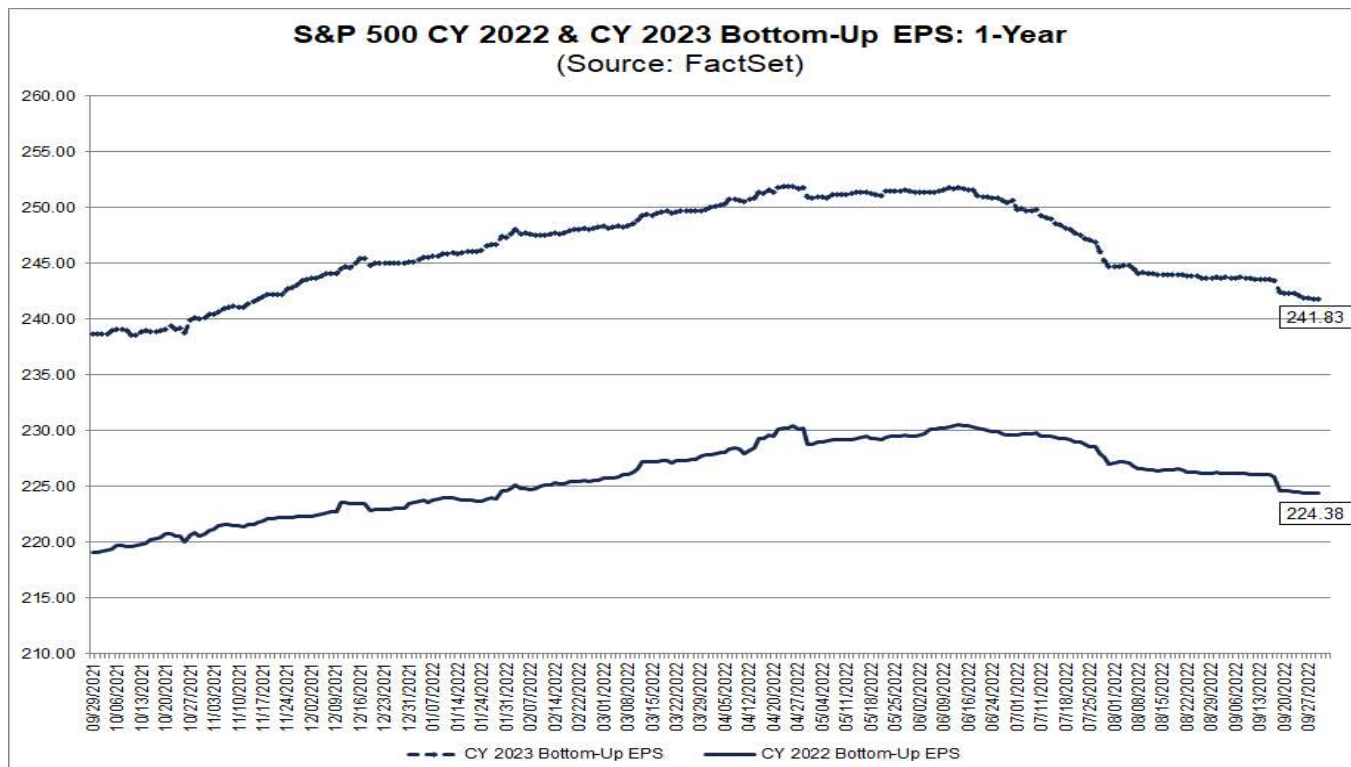
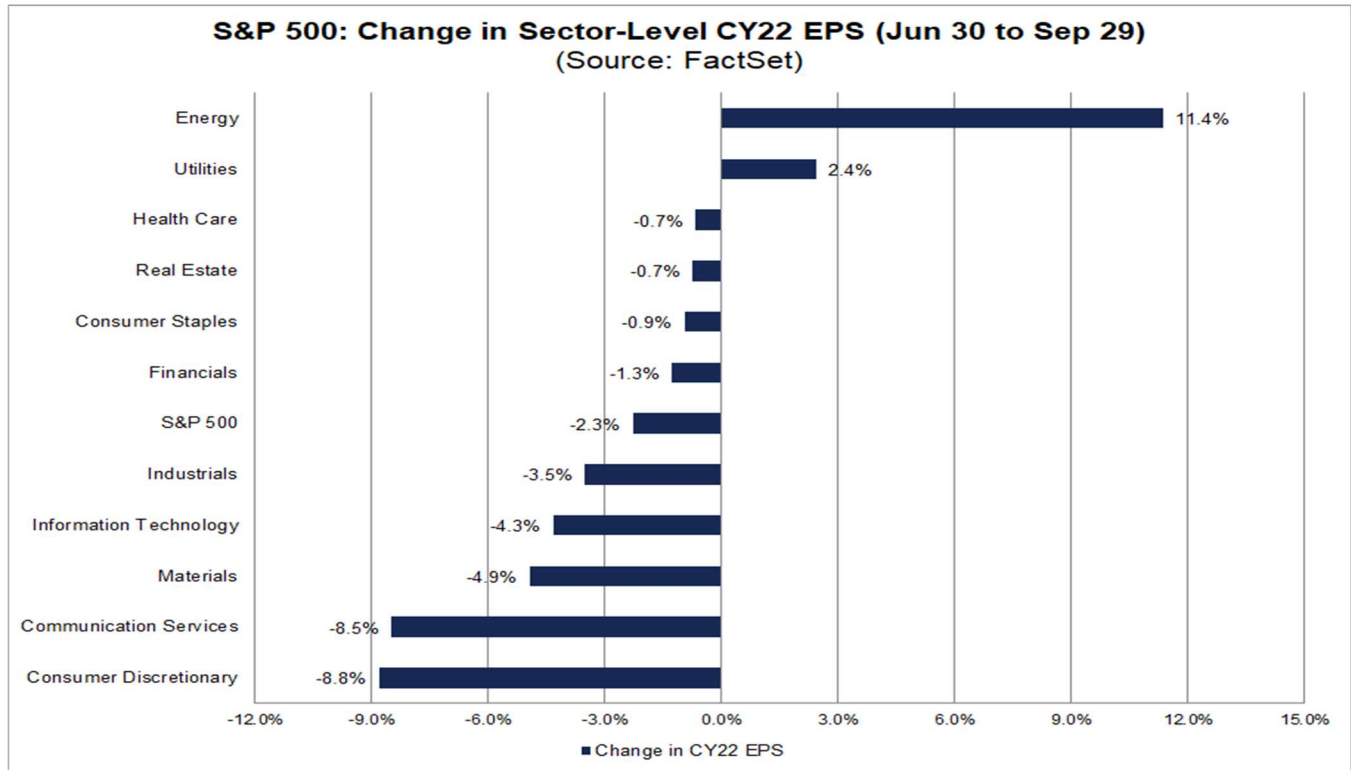
Given the decreases in the bottom-up EPS estimates for the third quarter and the fourth quarter, which were partially offset by the increase in the bottom-up EPS estimate for the second quarter (due to upward revisions to EPS estimates and positive EPS surprises) analysts also decreased EPS estimates for all of 2022 during this period. The CY 2022 bottom-up EPS estimate declined by 2.3% (to \$224.38 from \$229.60) from June 30 to September 29.

At the sector level, nine sectors witnessed a decrease in their bottom-up EPS estimate for CY 2022 from June 30 to September 29, led by the Consumer Discretionary (-8.8%) and Communication Services (-8.5%) sectors. On the other hand, two sectors witnessed an increase in their bottom-up EPS estimate for CY 2022 during this time, led by the Energy (+11.4%) sector.

In addition, analysts lowered earnings estimates for CY 2023 during this time, as the bottom-up EPS estimate for CY 2023 decreased by 3.5% (to \$241.83 from \$250.60) from June 30 to September 29.







## Topic of the Week: 2

### More S&P 500 Companies Issuing Positive EPS Guidance for Q3 Compared to Past Two Quarters

Despite analysts revising earnings estimates down by a larger margin for Q3 relative to recent quarters, companies have been more positive in their earnings guidance for Q3 relative to the past two quarters.

Overall, 106 S&P 500 companies have issued quarterly EPS guidance for the third quarter. Of these companies, 65 have issued negative EPS guidance and 41 have issued positive EPS guidance. The number of companies issuing positive EPS guidance is above the 5-year average of 39 and above the 10-year average of 32. This number is also above the number of companies issuing positive EPS guidance for Q1 2022 (29) and Q2 2022 (32). On the other hand, the number of companies issuing negative EPS guidance is above the 5-year average of 58 but below the 10-year average of 66. This number is also below the number of companies issuing negative EPS guidance for Q1 2022 (68) and Q2 2022 (72).

Thus, compared to the second quarter, nine more companies have issued have positive EPS guidance (41 vs. 32) for the third quarter and seven fewer companies have issued negative EPS guidance (65 vs. 72) for the quarter. At the sector level, the Real Estate, Industrials, and Consumer Discretionary sectors have recorded both the largest increases in the number of companies issuing positive EPS guidance and the largest decreases in the number of companies issuing negative EPS guidance for Q3 compared to Q2.

In light of the more positive shift in EPS guidance in Q3 compared to Q2, how has the market reacted to positive and negative EPS guidance issued by S&P 500 companies for Q3? The market is rewarding S&P 500 companies issuing positive EPS guidance for Q3 more than average while also punishing S&P 500 companies that issue negative EPS guidance for Q3 more than average.

Companies that have issued positive EPS guidance for Q3 have seen an average price change of +3.1% two days before the guidance was issued through two days after the guidance was issued. This percentage is above the 5-year average of +2.1% for companies issuing positive EPS guidance.

One example of a company that issued positive EPS guidance for Q3 and saw a substantial price increase is Lennar. On June 21, the company stated that it expected to report EPS between \$4.55 and \$5.45 for third quarter. The mid-point of this guidance range was \$5.00, which was above the mean EPS estimate of \$4.71 on that date. From June 16 to June 23, the stock price for Lennar increased by 9.6% (to \$70.71 from \$64.49).

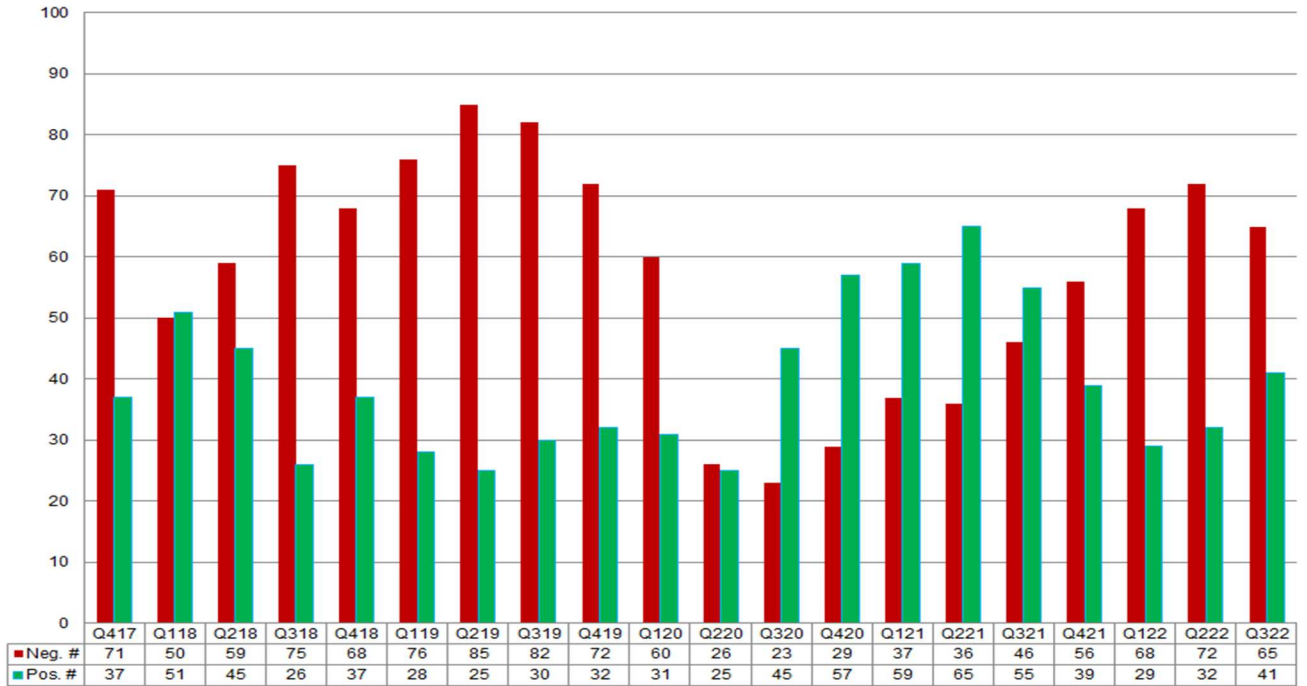
On the other hand, companies that have issued negative EPS guidance for Q3 have seen an average price change of -2.2% two days before the guidance was issued through two days after the guidance as issued. This percentage is also larger than the 5-year average of -0.8%.

One example of a company that issued negative EPS guidance for Q3 and saw a substantial price decrease is Nucor. On September 14, the company stated that it expected to report EPS between \$6.30 and \$6.40 for third quarter. The mid-point of this guidance was \$6.35, which was below the mean EPS estimate of \$7.39 on that date. From September 12 to September 16, the stock price for Nucor decreased by 17.4% (to \$117.08 from \$141.72).

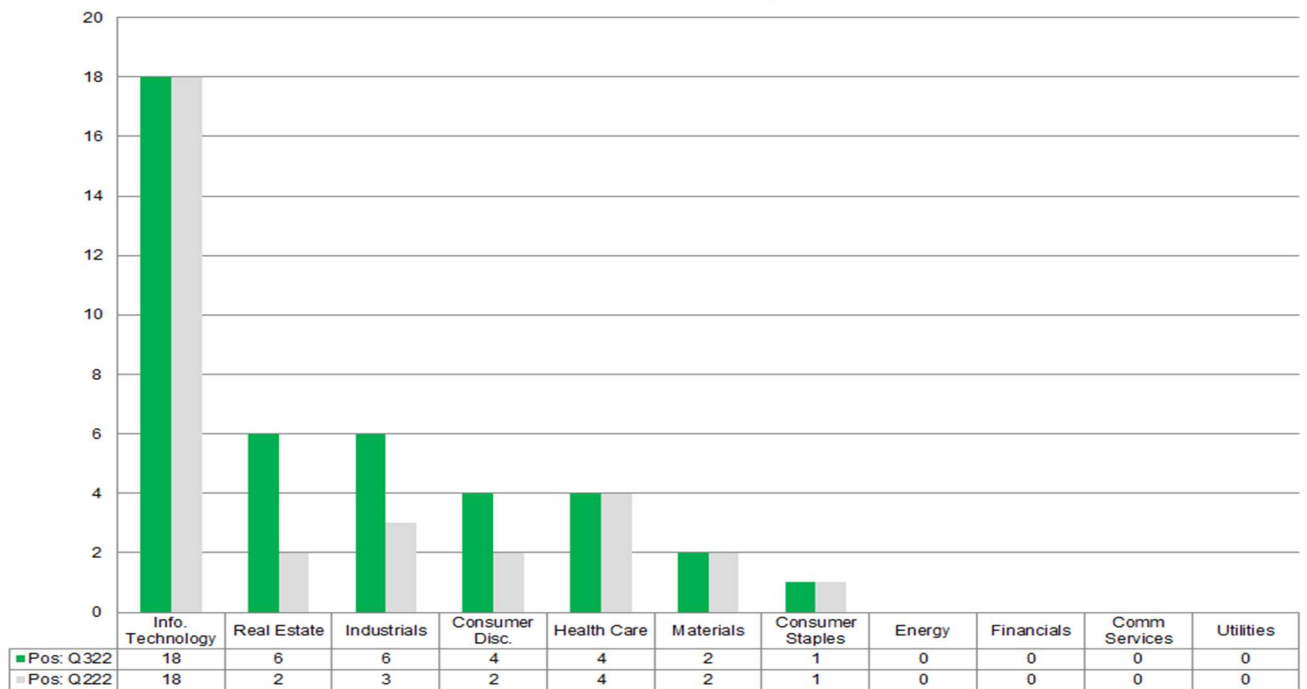
Given concerns about a declining economy and rising interest rates, the market will likely be even more focused than normal on EPS guidance issued by S&P 500 companies for Q4 2022 and CY 2023 on their earnings calls for Q3 2022.

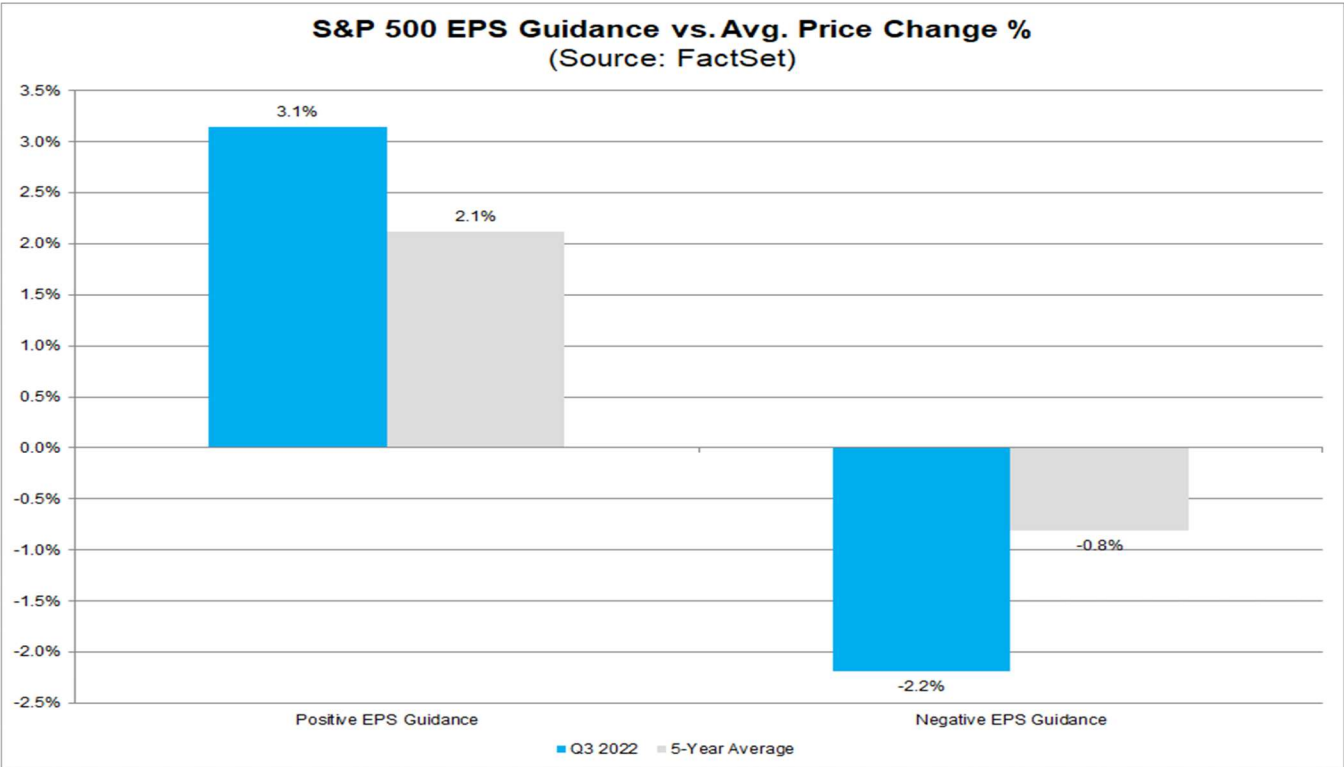
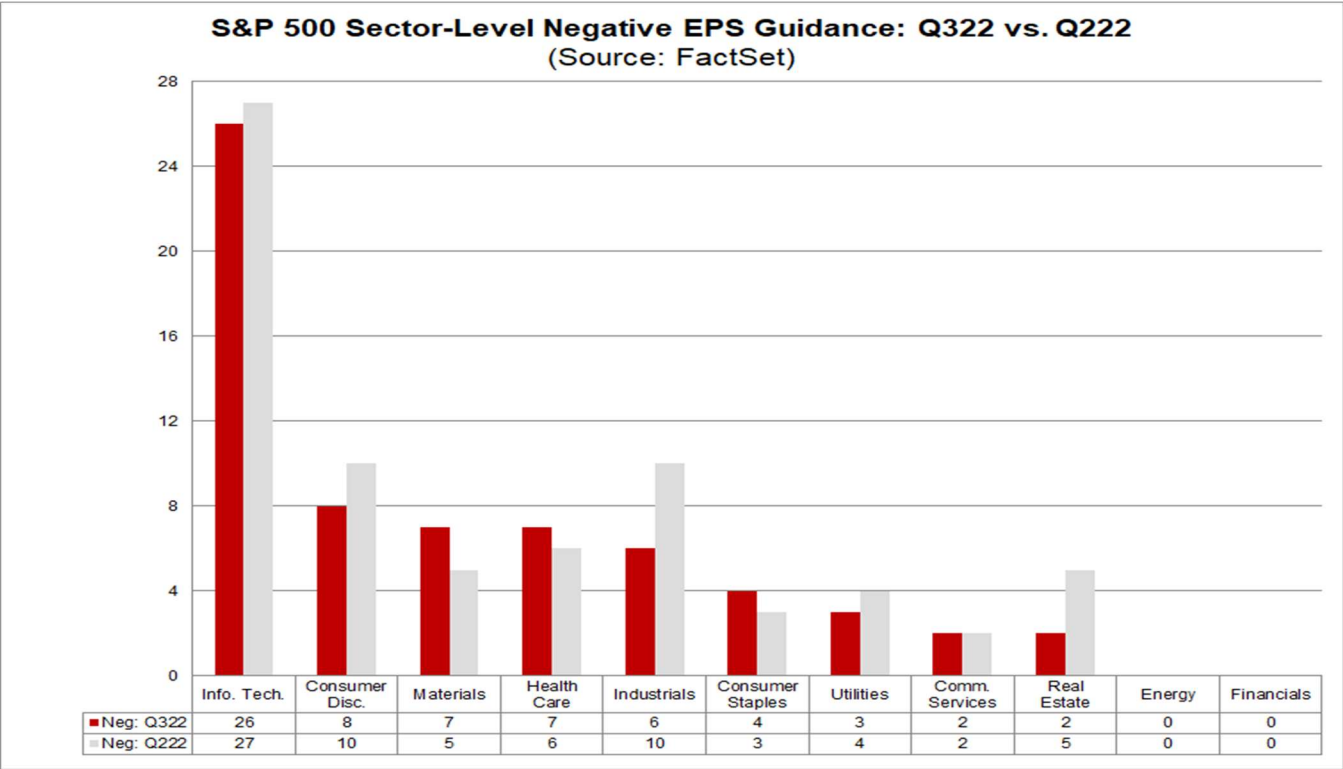
The term “guidance” (or “preannouncement”) is defined as a projection or estimate for EPS provided by a company in advance of the company reporting actual results. Guidance is classified as negative if the estimate (or mid-point of a range estimates) provided by a company is lower than the mean EPS estimate 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.

**S&P 500 Negative & Positive EPS Preannouncements (#): Q417 - Q322**  
(Source: FactSet)



**S&P 500 Sector-Level Positive EPS Guidance: Q322 vs. Q222**  
(Source: FactSet)





## Q3 Earnings Season: By The Numbers

### Overview

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

In terms of estimate revisions for companies in the S&P 500, analysts lowered earnings estimates for Q3 2022 by a larger margin compared to recent quarters and the 5-year average. On a per-share basis, estimated earnings for the third quarter decreased by 6.6% from June 30 through September 29. This is the largest decline in the quarterly EPS estimate for a quarter since Q2 2020. This decrease is also larger than the 5-year average of -2.3%.

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

Because of the downward revisions to earnings estimates by analysts and the negative EPS guidance issued by companies, the estimated (year-over-year) earnings growth rate for Q3 2022 is lower now relative to the start of the third quarter. As of today, the S&P 500 is expected to report (year-over-year) earnings growth of 2.9%, compared to the estimated (year-over-year) earnings growth rate of 9.8% on June 30.

If 2.9% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q3 2020 (-5.7%). Four of the eleven sectors are projected to report year-over-year earnings growth, led by the Energy and Industrials sectors. On the other hand, seven sectors are predicted to report a year-over-year decline in earnings, led by the Communication Services and Financials sectors.

In terms of revenues, analysts have also lowered their estimates during the quarter. As a result, the estimated (year-over-year) revenue growth rate for Q3 2022 is lower now relative to the start of the third quarter. As of today, the S&P 500 is expected to report (year-over-year) revenue growth of 8.7%, compared to the estimated (year-over-year) revenue growth rate of 9.7% on June 30.

If 8.7% is the actual growth rate for the quarter, it will mark the first time the index has reported revenue growth below 10% since Q4 2020 (3.2%). All eleven sectors are projected to report year-over-year growth in revenues, led by the Energy sector.

Looking ahead, analysts expect earnings growth of 4.0% for Q4 2022, and 7.4% for CY 2022. For Q1 2023 and Q2 2023, analysts are projecting earnings growth of 6.5% and 5.5%.

The forward 12-month P/E ratio is 15.4, which is below the 5-year average (18.6) and below the 10-year average (17.1). It is also below the forward P/E ratio of 15.8 recorded at the end of the second quarter (June 30), as both prices and EPS estimates have decreased since June 30.

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

## Earnings Revisions: Communication Services Sector Sees Largest Estimate Decreases

### Decline in Estimated Earnings Growth Rate for Q3 This Week

During the past week, the estimated earnings growth rate for the S&P 500 for Q3 2022 decreased to 2.9% from 3.2%.

The estimated earnings growth rate for the S&P 500 for Q3 2022 of 2.9% today is below the estimate of 9.8% at the start of the quarter (June 30), as estimated earnings for the index of \$482.6 billion today are 6.3% below the estimate of \$515.0 billion at the start of the quarter. Nine sectors have recorded a decrease in expected (dollar-level) earnings due to downward revisions to earnings estimates, led by the Communication Services, Consumer Discretionary, Materials, and Information Technology sectors. On the other hand, two sectors have recorded an increase in expected (dollar-level) earnings due to upward revisions to earnings estimates, led by the Energy sector.

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

The Communication Services sector has recorded the largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -13.3% (to \$41.0 billion from \$47.3 billion). As a result, the estimated (year-over-year) earnings decline for this sector is now -13.2% compared to an earnings growth rate of 0.1% on June 30. This sector has also witnessed the second-largest decrease in price (-11.4%) of all eleven sectors since June 30. Overall, 20 of the 23 companies (87%) in the Communication Services sector have seen a decrease in their mean EPS estimate during this time. Of these 20 companies, 11 have recorded a decrease in their mean EPS estimate of more than 10%, led by Warner Bros. Discovery (to -\$0.17 from \$0.21) and Twitter (to \$0.01 from \$0.19). However, Meta Platforms (to \$1.93 from \$2.71), Alphabet (to \$1.28 from \$1.39), and Warner Bros. Discovery have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since June 30.

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

The Consumer Discretionary sector has recorded the second-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -12.4% (to \$36.4 billion from \$41.5 billion). As a result, the estimated (year-over-year) earnings growth rate for this sector has declined to 11.0% today from 26.7% on June 30. Despite the decrease in expected earnings, this sector has witnessed the largest increase in price (+6.1%) of all eleven sectors since June 30. Overall, 45 of the 56 companies (80%) in the Consumer Discretionary sector have seen a decrease in their mean EPS estimate during this time. Of these 45 companies, 23 have recorded a decrease in their mean EPS estimate of more than 10%, led by Carnival (to -\$0.58 from \$0.05), Norwegian Cruise Line Holdings (to -0.68 from \$0.29), and Las Vegas Sands (to -\$0.23 from -\$0.08). However, Amazon.com (to \$0.22 from \$0.37) has been the largest contributor to the decrease in expected (dollar-level) earnings for this sector since June 30.

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

The Materials sector has recorded the third-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -12.1% (to \$15.3 billion from \$17.4 billion). As a result, the estimated (year-over-year) earnings decline for this sector is now -6.1% compared to an earnings growth rate of 6.9% on June 30. This sector has also witnessed the third-largest decrease in price (-7.3%) of all eleven sectors since June 30. Overall, 23 of the 28 companies (82%) in the Materials sector have seen a decrease in their mean EPS estimate during this time. Of these 23 companies, 17 have recorded a decrease in their mean EPS estimate of more than 10%, led by Corteva (to -\$0.22 from -\$0.15) and Freeport-McMoRan (to \$0.50 from \$0.93). Freeport-McMoRan has also been the largest contributor to the decrease in expected (dollar-level) earnings for this sector since June 30.

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

The Information Technology sector has recorded the fourth-largest percentage decrease in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at -8.5% (to \$97.0 billion from \$106.0 billion). As a result, the estimated (year-over-year) earnings decline for this sector is now -3.9% compared to an earnings growth rate of 5.2% on June 30. This sector has also witnessed a decrease in price of 4.6% since June 30. Overall, 39 of the 76 companies (51%) in the Information Technology sector have seen a decrease in their mean EPS estimate during this time. Of these 39 companies, 13 have recorded a decrease in their mean EPS estimate of more than 10%, led by Western Digital (to \$0.42 from \$2.16), Seagate Technology (to \$0.81 from \$2.30), and Intel (to \$0.35 from \$0.90). Intel, NVIDIA (to \$0.73 from \$1.37), Microsoft (to \$2.33 from \$2.50), Micron Technology (to \$1.45 from \$2.59), and Apple (to \$1.26 from \$1.32) have been the largest contributors to the decrease in expected (dollar-level) earnings for this sector since June 30.

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

The Energy sector has recorded the largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 6.1% (to \$53.1 billion from \$50.1 billion). As a result, the estimated (year-over-year) earnings growth rate for this sector has increased to 115.7% from 103.4% during this time. This increase in estimated earnings has occurred despite a 23% decline in the price of oil since June 30 (to \$81.23 from \$105.76). This sector has also witnessed the second-largest increase in price (+2.1%) of all eleven sectors since June 30. Overall, 10 of the 21 companies (48%) in the Energy sector have seen an increase in their mean EPS estimate during this time. Of these 10 companies, 4 have recorded an increase in their mean EPS estimate of more than 10%: Valero Energy (to \$7.52 from \$5.10), Marathon Petroleum (to \$6.12 from \$4.15), Phillips 66 (to \$4.63 from \$3.84) and Exxon Mobil (to \$3.44 from \$2.99). Exxon Mobil, Marathon Petroleum, and Valero Energy have also been the largest contributors to the increase in estimated (dollar-level) earnings for this sector since June 30.

**Index-Level EPS Estimate: 6.6% Decrease Since June 30**

The Q3 bottom-up EPS estimate (which is an aggregation of the median Q3 earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings of the index) has decreased by 6.6% (to \$55.51 from \$59.44) since June 30. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings expectations have fallen by 2.3% on average during a quarter. Over the past ten years (40 quarters), earnings expectations have fallen by 3.3% on average during a quarter. Over the past fifteen years (60 quarters), earnings expectations have fallen by 4.8% on average during a quarter. Over the past twenty years (60 quarters), earnings expectations have fallen by 3.8% on average during a quarter.

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

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

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

At this point in time, 247 companies in the index have issued EPS guidance for the current fiscal year (FY 2022 or FY 2023). Of these 247 companies, 132 have issued negative EPS guidance and 115 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 53% (132 out of 247).

The term “guidance” (or “preannouncement”) is defined as a projection or estimate for EPS provided by a company in advance of the company reporting actual results. Guidance is classified as negative if the estimate (or mid-point of a range estimates) provided by a company is lower than the mean EPS estimate the day before the guidance was issued. Guidance is classified as positive if the estimate (or mid-point of a range of estimates) provided by the company is higher than the mean EPS estimate the day before the guidance was issued.

### Earnings Growth: 2.9%

The estimated (year-over-year) earnings growth rate for Q3 2022 is 2.9%, which is below the 5-year average earnings growth rate of 14.6% and below the 10-year average earnings growth rate of 8.8%. If 2.9% is the actual growth rate for the quarter, it will mark the lowest (year-over-year) earnings growth rate reported by the index since Q3 2020 (-5.7%).

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

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

The Energy sector is expected to report the highest (year-over-year) earnings growth of all eleven sectors at 115.7%. Higher year-over-year oil prices are contributing to the year-over-year improvement in earnings for this sector, as the average price of oil in Q3 2022 to date (\$91.62) is 30% above the average price for oil in Q3 2021 (\$70.52). At the sub-industry level, all five sub-industries in the sector are expected to report a year-over-year increase in earnings of more than 20%: Oil & Gas Refining & Marketing (250%), Oil & Gas Exploration & Production (123%), Integrated Oil & Gas (100%), Oil & Gas Equipment & Services (73%), and Oil & Gas Storage & Transportation (22%).

The Energy sector is also expected to be the largest contributor to earnings growth for the S&P 500 for the third quarter. If this sector were excluded, the index would be expected to report a decline in earnings of 3.4% rather than growth in earnings of 2.9%.

### Industrials: Airlines Industry Is Largest Contributor to Year-Over-Year Growth

The Industrials sector is expected to report the second-highest (year-over-year) earnings growth rate of all eleven sectors at 24.2%. At the industry level, 10 of the 12 industries in the sector are expected to report a year-over-year increase in earnings. A growth rate is not being calculated for the Airlines industry due to the loss reported by the industry in the year-ago quarter. However, the Airlines industry is projected to report a profit of \$2.6 billion in Q3 2022 compared to a loss of -\$731 million in Q3 2021. Seven of the remaining nine industries are predicted to reporting earnings growth above 10%: Aerospace & Defense (27%), Trading Companies & Distributors (26%), Construction & Engineering (23%), Machinery (20%), Electrical Equipment (17%), Road & Rail (15%), and Commercial Services & Supplies (11%). On the other hand, the Air Freight & Logistics (-4%) and Professional Services (-2%) industries are the only industries in the sector projected to report a year-over-year decline in earnings.

At the industry level, the Airlines industry is predicted to be the largest contributor to earnings growth for the sector. If the five companies in this industry were excluded, the estimated earnings growth rate for the Industrials sector would fall to 13.3% from 24.2%.

### Communication Services: 4 of 5 Industries To Report Year-Over-Year Decline

The Communication Services sector is expected to report the largest (year-over-year) earnings decline of all eleven sectors at -13.2%. At the industry level, four of the five industries in this sector are predicted to report a year-over-year decline in earnings, led by the Interactive Media & Services (-19%) and Entertainment (-16%) industries. On the other hand, the Wireless Telecommunication Services (1%) industry is the only industry in the sector projected to report (year-over-year) earnings growth.

At the company level, Meta Platforms is the largest contributor to the expected earnings decline for the sector. If this company were excluded, the estimated earnings decline for the sector would improve to -7.5% from -13.2%.

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

The Financials sector is expected to report the second-largest (year-over-year) earnings decline of all eleven sectors at -11.8%. At the industry level, four of the five industries in this sector are predicted to report a year-over-year earnings decline: Consumer Finance (-22%), Capital Markets (-20%), Banks (-12%), and Insurance (-1%). On the other hand, the Diversified Financial Services (17%) is the only industry in the sector projected to report (year-over-year) earnings growth.

### **Revenue Growth: 8.7%**

The estimated (year-over-year) revenue growth rate for Q3 2022 is 8.7%, which is above the 5-year average revenue growth rate of 7.8% and above the 10-year average revenue growth rate of 4.6%. However, if 8.7% is the actual growth rate for the quarter, it will mark the first time the index has reported (year-over-year) revenue growth below 10% since Q4 2020 (3.2%).

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

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

The Energy sector is expected to report the highest (year-over-year) revenue growth rate of all eleven sectors at 35.6%. Higher year-over-year oil prices are contributing to the year-over-year improvement in earnings for this sector, as the average price of oil in Q3 2022 to date (\$91.62) is 30% above the average price for oil in Q3 2021 (\$70.52). At the sub-industry level, all five sub-industries in the sector are predicted to report (year-over-year) growth in revenues above 20%: Oil & Gas Exploration & Production (59%), Integrated Oil & Gas (41%), Oil & Gas Storage & Transportation (27%), Oil & Gas Refining & Marketing (24%), and Oil & Gas Equipment & Services (21%).

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

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

At the sector level, three sectors are expected to report a year-over-year increase in their net profit margins in Q3 2022 compared to Q3 2021, led by the Energy (to 14.2% vs. 8.9%) sector. On the other hand, seven sectors are expected to report a year-over-year decrease in their net profit margins in Q3 2022 compared to Q3 2021, led by the Financials (16.2% vs. 18.8%), Information Technology (23.3% vs. 25.5%), and Communication Services (10.7% vs. 12.9%) sectors.

Seven sectors are expected to report net profit margins in Q3 2022 that are above their 5-year averages, led by the Energy (14.2% vs. 6.8%) sector. On the other hand, four sectors are expected to report net profit margins in Q3 2022 that are below their 5-year averages, led by the Communication Services (10.7% vs. 11.7%) sector.

## Looking Ahead: Forward Estimates and Valuation

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

For the third quarter, S&P 500 companies are expected to report earnings growth of 2.9% and revenue growth of 8.7%.

For Q4 2022, analysts are projecting earnings growth of 4.0% and revenue growth of 6.2%.

For CY 2022, analysts are projecting earnings growth of 7.4% and revenue growth of 10.7%.

For Q1 2023, analysts are projecting earnings growth of 6.5% and revenue growth of 5.9%.

For Q2 2023, analysts are projecting earnings growth of 5.5% and revenue growth of 3.3%.

For CY 2023, analysts are projecting earnings growth of 7.9% and revenue growth of 4.4%.

### Valuation: Forward P/E Ratio is 15.4, Below the 10-Year Average (17.1)

The forward 12-month P/E ratio for the S&P 500 is 15.4. This P/E ratio is below the 5-year average of 18.6 and below the 10-year average of 17.1. It is also below the forward 12-month P/E ratio of 15.8 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 decreased by 3.8%, while the forward 12-month EPS estimate has decreased by 1.1%. At the sector level, the Consumer Discretionary (23.4) sector has the highest forward 12-month P/E ratio, while the Energy (8.0) sector has the lowest forward 12-month P/E ratio.

The trailing 12-month P/E ratio is 17.5, which is below the 5-year average of 22.9 and below the 10-year average of 20.4.

### Targets & Ratings: Analysts Project 29% Increase in Price Over Next 12 Months

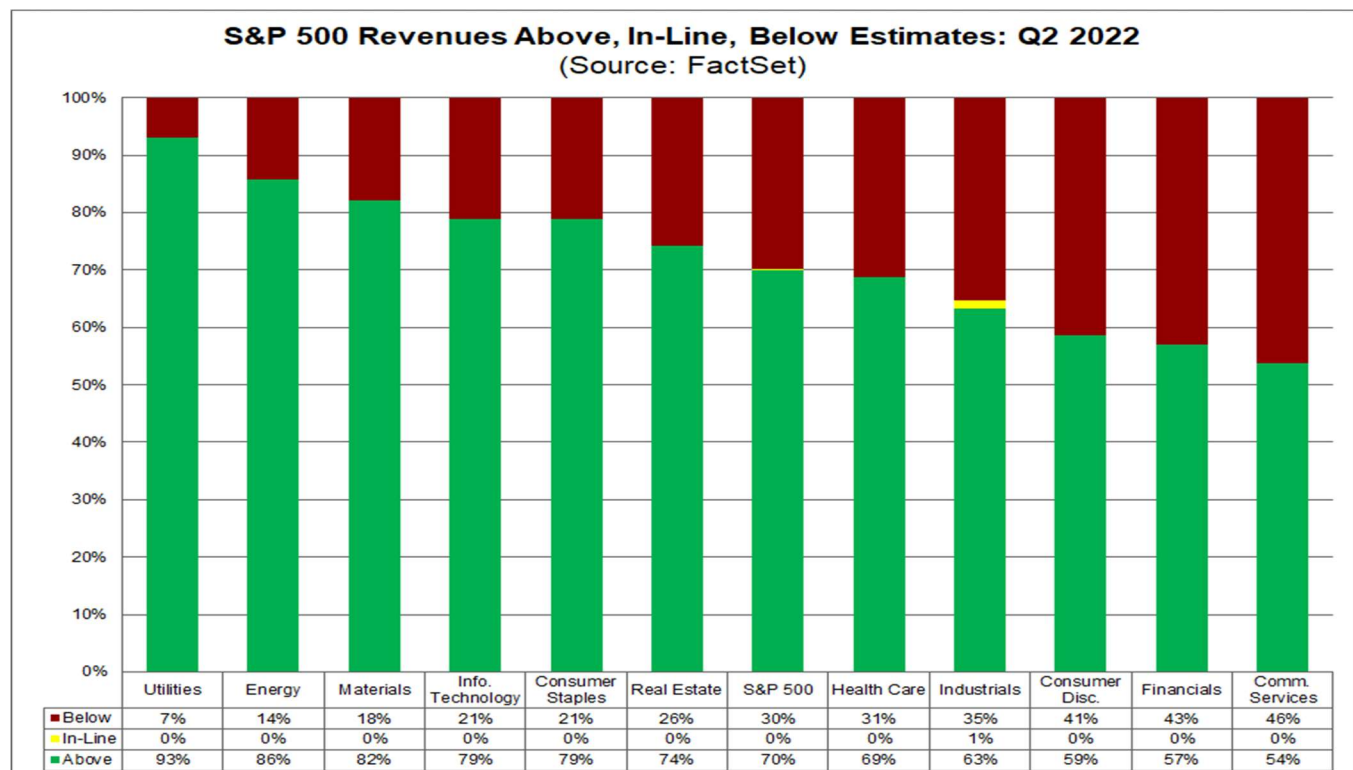
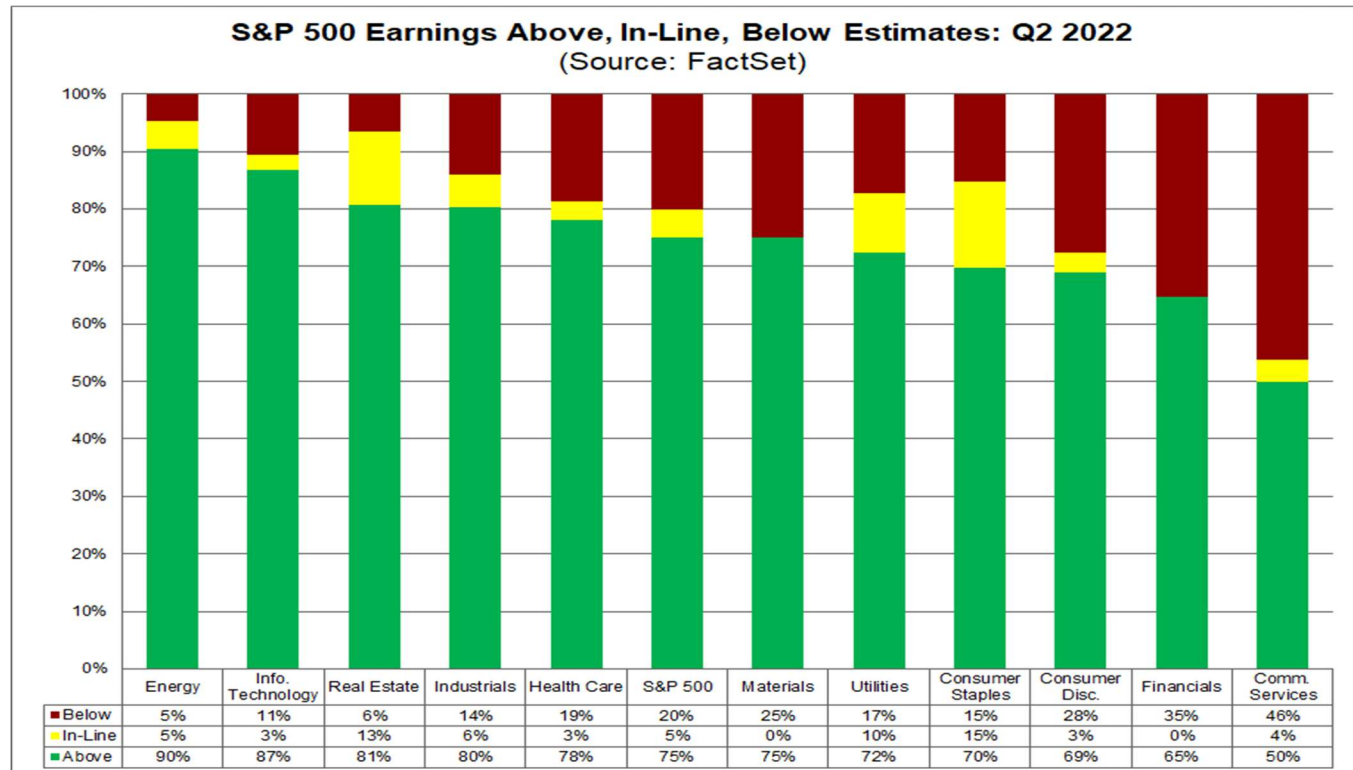
The bottom-up target price for the S&P 500 is 4711.48, which is 29.4% above the closing price of 3640.47. At the sector level, the Communication Services (+41.8%) and Real Estate (+39.1%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Consumer Staples (+18.4%) sector is expected to see the smallest price increase, as this sector has the smallest upside difference between the bottom-up target price and the closing price.

Overall, there are 10,658 ratings on stocks in the S&P 500. Of these 10,658 ratings, 55.6% are Buy ratings, 38.8% are Hold ratings, and 5.7% are Sell ratings. At the sector level, the Real Estate (63%), Energy (62%), and Information Technology (61%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (40%) and Utilities (49%) sectors have the lowest percentages of Buy ratings.

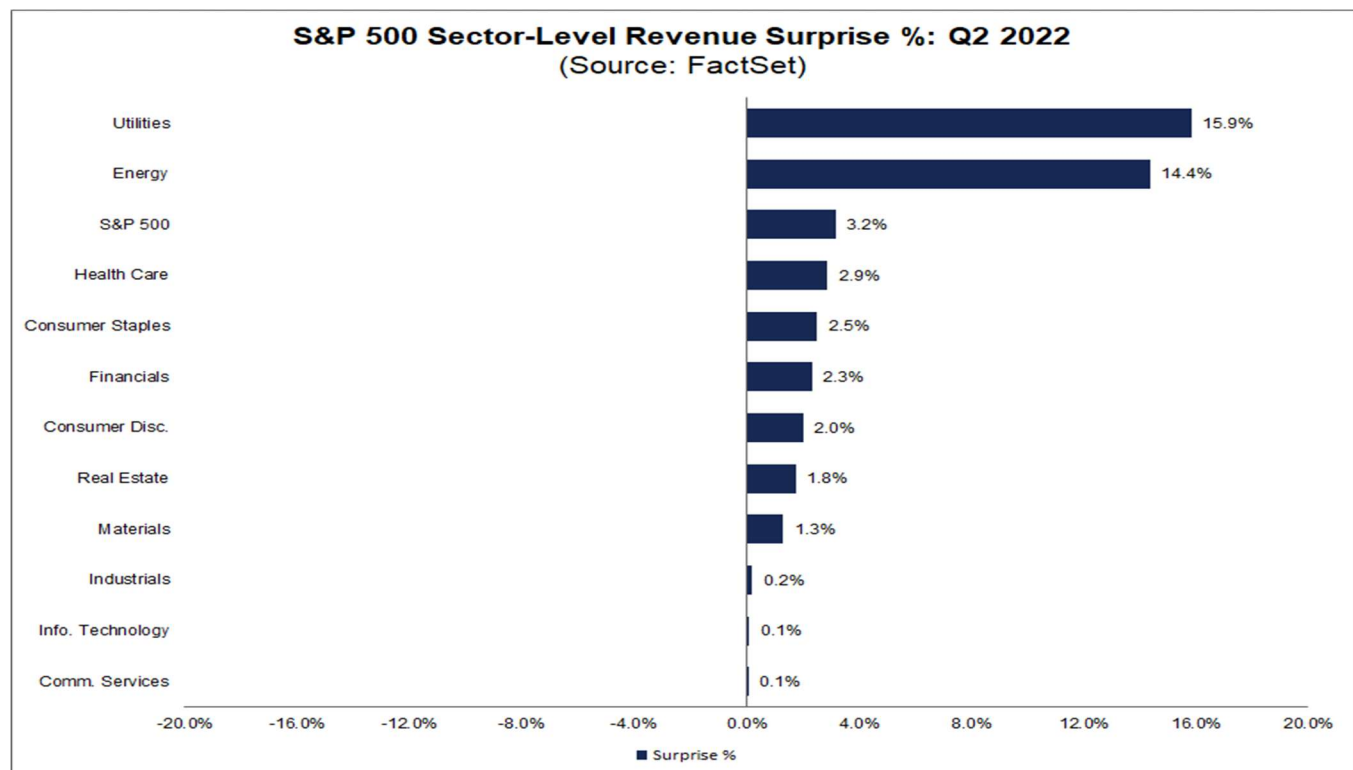
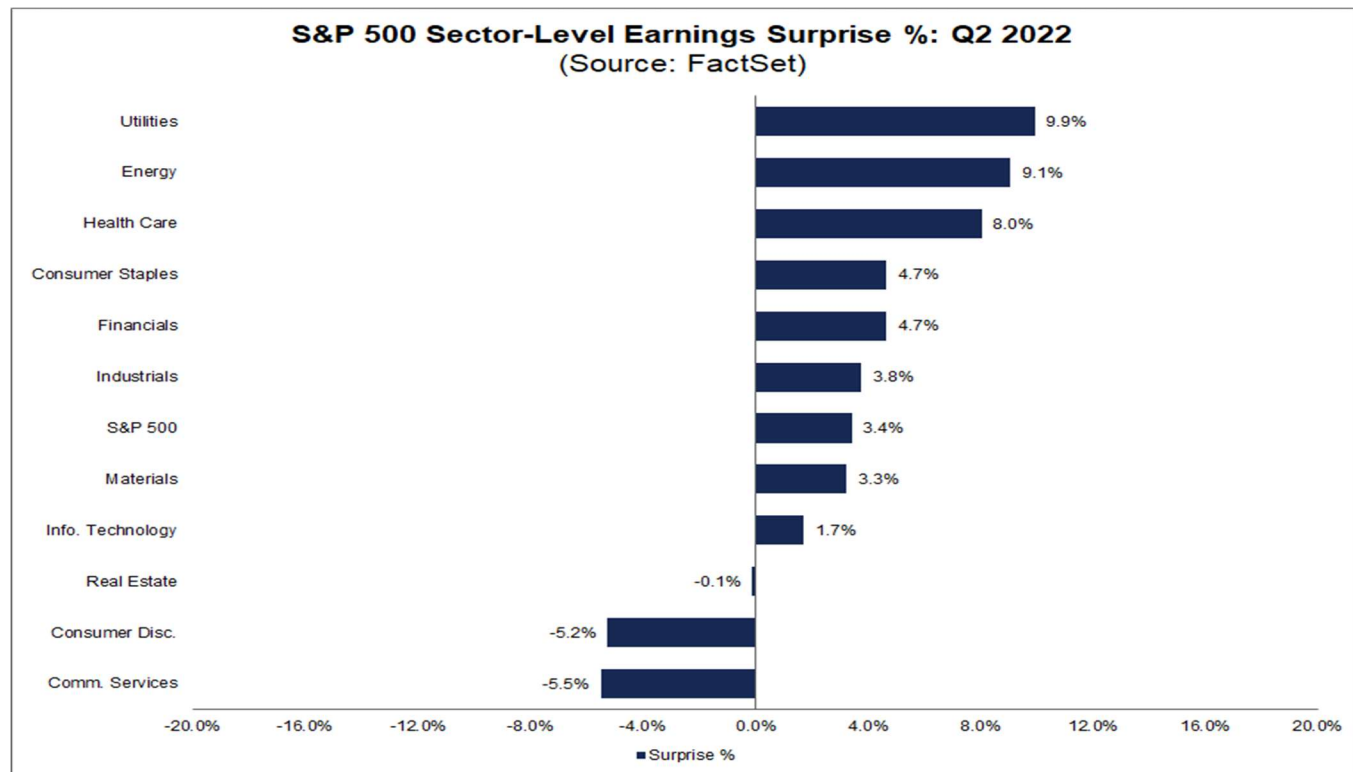
### Companies Reporting Next Week: 4

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

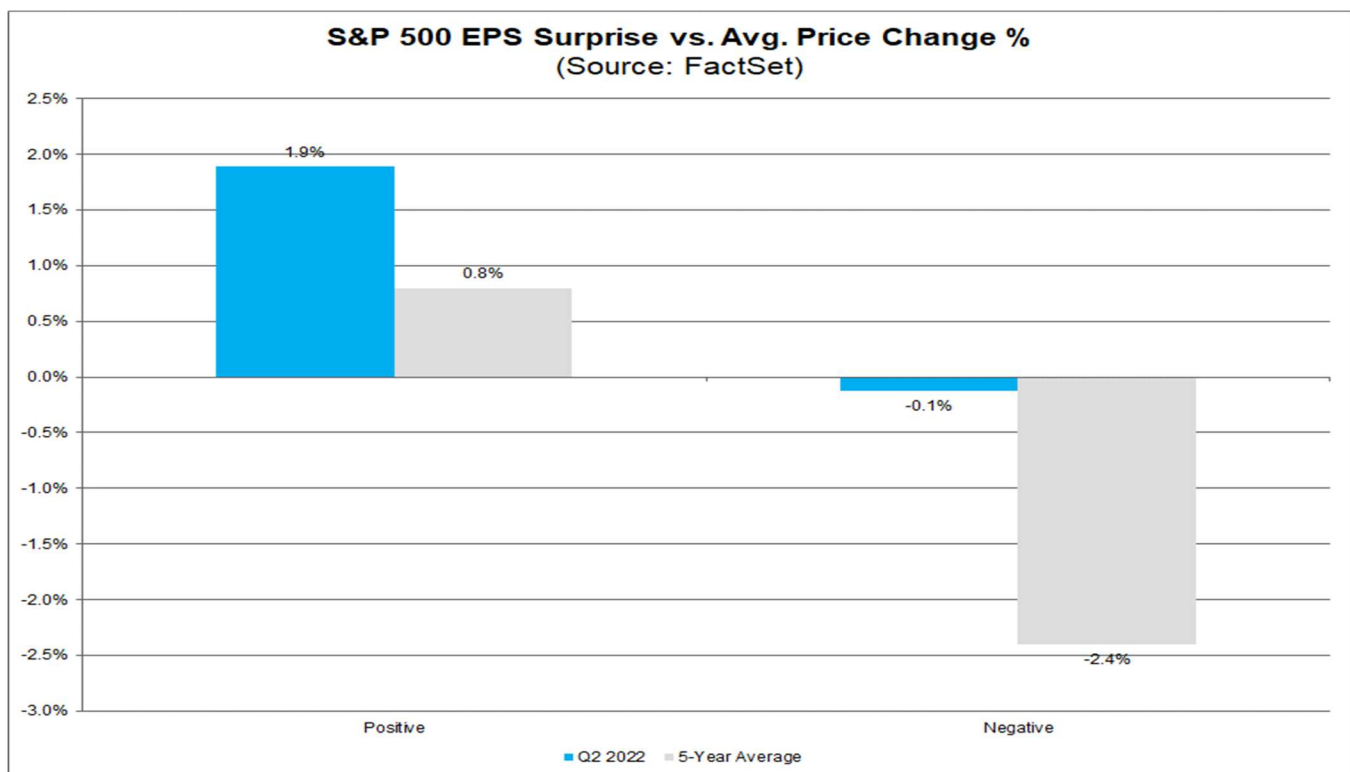
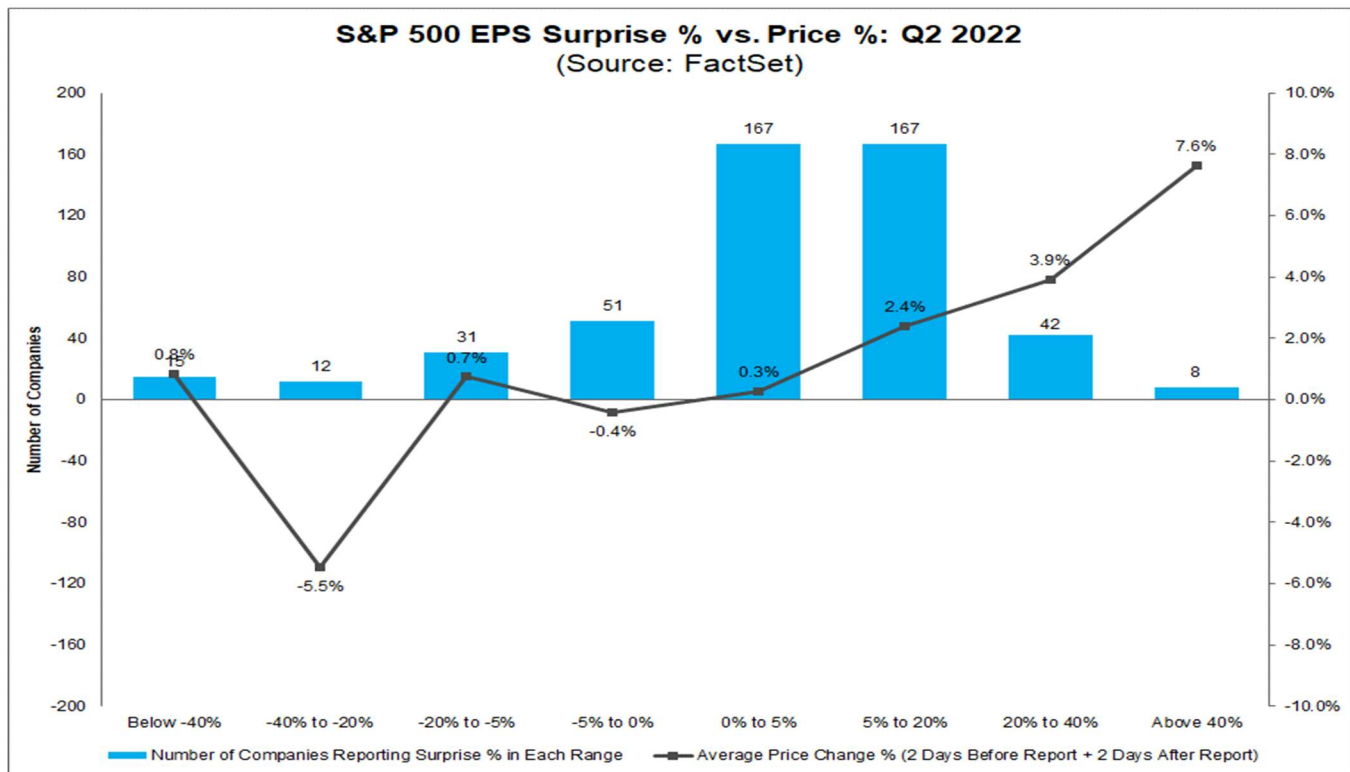
## Q2 2022: Scorecard



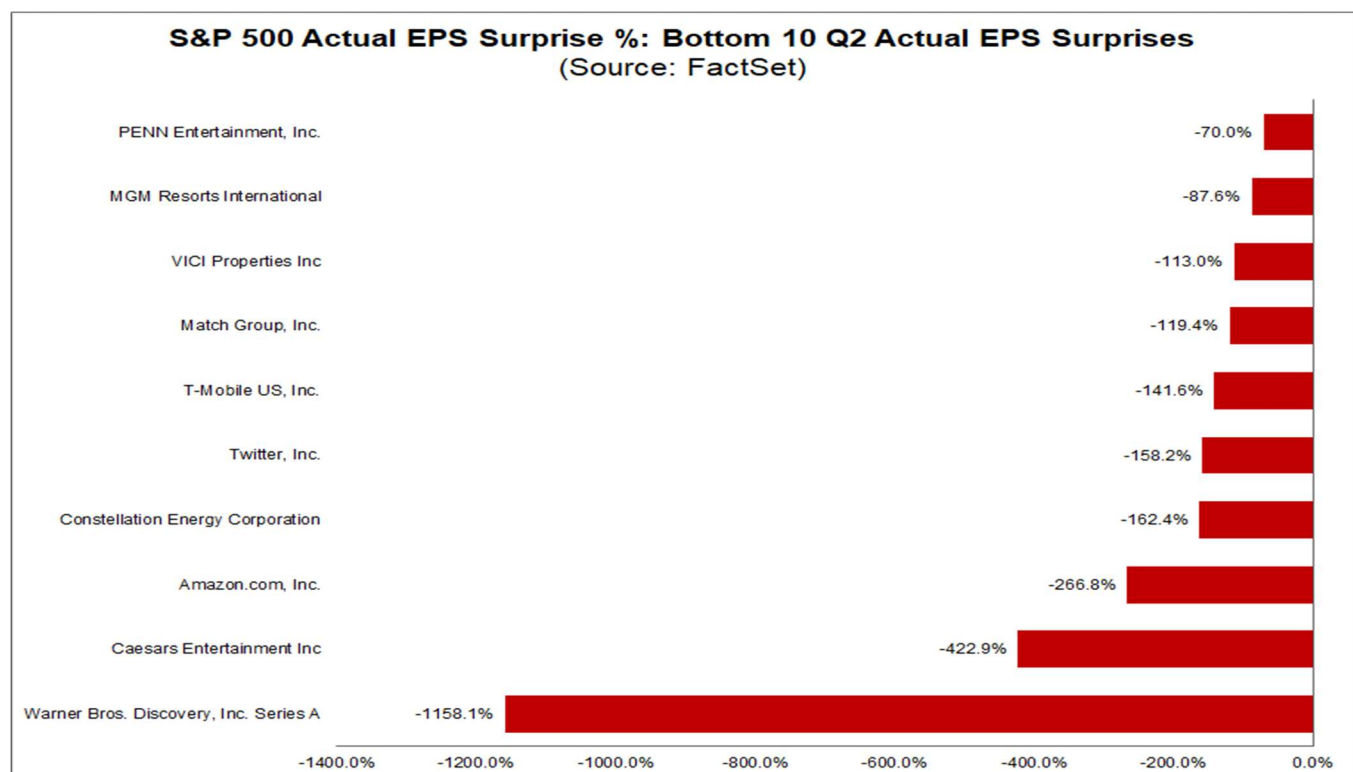
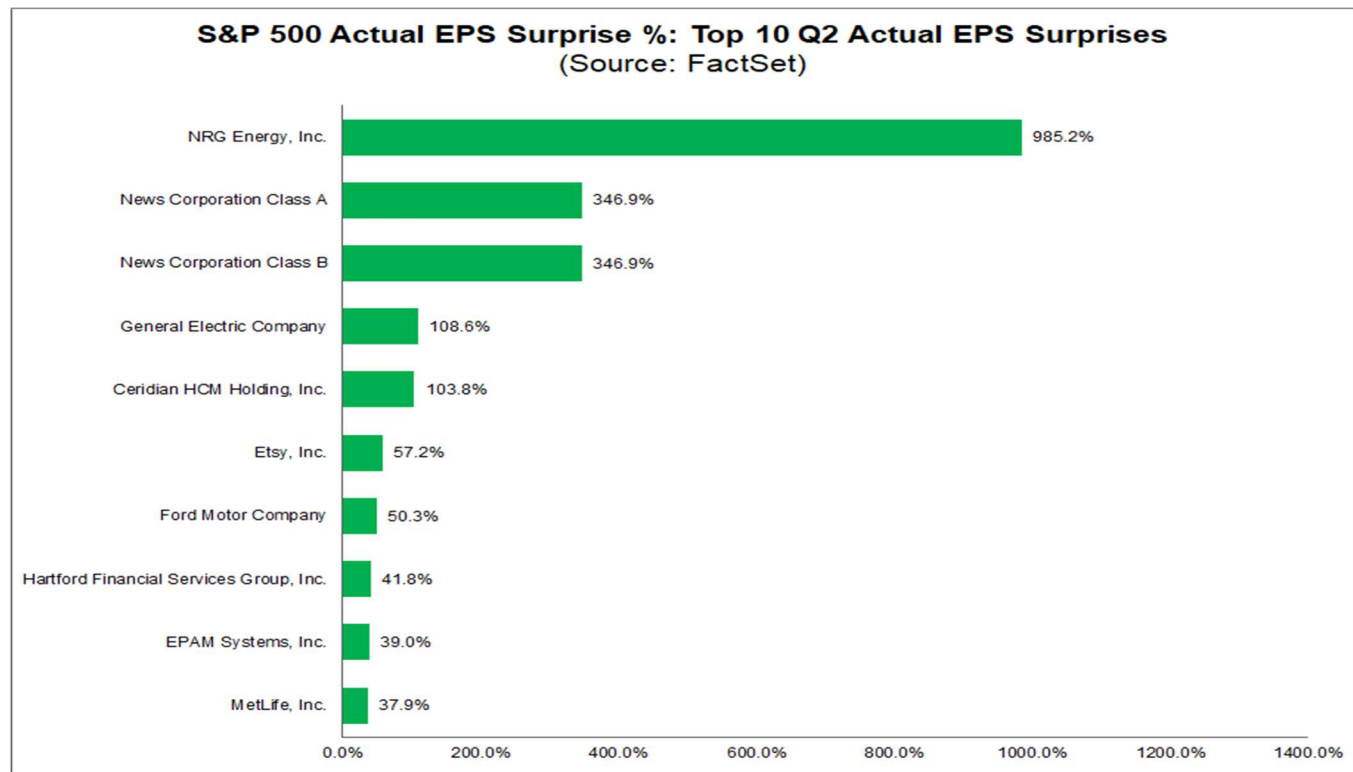
## Q2 2022: Scorecard



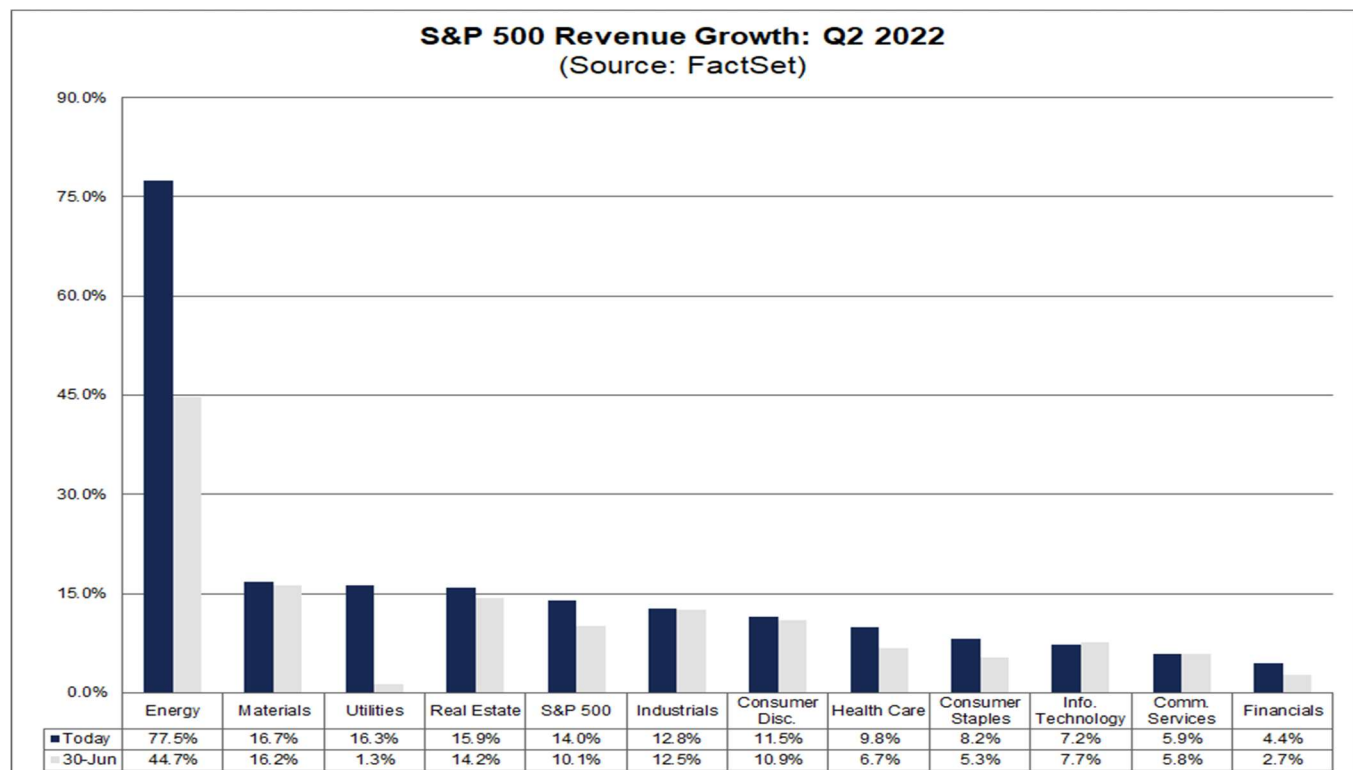
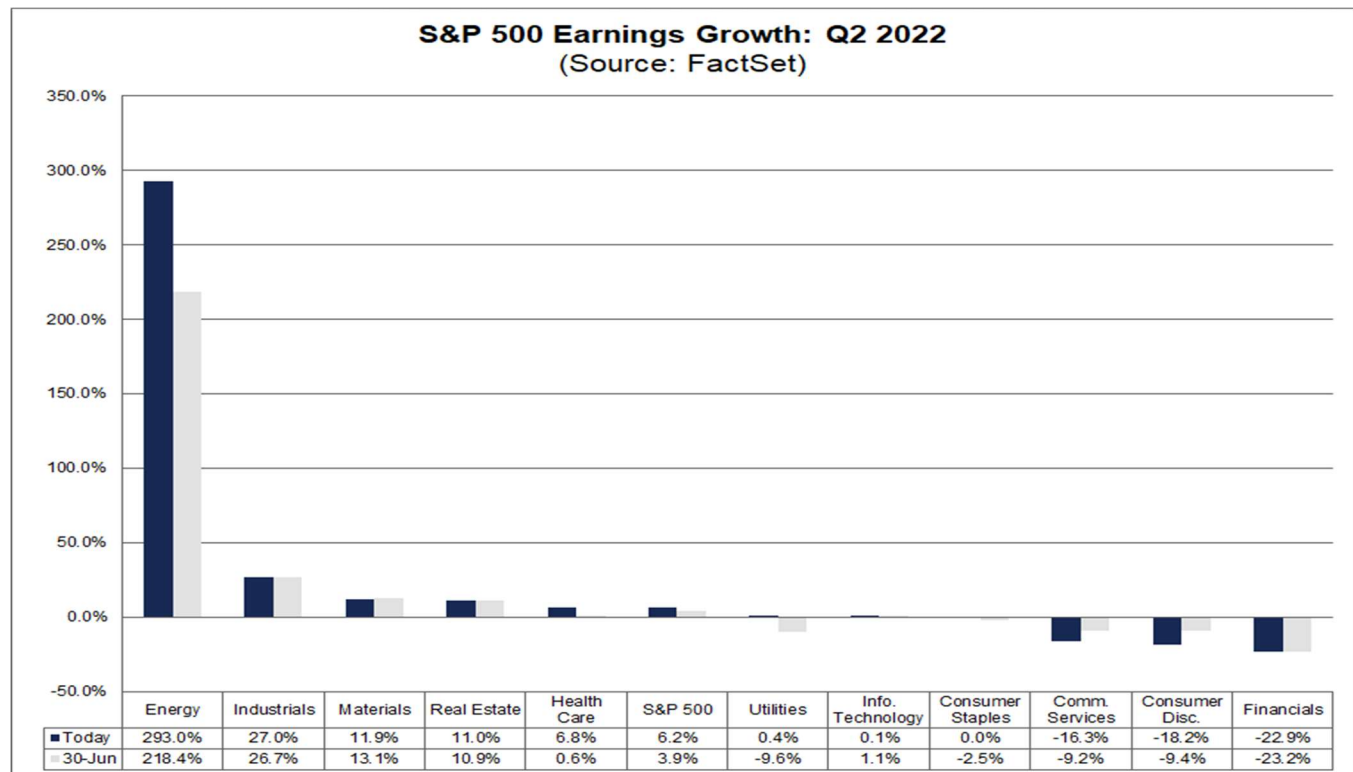
## Q2 2022: Scorecard



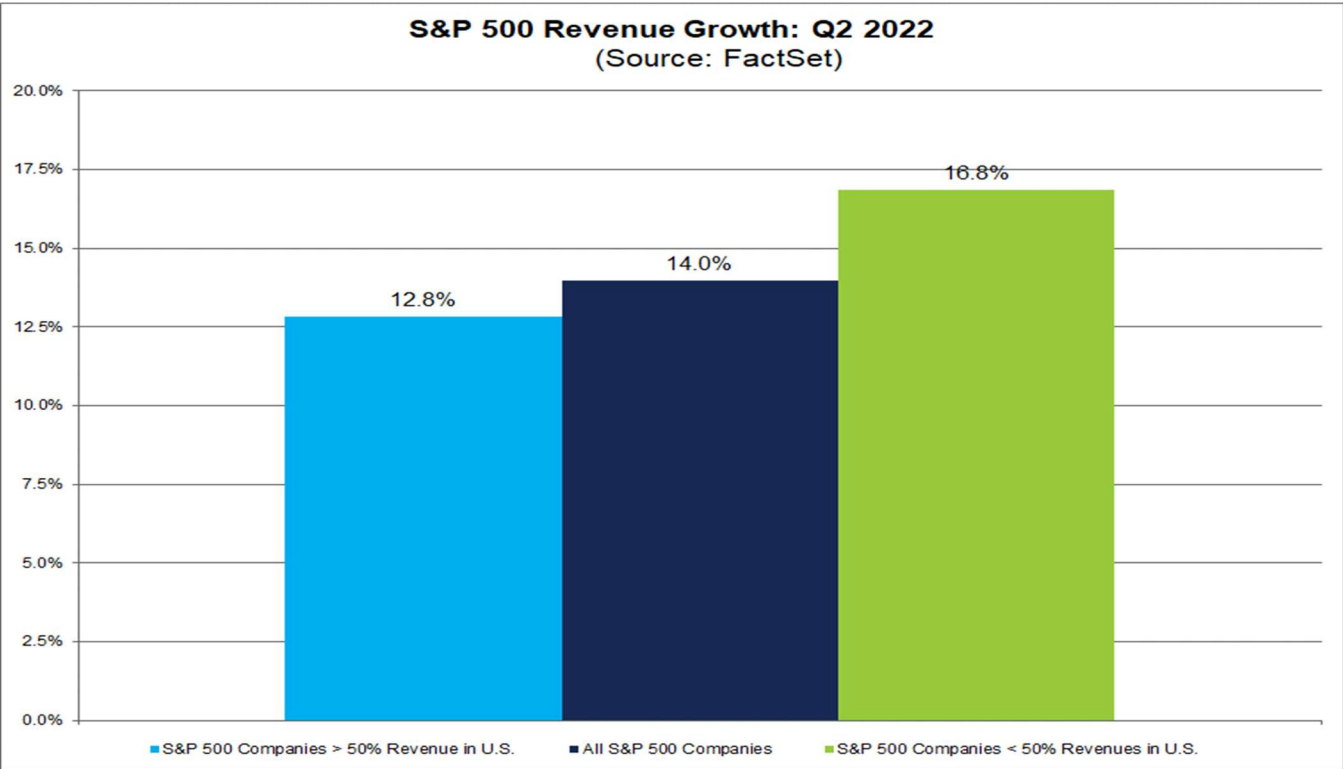
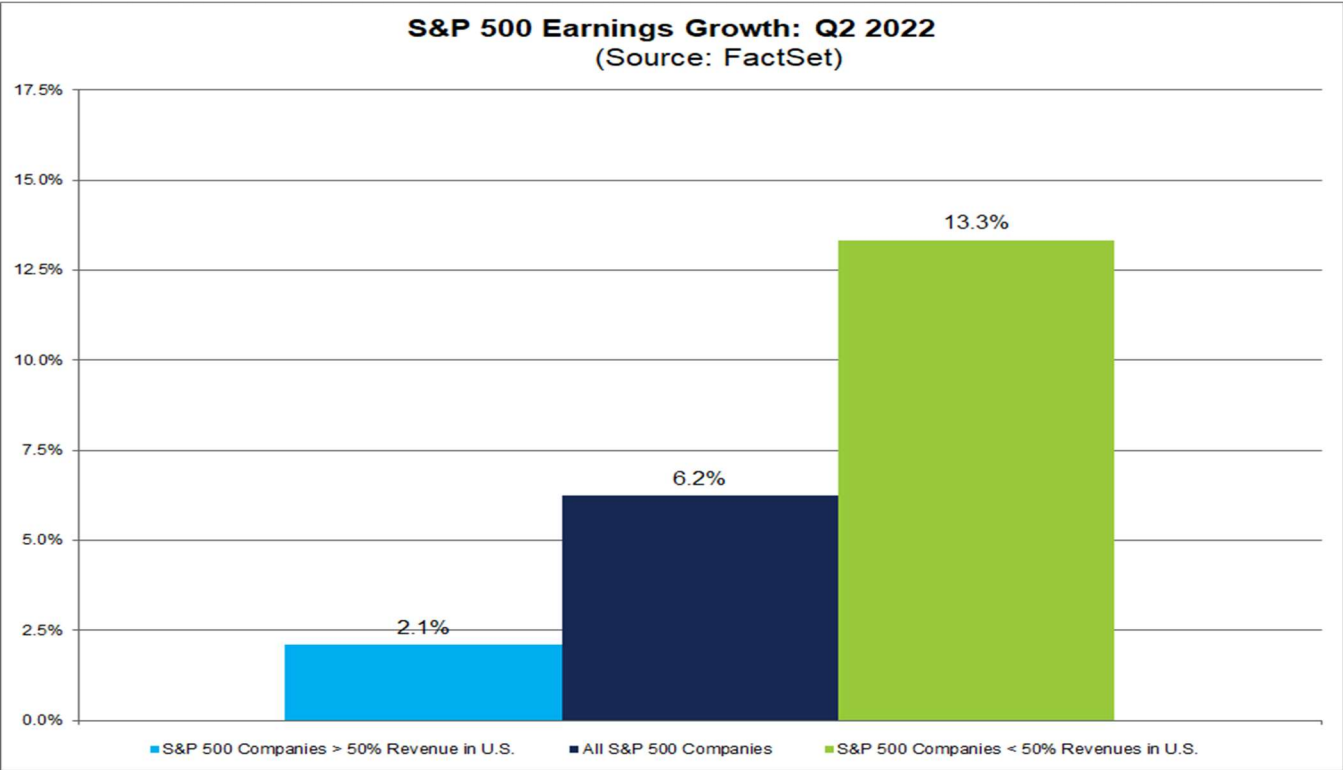
## Q2 2022: Scorecard



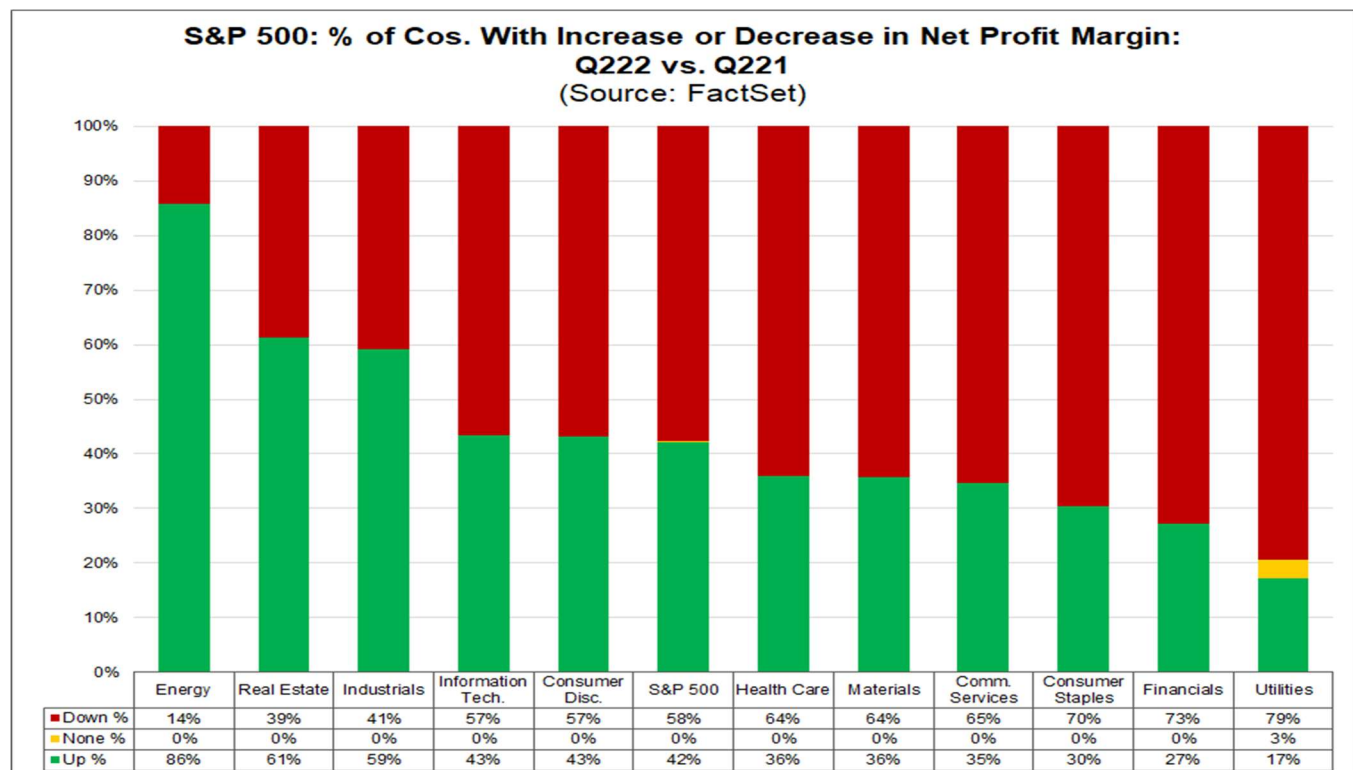
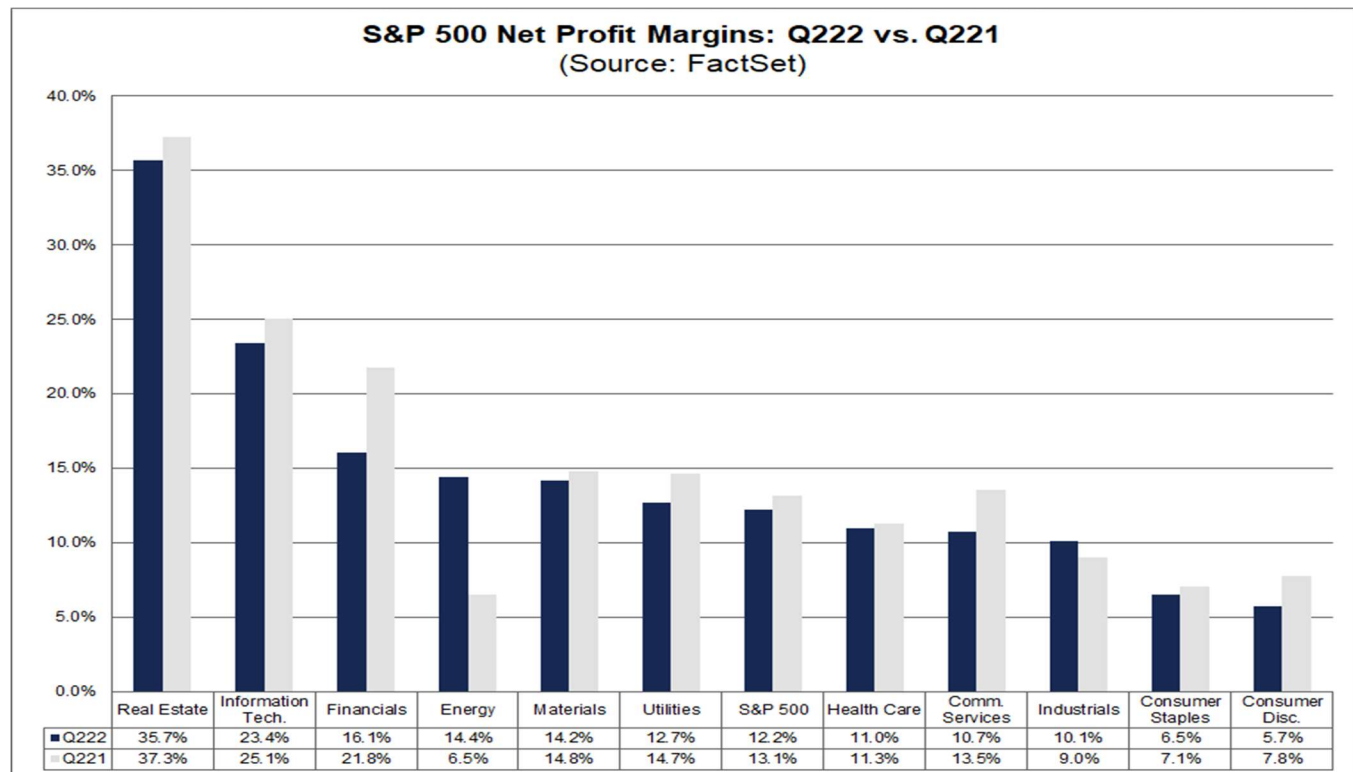
## Q2 2022: Growth



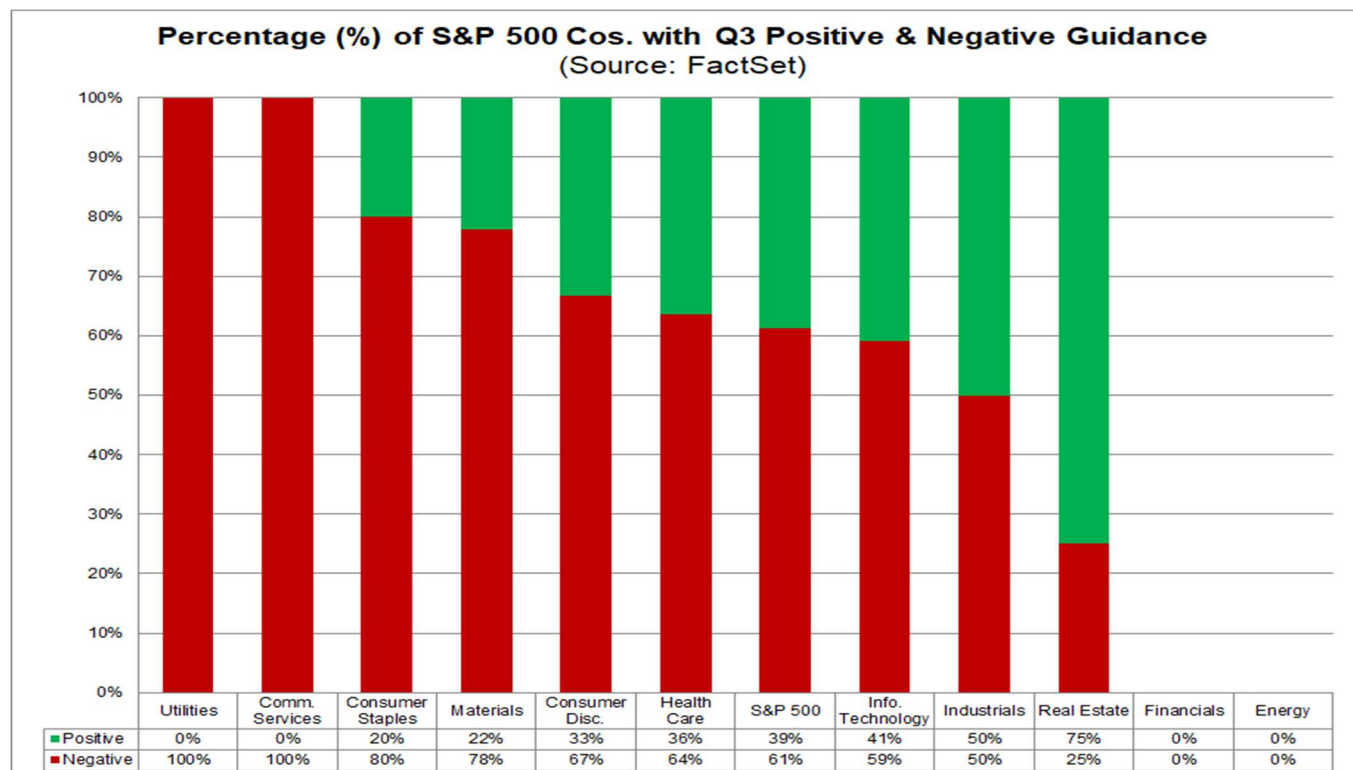
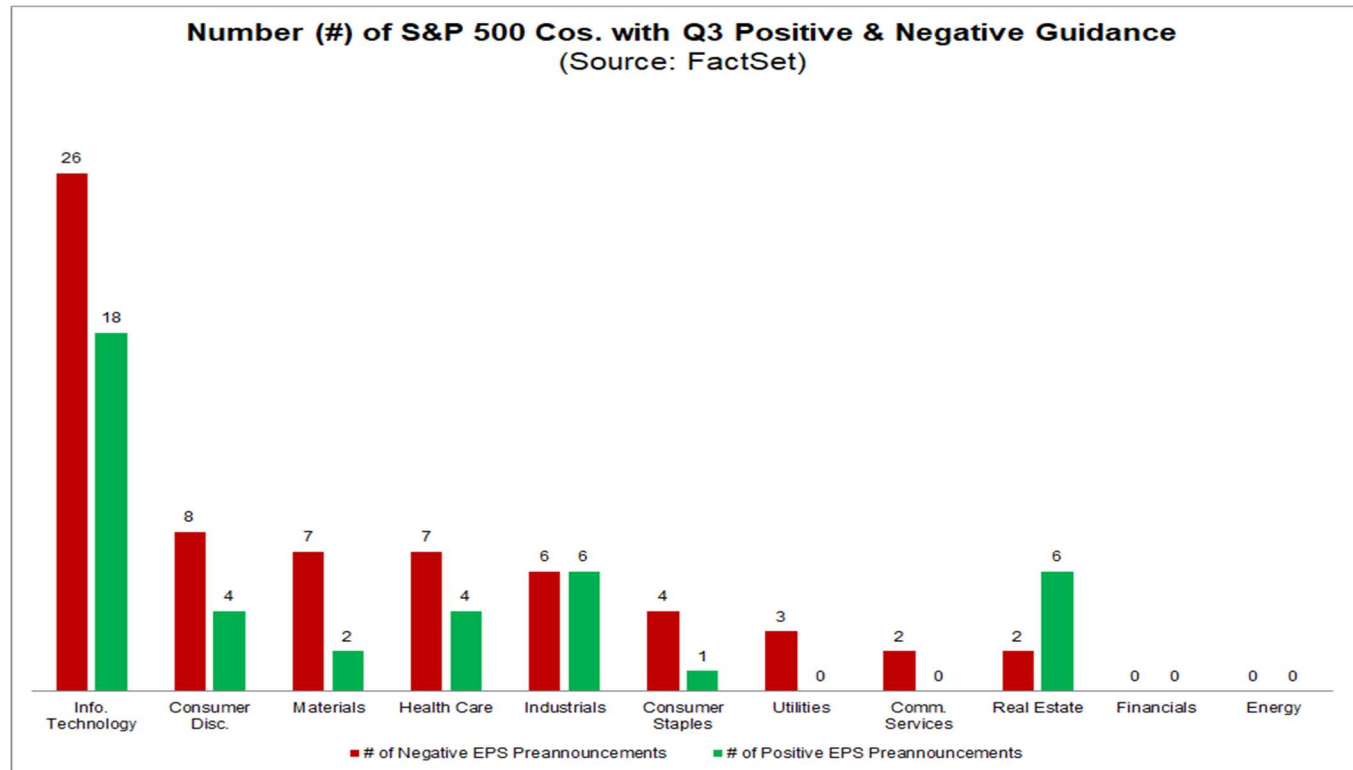
Q2 2022: Growth



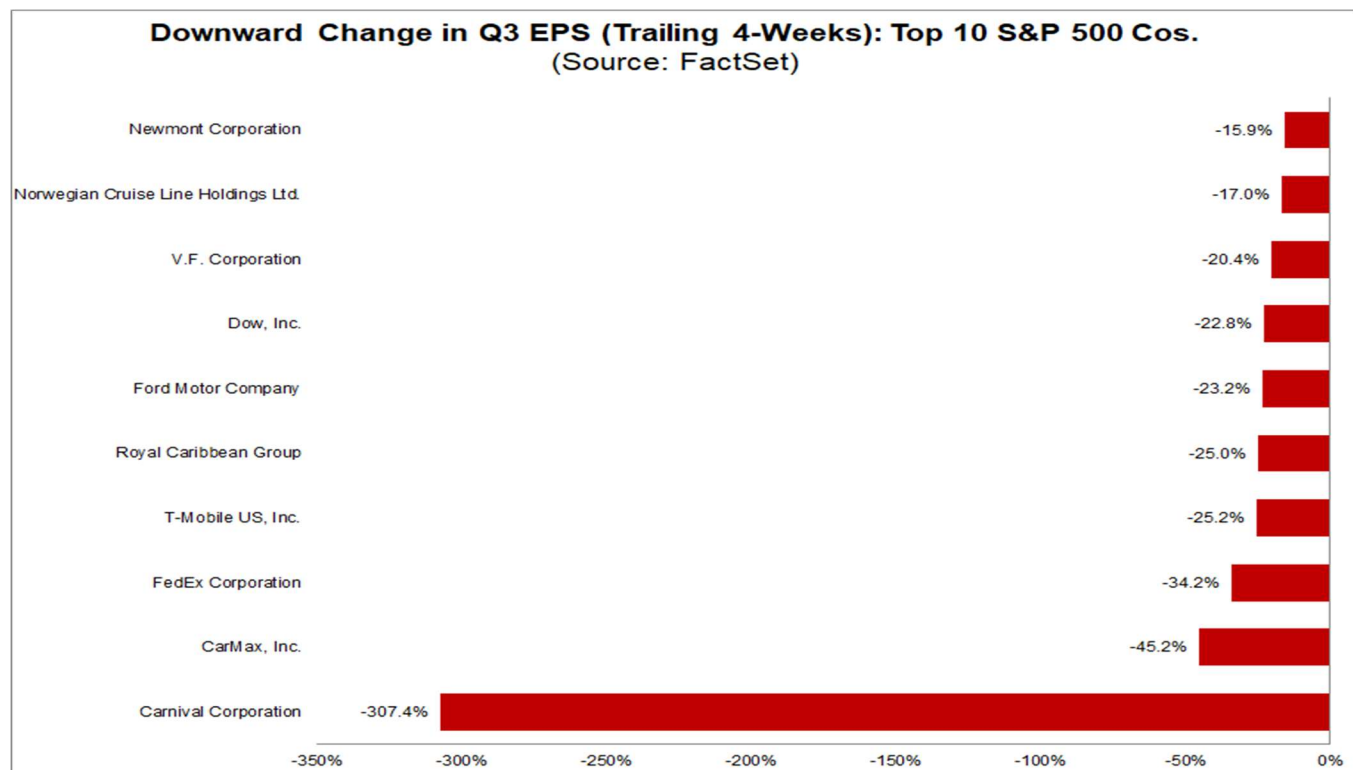
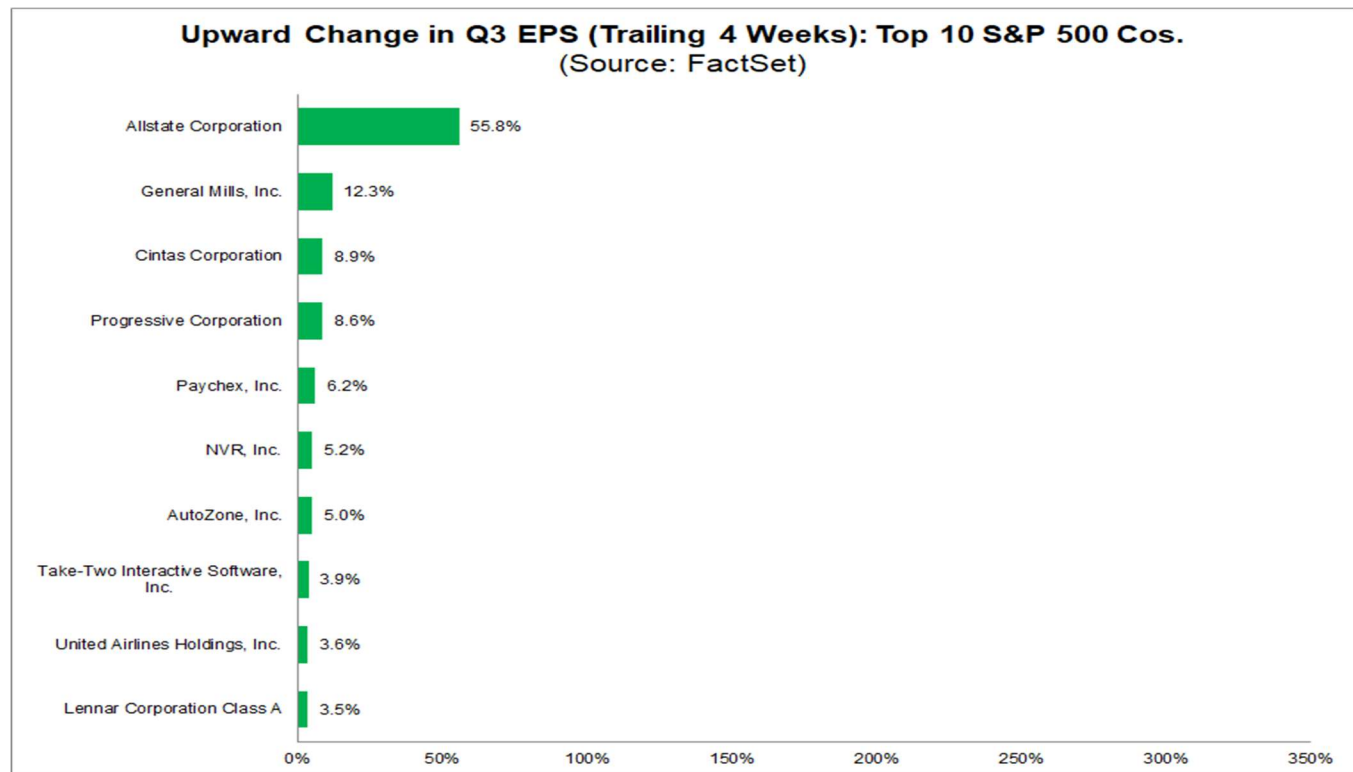
## Q2 2022: Net Profit Margin



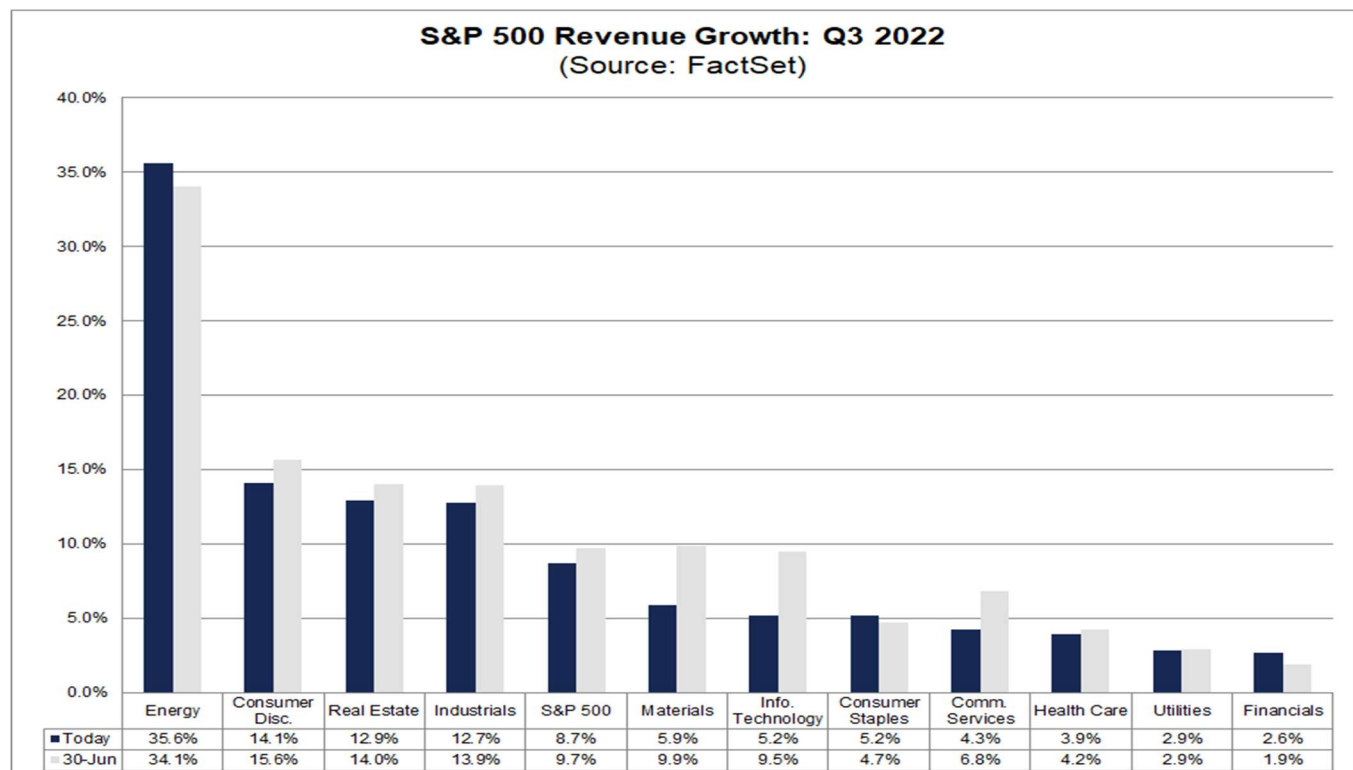
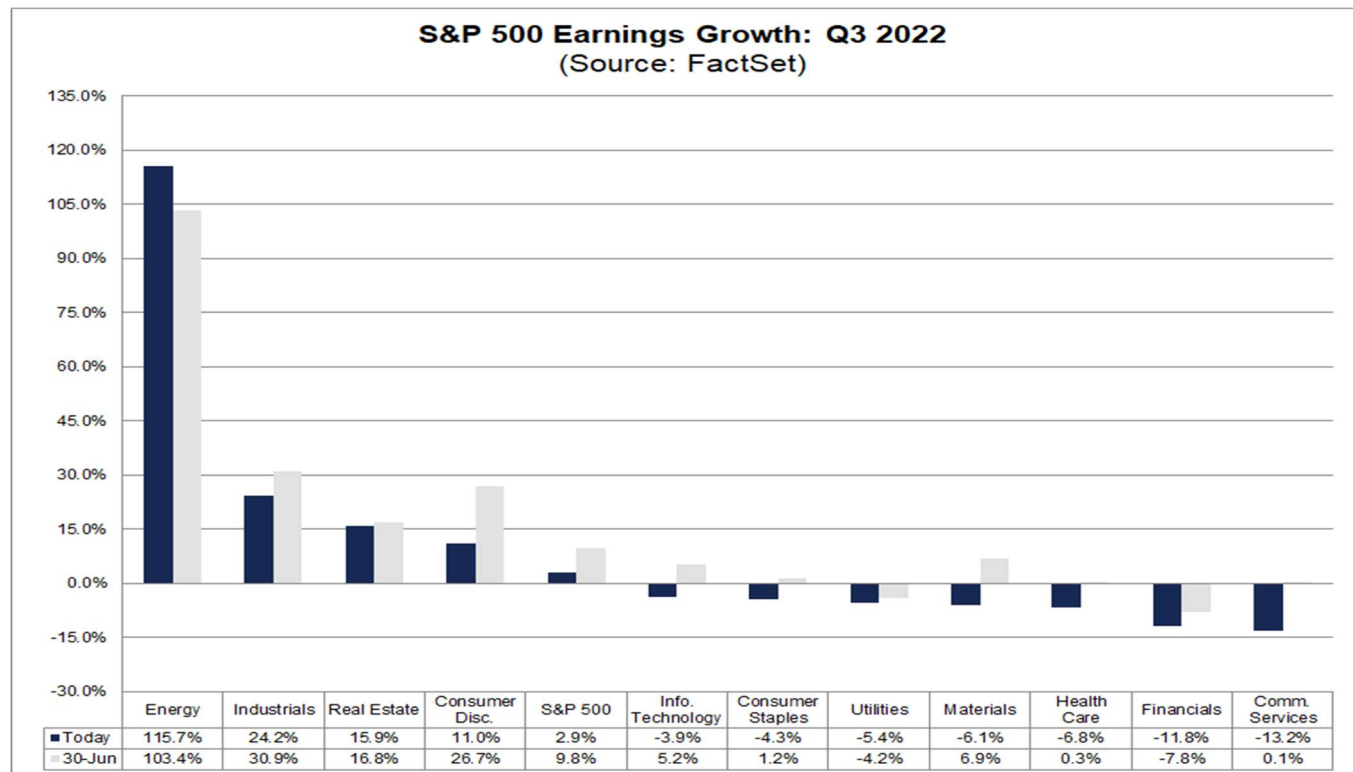
## Q3 2022: Guidance



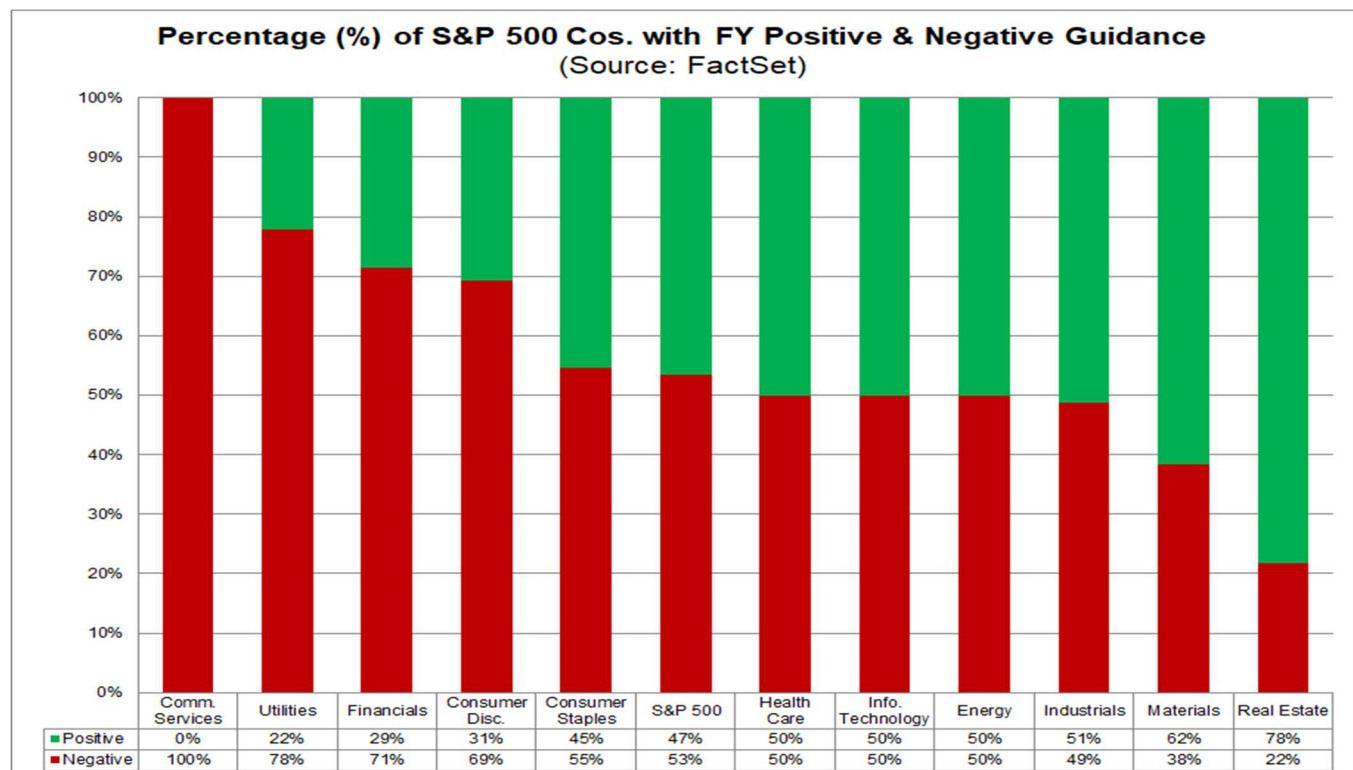
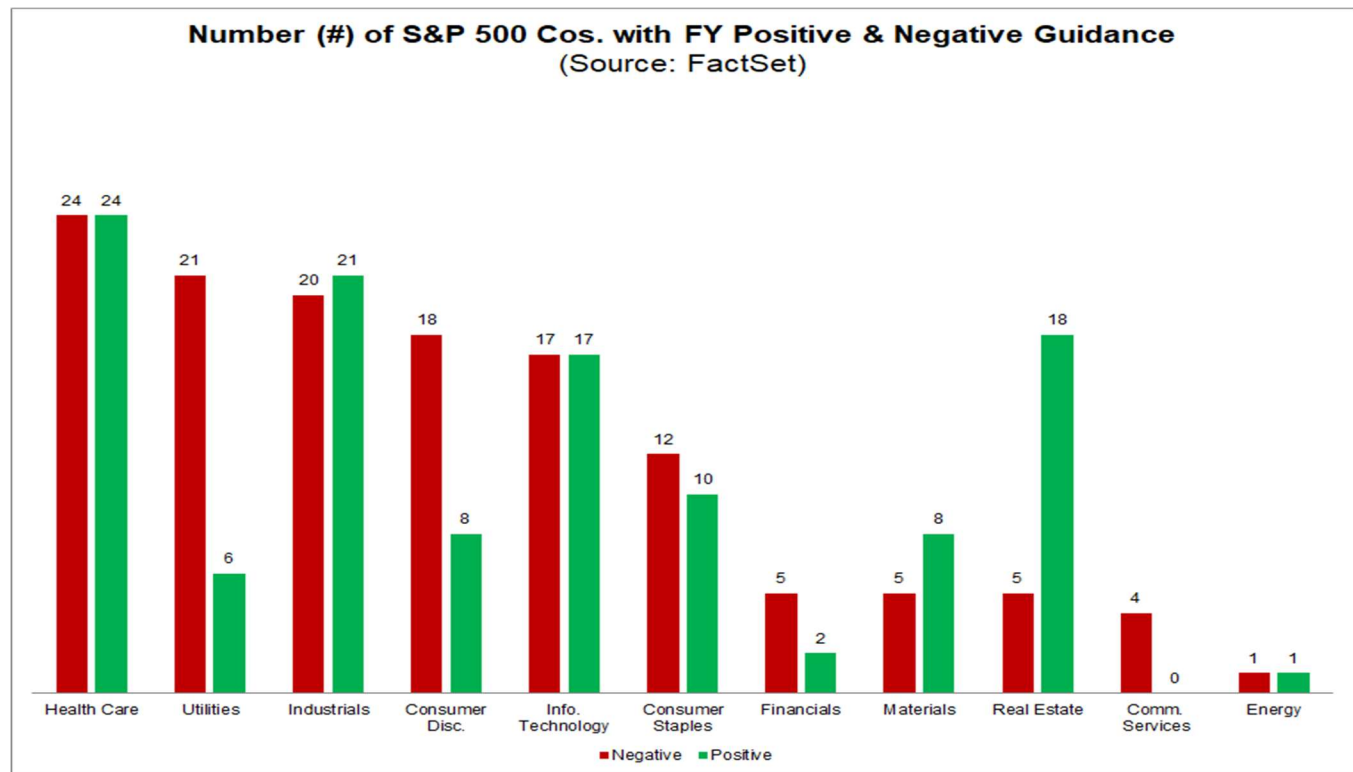
## Q3 2022: EPS Revisions



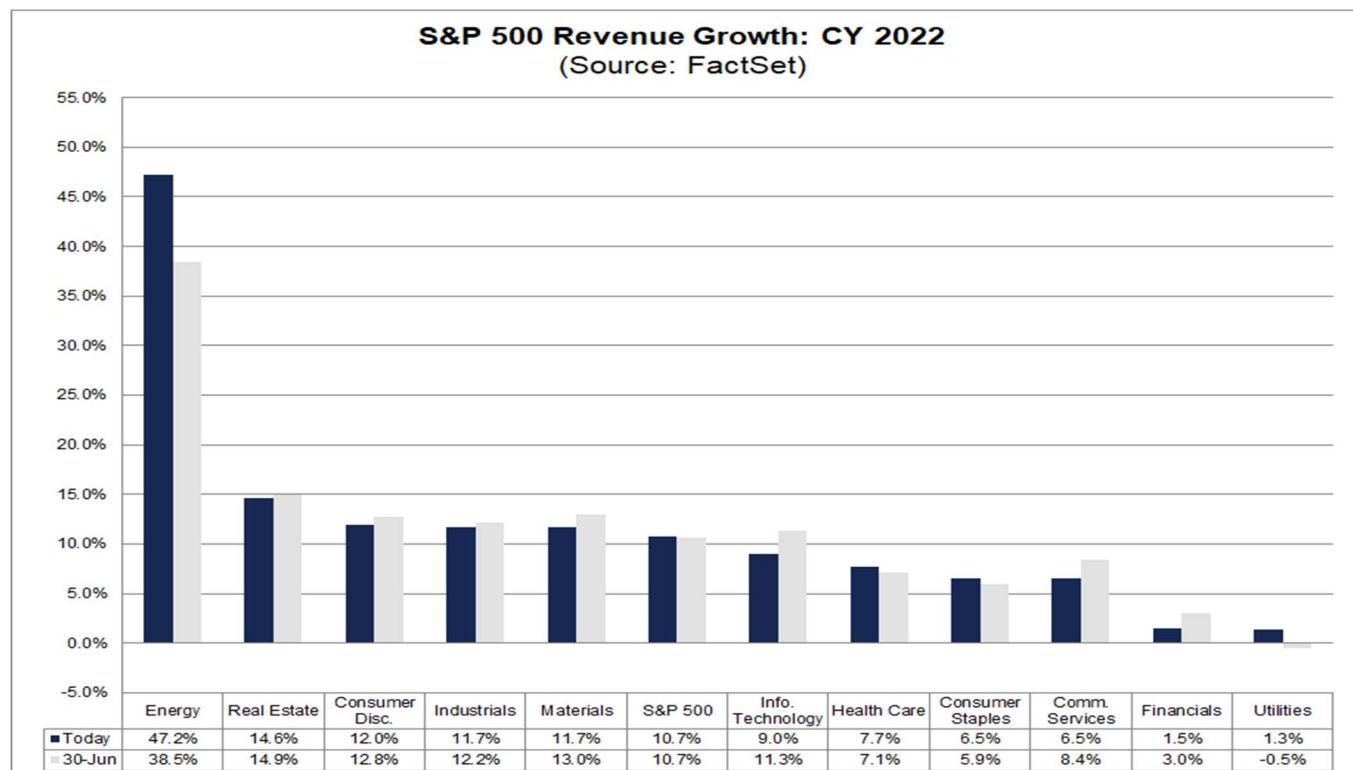
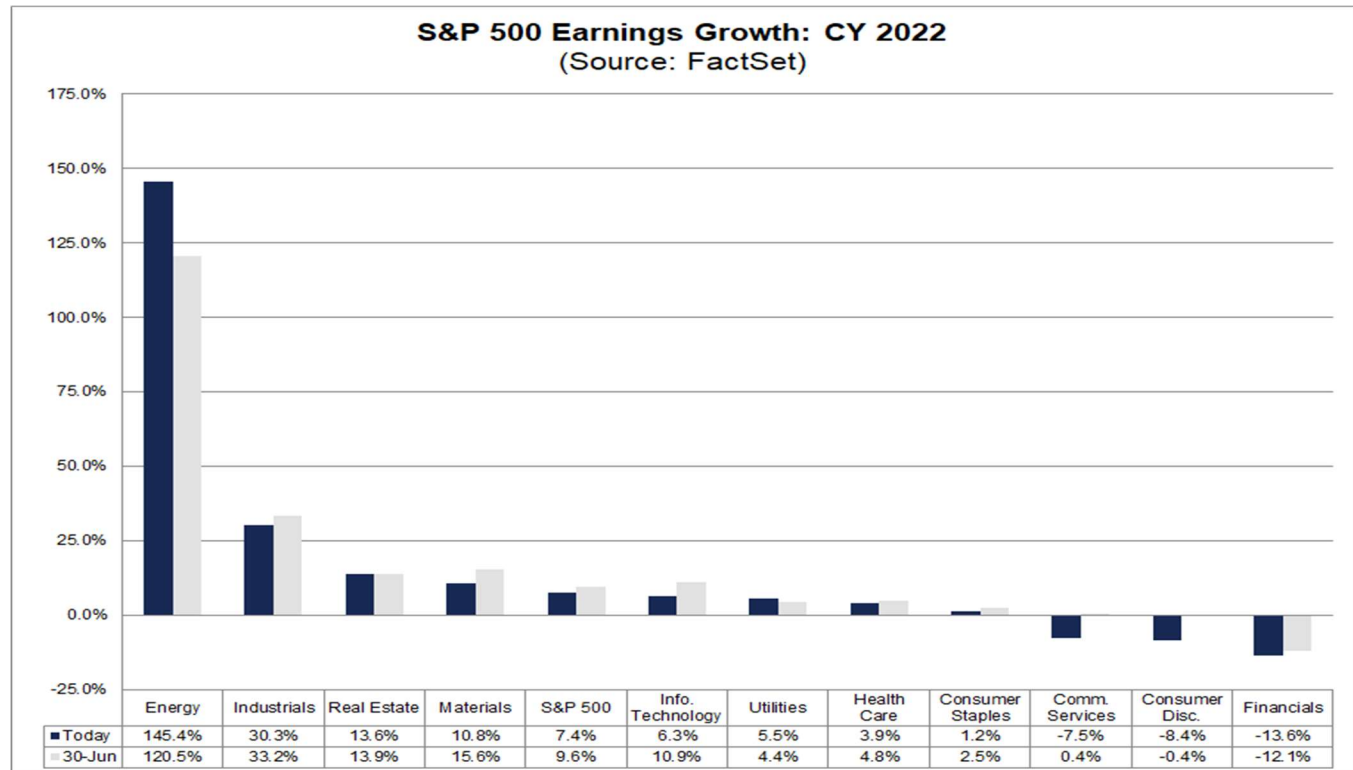
## Q3 2022: Growth



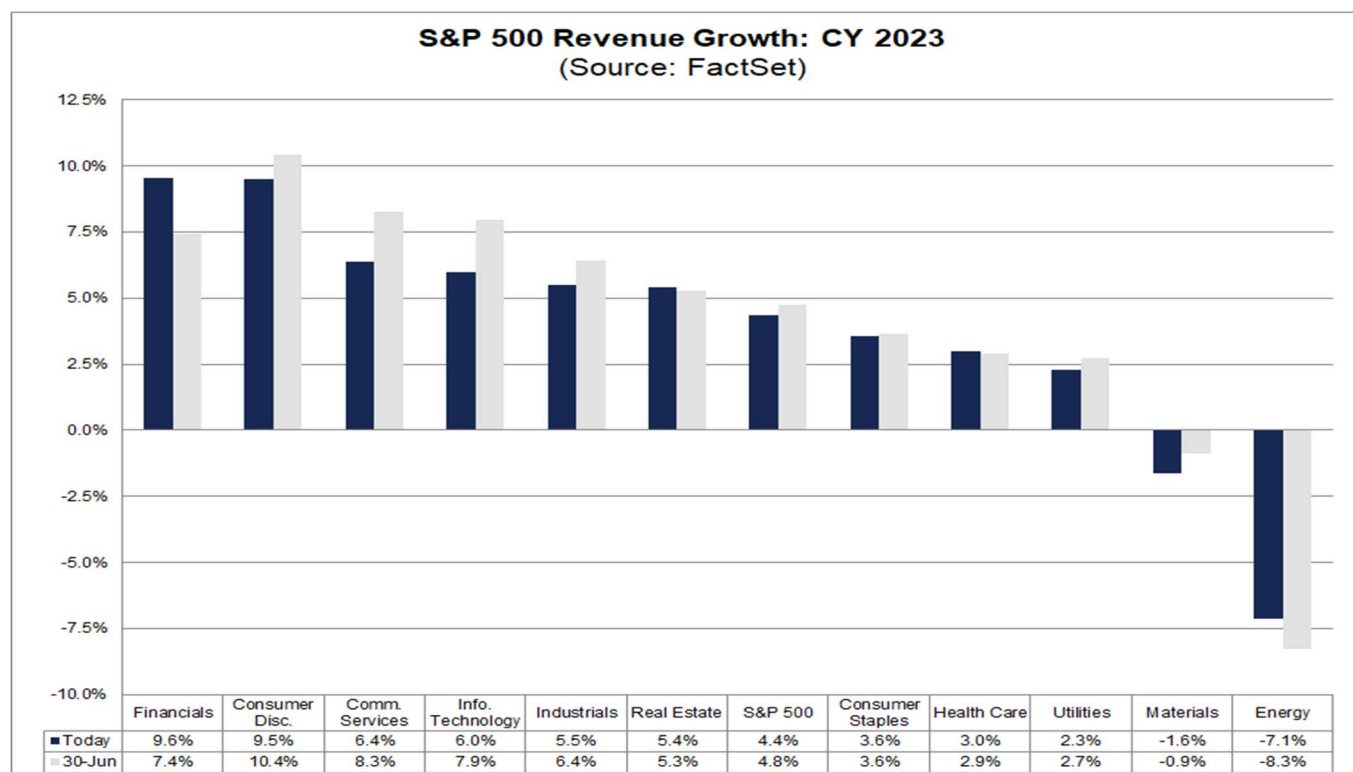
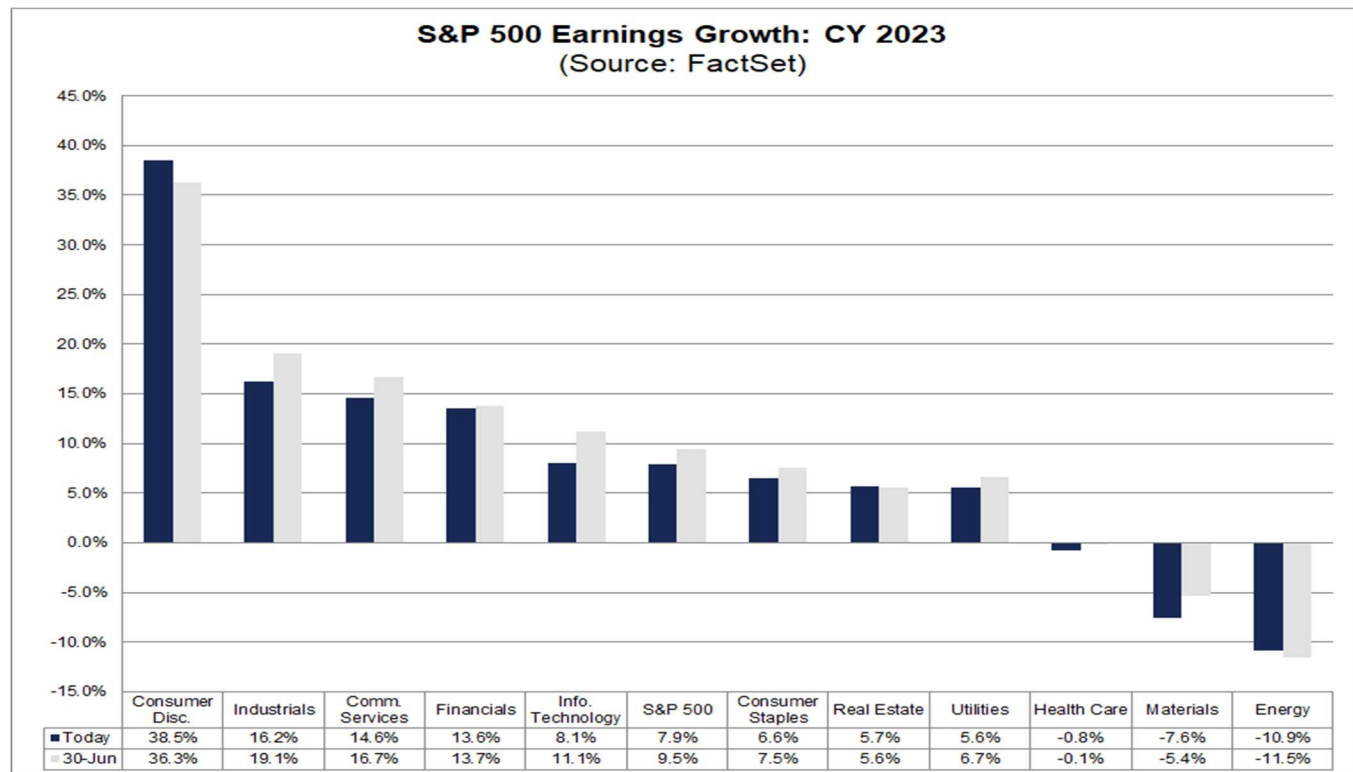
## FY 2022 / 2023: EPS Guidance



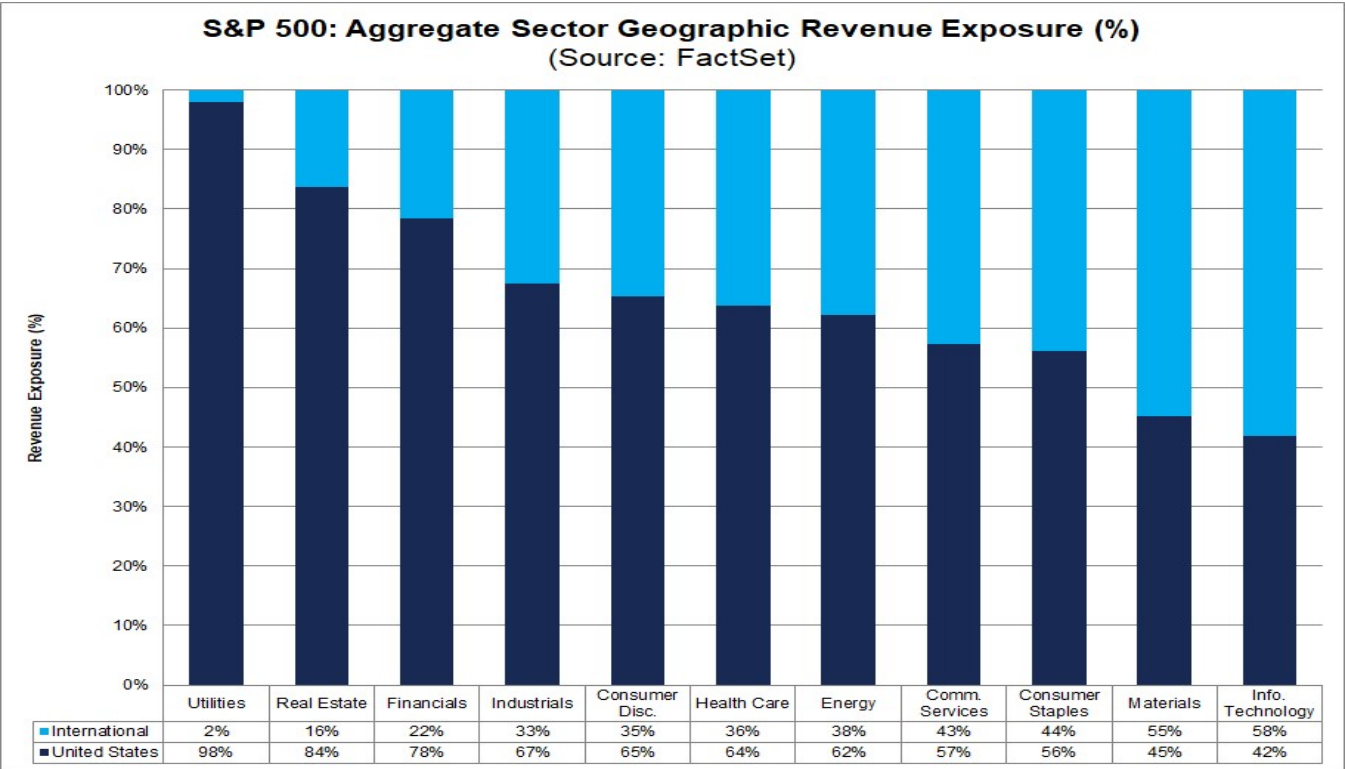
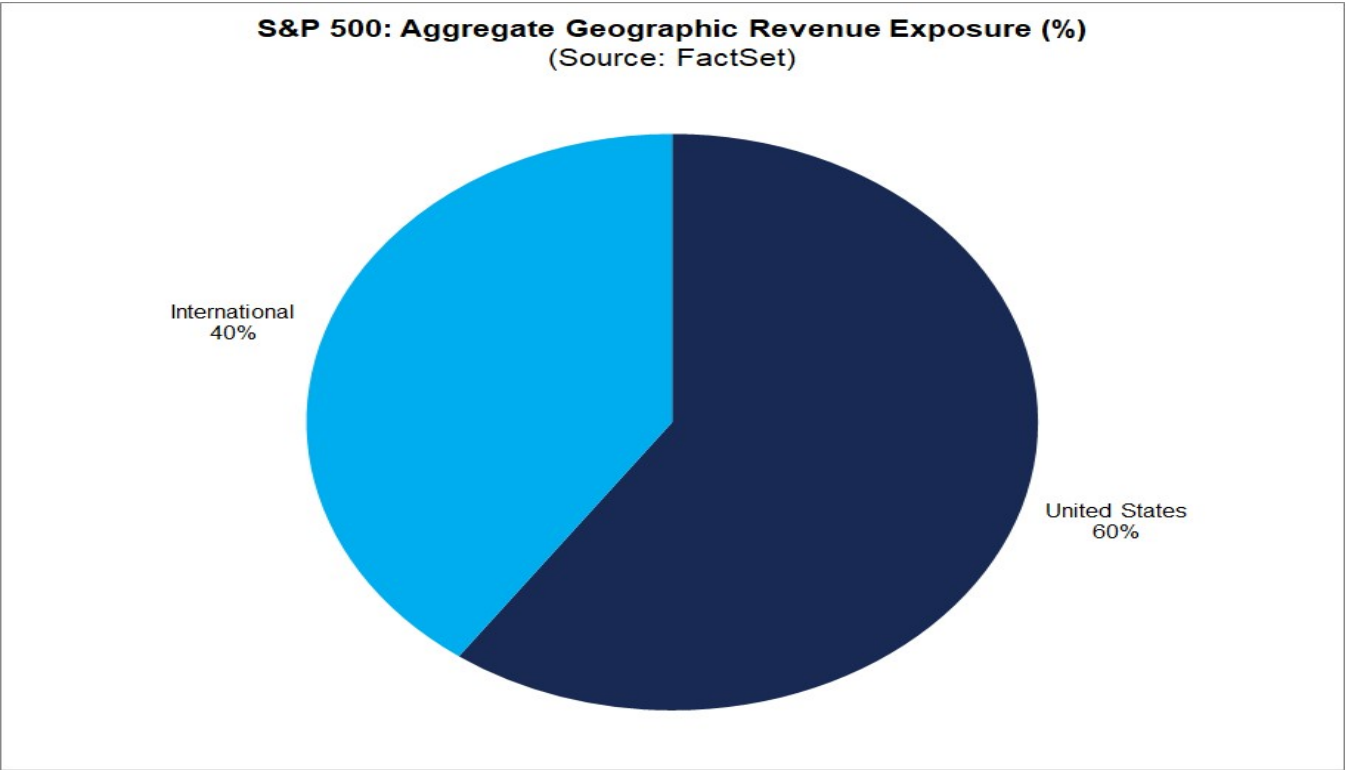
## CY 2022: Growth



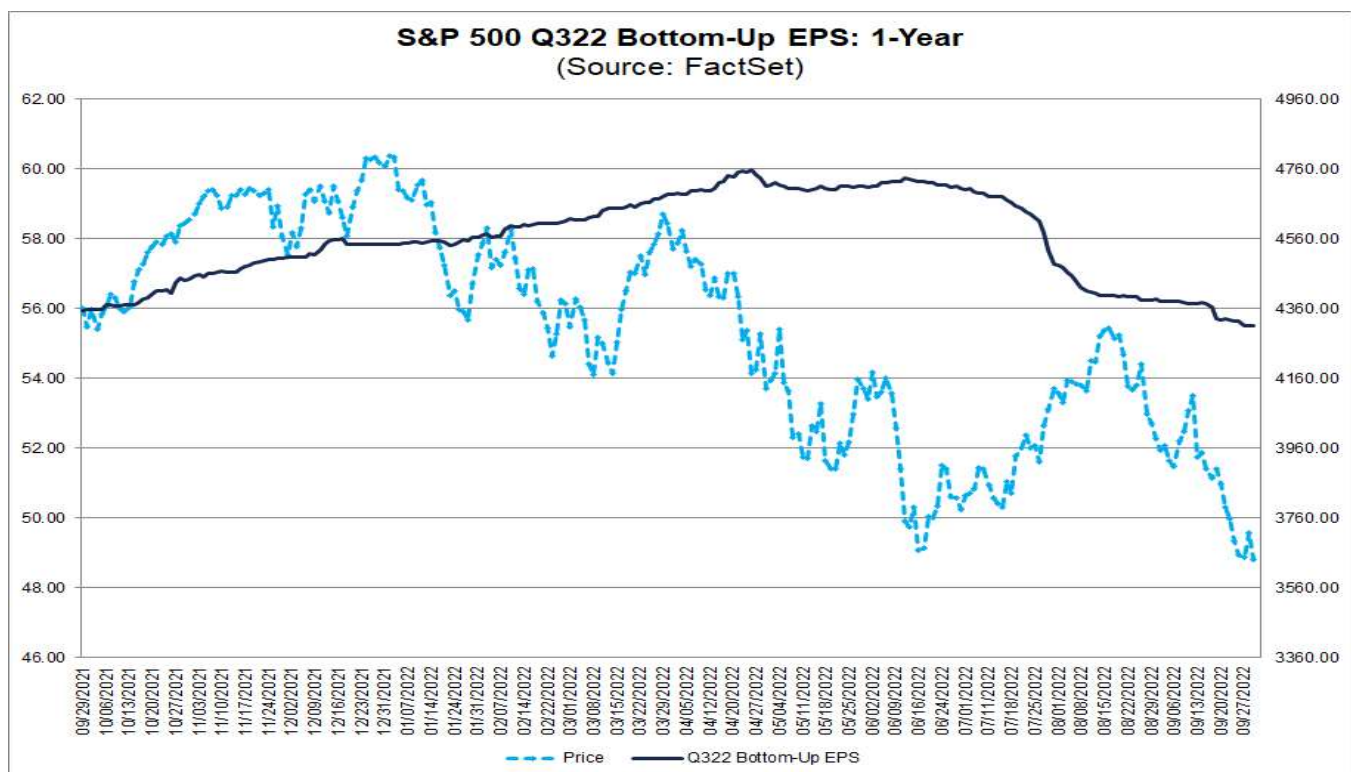
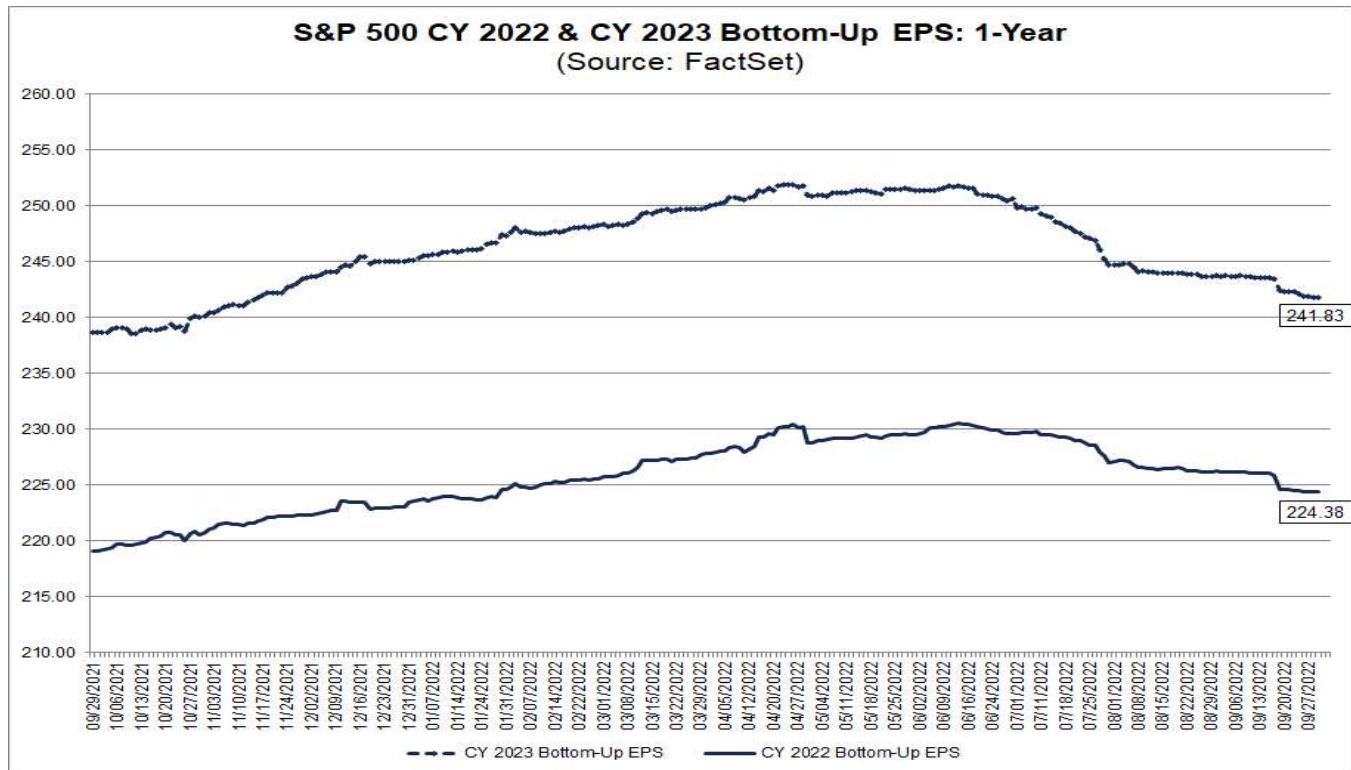
## CY 2023: Growth



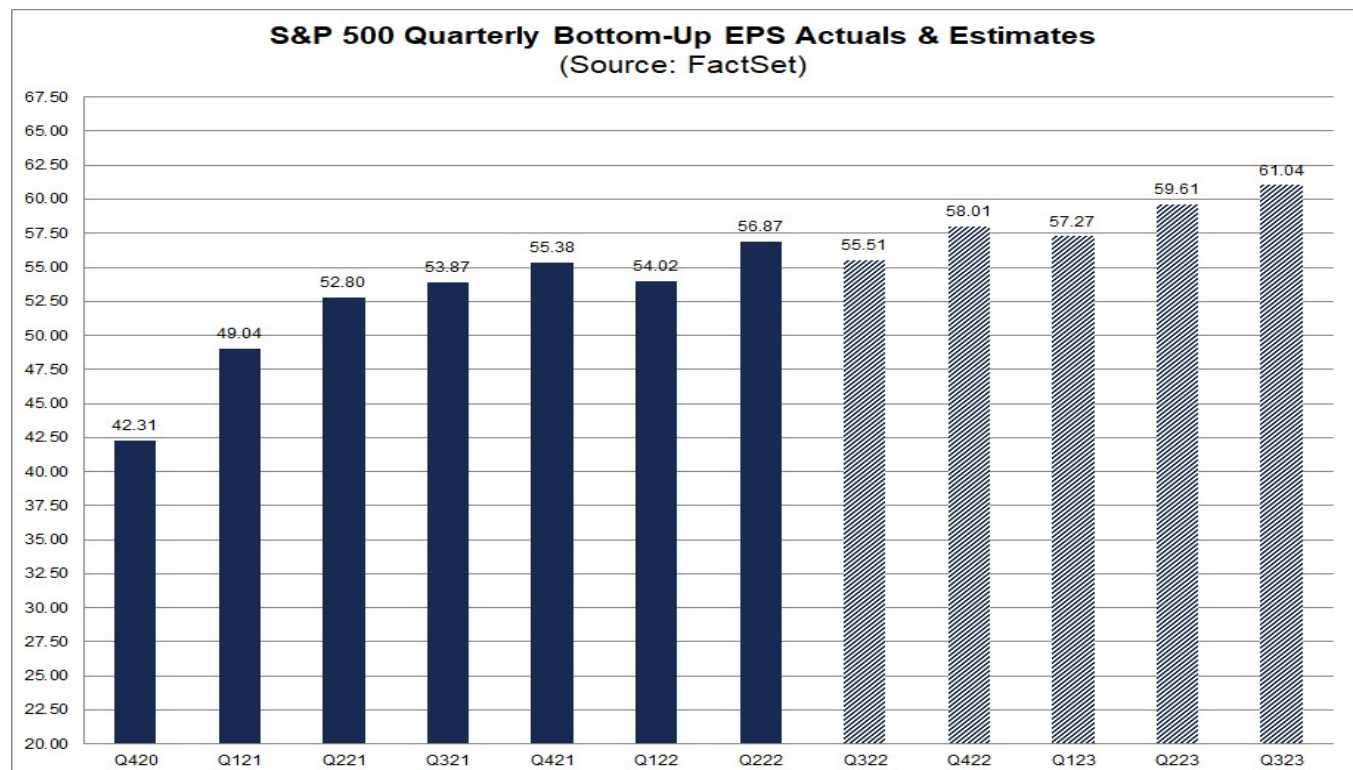
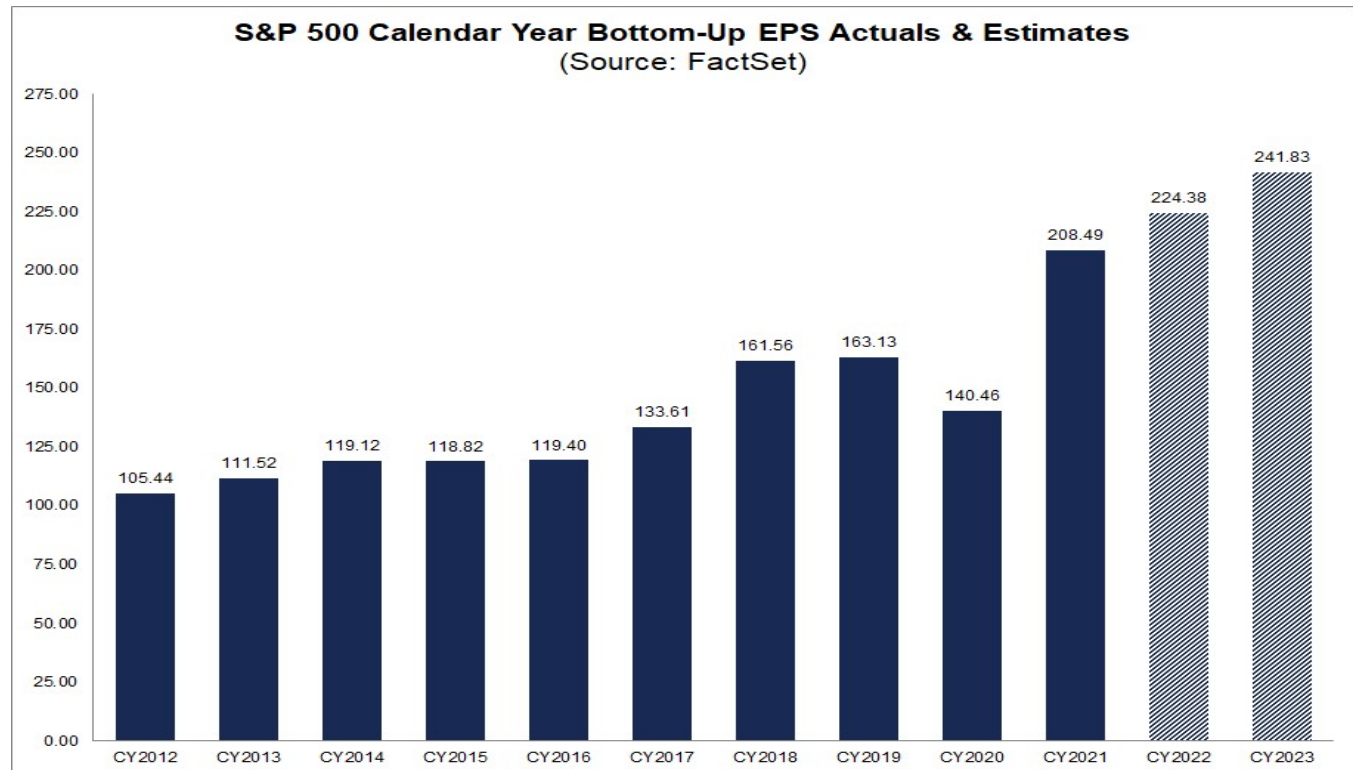
Geographic Revenue Exposure



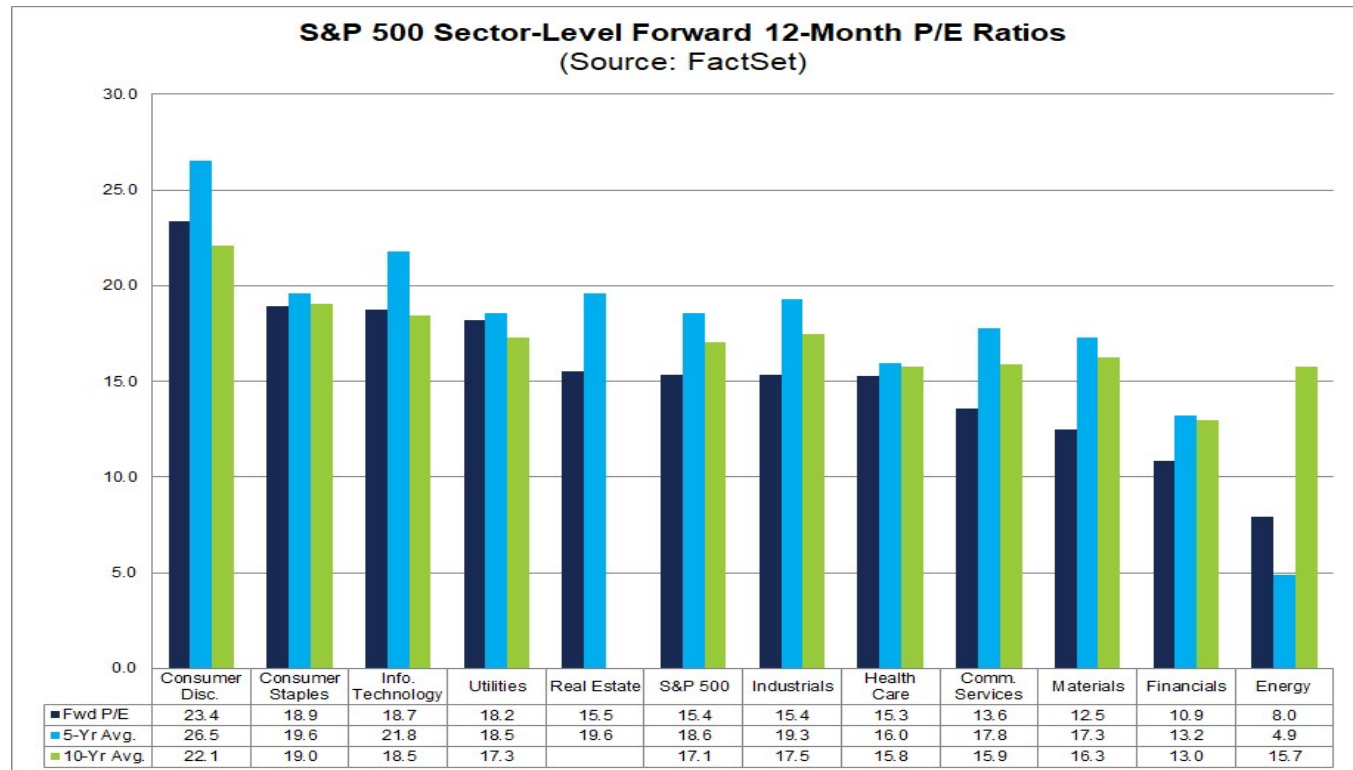
## Bottom-Up EPS Estimates



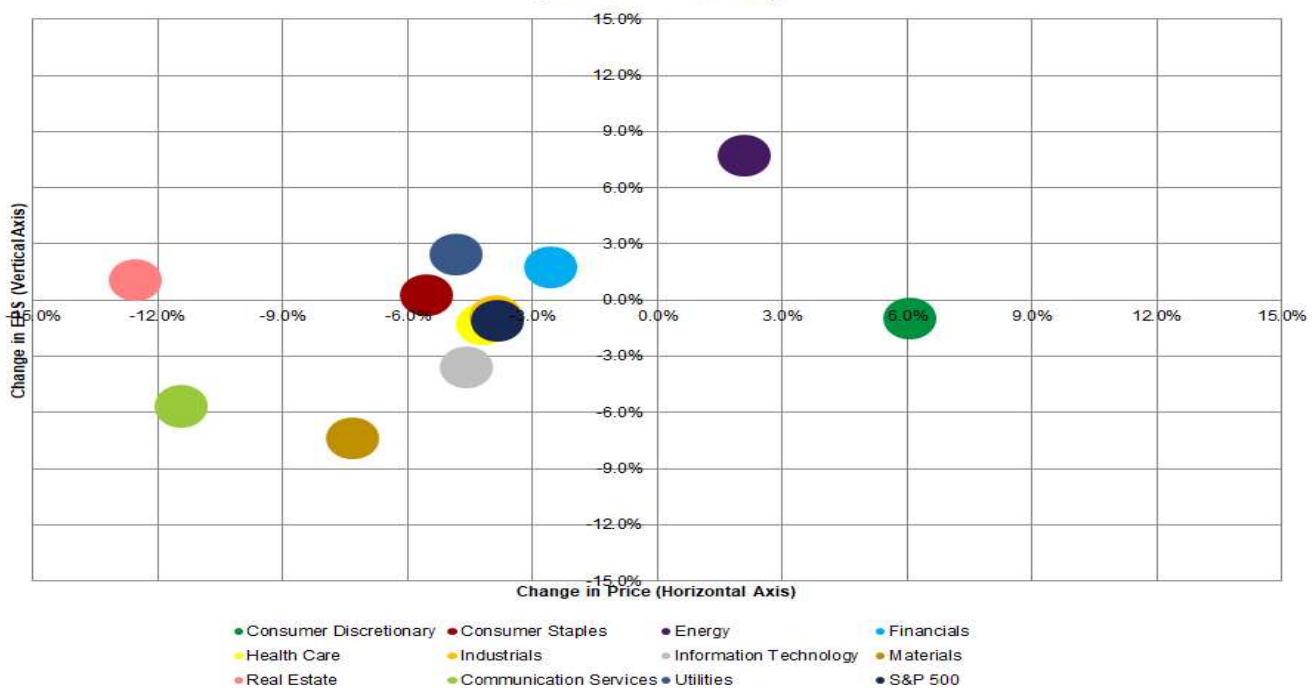
## Bottom-Up EPS Estimates: Current &amp; Historical



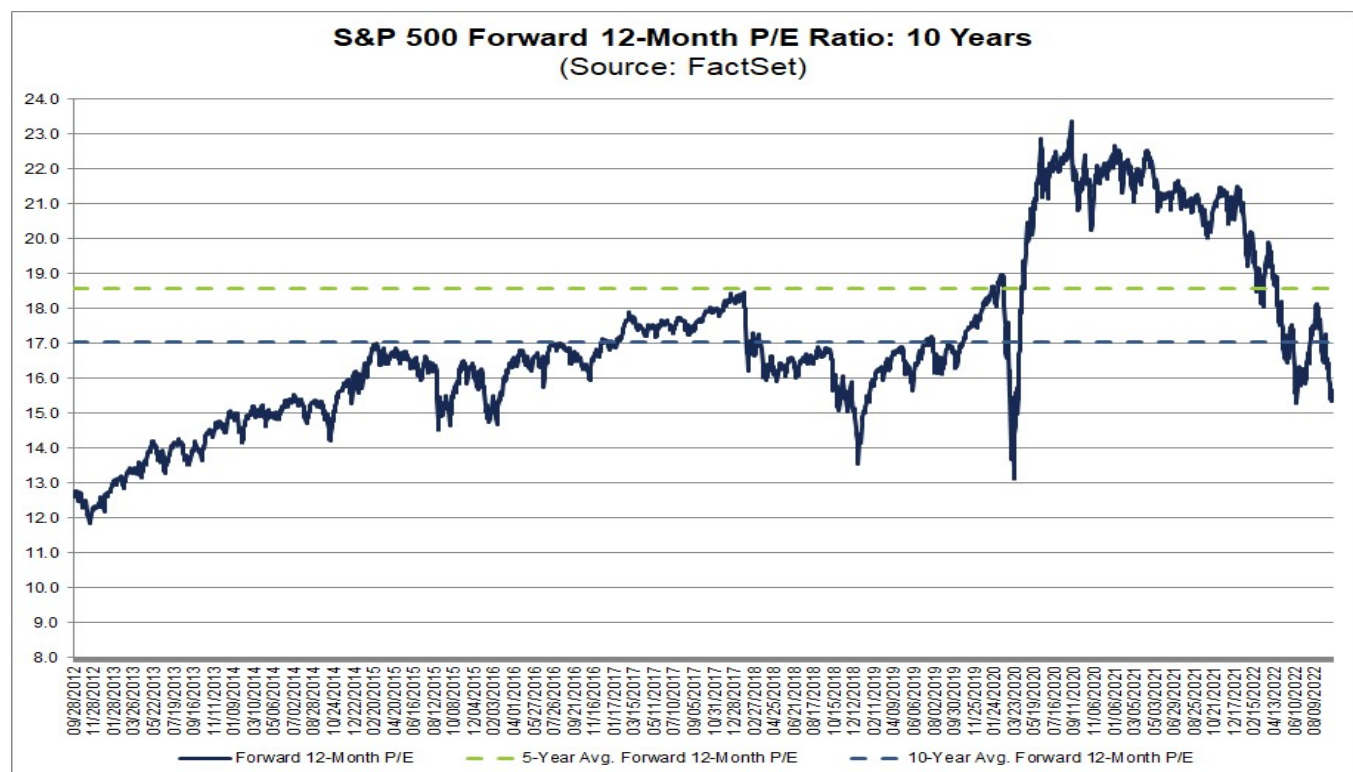
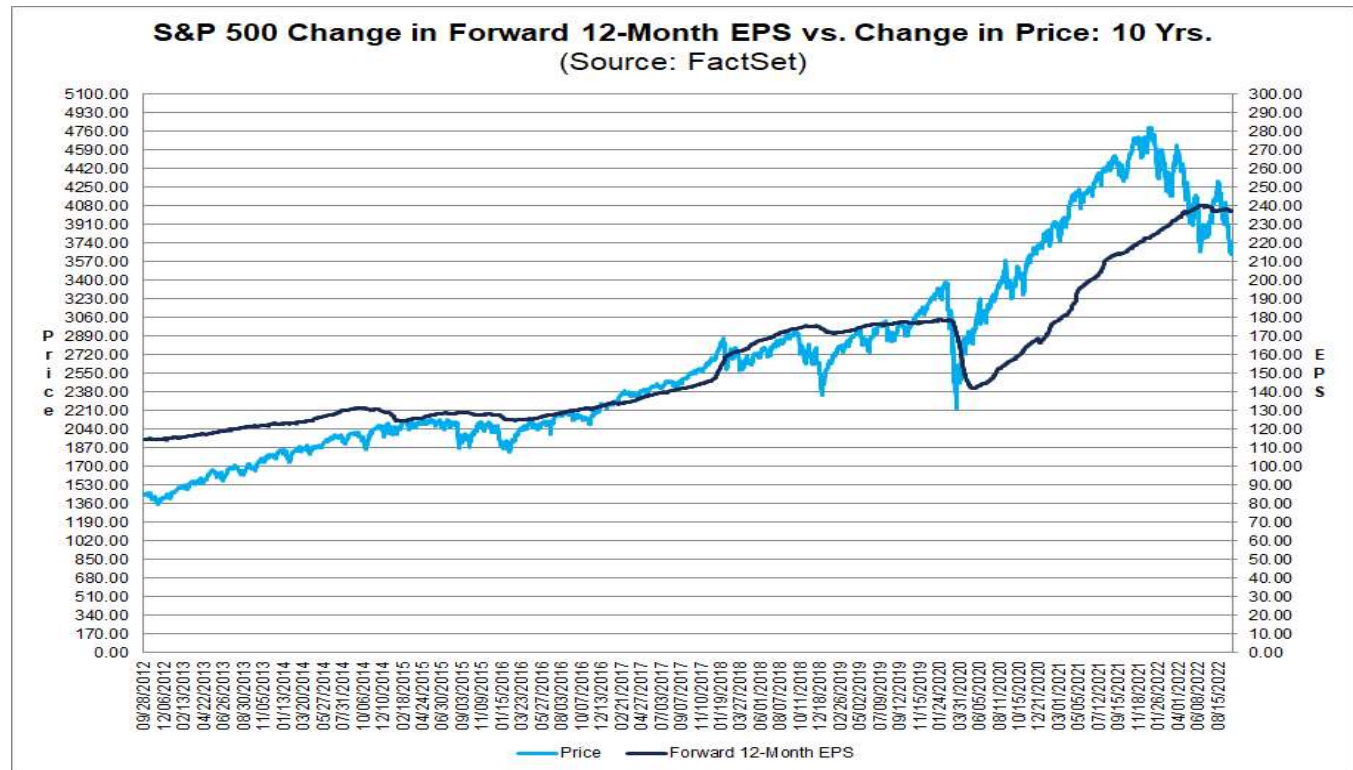
## Forward 12M P/E Ratio: Sector Level



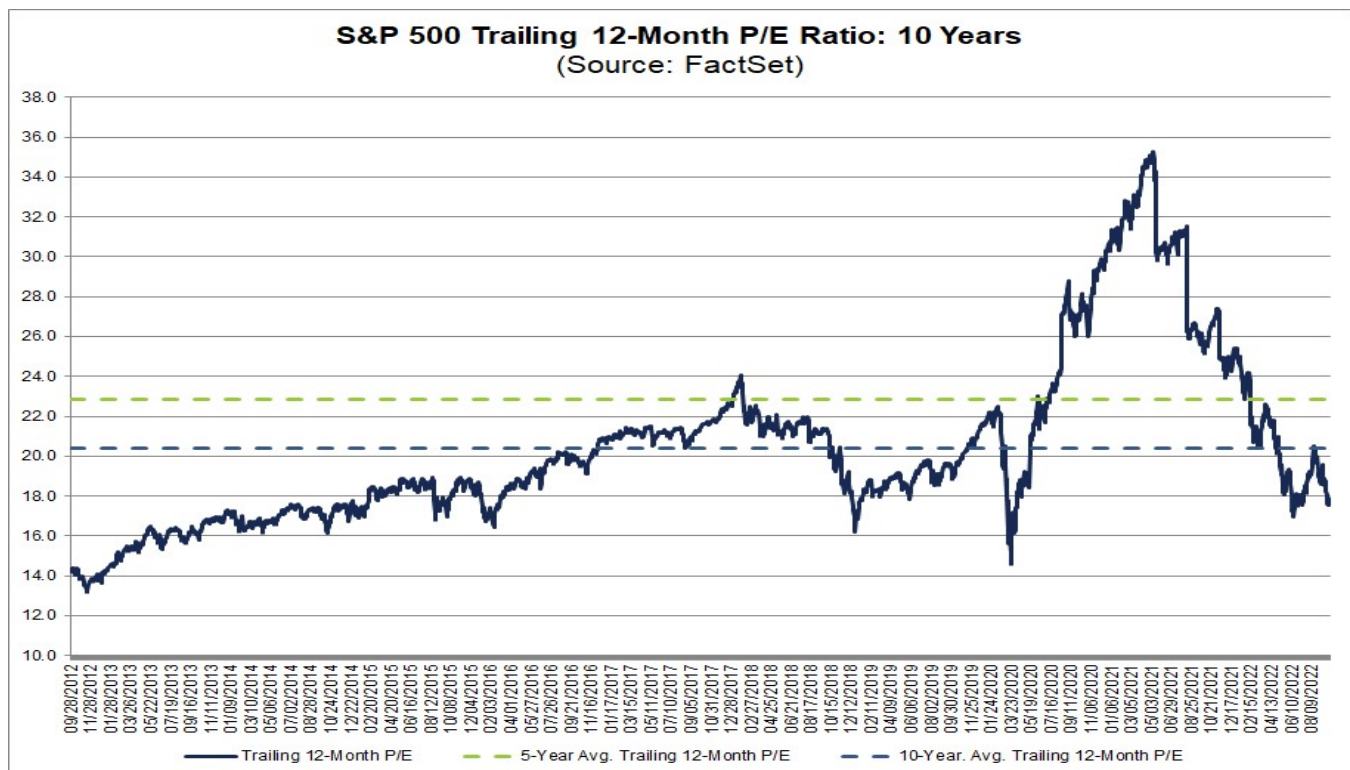
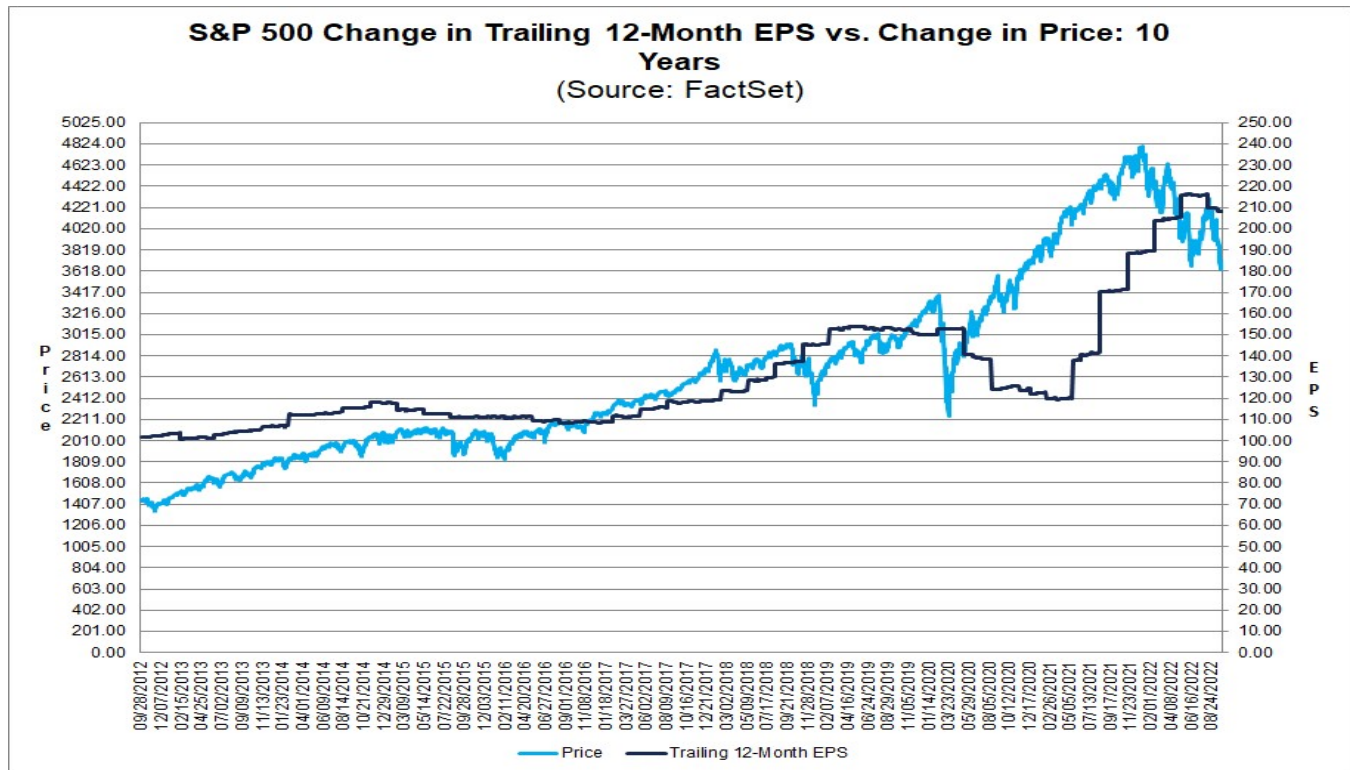
**Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Jun. 30**  
(Source: FactSet)



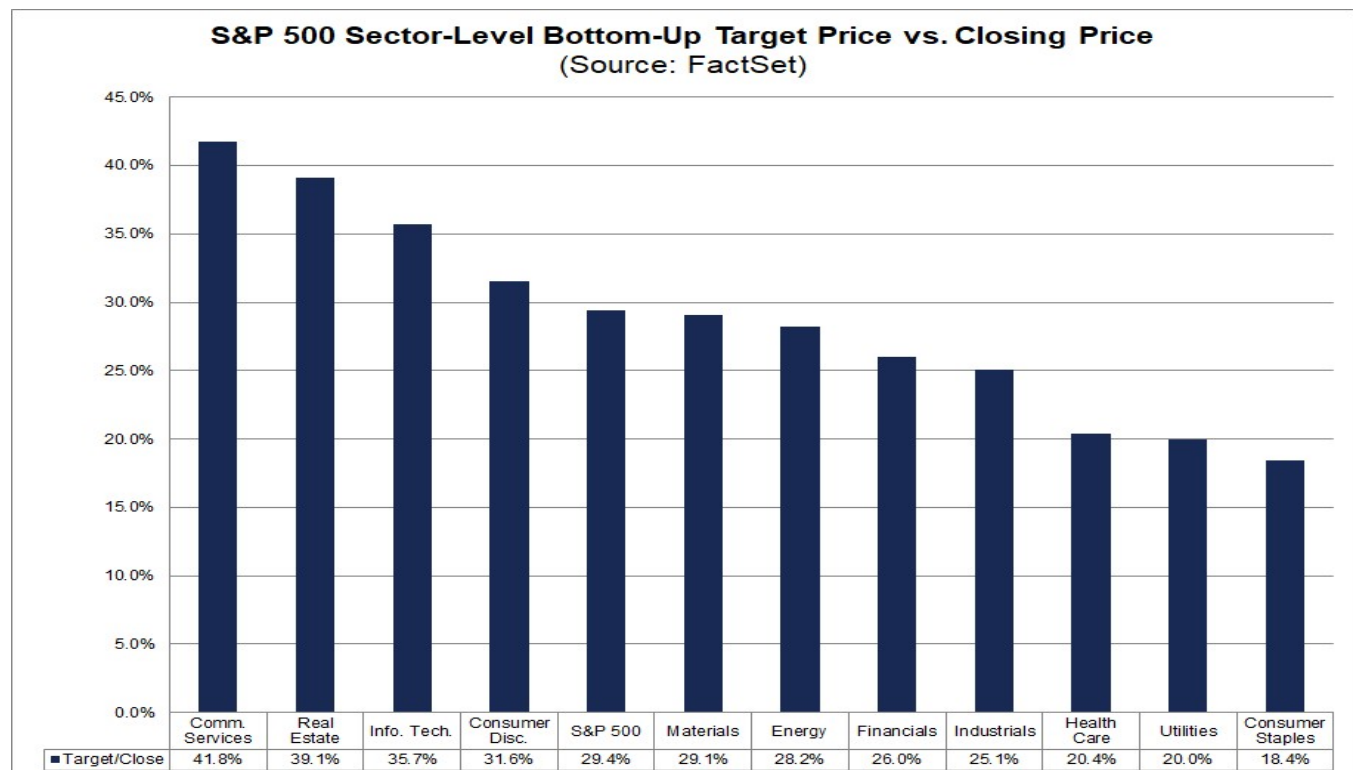
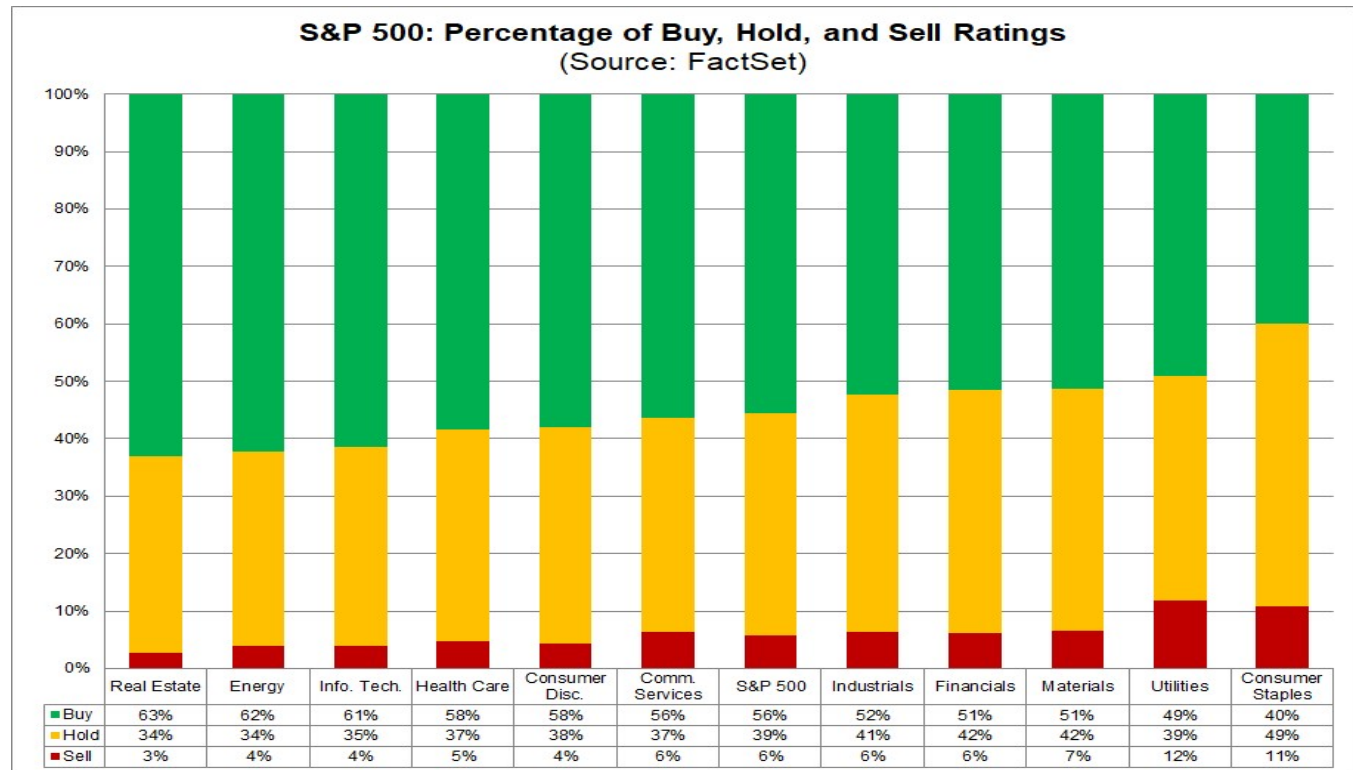
## Forward 12M P/E Ratio: 10-Years



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



## Targets &amp; Ratings



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