

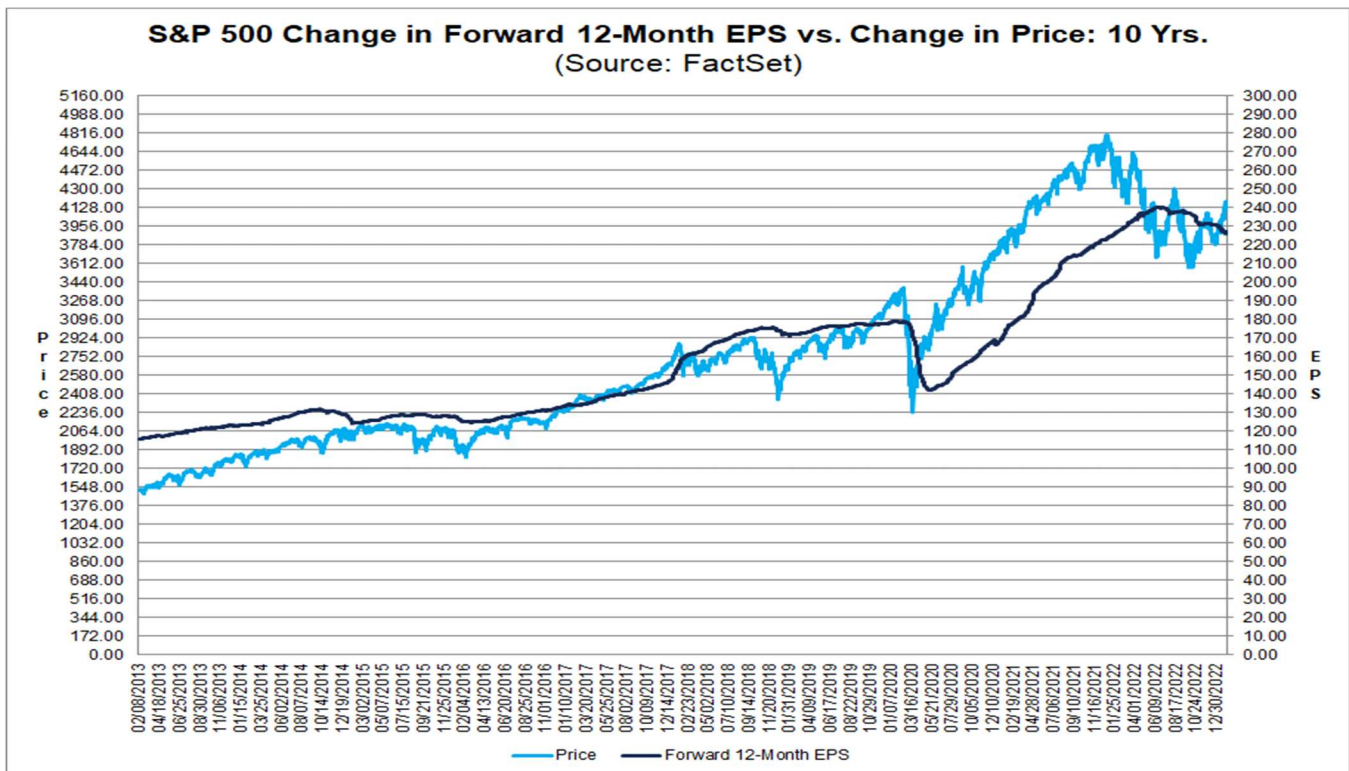
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February 10, 2023

Key Metrics

- **Earnings Scorecard:** For Q4 2022 (with 69% of S&P 500 companies reporting actual results), 69% of S&P 500 companies have reported a positive EPS surprise and 63% of S&P 500 companies have reported a positive revenue surprise.
- **Earnings Growth:** For Q4 2022, the blended earnings decline for the S&P 500 is -4.9%. If -4.9% is the actual decline for the quarter, it will mark the first time the index has reported a year-over-year decline in earnings since Q3 2020 (-5.7%).
- **Earnings Revisions:** On 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, 58 S&P 500 companies have issued negative EPS guidance and 13 S&P 500 companies have issued positive EPS guidance.
- **Valuation:** The forward 12-month P/E ratio for the S&P 500 is 18.0. This P/E ratio is below the 5-year average (18.5) but above the 10-year average (17.2).



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Topic of the Week:

Market Punishing Negative EPS Surprises Less Than Average For S&P 500 Companies For Q4

To date, 69% of the companies in the S&P 500 have reported earnings for the fourth quarter. Of these companies, 69% have reported actual EPS above the mean EPS estimate, which is below the 5-year average of 77% and below the 10-year average of 73%. In aggregate, earnings have exceeded estimates by 1.1%, which is also below the 5-year average of 8.6% and below the 10-year average of 6.4%. Given this underperformance relative to recent averages, how has the market responded to positive and negative EPS surprises reported by S&P 500 companies during the Q4 earnings season?

S&P 500 companies that have reported positive EPS surprises have seen a slightly larger price increase than average.

Companies that have reported positive earnings surprises for Q4 2022 have seen an average price increase of 1.0% two days before the earnings release through two days after the earnings release. This percentage increase is slightly above the 5-year average price increase of 0.9% during this same window for companies reporting positive earnings surprises.

One example of a company that reported a positive EPS surprise in Q4 and saw a substantial price increase is Tesla. On January 25, the company reported actual (non-GAAP) EPS of \$1.19 for Q4, which was above the mean (non-GAAP) EPS estimate of \$1.12. From January 23 to January 27, the stock price for Tesla increased by 23.8% (to \$177.90 from \$143.75).

On the other hand, S&P 500 companies that have reported negative EPS surprises have seen a much smaller price decrease than average.

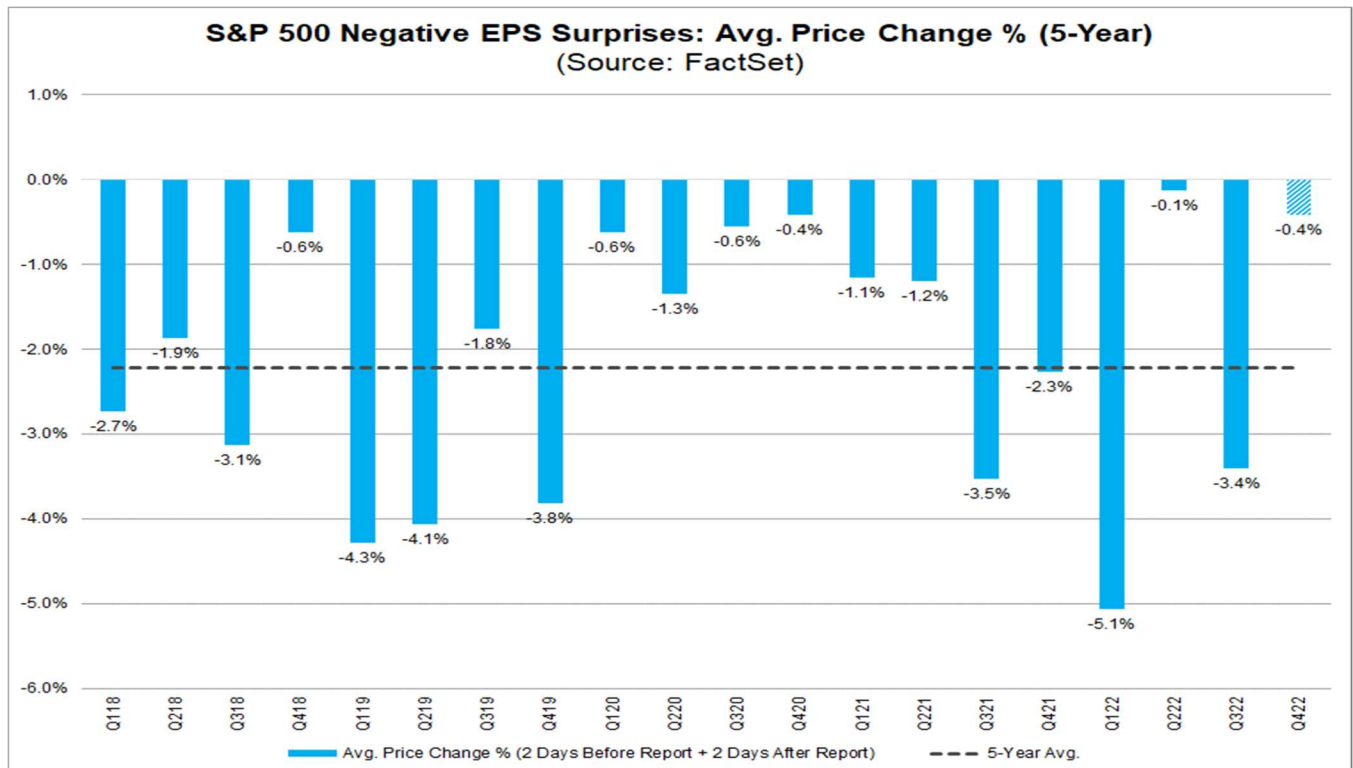
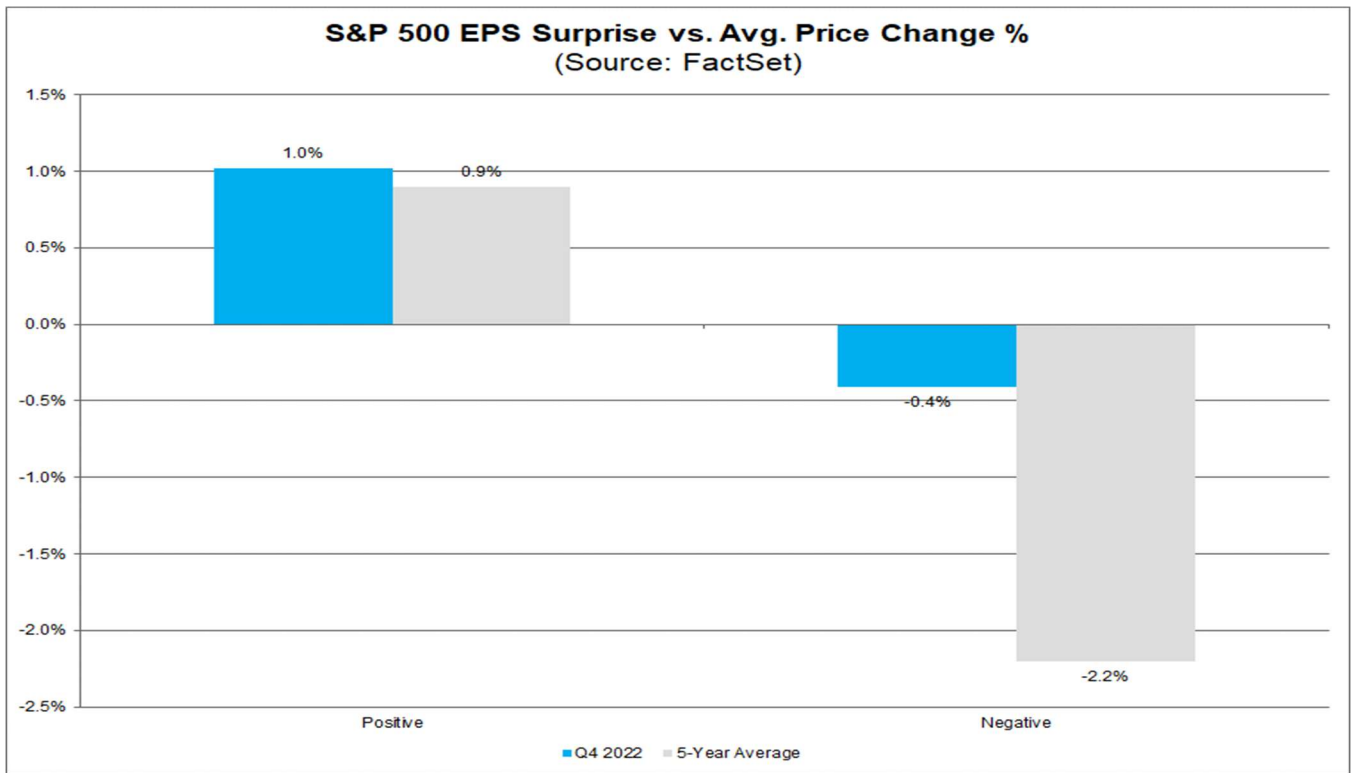
Companies that have reported negative earnings surprises for Q4 2022 have seen an average price decrease of -0.4% two days before the earnings release through two days after the earnings release. This percentage decline is smaller than the 5-year average price decrease of -2.2% during this same window for companies reporting negative earnings surprises.

One example of a company that reported a negative EPS surprise for Q4 and witnessed an increase in price is Meta Platforms. On February 1, the company reported actual (GAAP) EPS of \$1.76 for Q4, which was below the mean (GAAP) EPS estimate of \$2.26. From January 30 to February 3, the stock price for Meta Platforms increased by 26.8% (to \$186.53 from \$147.06).

Overall, 39% of the S&P 500 companies that have reported a negative EPS surprise for Q4 have seen a price increase two days before the earnings release through two days after the earnings release.

Why is the market rewarding positive earnings surprises slightly more than average and punishing negative EPS surprises much less than average?

It is likely not related to the earnings outlooks provided by companies and analysts during the Q4 earnings season for Q1 2023, which have been more negative than average. In terms of earnings guidance, 82% of the S&P 500 companies (58 out of 71) that have issued EPS guidance for Q1 2023 have issued negative guidance. This percentage is well above the 5-year average of 59% and the 10-year average of 67%. In terms of revisions to EPS estimates, analysts lowered EPS estimates for Q1 2023 for S&P 500 companies by 3.3% in aggregate during the month of January, which was larger than the 5-year average of -1.5% and the 10-year average of -1.8% for the first month of a quarter. For more details on estimate revisions, please go to: <https://insight.factset.com/analysts-making-larger-cuts-than-average-to-eps-estimates-for-sp-500-companies-for-q1>



Q4 Earnings Season: By The Numbers

Overview

The performance of S&P 500 companies during the Q4 earnings season continues to be subpar. Although the percentage of S&P 500 companies reporting positive earnings surprises declined over the past week, the magnitude of these earnings surprises increased during this time. However, both metrics are below their 5-year and 10-year averages. As a result, the earnings decline for the fourth quarter is smaller today compared to the end of last week, but still larger today 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, 69% of the companies in the S&P 500 have reported actual results for Q4 2022 to date. Of these companies, 69% have reported actual EPS above estimates, which is below the percentage of 70% at the end of last week, below the 5-year average of 77%, and below the 10-year average of 73%. In aggregate, companies are reporting earnings that are 1.1% above estimates, which is above the percentage of 0.6% at the end of last week, but below the 5-year average of 8.6% and below the 10-year average of 6.4%. If 1.1% is the actual surprise percentage for the quarter, it will tie mark (with Q1 2020) for the lowest surprise percentage reported by the index since 2008.

As a result, the index is reporting higher earnings for the fourth quarter today relative to the end of last week, but lower earnings relative to the end of the quarter. The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report) earnings decline for the fourth quarter is -4.9% today, compared to an earnings decline of -5.4% last week and an earnings decline of -3.3% at the end of the fourth quarter (December 31).

Positive earnings surprises reported by companies in the Communication Services sector were the top contributors to the decrease 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, partially offset by positive earnings surprises reported by companies in the Health Care sector, have been the largest contributors to the increase in the overall earnings decline for the index since December 31.

If -4.9% 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, 63% of S&P 500 companies have reported actual revenues above estimates, which is below the 5-year average of 69% but equal to the 10-year average of 63%. In aggregate, companies are reporting revenues that are 1.4% above the estimates, which is below the 5-year average of 1.9% but above the 10-year average of 1.3%.

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 4.6% today, compared to a revenue growth rate of 4.3% 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 Health Care sector) 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 Health Care and Consumer Discretionary sectors have been the top contributors to the increase in the overall revenue growth rate since December 31.

If 4.6% 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 -5.1% and -3.3%, respectively. For Q3 2023 and Q4 2023, analysts are projecting earnings growth of 3.4% and 10.1%, respectively. For all of CY 2023, analysts predict earnings growth of 2.5%.

The forward 12-month P/E ratio is 18.0, 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, 61 S&P 500 companies (including two Dow 30 components) are scheduled to report results for the fourth quarter.

Scorecard: Number And Magnitude of Positive EPS Surprises Are Below Average

Percentage of Companies Beating EPS Estimates (69%) is Below 5-Year Average

Overall, 69% of the companies in the S&P 500 have reported earnings to date for the fourth quarter. Of these companies, 69% have reported actual EPS above the mean EPS estimate, 4% 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 (86%) sector has the highest percentage of companies reporting earnings above estimates, while the Communication Services (48%) sector has the lowest percentage of companies reporting earnings above estimates.

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

In aggregate, companies are reporting earnings that are 1.1% 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 1.1% is the actual surprise percentage for the quarter, it will tie the mark (with Q1 2020) for the lowest surprise percentage reported by the index since Q4 2008.

The Materials (+6.4%) sector is reporting the 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), DuPont (\$0.89 vs. \$0.78), and Freeport-McMoRan (\$0.52 vs. \$0.47) have reported the largest positive EPS surprises.

The Health Care (+5.3%) sector is reporting the second-largest positive (aggregate) difference between actual earnings and estimated earnings. Within this sector, DexCom (\$0.34 vs. \$0.27), 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 Communication Services (-3.8%) 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), News Corporation (\$0.14 vs. \$0.20), and Meta Platforms (\$1.76 vs. \$2.26) have reported the largest negative EPS surprises.

The Industrials (-0.8%) sector is reporting the second-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.

The Consumer Discretionary (-0.6%) sector is reporting the third-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), Expedia Group (\$1.26 vs. \$1.71), and Ford Motor (0.51 vs. \$0.62) have reported the largest negative EPS surprises.

Market Punishing Negative EPS Surprises Less Than Average

To date, the market is rewarding positive earnings surprises slightly more than average and punishing negative earnings surprises much less than average for the fourth quarter.

Companies that have reported positive earnings surprises for Q4 2022 have seen an average price increase of +1.0% two days before the earnings release through two days after the earnings release. This percentage increase is slightly 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 decrease of -0.4% 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 decrease of -2.2% during this same window for companies reporting negative earnings surprises.

Percentage of Companies Beating Revenue Estimates (63%) is Below 5-Year Average

In terms of revenues, 63% of companies have reported actual revenues above estimated revenues and 37% have reported actual revenues below estimated revenues. The percentage of companies reporting revenues above estimates is below the 1-year average (73%) and below the 5-year average (69%), but equal to the 10-year average (63%).

At the sector level, the Utilities (86%) and Consumer Staples (77%) sectors have the highest percentages of companies reporting revenues above estimates, while the Materials (38%) and Communication Services (48%) sectors have the lowest percentages of companies reporting revenues above estimates.

Revenue Surprise Percentage (+1.4%) is Below 5-Year Average

In aggregate, companies are reporting revenues that are 1.4% above expectations. This surprise percentage is below the 1-year average (+2.8%) and below the 5-year average (+1.9%), but above the 10-year average (+1.3%).

At the sector level, the Utilities (+22.3%) sector is reporting the largest positive (aggregate) difference between actual revenues and estimated revenues, while the Materials (-1.1%) and Information Technology (-0.9%) sectors are reporting the largest negative (aggregate) differences between actual revenues and estimated revenues.

Revisions: Decrease in Blended Earnings Decline Due to Communication Services Sector

Decrease in Blended Earnings Decline This Week Due to Communication Services Sector

The blended (year-over-year) earnings decline for the fourth quarter is -4.9%, which is smaller than the earnings decline of -5.4% last week. Positive earnings surprises reported by companies in the Communication Services sectors were the top contributors to the decrease in the earnings decline for the index during the past week.

In the Communication Services sector, the positive EPS surprises reported by Walt Disney (\$0.99 vs. \$0.78), Activision Blizzard (\$1.87 vs. \$1.52), and Lumen Technologies (\$0.43 vs. \$0.19) were significant contributors to the decrease in the earnings decline for the index during the week. As a result, the blended earnings decline for the Communication Services sector decreased to -23.8% from -25.6% 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 4.6%, which is above the revenue growth rate of 4.3% last week. Positive revenue surprises reported by companies in multiple sectors (led by the Health Care sector) 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 -4.9% 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 -6.3% from -9.6%) and Materials (to -23.6% from -26.4%) sectors. 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%), Energy (to 57.7% from 62.6%), and Communication Services (to -23.8% from -19.0%) sectors. The Financials and Communication Services sectors, partially offset by the Health Care sector, have 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 -23.8% 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 -6.3% from -9.6% over this period.

Health Care Sector Has Seen Largest Increase in Revenues since December 31

The blended (year-over-year) revenue growth rate for Q4 2022 of 4.6% is above estimate of 3.9% at the end of the fourth quarter (December 31). Six 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 Utilities (to -14.5% from -18.2%) sector. On the other hand, four 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 Information Technology (to -1.7% from -0.4%) and Materials (to -4.8% from -3.6%) sectors. The Real Estate sector has the same revenue growth rate today (6.8%) compared to December 31. The Health Care and Consumer Discretionary sectors have been the top contributors to the increase in the overall revenue growth rate since December 31.

In the Health Care sector, the positive revenue surprise reported by CVS Health (\$83.85 billion vs. \$76.43 billion) was a substantial contributor to the increase in the revenue growth rate for the index since December 31. As a result, the blended revenue growth rate for the Health Care sector has increased to 4.2% from 2.4% over this period.

In the Consumer Discretionary sector, the positive revenue surprises reported by Amazon.com (\$149.20 billion vs. \$145.71 billion), General Motors (\$43.11 billion vs. \$40.27 billion), and Ford Motor (\$44.00 billion vs. \$41.39 billion) have been significant contributors to the increase in the revenue growth rate for the index since December 31. As a result, the blended revenue growth rate for the Consumer Discretionary sector has increased to 9.8% from 8.1% over this period.

Earnings Decline: -4.9%

The blended (year-over-year) earnings decline for Q4 2022 is -4.9%, which is below the 5-year average earnings growth rate of 14.3% and below the 10-year average earnings growth rate of 8.9%. If -4.9% is the actual decline for the quarter, it will mark the first time the has reported a (year-over-year) decline in earnings since Q3 2020 (-5.7%).

S&P 500 companies with more international revenue exposure are reporting a larger (year-over-year) decline in earnings compared to S&P 500 companies with more domestic revenue exposure. For companies that generate more than 50% of sales outside the U.S., the blended earnings decline is -8.5%. For companies that generate more than 50% of sales inside the U.S., the blended earnings decline is -2.5%.

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 (83%), 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 -9.0% from -4.9%.

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, 9 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 eight industries are reporting earnings growth above 20%: Aerospace & Defense (174%), Machinery (29%), Trading Companies & Distributors (23%), and Industrial Conglomerates (22%). On the other hand, three industries are reporting a year-over-year decline in earnings for the quarter, led by the Air Freight & Logistics (-15%) and Professional Services (-8%) industries.

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 8.4% 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 -23.8%. 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 (-40%) and Entertainment (-23%) 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 -2.7% from -23.8%.

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 -23.6%. At the industry level, all four industries in this sector are reporting a year-over-year decline in earnings: Metals & Mining (-41%), Containers & Packaging (-18%), Chemicals (-15%), 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 -22.0%. At the industry level, 6 of the 10 industries in the sector are reporting a year-over-year decrease in earnings. Two of these six industries are reporting a decline in earnings or more than 10%: Internet & Direct Marketing Retail (-93%), and Multiline Retail (-30%). 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 55% or more: Hotels, Restaurants, & Leisure (989%), Automobiles (59%), and Auto Components (58%).

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 19.5% instead of an earnings decline of -22.0%.

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 -44.3% from -22.0%.

Revenue Growth: 4.6%

The blended (year-over-year) revenue growth rate for Q4 2022 is 4.6%, which is below the 5-year average revenue growth rate of 7.8% but equal to the 10-year average revenue growth rate of 4.6%. If 4.6% 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%).

S&P 500 companies with more international revenue exposure are reporting lower (year-over-year) revenue growth compared to S&P 500 companies with more domestic revenue exposure. For companies that generate more than 50% of sales outside the U.S., the blended revenue growth rate is 2.0%. For companies that generate more than 50% of sales inside the U.S., the blended revenue growth rate is 5.7%.

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 14.0%. 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 (9%), and Oil & Gas Storage & Transportation (3%).

Consumer Discretionary: Automobiles Industry Leads Year-Over-Year Growth

The Consumer Discretionary sector (along with the Industrials sector) is reporting the second-highest (year-over-year) revenue growth rate of all eleven sectors at 9.8%. At the industry level, 8 of the 10 industries in the sector are reporting year-over-year growth in revenues. Three of these eight industries are reporting revenue growth of 10% or more: Automobiles (25%), Hotels, Restaurants, & Leisure (23%), and Auto Components (12%).

Industrials: Airlines Industry Leads Year-Over-Year Growth

The Industrials sector (along with the Consumer Discretionary sector) is reporting the second-highest (year-over-year) revenue growth rate of all eleven sectors at 9.8%. 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 (18%), 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 -14.5%. At the industry level, 4 of the 5 industries in the sector are reporting a (year-over-year) decline in revenues: Electric Utilities (-17%), Independent Power & Renewable Electricity Producers (-15%), Multi-Utilities (-11%), and Water Utilities (-4%). On the other hand, the Gas Utilities (47%) industry is the only industry that reported (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 (9.2% 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 (9.2% 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, 71 companies in the index have issued EPS guidance for Q1 2023. Of these 71 companies, 58 have issued negative EPS guidance and 13 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance for Q1 2023 is 82% (58 out of 71), which is above the 5-year average of 59% and above the 10-year average of 67%. At the sector level, the Information Technology (21) and Industrials (12) 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, 141 have issued negative EPS guidance and 110 have issued positive EPS guidance. The percentage of companies issuing negative EPS guidance is 56% (141 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 2.5% for CY 2023

For the fourth quarter, S&P 500 companies are reporting a year-over-year earnings decline of -4.9% and revenue growth of 4.6%. 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 -5.1% and revenue growth of 1.9%.

For Q2 2023, analysts are projecting an earnings decline of -3.3% 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 of 10.1% and revenue growth of 3.7%.

For CY 2023, analysts are projecting earnings growth of 2.5% and revenue growth of 2.4%.

Valuation: Forward P/E Ratio is 18.0, Above the 10-Year Average (17.2)

The forward 12-month P/E ratio for the S&P 500 is 18.0. 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 6.3%, while the forward 12-month EPS estimate has decreased by 1.6%. At the sector level, the Consumer Discretionary (24.8) and Information Technology (23.3) sectors have the highest forward 12-month P/E ratios, while the Energy (10.2) and Financials (13.0) sectors have the lowest forward 12-month P/E ratios.

The trailing 12-month P/E ratio is 19.9, which is below the 5-year average of 22.6 and below the 10-year average of 20.6.

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

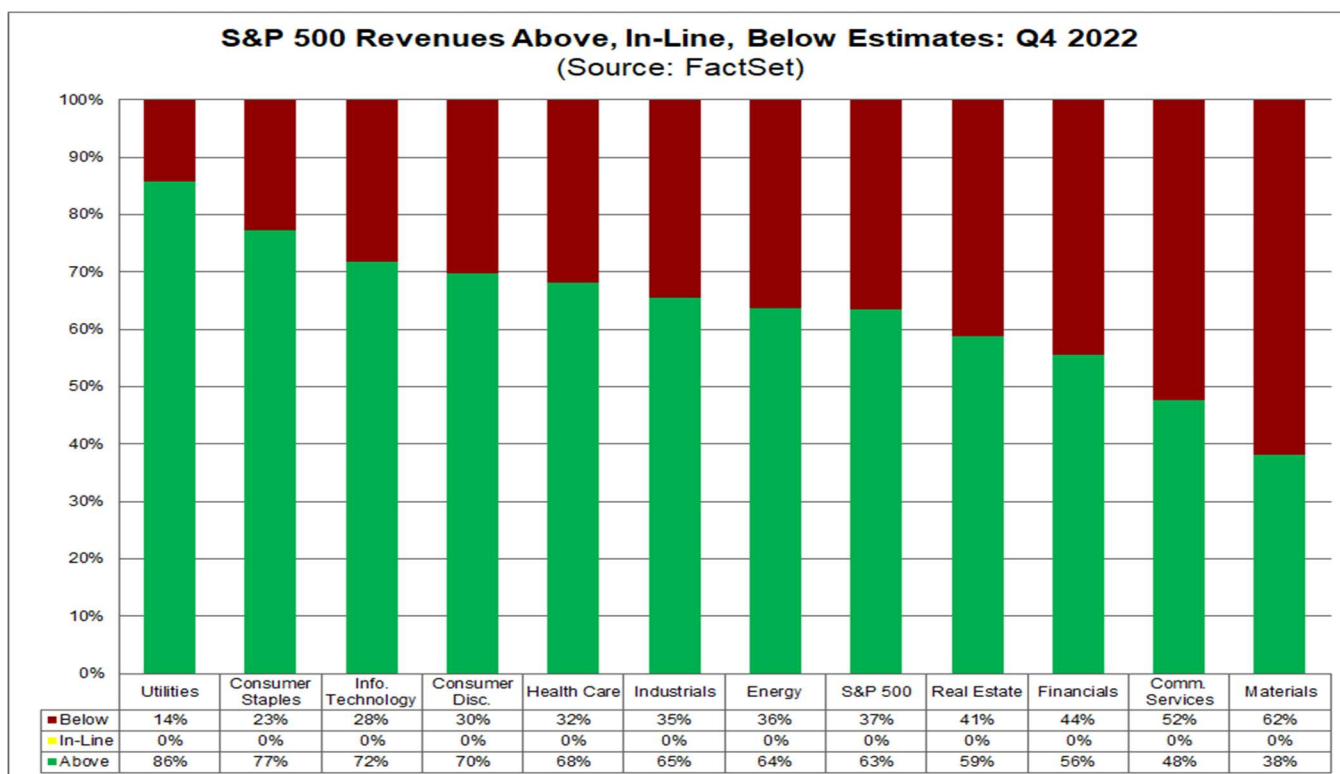
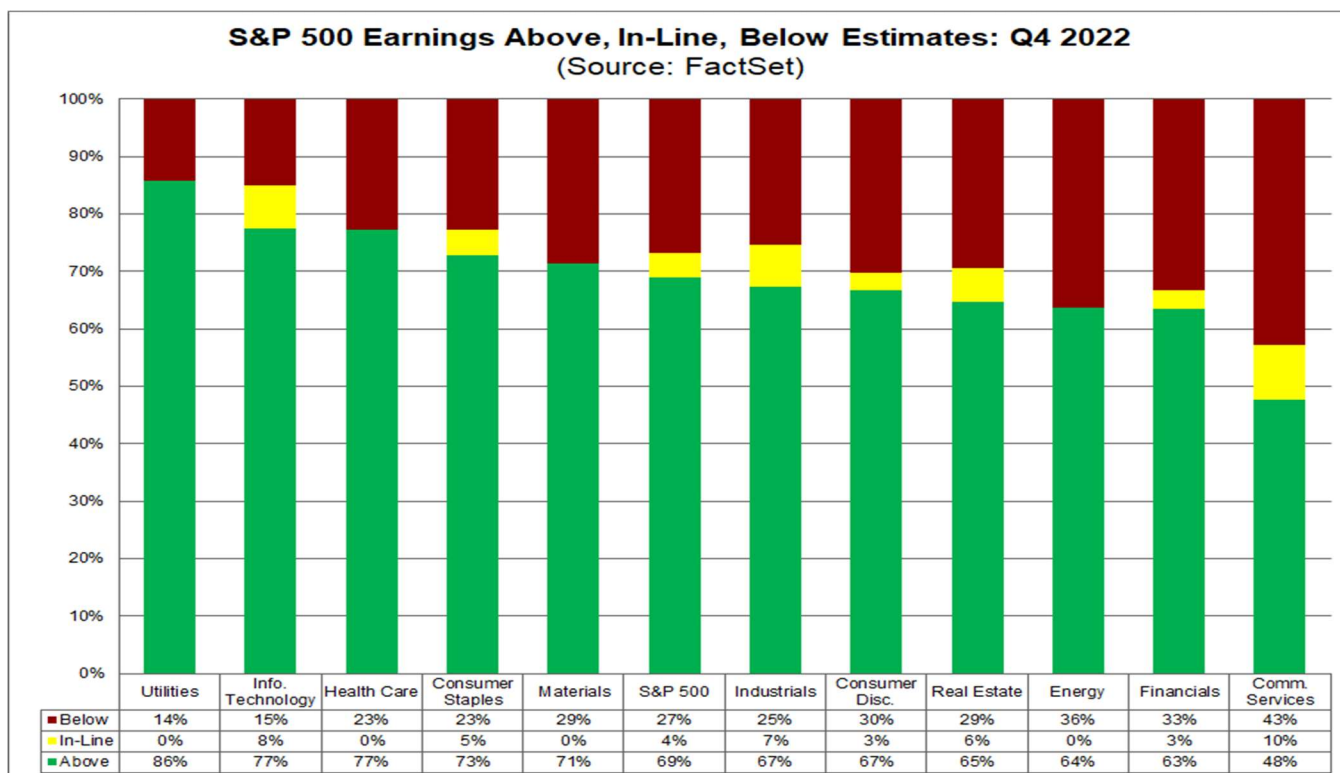
The bottom-up target price for the S&P 500 is 4584.30, which is 12.3% above the closing price of 4081.50. At the sector level, the Communication Services (+22.1%) and Energy (+17.0%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Industrials (+8.4%) and Real Estate (+8.6%) 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 11,019 ratings on stocks in the S&P 500. Of these 11,019 ratings, 53.7% are Buy ratings, 40.0% are Hold ratings, and 6.2% are Sell ratings. At the sector level, the Communication Services (62%) and Energy (62%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (43%) sector has the lowest percentage of Buy ratings.

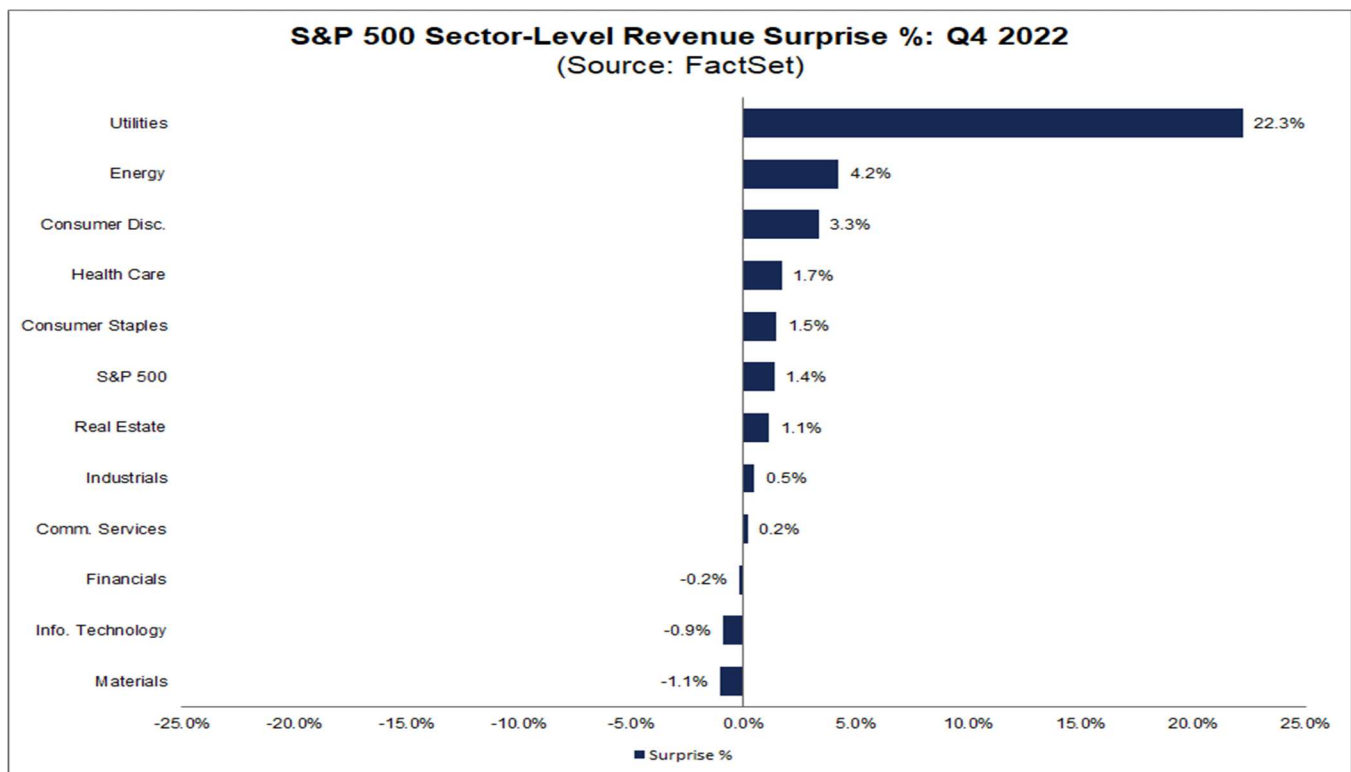
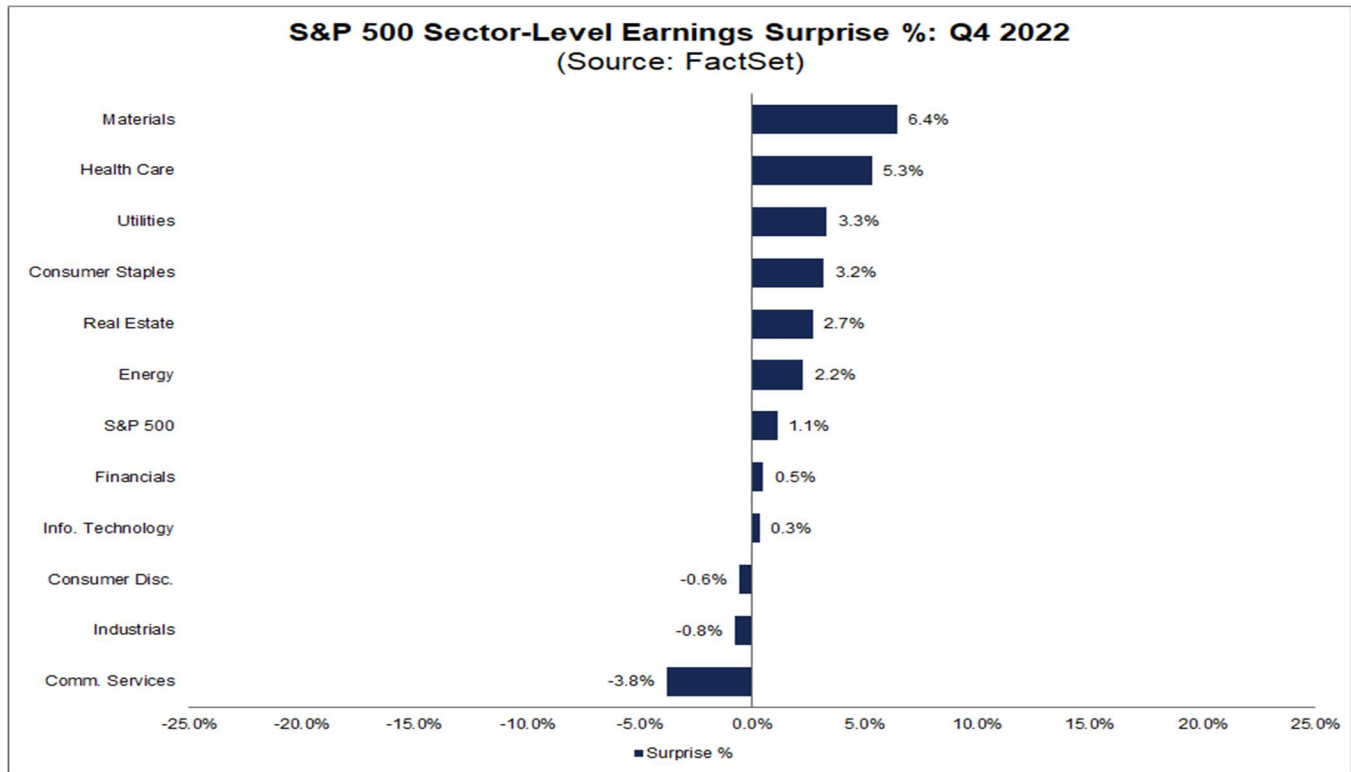
Companies Reporting Next Week: 61

During the upcoming week, 61 S&P 500 companies (including two Dow 30 components) are scheduled to report results for the fourth quarter.

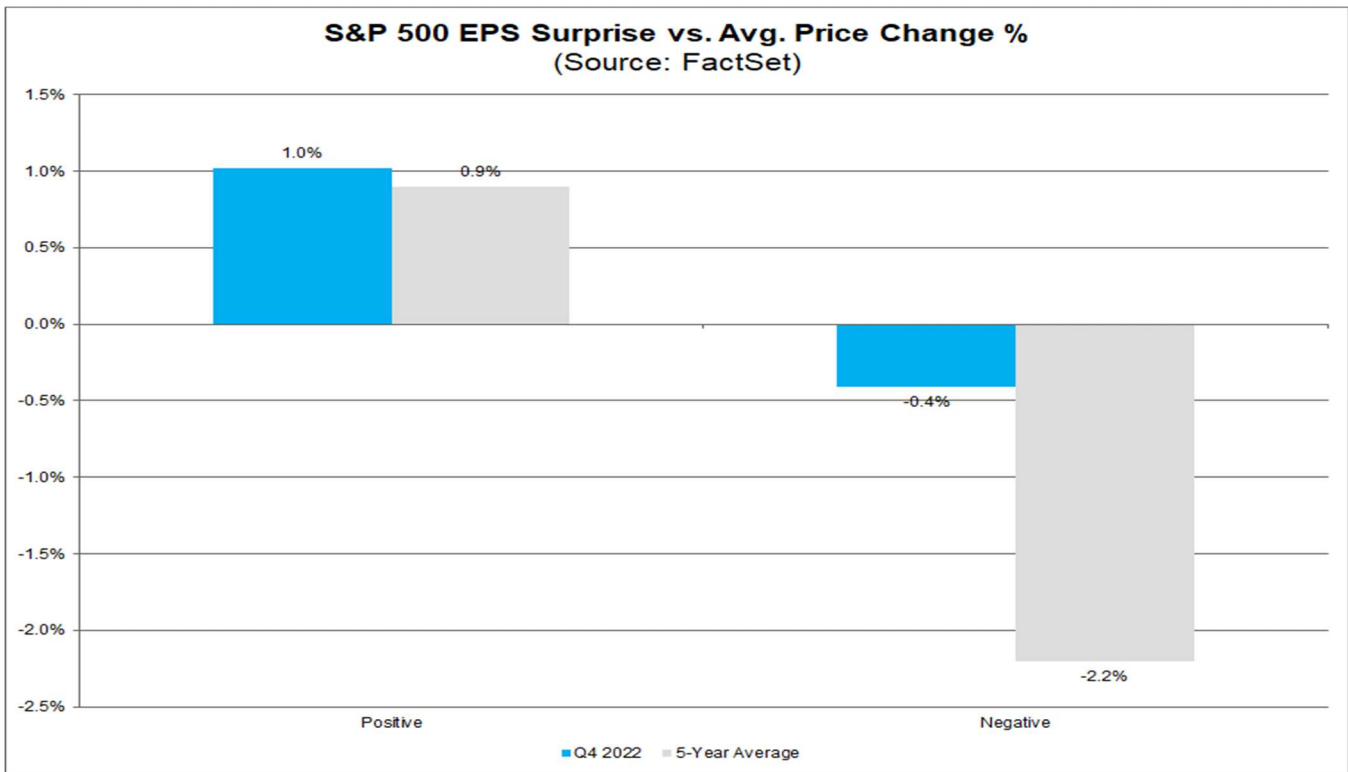
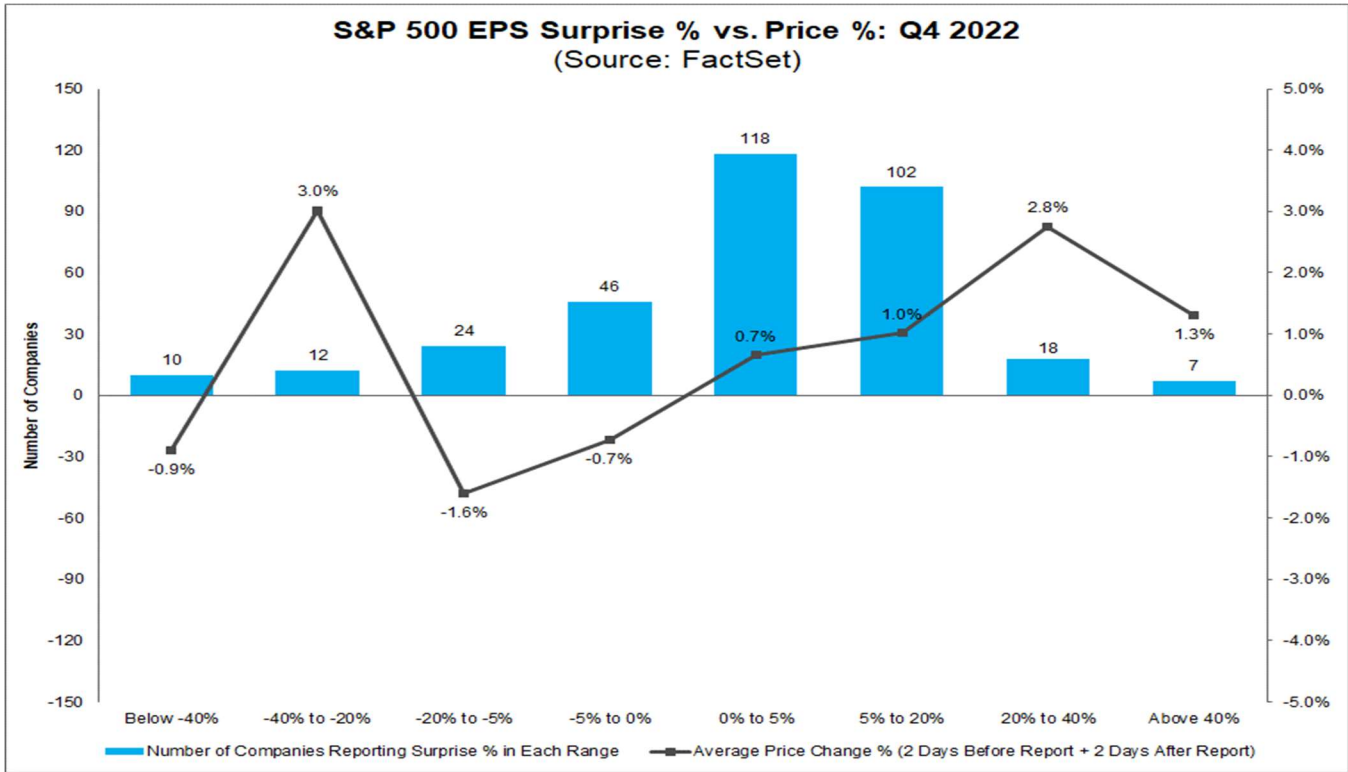
Q4 2022: Scorecard



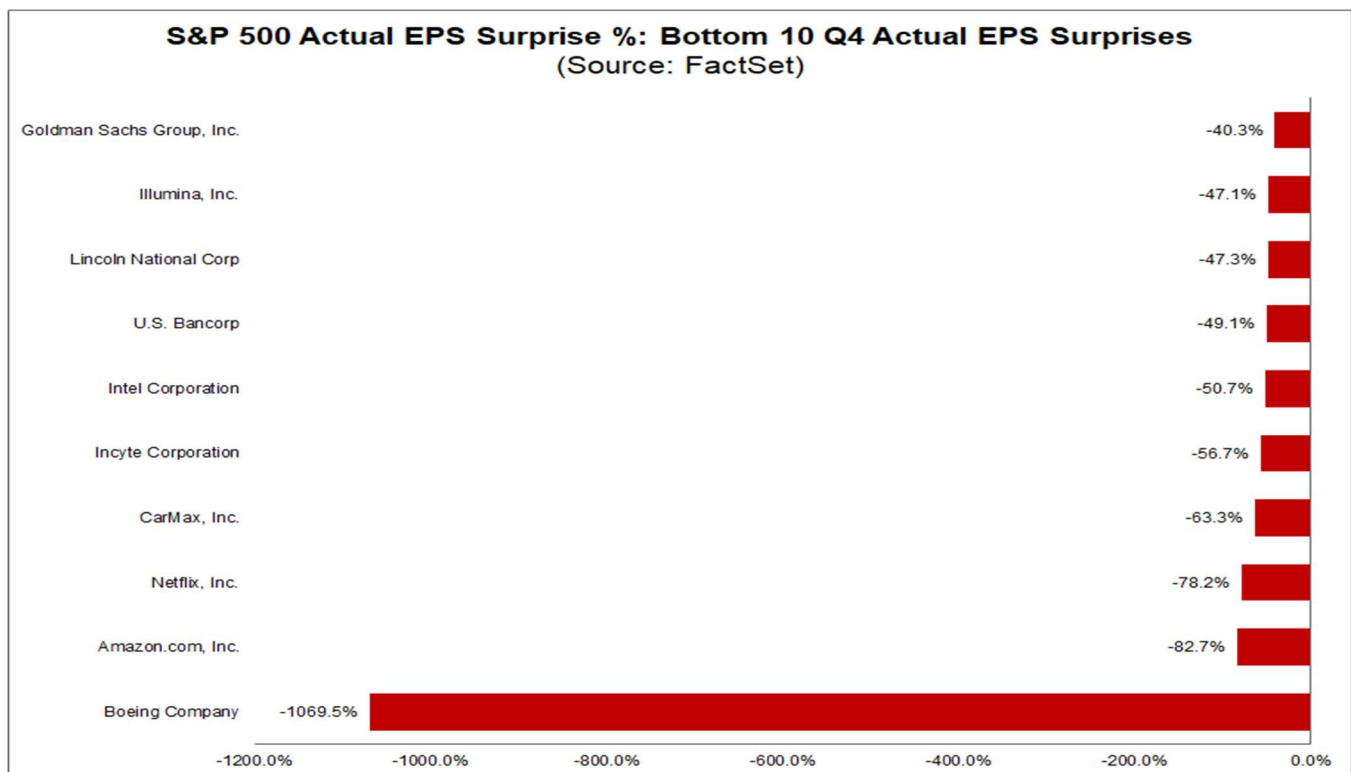
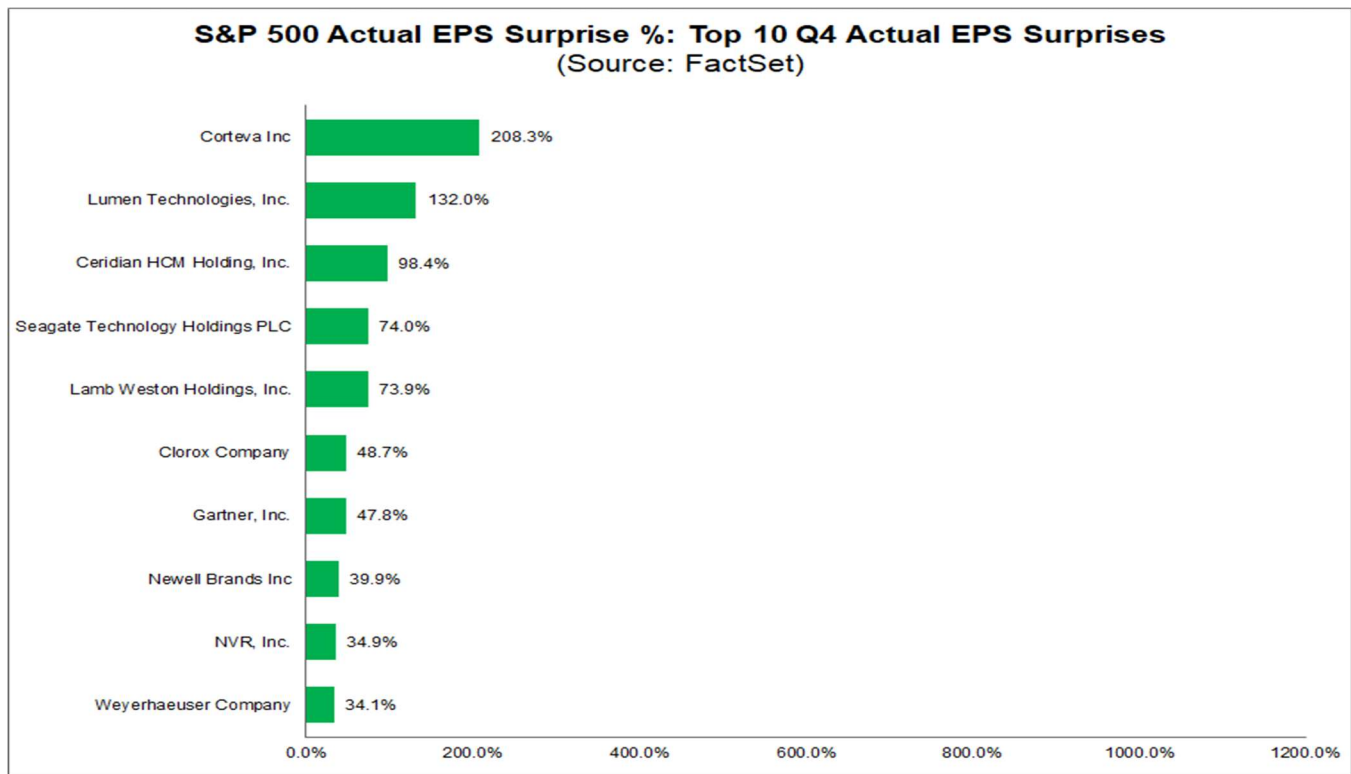
Q4 2022: Scorecard



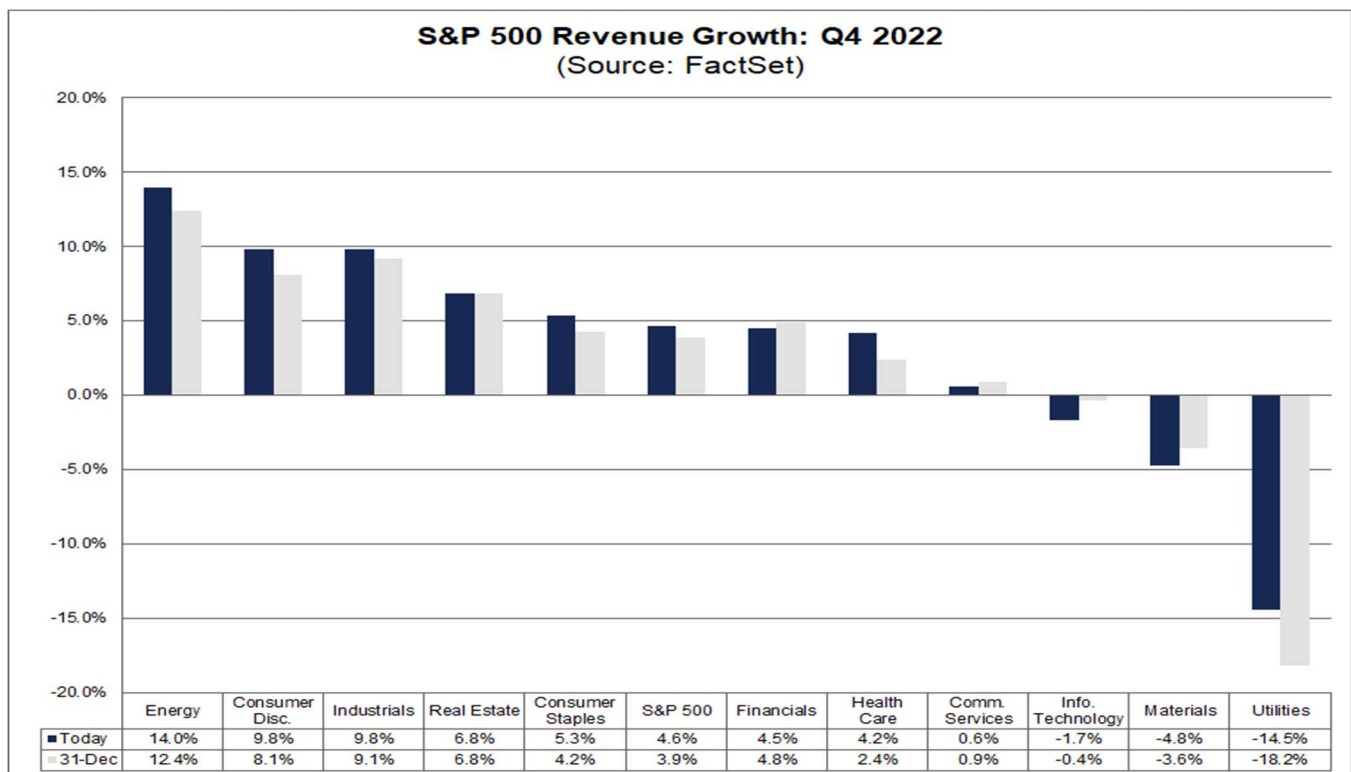
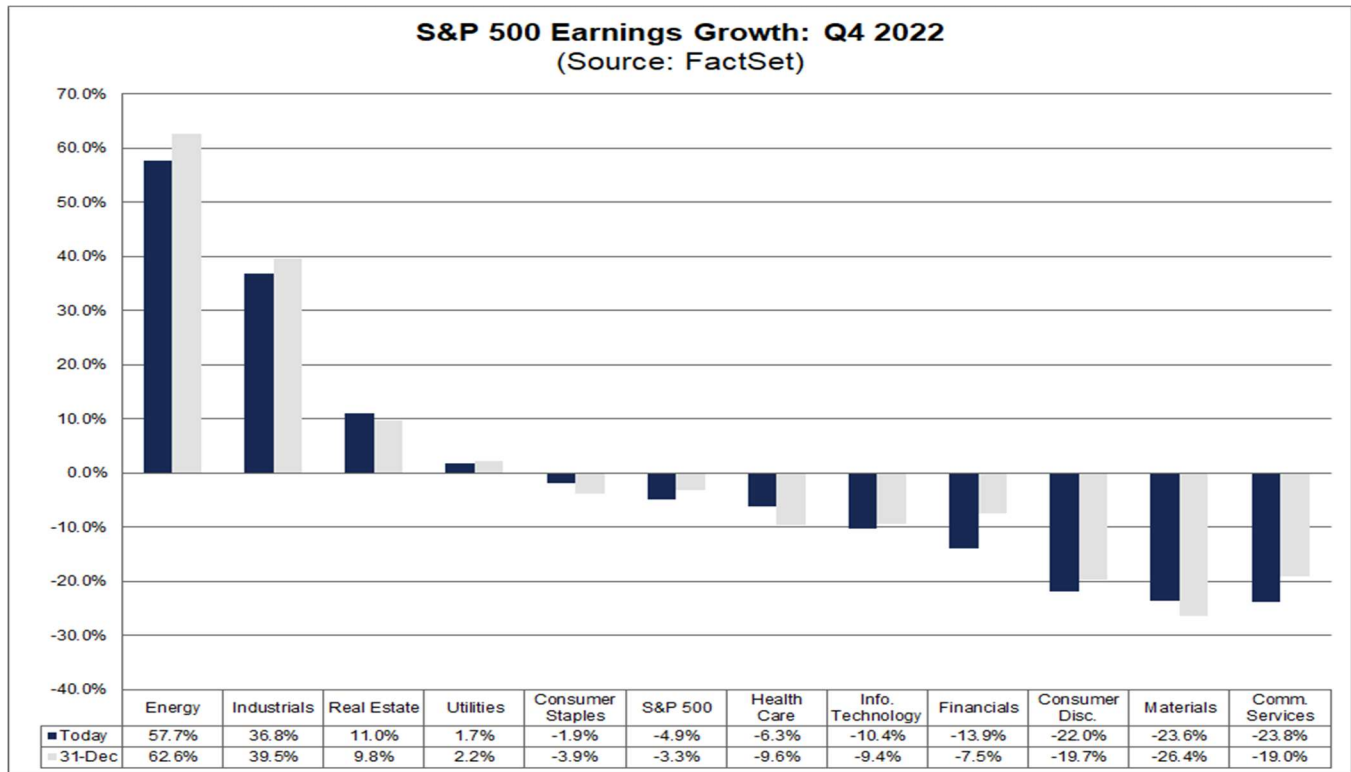
Q4 2022: Scorecard



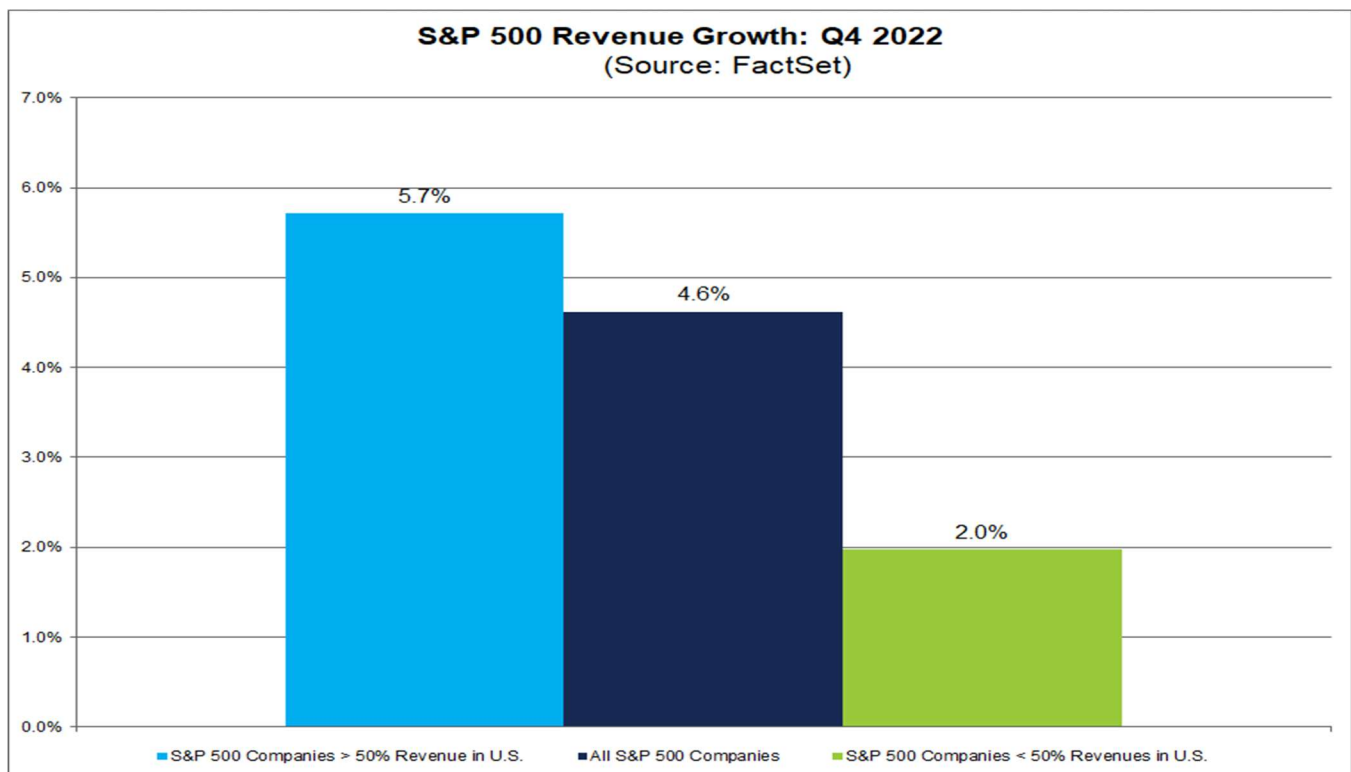
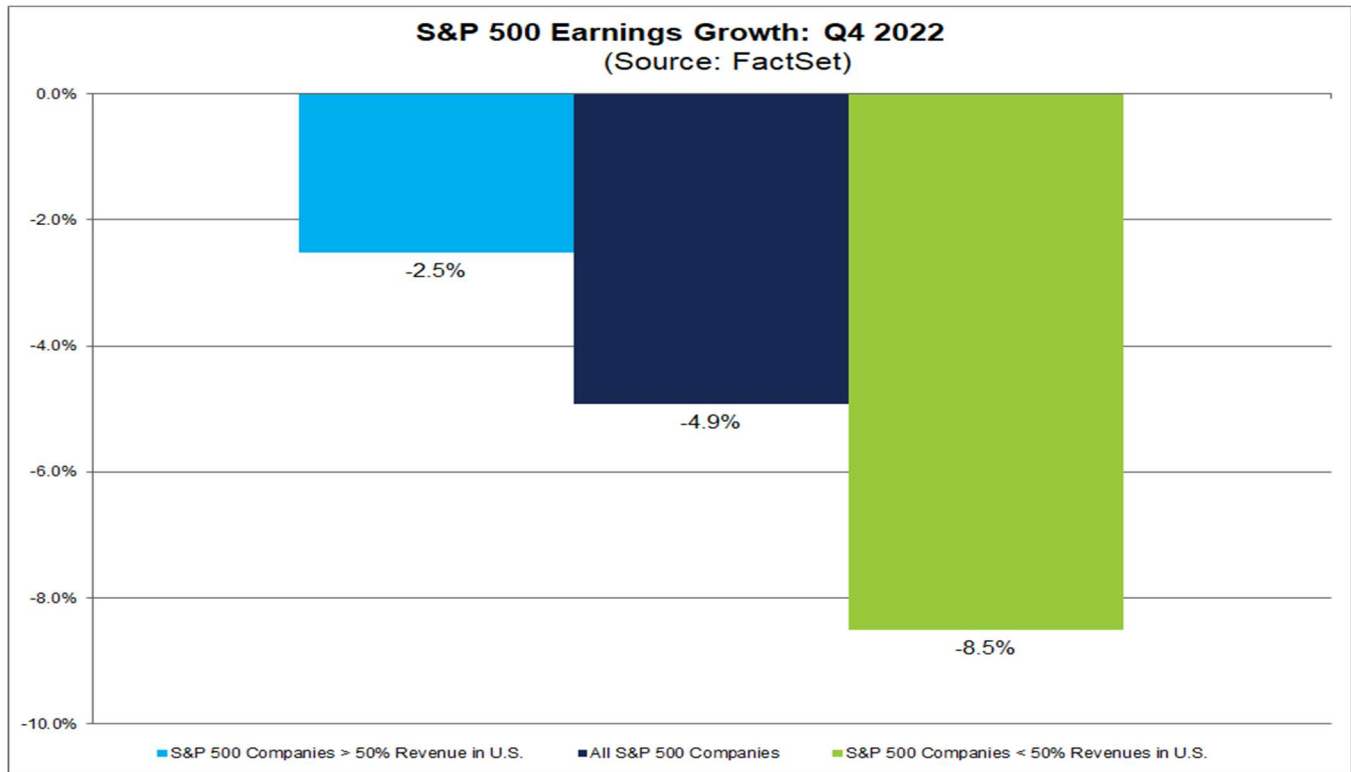
Q4 2022: Scorecard



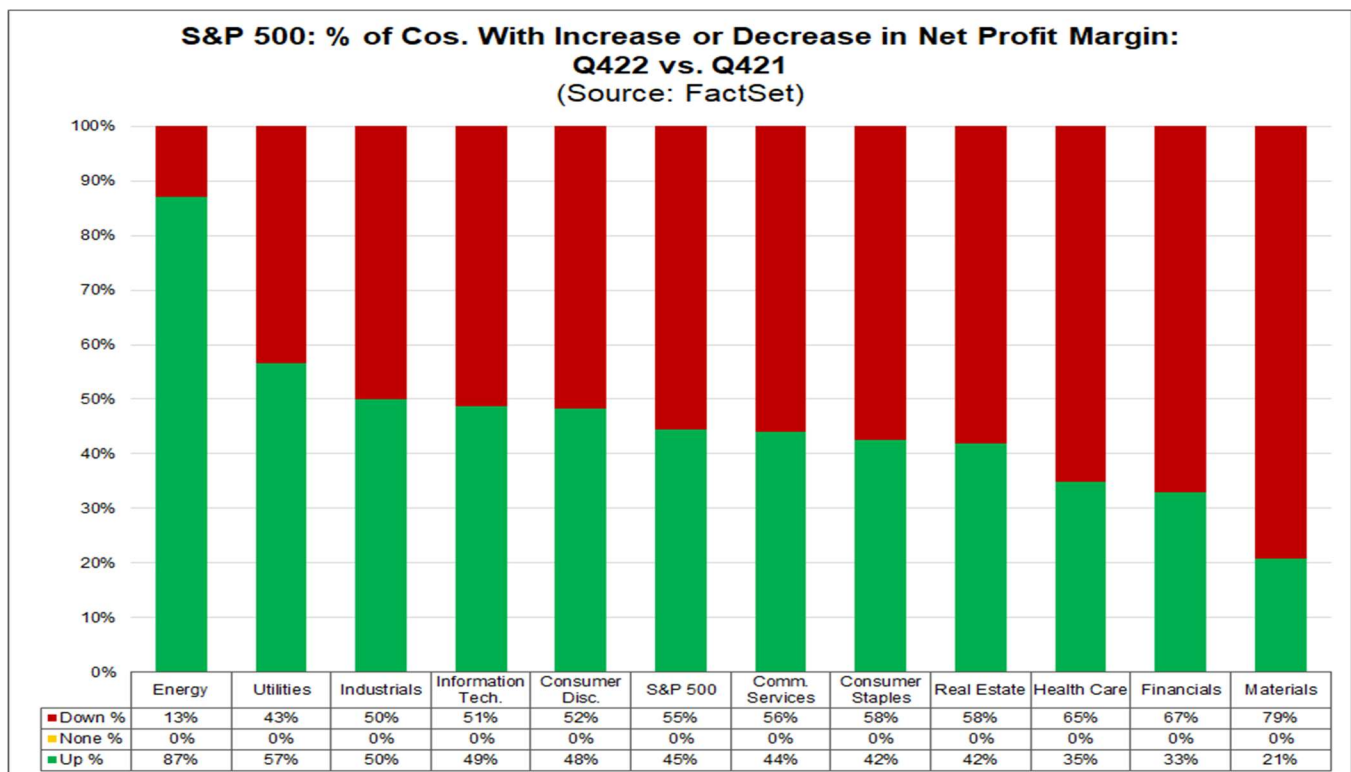
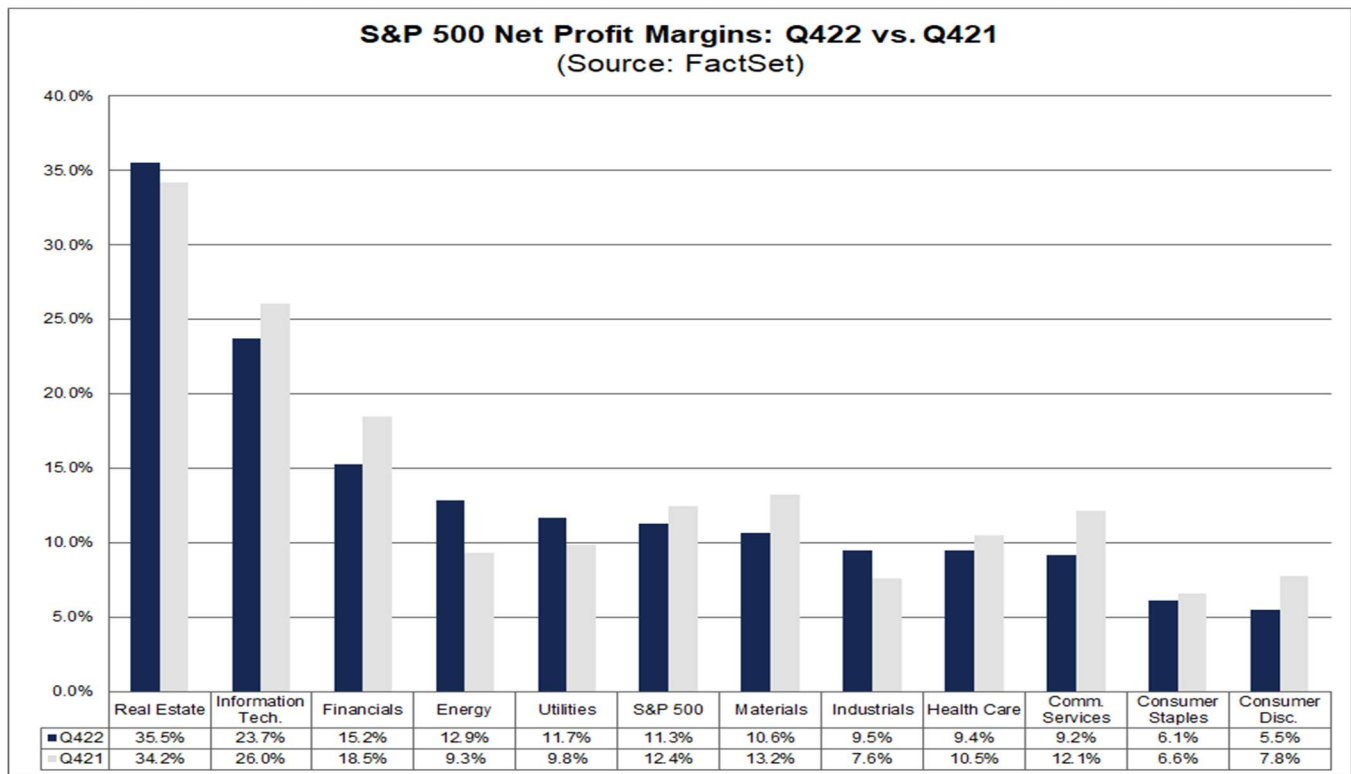
Q4 2022: Growth



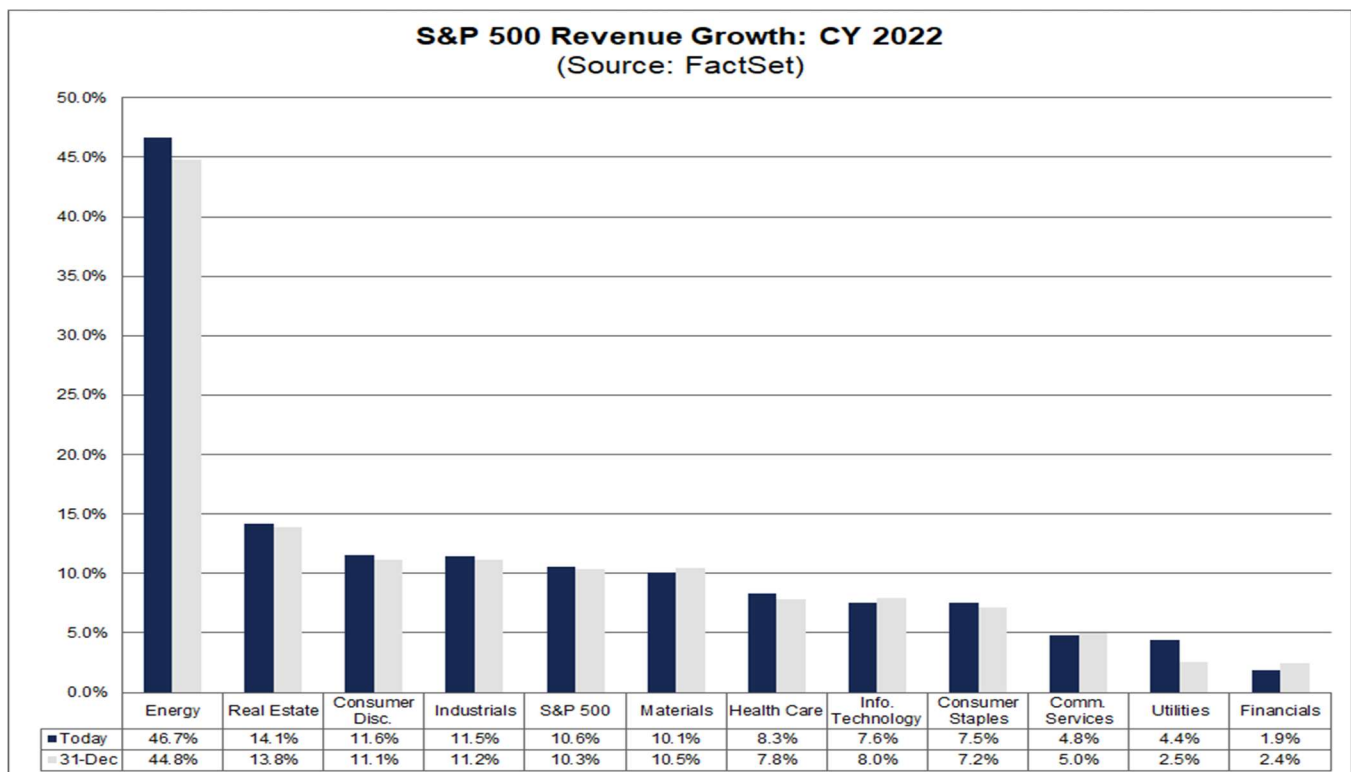
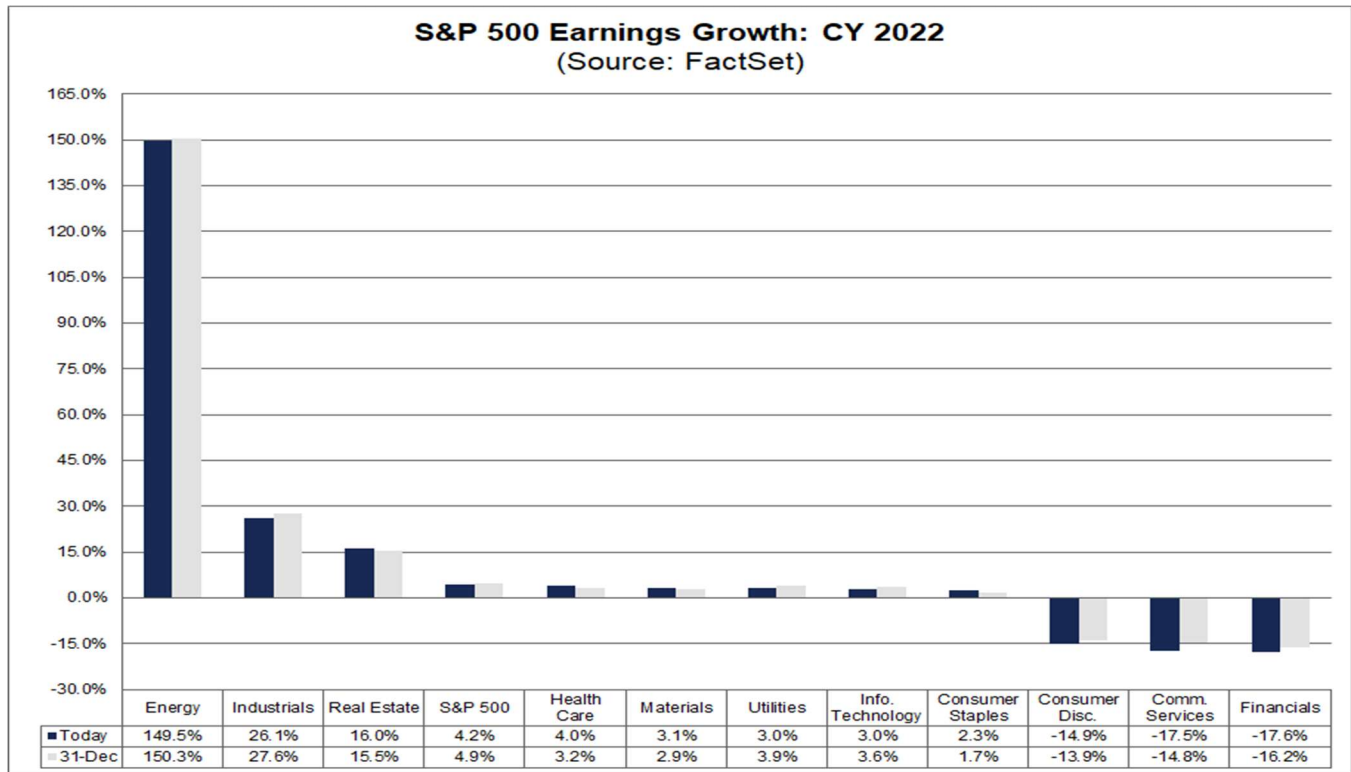
Q4 2022: Growth



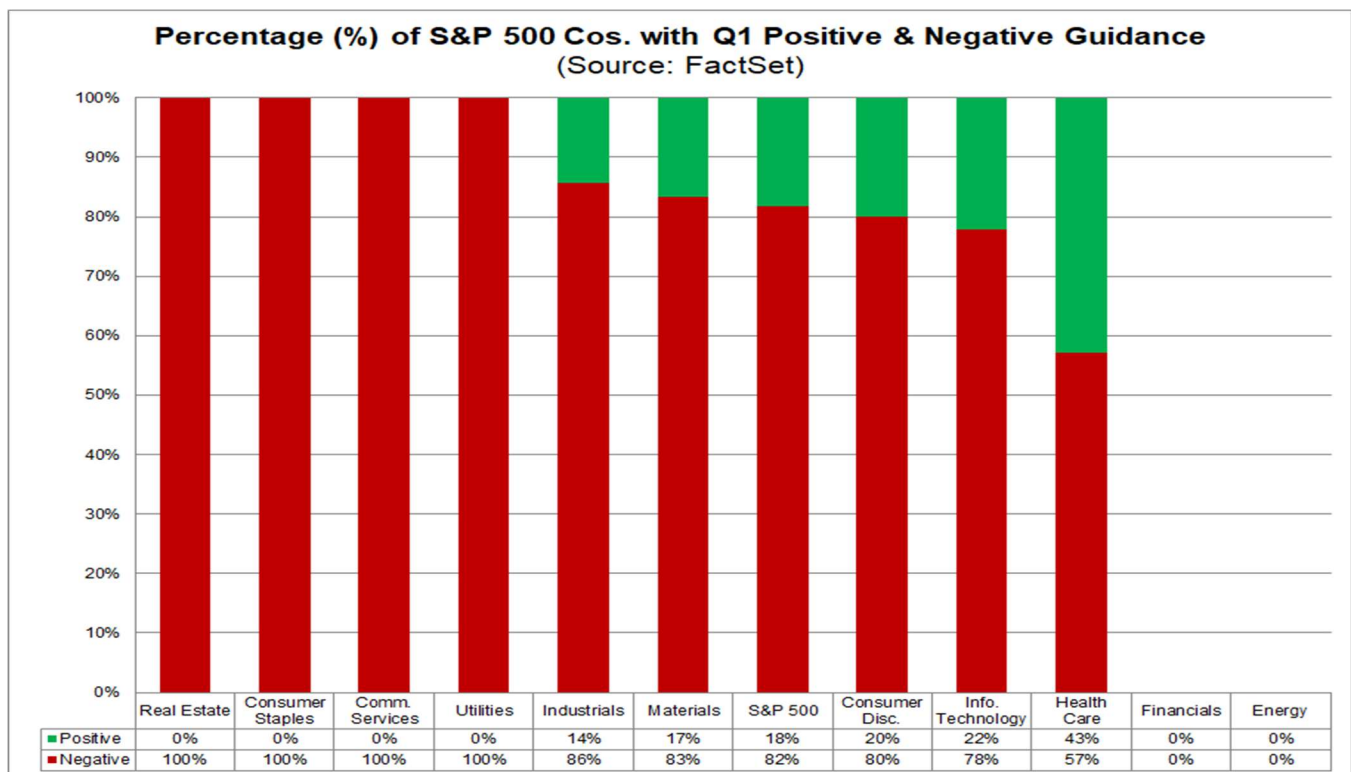
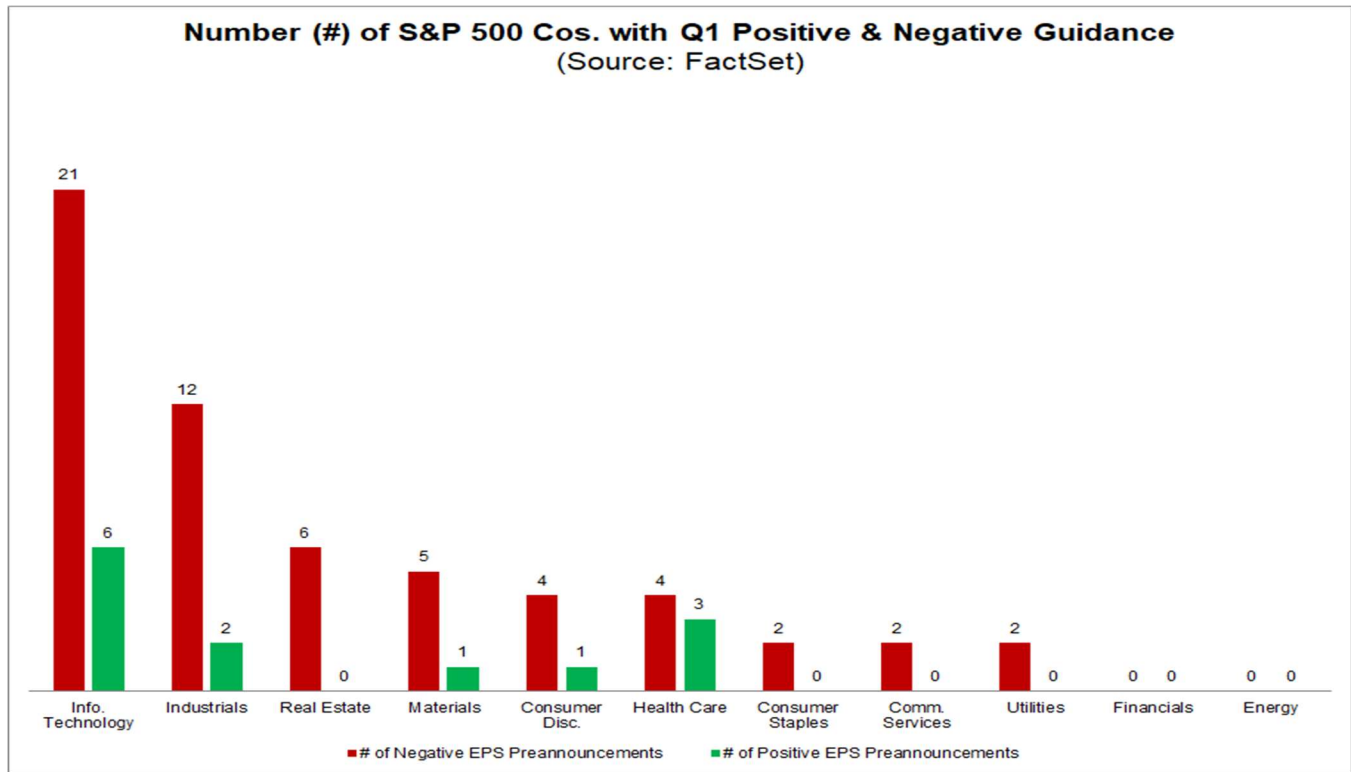
Q4 2022: Net Profit Margin



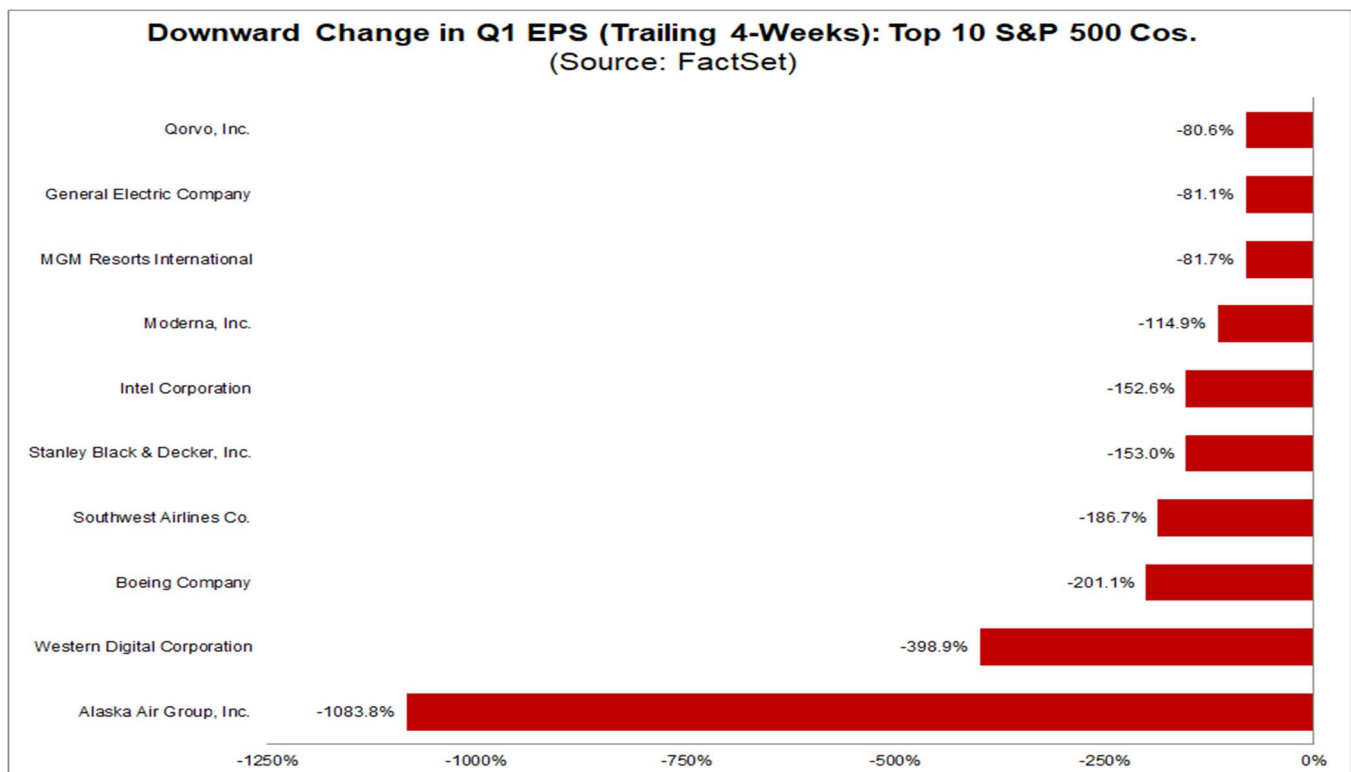
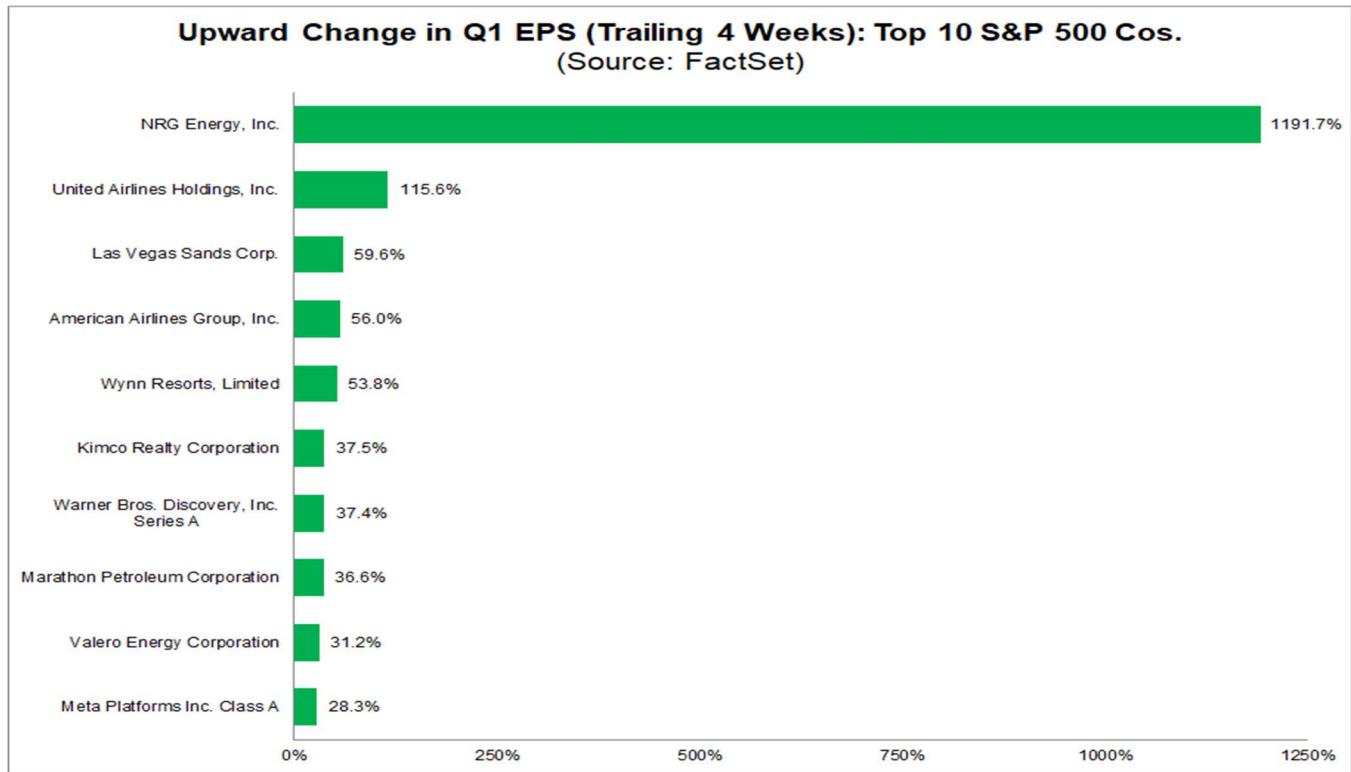
CY 2022: Growth



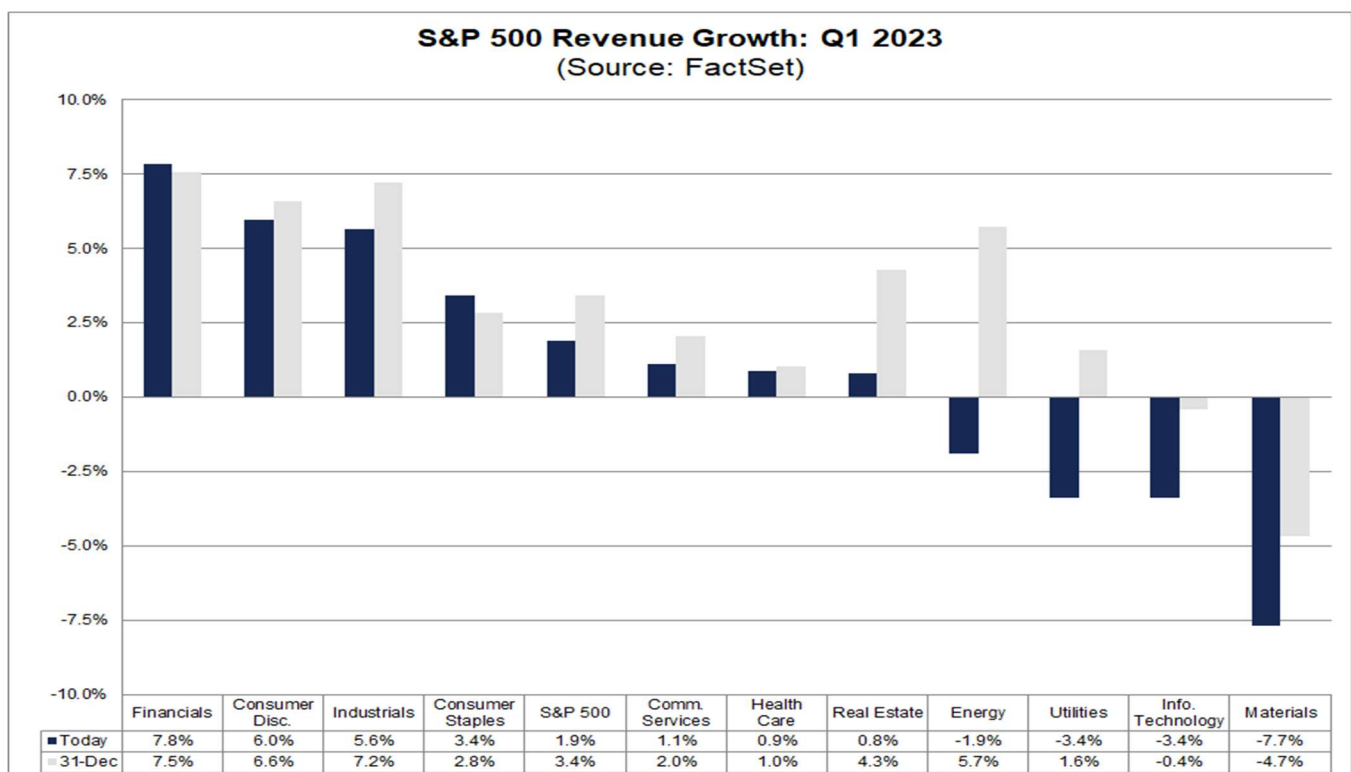
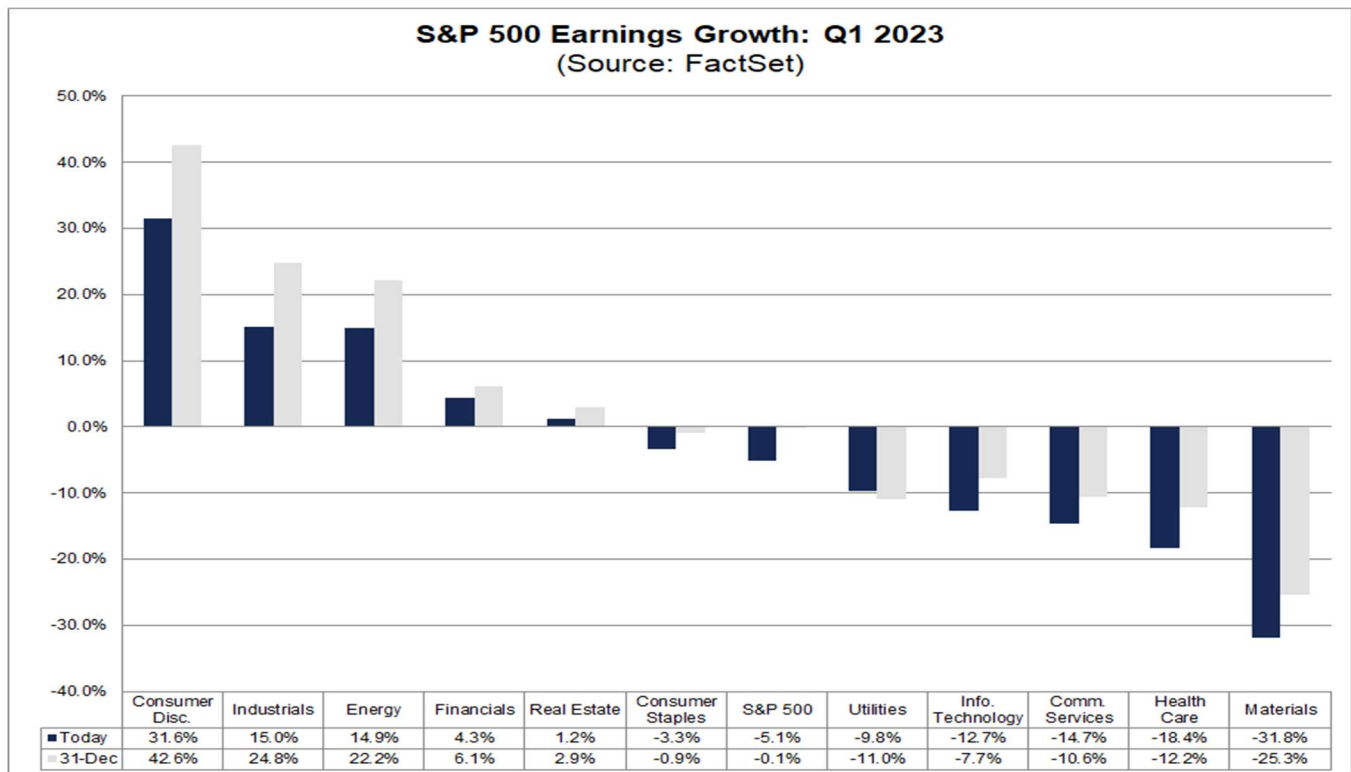
Q1 2023: Guidance



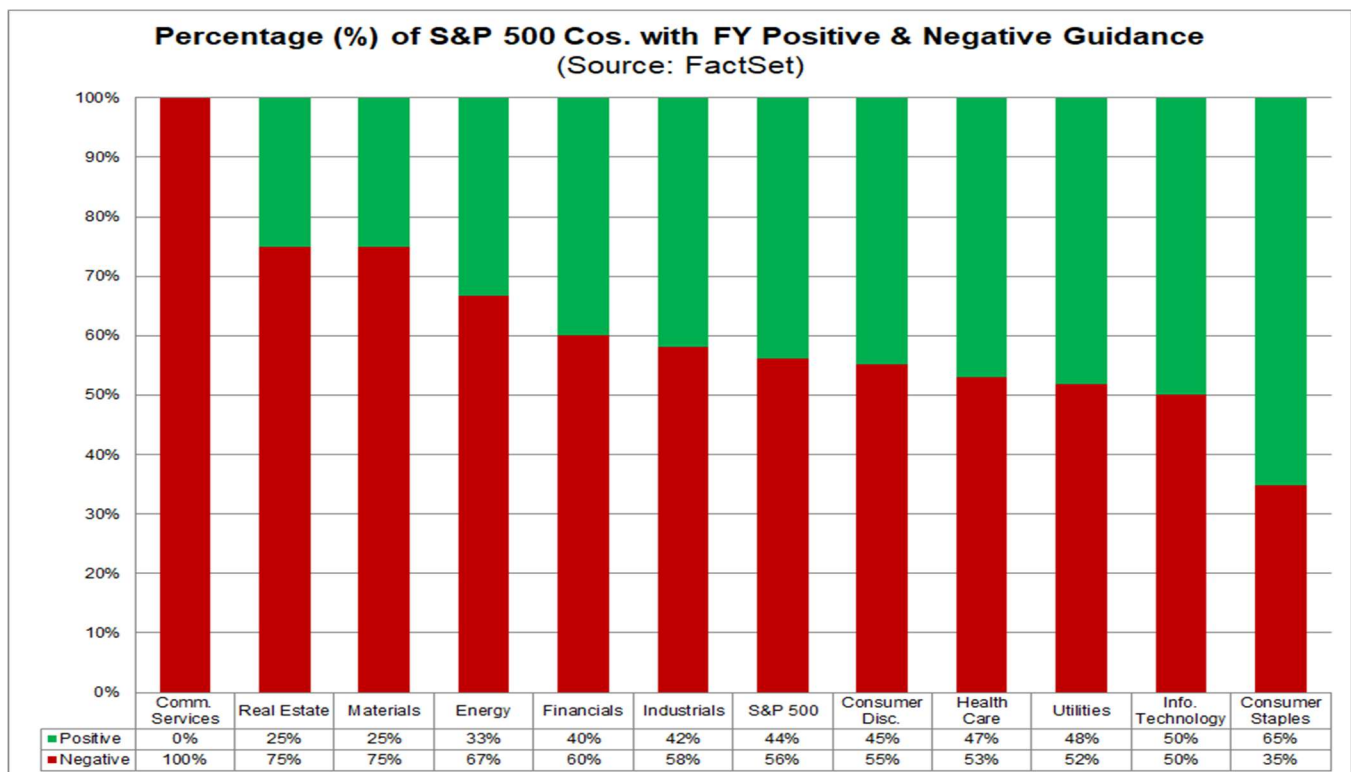
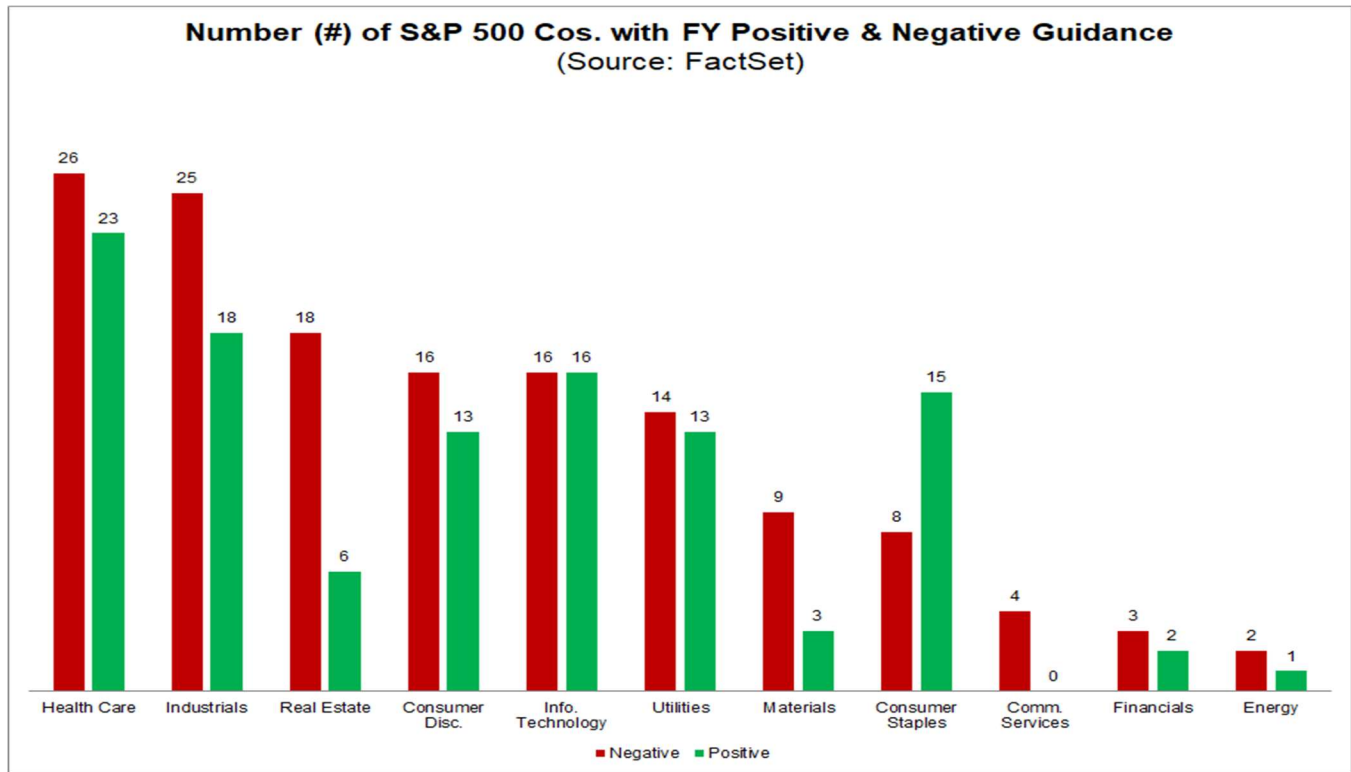
Q1 2023: EPS Revisions



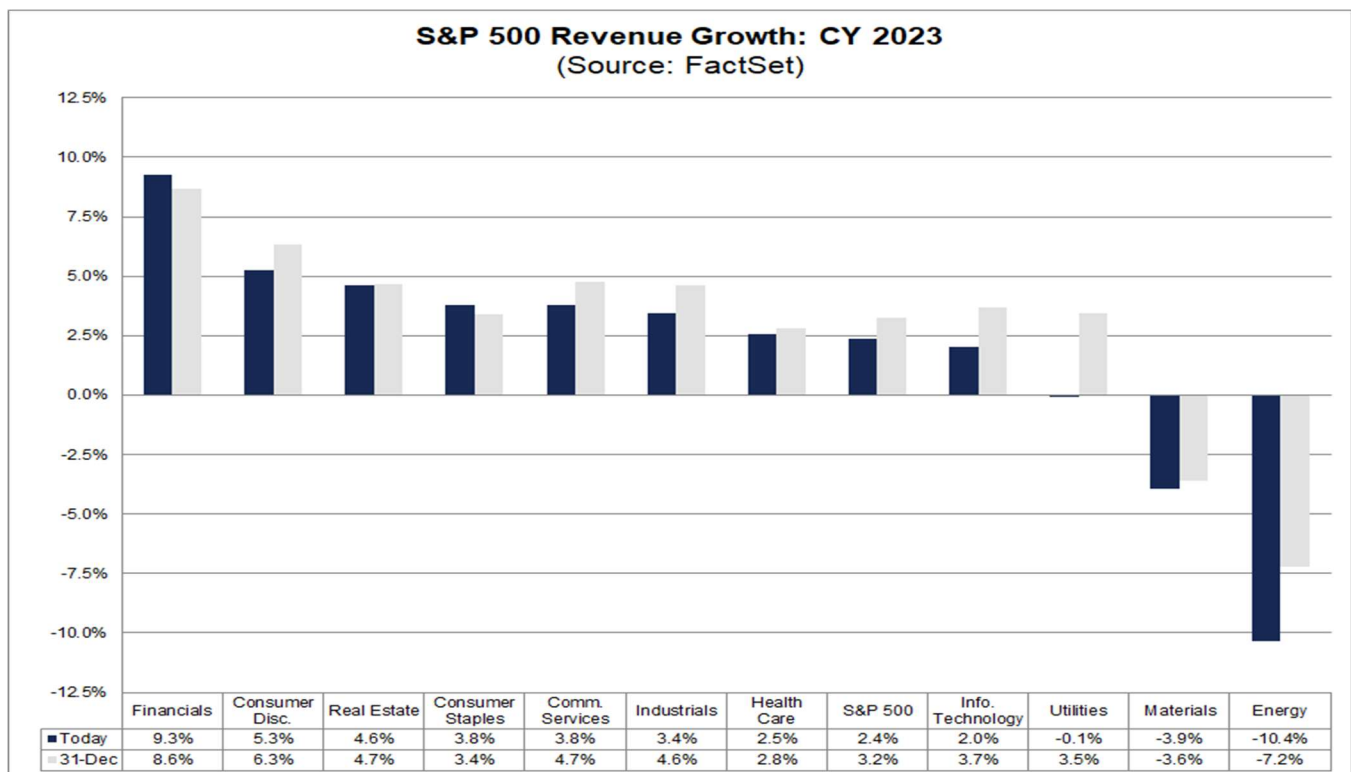
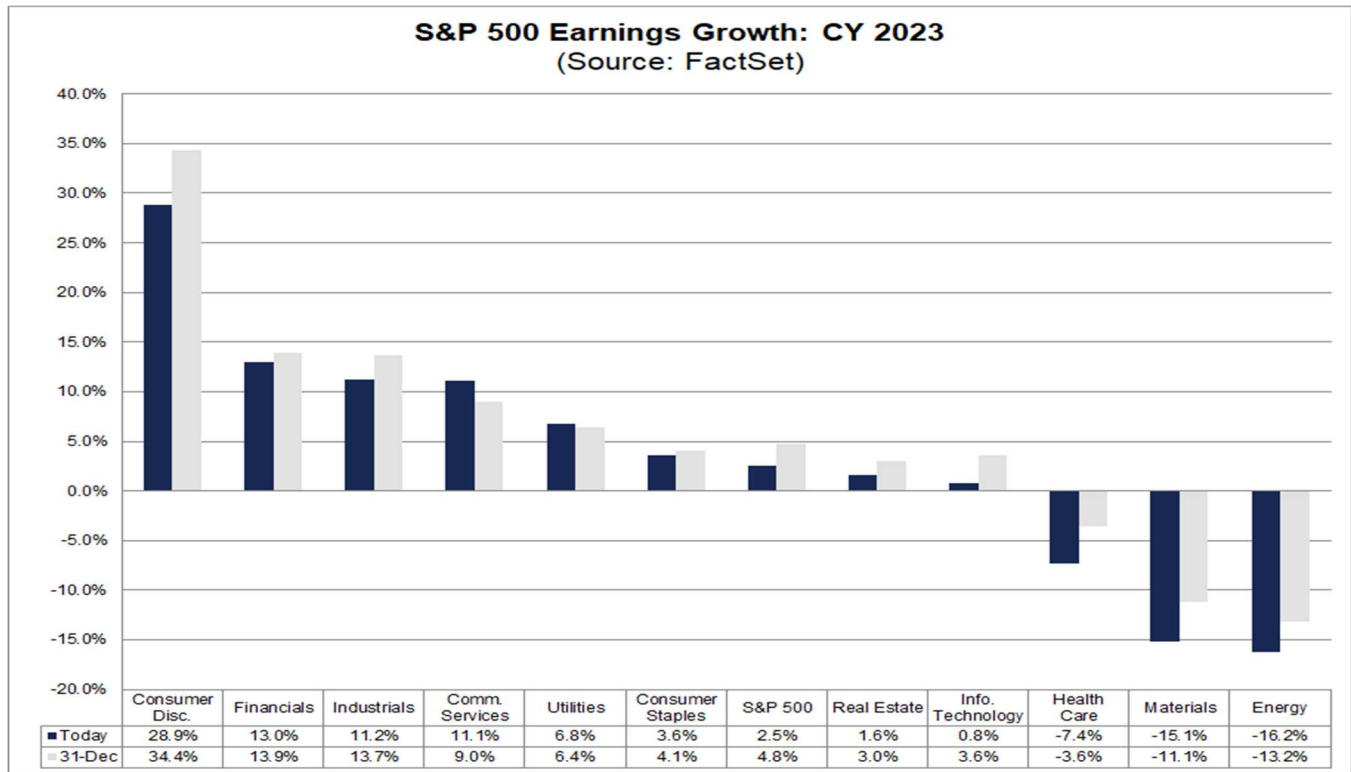
Q1 2023: Growth



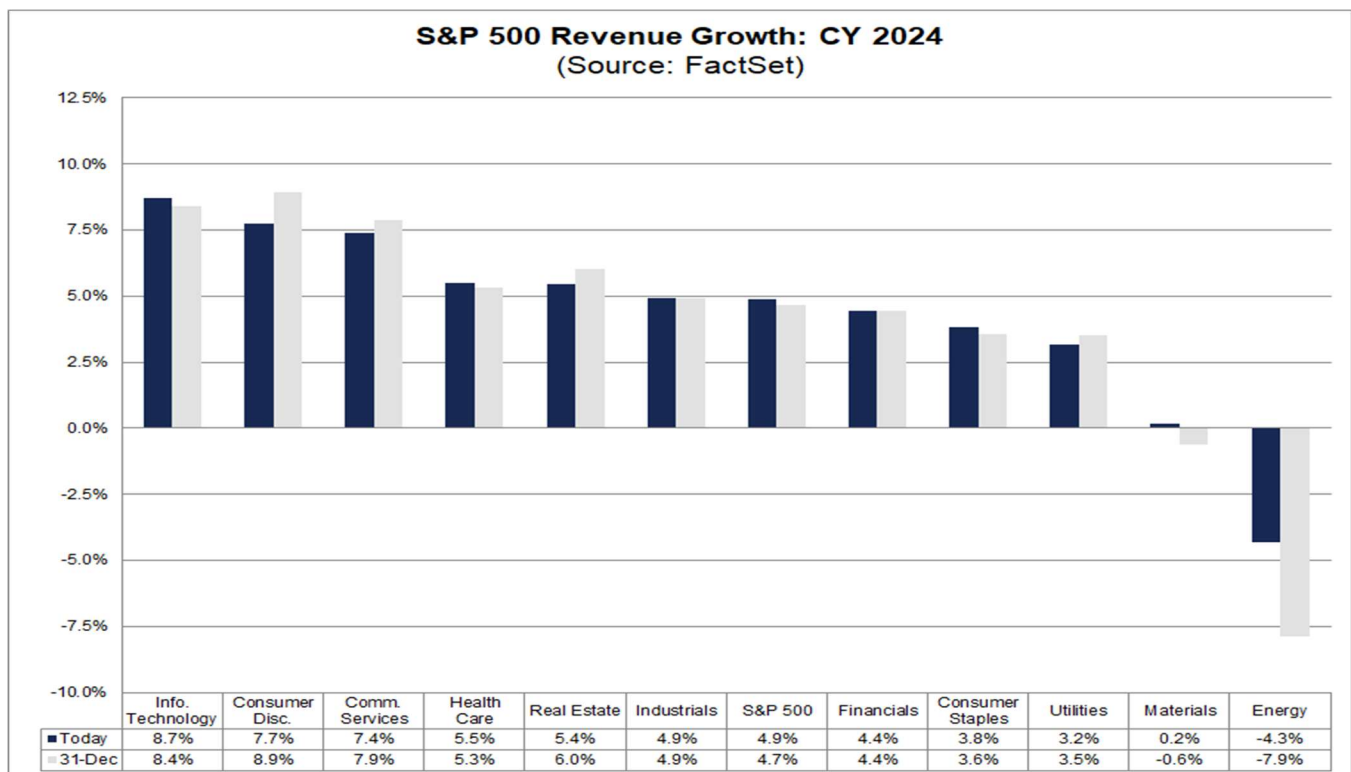
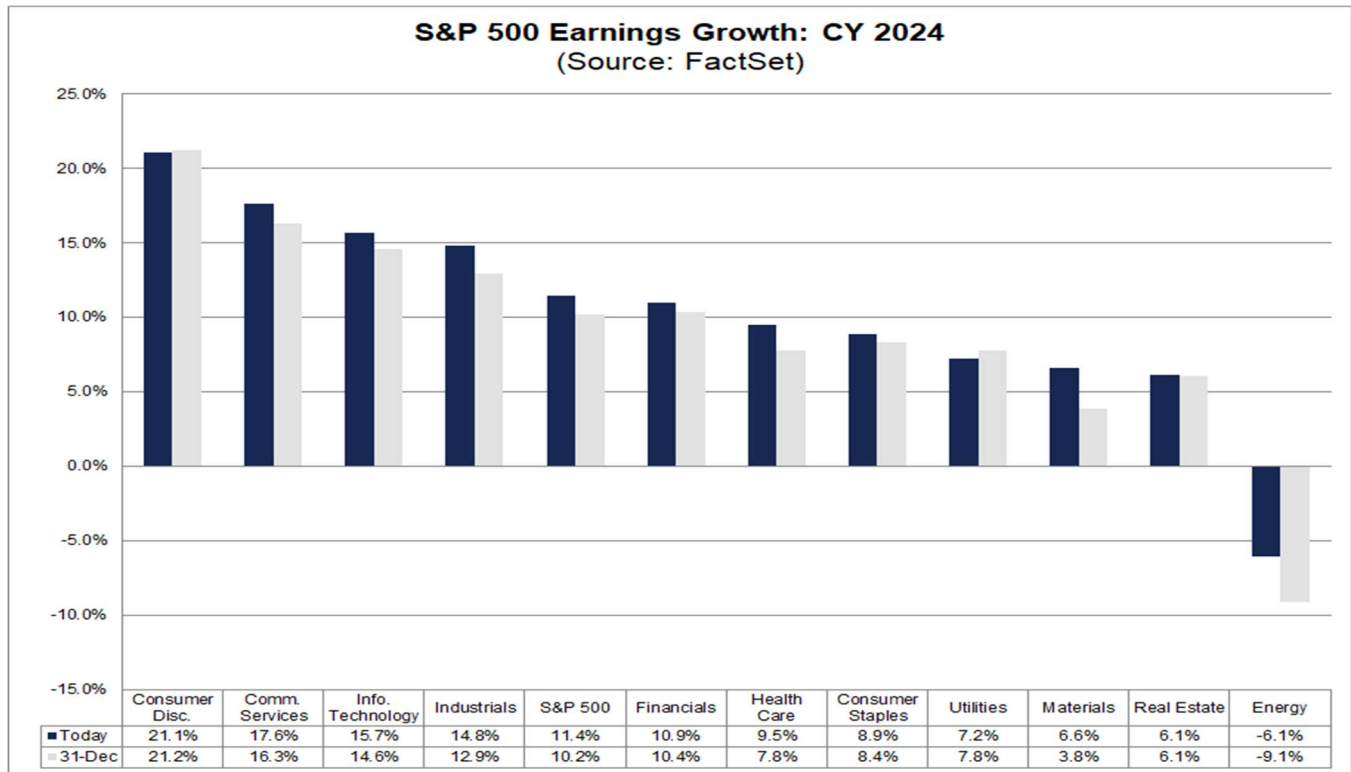
FY 2022 / 2023: EPS Guidance



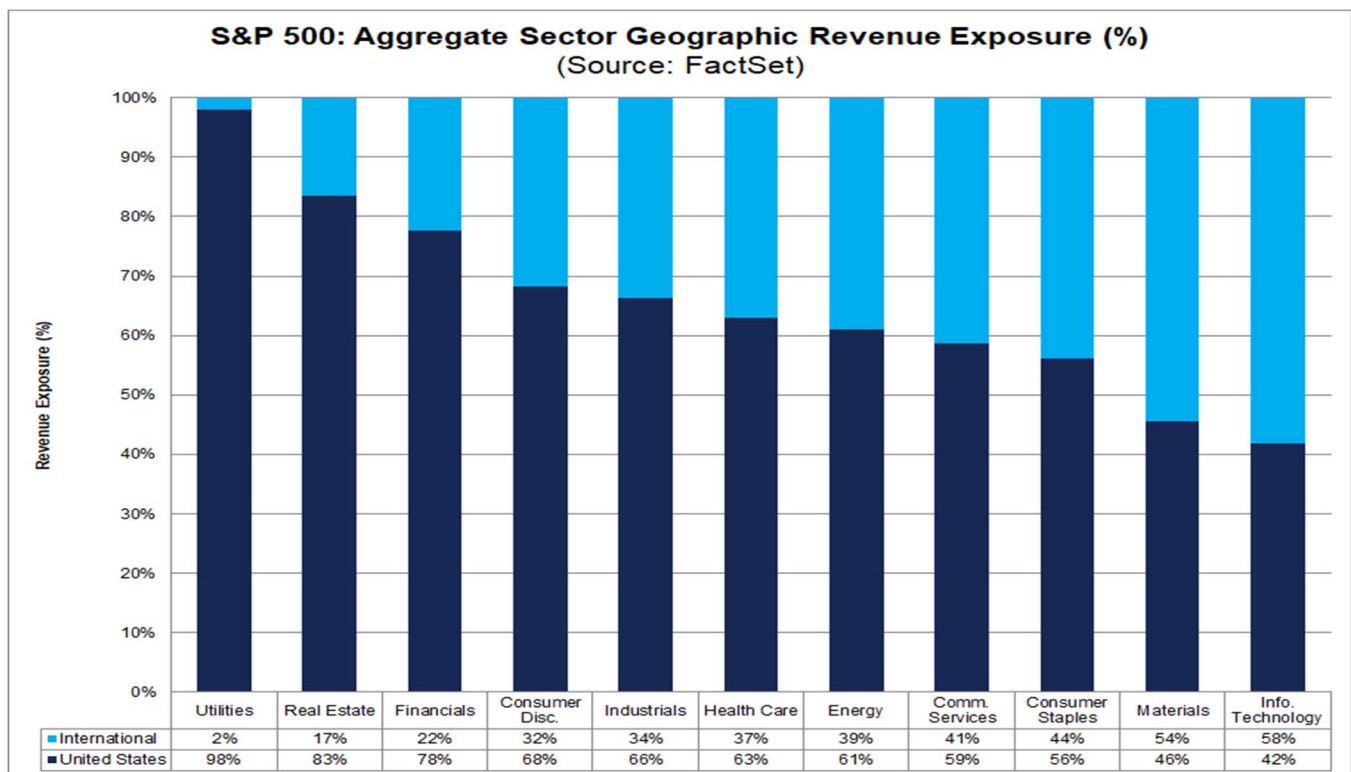
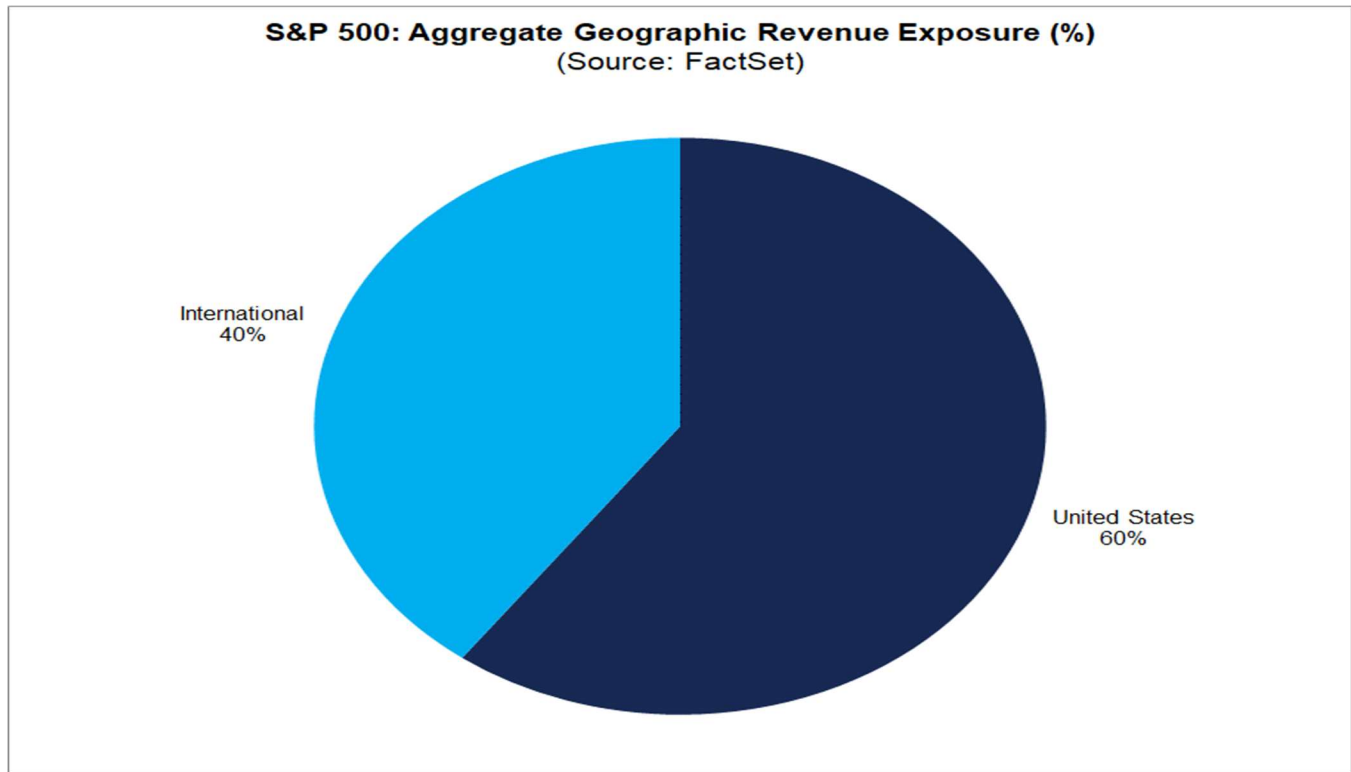
CY 2023: Growth



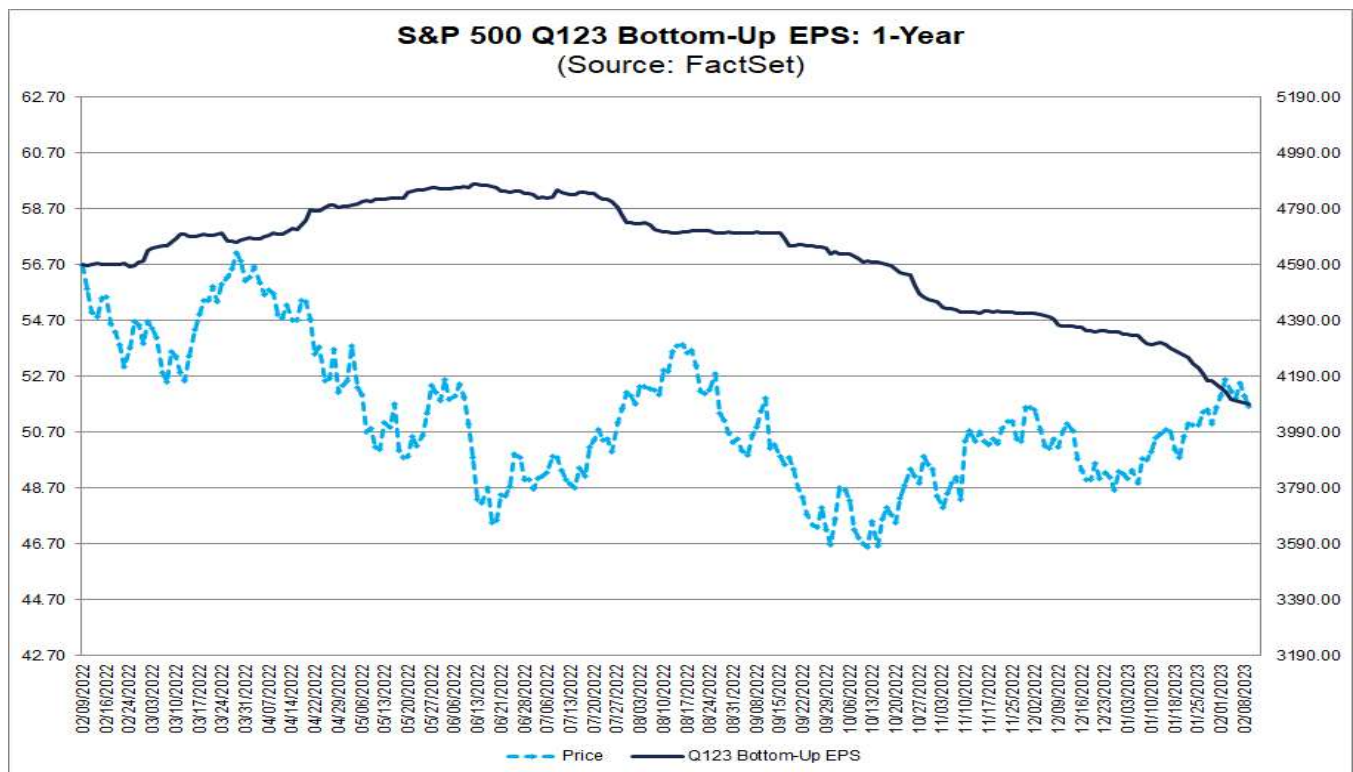
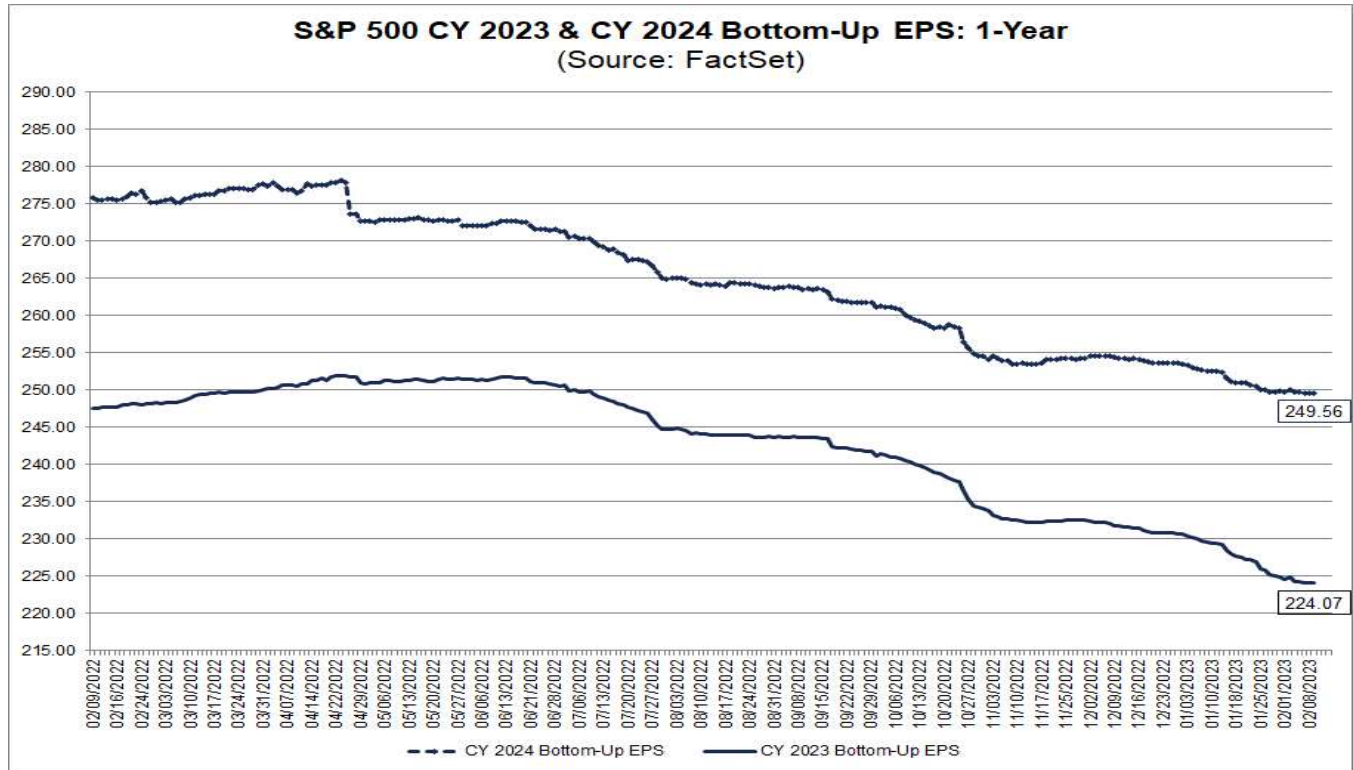
CY 2024: Growth



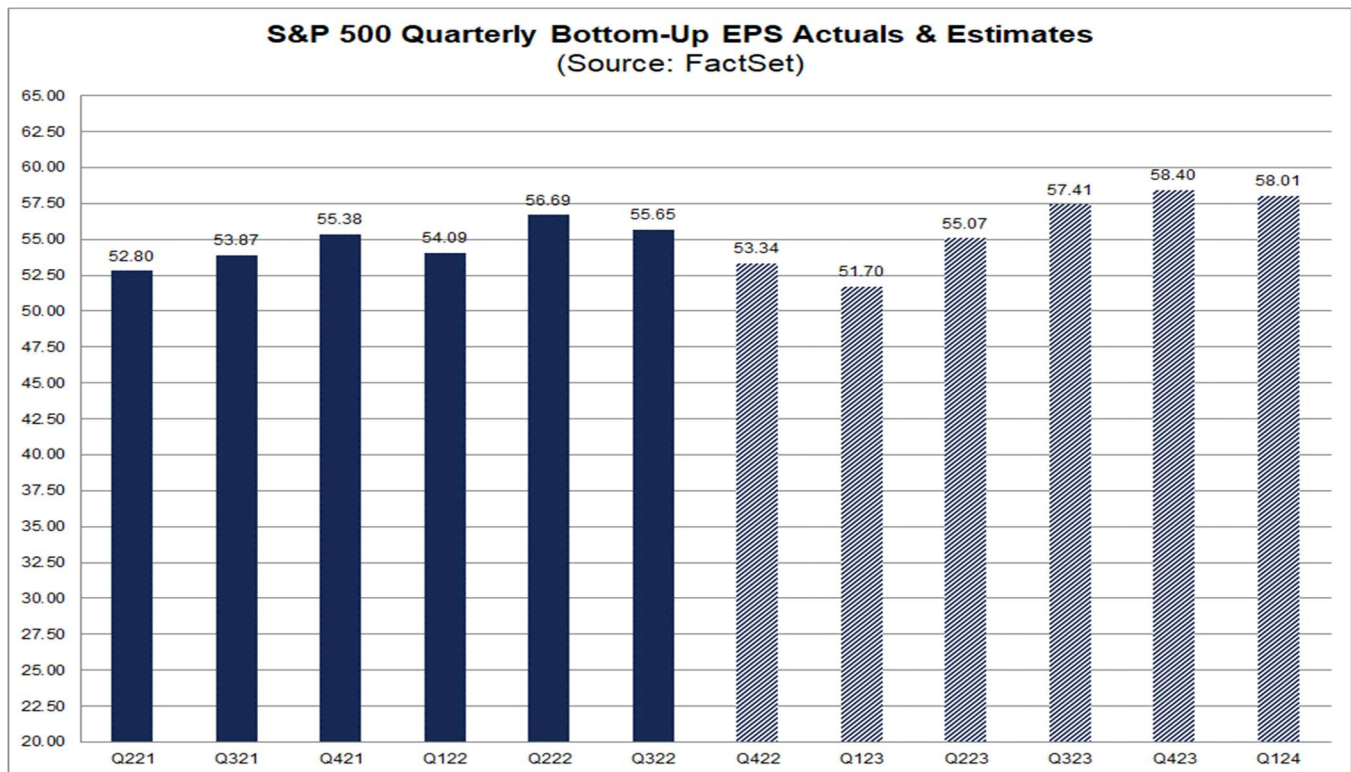
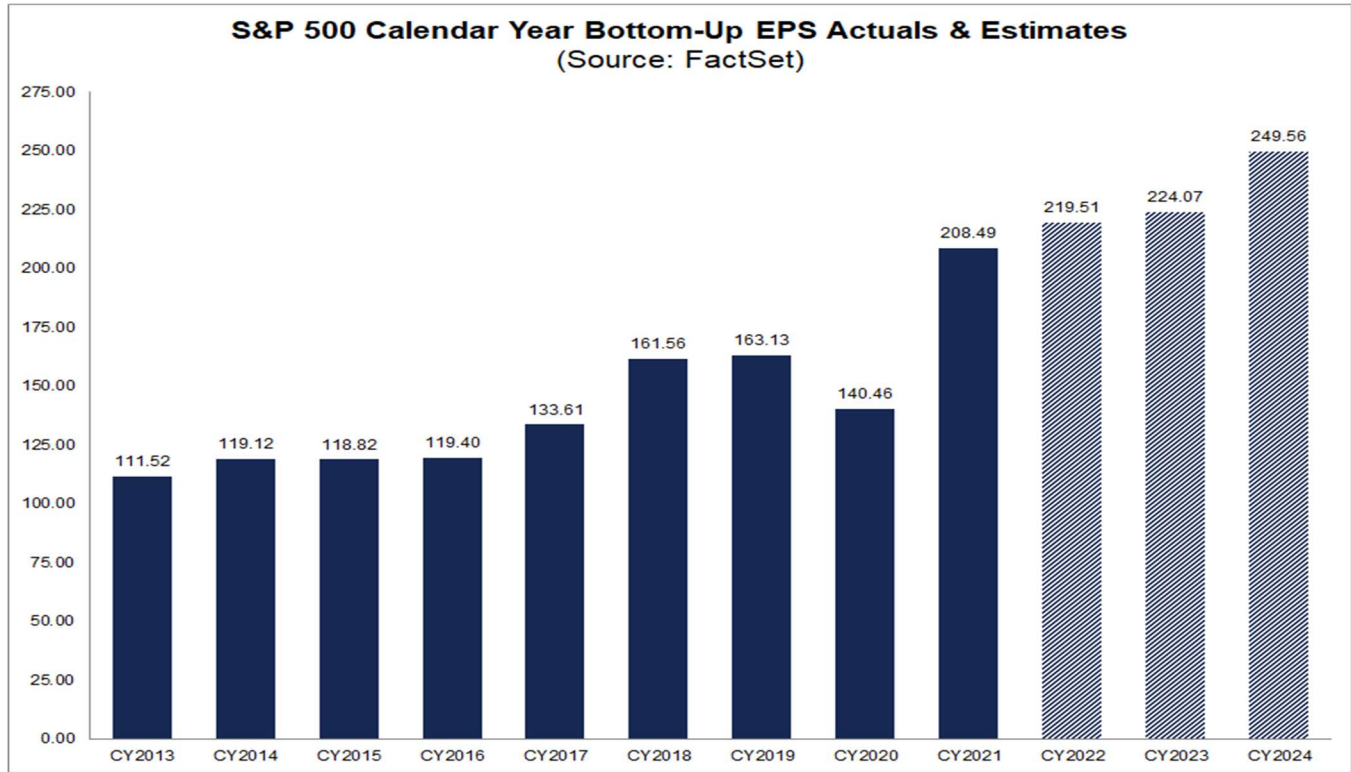
Geographic Revenue Exposure



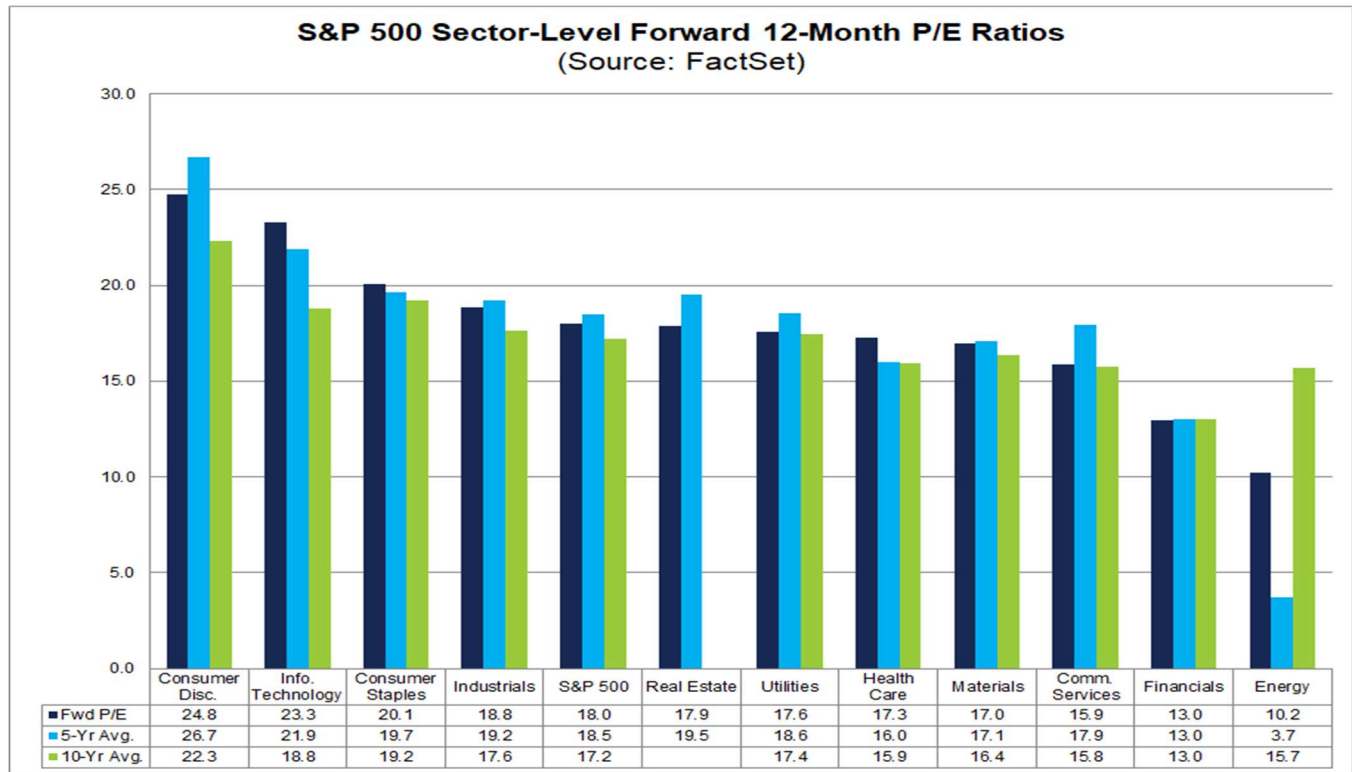
Bottom-Up EPS Estimates



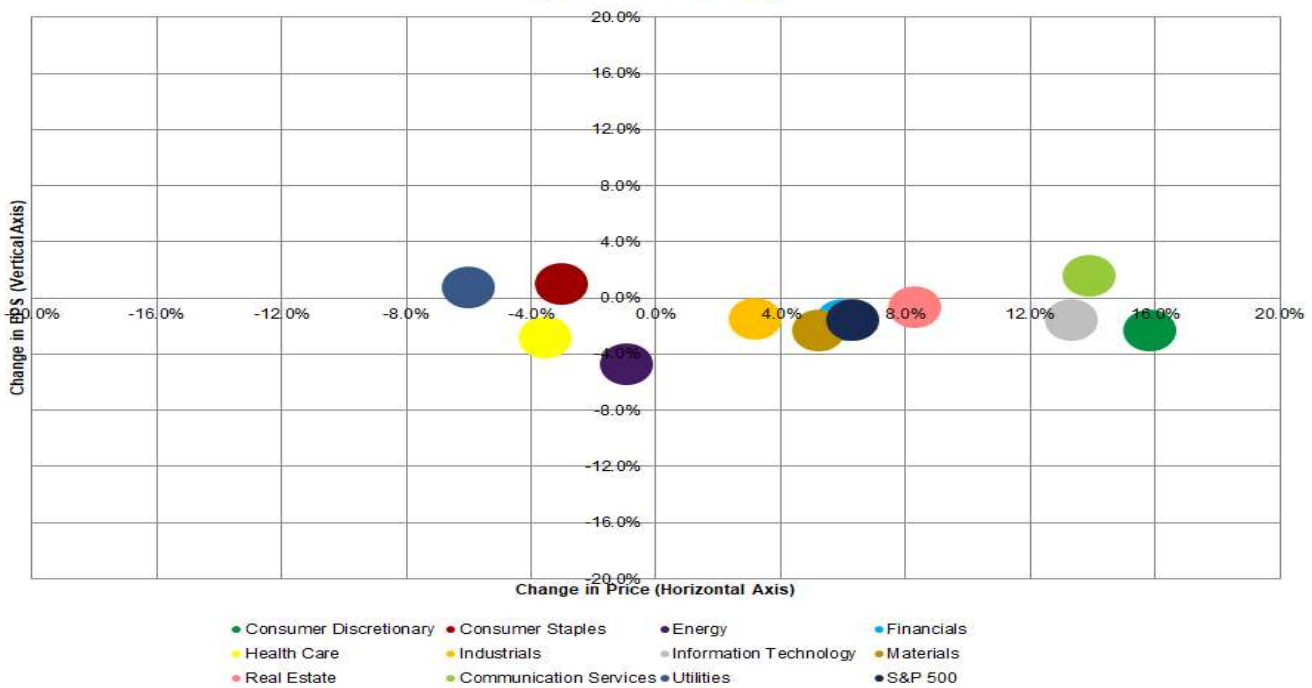
Bottom-Up EPS Estimates: Current & Historical



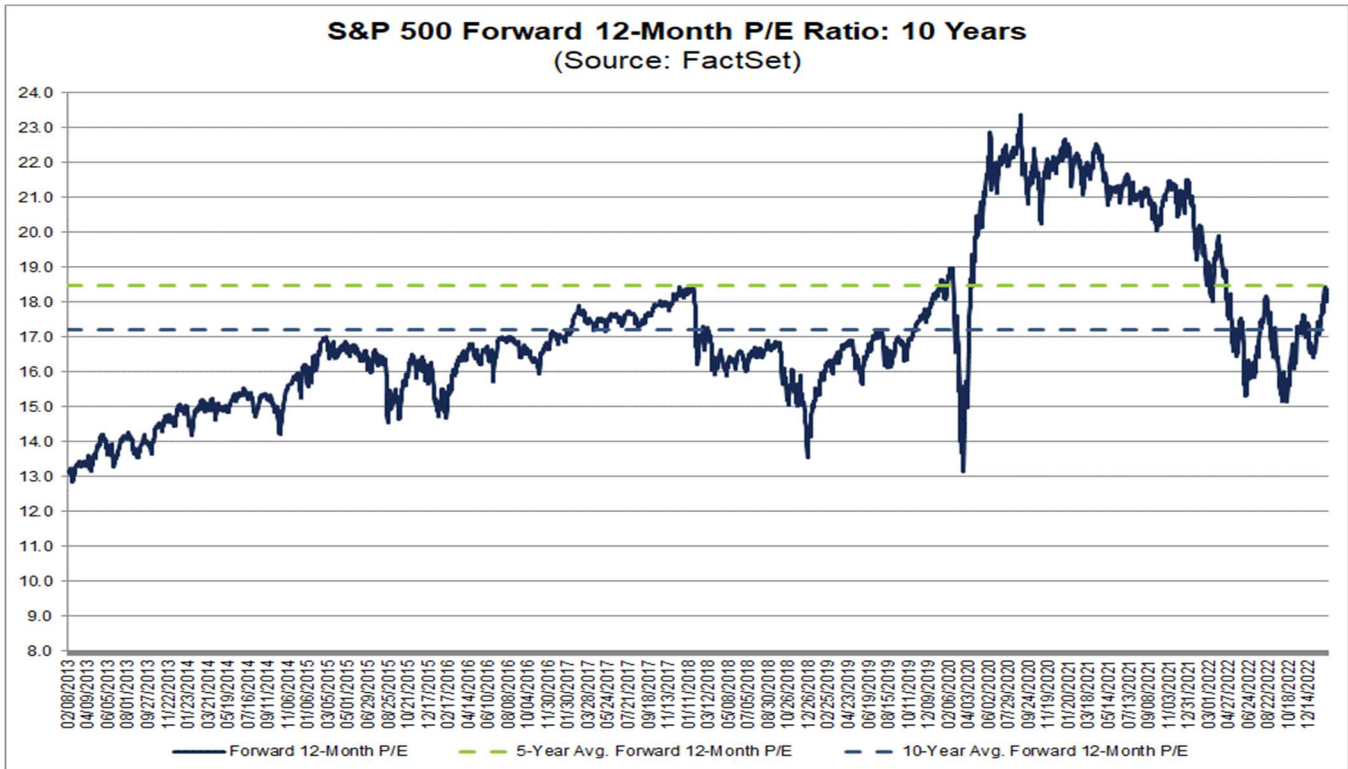
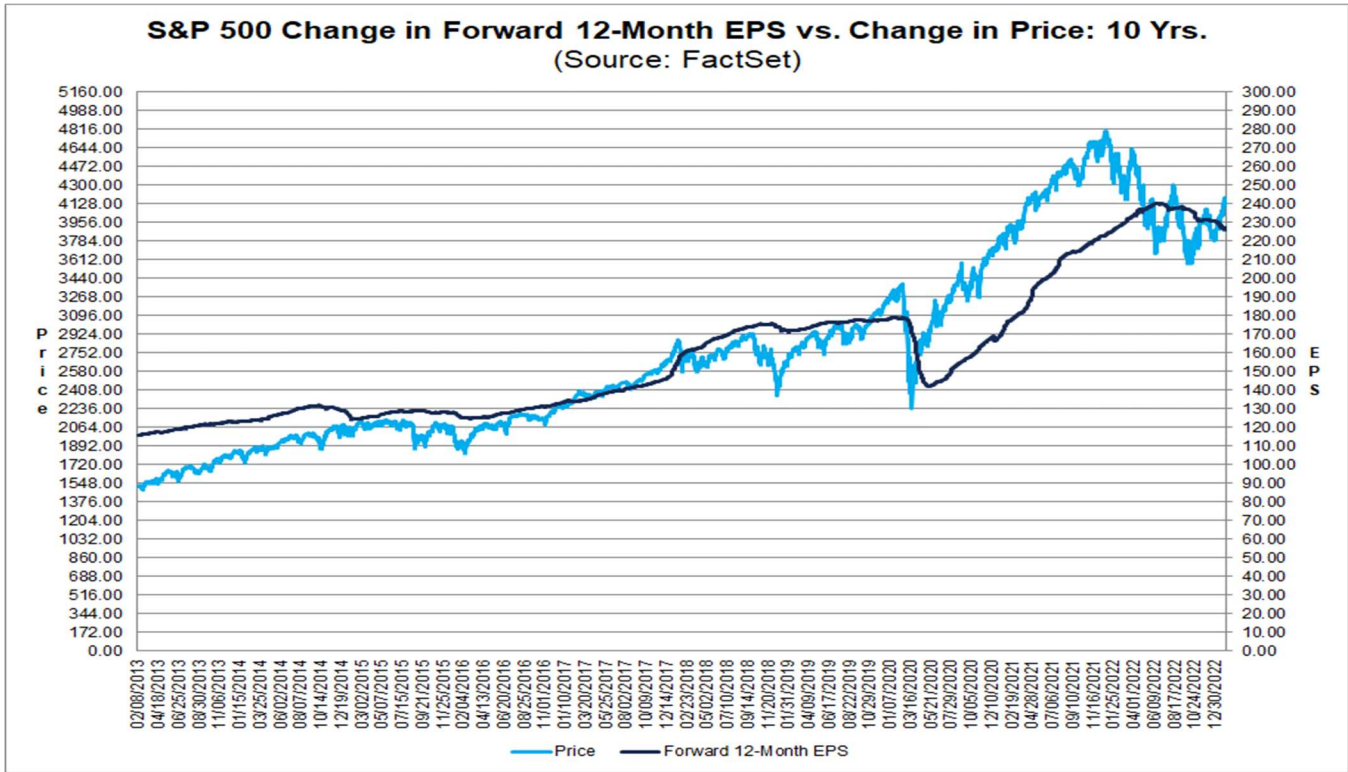
Forward 12M P/E Ratio: Sector Level



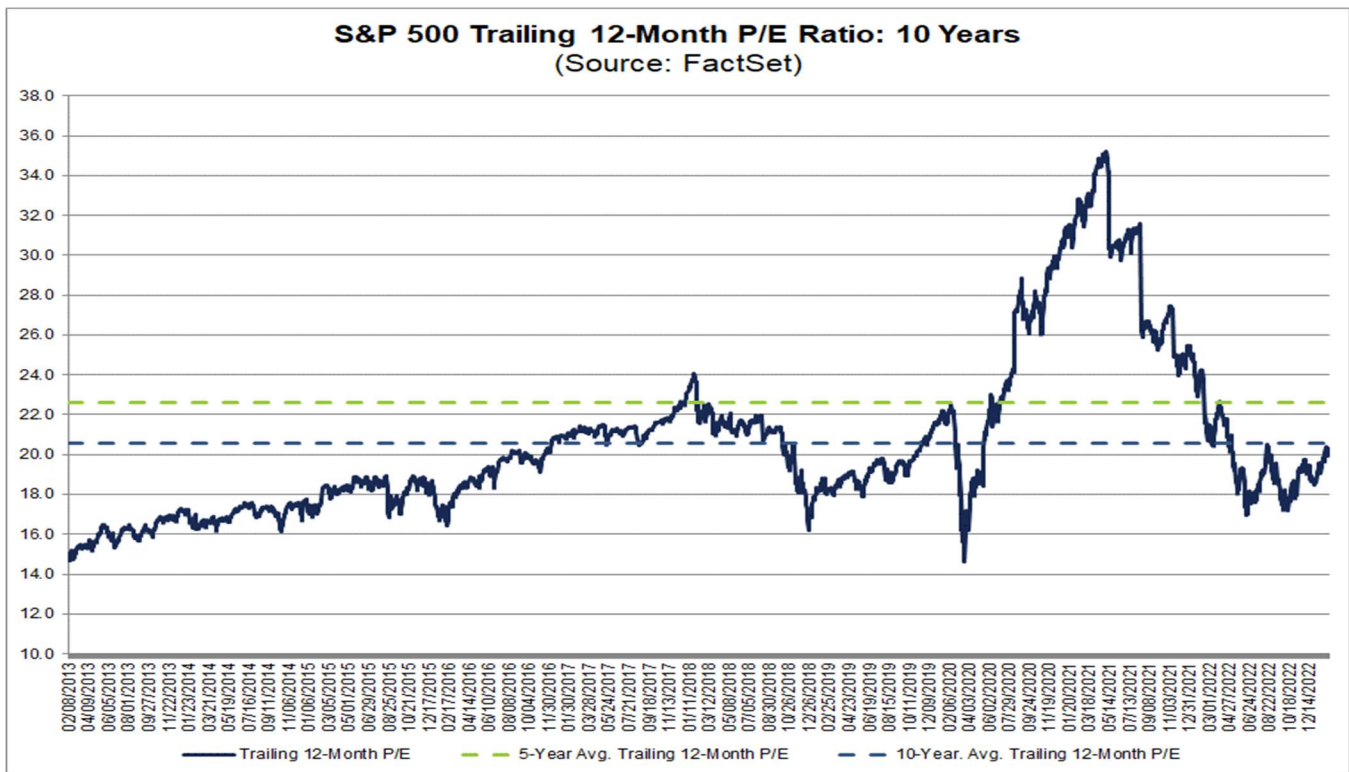
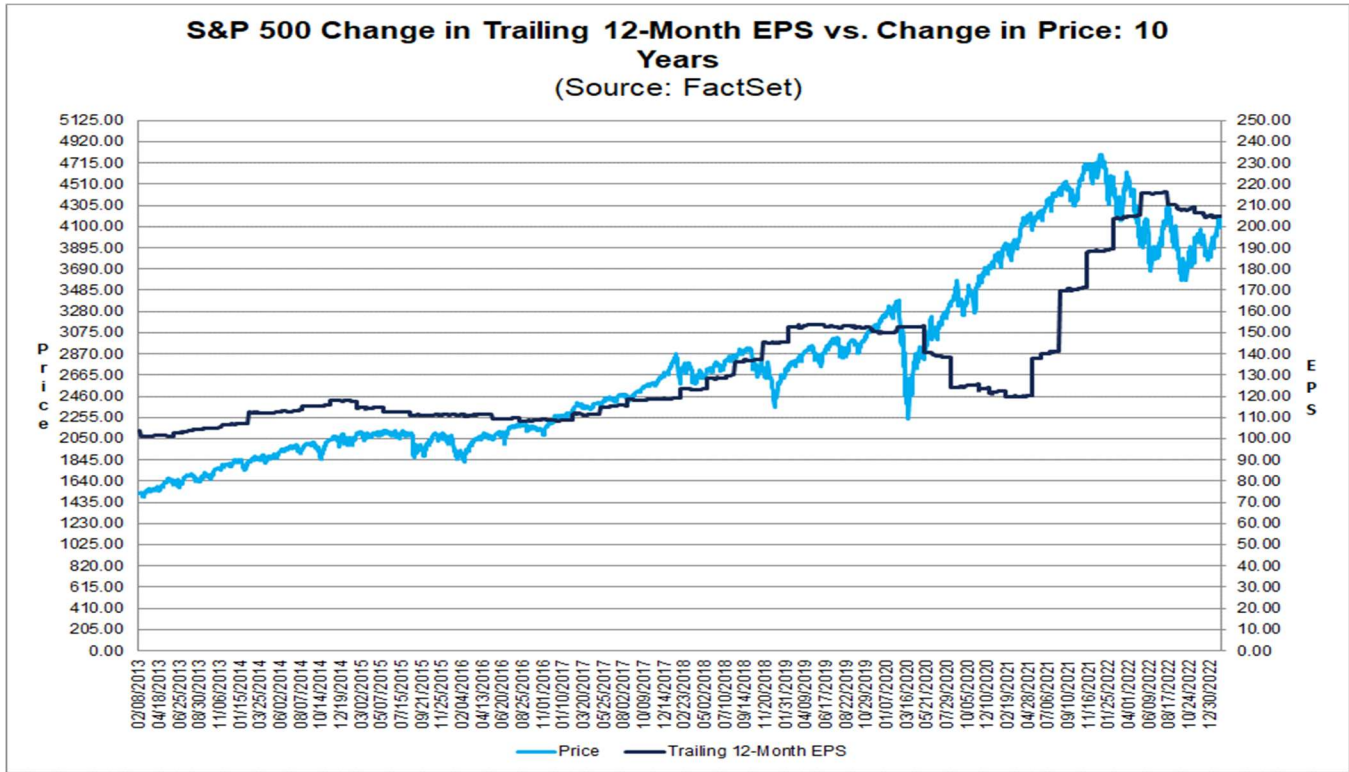
Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Dec. 31 (Source: FactSet)



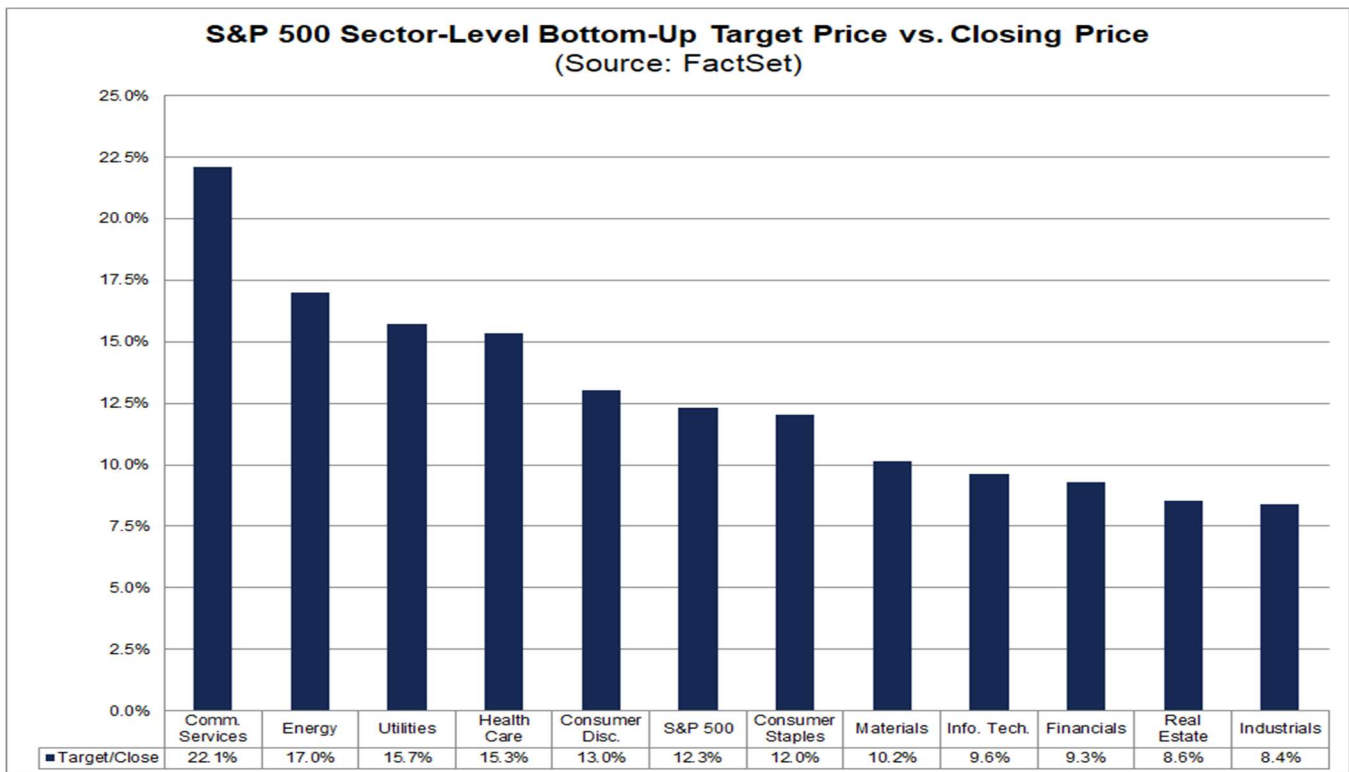
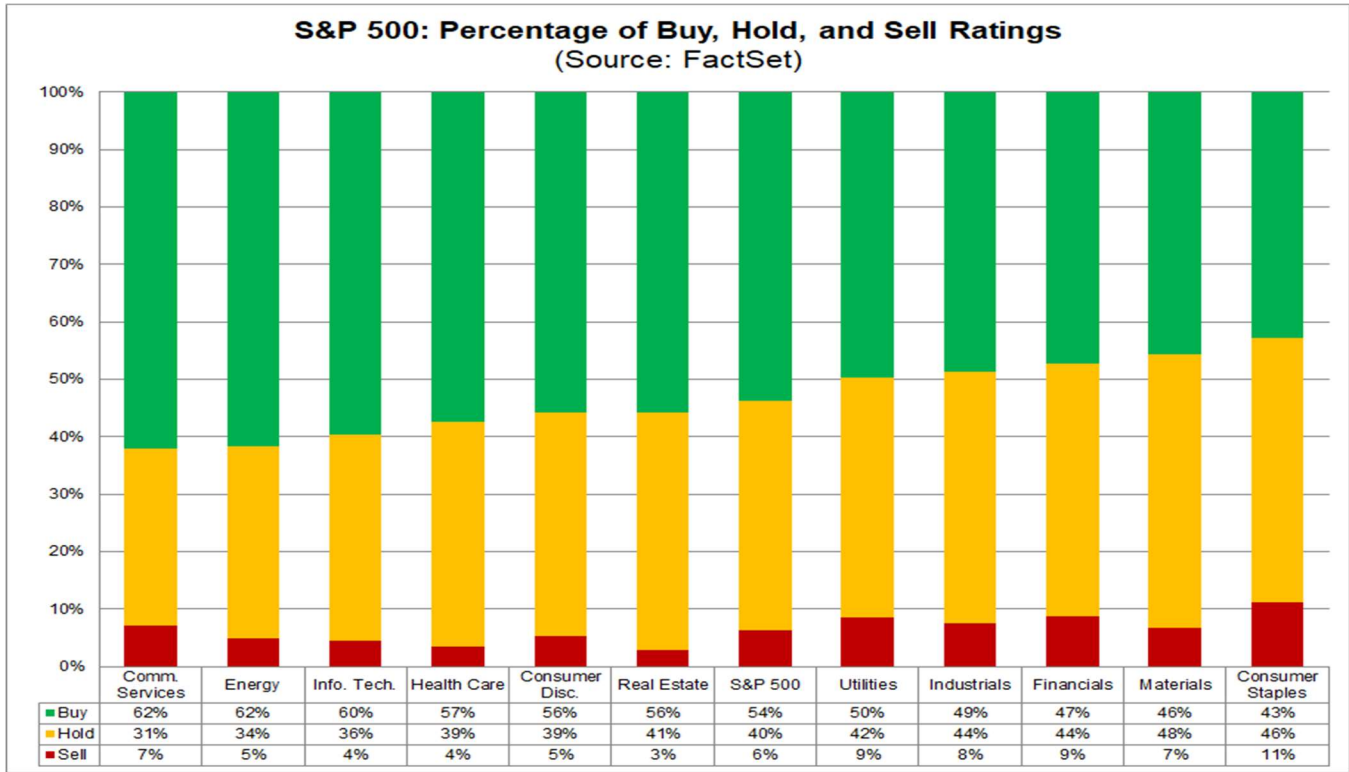
Forward 12M P/E Ratio: 10-Years



Trailing 12M P/E Ratio: 10-Years



Targets & Ratings



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