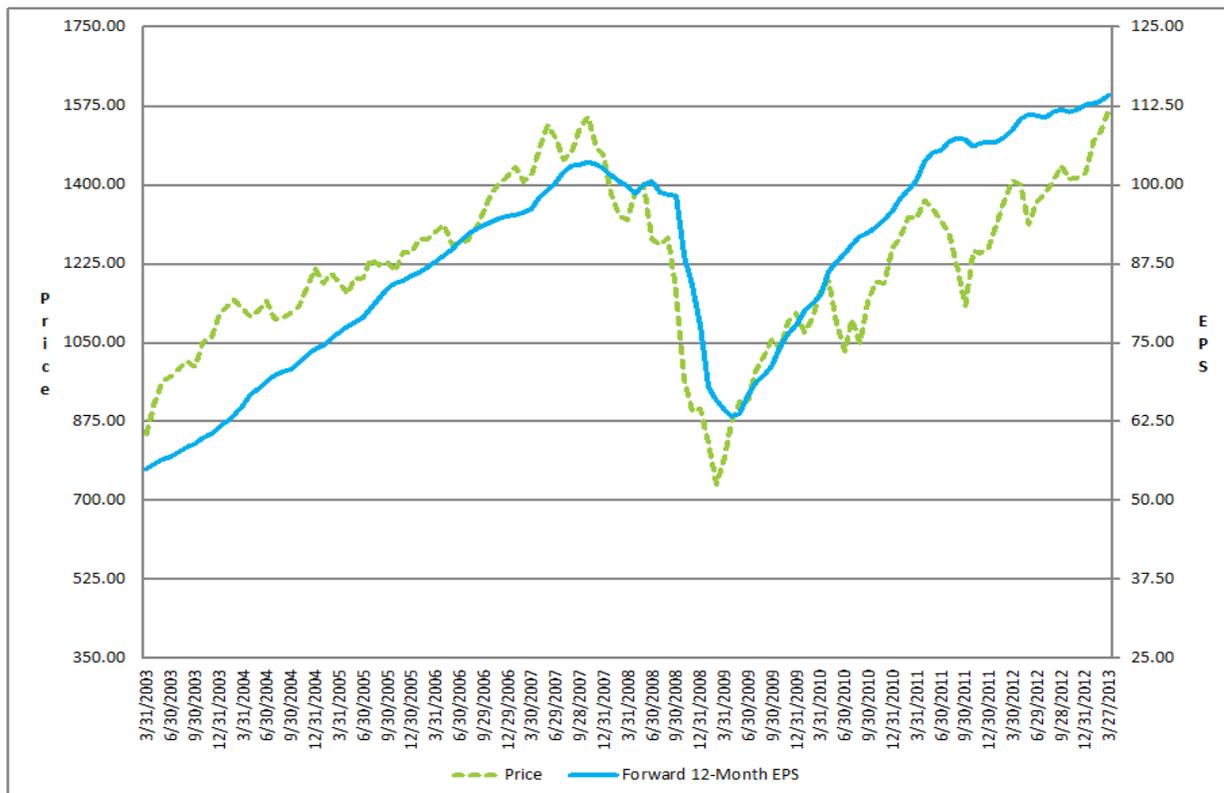


Key Metrics

- + **Earnings Growth:** The estimated earnings growth rate for Q1 2013 is -0.7%. If the final number is negative, it will mark the second year-over-year decline in earnings for the index in the past three quarters.
- + **Earnings Revisions:** On December 31, the earnings growth rate for Q1 2013 was 2.1%. Nine of the ten sectors have recorded a decrease in expected earnings growth, led by the Materials, Information Technology, and Consumer Discretionary sectors.
- + **Earnings Guidance:** For Q1 2013, 86 companies have issued negative EPS guidance and 24 companies have issued positive EPS guidance.
- + **Valuation:** The current 12-month forward P/E ratio is 13.7. This P/E ratio is based on Wednesday's closing price of 1562.85 and forward 12-month EPS estimate of \$114.08.
- + **Earnings Scorecard:** Of the 19 companies that have reported earnings to date for Q1 2013, 74% have reported earnings above the mean estimate and 53% have reported revenues above the mean estimate.

S&P 500 Forward 12-Month EPS vs. Price: 10-Year



All data published in this report is available on FactSet. Please contact media_request@factset.com or 1-877-FACTSET for more information.

Topic of the Week:

S&P 500 Near Record Highs Despite Cuts to Earnings Estimates During Q1 2013

Over the course of the first quarter, analysts have lowered earnings estimates for companies in the S&P 500 for the quarter. The Q1 bottom-up EPS estimate (which is an aggregation of the estimates for all 500 companies in the index) has dropped 3.1% (to \$25.52 from \$26.33) since December 31. How significant is a 3.1% decline in the aggregate EPS estimate during the quarter? How does this decrease compare to the recent quarters?

During the past year (4 quarters), the average decline in the EPS estimate during the quarter has been 4.4%. During the past five years (20 quarters), the average decline in the EPS estimate during the quarter has been 7.2%. During the past ten years, (40 quarters), the average decline in the EPS estimate during the quarter has been 4.2%. Thus, the decline in the EPS estimate recorded during the course of the Q1 2013 quarter was lower than the trailing 1-year, 5-year, and 10-year averages.

Although the percentage reduction was lower than average, analysts did take down earnings estimates during the quarter. At the same time, the value of the S&P 500 increased 9.6% (to 1562.85 from 1426.19), and has closed near record high values in recent weeks. Is it unusual for the earnings estimate for the index to decline and the value of the index to increase during the course of a quarter?

In recent quarters, it has not been unusual for the value of the index to increase at the same time analysts are trimming earnings estimates for the same quarter. In fact, it has occurred in 10 of the past 20 quarters (including Q1 2013). During these ten quarters, the average decrease in the bottom-up EPS has been 2.9%, while the average increase in the value of the index has been 9.5%. These percentages are actually very similar to the percentage decline in EPS (-3.1%) and percentage improvement in the value of the index (9.6%) recorded for Q1 2013.

S&P 500 Q1 2013: Change in EPS Estimate vs. Price



Q1 2013 Earnings Season: Overview

No Change in Earnings Growth This Week; Estimate Cuts Overall Lower Than Average

The estimated earnings growth rate for Q1 2013 is -0.7% this week, unchanged from last week's growth rate estimate of -0.7%.

Materials, Information Technology, and Consumer Discretionary: Largest Drop in Growth

However, the estimated earnings growth rate of -0.7% today for the index is below the estimate of 2.1% at the start of the quarter (December 31). Nine of the ten sectors have witnessed a decrease in expected earnings growth over this time frame, led by the Materials, Information Technology, and Consumer Discretionary sectors.

The projected earnings growth rate for the Materials sector is 0.2% today, down from an expectation of 7.0% at the start of the quarter. Companies in the Steel sub-industry in this sector have recorded significant cuts to estimates over this time frame, including U.S. Steel (to -\$0.17 from \$0.27), Nucor (to \$0.26 from \$0.61), and Allegheny Technologies (to \$0.24 from \$0.38).

The predicted earnings growth rate for the Information Technology sector is -3.7%, down from a projection of growth of 1.3% at the beginning of the quarter. Companies in semiconductor industries have recorded large declines in earnings estimates since December 31, including Teradyne (to \$0.03 from \$0.17), NVIDIA (to \$0.10 from \$0.21), and Lam Research (to \$0.37 from \$0.51).

The estimated earnings growth for the Consumer Discretionary sector is 2.4%, below an estimate of 7.3% on December 31. Companies that have witnessed substantial reductions in estimates during this time include Abercrombie & Fitch (to -\$0.04 from \$0.14), J.C. Penney (to -\$0.67 from -\$0.30), Amazon.com (to \$0.09 from \$0.35), and Cablevision (to \$0.04 from \$0.15).

The only sector that has not recorded a decline in expected earnings growth during this time is the Financials sector. The estimated earnings growth rate for the sector is 3.1%, slightly above the prediction on December 31 (3.0%).

Bottom-Up EPS Estimate: Estimate Cuts Running Slightly Lower Than Long-Term Average

Although nine of the ten sectors have recorded declines in expected earnings growth, the aggregate percentage reduction to estimates for the quarter on a per share basis (-3.1%) is slightly lower than the trailing 10-year average (-4.2%). Please see page 2 for more details.

EPS Guidance: High Percentage (78%) Issued for Q1 to date

The reduction in the earnings growth rate for the quarter can be attributed in part to the high percentage of companies that have issued negative EPS guidance for the quarter, particularly in the Materials and Consumer Discretionary sectors. Please see our "Guidance Monthly" report coming later today for more details on guidance.

Of the 110 companies that have issued EPS guidance for the first quarter, 86 have issued projections below the mean EPS estimate and 24 have issued projections above the mean EPS estimate. Thus, 78% (86 out of 110) of the companies that have issued EPS guidance to date for Q1 2013 have issued negative guidance. This percentage is well above the five-year average of 61%.

At the sector level, the Materials (100%), Health Care (88%), and Consumer Discretionary (81%) sectors have the highest percentages of companies issuing negative guidance (with a minimum of five companies issuing EPS guidance in the sector). The Materials and Consumer Discretionary sectors are two of the three sectors that have also recorded the largest declines in expected earnings growth since the start of the quarter.

Slight Year-Over-Year Earnings Decline (-0.7%) Projected for Q1 2013

The estimated earnings growth rate for Q1 2013 is -0.7%. If this is the final growth rate for the quarter, it will mark the second year-over-year decline in earnings for the index in the past three quarters. Four of the ten sectors are predicted to report lower earnings relative to a year ago, led by the Energy and Information Technology sectors. On the other hand, the Utilities, Financials, and Consumer Discretionary sectors are expecting the highest earnings growth rates for the quarter.

Energy: Lowest Earnings Growth (-5.0%)

The Energy sector has the lowest earnings growth rate at -5.0%. Five of the seven sub-industries in the sector are expected to see a year-over-year decrease in earnings, led by the Coal & Consumable Fuels (-99%) sub-industry. On the other hand, the Oil & Gas Refining & Marketing sub-industry (56%) is predicted to have the highest earnings growth of any sub-industry in the sector. Some of the earnings weakness in this sector can be attributed to lower oil prices. Despite the recent increase in prices this past week, the average price of crude oil for the quarter to date is \$94.36 (NYM/\$bbl.), which is 8.4% below the average price (\$103.05) recorded in Q1 2012.

Information Technology: Apple (-18%) vs. Microsoft (+28%)

The Information Technology sector has the second lowest earnings growth of any sector at -3.7%. Four of the eight industries in this sector are projected to see a decline in earnings, led by the Semiconductor & Semiconductor Equipment (-27%) and Computers & Peripherals (-19%) industries.

At the company level, Apple is the largest detractor to earnings growth for the sector, as the company is expected to report a year-over-year decline in EPS for the second consecutive quarter. The current mean EPS estimate for the company is \$10.12, compared to EPS of \$12.30 reported in the year-ago quarter. If Apple is excluded, the earnings growth rate for the sector improves to 0.4%.

On the other hand, Microsoft is the largest contributor to earnings growth in the sector. The company is benefitting from both an expectation for high EPS in Q1 2013 (\$0.77), and a relatively easy comparison to year-ago EPS (\$0.60), resulting in projected EPS growth of 28% for the quarter. This would mark the highest EPS growth for Microsoft in nearly two years (Q2 2011). If Microsoft is excluded, the earnings growth rate for the sector falls to -7.3%.

Utilities: Highest Earnings Growth (7.7%) Due to Small Group of Companies

The Utilities sector has the highest earnings growth of any sector at 7.7%. All four industries in this sector are predicted to report an increase in earnings relative to last year. However, four companies are driving the growth in the sector: Duke Energy, NRG Energy, Northeast Utilities, and Edison International. Duke Energy and Northeast Utilities have completed mergers in the past year, which is helping to boost the earnings growth for these companies. If all four of these companies are excluded, the earnings growth rate for the sector falls to -1.5%.

Financials: Q1 a Trough in Growth

The Financials sector has the second highest earnings growth rate of any sector at 3.1%. This marks a drop in earnings growth for the sector from the 16.6% growth reported in Q4 2012 and the 11.7% growth reported in Q3 2012. One reason for the decline is that companies in the Investment Bank & Brokerage sub-industry (such as Morgan Stanley and Goldman Sachs) that were large contributors to earnings growth in recent quarters are expected to report year-over-year declines in earnings in Q1. Only four of the eight industries in the sector are predicted to see earnings growth, led by the Diversified Financial Services (29%) industry.

However, the first quarter is expected to be a trough in earnings growth for the Financials sector. Earnings growth is projected to return to double-digit levels for the remainder of 2013, led by companies such as Bank of America and Citigroup. In fact, Bank of America is the largest contributor to earnings growth for Q1. The mean EPS estimate for the company is \$0.22, relative to year-ago EPS of \$0.03. If Bank of America is excluded, the earnings growth rate for Q1 drops to -1.5%.

On the other hand, AIG is the largest detractor to earnings growth for the sector. AIG is predicted to be one of the largest detractors to earnings growth for the sector through the first three quarters of 2013. The mean EPS estimate for the company is \$0.83, compared to year-ago EPS of \$1.65. If this company is excluded, the earnings growth rate for the sector improves to 8.0%.

Consumer Discretionary: Homebuilders (269%) Expecting Highest Growth

The Consumer Discretionary sector has the third highest earnings growth rate at 2.4%. At the sub-industry level, 21 of the 32 sub-industries are projected to report growth for the quarter. The Homebuilding (269%) and Leisure Products (184%) sub-industries are expected to see the highest earnings growth, while the Computer & Electronics Retail (-84%) and Education Services (-45%) sub-industries are expected to see the lowest earnings growth.

Slight Year-Over-Year Revenue Growth (0.4%) Projected for Q1 2013

The estimated revenue growth rate for Q1 2013 is 0.4%, down from an estimate of 0.9% at the start of the quarter. Only two of the ten sectors are predicted to report a decline in revenues: Energy and Materials. On the other hand, the Utilities and Health Care sectors are expected to report the highest revenue growth for the quarter.

The Utilities sector has the highest revenue growth rate (along with the Health Care sector) at 6.3%. At the company level, Duke Energy is the largest contributor to earnings growth. If this company is excluded, the growth rate for the Utilities sector drops to 3.7%.

The Health Care sector has the highest revenue growth rate (along with the Utilities sector) at 6.3%. At the company level, Express Scripts is the largest contributor to revenue growth. The company's revenue estimate for Q1 2013 includes the results of Medco, while the year-ago revenue actual is stand alone. Excluding this company, the revenue growth rate for the sector falls to 1.6%.

The Energy sector has the lowest revenue growth rate of all ten sectors at -12.4%. At the company level, Conoco Phillip is the largest detractor to growth in the sector. For Conoco Phillips, revenues for Q1 2013 are stand alone for Conoco Phillips, while the year-ago revenues include Phillips 66. Excluding Conoco Phillips, the revenue growth rate for the Energy sector improves to -2.0%.

Global Themes: Europe vs. Emerging Markets

Europe is reporting a decline in economic growth relative to last year. According to FactSet Economics, the European Union recorded a decrease in GDP of 0.6% in Q4 2012, compared to growth of 0.8% in Q4 2011. During the fourth quarter earnings season, many companies stated that economic conditions were still weak in Europe.

"The decline in Ford Europe's fourth quarter pre-tax results was more than explained by unfavorable volume and mix. The industry for the 19 markets Ford tracks in Europe was 13.5 million units, the lowest quarterly SAAR since 1995." – Ford Motor (Jan. 29)

Economic growth in countries in emerging markets has also been decreasing over the past year. According to FactSet Economics, two of the four "BRIC" countries recorded slower GDP growth, while one country recorded constant growth during this time. For Q4 2011, China, India, and Brazil recorded GDP growth of 8.9%, 5.8% and 1.4%, respectively. By Q4 2012, GDP growth rates for China, India, and Brazil had fallen to 7.9%, 4.1% and 1.4%.

However, the 7.9% GDP growth reported by China reflected a sequential improvement relative to the GDP growth reported for Q3 2012 (7.4%). A number of companies have stated that they saw strength in emerging markets in the fourth quarter, or that they expect stronger economic growth and demand for goods in emerging markets (particularly China) in 2013.

"Growth in China is showing signs of picking up with positive implications for the rest of Asia. The general consensus of our business leaders on China is the economy is improving and this will continue through 2013." –DuPont (Jan. 22)

Will revenue growth continue to be weak in Europe? Will revenue growth improve in emerging markets (China)? These will be themes to monitor during the upcoming earnings season

Domestic Themes: Housing Market vs. Fiscal Policy

In the U.S., the housing market continues to show signs of recovery. During the fourth quarter earnings season, a number of companies commented on the positive impact of this development on revenue and earnings growth.

"Our first quarter results clearly reflect continued improvement in the marketplace. Current market conditions are driven by strong demand resulting from low interest rates and attractive home prices, which have led to very affordable monthly payments, compared to increasing rental rates." –Lennar (Mar. 20)

"In the U.S., we expect demand to be up 2% to 3% for the year as we're increasingly optimistic about a more structural demand recovery and we do continue to see very positive trends in U.S. housing." –Whirlpool (Jan.31)

On the other hand, companies have also commented on the negative impact of fiscal policy issues such as the increase in the payroll tax and the impact of continuing resolutions and sequestration as impediments to earnings growth for the fourth quarter.

"This quarter same-restaurant traffic at our three large brands was negative and certainly some of the external factors we're all aware of including the payroll tax increase, the spike in gasoline prices and more severe winter weather this year contributed to that." – Darden Restaurants (Mar. 22)

"As I mentioned, it doesn't help that the sequester deadline is on the last day of our quarter, and so that has a little bit of an impact here in North America but not necessarily anywhere else." –Oracle (Mar. 20)

Will the improving housing market continue to boost revenue growth in Q1? To what extent will fiscal policies continue to have a negative impact on revenue and earnings growth? These will be themes to monitor during the upcoming earnings season.

Analysts Cutting Estimates, but Still See Double-Digit Earnings Growth in 2nd Half

Since the start of the first quarter (December 31), analysts have also reduced earnings growth expectations for Q2 2013 (to 4.7% from 6.3%), Q3 2013 (to 10.1% from 10.4%), and Q4 2013 (to 15.6% from 17.3%).

Despite the estimate cuts, analysts are still calling for double-digit earnings growth in Q3 2013 (10.1%) and Q4 2013 (15.6%). However, analysts are predicting much lower revenue growth rates for both Q3 (4.5%) and Q4 (2.3%) compared to the earnings growth rates.

Valuation: Forward P/E at 13.7, Between 5-Year Average and 10-Year Average

The current forward 12-month P/E ratio for the index is 13.7. The P/E ratio is based on Wednesday's closing price of 1562.85 and forward 12-month EPS estimate of 114.08.

This 13.7 P/E ratio is above the prior 5-year average forward 12-month P/E ratio of 12.8, but below the prior 10-year average forward 12-month P/E ratio of 14.2. It is also above the P/E ratio of 13.4 recorded one month ago.

At the sector level, the Telecom Services sector has the highest forward 12-month P/E ratio at 17.5, while the Financials (11.7) and Energy (12.1) sectors have the lowest forward 12-month P/E ratios.

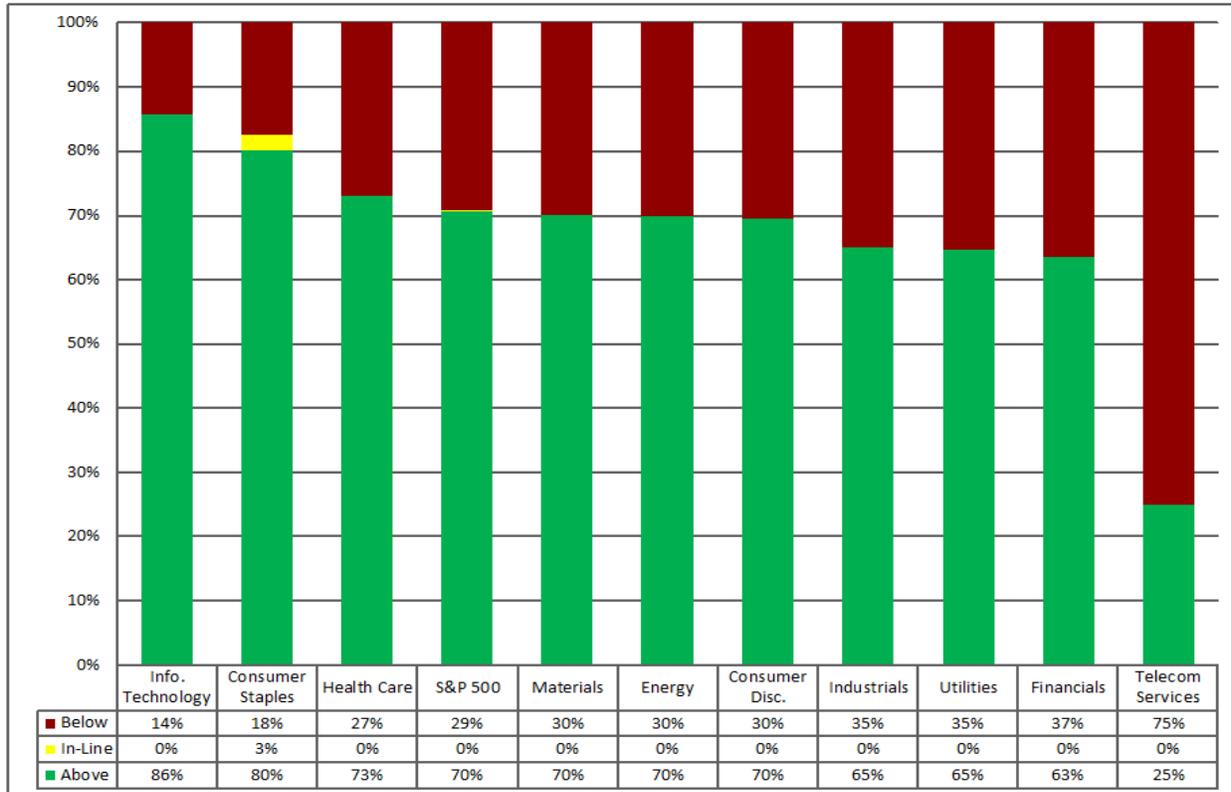
Over the past month, the Health Care (to 14.3 from 13.7) sector has seen the largest increase in the forward 12-month P/E ratios of all ten sectors. No sector recorded a decline in the forward 12-month P/E ratio over the past month.

Companies Reporting Next Week: 4

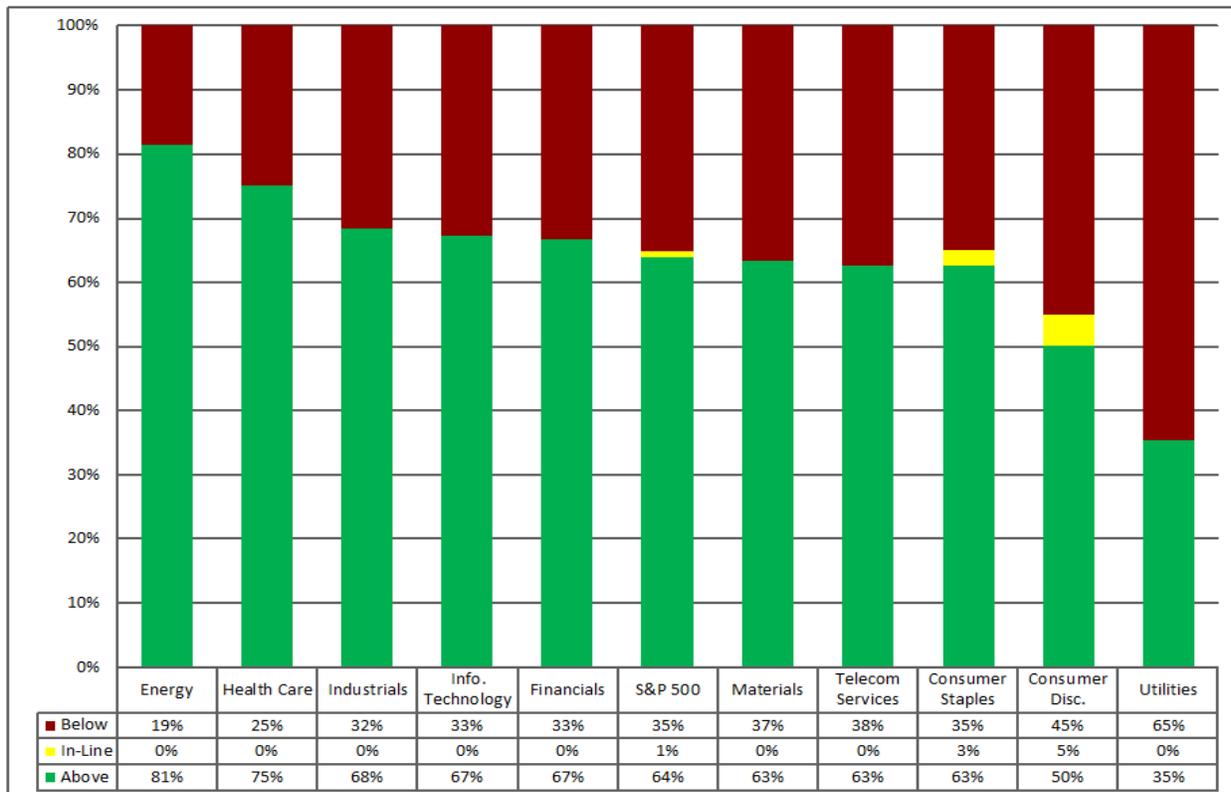
During the upcoming week, four S&P 500 companies are scheduled to report earnings for Q1 2013.

Q4 2012: Scorecard

Q4 2012 Earnings: Above, In-Line, Below Estimates

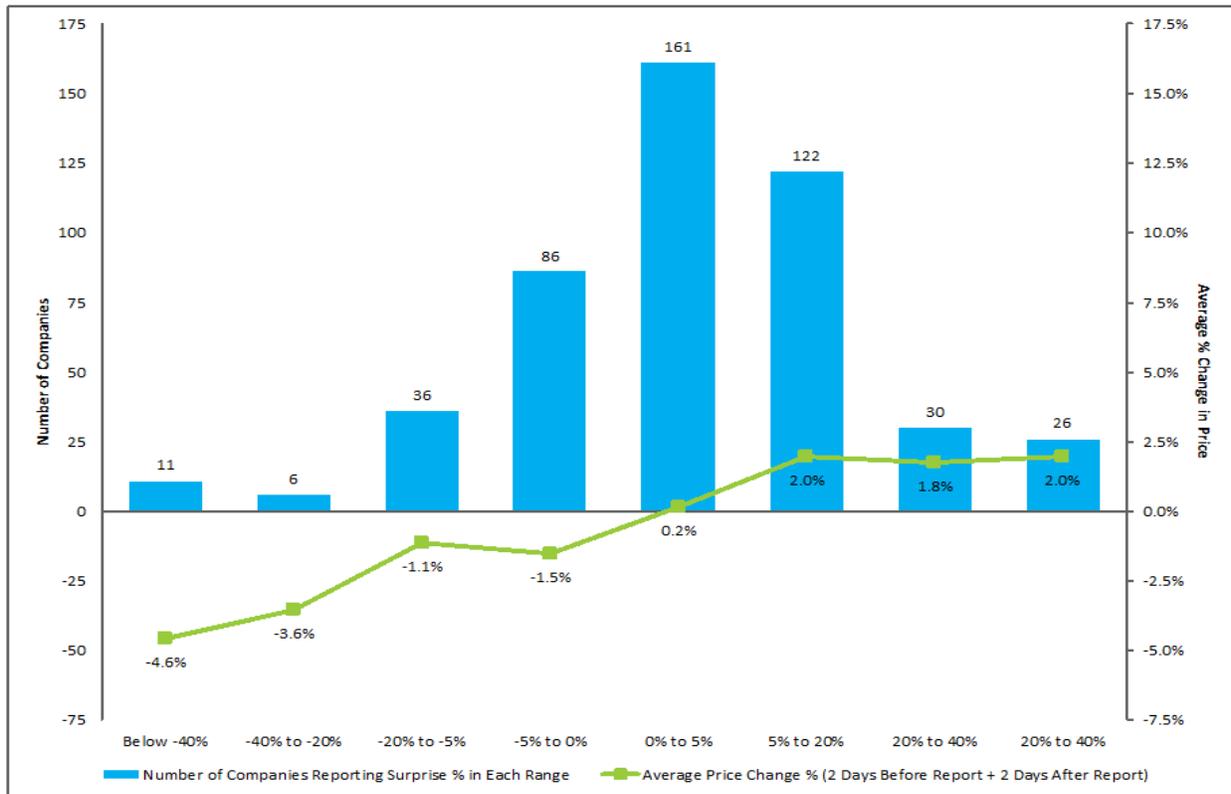


Q4 2012 Revenues: Above, In-Line, Below Estimates

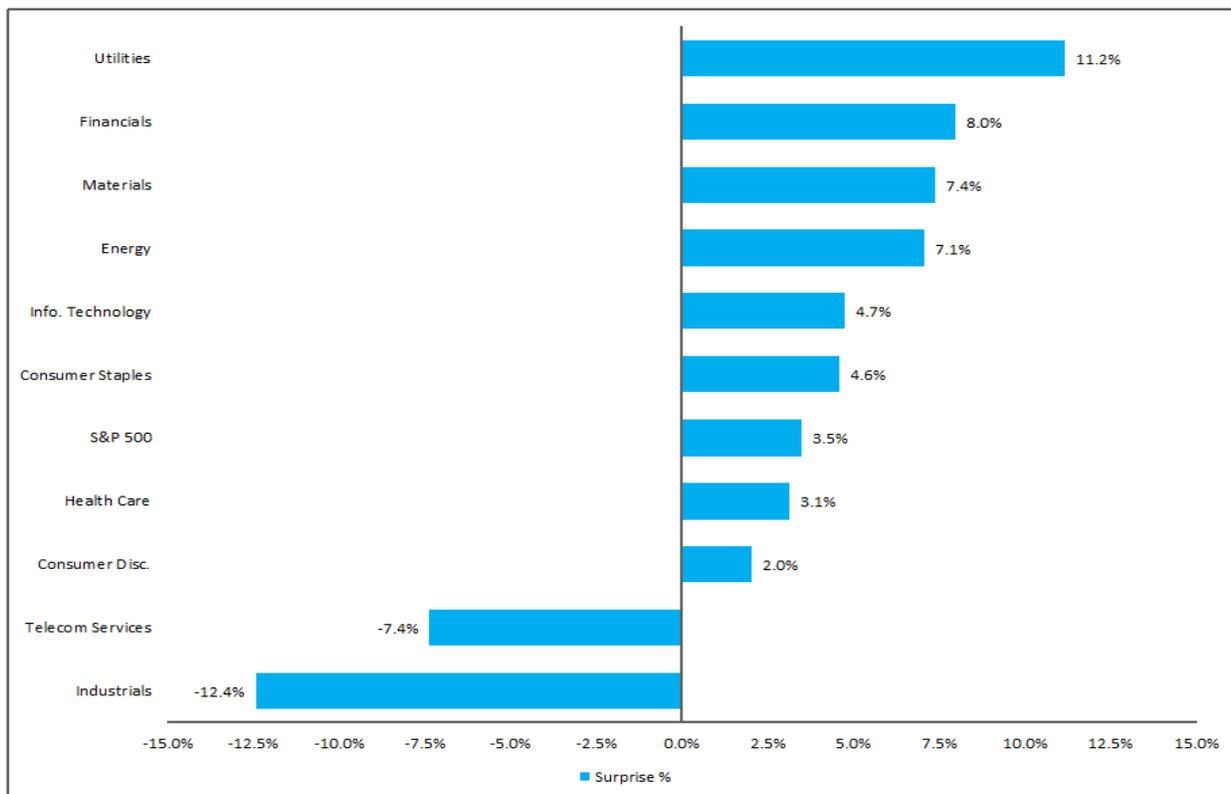


Q4 2012: Scorecard

Q4 2012: Surprise % vs. Average Price Change %

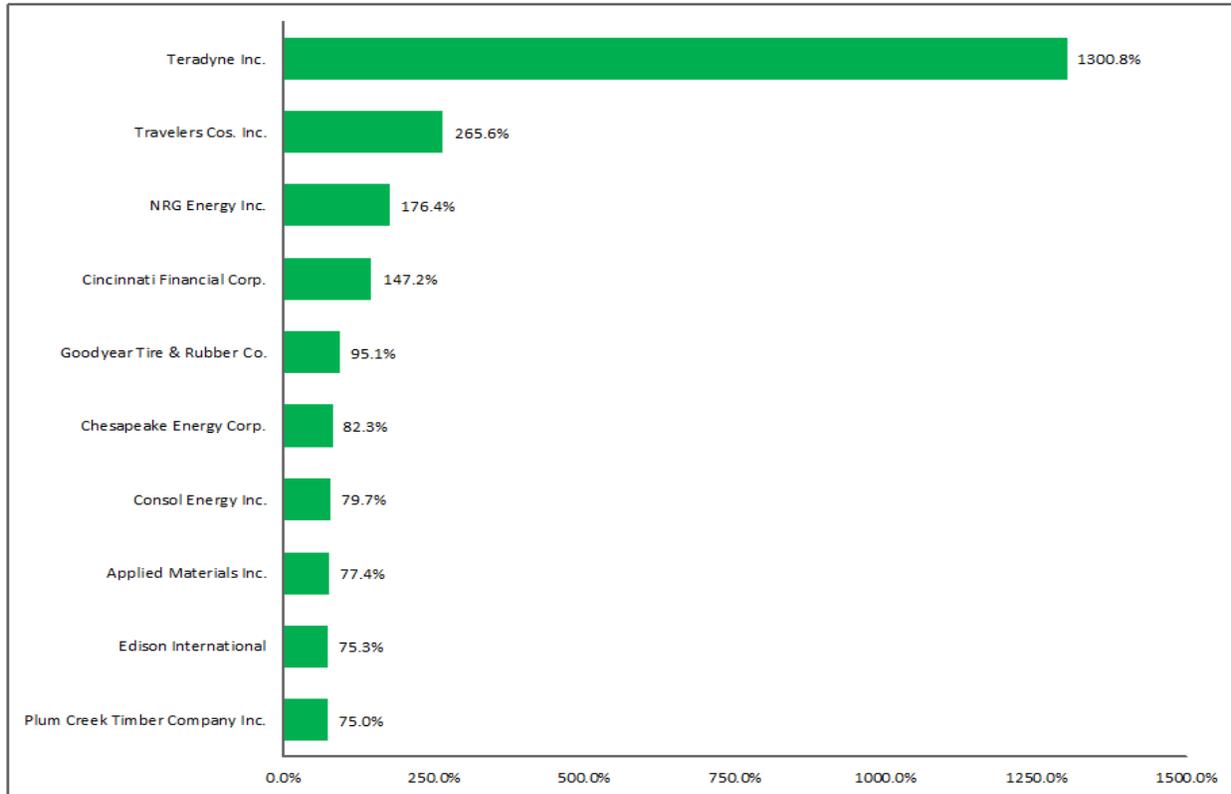


Q4 2012: Sector Level Surprise %

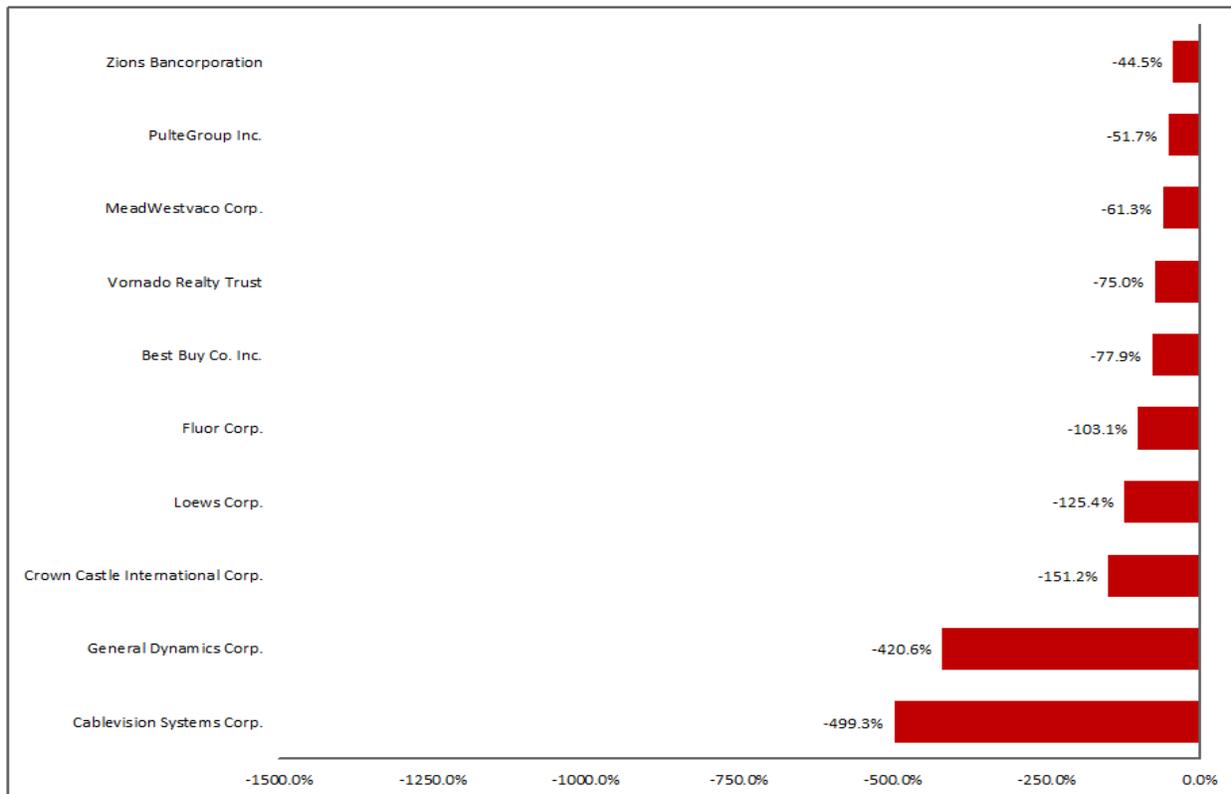


Q4 2012: Scorecard

EPS Surprise %: Top 10 Companies

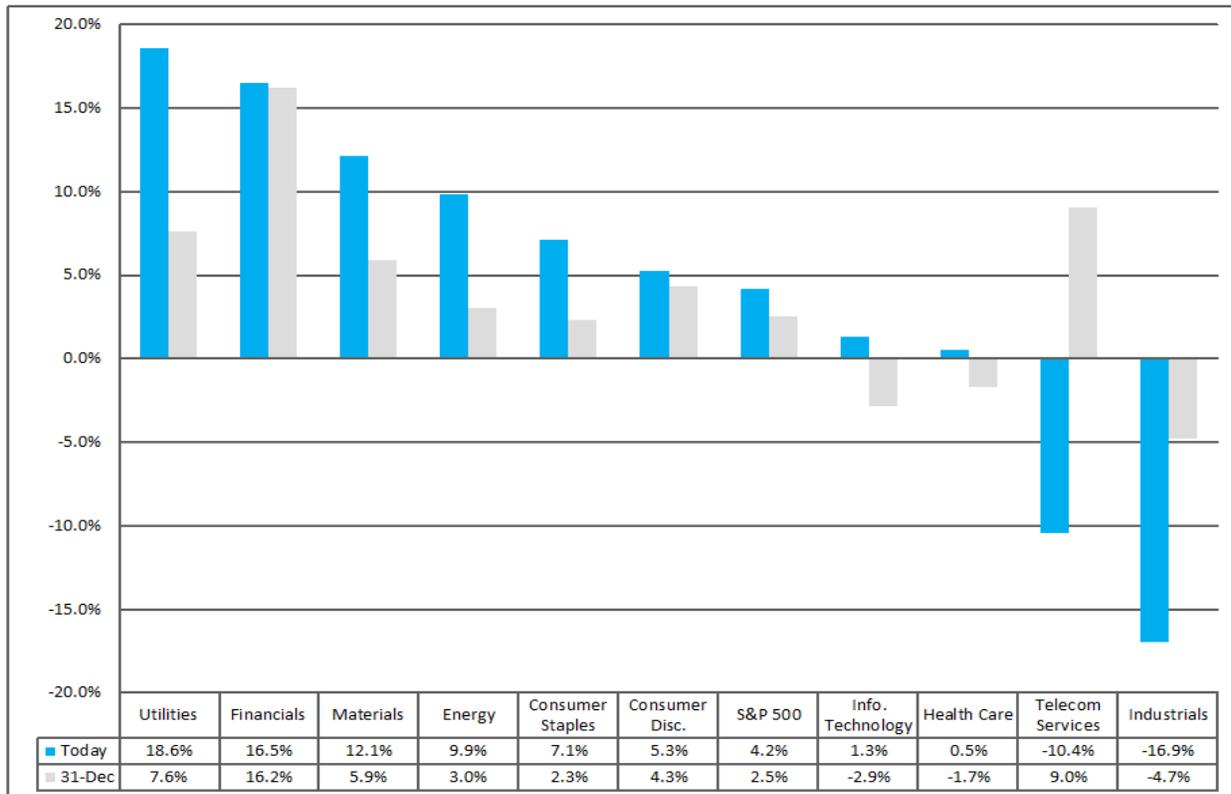


EPS Surprise %: Bottom 10 Companies

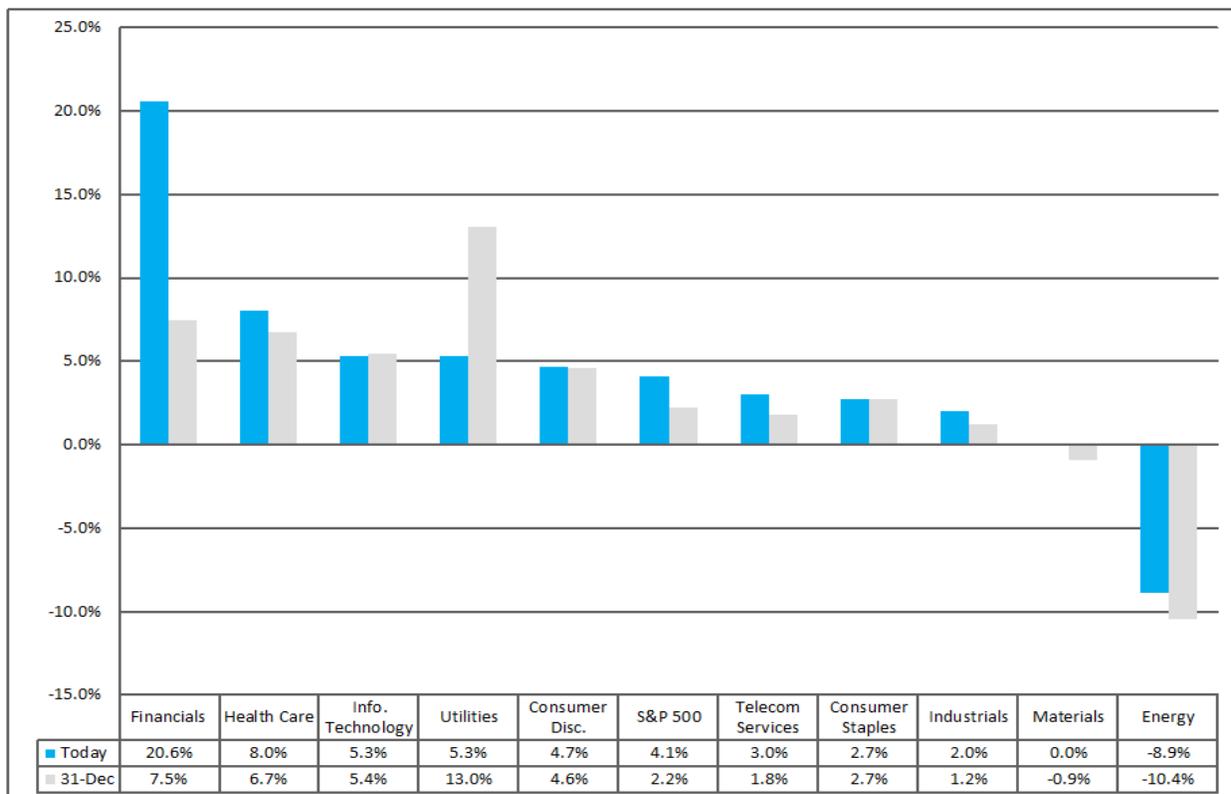


Q4 2012: Growth

Q4 2012 Earnings Growth



Q4 2012 Revenue Growth

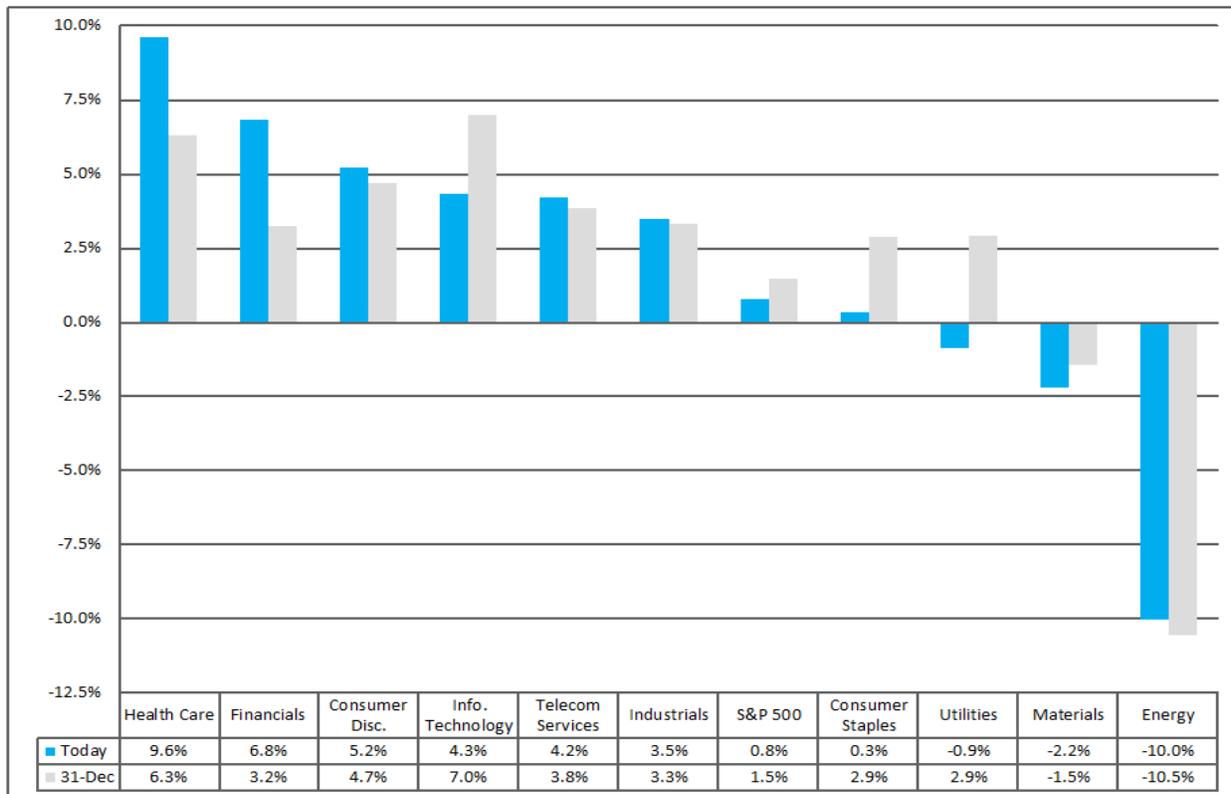


CY 2012: Growth

CY 2012 Earnings Growth

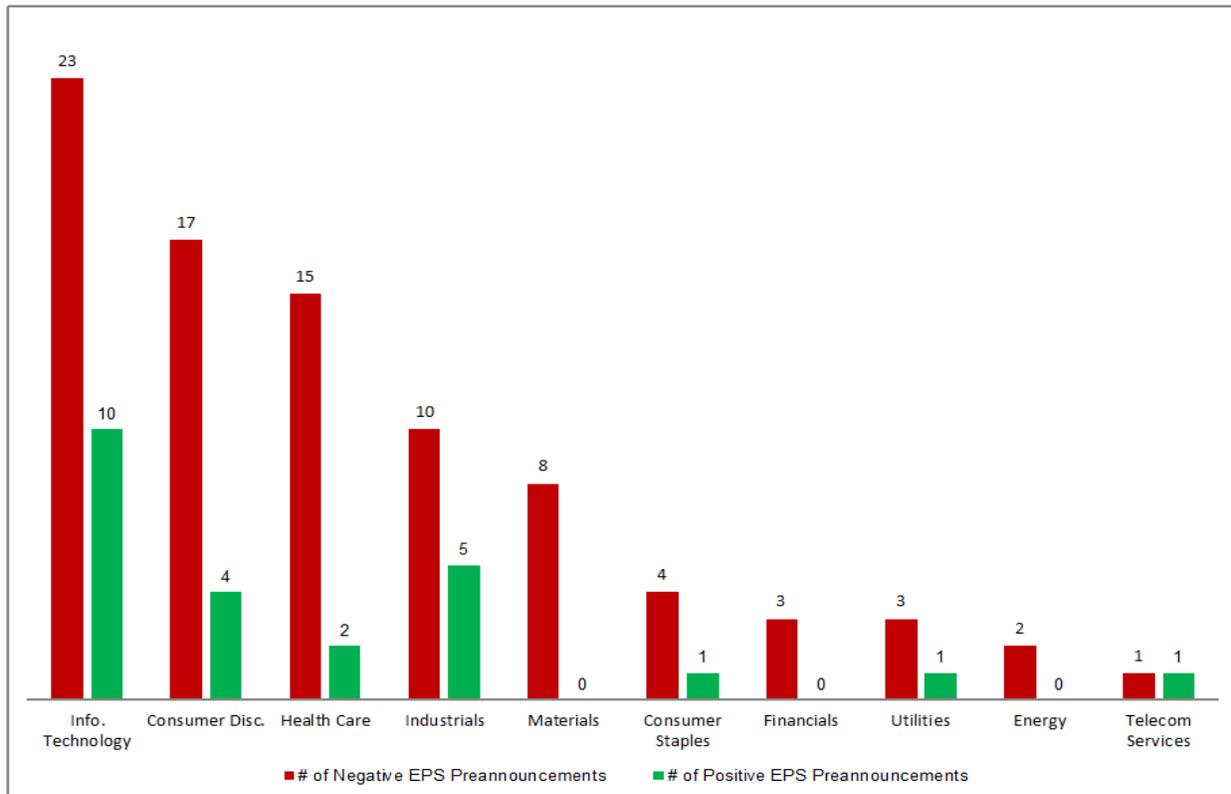


CY 2012 Revenue Growth



Q1 2013: Guidance

Number of Positive & Negative EPS Preannouncements: Q1 2013

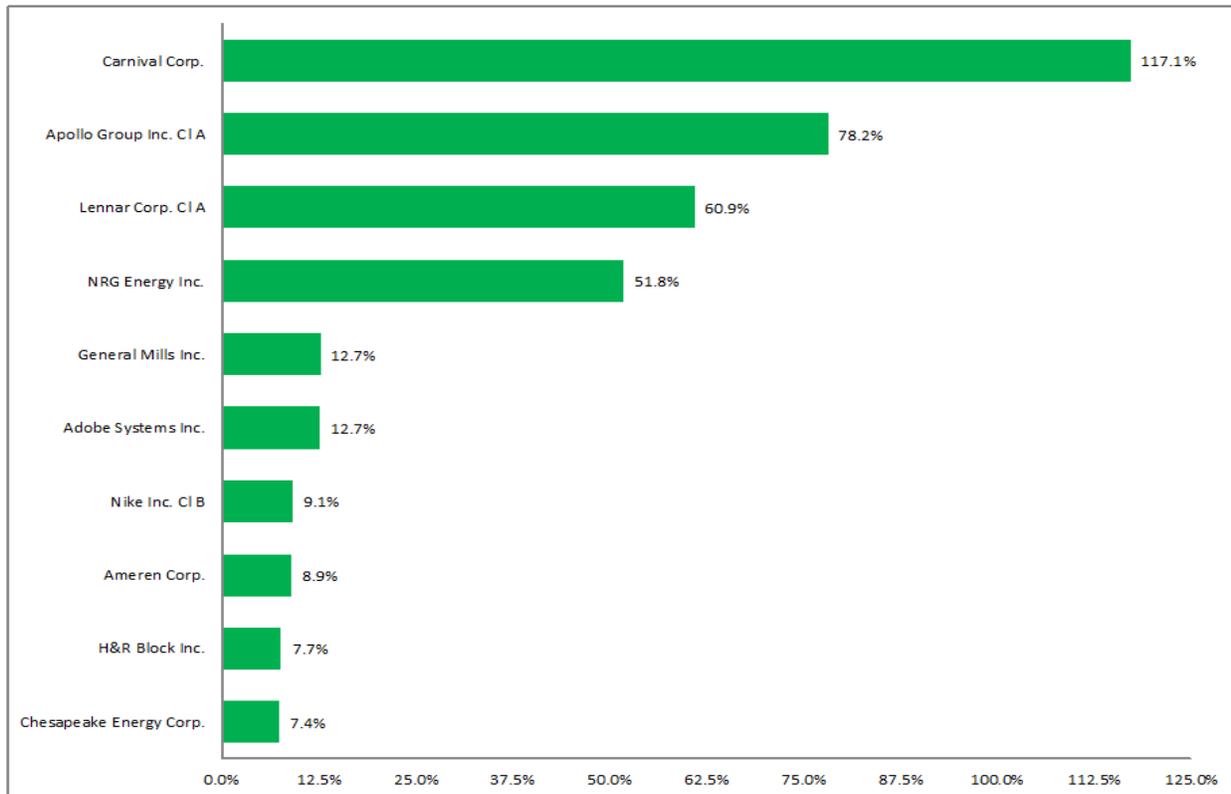


Percentage of Positive & Negative EPS Preannouncements: Q1 2013

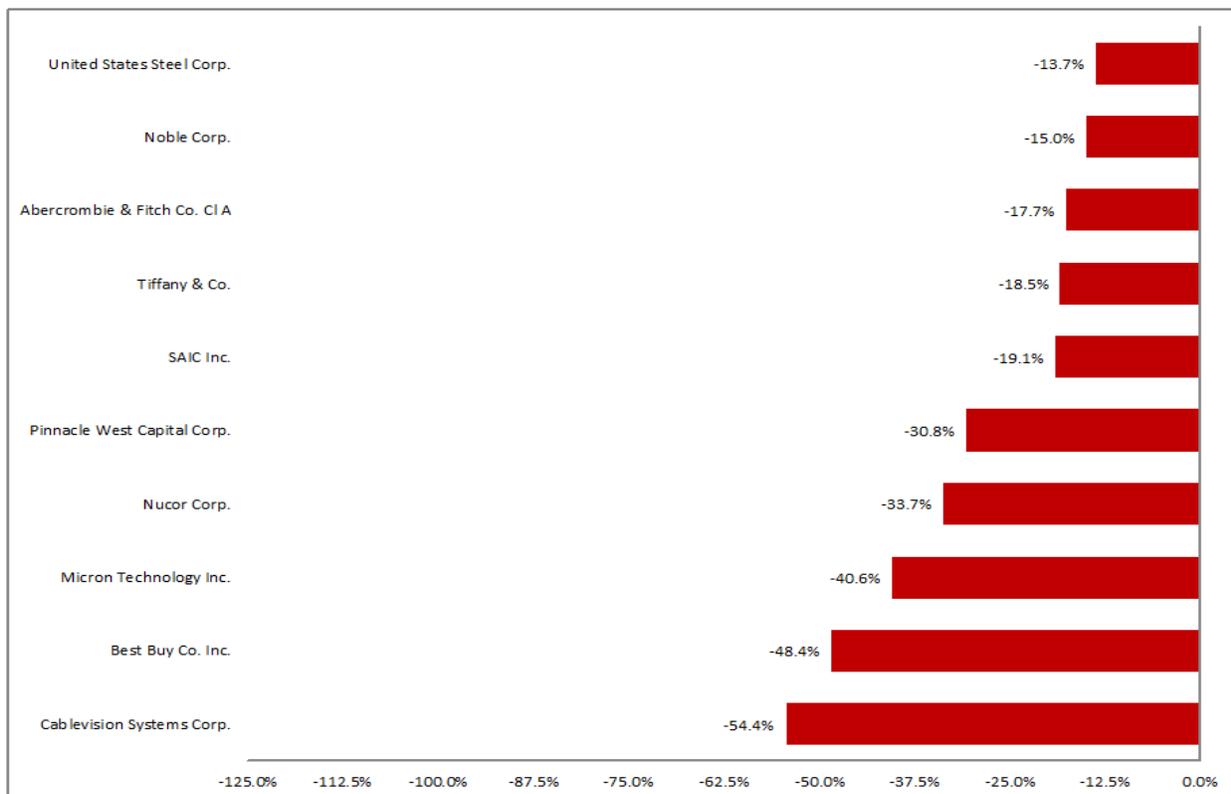


Q1 2013: EPS Revisions

Highest Upward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies



Highest Downward Change (Trailing 4-Weeks) in Mean EPS Estimate: Top 10 Companies

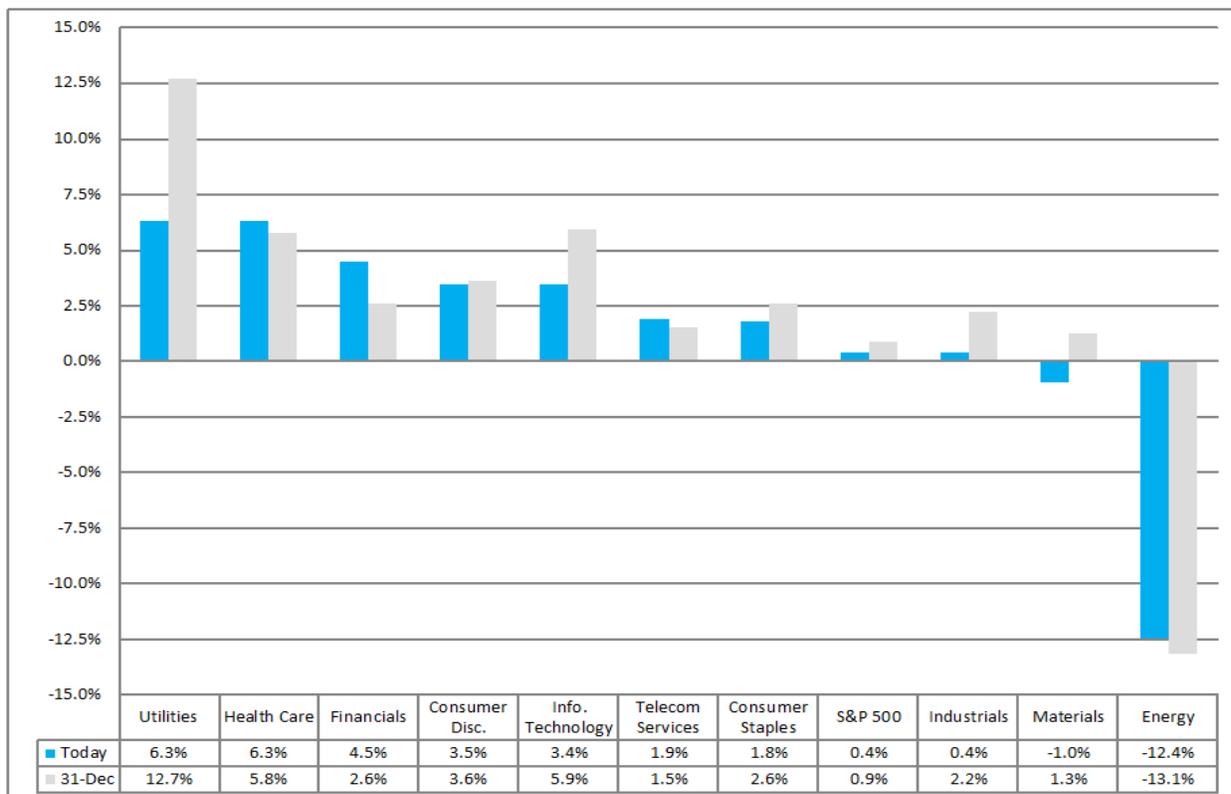


Q1 2013: Growth

Q1 2013 Earnings Growth

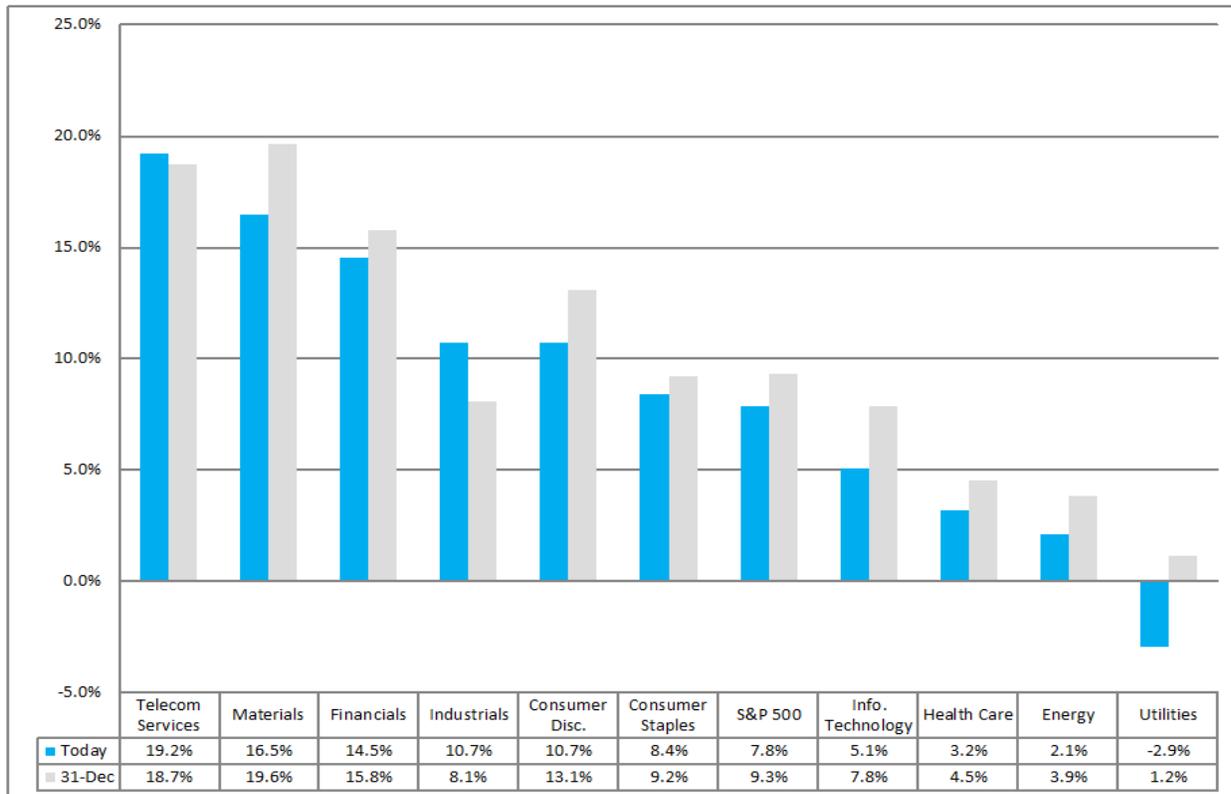


Q1 2013 Revenue Growth

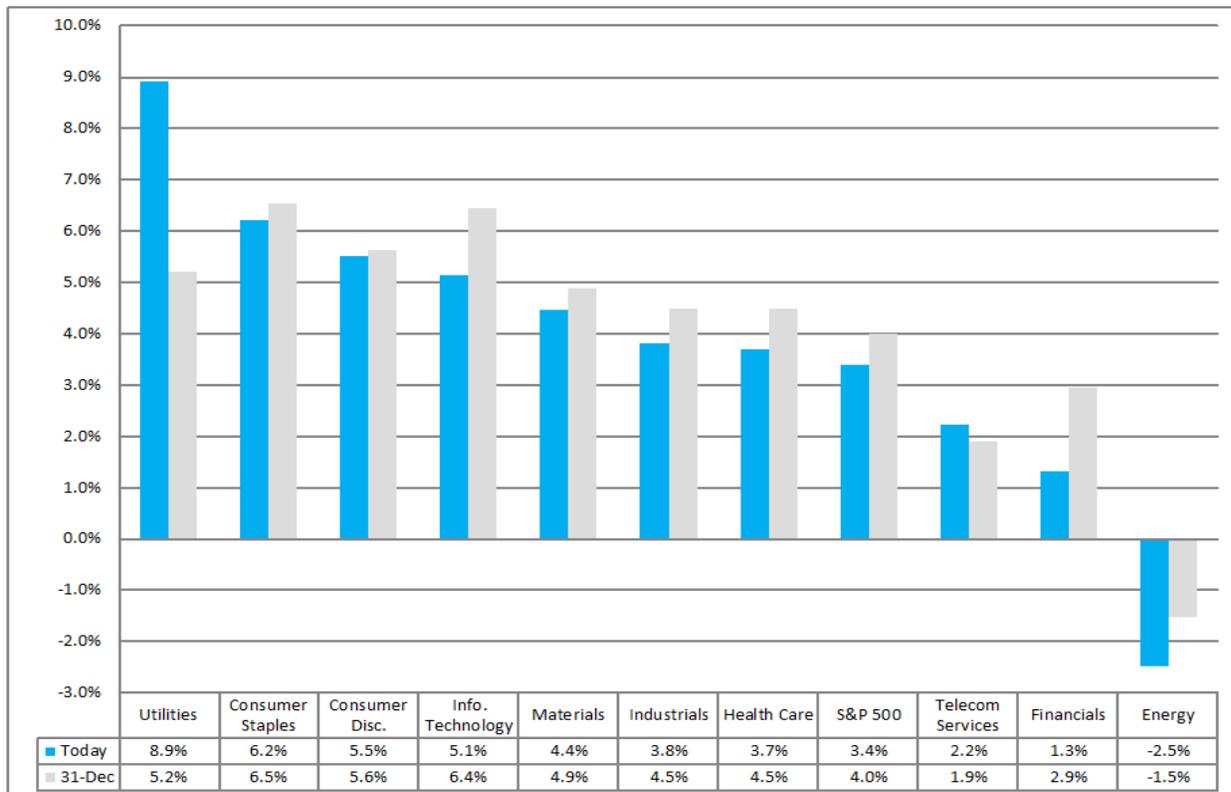


CY 2013: Growth

CY 2013 Earnings Growth

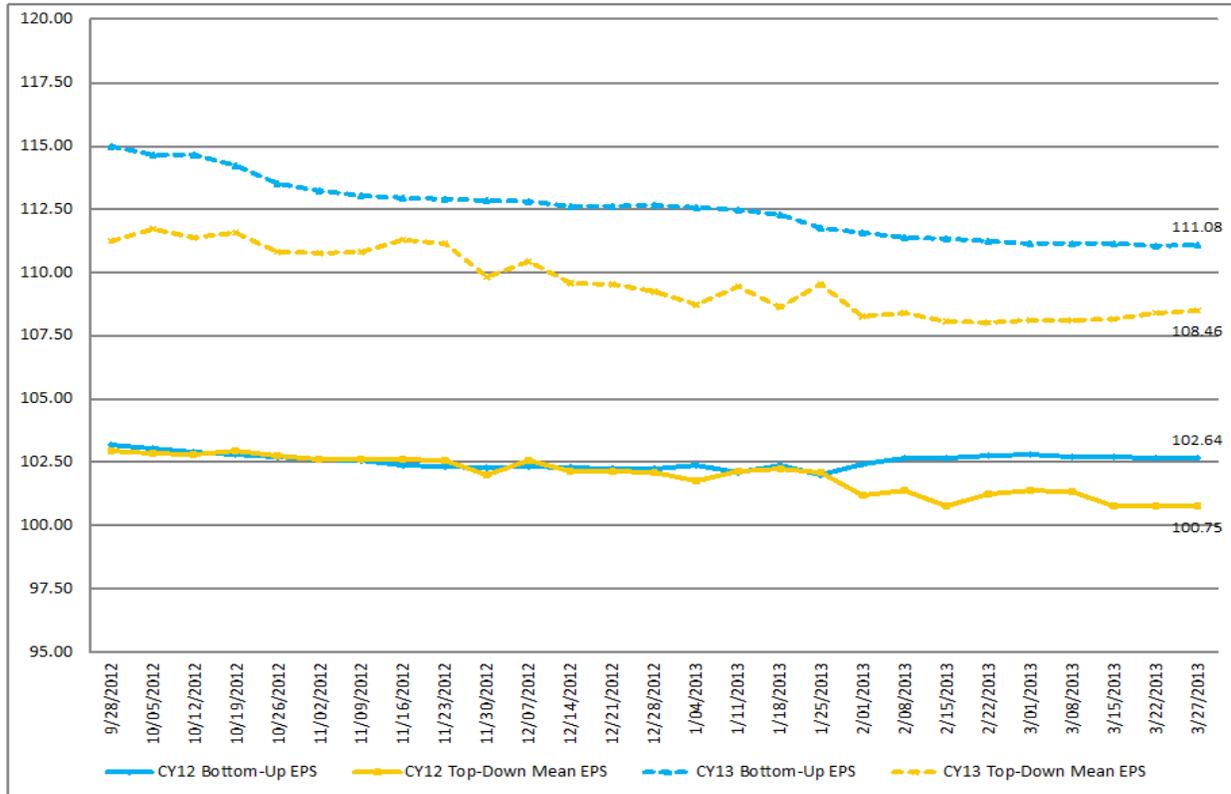


CY 2013 Revenue Growth

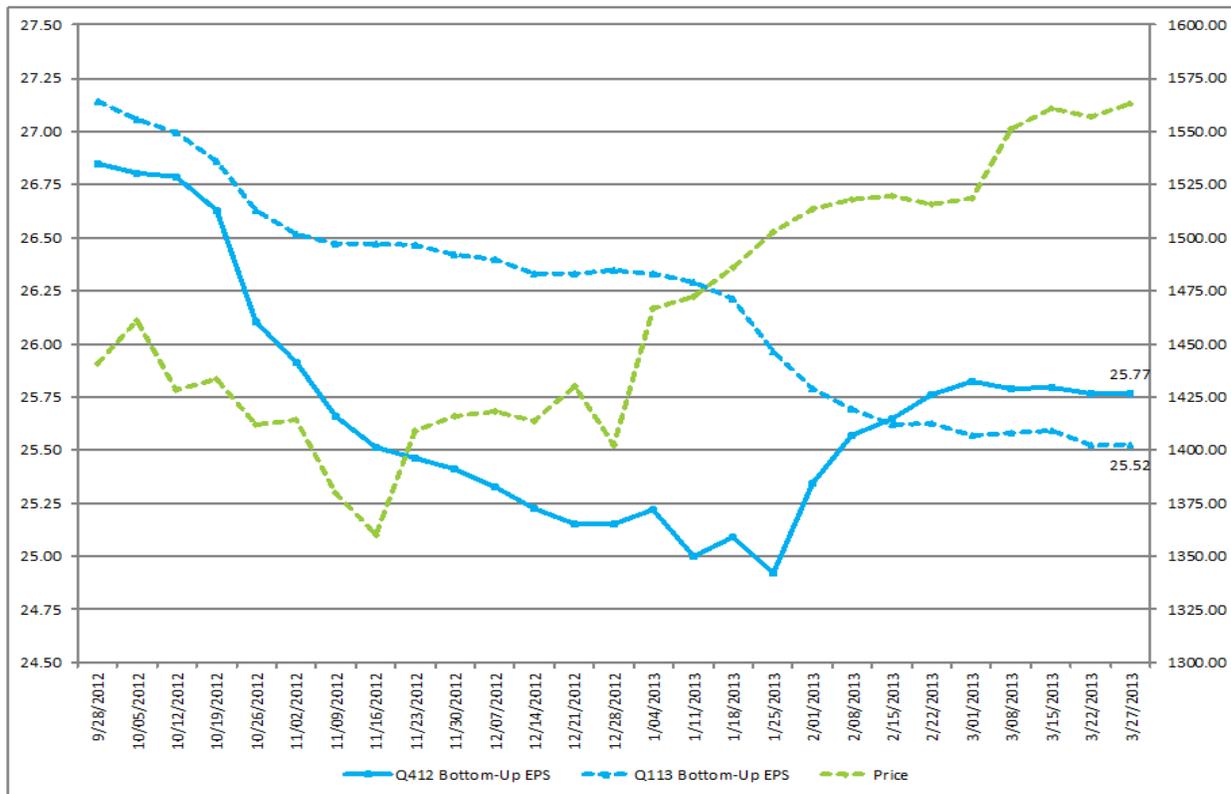


Bottom-up Estimates: Revisions

CY Bottom-Up EPS vs. Top-Down Mean EPS (Trailing 26-Weeks)

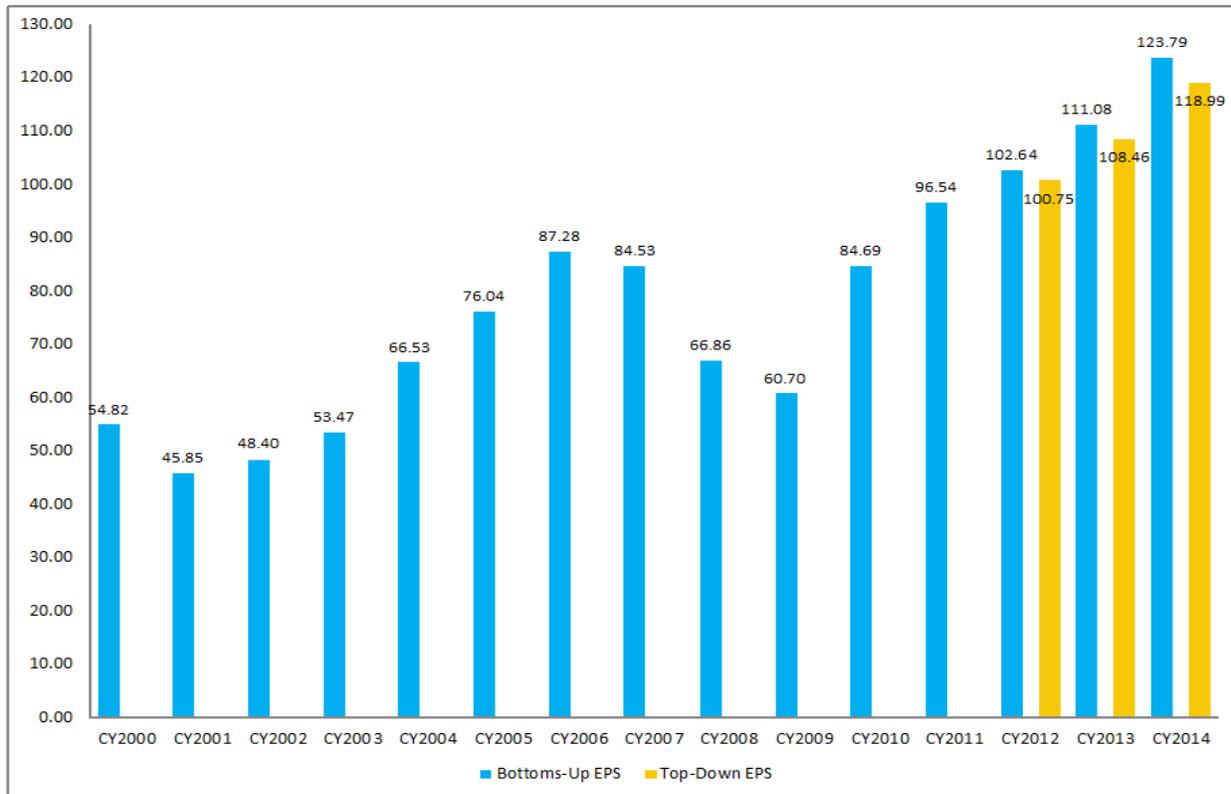


Change in Q412 and Q113 Bottom-Up EPS vs. Price (Trailing 26-Weeks)

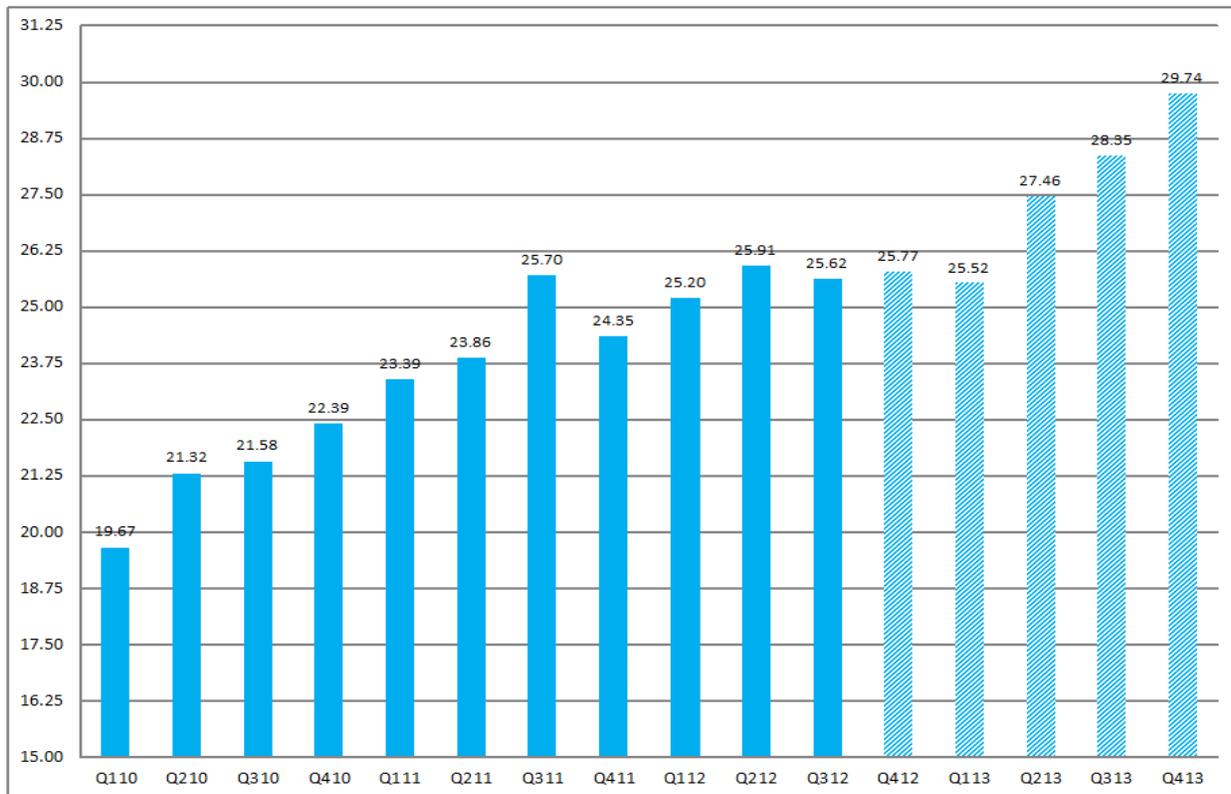


Bottom-up Estimates: Current & Historical

Calendar Year Bottom-Up EPS Actuals & Estimates

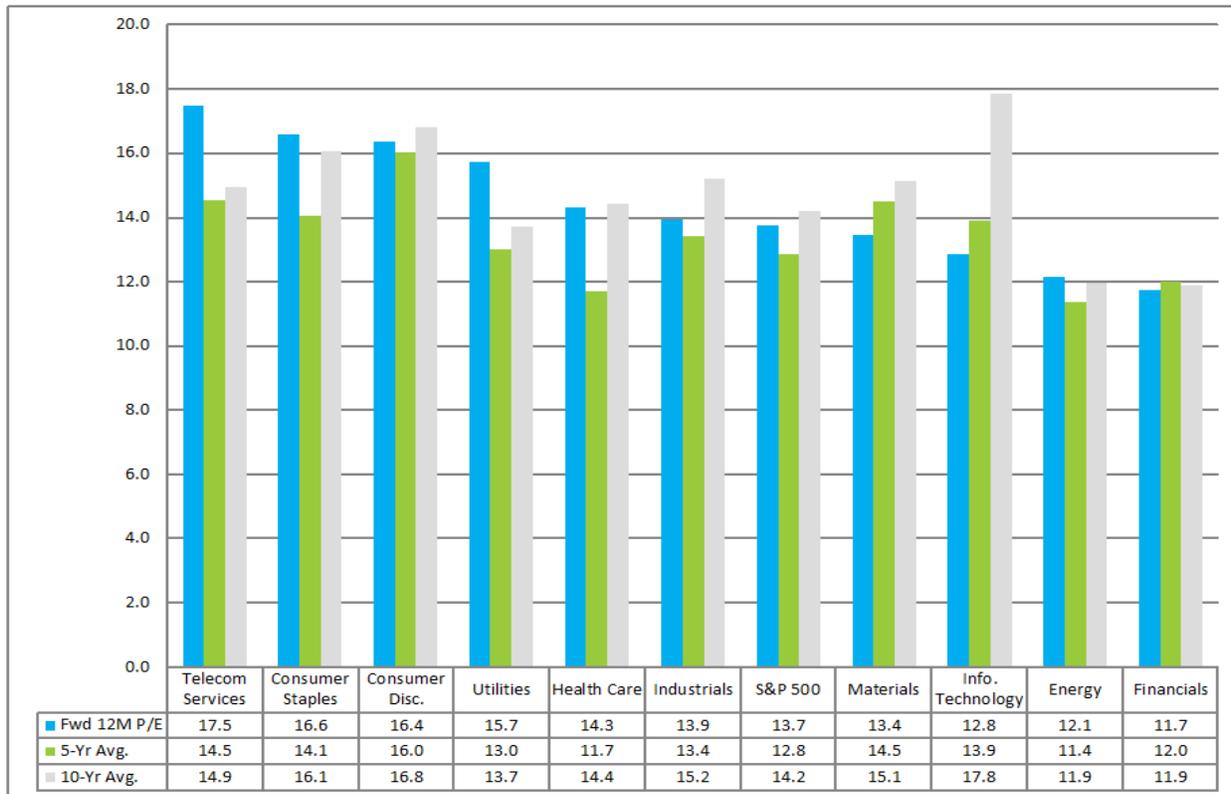


Calendar Year Bottom-Up EPS Actuals & Estimates

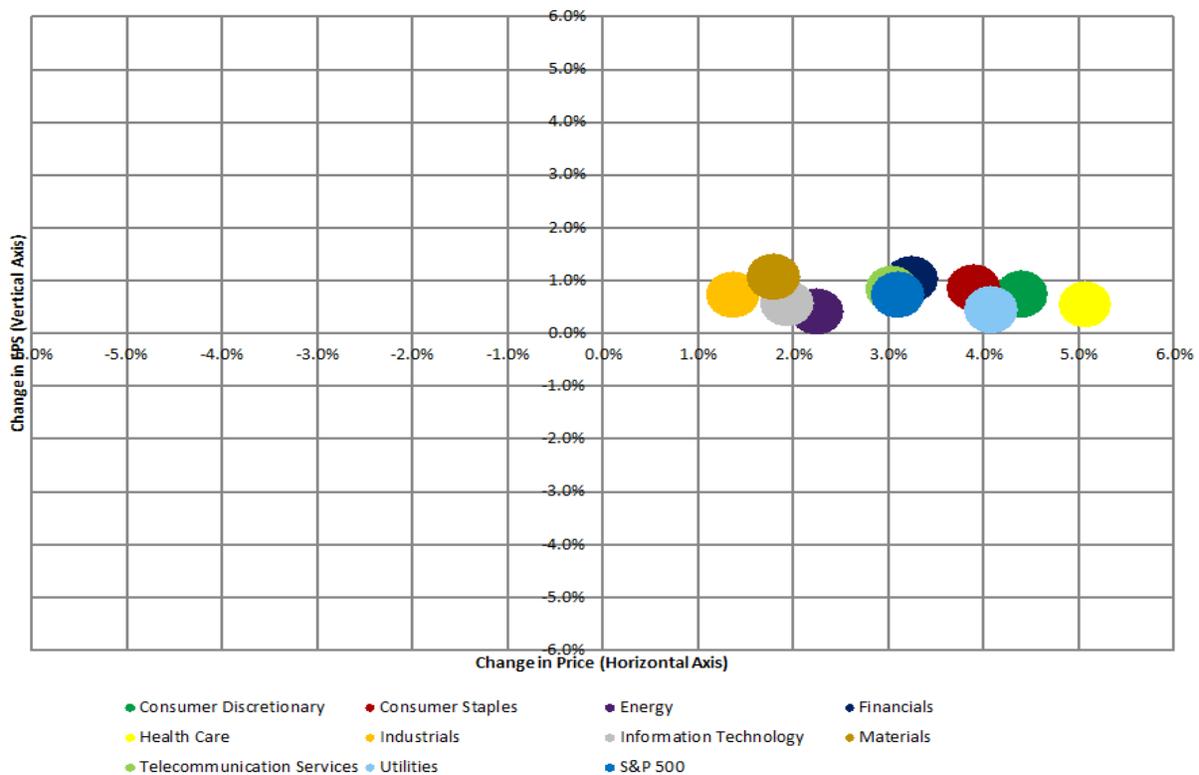


Price / Earnings Ratio: Sector Level

Sector-Level Forward 12-Month P/E Ratios

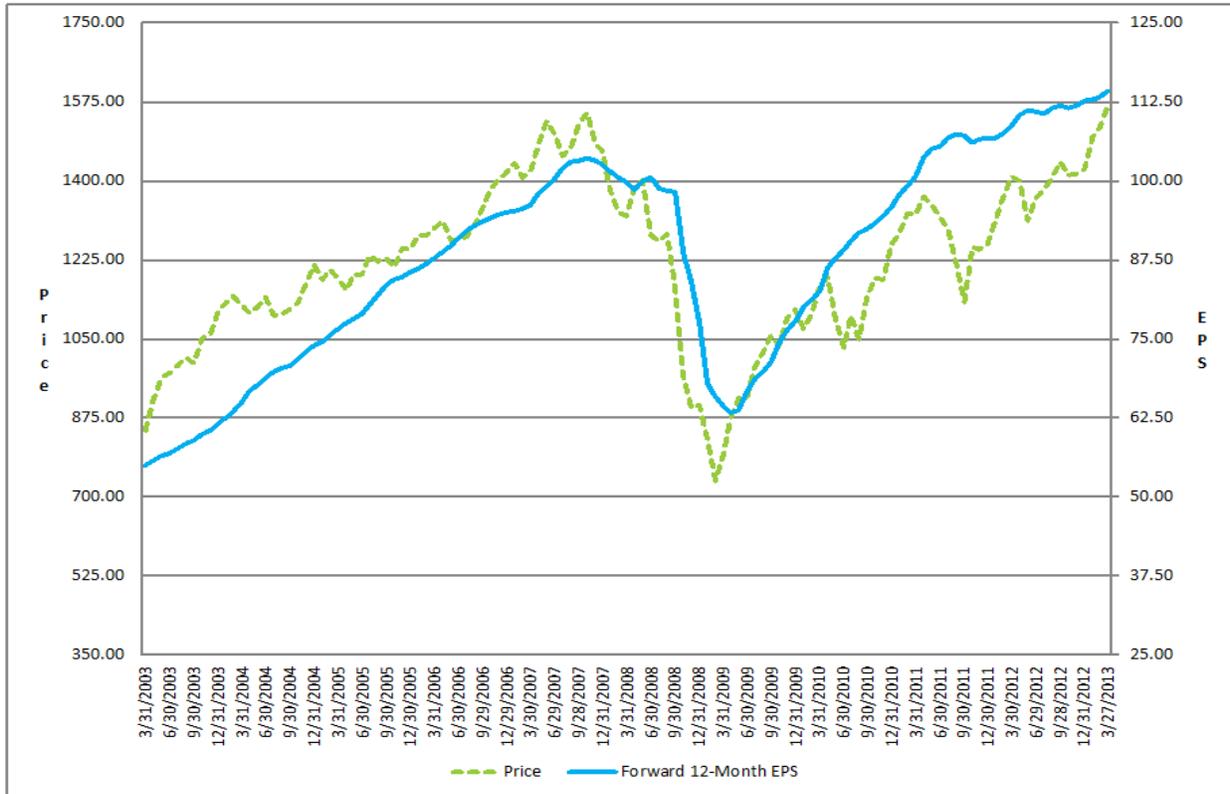


Sector-Level Change in Price vs. Change Forward 12M EPS: 1-Month

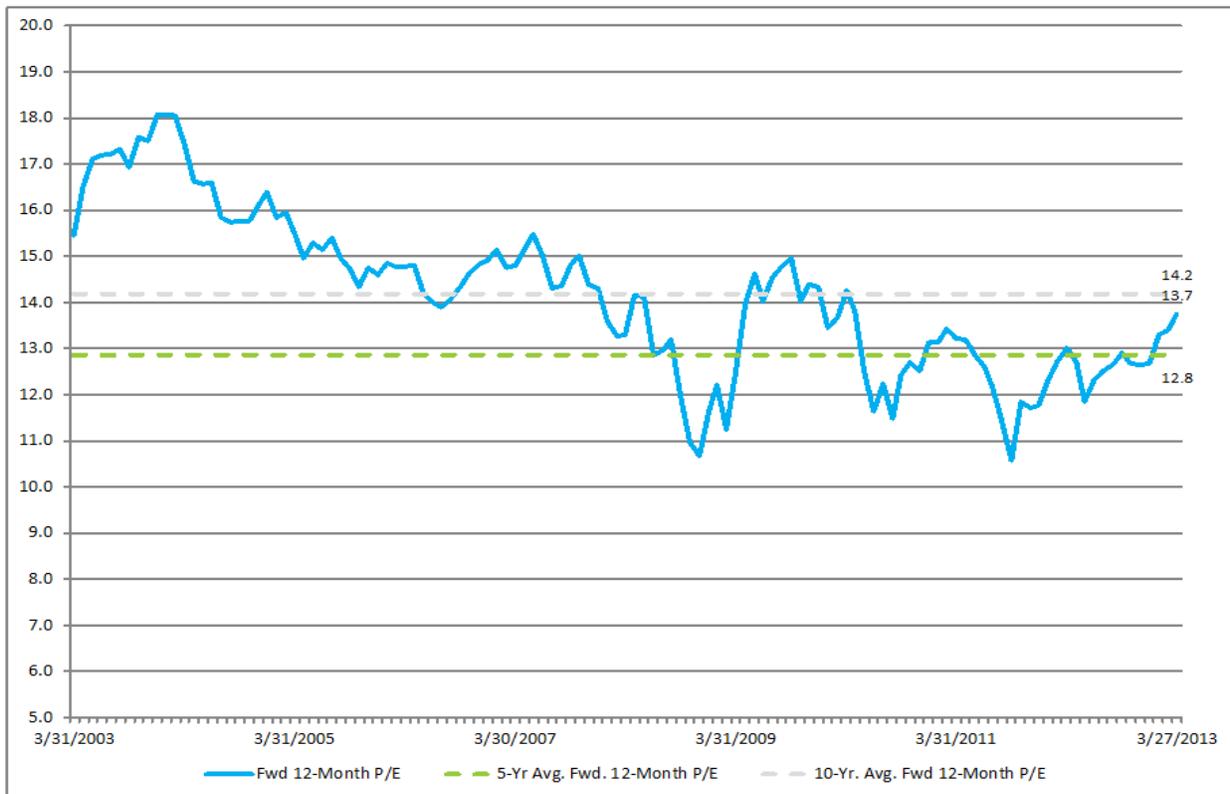


Price / Earnings Ratio: Long-Term Averages

Change in Price vs. Change in Forward 12M EPS: 10-Year



Forward 12M P/E Ratio: 10-Year



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