

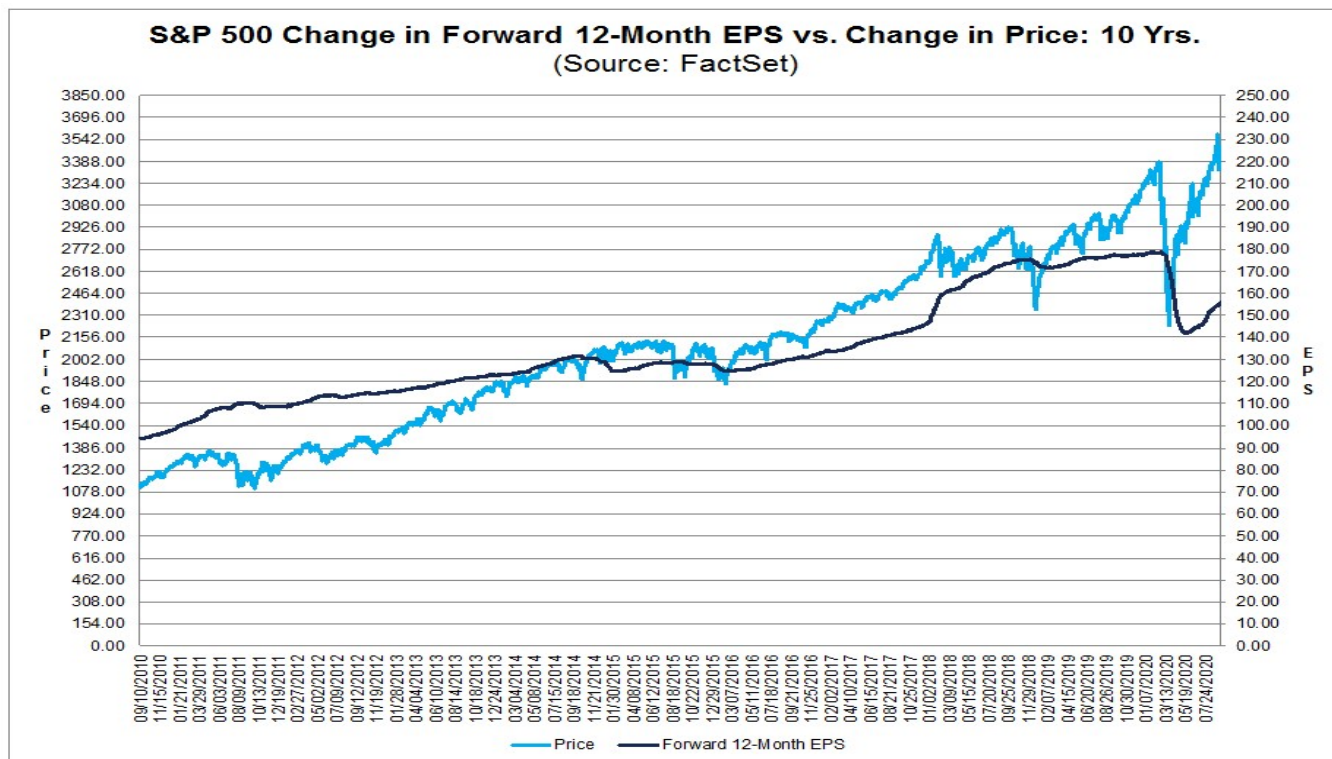
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## Key Metrics

- Earnings Growth:** For Q3 2020, the estimated earnings decline for the S&P 500 is -22.2%. If -22.2% is the actual decline for the quarter, it will mark the second largest year-over-year decline in earnings reported by the index since Q2 2009 (-26.9%).
- Earnings Revisions:** On June 30, the estimated earnings decline for Q3 2020 was -25.4%. Eight sectors have smaller earnings declines or higher earnings growth rates today (compared to June 30) due to upward revisions to EPS estimates.
- Earnings Guidance:** For Q3 2020, 22 S&P 500 companies have issued negative EPS guidance and 43 S&P 500 companies have issued positive EPS guidance.
- Valuation:** The forward 12-month P/E ratio for the S&P 500 is 21.7. This P/E ratio is above the 5-year average (17.1) and above the 10-year average (15.4).
- Earnings Scorecard:** For Q2 2020 (with 100% of the companies in the S&P 500 reporting actual results), 84% of S&P 500 companies reported a positive EPS surprise and 65% reported a positive revenue surprise. The second quarter marked the highest percentage of S&P 500 companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008.



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## Topic of the Week:

### 100% Increase in S&P 500 Companies Citing “ESG” on Earnings Calls in Q2 vs. Q1

During each corporate earnings season, it is not unusual for companies to comment on their ongoing corporate goals and initiatives. Given the growing focus on environmental, social, and governance factors by investors, did companies in the S&P 500 comment on these factors during their earnings conference calls for the second quarter?

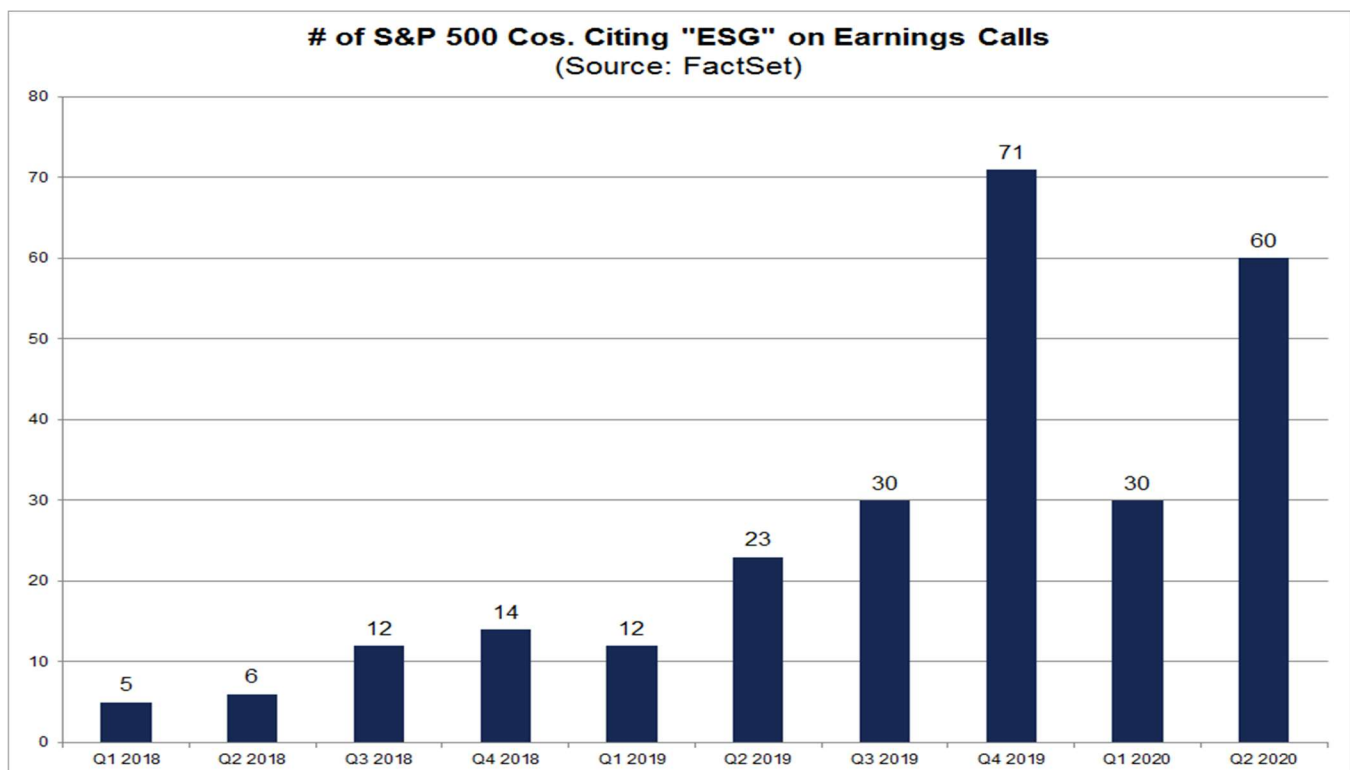
To answer this question, FactSet searched for the term “ESG” in the conference call transcripts of all the S&P 500 companies that conducted earnings conference calls from June 15 through September 5.

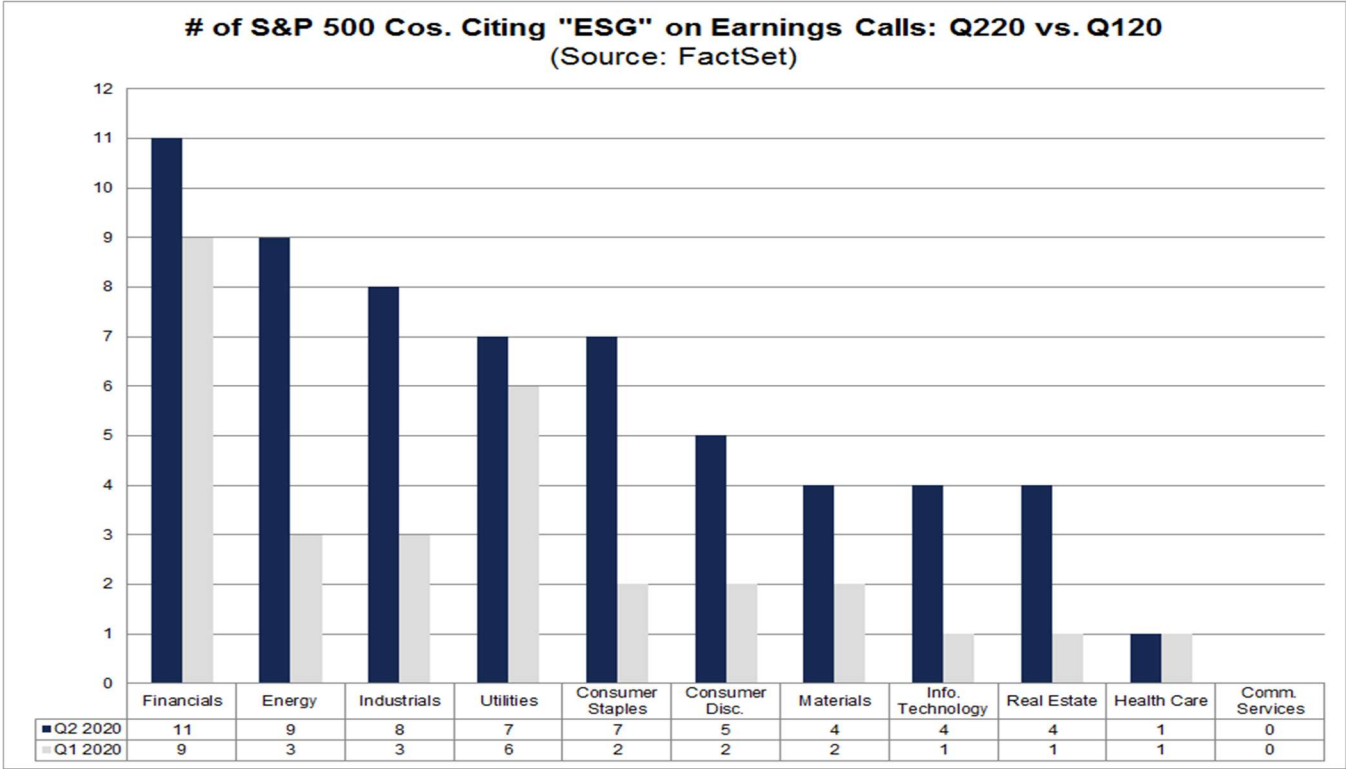
Of these companies, 60 cited the term “ESG” (in reference to environmental, social, and governance factors) during their earnings calls. Although this number is only 12% of the companies in the index, it reflects a 100% increase compared to the number of companies citing “ESG” in the previous quarter (30) and is the second highest overall number of companies going back at least four years.

What drove the substantial increase in citations for “ESG” during in earnings calls in Q2 relative to Q1? At the sector level, nine of the eleven sectors recorded an increase in the number of companies citing “ESG” on a quarter-over-quarter basis. However, the Energy (+6), Consumer Staples (+5), and Industrials (+5) sectors witnessed the largest increases in the number of companies citing “ESG” on earnings calls in Q2 compared to Q1. These three sectors accounted for more than half (16) of the total increase (30) for the index.

It is important to note that a large number of S&P 500 companies that did not cite “ESG” on earnings calls for Q2 2020 did address racial equality and justice issues. Overall, 144 S&P 500 companies (including 125 companies that did not cite “ESG” on their earnings calls) cited at least one of the following terms in reference to racial equality or justice issues on their Q2 earnings calls during this time frame: “equality,” “inequality,” “justice,” “injustice,” and “racism.” In Q1 2020, just two S&P 500 companies cited at least one of these terms over a comparable period in reference to racial equality or justice issues.

It will be interesting to see if S&P 500 continue to discuss ESG and racial equality and justice issues going forward.





## Q2 Earnings Season: By The Numbers

### Overview

In terms of estimate revisions for companies in the S&P 500, analysts have increased earnings estimates in aggregate for Q3 2020 to date. On a per-share basis, estimated earnings for the third quarter have increased by 2.9% since June 30. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings estimates have fallen by 5.0% on average during the quarter. Over the past ten years, (40 quarters), earnings estimates have also fallen by 5.0% on average during the quarter. Over the past fifteen years, (60 quarters), earnings expectations have fallen by 5.2% on average during the quarter.

More S&P 500 companies have issued positive EPS guidance for Q3 2020 than average as well. At this point in time, 65 companies in the index have issued EPS guidance for Q3 2020. Of these 65 companies, 22 have issued negative EPS guidance and 43 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 66% (43 out of 65), which is above the 5-year average of 32%. However, the overall number of companies issuing EPS guidance for the third quarter of 65 is well below the 5-year average of 104.

Because of the net upward revisions to earnings estimates, the estimated (year-over-year) earnings decline for Q3 2020 is -22.2% today compared to the estimated (year-over-year) earnings decline of -25.4% on June 30. If -22.2% is the actual decline for the quarter, it will mark the second largest year-over-year decline in earnings reported by the index since Q2 2009 (-26.9%), trailing only the previous quarter (-31.6%). It will also mark the sixth time in the past seven quarters in which the index has reported a year-over-year decline in earnings. All eleven sectors are projected to report a year-over-year decline in earnings, led by the Energy, Industrials, and Consumer Discretionary sectors.

Because of the net upward revisions to revenue estimates, the estimated (year-over-year) revenue decline for Q3 2020 is -3.9% today compared to the estimated (year-over-year) revenue decline of -5.5% on June 30. Five sectors are projected to report year-over-year growth in revenues, led by the Health Care sector. Six sectors are predicted to report a year-over-year decline in revenues, led by the Energy and Industrials sectors.

Looking at future quarters, analysts predict a (year-over-year) decline in earnings in the fourth quarter (-13.0%) of 2020. However, they are also project a return to earnings growth starting in Q1 2021 (13.2%).

The forward 12-month P/E ratio is 21.7, which is above the 5-year average and above the 10-year average.

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

### Earnings Revisions: Energy & Consumer Discretionary Sectors See Largest Increases in Earnings

#### Small Decrease in Estimated Earnings Decline for Q3 This Week

The estimated earnings decline for the third quarter is -22.2% this week, which is slightly smaller than the estimated earnings decline of -22.4% last week. Overall, the estimated earnings decline for Q3 2020 of -22.2% today is smaller than the estimated earnings decline of -25.4% at the start of the quarter (June 30). Eight sectors have a recorded a decrease in their expected earnings declines due to upward revisions to earnings estimates, led by the Energy, Consumer Discretionary, and Financials sectors. On the other hand, three sectors have a recorded an increase in their expected earnings declines due to downward revisions to earnings estimates, led by the Industrials and Utilities sectors.

### Energy: Chevron and Exxon Mobil Lead Earnings Increase Since June 30

The Energy sector has recorded the largest decrease in its expected earnings decline since the start of the quarter (to -107.0% from -119.7%). Despite the increase in expected earnings, this sector has witnessed the largest decrease in price (-15.5%) of all eleven sectors since June 30. Overall, 19 of the 26 companies (73%) in the Energy sector have seen an increase in their mean EPS estimate during this time. Of these 19 companies, 17 have recorded an increase in their mean EPS estimate of more than 10%, led by Schlumberger (to \$0.12 from -\$0.05), Halliburton (to \$0.08 from -\$0.14), EOG Resources (to \$0.04 from -\$0.09), and Pioneer Natural Resources (to \$0.35 from \$0.15). However, Chevron (to -\$0.01 from -\$0.37) and Exxon Mobil (to -\$0.06 from -\$0.18) have been the largest contributors to the increase in expected earnings for this sector since June 30.

### Consumer Discretionary: Amazon, Ford, Home Depot, & GM Lead Earnings Increase since June 30

The Consumer Discretionary sector has recorded the second largest decrease in its expected earnings decline since the start of the quarter (to -42.0% from -52.8%). This sector has also witnessed the largest increase in price (+14.2%) of all eleven sectors since June 30. Overall, 40 of the 60 companies (67%) in the Consumer Discretionary sector have seen an increase in their mean EPS estimate during this time. Of these 40 companies, 30 have recorded an increase in their mean EPS estimate of more than 10%, led by Ford Motor (to \$0.14 from -\$0.03), L Brands (to \$0.06 from -\$0.21), and Mohawk Industries (to \$1.85 from \$0.85). However, Amazon.com (to \$7.15 from \$4.54), Ford Motor, General Motors (to \$1.29 from \$0.97), and Home Depot (\$2.95 to \$2.51) have been the largest contributors to the increase in expected earnings for this sector since June 30.

### Financials: JPMorgan Chase and Allstate Lead Earnings Increase Since June 30

The Financials sector has recorded the third largest decrease in its expected earnings decline since the start of the quarter (to -25.0% from -34.4%). This sector has also witnessed an increase in price of 5.4% since June 30. Overall, 54 of the 66 companies (82%) in the Financials sector have seen an increase in their mean EPS estimate during this time. Of these 54 companies, 29 have recorded an increase in their mean EPS estimate of more than 10%, led by Capital One Financial (to \$1.47 from \$0.72) and Huntington Bancshares (to \$0.21 from \$0.11). However, JPMorgan Chase (to \$1.90 from \$1.57) and Allstate (to \$3.90 from \$2.48) have been the largest contributors to the increase in expected earnings for this sector since June 30.

### Industrials: GE, Boeing, and Airlines Industry Lead Earnings Decrease Since June 30

The Industrials sector has recorded the largest increase in its expected earnings decline since the start of the quarter (to -62.6% from -59.2%). Despite the decline in expected earnings, this sector has witnessed the third largest increase in price (+11.0%) of all eleven sectors since June 30. Overall, 23 of the 73 companies (32%) in the Industrials sector have seen a decrease in their mean EPS estimate during this time. Of these 23 companies, 9 have recorded a decrease in their mean EPS estimate of more than 10%, led by General Electric (to -\$0.04 from \$0.01), Boeing (to -\$2.01 from -\$1.17), Alaska Air Group (to -2.91 from -\$1.86), Southwest Airlines (to -\$2.20 from -\$1.48), Delta Air Lines (to -\$2.98 from -\$2.32), United Airlines Holdings (-7.19 from -\$5.90), and American Airlines Group (to -5.73 from -\$4.71). These seven companies have also been the largest contributors to the decrease in expected earnings for this sector since June 30.

### Utilities: 68% of Companies Have Seen Decline in Earnings Expectations Since June 30

The Utilities sector has recorded the second largest increase in its expected earnings decline since the start of the quarter (to -1.9% from 1.2%). Despite the decline in expected earnings, this sector has witnessed an increase in price of 3.3% since June 30. Overall, 19 of the 28 companies (68%) in the Utilities sector have seen a decrease in their mean EPS estimate during this time. Of these 19 companies, 4 have recorded a decrease in their mean EPS estimate of more than 10%, led by NiSource (to \$0.03 from \$0.04) and Dominion Energy (to \$0.98 from \$1.21).

## Guidance: More S&P 500 Companies Issuing Positive EPS Guidance for Q3 to Date

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.

At this point in time, 65 companies in the index have issued EPS guidance for Q3 2020. Of these 65 companies, 22 have issued negative EPS guidance and 43 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 66% (43 out of 65), which is well above the 5-year average of 32%.

However, the total number of companies issuing EPS guidance to date for Q3 2020 of 65 is well below the 5-year average for a quarter of 104.

## Earnings Decline: -22.2%

The estimated (year-over-year) earnings decline for Q3 2020 is -22.2%, which is below the 5-year average earnings growth rate of 4.0%. If -22.2% is the actual decline for the quarter, it will mark the second largest year-over-year decline in earnings for the index since Q2 2009 (-26.9%), trailing only the previous quarter (-31.6%). It will also mark the sixth time in the past seven quarters in which the index has reported a year-over-year decline in earnings. All eleven sectors are expected to report a year-over-year decline in earnings, led by the Energy, Industrials, and Consumer Discretionary sectors.

## Energy: 3 of 5 Sub-Industries Expected to Report Year-Over-Year Decline of More Than 115%

The Energy sector is expected to report the largest (year-over-year) decline in earnings of all eleven sectors at -107.0%. Lower year-over-year oil prices are contributing to the earnings decline for this sector, as the average price of oil for Q3 2020 to date (\$41.29) is 27% below the average price for oil in Q3 2019 (\$56.44). At the sub-industry level, four of the five sub-industries in the sector are projected to report a decline in earnings. Three of these four sub-industries are predicted to report a decline in earnings of more than 115%: Oil & Gas Refining & Marketing (-125%), Oil & Gas Exploration & Production (-124%), and Integrated Oil & Gas (-116%). The only sub-industry in the sector projected to report year-over-year growth in earnings is the Oil & Gas Storage & Transportation (3%) sub-industry.

## Industrials: Airlines Industry Expected to Lead Year-Over-Year Decline

The Industrials sector is expected to report the second largest (year-over-year) earnings decline of all eleven sectors at -62.6%. At the industry level, all twelve industries in this sector are predicted to report a decline in earnings. Four of these twelve industries are projected to report a decline in earnings of more than 30%: Airlines (-305%), Industrial Conglomerates (-51%), Aerospace & Defense (-40%), and Machinery (-35%).

The Airlines industry is also expected to be the largest contributor to the year-over-year decline in earnings for the sector. If the five companies in this industry were excluded, the estimated earnings decline for the sector would improve to -29.3% from -62.6%.

## Consumer Discretionary: 4 of 11 Industries Expected to Report Year-Over-Year Decline of More Than 30%

The Consumer Discretionary sector is expected to report the third largest (year-over-year) earnings decline of all eleven sectors at -42.0%. At the industry level, ten of the eleven industries in this sector are expected to report a decline in earnings. Four these ten industries are projected to report a decline in earnings of more than 30%: Hotels, Restaurants, & Leisure (-129%), Textiles, Apparel, & Luxury Goods (-62%), Auto Components (-37%), and Automobiles (-37%). On the other hand, the only industry expected to report earnings growth in this sector is the Specialty Retail (3%) industry.

## Revenue Decline: -3.9%

The estimated (year-over-year) revenue decline for Q3 2020 is -3.9%, which is below the 5-year average revenue growth rate of 3.4%. Five sectors are expected to report year-over-year growth in revenues, led by Health Care sector. Six sectors are expected to report a year-over-year decline in revenues, led by the Energy and Industrials sectors.

### Health Care: 4 of 6 Industries Expected to Report Year-Over-Year Growth

The Health Care sector is expected to report the highest (year-over-year) revenue growth of all eleven sectors at 7.3%. At the industry level, four of the six industries in this sector are predicted to report year-over-year growth in revenues: Biotechnology (22%), Life Sciences, Tools, & Services (8%), Health Care Providers & Services (8%), and Pharmaceuticals (5%). On the other hand, two industries are expected to report a decline in revenue: Health Care Technology (-4%) and the Health Care Equipment & Supplies (-2%).

It should be noted that the revenue growth rates for some of the larger contributors to revenue growth for this sector are being boosted by apples-to-oranges comparisons of post-merger revenues in Q3 2020 to pre-merger revenues in Q3 2019, including Centene, Bristol Myers Squibb, and AbbVie.

### Energy: 4 of 5 Sub-Industries Expected To Report Year-Over-Year Decline of More Than 25%

The Energy sector is expected to report the largest (year-over-year) decline in revenue of all eleven sectors at -30.5%. Lower year-over-year oil prices are contributing to the earnings decline for this sector. As the average price of oil for Q3 2020 to date (\$41.29) is 27% below the average price for oil in Q3 2019 (\$56.44). At the sub-industry level, all five sub-industries in the sector are predicted to report a year-over-year decline in revenue. Four sub-industries are projected to report a decline in revenue of more than 25%: Oil & Gas Exploration & Production (-39%), Oil & Gas Refining & Marketing (-36%), Oil & Gas Equipment & Services (-29%), and Integrated Oil & Gas (-26%).

### Industrials: Airlines Industry Expected to Lead Year-Over-Year Decline

The Industrials sector is expected to report the second largest (year-over-year) revenue decline of all eleven sectors at -17.5%. At the industry level, eleven of the twelve industries in this sector are predicted to report a decline in revenues, led by the Airlines (-73%) industry. On the other hand, the Air Freight & Logistics (+6%) industry is the only industry in the sector expected to report year-over-year earnings growth for the quarter.

The Airlines industry is also expected to be the largest contributor to the year-over-year decline in revenue for the sector. If the five companies in this industry were excluded, the estimated revenue decline for the sector would improve to -9.3% from -17.5%.

## Looking Ahead: Forward Estimates and Valuation

### Earnings: Analysts Expect Earnings Decline of -18.4% for CY 2020

For the third quarter, S&P 500 companies are expected to report a decline in earnings of -22.2% and a decline in revenues of -3.9%. Analysts expect an earnings decline of -18.4% and a revenue decline of -2.8% for CY 2020.

For Q4 2020, analysts are projecting an earnings decline of -13.0% and a revenue decline of -1.3%.

For CY 2020, analysts are projecting an earnings decline of -18.4% and a revenue decline of -2.8%.

For Q1 2021, analysts are projecting earnings growth of 13.2% and revenue growth of 3.2%.

For Q2 2021, analysts are projecting earnings growth of 44.2% and revenue growth of 13.9%.

For CY 2021, analysts are projecting earnings growth of 26.2% and revenue growth of 8.1%.

### Valuation: Forward P/E Ratio is 21.7, Above the 10-Year Average (15.4)

The forward 12-month P/E ratio is 21.7. This P/E ratio is above the 5-year average of 17.1 and above the 10-year average of 15.4. It is equal to the forward 12-month P/E ratio of 21.7 recorded at the end of the second quarter (June 30). Since the end of the second quarter (June 30), the price of the index has increased by 7.7%, while the forward 12-month EPS estimate has increased by 7.4%.

At the sector level, the Consumer Discretionary (38.2) sector has the highest forward 12-month P/E ratio, while the Financials (14.0) sector has the lowest forward 12-month P/E ratio.

### Targets & Ratings: Analysts Project 11% Increase in Price Over Next 12 Months

The bottom-up target price for the S&P 500 is 3717.41, which is 11.3% above the closing price of 3339.19. At the sector level, the Energy (+35.6%) sector is expected to see the largest price increase, as this sector has the largest upside difference between the bottom-up target price and the closing price. On the other hand, the Materials (+5.8%) 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.

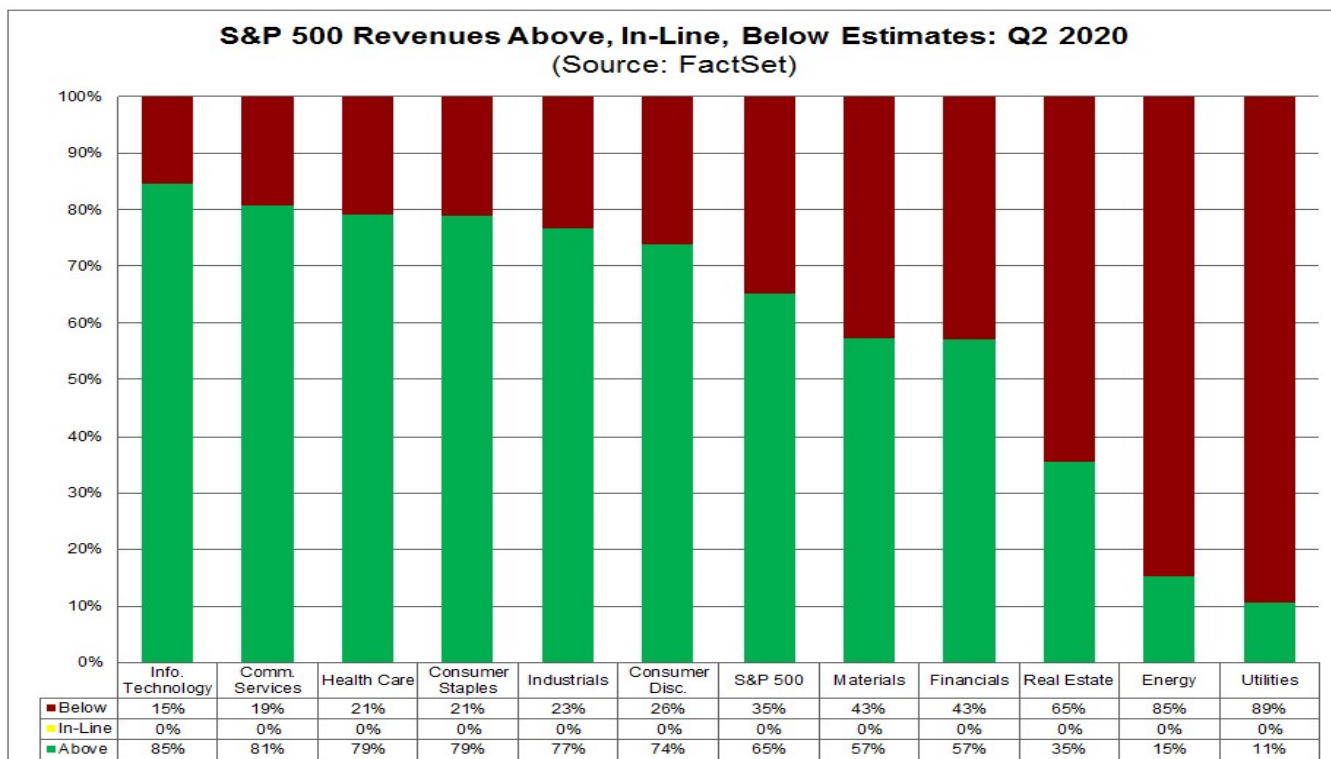
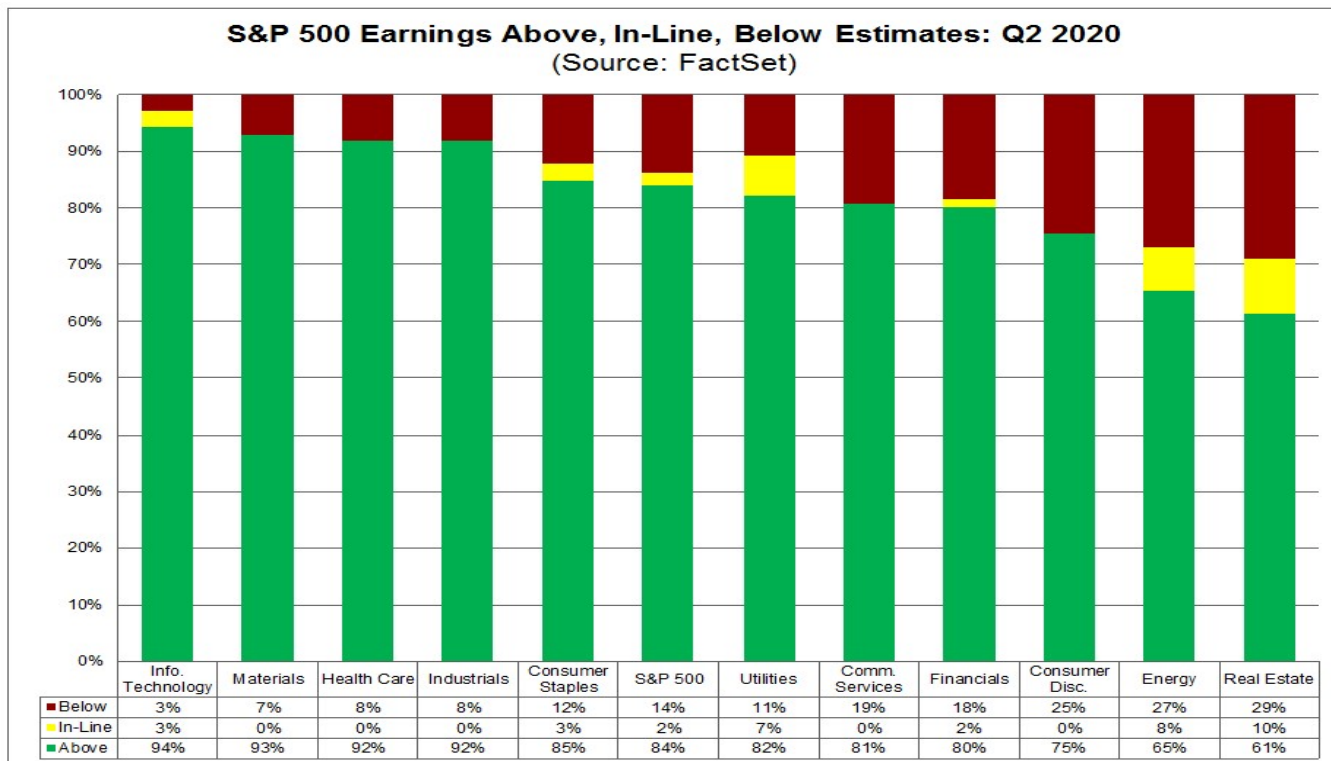
Overall, there are 10,227 ratings on stocks in the S&P 500. Of these 10,227 ratings, 52.7% are Buy ratings, 40.7% are Hold ratings, and 6.6% are Sell ratings. At the sector level, the Energy (61%) and Health Care (61%) sectors have the highest percentages of Buy ratings, while the Financials (46%), Consumer Staples (46%), and Real Estate (46%) sectors have the lowest percentages of Buy ratings.

### Companies Reporting Next Week: 3

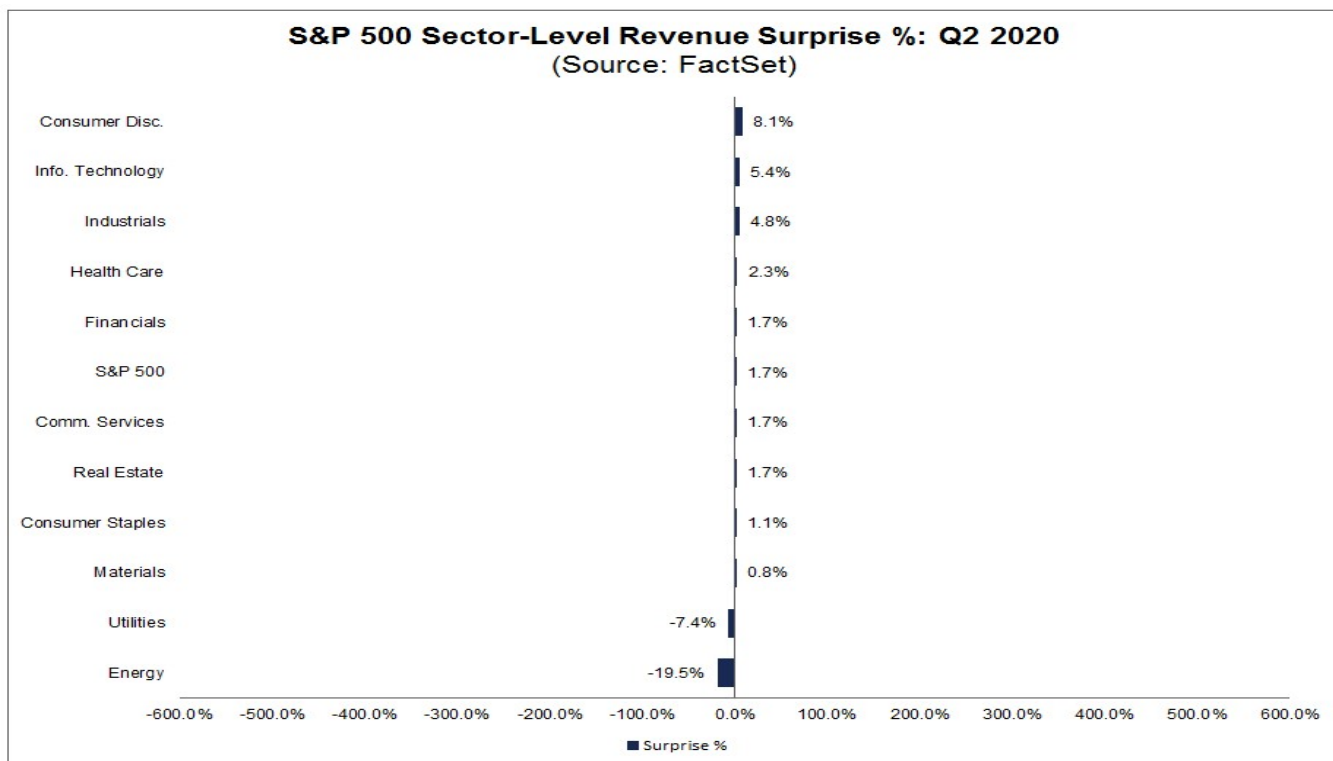
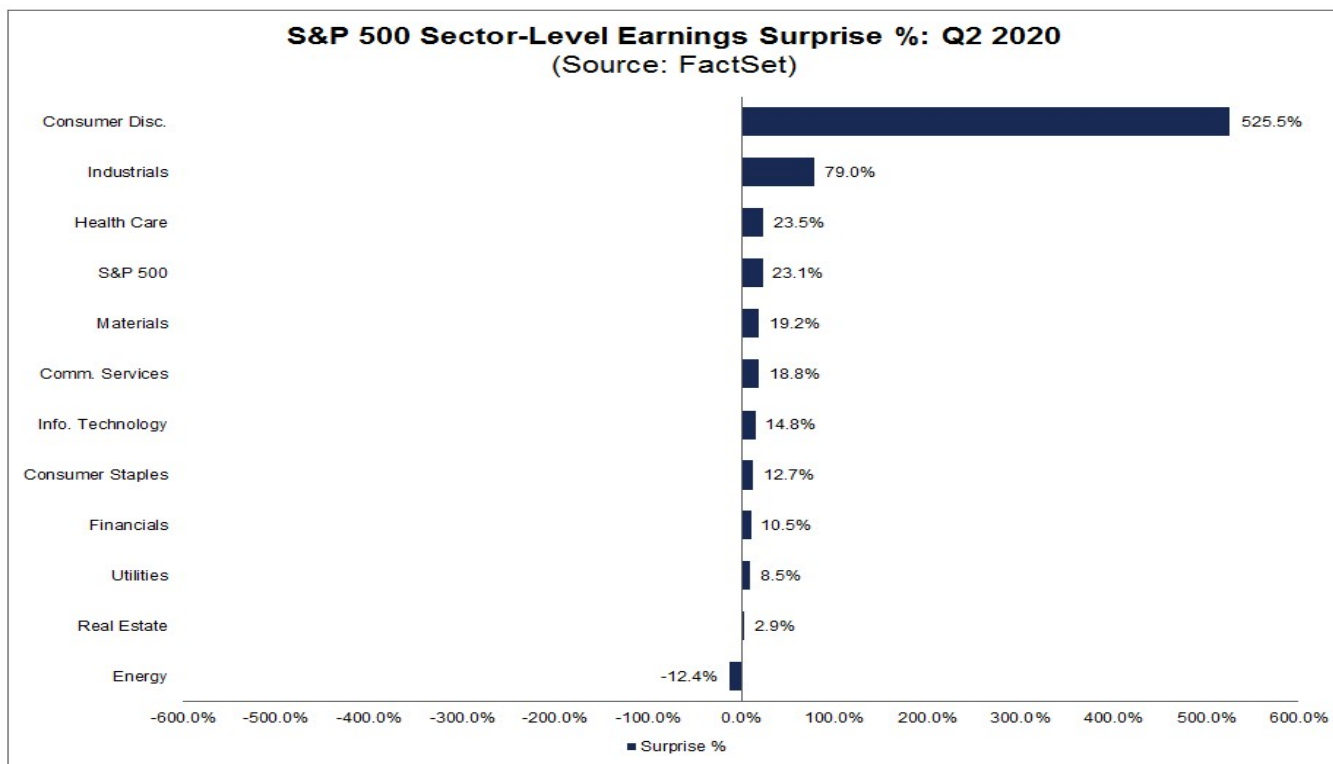
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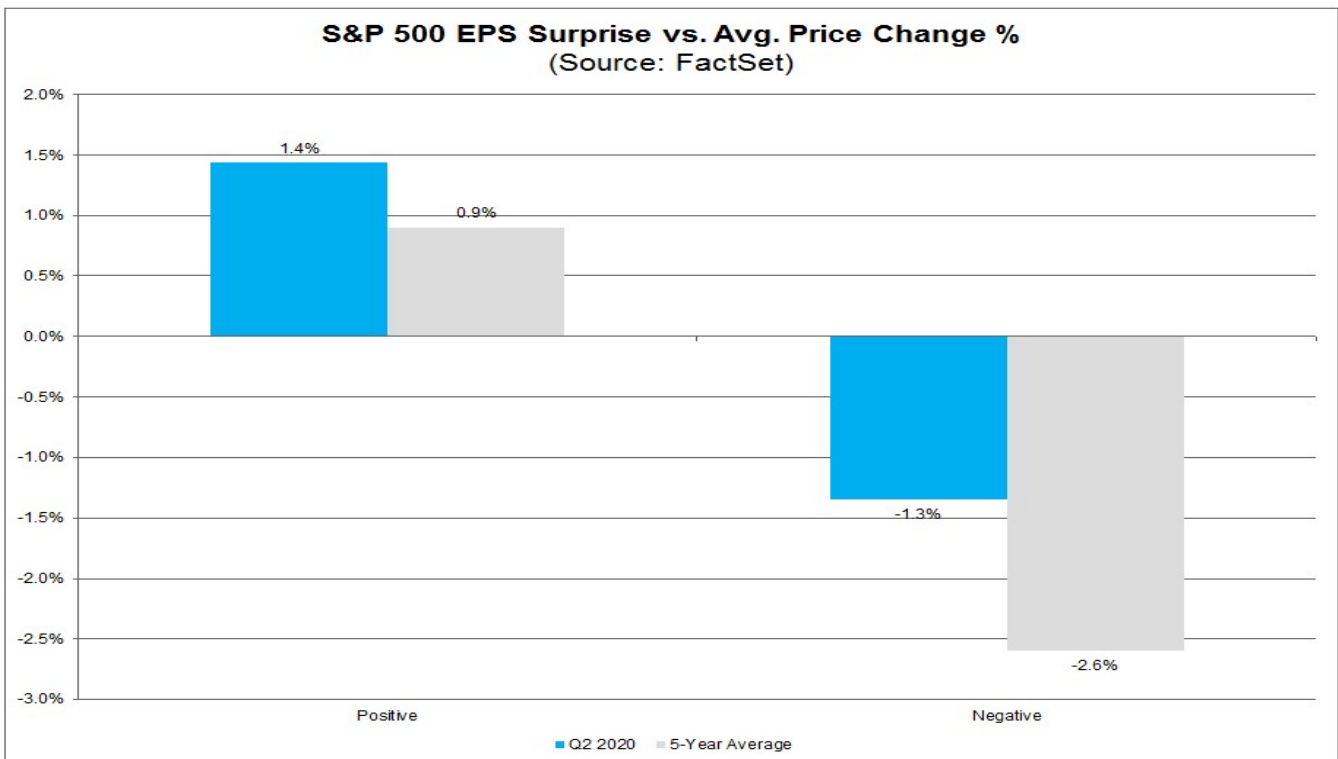
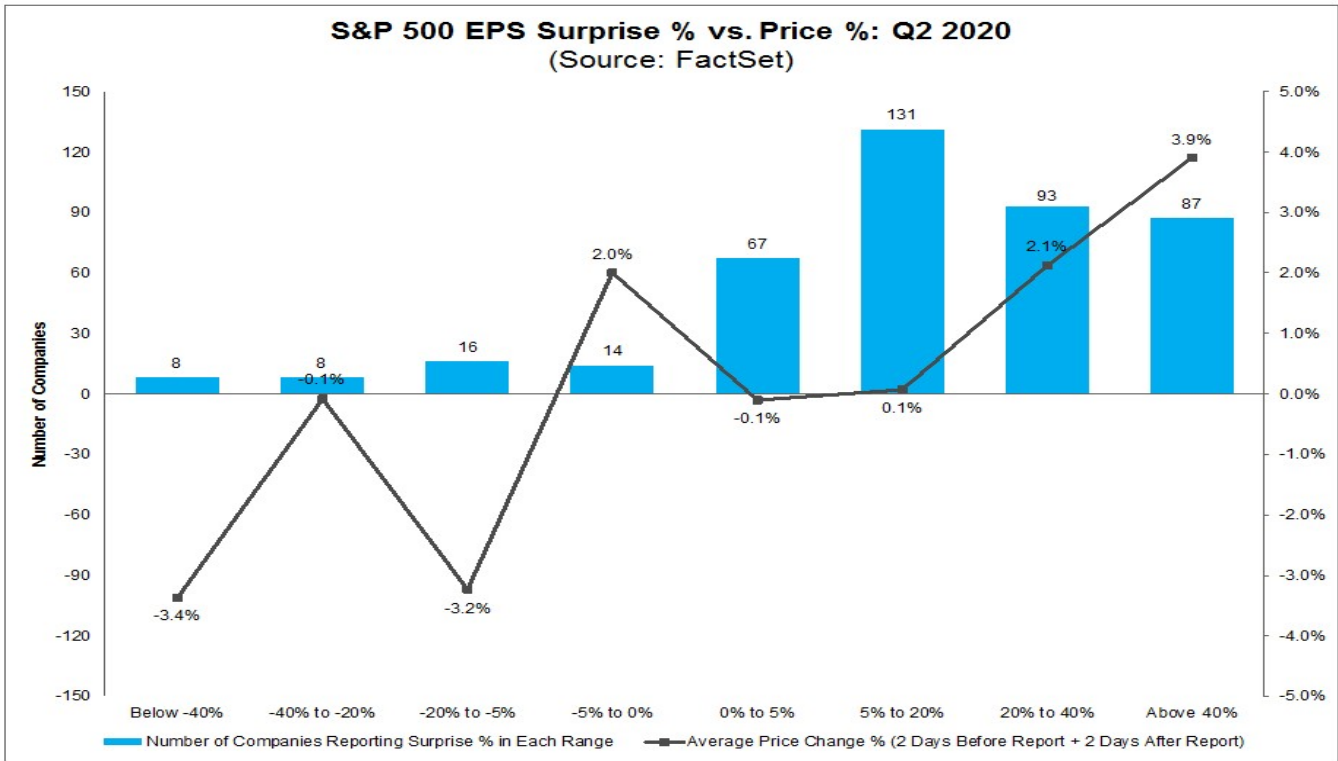
## Q2 2020: Scorecard



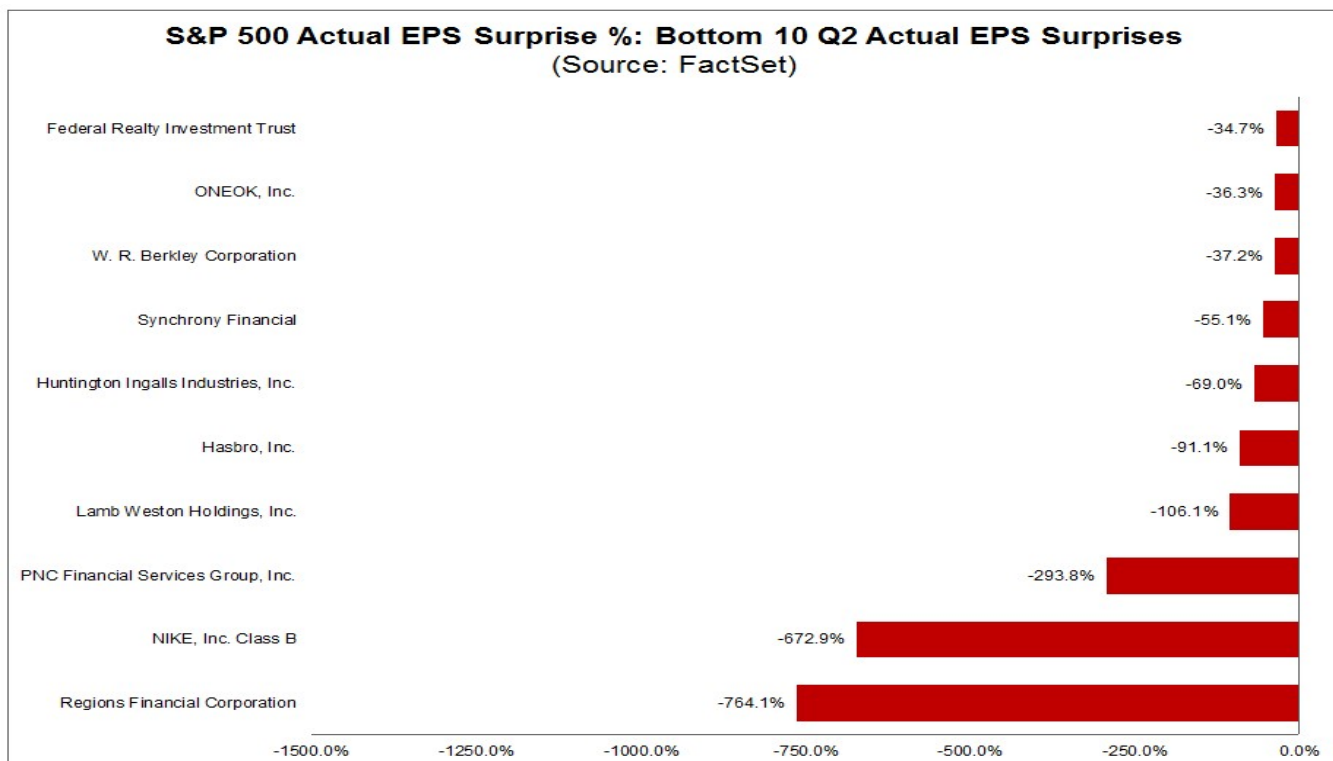
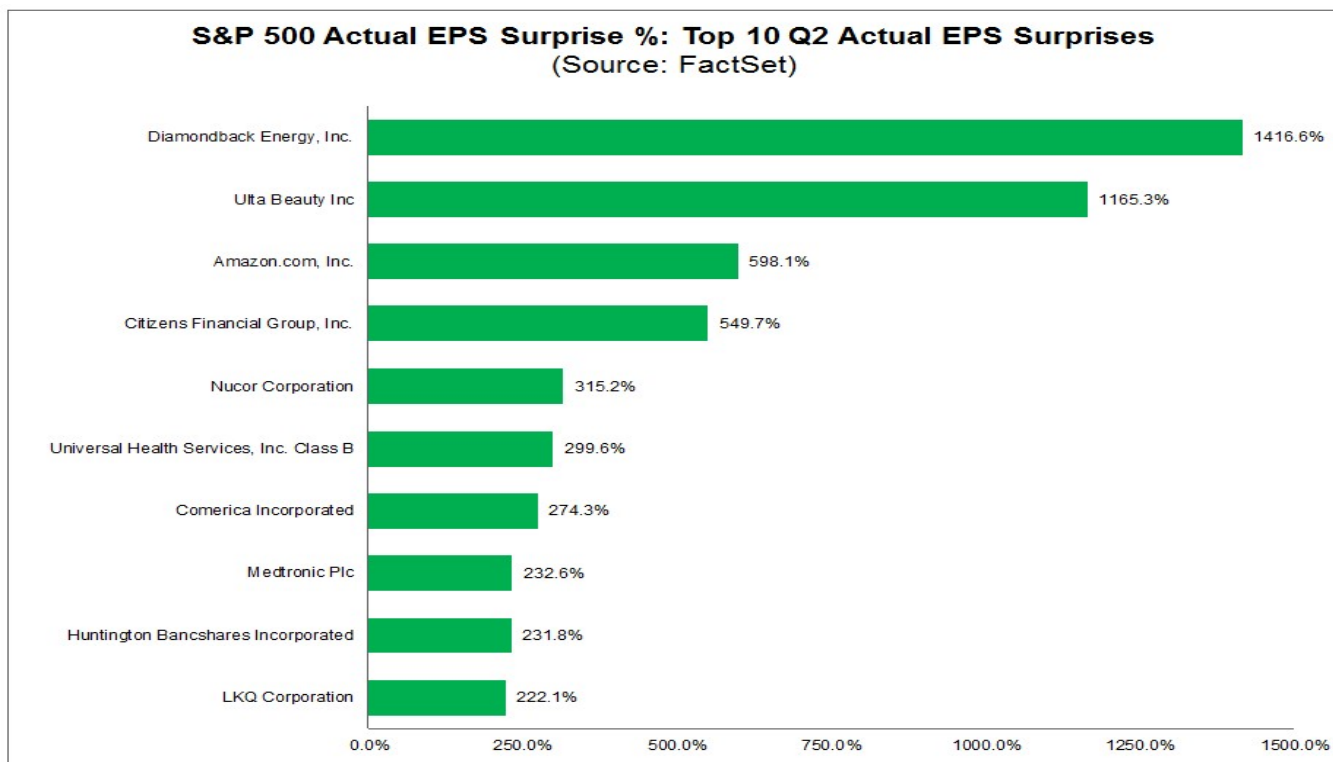
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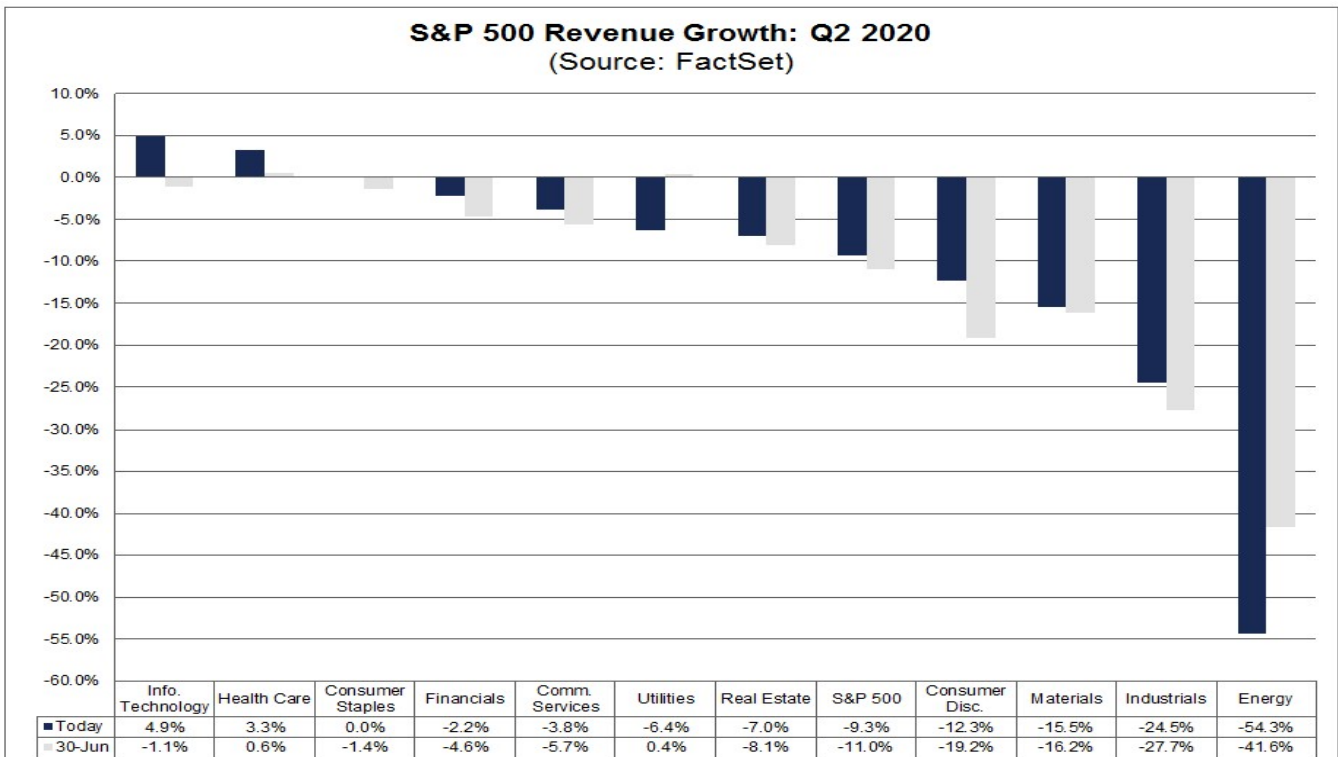
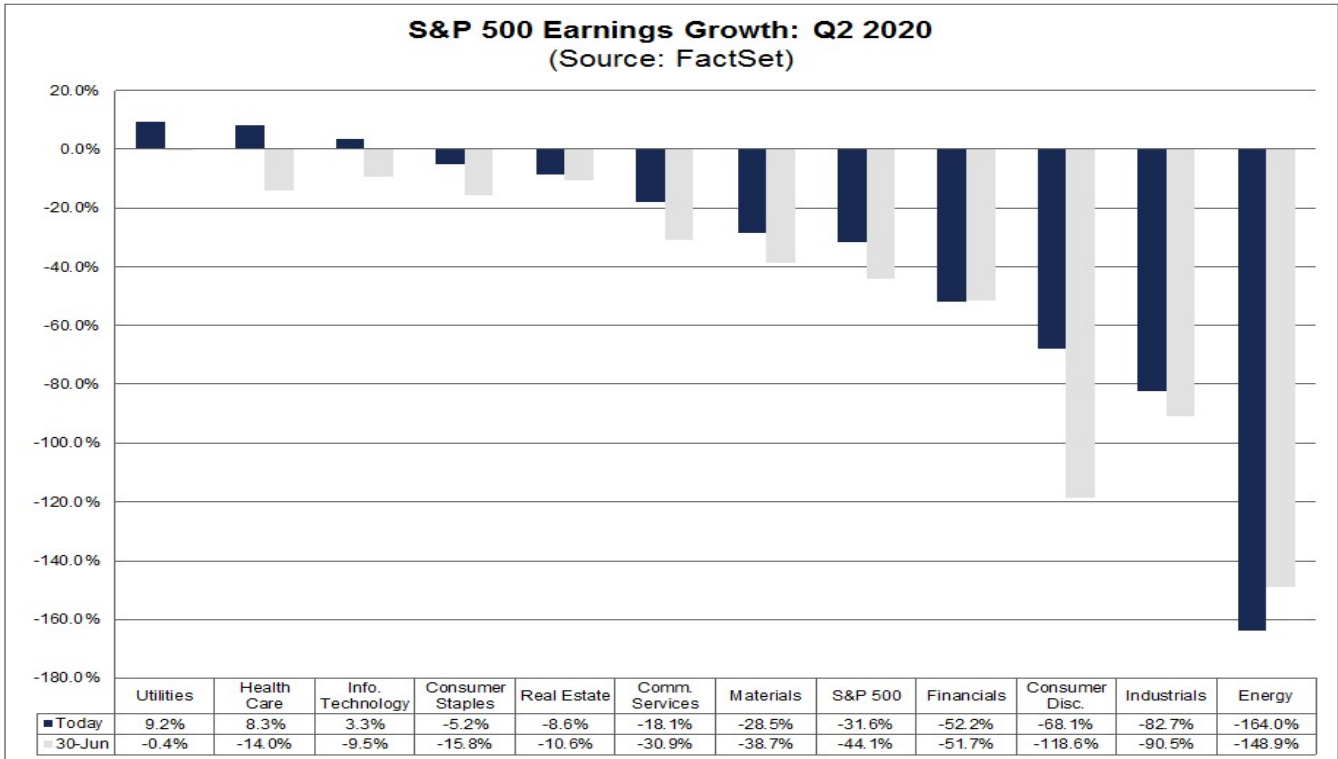
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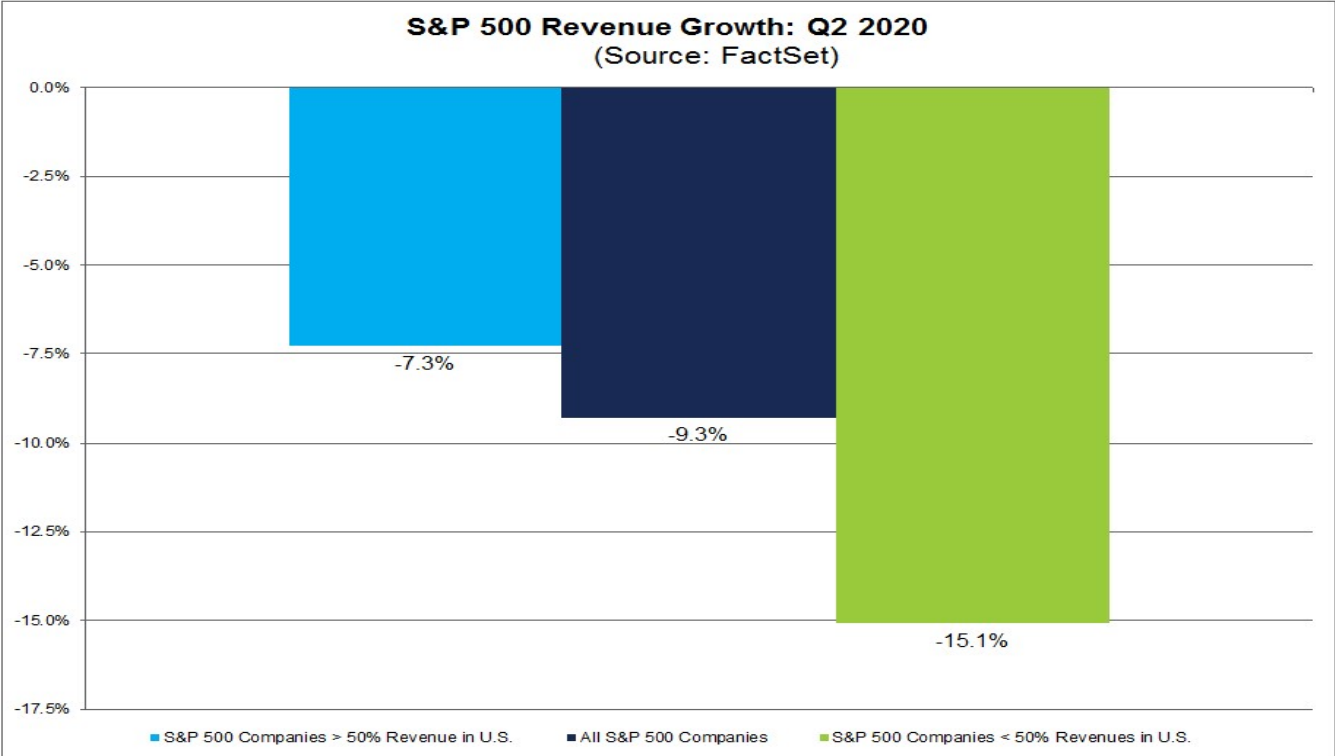
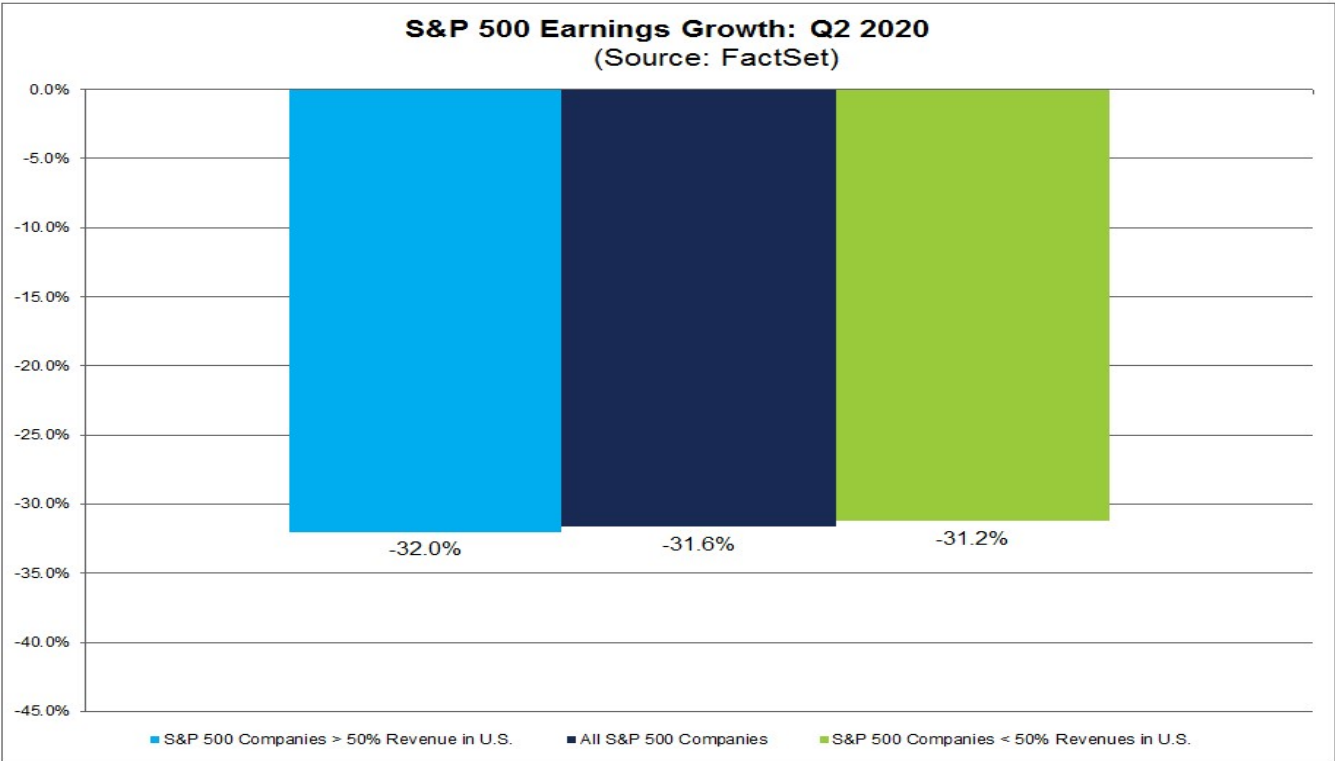
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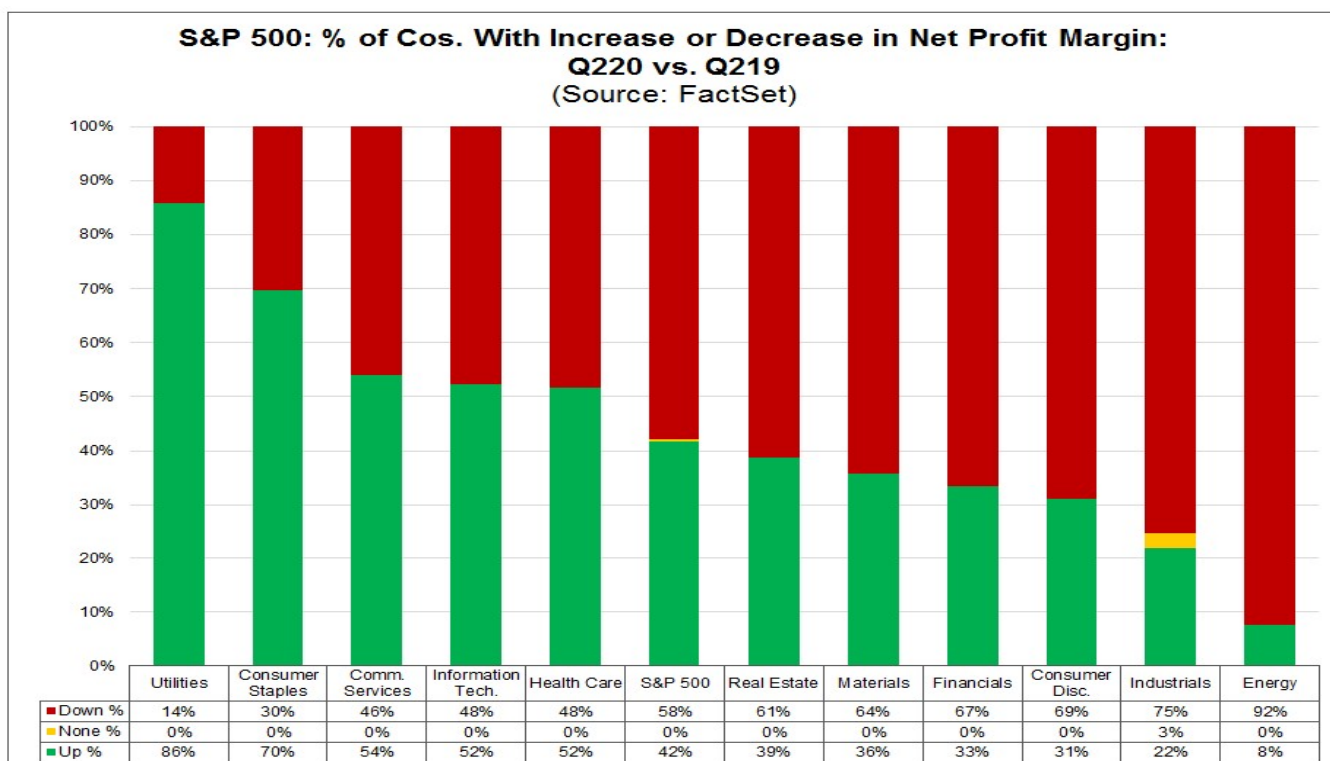
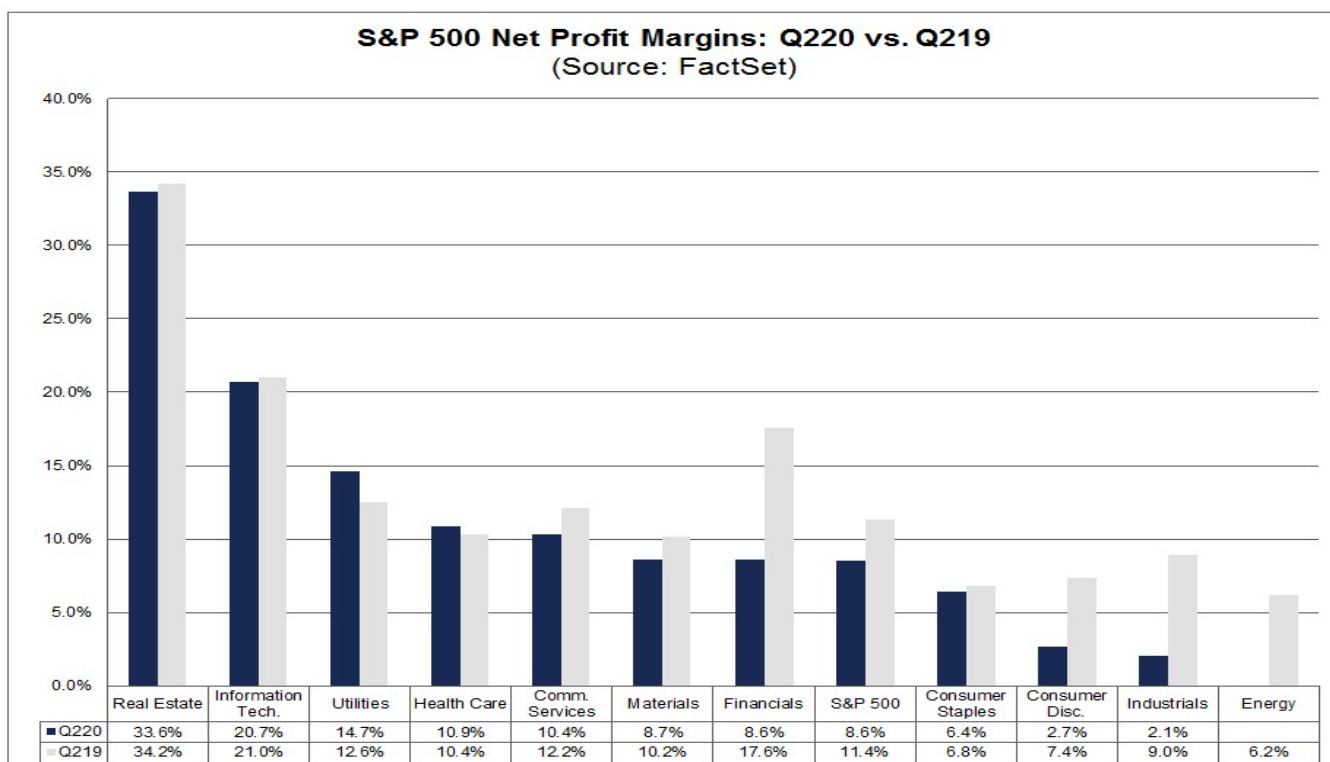
## Q2 2020: Growth



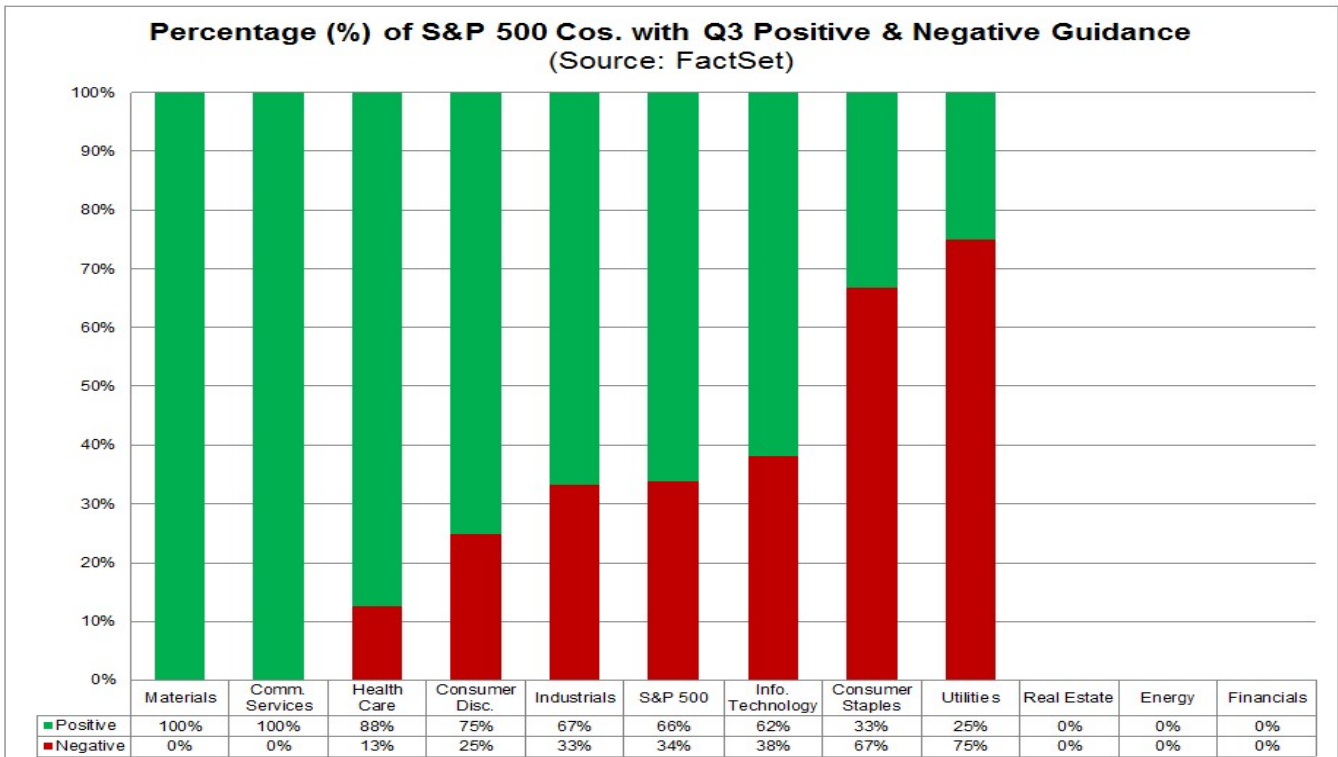
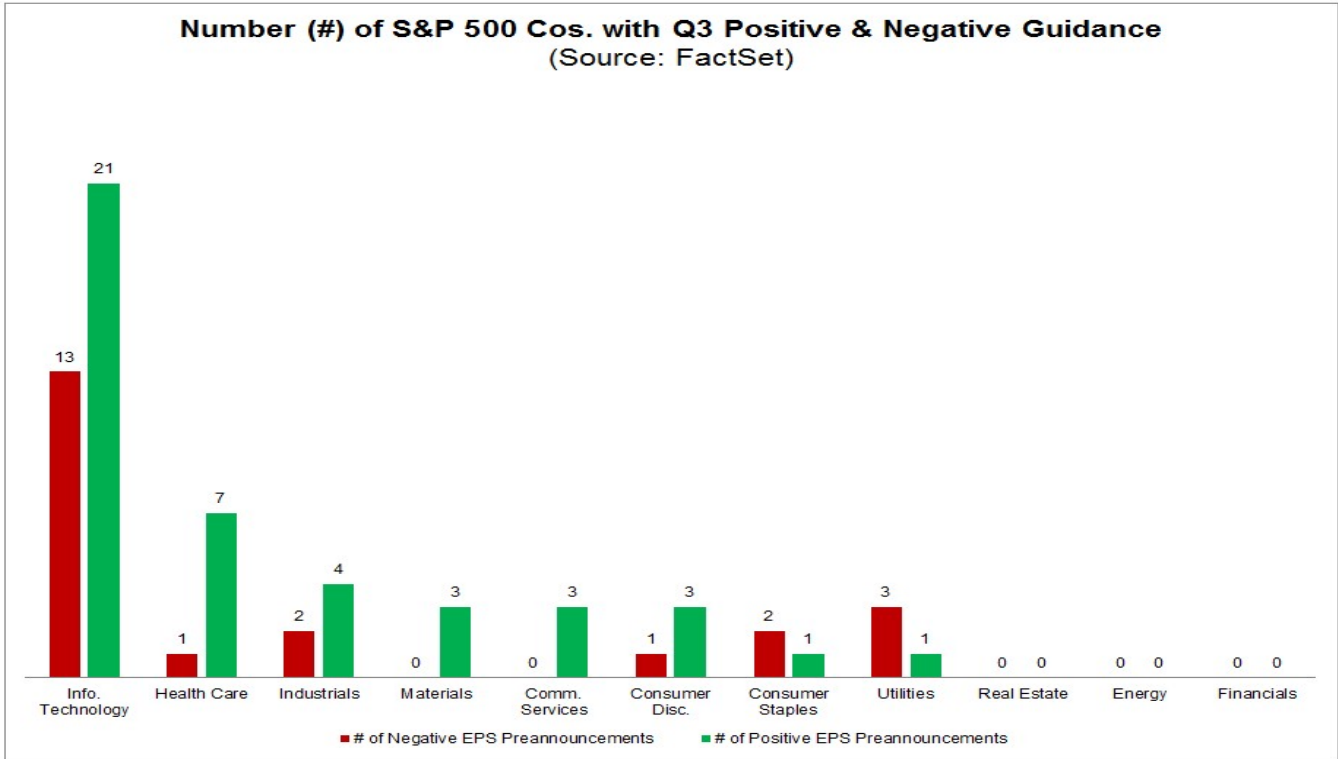
# Q2 2020: Growth



## Q2 2020: Net Profit Margin

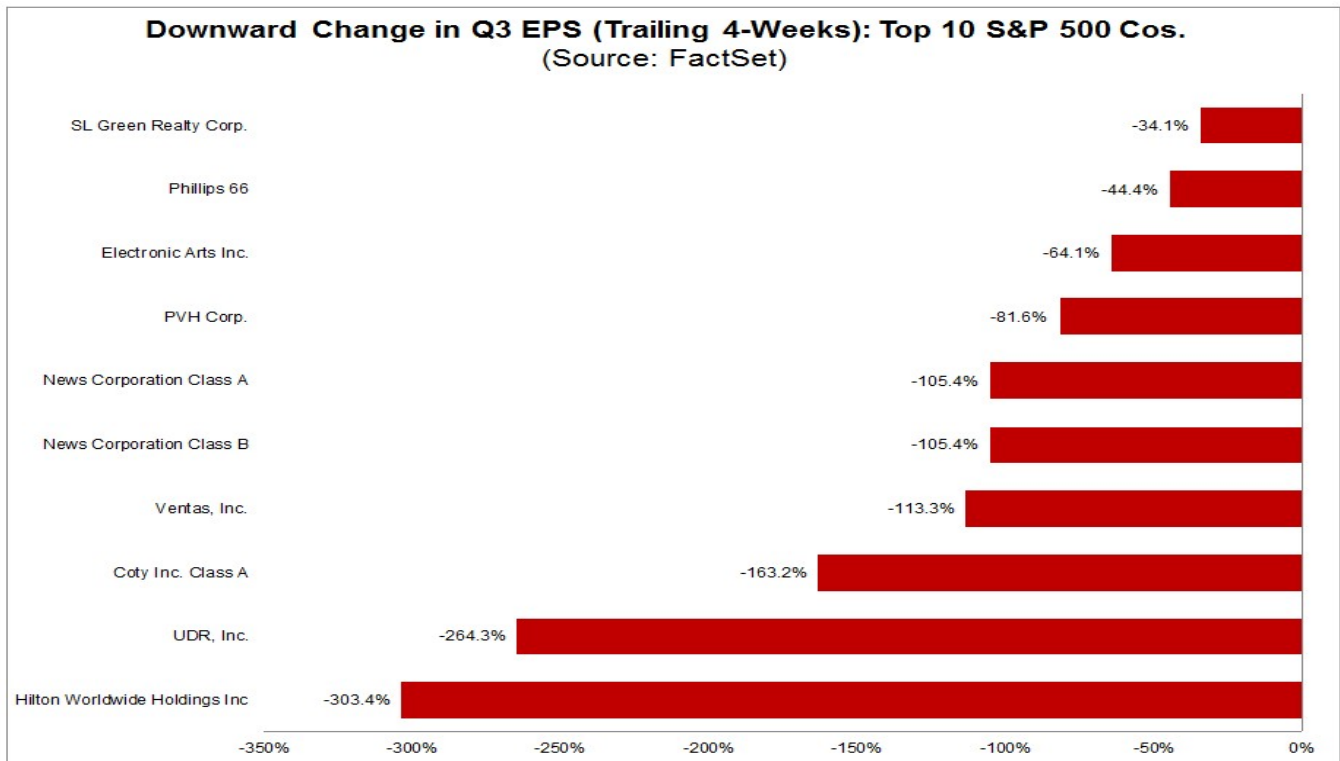
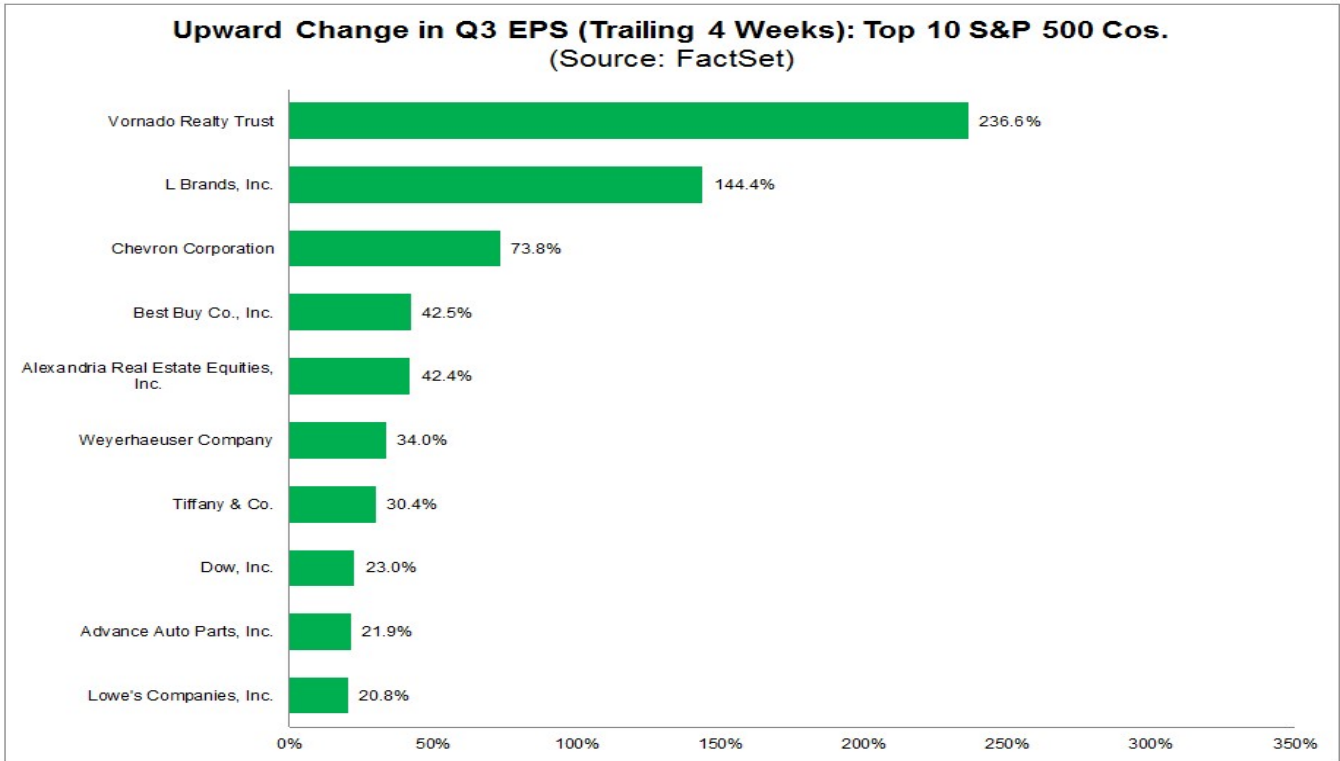


## Q3 2020: EPS Guidance

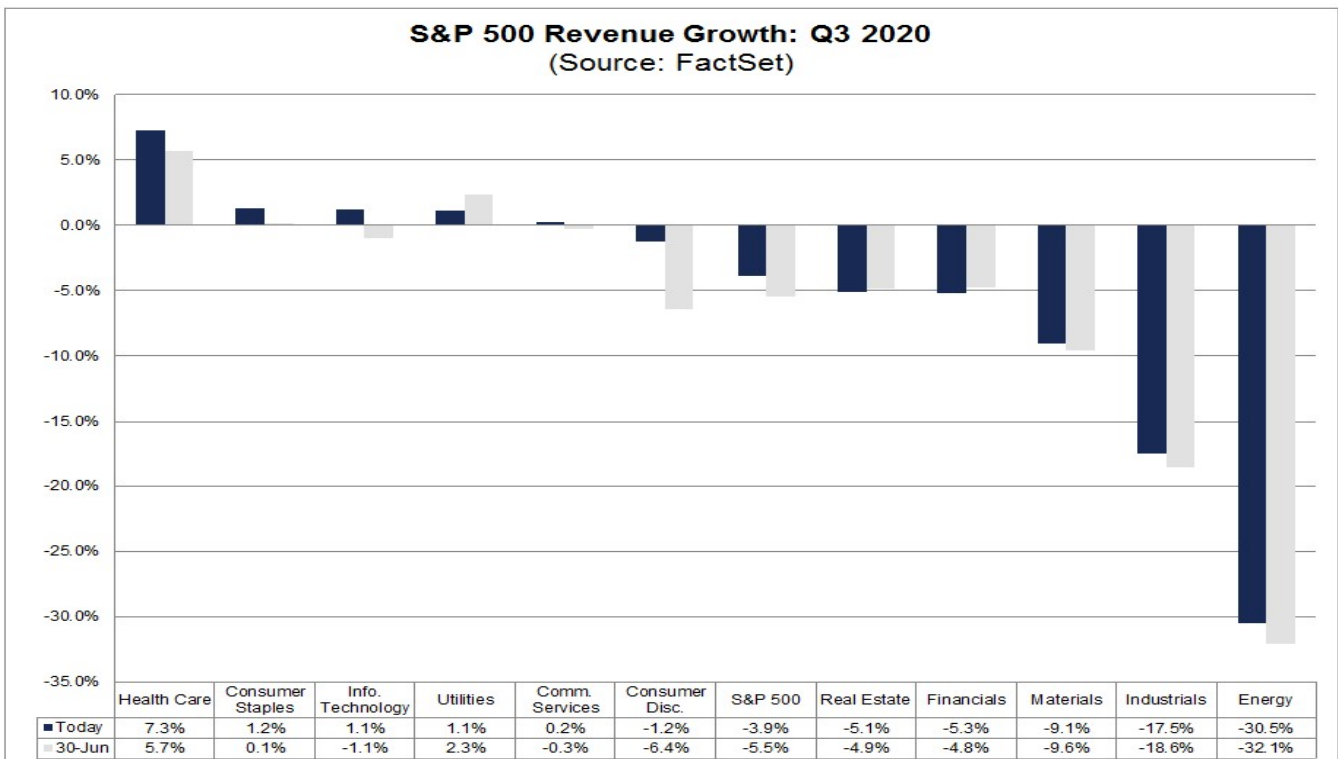
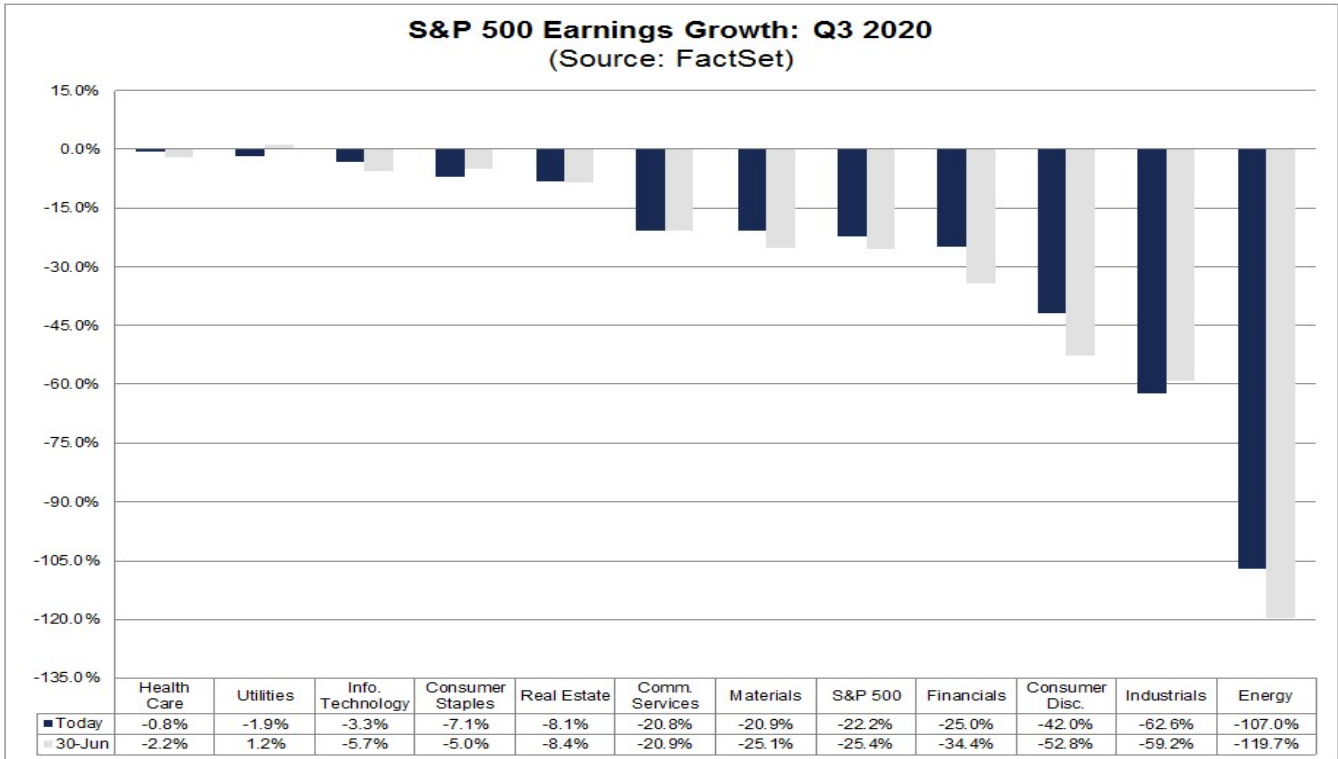




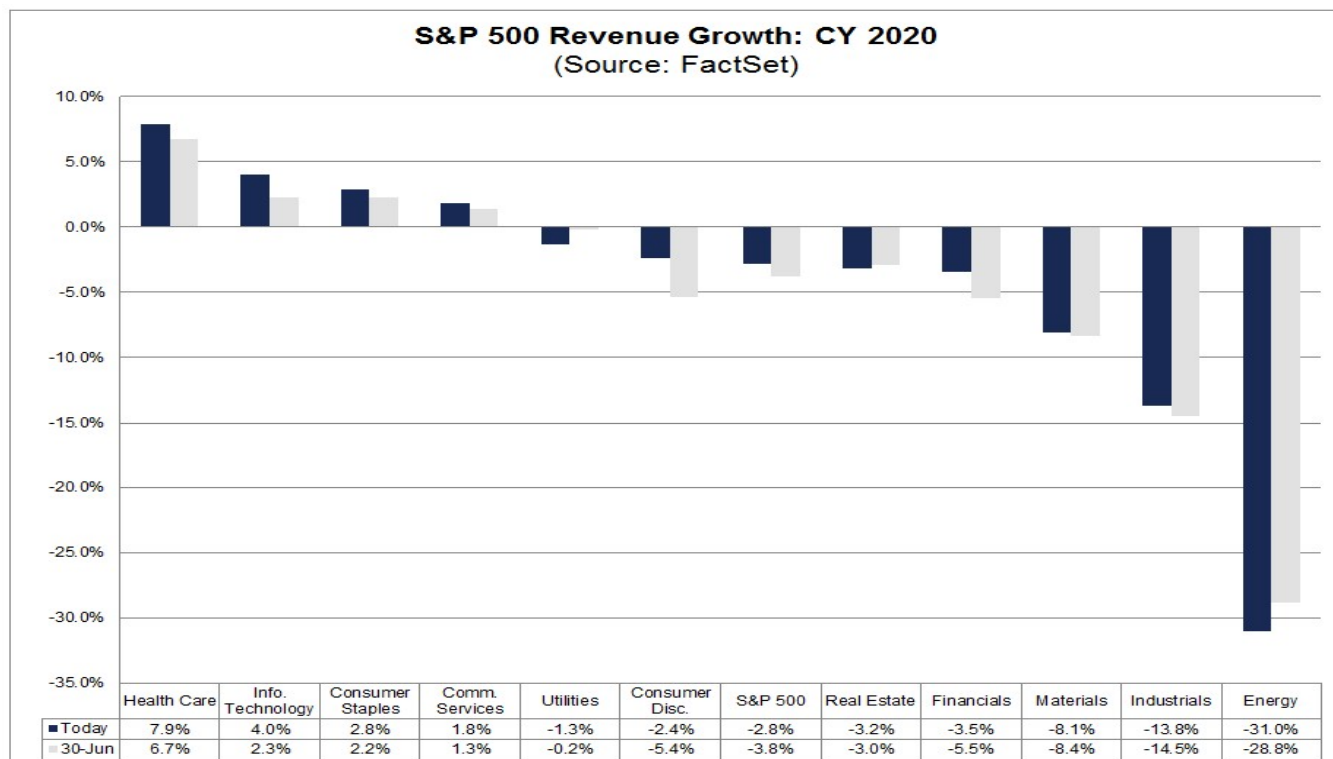
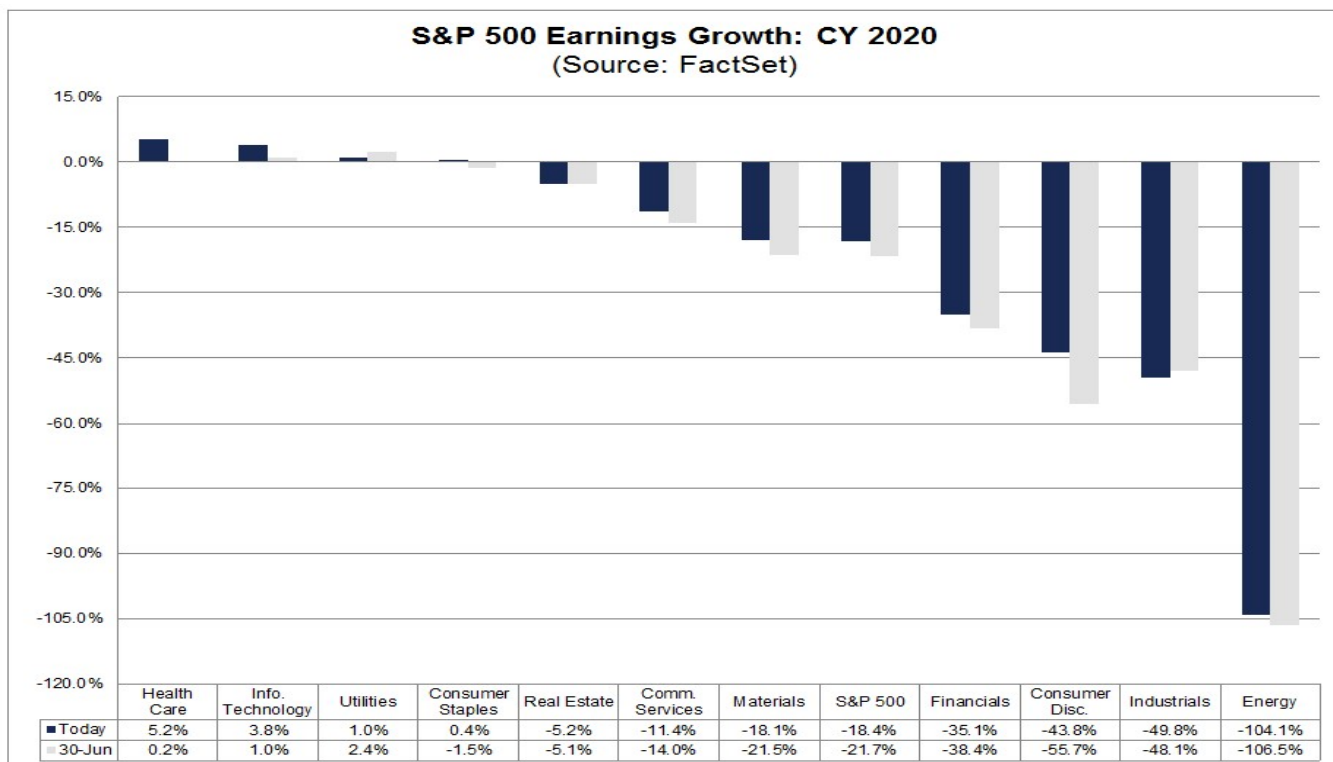
## Q3 2020: EPS Revisions



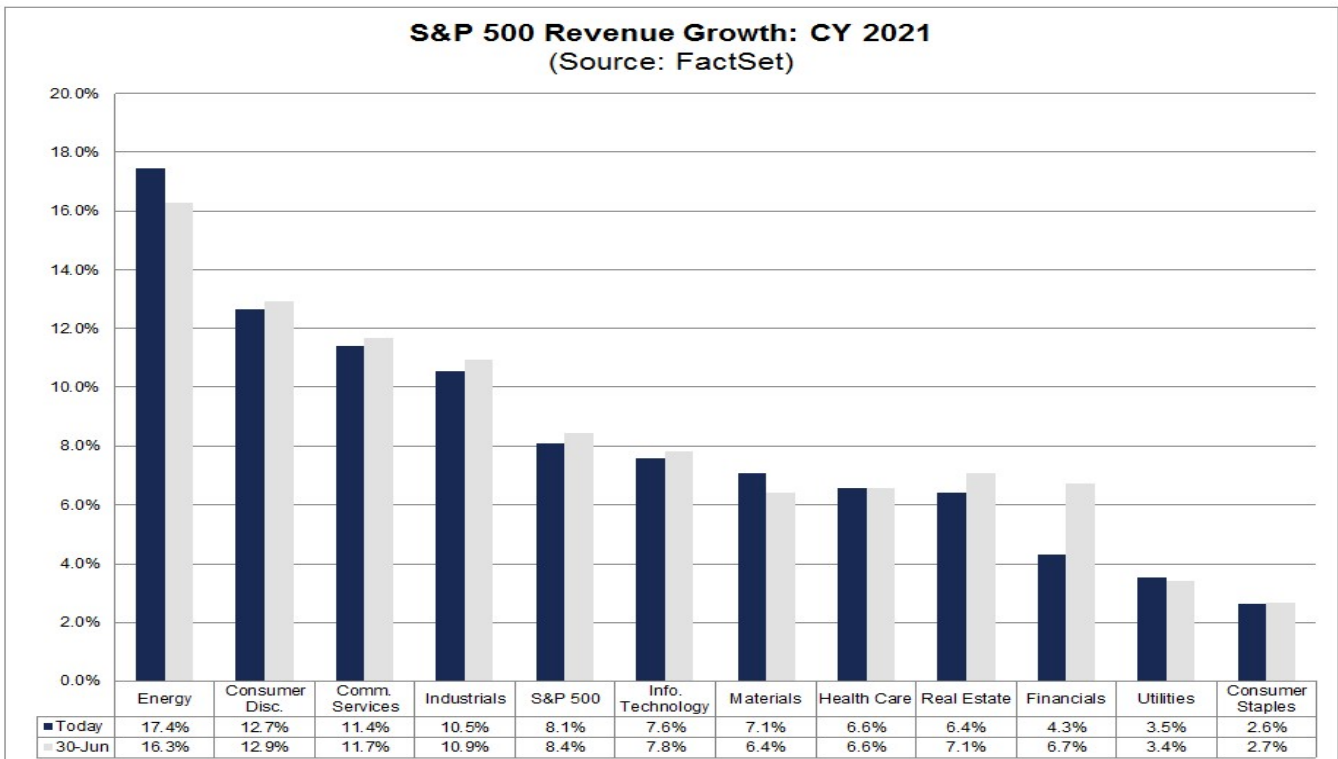
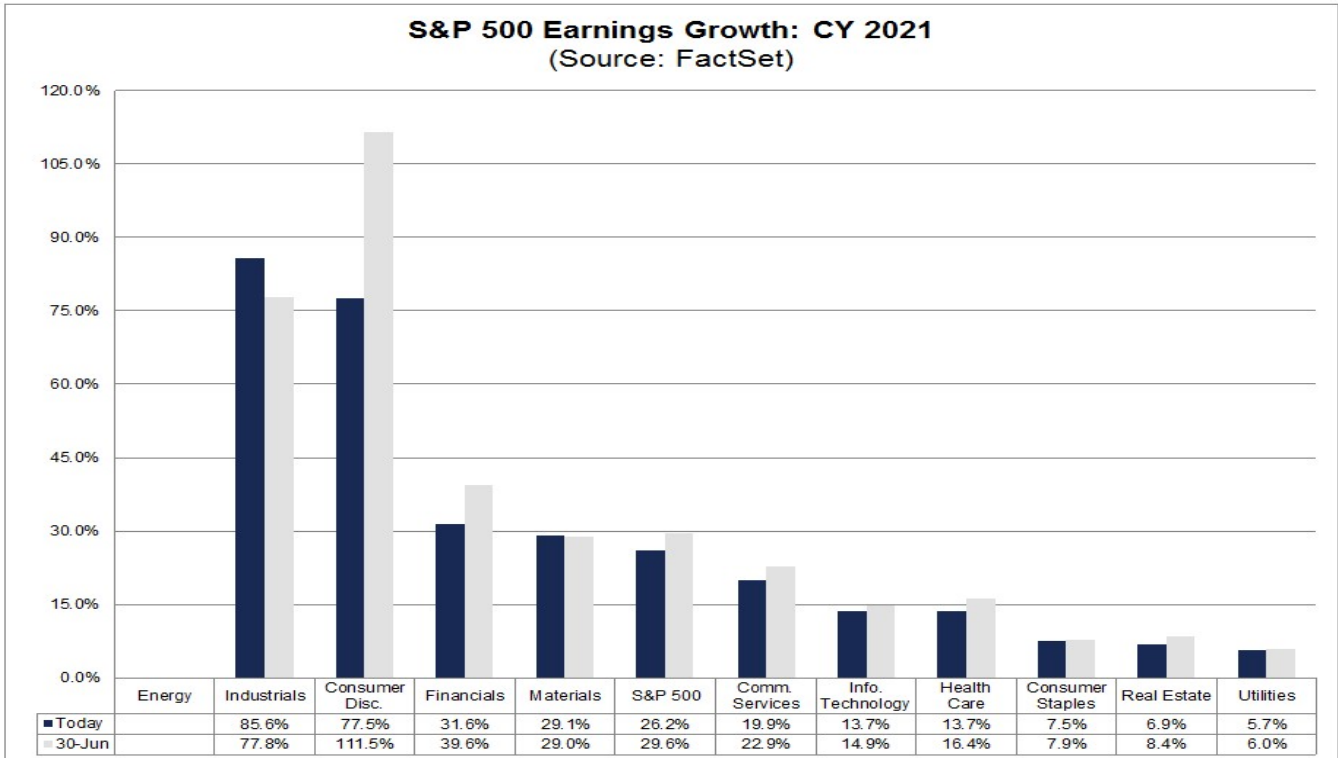
## Q3 2020: Growth



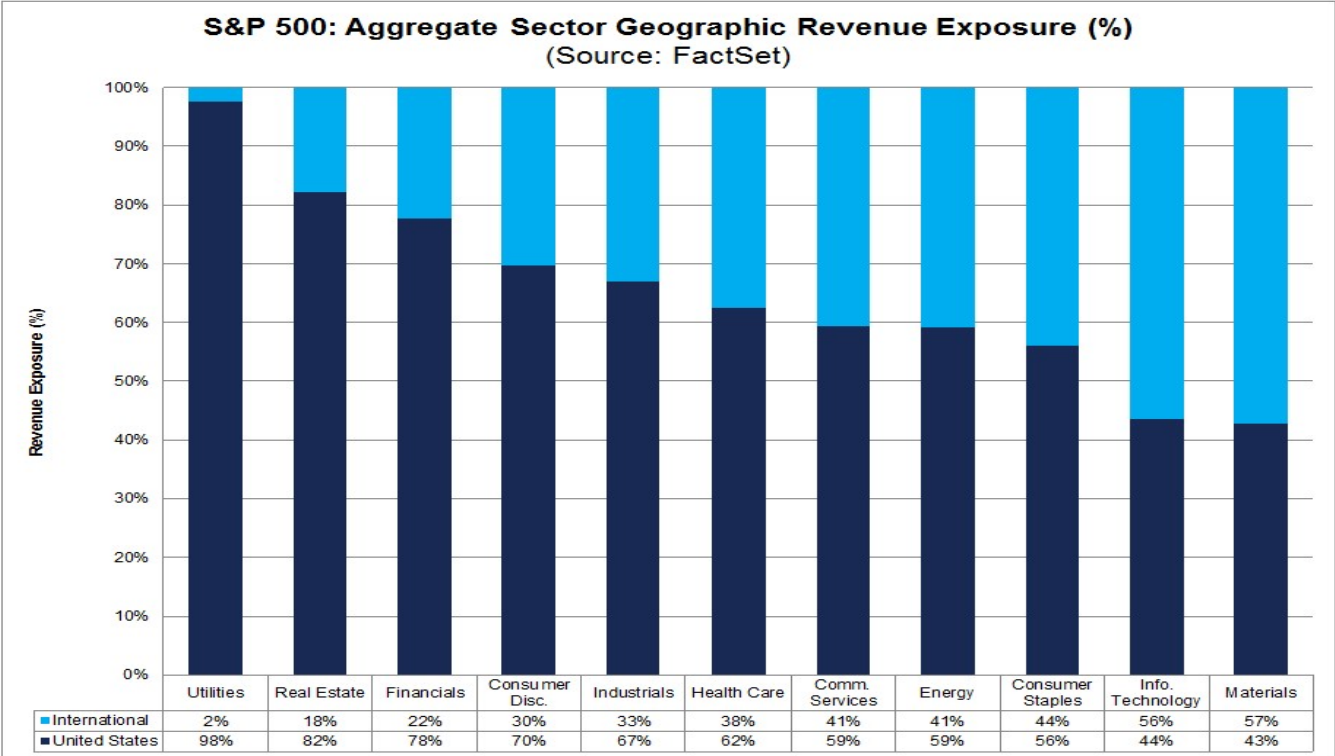
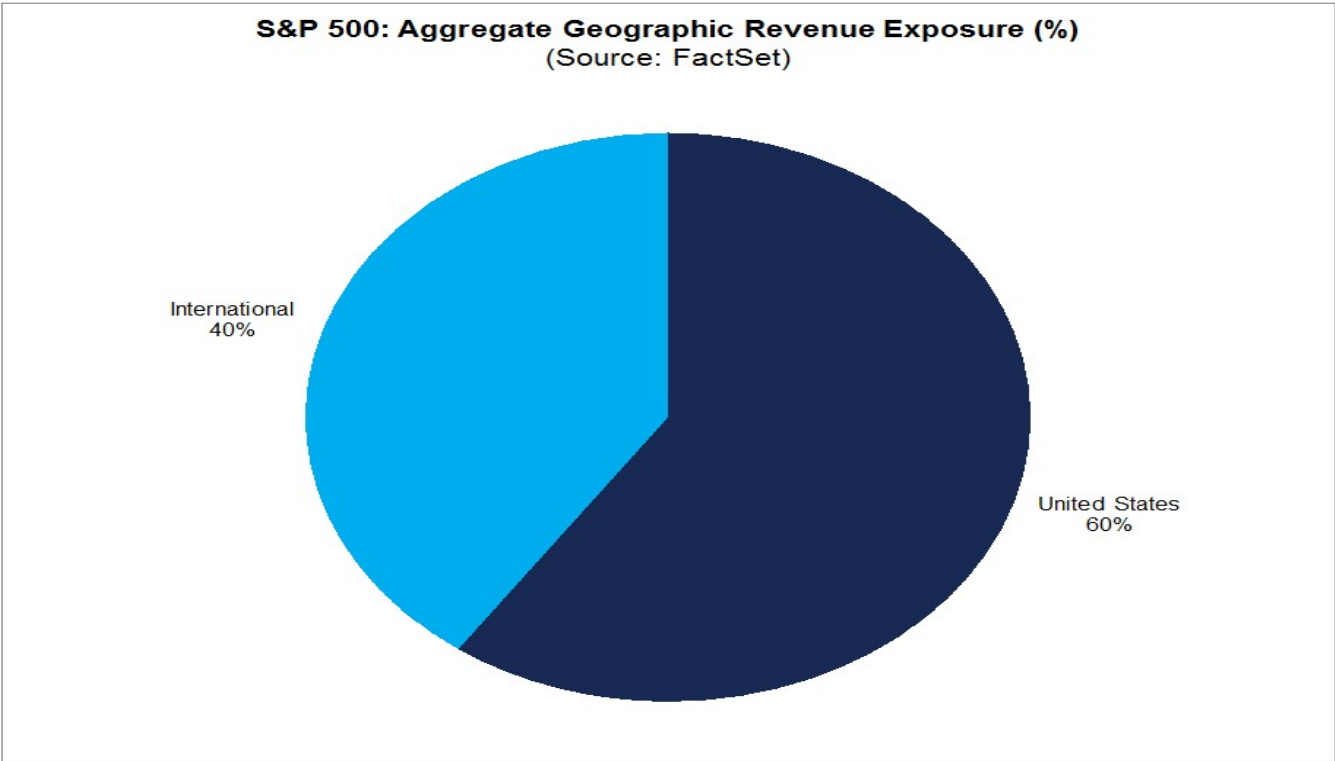
## CY 2020: Growth



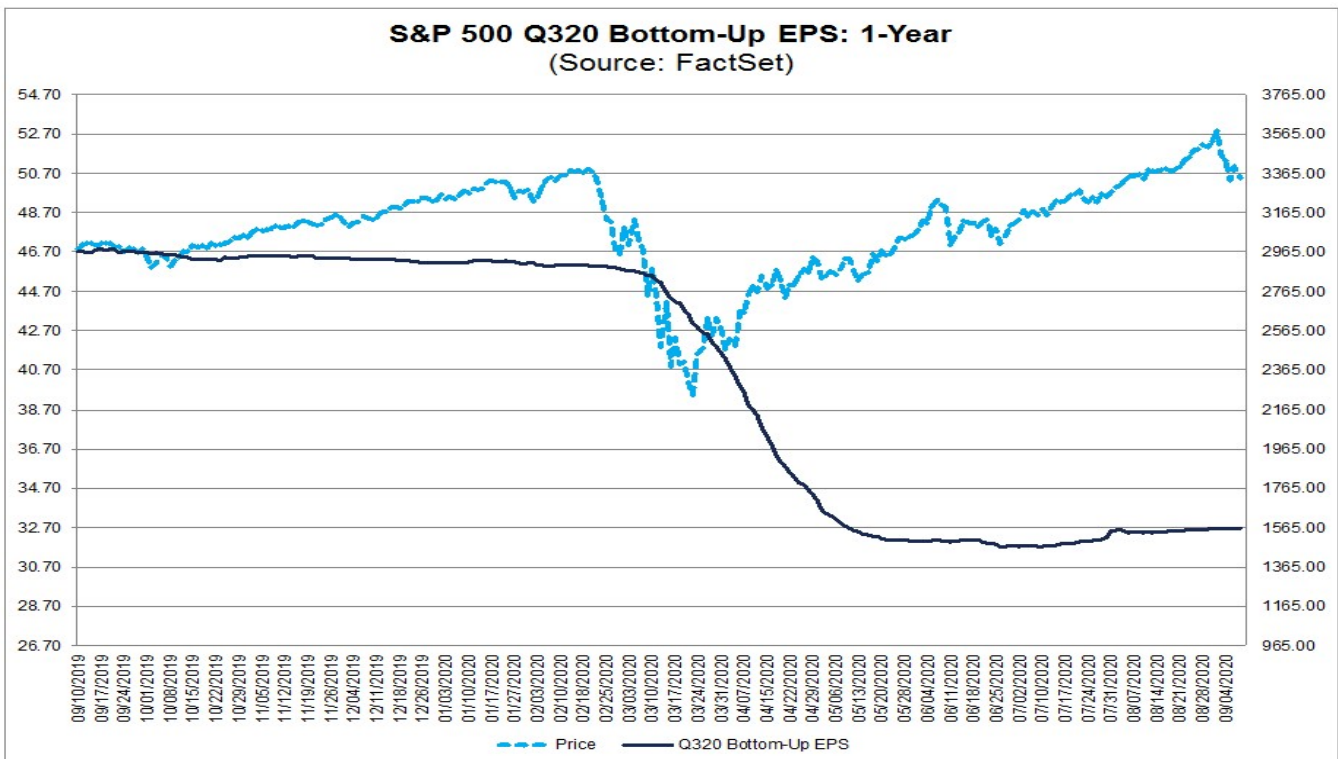
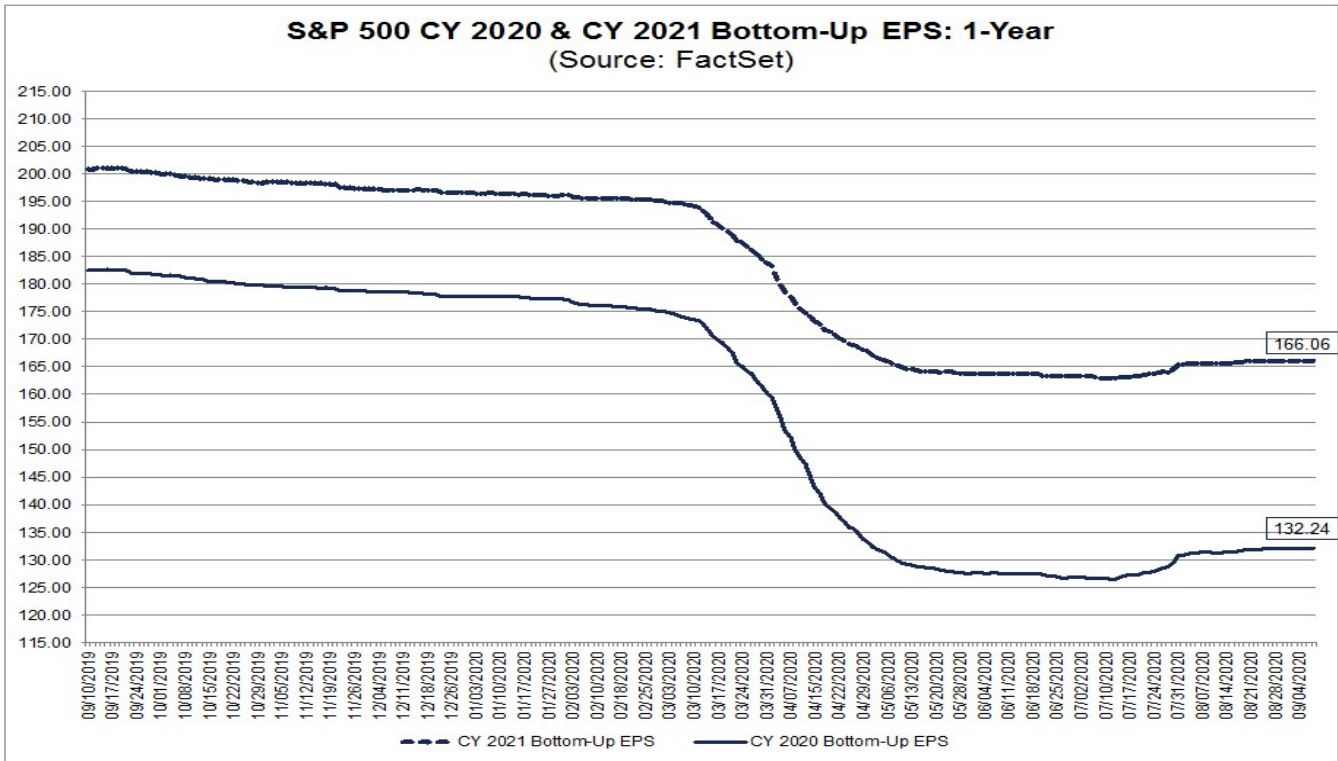
## CY 2021: Growth



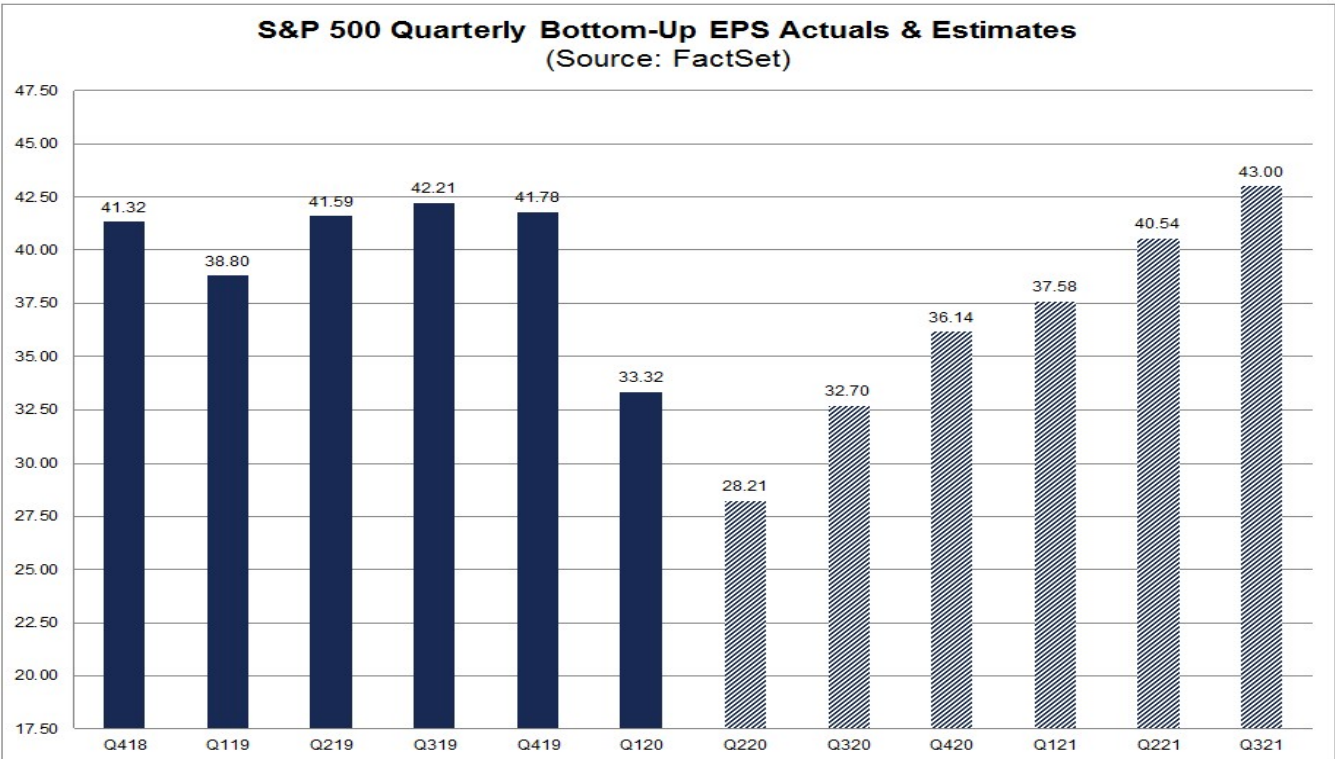
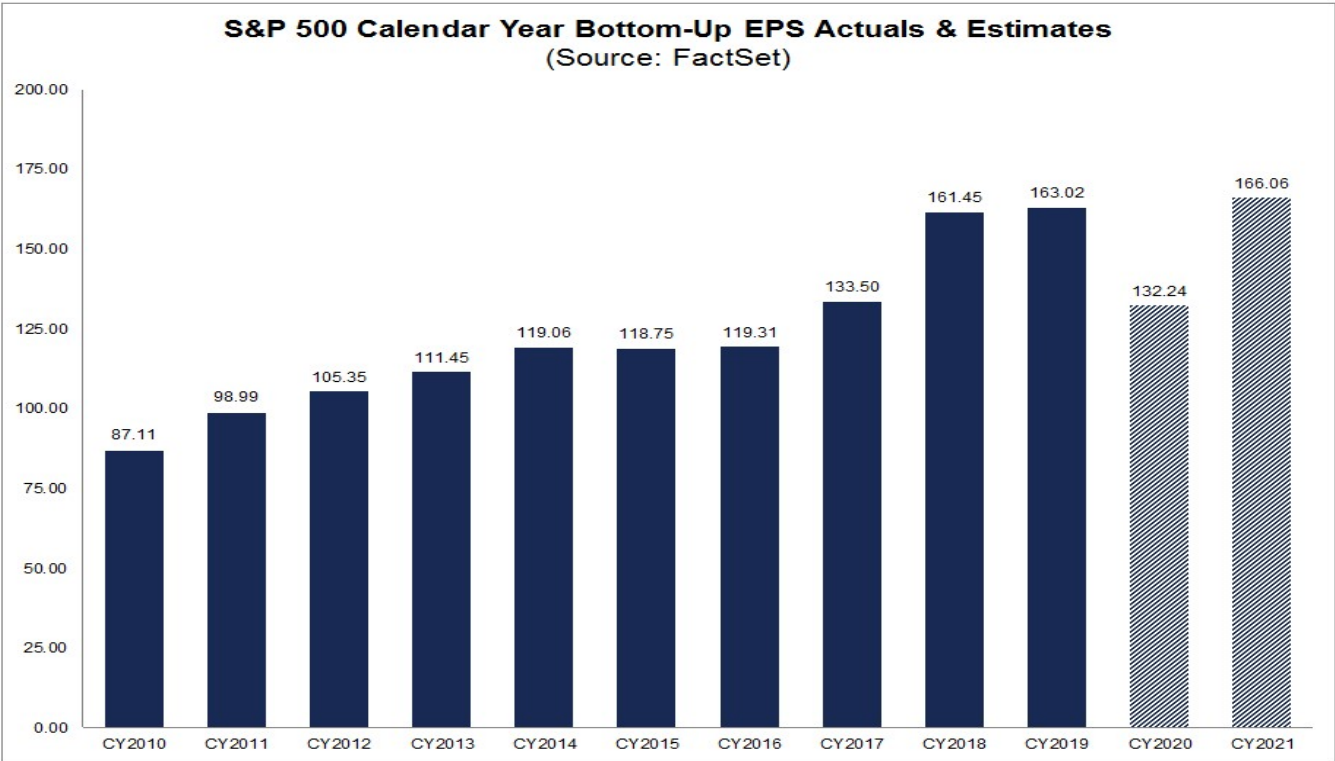
# Geographic Revenue Exposure



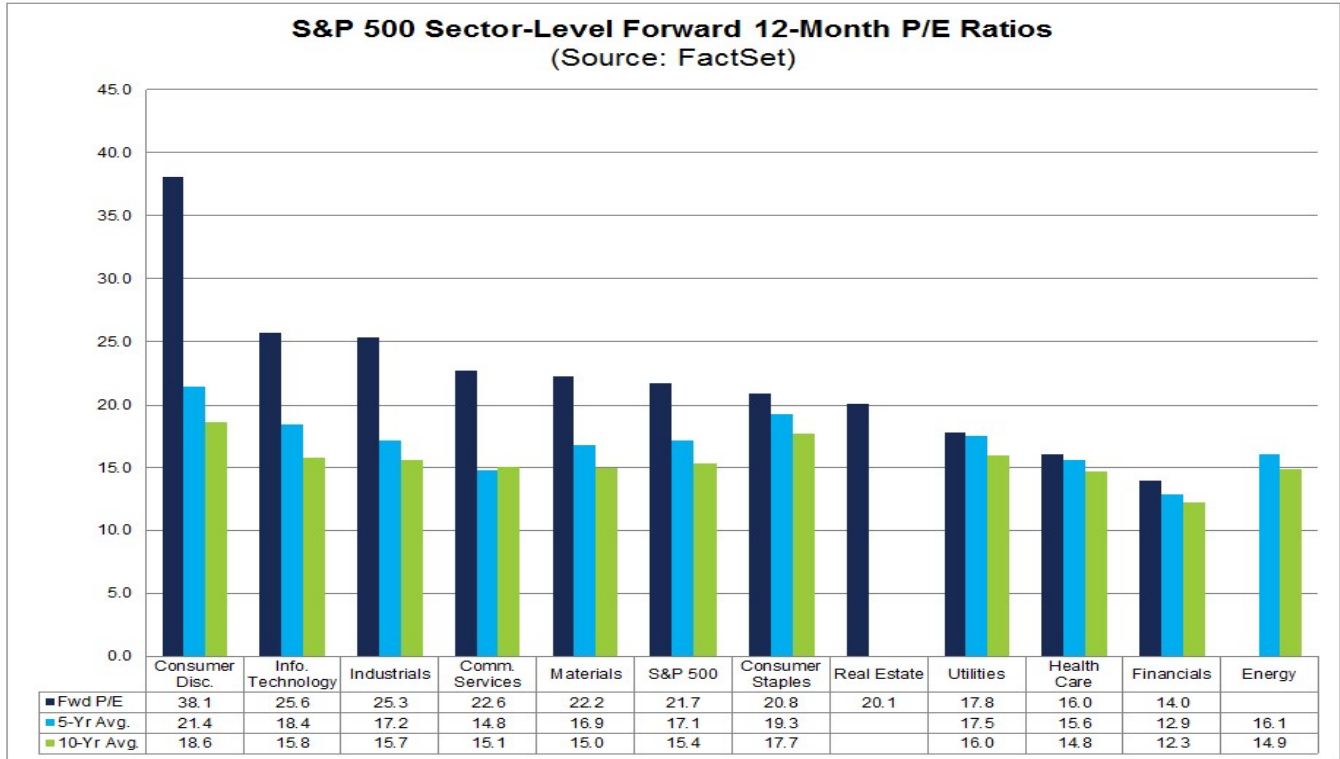
# Bottom-up EPS Estimates: Revisions



# Bottom-up EPS Estimates: Current & Historical

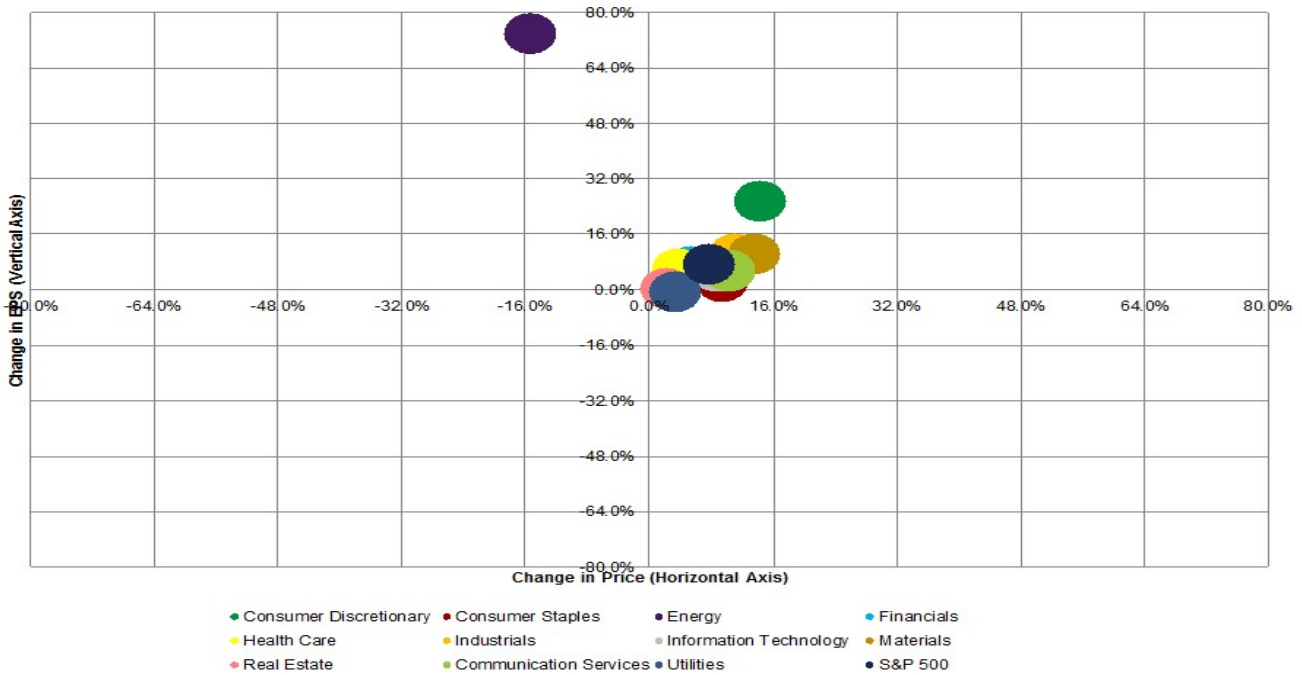


## Forward 12M P/E Ratio: Sector Level



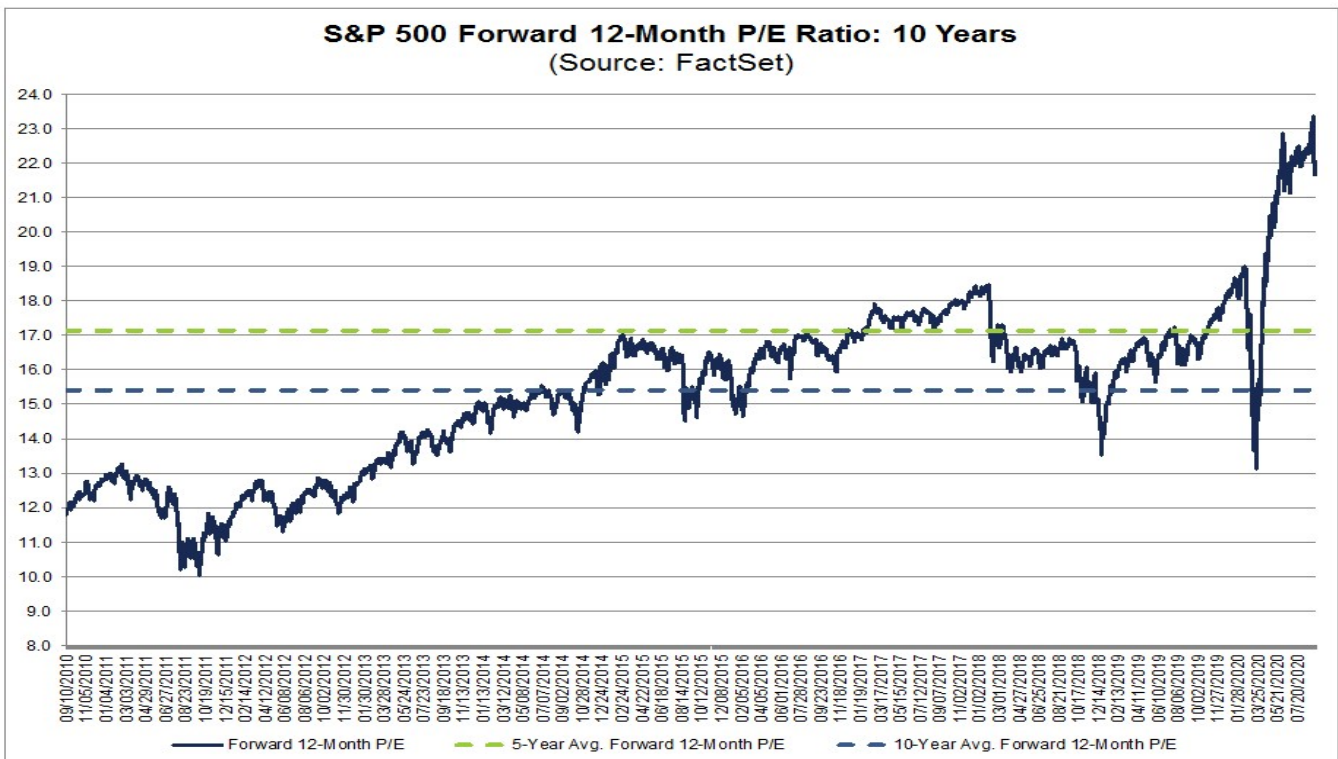
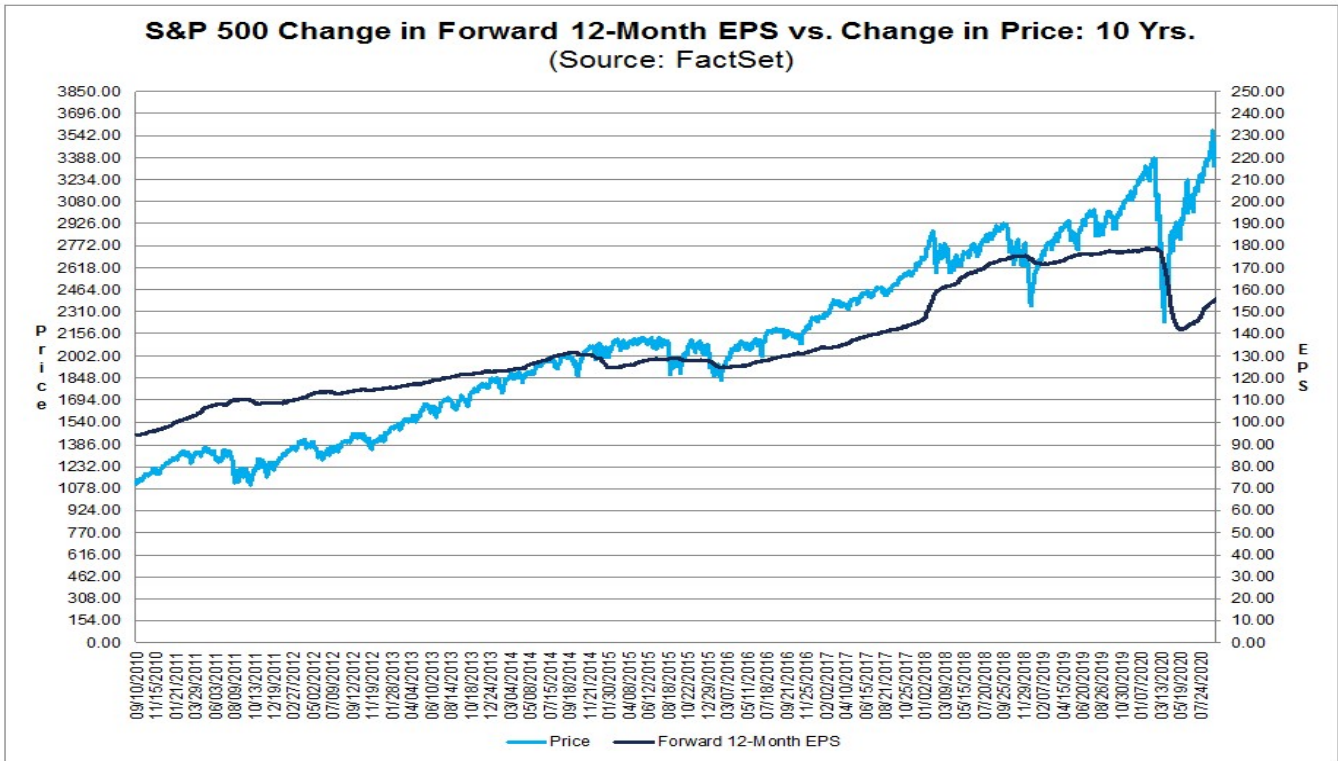
## Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Jun. 30

(Source: FactSet)

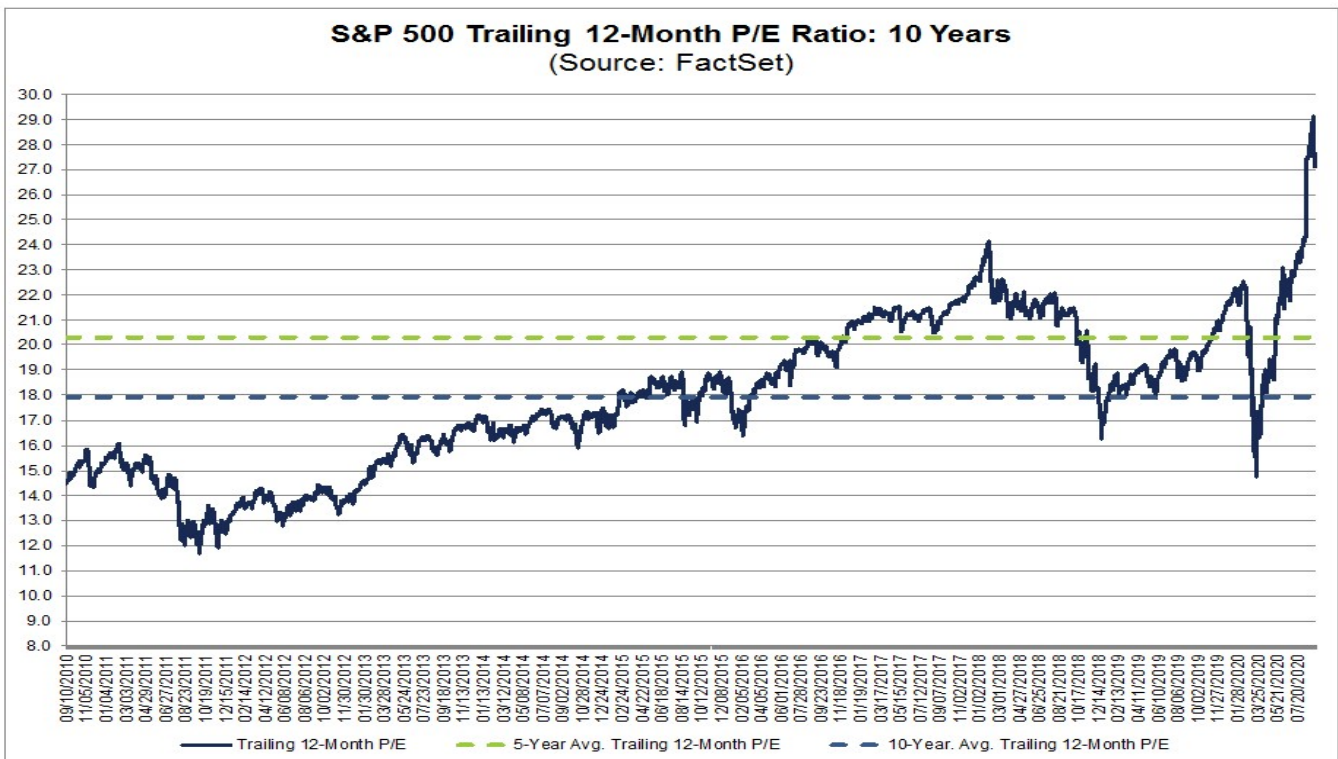
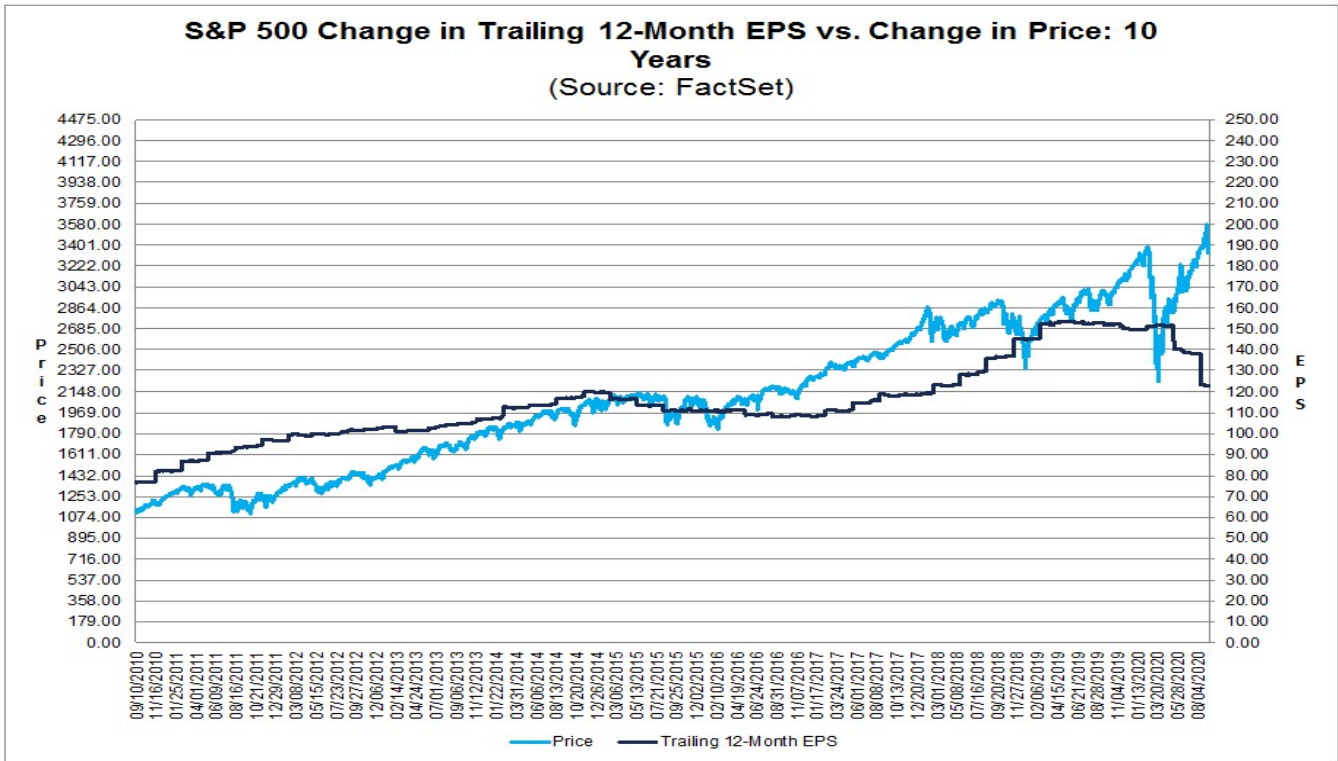




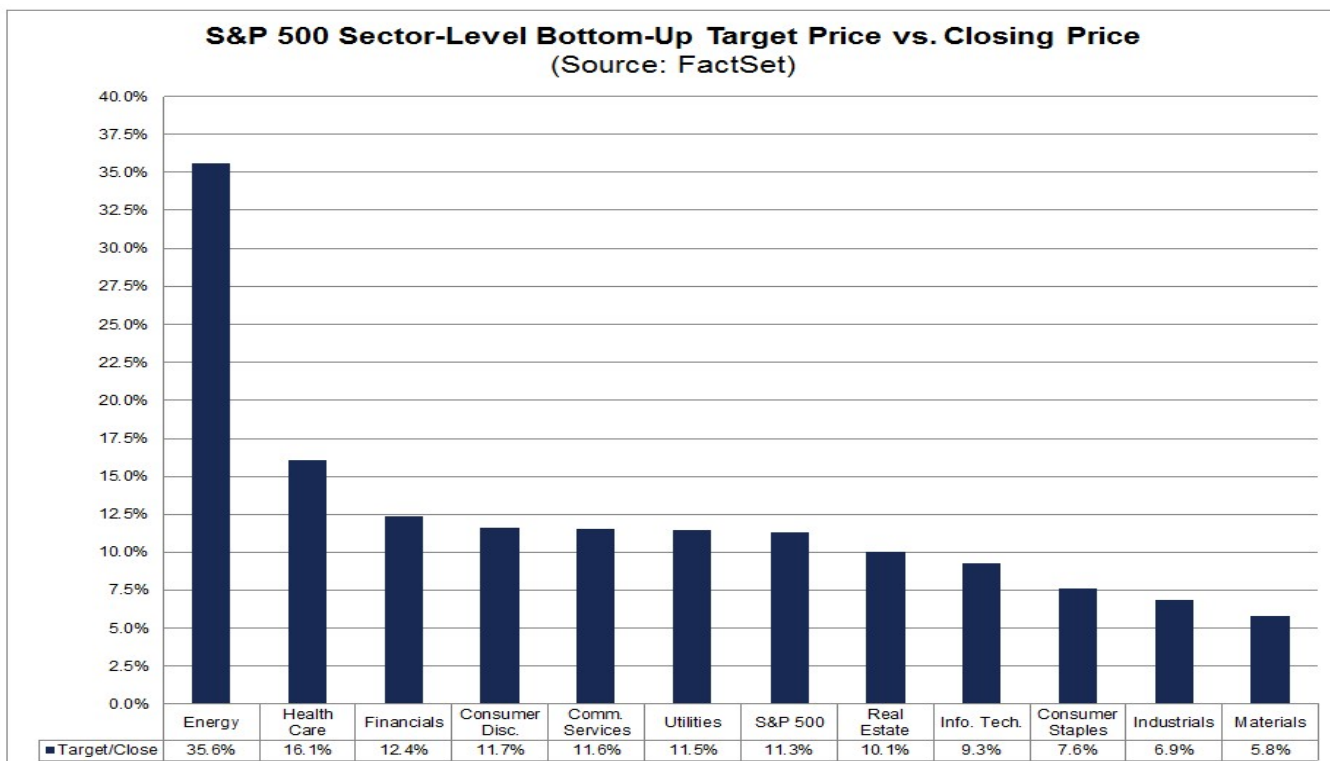
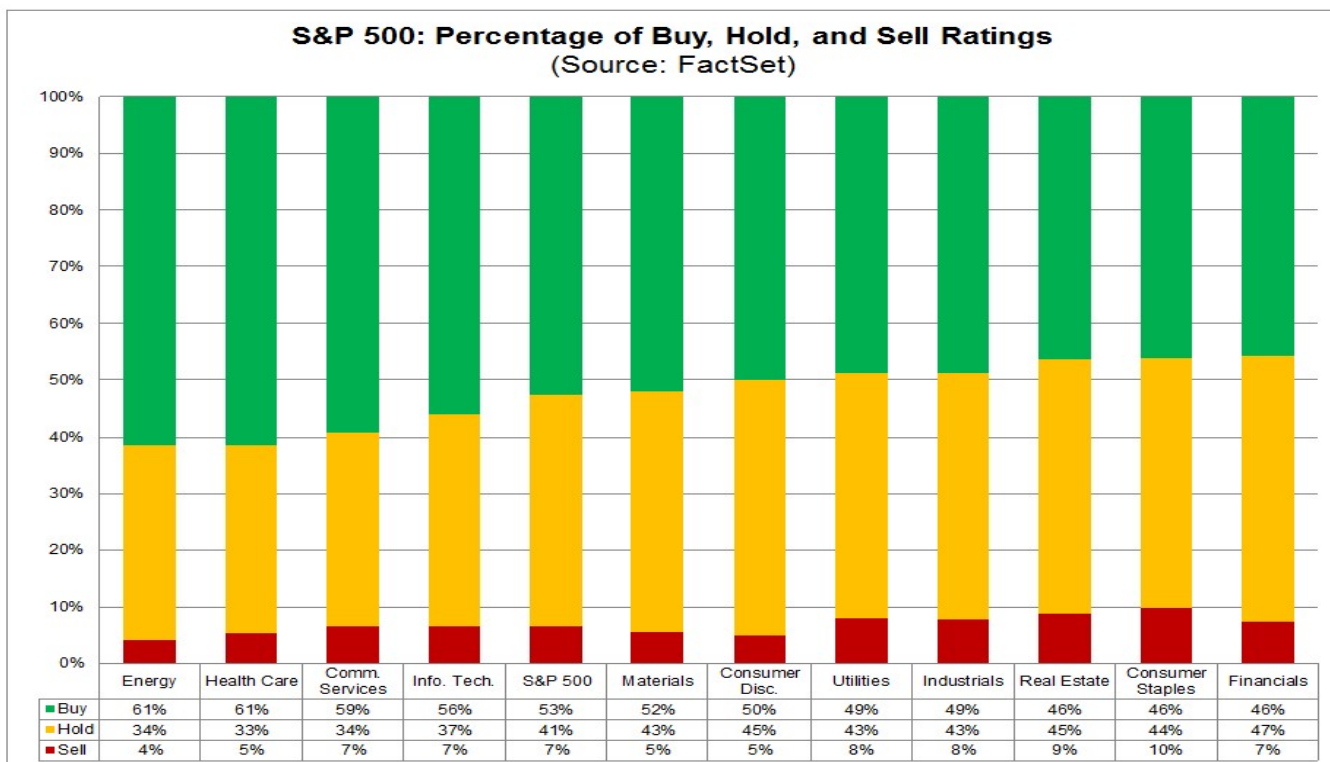
## Forward 12M P/E Ratio: 10-Years



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



## Targets & Ratings



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