The Outlook For S&P 500 Earnings In The Ongoing Elevated Risk Environment

S&P Capital IQ Quarterly Earnings Webinar

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The Outlook For S&P 500 Earnings In The Ongoing Elevated Risk Environment

- **Opening Remarks**
  - Denise Chang, S&P Capital IQ Marketing
- **Outlook for Risk and Value in U.S. Financial Markets**
  - Robert Keiser, Vice President, S&P Capital IQ Global Markets Intelligence
- **Earnings Update – 3Q 2012 Earnings Estimates**
  - Christine Short, Senior Manager, S&P Capital IQ Global Markets Intelligence
- **Questions and Answers**

Investing In What Continues To Be A High Risk Economic And Market Environment

Robert Keiser
Vice President, S&P Capital IQ Global Markets Intelligence

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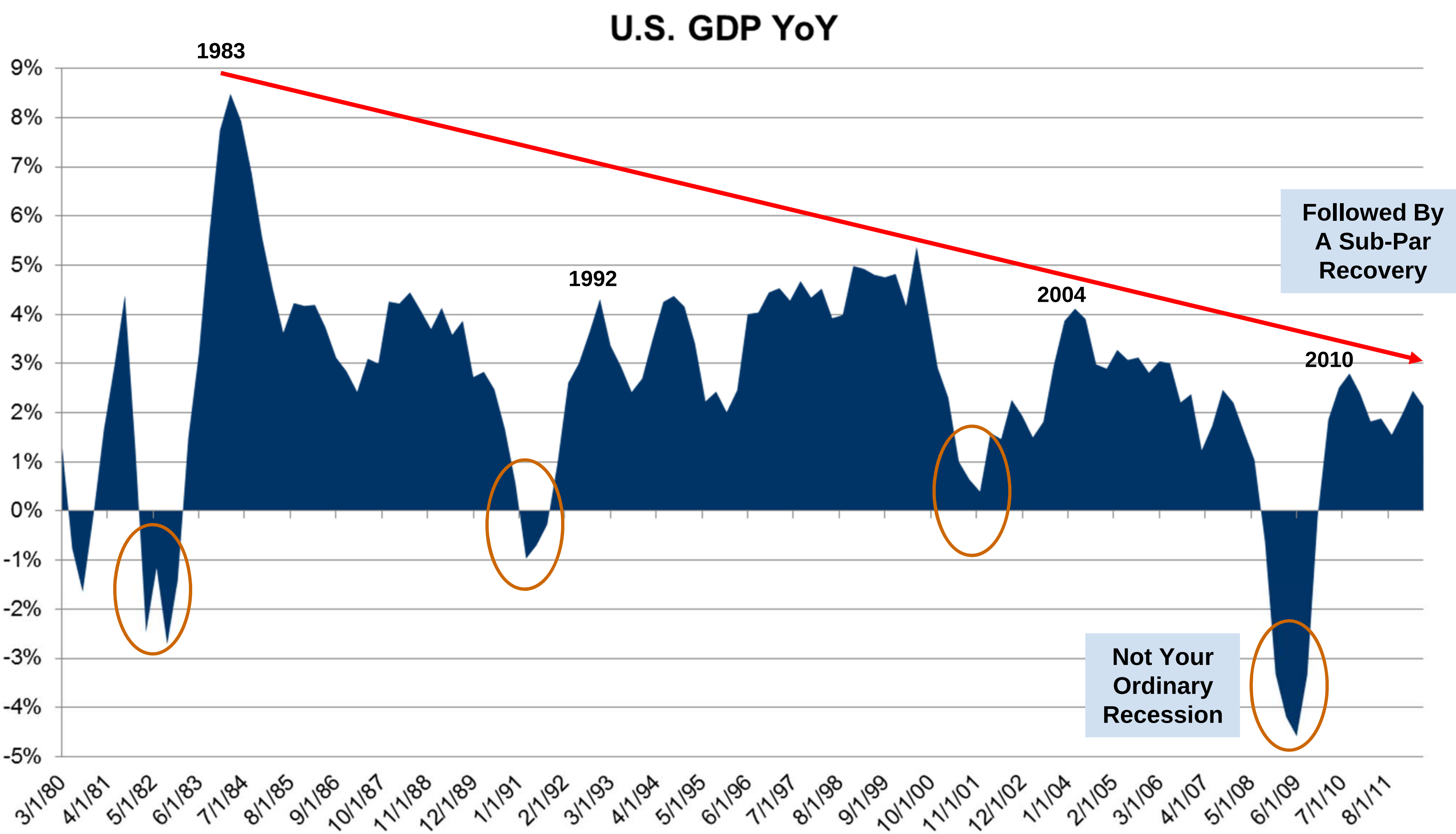
A Moderate Economic Rebound From An Unusually Deep Recession – GDP Growth Of 1-3% Historically Low Compared To Previous Recoveries



Source: U.S. Bureau of Economic Analysis as of Q2 2012 GDP, Sep. 27, 2012. YoY = Year-over-year.

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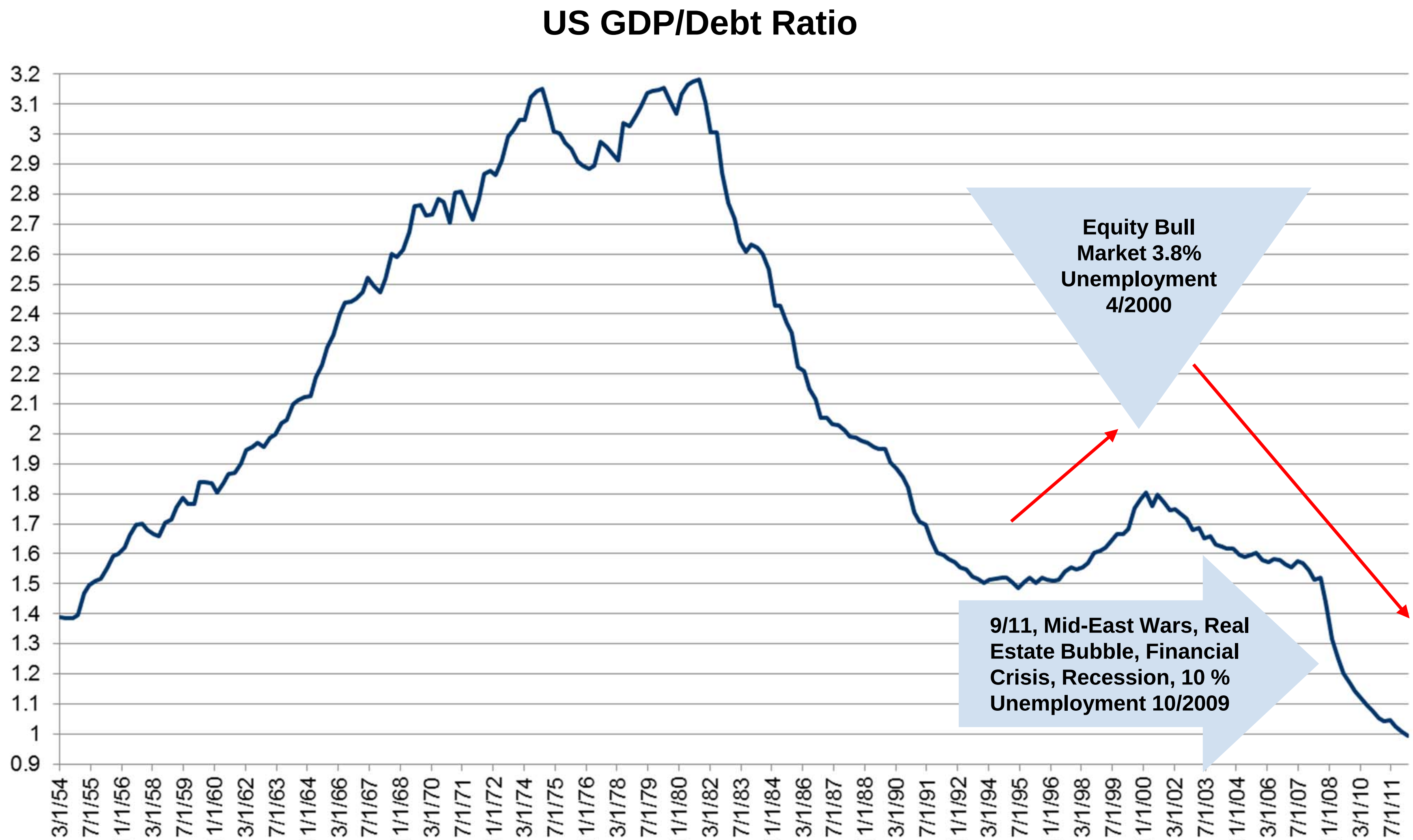
The Need To Grow Our Way Out Of Our Debtor Position



Source: U.S. GDP data from U.S. Bureau of Economic Analysis and debt data from the U.S. Department of the Treasury as of June 2012.
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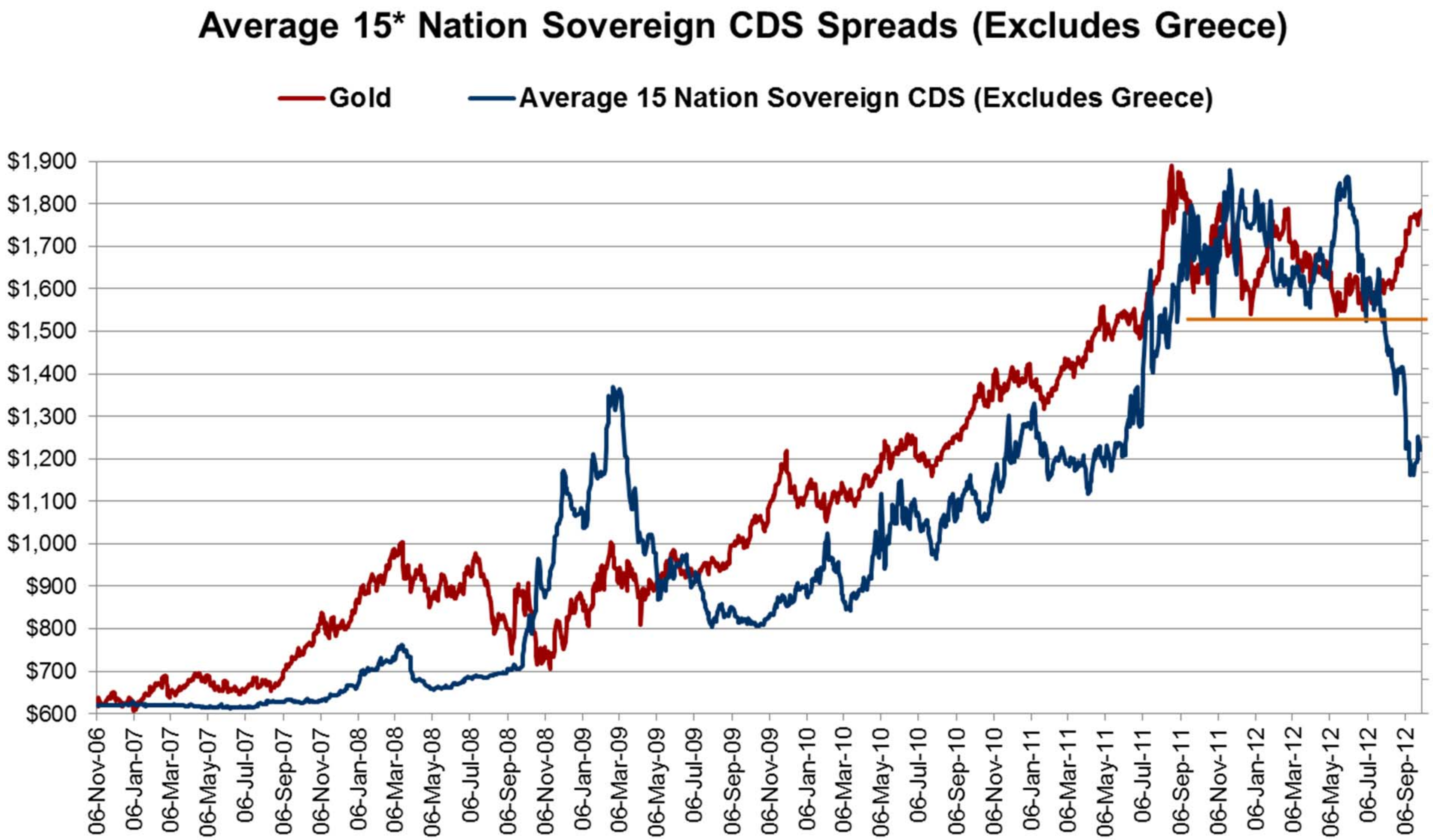
Slow Global Economic Growth Has Increased Global Sovereign Credit Risk Quantitative Easing 1, 2, & 3, Combined With Elevated Risk, Inflate Gold



Source: S&P Capital IQ for Gold levels and CMA Datavision for Average Sovereign CDS Spread information, as of October 1, 2012.

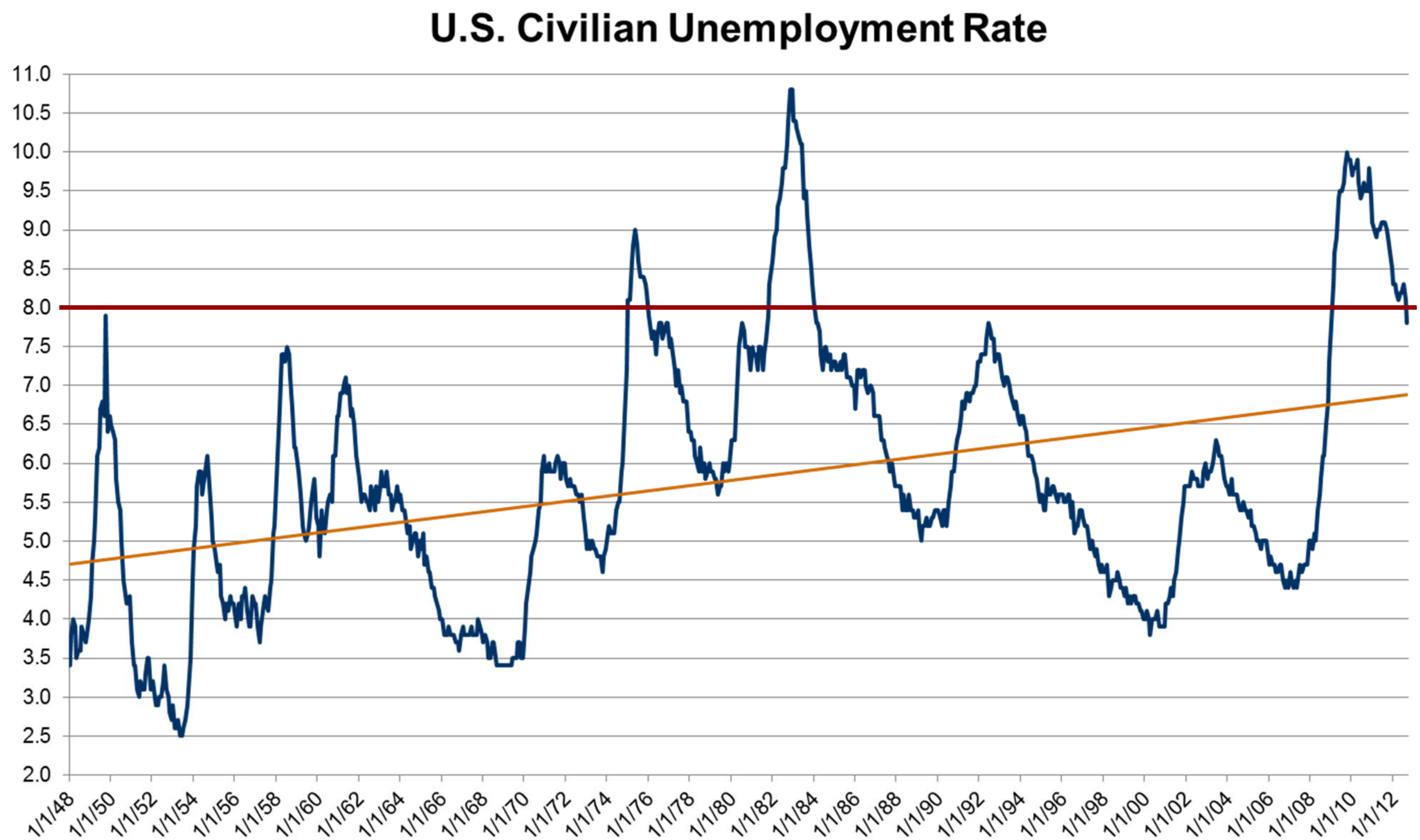
*15 Country Average includes Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Poland, Portugal, Spain, Netherlands, Japan , United States and U.K. For use by participants of the S&P Capital IQ Global Impacts and Outlooks Event. Not for distribution to the public.

Macroeconomic Overview – Unprecedented Risks Abound

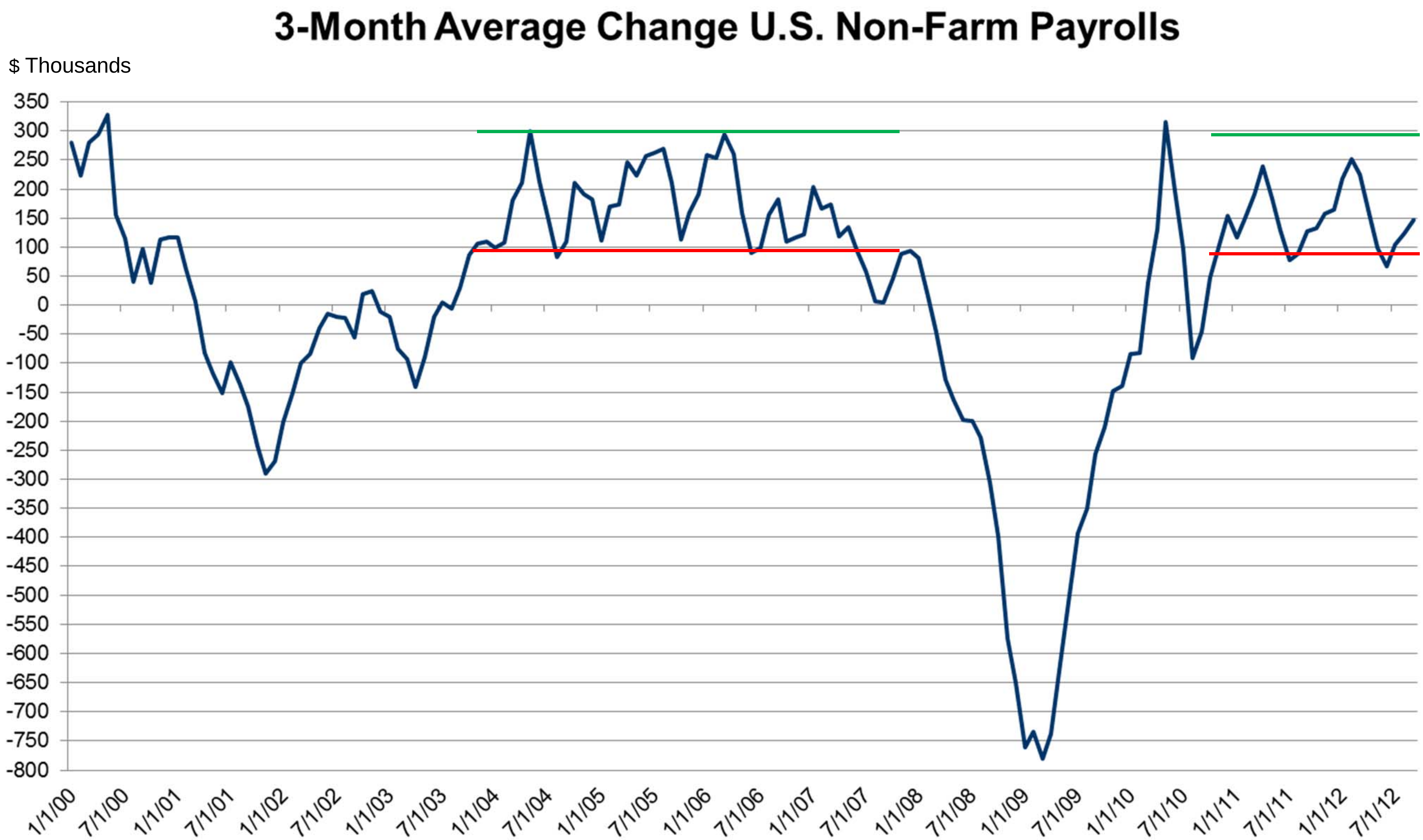
- We are experiencing a historically sub-par economic recovery following the unusually deep economic contraction and financial crisis, resulting in a much weaker than normal consumer, business, and investor confidence. Uncertainty surrounding major fiscal issues is not helping
- Elevated global sovereign credit risk contributes to the broad and general sense that exposure to risk should be selected and monitored very carefully
- The weak economic recovery and elevated global sovereign credit risk has sustained the risk-aversion trade, driving Treasury yields below the rate of inflation and gold prices to nearly $2,000 per ounce
- Global central bankers have put the pedal-to-the-metal in terms of monetary support and stimulus for the economy, but will consumers and financial intermediaries respond to this stimulus?
- The “wall of worry” has rarely, if ever, been steeper in modern times

The Current U.S. Economic Outlook

U.S. Unemployment Remains Stubbornly High Four Years Into Economic Recovery



The Erratic Pace Of U.S. Job Creation Feeds Uncertainty And Impedes Healthy U.S. GDP Growth



Source: U.S. Bureau of Labor Statistics as of September 2012.

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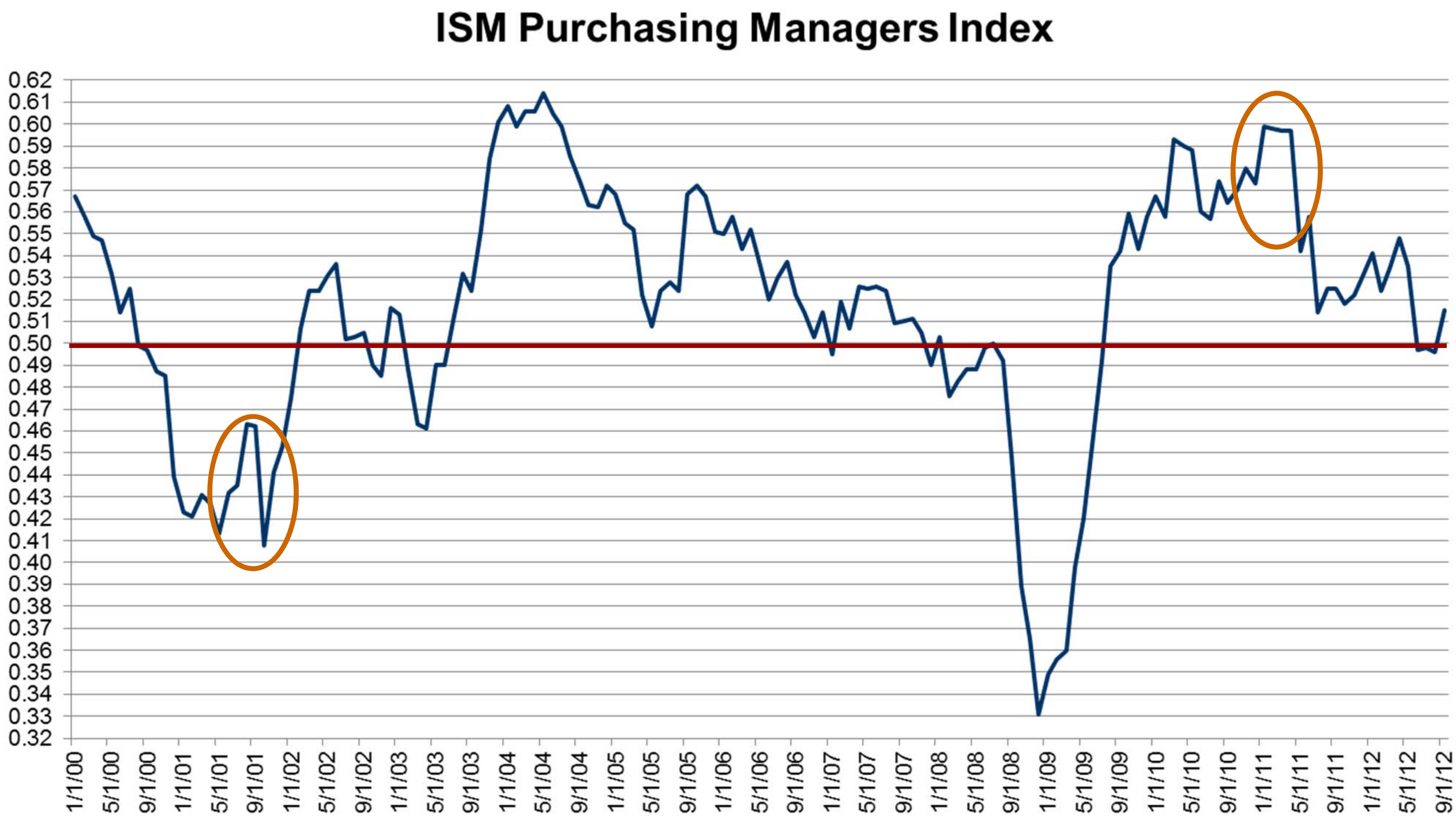
Mid-Year 2011 Developments Triggered Fear Of Recession, But The ISM PMI Is Weaker Today Than One Year Ago



Source: Institute For Supply Management as of September 2012 ISM Update. ISM = Institute for Supply Management. PMI = Purchasing Managers Index.
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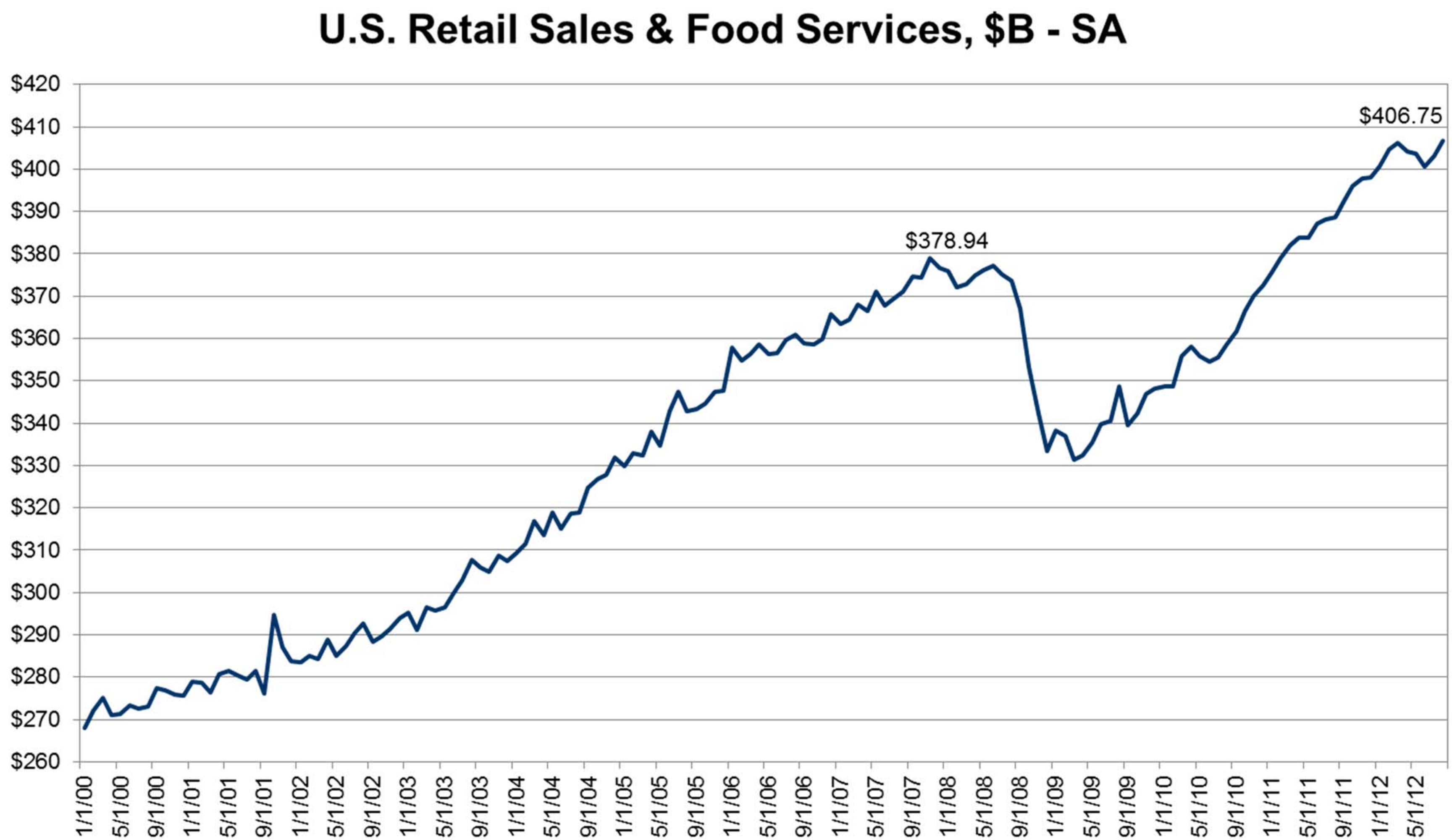
Consumption Is Nearly Two Thirds Of GDP – U.S. Retail Sales Have Been Strong Since The Start Of Recovery



Source: U.S. Census Bureau as of August 2012.SA:Seasonally adjusted. For use by participants of the S&P Capital IQ Global Impacts and Outlooks Event. Not for distribution to the public.

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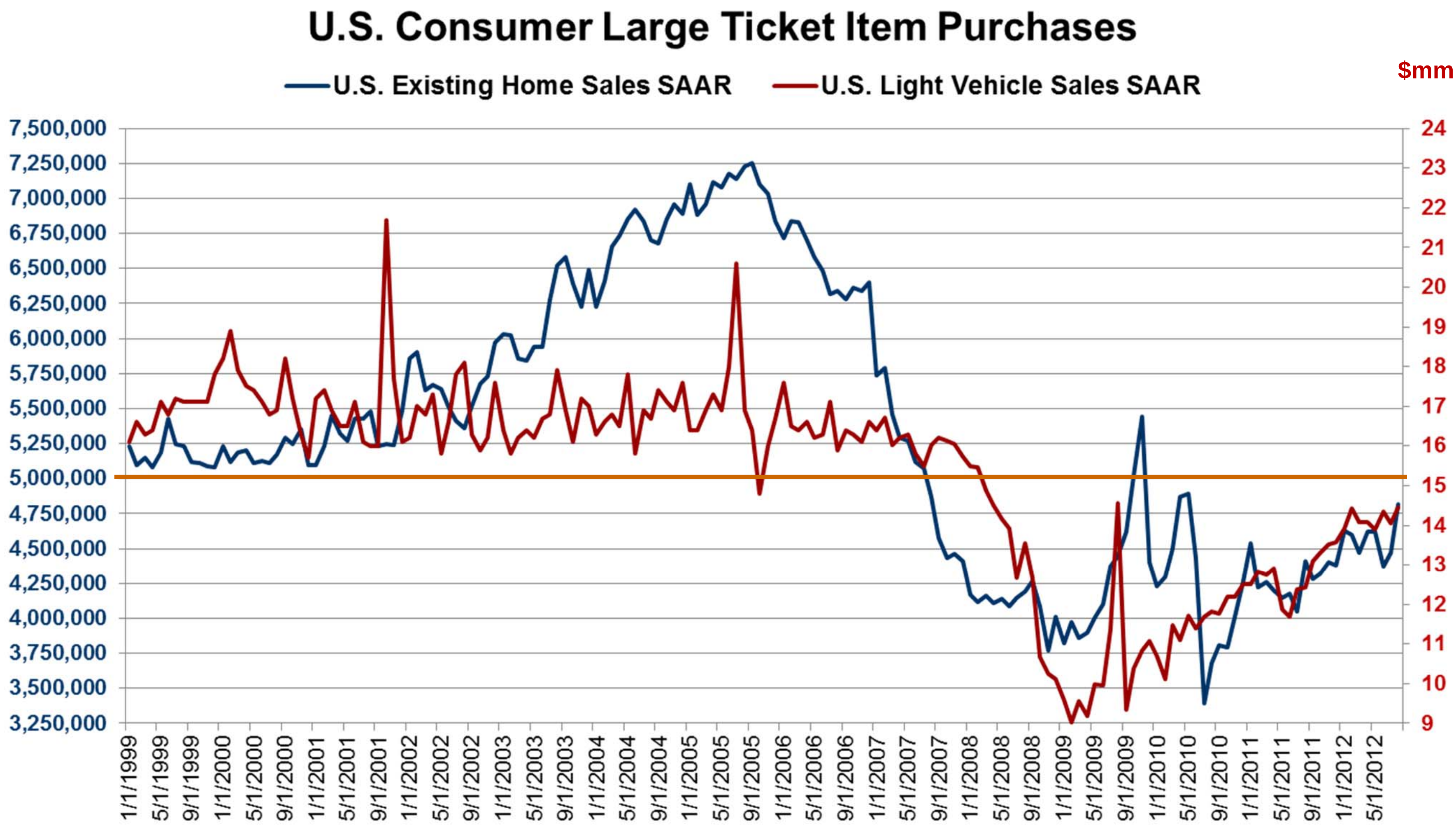
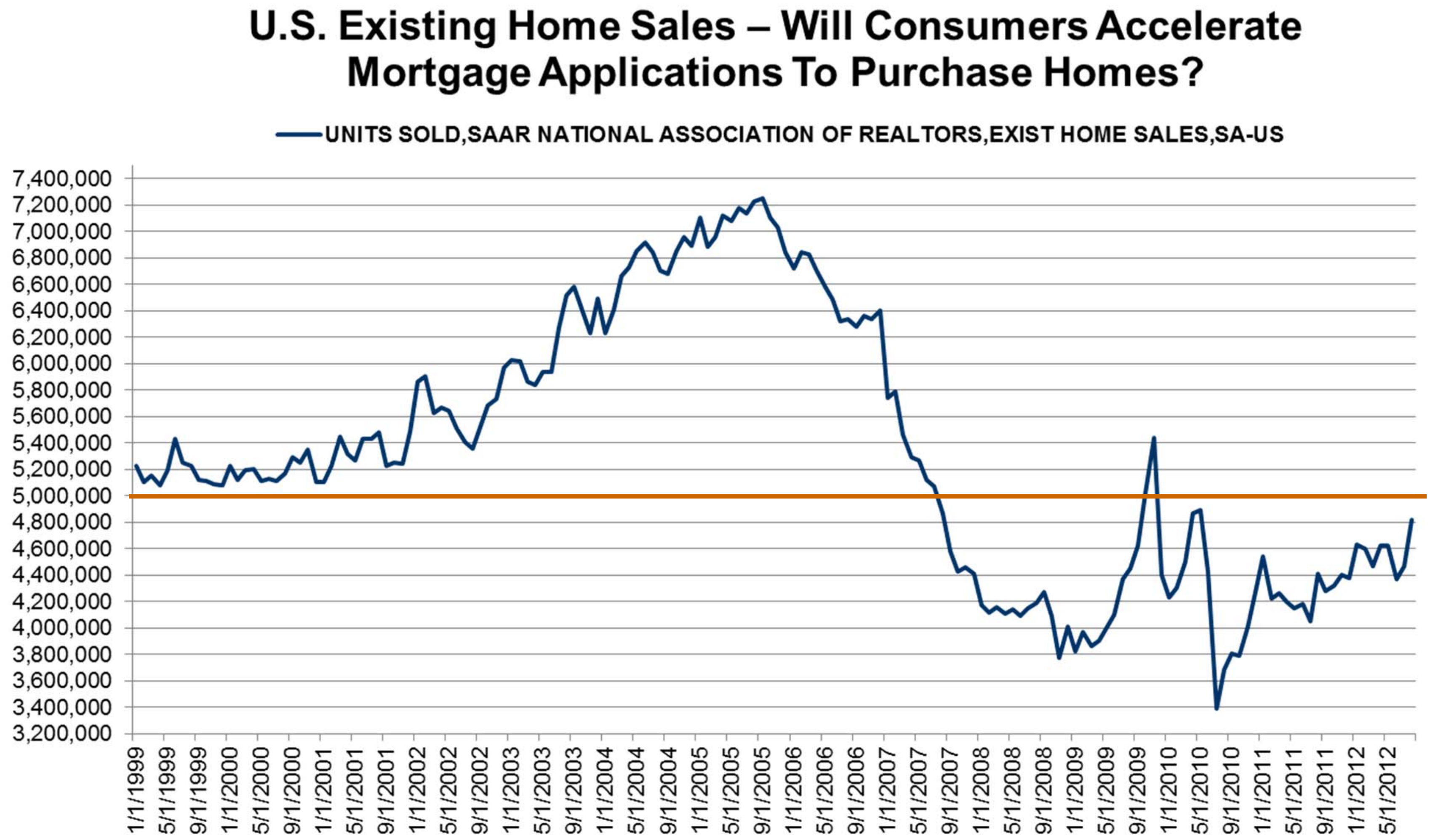
There Has, However, Been A Weaker Side To The U.S. Consumer, But Trends Have Improved Recently



Source: National Association of Realtors and Bureau of Economic Analysis as of August 2012.

All Eyes On The U.S. Housing Market - QE3 (QExtended) Is Designed To Stimulate Housing & Economic Growth



Source: National Association of Realtors as of August 2012.

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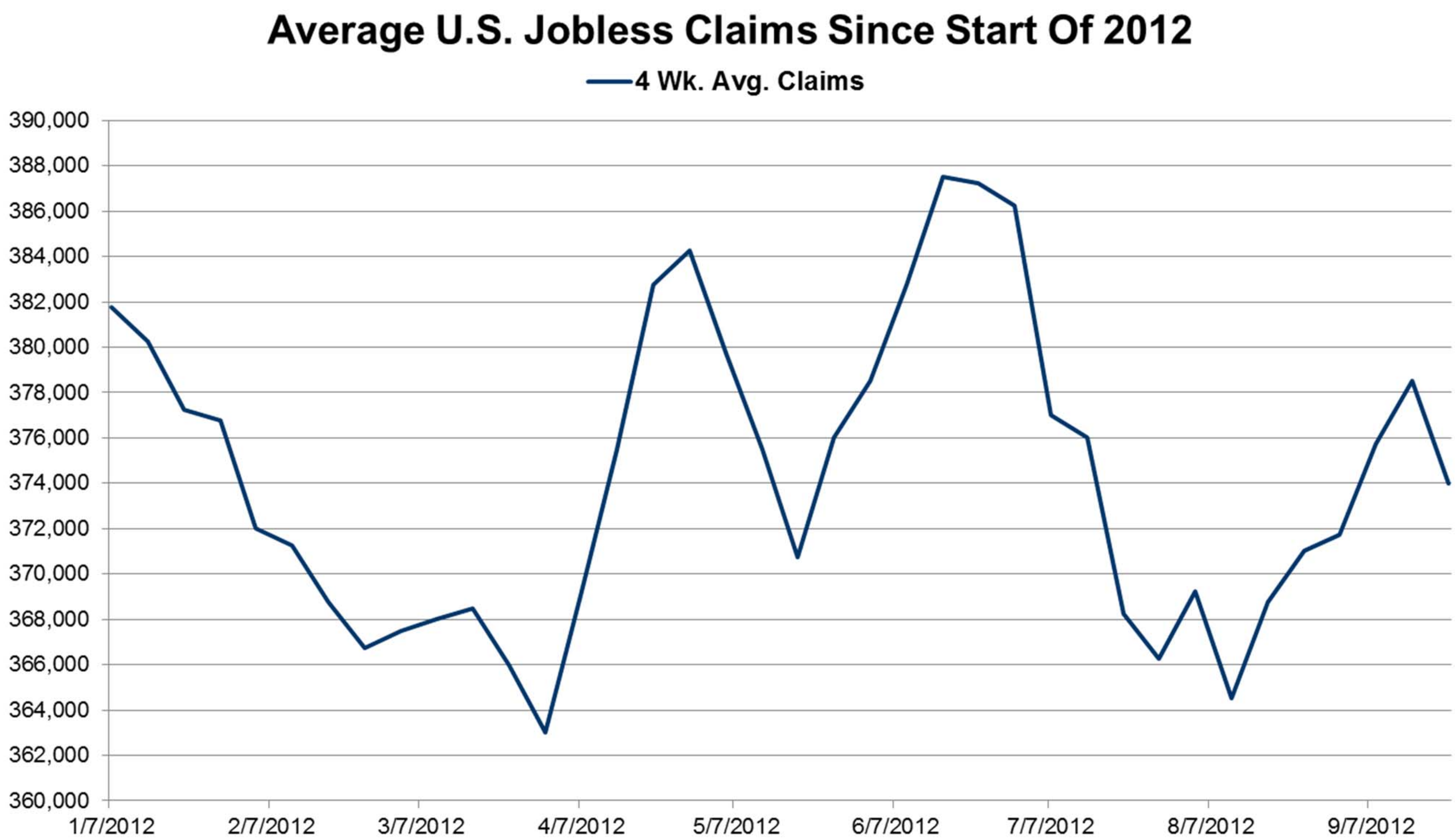
Sustained Weekly U.S. Initial Jobless Claims Above The 400,000 Level Would Suggest Economy Has Lost Momentum



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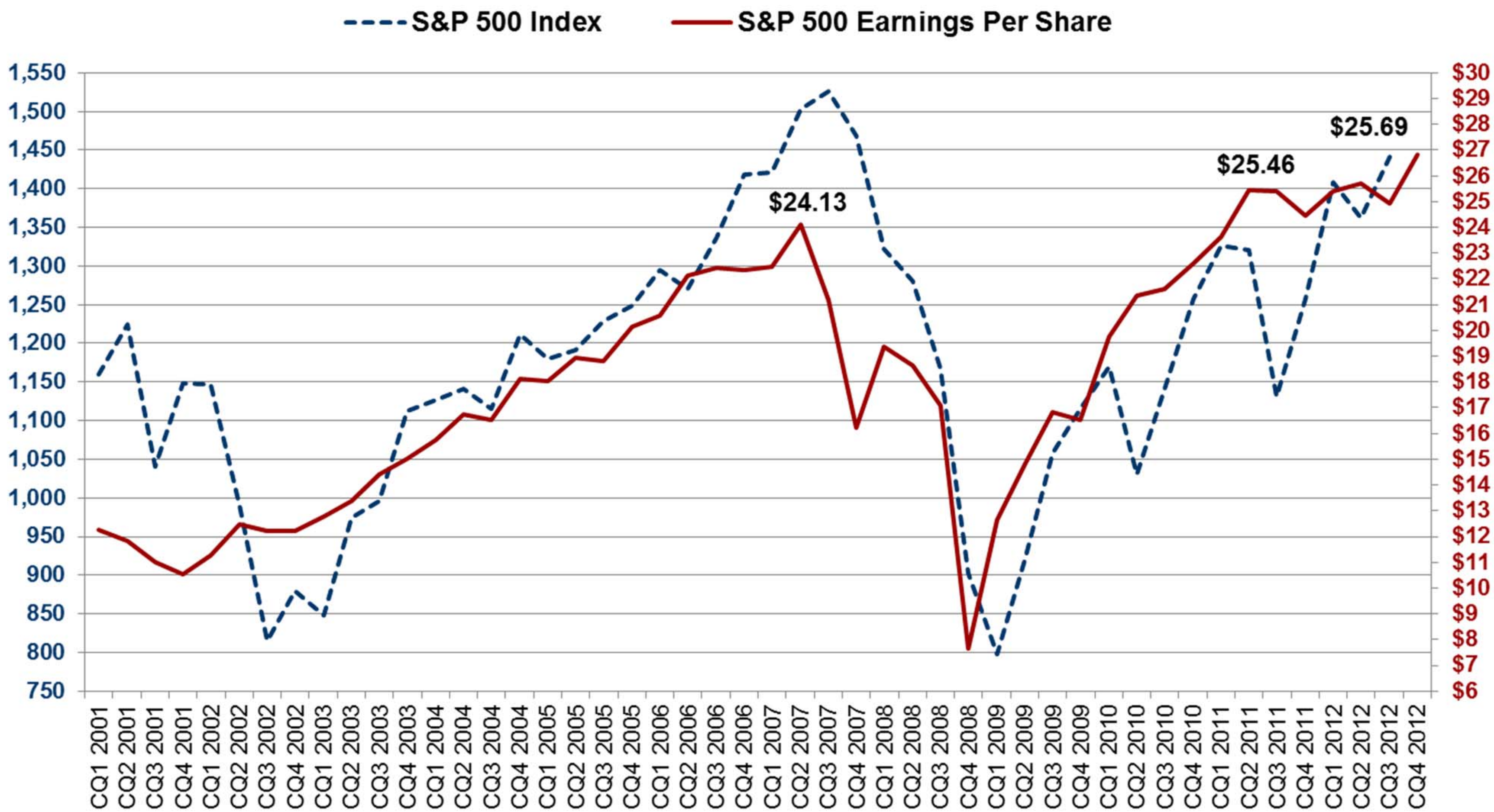
For The Third Year In A Row
The U.S. Economy Presents Mid-Year Risks Of Recession

- **The Institute for Supply Management (ISM) Purchasing Managers Index (PMI) recovered to 51.5 in September after holding just below the neutral 50 level for the prior three months, signaling fragile U.S. economic manufacturing conditions**
- **The U.S. employment situation continues to have trouble gaining traction; initial jobless claims, for the moment, like the ISM PMI, suggest that the economy is barely expanding following 1.3% GDP in the second quarter**
- **Income growth is the engine of consumption and GDP growth**
- **Headline U.S. retail sales have been, and continue to be, quite strong**
- **Large-ticket item consumer purchases have improved recently, but there remains much room for further improvement**
- **Consumer confidence, and large-ticket item consumer purchases should improve as long as economic expansion remains on track**
- **An elongated business cycle and bull market is the ideal antidote for the exceptionally steep "wall of worry," but the Bernanke Fed appears to be placing all of their "chips" on a recovery in the housing market, and time will tell if this is a good "bet"**

Investor Confidence In Forecasted S&P 500® Earnings Fluctuates – Record Earnings Reported In 2Q 2011 & 2Q 2012, But Stocks Trade Erratically



Source: S&P Capital IQ as of Sep 28, 2012. Please note CQ3 2012 and CQ4 2012 are estimates. Index returns exclude dividends. For Illustrative Purposes Only. CQ = Calendar quarter. S&P 500 Earnings Per Share is based on S&P CIQ consensus. For use by participants of the S&P Capital IQ Global Impacts and Outlooks Event. Not for distribution to the public. Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. It is not possible to invest directly in an index. Inclusion of fees and expenses in the model or benchmark would lower performance. Past performance is no indication of future results.

Stock Market Outlook – October 2012

- This is a “musical chairs” “risk-on/risk-off” economy and stock market
- As long as the economy continues to expand (i.e. the music is playing), corporate earnings growth should lead the stock market higher and investors will likely continue to embrace risk-assets
- Once recession risks emerge (and the music stops playing) investors will shun risk and return to flight-to-quality asset classes
- Through QE3, the Federal Reserve has place a very large bet on its ability to sustain the improving outlook for U.S. housing, as a bridge to moderate but sustainable GDP growth
- The question remains, will consumers increase home buying activity?
- It is entirely conceivable that we are just past the mid-point of this expansion cycle that started during the first half of 2009
- But as long as the recovery remains historically sub-par, the economy will remain vulnerable to exogenous shocks (Europe, U.S. fiscal cliff, etc.)

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Earnings Update – 3Q 2012 Earnings Estimates

Christine Short
Senior Manager, S&P Capital IQ Global Markets Intelligence

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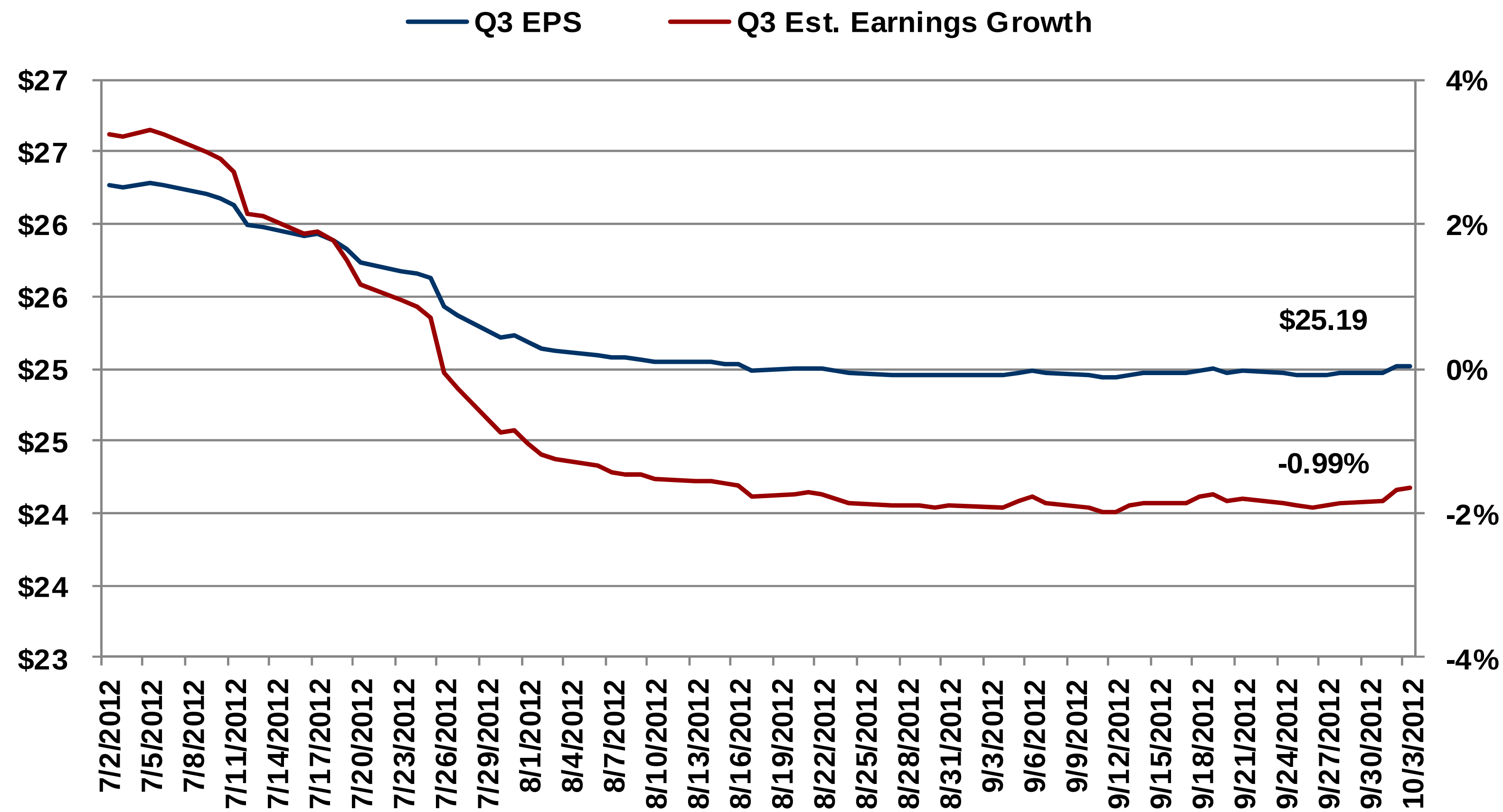
With Current Estimates In Negative Territory…

GMI Believes 3Q Could Mark A Turning Point For Corporate Earnings

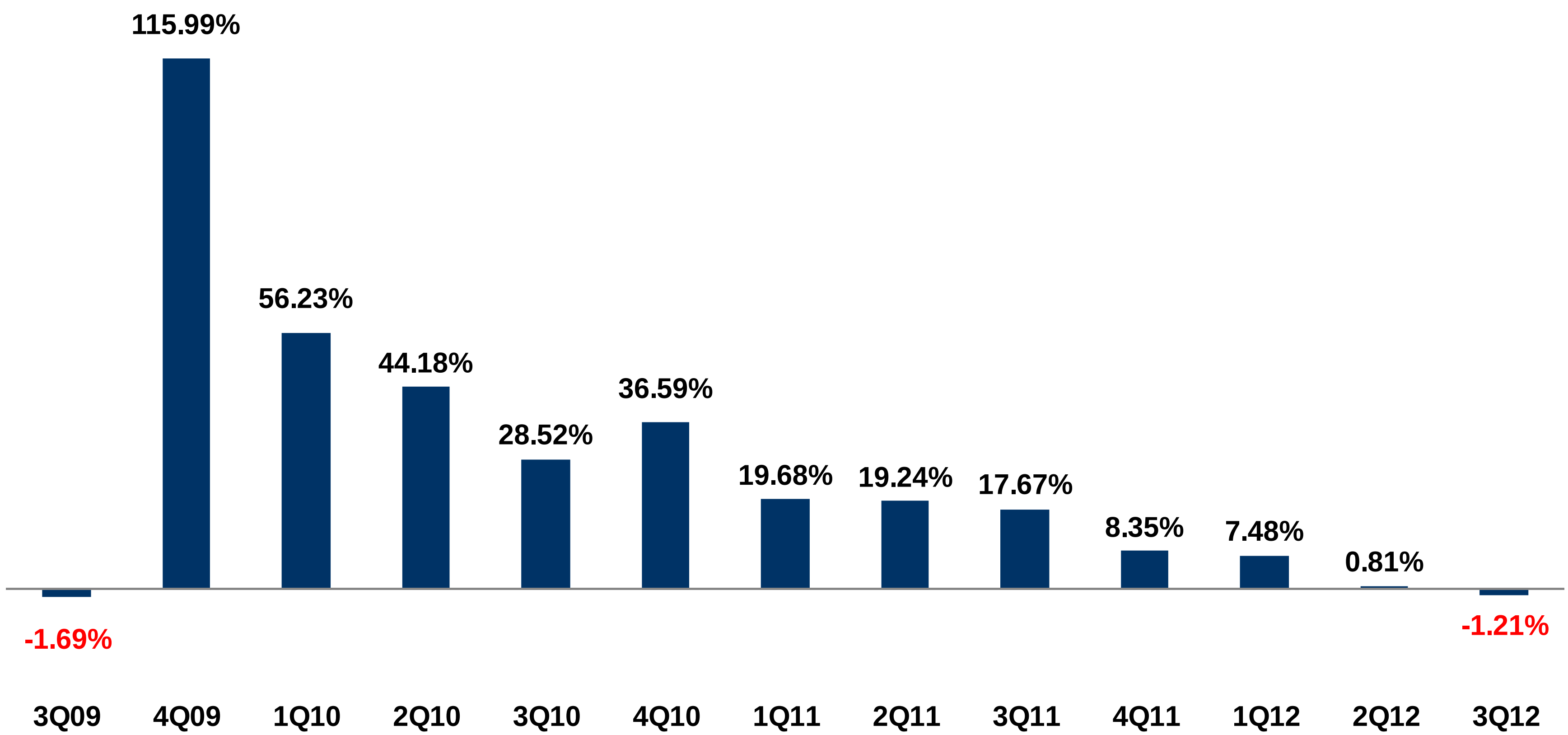
Estimated 3Q 2012 Earnings Per Share And Y-O-Y Growth Rate



Source: S&P Capital IQ as of October 12, 2012. Above data is based on a blended growth rate for 3Q 2012.
For illustrative purposes only.
Please note: Blended growth rate is blend of actual reported earnings and estimated earnings.

Third Quarter Earnings Expectations Are The Lowest Since 3Q2009, Partially Due To Difficult Year-Over-Year Comparisons

3Q 2012 Earnings Growth Rate Expectations For The S&P 500®



Source: S&P Capital IQ as of October 12, 2012. Above data is based on a blended growth rate for 3Q 2012.
For illustrative purposes only.

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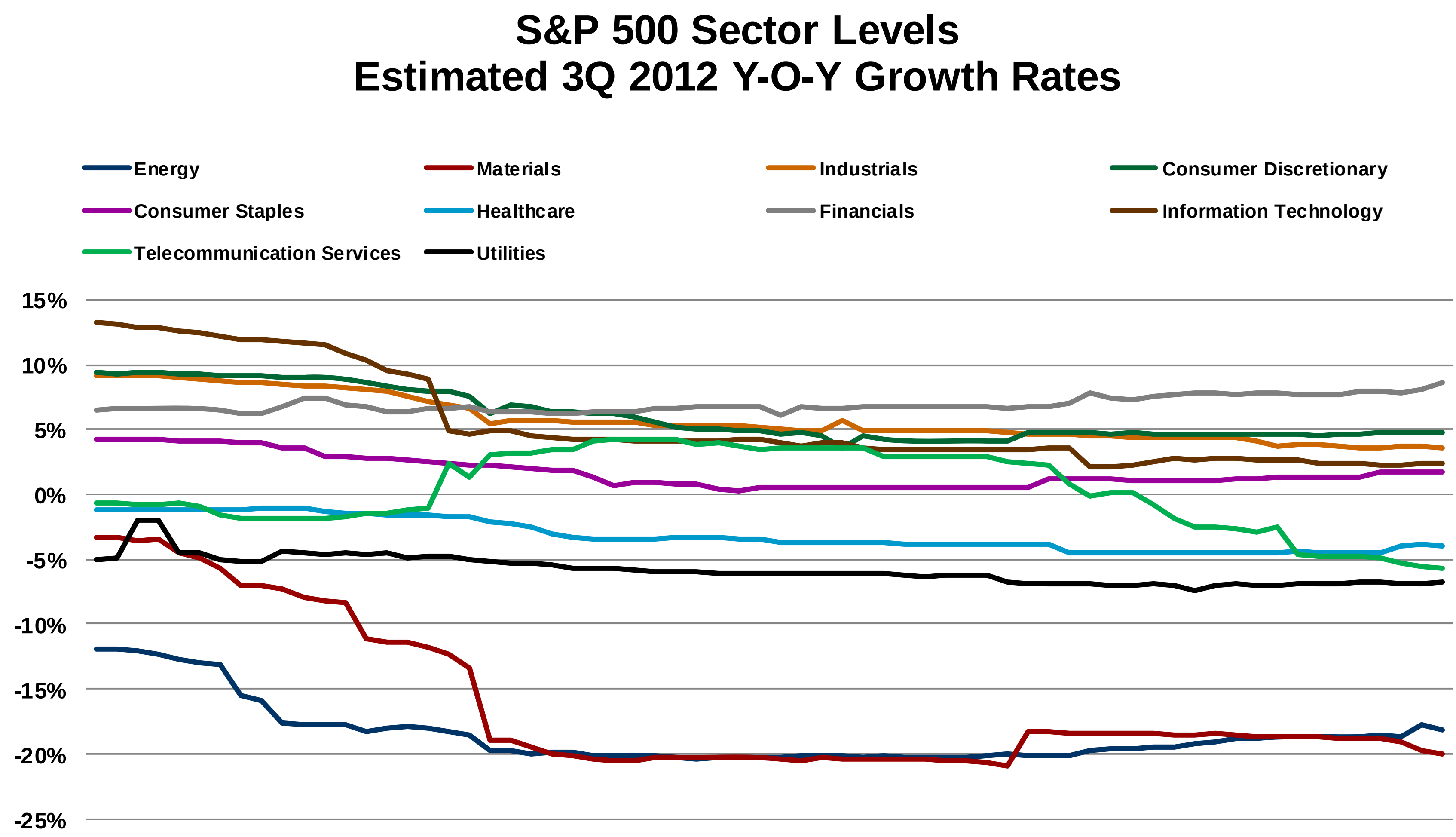
Five Of 10 Sectors Are Expecting Negative Growth In 3Q



Source: S&P Capital IQ as of October 12, 2012. Above data is based on a blended growth rate for 3Q 2012.
For illustrative purposes only.

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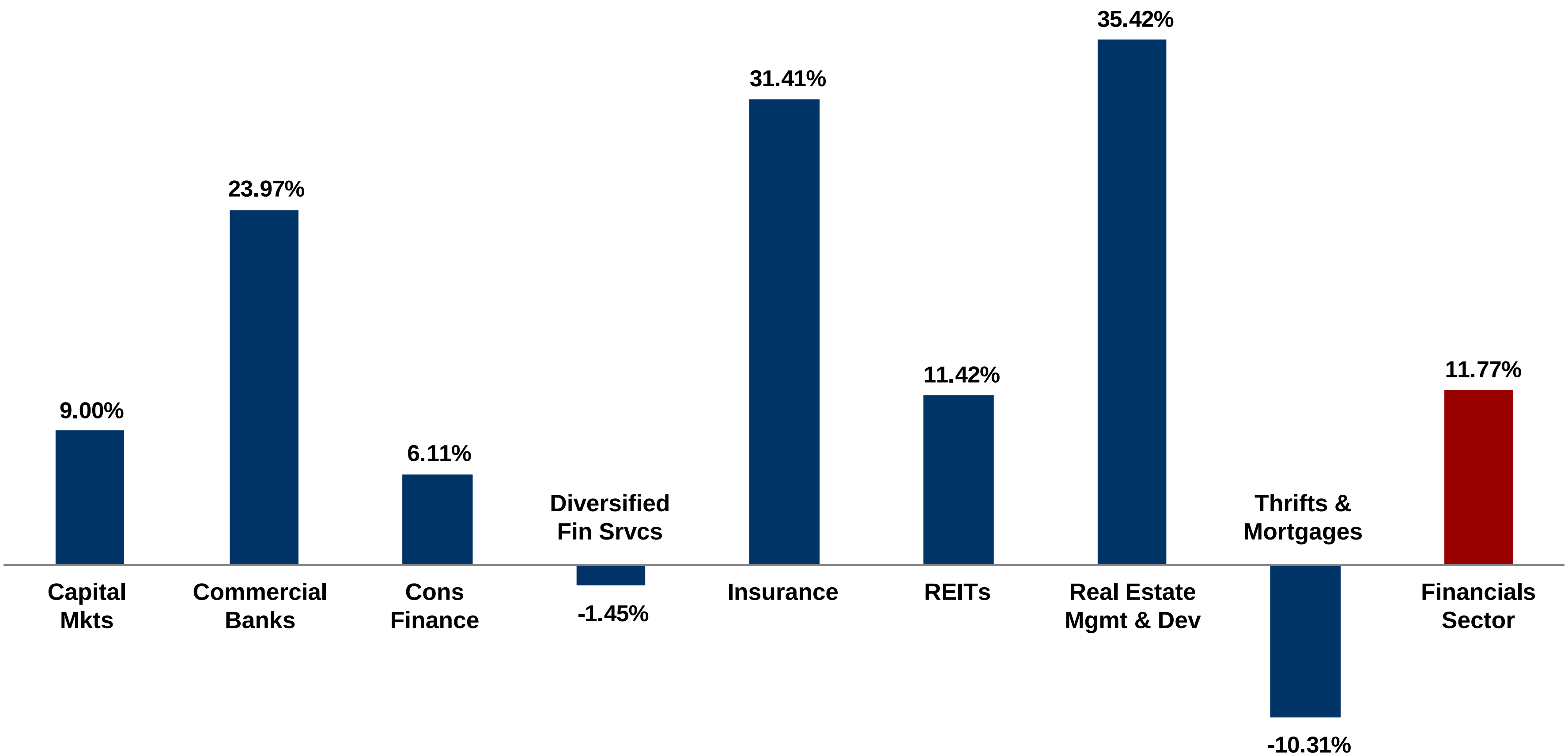
Analysts Are Anticipating A Rebound In Financials This Quarter, Lead By Growth In Insurance And Commercial Banks

Estimated Earnings Y-O-Y Growth Rate For Q3 2012 For Financials



Source: S&P Capital IQ as of October 12, 2012. Above data is based on a blended growth rate for 3Q 2012.
For illustrative purposes only.

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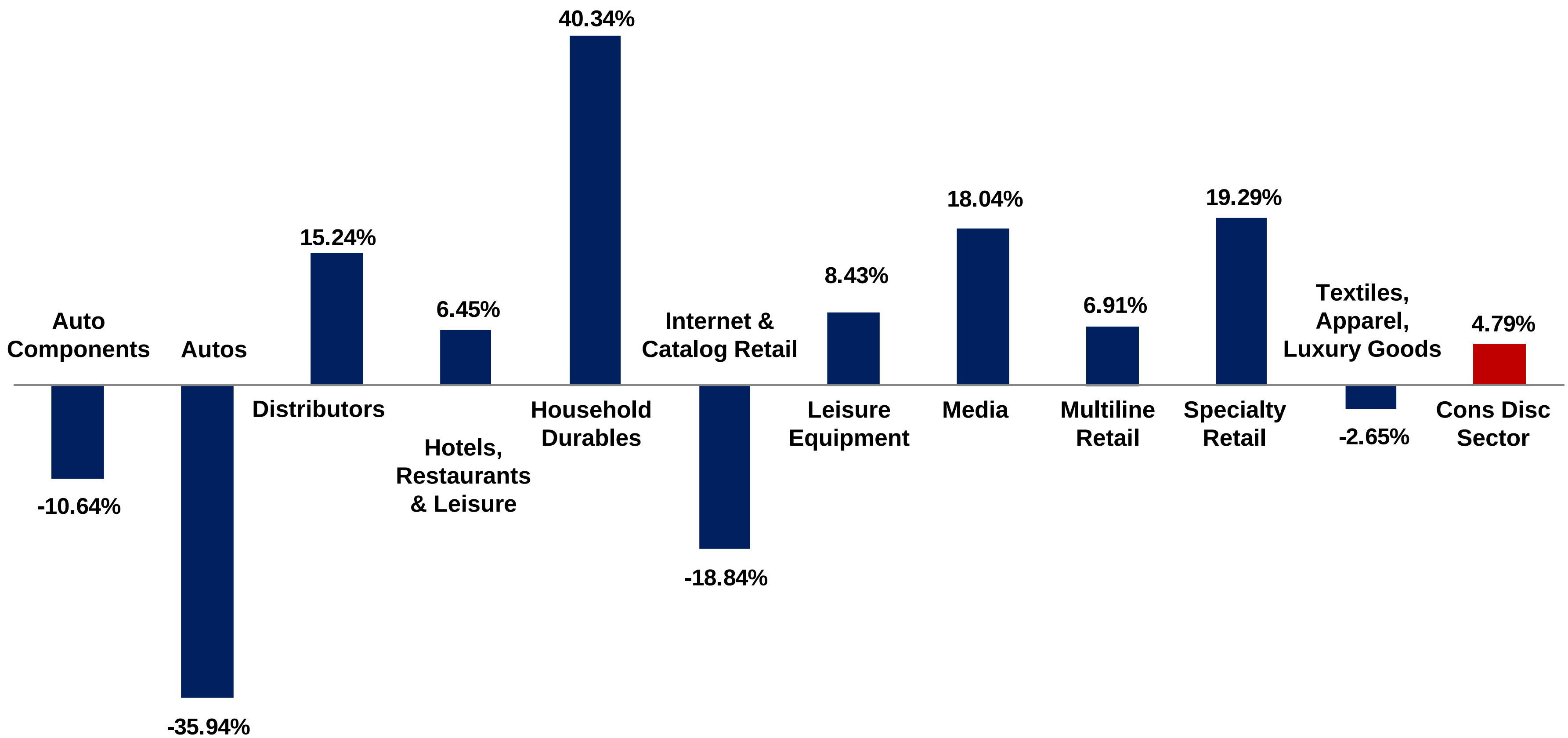
Consumer Discretionary Estimated To Post The 2nd Highest Growth Rate Lead By The Household Durables Industry

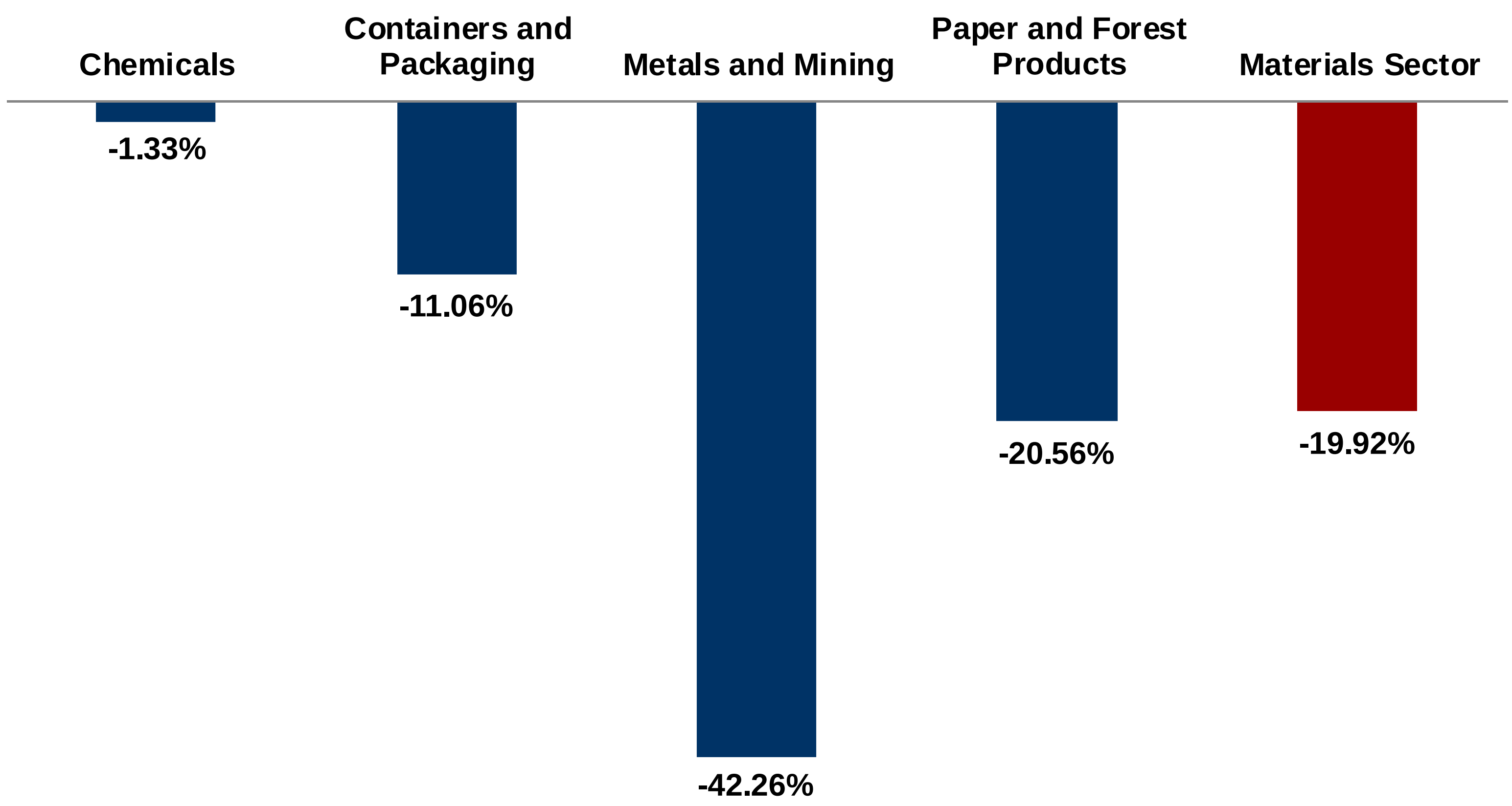
Estimated Earnings Y-O-Y Growth Rate For Q3 2012 For Cons Disc



The Diversified Consumer Finance industry has not been included, as the current EPS estimate for the sector is negative and therefore no growth rate can be calculated.
Source: S&P Capital IQ as of October 12, 2012. Above data is based on a blended growth rate for 3Q 2012.
For illustrative purposes only.

The Materials Sector Is Expected To Post Negative Profit Growth In 3Q – Due To Poor Performance In Three Of The Five Industries

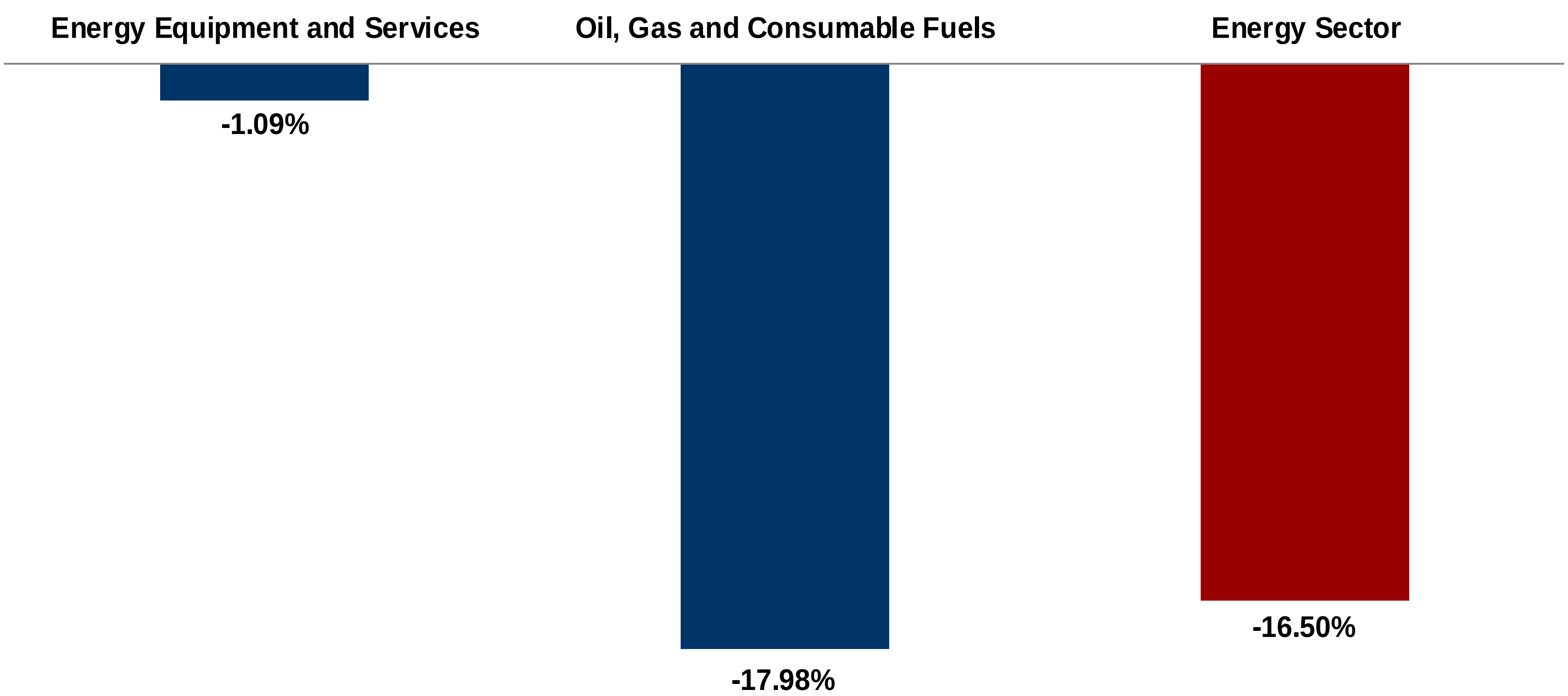
Estimated Earnings Y-O-Y Growth Rate For Q3 2012 For Materials



The Construction Materials industry has not been included, as year ago EPS for the sector was negative and therefore no growth rate can be calculated.
Source: S&P Capital IQ as of October 12, 2012. Above data is based on a blended growth rate for 3Q 2011. For illustrative purposes only.

The Energy Sector Is Estimated to Be The 2nd Biggest Laggard Due To A Decrease In The Cost Of Natural Gas

Estimated Earnings Y-O-Y Growth Rate For Q3 2012 For Energy



Source: S&P Capital IQ as of October 12, 2012. Above data is based on a blended growth rate for 3Q 2011. For illustrative purposes only.

S&P 500 Company Issued Guidance

3Q Showing Higher Than Average Ratio

	1Q 2012		2Q 2012		3Q 2012		4Q 2012	
Type	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**
Higher	41	34.0	28	25.5	22	22.0	0	0.0
In-Line	11	9.0	17	15.5	7	7.0	0	0.00
Lower	70	57.0	65	59.0	72	71	4	100.0
Total	122	100.0	110	100.0	101	100.0	4	100.0
N/P Ratio	1.94		2.32		3.3		N/A	

Source: S&P Capital IQ as of October 12, 2012. For illustrative purposes only.

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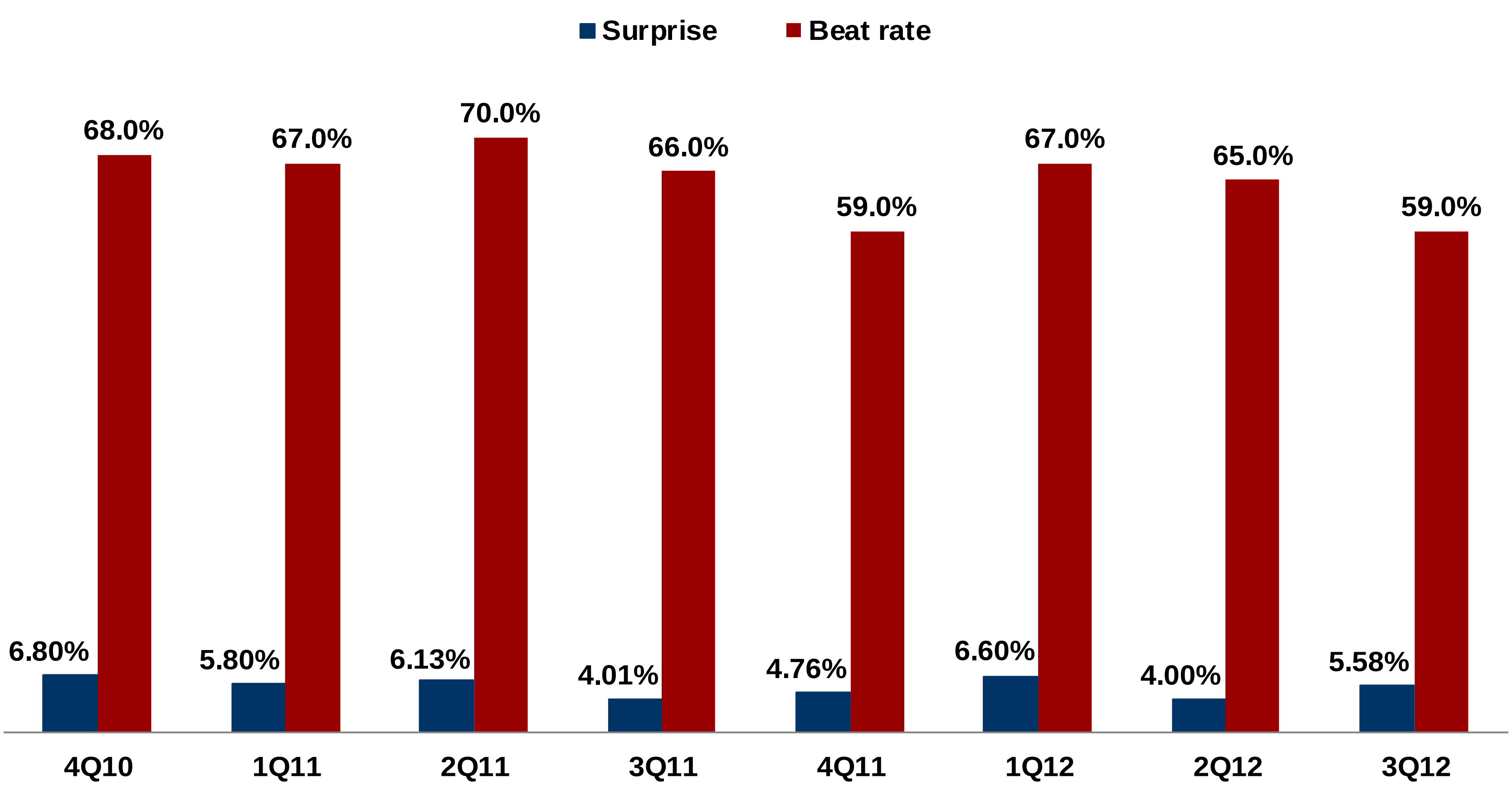
S&P 500 Companies That Have Reported For 3Q Are Beating And Surprising By Less Than The 10-year Average

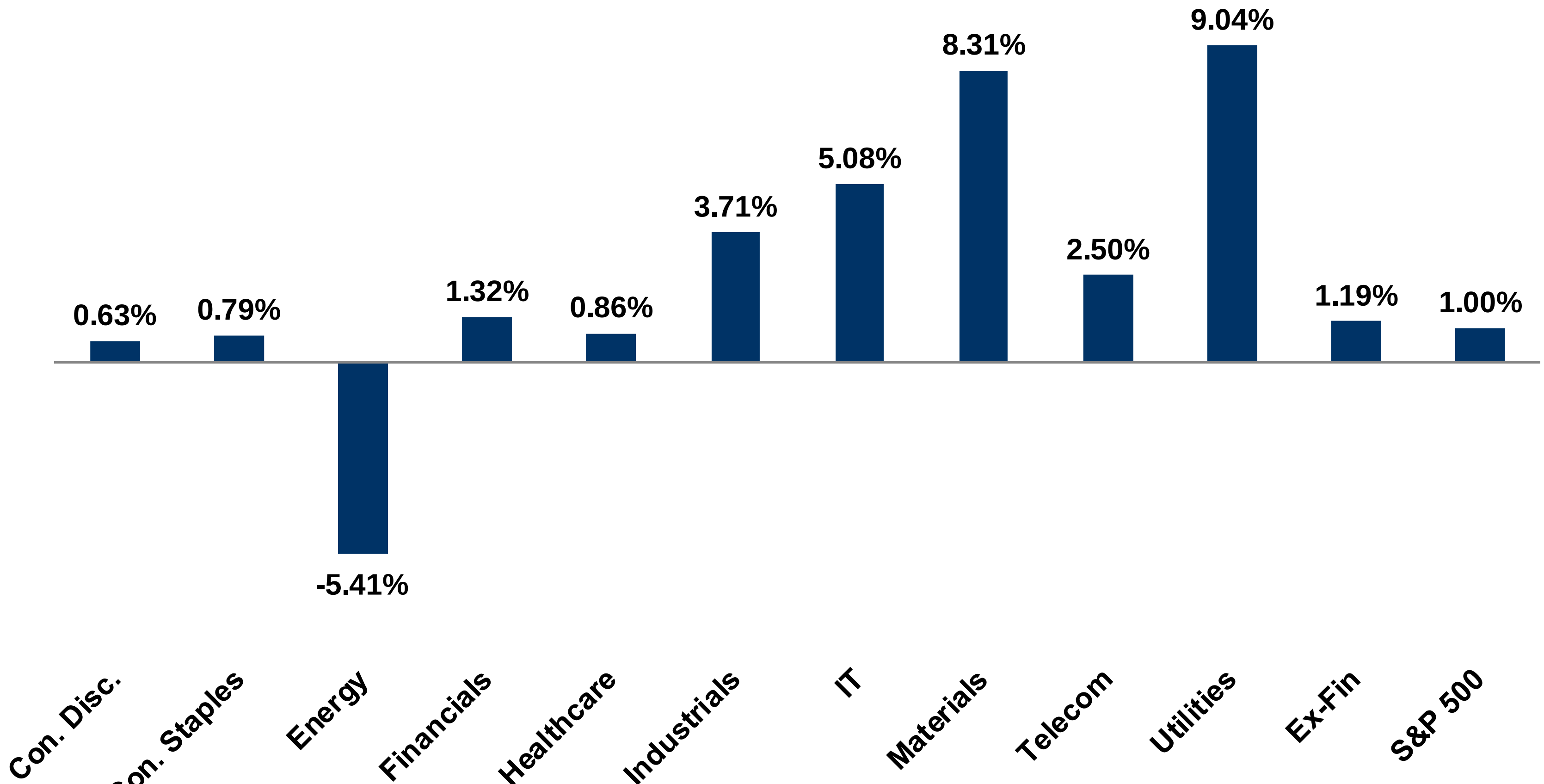


*The x-axis reflects data on the 34 companies that have released thus far.

Source: S&P Capital IQ as of October 12, 2012. For illustrative purposes only.

Revenue Growth Of 1.0% Lower Than The 10-year Average – The Utilities And Materials Sectors Lead

Estimated Revenue Y-O-Y Growth Rate For Q3 2012 For The S&P 500



Source: S&P Capital IQ as of October 12, 2012. Above data is based on a blended growth rate for 3Q 2012.
For illustrative purposes only.

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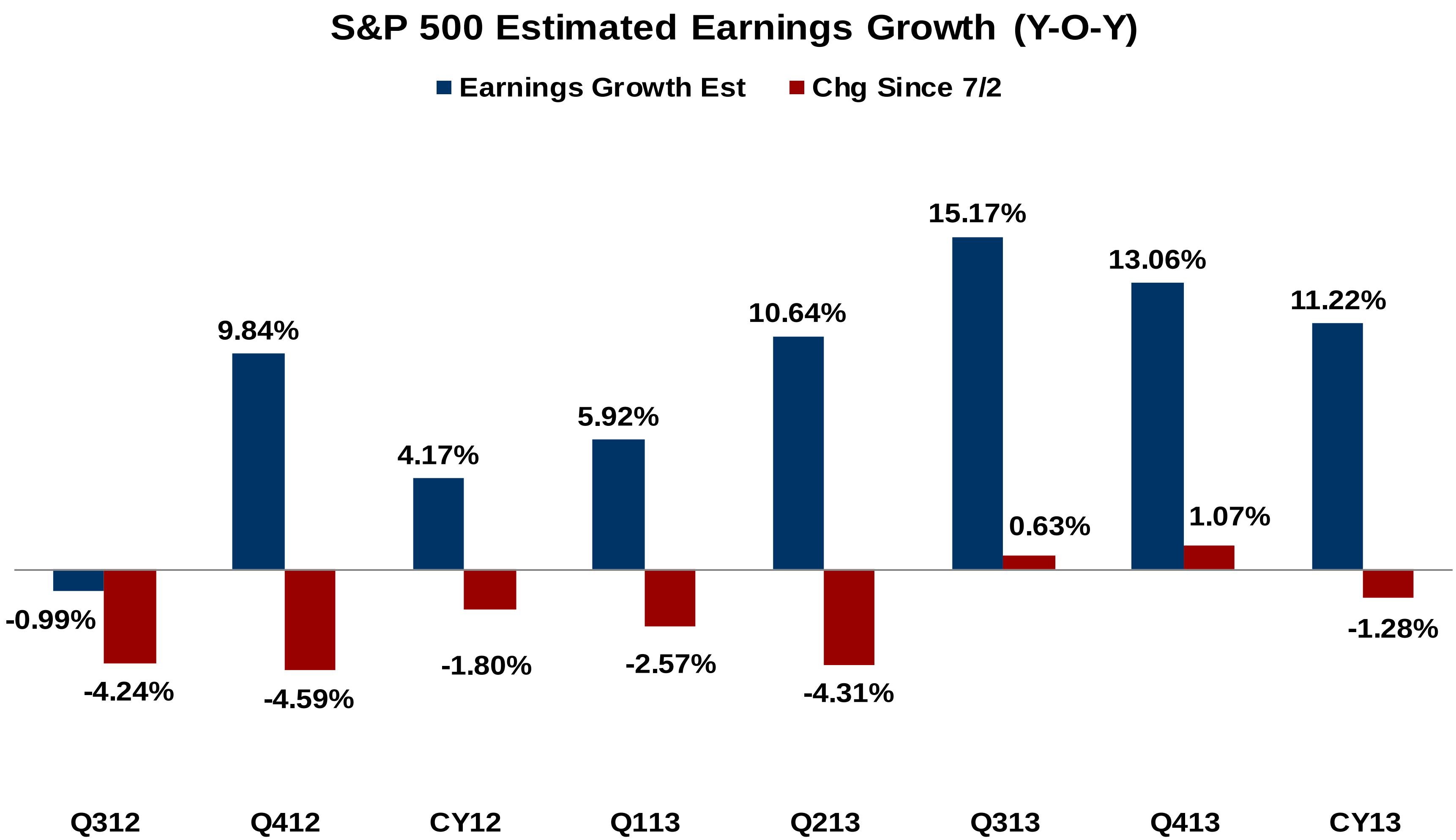
Estimates For The Balance Of 2012 Have Been Reduced, While 2013 Earnings Expectations Hold Strong



*Source: S&P Capital IQ as of October 12, 2012. Q312 based on a blended growth rate, all other quarters based on estimates.
For illustrative purposes only.

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Concluding Thoughts

- **The Global Markets Intelligence Group believes Q3 may be a turning point for corporate earnings, as this may be the first negative quarter for S&P 500 profit growth since 2009**
- **Not only are analysts assigning lower earnings expectations to S&P 500 companies, but the corporations themselves are guiding down, and warning about a weak fourth quarter**
- **Two sectors defying the odds are financials and consumer discretionary, both are leading second quarter growth with estimates of 11.8% and 4.8%**
- **The most economically sensitive sectors are expected to be the biggest laggards this season, with cyclical sectors such as materials and energy expected to post the large earnings declines of negative 19.9% and negative 16.9% respectively**
- **Company issued guidance figures for 3Q are the most negative we've seen in sometime. Of the 101 companies that provided guidance, 72 were negative, 22 positive and 7 in-line. This produces a negative-to-positive ratio of 3.3, the most bearish we've seen since Q4 2008**
- **While it is still early in the third quarter reporting season, both the beat rate and surprise ratio for those companies that have reported is historically low. Currently the beat rate for companies that have reported is 59% and the percentage by which those companies have surpassed expectations is a very low 1.08%**
- **Revenue expectations of 1.00% are the lowest we've seen since 3Q 2009, and below the 10-year historical average of 7.0%**
- **Estimates for the balance of 2012 continue to fall, bringing the calendar year estimate down to 4.17%. On the other hand, expectations for 2013 remain relatively strong**

Speakers

Robert Keiser is Vice President, Global Markets Intelligence (GMI) at S&P Capital IQ. His primary responsibilities include the surveillance and analysis of international economic trends and their bearing on multi-asset class relationships. This top down “view” is then balanced against financial market valuation and risk mitigation considerations when evaluating investment opportunities in the global marketplace.

Additional responsibilities include the supervision of GMI analysts producing analysis, research and commentary focused on global capital market activity, the equity and credit markets, mutual funds, and individual global corporate fixed income securities according to the unique risk-reward profiles identified by the proprietary S&P Capital IQ Risk-to-Price (R2P) analytic.

Robert’s two decades on Wall Street include investment strategy and trading positions dealing in the U.S. fixed income, equity, commodity, private equity, and global currency markets. The breadth of this experience leaves him well positioned for investigating relationships between markets by utilizing cutting edge S&P Capital IQ applications.

Robert graduated from Rutgers College, Rutgers University in 1983 with a double-major BA degree in Economics and English. His resume includes past positions held with U.S. primary dealers and international commercial banks including Societe Generale, The Long Term Credit Bank of Japan Ltd, and Lloyds Bank Plc. He joined S&P Capital IQ in June 2008.

Christine Short is a senior manager on the research team at S&P Capital IQ Global Markets Intelligence. Her current responsibilities include analyzing and monitoring aggregated S&P 500 earnings and revenue performance at the sector and industry level. Her observations can be found daily in the Consensus Report which includes historical and forward looking earnings growth figures, company guidance and valuation metrics and is widely distributed to the financial media. Christine graduated from Fairfield University in 2006 with a double-major BA degree in international relations and journalism. Prior to joining Standard & Poor’s in June, Christine was the Director of Earnings Research for Thomson Reuters.

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