

Earnings Exchange: Second-Quarter S&P 500 Earnings Begin To Ascend

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Earnings season has begun, and after several weeks of results, investors are still looking for clues to determine whether recent positive earnings trends will continue to drive higher. As of April 24, 2012, 172 companies (about 35%) of companies in the S&P 500 have reported their first-quarter 2012 quarterly earnings, and we've noticed several trends.

- Of the 172 companies that have reported earnings, 77.9% have reported earnings that exceed the S&P Capital IQ analyst consensus estimate ("S&P Capital IQ Estimates").
- Positive earnings growth is expected to extend to 10 quarters as the blended earnings growth rate for the first quarter currently stands at 6.1%.
- The industrials (14.89%), financials (13.45%), and information technology (12.78%) sectors are leading earnings growth for first-quarter 2012.
- The S&P 500 Index is currently (April 24, 2012) trading at 12.97x calendar-year 2012 forecasted earnings of \$105.76, compared with 13.74x forecasted calendar-year 2011 earnings of \$98.64 averaged during the week of April 27, 2011 (actual earnings for calendar-year 2011 were \$97.33).

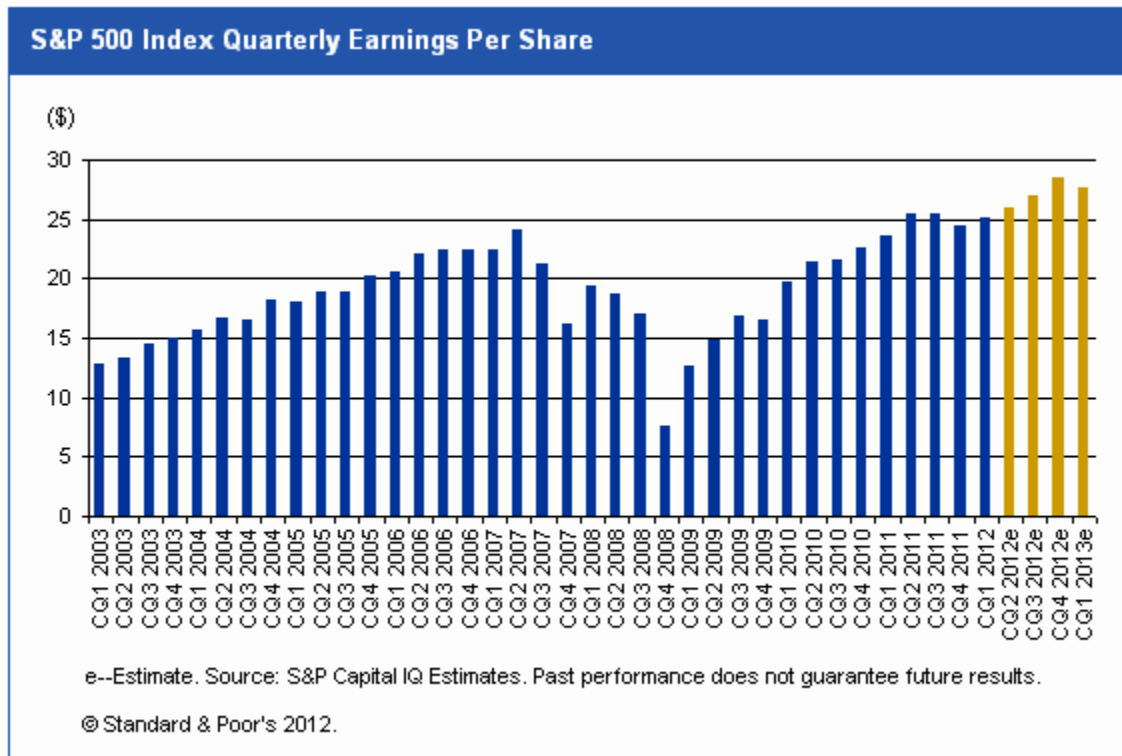
Solutions Exchange is developed by S&P Capital IQ's Solutions Architects, a separate and independent team at Standard & Poor's. The objective of this analysis is to gain greater insight into specific events and trends in the market using S&P Capital IQ data and analytics solutions.

S&P Capital IQ Estimates' offering helps investors stay ahead of the competition in this volatile economy, and the following article highlights some of the key estimates data points that help clarify the overall earnings picture. The article focuses on the aggregate estimates functionality that enables investors to ascertain broad earnings trends and helps determine which sectors might outperform going forward. Future articles in this series will further explore company-specific aspects of the S&P Capital IQ estimates offering as well as the new Intelligent Estimates capability.

As of April 24, 2012, 172 companies in the S&P 500 Index have reported earnings for first-quarter 2012, and 77.9% have reported earnings better than expectations, as polled by the analysts included within S&P Capital IQ Estimates. The rate of upside surprises has so far markedly improved from last quarter (fourth-quarter 2011), when only 58.4% of companies reported earnings that exceeded expectations, resulting in the worst quarter for upside surprises since third-quarter 2008, when only 58.25% of companies in the S&P 500 Index exceeded expectations. Based on the analysts' expectations, the streak of consecutive quarters of overall

earnings year-over-year growth looks likely to extend to 10 quarters as the S&P 500 first-quarter 2012 year-over-year earnings growth rate currently stands at 6.09% (see chart 1).

Chart 1



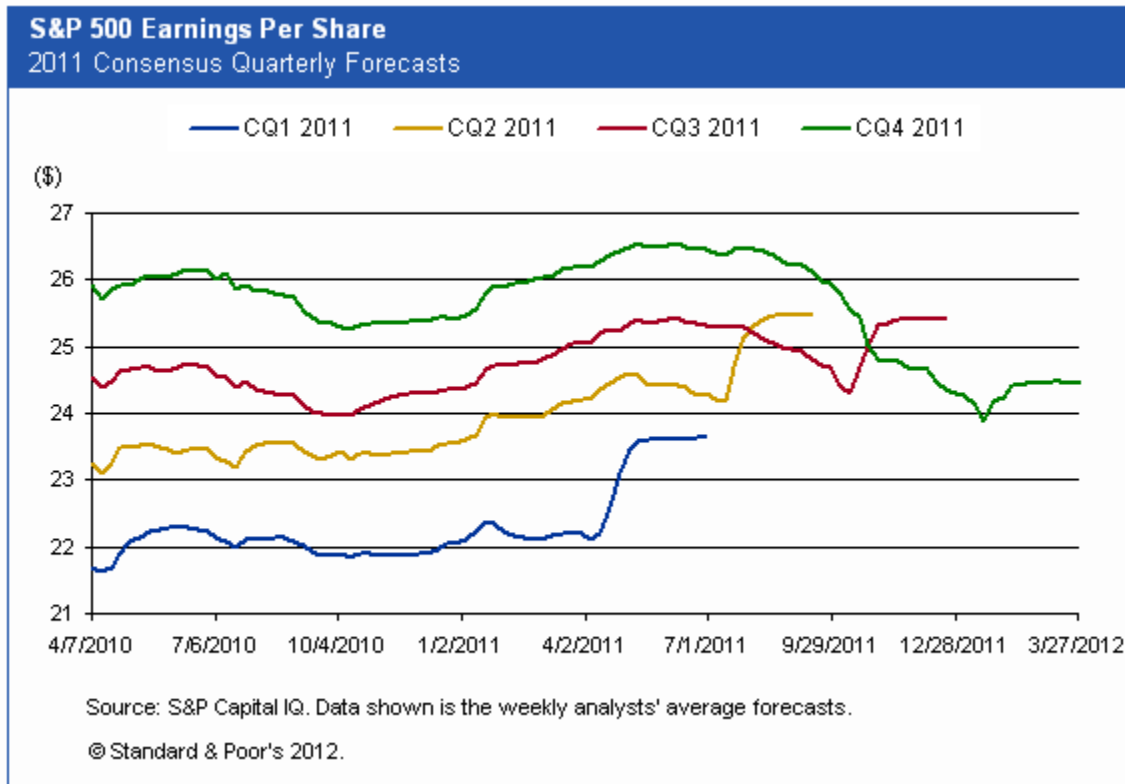
The streak of consecutive quarters of double-digit earnings growth ended at eight during fourth-quarter 2011, when S&P 500 earnings grew at 8.3%. Looking ahead, analysts polled by S&P Capital IQ do not expect double-digit earning growth to return until the fourth quarter of 2012, as current expectations for the next two quarters remain in single digits, with forecasts of 2.1% earnings growth in second-quarter 2012 and 6.0% in the third quarter.

Note: those following aggregated forecasted numbers should be aware that these numbers can vary depending on the provider. S&P Capital IQ has been issuing earnings forecasts for Standard & Poor's indices members with an up-to-the-minute share count since the second quarter of 2011, which can result in differences from estimates provided by traditional forecasters.

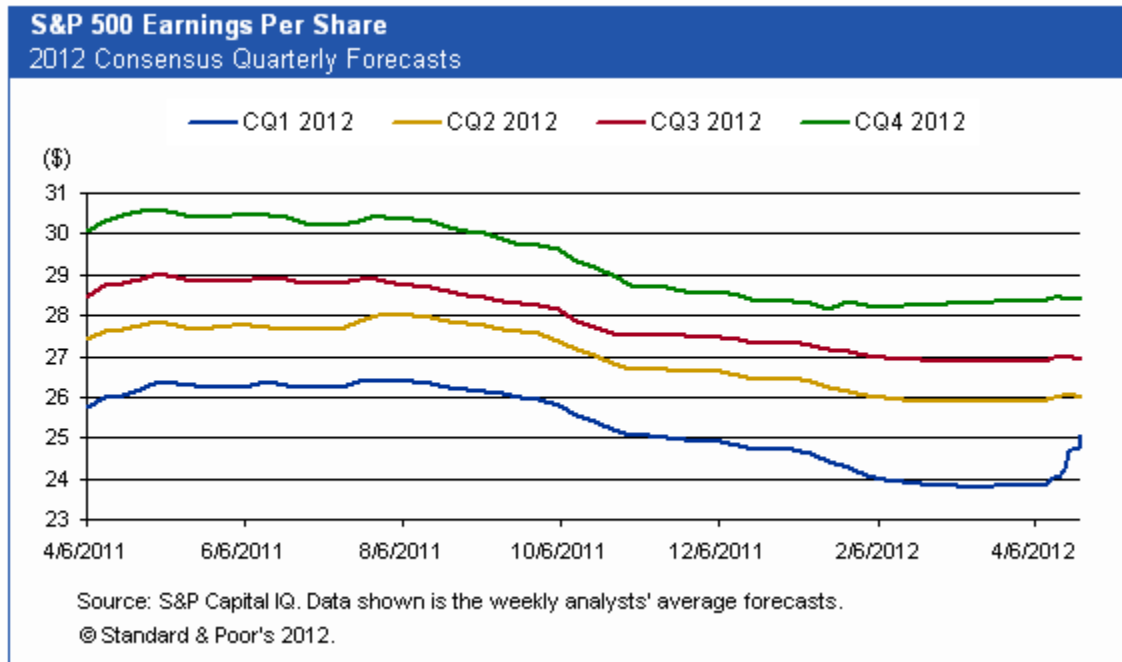
A Look At Revisions And Upward Surprises

Chart 2 shows the trend of 2011 quarterly earnings forecasts from the start of second-quarter 2010. The rate of earnings revisions substantially increased in the first two quarters of 2011, and earnings surprised to the upside. Analysts lowered earnings forecasts ahead of third-quarter 2011 earnings season, but sharply raised them once companies began reporting for the quarter. Fourth-quarter 2011 remains an outlier for 2011, in that analysts steadily lowered earning expectations during the prior six-month period (earnings forecasts for the quarter were \$26.48 on July 27, 2011) and only increased to \$24.46 after bottoming out at \$23.87 during week of Jan. 18, 2011.

Chart 2



Having seen earnings growth slow substantially in the latter half of last year, analysts have been steadily trimming their forecasts for 2012. Chart 3 shows the trend of quarterly earnings forecasts for 2012 from the start of second-quarter 2011 and shows that contributing analysts have been reducing their forecasts since mid-2011. Earnings expectations for second-quarter 2011, currently \$25.07, peaked in July 2011 at \$26.44 and were at their low of \$23.86 on March 14, 2012, just prior to the start of this month's earnings announcements. So while 77.9% upside surprises appear good on the surface, positive surprises are occurring off of substantially lowered estimates. Earnings expectations for the S&P 500 Index in first-quarter 2012 have increased since the start of the quarter (from \$23.84 on April 4 to \$25.07 as of April 24) bringing the expected first-quarter 2012 blended expected growth rate for the S&P 500 Index to 6.09%, whereas it stood at 1% at the outset of the second quarter.

Chart 3

Looking At A Sector Breakdown

By dissecting the earnings growth by sector (first-quarter 2012 expected earnings growth over earnings from first-quarter 2011), we found that the industrials sector has the highest year-over-year earnings growth (as of April 24). Meanwhile, the S&P 500 Industrials Sector Index has returned 6.58% year to date, slightly lower than the overall year-to-date return of the S&P 500 Index of 7.43% (see table 1). Financials earnings have grown 13.45% year-over-year, and the financials sector is leading the S&P 500 Index higher in 2012, with the S&P 500 Financials Sector Index having gained 13.92% year-to-date. The information technology sector has the next highest first-quarter 2012 year-over-year earnings growth (12.78%) and has outpaced returns on the overall index, with sector year-to-date returns of 13.50%.

Table 1

First-Quarter 2012 Earnings Per Share, Growth Rate, And Year-To-Date Return			
Sector	Earnings per share (\$)	Growth (%)	Year-to-date return (%)
Consumer discretionary	4.55	0	11.71
Consumer staples	4.95	3.34	3.82
Energy	11.70	1.92	(2.26)
Financials	4.64	13.45	13.92
Health care	8.70	1.40	5.45
Industrials	5.40	14.89	6.58
Information technology	8.65	12.78	13.50
Materials	4.38	(9.69)	4.58
Telecom	1.72	(7.03)	1.90
Utilities	2.96	(8.64)	(0.86)
S&P 500 Index	25.07	6.09	7.43

Source: S&P Capital IQ. Data is compiled for all companies who have reported and expected to report CQ1 2012 earnings, as of April 24, 2012. Year-to-date returns are represented by the respective returns of each S&P Sector Index. It is not possible to invest directly in an index. Past performance does not guarantee future results.

The S&P 500 Energy Sector Index has the lowest equity returns on the year (a 2.26% decrease), and first-quarter 2012 earnings for the sector are up only modestly above first-quarter 2011, at 1.92%. The materials, telecoms, and utilities sectors are the only sectors in first-quarter 2012 with negative earnings growth, and each is lagging the overall S&P 500 Index from an equity returns perspective.

Looking Ahead

Analysts have curbed their enthusiasm for earnings growth in the second quarter as those polled by S&P Capital IQ expect only a 2.04% growth rate. However, expectations rose in the latter half of the year, by 6.02% in the third quarter and 16.15% in the fourth quarter (see table 2). Earnings growth for the industrials sector is expected to hold relatively steady throughout 2012, while earnings growth for the information technology and financials sectors is expected to slow in the second quarter before picking up again in the third and fourth quarters. The energy sector's earnings growth is expected to be negative until the fourth quarter. The materials, telecoms, and utilities sectors are not expected to rebound until fourth-quarter 2012.

Table 2

Forecasted 2012 Earnings Per Share And Growth Rates							
Sector	--Q2 earnings forecasts--		--Q3 earnings forecasts--		--Q4 earnings forecasts--		
	Earnings per share (\$)	Growth (%)	Earnings per share (\$)	Growth (%)	Earnings per share (\$)	Growth (%)	
Consumer discretionary	5.45	3.02	5.67	10.96	6.50	19.27	
Consumer staples	5.65	4.82	5.88	6.72	6.01	9.47	
Energy	12.47	(4.30)	12.75	(5.06)	13.16	21.96	
Financials	4.33	3.10	4.32	9.92	4.60	26.72	
Health care	8.73	1.87	8.77	0.80	8.69	5.72	
Industrials	6.00	9.69	6.21	11.69	6.38	11.54	
Information technology	8.62	5.51	9.17	14.05	11.08	12.49	
Materials	4.74	(9.71)	4.15	2.47	3.98	43.68	
Telecom	1.84	(8.91)	1.85	(3.14)	1.65	30.95	
Utilities	2.68	(6.94)	4.10	(4.65)	2.51	5.46	
S&P 500 Index	25.98	2.04	26.95	6.02	28.41	16.15	

Source: S&P Capital IQ. Data is compiled for all companies expected to report CQ2, CQ3, and CQ4 2012 earnings as of April 24, 2012. Past performance does not guarantee future results.

Conclusion

Analysts polled by S&P Capital IQ expect overall earnings for the S&P 500 Index in 2012 to be \$105.76, an 8.6% increase over earnings of \$97.33 in 2011. As of the close on April 24, 2012, the S&P 500 Index was trading at 12.97x 2012 forecasted earnings. If analysts' forecasts are met, the data show that the financials and information technology sectors could continue to lead the market higher in the latter half of 2012.

Getting Behind The Data

To perform the analysis in this article, we used the following S&P Capital IQ solutions:

S&P Capital IQ

For this analysis, we used S&P Capital IQ Estimates data as presented on the S&P Capital IQ platform to generate the tables and charts. We also utilized return data of the S&P 500 Index and S&P 500 Sector Indices as presented on the S&P

Capital IQ platform.

S&P Capital IQ Estimates

S&P Capital IQ offers detailed and consensus global estimates data. S&P Capital IQ detailed estimates include over 40 data measures, including EPS, Revenue, Net Income, EBITDA, and EBT. With S&P Capital IQ Estimates, a user can view the mean and consensus breakdowns, and audit contributors with seamless links to source documents. S&P Capital IQ Estimates cover 18,000 active companies from 700 estimates contributors, and feature in-depth historical coverage for 40,000 active and inactive firms.

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