

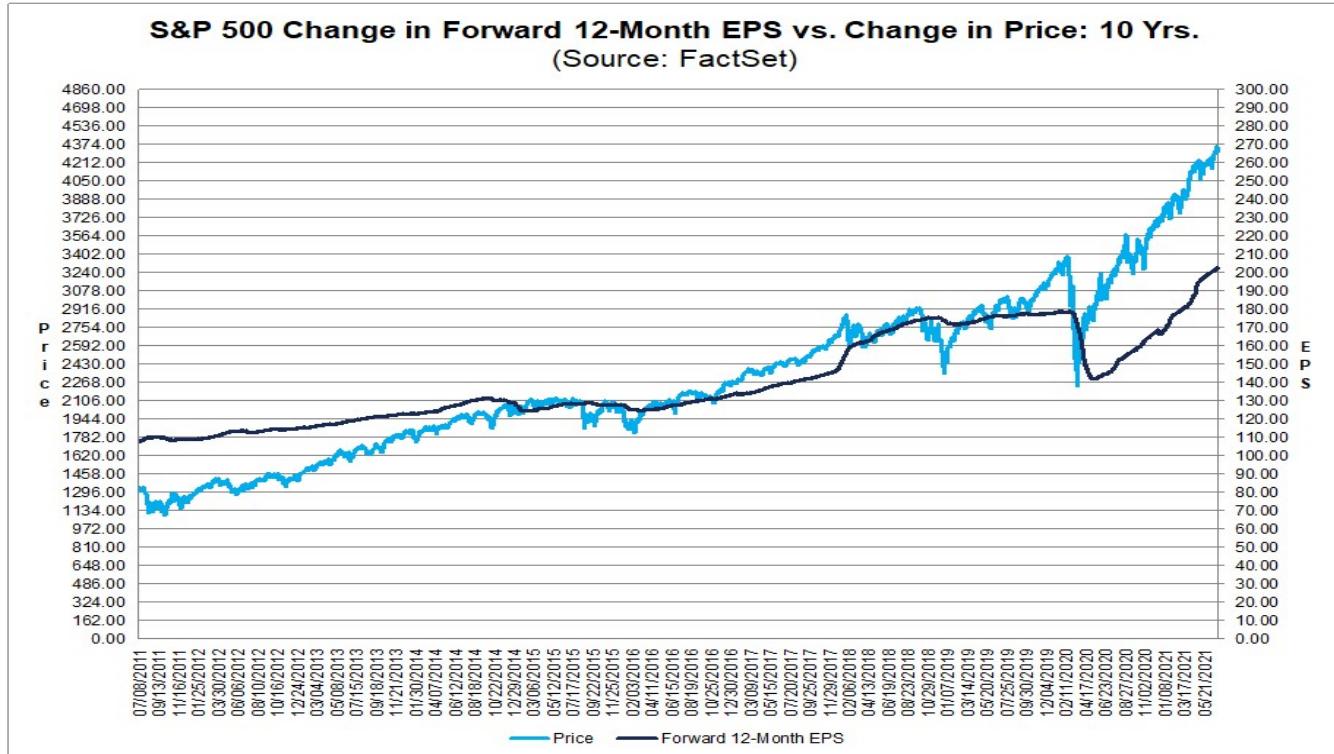
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## Key Metrics

- Earnings Growth:** For Q2 2021, the estimated earnings growth rate for the S&P 500 is 64.0%. If 64.0% is the actual growth rate for the quarter, it will mark the highest year-over-year earnings growth rate reported by the index since Q4 2009 (109.1%).
- Earnings Revisions:** On March 31, the estimated earnings growth rate for Q2 2021 was 52.1%. Nine sectors have higher earnings growth rates today (compared to March 31) due to upward revisions to EPS estimates.
- Earnings Guidance:** For Q2 2021, 37 S&P 500 companies have issued negative EPS guidance and 66 S&P 500 companies have issued positive EPS guidance. If 66 is the final number, it will mark the highest number of S&P 500 companies issuing positive EPS guidance since FactSet began tracking guidance in 2006
- Valuation:** The forward 12-month P/E ratio for the S&P 500 is 21.4. This P/E ratio is above the 5-year average (18.1) and above the 10-year average (16.2).
- Earnings Scorecard:** For Q2 2021 (with 18 S&P 500 companies reporting actual results), 15 S&P 500 companies have reported a positive EPS surprise and 17 S&P 500 companies have reported a positive revenue surprise.



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## Topic of the Week: 1

### S&P 500 Likely to Report Highest Earnings Growth in More Than 10 Years in Q2

As of today, the S&P 500 is expected to report (year over-year) earnings growth of 64.0% for the second quarter. Given that most S&P 500 companies report actual earnings above estimates, what is the likelihood the index will report actual growth in earnings of 64.0% for the quarter?

Based on the 5-year average improvement in earnings growth during each earnings season due to companies reporting positive earnings surprises, it is likely the index will report earnings growth at or above 69% for the second quarter, which would be the highest earnings growth reported by the S&P 500 in more than 10 years.

When companies in the S&P 500 report actual earnings above estimates during an earnings season, the overall earnings growth rate for the index increases because the higher actual EPS numbers replace the lower estimated EPS numbers in the calculation of the growth rate. For example, if a company is projected to report EPS of \$1.05 compared to year ago EPS of \$1.00, the company is projected to report earnings growth of 5%. If the company reports actual EPS of \$1.10 (a \$0.05 upside earnings surprise compared to the estimate), the actual earnings growth for the company for the quarter is now 10%, five percentage points above the estimated growth rate ( $10\% - 5\% = 5\%$ ).

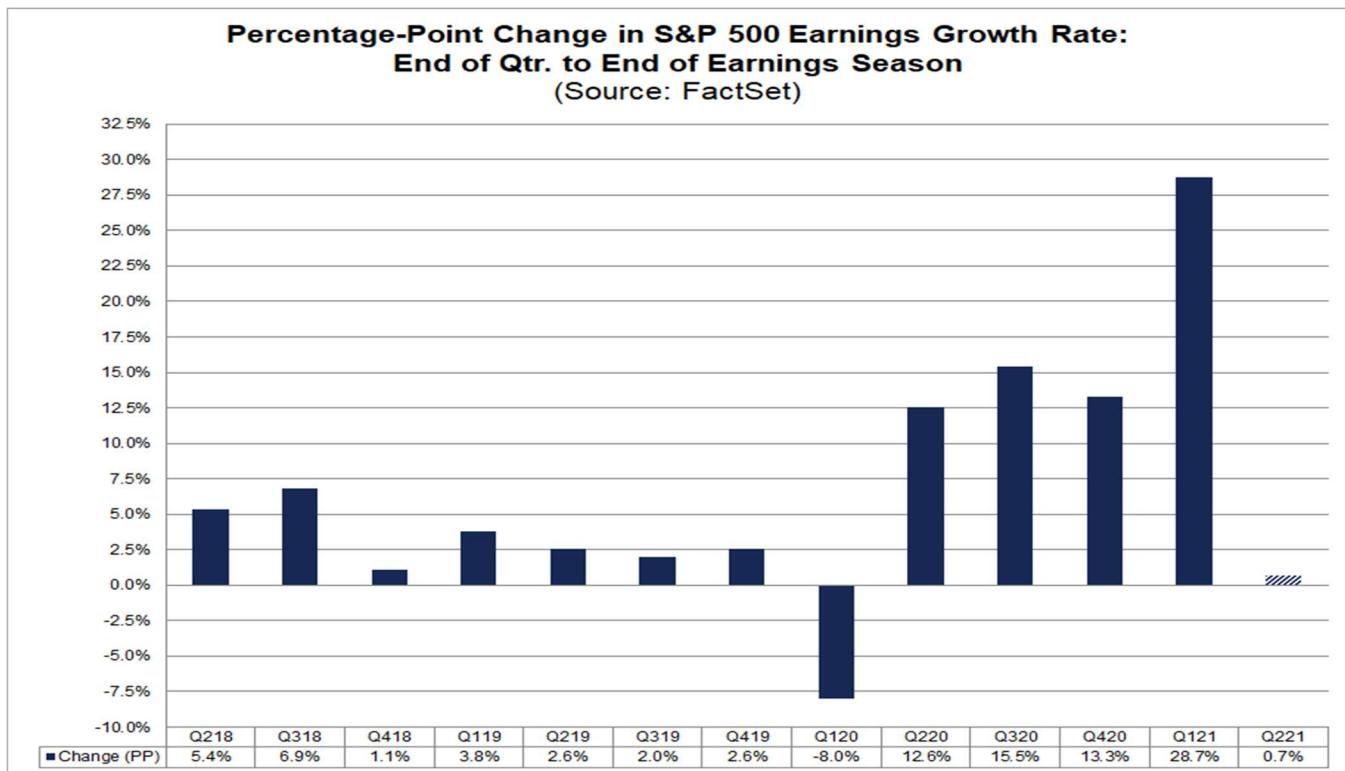
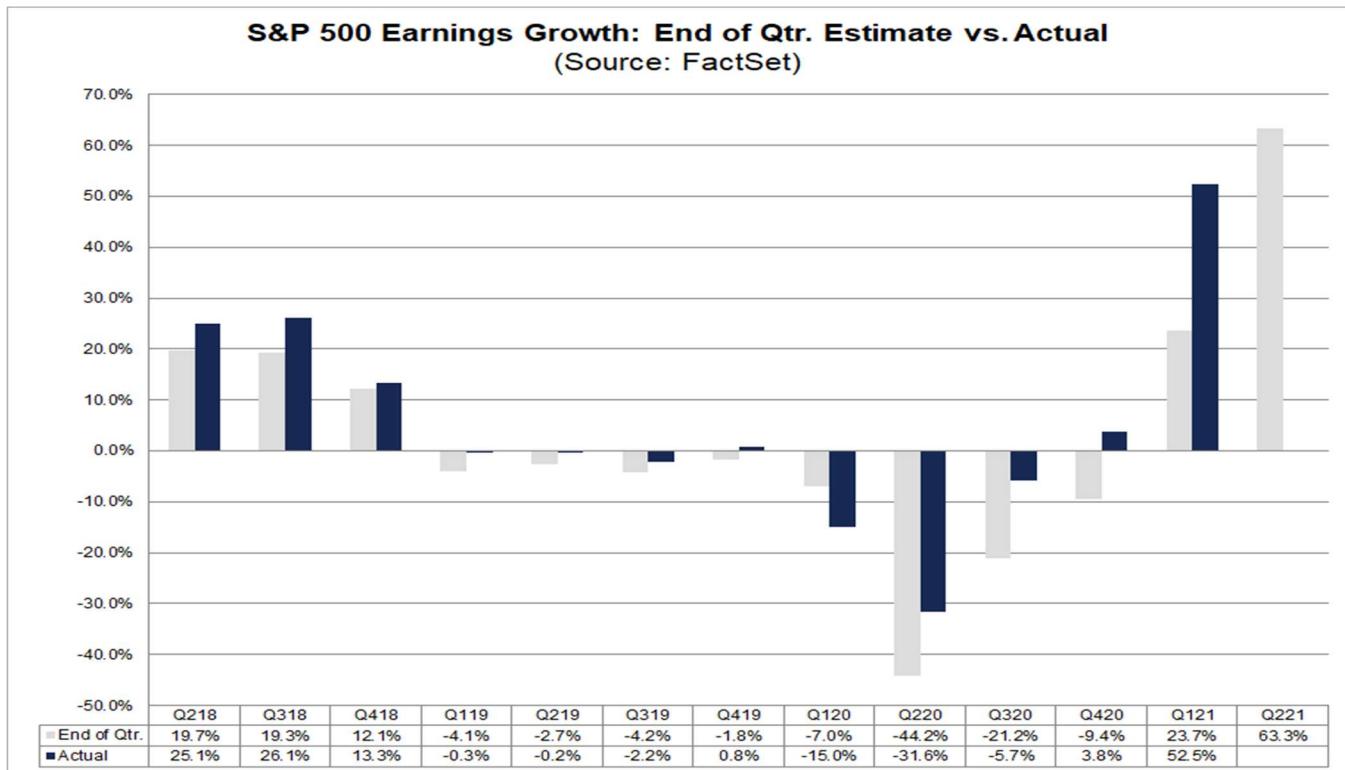
Over the past five years, actual earnings reported by S&P 500 companies have exceeded estimated earnings by 7.8% on average. During this same period, 75% of companies in the S&P 500 have reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has increased by 6.0 percentage points on average (over the past five years) due to the number and magnitude of positive earnings surprises.

If this average increase is applied to the estimated earnings growth rate at the end of Q2 (June 30) of 63.3%, the actual earnings growth rate for the quarter would be 69.3% ( $63.3\% + 6.0\% = 69.3\%$ ). If the S&P 500 reports year-over-year growth in earnings of 69.3% in Q2, it would mark the highest (year-over-year) earnings growth rate reported by the index since Q4 2009 (109.1%).

However, during the past four quarters (Q2 2020 through Q1 2021), actual earnings reported by S&P 500 companies have exceeded estimated earnings by 19.7% on average. During these four quarters, 83% of companies in the S&P 500 have reported actual EPS above the mean EPS estimate on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has increased by 17.5 percentage points on average due to the number and magnitude of positive earnings surprises over these past four quarters.

If this average increase is applied to the estimated earnings growth rate at the end of Q2 (June 30) of 63.3%, the actual earnings growth rate for the quarter would be 80.8% ( $63.3\% + 17.5\% = 80.8\%$ ). If the S&P 500 reports year-over-year growth in earnings of 80.8% in Q2, it would also mark the highest year-over-year earnings growth rate reported by the index since Q4 2009 (109.1%).

Of the 18 S&P 500 companies that have reported actual earnings for Q2 2021 to date, 83% have reported actual EPS above the mean EPS estimate. In aggregate, actual earnings reported by these 18 companies have exceeded estimated earnings by 16.8%. Thus, at this very early stage of the Q2 earnings season, both the number of companies reporting positive earnings surprises and the magnitude of the positive surprises are trending closer to the numbers of the previous four quarters. Since June 30, the earnings growth rate for the S&P 500 has improved by 0.7 percentage points (to 64.0% from 63.3%).



## Topic of the Week: 2

### After Record Close, Industry Analysts Still Predict a Double-Digit Price Increase for the S&P 500

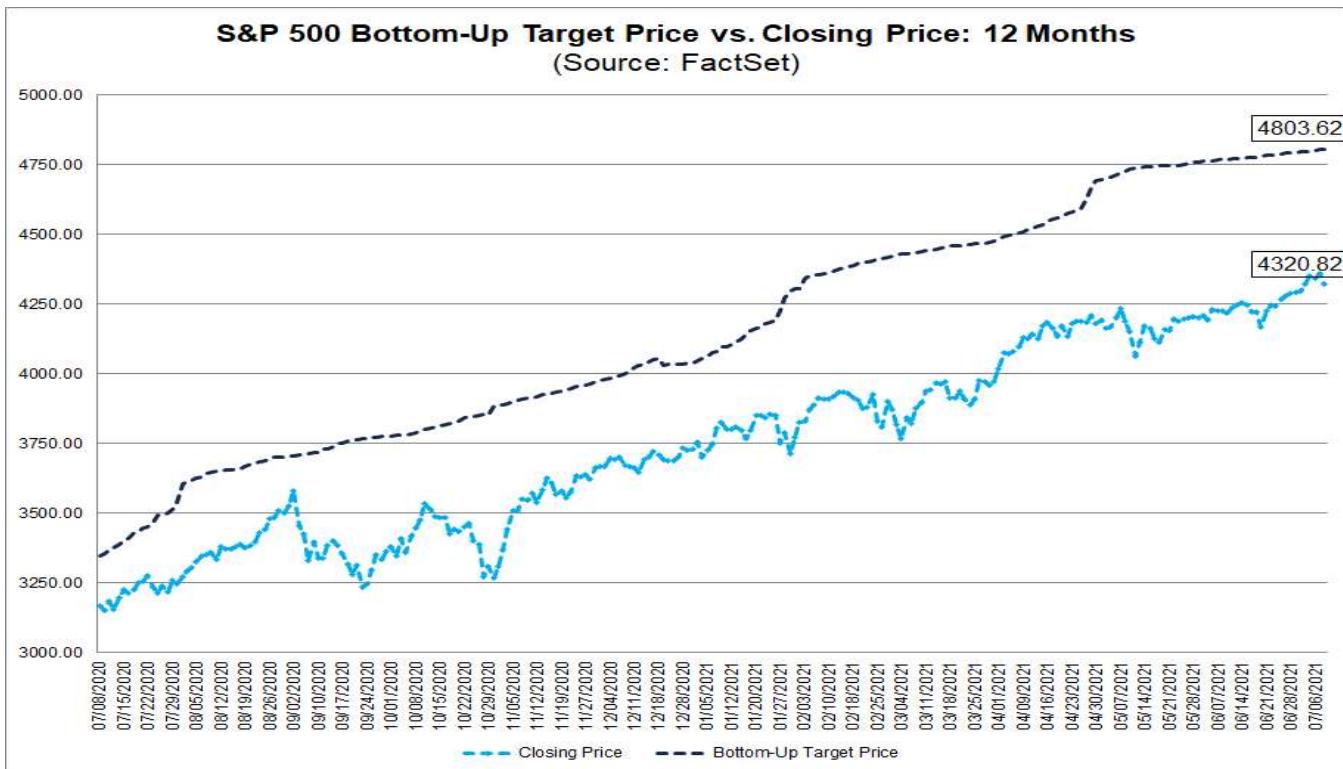
On July 7, the S&P 500 closed at a record-high value of 4358.13. Yesterday, the value of the index fell about 1% to 4320.82. Where do industry analysts believe the price of the index will go from here?

Industry analysts in aggregate predict the S&P 500 will see a price increase of 11.2% over the next twelve months. This percentage is based on the difference between the bottom-up target price and the closing price for the index as of yesterday (July 8). The bottom-up target price is calculated by aggregating the median target price estimates (based on company-level estimates submitted by industry analysts) for all the companies in the index. On July 8, the bottom-up target price for the S&P 500 was 4803.62, which was 11.2% above the closing price of 4320.82.

At the sector level, the Energy (+17.1%) and Materials (+15.9%) sectors are expected to see the largest price increases, as these two sectors had the largest upside differences between the bottom-up target price and the closing price on July 8. On the other hand, the Real Estate (+4.2%) sector is expected to see the smallest price increase, as this sector had the smallest upside difference between the bottom-up target price and the closing price on July 8.

At the company level, the ten stocks in the S&P 500 with the largest upside and downside differences between their median target price and closing price (on July 8) can be found on the next page

How accurate have the industry analysts been in predicting the future value of the S&P 500? Over the past five years, industry analysts have underestimated the price of the index by 0.5% on average (using month-end values). Over the past ten years, industry analysts have overestimated the price of the index by 1.5% on average (using month-end values). Over the past fifteen years, industry analysts have overestimated the price of the index by 9.1% on average (using month-end values). It is interesting to note that on June 30, 2020, the bottom-up target price was 3327.64. One year later (on June 30, 2021), the S&P 500 closing price was 4297.50. Thus, industry analysts underestimated the closing price at the end of June 2021 by nearly 23% one-year ago.

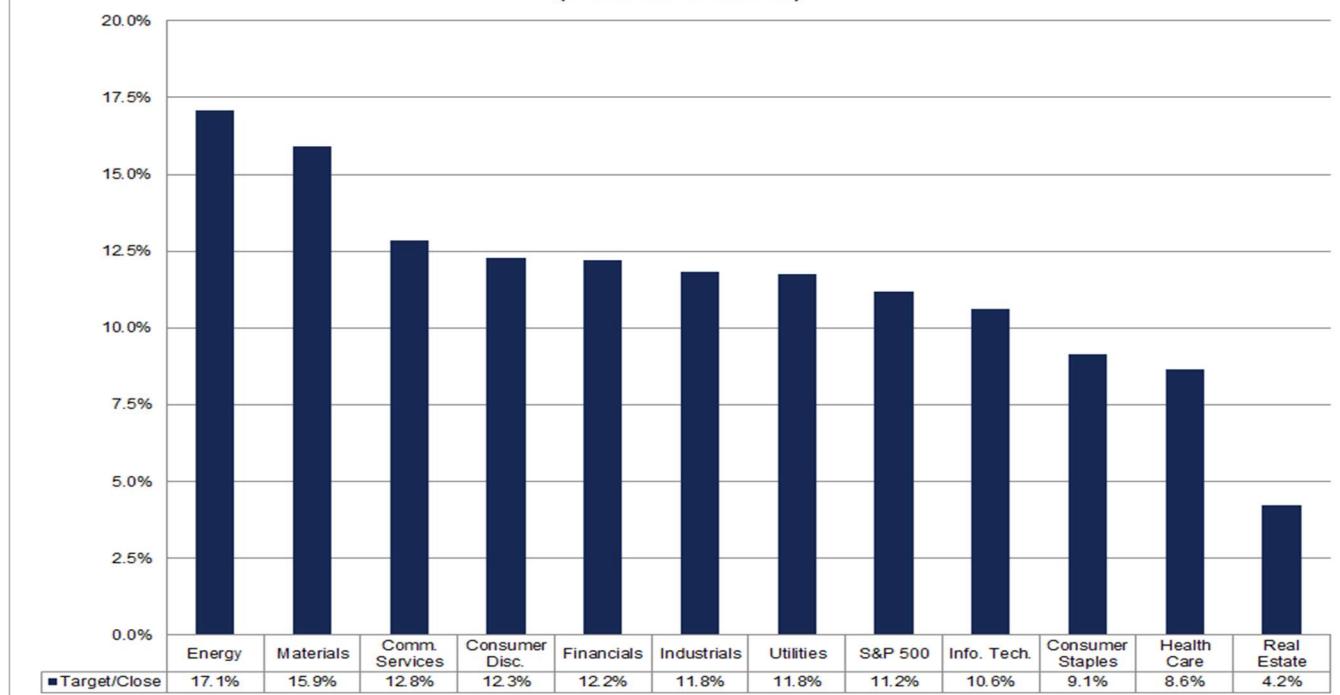


## S&amp;P 500: Difference Between Median Target Price &amp; Closing Price: Top 10 (Source: FactSet)

Company	Target	Closing	Diff (\$)	Diff (%)
Penn National Gaming, Inc.	110.00	71.97	38.03	52.8%
Micron Technology, Inc.	115.00	77.11	37.89	49.1%
Discovery, Inc. Class C	40.00	27.23	12.77	46.9%
Alaska Air Group, Inc.	83.00	57.78	25.22	43.6%
Discovery, Inc. Class A	41.00	28.78	12.22	42.5%
Under Armour, Inc. Class C	25.00	18.08	6.92	38.3%
Las Vegas Sands Corp.	69.00	50.25	18.75	37.3%
Southwest Airlines Co.	70.00	51.19	18.81	36.7%
Tapestry, Inc.	54.50	40.38	14.12	35.0%
APA Corp.	27.00	20.03	6.97	34.8%

## S&amp;P 500: Difference Between Median Target Price &amp; Closing Price: Bottom 10 (Source: FactSet)

Company	Target	Closing	Diff (\$)	Diff (%)
Waters Corporation	300.00	365.68	-65.68	-18.0%
Lumen Technologies, Inc.	11.00	13.19	-2.19	-16.6%
Expeditors Intl. of Washington, Inc.	110.00	126.88	-16.88	-13.3%
Illumina, Inc.	417.50	472.86	-55.36	-11.7%
Fortinet, Inc.	226.00	252.93	-26.93	-10.6%
IDEXX Laboratories, Inc.	592.50	659.94	-67.44	-10.2%
American Airlines Group, Inc.	18.50	20.35	-1.85	-9.1%
Mettler-Toledo International Inc.	1310.00	1422.43	-112.43	-7.9%
NVIDIA Corporation	735.00	796.11	-61.11	-7.7%
American Express Company	155.00	167.50	-12.50	-7.5%

S&P 500 Sector-Level Bottom-Up Target Price vs. Closing Price  
(Source: FactSet)

## Q2 Earnings Season: By The Numbers

### Overview

Analysts and companies have been much more optimistic than normal in their estimate revisions and earnings outlooks for the second quarter to date. As a result, expected earnings for the S&P 500 for the second quarter are higher today compared to the start of the second quarter. The index is now expected to report the highest year-over-year growth in earnings since Q4 2009 for Q2. Analysts also expect double-digit earnings growth for the second half of 2021. The above-average growth rates for the second quarter and for all of 2021 are due to a combination of higher earnings for 2021 and an easier comparison to weaker earnings in 2020 due to the negative impact of COVID-19 on numerous industries.

In terms of estimate revisions for companies in the S&P 500, analysts increased earnings estimates in aggregate for Q2 2021 during the quarter. On a per-share basis, estimated earnings for the second quarter increased by 7.2% from March 31 to June 30. In a typical quarter, analysts usually reduce earnings estimates during the quarter. Over the past five years (20 quarters), earnings estimates have fallen by 3.4% on average during a quarter. Over the past ten years, (40 quarters), earnings estimates have fallen by 4.0% on average during a quarter. Over the past fifteen years, (60 quarters), earnings estimates have fallen by 5.0% on average during a quarter. In fact, the second quarter of 2021 marked the largest increase in the bottom-up EPS estimate during a quarter since FactSet began tracking the quarterly bottom-up EPS estimate in Q2 2002.

More S&P 500 companies have issued positive EPS guidance for Q2 2021 than average as well. At this point in time, 103 companies in the index have issued EPS guidance for Q2 2021. Of these 103 companies, 37 have issued negative EPS guidance and 66 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 64% (66 out of 103), which is well above the 5-year average of 37%. If 66 is the final number for the quarter, it will mark the highest number of S&P 500 companies issuing positive EPS guidance for a quarter since FactSet began tracking this metric in 2006.

Because of the high number of companies issuing positive EPS guidance and the net upward revisions to earnings estimates, the estimated (year-over-year) earnings growth rate for Q2 2021 is higher now relative to the start of the second quarter. As of today, the S&P 500 is expected to report (year-over-year) earnings growth of 64.0%, compared to the estimated (year-over-year) earnings growth rate of 52.1% on March 31.

If 64.0% is the actual growth rate for the quarter, it will mark the largest year-over-year growth in earnings reported by the index since Q4 2009 (109.1%). The unusually high growth rate is due to a combination of higher earnings for Q2 2021 and a comparison to unusually weak earnings in Q2 2020 due to the negative impact of COVID-19 on a number of industries. All eleven sectors are projected to report year-over-year earnings growth, led by the Energy, Industrials, Consumer Discretionary, Financials, and Materials sectors.

Because of the high number of companies issuing positive revenue guidance and the net upward revisions to revenue estimates, the estimated (year-over-year) revenue growth rate for Q2 2021 is higher now relative to the start of the second quarter. As of today, the S&P 500 is expected to report (year-over-year) revenue growth of 19.7%, compared to the estimated (year-over-year) revenue growth rate of 16.6% on March 31.

If 19.7% is the actual growth rate for the quarter, it will mark the highest year-over-year revenue growth reported by the index since FactSet began tracking this metric in 2008. All eleven sectors are projected to report year-over-year growth in revenues, led by the Energy, Materials, and Consumer Discretionary sectors.

Looking at future quarters, analysts also project double-digit earnings growth for the remaining two quarters of 2021.

The forward 12-month P/E ratio is 21.4, which is above the 5-year average and above the 10-year average.

During the upcoming week, 26 S&P 500 companies (including four Dow 30 components) are scheduled to report results for the second quarter.

## Earnings Revisions: Energy Sector Has Seen Largest Estimate Increases

### Small Increase in Estimated Earnings Growth Rate for Q2 This Week

During the past week, the estimated earnings growth rate for the S&P 500 for Q2 2021 increased slightly to 64.0% from 63.6%.

Since the start of the quarter, the estimated earnings growth rate for the S&P 500 for Q2 2021 has increased to 64.0% today from 52.1% on March 31, as estimated earnings for the index have increased by 7.8% (to \$396.0 billion from \$367.4 billion) during this time. Ten sectors have recorded an increase in expected (dollar-level) earnings due to upward revisions to earnings estimates, led by the Energy, Materials, Financials, Information Technology, Consumer Discretionary, and Communication Services sectors. On the other hand, the Utilities sector is the only sector that has recorded a decrease in expected (dollar-level) earnings due to downward revisions to earnings estimates.

### Energy: Exxon Mobil Leads Earnings Increase Since March 31

The Energy sector has recorded the largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 25.1% (to \$13.5 billion from \$10.8 billion). A year-over-year growth rate is not being calculated for the Energy sector due to the loss reported by the sector in Q2 2020. This sector also witnessed the fourth-largest increase in price (+10.1%) of all eleven sectors from March 31 to June 30. Higher oil prices are contributing to increase in earnings estimates for this sector, as the price of oil rose by 24% (to \$73.47 from \$59.16) during the quarter. Overall, 18 of the 22 companies (82%) in the Energy sector have seen an increase in their mean EPS estimate since March 31. Of these 18 companies, 14 have recorded an increase in their mean EPS estimate of more than 10%, led by Marathon Petroleum (to \$0.50 from \$0.19), Marathon Oil (to \$0.15 from \$0.06), and Hess Corporation (to \$0.16 from \$0.10). However, Exxon Mobil (to \$0.98 from \$0.73) has been the largest contributor to the increase in estimated (dollar-level) earnings for this sector since March 31.

### Materials: Dow Leads Earnings Increase Since March 31

The Materials sector has recorded the second-largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 18.9% (to \$15.8 billion from \$13.3 billion). As a result, the estimated earnings growth rate for this sector has risen to 118.0% from 83.3% during this time. This sector also witnessed an increase in price of 4.5% from March 31 to June 30. Overall, 19 of the 28 companies (68%) in the Materials sector have seen an increase in their mean EPS estimate since March 31. Of these 19 companies, 12 have recorded an increase in their mean EPS estimate of more than 10%, led by Dow (to \$2.30 from \$1.22), Nucor (to \$4.74 from \$2.96), and LyondellBasell Industries (to \$5.00 from \$3.32). Dow has also been the largest contributor to the increase in expected (dollar-level) earnings for this sector since March 31.

### Financials: JPMorgan Chase and Wells Fargo Lead Earnings Increase Since March 31

The Financials sector has recorded the third-largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 11.5% (to \$69.8 billion from \$62.7 billion). As a result, the estimated earnings growth rate for this sector has risen to 119.5% from 96.9% during this time. This sector also witnessed the sixth-largest increase in price (+7.9%) of all eleven sectors from March 31 to June 30. Overall, 53 of the 65 companies (82%) in the Financials sector have seen an increase in their mean EPS estimate since March 31. Of these 53 companies, 26 have recorded an increase in their mean EPS estimate of more than 10%, led by Discover Financial Services (to \$3.67 from \$2.59) and Wells Fargo (to \$0.95 from \$0.69). JPMorgan Chase (to \$3.16 from \$2.80), Wells Fargo, Bank of America (to \$0.77 from \$0.66), and Goldman Sachs (to \$10.00 from \$7.80) have been the largest contributors to the increase in expected (dollar-level) earnings for this sector since March 31.

### Information Technology: Apple and Microsoft Lead Earnings Increase since March 31

The Information Technology sector has recorded the fourth-largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 9.8% (to \$85.5 billion from \$77.9 billion). As a result, the estimated earnings growth rate for this sector has risen to 30.9% from 19.2% during this time. This sector also witnessed the second-largest increase in price (+11.3%) of all eleven sectors from March 31 to June 30. Overall, 55 of the 74 companies (74%) in the Information Technology sector have seen an increase in their mean EPS estimate since March 31. Of these 55 companies, 21 have recorded an increase in their mean EPS estimate of more than 10%, led by Intuit (to \$1.59 from -\$0.11), Gartner (to \$1.73 from \$1.09), and Western Digital (to \$1.49 from \$1.00). However, Apple (to \$0.99 from \$0.82) and Microsoft (to \$1.91 from \$1.77) have been the largest contributors to the increase in expected (dollar-level) earnings for this sector since March 31.

### Consumer Discretionary: Amazon.com Leads Earnings Increase since March 31

The Consumer Discretionary sector has recorded the fifth-largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 9.6% (to \$29.2 billion from \$26.7 billion). As a result, the estimated earnings growth rate for this sector has risen to 207.7% from 180.7% during this time. This sector also witnessed an increase in price of 6.8% from March 31 to June 30. Overall, 45 of the 62 companies (72%) in the Consumer Discretionary sector have seen an increase in their mean EPS estimate since March 31. Of these 45 companies, 30 have recorded an increase in their mean EPS estimate of more than 10%, led by Penn National Gaming (to \$0.92 from \$0.34), Under Armour (to \$0.05 from -\$0.12), and Caesars Entertainment (to \$0.08 from -\$1.21). However, Amazon.com (to \$12.21 from \$10.86) has been the largest contributor to the increase in expected (dollar-level) earnings for this sector since March 31.

### Communication Services: Alphabet and Facebook Lead Earnings Increase since March 31

The Communication Services sector has recorded the sixth-largest percentage increase in estimated (dollar-level) earnings of all eleven sectors since the start of the quarter at 8.9% (to \$40.3 billion from \$37.1 billion). As a result, the estimated earnings growth rate for this sector has risen to 41.1% from 29.6% during this time. This sector also witnessed the third-largest increase in price (+10.5%) of all eleven sectors from March 31 to June 30. Overall, 13 of the 22 companies (59%) in the Communication Services sector have seen an increase in their mean EPS estimate since March 31. Of these 13 companies, 5 have recorded an increase in their mean EPS estimate of more than 10%: Alphabet (to \$19.15 from \$15.56), Take-Two Interactive (to \$0.89 from \$0.72), Facebook (to \$3.03 from \$2.49), Interpublic Group of Companies (to \$0.43 from \$0.36), and Netflix (to \$3.18 from \$2.70). Alphabet and Facebook have also been the largest contributors to the increase in expected (dollar-level) earnings for this sector since March 31.

### Index-Level (Bottom-Up) EPS Estimate: Record-High 7.2% Increase During Q2

The Q2 bottom-up EPS estimate (which is an aggregation of the median Q2 earnings estimates for all 500 companies in the index and can be used as a proxy for the earnings of the index) increased by 7.2% (to \$45.00 from \$41.97) from March 31 to June 30. In a typical quarter, analysts usually reduce earnings estimates. Over the past five years (20 quarters), earnings expectations have fallen by 3.4% on average during a quarter. Over the past ten years, (40 quarters), earnings expectations have fallen by 4.0% on average during a quarter. Over the past fifteen years (60 quarters), earnings expectations have fallen by 5.0% on average during a quarter. In fact, the second quarter of 2021 marked the largest increase in the bottom-up EPS estimate during a quarter since FactSet began tracking the quarterly bottom-up EPS estimate in Q2 2002.

### Guidance: Record-High Number of S&P 500 Companies Issuing Positive EPS Guidance for Q2

At this point in time, 103 companies in the index have issued EPS guidance for Q2 2021. Of these 103 companies, 37 have issued negative EPS guidance and 66 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 64% (66 out of 103), which is well above the 5-year average of 37%. If 66 is the final number for the quarter, it will mark the highest number of S&P 500 companies issuing positive EPS guidance for a quarter since FactSet began tracking this metric in 2006.

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 Growth: 64.0%

The estimated (year-over-year) earnings growth rate for Q2 2021 is 64.0%, which is well above the 5-year average earnings growth rate of 4.1%. If 64.0% is the actual growth rate for the quarter, it will mark the highest year-over-year earnings growth reported by the index since Q4 2009 (109.1%). All eleven sectors are expected to report year-over-year earnings growth, led by the Energy, Industrials, Consumer Discretionary, Financials, and Materials sectors.

### Energy: Exxon Mobil and Chevron Are Largest Contributors to Higher Year-Over-Year Earnings

The Energy sector is expected to report earnings of \$13.5 billion for Q2 2021 compared to a loss of -\$10.6 billion in Q2 2020. Thus, a year-over-year growth rate is not being calculated for the Energy sector due to the loss reported by the sector in Q2 2020. 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 Q2 2021 (\$66.17) was 136% above the average price for oil in Q2 2020 (\$28.00). At the sub-industry level, all five sub-industries in the sector are projected to report a year-over-year increase in earnings. A growth rate is not being calculated for three of these five sub-industries due to losses reported in the year-ago quarter. However, all three are projected to report profits in Q2 2021: Integrated Oil & Gas, Oil & Gas Exploration & Production, and Oil & Gas Refining & Marketing. The other two sub-industries that are predicted to report year-over-year growth are the Oil & Gas Equipment & Services (1,188%) and Oil & Gas Storage & Transportation (33%) sub-industries. At the company level, Exxon Mobil and Chevron are expected to be the largest contributors to the year-over-year improvement in earnings for the sector. Combined, these two companies account for \$13.0 billion of the projected \$24.2 billion year-over-year increase in earnings for the sector.

### Industrials: Airlines Industry is Largest Contributor to Year-Over-Year Growth

The Industrials sector is expected to report the highest (year-over-year) earnings growth rate of all eleven sectors at 349.7%. At the industry level, all 12 industries in the sector are projected to report a year-over-year increase in earnings. A growth rate is not being calculated for the Airlines industry due to a loss reported in the year-ago quarter. However, this industry is predicted to report a smaller loss in Q2 2021 (-\$4.1 billion) relative to Q2 2020 (-\$11.5 billion). The remaining eleven industries are all expected to report double-digit earnings growth. Six of these eleven industries are projected to report earnings growth of more than 50%: Industrials Conglomerates (269%), Aerospace & Defense (177%), Machinery (81%), Road & Rail (61%), Electrical Equipment (55%), and Air Freight & Logistics (52%). The Airlines industry is also expected to be the largest contributor to earnings growth for the sector. If this industry were excluded, the estimated earnings growth rate for the Industrials sector would fall to 79.2% from 349.7%.

### Consumer Discretionary: Hotels, Restaurants & Leisure Industry is Largest Contributor to Growth

The Consumer Discretionary sector is expected to report the second-highest (year-over-year) earnings growth rate of all eleven sectors at 207.7%. At the industry level, nine of the ten industries in this sector are expected to report a year-over-year improvement in earnings. A growth rate is not being calculated for four of these nine industries due to losses reported in the year-ago quarter. However, three of these four industries are projected to report profits in Q2 2021: Automobiles, Textiles, Apparel & Luxury Goods, and Auto Components. The Hotels, Restaurants, & Leisure industry is projected to report a smaller loss in Q2 2021 (-\$527 million) relative to Q2 2020 (-\$7.7 billion). The other five industries are predicted to report double-digit earnings growth: Leisure Products (2,315%), Household Durables (74%), Distributors (33%), Specialty Retail (30%), and Internet & Direct Marketing Retail (15%). The only industry expected to report a year-over-year decline in earnings is the Multiline Retail (-8%) industry. The Hotels, Restaurants, & Leisure industry is also projected to be the largest contributor to growth for the sector. If this industry were excluded, the estimated earnings growth rate for the Consumer Discretionary sector would fall to 73.0% from 207.7%.

## Financials: Banks Industry Is Largest Contributor to Year-Over-Year Growth

The Financials sector is expected to report the third-highest (year-over-year) earnings growth rate of all eleven sectors at 119.5%. At the industry level, all five industries in this sector are expected to report a year-over-year improvement in earnings. A growth rate is not being calculated for the Consumer Finance industry due to a loss reported in the year-ago quarter. However, this industry is predicted to report a profit in Q2 2021 (\$5.2 billion) relative to the loss in Q2 2020 (-\$832 million). Three of the other four industries are predicted to report earnings growth of 20% or more: Banks (316%), Insurance (54%), and Capital Markets (21%). The Banks industry is also projected to be the largest contributor to growth for the sector. If this industry were excluded, the estimated earnings growth rate for the Financials sector would fall to 54.8% from 119.5%.

## Materials: Metals & Mining Industry Is Largest Contributor to Year-Over-Year Growth

The Materials sector is expected to report the fourth-highest (year-over-year) earnings growth rate of all eleven sectors at 118.0%. At the industry level, all four industries in this sector are predicted to report year-over-year growth. Three of these four industries are projected to report growth of 20% or more: Metals & Mining (667%), Chemicals (111%), and Containers & Packaging (20%). The Metals & Mining industry is also projected to be the largest contributor to year-over-year growth in earnings for the sector. If this industry were excluded, the estimated earnings growth rate for the Materials sector would fall to 85.1% from 118.0%.

## Revenue Growth: 19.7%

The estimated (year-over-year) revenue growth rate for Q2 2021 is 19.7%, which is above the 5-year average revenue growth rate of 3.9%. If 19.7% is the actual growth rate for the quarter, it will mark the highest year-over-year revenue growth reported by the index since FactSet began tracking this metric in 2008. The current record is 12.7%, which occurred in Q2 2011. All eleven sectors are expected to report year-over-year growth in revenues, led by the Energy, Materials, and Consumer Discretionary sectors.

## Energy: 3 of 5 Sub-Industries Expected to Report Year-Over-Year Growth Above 75%

The Energy sector is expected to report the highest (year-over-year) revenue growth rate of all eleven sectors at 87.0%. Higher year-over-year oil prices are contributing to the year-over-year improvement in revenues for this sector, as the average price of oil in Q2 2021 (\$66.17) was 136% above the average price for oil in Q2 2020 (\$28.00). At the sub-industry level, all five sub-industries in the sector are projected to report year-over-year growth in revenues. Four of these five sub-industries are projected to report revenue growth above 30%: Oil & Gas Exploration & Production (178%), Integrated Oil & Gas (110%), Oil & Gas Refining & Marketing (76%), and Oil & Gas Storage & Transportation (31%).

## Materials: Metals & Mining Industry Leads Year-Over-Year Growth

The Materials sector is expected to report the second-highest (year-over-year) revenue growth of all eleven sectors at 32.6%. At the industry level, all four industries in this sector are predicted to report year-over-year growth in revenues, with three of these four industries projected to report double-digit growth: Metals & Mining (75%), Chemicals (33%), and Containers & Packaging (13%).

## Consumer Discretionary: 4 of 10 Industries Expected to Report Year-Over-Year Growth Above 60%

The Consumer Discretionary sector is expected to report the third-highest (year-over-year) revenue growth of all eleven sectors at 32.2%. At the industry level, all ten industries in this sector are predicted to report growth in revenues. Nine of these ten industries are predicted to report double-digit growth, with four of these nine industries projected to report earnings growth at or above 60%: Auto Components (110%), Hotels, Restaurants, & Leisure (104%), Textiles, Apparel, & Luxury Goods (76%), and Automobiles (60%).

## Net Profit Margin: 11.8%

The estimated net profit margin for the S&P 500 for Q2 2021 is 11.8%, which is above the 5-year average of 10.6% and the year-ago net profit margin of 8.6%, but below the previous quarter's record-high net profit margin of 12.8%.

At the sector level, nine sectors are expected to report a year-over-year increase in their net profit margins in Q2 2021 compared to Q2 2020, led by the Financials sector (18.1% vs. 8.6%). Seven sectors are expected to report net profit margins in Q2 2021 that are above their 5-year averages, led by the Materials sector (14.2% vs. 9.1%).

## Looking Ahead: Forward Estimates and Valuation

### Earnings: S&P 500 Expected to Report Earnings Growth of 36% for CY 2021

For the first quarter, S&P 500 companies reported growth in earnings of 52.5% and growth in revenue of 10.9%.

For Q2 2021, analysts are projecting earnings growth of 64.0% and revenue growth of 19.7%.

For Q3 2021, analysts are projecting earnings growth of 23.7% and revenue growth of 12.4%.

For Q4 2021, analysts are projecting earnings growth of 18.3% and revenue growth of 9.3%.

For CY 2021, analysts are projecting earnings growth of 35.6% and revenue growth of 12.6%.

### Valuation: Forward P/E Ratio is 21.4, Above the 10-Year Average (16.2)

The forward 12-month P/E ratio is 21.4. This P/E ratio is above the 5-year average of 18.1 and above the 10-year average of 16.2. However, it is equal to the forward 12-month P/E ratio of 21.4 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 0.5%, while the forward 12-month EPS estimate has increased by 0.4%.

At the sector level, the Consumer Discretionary (32.5) sector has the highest forward 12-month P/E ratio, while the Financials (13.8) sector has the lowest forward 12-month P/E ratio.

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

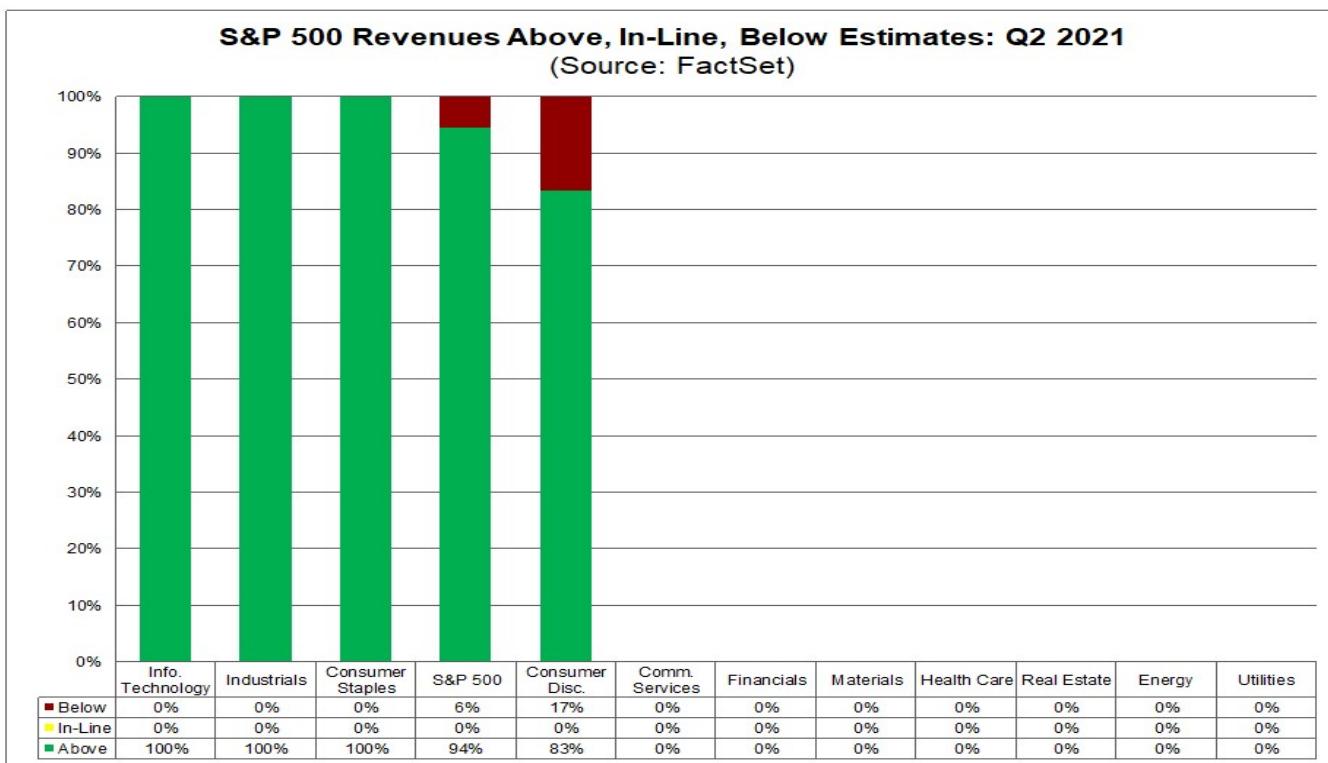
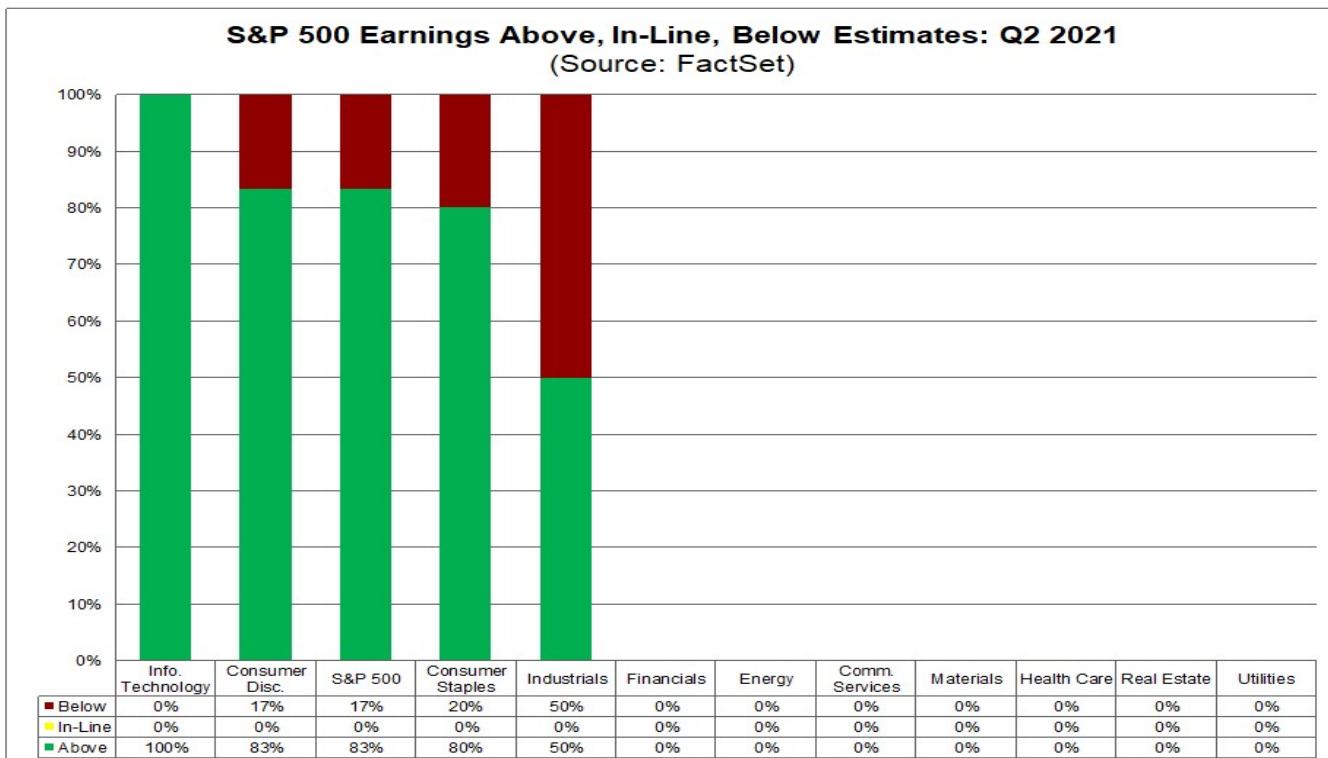
The bottom-up target price for the S&P 500 is 4803.62, which is 11.2% above the closing price of 4320.82. At the sector level, the Energy (+17.1%) and Materials (+15.9%) sectors are expected to see the largest price increases, as these sectors have the largest upside differences between the bottom-up target price and the closing price. On the other hand, the Real Estate (+4.2%) 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 10,557 ratings on stocks in the S&P 500. Of these 10,557 ratings, 57.0% are Buy ratings, 36.8% are Hold ratings, and 6.3% are Sell ratings. At the sector level, the Energy (64%), Health Care (63%) Information Technology (62%), and Communication Services (62%) sectors have the highest percentages of Buy ratings, while the Consumer Staples (43%) sector has the lowest percentage of Buy ratings.

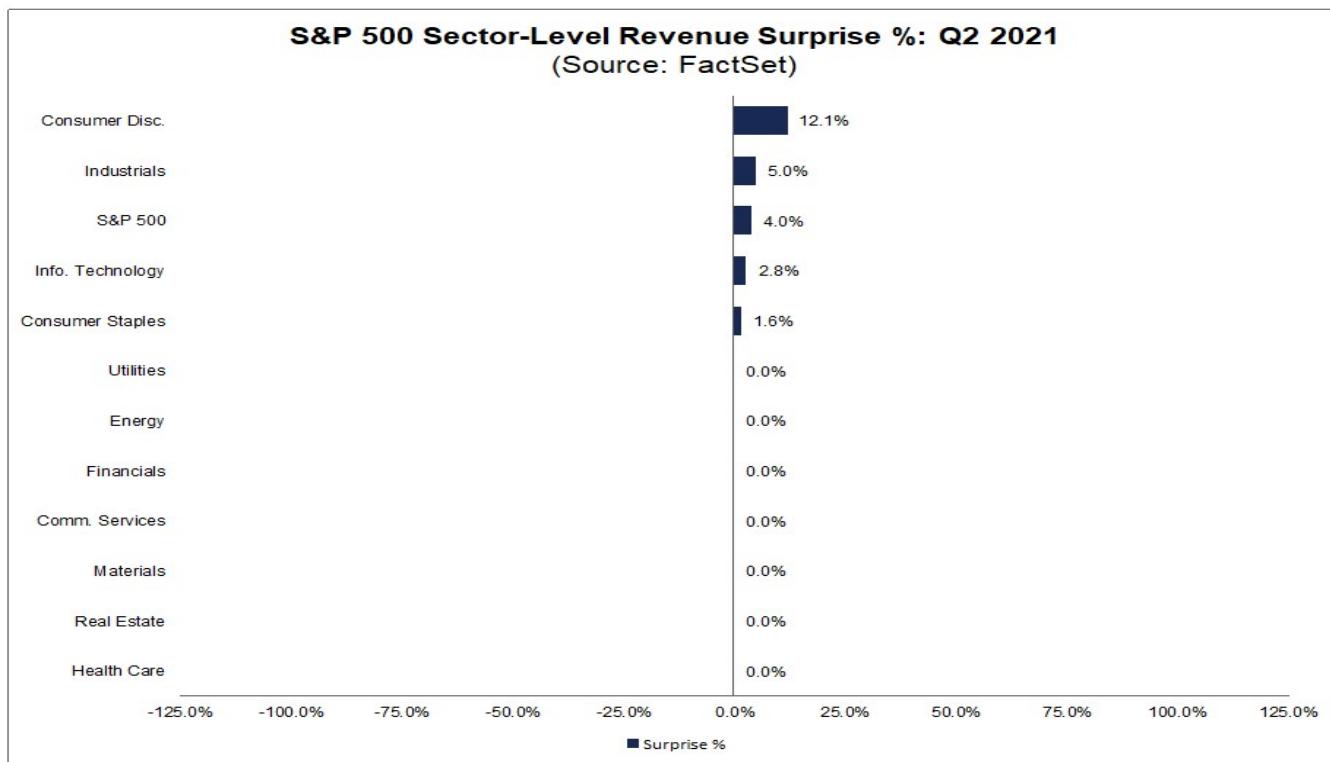
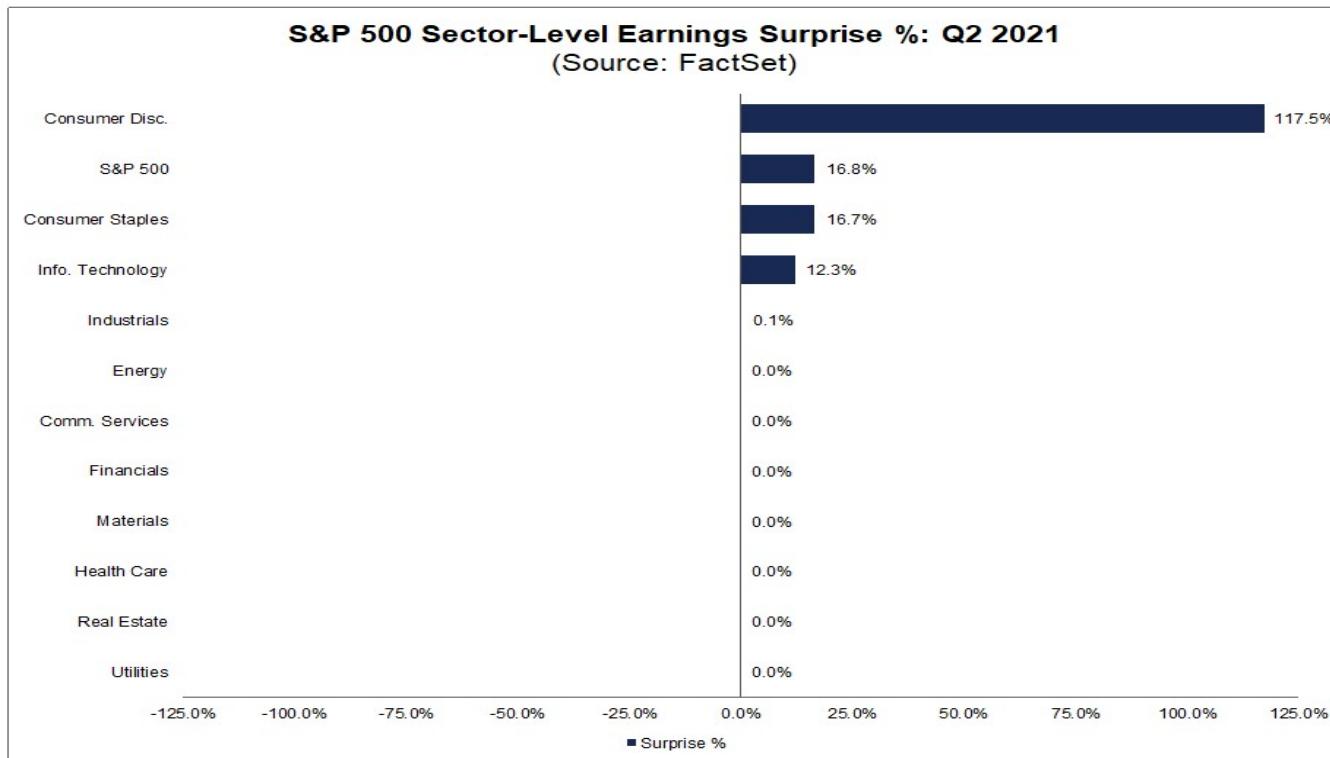
### Companies Reporting Next Week: 26

During the upcoming week, 26 S&P 500 companies (including four Dow 30 components) are scheduled to report results for the second quarter.

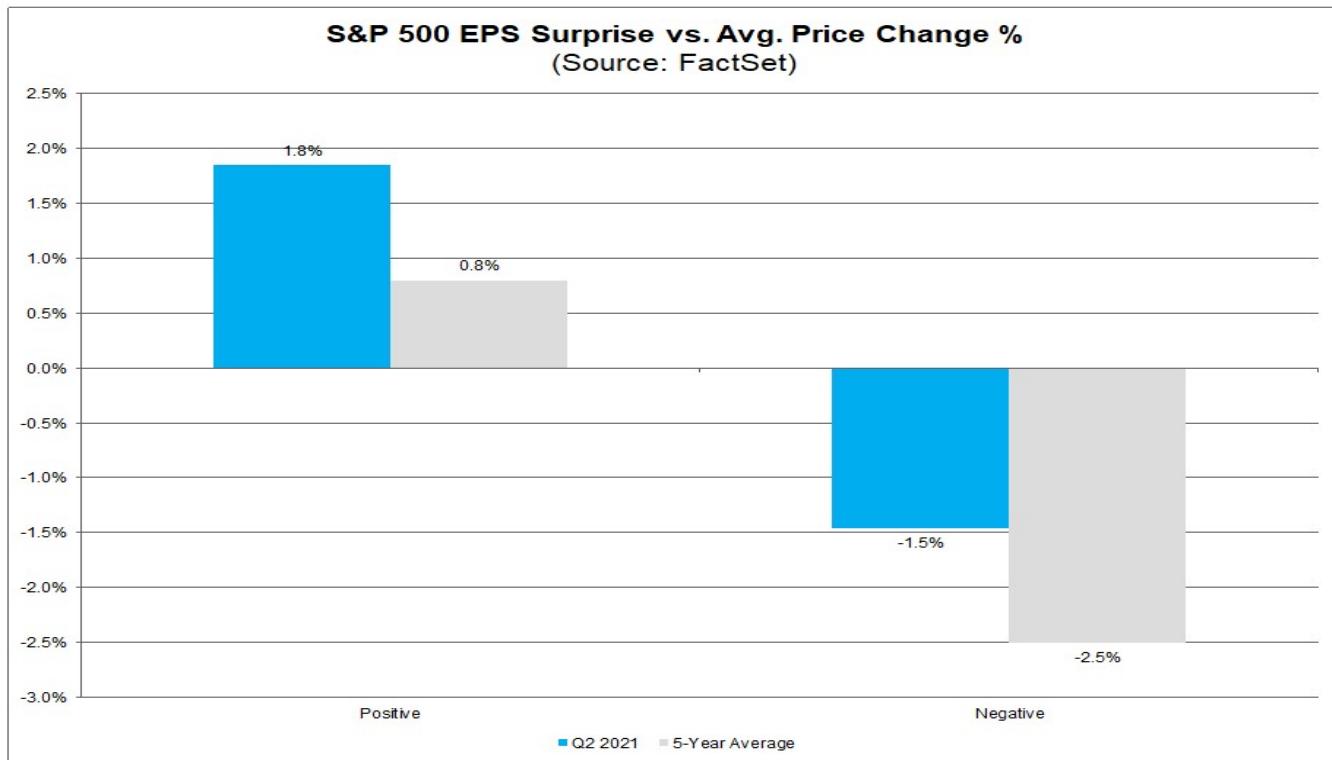
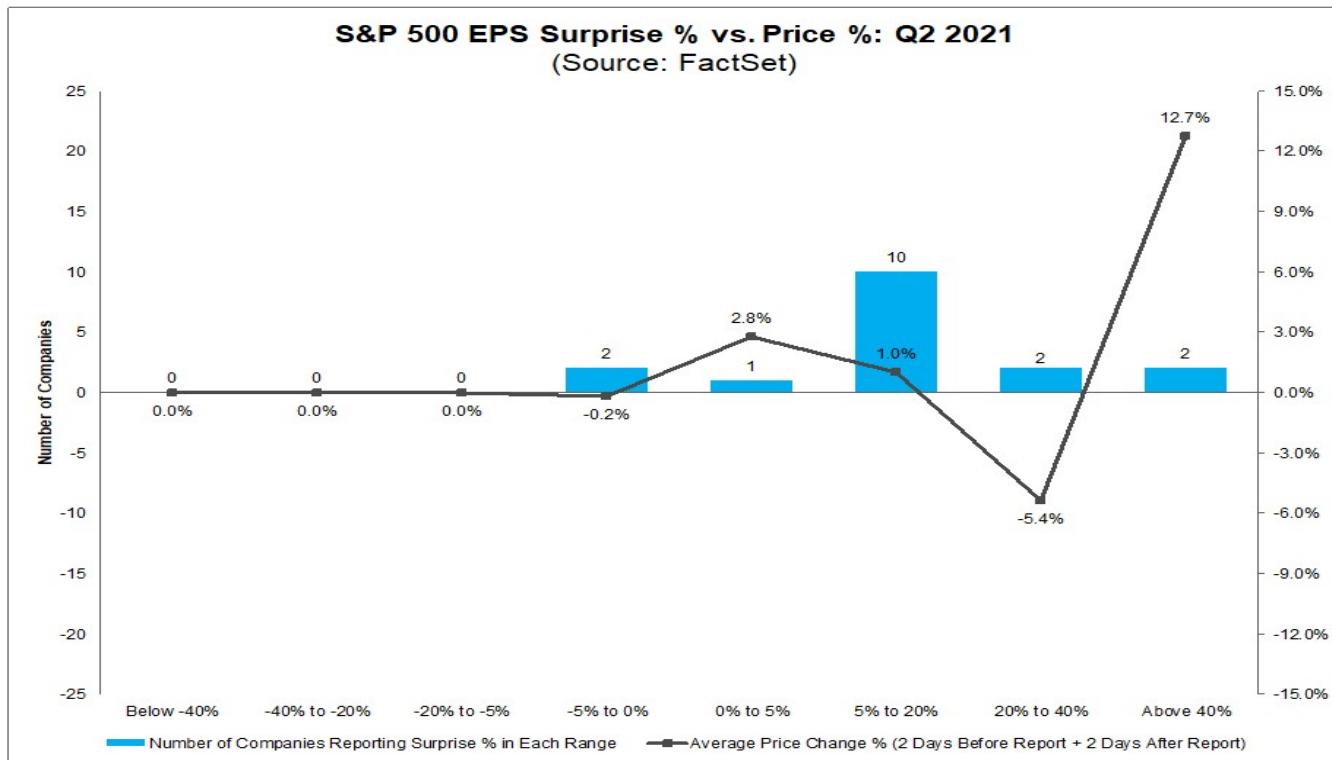
## Q2 2021: Scorecard



## Q2 2021: Scorecard

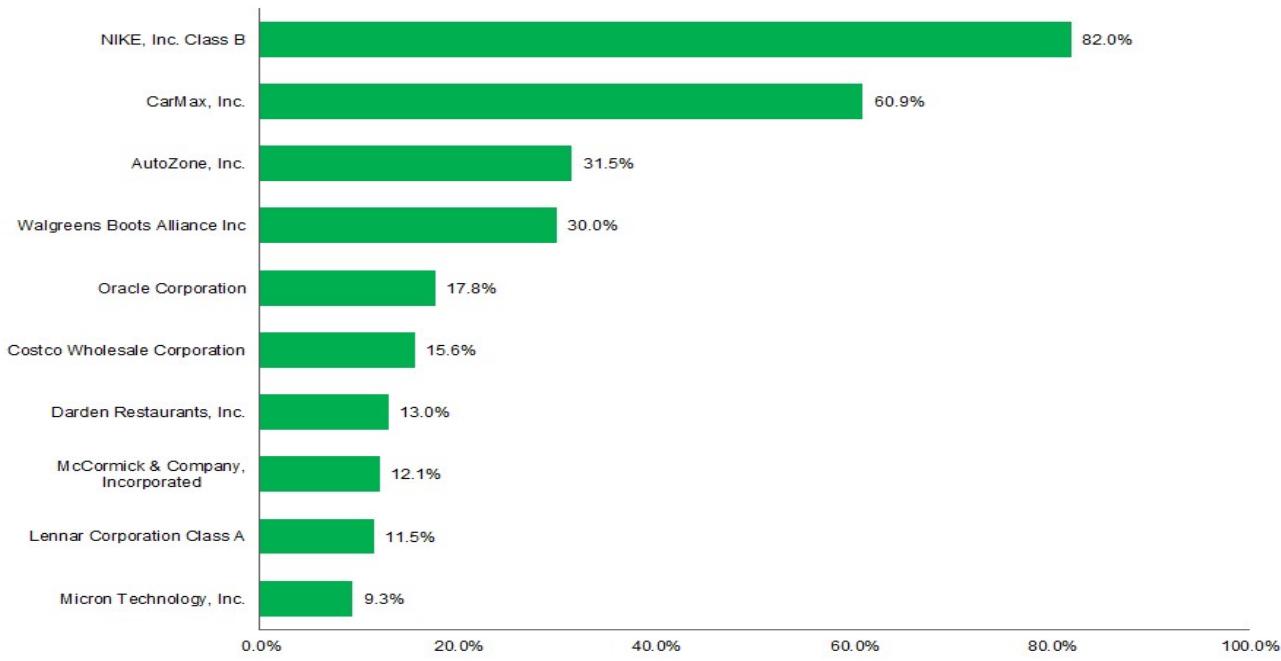


## Q2 2021: Scorecard

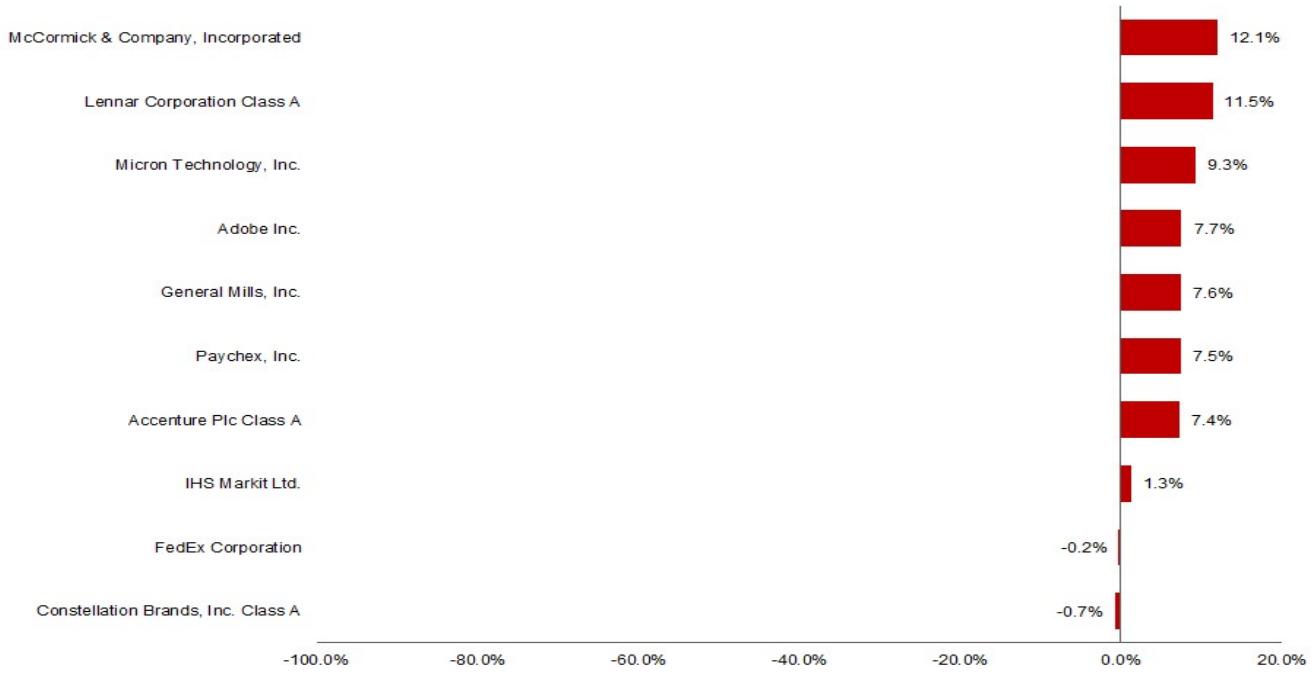


## Q2 2021: Scorecard

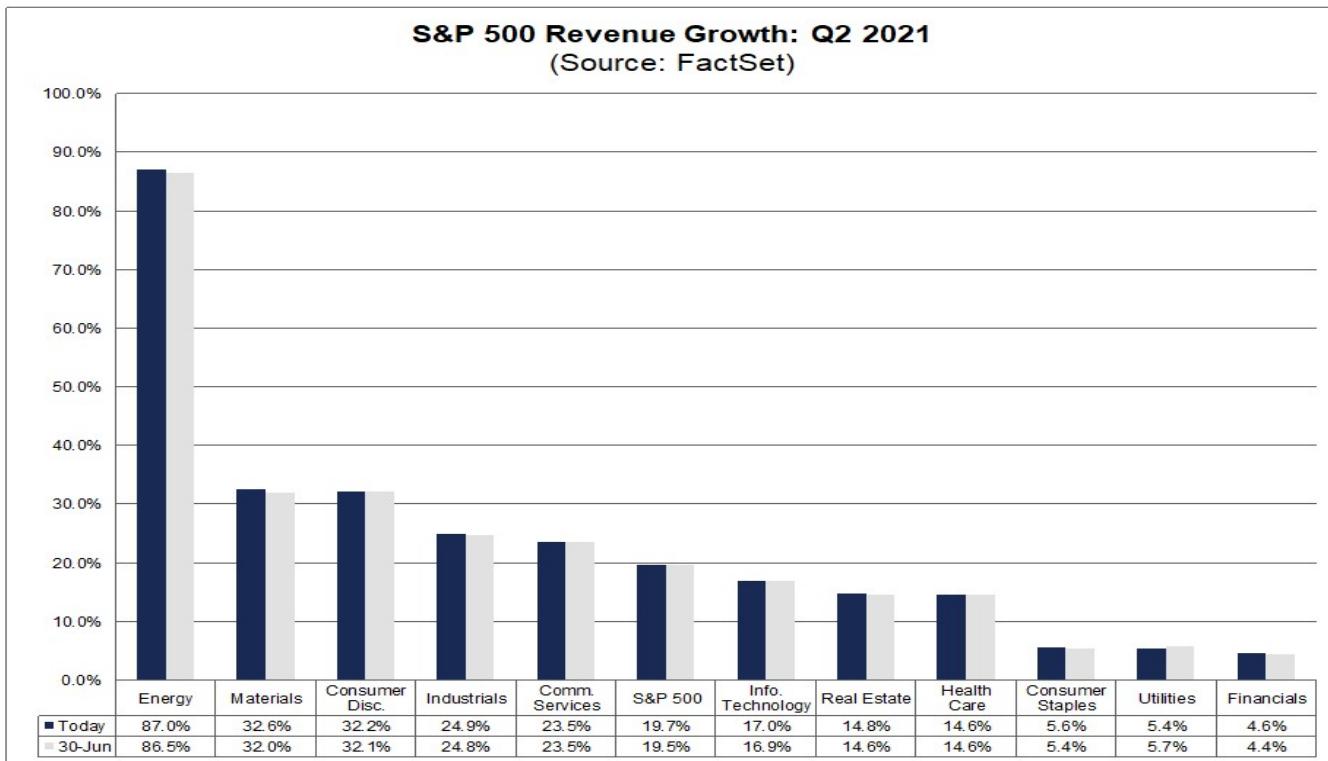
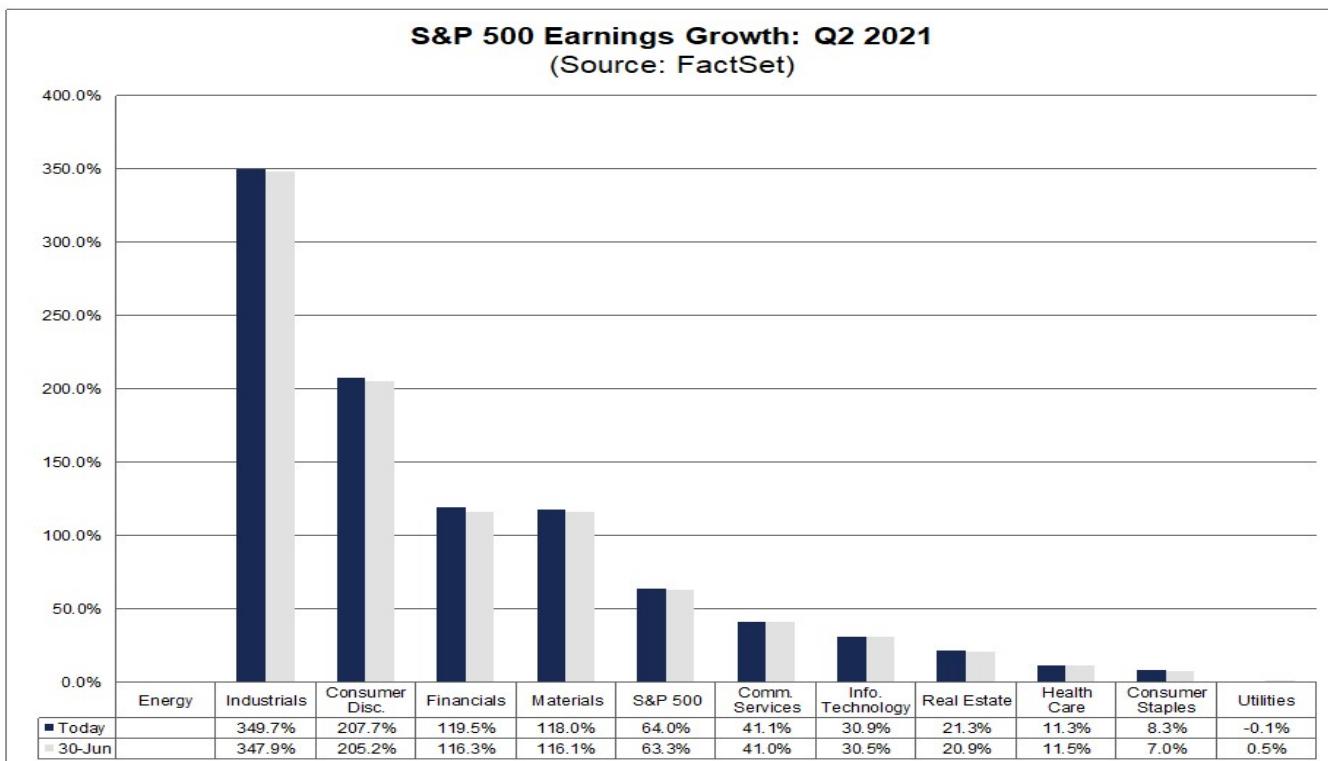
### S&P 500 Actual EPS Surprise %: Top 10 Q2 Actual EPS Surprises (Source: FactSet)



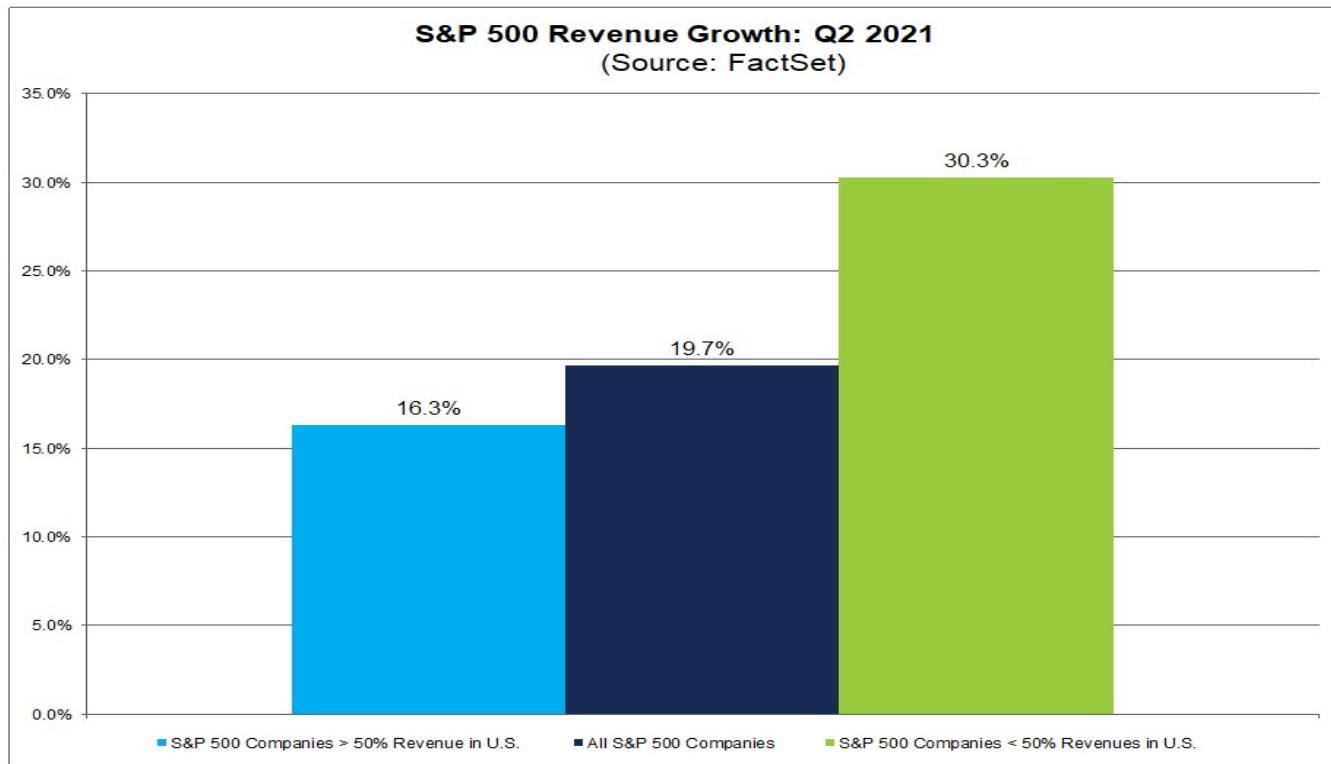
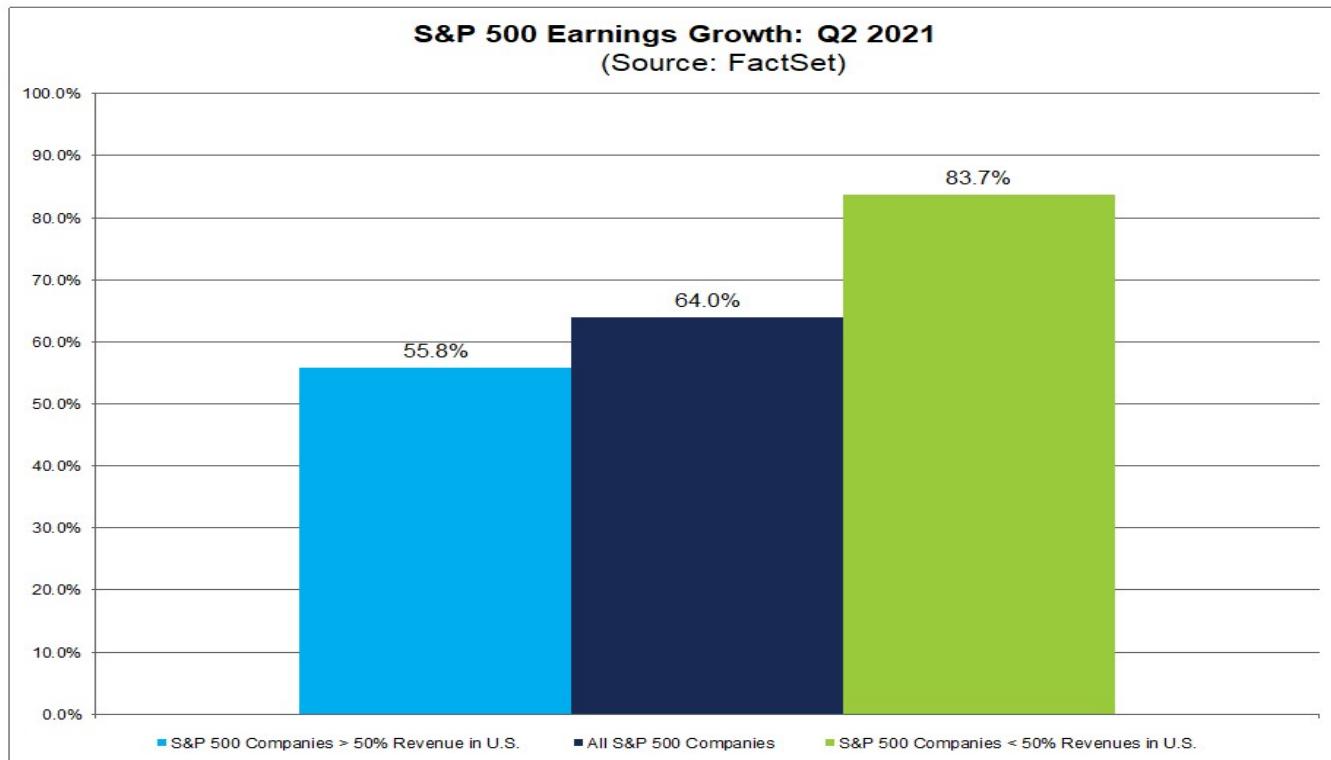
### S&P 500 Actual EPS Surprise %: Bottom 10 Q2 Actual EPS Surprises (Source: FactSet)



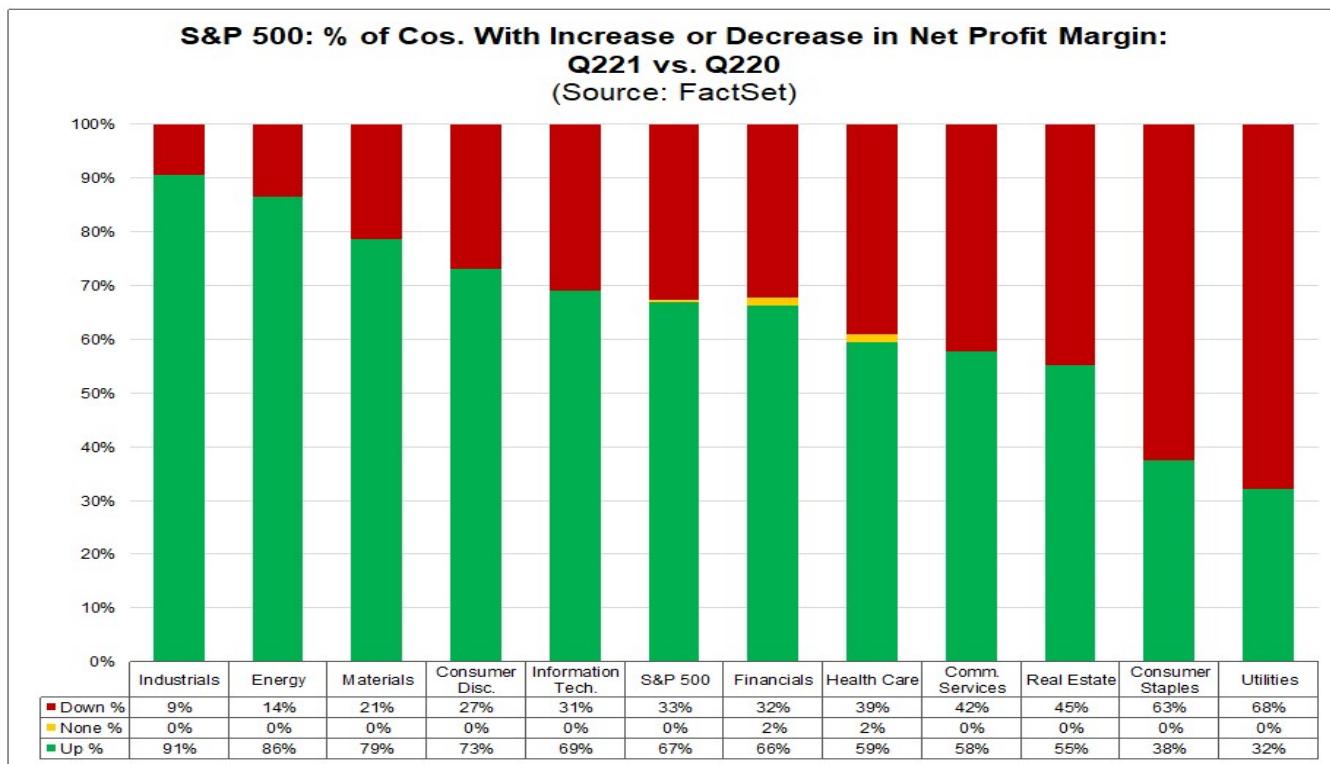
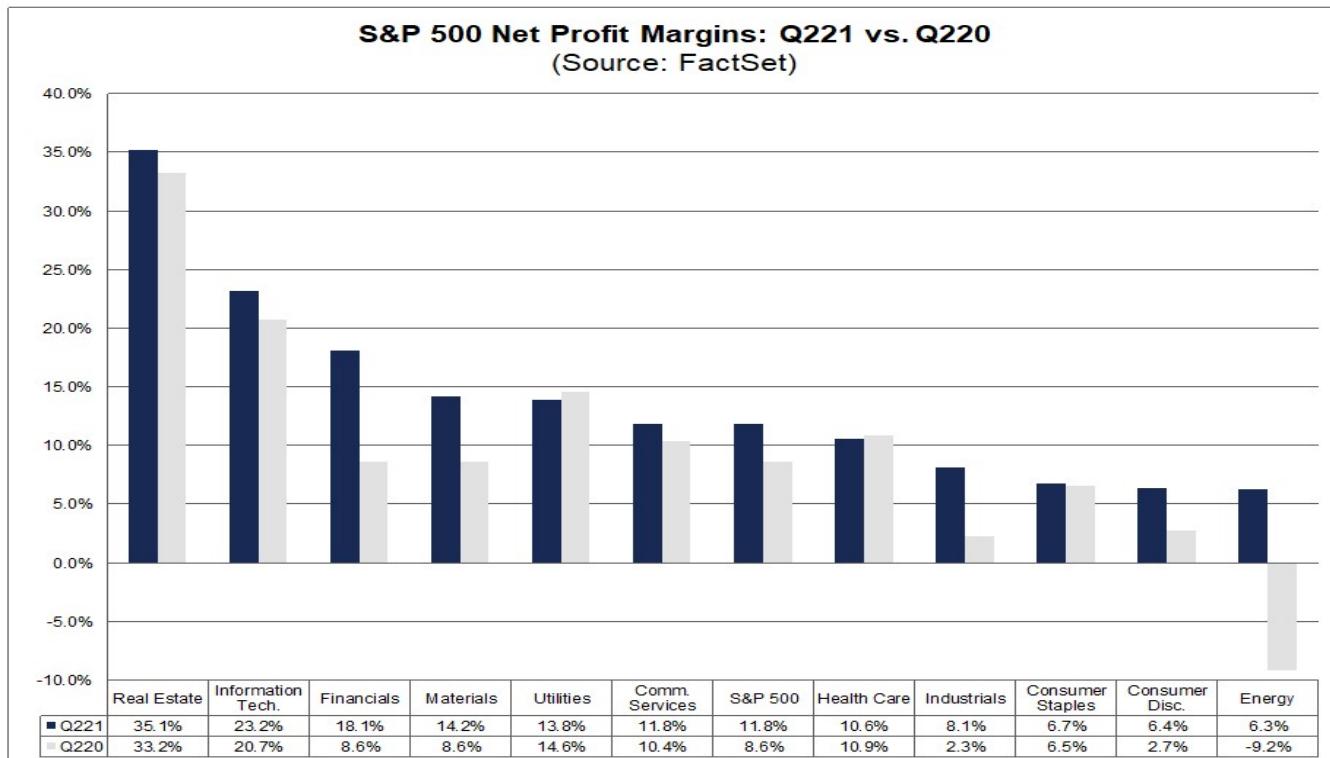
## Q2 2021: Growth



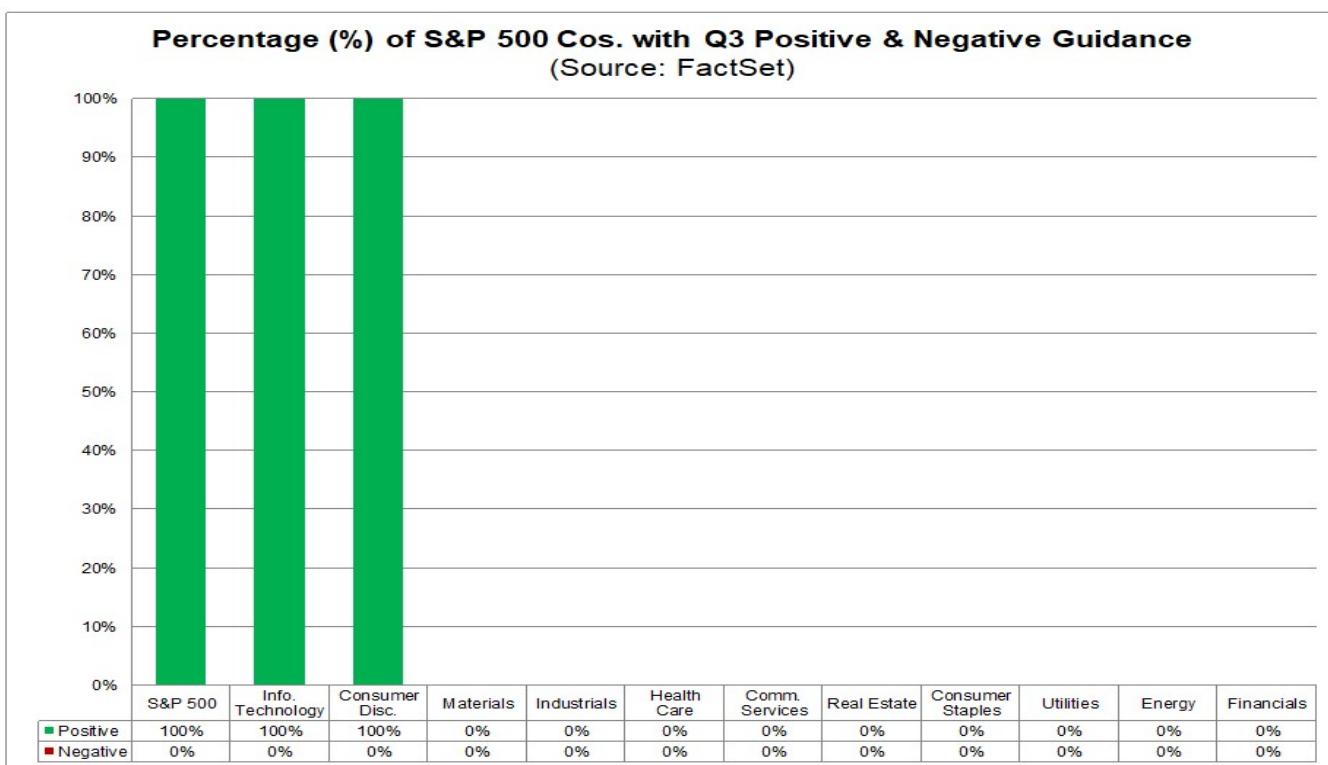
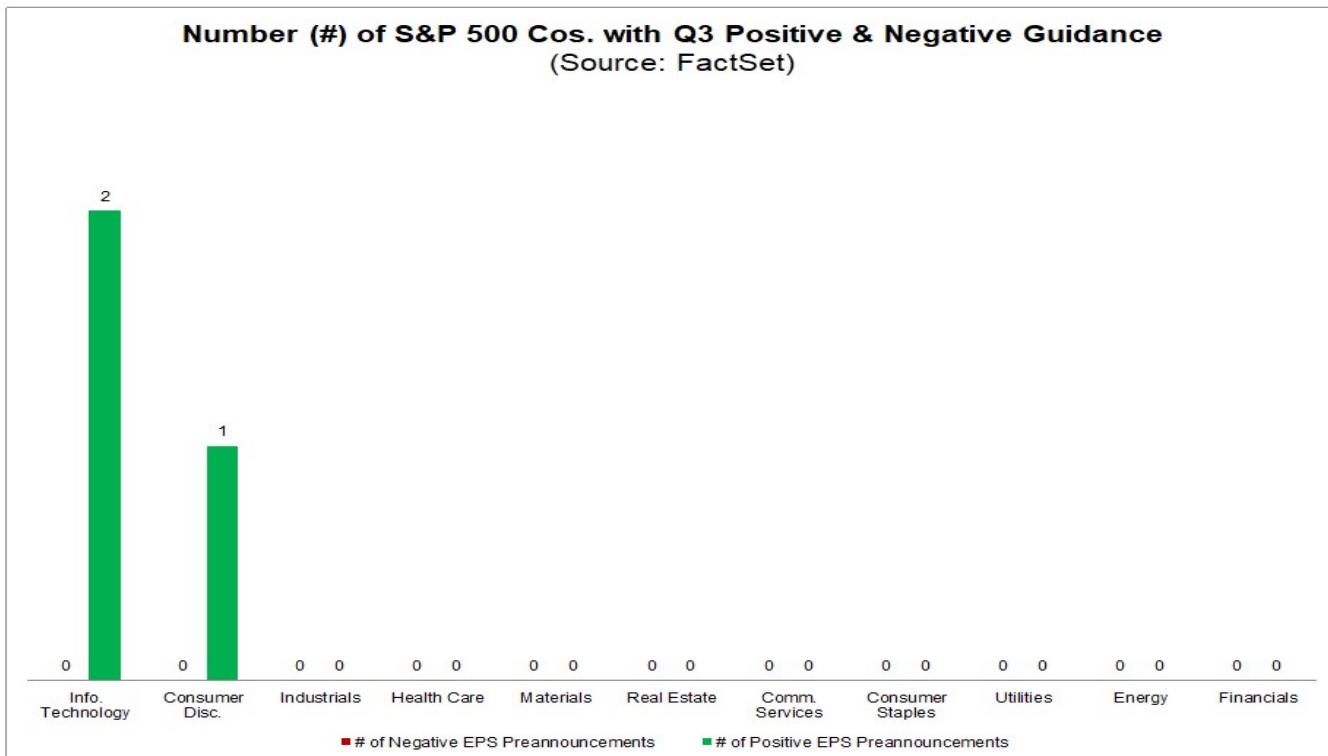
## Q2 2021: Growth



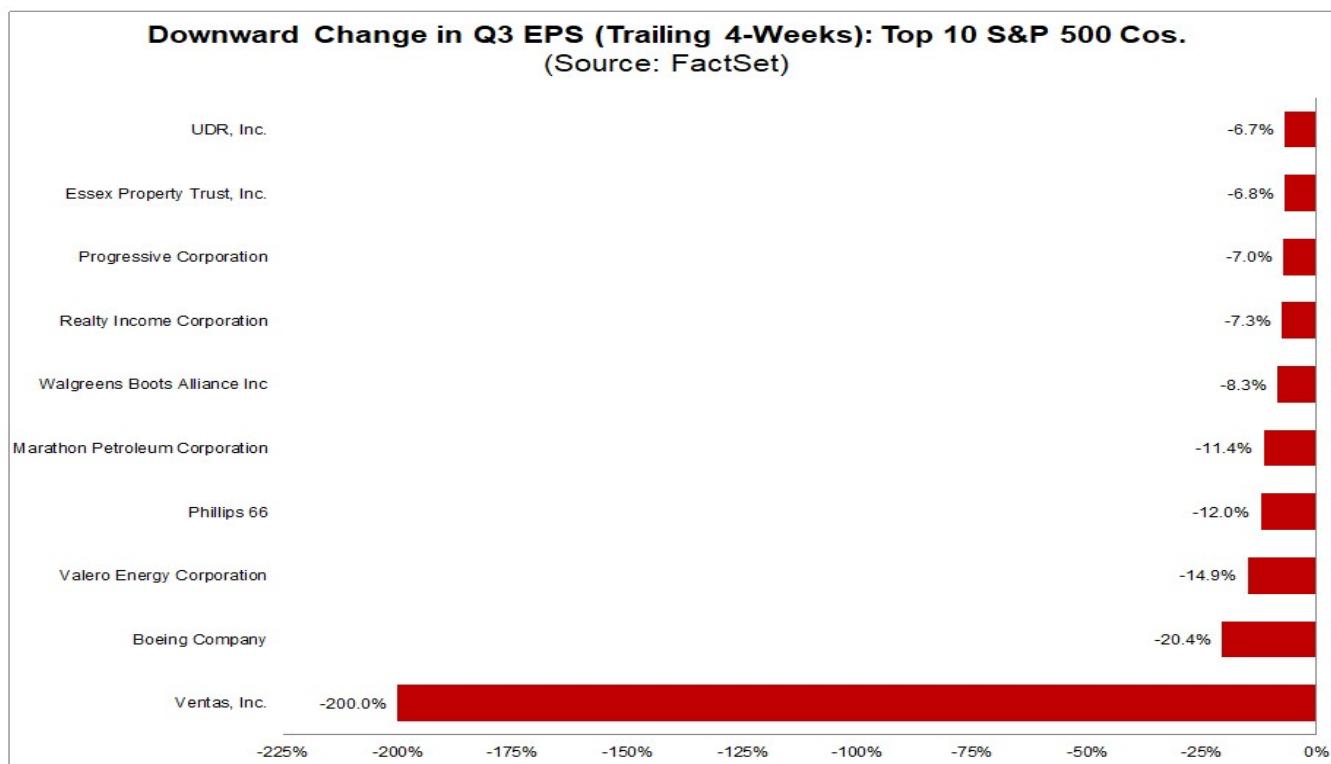
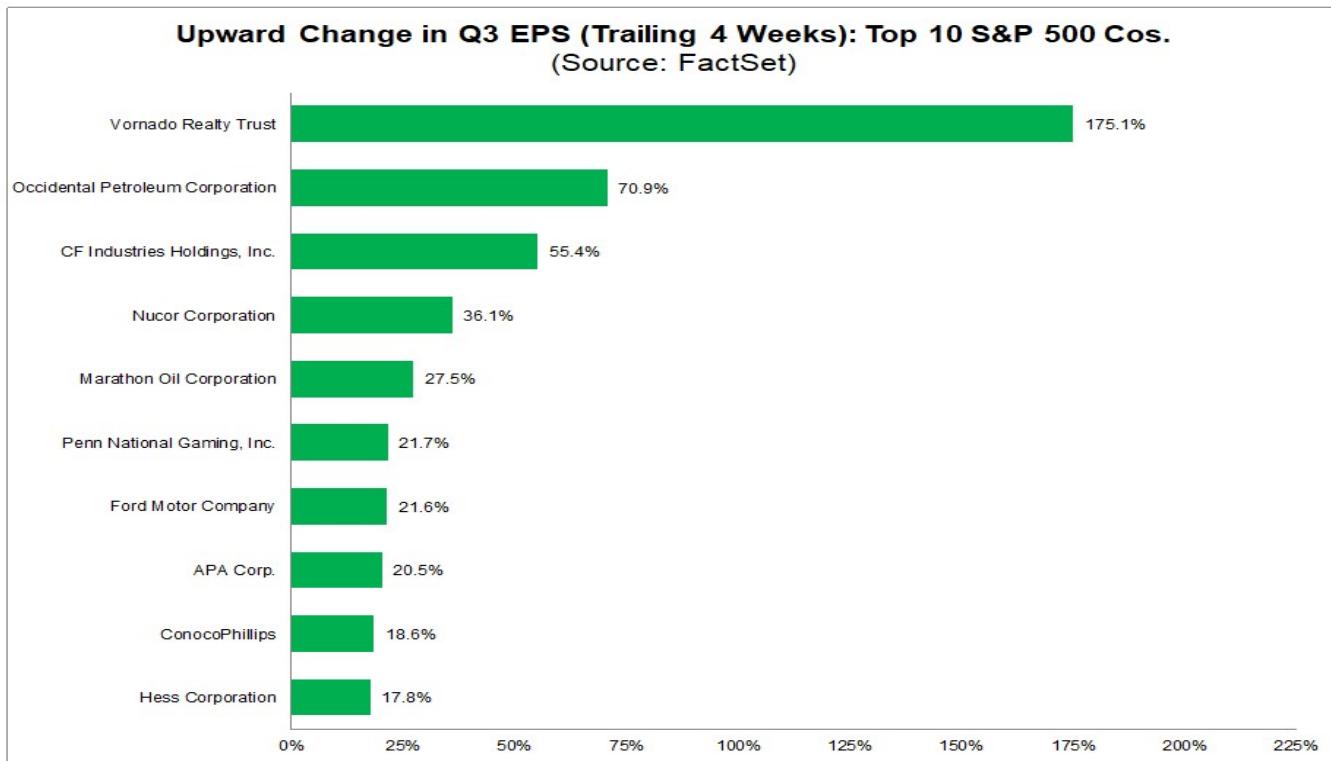
## Q2 2021: Net Profit Margin



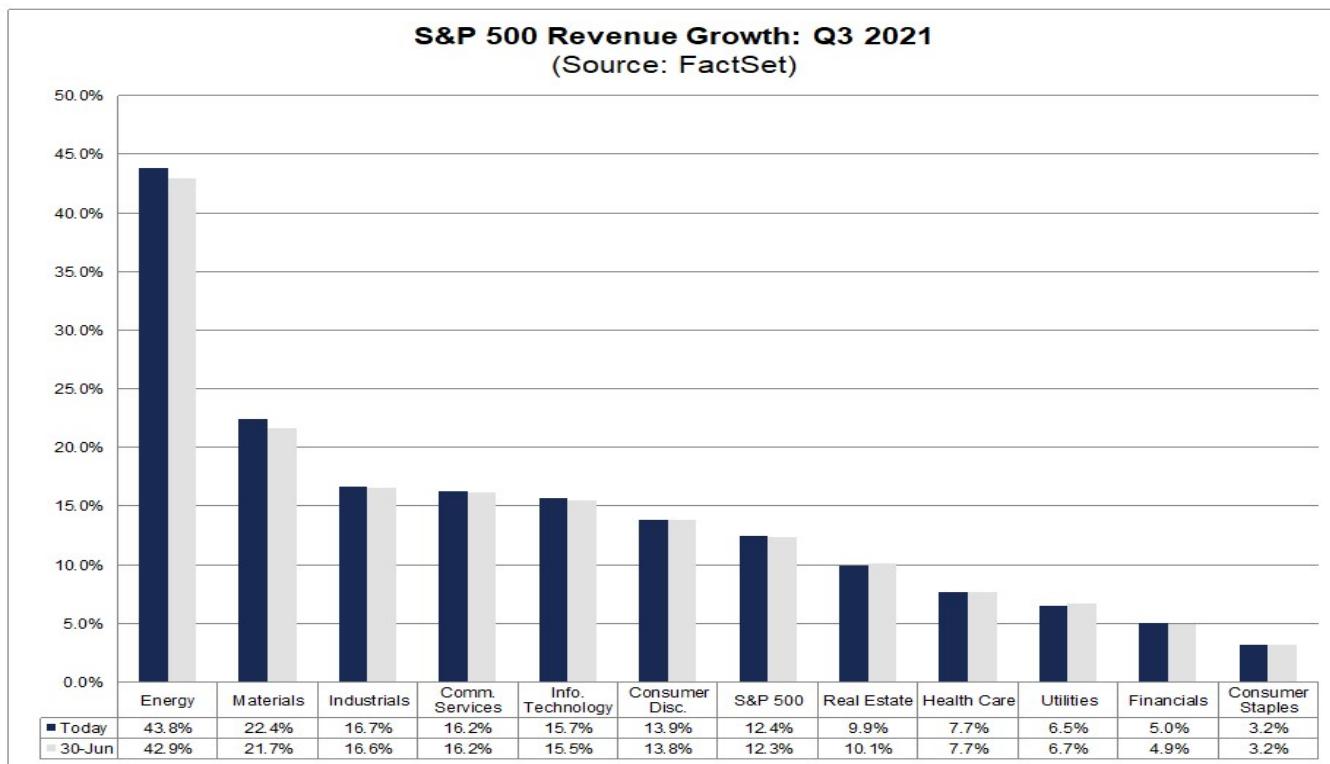
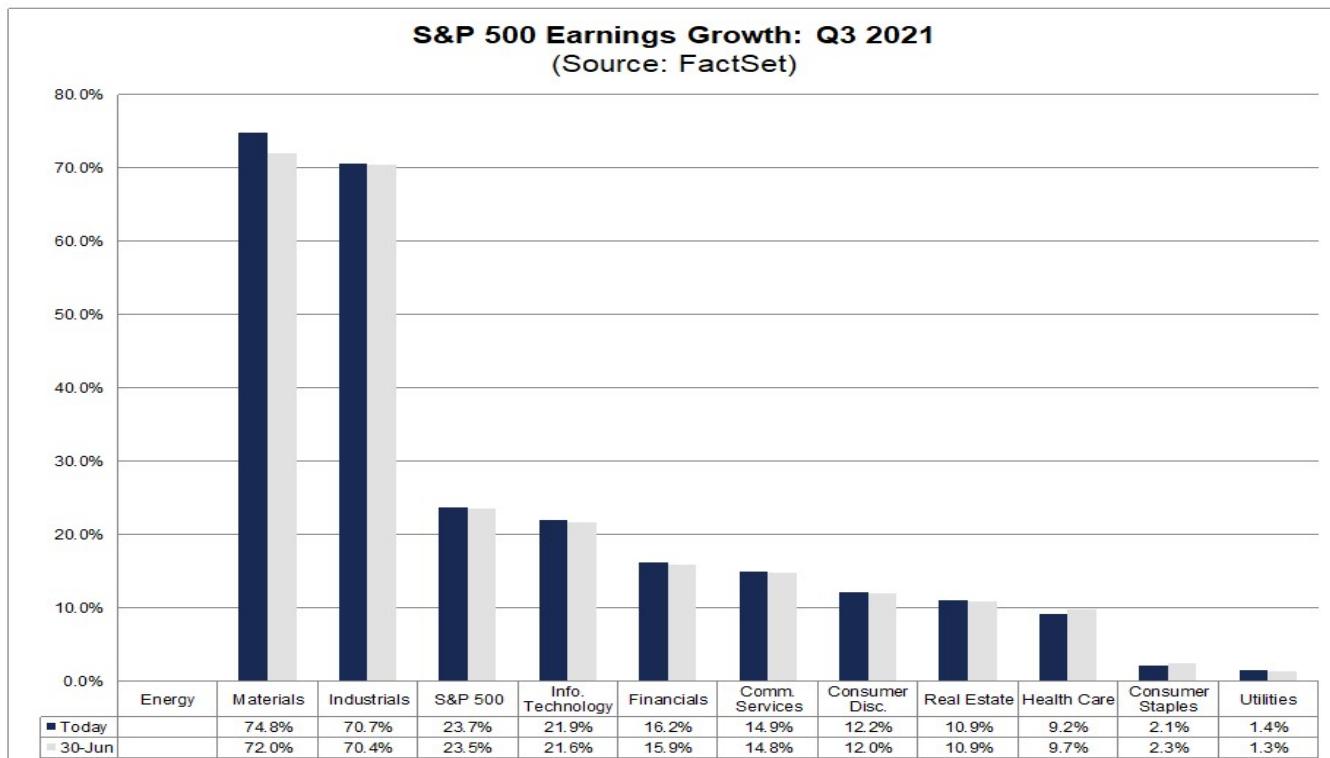
## Q3 2021: EPS Guidance



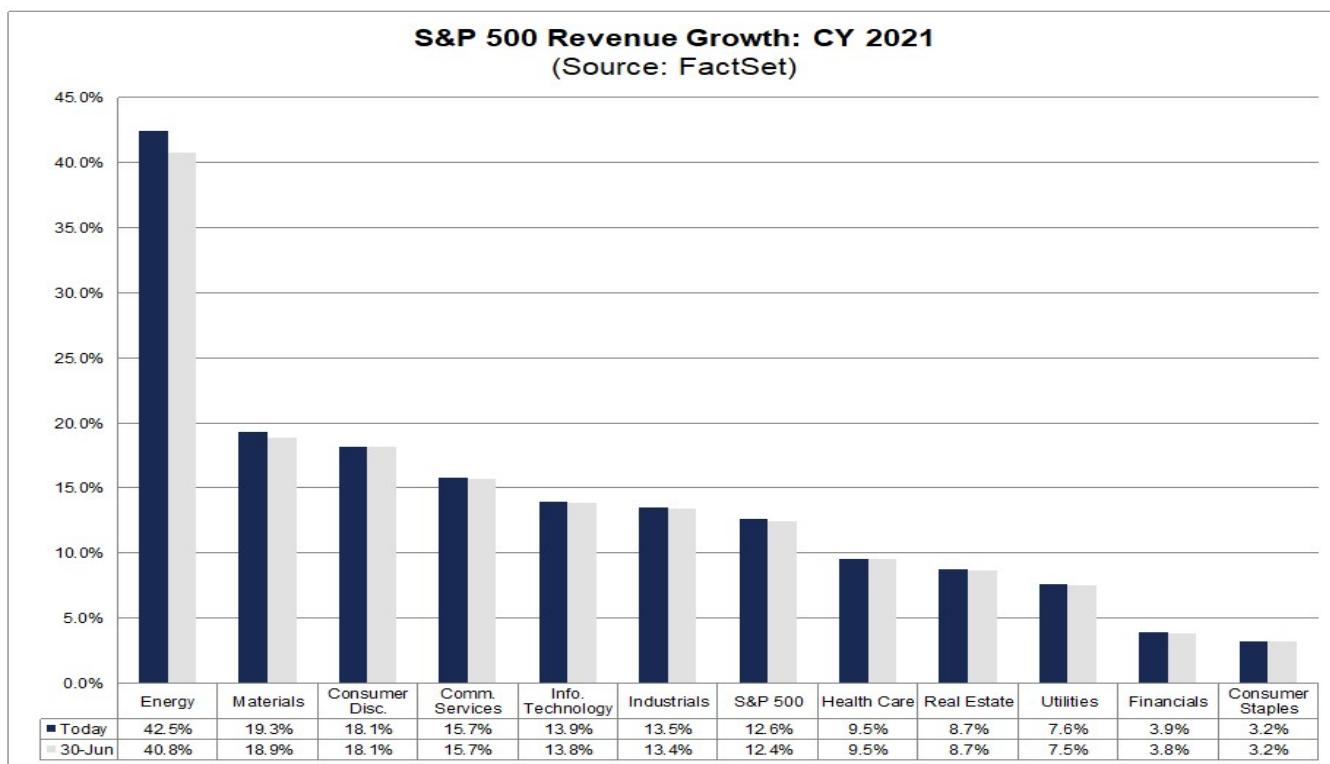
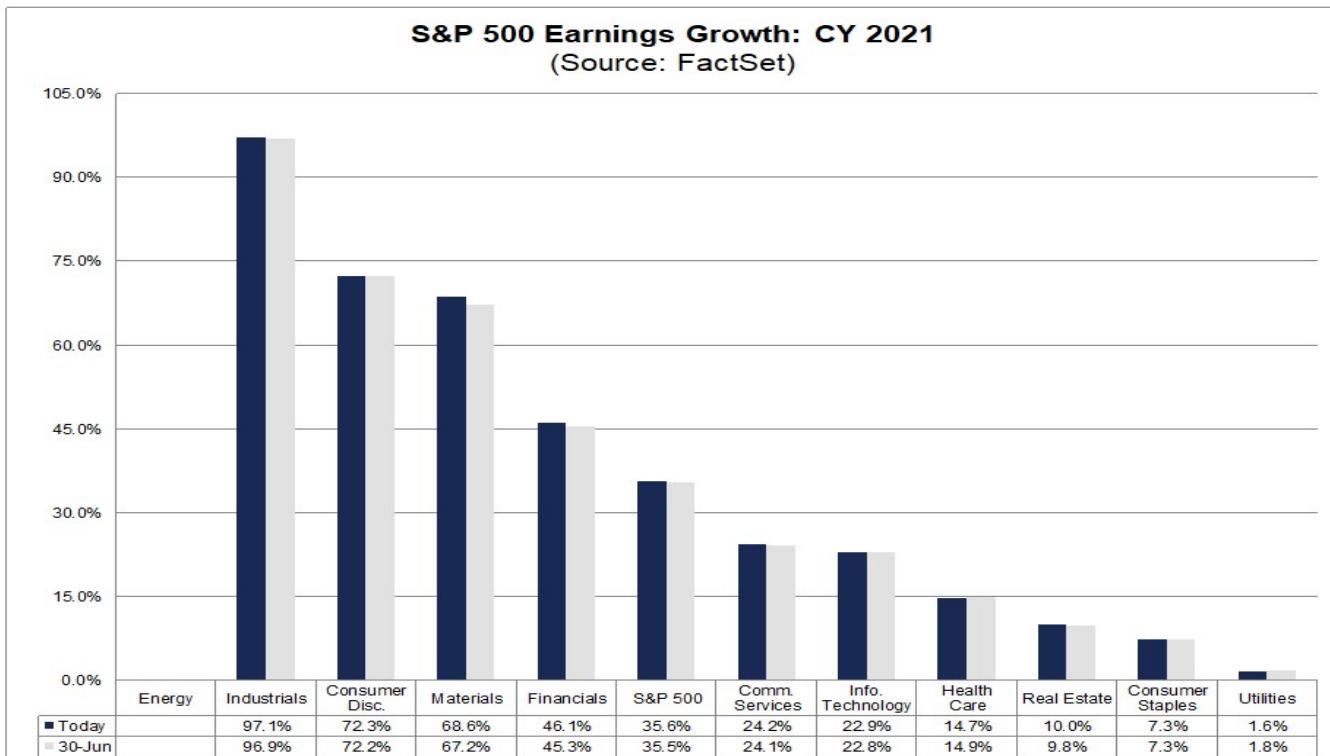
## Q3 2021: EPS Revisions



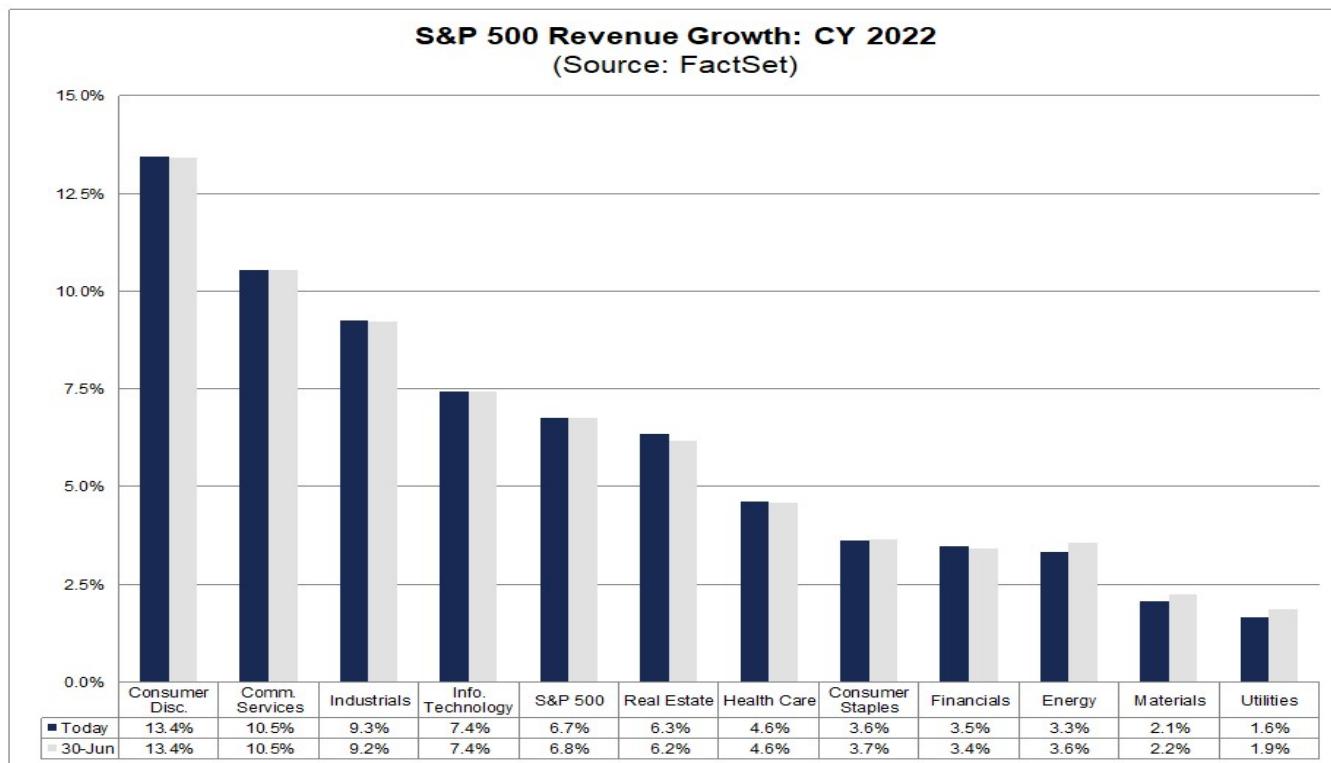
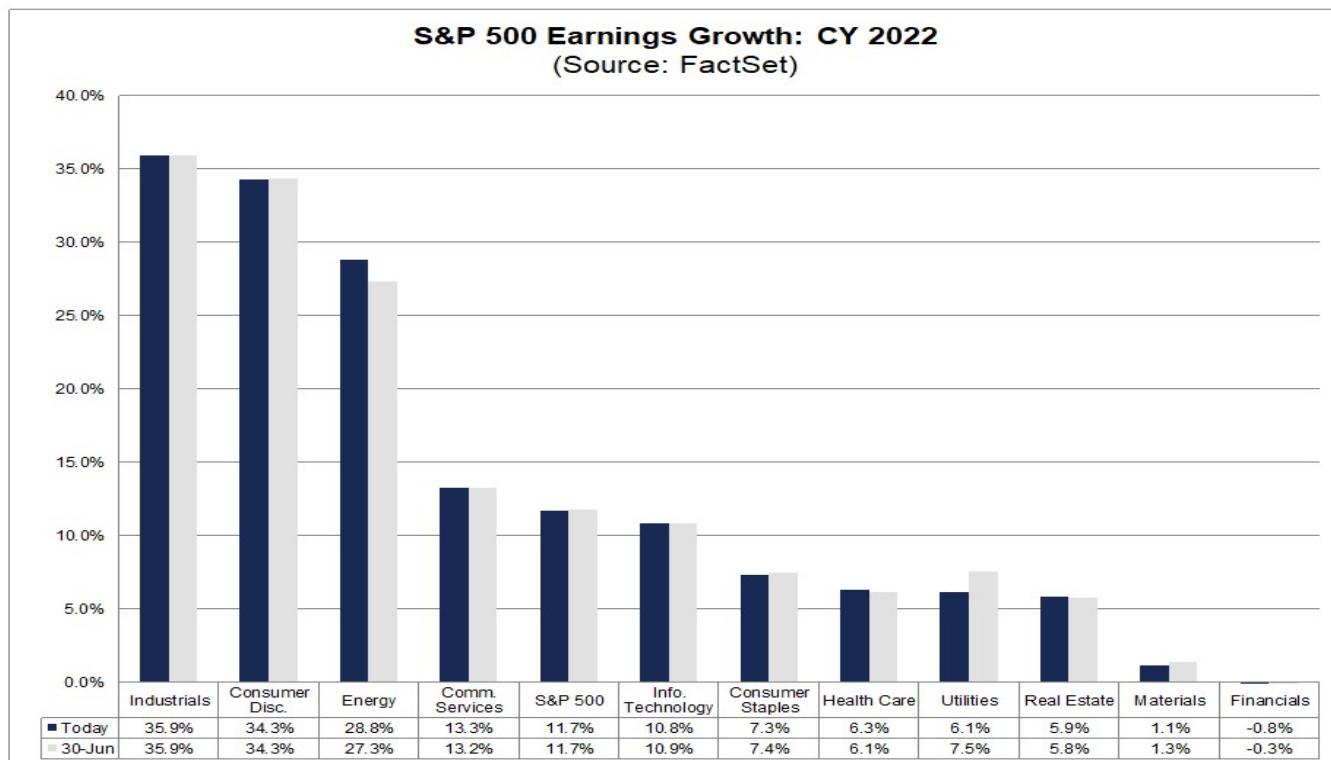
## Q3 2021: Growth



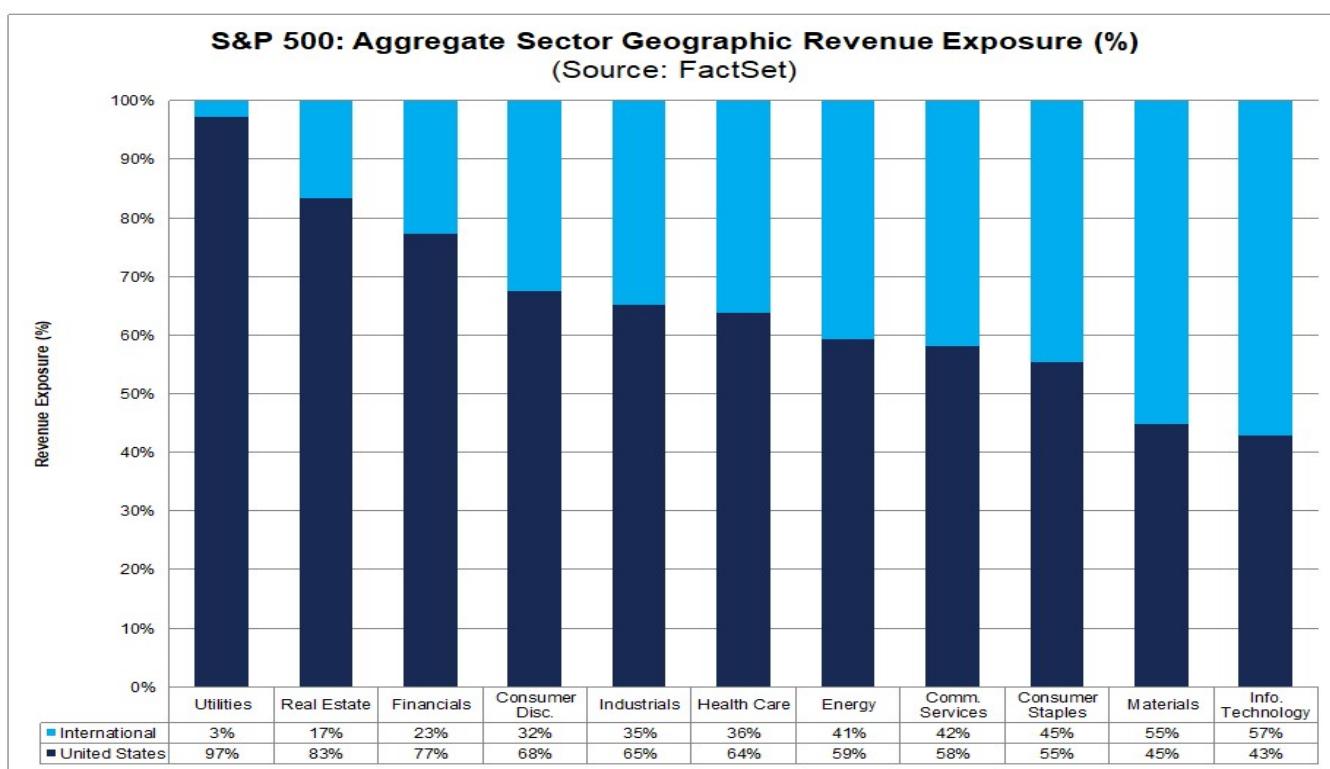
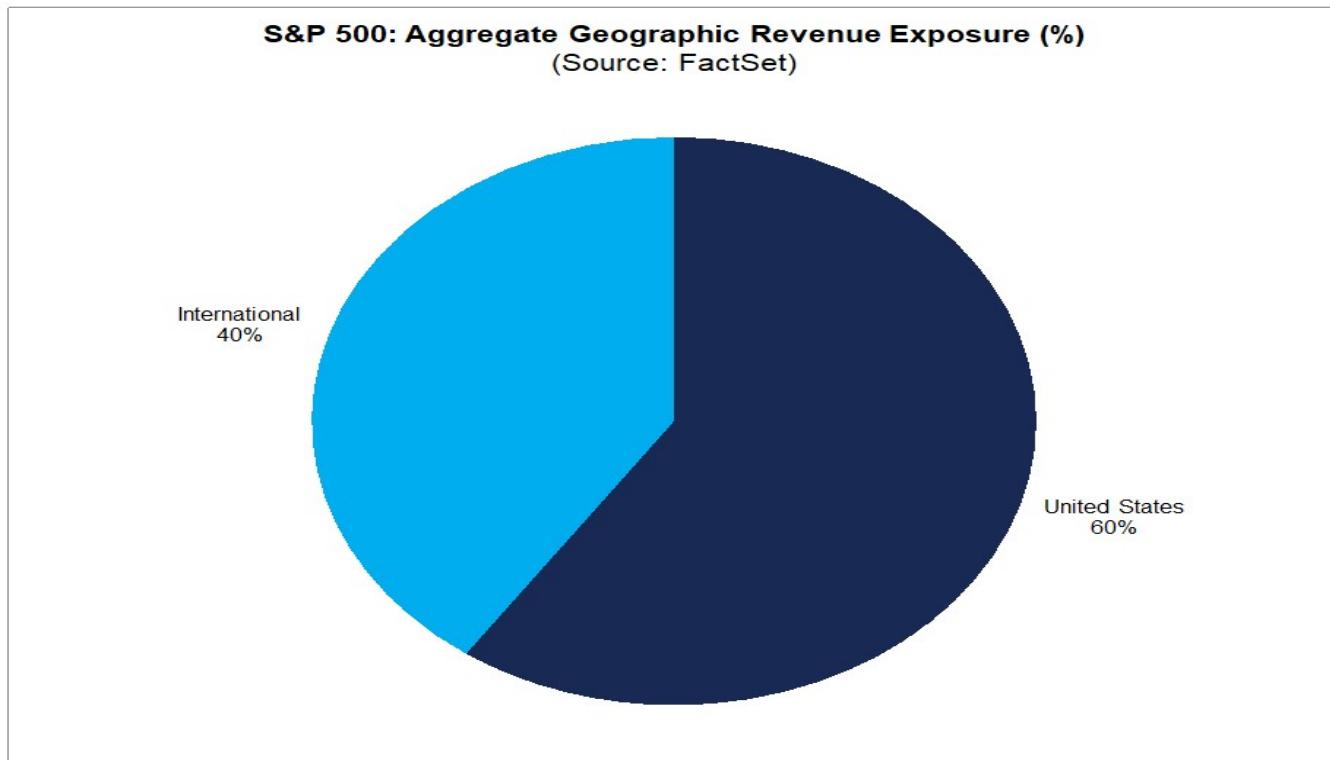
## CY 2021: Growth



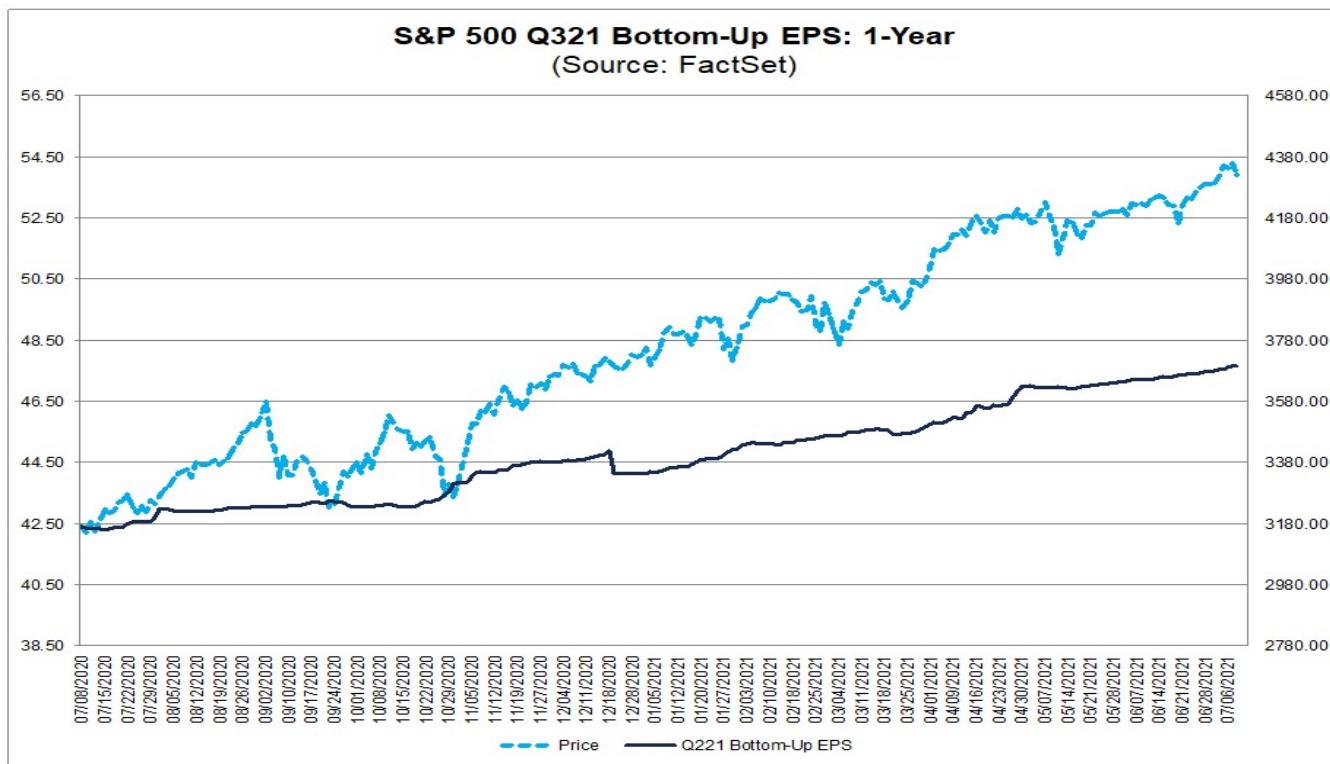
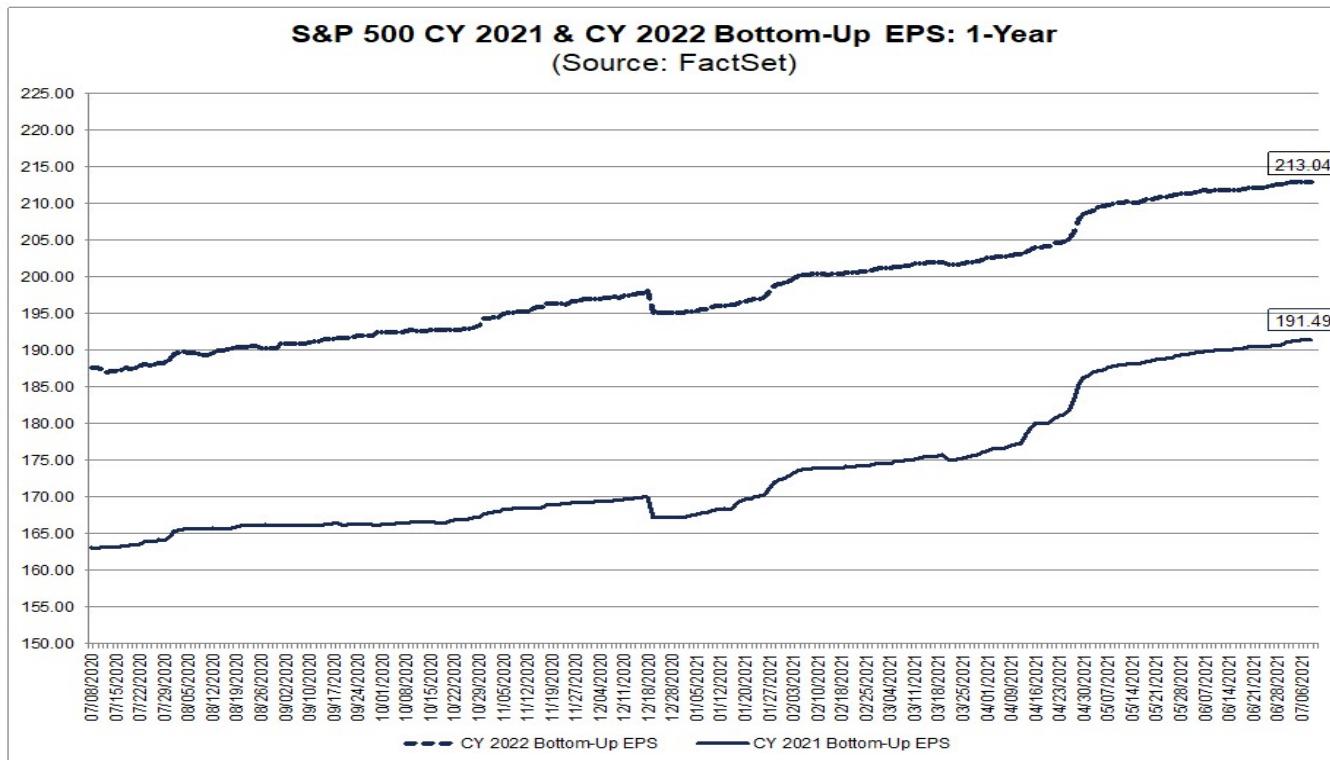
## CY 2022: Growth



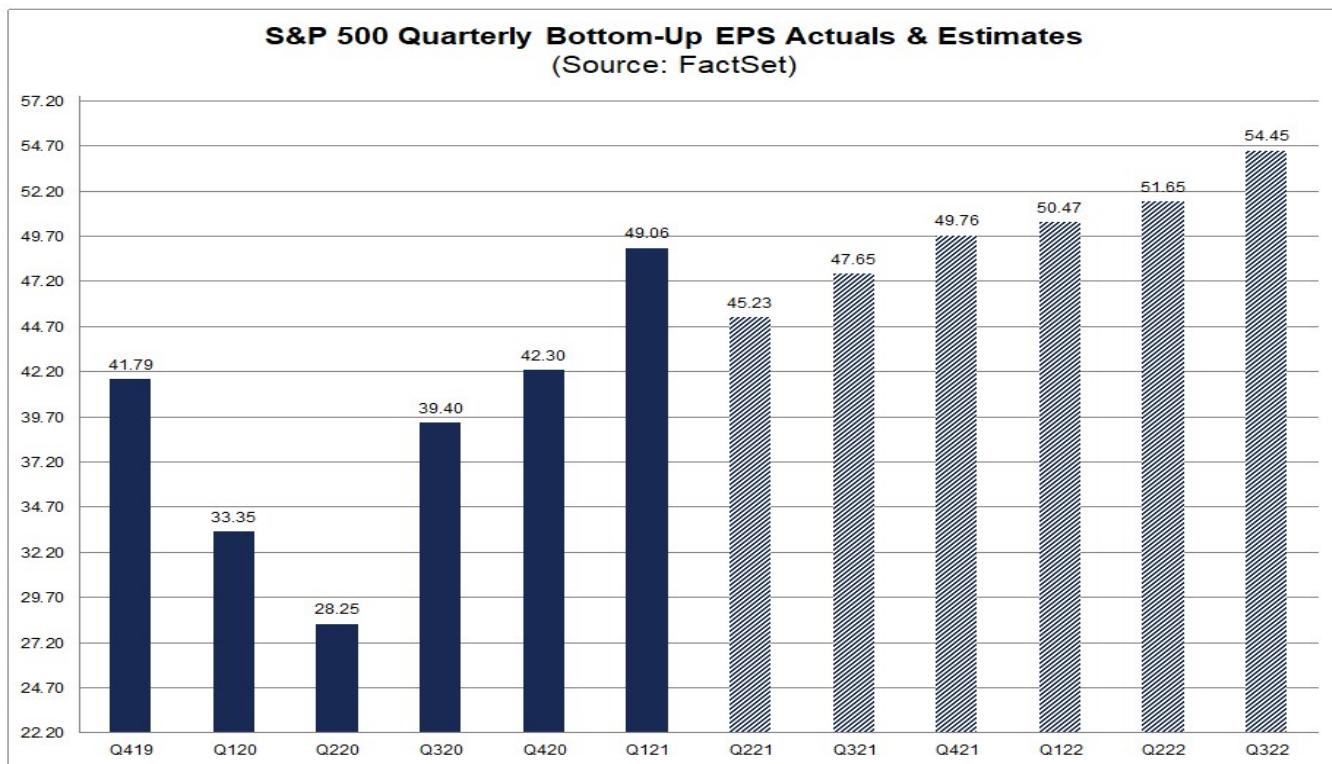
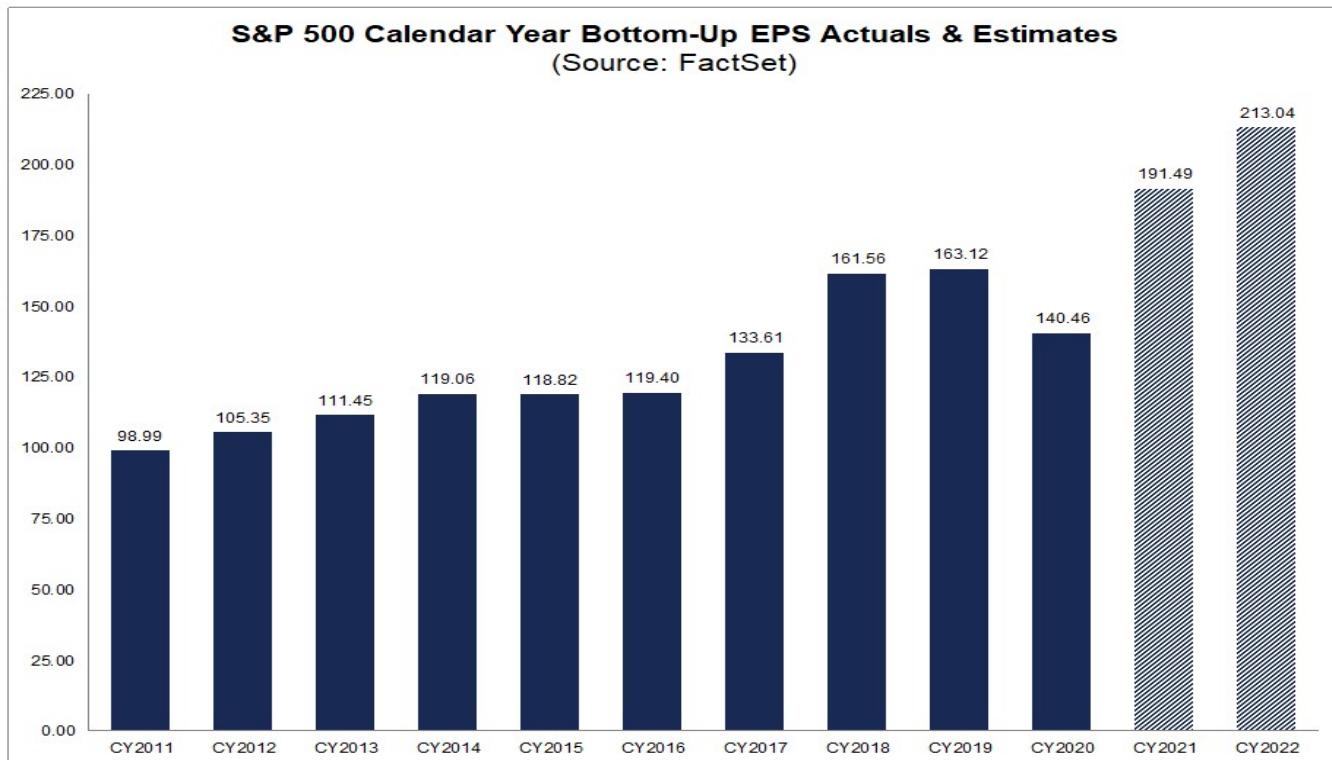
## Geographic Revenue Exposure



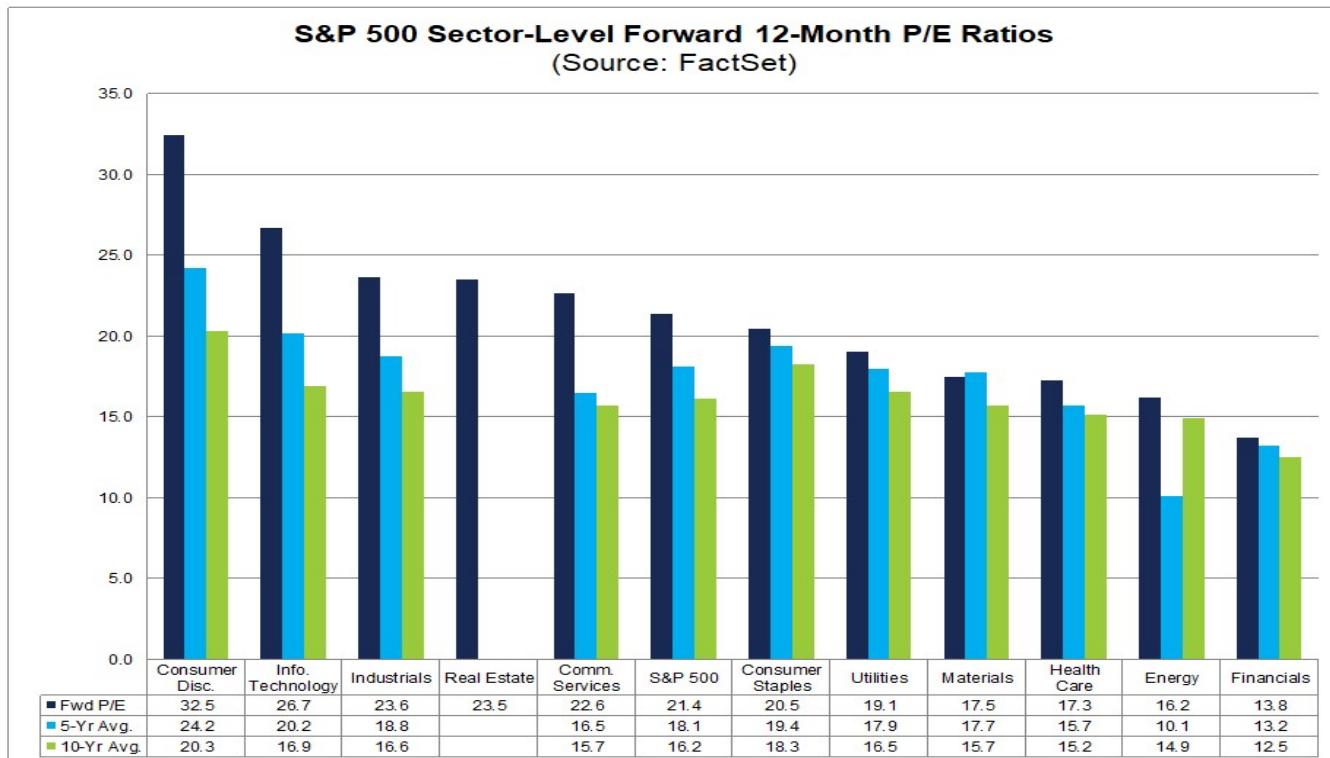
## Bottom-up EPS Estimates: Revisions



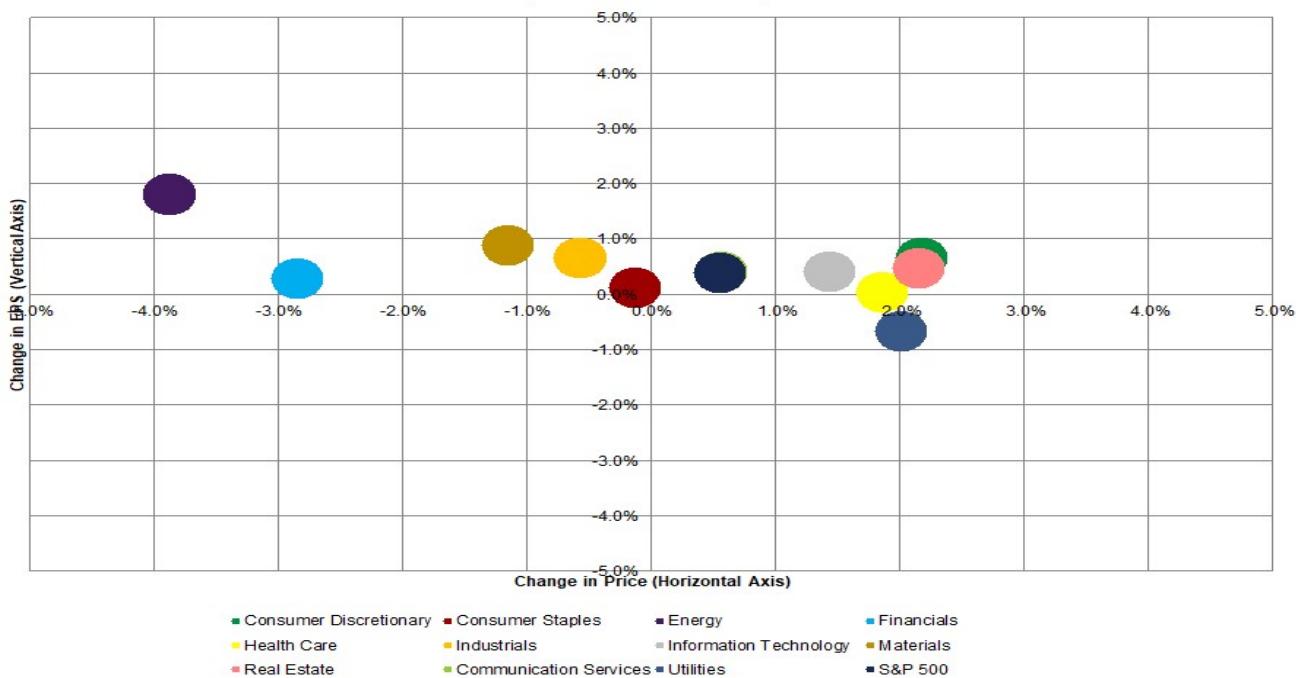
## Bottom-up EPS Estimates: Current & Historical



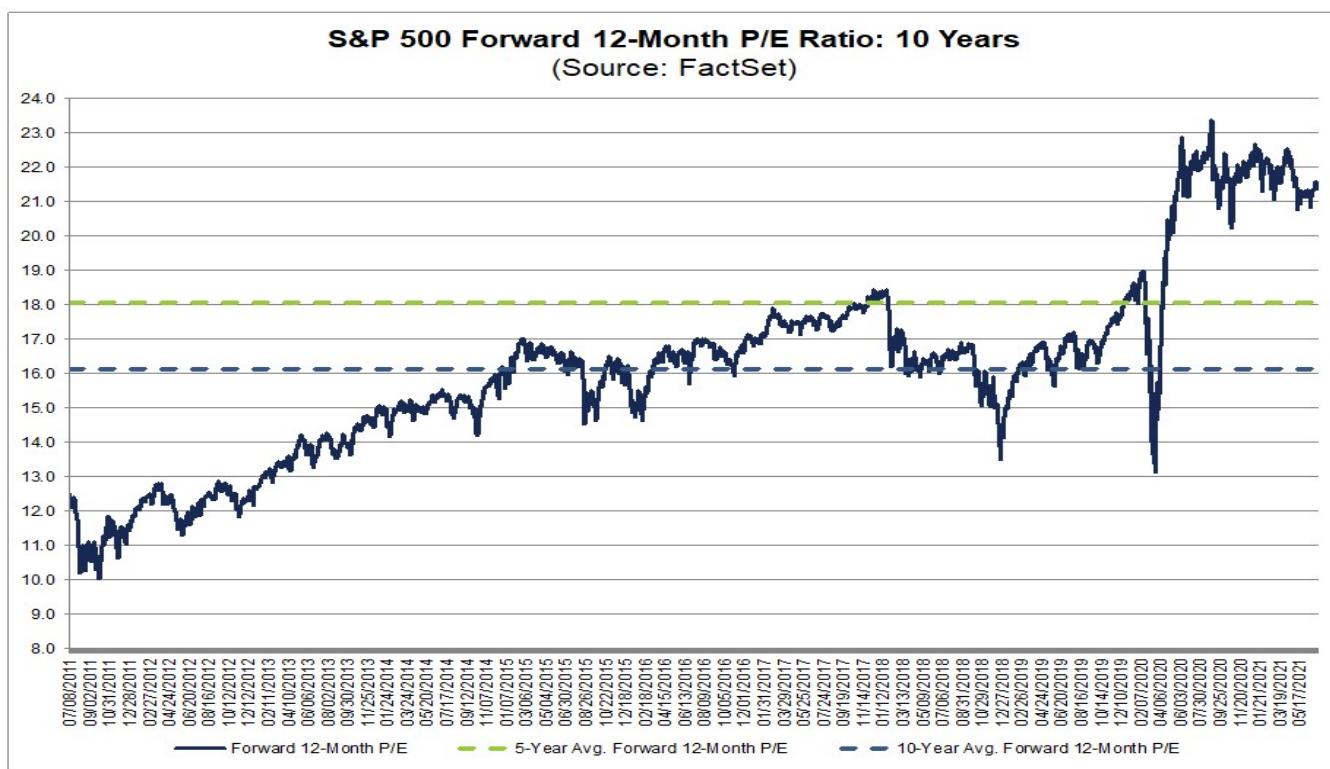
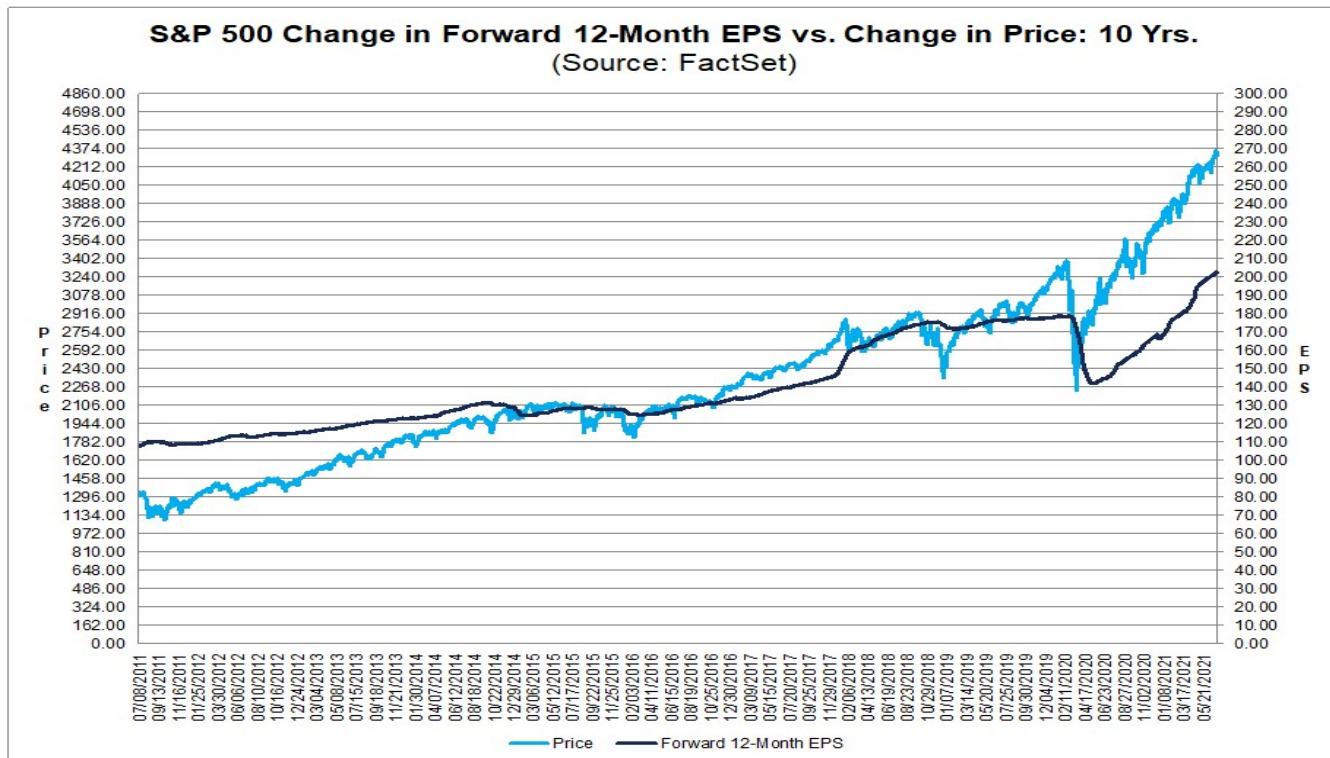
## Forward 12M P/E Ratio: Sector Level



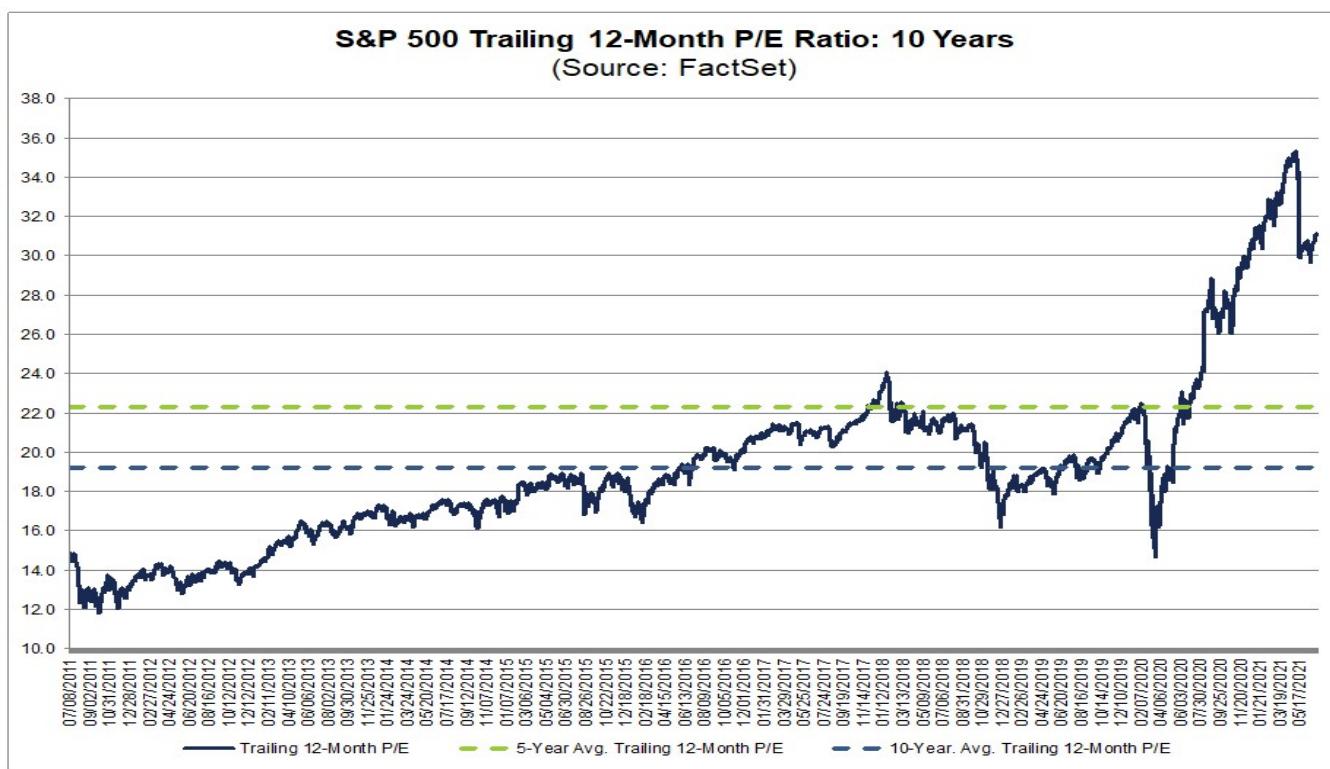
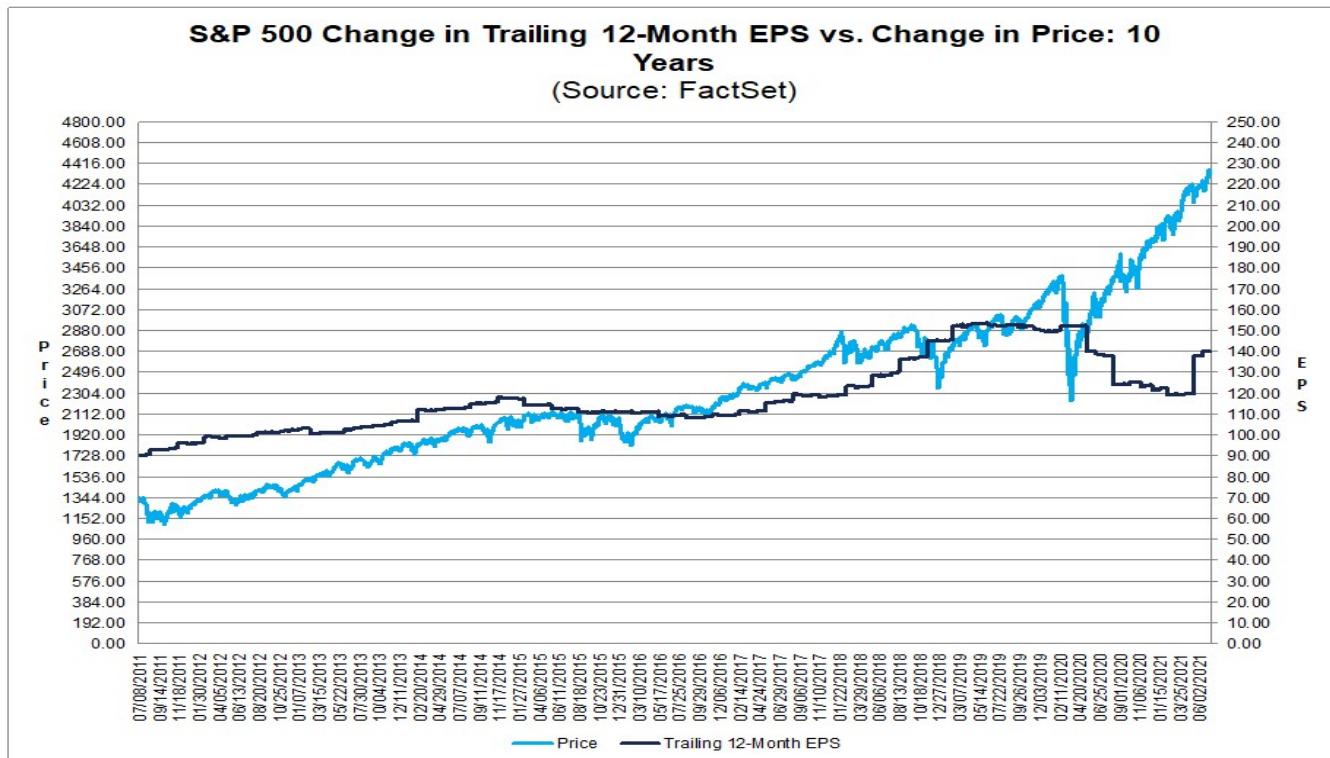
**Sector-Level Change in Fwd. 12-Month EPS vs. Price: Since Jun. 30**  
(Source: FactSet)



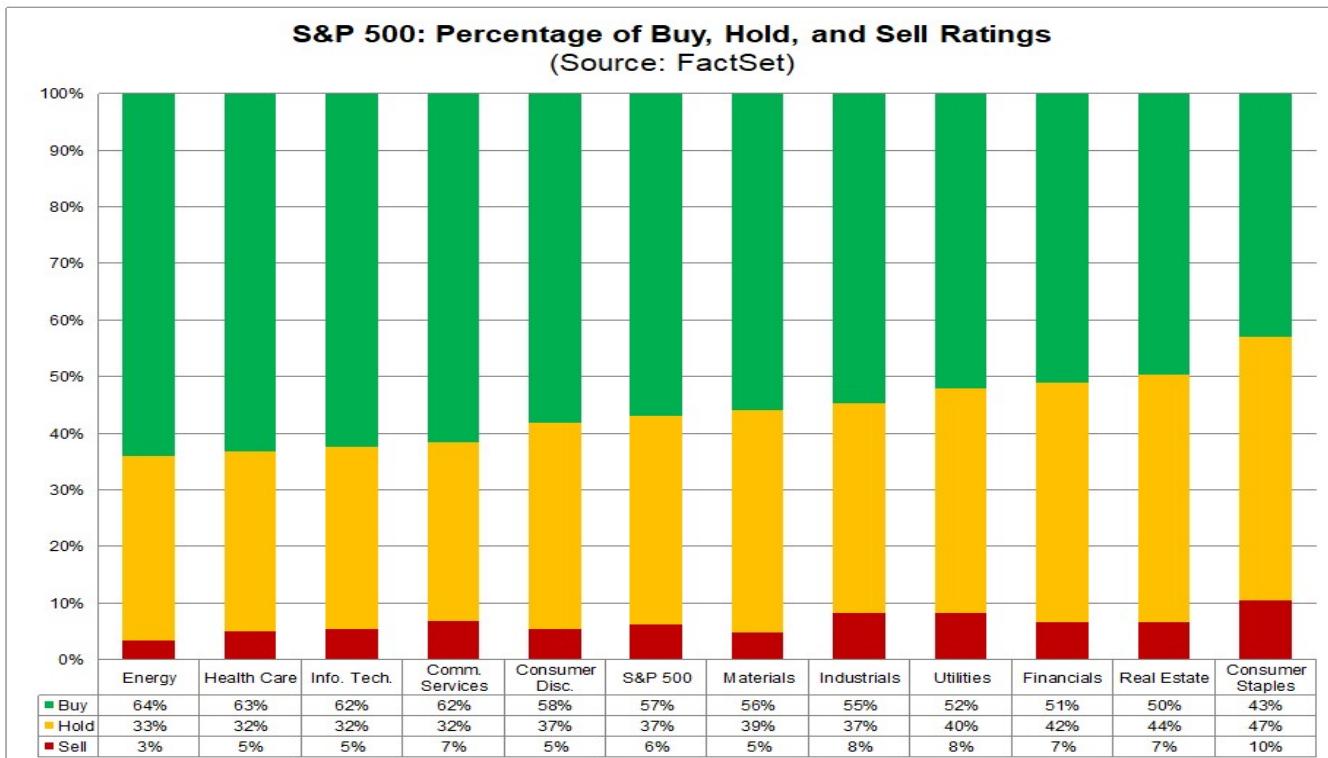
## Forward 12M P/E Ratio: 10-Years



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



## Targets & Ratings



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