



# THIS WEEK IN EARNINGS

January 8, 2010

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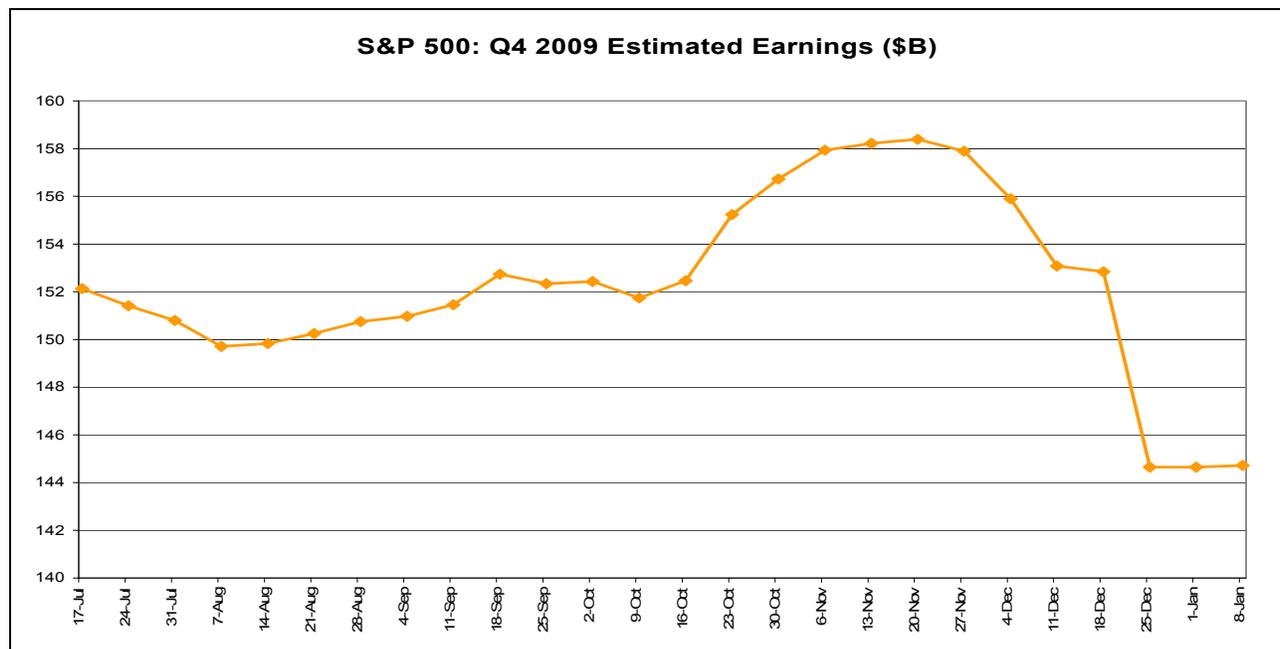
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## KEY POINTS

- Estimated share-weighted earnings for the S&P 500 for Q4 2009 stand at \$144.7B this week, virtually unchanged from last week (\$144.6B).
- The estimated earnings growth rate for the S&P 500 for Q4 2009 is 184%. The growth rate is unusually high due to an easy comparison to year-ago earnings.
- The Financials, Materials and Consumer Discretionary sectors are expecting the highest earnings growth rates for the quarter, while the Energy and Industrials sectors are expecting the lowest.
- The forward four-quarter (Q110 – Q410) P/E ratio for the S&P 500 is 14.7, above the average forward four-quarter P/E ratio of the previous 52 weeks (14.2).
- The week of January 11 marks the “unofficial” start of the Q4 2009 earnings season, as Alcoa is expected to report earnings on January 11.

## EARNINGS OUTLOOK by John Butters

### Q4 2009: Earnings Revisions



Source: Thomson Reuters



The S&P 500 is expecting share-weighted earnings of \$144.7B in Q4 2009, virtually unchanged from last week (\$144.6B). The index was expecting Q4 2009 share-weighted earnings of \$151.8B on April 1, \$150.9B on July 1 and \$152.4B on October 1.

The drop in the Q4 2009 earnings growth rate during the past week (to 184% from 203%) is due to an adjustment to the year-ago earnings number. For more details, see the “Q4 2009: Earnings Growth Rates” section in this report.

Since the start of the quarter, the decrease in the estimated earnings (to \$144.7B from \$152.4B) for the S&P 500 can be attributed to downward revisions to estimates for companies in the Financials sector, partially offset by upward revisions to estimates for companies in the Information Technology and Consumer Discretionary sectors.

Since October 1, the Financials (-85%) sector has recorded the highest percentage decrease in earnings, while the Consumer Discretionary (16%) and Information Technology (11%) sectors have recorded the highest percentage increases in earnings. Overall, share-weighted earnings for the S&P 500 have decreased by 5% since the start of the quarter.

Since October 1, the Financials (-\$13.6B) sector has recorded the highest dollar-level decrease in earnings, while the Information Technology (\$3.2B) and Consumer Discretionary (\$2.1B) sectors have recorded the highest dollar-level increases in earnings. Overall, share-weighted earnings for the S&P 500 have decreased by \$7.7B since the start of the quarter.

#### Q4 2009: Earnings Growth Rates

Sector	Q409 Earnings \$B	Q408 Earnings \$B	Q409 Growth \$B	Q409 Growth %
Financials	2.4	-81.0	83.4	NA
Materials	3.0	1.2	1.9	163%
Consumer Discretionary	15.5	7.2	8.3	114%
Telecom Services	4.7	3.1	1.6	51%
Technology	32.9	25.2	7.6	30%
Consumer Staples	22.6	21.9	0.7	3%
Health Care	23.8	24.8	-1.0	-4%
Utilities	5.6	6.0	-0.5	-8%
Industrials	15.8	18.2	-2.4	-13%
Energy	18.5	24.2	-5.7	-24%
<b>S&amp;P 500</b>	<b>144.7</b>	<b>50.9</b>	<b>93.8</b>	<b>184%</b>

The estimated earnings growth rate for the S&P 500 for Q4 2009 is 184%. The S&P 500 is expecting share-weighted earnings of \$144.7B in Q4 2009, compared to share-weighted earnings of \$50.9B (based on the year-ago earnings of the current 500 constituents) in Q4 2008.

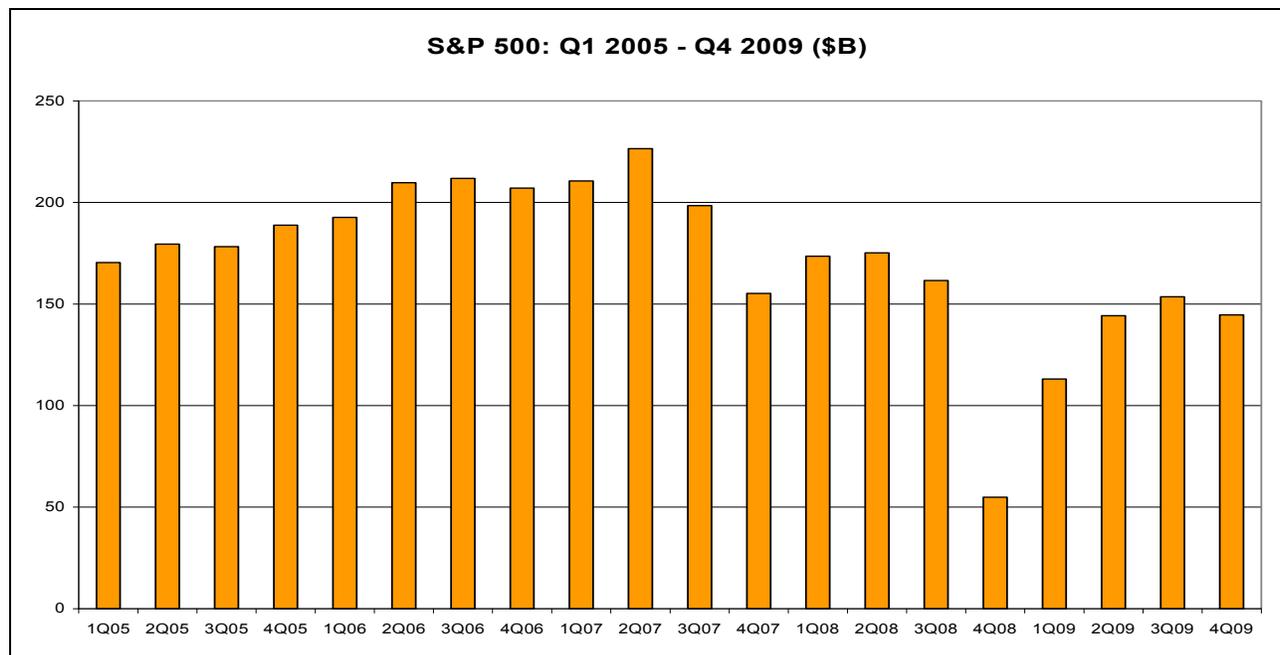
The drop in the Q4 2009 growth rate during the past week (to 184% from 203%) is due to adjustments to the Q4 2008 share-weighted earnings number because of the change in share count for Citigroup. During the week of December 21, the number of shares outstanding for Citigroup increased to 28.3B from 22.9B. During the past week, the Thomson Reuters Proprietary Research Group adjusted the year-ago actual for Citigroup in its growth rate calculations to reflect the increased share count (as all current EPS estimates and year-ago EPS actuals are weighted by the current shares outstanding in the growth rate calculation). As



a result of the adjustment, the Q4 2008 share-weighted earnings for Citigroup increased to -\$13.5B from -\$16.6B. Overall, the Q4 2008 share-weighted earnings for the S&P 500 increased to \$50.9B from \$47.7B due to the adjustment. Because of the increase in the year-ago share-weighted earnings, the Q4 2009 growth rate declined to 184% from 203%. The chart below illustrates the adjustments to Citigroup.

Date	Shares	Q409		Q408	
		EPS	Weighted Earn. \$B	EPS	Weighted Earn. \$B
21-Dec-09	22.9	-0.07	-1.6	-0.59	-13.5
22-Dec-09	28.3	-0.33	-9.4	-0.59	-16.6
5-Jan-10	28.3	-0.33	-9.2	<b>-0.48</b>	<b>-13.5</b>

The chart below shows the actual earnings of the S&P 500 over the past five years. The numbers are based on the constituents in the index at the end of each quarter, so the dollar-level earnings for Q4 2008 (\$54.9B) in the chart below won't match the dollar-level earnings for Q4 2008 (\$50.9B) in the growth rate table on the previous page (which is based on the year-ago earnings of the current 500 constituents). However, the table does show that while the current earnings estimate for Q4 2009 is not abnormally high, the year-ago earnings actual is extremely low. Thus, the current earnings estimate for Q4 2009 creates a much higher-than-normal growth rate because of the contrast to weaker-than-usual earnings in Q4 2008.



Source: Thomson Reuters

The Financials sector is primarily responsible for the index's low Q4 2008 earnings level, as the current constituents in the sector reported a loss of \$81.0 billion in the year-ago quarter. If the Financials sector is removed, the estimated earnings growth rate for Q4 2009 would drop to 8%.

Sector	Q409	Q408	Q409	Q409
	Earnings \$B	Earnings \$B	Growth \$B	Growth %
S&P 500	144.7	50.9	93.8	184%
Financials	2.4	-81.0	83.4	NA
<b>S&amp;P 500 Ex-Financials</b>	<b>142.3</b>	<b>131.9</b>	<b>10.4</b>	<b>8%</b>



If the final growth rate for Q4 2009 is 184%, it will mark the first time the S&P 500 has recorded year-over-year earnings growth since Q2 2007 (8%), and it will mark the end of the streak of consecutive quarters of negative growth rates at nine (Q3 2007 – Q3 2009).

Six of the ten sectors in the index are anticipating an improvement in earnings relative to Q4 2008. The Financials, Materials and Consumer Discretionary sectors are anticipating the highest earnings growth for the quarter, while the Energy and Industrials sectors are expecting the lowest earnings growth for the quarter.

The Financials sector is projected to be the largest contributor to dollar-level earnings growth in the index, mainly due to an easy comparison to a year-ago loss. The sector is predicted to earn \$2.4B in Q4 2009, relative to a loss of \$81.0B in Q4 2008. Because the sector reported a loss in Q4 2008, an earnings growth rate for Q4 2009 cannot be calculated. At the company level, AIG is the largest contributor to dollar-level earnings growth. The current mean estimate for AIG is -\$4.79 per share for Q4 2009, compared to the year-ago actual of -\$283.40 per share. If this company is removed, the growth rate for the S&P 500 would drop to 63%. If the entire Financials sector is removed, the growth rate for the S&P 500 would decrease to 8%.

The Materials sector is anticipating the highest earnings growth rate (163%) of any sector. If the final growth rate is 163%, it will mark the first time the sector has recorded earnings growth since Q2 2008 (3%). It is projected to earn \$3.0B in Q4 2009, compared to earnings of \$1.2B in Q4 2008. Ten of the 13 industries in the sector expect earnings improvement compared to the year-ago quarter. Of these ten industries, the Diverse-Chemicals industry and the Diverse-Metal/Mining industry are the largest contributors to dollar-level earnings growth. If these two industries are removed, the growth rate for the Materials sector would decline to -30%.

The Consumer Discretionary sector is predicted to have the second highest earnings growth rate (114%) of any sector. The sector is projected to earn \$15.5B in Q4 2009, compared to earnings of \$7.2B in Q4 2008. Twenty-two of the 33 industries in the sector are anticipating earnings growth in the quarter. At the company level, Ford Motor is the largest contributor to dollar-level earnings growth. The current mean estimate for Ford Motor is \$0.25 per share, compared to the year-ago actual of -\$1.37 per share. If this company is removed, the growth rate for the Consumer Discretionary sector would fall to 25%.

The Energy sector is projected to have the lowest earnings growth rate (-24%) of all ten sectors. It is anticipating earnings of \$18.5B in Q4 2009, relative to earnings of \$24.2B in Q4 2008. Five of the seven industries in the sector foresee lower earnings than a year ago. The Oil & Gas – Integrated industry is the largest detractor to dollar-level earnings growth. If this sector is removed, the growth rate for the remaining nine sectors would be 372%.

The Industrials sector is expecting the second lowest growth rate (-13%) of any sector. It is predicted to earn \$15.8B in Q4 2009, compared to earnings of \$18.2B in Q4 2008. Sixteen of the 18 industries in the sector anticipate an earnings decline relative to Q4 2008. The Industrial Conglomerates industry is the largest detractor to dollar-level earnings growth, while the Aerospace/Defense industry is the largest contributor to dollar-level earnings growth. If the Industrials sector is removed from the index, the growth rate for the remaining nine sectors would be 336%.



**Q4 2009 Revenue Growth Rates**

Sector	Q409 Revenue \$B	Q408 Revenue \$B	Q409 Growth \$B	Q409 Growth %
Financials	263.5	141.9	121.5	86%
Health Care	261.5	240.9	20.7	9%
Technology	212.2	203.0	9.2	5%
Telecom Services	73.6	70.6	3.0	4%
Consumer Staples	370.9	358.5	12.4	3%
Utilities	87.0	86.1	0.9	1%
Consumer Discretionary	306.5	306.5	0.0	0%
Materials	69.2	72.8	-3.6	-5%
Energy	276.4	291.1	-14.6	-5%
Industrials	243.1	258.2	-15.1	-6%
<b>S&amp;P 500</b>	<b>2164.0</b>	<b>2029.5</b>	<b>134.5</b>	<b>7%</b>

The estimated revenue growth rate for the S&P 500 for Q4 2009 is 7%. If the final revenue growth rate is 7%, it will mark the first time the S&P 500 has recorded revenue growth since Q3 2008 (8%). The S&P 500 is expecting revenues of \$2.164T in Q4 2009 compared to revenues of \$2.029T in Q4 2008.

The Financials sector is the predicted to see both the highest percentage growth (86%) and the largest dollar-level growth (\$122B) in revenues of any sector. If this sector is removed, the estimated revenue growth rate for the remaining nine sectors would drop to 1%.

Sector	Q409 Revenue \$B	Q408 Revenue \$B	Q409 Growth \$B	Q409 Growth %
<b>S&amp;P 500</b>	<b>2164.0</b>	<b>2029.5</b>	<b>134.5</b>	<b>7%</b>
Financials	263.5	141.9	121.5	86%
<b>S&amp;P 500 Ex-Financials</b>	<b>1900.5</b>	<b>1887.5</b>	<b>12.9</b>	<b>1%</b>

**Q4 2009: Earnings Guidance**

Type	Q4 2009		Q4 2008		Q3 2009	
	Total (#)	Total (%)	Total (#)	Total (%)	Total (#)	Total (%)
Positive	56	39%	29	18%	42	36%
In-Line	11	8%	12	8%	9	8%
Negative	76	53%	118	74%	66	56%
<b>Total</b>	<b>143</b>		<b>159</b>		<b>117</b>	
<b>N/P Ratio</b>	<b>1.4</b>		<b>4.1</b>		<b>1.6</b>	

In the S&P 500, there have been 76 negative EPS preannouncements issued by corporations for Q4 2009 compared to 56 positive EPS preannouncements. By dividing 76 by 56, one arrives at an N/P ratio of 1.4 for the S&P 500 Index. This 1.4 ratio is below the N/P ratio at the same point in time in Q3 2009 (1.6) and below the long-term average N/P ratio for the S&P 500 (2.1).

This week will be the last focus week for Q4 2009 preannouncements. With the start of the peak weeks of Q4 2009 earnings season, companies will begin to issue guidance for Q1 2010.



**Q1 2010 – Q4 2010: Earnings Growth Rates**

The estimated earnings growth rates for the S&P 500 for Q1 2010 through Q4 2010 are 38%, 23%, 22% and 35%.

**Q1 2010 – Q4 2010: Forward Four-Quarter P/E Ratio**

P/E Ratio	*Price	EPS	P/E Ratio
CY 2010	1141.69	77.61	14.7
<b>Forward 4 Quarter</b>	1141.69	77.55	14.7
CY 2011	1141.69	94.38	12.1

\* Reflects closing price on January 7.

The forward four-quarter (Q4 2009 – Q3 2010) P/E ratio for the S&P 500 is 14.7. This P/E ratio is below the forward four-quarter P/E ratio from last week (15.6), but above the average forward four-quarter P/E ratio recorded over the previous 52 weeks (14.2). It is important to note that the forward four-quarter earnings estimate shifted this week to Q1 2010 – Q4 2010 from Q4 2009 – Q3 2010.

The bottoms-up target price for the S&P 500 is 1246.64, which is 9.2% above the January 7 closing price of 1141.69.

**Earnings Calendar**

The week of January 11 marks the “unofficial” start of the Q4 2009 earnings season, as Alcoa is expected to report earnings on January 11. However, it is a light week in terms of overall numbers, as just six other S&P 500 companies are anticipated to announce earnings results. The peak weeks of the Q4 2009 earnings season will begin the week of January 18.

For more details on the earnings calendar, see pages 7-11 in this report.

Q4 2009	Reported To Date	Report This Week	Report Next Week	Report Remaining
Dow 30	0	3	5	22
S&P 500	25	7	51	417

Source: Thomson Reuters StreetEvents



**CALENDAR**

**Monday:** January 11

**Earnings Reports:**

Date	Ticker	Company	Qtr	Est	Yr Ago	% Dif
11-Jan-10	AA	ALCOA INC.	Q4-Dec.09	0.06	-0.28	-122.6



Tuesday: January 12

Earnings Reports:

Date	Ticker	Company	Qtr	Est	Yr Ago	% Dif
12-Jan-10	KBH	KB HOME	Q4-Nov.09	-0.49	-3.96	NA
12-Jan-10	LLTC	LINEAR TECHNOLOGY CP	Q2-Dec.09	0.31	0.43	-28.4
12-Jan-10	SVU	SUPERVALU INCORPORATED	Q3-Nov.09	0.40	0.62	-34.8



Wednesday: January 13

**Earnings Reports:**

Date	Ticker	Company	Qtr	Est		Yr Ago	% Dif



Thursday: January 14

**Earnings Reports:**

Date	Ticker	Company	Qtr	Est	Yr Ago	% Dif
14-Jan-10	INTC	INTEL CORPORATION	Q4-Dec.09	0.30	0.04	644.3
14-Jan-10	SCHW	CHARLES SCHWAB CORP	Q4-Dec.09	0.15	0.27	-45.0



Friday: January 15

**Earnings Reports:**

Date	Ticker	Company	Qtr	Est	Yr Ago	% Dif
15-Jan-10	JPM	JPMORGAN CHASE & CO.	Q4-Dec.09	0.63	0.07	793.9



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