

Earnings Tracker

3Q Preview: The make-or-break quarter

3Q: Expect an in-line quarter, but guidance could be ugly

S&P 500 3Q earnings kick off this week. Following another huge beat in 2Q, 3Q EPS has risen 3% over the past three months to \$49.06 (+27% YoY); typically the estimate falls by 4% into the quarter. Consensus forecasts imply the 2-year growth rate falling sharply to +16% vs. +27% in 2Q amid supply chain issues and the delta variant-driven slowdown. While there are reasons to be cautious, earnings misses are extremely rare: since 2009, there have been only two quarters (out of 50) when earnings missed consensus (2Q11 & 1Q20). We expect earnings to come in in-line with consensus and revise our 3Q EPS down by \$2 (to \$49) and 4Q by \$1. But the main focus will be around guidance (which started to soften) and we believe 2022 EPS will be revised lower.

Supply chain worsening...yet analysts see peak '22 margins

Though margins expanded to record highs in 2Q, companies highlighted increasing difficulties passing through cost inflation. Since then, issues have worsened: supply chain news stories increased 74% and freight rates from China rose 20% (Exhibit 10), with record backlogs at the West Coast Ports (see [Transport Tracker](#)). In 3Q, we also saw a near-record number of profit warnings (third highest since 2011), mostly due to supply issues. Demand remains robust (see [BofA on USA](#)), but soaring inflation poses downside risks. While analysts have baked in margin contraction this quarter (non-Financials net margins -70bps QoQ), we see big risks to 2022 numbers, where analysts expect record margins. The #1 screen request we receive is for companies with pricing power – see our screen inside (Exhibit 39). Also see Exhibit 41 for companies that mentioned “supply chain” the most during 2Q earnings calls as potential laggards.

Other headwinds: wages, China, commodity prices

Despite the limelight on supply chain, wage inflation is just as big of a headwind (if not bigger) – the BEA estimates wages are as much as 40% of total private sector costs. Slowing China and its property sector issues also pose risks to US multinationals (see [China note](#) and [relative value note](#)). Higher oil prices have historically been positive for S&P earnings (every 100bps move up in WTI added 50bps to S&P earnings growth), but Energy companies’ capital discipline could translate to a lower earnings multiplier (i.e. less revenue for energy capex beneficiaries). Soaring gas prices also add pressure to Chemicals and Utilities. Higher oil could be a headwind rather than a tailwind this time.

2Q wrap: A big 17% beat, but sentiment dived

2Q EPS came in at \$52.58 (+88% YoY; a 17% beat). However, corporate sentiment dipped from the 1Q peak amid accelerating cost pressure, and companies’ optimism also plummeted from record levels in the prior two quarters. Capex rebounded 17% YoY, but remained muted vs. 2Q19 (-1%). Beats continued to see limited alpha, while misses were penalized more than the historical average (Exhibit 34).

What to own and avoid ahead of earnings

Based on leading indicators, Tech, Real Estate and Energy screen well ahead of results, while sectors that are hurt by rising energy prices, Utilities and the Consumer sectors (also hurt by wage inflation), screen poorly. See our quant screens for stocks most likely to beat or miss and our straddle screens for stocks expected to have big moves.

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Equity and Quant Strategy
United States

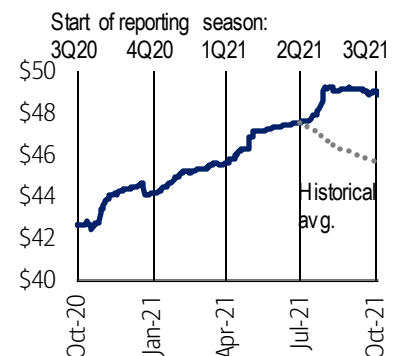
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Exhibit 1: 3Q estimates +3% in L3M, but have plateaued since late July

Revision to consensus S&P 500 3Q EPS



Source: FactSet, BofA US Equity & Quant Strategy
*Note: Historical average indexed to the estimate as of the beginning of last earnings season
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Exhibit 2: S&P 500 qtrly EPS forecasts

Bottom-up consensus vs. our estimates

| | Btm-up analysts | YoY | BofA Strategy | YoY |
|-------|-----------------|------|---------------|------|
| 1Q20 | 33.12 | -15% | 33.12 | -15% |
| 2Q20 | 27.98 | -32% | 27.98 | -32% |
| 3Q20 | 38.69 | -8% | 38.69 | -8% |
| 4Q20 | 42.58 | 1% | 42.58 | 1% |
| 2020 | \$140 | -14% | \$140 | -14% |
| 1Q21 | 49.13 | 48% | 49.13 | 48% |
| 2Q21 | 52.58 | 88% | 52.58 | 88% |
| 3Q21E | 49.06 | 27% | 49.00 | 27% |
| 4Q21E | 51.11 | 20% | 50.50 | 19% |
| 2021E | \$201 | 44% | \$201 | 44% |
| 2022E | \$220 | 10% | \$215 | 7% |

Source: FactSet, BofA US Equity & Quant Strategy
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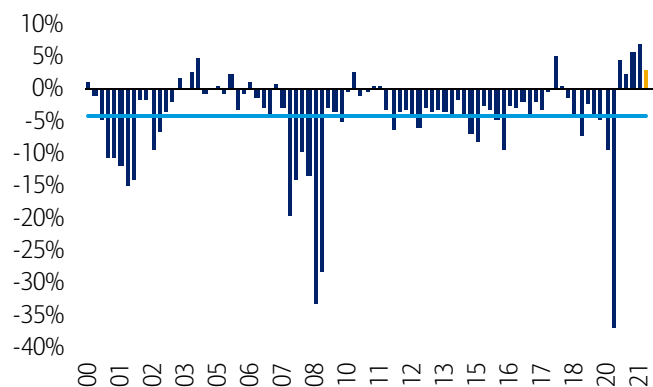
3Q21 Earnings Preview

Expect no beat this quarter

S&P 500 3Q earnings season kicks off this week with 10% of earnings reporting (mostly Financials). S&P 500 companies delivered another monstrous beat in 2Q, topping consensus by 17%. With the strong beat, 3Q EPS estimates have risen 3% over the past three months, but we see increased headwinds heading into 3Q, primarily driven by supply chain issues, delta-driven slowdown, and continued inflationary pressure. But an earnings miss is extremely rare: since 2009, there have been only two quarters (out of 50) when earnings missed consensus (2Q11 & 1Q20). Consensus implies the two-year growth rate (vs. the comparable quarter in 2019) moderating meaningfully to +16% vs. +27% in 2Q to \$49.06. Our 3Q EPS estimate is in line with consensus, representing the worst earnings season since COVID and below the historical median beat of 3.5%. The main focus will be around guidance (which started to soften) and we believe 2022 EPS will be revised lower.

Exhibit 3: 3Q EPS estimates +3% over the past three months

Bottom-up S&P 500 EPS revision by qtr. in the 3mos. ahead of reporting 2000-3Q21

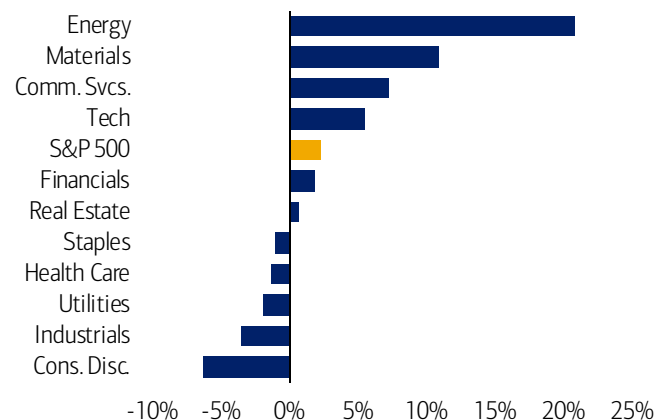


Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 4: ... led by Energy and Materials

Revision to consensus 3Q21 earnings estimates over the last 3 months



Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 5: Consensus expects 28% earnings growth YoY based on current constituents

S&P 500 consensus earnings and sales growth expectations by sector

| Sector | Earnings | | Sales | |
|------------------------|--------------|---------------|--------------|-------------|
| | YoY% | QoQ% | YoY% | QoQ% |
| Consumer Disc. | 3.0% | (15.2%) | 11.2% | 0.5% |
| Consumer Staples | 2.3% | (0.5%) | 7.0% | 1.9% |
| Energy | 1477.3% | 26.1% | 57.1% | 0.4% |
| Financials | 16.5% | (21.9%) | (2.2%) | (8.8%) |
| Health Care | 17.7% | (6.0%) | 11.4% | 1.0% |
| Industrials | 61.7% | 0.7% | 17.4% | 2.5% |
| Technology | 27.9% | (2.9%) | 18.7% | 1.4% |
| Materials | 86.5% | (5.2%) | 28.9% | (0.4%) |
| Real Estate | 15.4% | (10.2%) | 12.9% | (0.3%) |
| Communication Services | 28.8% | (12.0%) | 17.4% | 2.1% |
| Utilities | 0.7% | 27.3% | 5.2% | 12.9% |
| S&P 500 | 28.1% | (7.4%) | 13.6% | 0.3% |
| ex. Financials | 30.5% | (4.1%) | 16.0% | 1.6% |
| ex. Energy | 22.0% | (8.5%) | 11.2% | 0.2% |
| ex. Fins & Energy | 23.1% | (5.4%) | 13.4% | 1.7% |

Source: FactSet, BofA US Equity & Quant Strategy

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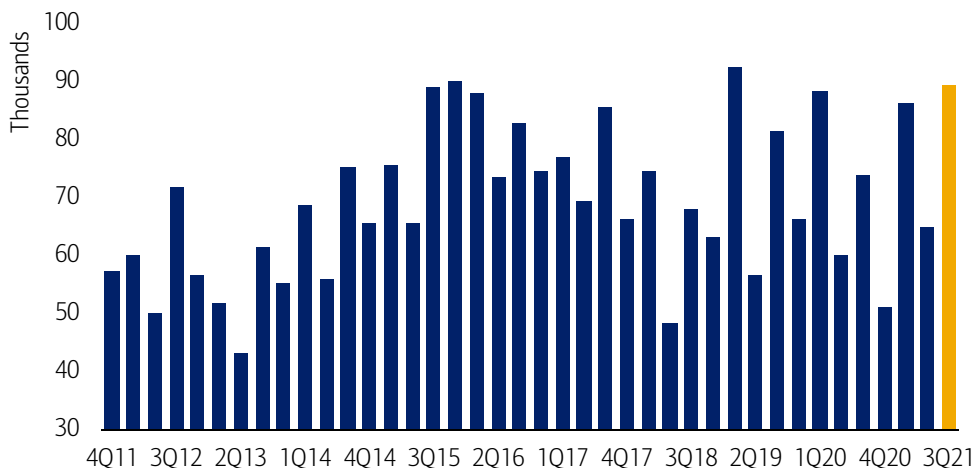


Near-record proportion of profit warnings

Several companies have recently issued negative pre-announcements, mostly concentrated in Consumer, Materials and Industrials amid supply chain issues. 3Q21 had the third highest number of “profit warnings” story counts on Bloomberg, only after 4Q15 and 1Q19. In those quarters, earnings beat consensus by 0.6% and 4.9%, respectively, but subsequent quarter earnings were revised down by 9.3% and 2.2%.

Exhibit 6: 3Q21 had the third highest number of “profit warnings” story counts

Bloomberg story counts on “profit warnings” (4Q11-3Q21; 000)



Source: Bloomberg, BofA US Equity & Quant Strategy

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Expect increased margin pressure

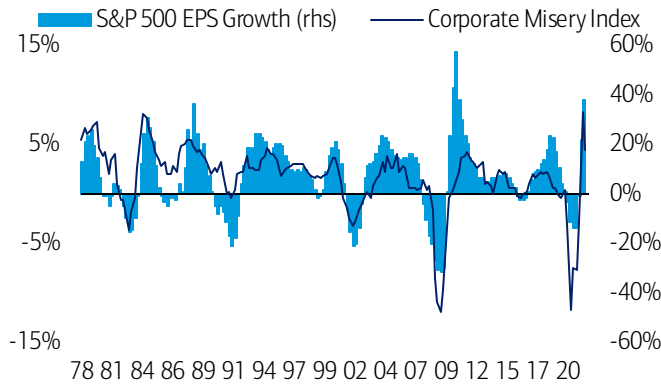
S&P 500 companies delivered another strong quarter with record margins in 2Q, with non-Financial net margins rising 60bps QoQ to 12.7% (vs. consensus -60bps QoQ). But despite the strong quarter, many companies cited rising difficulties in passing through cost inflation via pricing amid accelerating cost pressure.

“When you get to the third price increase, do you actually go for the fourth price increase because the fact of the matter is you run the risk of demand destruction in the short-term. And that’s not good.” Richard Tobin, CEO of Dover (DOV)

Similarly, our Corporate Misery Indicator sharply fell from a record high during 3Q (Exhibit 7), driven by accelerating costs (wage growth) and slowing demand (coincident indicator), while pricing (CPI) remained largely stable (i.e. increased margin pressure). Moreover, our NLP (Natural Language Processing) analysis of company earnings calls shows wage costs accelerated faster than pricing in 2Q, which points to margins moderating going forward (Exhibit 8).

Exhibit 7: Our Corporate Misery Indicator points to weaker margins

BofA Corp. Misery Indicator (lower=more miserable) 4Q78-3Q21 (as of 8/21)



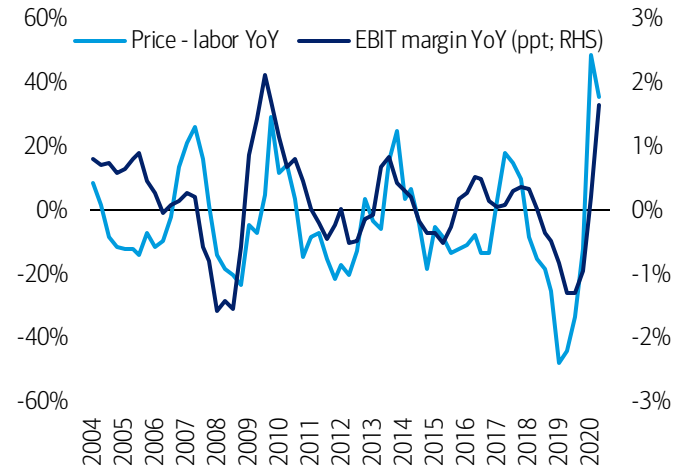
Disclaimer: The indicator identified as BofA Corporate Misery Indicator above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark. Note: see Appendix for full details/methodology.

Source: BofA US Equity & Quant Strategy, Conference Board, BLS

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Exhibit 8: Companies mentions of pricing and labor during earnings calls suggest increased margin pressure ahead

S&P 500 companies' mentions of price less labor YoY vs. EBIT margins YoY (2004-present; 53% correlation)



Source: BofA Global Research

Note: words included in each category: **price**: "price", "pricing"; **materials**: "material", "commodity"; **transportation**: "transportation", "shipping", "freight", "logistic", "fuel"; **labor**: "labor", "wage", "worker", "personnel"; **supply chain**: "supply chain"

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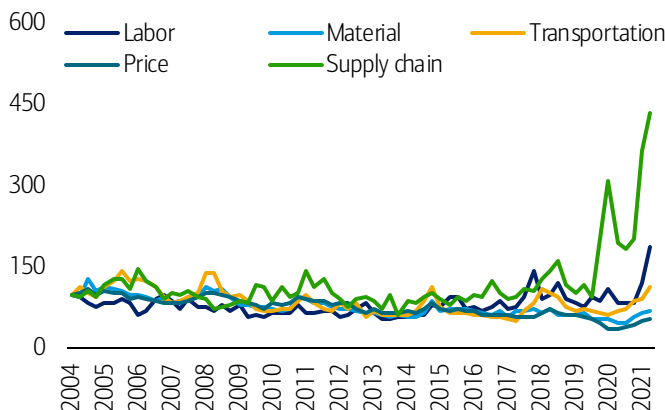
Supply chain issues getting worse, not better...

Mentions of "inflation" on 2Q earnings calls topped 1Q levels and jumped to a record high, based on BofA's Predictive Analytics team's analysis. On a YoY basis, inflation mentions rose more than 900% YoY, in line with the increase we saw last quarter.

Notably, supply chain mentions rose the most among inflation categories we track in 2Q, more than doubling YoY (along with labor mentions). Since then, supply chain issues have worsened: news stories on "supply chain" increased 74% since the 2Q earnings season according to Bloomberg, and freight rates from China also rose 20% (Exhibit 10).

Exhibit 9: Supply chain mentions rose to a record during 2Q earnings season, along with labor mentions...

S&P 500 companies' mentions of inflation-related words on earnings calls (2Q04 = 100; 2004-present)



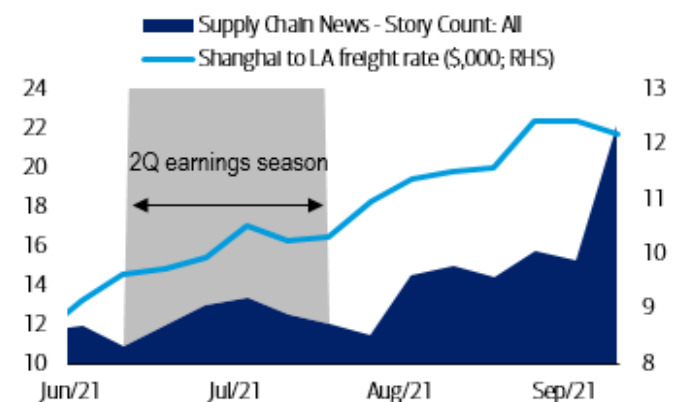
Source: BofA Global Research

Note: words included in each category: **price**: "price", "pricing"; **materials**: "material", "commodity"; **transportation**: "transportation", "shipping", "freight", "logistic", "fuel"; **labor**: "labor", "wage", "worker", "personnel"; **supply chain**: "supply chain"

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Exhibit 10: ...and supply chain issues have worsened since then

"Supply chain" story count on Bloomberg (,000) & Shanghai to LA container freight benchmark rate per 40ft box (\$,000)

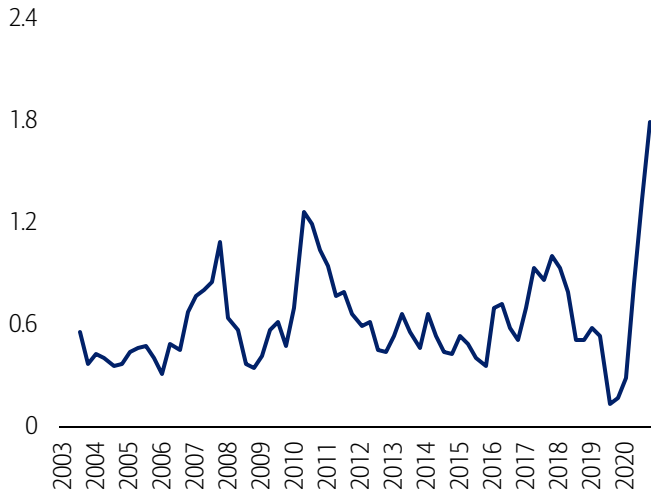


Source: Bloomberg, BofA US Equity & Quant Strategy

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Exhibit 11: Mentions of “inflation” jumped >900% YoY to a record high
 S&P 500 companies’ mentions of “inflation” per earnings call (2003-present)

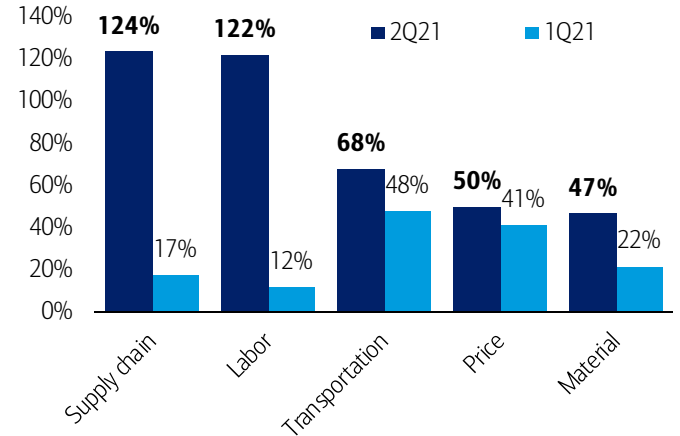


Source: BofA Global Research

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Exhibit 12: Supply chain and labor mentions more than doubled YoY (vs. rose the least last quarter)

S&P 500 companies’ mentions of inflation-related words on earnings calls (# of mentions per company)



Source: BofA Global Research

Note: words included in each category: **price**: "price", "pricing"; **materials**: "material", "commodity"; **transportation**: "transportation", "shipping", "freight", "logistic", "fuel"; **labor**: "labor", "wage", "worker", "personnel"; **supply chain**: "supply chain"

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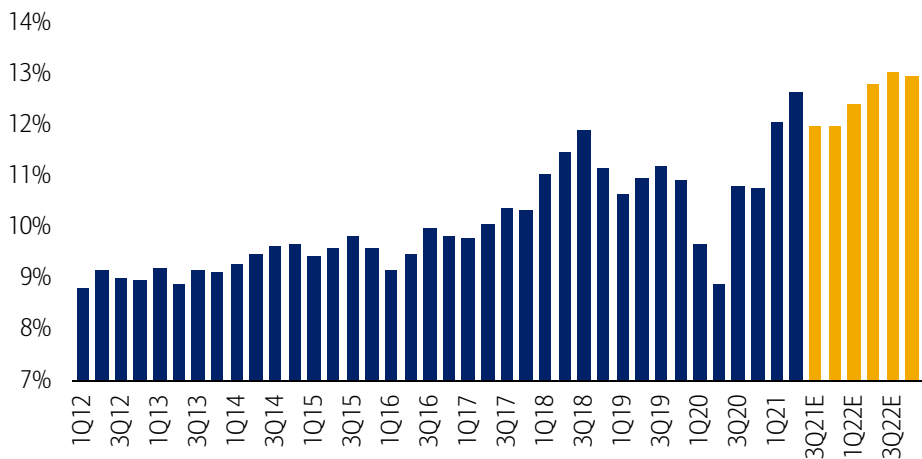
...yet analysts are expecting margins hit a new peak (!) in 2022

Consistent with recent developments, consensus points to a 70bps drop in net margins (ex-Fins) to 12.0% in 3Q, which we believe reflects some conservatism. However, they expect the margin compression to stop there – with flattish margins in 4Q21, and *expanding* margins in 2022 to new record highs (above 2018 peaks). Analysts expect margins to hit new highs in 4 of 10 sectors, excluding Financials (Exhibit 14). We expect current headwinds to last well into 2022, and see risk to consensus numbers.

Analysts have consistently underestimated margins over the past five quarters, but given the worsened macro environment for corporate profits (more below), we do not expect those big margin beats to repeat in 3Q.

Exhibit 13: Consensus expects an 70bps drop in net margins QoQ

S&P 500 quarterly net margins ex-Financials (2012-4Q22E)



Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 14: Consensus implies net margins ex-Fins rising to a record in 2022E

S&P 500 quarterly net margins by sectors

| Net Margins | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E | Avg. | Min | Max |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Communication Services | 11.0% | 11.0% | 11.0% | 12.9% | 15.6% | 16.2% | 16.6% | 16.0% | 17.3% | 15.7% | 14.8% | 17.6% | 17.4% | 14.4% | 11.0% | 17.3% |
| Consumer Discretionary | 6.3% | 6.1% | 6.5% | 6.4% | 6.3% | 6.7% | 7.0% | 6.8% | 7.4% | 7.2% | 5.0% | 7.3% | 8.3% | 6.5% | 5.0% | 7.4% |
| Consumer Staples | 6.8% | 6.6% | 6.7% | 6.7% | 6.7% | 6.5% | 6.6% | 6.3% | 6.9% | 6.8% | 6.8% | 7.0% | 7.1% | 6.7% | 6.3% | 6.9% |
| Energy | 9.5% | 11.0% | 9.0% | 8.7% | 9.0% | 5.6% | 1.6% | 4.6% | 7.5% | 5.4% | -0.7% | 6.8% | 8.4% | 6.5% | -0.7% | 11.0% |
| Financials | 9.3% | 10.0% | 11.7% | 14.6% | 13.9% | 14.6% | 14.3% | 13.8% | 16.5% | 15.0% | 12.8% | 23.0% | 19.9% | 13.3% | 9.3% | 16.5% |
| Health Care | 12.2% | 12.2% | 12.0% | 11.7% | 11.9% | 12.0% | 11.6% | 11.7% | 11.1% | 10.2% | 10.2% | 11.1% | 10.9% | 11.5% | 10.2% | 12.2% |
| Industrials | 7.7% | 8.8% | 8.9% | 9.2% | 10.0% | 10.2% | 9.3% | 9.0% | 10.1% | 9.6% | 6.5% | 8.8% | 10.6% | 9.0% | 6.5% | 10.2% |
| Information Technology | 18.7% | 18.8% | 18.7% | 19.4% | 20.3% | 20.2% | 20.0% | 21.6% | 23.6% | 21.8% | 22.5% | 25.1% | 24.9% | 20.5% | 18.7% | 23.6% |
| Materials | 9.0% | 11.0% | 9.3% | 9.3% | 10.0% | 10.2% | 10.0% | 9.2% | 11.1% | 8.9% | 9.6% | 13.8% | 13.2% | 9.8% | 8.9% | 11.1% |
| Real Estate | 26.6% | 30.9% | 33.8% | 36.3% | 36.3% | 36.1% | 36.9% | 36.5% | 34.8% | 35.2% | 36.0% | 36.3% | 36.0% | 34.5% | 26.6% | 36.9% |
| Utilities | 10.1% | 10.2% | 10.0% | 9.7% | 10.2% | 10.8% | 11.6% | 11.8% | 12.4% | 13.6% | 14.9% | 14.1% | 14.9% | 11.4% | 9.7% | 14.9% |
| S&P 500 | 9.8% | 10.4% | 10.3% | 10.7% | 11.1% | 11.2% | 10.9% | 11.1% | 12.3% | 11.5% | 10.5% | 13.3% | 13.3% | 10.9% | 9.8% | 12.3% |
| S&P 500 ex-Financials | 10.0% | 10.6% | 10.2% | 10.3% | 10.9% | 10.9% | 10.7% | 10.9% | 12.0% | 11.2% | 10.5% | 12.2% | 12.6% | 10.7% | 10.0% | 12.0% |

Source: FactSet, BofA US Equity & Quant Strategy

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Mixed readings from early reporters & macro data

So far, 21 companies (primarily “early reporters” with August quarter-end) have reported 3Q results. Early reporters are concentrated in Consumer, Tech and Industrials, but can often give a read on the full quarter’s results: since we began tracking in 2012, we’ve found a 71% correlation (50% R²) between the proportion of early reporter beats on EPS and sales and the proportion of full-quarter beats on EPS and sales.

So far, 67% have beaten on EPS, 76% on sales and 57% on both. This is weaker than last quarter (67%/94%/67%), but still above the historical average (since 2012) of 70% EPS beats, 63% sales beats and 49% both beats. The median EPS beat so far has been 4.0%.

Table 1: % of S&P 500 companies beating consensus expectations on 3Q21 EPS and sales

Results from early reporters

| Sector | Total companies | Number Reported | % with EPS beat | % with Sales beat | % EPS & Sales beat |
|--------------------|-----------------|-----------------|-----------------|-------------------|--------------------|
| Cons. Disc. | 62 | 6 | 50% | 67% | 33% |
| Cons. Staples | 32 | 7 | 71% | 86% | 71% |
| Energy | 22 | 0 | N.A. | N.A. | N.A. |
| Financials | 65 | 0 | N.A. | N.A. | N.A. |
| Health Care | 65 | 0 | N.A. | N.A. | N.A. |
| Industrials | 73 | 3 | 67% | 100% | 67% |
| Tech | 74 | 5 | 80% | 60% | 60% |
| Materials | 28 | 0 | N.A. | N.A. | N.A. |
| Real Estate | 29 | 0 | N.A. | N.A. | N.A. |
| Comm. Svcs. | 22 | 0 | N.A. | N.A. | N.A. |
| Utilities | 28 | 0 | N.A. | N.A. | N.A. |
| S&P 500 | 500 | 21 | 67% | 76% | 57% |

Source: FactSet, BofA US Equity & US Quant Strategy

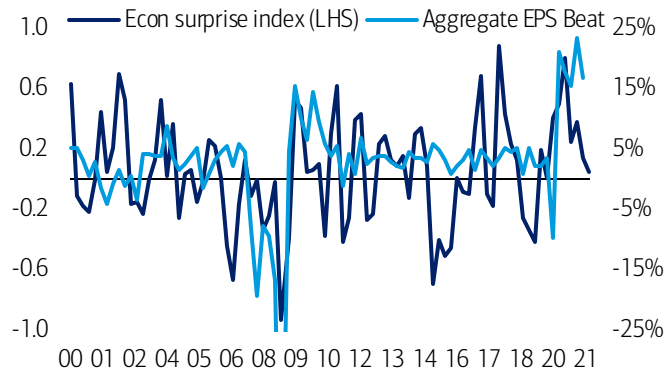
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Mixed reading from macro data

Exhibit 15: Economic Surprise Index points to a 3% EPS beat this quarter based on the historical relationship

Bloomberg ECO US surprise index vs. S&P 500 EPS beat (2000-present)

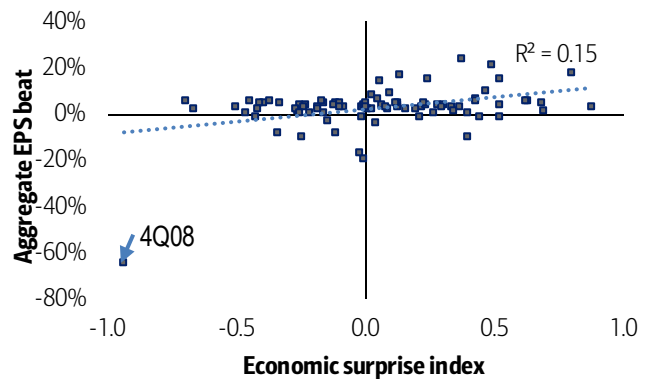


Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy

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Exhibit 16: 15% r-sq between Economic Surprise Index vs. aggregate EPS beat

Bloomberg ECO US surprise index vs. S&P 500 EPS beat (2000-present)

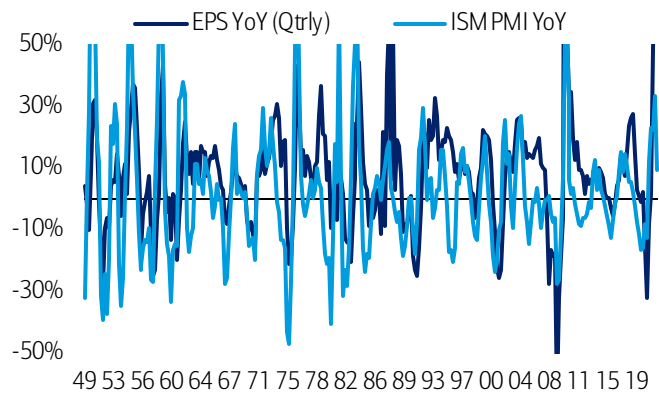


Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy

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Exhibit 17: A 9% rise in the ISM manufacturing PMI suggests 11% YoY growth in 3Q EPS (implying a 16% miss)

ISM Manufacturing PMI YoY vs. S&P 500 quarterly EPS YoY (1949-present)

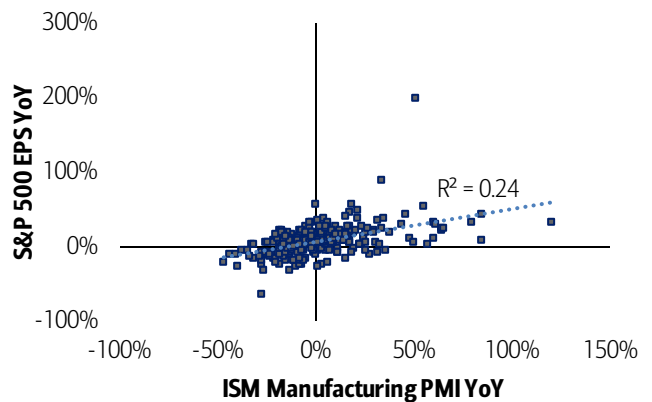


Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy

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Exhibit 18: 24% r-sq between ISM Manufacturing PMI YoY vs. S&P 500 quarterly EPS YoY

ISM Manufacturing PMI YoY vs. S&P 500 quarterly EPS YoY (1949-present)

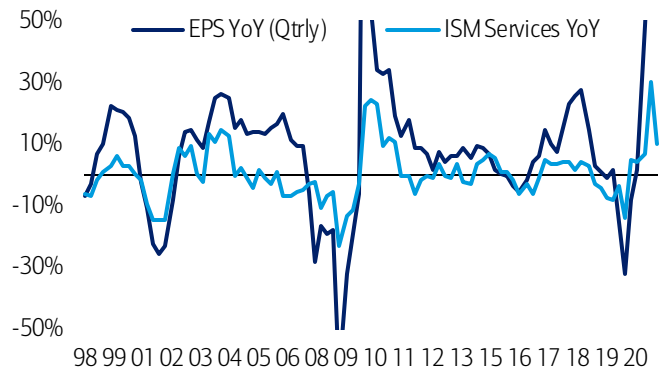


Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy

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Exhibit 19: A 10% rise in the ISM Services PMI suggests 32% YoY growth in 3Q EPS (implying a 5% beat)

ISM Services PMI YoY vs. S&P 500 quarterly EPS YoY (1998-present)

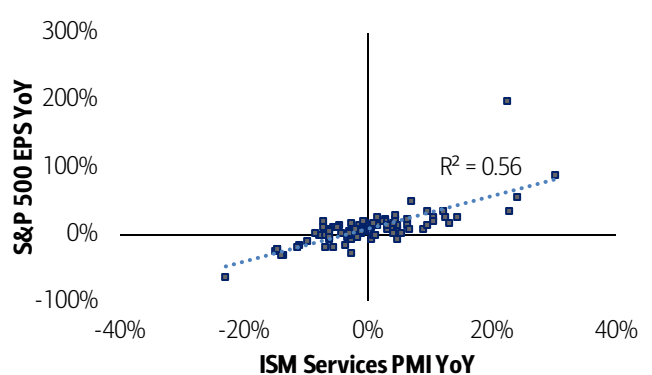


Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy

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Exhibit 20: 56% r-sq between ISM Services PMI YoY vs. S&P 500 quarterly EPS YoY

ISM Services PMI YoY vs. S&P 500 quarterly EPS YoY (1998-present)



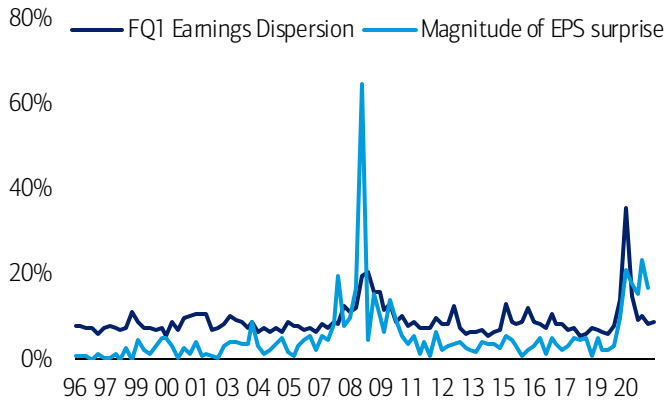
Source: Bloomberg, FactSet, BofA US Equity & Quant Strategy

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Exhibit 21: Estimate dispersion and the magnitude of surprise have been highly correlated and point to a 5% beat or miss this quarter

FQ1 earnings dispersion vs. magnitude of EPS surprise (1996-present)

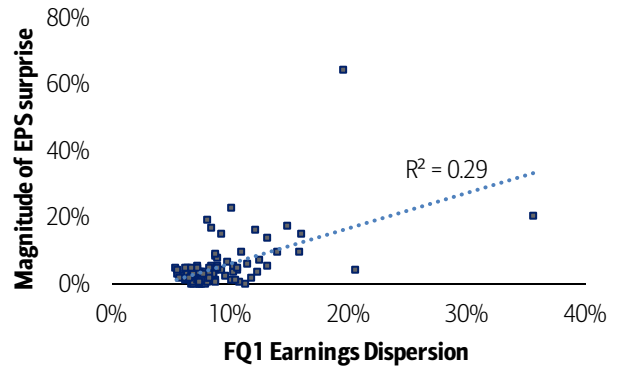


Source: FactSet, Bloomberg, BofA US Equity & Quant Strategy

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Exhibit 22: 29% r-sq between FQ1 earnings dispersion vs. magnitude of EPS surprise

FQ1 earnings dispersion vs. magnitude of EPS surprise (1996-present)



Source: FactSet, Bloomberg, BofA US Equity & Quant Strategy

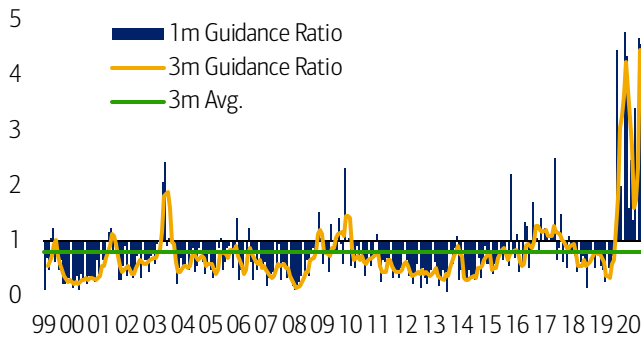
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Guidance ratio sharply fell (though still above average)

Our 3-month guidance ratio (# of above- vs. below-consensus guidance instances) sharply fell from a record high to 2.6x in September, albeit it remains well above the historical average of 0.8x. The more volatile 1-mo. guidance ratio also fell to 1.2x, representing the lowest level since Jun 2020, as companies warned about rising inflationary pressure. Meanwhile, guidance instances have picked up to the highest level in a decade in September.

Exhibit 23: Our 3-mo. guidance ratio fell sharply from record highs, with the 1-mo. ratio falling to the lowest level since June 2020

S&P 500 Management Guidance Ratio (# Above vs. Below Consensus) – 09/21

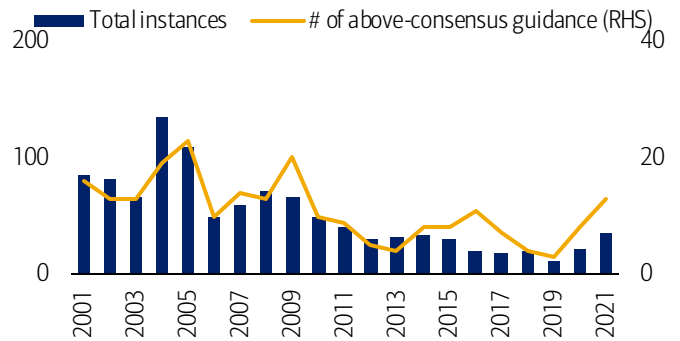


Source: BofA US Equity and Quantitative Strategy

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Exhibit 24: Guidance instances have picked up to the highest level in a decade

of above-consensus guidance in September history



Source: FactSet, Bloomberg, BofA US Equity & Quant Strategy

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Estimate dispersion fell below the historical average

Estimate dispersion of S&P 500 FY2 consensus estimates fell below the historical average, but increase macro uncertainty amid inflation and the recent slowdown will likely lead to wider dispersion going forward (Exhibit 25).



Exhibit 25: Estimate dispersion on FY2 earnings fell below the historical average

S&P 500 FY2 EPS estimate dispersion (1986-9/2021)



Source: FactSet, BofA US Equity & Quant. Strategy

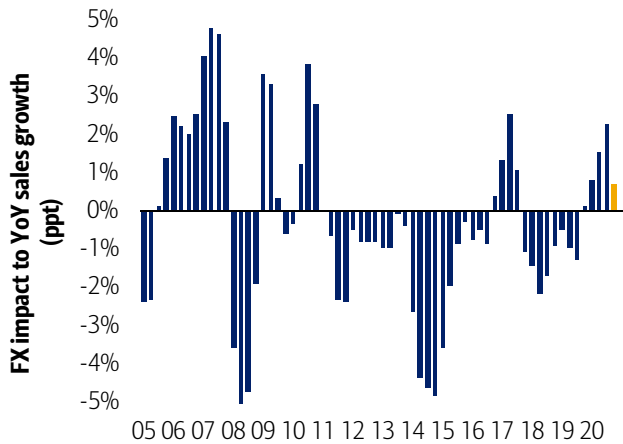
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FX remains a tailwind, but less so than in 2Q

Analysts expect 3Q sales decelerating to +13.6% YoY, vs. +24.4% YoY last quarter on tougher comps and slowing macro. Similar to last quarter, Energy is expected to lead growth (+57%), while Financials is forecast to be the only sector with a decline (-2.2%). We estimate FX added about 70bps to YoY sales growth (Exhibit 26), down from 2.3ppt in 2Q. Excluding FX/oil impacts, constant-currency sales growth for the S&P 500 ex. Fins. & Energy is expected to be +10.5% YoY (Exhibit 27), vs. +18.2% last quarter.

Exhibit 26: FX remains a tailwind, albeit less so than in 2Q (+0.7 ppt)

Estimated currency impact (in ppt) to S&P 500 quarterly YoY sales growth, 4Q05-3Q21

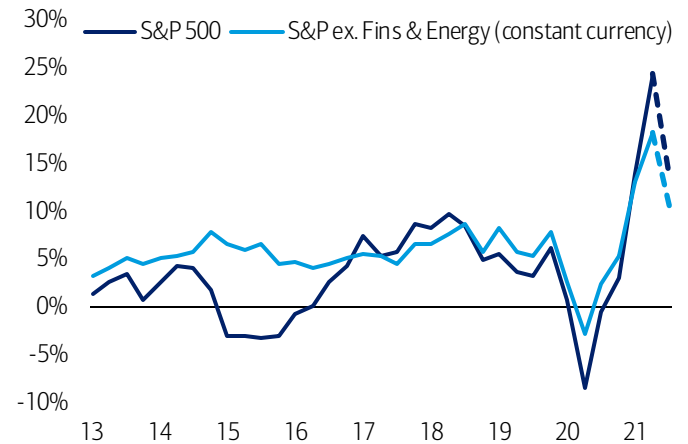


Source: FactSet, BofA US Equity & Quant. Strategy

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Exhibit 27: Strongest sales growth in recent history expected

Overall sales growth and constant currency (ex-Fins. & Energy), 2013-2Q21 and consensus f' cast for 3Q21



Source: FactSet, BofA US Equity & Quant. Strategy

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Capex outlook: mixed signals

Capex guidance ratio falls from its highs to the historical average

Our three-month ratio of above- vs. below-consensus capex guidance fell to 1.4x in 3Q from 2.0x in 2Q, in-line with the historical average of 1.4x.

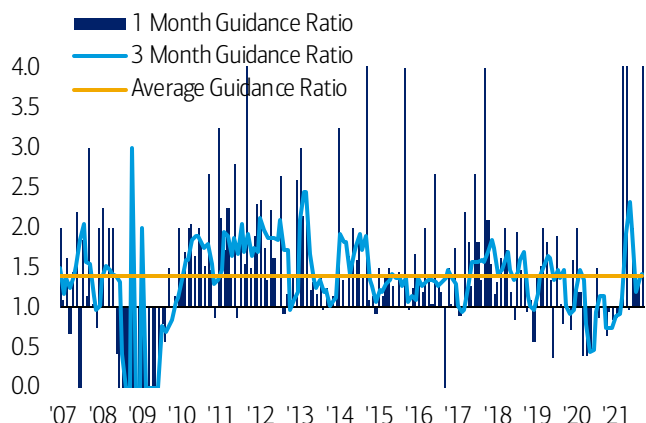
Survey data shows a robust capex recovery

- The Business Roundtable CEO Economic Outlook survey, which has shown the highest correlation with actual S&P 500 capex growth, further improved in 3Q (Exhibit 29). All else equal, it suggests trailing capex growth of +19% YoY six months from now (vs. the current trailing 12m YoY rate of -4%).



Exhibit 28: Our capex guidance ratio has fallen from its highs to the historical average

S&P 500 capex guidance ratio (2007-9/2021)

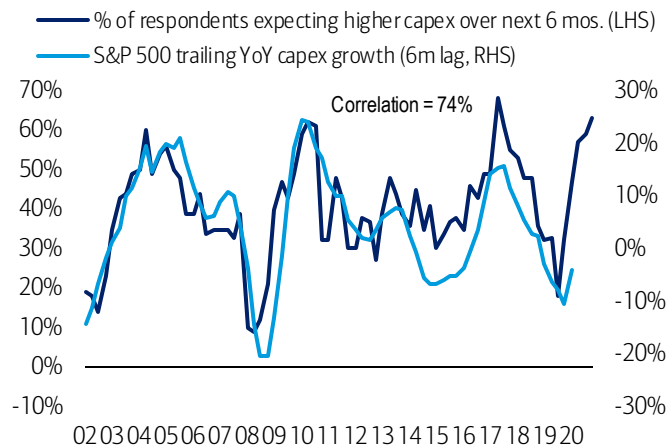


Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 29: Business Roundtable CEO Survey points to a robust capex recovery

Business Roundtable CEO Survey: % expecting higher capex over the next 6 mos. vs. S&P 500 TTM YoY capex with a 6-mo lag (4Q02-now)



Source: Haver Analytics, FactSet, BofA US Equity & Quant Strategy

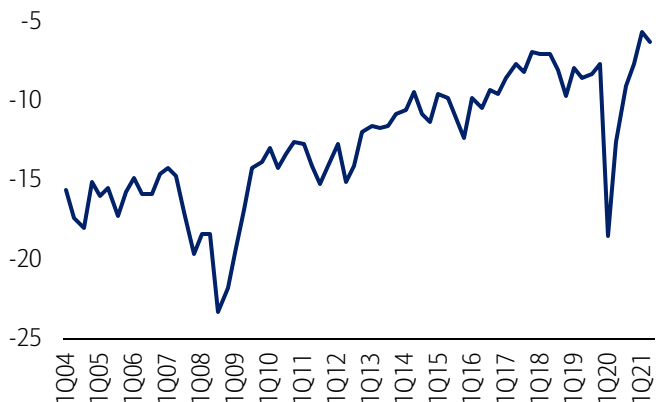
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Peak corporate sentiment? Companies were less enthused

BofA’s Predictive Analytics team helped analyze earnings transcripts using Loughran McDonald’s financial dictionary to calculate sentiment scores (see Appendix for full methodology). Overall, corporate sentiment dipped from a record high, potentially indicating peak corporate sentiment amid inflation concerns and the Delta variant. Consumer sectors had the weakest sentiment compared to their own history, while Materials and Real Estate had the worst sentiment on an absolute basis.

Exhibit 30: Corporate sentiment dipped QoQ in 2Q

Avg. negative sentiment score for S&P 500 companies

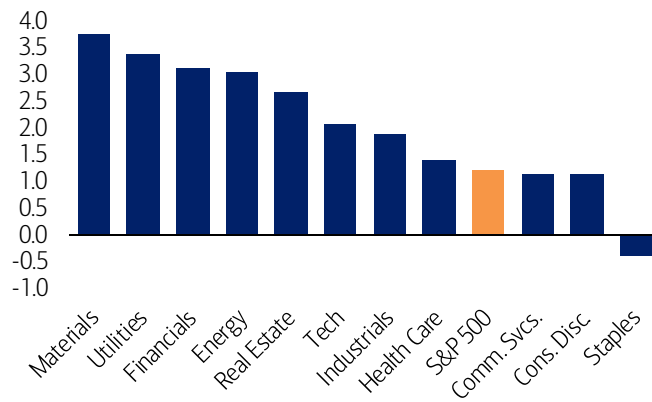


Source: BofA Global Research

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Exhibit 31: Consumer sectors had the weakest sentiment vs. history

Z-score of sentiment score by S&P 500 sector in 2Q (vs. history since 2004)



Source: FactSet, BofA US Equity & Quant Strategy

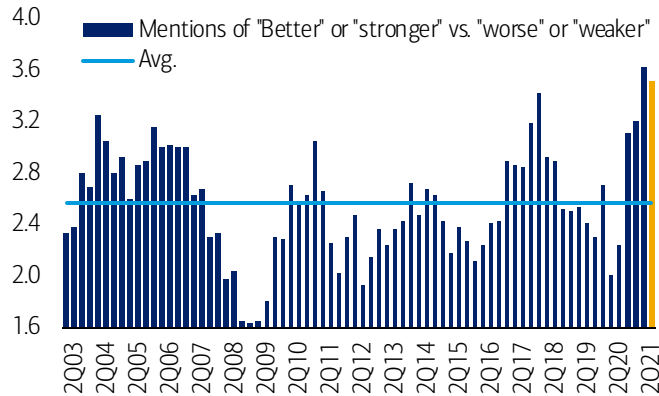
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Similarly, companies’ mentions of business conditions (ratio of mentions of “better” or “stronger” vs. “worse” or “weaker”) indicate slightly weaker business conditions vs. the peak level last quarter. Mentions of optimism also plummeted from record highs in the prior two quarters.



Exhibit 32: Companies' mentions indicate slightly weaker business conditions vs. the peak last quarter

Mentions of "better"/"stronger" vs. "worse"/"weaker" on S&P 500 earnings calls by qtr. (through 2Q21)

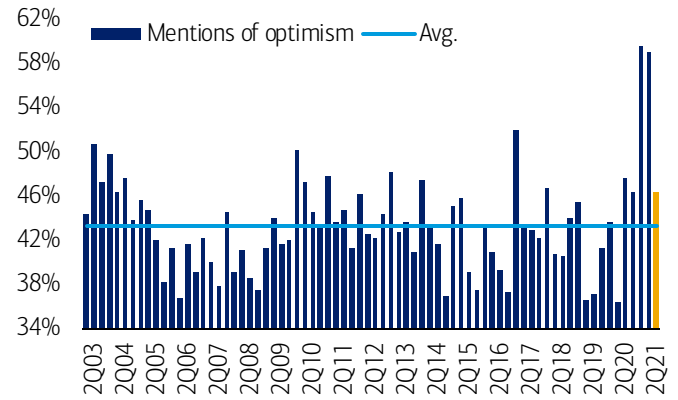


Source: FactSet, BofA US Equity & US Quant Strategy

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Exhibit 33: Companies' optimism plummeted from record highs

Mentions of "optimistic" or "optimism" on S&P 500 earnings calls by quarter (through 2Q21)



Source: FactSet, BofA US Equity & US Quant Strategy

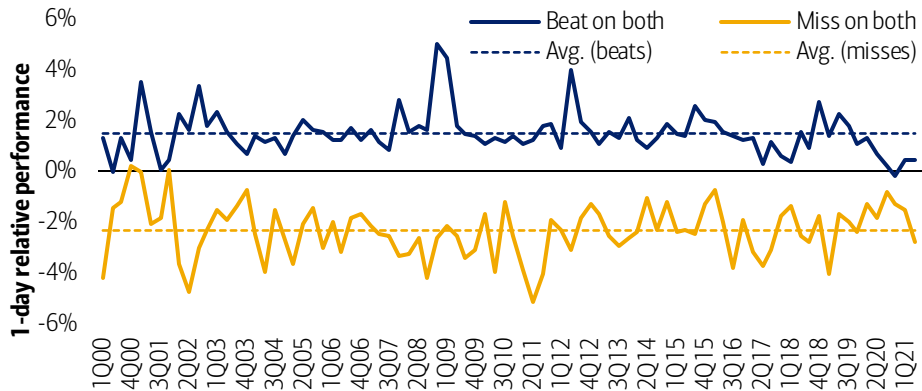
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Limited alpha for beats, but misses were penalized

Companies that beat on both EPS and sales continued to see limited alpha the following day (+48bps), well below the historical average of +150bps. On the other hand, misses underperformed more than have historically, lagging 276bps the following day vs. 233bps on average.

Exhibit 34: Limited surprise alpha for beats (+48bps vs. avg. 150bps)

Rel. 1-day post-reporting performance (vs. S&P 500) on EPS & sales surprise (1Q00-2Q21)



Source: FactSet, BofA US Equity & Quant Strategy

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Tech, Real Estate and Energy rank best

Historically, we have found that sectors with strong EPS/sales revisions and guidance have been more likely to have a greater amount of earnings beats than misses in the subsequent earnings season. Also, given that positive surprises tend to persist, sectors with a higher ratio of positive to negative surprises in the prior quarter may be more likely to enjoy similar results in the current quarter. Based on these measures, for this earnings season Tech, Real Estate and Energy screen as most likely to surprise to the upside, while Consumer sectors (that are labor intensive and facing supply chain disruptions) and Utilities screen weakest.



Table 2: Sector ranks for 3Q21 earnings season – Tech, Real Estate and Energy rank best; Consumer sectors and Utilities screen worst

Based on average ranking of EPS & sales revision ratios, guidance ratios and last quarter's surprise results

| Sector | Overall Attractiveness | Guidance 3m Ratio | Estimate Revision 3m Ratio | Sales Revision 3m Ratio | Last Qtr. Surprise Ratio (Beats/Misses) |
|------------------------|------------------------|-------------------|----------------------------|-------------------------|---|
| Information Technology | 1 | 3.60 | 3.60 | 4.49 | 23.6 |
| Real Estate | 2 | 11.00 | 6.09 | 3.10 | 6.7 |
| Energy | 3 | N/A | 3.64 | 5.40 | 6.5 |
| Industrials | 4 | 6.25 | 2.53 | 3.00 | 9.2 |
| Health Care | 5 | 4.67 | 1.63 | 2.51 | 16.3 |
| Communication Services | 6 | 1.00 | 1.82 | 1.70 | 20.5 |
| Financials | 7 | N/A | 2.61 | 2.63 | 6.1 |
| Materials | 8 | 1.38 | 1.42 | 3.76 | 2.6 |
| Consumer Discretionary | 9 | 2.11 | 1.79 | 1.74 | 6.1 |
| Consumer Staples | 10 | 0.50 | 1.07 | 2.44 | 7.3 |
| Utilities | 11 | 0.50 | 1.38 | 1.50 | 2.3 |
| S&P 500 | | 2.58 | 2.16 | 2.68 | 7.0 |

Note: Surprise ratio based on avg of EPS Beat/Miss ratio and Sales Beat/Miss ratio. Guidance ratio is not counted in calculating the average rank if a sector had <10 instances of guidance over the last 3 months.

Source: FactSet/First Call, BofA US Equity & Quant Strategy

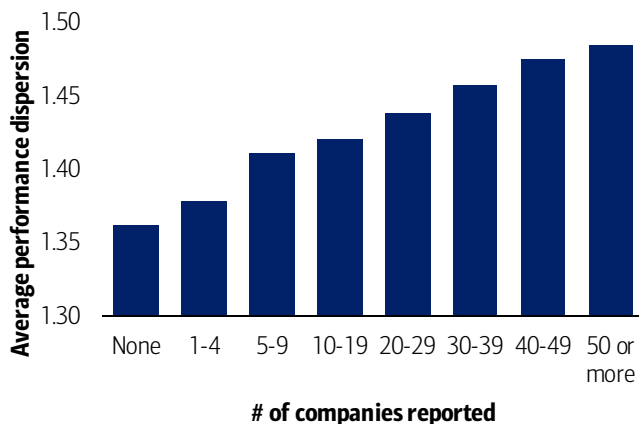
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Earnings season is a good time to be a stock-picker

For short-term investors, stock differentiation is heightened during earnings season, particularly the busiest reporting days. Below we show the average dispersion (standard deviation) of daily stock returns based on the number of companies reporting by day since 2009 (Exhibit 35). This reveals that dispersion is consistently higher for busier reporting days. This quarter, the busiest days fall the last week of October (Exhibit 42).

Exhibit 35: Wider performance dispersion during busy earnings days

of S&P 500 companies reporting daily vs. avg. performance dispersion (standard deviation of daily returns), 2009-3Q21

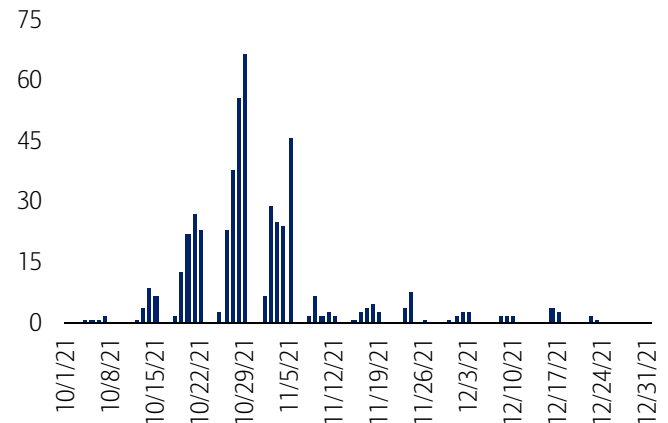


Source: FactSet, BofA US Equity & Quant Strategy

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Exhibit 36: S&P 500 3Q21 reporting frequency by day

of companies reporting each day



Source: Bloomberg, BofA US Equity & Quant Strategy

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Similar profits growth expected for small caps

Analysts are forecasting small cap earnings +27% YoY (+49% vs. 3Q19), essentially the same as the growth rate in large caps. Small cap sales are expected to grow 17% YoY (also +17% vs. 3Q19). The median co. is expected to see earnings +7% YoY on +12% YoY sales growth. See the 3Q Preview at the end of this report for full details, including mid cap stats, and early reporter results for small and mid.



Screens for top & bottom line beats & misses

We screened the S&P 500 for stocks under BofA coverage that, according to the following criteria, are most likely to beat (miss) expectations:

- **BofA vs. Consensus:** BofA EPS and sales above (below) consensus ex-BofA. (Note: Z-score in the tables represents the number of standard deviations that our analyst's estimate is above (below) consensus ex-BofA.)
- **Last quarter's results:** Company beat on both EPS and sales during last quarter's reporting season (for positive surprise screen) or missed on either earnings or sales during last quarter's earnings season (for negative surprise screen).
- **Fundamental Opinion:** We screen for stocks with a BofA rating of Buy (Positive Surprise Screen) or Underperform (Negative Surprise Screen).

We also flag stocks on the positive surprise screen which are underweight by active funds and stocks on the negative surprise screen which are overweight by active funds.

Exhibit 37: 3Q21 Positive Surprise Screen (with underowned stocks by fund managers highlighted in blue)

Stocks that are most likely to beat expectations

| Ticker | Company Name | Sector | Industry | Expected Report Date | BofA vs. Consensus EPS: Z-Score | BofA vs. Consensus Sales: Z-Score | Last Qtr: EPS/Sales Surprise | Price | BofA Rating | Rel. Wgt. (vs. S&P 500) in fund holdings |
|--------|-------------------------------|------------------------|--|----------------------|---------------------------------|-----------------------------------|------------------------------|--------|-------------|--|
| MO | Altria Group Inc | Consumer Staples | Tobacco | 10/29/2021 | 0.5 | 1.1 | Beat/Beat | 46.73 | BUY | 0.80 |
| XOM | Exxon Mobil Corporation | Energy | Oil Gas & Consumable Fuels | 10/29/2021 | 0.7 | 2.9 | Beat/Beat | 62.18 | BUY | 0.24 |
| OXY | Occidental Petroleum | Energy | Oil Gas & Consumable Fuels | 11/4/2021 | 0.8 | 0.8 | Beat/Beat | 33.63 | BUY | 1.60 |
| MS | Morgan Stanley | Financials | Capital Markets | 10/14/2021 | 1.7 | 1.3 | Beat/Beat | 100.04 | BUY | 1.08 |
| DFS | Discover Financial Services | Financials | Consumer Finance | 10/20/2021 | 0.8 | 1.4 | Beat/Beat | 128.35 | BUY | 1.33 |
| MET | MetLife, Inc. | Financials | Insurance | 11/3/2021 | 1.4 | 1.3 | Beat/Beat | 64.99 | BUY | 1.47 |
| AIG | American International Group | Financials | Insurance | 11/4/2021 | 1.2 | NA | Beat/Beat | 57.61 | BUY | 2.01 |
| IDXX | IDEXX Laboratories, Inc. | Health Care | Health Care Equipment & Supplies | 11/2/2021 | 0.9 | 1.3 | Beat/Beat | 617.02 | BUY | 0.40 |
| EXR | Extra Space Storage Inc. | Real Estate | Equity Real Estate Investment Trusts (REITs) | 10/27/2021 | 0.6 | 0.9 | Beat/Beat | 171.07 | BUY | 0.27 |
| DGX | Quest Diagnostics | Health Care | Health Care Providers & Services | 10/21/2021 | 0.6 | 0.3 | Beat/Beat | 141.93 | BUY | 0.32 |
| TMO | Thermo Fisher Scientific Inc. | Health Care | Life Sciences Tools & Services | 10/21/2021 | 0.9 | 0.7 | Beat/Beat | 583.92 | BUY | 1.28 |
| HON | Honeywell International Inc. | Industrials | Industrial Conglomerates | 10/22/2021 | 0.6 | 1.1 | Beat/Beat | 217.70 | BUY | 1.20 |
| RTX | Raytheon Technologies | Industrials | Aerospace & Defense | 10/26/2021 | 0.6 | 1.8 | Beat/Beat | 90.62 | BUY | 1.36 |
| ROK | Rockwell Automation, Inc. | Industrials | Electrical Equipment | 11/10/2021 | 0.1 | 2.5 | Beat/Beat | 301.33 | BUY | 1.02 |
| DHR | Danaher Corporation | Health Care | Health Care Equipment & Supplies | 10/21/2021 | 2.0 | 1.5 | Beat/Beat | 299.77 | BUY | 1.55 |
| CMI | Cummins Inc. | Industrials | Machinery | 11/2/2021 | 0.5 | 1.2 | Beat/Beat | 236.00 | BUY | 0.68 |
| ANSS | ANSYS, Inc. | Information Technology | Software | 11/4/2021 | 1.4 | 0.8 | Beat/Beat | 345.67 | BUY | 0.44 |
| NTAP | NetApp, Inc. | Information Technology | Technology Hardware Storage & Peripherals | 11/30/2021 | 1.6 | 1.8 | Beat/Beat | 91.51 | BUY | 2.30 |
| FB | Facebook, Inc. Class A | Communication Services | Interactive Media & Services | 10/25/2021 | 1.6 | 0.5 | Beat/Beat | 330.05 | BUY | 1.99 |
| WST | West Pharmaceutical Services | Health Care | Health Care Equipment & Supplies | 10/22/2021 | 1.3 | 1.8 | Beat/Beat | 407.14 | BUY | 0.50 |
| CNP | CenterPoint Energy, Inc. | Utilities | Multi-Utilities | 11/4/2021 | 0.7 | 0.8 | Beat/Beat | 25.54 | BUY | 1.48 |
| CMS | CMS Energy Corporation | Utilities | Multi-Utilities | 10/28/2021 | 10.1 | 2.2 | Beat/Beat | 60.15 | BUY | 1.03 |
| JBHT | J.B. Hunt Transport Services | Industrials | Road & Rail | 10/15/2021 | 1.0 | 1.1 | Beat/Beat | 169.78 | BUY | 1.00 |

Source: BofA US Equity & Quant Strategy, FactSet. Note: Closing prices and ratings as of close 10/10/21

This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decision

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Exhibit 38: 3Q21 Negative Surprise Screen (with overowned stocks by fund managers highlighted in blue)

Stocks that are most likely to miss expectations

| Ticker | Company | Sector | Industry | Expected Report Date | BofA vs. Consensus EPS: Z-Score | BofA vs. Consensus Sales: Z-Score | Last Qtr: EPS/Sales Surprise | Price | BofA Rating | Rel. Wgt. (vs. S&P 500) in fund holdings |
|--------|----------------------|------------------------|--|----------------------|---------------------------------|-----------------------------------|------------------------------|--------|--------------|--|
| LUMN | Lumen Technologies | Communication Services | Diversified Telecommunication Services | 11/3/2021 | -1.4 | -1.9 | Beat/Miss | 12.48 | UNDERPERFORM | 0.04 |
| CTXS | Citrix Systems, Inc. | Information Technology | Software | 11/4/2021 | -0.5 | -0.6 | Beat/Miss | 98.32 | UNDERPERFORM | 0.23 |
| APTIV | Aptiv PLC | Consumer Discretionary | Auto Components | 10/29/2021 | -1.7 | -1.8 | Miss/Beat | 165.12 | UNDERPERFORM | 1.13 |

Source: BofA US Equity & Quant Strategy, FactSet. Note: Closing prices and ratings as of close 10/10/21

This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decision

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Pricing power screen

We screened the S&P 500 for pricing power. We screened for companies that have positive 2-yr sales and EBIT margin growth each quarter during 2Q-4Q21E, with positive historical sensitivity to CPI, below-median labor intensity (employee/sales), and higher expected market share in 2021E vs. 2019 (based on company sales as a % of total GICS industry sales). We also added additional ideas from our analysts (in blue) based on their fundamental views.

Exhibit 39: Companies with potential pricing power

S&P 500 companies with positive 2-yr sales and EBIT margin growth in 2Q21-4Q21E with positive inflation beta, below-median labor intensity, and higher expected market share in 2021E vs. 2019 (based on company sales as a % of GICS industry sales), plus additional ideas from our analysts (highlighted in blue)

| Ticker | Company name | Sector | Industry | BofA Rating | 3Q21 2-yr sales growth | 3Q21 2-yr incremental margins | 3Q21 EBIT margins | Inflatio n beta | Empl o yee/ sales | 2019 Market share | 2021E market share | Price |
|--------|---------------------------------|------------------------|--|-------------|------------------------|-------------------------------|-------------------|-----------------|-------------------|-------------------|--------------------|--------|
| FXD | Freeport-McMoRan, Inc. | Materials | Metals & Mining | Buy | 86% | 81% | 40% | 0.066 | 1.29 | 9.4% | 10.5% | 34.13 |
| PXD | Pioneer Natural Resources | Energy | Oil Gas & Consumable Fuels | Buy | 92% | 48% | 31% | 0.054 | 0.17 | 0.9% | 1.4% | 193.08 |
| QCOM | Qualcomm Inc | Information Technology | Semiconductors & Semiconductor Equipment | Buy | 84% | 49% | 35% | 0.049 | 1.33 | 7.4% | 9.3% | 126.55 |
| DVN | Devon Energy Corporation | Energy | Oil Gas & Consumable Fuels | Buy | 71% | 55% | 30% | 0.042 | 0.21 | 0.6% | 1.0% | 39.86 |
| COP | ConocoPhillips | Energy | Oil Gas & Consumable Fuels | Buy | 4% | 199% | 29% | 0.035 | 0.33 | 3.4% | 3.8% | 74.92 |
| LRC | Lam Research Corporation | Information Technology | Semiconductors & Semiconductor Equipment | Buy | 100% | 39% | 32% | 0.031 | 0.96 | 3.6% | 4.4% | 550.16 |
| NUE | Nucor Corporation | Materials | Metals & Mining | Buy | 84% | 51% | 27% | 0.030 | 1.02 | 14.7% | 16.2% | 97.97 |
| WMB | Williams Companies, Inc. | Energy | Oil Gas & Consumable Fuels | Buy | 5% | 64% | 31% | 0.029 | 0.53 | 0.8% | 0.9% | 28.32 |
| ADM | Archer-Daniels-Midland | Consumer Staples | Food Products | Buy | 6% | 5% | 3% | 0.027 | 0.52 | 19.1% | 20.5% | 63.29 |
| PHM | PulteGroup, Inc. | Consumer Discretionary | Household Durables | Buy | 32% | 29% | 17% | 0.026 | 0.43 | 6.1% | 6.6% | 47.33 |
| MLM | Martin Marietta Materials, Inc. | Materials | Construction Materials | Buy | 7% | 32% | 27% | 0.024 | 1.79 | 30.8% | 30.9% | 357.80 |
| DE | Deere & Company | Industrials | Machinery | Buy | 22% | 48% | 16% | 0.022 | 1.64 | 9.5% | 11.0% | 343.17 |
| MOS | Mosaic Company | Materials | Chemicals | Buy | 36% | 71% | 23% | 0.021 | 1.27 | 3.0% | 3.6% | 40.40 |
| EXPD | Expeditors Int'l of Washington | Industrials | Air Freight & Logistics | Buy | 75% | 12% | 11% | 0.020 | 1.40 | 4.6% | 6.0% | 114.29 |
| CE | Celanese Corporation | Materials | Chemicals | Neutral | 31% | 50% | 30% | 0.018 | 1.09 | 2.1% | 2.3% | 159.07 |
| INTU | Intuit Inc. | Information Technology | Software | Buy | 55% | 35% | 20% | 0.016 | 1.40 | 2.2% | 2.5% | 531.12 |
| AAPL | Apple Inc. | Information Technology | Technology Hardware Storage & Peripherals | Neutral | 33% | 41% | 29% | 0.016 | 0.42 | 54.3% | 60.7% | 142.90 |
| TROW | T. Rowe Price Group | Financials | Capital Markets | Buy | 37% | 64% | 51% | 0.014 | 1.08 | 2.2% | 2.2% | 195.36 |
| AMAT | Applied Materials, Inc. | Information Technology | Semiconductors & Semiconductor Equipment | Buy | 70% | 45% | 33% | 0.013 | 1.11 | 5.6% | 6.5% | 126.22 |
| AMD | Advanced Micro Devices | Information Technology | Semiconductors & Semiconductor Equipment | Buy | 128% | 31% | 24% | 0.013 | 0.94 | 2.5% | 4.2% | 105.06 |
| ADBE | Adobe Inc. | Information Technology | Software | Buy | 39% | 60% | 46% | 0.011 | 1.56 | 3.5% | 3.8% | 576.86 |
| LYB | LyondellBasell Industries NV | Materials | Chemicals | Neutral | 29% | 47% | 21% | 0.008 | 0.54 | 11.5% | 12.2% | 97.95 |
| POOL | Pool Corporation | Consumer Discretionary | Distributors | Buy | 52% | 23% | 16% | 0.007 | 0.93 | 8.9% | 13.5% | 446.53 |
| MSFT | Microsoft Corporation | Information Technology | Software | Buy | 33% | 55% | 42% | 0.006 | 1.08 | 41.9% | 43.0% | 294.85 |
| TER | Teradyne, Inc. | Information Technology | Semiconductors & Semiconductor Equipment | Buy | 60% | 40% | 32% | 0.006 | 1.60 | 0.8% | 1.0% | 109.56 |
| ATVI | Activision Blizzard, Inc. | Communication Services | Entertainment | Buy | 55% | 61% | 38% | 0.004 | 1.06 | 4.5% | 5.7% | 77.61 |
| NDAQ | Nasdaq, Inc. | Financials | Capital Markets | Buy | 31% | 50% | 50% | 0.003 | 0.81 | 1.0% | 1.0% | 197.40 |
| NFLX | Netflix, Inc. | Communication Services | Entertainment | Buy | 43% | 26% | 21% | 0.000 | 0.34 | 14.1% | 19.1% | 632.66 |
| MA | Mastercard Incorporated | Information Technology | IT Services | Buy | 11% | 16% | 55% | 0.002 | 1.26 | 4.9% | 4.8% | 354.96 |
| NVDA | NVIDIA Corporation | Information Technology | Semiconductors & Semiconductor Equipment | Buy | 126% | 53% | 46% | -0.087 | 0.87 | 4.1% | 6.8% | 208.31 |
| TXN | Texas Instruments | Information Technology | Semiconductors & Semiconductor Equipment | Buy | 23% | 73% | 48% | -0.016 | 1.79 | 5.3% | 4.9% | 195.24 |
| ADI | Analog Devices, Inc. | Information Technology | Semiconductors & Semiconductor Equipment | Buy | 53% | 50% | 43% | -0.023 | 2.44 | 2.2% | 2.1% | 168.62 |
| MCHP | Microchip Technology | Information Technology | Semiconductors & Semiconductor Equipment | Buy | 23% | 64% | 42% | -0.029 | 3.42 | 2.0% | 1.7% | 146.14 |
| MVLT | Marvell Technology, Inc. | Information Technology | Semiconductors & Semiconductor Equipment | Buy | NA | NA | NA | NA | NA | 1.0% | 1.1% | 64.62 |
| AVGO | Broadcom Inc. | Information Technology | Semiconductors & Semiconductor Equipment | Buy | 27% | 82% | 59% | -0.033 | 0.79 | 8.4% | 7.6% | 492.85 |
| IDXX | IDEXX Laboratories, Inc. | Health Care | Health Care Equipment & Supplies | Buy | 32% | 38% | 27% | -0.004 | 3.05 | 1.2% | 1.3% | 617.02 |
| ZTS | Zoetis, Inc. Class A | Health Care | Pharmaceuticals | Buy | 22% | 28% | 37% | NA | 1.52 | 2.3% | 2.2% | 197.88 |
| NOC | Northrop Grumman Corp | Industrials | Aerospace & Defense | Buy | 5% | NA | 10% | -0.034 | 2.58 | 9.1% | 9.9% | 389.72 |
| LMT | Lockheed Martin Corp | Industrials | Aerospace & Defense | Buy | 13% | 12% | 14% | -0.021 | 1.71 | 16.1% | 18.7% | 353.75 |
| LHX | L3Harris Technologies Inc | Industrials | Aerospace & Defense | Buy | 144% | 17% | 18% | 0.019 | 2.61 | 1.2% | 5.1% | 233.17 |
| LDOS | Leidos Holdings, Inc. | Industrials | Professional Services | Buy | 27% | 6% | 8% | -0.036 | 2.94 | 8.4% | 9.8% | 98.88 |
| HII | Huntington Ingalls Industries | Industrials | Aerospace & Defense | Buy | 4% | NA | 6% | -0.002 | 4.38 | 2.4% | 2.6% | 206.39 |
| DRE | Duke Realty Corporation | Real Estate | Equity Real Estate Investment Trusts (REITs) | Buy | 22% | 97% | 36% | -0.029 | 0.31 | 0.5% | 0.6% | 50.40 |
| PLD | Prologis, Inc. | Real Estate | Equity Real Estate Investment Trusts (REITs) | Buy | 46% | 41% | 46% | -0.021 | 0.41 | 1.7% | 2.5% | 128.53 |
| AVB | AvalonBay Communities, Inc. | Real Estate | Equity Real Estate Investment Trusts (REITs) | Neutral | (3%) | NA | 28% | -0.029 | 1.36 | 1.4% | 1.4% | 223.85 |
| EQR | Equity Residential | Real Estate | Equity Real Estate Investment Trusts (REITs) | Buy | (11%) | NA | 26% | -0.034 | 1.06 | 1.7% | 1.5% | 82.73 |
| ESS | Essex Property Trust, Inc. | Real Estate | Equity Real Estate Investment Trusts (REITs) | Buy | (3%) | NA | 28% | -0.042 | 1.14 | 0.9% | 0.9% | 326.61 |
| UDR | UDR, Inc. | Real Estate | Equity Real Estate Investment Trusts (REITs) | Buy | 9% | NA | 13% | -0.024 | 1.01 | 0.7% | 0.8% | 53.04 |
| FRT | Federal Realty Investment Trust | Real Estate | Equity Real Estate Investment Trusts (REITs) | Neutral | (2%) | NA | 26% | -0.007 | 0.35 | 0.6% | 0.6% | 121.40 |
| KIM | Kimco Realty Corporation | Real Estate | Equity Real Estate Investment Trusts (REITs) | Buy | 1% | NA | 32% | -0.001 | 0.41 | 0.7% | 0.7% | 21.72 |
| REG | Regency Centers Corporation | Real Estate | Equity Real Estate Investment Trusts (REITs) | Buy | 1% | NA | 42% | -0.017 | 0.39 | 0.7% | 0.7% | 69.43 |
| EXR | Extra Space Storage Inc. | Real Estate | Equity Real Estate Investment Trusts (REITs) | Buy | 18% | 81% | 53% | -0.007 | 2.67 | 0.8% | 0.9% | 171.07 |
| PSA | Public Storage | Real Estate | Equity Real Estate Investment Trusts (REITs) | Buy | 18% | 38% | 49% | -0.015 | 1.70 | 1.7% | 2.0% | 299.72 |
| ARE | Alexandria Real Estate Equities | Real Estate | Equity Real Estate Investment Trusts (REITs) | Buy | 38% | NA | 25% | -0.030 | 0.18 | 0.9% | 1.3% | 192.44 |

Source: FactSet, BofA US Equity & Quant Strategy; Note: Incremental margins = 2-yr change in EBIT / 2-yr change in sales

This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decision

SMID caps with pricing power

We also include a SMID cap screen for pricing power, based on Russell 2500 stocks with:

- 1) Positive 2-year sales and EBIT margin growth each quarter during 2Q21-4Q21E;
 - 2) Below-index-median labor intensity;
 - 3) Exclude stocks with negative historical beta to CPI (where available);
 - 4) Higher market share in 2021E vs. 2019 and
 - 5) Buy- or Neutral-rated by BofA fundamental analysts.
- We also include (in blue) additional SMID cap (Russell 2500) ideas from our analysts based on their fundamental views.

Exhibit 40: SMID Caps with pricing power

Russell 2500 quantitative screen (criteria above)+ additional Russell 2500 ideas from our fundamental analysts (in blue)

| Ticker | Name | Sector | Industry | Mkt Cap (\$mn) | Price | BofA Rating | 3Q21 2-yr sales growth | 3Q21 2-yr incremental margins | 3Q21 EBIT margins | Inflation beta | Employee/sales | 2019 Mkt share | 2021E Mkt share |
|--------|-----------------------------------|------------------------|----------------------------------|----------------|--------|-------------|------------------------|-------------------------------|-------------------|----------------|----------------|----------------|-----------------|
| FOXF | Fox Factory Holding Corp. | Consumer Discretionary | Auto Components | 6,263 | 148.82 | BUY | 50% | 18% | 18% | NA | 2.6 | 0.7% | 1.0% |
| SONO | Sonos, Inc | Consumer Discretionary | Household Durables | 3,836 | 30.51 | BUY | 22% | 30% | 2% | NA | 0.8 | 0.8% | 0.8% |
| TPX | Tempur Sealy International Inc | Consumer Discretionary | Household Durables | 8,841 | 44.99 | BUY | 62% | 24% | 18% | NA | 2.0 | 1.9% | 2.3% |
| YETI | YETI Holdings, Inc. | Consumer Discretionary | Leisure Products | 7,413 | 84.78 | BUY | 56% | 24% | 20% | NA | 0.5 | 2.9% | 3.1% |
| RH | RH | Consumer Discretionary | Specialty Retail | 13,847 | 646.81 | BUY | 45% | 57% | 27% | NA | 1.4 | 0.4% | 0.5% |
| APA | APA Corp. | Energy | Oil Gas & Consumable Fuels | 9,208 | 24.36 | BUY | 9% | 423% | 40% | 3.1 | 0.4 | 0.6% | 0.6% |
| DVN | Devon Energy Corporation | Energy | Oil Gas & Consumable Fuels | 26,985 | 39.86 | BUY | 71% | 55% | 30% | 3.2 | 0.2 | 0.6% | 1.0% |
| TNDM | Tandem Diabetes Care, Inc. | Health Care | Health Care Equip. & Supplies | 8,042 | 127.75 | NEUTRAL | 81% | 15% | 3% | NA | 2.5 | 0.2% | 0.3% |
| AMN | AMN Healthcare Services, Inc. | Health Care | Health Care Providers & Services | 5,664 | 119.83 | BUY | 38% | 22% | 11% | NA | 1.0 | 0.1% | 0.2% |
| PGNY | Progyny, Inc. | Health Care | Health Care Providers & Services | 5,274 | 59.02 | BUY | 107% | 7% | 7% | NA | 0.5 | 0.0% | 0.0% |
| WSC | WillScot Class A | Industrials | Construction & Engineering | 7,145 | 31.50 | BUY | 72% | 29% | 19% | NA | 2.5 | 1.1% | 2.0% |
| AGCO | AGCO Corporation | Industrials | Machinery | 9,608 | 127.45 | BUY | 35% | 15% | 7% | 2.2 | 2.0 | 2.5% | 3.0% |
| TRTN | Triton International Ltd. Class A | Industrials | Trading Co's & Distributors | 3,571 | 52.98 | BUY | 20% | 86% | 56% | NA | 0.2 | 1.2% | 1.2% |
| MOS | Mosaic Company | Materials | Chemicals | 15,348 | 40.40 | BUY | 35% | 71% | 23% | 3.7 | 1.3 | 3.0% | 3.6% |
| OLN | Olin Corporation | Materials | Chemicals | 7,917 | 49.33 | BUY | 50% | 44% | 20% | 1.8 | 1.1 | 2.0% | 2.5% |
| TROX | Tronox Holdings Plc | Materials | Chemicals | 3,792 | 24.69 | BUY | 18% | 52% | 19% | NA | 2.0 | 0.9% | 1.0% |
| LPX | Louisiana-Pacific Corporation | Materials | Paper & Forest Products | 5,958 | 61.44 | BUY | 88% | 85% | 41% | 2.7 | 1.1 | 15.8% | 29.7% |
| EGP | EastGroup Properties, Inc. | Real Estate | Equity REITs | 6,971 | 172.56 | BUY | 21% | 38% | 33% | 1.0 | 0.2 | 0.2% | 0.2% |
| GLPI | Gaming & Leisure Properties, Inc. | Real Estate | Equity REITs | 11,126 | 47.49 | BUY | 3% | 384% | 75% | NA | 0.5 | 0.7% | 0.7% |

Other SMID Cap names with pricing power, as highlighted by our fundamental analysts:

| Ticker | Name | Sector | Industry | Mkt Cap (\$mn) | Price | BofA Rating | 3Q21 2-yr sales growth | 3Q21 2-yr incremental margins | 3Q21 EBIT margins | Inflation beta | Employee/sales | 2019 Mkt share | 2021E Mkt share |
|--------|-------------------------------------|-------------|---|----------------|--------|-------------|------------------------|-------------------------------|-------------------|----------------|----------------|----------------|-----------------|
| BWXT | BWX Technologies, Inc. | Industrials | Aerospace & Defense | 5,490 | 57.69 | BUY | 6.3% | -19.3% | 17.3% | NA | 3.2 | 0.5% | 0.6% |
| HII | Huntington Ingalls Industries, Inc. | Industrials | Aerospace & Defense | 8,297 | 206.39 | BUY | 5.2% | -75.0% | 5.5% | NA | 4.4 | 2.4% | 2.6% |
| BAH | Booz Allen Hamilton Class A | Industrials | Professional Services | 10,945 | 80.82 | BUY | 17.6% | 11.0% | 9.7% | NA | 3.4 | 5.5% | 5.8% |
| MANT | ManTech International Class A | Industrials | Professional Services | 3,218 | 79.10 | BUY | 17.2% | 3.6% | 6.2% | NA | 3.7 | 1.7% | 1.9% |
| AMH | American Homes 4 Rent Class A | Real Estate | Equity REITs | 12,333 | 38.20 | BUY | 11.2% | -6.2% | 16.7% | NA | 1.2 | 0.7% | 0.8% |
| BRX | Brixmor Property Group, Inc. | Real Estate | Equity REITs | 6,819 | 22.96 | BUY | -4.5% | N/A | 30.2% | NA | 0.4 | 0.7% | 0.7% |
| CPT | Camden Property Trust | Real Estate | Equity REITs | 16,561 | 150.81 | BUY | 9.9% | N/A | 22.5% | 1.29 | 1.6 | 0.6% | 0.7% |
| CUBE | CubeSmart | Real Estate | Equity REITs | 9,826 | 48.70 | NEUTRAL | 20.1% | 34.5% | 35.6% | NA | 4.2 | 0.4% | 0.5% |
| ELS | Equity LifeStyle Properties, Inc. | Real Estate | Equity REITs | 14,741 | 80.22 | BUY | 1.3% | 438.3% | 35.3% | 0.48 | 3.4 | 0.5% | 0.7% |
| FRT | Federal Realty Investment Trust | Real Estate | Equity REITs | 9,440 | 121.40 | NEUTRAL | -2.1% | 1765.5% | 25.6% | 0.94 | 0.3 | 0.6% | 0.6% |
| KIM | Kimco Realty Corporation | Real Estate | Equity REITs | 9,416 | 21.72 | BUY | 29.3% | 8.7% | 27.6% | 1.95 | 0.4 | 0.7% | 0.7% |
| LSI | Life Storage, Inc. | Real Estate | Equity REITs | 9,179 | 117.61 | BUY | 36.4% | 36.7% | 39.4% | 0.85 | 3.0 | 0.4% | 0.5% |
| PECO | Phillips Edison & Company, Inc. | Real Estate | Equity REITs | 610 | 31.18 | BUY | N/A | N/A | 29.8% | NA | 0.6 | NA | NA |
| REG | Regency Centers Corporation | Real Estate | Equity REITs | 11,755 | 69.43 | BUY | 0.5% | 5725.8% | 49.4% | 1.26 | 0.4 | 0.7% | 0.7% |
| VST | Vistra Corp. | Utilities | Independent Power & Renewable Electricity Producers | 8,636 | 17.90 | BUY | 59.6% | 31.6% | 19.3% | NA | 0.5 | 49.4% | 55.2% |

Source: Factset, BofA US Equity & US Quant Strategy

This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decision

Supply chain screen

We screened the S&P 500 for companies that are most likely facing supply chain issues.

We screened for companies that mentioned “supply chain” the most during 2Q earnings calls, with more mentions in 2Q vs. the prior five quarters.

Exhibit 41: Companies that mentioned “supply chain” the most during 2Q earnings call

S&P 500 companies with the most “supply chain” mentions during 2Q earnings calls, with more mentions in 2Q vs. the prior five quarters

| Ticker | Company name | Sector | # of "supply chain" mentions during 2Q earnings calls | QoQ chg in mentions | YoY chg in mentions |
|--------|-----------------------------|------------------------|---|---------------------|---------------------|
| KEYS | Keysight Technologies, Inc. | Information Technology | 16 | 10 | 14 |
| ALLE | Allegion Plc | Industrials | 13 | 11 | 9 |
| CHD | Church & Dwight Co., Inc. | Consumer Staples | 12 | 12 | 12 |
| AOS | A. O. Smith Corp. | Industrials | 12 | 3 | 12 |
| IR | Trane Technologies Plc | Industrials | 11 | 8 | 11 |
| IP | International Paper Co. | Materials | 11 | 5 | 8 |
| NKE | NIKE, Inc. | Consumer Discretionary | 9 | 9 | 6 |
| ITW | Illinois Tool Works, Inc. | Industrials | 9 | 6 | 7 |
| DHI | D.R. Horton, Inc. | Consumer Discretionary | 9 | 5 | 9 |
| APTV | Aptiv Plc | Consumer Discretionary | 9 | 0 | 6 |
| HBI | Hanesbrands, Inc. | Consumer Discretionary | 8 | 8 | 7 |
| VFC | VF Corp. | Consumer Discretionary | 8 | 6 | 7 |
| LEN | Lennar Corp. | Consumer Discretionary | 8 | 6 | 7 |
| SHW | The Sherwin-Williams Co. | Materials | 8 | 5 | 2 |
| WY | Weyerhaeuser Co. | Real Estate | 7 | 5 | 5 |
| LOW | Lowe's Cos., Inc. | Consumer Discretionary | 7 | 5 | 7 |
| KR | The Kroger Co. | Consumer Staples | 7 | 5 | 6 |
| ROK | Rockwell Automation, Inc. | Industrials | 7 | 0 | 7 |
| RMD | ResMed, Inc. | Health Care | 6 | 6 | 6 |
| ROST | Ross Stores, Inc. | Consumer Discretionary | 6 | 5 | 5 |
| MAS | Masco Corp. | Industrials | 6 | 4 | 1 |
| CAT | Caterpillar, Inc. | Industrials | 6 | 2 | 6 |
| TRMB | Trimble, Inc. | Information Technology | 6 | 2 | 6 |
| MSI | Motorola Solutions, Inc. | Information Technology | 6 | 2 | 6 |
| WMT | Walmart, Inc. | Consumer Staples | 6 | 2 | 6 |
| TSCO | Tractor Supply Co. | Consumer Discretionary | 5 | 5 | 5 |
| TSLA | Tesla, Inc. | Consumer Discretionary | 5 | 5 | 5 |
| LDOS | Leidos Holdings, Inc. | Information Technology | 5 | 5 | 5 |
| SJM | The J. M. Smucker Co. | Consumer Staples | 5 | 5 | 5 |
| GLW | Corning, Inc. | Information Technology | 5 | 3 | 5 |
| AES | The AES Corp. | Utilities | 5 | 2 | 5 |
| APH | Amphenol Corp. | Information Technology | 5 | 1 | 4 |
| CMA | Comerica, Inc. | Financials | 4 | 4 | 4 |
| WDC | Western Digital Corp. | Information Technology | 4 | 4 | 2 |
| FITB | Fifth Third Bancorp | Financials | 4 | 3 | 4 |
| PPG | PPG Industries, Inc. | Materials | 4 | 1 | 3 |
| ALB | Albemarle Corp. | Materials | 4 | 1 | 2 |
| PLD | Prologis, Inc. | Real Estate | 4 | 0 | 2 |

Source: FactSet, BofA US Equity & Quant Strategy

This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decision

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S&P 500 companies reporting in Week 1

Below we list confirmed/tentative dates for S&P 500 companies reporting this week.

Table 3: S&P 500 companies slated to report 3Q results in Week 1 (mega caps highlighted in blue)
Week 1 schedule

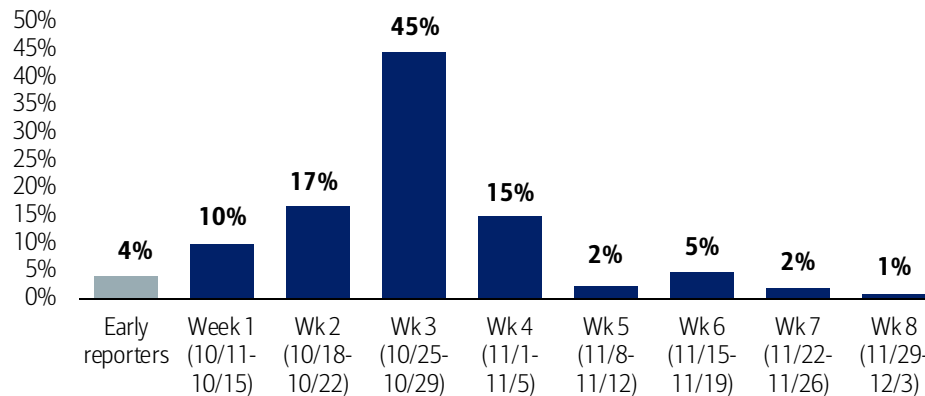
| Report Date | Ticker | Company Name | Sector | Market Cap (\$B) | Status | Week |
|-------------|--------|------------------------------|------------------------|------------------|-----------|------|
| 10/12/2021 | FAST | FASTENAL CO | Industrials | 30 | Confirmed | 1 |
| 10/13/2021 | JPM | JPMORGAN CHASE & CO | Financials | 508 | Confirmed | 1 |
| 10/13/2021 | BLK | BLACKROCK INC | Financials | 129 | Confirmed | 1 |
| 10/13/2021 | FRC | FIRST REPUBLIC BANK/CA | Financials | 36 | Confirmed | 1 |
| 10/13/2021 | DAL | DELTA AIR LINES INC | Industrials | 28 | Confirmed | 1 |
| 10/14/2021 | UNH | UNITEDHEALTH GROUP INC | Health Care | 382 | Confirmed | 1 |
| 10/14/2021 | BAC | BANK OF AMERICA CORP | Financials | 371 | Confirmed | 1 |
| 10/14/2021 | WFC | WELLS FARGO & CO | Financials | 196 | Confirmed | 1 |
| 10/14/2021 | MS | MORGAN STANLEY | Financials | 180 | Confirmed | 1 |
| 10/14/2021 | C | CITIGROUP INC | Financials | 146 | Confirmed | 1 |
| 10/14/2021 | USB | US BANCORP | Financials | 92 | Confirmed | 1 |
| 10/14/2021 | PGR | PROGRESSIVE CORP | Financials | 53 | Confirmed | 1 |
| 10/14/2021 | WBA | WALGREENS BOOTS ALLIANCE INC | Consumer Staples | 41 | Confirmed | 1 |
| 10/14/2021 | DPZ | DOMINO'S PIZZA INC | Consumer Discretionary | 18 | Tentative | 1 |
| 10/15/2021 | SCHW | SCHWAB (CHARLES) CORP | Financials | 144 | Tentative | 1 |
| 10/15/2021 | GS | GOLDMAN SACHS GROUP INC | Financials | 137 | Confirmed | 1 |
| 10/15/2021 | PLD | PROLOGIS INC | Real Estate | 96 | Tentative | 1 |
| 10/15/2021 | PNC | PNC FINANCIAL SERVICES GROUP | Financials | 86 | Confirmed | 1 |
| 10/15/2021 | TFC | TRUIST FINANCIAL CORP | Financials | 81 | Confirmed | 1 |
| 10/15/2021 | JBHT | HUNT (JB) TRANSPRT SVCS INC | Industrials | 18 | Confirmed | 1 |

Source: Bloomberg, BofA US Equity & US Quant Strategy

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3Q21 Reporting by Week

Exhibit 42: S&P 500 3Q21 Earnings Reporting by Week
% of earnings by sector



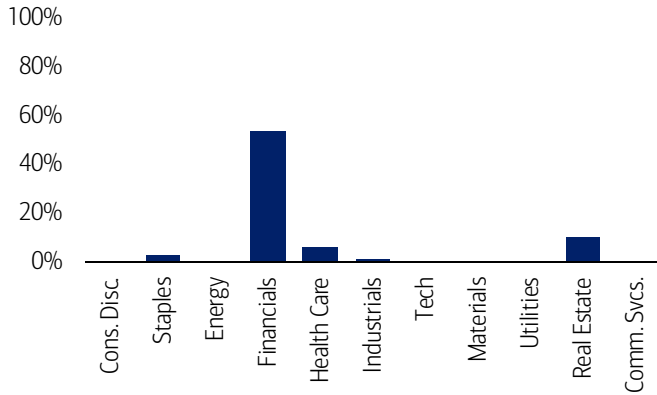
Source: Bloomberg, BofA US Equity & Quant Strategy

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Exhibit 43: Week 1: % 3Q earnings reported by sector

% of earnings by sector

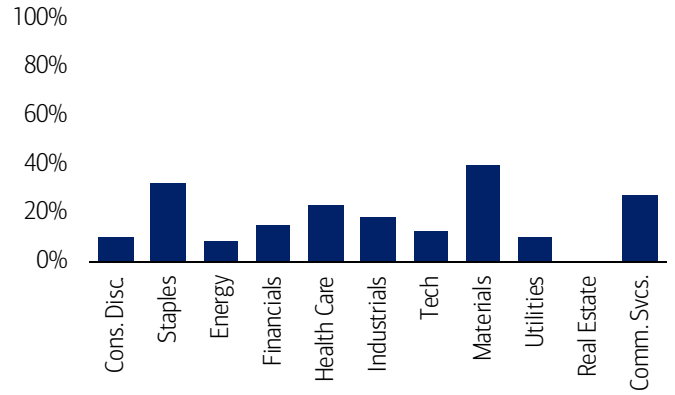


Source: Bloomberg, BofA US Equity & Quant Strategy

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Exhibit 44: Week 2: % 3Q earnings reported by sector

% of earnings by sector

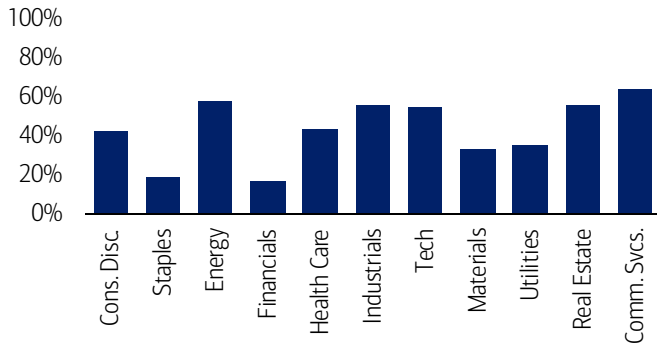


Source: Bloomberg, BofA US Equity & Quant Strategy

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Exhibit 45: Week 3: % 3Q earnings reported by sector

% of earnings by sector

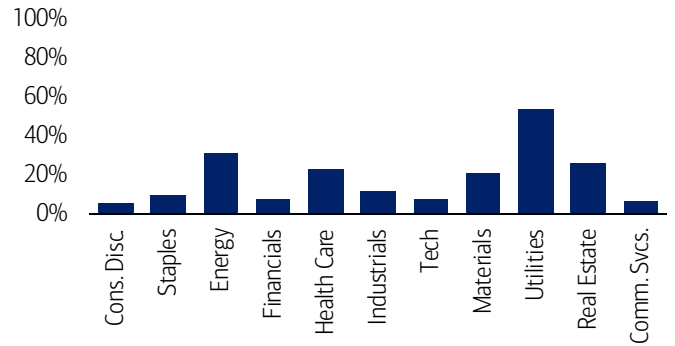


Source: Bloomberg, BofA US Equity & Quant Strategy

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Exhibit 46: Week 4: % 3Q earnings reported by sector

% of earnings by sector



Source: Bloomberg, BofA US Equity & Quant Strategy

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Note: due to negative profits, week-by-week breakout of % of sector earnings may be >100% or negative.



SMID caps 3Q21 earnings preview

Small caps

- Analysts are forecasting small cap earnings +27% YoY (+49% vs. 3Q19). Sales are expected to grow 17% YoY (also +17% vs. 3Q19).
- The median co. is expected to see earnings +7% YoY on +12% YoY sales growth.

Exhibit 47: Small cap 3Q21 growth expectations and proportion of beats so far

S&P 600 consensus 3Q21 earnings and sales growth and % positive surprises

| Sector | Total Companies | Number Reported | Earnings YoY% | Median earnings YoY% | vs 2Q19 | Sales YoY% | Median sales YoY% | vs 2Q19 | % With | | |
|----------------------|-----------------|-----------------|---------------|----------------------|------------|--------------|-------------------|--------------|------------|------------|-------------|
| | | | | | | | | | EPS Beat | Sales Beat | Both Beat % |
| Comm Svcs | 12 | 0 | N.A. | -48.7% | -30.0% | 16.1% | 9.7% | 38.2% | N.A. | N.A. | N.A. |
| Cons. Disc. | 84 | 1 | 31.9% | 12.8% | 96.5% | 15.3% | 18.5% | 2.0% | 0% | 0% | 0% |
| Cons. Staples | 24 | 1 | -1.5% | -9.7% | 50.1% | 9.6% | 10.4% | 6.3% | 100% | 100% | 100% |
| Energy | 32 | 0 | N.A. | 33.6% | 349.8% | 64.9% | 56.4% | 127.3% | N.A. | N.A. | N.A. |
| Financials | 109 | 0 | -9.9% | 0.9% | 45.0% | 5.6% | 5.5% | 43.3% | N.A. | N.A. | N.A. |
| Health Care | 75 | 1 | -14.1% | -5.2% | 97.9% | 8.0% | 10.8% | 4.0% | 100% | 100% | 100% |
| Industrials | 89 | 4 | 61.9% | 18.9% | 13.5% | 15.7% | 13.5% | 10.9% | 50% | 75% | 50% |
| Technology | 67 | 2 | 29.3% | 10.1% | 22.7% | 11.1% | 11.6% | -11.5% | 100% | 50% | 50% |
| Materials | 34 | 1 | 101.5% | 13.8% | 67.4% | 24.9% | 19.4% | 41.4% | 0% | 100% | 0% |
| Real Estate | 46 | 0 | 9.2% | 5.6% | 38.4% | 14.7% | 10.6% | 118.5% | N.A. | N.A. | N.A. |
| Utilities | 8 | 0 | -53.2% | 7.0% | -25.9% | 7.7% | 8.2% | 16.3% | N.A. | N.A. | N.A. |
| S&P 600 | 580 | 10 | 27% | 6.5% | 49% | 17.3% | 12.3% | 17.1% | 60% | 70% | 50% |
| Ex-Financials | 471 | 10 | 47.3% | 7.7% | 50.1% | 18.4% | 13.5% | 15.3% | 60% | 70% | 50% |
| Ex-Energy | 548 | 10 | 17.0% | 6.3% | 44.4% | 13.4% | 11.7% | 10.7% | 60% | 70% | 50% |
| Ex-Energy&Financials | 439 | 10 | 30.6% | 6.9% | 44.3% | 14.2% | 12.5% | 8.4% | 60% | 70% | 50% |

Source: FactSet, BofA US Equity & US Quant Strategy

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Mid caps

- Mid caps earnings are expected to climb 39% YoY (+40% vs. 3Q19), better than in small caps. Sales are expected to rise 18%, similar to in small caps.
- The median company is expected to grow earnings +8% YoY on median sales growth of +14% YoY, similar stats to in small caps.

Exhibit 48: Mid cap 3Q21 growth expectations and proportion of beats so far

S&P 400 consensus 3Q21 earnings and sales growth and % positive surprises

| Sector | Total Companies | Number Reported | Earnings YoY% | Median earnings YoY% | vs 2Q19 | Sales YoY% | Median sales YoY% | vs 2Q19 | % With | | |
|----------------------|-----------------|-----------------|---------------|----------------------|--------------|--------------|-------------------|--------------|------------|------------|-------------|
| | | | | | | | | | EPS Beat | Sales Beat | Both Beat % |
| Comm Svcs | 9 | 0 | -4.6% | -13.2% | -36.5% | 11.0% | 16.4% | -51.4% | N.A. | 0% | N.A. |
| Cons. Disc. | 60 | 2 | 25.7% | 11.0% | 77.9% | 18.8% | 17.0% | 28.3% | 50% | -2% | 50% |
| Cons. Staples | 17 | 0 | 10.7% | -7.9% | 70.2% | 21.5% | 14.0% | 158.7% | N.A. | 0% | N.A. |
| Energy | 11 | 0 | 243.5% | 79.4% | N.A. | 40.7% | 30.3% | -55.7% | N.A. | 0% | N.A. |
| Financials | 61 | 2 | 23.7% | 8.2% | 9.9% | 3.8% | 5.0% | 10.9% | 50% | -3% | 50% |
| Health Care | 38 | 1 | 6.4% | 3.9% | -2.9% | 12.9% | 11.5% | 14.0% | 0% | -3% | 0% |
| Industrials | 68 | 2 | 39.8% | 15.0% | 47.5% | 13.5% | 14.0% | 12.7% | 50% | -3% | 50% |
| Technology | 53 | 3 | 19.9% | 7.1% | 8.0% | 8.1% | 14.5% | -12.7% | 100% | -2% | 33% |
| Materials | 25 | 2 | 382.3% | 35.3% | 185.3% | 59.8% | 25.8% | 26.5% | 100% | -8% | 100% |
| Real Estate | 36 | 0 | 17.1% | 8.2% | 5.5% | 30.3% | 10.2% | 0.4% | N.A. | 0% | N.A. |
| Utilities | 15 | 0 | -23.2% | -2.2% | 50.8% | 21.7% | 12.4% | 30.0% | N.A. | 0% | N.A. |
| S&P 400 | 393 | 12 | 39.2% | 8.4% | 40.0% | 18.2% | 13.6% | 10.8% | 67% | -2% | 50% |
| Ex-Financials | 332 | 10 | 43.5% | 8.6% | 49.9% | 20.0% | 14.6% | 10.8% | 70% | -2% | 50% |
| Ex-Energy | 382 | 12 | 38.1% | 8.4% | 37.1% | 17.6% | 13.4% | 16.6% | 67% | -2% | 50% |
| Ex-Energy&Financials | 321 | 10 | 42.2% | 8.6% | 45.9% | 19.4% | 14.3% | 17.3% | 70% | -2% | 50% |

Source: FactSet, BofA US Equity & US Quant Strategy

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Methodology

Guidance Ratios

We track the number of instances of above-consensus management guidance vs. below-consensus management guidance for earnings over the last three months for S&P 500 companies. If a company issues changes to its outlook more than once in a one-month period, we incorporate all instances of guidance into our aggregate number. The ratio also includes all instances of above- or below-consensus earnings guidance issued by a company (for example, if they issue both quarterly and annual guidance). The one-month and three-month revision ratios are calculated as they are for estimate revision ratios. The data source is Bloomberg.

For companies that provide both GAAP and Operating guidance, or for REITs that provide both EPS and FFO guidance, we remove one data point if both data points provide the same guidance direction, otherwise both data points are used.

Capex Guidance Ratio

We track the number of instances of above-consensus management guidance vs. below-consensus management guidance for planned capex over the last three months for S&P 500 companies. The ratio is calculated the same way as the earnings guidance ratio, and the data source is FactSet.

Methodology: Earnings Calls Sentiment

With the help of BofA's Predictive Analytics team, we parsed through earnings calls transcripts to calculate sentiment for the S&P500 universe of companies that have reported since 31st March 2020. We use the Loughran McDonald's financial dictionary to calculate sentiment scores as per the definition below.

Sentiment score = No. of Unique positive words – No. of unique negative and uncertainty words

The sentiment score is computed with three different filters: the full transcript, management discussion and answers of CEO/CFO from Q/A section. Calculated scores were then averaged on the Sector level.

Loughran-McDonald Sentiment and Uncertainty:

1. **Loughran-McDonald Sentiment:** Examples of positive words include **accomplish, achieve, outperform, stabilize, strength** and negative words such as **abandon, abnormal, downturn, evade, failing, stagnate**. In total, the lexicon has 2,355 negative words and 354 positive words.
2. **Loughran-McDonald Uncertainty:** Examples of uncertain words include **almost, ambiguity, hidden, fluctuate, doubts, unclear**. In total, the lexicon has 297 words.

Note that the charts show the sentiment score multiplied by (- 1) and after applying the natural log to normalize the data on the same scale.

Our Predictive Analytics team is currently researching more advance modeling approaches including Deep Learning so please stay tuned for future enhancements.

BofA Corporate Misery Indicator methodology

The Corporate Misery Indicator is our macro-based predictor of the profits cycle and is based on the CPI, Average Hourly Earnings, and the Coincident Indicators. Our theory is that corporate profits are a function of how many units a company sells and their margin per unit. Implicitly, these factors incorporate productivity because enhanced productivity will result in either better margins or more units sold for the same inputs.

We use the year-to-year change in the Coincident Indicators as a proxy for units, because the Coincident Indicators are a proxy for Real GDP, a measure of unit growth. We use the spread between the year-to-year change in the CPI and the year-to-year change in Average Hourly Earnings to approximate margins:

Corporate Misery Indicator = $CPI (YoY) - Average Hourly Earnings (YoY) + Coincident Indicators (YoY)$

When the indicator declines, it implies that profits are being squeezed. This has historically coincided with a decelerating profits cycle.

