

MAY 9, 2019

Earnings are beating expectations at a rate higher than we saw last quarter which is an important datapoint as we move further away from the earnings recession fears that began in the fourth quarter of last year. Consumer and Financial companies are seeing the largest improvement in reports from last quarter on both sales and earnings while Industrials have seen slightly lower beat rates after posting some of the best earnings beats in the prior quarter. At the industry level, semiconductors are having a near perfect quarter as nearly all companies have beat on both earnings and sales, which is a sharp turnaround from last quarter's weak earnings reports. Retailers are posting decent earnings numbers but are struggling to meet sales expectations.

Q2 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q1'19 - Q1'18 Expected Earnings Growth	Median Q2'19 - Q2'18 Expected Earnings Growth	Median 2019 Expected Growth (EPS / Sales)
S&P 500	80%	81% / 57%	5.0% / 0.4%	5.3%	5.0%	6.5% / 4.1%
S&P 500 Ex Energy	79%	82% / 58%	4.9% / 0.4%	5.6%	5.0%	6.6% / 4.1%
Smith Group Large Cap Focused Growth	76%	82% / 53%	5.7% / 0.0%	11.3%	10.3%	9.1% / 4.0%

S&P 500 Sectors						
Communication Services	75%	90% / 44%	11.9% / -0.1%	2.6%	5.1%	2.9%
Consumer Discretionary	50%	86% / 67%	6.5% / 0.9%	1.5%	6.0%	6.6%
Consumer Staples	64%	73% / 75%	4.8% / 0.6%	1.0%	1.5%	1.0%
Energy	90%	74% / 44%	11.0% / -0.7%	0.0%	1.5%	-3.1%
Financials	96%	83% / 53%	3.7% / 0.2%	7.0%	5.4%	8.8%
Health Care	86%	87% / 73%	3.6% / 0.8%	7.5%	5.9%	8.9%
Industrials	91%	82% / 48%	4.7% / 0.1%	9.9%	7.0%	9.1%
Info Tech	68%	93% / 68%	5.0% / 0.7%	6.5%	4.8%	7.2%
Materials	92%	75% / 28%	2.7% / -1.3%	-0.7%	0.0%	4.9%
Utilities	85%	50% / 57%	0.0% / 1.2%	0.7%	3.5%	6.9%

Fears of an earnings decline in the first quarter have largely proven to be overblown as both the median and aggregate growth for the S&P 500 are likely to finish up year-over-year. This is a strong turnaround from what appeared to be a near certainty for an aggregate earnings decline earlier in the year. Health care companies have seen the largest turnaround in growth expectations for both the current quarter and year which is an interesting result as both pharma and health insurance providers have been on the receiving end of government intervention discussion from both political parties. Auto and semiconductor companies are currently expected to be the worst growth stories of 2019 however their outlook has improved as the year has progressed. As is generally the case, energy earnings continue to be volatile but have bounced off the lows from earlier in the year.

*Past performance is not indicative of future results. As with any investment vehicle, there is always a potential for profit as well as the possibility of loss. Nothing contained in this presentation should be construed as a recommendation to buy or sell a security or economic sector.*