

As companies finish up a tepid year for growth in 2019, earnings reports are coming in at a typical beat rate relative to history. However, sales reports are rebounding after struggling to keep pace with expectations for most of last year. Health Care companies in particular are beating sales expectations at near historical highs. This is true for both Pharmaceutical and Health Care Service companies. Consumer Staples companies are having one of the best quarters we've observed in a long time particularly for earnings. Similar to last quarter, Industrials continue to struggle to meet expectations. Within the Information Technology sector, Hardware companies are showing resilience on both bottom and top line results while Software company results are tepid relative to their typical reporting pattern.

Q1 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q4'19 - Q4'18 Expected Earnings Growth	Median Q1'20 - Q1'19 Expected Earnings Growth	Median 2020 Expected Growth
U.S. Large Cap	67%	77% / 68%	3.0% / 0.5%	6.2%	4.5%	9.5% / 4.4%
U.S. Large Cap Ex Energy	68%	78% / 68%	3.0% / 0.4%	6.7%	4.3%	9.4% / 4.4%
Smith Group Large Cap Focused Growth	68%	87% / 77%	3.6% / 0.9%	11.5%	7.9%	9.7% / 5.9%
Sectors						
Communication Services	75%	82% / 56%	4.4% / 0.4%	6.8%	6.2%	13.2% / 4.5%
Consumer Discretionary	47%	76% / 56%	4.2% / 0.3%	2.3%	2.6%	9.6% / 4.5%
Consumer Staples	64%	92% / 67%	1.7% / 0.3%	2.3%	2.7%	6.3% / 2.8%
Energy	50%	57% / 69%	4.7% / 3.3%	-22.8%	11.7%	18.3% / 4.2%
Financials	97%	68% / 78%	1.7% / 0.9%	9.0%	5.2%	8.0% / 4.0%
Health Care	77%	89% / 96%	2.8% / 0.9%	12.8%	7.3%	10.3% / 5.5%
Industrials	79%	71% / 48%	1.6% / -0.1%	5.1%	1.6%	10.3% / 4.2%
Information Technology	61%	88% / 85%	5.0% / 1.1%	2.0%	6.8%	11.2% / 6.9%
Materials	71%	67% / 46%	3.9% / -0.4%	7.3%	-1.4%	10.9% / 3.1%
Utilities	32%	75% / 14%	4.0% / -7.9%	9.6%	4.3%	5.5% / 3.5%

Given the backdrop of recent market performance, it would normally be a near necessity for earnings growth to accelerate significantly to further fuel the current market rally, given that 2019 was a muted year for earnings. However, changes in expectations for growth have often become de-linked from their usual relationship with market performance over the past several years. The initial read on 2020 growth suggests a trajectory of near double-digit growth for earnings and a solid +4.4% on sales. Initial estimates for earnings growth in a given year are generally more optimistic than reality so unless some kind of external accelerant occurs, we would expect earnings to come in shy of the current expectations. Even a slightly lower growth rate for earnings this year shouldn't be a large source of concern for how the market performs in 2020.

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. U.S. Large Cap universe is generally comprised of the largest 500 U.S. companies.