

MAY 11, 2020

Results so far this quarter are running along strict industry dynamics as Technology, Health Care and Staples companies appear to be weathering the storm fairly well while nearly all other sectors are reporting beat rates at well below what we've observed over the past several quarters. Financials and Discretionary are seeing the weakest earnings reports while Industrials are struggling to meet expectations on sales. That being said, it's hard to put too much stock in what companies are reporting this quarter as the carnage that's likely to happen next quarter will be severe with the median US Large Cap company expected to report a 25% Y/Y drop in earnings. Further, the disagreement on the future direction of earnings for most companies is as high as we've observed setting up a wide range of possible outcomes once companies begin reporting.

Q2 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q1'20 - Q1'19 Expected Earnings Growth	Median Q2'20 - Q2'19 Expected Earnings Growth	Median 2020 Expected Growth (EPS / Sales)
U.S. Large Cap	68%	68% / 62%	4.7% / 0.9%	-3.6%	-24.7%	-12.3% / -2.6%
U.S. Large Cap Ex Energy	67%	68% / 63%	4.5% / 0.9%	-3.2%	-21.5%	-10.5% / -2.0%
Smith Group Large Cap Focused Growth	64%	75% / 76%	10.7% / 2.2%	5.5%	-12.8%	2.3% / 3.1%

Sectors						
Communication Services	67%	60% / 62%	3.2% / 0.6%	0.0%	-23.9%	-14.8% / -2.3%
Consumer Discretionary	47%	58% / 64%	2.2% / 0.7%	-40.5%	-88.5%	-44.5% / -14.9%
Consumer Staples	70%	78% / 61%	4.7% / 0.6%	6.2%	-6.7%	0.8% / 0.0%
Energy	74%	70% / 44%	11.0% / -0.1%	-23.4%	-127.0%	-98.9% / -23.7%
Financials	92%	52% / 53%	0.6% / 0.1%	-7.4%	-22.9%	-13.8% / -1.9%
Health Care	75%	81% / 87%	8.9% / 2.7%	3.1%	-17.7%	-1.7% / -0.5%
Industrials	82%	71% / 51%	4.8% / 0.4%	-6.6%	-37.1%	-16.2% / -7.1%
Information Technology	55%	83% / 89%	5.9% / 1.8%	1.6%	-10.9%	-1.0% / 1.5%
Materials	75%	85% / 71%	6.4% / 0.9%	-13.2%	-37.8%	-15.9% / -5.9%
Utilities	43%	64% / 0%	3.1% / -10.1%	1.4%	6.0%	2.6% / 4.0%

When we last reported in early February, the median US Large Cap company was expected to grow earnings by nearly 10% in 2020 which was important given the tepid growth most companies experienced in 2019. That's clearly changed radically since governments across the globe began to shutdown large swaths of their economies in response to COVID-19. What's important from this point is how soon and how efficiently companies can begin to open up operations and how quickly demand picks up. This is highly uncertain right now but if the current CY 2020 expectation for a drop in earnings of 10% for the median non-energy companies could be achieved, that would be an impressive result given the largely unknowable externalities facing most companies. We suspect that expectations will be highly fluid over the coming quarters.

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.