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Based on the near record degree by which U.S. companies are beating earnings this season, the recovery in corporate earnings appears to be happening far sooner than expected. With 91% of the U.S. Large Cap Universe reported, the median company has exceeded expectations by 13.0% on EPS and 2.2% on sales. The large difference in EPS and Sales surprises suggest that much of the good news this quarter came from agility in the cost structure as many companies have successfully adapted their spending in the pandemic environment. All economic sectors are reporting significant earnings beats with Consumer Discretionary, Health Care and Communication Services as the standouts on both earnings and sales reports.

Q4 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q3'20 - Q3'19 Expected Earnings Growth	Median Q4'20 - Q4'19 Expected Earnings Growth	Median 2020 Expected Growth (EPS / Sales)
U.S. Large Cap	91%	92% / 84%	13.0% / 2.2%	4.1%	1.1%	-1.3% / 0.2%
Smith Group Large Cap Focused	92%	97% / 86%	17.4% / 3.4%	21.3%	11.1%	14.4% / 10.3%

Sectors	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q3'20 - Q3'19 Expected Earnings Growth	Median Q4'20 - Q4'19 Expected Earnings Growth	Median 2020 Expected Growth (EPS / Sales)
Communication Services	96%	92% / 81%	28.3% / 5.1%	10.0%	-5.0%	-2.6% / -1.2%
Consumer Discretionary	78%	88% / 59%	26.7% / 7.1%	13.0%	1.4%	-11.6% / -6.0%
Consumer Staples	78%	96% / 75%	11.5% / 2.6%	6.1%	0.3%	2.7% / 2.3%
Energy	100%	72% / 48%	23.3% / -0.5%	-81.0%	-74.4%	-90.6% / -29.2%
Financials	99%	81% / 81%	11.1% / 2.0%	-2.8%	-5.9%	-12.0% / 2.1%
Health Care	95%	95% / 84%	18.0% / 4.4%	14.8%	3.6%	6.6% / 5.1%
Industrials	95%	91% / 75%	12.9% / 2.3%	-4.9%	-2.3%	-7.8% / -5.0%
Information Technology	82%	92% / 77%	12.8% / 2.2%	5.9%	5.7%	5.5% / 3.6%
Materials	96%	89% / 71%	10.2% / 0.9%	-7.7%	-4.8%	-2.3% / -4.5%
Utilities	96%	67% / 29%	5.5% / -5.5%	2.4%	-2.0%	3.9% / 2.3%

The damage to earnings growth appears to be abating significantly this quarter as the median company in the U.S. Large Cap universe is now expected to see 2020 earnings decline by only 1.3% from 2019 levels, barring any further surprises in the final quarter of the year. Aggregate earnings are still expected to decline a far more significant 15.6% Y/Y. There are clear winners and losers however as cyclical companies are still expected to report significant declines while Information Technology, Health Care and Utilities are expected to experience positive earnings growth this year. Looking out to 2021, earnings for the median company are expected to rebound nicely at more than 10% and that is driven by a healthy expectation for sales growth of nearly 7%. Aggregate earnings are expected to rise 23.0% Y/Y in 2021. We are obviously in a fluid set of circumstances so expectations and reality could change meaningfully. However, if the current trajectory holds, the bulk of large companies in the U.S. will escape significant damage to their earnings power as a result of the pandemic.

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.