

MAY 11, 2021

The path to recovery for corporate earnings is continuing this quarter as the median company in the S&P 500 is beating earnings by nearly 13%. This is roughly inline with numbers posted the past three quarters. Cyclical sectors are beating at a higher rate than the defensive sectors like Consumer Staples and Utilities. Consumer Discretionary companies are the biggest standout with Autos, Retailers and Consumer Durables posting enormous earnings beats relative to expectations. Health Care and Technology companies are reporting more pedestrian earnings beats as they had less to recover from following the pandemic lockdowns. Margins appear to be the primary driver of earnings surprises this quarter although revenues are contributing.

Q2 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q1'21 - Q1'20 Expected Earnings Growth	Median Q2'21 - Q2'20 Expected Earnings Growth	Median 2021 Expected Growth (EPS / Sales)
U.S. Large Cap	85%	89% / 82%	12.7% / 2.3%	22.6%	33.1%	18.9% / 9.7%
Smith Group Large Cap Focused	81%	90% / 92%	15.3% / 2.2%	41.1%	40.1%	29.7% / 19.4%

Sectors						
Communication Services	89%	95% / 100%	25.4% / 2.0%	18.9%	8.5%	10.3% / 11.4%
Consumer Discretionary	65%	94% / 72%	31.1% / 3.2%	55.9%	86.1%	39.2% / 17.2%
Consumer Staples	66%	85% / 75%	7.4% / 1.9%	7.2%	0.2%	5.4% / 5.3%
Energy	96%	94% / 80%	20.7% / 6.8%	34.6%	194%	153% / 30.9%
Financials	99%	94% / 85%	17.0% / 2.0%	39.1%	43.3%	24.2% / 5.1%
Health Care	89%	83% / 76%	11.3% / 2.0%	20.1%	22.7%	17.0% / 12.0%
Industrials	90%	92% / 94%	13.9% / 2.9%	18.5%	45.0%	21.3% / 10.4%
Information Technology	75%	98% / 96%	8.9% / 2.6%	26.1%	26.2%	18.1% / 14.5%
Materials	93%	91% / 77%	16.6% / 2.6%	32.5%	34.5%	26.5% / 8.7%
Utilities	89%	77% / 59%	8.0% / 2.0%	10.8%	2.4%	5.0% / 6.9%

Given that the median company's earnings last year were nearly flat, the growth expected for 2021 is remarkable at 18.9% for earnings and nearly 10% for sales. While market returns have indicated an expectation for this level of growth, it will be important for companies to deliver on those expectations to support current market valuations. Consumer Discretionary companies in particular have recovered significantly and are expected to be the fastest growing sector (ex-energy) in 2021. Technology companies are also expected to grow considerably this year but software and service companies are projected to grow much more slowly than their hardware and semiconductors peers, as demand remains high for technology hardware despite lingering supply chain issues. Financials are also one of the highest expected growth sectors which is mostly due to a significant turnaround for banks, one of the hardest hit industry groups 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.*

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