

Third quarter reports are continuing the trend of the past five quarters as companies continue to exceed expectations by a sizable margin although the degree by which companies are beating is beginning to slow down. This is the first quarter since 4Q 2020 that the median reported surprise is below 9%. Sales surprises are also at their lowest level over the past four quarters with Consumer Discretionary and Technology companies dropping off the most although we are still at fairly high levels historically. Financials, particularly banks, are one of the standout groups this quarter as the median bank stock is beating earnings expectations by more than 13%. Pharmaceutical companies are also beating at a very high level along with retailers.

Q4 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q3'21 - Q3'20 Expected Earnings Growth	Median Q4'21 - Q4'20 Expected Earnings Growth	Median 2021 Expected Growth (EPS / Sales)
U.S. Large Cap	65%	86% / 78%	7.2% / 1.8%	20.9%	11.4%	23.9% / 13.3%
Smith Group Large Cap Focused	68%	86% / 73%	7.0% / 1.8%	24.7%	13.1%	38.8% / 17.3%

Sectors						
Communication Services	52%	92% / 71%	14.1% / 0.0%	16.7%	-0.6%	13.8% / 11.8%
Consumer Discretionary	49%	80% / 68%	11.0% / 1.0%	21.0%	12.7%	42.6% / 20.7%
Consumer Staples	59%	79% / 82%	4.2% / 2.2%	3.9%	2.3%	6.1% / 6.1%
Energy	71%	84% / 80%	7.3% / 18.6%	300%	267%	258% / 59%
Financials	91%	93% / 81%	9.7% / 1.9%	28.3%	9.8%	32.8% / 7.3%
Health Care	70%	93% / 91%	10.8% / 2.5%	19.4%	9.9%	23.0% / 17.0%
Industrials	79%	86% / 69%	6.1% / 1.5%	16.4%	12.7%	22.1% / 12.6%
Information Technology	51%	97% / 77%	6.4% / 1.2%	26.5%	16.6%	23.9% / 16.2%
Materials	71%	72% / 79%	2.5% / 2.8%	20.6%	20.3%	24.5% / 13.6%
Utilities	39%	44% / 67%	0.0% / 1.6%	0.6%	4.7%	5.4% / 6.9%

Expectations for growth on both earnings and sales continue to rise as 2021 progresses. We began the year with the median U.S. Large Cap company expected to grow earnings in 2021 at a little over 14%. We are now expecting a growth rate of nearly 24%. Given the myriad challenges that companies have faced including lingering supply-chain issues, rebounding COVID outbreaks and input cost pressure, it's remarkable how well companies have navigated the current environment. Margins, both operating and net income, have blown through prior peaks and are providing added growth fuel. However, looking ahead, there are additional challenges that companies will have to deal with in order to maintain the current growth trajectory. Most importantly will be the nature of current inflationary pressure in prices and whether companies will continue to be able to pass through those costs to their customers if inflation proves to be something other than transitory.

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