Smith Group
ASSET MANAGEMENT
A BUSINESS OF CANTOR FITZGERALD INVESTMENT ADVISORS

U.S. LARGE CAP EARNINGS UPDATE

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Despite two straight quarters of real GDP decline, headline numbers for American corporations this reporting period have been surprisingly healthy. However, when comparing corporate earnings to GDP unadjusted for inflation effects, the correlation appears stronger. Still, it is interesting to not see cost pressures defeat earnings at higher levels. In the Consumer Discretionary sector, topline results have been weaker than last quarter, which is notable, but not necessarily unexpected, due to consumer reaction to rising prices. Particularly to blame may be the performance of the Consumer Durables subsector, which is composed of companies engaged in businesses such as homebuilding, home furnishing, or clothing. While earnings numbers still beat, this is the only group, besides Insurers, to post a negative median sales surprise, perhaps due to an overestimation of the topline and also the cost structure.

Q3 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median % Q2'22 - Q2'21 Expected Earnings Growth	Median % Q3'22 - Q3'21 Expected Earnings Growth	Median % 2022 Expected Growth (EPS / Sales)
U.S. Large Cap	85	79 / 77	4.8 / 1.6	7.8	4.7	6.7 / 8.1
Smith Group Large Cap Focused	87	85 / 87	7.3 / 1.8	10.6	5.1	8.6 / 10.8
Sectors						
Communication Services	89	67 / 67	8.5 / 0.6	-10.0	-9.0	-6.0 / 4.8
Consumer Discretionary	62	71 / 63	3.8 / 0.6	7.4	6.0	10.7 / 8.1
Consumer Staples	61	81 / 93	3.1 / 3.0	2.9	-0.7	2.0 / 4.6
Energy	100	82 / 95	5.7 / 14.1	240.4	101.3	136.2 / 41.9
Financials	97	67 / 59	3.9 / 0.3	-12.8	2.9	-2.4 / 5.6
Health Care	88	83 / 75	6.0 / 1.3	1.0	-2.6	2.1 / 5.2
Industrials	92	91 / 72	4.5 / 0.7	15.2	11.3	13.9 / 10.3
Information Technology	72	84 / 86	5.2 / 1.4	15.7	8.9	12.7 / 10.7
Materials	96	76 / 77	5.2 / 0.8	5.3	5.6	7.6 / 11.4
Utilities	100	87 / 93	5.0 / 14.9	4.7	4.7	5.6 / 4.3

While results from this earnings season are certainly not as pessimistic as may have been expected, there are still some sectors which have had it better than others. The intensity of earnings and sales beats in the Materials sector is lower than last quarter, as commodity prices fell 6% in the quarter relative a greater than 25% rise in the first quarter[1]. Earnings beats are lower in the Financials sector as well, with the Fed's hawkish interest rate policy driving narrowing net income margins and rising loan loss provisions at many financial institutions. By contrast, firms operating in the Industrials and Information Technology spaces tend to be more contract dependent. As a result, the immediate effects of cost inflation can sometimes be mitigated by previously-made agreements, which contribute to higher expected earnings growth for this quarter and next. Overall, while the percentage and intensity of companies beating earnings expectations has declined quarter-over-quarter, the message to takeaway from the data is one that is definitively positive despite geopolitical and monetary turbulence.

[1]: price change based on Bloomberg Commodity Index.

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