

MAY 4, 2017

Earnings and sales started this reporting season on a hot streak but have moderately cooled as reports passed the midway point this week. Still, both top and bottom-line numbers are coming in at a strong rate relative to previous periods and the magnitude by which companies are beating is as strong as we've seen in several years. Industrial companies have significantly rebounded from last quarter's weak reporting season by posting strong beats on both sales and EPS. Consumer discretionary companies have also reversed the negative trend from last quarter while financials continue to report numbers well in excess of expectations.

Q2 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q1'17 - Q1'16 % Earnings Growth	Median Q2'17 - Q2'16 Expected Earnings Growth	Median 2017 Expected Growth (EPS / Sales)
S&P 500	65%	79% / 70%	4.8% / 1.3%	6.5%	6.7%	8.7% / 5.0%
Ex Energy	66%	81% / 70%	4.7% / 1.2%	5.7%	6.1%	7.8% / 4.2%
Smith Group Large Cap Focused Growth	63%	91% / 80%	5.3% / 2.0%	10.0%	10.3%	10.5% / 5.6%

S&P 500 Sectors						
Consumer Discretionary	44%	77% / 53%	5.0% / 0.2%	1.7%	2.3%	7.7% / 4.0%
Consumer Staples	41%	75% / 43%	1.5% / -0.3%	3.8%	4.2%	5.9% / 1.9%
Energy	66%	64% / 68%	8.4% / 4.0%	98.2%	97.3%	92.5% / 22.6%
Financials	85%	83% / 69%	5.3% / 1.7%	15.0%	10.2%	11.0% / 5.1%
Health Care	67%	85% / 76%	3.7% / 1.5%	9.5%	7.1%	8.7% / 5.2%
Industrials	88%	85% / 79%	6.1% / 1.8%	4.5%	3.6%	7.0% / 4.7%
Info Tech	54%	93% / 76%	4.2% / 1.0%	12.9%	9.2%	12.2% / 6.0%
Materials	76%	78% / 77%	4.5% / 2.1%	3.1%	8.9%	9.8% / 5.4%
Telecom	50%	0% / 0%	-0.7% / -2.5%	-7.1%	-2.9%	-7.1% / -1.9%
Utilities	50%	64% / 25%	5.7% / -2.5%	0.5%	4.4%	3.7% / 5.5%

The overall expectations for both sales and EPS growth in 2017 have risen considerably as companies report on their business activity this quarter. Our initial read for FY17 growth last year was nearly 10% for earnings and more than 4% for sales. That dropped quite a bit during the first quarter but has since recovered nearly back to our first read on EPS and has exceeded the original observation for expected sales growth. This has important implications for growth going forward as the environment for bottom-line growth has been plagued with low quality drivers as buybacks and margin expansion have been the primary component of growth going back several years.

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