

FEBRUARY 12, 2019

Earnings and sales for S&P 500 companies are quietly ignoring the volatile undercurrents in equity market returns and the divergence of opinions about the future direction of the economy. Companies are beating at a rate slightly higher than average on both EPS and Sales which is a slight downshift from what we've observed over the past several quarters. Some sectors such as Industrials and Health Care continue to look impressive while Consumer stocks, both Discretionary and Staples as well as Information Technology have come down from recent quarters. Hardware stocks, including Semiconductors, are struggling to beat on the top-line while Software companies aren't showing any signs of slowing down.

Q1 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q4'18 - Q4'17 % Earnings Growth	Median Q1'19 - Q1'18 Expected Earnings Growth	Median 2019 Expected Growth (EPS / Sales)
S&P 500	50%	76% / 63%	2.6% / 0.4%	12.1%	5.3%	7.0% / 3.9%
S&P 500 Ex Energy	51%	76% / 63%	2.6% / 0.4%	11.1%	5.3%	7.2% / 4.0%
Smith Group Large Cap Focused Growth	61%	88% / 69%	4.3% / 0.8%	21.3%	8.9%	9.4% / 5.1%

S&P 500 Sectors						
Communication Services	42%	89% / 60%	8.9% / 0.9%	28.9%	6.8%	4.8% / 6.5%
Consumer Discretionary	27%	69% / 77%	4.6% / 1.7%	12.0%	4.2%	6.5% / 3.9%
Consumer Staples	42%	60% / 71%	0.7% / 0.3%	4.4%	3.6%	5.1% / 2.9%
Energy	36%	80% / 46%	11.0% / 1.8%	73.0%	-4.0%	0.1% / 1.3%
Financials	75%	66% / 46%	1.7% / -0.2%	12.7%	5.3%	8.7% / 3.4%
Health Care	61%	87% / 92%	3.0% / 1.3%	9.4%	6.7%	7.6% / 5.1%
Industrials	70%	88% / 72%	2.9% / 0.6%	21.9%	9.5%	11.0% / 4.8%
Info Tech	44%	85% / 59%	3.7% / 0.1%	12.7%	6.2%	8.0% / 4.5%
Materials	56%	64% / 11%	0.4% / -1.4%	9.6%	1.2%	7.1% / 2.5%
Utilities	18%	50% / 40%	-0.9% / -2.0%	-6.9%	0.7%	4.4% / 2.8%

We are clearly at a pivotal stage going forward for both earnings and sales growth. Growth numbers will largely be compared to prior periods that included the incremental tax benefits from the 2017 legislation making it more difficult to continue the eye-popping growth numbers we saw in 2018. We've also been watching the trends in earnings growth as the year began and there has been some erosion in expectations for 2019 earnings and sales growth. That being said, the median company in the S&P 500 is still expected to grow Sales at nearly 4% translating into EPS growth of 7%. While down from the 20%+ earnings increases we saw in 2018, that level of growth, if realized, indicates a healthy earnings environment for U.S. companies.

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.