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As we pass the halfway point of this reporting season, earnings and sales surprise rates are basically in line with the average over the past two years. There are some interesting underlying trends at the sector level as Health Care is looking to have one of its worst quarters from a surprise perspective in more than two years and Consumer Discretionary companies are also struggling to meet expectations this quarter. Financials are beating at a rate we haven't observed in more than 10 years and with nearly 80% having already reported, this trend is likely to stay intact as the quarter ends.

Q4 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q3'16 - Q3'15 % Earnings Growth	Median Q4'16 - Q4'15 Expected Earnings Growth	Median 2016 Expected Growth (EPS / Sales)
S&P 500	51%	77% / 61%	3.4% / 0.5%	8.0%	7.3%	7.1% / 2.9%
Ex Energy	52%	78% / 63%	3.4% / 0.5%	8.3%	6.6%	7.5% / 3.1%
Smith Group Large Cap Focused Growth	45%	88% / 53%	4.6% / 0.5%	11.5%	10.0%	10.7% / 3.9%

S&P 500 Sectors						
Consumer Discretionary	32%	66% / 54%	1.0% / 0.0%	9.0%	6.0%	10.9% / 4.7%
Consumer Staples	32%	81% / 50%	2.0% / 0.1%	8.3%	8.7%	8.4% / 2.2%
Energy	39%	71% / 50%	11.3% / -0.4%	-50.3%	18.3%	-65.2% / -17.9%
Financials	78%	87% / 74%	5.3% / 2.6%	9.2%	7.2%	3.4% / 3.3%
Health Care	50%	78% / 64%	2.6% / 0.4%	8.7%	8.8%	10.7% / 7.3%
Industrials	73%	70% / 40%	2.4% / 0.0%	3.8%	0.5%	4.9% / 1.8%
Info Tech	48%	96% / 93%	9.2% / 1.3%	15.2%	11.1%	12.2% / 7.2%
Materials	59%	57% / 38%	0.8% / -0.2%	4.0%	5.2%	4.4% / -1.7%
Telecom	40%	100% / 0%	1.4% / -0.6%	-11.4%	-4.0%	-2.3% / 0.2%
Utilities	25%	100% / 28%	15.3% / -4.1%	9.8%	8.8%	5.5% / 2.3%

While we haven't seen a seismic increase in growth rates overall there has been a steady progression during the year as the current quarter is expected to be the highest single quarter of growth since fiscal 4Q 2015. Financials and Technology companies have seen the largest acceleration in growth expectations for this quarter while most other sectors have seen at least modest improvement. Looking ahead to next year, the median company in the large cap universe is expected to grow in 2017 at a fairly robust 9.6% on EPS and 4.3% on sales but those numbers tend to be highly optimistic initially. We still remain concerned about the quality of corporate earnings growth given the lack of sales growth but the trend is looking more promising than what we've seen in the past several quarters.

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.