Smith Group
ASSET MANAGEMENT

S&P 500 EARNINGS

MAY 7, 2018

What started as an interesting reporting year for earnings has accelerated this quarter into an even rosier picture for S&P 500 earnings. The degree to which companies are beating is near historic highs as 86% of all companies have exceeded expectations on EPS and nearly 80% on Sales. It's difficult to say with a high degree of precision, but recent tax law changes are certainly providing a meaningful boost to U.S. companies' ability to outperform what analysts were expecting. Nearly all sectors and industry groups are participating in the improved earnings outlook with retailers being the one notable exception. Out of the 23 different industry groups we monitor, retailers are the only group where less than half of the companies are beating expectations.

Q2 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q1'18 - Q1'17 % Earnings Growth	Median Q2'18 - Q2'17 Expected Earnings Growth	Median 2018 Expected Growth (EPS / Sales)
S&P 500	59%	86% / 79%	5.0% / 1.5%	16.3%	16.3%	18.4% / 6.5%
Ex Energy	59%	87% / 81%	5.0% / 1.5%	18.5%	15.8%	17.6% / 6.3%
Smith Group Large Cap Focused Growth	71%	96% / 81%	7.0% / 2.4%	29.2%	19.5%	22.7% / 6.9%
S&P 500 Sectors						
Consumer Discretionary	45%	75% / 82%	6.5% / 0.9%	14.5%	14.9%	18.1% / 4.9%
Consumer Staples	32%	90% / 88%	2.1% / 1.5%	9.9%	13.0%	13.0% / 4.0%
Energy	71%	86% / 61%	5.7% / 1.1%	74.8%	105.1%	79.1% / 13.1%
Financials	82%	93% / 68%	4.0% / 1.0%	27.8%	23.4%	28.3% / 5.4%
Health Care	59%	92% / 80%	5.8% / 1.5%	16.5%	14.7%	15.3% / 7.6%
Industrials	80%	88% / 95%	4.0% / 1.8%	21.9%	19.4%	20.8% / 6.7%
Info Tech	49%	100% / 96%	7.4% / 2.6%	24.7%	18.8%	20.1% / 9.0%
Materials	60%	79% / 64%	5.6% / 1.9%	21.1%	19.3%	19.7% / 7.0%
Telecom	67%	50% / 50%	1.8% / -0.8%	14.9%	13.1%	11.9% / 2.7%
Utilities	43%	67% / 44%	2.8% / -0.7%	8.5%	3.8%	5.2% / 2.3%

Earnings growth expectations for 2018 are near record levels which is particularly impressive as we normally see peak levels of growth following earnings recession periods. While there is a higher than normal disparity between EPS growth and Sales growth, that's to be expected given the impact of lower taxes on earnings. There are also clear signs emerging of increased activity on the top-line in the form of CapEx spending. This could provide a sustained boost to sales growth over the course of the year which would further expand earnings growth. Growth outside the U.S. is expected to be notably lower as the MSCI ACWI ex U.S. is only expected to deliver a little over 9% EPS growth this year. The developed regions in Europe and Asia are the primary reasons for lower growth as both emerging Asia and America regions have more robust expectations.

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