

FEBRUARY 15, 2018

Company reports are on pace to post near record-breaking numbers as 84% of all reports from S&P 500 companies are beating consensus estimates on EPS with an even more torrid historical pace for Sales at 83%. Nearly all sectors are participating with the exception of some of the smaller sectors such as Telecom and Utilities. Given the exceptional reports on sales, it's safe to say that this record rate of positive surprises is not being driven solely by the recent tax law changes. Within Technology, hardware stocks are posting exceptionally strong numbers while reports for software companies are only within range of normal reporting patterns. Financial companies are also reporting earnings beats far exceeding what we normally observe and this is distributed across banks, diversified financials and insurance companies.

Q1 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q4'17 - Q4'16 % Earnings Growth	Median Q1'18 - Q1'17 Expected Earnings Growth	Median 2018 Expected Growth (EPS / Sales)
S&P 500	57%	82% / 83%	4.4% / 1.4%	12.3% / 7.1%	16.3%	14.3% / 5.8%
Ex Energy	58%	85% / 83%	4.3% / 1.3%	11.7% / 6.8%	15.6%	13.4% / 5.7%
Smith Group Large Cap Focused Growth	71%	82% / 91%	4.2% / 1.8%	14.0% / 9.2%	20.7%	18.7% / 6.2%

S&P 500 Sectors						
Consumer Discretionary	34%	79% / 77%	4.6% / 1.0%	3.6% / 5.0%	14.6% / 4.8%	10.2% / 4.8%
Consumer Staples	41%	92% / 57%	2.4% / -0.3%	9.1% / 3.3%	11.9% / 3.8%	10.6% / 3.9%
Energy	47%	71% / 85%	7.8% / 3.4%	136% / 23%	82.8% / 21.6%	111.8% / 19.2%
Financials	81%	90% / 82%	5.2% / 1.1%	14.2% / 6.7%	25.1% / 5.7%	22.9% / 5.2%
Health Care	68%	92% / 100%	3.1% / 2.1%	12.3% / 7.7%	13.0% / 6.6%	11.3% / 6.7%
Industrials	75%	81% / 84%	2.6% / 1.4%	12.6% / 7.7%	17.5% / 6.0%	16.4% / 6.4%
Info Tech	64%	92% / 86%	5.8% / 1.3%	16.2% / 9.1%	17.9% / 7.7%	15.2% / 7.7%
Materials	60%	93% / 86%	6.5% / 3.9%	26.6% / 10.4%	20.4% / 8.0%	14.3% / 8.0%
Telecom	67%	50% / 100%	8.7% / 1.8%	0.0% / 5.0%	16.9% / 4.7%	13.2% / 1.8%
Utilities	21%	50% / 50%	0.2% / -1.4%	13.6% / 4.5%	6.6% / 3.3%	5.1% / 4.0%

Growth is robust across the board. There are finally no qualifiers to that statement as in the past there has been a lack of quality to the growth we've generally experienced since the recovery phase of the prior recession. The recent tax law changes have certainly had a gearing impact on earnings growth given that sales growth in 2018 currently looks to repeat 2017's good results although not at a notably higher level. Financials, in particular, are expected to experience outsized earnings growth this year at nearly 23% with all three industries (banks/diversified financials/insurance) expected to grow at about the same level.

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.