

NOVEMBER 8, 2018

Recent turmoil in the market appears to be delinked to what's happening on the earnings front given that 86% of companies in the S&P 500 have beaten expectations - close to a record high percentage. What's new this reporting period; however, is the degree to which companies are beating on the top-line, which has dropped to a more pedestrian rate of 62% versus last quarter's near record 80%. This quarter we've seen a general trend for reports to get better as the reporting season has progressed so we could see better numbers on the sales line by the end of the reporting season. Much of that will depend on consumer focused companies such as retailers, staples and media companies as they are typically the last to report.

Q4 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q3'18 - Q3'17 % Earnings Growth	Median Q4'18 - Q4'17 Expected Earnings Growth	Median 2018 Expected Growth (EPS / Sales)
S&P 500	55%	86% / 62%	3.9% / 0.3%	18.6%	13.6%	18.2% / 6.7%
Ex Energy	55%	87% / 62%	3.9% / 0.2%	17.1%	13.0%	17.4% / 6.4%
Smith Group Large Cap Focused Growth	51%	94% / 77%	3.9% / 0.7%	26.3%	21.0%	28.0% / 7.5%

S&P 500 Sectors						
Consumer Discretionary	36%	80% / 67%	6.6% / 0.5%	16.3%	10.3%	16.8% / 5.5%
Consumer Staples	38%	100% / 86%	2.3% / 1.0%	8.5%	5.7%	8.4% / 4.4%
Energy	47%	57% / 55%	1.7% / 0.6%	121.0%	78.1%	96.0% / 16.8%
Financials	81%	89% / 50%	3.9% / 0.1%	30.5%	21.7%	31.5% / 5.2%
Health Care	56%	90% / 67%	3.8% / 0.4%	15.6%	14.4%	18.2% / 8.3%
Industrials	73%	83% / 48%	2.8% / 0.1%	21.5%	18.9%	23.3% / 7.7%
Info Tech	49%	100% / 68%	6.0% / 0.2%	18.9%	12.7%	17.8% / 8.9%
Materials	50%	78% / 71%	2.0% / 0.4%	18.3%	14.9%	21.8% / 9.7%
Telecomm Services	67%	50% / 71%	-0.7% / 0.2%	21.6%	27.3%	14.9% / 6.4%
Utilities	31%	89% / 56%	4.4% / 2.2%	8.4%	-3.9%	6.0% / 1.8%

Expectations for both earnings and sales growth have largely remained intact for FY 2018 relative to what we observed last quarter. This shouldn't be surprising given the large amount of positive earnings reports this quarter but it also reflects a lack of negative guidance from companies on the remaining quarter of the year. The expectation for earnings growth in FY 2019 among S&P 500 companies is currently 9.4% which is about half the expected growth rate for 2018. Sales growth; however, is only expected to decelerate from 6.7% for 2018 down to 4.8% for 2019 which could leave some room for upward revisions to earnings next year.

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