

Earnings for the final quarter of 2021 appear to be moderating from the torrid pace set in the first three quarters. While earnings and sales are reasonably high relative to expectations, the magnitude of beats has clearly cooled off. Financials and Health Care companies have cooled the most while Technology and Consumer Staples companies have reported earnings fairly typical to other quarters in 2021. Unsurprisingly, Energy stocks have blown away expectations given strong pricing trends to underlying commodities. Sales trends have been more stable than earnings, as EPS surprises have shifted down the most relative to recent quarters. This could be indicative of margins compressing somewhat on the back of rising input costs. In addition, guidance by companies for future quarters has been underwhelming.

Q1 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q4'21 - Q4'20 Expected Earnings Growth	Median Q1'22 - Q1'21 Expected Earnings Growth	Median 2021 Expected Growth (EPS / Sales)
U.S. Large Cap	68%	79% / 80%	4.4% / 1.8%	15.1%	6.0%	26.3% / 13.8%
Smith Group Large Cap Focused	61%	91% / 82%	9.9% / 1.9%	24.4%	7.9%	42.7% / 19.2%

Sectors						
Communication Services	81%	75% / 73%	11.7% / 1.0%	7.3%	-2.8%	19.2% / 12.4%
Consumer Discretionary	46%	75% / 73%	9.1% / 2.0%	17.9%	7.1%	47.9% / 19.9%
Consumer Staples	65%	76% / 100%	4.3% / 1.8%	5.0%	1.5%	6.2% / 5.9%
Energy	52%	81% / 100%	5.7% / 16.8%	301%	144%	262% / 67%
Financials	92%	77% / 75%	5.0% / 1.6%	15.5%	-2.2%	39.5% / 9.1%
Health Care	75%	83% / 78%	4.1% / 1.3%	8.9%	4.9%	25.8% / 17.9%
Industrials	83%	83% / 73%	2.9% / 1.3%	16.1%	10.1%	22.8% / 12.1%
Information Technology	63%	95% / 94%	6.0% / 1.9%	22.6%	11.8%	24.5% / 17.6%
Materials	75%	70% / 93%	2.1% / 2.9%	11.6%	13.6%	21.3% / 15.3%
Utilities	32%	63% / 50%	1.8% / -0.8%	3.8%	4.1%	5.5% / 7.4%

With the bulk of companies having reported full year earnings for 2021, the year is clearly one of the fastest growing in recent history. That being said, 2022 earnings growth looks to be sharply decelerating as the median company is now expected to grow just short of 10% versus more than 26% in 2021. Financials, Health Care and Consumer Staples companies are experiencing the largest slowdown in growth for 2022 while Industrials, Tech and commodity-linked sectors are still maintaining a fairly high growth trajectory. The relationship between sales and earnings growth indicates potential margin pressure as sales growth is holding up far better than EPS for 2022. This will be an important trend to watch as companies have largely been extremely effective at passing along cost increases to customers.

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