Smith Group
ASSET MANAGEMENT

S&P 500 EARNINGS REPORT UPDATE

JUNE 3, 2013

Not Much Change After a Slow Start

As is normal, the back half of reporting season had a slightly more negative tone than the beginning. The percentage of S&P 500 ex Financial companies beating estimates moderated to 71% from 76%, and the margin of the surprise eased to 3.2% from 3.7%. Reported sales disappoints continued, with only 44% of beating estimates and the median miss of -0.2%. The only sector that showed improvement was Financials, where the percent of earnings beats stayed the same, but the magnitude of the excess rose to 4.5% from 3.6%. Of the sectors of substance, the largest deterioration was in Staples, where the percentage of earnings beats dropped from 73% to 67% and the magnitude from 3.6% to 2.6%. This appeared to be due to much worse Staples sales than expected, with only 51% beating expectations, compared to 62% reported in the interim report. The largest year-over-year growth was in Discretionary at 12.7%, while earnings growth for Materials was flat and the lowest change.

Q2 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q1'12 - Q1'13 % Earnings Growth	Median Q2'12 - Q2'13 Expected Earnings Growth	Median 2013 Expected Growth (EPS / Sales)
S&P 500	94%	71% / 48%	3.3% / 0.0%	8.2%	5.2%	8.8% / 4.3%
Ex Financials	93%	71% / 44%	3.2% / -0.2%	6.8%	4.3%	8.1% / 4.2%
Smith Group Large Cap Focused Growth	88%	80% / 40%	2.9% / -1.5%	16.7%	7.8%	11.6% / 4.4%
S&P 500 Sectors						
Consumer Discretionary	89%	77% / 53%	4.7% / 0.0%	12.7%	9.8%	12.3% / 6.1%
Consumer Staples	83%	67% / 51%	2.6% / 0.4%	6.4%	6.1%	8.4% / 4.4%
Energy	100%	78% / 67%	5.4% / 2.0%	3.0%	4.0%	6.9% / 7.0%
Financials	98%	75% / 65%	4.5% / 0.7%	11.8%	14.4%	11.4% / 3.5%
Health Care	100%	78% / 32%	2.7% / -0.6%	8.0%	5.0%	7.5% / 4.0%
Industrials	93%	67% / 27%	2.3% / -1.2%	5.5%	2.9%	8.9% / 3.0%
Info Tech	88%	69% / 56%	3.2% / 0.3%	7.7%	0.4%	8.1% / 4.7%
Materials	97%	65% / 25%	2.5% / -1.4%	0.0%	0.4%	12.4% / 2.6%
Telecom	100%	57% / 28%	1.6% / -0.4%	6.6%	3.1%	3.1% / -0.7%
Utilities	100%	56% / 71%	2.7% / 3.1%	1.4%	-3.5%	2.5% / 6.0%

Cautious Management

The consumer mood may be brightening, but management continues to be cautious. The ratio of negative to positive guidance was the highest it has been since earnings troughed this cycle. Median growth expectations for the S&P 500 ex Fin'l in the next quarter are a modest 4.3%. That is well below the experience of the last quarter and expectations for the full year. Diffusion (upward vs. downward revisions) has been more negative than the long-term average for most of the reporting season but is trending toward neutral at this point. The highest growth expectations for the full year are in Discretionary and Materials companies. Discretionary has a good start to achieving the 12.3% expected. On the other hand, with no growth in the 1st quarter and little expected in the 2nd, Materials will really have to deliver in the 2nd half.

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