

AUGUST 4, 2020

As one of the more anticipated reporting seasons, given the shifting dynamics of earnings this year, reports this quarter are truly impressive. While the percentage of companies beating is at the high end of the range, the degree by which companies are beating is higher than anything we've seen in more than 20 years of data. Sales beats are high but not to the same degree as earnings, implying that much of the surprise is in the ability of companies to manage their cost structures efficiently. Consumer Discretionary companies are smashing expectations with Retailers being the standout industry group within that sector. Health Care companies are also posting record breaking earnings beats with both Pharma/Biotech and Providers/Service companies handily exceeding earnings expectations.

Q3 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q2'20 - Q2'19 Expected Earnings Growth	Median Q3'20 - Q3'19 Expected Earnings Growth	Median 2020 Expected Growth (EPS / Sales)
U.S. Large Cap	58%	83% / 71%	15.7% / 2.2%	-16.7%	-12.5%	-9.2% / -2.2%
U.S. Large Cap Ex Energy	58%	85% / 74%	15.6% / 2.3%	-14.2%	-10.8%	-7.9% / -1.6%
Smith Group Large Cap Focused Growth	62%	83% / 81%	22.0% / 4.2%	6.4%	2.3%	4.2% / 2.0%

Sectors						
Communication Services	50%	82% / 78%	17.7% / 1.4%	-17.0%	-20.4%	-21.6% / -4.5%
Consumer Discretionary	44%	82% / 77%	31.8% / 3.8%	-90.0%	-26.6%	-41.5% / -12.3%
Consumer Staples	58%	89% / 93%	14.4% / 2.1%	2.0%	-4.5%	-1.1% / 0.9%
Energy	58%	67% / 15%	20.0% / -11.5%	-124.8%	-88.1%	-82.7% / -27.4%
Financials	85%	81% / 66%	10.4% / 0.8%	-27.3%	-13.5%	-14.7% / -0.4%
Health Care	63%	89% / 82%	27.7% / 5.4%	-2.2%	-6.5%	0.5% / 1.1%
Industrials	76%	89% / 84%	16.0% / 3.9%	-27.3%	-17.5%	-14.6% / -6.9%
Information Technology	44%	94% / 89%	15.0% / 3.0%	-1.0%	-6.0%	-1.2% / 0.6%
Materials	54%	87% / 50%	15.6% / 0.5%	-30.5%	-13.4%	-14.2% / -6.4%
Utilities	32%	78% / 0%	8.4% / -7.4%	4.2%	-0.6%	2.7% / 1.7%

Despite the record breaking quarter from a surprise perspective, growth is still expected to be significantly negative for 2020 as the median U.S. large cap company is estimated to see earnings decline by more than 9%, aggregate earnings are expected to decline by 19%. This is a significant shift from where we began the year when the median company was expected to grow earnings by nearly 10%. Excluding Energy, Consumer Discretionary companies are experiencing the worst of it with an expected decline of more than 40%. Surprisingly, Retailers aren't the primary culprit as Consumer Service and Auto companies are suffering the most. The bright side of the growth picture is what's expected to occur in 2021. The median company is now expected to not only recover losses from 2020 but to exceed the level of earnings from 2019. This is obviously subject to change but an important start to the recovery.

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. U.S. Large Cap universe is generally comprised of the largest 500 U.S. companies.