

AUGUST 8, 2018

U.S. companies are continuing to post earnings that are handily exceeding market expectations this quarter, which is an important follow on to last quarter's impressive earnings reporting period. Sales reports are also robust, nearly matching last quarter as well. Health Care, Industrials and Technology continue to be the stand-out sectors while Consumer Discretionary and Financial companies are lagging the other large sectors on both EPS and Sales reports. However, within Discretionary, retailers are experiencing a strong recovery from last quarter's sluggish reporting season. In addition, growth estimates for companies in the S&P 500 are experiencing stronger than normal upward revisions following reports, indicating that the already high forecasted growth rates for 2018 are moving even higher.

Q3 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q2'18 - Q2'17 % Earnings Growth	Median Q3'18 - Q3'17 Expected Earnings Growth	Median 2018 Expected Growth (EPS / Sales)
S&P 500	77%	82% / 78%	3.9% / 0.9%	18.0%	17.1%	18.7% / 6.7%
Ex Energy	76%	84% / 80%	4.2% / 0.9%	17.5%	16.7%	17.9% / 6.5%
Smith Group Large Cap Focused Growth	83%	84% / 79%	3.4% / 0.7%	23.4%	17.4%	23.2% / 7.3%

S&P 500 Sectors						
Consumer Discretionary	52%	80% / 75%	3.6% / 0.6%	16.7%	18.8%	17.7% / 6.0%
Consumer Staples	47%	100% / 75%	4.4% / 0.6%	10.3%	10.7%	10.2% / 4.2%
Energy	87%	46% / 63%	-0.3% / 2.1%	103.3%	136.2%	81.2% / 15.4%
Financials	97%	74% / 79%	2.1% / 0.6%	25.5%	25.3%	30.9% / 5.6%
Health Care	83%	98% / 91%	5.1% / 1.4%	16.2%	16.9%	18.0% / 8.1%
Industrials	87%	86% / 91%	4.8% / 1.1%	23.7%	20.3%	20.6% / 7.5%
Info Tech	68%	94% / 85%	5.7% / 1.2%	18.2%	14.9%	18.0% / 10.2%
Materials	88%	83% / 79%	3.5% / 1.6%	26.8%	20.3%	25.9% / 8.3%
Telecom	67%	100% / 50%	6.2% / 0.2%	15.2%	21.0%	15.2% / 7.6%
Utilities	83%	77% / 62%	8.7% / 1.3%	7.9%	6.6%	5.8% / 2.1%

It would be hard to qualify the current growth picture as anything but robust. Digging a little further though reveals that it's not just tax reform that has spurred an acceleration in earnings given the fairly large growth expected in sales. In fact, by most accounts, roughly one-third of the current 18.7% EPS growth expected in 2018 is due to the new tax law while the remaining two-third's is attributed to either sales growth, margin expansion or share buyback activity. While growth in the U.S. is accelerating, outside the U.S. the picture is quite different. Developed International markets are only expected to grow around 5% this quarter versus the second quarter of 2017 which is the lowest single quarter of growth since 2016. That is in stark contrast to the accelerating U.S. growth picture.

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.