

MARCH 13, 2019

Since last we reported on earnings in mid-February, no significant changes have occurred to the overall picture for reports as we wind down this earnings season. Consumer Discretionary stocks are generally the last to report as a group, mainly due to retailers, and we've observed an increase in the number of companies beating earnings estimates in that sector. Interestingly, that same group has shown a slowdown in the rate at which they are beating sales estimates, dropping from 77% a month ago to 63% currently. The newly formed, Communication Services sector which includes both telecommunication companies as well as old and new media companies like AT&T and Facebook faded as the quarter progressed primarily due to weaker reports from the media group.

Q1 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q4'18 - Q4'17 Expected Earnings Growth	Median Q1'19 - Q1'18 Expected Earnings Growth	Median 2019 Expected Growth (EPS / Sales)
S&P 500	94%	74% / 63%	3.0% / 0.4%	13.8%	3.1%	6.7% / 4.0%
S&P 500 Ex Energy	94%	75% / 64%	2.9% / 0.4%	13.2%	3.5%	6.9% / 4.25
Smith Group Large Cap Focused Growth	93%	85% / 70%	4.3% / 0.7%	21.9%	7.6%	8.2% / 4.4%

S&P 500 Sectors						
Communication Services	92%	71% / 60%	5.2% / 0.6%	30.4%	-1.8%	1.7% / 5.9%
Consumer Discretionary	85%	76% / 63%	4.1% / 0.6%	15.3%	2.3%	8.0% / 3.8%
Consumer Staples	91%	74% / 59%	3.1% / 0.1%	5.0%	2.4%	2.0% / 3.3%
Energy	97%	57% / 56%	4.1% / 0.6%	69.3%	-13.5%	-1.3% / -0.1%
Financials	99%	66% / 49%	1.7% / -0.1%	12.9%	5.5%	7.7% / 3.8%
Health Care	97%	86% / 88%	2.4% / 1.3%	13.2%	3.6%	7.6% / 5.5%
Industrials	96%	81% / 74%	2.7% / 0.6%	21.3%	8.7%	10.0% / 5.0%
Info Tech	90%	87% / 64%	4.1% / 0.3%	14.7%	3.4%	7.8% / 4.8%
Materials	96%	70% / 41%	1.4% / -0.1%	10.8%	-3.3%	5.8% / 3.6%
Utilities	96%	65% / 58%	1.9% / 1.7%	-4.6%	1.3%	4.3% / 3.1%

The growth story for 2019 is still positive although the degree to which companies are expected to grow has come down a bit. That's a typical pattern for earnings as the year progresses. What we haven't seen is any evidence of an actual earnings recession despite what the financial news media might have you believe. While it's always possible that significant economic and macro events can tip the scales into such a scenario the current reality is that growth is still expected to be positive across all four quarters of this year when measured using the median company in the S&P 500. Importantly, earnings growth is being supported by sales growth which indicates a higher degree of growth quality that is generally more sustainable than earnings growth sourced from margin expansion or other components.

*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.*