

Median reported earnings surprise for the first quarter of 2022 picked up in magnitude compared to 2021. However, expected growth for the full year remains below the average of the last ten years, as rising interest rates and geopolitical aftershocks stifle higher numbers. This can be observed particularly well in the Financials sector, where companies have so far this season beat less frequently on the top line and where median expected earnings growth continues to be negative over the next quarter or so. In Energy, the same song and dance continues to play out as commodity prices remain high. Notably, though, expectations for Energy have adjusted somewhat and, while the sector is performing well, seems to be beating at only an average pace compared with the rest of the market. Overall, the proportion of companies beating on EPS has increased versus last reporting season, while sales beats are about even.

Q2 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median % Q1'22 - Q1'21 Expected Earnings Growth	Median % Q2'22 - Q2'21 Expected Earnings Growth	Median % 2022 Expected Growth (EPS / Sales)
U.S. Large Cap	85	83 / 79	7.1 / 1.7	11.2	3.9	8.0 / 8.5
Smith Group Large Cap Focused	81	79 / 90	4.5 / 1.7	10.1	2.9	9.6 / 8.9

Sectors	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median % Q1'22 - Q1'21 Expected Earnings Growth	Median % Q2'22 - Q2'21 Expected Earnings Growth	Median % 2022 Expected Growth (EPS / Sales)
Communication Services	81	76 / 38	7.3 / -0.1	4.5	-2.6	0.7 / 7.1
Consumer Discretionary	60	75 / 69	8.7 / 1.2	6.4	3.9	11.0 / 8.7
Consumer Staples	66	90 / 83	11.8 / 3.6	7.0	0.6	4.3 / 4.1
Energy	95	75 / 78	6.1 / 4.3	165.8	183.8	101.1 / 30.2
Financials	96	81 / 44	7.3 / -0.2	-5.5	-10.2	0.6 / 6.0
Health Care	92	82 / 83	5.6 / 2.0	5.7	-0.9	3.0 / 6.2
Industrials	92	96 / 86	7.0 / 1.9	12.6	9.2	14.3 / 9.4
Information Technology	73	90 / 98	8.4 / 1.8	20.0	10.1	13.6 / 11.7
Materials	100	76 / 85	10.3 / 4.2	16.0	6.6	11.2 / 11.4
Utilities	97	68 / 85	2.6 / 9.7	3.5	0.9	5.0 / 2.2

Unusually, expected 2022 sales growth is slightly higher than expected earnings growth, on the whole. This appears to be driven most apparently by stocks in the Communication Services, Financials, and Health Care sectors. This relationship could indicate that companies are becoming less effective in their ability to pass on rising costs to customers. Within the Consumer Discretionary sector, the Autos industry is, so far, reporting a 22% median EPS surprise, tied for the largest of any industry. However, the median sales beat for the Autos group is only about 3%, as analyst estimates were much more accurate. This data seems to suggest that the demand environment has been more predictable while, conversely, the various economic happenings in the first quarter have made forecasting expenses much less precise. Looking ahead to next quarter's reporting, a few sectors are projected to have their EPS shrink year-over-year at the median estimate, while Industrials and Information Technology are anticipated to follow only Energy in terms of earnings growth.

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