

AUGUST 31, 2015

## Amidst the Chaos

Reporting season was largely over by the time equity markets decided to interrupt the peaceful, final days of summer. Late reports are essentially inline with what we noted in the interim report back in late July. A few exceptions occurred in certain sectors such as Staples, where earnings beats declined from 92% at the midpoint to a more tepid 78%. Energy saw a boost in late reports, with the beat rate on EPS increasing from 47% at the midpoint to 67% with all S&P 500 Energy companies having reported their Q2 numbers.

Q3 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q2'15 - Q2'14 % Earnings Growth	Median Q3'15 - Q3'14 Expected Earnings Growth	Median 2015 Expected Growth (EPS / Sales)
S&P 500	93%	75% / 52%	3.4% / 0.0%	5.5%	2.6%	6.1% / 1.8%
Ex Energy	94%	76% / 51%	3.6% / 0.0%	6.2%	3.5%	6.7% / 2.4%
Smith Group Large Cap Focused Growth	95%	85% / 90%	4.3% / 0.7%	12.7%	8.1%	10.2% / 4.4%

S&P 500 Sectors						
Consumer Discretionary	82%	77% / 53%	3.3% / 0.3%	6.4%	5.7%	10.6% / 4.2%
Consumer Staples	81%	78% / 38%	3.6% / -0.6%	0.0%	0.0%	4.5% / 1.0%
Energy	100%	67% / 60%	11.4% / 1.8%	-59.5%	-69.5%	-58.4% / -25.6%
Financials	100%	68% / 68%	3.4% / 1.5%	5.5%	-1.5%	4.1% / 3.2%
Health Care	96%	98% / 69%	4.6% / 1.0%	16.4%	7.4%	11.6% / 6.4%
Industrials	95%	82% / 33%	2.2% / -0.6%	6.5%	2.1%	5.1% / -1.0%
Info Tech	90%	78% / 55%	4.1% / 0.3%	5.5%	2.6%	9.1% / 3.5%
Materials	93%	62% / 33%	0.6% / -0.8%	4.9%	3.0%	7.7% / -2.8%
Telecom	100%	60% / 0%	3.2% / -0.2%	-23.6%	7.7%	3.5% / 15.4%
Utilities	100%	53% / 24%	1.0% / -5.4%	1.5%	3.9%	3.2% / 1.1%

## Growth in Focus

Recent volatility in the equity markets places a heightened need for both clarity and confidence in the overall health of corporate earnings. The headline S&P numbers look anemic for top-line growth in 2015 and while some of that is due to Energy, the ex-Energy numbers aren't exactly awe-inspiring at 2.4%. Health Care remains the real standout from a growth perspective as both pharma/biotech and equipment/service companies are expected to have strong growth this year. Discretionary and Technology earnings growth rates are robust at around 10% for 2015. Behind this top level number, however, there are wide differences within the technology sector as software and semiconductor companies are expected to grow north of 10% while hardware companies are expected to decline by nearly 2%.

*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.*