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Reports this quarter are materializing into a fairly good earnings season on both the top and bottom line. While the overall rate with which companies are beating is high, particularly on sales, the degree by which they are beating estimates is a bit lower than at this point last quarter. Financials, Health Care, Industrials and Info Tech are the standout sectors while both Consumer sectors are lagging overall in terms of beating expectations. Consumer companies had a decent reporting season last quarter after a dismal start to the year but that recovery appears to have been short-lived, in particular for retailers. Energy continues to exhibit resilience on both the top and bottom line as was true in the prior two quarters.

Q3 Reporting Season	% Reported	% Beat (EPS / Sales)	Median Reported % Surprise (EPS / Sales)	Median Q2'17 - Q2'16 % Earnings Growth	Median Q3'17 - Q3'16 Expected Earnings Growth	Median 2017 Expected Growth (EPS / Sales)
S&P 500	54%	76% / 79%	3.3% / 0.8%	7.9%	6.4%	8.4% / 5.2%
Ex Energy	55%	77% / 77%	3.2% / 0.8%	7.2%	6.1%	7.9% / 5.0%
Smith Group Large Cap Focused Growth	53%	84% / 92%	4.7% / 1.3%	12.4%	10.8%	10.8% / 4.7%

S&P 500 Sectors						
Consumer Discretionary	36%	57% / 61%	1.4% / 0.0%	0.8%	6.3%	6.0% / 4.4%
Consumer Staples	30%	67% / 50%	2.7% / 0.4%	3.8%	4.7%	6.7% / 2.1%
Energy	47%	56% / 93%	4.4% / 2.9%	66.0%	74.7%	71.5% / 20.9%
Financials	80%	84% / 81%	4.4% / 0.8%	14.1%	6.0%	13.1% / 5.4%
Health Care	57%	90% / 88%	2.8% / 0.9%	6.9%	7.0%	9.4% / 5.6%
Industrials	74%	79% / 88%	2.7% / 0.8%	8.7%	8.2%	9.5% / 5.3%
Info Tech	50%	89% / 83%	4.3% / 1.1%	13.5%	7.8%	10.5% / 6.0%
Materials	48%	70% / 82%	3.1% / 1.5%	5.0%	12.2%	9.5% / 6.9%
Telecom	50%	100% / 100%	3.9% / 1.1%	-4.2%	-3.0%	-8.7% / -1.5%
Utilities	39%	73% / 50%	6.5% / -0.3%	8.7%	-0.2%	3.9% / 4.9%

There appears to be some legs in the current recovery for earnings now that we are seeing decent momentum in sales growth. We have been watching this development closely as it is a necessary condition after years of low quality growth for the majority of S&P 500 companies. Most sectors are expected to grow earnings near double digits for the current year supported by robust sales growth with the exception of consumer stocks. While the challenges retailers are facing recently have diminished expectations, we observe that other consumer related companies, particularly auto and food retailers, are expected to have virtually no growth this year in earnings or sales.

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.