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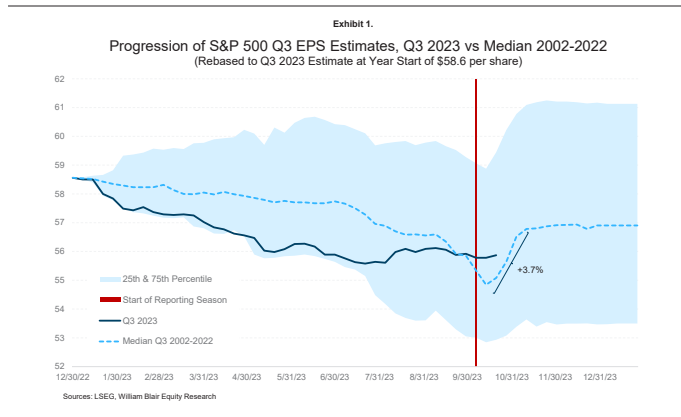
Third-Quarter Earnings and the “Highly Uncertain Macro Environment”



One key reason behind the ongoing strength in the economy has been the robustness of corporate profit margins. These still historically elevated margins have allowed companies to retain or hoard labor, and by keeping workers employed, they have also kept the economy from dipping into recession. Looking forward, however, there is growing doubt around the sustainability of those factors supporting margins, which in turn raises questions about future aggregate economic strength. **With the quarterly earnings seasons now in full swing, in this *Economics Weekly*, we focus on what we have learned so far and what we can glean about the outlook for corporate profitability over the coming year.**

Third Quarter—Where Are EPS So Far?

For financial markets that are often thought to encompass at least a modicum of efficiency, it is always surprising to see just how consistently the dance between companies' guidance and analysts' earnings estimates plays out each and every quarter. Looking at data over the last 20 years, we can see that the third-quarter estimates (beginning at year start) fall by an average of 6.5% right up until earnings season kicks off. Companies then "surprise" the market with a beat-and-raise, and estimates subsequently increase by 3.7% from that low (exhibit 1). On average, earnings for the third quarter have then ended up being 2.9% lower than estimates at the start of the year.

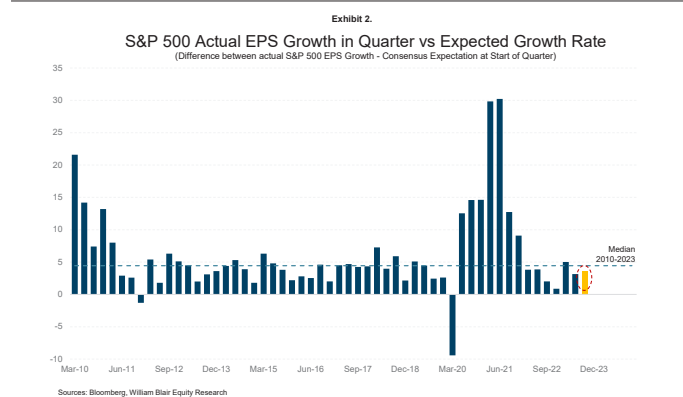


This year's third-quarter estimates were tracking below the historical median through most of the year, due to widespread expectations for economic growth slowdown and fears about the implications of the regional bank failures. Yet, following a series of continued strong employment and consumer spending reports, as well as further support from the Federal Reserve, sentiment improved through August. By the start of the reporting season, estimates had been pushed back up above the historical median.

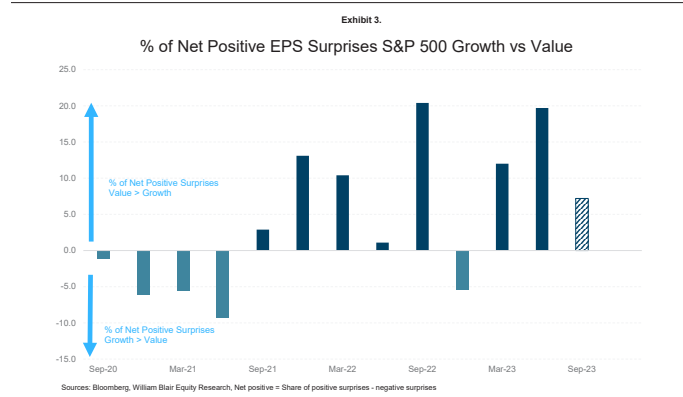
From where we are today, for EPS estimates to match the 20-year median, they only have to increase a further 1.6% from current levels, as opposed to a median lift of 3.7%.

As it stands, according to data from Bloomberg, adjusted EPS growth (i.e., the current blend of actual and estimated EPS) in the quarter is tracking at a rate of +2.4% relative to a preseason forecast of -1.2%, or 3.4% above what analysts were expecting growth to be for the quarter at the start of the earnings season.

While this is still positive, as exhibit 2 shows, the scale of this "beat" so far is below average. This smaller beat, coupled with increased talk of "macro uncertainty" around the outlook, likely helps to explain the recent weakness in stock prices following the announcements.



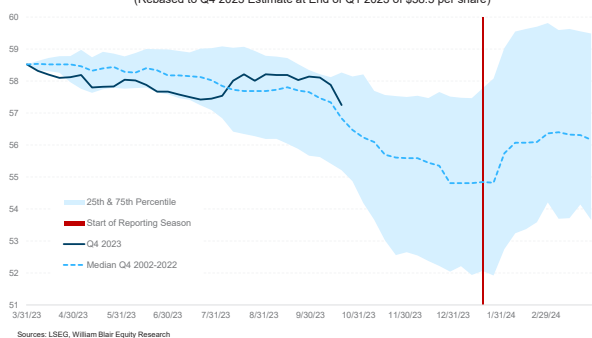
Meanwhile, the share of net positive surprises for value stocks relative to those for growth has been higher in all but one of the last eight quarters. **This once again speaks to the view that analysts have been consistently underestimating the growth potential of the more-cyclical value stocks given their expectations of an imminent recession, which has yet to materialize (exhibit 3).**



So far, data for the third quarter shows that the share of positive surprises from growth and value companies is once again tilting toward value.

For the fourth quarter, the trend of earnings expectations reveals that earnings have started to moderate but are still just above the median trendline (exhibit 4). If these earnings were to follow the 20-year median, we should expect further weakness in the coming months.

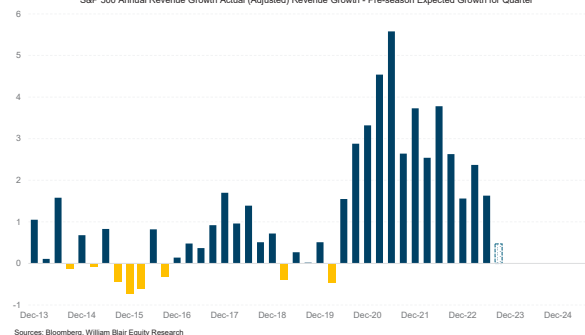
Exhibit 4.
Progression of S&P 500 Q4 EPS Estimates, Q4 2023 vs Median 2002-2022
(Rebased to Q4 2023 Estimate at End of Q1 2023 of \$58.5 per share)



Revenue Growth and the Macro Economy

Since the pandemic, annual top-line growth has continued to outpace pre-season expectations by a wide margin (exhibit 5). This trend seems to be continuing in the third quarter, but with a much smaller margin. Of the 233 companies that have reported to date, blended sales growth is up just 1.6%, compared to the expected 1.1% increase.

Exhibit 5.
Is Reported Revenue Growth Beating Expectations?
S&P 500 Annual Revenue Growth Actual (Adjusted) Revenue Growth - Pre-season Expected Growth for Quarter



While relative performance compared to expectations is often what investors focus on most, ultimately what counts is the absolute rate of growth. Here, we can see that sales growth has been a bigger disappointment given that it is so far much softer than the average annual growth in sales per share, which between 2000 and 2023 has been 4.3% (exhibit 6).

This average sales growth rate almost exactly matches the average 4.5% growth rate for nominal GDP over the same period. This is unsurprising given that both are a measure of unit volume expenditure growth and inflation—with some important differences such as the inclusion of government and only domestic product. Nevertheless, it also still makes nominal GDP growth one of the best proxies for aggregate revenue growth, which is important from a top-down perspective. If we are trying to get a bead on what to expect from top-line growth in the coming year, a good starting point is to look at what might happen to nominal GDP growth.

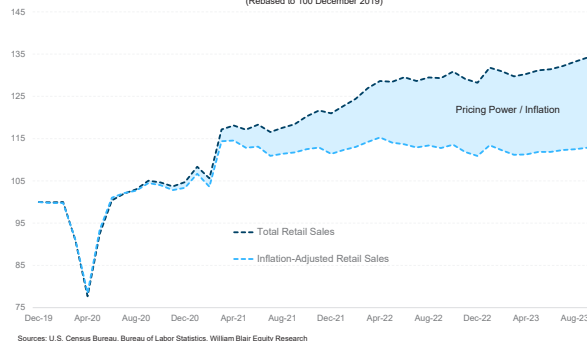
This task has admittedly been even more difficult than usual since the pandemic, as normally at least the inflation component is relatively stable at 2%, meaning we mainly have to worry about the real growth component. Nevertheless, we can still attempt this by using indices of leading economic indicators, in particular the Conference Board's index (LEI). Historically, the LEI's relationship with the S&P 500 sales growth has had a 65% correlation coefficient (r-square of 43%, with a 2-month lag, exhibit 6).

Exhibit 6.
S&P 500 Sales Growth vs Conference Board's Index of Leading Economic Indicators
(Sales per Quarter % Change on Year Ago, Annual Change Leading Indicators Lagged 2 months)



If past is prologue, then the current weakness in the LEI would be consistent with a 2.5% decline in sales growth in the fourth quarter, as well as an economic recession. The fact that the economy and sales growth are not already following this path lower (and actually dipping into recession) could be down to: 1) ongoing noise related to the pandemic and fiscal stimulus, 2) the probability of longer lagged impacts from monetary policy, which have yet to be fully felt across the broader economy, and 3) higher inflation and increased pricing power. Exhibit 7, for example, shows that despite negative real retail sales growth since March 2021 (-1.3%), nominal retail sales are up a strong 14.5% over this same period.

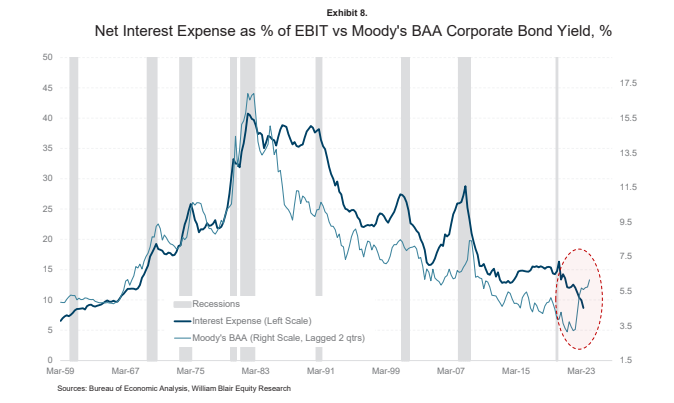
Exhibit 7.
Advance Retail Sales vs Inflation-Adjusted Retail Sales
(Rebased to 100 December 2019)



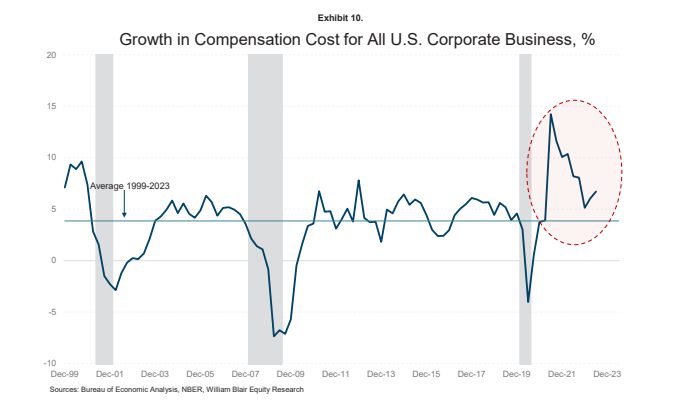
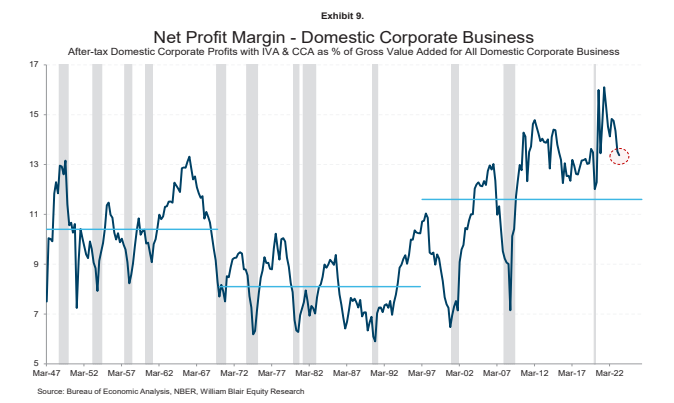
Dropping Below the Top Line

Another factor that has helped sustain margins has been the sharp decline in interest cost. The huge amount of debt issuance and refinancing that the corporate sector undertook through 2020 and 2021 has resulted in a large

30% decline in net interest costs between second quarter 2022 and second quarter 2023. To their benefit, companies have locked in most of this debt at lower rates, and they still have plenty of cash on the balance sheet with which to service it. However, as we move into 2024 and increasingly so in 2025, more of this debt will need to be refinanced. As exhibit 8 shows, unless the Fed starts to lower rates significantly, interest costs will be much more elevated. The average yield on Moody's BAA bond through 2020-2021 was 3.5%, whereas today this has risen to 6.7%.



This combination of elevated pricing power and lower interest costs has been key in helping to maintain the relatively solid corporate profit margins in the face of rising compensation costs (exhibits 9 and 10). It has also been key to helping allow companies to hoard labor.

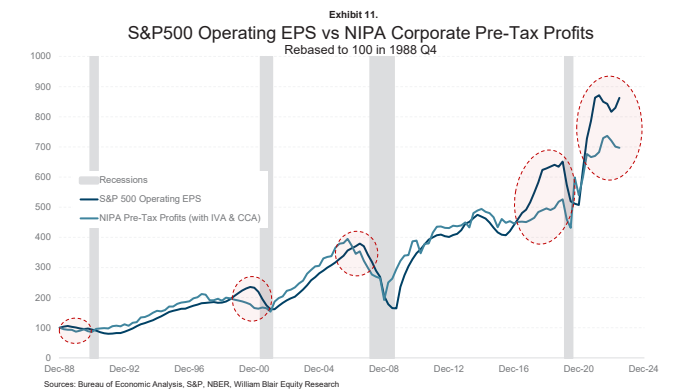


The Outlook

Looking forward, with inflation moderating and interest costs rising, unless companies can continue to push on price (which could represent an upside risk to inflation in 2024) and/or significantly increase productivity, there will be growing pressure to tackle headcount and compensation costs to maintain these margins.

Up to now, companies have been reluctant to do this, given what is likely a structurally tighter labor market, where the costs of recruiting, training, and retaining these workers has become much more elevated than in the past.

One area we can already see evidence of such pressure mounting—and something that should come as a warning sign—is in the gap between the S&P 500 EPS and total NIPA corporate profits (exhibit 11).



What's important to note here is that NIPA corporate profits include data for all U.S. corporate businesses (private and public, and companies of all sizes). These are also the profits companies present for tax reporting purposes; hence, they tend to be far more conservative than those reported to Wall Street investors. As a result, they also tend to pick up on economic weakness far earlier than S&P 500 reported earnings, where every trick in the book is often used to squeeze out continued growth.

As exhibit 11 shows, periods when there has been a growing gap between NIPA profits and S&P 500 earnings have often been synonymous with being late in the economic cycle and economic strength starting to falter. It is, therefore, concerning that today's gap has never been wider. The large gap also likely speaks to the domination of larger-cap stocks and their ability to tap capital markets for less expensive, longer-duration debt. This compares to many smaller companies that are far more reliant on bank loans, home equity loans, and credit cards (where interest rates are currently 22%).

Conclusion

The current quarterly earnings reporting season is largely playing to the script written out over the last few decades, whereby analysts' growth expectations diminish as the quarter progresses and are then sandbagged by just enough to produce a nice "beat" when those earnings are announced. There has been some weakness this time around in the scale of the beats, which so far have been significantly lower than in the past. The recurring phrase around these announcements by companies and analysts seems to be macro uncertainty.

What has not fit the script over the last year, however, has been the divergence between corporate revenue growth (itself a leading economic indicator) and the leading indicators of economic growth—there has historically been a strong correlation between the two. Sales growth has so far remained positive; however, had it been tracking the LEI, it would have been expected to be much more deeply negative by this point, and even lower in the fourth quarter.

Given the relative flat-to-negative change in real retail sales, much of the strength in nominal sales can be put down to pricing power. This, along with a sharp decline in net interest costs, has been key in helping companies to maintain elevated profit margins in the face of increased employee compensation costs.

Looking forward, if companies want to maintain these margins in the face of rising interest costs and less pricing power, as well as more moderate real spending growth, there will be greater pressure to seek more efficiencies in labor compensation and lighten up on headcount.

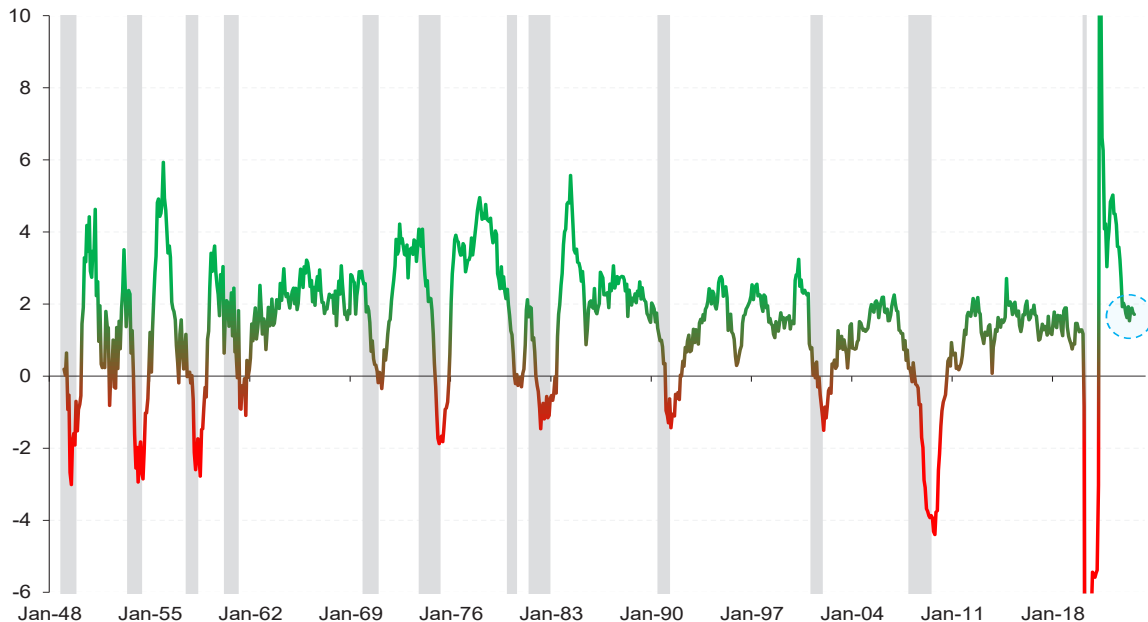
The current large gap between the NIPA measure of corporate profitability and S&P 500 profits would suggest that many smaller companies are already starting to feel these pressures. This compares to the largest ones, which have greater earnings flexibility, broader revenue streams, and higher rates of fixed-rate duration debt. The fact that in the past the S&P 500 earnings have tended to follow the NIPA earnings would suggest a note of caution when gauging expectations for growth looking into 2024.

Date	Time (EDT)	Indicator	Last	Consensus	WB Estimate	Actual
31 Oct	8:30 a.m.	Employment Cost Index (Q3)	1.0%	1.0%	0.9%	
31 Oct	10:00 a.m.	Consumer Confidence (Oct)	103.0	100.0	98.5	
1 Nov	10:00 a.m.	JOLTS Report (Sep)	9610K	NA	NA	
1 Nov	10:00 a.m.	ISM Manufacturing (Oct)	49.0	49.0	48.8	
1 Nov	2:00 p.m.	FOMC Meeting	5.50%	5.50%	5.50%	
2 Nov	8:30 a.m.	Nonfarm Productivity (Q3)	3.5%	4.0%	4.3	
		Unit Labor Costs	2.2%	1.0%	1.2	
2 Nov	10:00 a.m.	Total Factory Orders (Sep)	1.2%	1.0%	3.1%	
3 Nov	8:30 a.m.	Unemployment Rate (Oct)	3.8%	3.8%	3.8%	
		Nonfarm Payrolls	336K	173K	200K	
		Average Hourly Earnings	0.2%	0.3%	0.3%	
3 Nov	10:00 a.m.	ISM Services Index	53.6	53.0	52.5	

Sources: Bloomberg, William Blair Equity Research

Indicator of the Week: Employment Situation

Employment Growth Household Survey (% Chg. YoY)



Sources: BLS, William Blair Equity Research

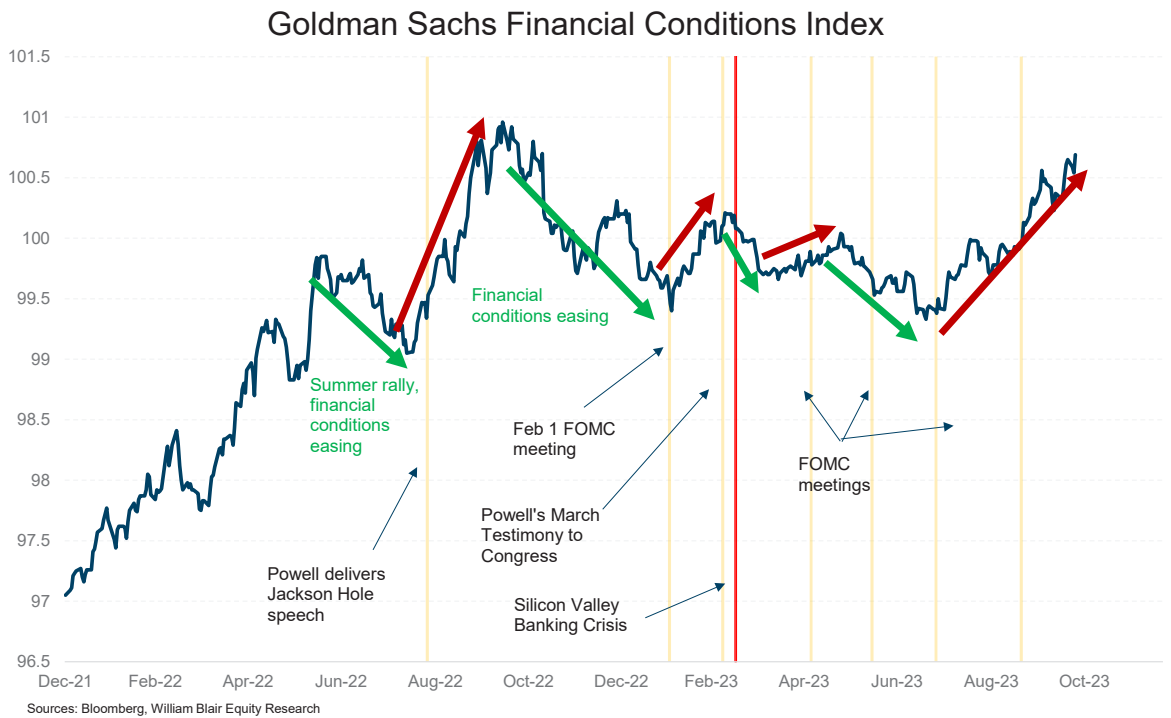
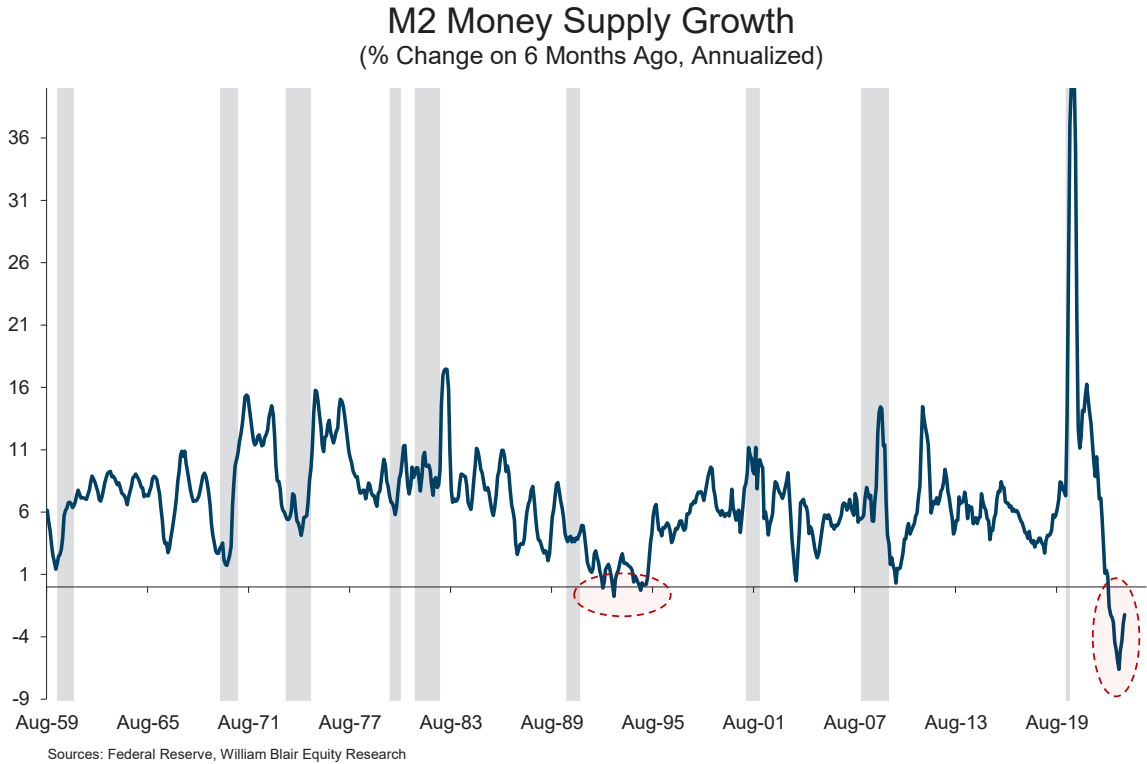
Economic Scorecard

Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

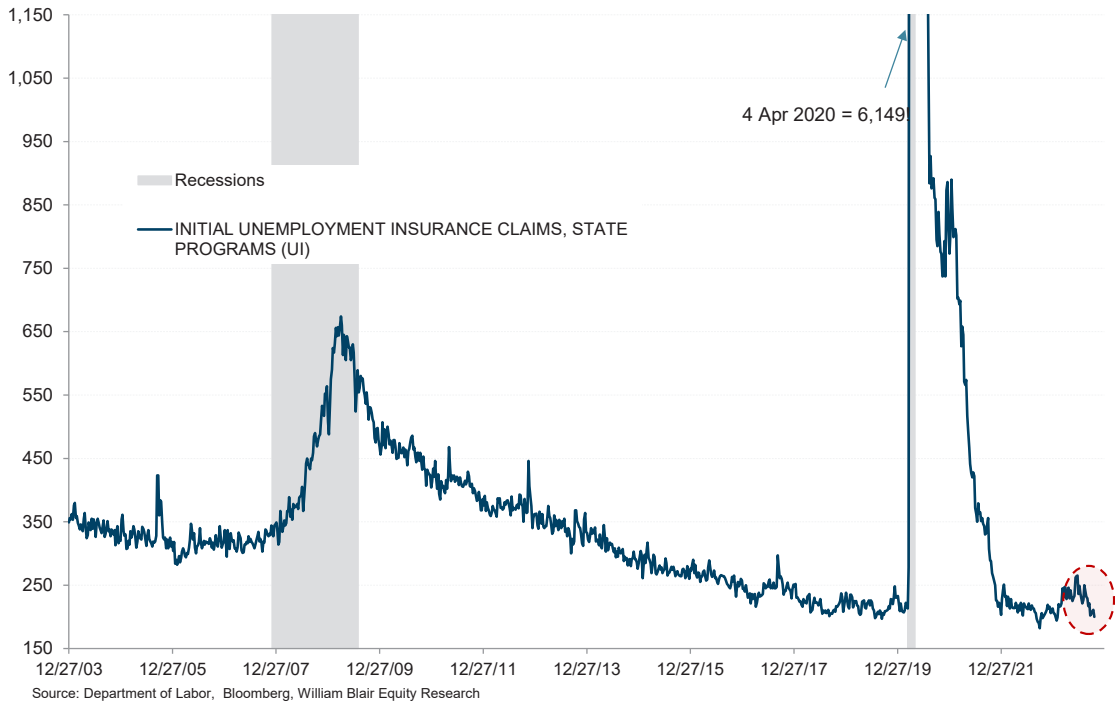
	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Growth																			
US Leading Indicators	4.4	2.8	1.3	-0.3	-1.1	-1.6	-3.2	-4.6	-6.0	-6.0	-6.8	-7.9	-8.1	-7.9	-7.8	-7.5	-7.7	-7.8	
US Coincident Indicators	2.6	2.4	1.8	2.0	2.2	2.4	1.9	1.4	1.5	1.5	1.3	1.4	1.3	1.7	1.8	1.7	1.4	1.5	
US Lagging Indicators	4.8	5.5	6.7	6.6	7.4	7.5	7.4	7.6	7.5	6.7	6.7	5.6	5.0	3.9	3.0	2.5	1.9	1.3	
Consumer																			
Total Retail Sales	8.9	9.7	9.5	10.4	10.1	9.2	8.8	6.1	6	7.4	5.3	2.2	1.3	2.1	1.5	2.8	2.9	3.8	
Personal Income	1.3	3.6	3.9	3.6	3.9	5.1	4.9	4.6	4.5	5.8	5.7	5.8	5.7	5.7	5.5	5	4.8		
Real Disposable Personal Income	-7.4	-4.7	-4.6	-4.3	-3.8	-2.3	-2	-1.6	-0.9	3.2	3.5	4.4	4.5	5	5.4	4.2	3.7		
Real Personal Consumption	2.4	2.5	1.7	1.9	1.8	1.9	1.4	0.9	1.3	2.3	2.3	1.7	1.6	1.8	2.1	2.7	2.3		
Personal Saving Rate (%)	3.1	3.1	2.7	3.5	3.2	3	3	3.3	3.4	4.4	4.7	5.2	5.2	5.3	4.9	4.1	3.9		
Consumer Confidence (Conference Board)**	108.6	103.2	98.4	95.3	103.6	107.8	102.2	101.4	109	106	103.4	104	103.7	102.5	110.1	114	108.7	103	
Employment																			
Employment Growth	4.9	4.8	4.5	4.4	4.2	4.0	3.7	3.4	3.2	3.3	2.8	2.7	2.6	2.6	2.4	2.2	2.1	2.1	
ASA Temporary Staffing Index	11.6	11.2	9.2	9.3	9.3	5.4	1.1	0.2	1.0	-2.1	-6.1	-6.5	-6.8	-5.9	-6.6	-4.7	-4.8	-5.5	
ISM Employment Index Manufacturing*	51.2	50.2	48.1	49.8	54.2	49.3	49.9	48.9	50.8	50.6	49.1	46.9	50.2	51.4	48.1	44.4	48.5	51.2	
ISM Employment Index Services*	49.7	50.3	48.7	49.5	50.2	52.3	49.2	50.6	49.4	50	54	51.3	50.8	49.2	53.1	50.7	54.7	53.4	
Unemployment Rate, %	3.6	3.6	3.6	3.5	3.7	3.5	3.7	3.6	3.5	3.4	3.6	3.5	3.4	3.7	3.6	3.5	3.8	3.8	
Average Hourly Earnings	5.8	5.5	5.4	5.4	5.4	5.1	4.9	5	4.8	4.4	4.7	4.3	4.4	4.3	4.4	4.3	4.3	4.2	
Initial Jobless Claims (avg. wkly. chg. '000s)	216	212	217	216	210	191	202	213	209	200	219	238	239	230	254	228	238	209	
Jop Openings	26.6	16.3	8.9	4.6	-7.0	-0.3	-7.9	-4.3	-5.0	-8.0	-14.0	-19.0	-12.2	-16.0	-16.4	-21.6	-5.8	-11.5	
Layoff Announcements	6	-15.8	58.8	36.3	30.3	67.6	48.3	416.5	129.1	440	410.1	319.4	175.9	286.7	25.2	-8.2	266.9	58.2	
Housing Market																			
Housing Starts	21.5	-3.6	-6	-13.9	-4.5	-6.2	-8.9	-16.6	-24.1	-19.7	-18.9	-19.4	-25.2	2.6	-9.2	5.8	-15.7	-7.2	
New Home Sales	-24.6	-11	-21.4	-28.6	-7.5	-23.6	-15.1	-24.6	-23.4	-19.9	-19.1	-9.5	11.1	11.6	21.3	35.5	6	33.9	
Existing Home Sales	-6.5	-8.9	-14.8	-19.9	-20.2	-24.0	-28.2	-35.2	-34.0	-36.9	-23.1	-22.1	-23.0	-20.4	-18.9	-16.6	-15.3	-15.4	
Median House Price (Existing Homes)	21.7	15.4	15.5	17.8	8.9	15.6	16.3	7.4	17	0.4	1.4	0.7	-8.9	-6.5	-3.5	-9.1	-1.6	-12.3	
Existing Homes Inventory (Mths' supply)	2.2	2.4	2.7	2.9	3	3	3.2	3.4	3.5	3.4	2.9	2.8	2.8	2.8	2.8	2.9	3	3.3	
New Homes Inventory (Mths' supply)	8.5	8.3	9.5	10.1	8.7	9.7	9.7	9.4	8.5	8.1	8.4	8.1	7.6	7.2	7.5	7	7.7	6.9	
NAHB Homebuilder Sentiment*	77	69	67	55	49	46	38	33	31	35	42	44	45	50	55	56	50	44	40
Inflation																			
Consumer Price Index	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6	5	4.9	4	3	3.2	3.7	3.7	
CPI Less-food & energy	6.2	6	5.9	5.9	6.3	6.6	6.3	6	5.7	5.6	5.5	5.6	5.5	5.3	4.8	4.7	4.3	4.1	
Producer Price Index	11.2	11.1	11.2	9.7	8.7	8.5	8.2	7.4	6.4	5.7	4.7	2.7	2.3	1.1	0.2	1.1	2	2.2	
PPI Less-food & energy	9	8.6	8.3	7.6	7.2	7.2	6.9	6.3	5.7	5	4.6	3.3	3.1	2.8	2.5	2.7	2.5	2.7	
PCE Price Index	6.6	6.7	7.1	6.6	6.5	6.6	6.3	5.9	5.4	5.5	5.2	4.4	4.4	4	3.2	3.4	3.5	3.5	
PCE Prices Less-food & energy	5.3	5.1	5.2	5.0	5.2	5.5	5.3	5.1	4.9	4.9	4.8	4.8	4.8	4.7	4.3	4.3	3.9	3.9	
Business Activity - US																			
Industrial Production	4.6	3.7	3.2	3.0	3.1	4.5	3.1	1.9	0.6	1.5	0.9	0.2	0.4	0.1	-0.4	0.2	0.1	0.1	
New Cap Gds Orders less-aircraft & parts	4.8	9.5	7.6	6.3	8.2	5.6	5	3.2	1	5.6	2.7	1.9	1	3.2	1.4	0.4	0.7	0.8	
Business Inventories	17.9	19	20.1	20.6	19.8	19.5	18.3	16.8	15.1	12.6	10.7	8.8	6.2	5.2	3.3	1.8	1.4	1	
ISM Manufacturing PMI*	55.9	56.1	53.1	52.7	52.9	51	50	49	48.4	47.4	47.7	46.3	47.1	46.9	46	46.4	47.6	49.0	
Markit US Manufacturing PMI*	59.2	57	52.7	52.2	51.5	52	50.4	47.7	46.2	46.9	47.3	49.2	50.2	48.4	46.3	49	47.9	49.8	
ISM Services Index*	57.5	56.4	56	56.4	56.1	55.9	54.5	55.5	49.2	55.2	55.1	51.2	51.9	50.3	53.9	52.7	54.5	53.6	
Markit US Services PMI*	55.6	53.4	52.7	47.3	43.7	49.3	47.8	46.2	44.7	46.8	50.6	52.6	53.6	54.9	54.4	52.3	50.5	50.1	
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	54.6	54.8	52	49.3	49.1	47.8	45.1	46.2	47.1	47.3	46.3	44.7	44.5	43.2	40.6	38.8	39.1	39.6	
Japan Manufacturing PMI Jibun Bank*	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49	48.9	48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6	48.5	
Caixin China Manufacturing PMI*	46	48.1	51.7	50.4	49.5	48.1	49.2	49.4	49	49.2	51.6	50	49.5	50.9	50.5	49.2	51	50.6	
China Manufacturing PMI*	47.4	49.6	50.2	49	49.4	50.1	49.2	48	47	50.1	52.6	51.9	49.2	48.8	49	49.3	49.7	50.2	
UK Manufacturing PMI Markit/CIPS*	55.8	54.6	52.8	52.1	47.3	48.4	46.2	46.5	45.3	47	49.3	47.9	47.8	47.1	46.5	45.3	43	44.3	
France Manufacturing PMI Markit*	55.7	54.6	51.4	49.5	50.6	47.7	47.2	48.3	49.2	50.5	47.4	47.3	45.6	45.7	46	45.1	46	44.2	
Currencies***																			
Euro (EUR/USD)	-12.3	-12.2	-11.6	-13.9	-14.9	-15.4	-14.5	-8.2	-5.8	-3.3	-5.7	-2.1	4.5	-0.4	4.1	7.6	7.8	7.9	
Renmimbi (USD/CNY)	2.1	4.7	3.8	4.4	6.7	10.4	14.0	11.4	8.5	6.2	9.9	8.4	4.7	6.5	8.3	5.9	5.3	2.6	
Yen (USD/Yen)	18.7	17.4	22.1	21.5	26.3	30.1	30.5	22.0	13.9	13.0	18.4	9.2	5.1	8.3	6.3	6.8	4.7	3.2	
Sterling (GBP/USD)	-9.0	-11.3	-12.0	-12.5	-15.5	-17.1	-16.2	-9.3	-10.7	-8.4	-10.4	-6.1	-0.1	-1.3	4.3	5.5	9.0	9.2	
Canadian \$ (USD/CAD)	4.6	4.8	3.8	2.6	4.1	9.1	10.0	5.0	7.3	4.7	7.7	8.1	5.5	7.3	2.9	3.1	2.9	-1.8	
Mexican Peso (USD/MXN)	0.9	-1.5	0.9	2.5	0.3	-2.4	-3.7	-10.2	-5.0	-8.7	-10.6	-9.2	-11.9	-10.0	-14.9	-17.8	-15.4	-13.5	
US Equities																			
S&P 500	-1.2	-1.7	-11.9	-6.0	-12.6	-16.8	-15.9	-10.7	-19.4	-9.7	-9.2	-9.3	0.9	1.2	17.6	11.1	14.0	19.6	
S&P 400 Midcap	-8.3	-7.8	-15.8	-7.1	-11.7	-16.6	-12.9	-4.8	-14.5	0.7	-2.3	-6.7	-0.4	-4.3	15.6	8.6	8.8	13.6	
S&P 600 Smallcap	-9.7	-9.9	-18.0	-7.6	-13.4	-20.0	-13.1	-7.4	-17.4	-2.5	-5.1	-10.4	-5.5	-8.9	7.8	3.4	3.6	8.1	
Russell 2000	-17.8	-17.8	-26.1	-15.3	-18.9	-24.5	-19.6	-14.2	-21.6	-4.8	-7.4	-12.9	-5.1	-6.1	10.6	6.3	3.0	7.2	

* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar
Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

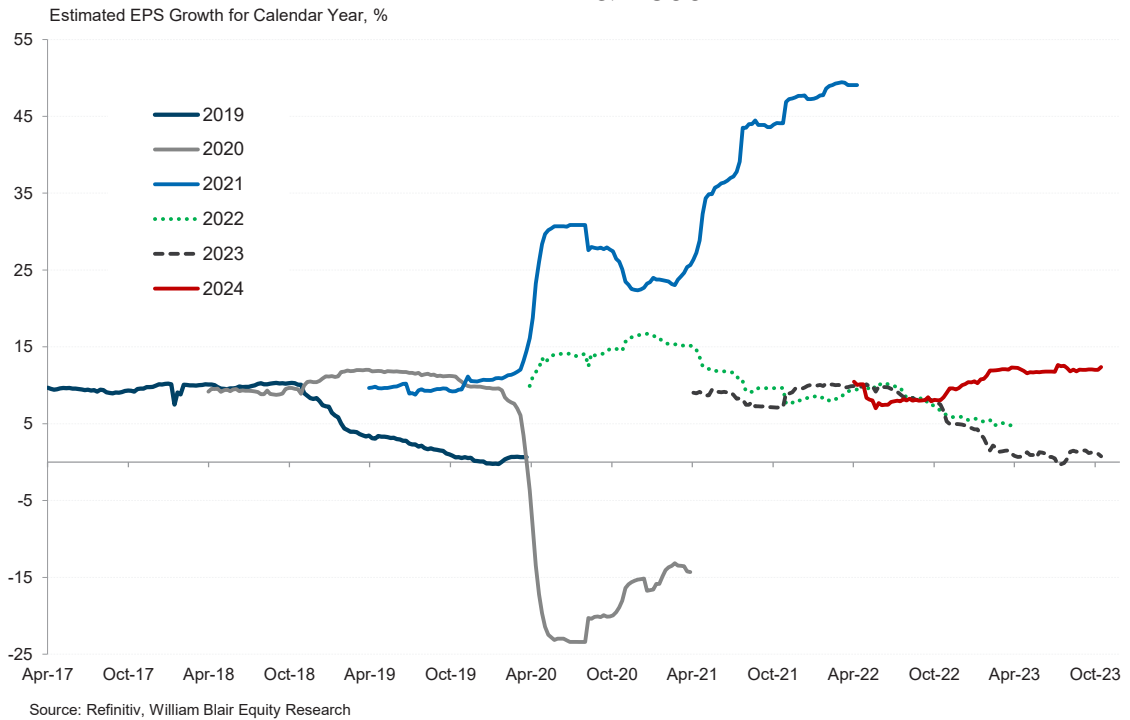
Other Economic Indicators



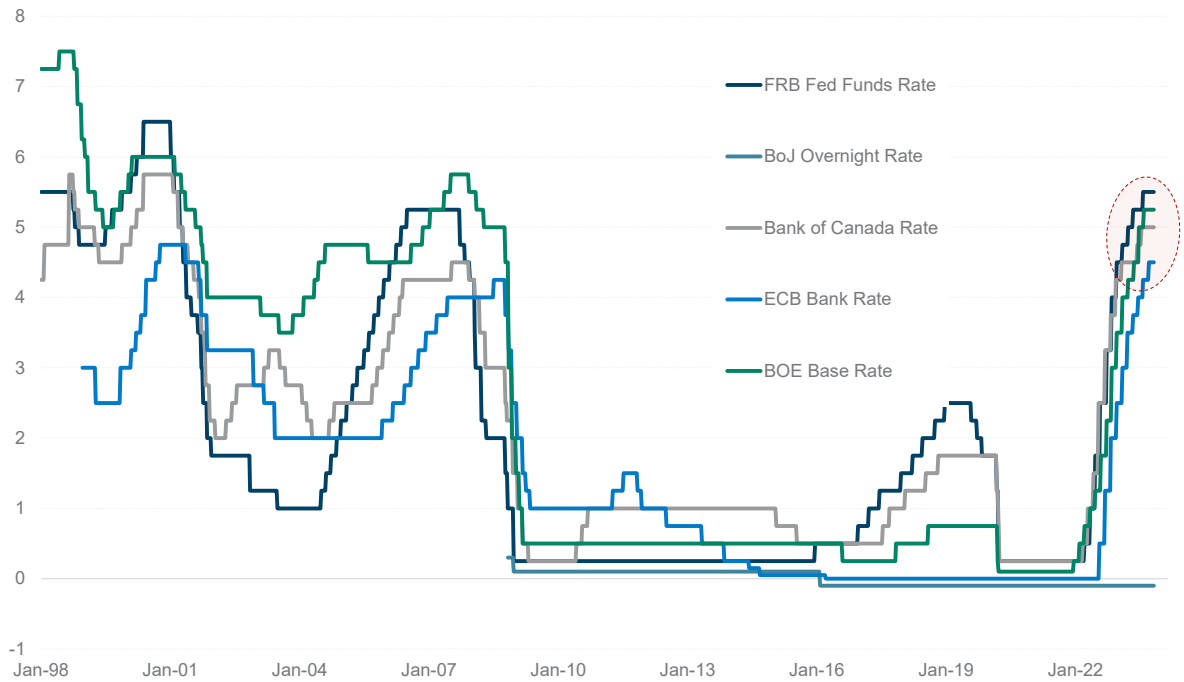
Initial Jobless Claims ('000s, Seasonally Adjusted)



Progression of Refinitiv Bottom-Up EPS Annual Growth Estimates For S&P 500

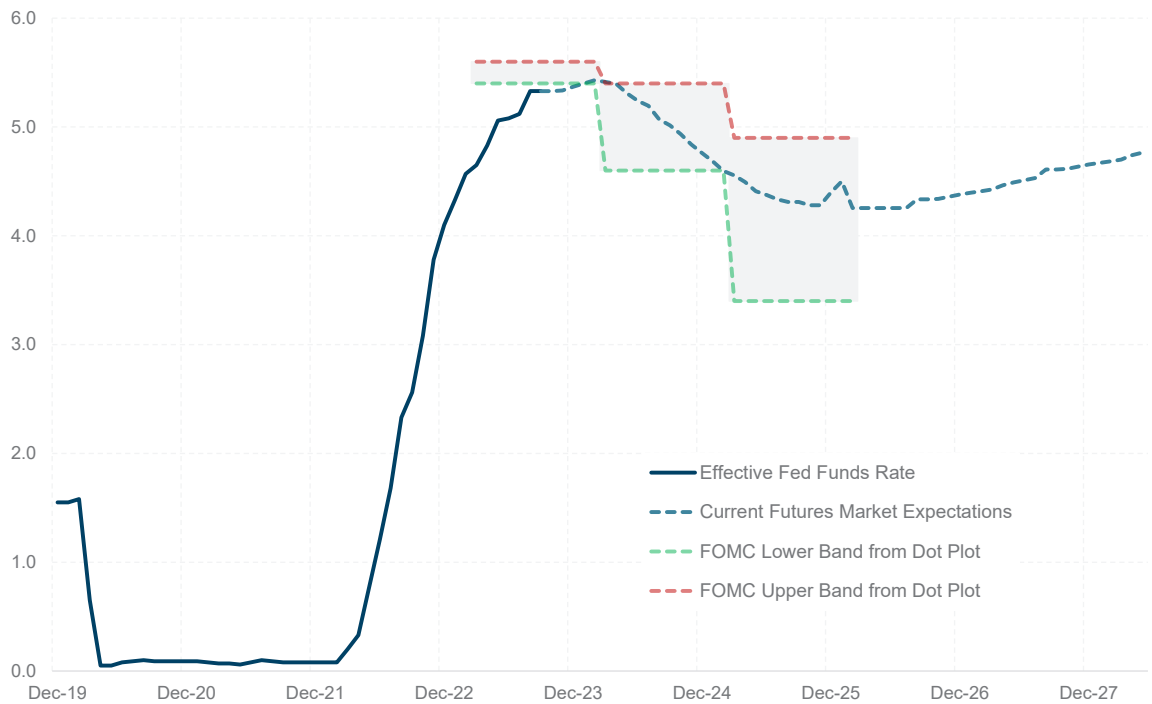


Central Bank Target Short-term Interest Rates, %



Sources: Bloomberg, William Blair Equity Research

Fed Funds Rate, Futures Market Expectations & FOMC Projections, %



Sources: Bloomberg, William Blair Equity Research

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 26-Oct-23	Week Ago 19-Oct-23	Month Ago 26-Sep-23	Qtr-to-Date 29-Sep-23	Year-to-Date 30-Dec-22
S&P 500 Index	100.00	-3.29	-3.19	-3.52	7.75
S&P400 MidCap Index		-2.57	-4.58	-5.76	-2.98
S&P600 SmallCap Index		-2.43	-4.83	-6.22	-6.72
Dow Jones Industrials		-1.89	-2.48	-2.16	-1.09
Nasdaq Composite		-4.48	-3.58	-4.72	20.34
Communication Services	9.02	-7.46	-3.33	-4.25	33.51
Advertising	0.07	-1.03	-0.24	-1.41	-12.28
Broadcasting	0.06	-4.82	-6.75	-8.41	-15.94
Cable & Satellite	0.62	-8.39	-10.05	-10.66	12.51
Integrated Telecommunication Services	0.71	4.61	2.82	3.85	-14.88
Interactive Home Entertainment	0.16	-4.23	-3.05	-3.63	12.73
Interactive Media & Services	5.87	-10.11	-4.44	-5.70	59.70
Movies & Entertainment	1.03	-1.98	2.30	1.74	11.61
Publishing & Printing	0.03	-5.14	4.58	2.09	13.24
Wireless Telecommunication Svcs	0.47	3.64	1.71	2.01	2.04
Consumer Discretionary	10.86	-4.34	-6.89	-7.93	15.75
Apparel Retail	0.39	-2.00	1.22	-0.45	6.83
Apparel & Accessories & Luxury Goods	0.18	-2.15	-0.79	-3.35	-24.95
Auto Parts & Equipment	0.10	-0.61	-6.48	-8.29	0.00
Automobile Manufacturers	2.08	-5.98	-15.02	-16.95	50.25
Automobile Retail	0.30	0.12	-3.74	-2.21	-0.38
Broadline Retail	3.56	-6.86	-5.18	-6.06	15.66
Casinos & Gaming	0.19	-1.23	-3.76	-4.71	0.36
Computer & Electronics Retail	0.04	-4.88	-2.82	-4.84	-17.58
Consumer Electronics	0.05	-3.33	-2.30	-4.13	9.29
Distributors	0.12	-4.05	-8.92	-10.92	-16.27
Footwear	0.35	-2.94	10.92	4.60	-14.52
Home Furnishings	0.01	-0.77	-7.46	-8.50	-23.19
Home Improvement Retail	1.09	-3.04	-9.06	-8.89	-10.66
Homebuilding	0.26	-0.01	-5.72	-6.19	21.04
Hotels, Resorts & Cruise Lines	0.83	-1.90	-8.17	-9.99	27.62
Household Appliances	0.02	-18.13	-18.76	-20.92	-25.26
Housewares & Specialties	0.01	5.12	-14.16	-18.15	-43.50
Leisure Products	0.02	-14.57	-25.89	-26.87	-20.72
Restaurants	1.14	-1.33	-2.78	-1.85	-0.90
Other Specialty Retail	0.13	-3.28	-5.59	-7.43	-19.90
Consumer Staples	7.40	-0.01	-2.67	-1.91	-8.43
Agricultural Products	0.15	-1.19	-4.63	-3.87	-20.16
Brewers	0.03	-0.58	-8.00	-8.79	12.58
Hypermarkets	2.20	-0.88	0.19	-0.19	4.45
Distillers & Vintners	0.17	-0.53	-7.72	-6.92	-3.71
Drug Retail	0.05	3.53	2.69	-2.43	-41.92
Food Distributors	0.09	-0.29	-1.15	-0.88	-14.36
Food Retail	0.09	0.61	-0.84	0.04	0.43
Household Products	1.39	0.60	-0.09	1.99	-2.71
Packaged Foods & Meats	0.87	1.98	-6.96	-5.37	-16.75
Personal Products	0.19	-4.58	-6.79	-7.03	-49.19
Soft Drinks	1.57	1.51	-4.53	-3.07	-11.13
Tobacco	0.59	-3.48	-3.15	-4.31	-12.29
Energy	4.67	-5.61	-3.89	-4.37	-1.26
Integrated Oil & Gas	2.18	-6.19	-7.24	-8.07	-6.73
Oil & Gas Equipment & Services	0.52	-6.13	-4.17	-3.03	6.37
Oil & Gas Exploration & Production	1.26	-5.72	1.67	1.11	1.24
Oil & Gas Refining & Marketing & Transportation	0.43	-4.19	-6.76	-7.05	10.94
Oil & Gas Storage & Transportation	0.39	-2.89	2.35	2.32	1.89
Financials	12.52	-2.10	-3.88	-3.50	-6.47
Asset Management & Custody Banks	0.83	-1.81	-7.03	-7.66	-14.79
Consumer Finance	0.48	-3.94	-6.40	-5.57	-6.43
Diversified Banks	2.71	-3.06	-3.21	-3.74	-7.72
Financial Exchanges & Data	1.17	-1.70	-0.38	-1.07	7.85
Insurance Brokers	0.70	0.12	-1.86	-0.11	11.01
Investment Banking & Brokerage	0.93	-0.90	-8.52	-8.65	-22.17

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Life & Health Insurance	0.43	-2.77	-2.83	-2.66	-8.67
Multi-line Insurance	0.21	-0.38	-0.29	1.04	-2.24
Multi-Sector Holdings	1.24	-0.74	-6.47	-4.04	8.82
Property & Casualty Insurance	0.92	-0.33	3.45	5.26	3.20
Regional Banks	0.28	-3.54	-5.62	-7.45	-43.03
Reinsurance	0.05	-4.63	-0.73	3.11	15.69
Health Care	13.51	-2.59	-3.56	-2.80	-7.97
Biotechnology	2.12	-1.81	-3.10	-1.80	-6.57
Health Care Distributors	0.37	-0.63	1.28	3.45	15.10
Health Care Equipment	2.36	-3.21	-6.71	-6.97	-9.78
Health Care Facilities	0.19	-8.22	-9.45	-8.65	-8.18
Health Care Services	0.61	-1.76	0.08	1.70	-16.30
Health Care Supplies	0.10	-15.83	-20.76	-21.04	-7.26
Life Sciences Tools & Services	1.39	-5.86	-11.14	-11.80	-20.45
Managed Health Care	2.02	-1.45	3.32	4.21	-3.25
Pharmaceuticals	4.34	-1.77	-2.60	-1.14	-5.06
Industrials	8.48	-2.48	-3.46	-4.03	-1.01
Aerospace & Defense	1.71	0.26	3.76	3.55	-8.91
Agricultural & Farm Machinery	0.30	-3.10	-2.66	-2.08	-13.81
Air Freight & Logistics	0.52	-7.65	-9.60	-11.36	-7.04
Building Products	0.41	-1.92	-7.33	-9.18	0.17
Construction & Engineering	0.07	-0.88	-9.52	-10.60	17.37
Construction Machinery & Heavy Trucks	0.61	-1.96	-6.66	-7.64	3.95
Data Processing & Outsourced Services	0.06	-3.73	-7.00	-5.43	25.18
Diversified Support Svcs	0.26	-1.69	2.64	1.99	22.97
Electrical Components & Equipment	0.60	-3.06	-7.00	-7.96	5.96
Environmental & Facilities Services	0.41	2.57	-1.33	0.52	1.99
Human Resource & Employment Services	0.46	-9.02	-5.10	-6.77	0.84
Industrial Conglomerates	0.80	-0.43	-4.04	-3.53	2.11
Industrial Machinery	0.83	-2.48	-4.37	-5.43	2.93
Passenger Airlines	0.16	-3.23	-14.15	-14.72	-15.29
Railroads	0.63	-4.34	-2.85	-2.52	-7.99
Research & Consulting Svcs	0.23	-3.33	-4.07	-4.52	4.53
Trading Companies & Distributors	0.27	-1.49	-0.11	-1.03	20.20
Information Technology	28.05	-3.89	-1.14	-2.36	30.61
Application Software	2.43	-6.37	-1.50	-2.58	34.98
Communications Equipment	0.91	-4.37	-2.57	-4.34	9.89
Electronic Components	0.20	-1.15	-4.46	-6.77	-2.04
Electronic Equipment & Instruments	0.17	-3.94	-7.65	-10.73	-18.71
Electronic Manufacturing Services	0.10	-1.51	-2.46	-4.84	2.40
Internet Software & Services	0.10	-4.03	-0.85	-1.55	8.24
IT Consulting & Services	1.12	-1.41	-4.41	-3.03	3.51
Semiconductor Equipment	0.79	-4.02	-3.75	-6.71	10.63
Semiconductors	6.22	-5.03	-3.70	-6.65	60.04
Systems Software	8.33	-1.62	4.15	2.85	35.39
Technology Distributors	0.08	-2.18	-0.91	-1.66	11.11
Technology Hardware, Storage & Peripherals	7.60	-4.89	-3.00	-2.66	27.63
Materials	2.42	-1.67	-3.74	-4.54	-3.56
Commodity Chemicals	0.18	-2.98	-4.53	-6.16	0.11
Construction Materials	0.14	-3.73	-3.01	-3.54	14.06
Copper	0.14	-4.32	-7.82	-9.60	-11.29
Diversified Chemicals	0.02	-2.00	-6.22	-8.63	-13.93
Fertilizers & Agricultural Chemicals	0.19	-6.45	-5.79	-6.35	-22.49
Gold	0.08	-4.99	-4.87	1.44	-20.59
Industrial Gases	0.68	-0.23	-1.00	-0.93	6.53
Metal & Glass Containers	0.04	4.08	-2.39	-5.58	-8.09
Paper Packaging	0.18	-0.84	-3.39	-4.78	-9.50
Specialty Chemicals	0.63	-1.49	-5.60	-6.97	-6.66
Steel	0.15	3.17	-1.72	-4.96	9.93
Real Estate	2.35	-0.17	-3.26	-3.62	-11.31
Health Care REITs	0.20	-0.46	0.37	-0.46	4.40
Hotel & Resort REITs	0.03	-1.40	-1.96	-3.36	-3.24
Industrial REITs	0.26	-2.88	-10.65	-11.21	-11.63
Office REITs	0.07	-1.10	-5.47	-7.44	-31.05
Real Estate Service	0.14	-3.57	-8.25	-8.76	-14.35
Residential REITs	0.31	-4.84	-5.59	-4.64	-7.56
Retail REITs	0.28	0.40	-1.66	-1.21	-15.08
Specialized REITs	0.13	-1.64	-4.07	-3.62	-3.50

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Utilities	2.49	2.02	-2.41	1.53	-15.26
Electric Utilities	1.64	2.37	-3.00	1.64	-15.17
Gas Utilities	0.05	-1.22	1.67	2.67	-2.95
Independent Power Producers & Energy Traders	0.03	7.66	-6.05	-1.97	-48.19
Water Utilities	0.06	0.85	-8.97	-4.69	-22.57
Multi-Utilities	0.71	1.32	-0.45	1.96	-13.20

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

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DOW JONES: 32784.30
 S&P 500: 4137.23
 NASDAQ: 12595.60

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Market Perform (Hold)	28	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

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