Macro Roundup Artcile

Headline: End of an Era: The Coming Long-Run Slowdown in Corporate Profit Growth and Stock Returns

Article Link: https://www.federalreserve.gov/econres/feds/end-of-an-era-the-coming-long-run-slowdown-in-corporate-profit-growth-and-stock-returns.htm

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Tweet: Michael Smolyansky @federalreserve argues the decline in interest and corporate tax rates mechanically explains 40% of real growth in corporate profits between 1989-2019 suggesting lower returns going forward.

Summary: The reduction in interest and corporate tax rates was responsible for over 40% of the growth in real corporate profits from 1989 to 2019. Moreover, the decline in risk-free rates over this period explains the entirety of the expansion in price-to-earnings (P/E) multiples. These two factors therefore account for the majority of this period's exceptional stock market performance. From 1989 to 2019, real corporate profits grew at the robust rate of 3.8% per year. This was almost double the pace seen from 1962 to 1989. The difference in profit growth between these two periods is entirely due to the decline in interest and corporate tax rates from 1989 to 2019. One way to see this is to compare the growth of earnings before subtracting interest and tax expenses (EBIT). In fact, real EBIT growth was slightly lower from 1989 to 2019 compared to 1962 to 1989: 2.2% versus 2.4% per year. The outlook for stock price growth is bleak. Related: The Curious Incident of the Elevated Profit Margins and Charlie Munger: US Banks Are 'Full of' Bad Commercial Property Loans

Primary Topic: Financial Markets

Topics: Database, Financial Markets, GDP, Government/NGO, Important!, Weekly

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