

Macro Roundup Article

Headline: [The Curious Incident of the Elevated Profit Margins](#)

Article Link: https://www.gmo.com/globalassets/articles/white-paper/2023/gmo_the-curious-incident-of-the-elevated-profit-margins---part-1_5-23.pdf

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Publication	GMO
Publication Date	May 17, 2023

Tweet: James Montier @GMOInsights notes that American firms' profit margins have been supported by persistent fiscal deficits and argues that the current historically-high PE multiple "dooms investors to low returns in the long run."

Summary: Between 1950 and 2011, the fiscal deficit averaged just less than 3% of GNP each year. In the period from 2012 to 2022, the fiscal deficit was more than double the previous average, at 6.6%. This isn't just the impact of the pandemic: the same basic pattern holds even when I exclude the Covid years! The main sources of the increased deficit have been health spending and social security expenditure (again true even with Covid data excluded). Is this era of what Minsky would have called "Big Government" here to stay? Even if I take a very bullish view, that this is indeed a new era of permanent deficits and thus profit margins will remain elevated relative to history, I still cannot find any valuation attraction in U.S. equities in aggregate. The Shiller P/E naturally embodies the decade of higher-than-normal profit margins and yet still stands at 30x. Even without any valuation or margin mean reversion, this dooms investors to low returns in the long run.

Primary Topic: Financial Markets

Topics: Data, Financial Markets, GDP, Other Source, Weekly

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