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Macro Roundup Article

Headline: Stockmarkets Are Booming. But the Good Times Are Unlikely to Last

Article Link: https://www.economist.com/finance-and-economics/2024/02/25/stockmarkets-are-booming-but-the-good-times-are-unlikely-to-last

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Publication	The Economist
Publication Date	February 29, 2024

Tweet: An Economist analysis argues "The surge in net profits is really an artifact of lower taxes and interest bills. Measures of underlying profits have grown less impressively." This suggests lower returns going forward.

Summary: Rarely have corporate profits been valued so highly. And the outlook for the profits themselves is also challenging. To understand why, consider the fundamental sources of their long-term growth. We have employed Michael Smolyansky's methodology to examine national-accounts data for American corporations. Between 1962 and 1989 net profits increased in real terms by 2% a year. After that, profits accelerated. Between 1989 and 2019 they increased by more than 4% a year. We find similar trends across the OECD as a share of GDP, corporate profits were steady from the 1970s to the 1990s, then doubled. Mirroring Mr. Smolyansky, we find that in America the difference in profit growth between the 1962-1989 period and the 1989-2019 period is "entirely due to the decline in interest and corporate-tax rates". Extending this analysis to the rich world as a whole, we find similar trends. The surge in net profits is really an artifact of lower taxes and interest bills. Measures of underlying profits have grown less impressively.

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Primary Topic: Financial Markets

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