

THE UNITED STATES: A DIVIDED NATION

Record earnings, zombie firms and other consequences of loose money in this extraordinary economic cycle.

The United States is a divided nation. That label has been attached to the States for some time, when it comes to American politics and society. Since the end of the financial crisis, this has also increasingly been the case for the economy. There are several examples of this: sluggish wage growth despite record low unemployment rates; historically low, namely negative, real interest rates; and all of this coupled with company profits at record levels for corporate America as a whole. The fact that tax revenues are not in line with this rosy economic backdrop (of the 379 Forbes 500 companies that generate profits, 91 do not pay corporate taxes¹) seems to fit the picture, even if it may reflect the vagaries of U.S. tax law.

Talking about profits, our "Chart of the Week" reveals another interesting dichotomy. On the one hand, it shows how the profits of the Russell 3000 Index have risen by around 80%² since the end of the financial crisis. On the other hand, the chart shows that despite these record profits, almost as many companies are making losses now as in times of crises. The remarkable thing is that the number of

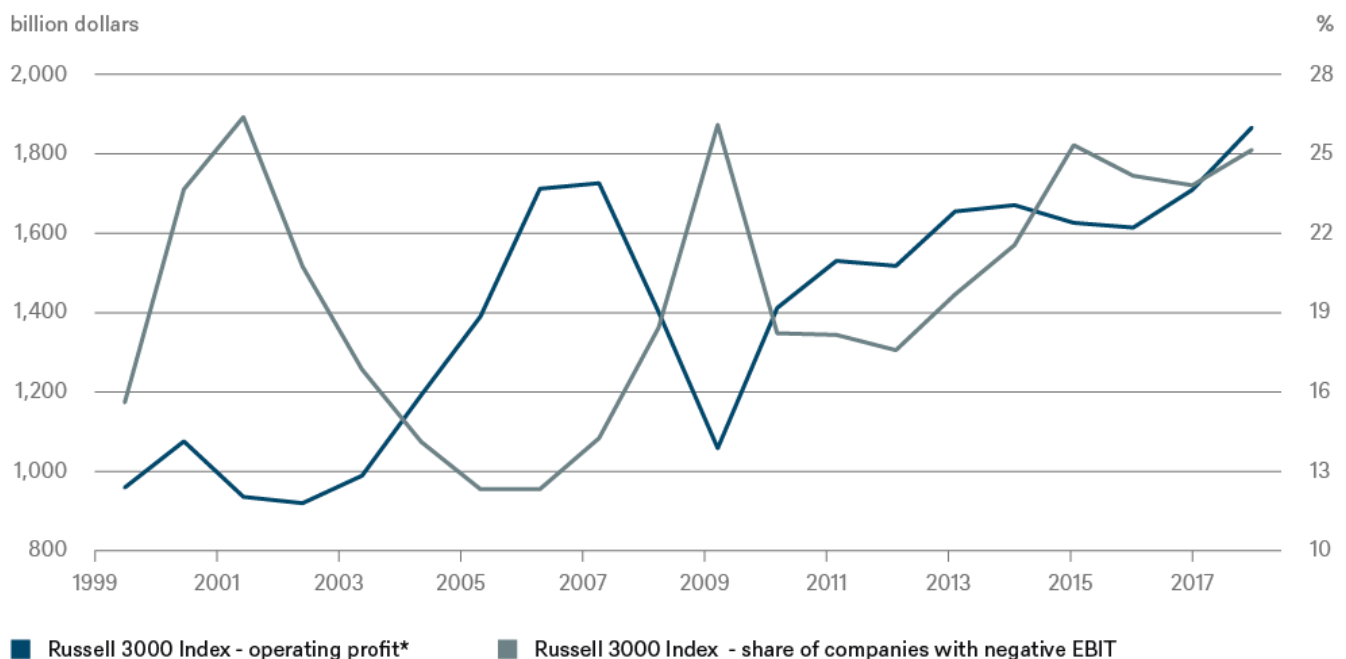
loss-making companies in the two previous crises only peaked briefly, but has now remained at a fairly high, almost crisis level since 2015. These companies, which remain in the doldrums despite the buzzing economy, are often referred to as "zombie companies", in reference to the tenacious survivability of similar companies in Japan. This survivability has been attributed to low interest rates.

Many may have written off the economic cycle in its classic, somewhat more brutal form. However, the downside of such a forgiving cycle may be the lack of a market shakeout for barely viable companies. This appears to have had further side effects: "Different parts of the U.S. economy are running at different speeds. We have already described this when comparing economic profits based on national income statistics (NIPA) with announced earnings by S&P 500 companies.³ Weak profits in large parts of corporate America may also explain why we see so little dynamism in wage development despite the record low unemployment rate," notes Christian Scherrmann, economist for the United States at DWS.

¹ See: Institute on Taxation and Economic Policy, 12/16/19: <https://itep.org/corporate-tax-avoidance-in-the-first-year-of-the-trump-tax-law/>

² Only companies with positive operating profit have been considered for this calculation.

³ <https://www.dws.com/insights/cio-view/charts-of-the-week/cotw-2019/chart-of-the-week-20191129/>



* Includes only companies with positive earnings

Sources: Refinitiv, DWS Investment GmbH as of 12/17/19

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GLOSSARY

The [financial crisis](#) refers to the period of market turmoil that started in 2007 and worsened sharply in 2008 with the collapse of Lehman Brothers.

In economics, a [real](#) value is adjusted for inflation.

The [Russell 3000 Index](#) is a market-capitalization-weighted index tracking the performance of the U.S. equity market's 3000 largest companies.

The [S&P 500](#) is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

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