



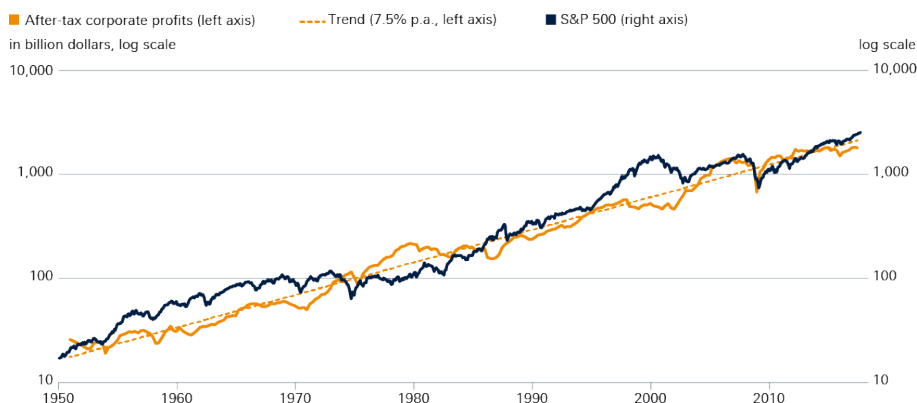
## Chart of the week

### U.S. equities supported by earnings

Every time when stock markets are reaching new record-highs, questions regarding the sustainability of the bull market arise. How high can equity prices go? What kind of long-term returns can equity investors expect?

Today's Chart of the Week looks at the relationship between U.S. corporate profits and U.S. stock prices. Taking 1945 as a reference, after-tax profits of the U.S. corporate sector have risen by 7.5% annually (we are relying on data from the Fed's Flow of Funds statistics here, not least to avoid discussions about the impact of share buybacks on earnings-per-share). Over the same time period, stocks represented by the S&P 500 have risen by 7.3%. Quite a similar outcome, in fact. This, however, should not come as a big surprise: After all, buying a stock means acquiring a claim on future profits.

A closer look at our Chart of the Week also reveals that there are times when stock prices rise well beyond levels consistent with corporate profits, as they have done, for example, in 2000. These periods, of which the former Fed chair Alan Greenspan famously dubbed one as "irrational exuberance," tend to end in tears. Today's stock-market indices have also risen above levels which would historically have corresponded with corporate profits, but only by a slight margin. Hence, as long as corporate profits keep rising, we stick to our constructive outlook for the equity market. Of course, that does not mean one can, or should, extrapolate past earnings-growth trends into the future. For now, however, stock prices on Wall Street look well supported by U.S. corporate profits.



Sources: Bloomberg Finance L.P., Board of Governors of the Federal Reserve System, Deutsche Asset Management Investment GmbH; as of 10/10/17

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