Zacks INVESTMENT MANAGEMENT

Mitch on the Markets

What in the World Is Happening with Earnings Growth?

By Mitch Zacks
Portfolio Manager

The global equities bulls are back, this time with a new term: "global synchronous recovery." Whatever you want to call it, the facts are pretty straight – the global economy has seen broad-based growth in 2017, and we fully expect it to continue in the second half of the year. Our expectation is for the global economy to grow 3% in 2017, and perhaps a bit more in 2018. If history is any indicator (which it is), that kind of GDP growth usually portends positive gains in the stock market.

The new feature of this global growth, however, is the synchronicity of *earnings growth*. That's different from GDP growth. For instance, in the United States, we saw several consecutive quarters of negative earnings for the S&P 500, even while GDP continued to muddle higher. The negative earnings readings were almost entirely attributed to the recession in Energy earnings, but even still the broad economy managed to grow on balance.

In some ways, earnings growth is even more important than GDP growth, since stocks generally tend to respond more to earnings growth than anything else. And broad-based earnings growth is something that's been missing from the global economy since 2010. In 2015, for instance, the U.S., UK, Emerging Markets, and Europe ex-UK all saw negative earnings growth. Japan was the only developed country to post very modest gains that year. In 2016, the tides turned a bit, and every country/region was positive except for Japan and the UK.

In 2017, however, earnings growth is set to be positive across the board. If that happens, it would be the first time we've seen it since 2010 – an encouraging sign for the global stock investor. Zacks Investment Management expects earnings growth in the U.S. to approach double digits for the fiscal year 2017, which actually marks the lowest rate of expected growth amongst developed nations! The European Union, the UK, and Emerging Markets are expecting earnings growth to approach the 20% mark, which would be the strongest readings any area has seen since 2010 – which, keep in mind, was the first year of this economic expansion.

Earnings growth is not a single data point for measuring the health of the global economy, either. For 2017, you'd be hard-pressed to find any country in the developed world that has not experienced expansionary readings in manufacturing. You can name any country in Europe or other developed markets and find a 50+ (expansionary) reading for manufacturing. For developed countries, the June Global PMI for manufacturing was 53.9. For Emerging Markets, it was 50.8, for the U.S. it was 52.0, and for the world balance it was 52.6. That's solid.

Bottom Line for Investors

We continue to believe that the current environment presents opportunities in the equities markets, and that it makes sense for investors to have equity exposure up to the point that their risk tolerance and growth objectives allow. We've maintained that stance throughout this bull market and believe the base case for equity appreciation still exists today.

-Mitch

About Mitch Zacks

Mitch is a Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.