

Company profits outlook pose challenge for US stocks

Last year, Trump cut taxes, increasing company profits and resulting in record highs for US stock market



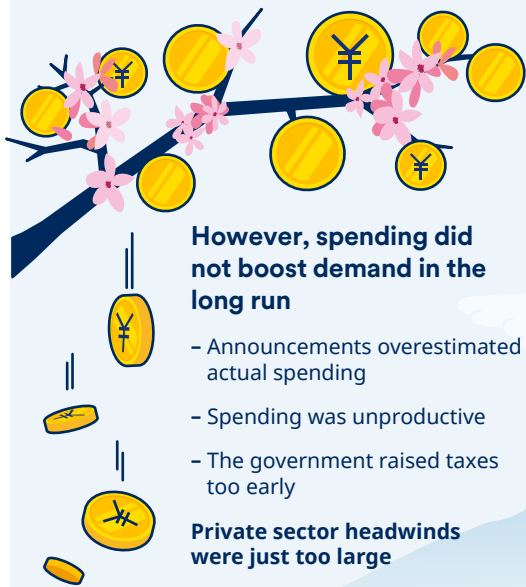
Factors that could put pressure on profits of US companies:

- ✂️ **Corporation tax** cuts are over
- 📉 **Productivity** decreased, slowing US economic growth
- 📉 **Unemployment** has fallen, causing wage cost increase
- 🇺🇸 **US/China trade wars:** tariffs reducing consumer confidence and global trade



What can we learn from Japan's government spending in the 1990s?

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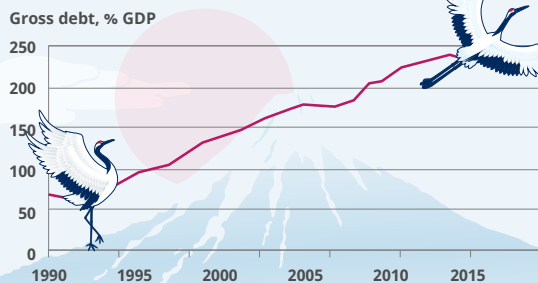
Since 1992 Japan hoped to boost economic growth through fiscal policy¹

However, spending did not boost demand in the long run

- Announcements overestimated actual spending
- Spending was unproductive
- The government raised taxes too early

Private sector headwinds were just too large

Government debt



Source: Refinitiv, IMF, Schroders Economics Group, 29 October 2019.

Fiscal policy lessons for rest of the world

- ✔️ **Productive and sustained spending** should come in large doses
- ✔️ **Increasing economic growth** without supporting policies is difficult
- ✔️ **Fiscal policy** doesn't come without cost (budget deficit/government debt)

¹Fiscal policy - the use of government spending and taxation to boost economic growth.

Views at a glance: Schroders' inflation forecast

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Source: Schroders, Thomson Datastream, Consensus Economics, November 2019

Source: Schroders as at November 2019.

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