

## 'From profit recession to profit recovery'

*'Since profit margins should remain stable, they will support positive earnings growth in 2020'*

### What happened to operating profit?

In terms of operating profit, 2019 was a very mediocre year. In the US, operating profit remained more or less stable compared to 2018, a peak year in which almost 25% earnings growth was recorded. In Europe, we even saw a few quarters of (slightly) negative figures, a profit recession even.

Will profits continue to plummet in 2020, or is there light at the end of the tunnel? Analysts already expect earnings growth to increase by 10% worldwide by 2020. The first question we have to ask ourselves is, where can earnings growth come from. First of all, we look at turnover growth, which we know was under pressure this year.



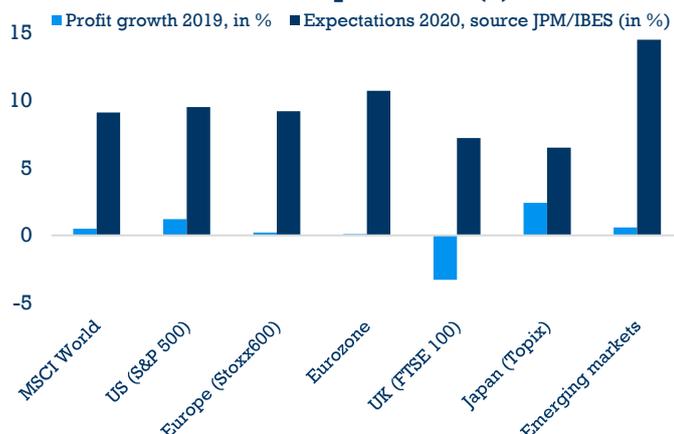
### Turnover growth ahead

Global growth slowed down due, in part, to the trade conflict between the US and China, and Brexit uncertainty. This led to a decline in investment growth and in global trade, putting considerable pressure on foreign income.

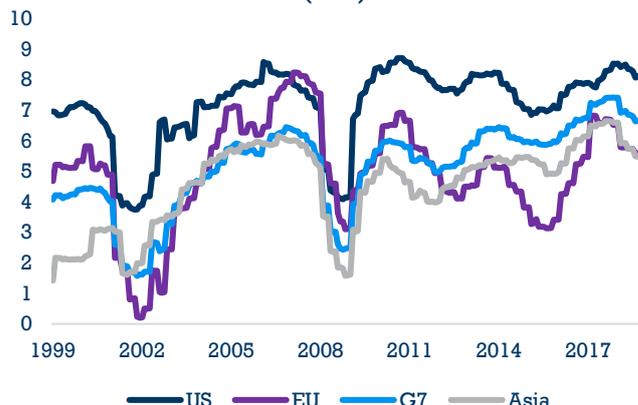
This especially affected industrial companies, resulting in turnover growth coming to a virtual standstill. The materials and energy sectors even saw a sharp fall in turnover (-20% and -8%, respectively). The stars seem to be aligned more favourably in 2020. Confidence indicators are gradually bottoming out. The order books seem to be filling up again and commodity prices are stabilising. However, a ceasefire in the trade war and a soft Brexit are necessary to prevent these green shoots of recovery being trampled on.



### Elevated expectations (?)



### Net profit margin evolution (in %)



### Inflation

In addition to a recovery of the real economy, inflation also plays a key role for operating income. This has decreased over the past year, partly due to lower commodity prices and increased competition between companies (which has also resulted in significantly lower turnover growth in the consumer and services sectors). For 2020, inflation seems to be slightly stabilising (around 2% in the US and 1.2% in the euro area), which could provide some support for turnover growth.

There is also a dollar effect: historically, the weaker the dollar, the higher global operating turnover and profit will be. The strong dollar in 2018-19 mainly affected US companies: their foreign income (and profits) fell sharply. For 2020, we expect the dollar to weaken slightly, which may be good news for them.

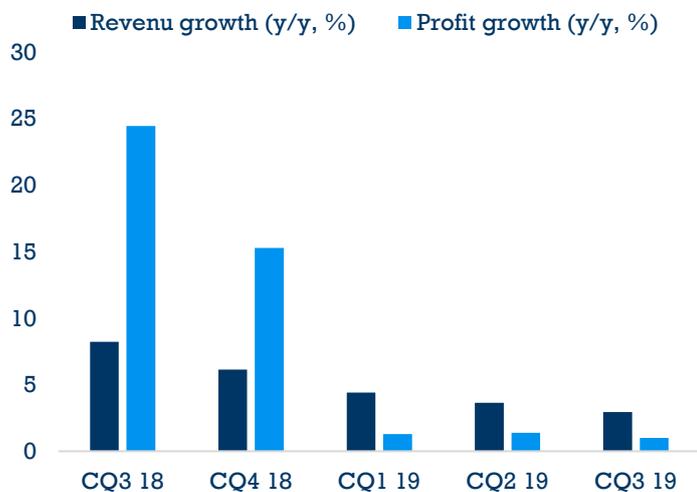
### One-time effects come and go

The sharp drop in earnings growth in the US compared to 2018 was caused by the elimination of President Trump's tax cuts from the figures. We don't expect further tax cuts, but the negative impact will be felt next year. A stabilisation of commodity prices will result in a similar optical improvement. The highest expected turnover and earnings growth is due to this 'base effect' in the Commodities and Energy sectors. Since we expect stable oil prices (and slightly higher commodity prices), we will have to find a different source of sustainable earnings growth.

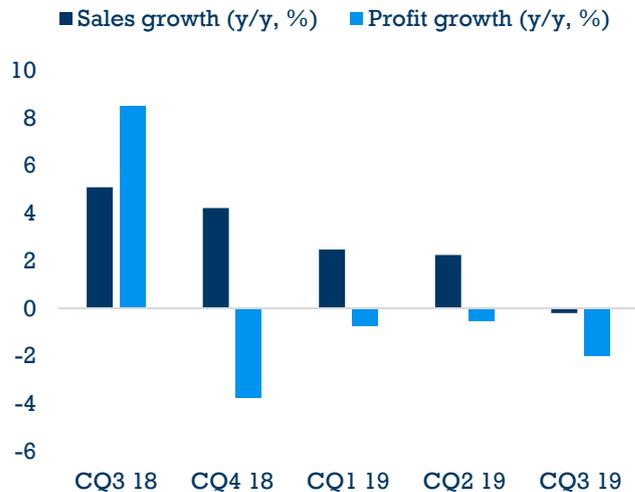
### Stabilisation of profit margins?

We will need to take a close look at the profit margins, which have been at fairly high levels in the US for some time now. The gradual rise in wages is increasing pressure on margins, although US wage growth does not seem to be increasing too much. In Europe, there is even less wage pressure, which means the slightly higher growth and inflation will allow companies to slightly increase their pricing power. Companies can also benefit from lower interest rates, especially if they have a high level of debt. All these effects should keep profit margins stable... and support positive earnings growth in 2020.

### Profit growth S&P500 diminishes



### Europe faces a profit recession



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