

EPISODE
384



REAL ECONOMY VS STOCK MARKET ECONOMY

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Agenda:

- GDP growth vs equity returns — the disconnect
- EM case study: fast GDP, slow markets
- US lens: foreign revenues, the USD, and currency translation
- Who's spending? Govt vs households vs profits (Kalecki/Levy)
- Listed mega-caps vs the SME economy
- Today's US forces: USD, tariffs, deficits, AI capex
- Investor takeaways

Real Equity Return vs GDP:

494

J.R. Ritter / Pacific-Basin Finance Journal 13 (2005) 489–503

Real Equity Return (green) and Real GDP Per Capita Growth (yellow), 1900–2002

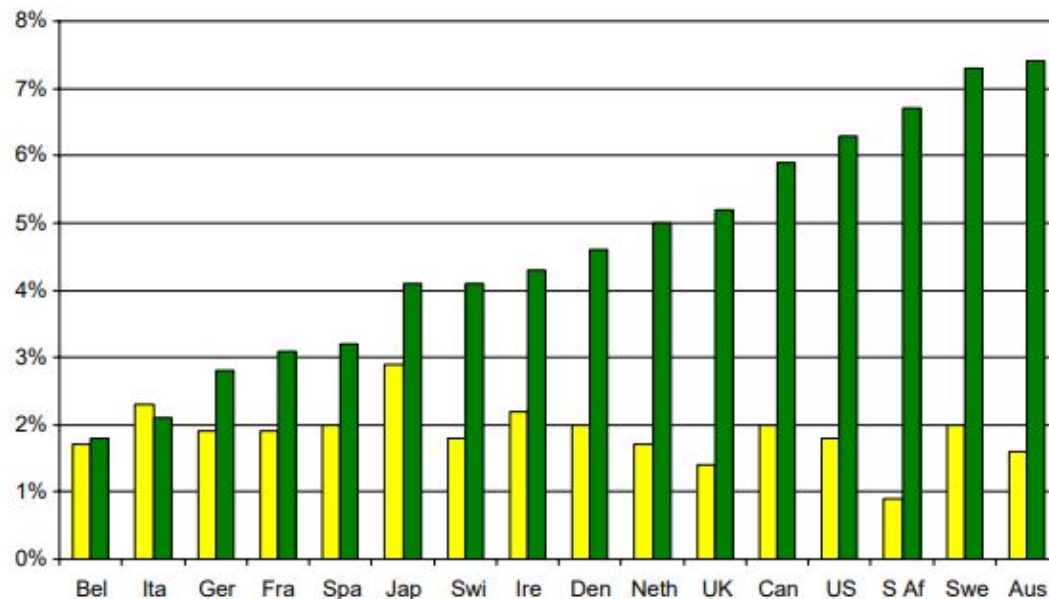






Fig. 1. Real equity return (green) and real GDP per capita growth (yellow), 1900–2002. Real return data (dividends and capital gains) are from [Dimson et al. \(2003\)](#). Real GDP per capita growth rate data are from [Dimson et al. \(2002\)](#), updated for 2001–2002 using data from *World Development Indicators*. (For interpretation of the references to colour in this figure legend, the reader is referred to the web version of this article.)


Choose themes to screen from your portfolio away from (i.e. remove stocks)


Climate Change



War



Human Rights



Health


Vices


Animal Rights


Religion


Asset Class


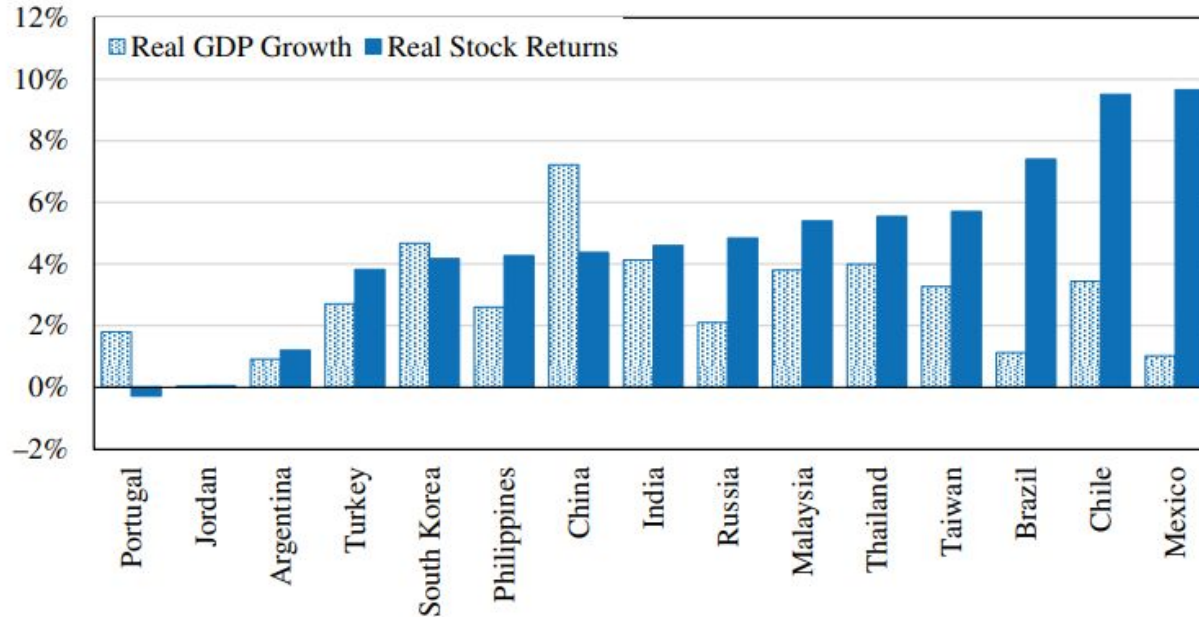
Thematic


Climate Change

- ☐ No Fossil Fuels (Worst Offenders) ⓘ
- ☐ No Fossil Fuels (Any) ⓘ
- ☐ No Coal Seam Gas or Fracking ⓘ
- ☐ No Nuclear Power ⓘ
- ☐ No Old Growth Forest Logging ⓘ

Real Equity Return vs GDP:

Exhibit 2. Real GDP Growth and Stock Returns in 15 Emerging Markets, 1988-2019



Notes: The figure plots geometric average annual per capita GDP growth and stock returns from 1988-2019 for 15 emerging markets (Brazil, China, and India start in 1993, Russia starts in 1995). Data on real per capita GDP come from the World Bank for all countries except Taiwan, for which IMF data are used. Stock returns are from MSCI and Wind, expressed in local currency terms. The cross-sectional correlation of stock return and per capita GDP growth is statistically insignificant, at 0.19 (p -value=0.50).

USD and foreign profits:

- 30-40% of S&P earnings from overseas
- Effect of USD weakness

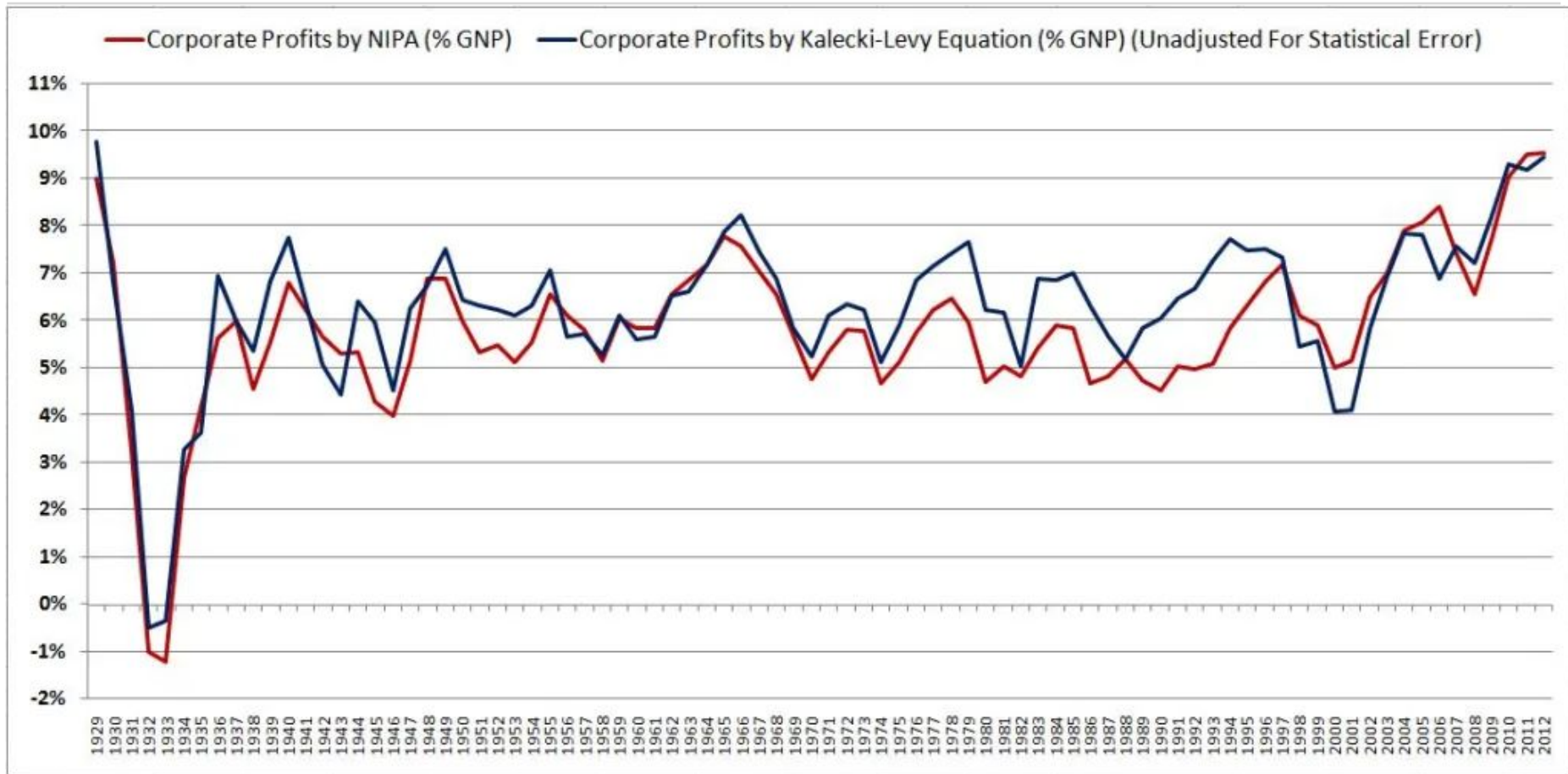
Corporate Profits:

- Kalecki-Levy profit equation:

Corporate Profit = Investment + Dividends – Household Saving – Government Saving – Rest of World Saving

- Corporate taxes
- Borrowing / dissaving
- Investing vs trading
- Net investment interationally

Corporate Profits:



Corporates vs Enterprises:

- Mega caps are not GDP
- 45% employees in the US are small businesses
- 44% of GDP is small businesses
- Add government and there is not much left

Investment forces:

- Weaker USD → higher translated profits for multinationals; benefits sectors with high foreign sales.
- Tariffs/trade barriers: Large caps often have better pricing power, diversified supply chains, & legal teams
- High government spending/deficits: Near-term support for aggregate profits even if real GDP growth is middling.
- AI capex super-cycle: Hyperscalers are guiding to monster capex in 2025—ballpark Amazon ~\$100B, Microsoft ~\$80B, Alphabet ~\$75–85B—supporting revenue at suppliers (chips, power, construction) and potentially boosting software/services margins later.

Personalise Your Portfolio

Screens

You can exclude the below to customise your portfolio

Climate Change	War	Human Rights	Health	Vices
Animal Rights	Religion	Asset Class	Thematic	

- No Fossil Fuels (Worst Offenders) ?
- No Fossil Fuels (Any) ?
- No Coal Seam Gas or Fracking ?
- No Nuclear Power ?
- No Old Growth Forest Logging ?



Tilts

You can add the below to customise your portfolio

Investment Style Factors	Climate Change	Technology	
Consumption	Commodities	Military	GICS Sectors

- Quality Stocks ?
- Value Stocks ?
- Growth Stocks ?
- Defensives ?

Personalise your portfolio now >



Build Your Portfolio

Need help with this page?  Video Tutorial

Account Selection

Investment Choice

Risk Profile

Build Your Portfolio

Ethical Overlay

Review

Applicants


Bank Details


Compliance


Final Review


Portfolio Tilts



Quality Stocks 


Value Stocks 

Growth Stocks 

Oil & Gas Stocks 

Gold Stocks 


Agribusiness 

Large Technology Stocks 

Cloud Computing Stocks 


Robotics/AI 

Video Gaming 


Cybersecurity 

Clean Energy 

Defensives 


Battery Supply Chain 

Nuclear Power 


Defense Contractors 


Travel 

Luxury Goods 


Logistics 


Global Communication Services 

Global Consumer Discretionary 

Global Consumer Staples 

Global Energy 

Global Financials 

Global Health Care 

Global Industrials 

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