



As good as it gets

The general consensus is that it's all downhill from here. Current earnings are being buoyed by tax cuts and share buybacks, but those effects will start to fade in the coming quarters. At the same time, global growth is slowing, and central banks are increasingly tightening policy. As a result, investors seem very worried about "peak earnings."

First, it's important that we draw a distinction between peak earnings and peak earnings growth. Peak earnings would suggest that earnings growth will begin to turn negative, implying a profits recession. That would indeed be a very bearish signal for stocks, but we see no signs of an imminent profit recession in our work.

Peak earnings growth is very different. This implies that earnings will continue to grow, but at a slower pace. Since 1980, we have had 11 peaks in profit growth. In all but one of those instances (91% of the time), returns over the subsequent six and twelve months were positive, with average returns of 9% and 18%, respectively. We actually had peaks in earnings growth as recently as 2013 and 2017 and both were followed by periods of very strong returns.

Bottom line(s): (1) This is not peak earnings, and (2) peak earnings growth does not signal the end of the bull market.

S&P 500® returns following peaks in trailing 12-month GAAP EPS growth since 1980

	<u>Next 6m</u>	<u>Next 12m</u>
Average post growth peak returns	9%	18%
Median post growth peak returns	6%	18%
Count of growth peaks	11	11
Count of negative post-peak returns	1	1
% positive returns post-peak	91%	91%

Source: Richard Bernstein Advisors LLC, Bloomberg

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