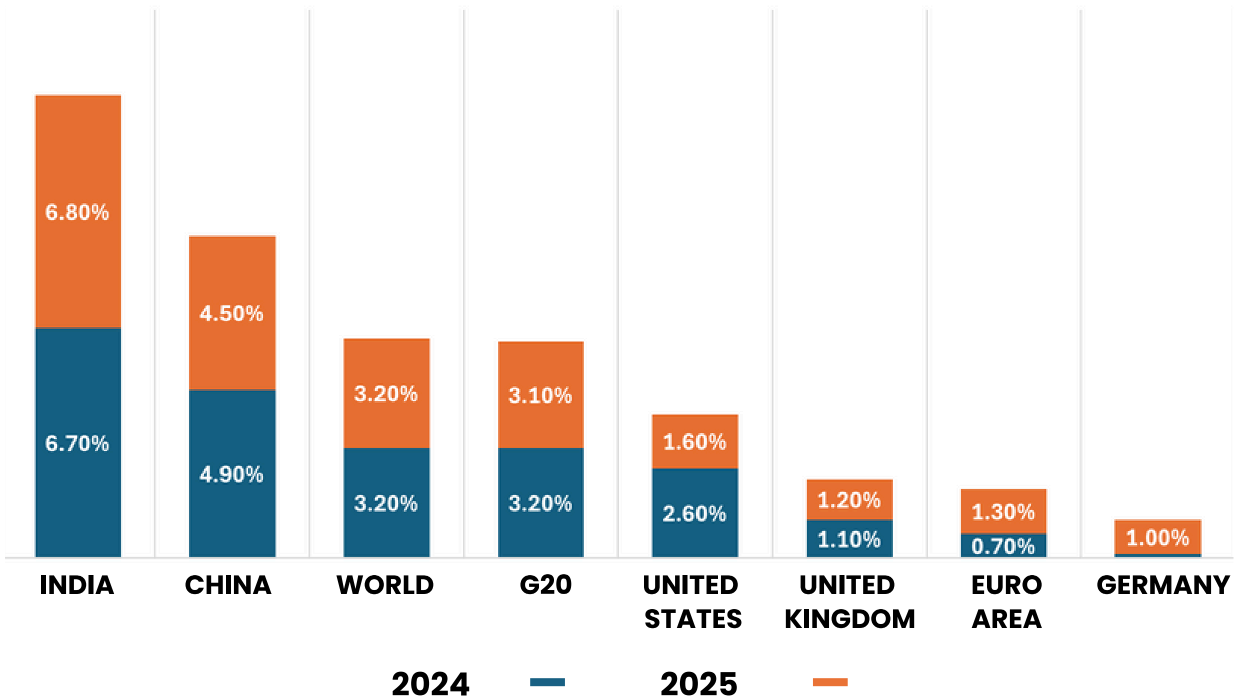
Taking Stock - OECD Global Economies Growth Forecast & total S&P Returns

The OECD this week released its September Economic Outlook for the world's largest economies. The report titled "Turning the Corner" in reference to the fact that the OECD believes the world has turned a corner on inflation and high interest rates. According to the report global GDP is expected to grow by 3.2% in 2024 and 2025, aided by continued disinflation and less restrictive monetary policy. The 3.2% growth rate for 2024 is also 0.1% higher than forecasted in the May Economic Outlook.

On a country basis, India is the standout, with real GDP growth for 2024 forecasted to come in at 6.7%, increasing to 6.8% in 2025. Growth is been attributed to increased domestic demand, with Composite PMI's in the country in expansion territory for the last two years. Meanwhile, China is forecast to grow by 4.9% in 2024 and 4.5% in 2025, both below the 5% GDP growth rate set by the Chinese Government. While industrial production has helped increase exports in China, lower consumer demand and the continued property correction has continued to hamper growth. Looking to western economies, the United States is expected to maintain its growth rate of 2.6% in 2024 set back in May, with declining inflation and increased private consumption driving this growth.

Finally, closer to home the Euro Area is anticipated to see increased growth in 2025, due to interest rate decisions and an increase in real incomes, while in the UK the OECD has lifted its growth targets for the country on the back of strong wage growth. The German economy is also anticipated to rebound after a poor 2024, spurred on by an increase in manufacturing output post rate cuts

OECD Real GDP Growth Forecasts - September 2024



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Looking at equities, while the recent interest rate cut by the Federal Reserve should support equity markets in the United States, it is important to look at the fundamentals to see where returns are being derived from. According to research by Carson, over the past four years, since the beginning of 2020 to the present day, the S&P 500 has risen by almost 91%. When we breakdown this percentage we can see that, 41% of the total returns have been from sales growth. What this means is that company revenues have driven nearly half of the total gain over that time frame, with profits being the ultimate driver of equities. Margin growth, meaning a growth in a businesses retained revenue after expenses, has contributed to 16% of the 91% total return, and when combined with sales growth means that 57% of the total return can be attributed to profit growth. In essence, what this chart is telling us is that the fundamentals by which companies operate under have driven equity performance over the past four years, and with a rate cut cycle upon us, we should see sales and profit margins grow further.

S&P 500 Total Return Drivers (2020 - 2024 YTD) (%)