FINANCIAL TIMES
'Without fear and without favour'

SATURDAY 5 MARCH 2016

Letters

FTWeekend

Saturday-Sunday March 5-6, 2016

Worrying signs as world trade levels fall

Sir, John Authers' review of risks involved in future corporate earnings assumptions was an excellent dissection of the most critical aspects ("Momentum matters as earnings estimates go from bad to worse", The Long View, February 27). As he always seems reluctant to play Cassandra, his very downbeat assessment is that much more disconcerting; especially his discussion of the current divergence between now acceptable "adjusted" pro forma numbers and the more stringent GAAP figures illuminates the potential extended weakness.

Allowing that equities seem more upbeat at present than this forward earnings view would suggest is of no comfort. The massively overstretched 1987 equities bull market implosion was the exception. Most bear markets begin with gradual (if volatile) weakness that leads to more accelerated falls. The years 2000 and 2007-08 are very good examples. And the investor class always seems happy to engage in wishful thinking even as darker clouds gather. That is exacerbated now by current low-to-negative interest rates.

But why would such weakness occur at all when there is no obvious bubble? The answer is likely the inability of even talented corporate finance departments to manufacture profits from ever weaker top line turnover. And one of the primary indications is the significant drop in international trade. Among others, the OECD has been warning of this for a while. In its major outlook last November the OECD highlighted the risks of world trade falling to levels only seen five times in 50 years. Each instance was followed by a global economic contraction. That was reaffirmed in its recent interim report and by this week's abysmal G20 trade statistics. All painted a very downbeat picture, reinforcing a current lack of corporate animal spirits.

Such correlations are always problematic. Yet the need for greater international trade while most economies outside the US are struggling is much the same as Mr Authers notes on the elevated market pricing in spite of recent earnings downgrades. Not good.

Alan Rohrbach
President,
Rohr International, Inc,
Chicago, IL, US

Many thanks to the Financial Times' John Authers for his excellent column in FTWeekend February 27-28, 2016 on the risks of still elevated corporate earnings estimates at that time. His column is available at http://on.ft.com/1Q9fxak. Our letter is hyperlinked to its FT.com page.

Our appreciation also to the FT Letters Editor for feeling this perspective is useful for its readers.