Sooner or later, stock prices are related to corporate profits. Anything can push stock prices around in a day, month, or year. But a stock or an ownership unit of a business ultimately has to do with how profitable that business is. When you buy a stock, you?re buying an interest in a company?s future profits, pure and simple.

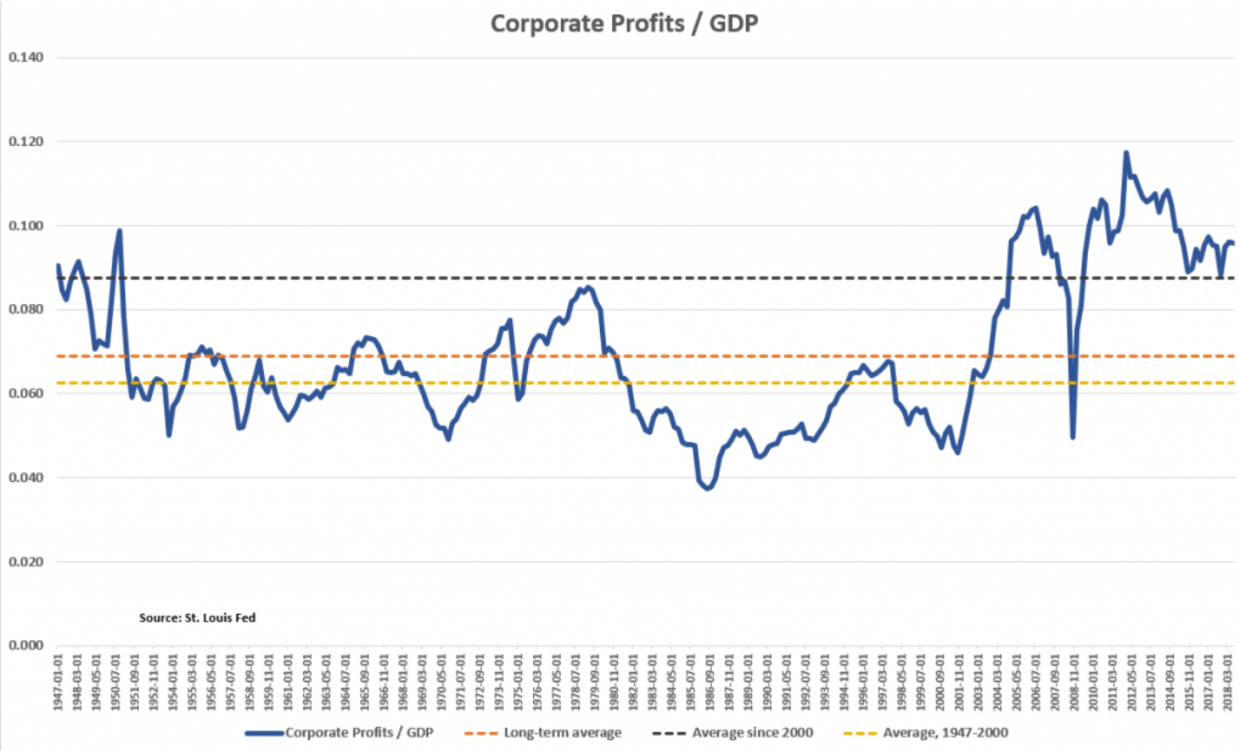
Since around 2000, corporate profits as a percentage of GDP have been stellar. Accordingly, stocks have traded at prices relative to underlying earnings that can only be justified if profits will be permanently higher than they were prior to 2000. Will they be? Justin Lahart of the *Wall Street Journal* said no over the weekend. And that could mean bad news for stock investors.

For the first time in over two years corporate profit margins are falling, according to Lahart. Nobody knows if that?s a permanent trend, but Lahart argues that margins rose so much in the first place because of a lower share of revenues going to labor, increased global trade, lower taxes, and gains in market share.

All of these factors seem to be at risk now. Concerns about inequality might make squeezing workers further difficult politically. A trade war may change how we conduct commerce with China. And big companies with high market share that set prices and have little competition for labor are on the defensive.

Lahart?s article had three excellent charts -- one showing increased net profit margin since 2010 for S&P 500 constituents (from around 8% to nearly 12.5% last year), another showing decreased employee compensation as a share of GDP since 1970 (from 58% to 53%), and the last showing decreased corporate taxes since 1975 (from more than 35% to less than 15%).

Here?s another one we constructed with data from the St.Louis Fed?s website, showing corporate profits as a percentage of GDP since 1947. The average from 1947 to 2000 was a little more than 6%, but the average since 2000 is nearly 9%.



If profit margins decline, Lahart is correct about that being bad news over the longer term for stock investors. That doesn?t mean nobody should invest in stocks. But it means investors should moderate their return expectations.

For more on the intersection of profit margins, valuations and return expectations we suggest reading our article : [DIY Market Forecast](#).