

A Perspective on the S&P 500 Index's P/E Ratio

Historical S&P 500 Index P/E Ratios and Total Returns

Period	Average P/E	Average Annual Total Return
1960-1969	17.75	7.81%
1970-1979	12.80	5.87%
1980-1989	12.19	17.54%
1990-1999	21.43	18.16%
2000-2009	19.80	-0.95%
2010-2017 (12/19)	17.35	14.00%
1960-2017 (12/19)	16.87	10.06%

Source: Bloomberg. Data is through 12/19/17. Past performance is no guarantee of future results.

View from the Observation Deck

1. The current bull market in stocks, which commenced in March 2009, has lasted more than eight years and nine months. It is the second-longest bull market ever, according to Bespoke Investment Group.
2. Considering the duration of this bull market, it seems only natural that investors might question how much longer it can run and/or whether or not valuation levels have become too rich at current levels.
3. Brian Wesbury, Chief Economist at First Trust Advisors L.P., just released (12/18/17) his forecast calling for the S&P 500 Index to reach 3,100 by the end of 2018, up 15.70% from the index's close of 2,679.25 on 12/20/17. Wesbury's projection represents a near-term perspective on the stock market.
4. In the table above, the line highlighted in yellow shows the S&P 500 Index's average price-to-earnings (P/E) ratio and average annual total return since the start of 1960. It represents a long-term perspective on the stock market.
5. One of the key takeaways is the 10.06% average gain. It is consistent with the index's average annual total return of 10.04% from 1926-2016, according to Ibbotson & Associates/Morningstar.
6. We have noted on many occasions that we believe corporate earnings determine the direction of stock prices over time. As of today, Bloomberg's consensus estimated earnings growth rates on the S&P 500 Index for 2018 and 2019 are 10.25% and 10.29%, respectively.
7. As of today, the trailing 12-month P/E ratio on the S&P 500 Index is 22.58, well above the 16.87 average P/E since the start of 1960. The estimated P/E ratios for year-end 2018 and 2019, however, are 18.22 and 16.52, respectively, according to Bloomberg. The 16.52 projected P/E for 2019 is in line with the 16.87 average P/E since 1960.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance.

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