

A Snapshot Of What Investors Are Paying For Stocks

Domestic & Foreign Equity Index Valuation Comparison

Index	P/E on 3/30/07	P/E on 3/31/17	10-Yr. Avg. P/E	2017 Year-End P/E Est.
S&P 500	16.30	21.75	17.03	18.27
MSCI Europe	13.90	26.02	19.53	15.50
MSCI World (ex U.S.)	15.77	21.63	19.81	15.14
MSCI Emerging Markets	14.37	15.46	13.57	12.43

Source: Bloomberg. 2017 year-end price-to-earnings ratio estimates as of 4/10/17.

View from the Observation Deck

1. Today's blog post features a table showing the price-to-earnings (P/E) ratios of a few major stock indices. Our goal is to provide investors with a global perspective on where valuations have been and where they are projected to go.
2. We believe that a 10-year perspective is appropriate because it captures where valuations stood prior to the 2008-2009 financial crisis.
3. As indicated in the last column in the table, P/E estimates for 2017 show that foreign equities, on a relative basis, are expected to be less expensive than U.S. stocks, as measured by the S&P 500 Index.
4. While the earnings expectations for all four of these stock indices look encouraging for 2017, the estimates on foreign stocks stick out. As of 4/10/17, Bloomberg's consensus earnings growth rate estimates for 2017 were as follows (not in chart): 19.09% (S&P 500 Index); 67.70% (MSCI Europe Index); 41.97% (MSCI World ex U.S.); and 24.88% (MSCI Emerging Markets).
5. From 3/30/07 through 3/31/17, the cumulative total returns on these four indices were as follows: 106.27% (S&P 500); 7.27% (MSCI Europe Net Total Return USD Index); 11.89% (MSCI Daily Total Return Net World ex U.S. USD); and 30.78% (MSCI Emerging Net Total Return USD), according to Bloomberg.
6. The S&P 500 Index significantly outperformed the major foreign stock indices over the past decade, but foreign stocks look like they are on the mend, in our opinion. We intend to monitor this relationship moving forward.

This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur. 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. The MSCI Europe Index is a free-float weighted index designed to measure the equity market performance of the developed markets in Europe. The MSCI World (ex-U.S.) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets excluding the U.S. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.