

A Snapshot Of U.S. Equity Valuation Levels

S&P Index Price-to-Earnings (P/E) Ratios (As of 11/5/18)

Index	12/29/17 (Trailing 12-Mo.)	11/5/18 (Trailing 12-Mo.)	12/29/18 (Estimate)	12/29/19 (Estimate)
S&P 500	21.77	18.92	16.77	15.30
S&P MidCap 400	24.29	19.33	16.91	15.32
S&P SmallCap 600	30.37	23.36	18.37	16.11
S&P 500 Comm. Services	15.49	19.51	16.72	15.76
S&P 500 Cons. Discretionary	23.20	22.65	21.07	19.00
S&P 500 Cons. Staples	21.77	20.03	19.14	18.11
S&P 500 Energy	36.52	20.67	17.48	13.66
S&P 500 Financials	17.51	13.77	12.69	11.59
S&P 500 Health Care	20.76	20.56	16.56	15.37
S&P 500 Industrials	21.41	17.15	16.34	14.68
S&P 500 Info. Tech.	22.83	19.78	17.01	15.52
S&P 500 Materials	22.00	18.49	15.52	14.61
S&P 500 Real Estate	46.03	43.71	36.32	37.09
S&P 500 Utilities	17.93	16.85	17.46	16.67

Source: Bloomberg. As of 9/28/18, the Global Industry Classification Standard (GICS) was reconstituted and the Telecommunications Services sector was renamed Communication Services. GICS sector information for periods prior to 9/28/18 may not necessarily be comparable to the reconstituted sectors. Past performance is no guarantee of future results.

View from the Observation Deck

1. An argument can be made that the stock market had become a bit extended through the first three-quarters of this year and was due for a pullback (decline of 5.00% to 9.99%) or correction (decline of 10.00% to 19.99%).
2. That is exactly what we experienced in October 2018. The S&P 500, S&P MidCap 400 and S&P SmallCap 600 Indices posted total returns of -6.84%, -9.55% and -10.48%, respectively, for the month, according to Bloomberg.
3. While sell-offs in the stock market are never a pleasant experience, they are a normal part of any bull market and can provide investors, particularly those with ready cash, a more favorable entry point into the market.
4. As indicated in the table, trailing 12-month P/E ratios as of 11/5/18 are mostly lower than where they stood at the close of 2017.
5. The estimated P/Es for year-end 2018 and 2019 also look more favorable due to October's sell-off and strong corporate earnings.
6. To lend some further perspective to valuation levels, we find the S&P 500 Index's 2018 year-end estimated P/E of 16.77 relatively enticing considering it matched the index's 50-year average P/E of 16.77 as of 11/5/18, according to data from Bloomberg.

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 (currently 505) used to measure large-cap U.S. stock market performance, while the 11 major S&P 500 Sector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector. The S&P MidCap 400 Index is a capitalization-weighted index that tracks the mid-range sector of the U.S. stock market. The S&P SmallCap 600 Index is a capitalization-weighted index that tracks U.S. stocks with a small market capitalization.

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