

For Those Equity Investors Concerned About Valuation Levels

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

Period	Average P/E	Average Annual Total Return
1960-1969	17.77	7.81%
1970-1979	12.80	5.87%
1980-1989	12.20	17.54%
1990-1999	21.41	18.17%
2000-2009	19.94	-0.95%
2010-2019	17.88	13.54%
2020-6/30/21	25.85	23.03%
1960-6/30/21	17.21	10.42%

Source: Bloomberg. Data is through 6/30/21. **Past performance is no guarantee of future results.**

View from the Observation Deck

1. In the table above, the line shaded in yellow shows the S&P 500 Index's average price-to-earnings (P/E) ratio and average annual total return from 1960 through 6/30/21. It offers a long-term perspective on the stock market.
2. One of our key takeaways from the table is the 10.42% average annual total return from 1960 through 6/30/21. It is essentially in line with the index's average annual total return of 10.28% from 1926-2020 (not shown in table), according to Morningstar/ Ibbotson & Associates. The buy and hold investment strategy still works... if you let it.
3. While the average P/E on the S&P 500 Index from 2020 through 6/30/21 is an elevated 25.85 (see table), due to strong earnings projections, the estimate for year-end 2021 stood at 22.87 (not shown in table), according to Bloomberg.
4. As of 7/2/21, Bloomberg's consensus year-over-year earnings growth rate estimate for 2021 was 35.94%.
5. Historically speaking, there is nothing uncommon about P/E expansion. This time around, we have to acknowledge the significant influence of the Federal Reserve's ("Fed") prolonged easy monetary policy and bond buying programs designed to help mitigate the economic fallout from the 2020 COVID-19 pandemic by keeping rates and yields artificially low. Its posture has not changed even though the trillions of dollars of stimulus/aid from the federal government has helped stabilize the U.S. economy.
6. As a result of the Fed keeping short-term rates artificially low and intermediate-term Treasury yields suppressed, we believe that more and more investors have turned to equities in search of higher returns.

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 an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance.

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