

# Watching Equity Markets In Disbelief. How Expensive or Cheap Depends on Time Horizon.

We've spent nearly a year in disbelief watching equity markets rise against some pretty lofty valuations asking ourselves when the next correction would be and how far equities could keep rising. They rose beyond our most optimistic expectations.

We are now watching in disbelief as equity markets fall against some pretty strong fundamentals of growth and earnings asking ourselves when the market will find a floor.

S&P 500 PE ratios are at a 25 year average, or just a touch below it. On a yield gap (equity earnings yield less 10Y UST) basis, equities are cheap on a 50 year basis and on a 25 year basis covering the 1960 – 1980 rising rate era and the 1980 to current falling rate era. On a 18 year basis, equities are slightly expensive.