Stock Market Briefing: Valuation Ratios Using Market Capitalization

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September 18, 2019

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thinking outside the box
Figure 1.

**TOTAL VALUE OF US STOCKS**
(trillion dollars, nsa, ratio scale)

**US Equity Issues at Market Value**
- Total (48.0)
- Total Ex Foreign Issues* (39.5)
- S&P 500 Market Cap** (24.4)

* Total excluding market value of holdings of foreign corporate equities, investment fund shares, and American Depositary Receipts (ADRs) by US residents.

** Quarterly from Q1-1964 through Q4-1989, and then monthly from January 1990.

Source: Federal Reserve Board, Financial Accounts of the United States.

Figure 2.

**FOREIGN EQUITIES HELD BY US RESIDENTS**
(as percent of total market value of equities held by US residents)

* Market value of holdings of foreign corporate equities, investment fund shares, and American Depositary Receipts (ADRs) by US residents as a percent of the market value of their total equity holdings.

Source: Federal Reserve Board, Financial Accounts of the United States.
**Figure 3.** Total market cap to GDP profits ratio doesn't add much to standard P/Es.

**RATIO MARKET VALUE US EQUITIES EX FOREIGN ISSUES* TO AFTER-TAX CORPORATE PROFITS**

- Using After-Tax Profits
  - As Reported to IRS (21.9)
  - Based on Current Production** (22.0)

* Total excluding market value of holdings of foreign corporate equities, investment fund shares, and American Depositary Receipts (ADRs) by US residents.

** Including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.

Note: Shaded red areas denote S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.

Source: Federal Reserve Board.

**Figure 4.** Tobin’s Q provides an interesting perspective on valuation.

**TOBIN’S q FOR NONFINANCIAL CORPORATIONS (ratio)**

- Actual q*
- Adjusted q**

* Ratio of the market value of equities to the net worth of corporations including real estate and structures at market value and equipment, intellectual property products, and inventories at replacement cost.

** Actual divided by average since 1952.

Note: Shaded red areas denote S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.

Source: Flow of Funds.
STOCK MARKET CAPITALIZATION RATIOS

S&P 500 Market Cap
(as a ratio of S&P 500 Revenues) (2.05)

US Equity Market Capitalization Ex Foreign Issues*
(as a ratio of nominal GNP) (1.85)

* Total excluding market value of holdings by US residents of foreign corporate equities, investment fund shares, and ADRs.

Note: Shaded red areas denote S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.

Source: Federal Reserve Board, Bureau of Economic Analysis, and Standard & Poor’s.
* S&P 500 index divided by 12-month forward consensus expected revenues per share for S&P 500.
Source: I/B/E/S data by Refinitiv and Standard & Poor’s.

* Total excluding market value of holdings by US residents of foreign corporate equities, investment fund shares, and ADRs.
** S&P 500 index divided by forward consensus expected revenues per share for S&P 500. Monthly through 2005, then weekly.
Note: Shaded red areas denote S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.
Source: Federal Reserve Board, Bureau of Economic Analysis, Flow of Funds, and Standard & Poor’s.
**S&P 500 VALUATION MEASURES**

- **Forward P/E***: *Price divided by forward consensus expected operating earnings per share. Monthly through 2005, then weekly.*
- **Forward P/S***: *Price divided by forward consensus expected sales per share. Monthly through 2005, then weekly.*

Source: I/B/E/S data by Refinitiv.

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**STOCK MARKET CAPITALIZATION RATIO & PRICE-TO-SALES-RATIO**

- **S&P 500 Market Cap (as a ratio of S&P 500 Revenues)**: *Price divided by forward consensus expected revenues per share for S&P 500. Monthly through 2005, then weekly.*
- **Forward P/S***: *Price divided by forward consensus expected sales per share. Monthly through 2005, then weekly.*

Source: I/B/E/S data by Refinitiv, and Standard & Poor's.