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Figure 1.

S&P 500 FORWARD EARNINGS YIELD & NOMINAL 10-YEAR TREASURY BOND YIELD

- S&P 500 Forward Earnings Yield* (4.56)
- 10-Year US Treasury Bond Yield** (1.65)

* Year-ahead forward consensus expected earnings divided by S&P 500 stock price index. Monthly through March 1994, then weekly.

** Monthly through March 1994, then weekly.

Source: I/B/E/S data by Refinitiv and Federal Reserve Board.

Figure 2.

STOCKS vs. BONDS VALUATION MODEL (using 10-year Treasury bond yield)*

(percent overvalued or undervalued)


Source: I/B/E/S data by Refinitiv and Federal Reserve Board.
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Figure 3.

S&P 500 FORWARD P/E & RECIPROCAL OF BOND YIELD

- Bond’s P/E* (60.6)
- S&P 500 Forward P/E** (21.9)

** 52-week forward consensus expected S&P 500 operating earnings per share. Monthly through March 1994, weekly thereafter.
Source: Standard & Poor’s and I/B/E/S data by Refinitiv.

Figure 4.

STOCK VALUATION MODEL (using 10-year Treasury bond yield)

- S&P 500 Stock Price Index*
- S&P 500 Fair-Value Price**

* Monthly through April 1994, weekly after.
Source: I/B/E/S data by Refinitiv, Standard & Poor’s, and Federal Reserve Board.
CORPORATE BOND YIELDS*
(Percent)

Aaa Corporate Bond Yield (2.9)
Baa Corporate Bond Yield (3.6)
Average of Aaa and Baa (3.3)

* Moody’s Aaa and Baa yields through 2005, then BoA Merrill Lynch data for AAA and A-BBB yields.
Source: Bank of America Merrill Lynch and Haver Analytics.

S&P 500 FORWARD EARNINGS YIELD & CORPORATE BOND YIELD

S&P 500 Forward Earnings Yield* (4.6)
Corporate Bond Yield less LTEG weighted by 0.0, 0.1, and 0.2**

* Year-ahead forward consensus expected earnings divided by S&P 500 stock price index. Monthly through 2005, then weekly.
** Corporate bond yield (average of Moody’s Aaa-rated and Baa-rated corporate bond yields) less analysts’ consensus of long-term earnings growth. Monthly through April 1994, weekly after.
Source: I/B/E/S data by Refinitiv, Standard & Poor’s, and Federal Reserve Board.
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Figure 7.

STOCK VALUATION MODEL (using average of Aaa and Baa corporate bond yield)
(ratio scale)

- S&P 500 Stock Price Index
- S&P 500 Fair-Value Price*

* Year-ahead forward consensus expected earnings divided by average of Moody’s Aaa and Baa yields through 2005, then weekly BoA Merrill Lynch data for AAA and A-BBB yields.
Source: I/B/E/S data by Refinitiv, Standard & Poor’s, Bank of America Merrill Lynch, and Federal Reserve Board.

Figure 8.

STOCKS vs. BONDS VALUATION MODEL (using average of Aaa and Baa corporate bond yield)*
(percent overvalued or undervalued)

* S&P 500 stock price index divided by S&P 500 fair-value price defined as S&P 500 52-week forward consensus expected earnings divided by average of Moody’s Aaa and Baa yields through 1996, then weekly BoA Merrill Lynch data for AAA and A-BBB yields, converted to percentage.
Source: I/B/E/S data by Refinitiv, Standard & Poor’s, Bank of America Merrill Lynch, and Federal Reserve Board.
**STOCKS vs. BONDS VALUATION MODEL**
(percentage overvalued or undervalued)

- **Using Treasury Bond** * (-63.8)
- **Using Corporate Bond** ** (-28.1)


** S&P 500 52-week forward consensus expected earnings divided by average of Moody’s Aaa and Baa yields through 2005, then BoA Merrill Lynch data for AAA and A-BBB yields, converted to percentage.

Source: I/B/E/S data by Refinitiv, Bank of America Merrill Lynch, and Federal Reserve Board.

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Figure 9. Fed’s Stock Valuation Model