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thinking outside the box
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- 10-Year US Treasury Bond Yield** (0.64)

* 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.

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

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* 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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* 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.

Figure 6.

S&P 500 FORWARD EARNINGS YIELD & CORPORATE BOND YIELD

- S&P 500 Forward Earnings Yield* (5.1)
- 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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STOCK VALUATION MODEL (using average of Aaa and Baa corporate bond yield)  
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* 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
(percent overvalued or undervalued)

- Using Treasury Bond* (-87.4)
- Using Corporate Bond** (-39.4)


** 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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