Stock Market Briefing: Fed’s Stock Valuation Model Monthly/Weekly

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Fed’s Stock Valuation Model

Figure 1.

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

- S&P 500 Forward Earnings Yield* (4.59)
- 10-Year US Treasury Bond Yield** (0.93)

* 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.
**Figure 3.**

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

- **Bond’s P/E* (107.5)**
- **S&P 500 Forward P/E** (21.8)

** 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 (2.3)
- Baa Corporate Bond Yield (3.0)
- Average of Aaa and Baa (2.7)

* 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.

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**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.
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.

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* (-79.7)
- Using Corporate Bond** (-42.1)

** 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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