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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* (4.88)
- 10-Year US Treasury Bond Yield** (1.43)

* 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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<th>S&amp;P 500 FORWARD P/E &amp; RECIPROCAL OF BOND YIELD</th>
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<td>Bond’s P/E* (69.9)</td>
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<td>S&amp;P 500 Forward P/E** (20.5)</td>
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** 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.

<table>
<thead>
<tr>
<th>STOCK VALUATION MODEL (using 10-year Treasury bond yield)</th>
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<td>(ratio scale)</td>
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<td>S&amp;P 500 Stock Price Index*</td>
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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.
Figure 5.

CORPORATE BOND YIELD* (percent)

- Aaa Corporate Bond Yield (2.6)
- Baa Corporate Bond Yield (3.2)
- Average of Aaa and Baa (2.9)

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* (4.9)
- Corporate Bond Yield less LTEG weighted by 0.0, 0.1, and 0.2**

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

* 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.

Moody’s Aaa and Baa yields through 2005, then BoA Merrill Lynch data for AAA and A-BBB yields.
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.
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STOCKS vs. BONDS VALUATION MODEL
(percent overvalued or undervalued)

Using Treasury Bond* (-70.7)
Using Corporate Bond** (-40.7)


** 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.