

Stock Market Briefing: Fed's Stock Valuation Model (Monthly)

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thinking outside the box

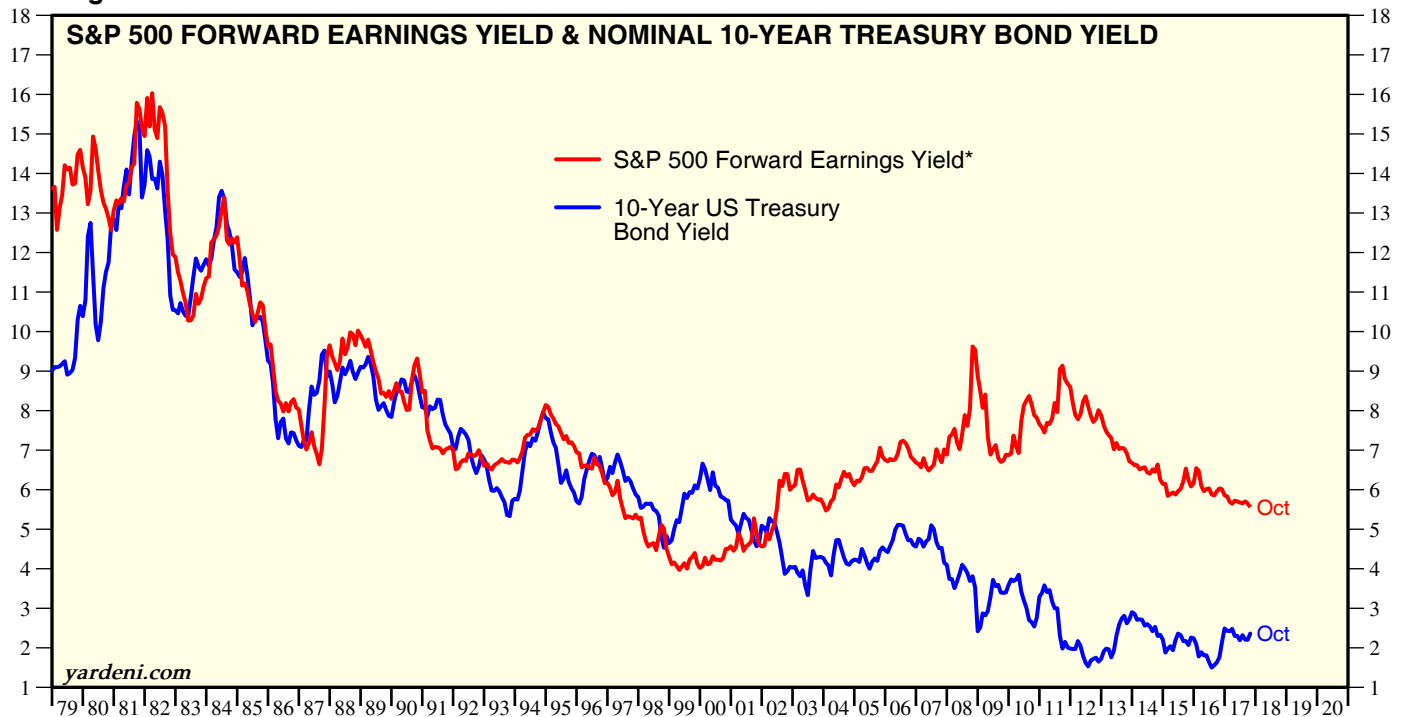
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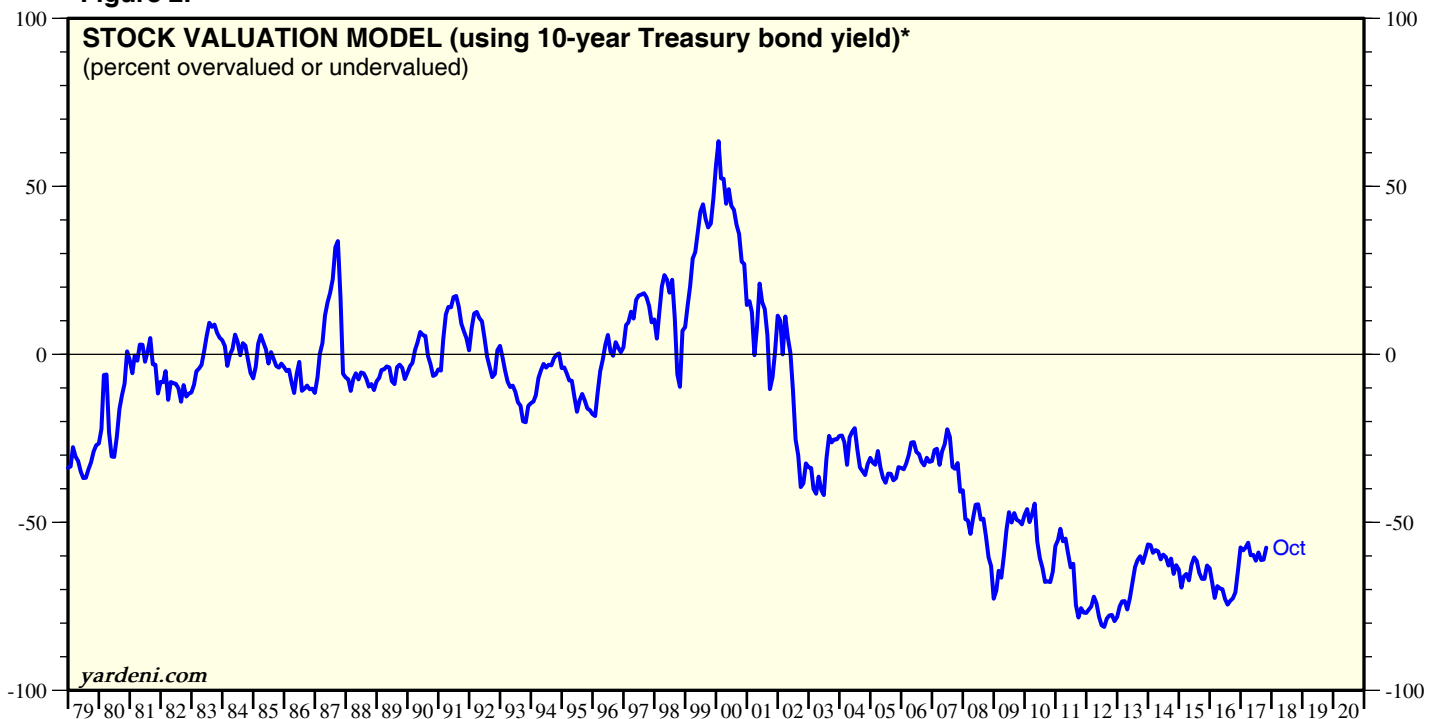
Fed's Stock Valuation Model

Figure 1.



* S&P 500 12-month forward consensus expected operating earnings divided by S&P 500 stock price index.
Source: Thomson Reuters I/B/E/S and Federal Reserve Board.

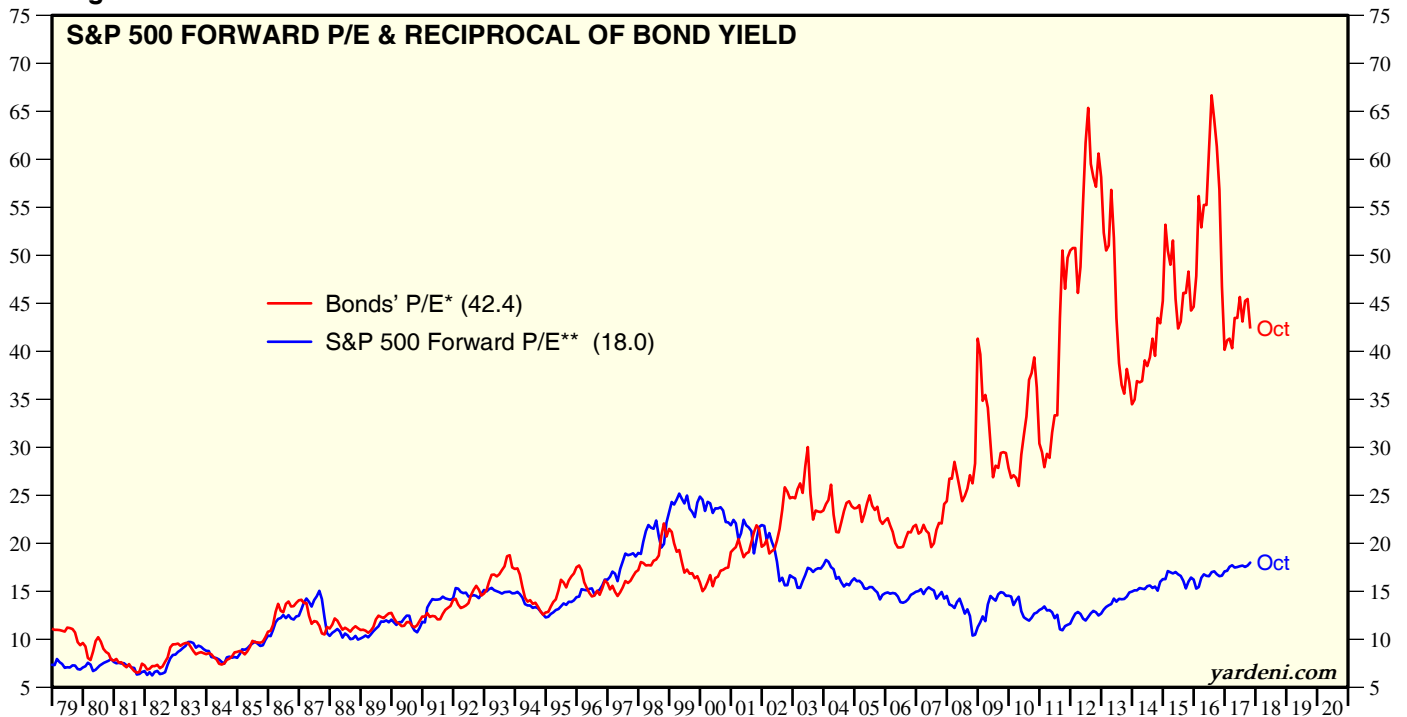
Figure 2.



* S&P 500 stock price index divided by S&P 500 fair-value price defined as S&P 500 12-month forward consensus expected operating earnings divided by 10-year US Treasury bond yield converted to percentage.
Source: Thomson Reuters I/B/E/S and Federal Reserve Board.

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Figure 3.

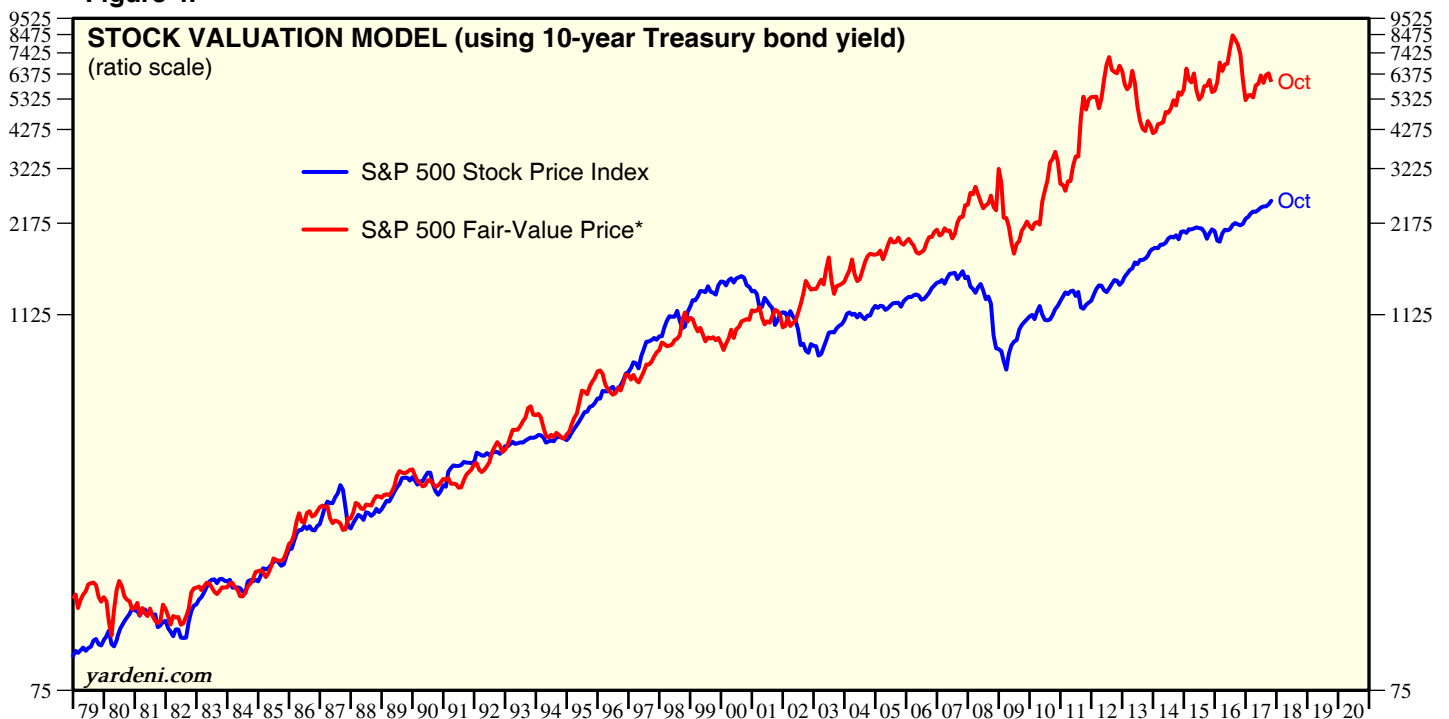


* Reciprocal of 10-year US Treasury bond yield.

** S&P 500 stock price index divided by S&P 500 12-month forward consensus expected earnings.

Source: Standard & Poor's Corporation and Thomson Reuters I/B/E/S.

Figure 4.

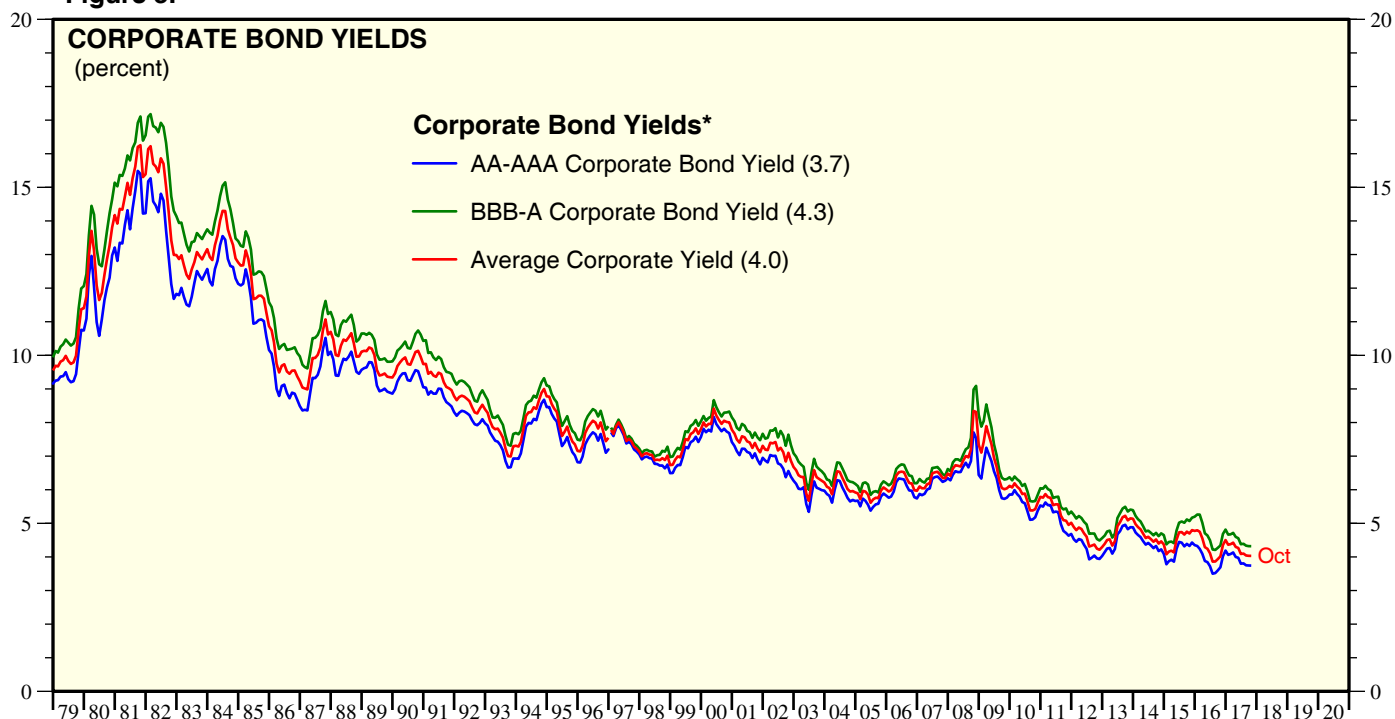


* S&P 500 12-month forward consensus expected operating earnings divided by 10-year US Treasury bond yield.

Source: Thomson Reuters I/B/E/S and Federal Reserve Board.

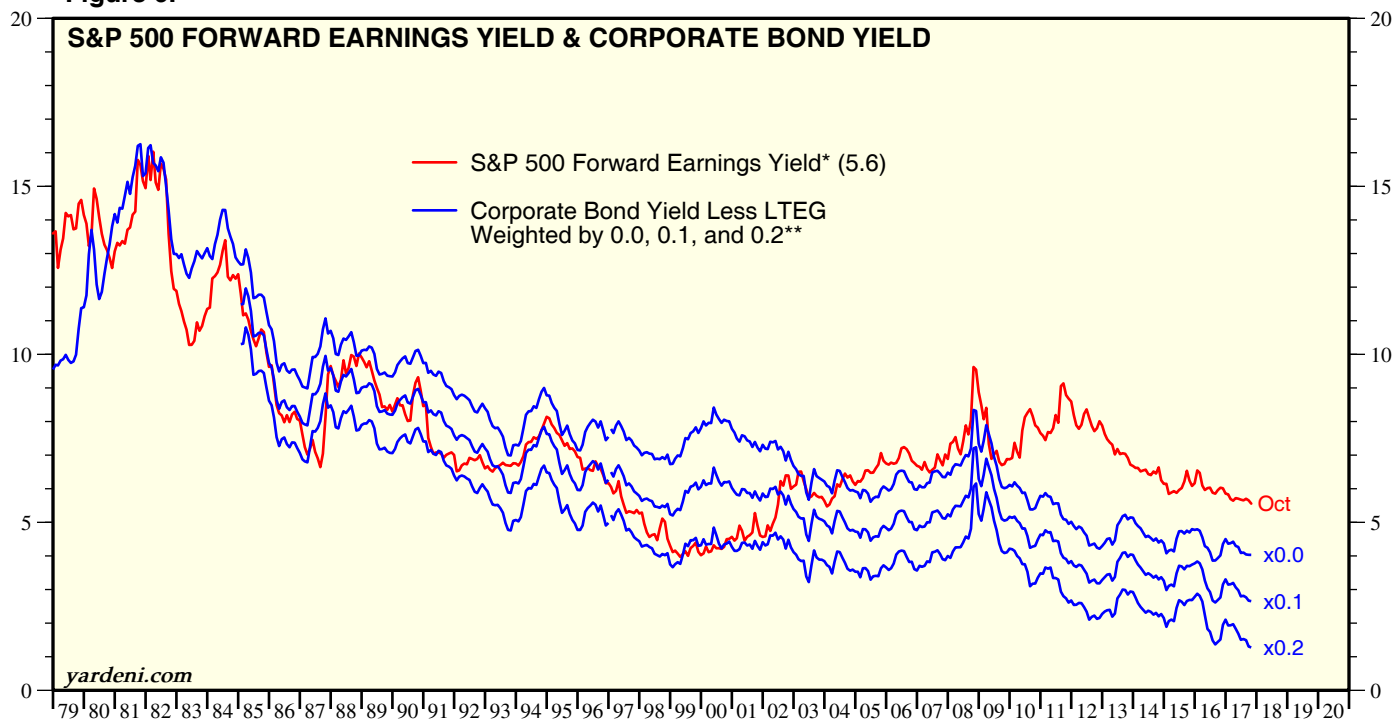
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Figure 5.



* Moody's data for Aaa and Baa yields through 1996, then BoA Merrill Lynch data for AA-AAA and BBB-A yields.
Source: Federal Reserve Board and Haver Analytics.

Figure 6.

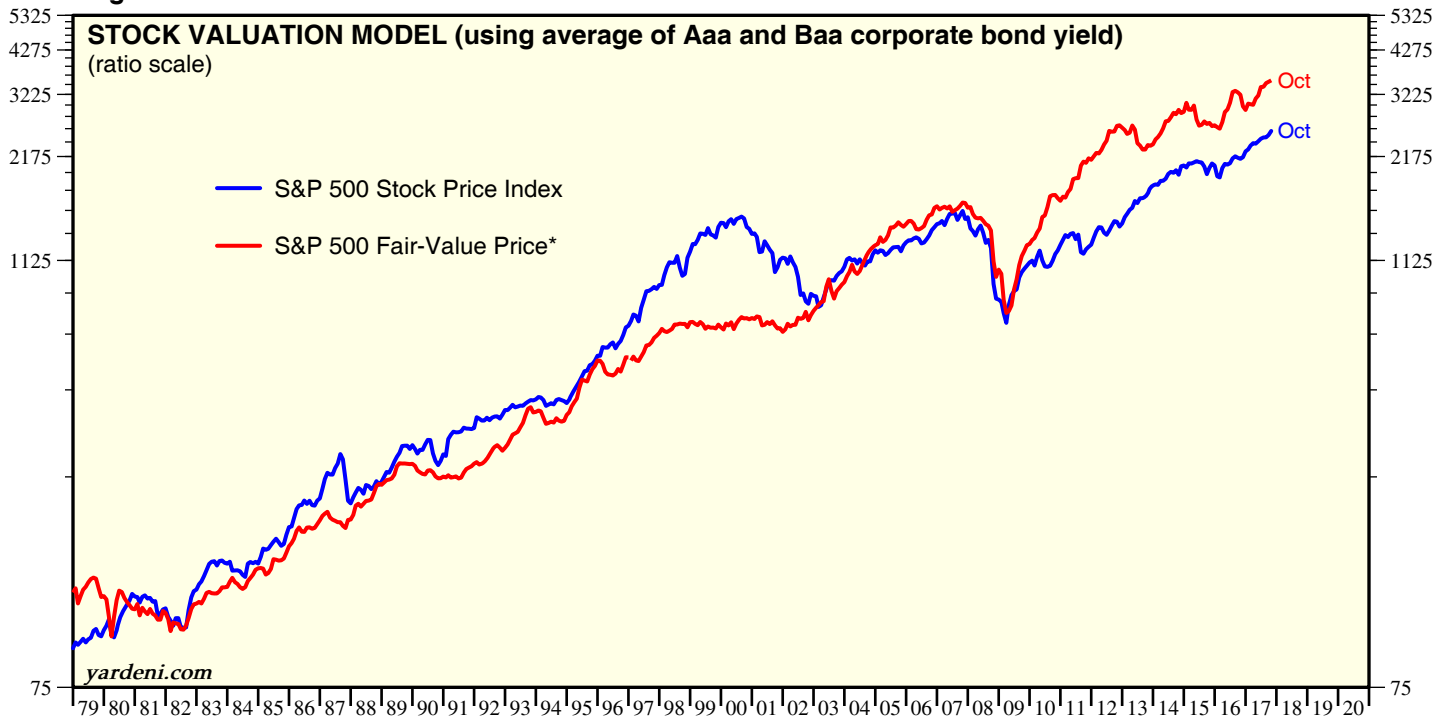


* S&P 500 12-month forward consensus expected operating earnings divided by S&P 500 stock price index.

** Corporate bond yield (average of Moody's Aaa and Baa yields through 1996, then average of BoA Merrill Lynch data for AA-AAA and BBB-A yields) less analysts' consensus of S&P 500 long-term earnings growth.
Source: Thomson Reuters I/B/E/S, Federal Reserve Board, and Haver Analytics.

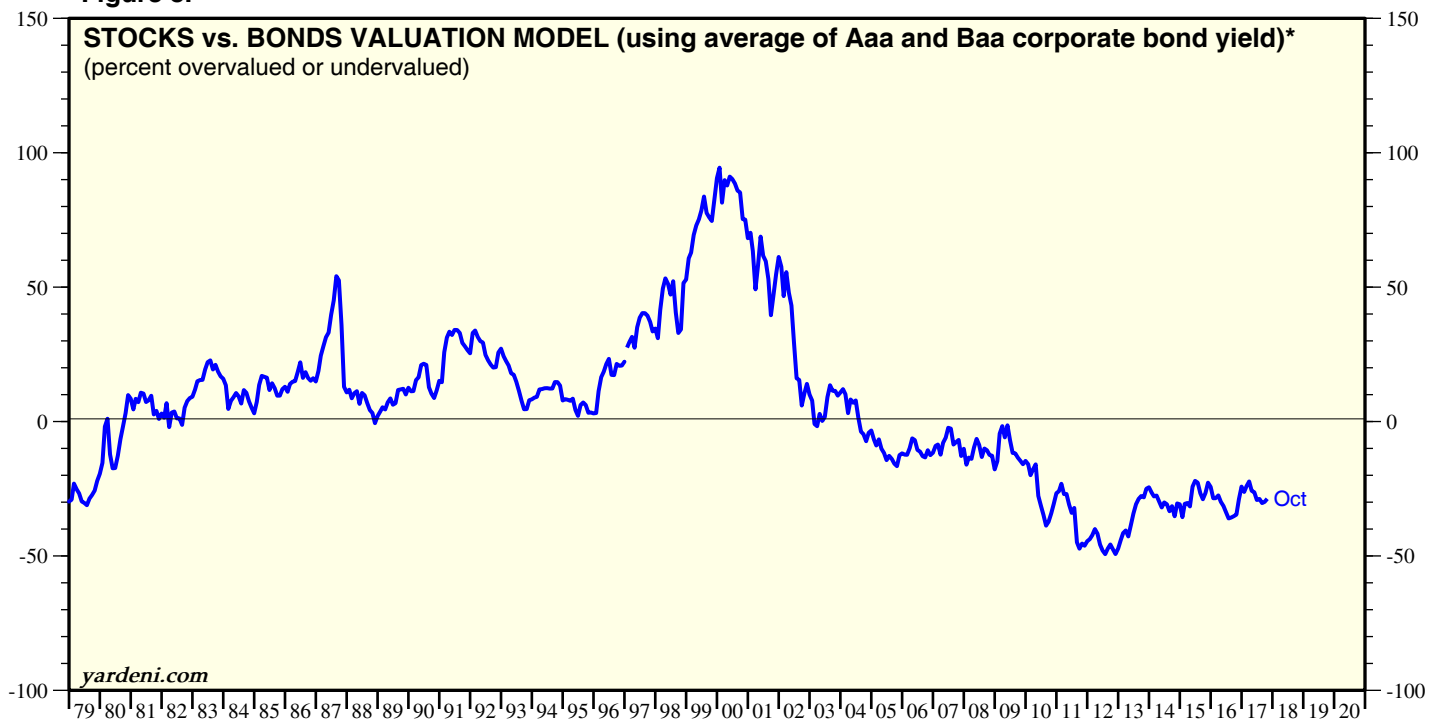
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Figure 7.



* S&P 500 forward consensus expected operating earnings divided by corporate bond yield (average of Moody's Aaa and Baa yields through 1996, then average of BoA Merrill Lynch data for AA-AAA and BBB-A yields).
Source: Thomson Reuters I/B/E/S, Federal Reserve Board, and Haver Analytics.

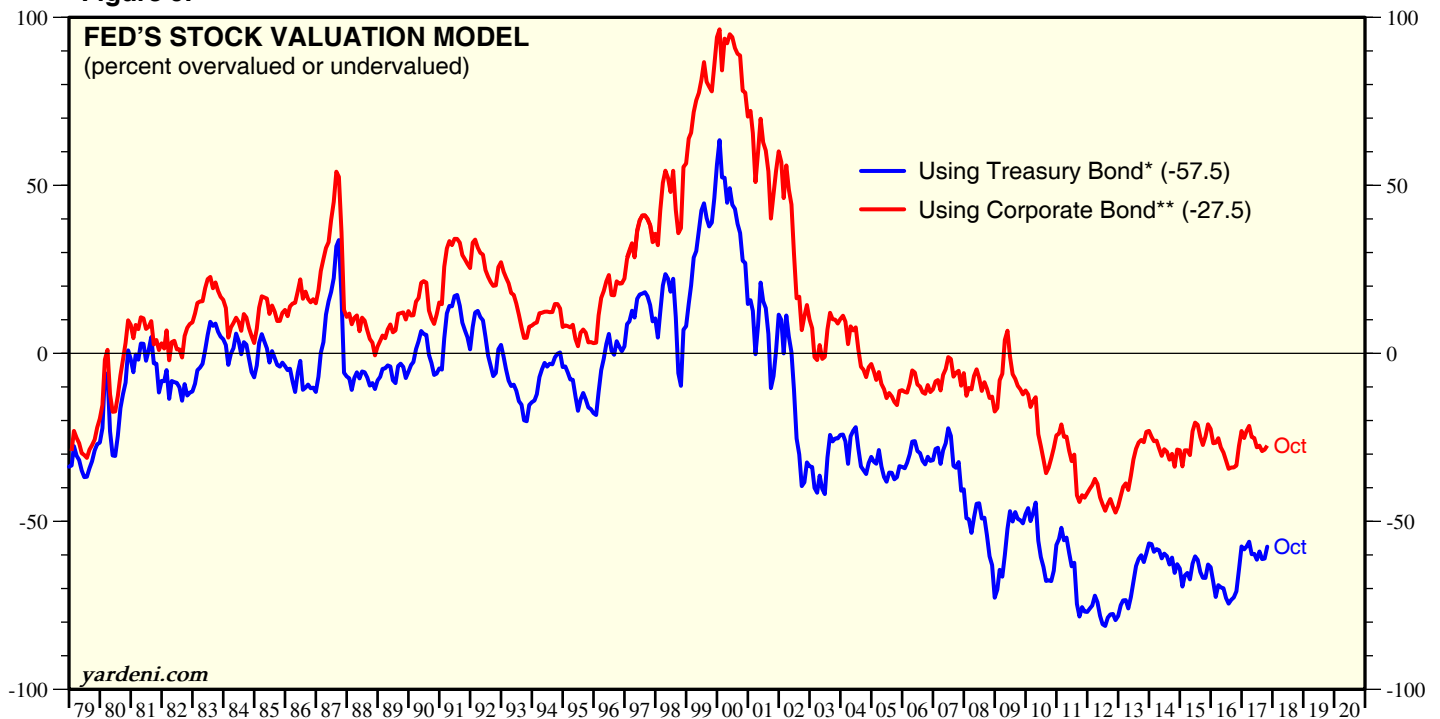
Figure 8.



* 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 2005, then weekly BoA Merrill Lynch data for AAA and A-BBB yields, converted to percentage.
Source: Thomson Reuters I/B/E/S, Standard & Poor's, Bank of America Merrill Lynch, and Federal Reserve Board.

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Figure 9.



* S&P 500 12-month forward consensus expected operating earnings divided by 10-year US Treasury bond yield converted to percentage.

** S&P 500 12-month forward consensus expected operating earnings divided by corporate bond yield (using average of Moody's Aaa and Baa yields through 1996, then average of BoA Merrill Lynch data for AA-AAA and BBB-A yields) converted to percentage..

Source: Thomson Reuters I/B/E/S, Federal Reserve Board, and Haver Analytics.

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