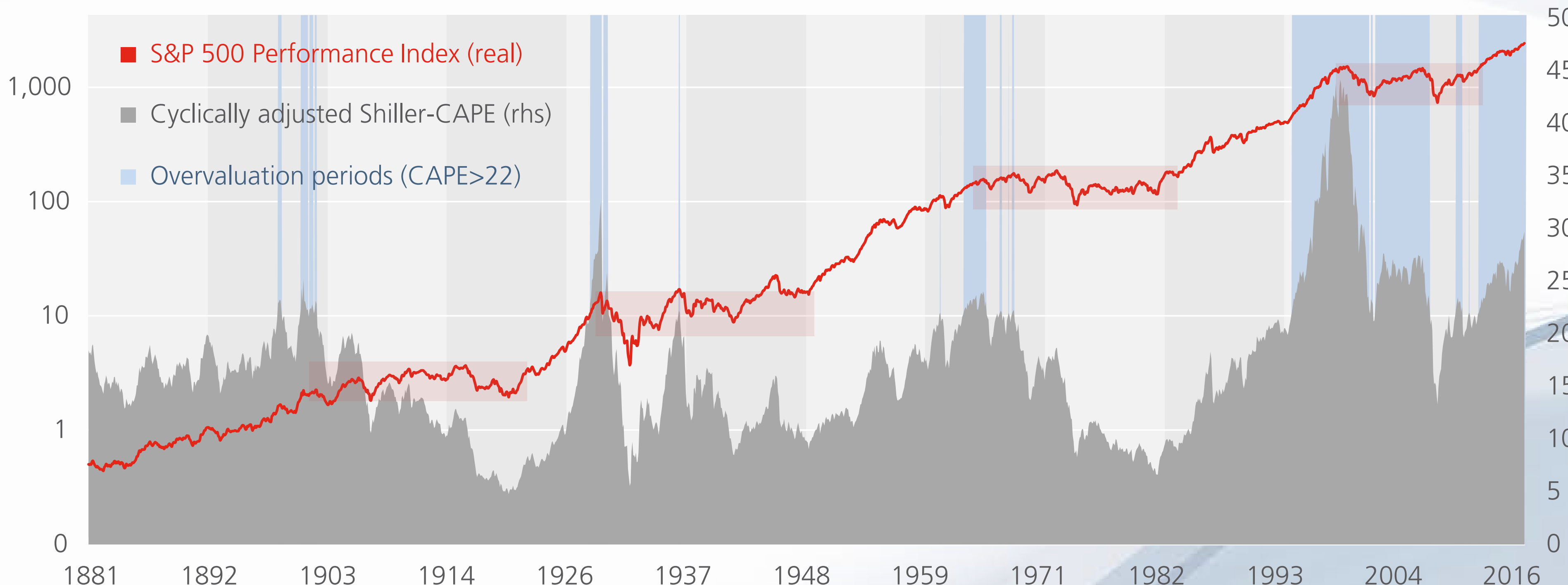
Relationship between valuation and long-term stock market returns

CAPE as a reliable indicator for future long-term performance in the S&P 500 since 1881



In the last 130 years, high valuations as measured by the cyclically adjusted PE ratio (CAPE) indicated below-average returns, while attractive valuations led to higher returns over the subsequent 10-15 years. Since 1881, the CAPE of the S&P 500 has significantly exceeded it's normal range only four times. Each time was followed by below-average long-term returns (shaded red). Similarly, we have found a comparable relationship between valuation levels and future stock market returns for the price to book ratio and in 17 other countries. For more details, see our research paper "***Predicting Stock Market Returns Using the Shiller-CAPE: An Improvement Towards Traditional Value Indicators?***"

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