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Macro Roundup Article

Headline: The Expensive Stock Market

Article Link: https://blog.rangvid.com/2024/03/10/the-expensive-stock-market/

Author(s)	Jesper Rangvid
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Tweet: Jesper Rangvid shows that high stock market returns over the last 40 years have been driven by falling interest rates. With rates now rising, he expects real returns of only around 2% annually over the next decade.

Summary: Lower interest rates have lowered the share of interest payments in corporate profits, thereby increasing profits and the valuation of the stock market, which in turn has caused the stock market to rise so remarkably. Today's valuation of the US stock market is high. By my favorite measure, scaling the total value of stocks by GDP, the stock market is historically expensive, apart from the strange and short-lived corona experience in 2020. From here, interest rates can no longer fall as sharply as they could over the past four decades. Looking ahead, expected returns from the US stock market are low.

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Primary Topic: Financial Markets

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