

## Macro Roundup Article

**Headline:** [Driving with the Rear-View Mirror](#)

### Article

**Link:** <https://www.aqr.com/Insights/Research/White-Papers/Driving-with-the-Rear-View-Mirror>

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**Tweet:** Jordan Brooks argues the S&P; 500's 11.9% CAGR for the last decade is unlikely to be repeated as it would require “exceptional real earnings growth and all-time high valuations...at least 80% more per dollar of earnings than at present.”

**Summary:** The median estimate of the equilibrium real funds rate (often called “r-star”) by FOMC members is 0.5%. Let’s use that as our best guess of real cash returns over the next decade. If real cash returns average 0.5% per year, then hitting an 11.9% excess-of-cash return requires a real equity market total return of 12.4%. The current dividend yield is 1.5%.<sup>12</sup> That leaves 12.4% – 1.5% = 10.9% to be explained by a combination of real earnings growth and multiple expansion. Intuitively, the lower (higher) real earnings growth, the more (less) valuations must richen. Exhibit 3 plots the combination of real earnings growth and terminal CAPE ratios required to match last decade’s return. In even the most extreme real earning scenarios, stock market valuations would need to pop to all-time highs, levels meaningfully higher than the Tech Bubble peak. Related: The Big Picture: Back to the Future and Macro Outlook 2024: The Hard Part Is Over and It’s Mostly a Paper Moon: Alternative Investments Review

**Primary Topic:** Financial Markets

**Topics:** Financial Markets, GDP, Op-Ed/Blog Post

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