Macro Roundup Article

Headline: The Great Paradox of the U.S. Market!

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Tweet: Jeremy Grantham cautions that the market's current cyclically-adjusted price-to-earnings ratio (aka Shiller P/E) of 34 is in the top 1% historically and "There has never been a sustained rally starting from a 34 Shiller P/E."

Summary: The U.S. is enjoying itself if you go by stock prices. A Shiller P/E of 34 (as of March 1st) is in the top 1% of history. Total profits (as a percent of almost anything) are at near-record levels as well. Remember, if margins and multiples are both at record levels at the same time, it is double counting and double jeopardy – for waiting somewhere in the future is another July 1982 or March 2009 with simultaneous record low multiples and badly depressed margins. There has never been a sustained rally starting from a 34 Shiller P/E. The only bull markets that continued up from levels like this were the last 18 months in Japan until 1989, and the U.S. tech bubble of 1998 and 1999, and we know how those ended. Separately, there has also never been a sustained rally starting from full employment. If you double the price of an asset, you halve its future return. The long-run prospects for the broad U.S. stock market here look as poor as almost any other time in history.

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