Macro Roundup Article

Headline: Stocks Are On An Astonishing Run. Yet Threats Lurk

Article Link: https://www.economist.com/finance-and-economics/2024/07/16/stocks-are-on-an-astonishing-run-yet-threats-lurk

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Publication	The Economist
Publication Date	July 17, 2024

Tweet: At current interest rates, US equity values would need to fall by around 1/3 for the gap between the Cyclically Adjusted Earnings Price Ratio and real Treasury yields to revert to the mean.

Summary: Since the beginning of 2020, before the crash that accompanied the spread of covid-19, the nominal market value of America's S&P 500 index has risen by almost 80%, more than twice as much in percentage terms as the increase in American GDP. The index's cyclically adjusted price-earnings (CAPE) ratio is 36. It has only been higher near the worst of the dotcom bubble and in 2021, both of which preceded crashes. It also means that the "CAPEyield", the cape's inverse and a predictor of real returns, is close to a historic low, providing an impetus to sell stocks. Indeed, the CAPE yield only just beats the guaranteed real yield on inflation-protected Treasury bonds. At current interest rates, American share prices would need to fall by around 1/3 for the gap between the CAPE and real Treasury yields to revert to the mean. For the CAPE to return to its long-run average, they would have to crater by more than 50%.

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