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SECTORS

Investors Ignore Screaming Alarm Saying The S&P 500 Is Overvalued

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MATT KRANTZ | 08:00 AM ET 02/12/2024

Investors are paying up more for S&P 500 stocks than they have in years. But it's **not bothering anyone**.

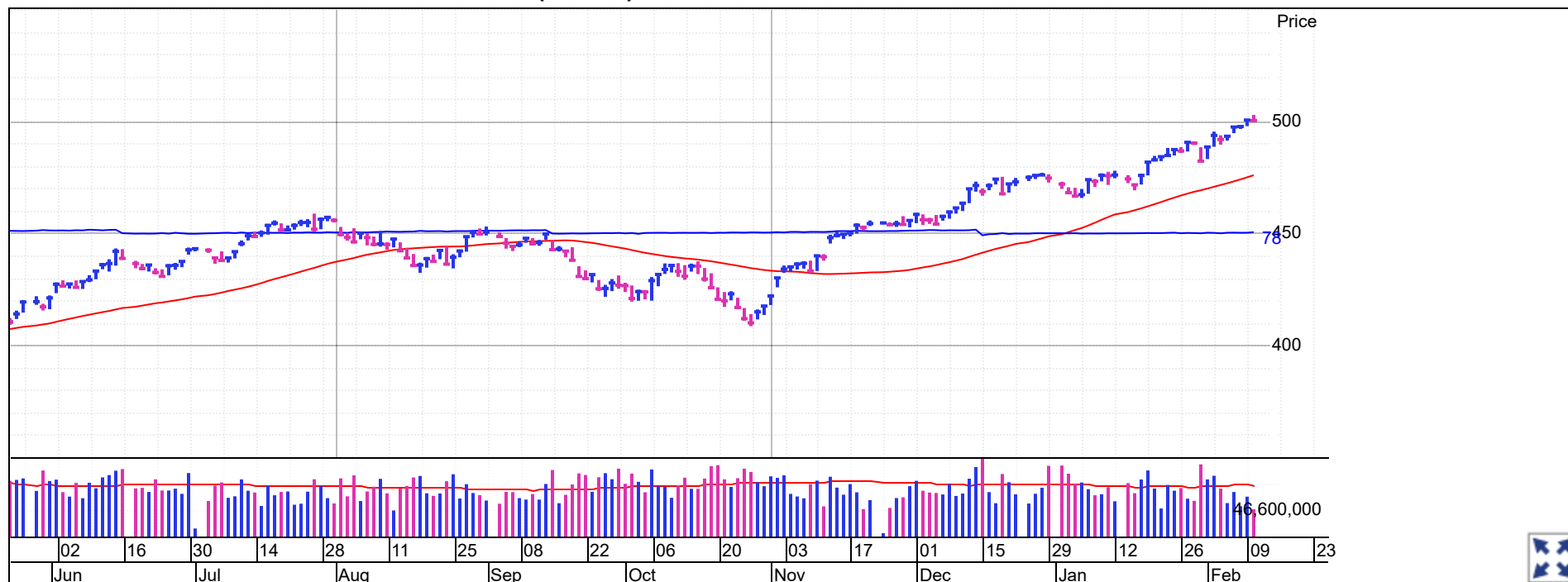


Headlined by 12 companies trading for a whopping 60 times their expected profit for the next 12 months, like **Digital Realty Trust (DLR)**, **Illumina (ILMN)** and **UDR (UDR)**, S&P 500 valuations are hitting heights not seen in years, says an Investor's Business Daily analysis of data from S&P Global Market Intelligence and **MarketSmith**. In fact, the S&P 500 is trading for more than 20 times its forecast profit, says John Butters of FactSet. That's much higher than its five-year average of 18.9 and 10-year average of 17.7.

"What is driving the rise in the forward 12-month P/E ratio?" Butters asked. Skyrocketing stock prices. "On Oct. 27, the forward 12-month P/E ratio was 17.0, as the price of the index hit its lowest value since May 24 at 4,117.37. Since Oct. 27, the price of the S&P 500 has increased by 21.4%, while the forward 12-month (earnings) estimate has increased by 2.0%. Thus, the increase in the 'P' has been the main driver of the increase in the P/E ratio over the past few months."

SPDR S&P 500 ETF Trust (SPY)

500.98 0.22 ↓ 0.0%



02/12/2024 (Market Close)

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Investors Pay Up For S&P 500 Stocks

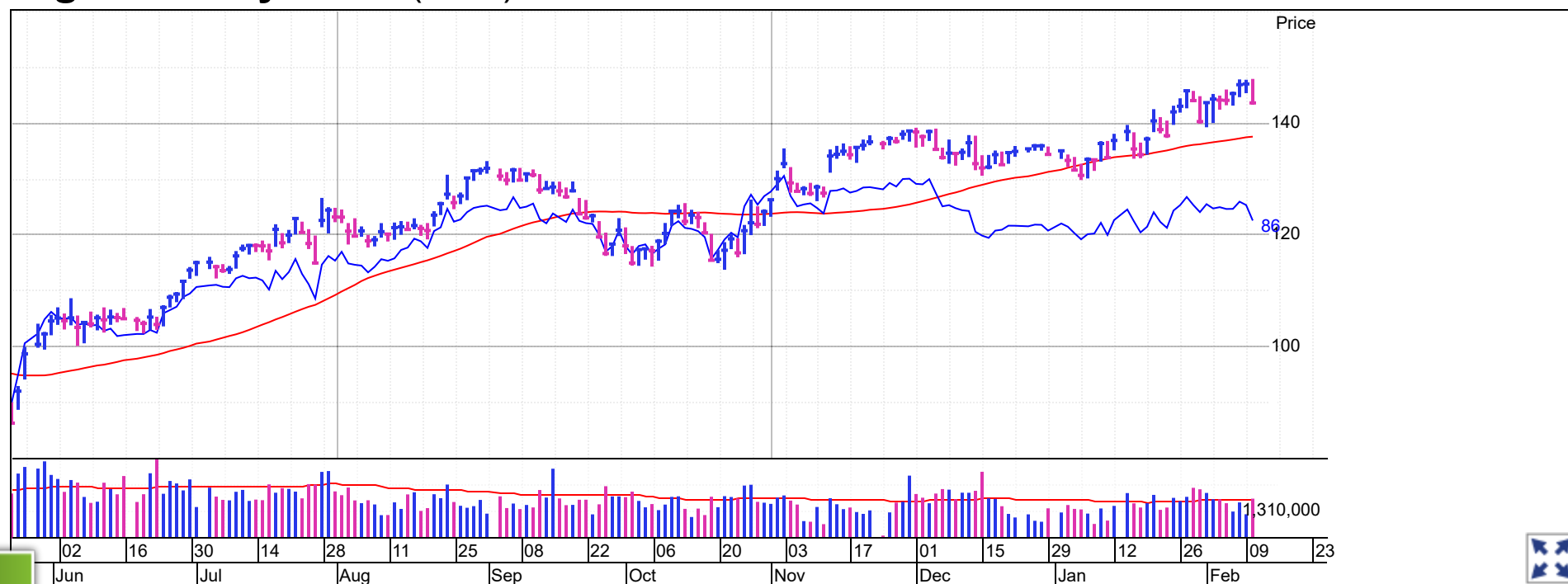
Seeing investors willing to pay \$20 for every dollar the average S&P 500 is expected to earn in 12 months isn't typical. It reflects confidence, or even exuberance.

Going back 25 years, investors only paid an average of 16.4 times projected S&P 500 earnings. And stocks haven't traded this richly since Feb. 9, 2022, FactSet says.

And it's not just the big-cap tech stocks investors are paying up for. Eight of the **11 S&P 500 sectors** are trading for levels that top their 25-year averages, Butters says. Information technology, for instance, is trading for 28.6 times forecast profit, higher than the 21.1 25-year average. But materials stocks, too, are trading for 19.3 times profit, outstripping their 14.7 long-term average.

Digital Realty Trust (DLR)

\$143.80 3.39 ↓ 2.30%



02/12/2024 (Market Close)

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S&P 500 Stocks Are Investors Paying Most For

There's no doubt investors think the opportunities of tech and AI companies are worth paying for. Online retailer and Magnificent Seven member, **Amazon.com (AMZN)**, is a classic example.

Shares of Amazon are trading for nearly 41 times what analysts think the company will make in 12 months. That's the highest valuation of any of the **Magnificent Seven stocks**. But investors are simply willing to pay up for growth. The company is expected to make \$4.16 a share in 2024, up more than 43% from 2023.

But Amazon is hardly the most expensive stock in the S&P 500. Digital Realty Trust, which runs data centers for companies, is trading for more than 135 times its expected earnings in 12 months. But in this case, 2023 was the big period of growth. The company's profit is on track to gain 177% in 2023, but retreat 63% in 2024.

Why Investors Don't Care About P-E

The price-to-earnings ratio tells you how much investors are paying up for stocks. But that's about it. The P-E ratio **isn't a great market timing tool**. Just because stocks are expensive doesn't mean they can't get more expensive.

But with that said, sometimes investors do bid S&P 500 stocks up too fast. The S&P 500's forward P-E hit a nosebleed 24.4 on July 16, 1999, Butter says. And that sky-high valuation was an early warning of a massive tech-stock crash that was coming.

Who knows, maybe this time will be different?

Most Expensive S&P 500 Stocks

Based on forward P-E ratios

Company	Ticker	Forward P/E	Sector
Digital Realty Trust	(DLR)	135.8	Real Estate
Illumina	(ILMN)	125.6	Health Care
UDR	(UDR)	99.5	Real Estate
Insulet	(PODD)	85.1	Health Care
Equinix	(EQIX)	77.7	Real Estate
Welltower	(WELL)	75.1	Real Estate
Dexcom	(DXCM)	73.0	Health Care
Axon Enterprise	(AXON)	70.7	Industrials
Palo Alto Networks	(PANW)	65.6	Information Technology
CoStar Group	(CSGP)	65.1	Real Estate
Intuitive Surgical	(ISRG)	61.8	Health Care
ServiceNow	(NOW)	60.8	Information Technology

Source: IBD, S&P Global Market Intelligence

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