



**THE P/E SUMMARY:
PERIODIC SUPPLEMENT TO THE P/E REPORT**

By Ed Easterling

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NOTE: This report provides intra-year updates to key tables and graphs from The P/E Report, Crestmont's annual review of P/E, earnings, and related outlooks.

AS OF: MAR 31, 2025	<u>REPORTED</u>	<u>ADJUSTED¹</u>	<u>CRESTMONT²</u>
"P" Closing Price (S&P 500 Index) ³	5612	5612	5612
"E" Current Estimate (S&P 500 EPS) ⁴	\$218	\$165	\$149
P/E Price/Earnings Ratio ⁵	25.7	34.1	37.7

Notes:
(1) *adjusted using the methodology popularized by Robert Shiller (Yale; Irrational Exuberance), as modified for quarterly data*
(2) *based on the historical relationship of EPS and GDP as described in chapters 5 & 7 of Probable Outcomes and chapter 7 of Unexpected Returns; useful for predicting future business cycle-adjusted EPS*
(3) *S&P 500 Index is the value at the date listed in the table*
(4) *'Reported' is based upon actual net income for the past year (trailing four quarters); 'Adjusted' is an inflation-adjusted multi-year average; 'Crestmont' see note 2*
(5) *P divided by E*

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CURRENT STATUS (First Quarter 2025)

In the first quarter, the stock market decreased by 4.6%, and normalized P/E decreased to 37.7. The Adjusted P/E (Shiller's CAPE P/E10) decreased to 34.1. Both normalized values are above the As Reported P/E of 25.7. All versions of P/E are relatively high for an environment with elevated inflation expectations and interest rates.

In the near term, economic and international disruptions continue to suspend the upward trend of elevated valuations.

In the longer term, the outlook for inflation over the subsequent five years is currently expected to average nearly 2.2%. Inflation at that level would justify normalized P/E in or below the low 20s.

Note: The comments above about the current status of market valuation do not incorporate the concepts discussed in the new article titled The Big Shift [see Featured Items at CrestmontResearch.com]. Until the likelihood of such secular realignment can be validated, this report and its conclusions will be based on historical relationships and data.

Figure 6. Stock Market Gain/Loss To Low Inflation P/E Levels

AS OF: MAR 31, 2025			<u>CRESTMONT²</u>
“P”	Closing Price (S&P 500 Index) ³		5612
“E”	Current Estimate (S&P 500 EPS) ⁴		\$149
P/E	Price/Earnings Ratio ⁵		37.7
	<u>3-Year Restoration (1Q2028)</u>	<u>P/E</u> 22.5	<u>EPS</u> \$173
	Projected Normalized EPS ²		
	Implied S&P 500 Index		3893
	Annual Compounded Gain		-11.5%
	<u>5-Year Restoration (1Q2030)</u>	22.5	
	Projected Normalized EPS ²		\$191
	Implied S&P 500 Index		4307
	Annual Compounded Gain		-5.2%
<i>Notes 1-5: see footnotes in Figure 1</i>			
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Figure 7. Crestmont Research Outlook (S&P 500 Total Return)

AS OF: MAR 31, 2025	ANNUALIZED TOTAL RETURN FOR S&P 500 <i>(nominal returns)</i>		
	Ending P/E Ratio (P/E10)		
<u>YEARS</u>	<u>10</u>	<u>15</u>	<u>22.5</u>
5	-16.7%	-9.9%	-2.4%
7	-10.5%	-5.3%	0.2%
10	-6.9%	-3.2%	0.7%
20	-0.1%	1.9%	3.9%
<i>Notes 1-5: see footnotes in Figure 1; also, includes dividend yield of 2%</i>			
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CONCLUSION

Today's normalized P/E is 37.7; the stock market remains positioned for below-average long-term returns.

The current valuation level of the stock market is above average, and relatively high valuations lead to below-average returns. Further, the valuation level of the stock market is especially high, given the uncertainties associated with the currently elevated inflation rate and interest rate environment.

This summary assesses the current valuation level in the context of the longer-term market environment. The goal is to help investors and market spectators assess the current conditions more quickly.

In this environment, as described in Chapter 10 of *Unexpected Returns*, investors can take a more active “rowing” approach (i.e., diversified, actively managed investment portfolio) rather than the secular bull market “sailing” approach (i.e., passive, buy-and-hold investment portfolio over-weighted in stocks).

Ed Easterling is the founder and president of Crestmont Research. He is the author of award-winning Unexpected Returns: Understanding Secular Stock Market Cycles and Probable Outcomes: Secular Stock Market Insights. In addition, he previously served as an adjunct professor and taught a course on alternative investments and financial markets for MBA students at SMU in Dallas, Texas. Mr. Easterling publishes provocative research and graphical analyses on the financial markets at www.CrestmontResearch.com.