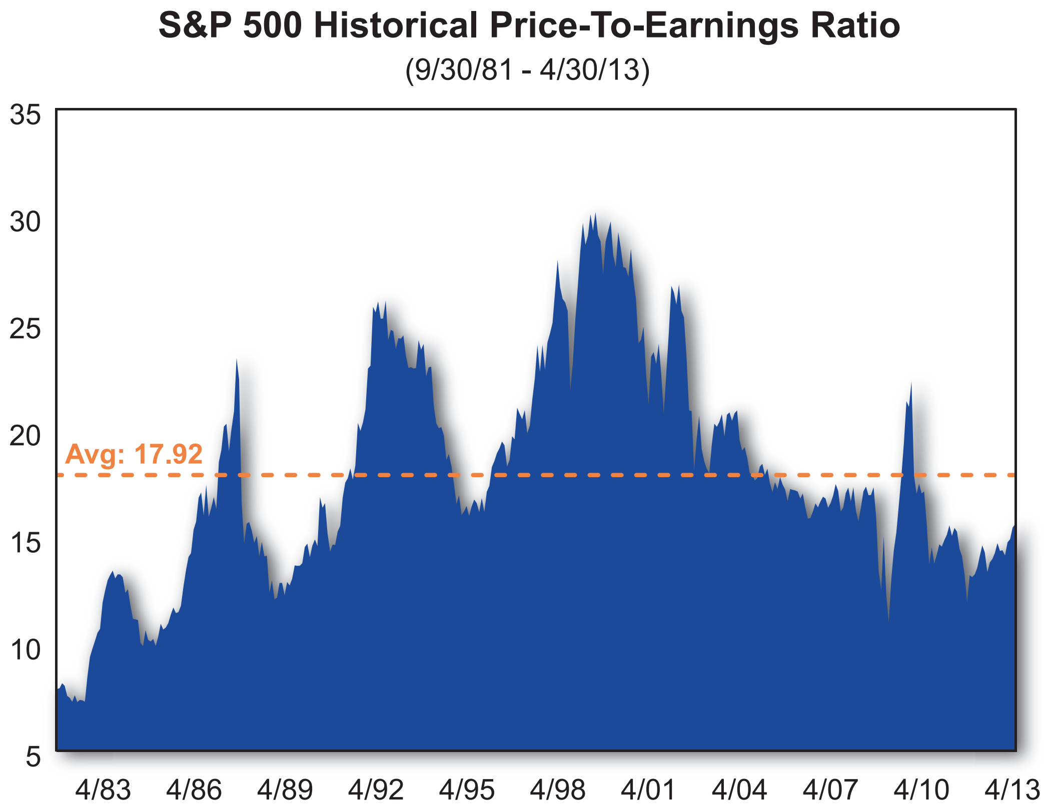
379 Months And Counting



Source: Bloomberg

View from the Observation Deck

1. The time period depicted in the chart (379 months) captures the peak in interest rates on 9/30/81 (10-Year T-Note closed at 15.84%) through 4/30/13 (10-Year T-Note closed at 1.67%).
2. In short, it represents the 31-plus year rally in the bond market. While interest rates declined more than 14 percentage points over that span, they did not fall each and every calendar year.
3. Using the average yield on the 10-Year T-Note for every calendar year since 1981, interest rates actually rose in 9 of the 31 years, or 29% of the time, according to data from the Federal Reserve.
4. Interest rate levels help determine the cost of capital for corporations, which can influence earnings. Interest rates on debt instruments, if high enough, can also compete with equities for investor capital.
5. The price-to-earnings ratio (P/E) on the S&P 500 has fluctuated significantly over the past 31-plus years. Based on monthly data points, it peaked at 30.20 on 6/30/99, while its low was 7.31 on 5/31/82.
6. Perhaps more importantly, its average over that span was 17.92, which is higher than today's (5/15/13) trailing 12-month P/E of 16.23 and much higher than its forward-looking P/E of 15.04.