Large-Caps Still Relatively Inexpensive Heading Into 2013

View from the Observation Deck

1. The S&P 500 posted a total return of 15.99% in 2012. On average, the index returned 9.8% per year from 1926 through 2011, according to Ibbotson Associates/Morningstar.

2. Despite the strong return in 2012, the S&P 500 closed the year 8.9% below its all-time high of 1565.15 on 10/9/07.

3. Except for the S&P 500 Utilities Index, each of the major sector indices, as well as the S&P 500, all possess 12-month forward-looking estimated P/E ratios that are well below their 20-year averages (see chart).

4. The S&P 500’s estimated P/E is 13.19, significantly below its 20-year average of 19.86.

5. Bloomberg estimates that the S&P 500’s 2013 EPS growth rate will be 12.92%, as of 1/2/13.