Equities Look Even More Attractive After Being Adjusted For Inflation

View from the Observation Deck

1. The S&P 500 has rallied to within 1% or so of its 10-year, as well as all-time, high of 1565.15 (10/9/07).
2. Once adjusted for inflation, however, the price value of the S&P 500 closed 11.37% below its peak on 3/19/13 (see chart).
3. We have also included in the chart those sectors of the S&P 500 still trading below their respective 10-year highs.
4. The three sectors missing (Consumer Discretionary, Consumer Staples and Health Care) have each established new 10-year highs in March 2013.
5. For those investors nervous that the S&P 500 is approaching its high, consider that the index’s annual earnings for 2012 reached an all-time high of $96.81, and are expected to go higher.
6. While many factors can influence the direction of the stock market on any given day, we believe earnings are what drive stock prices over time.
7. The following are the S&P 500’s annual earnings from 2008-2014 (Source: Standard & Poor’s): $49.51 (2008); $56.86 (2009); $83.77 (2010); $96.44 (2011); $96.81 (2012); $111.25 Est. (2013); and $124.72 Est. (2014).

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance, while the S&P Sector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector.