

# Cash Flow and Carey



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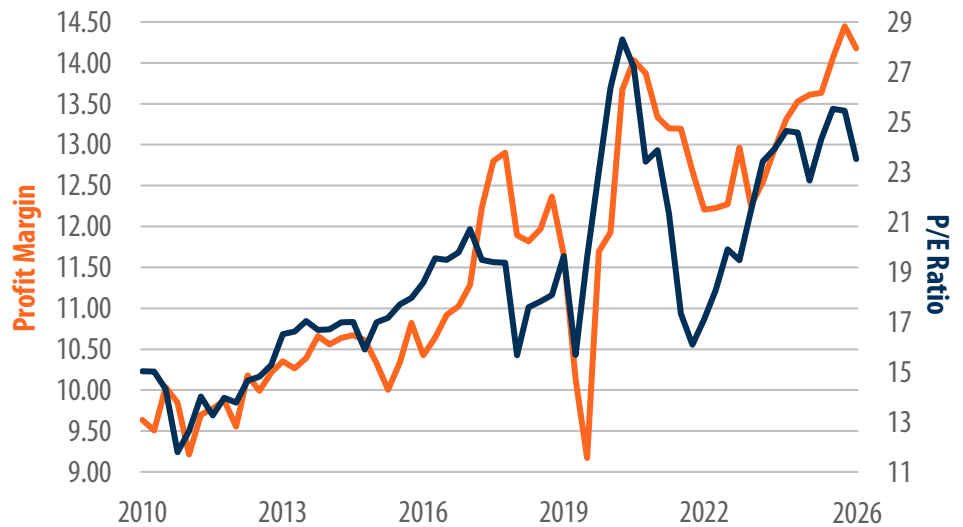


This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is a capitalization-weighted index comprised of 500 companies used to measure large-cap U.S. stock market performance, while the 11 major S&P 500 Sector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector.

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## Profit Margins and Valuations

### S&P 500 Index Profit Margin vs. P/E Ratio



Source: Bloomberg. Quarterly observations from 12/31/10 to 3/31/26.

### View from the Observation Deck

The S&P 500 Index (“Index”) closed at 6,967.38 on 4/14/26, representing a price-only increase of 39.83% since its most recent low of 4,982.77 just over one year ago (4/8/25). The Index’s meteoric rise has many investors questioning whether current price levels are sustainable, especially given comparatively stretched valuation metrics, the Iranian war, and diminished interest rate cut expectations in 2026. Today’s post offers an alternative view of current price levels by plotting the Index’s valuation, as measured by its trailing 12-month price to earnings (P/E) ratio, against profitability, as measured by gross profit margins. [Click here](#) to view our previous discussion on this topic.

- As revealed in today’s chart, there appears to be a positive correlation between profit margins and P/E ratios.
- The Index’s P/E ratio increased from 15.03 in Q4’10 (start of our chart) to 23.51 in Q1’26.
- Analysts estimate that the Index’s profit margin will reach 14.18% in Q1’26, up from 9.64% in Q4’10, according to data from Bloomberg. For comparison, the Index notched a record profit margin of 14.45% in Q4’25.
- While not in today’s chart, data from FactSet revealed that the three Index sectors with the highest estimated net profit margins for Q1’26 were as follows: Real Estate (34.1%), Information Technology (28.9%), and Financials (19.6%).

### Takeaway

As today’s chart reveals, the Index’s P/E ratio declined from 25.44 to 23.51 in Q1’26. Gross profit margin likely declined as well, falling from a record 14.45% in Q4’25 to an estimated 14.18% in Q1’26. For comparison, the Index’s profit margin averaged 11.55% between Q4’10 and Q1’26. In our last post on this topic, we posited that surging profit margins lent support to elevated P/E ratios. We believe this relationship remains in effect today, with investors rewarding companies for increasingly efficient capital deployment. Tellingly, the Index’s P/E ratio remains above its average of 18.92 over the observed time frame. While today’s data has largely examined historical results, future earnings estimates may lend further context to current price levels. On 4/14/26, the Index’s earnings per share were estimated to increase by 17.7% year-over-year (y-o-y) to a record 323.15 in 2026.