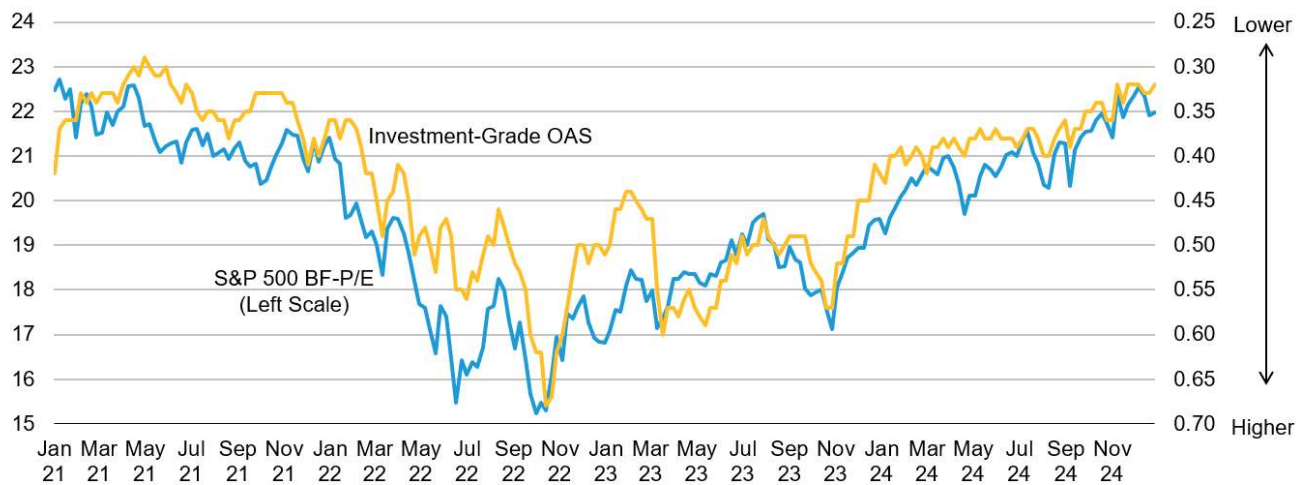


AB Equity Insights

P/E Multiples Are High but Not Without Merit

It's no secret that P/E ratios on equities are elevated versus history...witness the S&P 500. But one should always consider the backdrop that underlies where P/Es reside. Recently, equity multiples have been buoyed by a healthy economy, steady earnings growth, Fed rate cuts, the end of the election cycle and tight investment-grade bond spreads.* The last point serves as an indicator of macroeconomic risk, and it is signaling that such concerns are not flashing red. (That is, tighter spreads reflect lower economic risks, and vice versa.) Given how closely these spreads and P/Es track each other, and with credit spreads this tight, it comes as no surprise that market multiples have been, and remain, above average (*Display 1*).

S&P 500 P/E vs. Investment-Grade Bond Spreads



Historical analysis and current forecasts do not guarantee future results.
P/E: price to earnings; OAS: option-adjusted spread; BF-P/E: blended forward price to earnings
Through December 31, 2024
Source: Bloomberg and AB

Given our expectations for a soft economic landing, these above-average multiples could serve as another tailwind for equity markets. Which is not to say that stock prices (and multiples) will advance into infinity with no pullbacks. Whether through Treasury rates continuing to climb or some geopolitical shock rearing its head, stock prices at these levels could be susceptible to a downturn.

Fixating on Valuation Is Hardly a GPS† for Future Stock Returns

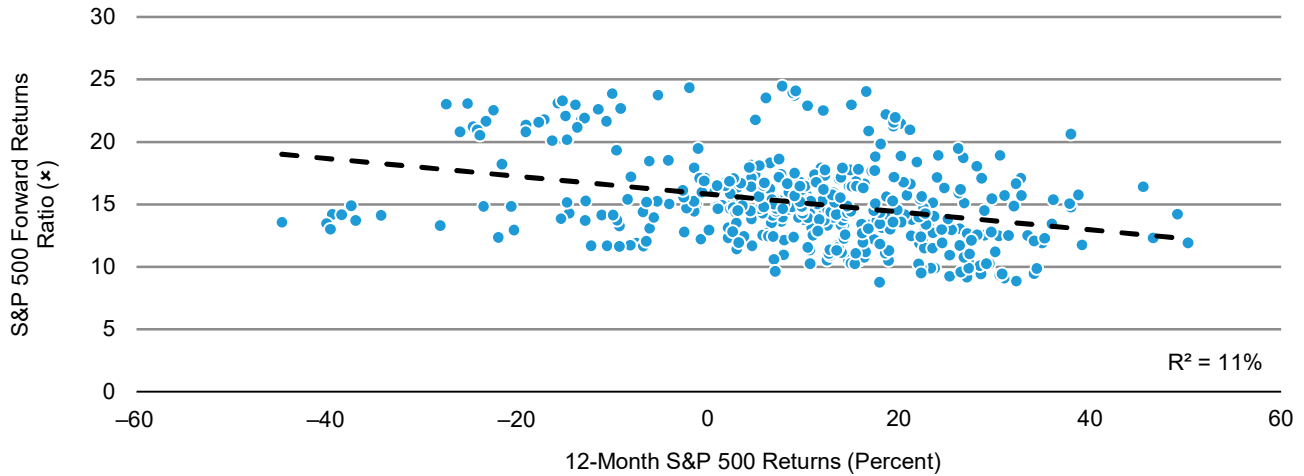
However, one should not always focus on valuation yardsticks such as P/E ratios to influence tactical moves in or out of equities. The reason is that valuation is not a sound barometer for future stock returns over near- to intermediate-term time frames. As *Displays 2 and 3* (next page)³ illustrate, the low R² (or R-squared) proves that valuation provides scant explanatory value for stock returns over one- and three-year time horizons.

*Bloomberg US Aggregate Corporate Bond Index “average option-adjusted spread”

†GPS: Global Positioning System

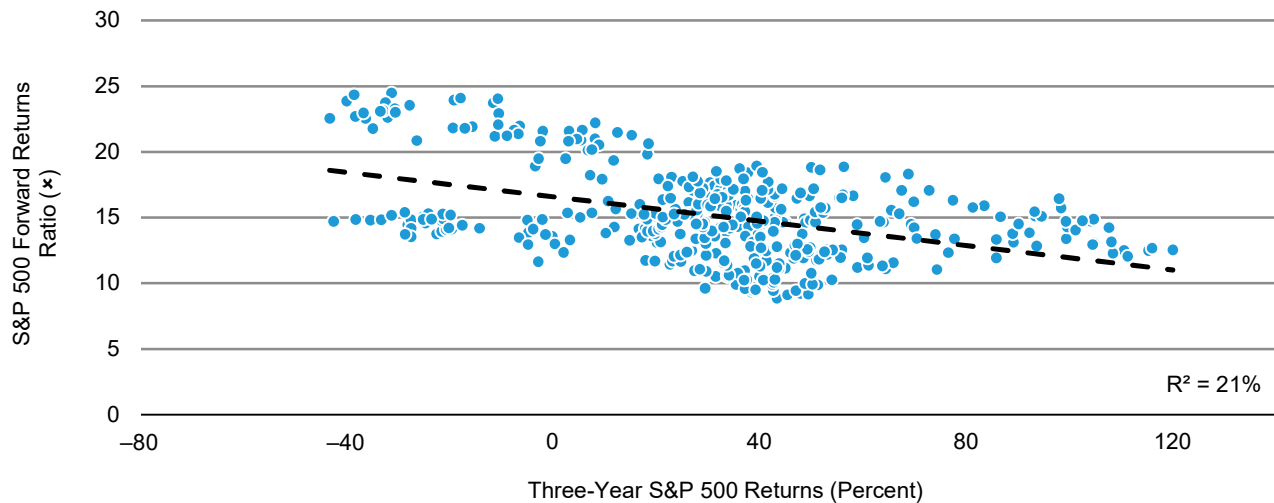
³ Piper Sandler

Forward P/E vs. 12-Month S&P 500 Returns



As of September 30, 2024

Forward P/E vs. 36-Month S&P 500 Returns



As of September 30, 2024

Our View

At the index level, stocks are not at bargain prices. However, the same can be said of other asset classes given the run-up in capital markets over the last two years. Our recommendation remains to look beyond popular trades such as the Magnificent 7 and build stock positions in the many “Magnificent Others.” Lean into companies with high free cash flow, profitability and financial strength, and firms best able to capitalize on an enduring theme. While no stock is bulletproof in sharp drawdowns, businesses of this ilk typically enhance the odds of investor success.

Author: Walt Czaicki, CFA

The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results. Net performance figures have been calculated by deducting the highest fee payable by a separately managed institutional account. Investment advisory fees are described in Part 2A of AB's Form ADV.

Some of the principal risks of investing include Market Risk, Currency Risk, Derivatives Risk, OTC Derivatives Counterparty Risk, Allocation Risk, Overseas Assets Risk, Systemic Risk, Turnover Risk, Illiquid Securities Risk, Leverage Risk, Equities Risk, Concentrated (Focused Portfolio) Risk, Smaller-Capitalization Companies Risk and Long/Short Strategies Risk.

Note to All Readers: The information contained here reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. The views expressed herein may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by AllianceBernstein or its affiliates. References to specific securities are presented to illustrate the application of our investment philosophy only and are not to be considered recommendations by AB. The specific securities identified and described herein do not represent all the securities purchased, sold or recommended for the Portfolio, and it should not be assumed that investments in the securities identified were or will be profitable.

[A/B] logo and AllianceBernstein® are registered trademarks used by permission of the owner, AllianceBernstein L.P.

© 2025 AllianceBernstein L.P.

Doc ID: UMF-673624-2025-01-22