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On the Minds of Investors

Are stocks too expensive?

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> **Stocks are expensive, but they may not yet be overvalued.**

With the U.S. stock market up 15% YTD, markets seem unphased at any potential headwind on the horizon, but for investors, concerns about high valuations persist. The P/E ratio on the S&P 500 is 22.8x, just surpassing its post-COVID peak to the highest level in 25 years. Even outside of the top 10 stocks in the index, valuations are 19.7x, and value stocks alone are 17.3x vs. 14.2x over the long run.

The market may be richly valued, but to some extent, this is justified:

- **Weaker tailwinds**: Many of the tailwinds that drove valuations up after the pandemic – massive fiscal stimulus, 0% interest rates, $2.3 trillion in excess consumer savings, and a rebounding economy, earnings and markets – have faded. Today, there is only modest fiscal stimulus on the way from tax refunds, interest rates have been above 4% for nearly three years, the post-pandemic rebound is in the rear-view mirror, and the consumer is softer. Still, markets are resilient.
- **Robust profits**: The resilience has been driven, in large part, by extraordinary earnings. Last year, S&P 500 profits grew 10%, and the past three quarters have boasted double-digit profit gains. Tech has been a standout, with the Mag 7 set to contribute 44% of profit growth this year. Margins remain near record levels at 13.6%. Tariff costs may erode profit margins, but profitability could be bolstered by provisions in the OBBBA, like 100% bonus depreciation and accelerated R&D expensing, which could reduce next year's tax liability and boost cash flow. This could aid not only big tech, but also capital-intensive businesses within value.
- **Index composition**: In addition, the composition of the index itself has shifted towards growth stocks, which tend to have higher P/Es due to the promise of higher profit growth, a dynamic that is pronounced today given the current earnings backdrop. In 2006, financials were 21% of the S&P 500. In 2008, energy topped 13%. Today, those weights are 13.5% and 3%, respectively. Info tech, on the other hand, is 35%, vs. 15% twenty years ago.
- **Global exceptionalism**: For years, there was no alternative to U.S. equities. This year, the U.S. has competition, with the MSCI ACWI ex-US outperforming by over 12 percentage points. However, despite lagging its international counterparts, the U.S. derives the highest share of its returns from earnings.
- **Structural factors**: The rise of passive investing, retail buying, and 401k flows have also driven the market higher. But it's not just who is *entering*, but those who *aren't exiting* due to mounting embedded capital gains.

Stocks are expensive, but they may not yet be overvalued. Still, investors ought to reduce concentration, where valuations are the highest, by diversifying into areas like value and international stocks, which offer more reasonable valuations, or corporate credit, which provides access to strong balance sheets and robust profitability with the added benefit of income.

S&P 500 index: Forward P/E ratio

Source: FactSet, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management. Forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by IBES since March 1994 and FactSet since January 2022.

Guide to the Markets – U.S. Data are as of October 8, 2025.

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