THREE ON THURSDAY

First Trust

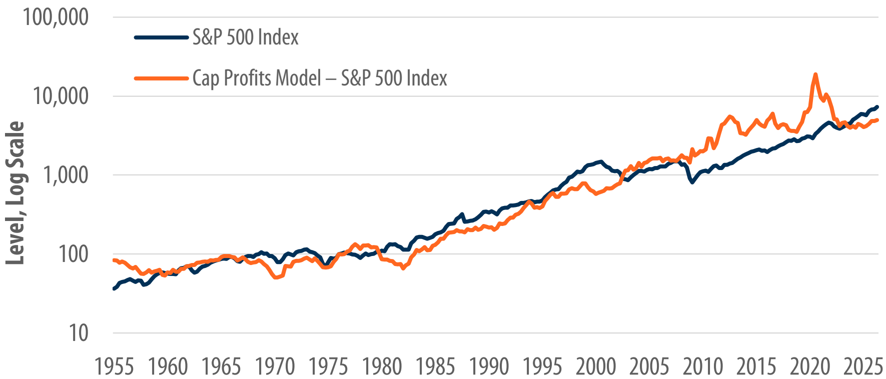
FIRST TRUST ECONOMICS

September 17, 2026

S&P 500 Index Still Looks Expensive

The S&P 500 Index has continued to climb this year, but we believe caution is still warranted and that broadening out beyond the market's largest names remains as important as ever. [For more on why, see Dave McGarel's recent **Market Minute**.] By many popular valuation measures, including the Buffett Indicator, the Fed Model, and the Shiller P/E, the S&P 500 Index currently sits at elevated levels. Our own work points in the same direction. In today's "Three on Thursday," we take a closer look at our Capitalized Profits Model, a framework we use to estimate fair value for the S&P 500 Index. One important caveat: valuation models are not market-timing tools. An overvalued market can remain overvalued for a long time, just as an undervalued market does not guarantee an imminent rally. Instead, these models provide perspective on how current prices compare with underlying fundamentals and what that may imply for prospective returns. For a deeper dive into what our model is telling us today, see the chart and two tables below.

First Trust Capitalized Profits Model



Source: First Trust Advisors, Standard's & Poor's, Bureau of Economic Analysis, Federal Reserve Board. Quarterly Q1 1955 – Q2 2026.

We use the Capitalized Profits Model to estimate the S&P 500 Index "fair value" based on current interest rates, economy-wide corporate profits, and their historical relationship. However, our year-end market target, released at the start of each year, is not a direct output of the model. Instead, the model helps us assess whether the S&P 500 Index is currently overvalued or undervalued. From there, we incorporate broader factors — such as expected profit growth, fiscal and monetary policy, trade developments, and regulatory changes — to estimate how much of the valuation gap might close over the course of the year. In short: the Capitalized Profits Model shows us **how far** the S&P 500 Index is from fair value, and our annual forecast reflects **how much** of that gap we think it could close. In the chart, an orange line above the blue line indicates the S&P 500 Index is undervalued; when it's below, it is overvalued. For the past three years, the model has been signaling overvaluation.

S&P 500 Index Fair Value Based on Capitalized Profits Model

Profit Growth	10-Year Treasury Yield										
	3.00%	3.25%	3.50%	3.75%	4.00%	4.25%	4.50%	4.75%	5.00%	5.25%	5.50%
30%	9,470	8,740	8,117	7,570	7,129	6,703	6,331	6,004	5,700	5,426	5,183
25%	9,105	8,406	7,805	7,281	6,855	6,445	6,088	5,768	5,480	5,221	4,986
20%	8,740	8,064	7,486	7,015	6,574	6,194	5,844	5,540	5,259	5,008	4,780
15%	8,375	7,729	7,205	6,726	6,300	5,936	5,601	5,305	5,046	4,803	4,583
10%	8,010	7,395	6,893	6,430	6,027	5,677	5,358	5,077	4,826	4,590	4,385
5%	7,646	7,083	6,574	6,141	5,753	5,419	5,115	4,849	4,606	4,385	4,188
0%	7,281	6,749	6,262	5,844	5,480	5,160	4,872	4,613	4,385	4,180	3,990
-5%	6,574	6,072	5,951	5,556	5,206	4,902	4,628	4,385	4,165	3,967	3,785
-10%	5,943	5,487	5,639	5,259	4,932	4,644	4,385	4,157	3,944	3,762	3,587
-15%	6,209	5,738	5,328	4,970	4,659	4,385	4,142	3,922	3,724	3,549	3,390
-20%	5,844	5,396	5,008	4,674	4,385	4,127	3,899	3,694	3,511	3,344	3,192

Source: First Trust Advisors, Standard's & Poor's, Bureau of Economic Analysis, Federal Reserve Board. Quarterly Q1 1955 – Q2 2026.

The adjacent table shows what the Capitalized Profits Model estimates as fair value for the S&P 500 Index, based on a range of profit growth and interest rate assumptions. The most recent economy-wide profit data available is through the second quarter of 2026. Comparing to yesterday's close on 9/16/26, anything in green is undervalued, anything in red is overvalued. For example, if you assume profits grow 10% in the second half of 2026 as they did in the first half and a 10-Year Treasury yield of 4.5% at year-end, the model suggests a fair value of 5,358 — implying that stocks would still be overvalued. Although profit growth has been outstanding in recent quarters, the rise in the 10-Year Treasury yield has offset much of the benefit, and it would take a substantial decline from its current 5% level for the model to suggest the S&P 500 Index is fairly valued.

Over/Undervaluation Based on Current S&P 500 Index Value

Profit Growth	10-Year Treasury Yield										
	3.00%	3.25%	3.50%	3.75%	4.00%	4.25%	4.50%	4.75%	5.00%	5.25%	5.50%
30%	25.4%	15.7%	7.5%	0.2%	-5.6%	-11.2%	-16.2%	-20.5%	-24.5%	-28.1%	-31.4%
25%	20.6%	11.3%	3.4%	-3.6%	-9.2%	-14.7%	-19.4%	-23.6%	-27.4%	-30.9%	-34.0%
20%	15.7%	6.8%	-0.9%	-7.1%	-13.0%	-18.0%	-22.6%	-26.6%	-30.4%	-33.7%	-36.7%
15%	10.9%	2.3%	-4.6%	-10.9%	-16.6%	-21.4%	-25.8%	-29.8%	-33.2%	-36.4%	-39.3%
10%	6.1%	-2.1%	-8.7%	-14.9%	-20.2%	-24.8%	-29.1%	-32.8%	-36.1%	-39.2%	-41.9%
5%	1.2%	-6.2%	-13.0%	-18.7%	-23.8%	-28.2%	-32.3%	-35.8%	-39.0%	-41.9%	-44.5%
0%	-3.6%	-10.6%	-17.1%	-22.6%	-27.4%	-31.7%	-35.5%	-38.9%	-41.9%	-44.7%	-47.2%
-5%	-13.0%	-19.6%	-21.2%	-26.4%	-31.1%	-35.1%	-38.7%	-41.9%	-44.9%	-47.5%	-49.9%
-10%	-21.3%	-27.3%	-25.3%	-30.4%	-34.7%	-38.5%	-41.9%	-45.0%	-47.8%	-50.2%	-52.5%
-15%	-17.8%	-24.0%	-29.5%	-34.2%	-38.3%	-41.9%	-45.2%	-48.1%	-50.7%	-53.0%	-55.1%
-20%	-22.6%	-28.5%	-33.7%	-38.1%	-41.9%	-45.4%	-48.4%	-51.1%	-53.5%	-55.7%	-57.7%

Source: First Trust Advisors, Standard's & Poor's, Bureau of Economic Analysis, Federal Reserve Board. Quarterly Q1 1955 – Q2 2026.

The adjacent table shows how far the current S&P 500 Index is from fair value, according to the Capitalized Profits Model, using a range of profit growth and interest rate scenarios. Green cells indicate the market is undervalued, while red cells suggest it's overvalued. For example, if you expect 10% profit growth and a 10-Year Treasury yield of 4.5% by year-end, the model suggests the S&P 500 Index is overvalued by roughly 30% relative to yesterday's close on 9/16/26. A more favorable scenario of 10% profit growth and a 3.5% 10-Year Treasury yield would still leave the market 8.7% above the model's estimate, but within the 10% range we consider fairly valued. That said, this model is just one piece of the puzzle. It's important to keep in mind the broader factors — including profit outlooks, fiscal and monetary policy, trade dynamics, and regulatory changes — to assess how much of that valuation gap might realistically close over the course of the year.