

# MARKET MINUTE

## With McGAREL



**Dave McGarel, CFA, CPA**  
Chief Investment Officer

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### *Past performance is no guarantee of future results.*

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**Earnings per share (EPS)** is the monetary value of earnings per outstanding share of common stock for a company during a defined period of time, often a year.

**Forward Price-to-Earnings** is the price of a stock divided by estimated forward earnings.

There is no assurance any forecasts will be achieved.

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The S&P 500 Index (Index) closed at 6,840 on 31 October 2025, near its all-time-high reached only three days earlier. A little more than three years ago, on 12 October 2022, the Index bottomed for the year at 3,577, having fallen 24% from the 31 December 2021 close of 4,766. Since that bottom, including dividends, the Index has now returned 100%. What a comeback!

Throughout 2022, the market fell as the Federal Reserve raised rates seven times for a total of 4.25%, and investors became convinced a recession was likely and earnings declines would follow.

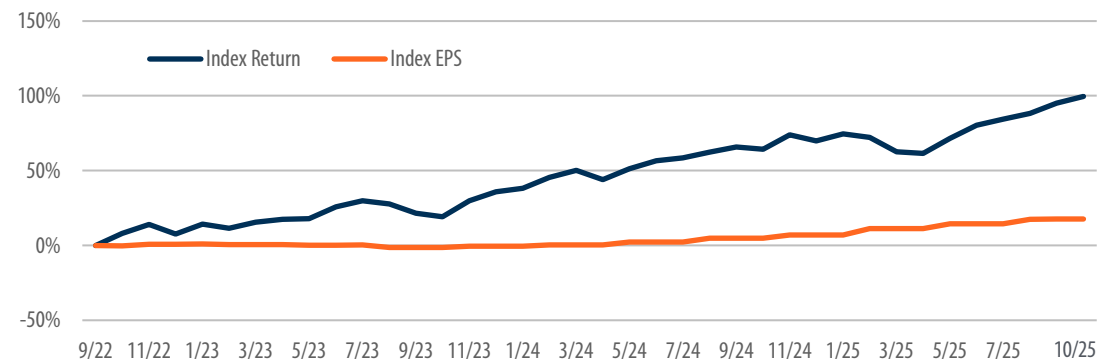
Earnings did fall in 2023, but just slightly. Then earnings grew 10% in 2024 and are expected to finish this year with another 11% growth in earnings.

It's pretty simple. We didn't have a recession. Stocks are higher because earnings grew and are expected to continue to grow. Yet, Chart 1 below is still breathtaking: stocks are up 100%, while earnings, even including the full estimate for this year, are up only 18%. Stock prices have significantly outpaced earnings growth over the last three years, resulting in significant multiple expansion. [Chart 2].

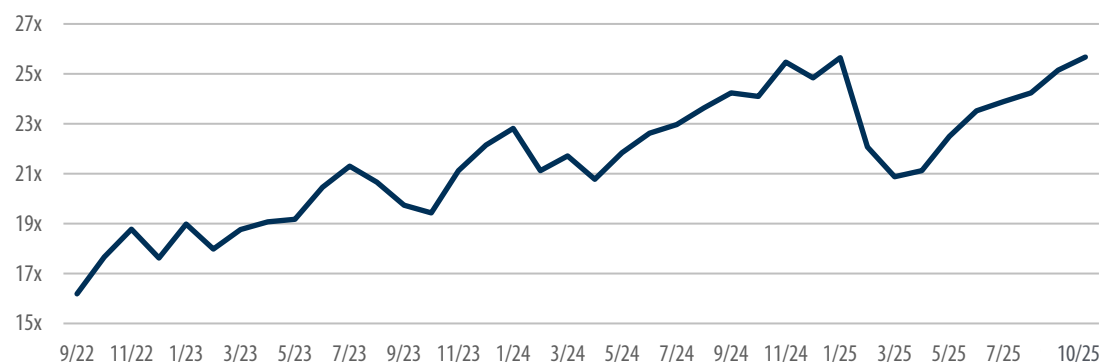
Current forecasts calls for 2026 S&P 500 Index earnings to grow 13%. If realized, that implies a forward P/E multiple of 23x next year's earnings today. Chart 2 also illustrates that valuations at these levels are rare, and, like hiking at very high altitudes, valuations don't stay at those levels very long.

Our simple message is this: **investors are taking on more risk today in the equity markets than almost any other time over the last three years.** While there is still a lot of good news regarding company profits and a relatively strong economy, we believe stocks have no room for multiple expansion and the forecasted, outsized earnings growth next year is imperative for the market to continue moving higher. In the lower expected return environment we anticipate going forward, we believe it's important for investors to remember that in the long run, valuation plays a significant role in investment performance. We encourage investors to review their equity allocation to ensure it is appropriate for the current environment of stretched valuations and lower expected future returns.

**Chart 1: S&P 500 Index Return vs Earnings-Per-Share (EPS) Growth**



**Chart 2: S&P 500 Index Forward Price-to-Earnings (P/E)**



Source for charts: Bloomberg. Data from 30/9/22 - 31/10/25. The charts are for illustrative purposes and does not represent any actual investment.