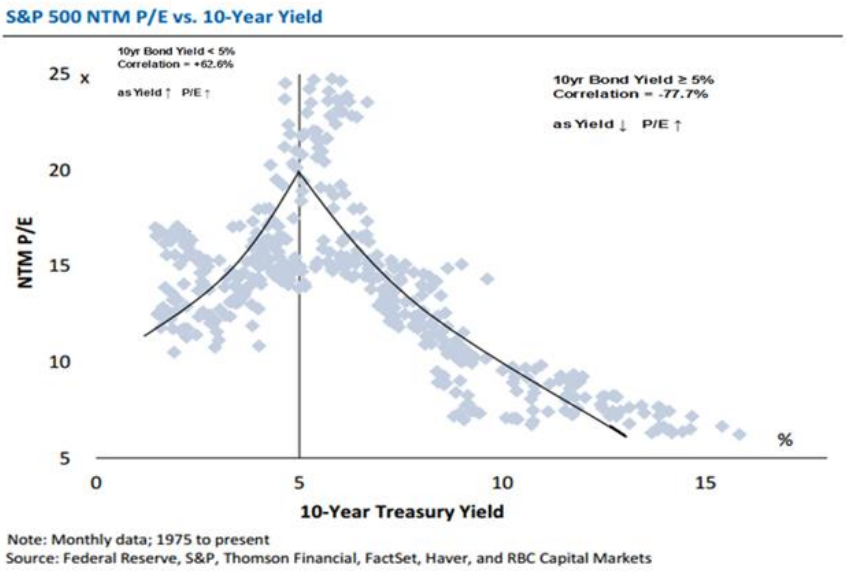
November 2026

Are we Nearing the Sunset of Market Excess?

Lately, there has been widespread media commentary that remarkable fundamental earnings growth justifies the market's already elevated valuation and could support further multiple expansion. We disagree with this view.

History suggests that when 10-year government bond yields rise sustainably above 5%, P/E multiples tend to fall.



Source: RBC Capital Markets, Investment Strategy Research Playbook, January 4, 2017

The 10-year government bond yields play an important role in equity valuation because they serve as a benchmark for long-term borrowing costs and the discount rates used to value future corporate cash flows. Since most major capital expenditures are financed through long-term debt, changes in these yields can influence corporate financing costs, investment decisions and equity valuations.

In the last month or so, we have seen the 10-year government bond yields of several developed governments rise above 5%, including the U.S., UK, Australia and New Zealand…and France is not far behind.

If inflation stays at the current rate of 3.7% or higher in the U.S., history suggests a P/E of 16-18x, which is significantly lower than the current S&P 500 trailing P/E of 26.4x (as of Oct 30, 2026). The Schiller P/E ratio (which considers the earnings of the previous 10 years) is ~41x, close to the prior highs of 2000. The 2000 highs correctly forecasted a subsequent market correction in P/E multiples lasting approximately nine years.

Looking at the past 50+ years, when inflation was between 3 and 4%, the average 10-year government bond was generally in a range of 5-6.5%. This may suggest that current yields could drift higher even if inflation stalled at the current level.

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The U.S. Central Bank recently raised rates and signaled the possibility of further increases to moderate inflation. However, the 1965-1982 stagflation period demonstrated that inflation can be challenging to suppress – equity valuations were volatile and delivered below average long-term returns.

Russell Napier, the Scottish financial historian, concluded that the only asset class to preserve client wealth in that era was the value style of investing.[i]



Source: John Buckingham. "Debunking The Myths – Did Stocks Really Go Nowhere From 1966-1982?" Forbes. February 2023.

Additionally, in 2021, both the S&P 500 and Nasdaq had higher earnings growth than today. However, that growth did not sustain elevated valuations as inflation rose into 2022. The markets, and growth stocks in particular, experienced declines, while the value investment approach and markets with lower technology exposure proved more resilient.

We believe that with lower portfolio P/E, P/BV, P/CF and above average dividend yields, value portfolios should defensively preserve and possibly grow wealth faster than the overall market and growth style of investing.

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[i] Full quote: "However, investors in value stocks and small capitalisation stocks, pursuing a buy-and-hold strategy, secured material positive real returns through this prolonged equity bear market." Russell Napier. *The Age of Emergencies*. 2022.

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