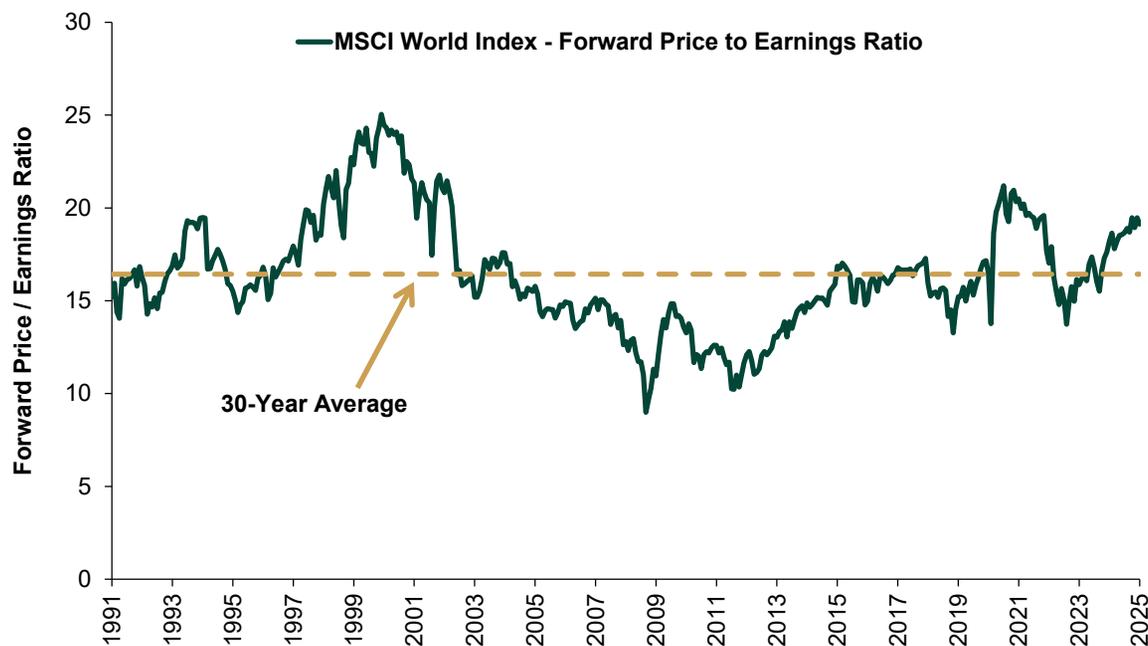


## Evaluating Valuations

As a bull market progresses, a common fear is stocks are overvalued and too expensive—hence, subpar returns must lie ahead. Some investors worry about high price-to-earnings (P/E) ratios, which compare a stock or index’s price level to future earnings, as justification for this fear. This argument assumes equity valuations predict future returns. But they don’t! For instance, the P/E ratio in February 1998 was above average—yet the bull market continued for two more years. Conversely, the P/E ratio in February 2001 was also well above average, yet stocks subsequently entered a bear market. Common misconceptions about P/E ratios’ predictive power don’t stand up to scrutiny.

While P/E ratios are not predictive, they can be useful as an indirect (albeit imperfect) gauge of sentiment. Today, valuations aren’t far from their 30-year average—suggesting investor sentiment isn’t overly optimistic at this stage.

### MSCI World Index 12-Month Forward Price-To-Earnings Ratio



Source: IBES via DataStream and FactSet, as of 3/5/2025. Shows 10 highest MSCI World 12-month Forward P/E Ratios and ensuing annual percent change for the MSCI World Total Return Index from 02/28/1991 to 12/31/2024.

*Investing in securities involves a risk of loss. Past performance is never a guarantee of future returns. Investing in foreign stock markets involves additional risks, such as the risk of currency fluctuations. The foregoing constitutes the general views of Fisher Investments and should not be regarded as personalized investment advice or a reflection of the performance of Fisher Investments or its clients. Nothing herein is intended to be a recommendation or a forecast of market conditions. Rather it is intended to illustrate a point. Current and future markets may differ significantly from those illustrated herein. Not all past forecasts were, nor future forecasts may be, as accurate as those predicted herein.*