# Chart on the Go

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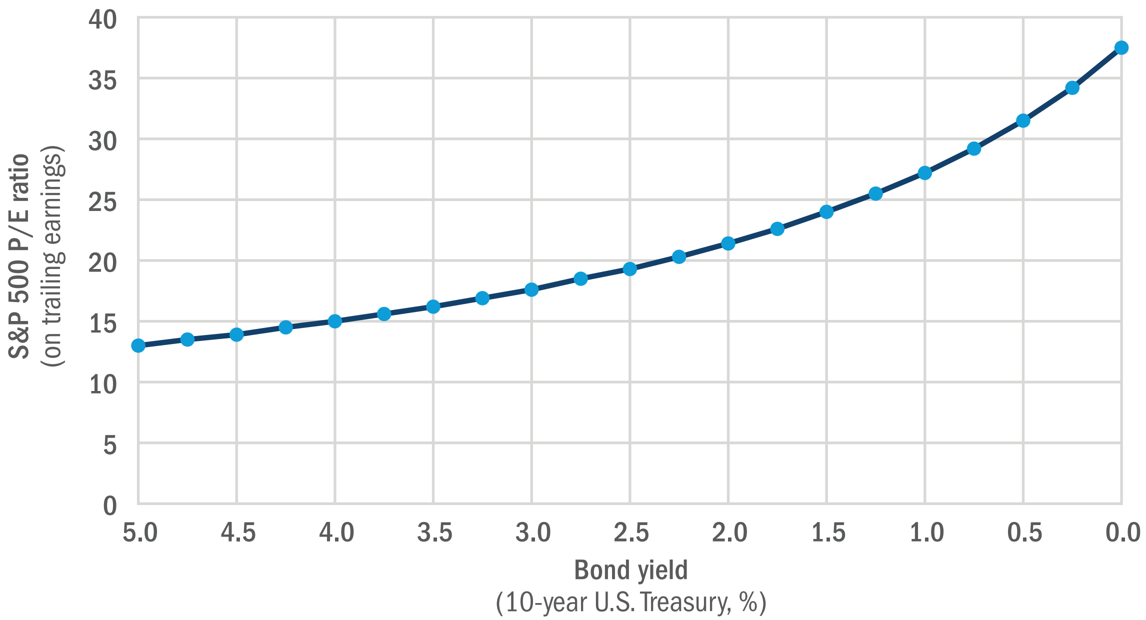
## Are stocks cheap or expensive? It depends.

Looking at interest rates and bond yields can help us understand whether P/Es make sense.




There's an inverse relationship between interest rates and price-to-earnings (P/E) ratios. Understanding this relationship can help investors gauge the relative value of P/E levels and whether the stock market is cheap or expensive.

When bond yields drop, stocks can look more attractive, drawing in investors who are willing to pay more. As a result, the S&P 500 tends to have a higher P/E multiple when interest rates are lower — that's the key point we are at today. If interest rates rise, stock P/Es should head lower.

Source: Bloomberg, as of 03/31/21. The calculation for P/E ratio takes into consideration the average spread (from June 2003) of 267 basis points between the S&P 500 Index earnings yield and U.S. 10-year bonds. A basis point is 1/100th of a percent. The S&P 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks. **Past performance does not guarantee future results. It is not possible to invest directly in an index.**



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