



HIGHTOWER

FARR MARKET COMMENTARY

WITH MICHAEL FARR, HIGHTOWER'S CHIEF MARKET STRATEGIST

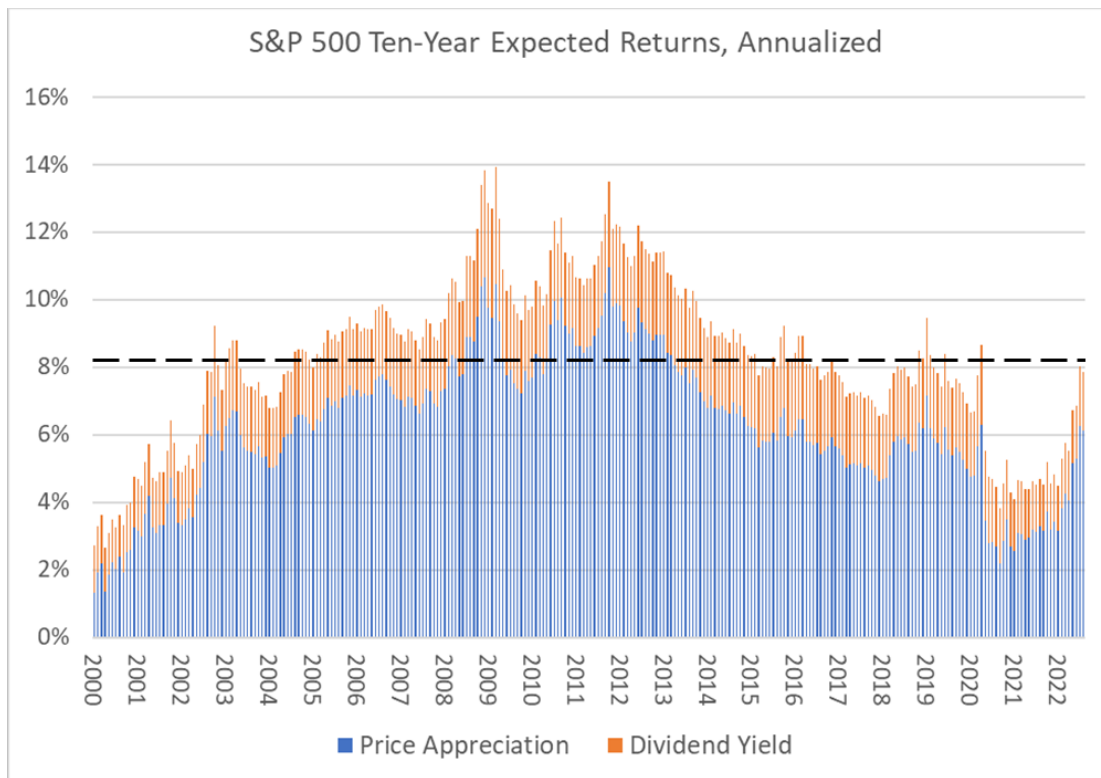
The News Isn't All Bad

July 6, 2022

Following the worst half for stocks since 1970, it's hard to find good news. But there is some. Stock valuations haven't been this attractive for quite a while. Except for a very short-lived blip after COVID arrived in March, 2020, we'd have to go back to mid-2019 to find stocks as attractive as they now appear to be. The S&P 500 is currently trading at just 16.1x the consensus estimate for earnings over the next year. In fact, the price-to-earnings (P/E) ratio is now below the average of about 16.3x since 2000.

First, a caveat. We have been talking for months how earnings estimates have yet to budge despite a tidal wave of bad news. As it currently stands, the consensus estimate is calling for 10% earnings growth in 2022 and another 9% earnings growth in 2023. In a typical recession, earnings tend to fall by about 20% on average. So, if we do end up going into a recession, there could be significant downside revisions to earnings estimates as well as additional declines for the stock market. But if we do somehow avoid a recession and earnings estimates actually hold up, long-term investors could be well rewarded by buying stocks at today's level.

The chart below shows estimates for the total expected return on the S&P 500 over 10 year periods since the year 2000. We assume that earnings grow at a rate of 6.0% for all 10-year periods. We start with the P/E ratio and dividend yield as of the date of purchase, and we assume that the P/E ratio reverts to the long-term average of 16.3x over the ensuing 10 years. The results show that if investors were to buy the S&P 500 today, they would have an expected annualized return of about 7.9%, consisting of 6.1% from capital appreciation and a 1.7% dividend yield, over the next 10 years. This is just slightly below the historical average of 8.2% since 2000. Given that the expected return had dropped to as low as 3.8% as recently as August, 2020, we think those with long-term investment horizons should begin the process of looking for opportunities.



Source: FactSet. Assumes P/E ratio reverts to average since 2000 of 16.3x.

Rudimentary analyses such as this can help provide perspective during periods of intense noise. Does this analysis lead us to confidently call a market bottom? Of course not, especially since earnings estimates have yet to fall in any material way. But we certainly believe the long-term investment case for stocks has improved materially as valuations have dropped sharply over the past couple of years. And we'd continue to favor high-quality companies with fortress balance sheets as we put new money to work.

Peace,

Michael

Disclosures

Investment Solutions at Hightower Advisors is a team of investment professionals registered with Hightower Securities, LLC, member FINRA/SIPC, & Hightower Advisors, LLC a registered investment advisor with the SEC. All securities are offered through Hightower Securities, LLC and advisory services are offered through Hightower Advisors, LLC. This is not an offer to buy or sell securities. No investment process is free of risk and there is no guarantee that the investment process described herein will be profitable. Investors may lose all of their investments. Past performance is not indicative of current or future performance and is not a guarantee. In preparing these materials, we have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public and internal sources; as such, neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Hightower shall not in any way be liable for claims and make no expressed or implied representations or warranties as to their accuracy or completeness or for statements or errors contained in or omissions from them. This document was created for informational purposes only; the opinions expressed are solely those of the author, and do not represent those of Hightower Advisors, LLC or any of its affiliates.