



Strategas Research Partners, LLC

Jason DeSena Trennert	(212) 906-0133	jtrennert@strategasrp.com
Nicholas Bohnsack	(212) 906-0132	nbohsack@strategasrp.com
Katarina Lundberg	(212) 906-0135	klundberg@strategasrp.com
Donald J. Rissmiller	(212) 906-0134	drissmiller@strategasrp.com

STOCKS CHEAPEST RELATIVE TO BONDS SINCE 1980

In sooth, the bond market has done a better job of forecasting the economy's current ills than the stock market. **Still, if one merely looks at the spread between the trailing earnings yield of the S&P and the 10-year Treasury, it appears that stocks are cheaper than bonds than at any time since 1980.** The question, of course, is what the earnings yield on stocks would be if we were to go into recession. It's a fair question, but if one assumes the bond market is correct, S&P operating earnings would need to fall to \$51 (that's not a misprint) to create an earnings yield that is equivalent to today's 3.7% 10-year Treasury. In short, the spread between the market's earnings yield and its bond yield so wide now that it is almost inescapable to believe that either bonds are extraordinarily expensive or stocks are extraordinarily cheap.

