

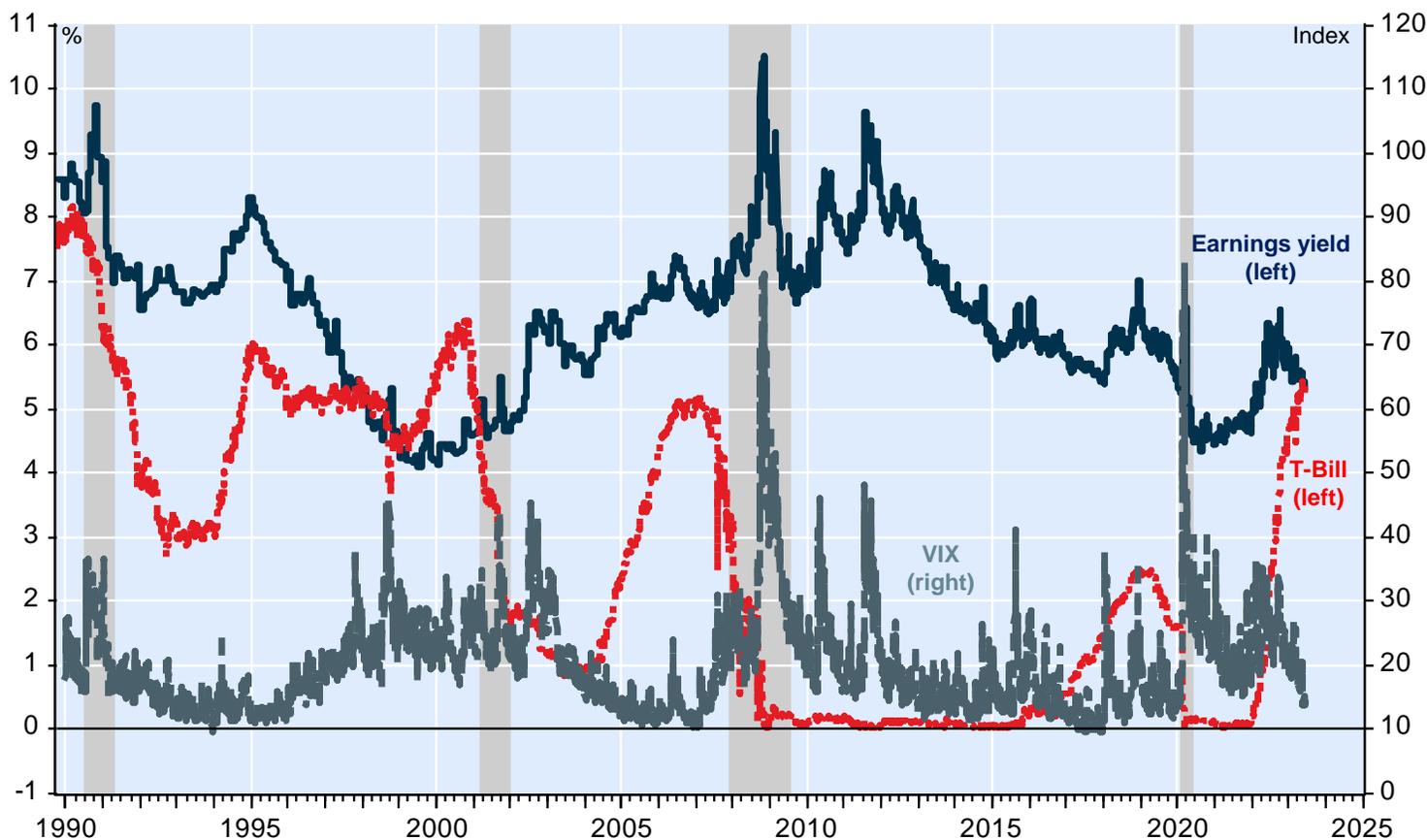
Market Watch

By Stéfane Marion

As the Federal Reserve continues to show no signs of relenting in its fight against inflation, the yield on the 3-month T-bill soared to a new cyclical high last week. With the S&P 500 closing the week at 19.4x forward earnings, this is the first time since 1999 that the earnings yield on stocks has been below the yield on cash. Back then, however, there was an element of nervousness in the market with volatility trading in the 20-30 range. As today's Hot Chart shows, there is no such concern this time around with the VIX trading at a post-pandemic low of 13. Investors seem to think that the S&P 500 will beat expectations for 7% EPS growth over the next 12 months. That seems complacent given that the just-released ISM manufacturing index fell to a cyclical low of 46 in June, indicating sub-par economic growth. We find more value in cash than in equities right now.

U.S.: Return on cash exceeds earnings yield!

S&P 500 12-month forward earnings yield, 3-month T-Bills yield and stock market volatility (VIX)



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