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Weekly Market Commentary

Two Equity Scare Charts (and A Reason Not to Worry)

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1. Equity valuations, regardless of how they are calculated, are at or near dot-com levels (Fig. 1).
2. The average investor's allocation to equities, which tends to be inversely correlated to future returns, has hit an all-time high (Fig. 2).
3. Leverage within public equities remains low, and the "frothiest" part of the market, US growth equities, has the cleanest balance sheets.

Eye-wateringly high US equity valuations bode poorly for long term returns. The average investor's equity allocation, which tends to be inversely correlated with long-term returns, has also reached an all-time high. These data points should give us all pause.

However, the news isn't all bad: one reasonable justification for higher valuations is that corporate balance sheets remain deleveraged relative to the pre-GFC era. The frothiest parts of the US market, US growth companies and the hyperscalers in particular, have very little net debt on their balance sheets.

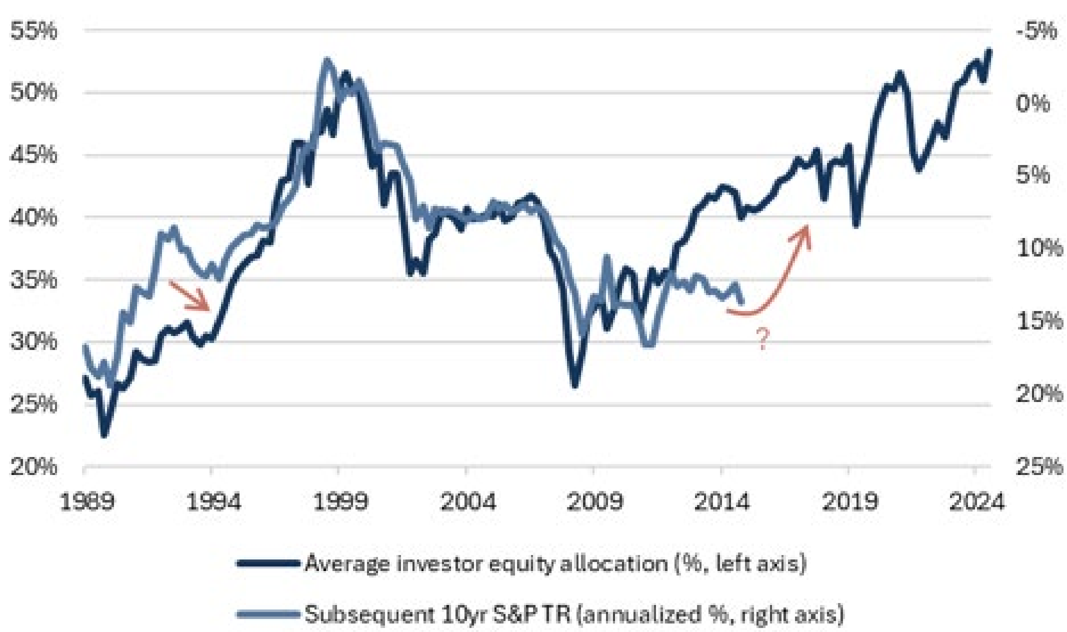
Valuations are very poor predictors of returns over periods of less than 7 years, but we won't pretend gravity doesn't exist. Absent an earnings boom (AI?), investors are looking at muted long-term US equity returns from this valuation starting point.

Shorter term, all-time-highs signal optimism and are usually good times to invest. Investors that need to put cash to work or are dollar cost averaging into the market should continue to do so, despite high valuations. Conversely, many investors are now overweight equities and hopefully figures 1 and 2 provide some motivation to consider rebalancing.

Fig. 1: S&P 500 valuation

Source: Bloomberg, Mill Creek. Data as of 9/23/25.

Fig. 2: Average investor's equity allocation and 10-year subsequent return



Source: Bloomberg, Mill Creek. Data as of 9/23/25. https://www.philosophicaleconomics.com/2013/12/the-single-greatest-predictor-of-future-stock-market-returns/

Fig. 3: Net debt / EBITDA (Annual)

Source: Bloomberg, Mill Creek. Data as of 9/23/25.

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