THE GREAT MARKET VALUATION RESET OF 2026

EPISODE 440



HOSTED BY
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Nucleus Wealth

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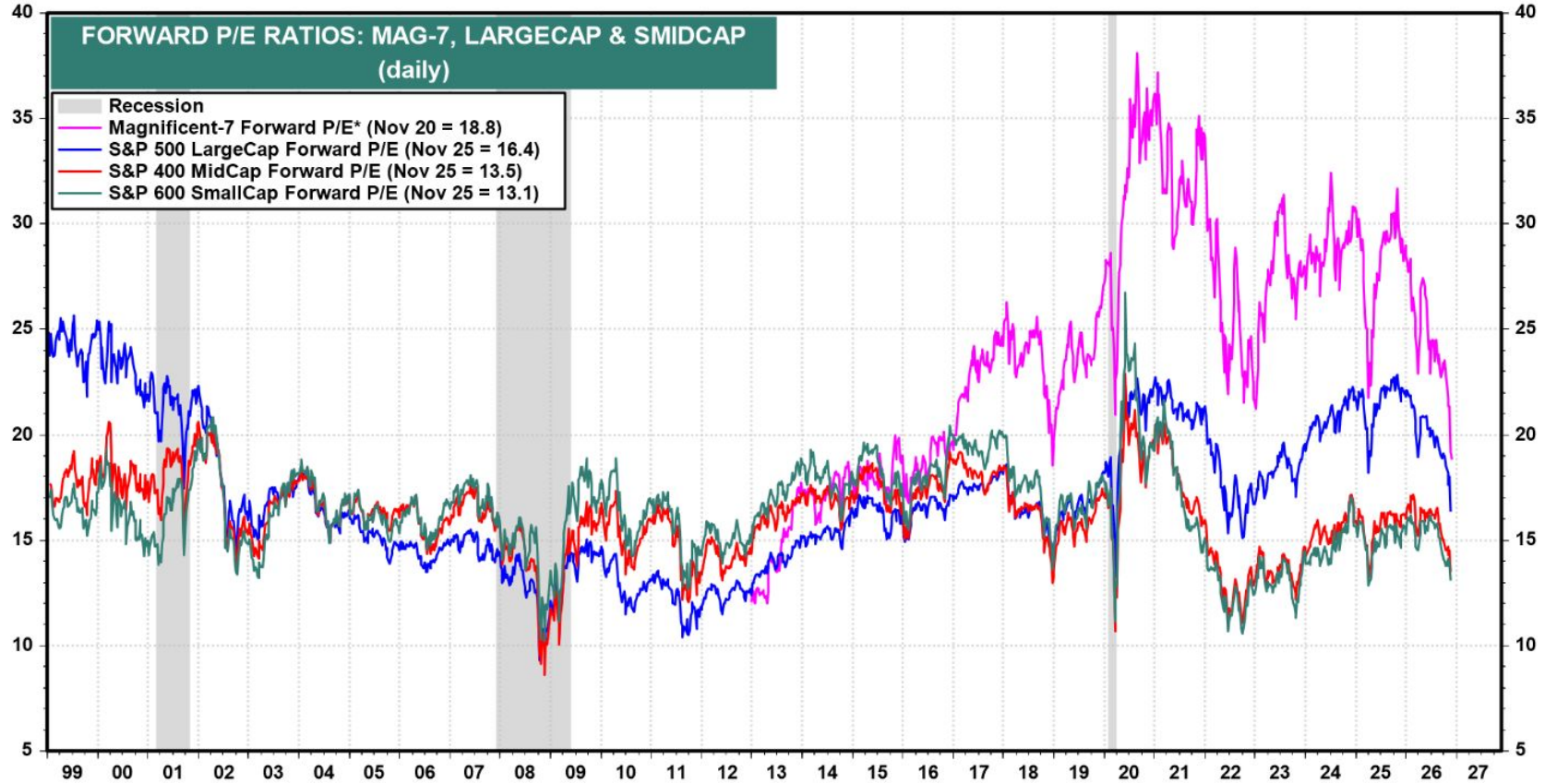
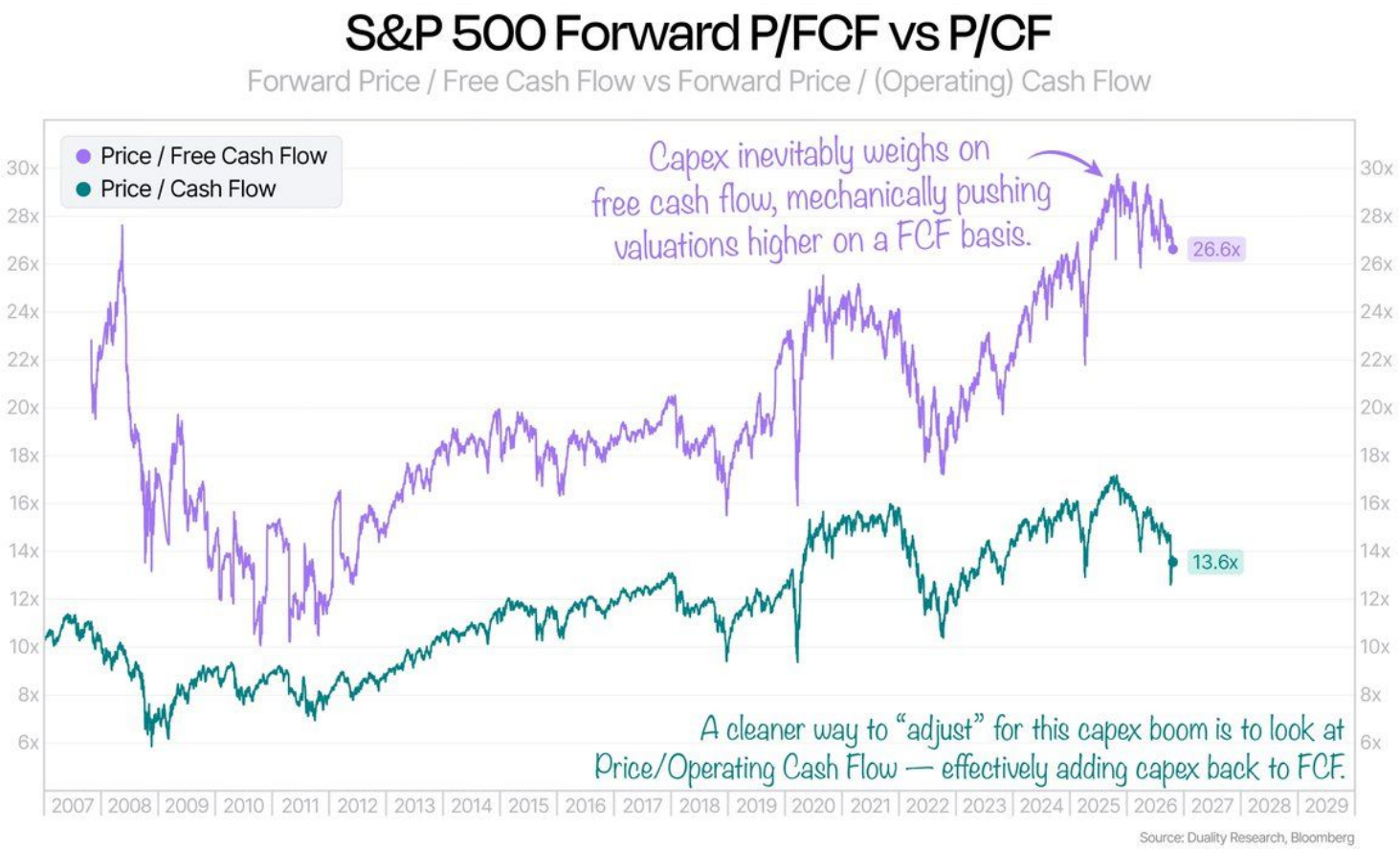
Topic:

1. Valuations are cheap. Is it an earnings bubble.
2. Look at valuations
3. Look at earnings
4. Look at cashflows
5. Where is the money going? Business boom vs consumer boom

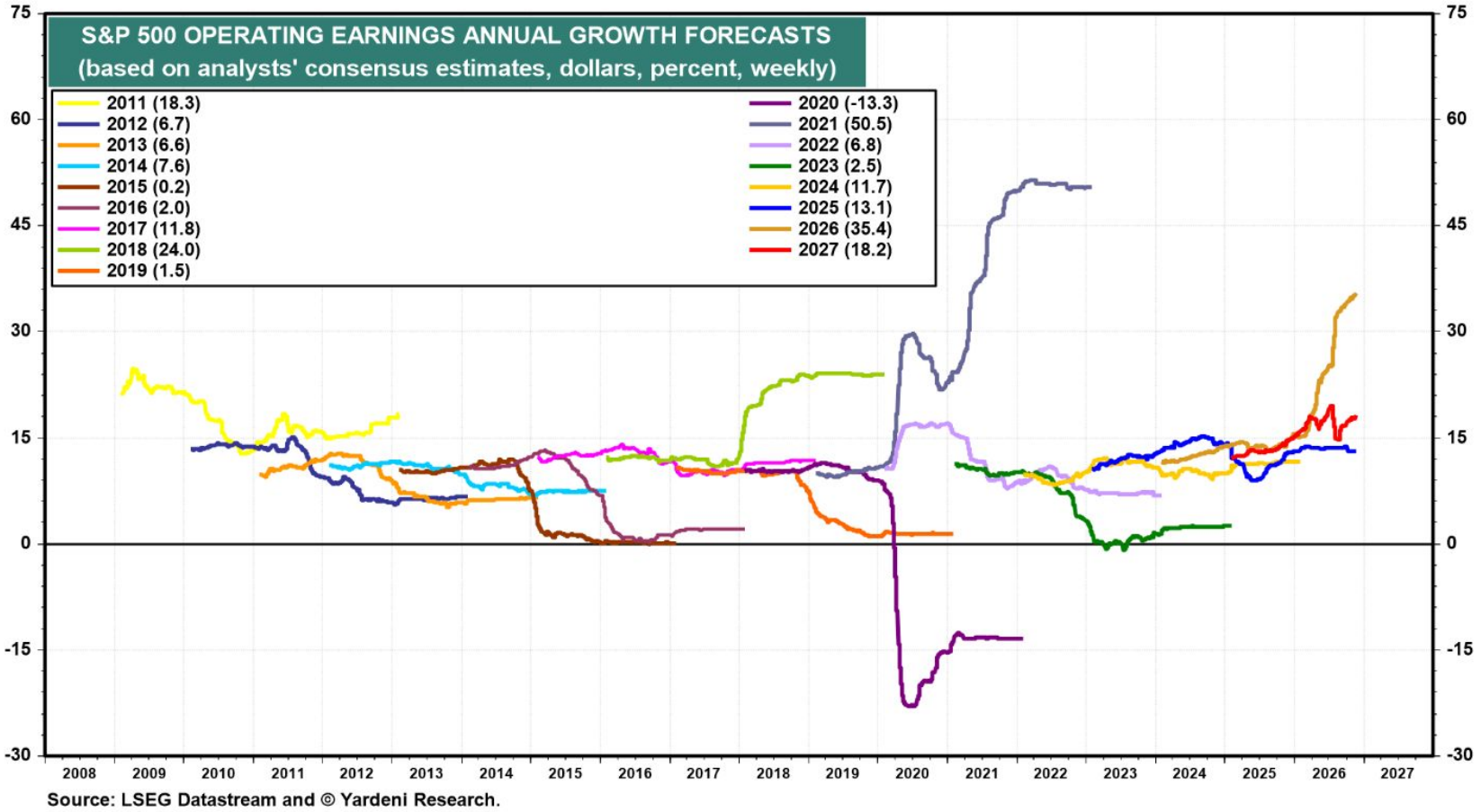
Valuations:


FORWARD P/E RATIOS: MAG-7, LARGECAP & SMIDCAP
(daily)
Recession
Magnificent-7 Forward P/E* (Nov 20 = 18.8)
S&P 500 LargeCap Forward P/E (Nov 25 = 16.4)
S&P 400 MidCap Forward P/E (Nov 25 = 13.5)
S&P 600 SmallCap Forward P/E (Nov 25 = 13.1)
40
35
30
25
20
15
10
5
99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27
Source: LSEG Datastream and © Yardeni Research.
* Magnificent-7 stocks include Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, NVIDIA, and Tesla. Both classes of Alphabet are included.

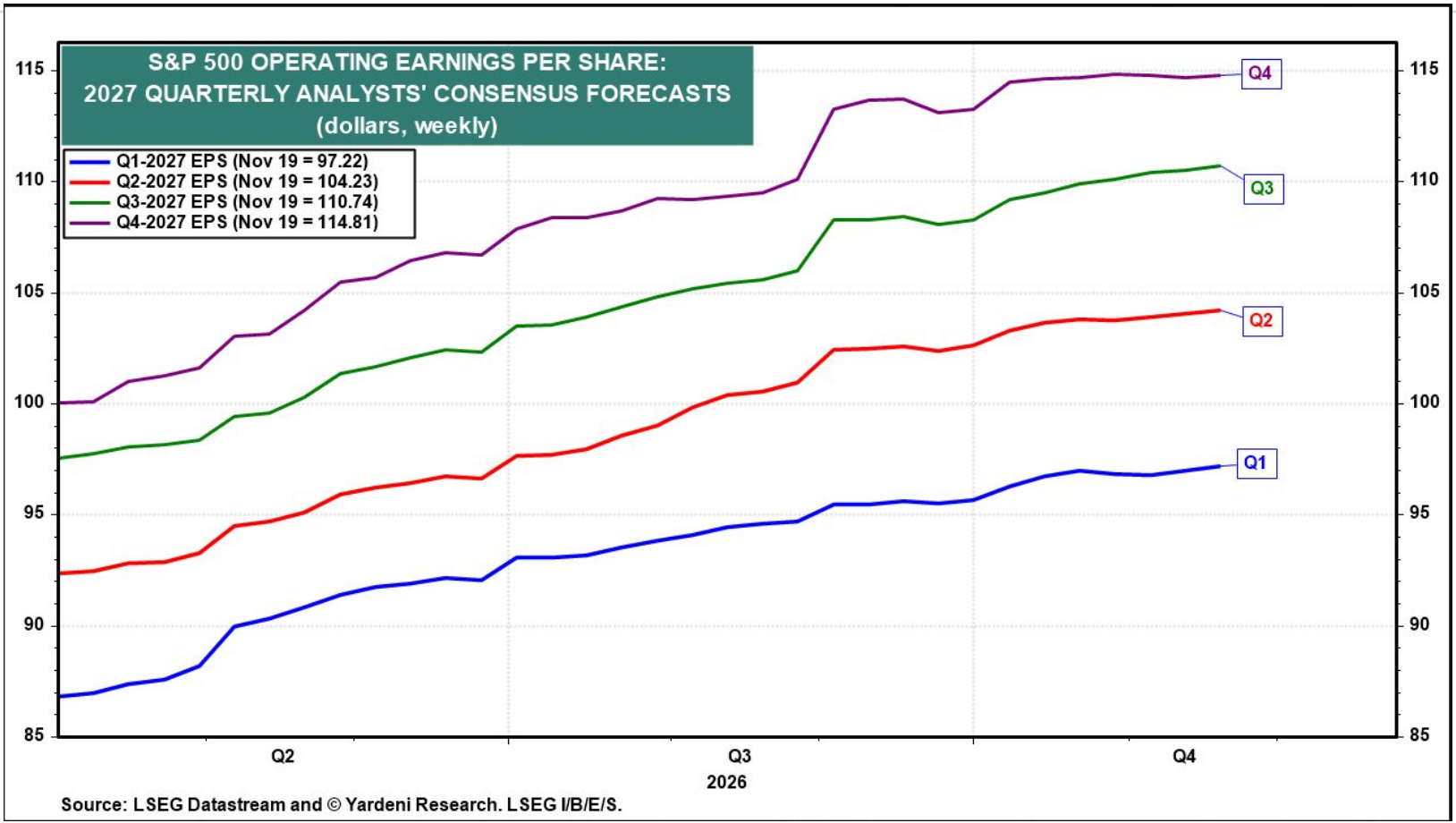
Valuations:


S&P 500 Forward P/FCF vs P/CF
Forward Price / Free Cash Flow vs Forward Price / (Operating) Cash Flow
Price / Free Cash Flow
Price / Cash Flow
Capex inevitably weighs on free cash flow, mechanically pushing valuations higher on a FCF basis.
26.6x
13.6x
A cleaner way to "adjust" for this capex boom is to look at Price/Operating Cash Flow — effectively adding capex back to FCF.
30x
28x
26x
24x
22x
20x
18x
16x
14x
12x
10x
8x
6x
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029
Source: Duality Research, Bloomberg

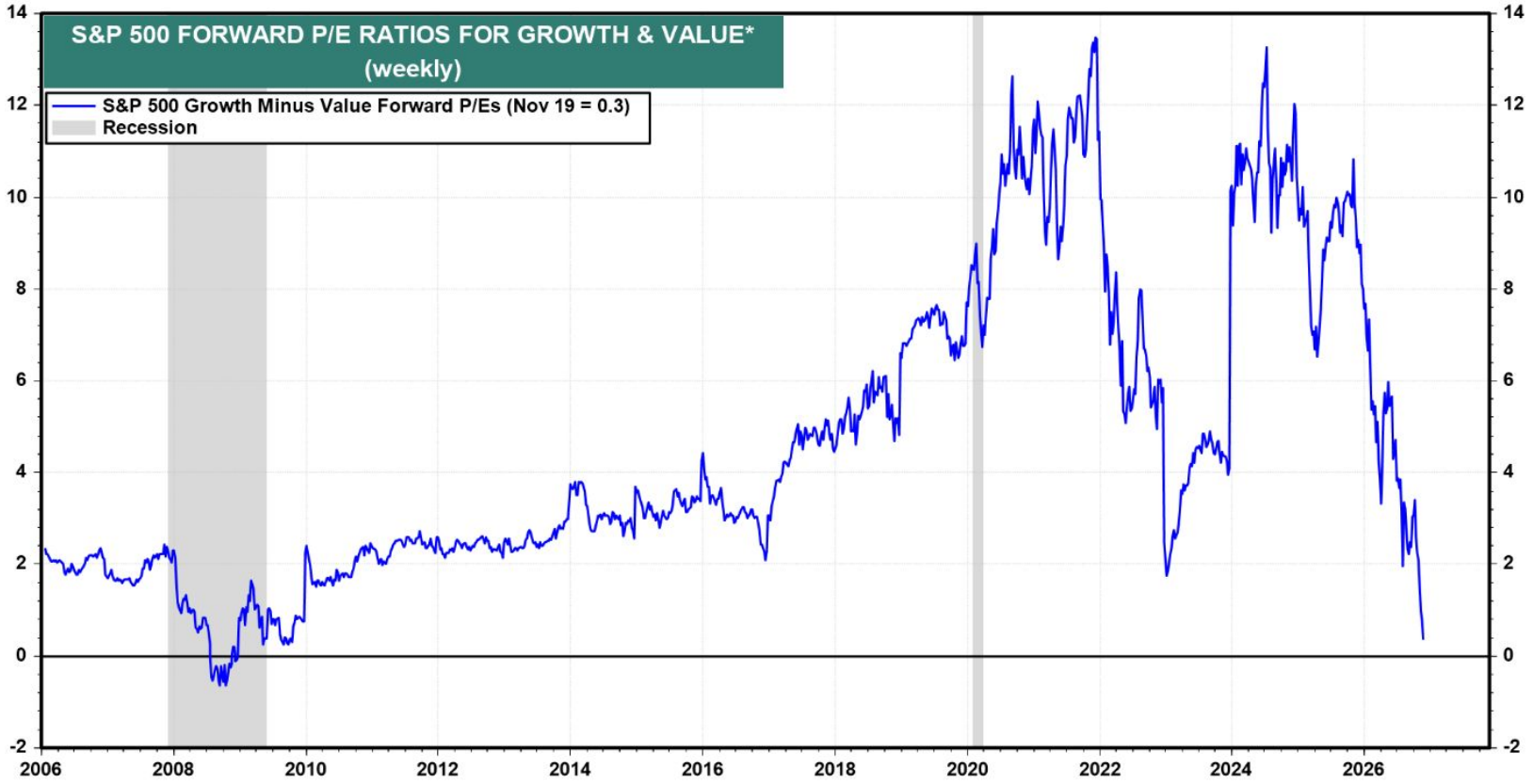
Growth:


S&P 500 OPERATING EARNINGS ANNUAL GROWTH FORECASTS
(based on analysts' consensus estimates, dollars, percent, weekly)
2011 (18.3)
2012 (6.7)
2013 (6.6)
2014 (7.6)
2015 (0.2)
2016 (2.0)
2017 (11.8)
2018 (24.0)
2019 (1.5)
2020 (-13.3)
2021 (50.5)
2022 (6.8)
2023 (2.5)
2024 (11.7)
2025 (13.1)
2026 (35.4)
2027 (18.2)
75
60
45
30
15
0
-15
-30
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
Source: LSEG Datastream and © Yardeni Research.

Growth:


S&P 500 OPERATING EARNINGS PER SHARE:
2027 QUARTERLY ANALYSTS' CONSENSUS FORECASTS
(dollars, weekly)
Q1-2027 EPS (Nov 19 = 97.22)
Q2-2027 EPS (Nov 19 = 104.23)
Q3-2027 EPS (Nov 19 = 110.74)
Q4-2027 EPS (Nov 19 = 114.81)
115
110
105
100
95
90
85
Q4
Q3
Q2
Q1
Q2
Q3
Q4
2026
Source: LSEG Datastream and © Yardeni Research. LSEG I/B/E/S.

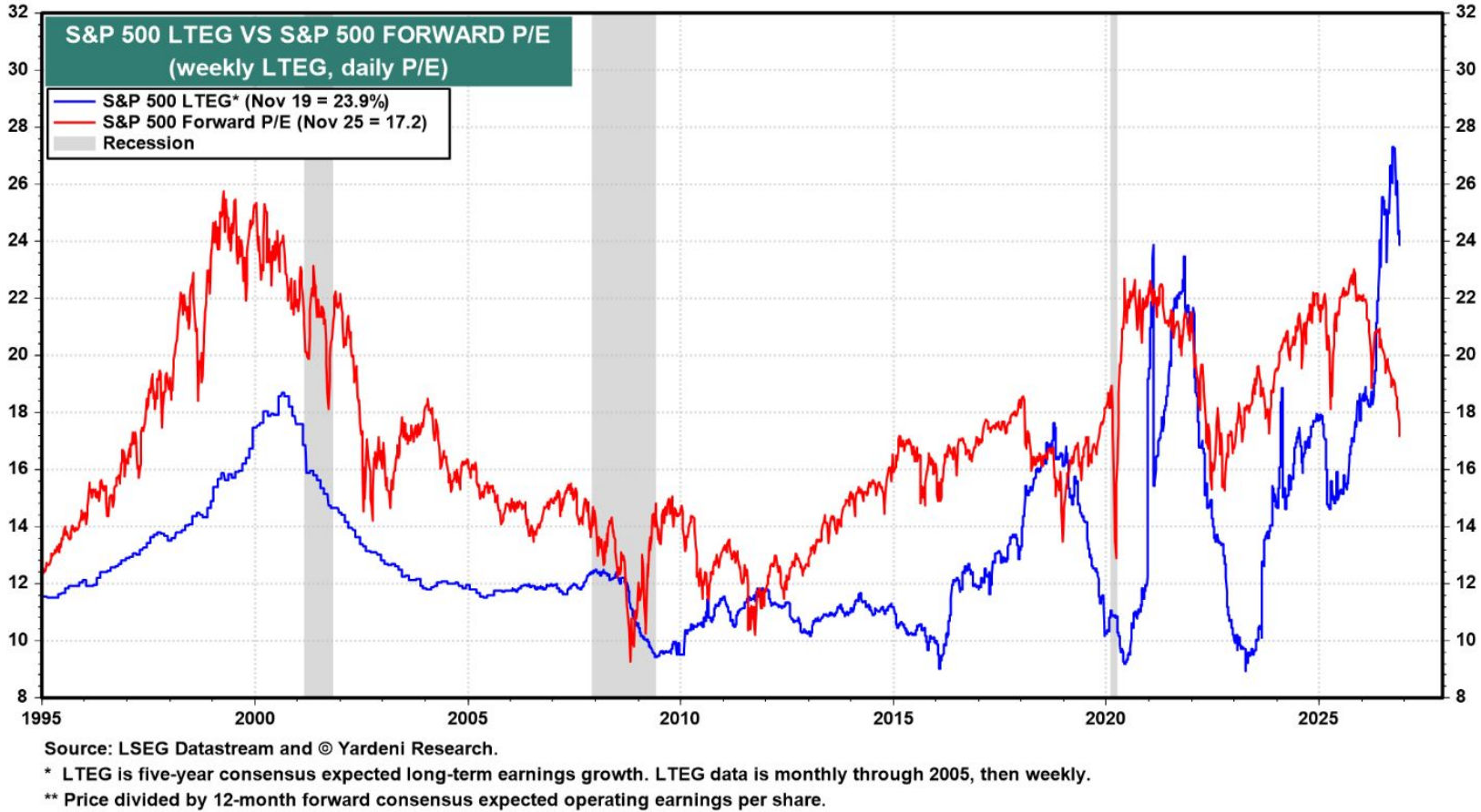
Growth:



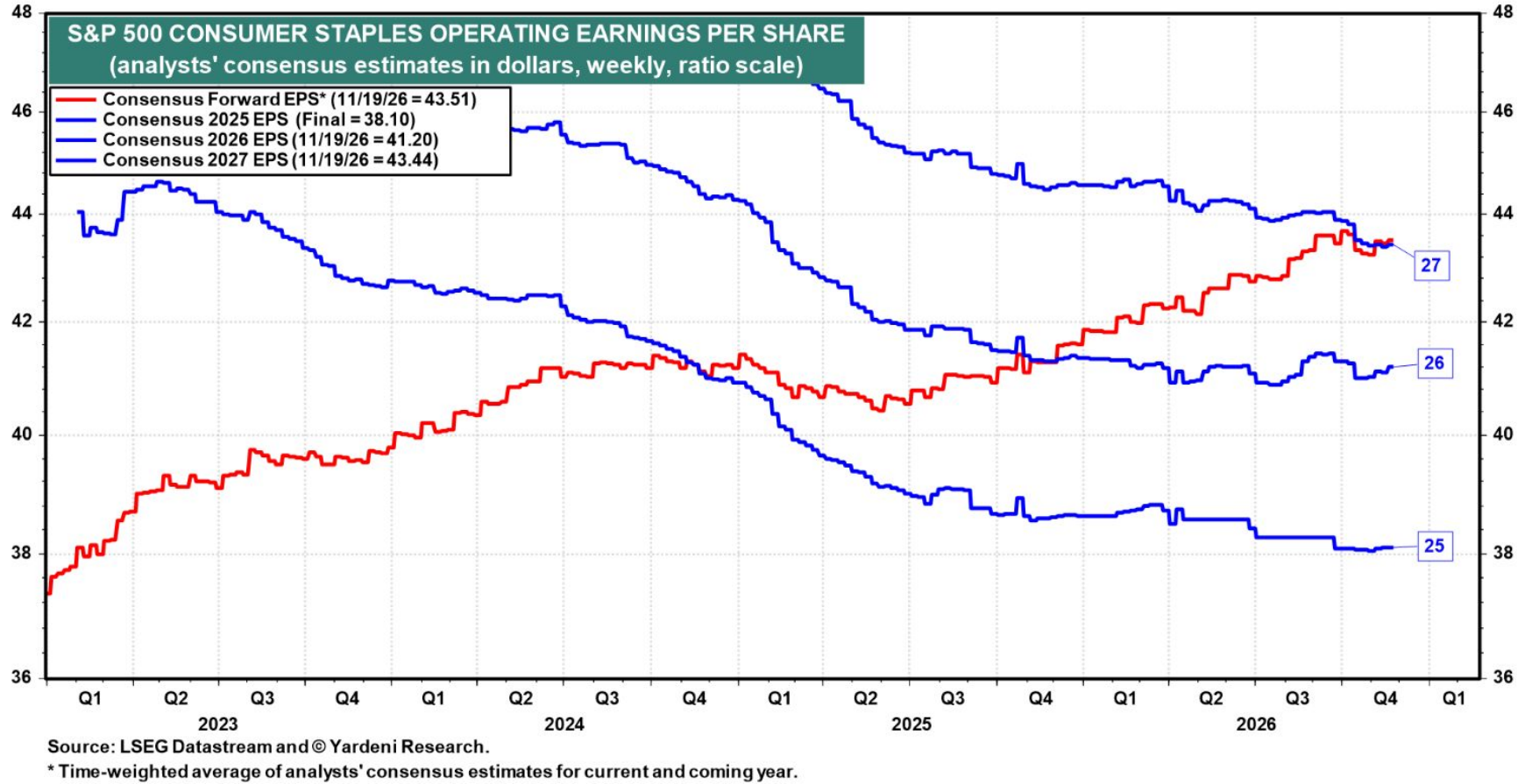
Source: LSEG Datastream and © Yardeni Research.

* Price divided by 12-month (52-week) forward consensus expected operating earnings per share. Monthly data through December 2005, weekly thereafter.

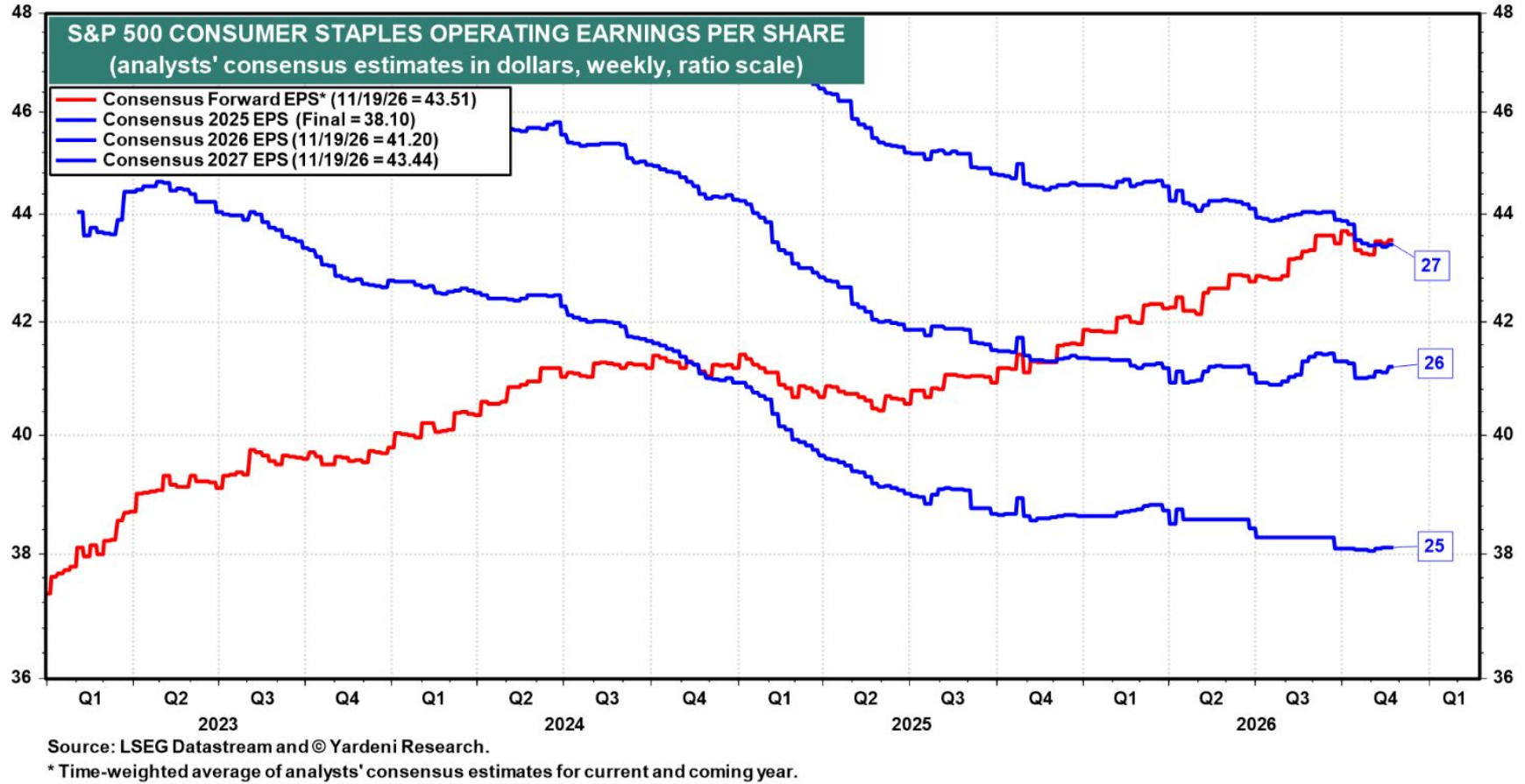
Growth:


S&P 500 LTEG VS S&P 500 FORWARD P/E
(weekly LTEG, daily P/E)
S&P 500 LTEG* (Nov 19 = 23.9%)
S&P 500 Forward P/E (Nov 25 = 17.2)
Recession
32
30
28
26
24
22
20
18
16
14
12
10
8
1995
2000
2005
2010
2015
2020
2025
Source: LSEG Datastream and © Yardeni Research.
* LTEG is five-year consensus expected long-term earnings growth. LTEG data is monthly through 2005, then weekly.
** Price divided by 12-month forward consensus expected operating earnings per share.

Growth:


S&P 500 CONSUMER STAPLES OPERATING EARNINGS PER SHARE
(analysts' consensus estimates in dollars, weekly, ratio scale)
Consensus Forward EPS* (11/19/26 = 43.51)
Consensus 2025 EPS (Final = 38.10)
Consensus 2026 EPS (11/19/26 = 41.20)
Consensus 2027 EPS (11/19/26 = 43.44)
48
46
44
42
40
38
36
27
26
25
Q1
Q2
Q3
Q4
2023
2024
2025
2026
Source: LSEG Datastream and © Yardeni Research.
* Time-weighted average of analysts' consensus estimates for current and coming year.

Growth: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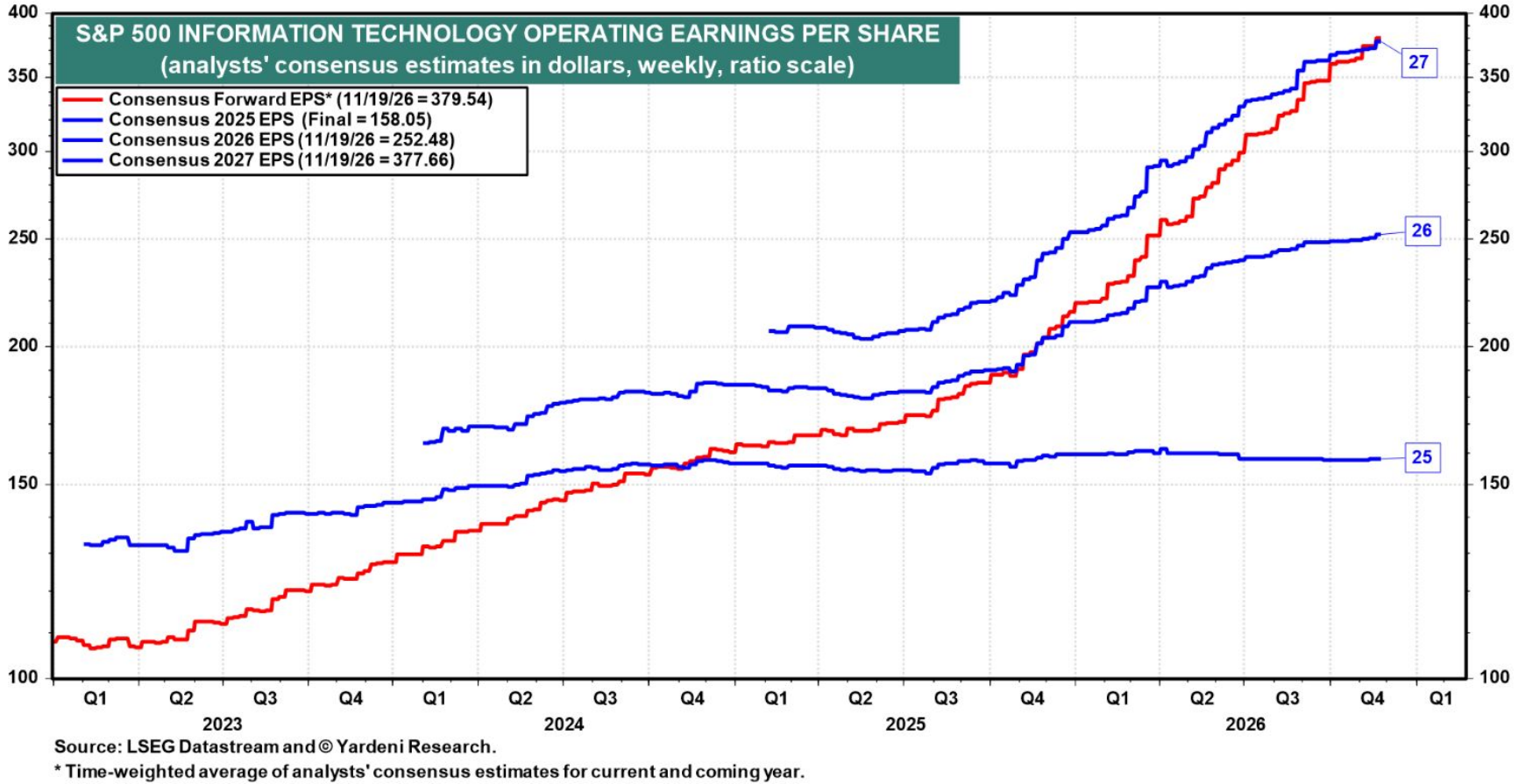
48
46
44
42
40
38
36
27
26
25
Q1
Q2
Q3
Q4
2023
2024
2025
2026
Source: LSEG Datastream and © Yardeni Research.
* Time-weighted average of analysts' consensus estimates for current and coming year.

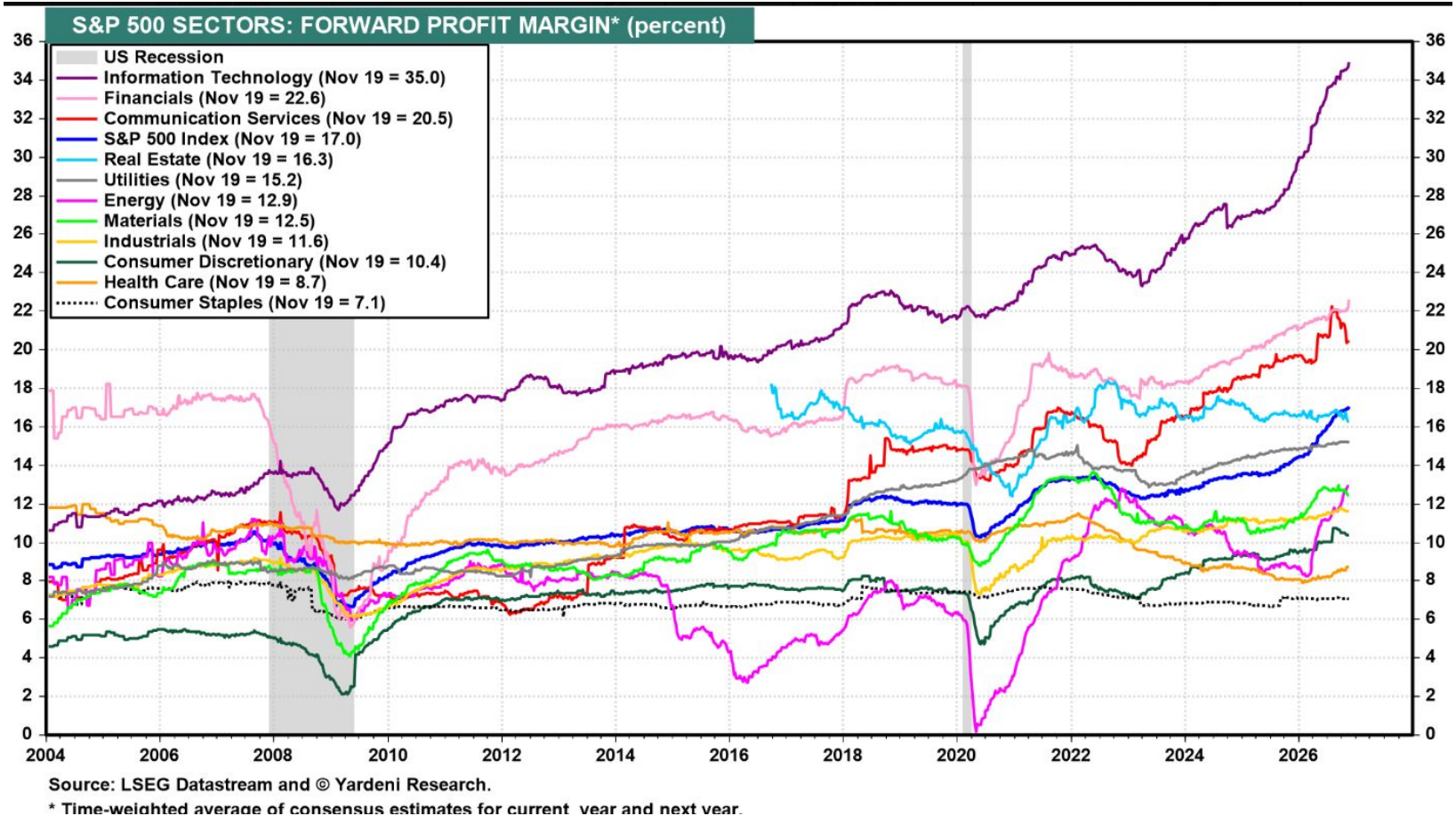
Growth:



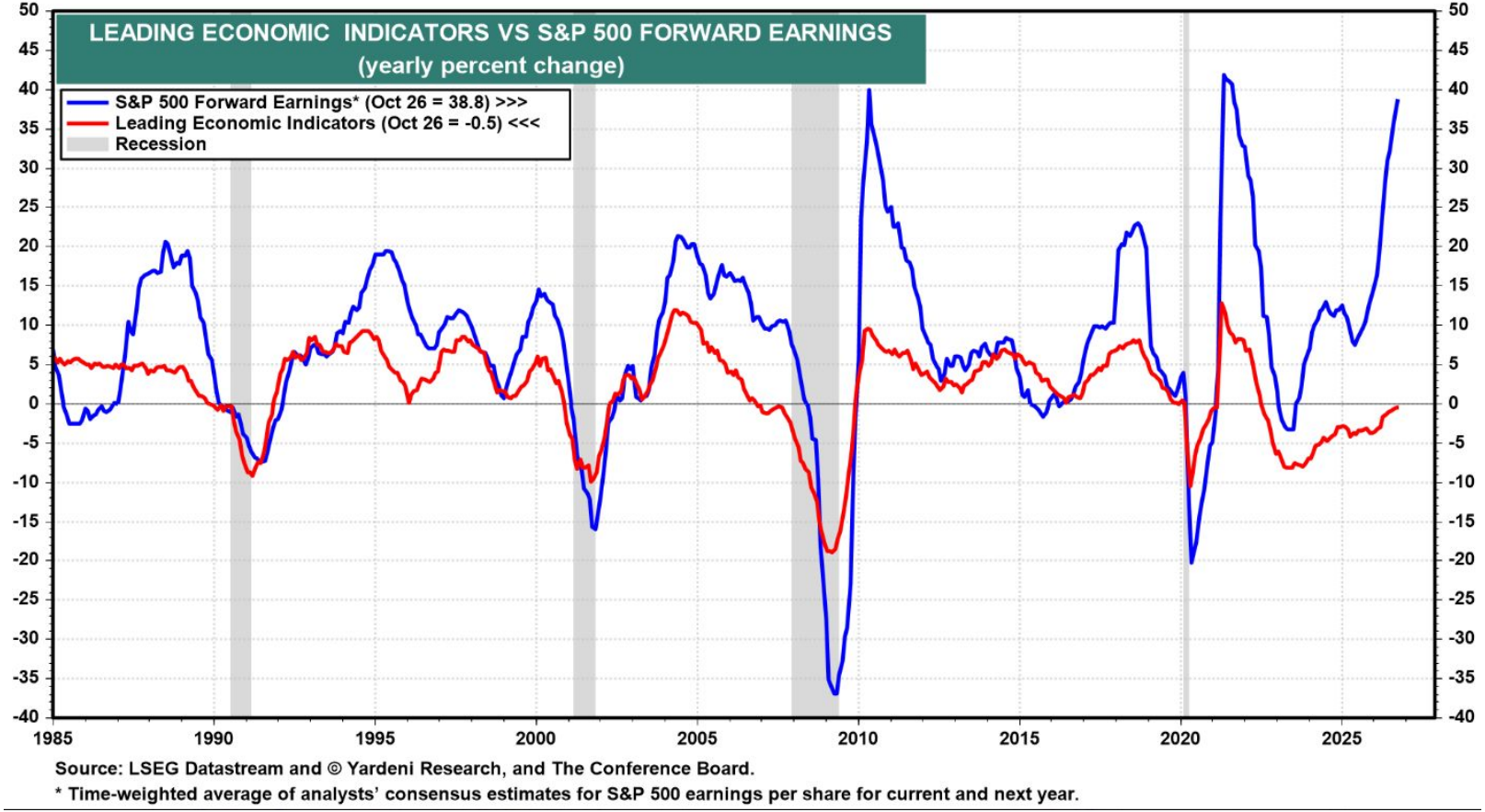
Source: LSEG Datastream and © Yardeni Research.

* Time-weighted average of analysts' consensus estimates for current and coming year.

Margins:


S&P 500 SECTORS: FORWARD PROFIT MARGIN* (percent)
US Recession
Information Technology (Nov 19 = 35.0)
Financials (Nov 19 = 22.6)
Communication Services (Nov 19 = 20.5)
S&P 500 Index (Nov 19 = 17.0)
Real Estate (Nov 19 = 16.3)
Utilities (Nov 19 = 15.2)
Energy (Nov 19 = 12.9)
Materials (Nov 19 = 12.5)
Industrials (Nov 19 = 11.6)
Consumer Discretionary (Nov 19 = 10.4)
Health Care (Nov 19 = 8.7)
Consumer Staples (Nov 19 = 7.1)
0 2 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32 34 36
2004 2006 2008 2010 2012 2014 2016 2018 2020 2022 2024 2026
Source: LSEG Datastream and © Yardeni Research.
* Time-weighted average of consensus estimates for current, year and next year.

Disconnect with economic indicators:



Questions:

1. One company’s profits are another’s costs
2. Question about exposure to consumers vs businesses
3. What are companies doing with productivity? Higher wages, lower prices, higher margins

Lessons for the AI Boom:

There are four major issues that we are monitoring:
1. Will political forces slow the AI capex? Think state legislatures, Texas at the top of the list.
2. Will capital markets slow AI capex? Debt markets to Neoclouds, debt markets to hyperscalers, equity markets to Anthropic and OpenAI.

Slowing capex is a bad thing for NVIDIA, but a good thing for hyperscalers. If no one can build then existing players get outsized profits. So we are taking an each way bet there.

Politically, I'm not sure, but leaning towards the view that it will mostly be political posturing with a few high profile capex scalps but the broader capex regime will be fine. Capital markets I think will be fine while profits are growing - but remain a risk.

3. Will demand for AI training slow down? Forget token prices. $ per GPU hour for 1yr+ contracts is where we are watching.

This is an arms race if capital markets remain open to Anthropic/Open AI then that underpins a lot of demand. And all the other big players have to keep spending to keep up. Weakness here is bad, but if inference remains strong then the cycle can continue with weaker training demand.

4. Will demand for AI inference slow down? Forget token prices. $ per GPU hour for 1yr+ contracts is where we are watching.

What the demand is for AI from the rest of the economy? If there is real weakness (prices would have to more than halve) then the AI trade is over. No real signs of much weakness there. But this is the real key to the end of the cycle.

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