

US Macroscope: Equal-weight S&P 500 P/E appears stretched but is not an imminent cause for concern

The equal-weight S&P 500 ("SPW") P/E has expanded to 17x, which ranks in the 92nd percentile since 1985. Based on our top-down model, the SPW P/E trades 13% above our estimate of fair value (15x). However, following past periods when SPW has been similarly overvalued, the equal-weight S&P 500 has typically continued to rise over the subsequent 3-, 6-, and 12-month periods, albeit with below-average returns. The economic growth environment dictates return outcomes, and our economists expect a strong growth backdrop. However, for investors concerned about overvaluation or risks to the economic outlook, our options strategists note that downside protection appears attractively priced.

Equity valuations have expanded and driven 70% of the S&P 500's YTD return.

The aggregate P/E has increased from 17x in late October to 21x and currently ranks in the 90th percentile since 1985. However, the latest leg of valuation expansion has not been confined to the mega-cap stocks. The equal-weight S&P 500 ("SPW") P/E has also increased from 14x to 17x and now ranks in the 92nd percentile.

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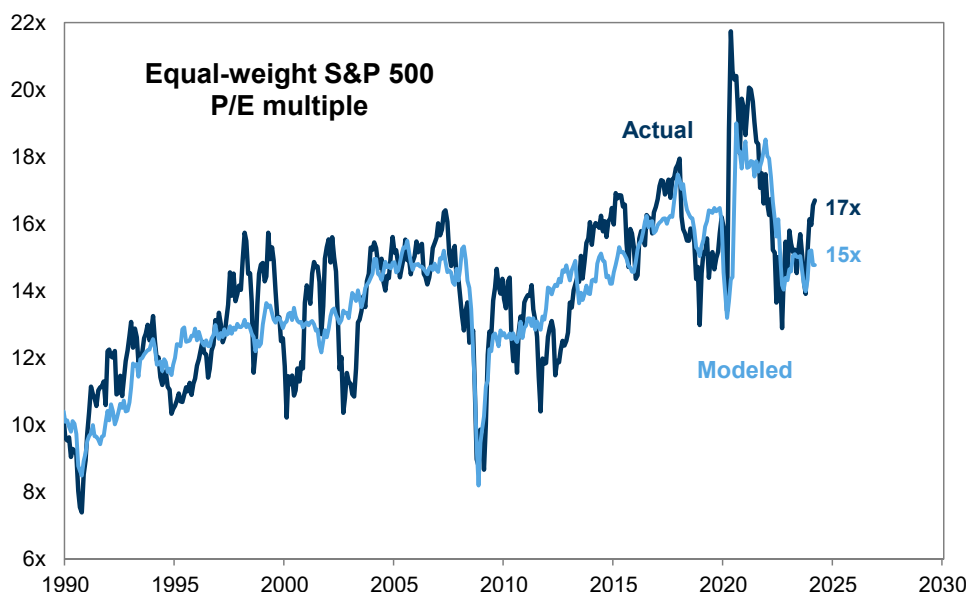
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Exhibit 1: Equal-weight S&P 500 P/E has expanded to 17x



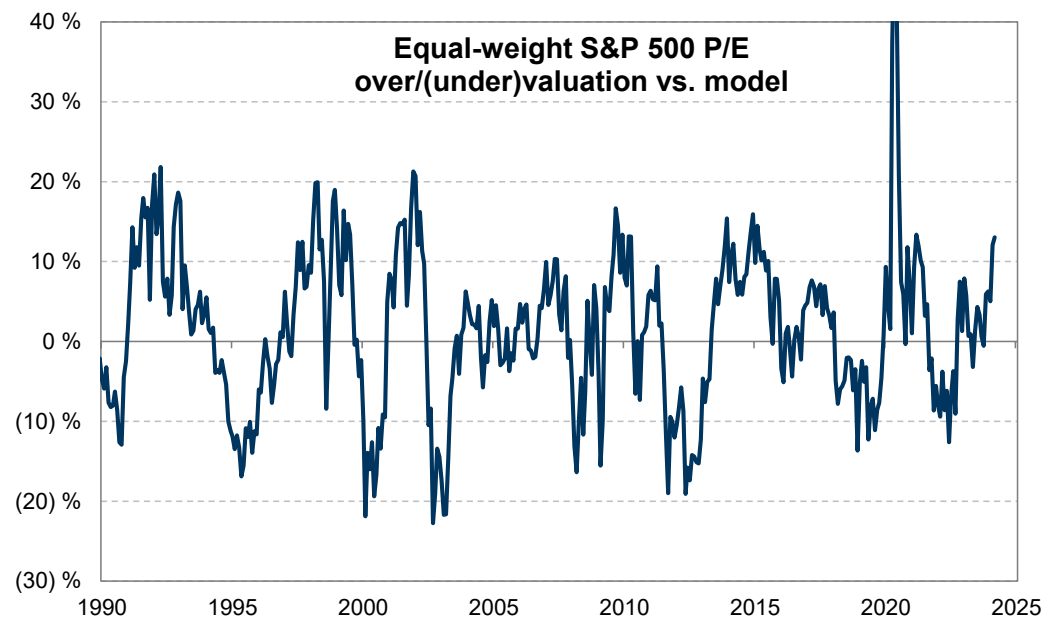
Source: FactSet, Goldman Sachs Global Investment Research

Based on our valuation model, the equal-weight P/E trades 13% above our estimate of "fair value." Our SPW macro valuation model is based on real 10-year

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US Treasury yields, expected earnings growth, the distance of expected inflation from 2%, the tightness of the labor market, and demographics. Based on the current macro backdrop, our model implies a fair value SPW P/E of 15x. To support an SPW P/E multiple close to the current 17x, equity investors would need to be assuming real yields of roughly 0.5% (vs. 1.9% today), a 1.5 pp decline in the unemployment rate from the current rate of 3.9%, a 15% increase in current NTM EPS estimates, or some combination of these outcomes. The tax reform experience in late 2017 provides one recent example with similar dynamics.

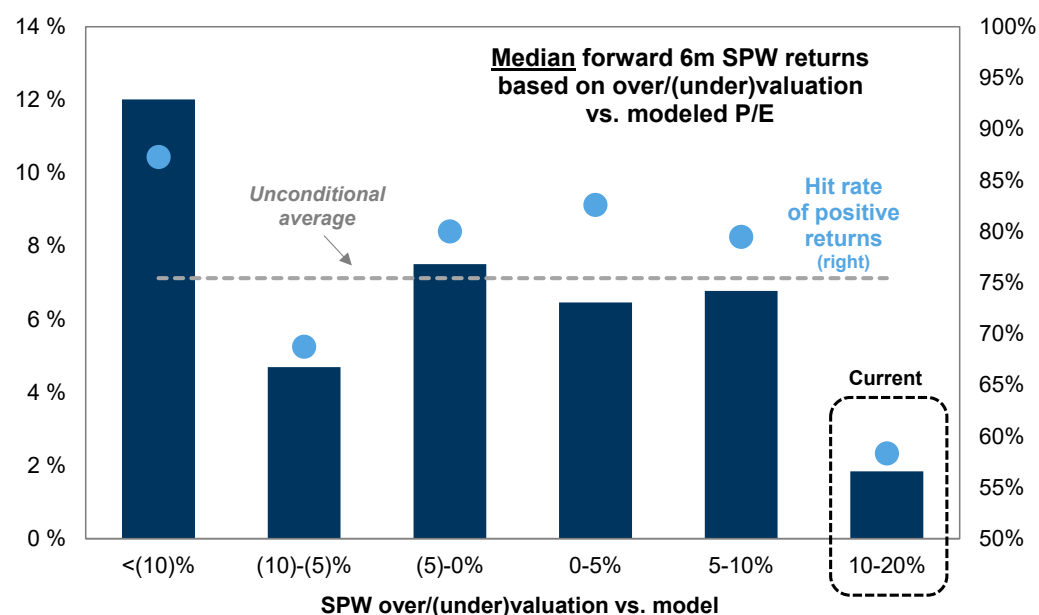
Exhibit 2: Our top-down model suggests the SPW P/E is 13% above fair value



Source: Goldman Sachs Global Investment Research

Overvaluation alone has not historically been cause for imminent concern (Exhibit 3): Since 1990, when the SPW P/E was 10-20% above modeled fair value, the median forward 6-month return was still positive, albeit below the unconditional average. In 15% of months when the SPW traded 10-20% above modeled fair value, the SPW went on to return 2% in the subsequent 6-month period, compared with the average 6-month return of 7%. The hit rate of positive returns dropped to 58%. The forward signal for the cap-weighted S&P 500 is consistent with the equal-weighted S&P 500.

Exhibit 3: Returns are typically positive but below average during periods when SPW is 10-20% overvalued monthly, 1990-2024



Source: Goldman Sachs Global Investment Research

Periods of overvaluation often persist for nearly a year and are typically benign if the subsequent economic growth environment is healthy. The SPW P/E crossed the 10% overvalued threshold in February. During the 9 previous episodes since 1990 in which the SPW first crossed the 10% overvalued threshold, it typically took 4 months to reach peak overvaluation. The two episodes with negative 6-month and 12-month forward returns occurred in 2001 and 2007. During these periods, economic growth averaged less than 1% in the following 12 months and the economy ultimately entered a recession. In other episodes, such as 2020, the macro environment eventually “caught up” with valuations. Returns over a 6-month horizon were similar for the cap-weighted S&P 500.

However, on average, the deviations from fair value eventually close more from the decrease in the *actual* P/E rather than the increase in the *modeled* P/E. The time between crossing the 10% overvaluation threshold and a convergence to or below fair value took 10 months on average. During 6 of the 9 episodes, the actual P/E fell by more than the change in the modeled P/E. Some of these instances were associated with a broader market sell-off, while in other instances the equal-weight S&P 500 “grew into” the multiple via better earnings.

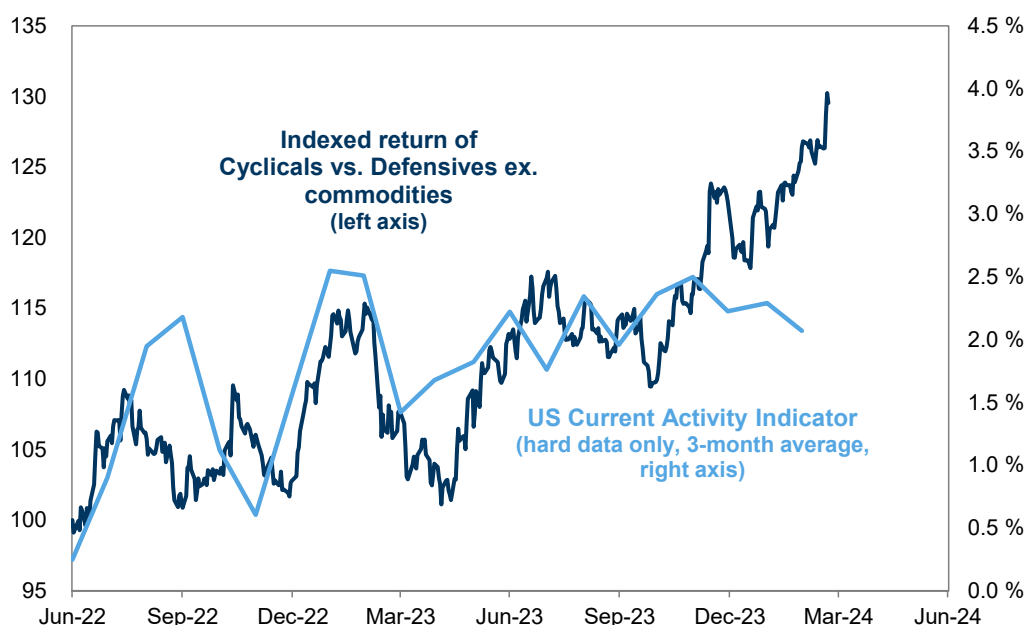
Exhibit 4: Episodes in which SPW P/E first crossed the 10% overvaluation threshold

economic growth based on GS US Current Activity Indicator, maximum drawdown relative to price at first date of 10%+ overvaluation

First date of 10%+ overvaluation	Months to		Forward SPW returns			Average economic growth (12m ahead)	Maximum drawdown in subseq. 6 months	6-month implied SPX volatility
	Peak overvaluation	No overvaluation	3m	6m	12m			
3/31/1991	13	39	1 %	5 %	16 %	2.8 %	(2)%	NA
7/31/1997	9	13	(2)	2	9	4.4	(6)	20
11/30/1998	1	10	2	14	10	4.3	(3)	21
4/30/2001	8	15	(1)	(14)	(3)	0.6	(22)	21
5/31/2007	0	6	(6)	(7)	(10)	0.7	(12)	13
8/31/2009	1	10	7	13	11	3.1	(3)	26
11/30/2013	13	22	5	9	17	3.4	(3)	14
4/30/2020	1	6	12	13	57	8.6	(7)	28
11/30/2020	4	10	10	24	27	5.3	0	20
Median	4	10	2 %	9 %	11 %	3.4 %	(3)%	21
<i>Unconditional</i>			4	7	14		(4)%	17

Source: Goldman Sachs Global Investment Research

Equity investors are pricing a strong economic growth environment. The relative performance of cyclical stocks vs. defensive stocks has surged in recent months as investors have become more confident in the strength of the US economy. Similar to investor expectations, our economists' forecast of real US GDP growth is above consensus in 2024 (2.8% annual average). This baseline forecast suggests little cause for immediate concern despite the overvaluation of SPW. However, a negative growth shock would put this view under stress and could be exacerbated by stretched investor positioning.

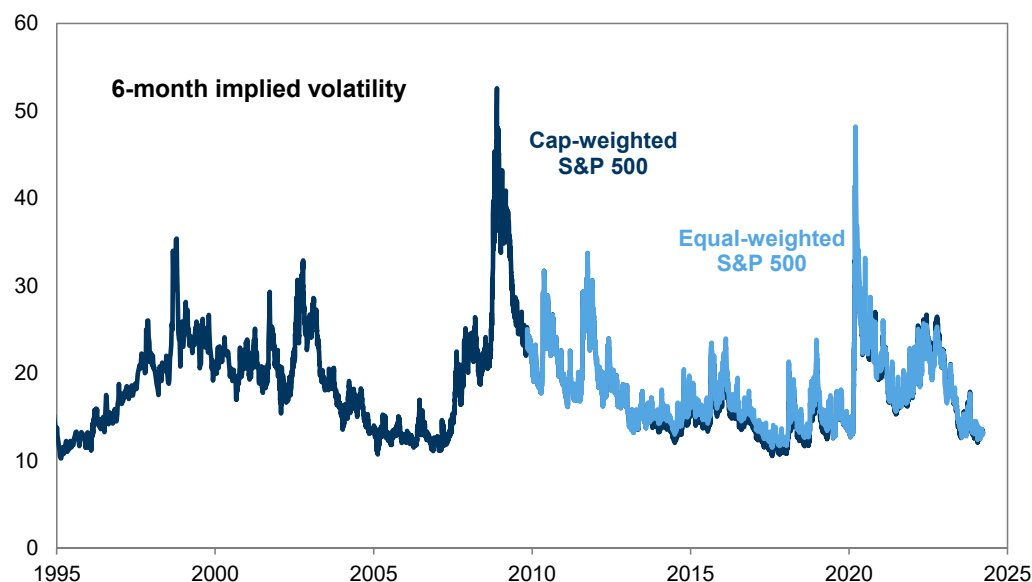
Exhibit 5: Equities are pricing optimism about the growth backdrop

Source: Goldman Sachs Global Investment Research

However, for investors concerned about overvaluation or risks to the economic outlook, downside protection appears attractively priced. Implied 6-month volatility currently equals 13, ranking in the 18th percentile relative to the past 30 years. While

technical factors may be contributing to the low volatility regime today, the current level of implied volatility is 35% lower than the typical episode where the SPW crossed the 10% overvalued threshold (Exhibit 4). Implied volatility for the equal-weighted S&P 500 is similarly low relative to the past 15 years. Our options strategists believe that both upside and downside asymmetry are underpriced. Their model suggests there is a 25% probability of a 5%+ up move in the S&P 500 over the next month, while options are only pricing a 6% probability of that happening. Similarly, the model-implied 24% probability of a 5%+ down move is an even more unusual reading.

Exhibit 6: Current implied volatility is low by historical standards



Source: Goldman Sachs Global Investment Research

In our baseline, we expect the equal-weight S&P 500 P/E to end the year at 15x. In our model, real yields and the stage of the economic cycle, as measured by the gap between the current and natural rate of unemployment, are the two most important drivers of the equal-weight P/E. Our baseline forecast for the equal-weight P/E assumes a tight labor market, inflation converging back towards 2%, solid earnings growth, and real yields that remain close to current levels. In contrast with the equal-weight S&P 500, the aggregate S&P 500 trades close to our estimate fair value, as the largest stocks support a substantial valuation premium. In our baseline, we forecast the aggregate S&P 500 P/E will end the year at roughly 20x.

The interest rate outlook will be key to a sustained move above or below our baseline SPW P/E forecast. We outlined various scenarios around our baseline in our [US Weekly Kickstart](#). In one upside scenario for the equal-weight P/E, a meaningful shift in the Fed outlook could lead real yields lower and a “catch up” in the SPW P/E. On the other hand, a policy-driven increase in bond yields could lead to valuation contraction. With real yields settling above the levels from the past cycle, the higher cost of capital has led investors to scrutinize unprofitable or highly levered equities. We therefore expect investors will remain skeptical of the longest duration, unprofitable pockets of the equity market. Our Long Duration basket (GSTHLDUR) has returned 3% YTD,

compared with 3% for our Short Duration basket (GSTHSDUR) and 6% for the equal-weight S&P 500. We rebalance GSTHLDUR and GSTHSDUR in this report (see Appendix).

Appendix

Exhibit 7: Long Duration basket (GSTHLDUR)
new stocks in basket listed in bold

Ticker	Company	Market Cap (bn)	YTD Return	Sales Growth 2024	Sales Growth 2025	EPS 2024	NTM EV/ Sales	Equity duration (years)
Consumer Discretionary								
RIVN	Rivian Automotive, Inc.	\$ 10	(55)%	10 %	56 %	\$(4.2)	1 x	31.8
LCID	Lucid Group, Inc.	7	(31)	30	134	(1.1)	4	28.4
BKNG	Booking Holdings Inc.	124	3	8	9	175.0	6	24.8
MAR	Marriott International, Inc.	73	12	7	7	9.5	3	24.8
CCL	Carnival Corp.	19	(8)	13	5	1.0	2	24.7
DKNG	DraftKings, Inc.	22	34	31	20	(0.1)	4	24.5
Consumer Staples								
CLX	Clorox Company	19	6	1	3	6.0	3	23.9
FRPT	Freshpet Inc	6	32	25	24	(0.0)	6	23.5
SPB	Spectrum Brands Holdings, Inc.	3	11	(0)	2	4.2	1	23.2
COST	Costco Wholesale Corp.	324	11	6	7	16.5	1	23.1
Energy								
TPL	Texas Pacific Land Corp.	13	10	10	18	60.7	17	22.6
FTI	TechnipFMC plc	11	26	11	13	1.2	1	22.5
Health Care								
ROIV	Roivant Sciences Ltd.	8	(11)	(40)	13	0.5	12	44.6
TDOC	Teladoc Health, Inc.	3	(30)	3	4	(1.0)	1	44.4
MTD	Mettler-Toledo International Inc.	28	9	1	5	39.9	8	27.6
APLS	Apellis Pharmaceuticals, Inc.	7	(7)	97	49	(1.0)	8	26.8
SRPT	Sarepta Therapeutics, Inc.	12	33	50	59	2.5	6	26.3
RARE	Ultragenyx Pharmaceutical, Inc.	4	(5)	18	22	(6.5)	7	26.2
NTRA	Natera, Inc.	11	46	24	18	(2.3)	7	25.0
Industrials								
CHPT	ChargePoint Holdings, Inc.	1	(26)	8	29	(0.7)	1	31.9
LYFT	Lyft, Inc.	8	30	16	12	0.6	1	28.1
PLUG	Plug Power Inc.	2	(26)	18	51	(1.0)	2	25.8
VRSK	Verisk Analytics Inc	33	(3)	7	7	6.5	13	23.8
AXON	Axon Enterprise Inc	24	22	23	21	4.4	12	23.5
BAH	Booz Allen Hamilton Holding Corp.	19	15	10	6	5.8	2	23.4
Information Technology								
WOLF	Wolfspeed Inc	\$ 3	(37)%	16 %	46 %	\$(2.1)	6 x	24.2
GTLB	Gilllab, Inc.	6	(7)	27	25	0.2	11	23.8
S	SentinelOne, Inc.	6	(18)	33	28	(0.0)	7	23.8
VYX	NCR Voyix Corp.	2	(26)	(5)	3	1.0	1	23.8
CFLT	Confluent Inc	7	31	22	24	0.2	8	23.7
NET	Cloudflare Inc	29	15	28	28	0.6	18	23.7
SNOW	Snowflake, Inc.	52	(21)	23	24	0.9	14	23.6
PCOR	Procore Technologies Inc	12	18	20	21	0.7	9	23.6
TEAM	Atlassian Corp	30	(19)	21	22	2.8	10	23.6
MDB	MongoDB, Inc.	26	(14)	17	21	2.6	12	23.6
HUBS	HubSpot, Inc.	32	8	18	19	7.0	11	23.6
CRWD	CrowdStrike Holdings, Inc.	74	27	30	27	3.9	19	23.6
ZS	Zscaler, Inc.	29	(12)	29	25	3.0	11	23.5
MANH	Manhattan Associates, Inc.	15	15	10	12	3.8	15	23.5
APP	AppLovin Corp.	20	82	24	10	2.5	7	23.5
DDOG	Datadog Inc	38	1	21	23	1.4	15	23.5
NVDA	NVIDIA Corp.	2375	92	82	25	24.1	21	23.4
Materials								
SMG	Scotts Miracle-Gro Company	4	15	2	2	3.0	2	26.9
DNA	Ginkgo Bioworks Holdings, Inc.	2	(36)	(11)	39	(0.3)	6	25.2
Communication Services								
RBLX	Roblox Corp.	21	(20)	20	19	(2.1)	5	24.1
SPOT	Spotify Technology SA	52	39	18	13	3.9	3	24.1
TTD	Trade Desk, Inc.	39	22	23	19	1.5	17	23.6
NFLX	Netflix, Inc.	272	29	15	12	17.2	7	23.2
META	Meta Platforms Inc	1107	42	17	12	20.1	8	22.7
Utilities								
AES	AES Corp.	12	(14)	1	5	1.9	3	24.3
GSTHLDUR median		\$ 17	9 %	17 %	19 %	\$ 1.5	7 x	23.8
Russell 1000 median		15	5	4	6	4.6	3	21.9

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 8: Short Duration basket (GSTHSDUR)
new stocks in basket listed in bold

Ticker	Company	Market Cap (bn)	YTD Return	Sales Growth		EPS 2024	NTM EV/ Sales	Equity duration (years)
Consumer Discretionary								
GM	General Motors Company	\$ 50	22 %	0 %	2 %	\$ 8.7	1 x	14.7
F	Ford Motor Company	50	9	2	2	1.8	1	17.2
M	Macy's, Inc.	5	(2)	(3)	(2)	2.7	0	17.5
HOG	Harley-Davidson, Inc.	6	18	(5)	9	4.2	3	17.7
NWL	Newell Brands Inc	3	(11)	(6)	1	0.6	1	18.4
LAD	Lithia Motors, Inc.	8	(10)	17	9	35.9	1	18.4
Consumer Staples								
ACI	Albertsons Companies, Inc.	12	(8)	2	2	2.7	0	14.4
BG	Bunge Global SA	14	(0)	(5)	1	9.4	0	16.2
WBA	Walgreens Boots Alliance, Inc.	18	(20)	4	4	3.3	0	17.3
ADM	Archer-Daniels-Midland Company	32	(13)	(2)	3	5.7	0	17.7
Energy								
APA	APA Corp.	10	(3)	6	11	4.3	2	4.5
CHK	Chesapeake Energy Corp.	11	14	11	67	3.3	1	7.2
Health Care								
VTRS	Viatis, Inc.	14	10	(1)	(2)	2.8	2	13.4
QDEL	QuidelOrtho Corp.	3	(36)	(6)	4	2.6	2	18.0
PINC	Premier, Inc.	3	(3)	0	3	2.3	2	18.0
RPRX	Royalty Pharma Plc	14	9	(9)	10	3.9	10	18.2
NVST	Envista Holdings Corp.	4	(13)	1	4	1.4	2	18.5
PRGO	Perrigo Co. Plc	4	(3)	(0)	5	2.6	2	18.5
MRVI	Maravai Lifesciences Holdings, Inc.	1	30	(6)	11	(0.0)	5	18.6
Industrials								
HTZ	Hertz Global Holdings Inc	2	(26)	3	4	0.5	2	13.9
UAL	United Airlines Holdings, Inc.	15	9	7	6	9.6	1	15.4
AL	Air Lease Corp.	5	18	7	10	4.6	8	16.6
DAL	Delta Air Lines, Inc.	29	13	4	5	6.5	1	17.3
ALK	Alaska Air Group, Inc.	5	2	2	7	4.4	1	17.8
CNHI	CNH Industrial NV	16	3	(14)	1	1.6	2	18.8
Information Technology								
AVT	Avnet, Inc.	\$ 4	(3)%	(4)%	4 %	\$ 5.7	0 x	15.4
ARW	Arrow Electronics, Inc.	7	3	(10)	6	12.0	0	16.1
HPE	Hewlett Packard Enterprise Co.	23	3	1	4	1.9	1	16.7
VSAT	ViaSat, Inc.	2	(38)	18	9	(0.5)	2	16.9
SNX	TD SYNNEX Corp.	9	(2)	2	5	11.9	0	17.7
DXC	DXC Technology Co.	4	(10)	(3)	(2)	3.4	1	18.5
MSI	Motorola Solutions, Inc.	58	11	6	6	12.7	6	19.5
COHR	Coherent Corp.	9	43	3	14	2.3	3	20.1
CRUS	Cirrus Logic, Inc.	5	9	1	3	6.2	3	20.5
ZM	Zoom Video Communications, Inc.	17	(7)	2	4	5.0	3	20.6
SWKS	Skyworks Solutions, Inc.	17	(6)	(3)	8	7.3	4	20.6
GEN	Gen Digital Inc.	14	(4)	6	3	2.2	6	20.7
TWLO	Twilio, Inc.	11	(18)	6	9	2.7	2	20.8
VNT	Vontier Corp	7	29	0	5	3.1	3	20.8
GLW	Corning Inc	28	8	0	6	1.9	3	21.0
INTC	Intel Corp.	177	(17)	6	11	1.4	3	21.0
LFUS	Littelfuse, Inc.	6	(13)	(6)	8	9.3	3	21.1
Materials								
MOS	Mosaic Company	10	(12)	(9)	(2)	3.1	1	14.7
ALB	Albemarle Corp.	14	(18)	(39)	18	4.4	3	16.5
Communication Services								
PARA	Paramount Global	8	(22)	4	1	1.1	1	13.7
TKO	TKO Group Holdings, Inc.	7	5	2	12	2.2	5	19.6
VZ	Verizon Communications Inc.	172	10	1	1	4.6	3	19.6
FYBR	Frontier Communications Parent, Inc.	6	(6)	0	2	(0.1)	3	20.0
FOXA	Fox Corp.	14	3	1	3	3.5	1	20.3
Utilities								
HE	Hawaiian Electric Industries, Inc.	1	(22)	6	1	2.1	1	14.6
GSTHSDUR median		\$ 10	(2)%	1 %	4 %	\$ 3.2	2 x	17.9
Russell 1000 median		15	5	4	6	4.6	3	21.9

Source: FactSet, Goldman Sachs Global Investment Research

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Reg AC

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