

# CAPACITY®

Market Perspective  
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Happy New Year!

How can we craft a Market Perspective in the face of so many crosscurrents? My answer is to go back to the fundamentals of valuation and cash flow. Here are a few observations:

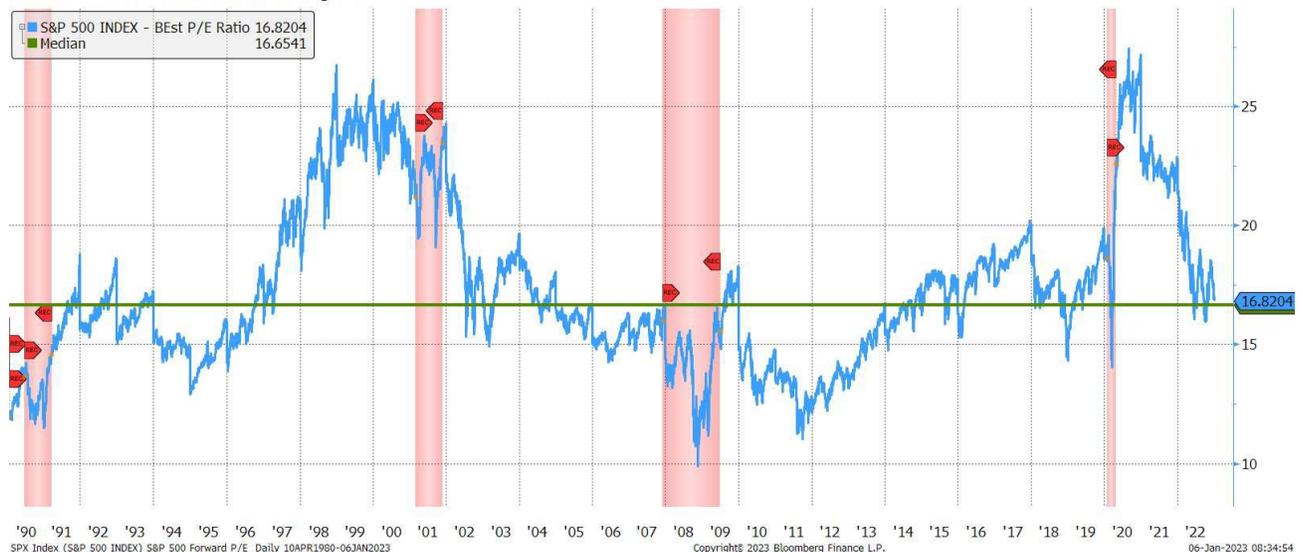
1. While they've come down, broad stock valuations remain above long-term averages.

## US Corporate Market Cap % GDP



2. Similarly, P/E ratios remain elevated, with the further risk that earnings could disappoint.

## S&P 500 Forward P/E



3. Finding the right valuation metric on the Fixed Income side is more difficult. However, the Fed has clearly told us they're going to raise Short-Term interest rates to 5% and hold them there for a long time. Here's a graph of both the two-year and ten-year Treasury yields. Clearly, the Treasury yields have some distance to travel upwards (absent an even more inverted yield curve), given the Fed's target.



No one can predict short-term market movements. However, these valuation parameters, together with the macroeconomic headwinds facing the market, leads me to believe that risk is still disproportionate to the downside.

Best wishes for happy, healthy and prosperous New Year!

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