

The Outlook: October 3, 2025

"It's so high! What shall we do?" . . . The usual thing.

"The market just goes up, up, up! Valuations are sky-high! Surely it's a bubble . . . shouldn't we get out?"

If those thoughts haven't crossed our minds, as investors, as we gaze with some awe on the rocket rises of many of our stocks . . . then we probably don't watch TV, read the papers, surf the internet or tune into social media. Hmm. That's a wonderful list of good things to stop doing . . . but we're all human and we won't, so we'd better just face those thoughts and have it out with them. Let's glance at a picture or two.

Not Inflating Quite Like a Bubble

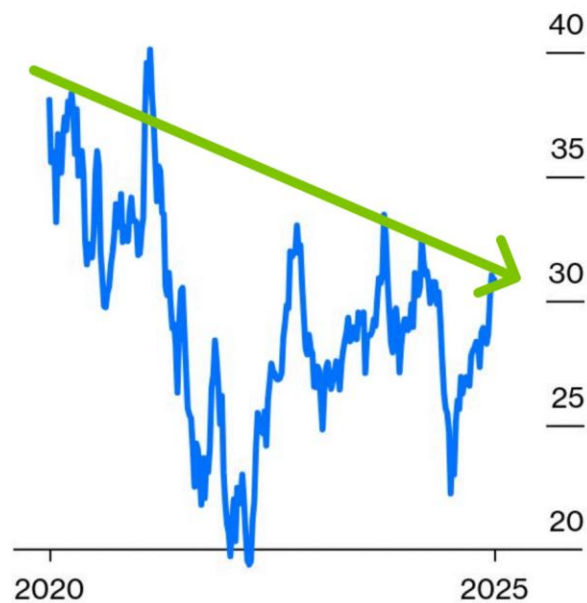
Forward multiples are high, but they haven't expanded

■ S&P 500 Forward P/E ■ S&P 500 Ex Tech & Comms Forward P/e

S&P 500 Indexes



Bloomberg Magnificent Seven Index



Source: Bloomberg

Note: Earnings on Blended 12-Month Forward Basis

Bloomberg Opinion

That's a good picture whose title says it all. Valuations are in fact no higher than they were five years ago, before the Lockdown Bear Market. There's more. Valuations are, in fact, noticeably lower than they were . . . especially valuations of those Celebrity Techs, the Magnificent Seven. We wouldn't have thought so, would we? Screaming headlines—"Bubble! Watch Out Below!"—will do that to us. They give us impressions which very seldom fit the facts. One more picture.

S&P 500 Price to Sales Ratio: 1991-Present



S&P 500 Equal Weight Price to Sales Ratio: 2010-Present



The investment world has dozens of ways of looking at “valuation.” That top one was the classic price/earnings ratio. The picture above is another: price-to-sales. The red arrow up top certainly seems to back up the screaming headlines. The “big market’s” price-to-sales ratio is 3.33 times . . . much higher than any time in the last 35 years. All right, that’s part of the picture. Let’s look at more of it. The bottom picture with its green arrow tells us that at today’s 1.66, the price-to-sales ratio of the vast majority of its 500 giant companies is . . . a little bit high, but not unusual at all, over the last decade or more.

That picture is just another way of noting something which the investment world has indeed caught onto, over the last few years. The “market” (S&P 500) has become a misleading statistic. We all thought it told us what “most” big companies (or at least the “typical” big company) was doing. Not anymore. The biggest handful of companies are so huge, now, that they dominate all the figures connected to the S&P 500 Index. The “equal-weighted” S&P 500 with that green arrow is needed, now, to give us any sense of what the “other 493 companies” are doing, how they’re valued by the market, and so on.

Let’s go right to the bottom line.

The vast market betting crowd acts silly all the time. There is never a moment when it isn’t valuing some companies as if they’re, well, dead meat; and others as if they’ve invented eternal life. A nice example is the soy burger company, Beyond Meat. It got both treatments over the past few years: first, eternal life; now, dead meat. (The dead meat value looks right, unfortunately.) But the betting crowd always piles on to every headline impression. If the current news is bad, the company’s value gets trampled. If the news is good, the company’s value rockets toward the moon. The overwhelming majority of the time, the market crowd is, yes, “dead wrong.” It always goes too far, eventually, both up and down.

So when we investors ask ourselves, today, “Will this rollercoaster stop climbing and plunge down, one day?”, the answer is: “Of course it will. It always has, always will.” But the question that matters, of course, is: “What should we do about it?”

That is an easy question with a clear answer . . . but it’s a hard answer to live with. “Nothing.” Not when we own exceptionally strong companies which are certainly carving out exciting and impressive roads to high-performing futures. And especially not when most of our companies are not, in fact, particularly “over-valued” compared to history, nor compared to their nearly-certain long-term earnings and cash payout potentials. Micron, at the moment, trades at 11 times next year’s earnings . . . after all this rocket ride we’ve been watching with wide eyes lately. As Theresa’s Inside report told us, this afternoon, this is a company which is both extremely strong and whose business is performing extremely well. A few short months ago, the betting crowd valued Micron at \$61/share and about 5 times any reasonable estimate of future earnings. That was silly. The market does that. Micron’s hard, cold facts kept showing up, though, and as always, the crowd finally had to acknowledge them . . . and it still hasn’t given those facts their reasonable valuation.

There is such a thing as an entire market valued at such ridiculous levels that it’s downright dangerous . . . because it might take years to regain those values once the betting crowd clobbers them. That was the Dotcom Bubble. Cisco went for 100 times earnings, and Oracle for 90 times. Today, Nvidia trades at 33 times, like Microsoft . . . and our others are not close to those heights. 33 times earnings is not 100 times earnings. The crowd can clobber the market, or any company, at any times earnings . . . but it can’t keep ‘em down very long, when the businesses are outstanding and the valuations are far from “ridiculous”. So, “What should we do?” The usual thing: buckle our seatbelts and ride the rollercoaster.

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