

# Elevated US equity valuations look justified

UBS House View - **Daily US**

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## From the studio

**Video:** [CIO's Sundeep Gantori and Allen Pu on Chinese tech earnings and more](#) (3 min)

**Podcast:** [Investors Club – the US equity outlook with CIO's Matt Tormey](#) (8 min)

**Video:** [Buy equities on dips – Opportunities in a rate-cut environment](#) (8 min)

## What to watch 5 September:

- US August jobs report
- Federal Reserve's Goolsbee speaks
- France July trade balance
- Italian retail sales

## Thought of the day

The S&P 500 rose 0.5% on Wednesday, recovering from a recent bout of negative sentiment thanks to a favorable antitrust ruling for megacap tech and further dovish comments from the Federal Reserve. Signs of a cooling labor market, with a fall in job openings, added to confidence that the Fed will cut rates later this month. The central bank's latest Beige Book, which tracks regional conditions, reported that seven of the 12 Fed districts reported that "firms were hesitant to hire workers because of weaker demand or uncertainty." St. Louis Fed President Alberto Musalem said that he expected the labor market "to gradually cool and remain near full employment with risks tilted to the downside."

After Wednesday's rebound, the S&P 500 is again up close to 10% so far this year. A 1.9% advance in August marked the fourth consecutive month of gains—capping a robust summer for US stocks.

That said, the rally has also pushed already elevated valuations even higher. The S&P 500 now trades at around 22 times 12-month forward earnings, a top 5% reading since 1985. This has caused some anxiety about whether stocks have become too expensive.

But we don't see valuations as a reason to exit the equity market, and our outlook remains positive.

**Historically, valuations have not had a strong relationship with returns over the following 12 months.** To underscore our point that valuations are only one piece of the puzzle, we looked at the calendar year performance when the S&P 500 forward P/E at the start of the year was above 21 times. Including this year, start-of-the-year valuations have

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only been this high five times since 1950. Returns in these years have been varied.

**Strong earnings momentum and easing Fed policy have tended to help stocks advance despite more demanding valuations, based on our analysis.**

While the P/E ratio started both 1999 and 2021 above 21 times, stocks performed well in both these years owing to strong earnings growth and a supportive Fed. In contrast, stocks struggled in 2000 and 2022 as earnings momentum stagnated, and the Fed raised interest rates to slow down the economy.

**This analysis bodes well for the current outlook, given the solid economic earnings backdrop, along with the expectation of Fed rate cuts resuming later this month.**

On the economic front, consumer spending remains supported by minimal job losses. Fed rate cuts should boost cyclical areas, and corporate investment incentives in the One Big Beautiful Bill (OBBB) are also helpful. Big tech companies indicated that AI investment will continue into next year. Our forecast is for earnings growth of 8% for the S&P 500 this year and 7.5% in 2026.

So, high valuations are not a clear signal for next-12-month returns. Instead, the Fed and earnings are usually more important. Valuations can appear elevated for extended periods. Ultimately, a negative catalyst is needed to drive a material derating, which we don't believe is currently on the horizon. We believe there will be further gains from today's levels over the next 6-12 months. Our year-end S&P 500 price target is 6,600 and our June 2026 target is 6,800. Any market pullbacks would likely present buying opportunities, in our view.

**Caught our attention**

**US job openings decline in July.** According to the latest Job Openings and Labor Turnover Survey (JOLTS), job openings fell to 7.18 million in July, below consensus estimates and down from a revised 7.36 million in June, marking the lowest level since September 2024. The job openings rate slipped slightly, and the job-to-jobless ratio fell below 1.0 for the first time since April 2021. The quits rate, a key measure of worker confidence, held steady at 2%, while layoffs and discharges edged up above expectations. Meanwhile, the Federal Reserve's Beige Book reported mostly flat economic activity across the country, with elevated uncertainty weighing on spending and hiring decisions. Survey respondents said that trade policy remains a key concern, with some businesses increasingly passing on higher costs to consumers. Labor demand softened further, with flat employment and modest wage growth reported in most districts.

*Our view:* Both the July JOLTS data and the Fed's Beige Book reinforce the narrative of a softening labor market. While the unemployment rate remains low, recent data point to a slackening in labor demand, including declining job openings and rising layoffs. We believe risks of falling employment are likely to outweigh lingering inflation concerns in the Fed's decision-making at the 16-17 September FOMC meeting. Investors will focus on Friday's US employment report, the final major labor data before the meeting, as Chair Powell has emphasized that labor conditions could deteriorate quickly if layoffs mount. Against this backdrop, we expect the Fed to cut rates by 100 basis points, starting in September, as policymakers prioritize stabilizing the labor market. In this environment, we continue to favor high-quality fixed income.

**Market update**

04 Sep 2025

Percent change. For volatility indices, net change in points. For valuation, change in price to earnings per share. For yields, net change in bps

	Current (*)	1D	5D	1M	YTD
VIX Index	16.2	-0	+1	-1	-1
S&P 500	6448	+0.5%	-0.3%	+1.9%	+9.6%
S&P 500 trailing P/E (**)	25x		+0.4x	+0.0x	+0.4x
S&P 500 forward P/E (**)	22.4x		+0.4x	+0.0x	+0.9x
S&P 500 forward P/E ex-Mag 7 (**)	20.1x		+0.3x	-0.1x	+1.2x
Russell 2000	2350	-0.1%	-0.4%	+6.2%	+5.4%
Euro Stoxx 600	547	+0.1%	-1.2%	+1.2%	+7.8%
Shanghai Composite	3766	-1.3%	-2.0%	+5.1%	+12.4%
US 10-year Treasury	4.21	-1	+0	+1	-36
US 2-year Treasury	3.61	-1	-2	-6	-63
Germany's 10-year Bund	2.72	-2	+3	+10	+36
Germany's 2-year Bund	1.96	-0	+3	+6	-12
EURUSD	1.165	-0.1%	-0.3%	+0.7%	+12.5%
EURCHF	0.94	-0.0%	+0.2%	-0.3%	-0.2%
USDCHF	0.80	+0.1%	+0.4%	-0.4%	-11.3%
USDJPY	148	+0.1%	+0.9%	+0.8%	-5.7%
Brent crude, USD/bbl	67	-1.0%	-2.5%	-2.7%	-10.4%
Gold, USD/oz	3566	-1.1%	+4.7%	+5.7%	+35.0%

(\*) or last close if not available, (\*\*) weekly update

Source: Bloomberg, Factset, UBS

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## Appendix

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