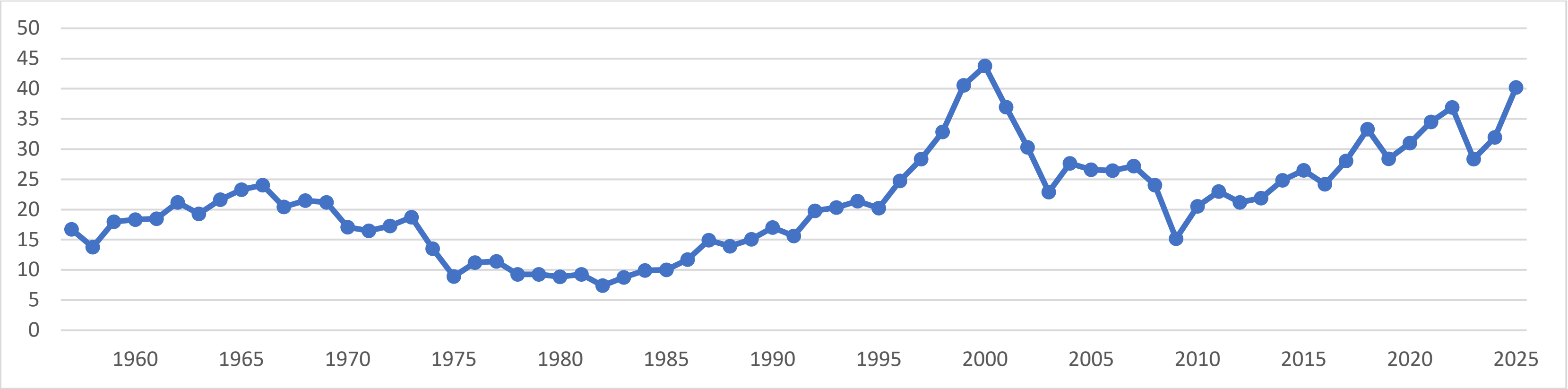
Shiller P/E Reaches 40: Context and Considerations — October 20, 2025

The Standard & Poor's 500 ("S&P 500") Index measures the collective market value of 500 large companies listed on U.S. exchanges. In the 1990s, economist Robert J. Shiller popularized[1] a method for assessing the collective market values of those companies: a cyclically adjusted price-to-earnings ("CAPE") ratio (the "Shiller P/E"). **The Shiller P/E compares the market value of the S&P 500 Index to an inflation-adjusted average of those companies' earnings over the previous 10 years.** Below is a graph of year-end Shiller P/E values from 1957 to 2024 (which average about 21), and its value (of about 40) on October 20, 2025.[2]



Some analysts believe the current Shiller P/E indicates that U.S. common stocks are (collectively) overvalued. While that may be true, the Shiller P/E has limitations.[3] For example, it does not adjust for: (i) expected future earnings growth; (ii) interest rate levels – when rates are lower, higher valuations may be justified as bonds become less attractive; (iii) changes in the S&P 500's sector composition, particularly the shift toward higher-margin technology companies that historically command premium valuations; (iv) share buybacks, which can make shares more valuable in ways that are not adequately reflected in historic earnings; or (v) evolving accounting standards that impact historical comparability.

So, while the Shiller P/E provides important insights, investors should also consider its limitations and other valuation methods.

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Kevil Quinley, MBA
Founder | Manager

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[1] Shiller, Robert J., *Irrational Exuberance*, Princeton University Press, 2000 (3rd ed. 2015). See also: Campbell, John Y., and Robert J. Shiller, "Valuation Ratios and the Long-Run Stock Market Outlook," *Journal of Portfolio Management* 24, no. 2 (1998): 11-26.

[2] Source: *Shiller PE Ratio*, Multpl.com, https://multpl.com/shiller-pe (accessed October 20, 2025). Multpl.com compiles data from Robert J. Shiller's research.

[3] For a discussion of Shiller P/E limitations, see: Siegel, Jeremy J., "The Shiller CAPE Ratio: A New Look," *Financial Analysts Journal* 72, no. 3 (2016): 41-50.