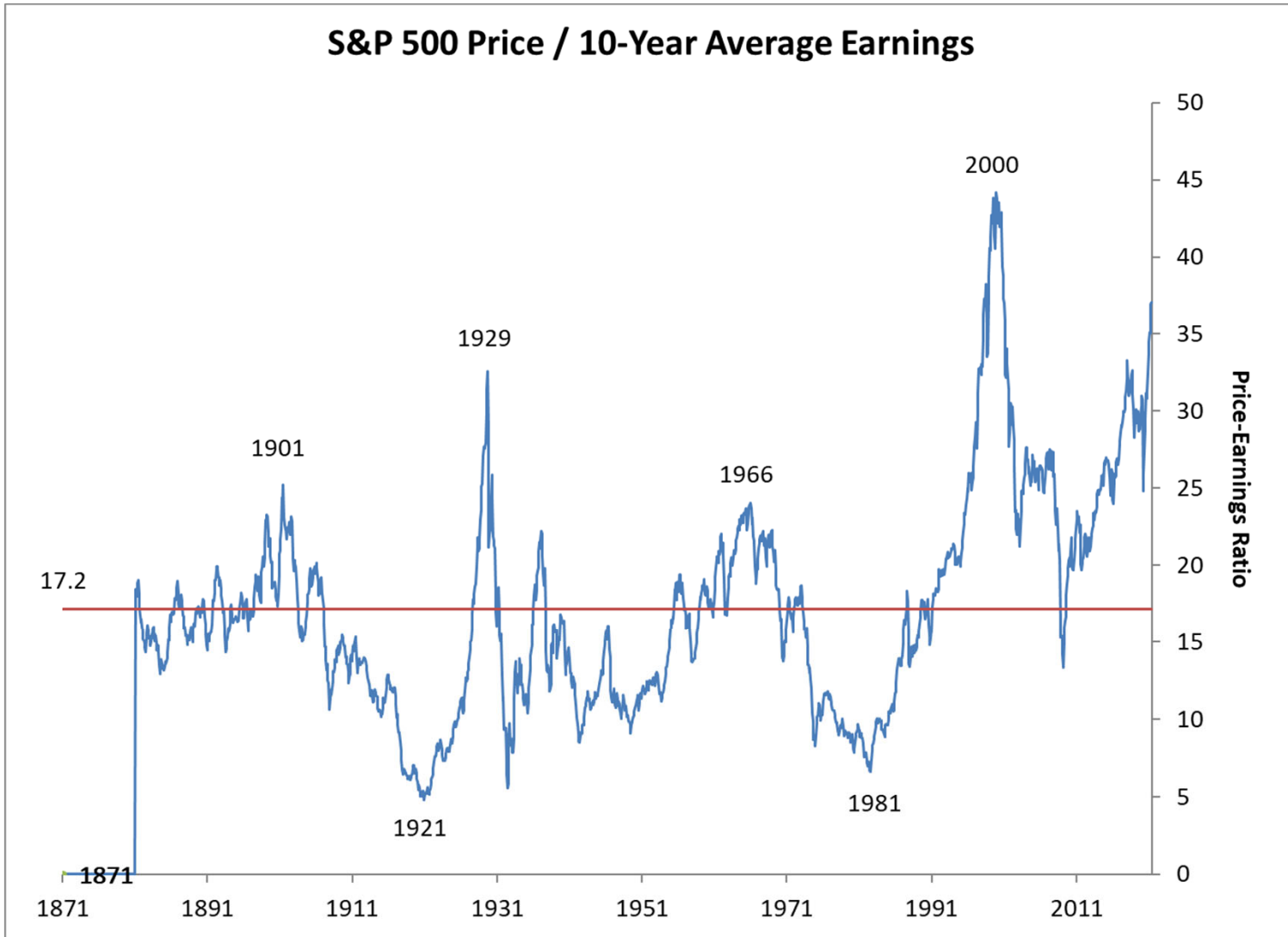


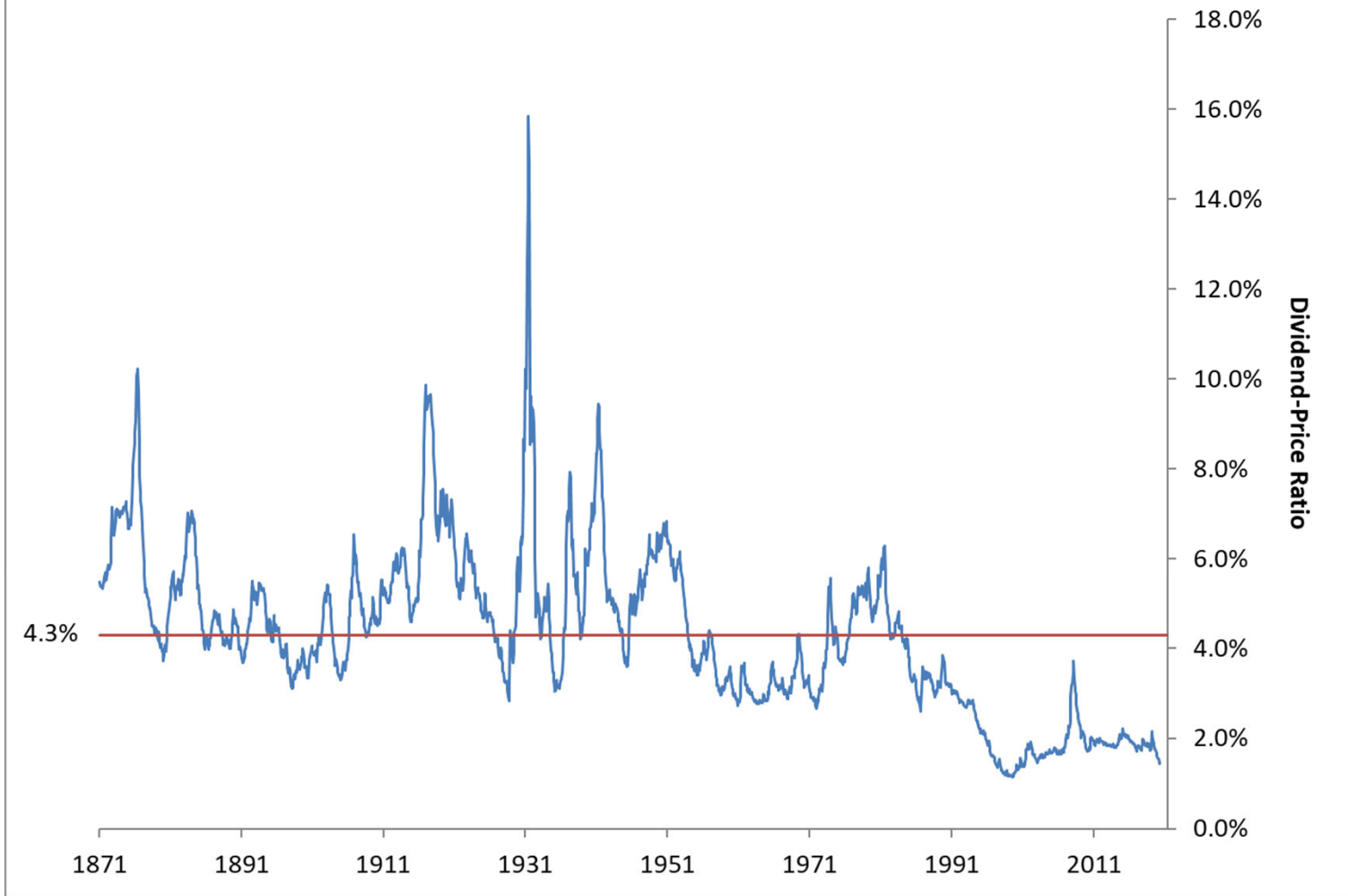
The US Stock Market in 2020-21

John Campbell, Harvard Economics
Financial Advisory Roundtable
Federal Reserve Bank of New York
May 14, 2021

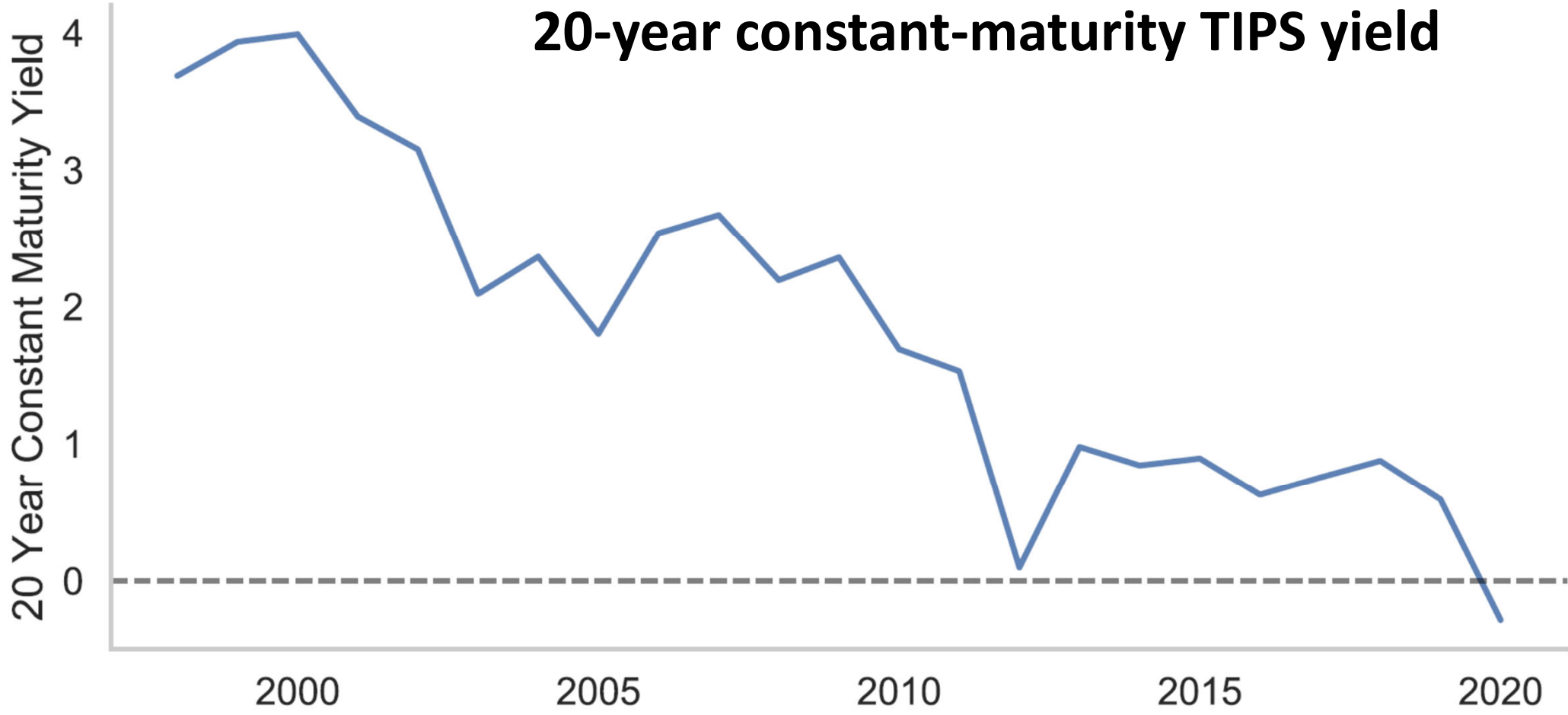
S&P 500 Price / 10-Year Average Earnings



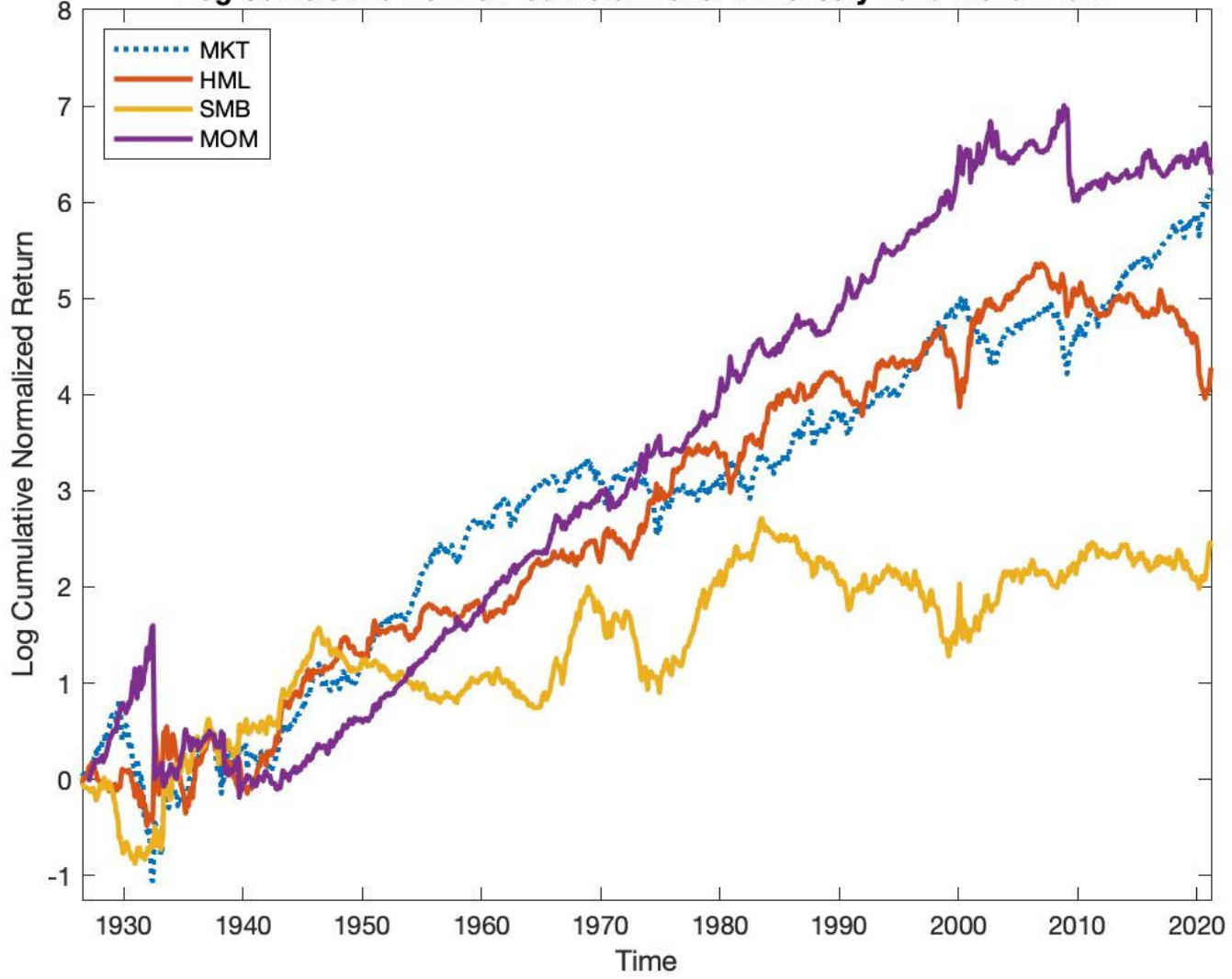
S&P 500 12-Month Average Dividend / Price Ratio

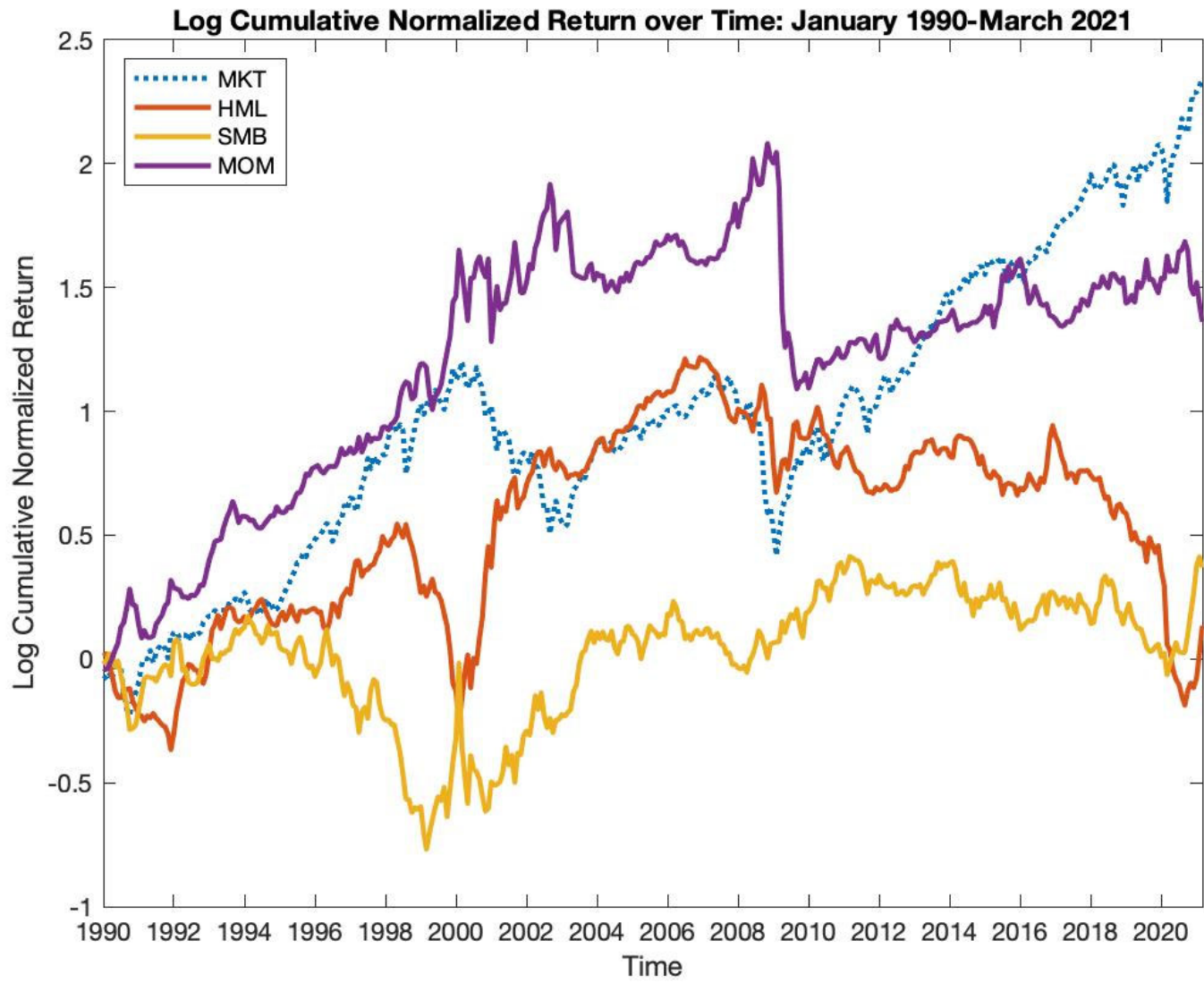


20-year constant-maturity TIPS yield



Log Cumulative Normalized Return over Time: July 1926-March 2021





Conclusion (1)

- Stocks are expensive, but bonds are “frickin’ expensive” (Asness).
 - “Steady-state” risk premium if valuations remain unchanged is low, but still considerably higher than 1999-2000.
- The most dramatic stock market development in 2020 was the collapse of value, following the lost decade of the 2010s.
 - Unlike 1999-2000, this was not accompanied by strong returns to small-cap stocks or momentum.
 - A tough environment for “smart beta” investing.
 - Recovery in 2021 is not yet large enough to alter the overall picture.

Conclusion (2)

What explains the pandemic collapse of value?

- Intertemporal CAPM framework:
 - Bad news about overall corporate profits (value is more exposed)
 - Falling discount rates (growth benefits because of high duration)
 - Increasing volatility (growth benefits because of optionality).
- Pandemic hurt value profits more than growth profits.
- Flows:
 - Speculative fever in some growth and “meme” stocks.
 - Outflows from and closures of value funds (AJO Partners).
- Reversal of fundamentals in 2021, but flows continue.