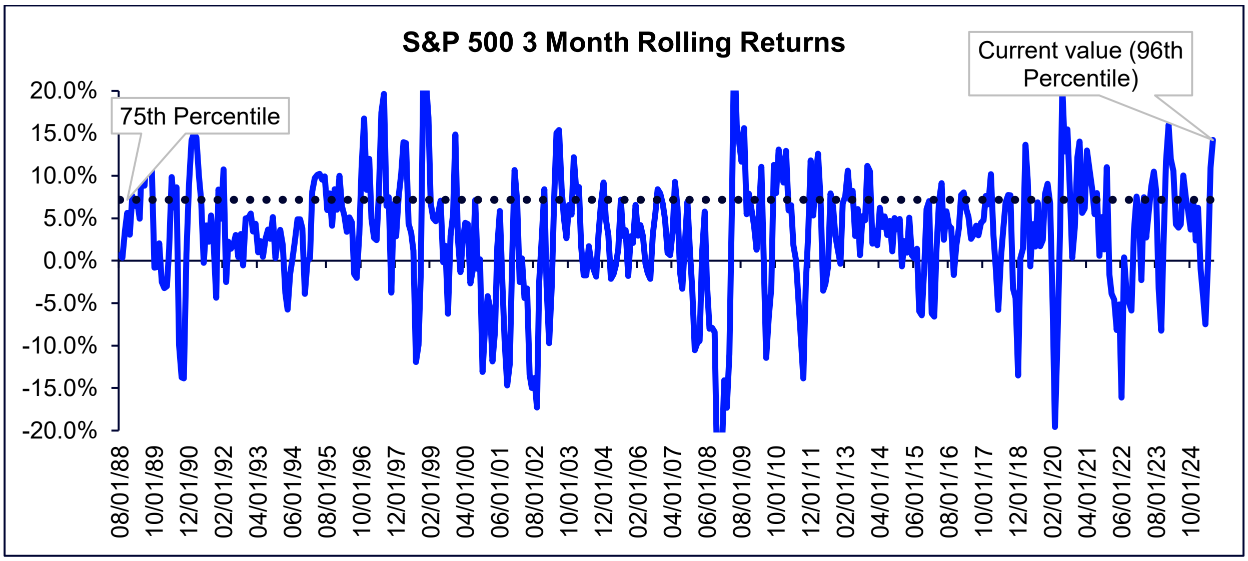
STATE STREET INVESTMENT MANAGEMENT

COMMENTARY
August 7, 2025

Mind on the Market

Chart of the Week



Source: FactSet. S&P 500 total returns monthly data as of July 31, 2025.

The S&P 500 returned a strong 14.21% over the three months ending July 31, 2025, driven by robust tech earnings, progress in trade talks, and a resilient recovery from earlier policy driven volatility. Notably, this performance ranks in the 96th percentile of all 3-month rolling returns since August 1988, marking a historically exceptional run.

Contact

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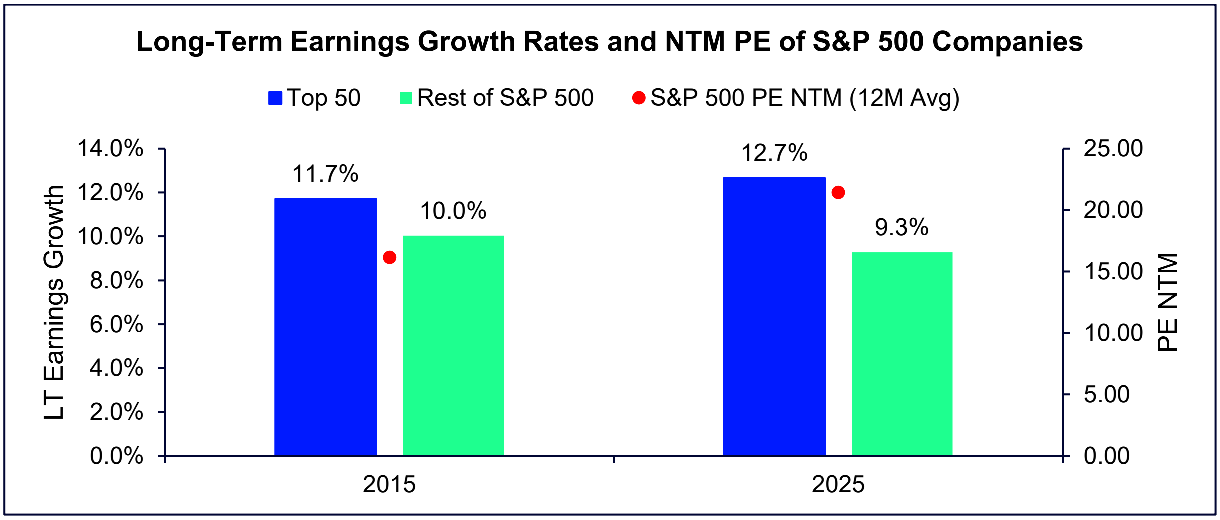
Weekly Highlights

S&P 500 Past 3 Months Total Return	S&P 500 NTM PE	% of S&P 500 Companies Beating Q2 Expectations
14.21%	22.19x	81.35%
Data as of July 31, 2025	Data as of July 31, 2025	Data as of August 5, 2025

Rethinking Market Valuations: Structural Shifts Behind Elevated Multiples

Many equity market observers have raised concerns about market overvaluation, pointing to elevated price to earnings (PE) multiples relative to historical norms. Over the past 30 years, the average 12-month forward PE multiple of the S&P 500 has been 16.71, while the current figure stands at 22.19, representing a 32.8% premium. This deviation has led some to caution that valuations may be stretched. However, this perspective may overlook structural changes in market composition and the evolving growth dynamics of today's largest companies.

Earnings growth among the largest market cap companies in S&P 500 index has strengthened over the years. Many of today's index heavyweights, particularly innovative tech firms, are demonstrating robust long term growth prospects. This improvement in fundamentals supports the higher valuation multiples these companies command, which in turn contributes to elevated valuations at the index level. Ten years ago, the top 50 market cap stocks had an average projected long-term earnings growth rate of 11.7%, compared to 10.0% for the rest of the index. Today, that gap has widened. The top 50 boast 12.7%, while the rest have declined to 9.3%. This divergence reflects the superior market positioning and innovation capacity of today's largest firms, unlike past leaders such as banks, energy companies, and conglomerates, which typically had lower growth trajectories. The data also reinforces the trend of rising market cap concentration, showing that mega cap dominance is not just driven by valuations or investor sentiment but also by stronger fundamentals.



Source: FactSet. Data as of July 31, 2015 and July 31, 2015. EPS Long Term Growth Rate refers to the annual earnings per share growth a company is expected to sustain over the next 3 to 5 years. The equal weighted average long term earnings growth rates were calculated separately for the top 50 S&P 500 companies by market capitalization and the remaining constituents, based on FactSet estimates. Companies without available long term growth projections were excluded from the analysis.

Over the past decade, a small group of companies have increasingly powered index level earnings metrics. To illustrate this trend, we calculated the weighted average long term earnings growth rate[1] separately for the top 50 heavyweights and the remaining constituents of the S&P 500 index. Our analysis reveals that the top 50 stocks now have a weighted average long term earnings growth rate of 8.6%, compared to 3.8% for the rest, up from 5.7% and 5.4%, respectively, a decade ago. As a result, these top companies now contribute 69.2% of the index's total long term earnings growth, up from 51.1%, highlighting the growing concentration of earnings power among the largest firms.

Given the outsized influence of mega cap stocks on overall market valuations, any regulatory shifts or competitive disruptions to their long term earnings trajectory could have far reaching implications for the broader equity landscape. Rather than signaling speculative excess, elevated valuation multiples may instead reflect a structural transformation, one where market leadership is increasingly concentrated among a select group of high growth, innovation driven firms. Understanding this dynamic is essential for interpreting valuation metrics in today's evolving market environment.

Source: FactSet, State Street Investment Management. Past performance is not a reliable indicator of future performance.

[1] Companies without earnings data were excluded, and weights were normalized accordingly.

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*This figure is presented as of March 31, 2025 and includes ETF AUM of $1,553.58 billion USD of which approximately $106.42 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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Marketing Communication

Important Risk Discussion

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