



**FIRST CAPITAL
FINANCIAL**



WORLD SOURCE
FINANCIAL MANAGEMENT INC.
Sponsoring Mutual Fund Dealer



2026.02.11

Stein's Law states that if something cannot go on forever, it will stop. Let's bear this in mind as we look at the future of stock markets. In particular to the S&P 500 index, made up of U.S. equities, because that's where prices have risen the most and where historical data is widely available.



This line represents my expectations

By 2012, U.S. stock prices had largely recovered from the depths of the Great Recession of 2008-09. The S&P 500 index stood at nearly double the low point it had reached in March, 2009, and the average price-to-earnings (P/E) ratio of S&P 500 companies had risen to nearly 15, which is the approximate long-term average.

But this was only the beginning. Over the next 14 years, the index soared another 431 per cent. By comparison, a portfolio of 91-day T-bills would have risen a mere 25 per cent over the same period.

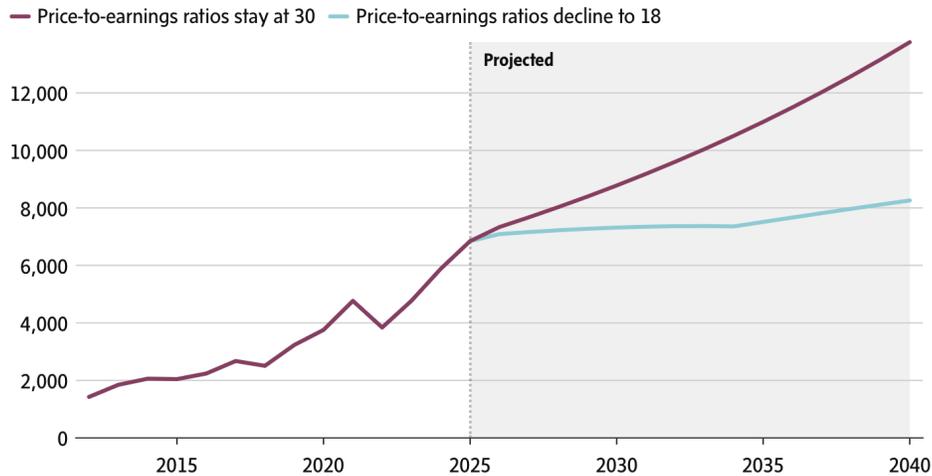
This is where Stein's Law becomes relevant. The reason stock prices cannot continue to climb so quickly is that prices are currently so high for the wrong reasons. The right reason, if it were true, would be that companies' earnings suddenly started to rise more rapidly after 2011. In the years since 2012, however, the average earnings of S&P 500 companies have gone up at the rather tepid annual rate of 2.4 per cent, net of inflation. Between 1960 and 2011, they rose 2.6 per cent a year.

There are two reasons – one minor and one major – for today's stratospheric stock prices. The minor reason is that bond yields are somewhat lower than the historical average.

Stocks compete with bonds for investors' money so lower yields mean higher prices for both types of securities. This is a relatively minor factor because the current yield on 10-year U.S. Treasuries is 4.25 per cent, not that much lower than the median yield between 1960 and 2011 of 5.45 per cent.

This brings us to the major reason for today's high stock prices: P/E ratios today are so much higher than the long-term average. As of January, 2026, the average P/E ratio was 31 versus the average of 18 between 1960 and 2011.

Projected S&P 500 index under two scenarios



THE GLOBE AND MAIL, SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS, STANDARD & POORS, ROBERT SHILLER

This week's chart shows two possible trajectories for the S&P 500 index between now and 2040. In the first scenario, the P/E ratio remains 30. Given that this is about double the long-term average since records were first kept and given that a P/E ratio of 30 has never been sustained for longer than two years, the probability I would attach to this scenario is very low. In the second scenario, we would see a reversion to the mean. Specifically, the P/E ratio would gradually decline to 18, its average since 1960. In both scenarios, I assume that the earnings of S&P 500 companies continue to rise in real terms at the same rate as they have historically.

The second scenario is a rather bleak one but it actually seems more plausible than the first. At some point, Stein's Law will assert itself. Stocks will continue their upward march, but not at the pace we have seen over the past 14 years.

Setting return expectations is key to financial happiness - what we're committed to on your behalf. Therefore context like this is important, even it tempers what the outlook is for investing returns.

Thanks for reading!

Martin

1-519-546-5088

Source (including graph): The Globe and Mail

MARTIN WEILER, FINANCIAL ADVISOR
FIRST CAPITAL FINANCIAL / WORLDSOURCE FINANCIAL MANAGEMENT INC
50 CORESLAB DR. DUNDAS, ON L9H 0B2
P: 519-829-1331 F: 833-869-8042
MARTIN@FCFCORP.CA

Mutual Funds and some Segregated Funds provided by the Fund Companies are offered by Martin Weiler, a representative, through Worldsource Financial Management Inc., sponsoring mutual fund dealer. Other Products and Services are offered through First Capital Financial Corporation. This email and any attachments are intended only for the recipient(s) named in this email and may contain personal and/or confidential information. If you have received this email in error, please email the sender immediately, and delete the original email. Dissemination, distribution, or copying of all or any part of this message by anyone other than the intended recipient(s) is not authorized. The information provided in this email and/or attachment/s is solely for general and educational purposes and is based on the perspectives and opinions of the owners and writers. It is provided with the understanding that it may not be relied upon as, nor considered to be, the rendering of tax, legal, accounting, or professional advice. Please consult an appropriate professional regarding your particular circumstances. References to third party goods or services should not be regarded as an endorsement of those goods or services. All information provided is believed to be accurate and reliable, however, we cannot guarantee its accuracy. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus and/or the fund facts before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

[SEND TO A FRIEND](#)

[WEBSITE](#)

[BLOG](#)