

## The Return of Competition for Capital

One of the more notable developments in today's investment environment is the changing relationship between equity valuations and bond yields.

The accompanying chart compares the earnings yield of the S&P 500 to the yield available on the 10-Year U.S. Treasury. Earnings yield, calculated as corporate earnings divided by market price, is the inverse of the price-to-earnings (P/E) ratio and is commonly used as a measure of equity valuation. While it is not a cash yield received by investors, it provides insight into how much investors are paying for each dollar of corporate earnings.

Historically, investors demanded additional compensation for assuming the greater uncertainty associated with equities relative to U.S. Treasury securities. Since 1990, the S&P 500 earnings yield has averaged approximately 2.3 percentage points above the 10-Year Treasury yield, with the premium ranging from roughly 1.7% to 2.6% across various market cycles. This "equity risk premium" has traditionally served as compensation for accepting the risks associated with future earnings growth, business cycles, and market volatility.

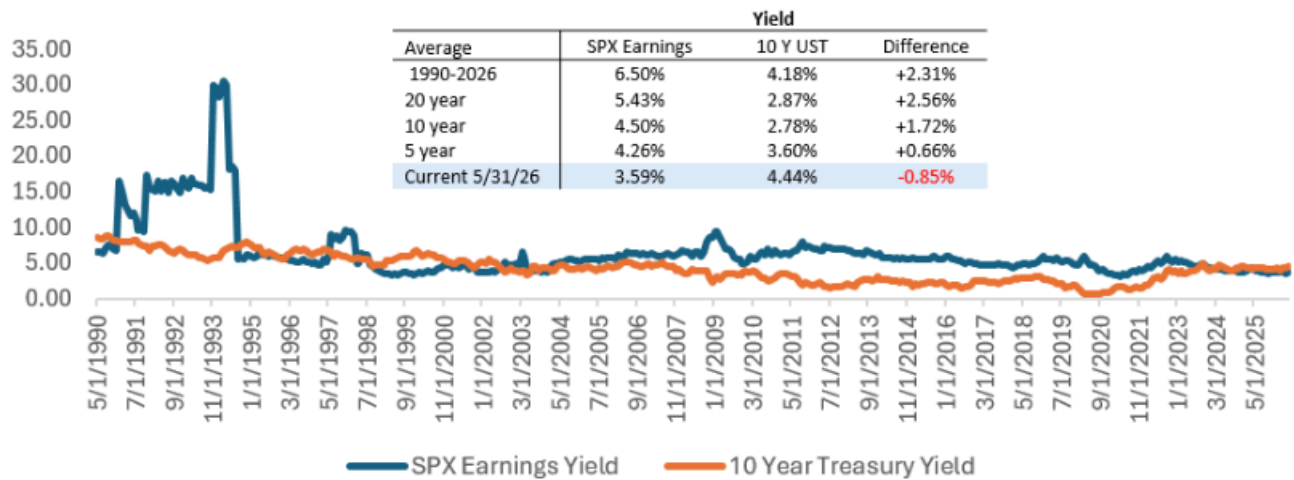
Today, that relationship looks very different. As of May 31, 2026, the earnings yield of the S&P 500 was approximately 3.6%, compared to a 10-Year Treasury yield of 4.4%, resulting in a negative earnings yield premium. In other words, investors are currently willing to accept a lower earnings yield from equities than the yield available from a U.S. Treasury bond.

This does not necessarily imply that equities are overvalued or that stocks cannot continue to perform well. Rather, it suggests that current market valuations reflect considerable confidence in future earnings growth, particularly among large-cap technology and artificial intelligence-related companies that have led recent market gains. Investors appear willing to pay higher prices today in anticipation of stronger earnings and cash flows in the future.

From a fixed income perspective, the chart highlights an important shift in the investment landscape. For much of the post-financial crisis period, exceptionally low interest rates reduced the attractiveness of bonds and pushed investors toward risk assets in search of return. Today, however, Treasury and investment-grade bond yields have returned to levels that provide meaningful income and potential total return opportunities.

The implication is not that investors should choose bonds over stocks, but rather that the opportunity set has become more balanced. Higher bond yields have improved expected risk-adjusted returns while restoring many of the diversification and portfolio-balancing benefits that were less evident during the low-rate environment.

As fixed income managers, we view this as a constructive development. Investors once again have the ability to earn attractive income from high-quality securities while maintaining diversified portfolios designed to participate across a range of economic and market outcomes. In our view, this environment reinforces the importance of valuation discipline, diversification, and maintaining exposure to multiple sources of return rather than relying on any single asset class to drive portfolio results.



Source: Bloomberg

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