IN THIS REPORT

The S&P 500 notched new all-time highs in 10 of the 22 trading days in July. It's a remarkable rebound from the fear that gripped the market just three months prior. While the returns are a cause for celebration, it's reasonable to wonder if things have gone too far, too fast.

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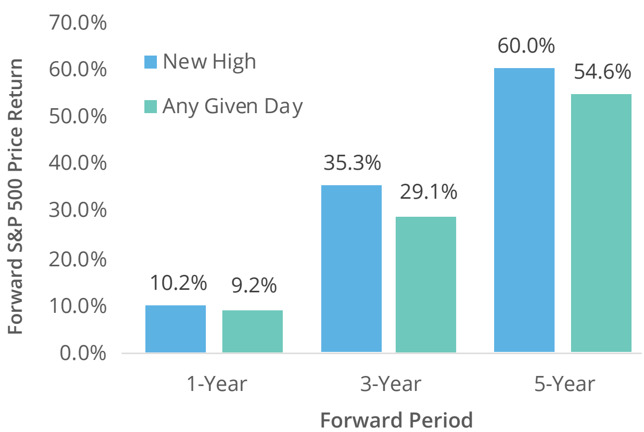
New market highs tend to trigger familiar concerns. Investors worry they've missed the rally, that valuations are stretched, and that buying now is more a risk than an opportunity.

But as is often the case in markets, the story is more complicated, and the data more surprising.

Investing After New Market Highs



Source: Morningstar, S&P Data 1/1/1970 to 7/31/2025

Market Highs Have Not Been Bad Entry Points

Historically, buying at a market high has not been the mistake investors assume it is. In fact, forward returns following new highs have outpaced those from randomly timed investments. On average, investors have been better off putting capital to work during market highs than sitting in cash and waiting for a pullback.

This doesn't mean new highs guarantee future gains, but it does suggest that strong markets often reflect strong fundamentals, and that price momentum can be a sign of underlying health, not irrational exuberance.

Valuation Doesn't Predict the Short Term

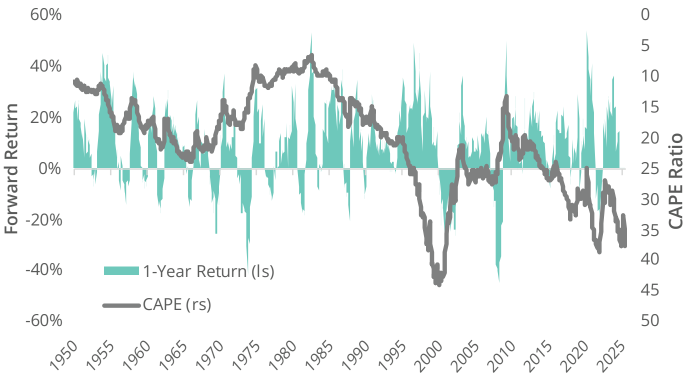
That brings us to valuation. It's easy to point to traditional measures like the Shiller CAPE ratio and conclude that markets are expensive. But expensive relative to what?

Valuation has been an ineffective short-term indicator. As the chart shows, there's almost no historical relationship between starting valuation (CAPE) and market performance over the subsequent year. High valuations have led to strong returns, weak returns, and everything in between. In the short run, valuation tells us almost nothing about timing.

JASON BLACKWELL, CFA®

Chief Investment Strategist and a Principal of Focus Partners

Valuation vs. Forward 1-Year Return



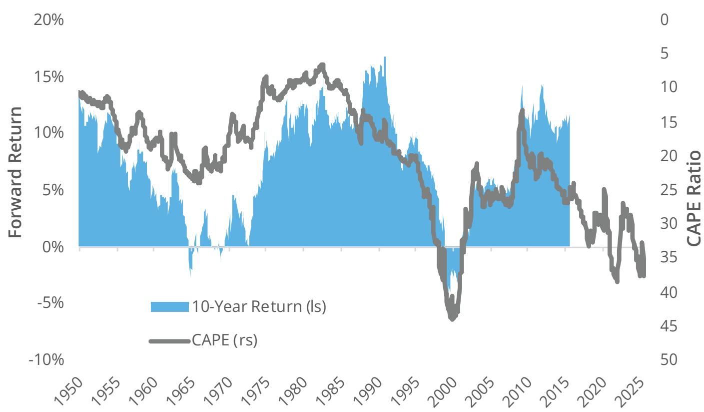
Source: S&P, Robert Shiller

Over Longer Horizons, Valuation Adds Context

Stretch the time horizon, and valuation becomes more useful. Looking at 10-year rolling returns, high starting valuations have tended to result in lower, but often still positive, forward returns. Lower starting valuations have often led to higher returns. However, the correlation is not perfect, and other factors can influence future returns.

Valuation doesn't tell us what will happen next, but it can inform us over time. It's context, not signal.

Valuation vs. Forward 10-Year Return



Source: S&P, Robert Shiller

There Are Two Ways to Cure a High Multiple

When valuations are a concern, it's worth remembering there are only two ways to bring them down: prices can fall, or earnings can rise.

Lately, we've been seeing more of the latter. With about two-thirds of S&P 500 companies having reported, FactSet notes that 82% have delivered positive earnings surprises. We're now tracking toward a third straight quarter of double-digit earnings growth. That is well ahead of the 4.9% growth expected at the end of June.

High valuations start to look more reasonable when earnings are improving, especially when this growth exceeds expectations. Earnings are the denominator in the price-to-earnings (P/E) multiple formula, and differences from expectations shift the entire equation.

It is also possible that valuations are sustainably higher now than in the past, possibly due to a combination of factors (lower cost to invest, better diversification, or investors having a higher risk tolerance now).

What This Means for Investors

Ironically, investors can find themselves as fretful over high prices as they do over low ones. The former feels unsustainable while the latter has typically followed periods of loss. Many investors become skeptical as the market moves higher and cautious on the way down. However, often the best buying opportunities are the ones that feel most uncomfortable in real time.

The right question to ask isn't whether markets are at highs or whether valuation looks stretched. It's whether your investment horizon is long enough to allow the market to do what it has done more often than not: reward discipline, patience, and participation.

For short time horizons, valuation can be hard to ignore. However, if you're in it for the long haul, what matters most isn't where you started; it is having the discipline and patience to get where you're going.