BAIRD
Private Wealth Management

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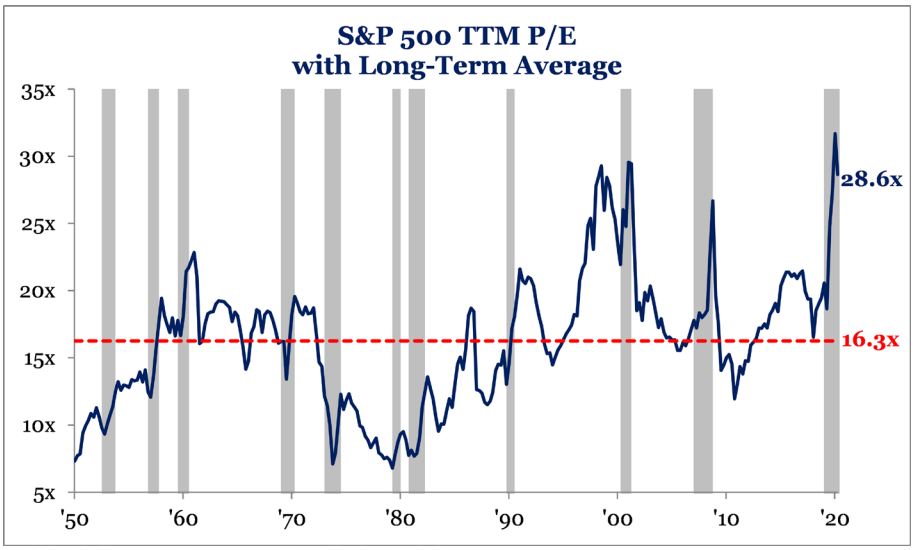
Prepared by Strategas Securities, a Baird Company

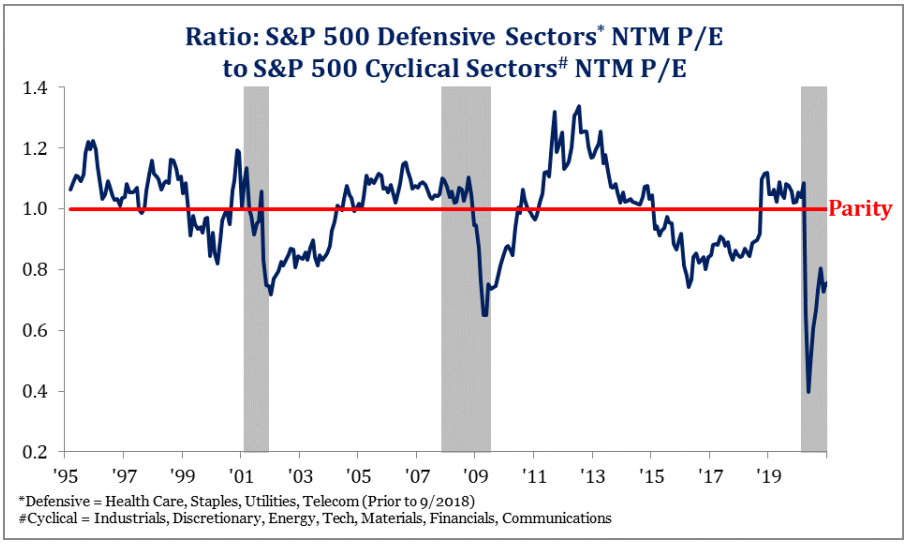
NEXT MOVE FOR S&P MULTIPLE IS LOWER

While the price to earnings ratio is elevated relative to history on a trailing 12-month basis, the earnings trough recently occurred in the fourth quarter of 2020. The further removed we are from the lapsing of the closing of the economy, the more multiples will fall naturally as earnings continue to recover.



CYCLICAL EARNINGS IN PARTICULAR STILL LAGGING AS SEEN IN VALUATIONS

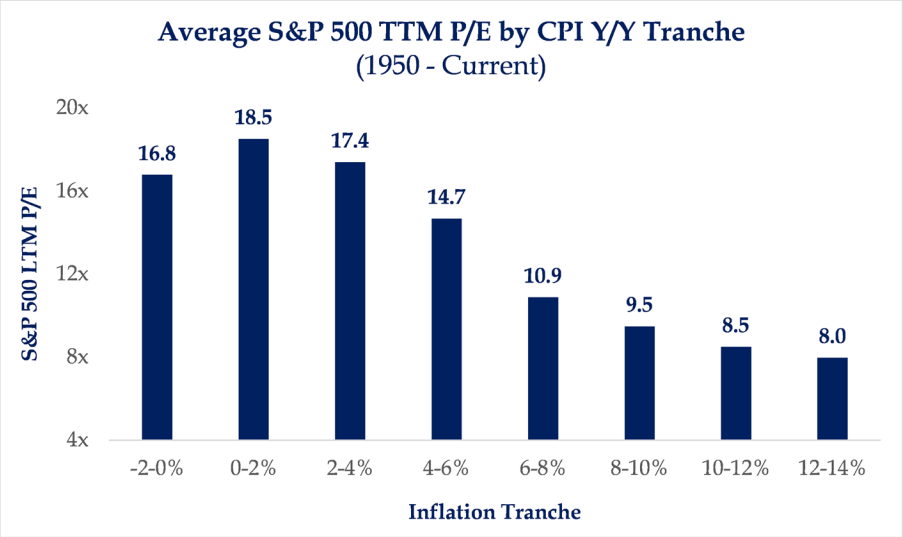
With the defensive sectors trading at about 18x forward earnings and cyclical sectors trading at about 25x, there is still significant room for earnings to improve. The energy and industrial sectors in particular are the two sectors that remain well below their pre-covid levels of earnings.



Please see the Appendix on page 3 for important disclosures.

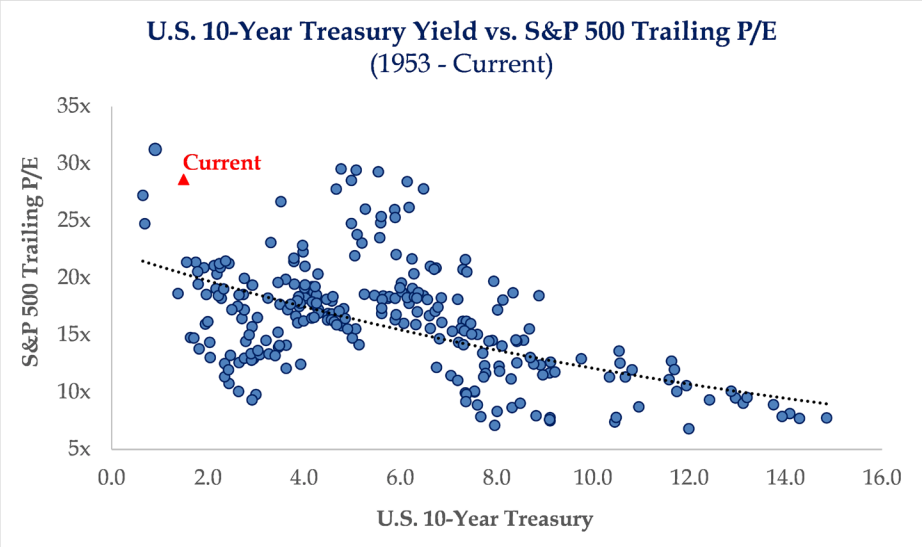
LOW INFLATION SUPPORTIVE OF HIGHER MULTIPLES

There has been heightened awareness and stress lately around the pace of inflation and its subsequent effects on the market. While investors were calmed by a cooler than expected CPI number earlier this week, it's worth noting that market multiples do not start to get hampered until greater than 2% inflation prints consistently. For now, the low inflation environment remains support of elevated valuations.



WITH HISTORICALLY LOW RATES, VALUATIONS CAN REMAIN ELEVATED

Similar to inflation, the low interest rate environment is supportive of higher equity valuations on average. While the sharp move higher in the U.S. 10-year yield to the neighborhood of 1.5% caused some market volatility, it's important to remember how low interest rates remain historically. For now, the current interest rate environment allows for higher equity valuations as corporate profits recover from their pandemic troughs.



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