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Market Valuations Are Near All Time Highs, What's Driving Them?

OCTOBER 2026



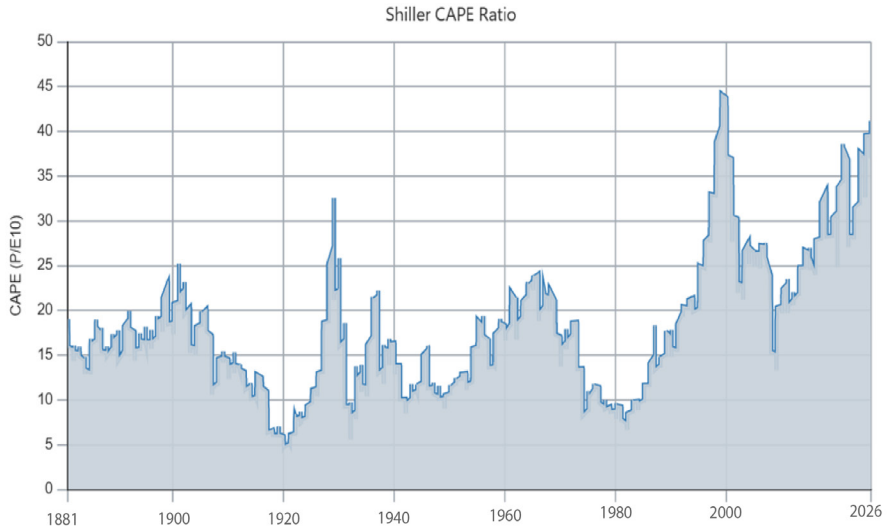
Market valuations are at or near all-time highs based on which metric you look at. Current metrics are rivaling or exceeding some of the most notorious peaks in the last 100 years such as the 1929, 2000 and 2007 peaks, but what is pushing valuations to these levels? Is it new technologies, animal spirits or economic growth? Although no single explanation can fully account for current valuation levels, this paper examines whether monetary conditions and a reduction in the supply of publicly traded equity may be contributing factors. In other words, we will look at current valuations as a supply-and- demand dynamic.

In this paper we will walk through a variety of long-term charts of different valuation metrics to show how highly valued markets are currently compared to recent history. We went back as far as the data would allow us. In some cases, like the chart of the CAPE ratio, we were able to go back over a century, in other cases, 20 years is as far back as we could get data. After looking at the valuation metrics, we will then explore how increased market liquidity and reduced company and share counts are likely contributing to the valuations we see today.

Historically High Market Valuations

Our first chart presents the cyclically adjusted price-to-earnings ratio, commonly known as the CAPE ratio, beginning in 1881. As you can see in Figure1 below, the CAPE ratio is currently trading north of 40, which is second only to the tech bubble in 1999/2000. Even the 1929 market bubble never reached the 35 level.

Figure 1



Source: Robert Schiller CAPE data Yale University, July 2026

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Figures 2 and 3 both show the stock market in relation to U.S. GDP. Figure 2 is the S&P 500 relative to U.S. GDP and Figure 3 is total U.S. equity market cap to U.S. GDP. Both charts are well above previous highs going back to 1970, which is as far back as the Federal Reserve Bank of St. Louis keeps the data. Total Market Cap/GDP at its peak in 2000 was only just above 1.5 and is now nearing a ratio of 2.4. By these historical measures, U.S. equity evaluations are elevated relative to much of the available historical record. The question we would like to explore in this paper is what are some possible explanations for stocks being so expensive? There are a few possibilities that we think are interesting in potentially providing some explanation for current stock valuations.

Figure 2



Source: FRED Federal Reserve Bank of St. Louis, July 2026

Figure 3



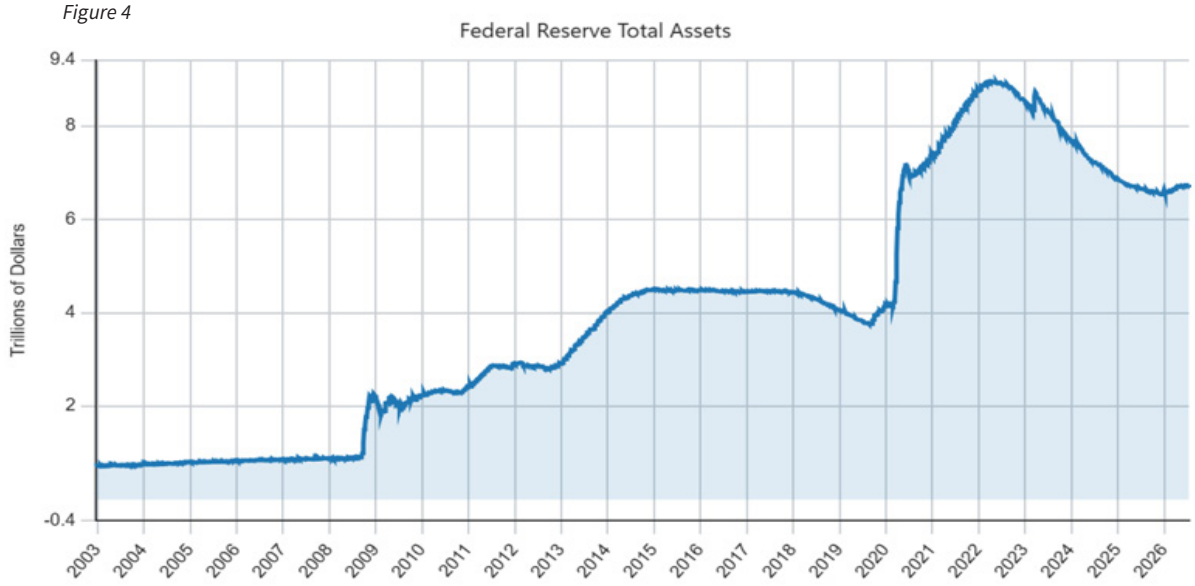
Source: FRED Federal Reserve Bank of St. Louis, July 2026

The data we will lay out in the rest of this paper argues for high valuations being the result of a supply/demand imbalance. Since 2000, liquidity, which is to say money available for investment in markets, has grown substantially. After 2009, it began to climb even faster, and since Covid it has skyrocketed. Over that same time period, the number of publicly traded companies and the total number of shares available for purchase shrank substantially.

Increase in Liquidity

Figure 4 shows the Federal Reserve Total Assets, which is commonly referred to as the Fed's balance sheet. At the end of 2002 it was around $700 billion, and it drifted slightly higher each year until it hit a level of approximately $900 billion at the end of 2007 – a CAGR (compound annual growth rate) of 5.2%. The Global Financial Crisis kicked off in 2008, and the Fed responded by providing liquidity which caused the balance sheet to end 2008 around $2.2 trillion. Post-2008 was met with multiple rounds of quantitative easing over the next decade which caused the balance sheet to eventually rise to approximately $4.2 trillion at the end of 2019 – a CAGR since 2007 of 13.7%. Then came Covid. The Federal Reserve responded to the economic disruption associated with the Covid pandemic through large-scale asset purchases and other measures which caused the balance sheet to jump to $8.9 trillion in early 2022. The Federal Reserve has since reduced the balance sheet somewhat back to $6.7 trillion as of July 2026. So, the Federal Reserve has increased its balance sheet by 8.5-fold or approximately $6 trillion in the last 23 years.

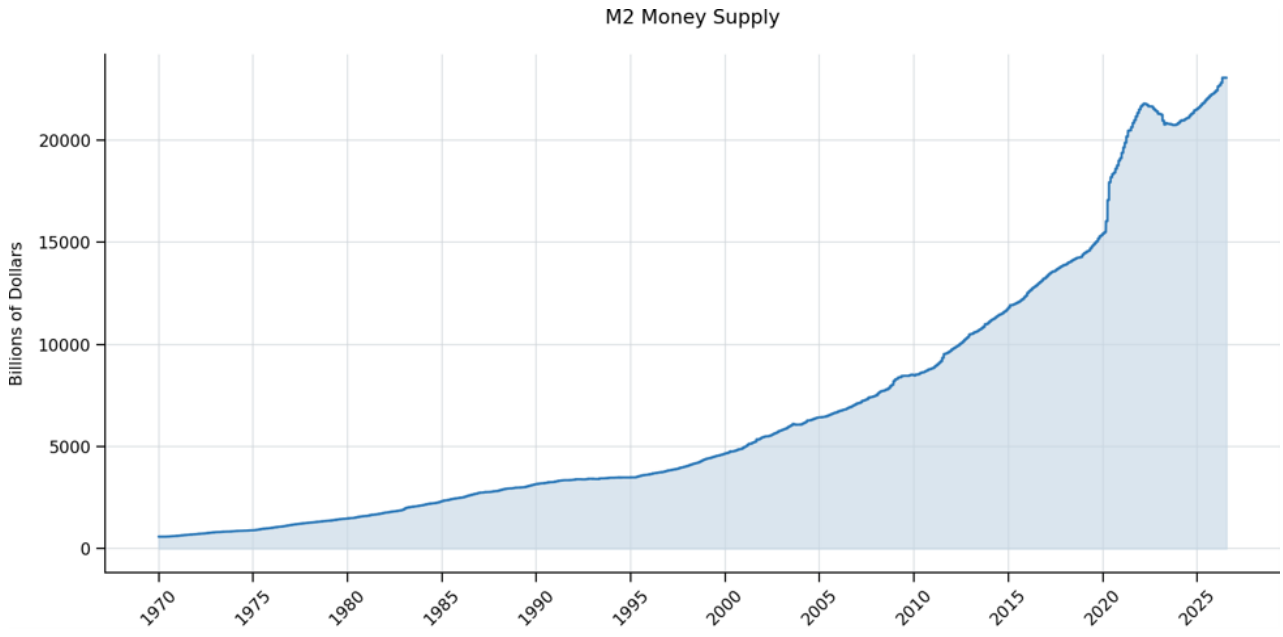
Figure 4



Source: FRED Federal Reserve Bank of St. Louis, July 2026

Next we will turn our attention to M2 money supply. Figure 5 shows the balance of the seasonally adjusted M2 money supply from 1970 to 2026. In 1970, M2 increased from approximately $590 billion to approximately $5.8 trillion at the end of 2002, an increase of nearly tenfold. That equates to a CAGR of 7.5%. Like the Fed's balance sheet, M2 continued to drift higher to $7.5 trillion by the end of 2007 – a CAGR of 5.3%. After the Great Financial Crisis M2 continued growing at about 6.1% per year until it reached $15.3 trillion at the end of 2019. Then came Covid. M2 inflected sharply higher after Covid hit spiking to a high of $21.8 trillion in 2022. M2 declined in 2023 and has risen modestly since then back to $23 trillion as of July 2026.

Figure 5



Source: FRED Federal Reserve Bank of St. Louis, July 2026

The last piece of the liquidity puzzle that we will explore is investment margin balances. Margin balances tend to peak near market tops and trough around market bottoms, but the overall climb in margin balances has consistently increased since 2000. Figure 6 shows margin balances from 1997 to current. Margin balances hit their tech bubble peak in September of 2000 at $270 billion. From there, margin balances cut nearly in half to a low of $136 billion in September of 2002. From that trough, margin balances tripled to $416 billion in July 2007 ahead of the Great Financial Crisis. Margin balances cut in half again into February 2009 to $199 billion. Then came a long steady march higher into July of 2019 when margin balances peaked at $602 billion ahead of Covid. Somewhat surprisingly, margin balances only contracted by approximately 20% during the Covid panic then they doubled over the next year and a half. After contracting by about 1/3 in the 2022 bear market, margin balances have skyrocketed running from a 2022 low of $606 billion to a recent high of $1.5 trillion.

The consistent theme through all of the ups and downs over the last 25 years is the margin balances have grown higher and higher. Of the 3 forms of liquidity we have looked at in this paper, margin balances are by far the most volatile. Despite that volatility, margin balances have grown at a CAGR of 6.8%, which is similar to M2's post 2002 CAGR of 6.2%, but less than the Fed's balance Sheet CAGR of 9.9%.

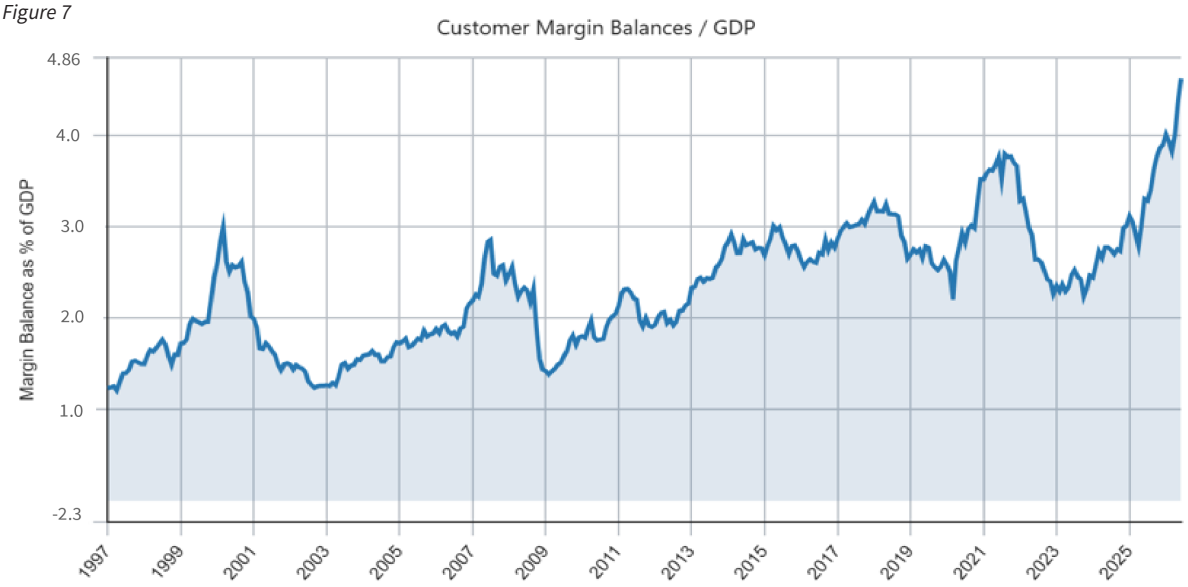
Figure 6



Source: FINRA Financial Industry Regulatory Authority, July 2026

Margin balances as a percentage of GDP gives a slightly different perspective versus the absolute level of margin balances over time. The ratio allows us to compare apples to apples over the last 25 years to see how much liquidity is really being deployed vs previous peaks. All of the previous peaks from 2000-2020 pre-Covid all peaked at around 3% of GDP. Since Covid, the peaks continue to climb higher and higher. The peak in late 2021 during the massive QE wave was just shy of 4% and the current level is over 4.5% nearing 4.8%. Figure 7 shows the previous peaks all peaking at around 3% of GDP until after Covid when each peak was higher than the one before. The increase in margin debt balances relative to GDP indicates that securities borrowing has risen relative to the size of the economy. Although this may be consistent with greater investor risk-taking, the ratio may also be influenced by equity market appreciation, changes in investor participation, and reporting practices.

Figure 7

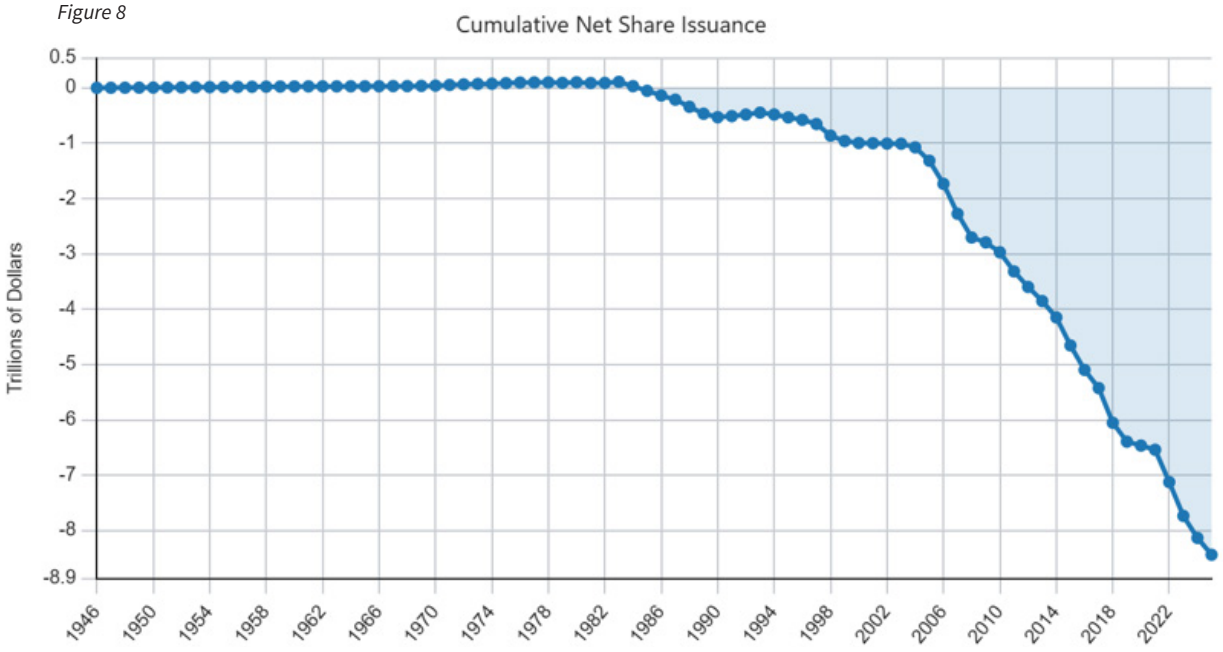


Source: FINRA Financial Industry Regulatory Authority; FRED Federal Reserve Bank of St. Louis, July 2026

Net Share Reduction

If the liquidity increase is the demand side of the equation, share reduction is the supply side of the equation. The available data went back to 1946, and from 1946 to 1985, net share issuance was slightly positive. From 1985 to approximately 2005, net share issuance dropped by about $1.3 trillion. Then came the Great Financial Crisis and the Quantitative Easing Era (QE). With QE came a flood of money and 0% interest rates. Corporations used this money to buy back massive amounts of shares. Despite most companies using share-based compensation for executives and key team members, on a cumulative basis, the selected data indicates approximately $7.4 trillion of negative equity issuance from 2005 through 2025, reflecting repurchases and retirements net of new equity issuance. Figure 8 shows how net share issuance has changed over time.

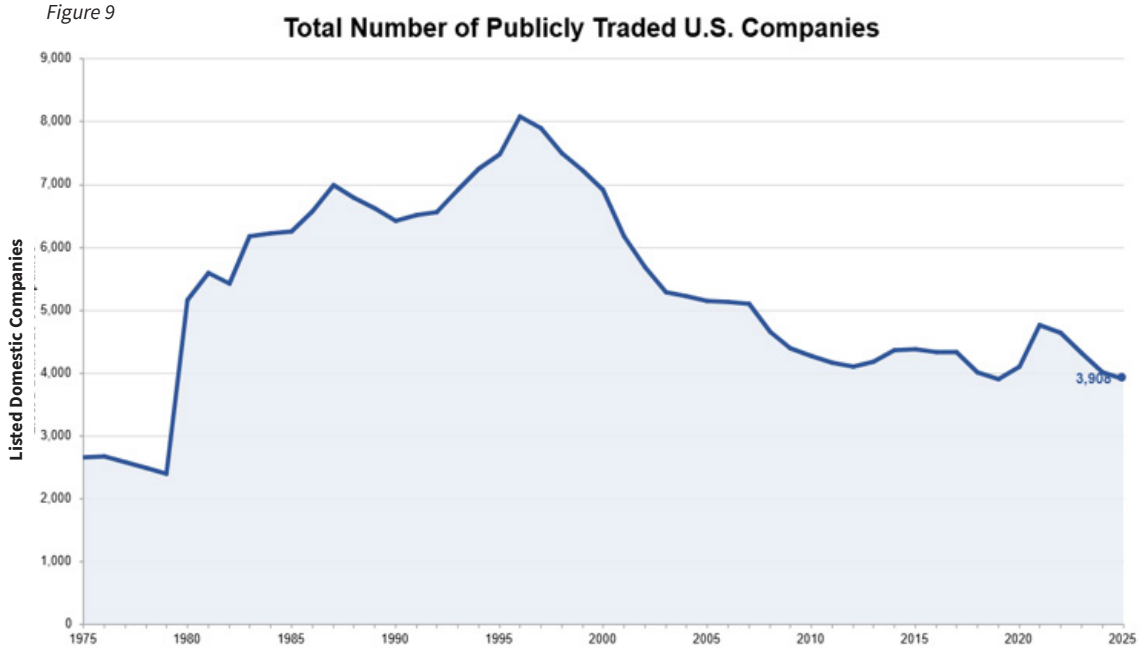
Figure 8



Source: FRED Federal Reserve Bank of St. Louis, July 2026

A second metric that exemplifies the reduction in publicly traded supply is the total number of publicly traded companies in the United States. Figure 9 shows the total number of publicly traded companies going back to 1975. From 1975 to 1996, the number of public companies grew strongly from approximately 2,650 companies to a peak of 8,050 companies in 1996. Then everything changed. Whether it be from private equity leveraged buyouts, mergers and acquisitions between companies or bankruptcies, the number of public companies has dropped by almost half over the last 30 years. The most recent World Bank data as of 2025, showed the number of publicly traded companies at 3,908, which is a drop of 51% from the peak in 1996. Whether measuring by the total net share issuance or the number of public companies, it is clear that the supply of publicly available shares outstanding for purchase has dropped dramatically over the same period that liquidity has skyrocketed.

Figure 9

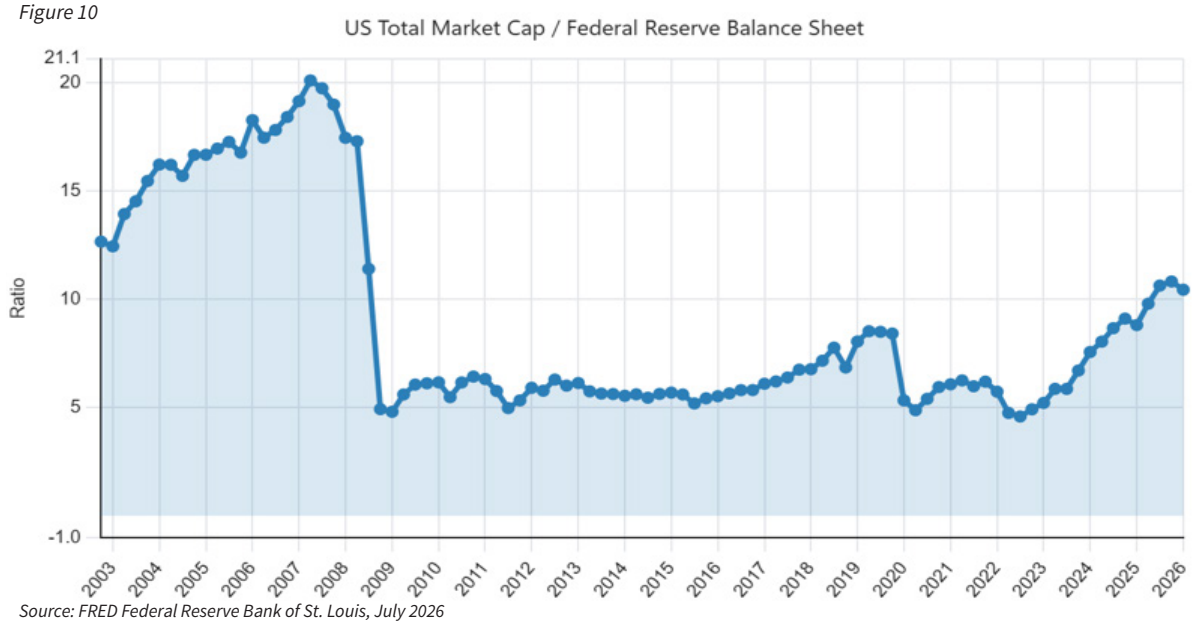


Source: World Bank, October 2026

Market Capitalization to Liquidity Ratios

There are a couple of ratios that tie the valuation of stocks and liquidity levels together. The first one is shown in figure 10, which depicts the US Total Market Capitalization to The Federal Reserve's Balance Sheet ratio. In the data we have available, that ratio peaked in 2007 just before the Great Financial Crisis at around 20. After the QE programs in 200, and 2009 grew the balance sheet and the sharp decline in stocks compressed total market cap, that ratio declined to around 5 where it mostly stayed until after 2022. In 2022, the Fed started reducing its balance sheet using Quantitative Tightening. In 2023, the Fed had a large ($2.5 trillion) reverse repo fund it had built up which it deployed throughout 2023 and 2024 as an offset to its balance sheet reduction program. This allowed the market cap to balance sheet ratio to climb to where it is today at around 10. Still half of what it was in 2007, but twice what it has been for most of the last 15 plus years.

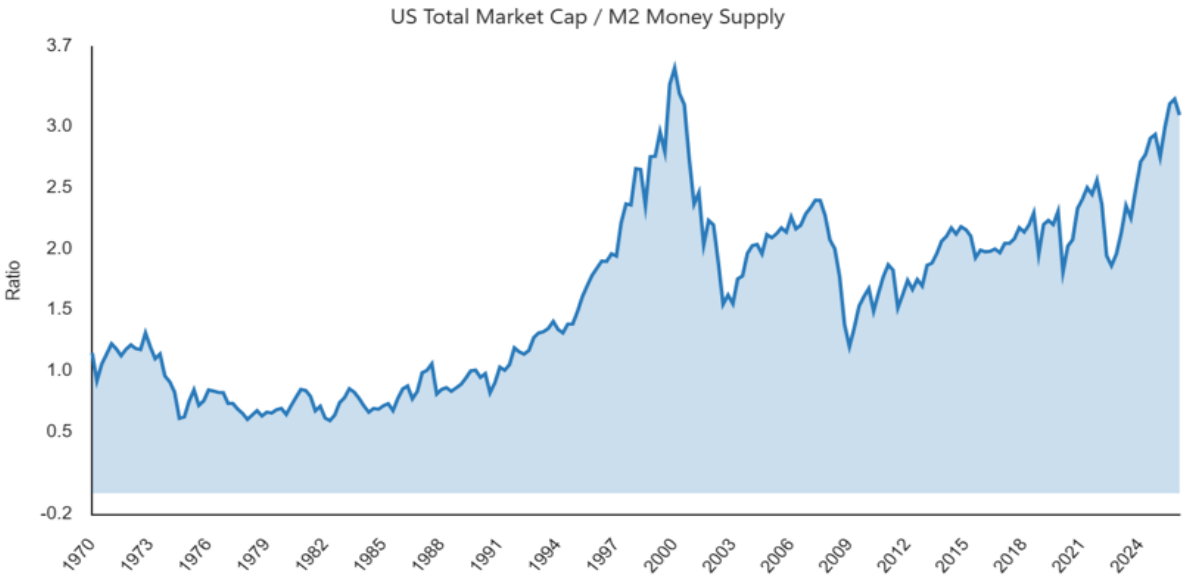
Figure 10



Source: FRED Federal Reserve Bank of St. Louis, July 2026

The last chart we will look at is the US Total Market Capitalization to M2 Money Supply ratio shown in figure 11. After reaching an all-time high at nearly 3.7 in early 2000 at the peak of the tech bubble, the ratio fell below 1.5 in 2009. It has been climbing steadily ever since and is now threatening to take out the previous all-time high. This ratio provides an additional perspective on equity market capitalization relative to a broad measure of the money supply. Even when accounting for broad measures of liquidity, stocks are as expensive as they have been in the last 50 years at least.

Figure 11



Source: FRED Federal Reserve Bank of St. Louis, July 2026

Putting It All Together

Valuations are at historically extreme levels as shown by the Market Capitalization to GDP ratio and the Schiller CAPE ratio. The analysis suggests that supply -and -demand dynamics may be among the factors contributing to elevated valuations, although the data does not establish causation or quantify the contribution of each factor. When taking into account the fact that the liquidity factors covered in this paper have increased by approximately $26 trillion since early 2002 and the cumulative net share issuance has dropped by approximately $7.4 trillion over that same period, it stands to reason that supply and demand factors have played a large role in the high valuations we are currently seeing in the stock market. We are not making the case that stock valuations are going to mean revert from here, especially if the supply demand dynamics continue apace. However, if those dynamics do start to slow down or even reverse in the coming years, it is not unreasonable to expect some mean reversion in stock valuations. If on the other hand, these supply demand dynamics continue, valuations could press on to make new all-time highs. Either way, we believe that monitoring these measures may provide useful context for assessing how the valuation environment evolves, but none of the measures should be viewed in isolation or as a reliable predictor of near-term market performance.

Sources:

Figure 1 - Robert Schiller CAPE data Yale University, July 2026
Figure 2 - FRED Federal Reserve Bank of St. Louis, July 2026
Figure 3 - FRED Federal Reserve Bank of St. Louis, July 2026
Figure 4 - FRED Federal Reserve Bank of St. Louis, July 2026
Figure 5 - FRED Federal Reserve Bank of St. Louis, July 2026
Figure 6 - FINRA Financial Industry Regulatory Authority, July 2026
Figure 7 - FINRA Financial Industry Regulatory Authority; FRED Federal Reserve Bank of St. Louis, July 2026
Figure 8 - FRED Federal Reserve Bank of St. Louis, July 2026
Figure 9 - World Bank, October 2026
Figure 10 - FRED Federal Reserve Bank of St. Louis, July 2026
Figure 11 - FRED Federal Reserve Bank of St. Louis, July 2026

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