

AEGON INSIGHTS

## The “E” or the “PE”

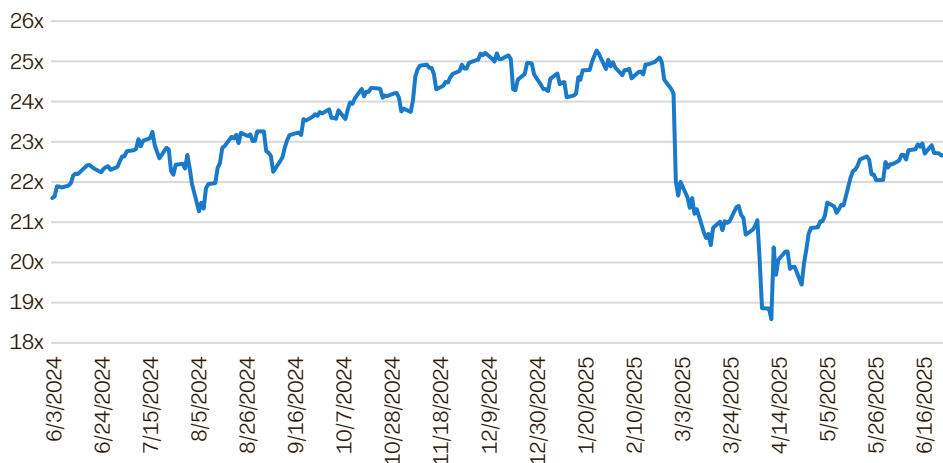
*As the geopolitical landscape makes the global investing markets ever more complex, sometimes it helps to simplify things—and the underlying point of the title aims to do just that.*

When thinking of market valuations, the price-earnings ratio (PE) is simply the share price divided by earnings per share (or alternatively, the market cap divided by aggregate earnings). But it tells a deeper story.

The “E” is some variant of earnings power (trailing, current, future, etc.), while the “PE” is what the market is willing to pay for that earnings power. In that respect, the “E” tries to capture the actual cash flow generation of the asset, while the “PE” incorporates a sentiment component and risk perception around the “E.”

Both are important: If you had a crystal ball showing you the exact 2026 earnings per share of the S&P 500 would be, you would still have to determine the correct multiple to pay for those earnings.

### S&P 500: Forward price-earnings ratio



Source: Bloomberg. Data as of June 2025.

The quick recap of equity investing 101 is helpful in developing a framework to utilize in the wake of exogenous shocks. When geopolitical events occur like this past weekend, a pertinent set of questions we ask ourselves is: What’s been affected? Earnings capacity or sentiment, neither or both?



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The latter (sentiment) will tend to move much faster and often overshoots, creating potential opportunities in the process. Naturally this will be a fluid evaluation, especially during the thick of it. But hopefully this gives some context of how to evaluate any reactions.

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