Memo to: Oaktree Clients

From: Howard Marks

Re: The Calculus of Value

On July 28, I flew to South America on a plane without Wi-Fi, leaving me without email or entertainment. What was I to do but start in on a memo? Interestingly, the things I wrote during that flight turned out to be the answers to many of the questions I received from clients after I landed, so writing what follows served me well. I hope it'll do the same for you.

* * *

January 2 of this year was the 25th anniversary of my memo *bubble.com*, the one that put my writing on the map, and I marked the occasion by publishing another memo, called *On Bubble Watch*. While the title may have raised concern for readers, my main conclusion was that the elevated U.S. stock market valuations at the time didn't necessarily signal the existence of a bubble, mainly because I didn't detect the extreme investor psychology I associate with bubbles. Security prices were "lofty but not nutty" is how I put it. Because a lot has taken place in the seven months since then, it's time for an update on asset values.

Before I start, please note that I'm talking about investing in general. My specific reference will be to public U.S. corporate securities – stocks and bonds – since they mark to market regularly and are the assets that most enter my consciousness. But since investors' actions toward one group of assets and the resulting price movements influence other assets and other markets – and since they ensue largely from investor psychology, which is highly contagious – I think my comments are probably applicable to other asset classes, to private assets as well as public ones, and possibly to markets outside the U.S.

I'll start by laying out where I think investment value comes from and how it should be assessed. I don't think I've ever done this before in this form. It's a big topic, but I'll try to cover it briefly.

Value

Investment assets – things such as stocks, bonds, companies, and buildings – have a value, which is sometimes referred to as their "intrinsic value": what the asset is "worth" at a point in time. This value is subjective. It can't definitively be found anywhere – not even by AI, as far as I know – and opinions will differ as to what it is.

In my parlance, the value of an asset is derived from its "fundamentals." The fundamentals of a company, for example, encompass a great many things. These include its current earnings, its earning power in the future, the steadiness or variability of its future earnings, the market value of its component assets, the skill of management, its potential to develop new products, the competitive landscape, the strength of its balance sheet, and the myriad additional factors that will influence the company's future. **Ultimately, the totality of an asset's fundamentals constitute its earning power, which in turn is the source of its value.**

A company may own land, buildings, machinery, vehicles, and natural resources such as mineral deposits or forests, and even facilities that allow it to derive electricity from river water or sunshine (which it obviously doesn't own). These are tangible assets, and there's often a market for them and a realizable price. But a company may also have assets that are intangible, such as patents, trade secrets, knowhow, research capability, reputation and image, human talent, management skill, and culture. Some of these may be transferable and salable, but others are not.

All the assets mentioned above have earning power individually, and in combination they create a company's overall earning power. A company's earning power almost always exceeds the sum of the earning power of each of its individual assets taken in isolation. Combining individual assets to maximize a company's overall earning power is the top job of management. When successful, the result is synergy: the benefit gained from skillfully combining things.

But not all assets have earning power (as I define it), and thus not all have calculable investment value. I describe earning power as the money you can make by owning and operating an asset – that is, I omit from "earnings" the possible gains from simply holding an asset and ultimately selling it. A diamond ring, painting, or classic car doesn't produce earnings for its owner (short of renting it out or charging people to look at it). For this reason, its economic potential comes exclusively from the possibility of selling it at a profit. And the person who buys it is likely to be doing so in the hope of selling it to someone else at a still-higher price . . . despite the fact that it won't produce earnings in the interim. **I think of assets that don't produce operating cash flow or have the potential to do so in the future as not having earning power, and that makes them impossible to value objectively, analytically, or intrinsically** (see my 2010 memo about gold, *All That Glitters*).

Some earning power is current and produces income today. The result can be seen in this year's financial statements: the income that today's assets are producing in their current configuration and under today's conditions. Other earning power exists in the form of potential: for example, the income that will be earned when today's holdings of natural resources are exploited in the future, or the income that will be generated from new products developed by the company's employees from its intellectual property. The result will be dependent on the environment that unfolds, which in turn will be influenced by decisions made by company management, competitors, customers, governments, and even investors.

Assets can be tangible or intangible, and an asset's earning power can produce earnings today and also in the future in amounts that might be higher or lower than today. Together, an asset's current earnings, plus its power to produce earnings in the future, constitute its key fundamentals. Some investors emphasize paying a reasonable price for today's earning power, and others are willing to bet on what they see as potential growth in earning power. **Regardless, I think prudent investing has to be based on judgments regarding an asset's present and future earning power. Once an investor has determined an asset's intrinsic value in this way, he will have a basis for establishing a "right" price that will allow for good returns in the future.**

Price

While value can seem theoretical and ephemeral, price is concrete. It's the amount you pay to obtain something. Ultimately, as indicated above, doing a good job of investing comes down to estimating value appropriately and purchasing that value at a reasonable price.

As mentioned above, there are a great many things that combine to make up an asset's fundamentals. Ultimately, they can be boiled down to its earning power, and it's from earnings that value is derived. **In**

the late 1960s, I was taught at the University of Chicago Graduate School of Business that the right price for an asset is the discounted present value of its future cash flows or earnings. You might object: What about all the other things listed above, such as a company's plant and equipment, intellectual property, and management, and even its reputation? Don't they have value? The value of all of these things is derived from their ability to contribute to the company's earning power, and thus it's captured in the earnings calculation.

The key part of a security analyst's job consists of arriving at earnings projections. Then those projections have to be converted into a fair price. At the University of Chicago, the discounting process was purely mathematical: you divide the earnings for each year in the future by $(1+r)^n$, where r is the appropriate discount rate and n is the number of years out into the future the earnings are, and then you total up the yearly results. **But in the real world, price is set by a different discounting process, which consists mostly of people applying their subjective opinions and attitudes about what the asset and its earning power are worth.**

So that's what an asset's price is: the consensus view of investors regarding its underlying fundamental value. According to Benjamin Graham, the father of value investing and Warren Buffett's teacher at Columbia, market prices are set each day by investors who cast their votes by offering to buy or sell. Some investors think a company has a solid product line and competent management, and others consider it stodgy and outmoded. Some investors find another company sexy and right for the future, and others think it's a risky high-flyer. These attitudes are converted into asset prices.

This is where the tug-of-war comes in. As I see it, every day with regard to every asset, the optimists do battle with the pessimists. The market throws out, "GM at $52." The optimists think it's worth $58, so they're happy to buy at $52. Since the pessimists think it's only worth $46, they're willing to accommodate the buyers by selling at $52, and a trade takes place. But sometimes, one side or the other predominates. If the people who think it's worth $58 outnumber the ones who think it's worth $46, more people will want to buy at $52 than want to sell there, so the price will rise to $53, and maybe $54, and so forth.

Just as an imbalance of opinion in one direction or the other can move the price of GM, it can also move a whole market. Sometimes the overall mood of investors in a market is positive, meaning they're characterized by optimism, credulousness, fear of missing out ("FOMO"), and risk tolerance. And sometimes the mood is negative and marked by pessimism, skepticism, fear of loss, and excessive risk aversion. Whereas in real life things fluctuate between pretty good and not so hot, in the minds of investors things can go from flawless to hopeless and back.

When the majority of investors are optimistic, they cause price to rise and potentially exceed value. And when the pessimists reign, they cause price to decline and potentially fall short of value. Thus, a preponderance of investor psychology on one side or the other – in lieu of the rationality and objectivity on which the Efficient Market Hypothesis is predicated – can create the bargains or over-pricings the hypothesis says can't exist. Investors should be on the lookout for them.

The price of an asset means nothing in isolation. You can't tell whether a car is good buy at $40,000 unless you know about the things that determine its market value: its make, model, age, mileage and condition. **It's the same in investing; what matters is the relationship between an asset's price and its value. Investors call that relationship the asset's "valuation."**

The Interaction of Price and Value

If an asset is bought for the right price (or less), its current earnings can give the buyer a good return on his purchase price while he owns it, and increases in earning power can add to the current return it throws off and increase its value and thus the price at which it can be sold. **Thus, an investor's ability to earn an attractive return on an investment will largely depend on whether he accurately appraised the investment's fundamentals and paid an appropriate price for those fundamentals.**

In the long term, the success of an investment will hinge primarily on whether the buyer was right about the asset's earning power. However, an asset's current earning power and opinions regarding its future earning power usually don't change much from month to month or even year to year. **Thus, short-term investment performance is likely to stem mostly from changes in the price investors are willing to pay for the asset. That makes price the dominant consideration for anyone whose principal concern is the short run.**

Value should be thought of as exerting a "magnetic" influence on price. If price is above value, future price movements are more likely to be downward than upward. And if price is below value, future price movements are more likely to be upward than downward. **However, in the short run, price can move in just about any direction relative to value.** This is so because an asset's price at any given point in time is mostly determined by investor psychology, which can be irrational and unpredictable. **Thus, while the current relationship of price to underlying value should move in the expected direction, it can only be counted on to do so in the long run at best.**

"More likely to be" is the key phrase in the above paragraph. An undervalued asset can remain cheap – or even get cheaper – for a long time, just as an overvalued asset can become more overvalued, and then extremely overvalued, and then crazily overvalued. It's the ability of price to go to crazy extremes that causes bubbles and crashes. If price always stopped going up when it began to exceed value, we wouldn't have extended bull markets and bubbles (and the ensuing crashes), and vice versa.

People who bet heavily that price will move in the direction of value – which we call "converging" – can be carried out if they don't have sufficient staying power. That's why John Maynard Keynes said, "The market can remain irrational longer than you can remain solvent." **It's intellectually sound to expect price to move toward value rather than diverge further from it, and even to bet that it will happen, but it's unwise and potentially dangerous to bet heavily that it'll happen soon.**

As Benjamin Graham said, in the short run the market functions like a voting machine, reflecting assets' popularity. But in the long run, it's a weighing machine, assessing assets' value. **Thus, we can think in terms of a "calculus of value" that I find entirely logical and almost mathematical . . . except for the fact that it's applied by people who aren't:**

- Value is what you get when you make an investment, and price is what you pay for it.
- A good investment is one in which the price is right for what the value turns out to be.
- Due to the volatile nature of investor psychology, asset prices fluctuate much more than fundamental value.
- Thus, most price changes reflect changes in investor psychology rather than changes in fundamental value.
- Because of the key role psychology plays in setting asset prices, in order to have a sense for where price stands relative to value, investors should try to gauge prevailing psychology, not just quantitative valuation parameters.

- **The relationship of price to value should be expected to strongly influence investment performance, with high valuations presaging low subsequent returns, and vice versa.**
- **But that relationship must not be counted on to have the expected impact in anything but a long-term sense.**

When the price of an asset is "fair" (however that's assessed), it's reasonable for an investor to expect to earn a return that is likewise fair for the risk borne, relative to the risk-adjusted returns on other assets. But so-called "active investors" go to the trouble of studying companies and markets, buying some assets but not others, and overweighting some and underweighting others – and clients employ active investment managers and pay them fees – in the hope of earning returns that are more than fair for the risk borne and thus better than the risk-adjusted returns enjoyed by other investors. (According to investment theory, investors can dependably earn a fair or average return by investing passively and thereby avoid paying active management fees. But active investors want more.) **What conditions might give rise to the superior risk-adjusted returns active investors crave?**

- The consensus of investors doesn't fully comprehend the asset's current value.
- The market price is too low for the current value of the asset.
- The asset's value increases more than investors anticipated, usually because of an unforeseen increase in its earning power.
- The asset becomes more popular with investors, resulting in an increase in its price that is unrelated to changes in value.

There may be additional possibilities, but I think the above list is pretty exhaustive. And, of course, developments in the opposite direction from those described above can result in risk-adjusted returns that are inferior, including returns that are negative.

In the absence of one or more of the conditions listed immediately above, there's no reason to expect an investment to provide superior returns. And even if these things are present, investors shouldn't expect to achieve superior results unless they possess the superior insight needed to detect them. In a nutshell, it's helpful to think of returns as stemming from (a) changes in value and (b) changes in the relationship between price and value, and the people who earn superior returns are the ones who anticipate those changes better than others.

How Do Investors Think About Price and Value?

When you watch financial TV shows or read about the market in newspapers or investment publications, most of what you come across relates to price, or to the relationship between price and value. The audience doesn't go there to find out how good the company is or what its earning power will be in 2045. They go there to be told whether stock prices will go up or down in the short run (that is, if they know to ask, whether the short-term return will be more or less than fair for the risk, and superior or inferior to the risk-adjusted returns on other assets). And, of course, that's mostly about price/value. So where does that relationship stand today?

Like many things that are made up of a large number of ingredients both qualitative and quantitative, a company's attributes can't be summed up through an algorithm or reduced to a single number. Evaluating them requires judgment. And if the value of a company, for example, is multivariate and confusingly unquantifiable, it obviously can be very hard to assess the fairness of its price at a point in time.

Equity investors deal with this challenge by looking primarily – often almost exclusively – at a stock's p/e ratio, or the ratio of a company's share price to the amount of earnings attributable to each share of its common stock. It's easy to calculate the p/e ratio for one stock or the average for a stock market or index, and thus to know how the current p/e ratio compares to p/e ratios on other stocks or at other points in time. Deviations from those p/e norms are examined in light of the factors that distinguish the company from other companies (based on aspects of fundamentals beyond the current earnings) or that distinguish today from past times, and investors reach conclusions as to whether the asset is overpriced, fairly priced, or underpriced given those considerations. Of course, basing an investment decision on a single metric, such as a stock's p/e ratio, represents a vast oversimplification of the decision, and thus introduces the possibility of error.

Getting Up to Date

Now we can start getting current and concrete. Where were we when 2025 began?

- The S&P 500 stock index is the most watched barometer of the U.S. stock market. Toward the end of last year, its forward-looking p/e ratio (the ratio of its price to its estimated earnings over the coming year) was around 23, significantly above its historical average.
- At the time, J.P. Morgan published a graph showing that if you bought the S&P 500 index at 23 times the coming year's earnings per share in the period 1987-2014 (the only period for which there's data on forward-looking p/e ratios and resulting ten-year returns), your average annual return over the subsequent ten years was between plus 2% and minus 2% **every time**. To the extent this p/e ratio history is relevant, it bodes pretty poorly for the S&P 500.
- I concluded in my January memo that this was troublesome but not threatening, again mostly because the temporary mania or "irrational exuberance" that I believe accompanies – or gives rise to – most bubbles wasn't present.

That was then. What has happened since?

The U.S. stock markets saw declines of up to 10% in the first quarter of this year, with the tech-heavy Nasdaq Composite falling the most. This was primarily the result of unspectacular economic and corporate performance, moderate but still higher-than-desired inflation, and possibly worries about valuation levels and whether the U.S. would retain its position as the world's investment destination of choice.

Then, on April 2, President Trump announced tariffs on imported goods that were much higher and much more sweeping than had been anticipated. Investors promptly concluded the tariffs were likely to cause inflation to accelerate, economic growth to slow, and the U.S. to be viewed less favorably by nations and investors around the world. The result was a sharp drop in the S&P 500, taking it to a level 15% lower than where it was at the end of 2024. In short, investors determined the fundamental outlook had been impaired, and they took down stock prices in line with those poorer fundamentals. Bond investors reacted as well, demanding a yield on the benchmark 10-year Treasury note that got as high as 4½%, up from just over 4% immediately before the tariff announcement. Higher bond yields mean lower bond prices, and bond investors made clear that they thought the risks were higher and thus increased risk compensation was in order.

But from the S&P 500's low point on April 8, it has risen by 29% through yesterday, putting it up by 9% for the year to date. Much of this seems to have been a "relief rally," with trade deal deadlines being extended and/or tariffs being established below April's announced levels, and with inflation from tariffs not yet having materialized. In short, the tariff picture thus far is less bad than was feared at the time of the original announcements. It's also possible that investors are encouraged by expectations of rising earnings; the tax and spending bill that was passed, with its favorable treatment of corporations; the pledges to invest in the U.S. that a number of foreign countries have made as part of trade deals; and even the potential of artificial intelligence to add to companies' earning power.

What can we say about the price/value calculus today?

- The S&P 500 was highly valued at the end of 2024 and also just before the tariff announcement.
- The economic possibilities – and likely multi-year earning power for companies – are probably less positive on balance than they were before the tariff announcement, albeit not as bad as initially feared. Rising inflation is still a concern.
- The threat of higher inflation has reduced the likelihood of the early, stimulative interest rate cuts investors had hoped for.
- The trade and tariff agreements the administration sought are being extracted, but the U.S. seems to be viewed around the world as a less-dependable ally and partner, and some investors may conclude they should be less heavily weighted toward U.S. assets. Implementation of this view could cause net selling and/or reduce the future demand for these assets.
- The U.S. fiscal deficits and national debt show no sign of improvement, and worldwide concern over them seems to be increasing.
- Nevertheless, with the outlook possibly diminished on balance, U.S. stock prices are up. While earnings are expected to rise, stock prices are up more. Thus, regardless of where it stood as this year began, the value proposition in U.S. stocks seems to be less appealing today than it was at year-end – and even then, it wasn't great.

What are the indicators of investor behavior and the resulting price/value relationship?

- The elevated p/e ratio on the S&P 500 is the tentpole of the argument that valuations are optimistic.
- According to the *Financial Times* (July 25), "Stocks in the S&P 500 are now valued at more than 3.3 times their [companies'] sales, according to Bloomberg, an all-time high."
- From the same *FT* article, "A Barclays 'equity-euphoria indicator,' a composite of derivative flows, volatility and sentiment, has surged to twice its normal level, into territory associated with asset bubbles."
- Warren Buffett's favorite indicator – the ratio of the aggregate market capitalization of U.S. stocks to U.S. GDP – is also at an all-time high. It's especially worth noting that the U.S. market cap has been restrained by companies' tendency to wait longer these days before going public and by the fact that many companies have been taken private in buyouts. Thus, this elevated indicator could be even more troubling than it appears.
- The current relationship between the yield on the 10-year U.S. Treasury note and dividend yield on the S&P 500 shows the latter to be expensive in historical terms.
- So-called "meme stocks" – stocks favored by online retail investors, who don't necessarily think in terms of the value proposition described above – have attracted heightened attention lately. Many sport prices that seem low at first glance, but you have to wonder whether their buyers fully understand the companies' fundamentals, some of which appear precarious.
- Yield spreads – the amount of incremental yield investors demand if they're going to give up the safety of Treasury securities and buy corporate debt for its higher yields – are approaching all-time lows and are less generous than they were when I wrote the memo *Gimme Credit* in March. This, too, implies an elevated level of risk tolerance on the part of investors, and thus is another sign of a lofty market.

An aside regarding the valuation of the S&P 500: A bit over half of its jaw-dropping 58% two-year total return in 2023-24 was attributable to the spectacular performance of just seven stocks, those of the so-called "Magnificent Seven" – Apple, Microsoft, Alphabet (parent company of Google), Amazon, Meta Platforms (parent company of Facebook), Nvidia, and Tesla. These are great companies – some are the best companies ever – and these seven stocks have grown to represent a startling one-third of the total market value of the 500-stock index. (Please bear in mind that I don't claim to be an expert on stocks in general or tech stocks in particular.)

Because of these companies' greatness, their stocks are highly valued, and there's a popular perception that their elevated valuations are responsible for the S&P 500's unusually high average p/e ratio. The fact is their p/e ratios average out to roughly 33. This is certainly an above average figure, but I don't find it unreasonable when viewed against what I believe to be the companies' exceptional products, significant market shares, high incremental profit margins, and strong competitive moats. (A lot of the Nifty-Fifty stocks First National City Bank owned when I got there in 1969 were selling at p/e ratios between 60 and 90. Now that's high!) **Rather, I think it's the average p/e ratio of 22 on the 493 non-Magnificent companies in the index – well above the mid-teens average historical p/e for the S&P 500 – that renders the index's overall valuation so high and possibly worrisome.**

Why are asset prices so strong in the face of what I view as net negative developments? How can the S&P 500 have risen 14% in the four-plus months since April 1, the day before the tariffs were announced, given that most observers believe the tariffs will add to inflation, weigh on economic growth, and reduce the perception of the U.S. as the premiere investment destination? Here's my explanation:

- Investors are by nature optimistic. You must be an optimist to hand over your money to someone else in the hope of getting more back later. This is especially true of equity investors, and I think their optimism dies hard.
- When they're in an optimistic mood, investors have the ability to interpret ambiguous developments positively and overlook negatives.
- The last sustained market correction ended in early 2009, meaning it's been over 16 years since risk bearing was seriously punished and "buying the dips" wasn't rewarded. That means no one under 35 or so – professional and amateur investors alike – has ever experienced a prolonged bear market. Older investors have experienced one or more, but, with the passage of such a long time, some may have been lulled into a false sense of security.
- Although the U.S. probably continues to offer the best investment fundamentals in the world, some investors may not appreciate the possibility that it's a little "less best."
- Rationalizations often emerge to keep bull markets going. One these days is "TACO," which stands for "Trump Always Chickens Out." The suggestion is that his strongest threats – and some of investors' worst resulting fears – won't be realized.
- Given the long skein of good years in the markets, it seems today's investors are motivated more by FOMO than by concern about the chance the market is high and likely to produce poor returns or even losses.
- Finally, of course, the consensus of investors responsible for today's asset prices probably view the fundamental outlook as more positive than I do.

What's the bottom line of the calculus? Fundamentals appear to me to be less good overall than they were seven months ago, but at the same time, asset prices are high relative to earnings, higher than they were at the end of 2024, and at high valuations relative to history. Most bull markets are built through the addition of a "constellation of positives" on top of a well-functioning economy. Today I see elements that include the following:

- the positive psychology and "wealth effect" resulting from recent gains in markets, high-end real estate, and crypto,
- the belief that, for most investors, there really is no alternative to the U.S. markets, and
- the excitement surrounding today's new, new thing: AI.

These are the kinds of things that have the ability to fire investor imaginations and contribute to bull markets, and they certainly seem to be doing so now.

* * *

I came across a great quote last year from John Stuart Mill (1859): **"He who knows only his own side of the case knows little of that."** In other words, if you're not conversant with the arguments of those who oppose your position, you really can't assess its validity. Thus, I can't responsibly advance my view without giving the other side of the issue.

In every strongly rising market, there has to be a justification for the extended valuations: the "bull case." If it didn't exist, asset prices couldn't be where they are. It's usually some variation on "it's different this time." Here's how it goes today:

A p/e ratio is basically the result of applying a discounted cash flow calculation to a stream of earnings, as described above. The main inputs for performing such a calculation and assigning a valuation are assumptions regarding the earnings' growth rate, durability, and return on invested capital. Compared to the past, today's S&P 500 is increasingly made up of companies that (a) grow faster, (b) are less cyclical, (c) require less incremental capital to grow, enabling them to generate more free cash flow, and (d) have much stronger competitive positions or "moats." Thus, they deserve above average p/e ratios.

This explanation makes complete sense. It cites factors that really might be different. And per Sir John Templeton, the first person that I know talked about the trap of "it's different this time," 20 percent of the time things really are; today I'd bet it's more than 20 percent.

So, on one hand, "it's different this time" is a recurring bull-market cliche that always bears scrutiny, and on the other hand, failing to recognize when things actually are different is something that stands between the average investor and superiority. I just have no idea which of those two concerns is more valid today. But investors should bear three things in mind:

- the enormous likelihood that AI and related developments will change the world,
- the possibility that it is "different" for **some** companies – those that truly embody the factors listed above and will demonstrate the "persistence" I described in *On Bubble Watch*, but also
- the fact that in most "new, new things," investors tend to treat far too many companies – and often the wrong ones – as likely to succeed.

* * *

The existence of overvaluation can never be proved, and there's no reason to think the conditions discussed above imply there'll be a correction anytime soon. But, taken together, they tell me the stock market has moved from "elevated" to "worrisome."

What should you do about it? I consider tactical actions in terms of the spectrum that runs from aggressiveness to defensiveness, and when valuations are high, I consider becoming more defensive. In the "action shows" my wife, Nancy, and I like to watch, the Pentagon sometimes announces a Defense Readiness Condition, starting at DEFCON 5 and escalating as the danger grows to DEFCON 1, which indicates a nuclear attack is underway or imminent. In a similar vein, I think of progressively applying the following Investment Readiness Conditions, or INVESTCONs, in the face of above average market valuations and optimistic investor behavior:

6. Stop buying
5. Reduce aggressive holdings and increase defensive holdings
4. Sell off the remaining aggressive holdings
3. Trim defensive holdings as well
2. Eliminate all holdings
1. Go short

In my view, it's essentially impossible to reasonably reach the degree of certainty needed to implement INVESTCON 3, 2, or 1. Because "overvaluation" is never synonymous with "sure to go down soon," it's rarely wise to go to those extremes. I know I never have. **But I have no problem thinking it's time for INVESTCON 5.** And if you lighten up on things that appear historically expensive and switch into things that appear safer, there may be relatively little to lose from the market continuing to grind higher for a while . . . or anyway not enough to lose sleep over.

I hasten to note, of course, that credit investments are generally more secure than stocks, and thus well suited to serve as defensive holdings in the climate I describe. **The narrow yield spreads mean today's prospective returns on credit aren't generous relative to those on "risk-free" assets in the context of history** (see *Gimme Credit* for the details)**. But the returns are significant in absolute terms, competitive with the historical returns on equities, and supported by the issuers' contractual promise to pay interest and return principal, something that can't be said for stocks.**

August 13, 2025

Legal Information and Disclosures

This memorandum expresses the views of the author as of the date indicated and such views are subject to change without notice. Oaktree has no duty or obligation to update the information contained herein. Further, Oaktree makes no representation, and it should not be assumed, that past investment performance is an indication of future results. Moreover, wherever there is the potential for profit there is also the possibility of loss.

This memorandum is being made available for educational purposes only and should not be used for any other purpose. The information contained herein does not constitute and should not be construed as an offering of advisory services or an offer to sell or solicitation to buy any securities or related financial instruments in any jurisdiction. Certain information contained herein concerning economic trends and performance is based on or derived from information provided by independent third-party sources. Oaktree Capital Management, L.P. ("Oaktree") believes that the sources from which such information has been obtained are reliable; however, it cannot guarantee the accuracy of such information and has not independently verified the accuracy or completeness of such information or the assumptions on which such information is based.

This memorandum, including the information contained herein, may not be copied, reproduced, republished, or posted in whole or in part, in any form without the prior written consent of Oaktree.