Almost every stock is pricey these days. Here are a few cheap(ish) options

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We all know about the affordability crisis in groceries and housing. Most people, though, don't realize there is also an affordability crisis in the stock market.

Share prices in Canada and the United States have shot up in recent years and not always for the best reasons. What seems to be driving them, at least in part, is an outburst of inflated expectations.

Think of it this way: If stock prices were booming simply because earnings were surging, there would be a lot to cheer and little to worry about. Share prices would still be affordable in the sense that they would continue to offer the same level of value as they always did. All else being equal, a stock that doubled in value because its earnings doubled in size would be just as good a purchase as it was previously.

But that's not exactly what's happening. Yes, earnings have grown at a nice clip. However, what has also expanded is how much investors are willing to pay for each dollar of those earnings. The benchmark S&P 500 index of big U.S. companies sold for 16 times expected earnings in 2016. It now sells for 23 times earnings.

This is not just about a handful of big tech companies getting pricier. It's a broad-based revaluation of share prices to earnings. And it doesn't make a lot of sense.

The price-to-earnings ratio, or P/E, is essentially a reflection of the growth that investors expect in the future. The only way to justify higher P/E ratios marketwide is to assume that growth expectations have rocketed higher across multiple industries – but it's not clear why anyone should assume that. Economies have not suddenly decided to grow faster.

For now, rising P/E ratios are distorting traditional yardsticks of value. In decades past, people were typically willing to pay a mid-teens multiple of earnings for a profitable, mature company with moderate growth expectations. A smaller, faster growing company might merit a higher P/E ratio of 20 or more, but go back 10 years and even high-growth superstars such as Apple Inc., Alphabet Inc. and Microsoft Corp. sold for under 23 times earnings.

These days? The sky's the limit. Consider behemoths such as Walmart Inc. or Costco Wholesale Corp. They are sprawling, mature companies. Yet they're both selling for 40 times earnings or more – far, far above the multiples they fetched in 2016 and in line with what much smaller, fast-growing companies used to fetch.

Many Canadian stalwarts have also seen inflation in their P/E ratios. In early 2016, Dollarama Inc. shares traded for 23 times their expected earnings over the next year. Today, they sell for 40 times. Over the same period, the P/E on Loblaw Cos. Ltd. stock shot from 17 to 23, while the earnings multiple on Royal Bank of Canada shares jumped from 10 to 15.

It's not clear why this is happening. None of the standard explanations stand up.

The modest fall in interest rates over the past couple of years can account for a small rise in P/E ratios, but it can't justify the big jump we've seen.

Similarly, growing enthusiasm about AI can rationalize higher P/Es in the tech sector, but it doesn't offer an obvious explanation for why so many companies outside of tech should also be trading at much higher valuations.

Meanwhile, the mammoth government deficits in the United States can help explain the recent boom in U.S. corporate earnings. However, they don't elucidate why investors should be willing to pay much higher multiples for each dollar of those earnings.

The most robust explanation for the rise in P/E ratios is simply high spirits. We seem to have collectively decided that the future is looking much better than we thought. Every company is now a growth company.

The market is reflecting a remarkable level of exuberance. Share prices, futures prices and bond spreads all signal optimism.

The prevailing level of cheeriness is rather striking at a time when many governments are pushing up against their fiscal limits and Washington, Beijing and Moscow are all challenging international order in different ways. Add in the still uncertain effects of AI on the economy and at least a little more caution might seem in order.

Where can people look for value? One popular notion is gold and silver. Another idea is international stocks. European, Asian and Latin American shares are all cheaper than their North American counterparts.

There may also be pockets of value in sectors that have fallen by the wayside. Drinks companies, for example, are being hammered by Gen Z's turn away from alcohol. One of the big victims is Diageo PLC, the maker of Guinness, Crown Royal and other prominent tipples, which is now trading for about half what it did five years ago. Its stock deserves a look if you believe that booze has more staying power than the critics think.

Canadian real estate trusts (REITs) that specialize in apartments also merit some attention. They are generally despised and for good reason: Falling immigration levels and rising competition from newly completed condos are creating headwinds for landlords.

Still, these REITs cater to Canada's massive need for housing, a need that is not going away any time soon. The decision this week to take Minto Apartment REIT private at a generous premium to its previous trading price demonstrates that at least some people see significant long-run value in these beaten-down businesses.

Patient investors might now want to consider Killam Apartment REIT or Canadian Apartment Properties REIT. Both businesses seem at least somewhat cheap. In a market that has become steadily less affordable, that is a rare and wonderful thing.