Are US Equities Over Valued?

A Comparative Overview

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Executive Summary

Many believe U.S. stocks deserve their high valuations, but the evidence points to a fragile market. U.S. equities trade at elevated levels, with a price-to-earnings ratio near 28 times compared to an international average closer to 15. Price-to-book ratios and dividend yields reinforce the same imbalance, showing investors are paying more for less tangible value. The foundation of this premium looks increasingly shaky, as growth expectations appear priced for perfection. If earnings momentum slows or sentiment shifts, a market correction is not only possible but increasingly likely.

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Introduction

This analysis compares valuation metrics across major global equity markets using a set of regional ETFs as benchmarks. The comparison includes VOO (United States), EWU (United Kingdom), EWJ (Japan), EWC (Canada), EWA (Australia), EWT (Taiwan), EWZ (Brazil), MCHI (China), INDA (India), VWO (Emerging Markets), IEFA (Developed Markets ex-U.S.), and IEUR (Europe). Together, these funds capture both developed and emerging market performance, providing a broad perspective on relative valuation levels. The goal is to evaluate whether U.S. equities' current premium reflects stronger fundamentals or growing signs of overvaluation compared to the rest of the world.

To conduct this analysis, I examined a range of valuation and performance indicators that capture both price-based and fundamentals-driven perspectives. For each regional ETF, I evaluated key ratios such as price-to-earnings (P/E), price-to-book (P/B), and price-to-sales (P/S), alongside dividend yields and 5-year historical return profiles. By normalizing the data and aligning all metrics to a consistent timeframe, this approach provides a fair, apples-to-apples comparison of how expensive or discounted each market appears relative to its peers.
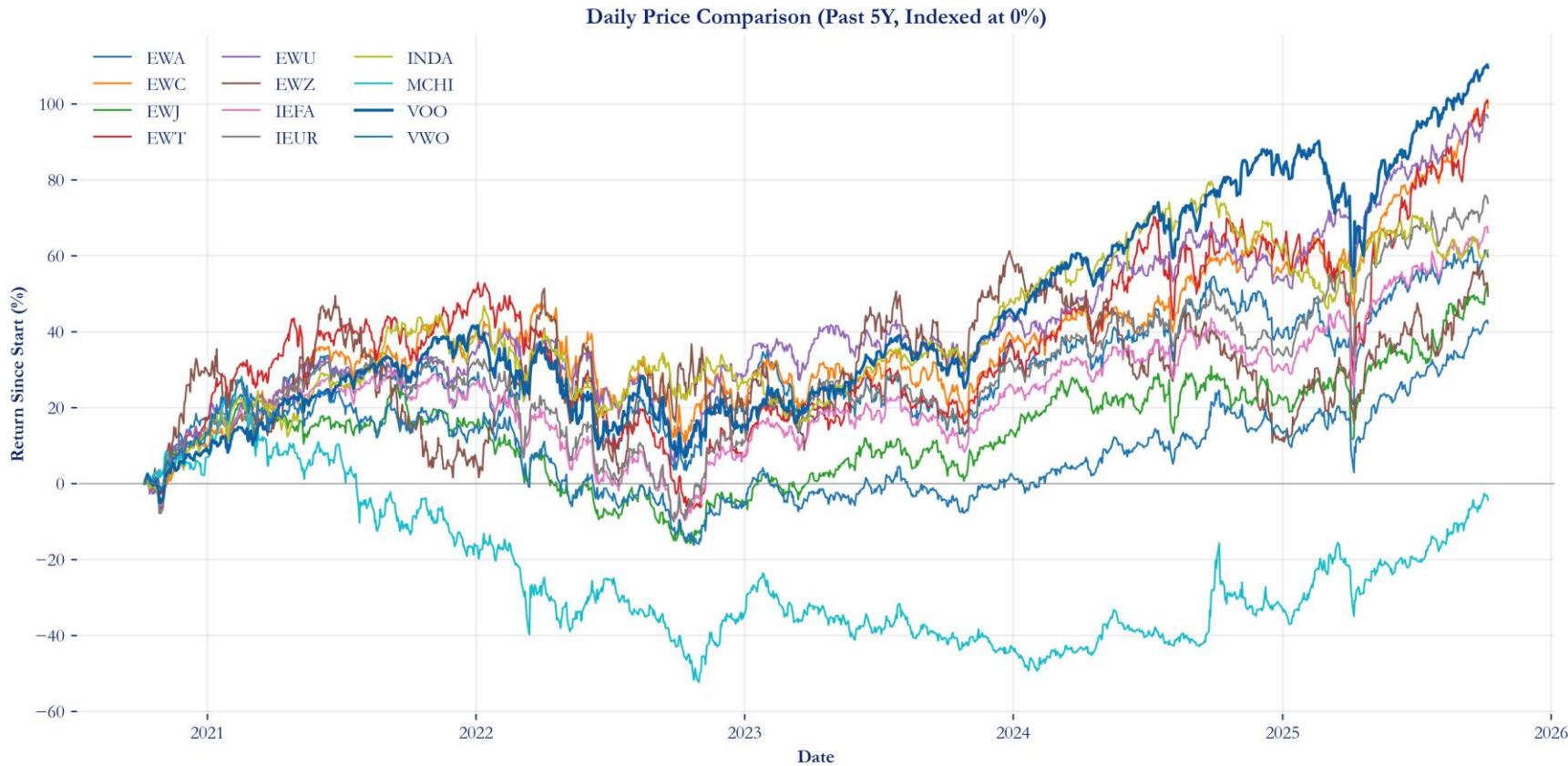
Later, I looked deeper into VOO to find the companies that drag most of its valuation, companies with the highest PE, and impact of AI as a growth driver of the US stock market.

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Global Equity ETF Benchmark Set

Ticker	ETF Name	Region/Country	Provider	Focus	AUM (USD bn)	Dividend Yield (TTM)	Inception Date
VOO	Vanguard S&P 500 ETF	United States	Vanguard	Large-cap U.S.	$ 1,399.42	$ 0.01	11/13/2000
EWU	iShares MSCI UKETF	United Kingdom	iShares / BlackRock	Large & mid-cap UK	$ 2.81	$ 0.04	3/12/1996
EWJ	iShares MSCI Japan ETF	Japan	iShares / BlackRock	Large & mid-cap Japan	$ 15.36	$ 0.02	3/12/1996
EWC	iShares MSCI Canada ETF	Canada	iShares / BlackRock	Large & mid-cap Canada	$ 3.37	$ 0.02	3/12/1996
EWA	iShares MSCI Australia ETF	Australia	iShares / BlackRock	Large & mid-cap Australia	$ 1.53	$ 0.03	3/12/1996
EWT	iShares MSCI Taiwan ETF	Taiwan	iShares / BlackRock	Large & mid-cap Taiwan (tech-heavy)	$ 6.58	$ 0.02	6/20/2000
EWZ	iShares MSCI Brazil ETF	Brazil	iShares / BlackRock	Large & mid-cap Brazil	$ 5.69	0.05	7/10/2000
MCHI	iShares MSCI China ETF	China	iShares / BlackRock	Large & mid-cap China	$ 8.49	$ 0.02	3/29/2011
INDA	iShares MSCI India ETF	India	iShares / BlackRock	Large & mid-cap India	$ 9.14	$ 0.01	2/2/2012
VWO	Vanguard FTSE Emerging Markets	Emerging Markets	Vanguard	Broad EM (large, mid, small)	$ 136.41	$ 0.03	6/23/2006
IEFA	iShares Core MSCI EAFE	Developed ex-U.S. & Canada	iShares / BlackRock	Developed ex-US/Canada (IMI)	$ 155.52	$ 0.03	10/18/2012
IEUR	iShares Core MSCI Europe	Europe	iShares / BlackRock	European equities (IMI)	$ 6.69	$ 0.03	6/10/2014

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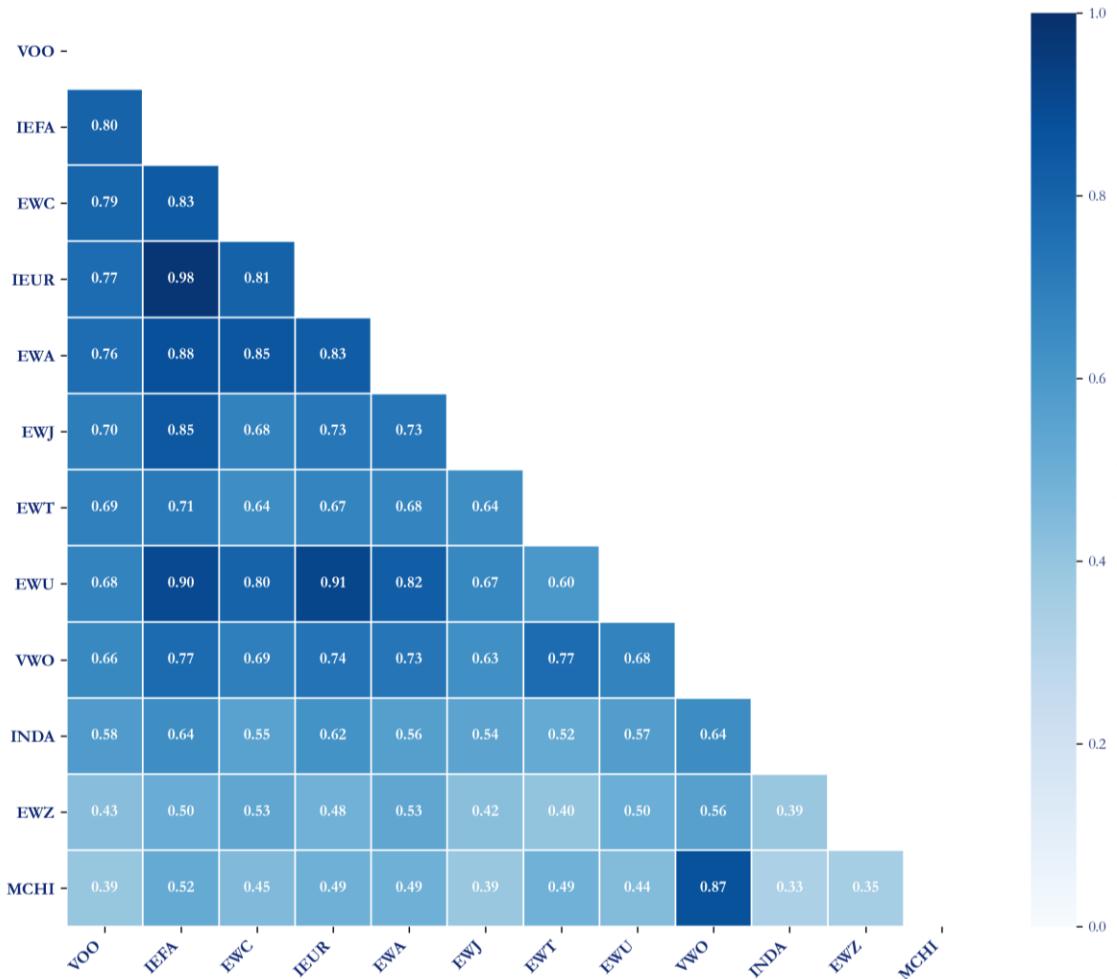
Daily Price Comparison (2021-2025)

Daily Price Comparison (Past 5Y, Indexed at 0%)

Legend: EWA, EWC, EWJ, EWT, EWU, EWZ, IEFA, IEUR, INDA, MCHI, VOO, VWO

Y-axis: Return Since Start (%)
X-axis: Date (2021–2026)

This suggests that U.S. stocks (VOO) have clearly outperformed other global markets over the past five years. The U.S. market has recovered faster from downturns and reached much higher overall returns, driven by strong performance in large companies and technology stocks. This strong run supports why U.S. valuations are higher, but it also suggests that part of the rise may come from investor optimism rather than steady growth across all sectors.

Data from Yahoo Finance

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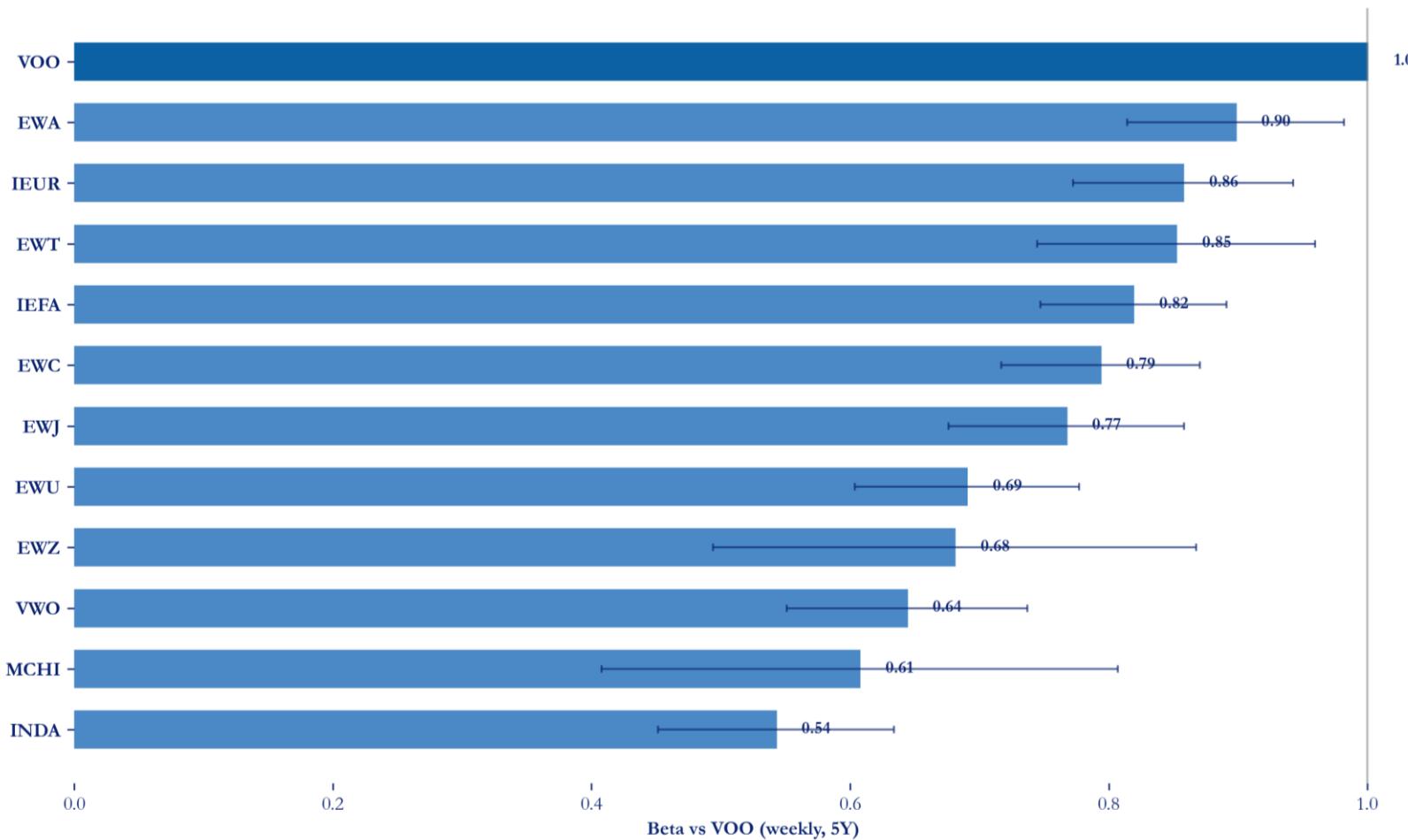
Correlation of Daily Returns (2020-2025)

This correlation chart shows that most global markets move closely together, especially developed ones such as the U.S., Europe, Canada, and Australia. Their daily returns are highly correlated, meaning they tend to rise and fall at the same time. Emerging markets like China (MCHI) and Brazil (EWZ) show weaker correlations, suggesting they offer slightly more diversification. Overall, this pattern reflects how global markets remain connected, with the U.S. often driving broader market movements.

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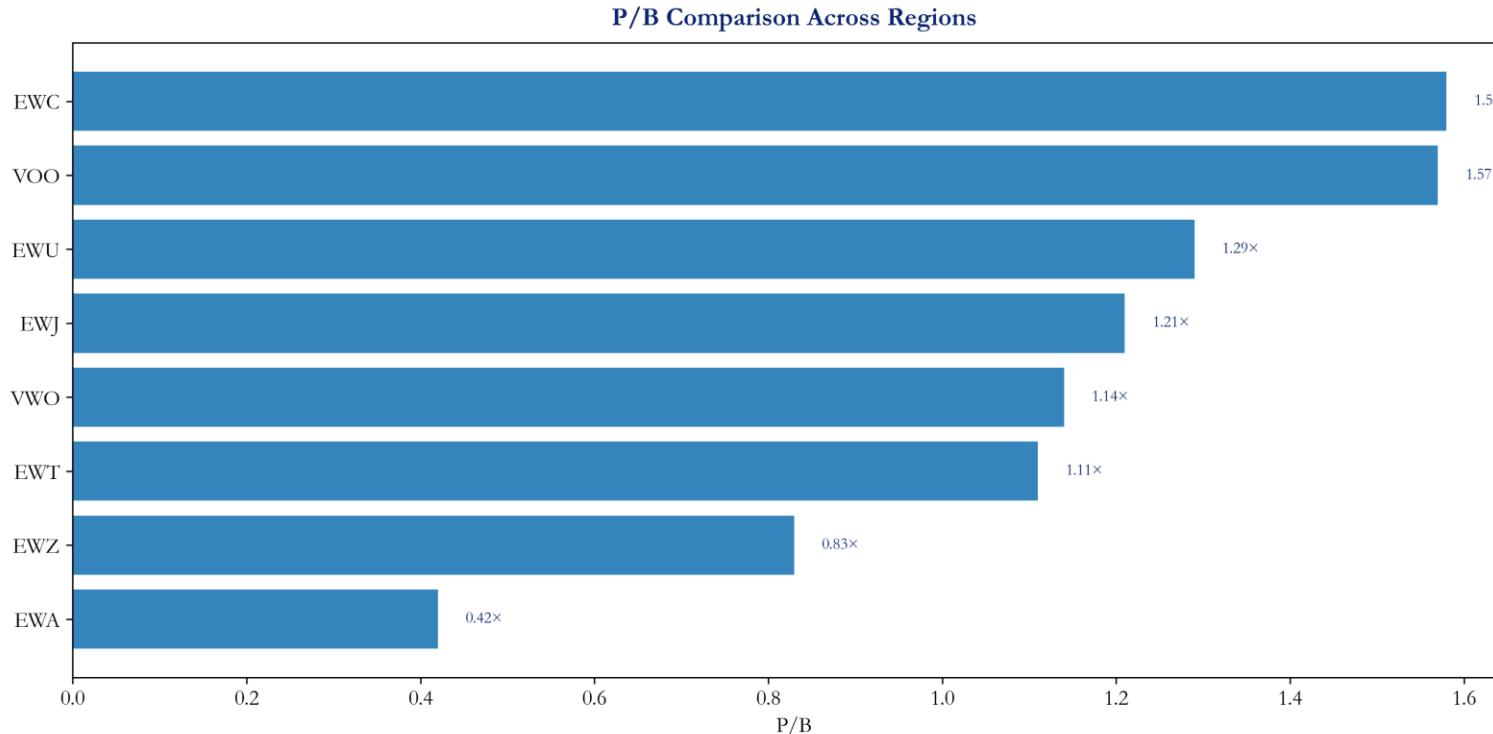
ETF Betas vs. US Market (VOO), Weekly Returns Over 5 Years

The beta chart shows how sensitive each market's ETF is to movements in the U.S. market (VOO). Most developed markets, such as Australia (EWA), Europe (IEUR), and Japan (EWJ), have betas between 0.75 and 0.90, meaning they move in the same direction as the U.S. but with slightly less volatility. Emerging markets like India (INDA), China (MCHI), and Brazil (EWZ) have lower betas, indicating weaker co-movement and more market-specific dynamics. Overall, this suggests that while global markets remain influenced by U.S. trends, some market still correlate weakly with the US stock market.

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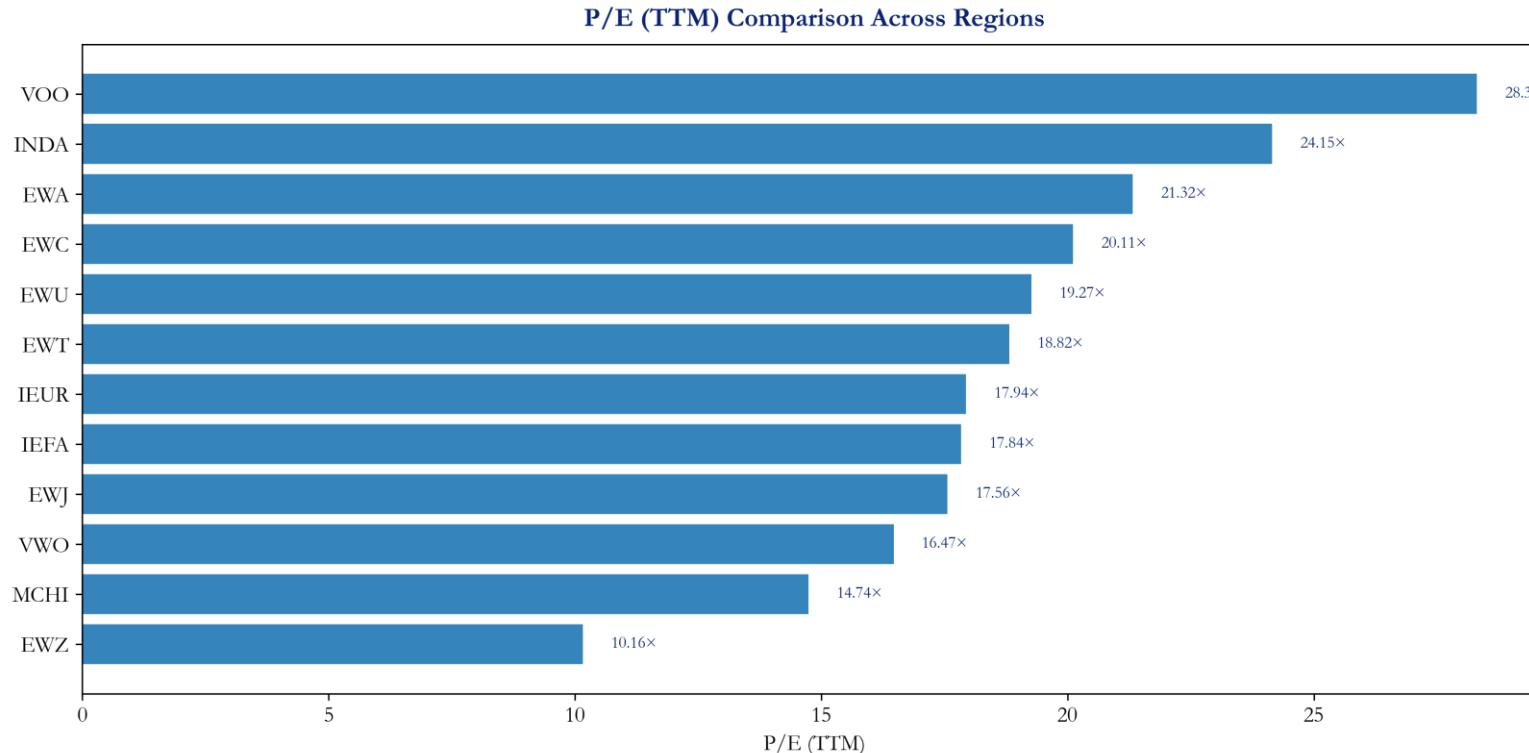
Valuation Disparity: Price-to-Book Multiples Indicate Persistent U.S. Premium

P/B Comparison Across Regions

U.S. and Canadian equities command the highest price-to-book ratios globally, at 1.57x and 1.58x respectively, well above the global median of ~1.16x. This indicates investors are paying a premium for each dollar of book value, largely reflecting strong corporate profitability and growth expectations. However, such elevated valuations also suggest that much of this optimism may already be priced in, leaving limited margin for error if earnings momentum slows.

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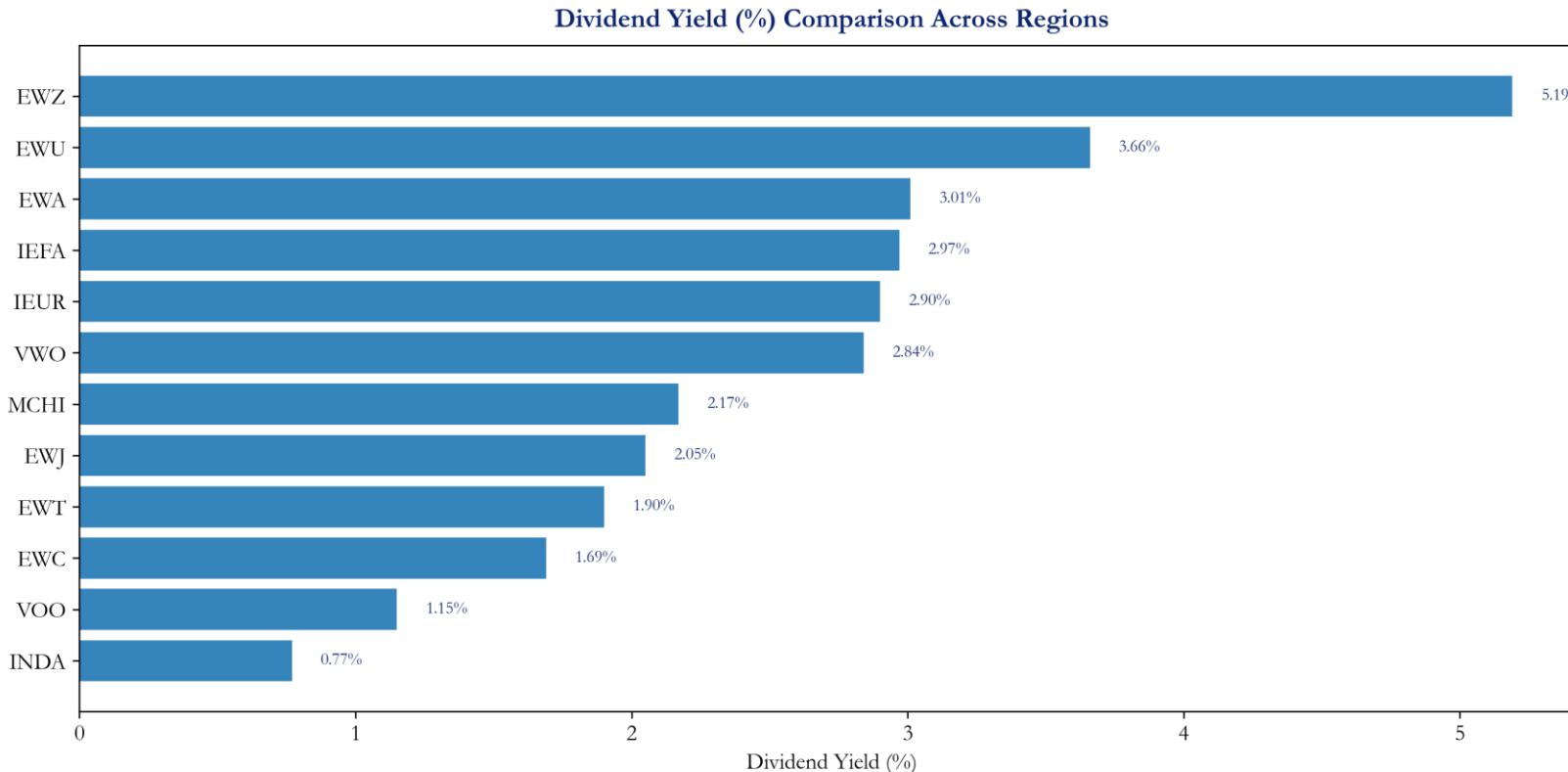
Valuation Disparity: Earnings Multiples Reinforce U.S. Overvaluation

P/E (TTM) Comparison Across Regions

Ticker	P/E (TTM)
VOO	28.31×
INDA	24.15×
EWA	21.32×
EWC	20.11×
EWU	19.27×
EWT	18.82×
IEUR	17.94×
IEFA	17.84×
EWJ	17.56×
VWO	16.47×
MCHI	14.74×
EWZ	10.16×

X-axis: P/E (TTM), scale 0 to 25+

The U.S. (VOO) trades at 28.3x earnings, far above the global median near 18x.Only India (24.1x) and Australia (21.3x) come close, while most developed and emerging peers such as Europe (17.8x) and Brazil (10.2x) remain substantially cheaper. The sharp valuation premium suggests investors have priced in U.S. profit growth and tech-sector dominance.

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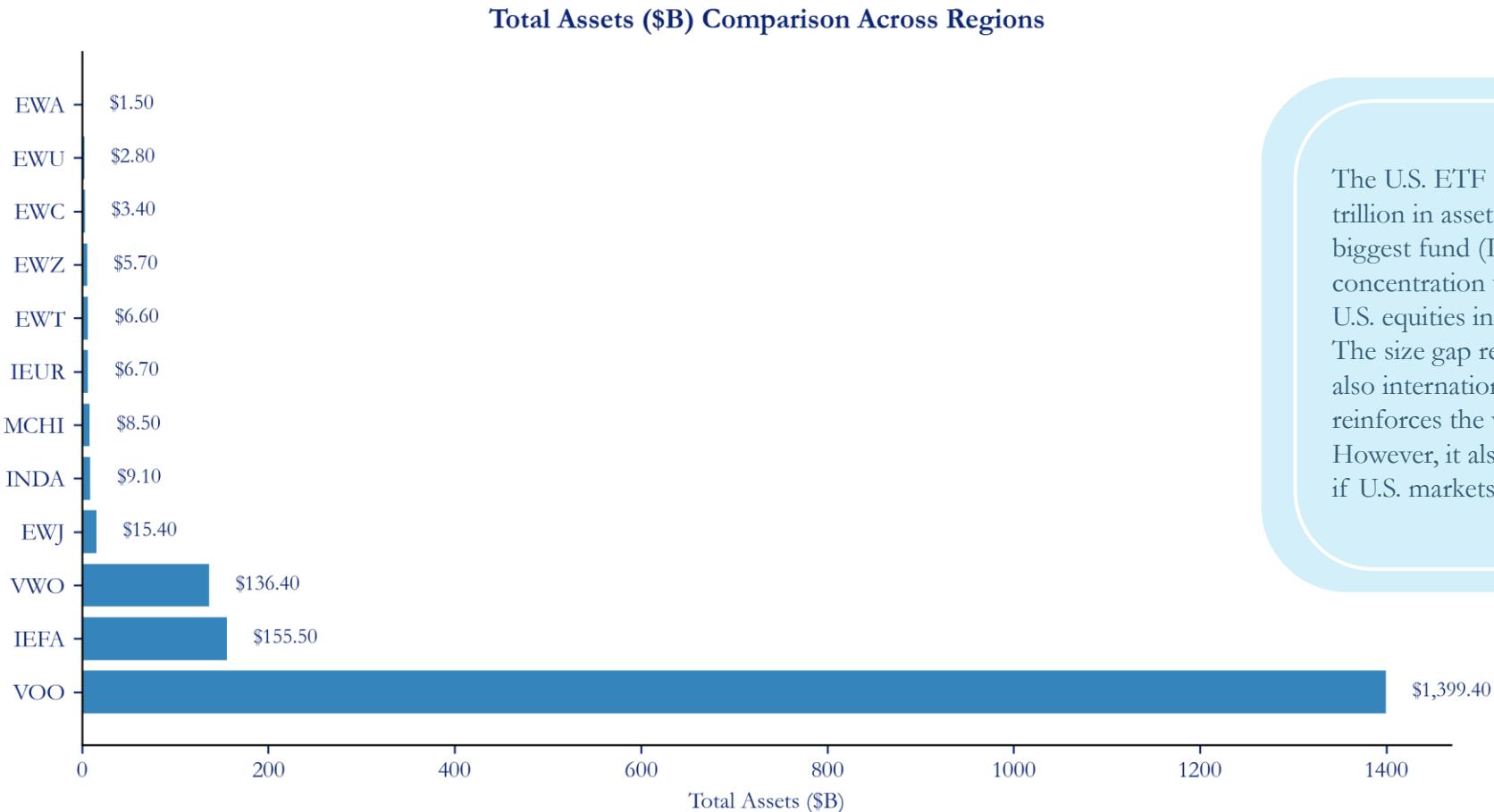
Valuation Disparity: Dividend Yields Underscore U.S. Valuation Premium

Dividend Yield (%) Comparison Across Regions

Ticker	Dividend Yield (%)
EWZ	5.19%
EWU	3.66%
EWA	3.01%
IEFA	2.97%
IEUR	2.90%
VWO	2.84%
MCHI	2.17%
EWJ	2.05%
EWT	1.90%
EWC	1.69%
VOO	1.15%
INDA	0.77%

Dividend Yield (%)

U.S. equities (VOO) offer one of the lowest dividend yields globally at just 1.15%, compared to 5.19% in Brazil (EWZ) and over 3% in the U.K. (EWU). This wide gap signals that investors in the U.S. are accepting significantly lower income returns, a hallmark of stretched valuations and growth-driven pricing. Conversely, higher-yielding markets like Brazil, the U.K., and Australia may present more attractive income and total-return potential if global risk sentiment stabilizes.

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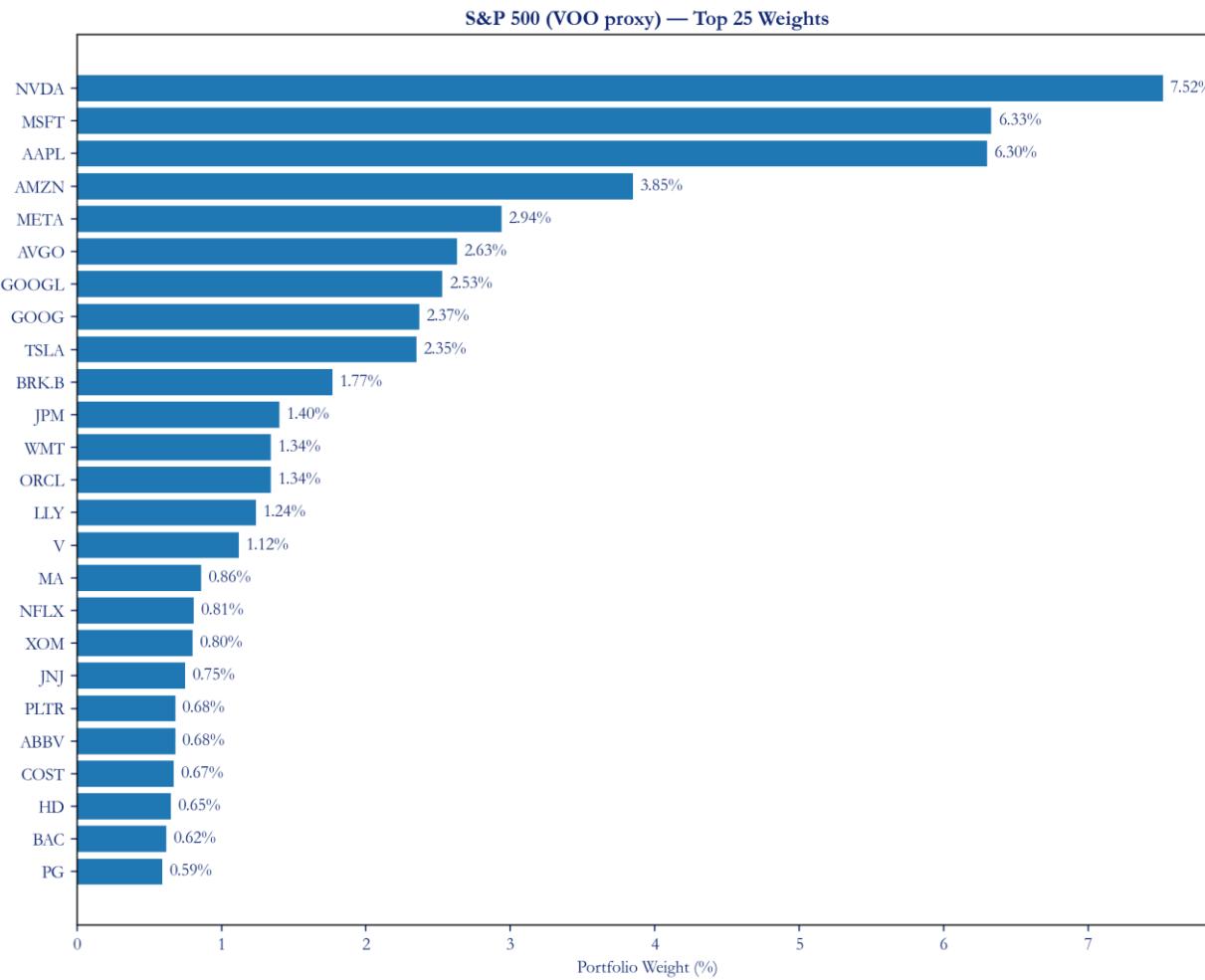
U.S. Market Dominance Evident in Asset Concentration

Total Assets ($B) Comparison Across Regions

Ticker	Total Assets ($B)
EWA	$1.50
EWU	$2.80
EWC	$3.40
EWZ	$5.70
EWT	$6.60
IEUR	$6.70
MCHI	$8.50
INDA	$9.10
EWJ	$15.40
VWO	$136.40
IEFA	$155.50
VOO	$1,399.40

Total Assets ($B)

The U.S. ETF (VOO) commands approximately $1.4 trillion in assets, nearly nine times larger than the next biggest fund (IEFA, $155B). This massive concentration underscores the global dominance of U.S. equities in both liquidity and investor allocation. The size gap reflects not only market performance but also international capital preference, which further reinforces the valuation premium seen in U.S. markets. However, it also implies heightened systemic exposure if U.S. markets falter.

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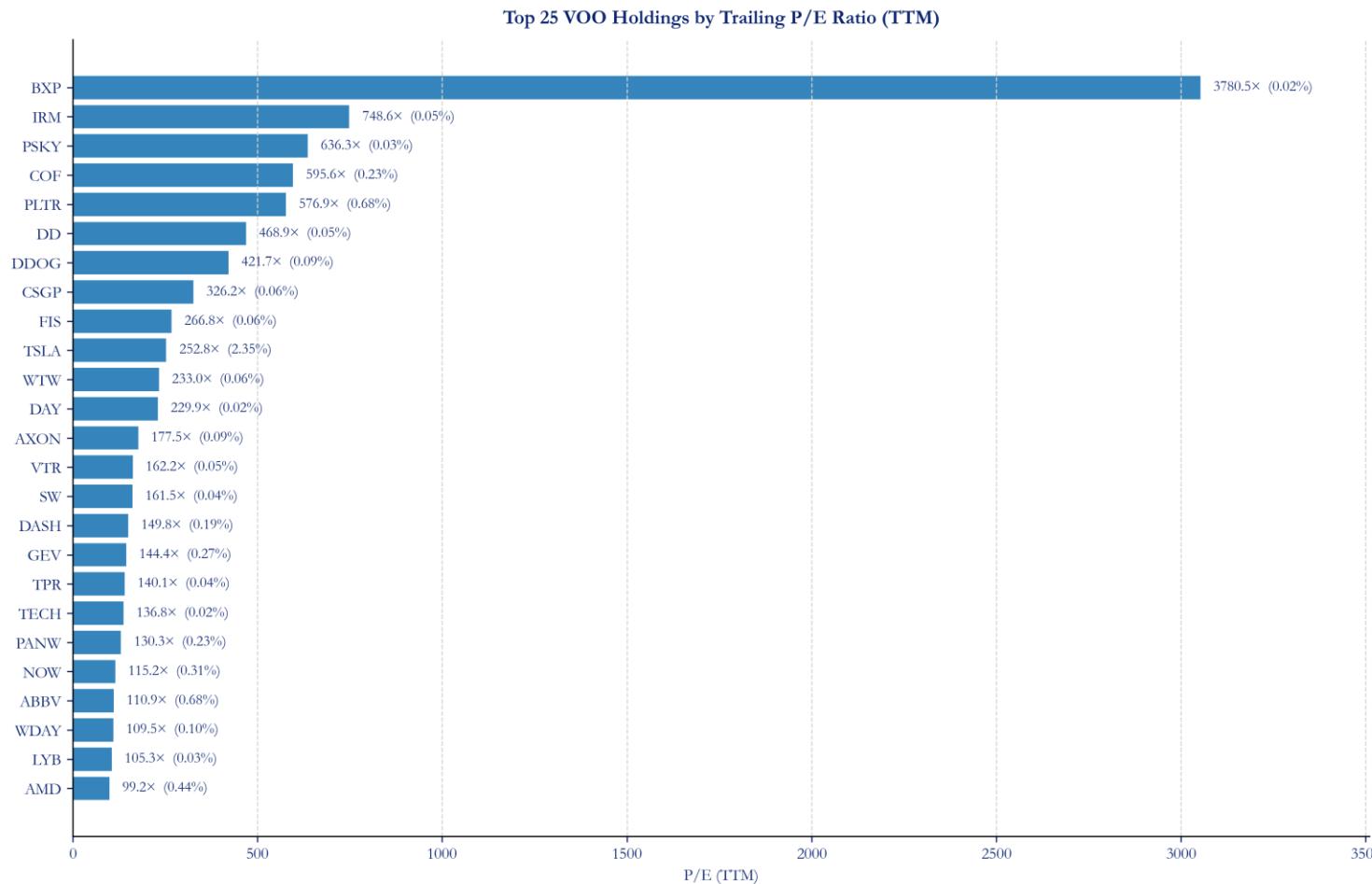
U.S. Equity Concentration and Valuation Drivers

S&P 500 (VOO proxy) — Top 25 Weights

| Ticker	Portfolio Weight (%)
NVDA	7.52%
MSFT	6.33%
AAPL	6.30%
AMZN	3.85%
META	2.94%
AVGO	2.63%
GOOGL	2.53%
GOOG	2.37%
TSLA	2.35%
BRK.B	1.77%
JPM	1.40%
WMT	1.34%
ORCL	1.34%
LLY	1.24%
V	1.12%
MA	0.86%
NFLX	0.81%
XOM	0.80%
JNJ	0.75%
PLTR	0.68%
ABBV	0.68%
COST	0.67%
HD	0.65%
BAC	0.62%
PG	0.59%

The U.S. market's valuation premium is heavily influenced by its extreme concentration in a handful of mega-cap technology firms. The top five holdings (NVIDIA (7.52%), Microsoft (6.33%), Apple (6.30%), Amazon (3.85%), and Meta (2.94%)) collectively account for over 27% of the entire S&P 500's weight. This level of concentration is historically unprecedented and highlights how a small group of companies now drives a disproportionate share of market performance.

Data from Yahoo Finance

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Extremely High Multiples Concentrated in Select U.S. Holdings

Top 25 VOO Holdings by Trailing P/E Ratio (TTM)

Ticker	P/E (TTM)	Weight
BXP	3780.5×	(0.02%)
IRM	748.6×	(0.05%)
PSKY	636.3×	(0.03%)
COF	595.6×	(0.23%)
PLTR	576.9×	(0.68%)
DD	468.9×	(0.05%)
DDOG	421.7×	(0.09%)
CSGP	326.2×	(0.06%)
FIS	266.8×	(0.06%)
TSLA	252.8×	(2.35%)
WTW	233.0×	(0.06%)
DAY	229.9×	(0.02%)
AXON	177.5×	(0.09%)
VTR	162.2×	(0.05%)
SW	161.5×	(0.04%)
DASH	149.8×	(0.19%)
GEV	144.4×	(0.27%)
TPR	140.1×	(0.04%)
TECH	136.8×	(0.02%)
PANW	130.3×	(0.23%)
NOW	115.2×	(0.31%)
ABBV	110.9×	(0.68%)
WDAY	109.5×	(0.10%)
LYB	105.3×	(0.03%)
AMD	99.2×	(0.44%)

P/E (TTM)

Source: Yahoo Finance | P/E = Price ÷ Earnings (Trailing 12 Months)

A handful of S&P 500 constituents trade at exceptionally high earnings multiples, far exceeding the index average of ~28x. Companies like Boston Properties (BXP, 3,785x), Iron Mountain (IRM, 786x), and Palantir (PLTR, 576x) skew the aggregate valuation upward despite representing small portfolio weights. This outlier behavior illustrates how inflated valuations in niche or high-growth segments can distort broader market metrics. While their index impact is modest, these extremes highlight the speculative pricing embedded within portions of the U.S. market.

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AI-Driven Stocks Have Outpaced Broader U.S. Market Growth
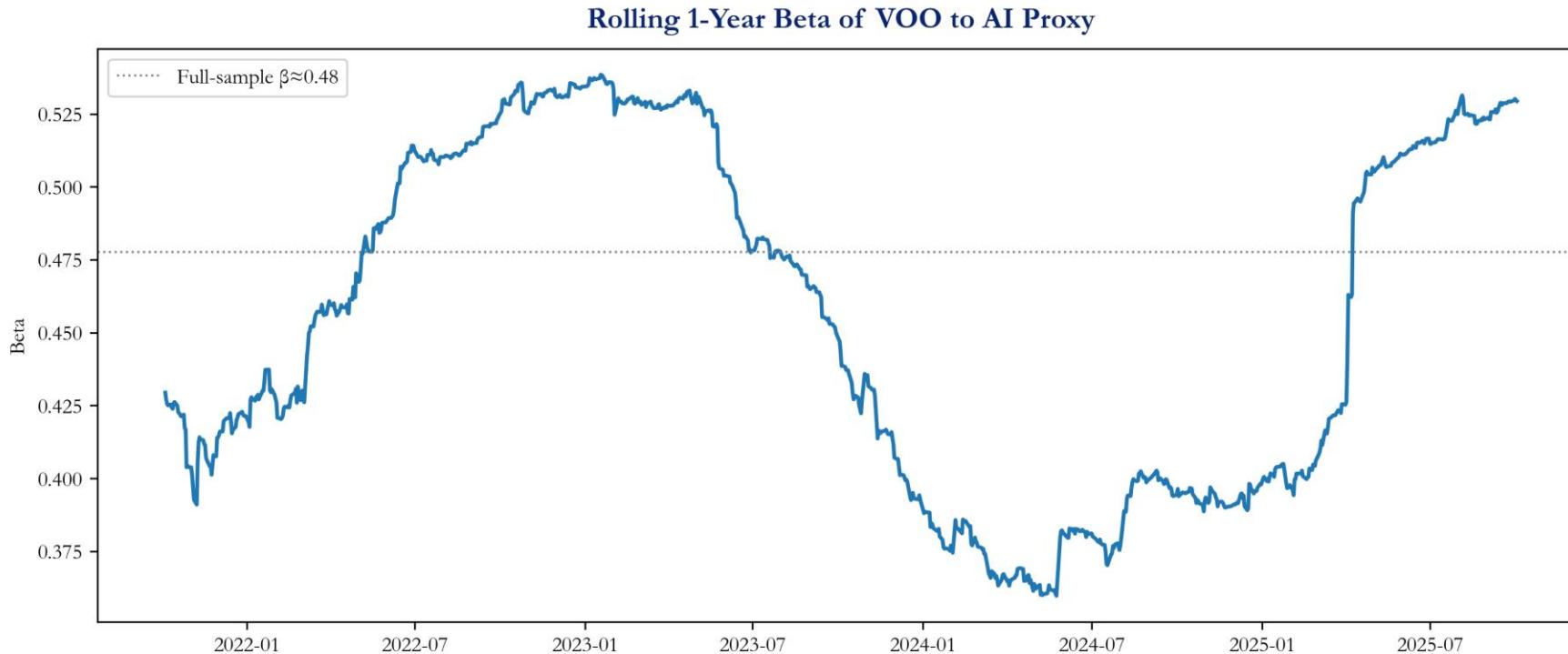
VOO vs AI Proxy (Cumulative Growth, ~5Y)

The AI proxy portfolio has surged more than fourfold over the past five years, compared to roughly 2× growth for the S&P 500 (VOO). This divergence illustrates how a small group of AI-linked mega-caps, such as NVIDIA, Microsoft, and Meta, have powered the bulk of U.S. equity returns. The data show that U.S. market strength has become increasingly theme-concentrated, with valuations and performance heavily dependent on continued optimism around AI productivity and earnings expansion.

Data from Yahoo Finance

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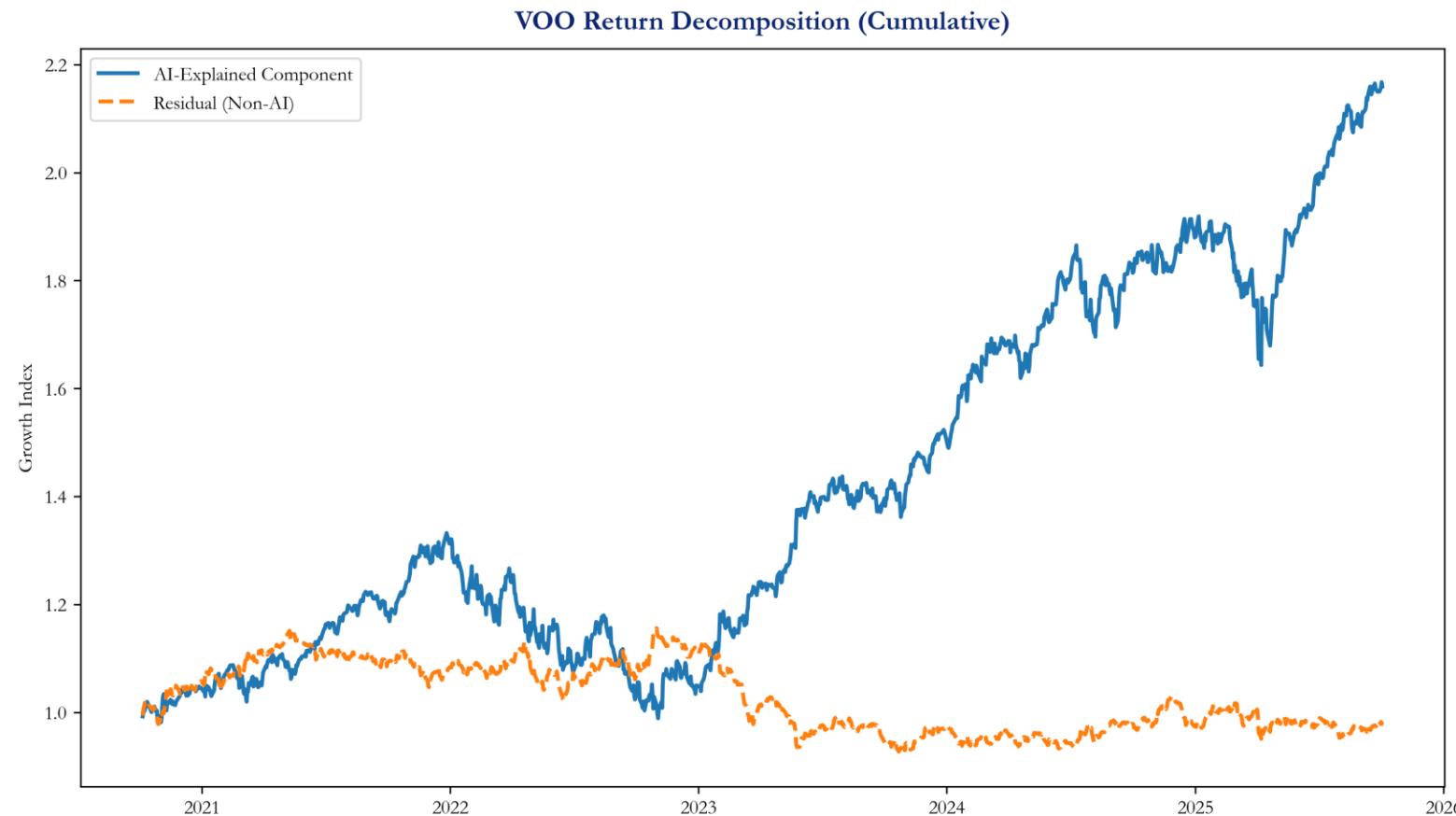
U.S. Market Sensitivity to AI Has Increased Sharply Since 2024

Rolling 1-Year Beta of VOO to AI Proxy

This rise indicates that broader U.S. equity performance has become increasingly tethered to the fortunes of AI-related stocks. As AI leadership deepens its dominance within market capitalization and earnings growth, movements in the S&P 500 reflect those same dynamics. The growing correlation also implies that AI optimism now represents a key macro-driver of U.S. equity risk, magnifying volatility should the AI narrative weaken.

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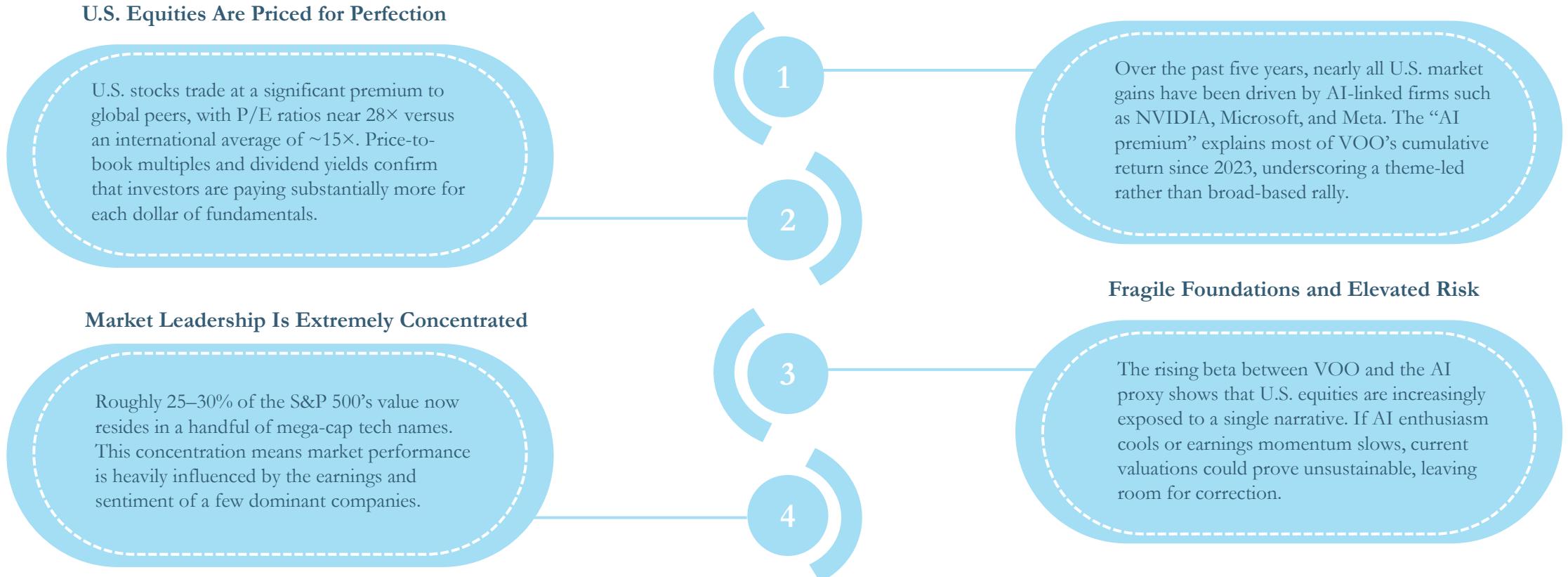
AI-Linked Factors Account for Nearly All Recent U.S. Market Gains

VOO Return Decomposition (Cumulative)

Since 2023, the AI-explained component has driven almost all cumulative S&P 500 returns, while the residual (non-AI) component has remained flat to negative. This highlights that the U.S. market's growth has become highly dependent on the AI sector's momentum rather than broad-based earnings expansion. In effect, the S&P 500's rise reflects concentrated exposure to a single growth narrative: AI innovation and investor enthusiasm.

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Main Takeaways

U.S. Equities Are Priced for Perfection

U.S. stocks trade at a significant premium to global peers, with P/E ratios near 28× versus an international average of ~15×. Price-to-book multiples and dividend yields confirm that investors are paying substantially more for each dollar of fundamentals.

AI Has Become the Core Growth Engine

Over the past five years, nearly all U.S. market gains have been driven by AI-linked firms such as NVIDIA, Microsoft, and Meta. The "AI premium" explains most of VOO's cumulative return since 2023, underscoring a theme-led rather than broad-based rally.

Market Leadership Is Extremely Concentrated

Roughly 25–30% of the S&P 500's value now resides in a handful of mega-cap tech names. This concentration means market performance is heavily influenced by the earnings and sentiment of a few dominant companies.

Fragile Foundations and Elevated Risk

The rising beta between VOO and the AI proxy shows that U.S. equities are increasingly exposed to a single narrative. If AI enthusiasm cools or earnings momentum slows, current valuations could prove unsustainable, leaving room for correction.

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