

Are US Equities Over valued?

A Comparative Overview

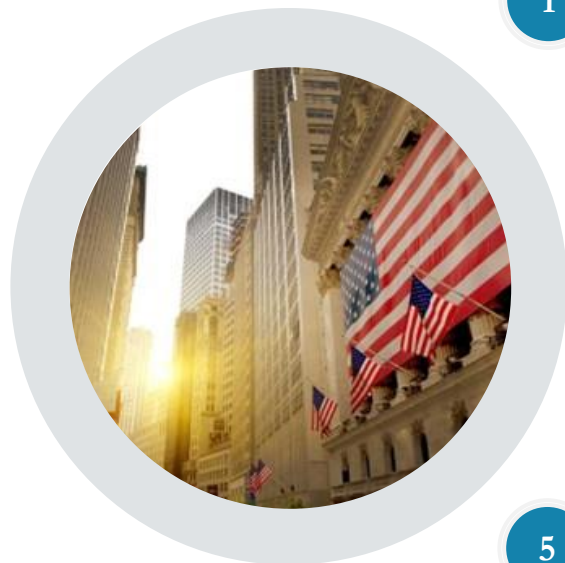
October 2025



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1

Introduction & Framework

2

Global Valuation Comparison

3

Market Structure & Concentration

4

The AI Effect on U.S. Returns

5

Main Takeaways

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.

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.

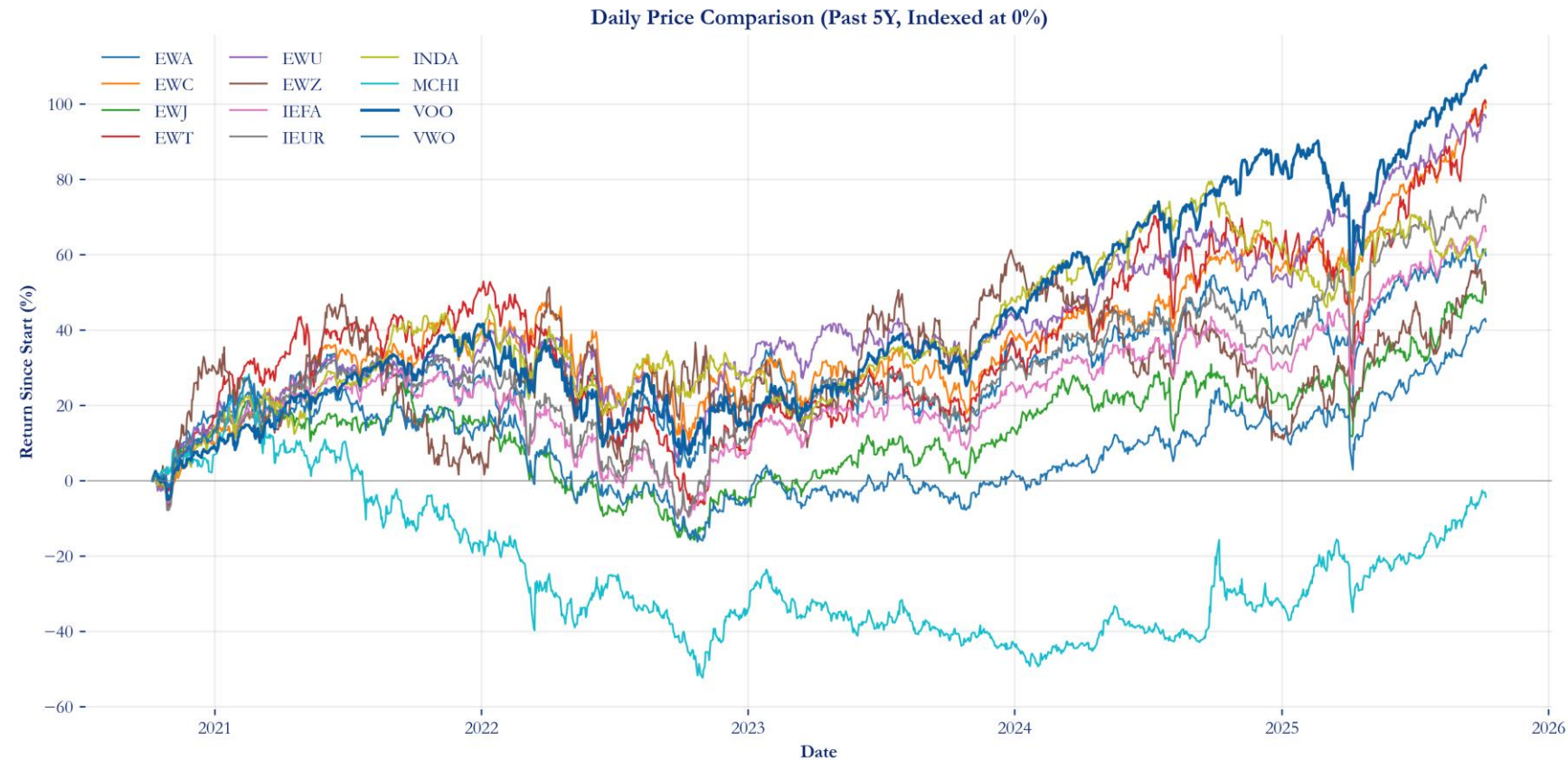
Later, I looked deeper into VOO to find the companies that drag most of its valuation, companies with the highest PE, and impact of AI as a growth driver of the US stock market.

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 |
| EWK | 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 |

Sources: yahooofinance.com; pitchbook.com

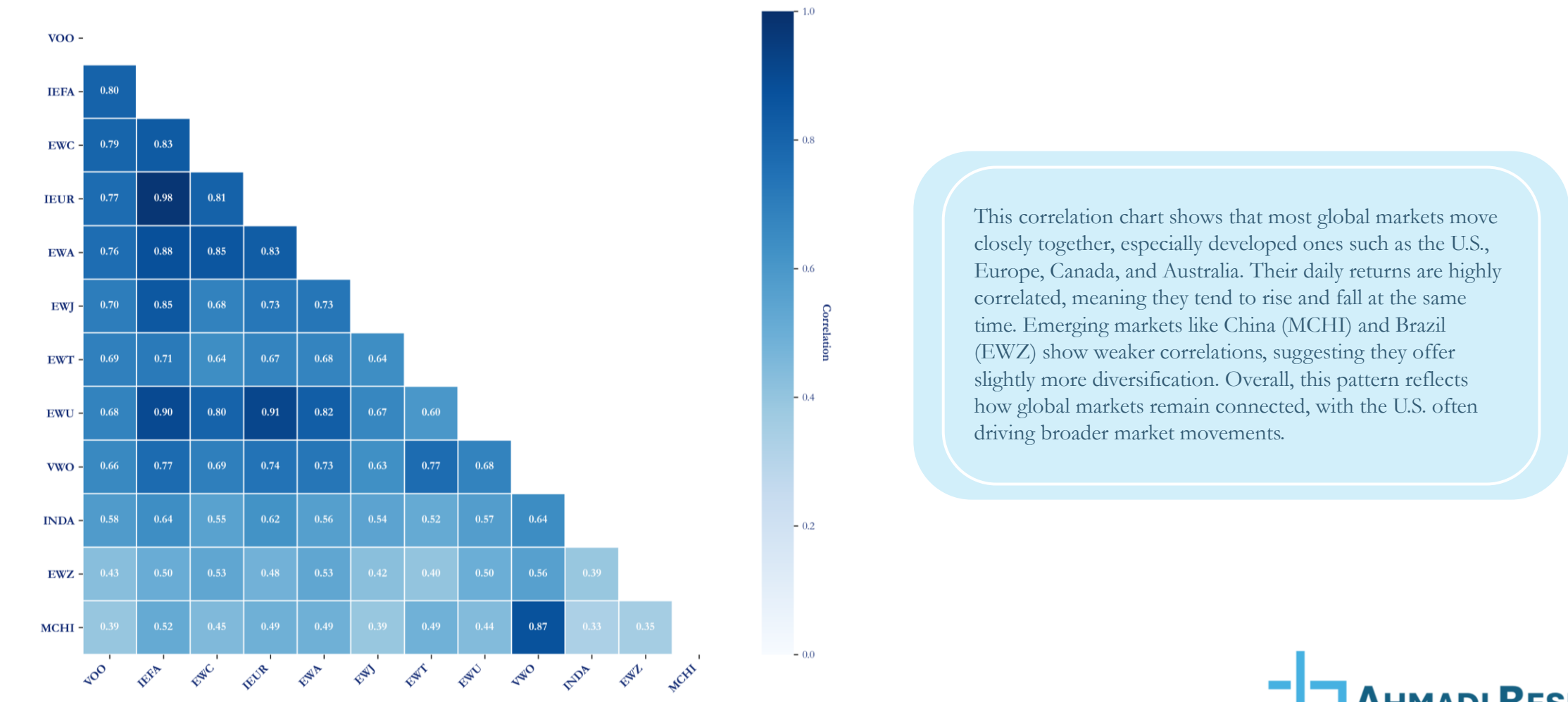
Daily Price Comparison (2021-2025)



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.

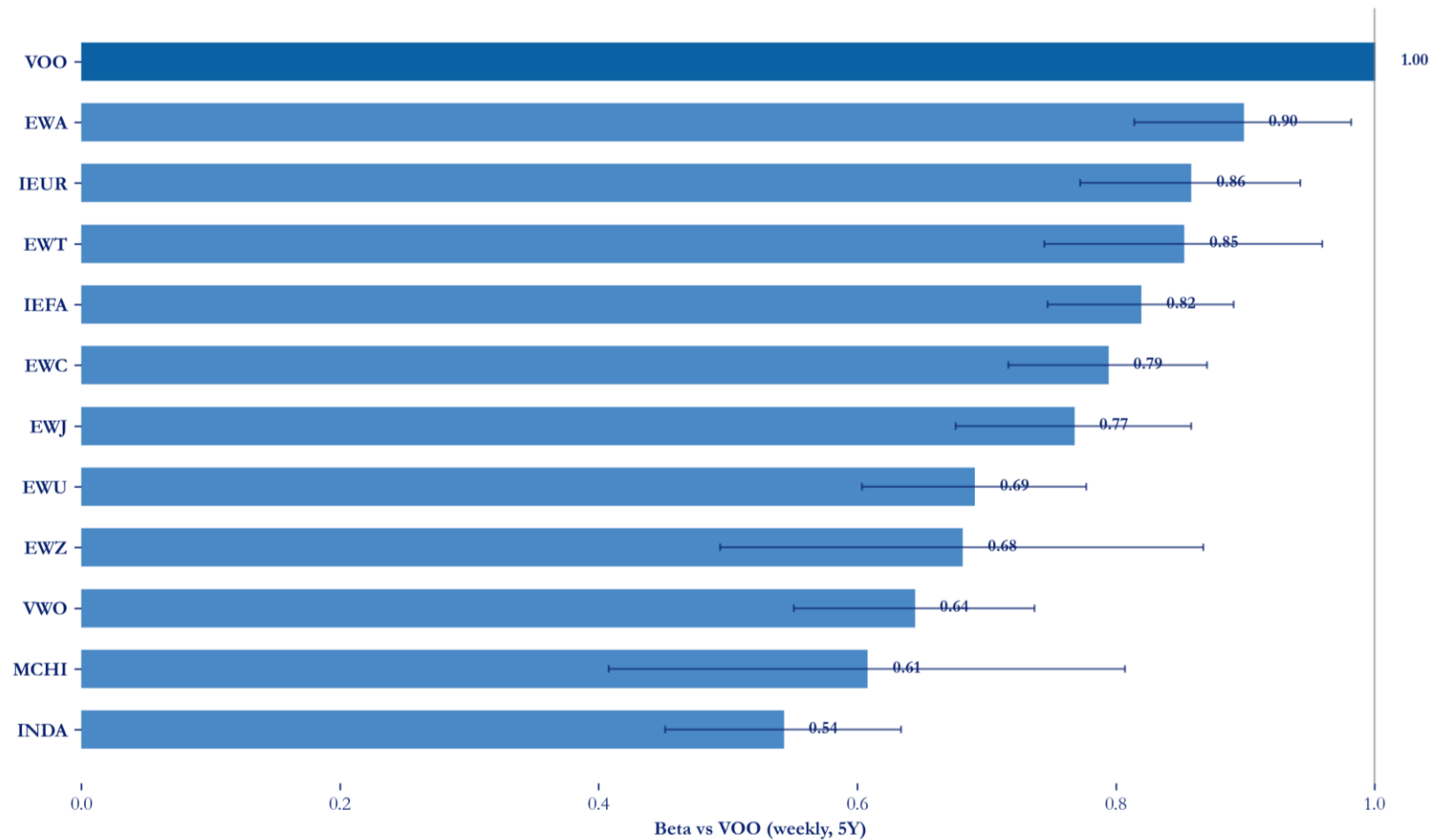
Data from Yahoo Finance

Correlation of Daily Returns (2020-2025)



Data from Yahoo Finance

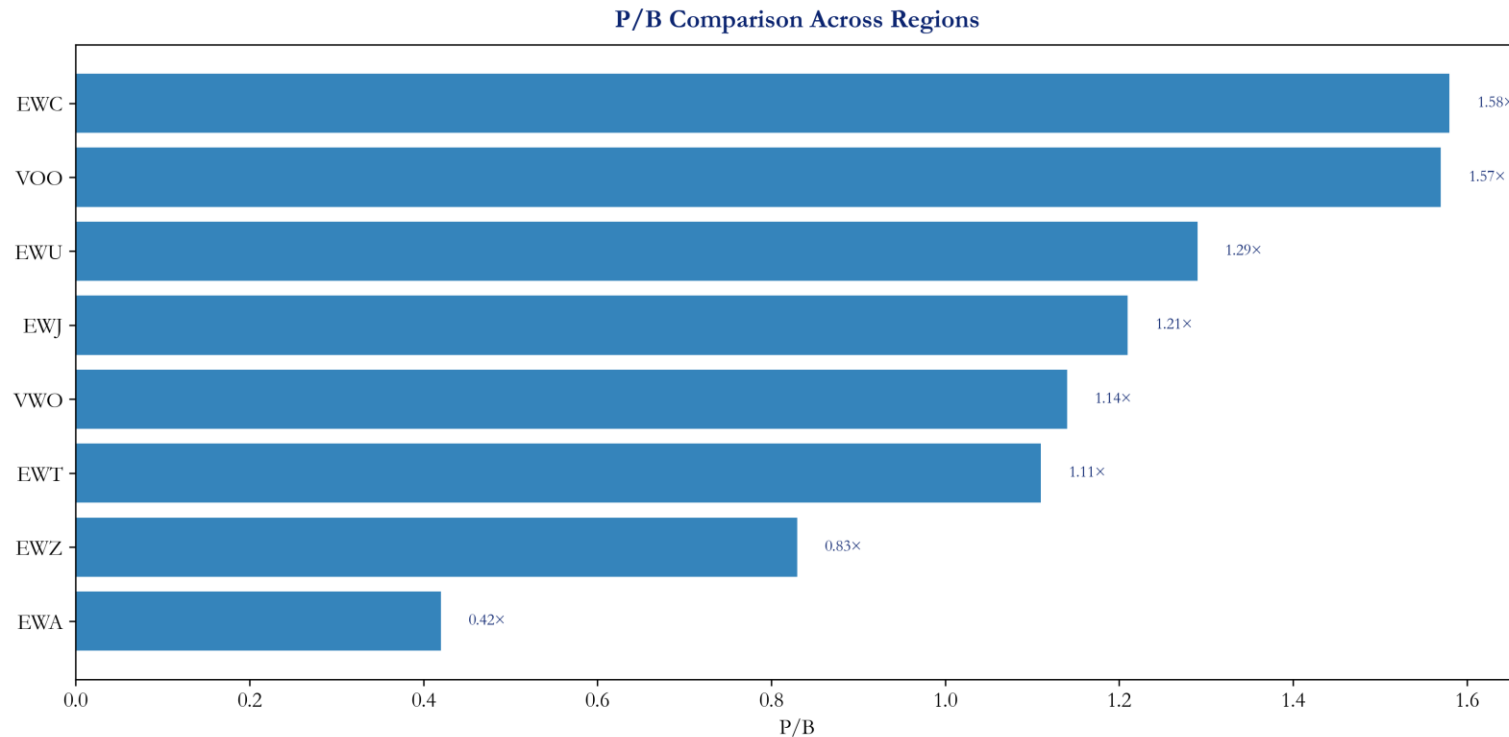
ETF Betas vs. US Market (VOO), Weekly Returns Over 5 Years



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.

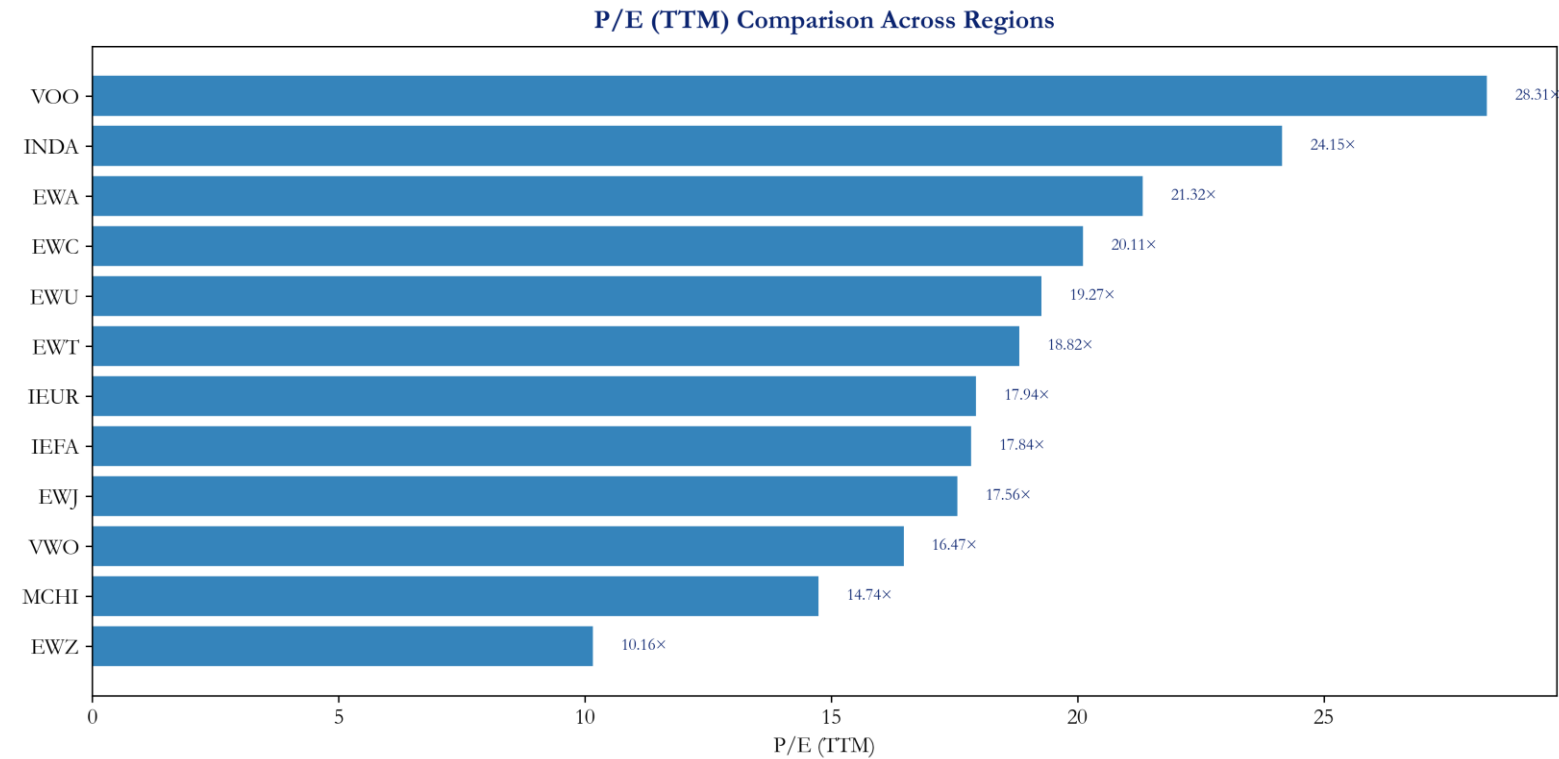
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Valuation Disparity: Price-to-Book Multiples Indicate Persistent U.S. Premium



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.

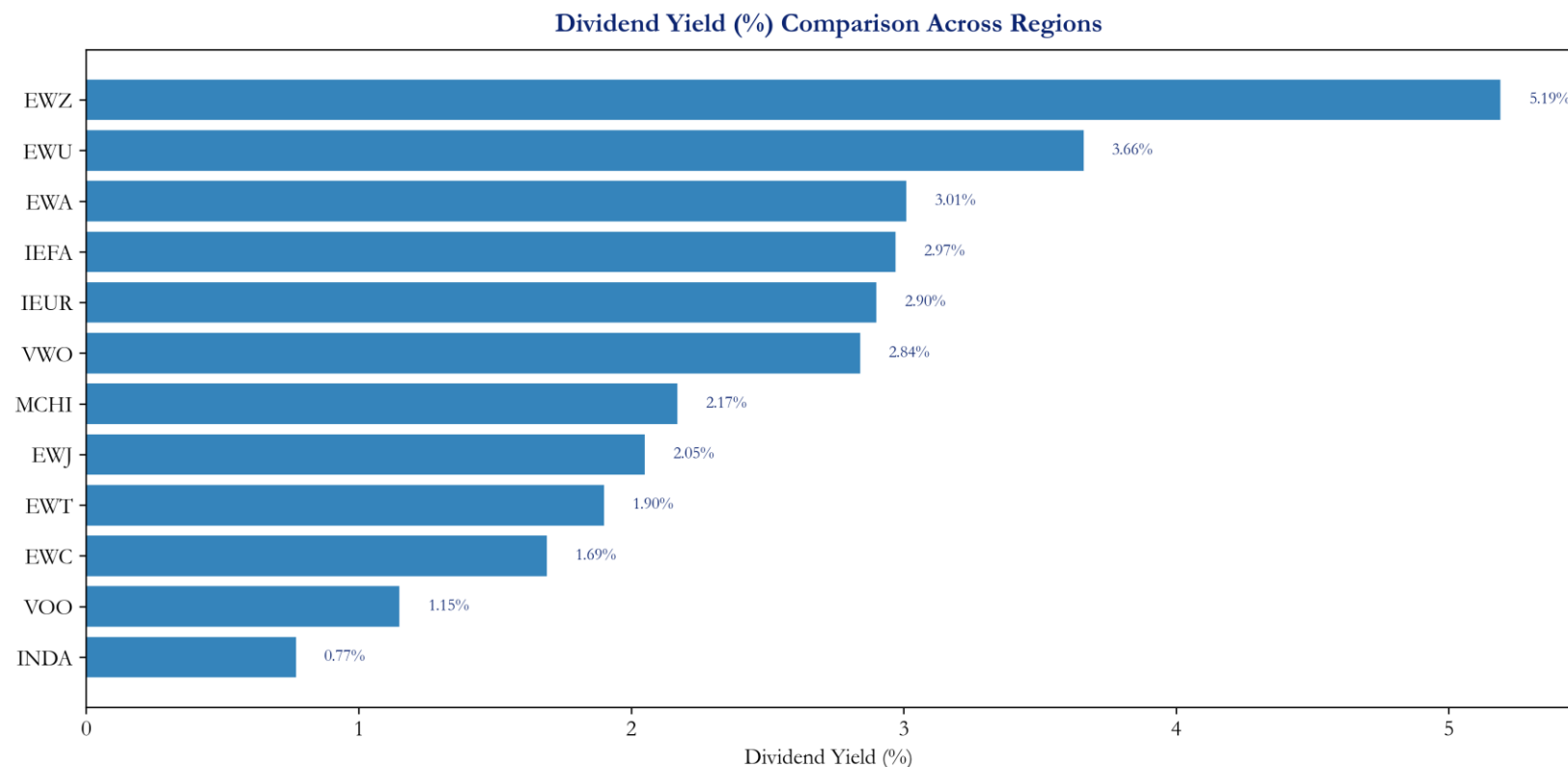
Valuation Disparity: Earnings Multiples Reinforce U.S. Overvaluation



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.

Data from Yahoo Finance

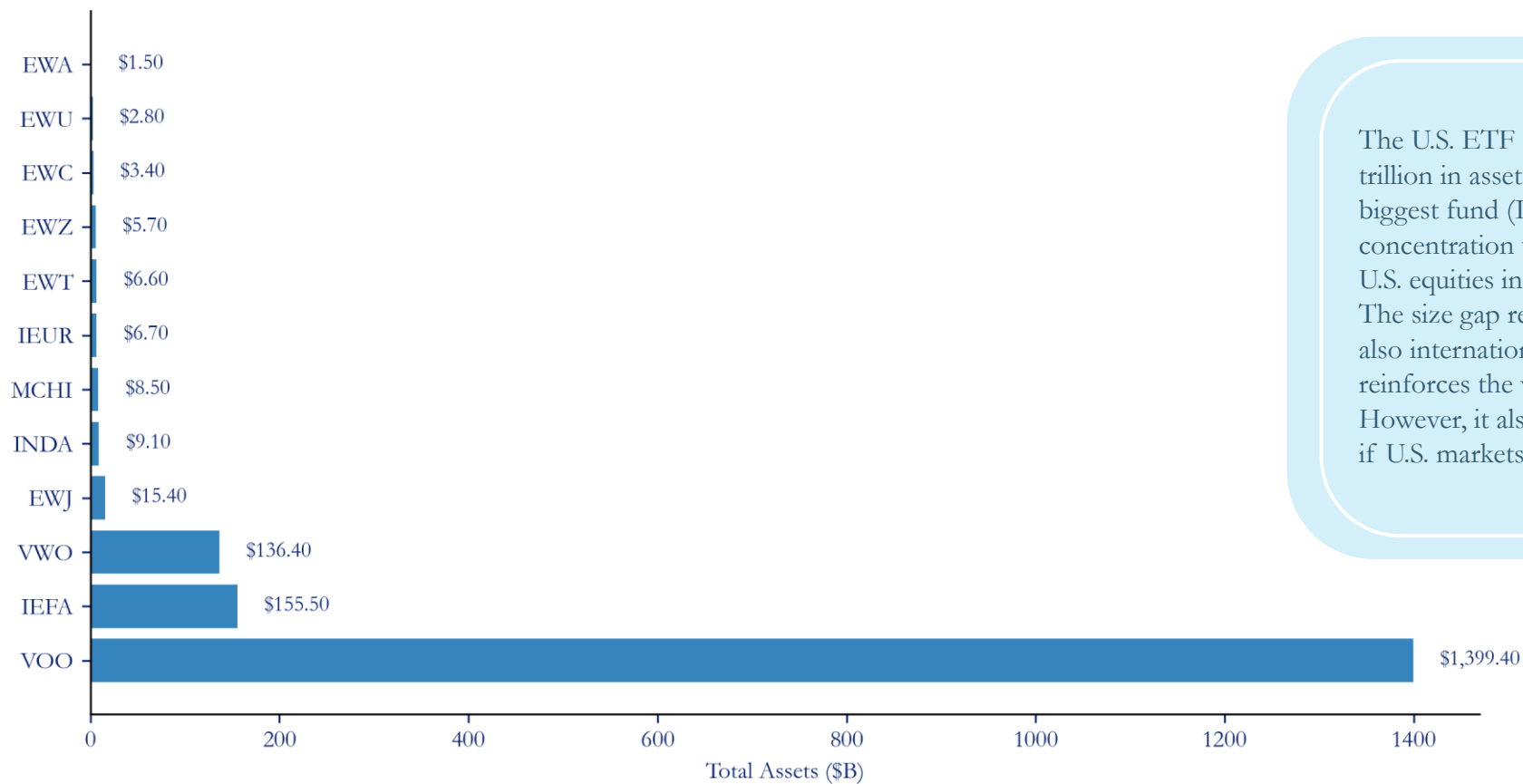
Valuation Disparity: Dividend Yields Underscore U.S. Valuation Premium



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.

U.S. Market Dominance Evident in Asset Concentration

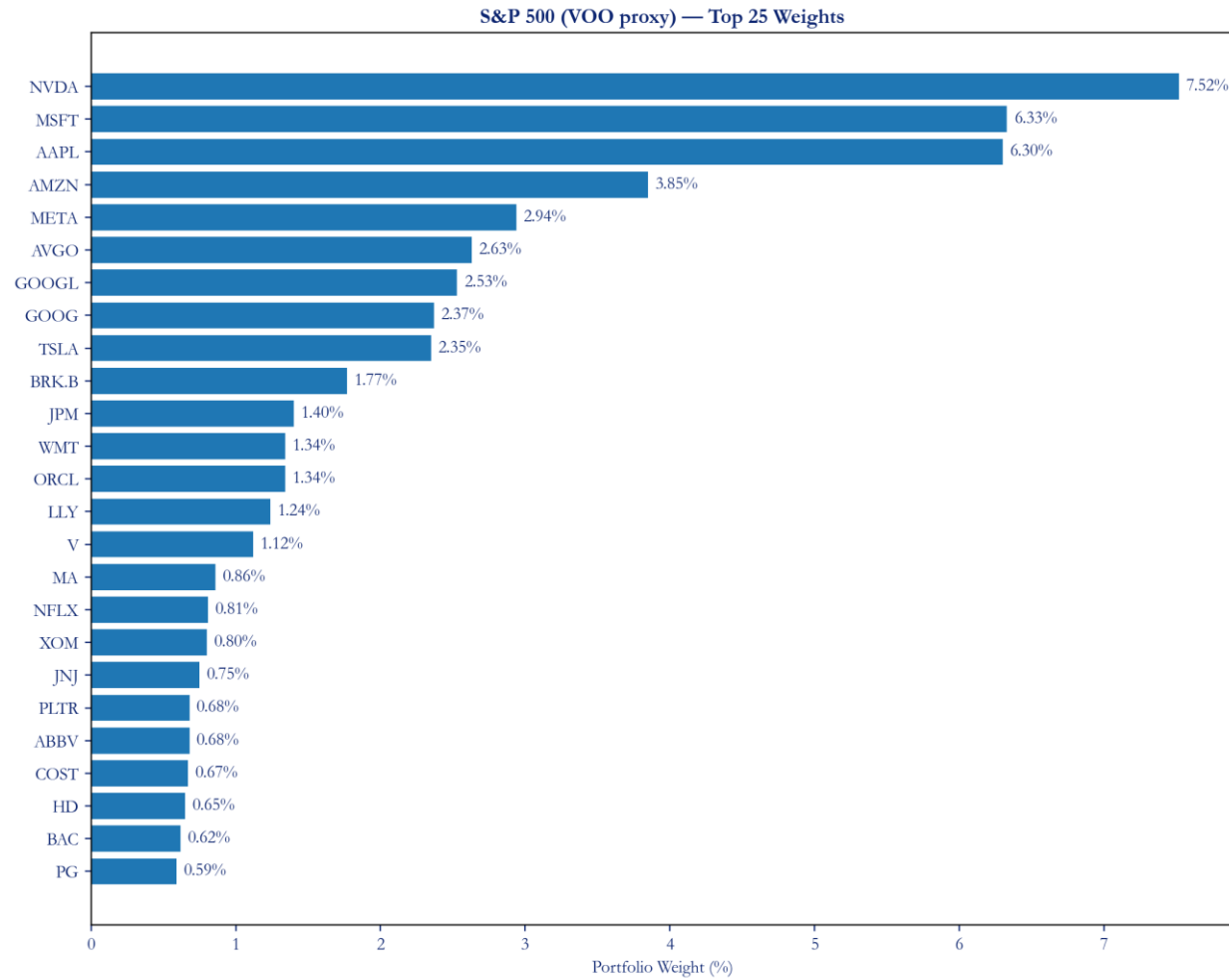
Total Assets (\$B) Comparison Across Regions



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.

Data from Yahoo Finance

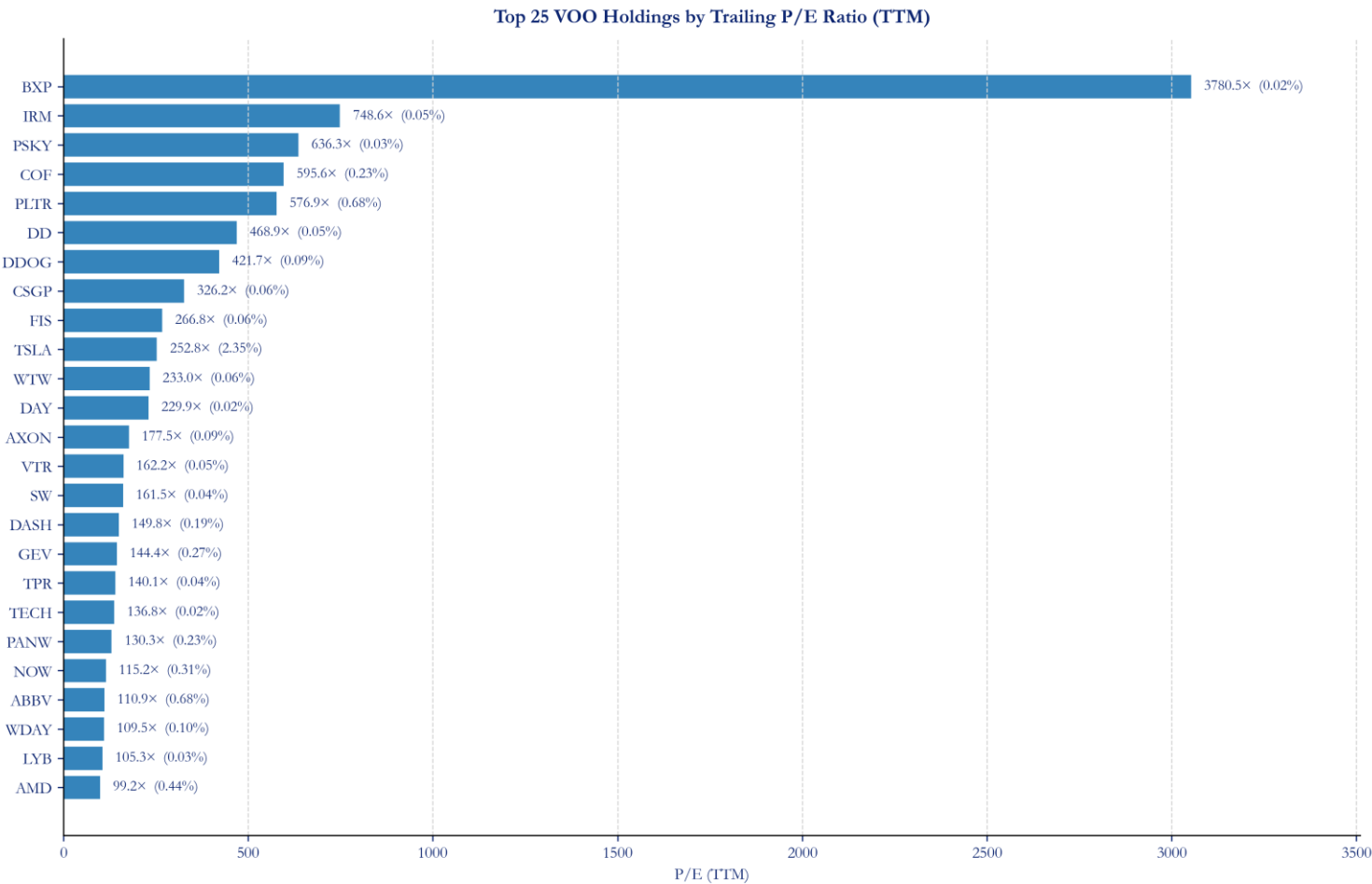
U.S. Equity Concentration and Valuation Drivers



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

Extremely High Multiples Concentrated in Select U.S. Holdings



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.

Data from Yahoo Finance

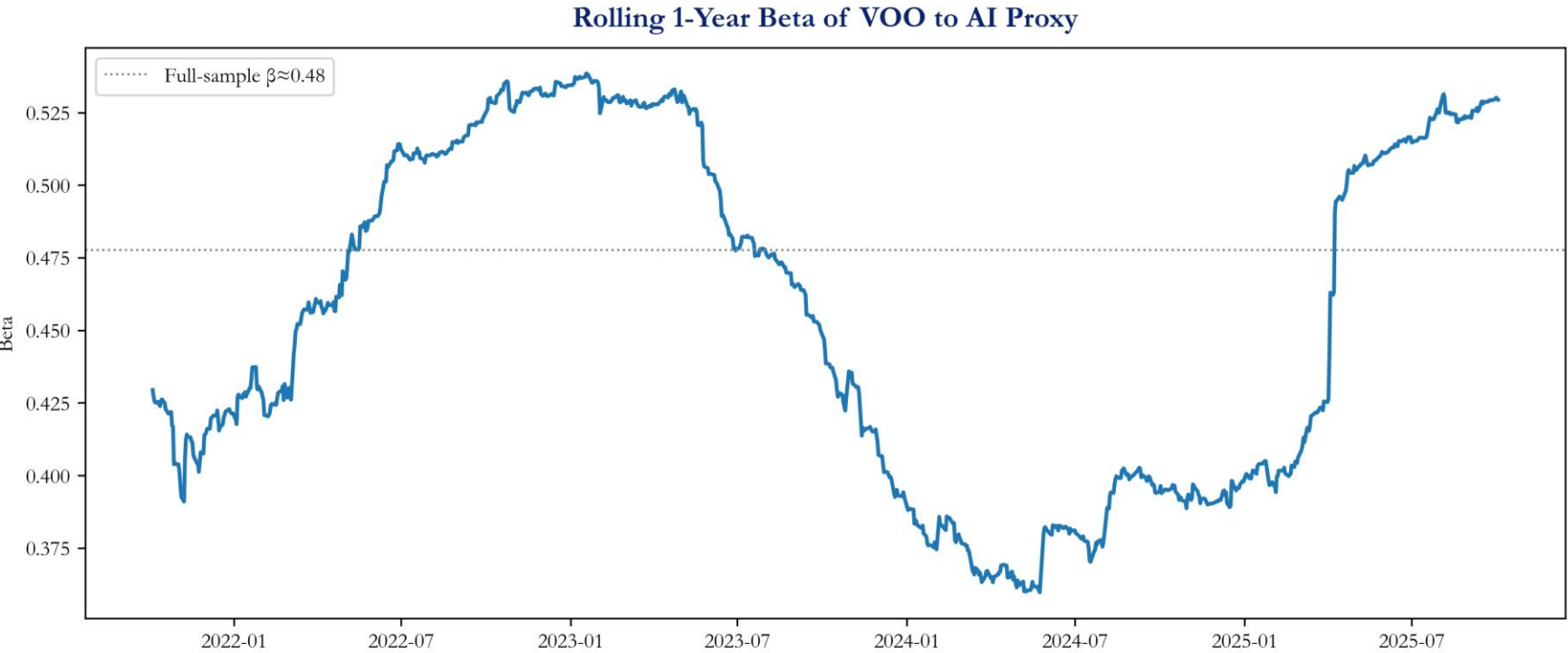
AI-Driven Stocks Have Outpaced Broader U.S. Market Growth

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.

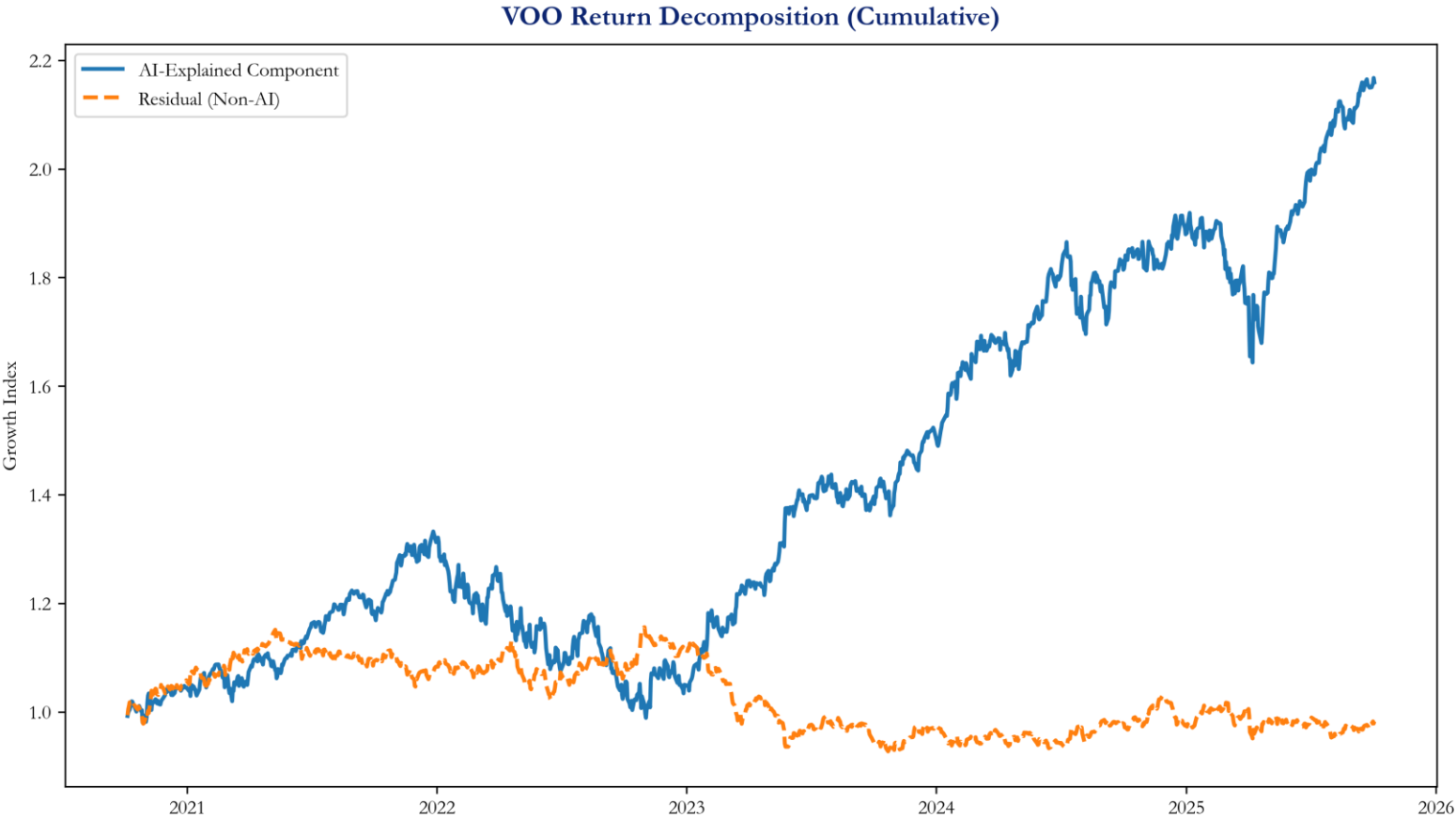
U.S. Market Sensitivity to AI Has Increased Sharply Since 2024



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.

Data from Yahoo Finance

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



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.

Data from Yahoo Finance

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.

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.

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.

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.