

ABOVE THE FRAY

Concern over Market Valuations

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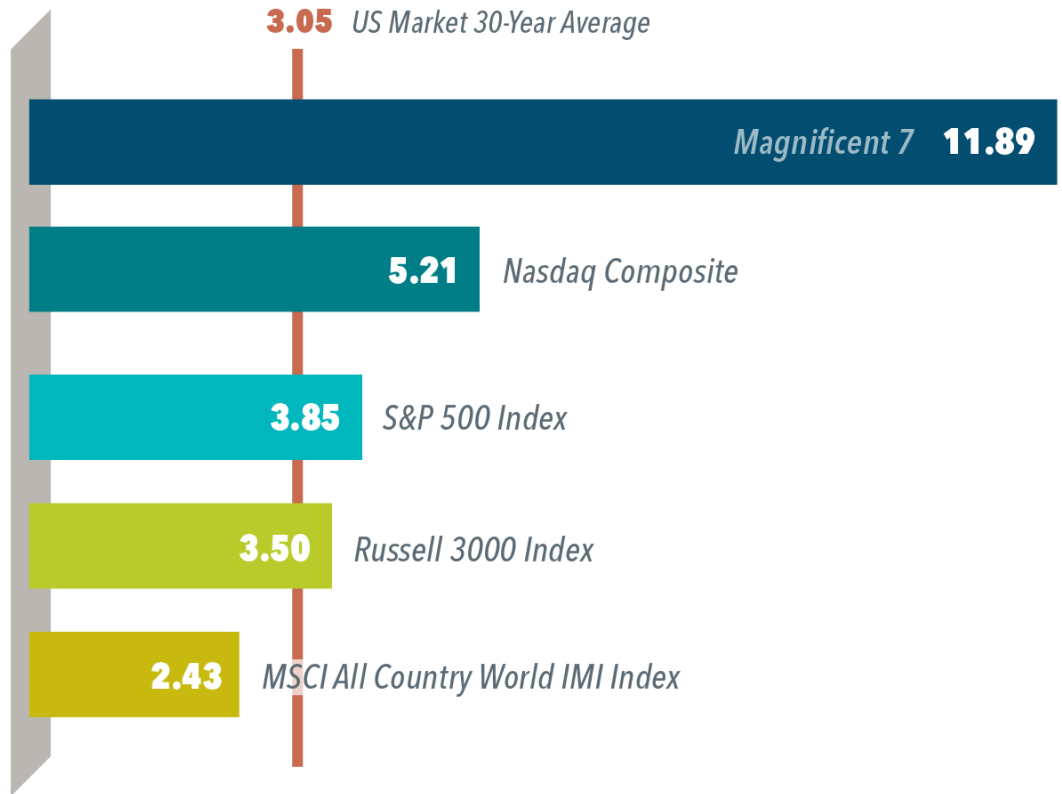
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Aggregate stock market valuation ratios have not been **strong predictors** of broad market returns. And yet, high stock valuations sit near the top of concerns cited by investors about the state of equity markets. However, this perception stems from a subset of stocks, and investors should be careful not to throw the baby out with the bathwater by ascribing this characteristic to the global stock market.

The poster child for high valuations—the so-called Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla)—had an aggregate price-to-book (P/B) ratio of 11.89 as of September 30 (despite six of the seven having lower profitability than the S&P 500 index). To put that in perspective, the average for the US market over the past 30 years is 3.05.¹

These stocks helped push up the P/B ratio of the tech-heavy Nasdaq Composite to 5.21. But broader market indices, especially those with non-US stocks, have substantially lower valuations. For example, the global MSCI All Country World IMI Index P/B is less than half that of the Nasdaq.

Exhibit 1
Shopping Around
Aggregate price-to-book ratios as of September 30, 2023



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1. Average P/B ratio for the Fama/French Total US Market Research Index from October 1993 through September 2023.
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