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# Equities and the Path Forward

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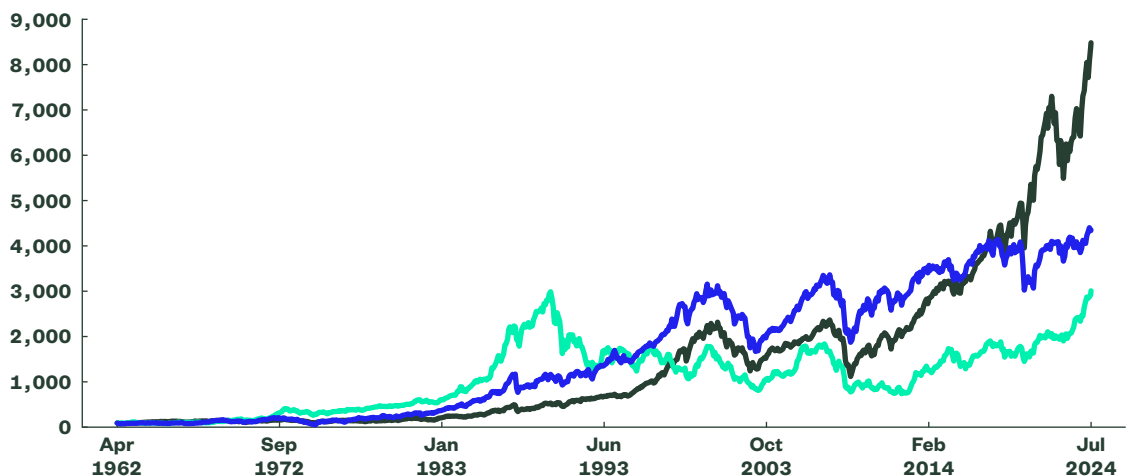
Equity markets continue their historic surge, with many markets hitting all-time highs. Amid rising valuations, and ongoing economic uncertainty, we reflect on the first half of 2024, consider returns to Valuation as a factor, and look forward to what may come next.

## Equity Markets Are Hitting Highs After Highs

The first half of 2024 has been a wild ride for equity markets, with the MSCI World Index up another 11% in local currency terms over the past six months, largely driven by the ongoing bull market in US equities. But it has not just been the US that's been hitting all-time highs. In Japan, for example, a market which we wrote about in March,<sup>1</sup> the Tokyo Stock Price Index (TOPIX) has finally passed its previous high set after its 1980s heydays, helping to erase memories of a lost period of three-and-a-half decades. Even in the UK, which has been struggling to overcome the Brexit debacle and other domestic problems, the FTSE All-Share Index is back above its 2018 highs.

Figure 1  
**Global Indices  
Reaching All-time Highs**

■ S&P 500  
■ TOPIX  
■ FTSE All-Share

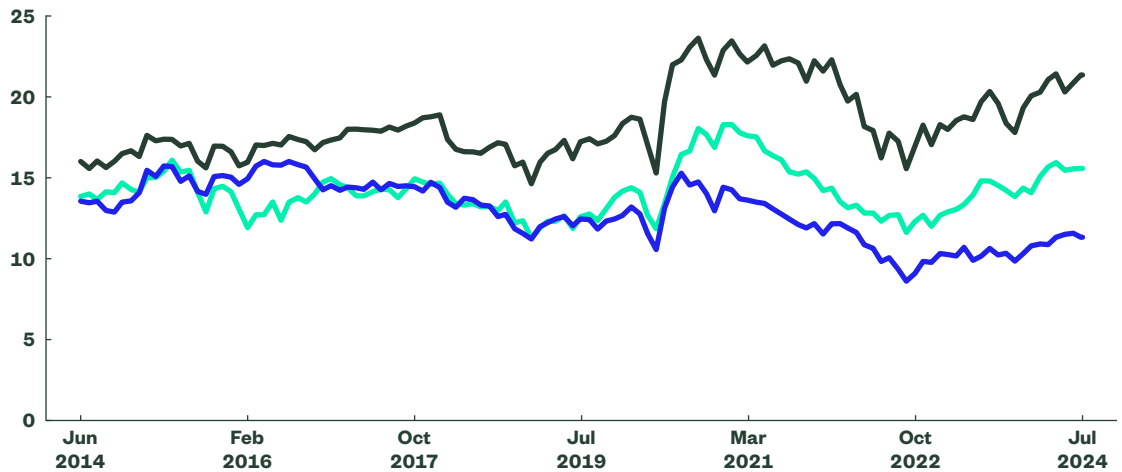


Source: FactSet, S&P, FTSE, TOPIX, State Street Global Advisors. As of July 4, 2024.

Looking through a long-term lens shows that periods of outperformance have not always been sustained. Japan overshadowed the rest of the world in the 1980s, then came the UK in the 1990s. The post-Global Financial Crisis (GFC) period, however, has been one of total US domination, pump-primed by the post-COVID bull run. The recent surge has, however, been driven by expanding valuations as well as surging corporate earnings. Over the past ten years the US market has moved from trading at 16 times the next 12 months expected earnings to 21 times. By contrast, the UK, has de-rated from 14 times to a mere 11 times. That difference is a price investors have been willing to pay for US exceptionalism, presumably extrapolating the recent experience into the long-term outlook.

Figure 2  
**Recent Market Dominance Reflected in Rising Valuations (Forward P/E Ratios)**

■ MSCI USA — PE — NTM  
 ■ MSCI Japan — PE — NTM  
 ■ MSCI UK — PE — NTM

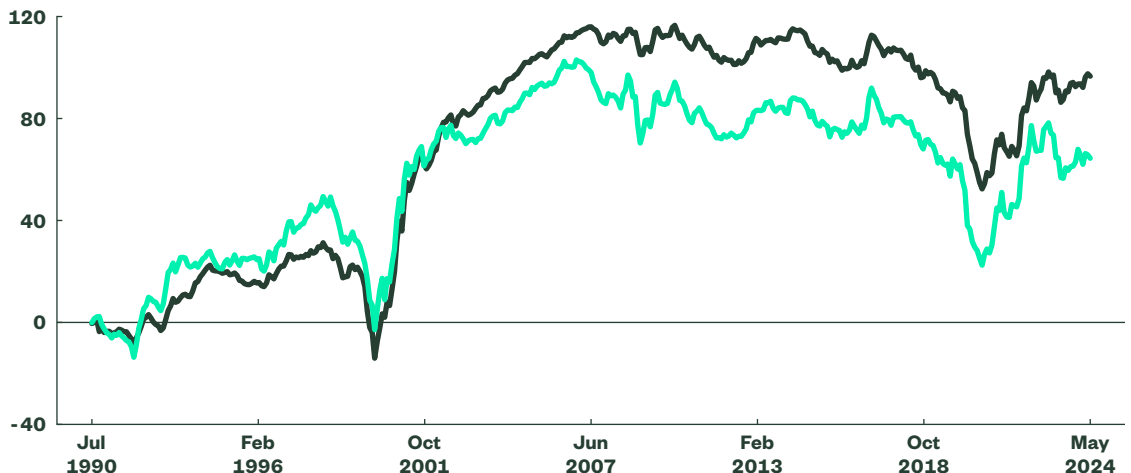


Source: FactSet, MSCI, State Street Global Advisors. As of July 4, 2024.

This period of US outperformance and expanding valuation multiples has also coincided with relatively weak returns from the Value factor as expensive stocks continue to get more expensive. Using data from Kenneth French's data library shows how Value as a theme struggled in the post-GFC period. This effect has been more pronounced in the US than in international stocks, despite a bounce globally as the world recovered from COVID shutdowns.

Figure 3  
**Cumulative Returns to Value (High Minus Low Book Value) Portfolios in US and Developed Equity Markets**

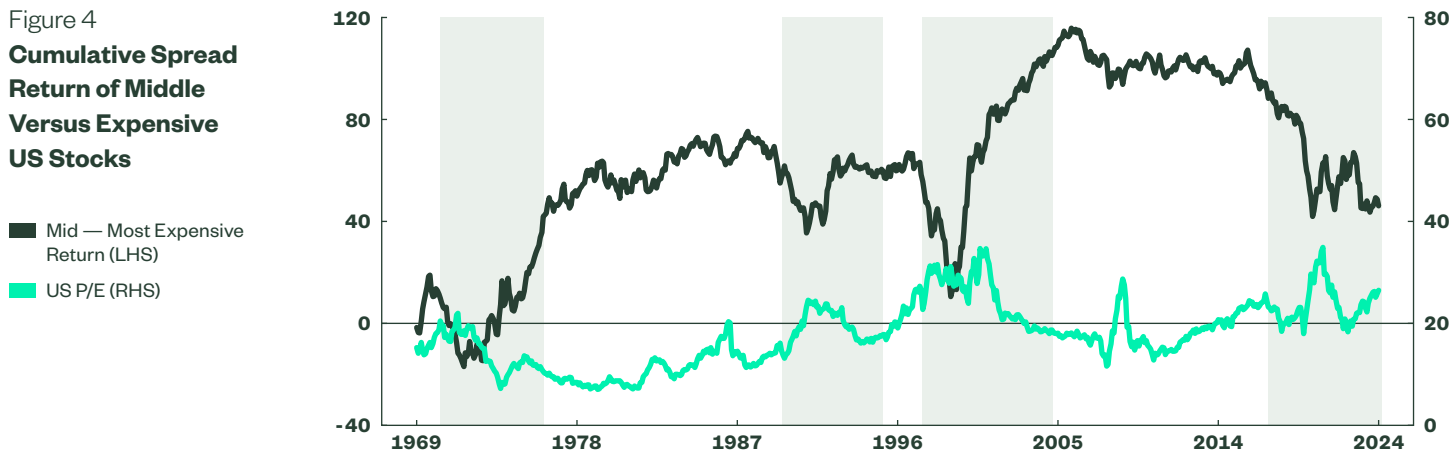
■ Developed HML  
 ■ US HML



Source: Kenneth French Data Library, State Street Global Advisors. As of July 4, 2024.

Over a long-term period more than three quarters of the returns from Value come from a rally in the cheapest quintile of stocks<sup>2</sup> rather than a de-rating of the more expensive names (Figure 4). However, at certain periods the most expensive stocks underperform the average significantly. Historically, that strong underperformance has typically coincided with local peaks in market valuations. More recently though, that relationship appears to have broken down a little in the current market environment, with peak valuations only providing a modest headwind for the expensive names.

Figure 4  
**Cumulative Spread  
 Return of Middle  
 Versus Expensive  
 US Stocks**



Source: FactSet, S&P, Kenneth French Data Library, State Street Global Advisors. As of July 4, 2024.

## The Bottom Line

Equity markets have continued to climb the wall of worry during the first half of 2024 and have delivered sturdily positive returns. Ongoing concerns around slowing economic growth and the pushing back of expectations of interest rate cuts in the US have barely dampened the enthusiasm for stocks, in particular for the more expensive end of the US market.

This coincident valuation expansion has now pushed the US equity market into the 90th percentile of expensiveness over the past half a century. We do not believe that using valuation multiples alone is a sensible, or predictive way of assessing market direction in the future; we do wonder, however, how long equity markets can continue to defy gravity?

Better valuations can be found in equity markets outside of the US, in self-help stories such as Japan or in unloved parts of the world at cyclical lows such as the UK. But the higher quality of companies, and strength of earnings and cashflows in the US may help cushion against a cyclical downturn if it arises.

In the same way that we do not try to forecast winners of elections, or who will win the 2024 UEFA European Football (soccer) Championship (Euro 2024)<sup>3</sup>, we do not try to predict every twist and turn of the overall equity market indices. We believe diversification in regions, industries, and drivers of return — namely balancing Valuation, Quality, Sentiment, and other catalysts — will provide a winning combination over the long term.

## Endnotes

- <sup>1</sup> [A Turn to Japan \(ssga.com\)](https://www.ssga.com).
- <sup>2</sup> Calculated as the cumulative sum of the returns of the cheapest quintile versus middle quintile of stocks in the US, using data from the Kenneth French Data Library over the periods from July 1926 to June 2024.
- <sup>3</sup> By the time this note comes out, we will know the outcome of the UK and French elections, and the author hopes that England will have won the 2024 European Championship title.

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\* Pensions & Investments Research Center, as of December 31, 2022.

<sup>†</sup> This figure is presented as of March 31, 2024 and includes ETF AUM of \$1,360.89 billion USD of which approximately \$65.87 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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