

Weekly Note

To us there are no foreign markets.™

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You're History

One of the most often cited concerns to us about equity markets is valuation - there seems to be a great deal of fear from clients around buying into an overvalued asset class. First, we must point out that equities are simply not the most overvalued asset class at the moment, that accolade goes to the bond market. Second, when we look at simple valuation metrics such as trailing Price to Earnings ratios (PE), the market really doesn't look too far out of line with recent history (the past 30 years).

As always there are a number of different ways at arriving at a valuation conclusion, and in particular labelling something as cheap or expensive. For the purposes of this note we simply compare current valuations to the average over recent history (30 years). Taking the PE as an example, any reading above the recent average would be defined as expensive, but clearly this is a little arbitrary and readers may want to consider the degree of that difference. Looking at the US for example (Figure1) we see that the current PE is above average, but way below the high, and probably not too far out of line with previous late cycle readings.

While the US may not be too far away from its own average PE over the past 30 years, it does seem to be relatively more expensive than international alternatives. That is to say there are cheaper developed stock markets out there, most of which seem to be more or less fair value relative to their own past histories. That said, we're not too concerned about valuations at these levels, but for those that are, domestic markets seem more attractive alternative to the US, but without the growth prospects.

Figure 1: Developed market summary of valuation metrics

	PE		PB		DY				
	Current	Average Peak	Current	Average Peak	Current	Average	Low		
World	18.9	18.6	30.5	2.2	2.1	3.5	2.4	2.3	1.2
US	20.0	17.6	29.1	3.3	2.8	5.2	1.9	2.1	1.0
Canada	18.0	17.9	30.4	2.0	1.9	2.8	2.7	2.5	1.2
UK	15.0	15.4	27.1	1.6	2.1	3.3	3.9	3.6	1.9
Europe	16.7	16.6	30.9	1.8	1.7	3.3	2.8	2.8	1.4
Japan	15.9	63.3	2955	1.4	1.4	2.5	1.8	1.6	0.7

Source: Datastream, Canaccord Genuity Wealth Management

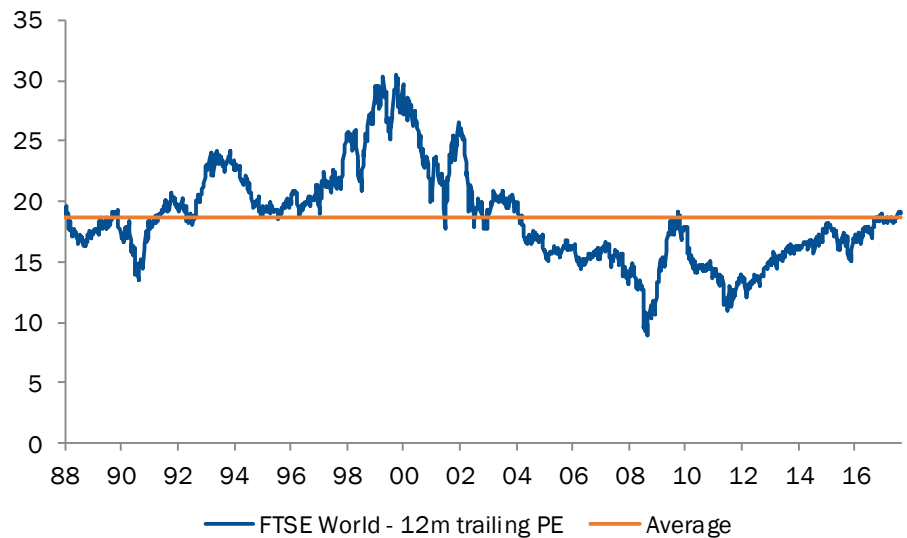
Figure 2 plots the US PE relative to the 30-year average and it is perhaps a little easier to see that in this historical context, valuations do not seem too stretched. With earnings growth likely to be around 10% next year, we could see double digit equity returns without stretching valuations further. As we have already mentioned, however, for the value minded investor, equities outside the US offer better value (Figure 3). It doesn't really matter which valuation metric we choose, the story seems pretty much the same: the US has a higher Price to Book ratio and a lower Dividend yield than its own history or relative to international peers, but even then, it is not too far out of line. It's too early to fret about valuations in our view.

Figure 2: US PE relative to 30-year average



Source: Datastream, Canaccord Genuity Wealth Management

Figure 3: World PE relative to 30-year average



Source: Datastream, Canaccord Genuity Wealth Management

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