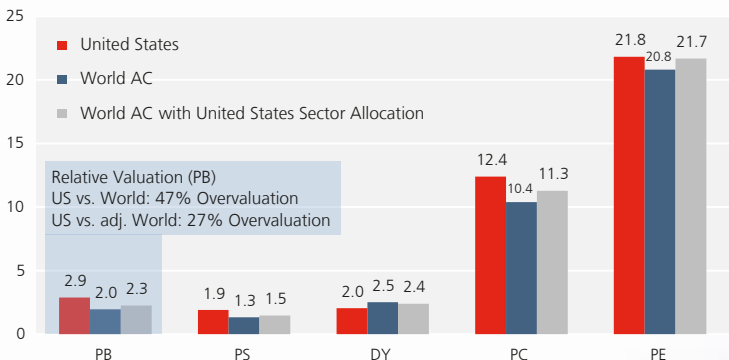
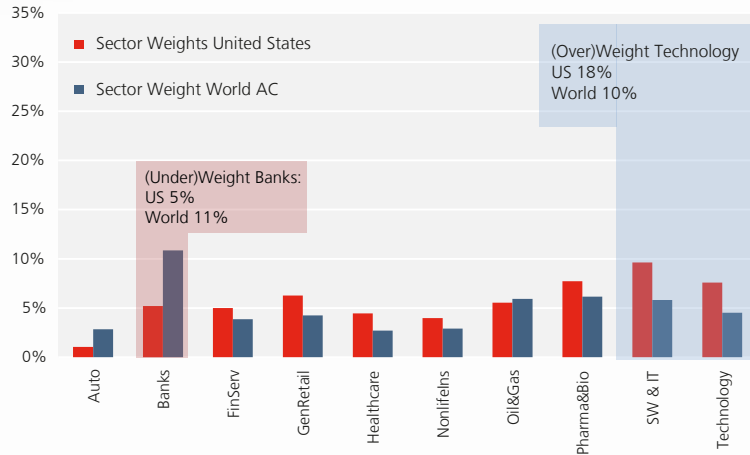


US overvaluation: half can be explained by different sector structure

Taking higher US technology and lower bank exposure into account the overvaluation declines 20%

US sector structure relative to World AC



Idea of a sector adjusted valuation

From a Price-to-Book perspective, the US market (PB 2.9) trades at a 47% premium to the Datastream All Country World Index (PB 2.0).

This statistic does not tell the full story. 18% of the US market belongs to the technology sector, whereas only 10% of the worldwide companies do. Technology stocks are characterized by higher valuation ratios, so part of the US overvaluation could be explained by a different sector structure. Similarly, the US underweight in (undervalued) Banks increases the relative overvaluation.

To determine to what extent valuation discounts and premiums of a country can be explained by its sector weights, we adjust the world's sector weights to match those of the country.

After matching the exact US sector weights in a World AC benchmark, the US overvaluation decreases from 47% to 27% from a PB perspective.

This is also significant for other indicators (bottom left chart). Hence, only half of the (still significant) US overvaluation can be explained by a different sector structure.

Sector impact on international PB undervaluation

Country	PB	World	PB World sect. Adj.	Discount World	Discount sect. Adj.
Australia	2.0	2.0	1.6	2%	28%
Austria	1.1	2.0	1.4	-42%	-20%
Belgium	2.3	2.0	2.5	18%	-9%
Brazil	1.6	2.0	1.6	-21%	-2%
Canada	1.9	2.0	1.5	-3%	25%
China	0.9	2.0	1.2	-54%	-23%
Czech	1.3	2.0	1.4	-34%	-6%
Denmark	2.7	2.0	2.3	40%	20%
Finland	2.0	2.0	1.9	5%	10%
France	1.6	2.0	2.1	-18%	-25%
Germany	1.8	2.0	1.9	-9%	-8%
Hong Kong	1.2	2.0	1.6	-37%	-23%
Hungary	1.4	2.0	1.4	-28%	-2%
India	2.6	2.0	1.8	31%	39%
Ireland	1.9	2.0	2.2	-1%	-10%
Israel	1.4	2.0	1.8	-30%	-22%
Italy	1.2	2.0	1.6	-41%	-27%
Japan	1.3	2.0	1.9	-33%	-32%
Korea (South)	1.0	2.0	1.9	-48%	-46%
Malaysia	1.6	2.0	1.7	-18%	-7%
Mexico	2.4	2.0	2.1	23%	14%
Netherlands	1.8	2.0	2.1	-6%	-12%
New Zealand	1.8	2.0	2.1	-7%	-12%
Norway	1.6	2.0	1.6	-21%	-1%
Poland	1.2	2.0	1.4	-38%	-12%
Portugal	1.5	2.0	1.7	-21%	-7%
Russia	1.0	2.0	1.4	-51%	-30%
Singapore	1.1	2.0	1.6	-44%	-32%
South Africa	2.0	2.0	1.7	0%	16%
Spain	1.4	2.0	1.7	-26%	-13%
Sweden	2.1	2.0	1.8	8%	18%
Switzerland	2.4	2.0	2.2	23%	8%
Taiwan	1.8	2.0	2.0	-7%	-8%
Thailand	2.0	2.0	1.6	5%	27%
Turkey	1.3	2.0	1.5	-35%	-16%
United Kingdom	1.8	2.0	1.9	-7%	-4%
United States	2.9	2.0	2.3	47%	27%

The top chart shows the biggest sectors in the Datastream US Market Index and the corresponding weights of the Datastream All Country World Index. Selected sectors with big differences in sector weights are shaded. To determine to what extent valuation discounts and premiums of a country can be explained by its sector weights, we adjust the world's sector weights to match those of the country. Source: StarCapital as of 12/30/2016.