Insights Unwrapped

Is the U.S. Equity Market Overextended?

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SPROUT Research

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Historical Returns Across Indices

Global Indices (in USD)	Returns (%) YTD *	3Yr	5Yr	10Yr	Valuations P/E (x)	P/E ffwd (x)	Growth Real GDP (%)
MSCI India Index	-3.6	6.5	11.9	7.5	25.8	21.5	6.5%
MSCI Argentina Index	0.9	67.3	47.1	17.4	15.6	9.5	5.0%
MSCI China Index	1.0	-4.7	-2.2	1.9	13.1	10.1	4.5%
MSCI Taiwan Index	3.3	9.1	18.9	14.0	21.1	16.9	2.6%
MSCI Hong Kong Index	-2.3	-7.7	-3.3	0.8	14.9	11.7	2.5%
MSCI Brazil index	12.4	1.9	-2.9	2.7	9.2	7.6	2.4%
MSCI USA Index	3.0	10.1	13.4	11.7	28.2	22.3	2.2%
MSCI Korea Index	6.3	-7.2	0.3	2.5	11.4	8.4	1.2%
MSCI Japan Index	1.6	5.5	5.8	6.5	14.8	14.6	1.1%
MSCI Canada Index	2.9	6.1	9.9	7.7	20.3	15.7	1.1%
MSCI France Index	8.1	3.8	6.7	7.0	17.9	14.6	1.1%
MSCI Germany Index	9.4	6.1	6.9	4.9	16.6	14.1	0.8%

* YTD: 31st Jan' 2025

Source: MSCI Factsheet, ForbesIndia, Koyfin

MSCI ACWI: All Country World Index, which captures 23 Developed Markets (DM) and 24 Emerging Markets (EM)- with a total Market Cap of USD 80 trillion as of date

With approximately 25% of global GDP, the U.S. market represents 65% of total world market capitalization.

In contrast, China contributes ~17% to global GDP but accounts for only ~10% of world market capitalization, while India, with a 3.4% share of global GDP, holds less than 4% of global market capitalization.

(Source: MSCI, MSCI ACWI Index, USD, as of January 2025), GDP sources

Is U.S. Concentration in Global Equity Indices too extreme?

- The **U.S. equity market's** outperformance over the past 15 years has increased its **weighting in the MSCI ACWI to a record 65%**.

- While we may not have deep expertise in global indices, history suggests that such high concentrations are rarely sustainable. For example- **Japan's rapid growth in the 1980s drove its MSCI ACWI weighting to 40%—10% higher than the U.S. at the time**. Following the collapse of its real estate and equity market bubble, its weightage dropped to just 5% (Source: JP Morgan).

- India has delivered strong USD returns over both 5-year and 10-year periods, sparking debates over elevated valuation multiples. Given the weak correlation between economic growth and stock market returns, **corporate earnings remain the key driver.**

Overview of
Indian Corporate Earnings

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Result Tracker for Main Indices (9Months'2024)

S. No.	Index	Total Cos.	Results till date	Net Sales Change (YoY)	Operating Profit Change (YoY)	Net Profits Change (YoY)	P/E ttm	P/E: 52-Wk Hi
		(Nos.)	*(Nos.)*	(%)	*(%)*	*(%)*	*(x)*	*(x)*
1	**NSE 500**	500	482	**7.71%**	**9.61%**	**7.37%**	23	28
	Margin Change (bps)				*36bps*	*-3.2bps*		
2	**Nifty 50**	50	50	**7.35%**	**9.24%**	**8.17%**	20.5	24.4
	Margin Change (bps)				*40.4bps*	*8.6bps*		
3	**BSE MidCap**	132	127	**9.72%**	**13.53%**	**14.88%**	32.5	43.5
	Margin Change (bps)				*76.4bps*	*37.6bps*		
4	**BSE SmallCap**	938	850	**9.36%**	**5.46%**	**1.42%**	28	38.7
	Margin Change (bps)				*-60bps*	*-54.8bps*		

Source: Sprout Research; Data soure: ACE Equity, BSE

Average sales and PAT growth stood at 7-8% for NSE-500 and Nifty 50 companies, with operating margins improving by 35-40 bps YoY for nine months ending Dec 24. **Both metrics point to a positive trend.** On the other hand, **mid-cap companies showed stronger performance** with 10% sales growth, 15% PAT growth, and a surprising 77 bps yoy increase in operating margins; **while small-caps lagged** with 9% sales growth, PAT decline and margin contraction. Notably, P/E ratios have cooled, suggesting fair valuations across sectors post-price corrections and earnings improvements.

Sectoral Result Tracker for Nifty 500 (9Months'2024)

S. No.	Sector	Weight	Net Sales		Op. Profit (Excl. OI) Margin		PAT		Valuations	
		NSE 500 Wt. (Post filter) (%)	FY24 vs FY 23 (YoY) (%)	9M Change (YoY) (%)	FY24 vs FY 23 (YoY) (bps)	9M OPM Change YoY (bps)	FY24 vs FY 23 (YoY) (%)	9M YoY Change (%)	Feb 2024 TTM P/E (x)	Current TTM P/E (x)
1	Real Estate	3%	11%	28%	110	-1	55%	20%	60.9	49.5
2	Capital Goods	7%	12%	15%	117	136	22%	29%	54.8	48.7
3	Healthcare and Pharma	8%	14%	11%	222	134	31%	22%	41.0	37.4
4	Banks, NBFCs, Insurance and Finance	18%	30%	14%	-155	310	30%	19%	17.4	14.4
5	IT and Services	9%	6%	6%	3	31	8%	12%	34.0	31.8
6	Metals, Mining and Cement	8%	1%	1%	104	62	3%	15%	19.6	18.8
7	Automobile	8%	19%	7%	285	-4	92%	6%	28.1	24.3
8	FMCG	8%	3%	9%	122	-23	4%	6%	47.0	45.1
9	Chemicals	7%	-12%	6%	-118	49	-32%	8%	43.3	46.6
10	Energy, Power and Infra	10%	-2%	3%	444	-256	58%	-25%	17.1	17.9

Source: Sprout Research, ACE Equity, BSE

Improvement in sales and profitability is evident in sectors like real estate, capital goods, healthcare, pharma, and financial services, where valuations have also corrected from last year's level.

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