

US Equities: Overvalued, Overloved, or Overlooked?

Challenging Assumptions in a Shifting Landscape

As investment professionals, we are all susceptible to behavioural biases. I have long held a cautious view on US equity valuations. From an inverted yield curve and stretched market cap-to-GDP ratios to extreme concentration in mega-cap tech, the signals have been difficult to ignore. Recent developments seemed to confirm those concerns. Until, quite suddenly, they did not. Markets reversed losses sharply following what appeared to be another escalation in trade rhetoric. This moment served as a reminder that conviction should never become dogma. As advisers, we need to remain open-minded and constantly test our assumptions. This note sets out to re-examine the bull case for US equities. It is less a reversal of view, more a rebalancing of perspective.

Valuations Are Stretched, But That Is Not the Full Story

There is no question that US equities appear expensive on most traditional valuation measures. The S&P 500 is trading well above its long-term averages and concentration risk is high, with six or seven companies now representing more than 30 percent of the index. But many of those companies are at the centre of one of the most important technological shifts in recent decades. Artificial intelligence is not just

a buzzword. It is already transforming industries and creating new ones. Companies such as Microsoft, Nvidia, Meta and Alphabet are not only enabling this change but are also well positioned to monetise it. They generate strong free cash flow, carry minimal debt, and continue to reinvest in innovation at scale.

The Role of Passive Inflows

The structural growth of passive investing cannot be ignored. Index-tracking funds and automatic pension contributions continue to drive large flows into US markets, especially into the same mega-cap stocks that dominate major indices. This creates a self-reinforcing bid for those shares. At the same time, younger investors have grown up in an environment where "buying the dip" has worked and the long-term benefits of compounding are well understood. This shift in behaviour adds another layer of resilience to US equity demand.

Tariffs, Politics and Policy Risk

The recent tariff announcements under a second Trump presidency initially rattled markets. But the sell-off was short-lived. A reduction in some of the most aggressive measures, combined with early signs of negotiation, helped stabilise sentiment.

Concerns that tariffs will lead to sustained inflation may also be overstated. While higher prices in one area could weigh on consumers, they also reduce discretionary spending elsewhere, which can balance inflationary pressure. If real wages hold steady, and with oil prices lower, the overall inflation impact may be limited. Markets are beginning to look through political noise and focus instead on earnings, policy direction and long-term structural drivers.

Opportunities Beyond the Mega Caps

The dominance of the largest US tech names has created a distorted picture of market performance. Beneath the surface, there is value. US small and mid-cap companies have lagged significantly and now trade at a 40 percent discount to their larger peers. These businesses are more sensitive to domestic economic shifts and could benefit meaningfully from tax cuts or interest rate reductions. If economic data stabilises and policy risk is contained, this part of the market may offer the most upside on a risk-adjusted basis.

The Resilience of the US Consumer

Despite higher interest rates and political uncertainty, US consumer spending remains robust. Household balance sheets are in relatively good shape, supported by pandemic-era savings and continued wage growth. This has underpinned corporate earnings and given the economy a level of stability that many had underestimated. With the consumer accounting for around two thirds of US GDP, this resilience provides an important buffer against downside scenarios.

Conclusion: Keep Testing Your Narrative

As portfolio managers and advisers, we all have instincts. Mine have often leaned towards caution on the US. But being willing to challenge that view, especially in the face of compelling evidence, is not a weakness. It is a strength.

We continue to favour global diversification, with selective exposure to the most promising areas of the US market. That includes companies driving AI-led innovation, undervalued small and mid-sized businesses, and those offering sustainable dividend income.

There are still risks to monitor. But for now, the combination of consumer strength, passive flows, a more moderate political tone, and the potential for productivity gains suggests the US may still surprise to the upside.

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