

Global Valuation Metrics:
Are Debt and Equity Markets Stretched?

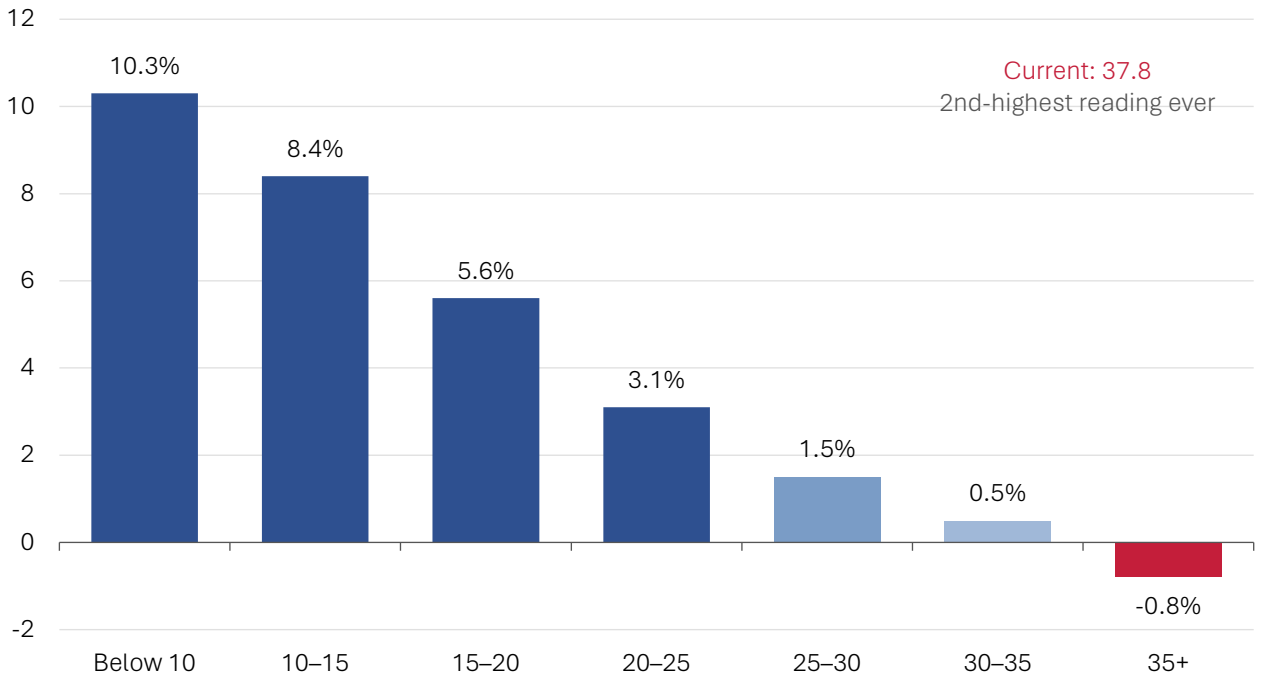
May 2026

Shiller CAPE Indicator:

S&P 500 cyclically adjusted P/E vs. subsequent 10-year annualized real returns

Robert Shiller's CAPE divides the S&P 500 price by 10-year average inflation-adjusted earnings to smooth business-cycle noise. Since 1881, starting CAPE has been a strong predictor of subsequent 10-year equity returns, explaining roughly 40–85% of forward return variation. As of March 1, 2026 the ratio stands at 37.8, the second-highest reading in 145 years of data, trailing only the dot-com peak of 44.2.

STARTING CAPE RANGE | AVG SUBSEQUENT 10-YEAR ANNUALIZED REAL RETURN



37.8

Current Shiller CAPE
GuruFocus, March 1, 2026

~2.4%

Implied forward annual return
Per GuruFocus model

17.3

Long-run mean CAPE
1881–2025 median: 16.0

The CAPE is not a timing tool as markets can remain expensive for years. But its long-run predictive power is well-documented: since 1975, it has explained roughly 85% of the variation in subsequent 10-year returns (Advisor Perspectives, 2020). Critics note that higher structural margins, lower rates, and buyback-adjusted earnings may justify elevated readings. Shiller's own Excess CAPE Yield, which adjusts for real rates, implies an equity risk premium that remains modestly positive.

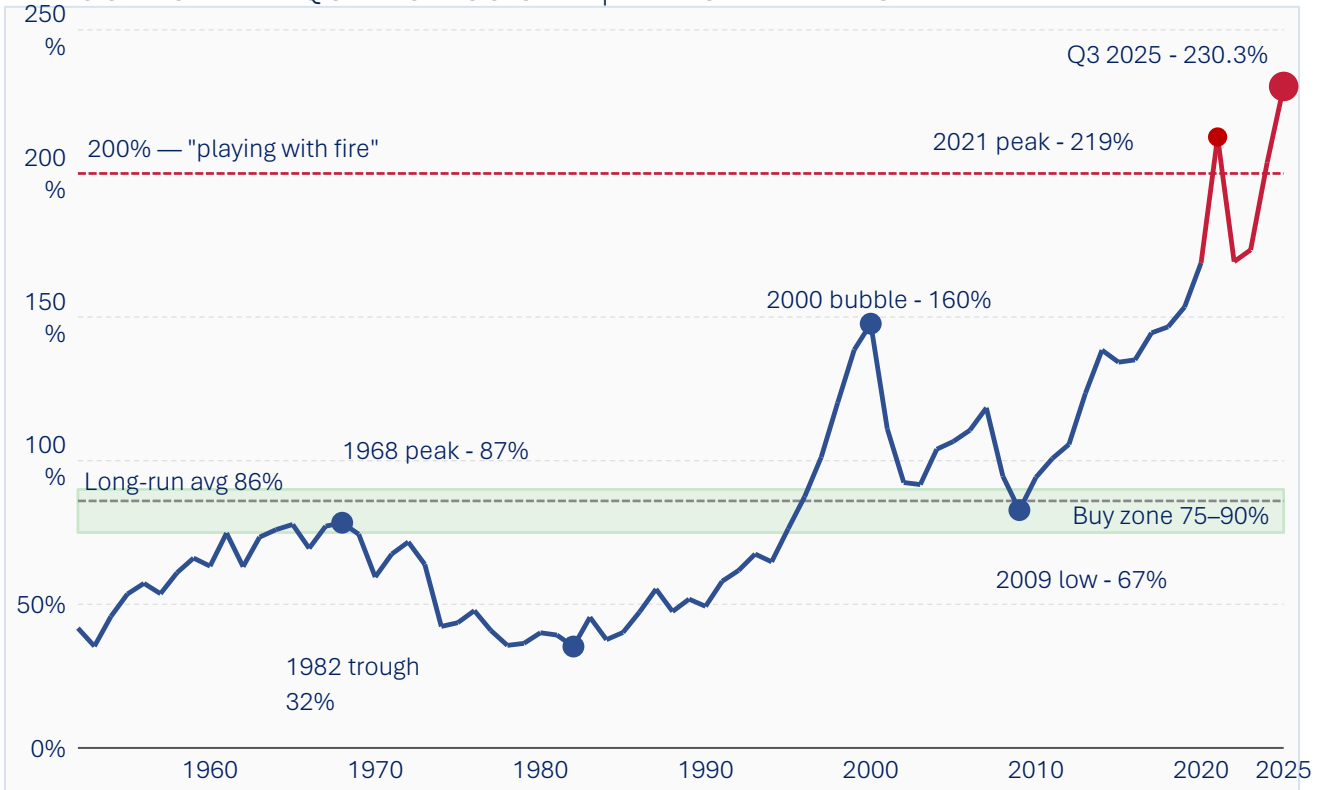
Source: Robert Shiller, Yale University — S&P 500 monthly CAPE data (1881–present). Chart values are approximate average annualized 10-year real total returns by starting CAPE range, derived from Shiller's publicly available dataset (1881–2015 observation windows) and cross-referenced against AQR ("An Old Friend," 2012) and Advisor Perspectives (July 2020). The 35+ bucket has a limited sample. Current CAPE of 37.8 as of March 1, 2026 (GuruFocus). Implied forward return of ~2.4% from GuruFocus CAPE model (March 13, 2026). R² of 0.85 (1975–2020) per Advisor Perspectives. Historical mean of 17.3, median of 16.0, all-time peak of 44.2 from Shiller/GuruFocus data.

Buffett Indicator:

US corporate equity market value as a percentage of GDP

Warren Buffett called this ratio "probably the best single measure of where valuations stand at any given moment." He warned that when it approaches 200%, investors are "playing with fire." The US market crossed 200% in early 2021 and has not returned below it since. At 230%, the reading as of Q3 2025 is the highest in 70+ years of data — 3.2 standard deviations above the long-run mean of 86%.

FED CORPORATE EQUITIES ÷ US GDP | ANNUAL AVERAGE



230.3%

Highest reading in 70+ years

+3.2σ

Above the long-run mean of 86%

86%

Long-run mean

The structural bull case assumes today's elevated ratio reflects permanent re-rating — more productive capital, globalized profits, lower discount rates. The bear case: seven decades of data show mean reversion to ~86% is the historical norm. Every prior excursion above 150% eventually corrected.

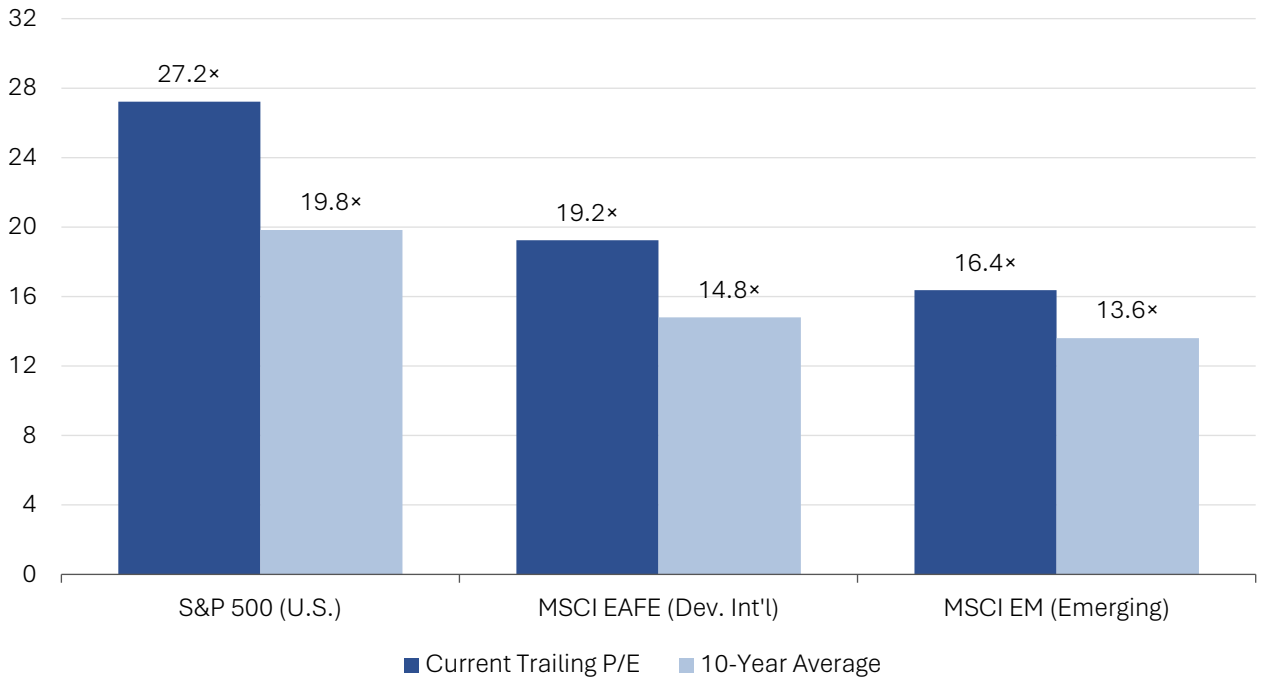
Source: Federal Reserve Z.1 Financial Accounts — Nonfinancial Corporate Business; Corporate Equities; Liability (NCBEILQ027S). Bureau of Economic Analysis — Nominal GDP (SAAR). All values directly calculated from primary source quarterly data (295 observations). Annual averages shown. Latest observation: Q3 2025 (revised). Data retrieved March 2026.

Global Equity:

Trailing P/E ratios: U.S. vs. developed international vs. emerging markets

The valuation gap between U.S. and non-U.S. equities remains wide. The S&P 500 trades at a trailing P/E of 27.2× — 37% above its own 10-year average of 19.8×. MSCI EAFE and MSCI EM trade at 19.2× and 16.4×, representing discounts to the U.S. of roughly 29% and 40% respectively. Both international indices have risen above their own 10-year averages, but the U.S. premium remains historically elevated.

TRAILING 12-MONTH P/E RATIO | BY INDEX



27.2×

S&P 500 trailing P/E
37% above its 10-yr avg

~40%

EM discount to U.S.
16.4× vs. 27.2×

~29%

EAFE discount to U.S.
19.2× vs. 27.2×

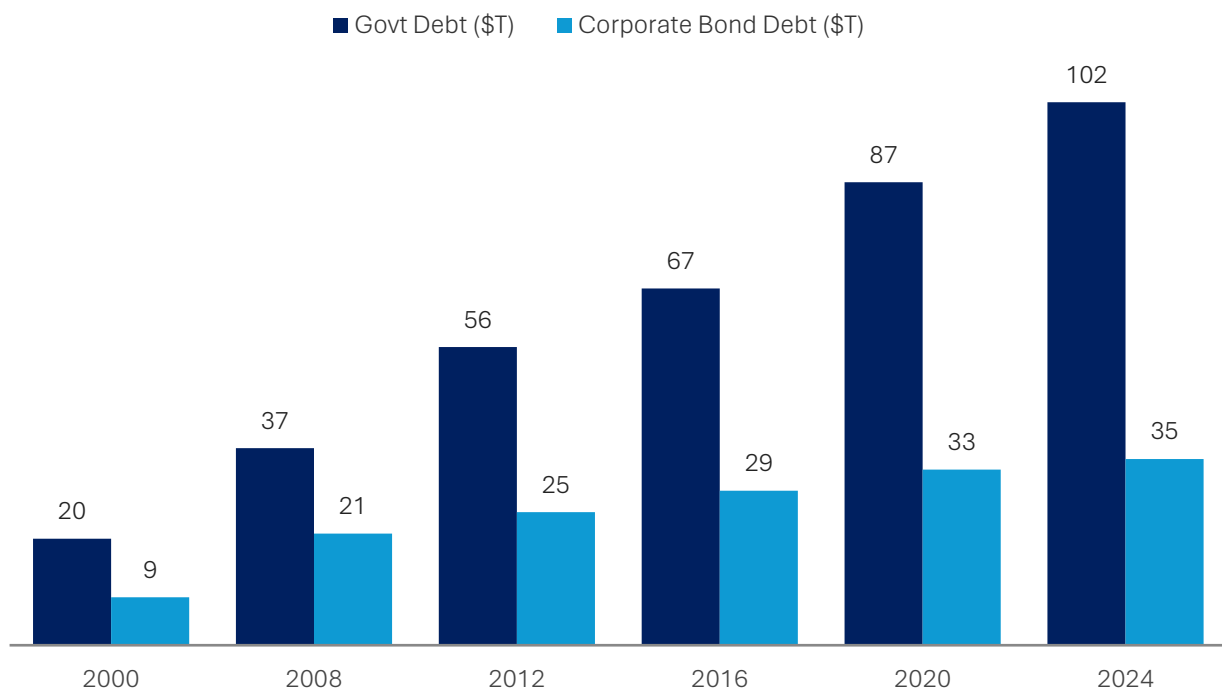
The diversification case rests on valuation mean-reversion: historically, periods of extreme U.S. premium have preceded multi-year stretches of international outperformance. Dollar weakness, accelerating non-U.S. earnings growth, and fiscal expansion in Europe and Asia strengthen the cyclical case. The counterargument: U.S. earnings quality, tech dominance, and deeper capital markets may justify a persistent structural premium.

Source: WorldPERatio.com (March 13, 2026). Trailing 12-month P/E ratios computed from SPY, EFA, and EEM ETF prices and earnings. S&P 500 27.21× (10-yr avg 19.83×), MSCI EAFE 19.24× (10-yr avg 14.80×), MSCI EM 16.37× (10-yr avg 13.61×). Historical averages and standard deviations calculated by WorldPERatio excluding 20% outliers. Discount percentages computed from current trailing P/E ratios.

Global Debt:

The structural expansion of government and corporate debt

Global debt has grown from roughly \$80 trillion in 2000 to \$318 trillion in 2024 - a 4x expansion in a single generation. Two structural forces drove this: government borrowing that accelerated through successive crisis cycles (dot-com, GFC, COVID), and a corporate debt surge enabled by a decade of zero interest rate policy. Both trends are now colliding with higher-for-longer rates, raising refinancing risk, fiscal crowding-out, and credit quality deterioration across the debt stack.



\$318T

Total global debt
2024

\$102T

Global govt debt
2024

\$35T

Corporate bond
debt 2024

53%

IG corporate issuance
now BBB-rated

INVESTMENT IMPLICATIONS

Rate sensitivity. Nearly 45% of OECD sovereign debt and roughly one-third of all corporate bond debt will mature by 2027 (OECD 2025), forcing rollover at materially higher yields. Duration risk is now a structural budget issue.

Credit quality erosion. 53% of investment-grade corporate issuance is now BBB-rated - up from 25% in 2000. A recessionary shock could cascade into mass fallen-angel downgrades, pressuring HY spreads and liquidity.

Fiscal crowding-out. Governments absorbing ever-larger bond supply displaces private capital and keeps term premia structurally elevated - a headwind for long-duration fixed income that advisors must price into model portfolios.

Portfolio construction. Real assets, floating-rate private credit, and inflation-linked instruments gain appeal vs. nominal long bonds in a world of persistent fiscal deficits and compressing debt sustainability buffers.



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