What would Kenny Rogers do?

As the world waits for the Trump show to start in earnest, should you hold 'em, fold 'em, walk away or run?

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It's important, if sometimes difficult, to keep your political views separate from your investment views. With that said, let's just underline that the question at hand is whether you should invest in Trump's US, not whether you should live there. Figures out last week show that US PMIs have surged in the aftermath of a Republican clean sweep, suggesting that business expects a favourable environment ahead. But US equities already make up over 70% of the developed world market cap, and, after two years of 20%+ returns, are not cheap. Is it time to trim US exposure into strength and rotate elsewhere?

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Josef Licsauer: Look beyond the stars and stripes

The US stock market has long captivated investors, drawn in by its track record of stellar returns and its roster of world-leading, innovative businesses. However, with valuations now exceeding its long-term average, and surpassing many global peers, I think it's reasonable for investors to question whether the US market still offers the best opportunities or if it remains the most attractive destination for their hard-earned capital. Whilst certain segments of the market can justifiably command premium valuations due to their high-growth potential, many parts of the market appear stretched, leaving limited room for upside compared to opportunities beyond US borders.

Valuations matter

The US market currently trades at a lofty forward price-to-earnings (P/E) of 21.6x—above its 20-year average of c. 15x. Many investors might argue that higher valuations, meaning it is more expensive, are justified by the stronger growth on offer. This is certainly true in some instances, with one only needing to look to ExxonMobil, for example. Compared to its UK equivalent Shell, ExxonMobil offers greater growth and carries significantly less debt, making its premium valuation versus Shell relatively easy to justify.

Yet, this does not mean investors are limited to the states for options, despite many citing it as the 'land of opportunity'. Whilst it's important to consider other factors such as market conditions and economic stability, it is also important that investors look beyond US borders as global markets present attractive alternatives, offering similar growth drivers at lower valuations.

Europe, for instance, is home to global leaders like LVMH, TotalEnergies, SAP, and Siemens, which benefit from similar growth trends as their US counterparts. Yet, Germany's and France's markets trade at forward P/E ratios of 12.3x and 13.5x, respectively. This is significantly below the US meaning that investors may benefit from trimming on strength in the US and reallocating their capital in lower valuation opportunities like this. This opportunity might become more compelling when considering investment trust discounts. Trusts like **Henderson European (HET)**, for instance, capitalise on these opportunities but currently trades at a wider-than-average discount, versus the European sector, potentially making the entry point to the market even more attractive.

Further east, Japan tells a similar story. Decades of stagnation have given way to a stock market revival driven by corporate governance reforms and impressive earnings growth. Despite reaching

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multi-decade highs, Japan's market trades at a forward P/E ratio of 14.4x, significantly lower than the US. Therefore, investment trusts like **JPMorgan Japanese (JFJ)** - offering investors access to a diversified portfolio of quality Japanese companies trading at lower valuations than their US counterparts, including Nintendo—that trade at wider-than-average discounts, versus the Japan sector, present promising alternatives to the high-priced US market.

I think these examples illustrate why casting a wider net can reveal strong opportunities at much more reasonable valuations.

Global Market Forward P/E

	US	GERMANY	FRANCE	JAPAN
P/E (x)	21.6	12.3	13.5	14.4

Source: MSCI factsheet, as of 30/10/2024

Now, you might be thinking, what about the US tech sector? Surely, it's offering stronger growth. You're right, but it's more nuanced than it seems. The US tech sector is dominated by a handful of giants with the likes of Apple and Microsoft justifying, somewhat, their higher multiples (37.6x and 34.2x) through strong cash flow generation and market leadership. Additionally, companies in high-growth areas like artificial intelligence may also remain attractive, with NVIDIA putting a strong case forward for justifying its current multiple (68.4x), through consistently strong earnings growth and positive company results.

However, we must remember that underneath the bonnet of the tech sector, this isn't the case for all, as many are at risk of slower earnings growth as consumers pull back and borrowing costs remain high. Moreover, in markets outside the US, tech stocks—including semiconductor and AI-related stocks—are benefitting from similar growth trends but trade at much lower multiples. Notable examples include Samsung (11.6x), TSMC (30.1x), and SK Hynix (3.8x), stocks investors can look to for similar growth profiles but at a discount compared to their US counterparts. **Fidelity Emerging Markets (FEML)** offers exposure to these stocks, which, given its discount of c. 13%, makes it a potentially compelling option for investors.

It comes down to diversification

By no means am I suggesting that investors should divest from the US entirely. Its dominance over the past decade has been undeniable, and it remains an essential hub for growth and innovation. Additionally, forecasts from institutions like JPMorgan and Goldman Sachs indicate the potential for significant growth in the coming years, reinforcing its meaningful value to any investor's portfolio. What I am suggesting, however, is that it might be time to start adding to other growth opportunities elsewhere, particularly through investment trusts that are providing access to less expensive markets and trade at wider-than-average discounts compared to their respective sector averages.

Overall, by looking beyond US borders, investors can find a wealth of growth opportunities that are not only less expensive but also provide strong growth profiles and meaningful diversification benefits. Whether it's the diversification of risk, sources of income, drivers of returns, or geography and politics, adopting a more global approach can help investors achieve stronger returns over time whilst balancing their portfolio's risk.

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Alan Ray: Stick with Uncle Sam

I'm going to put my neck on the line and say that, in my view, the stock market is one of the few guardrails that the incoming US administration really cares about. This is an administration that demonstrably cares about 'winning' and the stock market is one of the simplest ways for everyone to measure the extent of the winning. And of course, many Americans are invested in the market so it's a very real thing to them. So, whilst many economists feel very certain that tariffs, a key policy of the new government, are inflationary and pure form, they are probably right. I think the chances of a tariff wall descending with no negotiation or nuance are low. De-globalisation is not new, Biden's CHIPS Act being just one example that reveals this is a bipartisan issue, so I think it just marks a change-up in gear and a less subtle approach. Lobbyists are no doubt already busy making their points over breakfast at the Old Ebbitt Grill and I think the stock market will ultimately keep things in line. That's a paragraph that I might wince at in a year's time, but how interesting would an opinion piece be if it was just a list of caveats? I trust readers can fill in all the relevant ones about this being a very unpredictable administration!

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Then there is the valuation problem. Readers will know that the US market has performed very strongly driven by a narrow group of stocks in recent times and at this point, I'm not sure I need to list the names out. It means that the S&P 500 comes out on a very high P/E ratio when many other stock markets are the exact opposite. But I think in the 21st century we've seen a repeated pattern of very large companies defying all the old adages, 'elephants can't dance' being the one that sticks in my mind, to the point where we can very much conclude that some of them can and do. In other words, some very large companies can still grow as if they were still small companies. We've seen a repeated pattern of this happening in the US much more often than anywhere else and there isn't space here to go into why that might be, but it seems to be inescapably the case. High valuations, by their nature, place a lot of faith in the future, so it's unsurprising that highly valued companies can be volatile when they 'disappoint' on their quarterly earnings. A trust such as **Allianz Technology Trust (ATT)** can help investors navigate these types of companies and lately has started to moderate its exposure of the largest, most highly valued names in the expectation that the market will broaden out as it recognises the growth potential of other technology businesses. ATT is, of course, a global trust, but overwhelmingly exposed to the US. Because, to be a technology specialist, you really have no other choice.

Investors may of course prefer a less sector-specific exposure, and the investment trust world is lucky to have an excellent and long-standing investment trust designed as a core US equity holding in **JPMorgan American (JAM)**. This is managed by a team which blends value and growth disciplines into a single portfolio, and which has shown a great ability over the last few years to navigate the US market, capturing growth from some of those highly valued names, but combining that with returns from less high-profile names with lower valuations. The trust also adds in a small portfolio, less than 10% of NAV, of small and mid-cap companies, which have seen some positive signs in recent weeks of positive investor sentiment. Smaller companies have, in valuation terms, been left behind in recent years, and quality-growth specialists **Brown Advisory US Smaller Companies (BASC)** and **JPMorgan US Smaller Companies (JUSC)** both offer investors a way to access this segment of the market. The US is a continental-sized economy and many smaller companies are really much larger than we think of in the UK, but valuations have stayed low whilst interest rates have been high, and there's a great opportunity for returns driven by a rerating of smaller companies. The main risk here is that, as economists point out, tariffs are most likely inflationary, and smaller companies tend not to perform well in a rising inflation scenario. But overall, whilst the simple picture is "US highly valued, Europe, UK, Asia etc. lowly valued" the picture is more complicated, and some of those high valuations may well be justified. History has shown this can be the case, as shareholders in Amazon, to take one example, know well.

With limited space, I'm not going to try to go all around the world's stock markets, but I will take one non-US example. One of the best arguments for European equities, which I think is quite compelling over the long-term, is that amongst the dispiriting macro and confusing politics, there are some great global companies. Some of those are inextricably embedded in global supply chains and my colleague Joe namechecks **Henderson European (HET)** as one trust that focusses very much on that theme, and I'd add **BlackRock Greater Europe (BRGE)** as another trust which emphasises the global nature of its portfolio. The word 'global' invariably means that the US is the company's largest single market. Naturally, China often looms large as well, but let's be under no illusion: the US remains at the very least a highly influential market for large European companies. I think the probability of Europe, as one voice, negotiating a compromise on tariffs with the US isn't zero, but I don't think it will happen quickly and I don't think it's at all a safe bet. I expect companies and countries may try to find their own way through, and one obvious area that could be very positive is those companies that already manufacture in the US. We don't really know if that will matter, but it seems like a good place to start and is an example of how an active manager might add value over an index. But the uncertainty is the point, and uncertainty rarely makes for positive investor sentiment. There's a good chance though that there will be some excellent opportunities created as a result. I think the same read goes for many other markets. This US is, after all, the stock market and economic centre of gravity for the world.

Thus, as ever, I think the argument for owning US equities is very strong. A giant economy with a unique ability to create and hold on to innovative companies, and a rich store of natural resources adds up to a pretty good hand in the game of global poker that's about to begin. It will be fascinating to watch.

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Alan joined Kepler in October 2022. He has worked in the investment funds industry for over 25 years. The first half of his career was as an investment trust analyst, leading a highly-rated sell-side research team. More recently he has worked in corporate advisory and investment banking roles, with a focus on alternative asset classes

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