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The parable of the hidden treasure

Our investment specialist is finding lots of opportunity outside the US.

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In the New Testament, the Parable of the Hidden Treasure describes a traveller who skips past the bustling marketplaces of the city, heading for a non-descript, muddy field in search of hidden treasure. When he found the treasure, "he hid it again, and then in his joy went and sold all he had and bought that field".

One could reasonably argue that stock markets have, for a long time now, aligned with the story: most travellers (investors) have been blinded by the new, shiny narratives emanating from the busy marketplaces (the US's S&P 500 and Nasdaq Composite indices) and have shunned the potential riches hidden in the unloved fields (pretty much everywhere else in the world).

I'm certainly not suggesting one sells all their US holdings, as the traveller sold all his belongings. Perhaps, though, if you are of the view that there's a shakedown in the offing, it's worth taking profits and redistributing them elsewhere.

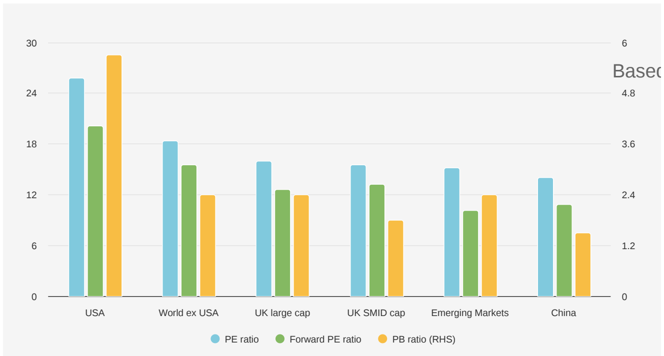
The US market undoubtedly seems the most attractive to many investors right now, given it is leading the way in the development of artificial intelligence. Sellside analysts seem particularly bullish, with earnings estimates for US Companies in both 2026 and 2027 having been revised upwards through this year by c. 10%. In an average year, earnings estimates are revised down by around 8%.

To me, this rings alarm bells, especially with relative valuations so skewed towards the US. Sure, it's possible the country might continue to power ahead, but the MSCI USA Index's price-to-earnings (PE) ratio, at 25.8x, is a c. 43% premium to the MSCI World ex USA Index's PE of 18.4x, as at 31/08/2026. On a forward PE basis, the US trades at a 29% premium and on a price-to-book (PB) basis, the premium is a whopping 136%.

The PE ratio is a valuation measure that tells you how much investors are willing to pay for every pound or dollar of earnings a company, or index, makes. So, on a PE ratio of 25.8x, it would take you around 25 years and nine months to earn your money back if earnings remain the exactly same during that time.

The PB ratio is similar, but tells you how much investors are willing to pay for every pound or dollar a company, or index, is worth. The book value of a company is essentially its total net worth.

price-to-earnings and price-to-book valuations of global markets



Source: MSCI

Past performance is not a reliable indicator of future results.

To me, that's overly optimistic and I'd rather look elsewhere for now. Given its large exposure to US large caps, the MSCI World Index itself is also unappealing to me. It's also worth noting that some markets (including our own FTSE 100) have started to match, if not beat, the US in recent years, yet relative valuations remain attractive.

In the past three months, I've been rebuilding my Lifetime ISA (LISA) funds, having withdrawn my funds to purchase my first house six months ago. I've decided to go for an exchange-traded fund (ETF) portfolio to take away the manager selection headache somewhat, though I may add some select investment trusts as and when I feel necessary.

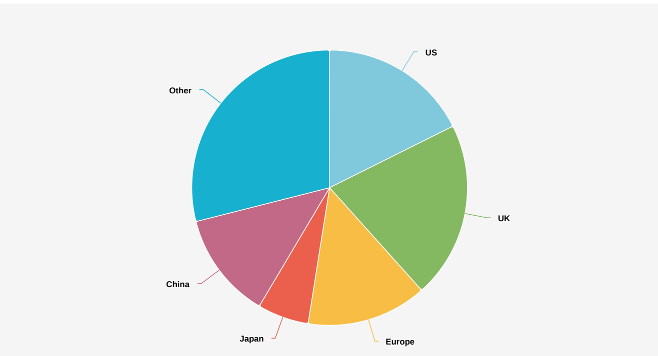
Hiding in plain sight

I'm generally quite keen on mid and small caps as being the place to put a decent amount of money for the long term, since smaller companies tend, over longer timeframes, to outperform large caps given they have more scope to grow faster.

That may not seem the case now. There are plenty of elephants that are galloping today: the world's largest company, NVIDIA, has grown its revenue an incredible 700% from c. $27bn in FY2023 to c. $216bn in FY 2026, according to Macro Trends. That said, I'm confident the small-cap trend will reassert itself given time.

So far, I've landed on UK mid and small caps as being the best value. We've made this argument many times, so I won't rehash it, but it certainly seems to be a view shared by US private equity and trade buyers, who've been snapping up UK plc for a while now.

David's lifetime ISA Asset allocation



Source: AJ Bell
Past performance is not a reliable indicator of future results.

Past performance is not a guide to future rerturns, which is a shame because the **Vanguard FTSE 250 ETF (VMIG)** has become the biggest holding in my LISA, narrowly ahead of the **iShares MSCI World ex USA ETF (XUSE)**. Valuations on the FTSE 250 are attractive and over one period VMIG had grown quicker than the S&P 500 itself. My stock picks shouldn't be viewed as a guide or recommendation either, but I've also been adding to **Aberforth Smaller Companies (ASL)** in both my ISA and SIPP.

I'm hoping that the next fund I'll bring into my LISA is the **SPDR MSCI USA Small Cap Value ETF (USSC)**, which currently has a place in both my ISA and SIPP. The index the ETF tracks trades on a PB discount to the MSCI USA Index of more than 200%, which feels anomalous to me.
Coming back to the parable, I suspect that if we had to pick one market each to play the part of the bustling marketplace and the field of treasure, the former would be the US and the latter would be China.

These are the two countries at the forefront of AI development. I'm not sure China is all that far behind, but its stock market is being valued at a wildly different price. Sure, there's a governance risk, both corporate and political, in China that, despite the headlines, isn't there in the US.

Still, on a PE of c. 14x and a PB of c. 1.5x, it looks to me like the market is overly pessimistic when it comes to China's prospects and its innovation. **Fidelity China Special Situations (FCSS)** has crept into my SIPP's top 10 biggest holdings, while the **Franklin China ETF (FRCH)** is my LISA pick.

For now, though, it's been gold and silver that have been my treasures, though that probably has more to do with luck and good timing than anything. The **VanEck Gold Miners ETF (GDGB)** and **GlobalX Silver Miners ETF (SILV)** are the top two performers, up 25% and 20% respectively (in an admittedly short timeframe).

In the meantime, like that intrepid traveller in biblical times apparently did, I'll continue to try and uncover some precious treasures hidden in a global stock market that is overwhelmingly US-oriented despite the possibility that the best gains will be made elsewhere.

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