

ABOVE THE FRAY

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## US Market Not Partying Like It's 1999

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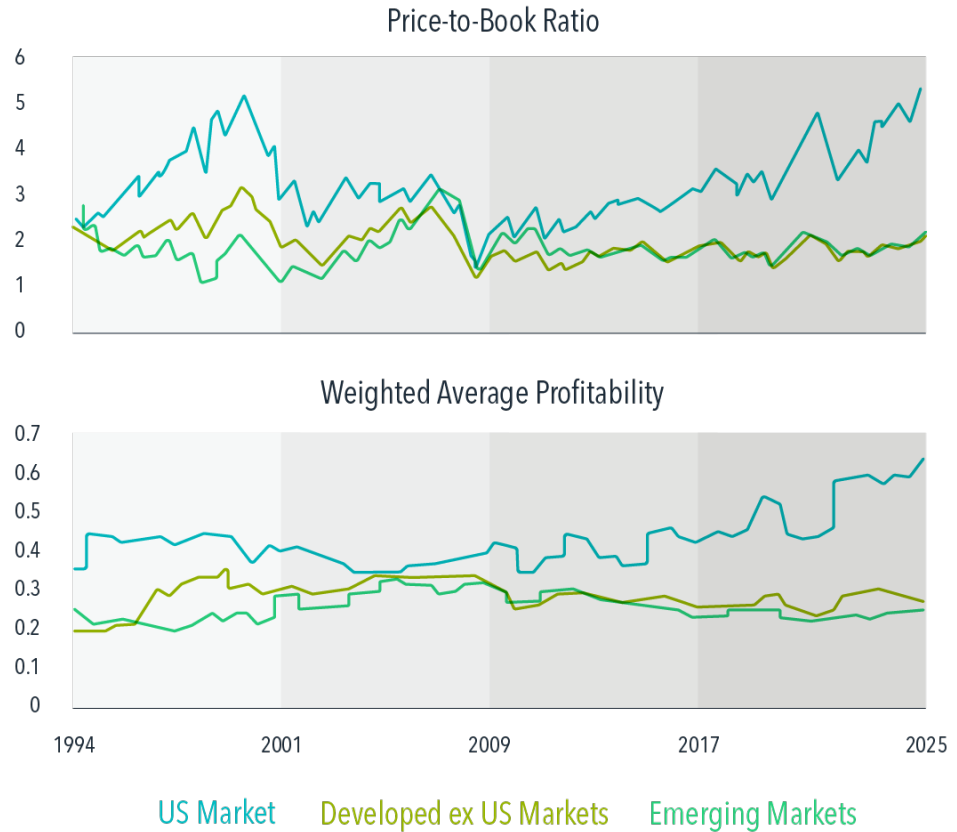
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Much has been made of current US stock market valuations. As of November 30, the aggregate price-to-book ratio of the US market was 5.21—more than double the valuations of non-US developed and emerging market stocks. Many observers have drawn parallels to the late 1990s, when the gap between US and non-US valuations was similarly wide. Some view this as an omen for future returns—and not a good one given the US market's infamous “lost decade” starting in 2000.

But this comparison may not be apples to apples. The weighted average profitability of the US market has surged in recent years, rising from 42% five years ago to 62% as of November 30. That's a very different backdrop from 1999, when US market profitability declined over the subsequent five years.

Valuation ratios can be high because expected returns are low or because expected future earnings growth is high. There is no evidence that investors can reliably disentangle these effects [in real time](#). But the strong profitability growth of recent years suggests a more nuanced story behind today's US valuations. It is not clear that the US market requires poor future returns in order to “grow into” its current valuation levels.

**Exhibit 1**  
**Regional Equity**  
**Market Characteristics**  
 January 1994–November 2025



*In USD. Source: CRSP and Compustat data calculated by Dimensional. Fama/French data provided by Fama/French. US Market is represented by the Fama/French Total US Market Research Index. Developed ex US Market is represented by the Fama/French International Market Research Index. Emerging Markets is represented by the Fama/French Emerging Markets Index. Monthly aggregate price-to-book ratios are computed as the inverse of the weighted average book-to-market value as of month-end. Firms with negative book value are excluded. Book-to-market ratios above 10 are winsorized as the cutoff value in non-US markets. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. Profitability values above 5 and below -2 are winsorized as the cutoff value.*

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**Aggregate price-to-book ratio:** The ratio of a firm's market value to its book value, where market value is computed as price multiplied by shares outstanding, and book value is the value of stockholder equity as reported on a company's balance sheet.

**Profitability:** A company's operating income before depreciation and amortization minus interest expense scaled by book equity.

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**Fama/French Total US Market Research Index: July 1926–present:** Fama/French Total US Market Research Factor + One-Month US Treasury Bills.

**Fama/French International Market Index: January 1975–present:** Fama/French International Market Index. Simulated from MSCI and Bloomberg data.

**Fama/French Emerging Markets Index: July 1989–present:** Fama/French Emerging Markets Index. Courtesy of Fama/French from Bloomberg and IFC securities data. Companies weighted by float-adjusted market cap; rebalanced annually in June.

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