Holowesko Partners Ltd.
September 2025

USA – *"It Better Be Different This Time!"*

At Holowesko Partners, we are certainly a fan of American exceptionalism. In terms of real GDP growth, the US has outpaced most advanced economies in absolute terms and on a per-capita basis. Much of this growth is due to innovation and entrepreneurship, particularly in technology. The economic and free market system in the US allows individuals and companies to commercialize ideas and fund them with the largest and most effective capital markets worldwide. American individuals, investors, and companies are rewarded for taking risks, more so than in most countries. Labor markets in the US are also very flexible. A move from East to West or North to South in the US is relatively easy, with similar or identical lifestyles.

The most important sector in the US, technology, certainly has seen earnings growth well above other sectors in the US and markets globally. These companies also have strong and often cash-rich balance sheets. In fact, the debt levels of US companies overall are admirable, unlike the US government.

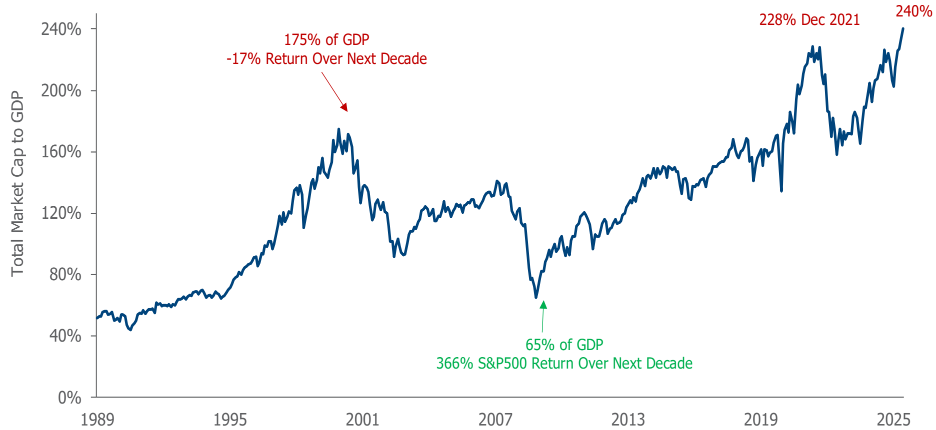
S&P 500 NET DEBT TO MARKET CAP AND US DEBT TO GDP

Note: Data from 1986-August 2025
Source: FRED, FactSet, BofA US Equity & Quant Strategy

However, when you listen to people defending US valuations, many seem to be waiting for "bubble" conditions so they can sell to the greater fool. There are even research reports entitled "Why we are not in a bubble……..yet". On almost any measure, US equities are at extreme valuations.

Starting at one of the broadest measures of valuations, the “Buffett Total Market Value to GDP”, we are now at historic levels, and 35% above the 2000 “bubble” peak.

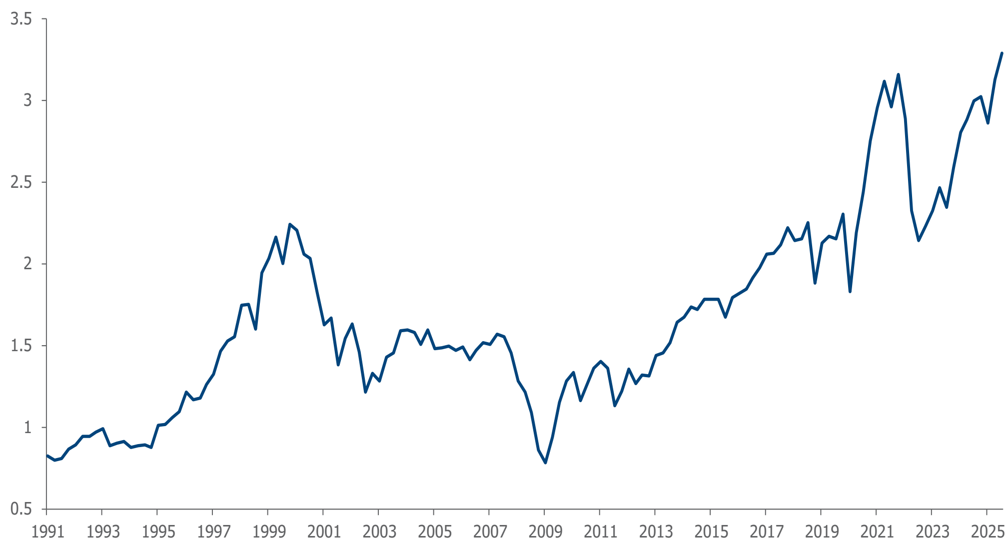
THE BUFFETT VALUATION METRIC: TOTAL MARKET CAP TO GDP



Note: Data from 4-30-1989 to 9/30/2025
Source: Kailash Capital Research, LLC

Relative to the price paid per unit of sales of the S&P 500, we are at historic highs, and also 35% above the “bubble” level of 2000.

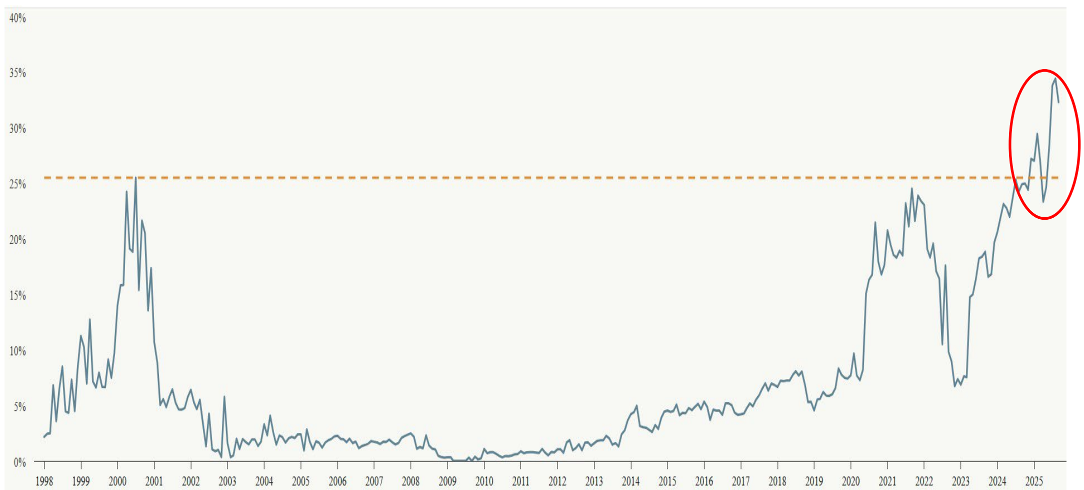
S&P 500
Price to Sales Ratio



Source: Bloomberg, HPL

One of the arguments against "bubble" valuations is that the technology sector has been driven by fundamental growth rather than irrational speculation. Yet not only are companies rich relative to sales, but the weight of companies in the S&P 500 today that are priced above 10x sales is greater than the dot-com bubble. The top 10 stocks in the S&P 500 at the end of the quarter were worth more than the entire Chinese and Japanese markets. Nvidia is worth almost as much as the entire German market, Microsoft almost as big as all of India, and Apple is bigger than all of the UK. In fact, the weight of the top 10 US companies is almost a quarter of the value of the global equity market.

WEIGHT OF NAMES IN S&P 500 TRADING > 10X TRAILING 12M PRICE TO SALES



Note: Data as of August 31 2025. US market valuations are above the 2000 dot-com bubble peak.
Source: GQG Partners LLC, Bloomberg

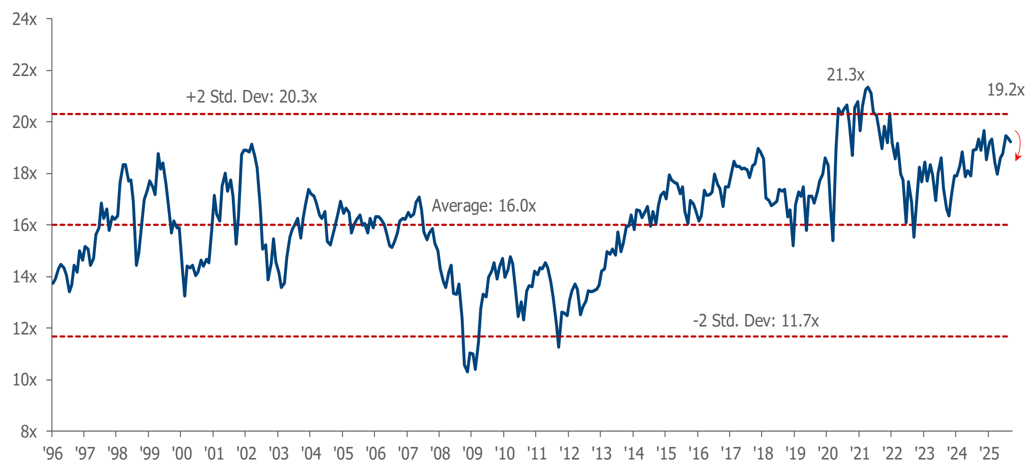
On a price-to-book ratio, today's value of 5.2x is higher than the bubble of 2000.

S&P 500
Price to Book Value Ratio

Source: Bloomberg, BofA Global Investment Strategy

The overall P/E of the market, on enthusiastic forward earnings, is roughly in line with the dot-com bubble.

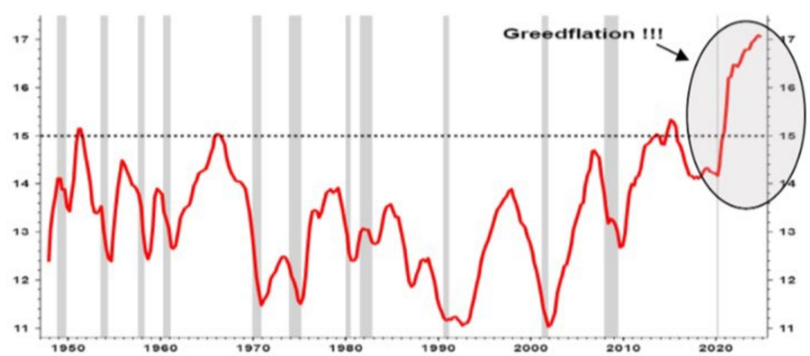
S&P 500
Median NTM Price to Earnings



Note: Data as of 9/16/25
Source: FactSet, Strategas

And this is a peak P/E multiple on peak profit margins. So yes, companies, particularly those in technology, are more profitable than the bubble, but the multiple on those earnings is similar to the bubble period.

US
Profit Margins

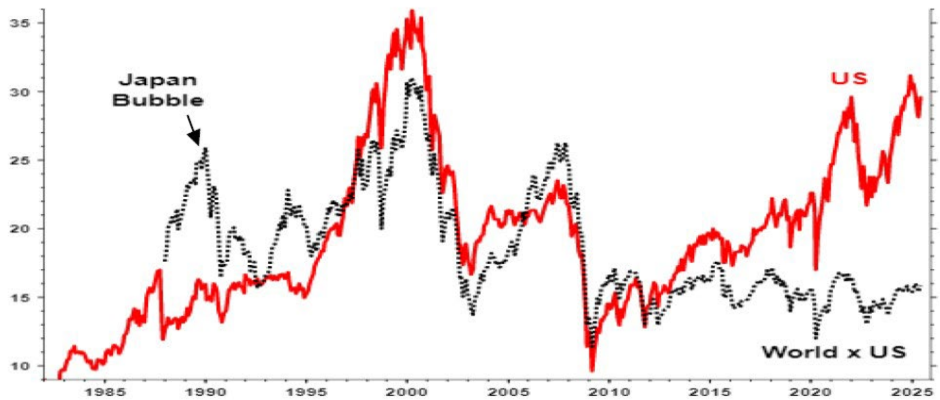


Source: Societe General, Datastream

On a price-to-10-year average earnings basis in the US, we are close to the 2000 bubble, and well above the rest of the world where we currently find more value.

PRICE TO TREND EARNINGS

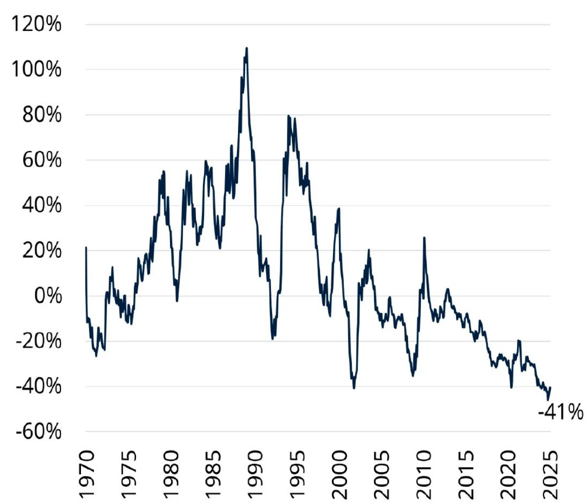
Similar to the Shiller P/E or Cyclically Adjusted P/E – AKA CAPE



Source: Datastream, Societe Generale

Rich US P/E valuations have driven the discount of non-US companies to levels similar to the bubble of 2000.

US PRICE TO EARNINGS VERSUS NON-US

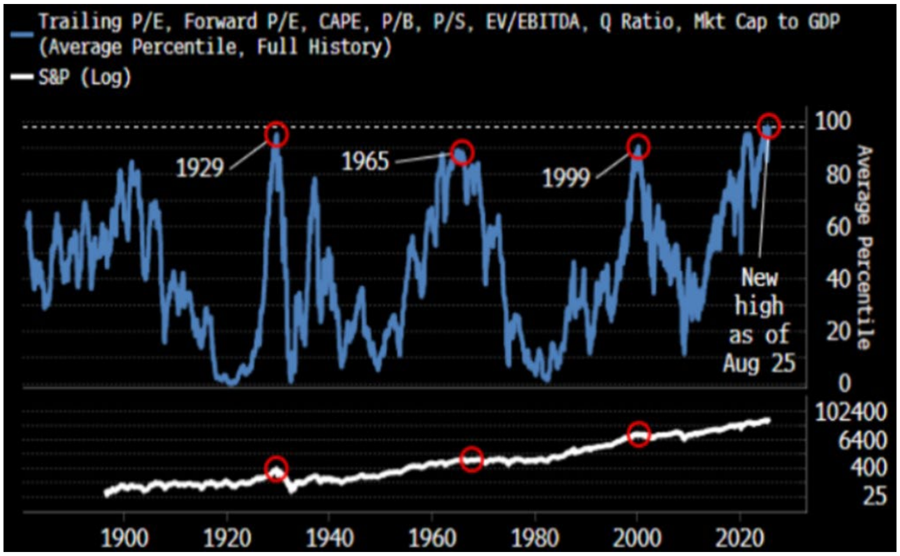


Note: Data to 28 February 2025. Non-US stocks are MSCI World ex-US index, US is MSCI USA

Source: LSEG Datastream, MSCI, S&P, and Schroders

On an average percentile of some of these various valuation measures, US stocks have never been this expensive, not only versus the bubble, but on data going back to the early 1900s.

US STOCK VALUATIONS



Source: Simon White, Bloomberg

Similar to the lead-up to the bubble peak in 2000, "defensive" stocks, where we are starting to find some value, have underperformed and now account for only 20% of the overall market weight.

SUM OF S&P 500 DEFENSIVE SECTOR WEIGHTS
Consumer Staples + Energy + Healthcare + Utilities

Note: Data at 7-14-2025
Source: Strategas, Bloomberg

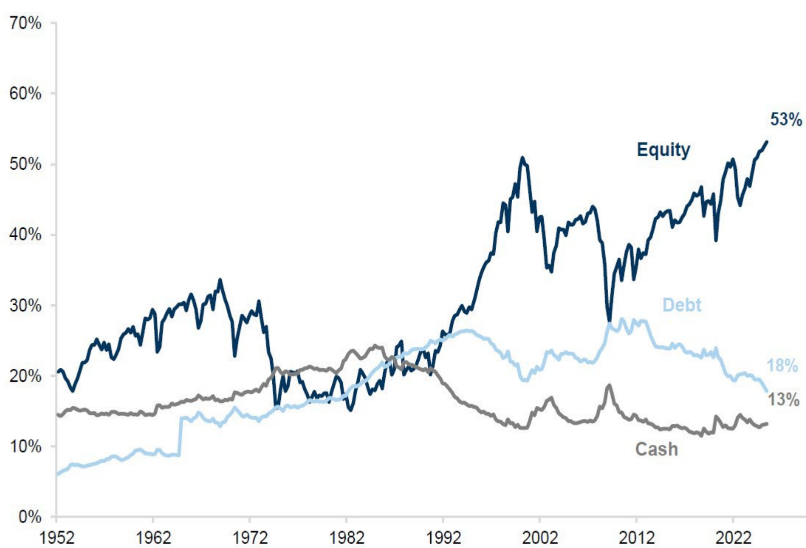
Stocks are also incredibly rich in the US relative to commodities. A large reason for the high US valuation is technology, particularly those companies benefitting from growth in AI and data centers. None of this growth works without surging electricity supply, which needs various commodities to accommodate the growth.

S&P 500 TO COMMODITY INDEX RATIO

Source: Bloomberg, HPL

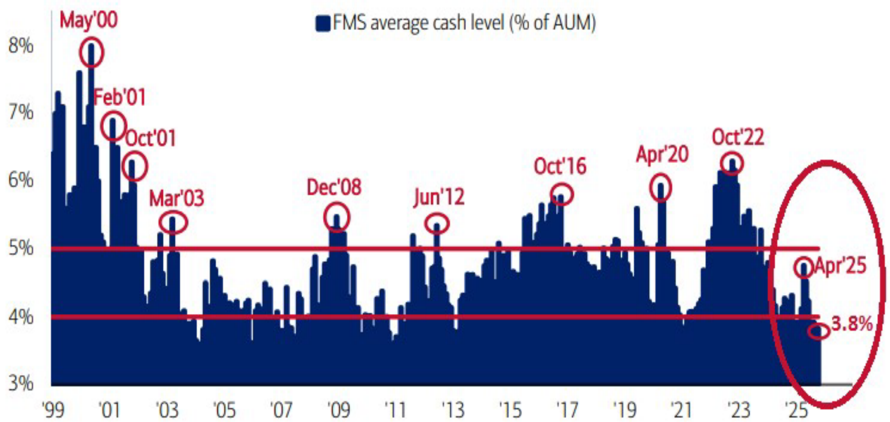
Despite polls showing investor skepticism over US valuations, there is more equity exposure now than during the bubble. In the last month, individual investors set a record for stock purchases, and Bank of America's survey of global fund managers shows one of the lowest cash levels in over 25 years.

AGGREGATE FINANCIAL ASSET ALLOCATION ACROSS US HOUSEHOLDS, MUTUAL FUNDS, PENSION FUNDS, AND FOREIGN INVESTORS



Source: EPFR, Goldman Sachs Global Investment Research

FMS AVERAGE CASH LEVEL

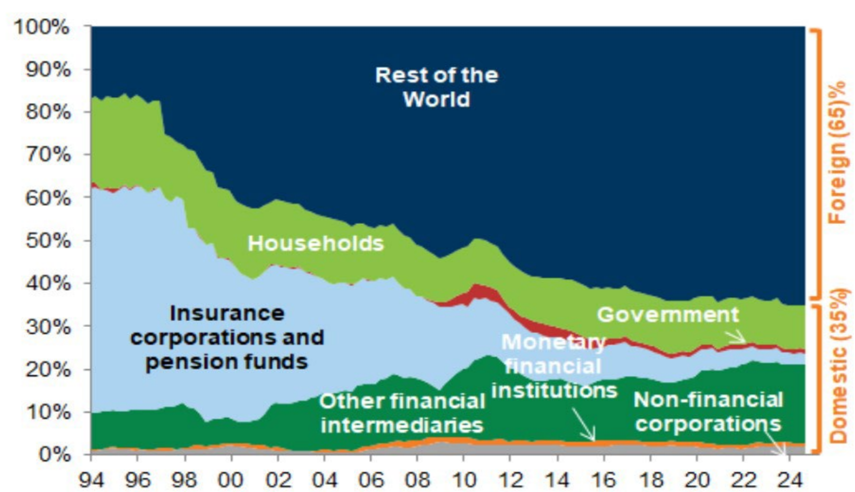


Source: BofA Global Fund Manager Survey

United Kingdom

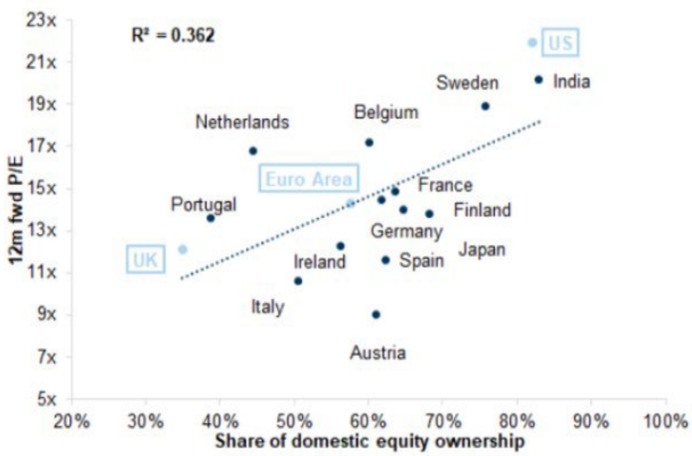
When you consider these stretched valuations, it's not a surprise we are finding more attractive assets outside of the US. One such area is the UK, which is certainly not without its problems. The UK has struggled with low real GDP growth over the last decade, and declining domestic investment. Since 1994, the UK public and private investment have been the lowest of all G7 nations, at 25% less than peers. A large part of the problem has been low domestic ownership of UK equities, which has driven up the cost-of-capital as equity valuations compressed. According to Goldman Sachs, in 1997 the UK equity market was 85% owned by UK domestic savers, and UK pension schemes had a 55% allocation to UK equities. Today less than 35% of the UK market is owned by domestic savers and the UK pension allocation to equities is now less than 4%.

UK EQUITY MARKET OWNERSHIP



Source: Haver Analytics, Goldman Sachs Global Investment Research

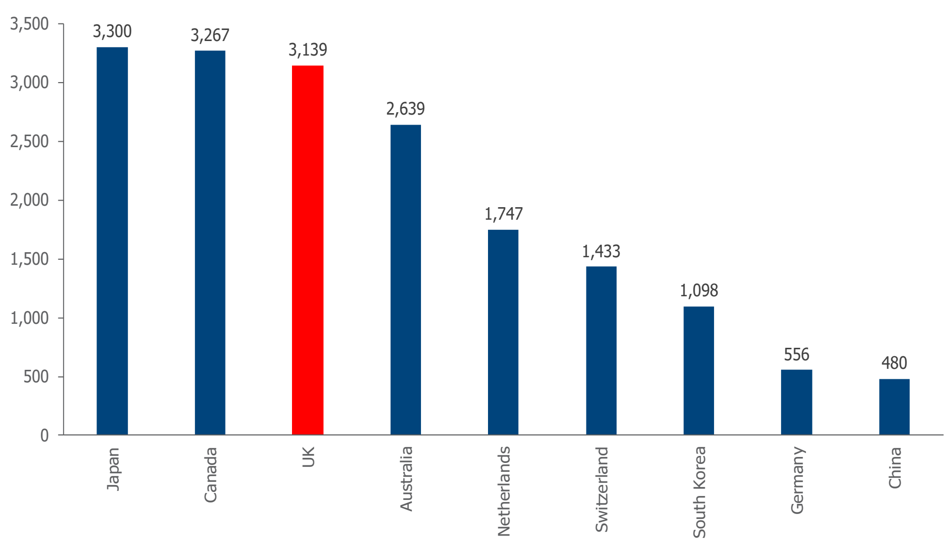
SHARE OF DOMESTIC EQUITY OWNERSHIP AND 12-MONTH FORWARD PRICE TO EARNINGS



Source: FactSet, Haver Analytics, Goldman Sachs Global Investment Research

The problem is not assets. UK pension assets are the fourth largest in the world.

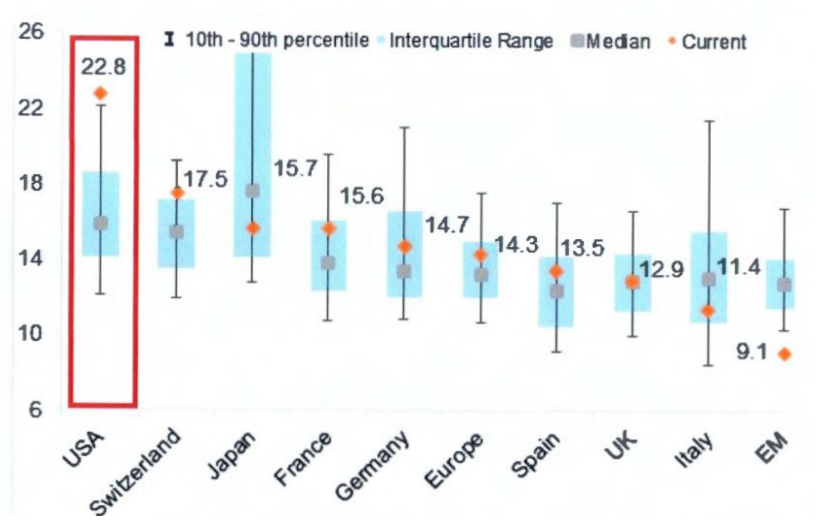
TOTAL ESTIMATED PENSION MARKET ASSETS ($BN)– EX-US



Source: Global Pensions Asset Study - 2025

These assets need to be encouraged into the domestic equity market, which is cheap on an absolute basis and low relative to other markets.

GLOBAL VALUATION RANGE
12-Month Forward Price to Earnings Multiple



Note: Data since 1987
Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

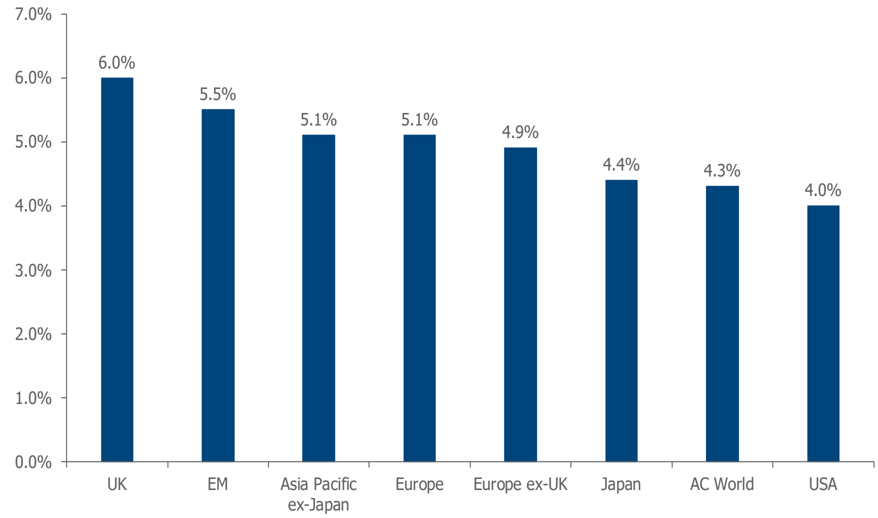
Despite domestic economic challenges, the UK FTSE 100 only has 24% domestic revenue exposure. The UK equity market has typically sold at a small discount to world markets, but never at this magnitude. Our bottom-up analysis of UK equities is uncovering great value.

UK EQUITY VALUATION
MSCI UK 12m Forward Price to Earnings Relative to MSCI World

Source: IBES, J.P. Morgan

Low valuations have now pushed the free cash flow yield in the UK well above world markets.

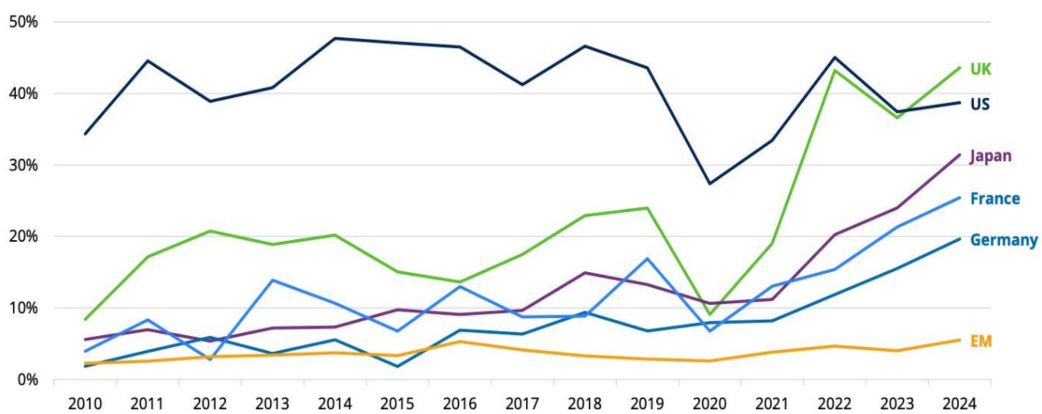
UK
12m Forward Free Cash Flow Yield, MSCI Indices



Source: Factset, Goldman Sachs Global Investment Research

This free cash flow and the level of valuations are recognized by corporate management who are buying back their company shares in record amounts.

BUYBACK ACTIVITY
Proportion of Large Companies Buying Back 1% or More of Their Shares

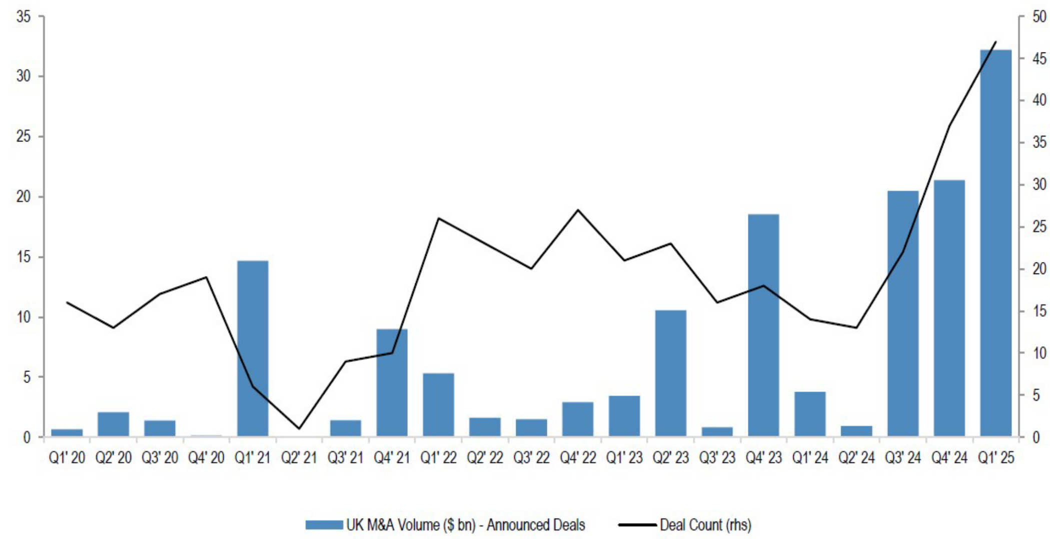


Note: Past performance is not a guide to future performance and my not be repeated. Change in Number of shares estimated based on change in market capitalization/price ratio for each index constituent (based on the full market cap capitalization of each constituent). This avoids any distortions from share splits etc. Using a larger threshold than 1%, e.g. 5%, would not have materially altered the conclusions from this work. Likewise with a smaller 0.5% threshold. Data as at 31 December 2024.

Source: LSEG Datastream and Schroders calculations

It is also recognized by strategic investors, driving mergers and acquisitions higher.

UK M&A VOLUME AND DEAL COUNT – ANNOUNCED DEALS

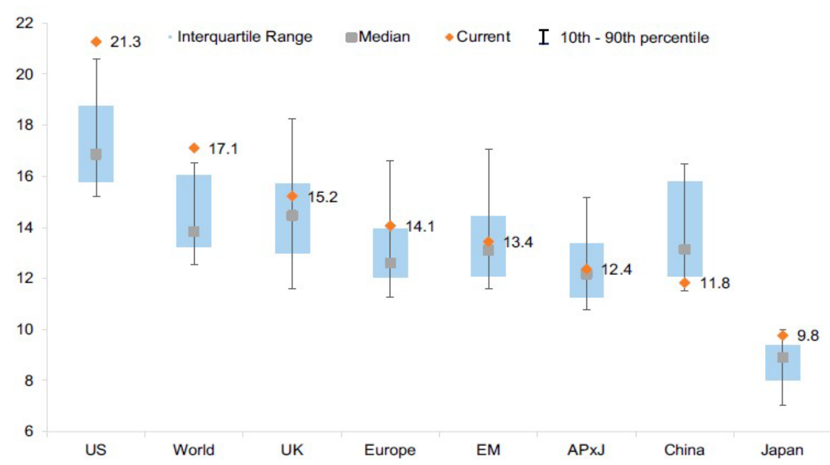


Source: Bloomberg Finance L.P.

Japan

Japan has long been criticized for low returns on equity, weak shareholder stewardship, overly diverse cross shareholdings, high cash retention and poor transparency. The Tokyo Stock Exchange introduced reforms that have improved corporate governance and capital allocation, which has encouraged greater shareholder engagement with management and improvement in valuations. As the chart from Goldman Sachs below shows, despite improvements, there is still some way to go.

GLOBAL VALUATION RANGE
12-Month Forward ROE Ranges for Different MSCI Regions

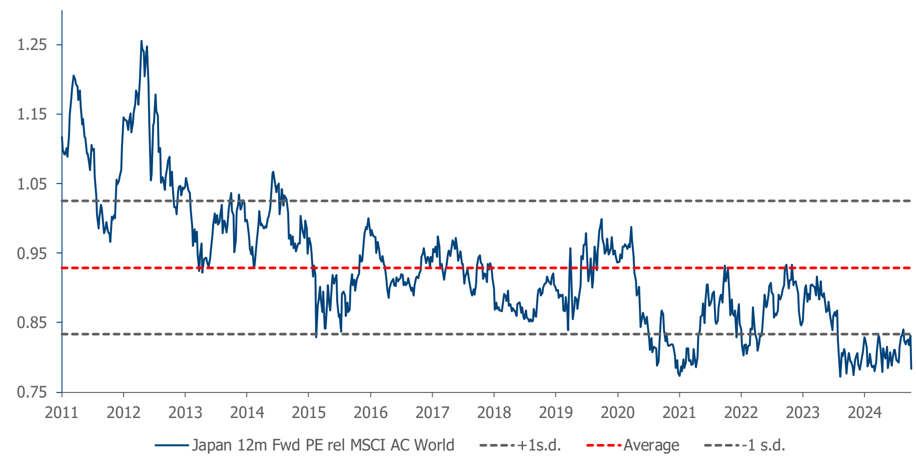


Note: Data for the last 20 years.
Source: FactSet, Goldman Sachs Global Investment Research

But changes are visible with the shareholder yield now close to 4% (dividend + buybacks) and inflation dynamics helping to favor equities in Japan over bonds. Despite the increases in share prices so far in 2025, multiples in Japan are still cheap on an absolute basis and relative to the rest of the world.

JAPAN

12 Month Forward Price to Earnings Relative to the MSCI AC World



Source: Bloomberg, HPL

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