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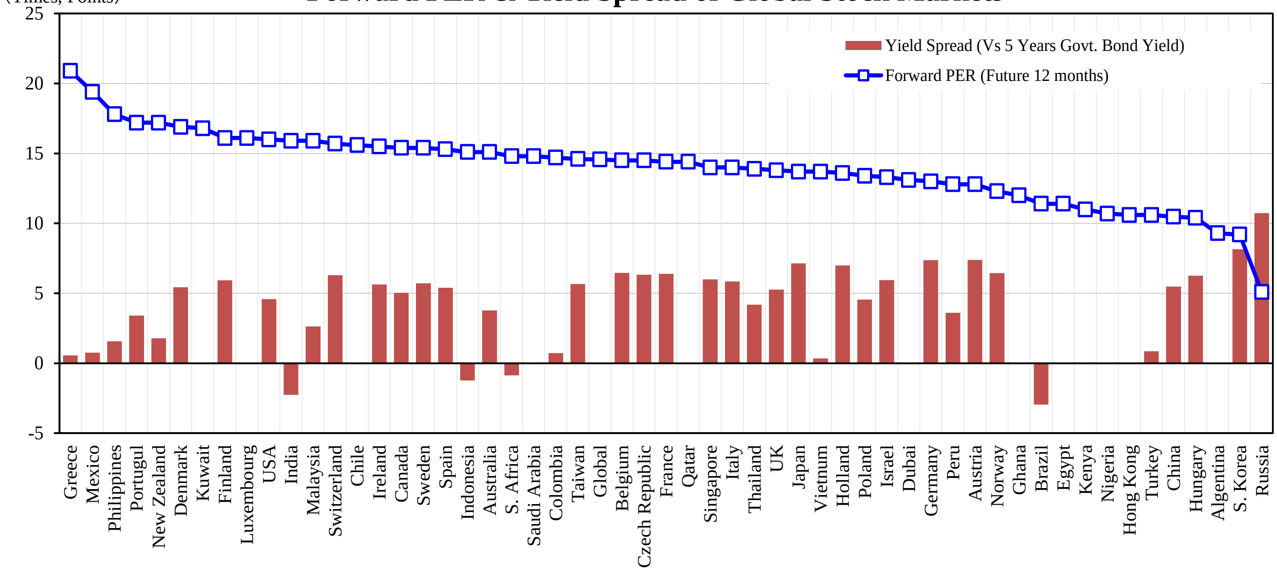
Checking Valuation of Global Stock Markets

Low PER does not necessarily mean it's cheap

Under the circumstances with various uncertainties such as geopolitical risks, the global stock markets as a whole showed a moderate rise so far, this year. However, relative valuation level of stock price differs by each countries. Some countries are valued expensive and others are not. Analysis of each countries' valuation of stock price (55 countries covered in this report) by forward PER, which is the most popular indicator for stock price evaluation, shows the global average PER was 14.6 times, the highest was of Greece, 20.9 times, and the lowest was of Russia, 5.1 times, as of July 22 this year. If you think simply, countries that have lower PER figures than the global average are considerd cheap. However, we should take into account of each country's unique country risk factor, especially when the valuation is extremely cheap. For example, other than Russia, Algentina and South Korea are the countries with low PER less than 10 times. The reason for the low valuation of Algentine can be attributed to its potential default risk.

Forward PER & Yield Spread of Global Stock Markets



(Note) 1. Forward PER is as of July 22.
2. USA: Weighted average of NY Stock Exchange and Nasdaq , China: Weighted average of Shangai, Shenzhen Stock Exchanges and Hang Seng Mainland 100.
3. The country where the government bond yield data is not available , does not show yield spread on the chart.
(Source) SMAM, based on Bloomberg data.

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Japan and some European countries look cheap on yield spread adjustment basis

I have also calculated yield spread (defined as "Profit Yield" (=1/PER) - Long Term Govt. Bond Yield) of each country to evaluate the relative attractiveness for making investment. Wider yield spread means the valuation of the stock is cheaper. After calculation, I found there were four countries of which PER is slightly lower than global average and their yield spreads are wider than the global average. They were Japan, Holland, Germany and Austria. These countries are considered relatively undervalued and look attractive for investment as their domestic situations are sound. I can also find some countries have relatively higher yield spreads in Europe. Countries with low PER, although there are a few cases with wider yield spread, China, Hungary and South Korea seemed undervalued with their yield spread of more than 5 points. On the other hand, as for the countries with higher PER and with narrower yield spread, Greece, Mexico and the Philippines seem to be expensive. And India, Indonesia, South Africa and Brazil with negative yield spread probably can be judged expensive. We need to wait at first for some time till they have their inflation under controlled.

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