The Elephant in the Market

Understanding America's Weight in Global Benchmarks

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D E Shaw & Co

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In developed markets, the U.S. represents 70% of equity capitalization but only about 50% of GDP. This divergence—the U.S.'s status as the "elephant" in the market—has prompted many to ask whether U.S. stocks are overrepresented in global portfolios.

In this piece, we provide allocators a framework to understand the gap in relative market capitalization between the U.S. and other developed markets,[1] and to consider what would need to change for market capitalization to converge with GDP. Our findings suggest that the gap stems mainly from structural and compositional factors, not from U.S. stocks being more expensive than their global industry peers:

- U.S. publicly listed companies generate more earnings per dollar of GDP than developed market peers, which explains nearly two-thirds (64%) of the gap. Our analysis suggests that this likely reflects a larger share of the U.S.'s economic activity being driven by publicly listed companies, not corporate profits representing a greater proportion of GDP.
- The remaining 36% is attributable to U.S. equities trading at a higher aggregate multiple. However, half of that differential (18% of the total) simply reflects industry composition: U.S. indexes comprise higher-multiple industries in greater proportion.

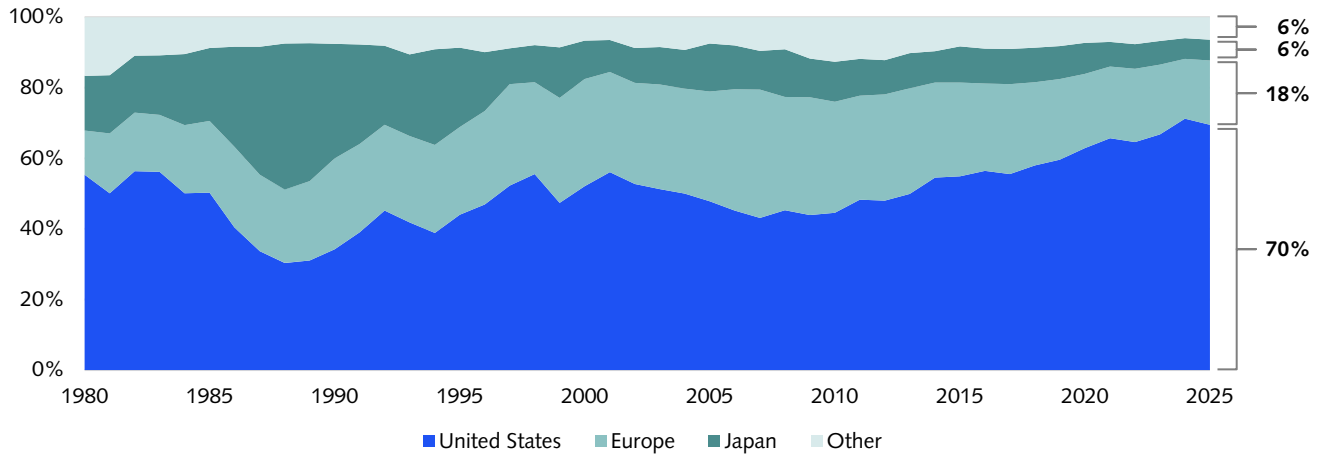
In other words, less than one-fifth (the remaining 17%) of the gap reflects disparity in same-industry valuations.

Market-Cap-to-GDP Gap

To evaluate whether U.S. equities are overrepresented in global portfolios, we benchmark regional equity market size against GDP. We use GDP as an intuitive proxy for economic activity but recognize there are limitations to this approach. Most notably, GDP is a flow (output accumulated over a year), while market capitalization is a stock (a single value at a point in time). To help address this, we look at relative—rather than outright—levels across regions and time.

The figures below decompose developed market equity capitalization (*Figure 1*) and GDP (*Figure 2*) by region. The U.S. share of both has grown, but its share of market capitalization has risen faster.

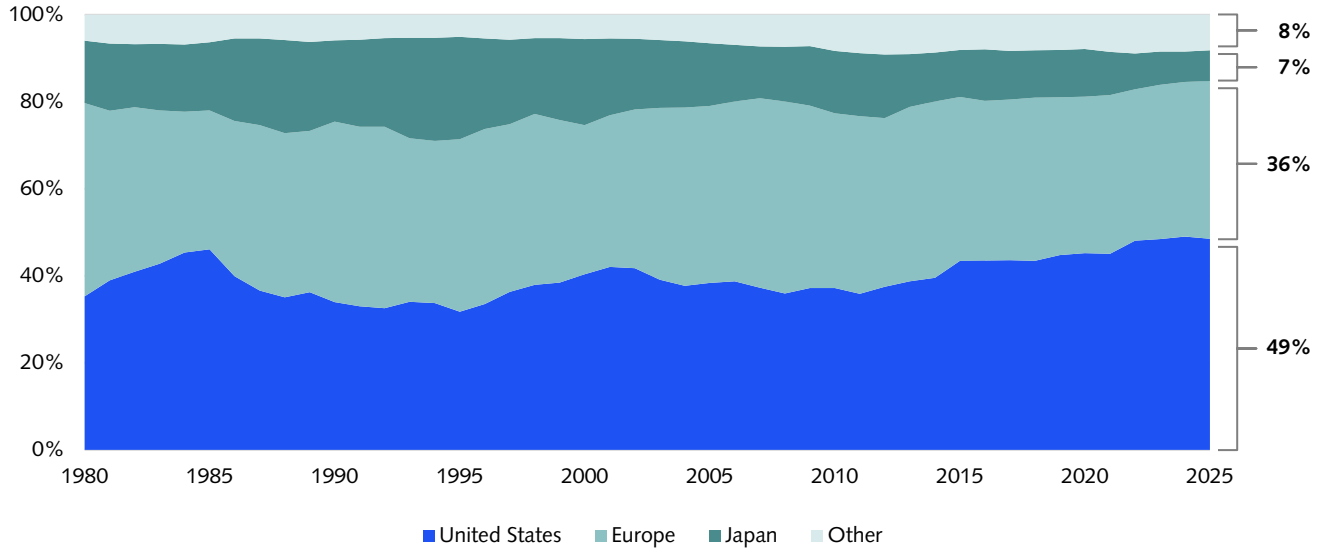
Figure 1: Share of Developed Market Equity Capitalization
12/31/1980 – 12/31/2025



Sources: the D. E. Shaw group; World Federation of Exchanges; Depository Trust & Clearing Corporation; Haver Analytics; Intercontinental Exchange; MSCI; Reuters. Based on data availability, World Federation of Exchanges data is used for the period covering 1980 to 2004, and MSCI data is used for the period covering 2005 to 2025.

[1] Throughout this piece, we define "other developed markets," "rest of developed markets," and "RoW (DM)" as the constituents of the MSCI World ex USA Index. Certain countries are excluded due to limited data availability, but we believe these exclusions don't materially change our findings.

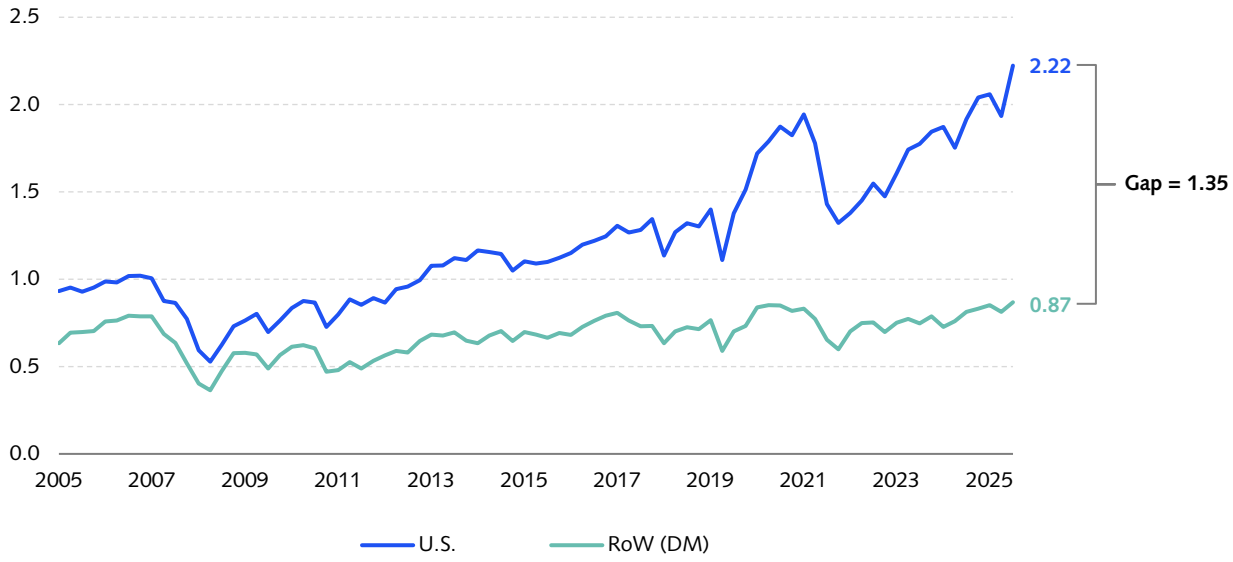
Figure 2: Share of Developed Market GDP
12/31/1980 – 12/31/2025



Sources: the D. E. Shaw group; Haver Analytics.

Putting these trends together, *Figure 3* plots the ratio of market capitalization to GDP for the U.S. and other developed markets over the past two decades. As of June 30, 2026, the U.S. market-cap-to-GDP ratio was more than double that of other developed markets (2.22 vs. 0.87). Understanding this gap is the focus of our analysis.

Figure 3: Market-Cap-to-GDP Ratio: U.S. vs. RoW (DM)
12/30/2005 – 6/30/2026



Sources: the D. E. Shaw group; Depository Trust & Clearing Corporation; Haver Analytics; Intercontinental Exchange; MSCI; Reuters. Applicable data used with permission of Bloomberg L.P.

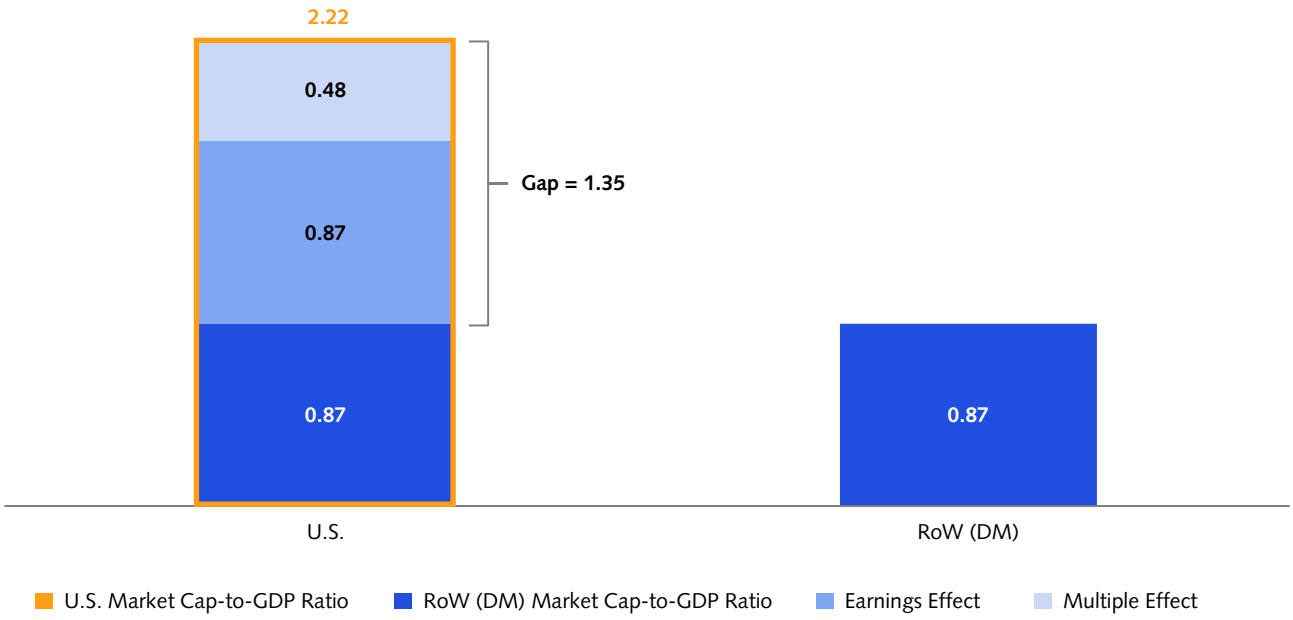
Breaking It Down

Market-cap-to-GDP can be represented as earnings-to-GDP (E/GDP) multiplied by aggregate price-to-earnings (P/E).

$$\frac{\boldsymbol{Market\ cap}}{\boldsymbol{GDP}} = \frac{\boldsymbol{E}}{\boldsymbol{GDP}} \times \frac{\boldsymbol{P}}{\boldsymbol{E}}$$

Throughout, we use this identity to explain why the U.S. market cap share is disproportionately large. As *Figure 4* shows, the gap in market-cap-to-GDP between the U.S. and the rest of developed markets can be split into two drivers: U.S. public companies generating more earnings per dollar of GDP (the earnings effect) and those earnings being assigned a higher multiple (the multiple effect). The earnings effect accounts for roughly two-thirds of the gap (0.87 out of 1.35) and the multiple effect for roughly one-third (0.48 out of 1.35).

Figure 4: Market-Cap-to-GDP Ratio Decomposition: U.S. vs. RoW (DM)
As of 6/30/2026



Sources: the D. E. Shaw group; Depository Trust & Clearing Corporation; Haver Analytics; Intercontinental Exchange; MSCI; Reuters. Applicable data used with permission of Bloomberg L.P.

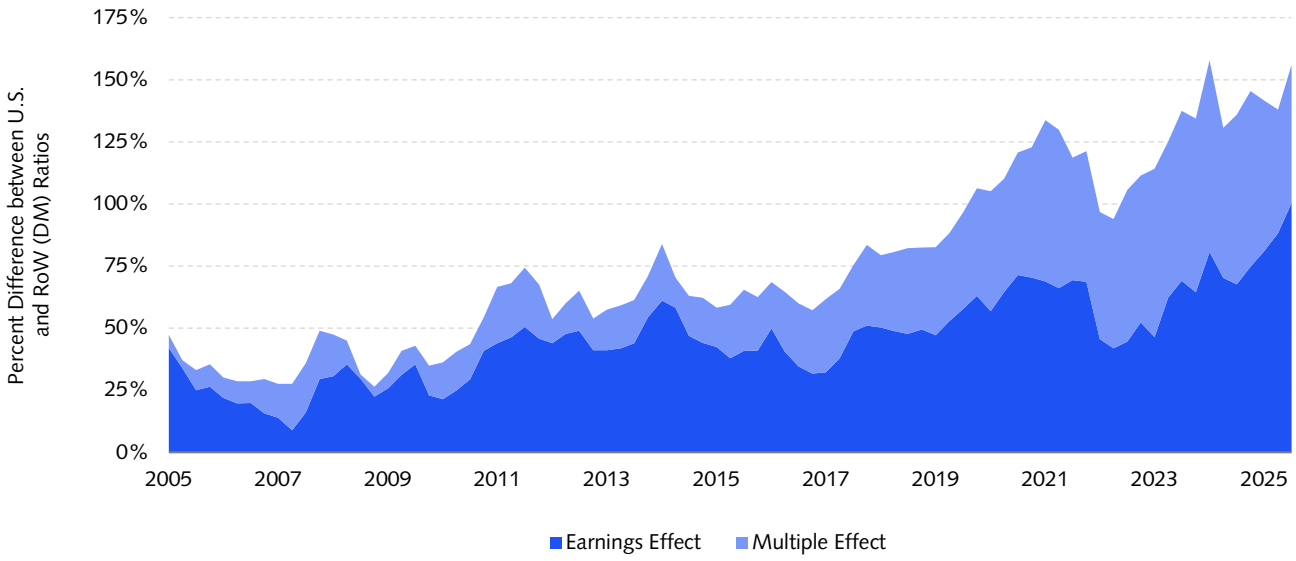
We can also see how these two effects have contributed to the gap widening over time. *Figure 5* plots the percentage by which the U.S. market-cap-to-GDP ratio exceeds that of other developed markets, split between the earnings effect (E/GDP) and the multiple effect (P/E).[2]

[2] To be precise, this figure decomposes the log difference in market-cap-to-GDP ratios as:

$$\mathbf{log}[(\boldsymbol{Market\ cap/GDP})_{\mathbf{U.S.}}] - \mathbf{log}[(\boldsymbol{Market\ cap/GDP})_{\mathbf{RoW}}] = \boldsymbol{\Delta}\mathbf{log}(\boldsymbol{Market\ cap/E}) + \boldsymbol{\Delta}\mathbf{log}(\boldsymbol{E/GDP})$$

where **Δ** denotes the difference between the U.S. and RoW (DM). We call the first term the multiple effect and the second the earnings effect.

Figure 5: Market-Cap-to-GDP Ratio Gap: U.S. vs. RoW (DM)
12/30/2005 – 6/30/2026



Sources: the D. E. Shaw group; Depository Trust & Clearing Corporation; Haver Analytics; Intercontinental Exchange; MSCI; Reuters. Applicable data used with permission of Bloomberg L.P.

The U.S. market-cap-to-GDP ratio has exceeded that of the rest of developed markets for at least two decades, and that difference has grown significantly over the past ten years. Over time, however, the relative contribution of each driver has shifted. The earnings effect was the dominant driver of U.S. outperformance from 2005 to 2016; since 2022, the earnings and multiple effects have been approximately equal.

The Earnings Effect: A Listing Story?

At first glance, the fact that U.S. public companies generate more earnings per dollar of GDP might seem to reflect how income is divided between corporations and the rest of the economy (*i.e.*, total corporate profits as a percentage of GDP). However, because earnings-to-GDP includes only the profits of listed companies, having a higher proportion of publicly traded companies in one country will cause its earnings-to-GDP to be higher, all else equal. This is demonstrated in the equation below:

$$\frac{\boldsymbol{E}}{\boldsymbol{GDP}} = \frac{\boldsymbol{Publicly\ listed\ profit, E}}{\boldsymbol{Total\ corporate\ profit}} \times \frac{\boldsymbol{Total\ corporate\ profit}}{\boldsymbol{GDP}}$$

Comparing total corporate profits across countries is difficult given differences in how the data is prepared. However, as an illustrative exercise, we can compute non-financial gross operating surplus—the profit that non-financial businesses earn from producing goods and services—as a percentage of GDP for both the U.S. and Europe. (We selected Europe because it represents the majority of non-U.S. developed market earnings, and we focus on non-financial data because accounting practices for financials aren't as directly comparable across countries.) Because gross operating surplus captures the profits of both public and private businesses, it can be used as a proxy for an economy's overall corporate profitability, the final term in our equation.

The table below shows that the U.S.'s operating surplus as a percentage of GDP is *smaller* than Europe's, suggesting that U.S. businesses as a whole are no more profitable relative to GDP. This suggests that the U.S.'s higher earnings-to-GDP ratio is driven primarily by its higher share of publicly listed companies.[3]

Table 1: Operating Surplus as a Percentage of GDP
1/1/2025 – 12/31/2025

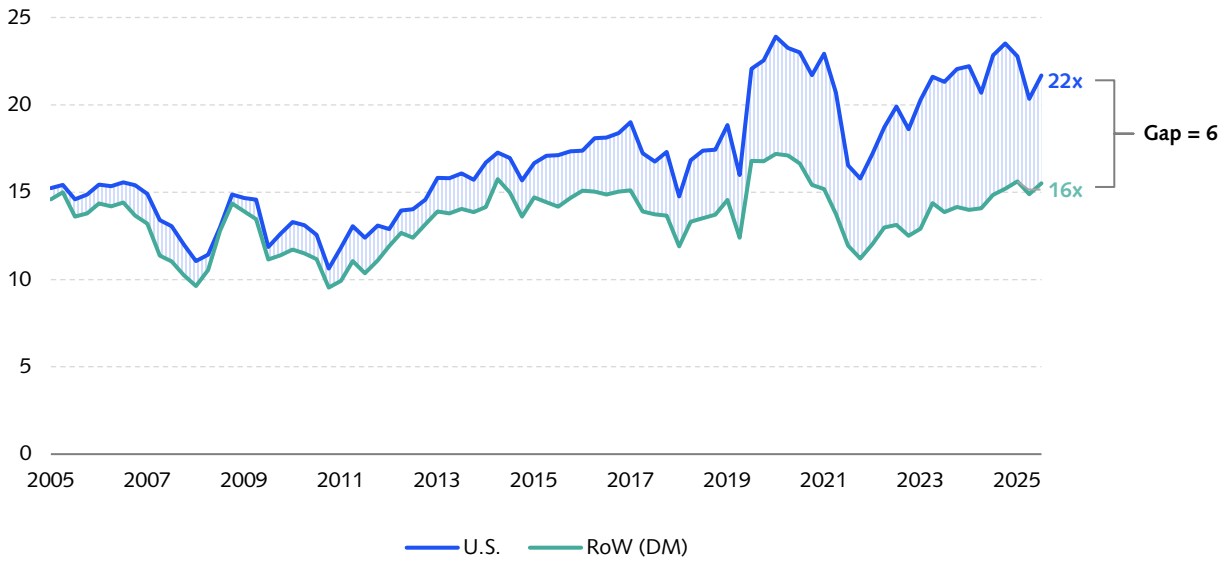
	United States	Europe (EU-27)[4]
Gross operating surplus ($bn)	8,612.8	6,349.5
Nominal GDP ($bn)	30,762.1	21,247.8
Gross operating surplus (% of GDP)	**28.0%**	**29.9%**

Sources: the D. E. Shaw group; Haver Analytics.

The Multiple Effect: A Composition Story?

Market participants have noted the U.S. equity market's relatively high headline multiple. *Figure 6* shows that, as recently as 2019, the aggregate multiples of the U.S. and the rest of developed markets were similar at around 15x, while now they're 22x and 16x, respectively.

Figure 6: Price-to-Forward Earnings Ratio: U.S. vs. RoW (DM)
12/30/2005 – 6/30/2026



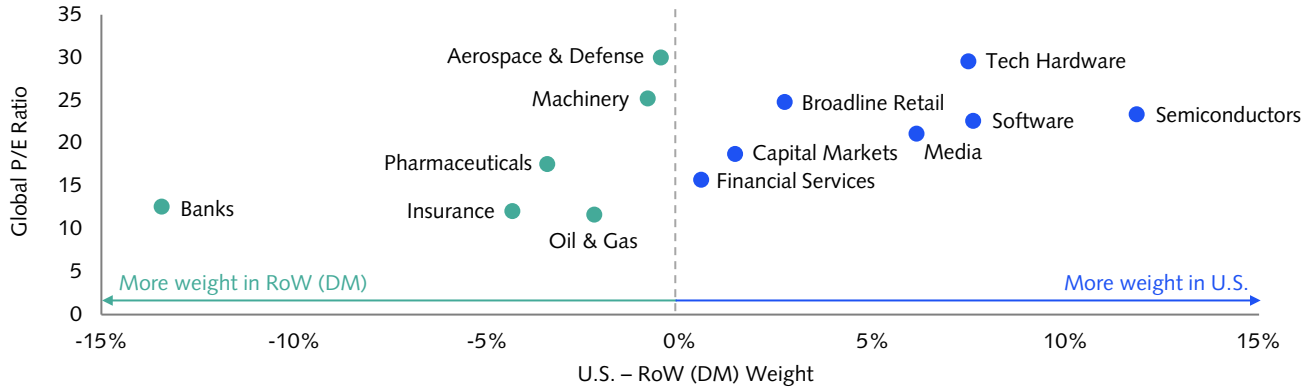
Sources: the D. E. Shaw group; Depository Trust & Clearing Corporation; Intercontinental Exchange; MSCI; Reuters; S&P Global Market Intelligence. Applicable data used with permission of Bloomberg L.P.

However, these headline multiples don't tell the whole story. Different markets have different industry blends, and the U.S. market is overweight high-multiple industries relative to other developed markets, as *Figure 7* illustrates. Even if every industry were valued identically across regions, the U.S. market would exhibit a higher overall multiple simply because of its industry mix.

[3] We also examined whether differences in cross-border revenue exposure could account for the gap. They do not appear to; if anything, U.S. public company revenue is somewhat less foreign-sourced than that of other developed markets.

[4] This portion of the analysis uses data from all 27 EU countries and excludes the UK. Elsewhere in our analysis, Europe refers to the UK and all other European constituents of the MSCI World ex USA Index (excluding a small subset of countries due to limited data availability).

Figure 7: Industry Groups: Global Price-to-Forward Earnings Multiples vs. Relative U.S. Market Capitalization Weight
For industry groups representing ⩾2% of global market capitalization
As of 6/30/2026



Sources: the D. E. Shaw group; Depository Trust & Clearing Corporation; Intercontinental Exchange; MSCI; Reuters; S&P Global Market Intelligence. Applicable data used with permission of Bloomberg L.P. The industry groups shown reflect S&P GICS data. All data reflected above are for illustrative purposes only.

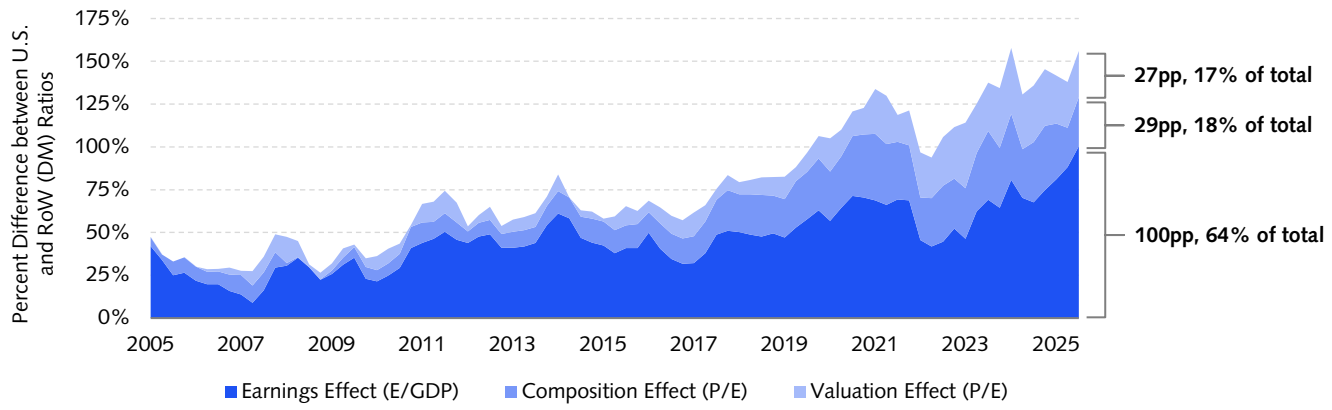
Recall that the multiple effect, shown in *Figure 4*, accounts for about one-third of the gap (36%) in market-cap-to-GDP ratio between the U.S. and other developed markets. Breaking that down further, we estimate that half of the multiple effect (18% of the total gap) stems from the U.S. market being overweight high-multiple industries: the composition effect. This result holds even if "mega cap" stocks are excluded.

That leaves less than one-fifth (17%) of the total gap attributable to U.S. stocks trading at a premium compared to their industry peers—the valuation effect—the most like-for-like expression of a U.S. valuation premium.[5]

Conclusion

Figure 8 shows that the earnings, composition, and valuation effects have each varied, but generally grown, over time.

Figure 8: Decomposition Over Time: Market-Cap-to-GDP Ratio Gap
12/30/2005 – 6/30/2026



Sources: the D. E. Shaw group; Depository Trust & Clearing Corporation; Haver Analytics; Intercontinental Exchange; MSCI; Reuters; S&P Global Market Intelligence. Applicable data used with permission of Bloomberg L.P.

[5] While we won't attempt to justify U.S. stocks' intra-industry valuation premium, that observation on its own does not necessarily mean U.S. stocks are overvalued. There are a number of confounding compositional and fundamental effects that might explain that valuation gap (*e.g.*, imperfect industry classifications or differences in regulatory environments).

What would need to happen for the U.S. market-cap-to-GDP ratio to converge toward that of other developed markets? Our decomposition points to three potential drivers:

- **Earnings effect:** U.S. public earnings intensity could approach that of other developed markets, either via less U.S. economic activity being driven by publicly listed companies or by U.S. public companies becoming less profitable than peers abroad.
- **Multiple effect:**
  - **Composition effect:** industries with currently high multiples could underperform or industry leadership could migrate elsewhere.
  - **Valuation effect:** the U.S. P/E ratio could converge with that of other developed markets within similar industries.

Even a full convergence of the valuation effect would leave the U.S. at roughly 67% of developed market capitalization, a modest decrease from its current 70% share. For now, the U.S.'s elephantine weight in global benchmarks may be better understood as a structural feature than a valuation anomaly: one consideration (among many) for allocators deciding whether to actively under- or overweight U.S. equities in a global portfolio.

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