CAP Focus

Asset Class Focus

August 26, 2026

CAP

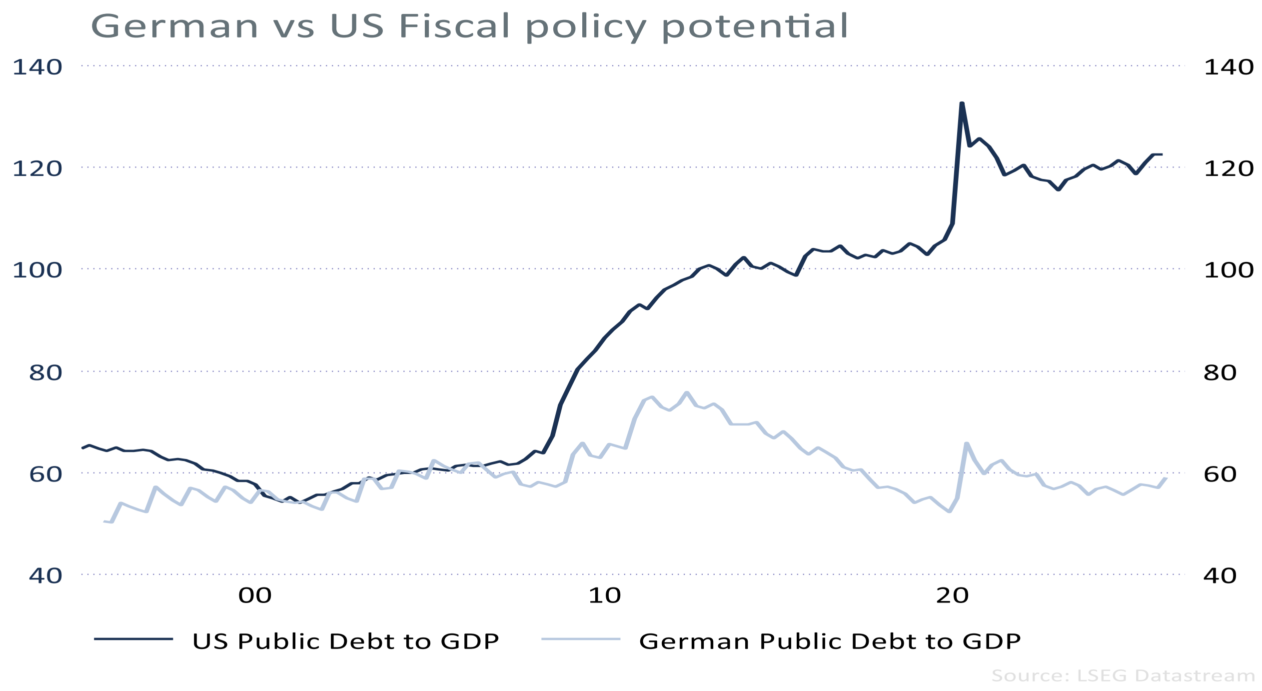
COPENHAGEN ALLOCATION PARTNER

Market Theme. In Brief

Heads or Tails: Are US Valuations Too High?
CAP believes that several economic factors could trigger a more challenging investment environment. Each has a positive "heads" outcome and a negative "tails" outcome. So far, investors have landed on "heads" across the board. CAP now expects one or more of the economic and policy dynamics shaping 2026 to turn to "tails." In Part 2, we examine whether US equity valuations have become too high. Part 1: https://c-a-p.dk/cap-focus-allocation-in-equities-heads-or-tails-aug-17-2026/

Bessent and Interest Rates
US Treasury Secretary Scott Bessent has had a busy week. In addition to threatening severe measures against Iran's trading partners if they continue supporting the Iranian regime, he has announced a $4 billion program to purchase long-dated US Treasuries (20- and 30-year maturities), financed by selling securities in the 2- to 5-year segment. Where the funding will ultimately come from remains unclear, however, because the Treasury's refinancing needs are exceptionally high. Bessent is effectively moving in the opposite direction to hold down long-term yields. Yet with the US running a fiscal deficit of more than 5.5% of GDP and federal debt approaching an extraordinary $40 trillion, or 123% of GDP (see **FIG 1**), the program may have limited impact. The 30-year Treasury yield has remained near 5.20% despite the announcement.
It will be interesting to hear how Fed Chair Warsh addresses the case for higher rates when he speaks at the Jackson Hole symposium on Friday. CAP believes Bessent's intervention makes a Fed rate increase unlikely at least until after the November midterm elections.

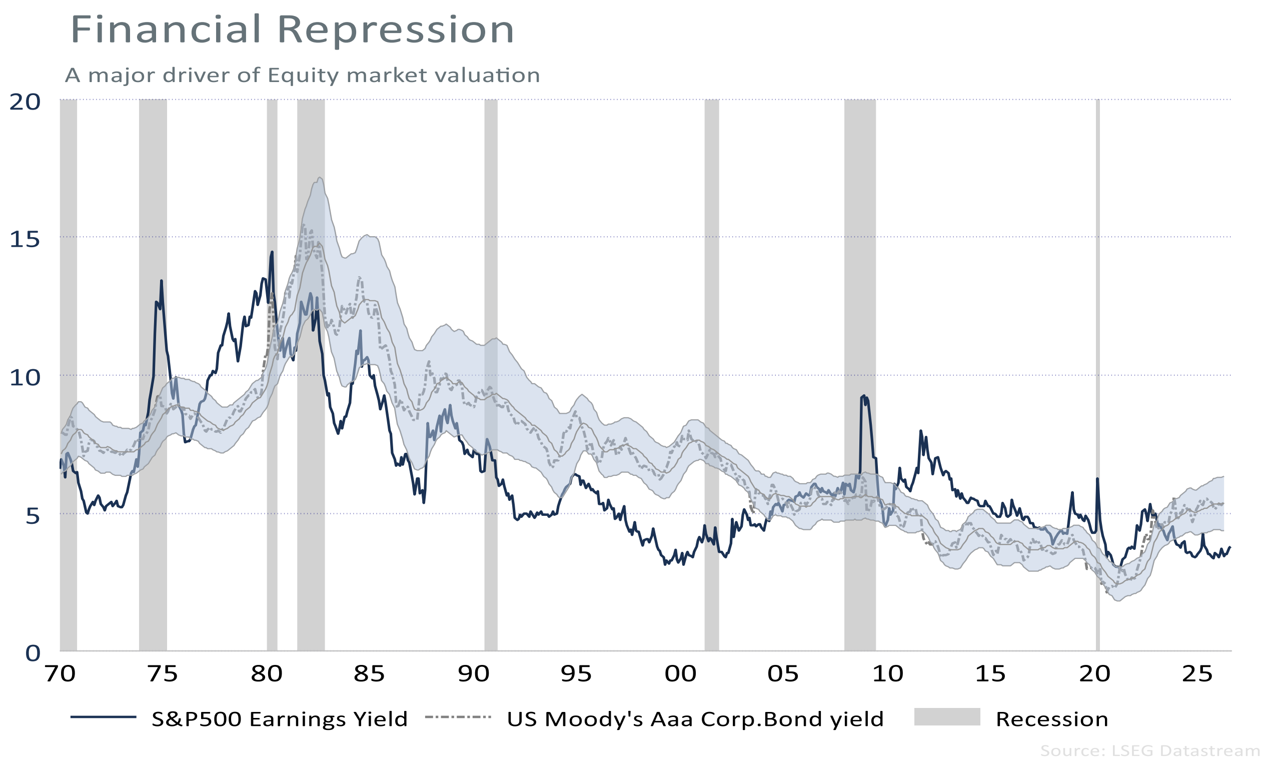
FIG 1



Market Theme. In Brief

Valuation: Earnings Yields Track Interest Rates
What does Bessent's intervention mean for US valuations? As the title of **FIG 2** suggests, the dispute over rates is the latest in a series of initiatives by the Federal Reserve and the Treasury to keep market rates artificially low. We call this *financial repression*—and the United States has mastered the practice. CAP believes US equity valuations have been supported not only by years of debt-financed growth, but also by policymakers' ability to suppress US interest rates while debt surged. As **FIG 2** shows, the US earnings yield (the inverse of P/E) has declined alongside the Aaa yield since the mid-1980s. After the Global Financial Crisis, yields fell again, partly because of large-scale QE bond purchases. This supported federal borrowing and fiscal stimulus, including tax cuts, while also lifting US equity valuations until inflation forced the Fed to raise rates in 2022.
For CAP, the direction of rates is currently a coin toss. Rates could rise because of the extraordinary debt issuance being driven by both the government and the AI revolution—particularly if inflation prevents the Fed from cutting its policy rate. A "tails" scenario emerges when investors recognize that higher rates and debt are constraining US growth and equity valuations. **FIG 2** shows how the dot-com boom ended in an investment disaster when the spread between funding costs and the equity market's earnings yield became too wide.

FIG 2



Market Theme. In Brief

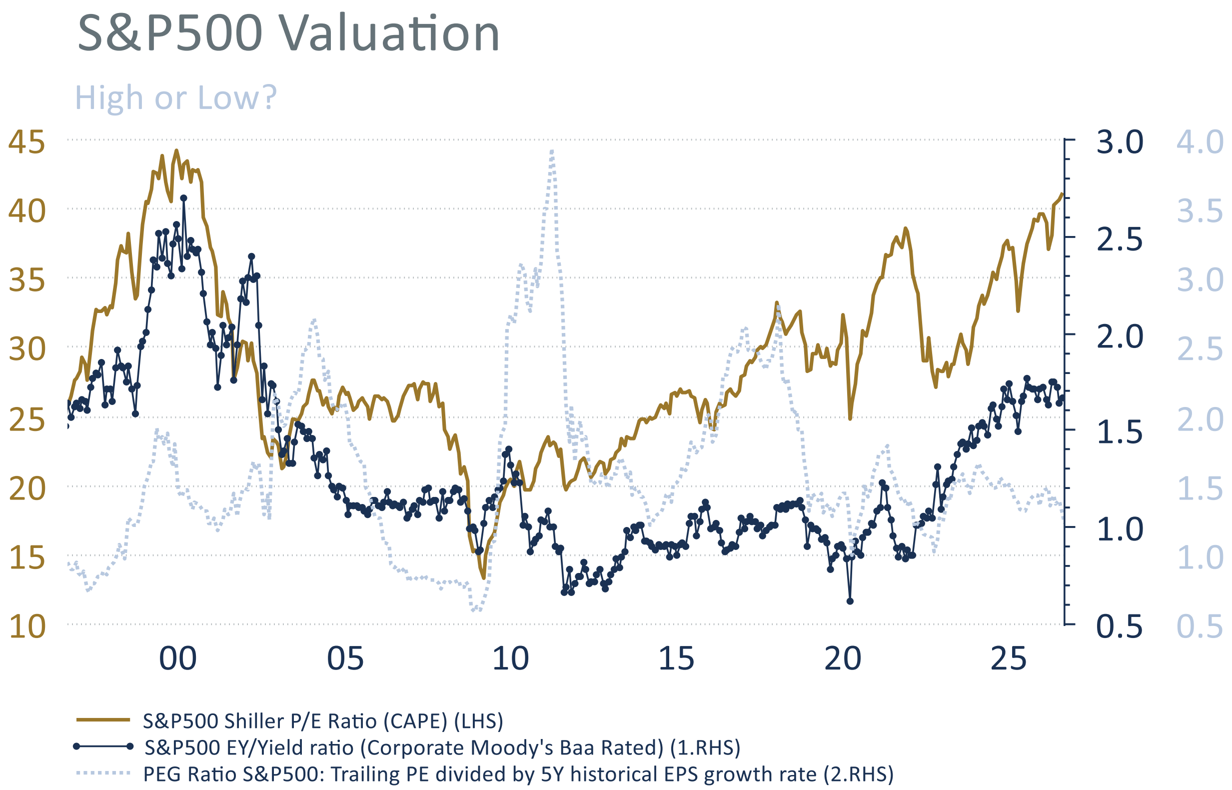
Valuations: High or Low?
Any discussion of US equity valuations requires a historical comparison. Based on the most widely cited bearish measure—Shiller's CAPE—the S&P 500 is now just below the peak reached during the dot-com boom in 1999–2000. That may alarm investors—if they believe today's index level should be assessed against earnings over the past ten years.

PEG
Alternative valuation multiples tell a different story. **FIG 3** presents bearish, "bear-lite," and bullish measures. After absorbing the bearish message from Shiller's CAPE, investors can take some comfort from the bullish measure: the PEG ratio. It adjusts trailing 12-month P/E for the annualized earnings growth achieved over the past five years. **FIG 3** suggests the equity market has recently been slightly undervalued relative to its earnings growth. Over the past 30 years, PEG was lowest following the earnings boom of the 2000s. Like other valuation multiples, however, PEG does not fully capture financial-sector earnings leverage. CAP considers PEG overly optimistic, but if the S&P 500 earnings story continues, investors may see the market as being undervalued rather than overvalued.

Earnings Yield/Credit Yield Ratio
Between the bearish and bullish measures is the relative earnings yield/Baa credit yield ratio. **FIG 3** indicates that equities are expensive on this measure as well, although valuations remain far below the levels seen before the 2000–2002 TMT crash. We call this measure "bear-lite."

Heads vs. Tails Valuation
The "heads" case is clearly represented by PEG. The "tails" case is supported either by bear-lite, implying a possible 20% decline, or by the fully bearish measure, which would imply a market drawdown greater than 20%.

FIG 3



Source: LSEG Datastream, C.A.P

COPENHAGEN ALLOCATION PARTNER

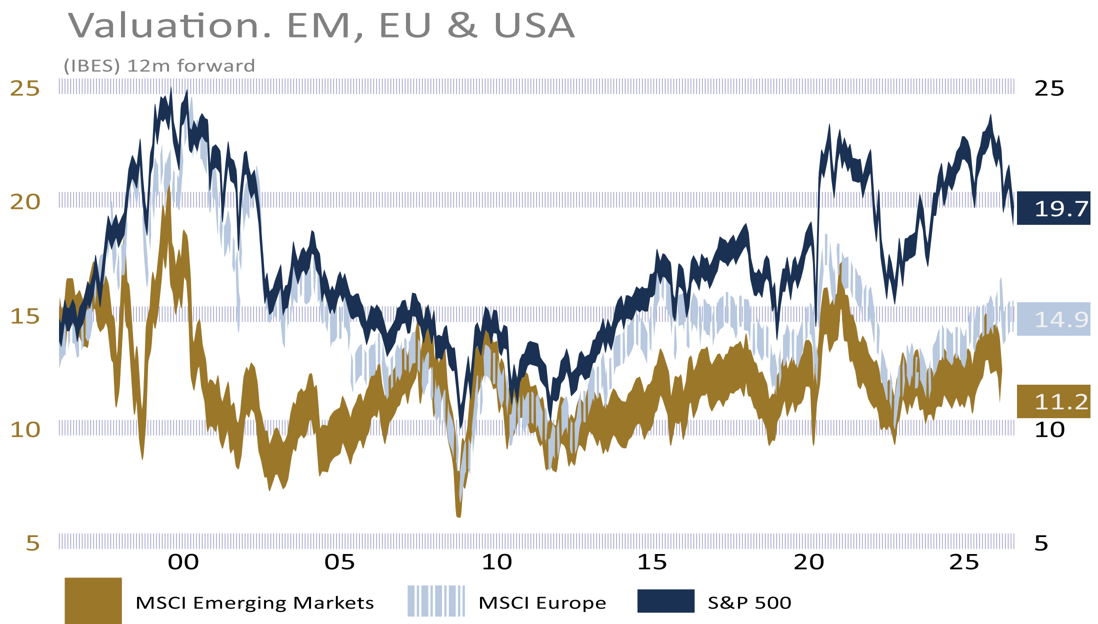
Market Theme. In Brief

Valuations Outside the US
When considering whether valuations could trigger a negative market scenario, it is important to remember that the US is the primary expensive market. Europe was also expensive during the dot-com era, which intensified the selloff when the crisis began in 2000. Today, neither Europe nor emerging markets appear expensive. As **FIG 4** shows, a broad portfolio of European equities trades at approximately 14 times earnings—close to its 25-year average—compared with about 20 times for the US. Historically, the S&P 500 traded at roughly the same multiple as Europe. In a valuation-driven "tails" scenario, CAP expects US equities to decline more than European equities, partly because investors are likely to seek value and defensive stocks, which are more prevalent in Europe.

Heads or Tails?
In summary, CAP believes today's expensive US equity market requires both **(a)** stable, low interest rates and **(b)** persistently high growth expectations if valuations are not to become a headwind for future returns. In our "tails" scenario, investors are disappointed on both counts and—as already observed—rotate into cheaper, more attractive segments both within and outside the global equity market.

❑

FIG 4



Source: LSEG Datastream, C.A.P

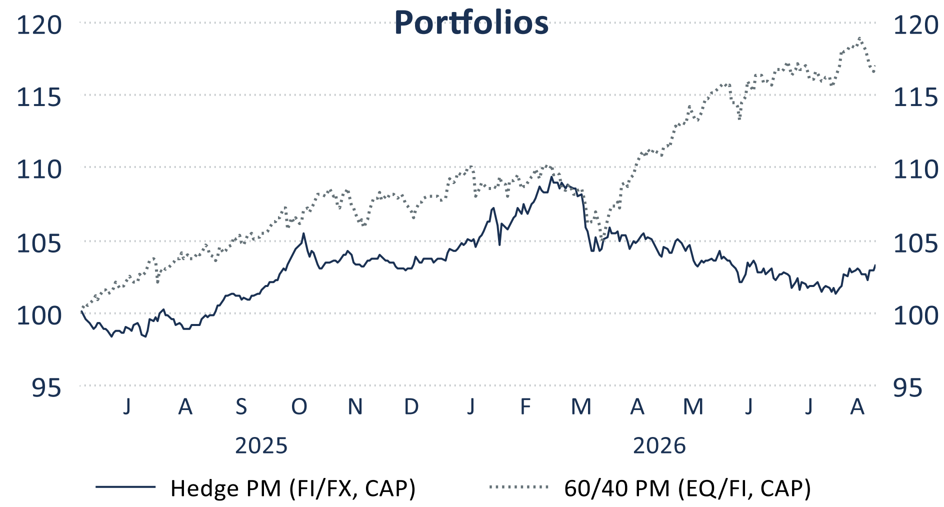
Asset Class Performance

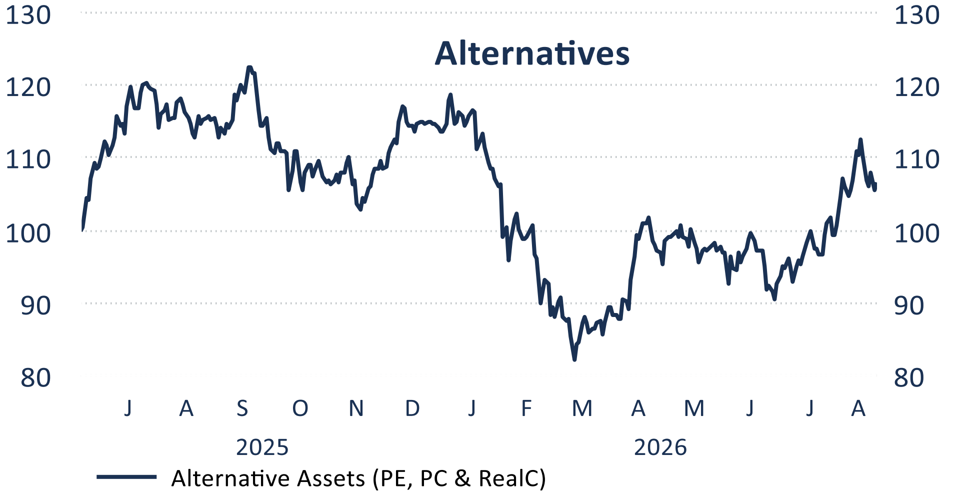
Aktivklasse Performance & CAP weightings

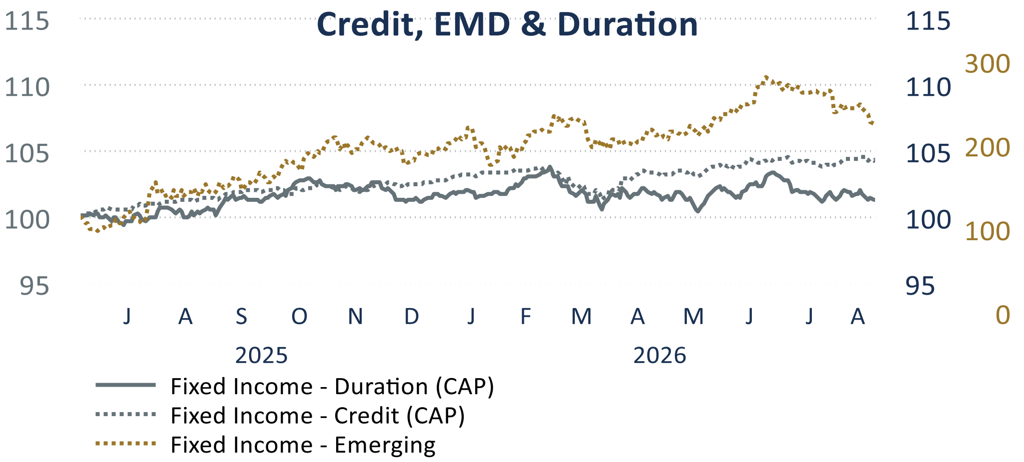
Investment Styles & Themes	-1w	-1m	-3m	YTD	-12m	CAP Position
Danske Aktier	0.5%	3.1%	7.2%	9.7%	16.9%	Overweight
Size (EQ, CAP)	-1.0%	3.0%	6.0%	14.2%	20.0%	Neutral
Low Vol (EQ, CAP)	-0.4%	2.7%	4.9%	9.1%	9.0%	Overweight
USA (EQ, USD)	-1.4%	2.3%	3.4%	12.9%	21.9%	Underweight
MSCI World Equal Weight (EUR)	-1.3%	2.1%	5.3%	12.6%	15.3%	Overweight
Emerging Markets (EUR) (EQ)	0.4%	2.0%	2.9%	25.2%	38.8%	Neutral
Europe (EQ, EUR)	-0.5%	1.9%	6.0%	13.4%	20.6%	Overweight
Value (EQ, CAP)	-1.1%	1.9%	7.8%	39.0%	56.8%	Overweight
Hedge (FI/FX, CAP)	0.7%	1.4%	-0.1%	-0.4%	4.2%	Overweight
Globale Aktier (EUR)	-1.9%	0.5%	3.7%	14.1%	21.6%	Underweight
60/40 (EQ & FI(DK), CAP)	**-1.3%**	**0.3%**	**2.4%**	**8.6%**	**12.8%**	
HY Credit (Global)	-0.2%	0.3%	1.0%	1.0%	3.0%	Neutral
IG Credit (Euroz)	-0.2%	0.0%	0.4%	0.4%	1.2%	Overweight
USA (EQ, EUR)	-2.17%	0.0%	2.7%	13.6%	21.3%	
Duration (FI, CAP)	-0.4%	-0.3%	0.2%	-0.3%	1.1%	Neutral
LT Growth (EQ, CAP)	-2.4%	-0.6%	1.4%	11.0%	19.6%	Underweight
EMD	-1.1%	-2.3%	0.2%	1.6%	4.7%	Neutral
US Dollar	-0.9%	-2.4%	-0.5%	0.6%	-0.6%	Underweight

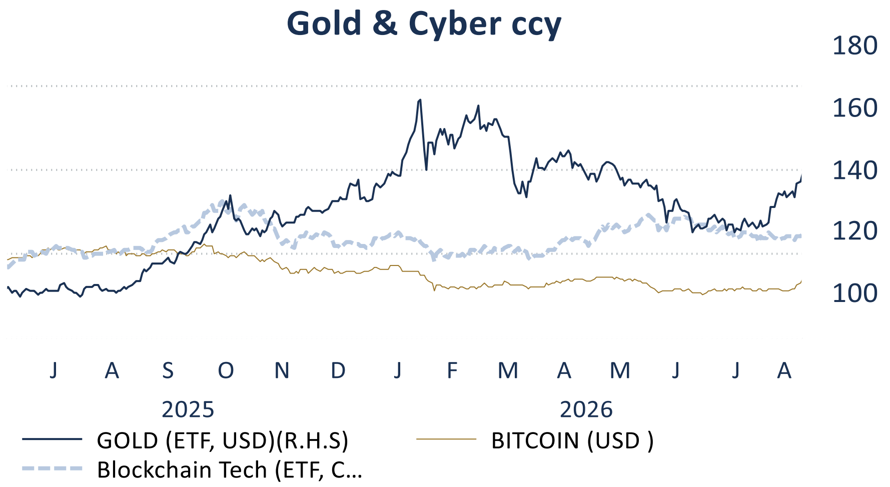
Investment Segments – 12 mth. Total Return

Cross Assets. Portfolios & Segments









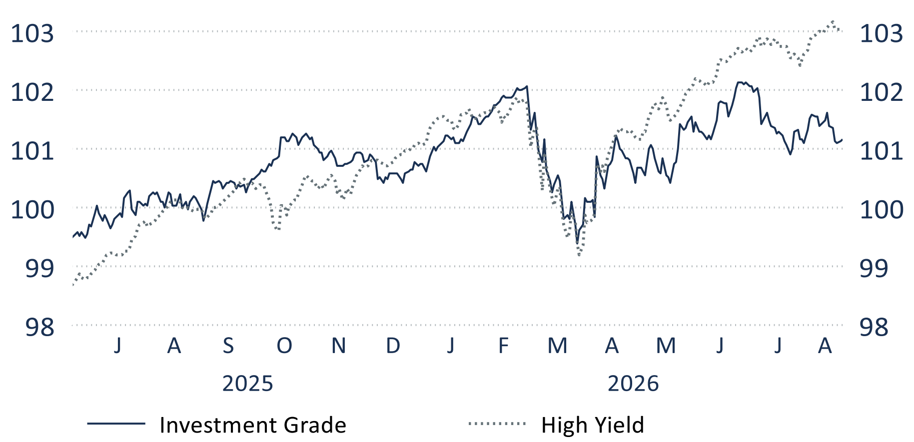
Source: LSEG Datastream, C.A.P

CAP COPENHAGEN ALLOCATION PARTNER

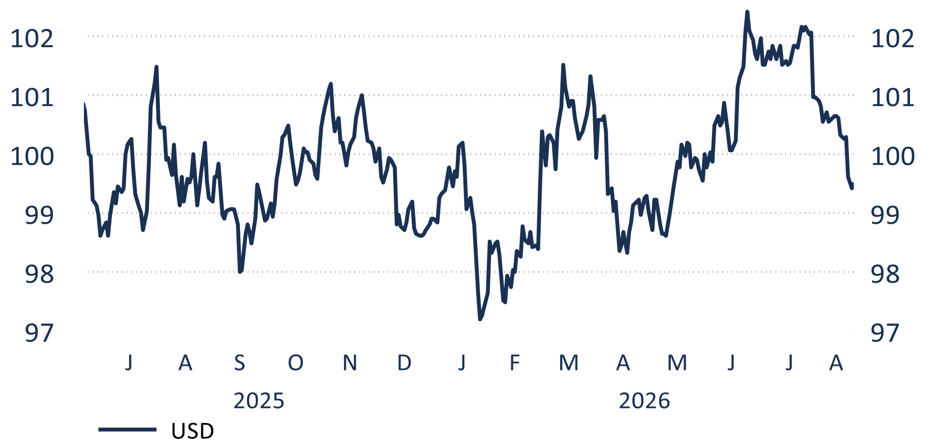
Credit, USD & Vol – 12 mth. Total Return & Performance

Cross Assets. Credit, Mortgages, USD and Vol

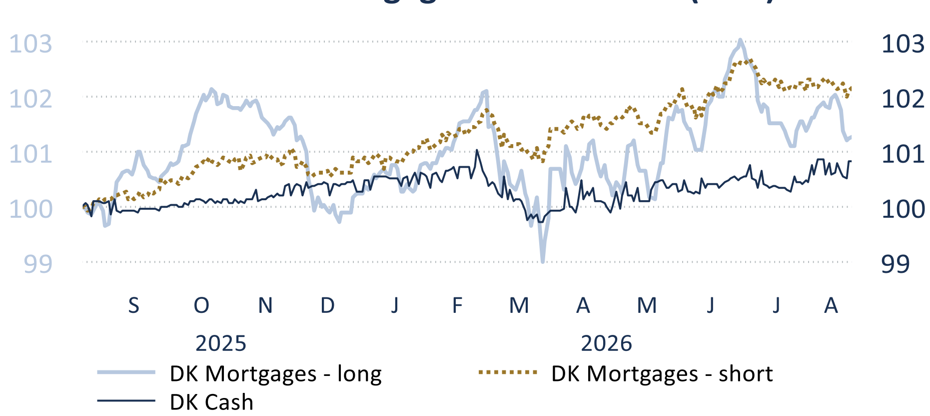
Corporate Credit (IG & HY) - Euro



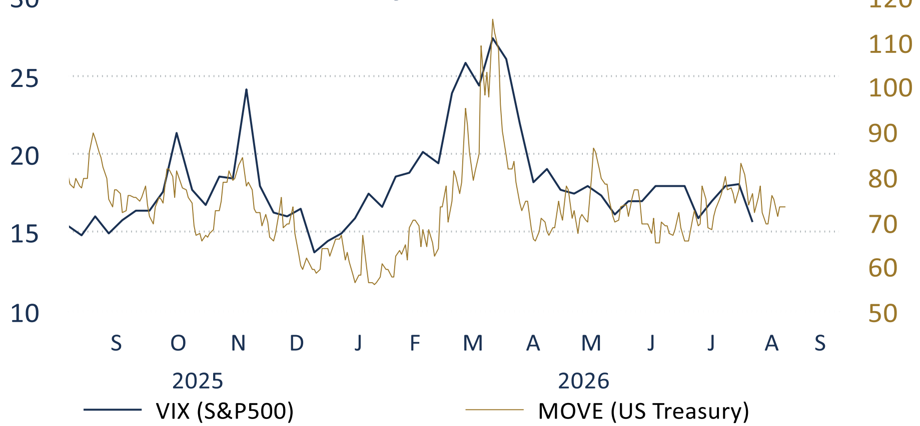
USD performance to EUR/DKK



DK Mortgage bonds & Cash (DKK)



Volatility index FI & EQ

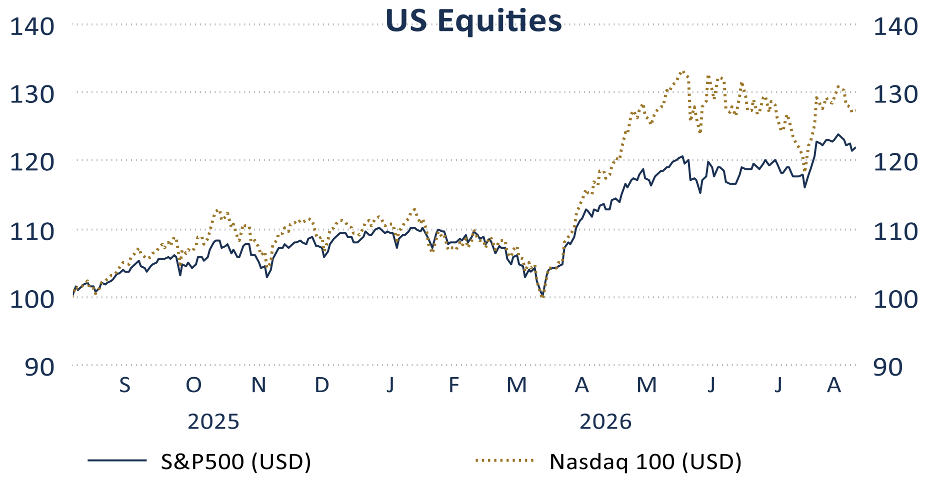


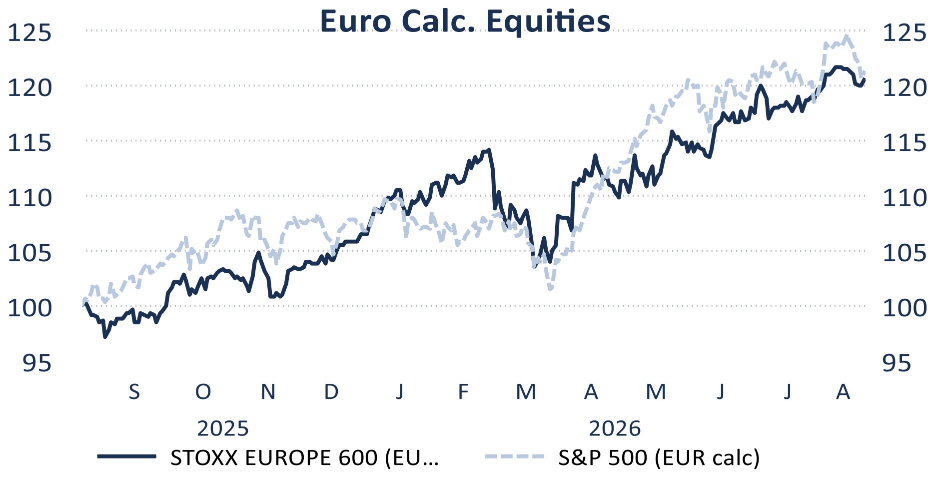
Source: LSEG Datastream, C.A.P

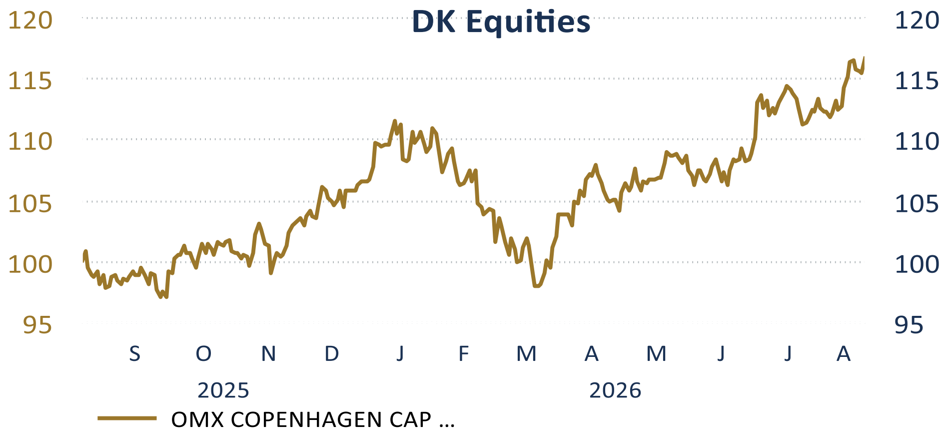
CAP COPENHAGEN ALLOCATION PARTNER

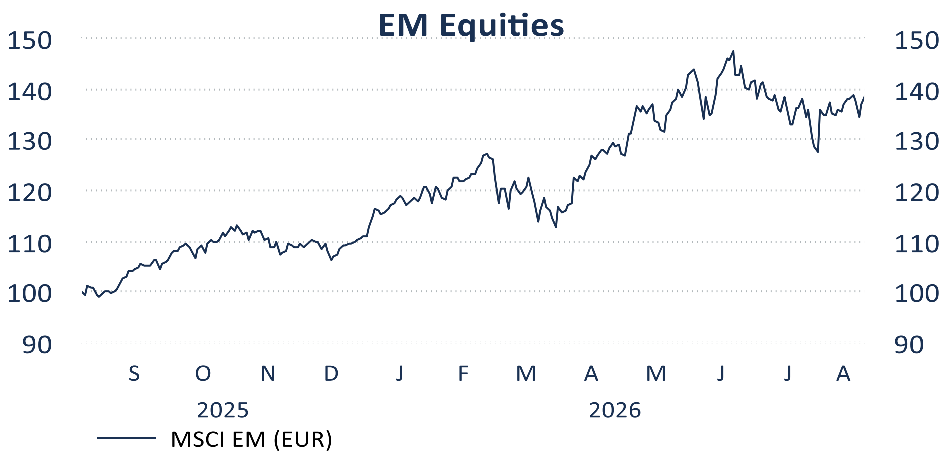
Equity Markets – 12 mth. Total Return

Cross Assets. Equity Markets







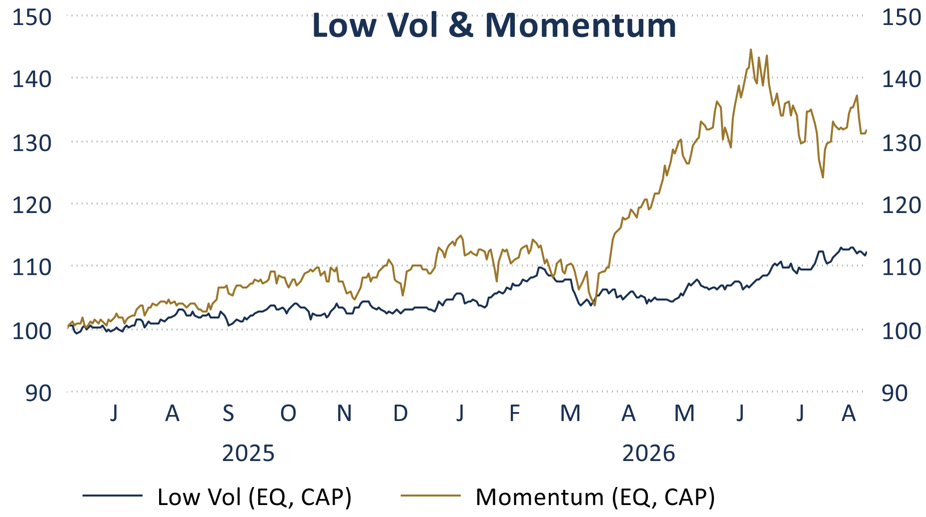


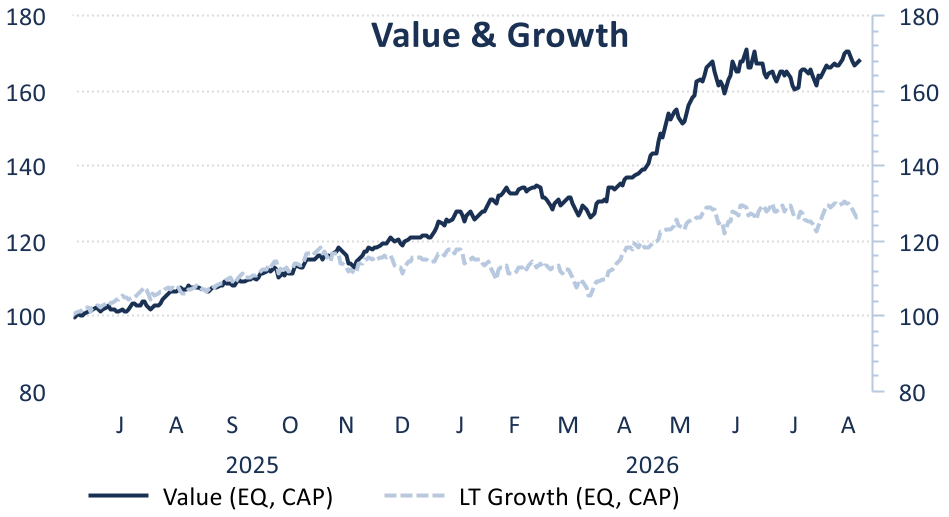
Source: LSEG Datastream, C.A.P

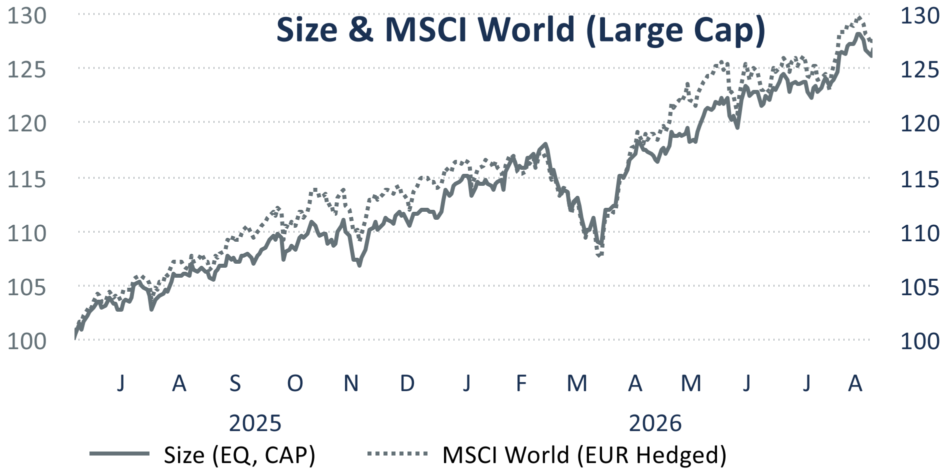
CAP | COPENHAGEN ALLOCATION PARTNER

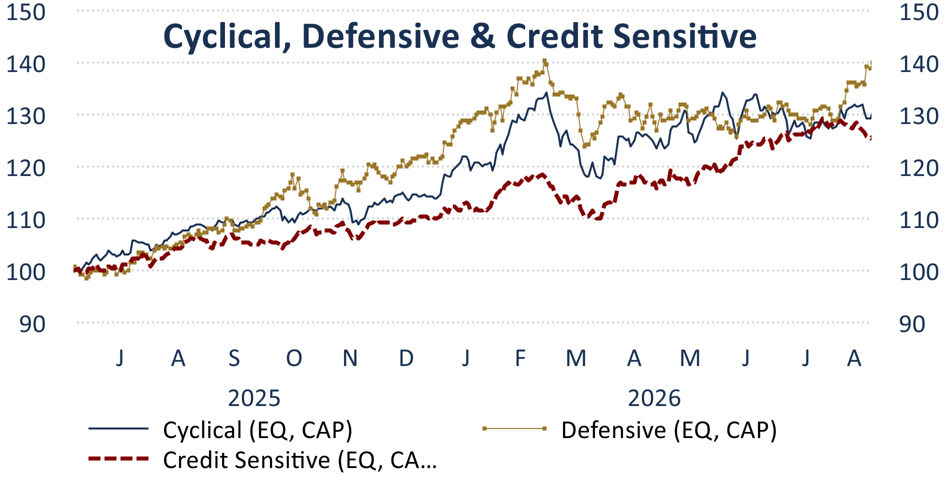
Equity Investment Styles – 12 mht. Total Return

Equities. Style & Macro Factors





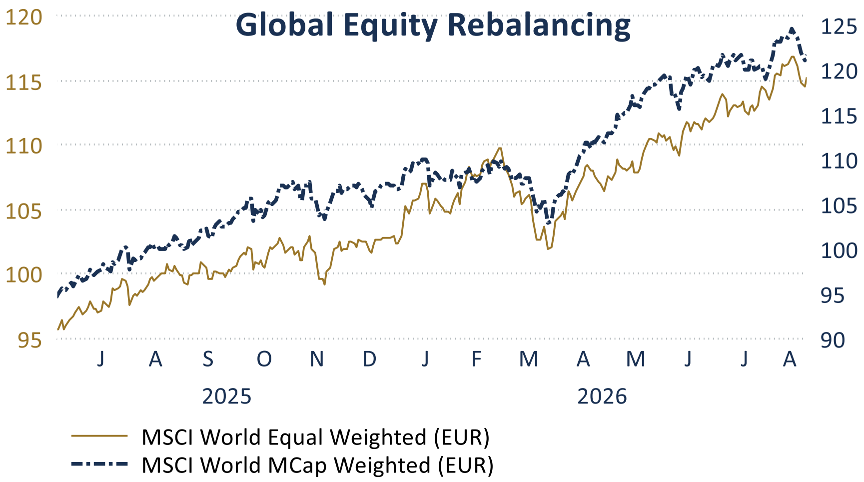




Source: LSEG Datastream, C.A.P

Equity Investment Styles – 12 mht. Total Return - 2 -

Equities. Style & Macro Factors



Source: LSEG Datastream, C.A.P

DISCLAIMER

The contents of this report have been prepared for the purpose of providing general information about investments. Accordingly, the report cannot replace financial advice and should not be regarded as an offer to provide financial advice or any other type of advisory or professional service.

Investors are encouraged to contact their own financial adviser for personalised information regarding potential investments, tax matters, and other relevant considerations before buying or selling securities.

Investors should be aware that investing may involve a risk of loss that cannot be determined in advance.

Copenhagen Allocation Partner's expectations regarding developments in the financial markets in general, and specific investments in particular, do not constitute any guarantee of future returns. While every effort has been made to ensure that the information in this report is as complete and accurate as possible, no guarantee can be given, and we accept no liability for errors or omissions.

Copenhagen Allocation Partner also accepts no responsibility for any changes in underlying assumptions or any errors in the material.

We also reserve the right to make changes due to variations in market conditions, returns, dividends, prices, interest rates, fees, charges, tax matters, printing or typographical errors, and similar factors.

Copenhagen Allocation Partner disclaims any liability for losses arising from decisions made solely on the basis of this material.

Copenhagen Allocation Partner is furthermore not responsible for any loss or damage resulting from unauthorised access by third parties to the material via C-A-P.dk or by other means.