

Valuations Then and Now: What History Teaches

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Key Takeaways

- Today's tech leaders are expensive but not in a bubble. The "Magnificent 7" trade at ~24x earnings, but strong fundamentals and consistent earnings growth differentiate them from the tech names of 2000.
- International equities remain significantly undervalued. Despite recent gains, international stocks still trade at a 36% discount to the S&P 500, well below the long-term median.
- Currency-hedged Japan and high-dividend EM strategies offer deep value.

April is recognized as Financial Literacy Month in the U.S., a time to empower investors with the knowledge needed to make more informed, confident decisions. One of the most misunderstood elements of investing is valuation: how much are you paying for a dollar of earnings, and is it worth it?

With tech stocks leading again, many investors are asking whether we're reliving the bubble of 2000. But a closer look at the data reveals a much different picture—and highlights global opportunities that may be overlooked without a solid grasp of valuation fundamentals.

The 2000 Tech Bubble vs. Today's "Magnificent 7"

Understanding valuation is a cornerstone of financial literacy. It's what separates hype from opportunity.

In 2000, companies like Cisco and AOL were trading at valuations that assumed unrealistic future growth—often with price-to-earnings (P/E) ratios north of 100.

Today's "Magnificent 7"—Apple, Microsoft, Nvidia and others—trades at an average forward P/E of 24. Elevated? Yes. But they also have the earnings to back it up. Over the past five years, they've delivered 24% annualized earnings growth, with forward expectations near 16%. That compares to the broader S&P 500, which trades at 21x earnings with growth closer to 13%.

The lesson: high valuations can be justified—but only if earnings growth is real and sustainable.

Figure 1: Price-to-Earnings of the "Magnificent 7"

Name (S&P 500 Rank)	Current Market Value (\$Bn)	Price-to-Earnings (2025E)*	Earnings Growth Estimate (2025 vs. 2024)*	Trailing 5-Year Earnings Growth**	Estimated Long-Term Earnings Growth***
Apple (1)	\$2,726	24.8x	8.3%	10.8%	10.5%
Microsoft (2)	\$2,660	27.4x	10.7%	16.3%	15.5%
NVIDIA (3)	\$2,382	21.7x	50.2%	91.7%	19.0%
Amazon (4)	\$1,857	27.6x	14.6%	39.1%	22.1%
Alphabet (5)	\$1,789	16.5x	10.6%	24.1%	14.9%
Meta Platforms (6)	\$1,308	20.5x	5.6%	23.3%	13.4%
Tesla (9)	\$750	86.7x	11.2%	11.4%	30.4%
Mag. 7	\$13,473	23.9x	16.8%	24.3%	16.4%
Mag. 7 minus Tesla	\$12,723	23.0x	16.9%	24.9%	15.7%
S&P 500 ex. Mag. 7	\$32,075	17.8x	12.3%	11.0%	12.8%
S&P 500	\$45,549	19.2x	13.3%	15.0%	13.9%

Sources: WisdomTree, FactSet, S&P. *Calendar year price-to-earnings and earnings growth based on median analyst estimates. **Trailing 3-year where 5-year is not available. Growth is annualized. ***Estimated Long-Term Earnings Growth is annualized and based on median analyst earnings growth estimates over the next three years. Trailing 5-Year Earnings Growth and Estimated Long-Term Earnings Growth as of 3/31/25. All other data as of 4/7/25. Aggregate metrics in italics shown as weighted averages. You cannot invest directly in an index. See the [glossary](#) for definitions of terms and indexes.

International Equities: Still on Sale

Another key concept for investors to understand is relative value. Where can your capital potentially go further?

International equities are still trading at a 36% discount to the S&P 500, far wider than the historical median of 17%. Even after a recent rebound, there's room for international stocks to re-rate higher.

Take Japan, for example. Warren Buffett has built a substantial position in Japanese trading firms, which continue to trade at reasonable valuations (~9x–10x earnings) despite delivering strong earnings and dividend growth.

The [WisdomTree Japan Hedged Equity Fund \(DXJ\)](#) is designed to capture similar exposure while reducing the risk of a weaker yen eroding returns—mirroring the currency-conscious approach Buffett employed by issuing yen-denominated debt.

Small Caps: Cheap but Stalled

U.S. small-cap stocks also offer discounts—but without a near-term catalyst. Tariff concerns, weaker earnings momentum and higher economic sensitivity have held them back.

While valuation metrics look appealing, this is a reminder that price alone doesn't equal opportunity. Investors must pair valuation with fundamental and macroeconomic awareness.

Investing Strategy or Portfolio Application

Valuation-aware investors may benefit from reallocating toward global strategies with more attractive pricing and structural support.

Consider these examples:

- **WisdomTree Emerging Markets High Dividend Fund (DEM):** Captures dividend-focused opportunities in regions where sentiment remains overly bearish.
- **WisdomTree Japan Hedged Equity Fund (DXJ):** Provides access to Japanese equities with strong fundamentals while managing currency risk.
- **U.S. multifactor and value-tilted strategies:** Help mitigate valuation concentration in growth-heavy portfolios and reintroduce diversification across sectors and styles.

These tools offer diversified ways to balance growth potential with valuation discipline and make informed choices grounded in data, not headlines.

Making Sense of Market Signals

Financial Literacy Month can be used as a reminder that investing isn't about chasing trends; it's about understanding them.

Today's market isn't 2000. The "Magnificent 7" have real earnings behind their valuations. At the same time, undervalued international markets, especially in Japan and emerging economies, offer compelling alternatives.

A strong grasp of valuation principles can help investors navigate this environment with greater clarity and confidence. It's not just what you invest in, but why and how, that builds lasting success.

Important Risks Related to this Article

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DXJ: The Fund focuses its investments in Japan, thereby increasing the impact of events and developments in Japan that can adversely affect performance. Investments in currency involve additional special risks, such as credit risk, interest rate fluctuations and derivative investments, which can be volatile and may be less liquid than other securities and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers.

DEM: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing on a single sector generally experience greater price volatility. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation, intervention and political developments.