

'When the facts change, I change my mind,' said John Maynard Keynes. 'What do you do, sir?' A lot of facts have changed in the last six weeks. We steer clear of macro matters, focusing on companies, but as we wrote recently the macro cannot be pushed entirely into the background. The only reason to play it down is that it is so difficult to predict. However quickly the Strait of Hormuz is opened, it seems likely that inflation and interest rates will be higher in the near term than they were going to be, and that there will be some negative effect on economic growth. This might be putting it mildly. The chief executive of TotalEnergies has commented, 'if this crisis lasts more than three or four months it becomes a systemic problem for the world. We cannot have 20% of the crude oil, which is exported globally, stranded in the Gulf and 20% of the LNG capacity stranded, without any consequences.' As the Hugh Bonneville character says at the end of every disastrous committee meeting in the series about the BBC, W1A, 'all good, then.'

We believe in sticking to our knitting. The war in the Middle East is the latest manifestation of a complete bouleversement in the world order. We felt exactly a year ago not only that markets were too negatively fixated on tariff difficulties and provided a window of opportunity, but also that policy volatility undermined the notion of US exceptionalism and the exorbitant privilege of the US dollar. The war in the Gulf has brought safe havens into the limelight, but we believe it does nothing positive for US exceptionalism; so, even though so much has changed and is changing all the time, we feel that recent events have underlined rather than undermined the importance of geographical diversification.

In the context of investors whose portfolios are piled high with US equities, that means diversification away from the US, where many markets, and bits of markets, are attractively valued. The Shiller price-earnings ratio in the US is at a level from which there have always been negative returns in real terms over the ensuing ten years. The ratio of market capitalisation to GDP has been at a record level, over 150%. US households have 30% of their wealth in equities, compared with less than 10% in 1990 and a previous peak of 26% at the height of the internet bubble in 2000.

In markets outside the US, it is different. To take two: in the UK, the combined effects of Brexit and a series of unsuccessful prime ministers have been that in the 118 months since June 2016 there were net outflows from the UK stock market in 114. Domestic pension funds' allocations to UK equities, around 50% 25 years ago, are now 3%. Much of this change has happened because of the move of defined benefit plans into fixed interest. But UK funds have a lower proportion in the UK equity market than almost any other country's funds in its own domestic market. The result is moderate valuations.

Second, Japan. Investors used to have to find excuses for Japanese companies to trade on much higher price-earnings and other multiples than those in other markets. They have to make excuses no longer. The long descent, until very recent years, of the Japanese stock market has brought good companies to attractive valuations. Moreover, the weakness of the yen has made Japan a low cost place: wages in the restaurant and retail sector are half the level that they are in both the US and UK, and lower even than in Korea.

Ben Graham preferred to talk not of price-earnings ratios but of their reciprocal, earnings yields, and looked for an earnings yield roughly twice the level of the government bond yield. The earnings yield of the US stock market is around 5 ¼%. The earnings yields in our portfolios are between 9% and 14%. Low valuations continue to give us favourable odds.

This document has been made available only to persons who are Professional Clients as defined by the Financial Conduct Authority. It is not intended for Retail Clients. It should not be provided to third parties without the express written consent of Oldfield Partners LLP. Information contained in this communication must not be construed as giving investment advice within or outside the United Kingdom. This document is not a solicitation or offer of investment services. Any reference to stocks is only for illustrative purposes and opinions expressed herein may be changed without notice at any time. Oldfield Partners LLP does not warrant the accuracy, adequacy or completeness of the information and data contained herein and expressly disclaims liability for errors or omissions in this information and data. Past performance is not necessarily a guide to future performance. Investments and the income from them may go down as well as up and you may get back less than the amount you invested. No warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data.

© 2026 Oldfield Partners LLP. Partnership No. OC309959.