



American exceptionalism: can the momentum continue?

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“De Tocqueville highlighted how America’s development is fundamentally different from European nations, including political, social and economic structures.”

‘American exceptionalism’ – described by Alexis de Tocqueville almost 200 years ago – has evolved and for financial investors, is now vividly reflected in the performance of the U.S. equity market.

Key takeaways

- A free market economy in the U.S. encourages competition, innovation, and entrepreneurship.
- Strong equity market performance has been a feature of the last decade, with growth set to continue.
- The U.S. has emerged as the leader in AI, outpacing global competitors, especially Europe.
- Businesses with strong fundamentals can deliver exceptional results, however, valuation also matters and even great businesses can become over-valued.
- Selectivity is key; our approach marries both exceptional fundamentals and attractive valuation.

In 1831, the French political philosopher and historian Alexis de Tocqueville embarked on a journey across the United States, seeking to understand the nascent nation’s unique character. His observations culminated in his work ‘Democracy in America’, in which he described the country and its position as ‘exceptional’.



De Tocqueville highlighted how America’s development is fundamentally different from European nations, including political, social and economic structures. Unlike many of these nations, the country has not been shaped by centuries of aristocratic class structures, which allows for greater social mobility and an emphasis on meritocracy and individualism as defining features of American society. In addition, a free market economy encourages competition, innovation, and entrepreneurship.

Over the last year, the S&P 500 Index returned 25% in USD, clearly outperforming the MSCI Europe Index, which returned just over 2% (Figure 1). At the end of 2024, the U.S. accounted for 74% of the MSCI World Index. In addition, the share of the top 10 holdings, which are all U.S. based, reached 27%, with one single company (Apple) having the same index weight as Japan, the fourth largest economy in the world¹.

It was only a small cohort of U.S. stocks that drove global equity markets higher last year. Looking at the equally weighted version of the MSCI World Index, where the U.S. portion accounts for just 40%, annual returns of 7.7% reflected historical averages.

However, strong U.S. equity market performance did not just start in 2024; it has been a phenomenon over much of the last decade.

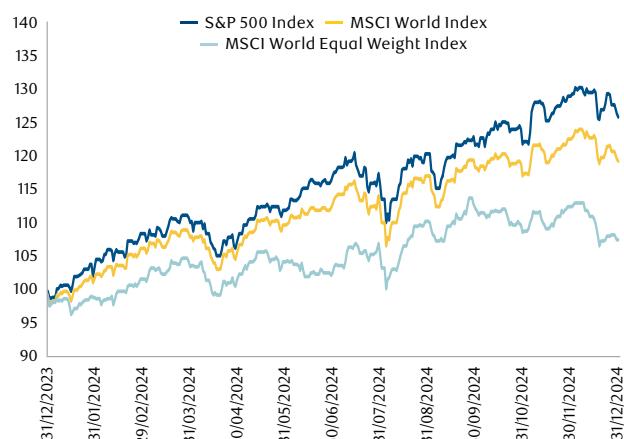
But what were the underlying factors for this performance discrepancy, and is this justified?

While major economies faced stagnation and even contraction in 2023 and 2024, the U.S. maintained a post-pandemic upswing, with strong real growth rates of 2.9% and 2.8% respectively². Since 2010, U.S. real GDP growth has averaged at around 2.4%, compared to 1.3% for the Eurozone³ (Figure 2). Looking ahead, the outlook for U.S. growth numbers continues to stand out among the G10 nations, according to the latest IMF economic forecasts. The U.S. is expected to grow its economy in 2025 and 2026 by 2.7% and 2.1% respectively, compared to just 1.0% and 1.4% for the Euro area.

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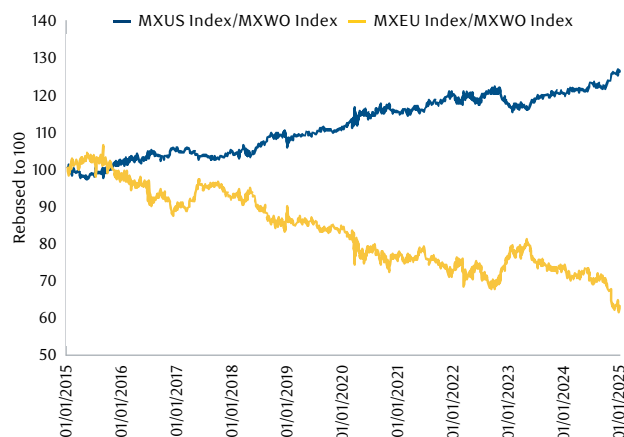
In addition, U.S. corporations generally enjoy higher profitability and return on equity (RoE) compared to their European peers (Figure 3). The U.S. tends to have greater exposure to younger and more profitable industries, however leaner corporate structures and a more favourable regulatory environment are also likely to play a part. This margin of difference has expanded over the last three decades. In addition, the strength of capital markets and ready liquidity allows for easier financing and investment compared to Europe’s market, which remains fragmented. A more dynamic labour market, coupled with a culture that fosters innovation and entrepreneurship, adds further strength and resilience to the U.S. market.

Figure 1: Strong outperformance from the S&P 500 Index in 2024



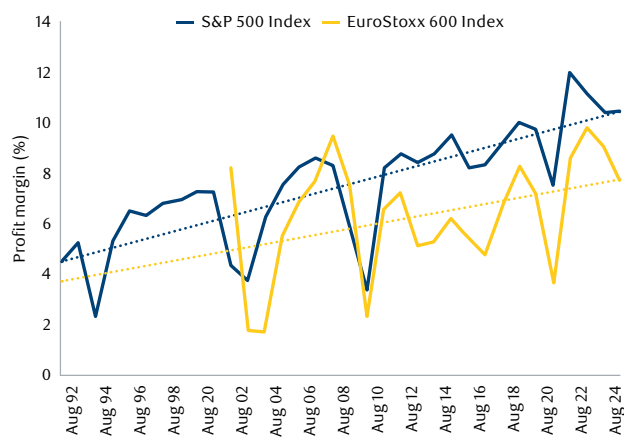
Source: RBC GAM, Bloomberg, as at December 2024.

Figure 2: U.S. exceptionalism versus European stagnation



Source: RBC GAM, Bloomberg, as at January 2025.

Figure 3: U.S. corporations generally enjoy higher profitability and RoE compared to European peers



Source: RBC GAM, Bloomberg, as at 2024.

¹ Bloomberg.

² [United States Full Year GDP Growth](#).

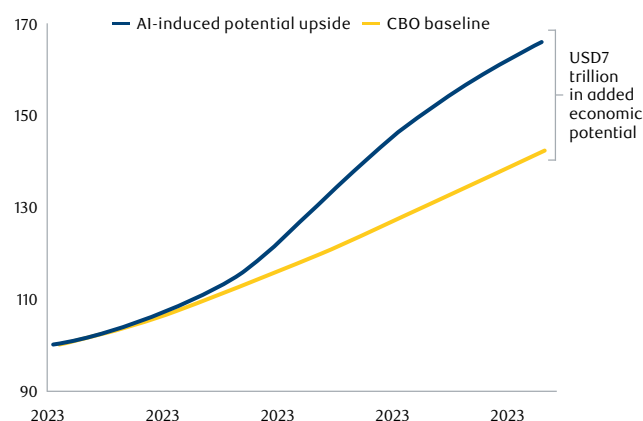
³ IMF.

More recently, the U.S. has emerged as the leader in AI, outpacing global competitors, especially Europe. This has fortified the country's position as the global epicentre of cutting-edge technological development. While U.S. productivity, measured by output per worker, has been higher compared to other G7 countries over the last 15 years, the cumulative productivity gain from AI has been estimated by the IMF and JPMorgan to contribute an additional 17.5% of total economic growth in the U.S. over the next 20 years (Figure 4). It is perhaps not surprising, therefore, that in his September 2024 report, Mario Draghi highlighted the need for Europe to close the innovation gap with the U.S. and China, and wrote that 'Europe faces a choice between exit, paralysis, or integration', when he spoke of the future of European competitiveness.

The U.S. equity market undoubtedly has several tailwinds. However, there are also some areas for concern. Firstly, the U.S. deficit. At 6.9% it is the highest deficit among all developed nations⁴. To put this number into perspective, the EU mandate requires countries to maintain their public debts in compliance with a 3% of GDP deficit limit. The dollar's supremacy as the world's reserve currency has allowed the U.S. to maintain substantial trade and government spending deficits but, if left unchecked, the size of the deficit might limit the U.S. Federal Reserve's ability to lower interest rates in the future.

Another factor to watch is valuation and the previously-cited market concentration. The top 10 holdings of the S&P 500 Index account for 38%, whereas the tech-heavy NASDAQ composite index has now almost 60% allocated towards the largest 10 companies. This is remarkable when one considers that the index consists of 3,273 holdings. It is also well known that these companies trade at historically elevated multiples; as a group, valuations are equivalent to 57x next four quarters earnings, and frequent comparison with the 2000 era dot-com bubble are drawn.

Figure 4: U.S. labour productivity; indexed at 100 for 2023



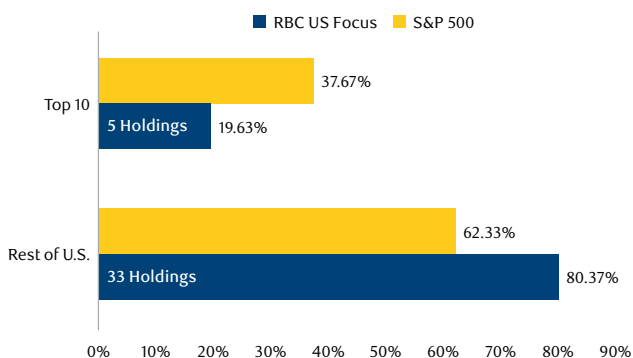
Source: IMF, JPMorgan.

The current market narrative is that these companies are truly extraordinary and will be able to monetise AI to generate structural, not cyclical, growth. Moreover, these companies are very cash generative, carry little debt and, in contrast to the dot-com bubble, trade at valuations supported by genuine earnings. For example, NVIDIA trades at a 32x 12-month forward P/E multiple as of 15/02/2025⁵, with stock performance largely supported by earnings growth rather than multiple expansion.

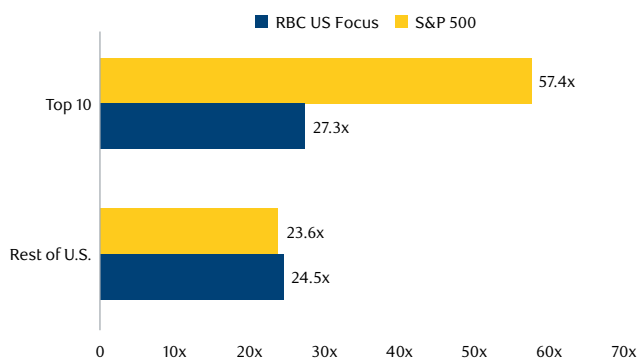
Nevertheless, valuation and concentrations are important considerations when building a portfolio of diversified risk sources. We therefore apply a very selective approach. At the end of 2024, we only owned five out of the top 10 holdings in our U.S. Equity Focus portfolio and allocated just 19.6% of capital towards these businesses, compared to 37.7% in the S&P 500 Index⁶. In addition, our valuation of 27.3x 12-month forward P/E within this cohort of stocks is significantly lower compared to the market on 57.4x (Figure 5).

Figure 5: We take a selective approach when building a portfolio of diversified risk sources

Holding weights index versus portfolio



P/E ratio 12-month forward index versus portfolio



Source: RBC GAM, Bloomberg, as at 31 December 2024.

⁴ All deficit figures from IMF.

⁵ Bloomberg.

⁶ RBC GAM.

It is remarkable that many of the characteristics that so impressed De Tocqueville nearly 200 hundred years ago remain just as relevant today, such that the fundamentals of the U.S. economy may fairly be described as 'exceptional'. We also believe in exceptional, and so favour great businesses that enjoy winning business models with attractive end-markets and that are responsibly managed. Businesses with such strong fundamentals have the potential to deliver exceptional results. In the U.S., we continue to find many such businesses.

However, valuation also matters; even great businesses can become over-valued. Narrow market leadership and strong performance may have driven equity index levels higher but in doing so have arguably left passive index investors particularly exposed to any over-extension of confidence.

In contrast, we would advocate for a more selective approach. We agree that the exceptional qualities of great businesses can make for exceptional investments but only to the extent that the qualities of such businesses are not already fully reflected in market valuations.

“Businesses with such strong fundamentals have the potential to deliver exceptional results. In the U.S., we continue to find many such businesses.”

Our approach marries both exceptional fundamentals and attractive valuation, resulting in a portfolio that is differentiated to the passive alternative and which, we hope, has the potential to deliver exceptional results.

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