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Macro Roundup Artcile

Headline: Stock Market Concentration

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Tweet: Last year the top 10 equities made up 27% of market capitalization but 69% of total economic profits; historically, increasing concentration has been associated with above-average S&P; 500 returns. @mjmauboussin

Summary: From 2014 to 2023, the top 10 stocks were 19% of the market capitalization, on average, while the companies made up 47% of the total economic profit. In 2023, the top 10 equities were 27% of the market capitalization and the firms contributed 69% to the total economic profit. The S&P 500 has delivered returns above the average when concentration was rising and below the average when concentration was falling. The results were pronounced for the concentration changes associated with the inflating and deflating of the dot-com bubble, with compound annual returns of 23.5% from 1994 through 1999 and just 3.6% from 2000 to 2013. The largest stocks at the apex in 1999 traded at very high multiples of earnings and cash flow. The top stocks today are at a premium to the overall market but also represent companies with solid ROICs and growth prospects. Owning the stock of the largest company has historically been a poor investment relative to the market overall until about a decade ago. Owning the second and third largest stocks produced excess returns from 1950 to 2023. However, all three of the top stocks have provided stellar relative returns from 2014 to 2023.

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