EDWARD CONARD

TOP TEN The New York Times BESTSELLER

Macro Roundup Artcile

Headline: Concentrate!

Article Link: https://www.gmo.com/globalassets/articles/insights/focused-equity/2024/gmo_concentrate---is-it-like-2000-again_8-24.pdf

Author(s)	Ty Cobb, Tom Hancock, and Anthony Hene
Publication	GMO
Publication Date	August 02, 2024

Tweet: GMO argues that comparisons between the current market and the 2000 tech bubble are overdrawn given the current top 10 companies' stronger fundamentals and median P/E of 27x, vs. 60X for the top 10 companies in 2000.

Summary: In 2000, the price-to-earnings ratio of the top 10 was 60x. Market participants were intoxicated by the ongoing communication revolution and heady fundamental returns of 22% per annum (p.a.) for the group over the preceding five years. Even if the fundamental return expectation of 19% p.a. had been delivered and stock prices held, the top 10's multiple would have still exceeded 25x by 2005. In reality, the fundamental return was a relatively puny 8% p.a. for the group, with earnings falling at the telecom companies after what turned out to have been disastrous capital allocation in 3G spectrum auctions. 2024's top 10 have delivered similarly impressive fundamental returns of 19% p.a. since 2019, but the set-up is rather different to 2000, with a median P/E of 27x. If today's top 10 were to deliver on 19% fundamental return expectations and prices were to stay the same this time around, the multiple would collapse to 12x by 2029. Implicitly, investors expect less from the mega-caps now than they did in 2000.

Related Articles: Which U.S. Stocks Generated the Highest Long-Term Returns? and Five Easy Pieces and Magnificently Concentrated

Primary Topic: Financial Markets

Topics: Financial Markets, GDP, Op-Ed/Blog Post

Permalink: https://www.edwardconard.com/macro-roundup/gmo-argues-that-comparisons-between-the-current-market-and-the-2000-tech-bubble-are-overdrawn-given-the-current-top-10-companies-stronger-fundamentals-and-median-p-e-of-27x-vs-60x-for-the-t?view=detail

Featured Image Link: https://www.edwardconard.com/wp-content/uploads/2024/08/22631-concentrate-featured-thumbnail-image.png