

Macro Roundup Article

Headline: [The End of the Affair](#)

Article Link: <https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/eye-on-the-market/2023-outlook-amv.pdf>

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Tweet: J.P. Morgan's Michael Cembalest argues that there may be attractive investment opportunities following last year's tech company repricing: ~50% of large-cap tech companies that were unprofitable in 2000 were eventually able to generate profits and healthy returns.

Summary: After last year's selloff, we're much closer to the end of the young unprofitable companies/mega-valued unprofitable companies repricing than the beginning. By the time Peloton is priced at 1x sales rather than its peak level of 19x sales at the end of 2020, it's time to start thinking about whether unprofitable companies can become profitable or not. Many unprofitable companies are in that position since the market did not require them to be profitable. The aftermath of the 2000-2002 dot-com crash is interesting in this regard: The chart above shows the performance of tech companies from 2000 to 2004 based on their initial and subsequent profitability. Companies that remained unprofitable continued to languish. However, unprofitable companies that became profitable by 2004 rallied sharply, catching up to companies that had been profitable all along. This incorporates the benefit of perfect hindsight; still, it does indicate that for stock pickers that sift through the wreckage to try and identify survivors, there may be attractive opportunities. The size of ["unprofitable in 2000" cohort that became profitable by 2004] was roughly 50% of the "unprofitable in 2000" universe.

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