



# **SECOR Asset Management**

## **Public Equity Market Concentration**

11 May 2020

# Equity Market Concentration

- Equity markets have been mostly flat in May
  - NASDAQ Composite index closed in positive territory YTD thru Friday.

Returns in local terms thru 8 May 2020

	MTD	YTD	1 Yr	5 Yr (ann)
MSCI ACWI	0.5%	-11.2%	-1.9%	5.6%
S&P 500	0.7%	-8.7%	3.4%	9.1%
NASDAQ Comp	2.7%	2.1%	16.1%	14.1%
MSCI EAFE	-0.1%	-16.1%	-9.4%	1.0%
MSCI EM	-1.0%	-12.8%	-8.5%	3.2%

- Market leadership in the US has been concentrated in a familiar handful of large cap names



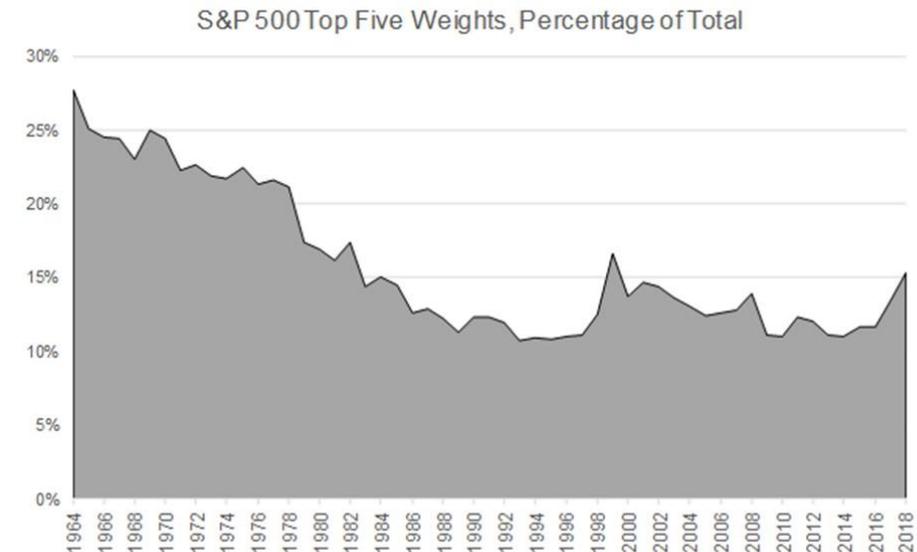
For the period 31 December 2019 to 30 April 2020

Sources: Bloomberg, FactSet, Goldman Sachs Global Investment Research, SECOR

# Equity Market Concentration

- These five companies comprise 20% of the S&P 500's market cap at the end of April
  - Microsoft 5%
  - Apple 5%
  - Amazon 5%
  - Google 3%
  - Facebook 2%

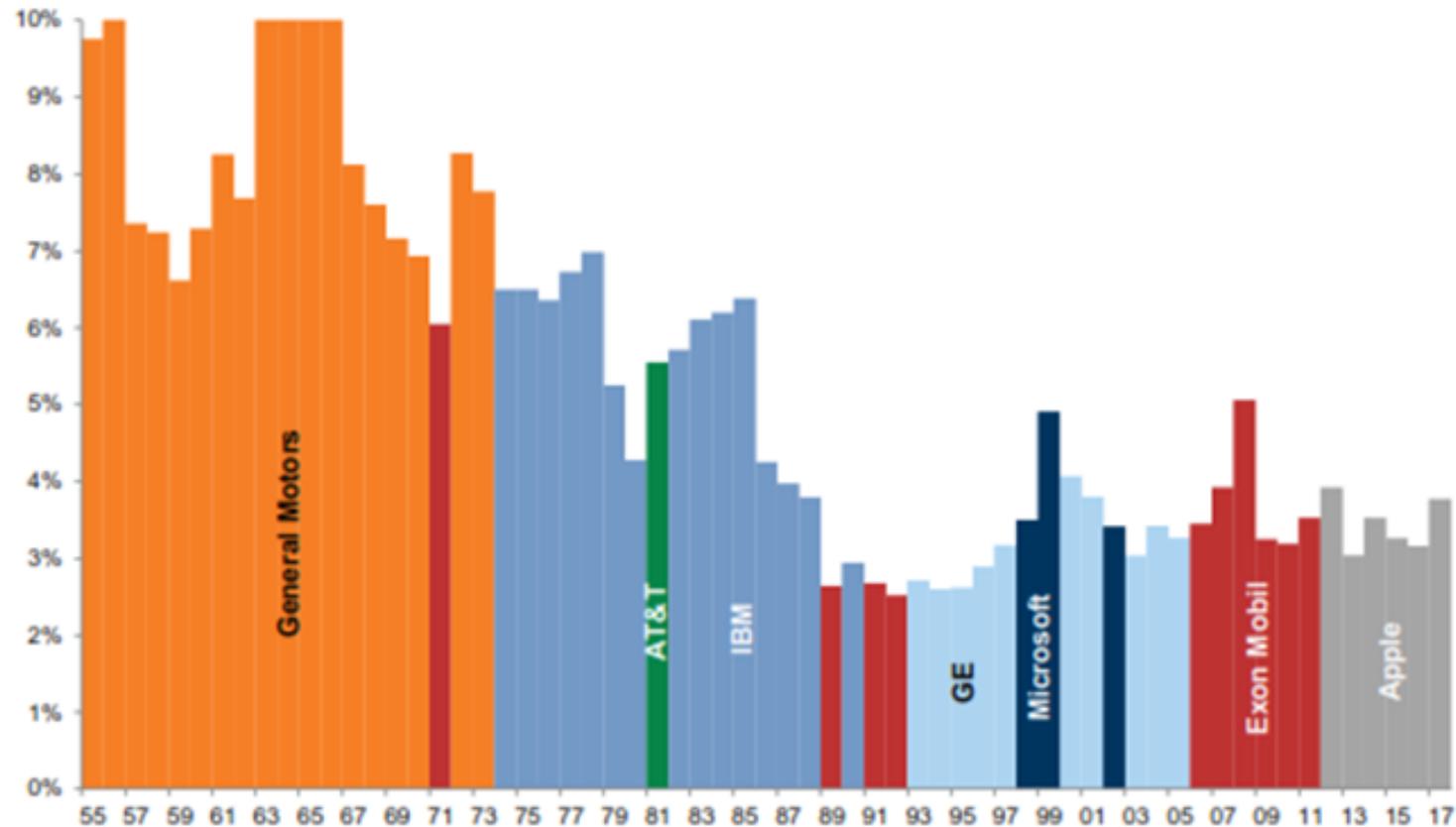
- Extending the window back to the 1960s shows that the current level of concentration was actually the norm until the mid 1970s



Sources: FactSet, Goldman Sachs Global Investment Research, S&P Dow Jones Indices

# Equity Market Concentration

- During the 1950s and 1960s a single stock represented as much as 10% of the S&P 500 – a slice as big as that of Microsoft and Apple combined today
  - IBM’s weight in the 1970s and 1980s regularly surpassed that of today’s largest



Sources: GFD, Fortune 500, Datastream. The percentages in the chart represent the weighting within the S&P 500. For the period 1955 - 2017

# Equity Market Concentration

- The roster of the largest companies is ever evolving, primarily via the invisible hand, but also occasionally more directly via regulation (especially the AT&T breakup in 1982, less so the Microsoft-Department of Justice settlement ordering unbundling Explorer from Windows in 2001)

**Top 5 Companies by Market Cap in the S&P 500 Index**

1960	1980	2000	2020
AT&T (7%)	IBM	MSFT	MSFT (5%)
GM (6%)	AT&T	GE	Apple (5%)
DuPont (5%)	Exxon	Cisco	Amazon (5%)
Exxon (4%)	GM	WalMart	Google (3%)
GE (4%)	Amoco	Exxon	Facebook (2%)

Top 5 Weight:

26%

20%

 = New to Top 5

# Equity Market Concentration

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- Relative to the last instance of similar concentration during the Technology, Media and Telecom bubble, the valuation of today's five largest pales in comparison

	<b>31-Mar-2000</b>		<b>30-Apr-2020</b>
	<b>P/E Ratio</b>		<b>P/E Ratio</b>
<b>Microsoft</b>	<b>63.2</b>	<b>Microsoft</b>	<b>31.6</b>
<b>GE</b>	<b>44.7</b>	<b>Apple</b>	<b>23.1</b>
<b>Cisco</b>	<b>381.8</b>	<b>Amazon</b>	<b>118.2</b>
<b>Intel</b>	<b>53.6</b>	<b>Google</b>	<b>28.1</b>
<b>WalMart</b>	<b>44.1</b>	<b>Facebook</b>	<b>24.9</b>
<b>Average</b>	<b>117.5</b>	<b>Average</b>	<b>45.2</b>
<b>Median</b>	<b>53.6</b>	<b>Median</b>	<b>28.1</b>

Sources: Bloomberg, SECOR

# Equity Market Concentration

	1972 P/E		1972 P/E
Polaroid	90.7	Chesebrough P.	41.0
McDonalds	85.7	3M	40.8
MGIC Invest.	83.3	Amer Express	39.0
Disney	81.6	Amer Home Prod	38.9
Baxter Travenol	78.5	Schlitz	38.7
IFF&F	75.8	Halliburton	38.3
Avon	65.4	IBM	37.4
Emery Air	62.1	Lubrizol	36.9
J&J	61.9	J.C. Penney	34.1
DEC	60.0	Squibb	33.9
Kresge	54.3	P&G	32.0
Simplicity	53.1	Anheuser-Busch	31.9
AMP	51.8	Sears Roebuck	30.8
Black & Decker	50.5	Heublein	30.1
Schering	50.4	PepsiCo	29.3
Amer Hosp Supply	50.0	Pfizer	29.0
Schlumberger	49.5	Bristol-Myers	27.6
Burroughs	48.8	GE	26.1
Xerox	48.8	Revlon	26.1
Eastman Kodak	48.2	Philip Morris	25.9
Coca-Cola	47.6	Gillette	25.9
Texas Instruments	46.3	La. Land & Explor	25.6
Eli Lilly	46.0	Dow	25.5
Merck	45.9	First Natl City	22.4
Upjohn	41.1	ITT	19.2

- And with the exception of Amazon, valuations of today's largest appear relatively restrained compared to those of the Nifty Fifty era (1972):
  - Average P/E: 45.5x
  - Median P/E: 41.1x

30-Apr-2020 P/E Ratio	
<b>Microsoft</b>	<b>31.6</b>
<b>Apple</b>	<b>23.1</b>
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Sources: Brooklyn Investor, Bloomberg, SECOR

# Equity Market Concentration

- The valuation of the “S&P 495” is mixed relative to historic market levels but their profitability badly lags that of the five largest companies
  - The market reaction has supported the contention that the relative competitive advantage of the FAAMG companies has been strengthened by the COVID-19 pandemic

Data as of 30 April 2020

	<u>Mkt Cap (B)</u>	<u>SPX Wght</u>	<b>P/S</b>	<b>P/E</b>	<b>P/FCF</b>	<b>P/Est E</b>	<b>EV/EBITDA</b>	<b>ROE</b>
MSFT	\$1,367	5%	9.86	31.63	31.52	31.57	19.75	44.20%
AAPL	\$1,305	5%	4.88	23.05	19.61	24.12	15.38	62.09%
AMZN	\$1,227	5%	4.14	118.20	63.18	64.08	31.31	18.58%
GOOGL	\$807	3%	5.58	28.12	32.01	26.43	16.45	17.83%
FB	<u>\$493</u>	<u>2%</u>	<u>7.96</u>	<u>24.87</u>	<u>25.19</u>	<u>24.17</u>	<u>15.80</u>	<u>21.85%</u>
FAAMG	\$5,199	20%	6.42	48.72	35.48	35.87	20.49	<b>36.43%</b>
S&P 500 ex FAAMG	\$20,197	80%	0.99	12.36	17.49	19.08	11.61	<b>7.71%</b>
Percent Rank vs S&P 500 Since Inception*			19	28	25	81	62	13
S&P 500 Median*			1.51	16.55	22.01	16.47	10.80	14.21%

\* P/S, P/FCF, P/Est.E & EV/EBITDA Inception: 1990, P/E Inception: 1926

Sources: Bloomberg, SECOR.

# Equity Market Concentration

- FAAMG earnings actually increased YoY in Q1, a stark contrast to the rest of the index
- And their earnings advantage is expected to persist throughout the year

	<u>Mkt Cap (B)</u>	<u>SPX Wght</u>	<b>Q1 YoY EPS Change</b>
MSFT	\$1,367	5%	22.8%
AAPL	\$1,305	5%	3.7%
AMZN	\$1,227	5%	-29.3%
GOOGL	\$807	3%	3.9%
FB	<u>\$493</u>	<u>2%</u>	<u>101.2%</u>
<b>FAAMG</b>	<b>\$5,199</b>	<b>20%</b>	<b>10.2%</b>
S&P 500	\$25,396	100%	-13.3%
<b>S&amp;P 500 ex FAAMG</b>	<b>\$20,197</b>	<b>80%</b>	<b>-19.3%</b>

	<u>Mkt Cap (B)</u>	<u>SPX Wght</u>	<b>2020 Est. EPS Change</b>
MSFT	\$1,367	5%	12.2%
AAPL	\$1,305	5%	4.4%
AMZN	\$1,227	5%	-15.6%
GOOGL	\$807	3%	-11.0%
FB	<u>\$493</u>	<u>2%</u>	<u>-14.9%</u>
<b>FAAMG</b>	<b>\$5,199</b>	<b>20%</b>	<b>-2.5%</b>
S&P 500	\$25,396	100%	-21.0%
<b>S&amp;P 500 ex FAAMG</b>	<b>\$20,197</b>	<b>80%</b>	<b>-25.8%</b>

Sources: Bloomberg, Credit Suisse, Goldman Sachs, SECOR

# Equity Market Concentration - Conclusions

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- The same group of stocks that led the US equity market pre-COVID-19 continue to lead the market during the crisis and to strengthen their competitive advantage/franchises
- Although today's level of S&P 500 index concentration is high by recent standards, it is not extraordinary in the context of the last 50+ years
- Both the TMT and Nifty Fifty bubbles are poor comparisons to today's environment – today's largest companies have less extreme valuations and are more profitable.
- The remainder of the US equity market has mixed valuations, poor fundamentals and a dire short term outlook.
- Implications
  - Will the current growth and large cap cycles ever mean revert?
  - Will today's largest companies be able to avoid the fate of their predecessors and maintain their market dominance for the foreseeable future?
  - Can these large profitable companies continue to avoid government regulation, particularly as the post COVID-19 blame game inevitably plays out over the next few quarters?
    - Will regulators take a more global view of competition?

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