

PLAYING MUSICAL CHAIRS WITH MEGA CAPS



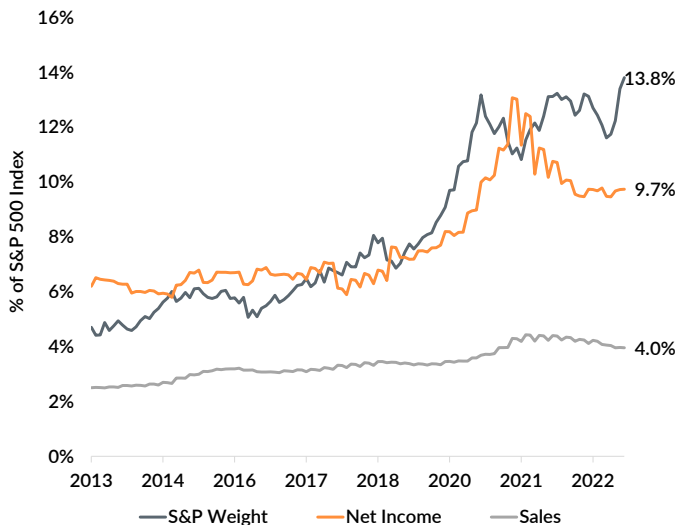
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The stock market is very concentrated, with over 22% of the S&P 500's weight dominated by just five technology-oriented names. Although this concentration has been range-bound at 18%-23% since March 2020, a rotation seems to have occurred, with almost 14% of that weight now concentrated in two stocks – Microsoft Corporation and Apple Inc. – while the weight of the next three largest stocks has fallen from nearly 11% to 8.2%. In effect, this rotation into the two names has made the index even more top heavy.

The top two names are also unusual in that their market cap has continued to rise even after their sales and profits appear to have peaked as a share of the S&P 500. While profits did rise to about 13% of the index shortly after the pandemic, they have since fallen to 9.7%, while sales have dropped from 4.1% to 4.0% over the past two years. In the long run, one would expect the market values of these firms to converge with the eventual path of sales and profits as their business cycles mature.

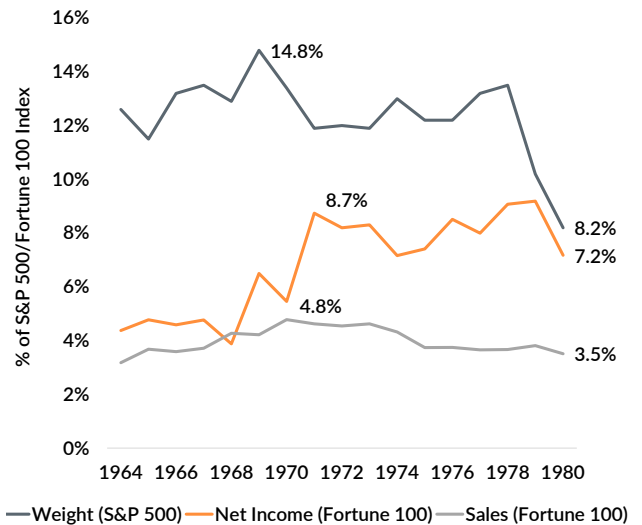
This concentration in two names is the highest it has been in 54 years, when IBM and AT&T Inc. dominated the S&P 500 with a combined 14.8% weighting. Their valuation metrics were eerily similar, with earnings and sales peaking at 8.7% and 4.8% of the Fortune 100 in 1971 and 1970, respectively. Their combined index weights eventually fell to 8.2% by 1980. We believe today's largest names may be near a peak, and this could represent a good opportunity for active managers that can diversify away from these high index concentrations.

Top 2* Share of S&P 500
S&P 500 Weight, Net Income and Sales
2013 to 2023 YTD



*Top 2 represented by MSFT and AAPL As of 4/30/2023
Sources: Glenmede Investment Management and FactSet
(Market Value is free float adjusted)

Top 2 Share of S&P 500**
S&P 500 Weight vs. Fortune 100 Net Income and Sales %
1964-1980



**Top 2 represented by IBM and T As of 4/30/2023
Sources: https://money.cnn.com/magazines/fortune/fortune500_archive/full/1964/ and https://www.wsj.com/articles/stories-about-fangs-have-bite-1533220017?mod=article_inline

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