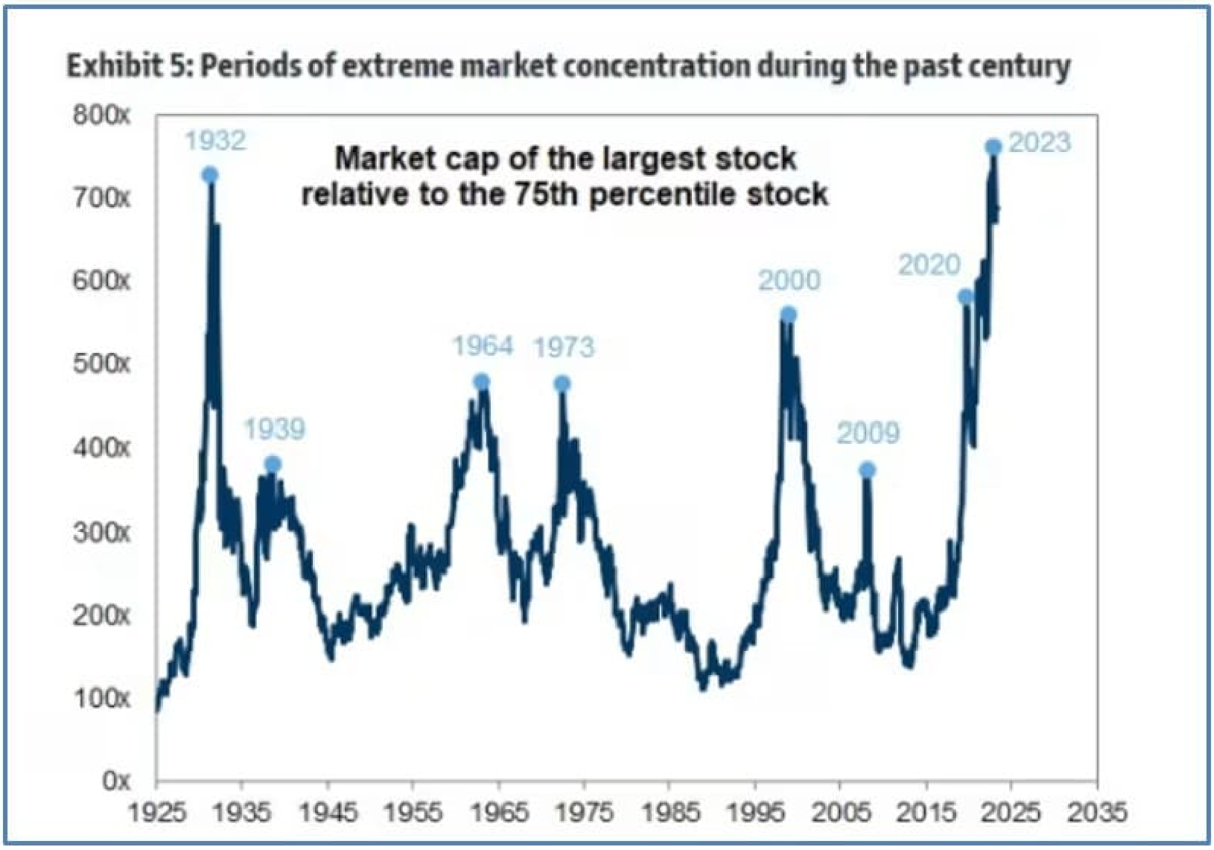
Goldman and JP Morgan Defend the Current High Market Concentration.

The 10 largest stocks in the S&P500 benchmark index now account for over 33% of the market cap weighting. Goldman points out that this is well above the past peak of 27% that preceded the TECH bubble bursting in 2020 (chart below).

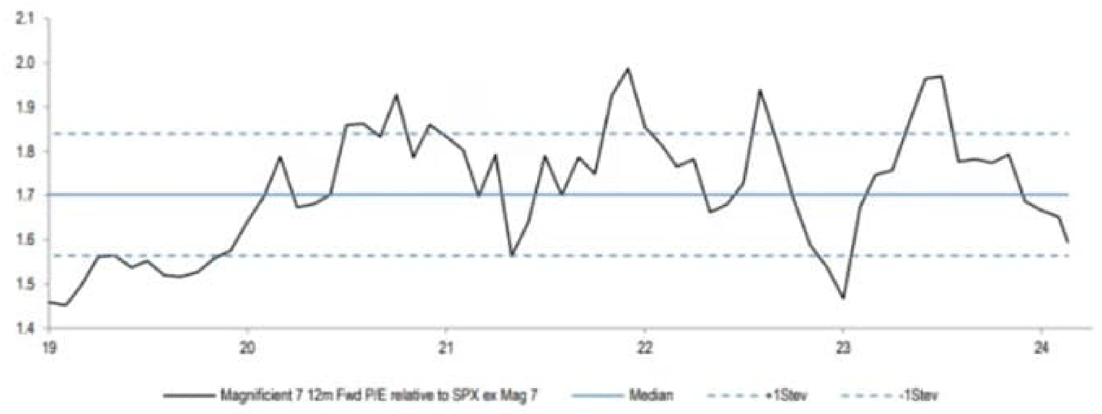


Regardless of the record concentration, Goldman points out that when markets have become concentrated in the past, *?more often than not, the S&P 500 still managed to rally over the 12 months after concentration peaked.? ?Although investors have focused on the comparison between today and the markets in 1973 and 2000, there have been several other examples of extreme equity market concentration during the past century.?*

Goldman states, ?? although peak concentration episodes in 1973 and 2000 preceded large market downturns, equities continued to rally following most other instances of the phenomenon, often the result of positive shifts in the macroeconomic outlook.?

They add, ?It?s also important to note that today?s big stocks trade at elevated but not extreme valuations, says Goldman.? This seems to align with JP Morgan?s analysts led by Mislav Matejka, who say that ?the top-performing tech stocks are actually undervalued compared to rival stocks.?

The argument by JP Morgan is that ?The Magnificent Seven are currently trading at below average prices, on a 12-month forward profit-to-earnings basis, compared to the past five years.? (see the chart below).



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JPMORGAN

The table below shows that 2023 Net Income Growth for the Magnificent 7 was +27%, whereas the Net Income Growth for the entire S&P500 was only +1%. If you do not count the Mag 7, NET Income Growth for the other stocks in the S&P500 was actually -4%.

Table 5: 2023 Net Income growth for Magnificent 7 and SPX

	2023 Net Income growth
APPLE	-3%
AMAZON.COM	307%
MICROSOFT	13%
NVIDIA	335%
ALPHABET A	22%
TESLA	-29%
META PLATFORMS A	66%
Magnificent 7	27%
SPX	1%
SPX ex Magnificent 7	-4%

In essence, JP Morgan states that investors are justified in moving their money to the top stocks because they have the most robust fundamentals.

Most investors realize that stocks and sectors move in and out of favor. For TPA, the term “in and out of favor” is synonymous with the periods of time that stocks and sectors “outperform and underperform the benchmark S&P500”. Investors further realize that they could reap large returns if they could be in stocks and sectors just before they move into favor and be out of stocks and sectors just before they move out of favor. *This is exactly what Relative Rotation Strategies (RRS) achieves.*