OBSERVATIONS

- Markets traded marginally higher this week as economic data seemed in-line with a soft landing for the economy. The S&P 500 gained +1.4% for the week, while small caps (Russell 2000 Index) fell -2.1%, while the yield on the 10-year Treasury fell -7 basis points (bps) to 4.43%.[1]
- The May Manufacturing PMI showed a contraction in the manufacturing sector for the second consecutive month and 18th time in the last 19 months. The Manufacturing PMI registered at 48.7 percent in May which is down 0.5 percentage points from 49.2% in April—any number below 50 signals contracting activity.[1]
- Meanwhile the Services PMI exceeded expectations in May and moved up to 53.8 from April's 49.4 figure. Services PMI was particularly buoyed by the new orders sub-index that increased to 54.1 in May.[1]
- Construction spending fell -0.1% in April to $2.1 trillion (annualized rate), short of expectations which estimated a +0.2% gain. For the first four months of the year, total construction spending is up +10.9% over the Jan-Apr 2023 period, with the strongest gains coming from public infrastructure spending.[1]
- Tuesday's JOLTS report came in below the consensus estimate of 8.3 million at 8.06 million, the fewest openings since 2021. The number of people voluntarily quitting their job rose to 3.5 million, which is up from March's 3.4 million quits and on-par with the voluntary quit rate pre-Covid.[1]
- Despite the slowdown in job postings, the US economy created 272k jobs in May—well ahead of expectations—while the unemployment rate ticked up to 4.0%. Labor force participation fell slightly to 62.7% but remains near record levels for prime-working age adults (ages 25-54). Average hourly wages moved higher to 4.1% year-over-year (YoY), which is up from April's 3.9% YoY figure.[1]

EXPECTATIONS

- India's 2024 election results show that Prime Minister Modi won his 3rd term in office. The BJP-led National Democratic Alliance appears set to lose more than 60 seats in the lower house of the Indian Parliament, winning around 295 of the 543 seats in the Lok Sabha. Compared to the last two general elections where they won record breaking-majorities, due to the BJP-led election setback the Indian stock market which had priced in a strong BJP majority slid after the preliminary results became public.
- The Canadian Central Bank and European Central Bank (ECB) cut interest rates for the first time in over four years as both economies have seen inflation pressures ease as well as recent data suggesting slowing economic activity. The ECB cut its main policy rate by -0.25 bps to 3.75%, while the Canadian Central Bank similarly lowered rates by -0.25 bps to 4.75%. Both central banks indicated that further easing may be needed, but ECB warned that additional cuts were not automatic, and that cautiousness was warranted.[1]

ONE MORE THOUGHT: S&P 500 Concentration Elevated but not Unprecedented[2]

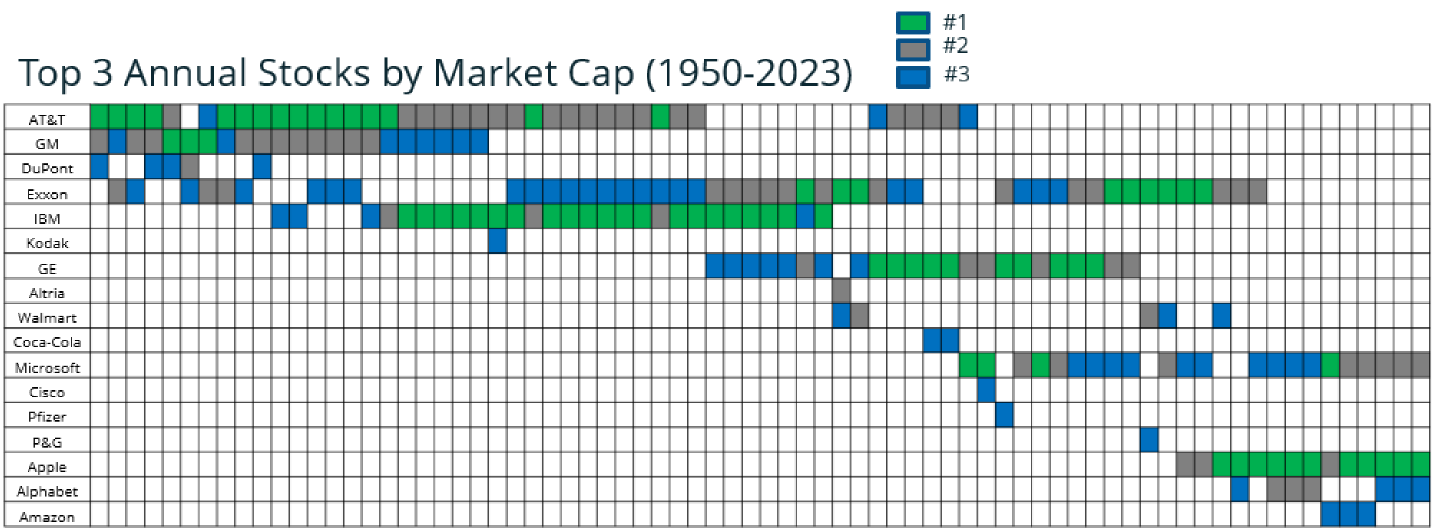
There have been a great many questions lately about the relative concentration of the largest companies within the S&P 500. Overall, the top-ten companies in the S&P 500 represent about 28% of the index at the end of March, 2024. Many commentators noted that the S&P 500 "has never been so top-heavy" and that the share of the largest names in the index are at an historic high. This simply is not the case. It is true that since 1980 the share of the top-ten names has generally been below 20%—the top-ten names topped-out at around 20% on the eve-of the dotcom bubble and then climbed to nearly 25% just before the Covid pandemic. But in earlier periods in the 1950s and 1960s the share of the top-ten names was frequently over 20% hitting a peak of about 30% in 1963. Similarly, many

[1] Bloomberg LP as 6/10/2024

[2] Morningstar "Is the Stock Market Too Concentrated" May-2024; Morgan Stanley – "Stock Market Concentration" Jun-2024

market watchers are surprised to learn that between 1950 and 2023 only 17 companies have ever been one of the largest three names in the index (See Chart of the Week). In fact, between 1950 and 1984 only five companies dominated the top three positions for every year but one. At its height in 1960, AT&T alone was about 13% of the entire S&P 500 Index, compared to Apple today holding the largest position in the index at about 7%. Last week, NVIDIA surpassed the $3 trillion market capitalization and is now the 18th company to be part of the top three companies in the S&P 500—assuming it hangs on to this post for the remainder of the year. Also, if we broaden the definition of market concentration from market capitalization to profits, history tells us a similar story. Throughout the 1960s, the top-ten names in the S&P 500 regularly accounted for close to 50% of the Index' profit. At the end of 2023, the top-ten names accounted for about 45% of the Index's total profits, according to Morningstar. Over the past thirty years there has been a steady rise in the market power of some of the largest global firms, according to McKinsey. This has been a global trend, where the largest firms are increasingly dominant in their respective industries and have wide competitive moats that buttress their market share, profit margins, and earnings potential. Most of these mega-cap firms have amassed large reserves of cash that have greatly mitigated the need for financing in the midst of a global rise in interest rates and have preserved the quality of their balance sheets. This gives rise to the question from many clients, would a more fragmented S&P 500 Index with less concentration among the largest firms necessarily be less risky for investors? History suggests that a concentrated market is not without precedent and may not always be such a bad thing.

CHART OF THE WEEK



Source: Clearstead, Morgan Stanley - Counterpoint Global

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