

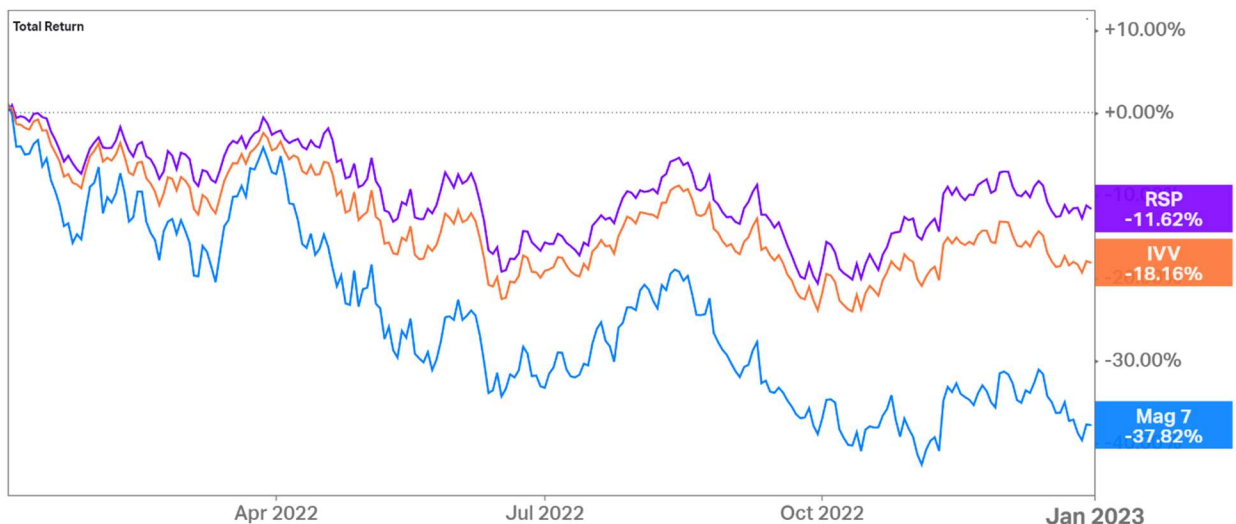
## CURRENTS: Concentration, Curves and the Future

The largest publicly traded companies in the United States are dominating the headlines and commanding enormous valuations. Concentration isn't inherently bad, but it does have implications we should be conscientious about.

If it feels like a handful of companies are driving most of the returns in the S&P 500, it's because they are. Currently, just 7 companies account for over one-third of the S&P 500's total market capitalization.

Company	Weight
NVIDIA Corporation	7.75%
Microsoft Corporation	6.87%
Apple Inc.	6.32%
Alphabet Inc.	4.09%
Amazon.com Inc.	3.95%
Meta Platforms Inc.	2.93%
Broadcom Inc.	2.55%
<b>Total</b>	<b>34.46%</b>

That concentration has been a tailwind for US stocks this year as they are up over 20% as of 9/18. An Invesco ETF (ticker: RSP) which gives an equal weight to every stock in S&P 500 is up ~8% YTD. However, the same concentration was a headwind in 2022 as the 7 companies above were down ~37% while RSP & the S&P 500 only fell ~11.6% and ~18% respectively. We believe it is now more important for investors to diversify and ensure they have broader based and more balanced exposure to the global economy than what the S&P 500 offers. Here is a chart of the those 7 companies, the S&P 500 and RSP in 2022.



## US Yield Curve

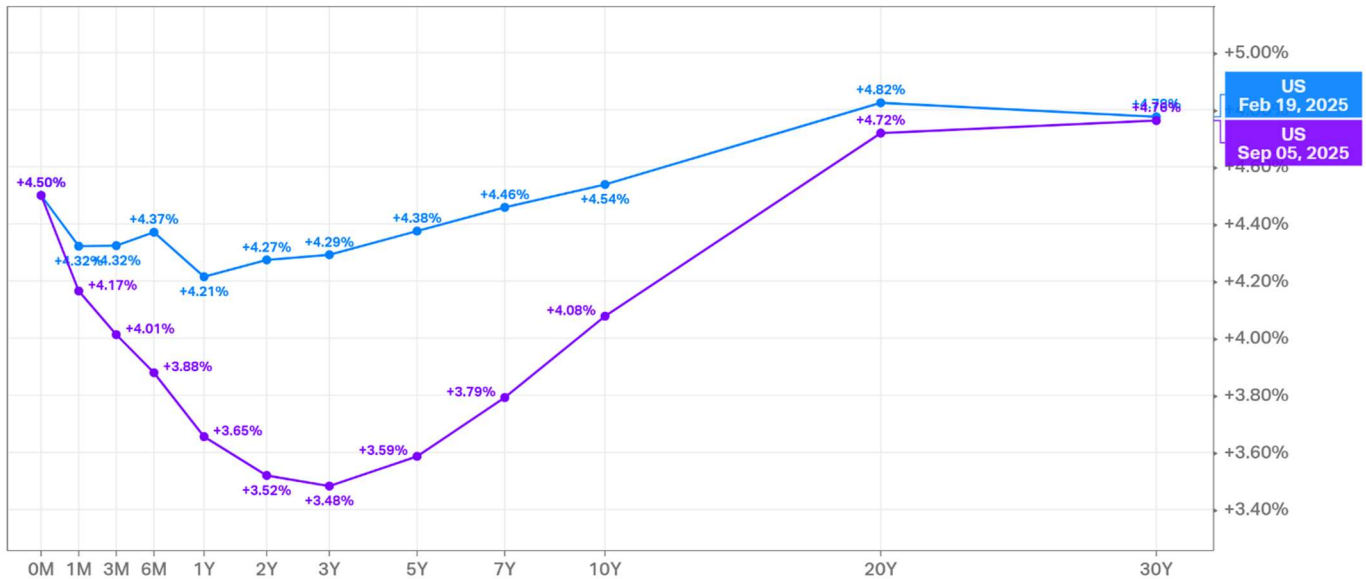
We compared US treasury yields in February and early September, then looked again after the September 17 Fed cut of 0.25%.

**What changed most:** 1–5-year treasury yields dropped in a meaningful way between February and early September.

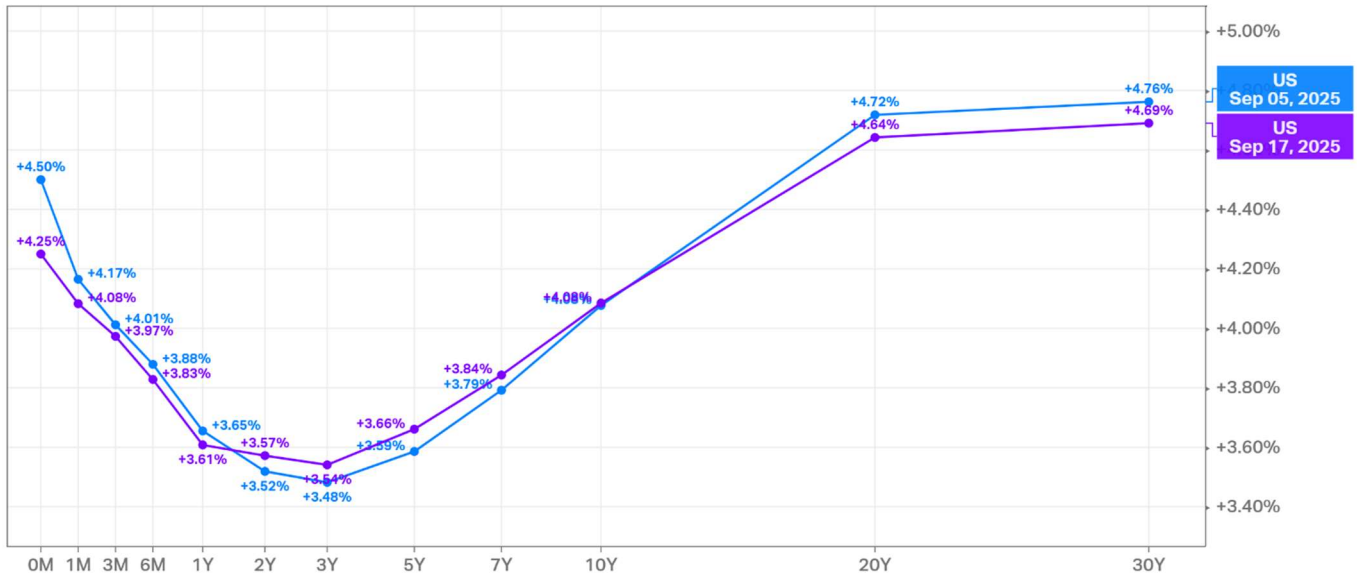
**What barely moved:** 20–30-year treasury yields.

Mortgage rates tend to track the 10-year yield, not the Fed’s overnight target rate. The 10-year yield moved ~0.40% between February and early September and so did 30-year mortgage rates. However, the 10-year yield barely budged the day the Fed cut rates. As a result, mortgage rates didn’t move much either.

The blue line below represents US treasury rates on February 19 when the S&P 500 had touched a new all-time high, was up ~4.5% for the year, and was about to start falling into a bear market that bottomed out on April 8 with the S&P 500 down 15.3% on the year. The purple line represents the same curve on September 5<sup>th</sup>, the day US employment numbers came in much weaker than expected, and 12 days *before* the Fed lowered the target rate by 0.25%.



Now, what changed between September 5 and September 17 when the Fed lowered its benchmark overnight lending rate by 0.25%? Let's take a look:



As you can see, not much changed. Short-term rates moved from 4.5% to 4.25%, but 10-year rates didn't budge and neither did mortgage rates. 2-, 3- and 5-year rates actually ticked up a bit since the Fed signaled less cuts in the future than anticipated. The point is the market doesn't wait for the Fed or any news for that matter. Financial markets are trying to predict (discount) the future. When the market accurately predicts the future (rates, earnings, GDP numbers, employment), it barely moves. When the market inaccurately predicts the future, or something unexpected happens, markets move and adjust to the new data instantaneously.

So, unless you know what tomorrow's surprises are going to be, attempting to time the market is not productive. The collective wisdom of hundreds of millions of investors and hundreds of billions of dollars are pricing the future for you every single day.

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