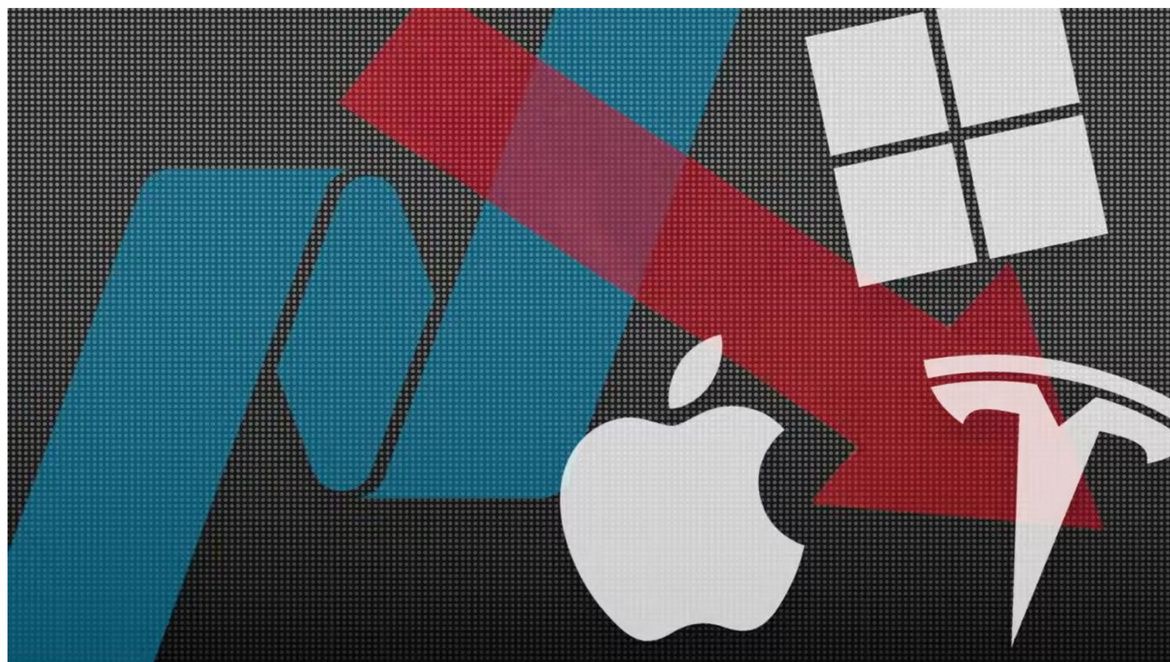
US equities

Wall Street behemoths' dominance poses risks to markets

High flyers shed $4.9tn last year and some are still falling in 2023



Mega-cap stocks, such as Microsoft, Tesla and Apple, struggled in 2022 © FT montage

Jennifer Hughes in New York JANUARY 7 2023

Losses in heavy-hitting US tech stocks have extended in to the early days of 2023, with warnings of much more pain to come for market titans, including electric-car maker Tesla.

The 10 biggest stocks by market capitalisation in the benchmark S&P 500 at the index's peak in early 2022, including Tesla, Apple and Microsoft, lost a combined $4.9tn last year. So far in 2023, these companies' market capitalisation has shrunk a further $110bn.

The clutch of mega-caps dominates Wall Street equities, with the top 10 stocks accounting for about 30 per cent of the S&P 500 near the peak of the bull market at the end of 2021. Now this pullback hints at a market where such intense concentration will start to fade away.

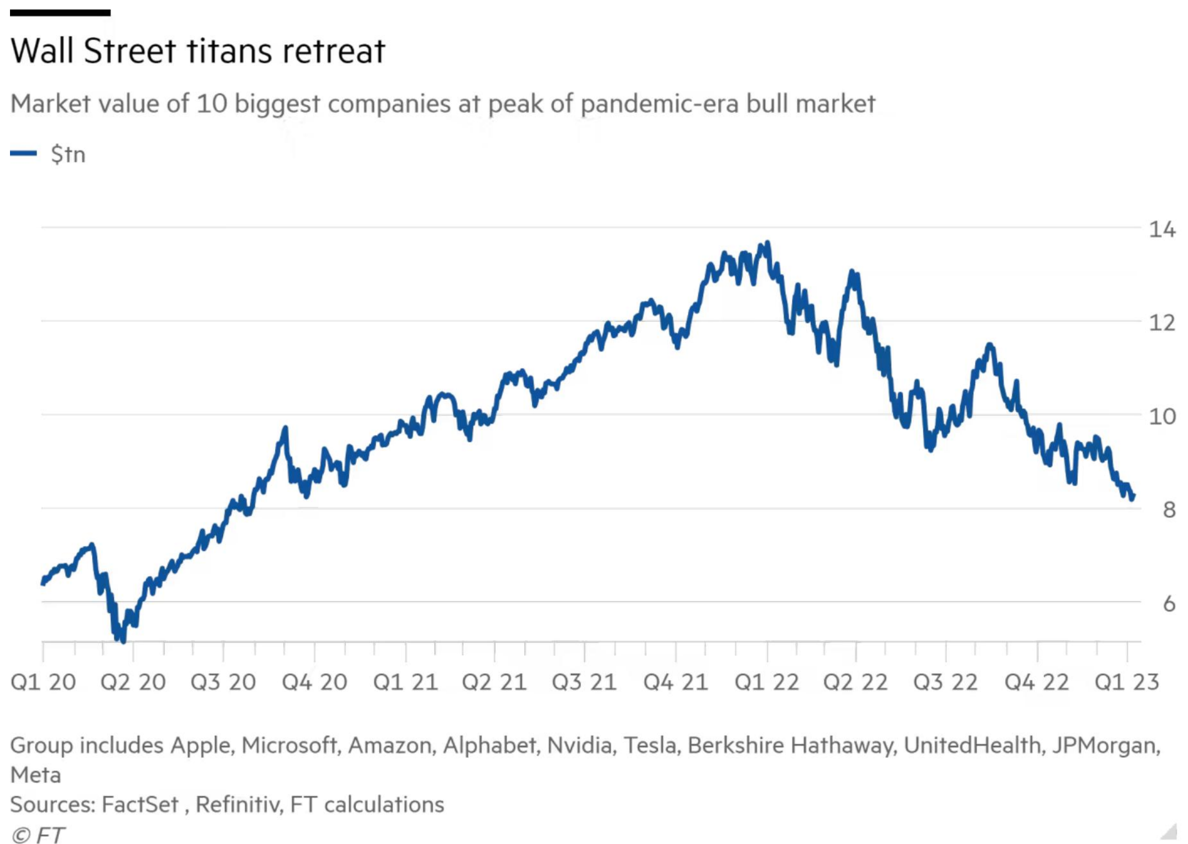
"There's been some de-concentration but it's very minor compared with what has built up," said Tatjana Puhan, deputy chief investment officer at TOBAM, a Paris-based asset manager. "We are at the beginning of this, we're not yet near the end."

On average over the past two decades, the biggest 10 stocks account for roughly a fifth of the S&P 500 and the largest five, 13 per cent. But the concentration has intensified. At the peak in 2020, the top five accounted for 22 per cent. By December last year it had eased somewhat, but the big five — Apple, Microsoft, Amazon, Google parent Alphabet and Warren Buffett's Berkshire Hathaway — still made up 17 per cent, according to Bloomberg.

The decline in some of these stocks has exceeded the drop in the broader market by a large margin. The S&P 500 dropped 19 per cent in 2022. Meanwhile, Tesla lost nearly two-thirds of its value last year and fell out of the index's top 10. It has fallen a further 10 per cent this year.

The dominance of mega-cap stocks became self-reinforcing when they swept higher in the wake of the global Covid-19 outbreak. Index-tracking funds were forced to buy them to stay in line with broader market gauges. But that works in reverse, now that big names are suffering from a range of problems.

Savita Subramanian, head of US equity and quantitative strategy at Bank of America, noted that many fund managers had come late to the mega-cap trend because they had been reluctant to risk so much on such a small group of companies.



Group includes Apple, Microsoft, Amazon, Alphabet, Nvidia, Tesla, Berkshire Hathaway, UnitedHealth, JPMorgan, Meta
Sources: FactSet , Refinitiv, FT calculations
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"Last year was a stockpicker's market," she said, noting that three-fifths of the S&P 500 did better than the index itself, leaving it to be dragged to its worst loss in 14 years by its biggest components. "There could still be more pain in the mega-caps as we haven't seen a selling frenzy among active managers," she added.

Periods of concentration are not new — they built up in other boom times such as the dotcom bubble that burst in 2000 and the "nifty fifty" of household names made famous in the late 1960s.

The current one, however, is more extreme still, with valuations outside the market behemoths far smaller than in previous clustering peaks. In 2000 it took 253 of the S&P 500's smaller members to match the size of its top five, calculates Puhan. Today it takes 456.

Others frame the concentration issue as part of the broader battle between fast-growing and typically expensive stocks and less flashy stocks coveted for their consistent profits and dividends, collectively known as "value". Many Wall Street juggernauts fell in to the first category and rallied massively in 2020 and 2021 when ultra-low borrowing costs sent traders in search of returns. That trend reversed sharply in 2022 when central banks ratcheted up interest rates, and so far in 2023, many of these shares are continuing to fall.

"It's very reminiscent of the bursting of the tech bubble, when people saw tech stocks cratering — and then they cratered again, and again," said Rob Arnott of Research Affiliates, an asset manager.

The S&P 500 and its forebears have produced back-to-back calendar-year losses only four times in a history stretching back to 1928, but one of those periods followed the dotcom bubble, when the benchmark fell for three straight years.

Arnott pointed to Tesla as an example of still-high valuations among mega-caps that suggest more selling to come. In spite of its fall last year, the electric vehicle giant still has a market capitalisation of roughly $350bn, or 21 times its forecast earnings. By contrast, $225bn Toyota, the world's largest car producer, is valued at eight times its expected profits.

"Value has underperformed [until recently] not because companies were doing badly, but because they were falling out of favour and getting cheaper," he said. "I look at this as being two years into a five- to seven-year span of value winning — and that just takes us back to historical norms."

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