

# US EQUITY MARKET SNAPSHOT- H1 2023

## CONCENTRATION CORRECTION FOLLOWED BY VALUATION ADJUSTMENT - HIGH TIME TO REVISIT DIVERSIFIED EQUITIES -

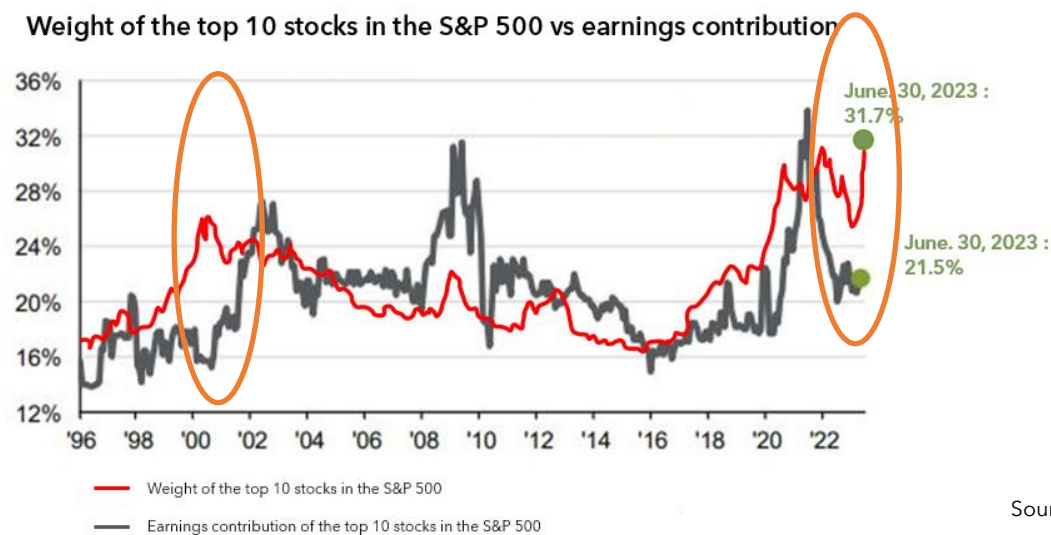
**Figure 1: returns of top 5 holdings vs rest of US BBG Index, change in Diversification Ratio® YTD**

Security Name	31/12/2020	31/12/2021	30/12/2022	31/03/2023	30/06/2023	YTD Return
APPLE INC	5.86%	6.35%	5.79%	6.75%	7.33%	49.72%
MICROSOFT CORP	4.88%	5.78%	5.25%	5.88%	6.42%	42.66%
ALPHABET	3.02%	3.77%	2.93%	3.19%	3.35%	36.01%
AMAZON.COM INC	4.08%	3.32%	2.19%	2.52%	2.96%	55.19%
NVIDIA CORP	0.91%	1.61%	1.03%	1.80%	2.54%	189.54%
Top 5 USA Benchmark	18.74%	20.84%	17.18%	20.13%	22.60%	54.31%
Constant Matrix DR2	6.16	5.93	6.19	5.97	5.81	
Weight change with respect to previous year	32.66%	11.17%	-17.54%	17.15%	31.52%	
Constant Matrix DR2 % Change wrt Previous Year	0.64%	-3.76%	4.38%	-3.47%	-6.12%	

Source: TOBAM, Bloomberg (12/31/2021 -06/30/2023)

- The outperformance of very few stocks that exhibited an incredibly strong performance contributed most to this concentration increase year to date as measured by the Diversification Ratio<sup>2</sup>, **declining to a historical low of 5.8**.
- In parallel, the weight change of the top 5 increased by 31.5% compared to the 31/12/2022.

**Figure 2: Weight vs earnings gap of the top 10 stocks in the S&P 500 at historical highs**



At the end of the second quarter, the ten largest tech companies represented 32% of the combined weight in the S&P 500 but only 21% of the earnings contribution.

Source: Bloomberg (12/30/1996 -06/30/2023)

## CONCLUSION

- Investors that were not materially exposed to the biggest companies by market cap massively trailed the broad market year to date.
- While the current market theme, i.e., strong outperformance of Tech/Coms and in particular Artificial Intelligence (AI)-related stocks remains top of mind, **investors should also remain vigilant on valuations or else the sector could face a material repricing.**
- All of this together has a large potential to trigger the mean reversion or re-ordering of record market concentration that may eventually happen.

**Crystal balls often become less effective during uncertain times (trajectory of rates & inflation). Vigilance on valuations and ensuring effective diversification could very well make a lot of sense right now...**

- Agile investment boutique with prominent shareholders & clients
  - Streamlined, efficient and straight-through processing
  - Patented, unique & transparent investment process
  - Recognized pioneer in alternative beta strategies
- Value-added research focus

## MAXIMUM DIVERSIFICATION®

One core investment philosophy, client aligned implementation

Invented and patented by TOBAM, the Maximum Diversification® investment process has one objective: to maximize the Diversification Ratio® of a portfolio given a set of constraints.

Capitalization weighted benchmarks are an imperfect means of capturing market risk premium. They expose investors to high time variation and often extreme idiosyncratic, sector or style specific risks. We believe that it is only by maximizing diversification, that investors can achieve a result closer to the true market risk premium available from an investment universe.

TOBAM's Maximum Diversification® methodology aims at:

- Providing superior diversification
- Enhancing performance and lowering risk compared to traditional benchmarks over a market cycle
- Collecting the full risk premium of an asset class
- Delivering a diversified and diversifying strategy

## RISKS

**Equity risk** If the equities or indices to which the portfolio is exposed fall, the net asset value of the Compartment may also fall. Since the volume of small and mid-cap stocks listed on the stock exchange is relatively low, market downturns are more pronounced and more rapid than for large caps. The net asset value of the Compartment may therefore decline more quickly and more significantly. Investors' attention is drawn to the fact that the small-cap markets are intended to accommodate businesses that, due to their specific characteristics, may pose a risk for investors. Risk associated with the Management Company's investment process. Investors should note that portfolio construction and the selection and weighting of assets are based on a process developed by the Management Company. The Compartment's investment process is based on a systematic model designed to identify signals based on past statistical results. **Currency risk:** Currency risk is the risk of depreciation in the currencies in which the Compartment invests relative to the reference currency. This currency risk will be managed according to market opportunities and may thus account for a significant proportion of the risk. In the event of depreciation in foreign currencies, investors are thus exposed to a decline in the value of their units

## ABOUT TOBAM

TOBAM is an asset management company offering innovative investment capabilities designed to increase diversification. Its mission is to provide rational and professional solutions to long term investors in the context of efficient markets.

TOBAM manages approx. \$6 billion (as of Dec 30, 2022). TOBAM's team is composed of 47 professionals.

**For more information, visit [www.tobam.fr](http://www.tobam.fr)**

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