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MEGA TECH STOCKS LEAD THIS RALLY

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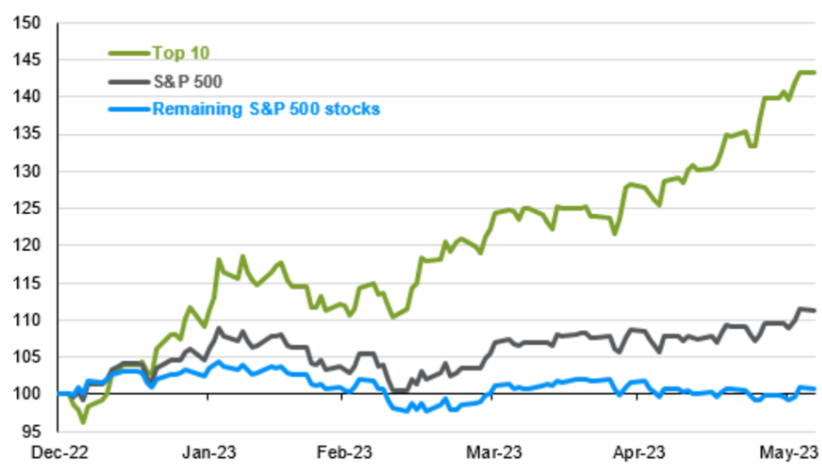
"While the S&P performed very well for the first six months of 2023, most of the gains were from 7 mega-tech stocks discussed in this article."

On the surface, it appears the stock market is having a great year. But take a closer look, and you will see that its gains are more highly concentrated than ever before. This has some stock market analysts worried. In particular, just a handful of stocks are responsive for a significant portion of the gains so far in 2023. Highly concentrated markets aren't unheard of. In 2020, the 10 largest stocks were responsible for more than a third of the U.S. market's gains. This year, however, the impact of the 10 largest stocks is more than twice that, breaking recent records by a long shot.

For the first five months of 2023, the Morningstar U.S. Large-Mid Index—a collection of the 716 largest U.S. stocks—gained 9.6%. While that looks like a solid return, 9.3% (or 97% of the total gain) came from the 10 largest stocks. As can be seen in the chart below from J.P. Morgan, without the supersized returns on the largest stocks, for the first five months of 2023, the overall market would have been flat.

The largest names in the S&P 500 have dominated the index this year

Exhibit 1: YTD, indexed to 100, price return



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Top 10 stocks include:AAPL, MSFT, AMZN, NVDA, GOOGL, BRK.B, GOOG, META, XOM, UNH and TSLA. Data are as of June 5, 2023.

A market is considered healthier when more stocks are rising together, and history shows that broader rallies are typically more sustainable. When participation in the advance is limited—as is the case for 2023 thus far—vulnerabilities can emerge as the weight of the market's advance falls on the shoulders of a limited number of stocks. That happened in September 2020, when a sudden reversal in tech shares pushed the S&P 500 down nearly 10% in three weeks.

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.

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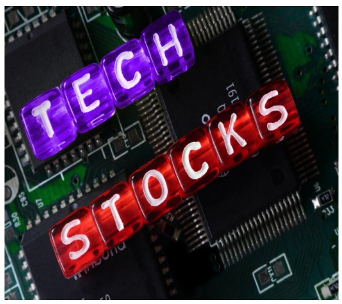
    - Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.



The stocks responsible for most of this year's gains are seven mega-technology stocks. They are Amazon, Apple, Google, Meta, Microsoft, NVIDIA and Tesla. As of June 13^{th}, the average YTD return for these mega-stocks was 84%. The average YTD return for the rest of the S&P 500 was just 3.7%. As a "capitalization-weighted" index, stocks like these mega stocks have an outsized impact on the S&P 500 index. Recently, they made up 30% of the index, up from 20% at the start of 2022.

MAM Comments: On its own, a highly concentrated stock market doesn't necessarily mean that a rally will end. Furthermore, there were signs in the month of June that the stock market rally expanded to more stocks than just the mega-tech stocks. For us to have confidence that this bull market is sustainable, though, we would like to see continued broadening of the rally to more stocks in the months ahead.