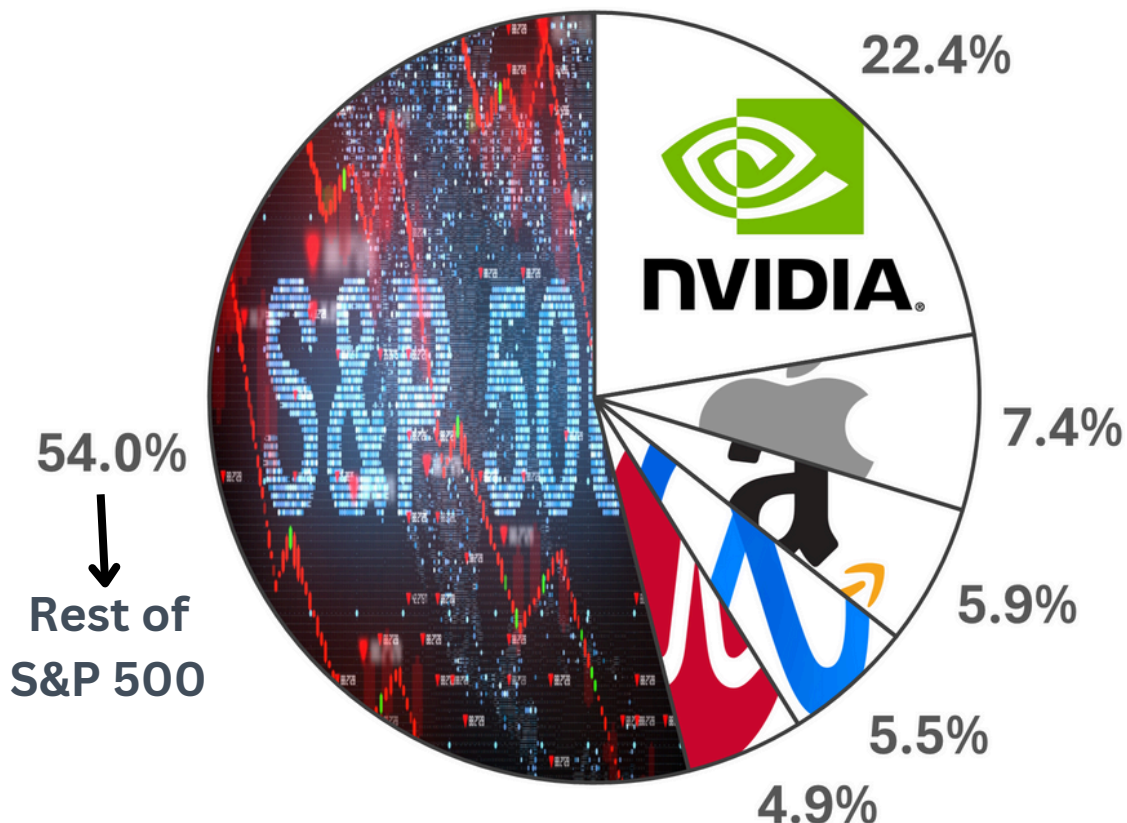


## Equity Concentration and the Significance of Cash

The S&P 500 achieved a remarkable gain of over 23% in 2024, marking back-to-back annual increases of over 20%. However, when we delve deeper into this figure, it is interesting to see the disparity in returns among individual stocks that make up what is arguably the world's most important stock index. Notably, semiconductor and AI powerhouse NVIDIA contributed 22% to the S&P 500's overall return in 2024, meaning that just over one-fifth of the total gains stemmed from a single company. NVIDIA's shares surged more than 170% in 2024 and became the most actively traded stock of the year, largely due to its significant weighting in the S&P 500, currently at 6.30%. This places it just behind Microsoft at 6.51% and Apple at 7.41%. Speaking of Apple, the iPhone maker accounted for 7.4% of the S&P's total gain in 2024, while Amazon and Meta accounted for 5.9% and 5.5% each. Finally, Broadcom, who passed the \$1tn market cap threshold towards the end of 2024, accounted for 4.9%.

While these stats are truly remarkable, the increased concentration on just a few select stocks to drive growth doesn't end here. For example, the 10 largest members of the S&P 500 now account for 37.3%, while just 26 stocks account for half of the total value of the index, the lowest in modern history. While this may be a cause for concern for some, particularly if companies such as NVIDIA and Apple begin to underperform, if we look at the underlying earnings of these firms and the cash reserves available to them, it is clear that these companies are well capitalised. In NVIDIA's case, the company beat earnings estimates by an average of 5% in each of the first three quarters of 2024, while Apple and Microsoft also beat earnings estimates in each quarter of 2024.

### **Contributions to the S&P 500 Gain in 2024**

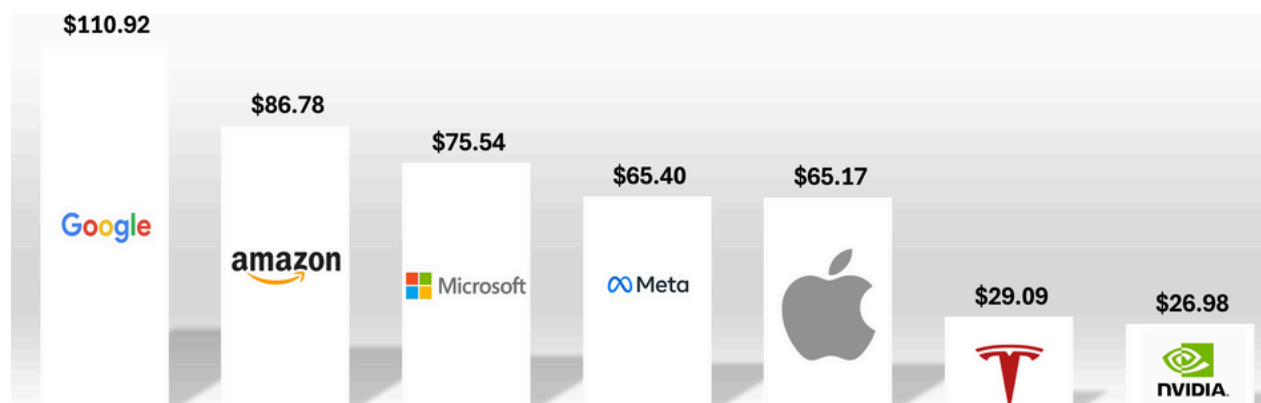


Source - Seaspray Private

Concerns regarding the current disparity in gains within the S&P 500 are quite valid. A primary worry is the potential for a company like NVIDIA to face challenges or start underperforming, which could drag the broader market down. Another apprehension is that the ongoing AI boom might evolve into a significant bubble, reminiscent of the situation in 2000. Whatever the reasons, it is important to realise a key aspect that many of the world's largest companies have in common - cash.

Cash is King, as illustrated by the cash reserves detailed below. Collectively, the "Magnificent Seven" companies possess a staggering \$459 billion in cash on hand—nearly half a trillion dollars. Alphabet leads the pack with \$110bn, which is more cash available than Bank of Ireland had in customer deposits in 2023. NVIDIA, meanwhile, has \$29.09bn cash on hand in 2024, an all time record for the company. However the point here is that if one, or all of these companies encounter tricky patches, they have the cash readily available to pump into new projects, acquire new businesses or shore up internal projects. These cash reserves are also important in the event of economic downturns, when opportunities to invest may be cheaper and valuations are lower. It also give the companies the option to buyback shares, which is always an easy way to shore up stock prices in challenging times.

### Cash on Hand, \$USbn - 2023/24



Source - Seaspray Private