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May 2024 Market Recap

By Dan Frost

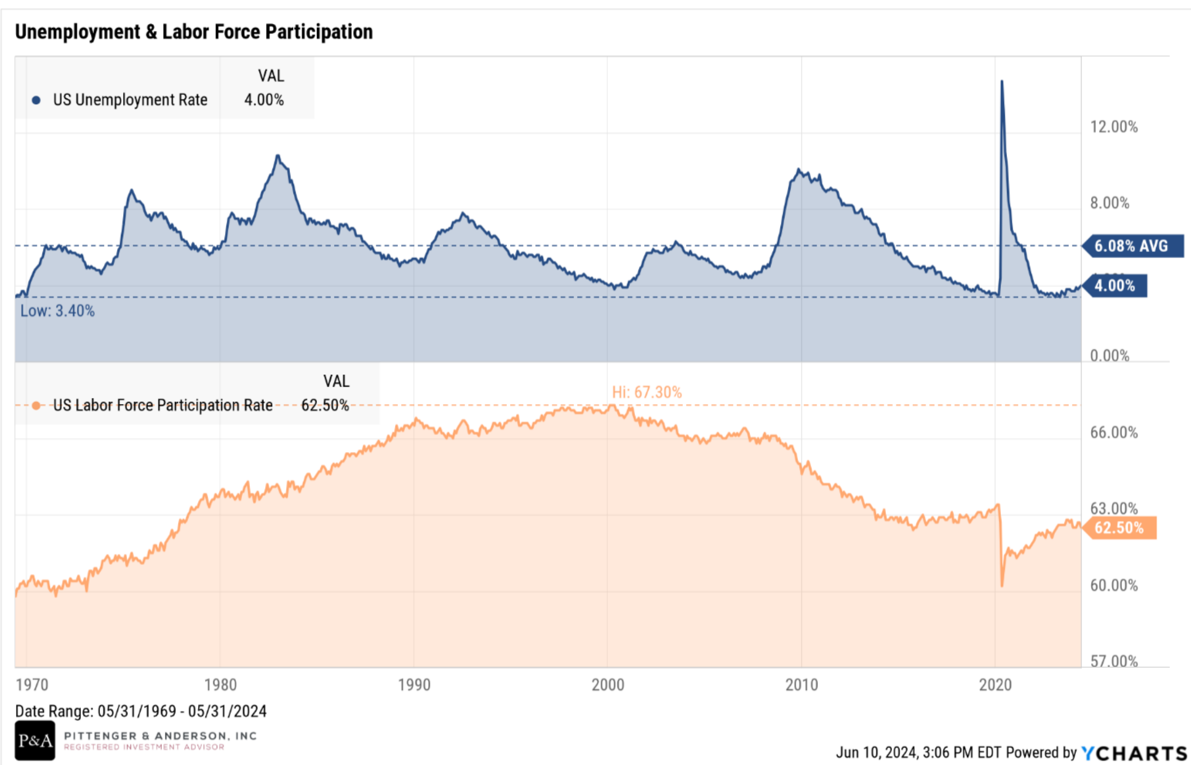
Highlights

- The unemployment rate increased in the month of May.
- Stocks had a great rebound month and added to gains seen earlier this year.
- Interest rates declined during May.
- NVIDIA surpassed Apple to become the second most valuable company behind Microsoft.

Economic Update

Employment

May's unemployment rate inched up again to 4.0%, the highest level since November of 2021. The labor force participation rate declined 62.5% in May, but it remains roughly in-line with where it has been over the past sixteen months. Nonfarm payroll data reported 272,000 new jobs were added in May, which was ahead of the consensus expectation of 180,000.

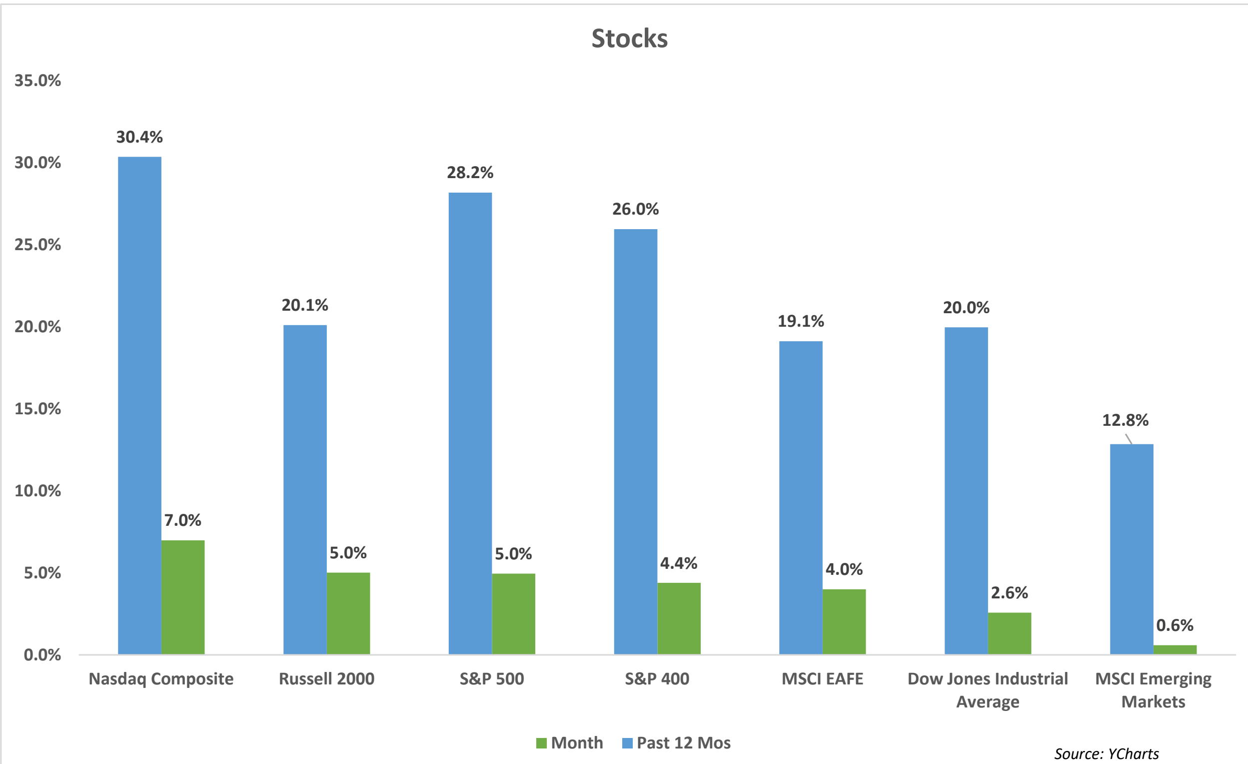


Stocks and Bonds

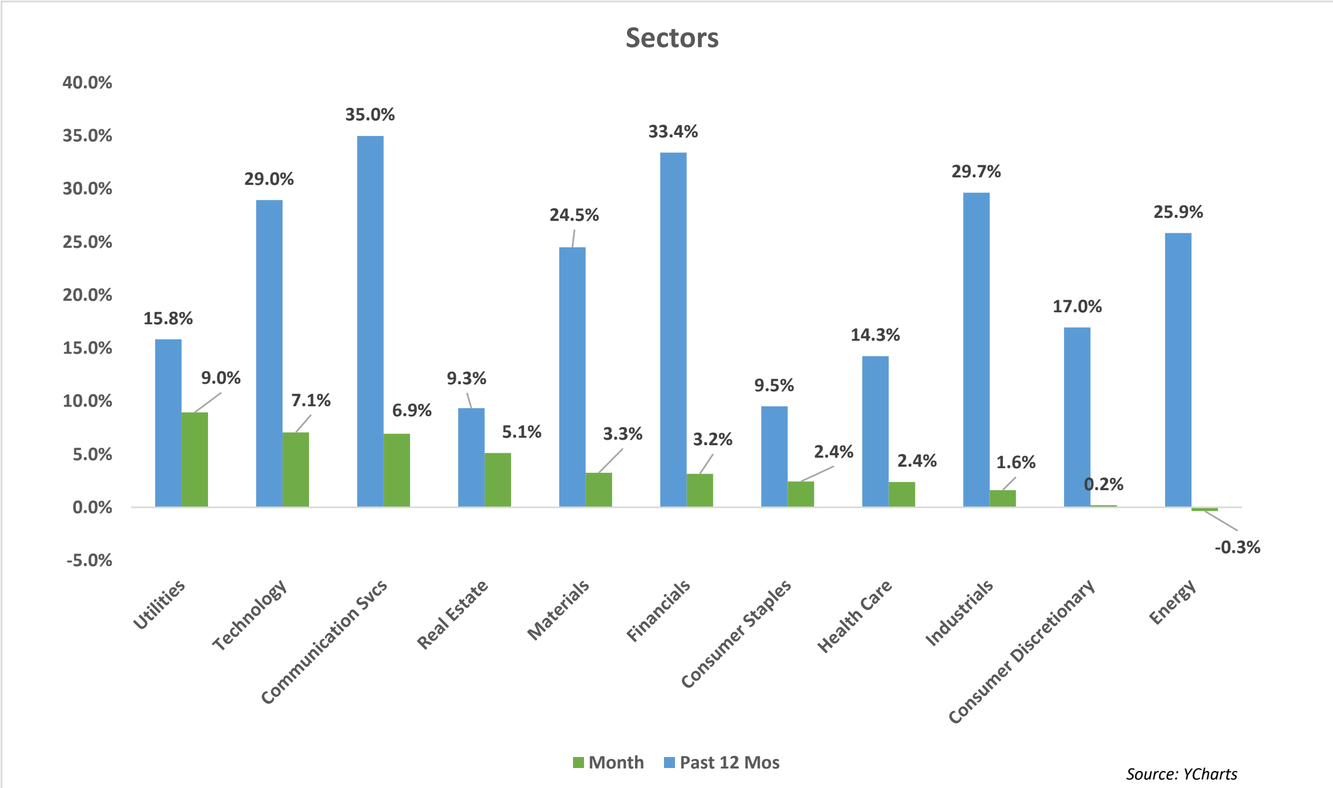
The stock market rebounded in May after a downturn in April that interrupted three consecutive months of gains. The Nasdaq, which is dominated by large technology companies, surged 7%, followed by the S&P 500, which rose 5%. The Dow Jones Industrial Average managed a 2.6% advance during the month.

Market breadth declined in May and turned strongly positive, as 327 issues gained (average of 6.66%) compared to April's 118 (3.11%). On the downside, 176 issues fell (average loss of 4.84%), compared to April's 385 issues (-7.54%).

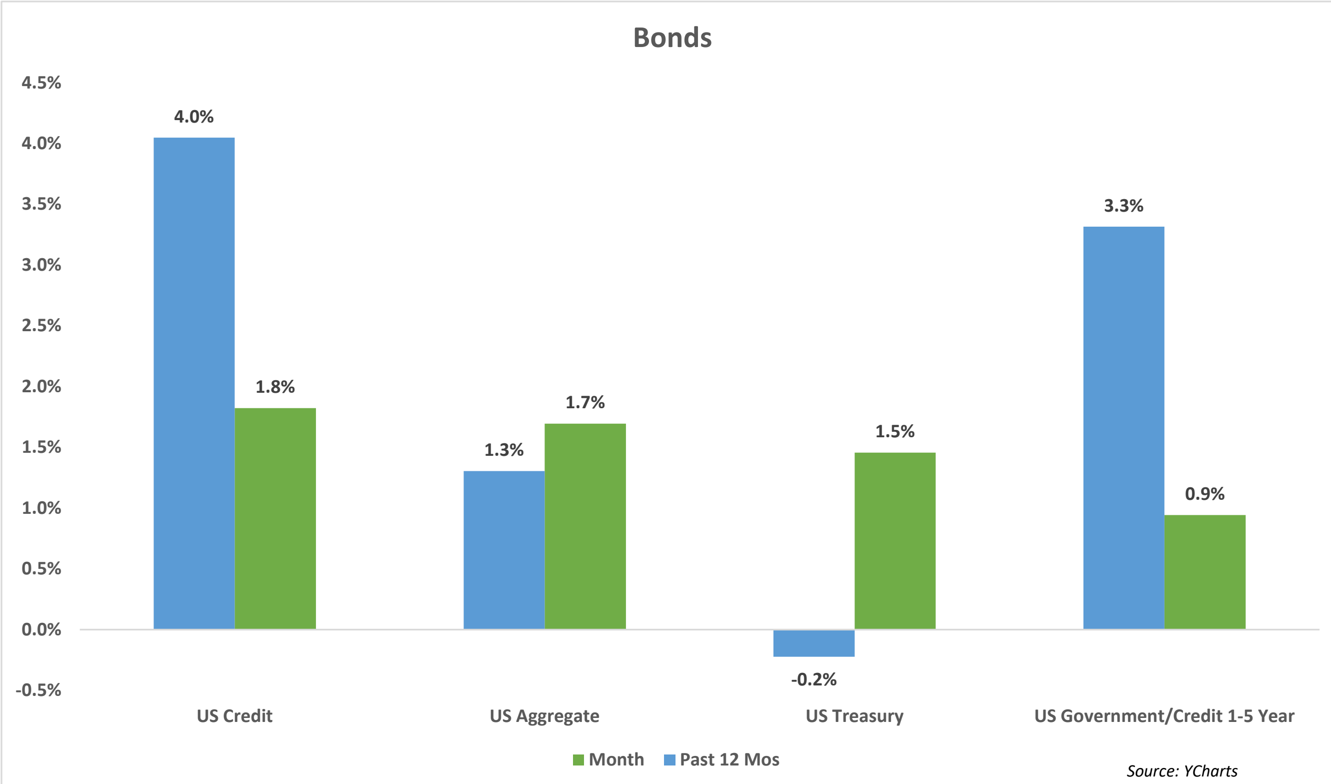
All seven of the indices on our chart (below) finished the month in positive territory. Emerging Markets was the worst performer, gaining a modest 0.6%.



Utilities performed the best in May, gaining 9%. Technology (7.1%) and Communication Services (6.9%) were slightly behind. The worst performing sector, and the only one to post a decline, was Energy, falling 0.3%.



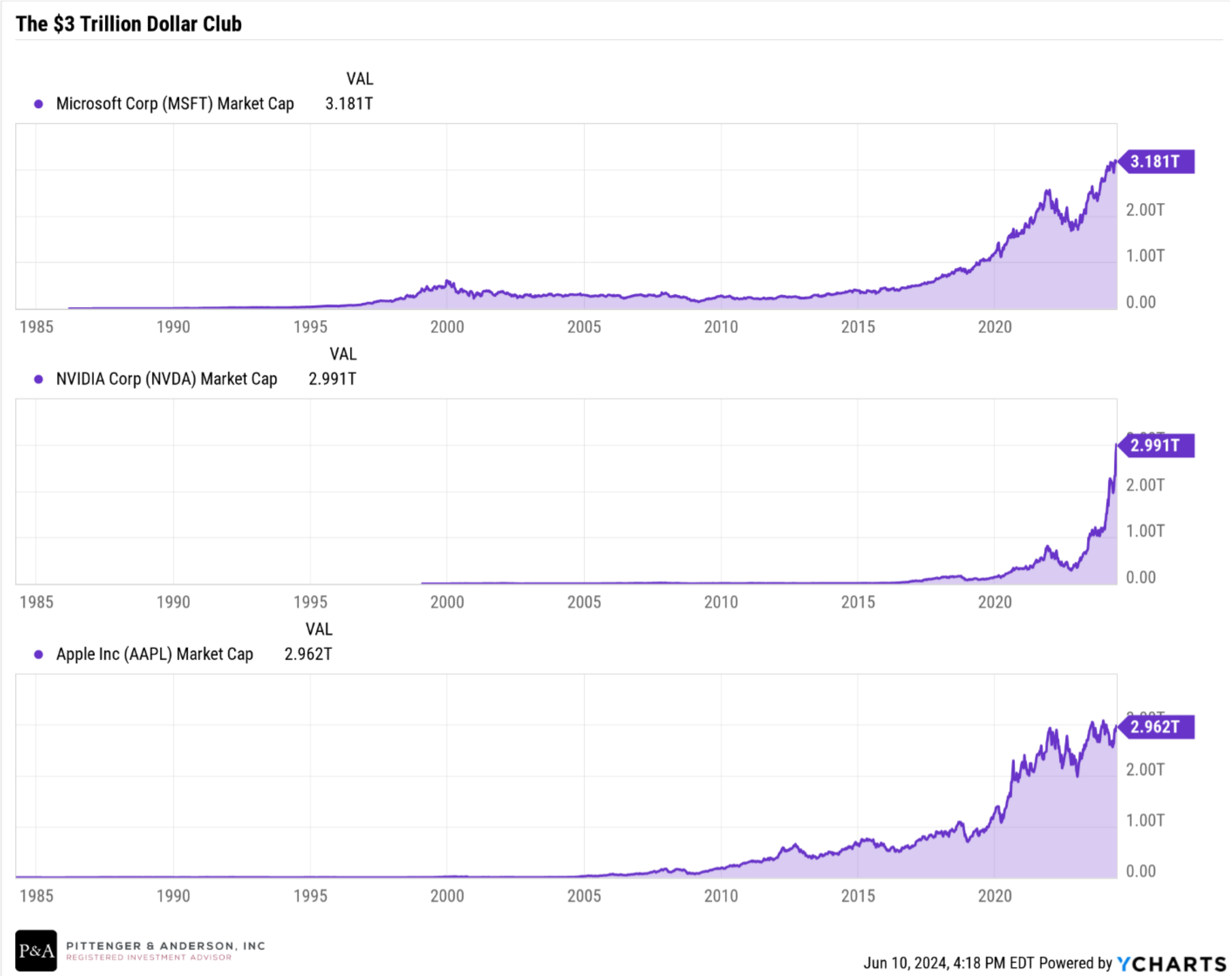
Yields on intermediate- to long-term Treasury bonds declined in May while T-Bill instruments saw minimal movement. For the second straight month, the 5-year Treasury note saw the largest movement of any duration on the curve, down 20 basis points. The 2-year, 3-year, 10-year, 20-year, and 30-year all decreased by double-digit basis points, while yields on the 1-month and 3-month T-Bills were unchanged.



Creative Destruction

On June 6th, NVIDIA became the third company in history to reach $3 TRILLION in market value. (Or "Market Cap" in industry parlance, which is simply the number of outstanding shares times the price of the stock. In NVIDIA's case: 24.6 billion shares outstanding x $125.59 = $3.089 Trillion, using split-adjusted shares and the 52-week high reached on 6/6/24.)

NVIDIA surpassed Apple to become the second most valuable company in the world and is within striking distance of overtaking Microsoft.



Combined, this trio of companies now makes up more than 20% of the entire $44.4 trillion market value of the S&P 500, according to Barron's. ([Microsoft, Apple and Nvidia All Worth Around $3 Trillion And Make Up 20% of S&P 500 - Barron's (barrons.com)])

This is the highest concentration for any three companies in the index going back to at least 1980. In 2008, Exxon Mobil, Walmart and Procter & Gamble accounted for roughly 10% of the index. And in 1999 when the market was near the peak of the dot-com bubble, Microsoft, Cisco Systems and General Electric accounted for around 12% of the S&P's market cap.

Even more remarkable is the fact that NVIDIA's market cap was a mere $10.6 billion ten years ago. In fact, the company didn't reach $100 billion in market cap until July of 2017. Most remarkable might be the fact that the company surpassed $1 Trillion less than a year ago.

NIVIDIA Market Cap Milestones

Date	Market Cap (in $ Millions)
7/21/2017	$ 100,019.50
7/1/2021	$ 503,683.04
6/13/2023	$ 1,013,243.40
3/1/2024	$ 2,056,975.00
6/5/2024	$ 3,011,820.99

Source: YCharts

Apple surpassed $1 Trillion market cap in August of 2018, followed by Microsoft in April of 2019. To reach $2 Trillion it took AAPL another 516 trading days and MSFT another 543. From $2 Trillion to $3 Trillion it took another 719 trading days and 650 trading days for AAPL and MSFT, respectively.

For NVIDIA the path from $1 trillion to $2 trillion took 180 days. From $2 to $3 trillion, 66 days.

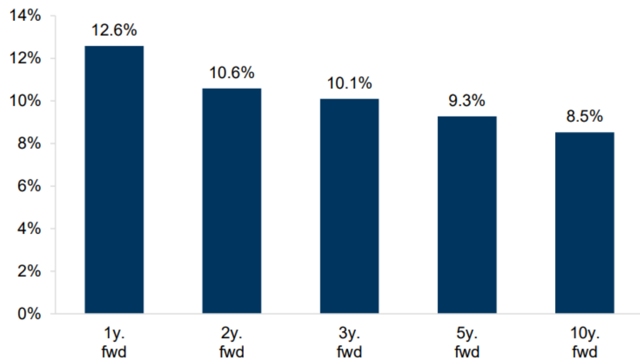
Of course, none of this happened in a vacuum. NVIDIA's growth over the past several months has been nothing short of astonishing. Trailing 12-month revenue more than tripled in the most recent quarter ending 4/30/2024 from $25.88 billion to $79.77 billion. Total Operating Income increased tenfold from $4.5 billion to $47.7 billion.

How should we think about this in the context of what might play out in the future?

Goldman Sachs recently published a research report titled "The Concentration Conundrum: What to do about market dominance." In it they state: "Of the current top 50 companies in the US, only half of them were in the top 50 a decade ago, and many companies did not even exist before the 1990s (NVIDIA (1993), Amazon (1994), Netflix (1997), Alphabet (1998), Salesforce (1999), Tesla (2003), and Facebook (2004))."

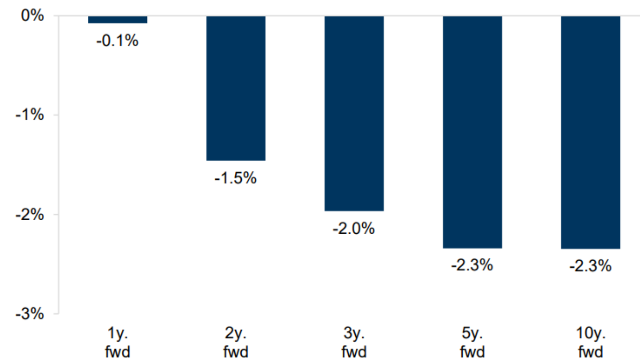
Their research goes on to reveal that history suggests buying the dominant companies generates lower returns over time. While the dominant companies still generate decent *absolute* returns, since 1980, the strong returns from buying and holding the top 10 stocks tend to fade over time.

Exhibit 32: Absolute returns remain good for dominant companies...
Average forward realised absolute return (US Top 10 companies). Since 1980



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 33: ...but they generally underperform (over the long run)
Average forward realised relative return (US Top 10 companies). Since 1980



Source: Datastream, Goldman Sachs Global Investment Research

One of the fundamental concepts of capitalism is that of creative destruction. New innovations will disrupt and, ultimately, displace established industries. If history is any guide, it is likely that tomorrow's dominant companies are those that few are even aware of today.

Ten years ago, when NIVIDA was valued at roughly $10 billion, no one likely could have predicted that within a decade the company would become one of, if not *the,* key player in artificial intelligence (AI) and ride that wave to become the second most valuable company and overtake Apple in terms of market cap.

AI will undoubtedly lead to new innovations and new companies will be hatched to profit from it. The irony is that some of those companies might just be the ones that knock today's champions off their perch.

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