Goldman Sachs Research

Diversify to Amplify: Concentration risk in Equities

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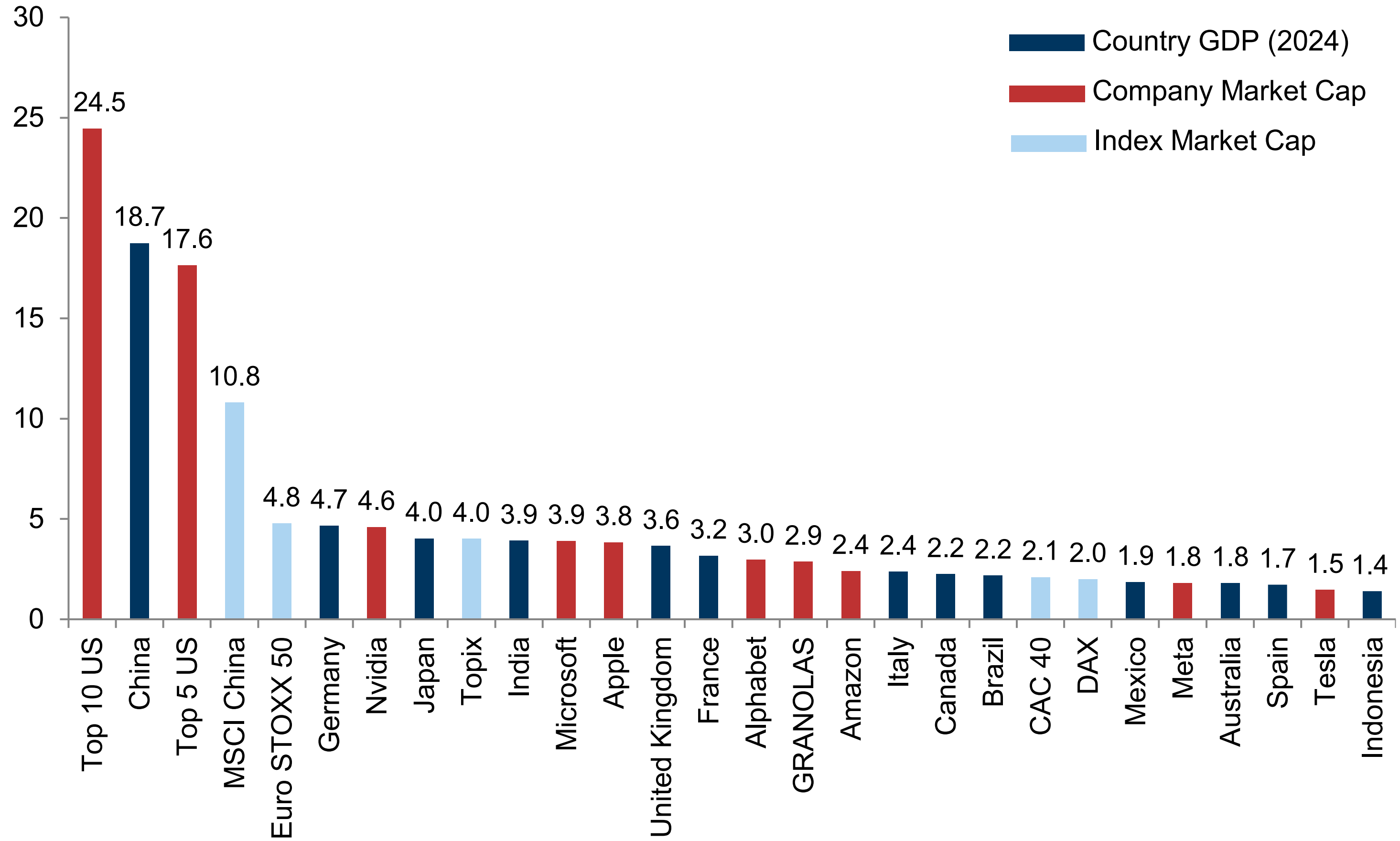
Sharon Bell, CFA | European Strategist | Goldmans Sachs International | sharon.bell@gs.com | +44-20-7552-1341

The top 10 US companies dominate the world equity market

2024 GDP, market prices as of last close; USD trn

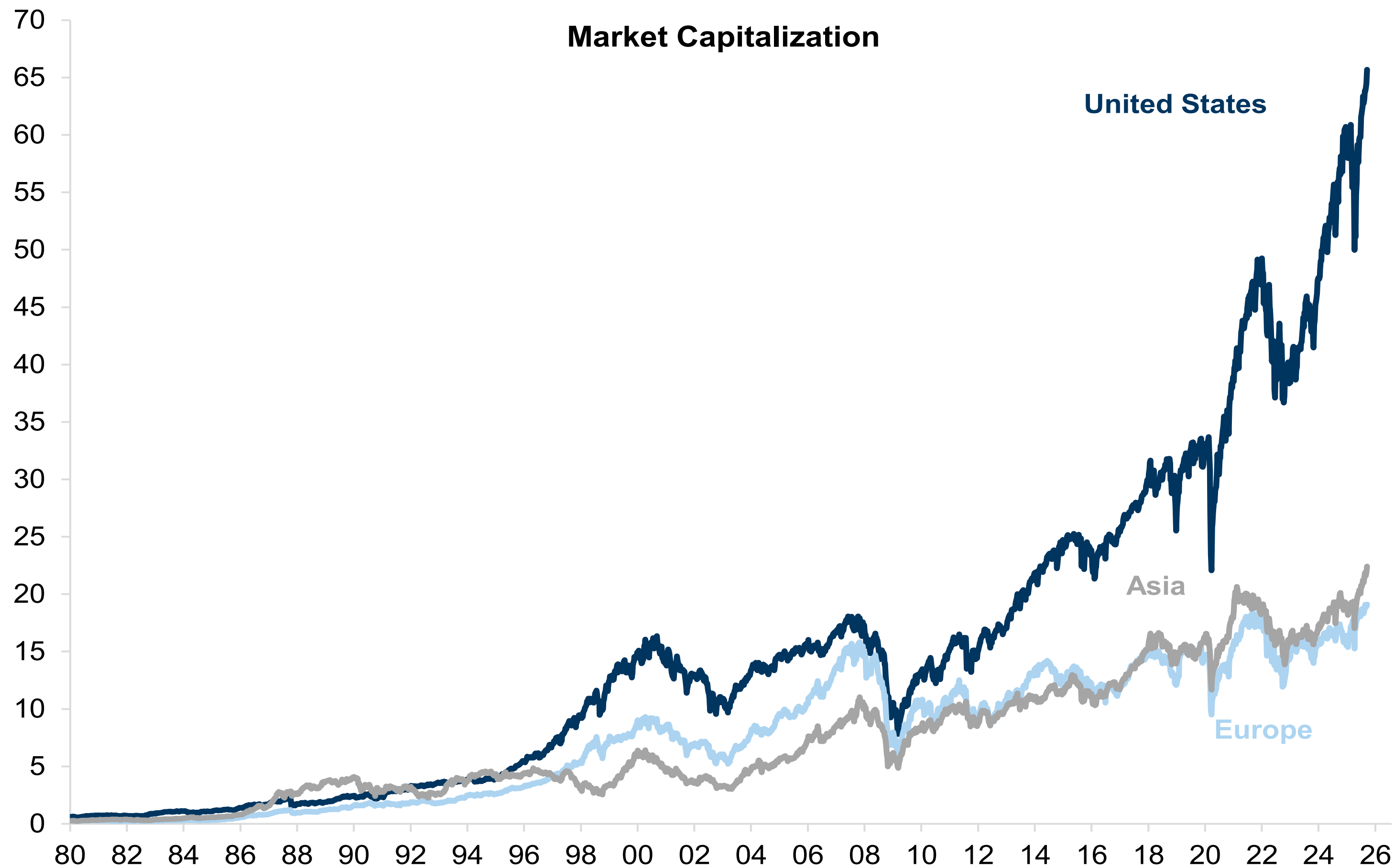


Source: IMF, FactSet, Datastream, Goldman Sachs Global Investment Research

The US has strongly outperformed other markets

The rise in the relative size of the US equity market has reflected the dominance of the US economy

Market Cap ($ trillion). Asia incl. Japan

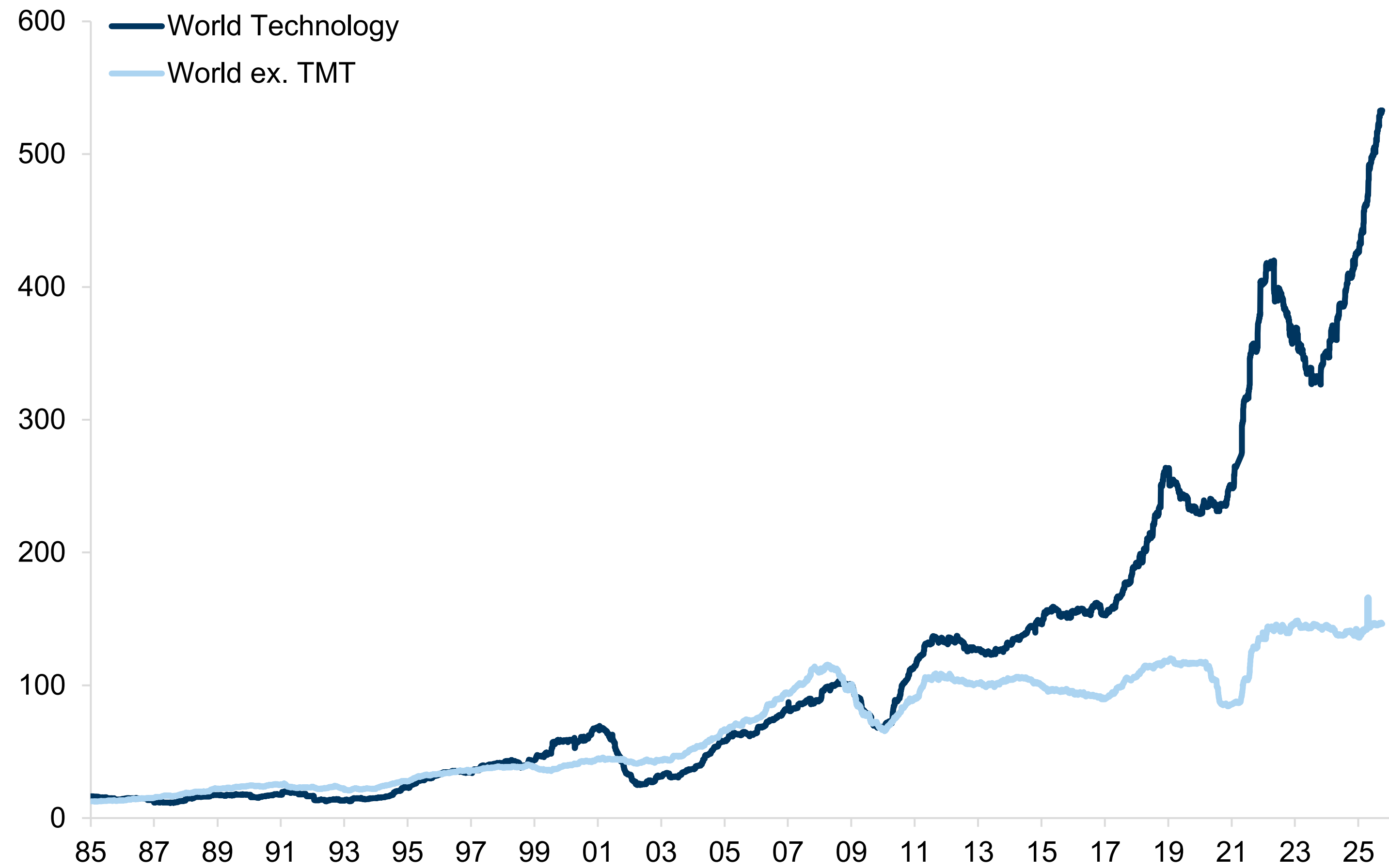


Source: Bloomberg, Datastream, Worldscope, Goldman Sachs Global Investment Research

Tech earnings have grown faster than the market in the last decade

Tech earnings have outstripped those of the global market

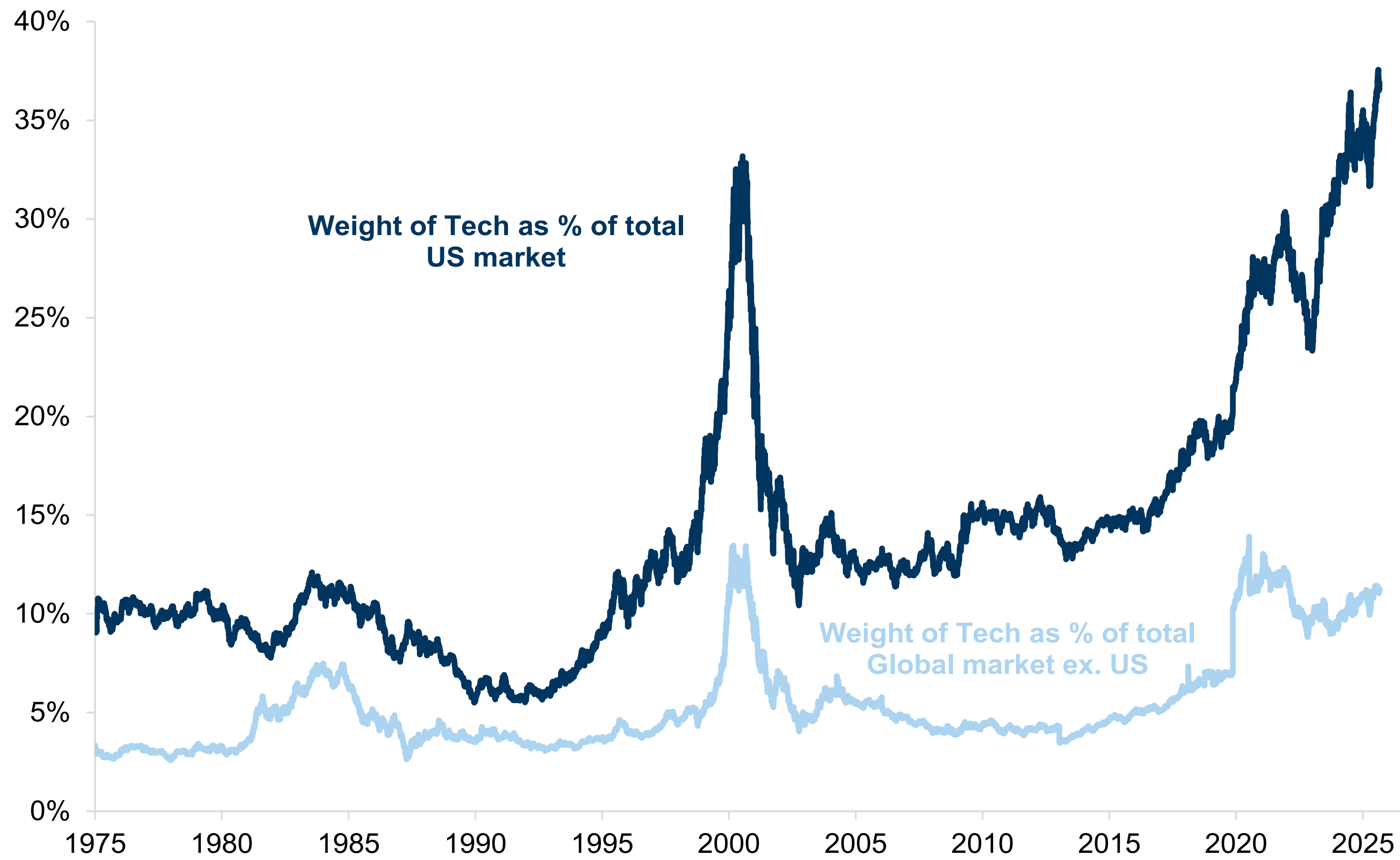
12m Trailing EPS (USD). Indexed to 100 on Jan-2009



Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

And concentration is increasingly a problem: Tech represents a high share of the US market

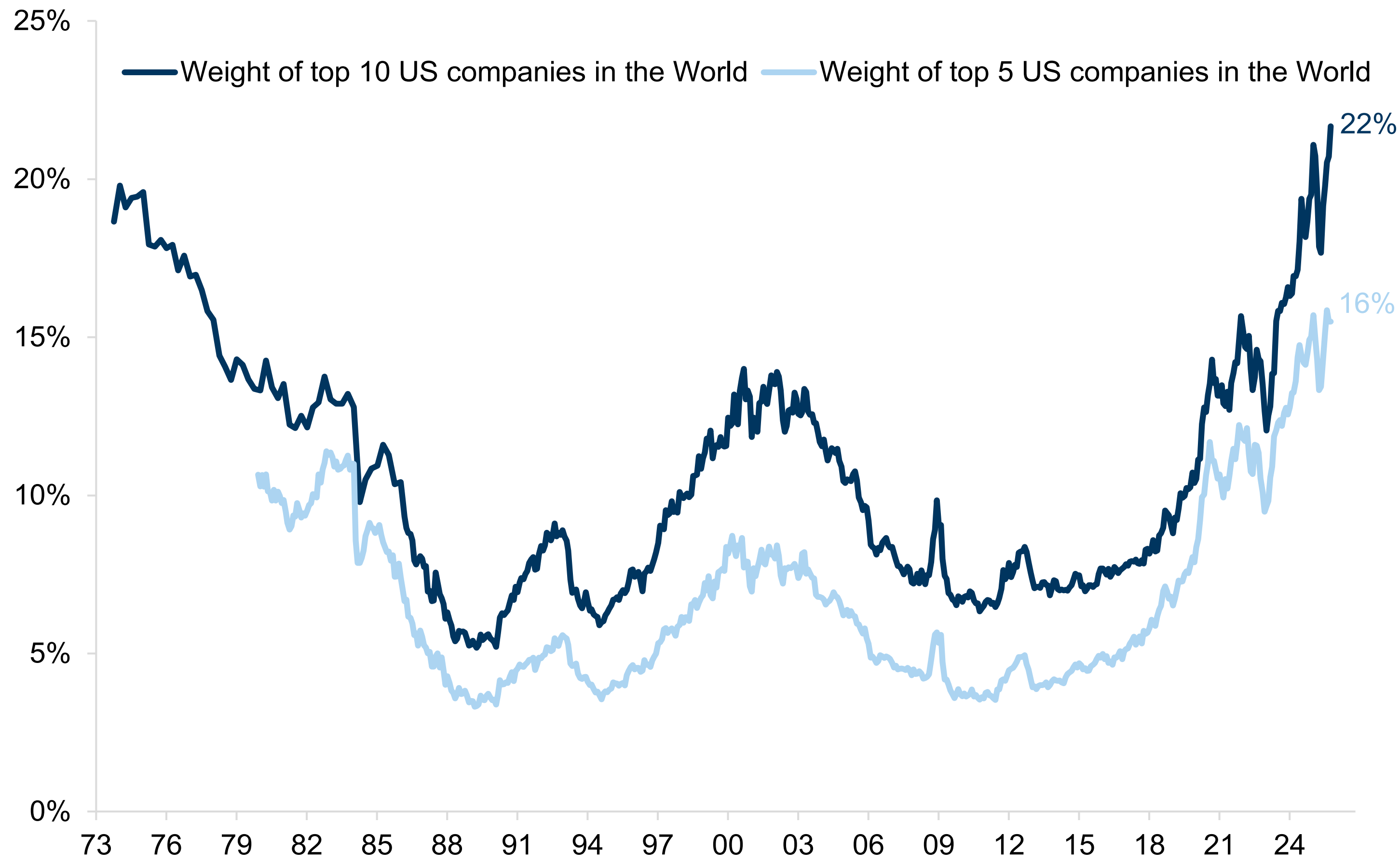
Weight of the technology sector



Source: Datastream, Goldman Sachs Global Investment Research

In the US, the biggest 10 companies account for almost a quarter of the value of the global equity market…

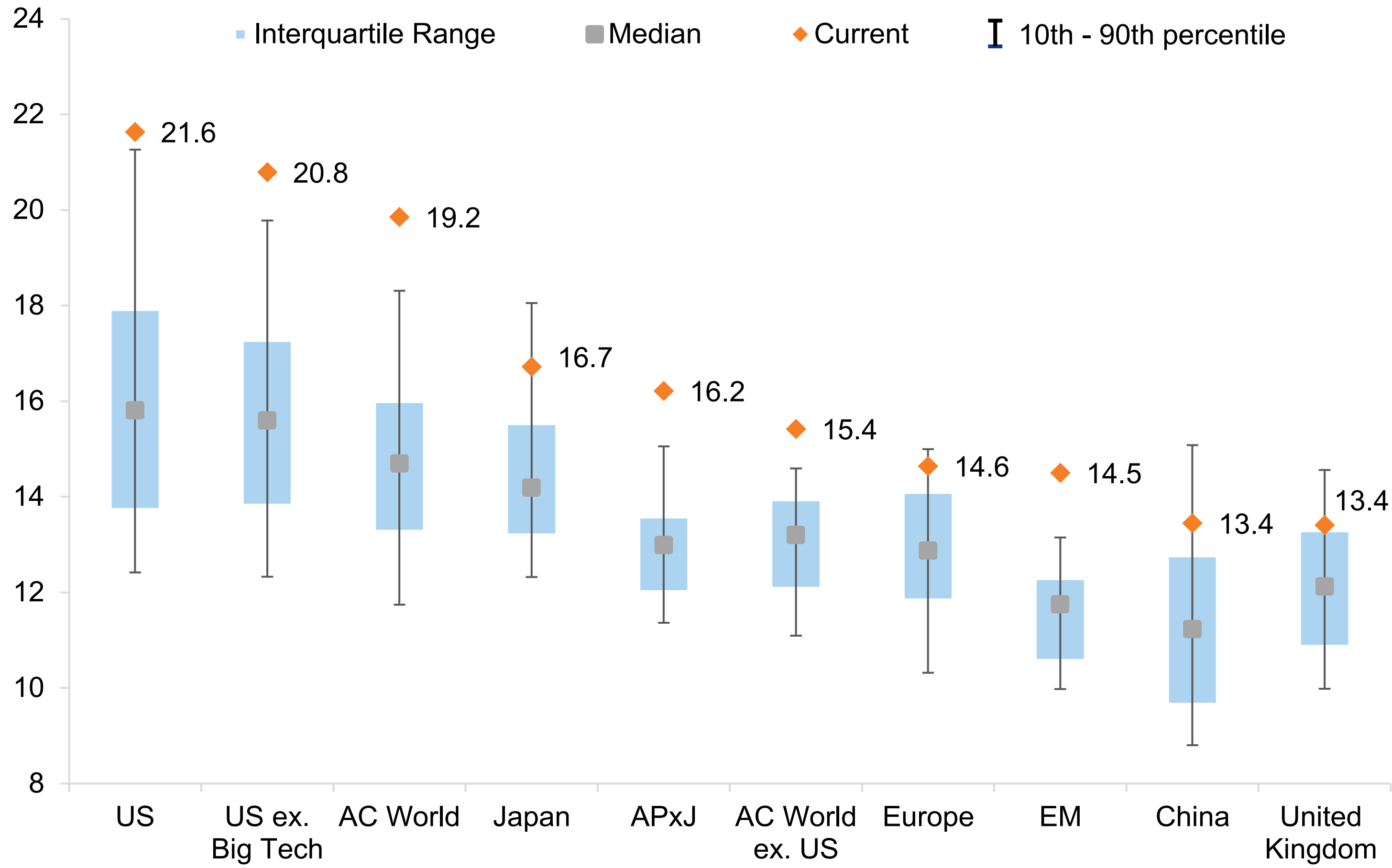
Weight of biggest US companies in global market cap



Source: Datastream, Goldman Sachs Global Investment Research

The US market is experiencing the most extreme valuations, in both absolute and relative terms…

12m fwd P/E multiple. MSCI Regions, STOXX 600 for Europe and S&P 500 for USA. Data since 2003

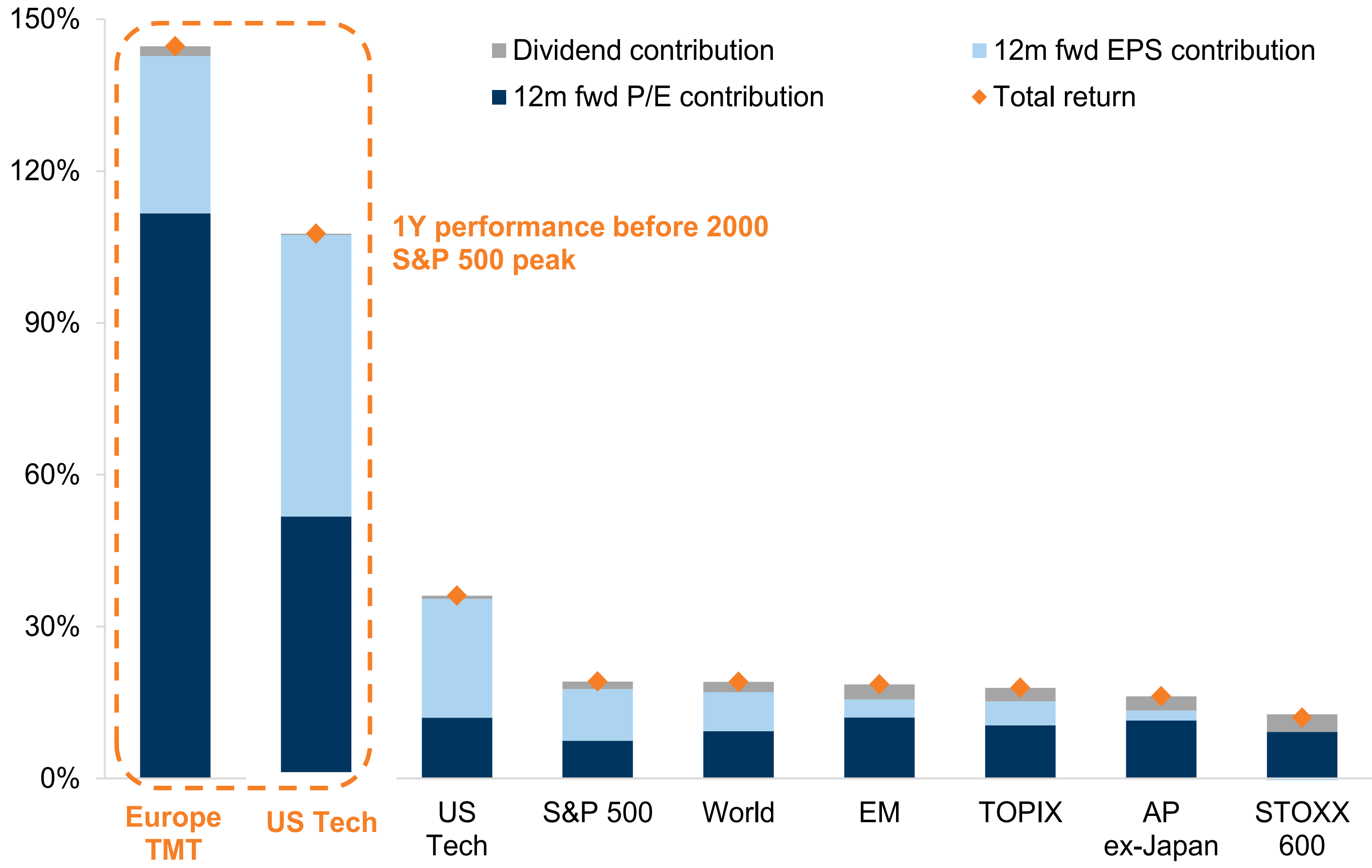


Source: FactSet, Goldman Sachs Global Investment Research

Not a bubble...yet

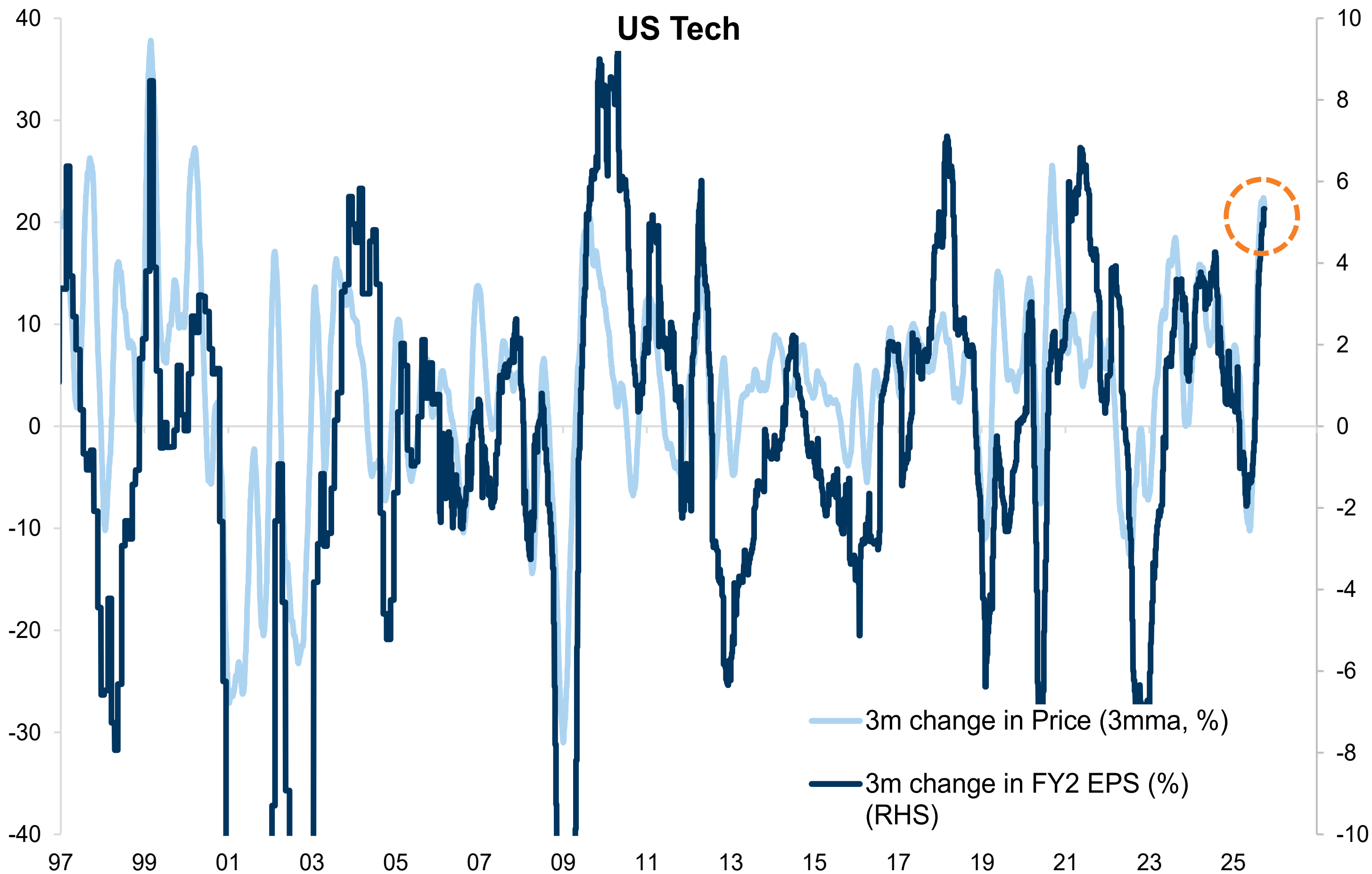
The performance of tech companies in the early 2000s more extreme

12m return, trailing and before Tech Bubble peak, in local currency – S&P peak set to 23rd March 2000



Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

US technology EPS and performance have been highly correlated



Source: Datastream, Goldman Sachs Global Investment Research

Dominant companies today are not as expensive as those in previous 'bubble' periods in history

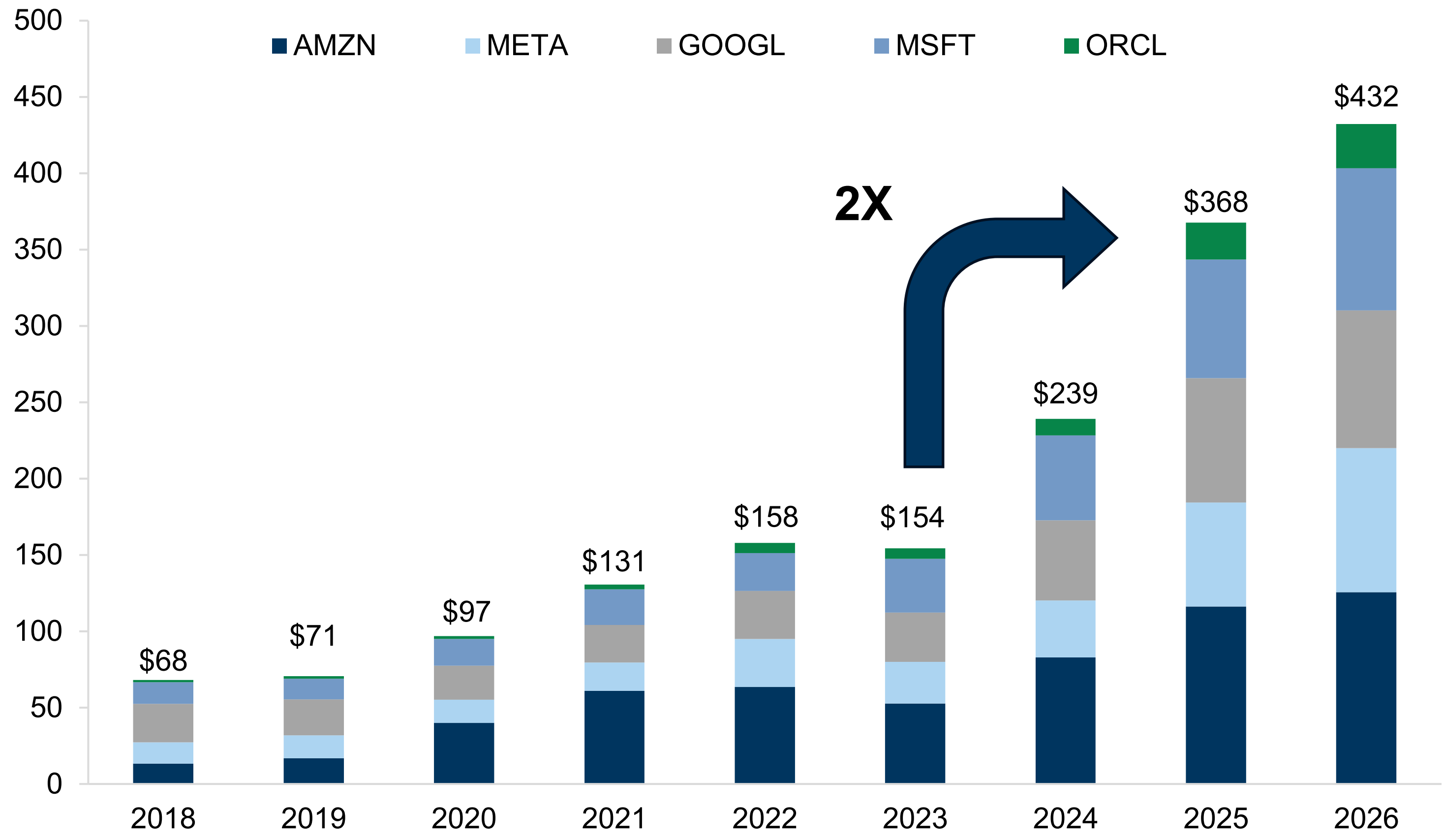
	Size		Valuation	
	Market weight	Market Cap ($ Bn)	*24m fwd P/E	*24m fwd EV/Sales
Magnificent 7 (2025)				
NVIDIA	7.8%	4509	26.1	14.5
Microsoft	6.8%	3929	27.2	10.2
Apple	6.6%	3809	29.1	8.3
Alphabet	4.9%	2822	20.8	2.8
Amazon	4.1%	2356	24.9	2.8
Meta Platforms	2.7%	1552	21.2	6.0
Tesla	2.6%	1507	135.2	11.6
Magnificent 7 (2025) Aggregate	**35.6%**	**20485**	**26.8**	**6.1**
Tech Bubble Leaders (2000)				
Microsoft	4.5%	581	53.2	19.2
Cisco Systems	4.2%	543	101.7	17.5
Intel	3.6%	465	42.1	11.5
Oracle	1.9%	245	84.6	19.0
IBM	1.7%	218	23.5	2.3
Lucent	1.6%	206	37.9	4.1
Nortel Networks	1.5%	199	86.4	6.4
Tech Bubble Leaders (2000) Aggregate	**19.0%**	**2457**	**52.0**	**8.2**
Japan Financial Bubble (1989)				
Nippon Telegraph and Telephone	6.9%	157	100.1	
Industrial Bank Of Japan	4.6%	105	154.2	
Sumitomo Mitsui Banking	3.4%	77	49.2	
Bank of Tokyo-Mitsubishi	3.3%	75	49.8	
Fuji Bank	3.1%	71	52.8	
Dai-Ichi Kangyo Bank	2.9%	65	44.0	
Sakura Bank	2.8%	62	62.1	
Japan Financial Bubble (1989) Aggregate	**27.0%**	**613**	**67.0**	
Nifty 50 (1973)				
IBM	7.1%	48	35.5	
Eastman Kodak	3.6%	24	43.5	
Sears Roebuck	2.7%	18	29.2	
General Electric	2.0%	13	23.4	
Xerox	1.8%	12	45.8	
3M	1.4%	10	39.0	
Procter & Gamble	1.4%	9	29.8	
Nifty 50 (1973) Aggregate	**19.9%**	**135**	**34.3**	

***Actual (LTM) P/E data from 02/01/1973 for Nifty 50 and from 27/12/1989 for Japan Financial Bubble, and 24m fwd P/E data from 24/03/2000 for Tech Bubble**

Source: Datastream, FactSet, compiled by Goldman Sachs Global Investment Research

Capex has rapidly increased since ChatGPT emerged

Hyperscaler annual capex ($ billion). 2025 and 2026 reflect consensus estimates

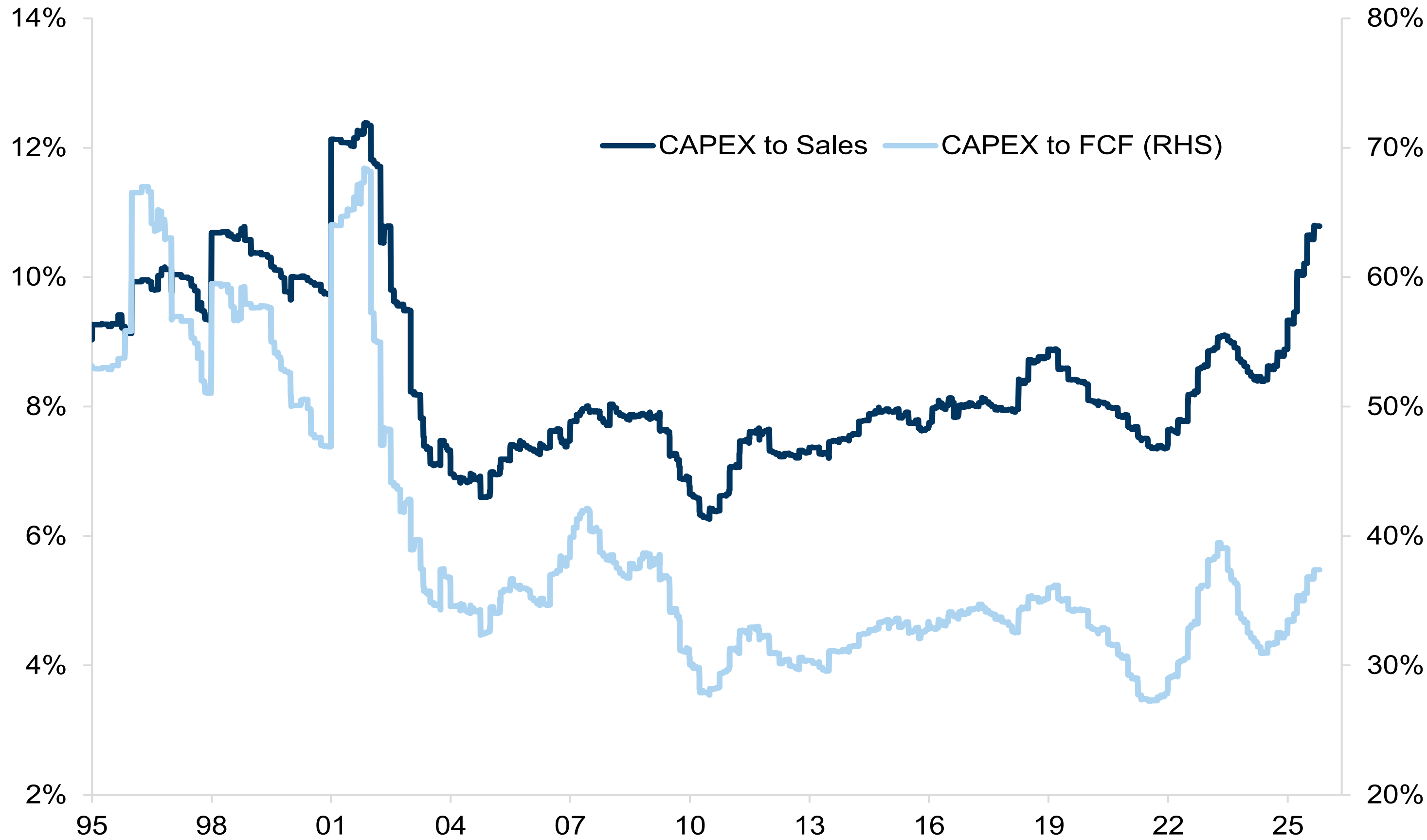


Source: FactSet, Goldman Sachs Global Investment Research

...but most Capex is out of current FCF

Capex to sales ratios have risen for US tech – but are still relatively low versus free cash flow...

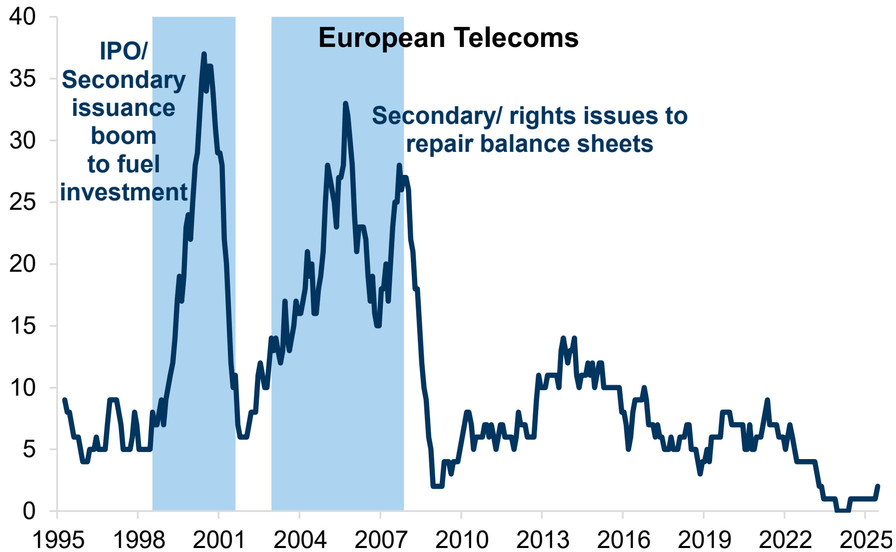
US Technology



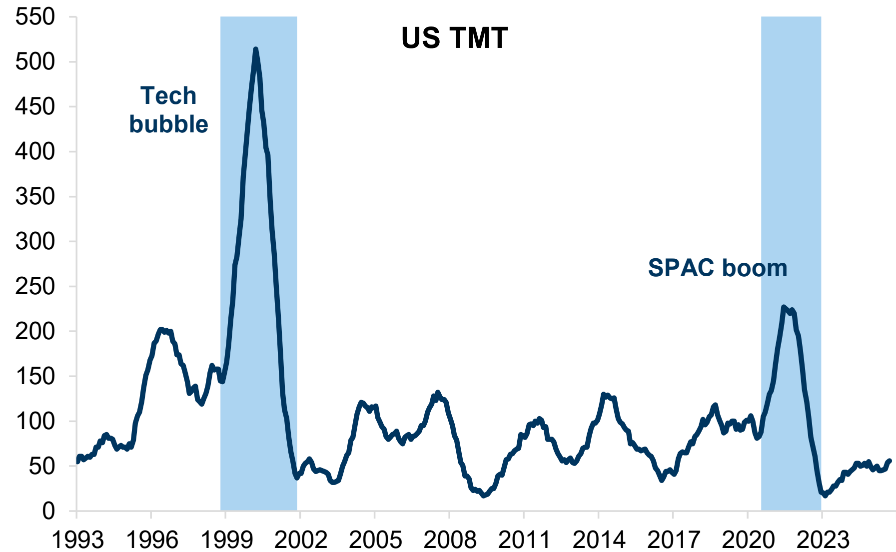
Source: Datastream, Dealogic, Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

In the 1990s a lot of the investment boom was equity financed

European Telecoms financed a huge capex boom in the 1990s via equity issuance...
Number of IPOs and secondary offerings on a 12-month sum basis



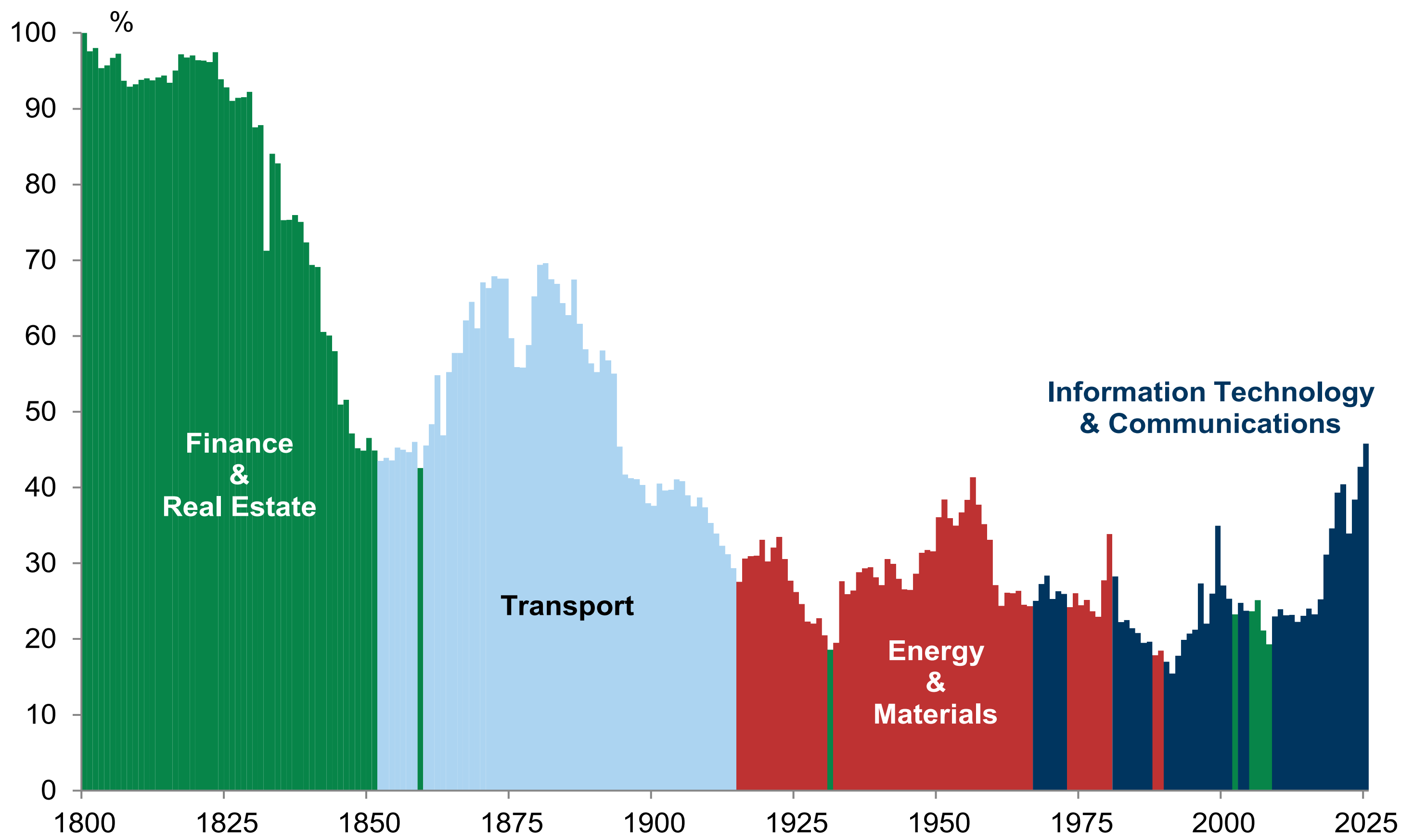
...as did US tech stocks in the 1990s, whereas today US equity issuance has been relatively subdued
Number of IPOs and secondary offerings on a 12-month sum basis



Source: Bloomberg, Goldman Sachs Global Investment Research

The biggest sector accounts for a smaller share as stock markets become more diversified

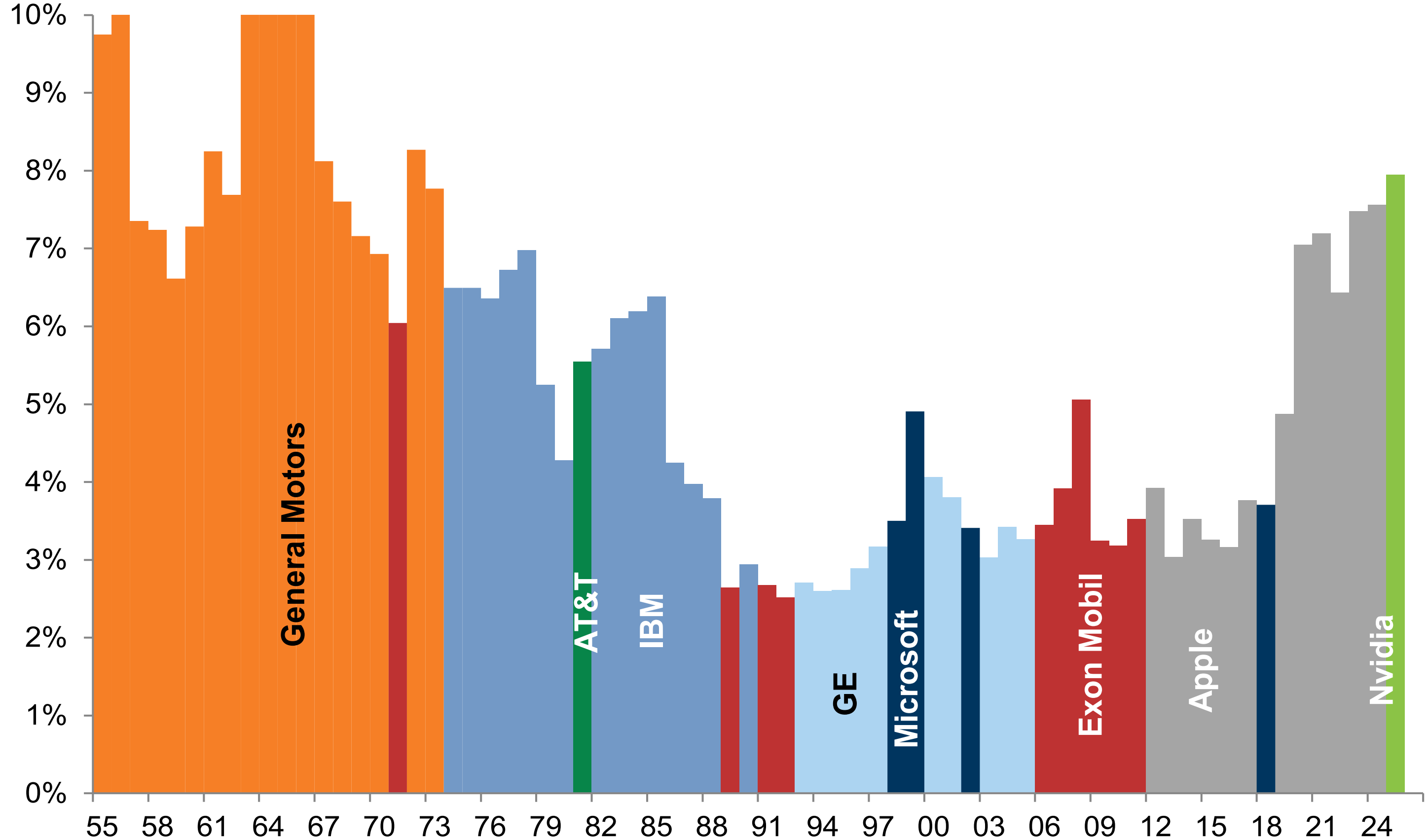
Share of the biggest sector in the US



Source: GFD, Fortune 500, Datastream, Goldman Sachs Global Investment Research

The largest companies tend to belong to the dominant sector of the time

% Market Cap (% Net Income before 1974)

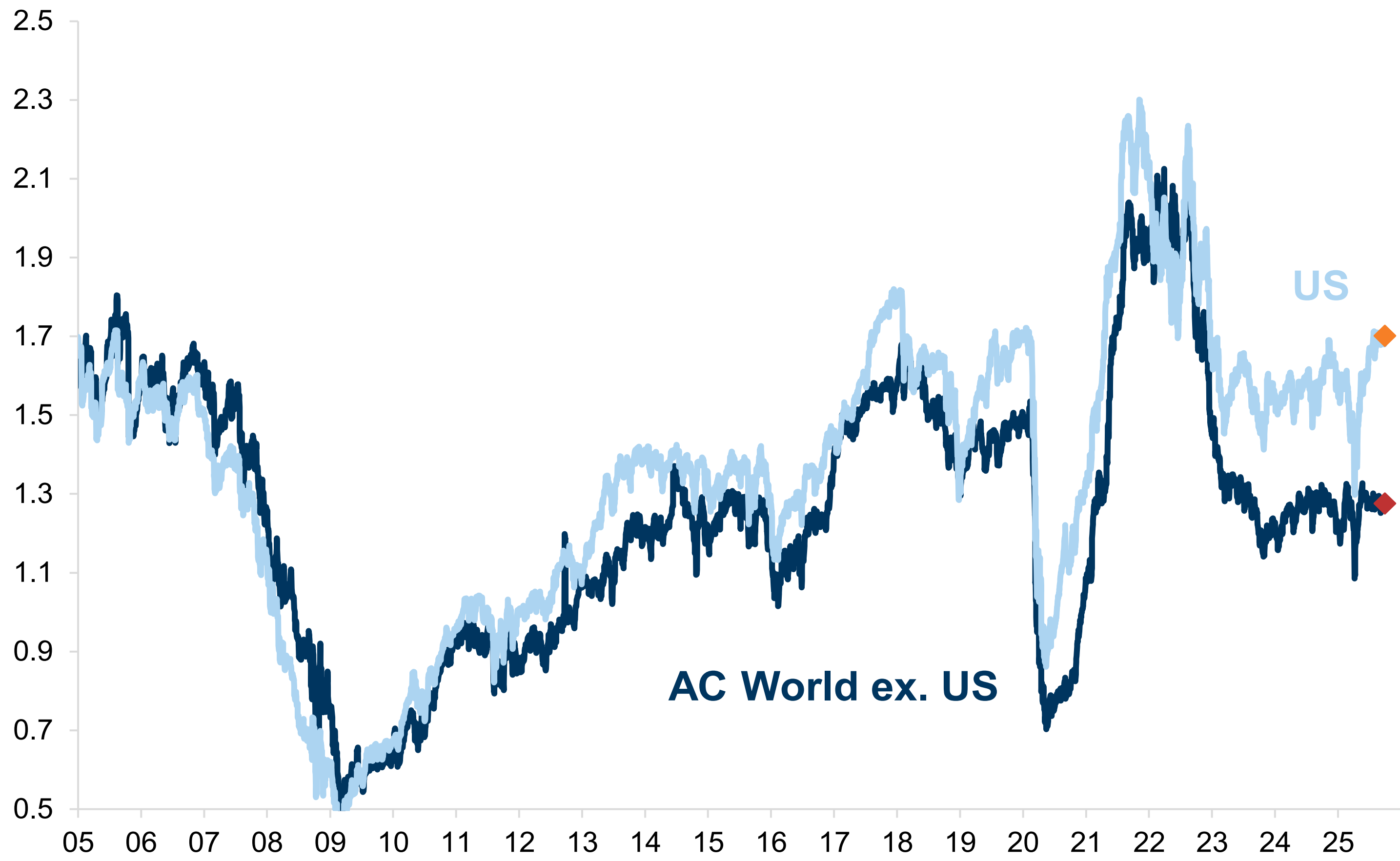


Source: GFD, Fortune 500, Datastream, Goldman Sachs Global Investment Research

…Diversification

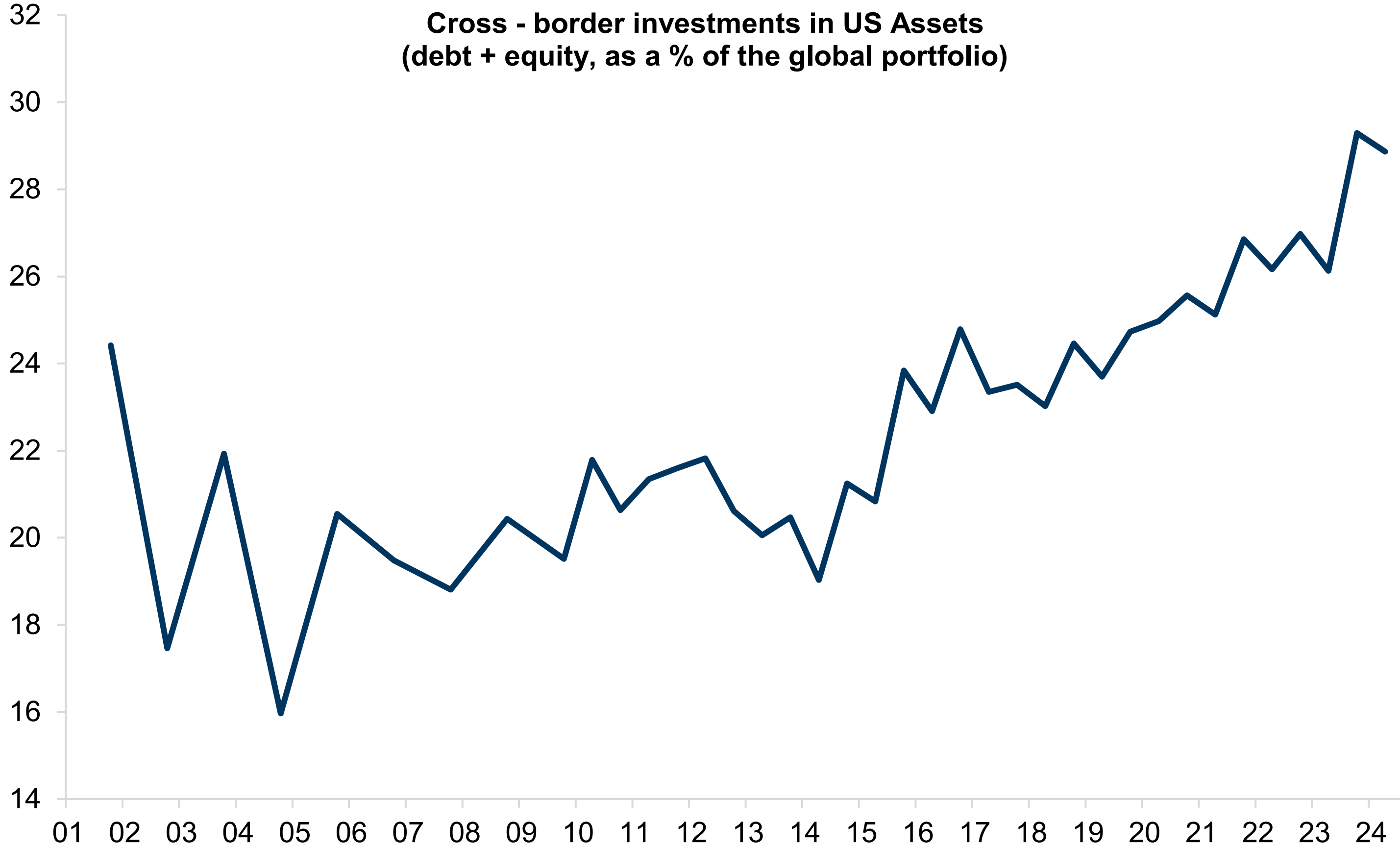
The PEG ratio between US and the rest of the world has opened up in recent years

PEG ratio (12m fwd P/E divided by second 12m fwd EPS growth)



Source: Datastream, Goldman Sachs Global Investment Research

Portfolio investments held in US assets (equity and debt securities) are at a peak

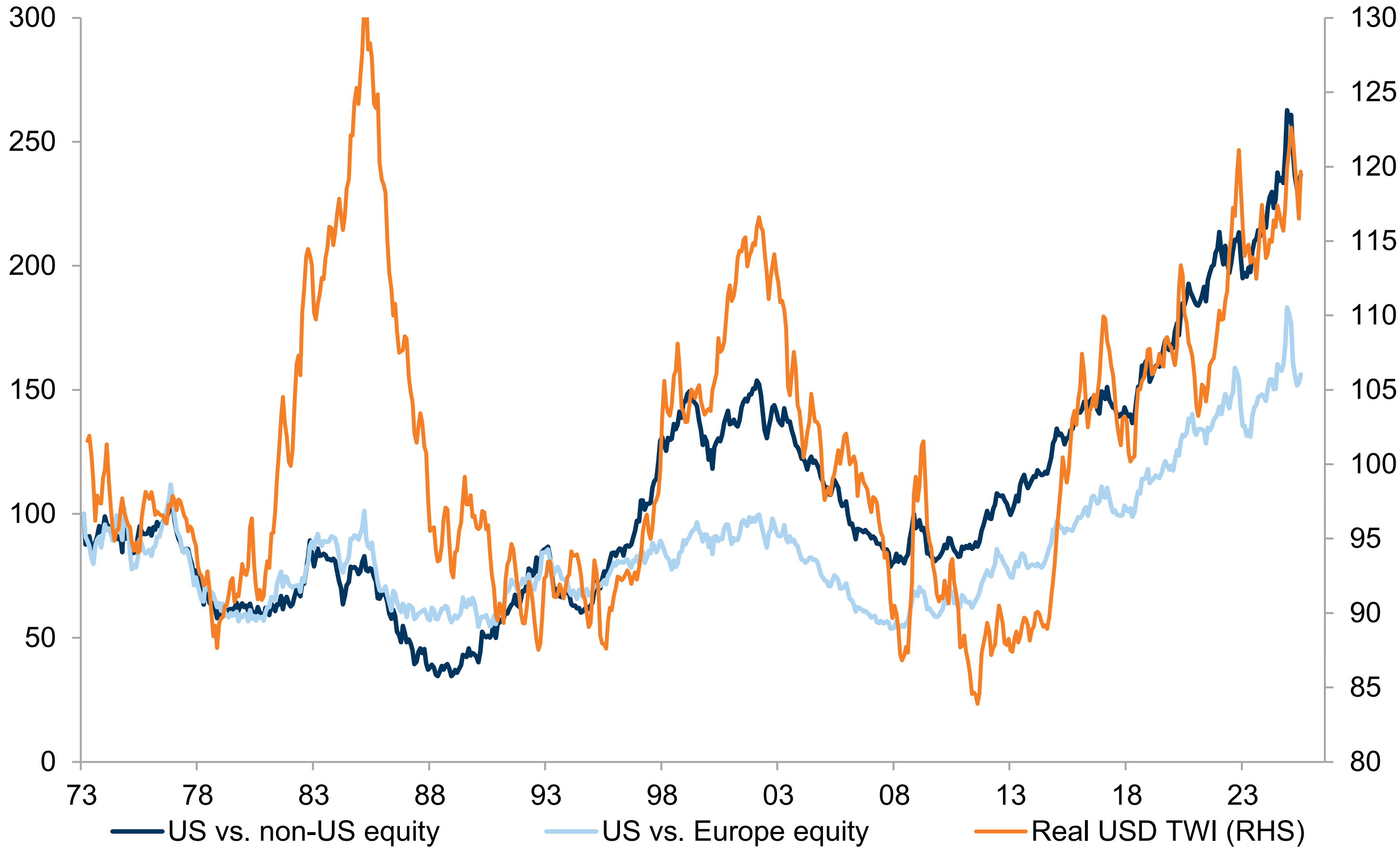


Note: Includes equity and investment fund shares, and total debt securities (long-term plus short-term debt securities).

Source: IMF, Haver Analytics, Goldman Sachs Global Investment Research

…and superior performance and returns also pushed up the dollar (until recently)

Relative total return performance indexed to 100 in 1973 (in US$)

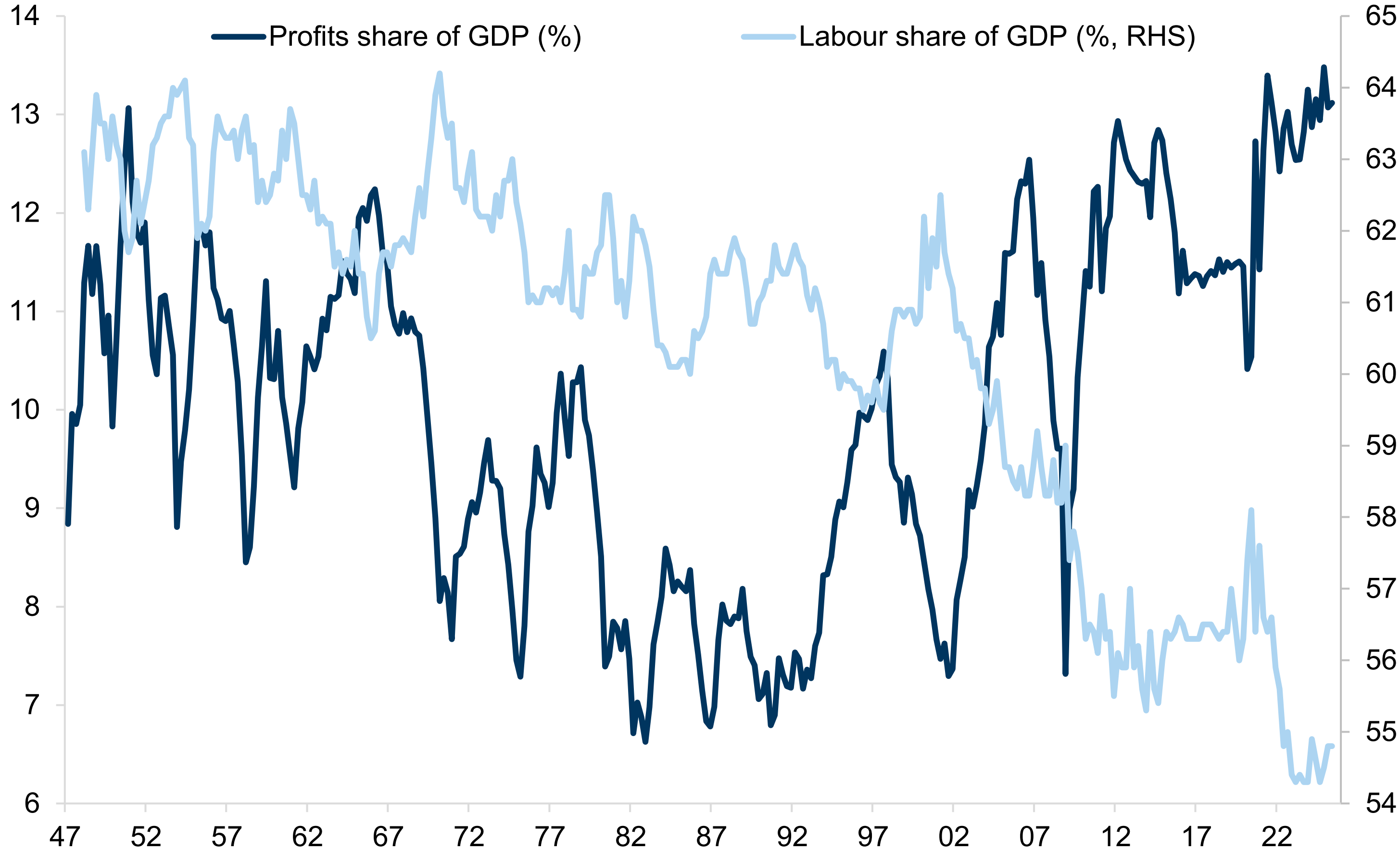


Source: Datastream, Haver Analytics, Goldman Sachs Global Investment Research

Margins have commanded an increasing share of US GDP

Labour share declines as profit share dominates in the 21st century

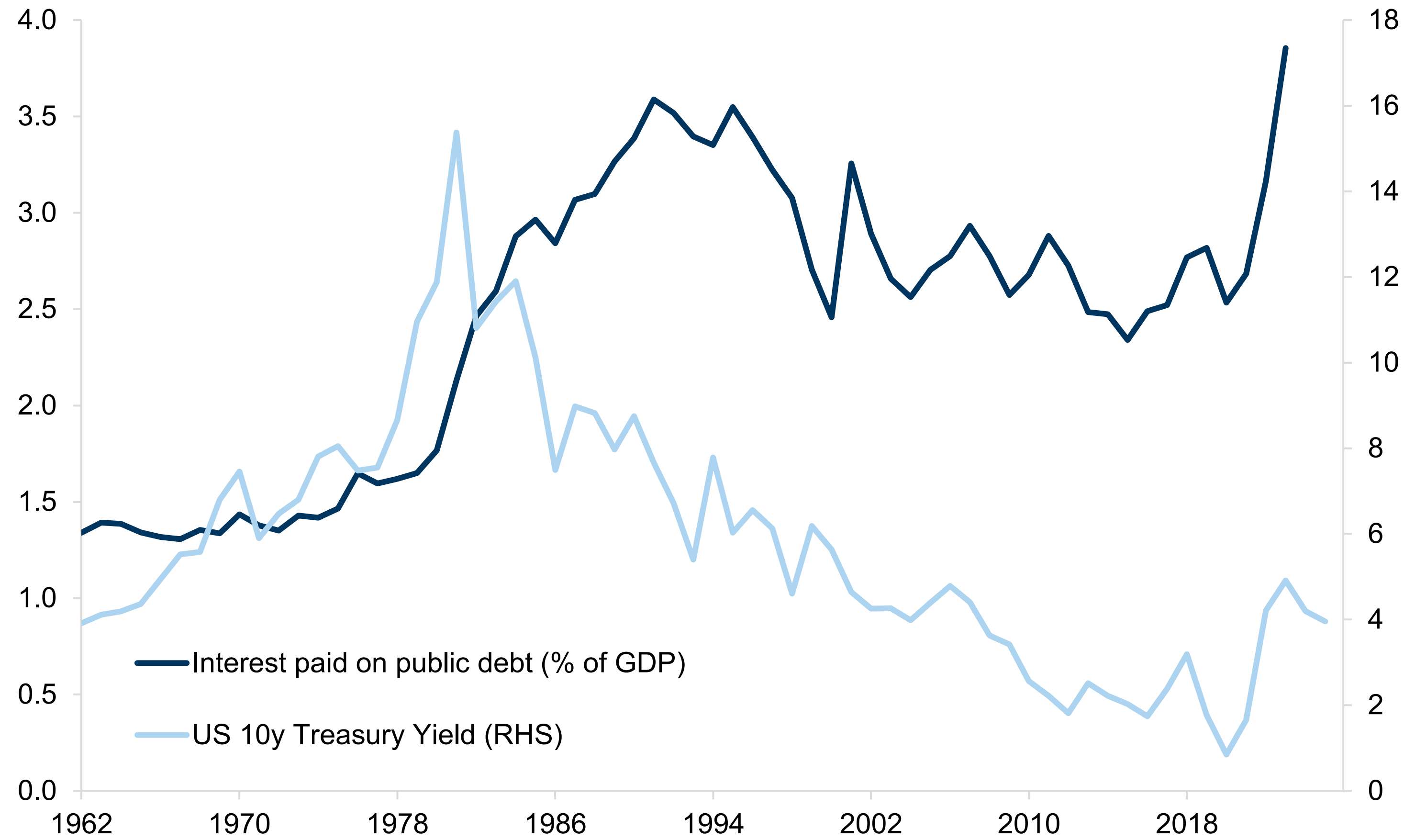
Profits and wages as shares of GDP (%)



Source: Distributional National Accounts, Goldman Sachs Global Investment Research

Higher inflation and rising government debt levels have led to higher bond yields

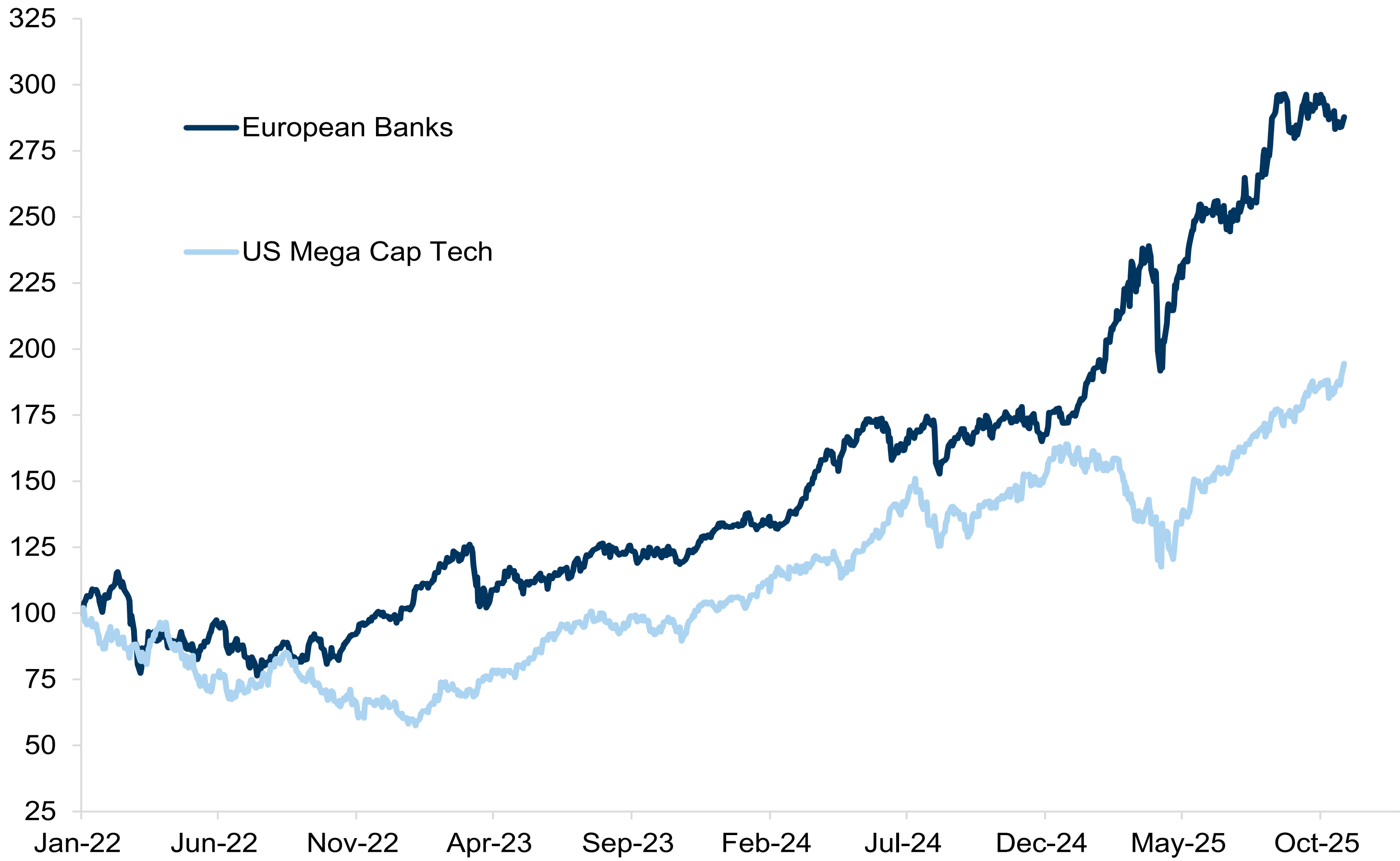
Interest paid on public debt as a % of GDP and US 10-year Treasury Yield (%)



Source: IMF Public Finances in Modern History Database, Datastream, Goldman Sachs Global Investment Research

We have seen some Value areas outperform the Magnificent 7, especially European banks

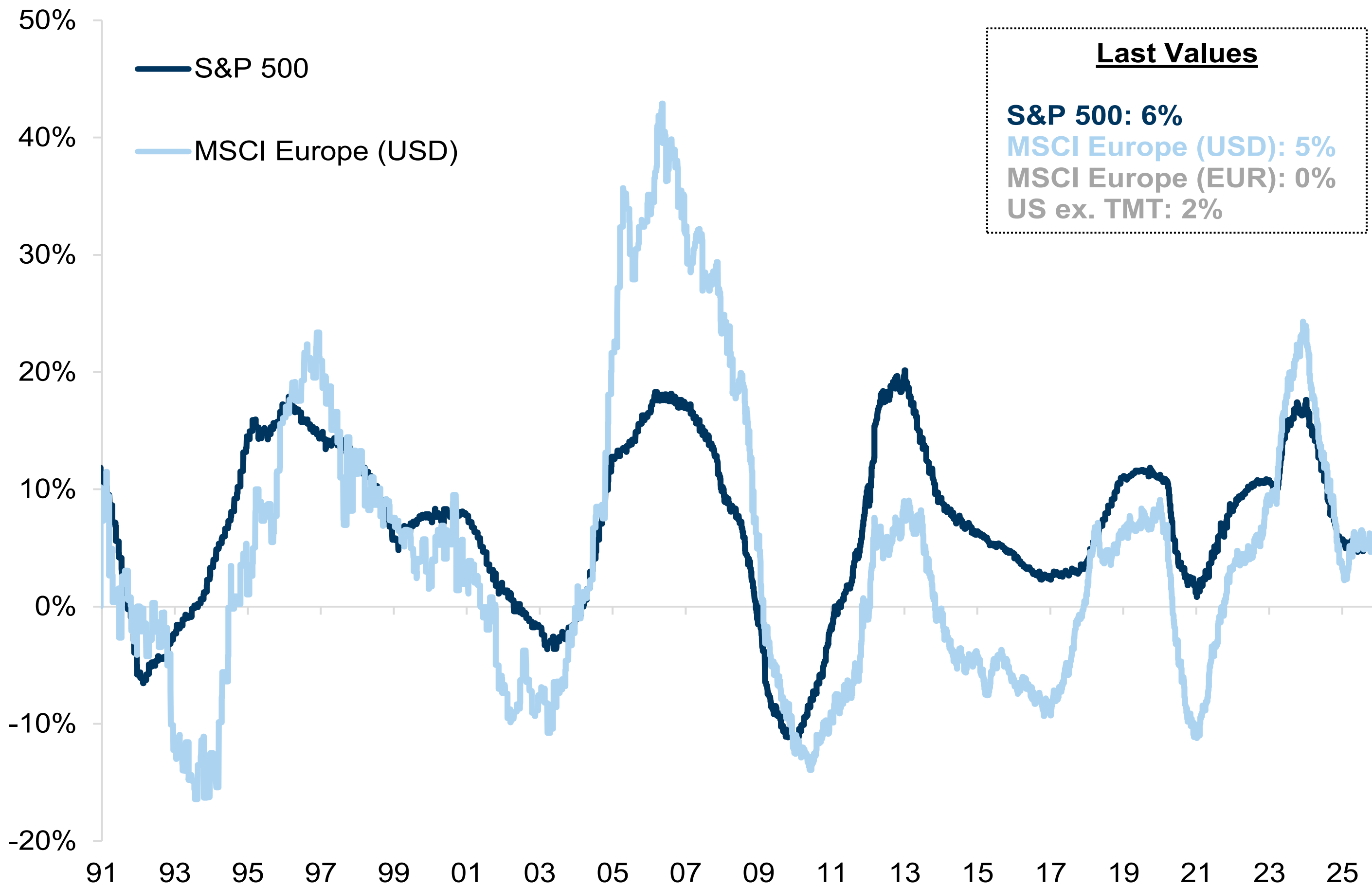
Total return. Indexed to 100 in Jan 2022



Source: Datastream, Goldman Sachs Global Investment Research

Europe and US EPS growth similar in recent years

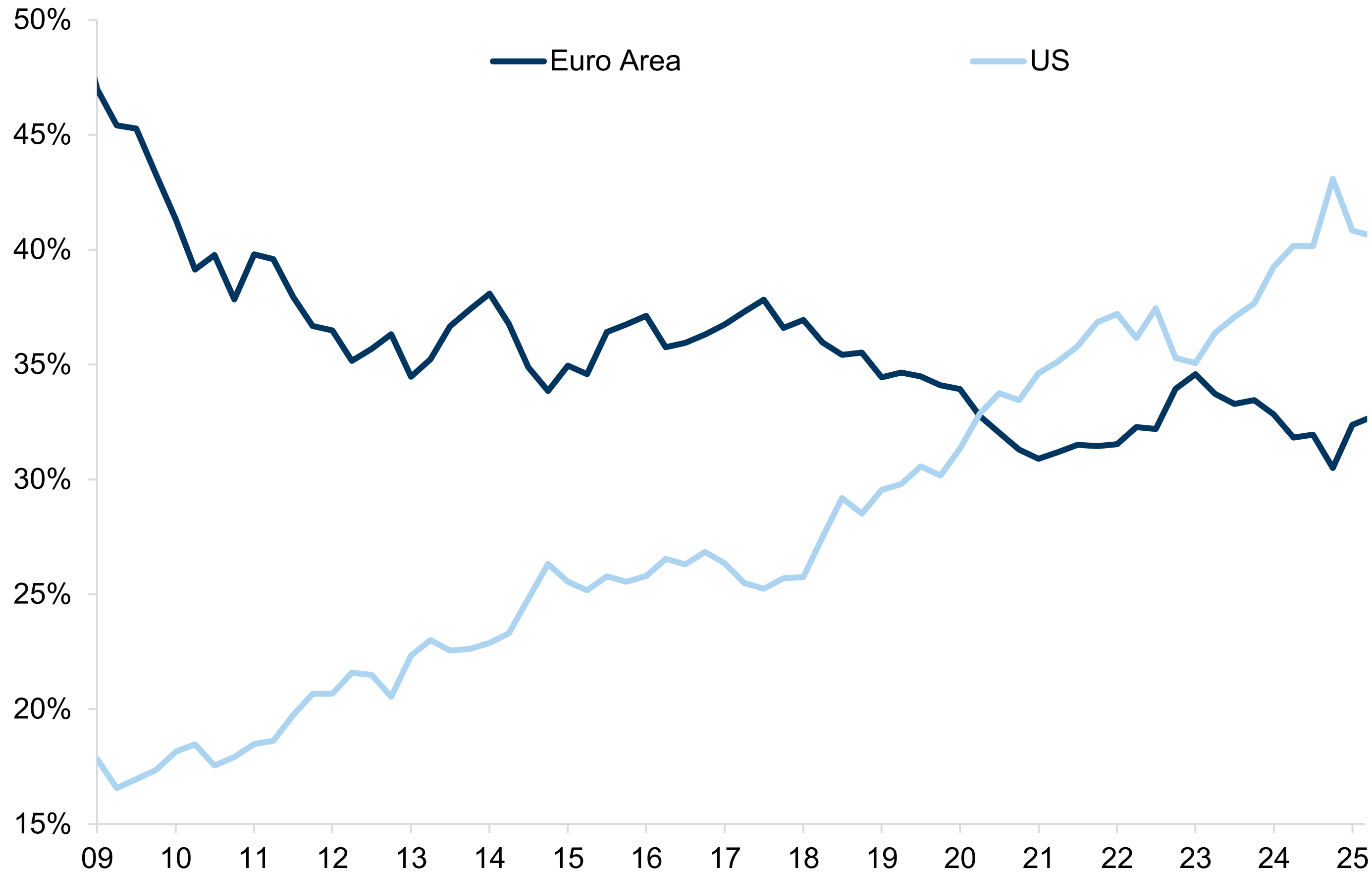
Realised EPS growth 3-year CAGR



Source: DataStream, FactSet, Goldman Sachs Global Investment Research

Almost half of equity holdings by European funds come from the US but this has recently dropped

Euro Area Investment Funds' holdings in US and Euro Area equities (% of total equity holdings)*

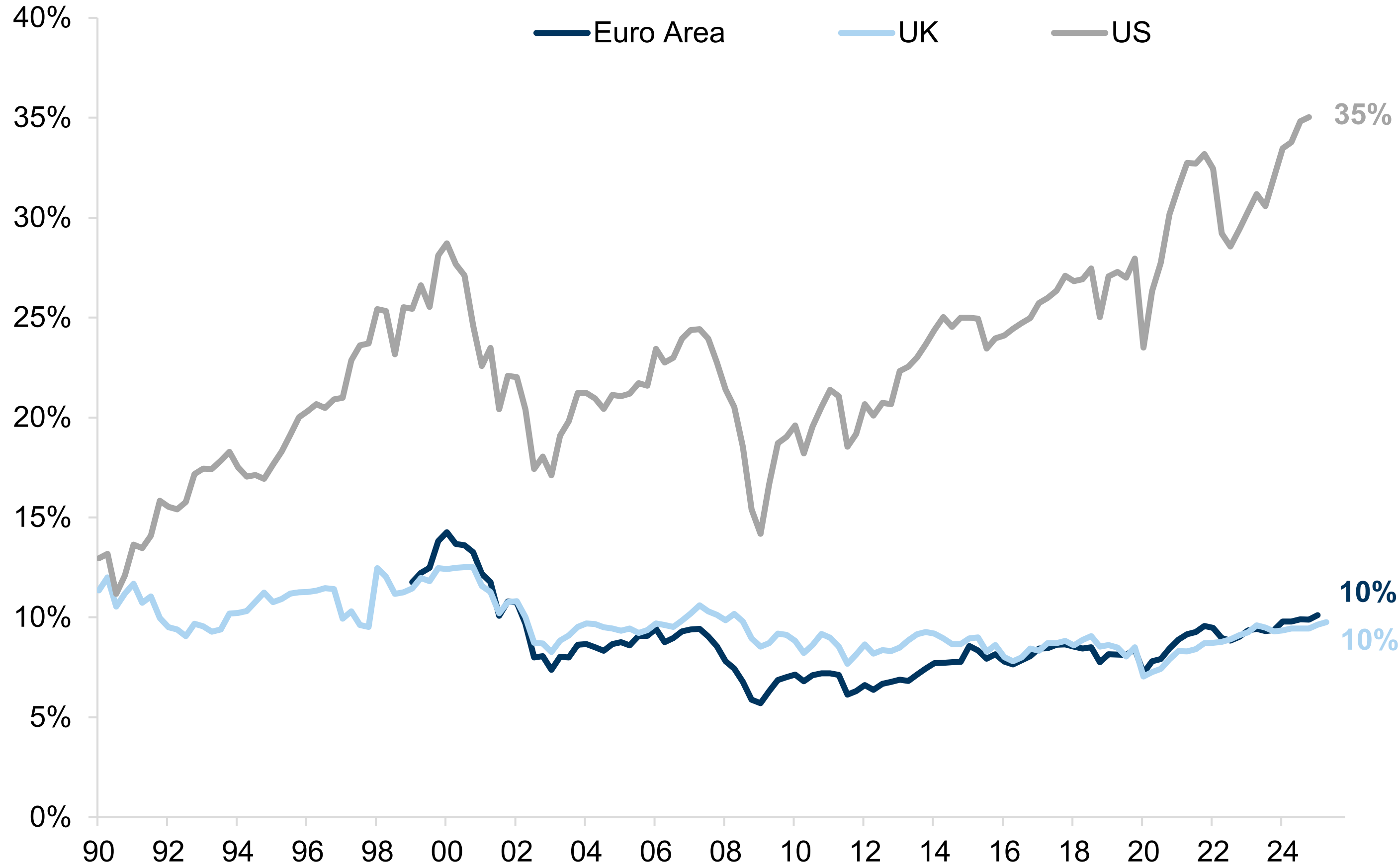


**Note: Data up to 2Q 2025. Total Holdings of Euro Area Funds in Equities: EUR 7.5 trillion*

Source: EPFR, Haver Analytics, Goldman Sachs Global Investment Research

Households in Europe own much less Equity than US HHs

Listed equity as a share of household financial assets



Source: Haver Analytics, Goldman Sachs Global Investment Research

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October 31, 2025

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