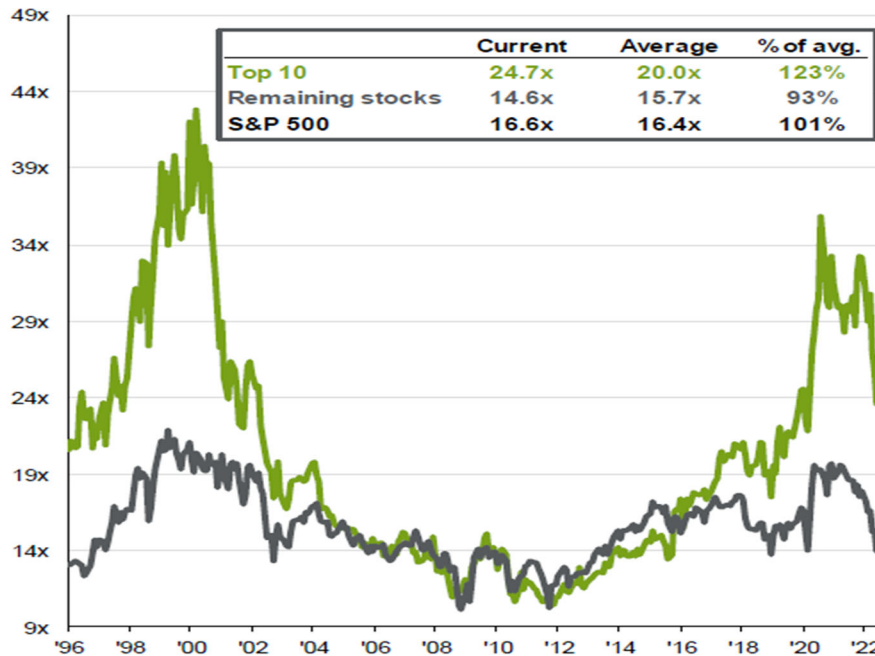


Dear Prudence

P/E ratio of the top 10 and remaining stocks in the S&P 500
Next 12 months



Source: FactSet, Standard & Poor's and JP Morgan Asset Management as of 8/31/22

The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. As of 8/31/22, the top 10 companies in the index were Apple, Microsoft, Amazon, Tesla, Google (A & C shares), Berkshire Hathaway, UnitedHealth, Johnson & Johnson, Exxon Mobil and Nvidia. Remaining stocks represent the rest of the 494 companies in the S&P 500.

- We have repeatedly written about the concentration risk in the S&P 500 over the past few years ([“Concentrating on a Rotation”](#) June 2020, [“Narrow Growth Mania”](#) February 2020, [“The Forgotten 490”](#) December 2015). The 10 largest names in the S&P are littered with the Growth darlings from the last cycle and still represent nearly 30% of the index while carrying an elevated P/E multiple of 25x. Simply buying a broad US market tracking ETF would violate every “prudent man” principle we’ve come across.
- Additionally, we believe we are in a new regime that is likely to see higher levels of inflation and interests rates than what we experienced over the past cycle. This raises the importance of identifying (and mitigating) multiple risk, which remains concentrated in the largest names in the S&P 500.
- The leadership profile has been changing. The rotation from Growth to Value is always a battle that takes time and the Generals are often the last ones off the battlefield. We think the concentration and multiple risk in the S&P 500 is underappreciated and should benefit active managers like ourselves going forward.

The index used in the chart is unmanaged, and not available for direct investment; they include reinvestment of dividends; they do not reflect management fees or transaction costs: **S&P 500 Index** is a widely recognized index of market activity based on the aggregate performance of a selected portfolio of publicly traded common stocks.

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