



EQUITY & FIXED INCOME MARKETS COMMENTARY

The significant outperformance of a handful of mega-cap stocks relative to the broader market continued in June, a theme that has prevailed almost all of 2024 so far. The S&P 500 rose by 3.6% in June, while the Blended Equity Benchmark was up 0.8% for the month, being dragged down by the negative performance of mid and small-cap stocks, as the Mid-Cap S&P 400 Index and the Small-Cap S&P 600 Index fell by -1.6% and -2.3% for the month, respectively. And it wasn't just small and mid-caps that were down in June, stocks were broadly lower as evidenced by the S&P 500 Equal Weight Index, which was down -0.5% in June. Meanwhile the Dow Jones Industrial Average eked out a gain of 1.2% for the month. The mega-cap heavy NASDAQ Composite Index was up 6.0% for the month. International stock indices also lagged in June, with developed markets down -1.7%. Bond indices were higher in June, as the 10-year U.S. Treasury bond yield fell slightly to 4.37%, from 4.49% last month.

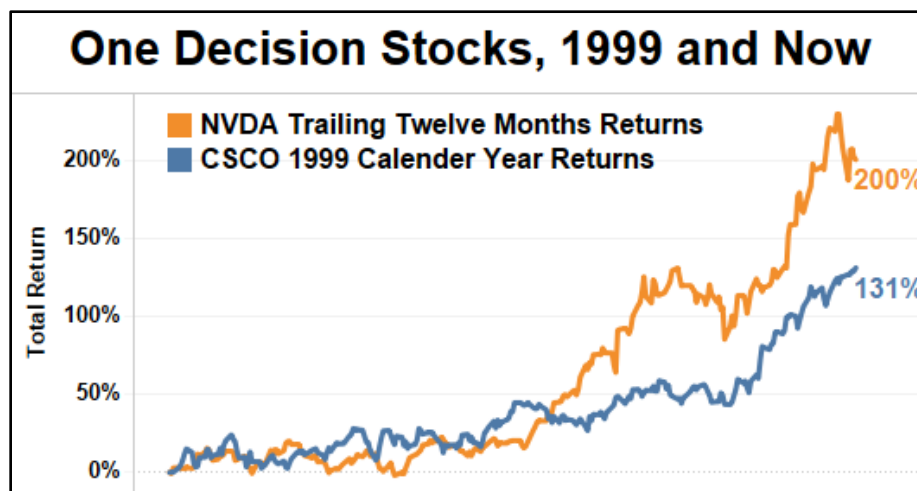
NVIDIA – A ONE DECISION STOCK

Any conversation to do with the stock market these days ultimately comes around to Nvidia, and the amazing run the stock has had. In many ways it has become a “one decision stock” – to keep up with the S&P 500, you absolutely have to own it. Consider the following fun facts about Nvidia:

- Nvidia recently accounted for nearly **one-third of the entire S&P 500 performance** of 15% so far this year. If you didn't own Nvidia, you are automatically underperforming the S&P 500 by roughly 5%. As one market participant says, “every day not owning Nvidia feels like a root canal!” This is what a “one decision” stock looks like.
- The stock recently crossed the \$3 Trillion market capitalization (market cap) level, and for a time became the largest company in the U.S. with a market cap of \$3.35 Trillion at its recent peak.
- The stock now has a nearly 7% weight in the S&P 500.
- It took the stock a mere 30 days to increase its market cap by \$1 Trillion, from \$2 Trillion to \$3 Trillion this month. Consider that Warren Buffet's Berkshire Hathaway has been in business over 60 years and has yet to hit the \$1 Trillion mark.
- The stock's market cap recently exceeded the combined market cap of all publicly traded companies in each of the countries of Germany, the UK and France.

Nvidia's recent performance and all-consuming market hype reminds us of a stock from 1999 – Cisco Systems (CSCO). Cisco was the “one decision” stock of its day back then, and the most valuable stock in the U.S. at that time. If you didn't own the stock then, you were doomed to underperform the S&P 500. In the chart below, we show that Cisco was up 131% in 1999, compared to Nvidia, which is up 200% for the preceding 12 months ended June 30, 2024. At the time, Cisco traded at over 100x price/earnings (P/E) and about 19x revenues – extremely expensive valuations by any measure. We can recall a colleague at the time declaring that to support those kinds of valuations, Cisco would need to sell an enterprise class router to every American!

So, how did that work out for Cisco's stock? Amazingly, to this day Cisco stock has yet to recover to its 12/31/1999 stock price! It is currently trading about 13% below that high, a full 24 years later. It is important to note that Cisco's earnings in the meantime actually rose by nearly eight-fold since then, as the company's business continued to grow. We think this serves as an important reminder that at times, the valuation a company trades for can account for years and years of future growth, such that even if everything goes according to plan (which rarely happens!), the current valuation can already price in all of that future growth. That feels to us to be the case for Nvidia today. While the stock doesn't trade at 100x earnings (just a mere 40x!) it does trade at nearly 23 times revenues, compared to 19x revenues for Cisco at its peak. Like Cisco in its day, it seems like Nvidia would need to sell a GPU to every single American to justify its current valuation. Is Nvidia's stock doomed to underperform the S&P 500 over the next 24 years like Cisco did? While anything can happen in the short run, we feel confident that Nvidia is likely to suffer the same fate as Cisco. At this point, we are comfortable not owning the stock and avoiding the likely fall that seems destined to come.





Goodman FINANCIAL

MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

COMPLIANCE DISCLOSURES

The information, analysis, and opinions expressed herein are for general and educational purposes only. Nothing contained here is intended to constitute personalized legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Investment decisions should always be made based on the investor's specific financial needs and objectives, goals, time horizon, and risk tolerance. Information obtained from third party sources is believed to be reliable, but the accuracy and completeness of the information presented cannot be guaranteed. The asset classes and/or investment strategies described may not be suitable for all investors and investors should consult with an investment advisor to determine the appropriate investment strategy. All investments carry a certain degree of risk, including the loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. Past performance is not indicative of future results. All opinions and views constitute our judgment as of the date of writing and are subject to change at any time without notice.

REFERENCED INDICES

It is not possible to invest directly in an index. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses.

- **S&P 500® Index** – a market-cap weighted index composed of the common stock of 500 leading companies in leading industries of the U.S. economy.
- **S&P 500® Equal Weight Index (EWI)** – the equal-weight version of the S&P 500® Index. The index includes the same constituents as the capitalization-weighted S&P 500® Index, but each company in the S&P 500 EWI is allocated a fixed weight – or 0.2% – of the index total at each quarterly rebalance.
- **S&P MidCap 400® Index** – a market-cap weighted index composed of the common stock of 400 mid-sized companies reflecting the distinctive risk and return characteristics of the U.S. mid-cap equities sector.
- **S&P SmallCap 600® Index** – a market-cap weighted index composed of the common stock of 600 small-sized companies reflecting the distinctive risk and return characteristics of the U.S. small-cap equities sector.
- **Blended Equity Benchmark** – a customized index comprised of a blend of a 50% weight to the S&P 500® Index, 30% to the S&P MidCap 400® Index and 20% to the S&P SmallCap 600® index.
- **Dow Jones Industrial Average® (The Dow®)** – a price-weighted index composed of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.
- **Nasdaq Composite Index** – an index that measures all Nasdaq domestic and international based stocks listed on the Nasdaq Stock Market.
- **Bloomberg Intermediate US Govt/Credit TR Index Value Unhedged** – the index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities with a maturity greater than 1 year but less than 10 years.