

MARKET CONCENTRATION RARELY LASTS

April 2025

KEY POINTS

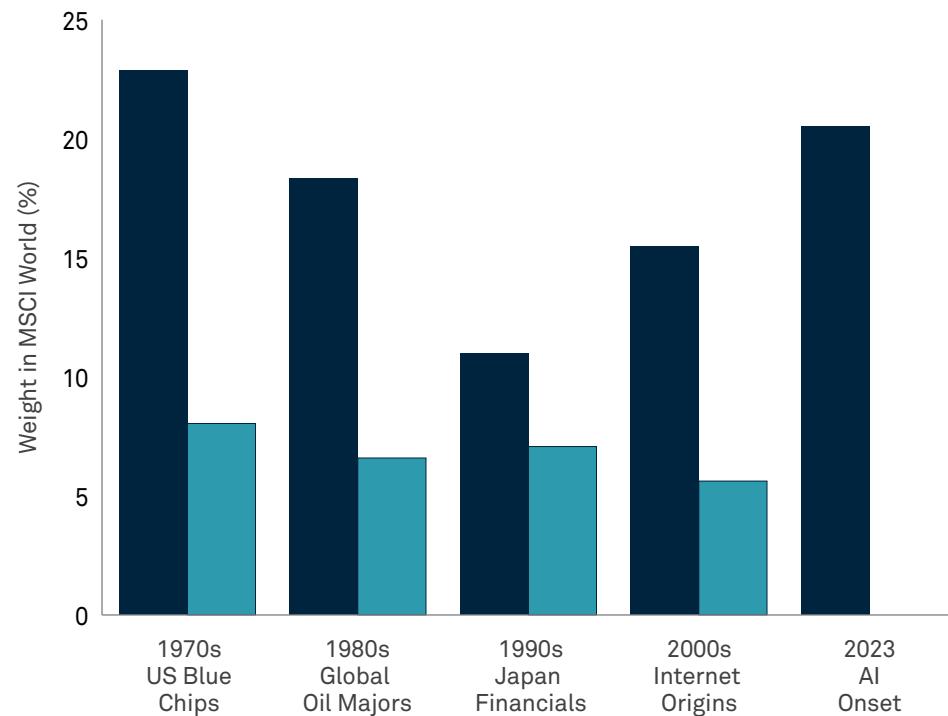
1 In today's stock market, we're seeing a small set of companies dominate the artificial intelligence (AI) theme. The key question is, will this last?

2 Over the past few decades, stock markets have gone through multiple periods where a small group of companies have dominated but concentration levels rarely persisted.

3 While history suggests that the market makeup will likely change, we see Microsoft and Alphabet as two companies that have the potential to maintain their top positions.

LEADERS FROM EACH ERA HAD A SMALLER MARKET WEIGHT A DECADE LATER

■ 10 largest stocks at peak concentration ■ Same 10 stocks one decade later



Source: MSCI Research, Aug. 2023. Chart is provided for illustrative purposes only.

The recent AI-driven surge has led to market concentration levels not seen for decades, with ten companies accounting for more than 20% of the market.¹

We do not see such concentration often but there is market precedent. From the established blue-chip giants of the 1970s to the mobile telecommunications and internet companies of the early 2000s, stock markets have experienced periods where a select few companies have held significant dominance. However, as the chart shows, these eras of market concentration rarely last.

What happened to these once dominant companies in subsequent decades? Dropping out of the top 10 could be due to any number of factors, from industry consolidation to regulation or a failure to innovate and adapt. Whatever the reason, it suggests that investors should be cautious about extrapolating today's market trends too far into the future.

¹ MSCI Research, Aug. 2023.

Long-Term Leaders

Some companies do feature in the top 10 from one decade to another (and another). Until recently, companies such as Exxon, General Electric, and IBM were prominent members of the group regardless of market trends.

Today, Microsoft appears to be one of those staying the distance, having been there in the early 2000s and now very much part of the AI story. We believe this speaks to the software company's continued ability to innovate and adapt from a leader in software to being at the forefront of AI, having first invested in OpenAI in 2019. More recently, it has incorporated Copilot, an AI-powered digital assistant, into Word, PowerPoint, Outlook and Excel. Looking to 2030

and beyond, we believe Microsoft has the potential to keep its leading position in the AI theme.

Another company that we believe has staying power is Alphabet, a business which has built up a prominent position in online advertising and search through Google. Like Microsoft, it has also been in the AI game for years, having bought the UK-based AI research laboratory DeepMind back in 2014. Alphabet, in our view, has a strong long-term competitive position due to its ownership of multiple platforms with billion-plus users, strong data-gathering capabilities, proprietary hardware and mobile operating systems (Android).

Beyond Sentiment

It's still very early days for AI and progress is rarely linear. While we believe many of today's market leaders will likely continue to play an important role in the AI ecosystem for decades to come, history suggests that recent concentration levels are unlikely to persist. As investors, we look beyond just current market momentum, and instead evaluate companies on an individual basis.

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Artificial intelligence (AI) refers to computer systems that can perform tasks typically requiring human intelligence, such as visual perception, speech recognition, decision-making, and language translation.

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