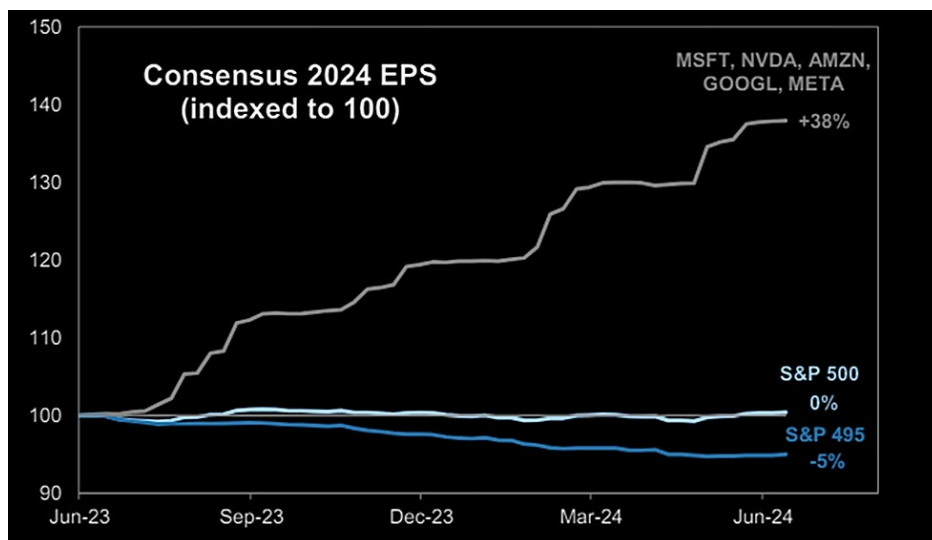


Current Aberrant Equity Market Thoughts

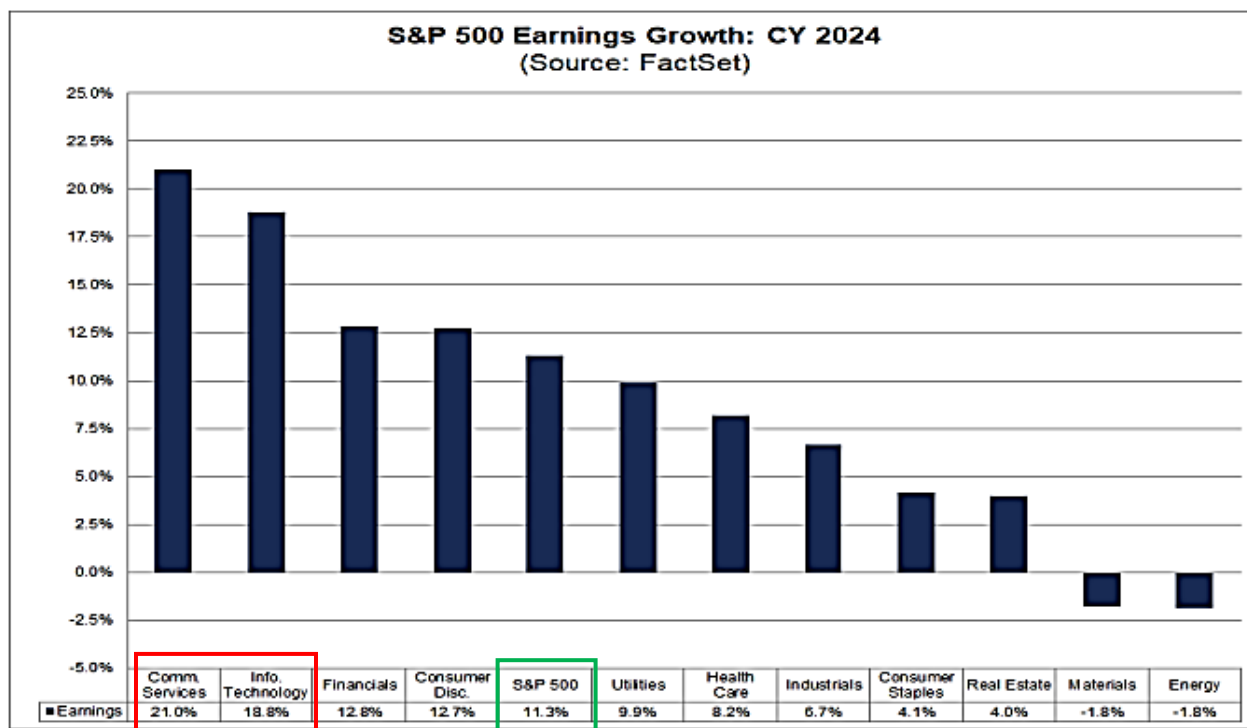
July 2, 2024

Large-Cap Growth/Technology Stocks

- Our primary goal is to meet your personal financial objectives. Our efforts are devoted to enabling you to do so with an acute focus on achieving the required rate of return – while managing risk. There is no argument that the large-cap technology stocks currently leading U.S. equity market indices higher all have quality balance sheets, leading market share and attractive profitability profiles. Their fundamental financial ratings are exceptional.



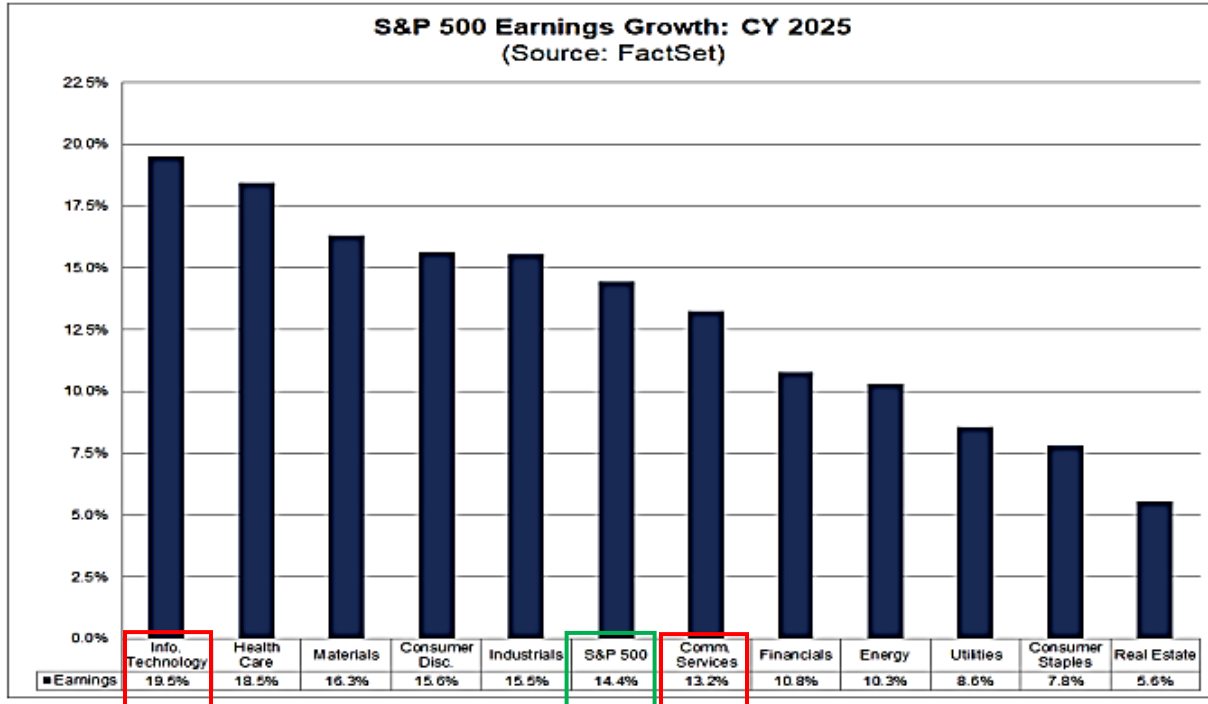
- Furthermore, per FactSet, the analyst community continues to anticipate above average future Revenue and Earnings growth in the large-cap Technology sector and Communication Services sector in 2024-2025.



Communication Services: Meta Platforms and Alphabet Lead Year-Over-Year Growth

The Communication Services sector is expected to report the highest (year-over-year) earnings growth rate of all eleven sectors at 18.5%. At the industry level, 3 of the 5 industries in the sector are predicted to report year-over-year earnings growth. All three industries are projected to report growth at or above 20%: Entertainment (48%) Interactive Media & Services (32%) and Wireless Telecommunication Services (20%). On the other hand, two industries are expected to report a year-over-year decline in earnings: Diversified Telecommunication Services (-6%) and Media (-6%).

At the company level, Meta Platforms (\$4.69 vs. \$2.98) and Alphabet (\$1.83 vs. \$1.44) are expected to be the largest contributors to earnings growth for the sector. If these two companies were excluded, the estimated (year-over-year) earnings growth rate for Communication Services sector would fall to 3.3% from 18.5%.



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Revenue Growth: 4.6%

The estimated (year-over-year) revenue growth rate for Q1 2024 is 4.6%, which is below the 5-year average revenue growth rate of 6.9% and below the 10-year average revenue growth rate of 5.0%. If 4.6% is the actual revenue growth rate for the quarter, it will mark the 15th consecutive quarter of revenue growth for the index.

At the sector level, ten sectors are projected to report year-over-year growth in revenues, led by the Information Technology and Energy sectors. On the other hand, the Materials sector is the only sector predicted to report a year-over-year decline in revenues.

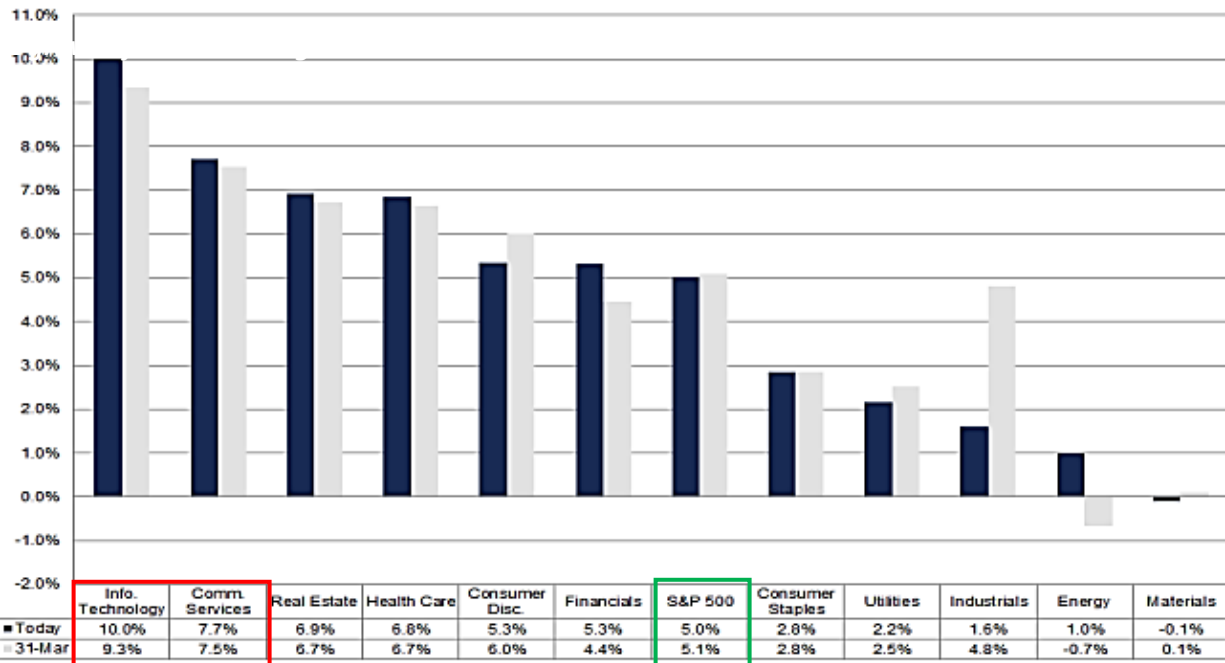
Information Technology: NVIDIA Is Largest Contributor to Year-Over-Year Growth

The Information Technology sector is expected to report the highest (year-over-year) revenue growth rate of all eleven sectors at 9.4%. At the industry level, 4 of the 6 industries in the sector are predicted to report year-over-year revenue growth. Two of these four industries are projected to report double-digit growth: Semiconductors & Semiconductor Equipment (25%) and Software (11%). On the other hand, two industries are projected to report a year-over-year decline in revenue: Communications Equipment (-7%) and Electronic Equipment, Instruments, & Components (-8%).

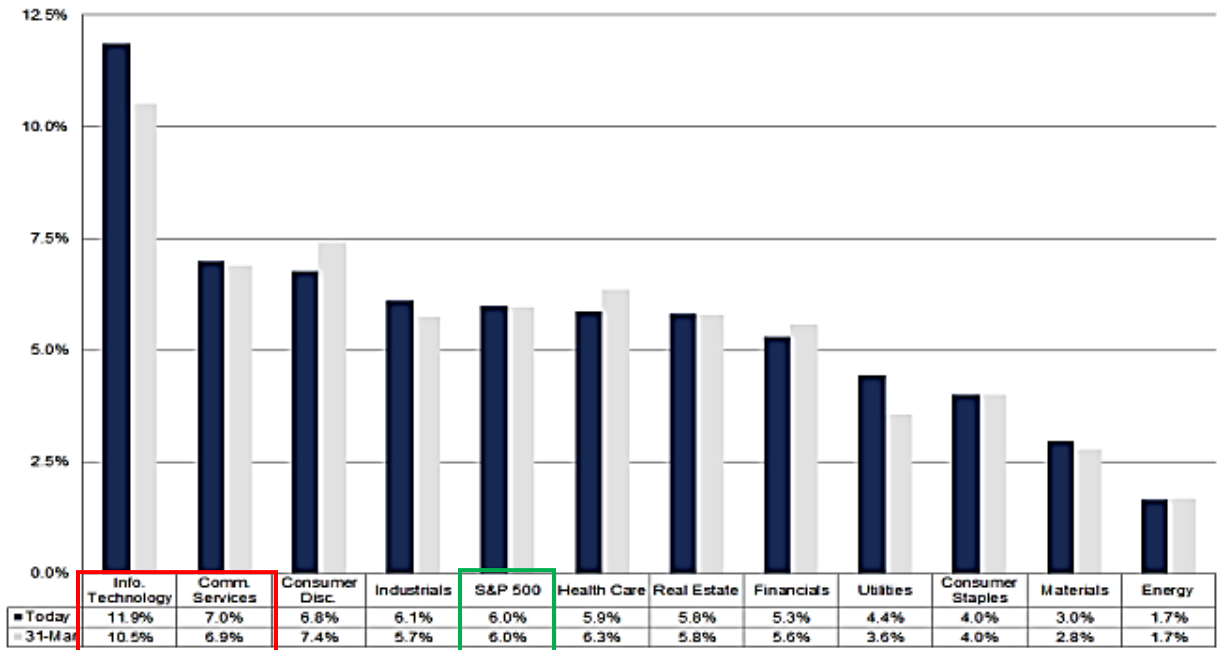
At the company level, NVIDIA (\$28.42 billion vs. \$13.51 billion) is expected to be the largest contributor to revenue growth for the sector. If this company were excluded, the estimated (year-over-year) revenue growth rate for the Information Technology sector would fall to 5.7% from 9.4%.



S&P 500 Revenue Growth (Y/Y): CY 2024 (Source: FactSet)



S&P 500 Revenue Growth (Y/Y): CY 2025 (Source: FactSet)

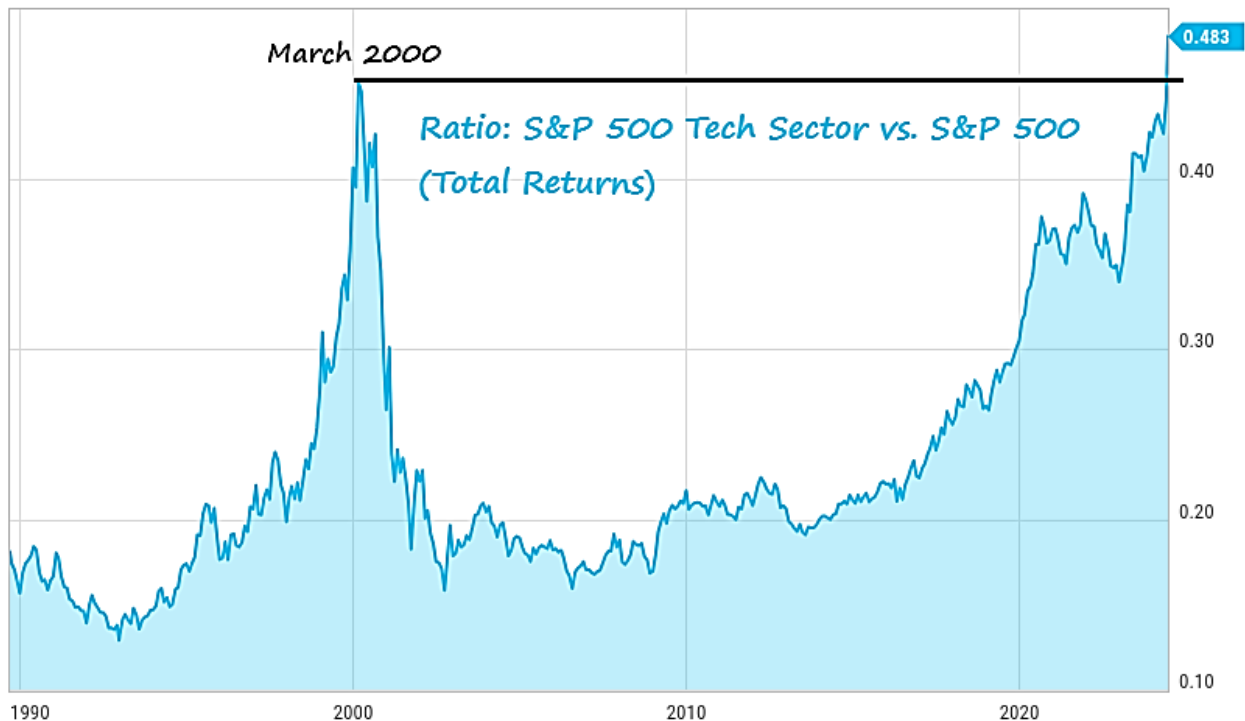


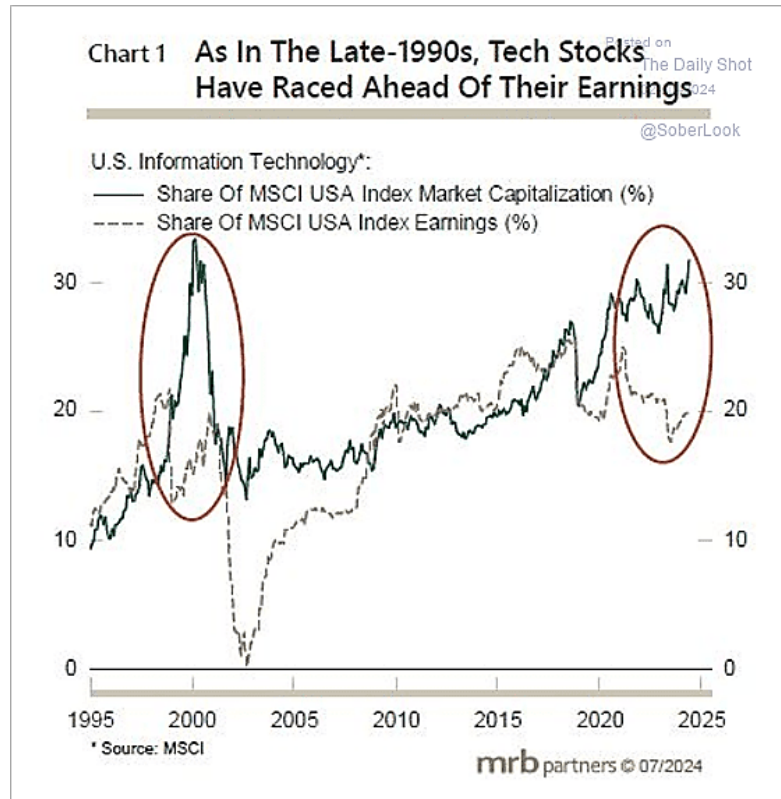
- However, at some point, **company valuations do end up impacting investor returns**. Current Technology sector stock valuations are at historic extremes (higher than 2000 and 2021 peak valuations).



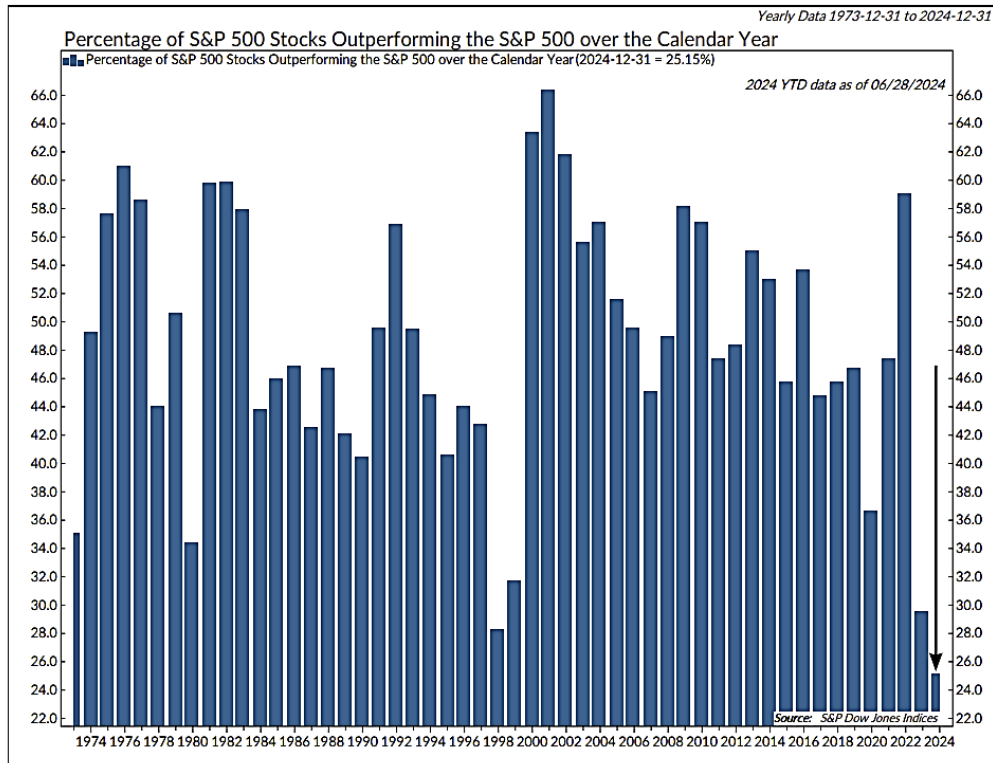
Technology sector stock returns relative to S&P 500 Index (larger U.S. economy) returns also at historic extremes (now higher than 2000 peak).

$\frac{\text{^SPXIFTSTR Level}}{\text{^SPXTR Level}}$





On pace for record low % of stocks beating S&P 500



MSFT: Current Enterprise Value (EV)/TTM Sales ratio = 14.3; low of last 10 years = 2.80x



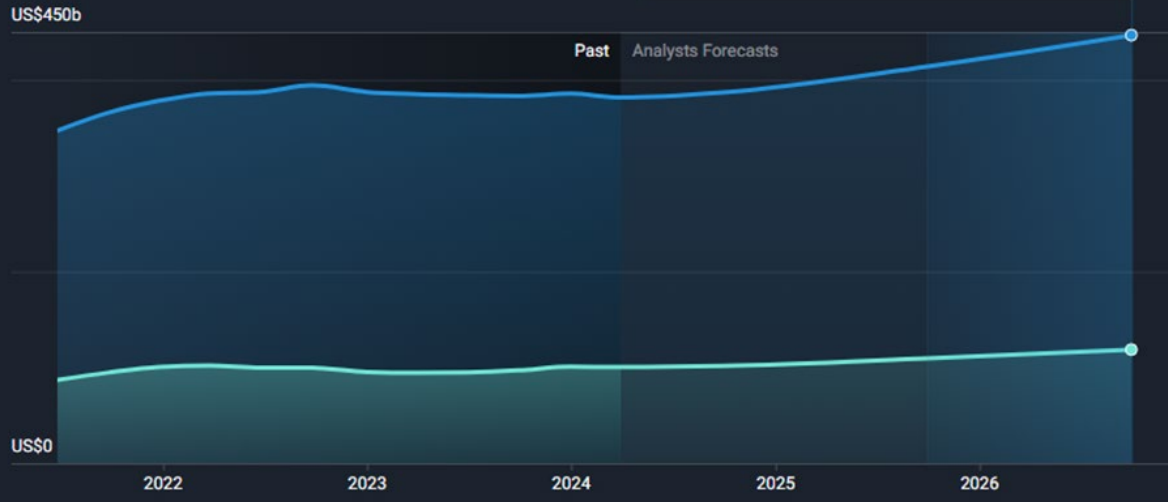
AAPL: Current EV/TTM Sales ratio of 8.55x at highest of last 10 years; low of last 10 years = 1.5x



2.1 Earnings and Revenue Growth Forecasts

Apple - Average Analyst Forecast (Q2 2024 – Q3 2026). Revenue peak from 2022 expected to be exceeded in 2025.

Sep 29 2026	Analysts	Last Updated
Revenue	US\$446.763b /yr	19 Jun 28 2024
Earnings	US\$118.666b /yr	18 Jun 28 2024



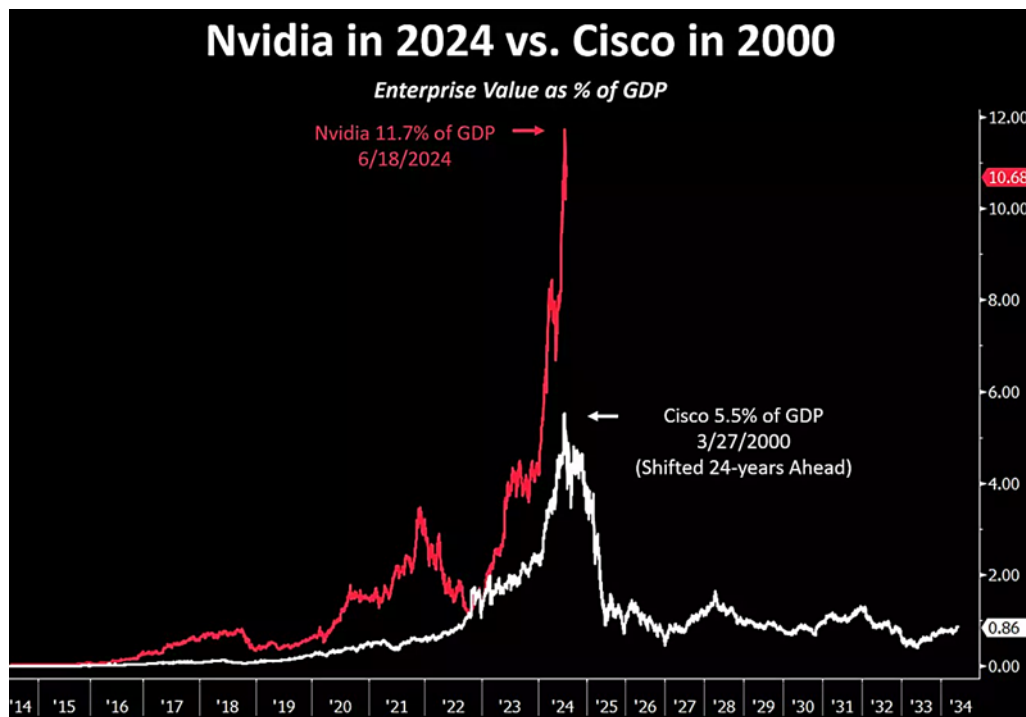
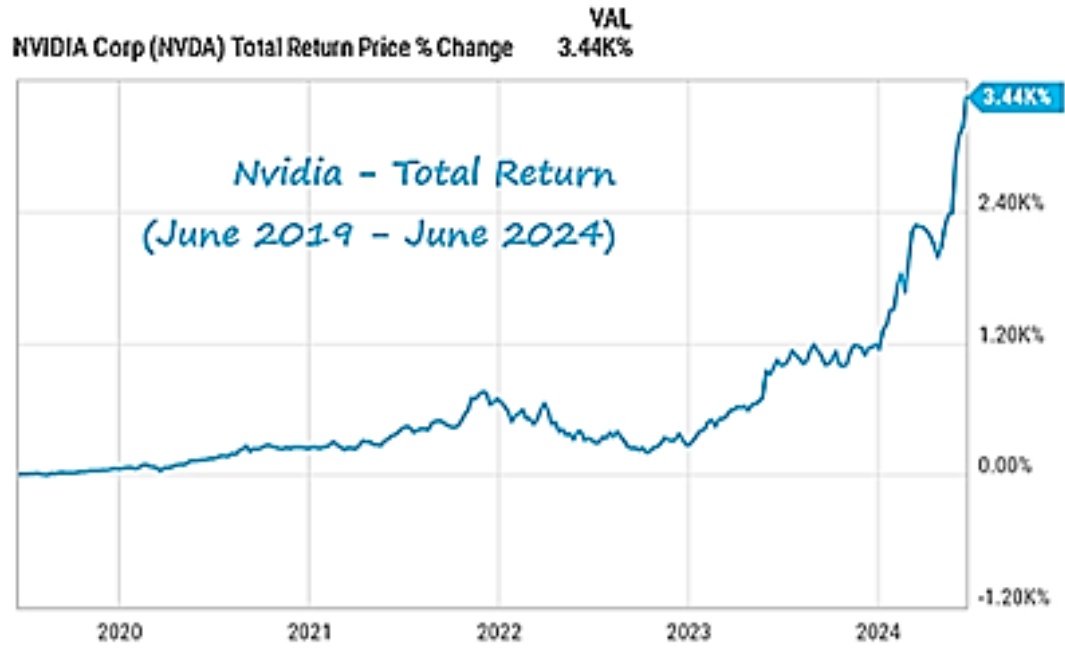
Apple Inc (AAPL) PS Ratio VAL
9.003

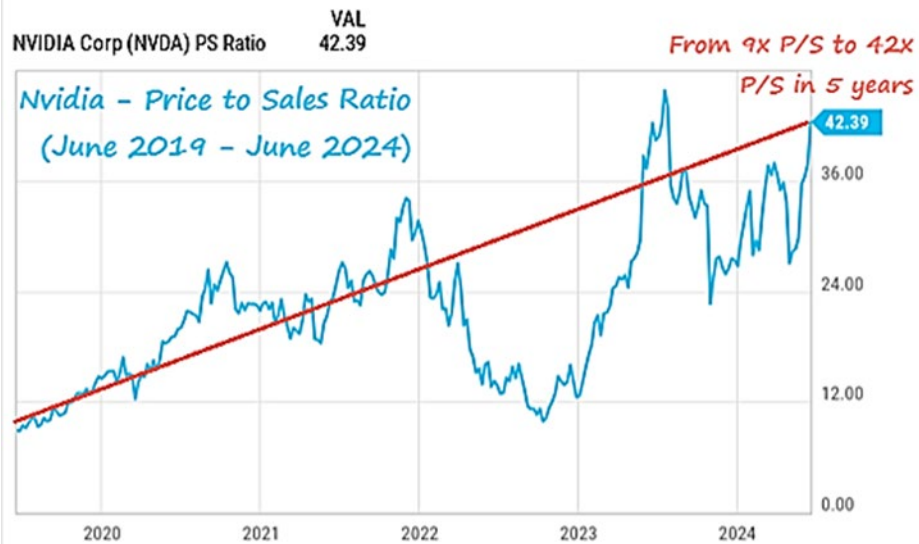


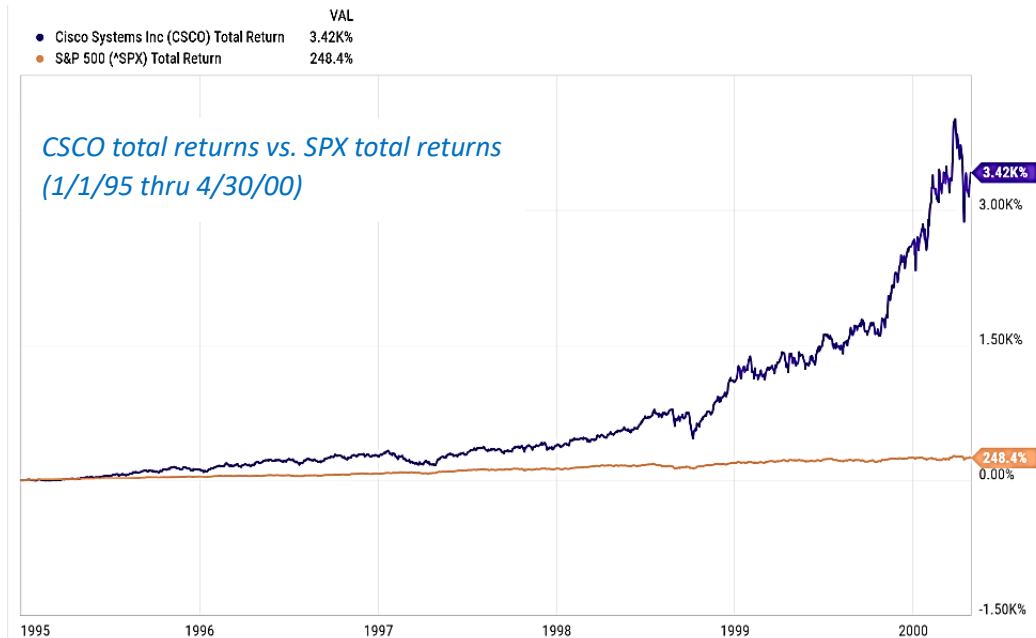
(May 2, 2024): Apple revenue fell 4% over the last year, the 5th negative YoY growth rate in the last 6 quarters. Net income declined 2% year-over-year to \$23.6 billion. But they authorized a record \$110 billion in share buybacks and the stock is up 7% in after-hours trading.

Nvidia's share price has run up sharply over the past 4 years. The initial run-up occurred between March 2020 thru November 2021 before declining 50% from that point throughout 2022. The current share price ascent began January 2023 and has seen the company's valuation expand in a similar fashion as Cisco Systems (CSCO) did at the onset of the internet revolution of the late 1990s and early 2000s.

NVDA:





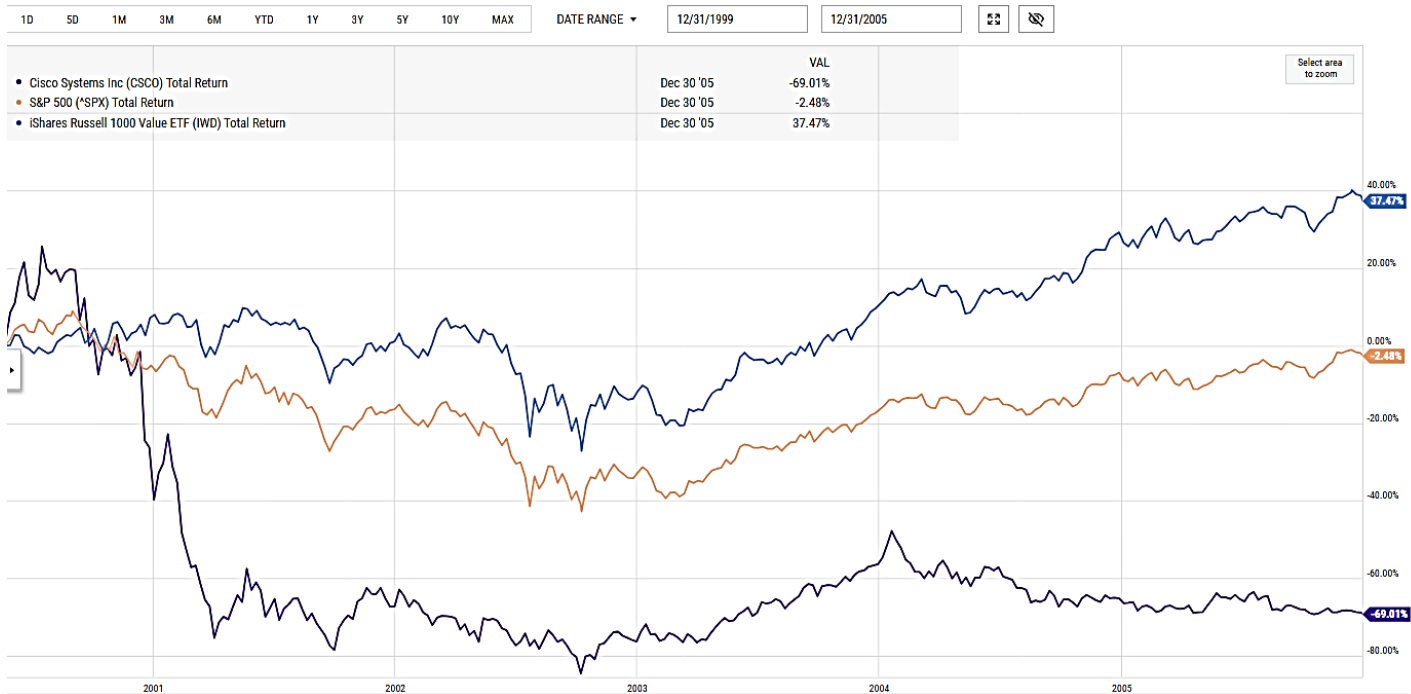


Cisco Systems continued to grow company revenues and earnings during the 2000 – 2005 period. From FY1999 thru FY2005, the company increased revenues 104% and EPS rose more than 170%. Yet, the company's stock closed down - 68.04% at year-end 2005 from its closing price on 12/31/1999.

CSCO Annual Revs: \$2.2Bn ↑ 59% (95) → \$4.1Bn ↑ 83% (96) → \$6.4Bn ↑ 57% (97) → \$8.5Bn ↑ 32% (98) → **\$12.17Bn ('99)** → \$18.9Bn ('00) → \$22.3Bn ('01) → \$18.9Bn ('02) → \$18.9Bn ('03) → \$22.0Bn ('04) → **\$24.8Bn ('05)** → \$57Bn ('23)

CSCO Annual Earnings: \$456MM ↑ 34% ('95) → \$913MM ↑ 100% ('96) → \$1.05Bn ↑ 15% ('97) → \$1.35Bn ↑ 29% ('98) → **\$2.09Bn ('99)** → \$2.67Bn ('00) → **\$-1.01Bn ('01)** → \$1.9Bn ('02) → \$3.6Bn ('03) → \$4.4Bn ('04) → **\$5.7Bn (05)** → \$12.6Bn ('23)

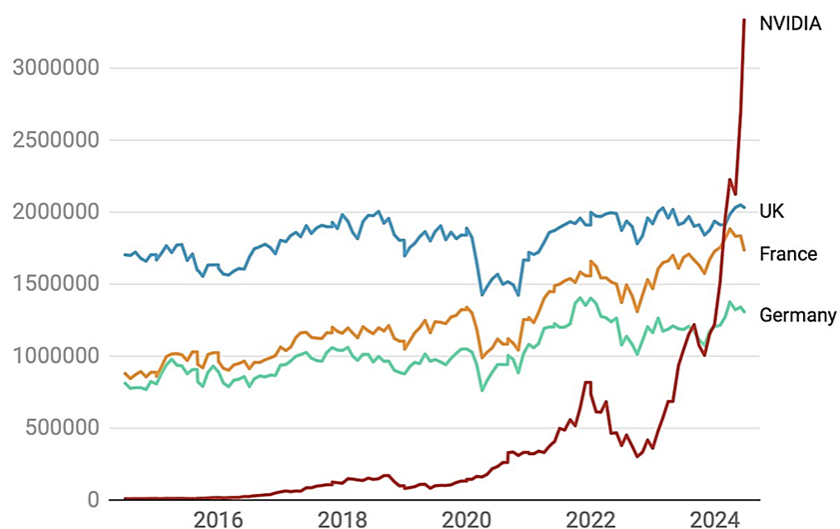




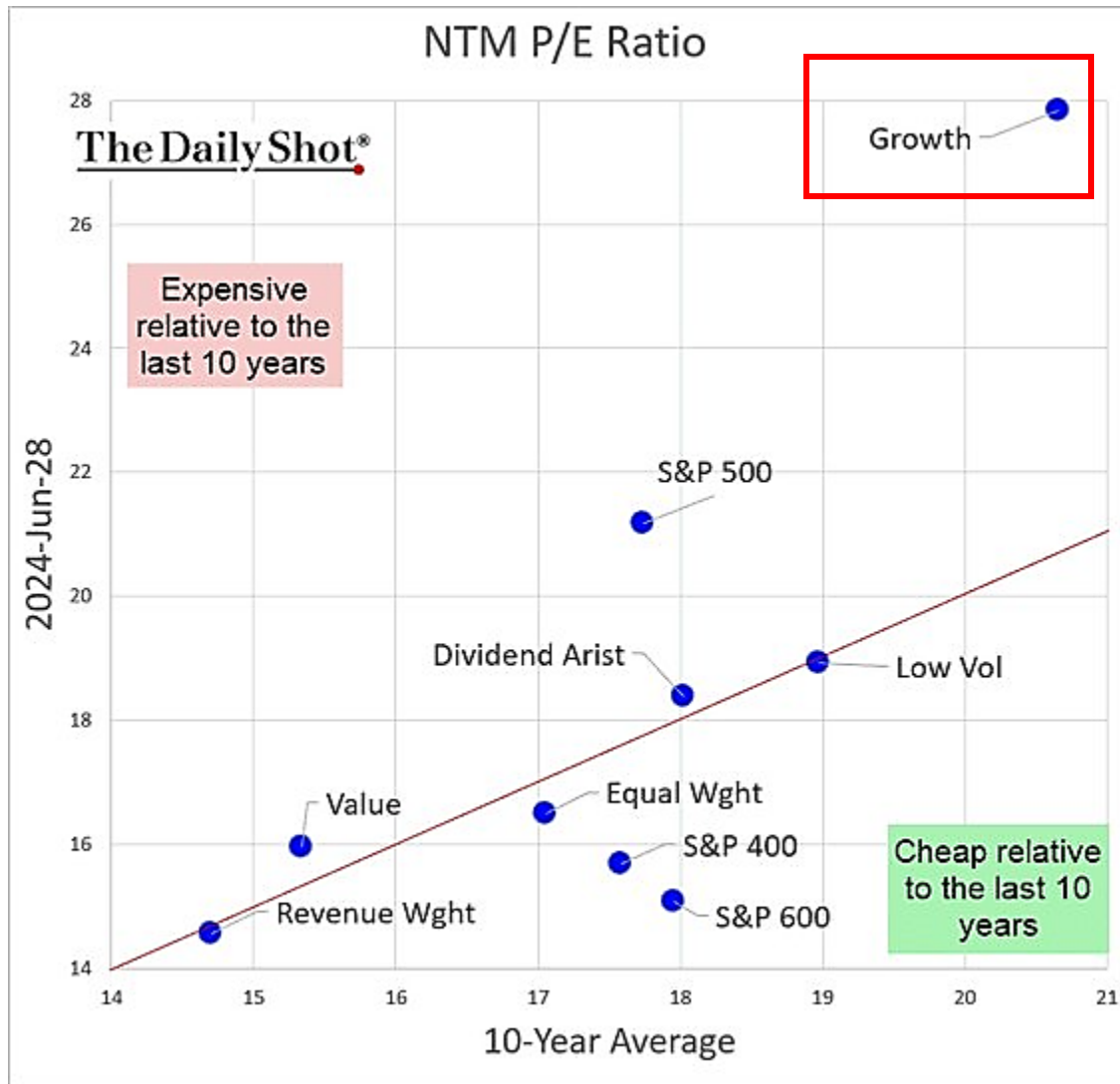
- In the chart above, the period between 12/31/99 and 12/31/05 is highlighted. During this six year stretch, Cisco stock declined **-69%**; the S&P 500 Index declined **-2.5%** and the Russell 1000 Value Index rallied **+37.5%**
- At present, the entire MSCI Europe Index (420 constituents) can be purchased for ~ 33% less than the market value of the “Magnificent 7” (MSFT, AAPL, META, GOOG, NVDA, AMZN, TSLA)
- The chart below isolates the market value of Nvidia vs. the entire stock markets of the UK, France and Germany individually

NVDA vs UK, France and Germany

Chart shows market caps of Nvidia vs the three major European markets. Values in USD millions



Source: FactSet • Created with [Datawrapper](#)



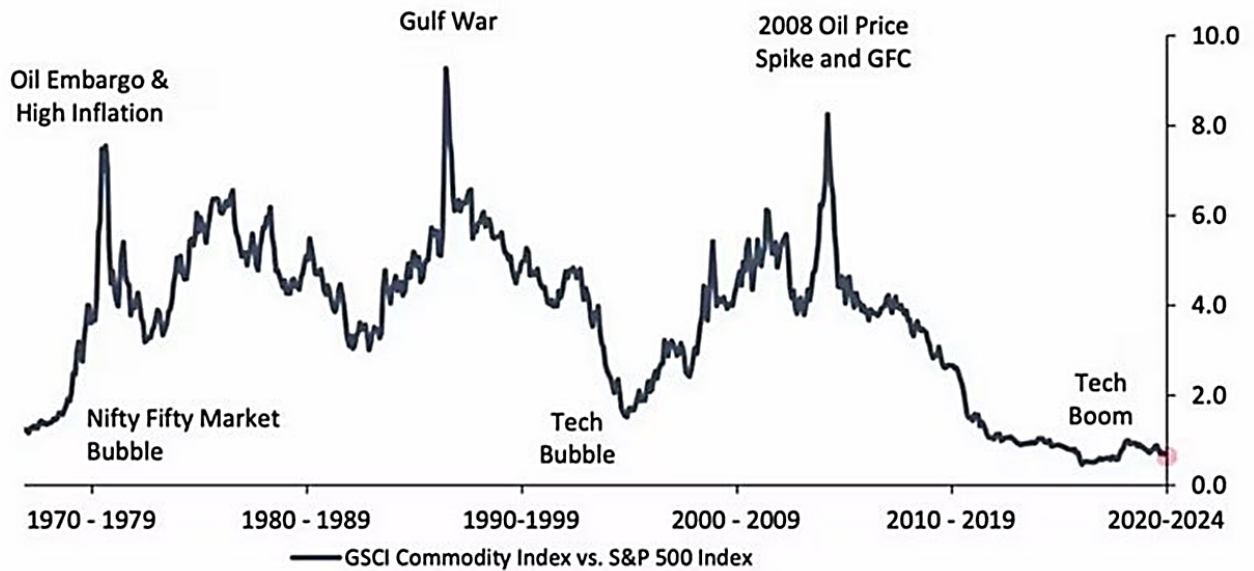
Scott McNealy was the CEO of Sun Microsystems, one of the darlings of the dot com bubble in the late 1990s. At its peak, his company's stock (ticker: SUNW) traded at a valuation of 10-times revenues. A couple of years afterward he had this to say about that time:

*At 10 times revenues, to give you a 10-year payback, **I have to pay you 100% of revenues for 10 straight years in dividends**. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at \$64? Do you realize how ridiculous those basic assumptions are?*

You don't need any transparency. You don't need any footnotes. What were you thinking?



Exhibit 1 - Ratio of Commodity Prices to the S&P500



Source: FactSet, Jefferies