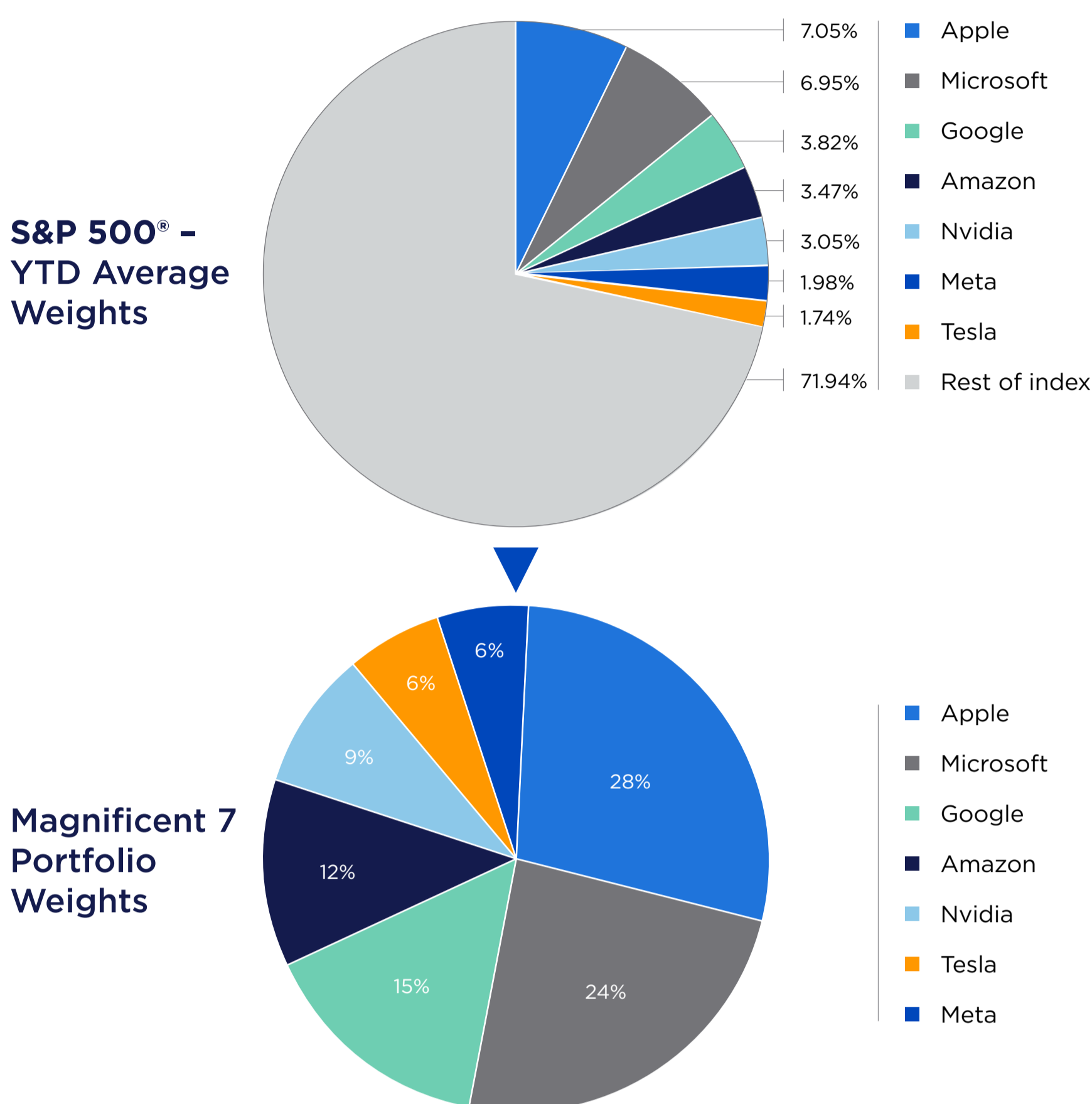


# Tech Investing: Managing Concentration Risk

While returns for the tech sector giants were impressive in 2023, they also increased concentration risk in the S&P 500® Index. In today's market, equity exposure is important. But diversification within the tech sector is key.

## Many portfolios are overweight in Magnificent 7 stocks

Currently, 7 tech stocks represent more than a quarter of the U.S. market, accounting for **28.06% of the weight** in the S&P 500® Index<sup>1</sup>.



1. FactSet as of 12/29/2023.



Magnificent 7  
\$1.2 Trillion

### With big returns come risks

Between July and August of 2023, rising inflation and the Federal Reserve's shift in monetary policy cost the Magnificent 7 \$1.2 trillion in market value. Since then, inflation pressures have eased, the Fed indicated a pause on further rate hikes, and large tech stocks have rallied. However, overweighting in big-cap tech can still be risky if a select number of stocks are heavily impacted by volatility.

"The 'Magnificent 7' Stocks Are Struggling, Shedding a Staggering \$1.2 Trillion in Market Value Since US Equities Peaked in July," Market Insider (October 27, 2023).



PE Ratio: 33.5

### Are the Magnificent 7 currently overvalued?

The Magnificent 7 are trading at an average forward price-to-earnings ratio of 33.5, compared with the S&P 500® Index's P/E of 18.3.\* Is the promise of returns worth the high valuation and the concentration risk?

\*"Wall Street's 'Magnificent Seven' Face Moment of Truth as Earnings Season Arrives," Reuter's (October 19, 2023).

"Ten Charts That Show How the 'Magnificent Seven' Have Held Sway in the US Market," Qontigo (October 3, 2023).

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### There are growth opportunities beyond the Magnificent 7

Only 3 of the 7 Magnificent 7 companies are projected to have earnings growth of more than 25%. Meanwhile, multiple companies are forecasted to beat this growth rate in 2024.

"Magnificence beyond the Magnificent 7," rbadvisors (February 2, 2024)

## Where to next?

When 7 stocks make up over a quarter of the U.S. market and nearly 40% of its volatility, this poses a potential risk to your clients' portfolios. Consider investments that include a focus on industries that employ tech in their business models — not just those that rely on a handful of tech-only giants.

When building portfolios for 2024, consider concentration risk. Visit [NationwideFunds.com](https://www.nationwide.com) to learn about funds that help avoid it.

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