JAG CAPITAL MANAGEMENT LLC

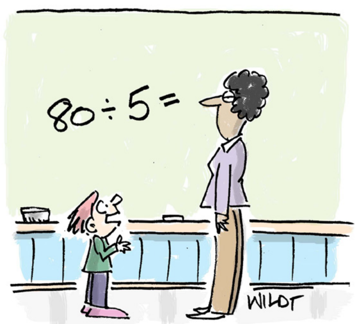
2nd Quarter 2024

Quarterly Comments

The Concentration Conundrum

Market Overview

Enthusiasm for Artificial Intelligence (AI) once again powered the broad market higher last quarter, as the S&P 500 generated solid gains. By market capitalization, large caps outperformed small caps in Q2, as they did in the first quarter of 2024. On a sector level, performance was decidedly mixed. Five of the 11 S&P 500 sectors finished the second quarter with positive returns, led by Information Technology and Communication Services. Utilities also logged modest gains with both Consumer categories rounding out the list. All other market sectors declined to varying degrees during the quarter, reflecting investor concerns over potentially slowing US and global economic growth.



"Really, shouldn't we leave this drudge work to the increasingly sophisticated field of artificial intelligence?"

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Bonds generated slightly positive returns during the second quarter, as inflation continued to moderate, and the job market showed signs of softening. Shorter-duration bonds outperformed those with longer durations in the second quarter, as did high-yield corporate bonds. Investors are pricing in higher probabilities of Fed rate cuts this fall, perhaps as early as the September Federal Open Market Committee (FOMC) meeting.

#	Company	Stock Symbol	Market Capitalization as of 7/3/2024 (millions of dollars)	Weight in S&P 500 as of 7/3/2024
1	Microsoft Corp*	MSFT	3,424,584	7.37%
2	Apple Inc*	AAPL	3,397,266	6.87%
3	Nvidia Corp*	NVDA	3,155,688	6.79%
4	Alphabet Inc Cl A*	GOOGL + GOOG	2,144,076	4.32%
5	Amazon.Com Inc*	AMZN	2,056,245	3.89%
6	Meta Platforms Inc Class A*	META	1,117,550	2.40%
7	Broadcom Inc	AVGO	804,932	1.62%
8	Berkshire Hathaway Inc Cl B	BRK.B	876,739	1.58%
9	Eli Lilly & Co	LLY	853,559	1.54%
10	Tesla Inc*	TSLA	785,786	1.47%
Total market capitalization and weight of Mag 7 stocks			16,081,195	33.10%
Total market capitalization and weight of top 10 S&P 500 holdings			18,616,425	37.84%
* = member of Mag 7				
Source: FactSet, JAG Capital Management				

Firm Highlights

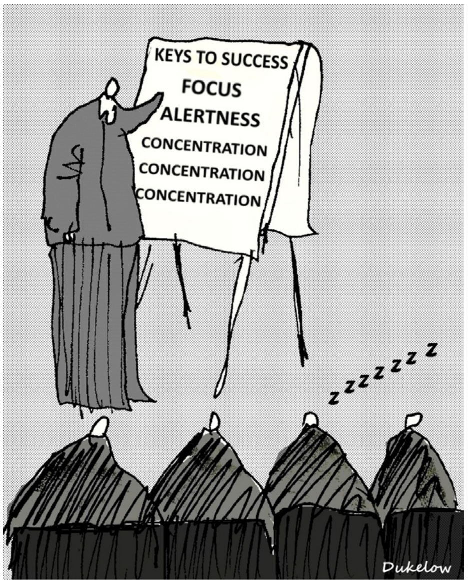
Congratulations to **Adam Dobin**, who we recognized for embodying our **Accountable** Core Value, and to **Connor Pastoor** for his new title of **AVP, Strategic Relationships**.

JAG's "Global Headquarters" is relocating! After 27 happy and productive years in our office at 9841 Clayton Road, we will be relocating to **1610 Des Peres Road (Suite 120)** in late September. Located in the Corporate Hill office complex near the corner of 270 and Manchester Road, our new space will provide our clients and team members with a convenient location, modernized work environment, and room for future growth. In the coming weeks, we will share more details – including our specific moving date – via email, our website, and social media.

The growing top-heavy concentration of the S&P 500 Index is one of the more fascinating stories to emerge from the investment markets in the past several decades. As noted by Morgan Stanley Investment Management (Stock Market Concentration, 6/4/2024), the combined weighting of the top 10 stocks in the S&P 500 increased from 14% in 2013 to 27% by the end of 2023. Similarly, the appreciation of just seven stocks (the so-called "Magnificent Seven") accounted for more than 50% of the S&P 500's gains last year. This phenomenon has continued so far in 2024. As of 7/3/2024, the top 10 stocks in the S&P 500 comprised a total 38% of the weight of the S&P 500, and the "Magnificent Seven" accounted for more than 77% of the year-to-date returns of the index.

When something unusual occurs in the investment markets, it can be tempting to assume that it will be short-lived. According to finance theory, the phenomenon of mean reversion suggests that asset prices, valuations, and returns tend to eventually revert towards their long-term average. While we expect that the market will eventually evolve to be less concentrated at some point in the future, a look at market history indicates that we should not hold our collective breath while we wait. Although the current level of market concentration is the highest in decades, it is far from unprecedented. S&P 500 concentration was similar to current conditions in the 1930s and for most of the 1950s and 1960s. And as cited by Morgan Stanley, research by finance professors Dimson, Marsh, and Staunton found that the top 10 stocks represented 38% of the market in 1900.

Although we reserve the right to change our minds, we view the probability of a near-term downshift in market concentration as relatively low. Most of the companies that dominate the S&P 500 today are extremely well-managed, have very strong balance sheets, and are leaders in growing end markets. They invest heavily in research and development, and several of the top 10 are leading the charge to develop and incorporate Artificial Intelligence solutions into their products and services. While history teaches us that there is no such thing as "permanent" in financial markets, we do not foresee significant competitive headwinds over the next one to three years for most of these mega-capitalization growth stocks.



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If we are correct, this creates a conundrum for many investors. For diversified active managers like JAG, it is arguably harder to outperform the broader market during a regime of heavy concentration in the benchmark indices. Our approach has not changed from our longstanding investment process, which has been our north star since 1990. We do not see heavy market concentration as an obstacle that we cannot overcome with our focused but diversified approach to portfolio management. Meanwhile, long term passive investors in index funds are forced to reckon with the fact that their portfolios are less diversified than they have been in decades. We do not claim to have a perfect solution to this conundrum, but we think that most investors would do well to avoid the assumption that equity market structure will materially change anytime soon.

Market Outlook

Stocks begin the third quarter of 2024 riding a wave of optimism and positive news as inflation is declining in earnest, the Fed may deliver the first rate cut in over four years this September, economic growth remains generally solid and substantial earnings growth from AI-linked tech companies has shown no signs of slowing down.

Those positives and optimism are reflected in the fact that the S&P 500 has made more than 30 new highs so far in 2024 and is trading at levels that, historically speaking, are relatively expensive. That said, if inflation continues to decline, economic growth stays solid and the Fed delivers on a September cut, absent any other major surprises, cautious optimism is probably the correct investment stance as we enter the second half of the year.

However, we do not expect an overly smooth ride through year-end 2024. We continue to expect volatility up to and around the November presidential election, especially now that the Democratic nominee situation is evolving. Other well-known risks include the ongoing violence in the Middle East and Ukraine, along with tensions in the Pacific surrounding Taiwan. The fact that these risks are widely known implies that they are incorporated into financial markets. We are often reminded of the old investment saying, "you never see the snake that bit you," which reflects the fact that the biggest risks are those that no one foresees ahead of time. This is why we focus on preparedness - rather than predictions - to navigate the markets for our clients.

Happy Summer to you and yours!

Norm

Norm Conley
CEO, Chief Investment Officer & Portfolio Manager

Disclosures

These comments were prepared by the staff of JAG Capital Management, LLC, an SEC-registered investment adviser. The information herein was obtained from various sources including but not limited to FactSet, Bloomberg, Reuters, Standard & Poor's, ChatGPT and the United States Bureau of Labor Statistics, and believed to be reliable; however, we do not guarantee its accuracy or completeness. The information in this report is given as of the date indicated. We assume no obligation to update this information, or to advise on further developments relating to securities discussed in this report. Opinions expressed are those of the adviser listed above as of the date of this report and are subject to change without notice. Opinions of individual representatives may not be those of the Firm. Additional information is available upon request.

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A Veteran Owned Business (VOB) is a business owned, (51% ownership or greater) by a Veteran who has met the definition of a veteran. The following represents the criteria that the National Veteran Business Development Council (NVBDC) uses in determining ownership:

Ownership: Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.

Control and Management: Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.

Contribution of Expertise and Capital: Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.

Independence: The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

About JAG

JAG Capital Management (JAG) actively invests for institutions and individuals in highly selective, customizable, and nimble equity and fixed income strategies. JAG is a boutique, independent, employee-owned investment management firm in St. Louis.

Learn More About JAG

JAG CAPITAL MANAGEMENT LLC
9841 Clayton Rd
St. Louis, MO 63124