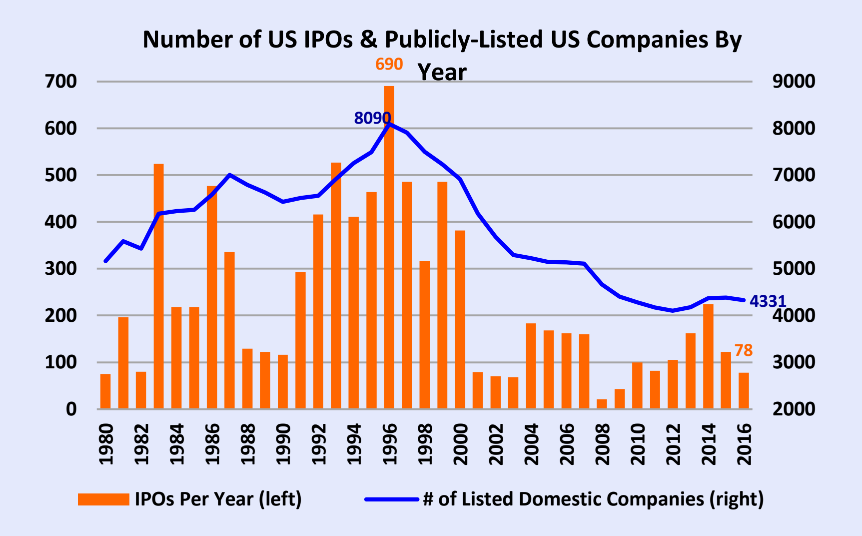
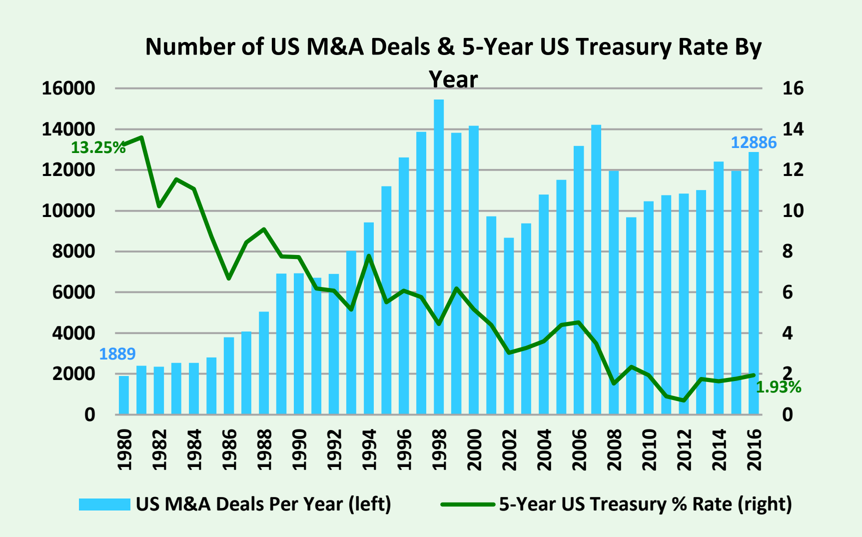
MARKET MICROSCOPE: The Shrinking US Stock Market

Measured by total market capitalization, the US stock market has grown since 1980, moving from $1.36T to $27.35T at the end of 2016. However, over that same period the US market has shrunk by another measure - the number of companies that are publicly-traded.





According to the World Federation of Exchanges database, the number of listed domestic companies in the US has fallen from a peak of 8,090 in 1996 to just 4,331 in 2016, a decline of over 46%.

A number of factors have contributed to the reduction in publicly-traded stocks, including:

- **Low interest rates** – The availability of cheap debt has made it easier for companies to raise large sums of money without going public. Low interest rates also make it easier for private equity investors to access the needed capital to buy private firms and keep them private.

- **Increased merger & acquisition activity** – Also tied to low interest rates. Many larger companies have kept increasing amounts of cash on their balance sheets, allowing them to access new technologies and new markets by buying up private companies before they go public.

- **Increased cost of going public with an IPO** – JPMorgan cites a University of Florida study that estimated the cost of going public amounted to 14% of the total funds raised. At least some portion of the increase in IPO costs in recent years is due to an increasing regulatory burden on financial institutions.

- **More pressure and perverse incentives –** Publicly-traded companies face constant pressure to focus only on shareholder value maximization, sometimes with the negative effect of putting more emphasis on meeting the next quarter's earnings estimate over increasing the long-term value of the business. This effect has been magnified by the increasing portion of executive pay that is tied to company stock performance at publicly-traded firms.

Sources: data.worldbank.org, World Federation of Exchanges, fred.stlouisfed.org, Institute for Mergers, Acquisitions & Alliances (IMAA), site.warrington.ufl.edu, JPMorgan.com, finance.yahoo.com