

Stock Market Breadth Has Improved Since July | September 2024

For much of this year, a dominant theme in US equity markets has been the significant outperformance of the largest stocks in equity indices. Since 2023, the S&P 500 – which is weighted by market cap – has outperformed an index of equal-weighted members by over 20%. This pattern was particularly extreme in the first half of this year, with the market-cap weighted index gaining 14% versus the equal-weighted index’s 4% gain, largely driven by the very largest stocks.

However, in recent weeks this pattern has reversed. Since July 1, the equal-weighted S&P 500 index has returned 8% and the market-cap S&P 500 index has returned 5%. Excess returns go beyond just S&P 500 stocks with both mid- and small-cap stocks outperforming the market-cap weighted S&P 500 in the second half of the year. International stocks have kept pace with the S&P 500 with the MSCI EAFE index returning 5% so far in the third quarter. Meanwhile, the total return for the “Magnificent Seven” in the back half of this year has been close to zero.

This broadening in equity market returns outside of just the largest companies is a favorable trend for the US equity market and leaves us more confident in our constructive views. We still see continued, albeit moderate upside for the S&P 500 over the next twelve months with a base case of 5,900.

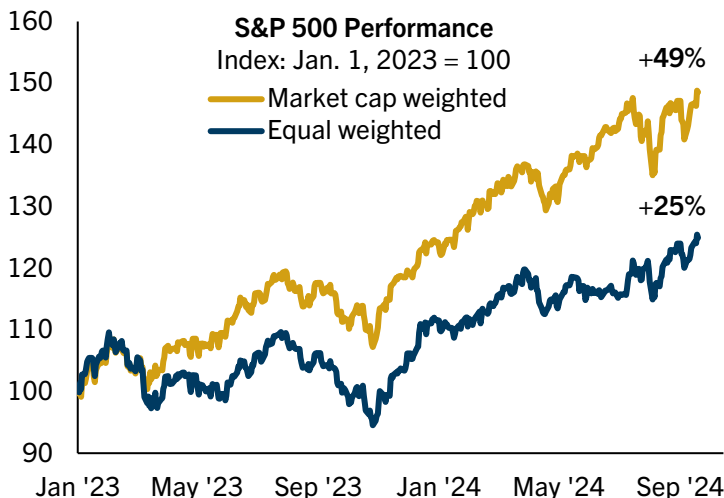
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Exhibit 1: Larger Stocks Have Outperformed Significantly



Source: Bloomberg. Data as of 9/20/2024.

Exhibit 2: Stocks Outside of the Largest Names Have Driven Equity Market Returns Since July 1

Total Return Since July 1	
Magnificent Seven	0.1%
S&P 500 Market-Cap Weighted	4.8%
S&P 500 Equal Weighted	8.1%
S&P 500 Midcap 400	6.3%
S&P 500 Small Cap 600	9.5%
MSCI EAFE	5.1%
Bloomberg US Aggregate Bond	5.5%

Note: “Magnificent Seven” is the UBS Magnificent 7 Index, which tracks a group of 7 of the largest mega cap tech stocks listed in the US. The stocks mirror their respective S&P 500 weight reweighted pro-rata. Created Oct 2023 - rebalanced and reconstituted semi-annually.



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