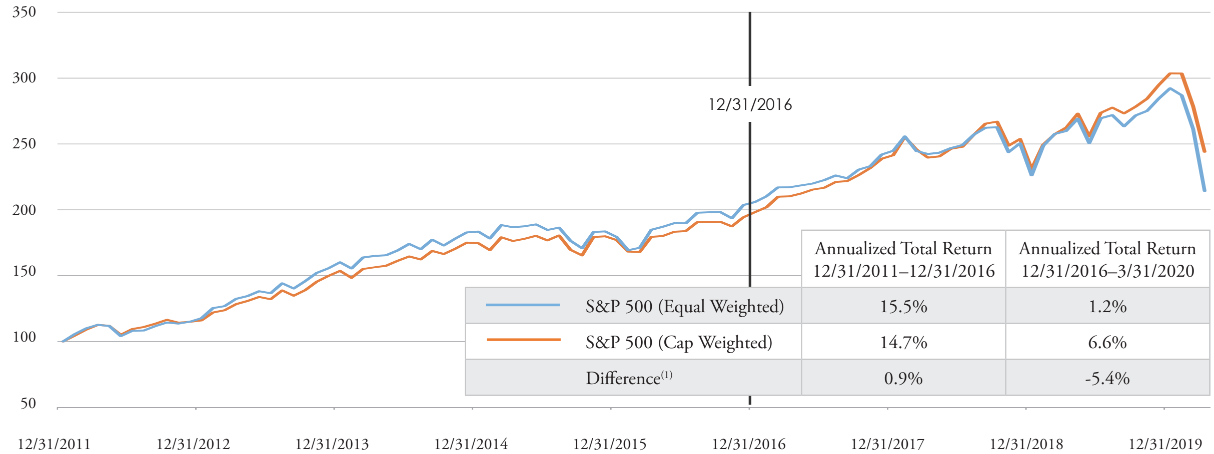
Market Update

Mega-cap stocks have been among the best-performing segments of the U.S. stock market in recent years, as evidenced by the significant outperformance of cap-weighted indices compared to their equal-weighted versions. However, recent market action and a longer-term perspective both suggest that this trend may be reversing, presenting opportunities for investors to rebalance portfolios accordingly.

The chart below illustrates the performance of the S&P 500 on both a cap-weighted and equal-weighted basis since 2011. The 5-year period from 2011 through 2016 saw similar returns from both versions of the index, but since the beginning of 2017, the cap-weighted index has strongly outperformed. Because the constituents of each index are identical, the difference in return is due entirely to the weighting of stocks within each index. Apple, for example, was approximately 5% of the cap-weighted index as of 3/31/2020, compared to 0.2% of the equal-weighted index. Outperformance of the largest stocks in the index thus leads to outperformance of the cap-weighted index as a whole.

S&P 500 STOCK INDEX CAP WEIGHTED vs. EQUAL WEIGHTED, 2011–2020

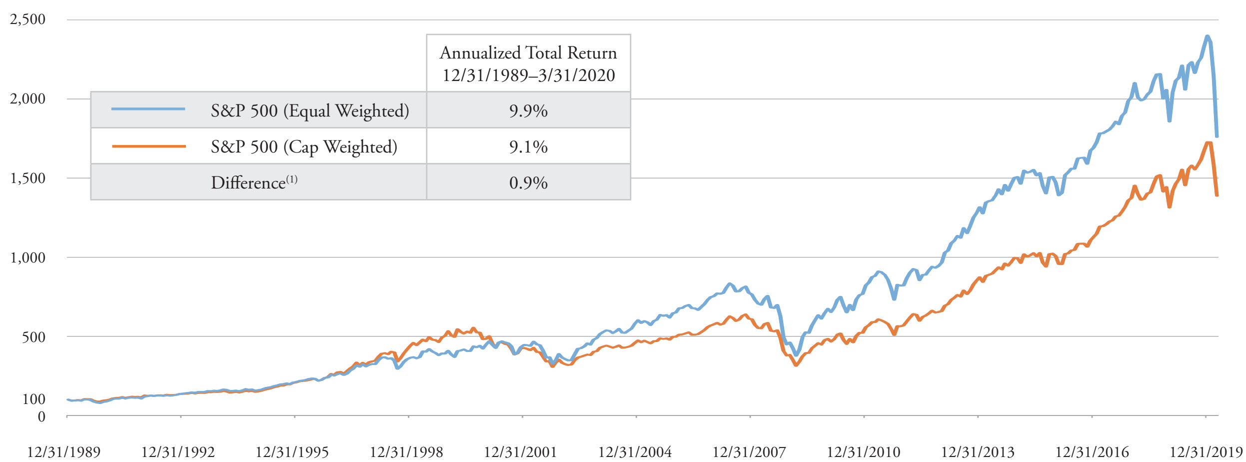


	Annualized Total Return 12/31/2011–12/31/2016	Annualized Total Return 12/31/2016–3/31/2020
S&P 500 (Equal Weighted)	15.5%	1.2%
S&P 500 (Cap Weighted)	14.7%	6.6%
Difference[(1)]	0.9%	-5.4%

Data from 12/31/2011–3/31/2020
[(1)] Percentage may not match the actual difference due to rounding of percentages to the nearest decimal place.
Sources: FactSet, S&P Dow Jones

Longer-term history suggests the opposite. Since Standard & Poor's began the construction of the equal-weighted index in 1989, the equal-weighted index has outperformed the cap-weighted version by 0.9% per year. Over time, the ability of the largest companies in the index to maintain above-average growth tends to be hampered by regulatory issues, competitive pressures or simply the inability to grow at the same rate from a larger base of assets and size.

S&P 500 STOCK INDEX CAP WEIGHTED vs. EQUAL WEIGHTED, 1989–2020

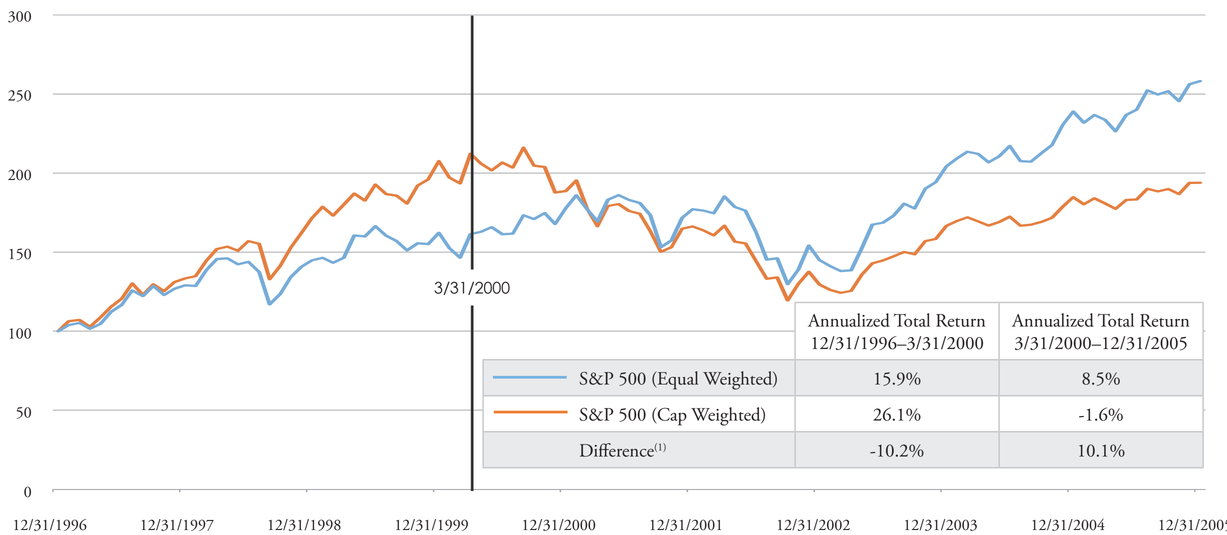


	Annualized Total Return 12/31/1989–3/31/2020
S&P 500 (Equal Weighted)	9.9%
S&P 500 (Cap Weighted)	9.1%
Difference[(1)]	0.9%

Data from 12/31/1989–3/31/2020
[(1)] Percentage may not match the actual difference due to rounding of percentages to the nearest decimal place.
Sources: FactSet, S&P Dow Jones

There have been similar periods when the cap-weighted index has strongly outperformed—most notably in the later 1990s. The chart below illustrates the return of the two indices during the three and one-quarter year period ending 3/31/2000 (similar to the three and one-quarter year period ending 3/31/2020). For the three and one-quarter year period ending March 31, 2000, the cap-weighted index outperformed the equal-weighted version by 10.2% per year, as mega-cap tech stocks led the market. However, in the following years through 2005, the cap-weighted index significantly underperformed, as investors shifted their attention to medium-sized and smaller-sized companies in the index that had underperformed previously.

S&P 500 STOCK INDEX CAP WEIGHTED vs. EQUAL WEIGHTED, 1996–2005



	Annualized Total Return 12/31/1996–3/31/2000	Annualized Total Return 3/31/2000–12/31/2005
S&P 500 (Equal Weighted)	15.9%	8.5%
S&P 500 (Cap Weighted)	26.1%	-1.6%
Difference[(1)]	-10.2%	10.1%

Data from 12/31/1996–12/31/2005
[(1)] Percentage may not match the actual difference due to rounding of percentages to the nearest decimal place.
Sources: FactSet, S&P Dow Jones

We may be at a similar inflection point today. Over the first two months of the current quarter, the equal-weighted index posted a 19.8% gain, compared to 18.2% for the cap-weighted index. While this is obviously a short time frame, it is indicative of the potential for investors to outperform if willing to diversify away from investing in mega-cap companies.

DISCLOSURES

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S&P DATA

REFERENCED INDEX

(Indices are unmanaged and are not available for direct investment.)

S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

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