

Given the outperformance of mega-cap stocks and their contribution to the cap-weighted S&P 500 Index's performance in the first half 2023, it may be surprising to learn that the equal-weighted S&P 500 has actually outperformed the cap-weighted index significantly over time.

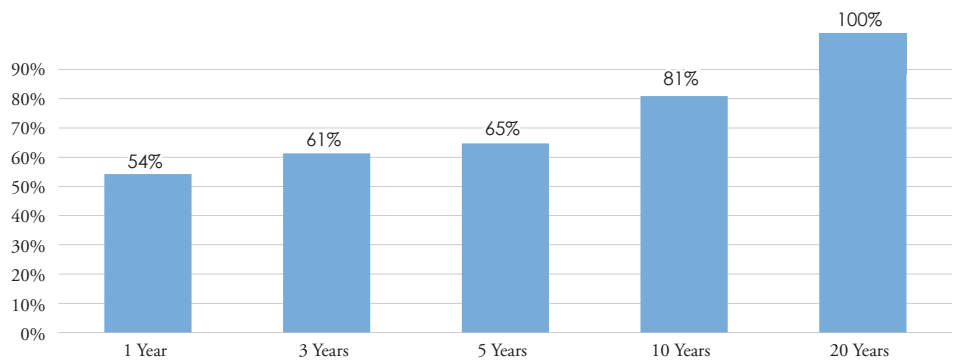
The equal-weighted version of the S&P 500 Index was launched in December 1989, and since its inception, it has outperformed the cap-weighted S&P 500 Index by an annualized 100 basis points per year. This differential may not seem like much, but it results in a +36% difference in the ending portfolio values over the entire period. Over a short-term period such as 12 months, the equal-weighted index has outperformed slightly more than 50% of the time, but the longer the time horizon, the more likely the index has been to outperform.

We saw a dramatic reversal of this pattern in the first half of this year, however. Over the first six months, the equal-weighted S&P 500 posted a return of 7.0%, or 9.9% below that of the cap-weighted index. This -9.9% differential ranks in the lowest 1% of all 6-month rolling periods since 1989 and was matched only in 1999-2000 and in 2020. After similar 6-month periods of 9% underperformance or more, the equal-weighted index has posted sharply higher returns than the cap-weighted index over the following 6 and 12 months, suggesting

Growth of a Dollar  
S&P 500 Index, Equal Weighted vs Cap Weighted

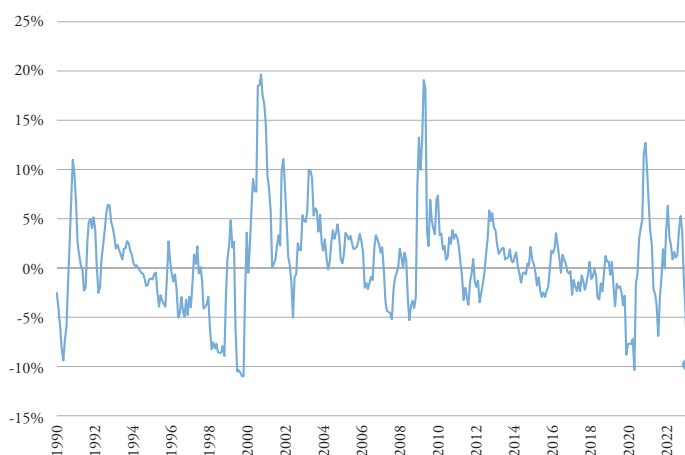


Frequency of Outperformance  
S&P 500 Equal Weighted Index vs Cap Weighted Index, Rolling Periods<sup>(1)</sup>



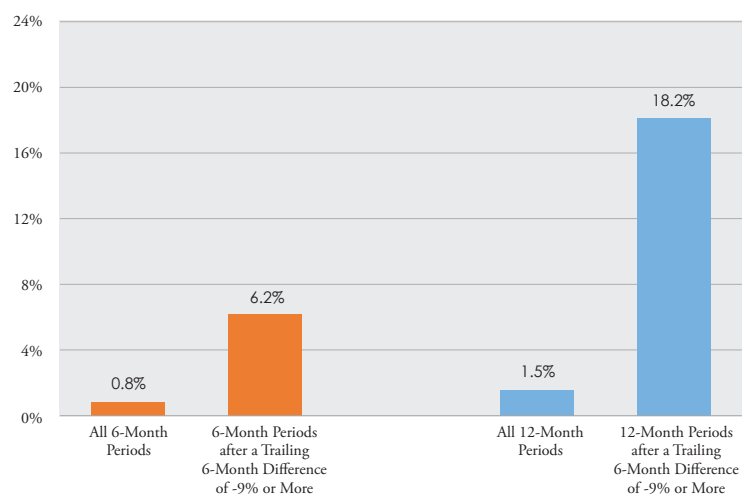
Data from 12/31/1989-6/30/2023  
<sup>(1)</sup>Past performance is not indicative of future results. Performance for periods of one year or less is not annualized. All returns are price change only and shown in U.S. dollars.  
Source: FactSet

ROLLING SIX-MONTH DIFFERENCE  
S&P 500 Equal Weighted Minus Cap Weighted Return



Data from 6/30/1990-6/30/2023  
Source: FactSet

AVERAGE PERFORMANCE DIFFERENCE  
S&P 500 Equal Weighted Minus Cap Weighted Return



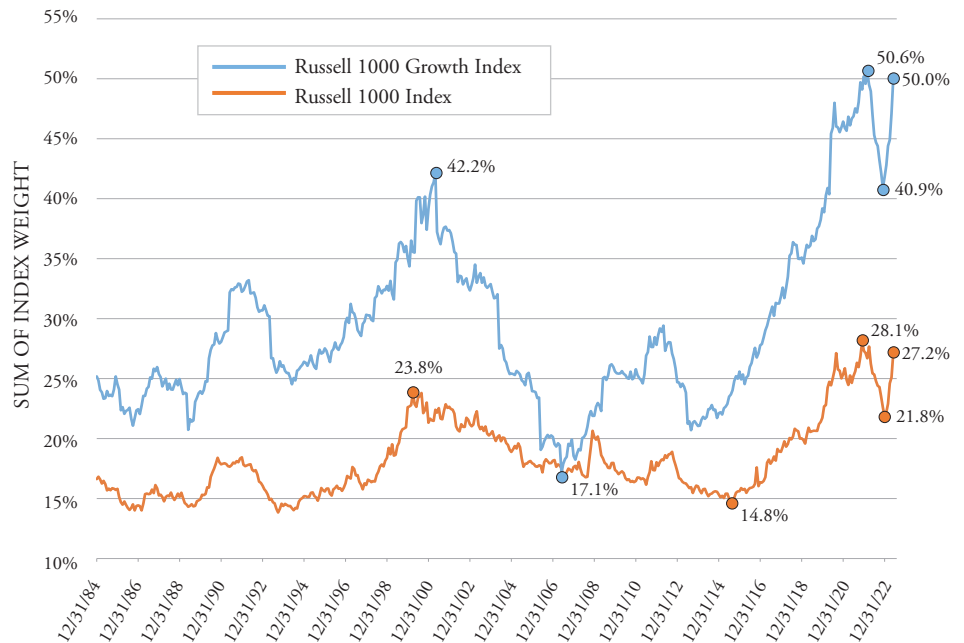
an opportunity today to consider a rebalancing of portfolios to more equal-weighted positions.

The outperformance of mega-cap stocks has resulted in high levels of index concentration in a relatively small number of stocks. While much of the market's advance this year is due to the mega-caps, much of the decline in the market last year was due to mega-caps as well. At the end of the second quarter, the weighting of the 10 largest stocks in both the broad Russell 1000 Index and the growth-oriented Russell 1000 Growth Index was at or near the highest levels ever, reflecting their popularity amongst investors.

“Popularity” doesn't translate into “bullet-proof”, however. 1999 and early 2000 were marked by a high level of index concentration as well, and mega-cap stocks were among the most popular holdings of many investors. While those companies may have been viewed then as core long-

term holdings that might never need to be sold, 8 of the 10 largest stocks in the Russell 1000 Index in early 2000 have underperformed the S&P 500 since that time and 6 have actually *declined* in price over the past 23 years. It is worth noting that the equal-weighted S&P 500 has also strongly outperformed the cap-weighted version over this period.

### Weight of 10 Largest Stocks in the Russell 1000 and Russell 1000 Growth Indices



Data from 12/31/1984–6/30/2023  
Sources: FactSet, FTSE Russell

### Where Are They Now?

#### 10 Largest Russell 1000 Companies as of 3/31/2000<sup>(1)</sup> (prices adjusted for splits)

	Price as of 3/31/2000	Price as of 6/30/2023	% Change 3/31/2000–6/30/2023
Cisco Systems	\$77.31	\$51.74	-33.1%
General Electric	\$398.92	\$109.85	-72.5%
Intel	\$65.97	\$33.44	-49.3%
Microsoft	\$53.13	\$340.54	541.0%
Exxon Mobil	\$38.97	\$107.25	175.2%
IBM	\$112.71	\$133.81	18.7%
Citigroup	\$418.84	\$46.07	-89.0%
Lucent Technologies	\$61.25	\$2.34 <sup>(2)</sup>	-96.2%
AT&T	\$31.81	\$15.95	-49.9%
Oracle	\$39.03	\$119.09	205.1%
Russell 1000	1536.33	4,684.56	204.9%
S&P 500	1498.58	4,450.38	197.0%
S&P 500 Equal Weighted	1134.73	6,081.96	436.0%

Data as of 6/30/2023

<sup>(1)</sup> Price change only. Any securities referenced should not be considered a recommendation to purchase or sell a particular security. The past performance of these securities is no guarantee of future results.

<sup>(2)</sup> Lucent merged with Alcatel on 11/30/2006. Closing price on 11/29/2006 was \$2.34.

Source: FactSet

The intent of this paper is not to suggest that investors should sell every mega-cap stock that they own today. However, we believe that investors should review their current portfolios carefully to ensure that they are diversified beyond only the largest, most popular companies. There is an excellent opportunity today to take advantage of the return potential from a more equal-weighted investment approach.

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## DISCLOSURES

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## REFERENCED INDICES

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

**Russell 1000 Growth Index**— The Russell 1000<sup>®</sup> Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000<sup>®</sup> companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 1000 Index**— The Russell 1000<sup>®</sup> Index is a market capitalization-weighted index of the approximately 1,000 largest companies in the U.S. equity market.

**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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