Market Update

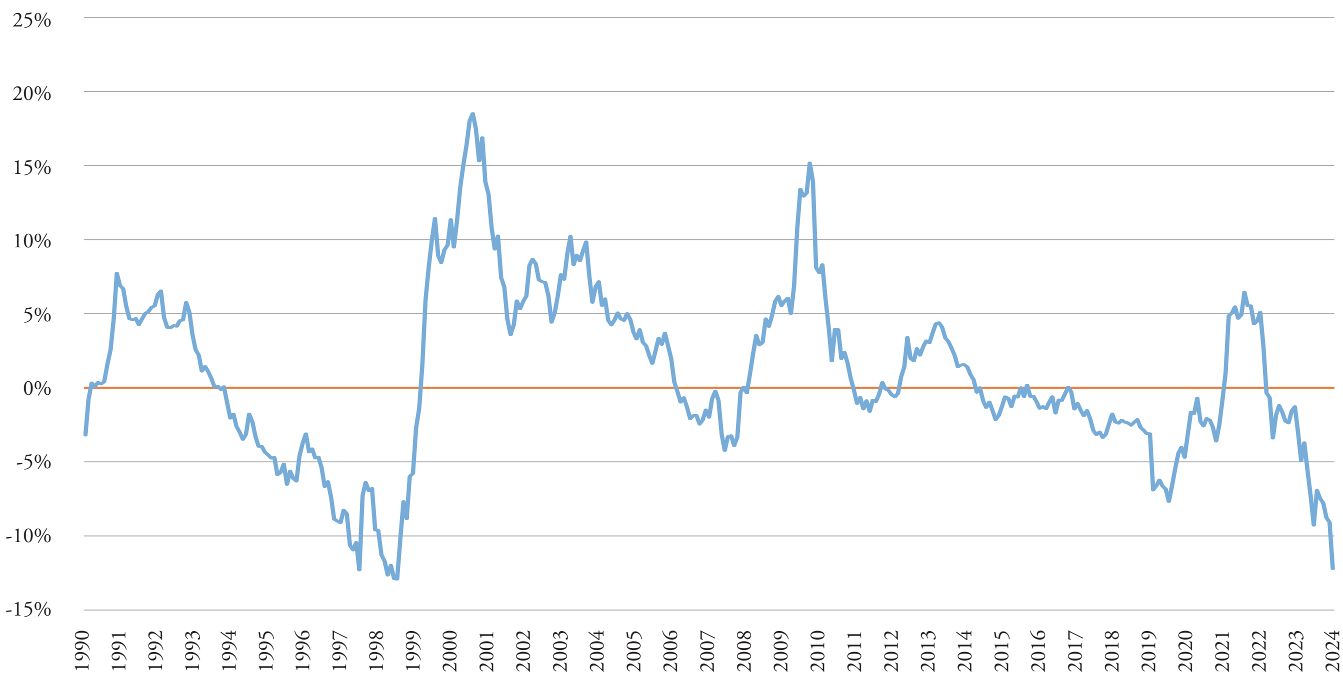
Mega-Cap Momentum and the Equal-Weighted Comeback: Investment Trends to Watch

The S&P 500 on an equal-weighted basis has outperformed the cap-weighted S&P 500 Index since the inception of the equal-weighted index by Standard and Poor's in 1990. However, there have been past shorter-term cycles when the equal-weighted index has underperformed the cap-weighted index. The past two-year period has been one of those cycles.

The chart below shows the rolling two-year difference in annualized returns between the equal-weighted and the cap-weighted S&P 500 Index. The past two-year period of underperformance by the equal-weighted index has been the most notable in recorded history, as the equal-weighted index posted a return 12% below that of the cap-weighted S&P 500. The only similar period of underperformance of this magnitude by the cap-weighted index occurred in the late 1990s.

Rolling 2-Year Annualized Return Difference

S&P 500 Equal-Weighted Index vs S&P Cap-Weighted Index



Data from 12/31/1990–12/31//2024
Source: S&P Dow Jones

It's not surprising that the cap-weighted index has outperformed in recent years when one considers that the weight of the largest 10 stocks in the S&P 500 has risen to over 38%, which, according to Goldman Sachs, marks the highest weight for the largest 10 stocks in over 100 years. As the largest stocks in the index have outperformed, the equal-weighted index has lagged behind.

The late 1990s period was similar to the past several years, as strong performance by mega-cap stocks led the market. Companies such as Cisco, General Electric, Sun Microsystems and AOL/Time Warner were among the market winners for much of the late 1990s. However, their performance lagged in subsequent years due to high valuations, competitive pressures, and the difficulty of achieving consistently high growth at a much larger firm size. The equal-weighted S&P 500 meaningfully outperformed the cap-weighted index after the late 1990s.

We continue to find many attractive investment opportunities in the market today, including a broad range of stocks across a variety of industries as well as selected stocks among the so-called "Magnificent Seven". A recovery in the performance of the S&P 500 equal-weighted index should provide an additional tailwind for our investment results going forward.

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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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