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Market Snapshot by Liz Ann Sonders

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Hi everybody, welcome to the June Market Snapshot. Thanks as always for tuning in. On this video, I'd like to talk about the recent concentration of stock market performance up the capitalization spectrum and what it might say about the broader environment and the near-term trajectory for the stock market.

There have been a few culprits to “blame” for the concentration of performance into a small handful of tech, tech related mega cap stocks. It actually tied into the onset of the banking crisis, also generally a lower liquidity environment, and of course, the enthusiasm around AI. As has been the case for most of this year, the classically defensive sectors, sectors like consumer staples and utilities, have sat pretty low on the leaderboard.

At the same time, the spread, the three-month spread between the weak performing sector energy, which by the way, was last year's huge sector winner, and technology, this year's sector darling, has actually moved to an historical extreme. So we are seeing a bit of a flip-flop relative to last year.

[High/Low Chart for Generals on front lines for Top 5 stocks is displayed]

Now as shown here, the five largest stocks in the S&P 500 now represent about 25% of the overall index, having just reached a post-1990 high. Now, of course, the list of stocks has changed over the years associated with this chart.

But at present, they are Apple, Microsoft, Amazon, Nvidia, and Alphabet. I'm guessing you've heard of all of them.

[High/Low Chart and table for Generals on front lines for Top 10 stocks is displayed]

Now, widening the lens just a bit, you can also see that the largest 10 stocks in the S&P 500 now represent nearly 35% of the index.

That's also a post-1990 high. At present, the additional five stocks, to round out the top 10, actually move outside of the techie area. They're Meta, Berkshire Hathaway, Tesla, United Healthcare and ExxonMobil. Again, although the strength in the market has been sort of generically attributed to tech, the reality is that these stocks do span a number of different sectors.

In fact, even the top five span the technology, communication services, and consumer discretionary sectors.

[High/Low Chart for Soldiers falling way behind is displayed]

Now, another way to see the impact of the narrowness of the market is to look at the percentage of S&P 500 member stocks that have outperformed the index. And we did this over the trailing three-month period.

And as you can see here, the latest reading is a record low over this span back to 1993. That's where our data goes back to, but it's likely the case based on what I know that this is a record low, probably even back to the early 1970s.

[High/Low Chart for A left-of-center performance distribution is displayed]

Now, if we break down the S&P 500 by five percentage point ranges, performance ranges. This histogram shows the distribution of returns on a year-to-date basis.

[Red dotted vertical line for A left-of-center performance distribution for S&P 500 year-to-date return is displayed]

Now, we've marked the histogram with the S&P 500 year-to-date return, which highlights the very large percentage of stocks that are to the left of that return.

In fact, more than half of the S&P 500's member stocks have negative year-to-date returns, obviously in stark contrast to the index’s gain of more than 11%.

[High/Low Chart for Miniscule share of Nasdaq 100 at new highs is displayed]

Now, because of its outsized exposure to many of the best performing stocks, the NASDAQ 100, that's the largest 100 stocks in the overall NASDAQ, is up more than 32% this year so far. But in another example of the market's narrowness, you can see that well less than 10% of that index of stocks are actually trading at new 52-week highs.

[List of Takeaways is displayed]

The net is the largest stocks dominating performance is not uncommon. in cap weighted indexes like the S&P 500, like the NASDAQ or the NASDAQ 100. But when the remaining stocks are significantly underperforming, near term risks become more elevated. This year, what we're seeing in market behavior does look strikingly different from other significant rallies over the past decade or so.

Yes, the S&P 500 has rallied 20% from its October 2022 low. Yet nearly a third of the index's stocks are still in bear market territory, meaning down more than 20% from their highs. If you look back at similar periods over the history of the S&P 500, which dates all the way back to 1928, stocks did tend to struggle in the short term after situations like this, narrowness similar to this. Good news is though, longer term returns were much better.

Unfortunately, there's no way to use history to judge the longevity of narrow market performance. However, we have seen a pretty significant improvement in breadth very recently, and that is a very welcome sign. In fact, just in the past few days, the percentage of S&P 500 stocks trading above their 50-day moving averages has jumped from only 30% to now more than 52%.

And there's been an even larger jump for what has been a very beleaguered small cap index, the Russell 2000, from below 40% last month to nearly 70% at present. Now, regardless of the near term outcome, we continue to suggest investors don't chase outsized returns. Take advantage of some profit taking and rebalancing to keep your own portfolios from becoming overly biased toward a small handful of stocks.

In fact, narrow markets can provide opportunities for investors to do what we've often said, take a factor-based screening approach amid the large swath of the market that's been underperforming. And maybe most important in an environment like this, remember that FOMO, fear of missing out, for those who don't know the acronym, is not an investment strategy. Thanks as always for tuning in, and we'll see you next month.

[Disclosures and Definitions are displayed]