



# Investment Perspectives

## 2023 Market Assessment – The Magnificent 7

September 2023



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### Key Takeaways

- The S&P 500 has been driven by 7 mega-cap names so far in 2023, with an average return of 99% through August 31<sup>st</sup>. An incredible return in such a short period of time, with 3/7 up well over 100% YTD.
- Given the concentration of returns and narrow market leadership, it may be worth exploring other names within the S&P 500 or even their US small/mid-size counterparts for future growth.

So far in 2023, the U.S. large cap stock market has been led by the top 7 names in the S&P 500. As of August 31<sup>st</sup>, if you invested into the market-cap weighted fund, SPY-SPDR S&P 500 ETF, at the start of the year, your year to date (YTD) return would be +18.64%.

This fund is market weighted, meaning the top 7 companies in the fund make up about 28% of the fund’s investment strategy. As you can see in the graph below, those 7 large cap companies have returned an average of 99% so far this year, a tremendous return for such a short period of time.

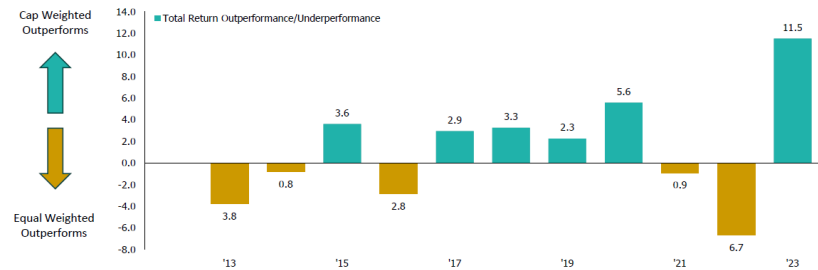
	Apple	Microsoft	Alphabet	Amazon	NVIDIA	Tesla	Meta	Average
Current Market Cap	\$2.9T	\$2.4T	\$1.7T	\$1.4T	\$1.2T	\$800B	\$760B	\$1.6T
YTD Return	45%	38%	54%	64%	238%	110%	146%	99%
Jan 2023 Fwd P/E	21x	24x	15x	32x	38x	25x	13x	24x
Current Fwd P/E	27.4x	28.9x	21.5x	47.5x	30.1x	61x	19.2x	34x
As of 8/31/2023								

On the flip side, if you had invested into an equal weighted fund, RSP – Invesco S&P 500 Equal Weighted ETF, at the start of the year, your YTD return would only be +7.16%. The reason is fairly obvious; since this fund is equal weighted with more investment dollars spread to the other companies in the index, the 7 large cap companies listed above only make up about 1.4% of the fund’s investment strategy vs. nearly 30% in the market cap weighted index.

This is clearly a huge difference in return, but is it sustainable? That’s the question facing investors and financial advisors. Does it make sense to pile dollars into the market-cap weighted strategy, or follow the less common equal weighted strategy? Here are a couple of key items for consideration.

1. As we think about this from an investment management standpoint, what companies make up those top weightings in the market-cap index and how do you believe they will perform going forward? If we go back to the chart above, all of the stocks referenced are concentrated in either the technology or consumer discretionary sectors. Most of the names have also seen their price-earnings (P/E) multiples expand due to the rapid price growth so far this year. So, this could mean they are fully valued or even overvalued.
2. How do you feel about large cap stocks relative to small/ mid cap stocks? By holding the market-weighted index fund, you are favoring the largest companies. If you were to allocate dollars to the equal-weighted index fund, you would then have more of your investment dollars going towards the smaller companies in the S&P 500. In recent years, the large cap U.S. companies have substantially outperformed smaller U.S. companies. Therefore, from an overall asset allocation standpoint, you could easily make the case that today the small/mid-size U.S. companies present a much more attractive valuation relative to the mega-cap stocks that have led the way so far in 2023.

As you can see from the chart below, large U.S. companies have been the dominant performer for most of the last decade.



So, what are financial advisors and investors to do? Over the long-term, the data suggests that equal weighting your investment strategy provides the best opportunity for outperformance since you have a bias towards smaller companies, avoid large concentrations and are constantly rebalancing the portfolio to maintain equal weighting. While this is certainly not a guarantee for future results, reallocating some dollars out of the magnificent 7 and into other large cap stocks or even their small to mid cap counterparts could be a wise move going forward.

