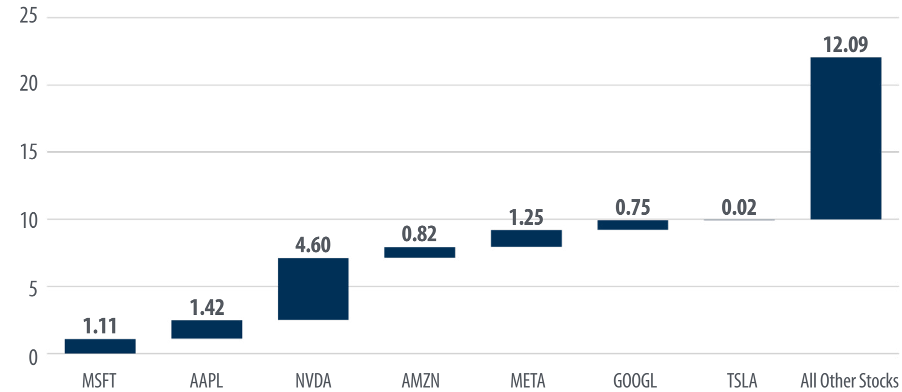
October 3, 2024

In this week's edition of "Three on Thursday," we explore the performance of the S&P 500 Index in the third quarter of 2024. The Index posted an impressive total return of 5.9% for the quarter, bringing its year-to-date (YTD) total return to 22.1%. This marks not only the best start to a year since 1997 but also the strongest first nine months ever recorded in a U.S. election year. Remarkably, the S&P 500 Index reached new all-time highs 43 times this year, closing the quarter at one of those record levels. Encouragingly, the market finally showed some signs of broadening out in the third quarter as a majority of growth did not come from the Magnificent Seven as seen over the past few years. Below are three charts to offer a deeper understanding of the events that unfolded during this extraordinary quarter.

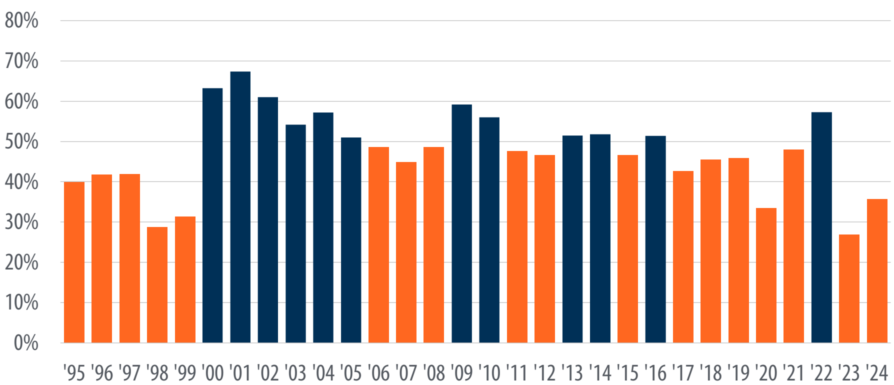
S&P 500 Index YTD Attribution through Q3 (Percentage Points)



Source: Capital IQ, First Trust Advisors. Data from 12/31/23 – 9/30/24.

The "Magnificent 7" — Apple, Nvidia, Microsoft, Amazon, Tesla, Alphabet, and Meta — currently hold a combined 29.4% weighting in the S&P 500 Index and have contributed a substantial 45.2% (or 9.97 percentage points) of the market's 22.1% total return YTD through Q3. However, in the third quarter alone, their impact was muted, accounting for just 0.5 percentage points of the 5.9% total return. In fact, four of these companies (Microsoft, Nvidia, Amazon, and Alphabet) actually detracted from the market, collectively pulling down overall returns by 0.90 percentage points. Yet, the broader market showed resilience, with the remaining 493 companies in the S&P 500 stepping up to contribute 90.8%, or 5.3 percentage points of the third-quarter gain.

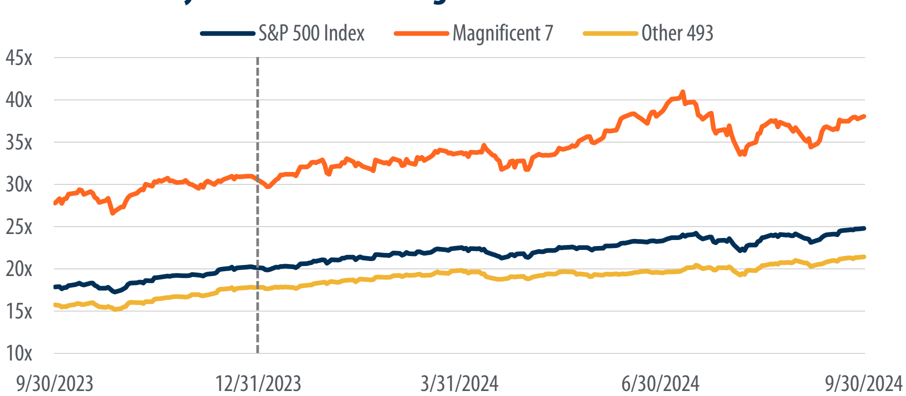
Percentage of S&P 500 Index Members Outperforming the Index in 2024



Source: Capital IQ, First Trust Advisors. Data from 12/30/94 - 9/30/24.

In 2023, market gains were highly concentrated, with only 27% of the companies in the S&P 500 Index outperforming the benchmark. However, through the first three quarters of 2024, we've seen a shift toward a more broad-based rally, as 36% of companies have surpassed the Index's performance. Notably, the third quarter demonstrated even greater inclusivity, with 65.9% of S&P 500 Index constituents exceeding the overall Index's return over the quarter. We believe this trend toward more widespread market participation will continue—a welcome change from last year's narrow gains. Nevertheless, despite this improvement, the year-to-date percentage of companies outperforming the Index, at 36%, still falls below the 29-year average of 48%.

Forward P/E by S&P 500 Index Segment Based on the 2024 EPS



Source: Capital IQ, First Trust Advisors. Data as of 9/30/24.

The S&P 500 Index has delivered a strong total return of 22.1% through the first three quarters of 2024, yet earnings expectations have not kept pace with this growth. As a result, the price-to-earnings (P/E) ratio for the Index based on 2024 earnings estimates has risen, expanding from 20.2 at the beginning of the year to 24.8 by the end of September. The "Magnificent 7" have seen an even more pronounced increase in their P/E ratio, climbing from 30.8 to 38.1 over the same period. Meanwhile, the P/E for the remaining 493 companies in the Index also moved higher, from 17.8 to 21.4. This upward shift reflects rising market valuations despite more modest earnings growth.