MARKET MINUTE

With McGAREL

Dave McGarel, CFA, CPA

Chief Investment Officer

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The S&P 500 Index (index) looks significantly different today than it did 10 years ago. This is not your grandparents' index. This is not your parents' index either. Actually, it's not even your older siblings' index! What a difference 10 years can make!

The top 10 stocks in September 2014 comprised 18% of the S&P 500 Index's weight (Table 1). Today, the top 10 stocks represent 36% of its weight (Table 1). While Apple was the biggest stock in both periods, Microsoft and Alphabet were the only two other technology (tech+) stocks in the top 10 in September 2014. Today, however, there are 8 technology (tech+) names in the top 10. The technology (tech+) weighting in the index has seen a huge increase. There is no doubt in our minds the market capitalization (cap) weighted index has been the place to be these last 10 years.

The question looking forward is one of risk and reward. The outperformance over the last 10 years has included a large increase in the P/E multiple of the technology sector and the entire S&P 500 index. Today, there is also significantly more sector concentration and single stock exposure at the top of the S&P 500 Index than 10 years ago. Ten years ago, the top 10 stocks collectively had a low forward P/E multiple relative to the rest of the index while today they have the highest multiple by far (Chart 2).

While the index is now very top heavy, we prefer to think of it as bottom light. The bottom 490 names share only 64% of the index's weight. Overweighting the biggest stocks was the way to outperform the index over the last 10 years. Hindsight is easy. What about now?

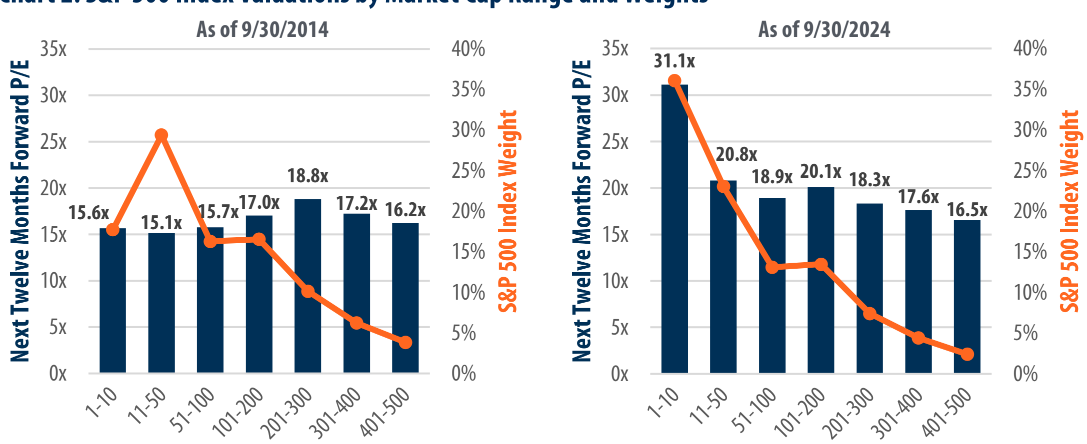
We believe the rest of the index may be ready to reward investors. There are many great companies in the index that have much smaller weightings than just 10 years ago despite significant growth and attractive performance in their own right. As a result, their importance to the index return has been significantly diminished in the last 10 years as the mega caps have garnered more and more of the exposure.

In our view, considering the 2025 earnings growth differential between mega caps and smaller large caps in the S&P 500 Index is expected to narrow and there exists a large valuation disparity between them, the real risk may now be at the top of the index and the best opportunity across the rest of the index.

Table 1: Top 10 S&P 500 Index Holdings (%)

As of 9/30/2014		As of 9/30/2024	
Apple Inc	3.42	Apple Inc	7.27
Exxon Mobil Corp	2.28	Microsoft Corp	6.57
Microsoft Corp	2.18	NVIDIA Corp	6.13
Alphabet Inc	1.88	Alphabet Inc	3.64
Johnson & Johnson	1.69	Amazon.com Inc	3.57
General Electric Co	1.45	Meta Platforms Inc	2.57
Berkshire Hathaway Inc	1.43	Berkshire Hathaway Inc	1.73
Wells Fargo & Co	1.40	Broadcom Inc	1.65
Procter & Gamble Co/The	1.30	Tesla Inc	1.49
Chevron Corp	1.29	Eli Lilly & Co	1.44

Chart 2: S&P 500 Index Valuations by Market Cap Range and Weights



Source: Capital IQ. Estimates are based on the next four quarters. Forward estimates are divided by the trailing four quarters of earnings to derive future growth rates. There can be no assurance that any estimates will be achieved.

Past performance is no guarantee of future results.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. **Forward Price-to-Earnings (P/E)** is the price of a stock divided by estimated forward earnings. **Technology Plus (Tech+)** is a combination of the technology sector; the interactive home entertainment and interactive media & services industries; Amazon.com Inc., Tesla Inc., and Netflix Inc.

Index data is for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future.

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