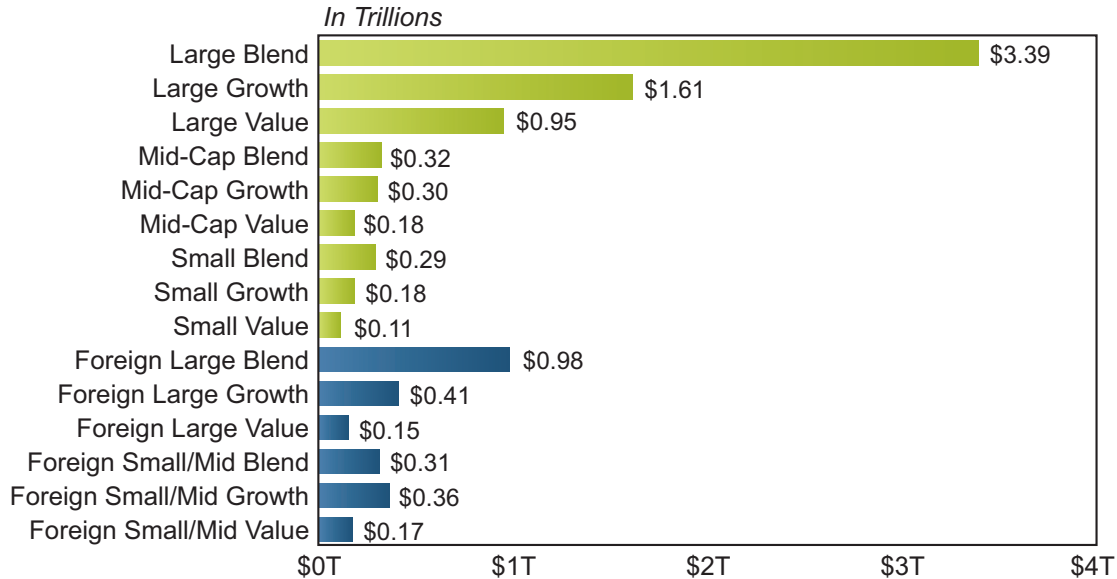


Many Investors Could Be Underweight U.S. Mid- & Small-Cap Stocks

Total Net Assets In Large-, Mid- & Small-Cap Mutual Funds/ETFs



Source: Morningstar (U.S.-based fund categories) as of 3/31/20.

View from the Observation Deck

1. Today's blog post focuses on equity asset allocation via market capitalization (cap). In other words, how much capital do investors commit to U.S. and foreign large-, mid- and small-cap stocks. We use mutual fund and exchange-traded fund (ETF) asset levels as a barometer.
2. As indicated in the chart, as of 3/31/20, investors had positioned a combined \$5.95 trillion in the three U.S. large-cap categories, while allocating just \$0.80 trillion and \$0.58 trillion, respectively, to the mid- and small-cap categories.
3. Overall, of the \$7.33 trillion allocated to these nine categories as of 3/31/20, 81% was in U.S. large-cap stock portfolios.
4. As of 3/31/20, investors had positioned a combined \$1.54 trillion in the three foreign large-cap categories featured in the chart, while allocating just \$0.84 trillion to the three small/mid categories.
5. Overall, of the \$2.38 trillion allocated to these nine categories as of 3/31/20, 65% was in foreign large-cap stock portfolios.
6. With one exception (Foreign Small/Mid Blend), investors have favored the blended portfolios, which have exposure to both growth and value stocks.
7. There were only three style/market caps featured in the chart that had positive estimated net flows in Q1'20. They were as follows: \$41.03 billion (Foreign Large Blend), \$28.17 billion (Large Blend) and \$218 million (Foreign Small/Mid Value), according to Morningstar.
8. While risk tolerance is always an important factor in determining where to allocate investment capital, the fact that mutual fund and ETF investors have just 19% of their capital earmarked for U.S. stocks in mid- and small-caps is a bit surprising, in our opinion. At a 65%/35% split, however, investors appear to be employing more of a balanced approach to allocating capital in the foreign mutual funds and ETFs.
9. From 12/31/94 through 12/31/19, a 25-year period that included the internet revolution and two severe bear markets, the S&P 500 Index posted an average annual total return of 10.21% (1,038.36% Cumulative TR), compared to 12.07% (1,630.94% Cumulative TR) and 11.20% (1,324.03% Cumulative TR), respectively, for the S&P MidCap 400 and S&P SmallCap 600 Indices, according to Bloomberg. Both mid- and small-caps notably outperformed their large-cap counterpart.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. There can be no assurance that any of the projections cited will occur. Past performance is no guarantee of future results. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. The S&P MidCap 400 Index is a capitalization-weighted index that tracks the mid-range sector of the U.S. stock market. The S&P Small Cap 600 Index is a capitalization-weighted index that tracks U.S. stocks with a small market capitalization.

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