

Cash Flow and Carey



Robert Carey, CFA
Chief Market Strategist

9/26/23



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. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 companies 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 SmallCap 600 Index is a capitalization-weighted index that tracks U.S. stocks with a small market capitalization. The 11 major sector indices are capitalization-weighted and comprised of S&P 500, S&P MidCap 400 and S&P SmallCap 600 constituents representing a specific sector.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

Sector Performance Via Market Cap

Large-, Mid-, & Small-Cap Total Returns

■ 12/31/21 – 12/30/22 ■ YTD – 9/22/23

Category	S&P 500		S&P MidCap 400		S&P SmallCap 600	
Index	-18.13%	13.87%	-13.12%	3.90%	-16.15%	0.24%
Comm. Services	-39.89%	40.45%	-20.40%	-15.28%	-34.51%	2.56%
Consumer Disc.	-37.03%	26.92%	-21.03%	4.90%	-27.84%	6.78%
Consumer Staples	-0.62%	-2.84%	-0.77%	9.80%	-6.50%	4.95%
Energy	65.43%	4.61%	36.63%	9.48%	47.62%	11.13%
Financials	-10.57%	-0.10%	-3.48%	-5.25%	-14.12%	-13.26%
Health Care	-1.95%	-3.03%	-20.05%	-4.30%	-26.32%	-13.79%
Industrials	-5.51%	4.96%	-11.51%	16.04%	-9.52%	11.87%
Info. Tech.	-28.19%	34.83%	-20.47%	13.84%	-22.37%	8.50%
Materials	-12.28%	2.36%	-2.73%	0.97%	-6.09%	3.49%
Real Estate	-26.21%	-4.17%	-26.35%	-4.72%	-29.50%	-7.26%
Utilities	1.56%	-8.05%	-0.15%	-16.47%	-1.84%	-12.37%

Source: Bloomberg. Past Performance is no guarantee of future results.

View from the Observation Deck

We update today's table on a regular basis to provide insight into the variability of sector performance by market capitalization. As of the close on 9/22/23, the S&P 500 Index stood 9.93% below its all-time closing high, according to data from Bloomberg. The S&P MidCap 400 and S&P SmallCap 600 Indices stood 14.26% and 21.80% below their respective all-time highs.

- **Large-cap stocks, as represented by the S&P 500 Index ("LargeCap Index"), posted year-to-date (YTD) total returns of 13.87%, significantly outperforming the S&P MidCap 600 ("MidCap Index") and S&P SmallCap 400 ("SmallCap Index") indices, with total returns of 3.90% and 0.24%, respectively, over the period (see table).**
- **Sector performance can vary widely by market cap and have a significant impact on overall index returns. Three of the more extreme cases in 2022 were Health Care, Energy, and Consumer Discretionary. This year, the Communication Services, Financials, Health Care, and Technology sectors, to name a few, reveal a significant variance of returns across market capitalizations.**

Communication services and technology stocks, the two top-performing sectors YTD, represented 8.8% and 27.3%, respectively, of the weight of the LargeCap Index at the close of 9/25/23. By comparison, those sectors represented 1.7% and 10.4% of the MidCap Index, and 2.9% and 12.70% of the SmallCap Index, respectively. Indicative of persistent headwinds from the global banking crisis earlier this year, small and mid-size financial stocks continue to underperform their larger counterparts YTD.

- **As of the close on 9/22/23, the price-to-earnings (P/E) ratios of the three indices in today's table were as follows: S&P 500 Index P/E: 21.16; S&P MidCap 400 Index P/E: 15.71; S&P SmallCap 600 Index P/E: 15.31.**

P/E ratios have increased for all three of these indices since our last post on this topic ([Click here](#) to view that post). The data continues to show that U.S. mid and small-sized companies offer more attractive P/E ratios when compared to their larger counterparts.

Takeaway

Echoing the situation we wrote about in June, when comparing valuations, mid-cap and small-cap stocks remain attractive compared to their large-cap peers. Over the 10-year period ended 9/22/23, the average monthly P/E ratios for the three indices was as follows: S&P 500 Index: 20.52; S&P MidCap 400 Index: 21.38, and S&P SmallCap 600 Index: 25.56, according to data from Bloomberg. As of market close on 9/22/23 the P/E ratios for those indices stood at 21.16, 15.71, and 15.31, respectively. Larger companies are often viewed as being more stable during periods of economic turmoil. That said, should the Federal Reserve continue along the path of "higher for longer" we expect the current downward pressure on equity valuations to continue in the near-term.