

The S&P 500 Index is on pace to deliver a roughly 30% return for the year. If you look under the hood, you'll notice that the top ten holdings in the index represent roughly 30% of the index's total market capitalization – roughly \$13 trillion. Furthermore, if you aggregate the year-to-date returns across this group of top ten holdings (weighted by their respective market capitalizations), the result is a gain of roughly 46%.

To say that the S&P 500 is a highly concentrated, mega-cap growth index is an understatement. To get a better sense of how stocks in general are performing, it is helpful to dig a bit deeper under the surface beyond the mega-cap names.

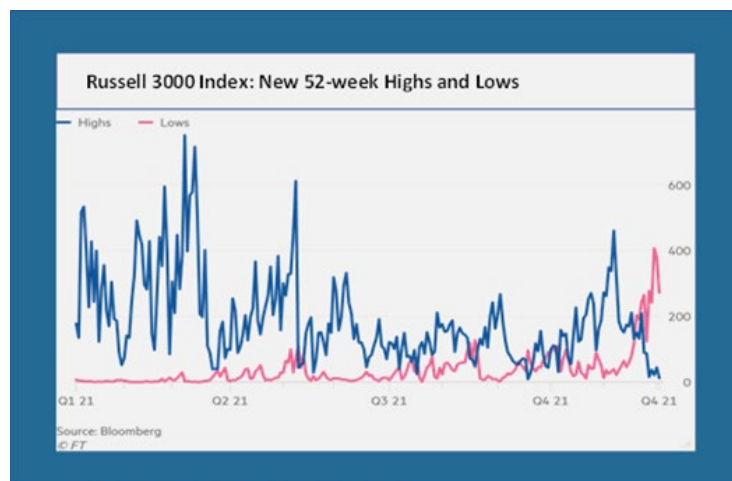
Like the S&P 500 Index, the Russell 3000 Index measures the performance of publicly traded equities in the US. However, rather than tracking the 500 largest companies by market capitalization, the Russell 3000 Index includes medium and small capitalization stocks. The universe the index tracks is six times larger.

The Russell 3000 Index isn't quite as "top heavy" as the S&P 500 Index despite being a capitalization weighted benchmark. The top 10 holdings in the Russell 3000 Index represent approximately 24% of the total index capitalization.

By mid-December, the Russell 3000 Index was approximately -3.4% from its 52-week high, which also coincided with its all-time high. Below, however, are a few telling statistics that will certainly raise eyebrows:

- 2288 stocks (76.2% of the index) are **-10% or more** below their respective 52-week highs
- 1884 stocks (62.8% of the index) are **-15% or more** below their respective 52-week highs
- 1564 stocks (52.1% of the index) are **-20% or more** below their respective 52-week highs
- 1283 stocks (42.7% of the index) are **-25% or more** below their respective 52-week highs
- 1068 stocks (35.6% of the index) are **-30% or more** below their respective 52-week highs
- 913 stocks (30.4% of the index) are **-35% or more** below their respective 52-week highs
- 793 stocks (26.4% of the index) are **-40% or more** below their respective 52-week highs
- 559 stocks (18.6% of the index) are **-50% or more** below their respective 52-week highs

To help visualize what is happening below the surface, the chart below illustrates the number of stocks in the Russell 3000 Index that are reaching 52-week highs and lows. We can clearly see a rotation – or a flip – towards the right-hand side of the chart that shows a dip in the number of new 52-week highs and corresponding rise in the number of 52-week lows.



Source: MVF Research, Financial Times, Bloomberg

To be clear, the number of new lows illustrated above tend to be dominated by small cap names. If we look at the Russell 2000 Index, which represents the smallest 2000 names in the larger Russell 3000 Index by market capitalization, we'll notice some recent underperformance versus the broader market. The chart below illustrates the recent roll over in the Russell 2000 Index:



Source: MVF Research, FactSet

The recent underperformance of small caps could be an indication that investors are shunning riskier parts of the equity market. In general, small caps tend to be more sensitive to changes in interest rates and the overall business cycle.

It's clear that mega-cap growth names have been doing much of the heavy lifting in terms of performance. However, we are seeing meaningful disconnects across market capitalizations that are worth our attention.



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