

Making Sense

Market Breadth Improves...A Good Sign for the Stock Market?

In [this month's market update](#), we discussed the Federal Reserve's updated economic projections, fixed income markets, and the remarkable stock market returns that dominated investors' attention in the first quarter.

The S&P 500 has already returned +10% to date (+45% annualized). These numbers are extraordinary, and clients are rightly asking whether equity prices can still move higher after such an intense rally. **We think the answer over the next 12 months is likely "yes," and a recent broadening in stock market performance leaves us increasingly optimistic.**

Because the S&P 500 is weighted by market capitalization, the largest companies' performance has an outsized impact on the index. This year – as in 2023 – large companies have outperformed and thus propelled the bulk of S&P 500 total returns. But what if we want to demonstrate a more balanced view? In the left panel of Figure 1 below, we weight all 500 companies equally, allowing a 1% change in both the smallest and largest company to have the same impact. This equal-weighted index has underperformed the S&P 500 by a full 4% since the start of the year, indicating smaller companies have not kept up.

Over the last few weeks however, returns are no longer as lopsided. The right panel of Figure 1 shows the return from the same equal-weighted index—but this time just since February, which now basically matches that of the market cap-weighted index. **This greater breadth should afford more confidence to investors who are skeptical of the rally's concentration in a specific sector or class of company.**

This trend—along with strong corporate earnings and a resilient economy—is encouraging for equity prices this year. Our 12-month S&P 500 price target is now 5,500. Even though an intra-year drawdown seems likely, it's important to remember markets rarely move up in a straight line for extended periods.

Figure 1: S&P 500 Returns Have Broadened Since February

S&P 500: 1/1/24-3/22/24		S&P 500: 2/2/24-3/22/24	
Index:	Total Return	Index:	Total Return
S&P 500	10.1%	S&P 500	5.82%
S&P 500 Equal Weighted	6.1%	S&P 500 Equal Weighted	5.83%
Difference	4.0%	Difference	-0.01%

Source: Bloomberg

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