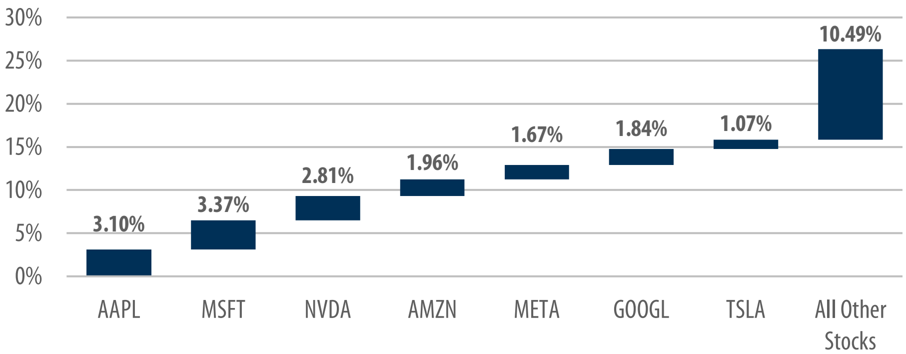
January 25, 2024

This week's edition of "Three on Thursday" looks at the S&P 500 Index in 2023. Widely regarded as a barometer for the overall stock market, the S&P 500 Index tracks the performance of 500 of the largest companies listed on U.S. stock exchanges. The S&P 500 Index adopts a market-cap weighting approach, allocating a higher percentage of the Index to companies with larger market capitalizations, adjusting for the number of shares available to trade publicly. For 2023, the S&P 500 Index delivered a total return of 26.3%. Serving as a benchmark for the broader stock market, many investors found themselves disappointed as their portfolios did not experience comparable growth last year, falling short of the 26% mark. To unravel the reason behind this disparity, along with other valuation metrics, we present three informative charts below.

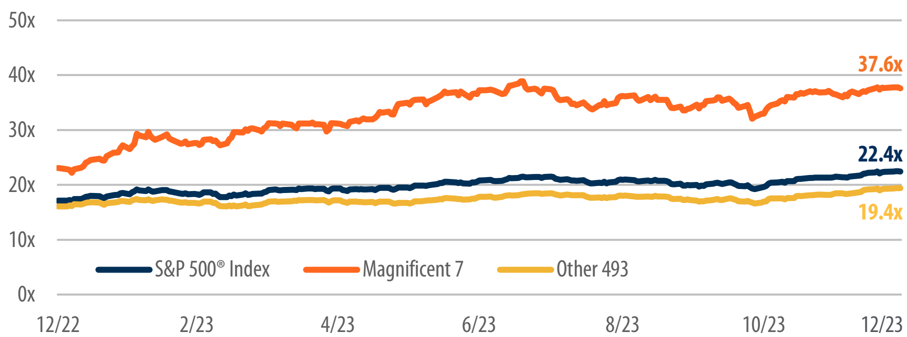
S&P 500® Index 2023 Attribution



Source: CapitalIQ, S&P, Russell. Data from 12/31/22 – 12/29/23.

If you have adhered to the advice of financial professionals (and we believe you should) and built a highly diversified portfolio, last year may have seen your performance lagging behind the S&P 500 Index. The reason lies in the dominance of the so-called "Magnificent 7" companies —Apple, Nvidia, Microsoft, Amazon, Tesla, Alphabet, and Meta. Astonishingly these seven giants, which currently boast a combined 25.9% weighting in the S&P 500 Index, contributed to most of the returns in the market last year. The S&P 500 Index total return grew 26.3% for 2023, with the Magnificent 7 accounting for 60.2% of the return. Last year through the end of October, the Magnificent 7 alone accounted for more than 100% of the total return, implying the collective performance of the remaining 493 companies was negative for the year. So far in 2024 through January 23, the Magnificent 7 have accounted for 73.7% of the 2.17% return.

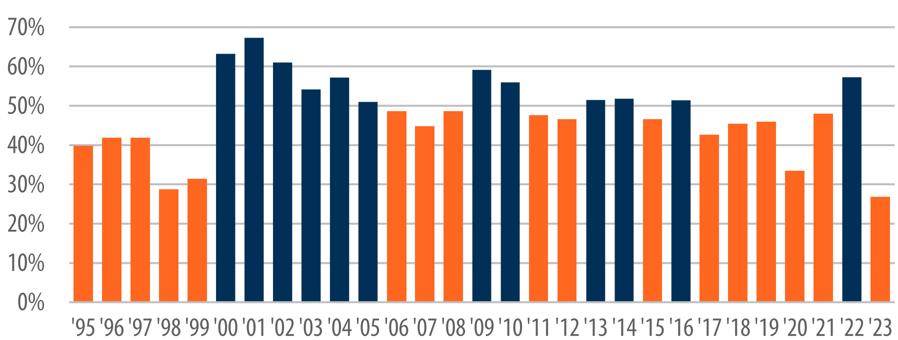
Forward P/E by S&P Segment Based on 2023 Earnings Per Share



Source: Capital IQ. Data from 12/30/22 - 12/29/23.

Earnings declined in the first and second quarters for 2023, rose in the third, and are on pace to rise in the fourth. But for all of 2023, earnings are expected to be down slightly. Yet in 2023 the S&P 500 Index total return surged by 26.3%. This has led to an increase in the price-to-earnings multiple (P/E) for the S&P 500 Index which expanded to 22.4x by the end of 2023 from 17.1x at the start of the year. The notable expansion last year could be primarily attributed to the extraordinary price performance of the Magnificent 7. Their P/E has experienced a significant surge from 22.8x at the beginning of the year to 37.6x by the end. In contrast, the P/E for the other 493 companies moved much less dramatically in 2023 from 16.1x to 19.4x.

Percentage of S&P Members Outperforming the Index



Source: Capital IQ. As of 12/29/23.

As the "everything rally" took hold in the final two months of 2023, 57% of the S&P 500 Index members beat the benchmark over this period. But even with the wider breadth of the last two months of the year, only 27% of stocks beat the Index performance for 2023, resulting in the narrowest market since at least 1995.