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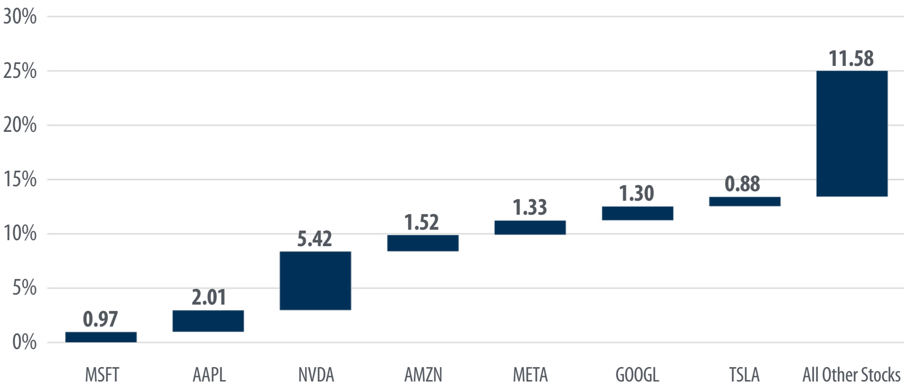
The S&P 500 Index in 2024: A Market Driven Once Again by the Mag 7

This week's edition of "Three on Thursday" looks at the S&P 500 Index in 2024. 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. For 2024, the S&P 500 Index delivered a total return of 25.0% coming on the back of a 26.3% gain in 2023. 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 25% Index return. To unravel the reason behind this disparity, along with other valuation metrics, we present three informative charts below.

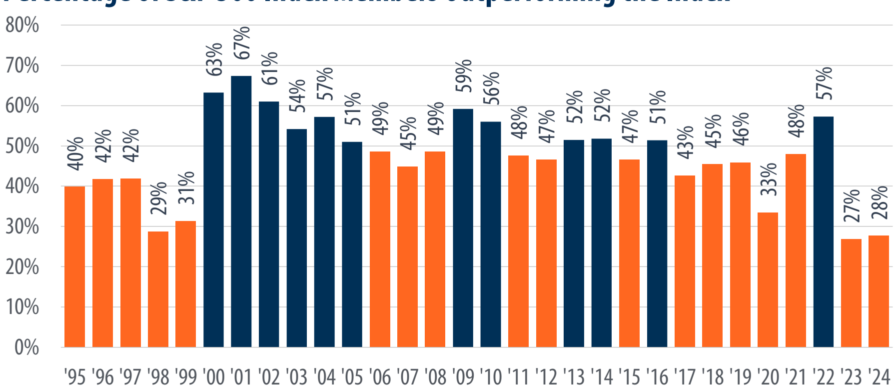
S&P 500 Index 2024 Attribution (Percentage Points)



Source: Bloomberg, First Trust Advisors. Data from 12/31/23 – 12/31/24.

The reason for the gap between the return on S&P 500 Index and the return in many investors' portfolios lies in the dominance of the so-called "Magnificent 7" ("Mag 7") companies — Apple (AAPL), NVIDIA (NVDA), Microsoft (MSFT), Amazon (AMZN), Tesla (TSLA), Alphabet (GOOGL), and Meta Platforms (META). These seven giants, which boasted a combined 30.6% weighting in the S&P 500 Index over 2024, contributed to most of the returns in the market last year. The S&P 500 Index had a total return of 25.0% in 2024, with the Mag 7 accounting for 53.7% of the return. This concentration of performance highlights the unique market dynamics of recent years and underscores the challenges of comparing diversified portfolios to such a narrow group of dominant companies.

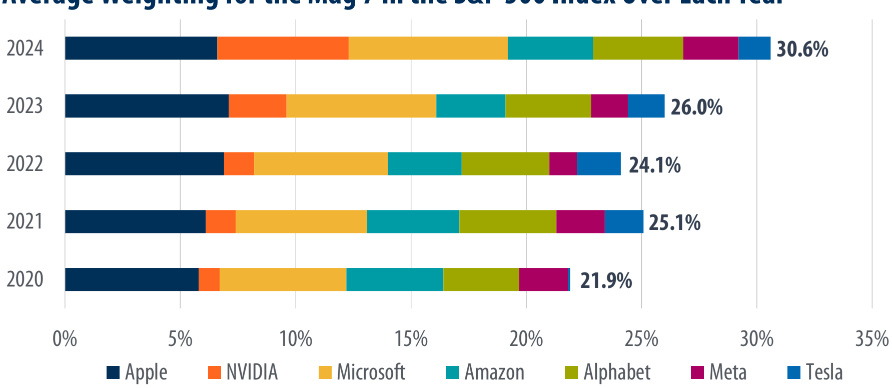
Percentage of S&P 500 Index Members Outperforming the Index



Source: Capital IQ, First Trust Advisors. Data from 12/30/94 - 12/31/24.

In 2023, only 27% of stocks outperformed the S&P 500 Index, making it the narrowest market since at least 1995. The trend continued in 2024, with just 28% of stocks beating the index—marking the second narrowest year in nearly three decades. Such extreme concentration hasn't been seen since 1998 and 1999. However, after that period in the late '90s, the market broadened out significantly over the following years.

Average Weighting for the Mag 7 in the S&P 500 Index Over Each Year



Source: Bloomberg, First Trust Advisors. Data from 12/31/20 - 12/31/24.

Over the past five years, the influence of the Mag 7 on the S&P 500 Index has grown dramatically. Their combined weighting surged from 21.9% in 2020 to over 30% in 2024—the highest concentration ever recorded. The S&P 500 Index weights stocks based on their market capitalization (stock price × total outstanding shares) relative to the total market cap of all index components. The performance of these companies has been remarkable. For example, NVIDIA's weighting jumped from 0.9% in 2020 to 5.7% in 2024. Among the group, Amazon was the only company to see a slight decline in its weighting, dipping from 4.2% in 2020 to 3.7% in 2024.