

MARKET MINUTE

WITH MCGAREL



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Chart Source: Bloomberg & Capital IQ. Monthly data is calculated from 1/31/00 to 1/31/23. For illustrative purposes and does not represent any actual investment. The median monthly forward price-to-earnings (P/E) ratio is used for each factor.

Past performance is no guarantee of future results.

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Forward Price to Earnings of a stock is the price divided by the estimated EPS for the next 4 quarters. Each factor is comprised of the top 30% of stocks from a universe of the largest 1,000 U.S. stocks with at least \$1 million dollars in average daily volume over the last 3 months and 12 months of trading history. **Value:** Lowest price-to-book. **Momentum:** Highest 12-month price change. **Quality:** Highest return-on-equity. **Small Size:** Lowest market capitalization. **Low Volatility:** Lowest 1-year price variability. **Dividend Yield:** Highest dividend yield. The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown

From December 31, 2017 through December 31, 2021, Apple, Microsoft, Alphabet, and Amazon massively outperformed the 91% cumulative return of the S&P 500 Index. Since those four companies represented the largest weights in the Index during those years, they also contributed significantly to the 17.6% average annual return over that four year period. The “worst” performer, Alphabet, almost doubled the index with a 177% cumulative return. The best? Apple, with a 339% cumulative return. Microsoft increased 314% and Amazon 185%. The biggest and the best.

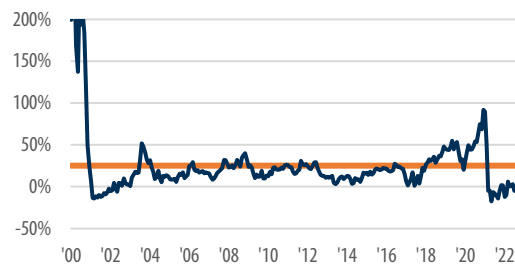
Each of those stocks fell more than 25% in 2022 and all performed worse than the 18.1% decline in the S&P 500 Index last year. Amazon fell 50%, Alphabet 39%, Microsoft 28%, and Apple 26%. The biggest and the worst.

Yet, at the end of January 2023, the four largest stocks in the S&P 500 Index were still Apple, Microsoft, Alphabet, and Amazon. Only four stocks in a 500 stock index but still 18% of the index weight. After years where the biggest names have had such a huge effect on the market returns, it’s no wonder many investors believe the stock market direction hinges on the performance of these four companies. History, however, tells us that the last four years are more an anomaly than routine.

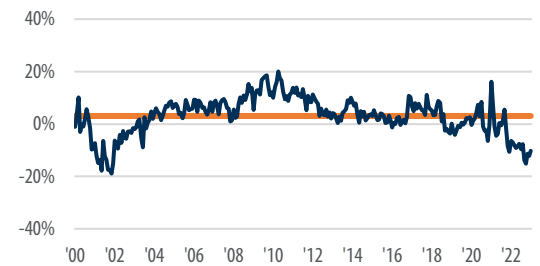
We believe the dominance and the focus on these massive companies over the last several years has created opportunities in the rest of the market that have been largely ignored. Specifically, there is empirical evidence that, over decades, certain factors produce excess returns versus the overall market. Specifically, value, yield, quality, momentum, small size, and low volatility have all been cited in studies as providing opportunities for outperformance over time. Today, as the chart below shows, five of the six factors are trading at a discount to their longer term value to the S&P 500 Index. Only low volatility sits at a slight premium to its longer term level.

As the market enters a new phase, we believe investors should focus less on the large dominant names at the top of the index. Merit based or other alternative weighting schemes not only take advantage of current valuation opportunities in today’s market but also reduces exposure to the top end of market cap weighted indexes. Additionally, factors that have good evidence of excess returns look attractively valued today as we believe the stock market is almost certain to see a different basket of stocks lead in the next bull market.

Momentum Premium/Discount to S&P 500



Small Size Premium/Discount to S&P 500



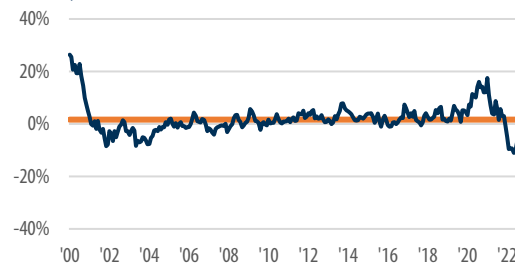
Dividend Yield Premium/Discount to S&P 500



Value Premium/Discount to S&P 500



Quality Premium/Discount to S&P 500



Low Volatility Premium/Discount to S&P 500

