THE BIG FEW: HOW A HANDFUL OF STOCKS DROVE THE MARKET'S FIRST HALF GAINS

After enduring an 18.6% decline in the S&P 500 Index ("Index") during 2022, one would expect many on Wall Street to be more enthusiastic about the 16.9% gain in the Index during the first half of 2023. However, nearly all the gains in the Index through June 30th are due to the outsized (and likely unsustainable) gains in a small number of large technology companies.

Historically, during a broad market advance, strong absolute and relative price performance is found across stocks of all market capitalization ranges, risk characteristics, and economic sectors. So far in the first half of 2023, this has not been the case. For example, the average stock of less than $75 billion in market value underperformed the Index.[1] Similar performance dividing lines were also present in the market with regards to risk exposure, where companies with a beta greater than 1 (more volatile than the market), a high price-to-earnings ratio, and the lowest dividend yield all outperformed the Index by large margins.

Nowhere was the differentiation more evident than in the sector performance breakdown. The companies in the Index are separated into 11 economic sectors (Energy, Utilities, Financials, etc.). In a typical broad-based market advance, roughly half, if not more, of the sectors (and individual stocks) perform better than the broad market return. According to Merrill Lynch, this has been the narrowest first half of a calendar year ever regarding these measures. Just three of the 11 sectors (Information Technology, Communication Services, and Consumer Discretionary) and only 25% of individual companies outperformed the Index.

The top-performing stocks in the Index all come from the three sectors mentioned above, and this is no surprise. These companies are also the seven largest companies in the Index. They are listed in the following table in order of their weighting in the Index. Their returns in the first half of 2023 are: [2]

Company	% of Index	% Return YTD[a]
Apple	7%	49.7%
Microsoft	6.5%	42.6%
Alphabet	3.9%	65.7%
Amazon	3.2%	55.2%
Nvidia	3.1%	189.5%
Tesla	1.7%	112.5%
Meta	1.7%	138.5%

[a] Total Return, 12/31/22 – 6/30/23

These seven stocks comprised 27% of the Index by market cap and accounted for approximately 12 percentage points[3] of the 16.9% total return in the Index in the first half of 2023. The valuation of these stocks had them trading at above market price-to-earnings ratios at the start of the year, which makes them relatively overvalued following their recent price gains. While we do not believe that these companies likely will be able to earn similar returns in the second half of this year, we do believe that the resilient economy and strong earnings performance will result in solid returns for equity investors moving forward.

We will continue to look for companies with strong growth potential that trade at reasonable prices to own in our portfolios. After the market's narrow focus in 2023, we have many areas to find underappreciated companies!

1 Merrill Lynch Performance Monitor, July 5, 2023
2 Bloomberg
3 Blackrock

The S&P 500 Index is a market cap weighted index that measures the performance of 500 U.S. companies focused on the large capitalization sector of the market. The S&P 500 Index returns do not reflect the deduction of fees, expenses, transactions costs or taxes that actual client accounts are subject to. Investors cannot invest directly in the S&P 500 Index.

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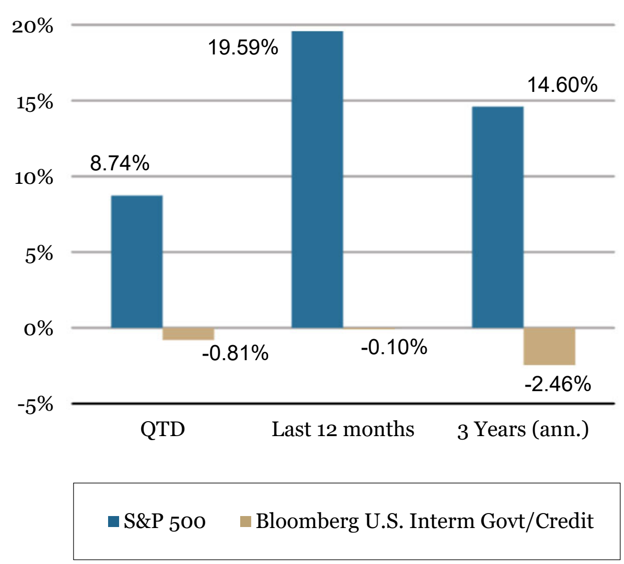
MARKET INDICES

Total Return as of 6/30/2023



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AUM

$1.8 billion

INCEPTION

1988

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