Are Markets Finally Broadening?

Stephen Masri

Managing Director – Investments

Oppenheimer & Co. Inc.
Chrysler Building East Annex
New York, NY 10017
(212) 667-4445 Phone
(800) 620-6726 Toll Free

On 4 December 2024, I wrote about the continued dominance of the Magnificent 7 in market indexes during the 2023-2024 rally. *Barron's* had observed:

> This anomaly has been "the greatest concentration of capital in the smallest number of companies in the history of the US stock market.

Our team expected the market to broaden from that narrow leadership to include more stocks. Here I consult four weekly charts to see if that long-awaited broadening is unfolding.

The charts cover the span from Covid 2020 to earlier this month. They show the post-Covid market bounce, the 2022 bear decline, then the "AI Rally" starting in 2023.

First, we see the headline S&P 500 Index breaking out. The two black vertical lines show the previous 2021 high and the 2023 breakout.

S&P 500 Headline Index (SPY ETF)

In contrast, the *equal-weighted* S&P 500 index below continued to lag the headline S&P until last summer. The equal-weighted S&P better represents the performance of the 493 companies that were not the Magnificent 7. It is closer to the experience of the average company's share price.

S&P 500 Headline Index (SPY ETF)

The equal-weight index finally broke out after lagging the headline for 1½ years. More companies began finally to keep pace with the headline S&P 500. The equal weight and headline S&P have since performed in line, a healthier looking market.

It is interesting also to examine the equal-weight NASDAQ index. Again, headline NASDAQ is capitalization weighted and inordinately dominated by the Magnificent 7. One might think AI would be positive for many tech stocks. Surprisingly, "average" NASDAQ stocks also lagged.

NASDAQ Equal Weight Index (QQEW ETF)
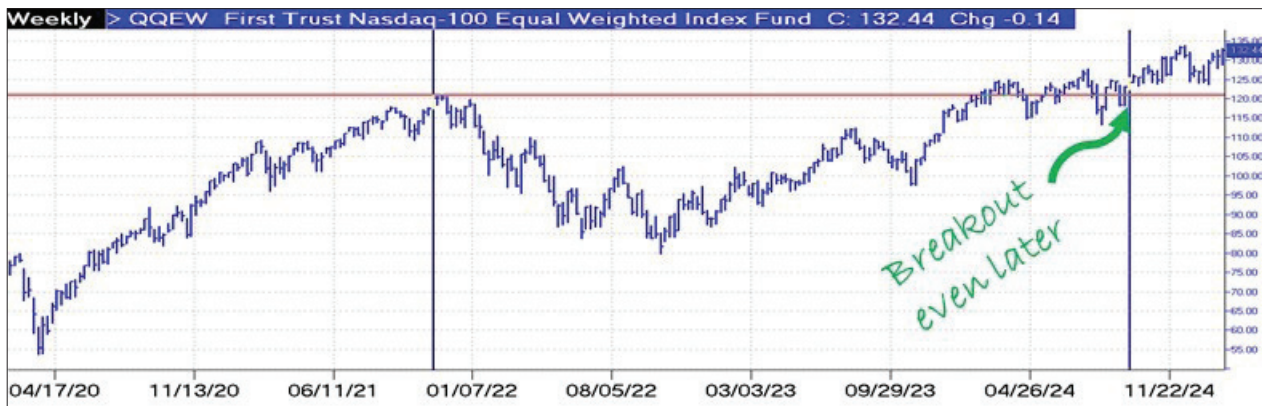
Now to small company shares, represented by the Russell 2000 index. We expected small companies finally to catch up after lagging for 4 years. That has yet to happen. After a flurry around the elections, no meaningful uptrend has manifested itself.

Russell 2000 Index (IWM ETF)

This bears watching. President Trump promised tax cuts. Tax cuts are beneficial for smaller enterprises. If small companies cannot rally, we shall have to research for portents as to the underlying economy.

As I write, US equities are undergoing a strong correction, notably hitting AI stocks and other momentum chasers' favorites. Markets are choppy during quarterly earnings periods. An almanac today reported that end-February into March is seasonally prone to noteworthy corrections. If the market is to continue broadening, past leaders must cease outperforming and other industry sectors take the lead and corrections often accompany early stage trend changes.

Speaking of economics and lagging / leading, European and Chinese shares have recently rallied while US stocks have been correcting. This is despite Pres Trump's bold rhetoric on tariffs, which would hurt these export driven economies, and despite poor economic numbers there. Too many global investors, as noted last time, have chased into the US Magnificent 7, so a broader distribution of asset destinations makes better sense. However, it must be followed by healthier economic results to be lasting.

Important Information

All chart data is from Thomson Reuters quote system as employed by Oppenheimer & Co. Inc.

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The Standard and Poor's (S&P) 500 Index is an unmanaged index that tracks the performance of 500 widely held, large-capitalization U.S. stocks. Individuals cannot invest directly in an index.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. Frank Russell Co. ranks US common stocks from largest to smallest market capitalization at each annual reconstitution period. The Russell 2000 Index represents a small percentage of the total market capitalization of the Russell 3000 Index. It is considered to be generally representative of US Equity Small and Mid-Cap performance.

The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial securities listed on the Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/ wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies. The NASDAQ-100 Index is calculated under a modified capitalization-weighted methodology.