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**Investment Institute**

# Market Commentary

**Weekly perspective on current market sentiment** **April 28, 2021**

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Last Week's S&P 500 Index: -0.1%

## Market breadth, revisited

### Key takeaways

- Market breadth continues to be broad as many stocks are participating as the major indexes trade to new record highs.
- As typically happens early in a new cycle, U.S. small-capitalization stocks are outperforming the S&P 500, which, in turn, is outperforming the S&P 100.

Back in January, we took a look at market breadth. In other words, we wanted to find out if lots of stocks were participating as the equity market marched to new record highs or if the advance was being led by only a smaller number of big-capitalization companies. Wide participation in a rising market is a good sign in our opinion. It has been common in past cycles, as the stock market was coming into a meaningful top, that the biggest growth names were the ones carrying the major indexes higher. Many investors continue to believe that the recent record highs are due to rising stock prices for just a handful of growth/technology companies. At this point, nothing could be further from the truth based on current performance data.

Perhaps the easiest way to see what is going on is to examine the performance of the S&P 500 (SPX) relative to the performance of the Russell 2000 small-capitalization index and the S&P 100 (OEX), which comprises the largest 100 companies in the SPX. As investors anticipate, and eventually see, clearing skies on the horizon early in a new cycle, they are typically more willing to take on additional risk and buy smaller companies as represented by the Russell 2000 Index. These firms might not have the strongest balance sheets or the widest product lines but, nonetheless, will likely benefit from the recovery that lies ahead. At the time of this report, this smaller-company index is outperforming the SPX, which, in turn, is beating the OEX index over the last six months at the same time a wide swath of big companies is carrying the SPX to new all-time record highs. That is a clear reflection of increasing market breadth and is a meaningful positive when trying to gauge the underlying strength of the overall stock market. We currently rate U.S. small-cap stocks as favorable along with U.S. large-cap stocks.

From another angle, let's take a look at industry group participation. Of the 63 industry groups (each group made up of individual stocks) represented in the SPX, 61 have posted positive returns over the last six months. Of those groups with positive returns, 35 have beat the return of the SPX over that time frame, which is in line with our analysis back in mid-January. But this time even more groups have posted positive returns over the last six months through last Friday according to Bloomberg data.

The bottom line is, from a market breadth standpoint, a revisiting of the current data shows a broad array of stocks is still participating as the major indexes trade to new record highs. That is a meaningful positive and helps support our belief that more equity upside lies ahead.

**Risks Considerations**

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Growth stocks** tend to fluctuate more than the overall market and growth may not be realized. The growth style of investing tends to shift in and out of favor. The prices of **small and mid-cap company stocks** are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets.

Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

**Definitions**

An index is unmanaged and not available for direct investment.

**S&P 100 Index** measures large cap company performance and consists of up of 100 major, blue chip companies across diverse industry groups. The primary criterion for index inclusion is the availability of individual stock options for each constituent.

**S&P 500 Index** is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

**Russell Small Cap (Russell 2000®) Index** measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

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