

A Mega-Cap Rally for the Ages?

Since 1990, the market-capitalization weighted S&P 500 has beaten its equal weighted counterpart only nine times. This year it is beating it by nearly 10 percentage points which is the biggest margin of outperformance since 1990, according to Dow Jones Market Data. Market-cap weighting means bigger companies have a greater influence on the performance of the index.

So why the large discrepancy? Companies such as Alphabet (formerly Google) is up 49%, Amazon is up 65%, Apple is up 38%, Meta (formerly Facebook) is up 150%, Microsoft is up 34%, NVidia is up 180%, and Tesla is up 97%. These seven companies alone represent 26% of the weighted S&P 500 Index. They also represent a gain of 18.1% for the S&P 500 Index which is only up 17.4%, thus the remaining 493 companies in the Index have a net loss of 0.9% year-to-date.

In a nutshell, while the stock market has done well this year, it is only due to a handful of companies; not everything is rosy out there. The U.S. economy is still at risk of slipping into recession. Earlier this year we had to deal with a small banking crisis in which four regional banks had to be taken over by the FDIC. Just recently Moodys (a credit rating agency) downgraded 10 small-mid size banks, citing growing financial risks and strains that could erode their profitability. Fitch, another credit rating agency downgraded its US debt rating from the highest AAA rating to AA+, citing “a steady deterioration in standards of governance.” On top of all of this, the Federal Reserve has steadily increased its benchmark interest rate to its highest level in 15 years. For borrowers that means higher payments on those loans and less spending power.

Global economic concerns continue to persist with the war in Ukraine, ongoing trade tensions with China, and central banks continuing to raise interest rates. Because of these rate increases we are now seeing investors shy away from riskier assets, like stocks. Short-term interest rates are now above 5%, meaning investors can invest in much more conservative investments that will bring a return in the mid-single digits from certificates of deposit and high-yield savings accounts – which is something that I have discussed about in the last few McBork reports.

With all of that being said, I am still somewhat optimistic. Last year at this time most analysts forecasted a recession with some saying it could end up being a depression. Now most of those same analysts are predicting either a small or no recession. Inflation was around 10% at this time last year and now we are closer to 3%. Supply chain issues that negatively affected many companies have now been resolved or in a much better position. Unemployment is still at all-time low levels and consumer spending is still at its all-time peak.

We continue to recommend being fully invested in stocks and bonds, with most of our stock positioning in higher quality companies that raise their dividends year in and year out. These companies typically have strong balance sheets and can wither turbulent stock declines more than others. If you have any questions please email or call me.

Take care, be well and have a great rest of the summer.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Greg Bork', with a stylized, flowing script.

Greg Bork

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All indices are unmanaged and may not be invested into directly.

Stock investing includes risks, including fluctuating prices and loss of principal.

Dividend payments are not guaranteed and may be reduced or eliminated at any time by the company.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

No strategy assures success or protects against loss.