

In the Markets Now

A narrow rally

We believe in the old saying: a picture is worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

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SOME ADDITIONAL THOUGHTS ON THE MARKET'S BREADTH QUESTION

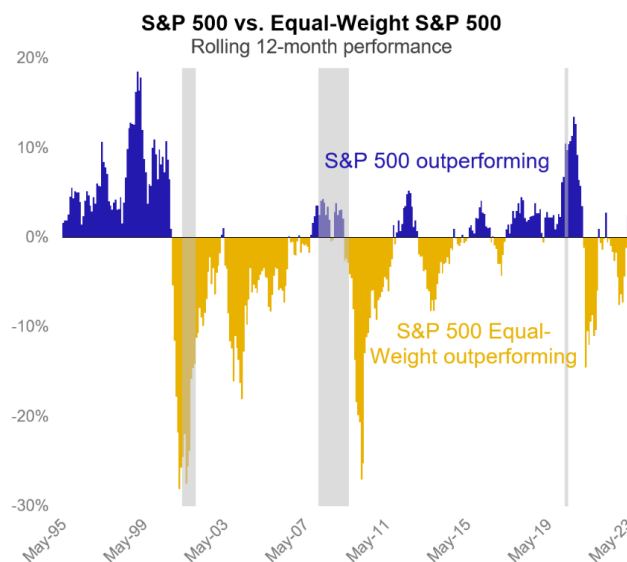
With the debt ceiling debacle now behind us (good riddance until 2025, I suppose), investors and financial media are now free to do what they do best: move on to the next brick in the wall of worry. Today, that comes in the form of narrow market breadth. This is the idea that, despite being up ~11% in 2023, the S&P 500's gains are attributable to just a handful of star stocks, leaving the market more fragile than it appears on the surface; that, when fewer individual stocks are rising with the market, the rally's entire staying power is called into question. **And so, the worry shifts: from "debt ceiling" to "is breadth reeling?"**

We've written on this before (happy to share), ultimately taking the view that while a broader rally would be welcomed, a narrow rally is not nearly the harbinger of pain that it's being painted as. For one, a top-heavy market hasn't historically meant weaker future returns (and may actually suggest above-average performance to come). [Our partners at Strategas](#) pointed out this week that, amazingly, 6-month forward returns for the S&P 500 have been strongest when breadth is weakest. So, while a market where Energy and Consumer Staples stocks are doing as well as Technology paints a picture of a healthier and more inclusive economy, we must play the ball as it lies. Momentum begets momentum, and a market rally is still a rally.

Another reality is that a narrow market (defined as the S&P 500 outperforming the Equal-Weight S&P 500) can persist for far longer than one might expect. In the 1990s, the S&P 500 outperformed the Equal-Weight for 70 straight 12-mo periods (rolling); in the late 2010's, the same thing occurred for 45 out of 46 periods. A narrower market may be more fragile, but it can take years to actually shatter – and you'd probably miss some incredible returns while you waited.

The other thing about today's market ([noted by Strategas' Todd Sohn here](#)) is that while the Equal-Weight S&P is trailing, it has not broken down and is well above its bear market lows. Its tepid performance might be more reflective of today's lukewarm economy (versus the mini hype-cycle boom in AI), but its resilience above both its 2022 and 2023 lows is worth noting. Over half of the individual stocks in the S&P 500 are up this year, and Small Caps have actually outperformed Large Caps over the last month. **Just because a rally is narrow does not mean it is obscuring something catastrophic behind it.**

Let's end by taking a step back. Market concentration is something to monitor, but the increasingly loud narrative around this year's rally is getting crazy. While I've seen countless articles opining about 2023's narrow leadership, not once in 2022 did I hear that the market crash was "too narrow" because it was being led to the downside by Big Tech (which it was – Tech and Tech-adjacent Growth sectors dramatically underperformed the S&P 500 in 2022, which itself trailed the Equal-Weight S&P by a good margin). Further, over the last three years, the Equal Weight S&P has outperformed and a healthy sector mix of Energy, Technology, and Industrials have led the way (with every single sector positive over the time frame). In the end, the market is rarely perfect and outperformance can take different shapes in different cycles, **but nitpicking every rally to death has been a great way to miss out on some of the incredible returns and bull market outperformance across history.**



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