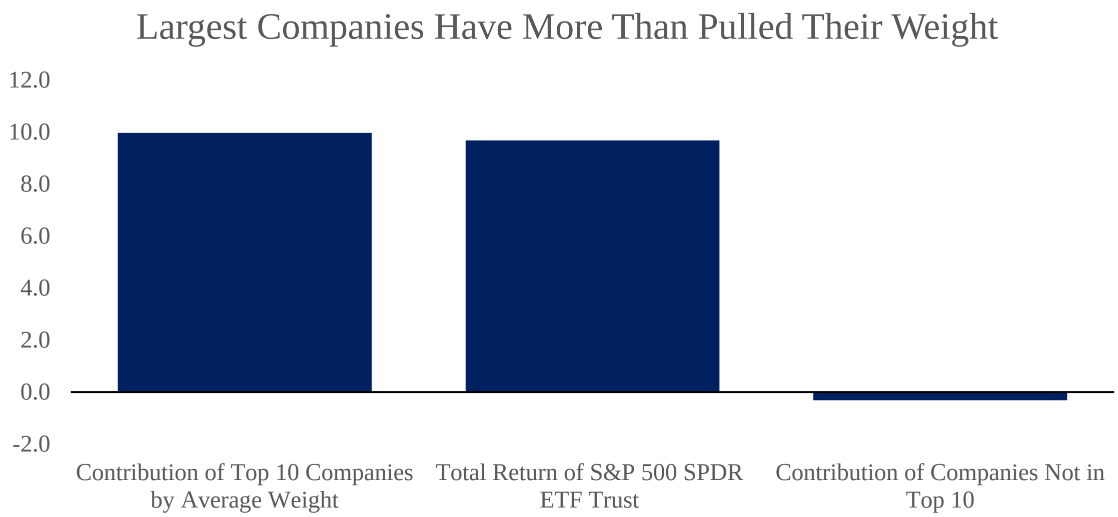
The Big Have Gotten Bigger

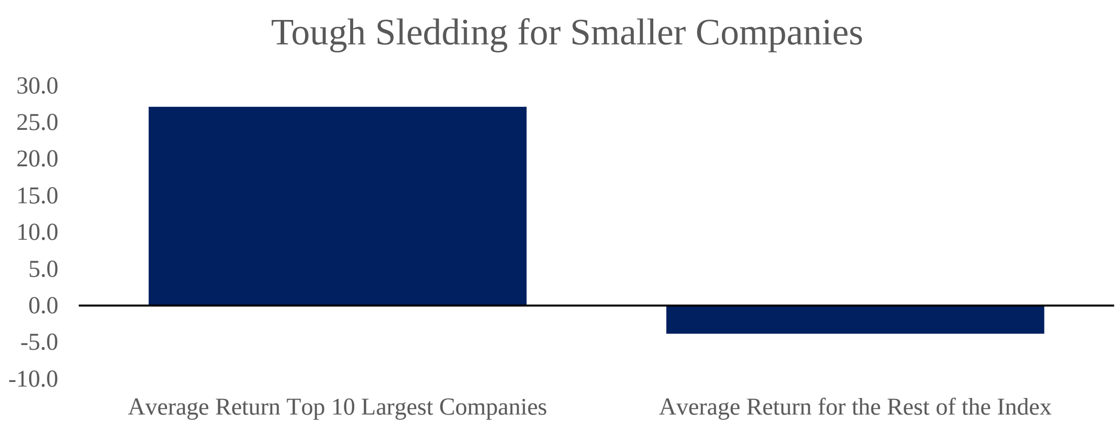
The market has recovered at a torrid pace since the COVID-Crash in March. Despite the recent pullback in big tech names, the S&P 500 has been carried by the largest companies on the index. In fact, the largest companies in the United States have become so large and so important to the index, that they have been distorting the true story of how the markets have been performing.

The return data for the S&P 500 SPDR ETF tells the story: not only have big stocks dominated the index, they have accounted for all of the S&P 500 returns in 2020.



Data source: Bloomberg, YTD Through 8/31/2020

The above chart indicates that the top 10 companies[1] in the index by average weight have contributed more than 100% of its returns, while the remaining companies have actually been net detractors for the ETF. It has been a tough year for anyone who has not held the largest companies.



Data source: Bloomberg, YTD Through 8/31/2020

[1] Microsoft, Apple, Amazon, Facebook, Alphabet, Berkshire Hathaway, Johnson & Johnson, JP Morgan, Visa, and Procter & Gamble.

There are numerous explanations for this, and many have some degree of validity. These large companies often have the strongest balance sheets and tend to hold up better in the face of economic uncertainty. Some of the largest names will likely benefit in the long term from behavioral changes due to the pandemic. Expensive stocks also take excess benefit from the Federal Reserve's decision to maintain near zero interest rates.

However, we still operate under the assumption that trees don't grow to the sky. This tenet has continued to hold true. Just because something has worked in the past does not mean it will work in the future. The recent memory of soaring stock prices for the largest and most expensive of companies has pushed many companies to valuation levels that will prove difficult to justify. Only time will tell.

As an active manager, MAP will continue to avoid mirroring the index. This means we will often hold significantly fewer of the largest stocks than the index. Sometimes, and especially in periods like the past six months, it will mean it is difficult for us to outperform. However, we believe Global Value remains the best strategy for long term outperformance. We continue to stay the course.

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