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SUMMARY

1. Price v. Value
2. Index Concentration Is High by Historical Standards
3. The S&P 500 Equal Weight has Outperformed the S&P 500 in live performance and back-tested history

Price v. Value

Most consumers are aware that the price of an item and its value have an imperfect relationship. In a market-based economy, price and value tend to be correlated, but around the edges, they diverge based on consumer preferences. If we use cars as our example, large price differences are generally related to overall quality. The price difference can be due to mileage and the wear and tear on the vehicle or just the nature of the parts and manufacturing. Smaller differences in car prices may be related to simple consumer preferences as expressed through different trim packages. Yet even smaller price differences can be related to less significant items like a car's paint color.

Index Concentration is High by Historical Standards

Just as with cars, stock market prices are generally correlated to value, but at times consumer preferences can lead to divergences between price and value. Most of the time these pricing differences are small, but at other times, the difference between price and value can grow quite large. Due to the uneven impacts of Covid across industries, index construction rules, and the growth of passive investing in corporate retirement plans, markets may currently be in one of those times of significant mispricing.

According to J.P. Morgan, the top 10 stocks in the S&P 500 currently trade at 153% of their average valuation since 1996. The premium valuation may have developed due to the uneven impact of Covid. Covid shut down certain industries, like travel and leisure, while it boosted others like technology and communications which enabled remote work. In the right-hand grafts, one can see that the earnings contribution of the Top 10 stocks peaked at over 32% during the Covid period while market weight was less than 30%. Today, these 10 stocks now represent 35.7% of index value, despite only contributing 24.6% of index earnings as earnings for other sectors have recovered. The market capitalization of the S&P 500 is currently about $46 trillion, so a 10% mispricing means nearly $4.6 Trillion may be misallocated. If reallocated evenly, this would add about $9 billion in market capitalization to the average remaining stock.



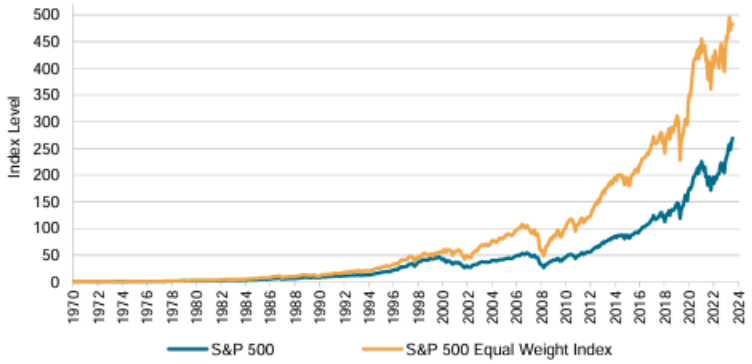
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. As of 7/31/2024, the top 10 companies in the index were AAPL (6.9%), MSFT (6.7%), NVDA (6.2%), AMZN (3.7%), META (2.2%), GOOGL (2.2%), GOOG (1.8%), BRK.B (1.7%), AVGO (1.5%), TSLA (1.4%), and LLY (1.4%). The remaining stocks represent the rest of the 492 companies in the S&P 500.
Guide to the Markets – U.S. Data are as of July 31, 2024.

J.P.Morgan
ASSET MANAGEMENT

The S&P 500 Equal Weight has Outperformed the S&P 500 in live performance and back-tested history

According to S&P Dow Jones Indices, "the S&P 500 ® Equal Weight Index has outperformed the S&P 500 ® over more than two decades of live history, with a similar long-term rate of excess returns observed over a hypothetical back-tested history extending back to 1970. These observations are not new, but an equal weight approach to large-cap U.S. equities may be of a particular interest in times such as the present, when the equity markets are at high levels of market concentration relative to history."

Exhibit 1: The S&P 500 Equal Weight Index Outperformed over the Long Term



Source: S&P Dow Jones Indices LLC. Data as of June 28, 2024. Index performance based on total return in USD. Indices were rebased to 1 on Dec. 31, 1970. The S&P 500 Equal Weight Index was launched Jan. 08, 2003. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Portfolio Outlook and Actions

Fixed Income

The financial markets are beginning to price in a series of Federal Reserve interest rate cuts. In our opinion, markets are increasingly ahead of the Federal Reserve, which is likely to lead to disappointment. The 10-year rolling average of the annual inflation rate now sits at 2.99%, right in line with the historical average. Meanwhile, most of the interest rate curve sits nearly 100 basis points below historical averages. Historically, once the Federal Reserve starts to cut interest rates and a recession starts, the yield curve undergoes a dramatic straightening. We would not be surprised to see a similar result this time. As a result, we believe fixed income investors should consider gradually increasing their investment grade credit exposure as the yield curve straightens itself out.

Equities

As mentioned in our last commentary, the Russell 2000 small cap index continues to follow a post recessionary playbook. As we have previously shared, smaller company outperformance generally continues for a least a 5-year period from recessionary lows, which we currently date as the fall of 2023. We also find the data on the S&P 500 Equal Weight Index compelling for long-term investors. We generally think stocks for the long run make sense here, however, the Harris platform does have certain tax proposal which we do not believe are priced into the equity markets. At the margin the Harris campaign would like to see an increase in corporate tax rate, which would reduce earnings estimates for 2025. The campaign also has proposed an unrealized capital gains tax on households with more than $100 million. An unrealized gain tax would directly hit many of the highest market capitalization stocks responsible for the market's concentration. The growing political risks make us somewhat more cautious than we would otherwise be given the current and expected economic data.

Thank you for the trust you have placed in us. As always, if you have further questions, please do not hesitate to contact your FinTrust investment advisor.

Sincerely,

Your FinTrust Investment Team

Key Index Performance (As of 6/30/24)

Index	QTD	YTD	12M
S&P 500 (Large Capitalization Equity)	10.56	10.56	29.88
S&P 400 (Midcap Equity)	9.95	9.95	23.33
S&P 600 (Small Cap Equity)	2.46	2.46	15.93
S&P 500 Growth Stocks	14.1	14.1	23.2
S&P 500 Value Stocks	8.1	8.1	25.6
S&P GSCI (Commodities)	4.92	4.92	4.29
S&P U.S. Aggregate Bond Index	-0.53	-0.53	2.64
Balanced Weighting (60/40)	6.55	6.55	18.98

S&P Sectors	QTD	YTD	12M
Energy	-2.62	10.58	16.26
Utilities	4.66	9.44	7.82
Consumer Staples	1.05	8.01	6.40
Health Care	-0.96	7.81	11.68
Industrials	-2.90	7.75	15.53
Materials	-4.50	4.14	8.79
Financials	-2.03	10.17	24.21
Real Estate	-1.91	-2.45	5.69
Information Technology	8.76	18.01	31.20
Communication Services	5.16	18.58	33.05
Consumer Discretionary	-0.67	2.44	8.29

*Source: S&P Dow Jones Indices & Bloomberg