

# US Strategy Snapshot

## Pictures to Ponder

**Bottom Line:** US stocks have staged a strong rebound since the March 23 low and are now less than 15% off all-time highs. However, investor angst and worry has remained in place through every step of the rally. While the COVID-19 virus is obviously still the big concern out there in the market, several others have also been recently brought up in our client interactions, including high market cap concentration atop the S&P 500, a surge in negative dividend actions by companies, and several sector weights approaching lows. Therefore, in this report, we thought it would be useful to discuss these concerns in turn and put some historical context behind each of them before jumping to any rash conclusions. While we do believe these data trends should certainly continue to be monitored in the coming months, our analysis suggests that they may not be the roadblocks to US stock market performance moving forward that many investors appear to be expecting.

### Main Points:

- **Top-Heavy Market Cap Concentration in S&P 500 Not Necessarily a Bad Omen for Performance**
- **Putting Dividend Actions Into Perspective**
- **Sector Weights for Several Groups Approaching Lows**

### Investment Strategy

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### Major US Indices Price % Performance

Sector	1M	YTD	6M	12M
DJ Industrial Average	1.9	-18.0	-13.7	-8.1
DJ Transportation	-1.2	-25.9	-27.3	-24.3
DJ Utilities	-4.7	-19.3	-10.0	-1.8
NASDAQ 100	10.6	-3.2	10.2	19.5
NASDAQ Composite	11.0	-5.7	6.0	13.0
Russell 1000	5.4	-13.7	-7.0	-0.5
Russell 1000 Growth	9.3	-6.5	4.8	12.7
Russell 1000 Value	0.7	-21.7	-19.3	-14.0
Russell 2000	7.7	-22.6	-19.8	-18.5
S&P 500	4.8	-13.4	-6.9	0.1
S&P 500 Growth	8.3	-7.5	3.0	8.7
S&P 500 Value	0.2	-20.5	-17.8	-9.9
S&P Mid Cap 400	5.5	-20.9	-18.9	-16.2
S&P Small Cap 600	4.7	-26.1	-25.1	-23.2

Source: BMO Capital Markets Investment Strategy, FactSet. Performance figures reflect close prices as of 5/7/20

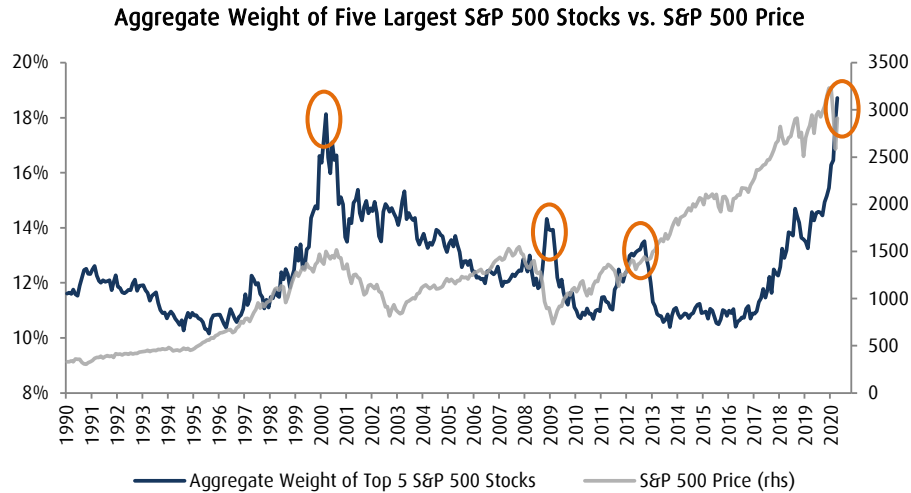
### S&P 500 GICS Sector Price % Performance

Sector	1M	YTD	6M	12M
Communication Services	9.2	-9.2	-2.1	4.4
Consumer Discretionary	10.9	-7.8	-1.8	0.3
Consumer Staples	-1.7	-11.8	-6.7	0.0
Energy	7.6	-30.9	-36.7	-40.0
Financials	-2.0	-29.4	-26.9	-20.2
Health Care	4.7	-4.0	4.6	11.8
Industrials	-1.2	-26.2	-24.4	-18.8
Information Technology	9.6	-6.1	8.8	22.5
Materials	4.1	-14.5	-14.5	-6.0
Real Estate	-3.2	-18.1	-13.1	-7.8
Utilities	-5.4	-19.7	-10.7	-3.2

Source: BMO Capital Markets Investment Strategy, FactSet. Performance figures reflect close prices as of 5/7/20

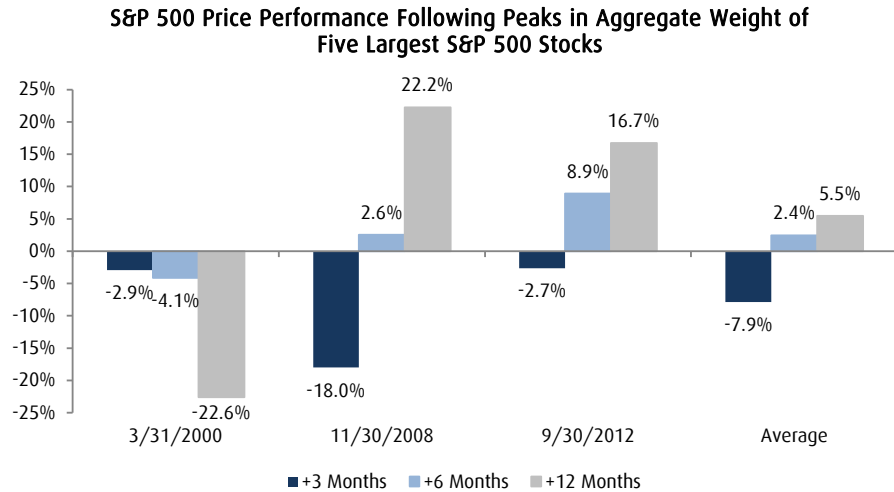
## Top-Heavy Market Cap Concentration in S&P 500 Not Necessarily a Bad Omen for Performance

### Top 5 SPX Stocks Currently Make Up ~19% of the S&P 500's Market Cap



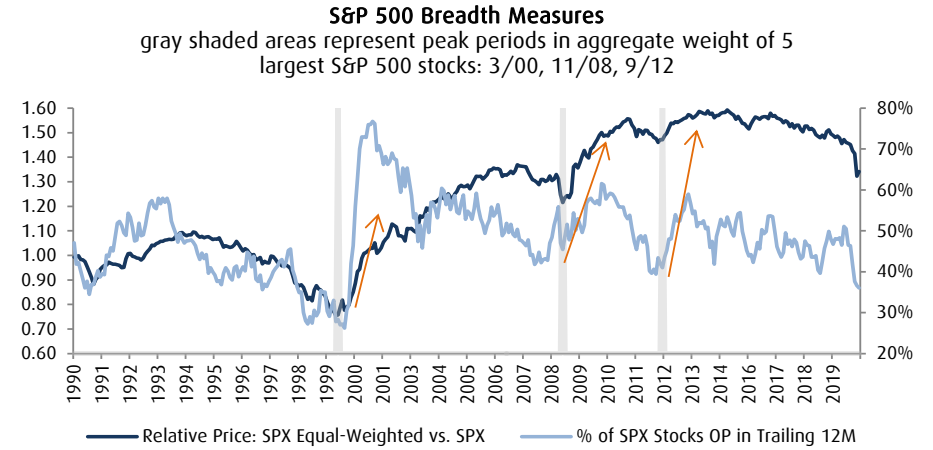
Source: BMO Investment Strategy Group, FactSet.

### SPX Has Performed Pretty Well, On Average, After Prior Peaks in Mkt Cap Concentration



Source: BMO Investment Strategy Group, FactSet.

### Performance Breadth Has Increased Following Previous Peaks in Mkt Cap Concentration

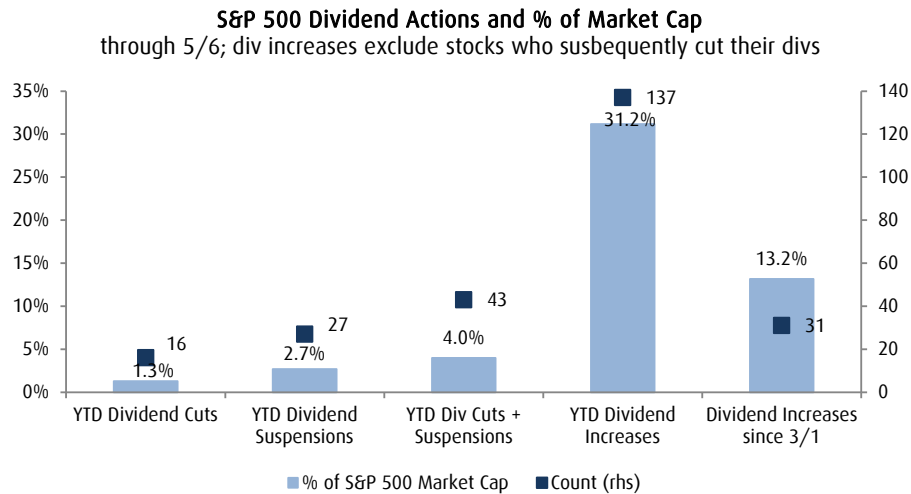


Source: BMO Investment Strategy Group, FactSet.

- Microsoft, Apple, Amazon, Facebook, and Alphabet Class A are the largest stocks in the S&P 500 and now make up nearly 19% of the total market cap for the index. This aggregate weight has previously peaked in 9/12, 11/08, and 3/00 when the top five stocks comprised 13.5% (AAPL, XOM, GE, CVX, MSFT), 14.3% (XOM, PG, GE, T, JNJ), and 18.1% (MSFT, CSCO, GE, INTC, XOM) of the S&P 500, respectively. As a result, many investors have become increasingly worried about the potential effects that this top-heavy concentration could have on market performance, especially if these names begin to stumble.
- However, from our perspective, the current composition is a result of these secular growth names becoming disruptors in their industries and turning into more stable and "staple-ish" types of stocks, as we have discussed [here](#) and [here](#). Look no further than recent performance trends showing these five stocks each outpacing the S&P 500 since the 2/19 market high.
- With that said, even if we actually look at price performance following prior peaks in the aggregate weight of the five largest stocks, the S&P 500 tends to struggle in the first three months (~8% decline), but ends up posting a 5.5% average gain over the subsequent 12-month period. In addition, performance breadth appears to increase in the 12 months after these top-heavy market cap concentration peaks, as highlighted by the uptick in the percentage of outperforming stocks and uptrends in relative price of the S&P 500 Equal-Weighted index.

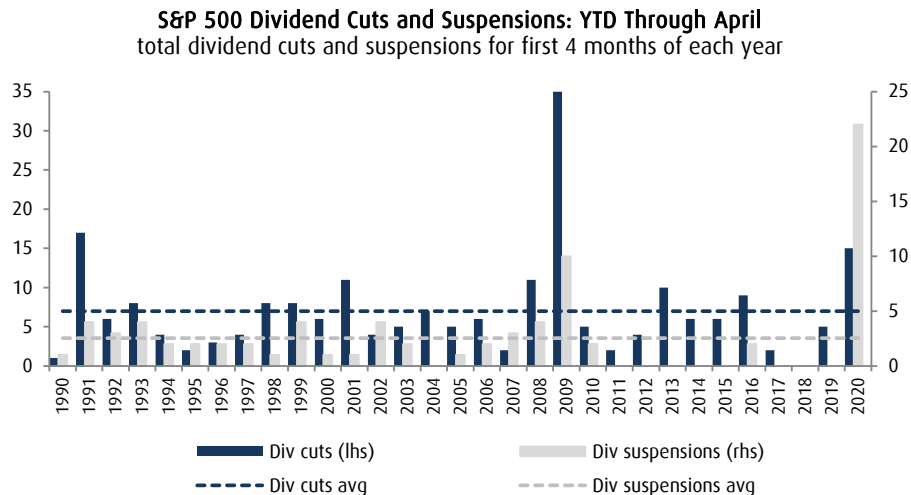
## Putting Dividend Actions Into Perspective

### Mkt Cap of Dividend Cutters and Suspenders Is Significantly Less Than Dividend Raisers



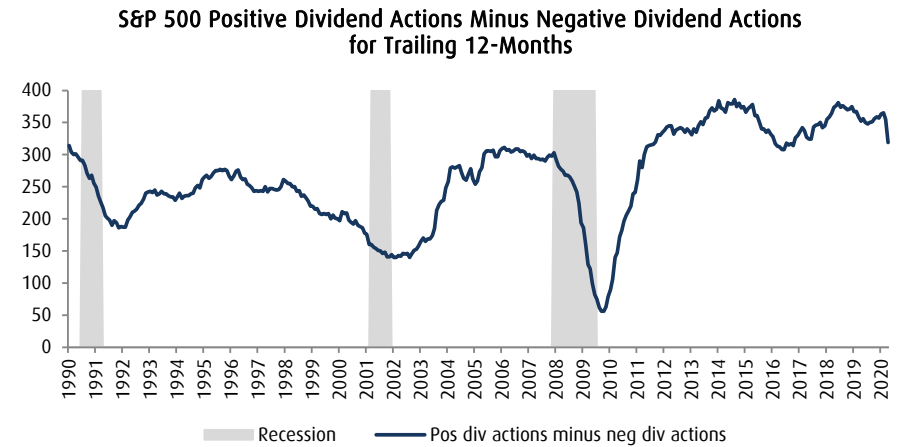
Source: BMO Investment Strategy Group, S&P, FactSet.

### Number of Div Suspensions Is Double the Count in 2009, But Div Cuts Are Less Than Half



Source: BMO Investment Strategy Group, S&P, FactSet.

### Longer-Term Trend for S&P 500 Dividend Actions Does Not Look as Bleak Just Yet



Source: BMO Investment Strategy Group, S&P, FactSet.

- Another recent development raising the anxiety quotient among investors has been the surge in dividend cuts and suspensions among S&P 500 companies amid the COVID-19 pandemic.
  - ✓ For instance, on a YTD basis through 5/6, 16 companies in the S&P 500 index have reduced their dividend and 27 companies have suspended their dividend. This represents a significant uptick compared to prior years and marks the highest tally since 2009 when there were 34 cuts and 10 suspensions through April. In fact, the count of dividend suspenders in 2020 has already surpassed the full year tallies for every year since 1990.
- With that said, we believe it is important to put these dividend actions into perspective, especially when examining the impact on future investment decisions.
  - ✓ Current YTD dividend cuts and suspensions for S&P 500 companies represent just 4% of the total market cap for the index, compared to the 13.2% weight comprising the 31 companies increasing dividends since 3/1.
  - ✓ And while the number of dividend suspensions through April is double the count across the same time frame in 2009, dividend cuts are currently less than half of the 2009 tally.
- In addition, the longer-term trend in S&P 500 dividend actions has not deteriorated just yet. The difference in the number of positive versus negative dividend actions in the past 12 months has exhibited a notable downtick, but has not yet broken below the 2016 trough and is nowhere near the levels seen during the financial crisis.

## Sector Weights for Several Groups Approaching Lows

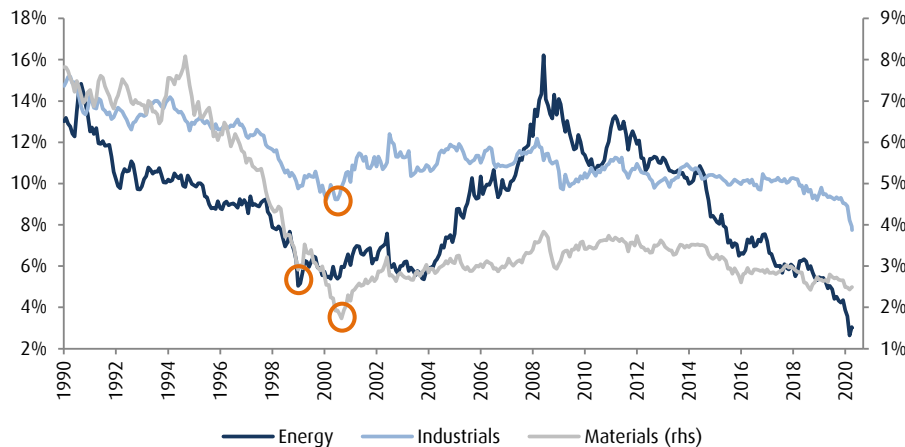
### ENRG, FINS, INDU, and MATR Each At or Approaching Sector Weight Lows

Sector	Current Weight	Previous Trough Weight	Previous Trough Date	Relative Performance vs. S&P 500 Following Previous Trough in Sector Weight %			Weight Notes
				+3M	+6M	+12M	
Energy	3.0%	5.0%	01/99	25.5%	24.8%	14.1%	near all-time lows
Financials	10.3%	9.8%	02/09	37.5%	56.3%	44.9%	approaching '09 lows
Industrials	7.7%	9.2%	07/00	10.5%	10.1%	17.2%	at all-time lows starting to approach '00 lows
Materials	2.5%	1.7%	09/00	29.7%	33.3%	37.8%	approach '00 lows

Source: BMO Investment Strategy Group, FactSet.

### ENRG, INDU, and MATR Have Outperformed in Months Following Previous Trough Weight

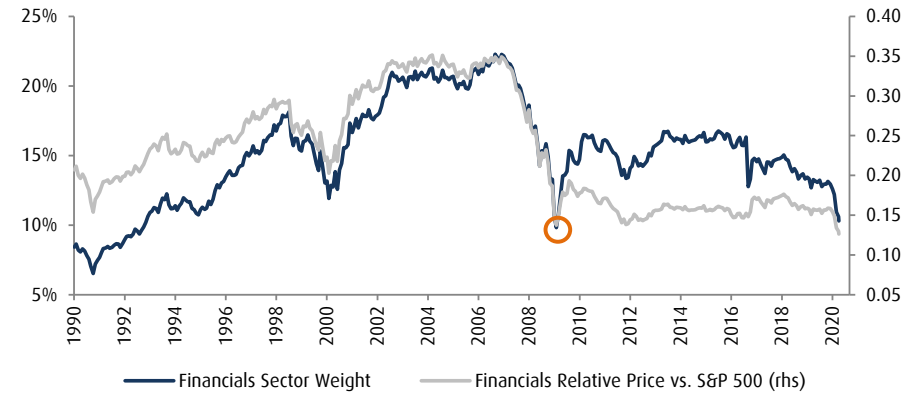
S&P 500 Sector Weights: Energy, Industrials, and Materials



Source: BMO Investment Strategy Group, FactSet.

### Financials Sector Weight Approaching Financial Crisis Low

S&P 500 Financials: Sector Weight and Relative Price



Source: BMO Investment Strategy Group, FactSet.

- Several sectors, including Energy, Financials, Industrials, and Materials have seen their weights in the S&P 500 index notably decline in recent months prompting many investors to ask what this may mean for future performance for these groups.
  - ✓ Energy's representation in the S&P 500 has been falling for the past 10+ years and its 3% weight is now only slightly higher than its all-time low back in March. The previous low came in 1/99 (5%), which was followed by 14 percentage points of outperformance by the sector over the next 12 months. The weights of Industrials and Materials in the S&P 500 hit their prior lows back in late 2000 with the groups outpacing the market by ~17 and ~38 percentage points in the subsequent 12M period, respectively.
- To be clear, we are not suggesting that these sectors are slated to replicate these outperformance feats. We simply want to put these downticks into some historical context. Looking out at the next 12-18 months, we remain Market Weight these sectors and do not believe it is time to dismiss these groups despite recent struggles.
- In our view, the falling weight of the Financials sector has been the most surprising. At just over 10%, the weight of the sector is quickly approaching its financial crisis low of 9.8% in February 2009 despite Financials currently having much less leverage and healthier balance sheets compared to crisis levels. The sector outperformed the S&P 500 by 45 percentage points in the 12M period following the trough in weight. While we are not predicting this degree of outperformance, we do expect to see some sort of bounce in relative performance from Financials in the coming months.

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Date	Title
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4/24/2020	<a href="#">US Strategy Snapshot: The Actual Earnings Number May Not Matter</a>
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Buy	Outperform	42.3 %	25.7 %	50.4 %	45.3 %	54.8 %	57.7%
Hold	Market Perform	54.9 %	18.4 %	47.0 %	52.0 %	43.6 %	37.5%
Sell	Underperform	2.8 %	20.0 %	2.6 %	2.7 %	1.5 %	4.8%

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