

Breadth

The broad U.S. stock market posted a strong return for the first half of 2024. Notable was the performance of several mega-cap stocks that rode the wave of all things AI. As indexes such as the S&P 500 weight stocks by market capitalization or size, returns of the largest stocks can have a disproportionate impact on market return. Sustainable market trends usually are characterized by breadth, i.e., many stocks rising rather than a few. An uptrend led by a few stocks can be sustained, until it isn't. A reversal can be dramatic and costly. A review of individual stock returns by a series of measures can help provide context for market breadth and sustainability of the current market uptrend.

Q PERSPECTIVE

Stocks often are grouped by market capitalization or size as this measure can be an important differentiator of performance. **Table I** shows average market cap by decile and corresponding average returns for the stocks within each decile. The dispersion of market cap by decile is extreme. This indicates the potential disproportionate impact from the returns of the largest stocks on the performance of cap-weighted market indexes such as the S&P 500. Average returns for the first decile were highest in the first half of 2024. At the same time, there was not a 1:1 relationship between market cap decile and average stock return. Returns of some mega-cap stocks have been widely reported but the data here suggests additional return opportunities were to be found elsewhere.

Grouping stocks by style can reveal meaningful return differences. **Table II** shows average stock returns for traditional style groups. Value and Growth groups are quite distinct while Blend groups capture stocks which have a bit of each characteristic. In general, returns in the first half of 2024 favored Growth no matter the cap size. The performance of Large Growth in particular reflected the inclusion of notable mega-cap stocks, e.g., Alphabet, Apple, Amazon, Meta, Microsoft, Nvidia and Tesla. The Small Value average return was a bit of an anomaly due to only a handful of stocks in the group.

Stock returns often vary widely by economic sector. **Table III** shows average stock returns in the first half of 2024 for 11 traditional sectors. The dispersion was wide, ranging from +15.6% for information technology to 0.0% for real estate. Double-digit average returns for 6 of 11 sectors indicated that individual stock return opportunities were widespread. The widely-reported mega-cap stocks often are labeled as technology, but many are included in other sectors: Alphabet and Meta are in Communication Services; Amazon and Tesla are in Consumer Cyclical. Technology drives the businesses of each company, but such is the case for many stocks not included in the Information Technology sector. Casting a wider net for stocks may enhance portfolio outcomes.

INVESTMENT IMPLICATIONS

The breadth of U.S. stock market returns in the first half of 2024 was somewhat narrow even as broad market indexes were pulled to new highs by the performance of a handful of mega-cap stocks. 175 stocks closed within 5% of their 52-week highs while 50 stocks closed within 5% of their 52-week lows. Attention to company fundamentals and stock technical patterns is important whether investing in individual stocks or mutual funds and exchange-traded funds. The risk of holding large individual stock positions should be tempered by diversification.

TABLE I

AVERAGE U.S. STOCK RETURNS		
By MARKET CAPITALIZATION (SIZE)		
First Half 2024		
	AVERAGE MARKET CAP (Millions)	AVERAGE RETURN
First Decile	\$555,901	17.4%
Second Decile	\$103,014	10.7%
Third Decile	\$59,317	13.8%
Fourth Decile	\$42,598	3.9%
Fifth Decile	\$32,164	9.1%
Sixth Decile	\$24,004	12.3%
Seventh Decile	\$18,533	4.8%
Eighth Decile	\$15,406	9.3%
Ninth Decile	\$12,580	6.9%
Tenth Decile	\$10,751	13.1%
AVERAGE		10.1%

TABLE II

AVERAGE U.S. STOCK RETURNS	
By STYLE	
First Half 2024	
STYLE	AVERAGE RETURN
Large Value	7.3%
Large Blend	9.4%
Large Growth	24.2%
Medium Value	4.3%
Medium Blend	5.9%
Medium Growth	19.6%
Small Value	25.3%
Small Blend	-3.6%
Small Growth	10.1%
AVERAGE	10.1%

TABLE III

AVERAGE U.S. STOCK RETURNS	
By SECTOR	
First Half 2024	
SECTOR	AVERAGE RETURN
Basic Materials	2.1%
Communication Services	6.0%
Consumer Cyclical	13.9%
Consumer Defensive	1.7%
Energy	14.2%
Financial Services	12.3%
Healthcare	7.6%
Industrials	10.7%
Real Estate	0.0%
Information Technology	15.6%
Utilities	11.3%
AVERAGE	10.1%