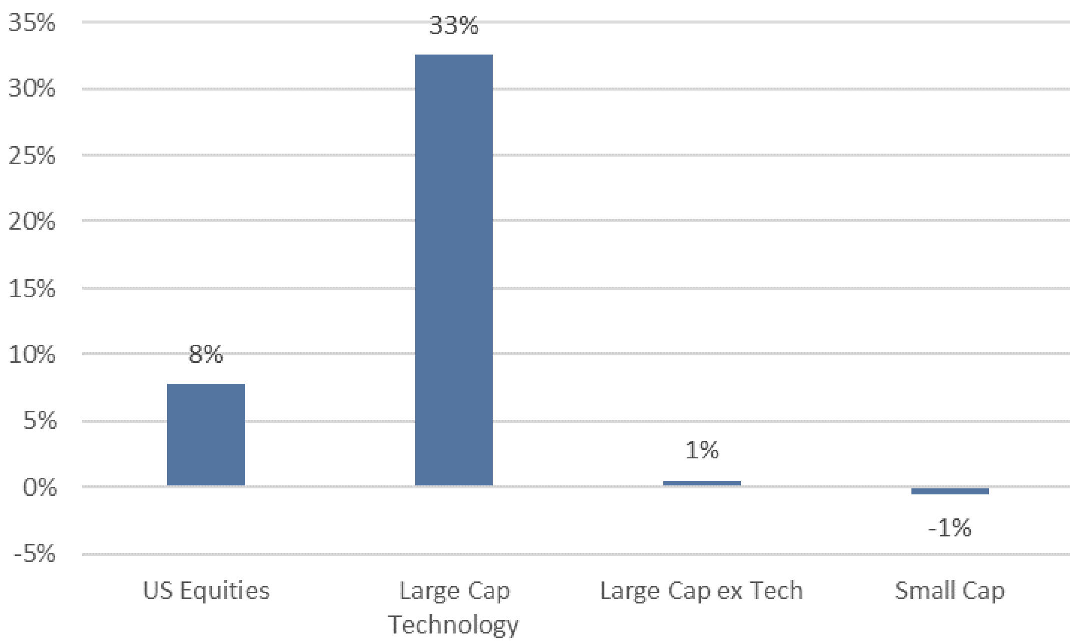
MARKET COMMENTARY

Fig 1: 2023 Year-to-date performance

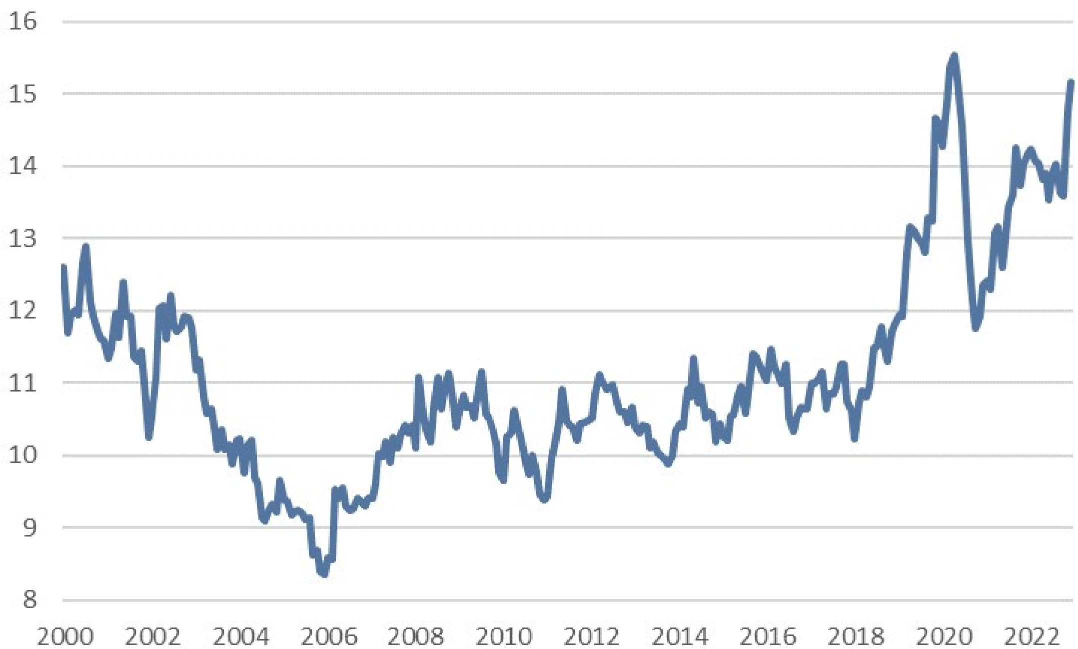


Source: Bloomberg, Mill Creek. Data as of 5/26/23.

According to the Portfolio Strategy Research team at Goldman Sachs, the average large-cap mutual fund is trailing its benchmark by an eye-popping 2.17% in 2023. This underperformance has been mainly driven by the extreme outperformance of mega-cap tech companies (Fig. 1), creating a concentration conundrum for active managers.

Between 1980 and 2022, the combined weighting of the top five positions in the S&P 500 averaged 14%. Today, the top five positions (Apple, Microsoft, Amazon, NVIDIA, and Alphabet) in the S&P 500 comprise over 22% of the index – a level not seen since 1999 when the top five positions comprised 18% of the index.

Fig 2: Russell 1000 (US large cap) market cap / Russell 2000 (US small cap) market cap



Source: Bloomberg, Mill Creek.

The Russell 1000 Growth Index is even more concentrated. The top five holdings of the Russell 1000 Index add up to 37.5% of its market cap. No matter how you slice it, the US equity market has reached levels of concentration that match, if not exceed, those last experienced during the dot com bubble (Fig. 2).

Mill Creek doesn't have an iron in the fire regarding the travails of US large-cap active managers as we index nearly all our large-cap US equity exposure. However, we're sympathetic to the challenges created by extremely narrow leadership in the market. After driving outperformance last year, our preference for low-volatility stocks, high-dividend stocks, and value stocks has resulted in underperformance this year. We'll have more to say on this topic next week in our June Monthly Update, but for now, we recommend patience and the avoidance of FOMO. A market rally based on narrow leadership typically ends with the laggards catching up or the leaders coming back to reality.

A Note on the Debt Ceiling Debacle

We got some good news over the weekend regarding the debt ceiling. Treasury Secretary Janet Yellen has extended the projected debt ceiling deadline to June 5, four days later than previously estimated, and the White House and Congressional negotiators have come to an agreement, in principle, to suspend the debt ceiling until January 1, 2025. Congress is expected to pass the deal this week.

QUICK LINKS

- Relative Strength of the tech Sector May Wane as the Year Continues
- May Update: Riptides
- Q1 23 Private Equity Data: Down, but Not Out
- Losing Steam

This week's contributor: Michael Crook, CAIA

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