

# Market Commentary 7/1/24

An Oxford Harriman & Company Market Commentary

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## How Concentrated AI Tech Stocks are Impacting the S&P 500 Performance

**The S&P 500 Index, a well-known stock market index, tracks the performance of 500 of the largest U.S. companies. Many large-cap ETFs passively follow this broad index, and investors use it as a benchmark to gauge the relative performance of their portfolios. This year, however, a unique phenomenon is impacting the S&P 500. AI stocks are driving much of the index's total return.**

The artificial intelligence (AI) industry is experiencing rapid growth. Large technology companies are investing billions in computer chips to train their AI models. As a result, AI chip makers have contributed to more than one third of the S&P 500 Index's year-to-date return.

It is fairly infrequent that such a large portion of the index's return is a result of a single company or industry. Between 2016 and 2023, the stock with the most impact contributed an average of one-tenth of the S&P 500's return. The biggest previous contribution occurred in 2020 when a single stock contributed 23%.

We wanted to share this market statistic for two reasons. First, it is rare for one stock or industry to account for such a significant portion of the S&P 500's return. This year is one for the history books. We looked at how the S&P 500 would have performed if its holdings were weighted equally rather than by market capitalization. The market-cap-weighted S&P 500 Index has gained +14.1% as of June 13th, while the equal-weighted version of the S&P 500 has only gained +4.4%.

This year's performance demonstrates that the headline return can overstate the average company's performance, but this isn't always the case. Between 2000 and 2023, the equal-weighted S&P 500 outperformed its market-cap-weighted counterpart 15 out of 24 years.

It's important for investors to look beyond the headline market return when analyzing portfolio performance. Understanding the unique contributions of individual stocks, and sector dominance like 2024, can provide deeper insights into market dynamics and portfolio performance.

Sources:

The Wall Street Journal

Bloomberg

CNBC

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S&P 500 Index: The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value. PM-12262025-6737259.1.1

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