Goodman Financial

MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

NOVEMBER 2023 MARKET COMMENTARY

EQUITY & FIXED INCOME MARKETS COMMENTARY

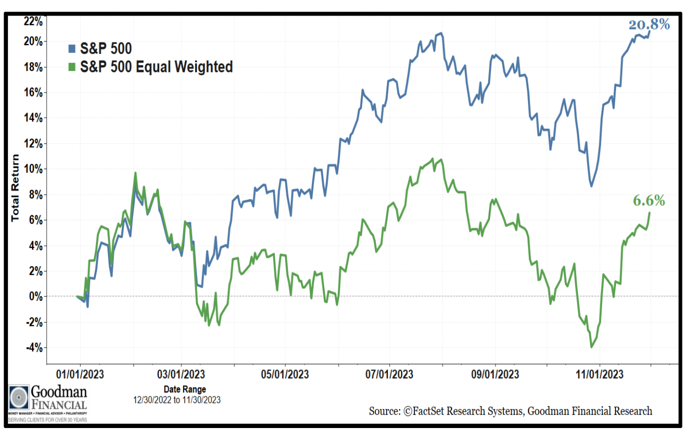
Following a November 1st U.S. Treasury announcement to reduce long-term borrowings and increase short-term ones, long-term rates dropped dramatically, and stocks rallied hard on the news. The S&P 500 rose 9.1%, while the Blended Equity benchmark gained 8.8% in November, as the Mid-Cap S&P 400 and the Small-Cap S&P 600 Indices were up 8.5% and 8.3%, respectively. International stock indices also posted gains in November, with developed markets and emerging markets up 9.1% and 7.9%, respectively. Bond indices were mostly higher in November, as the 10-year U.S. Treasury bond yield fell to 4.36%, from 4.90% last month.

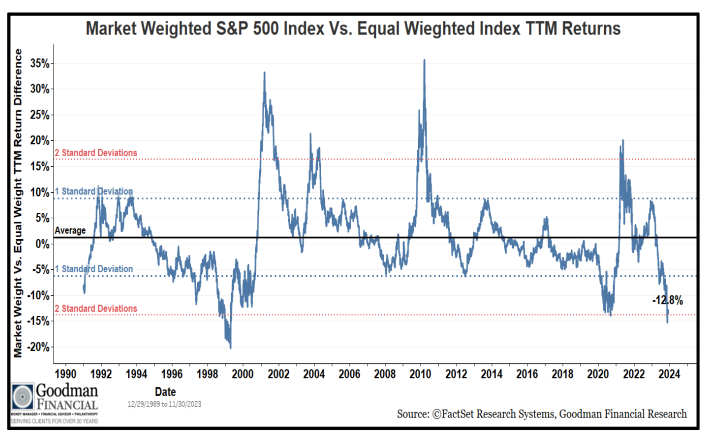
DID YOU KNOW THERE ARE TWO S&P 500 INDICES?

“Say what?” you might ask to the question posed in the title of this month’s Market Commentary. Our reference to two S&P 500 indices includes the most commonly cited and referenced index, the ***market capitalization weighted*** one (which we will simply refer to as the S&P 500 going forward), but also the often forgotten one, the ***equal weighted*** S&P 500 index. The S&P 500 calculates an index member’s weight using its market capitalization (the company’s number of shares outstanding times its share price) as a proportion of the total combined market capitalization of all 500 of the index members. So, “mega-cap” companies like Apple and Microsoft, with market capitalizations of $3.0 trillion and $2.87 trillion, respectively, have weights in the S&P 500 of over 7% each. Moreover, the top 10 companies in the S&P 500 have a combined index weight of 33% - the highest such index concentration over the past 30 years, and far surpassing the level seen during the internet bubble in 1999.

As you might imagine, the performance of those 10 mega-cap stocks can have an outsized impact on the performance of the S&P 500 – something we have commented about on numerous occasions. In fact, those top 10 stocks are up an average of 77% so far this year, far surpassing the total return for the S&P 500 of 21% this year – and accounting for essentially all of the S&P 500 returns for the year - meaning the other 490 stocks in aggregate have essentially gone nowhere so far this year. What this means is that if one didn’t own those top 10 stocks - or own enough of them - then there has been almost no way to outperform the S&P 500 this year. While we have owned three of those 10 stocks in GFC portfolios for all or part of the year, we didn’t own all of the top 10 and so the GFC Equity Composite has also underperformed the S&P 500 so far this year. When taking a longer-term look at the two indices, it is interesting to note that according to S&P Dow Jones Indices LLC, the equal weighted index has actually meaningfully outperformed the S&P 500 since 1990 – a fact that we believe supports our strategy to own what we consider undervalued stocks rather than the biggest ones in the S&P 500.

The “other” S&P 500 index is the equal weighted S&P 500. As the name implies, all stocks in that index have a roughly equal 0.2% index weight (rebalanced to 0.2% quarterly). Accordingly, no individual stock’s performance can meaningfully impact the index’s overall return with such a small weight. As mentioned in the preceding paragraph, the remaining 490 stocks outside the top 10 are effectively flat for the year in aggregate, so as you might expect, the equal weighted index has significantly underperformed the S&P 500 this year, as seen in the chart below, left. As a matter of fact, on a trailing 12-month (TTM) basis, the equal weighted index is underperforming the S&P 500 by nearly 13% through November. As seen in the chart below (right), recent levels of underperformance are the most since 1990 excepting that seen in 1999 during the internet bubble. The good news is that when such levels of underperformance have been observed, the equal weighted index has gone on to significantly outperform the S&P 500 over the over the following months from those points. If history is any guide, that should bode well in due course for active investors like GFC.





REFERENCED INDICES

You cannot invest directly in an index. Index results assume the reinvestment of all dividends and interest.

- **S&P 500 Index** - a market-cap weighted index composed of the common stock of 500 leading companies in leading industries of the U.S. economy.
- **S&P 400 Mid-cap Index** – a market-cap weighted index composed of the common stock of 400 mid-sized companies reflecting the distinctive risk and return characteristics of the U.S. mid-cap equities sector.
- **S&P 600 Small-cap Index** – a market-cap weighted index composed of the common stock of 600 small-sized companies reflecting the distinctive risk and return characteristics of the U.S. small-cap equities sector.
- **Dow Jones Industrial Average Index** – a price-weighted index composed of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.
- **Nasdaq Composite Index** – an index that measures all Nasdaq domestic and international based stocks listed on the Nasdaq Stock Market.
- **Barclays Intermediate Govt/Corp Index** – the index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities with less than 10 years to maturity.