

# POSITIONING FOR A BROADER RALLY

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Tobias Levkovich, Citigroup's chief U.S. equity strategist, was cited late last year with a year-end 2021 [S&P 500](#) price target of 3800. At the time, that made for a 2% price return on the Index—it sits at about 3950 as of today.

Contrary to what this headline S&P 500 price target might imply, Levkovich's outlook for the economy and for stocks broadly was not dire. But the concentration of the S&P 500 in a handful of names—which powered its strong returns in 2020—would be a drag on the Index in a broader rally of smaller stocks:

“(I)t’s easier to pull a dog sled with Huskies than with Chihuahuas. The megacap tech companies are the Huskies, but that’s not where the real improvement in trend will be. It will be in the smaller, cyclical Chihuahuas. They’ll just have a harder time pulling the S&P 500 dog sled.”<sup>1</sup>

To get a sense of the concentration in the Index, below is a chart on the [Herfindahl-Hirschman Index \(HHI\)](#) for the market cap-weighted S&P 500 relative to its equal-weighted version.

The HHI indicates that the S&P 500 Index is far more concentrated today than at any time over the past 30 years. Its equal-weight version—where each stock receives a [20-basis-point](#) weight at quarterly [rebalance](#)—by design has roughly the same level of diversification at all times.

## Herfindahl-Hirschman Index



Sources: WisdomTree, FactSet. S&P 500 Index from 1/31/1990–3/9/2021. S&P 500 Equal Weight Index from 2/28/03–3/9/21. The S&P 500 Equal Weight was launched in January 2003. You cannot invest directly in an index. Past performance is not indicative of future returns.

The [market cap-weighted](#) Index has been on a historic run of late. The S&P 500 has beaten its equal-weighted version each of the past four years.

But perhaps for the first time since 2016, there seems to be [momentum](#) building for the equal-weighted Index.

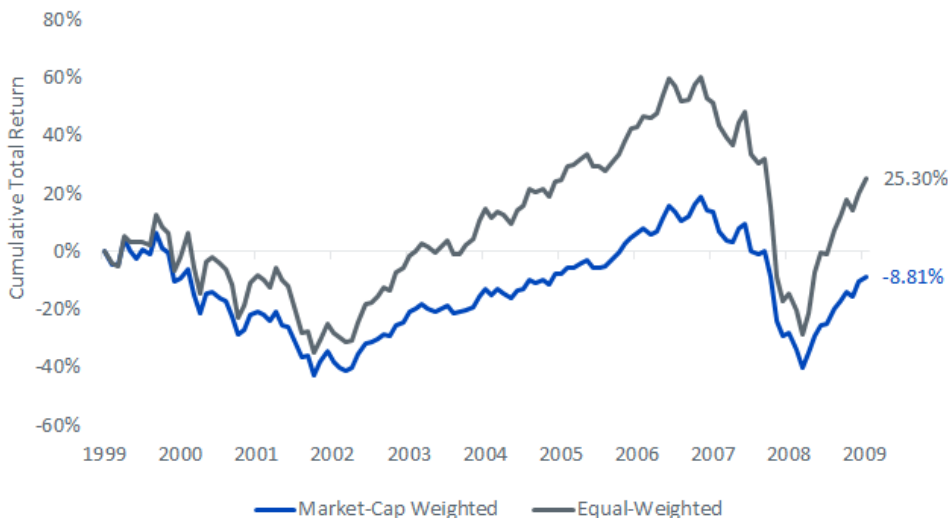
Returns Since September 2, 2020



Sources: WisdomTree, S&P, as of 3/9/21. You cannot invest directly in an index. Past performance is not indicative of future returns.

And for those who think this outperformance will merely run out of steam, recall what happened 20 years ago, in March 2000, when the HHI on the S&P 500 previously peaked at 124.

Using portfolios of market cap-weighted and equal-weighted mid- and large-caps (since the [S&P 500 Equal weight](#) was only launched in January 2003 and can't be used for comparison here), the equal-weighted portfolio was up more than 25% for the decade, while the cap-weighted Index lost more than 8%.



Sources: WisdomTree, Kenneth French Data Library, 12/31/1999–12/31/2009. Market Cap-Weighted and Equal-Weighted portfolios selected from the portfolios of the highest 30% of U.S. companies by market cap. Companies included are from the CRSP data set and are incorporated in the U.S. and listed on the NYSE, AMEX or NASDAQ. You cannot invest directly in an index. Past performance is not indicative of future returns.

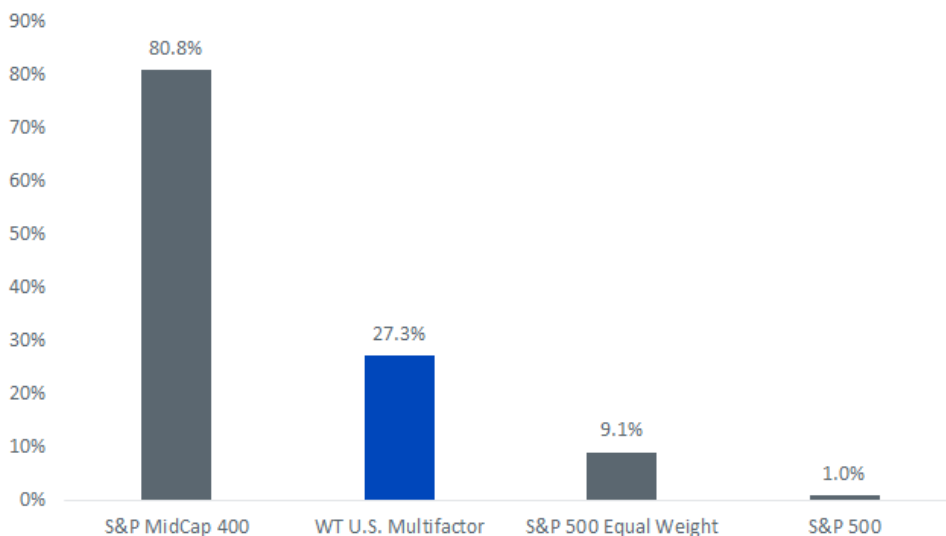
**2021: The Year of the Chihuahuas?**

As 2020 reminded everyone, the economy's performance doesn't dictate the S&P 500's performance. With likely far better economic conditions in 2021, that could mean a more muted outlook for the headline Index, and better returns for smaller, more economically sensitive stocks (the Chihuahuas).

[WisdomTree's U.S. Multifactor Index \(WTUSMF\)](#) was [designed to tap into the diversificatio](#)

n elements of equal weighting, while also aiming to mitigate the increased volatility and sector bets that can arise from a simple equal-weighted strategy. As a byproduct of its modified equal weighting, it allocates nearly one-third of its weight to mid-caps.

**Percent Index Weight in Mid-Caps**



Sources: WisdomTree, FactSet, as of 3/9/21. You cannot invest directly in an index. Mid-cap defined as market cap between \$2 billion and \$10 billion.

Through the early weeks of 2021, WTUSMF is outpacing the S&P 500 by more than 150 basis points.<sup>2</sup> If 2021 shapes up to be a turning point for a broader equity rally than one we have seen in recent years, watch out for greater outperformance from indexes less heavily reliant on outperformance from select mega caps.

**Top 5 S&P 500 Index weights**

Company	WT U.S. Multifactor	S&P 500	Under-Weight
Apple, Inc.	0.00%	5.91%	-5.91%
Microsoft Corp.	0.90%	5.40%	-4.50%
Amazon.com, Inc	0.00%	3.99%	-3.99%
Alphabet, Inc.	0.00%	3.69%	-3.69%
Facebook, Inc.	0.00%	1.95%	-1.95%
Total	0.90%	20.95%	-20.05%

Sources: WisdomTree, S&P, as of 3/9/21. You cannot invest directly in an index.

<sup>1</sup>Nicholas Jasinski, “The Stock Market Could Gain Another 10% Next Year, Experts Say,” Barron’s, 12/18/20.

<sup>2</sup>Sources: WisdomTree, S&P, 12/31/19–3/9/21. You cannot invest directly in an index Past performance is not indicative of future returns.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market outlook](#)

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## DEFINITIONS

**S&P 500 Index**: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**Herfindahl-Hirschman Index (HHI)**: A common measure of market concentration. The index can range from close zero in a perfectly competitive market to 10,000 in a perfect monopoly. It is calculated by squaring the market share of each firm competing in a market and then summing.

**Basis point**: 1/100th of 1 percent.

**Rebalance**: An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

**Market capitalization-weighting**: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

**Momentum**: Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.