

# Timely insights from portfolio managers and industry experts on key financial, economic and political issues.

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## Equities

### Good news for stock pickers from a market of few to a market of many

**Boston** - We spent much of 2020 highlighting how the equity market's performance was driven by a handful of stocks, leading to valuation, price and concentration anomalies. Yet over the past few weeks — particularly since the US presidential election — we've seen a rotation in leadership among sectors, capitalization and styles.

Moreover, new market highs have been achieved with the help of broader sector and stock participation. We think this is a good sign for stock pickers and the sustainability of the equity market's momentum.

#### Broadening participation

Breadth — measured by the percentage of stocks trading above their 50-day and 200-day moving averages — has been steadily rising. As of mid-December, roughly 75% of S&P 500 stocks are trading above their 50-day moving averages and more than 90% are trading above their 200-day averages.

Likewise, according to Ned Davis Research (NDR), 77.5% of industries are in an uptrend, with median 3-month and 6-month correlations of S&P 500 stocks plunging below 50%. Collectively, these statistics tend to be supportive of broad-based market strength and a wider opportunity set.

#### Reversals favoring laggards

Leadership so far this year has been driven by US large-cap growth stocks. As noted in the summary table below, however, all have reversed lately to favor the laggards.

#### Index Total Returns

|                         | 1 Month | QTD    | YTD   |
|-------------------------|---------|--------|-------|
| Russell 1000 Growth     | 2.79    | 7.18   | 33.26 |
| S&P 500                 | 2.71    | 9.30   | 15.39 |
| MSCI EM                 | 6.72    | 16.39  | 15.03 |
| S&P 1500                | 3.11    | 10.32  | 14.88 |
| S&P 400                 | 6.50    | 20.66  | 10.27 |
| S&P 600                 | 9.94    | 27.37  | 7.94  |
| MSCI EAFE               | 4.24    | 12.88  | 4.87  |
| Russell 1000 Value      | 4.83    | 14.57  | 1.30  |
| US vs. International    | -1.53   | -3.57  | 10.52 |
| Growth vs. Value        | -2.04   | -7.38  | 31.95 |
| Large Cap vs. Small Cap | -7.23   | -18.06 | 7.45  |

Source: FactSet, Eaton Vance. All data through December 11, 2020.

Furthermore, while the average return of S&P 500 constituent has trailed the cap-weighted index by nearly 6% year-to-date, that trend has recently reversed in

Picture of

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"The equity market's strength has broadened, expanding an active stock picker's opportunity set and helping to sustain the market's continuing ascent."

favor of an "average" stock. Since the election, the average S&P 500 stock now leads the index by nearly 4%, with almost 55% of the index outperforming the broader market.

**S&P 500 Returns**

|                          | YTD   | 12/31/2019 –<br>11/3/2020 | 11/3/2020 –<br>12/11/2020 |
|--------------------------|-------|---------------------------|---------------------------|
| S&P 500 Return           | 15.4% | 5.9%                      | 9.0%                      |
| Average Stock Return     | 9.5%  | -0.4%                     | 12.7%                     |
| % of Stocks Outperformed | 36%   | 39%                       | 54%                       |
| % of Cap Outperformed    | 56%   | 55%                       | 49%                       |

Source: FactSet, Eaton Vance. All data through December 11, 2020.

Two-thirds of the S&P 500's total return to date has been sourced by the top five positions, which realized an average return almost five times that of the rest of the index. Since the election, the rest of the index has outperformed the top five by over 7%. And through November 3, only three sectors had outperformed the market year to date (YTD) on an equal-weighted basis. But after the election, outperformance relative to the market has broadened to eight sectors.

According to Leuthold Research, an equal-weighted price index of large cap stocks has persistently trailed the market-cap-weighted return during the last four years.

**Bottom line:** The equity market's strength has broadened, expanding an active stock picker's opportunity set and helping to sustain the market's continuing ascent. Company-specific fundamentals remain paramount, of course, but macroeconomic and earnings data are still supportive in our view. As the macro and micro picture changes, so will the market leadership. That's why we think staying nimble and selective is as important as ever.

*With contributions from Carolina Concannon, CFA.*

**S&P 500 Index** is an unmanaged index of large-cap stocks commonly used as a measure of US stock market performance.

**S&P 400 Index** is an unmanaged index of US mid-cap stocks.

**S&P 600 Index** is an unmanaged index of US small-cap stocks.

**S&P 1500 Index** is an unmanaged index of large, mid and small caps, covering approximately 90% of the market capitalization of US stocks.

**Russell 1000 Growth Index** is an unmanaged index of US large-cap growth stocks.

**Russell 1000 Value Index** is an unmanaged index of US large-cap value stocks.

**MSCI EAFE Index** is an unmanaged index of equity securities in the developed markets outside of the US and Canada (Europe, Australasia and Far East).

**MSCI Emerging Markets (EM) Index** is an unmanaged index of equity securities in the emerging markets.

**Ibbotson Small Company Stocks Index** is represented by the fifth capitalization quintile of stocks on the NYSE from 1926 to 1981 and the performance of the Dimensional Fund Advisors (DFA) Micro Cap Fund thereafter.

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