

5 Tips for US Equity Investors

MARCH 2024 | FOR INVESTMENT PROFESSIONAL USE ONLY
Past performance does not predict future returns

1

Only a few asset managers can beat the US equity market over the long term

According to the SPIVA Scorecard, only 12.6% of US large-cap funds outperformed the S&P 500 Index over the past 10 years.

Moreover, when adjusting for the same level of risk as the S&P 500 index, this number falls to 6%.

% of US funds outperforming the S&P 500 index over 10 years (absolute performance)

12.6%



% of US funds outperforming the S&P 500 index over 10 years (risk-adjusted performance)

6.0%



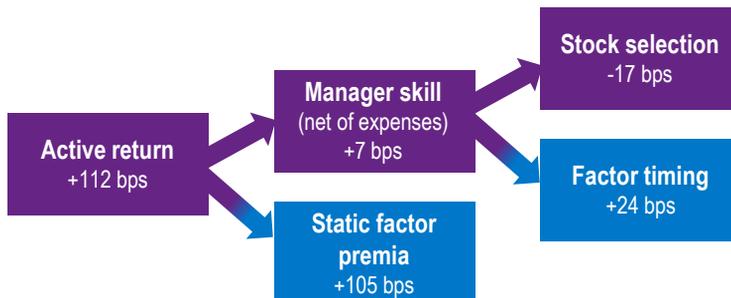
Source: SPIVA Scorecard. As of December 31, 2023.

2

Most of the alpha generated by US equity managers can be attributed to traditional factors

An analysis of active return attributions for US mutual funds reveals that the majority of 'alpha' comes from tilts towards known risk factors rather than genuine insights.

Active return attribution for US mutual funds with positive active return from 2005 to 2015 (352 funds)



Source: BlackRock (Smart Beta Guide), Bloomberg, Barra, Morningstar, Thomas Reuters, 30 June 2005 to 30 June 2015.

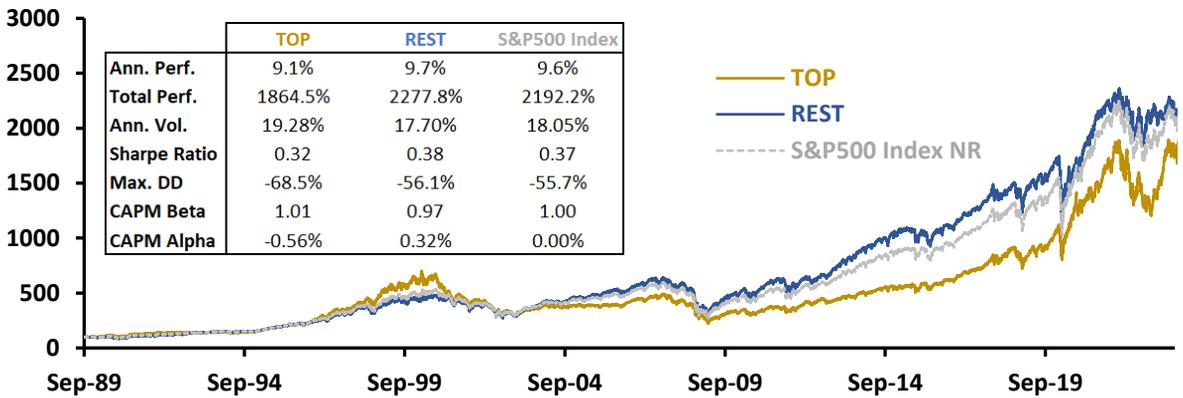
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3 'Magnificent Seven': history suggests you shouldn't count on it

When analyzing a portfolio comprised of the top 30% of the cumulative market cap in the S&P 500 ('TOP' portfolio, approx. 10 stocks), compared to a portfolio consisting of the remainder ('REST' portfolio, approx. 490 names) since 1989, historical data shows that exclusively focusing on the largest names has not typically been profitable.

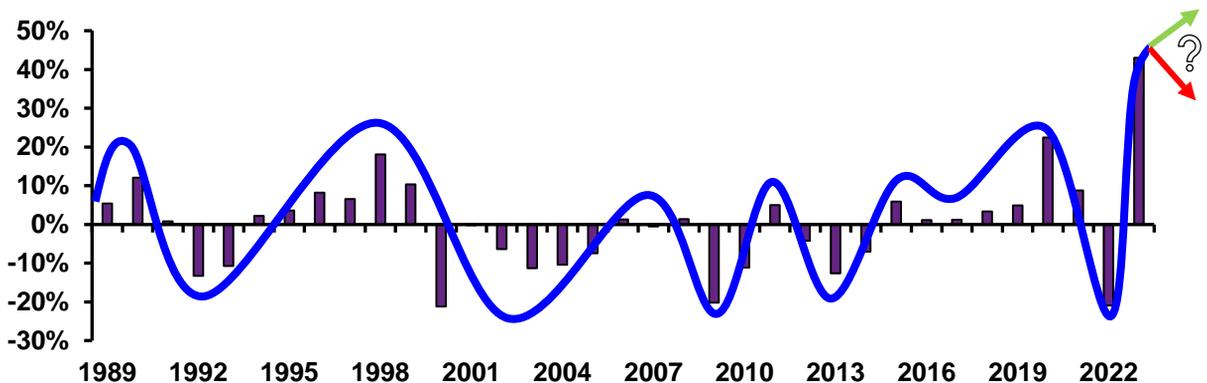
Performance and risk metrics of TOP and REST portfolios and the S&P 500 Index (15.09.1989 - 29.12.2023)



Source: C. De Franco (2023). How long can the Magnificent Seven keep winning? Risk.Net

Examining the calendar year excess returns of both portfolios reveals a noticeable cyclical pattern, which on average, zeroes out.

Calendar excess return of TOP vs. REST portfolios (15.09.1989 – 29.12.2023)



Source: C. De Franco (2023). How long can the Magnificent Seven keep winning? Risk.Net

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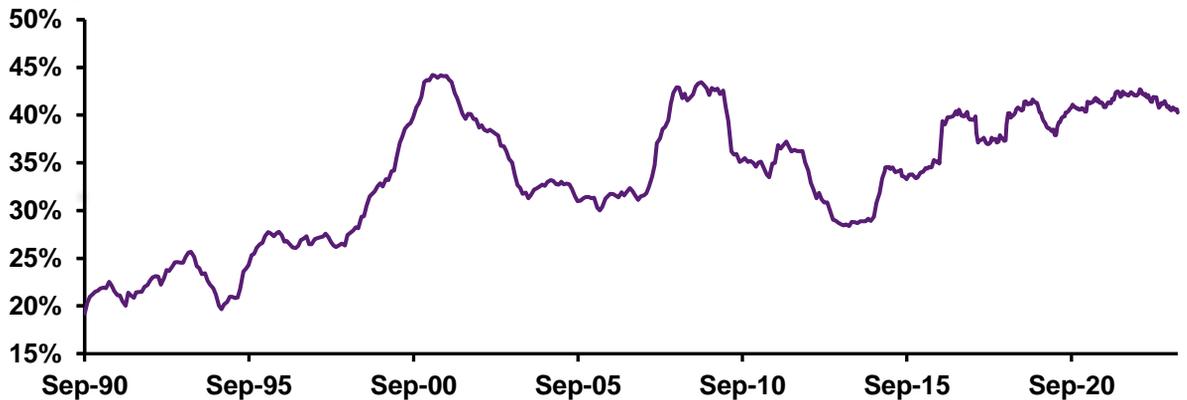
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4

Identifying investment opportunities at the sector levels is less challenging than at the individual stock level

S&P 500 stocks are increasingly moving in line with their GICS® sectors. As a result, investors may look at sector rotation approaches as a more accessible means to uncover investment opportunities, compared to the complexity of focusing on individual stocks. Over the past 30 years, the average correlation between the excess returns of individual stocks (versus the S&P 500 Index) and their corresponding sectors' excess returns has shown a rising trend, currently standing at about 40%.

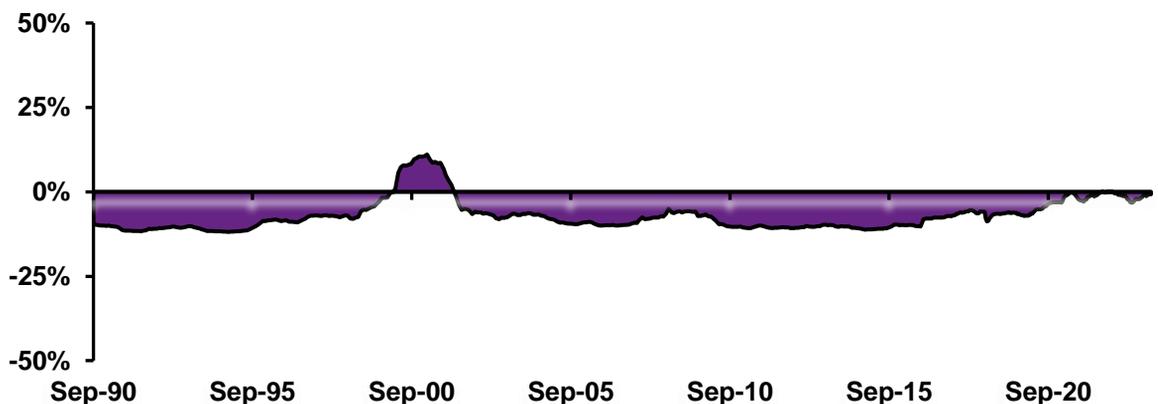
Average correlation of excess returns between individual stocks and their respective sector (21.09.1990 – 15.12.2023)



Source: Ossiam, Bloomberg.

On top of this, the pairwise correlation of sectors' excess returns over the same period has remained low, fluctuating between -10% and +10%. This scenario of (i) increasing alignment between stocks and sectors' excess returns and (ii) relatively stable pairwise correlation among sectors' excess returns appears as both the S&P 500 index and several significant sectors have become extremely concentrated.

Average pairwise sector correlation (21.09.1990 – 15.12.2023)



Source: Ossiam, Bloomberg.

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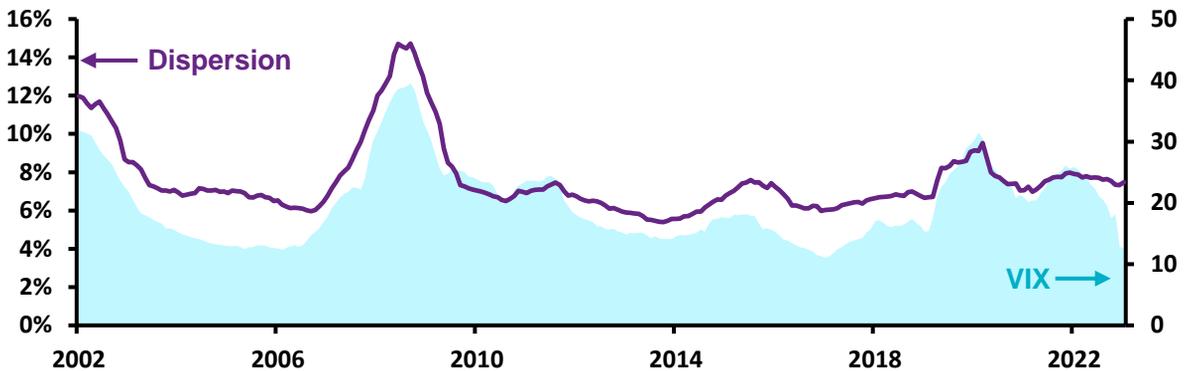
5

Sector opportunities dominate the US equity universe

The skill (or luck) of an active manager is best expressed when there is a significant performance spread among the assets he can choose from. The magnitude of the opportunities can be summed up by the level of dispersion, i.e., the cross-sectional volatility in the performance of the assets within the investment universe.

The following analysis shows that the historical monthly dispersion of stocks in the S&P500 index moves in tandem with implied volatility (as measured by the VIX index): uncertainties fuel opportunities.

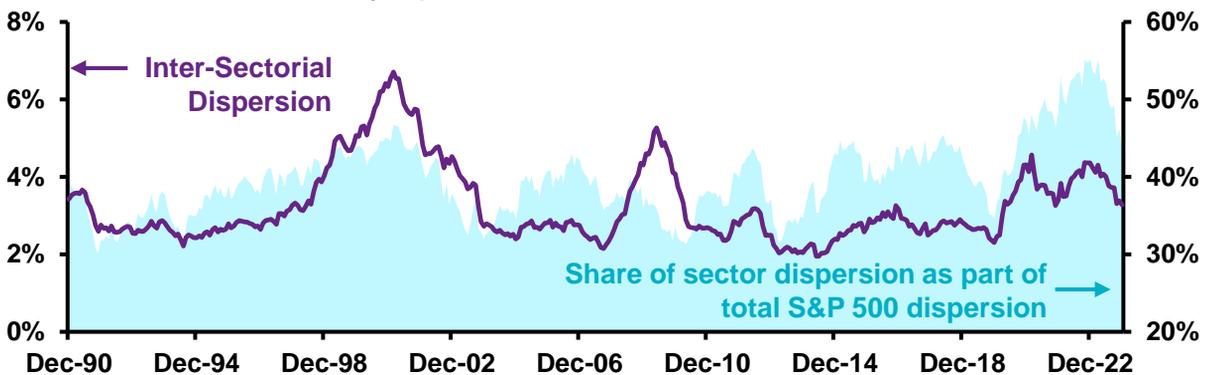
Monthly dispersion of S&P500 stocks vs. implied volatility (VIX) (31.12.1990 – 29.12.2023)



Source: Ossiam, Bloomberg.

The chart below illustrates sectoral dispersion compared to total dispersion. We can observe that sectoral dispersion has increased significantly since 2020, now accounting for almost 50% of the total dispersion. In other words, opportunities have been growing, but especially between sectors.

Absolute and relative levels of monthly dispersion for S&P500 sectors (31.12.1990 – 29.12.2023)



Source: Ossiam, Bloomberg.

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