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Investment Institute

Market Commentary

Weekly perspective on current market sentiment | **February 26, 2025**

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Last week's S&P 500 Index: -1.7%

Measuring market breadth from a different angle

Key takeaways

- When we are talking about market breadth, we are examining how many sectors or individual equities participated in the S&P 500 Index's rally to last week's all-time record high.
- Our expectations call for broader sector, sub-industry group, and individual-stock participation this year.

Our Equity Strategy group recently published an analysis of market breadth, looking at this factor primarily at the sector level (Investment Strategy Report, February 24, 2025). Recall that Standard & Poor's categorizes all U.S. stocks into 11 different sectors. In addition, when we are talking about market breadth, we are typically examining how many sectors or individual equities are participating in (in this case) the S&P 500 Index's (SPX) rally to last week's all-time record high. More opportunities tend to present themselves when more stocks and/or sectors are participating versus the case when only a few sectors or a handful of large-capitalization equities are pulling the overall index higher. In our view, investors should feel more confident in any stock rally when market breadth is increasing or broadening.

It has been a while since we have taken a look at market breadth in this weekly piece, but we wanted to help add to our Equity Strategy group's recent comments by looking at it from a different angle. In this case, we wanted to see if the number of the SPX's sub-industry groups was broad and widening or narrow. As a reference, Standard & Poor's has created 163 sub-industry groups of which 126 have representation (individual stocks) in the SPX. These sub-industry groups make up the 11 equity sectors mentioned above.

Throughout most of last year, many in the financial media fretted that the "Magnificent 7"[1] were responsible for a huge percentage of the SPX's gains. From the sub-industry group level, in calendar year 2024, just 32 groups (25.4%) outperformed the index. That is a rather narrow advance when looked at historically.

Now contrast that with the year-to-date performance in 2025. Through Monday, February 24, 72 sub-industry groups (57.1%) have outperformed the SPX. The advance so far this year has featured participation from a much broader number of individual stocks and sub-industry groups. You can see this in the sector performance as well — 8 of 11 sectors are ahead of the index so far this year. Noticeably, the Information Technology sector, which makes up a whopping 31.4% of the total market capitalization of the SPX, has underperformed and is actually posting a negative year-to-date return at the time of this writing. Last year the Information Technology sector was the second-best performer, posting a nearly 37% gain versus the slightly more than 23% gain for the SPX.

So what does the improved breadth so far this year mean for investors? Our expectations call for broader sector, sub-industry group, and individual-stock participation this year. We think this year is all about earnings growth rather than the valuation expansion (i.e., price-to-earnings or P/E ratio) witnessed in 2024. We also look for a broadening in terms of earnings growth beyond just the high-growth technology and technology-like companies that led the charge for most of last year. Our SPX target range remains 6,500 to 6,700 for year-end 2025.

We believe investors should take improvements in the breath of earnings and the number of sub-industry groups participating in the rally of the SPX as a positive.

1. The Magnificent 7 include Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

Risk considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

Definitions

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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