

DISPATCHES: ILLUSTRATING TRENDS

### Large-Cap Stocks’ Rally Rooted in Artificial Intelligence

The S&P 500 index’s strong performance this year is attributable to its technology-related stocks. Nvidia Corp. (NVDA), Microsoft Corp. (MSFT), Alphabet Inc. (GOOGL) and Apple Inc. (AAPL)—among others—have jumped in response to excitement about artificial intelligence (AI).

Many other stocks have not done the same. Stocks not associated with the AI boom, including large-cap value and both growth and value small-cap stocks, have lagged in terms of the magnitude of their gains.

To illustrate this, we updated a chart we ran last year (“MegaCap-8 Stocks Lead Resurgence in Large-Cap Growth,” in the July 2023 *AAIL Journal Dispatches*). It plots the performance of the iShares S&P 500 Growth ETF (IVW), the iShares S&P 500 Value ETF (IVE), the iShares Russell 2000 Growth ETF (IWO) and the iShares Russell 2000 Value ETF (IWN). We purposely adjusted the start date on the new chart to March 2023 to coincide with the launch of ChatGPT 4.0.

The divergence between the large-cap growth ETF and

the other three ETFs shows you just how much the headline market numbers are not reflective of how the average stock is performing. “Only 21.0% of S&P 500 stocks have outperformed the index in 2024, on pace for the fewest on record,” noted Ned Davis Research in a July report.

At some unknown point in the future, the performance pendulum will swing in favor of small-cap value because of those stocks’ very cheap relative valuations. This swing can occur without large-cap stocks stumbling because of the differences in their collective market capitalizations.

“The S&P 500 represents more than 92% of the weighting in the S&P Composite 1500 Index, while the S&P MidCap 400 comprises 5.5% and the S&P SmallCap 600 picks up the remaining crumbs that account for just 2.42% of the index,” notes Sam Stovall of CFRA Research. “Therefore, we think a rotation out of the large-cap leaders would overwhelm the smaller-cap laggards, just as the draining of a Great Lake would quickly swamp a backyard swimming pool.”

Given this, investors can have their cake and eat it too by maintaining an allocation to large-cap stocks while shopping for bargains among profitable companies in the small-cap arena. ■

—Charles Rotblut, CFA, *AAIL Journal* editor

