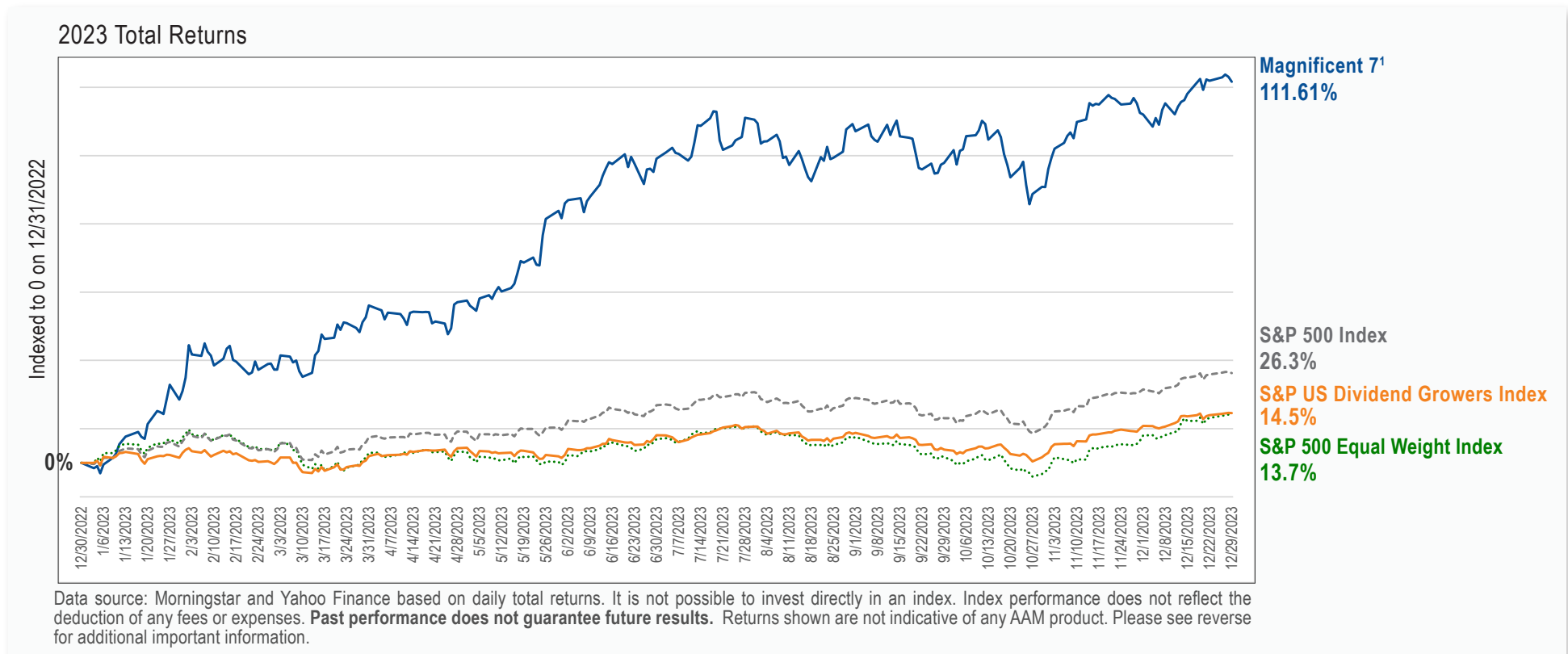


Dichotomy of 2023 Returns: Magnificent 7 vs. All Others

Headlines accentuating robust 2023 US equity returns do little to indicate how an average investor’s portfolio likely performed. The S&P 500 Index’s 26.3% gain was dominated by a handful of mega-cap, growth-oriented companies (dubbed the Magnificent 7) that comprised an outsized 29% of the Index’s total market capitalization — an all-time high level of concentration. These seven stocks had an average total return of 111.6%¹ in 2023 and accounted for an astounding 62%² of the Index’s 2023 return. The S&P 500 Equal Weight Index returned 13.7%, US Dividend Growers returned 14.5%, and according to S&P Dow Jones, the S&P 500 Index would have returned 9.9%² excluding the Magnificent 7 stocks.

We expect to see the equity markets broaden as we move through 2024 and, with these seven stocks considered by many to be fully valued at year-end levels, believe growth-at-a-reasonable-price, dividend-payers and value-oriented equities may again become market leaders. Timing the market is exceptionally difficult, if not impossible, and we at AAM believe investors should remain diversified and adjust portfolio allocations modestly when seeking to take advantage of any market rotation.



The Magnificent 7 is a term popularized to describe a set of dominant companies, particularly in the technology sector, involved with artificial intelligence, electric vehicles, cloud computing, and digital services.

1. Data source: Yahoo Finance. Returns calculated on an equal-weight basis, using daily returns.
 2. Source: S&P Dow Jones, <https://www.spglobal.com/spdji/en/commentary/article/us-equities-market-attributes>

Key Takeaways:

The outsized returns and market capitalizations of the Magnificent 7 stocks obscured results for the rest of the US equity market in 2023.

At year-end 2023 levels, the Magnificent 7 are “priced-for-perfection”.

We expect a broadening of markets in 2024 and a likely rotation toward growth-at-a-reasonable-price, dividend-payers and value-oriented equities.



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All investments involve risk; principal loss is possible. An investment in common stocks should be made with an understanding of the various risks of owning common stock, such as an economic recession and the possible deterioration of either the financial condition of the issuers of the equity securities or the general condition of the stock market. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.

DEFINITIONS: Mega cap companies are the largest in the investment universe as measured by market capitalization. The exact capitalization threshold changes with market conditions, however mega cap generally refers to companies with a market capitalization above \$200 billion. **S&P 500 Index** is an unmanaged market capitalization weighted index used to measure 500 companies chosen for market size, liquidity and industry grouping, among other factors. The **S&P 500® Equal Weight Index (EWI)** is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance. The **S&P U.S. Dividend Growers Index** is designed to measure the performance of U.S. companies that have followed a policy of consistently increasing dividends every year for at least 10 consecutive years. The index excludes the top 25% highest-yielding eligible companies from the index.

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