Wealth Management

LGT Snapshot

Big Tech props up Wall Street

17th May 2023

In summary

- The S&P posts strong gains year to date with big Tech companies leading the charge
- The performance of the index is dominated by three sectors
- AI plays a pivotal role in the top performing companies in the S&P 500

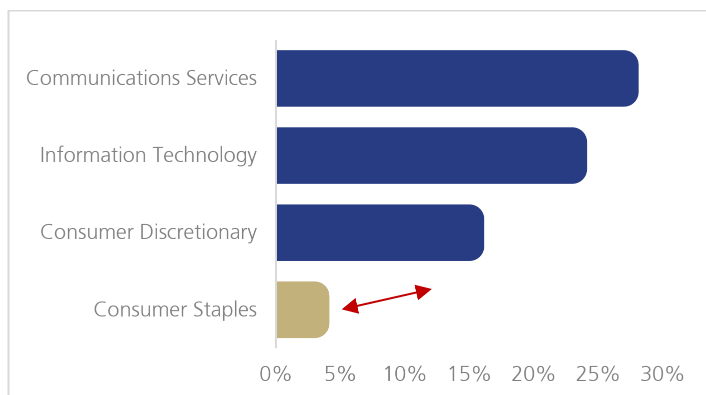
On the surface, the S&P 500 has posted strong gains so far this year. This is notable in light of the ongoing concern facing the regional banks following the failure of Silicon Valley Bank. If we look a little closer, it becomes evident that this move in the S&P 500 can largely be explained by a handful of stocks. Companies that are linked to the artificial intelligence (AI) boom (however tenuously) have performed strongly, propping up the performance of the broader index in the process. The S&P 500 is market cap-weighted, and the large companies have gotten even larger, which means they now dominate a significant proportion of the index's allocation (Apple is larger than the smallest 199 S&P 500 stocks, combined). So how should investors navigate this landscape?

Sector performance

The S&P 500 is up around 8%[1], with three out of the 11 sectors contributing to most of the returns. Those sectors are Communication Services (+27%), Information Technology (+23%) and Consumer Discretionary (+15%). The next best performing sector is Consumer Staples, up a little under 3%. So just looking at a sector level, the majority of the S&P 500 performance has been driven by these three sectors.

Top performing sectors

S&P 500



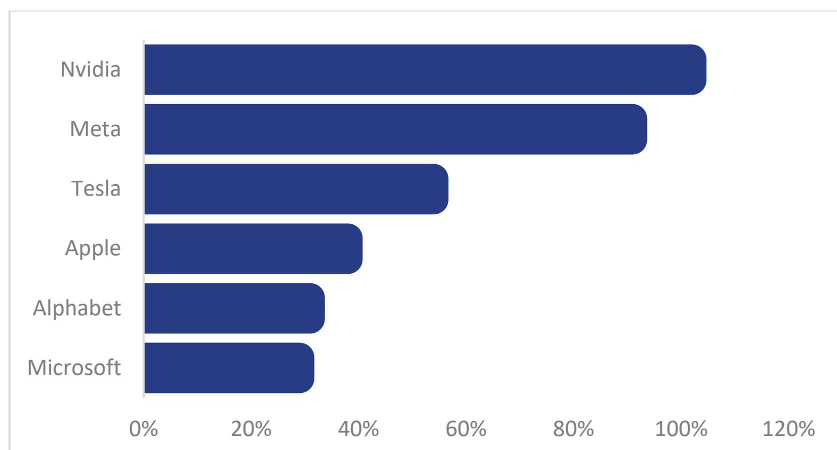
Source: LGT Wealth Management, Factset

Stock performance

Dive a little deeper and some of the stock specific moves are quite remarkable. Apple is up around +38%, Microsoft +29%, Alphabet +31%, Amazon +29%, Meta +91%, Tesla +54% and Nvidia a whopping +102%.

[1] Factset as at 15/5/23

Stock specific performance
S&P 500



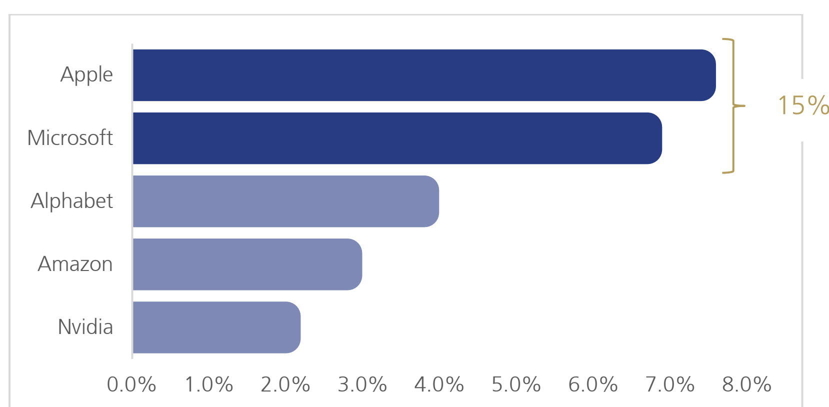
Source: LGT Wealth Management, Factset

Whilst these moves cannot be completely explained away by the adaptation of AI, one of the catalysts has certainly been the launch of ChatGPT and the attention it has garnered. All the aforementioned companies have some degree of AI 'exposure'. Those who have invested significantly in the technology will likely have the early advantage. Google and Microsoft are seen as the frontrunners. Nvidia will also benefit from the growth in AI, they design the graphics processing units (GPUs) that provide the processing power to make AI possible. With its share price doubling this year, the market has bought into this dream. However, in the short term, these moves may have become a bit overextended.

Another interesting commonality of the companies mentioned is their poor performance last year. There has been a huge reversal this year and there appears to be little participation from the broader market in the rally so far. One could suggest that these gains are due to the perceived defensiveness of their business model, as investors piled in once cracks in the US banking system appeared.

The index's performance has been sent higher by investors crowding in these stocks with enormous market capitalization. The top five names by weighting in the S&P 500 are Apple (at 7.4%), Microsoft (6.7%), Alphabet (3.8% for both share classes), Amazon (2.8%) and Nvidia (2.0%). The top two alone account for nearly 15% of the whole index. The size of Apple's market cap trumps that of some developed countries' entire stock markets. Concentration in these giant companies has been a talking point ever since the tech-led bull run of the 2010s, but now they appear to be keeping the market afloat.

Top five companies by weighting
S&P 500



Source: LGT Wealth Management, Factset

Equal-weighted index and what it tells us
The equal-weighted index, which sets every company to a consistent 0.2% weighting regardless of its size (100% divided by 500 constituents), is broadly flat for the year. Last year, this equal-weighted index outperformed the S&P 500 as those mega-cap tech stocks suffered drawdowns, but the reverse has been true this year and the stock market rally has been incredibly narrow i.e. driven by such a limited number of companies. When the equal-weighted index, effectively a measure of the 'average stock' is performing better, it's a sign of a broad market push. When the market cap-weighted index is outperforming, it's generally because the higher weighted constituents are driving returns. If these begin to falter, then it could be a tough time for investors, with the rest of the index performance being so

subdued. However, the global economy appears to be holding up and the Federal Reserve have likely reached peak interest rates, which could be supportive of these longer-duration tech companies.

Riding the AI wave

As ever, investing selectively into these new technologies is crucial. AI is not a 'new' technology however, it has resulted in a surge in retail and institutional investor interest. Whether the rally in those share prices is sustainable or not, the technology looks as though it is here to stay, so identifying those quality businesses with exposure is how we plan to ride the AI wave.

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