Syntax

# Stratified LargeCap Q2 2024 Review

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### Executive Summary

- The Stratified LargeCap Index (SYLC) returned -2.3% in Q2 2024 vs. 4.3% for the S&P 500. The S&P 500 outperformed in a narrow market driven by technology-focused mega-cap stocks.

- The top 10 stocks in the S&P 500 now make up 37.0% of the index, up from 30.8% as of year-end 2023.The top ten stocks in Stratified LargeCap represent 7.8% of the index.

- The S&P 500 set seven record highs in the month of June alone, despite narrow market breadth – 60% of stocks produced negative returns.

- SYLC typically underperforms in the type of market environment that presented itself in Q2; as a diversification strategy, it typically trails in momentum driven markets, but performs well during subsequent market reversals, including the start to Q3.

### Domestic Equity Market Performance Summary

Exhibit 1 highlights large cap growth stocks continued to lead the market in Q2. The S&P 500 returned 4.3%, with a large gap between the growth (+9.6%) and value (-2.1%) components of the index. The mid- and small-cap indices produced negative results, returning -3.4% and -3.1%, respectively. The Stratified LargeCap Index returned -2.3%, outperforming mid- and small-cap stocks, but underperforming the cap-weighted S&P 500 by 6 percentage points, while outperforming the equal weighted S&P 500 by 37 basis points. Over the last year, the S&P 500 returned a very strong 24.6%, outperforming the Stratified LargeCap Index by roughly 12 percentage points. During this period, the S&P 500 Growth Index more than doubled the S&P 500 Value Index (32.5% to 15.3%); however, the Value index has modestly outperformed over the past three years (9.6% to 9.4%), reflecting the value dynamics in the 2022 market drawdown.

**Exhibit 1: Domestic Equity Market Performance Summary (%)**

| Index | 2Q24 | 1Q24 | YTD | 1 Year | 3 Year | 5 Year |
|---|---|---|---|---|---|---|
| Syntax Stratified LargeCap | -2.3 | 8.2 | 5.8 | 12.7 | 6.3 | 11.7 |
| S&P 500 | 4.3 | 10.6 | 15.3 | 24.6 | 10.0 | 15.0 |
| 50/50 Blend* | 1.0 | 9.4 | 10.5 | 18.6 | 8.1 | 13.4 |
| S&P 500 Growth | 9.6 | 12.8 | 23.6 | 32.5 | 9.4 | 16.9 |
| S&P 500 Value | -2.1 | 8.1 | 5.8 | 15.3 | 9.6 | 11.9 |
| S&P MidCap 400 | -3.4 | 10.0 | 6.2 | 13.6 | 4.5 | 10.3 |
| S&P SmallCap 600 | -3.1 | 2.5 | -0.7 | 8.7 | -0.3 | 8.1 |

*Blend of 50% Stratified LargeCap Index and 50% S&P 500 Index.
Total Return as of 6.30.2024. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Source: Syntax, S&P Dow Jones

For the year to date, Stratified LargeCap returned 5.8% compared to 15.3% for the S&P 500. In June alone, the S&P 500 posted seven new closing highs. Interestingly, this string of record-breaking performances occurred despite narrow market breadth. In June, for example, 201 stocks were up while 301 stocks were down for the month. The story has been similar since the market rebounded in 2023 after being down nearly 20% in 2022. The 25 largest companies returned 27% in the first six months, while the rest of the S&P 500 was up only 6%. Exhibit 2 highlights the allocation of Stratified LargeCap relative to the S&P 500.

**Exhibit 2: Stratified LargeCap (SYLC) and S&P 500 Asset Allocation**

| Sector (Subsector) | SYLC | S&P 500 | Difference |
|---|---|---|---|
| Information Tools | 12.6% | 31.0% | -18.5% |
| Integrated Circuits | 4.1% | 12.3% | -8.2% |
| IT Hardware | 4.1% | 7.9% | -3.8% |
| Software | 4.3% | 10.8% | -6.5% |
| Information | 12.7% | 20.9% | -8.3% |
| Commercial Information Services | 4.2% | 6.5% | -2.3% |
| Media and Telecommunications | 4.3% | 1.9% | 2.4% |
| Internet Services and Websites | 4.2% | 12.6% | -8.4% |
| Healthcare | 12.2% | 11.9% | 0.3% |
| Pharmaceuticals | 4.1% | 5.7% | -1.5% |
| Healthcare Industry | 4.1% | 4.1% | 0.0% |
| Consumer Healthcare | 4.0% | 2.1% | 1.8% |
| Industrials | 12.4% | 9.8% | 2.6% |
| Materials | 3.1% | 2.2% | 0.9% |
| Components | 3.1% | 2.0% | 1.1% |
| Equipment | 3.1% | 3.6% | -0.6% |
| Services | 3.1% | 2.0% | 1.1% |
| Financials | 12.8% | 9.7% | 3.1% |
| Banking | 4.4% | 4.3% | 0.1% |
| Insurance | 4.2% | 3.0% | 1.2% |
| Real Estate | 4.2% | 2.3% | 1.9% |
| Consumer | 12.3% | 5.6% | 6.7% |
| Household, Personal Care | 3.2% | 1.4% | 1.9% |
| Apparel and Accessories | 3.0% | 0.7% | 2.3% |
| Equipment and Services | 2.9% | 1.5% | 1.4% |
| Transportation | 3.2% | 2.0% | 1.2% |
| Energy | 12.6% | 5.9% | 6.7% |
| Oil and Gas | 6.5% | 3.6% | 2.8% |
| Utilities | 6.1% | 2.3% | 3.9% |
| Food | 12.5% | 5.1% | 7.4% |
| Food Production | 6.3% | 2.5% | 3.7% |
| Food Sales | 6.2% | 2.5% | 3.6% |

**Comments: SYLC vs. S&P 500**

- All SYLC primary sectors (shaded in gray) have a target weight of 12.5% to provide balanced exposure to business risks.
- The Information Tools sector is now 31% of the S&P 500, up from 27% since 2023-year end.
- Integrated Circuits companies, led by NVIDIA, are 12.3% of the S&P 500, up from 8.5% at year end.
- The top 10 companies in the S&P 500 represent 37% of the index; this compares to 7.8% for SYLC.
- SYLC has significant overweights to the Consumer, Energy and Food sectors, and large underweights to the Information Tools and Information sectors.

Sector and sub-sector weight in the Stratified LargeCap Index and S&P500 Index as of 6.30.2024. Source: Syntax, S&P Dow Jones Indices.

The goal of the Stratified LargeCap Index is to deliver an unbiased return that is representative of all the business opportunities in the market, not just the largest ones. The index holds the exact same stocks as the S&P 500; the only difference is the weighting scheme is designed to reduce concentration risk to both individual stocks and sectors.

Exhibit 3 looks at the performance of Stratified LargeCap relative to the S&P 500. The narrow market breadth is shown in the results of SYLC, and to a lesser extent the S&P 500. Six of the eight SYLC sectors were negative, with only Information Tools posting meaningful positive results. The S&P 500 had four sectors with negative results, one sector broke even, and three sectors produced positive results. Information Tools was far and away the best performing sector in both indices, with the S&P 500 benefiting from its large position in tech companies like NVIDIA and Microsoft. The Information Sector, which includes companies like Alphabet, Amazon, and Meta Platforms, was the second-highest performing sector in the S&P 500, returning 3.6% for the quarter. Comparatively, SYLC's Information Sector returned -2.0% given its lower weight to the largest stocks in this sector.

**Exhibit 3: Stratified LargeCap (SYLC) and S&P 500 Q1 2024 Performance by Primary Sector**

| Sector | SYLC | S&P 500 | Difference |
|---|---|---|---|
| Information Tools | 4.7% | 14.4% | -9.7% |
| Energy | 0.3% | 0.0% | 0.2% |
| Information | -2.0% | 3.6% | -5.6% |
| Financials | -2.1% | -0.8% | -1.4% |
| Food | -2.6% | 1.6% | -4.2% |
| Industrials | -3.4% | -2.7% | -0.7% |
| Healthcare | -6.6% | -0.9% | -5.7% |
| Consumer Products and Services | -7.3% | -3.2% | -4.1% |

Total Return by sector, 4.1.2024- 6.30.2024, Syntax Stratified LargeCap Index and S&P 500 Index. Source: Syntax, S&P Dow Jones Indices.

To get a more granular view of the market's performance, Exhibit 4 on the following page displays the results of the 24 sub-sectors found within the eight primary sectors of Syntax's FIS industry classification system.

The diversification within SYLC provided a headwind to returns as 18 of the 24 sub-sectors in the index produced negative results. The S&P 500, with its higher individual security concentration risk, fared better. While most of the S&P 500 sub-sectors produced negative returns (13 out of 24), the strong performance of the large tech stocks drove results. For example, Integrated Circuits returned 21.9% in the S&P 500 vs. 9.8% for SYLC. The results in the S&P 500 were driven by NVIDIA, which rose from 5.1% of the index at the end of Q1 to 6.6% at the end of Q2. Similarly, within IT Hardware, the S&P 500 returned 19.1% compared to 7.0% for SYLC driven in part by Apple's return of roughly 23% during the quarter.

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**Exhibit 4: Stratified LargeCap And S&P 500 Performance By Sub-Sector**

| Sub-Sector | Sector | SYLC | S&P 500 | Difference |
|---|---|---|---|---|
| Integrated Circuits | Information Tools | 9.8% | 21.9% | -12.1% |
| IT Hardware | Information Tools | 7.0% | 19.1% | -12.2% |
| Utilities | Energy | 3.6% | 4.5% | -0.9% |
| Pharmaceuticals | Healthcare | 1.7% | 2.5% | -0.8% |
| Media and Telecommunications | Information | 0.4% | -4.7% | 5.1% |
| Banking | Financials | 0.4% | 1.9% | -1.5% |
| Industrial Components | Industrial | -0.9% | 1.9% | -2.8% |
| Food Sales | Food | -1.1% | 4.2% | -5.3% |
| Internet Services and Websites | Information | -1.5% | 9.8% | -11.2% |
| Real Estate | Financials | -2.1% | -2.5% | 0.5% |
| Software | Information Tools | -2.4% | 4.1% | -6.5% |
| Industrial Equipment | Industrial | -2.7% | -1.8% | -0.9% |
| Oil and Gas | Energy | -3.1% | -2.6% | -0.5% |
| Food Production | Food | -4.2% | -0.9% | -3.3% |
| Industrial Services | Industrial | -4.5% | -6.2% | 1.7% |
| Apparel and Accessories | Consumer | -4.8% | -6.5% | 1.7% |
| Insurance | Financials | -4.9% | -3.0% | -1.9% |
| Commercial Information Services | Information | -5.3% | -4.7% | -0.6% |
| Industrial Materials | Industrial | -5.8% | -4.9% | -0.9% |
| Consumer Transportation | Consumer | -6.2% | 4.5% | -10.7% |
| Household and Personal Care | Consumer | -6.5% | -0.4% | -6.1% |
| Healthcare Industry | Healthcare | -9.8% | -5.3% | -4.5% |
| Consumer Equipment and Services | Consumer | -12.0% | -12.1% | 0.1% |
| Consumer Healthcare | Healthcare | -12.8% | 0.7% | -13.5% |

Total Return by sub-sector, 4.1.2024- 6.30.2024, Syntax Stratified LargeCap Index and S&P 500 Index. Source: Syntax, S&P Dow Jones Indices.

## Conclusion

Q2 was a difficult quarter for the Stratified LargeCap Index, which returned -2.0% compared to 4.3% for the S&P 500. The index typically underperforms in narrow, momentum driven markets, which increasingly describes the large cap market going back to the beginning of the rally that started in Q1 2023. From our perspective, such environments are unsustainable. The market increasingly appears to be in a precarious position as its regularly occurring record highs have been reliant on a small group of mega-cap growth stocks. While the S&P 500 returned 4.3% for the quarter, 13 of 24 sub-sectors had negative results, and the index's positive return was driven predominantly by three tech focused subsectors: Integrated Circuits (+21.9%), IT Hardware (+19.1%), and Internet Services and Websites (+9.8%).

In our last quarterly update, we noted such narrow markets have historically proven to be unsustainable, as we saw during the bursting of the Dotcom bubble and again in 2022 when technology stocks led the market down. While we recognize the promise in AI and technology, the S&P 500 has increasingly become a bet on technology. When the market turns, the balanced business risk profile of Stratified LargeCap can serve as a good complement to the S&P 500. This was the case in 2022 when Stratified LargeCap outperformed the S&P 500 by over 9 percentage points (-8.79% vs. - 18.11%) when technology stocks reversed course. As Mark Twain said, "history never repeats itself, but it does often rhyme". Investors should consider whether it is prudent to realize some of the large paper gains they have accumulated in the S&P 500 over the past 18 months and re-position their portfolio to achieve better business risk diversification.

**About Syntax**

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