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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **November 13, 2024**

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Last week's S&P 500 Index: +4.7%

S&P 500 makes up a huge share of global market capitalization

Key takeaways

- The S&P 500 Index represents just over 50% of total global equity market capitalization.
- As next year unfolds, we think the global economy will begin a modest recovery and anticipate the U.S. will be at the leading edge of that recovery.

The population of the United States is approximately 4.2% of the total world population according to the latest data from the U.S. Census Bureau. Given that statistic, we wondered what the market capitalization of the S&P 500 Index (SPX) was versus the equity capitalization of the rest of the world. Based on data published earlier this year by S&P Dow Jones Indices, the SPX represents just over 50% of total global equity-market capitalization. More than 50%. That isn't a typo. And all that capitalization has been generated by domestic companies in a country that makes up less than 5% of the globe's inhabitants. Simply amazing.

What makes our domestic equity market stand out and build all that capitalization? Actually, quite a number of things, including the depth of capital markets as a whole and the strength of the U.S. consumer whose spending makes up about 70% of our country's gross domestic product (GDP). Consumer demand along with our governmental and regulatory environment has allowed innovators to build the largest economy in the world by far.

But looking ahead through year-end 2025, our view is that broad-based global disinflation and interest-rate cuts in many countries should help credit and spending growth internationally. Late-2024 Chinese fiscal stimulus should help by stabilizing the Chinese economy. A modest increase in global trade growth could follow from better credit and more confidence by Chinese consumers. This modest international recovery should provide some spending support for households and businesses overseas, but we believe that structural problems — such as excess regulation, insufficient regional economic integration, and declining populations — will restrain economic growth in China and in developed ex-U.S. economies. That, ultimately, should leave the U.S. as the global leader for another year. As a result, we continue to favor U.S. equities over international equities.

Drilling down a bit further in terms of capitalization, our current ratings favor U.S. large-cap stocks over domestic small caps (as tracked by the small-cap Russell 2000 Index). But our guidance is flexible enough to look for opportunities as they arise. Note that we are not carrying an unfavorable rating on small caps; we are neutral, which translates to a full strategic weighting, and looking for a chance to broaden our U.S. equity exposure.

Initially, as next year unfolds, we think the global economy will begin a modest recovery, but we also anticipate that the U.S. will be at the leading edge of that recovery. In our view, the U.S. has comparatively more fiscal stimulus, stronger consumer spending, and a vibrant technology sector, and the dollar is likely to appreciate against the world's main currencies. It'll be a tough combination for international markets to beat.

Looking into 2025, we expect our U.S. equity exposure to broaden, but now is still a time to favor U.S. large-cap equities. Stay patient. Stay tuned.

Risk considerations

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. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks.

Definitions

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

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

An index is unmanaged and not available for direct investment.

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