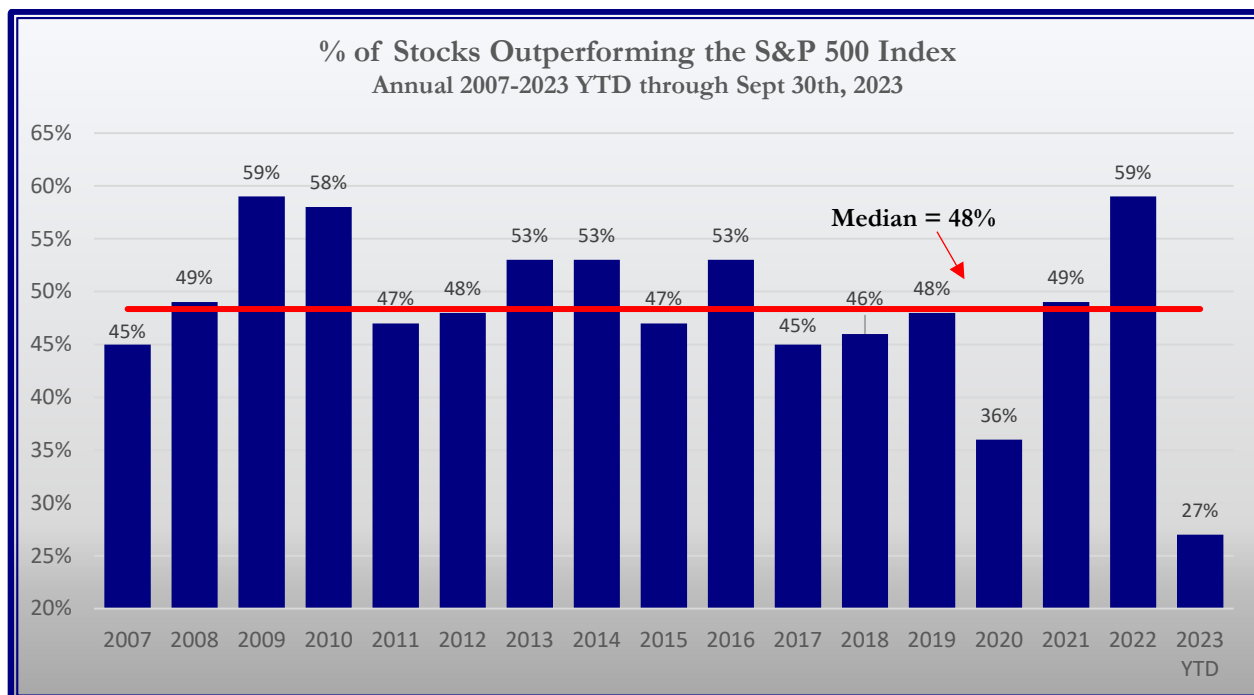


Performance Benchmark Overview:

Stemming from the magnitude of performance dispersion between last year and this year is the notable rebalancing of the S&P Value Index. While rebalancing of indexes is a common occurrence, this time it is evident that price momentum became a more prominent factor in determinations. For example, three components of the mega cap FAANGM stocks, plus a holding company with a significant position in another FAANGM stock, were added to and now comprise nearly 14% of the S&P Value Index. This alone skews the index more towards the growth spectrum. Additionally, the Energy weighting, one of the more undervalued sectors, was significantly reduced in the index along with reductions in Healthcare and Consumer Staples weightings. On the other side, Information Technology, Financials, Consumer Discretionary, and Communication Services faced noticeable increases.

Similarly, on an annual basis, the Russell U.S. indexes reconstitute their components based upon size and style to reflect the evolving equity market. Most prominently in 2022, Meta was added to the Russell 1000 Value Index after its multiple collapsed during the market sell-off causing it to be reclassified as a value stock. This move was temporary, as it was already removed from the value index and put back into the growth index during the annual reconstitution in June of this year. Alphabet was removed from the value index as well. Both these moves are a significant change to the index, as Meta and Alphabet contributed 38% to performance of the Russell 1000 Value Index for the first half of the year.



Source: Bloomberg Financial

The chart above shows the percentage of S&P 500 companies that outperformed the index each year. This year has been the narrowest equity market since the financial crisis. According to Bernstein Research, only 28% of the S&P 500 companies have outperformed the index so far this year. Not only that, but just 7 stocks (the Mega Cap 7) accounted for 84% of the total benchmark return. This reality is important to understand, since it means that most stocks are not participating in the rally this year. This extremely narrow market is even more so than during the pandemic in 2020, despite that today's economy is much healthier than during the pandemic.

The relative performance between the most speculative larger capitalization growth stocks and the broader market has also reached an extreme. In fact, the current performance difference between the Nasdaq-100® and the Russell 2000 indices is currently mimicking that seen during the most extreme points of the Technology Bubble in 1999.

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