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CIO NOTE

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How Nvidia is Shaping the S&P 500's Performance in 2024

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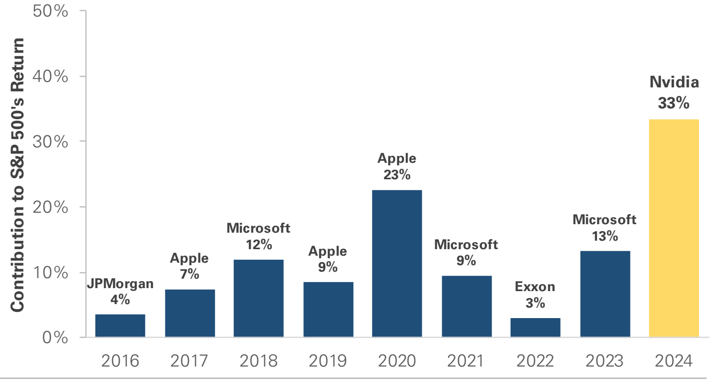
The S&P 500 Index is a well-known stock market index that tracks the performance of 500 of the largest U.S. companies. Many large-cap ETFs passively track the broad index, and investors use it as a benchmark to gauge the relative performance of their portfolios. This year, a unique phenomenon is impacting the S&P 500. A single stock has contributed over one-third of the S&P 500's total return, which means its inclusion or exclusion in different market indices has made a big difference.

Nvidia, a leading semiconductor company in the artificial intelligence (AI) industry, is rapidly growing. Companies like Microsoft, Amazon, Google, and Facebook-parent Meta are spending billions on Nvidia's computer chips to train their AI models. The company's strong earnings growth has caught investors' attention. The stock has recently surpassed Apple as the second biggest S&P 500 holding. Due to its high index weight and strong return, Nvidia has contributed 33% of the S&P 500 Index's year-to-date return.

How often does one company account for such a large portion of the index's return? The answer is rarely. The bars in Figure 1 show the S&P 500 company that contributed the most to the index's return by year. Between 2016 and 2023, the stock with the most impact contributed an average of one tenth of the S&P 500's return. The biggest previous contribution occurred in 2020, when Apple contributed 23%.

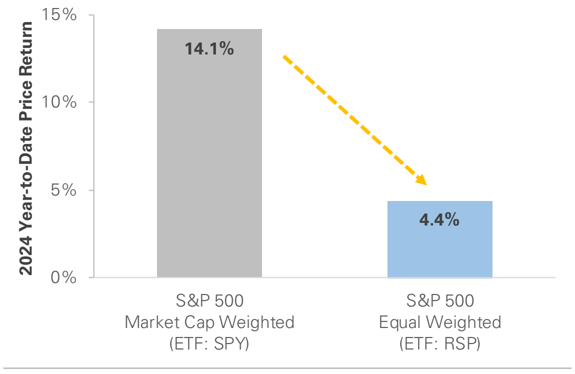
Our team wanted to share this market statistic for two reasons. First, it is rare for one stock to account for a significant portion of the S&P 500's return. This market is one for the history books. Second, Nvidia's dominance has implications for portfolio analysis. Figure 2 shows how the S&P 500 would have performed if its holdings were weighted equally rather than by market capitalization. The market-cap weighted S&P 500 Index has gained +14.1% as of June 13th, while the equal-weighted version of the S&P 500 has only gained +4.4%. This year's performance shows that the headline return can overstate the average company's performance, but this isn't always the case. Between 2000 and 2023, the equal-weighted S&P 500 outperformed its market-cap weighted peer 15 out of 24 years. It's important to look beyond the headline market return when analyzing portfolio performance.

FIGURE 1 – Stocks With the Biggest Contribution to the Index's Total Return



Source: Standard & Poor's. Data from January 1, 2016 to June 13, 2024.

FIGURE 2 – S&P 500 YTD Return (Market Cap vs Equal Weight)



Source: State Street, Invesco. Data as of June 13, 2024.