



# Market Strategy Weekly

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Strategas Technical Strategist Todd Sohn walks us through the stock market landscape by looking at what's working outside of Big Tech, whether stock market concentration matters for forward returns, and how investor sentiment looks heading into summer.

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## WHAT'S WORKING? | MARKET CONCENTRATION | SENTIMENT UPDATE

**ROSS MAYFIELD:** Outside of tech, what is working right now and what does that tell you about the state of things?

**TODD SOHN:** It feels like nothing is working besides Tech and Semiconductors, but even though it's been more selective recently, other areas of strength are out there. Large Cap Biotech has done well, Infrastructure and Industrials have been leaders for quite some time, and even Utilities – though that might be an AI or nuclear play – has been working. The difference is, they don't have the influence that Technology stocks have, so investors feel that strength less and hear about it far less. Looking abroad, Europe has had a pretty good stretch, Japan has been on a fantastic run, and even China has started to perk up. So, it's not all just Technology, but these other corners of the market just do not have the same level influence on the S&P 500, and I think that's causing a lot of consternation in terms of where to search for outperformance.

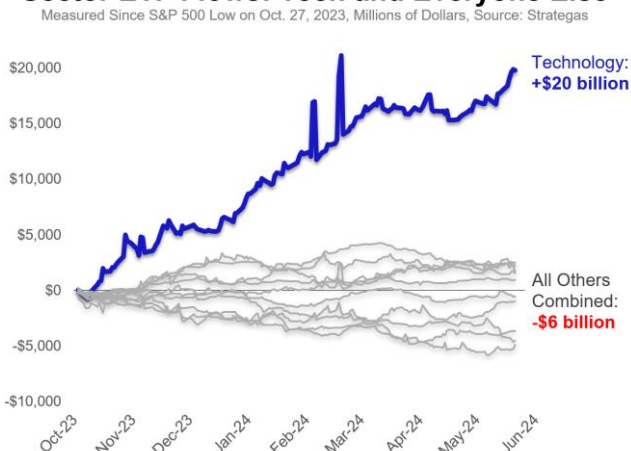
**ROSS:** What is your view on the market concentration? Does it portend anything ominous or is it just kind of a fact of life here?

**TODD:** This is just how indices work. Think about it as a sports analogy: the biggest players (companies) are supposed to influence the team (the index) the most, right? It's not bullish or bearish on its own, and it doesn't indicate that there's going to be an issue, it's just the market environment we're in right now. But if you wanted to be more diligent, this is when it makes sense to pay attention to the equal weighted indices to get a better sense of the average stock's health. Indices can mask underlying weakness, similar to how a car works – the car might still be driving, but that doesn't mean there aren't issues under the hood that could cause problems. So, what is the Equal Weight S&P 500 doing? All in all, it's in okay shape. It's consolidated over the last month or so, but we're okay with that because trends are still decent. Could the market have a summer speed bump? Of course. But as uncommon as this level of concentration is, it doesn't necessarily give a read on future performance.

**ROSS:** Given the enthusiasm over AI and Big Tech, what are you seeing in terms of overall investor sentiment today?

**TODD:** It's a great question. First, I would point out that today, the Big Tech companies are doing a lot more to justify their weighting in the index than companies were at the end of the 1990s. That is to say, the size of these companies today is mostly justified by the size of their income, and that's a big difference versus the bubble 24 years ago. Now, in terms of sentiment, our work on ETF flows shows sentiment is only hot within Technology. Every other sector combined has seen outflows over the last 6-12 months, and the broader market flows have cooled off, too. Further, while sentiment might be a bit hot for Technology, we are nowhere near the euphoria we saw back in 2021 during the meme stock craze. Some sentiment surveys are a bit hot and there's a touch of complacency from the put/call data, but I think it's a vastly different environment today vs. 3 years ago. I'm curious to see if flows into the broader market and other sectors start to pick up this summer, but so far it is really only Tech where you see excess optimism. And of course, that's been rewarded so far.

### Sector ETF Flows: Tech and Everyone Else



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