



Market Strategy Weekly

March 8, 2024

Strategas Technical Strategist Todd Sohn walks us through a handful of timely market topics, including whether the market is just “Big Tech,” whether sentiment is getting too aggressive, and how to think about the languishing Chinese stock market.

Todd Sohn, Strategas

Managing Director, Technical Strategist

Ross Mayfield, Baird

Investment Strategy Analyst

MARKET BREADTH | TECH SENTIMENT IS HOT | IS CHINA INVESTIBLE?

ROSS MAYFIELD: How does the market look from a technical perspective? Is it broadening out or still just a handful of stocks?

TODD SOHN: I think we're all aware of concentration risk in the U.S. market. Five stocks make up 25% of the S&P 500—highest in over 45 years—and that's caused investors some agitation. But at the same time, the S&P 500 Equal Weight (the index where every stock is on a level playing field, whether it's Tech or Utilities or Financials) is on the cusp of its first new all-time high in about 540 trading days, the third-longest streak in history without a new high. And this reflects broadening participation. Historically, when the average stock goes this long without a new high, forward returns are pretty decent. So, yes, we've run up aggressively here in the near-term, but the S&P 500 Equal Weight reflects stronger participation and it's not that stretched when you zoom out on the timeframe. To me, that is very supportive for longer-term investors.

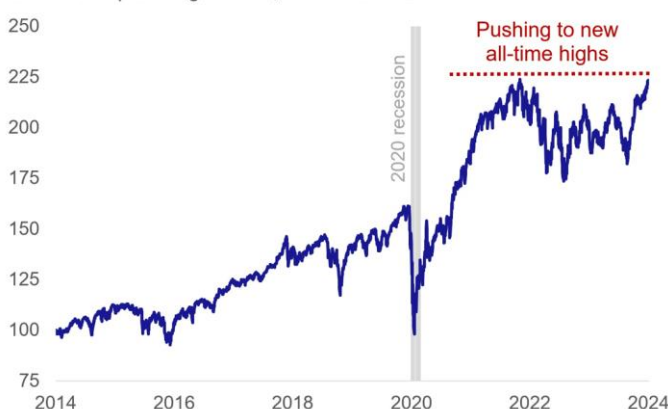
ROSS: Along with that strong performance, has sentiment become too aggressive? What is your work with ETFs telling you?

TODD: ETFs hold valuable information in their inflows/outflows and trading volumes. Being able to see where investor dollars are going and how aggressively tells us a lot about sentiment. And right now, it's basically Technology versus all other sectors. Tech inflows have been really strong whereas the other sectors combined have actually seen outflows over the last year. With this big move into Tech—and with some of those stocks trading at stretched levels relative to their trends—I would maybe look for a speed bump in the coming months. And that's okay; that's how markets work. But it's worth keeping top of mind given Tech's weight and influence in the benchmarks. Zooming out, the rest of the market continues to improve against a more muted sentiment backdrop. To us, that is a big difference versus a few years ago when the market topped out.

ROSS: Could you talk through some of your work on China? Do you see that market as investible?

TODD: Amazingly, if you go back over the last 30 years, Chinese stocks have returned basically 0% total return for investors (and with an immense amount of volatility, to boot). That's significant because of the region's big influence in many Emerging Market benchmarks and funds. And so, all in all, I would look at China much more as a trading vehicle than a longer-term investment. Now, sentiment is very much sour on the region today. We've seen all sorts of headlines about the central bank taking supportive action for the economy, a lot of China-related products are closing, etc. So, sentiment can't get much worse, and maybe that will spark some sort of tactical rally here. But again, timing the entry and exit of that is very difficult. I would look at other areas around the world—India's markets are acting better (and are perhaps a little bit more Growth- and Tech-oriented), Korea looks strong, and even some pockets in Latin America, as well. So, there is opportunity in Emerging Markets and a case for inclusion in portfolios, but just keep in mind that you may want to avoid ones that rely too heavily on China.

The “average stock” is pushing to new all-time highs
S&P 500 equal-weight index, since March 2014



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