

Chart of the Month

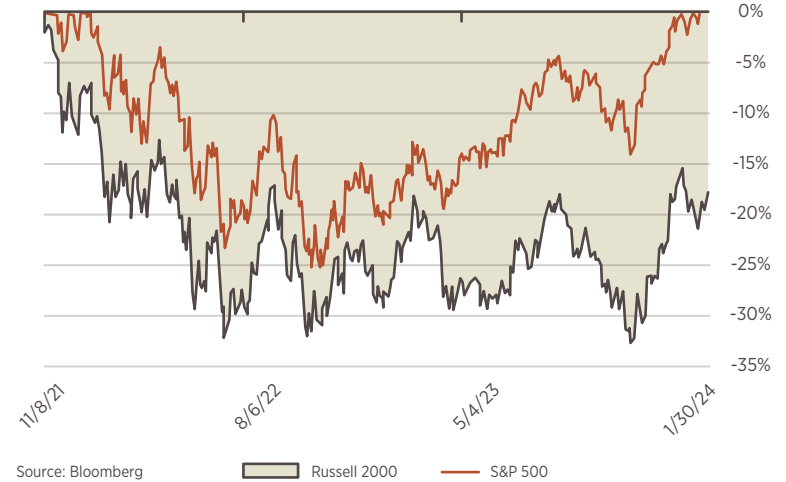
David vs. Goliath. The “Miracle on Ice.” Rocky vs. Ivan Drago. All are examples of the smaller prevailing. However, the chart we show this month has been the exact opposite: US Large Caps (S&P 500) achieved new highs in January 2024 while US Small Caps (Russell 2000) are still 18% below their record levels last seen in Nov. 2021!

As has been discussed almost ad nauseam over the past year, it is no secret that the S&P 500 was powered higher by the “Magnificent 7.” To understand how large the “Magnificent 7” has become, consider this. The Market Cap¹ of those 7 companies – Microsoft, Apple, Alphabet (Google), Amazon, Nvidia, Meta (Facebook), and Tesla – is ~\$12.7 trillion. The Market Cap of all ~2,000 companies in the Russell 2000 is ~\$2.9 trillion. That means the 7 largest stocks are 4.3x the size of all US Small Caps. Perhaps even more interesting is that both Microsoft and Apple, on their own, are equivalent in size to the entire US Small Cap universe!

Two years ago, we wrote about the valuation gap between Small Caps (S&P 600) and Large Caps (S&P 500) earnings yields, reaching a point that had not been seen since the dot-com bubble in the late 1990s. Since we wrote that, not much has changed as that valuation gap has remained persistent and even slightly widened. In other words, US Small Caps continue to trade cheaper relative to US Large Caps. As the saying that is often repeated in sports goes: “They might be down, but they’re not out.”

The gap in performance between large and small companies is historically large and likely to be closed. As such, we think it is important for clients to discuss with their advisors having both large and small cap exposure in their portfolios.

US Equity Max Drawdowns Since Small Caps All-Time High
Russell 2000 Index High was 11/8/2021



Source: Bloomberg
Data as of 1/30/2024

Legend: Russell 2000 S&P 500

1. Market Cap refers to size the stock market attributes to each company; calculated as of 1/30/2024 from Bloomberg



Simple Steps to Improve Your Financial Future

Practical tips and strategies to help you begin

If managing your personal finances feels like a daunting task, you are not alone. You may be asking yourself: “Where should I even start?” Here are some practical tips and strategies to help you begin to take control of your personal finances.

Retirement planning - Maximize contributions to company retirement plans (401k, 403b), explore backdoor Roth IRA with tax advisor guidance, and for self-employed individuals, consider Solo 401(k), SEP-IRA, or a defined benefit plan.

Income tax planning - Optimize asset location, gift appreciated securities for charitable contributions, and manage variable income to avoid tax pitfalls.

Estate planning - Draft wills and powers of attorney, regularly review and align estate plans with current situations and legal limits, and adjust beneficiary designations annually for life changes.

Insurance planning - Assess older life insurance policies, property, casualty, and umbrella policies for gaps in coverage related to changes in net worth or property values, and review health and long-term care insurance for adequacy and potential impacts on Medicare/Medicaid.

For a more expanded list of tips and strategies, please visit 6meridian.com/category/resources to help your future financial success.

Source: Bloomberg 2023

	January	YTD	2023	Benchmark	
Stocks	United States	1.7%	1.7%	26.3%	S&P 500
	Intl Developed	0.6%	0.6%	18.2%	MSCI EAFE
	Emerging Markets	-4.6%	-4.6%	9.8%	MSCI Emerging Markets
Bonds	US Investment Grade	-0.3%	-0.3%	5.5%	Barclays US Aggregate
	US Municipals	-0.5%	-0.5%	7.4%	Barclays Municipal Bond 15y
	Intl Investment Grade	-2.3%	-2.3%	5.7%	Barclays Global Aggregate xUSD
	Global High Yield	-0.2%	-0.2%	14.0%	Barclays Global High Yield
	Emerging Markets \$	-0.6%	-0.6%	9.1%	Barclays Emerging Markets USD Aggregate
Other	Commodities	0.4%	0.4%	-7.9%	Bloomberg Commodity
	Gold	-1.1%	-1.1%	13.1%	Gold New York Spot (\$/oz)
	Oil	5.9%	5.9%	-10.7%	Crude Oil WTI/Global Spot NYMEX

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