



Don't be narrow-minded

It is notoriously difficult to beat the performance of broad equity market benchmarks, and keeping up with the market becomes even more difficult when performance is narrow rather than broad. In a situation where returns are driven by just a handful of stocks, any portfolio that does not have exposure to those names or has a relative underweight position versus the benchmark, is more likely to underperform the market in the short term. Bear in mind that outperformance for active ETF's is not much different and passive ETF's substantially underperform indices over time due to fees.

It is not a coincidence that roughly 75%¹ of global fund managers underperformed the broad S&P Global 1200 Index² last year when leadership was concentrated among a historically narrow subset of large US Tech-adjacent companies. Nearly 90%³ of global fund managers have lagged the benchmark over the last three years of "Magnificent Seven"⁴ dominance. In times of narrow markets, investors have a tendency to pivot into funds that would capture the exposure afforded by a narrow market.

Historically, when an inflection point occurs, and a broader market begins to take shape – more securities add value to the overall performance of the benchmark. As market conditions normalize and performance broadens, active managers tend to fare much better. The question, therefore, is: has anything materially changed since the start of the year that warrants a rethink of the outlook and any related investment thesis? The answer is: not yet.

For example, equal-weighted equity indices (one where all the securities have the same weight or influence) are considered to be better benchmarks for actively managed portfolios. In fact, research⁵ shows that the S&P 500 Equal-Weight Index historically outperformed its market capitalization-weighted counterpart (the widely quoted S&P 500). By extension, for long-term investors, quality active managers would have a performance advantage over passive investing.

In summary, when fewer stocks outperform the index (narrow leadership), passive investments are likely to do better than active managers; when a greater share of stocks better the index, active management tends to do better. Moreover, active management can offer risk management benefits by avoiding large allocations to stocks that have run up significantly in price – an unintended consequence of some passive investments during periods of narrow market leadership.

While it may be the case that extremely concentrated gains within global stock markets in recent years can have investors questioning whether taking an active approach to investing is worthwhile, market history shows that keeping a narrow mind will adversely impact investors when market conditions shift and ultimately see a broadening of market leadership.

¹ [SPIVA U.S. Scorecard Year-End 2023 \(spglobal.com\)](#), Exhibit 8 (Page 9)

² The S&P Global 1200 Index is a market-capitalization weighted composite index, comprised of seven regional and country indices: S&P 500, S&P Europe 350, S&P/TOPIX 150 (Japan), S&P TSX 60 (Canada), S&P/ASX 50 (Australia), S&P Asia 50 and S&P Latin America 40.

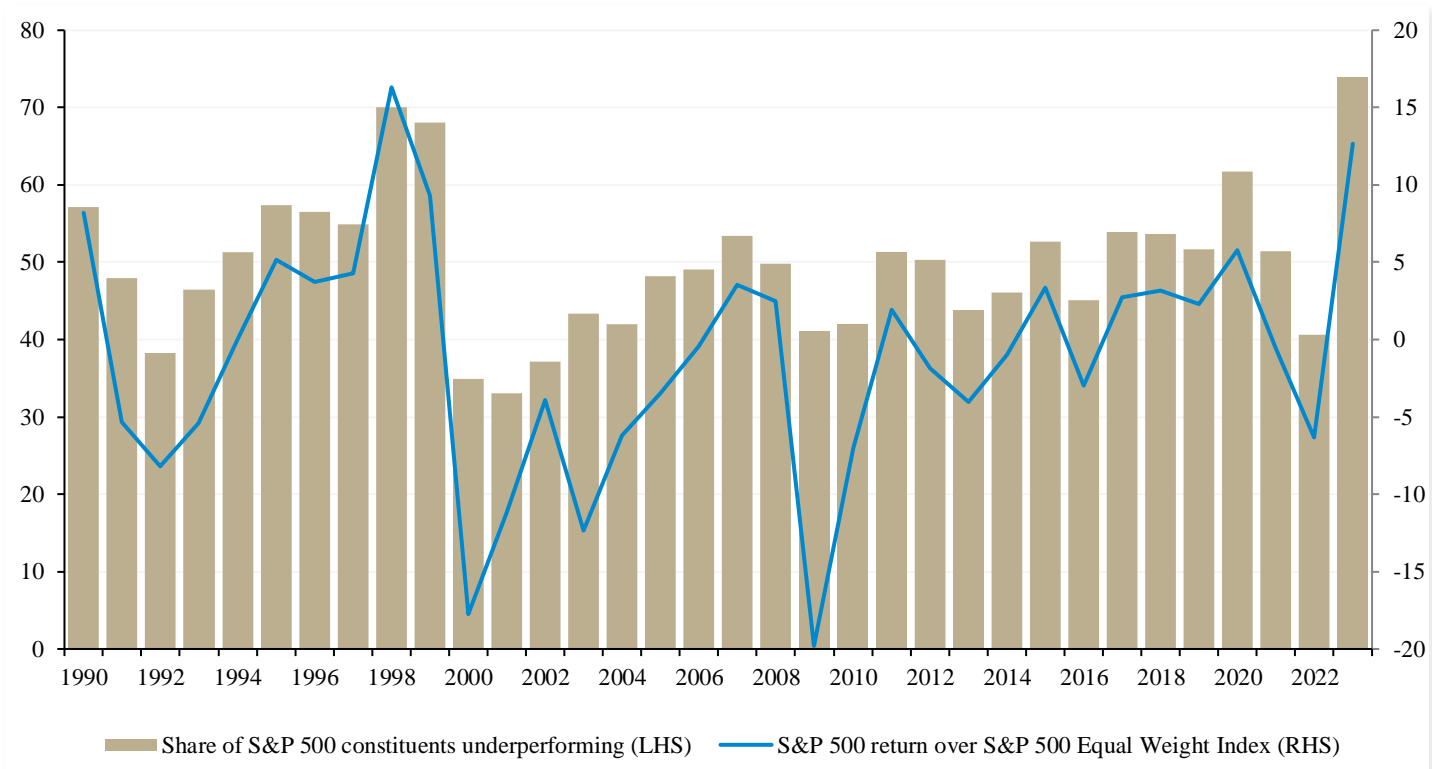
³ [SPIVA U.S. Scorecard Year-End 2023 \(spglobal.com\)](#), Report 6a (Page 21)

⁴ "Magnificent Seven"=Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla

⁵ [More Equal than Others: 20 Years of the S&P 500 Equal Weight Index \(spglobal.com\)](#)



Share of S&P 500 constituents outperforming S&P 500 and S&P 500 return relative to S&P 500 Equal Weight Index (percent) (percentage points)



Source: Guardian Capital based on data from S&P Global, Apollo Global Management and Bloomberg to December 31, 2023

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