

THE BIGGEST MARKET COMEBACK OF THE YEAR



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A WEALTH OF COMMON SENSE
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Remember this chart from the summer?

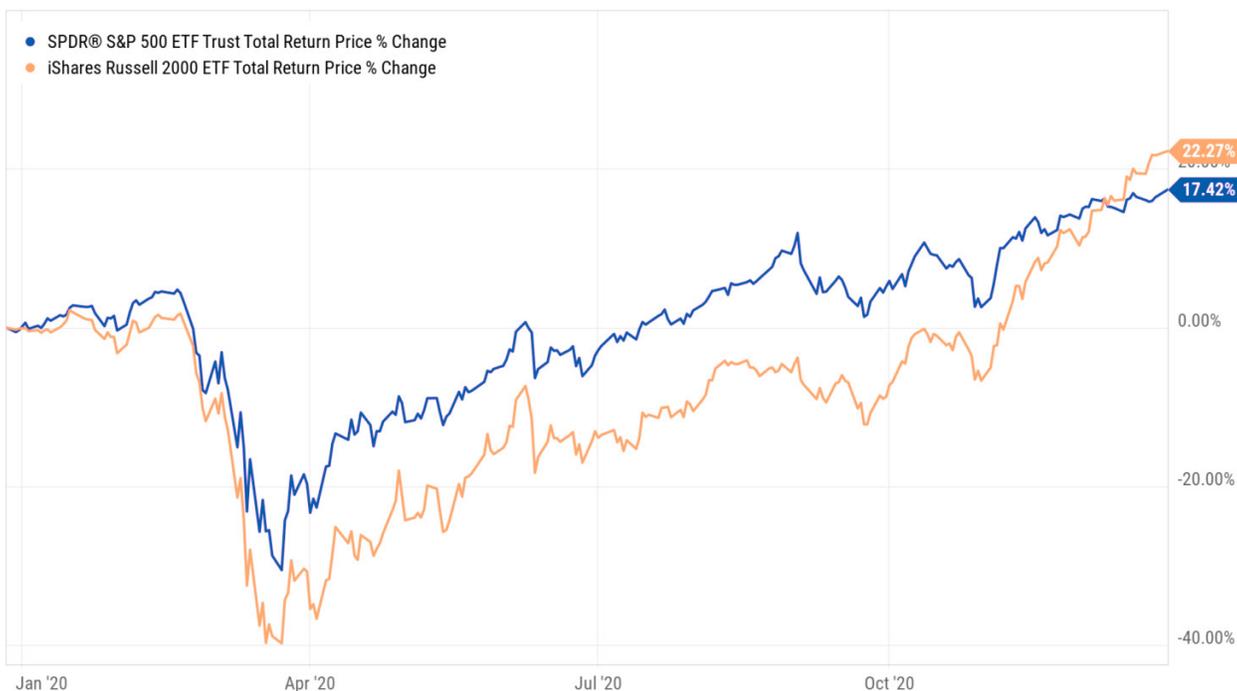
For a time, the five biggest stocks in the S&P 500® Index were basically carrying the rest of the market on their backs. While these mega-cap stocks continue to outperform in 2020 (the five biggest stocks are all currently up 30% or more on the year), they're not propping up the entire market like they were earlier in the year.

EXHIBIT 1: THE FIVE LARGEST STOCKS HAVE RETURNED 35% YTD; THE OTHER 495 STOCKS HAVE DECLINED BY 5%.



Past performance is not indicative of future results. Source: FactSet, Goldman Sachs Investment Research.

As of Monday morning, nearly 250 stocks in the S&P had gains of 10% or more on the year. Close to 170 companies have seen gains of 20% or better. In a year full of surprises, this one might be the most surprising of the past few months:



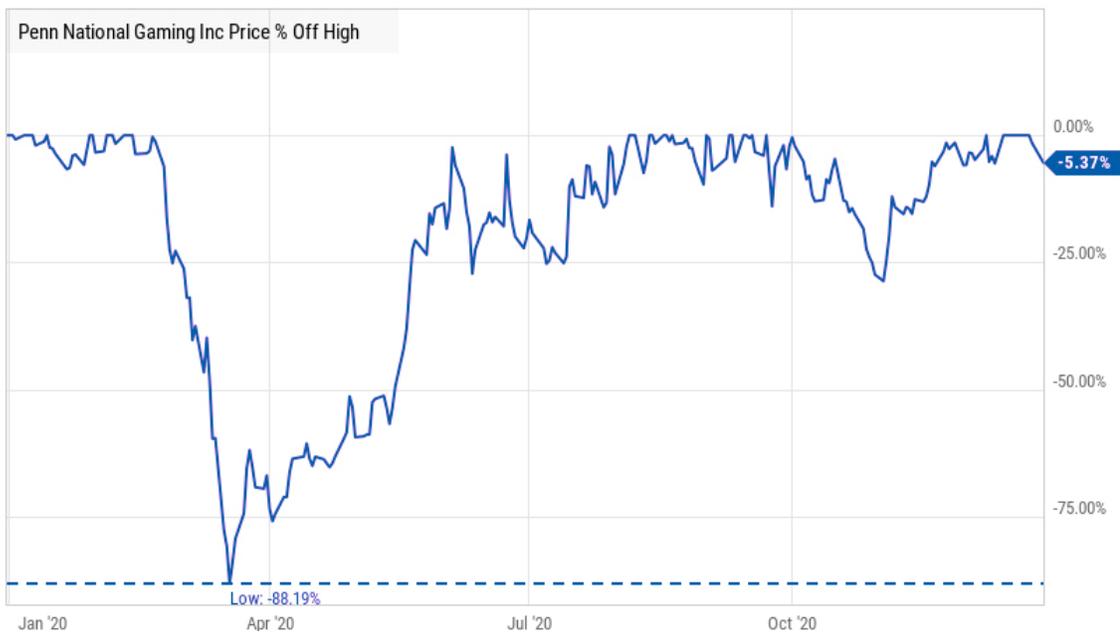
Past performance is not indicative of future results. As of 12/28/20. Source: YCharts.

The small company stocks of the Russell 2000® Index are now outperforming their larger S&P 500 counterparts.

As recently as September, small caps were underperforming large caps by 16%. Now, they're outperforming by almost 5%. In a year when smaller companies have been hit the hardest by the pandemic and large companies have benefitted the most, I'm not sure anyone saw this one coming.

This is one of the things that makes investing so challenging. Just when you think you have the markets figured out, the narrative changes before you even have time to react.

Take Penn National Gaming (PENN) as an extreme example. Penn purchased Barstool Sports just before the pandemic flared up in the United States. The company got absolutely annihilated in the March sell-off, falling nearly 90% as casinos closed and sports were shut down.



Past performance is not indicative of future results. As of 12/28/20. Source: YCharts.

The market cap of the company fell to as low as \$528 million as the stock approached \$4 a share. Now look at it:



Past performance is not indicative of future results. As of 12/24/20. Source: YCharts.

Penn is now one of the largest stocks in the Russell 2000. Here are the 10 largest stocks in the index as of the end of last week:

Symbol	Name	Market Cap (\$ Billions)
CZR	Caesars Entertainment Inc	15.81
PLUG	Plug Power Inc	14.70
PENN	Penn National Gaming Inc	14.69
RUN	Sunrun Inc	13.63
MRTX	Mirati Therapeutics Inc	11.78
RARE	Ultragenyx Pharmaceutical Inc	11.44
APPN	Appian Corp	11.08
DNLI	Denali Therapeutics Inc	10.31
BEPC	Brookfield Renewable Corp	10.08
RH	RH	9.70

Past performance is not indicative of future results. Source: YCharts.

Penn is the third-largest company by a hair and within spitting distance of the biggest stock in the small-cap index.

Things are happening faster than ever in the markets lately, and that includes the shift in narratives. Price tends to drive the narrative around sentiment, but those prices tend to move much faster than the stories investors tell themselves.

Things change. Markets are constantly evolving. You think you understand what's going on, and before you know it, you're investing in a completely different environment. The leaders can become the laggards like *that* and vice versa.

Just when you think you've got it all figured out, the market goes and does something no one thought was possible.



To learn more, please contact us at 800-243-4361 or visit virtus.com.

The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

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