

<https://www.wsj.com/articles/the-big-u-s-stock-indexes-are-telling-different-stories-11592904600>

The Big U.S. Stock Indexes Are Telling Different Stories

WSJ [wsj.com/articles/the-big-u-s-stock-indexes-are-telling-different-stories-11592904600](https://www.wsj.com/articles/the-big-u-s-stock-indexes-are-telling-different-stories-11592904600)

By Karen Langley

June 23, 2020



Apple's store in London's Covent Garden was open June 15, Apple's shares have helped to boost the Nasdaq Composite and the S&P 500 this year.

Photo: facundo arrizabalaga/epa/Shutterstock

The divergence in the performance of the major U.S. stock indexes this year is the widest in more than a decade.

A surge in big technology stocks has helped the Nasdaq Composite rally 13% in 2020, while the Dow Jones Industrial Average of blue-chip stocks is down 8.3%. The benchmark S&P 500 is hovering in between them, off 3.1%.

The Nasdaq's advantage over the Dow and S&P 500 is the biggest since 1983. The gap between the S&P 500 and the Dow is the widest since 2002, when the Dow was ahead.

The Unusual Indicators Wall Street Is Watching

You may also like



0:00 / 1:07



The Unusual Indicators Wall Street Is Watching

From restaurant bookings to searches for driving directions, WSJ's David Hodari explains the unconventional indicators market watchers are now looking at to understand how the economy is faring during the pandemic. Photo: Kevin Hagen/Associated Press

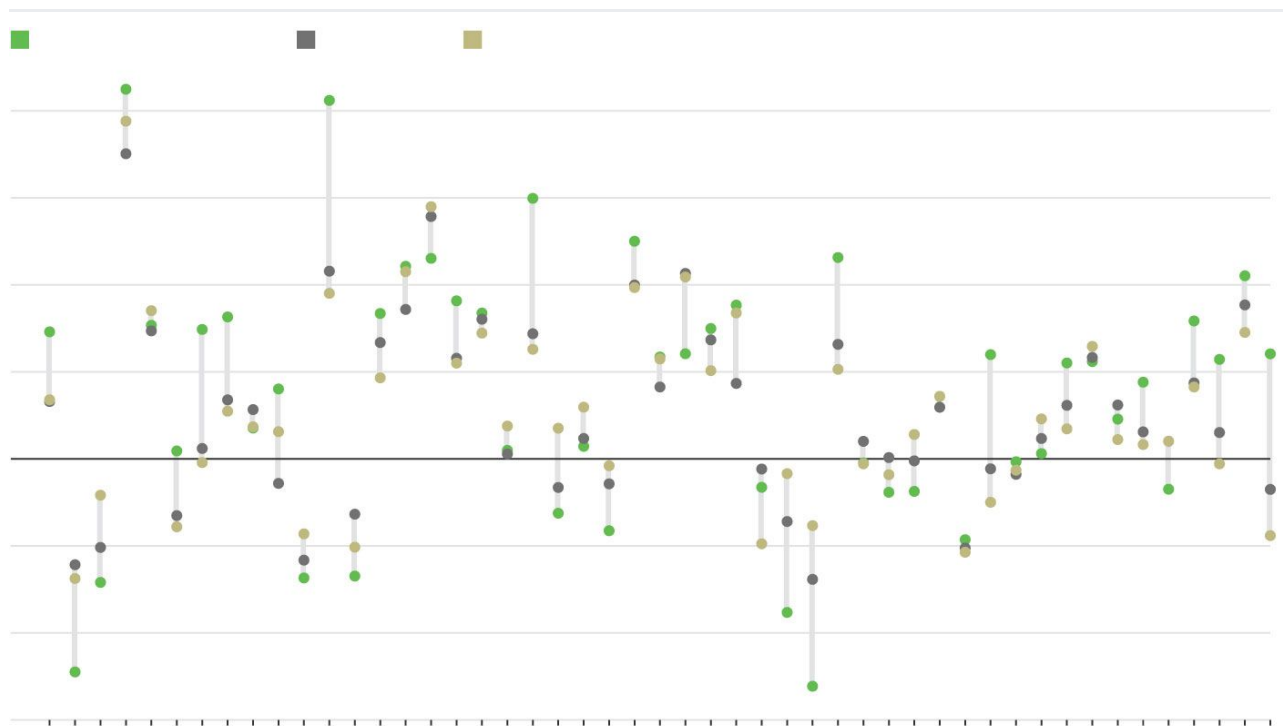
The Nasdaq continued its outperformance Tuesday, outpacing the Dow and S&P 500 for the day and notching its 21st record close of 2020. The index climbed 0.7%, while the Dow edged up 0.5% and the S&P 500 added 0.4%, driven by improving economic data.

One explanation for the gap in returns: A handful of growth stocks that have surged this year have an outsized influence on the Nasdaq and the S&P 500. Apple Inc., AAPL 2.13% Microsoft Corp., Amazon.com Inc., AMZN 1.86% Google parent Alphabet Inc. GOOG 0.86% and Facebook Inc. FB 1.26% together account for about 40% of the Nasdaq and 20% of the S&P. Of those stocks, only Apple and Microsoft are in the Dow.

The disparities add to the challenges facing investors who are trying to make sense of a

dizzying stretch of volatility in markets. Valuing stocks became increasingly difficult after the coronavirus pandemic brought the economy to a halt and companies from Caterpillar Inc. to McDonald's Corp. to PayPal Holdings Inc. pulled forecasts.

Index performance through late June of each year



Nasdaq Composite

S&P 500

Dow Jones Industrial Average

40

%

30

20

10

0

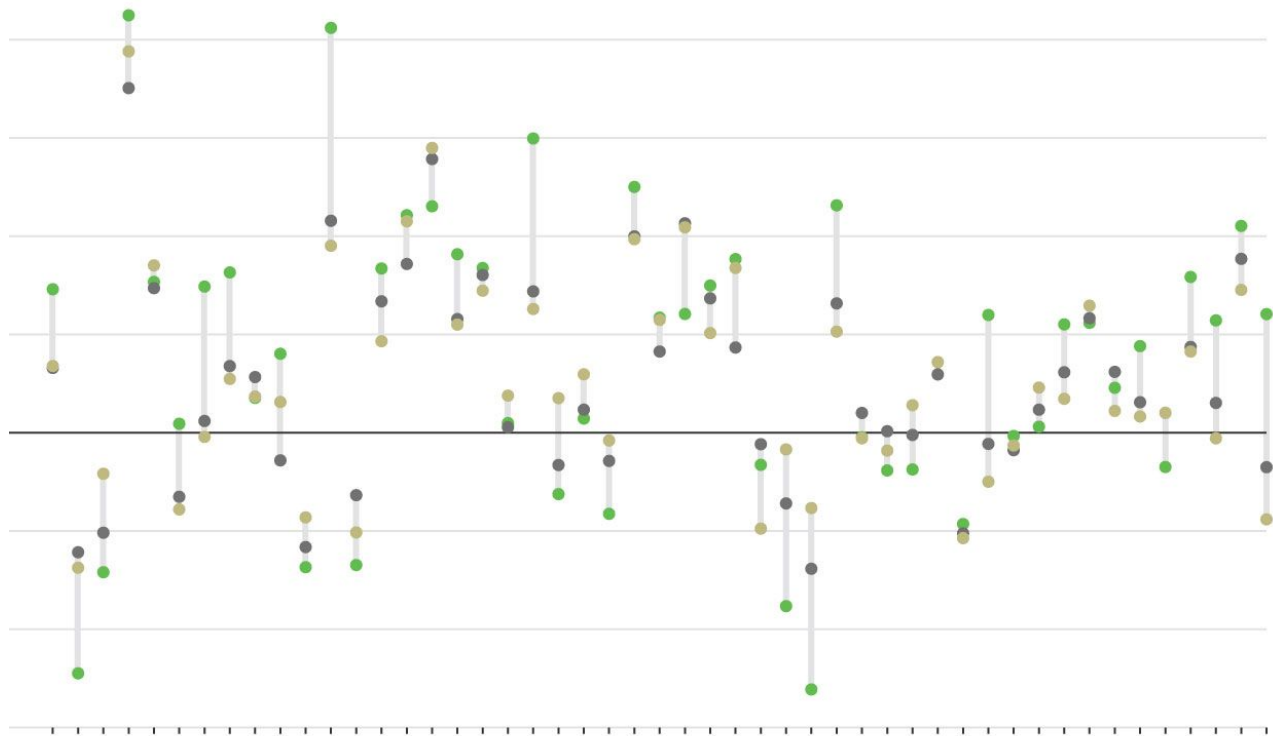
-10

-20

-30

1972

'80
'90
2000
'10
'20



Nasdaq Composite

S&P 500

Dow Jones Industrial Average

40
%
30
20
10
0
-10

-20

-30

1972

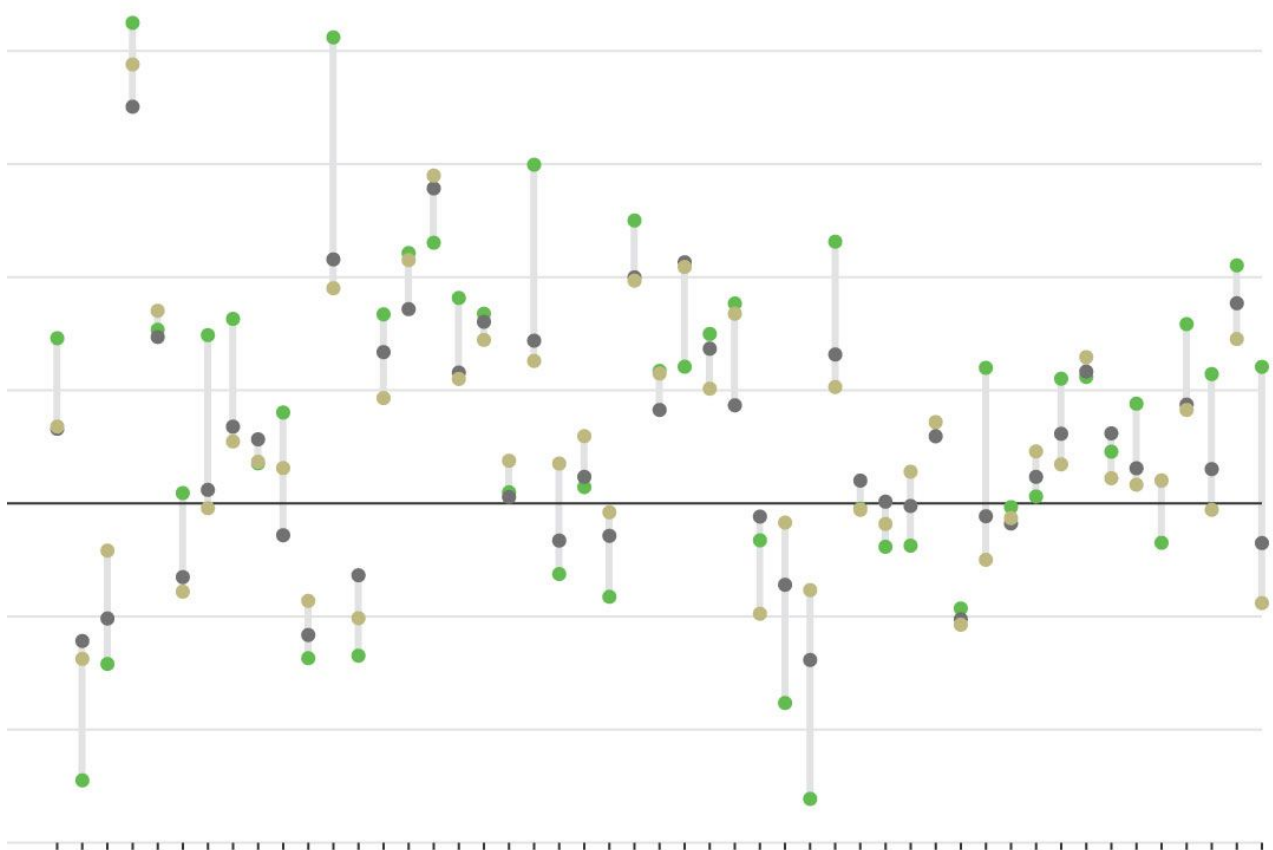
'80

'90

2000

'10

'20



Nasdaq Composite

S&P 500

Dow Jones Industrial Average

40

%

30

20

10

0

-10

-20

-30

1972

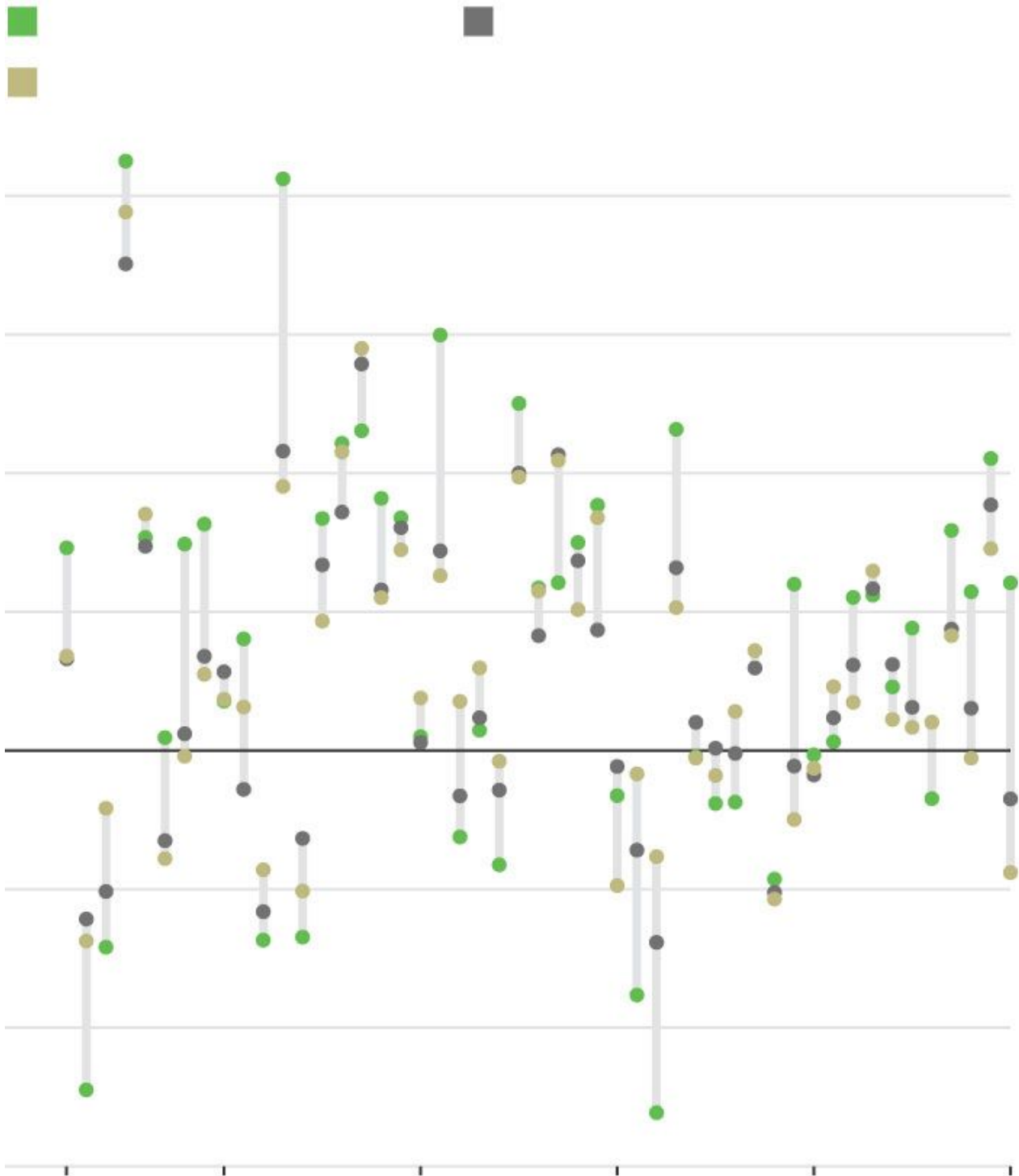
'80

'90

2000

'10

'20



Nasdaq Composite

S&P 500

Dow Jones Industrial Average

40

%

30

20

10

0

−10

−20

−30

1972

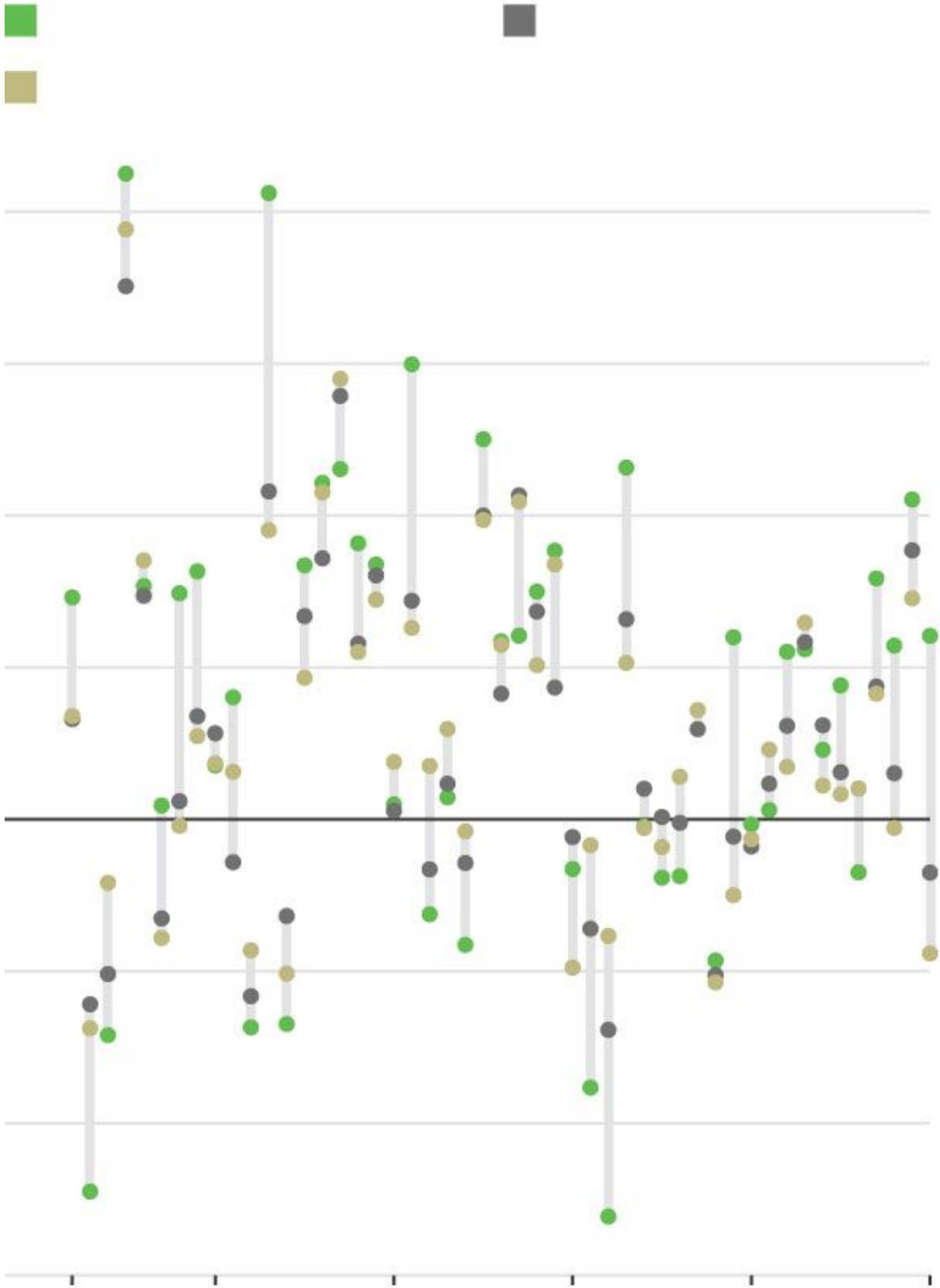
'80

'90

2000

'10

'20



Nasdaq Composite

S&P 500

Dow Jones Industrial Average

40

%
30
20
10
0
-10
-20
-30
1972
'80
'90
2000
'10
'20

Note: Data as of June 20-22 of each year

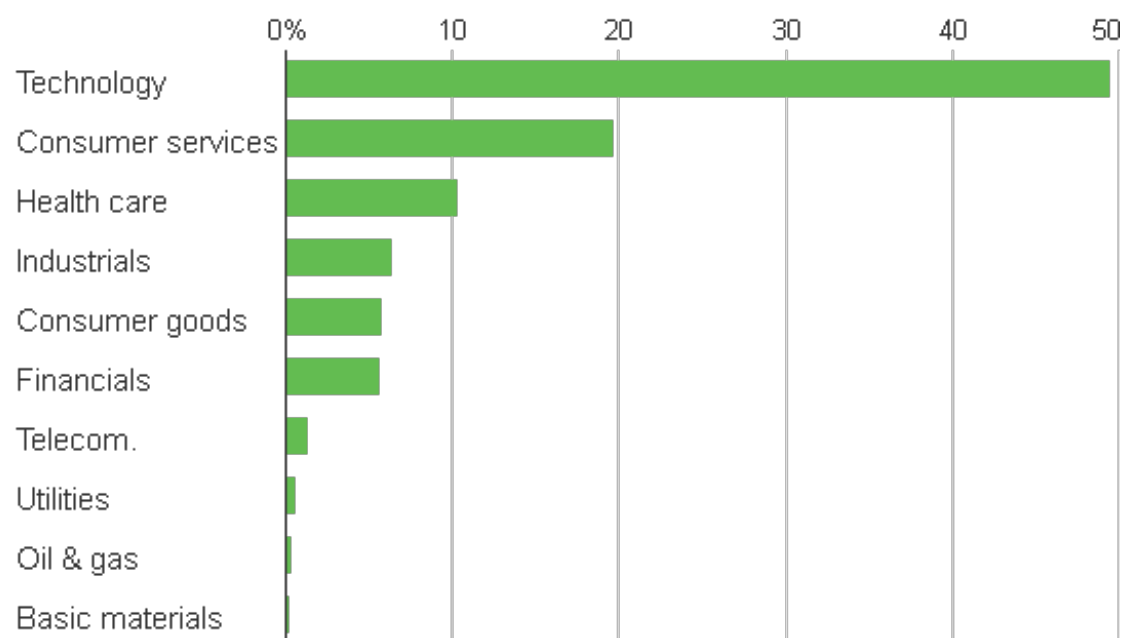
Source: Dow Jones Market Data

Although economic data have improved in recent weeks, many investors expect the recovery to remain uneven and they are bracing for more turbulence as the presidential election season ramps up.

“You really need to triangulate across the three different indexes,” said Susan Schmidt, head of U.S. equities at [Aviva Investors](#). “You can’t depend on any one index consider all three of them and know what’s in them.”

The S&P 500 has long been considered the broadest gauge, accounting for about 80% of the available market capitalization of the U.S. stock market. The Dow, on the other hand, comprises just 30 stocks—many of which are economically sensitive—and is weighted by price, instead of market value.

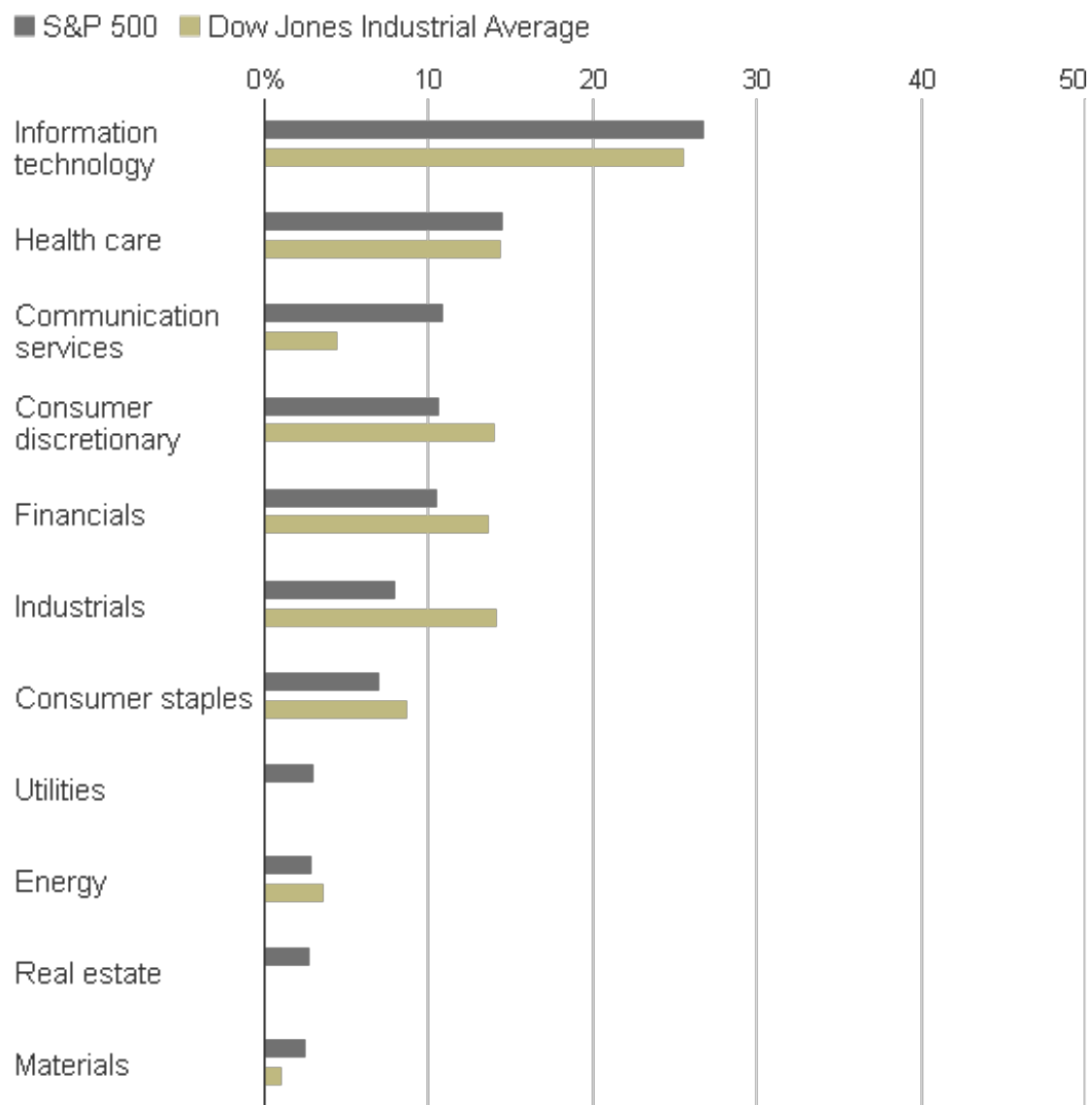
Nasdaq Composite industry weightings



Sector weightings

Note: Nasdaq and S&P 500 weightings are based on market cap, DJIA is based on price. We as of June 19.

Sources: Nasdaq ; Dow Jones Market Data via FactSet (S&P 500, DJIA)



The Nasdaq Composite is generally deemed a tech benchmark, composed of the approximately 2,700 stocks listed on the Nasdaq Stock Market.

The stay-at-home practices adopted to help slow the spread of the virus have accelerated digital trends that have benefited many big tech stocks. Shares of Apple, Microsoft, Amazon, Alphabet and Facebook have rallied this year, led by Amazon's 50% advance.

Other industries haven't kept up. The three sectors of the S&P 500 that contain those stocks—information technology for Microsoft and Apple; consumer discretionary for Amazon; and communication services for Alphabet and Facebook—are the only groups in positive territory for the year. The energy, financial, industrial and utility segments are down by double-digit percentages.

"All the big companies are, in some way or another, with almost no exception, heavily focused on some dimension of tech," said Bob Browne, chief investment officer at Northern Trust. "That has actually been a good thing in terms of return, but it's not a good thing in terms of diversification going forward."

Although tech stocks have a similar weighting in the S&P 500 and Dow, at 27% and 26%, some of those in the Dow don't have the same growth prospects—and that is evident in their share prices. Neither Cisco Systems Inc., which had warned of a pause in customer spending even before the pandemic, nor Intel Corp., which has faced competition from chip-making rival Advanced Micro Devices Inc. as well as manufacturing issues, have reclaimed their dot-com era highs. Cisco shares are off 5.2% this year, while Intel is up 0.1%.

“The fact that the Dow Jones does not have Amazon especially, and then Alphabet and Facebook, definitely has contributed to the underperformance,” said James Ragan, director of wealth-management research at D.A. Davidson.

Largest positive and negative point contributions of Dow Jones Industrial Average components to the index's year-to-date performance

It is unlikely those stocks, particularly Amazon and Alphabet, would be candidates to join the Dow because their high share prices would skew the index. Amazon's shares trade above \$2,500, while Alphabet's Class A shares are near \$1,500.

The Dow is calculated by adding the prices of the 30 stocks and dividing by a factor that accounts for changes like stock splits. This means that companies with a higher share price hold greater sway, regardless of their total market value.

The S&P 500 and Nasdaq Composite, by contrast, are weighted by market capitalization, so larger companies hold greater influence.

The equal-weighted S&P 500—which gives the same status to both the smallest and largest companies in the index—has underperformed its traditional counterpart this year, falling 11%.

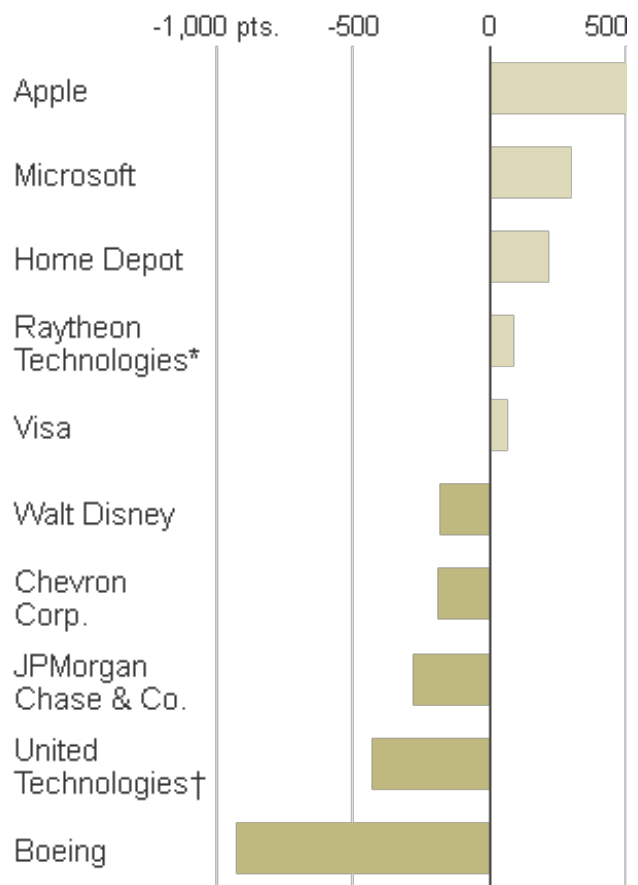
*Traded from 4/3 to present

†Traded until 4/2

Note: Through June 23

Source: Dow Jones Market Data via FactSet

Another issue for the Dow: Only eight of its 30 constituents are up for the year and most of their gains have been wiped out by the slide in shares of Boeing Co. The aerospace company's shares have tumbled 42% this year due to the slump in air travel prompted by the pandemic and the grounding of its 737 MAX jet.



Newsletter Sign-up

Markets

A pre-markets primer packed with news, trends and ideas. Plus, up-to-the-minute market data.

SUBSCRIBE

Boeing's slide has knocked about 930 points off the index in 2020, erasing most of the 1,151-point contribution from Apple, Microsoft, Home Depot Inc., Visa Inc., UnitedHealth Group Inc., Walmart Inc., Nike Inc. and Intel, according to Dow Jones Market Data.



Boeing 737 Max aircraft are parked in field in Seattle on June 11. A big slide in the company's shares has dinged the Dow in 2020.

Photo: lindsey wasson/Reuters

Its tumble has also tilted the balance of the index away from the industrials sector whose weighting has dropped to 14% from 19% at the start of 2020. The group makes up just 8% of the S&P 500.

The Dow's underperformance versus the S&P 500 is hardly new. The former has surged 300% from its financial crisis low on March 9, 2009, but has still underperformed the S&P 500's 363% advance. However, since the 2016 presidential election, the indexes are neck and neck, up 43% and 46%, respectively.

"This has been a market environment where tech has been viewed as a defensive area for investors," said Kristina Hooper, chief global market strategist at Invesco.

"Industrials have largely been left by the wayside, and so that's reflected in the changing composition of the Dow."

Write to Karen Langley at karen.langley@wsj.com

Copyright ©2020 Dow Jones & Company, Inc. All Rights Reserved.
87990cbe856818d5eddac44c7b1cdeb8

Copyright © 2020 Dow Jones & Company, Inc. All Rights Reserved

