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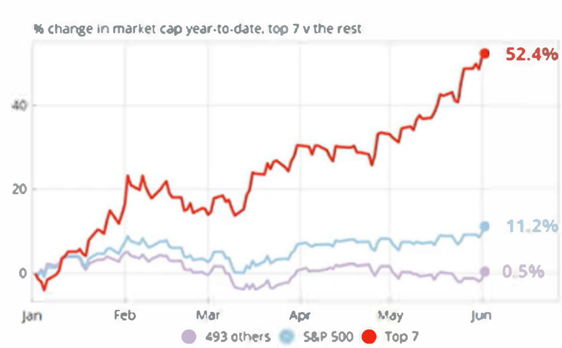
US Mega Caps: OverhAIped?

/ IN A NUTSHELL

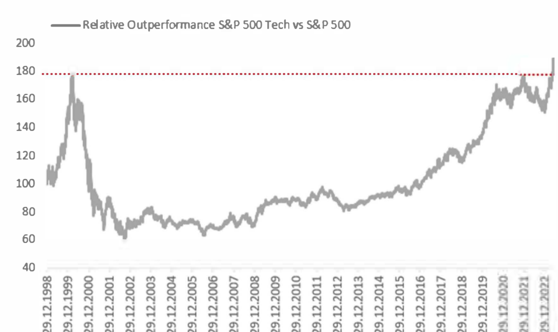
- The YTD US equities' **rally** has seen **extremely narrow leadership driven by only 7 mega cap stocks**[1] benefitting from the recent **Artificial Intelligence hype** while the other 493 stocks in the S&P 500 added little to no return[1]
- The relative **outperformance of US tech stocks has reached Dot Com peak levels**[2] and the overall "growth" premium versus "value" has further risen this year despite the headwind of higher interest rates[3]
- For investors believing in **a trend reversal and mean reversion**, but wanting to stay invested in US equities, it could be a good time to consider a **rotation into the S&P 500 Equal-Weight**

Reaching lofty heights: how much longer can the AI-fueled rally power ahead?

The top 7 tech stocks driving all S&P 500 gains YTD, while the other 493 stocks together added virtually zero[1]



The relative outperformance of the tech sector vs. the overall S&P 500 index has surpassed the 2000 peak[2]



Note: Past performance is not a reliable indicator of future returns. For illustrative purposes only.

[1] Source: ETFstream.com, JP Morgan. As of: June 2023. S&P 500 equal-weight ETFs in vogue as investors avoid big tech (etfstream.com).

[2] Source: Bloomberg, DWS Investment GmbH. As of June 2023.

[3] Source: DWS Investment GmbH, Factset. As of: June 2023. Please refer to chart below.

Xtrackers S&P 500 Equal Weight ETF

Xtrackers S&P 500 Equal Weight ETF (EUR-hedged)

Xtrackers S&P 500 Equal Weight ESG ETF

Xtrackers S&P 500 Equal Weight ESG ETF (EUR-hedged)

/ WHY NOW?

Tech Mega Caps look costly and crowded: time for a breather?

The investment rationale

1. US Mega Caps OverhAIped?

- US Tech is **expensive, overbought** and its **relative performance** is trading **above the 2000 Dot Com peak**[1] driven by the recent hype around AI. US market-cap weighted indices' YTD performance is driven by only a few select large cap technology leaders[2]
- **Narrowest leadership in a stock rally since the 1990s**[3]: Strong performance of the S&P and Nasdaq indices has mainly been driven by 7 large cap tech stocks. **Excluding these 7 stocks, the YTD performance-contribution to the S&P 500 of the other 493 was negligible**[2]
- **Mega cap concentration in market-cap indices at peak levels**: these 7 stocks now account for almost **30% and 55%** of the S&P 500 and Nasdaq index respectively[4]

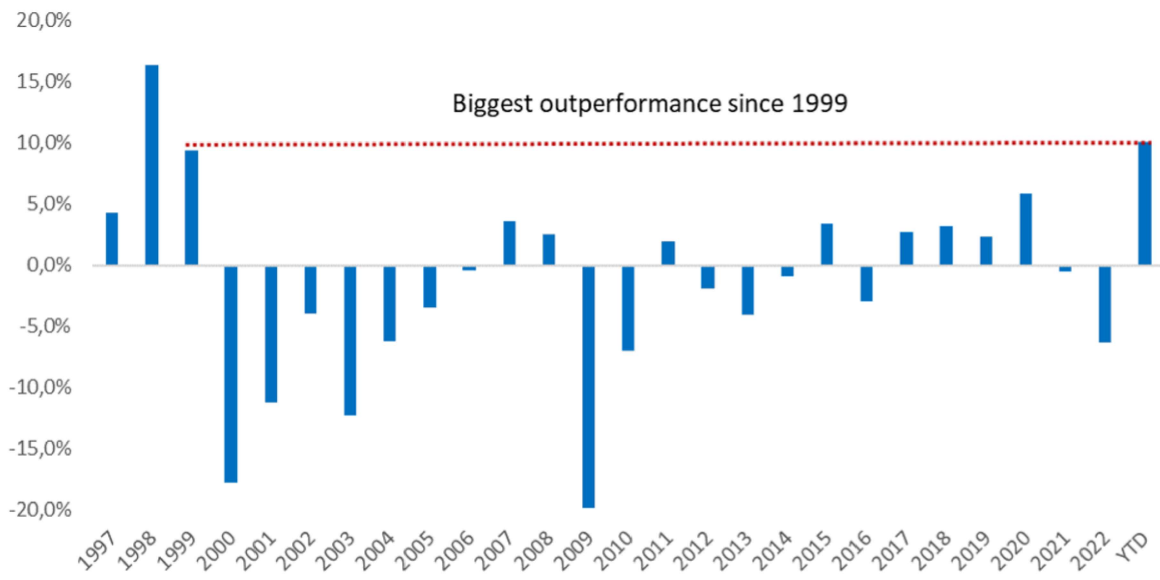
Note: Past performance is not a reliable indicator of future returns. For illustrative purposes only. [1] Source: Bloomberg. As of June 2023, [2] Source: Bloomberg, ETFstream.com, JP Morgan, As of: June 2023. S&P 500 equal-weight ETFs in vogue as investors avoid big tech (etfstream.com) [3] Source: Financial Times, JP Morgan. As of: June 2023, This awfully fragile narrow no-good rally | Financial Times (ft.com) [4]Source: DWS Investment GmbH, S&P Dow Jones. as of: June 2023.

2. US Small Caps & Value: Overbeaten?

- **The gap between the equal weighted and the market capital weighted S&P 500 index remains historically high** due to **very narrow and concentrated** mega cap stocks' leadership, but also due to **small caps' & value underperformance**[1].
- **"Growth" premium** vs. "value" **remains historically high** despite higher interest rates[2]
- **Equal-weight indices** have historically had many benefits, notably **long-term outperformance—largely driven by higher exposure to small/mid cap and value stocks,** along with their associated risk premia—as well as reduced concentration in the largest names

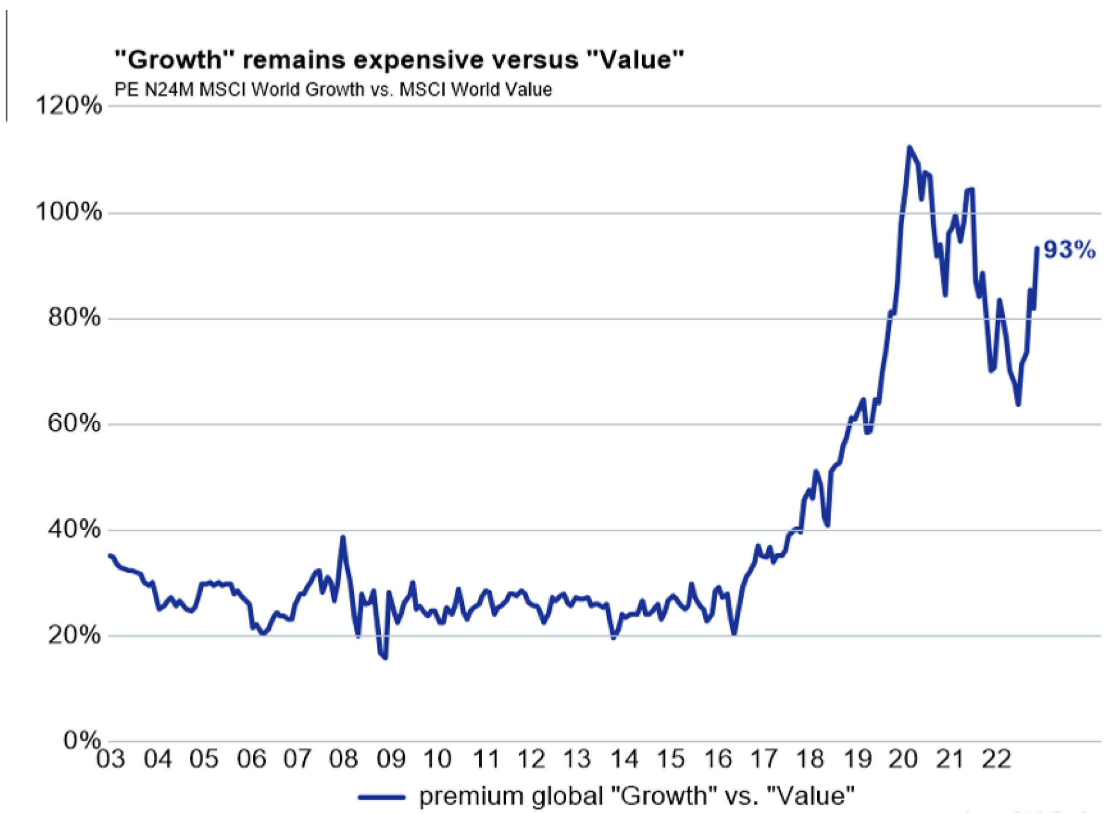
[1] Source: Bloomberg LLP, DWS Investment GmbH. As of: June 2023.[2] Source: DWS Investment GmbH, Factset. As of: June 2023.[3] Source: Source: Bloomberg, S&P 500 Dow Jones Indices LLP. As of: June 2023.

Time to mean revert? Biggest annual performance difference between the S&P 500 and S&P 500 Equal-Weighted Indices since 1999[1]



Source: Bloomberg LLP, DWS Investment GmbH. As of: June 2023.

“Value” out of fashion: “Growth” remains historically expensive versus “value”



Source: DWS Investment GmbH, Factset. As of: June 2023.

For investors with a core US equities position, moving (a portion) to S&P 500 Equal Weight could be a sensible option, locking in some of the narrow outperformance and having a greater exposure to the broader US equity market.

Note: Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

/ HOW TO PLAY IT?

Efficient, cheap, diversified and liquid access to the S&P 500 equal-weight product suite:

- **Hedged and unhedged exposure available**
- **Non-ESG and ESG exposure available**

Name	TER p.a.	ISIN	AUM (in EUR)	Distribution policy
Xtrackers S&P 500 Equal Weight UCITS ETF 1C	0.20%	IE00BLNMYC90	2.70 bn.	Capitalizing
Xtrackers S&P 500 Equal Weight UCITS ETF 2D	0.20%	IE000CXLGK86	2.70 bn.	Distributing
Xtrackers S&P 500 Equal Weight UCITS ETF 2C EUR Hedged	0.30%	IE0002EI5AG0	2.70 bn.	Capitalizing
S&P 500 Equal Weight ESG UCITS ETF 1C	0.17%	IE0004MFRED4	65 mn.	Capitalizing
S&P 500 Equal Weight ESG UCITS ETF 2C - EUR Hedged	0.22%	IE000IDLWOL4	65 mn.	Capitalizing

Source: DWS Investment GmbH, as of: 15.06.2023

If you prefer to play small caps in the USA directly, you may want to take a look at our Xtrackers Russel 2000 ETF.

Please note that the Xtrackers Spotlight newsletter will be on summer break in August. We will be back with our monthly idea in September. We wish you a wonderful and rejuvenating summer holiday!

Kind Regards

Xtrackers by DWS

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- The value of an investment in shares will depend on a number of factors including, but not limited to, market and economic conditions, sector, geographical region and political events.
- The Fund is exposed to market movements in a single country or region which may be adversely affected by political or economic developments, government action or natural events that do not affect a fund investing in broader markets.
- The Fund will use financial contracts (known as derivatives) to try to reduce the effect of currency fluctuations between the currency of its assets and the currency of the shares. This may not be effective and may prevent the Fund from benefitting from an increase in value of (or expose a Fund to the decrease in value of) a particular currency.
- The Fund follows a rules-based strategy which will deviate from the overall market or parent index. Your investment is likely to be less diversified and there is no guarantee that the index's ‘rules-based’ strategy will be achieved.

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- The Fund invests in small and mid-capitalisation companies, which potentially involves greater risks compared to investing in large capitalisation companies. The shares may have less liquidity and could experience more price swings (or volatility) which could adversely affect the value of your investment.

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