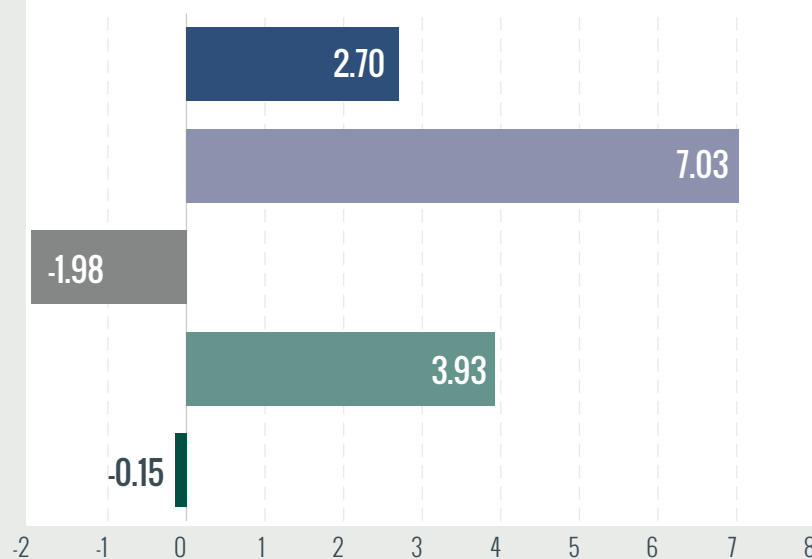


## 2015 S&P 500 Index Return Analysis: Will Growth, Large- and Mega-Cap Stocks Continue to Dominate?

The S&P 500 Index generated a total return of 2.70% for 2015 through the end of October, representing what appears to be a modestly positive year for US equities. However, many investors are unaware that the modestly positive returns for the S&P 500 Index have been skewed by a small group of large- and mega-cap growth stocks, which have outperformed a vast majority of S&P 500 companies.

### 2015 Index Returns and Characteristics through 10/31/15

#### Annualized Return (%)



#### S&P 500–Total Return

Number of Constituents: 505  
Weighted Average P/E: 19.8

#### S&P 500 Growth

Number of Constituents: 331  
Weighted Average P/E: 22.9

#### S&P 500 Value

Number of Constituents: 362  
Weighted Average P/E: 17.0

#### S&P 100–Total Return

Number of Constituents: 103  
Weighted Average P/E: 19.8

#### S&P 500 Equal Wtd–Total Return

Number of Constituents: 505  
Weighted Average P/E: 19.4

Source: FactSet, S&P Dow Jones Indices

### Challenging times for value investors

As illustrated in the table above, growth stocks in general have significantly outperformed value stocks as represented by the S&P 500 Growth Index is outperforming the S&P 500 Value Index by more than 9% (7.03% for the Growth Index vs. -1.98% for the Value Index). Thus, investors who are more focused on value stocks or have a value tilt in their portfolios are likely experiencing more challenging results relative to investors with more of a growth orientation.

Much of the S&P 500 returns can be attributed to large- and mega-cap stocks. For instance, the return of the S&P 100 (the 100 largest S&P 500 companies) of 3.93% has outpaced the S&P 500 equal weighted return of -0.15% in 2015. A closer look at the return profile of the S&P 100 reveals that the performance attribution is even more focused to those 20 stocks with the largest market caps and growth style. Those top 20 stocks, which represent 18.89% of the index weight, contributed 73% of the return of the S&P 500

S&P 500 GROWTH INDEX IS OUTPERFORMING  
THE S&P 500 VALUE INDEX BY MORE THAN **9%**

with a 4.25% contribution of return to the index. The remaining 485 stocks contributed only 27% of the return of the index with a -1.55% contribution of return to the index.

### The growth trend is more pronounced in top 20

As shown in exhibit 1 (on next page), the growth vs. value orientation of these top 20 also shows the extent to which growth is currently in favor as only 15% of the top 20 stocks are identified by S&P as pure value companies. Furthermore, the average price to earnings ratio, based on 1-year forward earnings estimates, for the top 20 contributors is 64.7X, while the S&P 500 Index as a whole has an equal weight 1-year forward P/E ratio of 17.2X, suggesting a tilt towards higher valued growth companies.

## Exhibit 1: 2015–Top 20 Largest Market Cap Stocks in S&P 500 Index

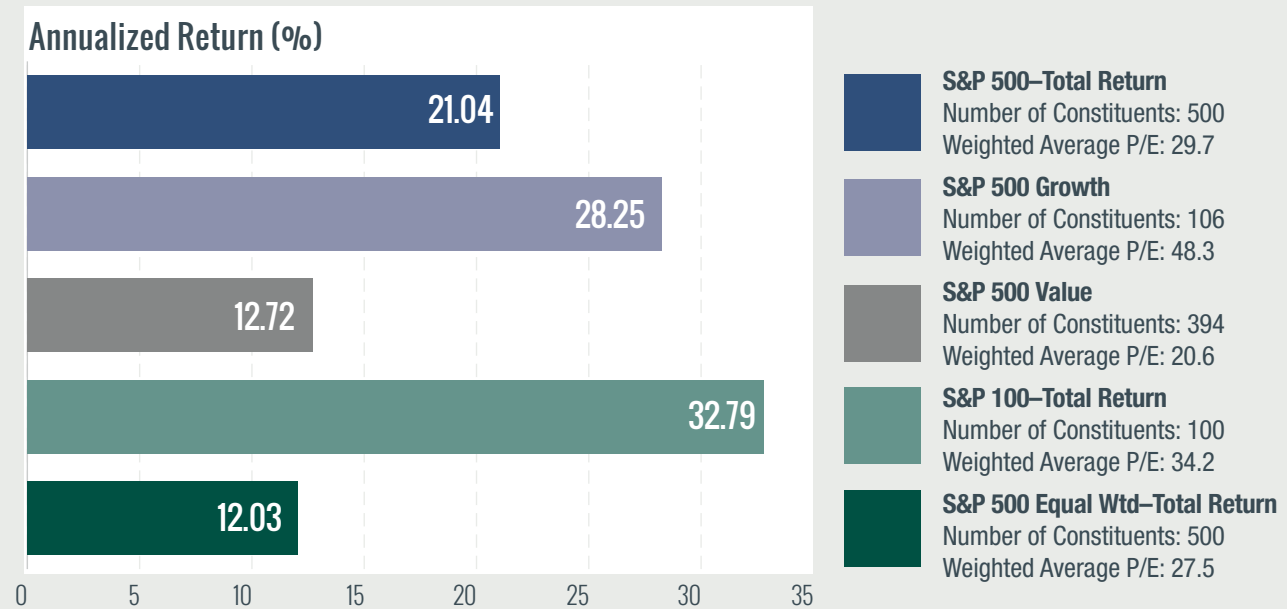
Security Name	Average Weight	Total Return	Contribution to Return	P/E on Next Year EPS	Held in S&P 500 Growth/Value Both	Equal Weight Average Market Cap (mm)
S&P 500 Index	100.0%	2.70%	2.70%	17.2	N/A	\$39,806
Amazon.com, Inc.	0.9%	101.7%	0.67%	329.9	Growth	\$293,547
Apple Inc.	3.9%	9.6%	0.38%	12.2	Growth	\$666,661
Alphabet Inc. Class A	0.9%	39.0%	0.32%	25.4	Growth	\$507,098
Microsoft Corporation	2.0%	15.6%	0.31%	19.0	Growth	\$420,383
Alphabet Inc. Class C	0.9%	35.4%	0.29%	24.5	Growth	\$488,819
Facebook, Inc. Class A	1.0%	30.7%	0.28%	49.2	Growth	\$292,359
General Electric Company	1.4%	17.5%	0.26%	22.1	Value	\$288,167
Starbucks Corporation	0.4%	54.0%	0.19%	33.1	Both	\$92,923
Walt Disney Company	0.9%	21.4%	0.18%	22.4	Growth	\$193,358
Home Depot, Inc.	0.8%	19.7%	0.15%	23.3	Growth	\$158,754
Altria Group, Inc.	0.6%	26.6%	0.15%	21.5	Growth	\$118,562
NIKE, Inc. Class B	0.4%	37.4%	0.14%	30.4	Growth	\$111,900
Netflix, Inc.	0.2%	122.1%	0.14%	531.1	Growth	\$45,835
Visa Inc. Class A	0.7%	19.0%	0.13%	29.7	Growth	\$188,817
Pfizer Inc.	1.1%	11.3%	0.12%	15.7	Value	\$208,771
Gilead Sciences, Inc.	0.9%	15.6%	0.12%	8.9	Growth	\$156,680
McDonald's Corporation	0.5%	23.0%	0.11%	23.1	Both	\$103,068
Kraft Heinz Company	0.2%	54.6%	0.11%	28.6	Both	\$94,591
UnitedHealth Group Incorporated	0.6%	17.9%	0.10%	18.7	Both	\$112,244
Mondelez International, Inc. Class A	0.4%	28.6%	0.09%	25.9	Value	\$73,449
	Total Weight	Equal Weight Avg. Return	Total Contribution	Equal Weight P/E on Next Year EPS	Total Stocks Held in Growth or Both	Equal Weight Average Market Cap (mm)
Total	18.9%	35.03%	4.25%	64.7	17 or 85%	\$230,799

## Exhibit 2: 1999–Top 20 Market Cap Stocks in 1999

Security Name	Average Weight	Total Return	Contribution to Return	P/E on Next Year EPS	Held in S&P 500 Growth/Value Both	Equal Weight Average Market Cap (mm)
S&P 500 Index	100.0%	21.04%	21.04%	57.2	N/A	\$24,921
Microsoft Corporation	4.06%	68.36%	2.34%	70.6	Growth	\$604,415
Cisco Systems, Inc.	1.89%	130.84%	1.87%	106.7	Growth	\$355,119
General Electric Company	3.46%	53.56%	1.77%	48.1	Growth	\$508,329
Wal-Mart Stores, Inc.	1.98%	70.45%	1.31%	54.6	Growth	\$307,865
Oracle Corporation	0.55%	289.78%	1.10%	105.5	Growth	\$158,094
Nortel Networks Corporation	0.56%	305.50%	0.98%	136.9	Growth	\$139,093
Citigroup Inc.	1.41%	70.08%	0.86%	20.2	Value	\$187,529
Sun Microsystems	0.55%	261.75%	0.85%	86.4	Growth	\$135,281
America Online, Inc.	1.11%	95.65%	0.84%	332.5	Growth	\$175,764
QUALCOMM Incorporated	0.16%	349.80%	0.79%	185.4	Growth	\$124,739
Intel Corporation	2.09%	39.07%	0.72%	36.2	Growth	\$274,430
EMC Corporation	0.58%	157.06%	0.65%	102.8	Growth	\$113,541
Home Depot, Inc.	0.90%	68.98%	0.58%	69.3	Growth	\$158,236
Lucent Technologies Inc.	1.65%	36.62%	0.57%	47.5	Growth	\$238,399
American International Group, Inc.	1.33%	40.16%	0.53%	33.9	Growth	\$167,500
Motorola Inc.	0.49%	142.46%	0.51%	42.9	Value	\$90,235
Texas Instruments Incorporated	0.50%	126.32%	0.44%	57.0	Growth	\$78,546
Morgan Stanley	0.52%	103.10%	0.43%	19.5	Value	\$78,843
Hewlett-Packard Company	0.82%	67.70%	0.38%	33.6	Value	\$114,270
Sprint Corporation	0.23%	343.24%	0.36%	N/A	Growth	\$46,658
	Total Weight	Equal Weight Avg. Return	Total Contribution	Equal Weight P/E on Next Year EPS	Total Stocks Held in Growth or Both	Equal Weight Average Market Cap (mm)
Total	24.8%	141.02%	17.88%	83.7	16 or 80%	\$202,844

Source: FactSet, S&P Dow Jones Indices

## 1999 Index Returns and Characteristics through 12/31/99



Source: FactSet, S&P Dow Jones Indices

### Similarities exist between 1999 and 2015

When the S&P 500 Index performance in 2015 through October is compared to the calendar year 1999 performance, similar style trends exist with the outperformance of growth relative to value, and large- and mega-cap companies outperforming smaller S&P 500 stocks. The tables above show that the S&P 500 Growth Index outperformed the S&P 500 Value Index in 1999 by 15.53% (28.25% for Growth vs. 12.72% for Value) in 1999, which is a similar trend to the 2015 outperformance. Moreover, in 1999, the S&P 100 Index outperformed the S&P 500 Equal Weight Index by 20.76%, suggesting that large- and mega-cap stocks were also more in favor than smaller stocks in 1999.

### Growth orientation dominates 1999 top 20

After comparing the top 20 contributors of the S&P 500 Index in 2015 (through October) to the top 20 contributors in the calendar year 1999, additional style similarities are discovered in the table above. Akin to 2015, investors with underweights to the top 20 contributors in 1999 likely underperformed the S&P 500 Index. Those top 20 stocks, which represent 24.8% of the index weight, contributed 85% of return to the index with a 17.88% contribution of return to the index. The remaining stocks contributed only 15% of the return with a 3.16% return contribution. Also similar to 2015, the growth vs. value orientation of these top 20 shows the extent to which growth was in favor in 1999.

It's also worth noting that the equal weight P/E ratio based on 1-year earnings expectations was 83.7X for the top 20 contributors

**15% OF TOP 20 MARKET CAP COMPANIES HAVE A VALUE ORIENTATION**

in 1999 and 64.7X in October 2015, while the S&P 500 Index as a whole traded at a 1-year forward equal weight P/E ratio of 57.2X in 1999 and 17.2X in October 2015. These are all indications that higher valued companies outperformed in both 1999 and 2015 (through October).

From a size perspective, the top 20 contributors in 1999 also favored large- and mega-cap stocks with an equal weight average market capitalization of \$202.8 billion, larger than the S&P 500 Index as a whole of \$24.9 billion on an equal weight basis and \$145.1 billion on a market capitalization weighted basis. This size bias for large- and mega-cap companies in 1999 is a similar style trend that exists in 2015.

### Conclusion

Although it is extremely difficult to predict future equity market performance and style preferences, the data above illustrates that similar trends exist in 2015 (through October) and 1999. The data suggests that the S&P 500 Index has experienced both trends of growth outperforming value, and large- and mega-cap stocks outperforming smaller equities thus far in 2015 and calendar year 1999. History tells a challenging story for growth and large/mega-cap equities in 2000, but only time will tell the outcome of future trends in 2016 and beyond.

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