# Invesco

# Invesco S&P 500® Equal Weight ETF (RSP) Q1 2024 Commentary


**Authored by**

**Nick Kalivas**
Head of Factor and Core Equity Product Strategy

**Ryan McCormack**
Senior Factor & Core Equity Strategist

**Chris Dahlin**
Product Strategist

**Tim McLaughlin, CFA**
ETF Analyst

**Matt Schilling, CFA, CFP**
ETF Analyst


**Fund information**
as of 3/31/2024

| | |
|---|---|
| Underlying Index: S&P 500 Equal Weight Index | |
| Expense ratio | 0.20% |
| Inception date | 4/24/2003 |
| Total fund assets | $54.6 billion |
| Morningstar category | Large cap blend |
| Rebalance frequency | Quarterly |

**Performance highlights**

The S&P 500 Index's 10.56% return was the second largest Q1 return in the last 10 years, trailing only the 13.65% return in Q1 2019. Although returns in January more closely resembled the pattern in 2023, with market leadership being led mostly by a select group of mega cap companies, leadership did begin to broaden out as the quarter progressed. For example, while the 10 largest companies in the S&P 500 Index contributed approximately 62% of the Index's overall return in January, that figure had moved down to approximately 33% in March. For the quarter, the Invesco S&P 500 Equal Weight ETF's NAV (RSP) returns trailed the S&P 500 Index by 2.7% (7.85% vs. 10.55). However, as market participation broadened out throughout the quarter, RSP's relative return improved as well. In March, RSP's NAV outperformed the S&P 500 Index by 1.22% (4.44% vs. 3.22%). RSP's equal weight methodology provides investors with more exposure to more of the companies in the S&P 500 Index, which tends to be beneficial during periods of broadening market leadership.

RSP's Q1 underperformance was attributable to individual security selection and sector allocation. From a sector allocation standpoint, RSP's underweight in information technology and communication services, and overweight in real estate and utilities were the largest detractors from relative performance. Overweight to the industrials, financials and energy sectors contributed positively to RSP's relative return. From an individual security standpoint, Nvidia Corp was by far the largest detractor from RSP's relative returns in Q1. RSP's nearly 4% underweight to Nvidia Corp detracted approximately 200 basis points from relative return as Nvidia Corp returned 82.46% and was the top performing stock in the S&P 500 Index in Q1. In addition, underweight exposure to Meta Platforms Inc, Amazon.com Inc, and Eli Lilly & Co all detracted from RSP's relative return. Taken together, those 4 companies accounted for over 100% of RSP's underperformance to the S&P 500 Index in Q1. However, despite some notable mega cap detractors, RSP also benefitted from underweight exposure to other mega cap constituents. Notable underweight to Apple Inc and Tesla Inc were the two largest positive contributors to RSP's relative return. RSP's month-to-month net flow for the quarter mirrored its relative return. RSP experienced net outflow of $361 million in January and $394 million in February, and net inflow of $2 billion in March.

**Standardized fund and index performance**
As of 3/31/2024

| Fund/Index name | Inception date | | YTD (%) | 1 Year (%) | 3 Year (%) | 5 Year (%) | 10 Year (%) | Since Inception (%) |
|---|---|---|---|---|---|---|---|---|
| Invesco S&P 500 Equal Weight ETF (RSP) | 4/24/2003 | ETF - NAV | 7.91 | 19.16 | 7.93 | 12.15 | 10.65 | 11.21 |
| | | ETF - Market price | 7.87 | 19.19 | 7.84 | 12.13 | 10.65 | 11.21 |
| | | ETF - After-tax held[1] | 7.71 | 18.42 | 7.45 | 11.58 | 10.06 | 10.64 |
| | | ETF - After-tax sold[1] | 4.68 | 11.37 | 6.02 | 9.50 | 8.55 | 9.55 |
| S&P 500® Equal Weight Index | 1/8/2003 | | 7.91 | 19.38 | 8.16 | 12.35 | 10.92 | 11.66 |
| S&P 500® Index | | | 10.56 | 29.88 | 11.49 | 15.05 | 12.96 | 10.88 |

**Past performance is not a guarantee of future results; current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. See invesco.com to find the most recent month-end performance numbers. Market returns are based on the midpoint of the bid/ask spread at 4 p.m. ET and do not represent the returns an investor would receive if shares were traded at other times. An investment cannot be made directly into an index. Index returns do not represent fund returns. After-tax returns reflect the highest federal income tax rate but exclude state and local taxes. After Tax Held and After Tax Sold are based on NAV.**

***Year end after tax returns are based on preliminary data and are subject to adjustment.**

**As a result of a reorganization on April 6, 2018, the returns presented reflect the performance of the Guggenheim predecessor fund. Invesco is not affiliated with Guggenheim.**

**Quarter in review**

As noted above, the first quarter of 2024 picked up where 2023 left off – with strong returns in the domestic equity markets being led by larger capitalization stocks. Equities shook off geopolitical risk, a shifting higher-for-longer interest rate narrative (despite being off their peak), and sticky inflation, and instead focused on positive earnings results and resiliency in the economy and labor market. Following three straight quarters of negative year-over-year earnings growth, the S&P 500 Index posted earnings growth of 4.24% in Q4. Analysts are now forecasting robust earnings growth of greater than 10% for the S&P 500 Index in 2024. U.S. central bankers met and updated their Summary of Economic projections in March. Based on that release, the Federal Reserve now sees 2024 ending on a stronger note than previously projected with real gross domestic product expected to grow 2.1% by the end of this year (up from December projections for 1.4%). Committee members also forecast inflation to be higher than they previously projected, which was likely a result of higher-than-anticipated inflation readings to begin the year. Steady initial jobless claims and unemployment figures continued to indicate a firm labor market. Taken together, equity markets appeared to begin leaning more pro-growth as the quarter progressed. While January's gains were led by mega cap information technology and communication services companies, the top 3 performing sectors in the final two months of the quarter were the more historically pro-cyclical energy, materials, and industrials.

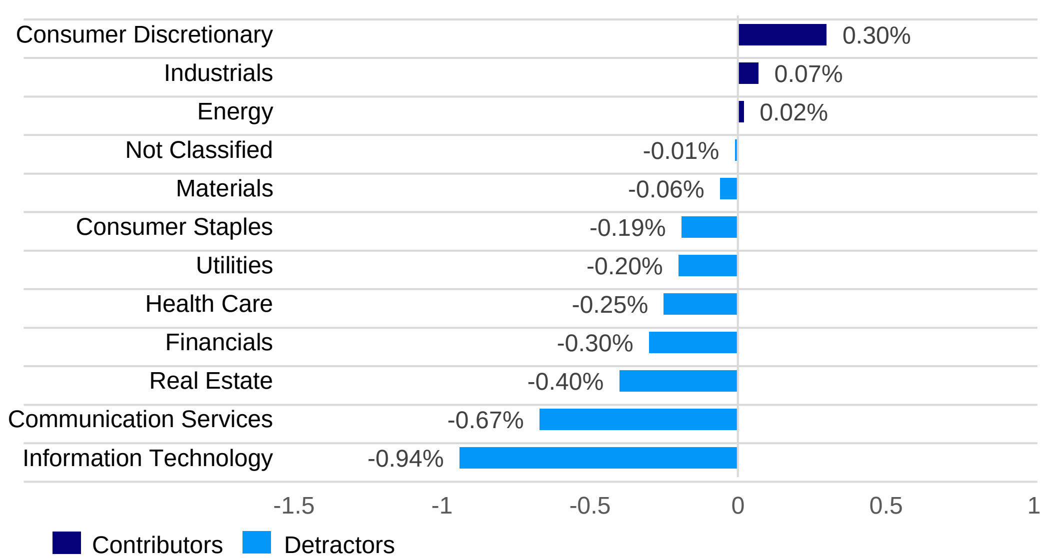
**Our outlook**

RSP has the potential to benefit from:

- Reduced concentration risk vs capitalization-weighted S&P 500 Index (largest companies in the S&P 500 Index make up the most exposure in it)
- Inexpensive valuation relative to the cap-weighted S&P 500 Index
- Reversion tendency following notablerecent underperformance

Despite some broadening out in market participation later in the quarter, the furiously narrow rally in mega cap stocks in January still contributed to a multi-decade high in domestic large cap equity concentration at the end of Q1. For example, the weight of the top 10 companies in the S&P 500 Index ended the quarter at just over 33%. Although there are nearly 500 stocks in the S&P 500 Index, approximately 1/3 of the Index is concentrated in just 10 companies. This is the highest level of concentration at any point since the late 1970s. The average weight of the S&P 500 Index's top 10 holdings over the last 35 years has been ~21%, and prior to this recent post-Pandemic cycle, the previous high was ~27% in June 2000, just prior to the Dot-Com bubble bursting. And it's not just single stock concentration either.The weight of the technology sector ended Q1 at 29.6%, which is now slightly higher than the previous cycle high of 29.2% achieved in 1999. As indicated in the graph below, the level of concentration in the S&P 500 Index's top 10 names tends to exhibit mean reverting property as it ebbs and flows over time. Although the current period of extreme concentration has been a head wind to RSP's relative performance, should concentration mean revert to a less extreme level, that may be beneficial to RSP's relative return.

**Sector contributors and detractors of performance for RSP vs. S&P 500 Index in Q1 2024**

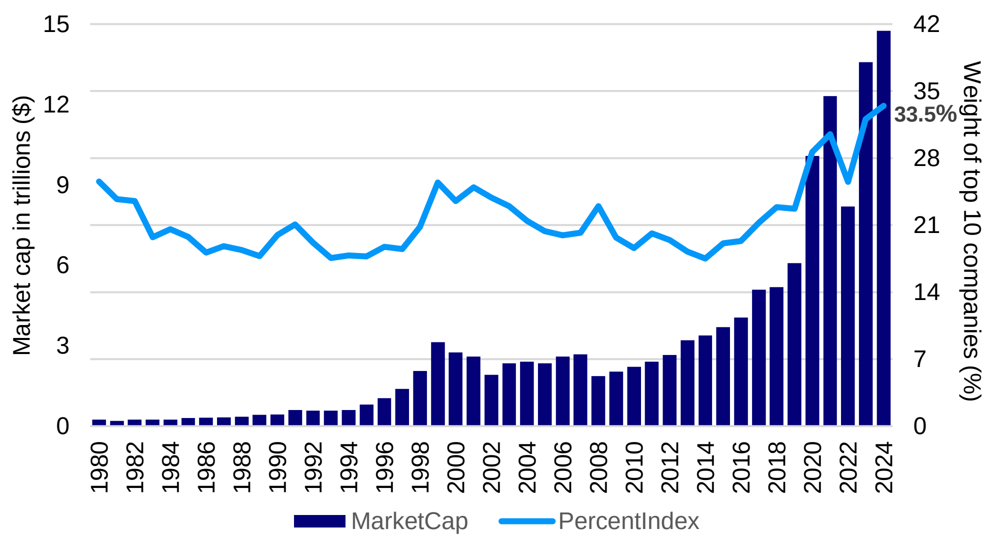



The Global Industry Classification Standard was developed by and is the exclusive property and service mark of MSCI, Inc. and Standard & Poor's. Source: Bloomberg L.P. from 12/31/2023 – 3/31/2024. An investment cannot be made in an index.

Although the S&P 500 Index experienced faster earnings growth than RSP over the past year (12.1% vs. 4.5%, as of 3/29/24), earnings did not keep up with index returns. This has led to a large increase in the price-to-earnings ratio (P/E ratio), particularly for the S&P 500 Index. Over the past year, the S&P 500 Index's P/E ratio expanded from 19.7 on 3/31/23 to 25.2 on 3/29/24. The S&P 500 Index's current P/E ratio represents a 21.2% premium to its average over the last 10 years. RSP's P/E ratio expanded from 17.4 on 3/31/23 to 20.7 on 3/29/24, which only represents a 2.5% premium to its average over the last 10 years. Despite RSP and the S&P 500 Index having averaged similar P/E ratios over the last 10 years (20.2 vs. 20.8), the S&P 500 Index's current valuation premium sets the bar much higher for earnings growth expectations. While valuations have not been historically reliable timing tools in the short-term, they can be helpful in anticipating expected returns over longer periods of time. Given RSP's valuation appeared attractive on a relative basis to the S&P 500 Index, this has the potential to bode positively for investors over the long term.

RSP's recent underperformance to the S&P 500 Index reached historic levels in Q1. In observing historical excess return, RSP's 17.4% trailing 1-year NAV underperformance to the S&P 500 Index at the end of February was the largest underperformance in a 1-year period since its inception in April of 2003. While RSP's NAV outperformance in March trimmed the trailing 1-year underperformance to 10.7%, this was still more than 1.5 standard deviations from the mean over the last 20 years. Although RSP's NAV has outperformed the S&P 500 Index since inception, the recent underperformance has been unprecedented. Much like valuation and concentration, relative performance can by cyclical. For investors seeking to initiate, or add to an existing RSP position, the recent period of underperformance may portend an investment opportunity going forward.

**Top 10 S&P 500 companies: Value based on market cap and percent weight of S&P 500 (Yearly 1980 to 2022)**




Source: Bloomberg L.P. as of 3/31/2024.

## Strengthen your core with equal weight

**Diversification away from concentration**

Each underlying company in RSP is weighted at 0.2%, helping to diversify your exposure.[1]

**Potential outperformance**

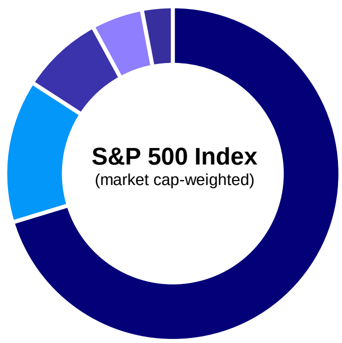
RSP has outperformed (based on NAV) the S&P 500 Index by 0.33% since inception in 2003.[2]

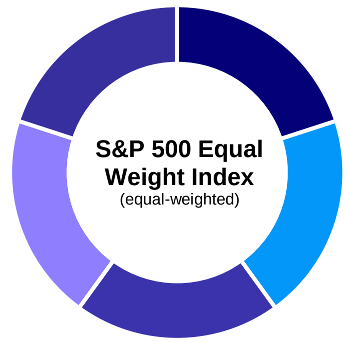
**Attractive value and tax efficiency**

RSP costs 78% less than its peers and has not paid a capital gains distribution since its inception in 2003.[3]

## Take the concentration out of the S&P 500[1]

Using an equal weight approach can provide diversification




| | | S&P 500 Index (%) | S&P 500 Equal Weight Index (%) |
|---|---|---|---|
| Largest | Companies 1-100 | 71 | 20 |
| | Companies 101-200 | 14 | 20 |
| | Companies 201-300 | 8 | 20 |
| | Companies 301-400 | 5 | 20 |
| Smallest | Companies 401-500 | 3 | 20 |

For illustrative purposes only.

1. Morningstar Research Inc. and Invesco as of March 31, 2024. Diversification does not guarantee a profit or eliminate the risk of loss.

2. Source: Invesco as of 3/31/2024. Annualized outperformance for RSP vs S&P 500 Index calculated using daily returns since 4/24/2003 when RSP was incepted. From when RSP was incepted through 3/31/2024, the fund outperformed the S&P 500 Index by 0.33% (annualized return at net asset value (NAV) of 11.21% vs. 10.88%, respectively).

3. Expense ratio source: Lipper, Bloomberg, as of March 31, 2024. Total expense ratio of 0.20% represented for RSP. Lipper Multi- Cap Value Funds Classification median expense ratio (0.92%) is based on open-end, no-load mutual funds and ETFs; excludes funds of funds. An investment cannot be made directly into an index. ETFs generally have lower expenses than actively managed mutual funds due to their different management styles. Most ETFs are passively managed and are structured to track an index, whereas many mutual funds are actively managed and thus have higher management fees. Unlike ETFs, actively managed mutual funds have the ability to react to market changes and the potential to outperform a stated benchmark. Since ordinary brokerage commissions apply for each ETF buy and sell transaction, frequent trading activity may increase the cost of ETFs. ETFs can be traded throughout the day, whereas mutual funds are traded only once a day. While extreme market conditions could result in illiquidity for ETFs, typically they are still more liquid than most mutual funds because they trade on exchanges. Capital gains source: Lipper, Bloomberg, as of March 31, 2024. Lipper Multi-Cap Value Funds Classification average annualized capital gains rate are based on open-end, no-load mutual funds and ETFs; excludes funds of funds. **While it is not Invesco's intention, there is no guarantee that the Funds will not distribute capital gains to its shareholders.**

1: Source: Bloomberg, as of March 31, 2024.

As of 3/31/24, RSP's top 10 holdings and weights were: Micron Technology Inc 0.24%, Freeport-McMoran Inc 0.23%, FedEx Corp 0.23%, General Motors Co 0.22%, Archer-Daniels-Midland Co 0.22%, Marathon Oil Corp 0.22%, Valero Energy Corp 0.22%, PayPal Holdings Inc 0.22%, Delta Airlines Inc 0.22% and 3M Co 0.22%.

**S&P 500 Equal Weight Index:** This index equal weights each company rather than weighted by float-adjusted market capitalization.

**S&P 500® Index:** This index is an unmanaged index considered representative of the U.S. stock market.

**Size:** Describes investments that have demonstrated the lowest volatile securities in the same asset class.

**Value:** Applies to investments trading at discounts to similar securities, based on measures like book value, earnings or cash flow.

**Price-to-earnings:** Is the ratio of a company's share price to the company's earnings per share.

**Standard deviation:** measures a fund's range of total returns and identifies the spread of a fund's short-term fluctuations.

**Lipper Multi-Cap Value Funds:** are funds that, by portfolio practice, invest in a variety of market capitalization ranges without concentrating 75% of their equity assets in any one market capitalization range over an extended period of time. Multi-cap value funds typically have below-average characteristics compared to the S&P SuperComposite 1500 index.

About risk:

There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index. The Fund is subject to certain other risks. Please see the current prospectus for more information regarding the risk associated with an investment in the Fund. Stocks of medium-sized companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale. Investments focused in a particular industry or sector, are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

A value style of investing is subject to the risk that the valuations never improve or that the returns will trail other styles investing or the overall stock markets.

Shares are not individually redeemable and owners of the Shares may acquire those Shares from the Fund and tender those Shares for redemption to the Fund in Creation Unit aggregations only, typically consisting of 10,000 Shares.

The opinions expressed are those of the author, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Note: Not all products, materials or services available at all firms.

Invesco does not offer tax advice. Please consult your tax adviser for information regarding your own personal tax situation.

Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions, there can be no assurance that actual results will not differ materially from expectations.

***Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), investors should ask their financial professional for a prospectus/summary prospectus or visit invesco.com/fundprospectus.***