Amundi | ETF
ASSET MANAGEMENT

Expert's view

Equal-Weight: Diversify from US megacaps

Focus index: S&P 500 Equal Weight ESG Leaders Select Index (USD) NTR

Excessive valuations in the US equity market indicate market expectations of a soft/no landing and a strong earnings growth scenario. Having said that, the performance of US equities over the past year has been driven by a handful of stocks. With markets' pricing for perfection, the S&P 500 Equal Weight ESG Leaders Select offers potential diversification benefits.

S&P 500's performance dominated by a handful of stocks

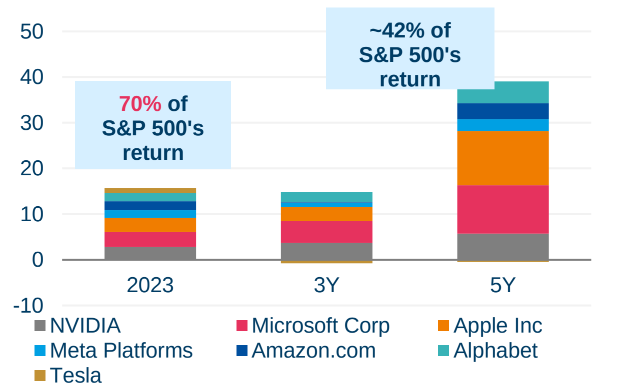
- **Index concentration close to historical high:** The Magnificent 7[1] account for 28% of the total index weight.
- **Performance contributors highly concentrated:** NVIDIA was the top contributor to the S&P 500's overall performance in 2023.

Equal-weight and ESG for diversification and outperformance

- **Reduced concentration risk:** The S&P 500 Equal Weight ESG Leaders Select proved more resilient compared to the S&P 500 in 2022. ESG filtering has been a source of outperformance vs non-ESG in the longer term.
- **Attractive valuation vs S&P 500:** The price-to-book value is at a heavy discount, while the payout is much higher, compared to the S&P 500.

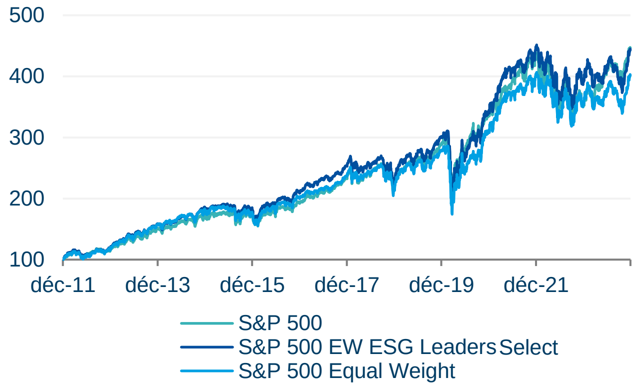
S&P 500's performance driven by the Magnificent 7[1] in 2023

Contribution of top US tech firms to S&P 500's return (TR, in %)



Outperformance of S&P 500 Equal Weight ESG Leaders Select vs S&P 500 EW in the long term

S&P 500 ESG EW Leaders select vs S&P 500 EW performance



[1]Magnificent 7: Meta Platforms, Amazon.com, Alphabet (A+C), Microsoft Corp, Apple Inc, NVIDIA, Tesla.
Source: Bloomberg, Amundi. Data as at 17/01/2024. Contribution calculation based on physical S&P 500 ETFs holdings. Alphabet A & C merged. Base 100= 31/12/2011. Performance data as at 30/12/2023. Past performance is not a reliable indicator of future performance.

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Equal-Weight: Diversify from US megacaps

S&P 500's performance dominated by a handful of stocks

The S&P 500 delivered outstanding returns in 2023, with gains of nearly 28% (NTR in USD). Despite the large number of securities in the S&P 500, the index's performance has been driven by a handful of stocks. NVIDIA's staggering 267% surge last year made it the top contributor to the S&P 500's overall performance. The S&P 500's top seven companies posted a median average performance close to 85% in 2023, almost three times the performance of the broader index (26.4% in net total return), and accounted for approximately 70% of the S&P 500's total performance.

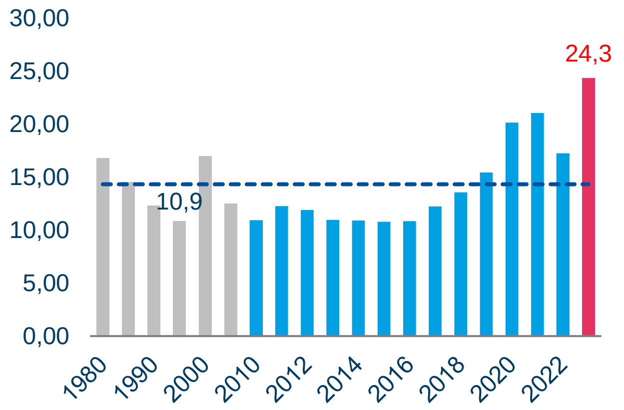
When taking a closer look at the S&P 500's largest holdings, we find that the top five holdings account for 24.3% of the total index weight (calculation takes into account Alphabet's A and C share classes). This level surpasses the 17% observed in 2000 during the tech bubble. It is also just below the historical high of 27.7% reached in 1964 when the likes of Exxon Mobil (Socony Mobil Oil and Standard Oil of New Jersey at the time), General Motors, General Electric, AT&T, IBM were accounted for in the league table. Ultimately, it is essential to remember that even today's market giants may eventually lose their leadership status, as demonstrated by numerous examples from financial history.

Equal-weight and ESG for diversification and outperformance

An equal-weight approach can offer diversification benefits when indices, such as the S&P 500, are heavily skewed towards their top holdings. Recent performance has led to an abnormally high valuation spread between the market capitalisation weighted S&P 500 and its equal-weighted equivalents. The S&P 500's twelve-month forward PE[1] is currently trading with a ~20% premium compared to the S&P 500 Equal Weight ESG Leaders Select. The price-to-book value is also at a heavy discount, while the payout is much higher, compared to the S&P 500.

S&P 500's performance and valuation driven by the heavyweights

S&P 500 top five[2] holdings (% market capitalisation)



BEst consensus estimate 12-month forward PE[1]

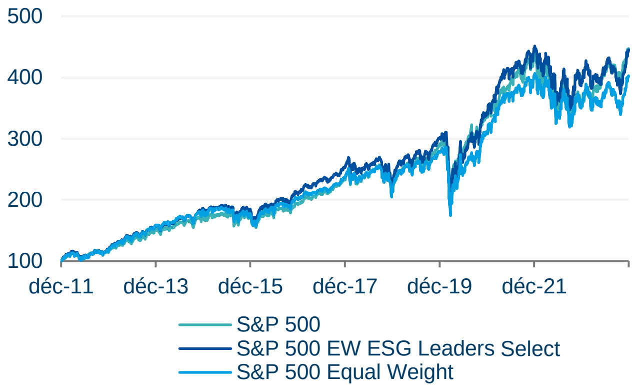
[1]Alphabet (A+C) share class merged. [2]BEst (Bloomberg Estimates) Earnings Per Share (EPS) reflects the consensus estimate for adjusted earnings per share. The consensus estimate is the mean of sell-side analyst estimates. Source: Bloomberg, Amundi. Past performance is not a reliable indicator of future performance. BEst consensus estimates as at 12/01/2024 .

Heading a step further by adding an ESG filter allows for a greater ESG score and lower carbon intensity. The S&P 500 Equal Weight ESG Leaders Select targets 60% of the S&P 500's stocks with a focus on the top 50% ESG scores. Exclusions are based on business activities and are in accordance with UNGC principles – the full index methodology is available here.

Beyond that, the ESG tilt brings a greater bias toward higher dividend stocks (12 months forward dividend yield at 2.07% vs 1.94% for the non-ESG) and greater allocation in Healthcare and IT compared to the S&P 500 equal-weight index. The exposure also allows for consistent outperformance of the S&P 500 Equal Weight ESG Leaders Select index compared to the S&P 500 equal-weight index in recent years for stable historical correlation levels around 99.50%.

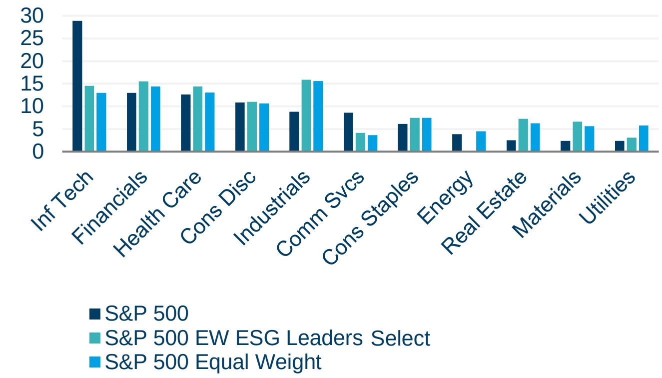
Outperformance of S&P 500 Equal Weight ESG Leaders Select vs S&P 500 EW in the long term

S&P 500 EW ESG Leaders select vs S&P 500 EW



A greater tilt towards Healthcare and Financials

GICS sectors Level 1 breakdown, in % of market value



Base 100= 31/12/2011.
Source: Bloomberg, Amundi. Data as at 29/12/2023. Past performance is not a reliable indicator of future performance.

Overall, we believe that the stretched valuation levels of the largest US-listed companies and the perspective of a mild recession materialising in the coming quarters will affect broad US equities' performance. In our view, an equal-weight exposure to US equities could offer a more defensive approach to the market at times of greater volatility.

Related indices

Index name	Bloomberg tickers	Asset class	Amundi / Lyxor ETF replication
S&P 500 Equal Weight ESG Leaders Select Index (USD) NTR	SPXELSUN	Equities	Full

Source: Amundi

Please contact your Amundi ETF sales representative if you'd like more information.

Knowing your risk

It is important for potential investors to evaluate the risks described below and in the fund's Key Information Document ("KID") and prospectus available on our website www.amundietf.com.

CAPITAL AT RISK

ETFs are tracking instruments. Their risk profile is similar to a direct investment in the underlying index. Investors' capital is fully at risk and investors may not get back the amount originally invested.

UNDERLYING RISK

The underlying index of an ETF may be complex and volatile. For example, ETFs exposed to Emerging Markets carry a greater risk of potential loss than investment in Developed Markets as they are exposed to a wide range of unpredictable Emerging Market risks.

REPLICATION RISK

The fund's objectives might not be reached due to unexpected events on the underlying markets which will impact the index calculation and the efficient fund replication.

COUNTERPARTY RISK

Investors are exposed to risks resulting from the use of an OTC swap (over-the-counter) or securities lending with the respective counterparty(-ies). Counterparty(-ies) are credit institution(s) whose name(s) can be found on the fund's website amundietf.com. In line with the UCITS guidelines, the exposure to the counterparty cannot exceed 10% of the total assets of the fund.

CURRENCY RISK

An ETF may be exposed to currency risk if the ETF is denominated in a currency different to that of the underlying index securities it is tracking. This means that exchange rate fluctuations could have a negative or positive effect on returns.

LIQUIDITY RISK

There is a risk associated with the markets to which the ETF is exposed. The price and the value of investments are linked to the liquidity risk of the underlying index components. Investments can go up or down. In addition, on the secondary market liquidity is provided by registered market makers on the respective stock exchange where the ETF is listed. On exchange, liquidity may be limited as a result of a suspension in the underlying market represented by the underlying index tracked by the ETF; a failure in the systems of one of the relevant stock exchanges, or other market-maker systems; or an abnormal trading situation or event.

VOLATILITY RISK

The ETF is exposed to changes in the volatility patterns of the underlying index relevant markets. The ETF value can change rapidly and unpredictably, and potentially move in a large magnitude, up or down.

CONCENTRATION RISK

Thematic ETFs select stocks or bonds for their portfolio from the original benchmark index. Where selection rules are extensive, it can lead to a more concentrated portfolio where risk is spread over fewer stocks than the original benchmark.

FRANCE

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For Amundi ETF, the prospectus in English and KID are available on www.amundietf.com, and free of charge from the "centralisateur" of the Funds which in the case of Amundi Index Solutions SICAV and Amundi ETF ICAV, is CACEIS Bank SA, 1-3 place Valhubert, 75013 Paris, France.

For Lyxor ETF, the prospectus in English and KID are available on www.amundietf, and for funds of the Lyxor Funds Solutions SICAV from:

- Lyxor Funds Solutions, 5, Allée Scheffer, L-2520 Luxembourg – registered under number B139351 with the RCS of Luxembourg (management company of Lyxor SICAV)

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- Lyxor SICAV, RCS B140772, located 5, Allée Scheffer, L-2520 Luxembourg.

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