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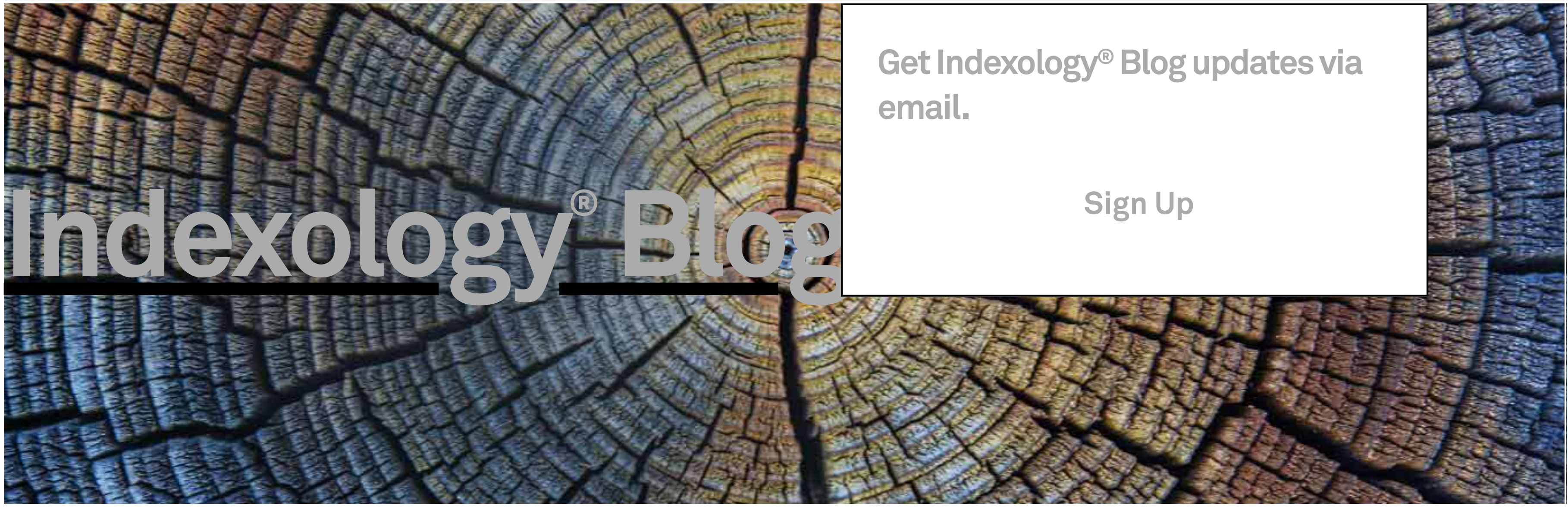

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Equal Weight Indexing in Canadian Equities

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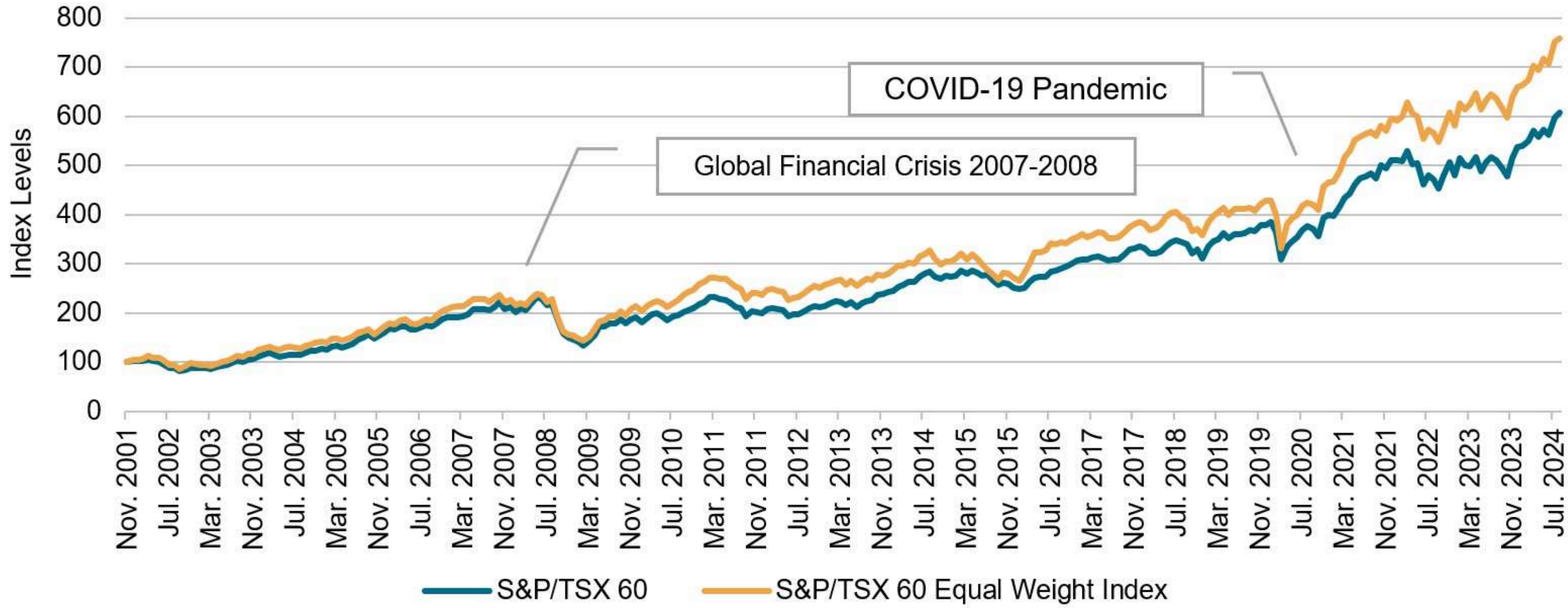
The **S&P 500 Equal Weight Index** has exhibited notable long-term outperformance compared to the market-cap-weighted S&P 500—a phenomenon that has been **researched** over the years. Unlike the headline S&P 500, where larger companies exert a greater influence, the S&P 500 Equal Weight Index assigns the same weight to each of its constituents, regardless of their market cap. This approach increases the weight in smaller companies, allowing them to have a more significant impact on the index's overall performance.

We find a similar pattern in the Canadian market, where the **S&P/TSX 60 Equal Weight Index** has outperformed the **S&P/TSX 60** over the long term (see Exhibit 1). Despite periods where the S&P TSX 60 outperformed due to the dominance of its largest constituents, the S&P/TSX 60 Equal Weight Index has historically provided a more balanced view of the Canadian equities market and less concentration risk, leading to enhanced long-term returns.

Performance Summary

As shown in Exhibit 1, the S&P/TSX 60 Equal Weight Index has outperformed the S&P TSX 60 over the long term by a cumulative 24%, approximately, with a notable degree of outperformance occurring during market recoveries, particularly following the Global Financial Crisis and COVID-19 pandemic.

Exhibit 1: Long-Term Outperformance of the S&P/TSX 60 Equal Weight Index



Source: S&P Dow Jones Indices LLC. Data as of Aug.30, 2024. The S&P/TSX 60 Equal Weight Index was launched June 7, 2010. All data prior to the index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical data. Please see the Performance Disclosure linked at the end of this post for more information regarding the inherent limitations associated with back-tested performance.

The S&P/TSX 60 Equal Weight Index consistently outperformed the S&P/TSX 60 across various time frames at a roughly similar level of volatility, leading to enhanced risk-adjusted returns (see Exhibit 2).

Exhibit 2: Risk/Return Profiles

Period	S&P/TSX 60	S&P/TSX 60 Equal Weight Index
Total Return (%)		
YTD	13.16	15.03
1-Year	19.14	18.92
3-Year	7.87	10.00
5-Year	10.91	13.01
10-Year	7.90	8.78
20-Year	8.72	9.32
Risk (%)		
1-Year	12.54	11.75
3-Year	13.79	12.78
5-Year	15.12	15.93
10-Year	12.41	13.63
20-Year	13.09	13.69
Risk-Adjusted Return		
1-Year	1.53	1.61
3-Year	0.57	0.78
5-Year	0.72	0.82
10-Year	0.64	0.64
20-Year	0.67	0.68

Source: S&P Dow Jones Indices LLC. Data as of Aug. 30, 2024. Index performance based on total return in CAD. The S&P/TSX 60

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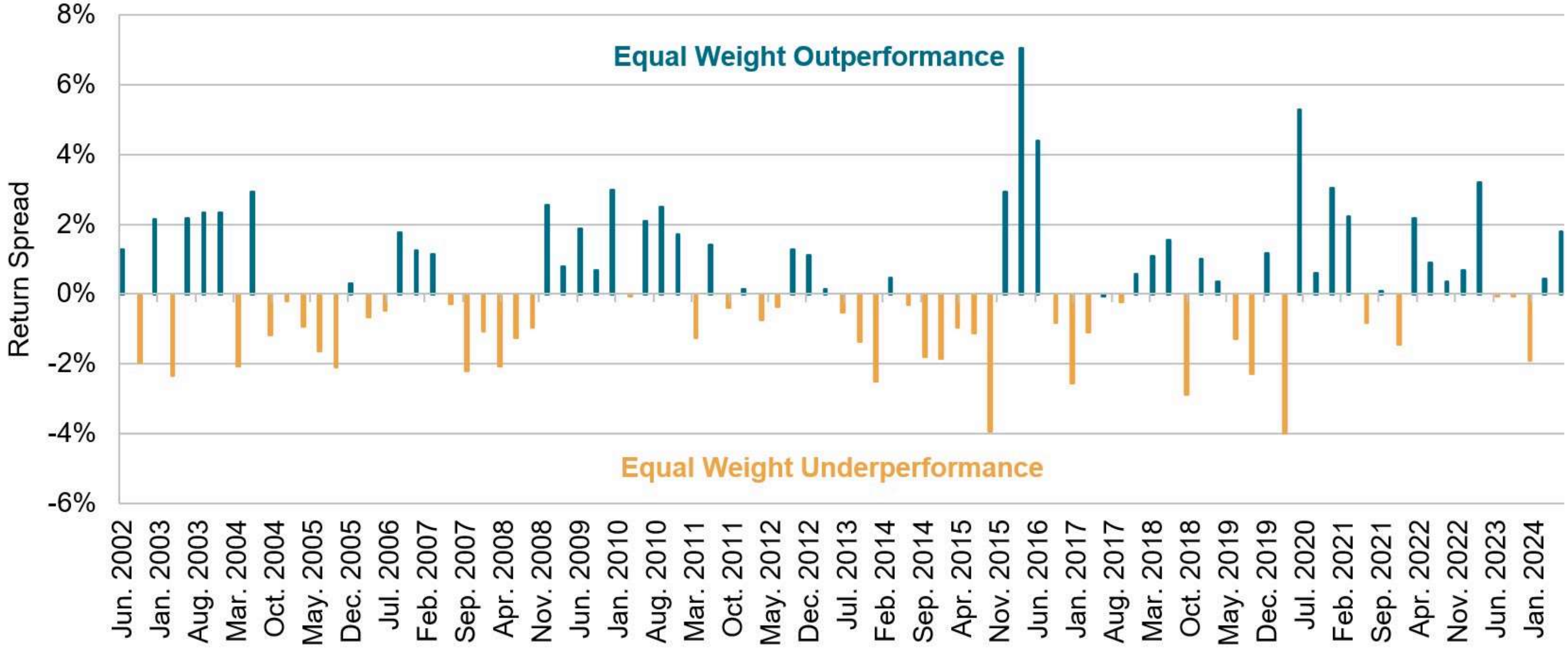
A quarterly performance analysis (see Exhibit 3) shows that the S&P/TSX 60 Equal Weight Index has outperformed the cap-weighted index at a rate of 52% with an average margin of outperformance (1.69%) exceeding that in underperforming quarters (-1.35%), underscoring the index's effectiveness in outperforming across different market cycles.

Exhibit 3: S&P/TSX 60 Equal Weight Index versus S&P/TSX 60 Quarterly Performance



Reduced Sector and Single Stock Concentration

In terms of sector weights, the S&P/TSX 60 Equal Weight Index offers a more diversified representation of the Canadian market. This contrasts with the S&P/TSX 60, which reflects the Canadian equity market's heavy weighting toward the Financials sector, with substantial weight distributed to the big five banks. This sector concentration can lead to performance that is highly driven by the financial market conditions and regulatory changes affecting this industry. In contrast, the S&P/TSX 60 Equal Weight Index provides more balanced sector profile, giving larger representation to other sectors such as Consumer Discretionary, Utilities, and Real Estate (see Exhibit 4). This broader sector profile has historically enhanced performance during periods when sectors other than Financials have outperformed, provide market participants with a more comprehensive view of the market.

Additionally, Exhibit 5 highlights key differences in constituent level weight distribution. The S&P/TSX 60 is heavily tilted toward its largest companies, with the top five making up 25.8% of the index weight. Meanwhile, the S&P/TSX 60 Equal Weight Index distributes weight more evenly, resulting in only 9.3% for the same group. This structure leads to different performance dynamics, with the equal weight index's performance being more influenced by smaller size constituents, rather than being driven by larger names.

Conclusion

Despite the limited use of equal weight strategies in Canadian equities at present, the high level of stock and sector concentration in the market suggests there are potential merits of considering an equal weight approach to indexing. This hypothesis is further supported by the historical outperformance of the S&P/TSX 60 Equal Weight Index compared to its market-cap-weighted counterpart over both short- and long-term periods.