

# S&P Dow Jones Indices

A Division of **S&P Global**

# TalkingPoints

## Why is the S&P 500® Relevant Globally?



### **Jodie Gunzberg, CFA**

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The S&P 500 is a renowned benchmark for large-cap U.S. equities and is widely referenced as the gauge of U.S. equity performance. But what is the relevance of the U.S. market and the S&P 500 internationally?

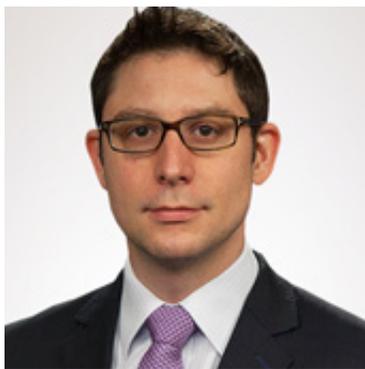
### **1. When we talk about the U.S. market, just how big is it?**

**Jodie:** The S&P 500 is the proxy for the U.S. market, and it represents about 80%-85% of the U.S. stock market. But from a global perspective, the U.S. is over one-half of the global stock market, as measured by the S&P Global BMI. This really matters because as the U.S. economy grows, it propels the stock markets of all other countries—and the U.S. stock market is largely driven by consumer spending. So really, the more a country exports to the U.S., the more sensitive it becomes to U.S. growth. For example, a country like Korea has a high sensitivity and on average, rises nearly 9.5% for every 1% of U.S. growth, whereas the UK only grows about 2.5%. So you can see the differences in impact per country.

### **2. In light of the importance of the U.S. market—proxied by the S&P 500—what’s the ecosystem around the S&P 500 itself?**

**Tim:** That’s one of the important differentiating factors of the S&P 500. In most markets, S&P 500-based products will be among the most liquid, most traded, and most invested among all the other alternatives.

Part of that is because it’s not just about the benchmark itself, rather it’s about the availability of the different aspects that are available in a tradable format. We can mention futures, options, and the VIX®—if you were to pick one macro indicator that the rest of the world watches to gauge not just the U.S. but the global economic health, it would probably be the VIX, which is based on S&P 500 options. Then we have S&P 500 sectors, and smart beta or factors, such as momentum. An ecosystem has grown around the different investment aspects, pieces, segments, and characteristics of the S&P 500 over the many years since it was first launched in 1957. There’s a phenomenal wealth of not just data but also products that are internationally relevant.



### **Tim Edwards, Ph. D**

Managing Director  
Index Investment Strategy  
S&P Dow Jones Indices

To see the original interview watch: [Understanding the Global Impact of the S&P 500.](#)

### 3. Given the analysis and ecosystem, how do people use those to express their views about the U.S. economy or the U.S. market?

**Jodie:** There's been tremendous growth in the indexing industry. Just recently, *The Financial Times* put out an article that said that there are nearly 3.2 million indices published every day, which trounces the number of stocks that are publicly available at 44,000. Of those indices, 43% are sector-based, which is important because they give investors—whether they're domestic or international—different ways to express their views through sectors. Different sectors in the U.S. have different levels of exposure to international revenues—for example, information technology has pretty high international revenues of about 60%, whereas real estate may only have 10%-15%. So whether an investor wants an exposure that's very U.S.-centric or more global, measuring that with sensitivities to the U.S. dollar, interest rates, inflation, or U.S. growth with upside potential to these factors can help an investment strategy for today's market participants.

**Tim:** At the risk of stating the obvious, here in the UK equity market, we can easily get exposures to the energy or financials sectors. However, if you want to get exposure to information technology in the UK, or in Europe more generally, it's quite difficult. Many of the behemoths of the information technology sector and media industry are U.S.-based, and there are certain aspects of portfolio construction in terms of diversification that are almost impossible without reaching for the U.S. So naturally, there is international interest in not just the index itself, but in the different parts that could be used to diversify a domestic portfolio.

### 4. With the necessary biases that a domestic market has and therefore the relevance of U.S. market exposure plus the ecosystem, do you think this all feeds into why there's so much research out there about the S&P 500 including the VIX and the index itself?

**Tim:** In a word, yes. I think that, as an index provider we are fortunate; as well as producing our own research, it's often the case that if an academic researcher or a practitioner wishes to test a theory or examine a market dependency, the S&P 500 will often be used as either a benchmark or as the object of study in order to explore that. What that means for market participants is that there is a wide bank of research, commentary, and analysis that helps people understand what makes the S&P 500 tick.

**Jodie:** Again, the S&P 500 was launched in 1957, and at the time it represented the entire U.S. stock market. Today, it still represents about 85% of the U.S. stock market, and it serves as the foundation for much of the research available because it is used as the beta, and without beta, you don't have any smart beta or any of the other developments that have occurred. So from the S&P 500, a number of different indices have been developed—such as equal weight, different sizes, styles, and other factors such as quality, momentum, value, ESG, and strategies that are well beyond what the original beta ever was.

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