

## Why Does the S&P 500<sup>®</sup> Matter to Japan?

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The [S&P 500](#) is a renowned benchmark for large-cap U.S. equities. The index is designed to measure 500 leading companies and covers approximately 80% of investable market capitalization in the U.S. equity market. As of year-end 2020, over USD 13.5 trillion was benchmarked to the S&P 500 alone, with indexed assets making up USD 5.4 trillion of this total.<sup>1</sup> Exchange-traded products based on the S&P 500 have been cross-listed in various markets across the globe, but what creates the international appetite for U.S. equities, especially the S&P 500?

In this paper, we will:

- Compare the S&P 500 to the leading equity benchmark in Japan;
- Explore the significance of the S&P 500 in the global equity market; and
- Compare S&P 500 performance to that of active U.S. large-cap funds.

### COMPARISON OF THE S&P 500 AND THE TOPIX

The S&P 500 and the TOPIX are widely regarded as primary performance indicators for the U.S. and Japanese equity markets, respectively. Both indices have been commonly used as benchmarks for investment in domestic stocks or equity funds for decades.<sup>2</sup> However, the indices vary significantly due to the different economic landscapes and financial market developments they reflect.

The TOPIX consists of 2,000 domestic common stocks listed on the Tokyo Stock Exchange First Section, while the S&P 500 comprises 500 leading U.S. companies representing around 80% of the market cap of the U.S. equity market. Index members for both indices are weighted by their free-float market capitalization. Despite the fact that the number of S&P 500 members is only one-quarter of the number of TOPIX constituents, the float-adjusted market cap of the S&P 500 is 10 times that of the TOPIX.

As of Oct. 29, 2021, the top 10 TOPIX members represented 18.76% of the index, with Toyota having the highest weight at 3.71%, while the 10 largest

<sup>1</sup> Each year, S&P Dow Jones Indices conducts a survey to estimate the total assets directly linked to its indices. See the "[S&P DJI Annual Survey of Indexed Assets 2020](#)."

<sup>2</sup> The S&P 500 was launched on March 4, 1957, and the TOPIX was launched on July 1, 1969.

stocks in the S&P 500 accounted for 30.26% of the index, with Microsoft at the top, carrying 6.38% of weight (see Exhibit 1).

*The S&P 500 and the TOPIX have been widely used as primary performance indicators of U.S. and Japanese equity markets for decades.*

<b>S&amp;P 500 STOCKS</b>	<b>WEIGHT (%)</b>	<b>TOPIX STOCKS</b>	<b>WEIGHT (%)</b>
Microsoft	6.38	Toyota Motor	3.71
Apple	6.02	Sony Group	3.00
Alphabet A & C	4.42	Keyence	2.26
Amazon.com	3.76	Recruit Holdings	2.04
Tesla	2.31	Mitsubishi UFJ Financial	1.44
Meta Platforms A	1.97	NT&T	1.33
Nvidia	1.63	Softbank Group	1.32
Berkshire Hathaway B	1.36	Shin-Etsu Chemical	1.24
JPMorgan Chase	1.30	Tokyo Electron	1.22
UnitedHealth Group	1.11	Hoya	1.19
<b>Total Weight of Top 10 Companies</b>	<b>30.26</b>	<b>Total Weight of Top 10 Companies</b>	<b>18.76</b>

Source: S&P Dow Jones Indices LLC, Tokyo Stock Exchange. Data as of Oct. 29, 2021. Table is provided for illustrative purposes.

As the TOPIX includes all the domestic common stocks listed on the Tokyo Stock Exchange First Section and the S&P 500 consists of the 500 leading companies in the U.S. market, the S&P 500 has a much higher average constituent market cap and average daily traded value, due to the absence of mid- and small-cap stocks in its universe. Although the S&P 500 has fewer stocks than the TOPIX, the total float market cap and average traded value of the S&P 500 are much higher than those of the TOPIX.

*The number of S&P 500 members is only one-quarter of the number of TOPIX constituents, but its total float market cap and average traded value are much higher.*

<b>CATEGORY</b>	<b>CONSTITUENT MARKET CAP (USD BILLIONS, FLOAT ADJUSTED)</b>		<b>CONSTITUENT 3-MONTH AVERAGE DAILY TRADED VALUE (USD MILLIONS, FLOAT ADJUSTED)</b>	
	<b>S&amp;P 500</b>	<b>TOPIX</b>	<b>S&amp;P 500</b>	<b>TOPIX</b>
Mean	78.2	1.8	454.6	12.0
Median	31.8	0.2	197.3	1.3
Largest	2,492.1	143.5	16,463.5	965.3
Sum of Constituents	39,085	3,873	227,308	26,133

Source: S&P Dow Jones Indices LLC, Tokyo Stock Exchange, FactSet. Data as of Oct. 29, 2021. Market cap is calculated as the share price multiplied by the number of shares at the security level. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

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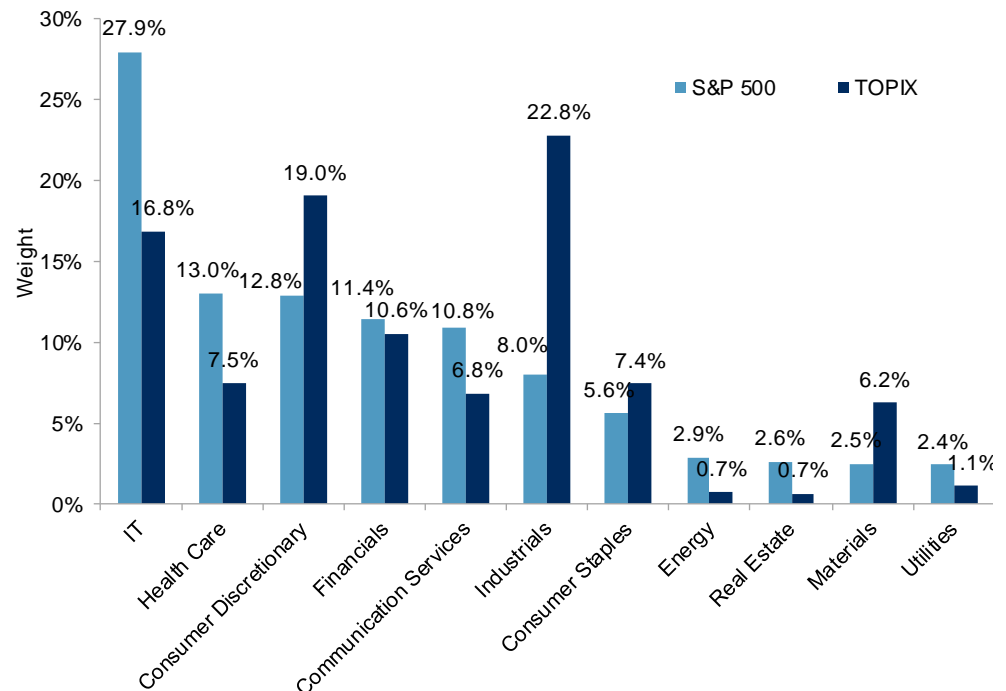
Both the TOPIX and the S&P 500 are highly diversified among sectors, with no single sector representing more than 30% of the index. While the TOPIX was most concentrated in the Industrials, Consumer Discretionary, and Information Technology (IT) sectors, which together accounted for 58.6% of the index weight as of Oct. 29, 2021, the S&P 500 was most concentrated in the IT, Health Care, and Consumer Discretionary sectors, accounting for 53.8% of the index weight.

*The TOPIX was most concentrated in the Industrials, Consumer Discretionary, and IT sectors...*

The S&P 500 had significantly higher weights in the IT, Health Care, and Communication Services sectors than the TOPIX. The biggest companies from the IT sector, such as Microsoft and Apple, are global leaders in the system software and tech hardware industries. These two companies represented more than 40% of the S&P 500's IT sector weight. UnitedHealth and Johnson & Johnson are the largest S&P 500 members in the Health Care sector. They are leading providers of healthcare services and pharmaceutical products, accounting for 17% of the S&P 500 Health Care sector's weight. For the Communication Services sector, global internet giants Google and Facebook, which were rebranded to Alphabet and Meta Platforms, represented 59% of the S&P 500's Communication Services weight.

*...while the S&P 500 was most concentrated in the IT, Health Care, and Consumer Discretionary sectors.*

**Exhibit 3: Sector Weighting of the S&P 500 Versus the TOPIX**



Source: S&P Dow Jones Indices LLC, Tokyo Stock Exchange. Data as of Oct. 29, 2021. Chart is provided for illustrative purposes.

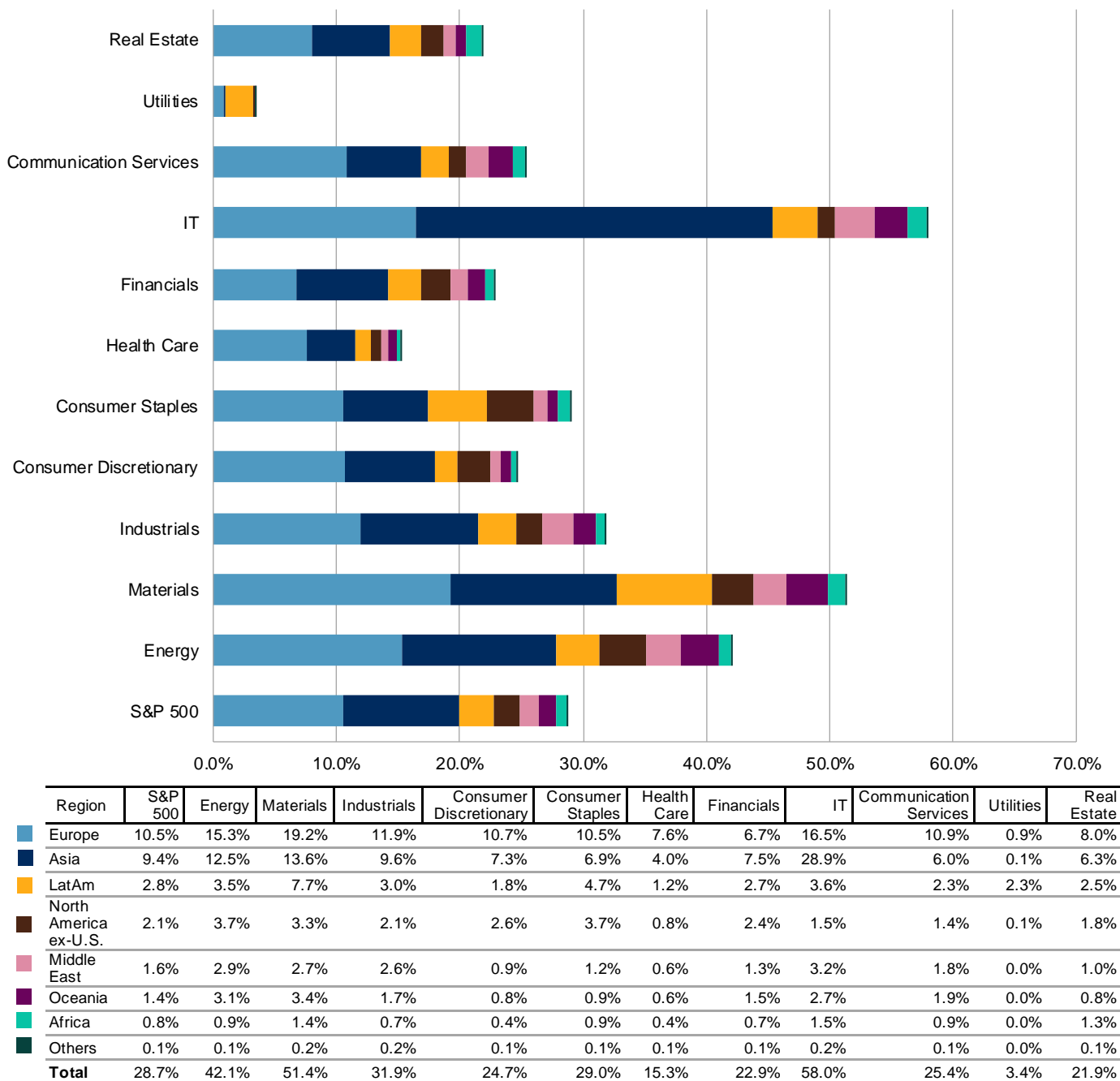
*Apart from their different sector compositions, the S&P 500 and TOPIX have also been affected by different economic factors in the past.*

Apart from their different sector compositions, the S&P 500 and TOPIX have also been affected by different economic factors in the past. The TOPIX is designed to measure the performance of equities in Japan, the third-largest economy in the world, accounting for 5.9% of the global economy, while the S&P 500 seeks to track the equity market performance of the world's largest economy, the U.S., which accounts for 24.6% of the global economy.<sup>3</sup>

<sup>3</sup> Based on the IMF's 2020 nominal GDP estimated figures from the "World Economic Outlook Database, October 2021."

In 2020, 28.7% of S&P 500 revenue came from outside of the U.S., with 10.8% from Asia & Oceania, 10.5% from Europe, 4.9% from America (ex-U.S.), and 2.4% from Africa & Middle East. Apart from Utilities and Health Care, all sectors recorded more than 20% of foreign sales. IT and Materials had the highest foreign revenue exposure of 58% and 51% respectively. The diverse geographical revenue sources can translate into high international diversification benefits for the S&P 500.

**Exhibit 4: S&P 500 Foreign Sales by Region**



Source: S&P Dow Jones Indices, FactSet Revere. Data as of Oct. 29, 2021. Figures are based on companies' foreign sales figures reported for fiscal year 2020. Chart and table are provided for illustrative purposes.

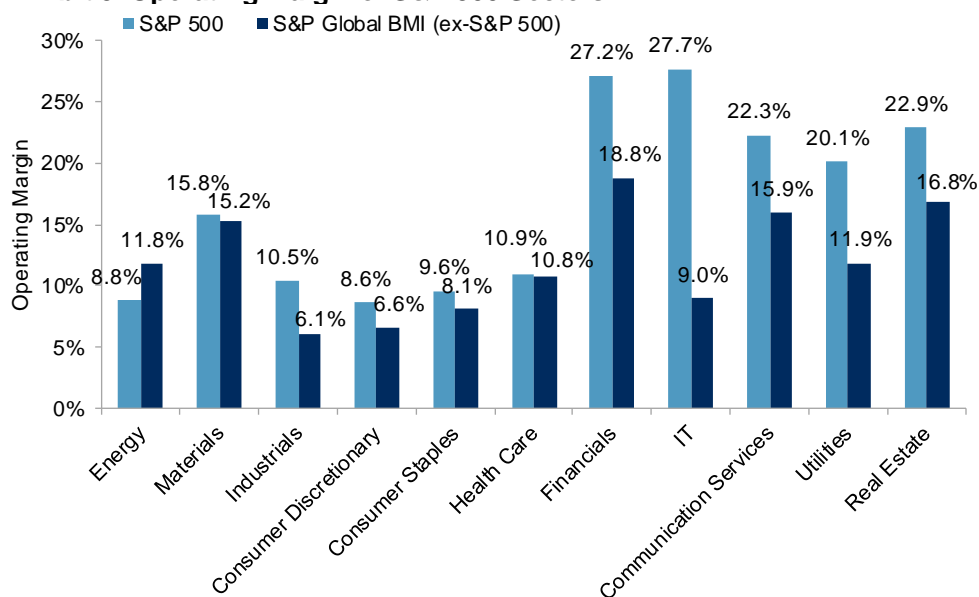
*Among the 100 largest stocks in the S&P Global BMI, 74 of them are S&P 500 members.*

## SIGNIFICANCE OF THE S&P 500 IN THE GLOBAL EQUITY MARKET

The S&P 500 represents a significant part of global equity market capitalization, with index members representing 37% of the total market cap and 48% of float market cap of the [S&P Global BMI](#) as of Oct. 29, 2021. Among the 100 largest stocks in the S&P Global BMI, 74 of them are S&P 500 members. We have also observed that in most sectors, S&P 500 companies have delivered higher operating margins than their global sector peers, especially in the IT sector, with a spread of 18.7%.

*In most sectors, S&P 500 companies have delivered higher operating margins than their global sector peers, especially in the IT sector.*

**Exhibit 5: Operating Margin of S&P 500 Sectors**



Source: S&P Dow Jones Indices LLC, FactSet. Data as of Oct. 29, 2021. Figures based on company-reported operating income and revenue in the trailing 12-month period. Chart is provided for illustrative purposes.

*As many S&P 500 members are global industry leaders and produce in large quantities, they usually have higher negotiation power with suppliers, which can lower their operating costs.*

As many S&P 500 members are global industry leaders and produce in large quantities, they usually have higher negotiation power with suppliers, which can lower their operating costs. Furthermore, the brand power of these companies helps them to sell their products and services at premium prices and maintain higher margins.<sup>4</sup> Based on the Best Global Brands 2021 report published by the worldwide brand consultant Interbrand, 48 of the top 100 global brands are members or are owned by members of the S&P 500.<sup>5</sup> These brands scored well in terms of the valuation-based competitive strength of the brand, the role the brand plays in purchase decisions, and the financial performance of the branded products or services. Apple, Amazon, Microsoft, Google, Coca-Cola, McDonald's, and Disney ranked among the top 10 global brands.

<sup>4</sup> For more details, please see the article "[America's Most Profitable Products](#)" by Thomas C. Frohlich and Alexander E.M. Hess.

<sup>5</sup> For methodology and complete list of the 100 best global brands, please see <https://interbrand.com/thinking/best-global-brands-2021-methodology/>.

*Apple, Amazon, Microsoft, Google, Coca-Cola, McDonald's, and Disney ranked among the top 10 global brands.*

**Exhibit 6: Global Brands in the S&P 500 (2021)**

GLOBAL RANKING	BRAND	COMPANY/PARENT COMPANY IN THE S&P 500	GLOBAL RANKING	BRAND	COMPANY/PARENT COMPANY IN THE S&P 500
1	Apple	Apple Inc.	39	Visa	Visa Inc
2	Amazon	Amazon.com Inc	42	PayPal	PayPal Holdings Inc.
3	Microsoft	Microsoft Corp	44	Pampers	Procter & Gamble
4	Google	Alphabet Inc	50	Mastercard	Mastercard Inc
6	Coca-Cola	Coca-Cola Co	51	Starbucks	Starbucks Corp
9	McDonald's	McDonald's Corp	52	Ford	Ford Motor Co
10	Disney	Walt Disney Co	54	Citi	Citigroup Inc
11	Nike	NIKE Inc	55	Goldman Sachs	Goldman Sachs Group Inc
14	Tesla	Tesla, Inc	56	eBay	eBay Inc.
15	Facebook	Meta Platforms, Inc.	61	Gillette	Procter & Gamble
16	Cisco	Cisco Systems Inc	63	HP	HP Inc
17	Intel	Intel Corp	67	3M	3M Co
18	IBM	Intl Business Machines Corp	68	Colgate	Colgate-Palmolive Co
19	Instagram	Meta Platforms, Inc.	69	Morgan Stanley	Morgan Stanley
21	Adobe	Adobe Inc.	72	Kellogg's	Kellogg Co
24	J.P. Morgan	JP Morgan Chase & Co	75	FedEx	FedEx Corp
26	YouTube	Alphabet Inc	78	Corona	Constellation Brands Inc
28	Pepsi	PepsiCo Inc	81	Jack Daniel's	Brown-Forman Corp
29	UPS	United Parcel Service Inc	82	Caterpillar	Caterpillar Inc
30	American Express	American Express Co	83	LinkedIn	Microsoft Corp
31	GE	General Electric Co	84	Hewlett Packard Enterprise	Hewlett Packard Enterprise Co
32	Accenture	Accenture plc	87	Johnson & Johnson	Johnson & Johnson
36	Netflix	Netflix Inc	90	John Deere	Deere & Co
38	Salesforce	Salesforce.com	93	KFC	Yum! Brands Inc

Source: S&P Dow Jones Indices LLC, Interbrand (<https://interbrand.com/thinking/best-global-brands-2021-download/>). Data as of Oct. 29, 2021. Table is provided for illustrative purposes.

## PERFORMANCE OF THE S&P 500 VERSUS ACTIVE U.S. LARGE-CAP FUNDS

Investing in the U.S. equity market can be done via the use of active fund managers or index-linked products, which track the returns of an underlying index. Twice a year, S&P Dow Jones Indices releases the SPIVA® Scorecard, which reports the number of actively managed mutual funds that beat their comparable benchmarks over different timeframes and regions.<sup>6</sup>

<sup>6</sup> To explore how active managers in the U.S. and around the world have performed relative to their benchmarks, click [here](#).

*The SPIVA U.S. Mid-Year 2021 Scorecard showed that the S&P 500 outperformed more than 58.2% of active U.S. large-cap funds between June 2020 and June 2021.*

The [SPIVA U.S. Mid-Year 2021 Scorecard](#) showed that the S&P 500 outperformed more than 58.2% of active U.S. large-cap funds between June 2020 and June 2021. Performance of active U.S. large-cap funds looked more unfavorable for longer investment periods, as 72.7% and 82.5% of them underperformed the S&P 500 over the 5- and 10-year periods, respectively. The returns of the S&P 500 also exceeded the average returns of active U.S. large-cap funds on both an equal- and asset-weighted basis for most periods. This indicates that index-based investing may be a viable complement to or substitute for actively managed investments in the U.S. equity market.

*Performance of active U.S. large-cap funds looked more unfavorable for longer investment periods.*

**Exhibit 7: Annualized Performance of Active U.S. Large-Cap Funds and the S&P 500**

INDEX/FUND CATEGORY	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)
S&P 500	40.79	18.67	17.65	14.84
Active U.S. Large-Cap Funds (Equal-Weighted Average)	40.37	16.44	15.72	12.36
Active U.S. Large-Cap Funds (Asset-Weighted Average)	41.43	17.84	17.57	13.78
% of Active U.S. Large-Cap Funds Outperformed by S&P 500	58.2	67.64	72.67	82.51

Source: S&P Dow Jones Indices LLC. Data as of June 2021, as reported in the SPIVA U.S. Mid-Year 2021 Scorecard. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

## CONCLUSION

The S&P 500 and the TOPIX are considered primary indicators of overall market performance in the U.S. and Japanese equity markets, respectively. Both indices are commonly used as benchmarks for domestic stocks or equity funds and well diversified in their sector and stock weightings.

Although the number of S&P 500 members amounts to only one-quarter of the TOPIX's constituent count, the total float market cap and average traded value of the S&P 500 are much higher than those of the TOPIX. The TOPIX is most concentrated in the Industrials sector and the S&P 500 has its highest weighting in the IT sector.

While the TOPIX seeks to track the performance of equities in Japan, the world's third-largest economy, the S&P 500 is designed to measure the equity market performance of the world's largest economy, the U.S. Foreign sales contributed a significant share of S&P 500 revenue, with diverse international exposure that translated into significant international diversification benefits for the S&P 500.

*Index-based investing may be a viable complement to or substitute for actively managed investments in the U.S. equity market.*

The members of the S&P 500 are not only the largest companies in the U.S., but many of them are leading global companies that represent a significant share of global equity market capitalization. These companies delivered higher operating margins than their global peers in most sectors, and almost one-half of the top brands across the globe are owned or operated by members of the S&P 500.

*All of the factors mentioned here drive the international appetite for the S&P 500.*

Additionally, the SPIVA U.S. Mid-Year 2021 Scorecard shows that the majority of active U.S. large-cap funds were outperformed by the S&P 500 over 1-, 3-, 5-, and 10-year periods, indicating that index-based investing may be a viable complement to or substitute for actively managed investments in the U.S. equity market.

All of these factors drive the international appetite for the S&P 500, and as a result, there has been an increasing number of S&P 500 index-based products in various markets across the globe.

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