(BN) S&P 500 Rally Toward Record Broadens as Equal-Weight Climbs
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(Updates with today's trading in sixth paragraph.)

By Inyoung Hwang and Sarah Pringle

March 21 (Bloomberg) -- The Standard & Poor's 500 Index, the benchmark measure of U.S. equities, is approaching a record almost 5 1/2 years after peaking and two years after most stocks in the gauge fully recovered from the worst bear market since the 1930s.

The index has climbed 130 percent since March 2009, adding
$10 trillion to the value of American equity as it erased losses from the credit crisis. The majority of companies surpassed their previous highs by April 2011, according to data compiled by Bloomberg. The S&P 500 Equal Weighted Index, which counts each company in the index equally instead of by their market value, increased 192 percent from the bottom.

Unlike past bull markets, where a single industry dominated, all groups have improved in this rally as the U.S.
economy recovers. The breadth of the rebound can be seen in the S&P 500's weightings, where none of the 10 industry measures represents more than 18 percent of the index. In 2000, technology companies made up 35 percent of the gauge, and in 2006, financial stocks accounted for 22 percent.

"The breadth of this rally is rather remarkable," Stephen Wood, who helps manage about $152 billion as the New York-based chief market strategist for North America at Russell Investments, said by telephone. "It speaks to the fact that four years ago the markets were pricing in the end of the world, but the end of the world was not nigh. So we've seen this significant but drawn-out recovery across the board in equities
-- small, medium, large, defensive, dynamic, value, growth."

Record Surpassed

The S&P 500 climbed 0.7 percent to 1,558.71 yesterday to pull within 0.5 percent of the all-time high it reached on Oct.
9, 2007. The S&P 500 Equal Weighted Index, which gives each company the same contribution regardless of size, surpassed its record on April 28, 2011. That month, the number of S&P 500 companies trading above all-time highs climbed to more than half, Bloomberg data show.

Futures on the S&P 500 slipped less than 0.1 percent at
8:13 a.m. in London today.

Apple Inc., the iPhone maker valued at $424.5 billion, gets the same credit in the equal-weighted measure as for-profit educator Apollo Group Inc., worth $1.9 billion. About 59 percent of S&P 500 stocks have exceeded their previous records set before the benchmark gauge peaked at 1,565.15 in 2007.

U.S. stocks are close to completing a recovery in the benchmark index following a 57 percent plunge between October
2007 and March 2009, triggered as the collapse of the subprime mortgage market caused the worst American economic contraction in seven decades.

Retailers, Restaurants

Shares of retailers, restaurant chains and other companies that depend on discretionary consumer spending jumped 231 percent since the bottom to lead gains in the S&P 500. Gauges of financial companies and industrial shares have almost tripled, while technology, commodity and health-care stocks are up more than 100 percent.

Wyndham Worldwide Corp., CBS Corp., Fifth Third Bancorp and Gannett Co. are among seven companies in the index that have surged more than 1,000 percent since March 9, 2009.

Stocks rebounded as the Federal Reserve pumped more than $2.3 trillion into the economy through monetary easing since 2008, sending Treasury rates to record lows last year. The S&P 500's dividend yield, currently at about 2.11 percent, has been above the payout on 10-year Treasuries for almost a year.

Corporate profits have jumped to a record during the rebound, with earnings for S&P 500 companies surging to $100.75 a share last year from $61.83 in 2009.

'Fundamental Improvement'

"The market is reflecting fundamental improvement, earnings growth, revenue growth and dividend growth, more than it is price momentum," Richard Slinn, a San Francisco-based managing director and senior investor at JPMorgan Private Bank, which oversees $877 billion, said by phone. "People are naturally kind of hesitant to jump into something they feel like has gone too far, but we disagree with that premise."

The S&P 500 Equal Weighted Index underperformed versus the S&P 500 during the 1990s bull market, which was dominated by rallies in larger U.S. companies and technology stocks. The S&P 100 Index, whose average company's market cap is $92.3 billion, increased 494 percent from October 1990 to March 2000. That compared with the 417 percent advance by the S&P 500, whose average stock's market cap is $29.4 billion.

Cisco, the world's largest maker of computer-networking gear, led gains in the S&P 500 during the 1990s rally, surging more than 111,000 percent. Microsoft increased 6,831 percent during the same period.

Technology Investment

"The '90s were all about investment in technology," Kevin Caron, a Florham Park, New Jersey-based market strategist at Stifel Nicolaus & Co., which oversees about $130 billion, said by phone. "The earnings improvement you're seeing here is coming from a myriad of places."

The performances of the equal-weighted index versus the market-value weighted gauge reversed in the two most recent bull markets.

While the S&P 500 Equal Weighted Index rose 157 percent from 2002 through 2007, the full index advanced 102 percent. The Russell 2000 Index, whose average stock is worth $837 million, climbed 159 percent during the same period. The gain by the gauge of smaller U.S. companies has exceeded the S&P 500's advance by 47 percentage points in the current bull market.

Monster Beverage Corp., the energy-drink maker with a market cap of $8.4 billion, jumped 13,176 percent from 2002 to 2007 for the biggest gain in the S&P 500. Tesoro Corp., an oil refinery, had a 7,661 percent advance.

Apple Losses

U.S. equities rebounded even as the world's most valuable company plunged. Apple, the biggest company in the S&P 500, has tumbled 36 percent since September when the stock reached its record price of $702.10. While Apple has surged 444 percent since the 2009 market bottom, the company is the seventh worst- performing stock in the S&P 500 this year.

“When the largest stock in the index goes parabolic to the upside, that tends to make the overall S&P 500 look very attractive,” Alan Gayle, senior strategist at RidgeWorth Capital Management, said by phone. The Richmond, Virginia-based firm oversees about $48 billion. “Now that Apple has come back to earth, that allows us to see that the broader market in fact has been recovering nicely.”

Dow Transportation

The S&P 500 has been slower in surpassing its record than other American equity gauges in the bull market since 2009. The Russell 2000 topped its all-time high in April 2011, as did the Dow Jones Transportation Average. The S&P Midcap 400 Index exceeded its previous record on January 2011, while the Dow Jones Industrial Average did it on March 5. Both the Nasdaq Composite Index and the Nasdaq 100 Stock Index are trading below the peaks they reached in March 2000.

The S&P 500 came within two points of its all-time high on March 14, four trading days after the four-year anniversary of the current bull market in U.S. stocks. If history is any guide, the benchmark U.S. equity gauge may continue its advance for the next 2 1/2 years after surpassing its record.

Since 1945, the S&P 500 has climbed for 30 additional months after exceeding a previous record, according to a team led by Deutsche Bank AG’s David Bianco, the New York-based chief U.S. equity strategist. The average gain during the period was
59 percent, or 18 percent annualized, Bianco wrote in a March 8 note. Only three bull markets have lasted less than a year after exceeding all-time highs, his team said: 1972, 1980 and 2007.

“One of the things that’s different from last year and the year before that is that we do have cash flows into equities in mutual funds,” William Fries, the Santa Fe, New Mexico-based manager of the $28 billion Thornburg International Value Fund, said by phone. “The psychology is, ‘Gee we’ve missed a lot, so maybe we better get in.’”

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