fundstrat

Evidence-based research.
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First to Market

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STOCK PICKING IS A LOSING GAME



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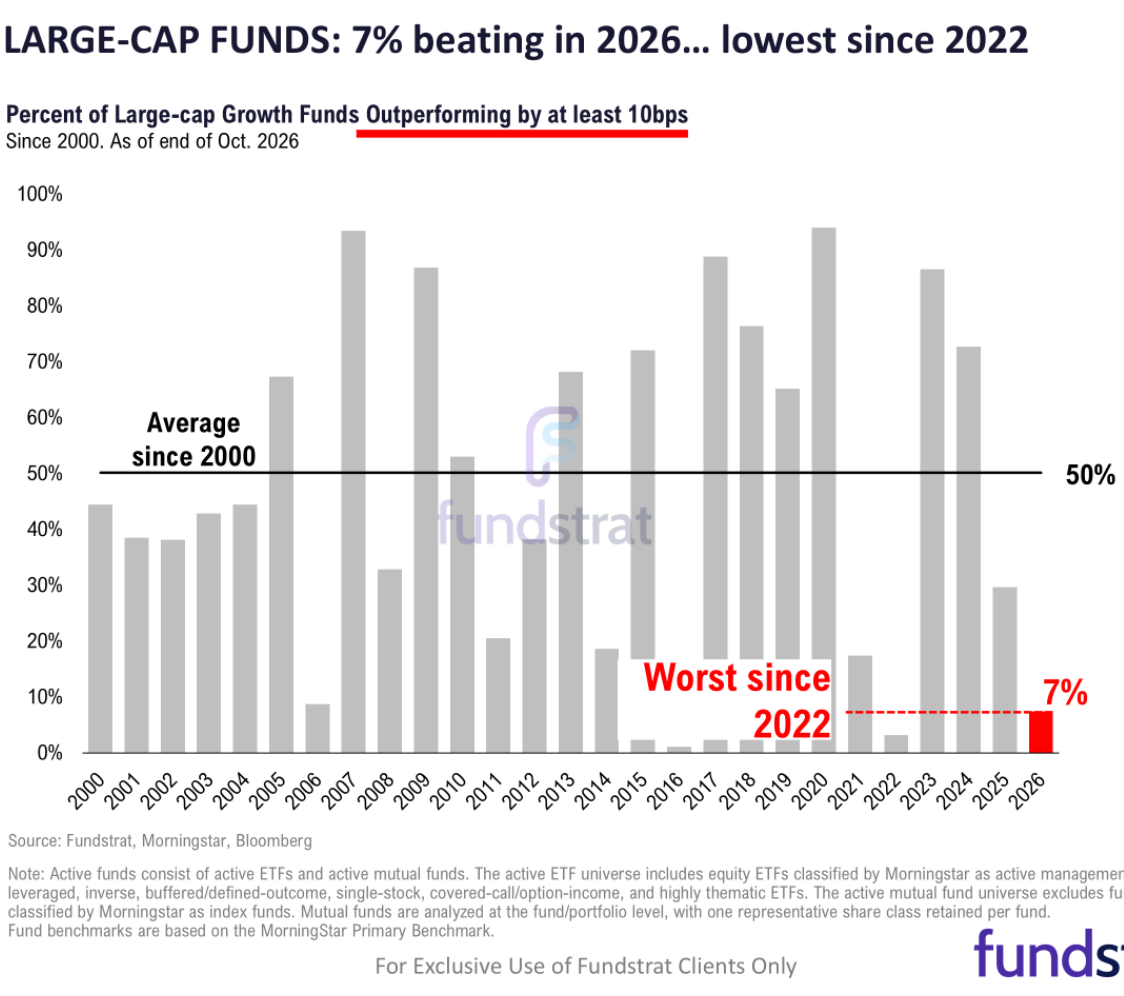
Chart of the Day

Macro Research



Good morning!

It’s not just you; even the pros who pick stocks for a living are underperforming the major indexes this year.

The year has been anything but predictable. The U.S.-Iran war wasn’t in most investors’ bingo cards, and so they likely hadn’t expected the S&P 500’s energy sector to be 2026’s biggest outperformer out of the 11 segments, up 45.0%. Nor had they likely projected the Nasdaq composite would tumble into correction territory despite companies in the S&P 500 on course to mark the third straight quarter of earnings growth above 25%. Similarly, they’re also probably a little surprised that after years of analysts forecasting that the Magnificent Seven earnings growth would lag behind the other 493 companies, it might actually happen this quarter.

The surprising moves that have become the hallmark of 2026 have meant that the percentage of large-cap growth funds which are outperforming their benchmarks by at least 10-basis points has dropped to 7%, on pace for lowest level since 2022’s 3%, an analysis of Morningstar data through the end of October show. The average since 2000 is 50%, so this year is shaping up to be a particularly tough one for active portfolio managers.

The lag is easy to understand if you look at how the equal-weighted S&P 500, which gives the same status to the smallest and largest companies, is on track to increase 15% year-to-date, outperforming the S&P 500’s 10% advance. The last time the equal-weight index was beating its cap-weighted peer by this magnitude at this point in the year was in 2022, when both of them were down for the year.

The regular S&P 500 has been weighed down by high-flying tech stocks coming back down to Earth, even though on a sector-basis, only one out of the 11 sectors are in the red for the year. Alphabet $GOOGL shares, for example, are down more than 6% in 2026, while Tesla $TSLA shares are down 11%. Netflix $NFLX and Meta Platforms $META shares are also among the losers, down 32% and 1.34%, respectively.

The underperformance is nothing new, to be clear. It extends a yearslong slide by active managers who have struggled to compete with their mostly low-fee and typically more tax-efficient passive peers.

Through July of this year, U.S. passively managed funds have noted over $772.923 billion in net inflows compared to about $30.85 billion for actively managed funds, Morningstar data show. Prior to 2026, passively managed funds have noted net inflows in every single calendar year going back to 2016, whereas that has happened to actively managed funds only once in 2021.

That's why it's of little surprise that just 13% of U.S. large-cap actively managed funds have survived and beat their passive rival over the decade through June 2026.

"The US large-cap market has been particularly challenging for active managers due to its high transparency and efficiency, which leaves little room to add value over representative indexes," the Morningstar report said. In other words, efficient markets kill alpha generation opportunities, or if they don't, then they make it near impossible to sustain alpha creation over the long term.

The jury's out on whether this historical trend can reverse. Stock-market dispersion—a measure of how much volatility exists at the individual stock level versus the index level—has been increasing since September, but remains way off its 2026 highs hit over the summer.

One thing, however, is clear: The underperformance is one reason to believe why stocks can rally in the fourth quarter. As active managers rush to play catch up before the year ends, they're going to become dip buyers, as they chase performance, a point also made by Funstrat Head of Research Tom Lee last year.

Share your thoughts

How much of your portfolio is actively managed? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Where do you think will happen to Nvidia if Jensen Huang is indeed ousted?

A: It's absolutely ludicrous that a man's personal life is being considered as reason to remove the most influential individual in ai from his position. If he committed crimes in the first affair then possibly, but sleeping with another adult in the company unless she is [alleging] wrong doing seems absolutely insane!!

Catch up with Fundstrat

The potential departure of Jensen from Nvidia is arguably a negative, but not a 'thesis changer.' To us, technology stocks have already bottomed and we are buying the dip.

Technical

AAII Bears now exceed Bulls by more than 20 percentage points — unusually high bearishness for mid-November, which should give the bulls an opportunity to make a stand between late November and year-end.

Crypto

I am still tactically patient, but I think we are getting closer to the point where seller exhaustion and a positive response to bad news could create an attractive opportunity to add risk.

News We're Following

Breaking News

- Anthropic’s IPO is forcing investors to assess uninsurable risks they’ve never encountered before MW

Markets and economy

- The End of the No-Brainer AI Trade WSJ
- Nvidia’s Days as an Open Checkbook for the AI Economy Are Numbered WSJ

- Nvidia's Colette Kress confronts key questions in first earnings report since Jensen Huang's exit CNBC

Business

- How Rockstar's 'GTA VI' release could reshape gaming, streaming and even paid time off CNBC
- How a $49 sushi boat and sizzling dumplings helped turn P.F. Chang's around CNN

Politics/U.S.

- Nvidia Fallout Looms Over Trump-Xi Meeting NYT
- How Could a Router Lead to a Nationwide Ground Stop? NYT

Overseas

- War May Answer Longtime Riddle of Iranian Dams Built for No Clear Reason NYT
- Iran Targets Bahrain Base But Says Path to US Deal Is Open BBG

Of Interest

- The Campaign to Bring Back Jensen Huang as Nvidia CEO WSJ
- Warren Buffett donates $5.5 billion, says kindness 'compounds' in Thanksgiving letter CNBC

Overnight	
S&P Futures	-25 ▼ point(s) (-0.33% ▼)
overnight range:	-45 ▼ to +31 ▲ point(s)

APAC	
Nikkei	-2.42% ▼
Topix	-1.02% ▼
China SHCOMP	-0.87% ▼
Hang Seng	+0.49% ▲
Korea	-3.59% ▼
Singapore	-0.93% ▼

Australia	-0.41% ▼
India	+0.58% ▲
Taiwan	-6.03% ▼

Europe

Stoxx 50	-0.15% ▼
Stoxx 600	+0.10% ▲
FTSE 100	+0.32% ▲
DAX	-0.07% ▼
CAC 40	+0.13% ▲
Italy	-0.28% ▼
IBEX	-0.13% ▼

FX

Dollar Index (DXY)	+0.08% ▲ to 103.49
EUR/USD	-0.15% ▼ to 1.1006
GBP/USD	-0.19% ▼ to 1.3189
USD/JPY	+0.01% ▲ to 159.69
USD/CNY	+0.07% ▲ to 6.6671
USD/CNH	+0.11% ▲ to 6.6678
USD/CHF	-0.21% ▼ to 0.8406
USD/CAD	-0.10% ▼ to 1.4284
AUD/USD	-0.28% ▼ to 0.6753

UST Term Structure

2Y 3M Spread widened	0.9bps to 61.7bps

2Y-3M Spread widened	0.9bps to 61.7bps
10Y-2Y Spread narrowed	-0.5bps ▼ to 28.4bps
30Y-10Y Spread widened	0.0bps to 32.6bps

USD HY OaS

All Sectors	+11.4bps ▲ to 370bps
All Sectors ex-Energy	+1.7bps ▲ 317bps
Cons Disc	-3.6bps ▼ to 539bps
Indu	+10.6bps ▲ to 246bps
Tech	+3.5bps ▲ to 205bps
Comm Srvcs	+8.6bps ▲ to 357bps
Materials	+3.0bps ▲ to 272bps
Energy	+5.2bps ▲ to 278bps
Fin Snr	+5.5bps ▲ to 207bps
Fin Sub	+5.2bps ▲ to 296bps
Cons Staples	-33.8bps ▼ to 432bps
Healthcare	+3.4bps ▲ to 345bps
Utes	+5.3bps ▲ to 217bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
11/17	8:30 AM	Oct Import Price m/m	0.7	1.1
11/17	10:00 AM	Nov Homebuilder Sentiment	29	29
11/18	2:00 PM	Oct 28 FOMC Minutes	n/a	0
11/18	4:00 PM	Sep Net TIC Flows	n/a	199.791
11/20	10:00 AM	Nov F UMich 1yr Inf Exp	4.2	4.3
11/20	10:00 AM	Nov F UMich Sentiment	51.8	51

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