

The Nasdaq Q-50 Index:

The Next Generation of Innovators

The Nasdaq Q-50 Index tracks the performance of the 50 securities that are next eligible for inclusion into the Nasdaq-100 Index. The Index deploys the proven methodology behind the time-tested Nasdaq-100 Index, with its emphasis on innovation and growth.

Methodology

The Nasdaq Q-50 (NXTQ) Index® tracks the performance of the 50 securities that are next eligible for inclusion into the Nasdaq-100 (NDX) Index®. The Nasdaq Q-50 Index construction begins with a universe of all companies, both domestic and foreign, that are currently listed on the Nasdaq Stock Market®. Next, all companies classified as financials, according to the Industry Classification Benchmark (ICB), are removed and the remaining stocks are then ranked by market cap. The Index will include the 50 largest names, ranked by market cap, that are not currently included in the Nasdaq-100 Index. The methodology keeps the Nasdaq Q-50 Index aligned with the innovation and growth focus of the Nasdaq-100 Index, but with acute focus on the next generation of market leadership.

Performance

Figure 1 presents the cumulative performance of the Nasdaq Q-50 Index, alongside the Nasdaq-100 Index, the S&P 500 Index (SPX), and the S&P Midcap 400 Index (MID), for the period from April 30, 2009 to April 30, 2020.

During the 11-year period, the Nasdaq Q-50 outperformed the S&P 500 by 232.64% on a price return basis, in addition to its mid-cap cousin, the MID, by 272.93%. While the Nasdaq Q-50's price performance trailed the Nasdaq-100 over this period by 79.19%, the key benefit of the Nasdaq Q-50 is diversification into additional disruptive companies beyond the established, mega cap and large cap leaders in the Nasdaq-100.

Through the first four months of 2020, the Nasdaq Q-50 outperformed both the S&P Midcap 400 and the S&P 500 indexes, a similar trend of outperformance going back to the Index's start date in 2007. Through April 30, 2020, the Nasdaq Q-50 was down -4.81%, compared to -20.20% for the S&P Midcap 400, a relative outperformance of 25.01%, and -9.85% for the S&P 500, a relative outperformance of -5.04%. Meanwhile, the Nasdaq Q-50 trailed the Nasdaq-100 in 2020 (-4.81% versus +3.06%).

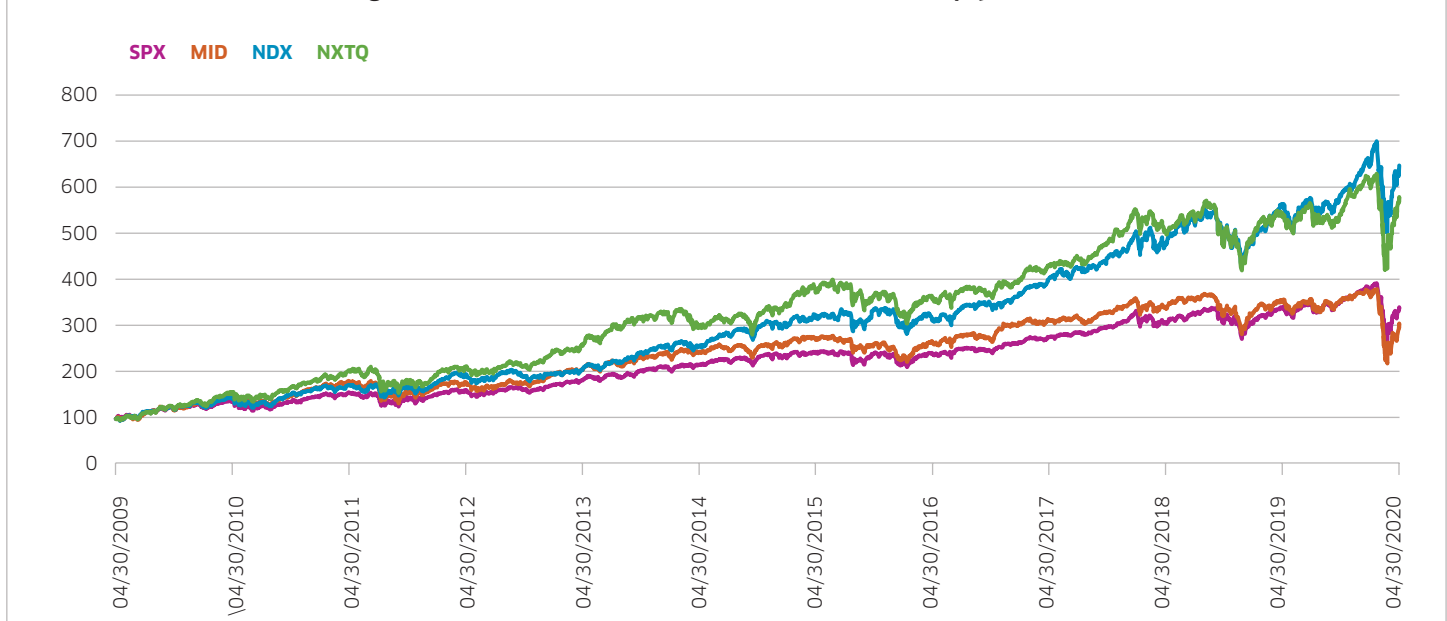
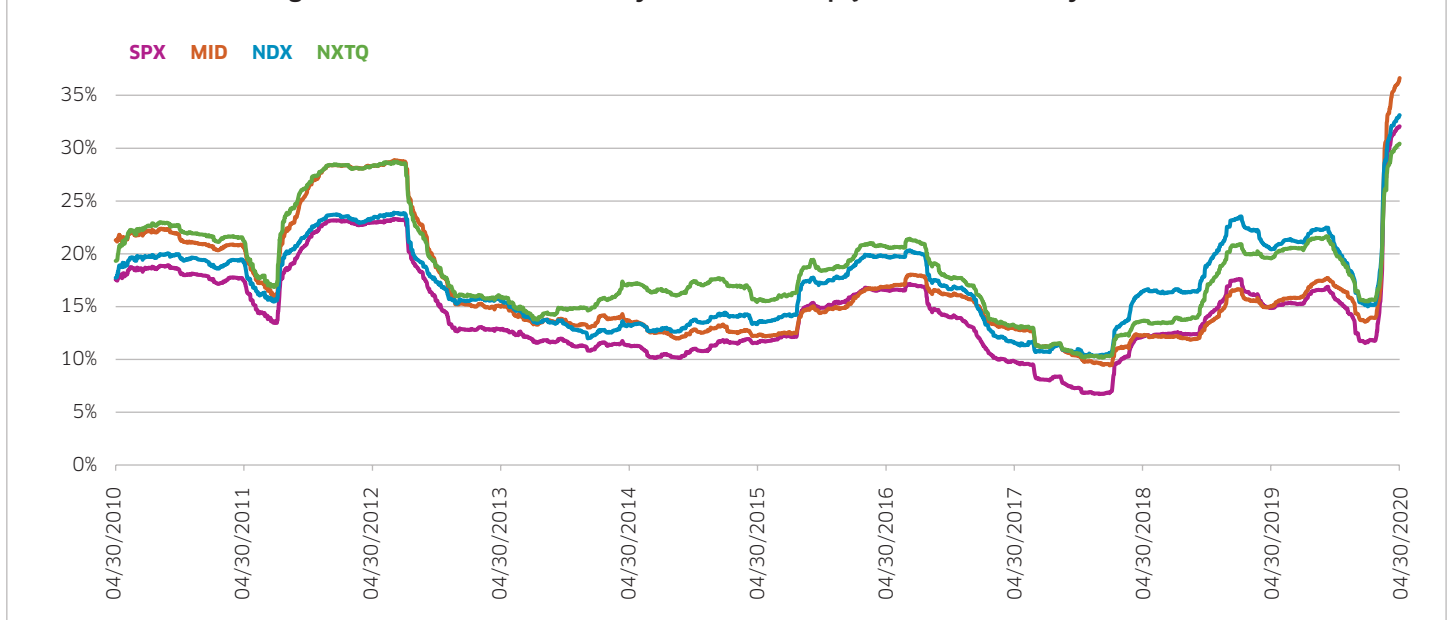
Figure 1. Cumulative Performance of the Nasdaq Q-50 Index

Figure 2 shows a tendency for slightly elevated volatility (based on trailing 12-month volatility) for the Nasdaq Q-50 vs. the Nasdaq-100 as well as the S&P 500 and the S&P Midcap 400, which is corroborated when we look at average annualized volatility over this period of 18.39% vs. 17.10% and 14.52%/16.55%, respectively.

One explanation is the smaller number of constituents and resulting higher concentration of the Index: with only 50 members (vs. 100 or 500/400), the Nasdaq Q-50 is more sensitive to the price swings of each name. Further, this elevated volatility fits the profile of up-and-coming disruptors that are likely still early in the growth stage of their business life cycle. On average, firms in the Nasdaq Q-50 went public 18 years ago, vs. 26 years ago for the Nasdaq-100.

In comparison to the S&P Midcap 400 Index, the approximately 200 bps of annual increased risk of the Nasdaq Q-50 was more than compensated for by an annualized return of 17.07% vs. only 11.58% for the S&P Midcap 400.

Figure 2. Annualized Volatility of the Nasdaq Q-50 Index vs. Key Indexes

Exposure

Figure 3 displays the market capitalization of each index as of April 30, 2020. We present three different variations of the market capitalization calculation (position-weighted, average, and median), to help illuminate the intense skew that can arise in the position-weighted calculation.

What we found was that the Nasdaq Q-50 indeed has a significantly lower market cap tilt than the Nasdaq-100, to some degree expected by virtue of the index filtering for the next 50 largest market cap companies outside of the 100 that define the Nasdaq-100. We also observe a significant tilt toward lower market caps as compared to the S&P 500, while still maintaining approximately three times the levels of the S&P Midcap 400. This tilt toward smaller, up-and-coming companies that have nonetheless broken into the ranks of large caps, is a key ingredient to the index's angle toward the next generation of innovators.

Figure 3. Market Cap Exposure of the Nasdaq Q-50 Index vs. Key Indexes (\$bn)

	NASDAQ Q-50	NASDAQ-100	S&P 500	S&P MIDCAP 400
Weighted Market Cap	\$16.3	\$526.9	\$327.7	\$5.3
Average Market Cap	\$15.3	\$100.6	\$51.9	\$3.9
Median Market Cap	\$11.8	\$32.9	\$20.0	\$3.3

(Data through 4/30/2020)

Figure 4 displays the sector exposure of each index as of April 30, 2020. We found that the Nasdaq Q-50 continues to carry the technology torch from its older sibling, the Nasdaq-100. But, the Nasdaq Q-50 is lighter by 14% in technology. In addition, the Nasdaq Q-50 and Nasdaq-100 have similar exposure to Consumer Services. These underweights relative to the Nasdaq-100 translate into overweights within industrials and health care. These marked differences in market cap and sector exposures between the Nasdaq-100 and Nasdaq Q-50 can make for a compelling case for diversification between the two.

Figure 4. Sector Exposure of the Nasdaq Q-50 Index vs. Key Indexes

	NASDAQ Q-50	NASDAQ-100	S&P 500	S&P MIDCAP 400
Technology	42%	56%	26%	11%
Consumer Services	21%	23%	14%	12%
Industrials	16%	5%	11%	23%
Health Care	13%	8%	15%	12%
Consumer Goods	6%	7%	8%	8%
Utilities	2%	1%	3%	5%
Oil & Gas	1%	0%	3%	1%
Telecommunications	0%	1%	2%	0%
Financials	0%	0%	16%	25%
Basic Materials	0%	0%	2%	4%

(Data through 4/30/2020)

Liquidity

Figure 5 illustrates the liquidity characteristics of the securities in each index, as measured by turnover, which is the average daily dollar trading volume (trailing 6 month) for an index divided by its average market capitalization, as of April 30, 2020. Although the Nasdaq Q-50 Index is skewed toward the lower end of the capitalization spectrum, the Nasdaq Q-50 Index touts greater constituent liquidity than both the Nasdaq-100 and the S&P 500.

Figure 5. Constituent Liquidity of the Nasdaq Q-50 Index vs. Key Indexes

	NASDAQ Q-50	NASDAQ-100	S&P 500	S&P MIDCAP 400
Turnover	1.09%	0.99%	0.72%	1.02%

(Data through 4/30/20)

<https://indexes.nasdaqomx.com/Index/Overview/NXTQ>

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