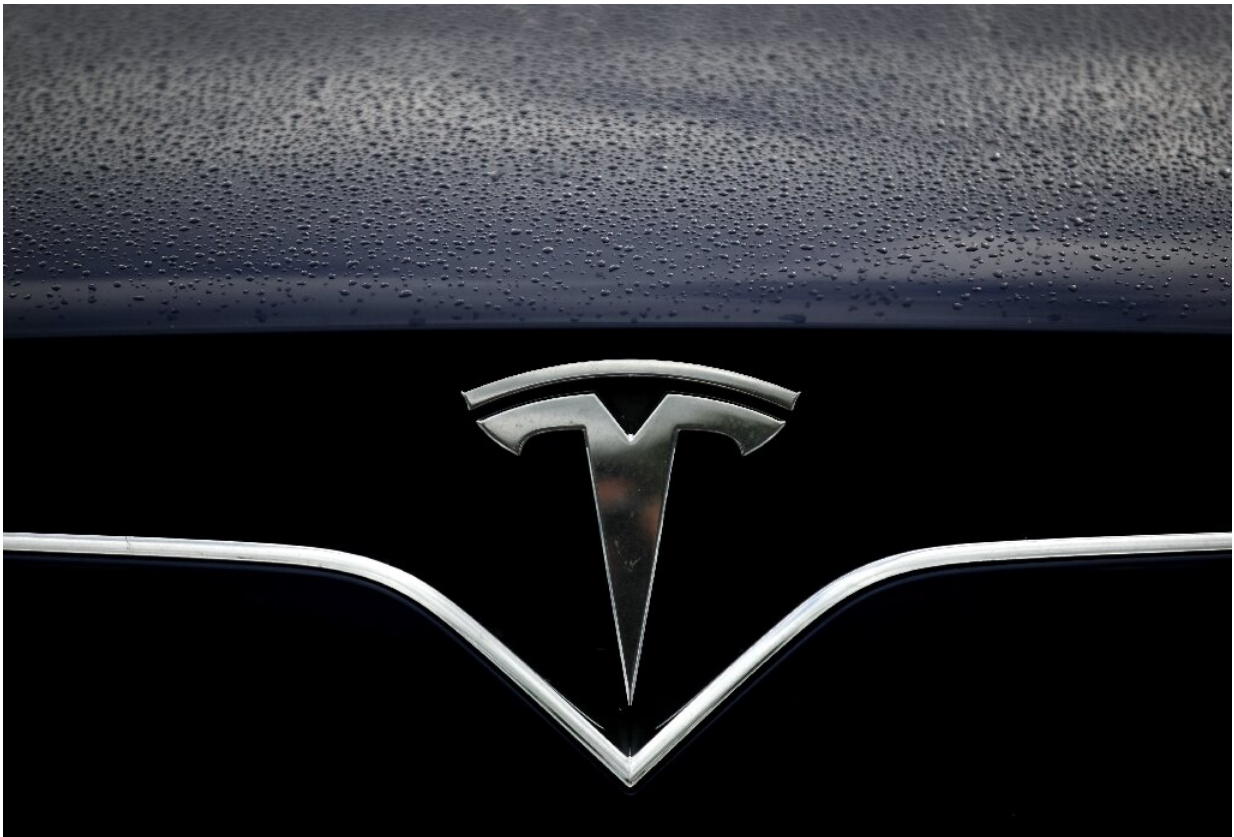


# Tesla to join elite S&P index, shaking up Wall Street

December 18 2020, by Daniel Hoffman

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Tesla's inclusion in the Standard & Poor's 500 index will force a massive reshuffling of investments by money managers using the key Wall Street benchmark

Tesla is set to join an elite group of companies in a key Wall Street

index, a move which gives greater prominence to the high-flying electric carmaker and forces money managers to reshuffle their portfolios.

The company founded by Elon Musk becomes part of the Standard & Poor's 500 index on Monday, which means that investment funds based on that index will be holders of the stock.

Tesla stock has already seen a spectacular rise this year of 680 percent, and with a [market capitalization](#) of some \$600 billion it will be the richest company to enter the prestigious S&P index.

It is the ninth most valuable firm in the world, just behind Facebook.

Even though its car production is modest compared with rivals, Tesla's growth prospects have spurred investors to push up its value so that it's now worth more than General Motors, Ford, Toyota, Honda, Fiat Chrysler and Volkswagen combined.

## Portfolio shuffling

As a result of the change in the S&P, stock index [mutual funds](#) and exchange traded funds—favored by many small investors—will need to hold Tesla shares in proportion to its weight in the index, which is currently around one percent.

This could force some significant reshuffling since Tesla is replacing Apartment Investment, with a value of just 0.02 percent of the S&P index.

S&P Dow Jones Indices, which manages the index of the 500 firms, said it expects a record shift of some \$80 billion with the entry of California-based Tesla.



Tesla CEO Elon Musk visits the site of one of his company's future plants in Grunheide near Berlin in September

The change could also encourage "active" portfolio managers who measure their performance against the benchmark index to buy Tesla to keep pace.

But some analysts say these changes may have already been priced into Tesla and that buying pressure for Tesla could diminish.

And skeptics say Tesla could see a long-overdue correction from its dizzying gains.

"We recommend investors not weight Tesla shares in their portfolio in equal proportion to the S&P because Tesla shares are in our view and by virtually every conventional metric not only overvalued, but dramatically so," said Ryan Brinkman of JP Morgan in a research note.

Pierre Ferragu of New Street Research offered a cautious view, noting that "the market is probably getting ready for S&P 500 inclusion, and this probably supported the stock greatly in recent weeks and months."

This could lead to a pullback for Tesla, according to Ferragu.

But the analyst said Tesla may still be a good long-term bet, setting a price target for Tesla in 2025 at \$1,200, compared with \$655 at the close on Thursday.

Jefferies analyst Philippe Houchois said Tesla poses some unique challenges for investors because of how it is shaking up the [auto sector](#) with its electric vehicles (EVs) and a different way of doing business than rivals.

"We don't believe Tesla can dominate autos given industry structure and politics, but multiple challenges to the auto business model (EVs, batteries, software, autonomy, design-to-manufacture and direct selling) ensure a durable competitive edge, with a 'messianic' brand reaching far beyond autos," the analyst said.

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