At An Extreme

The concentration of market capitalization in the largest companies in the S&P 500 is at the highest level it has been in decades. At the end of September, the ten largest stocks in the S&P 500 accounted for 36.1% of the capitalization of the overall index compared with 18.7% at end of 2014 and just over 27% during the previous high in concentration that was reached at the peak of the tech bubble in early 2000.

The past 10 years of increasing concentration within the index has led cap-weighted S&P 500 performance to exceed the return of the same index constructed on an equal-weighted basis by 2.3% through the end of September on an annualized basis. The chart to the right illustrates the range of return differences between the two indices over all rolling 10-year periods since the equal weighted index was created in 1989. As illustrated, over most 10-year periods, the equal-weighted index has outperformed. However, the most recent 10-year period ranks in the highest 4% of observations, which shows how unusual the last 10 years have been.

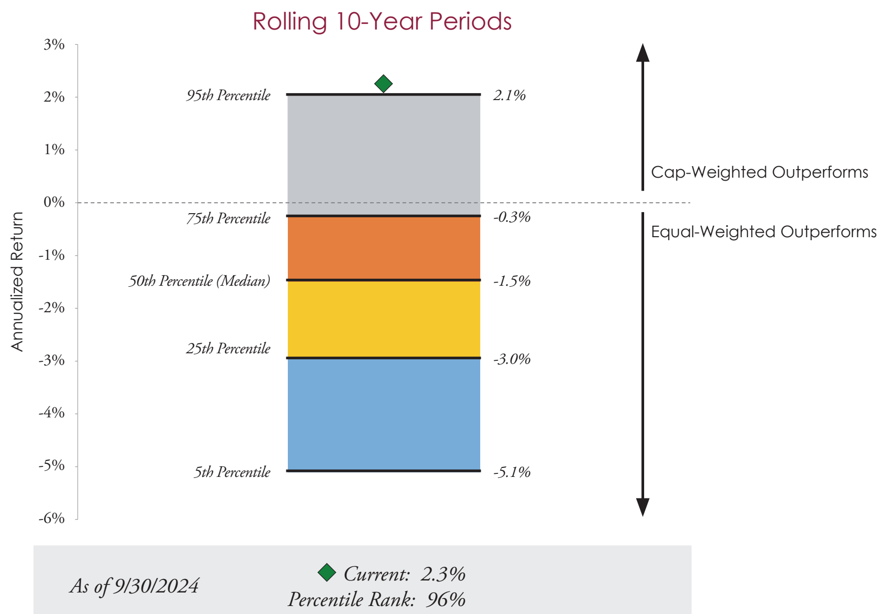
The only other period that the cap-weighted S&P 500 outperformed by 2% or more on an annualized basis over the preceding 10 years was in the early 2000s. Then, as now, the stock market was dominated by very large cap stocks, reaching the aforementioned 27% level early in the year. Technology companies, along with bellwethers such as General Electric, led the market advance in the late 1990s and accounted for much of the concentration in the market. In subsequent years, however, many of these very large companies languished while market leadership was provided by other high-quality large, mid, and small-cap stocks.

The ten-year period from the end of 1999 to the end of 2009 has been called "The Lost Decade", as it marked one of the few ten-year periods when the S&P 500 posted a negative return. However, as the table below illustrates, simply investing in an equal-weighted version of the S&P 500 or in mid or small-cap stocks generated significantly higher returns, as many stocks outperformed the largest cap issues over that decade.

We are encouraged by the fact that the equal-weighted S&P 500 Index outperformed the cap-weighted S&P by 3.7% during the third quarter, marking its first quarter of outperformance since late 2022. If history is any guide, investors may continue to benefit in future years from diversification into other high-quality companies aside from the very largest stocks.

Total Annualized Return Difference

S&P 500 Cap-Weighted vs S&P 500 Equal-Weighted Return Spread[1]



Data from 12/31/1989–9/30/2024
[1] Past performance is not indicative of future results. All returns are shown in U.S. dollars.
Source: FactSet

Total Returns: 12/31/1999 through 12/31/2009

	Annualized Return	Value of $1 invested on 12/31/1999 by the end of 12/31/2009
S&P 500	-0.9%	$0.91
S&P 500 (equal weighted)	5.1%	$1.64
S&P Midcap Index	6.3%	$1.85
S&P Small Cap Index	6.4%	$1.85

[1] Past performance is not indicative of future results. All returns are shown in U.S. dollars.
Sources: Renaissance Research, FactSet

DISCLOSURES

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REFERENCED INDICES

(Indices are unmanaged and are not available for direct investment.)

S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

S&P Mid Cap 400 Index—The S&P Mid Cap 400 Index is a capitalization-weighted index that serves as a gauge for the U.S. mid-cap equities sector.

S&P Small Cap 600 Index—The S&P Small Cap 600 Index is a capitalization-weighted index that measures the performance of selected U.S. stocks with a small market capitalization.

S&P DATA

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