

## Beyond the Mega-Caps: Navigating Risk and Opportunity in a Concentrated Market

The U.S. stock market posted another year of gains in 2025, marking the third consecutive positive year since the market downturn of 2022. Since that low point, returns over the past three years rank in the top 5% of all three-year periods since 1990. During this advance, markets absorbed significant geopolitical developments—including Hamas' attack on Israel, continued Russian aggression in Ukraine, and the bombing of Iran's nuclear facilities—as well as political and economic uncertainty related to "Liberation Day" tariffs. Where does this leave investors as we enter 2026?

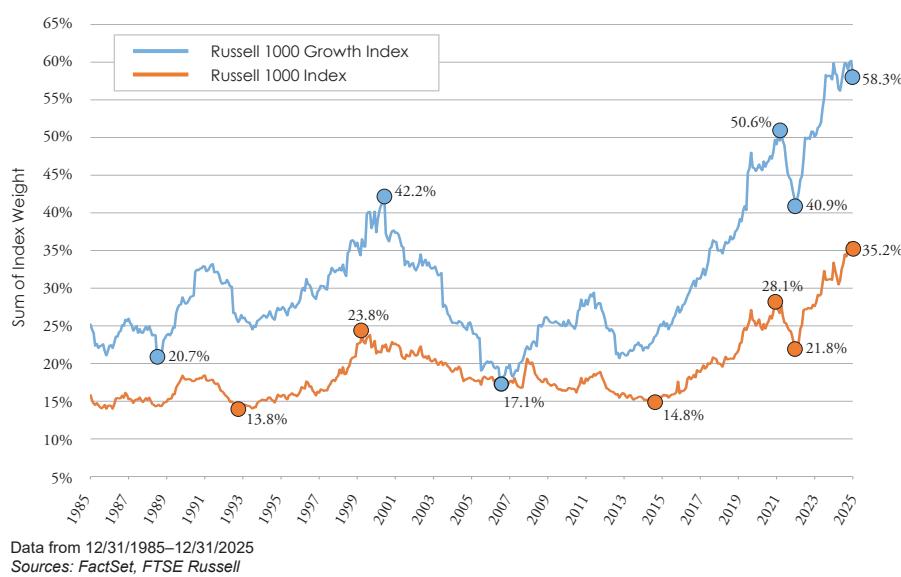
One of the most striking features of the U.S. market's advance over the past three years has been the increasing concentration of major market indices in a small number of very large-capitalization stocks. The ten largest stocks in the S&P 500 now account for more than 40% of the index's total market capitalization. Concentration levels in the broader Russell 1000 and Russell 1000 Growth indices are similar—or even higher—and are unprecedented in modern market history.

This concentration has resulted from the sustained outperformance of mega-cap stocks in recent years, which has also driven their valuation multiples higher relative to the broader market. Historically, the price-to-earnings (P/E) ratios of the capitalization-weighted and equal-weighted versions of the S&P 500 have tracked closely over time. In recent years, however, mega-cap outperformance has pushed the capitalization-weighted P/E materially higher. While concerns about market valuation are understandable, it is notable that the P/E of the equal-weighted S&P 500 is approximately 24% lower than that of the capitalization-weighted index—an unusually wide gap by historical standards.

The return differential between capitalization-weighted and equal-weighted indices has also reached extreme levels. Since Standard & Poor's launched

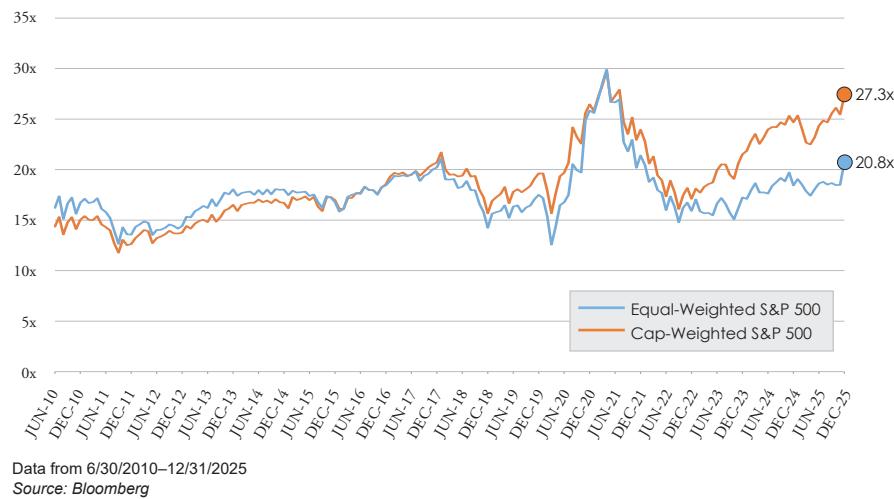
### Rising Index Concentration: Share of Market Capitalization Held by the 10 Largest Stocks

*The weight of the largest ten stocks has increased dramatically over time, reaching historically unprecedented levels—particularly in growth-oriented indices.*



### Valuation Dispersion Between Capitalization-Weighted and Equal-Weighted S&P 500

*Mega-cap outperformance has driven a widening valuation gap, with the capitalization-weighted S&P 500 trading at a materially higher P/E multiple than its equal-weighted counterpart.*

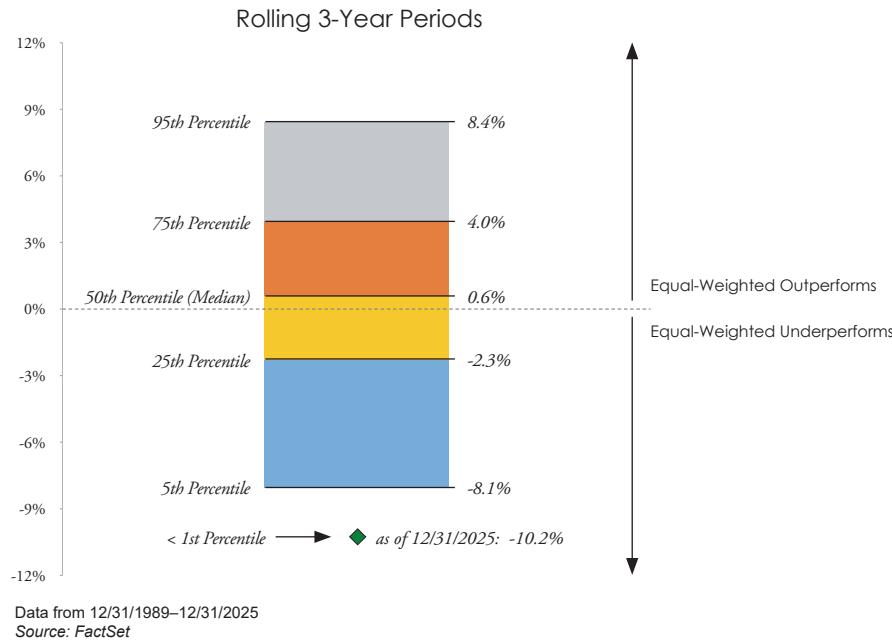


the equal-weighted S&P 500 Index in 1990, the equal-weighted version has modestly outperformed the capitalization-weighted index over the long term. Over the past three years, however, the equal-weighted index has underperformed by 10.2% on an annualized basis—placing this period in the lowest 1% of all rolling three-year periods since 1990.

Historically, investing on an equal-weighted basis following periods of significant underperformance has been attractive. For example, following periods in which the equal-weighted index underperformed by at least 2.3% (the 25th percentile of historical observations), the average performance differential over the subsequent three years was +2.6% in favor of equal-weighting. After periods of underperformance of 8.1% or more (the 5th percentile), the average three-year differential was +10.7%.

## Relative Performance Cycles: Equal-Weighted vs. Capitalization-Weighted S&P 500

*Periods of significant equal-weighted underperformance have historically been followed by strong relative returns, particularly after extreme concentration episodes.*



The only other rolling three-year period in which the equal-weighted index underperformed by a greater magnitude than recently was the period ending March 2000, when it lagged the capitalization-weighted index by 10.7%. That episode is notable because the late-1990s bull market was similarly driven by a narrow group of mega-cap technology stocks. At that time, market concentration reached record levels, with the ten largest stocks in the Russell 1000 accounting for 23.8% of the index. In subsequent years, mega-cap stocks underperformed on both an absolute and relative basis, and the weight

## From Market Leaders to Market Laggards: The 2000 Mega-Cap Experience

*Despite extraordinary performance leading up to 2000, most of the largest stocks in the Russell 1000 Index at the prior concentration peak subsequently underperformed the broader market and the equal-weighted S&P 500 over long horizons<sup>(1)</sup>.*

	Price as of 3/31/2000	% Change 5 Years Ending 3/31/2000	Price as of 12/31/2025	% Change 3/31/2000– 12/31/2025
Cisco Systems	\$77.31	3550.2%	\$77.03	-0.4%
General Electric	\$398.92	476.4%	\$308.03	-22.8%
Intel	\$65.97	1143.6%	\$36.90	-44.1%
Microsoft	\$53.13	1095.1%	\$483.62	810.3%
Exxon Mobil	\$38.97	134.0%	\$120.34	208.8%
IBM	\$112.71	474.7%	\$296.21	162.8%
Citigroup	\$418.84	597.6%	\$116.69	-72.1%
Lucent Technologies	\$61.25	N/A <sup>(2)</sup>	\$2.34 <sup>(3)</sup>	-96.2%
AT&T	\$31.81	100.6%	\$24.84	-21.9%
Oracle	\$39.03	1586.2%	\$194.91	399.4%
Russell 1000	1536.33	200.7%	7175.78	367.1%
S&P 500	1498.58	199.3%	6845.50	356.8%
S&P 500 Equal Weighted	1134.73	110.6%	7763.92	584.2%

Data as of 12/31/2025

<sup>(1)</sup> Price change only. Any securities referenced should not be considered a recommendation to purchase or sell a particular security. The past performance of these securities is no guarantee of future results.

<sup>(2)</sup> Lucent Technologies did not exist as a company five years prior to 3/31/2000.

<sup>(3)</sup> Lucent merged with Alcatel on 11/30/2006. Closing price on 11/29/2006 was \$2.34.

Source: FactSet

of the ten largest stocks declined to just 14.8% by 2015. Following the March 2000 trough, the equal-weighted S&P 500 outperformed the capitalization-weighted index by 11.1% annualized over the next three years.

Investing in only the largest companies in early 2000 proved to be unprofitable even if one had exceptionally long time horizons. Of the ten largest stocks in the Russell 1000 Index as of March 2000, only two subsequently outperformed the S&P 500 through the end of 2025. Seven sold for less than their March 2000 price, even almost twenty-five years later. All underperformed the equal weighted S&P 500.

History is an imperfect guide to the future, but it can help inform decision-making. Elevated valuations, strong recent performance, and unprecedented index concentration among mega-cap stocks suggest that investors should opportunistically consider a broader opportunity set within equity portfolios. We believe that doing so can lead to attractive risk-adjusted returns in 2026 and beyond.

## DISCLOSURES

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## REFERENCED INDICES

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

**Russell 1000 Index**— The Russell 1000® Index is a market capitalization-weighted index of the approximately 1,000 largest companies in the U.S. equity market.

**Russell 1000 Growth Index**— The Russell 1000® Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

**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.

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