

*Beyond the Haystack: Where Capital
Turns When Ten Stocks Make Up 40% of
the S&P 500*

By Sean Freeburn

“Don’t look for the needle in the haystack, just buy the haystack!” – Vanguard founder John C. Bogle

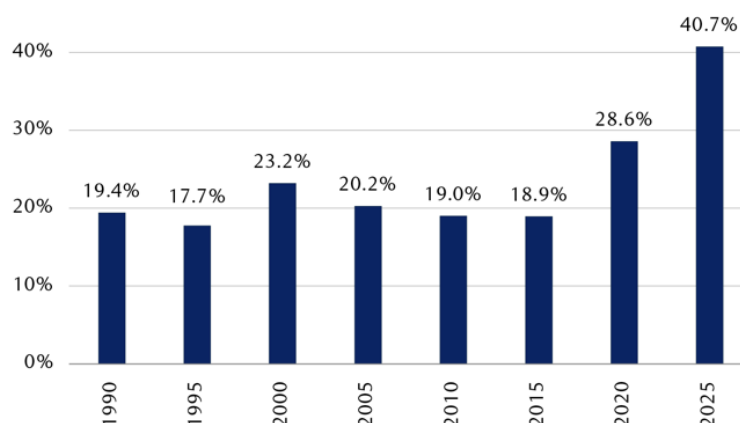
For years now we have seen the S&P 500 produce superior returns, in a lot of scenarios investors could beat much of the world’s leading investment firms by compounding and dollar cost averaged investments into the index. Concentration is not atypical in times of economic fruition, we have seen it at the 1932 peak, the ‘Nifty Fifty’ era of the 1960s and early 70s, and the dot-com boom – all of which marked moments when a new economic order was commanded by a handful of top names. In past and current eras, the top performing companies in the leading index routinely trade places with each other, with only Microsoft retaining its place in the top 10 weighted companies of the S&P 500 since 2000. Companies now move largely in tandem with common earnings drivers, joint ventures, shared economic sensitivities and market narratives. Again, leading the line ahead of the rest is Microsoft with 6 other firms making up the “Magnificent 7” – Microsoft, Tesla, Amazon, Apple, Meta, Google/Alphabet and Nvidia – which has returned a +131.7% performance versus ‘the rest’s’ respectable 57.1% (Item 1)¹. While these leading companies have chopped and changed over the past few years, the concentration remains unsteadily high.

Item 1: Magnificent Seven Return versus “The Rest”

Stock	This month	One year	Five years
Alphabet	+2.9%	+39.3%	+129.3%
Amazon	-2.3%	+11.0%	+61.0%
Apple	+6.1%	+39.0%	+107.6%
Meta	+16.3%	-13.5%	+69.0%
Microsoft	-2.7%	-3.0%	+65.8%
Nvidia	+0.7%	+25.1%	+914.9%
Tesla	-1.0%	+3.8%	+99.0%
Magnificent Seven	+2.1%	+17.6%	+131.7%
The Rest of the S&P	-1.9%	+16.7%	+57.1%

The top 10 constituents of the S&P now make up 37.8% of the total index with Nvidia (the top constituent) making up 8.1% alone².

Item 2: The Concentration of Top 10 Constituents of the S&P 500, 1990-2025

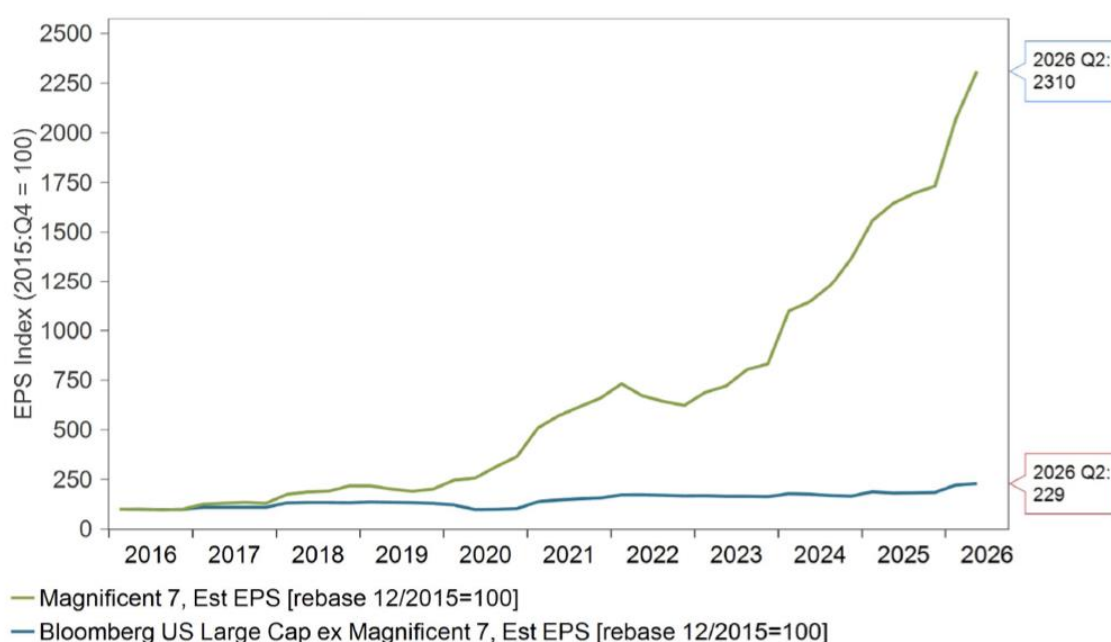


¹ Reuters: ‘The Magnificent Seven’s Stock Performance

² S&P Global: S&P500 Data Page

This is up from c.23% by the end of the year 2000 and c.19% in 2015³ (Item 2). This can be largely attributed to the successes of technology companies who have come out the other side of a dot com bubble and now an AI industrial revolution, both promising increased productivity and both scaring workers with jobs deemed vulnerable to a technology takeover. Although there are similarities to previous market runs, it is important to note that a highly concentrated S&P 500 does not automatically signal an inevitable bubble or market downturn. The top performing companies of this AI-infrastructure era have real grounded fundamental strengths and are generally boasting strong balance sheets, are highly profitable and generating very strong free cash-flows. It is never elevated concentration alone that cause 'bubble pops' or downturns, rather it can simply justify strong-belief in a potentially world-defining technology.

Item 3: Earnings Divergence - Mag 7 vs the Rest⁴



Is this time different?

One thing must be reiterated before we dive any further – people love to “narrate backwards”⁵ and reassure themselves that they were correct all along whilst looking in the rear-view mirror. In fact, the ever-promoting and demoting of S&P leaders we have discussed, demonstrates exactly why we can’t be sure of what and who is next up – I can’t predict this and quite simply no one can. BUT we can make increasingly educated guesses the more we read, the more we understand – as Nassim Taleb reminds us of great philosophers such as Aristotle encouraged us to act as the deep-thinking animals we are and that we CAN learn by further reasoning – this is exactly the reasoning I work toward summing the current era of markets.

This is also why I decided to write this piece and why I want to keep exploring alternative investment options – alpha-returning investments in a time of high concentration. It might just be the answer to follow the crowd, and this is the smart thing to do until it is not, and you are left holding an unwanted asset.

³ RBC Wealth Management: The ‘Great Narrowing’: S&P 500 Concentration

⁴ Hartford Funds: ‘After the Peak: What a Century of Market Concentration Teaches’

⁵ The Black Swan – Nassim Nicholas Taleb

History of the defining eras...

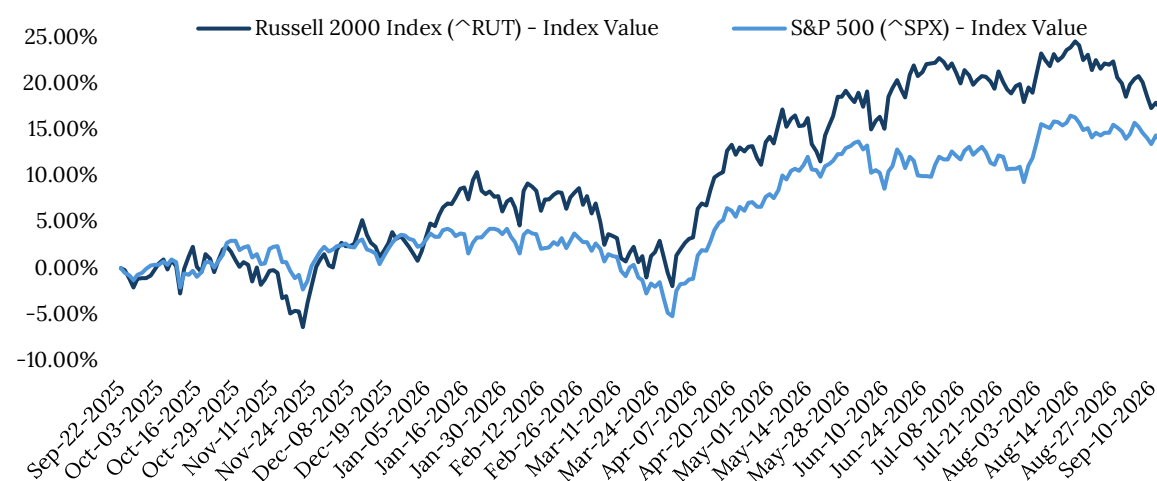
Concentration levels inevitably result in some form of a mean-reversion over a long period of time, typically in the form of market leadership broadening and following the catching up of previously undervalued sectors and mid/small-cap stocks (Item 4). Whereby, the success of these undervalued sectors/equities may seem inevitable the date at which they succeed is not.

Item 4: History of Milestone Financial Eras

Era	Date	Top-Decile Share (%/yr)	Fwd 1-Yr Small Large (%/yr)	Fwd 3-Yr Small Large (%/yr)	Fwd 5-Yr Small Large (%/yr)	Fwd 10-Yr Small Large (%/yr)	Fwd 5-Yr Value Growth (%/yr)
Depression-era peak	June 1932	73.8	+49.4	+16.0	+14.9	+8.3	+13.5
Nifty Fifty er buildup	December 1964	66.0	+19.7	+20.4	+12.8	+1.3	+0.6
Nifty Fifty peak	December 1972	61.7	-25.1	-6.1	+2.7	+6.5	+13.6
Dot-com Peak	March 2000	66.3	-5.9	+4.2	+6.1	+4.0	+17.4
Pandemic Mega-Cap Surge	December 2020	70.6	-4.1	-4.3	-6.1	...	+7.2
AI-era Record	December 2025	78.2	...	...	...	...	...

As seen in the table in Item 4, we see that small-cap companies return to positive performance at different speeds – the post Nifty Fifty peak resulted in much further downturns before any patience with small-caps was rewarded, likewise in the immediate period following the dot-com peak and the mega-cap surge during the COVID-19 pandemic. The broadening that I discuss is most observable in the versus chart of the Russell 2000 v S&P 500 in Item 5. This is shown in the 16.02% YTD return vs the 13% of the S&P 500 throughout the same time. It starts to form the real basis for a theory which has prevailed throughout previous eras – extreme concentration leads to eventual broadening – which has validated itself once again in this AI revolution. The significance of this realisation seemed to potentially indicate a broadening yet again apart from a few vital events.

Item 5: Broadening of S&P Index Stocks versus Russell 2000 Index Stocks⁶



Firstly, an idyllic environment must exist for the small- to mid-caps to take advantage of this mean-reversion, it cannot just happen by mere sentiment alone. Much like a visible eclipse, several

⁶ S&P Capital IQ Pro – Chart Builder Function

fundamental conditions must align, broadening – top companies controlling a large market share for there to be run-up space for the smaller constituents to play catch-up – being the most pivotal. Furthermore, a severe valuation gap such as cap-weighted indices trading at significant premiums over equal-weighted counterparts creates the mechanism for the mean-reversion. When mega-caps face slowing earnings momentum, it may force capital to seek cheaper value opportunities across smaller capitalisations – which is not currently the case for large-caps.

As always in economics/markets, interest rate dynamics play a crucial role in dictating outcomes for equities. To succeed, smaller companies typically require lower interest rates due to the hurdle of high cost-of-capital, short-term debt servicing burdens and to increase economic activity in sectors that might be overly cyclical, with lower interest rates enticing capital allocators to focus away from mega-cap themes and toward smaller constituents. In elevated interest rate cycles, smaller firms face increased financial pressure as borrowing costs rise and cash-rich mega-/large-caps are defended by wide economic moats or massive free cash flows. This brings us to today's current interest rate situation, with hikes occurring as recent as last week by the US Federal Reserve, bringing interest rates to 4% and chances of another hike before the end of 2026 rooted at an 87% chance on polymarket⁷, the environment smaller companies desire may not prosper in the near-term. In addition to these factors of these Russell 2000 companies (index of small to mid-cap companies) c.42% are currently operating with negative earnings⁸. Tying this into the elevated (and inevitably higher) interest rates, small-cap firms are specifically sensitive to central banking policies and lacking the potential to mount an ambush against the mega-caps through the typical cycle of mean-reversion.

What is worrying?

‘Okay, I get it – the markets are concentrated, and it doesn't look like a challenge will be constructed by the small or mid-cap companies, so why are we so worried?’

Primo, the theme that has caught my attention the most in recent has been de-regulation of public markets. While deregulation is widely touted as a growth catalyst – a key reason as to why US markets have outpaced European peers – it also operates as a critical risk multiplier during periods of extreme mega-cap dominance. With further de-regulation observed in recent months pre-SpaceX IPO, and further rumoured OpenAI and Anthropic IPOs, the addition of these companies to public markets would only allow facilitate further capital allocation to an already highly concentrated group of mega-caps.

Consider US mutual funds and ETFs, which have grown from strength to strength since their inception in 1924, widely regarded as a pillar in modern retail investing and only set to grow further – US mutual fund AUM to reach \$38 trillion by 2030. These cost-effective and “diversified” funds that are accessible for retail investors and pensions are currently governed by the Investment Company Act (1940), but to be classified as “diversified” funds, investments in any single issuer is to be no more than 5%, yet individual weights of 4-5 mega-cap issuers (including much of the Mag 7 companies) exceed 5% in the S&P 500. This forces these funds to artificially cap their holdings, in turn, causing tracking error against their benchmarks.

⁷ Accurate as of 22nd September 2026 on polymarket.com

⁸ Morningstar – Nearly half of small-cap and midcap stocks are losing money & Apollo Global Management

While asset managers advocate for SEC regulatory relief to bypass costly shareholder proxy votes – averaging \$900,000 per campaign⁹ – granting complete exemption removes the final legal speed bump on portfolio concentration. In an environment where every \$40 of \$100 invested in the S&P goes to the top 10 stocks¹⁰, it could cause a feedback loop of investment into these dominating companies at the pinnacle of an already concentrated market, creating a higher chance of idiosyncratic risks occurring materially higher.

Secondo, the periods of high market concentration are followed by heightened volatility, valuation unwinding causes severe performance dispersion between the top performers and the broader market. This scenario could occur through three major scenarios: an acute AI/Tech drawdown, prolonged stagnant price action and slower decades, and high relative volatility. In times of concentrated market leadership, narrow earnings miss or sentiment shift – away from the current AI buzz – among even a couple of the big hitters may cause a harrowing chain reaction. When the 2000 ‘bubble’ burst, the top-heavy cap-weighted S&P 500 suffered a c.50% drawdown from the dot-com highs¹¹.

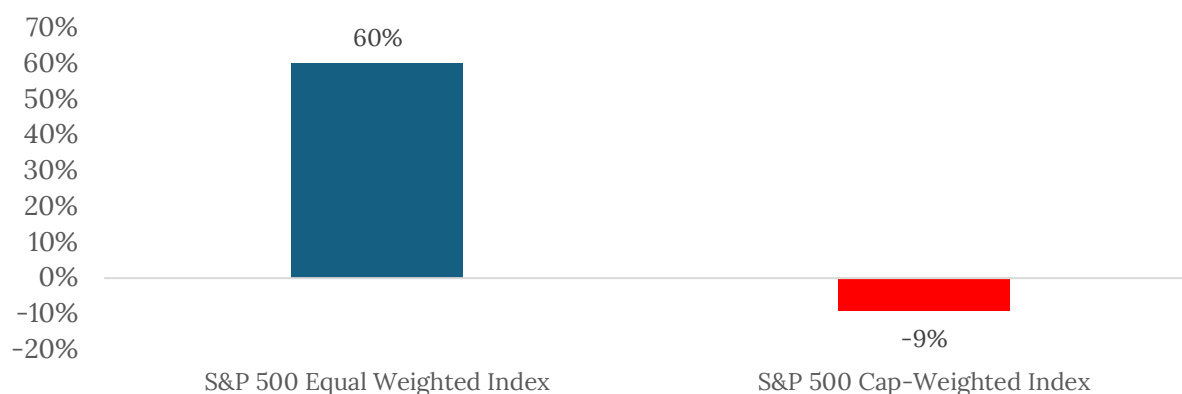
Investing in the largest companies at the time, left investors waiting for between 10 and 20 years to recover their 2000 high, with some never recovering. When the bubble eventually burst Microsoft traded at nearly 70x earnings before collapsing 80%, requiring 13 years to break even, while Intel and Cisco took 18 and 21 years.

Item 6: 2000-2026 Returns of Top Dot-Com Era Winners

Company	Return Since 2000
Microsoft	+1319.06%
Intel	+67.52%
Cisco Systems	+55.25%

Yet, the collapse of market leaders does not mean the broader market is devoid of opportunity. During the 2000-2009 period -referred to as the “lost decade” – the S&P 500 Equal Weight Index generated +60% in returns versus the cap-weighted version losing 9%. By stripping away mega-cap concentration and quarterly rebalancing with a contrarian “buy-low, sell-high” bias, equal-weighted structures highlighted how mean-reversion can reward diversification when narrow market leadership gives way.

Item 7: 2000-2009 "Lost-Decade" S&P 500 Index Returns



⁹ Investment Company Institute – Taking a Helpful Step on Fund Proxy Reform

¹⁰ RBC Wealth Management – The ‘Great Narrowing’: S&P 500 concentration

¹¹ CIBC Private Wealth – ‘Value Shopping’

Where does an investor turn?

The answer, as the "lost decade" already demonstrated, is not to exit entire positions that an investor may have in such public equities – it is to stop letting the index decide the weighting for you. There is a required shift away from over-weighted S&P 500 positions and into equal-weighted structures or capped-weight indices, a trade already showing its hand: the cap-weighted S&P now trades at close to a 30% premium to its equal-weighted counterpart, up from roughly 13% pre-pandemic and near the widest spread on record¹³. This is not a costless decision. Rotating into equal-weight sacrifices near-term momentum the moment mega-cap earnings keep outrunning even elevated expectations – the same tension I raised earlier: it can be the smart thing to do, right up until it is not. But these capped and equal-weighted mechanisms allow investors to capture a broad equity return while maintaining a disciplined portfolio that trims overextended winners rather than compounding the bet on them. From here, the search for alpha broadens further still – three routes stand out: alternative assets, developing markets, and a move further down the value chain.

1. Alternative Assets

On average a multi-family office (MFO) manages \$2.2bn AUM in Europe and \$2.3bn¹² in North America, with their being c.3700 MFOs in these regions combined this leaves PMs and MFOs with c.\$8.1tn AUM, with the sole aim of preserving wealth and avoiding any capital decay over generations. In such an environment where MFOs have assigned 25-35% of AUM to public equities, a now-popular solution, for these MFOs is the push of AUM to alternative assets – private equity, private credit, hedge funds and direct co-investments. Allocators exploit their long-time horizons to harvest illiquidity premiums in private markets, where valuation creation is tied to operational execution rather than passive public fund flows. This is obviously restricted to investors with a higher bar of entry. In 2025, EU family offices have 45% of assets allocated to alternative investments¹³

2. Developing Markets

Investment in emerging markets is largely a case-by-case scenario. Firstly, a structural thesis must be formed upon the fundamentals and market analysis of the country, where both opportunities and risks are carefully examined. Within the refined set of suitable countries, quality may still be hard to come by amongst single equities yet there has been a sharp increase amongst investors choosing to allocate money in these markets with 80% of global GDP growth in 2025 attributed to emerging markets¹⁴. These agrarian-dominated regions include China, Brazil, India & Mexico, have benefited from various growth catalysts, manufacturing dominance, rapidly growing working-aged populations, agricultural commodity and raw material growth and location (Mexico bordering the US) being amongst them. Naturally, in a time of recognised extreme market concentration within the S&P 500, capital allocation drifts into these cheaper markets, where US and European investors can benefit. With the International Monetary Fund forecasting growth for emerging markets to reach 4.2% in 2026 versus a mere 1.8% for developed markets, this may slowly tip from a trend to a structural change.

3. Moving Down the Value Chain

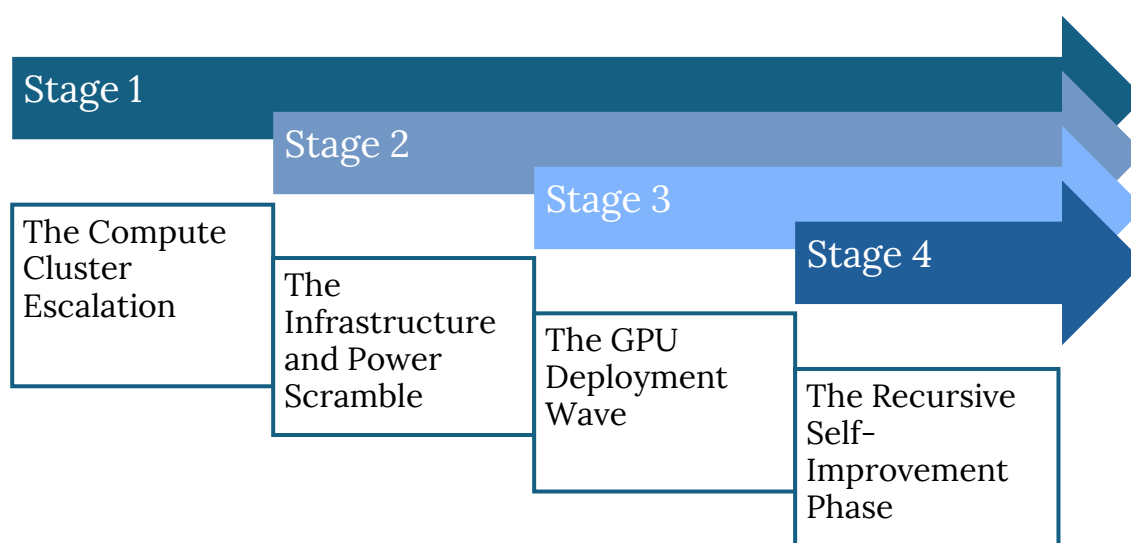
¹² IQEQ – 'Family offices and the rise of alternatives'

¹³ UBS – 'Global Family Office Report 2026'

¹⁴ BlackRock – 'Investing in emerging markets for income & growth'

Touted as the “5th Industrial Revolution”, this era of AI & Electrification advancement comes with it much speculation, high achieving promises and record capital commitments beyond the now. I believe we are now entering the 2nd of 4 stages (Item 8), the ‘Infrastructure and Power Scramble’ stage (coined by Leopold Aschenbrenner – as much as he has endured tough times as of late, his knowledge of the current industry is near unmatched). This stage emphasises the turn away from some of the largest known beneficiaries of this investment cycle (Nvidia, Microsoft, Meta, etc.) to those of which will construct the physical foundations that those technology companies will depend on.

Item 8: The Stages of the AI Investment Cycle¹⁵



This means that capital allocation moves into Power Generation and Energy Infrastructure, Physical Real Estate & Logistics, Hardware & Hardware Inputs. Investment in these categories insulates capital from software commoditisation, sits on the growth catalyst of the “Infrastructure Gap” opportunity, whilst targeting an area whereby there is so much space to grow – alongside the AI investment catalyst, some 655 million people globally do not have access to any electricity¹⁶ – and grants the opportunity to deviate from high-flying tech stocks carrying inflated P/E multiples that become more volatile each month with sentiment shifts. This means that the rotation to “HALO” (Heavy Asset, Low Obsolescence) sectors – industrials, materials, utilities, energy, and consumer staples¹⁷ – will prove to be fruitful for investors with concerns of the heightened market concentration. It is important to note, by no means is this an escape from the AI cycle: power and infrastructure demand is driven by hyperscaler capex, so a slowdown in AI spending could hurt these companies too. Further, once a trade becomes the consensus answer to concentration, it can become the next overvalued and overconcentrated trade, so entry valuation matters as much as the current theme.

Strategic hedging and tactical custom indexing

Gold, real assets and sovereign ballast.

¹⁵ Leopold Aschenbrenner – ‘Situational Awareness’

¹⁶ International Energy Agency (IAE) – 2026 Data Report

¹⁷ The National Bureau of Economic Research – ‘The Anatomy of Concentration: New Evidence from a Unified Framework’

Gold, real assets and high-quality sovereign debt are a different kind of hedge: they are not a bet on rotation, but a position whose returns are unrelated to the concentration in equities. That is the property a capital-preservation mandate is paying for. The trade-off is that they generate little or no operating growth, and with rates at 4% and a further hike priced in, duration carries its own risk.

Tactical modular custom indexing.

Custom (direct) indexing lets an investor hold the index but set the weights: capping the single-stock exposure at a chosen limit, underweighting the names already overrepresented in the rest of the portfolio, and tilting toward the themes above. It achieves the discipline of an equal-weight approach – trimming winners – without giving up the flexibility that a fixed structure imposes, and it sidesteps the regulatory diversification limits that bind funds.

Conclusion

Concentration at the top of the S&P 500 is at a record 40.7%, and history says it resolves by broadening, though not on a routine timetable and not in the conditions of today's rate environment. Unlike in 2000, the top players are much closer to earning their multiples, so the answer is not to exit but to stop letting the index set the weights. Each of the routes above – alternatives, developing markets, the physical layer of the AI buildout, hedges and custom indexing – answer the current concentration by allocating capital deliberately rather than by market cap. Not a single asset is free of risk, and each rewards selectivity over passive exposure. That is my reasoning for discretionary, long-horizon capital in a market that has, for now at least, rewarded doing the most obvious.