

GLOBAL PERSPECTIVES

JULY 2026



BY WILLIAM P. STERLING, PH.D.

Global Strategist

AFTER THE PEAK: WHAT A CENTURY OF MARKET CONCENTRATION TEACHES

- ▶ The annual Russell reconstitution on June 26 arrived with US market concentration near a 100-year record: the 10 largest S&P 500 holdings now represent nearly 40% of the index, and the largest size decile's share of total US market capitalization exceeded its 1932 Depression-era peak late last year.
- ▶ Concentration is a recurring feature of transformative economic eras, not an anomaly. The 1932 peak, the Nifty Fifty of the 1960s and early 1970s, and the dot-com boom each marked moments when a new economic order crowded into a handful of dominant names.
- ▶ Unlike the dot-com era, today's concentration rests on real profits: the Magnificent 7's earnings have grown roughly twentyfold since the end of 2015, while earnings for the rest of the large-cap market have merely doubled. That is distinctive — but it does not repeal the historical pattern.
- ▶ Past concentration peaks were followed by powerful, multi-year broadenings that favored smaller companies — though it sometimes meant years of waiting first.

HIGHLIGHTS

THE ANNUAL MIRROR

At the close of trading on June 26, FTSE Russell carried out its annual reconstitution, redrawing the boundaries of the indexes that define how trillions of dollars classify American companies by size and style. Most years the event passes as plumbing — a flurry of rebalancing trades, a few names promoted, a few demoted. But the reconstitution also serves as the market's yearly look in the mirror, and two details from this June's rebalance capture the moment. In a rare move, a Russell 2000 constituent (Bloom Energy) jumped directly from the small cap index into the ranks of the 200 largest US companies. And with that stock and several other large names graduating to the Russell 1000, the small cap index's weighted average market capitalization reset from \$6.9 billion to \$3.7 billion — a reminder that, by design, the Russell 2000 sheds its biggest successes every June and starts over.¹

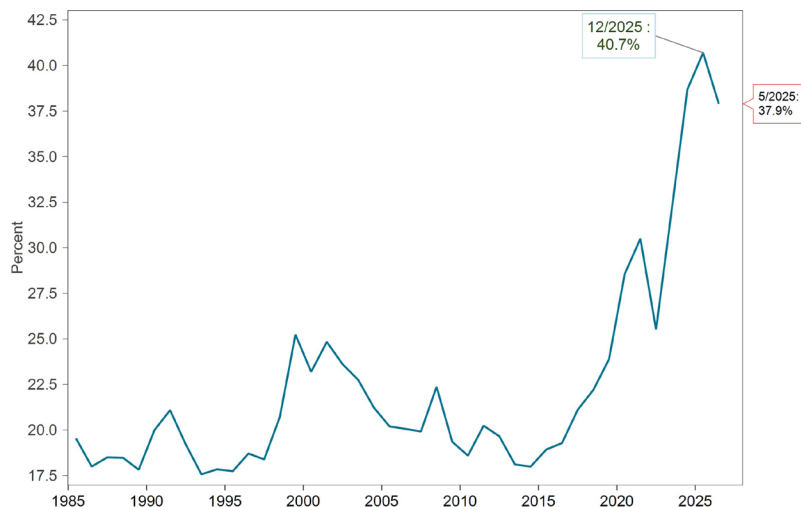
This year, however, the mirror shows something that a full century of data has never recorded.

A CENTURY OF CONCENTRATION

Start with the measure most investors know. The 10 largest holdings in the S&P 500 now account for 37.9% of the index's value, around double the high-teens-to-low-20s range that prevailed for most of the three decades through 2015 (**Figure 1**). The top-10 weight stood at 19.5% at the end of 1985, peaked at 25.2% during the dot-com mania of 1999, and bottomed out at 18.0% as recently as 2014 before beginning the relentless climb: 28.6% in 2020, 40.7% in 2025, and slightly below 40% today.

FIGURE 1

Increasing Market Cap Concentration: Percentage Weighting of Top 10 S&P 500 Holdings (1985–2026)



Sources: GW&K Investment Management, FactSet, S&P Global, and Macrobond.

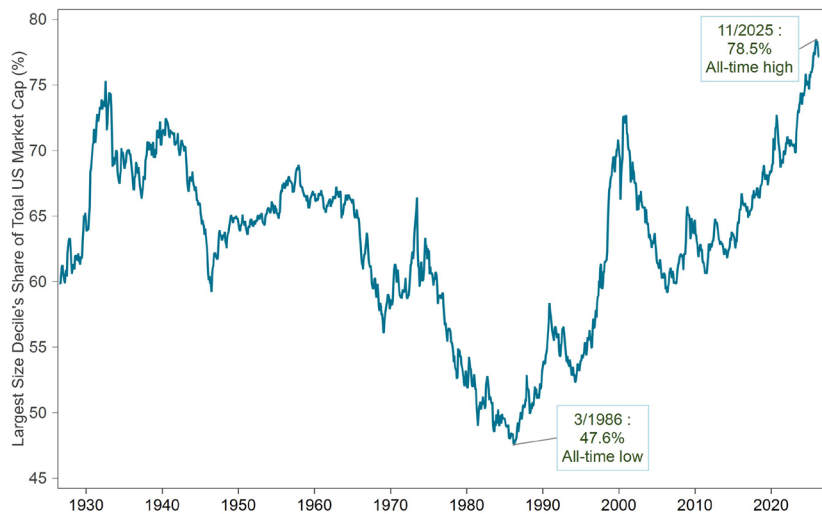
The market cap share of the top 10 S&P 500 stocks, a widely followed measure of market concentration, hit a record peak of 40.7% at the end of 2025.

¹ Steven G. DeSanctis and Jane Gibbons, "JEF Russell Rebalancing — All Over But the Shouting: Mag 7 Picks Up 5% in New R1V," Jefferies Equity Strategy, May 3, 2026, with updates based on FTSE Russell preliminary reconstitution files as of May 26, 2026.

A longer lens makes the moment even more striking. Using economist Kenneth French's public data library, which covers US stocks back to 1926, we can track the share of total market capitalization held by the largest decile of companies for a full century (**Figure 2**). That share reached 78.5% in November 2025 — an all-time high, surpassing the previous record of 73.8% set in June 1932, in the depths of the Depression. The University of Chicago's CRSP database, examining the top 10 names rather than the top decile, reached the same conclusion: the largest 10 stocks hit 37.7% of total US market value on October 31, 2025, exceeding their previous 1932 peak.²

FIGURE 2

A Century of Market Concentration: Largest Size Decile's Share of Total US Market Cap



Note: Based on French's "Portfolio Formed on Size." Decile Caps = Number of Firms times Average Firm Size.
Sources: GW&K Investment Management, Kenneth R. French Data Library, and Macrobond.

A measure of concentration that goes back a full century — the largest size decile's share of total US market cap — also reached a record high near the end of 2025.

The century-long arc tells a story of long cycles, not steady states. Concentration stayed elevated from the 1920s through the 1960s, an era when the giants of electrification, autos, oil, and the telephone dominated American capitalism. A great broadening followed: from the Nifty Fifty era's heights, the top decile's share fell almost continuously for more than a decade, touching its 100-year low of 47.6% in March 1986. The dot-com boom produced a sharp spike to 66.3% in March 2000, another broadening followed through the mid-2000s, and the current ascent began around 2015 — slowly at first, then, with the arrival of the AI investment cycle, at a pace that has now carried concentration past anything in the modern record. Each peak coincided with a transformative economy: electrification in the 1920s, the postwar consumer and technology champions of the Nifty Fifty, the internet in the 1990s, and artificial intelligence today.

THIS TIME HAS EARNINGS

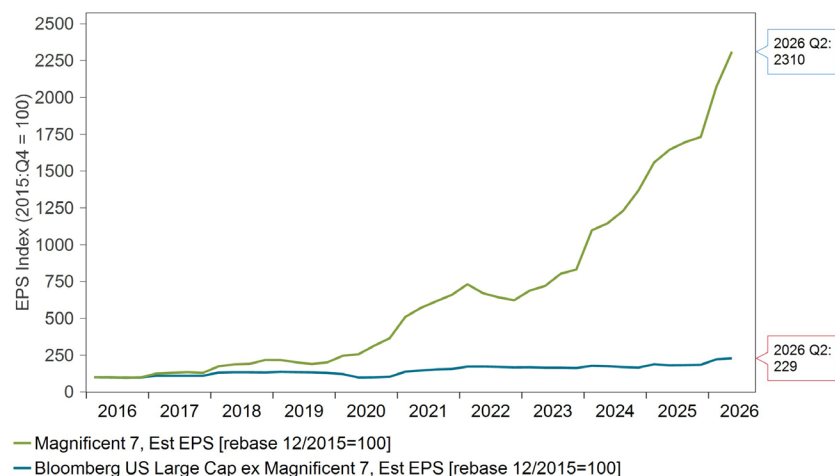
Before drawing lessons from history, an important distinction deserves emphasis: today's concentration has been earned in a way the dot-com era's was not. Since the end of 2015, the

² Dan Lefkowitz, "Stock Market Concentration Has Surpassed Its 1930s Peak," CRSP/Morningstar Indexes, February 2026.

estimated earnings of the Magnificent 7³ — the mega-cap technology leaders — have grown by twenty-three times, while estimated earnings for the rest of the US large-cap market have merely doubled (**Figure 3**). The giants' index weights have largely followed their profits, not run ahead of them.

FIGURE 3

Massive Earnings Divergence: Magnificent 7 versus the Rest



Note: Bloomberg Magnificent 7 Index based on equally-weighted contributions from Amazon, Apple, Alphabet, Meta, Microsoft, Nvidia, and Tesla.
Sources: GW&K Investment Management, Bloomberg, and Macrobond.

Market concentration has followed diverging earnings growth. Since the end of 2015, the estimated earnings of the Magnificent 7³ — the mega-cap technology leaders — have grown by twenty-three times, while estimated earnings for the rest of the US large-cap market have merely doubled.

Research from Morgan Stanley's Counterpoint Global makes the same point another way: in 2023, the 10 largest US companies generated roughly 69% of the entire market's economic profit while representing only 27% of its capitalization, earning returns on invested capital near 27% against roughly 10% for the broad Russell 3000.⁴ And for all the talk of American market narrowness, the US remains among the less concentrated major equity markets in the world — top-10 weights in many developed markets run far higher.

These facts explain how we got here. They do not, however, tell us what relative returns will look like from here. The Nifty Fifty companies were dominant businesses in their industries — IBM, Coca-Cola, and their peers grew earnings admirably for decades after 1972. They were nonetheless poor relative investments from their peak index weights, because the price of admission had risen too high and the rest of the market had been left too cheap. Quality explains concentration; it does not guarantee the next decade's leadership.

WHAT FOLLOWED PAST PEAKS

So what has actually happened after the market's great concentration extremes? Using the Fama-French data, we examined the size premium — the return of small stocks minus big stocks ("SMB") — in the years following each major peak (**Figure 4**).

³ These companies are known as "the Magnificent Seven": Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla.

⁴ M. Mauboussin and D. Callahan, "Stock Market Concentration: How Much Is Too Much?" Morgan Stanley Counterpoint Global (June 2024).

FIGURE 4

Concentration Episodes and What Followed

Episode	Date	Top-Decile Share (%)	Fwd 1-Yr Small – Large (%)	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	Jun 1932	73.8	+49.4	+16.0	+14.9	+8.3	+13.5
Nifty Fifty era builds	Dec 1964	66.0	+19.7	+20.4	+12.8	+1.3	+0.6
Nifty Fifty peak	Dec 1972	61.7	-25.1	-6.1	+2.7	+6.5	+13.6
Dot-com peak	Mar 2000	66.3	-5.9	+4.2	+6.1	+4.0	+17.4
Pandemic mega-cap surge	Dec 2020	70.6	-4.1	-4.3	-6.1	?	+7.2
AI-era record	Dec 2025	78.2	?	?	?	?	?

Note: Small Cap vs. Large Cap = SMB (small-minus-big) factor return; Value vs. Growth = HML (value-minus-growth) factor return, per Fama-French definitions. Forward windows begin the month after the episode date; multi-year figures are annualized. Top-decile share = largest size decile's share of total US market cap (NYSE breakpoints); "?" = window not yet observable.

Sources: Kenneth R. French Data Library (CRSP 202604 vintage); GW&K calculations.

Episodes of high concentration have tended (but with exceptions) to be followed by outperformance of small cap and value stocks.

The pattern is consistent in direction and humbling in timing. After the June 1932 peak, small caps beat large caps by an extraordinary 49 percentage points over the following year and by roughly 15 points annually over the following five years. After the dot-com peak of March 2000, the size premium ran at about 6% per year for five years — and the value premium at a remarkable 17% per year — as the market broadened into the small- and mid-cap rally of 2000 – 2006. After the Nifty Fifty peak of December 1972, small caps compounded 6.5 points per year ahead of large caps for a full decade, the golden age that culminated in the small-cap boom of 1975 – 1983.

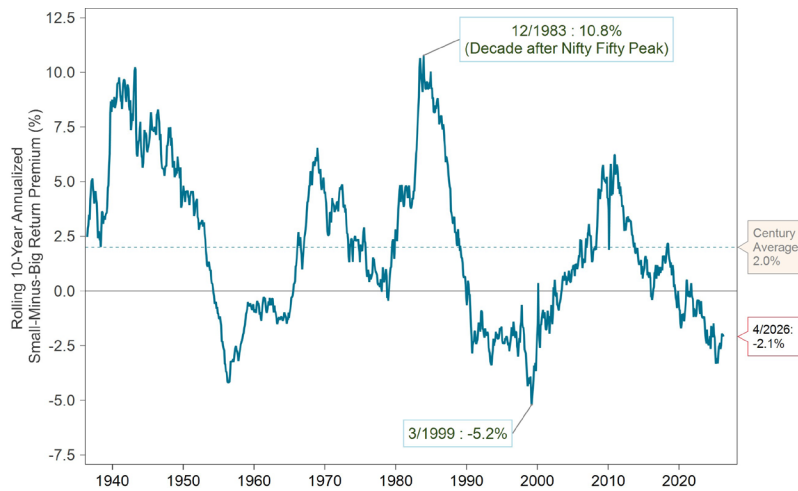
But we should not omit two episodes that offer important caveats. First, the year immediately after the 1972 peak was a catastrophe for small-cap investors: in the brutal 1973 – 1974 bear market, small stocks lost an additional 25 percentage points relative to large ones before their golden age began. Concentration peaked, and things got worse — much worse — before they got better. Second, December 2020 looked to many observers like a concentration extreme. It was not. The top-10 weight has climbed another 12 percentage points since, and small caps have lagged in the years following. Anyone who treated the 2020 reading as a timing signal paid dearly for the next half decade.

One of our key takeaways from the historical data: concentration extremes are a statement about the potential distribution of future relative returns, not a date on the calendar. The rolling 10-year size premium makes the pendulum visible (**Figure 5**). It reached +10.8% per year in December 1983, at the climax of the post-Nifty Fifty broadening; it bottomed at -5.2% per year in March 1999, at the height of dot-com narrowness; today it stands at -2.1% per year, well below its century average of roughly +2%. The pendulum is far to one side. But pendulums in markets do not run on schedules.

Why should concentration peaks precede small cap revivals at all? The answer is that concentration and relative valuation are two sides of the same coin. When a handful of giants tower over the market, it is often because investors have bid their valuations far above everyone else's — which means, almost by definition, that smaller companies have been left cheap. A century of data makes

FIGURE 5

The Size Premium Runs in Long Cycles: Rolling 10-Year Annualized SMB Factor Return

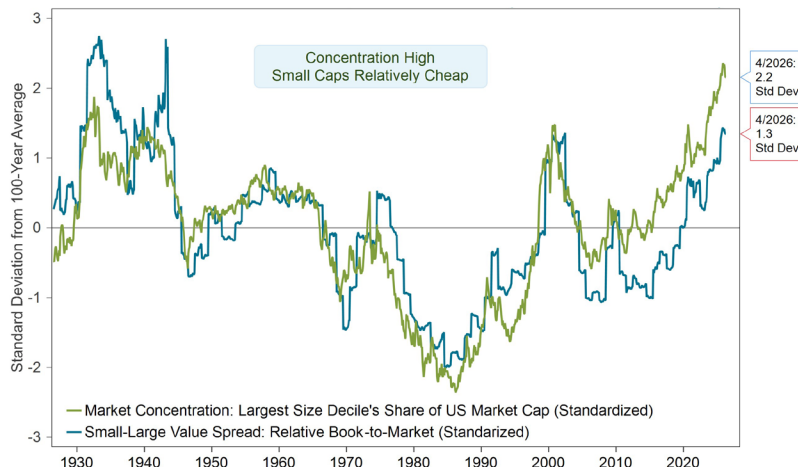


Note: SMB (small-minus-big) is the size factor in the Fama and French Asset Pricing Model.
Sources: GW&K Investment Management, Kenneth R. French Data Library, and Macrobond.

the connection visible: the market's concentration level and the small-large "value spread" — the gap in valuation between small and large companies, measured by their relative book-to-market ratios — have moved nearly in lockstep since 1926, with a correlation of 0.83 (**Figure 6**). Today both sit at extremes: concentration is more than two standard deviations above its century average, and small companies' aggregate book-to-market stands at nearly three times that of the largest companies — a valuation gap in the top decile of the past hundred years.

FIGURE 6

Concentration and Small-Cap Cheapness Go Together: Standardized Levels, 1926–2026 (Correlation 0.83)



Note: Based on French's data for "Portfolios Formed on Size" and "6 Portfolios Formed on Size and Book-to-Market." Value spread = log ratio of small-to-large tercile aggregate book-to-market.
Sources: GW&K Investment Management, Kenneth R. French Data Library, and Macrobond.

Periods of high market concentration have tended to coincide with small cap stocks becoming attractively valued relative to large caps, making small caps a reasonable hedge against expensive large caps.

This connection refines the lesson of **Figure 4** in an important way. The hope embedded in the popular “coiled spring” metaphor — that concentration itself must eventually snap back and mechanically catapult small caps — misreads how the spring works. Our own statistical work across the full century finds that the level of concentration, taken alone, has little reliable power to predict when the size premium will return; whatever forward-looking information it carries comes from the valuation gap that travels alongside it. Concentration, in other words, is the symptom; cheapness is the signal. When the broadening comes, it is likely to arrive the way it did after 1974 and after 2000, through the gradual normalization of relative valuations, and the object worth monitoring is not the index weight of the giants but the discount on everything beneath them.

THE OTHER SIDE OF THE SEESAW

Which brings us to the present. For the first time in years, the broadening may have begun: through June, the Russell 2000 had returned 22.6% year to date against about 10% for the S&P 500, helped by US Federal Reserve (Fed) rate cuts hitting floating-rate balance sheets and new tax incentives for capital spending. Valuation has done the rest: small caps entered the year at roughly a 30% forward P/E discount to large caps on profitability-screened measures, the widest in nearly two decades.⁵

Yet the small-cap universe of 2026 is not the small-cap universe of 1975 or 2000, and the differences argue for discipline. Roughly 40% of Russell 2000 constituents currently generate no earnings. Consensus earnings forecasts for the index fell about 7% over the first five months of the year even as S&P 500 forecasts rose, and trailing profitability for the asset class remains thin.⁶ Part of this reflects a structural shift: with private equity and venture capital keeping the best young companies private for longer, today’s public small-cap indexes carry a heavier share of slower-growing and unprofitable firms than their predecessors did. The historical pattern favors smaller companies from today’s starting point — but capturing it argues for selectivity, with an emphasis on durable balance sheets and genuine earnings power, rather than indiscriminate exposure to small-cap beta.

WHAT IT MEANS FOR INVESTORS

Three conclusions follow. First, record concentration is a reason to examine portfolio diversification, not to abandon large caps: the giants’ earnings are real, and history’s broadenings unfolded over years, not quarters. For investors specifically worried about the risks of a top-heavy market, smaller companies are the natural counterweight — they sit on the cheap side of the very valuation gap that concentration has created, and history’s broadenings rewarded that side of the market; in episodes such as 2000 – 2006 the reward was most powerful at the value end of the small-cap universe.⁷ Second, the same history suggests that patient, valuation-disciplined exposure to the neglected side of the market has been well rewarded after past concentration extremes — with the 1973 experience standing as a permanent caution about the road there. Third, the June reconstitution itself carries its own lesson: cap-weighted benchmarks structurally chase what has already succeeded, promoting winners out of the small cap index each year and concentrating ever

⁵ Index total returns and relative valuations via Bloomberg, through late May 2026; small cap forward P/E discount based on S&P 600 and S&P 500 Index data and consensus estimates.

⁶ Sami Khan, “Small Caps Are Beating the S&P 500 — But 40% of Russell 2000 Companies Earn Nothing,” International Business Times, June 4, 2026.

⁷ For example, over the 2000 – 2006 period the Russell 2000 Value Index provided a total return of 183% compared to 70% for the Russell 2000 Growth Index and 8% for the S&P 500.

more weight in the champions of the last cycle. The investor's opportunity has usually lived in what the index is about to overlook.

The current wave of trillion-dollar technology IPOs — the subject of intense focus on Wall Street — is adding new giants to the top of the market. The concentration conversation, in other words, is not going away. Neither, a century of data suggests, is the cycle.

A hundred years of market history offers no calendar for when concentration peaks give way to broadening — only the consistent lesson that they eventually do, and that the rewards have gone to investors positioned before the turn rather than after it.



William P. Sterling, Ph.D.,
Global Strategist

DISCLOSURES:

This represents the views and opinions of GW&K Investment Management. It does not constitute investment advice or an offer or solicitation to purchase or sell any security and is subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes. Data is from what we believe to be reliable sources, but it cannot be guaranteed. GW&K assumes no responsibility for the accuracy of the data provided by outside sources.

© GW&K Investment Management, LLC. All rights reserved.