



Markets and Economies

Equities: Time for a Conversation About Stock Market Concentration

Major indexes meant to represent the broader market have become dominated by big tech names, with significant implications for investors seeking diversification.

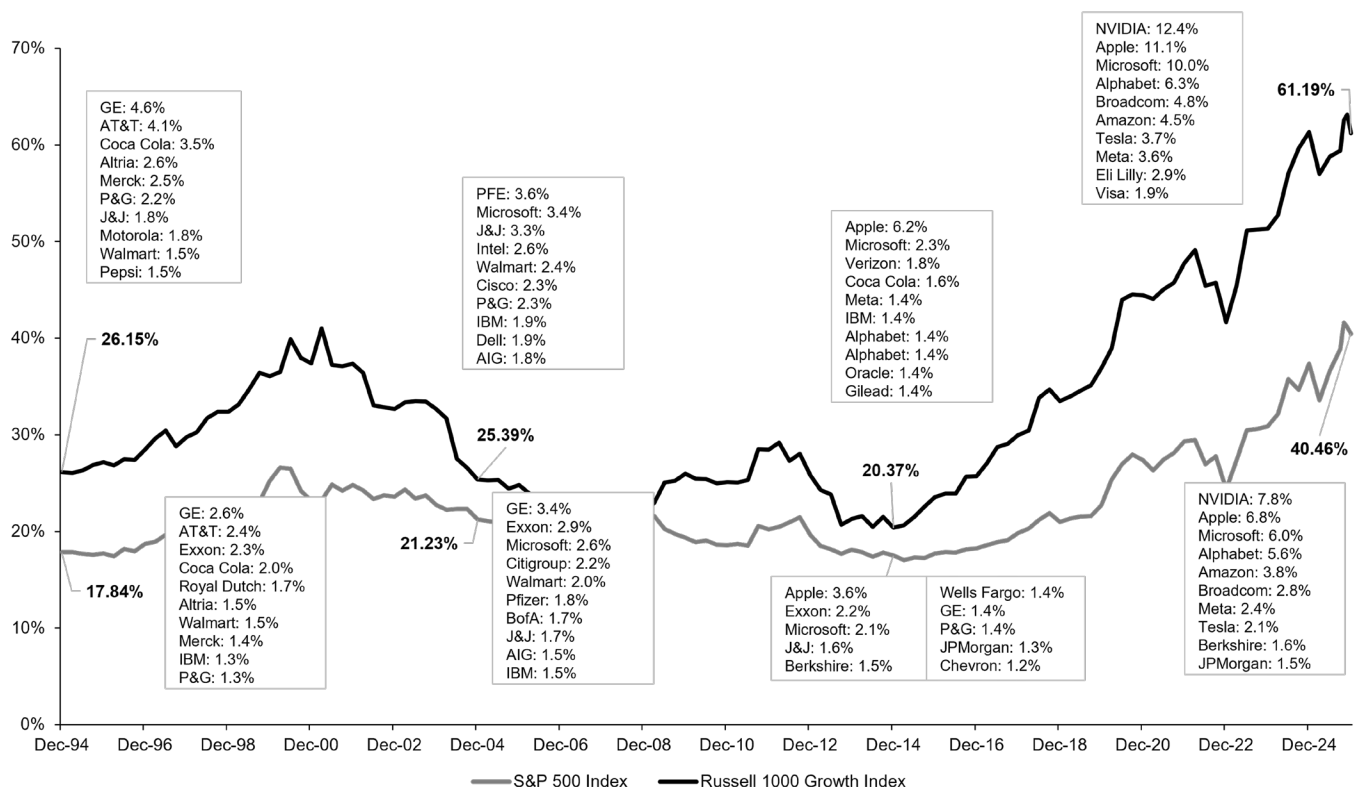


JJ Titus,
Product Specialist

Over the past few years, the composition of major stock market benchmarks like the S&P 500® Index and the Russell 1000® Growth Index has become increasingly dominated by a small number of very large companies. These indexes are designed to represent a broad slice of the U.S. stock market, but today, their top 10 holdings account for a much larger share of the total index value than they did in the past. At the time of this writing (December 31, 2025), the top 10 holdings of the S&P 500 represent 40% of the index's total weight. The Russell 1000® Growth Index shows an even greater degree of concentration, with its top 10 holdings now representing over 60% of the index's total weight. (See Figure 1.)

Figure 1. S&P 500 Index and Russell 1000 Growth Index Top 10 Holdings Over Time

Data for the period December 1994–December 2025





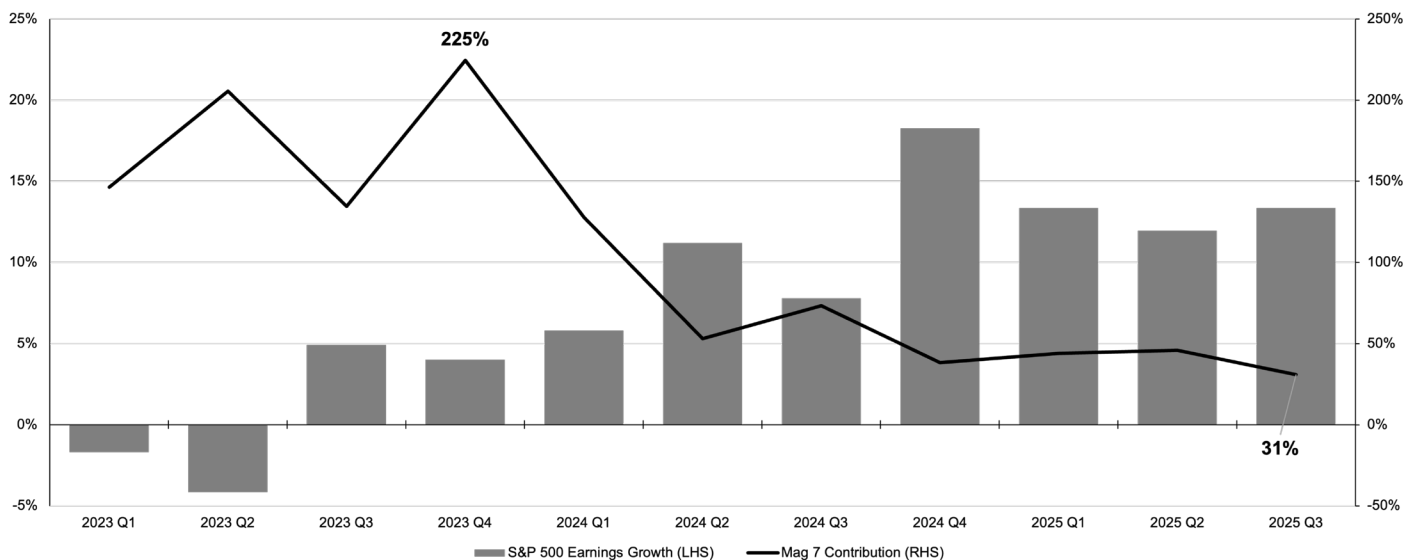
Why is this important? The growing concentration of mega-cap names in these indexes means that a small group of companies, mostly large technology and internet firms, now exert an outsized influence on overall market performance.

This was apparent in 2023 and much of 2024 when the earnings growth of the S&P 500 was driven largely by the so-called 'Magnificent 7' (Mag 7) mega-cap technology names. These firms delivered exceptional profit gains thanks to strong demand for technology, artificial intelligence, and digital services, while the rest of the index saw much slower growth. In the fourth quarter of 2023, the Mag 7 accounted for 225% of the overall earnings growth of the S&P 500.

But the tide appears to have turned, and the degree of S&P 500 concentration has lessened somewhat. More recently, companies outside of the Mag 7 have started to show improvement in earnings as the market broadens out. In the third quarter of 2025, the Mag 7's share of earnings growth decreased to 31%. This broadening of profit growth is a healthy sign, suggesting that the market's fundamentals are becoming more balanced, rather than growth being driven by just a handful of dominant players.

Figure 2. The Magnificent 7's Contribution to Earnings Growth Has Decreased

Quarterly earnings growth of S&P 500 Index and contribution of Magnificent 7 companies



Source: FactSet, as of 10/31/2025. (Latest available quarterly data.) The historical data shown in the charts above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett or any particular investment. **Past performance is not a reliable indicator or guarantee of future results.**

Nonetheless, 31% is still a lot of weight for just seven stocks to carry. This continued dominance has important implications for investors as many strategies are now heavily concentrated in the Mag 7. While being overweight these names in 2023 and 2024 wasn't necessarily a bad investment strategy, investors using passive strategies are missing out on the strong returns from the other companies driving earnings growth.

A Final Word

We think the broadening of earnings growth beyond the Mag 7 is important for investors because it signals a healthier and more sustainable market cycle. When earnings strength spreads across the market, it may reduce concentration risk and improves the resilience of equity returns. This environment also expands the opportunity set for active managers and fundamentals-focused investors to add value through security selection.

Understanding this trend is important for anyone seeking to balance long-term growth with stability. We are optimistic that this trend will continue and believe that an active manager with a disciplined, consistent investment process may be well positioned to achieve alpha, as the rest of the market emerges from the shadow of the mega-caps.



Glossary & Index Definitions

Bullish refers to an optimistic outlook and to a belief that certain investments may potentially increase in value in the future. **Bull market** refers to a time when stock prices are rising, and market sentiment is optimistic. Generally, a bull market occurs when there is a rise of 20% or more in a broad market index over at least a two-month period. **Bearish** refers to a pessimistic outlook and generally refers to a belief that certain investment prices may fall in the future. **Bear market** refers to a time when stock prices are declining, and market sentiment is pessimistic. Generally, a bear market occurs when a broad market index falls by 20% or more over at least a two-month period.

Generative artificial intelligence (AI) focuses on creating new information based on inputs learned from existing data.

The **Russell 1000® Growth Index** measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years). The **Russell 1000® Index** measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. The Russell 3000 Index measures the performance of the largest 3,000 US companies designed to represent approximately 98% of the investable US equity market.

The **S&P 500® Index** is widely regarded as the standard for measuring large cap U.S. stock market performance and includes a representative sample of leading companies in leading industries.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

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