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Walking with giants: A new toolkit to play US mega-caps



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Lofty valuations, a day-by-day political news flow and a Europe resurgence have done little to shake the primacy of US equities. But the growing new index toolkit has US mega cap dominance at its core, allowing investors to either pare back or lean into this story.

Those wary of this trend are not exiting the US but rethinking how to participate, seeking structures that offer diversification without losing the familiarity of established

benchmarks.

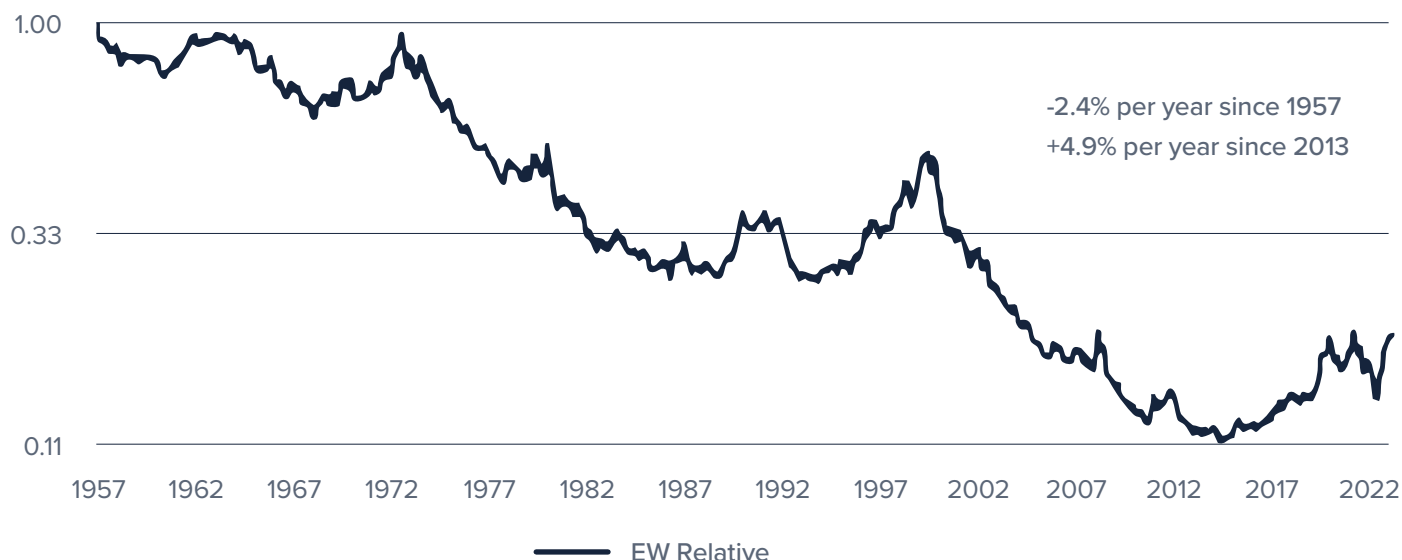
The catalyst is clear: the S&P 500 has become more top-heavy than ever, with its 10 largest constituents not just comprising 39% of the index as at 30 September, but many of these names also boasting strong business moats that enable them to cement an advantage.

Stephan Kemper, chief investment strategist at BNP Paribas Wealth Management noted: “The current high concentration risk is a reason for

concern and should be addressed by investors ...[because] investing into the leaders of today has produced historically positive returns but below the outcome of the benchmark.”

“With US trade policy uncertainty on the horizon and ongoing questions around inflation, interest rates and AI-driven earnings expectations, there is plenty of incentive to diversify beyond the mega caps,” said Nathan Sweeney, CIO multi-asset at Marlborough.

Chart 1: S&P 500 top 10 versus 490 equal-weighted returns



Source: GMO, S&P Dow Jones Indices, Compustat

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Asset managers are responding to this appetite for alternative US exposure. In 2024, there were 105 new US equity ETF launches in Europe, while in 2025 this figure has already climbed to 122, with many of these products capturing different slices of the market.

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The iShares S&P 500 3% Capped UCITS ETF is one such example. Launched in April, the fund caps each stock’s weighting at 3%. Nvidia, for instance, currently makes up 8% of the parent index, so its weight is cut back sharply to 3%, diminishing

its concentration impact.

ETFBook data shows the fund attracted \$313m by the end of September with \$286m pouring into the strategy in April alone.

“By capping individual stock weights, the ETF encourages greater issuer and sector diversification aligning with the broader market while reducing the dominance of large tech companies,” said Maxime Terrier, portfolio manager at Union Bancaire Privée.

A similarly motivated but more concentrated launch came with the L&G S&P 100 Equal Weight UCITS ETF, which debuted in July and equal weights 100 of the largest US companies.

“The fund allows investors to maintain exposure to the largest US companies but reduce the extreme concentration to the ‘magnificent seven’ type names,” said Terry

McGivern, senior research analyst at AJ Bell. “However, one would need to accept the reduced diversification and different sector profile in a 100-name index versus the broader market.”

Taking the opposite approach, some investors are doubling down on mega caps, spurred by narratives of quality and competitive advantage.

Servicing this conviction are ETFs such as the iShares S&P 500 Top 20 UCITS ETF, which zeroes in on the largest 20 companies within the S&P 500, offering a purer expression of US market leadership. It has gathered

steady inflows in 2025, totalling \$286m by 30 September.

Yet other launches are chopping out the top end of the market altogether, with Amundi and Blackrock offering an S&P MidCap 400 index exposure alongside a recent State Street investment Management debut targeting the ‘leaders’ in this segment.

“There are so many possibilities within the US beyond the ‘magnificent seven’,” said Katja Wottle, senior portfolio manager at nowinta Finanzgruppe. “We are focusing on the second and third

tiers of the market, where we see strong potential.”

Together, this whirlwind of new launch activity serves to illustrate how exposure to US equities is evolving to express increasingly divided views on how to express US equity conviction. Mega cap concentration may be driving the conversation, but innovation in index design – whether through caps, equal weighting, mid-cap tilts or large-cap-only strategies – shows investors still view the US as indispensable, just not unquestionable.



Exploring US equities: Concentration, mid caps and SPIVA



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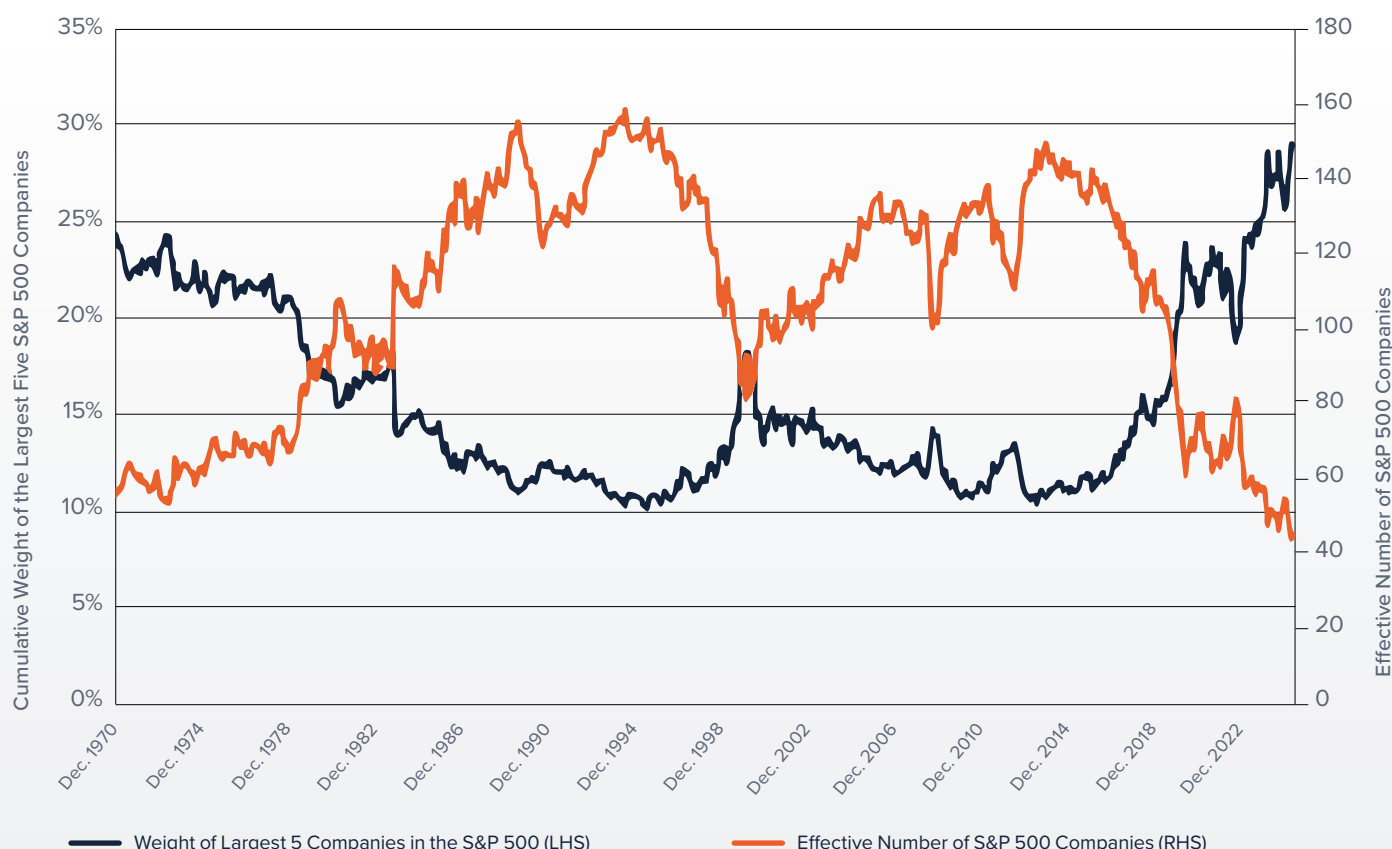
With concentration in US large caps front of mind, what approaches do you see investors taking to balance risk and opportunity?

Equity market concentration has remained front of mind for many market participants. Despite underperforming during the first few months of 2025, mega caps' leadership returned in Q2, continuing a years' long trend. Reflecting this dynamic among large-cap US equities, the cumulative index weight

of the largest five [S&P 500®](#) companies hit multi-decade highs in July 2025, while the effective number of S&P 500 constituents reached multi-decade lows in the same month (see Exhibit 1).¹

Equal weight or capped approaches—such as those based on the [S&P 500 Equal Weight Index](#) and the [S&P 500 3% Capped Index](#)—have remained of interest to investors seeking to mitigate concentration risk and to express views on mean reversion in equity market concentrations.²

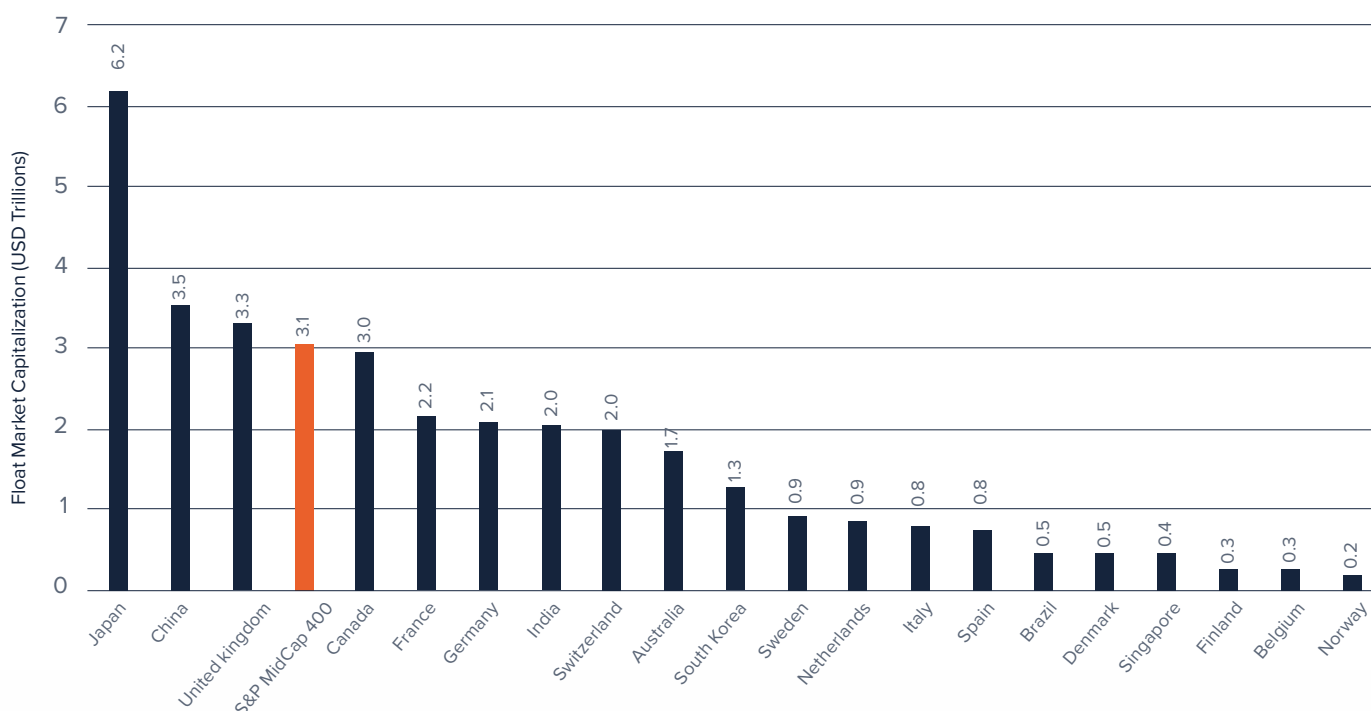
Exhibit 1: The S&P 500's composition reflected mega-caps' continued leadership



Source: S&P Dow Jones Indices LLC. Chart shows the cumulative weight of largest five S&P 500 companies and the effective number of S&P 500 companies, based on month-end constituent data from December 1970 to August 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

¹ The effective number of companies is calculated as the reciprocal of the Herfindahl-Hirschman Index (HHI). ² For a closer look at the strategic and tactical relevance of the S&P 500 Equal Weight Index, see Edwards, Tim, Anu R. Ganti and Hamish Preston, "[Worth the Weight](#)", S&P Dow Jones Indices, July 2024.

Exhibit 2: The S&P MidCap 400 is larger than many countries' equity markets



Source: S&P Dow Jones Indices LLC. Data as of Aug. 29, 2025. Chart shows the index market capitalisation of the S&P MidCap 400 and various country segments of the S&P Global BMI. Past performance is no guarantee of future results. Chart provided for illustrative purposes.

However, mega caps' sustained outperformance in recent years, coupled with their resurgence in Q2 2025, may have challenged the patience and conviction of some investors that had anticipated mean reversion in S&P 500 concentration levels: the S&P 500 Equal Weight index (40%) underperformed the S&P 500 (75%) by 35% between the end of 2022 and August 2025.

Hence, many market participants may have looked to incorporate mega-cap strategies—such as those based on the [S&P 100](#), [S&P 500 Top](#)

[20 Select Index](#) and the [S&P 500 Top 50 Index](#)—to alleviate potential underperformance from equal weight or capped approaches should the mega-cap leadership continue.

What is the potential relevance of US mid caps in today's market and how do they differ from large caps?

The breadth and depth of the US equity market means that the mid-cap US equity segment, as represented by the [S&P MidCap 400®](#), is larger than many countries'

equity markets (see Exhibit 2). For example, treated as a standalone country, the S&P 400® was the fifth largest country in the [S&P Global BMI](#) at the end of August 2025, larger than the French and German equity markets. Hence, market participants risk overlooking a significant portion of the global equity opportunity set if they ignore smaller US size segments.

Market participants may also wish to consider incorporating US mid caps given they appear to possess a strategic advantage relative to firms within different size ranges. Indeed, the S&P 400 has outperformed the S&P 500 since the early 1990s, and conventional Brinson attribution shows that the choice of S&P 400 companies—rather than the S&P

“The breadth and depth of the US equity market means that the mid-cap US equity segment, as represented by the S&P MidCap 400®, is larger than many countries' equity markets

400's distinct sector weightings—was typically more important in explaining its relative performance. These results were not simply a smaller size effect: similar results are seen when analysing the S&P 400's historical outperformance versus US small caps, as measured by the [S&P SmallCap 600®](#).³

More tactically, perhaps, the S&P 400's distinct characteristics may be relevant for expressing views on the health of the US economy and on trade policy. For example, S&P 400 companies typically have more domestically focused revenue exposures compared to the S&P 500,

which contributed to the S&P 400 being more highly correlated to US GDP growth, historically.

How does the recently launched S&P MidCap 400 Scored & Screened Leaders Index integrate and measure sustainability?

Launched in April 2025, the [S&P MidCap 400 Scored & Screened Leaders Index](#) measures the performance of S&P 400 companies with higher-than-average S&P Global environmental, social and governance (ESG) scores while excluding companies that derive revenue from

“The latest SPIVA® US Scorecard shows that around 75% of mid- and small-cap US equity funds outperformed in the first half of 2025

specified business activities, or are non-compliant with the United Nations Global Compact. The index is rebalanced in April each year, with quarterly eligibility reviews.⁴

The S&P MidCap 400 Scored & Screened Leaders index is designed to maintain similar industry group weights as the S&P 400. Unsurprisingly, perhaps, the two indices have similar GICS® sector weightings: the average absolute difference in the indices' sector weights was less than 1% at the end of August 2025.

Although index performance is not part of the S&P MidCap 400 Scored & Screened Leaders Index's objective, similarity in GICS sector weights contributed to the two indices posting similar risk/return profiles over various (back-tested) horizons.⁵

Combined with the fact that the index had a higher S&P Global ESG Score than the S&P 400 at the end of August, the S&P MidCap 400 Scored & Screened Leaders Index may be relevant to market participants looking to retain certain characteristics of the S&P 400, while incorporating sustainability perspectives.



³ For historical analysis, see Bellucci, Louis and Hamish Preston, “S&P MidCap 400: Outperformance and Potential Applications”, S&P Dow Jones Indices, July 9, 2019. ⁴For more information on the index construction, see “S&P Scored & Screened Leaders Indices Methodology”. ⁵For more information on the historical performance of the two indices, see Chapman, Florence, “Introducing the S&P MidCap 400 Score & Screened Index”, S&P DJI, Aug. 18, 2025.



What does the latest SPIVA mid-year 2025 data suggest about the role of indexing at different points on the market cap spectrum?

S&P Dow Jones Indices produces semiannual S&P Indices Versus Active (SPIVA) reports, measuring the performance of active funds against their S&P DJI index benchmarks around the world.

The latest mid-year results show that many Europe- and US-based active funds struggled to beat the S&P 500 in H1 2025. For example, the [SPIVA Europe Mid-Year 2025 Scorecard](#) shows that 67% of euro-denominated and 72% of pound sterling-denominated actively managed US equity funds underperformed the US equity gauge.

Meanwhile, 54% of large-cap domestic equity funds underperformed the S&P 500 in the US, according to the [SPIVA US Mid-Year 2025 Scorecard](#).

Interestingly, the latest SPIVA US Scorecard shows that around 75% of mid- and small-cap US equity funds outperformed in the first half of 2025. These figures may suggest that many active managers decided to tilt up the size spectrum, and that they were rewarded for doing so: the S&P 500 (6.2%) outperformed the S&P 400 (0.2%), which in turn outperformed the S&P 600® (-4.5%) YTD as of June 30, 2025.

However, before anyone uses recent results to confirm perceptions that smaller size segments offer greater opportunities for active

management, it is worth noting that the longer-term record says otherwise. Most US-based mid- and small-cap funds underperformed over most horizons, with similar underperformance rates as those observed for large-cap US equity funds. For example, nearly 90% of mid- and small-cap active managers underperformed the S&P 400 and S&P 600, respectively, over the 20-year period ending June 30, 2025.

As a result, despite recent success among US-based mid- and small-cap active managers, the latest SPIVA results continue to demonstrate the potential benefits of index-based investing across the market cap spectrum.

[Learn more](#) about S&P DJI's core US equity indices.

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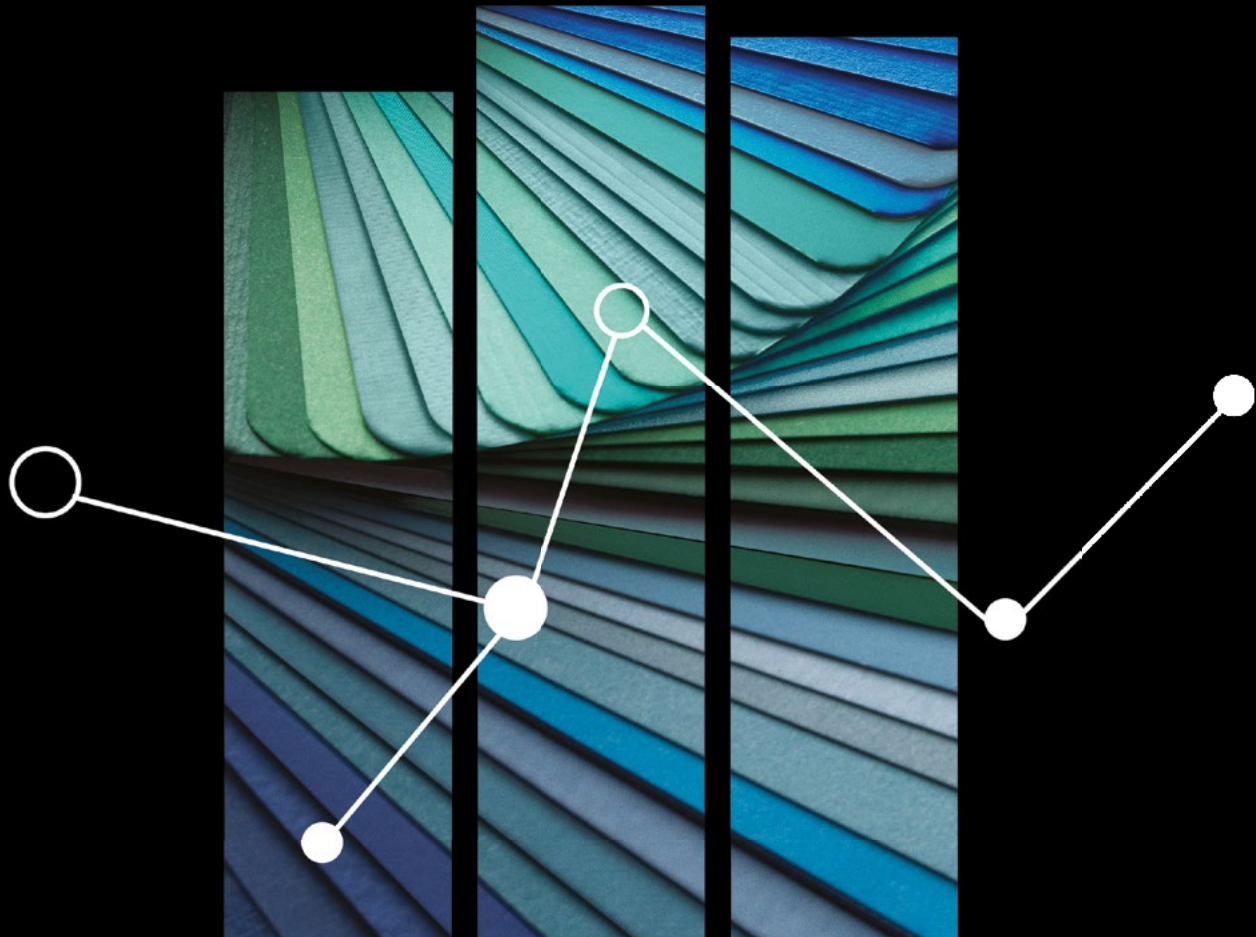
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