

# UNDER THE **SPOTLIGHT**

## ACTIVES

# The benchmark trap: Can active managers still deliver?

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# Large cap prevalence in indices creates challenges for active managers

Many active funds do not survive a full market cycle



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Global equity markets delivered strong returns in 2024, with the S&P World Index (EUR) gaining 27.4% and the S&P 500 (EUR) returning 33.4%. However, these gains were largely driven by a small group of dominant stocks, reflecting an increasingly concentrated market.

This trend is particularly evident in the US, where the ‘magnificent seven’ – a group of leading US technology and consumer companies – hold significant weight in global benchmarks. As of 28 February 2025, the top 10 stocks in the S&P 500 accounted for nearly 35% of the index, underscoring the growing influence of a few large-cap names.

A similar pattern has emerged in other major markets, including Australia, Singapore, Japan, Sweden and Germany, where the top 10 stocks have steadily increased their share of market capitalisation since 2020.

This high level of concentration presents a dilemma for active managers. Those who underweight these dominant stocks risk significant underperformance, while those who overweight them end up closely tracking the benchmark, reducing the value of active stock selection.

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are dark and their windows reflect the sky. The sky is a pale blue with soft, white clouds. The perspective creates a sense of height and scale.

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The latest SPIVA (S&P Indices Versus Active) Scorecard, published by S&P Dow Jones Indices, highlights how this concentration has posed challenges for active managers. The S&P Dow Jones Indices also reported that 71.7% of stocks in the S&P World Index underperformed in 2024, while in the S&P 500, 72.4% of its constituents lagged the index. Given this distribution, the chances of selecting an outperforming stock were low, making it difficult for active managers to generate excess returns.

The trend is not exclusive to the US markets. One such example can be found in Denmark, where 97% of equity funds outperformed the benchmark over one year, but the same percentage underperformed over three years. The dominance of Novo Nordisk, the Danish pharmaceutical behemoth, which represents over 50% of the S&P Denmark BMI, explains this swing.

When Novo Nordisk performs well, active managers who underweight the stock risk falling behind the benchmark, while those who overweight it may see strong returns but largely mirror the index. In a weaker year for the stock, active managers who take a diversified approach have a chance to outperform, but given Novo Nordisk’s dominance, finding alternative sources of return within Denmark’s market can be challenging.



2024 Underperformance:

Stocks in the S&P World Index

71.7% ▼

Stocks in the S&P 500

72.4% ▼

The SPIVA Scorecard highlights this trend across the board, with 91% of global equity funds underperforming the S&P World Index (EUR) and 85% of Europe equity funds lagging the S&P Europe 350 (EUR).

Germany and France provide further evidence of how market concentration limits active management success. In Germany, where the top 10 stocks represent 57% of the S&P Germany BMI, 94% of active funds underperformed the benchmark. Similarly, in France, where the top 10 stocks account for nearly 60% of the S&P France BMI, 91% of active funds lagged their benchmark.

2024 SPIVA : 1Y Underperformance Rates

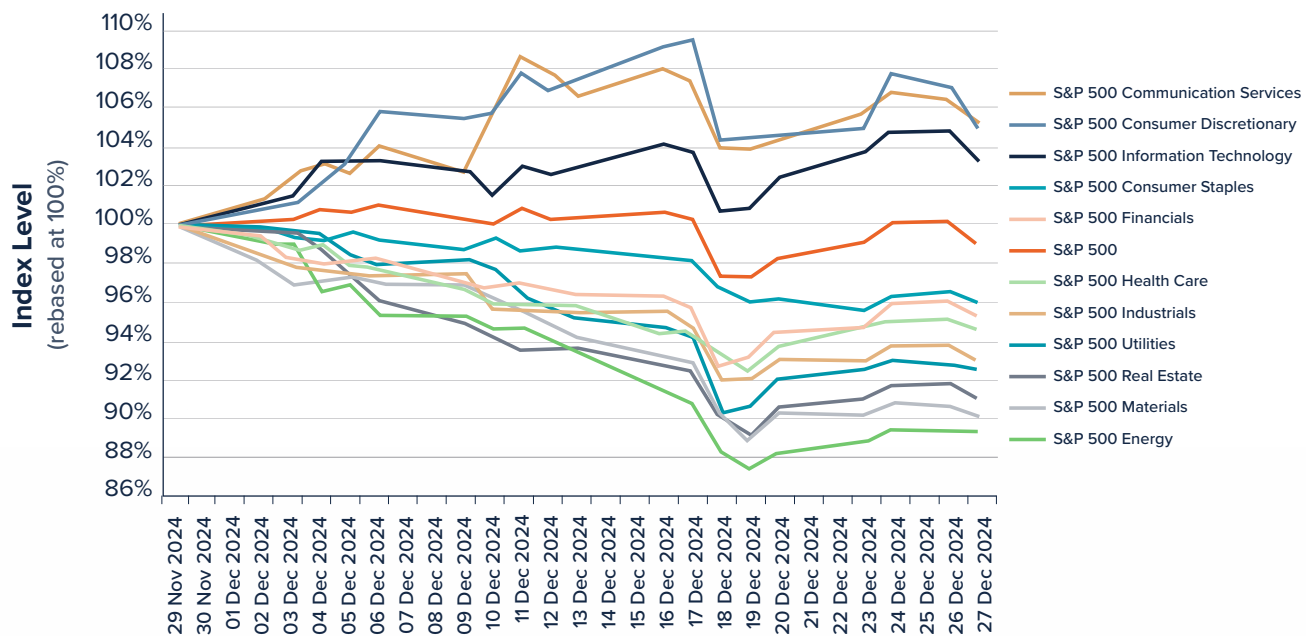
SPIVA Category (Equity)	Comparison Index	1Y (%)
Euro-Denominated Funds (EUR)		
Europe Equity	S&P Europe 350 (EUR)	85
Eurozone Equity	S&P Eurozone BMI	81
France Equity	S&P France BMI	91
Germany Equity	S&P Germany BMI	94
Global Equity	S&P World (EUR)	91
U.S. Equity	S&P 500 (EUR)	84
Emerging Markets Equity	S&P/IFCI Composite (EUR)	72
SPIVA Category (Equity)	Comparison Index	1Y (%)
British Pound Sterling-Denominated Funds (GBP)		
U.K. Equity	S&P U.K. BMI	72
SPIVA Category (Equity)	Comparison Index	1Y (%)
Swiss Franc-Denominated Funds (CHF)		
Switzerland Equity	S&P Switzerland BMI	68

Sources: S&P Dow Jones Indices

While concentration was a key challenge, market dispersion provided opportunities. The December dispersion data for S&P 500 sectors shows that communication services, consumer discretionary and information technology were among the strongest-performing sectors, while energy, materials and real estate lagged. This divergence highlights how sector allocation helped managers capture returns.

December Dispersion in S&P 500 Sectors

Index volatility remained low even despite significant repricing among sectors

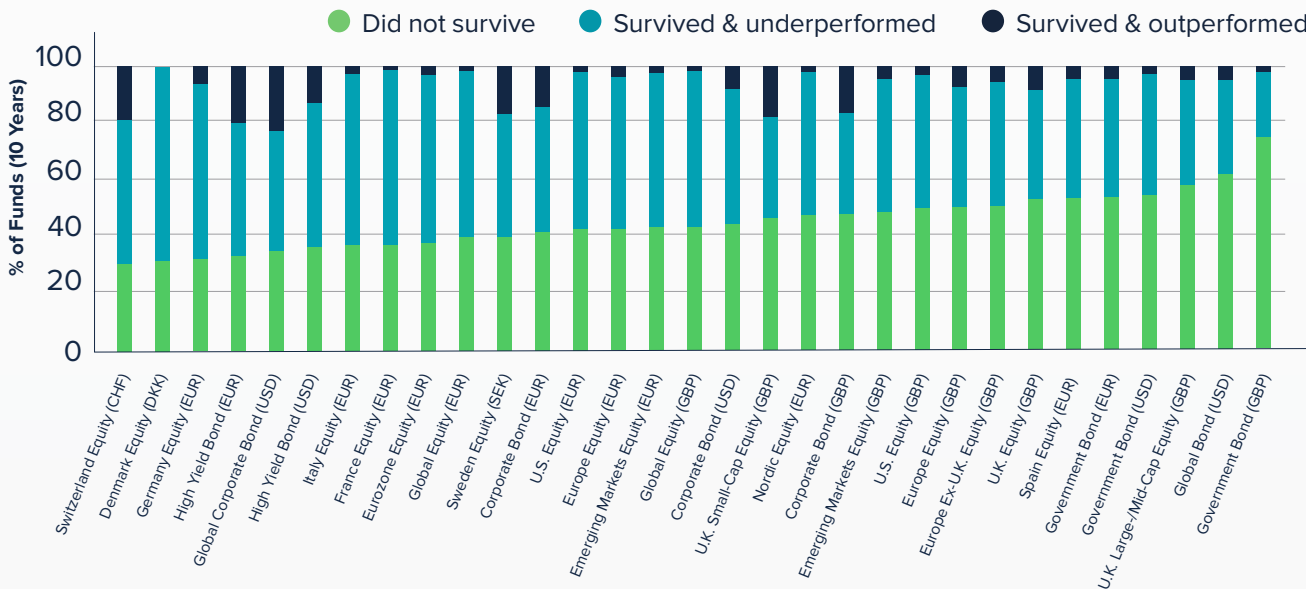


Sources: S&P Dow Jones Indices. Data to December 27, 2024. Index relative total returns shown in in U.S. dollars. Illustrative purposes only. Past performance is no guide to future performance.

The long-term challenge for active managers is further illustrated by fund survivorship rates. Many active funds do not survive a full market cycle, with a significant portion either closing or merging due to persistent underperformance. The SPIVA data on fund survivorship shows that many equity funds either did not survive over 10 years or underperformed their benchmarks.

The Impact of Fund Survivorship on Underperformance Rates

Behind the 10 year-statistics: All European categories



Source: S&P Dow Jones Indices, CRSP, Morningstar, Fundata. SPIVA Region as indicated by currency. Data as of Dec. 31, 2024. Provided for illustrative purposes only. Past performance is no guarantee of future performance.

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Measuring Passive’s Potential in Bonds



How has the recent performance of European active managers in fixed income compared to that in equity markets?

S&P Dow Jones Indices SPIVA® Scorecards have established themselves as a key resource for evaluating the performance of the active fund industry in relation to benchmark returns. Over the past 20 years, our reports, along with similar analyses conducted by others in academia and finance, and insights from real-world investor experiences, have contributed to a recognition that outperforming capitalization-weighted equity benchmarks, such as the S&P 500® and the S&P World Index, can be challenging, especially over the long term.

However, the bond markets present different characteristics. The widely used bond benchmarks may not be as well-known, and selecting an appropriate benchmark can be more nuanced. Additionally, bond index funds are in an



earlier stage of development, and the active fixed income industry has faced different challenges compared to their equity counterparts. The empirical record for fixed income is also developing. Our SPIVA Scorecards did not include active European fixed income fund categories until 2022, when the merger of S&P Global and IHS Markit integrated the iBoxx range of bond indices into S&P DJI’s suite of benchmark offerings.

In the coming weeks, our SPIVA Year-End 2024 Scorecards will provide insights on active fixed income fund performance across various global markets, including ten European fund categories with a sufficient sample size to yield representative statistics. The European results are already available, and, in relative terms, fixed income managers have achieved majority outperformance over the 2024 calendar year (see Exhibit 1). However, the findings are not entirely positive; over periods longer than one year, we observed majority underperformance among active fixed income funds, increasing to nearly 80% over a ten-year horizon.

**Exhibit 1: European Active Fund Underperformance Rates – SPIVA Europe Year-End 2024**

% of Funds Underperforming



Sources: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2024. Cross-category fund-weighted averages. Includes all categories whose benchmark was published over the 10-year horizon. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

**What do you think is driving those differentials and is there anything from the recent SPIVA results that you found surprising?**

The challenges faced by stock-pickers in recent years are widely recognised. When the largest companies and, by some metrics, among the most expensive, experience a prolonged period of strong performance, it can be difficult for fund managers hunting for potentially undervalued minnows to keep pace with capitalisation-weighted benchmarks. Conversely, it may be the bond markets have provided some opportunities for outperformance, particularly when evaluated retrospectively.

In comparison to the highly uncertain performance of smaller, cheaper stocks, the performance premium from the traditional sources of excess return in fixed income—taking credit, maturity or illiquidity risks, for example—are clearly advertised in the form of additional yields. At the end of 2023, there was not much promised to managers moving to longer-dated bonds: the German, U.S. and U.K. sovereign yield curves were inverted in places, while the yields at different maturity points in the broader investment grade euro universe—as measured by the iBoxx € Overall Index—were largely similar. Given the additional interest rate risk inherent in longer maturities, it might have seemed obvious to active managers that they should shorten their portfolio’s duration heading into 2024. Perhaps just as importantly and just as obviously, they were also offered a considerable yield enhancement from taking on greater credit risk.

**Exhibit 2: Performance of iBoxx European Bond Indices**

Index	Year End 2023 Annual Yield (%)	Year End 2023 Duration (%)	2024 Index Performance (%)
iBoxx € Sovereigns	2.81	7.20	1.8
iBoxx € Sovereigns 1-3	2.60	1.85	3.2
iBoxx € Sovereigns 10+	3.02	14.67	0.0
iBoxx € Overall	2.93	6.38	2.5
iBoxx € Overall 1-3	2.93	1.85	3.6
iBoxx € Overall 10+	3.06	14.46	0.3
iBoxx € Liquid High Yield Index	6.35	2.66	6.9
iBoxx € Liquid High Yield 1-3	6.70	1.82	6.2
iBoxx € High Yield CCC	13.48	2.75	11.7

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2024. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

As Exhibit 2 shows, due to tightening credit spreads and relative weakness in longer-dated bonds overall last year, active investments in the euro-denominated bond market in riskier credits or shorter maturities would have—on average—experienced positive performance in 2024. Similar dynamics were observed in the U.S. dollar and British pound sterling bond markets. In that context, it may not be surprising that a majority of actively managed European-based active bond funds outperformed their category benchmarks last year. Conversely, it may be noteworthy that the majority was relatively slim, and that a significant portion still underperformed over longer time horizons.

## What factors are influencing the evolution of the active and passive landscape in Europe?

At a high level, the profession is evolving from a focus on individual securities—meaning single stocks or single bonds—to a focus on broader themes like sectors, countries, factors, sustainability, credit quality, maturity and so on. This change in approach has been enabled by the growth in the availability and liquidity of ETFs representing different segments of the equity and bond markets. With a granular, low-cost, and liquid toolkit available for market participants to achieve diversified exposures across the credit and maturity spectrum, questions arise regarding the necessity of engaging an active manager for these services. More broadly, the active utilisation of passive products is noteworthy. On many days, the most traded security in the world is an index fund tracking The 500™. Meanwhile, ETFs listed in Europe have long found application with hedge funds and other high-frequency market participants. S&P Dow Jones Indices provided further insights on this topic last year with broader data illustrating the degree of active participation in so-called passive products.<sup>1</sup> We found that holding periods in listed products tracking our indices typically ranged from weeks to a few months. Among ETFs tracking our bond indices, the degree of volumes observed were comparable to those associated to equity indices.

This all suggests that the appearance of a dichotomy between active and passive investing is misleading. Many market participants continue to engage actively, but the instruments they are using are evolving. This trend may be more significant than the notable growth in buy-and-hold passive investing.

<sup>1</sup> Edwards, Tim, Anu Ganti and Igor Zilberman. “Active and Passive Harmonics: Trading Frequencies of Index-Linked Products.” The Journal of Beta Investment Strategies. Winter 2024.

## Are these trends unique to Europe, or are they similar in other global markets?

In terms of active fund performance, readers can dig into our freely available SPIVA Scorecards for Europe, the U.S., Latin America, Canada, Australia, India, the Middle East, South Africa and Japan. We’re also hoping to launch more reports this year covering markets including China and other Asian regions. There are commonalities, and one thing that we’ve found overall from these scorecards is that it is challenging to generate benchmark-beating performance in the long term, no matter which market you operate in. But how market participants, including the fund industry and regulators, have responded to this challenge has been different around the world. Europe faces its own challenges, but it also has certain advantages compared to other regions. We benefit here from a highly competitive marketplace for index and fund providers, and there is plenty of innovation in both the index-linked and active spaces. The landscape is evolving, which makes it an exciting time for index providers, for many of our clients and for the broader market.

**Experience** the active vs. passive debate on a global scale.

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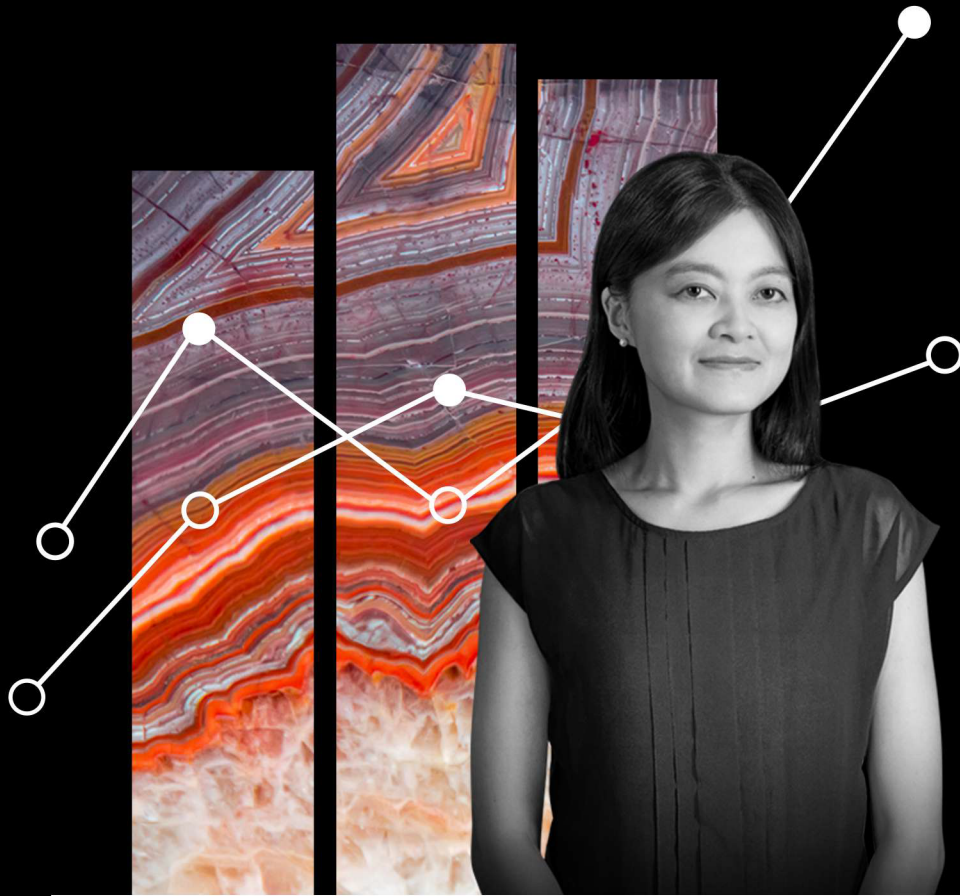
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