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A GROWING CONCERN—COUNTRY INDEX OVERCONCENTRATION

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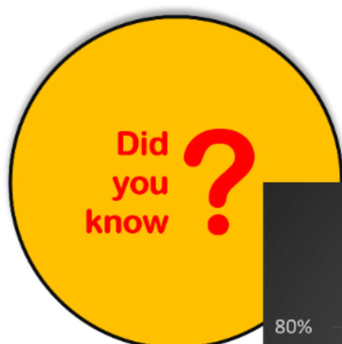
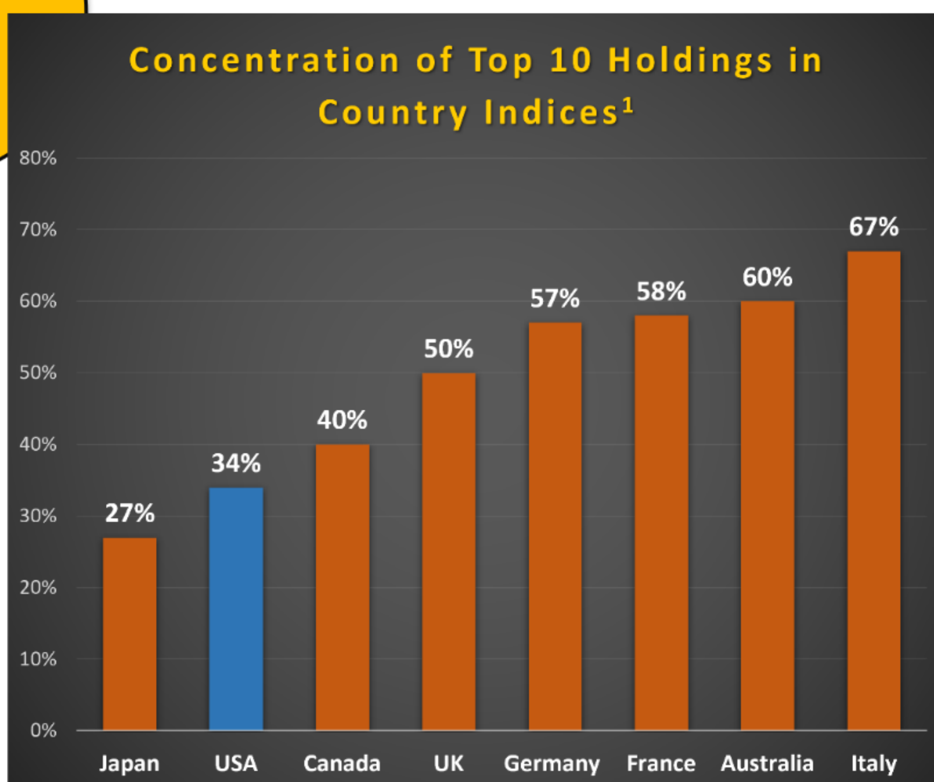
The popularity of the US market's *Magnificent Seven* and Europe's *Granolas* have brought to the fore the issue of index concentration.

The concern is that as the top holdings begin to dominate the overall capitalization of country indices, indices become top-heavy and increasingly vulnerable to the fortunes of just a handful of stocks. This recalls the S&P 500's overconcentration in 2000. When its top seven stocks, amounting to nearly 22% of the entire index, faltered, the index bubble burst shortly after, leading to the 'dot.com' crash and the bear market of 2000 – 2002 [1].





In recent months, the combined capitalization of the S&P 500 top-ten stocks has hovered at a much higher level—around 34% [2]—raising significant concern. In response, some investors have considered looking to international markets to reduce the concentration risk in their portfolios.

To the surprise of many, this solution can be counterproductive, as many international markets are routinely even more concentrated than the S&P 500 [3].

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[1] YCharts

[2] Bloomberg

[3] MSCI, iShares (constituent allocation as of June 7, 2024).

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The S&P 500 index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock’s weight in the index proportionate to its market value.

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