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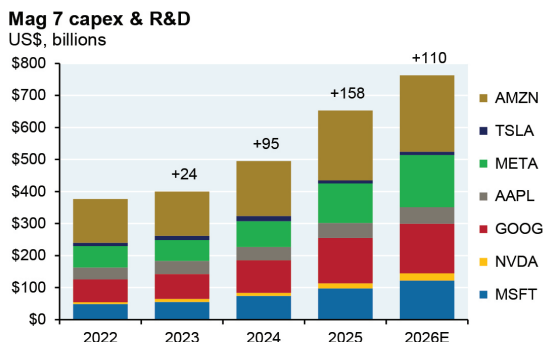
Equity Market Concentration

One of the big questions facing investment advisors and managers today is the exceptional level of concentration within global equity markets. This is particularly the case for advisors and managers favouring passive approaches. While many of its advocates seem unconcerned, we believe the case for market-cap weighted passive investing is now challenged.

The fact that their three largest constituents (NVIDIA, Microsoft and Apple) represented 21% and 15% of the S&P 500 and MSCI World indices at the time of writing confounds the basic, prudential desire to diversify. Given how this concentration has arisen, the potential impact on future returns is also a significant concern.

Because these and other large index constituents are in the same sector, the lack of diversification is even more acute; the Information Technology (‘IT’) sector represented 35% and 27% of the S&P 500 and MSCI World indices respectively at the time of writing. The sector recently exceeded its weighting in August 2000 - the height of the dot-com era bubble.

The concentration we are now seeing would be an issue under any circumstances, but it is all the more so because it came about through spectacular growth in the prices of a small number of technology stocks. The poster child, NVIDIA, has seen its share price rise more than 1,400% over the last three years. Demand for these names is largely driven by expectations around artificial intelligence (‘AI’), and many of a certain vintage will see parallels with the internet-related market crash at the start of the millennium. At that time vast investment flowed into the infrastructure needed to support the rapid growth anticipated in the internet. The corollary today is the rush to secure the highest performing semiconductor chips and massive building out of data centres to support AI. The scale of the monies being invested is truly eye-popping:



Source: Bloomberg, JPMAM, August 2025

At this juncture it is worth reminding ourselves of Amara’s Law, which states:

“We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run.”

This was certainly the case with the so-called ‘internet bubble’ of the late 1990s which saw massive capacity put in place as the hype grew and with tech companies being able to raise capital so easily and cheaply. The capacity put in place proved far too much in the near term and could not generate an adequate return. It turned out to be less than was needed over the longer term but in the meantime shareholders suffered a monumental destruction of value. Buoyed by internet fever the Nasdaq-100 surged nearly 400% in the roughly three years preceding its March 2000 peak, before plunging more than 80% to its October 2002 trough. A quarter of a century later what was then the world’s largest quoted stock (Cisco) has yet to regain its peak share price.



The truth around AI is that even industry experts have no better than a half-educated guess at what return this massive investment will generate – and when it will accrue. Which companies will emerge as the winners is also far from certain. It could for example turn out that the company that has invested most money, Amazon, more than justifies its lofty valuation (market cap > €2tn) by coming up with the market-leading product. But in doing so it may well eat the lunch of one or more of its major competitors – also currently priced for success. To take a longer perspective, these uncertainties also existed in the case of canals, railways, aviation and other ground-breaking changes. Each saw intense speculative phases before markets and competition revealed winners and losers, with huge fortunes being made and lost - often with the losses preceding the gains.

Lest we seem disparaging of AI it is worth stating that it will almost certainly have a radical impact on the speed of research in medicine and many other areas of life. And it is very likely to materially enhance productivity across a very wide range of activities - including financial planning. An indicator of its potential is that ChatGPT reached 100m monthly active users in two months whereas it took WhatsApp over three years to reach that milestone (Source: ChatGPT!). Clearly AI has amazing potential but the fundamental problem from an investment perspective is the uncertainties – what level of return on investment? to whom? and when?

Again, it is only right to point out that the profiles of the leading technology companies are very different compared with the dot-com era. Most are extremely profitable and generating immense cash flows. Some

have quasi-monopolistic positions. One would like to be able to say that they are better governed a quarter of a century later, but dominant and idiosyncratic leaders are possibly even more common today!

What can advisors and managers do to address portfolios in the face of the concentration issue? Adding non-US positions to dilute the US weighting is one option. Equal-weighted indices can be used. There are also indices which do not use market capitalisation. One well known systematic approach tilts funds using factors which result in substantially reducing the concentration issue. Within the multi-asset funds that favour passive investment we already see some use of low volatility indices and would not be surprised to see further diversification from 'straight' global equity.

