

## Effectively Measuring Mega Caps: The S&P 500 Top 50

### Contributor

**Hamish Preston, CFA**  
 Director  
 U.S. Equity Indices  
[hamish.preston@spglobal.com](mailto:hamish.preston@spglobal.com)

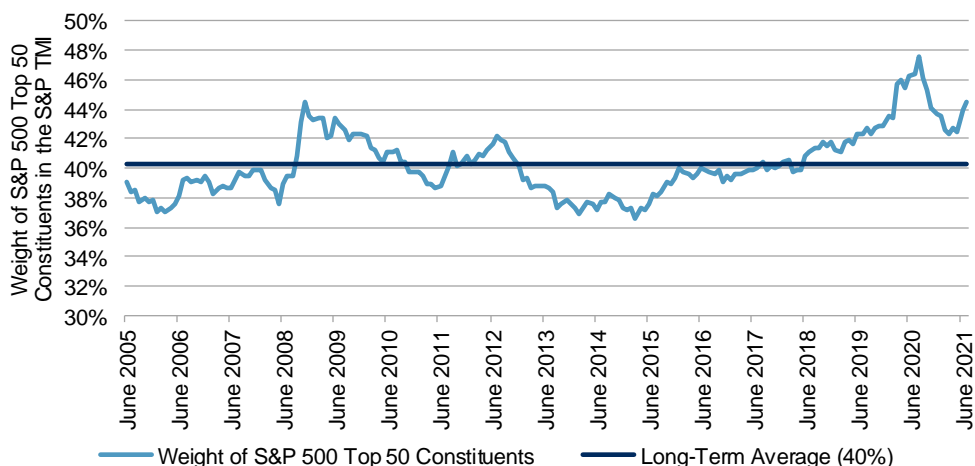
### EXECUTIVE SUMMARY

U.S. mega-caps have become increasingly important in driving equity returns in recent years amid outperformance from some of the largest companies. Given the elevated importance of U.S. mega-caps in recent years, this paper provides an overview of the [S&P 500 Top 50<sup>®</sup>](#), which seeks to measure the performance of mega-cap U.S. equities by selecting the largest 50 companies in the [S&P 500](#), annually. Specifically, this paper:

- Highlights the potential relevance of U.S. mega-caps;
- Outlines the S&P 500 Top 50's construction, and analyzes the index's historical risk/return characteristics, and;
- Shows how incorporating U.S. mega-caps could help investors alleviate domestic sector biases.

Exhibit 1 shows that S&P 500 Top 50 constituents accounted for around 45% of the U.S. equity market, as represented by the [S&P Total Market Index \(TMI\)](#), at the end of July 2021. This figure ranked in the top 5% of month-end readings since June 2005 and was far above the long-term average of 40%.

**Exhibit 1: Mega Caps Account for a Sizeable Portion of the U.S. Equity Market**



Source: S&P Dow Jones Indices LLC. Data from June 30, 2005, to July 30, 2021. Chart shows the weight of S&P 500 Top 50 constituents in the S&P TMI. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

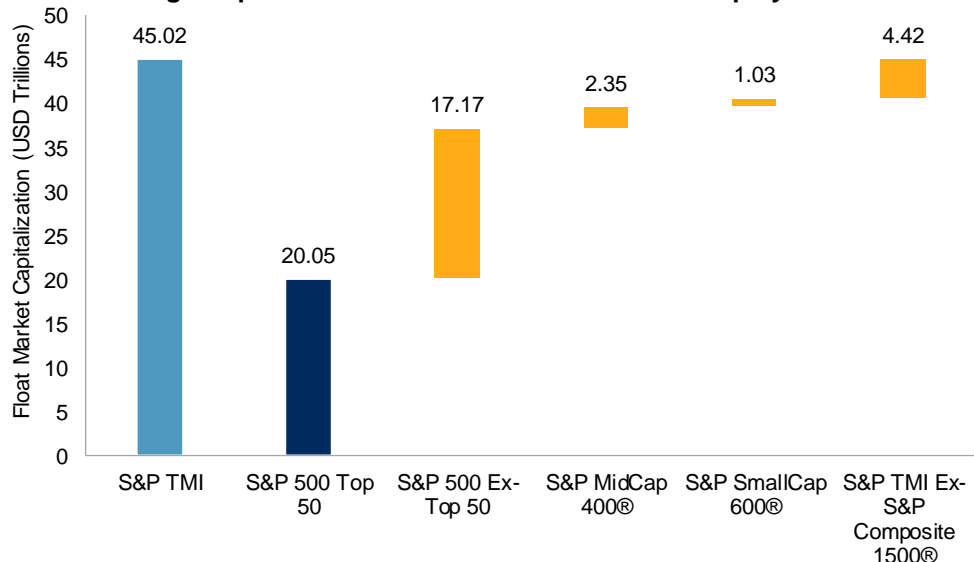
## POTENTIAL RELEVANCE OF U.S. MEGA-CAP COMPANIES TO GLOBAL INVESTORS

*U.S. companies represent a significant portion of the global equity space, and U.S. mega-caps are an order of magnitude larger than other U.S. companies.*

The breadth and depth of the U.S. equity market means that trends affecting U.S. companies will be relatively important in driving global equity returns. For example, U.S.-domiciled companies accounted for 57% of the weight of the [S&P Global BMI](#) as of July 30, 2021, nearly 8.5 times larger than the index’s second-largest country, Japan.

Exhibit 1 showed that mega-cap companies represent a sizeable portion of the U.S. equity market. Exhibit 2 reinforces this point by comparing the float market capitalization of the S&P TMI and its component indices, as of July 30, 2021.<sup>1</sup> While smaller U.S. equity indices are as large as certain S&P Global BMI countries,<sup>2</sup> S&P 500 Top 50 constituents are an order of magnitude larger.

**Exhibit 2: Mega Caps Are a Sizeable Portion of the U.S. Equity Market**



*As a result, U.S. mega-cap companies can have an outsized impact on global equity returns.*

Source: S&P Dow Jones Indices LLC. Chart is based on free-float market capitalizations as of July 30, 2021. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Perhaps unsurprisingly, U.S. mega-cap companies can have an outsized impact on global equity returns and measuring their performance may help to identify prevailing market narratives. This is especially the case for certain global equity sectors: Exhibit 3 shows that U.S. companies account for the majority of the float market capitalization in most S&P Global BMI sectors, and U.S. mega-cap companies account for a sizeable proportion of this weight.

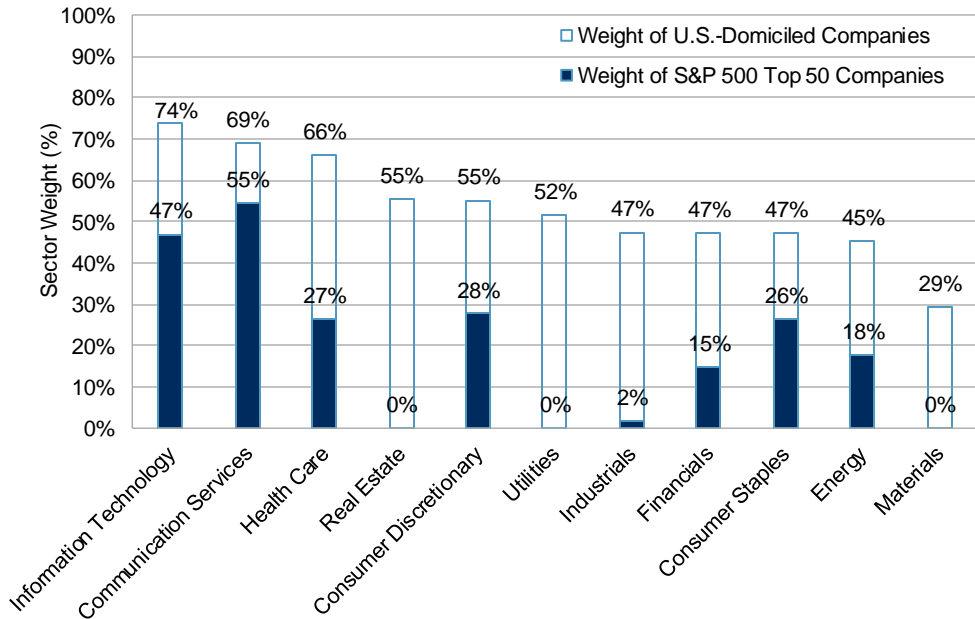
<sup>1</sup> There is significant overlap between the S&P Total Market Index and the U.S. equity portion of the S&P Global BMI; 99.7% of the former’s index weight was found in S&P Global BMI as of July 30, 2021.

<sup>2</sup> Treated as standalone countries, the S&P MidCap 400 and S&P SmallCap 600 would be the fifth and fourteenth largest countries in the S&P Global BMI, respectively, as of July 30, 2021.

**Exhibit 3: U.S. Mega-Cap Companies Account for a Sizeable Proportion of Certain S&P Global BMI Sectors**

*U.S. companies account for the majority of the float market cap in most S&P Global BMI sectors...*

*...and U.S. mega-cap companies account for a sizeable proportion of this weight.*



Source: S&P Dow Jones Indices LLC. Data as of July 30, 2021. Chart shows the proportion of each S&P Global BMI sector represented by U.S.-domiciled companies and by constituent companies of the S&P 500 Top 50. Chart is provided for illustrative purposes.

### INDEX CONSTRUCTION

The S&P 500 Top 50 is reconstituted annually, after the close of the third Friday in June, using data as of the last business day in May. A buffer rule is applied to the constituent selection process in order to reduce turnover, meaning that at each reconstitution:

1. All companies ranked in the top 45 by float-adjusted market capitalization are automatically selected for index inclusion;
2. Next, any current constituent companies remaining within the top 55 are reselected for index inclusion, in order by rank, until the 50-company target count has been reached; and
3. If the target count still has not been reached, the highest-ranking non-constituents are selected until 50 companies are included.

Share counts are updated quarterly and are reflected in the index weights, in line with S&P 500 share counts. Constituents that are dropped from the S&P 500 are concurrently dropped from the S&P 500 Top 50 and are not replaced until the next annual reconstitution.<sup>3</sup>

*The S&P 500 Top 50 seeks to measure the performance of the largest 50 companies in the S&P 500.*

<sup>3</sup> For more information, see the [S&P U.S. Indices Methodology](#).

*The mega-cap index only outperformed in 8 of the past 15 full calendar year periods...*

<b>Exhibit 4: S&amp;P 500 Top 50 Quick Facts</b>	
Weighting Method	Float-Adjusted Market Cap Weighted
Rebalancing Frequency	Annually in June
Calculation Frequency	Real Time
Calculation Currencies	USD
Launch Date	Nov. 30, 2015
First Value Date	June 30, 2005
Regulatory Authorization	European Union

Source: S&P Dow Jones Indices LLC. Table is provided for illustrative purposes.

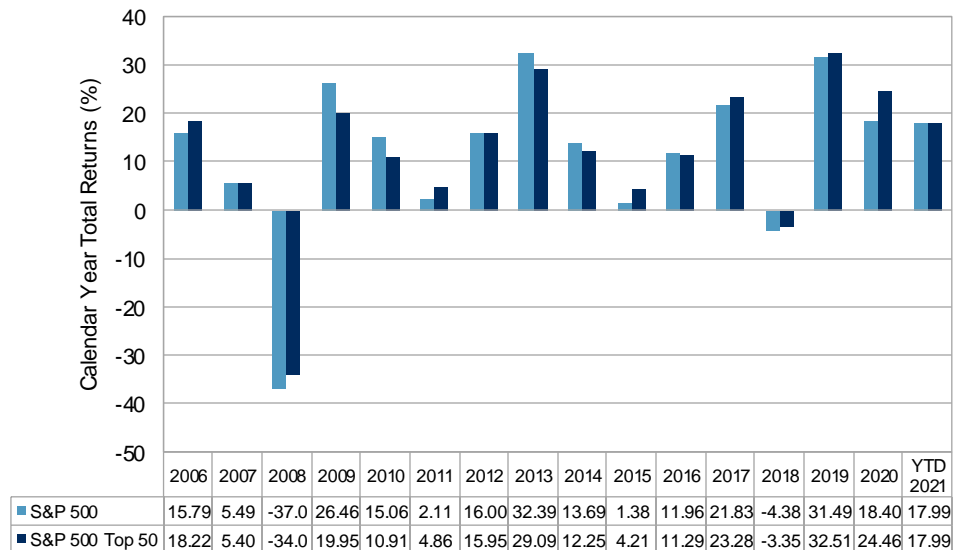
### HISTORICAL PERFORMANCE

Exhibits 5-7 show the historical risk/return profiles of the S&P 500 and the S&P 500 Top 50. Although the mega-cap index outperformed in 8 of the past 15 full calendar year periods, the magnitude of outperformance in certain years offered tailwinds to the mega-cap index.

For example, the S&P 500 Top 50 posted its highest ever calendar year outperformance in 2020, beating the S&P 500 by 6%. This was largely the result of strong relative returns over the first eight months of 2020, as many investors expected certain mega-cap companies to be better positioned to navigate the COVID-19 environment.

*...but the magnitude of outperformance in certain years offered tailwinds to the mega-cap index.*

**Exhibit 5: U.S. Mega-Caps Outperformed in 8 of the Past 15 Full Calendar Years**



Source: S&P Dow Jones Indices LLC. Data from Dec. 30, 2005, to July 30, 2021. Past performance is no guarantee of future results. Index performance based on total return in USD. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

**Exhibit 6: The S&P 500 Top 50 Posted Higher Returns and Lower Volatility over Various Horizons**

PERIOD	S&P 500	S&P 500 TOP 50
<b>RETURNS (ANNUALIZED, %)</b>		
1-Year	36.45	34.32
3-Year	18.16	20.90
5-Year	17.35	19.19
10-Year	15.35	16.42
15-Year	10.86	11.28
Since June 2005	10.70	10.99
<b>VOLATILITY (ANNUALIZED, %)</b>		
3-Year	18.48	18.36
5-Year	14.96	14.97
10-Year	13.55	13.38
15-Year	15.17	14.65
Since June 2005	14.75	14.22
<b>RETURNS/VOLATILITY</b>		
3-Year	0.98	1.14
5-Year	1.16	1.28
10-Year	1.13	1.23
15-Year	0.72	0.77
Since June 2005	0.73	0.77

*The S&P 500 Top 50 posted its highest ever calendar year outperformance in 2020.*

*This was largely the result of strong relative returns over the first eight months of 2020...*

Source: S&P Dow Jones Indices LLC. Data as of July 30, 2021. Index performance based on monthly total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

**Exhibit 7: The Relative Returns of Mega-Cap Companies Improved Significantly in Recent Years**



*...as many investors expected certain mega-cap companies to be better positioned to navigate the COVID-19 environment.*

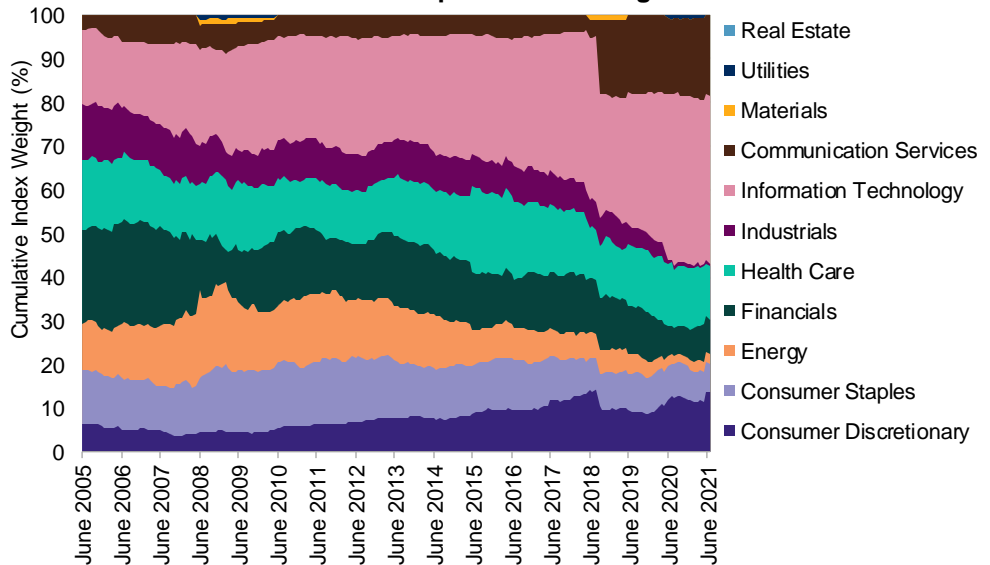
Source: S&P Dow Jones Indices LLC. Data from June 30, 2005, to July 30, 2021. Index performance based on monthly total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

### ALLEVIATING DOMESTIC SECTOR BIASES

Exhibit 8 shows the evolution of GICS® sector weights in the S&P 500 Top 50 since June 2005. In recent years, the outperformance of some of the largest Information Technology companies led to an increased representation from the sector. Communication Services also increased in size following the September 2018 GICS reclassification; Telecommunication Services was renamed and expanded to become Communication Services in order to reflect the changing ways we communicate.

*In recent years, the outperformance of some of the largest IT companies led to increased weight in the S&P 500 Top 50.*

**Exhibit 8: Evolution of S&P 500 Top 50 Sector Weights**



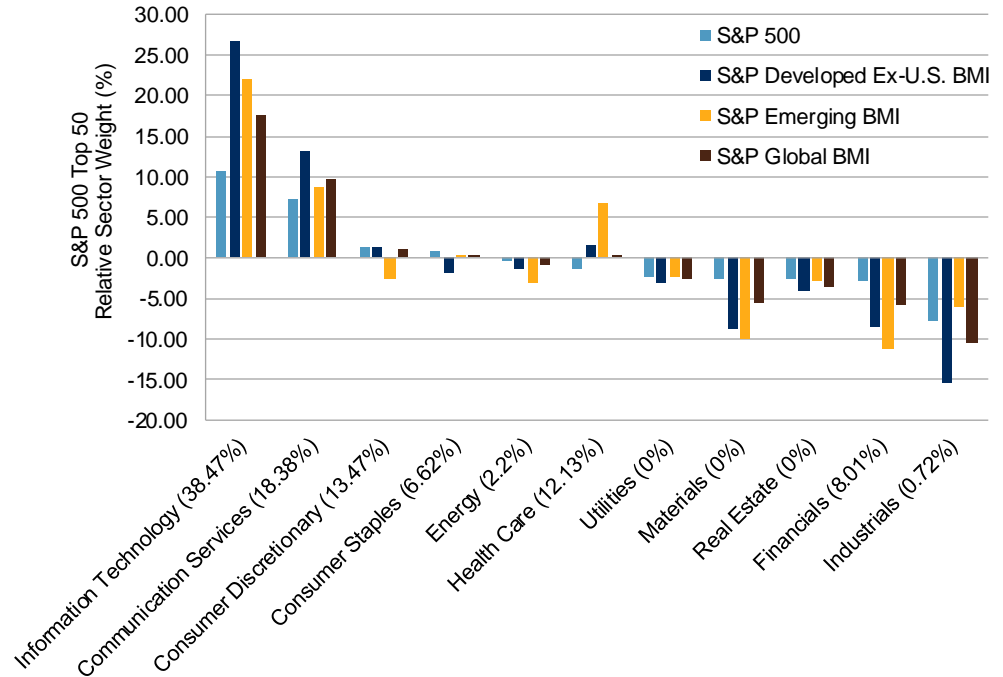
Source: S&P Dow Jones Indices LLC. Data from June 30, 2005, to July 30, 2021. Chart based on month-end GICS sector weights. Real Estate became a standalone sector in September 2016. Telecommunication Services was renamed Communication Services in September 2018. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

*Communication Services also increased in size following the September 2018 GICS reclassification.*

Exhibit 9 shows the relative GICS sector weights of the S&P 500 Top 50 to other equity indices; a positive number indicates that the mega-cap index has greater weight in a particular sector. The mega-cap index’s sector weights are given in parentheses after the corresponding sector name.

Exhibit 9 shows that the S&P 500 Top 50 has much higher weight in Information Technology and Communication Services compared with other equity indices. Hence, for global market participants whose local equity market has little exposure to these sectors, incorporating U.S. mega-cap companies may help diversify sector exposures and alleviate domestic sector biases.

**Exhibit 9: The S&P 500 Top 50 Is Titled toward Information Technology and Communication Services**



*Incorporating U.S. mega-cap companies may help diversify sector exposures and alleviate domestic sector biases.*

Source: S&P Dow Jones Indices LLC. Data as of July 30, 2021. Chart shows the relative sector weights of the S&P 500 Top 50; a positive number indicates the mega-cap index had greater weight in a GLCS sector. The S&P 500 Top 50's sector weights are given in parentheses after the corresponding sector name. Chart is provided for illustrative purposes.

**CONCLUSION**

*The importance of U.S. mega-cap companies reaches beyond the U.S. equities market.*

The S&P 500 Top 50 seeks to measure the performance of mega-cap U.S. equities by selecting the largest 50 companies in the S&P 500, annually.

The representation of mega-caps in the U.S. equity market, coupled with the breadth and depth of the U.S. equity market, means that U.S. mega-caps represent a sizeable portion of the global equity space. Hence, the S&P 500 Top 50's relative returns may help to explain global equity trends, especially within certain sectors.

Additionally, the S&P 500 Top 50 could have helped to improve risk-adjusted returns, historically: the index posted higher returns and lower volatility than the S&P 500 over various horizons ending July 30, 2021.

Finally, the S&P 500 Top 50's sector weights suggest that U.S. mega-caps may be relevant for global market participants looking to alleviate domestic sector biases, especially for those whose domestic markets have little exposure to Information Technology and Communication Services companies.

## PERFORMANCE DISCLOSURE/BACK-TESTED DATA

The S&P 500 Top 50 Index was launched November 30, 2015. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at [www.spglobal.com/spdji](http://www.spglobal.com/spdji). Past performance of the Index is not an indication of future results. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results. Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the [FAQ](#). The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices maintains the index and calculates the index levels and performance shown or discussed but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US \$100,000 investment for a 12-month period (or US \$10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US \$1,650), the net return would be 8.35% (or US \$8,350) for the year. Over a three-year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US \$5,375, and a cumulative net return of 27.2% (or US \$27,200).



## GENERAL DISCLAIMER

© 2021 S&P Dow Jones Indices. All rights reserved. S&P, S&P 500, S&P 500 LOW VOLATILITY INDEX, S&P 100, S&P COMPOSITE 1500, S&P 400, S&P MIDCAP 400, S&P 600, S&P SMALLCAP 600, S&P GIVI, GLOBAL TITANS, DIVIDEND ARISTOCRATS, S&P TARGET DATE INDICES, S&P PRISM, S&P STRIDE, GICS, SPIVA, SPDR and INDEXOLOGY are registered trademarks of S&P Global, Inc. ("S&P Global") or its affiliates. DOW JONES, DJ, DJIA, THE DOW and DOW JONES INDUSTRIAL AVERAGE are registered trademarks of Dow Jones Trademark Holdings LLC ("Dow Jones"). These trademarks together with others have been licensed to S&P Dow Jones Indices LLC. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, S&P Global, Dow Jones or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. Except for certain custom index calculation services, all information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties and providing custom calculation services. Past performance of an index is not an indication or guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle. S&P Dow Jones Indices LLC is not a tax advisor. A tax advisor should be consulted to evaluate the impact of any tax-exempt securities on portfolios and the tax consequences of making any particular investment decision. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice. Closing prices for S&P Dow Jones Indices' US benchmark indices are calculated by S&P Dow Jones Indices based on the closing price of the individual constituents of the index as set by their primary exchange. Closing prices are received by S&P Dow Jones Indices from one of its third party vendors and verified by comparing them with prices from an alternative vendor. The vendors receive the closing price from the primary exchanges. Real-time intraday prices are calculated similarly without a second verification.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof ("Content") may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of S&P Global may have information that is not available to other business units. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

The Global Industry Classification Standard (GICS®) was developed by and is the exclusive property and a trademark of S&P and MSCI. Neither MSCI, S&P nor any other party involved in making or compiling any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.