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TalkingPoints

Drilling Down on Sectors in Europe: Navigating Concentration and Macro Risk with Indices

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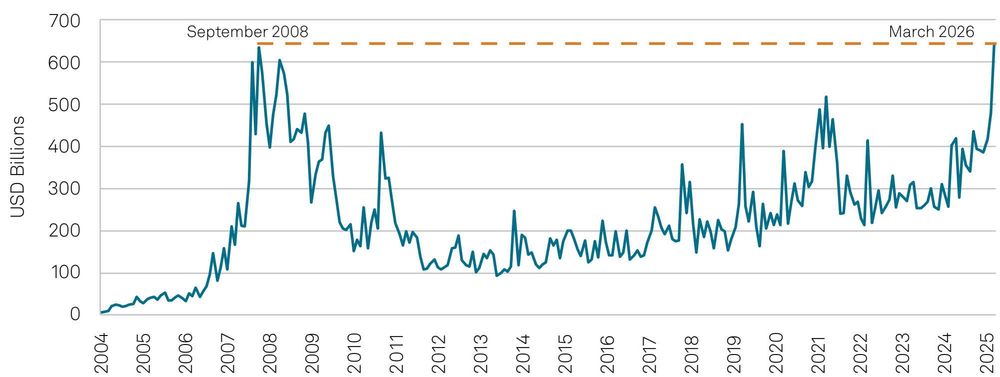
Volumes associated with listed products tracking S&P 500® sectors[1] rose to USD 643 billion in March 2026, breaking a monthly record that had stood since September 2008.

Exhibit 1: Total Monthly Global ETF and Futures Volumes in Listed Products linked to S&P 500 Sectors



Source: S&P Dow Jones Indices LLC, U.S. Sector Dashboard. Data as of March 31, 2026. Chart is provided for illustrative purposes.

1. With a handful of mega-cap names and their strategic partners continuing to drive much of U.S. equity market performance, why might investors consider drilling down into other sector segments?

The concentration of performance in a small cluster of mega-cap names has been one of the defining features of the current market regime, but it is precisely this dynamic that makes sector perspectives increasingly relevant. When leadership narrows, investors implicitly take on greater idiosyncratic risk, even in passive allocations. In that context, sector exposures can offer a way to rebalance risks, to diversify sources of performance or to protect against perceived threats of poor (or under-) performance.

This article was first published by ETF Stream.

[1] For more information, please see Malinowski, Agatha, "Mapping Liquidity across S&P 500 Sectors," S&P Dow Jones Indices LLC, March 24, 2026.

Headline index performance can often mask substantial variation beneath the surface and, historically, sectors have played a central role in driving differential equity performance in both high and low volatility periods. Sector dispersion typically reaches elevated levels during periods of market disruptions and rotations and, while finding benchmark-beating stocks is notoriously hard, our own research shows that since the late 1990s, a majority of U.S. sectors outperformed the headline benchmark.[2] What distinguishes the current environment is less an absence of potential and more the degree of differentiation among performance in different market segments.

There is also a structural dimension. Sector allocations allow investors to express views on macroeconomic and geopolitical themes, reflecting different sensitivities to economic cycles, input costs and various earnings drivers such as tariffs, taxes, innovation and much more. For example, consumer inflation and confidence measures find correlations in the relative performance of the Consumer Staples and Consumer Discretionary sectors. Rising energy prices are a challenge to most companies, but not to the Energy sector, which notably zigged as the rest of the market zagged in the early months of the Russia-Ukraine war and continues to display distinct performance in response to the evolving peace negotiations in the Middle East.

Ultimately, drilling down into sectors is less about abandoning the market narrative and more about refining it, isolating the drivers of risk and return at a level that balances diversification across companies with differentiation across economic exposures.

2. Which risks are investors trying to manage through sectors today, from energy prices and inflation to tariffs and AI concentration?

Sector allocation has always been closely linked to macro risk management, but today's environment is notable for the number of overlapping risks investors are navigating simultaneously. Alongside AI and geopolitics, inflation and energy dynamics remain central. Energy, for instance, is a relatively small portion of the S&P 500 by market capitalization, yet it is disproportionately important when it comes to hedging commodity price shocks and inflationary pressures. Our recent publications, including the U.S. Sector Dashboard, have highlighted this divergence between sector weight and trading activity; in April, for example, Energy accounted for just 3.5% of the capital invested in the S&P 500, but around 20% of all trading volume in listed products associated with the S&P 500 Sector Indices.[3]

Geopolitical risk and tariffs add another dimension. The Industrials and Materials sectors, as well as parts of the Technology Hardware sub-industry, have differing sensitivities to supply chain disruptions and trade policy shifts. Sector positioning allows investors to adjust exposures without needing to take security-level views on individual companies affected by these dynamics.

The most prominent risk in investors' minds, however, is perhaps concentration tied to AI. The perceived beneficiaries of AI primarily compose a relatively small subset of large-cap technology firms, which themselves have driven a significant share of index performance. Sector strategies offer a way to disentangle that exposure: investors can isolate technology exposure, diversify within it via equal weighting, or rotate into adjacent sectors or subsectors, such as Communication Services or Semiconductors, that participate in the trend at different points in the value chain.

More broadly, sector indices provide a toolkit for managing both cyclical and defensive positioning. Historically, defensive sectors have shown resilience during market downturns, while cyclical sectors have tended to lead in expansions. This cyclical sensitivity remains highly relevant in an environment where economic visibility is still evolving.

3. How have sector indices evolved with the arrival of disruptive megatrends and demand for more granular exposure to subsectors?

Sector indices have evolved significantly over the decades. One key development has been the refinement of classification systems themselves. The Global Industry Classification Standard (GICS®)[4] has undergone multiple revisions to better reflect structural shifts—for example, the creation of the Communication Services sector reflected the convergence of media, telecoms and digital platforms, while the promotion of Real Estate to a top-level sector distinct from Financials was a recognition of the growing heft and importance of the segment.

Alongside classification changes, there has been growing demand for sub-sector- and industry-level exposures. Even sector exposures can be too broad when megatrends such as AI, energy transition or digitalization often sit within very specific parts of the value chain. Within the U.S. Information Technology sector, for example, Semiconductors were up 42% YTD, while Software companies have slumped 14%.[5] Such dispersion drives demand for more targeted indices and products.

[2] There are 11 top-level sectors today, after Real Estate was promoted from Financials in 2016. Excluding that sector, a total of 6 out of 10 sectors of the S&P 500 outperformed the S&P 500 itself on a total return basis from Dec. 31, 1999, to May 28, 2026.

[3] Month-end data as of April 30, 2026. See S&P Dow Jones Indices "U.S. Sector Dashboard" for updated figures.

[4] For more information, please see Wang, Fei, "An Overview of GICS and S&P U.S. Sector & Select Industry Indices," S&P Dow Jones Indices LLC, April 13, 2026.

[5] Total returns to May 27, 2026, based on S&P Composite 1500® industries.

There is also increasing overlap between sector and thematic investing. In some cases, sector exposures provide the foundational building blocks for thematic allocations. However, they remain different in practice. Each individual company is assigned to just one sector, but it may have exposures to multiple themes. For example, the S&P Global Clean Energy Transition Index has just 1% of its weight in Energy stocks, compared to 39% in Industrials, 32% in Utilities and 28% in Information Technology.

Finally, the rise of data and analytics has enhanced how sectors are used. Our dashboards—including our U.S. Sector Dashboard—and ongoing commentary, spanning daily to quarterly insights, reflect a growing demand for timely, evidence-based analysis of sector performance and dynamics.

4. Has the use case for single-sector strategies changed within European ETF investor portfolios?

In Europe, the use of single-sector ETFs has evolved from a largely tactical tool into a more integrated component of portfolio construction. Historically, sector ETFs were often used for short-term positioning, expressing views on earnings cycles, commodity price movements or macro data releases. While this remains an important use case, we are increasingly seeing sector exposures used more structurally, particularly alongside broader allocations to ETFs.

One driver of this shift is the regulatory environment. Undertakings for Collective Investment in Transferable Securities (UCITS) structures have historically imposed concentration limits, which has influenced how investors access sector exposures relative to the U.S. While this can reduce extreme single-stock concentration, it also reinforces the role of sectors as a controlled way to take on targeted exposures.

Another key development is the growing role of sectors in multi-asset and model portfolios. As ETF adoption has broadened across wealth and institutional channels, some market participants are using sectors as a way to fine-tune exposures, whether to tilt toward income, manage volatility or express cyclical views.

Overall, European investors are engaging with the same global themes as their U.S. counterparts, albeit with implementation through regionally appropriate tools. Sectors are one potential option for expressing views using simple and deliberate, integrated components aligned with long-term designs.

Learn more about S&P DJI's sector indices.