S&P Dow Jones Indices

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TalkingPoints

Exploring U.S. Equities — Concentration, Mid Caps and SPIVA

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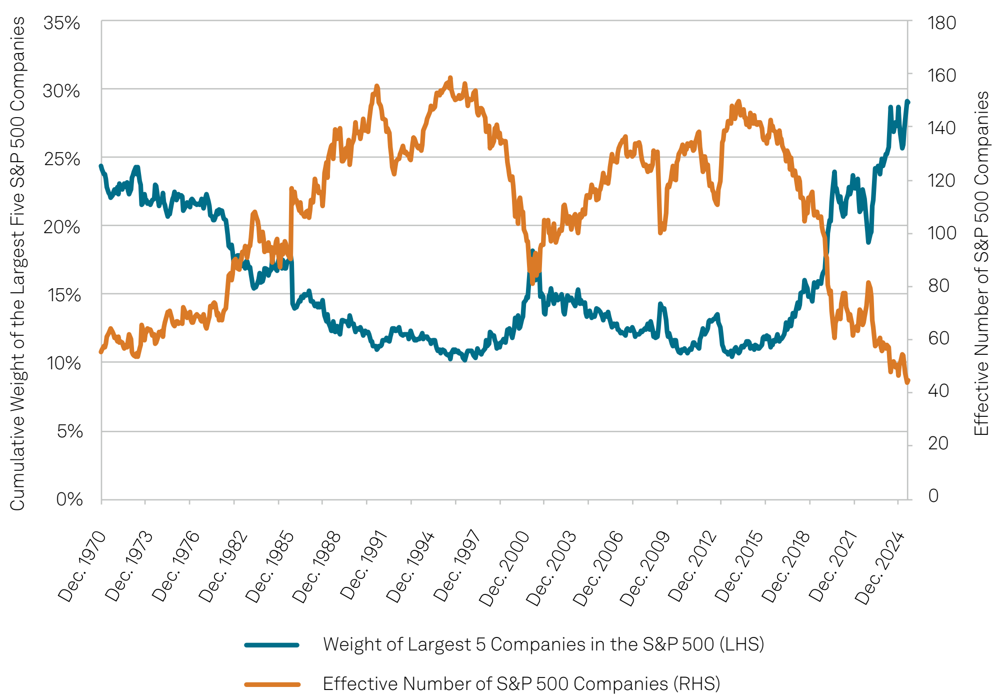
1 . With concentration in U.S. large caps front of mind, what approaches do you see investors taking to balance risk and opportunity?

Equity market concentration has remained front of mind for many market participants. Despite underperforming during the first few months of 2025, mega caps' leadership returned in Q2, continuing a years' long trend. Reflecting this dynamic among large-cap U.S. equities, the cumulative index weight of the largest five S&P 500® companies hit multi-decade highs in July 2025, while the effective number of S&P 500 constituents reached multi-decade lows in the same month (see Exhibit 1).[1]

Exhibit 1: The S&P 500's Composition Reflected Mega-Caps' Continued Leadership



Source: S&P Dow Jones Indices LLC. Chart shows the cumulative weight of largest five S&P 500 companies and the effective number of S&P 500 companies, based on month-end constituent data from December 1970 to August 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

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[1] The effective number of companies is calculated as the reciprocal of the Herfindahl-Hirschman Index (HHI).

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Equal weight or capped approaches—such as those based on the S&P 500 Equal Weight Index and the S&P 500 3% Capped Index—have remained of interest to investors seeking to mitigate concentration risk and to express views on mean reversion in equity market concentrations.[2]

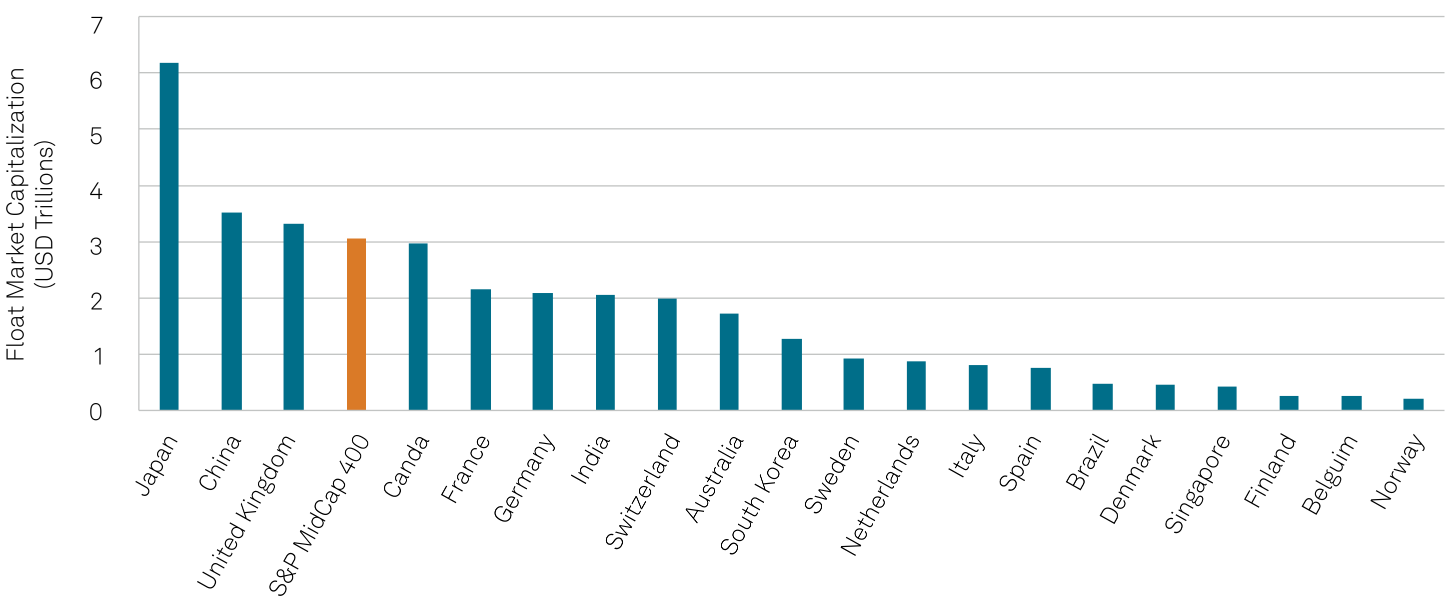
However, mega caps' sustained outperformance in recent years, coupled with their resurgence in Q2 2025, may have challenged the patience and conviction of some investors that had anticipated mean reversion in S&P 500 concentration levels: the S&P 500 Equal Weight index (40%) underperformed the S&P 500 (75%) by 35% between the end of 2022 and August 2025.

Hence, many market participants may have looked to incorporate mega-cap strategies—such as those based on the S&P 100, S&P 500 Top 20 Select Index and the S&P 500 Top 50 Index—to alleviate potential underperformance from equal weight or capped approaches should the mega -cap leadership continue.

2. What is the potential relevance of U.S. mid caps in today's market and how do they differ from large caps?

The breadth and depth of the U.S. equity market means that the mid-cap U.S. equity segment, as represented by the S&P MidCap 400®, is larger than many countries' equity markets (see Exhibit 2). For example, treated as a standalone country, the S&P 400® was the fifth largest country in the S&P Global BMI at the end of August 2025, larger than the French and German equity markets. Hence, market participants risk overlooking a significant portion of the global equity opportunity set if they ignore smaller U.S. size segments.

Exhibit 2: The S&P MidCap 400 Is Larger Than Many Countries' Equity Markets



Source: S&P Dow Jones Indices LLC. Data as of Aug. 29, 2025. Chart shows the index market capitalization of the S&P MidCap 400 and various country segments of the S&P Global BMI. Past performance is no guarantee of future results. Chart provided for illustrative purposes.

Market participants may also wish to consider incorporating U.S. mid caps given they appear to possess a strategic advantage relative to firms within different size ranges. Indeed, the S&P 400 has outperformed the S&P 500 since the early 1990s, and conventional Brinson attribution shows that the choice of S&P 400 companies—rather than the S&P 400's distinct sector weightings—was typically more important in explaining its relative performance. These results were not simply a smaller size effect: similar results are seen when analyzing the S&P 400's historical outperformance versus U.S. small caps, as measured by the S&P SmallCap 600®.[3]

More tactically, perhaps, the S&P 400's distinct characteristics may be relevant for expressing views on the health of the U.S. economy and on trade policy. For example, S&P 400 companies typically have more domestically focused revenue exposures compared to the S&P 500, which contributed to the S&P 400 being more highly correlated to U.S. GDP growth, historically.

[2] For a closer look at the strategic and tactical relevance of the S&P 500 Equal Weight Index, see Edwards, Tim, Anu R. Ganti and Hamish Preston, "Worth the Weight", S&P Dow Jones Indices, July 2024.

[3] For historical analysis, see Bellucci, Louis and Hamish Preston, "S&P MidCap 400: Outperformance and Potential Applications", S&P Dow Jones Indices, July 9, 2019.

3. How does the recently launched S&P MidCap 400 Scored & Screened Leaders Index integrate and measure sustainability?

Launched in April 2025, the S&P MidCap 400 Scored & Screened Leaders Index measures the performance of S&P 400 companies with higher-than-average S&P Global environmental, social and governance (ESG) scores while excluding companies that derive revenue from specified business activities, or are non-compliant with the United Nations Global Compact. The index is rebalanced in April each year, with quarterly eligibility reviews.[4]

The S&P MidCap 400 Scored & Screened Leaders index is designed to maintain similar industry group weights as the S&P 400. Unsurprisingly, perhaps, the two indices have similar GICS® sector weightings: the average absolute difference in the indices' sector weights was less than 1% at the end of August 2025.

Although index performance is not part of the S&P MidCap 400 Scored & Screened Leaders Index's objective, similarity in GICS sector weights contributed to the two indices posting similar risk/return profiles over various (back-tested) horizons.[5]

Combined with the fact that the index had a higher S&P Global ESG Score than the S&P 400 at the end of August, the S&P MidCap 400 Scored & Screened Leaders Index may be relevant to market participants looking to retain certain characteristics of the S&P 400, while incorporating sustainability perspectives.

4. What does the latest SPIVA® mid-year 2025 data suggest about the role of indexing at different points on the market cap spectrum?

S&P Dow Jones Indices produces semiannual S&P Indices Versus Active (SPIVA) reports, measuring the performance of active funds against their S&P DJI index benchmarks around the world.

The latest mid-year results show that many Europe- and U.S.-based active funds struggled to beat the S&P 500 in H1 2025. For example, the SPIVA Europe Mid-Year 2025 Scorecard shows that 67% of euro-denominated and 72% of pound sterling-denominated actively managed U.S. equity funds underperformed the U.S. equity gauge. Meanwhile, 54% of large-cap domestic equity funds underperformed the S&P 500 in the U.S., according to the SPIVA U.S. Mid-Year 2025 Scorecard.

Interestingly, the latest SPIVA U.S. Scorecard shows that around 75% of mid- and small-cap U.S. equity funds outperformed in the first half of 2025. These figures may suggest that many active managers decided to tilt up the size spectrum, and that they were rewarded for doing so: the S&P 500 (6.2%) outperformed the S&P 400 (0.2%), which in turn outperformed the S&P 600® (-4.5%) YTD as of June 30, 2025.

However, before anyone uses recent results to confirm perceptions that smaller size segments offer greater opportunities for active management, it is worth noting that the longer-term record says otherwise. Most U.S.-based mid- and small-cap funds underperformed over most horizons, with similar underperformance rates as those observed for large-cap U.S. equity funds. For example, nearly 90% of mid- and small-cap active managers underperformed the S&P 400 and S&P 600, respectively, over the 20-year period ending June 30, 2025.

As a result, despite recent success among U.S.-based mid- and small-cap active managers, the latest SPIVA results continue to demonstrate the potential benefits of index-based investing across the market cap spectrum.

Learn more about S&P DJI's core U.S. equity indices.

[4] For more information on the index construction, see "S&P Scored & Screened Leaders Indices Methodology".

[5] For more information on the historical performance of the two indices, see Chapman, Florence, "Introducing the S&P MidCap 400 Score & Screened Index", S&P DJI, Aug. 8, 2025.

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