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The Messy Aftermath of Concentrated Markets

The story of concentrated markets has historically had a very unhappy ending.

Our View

The US stock market has reached its highest concentration level in more than 50 years, with the top 10 stocks comprising a weighting of 37.4%.[1] While there's always an urge to proclaim "this time is different," market history tells us that while the plot may change, the story often ends the same. We'll examine how the top 10 stocks have historically performed after they've attained their current levels of concentration and valuations, and why the aftermath of this story could be quite messy.

Insight from Hartford Funds

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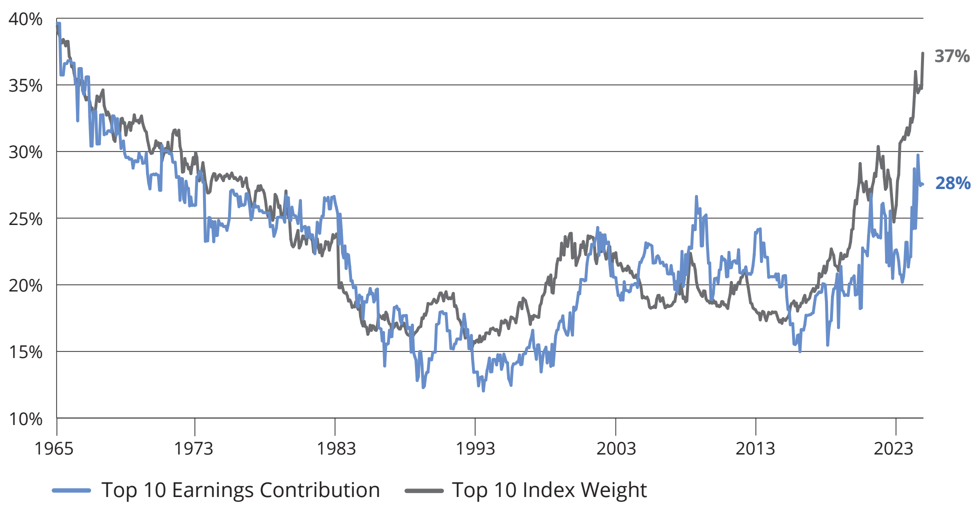
Observations

1. The weight of the top 10 stocks has been increasing at a much higher rate than their earnings; this has created a gap between their earnings and weights (**FIGURE 1**).
   - The last time a gap of this magnitude appeared was at the height of the dot-com bubble and, before that, the Nifty Fifty bubble of the late 1960s.
   - A stock's placement in the top 10 tends to be short-lived and can be volatile (**FIGURE 2**).
2. The price-to-earnings ratio (P/E ratio)[2] of the top 10 stocks compared to the bottom 490 stocks is at an extreme not seen since the peak of the dot-com bubble (excluding the COVID-19 period, which affected earnings figures) (**FIGURE 3**).
   - Historically, when the P/E ratio of the bottom 490 has been this inexpensive relative to the P/E ratio of the top 10, the bottom 490 have outperformed by 2.6% on average over the next 5 years (**FIGURE 4**).
3. Even after taking into account the outperformance of the top 10 in recent years, the bottom 490 have outperformed the top 10 in 70% of 5-year rolling time periods since 1970 (**FIGURE 5**).
4. When concentration in the top 10 is 23.4% or more, the bottom 490 have historically outperformed 91% of the time over the next five years (**FIGURE 6**).
5. A rise in concentration and valuation levels often precedes a period of heightened volatility and larger drawdowns for the largest stocks (**FIGURE 7**).

> There's always an urge to proclaim "this time is different."

FIGURE 1: The Gap Between the Earnings and Weights of the Top 10 Stocks Has Widened Significantly
Largest US Stocks Earnings vs. Weight (1965-2024)



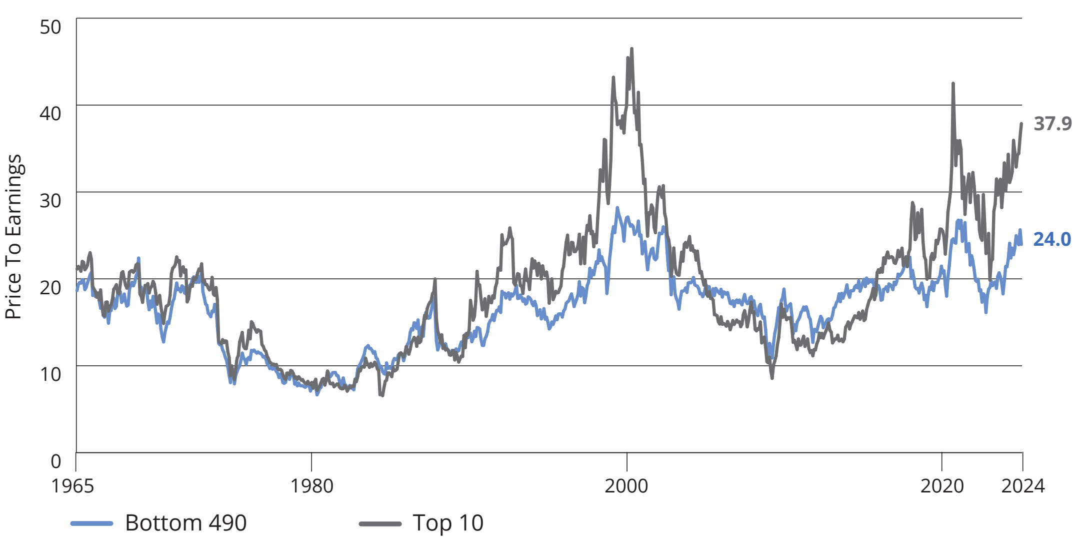
As of 12/31/24. Represents the top 10 stocks from a market cap-weighted portfolio of the largest 500 US stocks. Capitalization weighting is a method for constructing a portfolio according to the relative total market value of the stocks it's covering. The components with higher market caps carry greater weight, while those with smaller market caps have a lower weight. Data Sources: Hartford Equity Modeling Platform and Compustat.

FIGURE 2: The 10 Largest Stocks Change Frequently From Decade To Decade
10 Largest US Companies (Select Years From 1969-2024)

1969	1979	1989	1999	2009	2019	2024
International Business Machines Corp	International Business Machines Corp	Exxon	Microsoft Corp	Exxon	Apple Inc	Apple Inc
AT&T Corp	AT&T Corp	General Electric Co	General Electric Co	Microsoft Corp	Microsoft Corp	NVIDIA Corporation
General Motors Co	Exxon	International Business Machines Corp	Cisco Systems Inc	Apple Inc	Alphabet Inc	Microsoft Corp
Exxon	General Motors Co	AT&T Corp	Walmart Inc	Johnson & Johnson	Amazon.com Inc	Amazon.com Inc
Eastman Kodak Company	Schlumberger Ltd	Sallie Mae	Intel Corp	Procter & Gamble Co	Meta Platforms Inc	Alphabet Inc
Sears, Roebuck & Co	Mobil Corp	Altria Group Inc	Lucent Technologies Inc	International Business Machines Corp	JPMorgan Chase & Co	Meta Platforms Inc
Texaco	General Electric Co	Merck & Co Inc	Exxon	AT&T Corp	Johnson & Johnson	Tesla Inc
General Electric Co	Amoco Corp	E. I. du Pont de Nemours and Co	International Business Machines Corp	JPMorgan Chase & Co	Visa Inc	Broadcom Inc
Xerox Holdings Corp	Standard Oil Co	Amoco Corp	Citigroup Inc	General Electric Co	Procter & Gamble Co	JPMorgan Chase & Co
3M Co	Chevron Corp	BellSouth Corp	American International Group	Chevron Corp	Bank of America Corp	Eli Lilly

Represents the top 10 stocks from a market cap-weighted portfolio of the 500 largest US stocks. Data Sources: Hartford Equity Modeling Platform and Compustat.

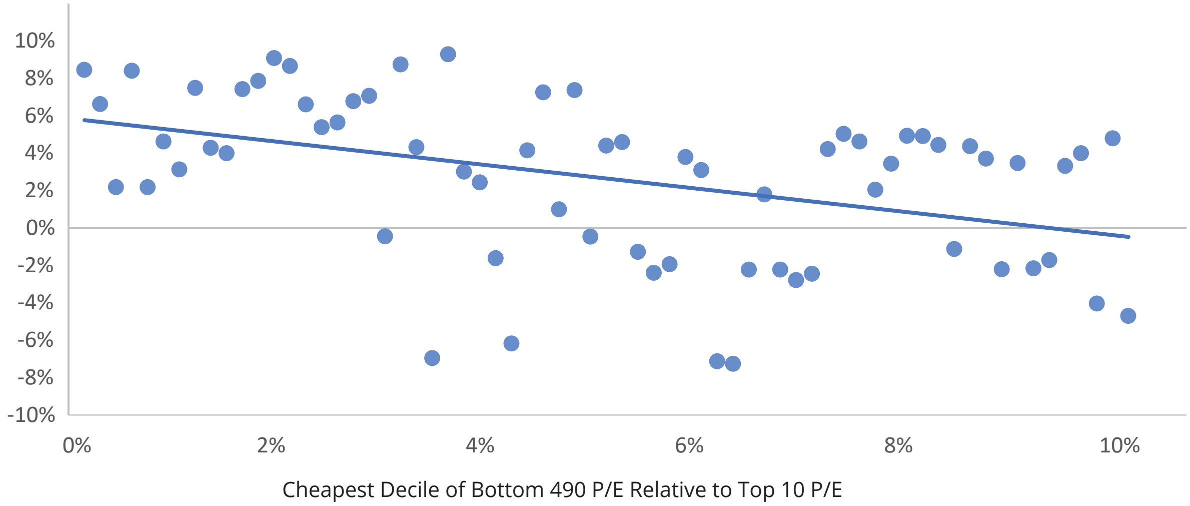
FIGURE 3: The P/E Ratio of the Top 10 Stocks Is Significantly Higher Than the Bottom 490
P/E Ratio Comparison (1965-2024)



As of 12/31/24. Based on the 500 largest US stocks by market cap. Top 10 and bottom 490 portfolios are market cap-weighted and rebalanced monthly. Data Sources: Hartford Equity Modeling Platform and FactSet.

FIGURE 4: The Bottom 490 Stocks Have Outperformed the Top 10 by an Average of 2.6% When Their Valuations Gap Was at Its Widest

Five-Year Excess Returns: Bottom 490 Stocks Minus the Top 10 Stocks



Past performance does not guarantee future results. Performance following periods of top-decile valuations based on observations from 5/31/1990–8/31/18. Top 10 and bottom 490 portfolios are market cap-weighted and rebalanced monthly. Excess returns are investment returns from a security or portfolio that exceed a benchmark or index with a similar level of risk. Data Sources: Hartford Equity Modeling Platform and Compustat.

FIGURE 5: The Bottom 490 Stocks Have Outperformed the Top 10 in 70% of Rolling 5-Year Periods

Five-Year Excess Returns: Bottom 490 Stocks Minus the Top 10 Stocks

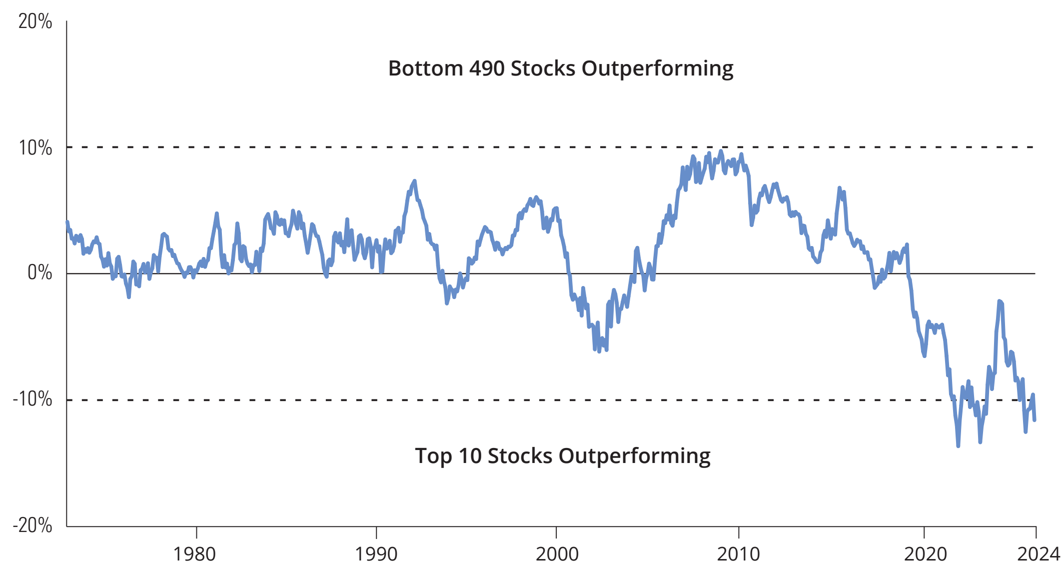
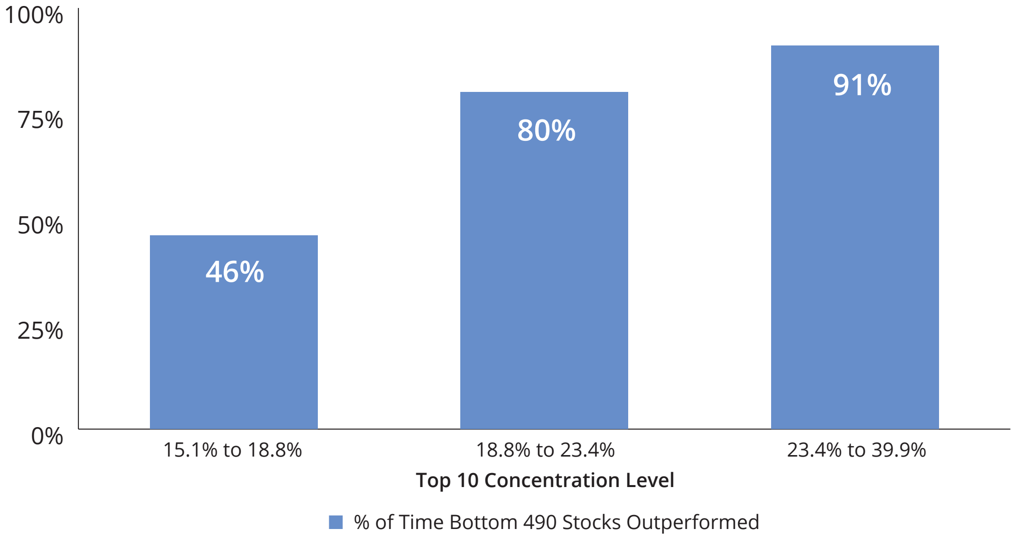


Chart data: 1970-2024. **Past performance does not guarantee future results.** Based on the 500 largest US stocks by market cap. Top 10 and bottom 490 portfolios are market cap-weighted and rebalanced monthly. When the line is above 0, the bottom 490 stocks outperformed the top 10 stocks. Data Sources: Hartford Equity Modeling Platform and Compustat.

FIGURE 6: When Top 10 Concentration Is 23.4% or More, the Bottom 490 Have Outperformed 91% of the Time Over the Next Five Years

Bottom 490 Stocks Five-Year Outperformance at Different Concentration Levels (1970-2024)



As of 12/31/24. **Past performance does not guarantee future results.** Based on the 500 largest US stocks. Top 10 and bottom 490 portfolios are market cap-weighted and rebalanced monthly. Data Sources: Hartford Equity Modeling Platform and Compustat.

FIGURE 7: Most Drawdowns for the Top 10 Stocks Have Been Larger Than for the Bottom 490

Top 10 vs. Bottom 490 Drawdowns

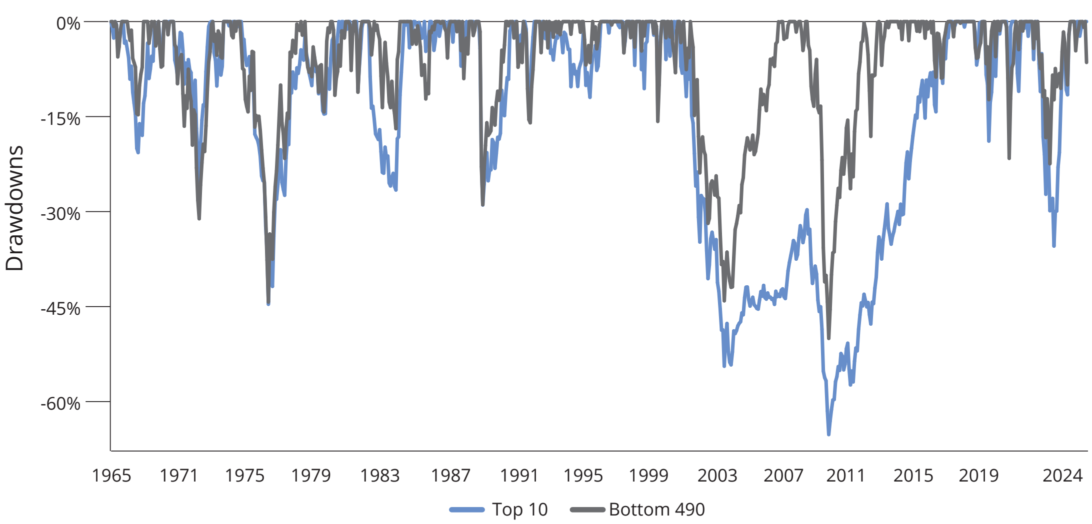


Chart data: 1/31/65-12/31/24. **Past performance does not guarantee future results.** Based on the 500 largest US stocks. Top 10 and bottom 490 portfolios are market cap-weighted and rebalanced monthly. Data Sources: Hartford Equity Modeling Platform and Compustat.

To learn more about managing concentration risk, please talk to your financial professional.

[1] As of 12/31/24. Represents the top 10 stocks from a market cap-weighted portfolio of the largest 500 US stocks. Data Sources: Hartford Equity Modeling Platform and Compustat.

[2] The price-to-earnings ratio measures a company's share price relative to its earnings-per-share and helps assess the relative value of a company's stock.

Important Risks: Investing involves risk, including the possible loss of principal.

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