

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 60 years, with the top 10 stocks comprising a weighting of 39.7%.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.

Observations

- The weights of the top 10 stocks have been rising much faster than their earnings, creating a widening gap between the two (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).
- 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% on average over the next five years (FIGURE 4).
- 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).
- When concentration in the top 10 is 30% or more, the bottom 490 have historically outperformed 84% of the time over the next five years (FIGURE 6).
- A rise in concentration and valuation levels often precedes a period of heightened volatility and larger drawdowns for the largest stocks (FIGURE 7).

Insight from Hartford Funds



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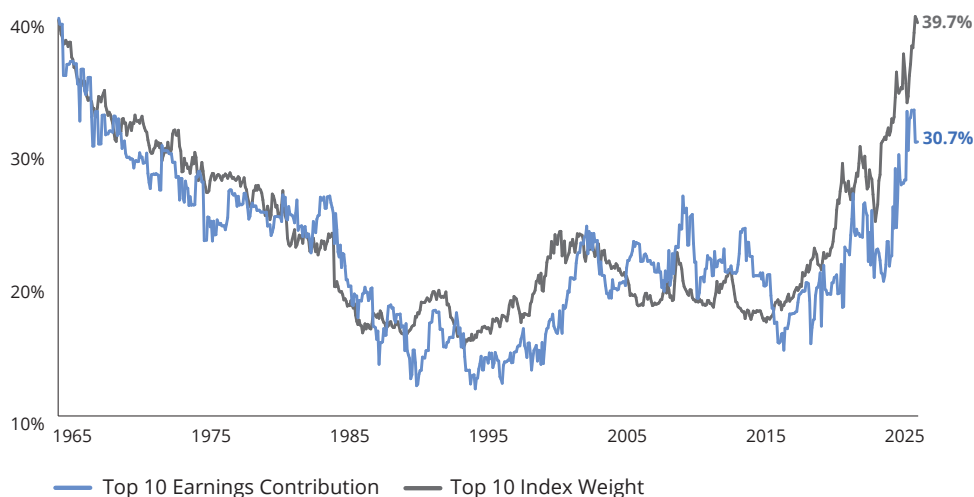
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FIGURE 1: The Gap Between the Earnings and Weights of the Top 10 Stocks Has Widened Significantly

Largest US Stocks Earnings vs. Weight (1965-2025)



As of 12/31/25. 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

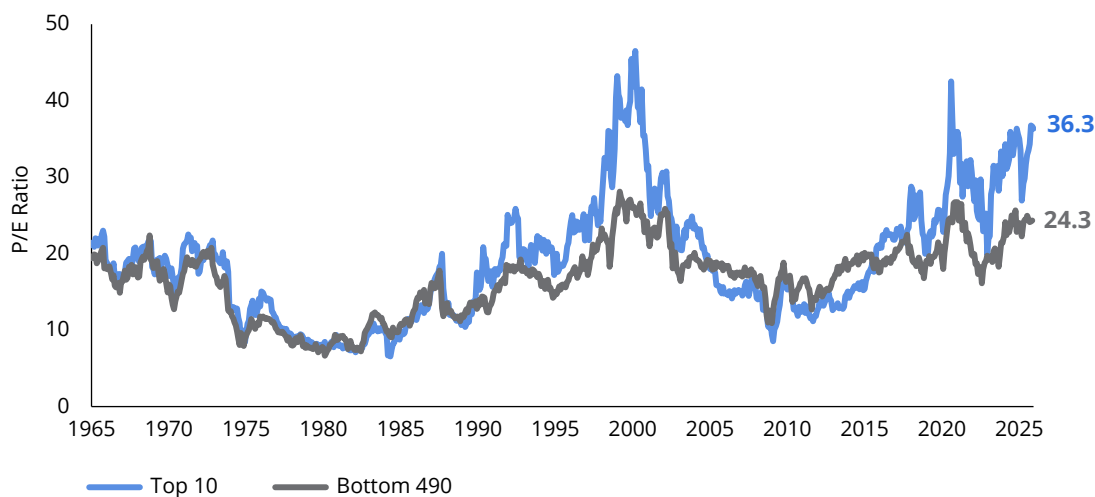
10 Largest US Companies (Select Years From 1969-2025)

1969	1979	1989	1999	2009	2019	2025
International Business Machines Corp	International Business Machines Corp	Exxon Mobil Corp	Microsoft Corp	Exxon Mobil Corp	Apple Inc	NVIDIA Corporation
AT&T Corp	AT&T Corp	GE Aerospace	GE Aerospace	Microsoft Corp	Microsoft Corp	Apple Inc
General Motors Co	Exxon Mobil Corp	International Business Machines Corp	Cisco Systems Inc	Apple Inc	Alphabet Inc	Microsoft Corp
Exxon Mobil Corp	General Motors Co	AT&T Corp	Walmart Inc	Johnson & Johnson	Amazon.com Inc	Alphabet Inc
Eastman Kodak Co	SLB Ltd	Navient Corporation	Intel Corp	Procter & Gamble Co	Meta Platforms Inc	Amazon.com Inc
Sears Roebuck & Co	Mobil Corp	Altria Group Inc	Lucent Technologies Inc	International Business Machines Corp	JPMorgan Chase & Co	Broadcom Inc
Texaco Inc	GE Aerospace	Merck and Co Inc	Exxon Mobil Corp	AT&T Inc	Johnson & Johnson	Meta Platforms Inc
GE Aerospace	Amoco Corp	E. I. du Pont de Nemours and Co	International Business Machines Corp	JPMorgan Chase & Co	Visa Inc	Tesla Inc
Xerox Holdings Corp	Standard Oil Co	Amoco Corp	Citigroup Inc	GE Aerospace	Procter & Gamble Co	JPMorgan Chase & Co
3M Co	Chevron Corp	BellSouth Corp	American International Group Inc	Chevron Corp	Bank of America Corp	Eli Lilly and Co

As of 12/31/25. 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

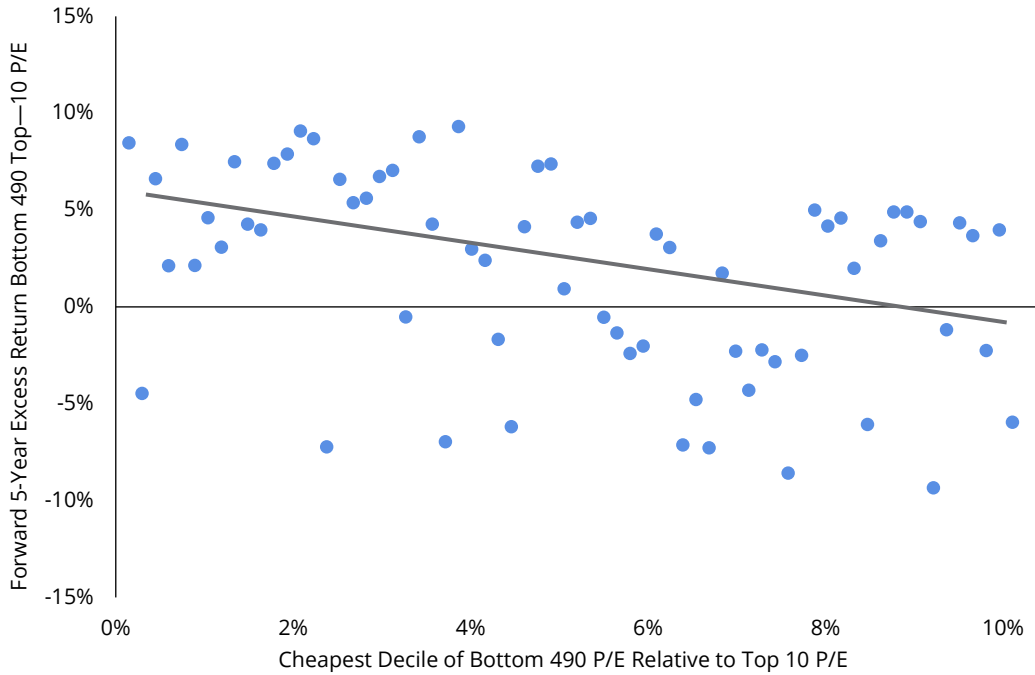
P/E Ratio Comparison (1965-2025)



As of 12/31/25. 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: At Peak Valuation Gaps, the Bottom 490 Stocks Have Outperformed the Top 10 by an Average of 2%

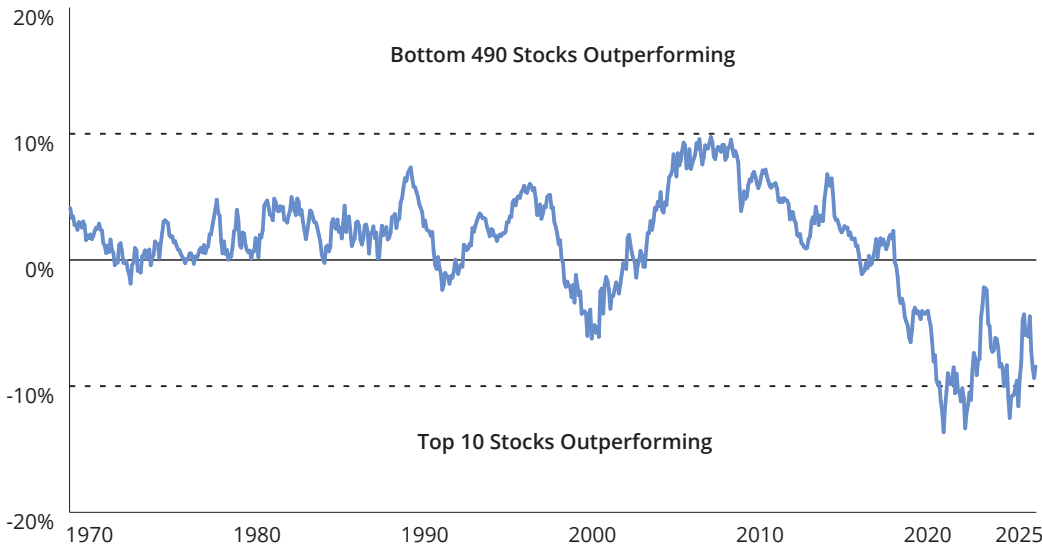
Five-Year Excess Returns: Bottom 490 Stocks Minus the Top 10 Stocks (1965-2025)



Past performance does not guarantee future results. Performance following periods of top-decile valuations based on observations from 12/31/64–12/31/25. 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

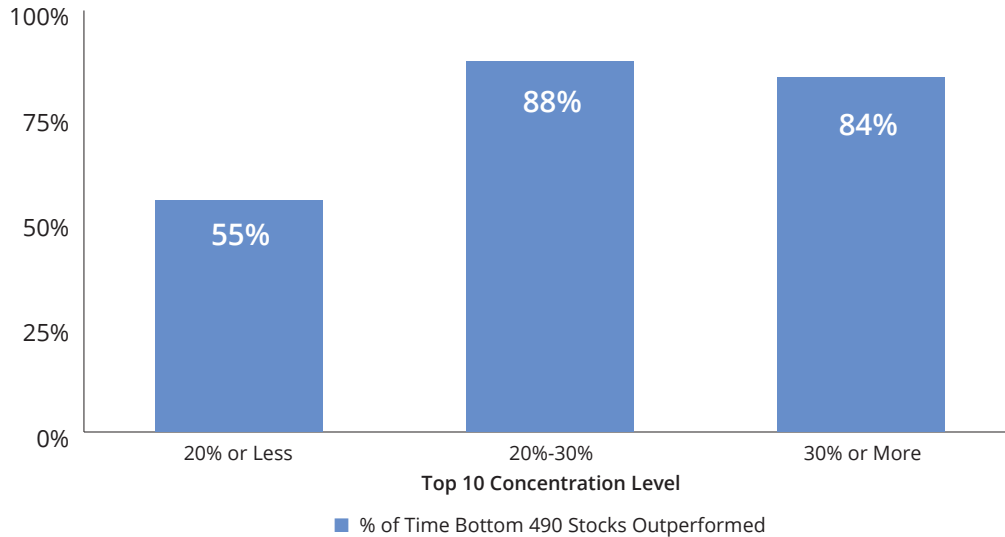
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As of 12/31/25. Past performance does not guarantee future results. Based on the 500 largest US stocks by market cap. Top 10 and bottom 490 portfolios are market cap-weighted and rebalanced monthly. When the line is above 0, the bottom 490 stocks outperformed the top 10 stocks. Data Sources: Hartford Equity Modeling Platform and Compustat.

FIGURE 6: When Top 10 Concentration Is 30% or More, the Bottom 490 Have Outperformed 84% of the Time Over the Next Five Years

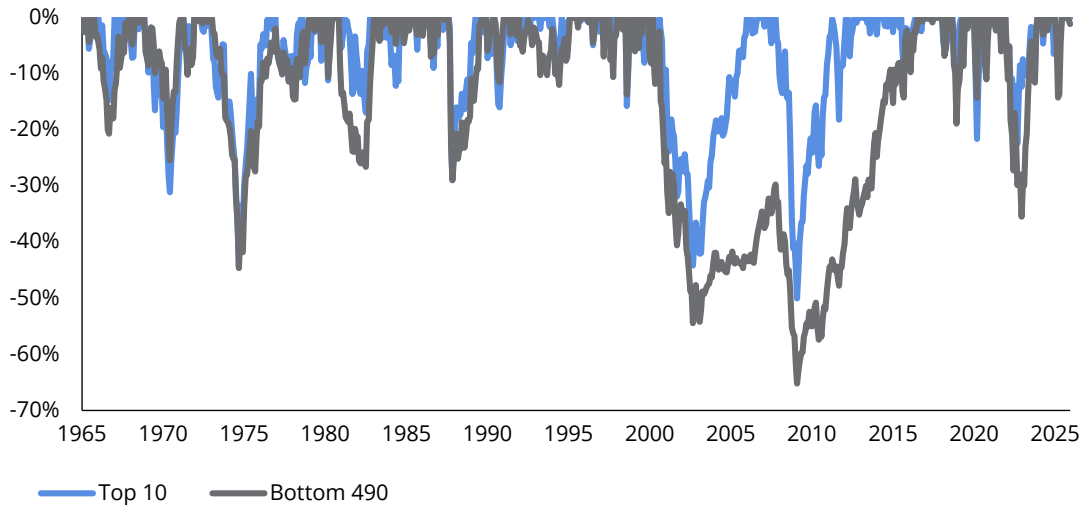
Bottom 490 Stocks Five-Year Outperformance at Different Concentration Levels (1965-2025)



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

Top 10 vs. Bottom 490 Drawdowns (1965-2025)



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

¹As of 12/31/25. 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.

²The 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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