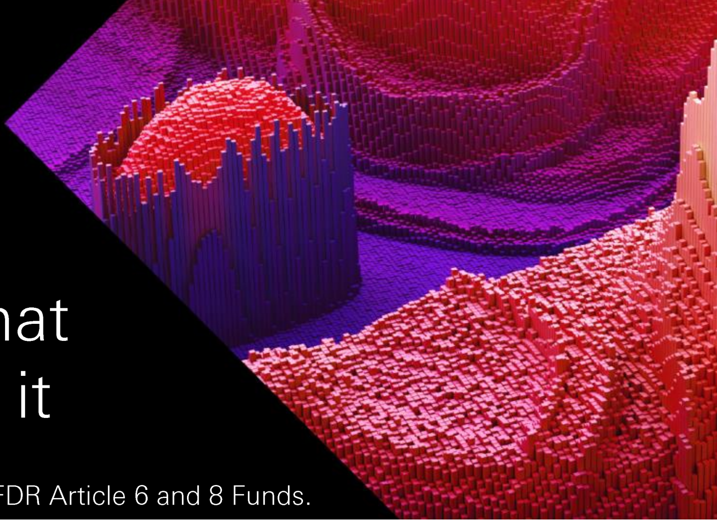

HSBC Asset Management

10 stocks now make up 38% of the S&P 500 - What advisers should do about it

Ten companies now account for 37.6% of the S&P 500's total weight, reaching the highest level of concentration the index has seen in decades on the back of meteoric returns from a handful of tech companies at the heart of the AI revolution.

By one measure of concentration, the Herfindahl-Hirschman Index, which sums the squares of each constituent's weight, the S&P 500 is now more concentrated than at any point since at least 1994, including the peak of the dotcom bubble. For advisers recommending a global tracker because it has historically been a straightforward and diversified core equity holding, that is worth thinking more about.

Diversified on paper, concentrated in practice

Daniela Hamoui, global head of the quant product specialist team at HSBC Asset Management, said the distinction between how an index looks and how it actually behaves is one advisers need to draw clearly for clients.

"We talk about theoretical diversification versus meaningful diversification," she said. "Market cap-weighted indices are diversified by nature, from a theoretical perspective. But when just a handful of stocks are driving the returns, there are hidden risks in those market cap indices."

Those risks are not hypothetical. Hamoui pointed out that anyone holding a broad tracker over the last three years has, in effect, been making a large, concentrated bet on a small number of mega-cap names performing well, whether they intended to or not.

"Whoever was exposed to trackers for the last three years did quite well, because that was what worked," she said. "But if markets do de-concentrate, market cap indices may be more vulnerable than they appear."

Will the market broaden out?

How long today's concentration persists is impossible to call with certainty it's clear where the balance of evidence points.

"What we've observed historically is that index concentration doesn't persist forever. If you believe that the index is going to continue to concentrate, you may be assuming that a small set of companies – largely within one sector – will have an increasingly outsized influence on the economy and on the products and services people rely on," she said.

Even investors convinced that artificial intelligence will remain the dominant theme in markets, she argued, should be cautious about assuming the same small group of companies will keep leading the market indefinitely.

"We know that there are AI enablers outside of the tech sector that are starting to come out. That's part of the broadening-out story," she said.

There is also, she added, a valuation question hanging over the largest AI-related names: whether today's spending will generate enough future revenue and cash flow to justify their valuations.

"I think the conclusion is that this may not be sustainable. There will be broadening out and there will be other winners as well, even if AI is here to stay."

Source: HSBC Asset Management, data as at July 2026.

A different proposition to stock-picking

For advisers weighing up how to position against this, Hamoui argued that HSBC Asset Management's Active Quant approach sits apart from both a passive tracker and a traditional, discretionary active fund.

"The main thing is diversification and risk control," she said. "The systematic approach, if properly constructed, is more diversified and you can harvest alpha outside of the Magnificent Seven, for example. You'll probably hold the Magnificent Seven too, not necessarily at an overweight, but you will hold them, and you have better risk control."

That distinction matters. HSBC Asset Management's Active Quant strategy is not built to avoid the largest names in the market, which would introduce its own risks if they continued to perform well. Instead, it is built to hold them in proportion, alongside a much broader base of stocks spread across sectors and countries, rather than allowing a handful of names to dominate the outcome.

While you have more resilient portfolios in a broadening-out event, we've built for concentrated markets as well

"When we think about portfolio construction, we're ensuring that we're taking measured risk across the overall allocation," Hamoui said. "We're diversified across stocks, sectors and geographies and apply these principles consistently at the portfolio level."

What next?

Nobody can say with confidence when today's concentration will unwind. What advisers can control is how exposed a client's core equity holding is to that uncertainty in the meantime.

As Hamoui put it, a portfolio built with this in mind – like the HSBC Active Quant strategy – is designed to hold up regardless of how the concentration story plays out.

"You're kind of following the index, but you're able to take different exposures that can outperform regardless," she said. "So while you have more resilient portfolios in a broadening-out event, we've built for concentrated markets as well."

Source: HSBC Asset Management, data as at July 2026.

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