

## What Have I Become

### Investment Takeaways

“What have I become?” is a simple, yet powerful lyric from the song *Hurt* that neatly captures today’s equity market, where familiar benchmarks no longer resemble their former selves.

The S&P 500 has transformed into a concentrated mega-cap bet, weakening the case for diversification.

Down-cap indices have shifted toward leverage and lower quality, creating a different kind of hidden risk.

As leadership begins to broaden, fundamentals are poised to regain influence, rewarding companies with resilient economics rather than those lifted by the last cycle’s tailwinds.

Active, selective investing offers a path forward, helping investors avoid unintended index risks and benefit from any broadening in market leadership.

### Perspectives on the Market

Johnny Cash’s haunting rendition of the song *Hurt* includes a simple, devastating question: “What have I become?” It’s a question of identity, transformation, and realizing that the path you’ve traveled may no longer resemble the one you intended. It is also an apt question for today’s equity market.

Over the last decade, major U.S. benchmarks have changed in ways many investors may not fully appreciate. The S&P 500 has become increasingly concentrated, growth-tilted, tech-dominant, and expensive. What was once a diversified cross-section of corporate America has evolved into a narrower bet on a small handful of mega-cap technology companies.

A similar shift has occurred across the down-cap universe. Many mid- and small-cap index exposures now carry weaker balance sheets, lower profitability,

and more speculative business models. Large-cap passive strategies have become “bubble catchers,” and down-cap indexes increasingly resemble retail casinos.

These changes raise a fair question: Do passive investors truly know what is inside their portfolios? Indexing has long been marketed as diversified, steady, and timeless. Today’s exposures are anything but.

### How We Got Here

The past decade rewarded companies with dominant share, scale advantages, and rapid innovation. These traits captured investor enthusiasm and created a powerful feedback loop, funneling capital into a narrow group of leaders. As a result, the weight of the Top 10 holdings in the S&P 500 sits at all-time highs, and those names nearly mirror the largest positions in the growthy Nasdaq index. Even the biggest dividend-growth indexes overlap heavily with the same mega-cap names.

### Top 10 Index Holdings 2025

S&P 500 Holdings	% Wgt.	NASDAQ Holdings	% Wgt.
NVIDIA	8.5%	NVIDIA	10.5%
Apple	6.9%	Apple	8.5%
Microsoft	6.6%	Microsoft	8.2%
Amazon.com	4.1%	Broadcom	6.1%
Broadcom	3.0%	Amazon.com	5.5%
Alphabet Class A	2.8%	Tesla	3.5%
Meta Platforms	2.4%	Alphabet Class A	3.5%
Alphabet Class C	2.3%	Alphabet Class C	3.3%
Tesla	2.2%	Meta Platforms	3.0%
Berkshire Hathaway	1.5%	Palantir Technologies	2.4%
<b>Top 10 % Weight</b>	<b>40.4%</b>	<b>Top 10 % Weight</b>	<b>54.5%</b>

Source: FactSet. Data as of 10/31/2025.

### Tech Sector Weight in S&P 500 1996 – 2025



Source: Piper Sandler & S&P Global. Date from 8/30/1996-10/31/2025.  
Past performance should not be taken as a guarantee of future performance.

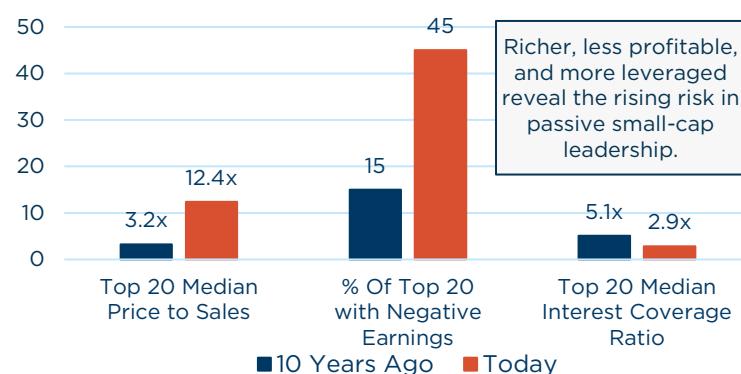
This growing similarity weakens the diversification argument for passive exposure. When many “different” strategies arrive at the same destination, risk increases. Meanwhile, valuations have risen as momentum outpaced earnings, heightening both return potential and vulnerability.

None of this guarantees an imminent reversal. Enthusiasm can run farther and longer than expected. Still, elevated concentration raises the stakes. All cycles eventually remind us trees do not grow to the sky.

## Down-Cap Indices: A Different Kind of Risk

While large-cap benchmarks have consolidated around a narrow set of winners, the small- and mid-cap segments have drifted toward the opposite end of the quality spectrum. Across down-cap indices, the share of expensive, unprofitable, and leveraged businesses has risen meaningfully in the past five to ten years.

### Russell 2000: Characteristics of Top 20 Holdings 2015 & 2025



Source: FactSet. Data from 10/31/2015 & 10/31/2025.

Meanwhile, the middle of the market has thinned dramatically. The share of companies between \$10B and \$50B in the Russell 3000 has declined by roughly half over the past decade and now represents just 15%. This once-productive segment of consistent compounders is now underrepresented in many portfolios.

In effect, the passive large-cap experience has become a concentrated growth bet, while the passive down-cap experience has become a volatile, low-quality bet. When both sides of the barbell carry elevated risk, the illusion of diversification becomes fragile.

## The Case for Selectivity in a Changing Market

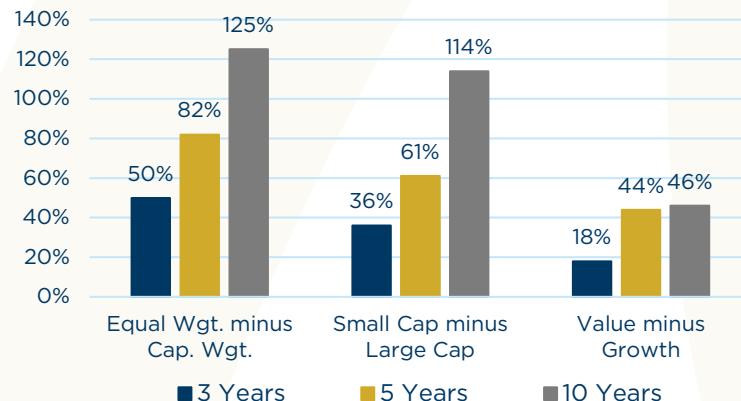
Leadership cycles have a habit of humbling certainty. What works for a decade rarely carries the next one. Historically, concentration peaks have marked a turning point in market leadership. Following the concentration

Past performance should not be taken as a guarantee of future performance.

## What Have I Become

peaks in 1932, 1957, 1973 & 2000, the ‘average’ stock, smaller companies, and value-oriented strategies outperformed the largest names. These shifts were clear in hindsight, though far less obvious in real time.

### Post-Concentration Peak: Cumulative Excess Return



Source: BofA Global Research. \*Please see disclosures notes on the last page for more details.

A potential broadening in leadership may create renewed opportunity down the market-cap spectrum, but it does not guarantee better returns. It simply revives the importance of choice. Quality within many down-cap indices has weakened after years of unusually cheap financing. Today’s more normal cost of capital raises the bar for business quality. Large portions of corporate debt will be refinanced at higher rates, which could pressure capital spending, reduce hiring, and place stress on companies with limited financial flexibility.

This environment underscores the role of thoughtful active management. When passive portfolios converge around the same exposures, true diversification requires looking different. Higher active share can help investors own businesses positioned for the next phase of the cycle rather than the last. Selectivity should matter once again.

## In Summary

Markets have changed. The S&P 500 has become more concentrated, more expensive, and more tech-dependent. Down-cap indices have tilted toward weaker, more speculative companies. For many investors, this is not what they signed up for.

Our answer is to stay grounded in what works across cycles: Quality at a Reasonable Price. This approach has helped us pursue competitive returns while emphasizing downside resilience. We expect leadership to broaden over time, creating opportunity beyond today’s dominant mega-cap universe. Our goal is to help investors reach their long-term objectives while avoiding the unintended risks embedded in today’s passive indices.

#### Disclosure Notes

The London Company was founded in 1994 in Richmond, Virginia and provides equity portfolio management services to pension, profit-sharing, foundation, corporate, investment companies, and individual investors. The firm, which is majority employee-owned, is an independent, autonomous investment management organization. The London Company of Virginia is a registered investment advisor. Registration does not imply a certain level of skill or training. More information about the advisor, including its investment strategies, fees and objectives are more fully described in the firm's Form ADV Part 2, which is available upon request by calling (804) 775-0317, or can be found by visiting [www.TLCadvisory.com](http://www.TLCadvisory.com).

Past performance should not be taken as a guarantee of future results. The report is for informational purposes only. Data, while obtained from sources we believe to be reliable, cannot be guaranteed and all statistics are subject to change. The statements contained herein are solely based upon the opinions of The London Company and the data available at the time of publication of this report, and there is no assurance that any predicted results will actually occur. Information was obtained from third-party sources, which we believe to be reliable but are not guaranteed as to their accuracy or completeness. This report contains no recommendations to buy or sell any specific securities and should not be considered investment advice of any kind. An investment in a London Company strategy is subject to risks, including loss of principal. Referenced strategies may not be suitable for all investors. The appropriateness of a certain strategy will depend on individual circumstances and objectives. In making an investment decision, individuals should utilize other information sources and the advice of their investment advisor.

\* The study included diversification cycles following concentration peaks in 1932, 1957, 1973 and 2000. Proxies: Equal Weight = S&P 500 Equal Weighted Index; Cap Weighted = S&P 500; Small Cap = Russell 2000; Large Cap = Russell 1000; Value = Russell 1000 Value; Growth = Russell 1000 Growth.

#### Index Definitions

Inclusion of these indices is for illustrative purposes only. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns.

The S&P 500 Index is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The S&P 500 Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 3000 Index measures the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S. incorporated equity securities. The Russell 3000 Index serves as the basis for a broad range of market indexes, such as the Russell 1000 and the Russell 2000 index. The Russell 1000 Growth Index measures

the performance of the large- and mid-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies that exhibit growth characteristics.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values.

Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.

Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. To be eligible for inclusion in the Index, the security's U.S. listing must be exclusively on The Nasdaq Stock Market (unless the security was dually listed on another U.S. market prior to January 1, 2004 and has continuously maintained such listing). The security types eligible for the Index include common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests and tracking stocks. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.