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Diversification Now an Active Decision



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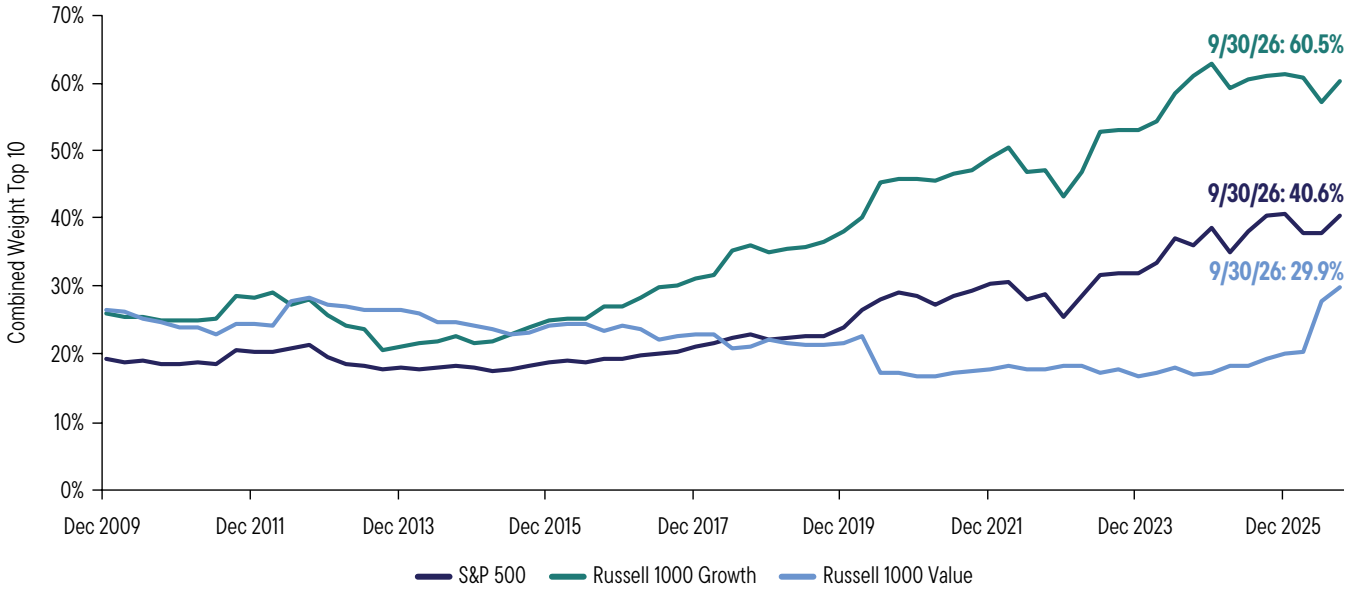
Key Takeaways

- Rising concentration and overlapping holdings across styles can leave seemingly diversified portfolios dependent on the same handful of mega cap companies.
- Genuine diversification requires looking at the underlying companies, position sizes and shared investment themes across an entire portfolio.
- Deliberate security selection and limits on company and thematic exposure can enable active managers to provide the breadth that concentrated benchmarks and the passive vehicles that track them increasingly lack.

Over the last three decades, investors have gravitated to passive investment products for broad equity market exposure. Active products have been used as supplements, to express a deliberate view or obtain idiosyncratic exposure. This approach rests on the assumption that the passive index products are diversified; that is no longer the case. The S&P 500 Index, the Russell 1000 Growth Index and the Russell 1000 Value Index — among the most widely used benchmarks in the U.S. — have all become concentrated (Exhibit 1). Moreover, the indexes no longer look different — they have converged on the same companies.

Because success breeds complacency, and because the markets have done so well for so long, most investors are overlooking this risk. Allocating 50% to the S&P 500, 30% to the Russell 1000 Growth and 20% to the Russell 1000 Value, for example, yields a portfolio where just five companies tied to the single theme of AI — Nvidia, Apple, Alphabet, Microsoft and Amazon — represent 31% of the total portfolio.

Exhibit 1: Top 10 Index Constituents Over Time



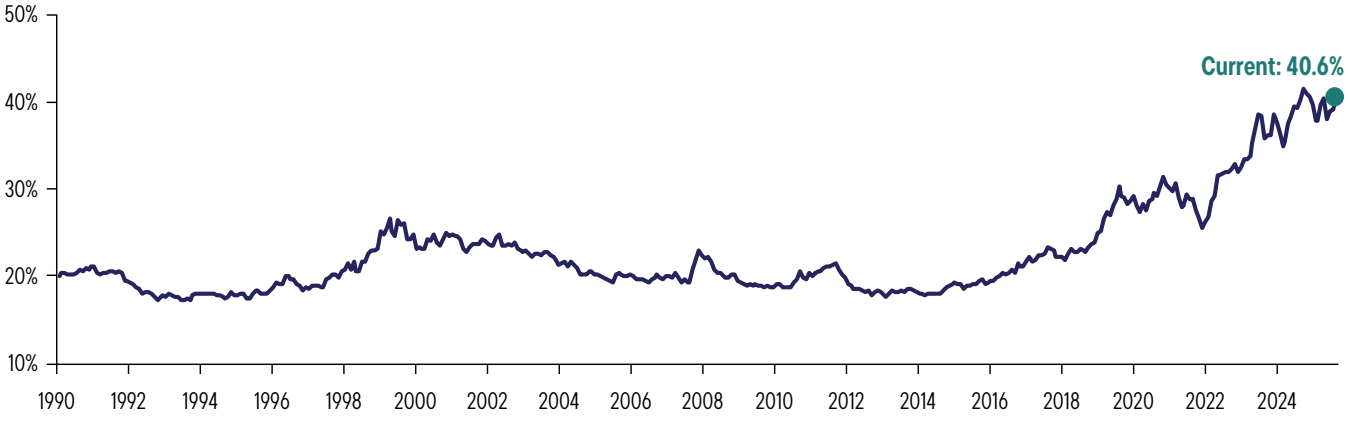
As of Sept. 30, 2026. Source: ClearBridge Investments, FactSet. Weights are as of the last trading day of each quarter. Russell indexes are reconstituted each June.

Index Investing Ain't What It Used To Be

The S&P 500 Index is the archetype for a broad market index. Yet four companies — Nvidia, Apple, Microsoft and Alphabet — now account for 27% of the benchmark. It takes just 20 companies to account for half the index weight by market cap.[1] Nvidia, on its own, is larger than the energy, utilities and real estate sectors combined; Nvidia, Apple and Microsoft together outweigh six of the index's 11 sectors combined.[2]

Today, the 10 largest holdings represent 40.6% of the S&P 500 (Exhibit 2). For context, that figure hovered around 20% for most of the last 35 years, breaching 25% only at the height of the dot-com bubble before rising sharply beginning in 2020.

Exhibit 2: Top 10 Holdings in S&P 500, 1990-2026



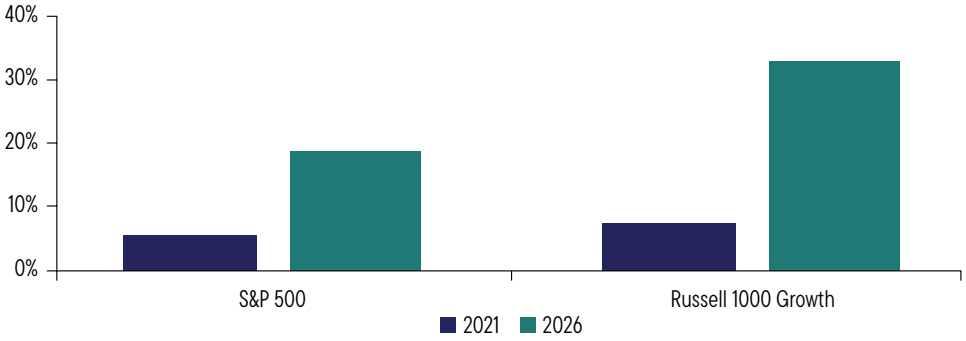
As of Sept. 30, 2026. Source: ClearBridge Investments, S&P, FactSet, Bloomberg.

[1]Companies are ranked by index weight at Sept. 30, 2026, with Alphabet's two share classes combined. The four largest (Nvidia, Apple, Microsoft and Alphabet) total 27.0% and the 20 largest total 50.6%. Source: ClearBridge Investments.

[2]Sector weights at Sept. 30, 2026. Nvidia is 8.4% of the S&P 500, versus 3.4% for energy, 1.9% for utilities and 1.7% for real estate (7.0% combined). Nvidia, Apple and Microsoft together are 21.5%, versus 21.1% for the six smallest sectors combined (industrials, consumer staples, energy, utilities, materials and real estate). Source: ClearBridge Investments.

Growth stocks are even less diversified. In the Russell 1000 Growth, two companies — Nvidia and Alphabet — make up a quarter of the index and seven make up half.[3] The top 10 make up 60.5%. Nvidia alone is 15.7% — roughly one dollar in six. Approximately a third of the index is semiconductors, which have grown in weight dramatically here as they have in the S&P 500 (Exhibit 3).

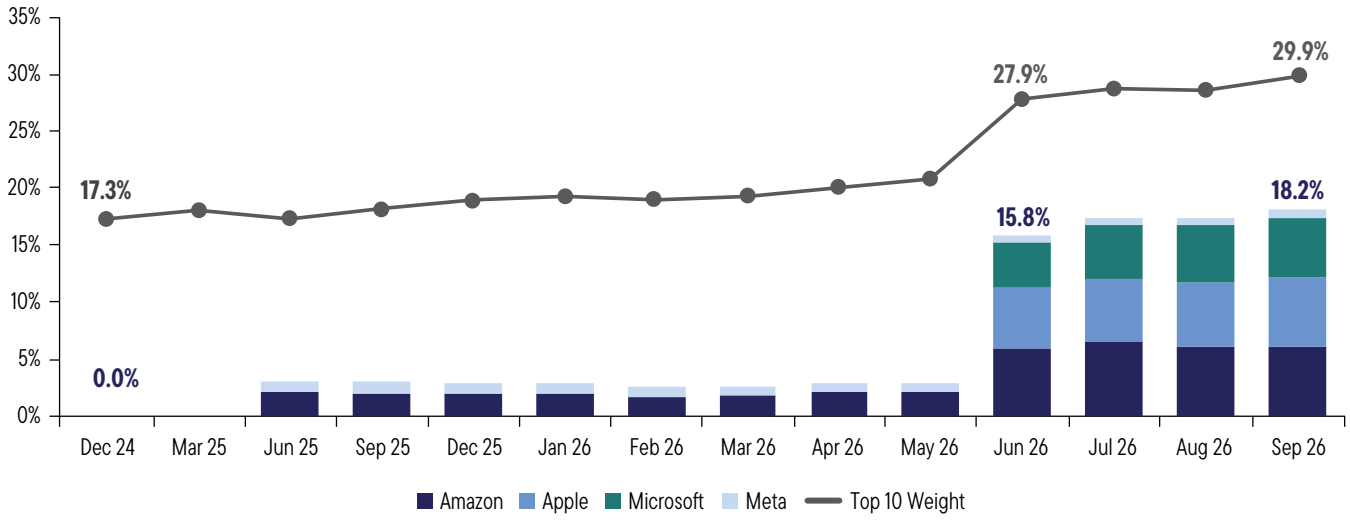
Exhibit 3: Semiconductor Weight in S&P 500 and Russell 1000 Growth



As of Sept. 30, 2026 and Sept. 30, 2021. Source: ClearBridge Investments. Semiconductor weights are the sum of constituents classified as semiconductors and semiconductor equipment.

The Russell 1000 Value has been less concentrated than the other two benchmarks since 2018, and remains the least concentrated of the three, but it has changed the fastest since the end of 2024. The weight of its top 10 stocks went from 17% at the end of 2024 to 30% today. Its exposure to mega cap technology and internet companies (Amazon, Apple, Microsoft and Meta) went from zero at the end of 2024 to about 18% today, most of it added in June 2026 (Exhibit 4).[4]

Exhibit 4: Russell 1000 Value, Top 10 Weight and Mega Cap Technology Exposure



As of Sept. 30, 2026. Source: ClearBridge Investments. Dec. 2024 to Dec. 2025 are quarter-ends, then monthly. Top 10 weight is the combined weight of the index's 10 largest holdings. Mega cap technology is Amazon, Apple, Microsoft and Meta, the "Magnificent Seven" members that are constituents of the Russell 1000 Value; Alphabet, Nvidia and Tesla are not in the index. The combined weight of the four is labeled above the columns.

With Amazon, Apple and Microsoft its three largest holdings, the value benchmark is no longer a reliable way to step away from the companies that dominate the core and growth benchmarks.

[3]Russell 1000 Growth at Sept. 30, 2026, with Alphabet's two share classes combined: the two largest holdings (Nvidia and Alphabet) total 26.3%, the seven largest total 51.8% and the 10 largest total 60.5%. Source: ClearBridge Investments.

[4]Mega cap technology here means the members of the "Magnificent Seven" (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) that are constituents of the Russell 1000 Value: Amazon, Apple, Microsoft and Meta. Alphabet, Nvidia and Tesla are not in the index.

Core, Growth and Value – Are Investors Unknowingly Putting All Their Eggs in One Basket?

Set the three indexes side by side and the comparison is shocking: Apple and Microsoft each exceed 5% of all three benchmarks simultaneously (Exhibit 5). Nvidia and Alphabet each exceed 5% of two.

Exhibit 5: Three Indexes, Same Companies

Company	S&P 500	Russell 1000 Growth	Russell 1000 Value
Apple	7.37%	7.67%	6.07%
Microsoft	5.78%	5.60%	5.25%
Nvidia	8.38%	15.67%	—
Alphabet	5.52%	10.66%	—
Amazon	3.71%	0.59%	6.10%
Broadcom	2.53%	4.81%	—
Meta	2.43%	3.84%	0.80%

As of Sept. 30, 2026. Source: ClearBridge Investments. Shading indicates companies over 5% in weight. A dash indicates the company is not a constituent of that index. Alphabet's two share classes are combined.

The S&P 500 is Effectively an S&P 41

While there are roughly 500 stocks in the S&P 500, it does not diversify like an equal-weighted portfolio of 500 stocks. As a capitalization weighted index, a 10% position exerts as much force in the index as 50 names that are 20 basis points each. For the roughly 500 constituents in the S&P 500 today, the effective number of holdings is 41 (Exhibit 6). In other words, the S&P 500 diversifies like a portfolio of 41. In 2016 it diversified like a portfolio of 138. The growth and value benchmarks also diversify much less than their names would suggest.

Exhibit 6: Composition of the Three Major U.S. Large Cap Benchmarks

	S&P 500	Russell 1000 Growth	Russell 1000 Value
Companies in Index	502	370	869
Effective Number of Holdings	~41	~18	~68
Companies to Reach 25% of Index	4	2	7
Top-10 Weight	40.6%	60.5%	29.9%
Largest Single Holding	8.4%	15.7%	6.1%

As of Sept. 30, 2026. Source: ClearBridge Investments. Issuer-level weights, with Alphabet's two share classes combined. The effective number of holdings is the number of equally weighted positions that would produce the same concentration; all three figures are calculated from constituent weights.

Concentration Amplifies Volatility

As indexes become more concentrated, they become more volatile, as we saw in the selloff following 2026's midterm elections. As of the end of the third quarter, a 10% move up or down in Nvidia — which it has matched or exceeded in about a third of the months since March 2025 — moves the S&P 500 by 0.84 points and the Russell 1000 Growth by 1.57 points. A 25% decline across the 10 largest S&P 500 holdings would cost the index 10.1%. At 2010 weights the same decline would have cost about 4.7%.[5] Traditional risk statistics obscure this dynamic because the beta of the benchmark is always 1.0, no matter how volatile it is.

Increasing Active Allocations Will Reduce Risk

Traditional asset allocation has become inverted. Passive was supposed to be the diversified, broad, risk-spread component — the beta. Active was the concentrated version, bought for alpha. Today the index is the concentrated position and most investors are unaware of the risks embedded in their "diversified" portfolios. Thoughtful investors must move beyond style boxes and away from concentrated benchmarks and increase their active exposure.

[5]Each figure holds all else equal. A 10% move in Nvidia is 10% of its weight at Sept. 30, 2026 (8.4% in the S&P 500 and 15.7% in the Russell 1000 Growth). A 25% decline in the 10 largest S&P 500 holdings is 25% of their combined weight (40.6% today, and 19% in 2010 per Exhibit 1). Nvidia moved 10% or more in six of the 19 months from March 2025 through September 2026. Source: ClearBridge Investments.

About the authors



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