



Too Big to Ignore: Index Concentration and the New Shape of Equity Risk

In more concentrated markets, portfolios are often shaped more by benchmarks than by conviction—requiring a more deliberate, analytics-driven approach to managing risk.

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U.S. equity index concentration is no longer cyclical—it is structural. Market-capitalization-weighted benchmarks remain dominated by a narrow set of companies, changing what investors actually own through passive exposure and making “core” equity behave more like a concentrated bet.

In this environment, portfolio outcomes depend less on individual stock selection and more on how deliberately risk is constructed. Position sizing, factor exposure, and benchmark dominant stocks can overwhelm fundamentals if left implicit.

This paper does not attempt to predict when concentration will unwind. Instead, it asks a more practical question: **how should portfolios be governed, active risk allocated, and alpha pursued when concentration is the market environment—not the exception?**

Key takeaways

- **Index concentration is now a durable feature of U.S. equity markets**, reinforced by market structure as much as fundamentals.
- **Passive exposure increasingly embeds active risk.** Market-cap weighting, benchmark awareness, market-cap-weighted thematic exchange-traded funds, and retail trading can concentrate risk in a small set of stocks.
- **Diversification can no longer be inferred from index breadth alone.** In concentrated benchmarks, a handful of stocks and factors can drive outcomes.
- **Portfolio construction discipline is a primary source of value.** Managing benchmark-dominant stocks and factor exposures helps make concentration intentional rather than implicit.

The benchmark has changed

Over the past several years, U.S. equity markets have undergone a consequential shift. Artificial intelligence (AI) tailwinds and mega cap leadership pushed market-cap-weighted benchmarks toward greater concentration. Even as episodic market broadening captures headlines, the reality is that concentration has persisted and shown durability.

This shift matters because it changes what investors actually own when they allocate to market cap weighted passive indexes. Broad benchmarks still hold hundreds of securities, but an outsized share of risk and return is now driven by a small group of companies. As a result, passive exposure—often treated as neutral and diversified—has begun to behave more like an active bet on market leadership.

Last year, [we explored this shift at a high level](#), asking whether the S&P 500 Index still functions as a broadly diversified benchmark or increasingly resembles an active exposure driven by a narrow set of stocks. **This paper extends that discussion by focusing on structural drivers behind this concentration and what that changes for portfolio construction, risk governance, and best practices for active management.**

In a market where outcomes are driven as much by benchmark structure as by fundamentals, risk is no longer something portfolios can afford to inherit implicitly. It must be deliberately constructed and actively managed.

At Voya, we have integrated this reality across our actively managed equity portfolios, pairing fundamental research with an analytics-driven approach designed to make risk explicit—helping distinguish conviction from benchmark mechanics and preserve intentional exposures, independent of market concentration.

The market didn't just rally—it narrowed

Index concentration is not new, but **today's environment is distinct in both magnitude and durability**. As of the end of 2025, the so-called Magnificent 7 stocks accounted for nearly 40% of the S&P 500 Index's market capitalization—levels last seen in the 1960s. Exhibit 1 places today's concentration in historical context.

Exhibit 1: A broad index has narrowed to historic extremes



As of 12/31/25. Source: JP Morgan, Voya IM.

In earlier eras, concentration was often broken by macro shocks, policy shifts, and sector transitions. Leadership rotated, valuations reset, and indexes eventually re-broadened. **Today's market has behaved differently**. Even as interest rates have risen and dominant narratives have evolved, concentration has proven resilient.

That resilience does not, by itself, imply a drawdown. But it does change the **distribution of outcomes**. When a small group of stocks drives a disproportionate share of benchmark risk, relative and absolute performance can become more sensitive to those names—particularly during regime shifts, when crowded exposures can reprice quickly and correlations rise.

At the margin, there are signs of leadership broadening in 2026. However, these shifts are occurring within a market structure that continues to favor concentration, limiting the extent to which leadership dispersion translates into materially broader benchmark risk.

Why concentration persists: A reinforcing system

To understand why concentration has endured, it is necessary to look beyond fundamentals alone. Today's market leaders are often supported by strong cash flows, scalable business models, and genuine competitive advantages. Moreover, those fundamentals now operate **within a market structure that increasingly amplifies success rather than disperses it**.

Market-cap weighting, benchmark-aware active management, market-cap-weighted thematic ETFs, and momentum-sensitive trading can all reinforce existing leadership, directing incremental capital toward the same dominant names as prices rise. Over time, these dynamics form a self-reinforcing system in which concentration can persist even as narratives change, and leadership rotates at the margin.

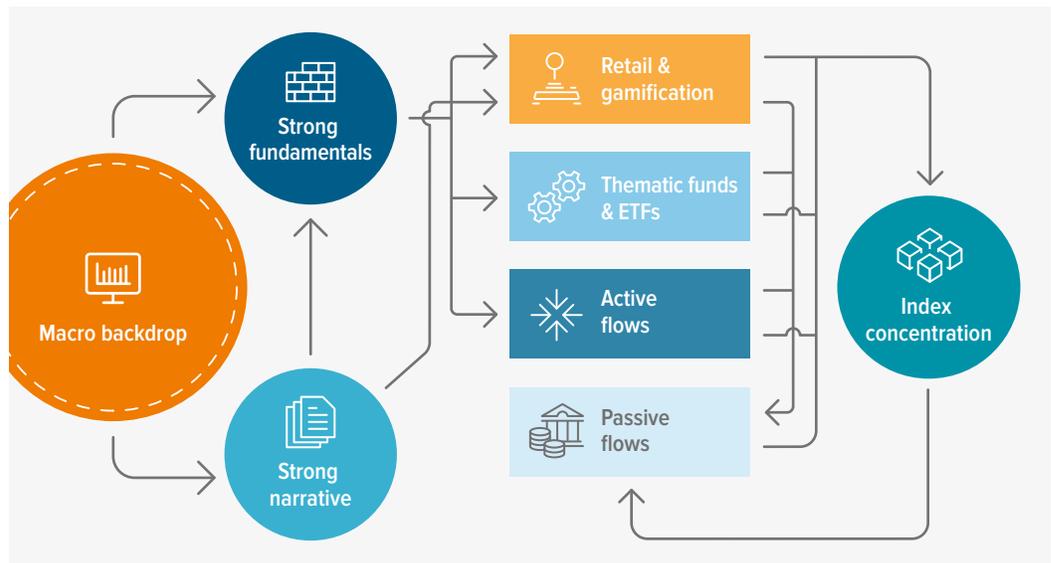
Exhibit 2 summarizes this feedback loop and illustrates how market structure, investor behavior, and index mechanics interact to sustain elevated concentration.

Market-cap weighting and passive flows

Market-cap weighting is inherently reflexive. As a company’s share price rises, its weight in market-cap-weighted

benchmarks increases. When passive vehicles receive inflows, they allocate more capital to stocks that have already appreciated—**reinforcing leadership regardless of valuation or fundamentals.** Benchmark-aware active managers, constrained by tracking error and relative risk budgets, can further amplify this dynamic even when their fundamental views diverge.

Exhibit 2: Market structure reinforces equity concentration



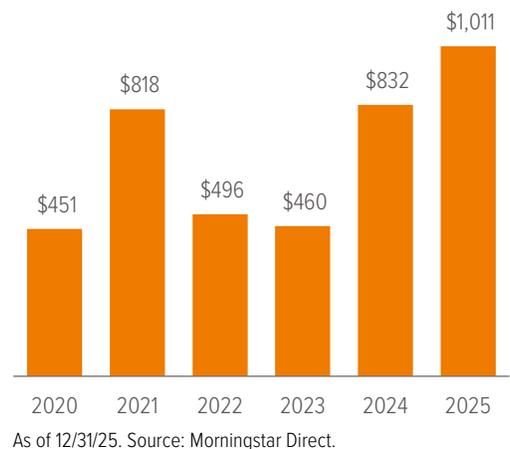
The scale of these flows matters. Net flows into passive ETFs reached record levels in 2025, increasing the mechanical linkage between price appreciation, index weight, and incremental demand. **Exhibit 3 shows the magnitude of annual net flows into passive ETF strategies over recent years**, highlighting how capital movement itself has become an important driver of concentration dynamics.

Thematic vehicles: Narratives turned into products

Layered on top of passive flows are thematic investment vehicles that translate investment narratives into scalable products. While these strategies are designed to provide targeted exposure, they often concentrate capital in the same names already dominating major

benchmarks. Rather than dispersing risk, thematic demand can **accelerate crowding by channeling incremental flows toward a narrow set of highly visible stocks.**

Exhibit 3: Passive flows mechanically reinforce market leaders



Retail participation: Momentum-sensitive trading

Retail participation adds another reinforcing dimension. Retail trading now represents a meaningful share of daily equity volume and is frequently expressed through momentum-sensitive instruments such as options and leveraged ETFs. These vehicles can magnify short-term price movements, particularly in large, liquid stocks that already dominate benchmarks and attract sustained attention.

In combination with passive and thematic flows, retail activity can reinforce trend persistence—**extending leadership, increasing short-term volatility, and making crowded exposures more sensitive to regime shifts.**

Exhibit 4 provides a long-term backdrop for how market structure, trading behavior, and index construction have evolved—setting the conditions for today’s concentration.

A self-reinforcing system

Taken together, these forces form a reinforcing feedback loop: price appreciation increases index weight; index weight attracts flows; narratives focus demand on familiar leaders; and retail activity amplifies short-term moves.

The result is a market structure capable of sustaining concentration even as leadership rotates at the margin—and one in which benchmark behavior can increasingly shape portfolio outcomes unless risk is managed deliberately.

What does this change for investors?

For asset owners, **the persistence of index concentration turns what was once a market observation into a governance issue.** Diversification can no longer be inferred from index breadth alone; benchmark-relative risk can become more binary; and manager outcomes may be driven as much by exposure

to benchmark-dominant names and factor positioning as by stock selection.

The central governance question becomes clear: **Is the portfolio’s risk aligned with conviction—or is it being dictated by benchmark mechanics?**

In concentrated benchmarks, unintended factor exposures—particularly to momentum, beta and volatility—can dominate outcomes. Position-sizing decisions in a small number of benchmark-dominant stocks can overwhelm otherwise strong fundamental insights. And reducing exposure to a large index constituent without preserving its factor footprint can introduce unintended style drift, altering portfolio behavior in ways investors may not anticipate.

Implications for governance and manager evaluation

These dynamics have direct implications for portfolio oversight and manager evaluation:

- **Reassess the true diversification of passive equity allocations,** recognizing that breadth does not equal balance
- **Expect active managers to clearly articulate how they identify and manage concentration risk**
- **Evaluate portfolio construction discipline alongside fundamental research skill,** particularly in concentrated benchmarks

Turning concentration into intentional risk

If concentration is embedded in equity market structure, the practical question is **how deliberately a portfolio lives with it.**

At Voya, we treat concentration as a durable market condition—one that can silently reshape risk, overwhelm stock selection, and lead to binary outcomes if left unmanaged. We have intentionally enhanced our proprietary analytics to help make portfolio risk explicit and actionable in this environment.

Exhibit 4: The rise of retail speculation and the persistence of index concentration

	Gambling	Retail speculation	Index concentration
Pre 1990s	Gambling mostly confined to licensed venues with limited, in person sports betting.	Retail trading costly, manual and dominated by wealthy individuals using full service brokers.	Broad indexes show rotating sector leadership with only moderate concentration.
1990s–2000s	Internet and early mobile tech enable online casinos, poker rooms, and cross border sportsbooks, expanding access globally.	Online brokers, lower commissions, and broadband normalize self directed trading and day trading cultures.	Tech and multinationals grow in benchmark weights into the late 90s dot com bubble, but concentration remains below today's extremes.
2010s	Smartphone apps and early legalization waves drive rapid growth in mobile sports betting and in-play wagering.	Zero-commission or low-fee apps, and social media communities' lower frictions, and encourage speculative trading.	U.S. benchmarks (such as the S&P 500 Index) are increasingly driven by a relatively small set of companies.
2020–2021 (Covid & meme era)	Covid closures push activity from physical venues into online casinos and virtual sports, followed by mobile in-play betting.	Lockdowns, stimulus, commission free trading, and forums fuel a spike in meme stocks, and short-term trading.	After the Covid sell off, a handful of mega-cap winners lead the rebound and drive index concentration.
2022–2023 (post meme, AI story)	Legal online sports betting spreads, tied more tightly to leagues, media, and streaming.	Retail volumes cool from meme peaks but stay structurally higher, with heavy use of options, leverage, and short-term tactics.	Rising rates hit growth-stocks, but the AI narrative lifts tech and semiconductor leaders, keeping benchmark concentration elevated.
2024–2025 (current AI phase)	Mature markets emphasize personalization, micro bets, and cross-selling of casino and same-game parlays.	Retail interest remains strong in AI-linked names, options, and leveraged ETFs, with social trading amplifying narratives.	Major U.S. indexes sit near record concentration, with AI-linked mega caps supplying index performance, raising concerns about passive exposure to the "AI trade."

In practice, an analytics-driven approach to portfolio construction helps us:

- Identify and control unintended factor exposures
- Deliberately size benchmark-dominant, high-impact stocks
- Replicate factor profiles when underweighting dominant names
- Preserve active share without taking binary bets on market leadership

Fundamentals first: Analytics to make risk explicit

Our investment process begins with bottom-up fundamental research. But in a market shaped by passive flows, and momentum-sensitive trading, **fundamentals alone cannot fully describe the risk a portfolio is taking.** Structural forces can increase certain exposures, alter correlations, and create outcomes that are only loosely connected to company-specific fundamentals.

To address this, we pair research with an analytics layer designed to make portfolio risk explicit and intentional. In practice, we use analytics to continuously answer three essential questions:

- Where is the portfolio taking risk—and is that risk intentional?
- Which holdings have the potential to drive disproportionate outcomes—and are they sized appropriately?
- Where do fundamentals diverge from flow-driven pricing—creating potential alpha opportunities?

Factor discipline: The goal isn't "no exposure"—it's intentional exposure

In equity markets, factor exposures can become the hidden drivers of portfolio outcomes. What matters is not avoiding exposure altogether, but **understanding, interpreting, and deliberately managing it**—particularly around beta, momentum, and volatility, which tend to grow more influential as benchmarks become more concentrated.

Factor discipline allows portfolios to preserve intended characteristics while avoiding unintended bets that can overwhelm stock selection during regime shifts. **Exhibit 5 summarizes these foundational dimensions and illustrates how we incorporate them in portfolio construction,** helping align portfolio

Exhibit 5: Portfolio outcomes are increasingly factor-driven

	Definition	Why it matters	Prudent approach
Beta	A stock's sensitivity to overall market movements	Significant volatility can lead to a negative return premium	Maintaining beta neutrality helps avoid unintended market timing bets
Momentum	Measures the tendency of stocks with strong recent performance to continue outperforming	Can offer a positive premium in upward trending markets; but can also reverse sharply in a regime shift	Active monitoring is vital as being on the wrong side of the momentum trade can swamp strong returns in stock selection
Volatility	Reflects the stock's price variability	Typically earns a negative long term premium but offers strong downside mitigation during market crises	Keeping a core of low volatility holdings helps stabilize portfolio risk and offset more aggressive growth exposures

behavior with investment intent rather than benchmark mechanics.

Managing benchmark-dominant stocks (VIBS)

In concentrated markets, a small number of benchmark holdings can determine a disproportionate share of relative outcomes. These stocks sit at the intersection of size, liquidity, and investor attention, making them powerful drivers of portfolio behavior.

We explicitly identify **Very Important Benchmark Stocks (VIBS)**: holdings that not only have outsized benchmark weights, but also those with elevated idiosyncratic risk. It’s important not only to focus on the largest benchmark constituents, but also to assess idiosyncratic risk, as not owning a high-idiosyncratic-risk stock—even with a modest benchmark weight—can be a primary driver of relative performance. When managed deliberately, VIBS can be a source of controlled risk. When left implicit, they can introduce binary outcomes that dominate otherwise solid stock selection.

Exhibit 6 illustrates this concept visually and highlights why explicit decisioning around high-impact benchmark stocks matters in a concentrated market.

In addition, it underscores peer exposure to stocks we classify as VIBs, even where benchmark weights are modest.

Replicability: A practical answer to “If we don’t own it, can we replicate risk exposures?”

When a portfolio underweights or excludes a dominant benchmark stock, the risk is not limited to tracking error. The greater risk is unintentionally shedding exposures that the portfolio may not realize it relied on (such as growth, quality, momentum, or macro sensitivity).

Peer-group replicability helps distinguish between stocks where suitable substitutes exist and those where exposures are unique. When replicability is high, underweights can often be offset through alternative holdings without materially altering portfolio behavior. When low, position-sizing decisions require greater care, as reducing exposure too aggressively can create gaps the portfolio cannot easily fill elsewhere.

Exhibit 6: A few stocks now dominate benchmark risk

	As of Nov 30	R1G weight	Peer ownership (%)	Peers with an OW (%)
Mag 7	NVDA	12.27	90	31
	AAPL	11.99	75	3
	MSFT	10.82	89	19
	GOOGL	6.34	89	54
	TSLA	4.29	54	12
	AMZN	4.32	89	77
	META	3.41	81	63
VIBs (ex Mag 7)	AVGO	4.68	74	30
	LLY	2.72	80	33
	PLTR	1.30	37	10
	NFLX	1.28	70	56
	ORCL	0.96	48	26
	ABBV	1.27	25	10
	APP	0.53	44	37
	AMD	0.61	33	20

As of 03/20/26. Source: Voya IM. For illustrative purposes only. It should not be assumed that investment in the securities identified were or will be profitable.

In a concentrated market, replicability analysis helps ensure that active decisions reflect intentional conviction rather than unintended exposure loss.

Thematic co-movement: Seeing risk beyond sectors

Concentration today is not only a function of sector weights; it is also shaped by **how stocks trade, and what they trade with**. Investor behavior, narrative focus, and structural trends can cause stocks to move together in ways that are not captured by traditional sector classifications.

We monitor covariance and trading behavior to identify thematic groupings where stocks co-move due to shared narratives or structural forces rather than common fundamentals. This lens helps surface hidden concentrations and emerging risks, particularly when trading relationships evolve faster than underlying business fundamentals.

Stock-specific macro factors: Translating scenarios into portfolio implications

Concentration increases **the cost of being surprised**. When a small set of stocks carries a large share of benchmark risk, macro shocks—such as changes in interest rates, policy, geopolitics, or currency—can transmit quickly through those names and ripple across portfolios.

Stock-specific macro factor analysis helps us translate broad macro scenarios into portfolio-level implications. By understanding how individual holdings are exposed to key macro variables, we

can assess how portfolios may behave across different environments and make more deliberate positioning decisions. In a concentrated market, this perspective supports more intentional tilts, sizing decisions, or risk offsets—helping ensure that macro sensitivity reflects our conviction rather than unintended exposure.

How this shows up in portfolios

It is easy to describe concentration as a market statistic. It is harder—and more important—to understand how an investment process behaves when concentration becomes the **operating environment** rather than a temporary condition.

At Voya, our objective across our equity strategies is consistent: **preserve intended exposures, prevent unintended factor drift, and manage the outsized influence of benchmark-dominant stocks so fundamental stock selection can do its job**. In a concentrated market, this discipline helps ensure that portfolio outcomes reflect conviction rather than benchmark mechanics.

Large cap growth: Competing where concentration is most acute

Growth benchmarks are where concentration becomes most visible—and most consequential. A small number of stocks often account for a disproportionate share of benchmark risk, increasing the likelihood that relative outcomes are driven by exposure to a narrow set of names rather than the breadth of the opportunity set.

Exhibit 7: Growth index returns depend on just a handful of stocks

Russell 1000 Growth Index: % of top 10 stocks



As of 12/31/25. Source: Voya IM.

Exhibit 7 illustrates this dynamic within the Russell 1000 Growth Index, showing extended periods during which the top 10 stocks represented an unusually large share of the benchmark. In this environment, **position sizing, factor exposure, and explicit decision-making around benchmark-dominant stocks become central to risk management**, shaping outcomes as much as individual stock selection.

Our response is to make these exposures explicit—through the identification of benchmark-dominant stocks and deliberate position sizing—and, when we underweight a dominant benchmark holding, to seek to replicate its factor footprint through a basket of substitutes. This approach helps preserve style integrity while freeing capital for higher-conviction opportunities where our fundamental research edge is strongest.

Mid cap growth: Concentration is spreading down the cap spectrum

Concentration is no longer confined to mega-cap benchmarks. As leadership narrows within large caps, similar dynamics are increasingly evident further down the capitalization spectrum. **Exhibit 8 shows the steady rise in concentration within the Russell MidCap Growth Index**, reflecting how investor attention, liquidity, and capital can cluster around a smaller set of perceived winners.

As concentration increases, the opportunity set can become more crowded and correlated. Benchmark heavyweights can absorb a disproportionate share of flows and liquidity—creating VIBS that can dominate relative outcomes in much the same way as their large cap counterparts. In this environment, explicit risk identification, factor awareness, and disciplined position sizing become critical to ensuring that portfolio behavior reflects conviction rather than inherited benchmark exposure.

Large cap value: Discipline and risk control in a mixed leadership world

While concentration is often less extreme in value benchmarks than in growth, **benchmark-dominant stocks can still drive relative risk**. Their size, liquidity, and volatility can introduce significant unintended exposures if not managed deliberately, particularly when leadership is mixed and factor behavior shifts.

Our large cap value approach begins with conviction and valuation discipline, with risk closely monitored through factor and sector positioning and explicit beta awareness. Stock-specific macro factor analysis further supports scenario awareness, helping ensure that portfolio tilts remain intentional and aligned with fundamental views, rather than drifting with benchmark dynamics.

Exhibit 8: Narrow leadership is moving down the capitalization spectrum

Russell MidCap Growth Index % of top 10 stocks



As of 12/31/25. Source: Voya IM.

Small cap growth: Managing retail-driven volatility without becoming it

Small cap growth presents a different expression of the same structural challenge. Prices can move faster than fundamentals, particularly when retail participation, momentum-sensitive trading, and short-dated instruments become dominant drivers of short-term volatility.

We apply a disciplined monitoring framework in which **beta and momentum thresholds trigger deeper review and explicit action**. This may involve increasing conviction when volatility creates mispricing supported by fundamentals or exiting lower-conviction positions where price dynamics risk overwhelming the investment thesis. The goal is not to chase momentum, but to prevent volatility from becoming an unpriced portfolio risk while preserving the flexibility to act when dislocations create opportunity.

From market reality to portfolio discipline

In a structurally concentrated market, **the benchmark is no longer just a measuring stick; it is a source of risk**. Investors do not need to predict when concentration will unwind to manage it effectively. They need to govern portfolios so outcomes remain resilient **whether concentration persists, intensifies, or evolves in new forms**.

That requires a shift in mindset:

- **Treating passive exposure as an active choice**, not a neutral default
- **Demanding clear evidence of concentration and factor-risk discipline** from asset managers
- **Prioritizing portfolio construction alongside fundamental research**, rather than assuming one substitutes for the other

In our view, the managers best positioned for this regime are those who can separate durable fundamentals from flow-driven pricing—and build portfolios where outcomes reflect intentional conviction, not the mechanics of a concentrated index.

A note about risk

Risks of investing: The principal risks are generally those attributable to investing in stocks and related derivative instruments. Holdings are subject to market, issuer and other risks, and their values may fluctuate. Market risk is the risk that securities or other instruments may decline in value due to factors affecting the securities markets or particular industries. Issuer risk is the risk that the value of a security or instrument may decline for reasons specific to the issuer, such as changes in its financial condition.

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IM5296912 • 032426 • 2026-3-5681203

