US Earnings Breadth vs. Index Concentration

Research Team *January 25, 2026*

The S&P 500 has delivered strong returns in recent years, but the engine has been narrow. A small group of mega-cap stocks has driven a large share of index performance, leaving earnings breadth weaker than headline index gains suggest. The critical question for 2026 is whether earnings participation broadens beyond the top tier or whether concentration persists as the dominant risk factor.

Executive Summary

Index concentration remains elevated. The Magnificent Seven reached a record 37.4% of the S&P 500 at one point in late 2025, before easing to 33.8% by mid-January 2026. This concentration has pushed cap-weighted performance ahead of equal-weight measures and masks softer earnings breadth across the broader index. For investors, the regime hinges on whether earnings growth diffuses across sectors or stays anchored to a narrow leadership group.

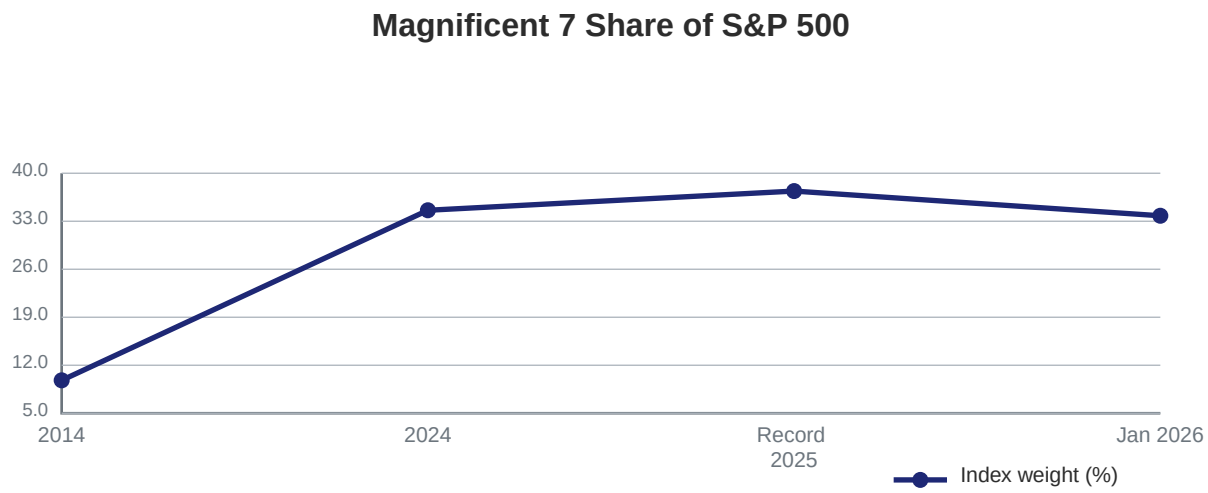
Key Takeaways:

• The Magnificent Seven reached 37.4% of index weight in late 2025 and remain about one-third of the S&P 500 in early 2026.

• **Breadth has improved:** non-Mag 7 stocks represented 59% of S&P 500 returns through Sept. 30, 2025.
• A sustainable bull market typically requires broader earnings participation across sectors.

What Concentration Looks Like

Concentration is most visible in the mega-cap cohort. MarketWatch, citing Dow Jones Market Data and FactSet, reported the Magnificent Seven hit a record 37.4% of the S&P 500. By mid-January 2026, that share had eased to 33.8% according to The Motley Fool. Even after the pullback, concentration remains historically high.



Source: Visual Capitalist (2024); MarketWatch/Dow Jones/FactSet (2025); Motley Fool (Jan 2026)

Earnings Breadth vs. Price Leadership

When a small subset of stocks drives index returns, earnings breadth is often weaker than price momentum suggests. This divergence shows up in the gap between cap-weighted and equal-weight performance. The S&P 500 Equal Weight Index, which removes size effects, has historically outperformed over long horizons but lags during periods of extreme concentration.

Equal Weight as a Breadth Signal

S&P Dow Jones Indices data show that from Jan. 2003 to Dec. 2022, the S&P 500 Equal Weight Index delivered 11.50% annualized total returns versus 9.99% for the cap-weighted S&P 500, a 1.51 percentage-point advantage. The fact that equal weight underperforms in concentrated regimes makes it a useful real-time indicator of breadth.

Source: Capital Group (FactSet, data as of Jun 30, 2025)

Evidence of Broadening

Capital Group (FactSet data) shows breadth has improved materially since the June 2023 trough. On a rolling six-month basis through June 30, 2025, 51% of S&P 500 stocks outperformed the Magnificent Seven median, up from just 1% in June 2023. By Sept. 30, 2025, non-Mag 7 stocks accounted for 59% of the year's S&P 500 return.

Catalysts for Broadening

Broadening typically follows three conditions: easing financial conditions, stabilization in earnings outside mega-cap tech, and improving sectoral profitability. If rates stabilize and margins improve across cyclicals, small and mid-cap earnings can begin to close the gap.

2025 Return Contribution: Mag 7 vs. Rest of Index

Source: Capital Group (FactSet, data as of Sep 30, 2025)

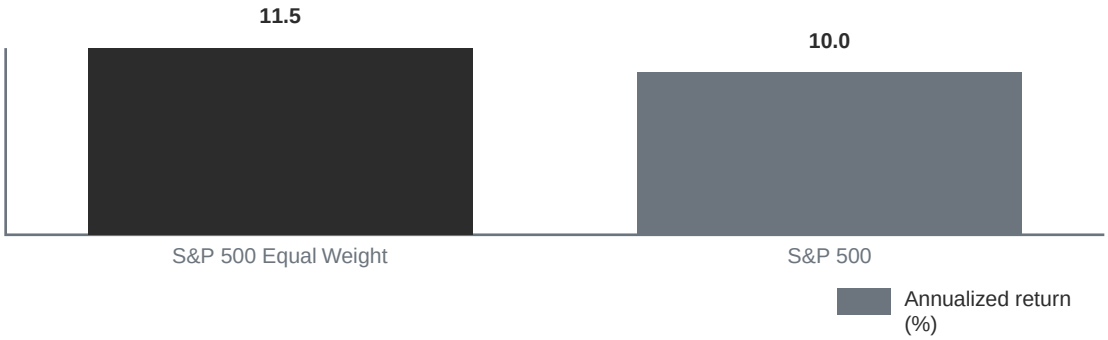
Investment Implications

Concentration is not inherently bearish, but it increases sensitivity to idiosyncratic risks in a handful of names. Investors should balance exposure to index leaders with selective allocations to sectors where earnings momentum is improving. Equal-weight and factor tilts can serve as diversification tools if breadth improves.

Portfolio Allocation Considerations

Maintain core exposure to market leaders while layering in allocations to quality cyclicals and equal-weight strategies. Monitor breadth measures, advance/decline lines, equal-weight relative strength, and earnings dispersion, to gauge regime shifts.

Annualized Total Returns (Jan 2003–Dec 2022)



Source: S&P Dow Jones Indices (2023)

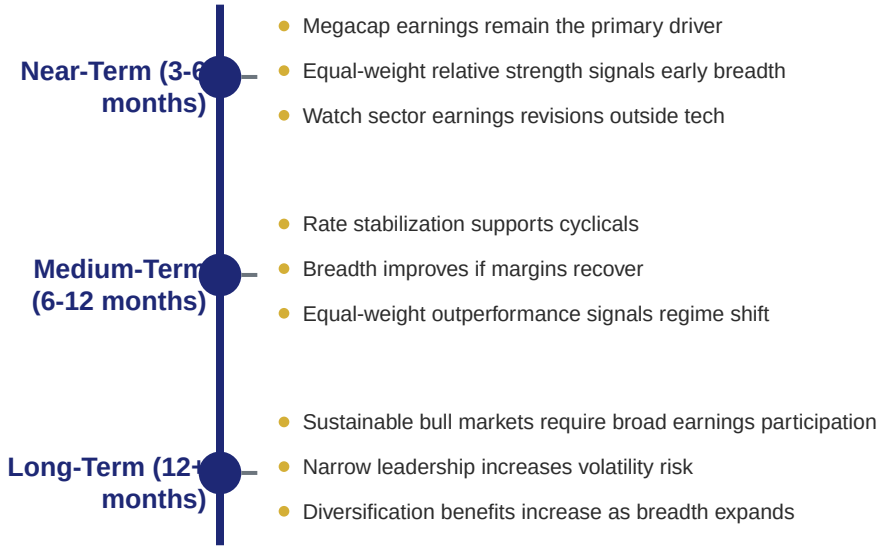
Timeline and Outlook

Near-Term Outlook (3-6 months): Concentration likely remains elevated while megacap earnings stay resilient. Watch for early signs of breadth in financials, industrials, and consumer cyclicals.

Medium-Term Outlook (6-12 months): If rates drift lower and earnings stabilization spreads, equal-weight performance should improve. Broadening would support more sustainable index gains.

Long-Term Outlook (12+ months): Durable bull markets historically require broader earnings participation. A persistent narrow regime increases tail risk and volatility.

Timeline Overview



Source: AVANTAS Research Analysis

Risk Factors

Concentration Risk: A reversal in a handful of mega-caps can disproportionately impact index returns.

Earnings Risk: If broader earnings fail to recover, breadth remains weak and dispersion rises.

Policy Risk: Rate volatility or growth shocks could derail the broadening process.

Conclusion

The S&P 500 remains highly concentrated, and breadth is the key variable for 2026. The bull case improves if earnings participation spreads beyond the top tier. Investors should track equal-weight performance, sector earnings dispersion, and the durability of mega-cap leadership.

Asset Class Impact

Broadening would favor equal-weight strategies, cyclicals, and value factors. Continued concentration supports mega-cap growth and raises index-level volatility risk.

Asset Class Impact

Asset	View	Commentary
US Mega Caps	Neutral	Neutral. Leadership remains strong but concentration risk is elevated.
US Equal Weight	+1	**Overweight. Benefits if breadth improves.**
Value / Cyclicals	+1	**Overweight. Earnings broadening favors cyclicals and value factors.**
Growth (Ex-Mega Cap)	Neutral	Neutral. Requires broader earnings participation to re-rate.
Volatility Hedges	Neutral	Neutral. Concentration raises tail risk, keep modest protection.
US Investment-Grade Credit	Neutral	Neutral. More stable under concentration regimes.

Source: AVANTAS Research Analysis