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The S&P 500 Index ([SP500](#)) is hitting new highs, but not all investors are celebrating. It appears that we are back to just a handful of stocks driving the market, and unfortunately, despite the significant market movement in the spring, the market's mentality hasn't changed.

Whether this is good or bad is entirely based on the type of investor one tries to be. A small-cap investor, no doubt, would likely feel left out, as would a mid-cap investor. An investor outside the top names may feel left behind. If one invests in Nvidia and its peers, they are probably feeling pretty good about it now.

Concentration Is High

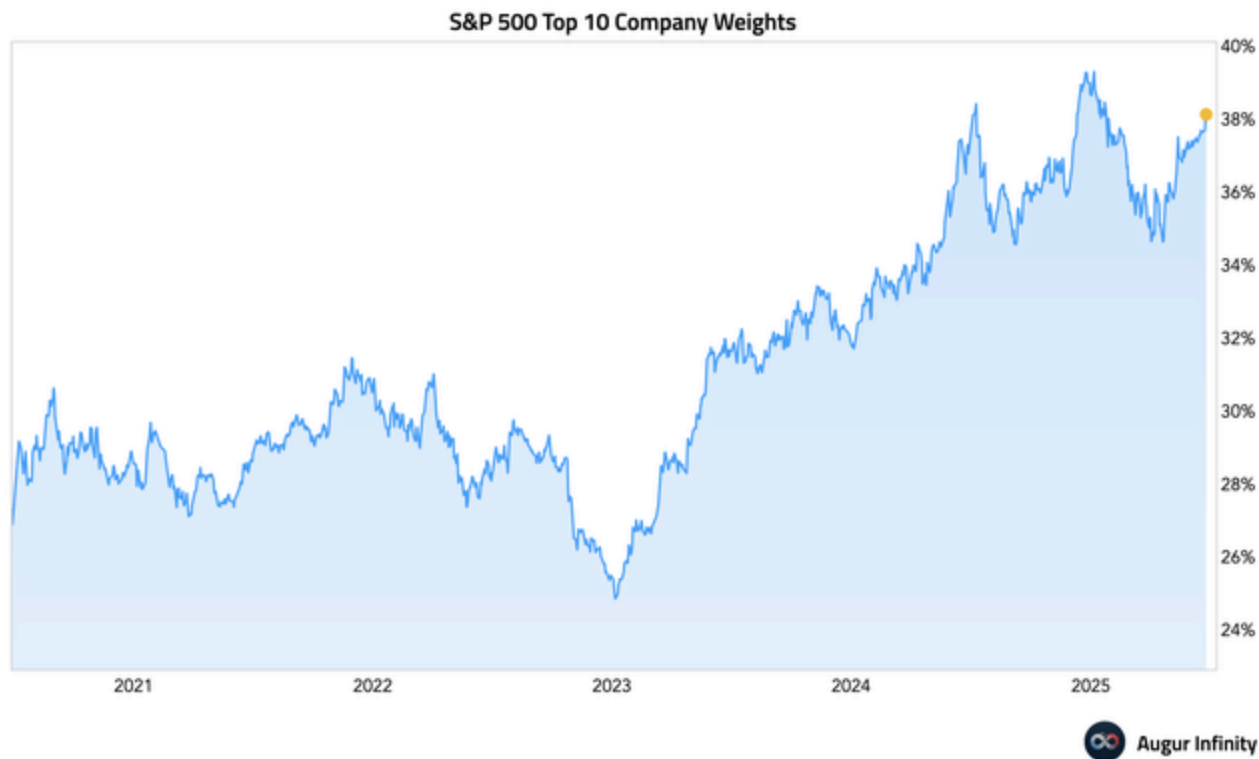
This is illustrated by the fact that the weighting of the top 10 stocks in the S&P 500 has climbed back to record levels last seen in January at nearly 40%. One would have to go back to the 1960s to find a market that is this top-heavy. Even in the bubble years of the late 1990s, the top 10 stocks accounted for only a 25% share of the market.

This concentration began to develop in 2016, but it accelerated following the COVID pandemic, rising from roughly 23% in December 2019 to just over 38% today.



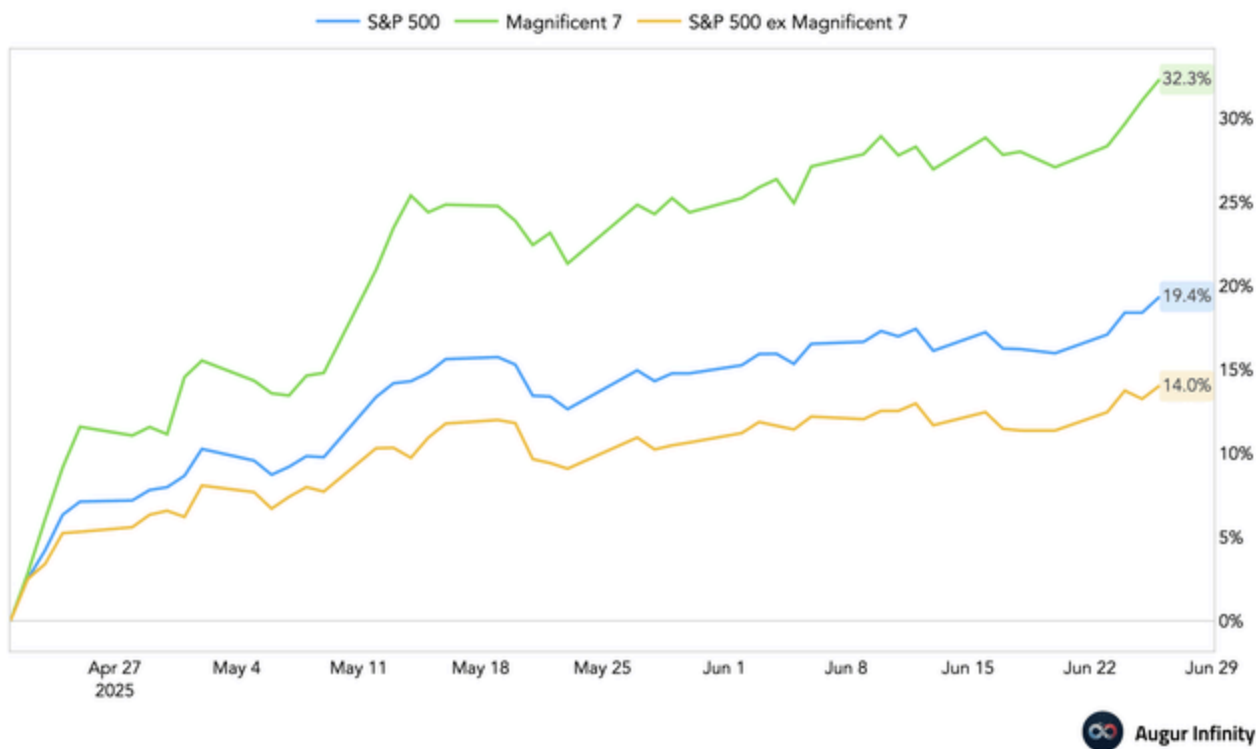
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It had looked like this concentration was starting to decline this past spring, but with the recent rally off the April lows, it seems the market has reverted to its old ways. This is not to say that there is anything wrong with this, but it suggests that the market may be vulnerable to volatility if any of the companies in this group struggle. This would explain why, for example, the S&P 500 market-cap-weighted index has returned to its all-time high, while the S&P 500 equal-weighted index ([RSP](#)) remains 3% below its highs, established in November 2024.



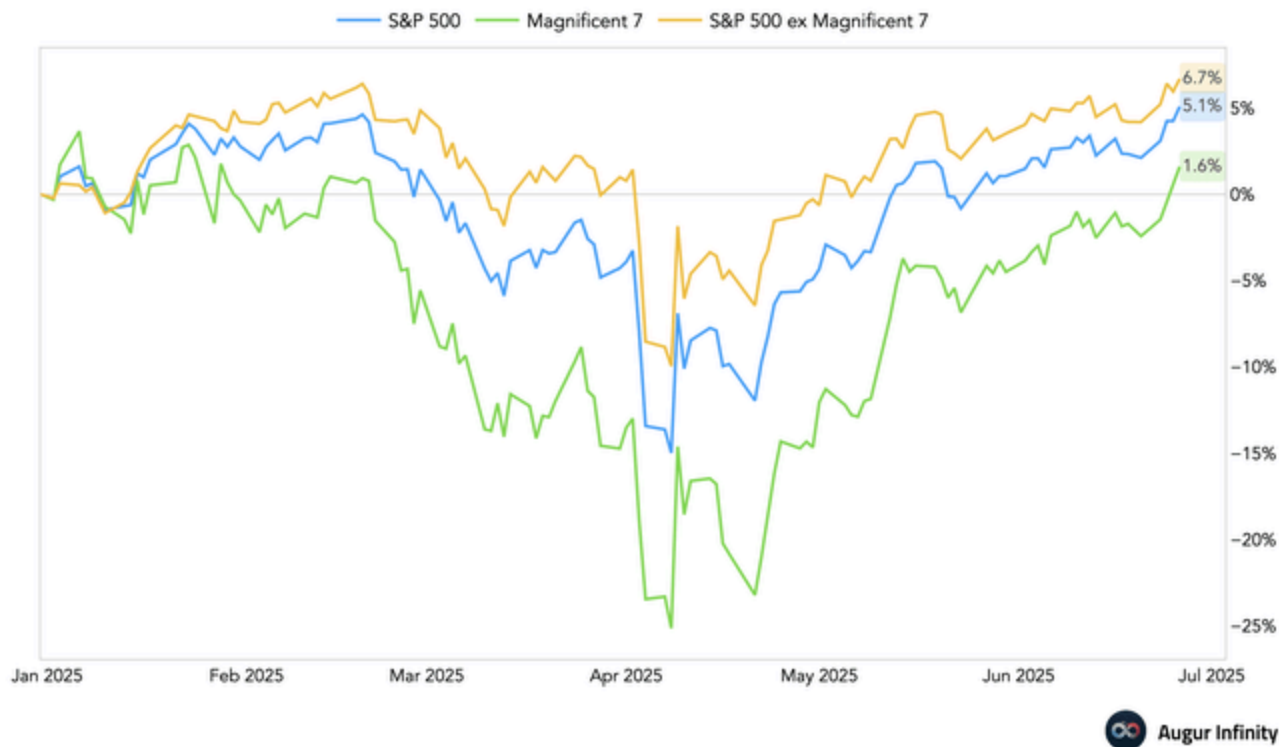
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When looking at the performance of the S&P 493 versus the Magnificent 7 ([MAGS](#)) since April 21, the Mag7 has risen 32.3% while the S&P 493 has only increased by 14%, a vast gap. So, unless you were in the Mag 7, you probably don't feel like you've participated much in the recent market rally.



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Granted, the Mag7 stocks were also hammered during the drawdown, so they also had a lot more ground to recover than the S&P 493 did. Since the beginning of the year, the S&P 493 has outperformed the Mag7 stocks.

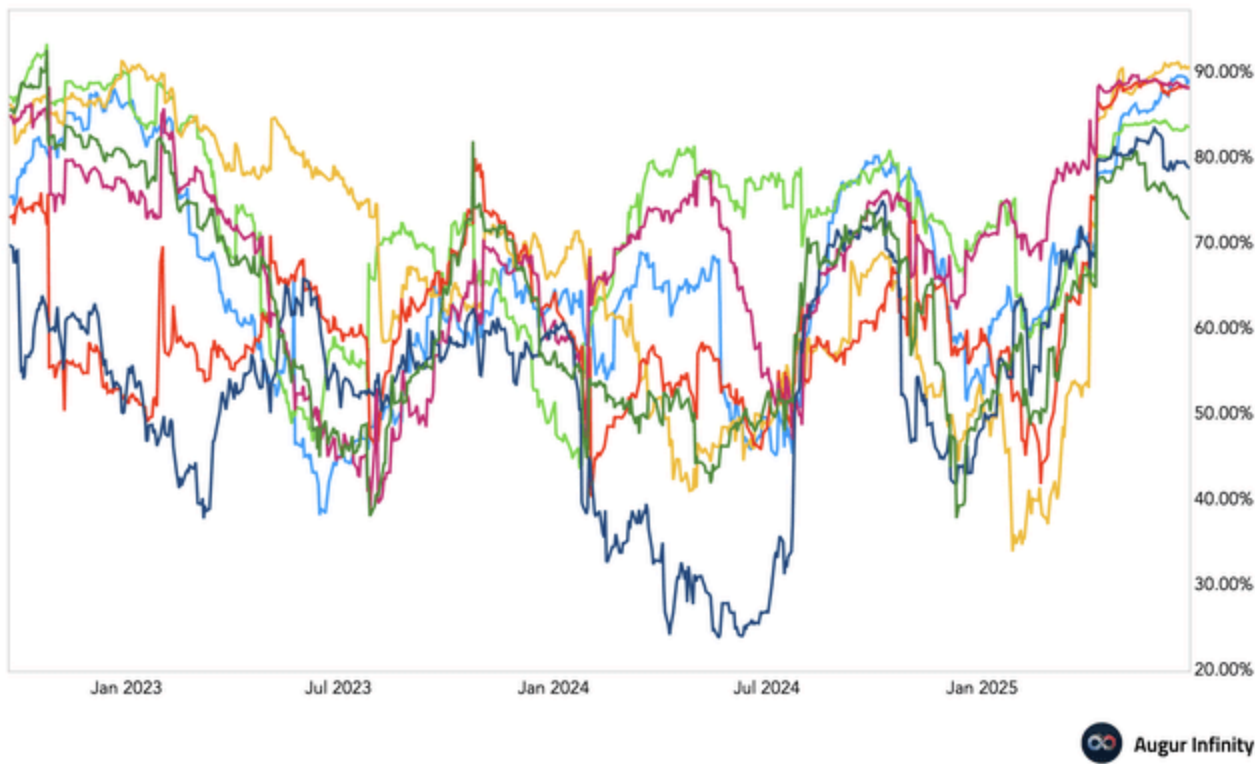


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Correlations Are Rising With the Index

However, it again highlights that the momentum right now is behind those big, mega-cap weight stocks, and, more importantly, that can be demonstrated by 3-month realized correlations, which have shot up to around 90% across the various seven stocks. At least in the past three years, the correlation with the index has only been this strong in late 2022. However, that was when the market was falling, not rising. When the market declines, stocks tend to become more highly correlated, and when they rise, they tend to become less so, making the recent movement unusual.

Mag 7 3-Month Realized Correlation



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In the end, what is perceived to be a basket of 500 stocks is really just a basket of a few stocks, and as long as the good times for them continue to roll, the "stock market" will roll. If they should begin to struggle again, the "market" will struggle too.

Know what you own, especially if you are an index investor.

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