

## IS THE S&P 500 REALLY JUST A TECHNOLOGY FUND?

STILL A STRONG INVESTMENT TOOL, ITS GROWING TECH WEIGHT PRESENTS A CHALLENGE.

For decades, the S&P 500 Index has been considered the gold standard for broad market exposure. Investors have flocked to it for diversification, risk aversion, and reliable long-term growth. But given its current makeup, has the index lost its original appeal? Is it still a diversified benchmark of the U.S. economy, or has it effectively become a technology-heavy fund in disguise?

### THE TECH-HEAVY EVOLUTION OF THE S&P 500

The S&P 500 is designed to represent the U.S. stock market, with around 500 of the country's largest publicly traded companies. However, in recent years, the dominance of technology firms has grown to an unprecedented level. The top 10 stocks in the index accounted for more than a third of its total market capitalization in 2024, with the so-called "Magnificent 7" – Alphabet (GOOG), Amazon (AMZN), Apple (AAPL), Meta (META), Microsoft (MSFT), Nvidia (NVDA), and Tesla (TSLA) – making up the bulk of those gains.

This concentration has significantly impacted the index's performance. In 2024, the S&P 500 rose 25%, but more than half of that return came from just these seven stocks. Without them, the index would have only gained about 11.75%. While this concentration has been lucrative for investors amid a tech bull run, it also raises concerns about risk and the effectiveness of the index as a diversified investment.

### A DOUBLE-EDGED SWORD

A market-cap weighted index like the S&P 500 naturally favors companies with rising stock prices. When tech giants perform well, their influence on the index increases. But the reverse is also true – if these stocks stumble, their sheer size could drag the index down with them. This presents a potential vulnerability for millions of investors, particularly those who use the S&P 500 as a core component of their 401(k) and retirement savings.

The imbalance also raises a key question: Is the S&P 500 still an effective vehicle for diversification? Historically, the index has been a way for investors to gain broad exposure to various sectors of the U.S. economy. However, with such a significant portion of returns driven by a handful of tech stocks, its diversification benefits are weaker than they once were.

### WHAT IF TECH STOCKS UNDERPERFORM?

While the S&P 500 has benefited from the tech rally, a sharp reversal could have widespread consequences.

If stocks like Nvidia, Apple, and Amazon were to see significant declines, the index would take a substantial hit. This could be especially painful for investors with a high concentration of S&P 500 exposure in their portfolios.

That said, a downturn in tech would not necessarily mean total devastation. Other sectors – such as consumer discretionary, communication services, and financials – would likely help cushion the blow. Additionally, because the index is market-cap

weighted, underperforming tech stocks would see their influence decline over time as the index naturally rebalances. However, this process does not happen overnight, and many investors could face losses before the rebalancing effect takes place.

### IS IT TIME FOR A RETHINK?

Given the S&P 500's current composition, investors may need to reconsider how they use the index in their portfolios. While it remains an effective long-term investment vehicle, its concentration in a few major tech firms means it may no longer provide the level of diversification many investors assume it does.

### SO, WHAT SHOULD INVESTORS DO?

- **CONSIDER COMPLEMENTARY INVESTMENTS:** Investors who want broader diversification may need to look beyond the S&P 500. Adding exposure to equal-weighted index funds, small-cap stocks, or international equities can help mitigate sector concentration risk.

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*“Invest for the long haul. Don't get too greedy and don't get too scared.”*

- SHELBY M.C. DAVIS

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• **MONITOR SECTOR WEIGHTINGS:** Keeping an eye on sector weightings within the S&P 500 can provide insight into how much exposure a portfolio truly has to technology.

• **REASSESS RISK TOLERANCE:** If an investor is heavily reliant on the S&P 500 for diversification, they should consider whether their risk tolerance aligns with the index's increasing concentration in a single sector.

### PLAN YOUR INVESTMENTS

The S&P 500 is still a strong investment tool, but its growing tech dominance presents a challenge for investors who once viewed it as a balanced reflection of the U.S. economy.

While tech stocks have driven impressive returns, their outsized influence means that the

index may not be as diversified – or as low-risk – as it once was.

Investors should take a closer look at their portfolios and consider whether additional diversification is necessary. The S&P 500 remains a cornerstone of many investment strategies, but in its current form, it may no longer be the one-size-fits-all solution it used to be.

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