

INSIGHT

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Should I be worried about concentrated stock markets?



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A common concern among investors today is the growing concentration of stock markets. The world's largest companies, such as Apple, Microsoft, Nvidia and Amazon, now represent a significant proportion of global stock market value. In fact, the top 10 stocks now comprise more than a quarter of the global developed market, and over a fifth after including emerging markets¹. It is natural for investors to wonder whether this leaves them more exposed if something goes wrong.

To assume that a more concentrated market may be riskier is understandable. After all, more of the portfolio depends on the success or failure of fewer companies. However, recent research suggests the picture is more nuanced.

A recent paper² published in the Financial Analysts Journal examined whether more concentrated stock markets have historically led to poorer investor outcomes. The authors found that market concentration did not reliably predict subsequent returns, volatility, downside volatility or maximum drawdowns. In other words, concentration alone was not a reliable indicator of future investment outcomes.

Put simply, a concentrated market is not necessarily a riskier one.

That is not to say one should disregard diversification – company-specific risk is still something sensible investors aim to mitigate through broad stock, country and sector diversification (ask those that were invested in Enron or WorldCom whether diversification still matters!). Diversification remains an important tool in sensible investing. This research should not be interpreted as support for holding concentrated portfolios.

Portfolios that are globally diversified and tilt towards smaller companies, value stocks and highly profitable businesses naturally spread exposure across a broader range of companies compared to a traditional market-cap weighted index.

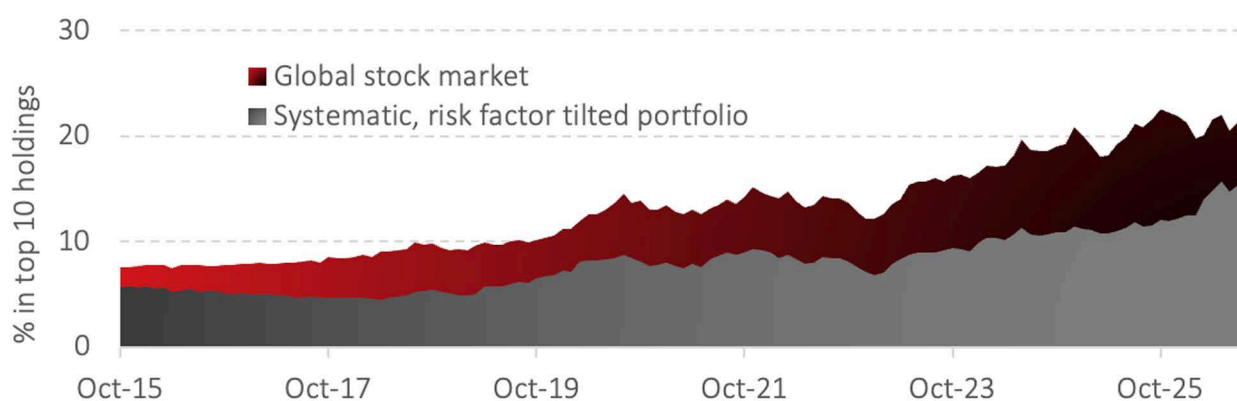


Figure 1: % increase in top 10 stock holdings, global stock market vs systematic portfolio

Source: Albion Strategic Consulting. Data source: Global stock market represented by Vanguard Total World Stock Index I. Systematic, risk factor tilted portfolio represented by Dimensional World Equity GBP Acc. Data from Oct-15 to Aug-26. For illustrative purposes only. Not a recommendation. Morningstar Direct © All rights reserved.

Stock market concentration has increased in recent years, however, this by itself is not a reliable guide to future returns or risk. In any case, many systematic, factor-tilted portfolios have materially lower stock-level concentration than broad market-cap weighted indices.

From here, markets will go up, down or sideways. No tool exists to tell investors when or what will happen next – as this evidence suggests, stock market concentration is not the crystal ball some might hope it to be. The search continues.

End notes

1.

iShares Core MSCI World UCITS ETF used as a proxy for global stock markets, and Vanguard Total World Stock Index I which includes emerging markets. Not a recommendation.

2.

Kritzman, M., & Turkington, D. (2026). The Fallacy of Concentration. Financial Analysts Journal, 82(2), 8–18. <https://doi.org/10.1080/0015198X.2026.2640988>

Other notes and risk warnings

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