



OSBORNE PARTNERS  
Capital Management, LLC

## The Other Guys

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### *The broadening of the market as the Artificial Intelligence trade slows down.*

For the better part of three years, the S&P 500 has not really been an index of 500 stocks. It has been an index of roughly ten, with 490 other guys along for the ride. From the end of 2022 through 2025, the market cap-weighted S&P 500 outperformed its equal-weight counterpart by ~42%, similar to the outperformance between the two in the lead up to 2000. The ten largest companies swelled to ~40% of the index's total market capitalization, up from roughly 19% a decade earlier. In essence, someone investing \$100,000 in the S&P 500 was, in effect, placing a \$41,000 bet on a handful of companies bound together by a single theme: artificial intelligence (AI).

That dynamic is changing. In the first quarter of 2026, the equal-weight S&P 500 outperformed the cap-weighted version by a meaningful margin. The S&P 500 Equal Weight Index was up ~1% during the quarter, while the S&P 500 Index declined ~5%. Across the market, smaller market-caps and styles that have been out of favor for so long began to outperform: small caps gained ~1%, large-value was up ~2%, and high-dividend-paying companies were up double-digits. After years of narrowing, the market is broadening again.



### The Concentration Problem

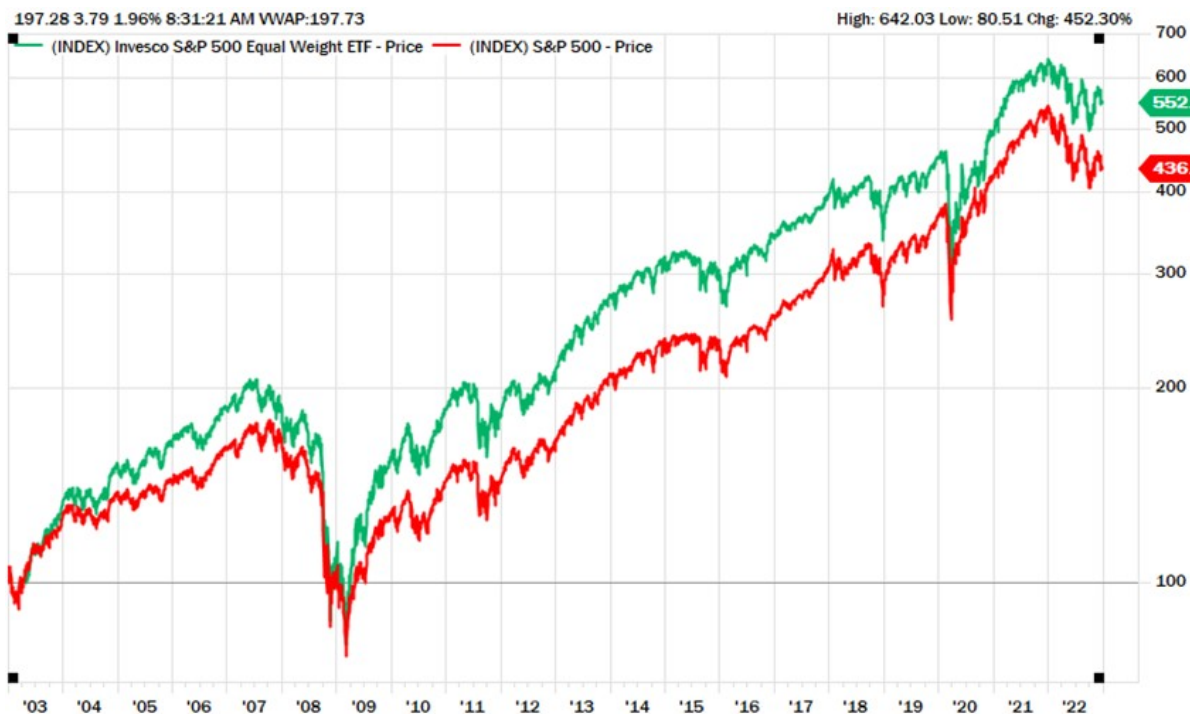
The degree of concentration that built up over the past three years was extraordinary by any historical measure. At the peak in late 2025, the top ten stocks in the S&P 500 accounted for ~40% of its weight but

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only about 32% of its earnings. The average P/E of the top ten traded at a premium of nearly 57% to the remaining 490 names. As we have discussed previously, an investor who believed they owned a diversified portfolio through a cap-weighted index fund was, in practice, making a highly concentrated wager on mega-cap technology and the trajectory of AI monetization.

We do not dismiss the quality of these businesses. The largest companies in the S&P 500 are among the most profitable enterprises in the history of capitalism, with operating margins, free cash flow generation, and balance sheets that dwarf prior cycles' leaders. This is not the late 1990s, when Cisco and Intel traded at triple-digit earnings multiples on cyclical hardware revenues. The fundamental case for many of today's mega-cap leaders remains sound.

However, valuation is a different question than quality. From 2003 through 2022, the equal-weight S&P 500 outperformed the cap-weighted index by a compounded rate of over 115%, reflecting the persistent tendency of relative winners to mean-revert and the mathematical advantage of rebalancing away from overvaluation.



Source: OPCM

That relationship broke down entirely during the AI-driven concentration of 2023 to 2025. History does not repeat itself, but it rhymes with uncomfortable regularity. After the dot-com peak, the equal-weight index outperformed the cap-weighted S&P 500 for seven consecutive years. During the so-called "lost decade"

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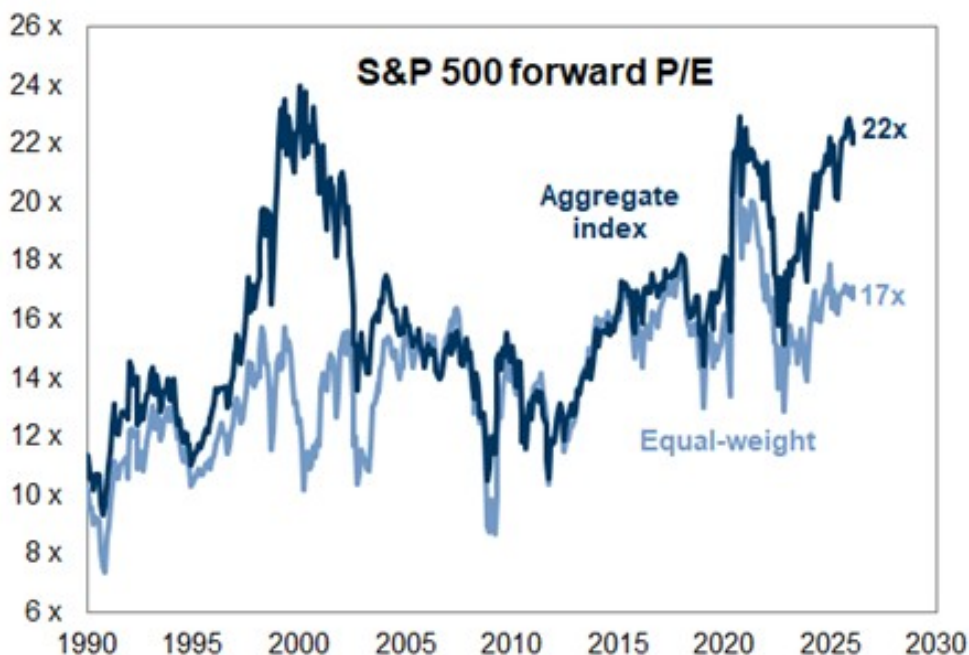
from the end of 1999 to the end of 2009, the equal-weight index returned ~65% while the cap-weighted S&P 500 declined ~9%.

#### What Is Driving the Shift

Several forces are converging to support broader market participation. First, sector leadership has rotated. Energy stocks have benefited from a combination of supply discipline, rising geopolitical risk premiums, and the structural demand created by AI data center buildouts, which require enormous quantities of power. Materials are being supported by a weaker dollar and improving global manufacturing sentiment. These sectors had been afterthoughts during the AI mega-cap rally, and their resurgence is pulling the equal-weight index higher.

Second, the AI narrative itself is evolving. The release of Anthropic's Claude Copilot and its ability to easily automate workflows and code sent shockwaves through the software-as-a-service sector (SaaS). Hundreds of billions of dollars of market capitalization evaporated from SaaS companies in a matter of days. The question is no longer simply "who is building AI infrastructure?" but rather "which companies can demonstrate a return on their AI investments?" This shift in focus favors a broader set of businesses beyond the hyperscaler oligopoly that dominated the prior phase of the trade.

Third, the valuation gap between the largest stocks and the rest of the index had stretched to levels that invited mean reversion regardless of the catalyst. The cap-weighted S&P 500 traded at a 29% premium to the equal-weight version at year-end. When concentration and valuation premiums reach extremes, the market does not need a crisis to broaden; it needs merely a pause in the narrative that justified the concentration.



Source: Goldman Sachs



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### What It Means for Portfolios

We believe the broadening of market participation is a healthy development, and one that our multi-asset class, style-agnostic investment approach is well positioned to capture. Narrow markets create fragile markets; when index performance depends on the continued execution of a handful of names, a single earnings disappointment or a shift in sentiment can produce outsized drawdowns. Broader markets distribute risk more evenly and create a wider set of opportunities for active selection.

That said, broadening of the market does not mean that mega-cap technology has become a poor investment. It means that the valuation premium embedded in those names leaves less margin for error, while the rest of the market offers more favorable risk-reward characteristics. In fact, in the aftershocks of the SaaS sell-off we increased existing positions and added new names. If AI monetization accelerates faster than expected, or if the hyperscalers deliver another cycle of earnings beats, concentration could reassert itself. We are not calling for the end of large-cap technology leadership. We are observing that the market is pricing in less certainty about that leadership than it was a few months ago.

The practical implication is straightforward. Portfolios that are overweight passive cap-weighted index exposure are carrying more concentration risk than many investors realize. An allocation to a broad list of names, small and mid-cap equities, and sectors beyond technology can improve diversification without sacrificing participation in the broader market's upside. The Osborne Partners Investment Team continues to monitor the evolving dynamics between market concentration and breadth, and we are focused on identifying opportunities where we believe the risk-reward is most favorable. ■

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