

The S&P 500 is the most recognized domestic equity index. It is perceived as being “the market” by retail and institutional investors alike. It is also the primary benchmark for many portfolio managers. For many investors, it has been the place to be over the last 10 years.

The index is a collection of 500 stocks weighted by size. In other words, the bigger a company’s market capitalization the bigger its weighting in the index. It may appear to be diversified with 500 companies, but looks can be deceiving.

The top 10 stocks accounted for nearly 40% of the index at year-end 2025. With the exception of Berkshire Hathaway, most of these were technology behemoths tethered to AI[†]. The tech sector and the non-tech members (AMZN, GOOG/GOOGL, META & TSLA) of the so-called “Magnificent 7”^{**} accounted for nearly 50% of the index at year end.

Hence, the S&P 500 has effectively become a large cap tech index rather than a well-diversified collection of stocks. Interestingly, the technology sector is the only sector to have outperformed the S&P over the last decade with a 10-year annualized return of 24.3%, justified to a great extent by superior earnings growth to the rest of the market.

Driven in very large part by technology, the index has posted incredible results over the last decade. Through year end 2025, the index generated annualized 10-year returns of 14.8%, with returns going into overdrive the last three years (2023-’25) at 23%. This is markedly above historical norms of roughly 10%. We think this will be very difficult to replicate over the next 10-year frame.

We are reminded of the S&P 500’s performance before and after the tech bubble of the late 1990s. From 1990-1999, the S&P generated annualized returns of 19.0% and went into a similar tech-driven overdrive with annualized returns of 27.7% from ’97-’99.

Over the next decade, returns were much more subdued. The S&P had appeared to have borrowed from the future and experienced a reversion to the mean as many leaders cooled off. The index posted annualized returns of -0.9% from 2000 to 2009, although we acknowledge this was exacerbated by the 2008 financial crisis. Meanwhile, other areas including international stocks, small cap stocks and value stocks did much better.

Could we see a repeat of this dynamic? We think it’s possible. We aren’t trying to time the market and have no idea what the near term will bring. The prior decade’s winners could certainly keep on winning for a while. However, we think the market cap-weighted S&P 500 could underperform other indices over the next 10 years as the largest contributors of the last 10 years, namely large tech companies, have trouble replicating their collective performance.

Investors may re-think their definition of “the market” as areas outside of the S&P 500 could do better, just as they did from 2000-2010. Also, active management, which has struggled vs passive management (i.e. owning the index) in recent years given the market’s concentration, could fare better. This could be especially true for large cap managers that don’t closely hedge the index.

Don’t get us wrong, we have great respect for the tech titans and continue to own many of them. That said, our weightings are more modest than the index where we do own them. Furthermore, we fully acknowledge that the S&P 500 houses the world’s best companies and is worth having exposure to. We just think 1) returns may be more modest over the next 10 years & 2) there may be more opportunity elsewhere over that span.

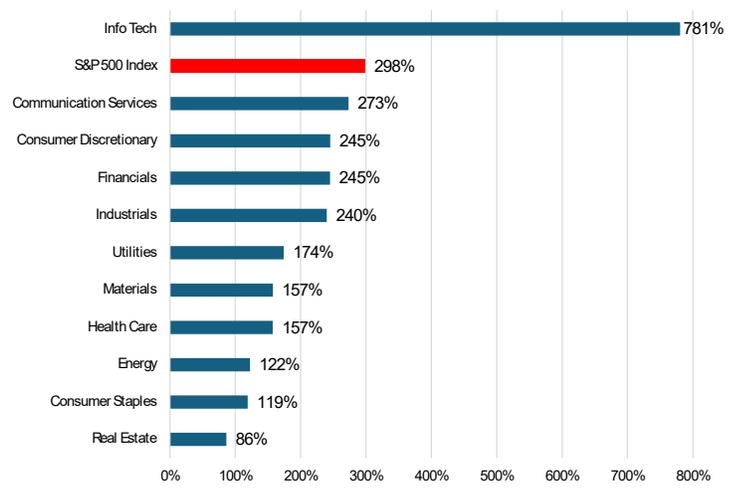


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10 Year Cumulative Total Return per S&P 500 Sector
(Dec 31, 2015 – Dec 31, 2025)



Source: FactSet financial data and analytics

Important Disclosures: [†]Artificial Intelligence. ^{**}The Magnificent Seven (“Mag 7”), stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla. The statements and opinions expressed in this article are those of the authors as of the date of the article, are subject to rapid change as economic and market conditions dictate, and do not necessarily represent the views of Davenport & Company LLC. This article does not constitute investment advice, is not predictive of future performance, and should not be construed as an offer to sell or a solicitation to buy any security or make an offer where otherwise unlawful. Investing in securities carries risk including the possible loss of principal. Individual circumstances vary. This information has been compiled from sources believed to be reliable; however, there is no guarantee of accuracy or completeness. Diversification and asset allocation does not ensure a profit or guarantee protection against a loss. Performance shown is historical and is no guarantee of future results. Small and mid cap company stocks may be more volatile than stocks of larger, more established companies. International investments are subject to additional risks such as currency fluctuations, political instability, and the potential for illiquid markets, among others.

Important Definitions: **The S&P 500® Index** is comprised of 500 U.S. Stocks and is an indicator of the performance of the overall U.S. stock market. The index is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates (“SPDJ”). Standard & Poor’s® and S&P® are registered trademarks of Standard & Poor’s Financial Services LLC, a division of S&P Global (“S&P”); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (“Dow Jones”). An investor cannot invest in an index and its returns are not indicative of the performance of any specific investment.