When a Few Stocks Carry the Market

Concentration, the AI Boom, and Why Diversification Still Matters

August 2026 | Scott McMurdie, CFP® and Eric McMurdie, CFP®

If you have looked at the headlines this year, the story sounds simple: the stock market keeps setting records. The S&P 500 finished July at 7,489.72, near an all-time high, and the Dow closed at 52,485.03 — its fourth straight winning month. (Source: cnbc.com; 7/31/26)

Underneath that headline, though, something less comfortable is happening. A very small number of very large companies — nearly all of them tied to artificial intelligence — now account for an unusually large share of the market. When those few companies do well, the index looks great. When they stumble, the index looks fragile, even if the other 490-plus companies are doing just fine.

This month we want to explain what market concentration is, why it has grown so much, and — most importantly — what it does and does not mean for a portfolio like yours.

It is a question worth asking now rather than later. Many of our clients hold index funds inside 401(k)s, IRAs, and brokerage accounts precisely because those funds are supposed to spread risk widely. That is still largely true. But the arithmetic has shifted enough over the past several years that a fund you bought for diversification may be doing less of that job today than it did when you bought it.

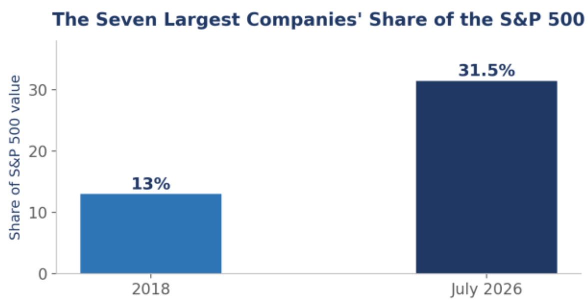
THE BIG PICTURE

- The seven largest U.S. companies now make up roughly a third of the S&P 500's total value.
- The ten largest together account for more than 40% of the index.
- Big technology firms plan to spend close to $700 billion on AI infrastructure this year alone.
- In July, the Dow rose while the Nasdaq fell more than 3% — a sign of how uneven the market has become.
- The Fed held rates steady on July 29, but three officials voted to raise them.

How Concentrated Is the Market?

An index like the S&P 500 is weighted by size: the bigger the company, the more it moves the index. That has always been true. What is unusual is how lopsided the weighting has become.

As of late July, the seven largest companies in the index accounted for about 31.5% of its total value, up from roughly 13% in 2018. That is the highest concentration in the largest handful of names since the “Nifty Fifty” era of the early 1970s. Widen the lens to the ten largest companies and the figure passes 40% — well above the roughly 24% average of past decades. (Sources: forbes.com; RBC Wealth Management)

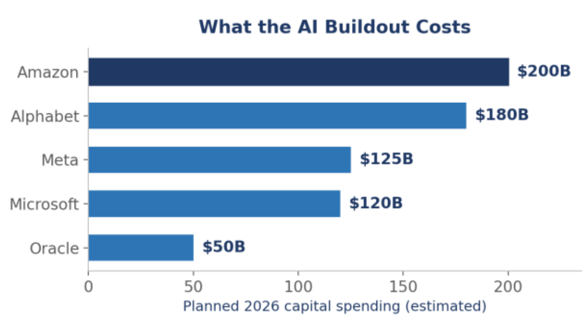


Combined weight of the seven largest S&P 500 companies. Source: forbes.com.

In practical terms: if you own an S&P 500 index fund today, roughly one of every three dollars is invested in seven companies, and those seven are concentrated in a single theme. That is a very different investment than the broadly diversified index most people picture.

The AI Spending Boom Behind It

Those companies have grown so large largely because of the enormous buildout of artificial intelligence infrastructure — data centers, chips, and power. Microsoft, Alphabet, Amazon, Meta, and Oracle together have committed to roughly $660 billion to $690 billion of capital spending in 2026, close to double what they spent in 2025.



Estimated 2026 capital spending plans. Sources: cnbc.com; company guidance.

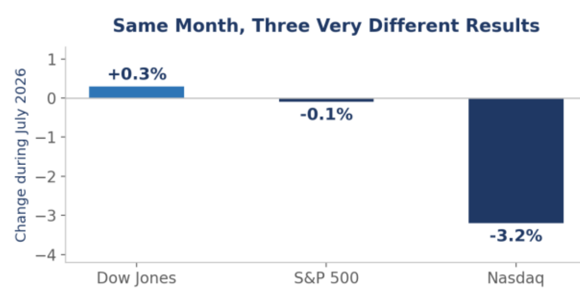
Spending on that scale can pay off. It can also arrive faster than the revenue that justifies it. Analysts have begun pointing out that free cash flow at several of these companies is shrinking sharply as a result — Amazon, for instance, is now expected to run negative free cash flow in 2026. Investors are wrestling with a fair question: is this spending building the next decade of profits, or getting ahead of itself?

We do not claim to know the answer, and neither does anyone else with certainty. What we can do is make sure a single answer to that question does not determine whether your retirement works.

> ***Before we go further, we want to say this plainly: our priority is you.*** *We write these letters so you understand what is happening with your money and feel steady about it — not so you feel pressure to act. Your plan, your timeline, and your goals come first, always.*

July Showed the Split

July was a useful illustration. The Dow Jones Industrial Average — heavier in banks, industrials, and health care — edged up 0.3% for the month. The S&P 500 was essentially flat, down 0.1%. The technology-heavy Nasdaq Composite fell 3.2%. (Source: cnbc.com)



Change in each index during July 2026. Source: cnbc.com.

Same month, same economy, three different outcomes. Earnings, meanwhile, were strong across the board: of roughly 300 S&P 500 companies reporting, about 85% beat expectations. The weakness was concentrated in the most expensive corner of the market, not in corporate America generally.

The policy backdrop added to the uncertainty. On July 29, the Federal Reserve held its benchmark rate at 3.50%–3.75%, but three officials dissented in favor of raising rates — the first time since 2016 that three policymakers dissented in the same direction. Inflation has been mixed: headline CPI ran 3.5% over the year through June, while core inflation, which strips out food and energy, was 2.6%. The 10-year Treasury yield ended July around 4.75%, and the average 30-year mortgage rate stood at 6.66%. (Sources: federalreserve.gov; bls.gov; home.treasury.gov; freddiemac.com)

Why Diversification Still Matters

None of this is a prediction that AI stocks are about to fall, and it is certainly not a recommendation to sell them. These are real companies with real profits, and concentration can persist for years. The point is narrower and more useful: a portfolio should not depend on one story going right.

That is what diversification is for. Spreading money across different types of companies, different industries, bonds, and cash means no single theme — however exciting — decides your outcome. It rarely feels clever while one group of stocks is leading. It matters enormously when leadership changes, and leadership always eventually changes.

This is also a good moment to check whether your portfolio has drifted. When one slice of the market grows this fast, it can quietly become a much larger share of your accounts than you ever intended — including inside 401(k) funds and index funds you have not looked at in a while. Rebalancing back toward your target is one of the few reliably useful things an investor can do in a market like this one.

It is worth remembering that history offers some perspective here. The last time a small group of companies dominated the market this thoroughly was the early 1970s, when a set of blue-chip growth stocks nicknamed the “Nifty Fifty” were widely considered safe at almost any price. Many of those businesses went on to do perfectly well over the following decades — but investors who paid too much for them, and held little else, waited a long time to break even. The lesson was never that great companies are a bad idea. It was that price and balance matter.

WHAT THIS MEANS FOR YOU

- Record highs and a narrow market can both be true — a rising index does not automatically mean broad strength.
- Check your actual mix. Index funds and 401(k) options may hold far more in a handful of technology names than you realize.
- Rebalancing beats predicting. You do not need a view on AI to keep your portfolio pointed at your goals.
- Watch the Fed in September. A rate increase is genuinely on the table, which would affect borrowing costs and bond values.
- Higher yields still favor savers. If you are holding a lot of cash, it is worth a conversation about where it sits.
- Your plan is the reason to act — not a headline. If something in your life has changed, call us.

Terms to Know

A few words that come up often in this discussion:

- Market concentration — how much of an index's value sits in its largest companies. Higher concentration means the index depends more on a few names.
- Market-cap weighted — an index in which bigger companies count for more. The S&P 500 works this way.
- Capital expenditure (“capex”) — money a company spends on long-term assets like buildings, equipment, and data centers.

- Free cash flow — the cash a company has left after running the business and making those investments.
- Rebalancing — periodically shifting money back to your intended mix after some investments grow faster than others.
- Nifty Fifty — a group of large, popular U.S. growth stocks that dominated the market in the early 1970s, often cited as a cautionary example about paying any price for quality.

Services We're Proud to Offer You

HOW WE SUPPORT YOU YEAR-ROUND

- Client review meetings, including portfolio and allocation check-ups.
- Quarterly economic updates.
- Tax reports covering proactive tax-saving opportunities and changes.
- Regularly scheduled updates on timely and important topics, like this one.
- An exceptional client service experience, every time you reach out.

If you would like us to look at how concentrated your own accounts have become, we are glad to do it — that review is part of what we are here for.

KNOW SOMEONE WHO SHOULD SEE THIS?

Most people have no idea how concentrated their 401(k) or index funds have become. If a friend, coworker, or family member could use a second set of eyes, please call Sandy at (972) 907-0110 — we would be glad to help them too.

→ Add a name to our newsletter list

→ Invite a guest to a workshop or webinar

→ Send someone our way for a complimentary portfolio review

Sources: cnbc.com; forbes.com; RBC Wealth Management; bls.gov; federalreserve.gov; home.treasury.gov; freddiemac.com; spglobal.com.