



# Concentration continues— equal-weighted S&P 500 position closed.

**SEI believes historic levels of concentration in the U.S. equity market may continue, despite a longer-term view that breadth and diversity will eventually return to the market.**

Over the past year, a select group of mega-cap companies has exerted outsized influence on the S&P 500 Index's performance. The benchmark's top 10 holdings by weight now account for over 30% of the index, a historically high level. Valuations for these mega-cap companies have surged relative to the median stock—implying an extremely optimistic outlook for future growth. In an effort to exploit this market dislocation, SEI had favored an equal-weighted over the capitalization-weighted implementation of the S&P 500 Index. This position has recently been closed.

While SEI believes the narrowing of this relative divergence still represents an attractive long-term opportunity, we also recognize that the risk profile has escalated in the short-term. Enthusiasm surrounding artificial intelligence (AI) has captured the imagination of investors and has triggered a substantial new wave of investment in the technology sector. These large mega-cap companies (with a few exceptions) have continued to report strong growth in revenues, earnings, and cash flows. Valuations are high, but do not yet appear extreme against the backdrop of their fundamental performance. The unfolding AI narrative introduces considerable uncertainty into the outlook and SEI believes identifying clear winners and losers will take time to play out. While the long-term potential of this trade remains promising, short-term uncertainties warrant caution as we expect heightened volatility in this relationship will persist for some time.

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