

Rethinking the S&P 500: Why value stocks deserve a closer look

3Q 2025

Bottom line up front:

The S&P 500 has changed significantly over the years and may no longer provide the broad diversification it once did. Adding exposure to value stocks—especially through active management—has the potential to help achieve better diversification, reduce concentration risk, and capture long-term opportunities across the U.S. equity market.

1. S&P 500 has become highly concentrated

- Sector concentration: Information technology now represents 35% of the S&P 500 Index, or even up to 45% if reclassified tech companies were included* (versus a high of 40% in the internet bubble and up from 14% in 2005).
- Holdings concentration: Top five companies (Nvidia, Microsoft, Apple, Amazon, Meta) account for 28% of the index.
- This reduces diversification and increases potential risks compared to historical norms.

2. Russell 1000 Value Index offers broader diversification

- The Russell 1000 Value Index includes 870 companies, a record high, with much lower concentration in top holdings and more balanced sector weights.
- The Index provides a more diversified way to access U.S. equities.

3. Value opportunities still exist

- The S&P 500 P/E ratio has risen from 17x to over 23x in the past decade.
- Despite higher overall valuations, around 150 companies in the index still trade below 14x earnings, offering potential bargains.

4. Traditional value definitions have limitations

- Traditional metrics such as low P/B, low P/E, dividend yield don't fully capture economic value in today's market, where intangible assets like brand and intellectual capital are increasingly important.
- Value stocks are not necessarily low-quality; many are high-quality, recognizable companies.

5. Active management can add value

- Active managers can add value for investors amidst the noise: They utilize bottom-up research to identify companies trading at a discount to intrinsic value to build attractive, diversified portfolios.
- In our view, combining value exposure via active management has the potential to improve portfolio quality and risk-adjusted returns over the long-term.

1. The S&P 500 Index has become increasingly concentrated

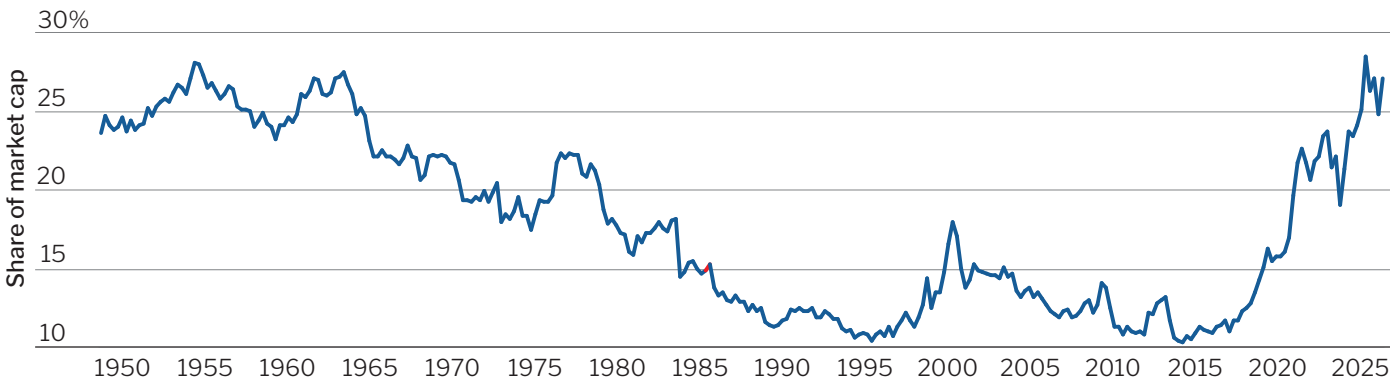
The S&P 500 Index, traditionally seen as a broadly diversified benchmark, is now heavily weighted toward the information technology sector and a handful of mega-cap companies. This concentration means investors may not be getting the diversification they expect, which can increase portfolio risk.

From a sector concentration standpoint, the information technology sector represents about 35% of the index—or even up to 45% if reclassified tech companies* were

included—up from 14% in 2005. Additionally, holdings concentration is at record levels. The top five S&P 500 holdings (Nvidia, Microsoft, Apple, Amazon, Meta) make up 28% of the index (Exhibit 1). Taken together, the sector and holdings concentration of the index raise questions over a lack of diversification and subsequent potential risks.

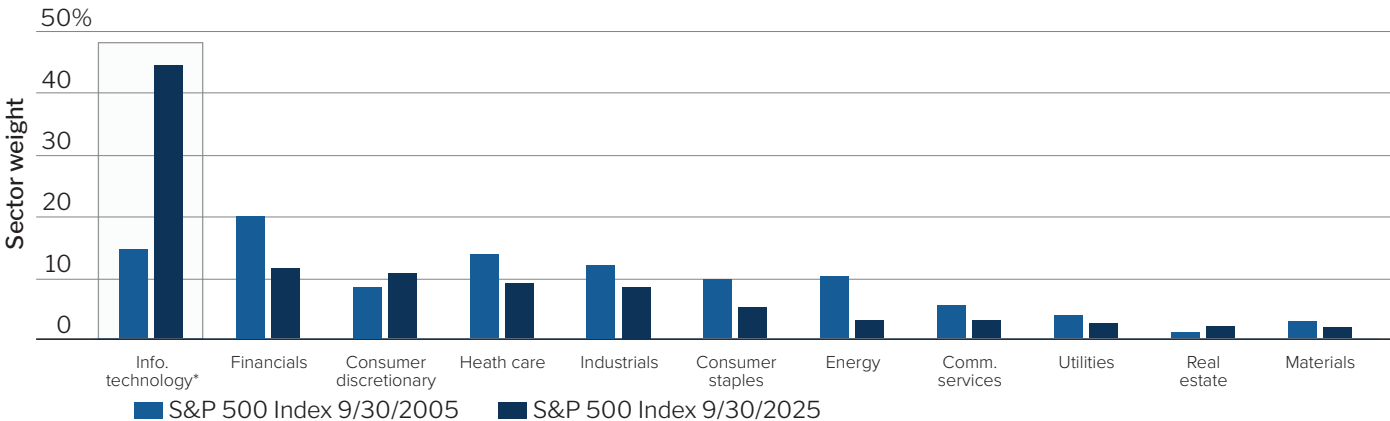
The S&P 500 today is not the S&P 500 of twenty years ago. In 2005, the index was notably more diversified: no sector was above 20% and the top five companies were spread across different sectors, collectively accounting for only 13% of the index (Exhibit 2).

Exhibit 1:
Top 5 S&P 500 holdings' share of market cap



Source: National Bureau of Economic Research, Empirical Research Partners Analysis, 1950–9/30/2025. Top five S&P 500 holdings as of 9/30/2025 were Nvidia Corp, Microsoft Corp, Apple, Amazon.com and Meta Platforms CI A.

Exhibit 2:
S&P 500 Index 20 year ago vs. today



Source: FactSet, as of 9/30/2025. The index is unmanaged. It is not possible to invest directly in an index.

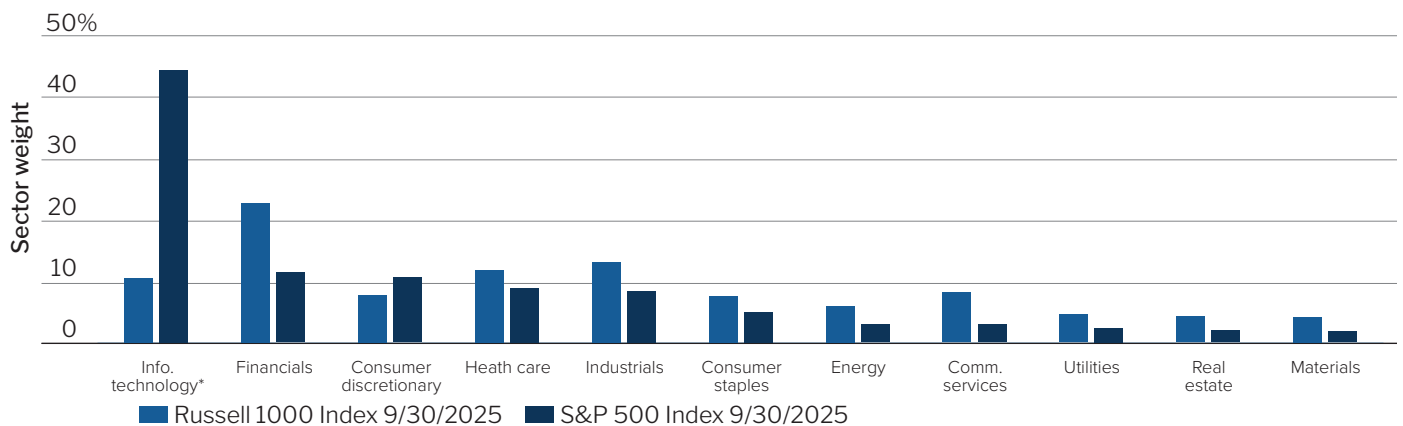
2. The Russell 1000 Value Index offers broader diversification

In contrast to the S&P 500, the Russell 1000 Value Index is much less concentrated from a sector and holdings standpoint, thus offering a more diversified way to access U.S. equities. The Russell 1000 Value currently includes a record number of companies and has much lower concentration in its top holdings: the index currently includes 870 companies, its highest ever, and the concentration of its top 50 names is near historic lows. Additionally, the index's sector exposures are more balanced than the S&P 500's today (Exhibit 3).

3. Value opportunities still exist

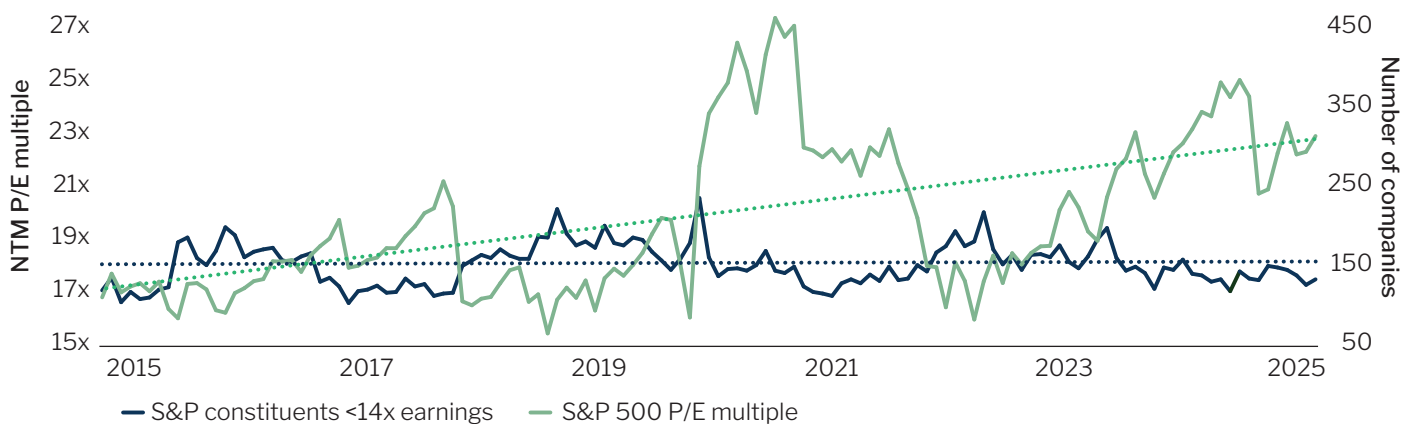
A robust opportunity set of attractively priced stocks still exists. Over the past ten years the price to earnings ratio of the S&P 500 Index has risen from 17x to over 23x. This could suggest that it may be too late to invest in the market. However, while valuations for the market as a whole have increased meaningfully, the number of companies trading below 14x earnings in this broad index has remained steady at around 150 (Exhibit 4).

Exhibit 3:
Russell 1000 Value Index vs. S&P 500 Index today



Source: FactSet, as of 9/30/2025. The indexes are unmanaged. It is not possible to invest directly in an index.

Exhibit 4:
The number of low P/E companies remains stable



Source: FactSet, 12/31/2014 - 9/30/2025. The index is unmanaged. It is not possible to invest directly in an index.

4. Traditional value definitions have limitations

But what about quality? A common stereotype is that value stocks are lower quality or higher risk. The Russell 1000 Value, however, is not just “value” in the traditional sense. It includes many high-quality, recognizable companies, some with strong growth profiles. But which ones? Companies are included in the Russell 1000 Value based on metrics such as low price-to-book, low price-to-earnings, and dividend yield. These traditional value metrics may not fully capture the economic value and potential growth prospects of a stock in today’s market, where intangible assets—such as brand, intellectual capital, and customer relationships—are increasingly important.

5. How active management can add value

This creates an opportunity for active managers to add value for investors by finding quality companies amidst the noise. At Harris | Oakmark, we utilize broader, modern definitions of value to build attractive, diversified portfolios. Our investment team utilizes bottom-up research to understand a company’s true performance and invest across both “value” and “growth” stocks, as long as they trade a discount to our estimate of intrinsic value.

In conclusion

The S&P 500 Index has changed significantly over the past 50 years. Investors looking for better diversification could consider adding exposure to value stocks. Value exposure, particularly when paired with a skilled active manager, can potentially enhance the quality and risk-adjusted returns of portfolios over the long-term.

*The S&P 500 Index information technology sector includes those names reclassified from information technology to communication services in 2018 and financial services in 2023; Alphabet Cl A, Alphabet Cl C, Meta Platforms Cl A, Fidelity Natl Info Svc, Fiserv, Global Payments, Jack Henry & Associates Inc., Mastercard Cl A, Paypal Holdings, Visa Cl A.

Understanding the Risks

Investing involves risk; principal loss is possible. Value stocks may fall out of favor with investors and underperform growth stocks during given periods. Past performance is no guarantee of future results.

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Glossary

The **S&P 500 Index** is a float-adjusted, capitalization-weighted index of 500 U.S. large-capitalization stocks representing all major industries. It is a widely recognized index of broad, U.S. equity market performance. Returns reflect the reinvestment of dividends. This index is unmanaged and investors cannot invest directly in this index. The **Russell 1000® Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values. This index is unmanaged and investors cannot invest directly in this index. **Indexes portrayed herein are unmanaged. It is not possible to invest directly in such indexes.**

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