
Weighing In on Equal Weights

Wes Crill, PhD
Senior Client Solutions Director and Vice President

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Investors wary of exposure to the largest US stocks have sought novel ways to lessen how much they hold. One popular recent solution is equal-weighted versions of indices, such as the S&P 500. As the name suggests, this scheme targets every stock in the underlying index in equal amounts, as opposed to in proportion to market capitalization. But is this really an improvement?

Equal weighting produces drastic deviations from market weights. The 10 largest stocks in the S&P 500 account for over 38% of the cap-weighted index but only about 2% in the equally weighted version.¹ As dramatic as that sounds, it's what happens with smaller constituents that's eye-popping. For example, NVIDIA's capitalization weight is more than 1,300 times that of the index's lowest cap-weighted constituent, Paramount Skydance. And yet equal weighting invests the same amount in both. This is roughly equivalent to a global stock portfolio allocating the same amount to the United States as to Peru.² Or, in noninvestment terms, using the Burj Khalifa tower and a toddler interchangeably as height references.

Given that market cap weights are based on prices that reflect the market's aggregate outlook, it's worth considering whether it makes sense to deviate so much from the market's combined wisdom.

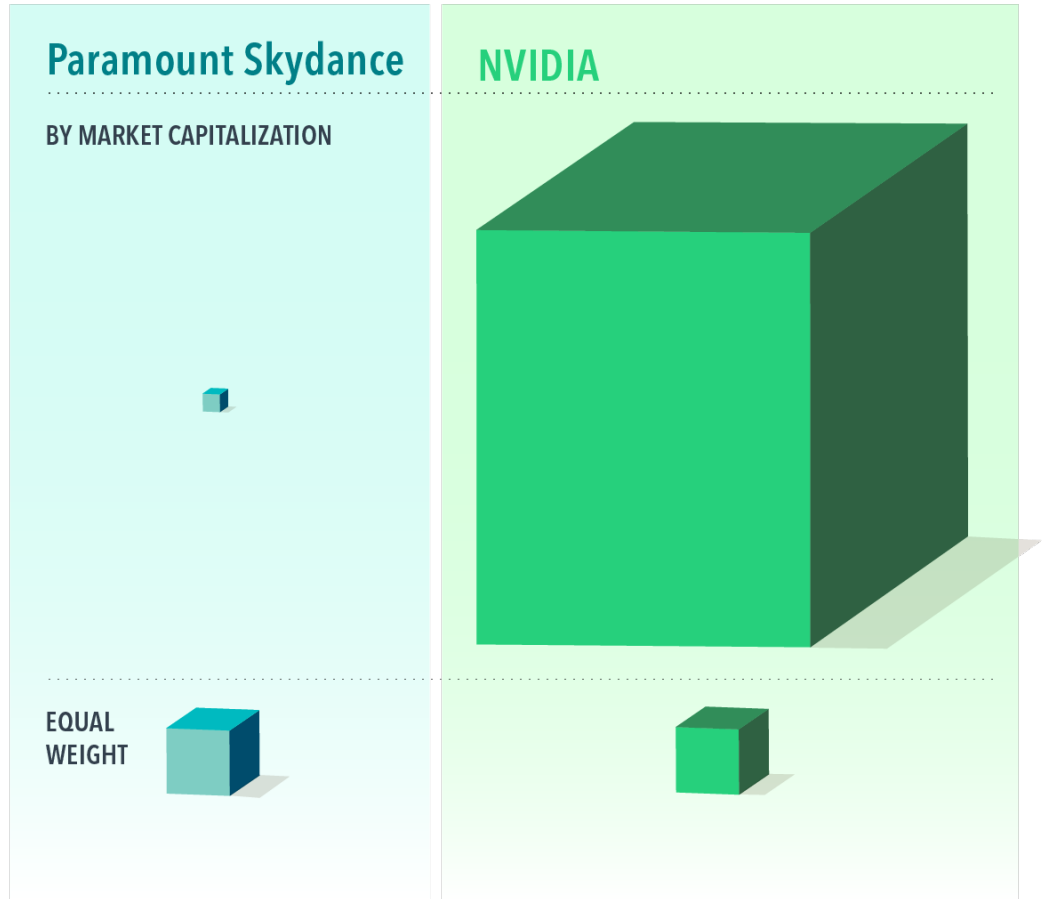
Equal weighting can also increase the amount of trading for a portfolio. Unlike market cap weights that effectively self-rebalance when stock prices change, true equal weighting requires continual trading to restore identical weights across holdings. More trading means more costs for a portfolio.

Another cost likely amplified by equal weighting is taxes. Real estate investment trusts (REITs) account for about 1.7% of the S&P 500 by market weight.³ That would be more than three times higher with equal weights. Given the dividend income distributed by REITs is nonqualified, equal weighting may drive up an investor's tax bill.

Reducing concentration in the largest stocks or increasing expected returns through emphasizing smaller companies is a sensible objective. It's just that equal weighting might not be the right tool for the job. A more reasonable approach is to use a scheme that links security weights to market capitalization and deviates based on size, relative

price, and profitability characteristics. This can check both of those boxes without the drawbacks of equal weighting.

Exhibit 1
Company Weight in
the S&P 500 Index



For illustrative purposes only; not exhaustive.

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Concentration Concerns

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1. As of January 31, 2026. There were 503 stocks in the S&P 500 Index, which means each one would be 0.2% of the equally weighted index.
 2. Based on country weights of the MSCI All Country World Index as of January 31, 2026. Peru has three stocks, by the way.
 3. As of January 31, 2026.

Expected returns: An estimate of average anticipated returns informed by historical data.

Market capitalization: The total value of all shares of a company's stock, calculated by multiplying the price of a stock by its total number of outstanding shares.

Nonqualified dividend income: Income taxed at ordinary income rates. Qualified dividend income is taxed at lower capital gains rates.

Profitability: A company's operating income before depreciation and amortization minus interest expense scaled by book equity.

Relative price: A company's price, or the market value of its equity, in relation to another measure of economic value, such as book value.

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