Chart of the Week

May 4, 2026

This Too Shall Reconstitute

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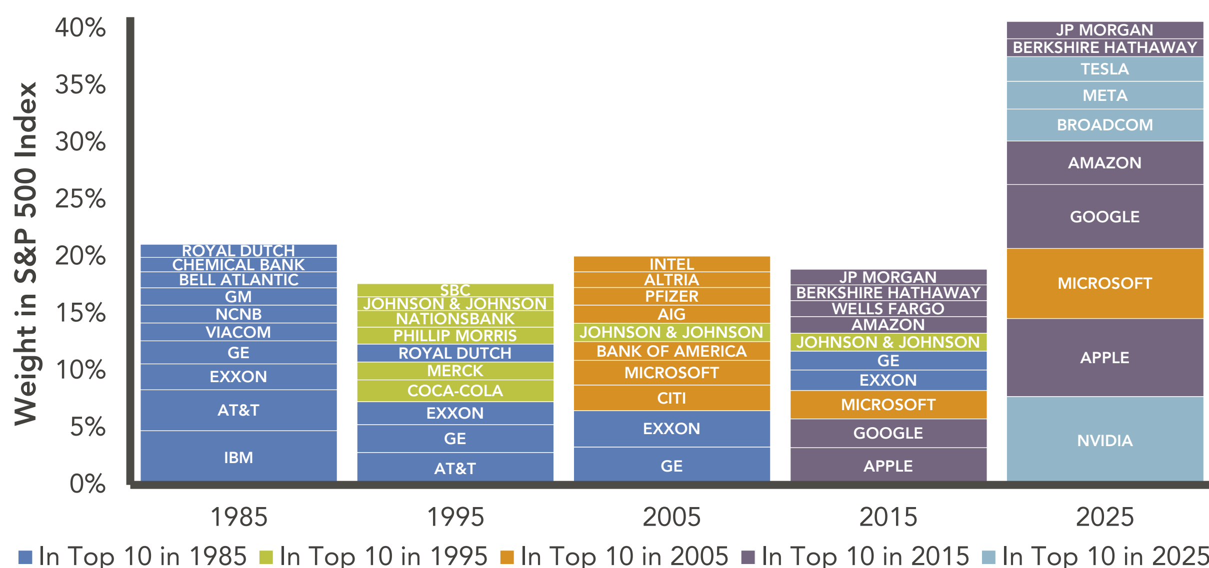
The top constituents of the S&P 500 Index have evolved over the years due to structural economic shifts, illustrating that market leadership is ever-changing in nature



Source: FactSet. Data as of December 31 of each year. SPY ETF is used as a proxy for S&P 500 Index.

Rooted in medieval Persian Sufi thought, the adage "this too shall pass" speaks to the fleeting and impermanent nature of the human condition. For investors, this aphorism can serve as a useful framework for understanding the constantly evolving composition of the upper end of the U.S. equity market. As this week's chart shows, the top 10 constituents of the S&P 500 Index have changed dramatically over the last 40 years, with each new decade seeing both additions to and subtractions from this basket of companies.

In 1985, the top of the S&P 500 Index was heavily weighted toward industrial conglomerates, energy producers, and legacy financial and telecommunications firms such as IBM, Exxon, AT&T, and General Electric. This composition reflected an economy still anchored in manufacturing, physical infrastructure, and regulated industries with durable but relatively slow-moving competitive dynamics. Capital intensity, domestic scale, and regulatory barriers to entry helped entrench incumbents, allowing a small set of diversified conglomerates and commodity-linked businesses to dominate equity indices. As can be observed in this week's chart, the top 10 constituents represented roughly 21% of the S&P 500 Index in 1985. In contrast, the top 10 constituents at the end of last year represented more than 40% of the benchmark, with technology-oriented companies like

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NVIDIA, Apple, Microsoft, Alphabet, Amazon, and Meta topping the benchmark and accounting for an outsized share of index earnings and returns in recent years.

The transition between these two regimes did not occur abruptly but rather through decades of structural changes, including the rise of the digital economy, the decline in manufacturing's share of GDP, and the increasing importance of intangible assets such as software, data, and intellectual property. Indeed, the 1990s and early 2000s saw the rise and consolidation of the internet economy, which led to the reshaping of information, communication, and commerce. The years following the Global Financial Crisis further accelerated the dominance of scalable, asset-light business models, while low interest rates and abundant liquidity disproportionately benefited high-growth technology firms. At the same time, several former index leaders either stagnated, were disrupted, or lost relative economic relevance, leading to a gradual but persistent turnover at the top of the index.

Against this backdrop, the current composition of the S&P 500 Index should not be viewed as fixed, but rather as a snapshot of a specific moment in time. If history is any indication, the next decade will likely bring another reshuffling of top index constituents as new technologies, industries, and business models emerge. For investors, this suggests that maintaining broadly diversified equity exposure while remaining disciplined around rebalancing is prudent, as market leadership, however dominant it appears at a given time, has historically been transient rather than permanent.

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