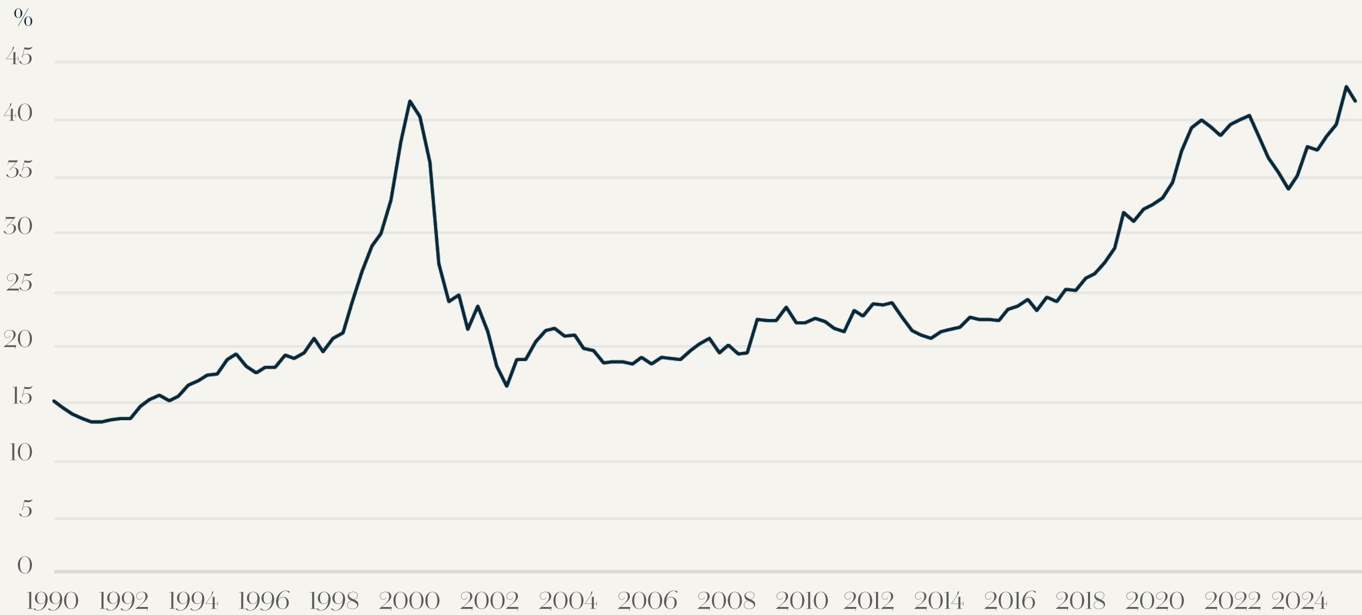
Concentration Risks in the S&P and the Benefits of Diversification

Investors using passive S&P 500 index funds seeking diversified equity exposure may be subjecting themselves to concentration risk given the astonishing 41% weight of technology stocks. Excitement over AI drove up valuations in the technology sector in 2024. Today, there is a historically high concentration in the technology sector (Information Technology + Communication Services sectors) not seen since the tech bubble. The top six most heavily weighted "big tech" names in the S&P 500 index represent almost 29% of the total index as of January, 16th 2025 (Bloomberg).

Underestimated Risk: Tech Stocks Comprise 41% of the S&P 500

Sector Weight within S&P 500: Information Tech and Communication Services

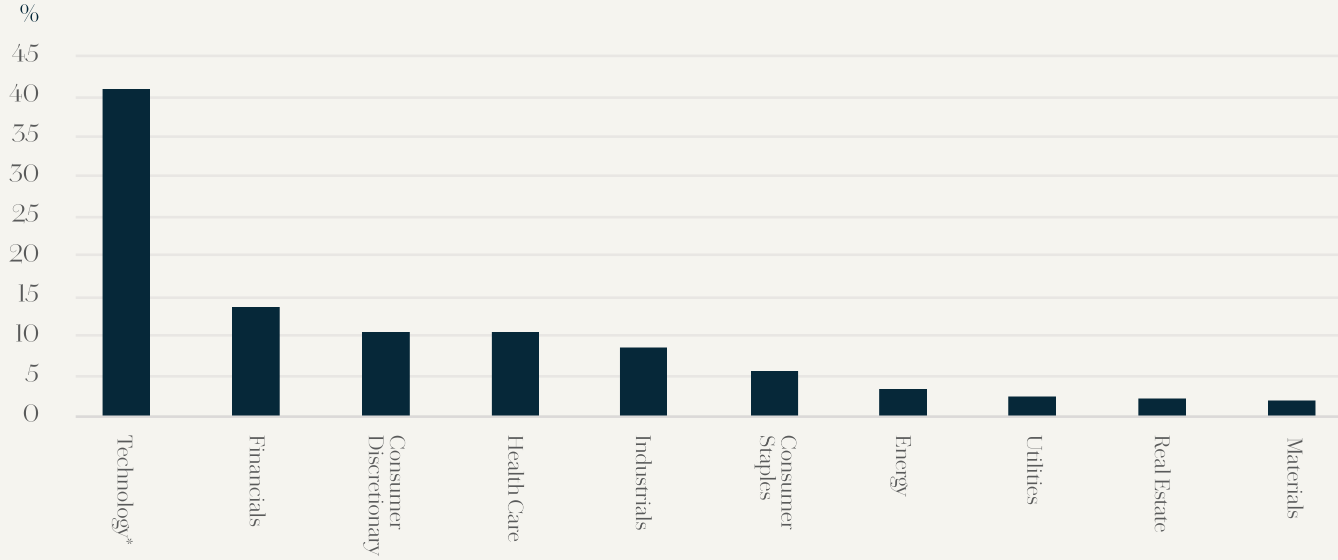


Source: S&P Global As of 9/30/24 Data from 12/31/1990-12/31/24

We believe this tech sector concentration presents elevated risks to investors who own the S&P 500 Index. We believe investors can diversify such risk by allocating some of their portfolio towards small cap equities, international equities, and/or long/short equity strategies as these asset classes are typically invested in companies of different sizes and various sectors away from large-cap technology names.

CONCENTRATION RISKS

S&P 500 Index Sector Weighting

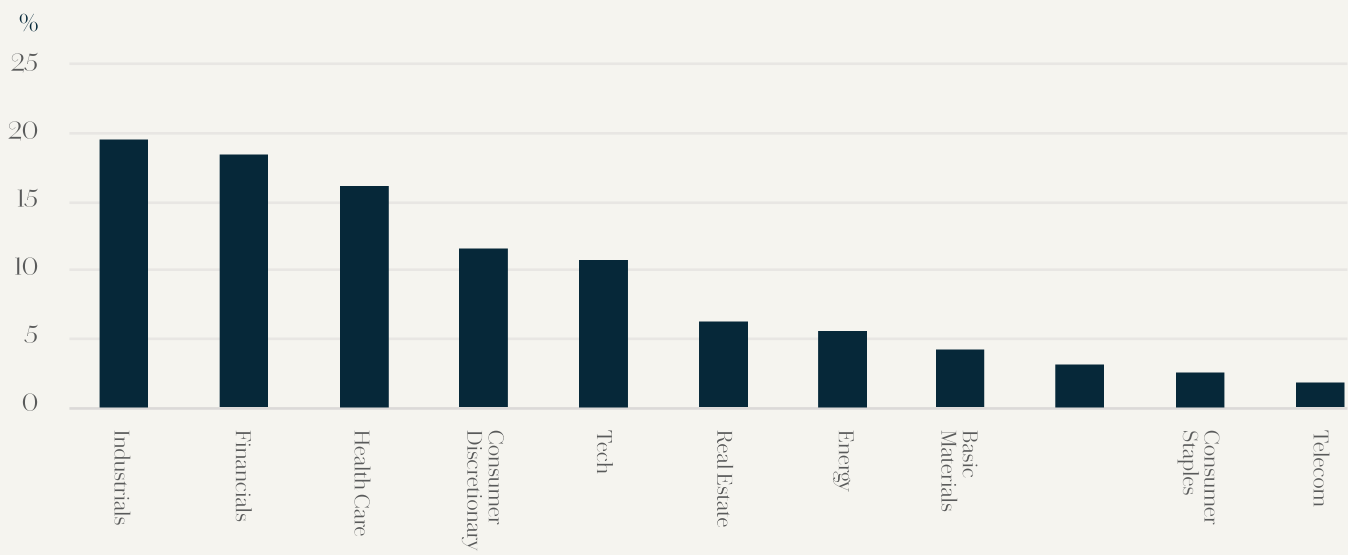


*Information Technology + Communication Services; Source: FactSet as of

SMALL CAPS

Small cap strategies are typically more diversified by sector than the S&P 500. For example, within the Russell 2000 , an index of the 2000 smallest publically traded companies, the Industrials and Financials sectors have the highest concentrations with Technology representing the fifth largest sector weighting of just 10% (as of 12/31/24).

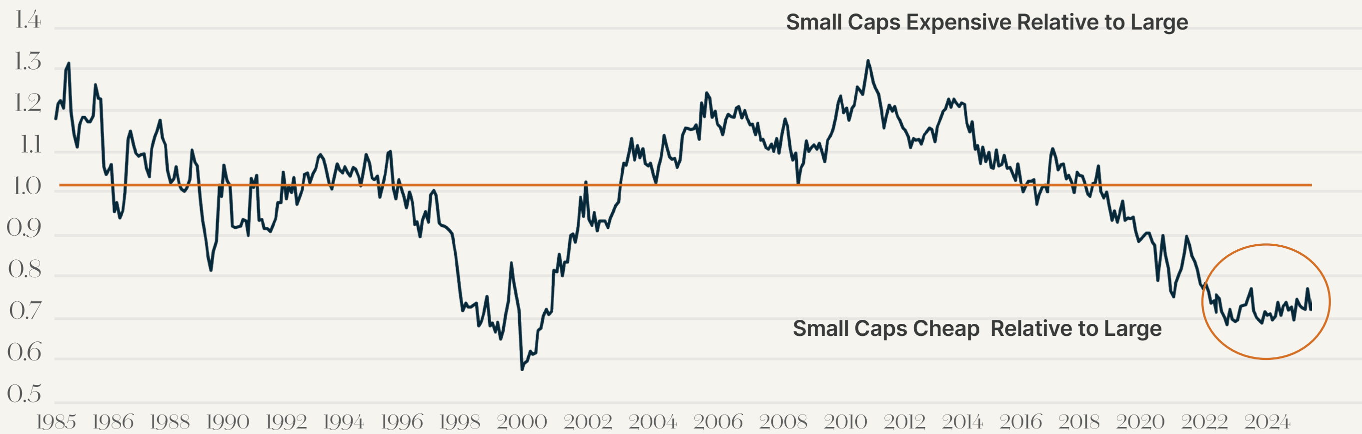
Russell 2000 Sector Weightings



Source: Russell 2000: Russell 2000 Index Heatmap | MarketScreener as of

Increasing optimism among small business owners, robust M&A activity, attractive valuations, strengthening fundamentals, reshoring initiatives and potential for corporate tax rate reduction may be favorable for small caps in closing the long-accruing performance gap versus larger caps. Small cap stocks are near their 25-year low in forward P/E relative to large caps, which we believe presents a good entry point into the asset class. We note that higher tariffs could raise the risk of reaccelerating inflation which poses a headwind to the asset class.

Relative Forward P/E Russell 2000 vs Russell 1000

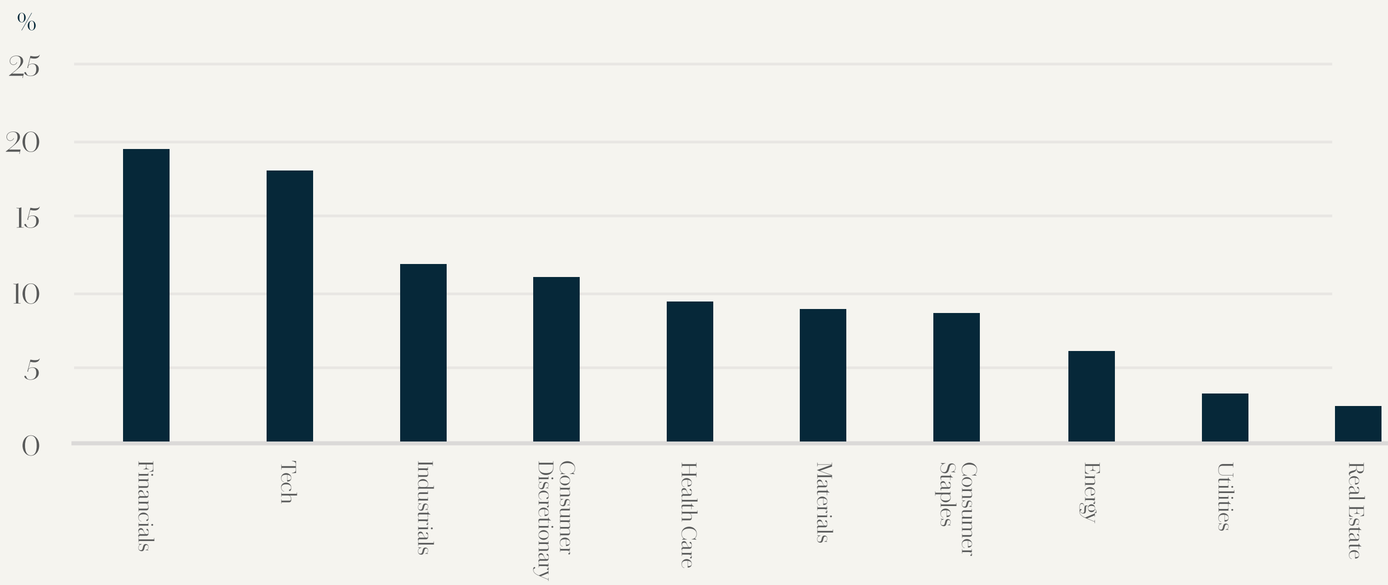


Soure: BofA as of 12/31/24; 12/31/1985-09/30/2024

NON-US EQUITY

Non-US equity strategies offer investors an opportunity to diversify away from purely domestic investments which should provide a hedge against headwinds in the US from higher-for-longer rates and increased inflation from potential new tariffs. Additionally, non-US strategies typically offer investors an opportunity to gain more exposure to financials and industrials names as those two sectors represent a broader percentage of financial markets abroad. As an example, within the MSCI Ex-US index Financials is the largest sector by weighting and the Technology sector only represents about 18% of the total index basket versus the 41% of the S&P 500 index (12/1/24).

MSCI ACWI Ex-US Index Sector Weightings

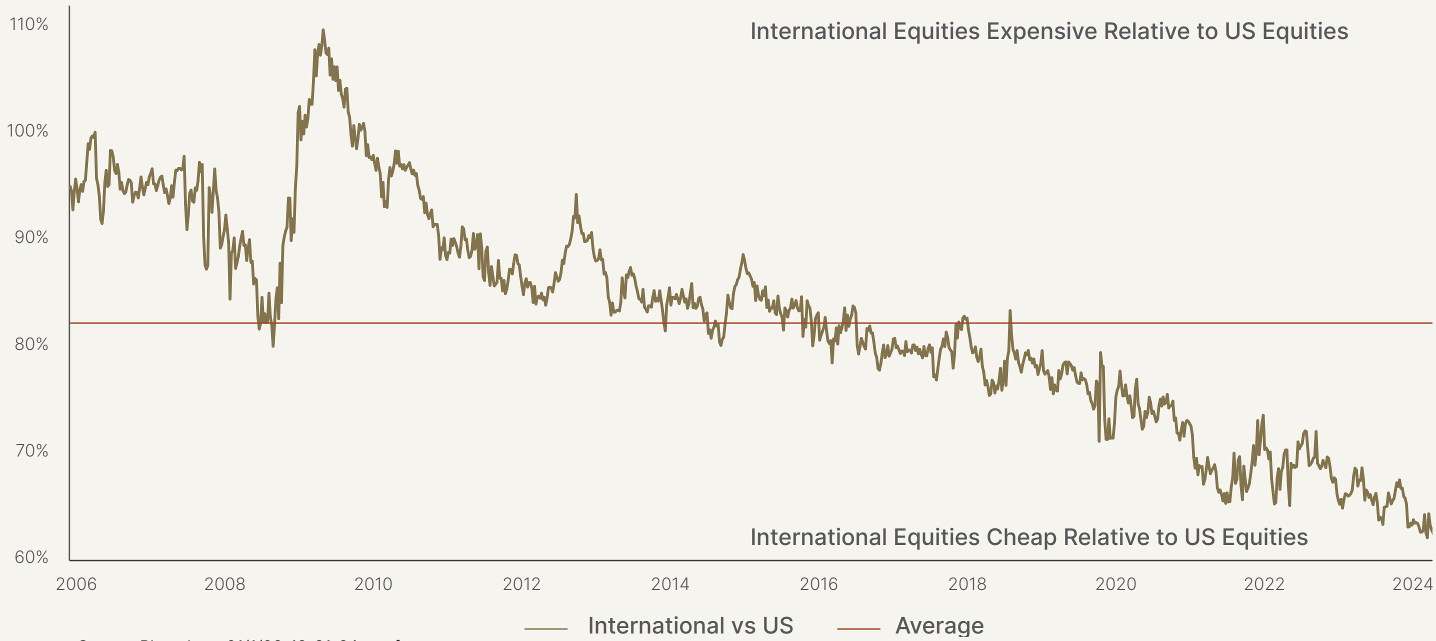


Source: MSCI ACWI Ex-U.S.: What it Means, How it Works, Calculation as of

CONCENTRATION RISKS

The valuation discount for international equities compared to US equities has reached levels not seen in over two decades which presents opportunities outside the US that we believe are undervalued (see chart 6). Additionally, non-US indexes feature a heavier weighting on traditional value sectors including Energy, Materials and Financials giving investors an opportunity to invest in companies with lower valuations than some of the large mega-tech names in the US. Heading into 2025 we expect European Central Banks to cut rates further than The Federal Reserve Bank and China to announce further stimulus measures which may prove to be tailwinds for equities in these regions. We also note that geopolitical risks surrounding the conflict between Russia and Ukraine could create opportunities if the conflict comes to an end as we believe lower energy costs and the need to rebuild parts of Ukraine could drive some European stocks to outperform while also noting a stall in negotiations could prove to be a headwind for the asset class.

MSCI Non-US 1 Year Forward P/E Divided by MSCI US 1 Year Forward P/E



Source: Bloomberg 01/1/06-12-31-24 as of

LONG/SHORT EQUITY

Long/Short strategies have the ability to short troubled businesses with significant near-term risks while also focusing on net exposure designed to limit market risk.

There are significant long-term and near-term macroeconomic as well as fiscal and monetary policy driven catalysts that may drive weakness in equity markets over 2025. Long/short equity strategies look to identify and short troubled businesses with significant negative catalysts.

WHY ROCKEFELLER

By focusing on fundamental analysis, Rockefeller Asset Management can identify opportunities across various investment solutions that are overlooked by the broader market and the S&P 500 index. Our team of analysts actively supports the investment process, ensuring a successful bottom-up approach of identifying traditional value stocks and underappreciated stable businesses at cheap valuations. Rockefeller's disciplined investment process, intellectual capital built from three decades of innovation, and commitment to service can help ensure clients are building a diversified portfolio that can perform well under various market scenarios.

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