

Diversifying U.S. Equity Exposure in a Concentrated Market

By Eric Dhall and Ryan Kimmel | October 2026

U.S. equities have delivered strong returns in recent years, but beneath the headline performance of the S&P 500 Index lies mounting portfolio risk: The sources of returns have become exceptionally concentrated in a select few tech stocks. DoubleLine equity strategies offer investment routes designed to mitigate this extreme degree of portfolio concentration: one based on the Shiller Barclays CAPE® U.S. Sector Total Return Index (CAPE® Index), the other based on equal-weighted, revenue-based allocations via the Barclays Fortune 500 Equal Weighted Total Return Index.

Through the first nine months of 2026, the S&P 500 returned 12.7%. Five stocks accounted for 52% of that performance, the top 10 accounted for 65%, and the top 20 accounted for 87%, a narrowness of market breadth not seen since the late 1990s. (Figure 1)

Contribution to S&P 500® Returns | As of September 30, 2026

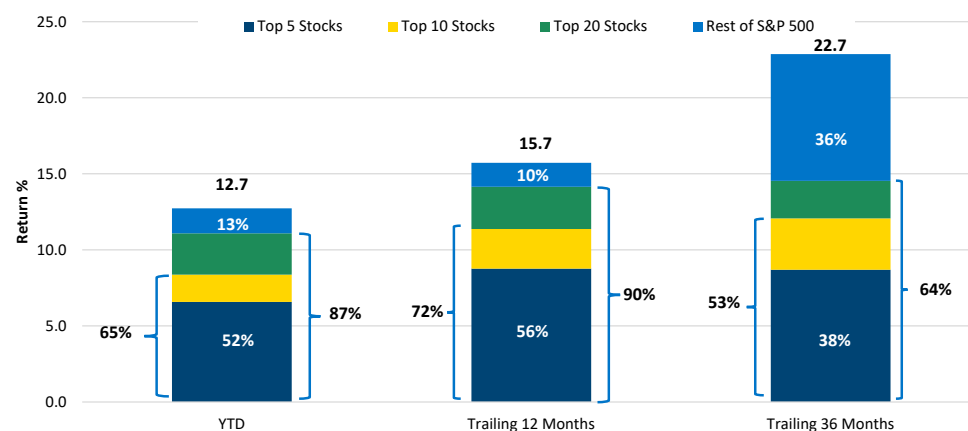


Figure 1

Source: DoubleLine, Bloomberg

As of September 30, that performance left the five largest stocks representing 28% of the capitalization-weighted index, the top 10 representing 39% and the top 20 nearly half. (Figure 2)

Largest Stock Weights in S&P 500® | As of September 30, 2026

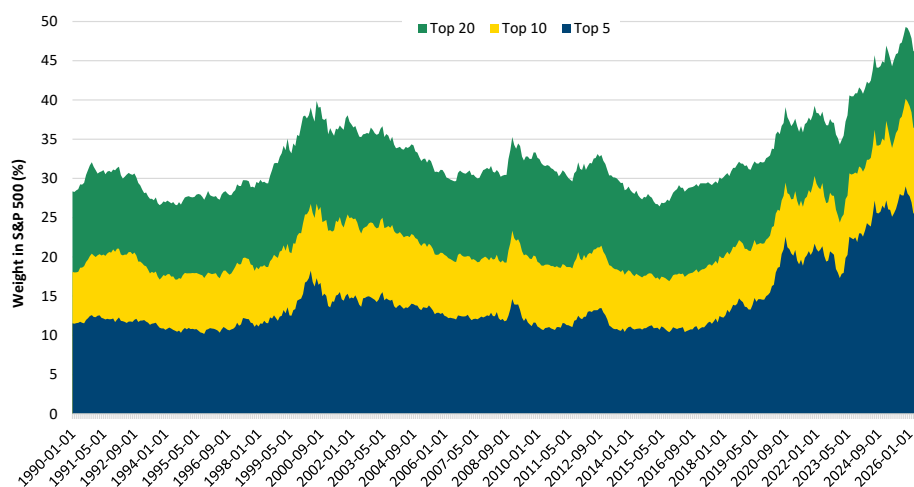


Figure 2

Source: DoubleLine, Bloomberg

This concentration has occurred at the sector level as well as among the individual constituents. As of September 30, the information technology sector represented 40% of the S&P 500, while tech generated nearly half of the index's return over the previous three years. (Figure 3)

Largest Sector Weights in S&P 500® | As of September 30, 2026

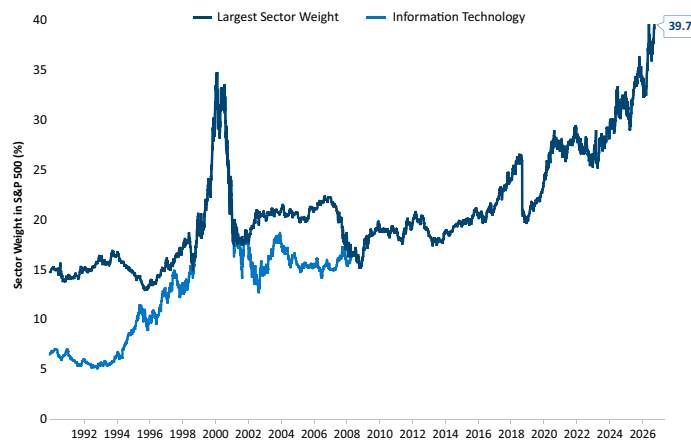


Figure 3
Source: DoubleLine, Bloomberg, Macrobond

For investors, the question is not whether today's market leaders are strong companies, as many have generated exceptional earnings growth. The more relevant question is whether investors want an increasing proportion of their U.S. equity exposure dependent on the continued outperformance of a few select companies and one sector. The winners of the past are not always the winners of the future, particularly when the winners are trading at material valuation premiums.

When Weight Concentration Becomes Risk Concentration

Market concentration alone does not necessarily signal an impending correction. In fact, an important distinction stands between today's environment and the late-1990s technology-led boom. During that period, the market rally was driven by overly optimistic earnings-growth expectations and a simultaneous expansion in the earnings multiple. The S&P 500 climbed 98% from March 1997 to March 2000, while forward earnings only rose 32%, driving forward price-to-earnings multiples to 25.5x. By contrast, over the past three years, the S&P 500 climbed 78% while forward earnings kept pace, up a resounding 66%, with forward price-to-earnings multiples at 21.2x. (Figure 4)

Late 1990s vs. 2026 Market Rallies

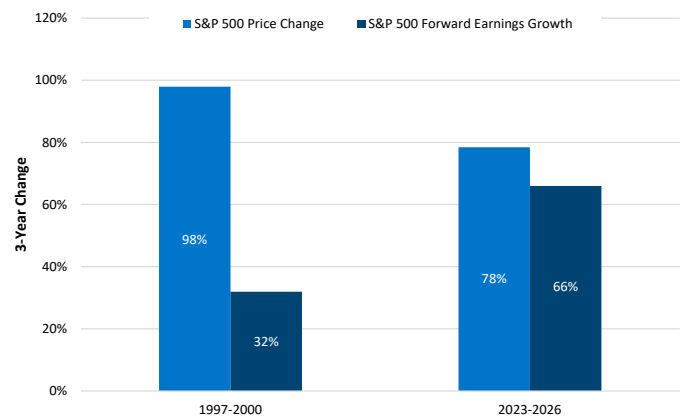


Figure 4
Source: DoubleLine, Bloomberg

But fundamental strength does not eliminate concentration risk. The 10 largest S&P 500 companies accounted for more than half of the index's volatility by the end of 2025. Their aggregate volatility was 1.5 times that of the S&P 500 overall. Larger weights, greater single-stock volatility and higher correlation among tech-related companies mean the largest constituents now potentially influence portfolio risk even more than their substantial index weights suggest. (Figure 5)

Weight and Risk Contribution of the Ten Largest Companies in the S&P 500® | January 1, 1997 through December 31, 2025

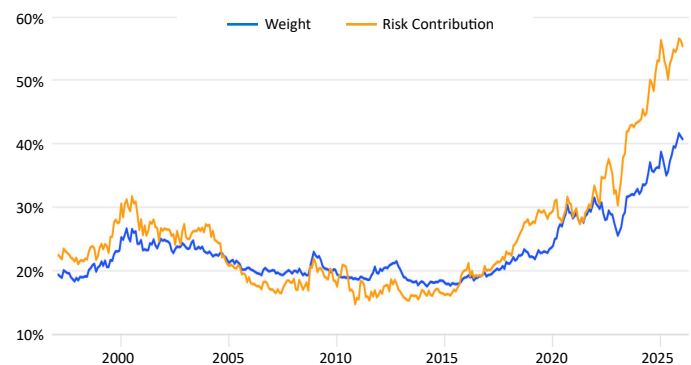
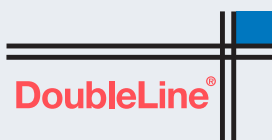


Figure 5
Source: S&P Global Market Intelligence, LSEG Data & Analytics, D.E. Shaw Group, Bloomberg



Diversifying U.S. Equity Exposure in a Concentrated Market

Concentration also changes the experience of being diversified. When the leadership of megacapitalization stocks is exceptionally strong, simply being diversified away from those stocks can become a meaningful source of relative underperformance.

That dynamic is key to understanding the recent experience of the Shiller Barclays CAPE® U.S. Sector Total Return Index (CAPE® Index).

CAPE® in the Current Market Environment

CAPE® is designed to diverge from a traditional cap-weighted index, not replicate its largest and most expensive exposures. Its process seeks exposure to four inexpensive S&P 500 sectors based on relative cyclically adjusted price-to-earnings ratios, while using momentum to avoid potential value traps.

Adhering to this discipline can challenge investors during prolonged periods in which the most expensive parts of the market are also the strongest performers. Between March 2023 to September 2026, as tech's weight in the S&P 500 increased from 26% to 40%, the relative performance of CAPE® lagged. Over the period, the CAPE strategy has not allocated to tech, the sector responsible for nearly half the S&P 500's three-year return through September 30, 2026. (Figure 6)

S&P 500® vs. CAPE® Index & Tech Sector Weights in S&P 500 December 31, 2020 - September 30, 2026

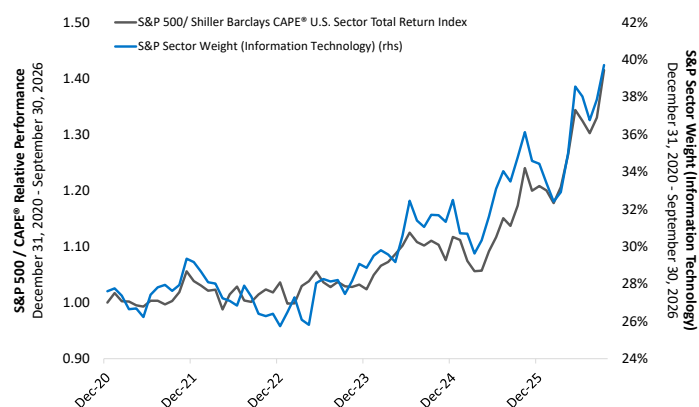


Figure 6

Source: DoubleLine, Bloomberg, Barclays

In our view, the divergence should be viewed in the context of an unusually concentrated market. The recent underperformance of CAPE® has coincided with precisely the type of protracted momentum market its valuation discipline was designed not to chase but to avoid.

That creates significant tracking error in the short run – and underperformance relative to a concentrated index – but does not contradict the long-term investment thesis underlying CAPE® strategies.

Valuation Discipline in a Narrative-Driven Market

AI might ultimately prove to be one of the most consequential technologies of this generation. However, economic importance and attractive investment returns are not synonymous.

History offers numerous examples of transformative technologies accompanied by excessive investor expectations. The railroad expansion of the 1840s and electrification boom of the 1920s both reshaped the economy while producing periods in which valuations and investment ran ahead of realized profits. Thus, transformative technologies can produce powerful excess returns during the boom phase, but when expectations outrun fundamentals, those gains can give way to meaningful mispricing.

That distinction matters today. The S&P 500 CAPE® ratio stands near levels last observed around the dot-com peak (*Figure 7*), while history shows a meaningful negative relationship between starting valuations and subsequent long-term real returns. (*Figure 8*)

S&P 500® CAPE® Ratio | As of September 30, 2026

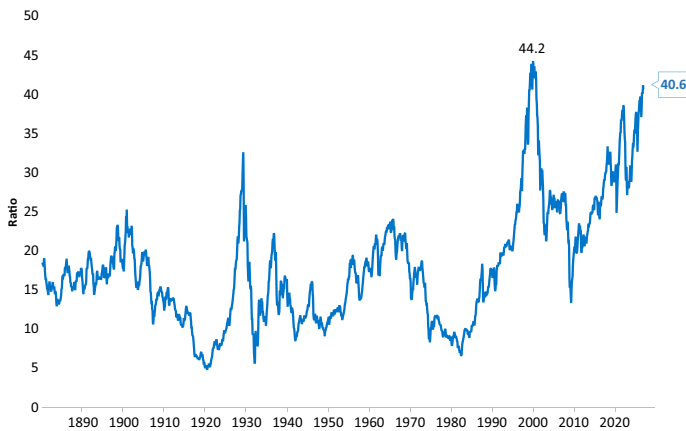


Figure 7

Source: DoubleLine, Dr. Robert Shiller, Macrobond

S&P 500® 10-Year Forward Real Returns and CAPE® Ratio As of September 30, 2026

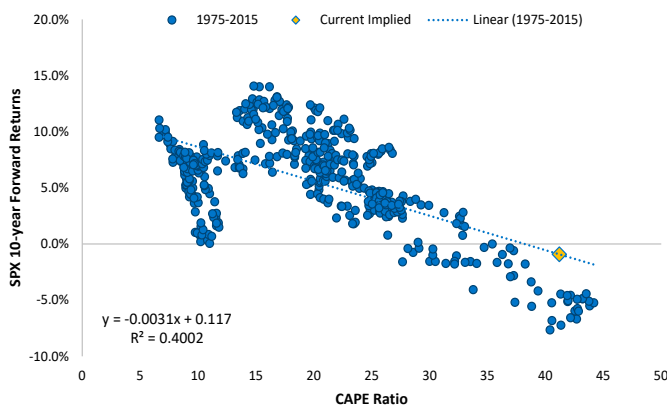


Figure 8

Source: DoubleLine, Bloomberg, Dr. Robert Shiller

The same relationship can be observed in comparison of historical tech sector CAPE® ratios with subsequent seven-year annualized real returns. (*Figure 9*) While valuation is not a market-timing tool, higher starting valuations historically have preceded lower subsequent long-term real returns. Today's tech sector CAPE® ratio sits in a range historically associated with muted forward real returns.

CAPE® Ratio and Subsequent Real Return - Information Technology Sector | January 1983 through October 2026

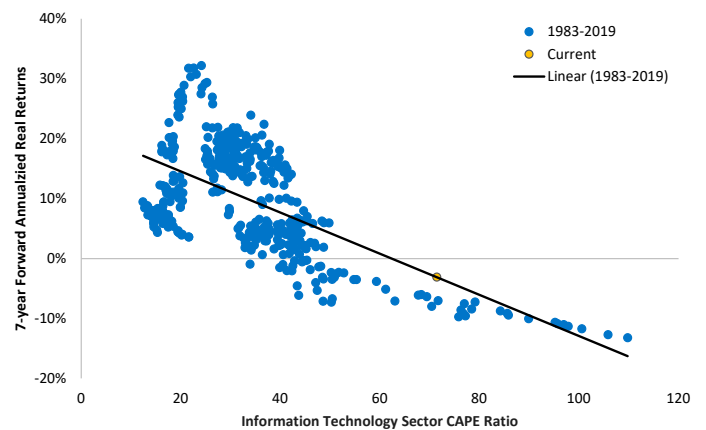
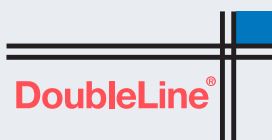


Figure 9

Source: DoubleLine, Barclays

None of this tells us when tech's sector leadership will end. It can persist as long as market participants extrapolate current earnings or are willing to pay a higher multiple for the sector's earnings relative to the other parts of the market. In the authors' view, equity diversification is not about an exercise (likely futile) in calling the exact turning point in market leadership. The DoubleLine CAPE® strategies exploit diversification in an effort to gain exposure to undervalued, differentiated sources of return ahead of leadership changes.



Diversifying U.S. Equity Exposure in a Concentrated Market

Diversifying the Way Investors Own U.S. Equities

While the AI-driven tear has fueled the S&P 500's recent outperformance of CAPE®, we believe the strategy's underlying economic logic remains sound when measured over the long term. Since September 2002, the Shiller Barclays CAPE® U.S. Sector Total Return Index has generated a 12.39% annualized return versus 11.48% for the S&P 500, with lower annualized volatility and a higher Sharpe ratio over that period. (Figure 10)

Traditional Equity Indices - Growth of \$1

September 3, 2002 to September 30, 2026

	Shiller Barclays CAPE® U.S. Sector Total Return Index	S&P 500® Total Return Index	Russell 1000® Value Total Return Index	Russell 1000® Growth Total Return Index
Annualized Geometric Return	12.39%	11.48%	9.88%	12.88%
Annualized Standard Deviation	18.38%	18.78%	19.21%	19.85%
Annualized Sharpe Ratio	0.63	0.58	0.50	0.62
Maximum Drawdown	-43.54%	-55.25%	-60.11%	-51.31%

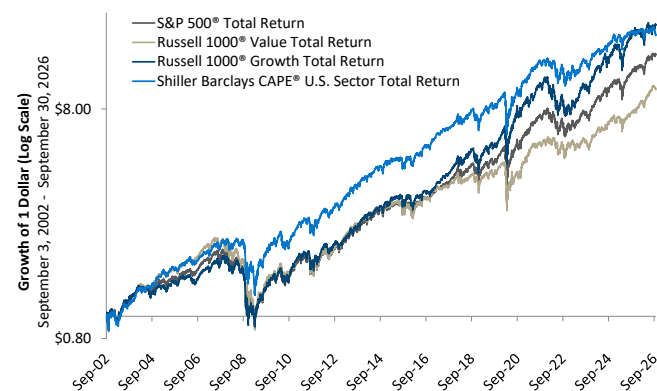


Figure 10

Source: Barclays Capital, DoubleLine

The Shiller Barclays CAPE® U.S. Sector Total Return Index went live on Sept. 3, 2012, and was backfilled 10 years. Sept. 3, 2002, is the inception date of the index. Past performance is no guarantee of future results. Any data on past performance, modeling or back-testing contained herein is no indication as to future performance. See Historical Index Performance Disclosure in the back of this presentation. You cannot invest directly in an index.

DoubleLine offers two strategies that can provide what we believe to be prudent diversification for U.S. equity investors:

1 CAPE® offers a disciplined way to diversify that exposure by valuation. Passive market cap is not the driver of allocation. Instead, CAPE® systematically allocates to relatively inexpensive sectors with positive momentum. Its core thesis is built on time-tested valuation research. In a market where the most expensive sectors have also been the strongest performers, CAPE® provides a deliberate counterweight – and a potential source of differentiated return when market leadership shifts, broadens or both.

2 The DoubleLine equity strategy based on the Barclays Fortune 500 Equal Weighted Total Return Index (Barclays Fortune 500) addresses concentration – or its reciprocal, diversification – at the company level. The strategy equally weights companies in the Fortune 500 universe, a selection set based on revenue, not capitalization. This provides exposure to large U.S. companies while bypassing price-appreciation effects that can mechanically produce ever-larger portfolio exposures to a handful of names. With tech representing 10% of Barclays Fortune 500 versus 40% of the S&P 500 as of September 30, 2026, the strategy offers meaningfully different constituent and sector exposure without asking investors to step away from U.S. equities. Since April 1996, the Barclays Fortune 500® Equal Weighted Total Return Index, which guides the composition of the strategy, has generated a 11.77% annualized return versus 10.39% for the S&P 500 and 10.56% for the S&P 500 Equal Weight, with a higher Sharpe ratio over that period. (Figure 11)

Equal-Weight Indices vs. Traditional S&P 500 - Growth of \$1

April 1996 to September 30, 2026

	Barclays Fortune 500® Equal Weighted Total Return Index (BFEWI)	S&P 500® Equal Weight Index	S&P 500® Index
Annualized Geometric Return	11.77%	10.56%	10.39%
Annualized Standard Deviation	20.12%	19.67%	19.04%
Annualized Sharpe Ratio	0.54	0.49	0.49
Maximum Drawdown	-63.03%	-59.47%	-55.25%

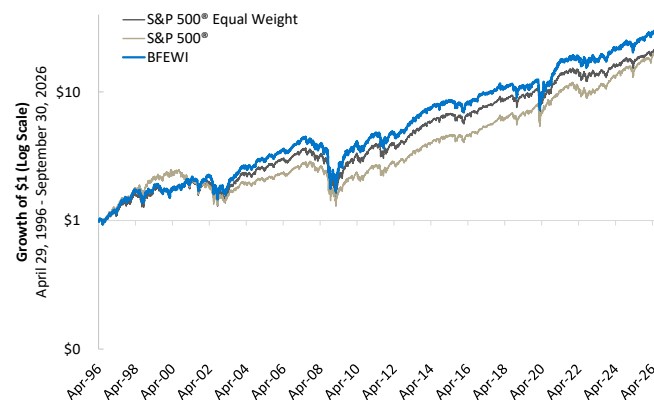
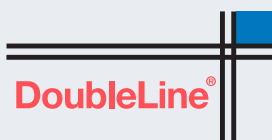


Figure 11

Source: Barclays Capital, DoubleLine

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Diversifying U.S. Equity Exposure in a Concentrated Market

Strategies based on CAPE®, the Barclays Fortune 500 or both are not replacements for cap-weighted exposure; they are strategic complements. CAPE® diversifies valuation risk; Barclays Fortune 500 diversifies single-company concentration risk. Used individually or together, they can reduce dependence on the same narrow group of market leaders and broaden the sources of potential return.

Investors should not wait for concentration to unwind before diversifying. Today's largest stocks have driven extraordinary returns for the S&P 500® Index. But after years of rising concentration, investors in cap-weighted large-cap indices are increasingly making the same bet on a handful of megacaps whether they intend to or not. Continued megacap dominance need not be a portfolio's only path to success. CAPE® and Barclays Fortune 500 offer other paths – paths that remain invested in U.S. equities while broadening the sources of potential return. ■

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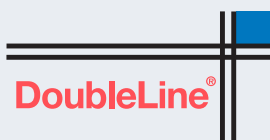
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Mr. Dhall joined DoubleLine in 2013. He is a Portfolio Manager on the Macro Asset Allocation team. His research and analysis has contributed to the team's development of DoubleLine's smart-beta suite of strategies. Mr. Dhall also co-hosts DoubleLine's weekly "Minutes" podcast (X @DLineMinutes, Minutes@Doubleline.com). Prior to DoubleLine, he worked at Capital Group, performing quantitative analysis in fixed income. Prior to Capital Group, Mr. Dhall was an instructor in finance at the UCLA Anderson School of Management and a research instructor at the UCLA Samueli School of Engineering. Prior to that, he worked in International Finance at Gulf Machinery Co. Mr. Dhall holds a B.S. in Physics with a secondary emphasis in Business from the University of California, Berkeley, and an M.S. in Financial Engineering from the UCLA Anderson School of Management.



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Mr. Kimmel joined DoubleLine in 2013. He is a Strategist on the Macro Asset Allocation team, the Fixed Income Asset Allocation (FIAA) Committee and a contributing member on our Global Asset Allocation Committee. Mr. Kimmel also co-hosts DoubleLine's weekly "Minutes" podcast (X @DLineMinutes, Minutes@Doubleline.com). Prior to DoubleLine, he was a Proprietary Trader at Gelber Group. Prior to that, he was an Investment Banking Analyst at Morgan Stanley. Mr. Kimmel holds a B.A. in Business Economics from the University of California, Los Angeles (UCLA), and an MBA from the Anderson School of Management at UCLA.



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Historical index performance can be assessed with respect to the index inception date:

Pre-inception index performance

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All index performance data included in this communication are accompanied by a footnote specifying the relevant Index Base Date and Index Live Date. The Index Live date is defined as the date on which the index rules were established and the index was first published. Actual historical performance is highlighted in blue. Hypothetical performance is not highlighted.

Historical index performance is provided for a period of at least 10 years, unless the instruments underlying the index were only available or sufficiently liquid for a lesser period. In that case, historical index performance is provided from the time when the instruments underlying the index were available or sufficiently liquid. Performance, volatility, Sharpe ratio and correlation data are calculated using monthly returns and maximum drawdown data are calculated using daily returns.

The index methodology is available for review upon request, subject to the execution of a non-disclosure agreement.

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Barclays Fortune 500 Equal Weighted Total Return Index – Barclays takes the Fortune 500 list, which consists of the 500 largest companies in the United States based on revenue, and excludes: private companies (i.e., those without publicly listed equity securities) and those with equity securities not listed on the New York Stock Exchange or Nasdaq Composite Index; companies with listed equity securities that do not meet a minimum liquidity threshold or minimum listing period requirements; companies incorporated outside the U.S.; U.S. companies owned or controlled by other companies, domestic or foreign, that file with a government agency; and companies that failed to report full financial statements for at least three quarters of the current fiscal year. The index is reconstituted on an annual basis and rebalanced otherwise quarterly. Unlike most equity indices that are weighted by the market capitalizations of their component companies, the constituents of the index are equally weighted, meaning the index assigns each constituent the same weight at each reconstitution and quarterly rebalance, regardless of such constituent's market cap. Russell 1000 Value Index - This index measures the performance of the large-cap value segment of the U.S. equity universe. It includes Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values.

Russell 1000® Value Index – Measures the performance of Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 1000® Growth Index – Measures the performance of Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

S&P 500® Index – This unmanaged capitalization-weighted index of the stocks of the 500 largest publicly traded U.S. companies is designed to measure performance of the broad domestic economy through changes in the aggregate market value of the 500 stocks, which represent all major industries.

Shiller Barclays CAPE® U.S. Sector Total Return USD Index - This index incorporates the principles of long-term investing distilled by Dr. Robert Shiller and expressed through the CAPE® (Cyclically Adjusted Price Earnings) ratio (the "CAPE® Ratio"). It aims to identify undervalued sectors based on a modified CAPE® Ratio, and then uses a momentum factor to seek to mitigate the effects of potential value traps.

S&P 500 Equal Weight Index (EWI) – This index is the equal-weight version of the widely used S&P 500 Index. The S&P 500 EWI includes the same constituents as the capitalization-weighted parent index, but each company in the S&P 500 EWI is allocated a fixed weight, or 0.2% of the index, at each quarterly rebalance.

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