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Why active management matters for US equities

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In brief

- Index concentration, valuation dispersion, and shifting tides of global capital – driven by geopolitical risks, tariffs, and artificial intelligence – underscore the importance of active stock selection to manage downside risks, seek quality opportunities and strive for enduring alpha in US equities.

Broad strokes miss the details – not all US stocks are expensive

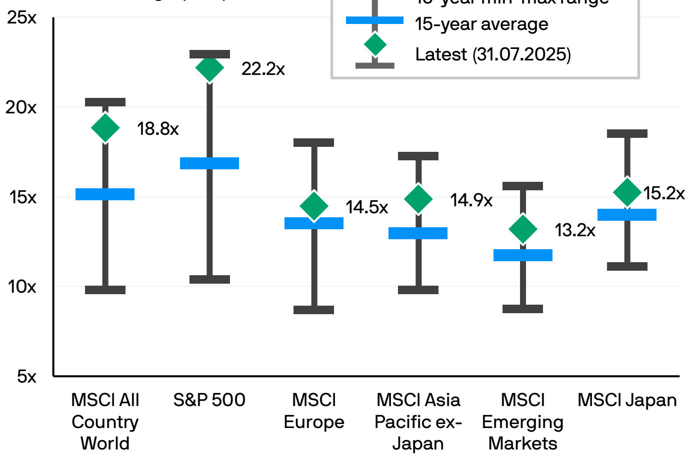
US stock valuations continue to be a common concern among global investors. As illustrated in the chart below, the valuation of the S&P 500 index does appear stretched relative to its own history and in comparison to other regional markets.

As of 31.07.2025, the US equity benchmark is trading around 22x forward price-to-earnings (P/E), close to the peak of its past 15-year range[1]. The valuation measure exceeds those of other regional equity markets such as Europe, Asia Pacific ex-Japan, Japan, and emerging markets where P/E multiples, though above their 15-year averages, remains meaningfully lower than their respective 15-year peaks.

Exhibit 1: Equity valuations have generally increased, but there is still wide divergence in valuations between the 10 largest companies and the rest of the S&P 500 index.

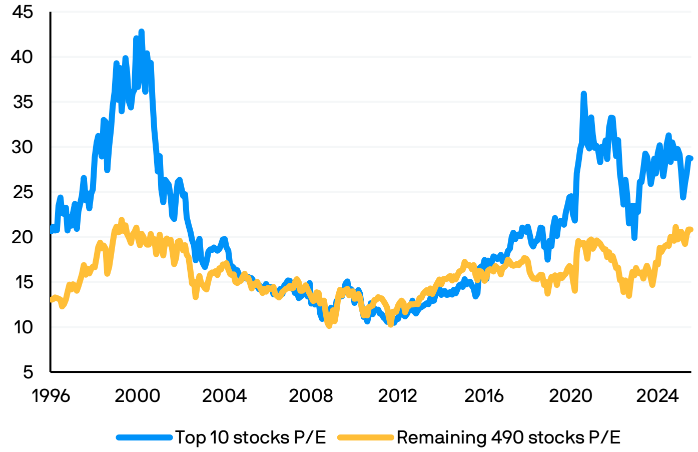
US stocks present higher valuations relative to other regional markets

Price-to-Earnings (P/E) Ratios



Price-to-earnings (P/E) of the Top 10 and remaining 490 stocks in the S&P 500

Next 12 months, 1996 - present (as of 31.07.2025)



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Data as of 31.07.2025. Price-to-earnings (P/E) ratios are in local currency terms. Indices do not include fees or operating expenses and are not available for actual investment. **Past performance is not a reliable indicator of current and future results.**

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While S&P 500 valuations have increased, it belies a wide dispersion among its constituents. As Exhibit 1 illustrates, there is a wide divergence between the valuations of the top 10 largest constituents of the index and its remaining members[1]. At 16.8x, the dispersion between the forward P/E valuations of S&P 500 stocks in the 20th and 80th percentile remains meaningfully higher than the long-term average of 11.7x[2].

Essentially, valuations could vary widely across individual stocks.

The market is riding on narrow shoulders

Still, the stretched valuations of the S&P 500 index is unsurprising, considering that the 10 largest US companies by market capitalisation account for nearly 40% of the overall index and 32% of earnings, as of 31.07.2025[2]. This compares with 29% of the index by market capitalisation and 20% of earnings just five years ago[2]. Given these substantial weights, any slowdown or hiccup in their performance may impede the overall progress of the broader benchmark.

Over the years, the US equity market has also gravitated towards areas of innovation, with growth sectors like tech increasingly dominating the S&P 500. In 2014, the broader tech sector, comprising information technology and communication services, represented just 22% of the index[3]. A decade later, this figure has risen to 42%[3]. Furthermore, seven of the 10 largest companies by market capitalisation in the US are mega-cap tech giants[4]. Consequently, over time, the S&P 500, which is a market-capitalisation weighted index, has tilted towards a growth investment style.

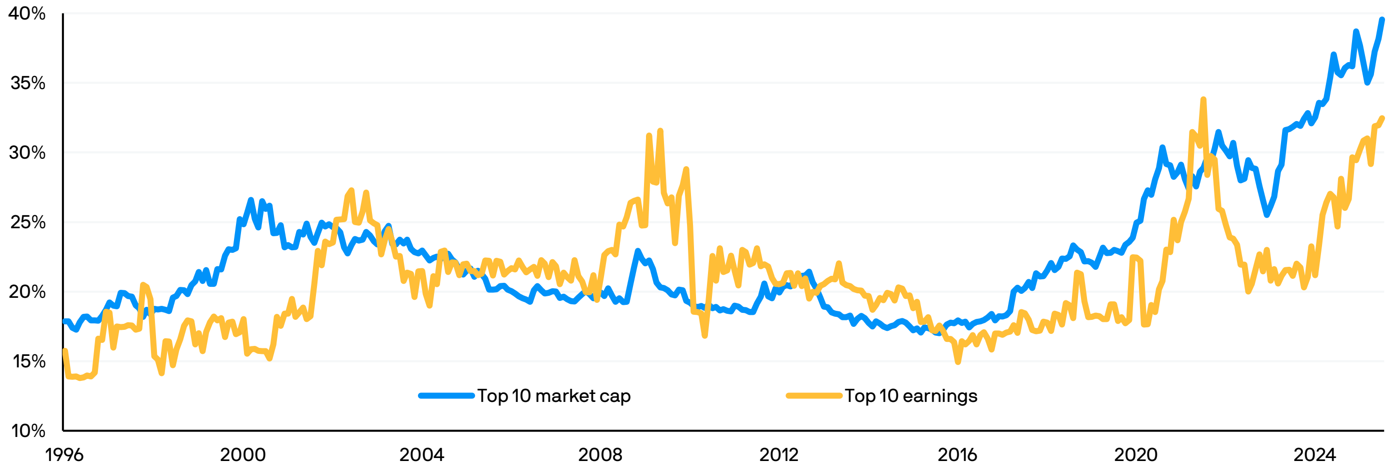
Such market concentration and style tilt present a risk for a passive or index approach to investing in US equities. It highlights the importance of an intentional and active approach to diversify equity portfolios thoughtfully and reduce concentration in the largest companies while increasing exposure to high-quality and attractively valued opportunities within and across other sectors.

Higher hurdles, greater differentiation

We believe active management will become increasingly critical if we consider the new market environment facing equity investors. For over a decade post the Great Financial Crisis, record low interest rates and quantitative easing had created abnormally low hurdle rates for companies, leading to valuation distortions[5]. Fast forward to the post-COVID-19 period, a more normalised interest rate environment with higher cost of capital may pose challenges to low quality corporates with weaker balance sheets.

Exhibit 2: The 10 largest US companies by market capitalisation account for close to 40% of the S&P 500 index and 32% of earnings.

Weight of the top 10 stocks in the S&P 500 Index
% of market capitalisation of the S&P 500, % of last 12 months' earnings



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Data as of 31.07.2025. Indices do not include fees or operating expenses and are not available for actual investment. Provided for information only to illustrate macro trends, not to be construed as offer, research or investment advice.

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Furthermore, persistent geopolitical risks, shifting trade policies, evolving supply chains and potential disruption from new technologies such as artificial intelligence may impact some sectors and companies more than others, creating potential outperformers and underperformers. Against this backdrop, fundamental, bottom-up and active stock selection may be valuable to identify lasting opportunities and leverage stock-specific differentiation within and across sectors.

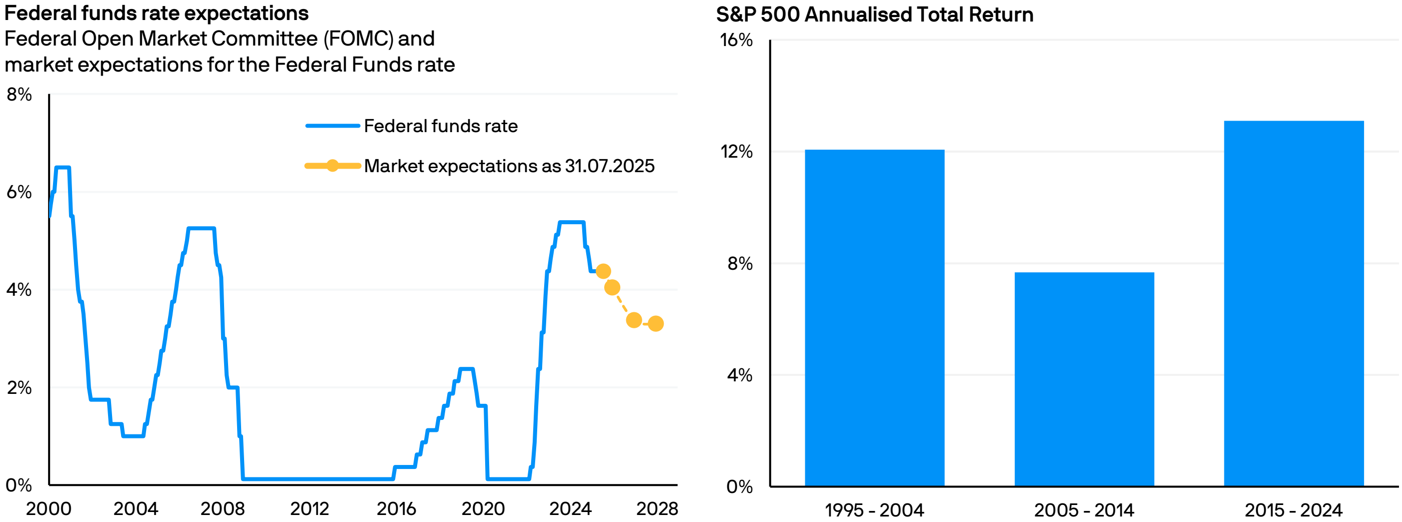
Moreover, while the S&P 500 index has returned 13.1% annualised over the last decade ending 31.12.2024[3], equity market returns could moderate somewhat in the next decade given the steeper starting point for valuations. In uncertain markets where stock-level performance could vary widely, active alpha becomes crucial to help generate incremental gains to enhance overall portfolio performance, over and above market returns.

An expanded toolkit for stronger portfolios

To that end, the **JPMorgan Funds - America Equity Fund** and **JPMorgan Funds – US Select Equity Plus Fund** present two active solutions that harness robust bottom-up fundamental research processes to uncover high-quality US companies that exhibit the potential for consistent returns, each employing a different and nuanced strategy.

- By leveraging a high conviction approach to seek durable franchises with consistent cash flows (value) or underappreciated growth (growth), the **JPMorgan Funds - America Equity Fund** can help investors access core US stocks while rebalancing exposure across growth and value investment styles.
- In addition to the typical long-only strategy that focuses on high-conviction stocks, the **JPMorgan Funds – US Select Equity Plus Fund** enhances this approach by implementing a 130/30 long/short active extension strategy. This involves shorting stocks that the research team believes will underperform and reinvesting the potential proceeds into attractive companies identified through the firm's bottom-up fundamental research process. The strategy optimises the impact of the firm's unparalleled US equity research capabilities while expanding the range of opportunities for potential returns, both on the short and long sides of a portfolio.

Exhibit 3: Higher interest rates could present a challenge to low quality corporates while US equity returns could moderate given steeper entry valuations.



Source: J.P. Morgan Asset Management. [LHS] Bloomberg, FactSet, Federal Reserve. Data as of 31.07.2025. Market expectations are based on USD Overnight Index Swaps. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. [RHS] Bloomberg. Data as of 31.12.2024. Indices do not include fees or operating expenses and are not available for actual investment. **Past performance is not a reliable indicator of current and future results.**

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Diversification does not guarantee investment return and does not eliminate the risk of loss. Yield is not guaranteed. Positive yield does not imply positive return.

1. Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Data as of 31.07.2025. Price-to-earnings (P/E) ratios are in local currency terms. Indices do not include fees or operating expenses and are not available for actual investment. Past performance is not a reliable indicator of current and future results.
2. Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Data as of 31.07.2025. Indices do not include fees or operating expenses and are not available for actual investment. Provided for information only to illustrate macro trends, not to be construed as offer, research or investment advice.
3. Source: Bloomberg. Data as of 31.12.2024.
4. Source: Bloomberg. Data as of 31.07.2025.
5. Source: J.P. Morgan Asset Management. "Building on the past two decades: Why the future is even more exciting for the Large Cap Core 130/30 Strategy." Published 26.06.2024.

Next steps

For more information, contact your J.P. Morgan representative.