

## The Missing Middle

Why mega cap concentration strengthens the case for dedicated mid cap exposure

### Key Takeaways:

- The rapid growth of the largest US companies has increased concentration within capitalization-weighted indexes and, by extension, many investor portfolios.
- Pairing dedicated small cap with a large cap allocation can create an unintended barbell: mega cap at one end, small cap at the other, and a broad middle that SMID does not fully cover.
- A Small + Mid framework provides intentional exposure across the full market cap spectrum below large cap - an area where active management and momentum have historically found opportunity.

### The portfolio map has changed

For many investors, the issue begins inside the large cap allocation. As mega caps have grown, they have claimed more weight in capitalization-weighted benchmarks and, by extension, more influence over total portfolio risk and return. While every size bucket has become larger, the economic distance between small cap and the companies driving large cap benchmark returns has widened sharply.

The Russell breakpoints show how wide that gap has become. In June 2016, the line separating the Russell 1000 from the Russell 2000 was approximately \$4 billion. Ten years later, it had risen to \$14 billion. Over the same period, the largest Russell company increased from roughly \$515 billion in market cap to nearly \$4.85 trillion. Both ends moved higher, but the expansion at the top was far more dramatic. The largest US company went from 125 times the size of the upper bound of the Russell 2000, to 340 times. The capitalization spectrum did not simply shift upward. It stretched.

### A widening cap spectrum between large and small



## The tipping point

The Russell 1000 still carries the familiar label of 'large cap,' but its range now extends up to \$4.85 trillion as of June 30, 2026. It includes mid-sized companies, conventional large-cap companies and the largest businesses in the world. Because the index is weighted by capitalization, the largest companies exert the greatest influence on benchmark risk and return. As mega caps grow, they absorb more of the index's weight. Mid-sized companies remain present, but their role within the benchmark becomes smaller relative to the companies at the top.

In other words, the benchmark determines how much mid cap exposure the investor receives. And that exposure can decline as mega cap concentration rises, even without any explicit change in investment policy.

FTSE Russell itself has documented the growing market capitalization of the largest US companies and noted that the Russell 1000's higher technology weight has increasingly influenced its performance<sup>1</sup>. S&P Dow Jones has reported similar findings: the 10 largest companies accounted for nearly 40% of the S&P 500 by mid-2025 - a level of concentration not seen since the mid-1960s<sup>2</sup>. The largest stocks, many of them technology-driven mega caps, have also contributed disproportionately to index performance.

## Why adding small cap still leaves a gap

Many investor portfolios pair a capitalization-weighted large cap allocation with dedicated small cap. Adding small cap can diversify the portfolio and extend participation down the market-cap spectrum. It does not, however, solve the underrepresentation of the middle: the Russell 2000 ends at roughly \$14 billion as of June 30, 2026, well below the upper reaches of the mid cap universe.

In economic terms, the traditional pairing of large plus small increasingly resembles a barbell of mega cap plus small. Mid-sized companies may still appear in the broad benchmark, but they are not represented with the same intentional portfolio weight as either end.

Investors decide explicitly how much small cap to own, while the growth of the largest companies determines how much exposure remains in the middle. A dedicated mid cap allocation makes that exposure a portfolio decision again.

### This common portfolio structure leaves too little intentional exposure in the middle

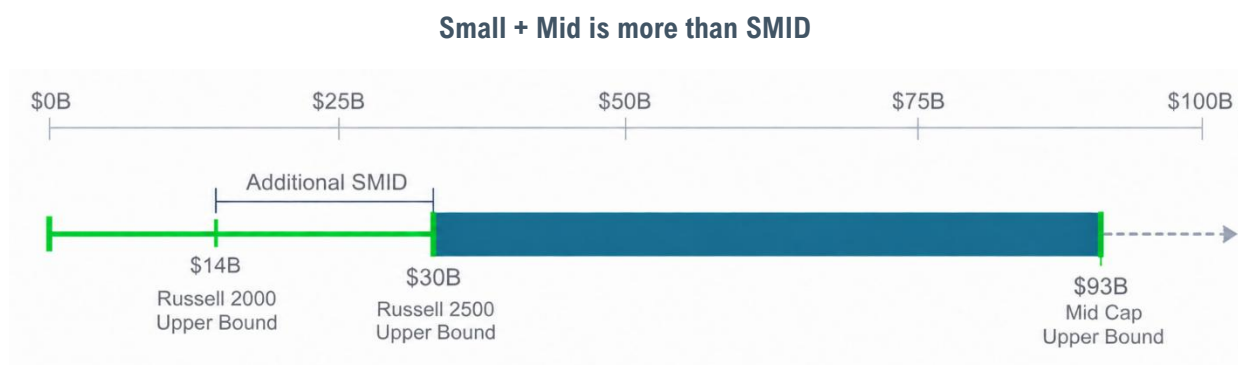


<sup>1</sup> FTSE Russell US Indexes Spotlight Quarterly Report, July 2026

<sup>2</sup> Tim Edwards and Nick Didio, "In the Shadows of Giants", S&P Dow Jones Indices, 2025

## SMID still leaves most of the middle untouched

SMID once offered a practical way to extend a small cap allocation into lower mid cap. Today, it does not reach far enough to address the gap in any meaningful way. As of June 30, 2026, the Russell 2500 reached approximately \$30 billion, compared with the Russell 2000's \$14 billion upper bound. The Russell Midcap Index extended to approximately \$93 billion. SMID therefore adds a relatively narrow band above small cap while leaving much of the mid cap range untouched.



A 'Small + Mid' framework addresses the two segments separately. Dedicated small cap covers the lower end of the capitalization spectrum. Dedicated mid cap then extends exposure through the broad group of established companies that sits above small cap and below the mega-cap-dominated portion of large cap.

In short, SMID doesn't solve the portfolio construction problem. It broadens small cap slightly but does not provide complete and intentional coverage of the full capitalization spectrum. Small + Mid does.

## Restoring intention to the middle

A dedicated mid cap allocation changes the portfolio architecture. It creates intentional exposure to established companies that are larger than the small cap universe but still far removed from the handful of companies measured in hundreds of billions or trillions of dollars. These businesses can offer institutional liquidity, mature operating platforms and meaningful growth runways, with return drivers that are less dependent on the mega cap cohort dominating broad large cap indexes.

These are tendencies, not universal characteristics. Market capitalization alone does not determine a company's quality, maturity or growth prospects. But a dedicated allocation provides access to a broad set of businesses whose return drivers may differ from both smaller companies and the mega caps dominating broad large cap indexes.

## Why the middle may be particularly actionable

Creating a dedicated allocation establishes exposure to mid cap. How that exposure is managed is a separate decision.

Mid-sized companies can offer a productive environment for active management because many are undergoing meaningful business transitions. New products, improving margins, earnings revisions, market-share gains and changing investor sponsorship often unfold through a sequence of developments rather than a single, fully anticipated event.

Those changes can create persistent trends in both business fundamentals and stock prices. At the same time, mid cap companies generally offer greater liquidity and more scalable investment capacity than smaller public companies, making those trends more accessible to institutional portfolios.

These characteristics do not guarantee greater inefficiency or stronger returns. They do, however, create a potentially attractive setting for a process designed to identify change as it emerges.

#### **The Allocation Proposition:**

The central question is whether US equity portfolios today have intentional exposure to the middle. A Small + Mid framework can complement a large cap allocation whose weights are increasingly concentrated in mega caps, while avoiding the assumption that a traditional SMID bucket alone captures the full middle market cap range.

### **Momentum in the middle: evidence and implementation**

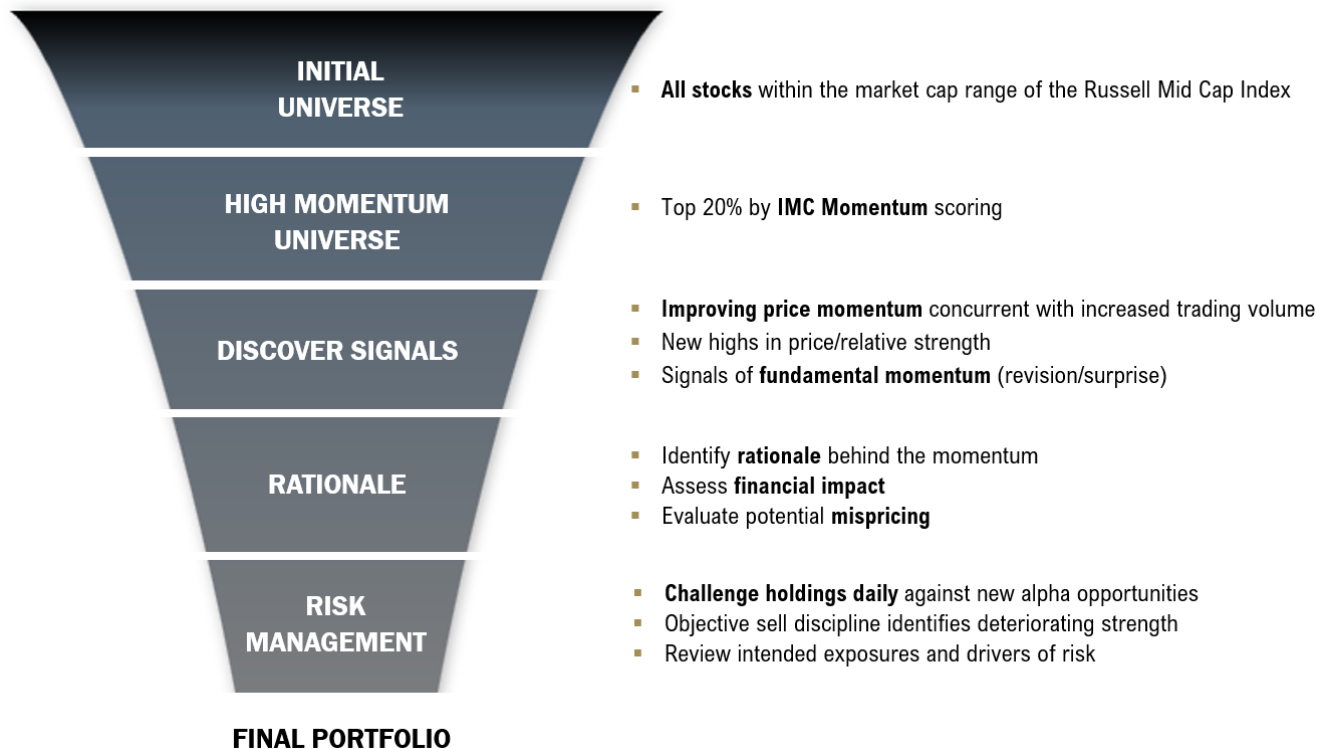
Momentum has been one of the most persistent return phenomena documented in equity markets. Importantly for a mid-cap allocation, the academic evidence does not suggest that momentum is confined to small stocks. Israel and Moskowitz (2013), examining 86 years of U.S. equity data, found no reliable relationship between momentum profitability and firm size and reported significant momentum returns across size categories in each 20-year subsample they studied. The implication is straightforward: mid cap need not possess a unique momentum premium for momentum to be a relevant and durable source of stock-selection opportunity.

IMC research reaches a similar practical conclusion. In the firm's [Momentum Works Everywhere](#) analysis, momentum was pervasive across market capitalizations and geographies, generated the highest excess returns in nearly every market tested, and produced superior risk-adjusted returns in 75% of the markets tested. Mid cap therefore sits within a broader momentum effect, while offering an attractive institutional combination of liquidity, breadth, company-specific change and less concentration than the mega-cap end of the market.

For investors, the strongest case is not a mechanical 'buy what went up' rule. Momentum can be treated as evidence that the market is progressively recognizing a change in a company's operating and financial trajectory. In the Russell Midcap range, where companies can still be undergoing meaningful earnings, estimate and business model change, price strength is most informative when corroborated by financial acceleration, earnings surprises, estimate revisions and the durability of the underlying thesis.

## From momentum to Informed Momentum

Academic evidence establishes the persistence of momentum; implementation determines whether that effect can be captured in an investable portfolio. IMC's Informed Momentum® approach is designed to apply that evidence within a clearly defined mid cap opportunity set, combining systematic signal capture with targeted analysis and explicit risk management.



The case for dedicated mid cap exposure does not depend on momentum. It begins with portfolio construction: the capitalization spectrum has widened, mega caps exert greater influence over broad large cap benchmarks, and the middle has become less intentional within many conventional allocations.

Momentum addresses the next question: how to navigate that middle once the decision has been made to own it.

### Conclusion:

The market moved. The labels did not. Small cap is larger than it was, but the more consequential change occurred at the top: mega caps have become enormous and increasingly influential in capitalization-weighted large cap indices, and by consequence in many portfolios. Pairing small cap with a large cap allocation can therefore create an unintended barbell - small at one end, mega at the other, and too little intentional exposure in the middle. SMID doesn't do much to fill that gap. A deliberate Small + Mid framework gives each allocation a clearer job. The IMC Mid Cap strategy invests within the market capitalization range of the Russell Midcap Index and applies a disciplined momentum process to help restore the center of US equity exposure.

## About IMC

IMC is solely focused on helping clients build better portfolios through our Informed Momentum investment approach. This approach has been applied consistently across all strategies since the inception of the firm in 2007. The daily application of our systematic process is designed to deliver consistent and predictable results. Since our entire company works for a single objective, it only makes sense to align the name of our brand with exactly what we do every day.

We are the **Informed Momentum Company**.

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### References:

- FTSE Russell, 2026 Russell US Indexes Reconstitution materials and research on mega-cap concentration
- Israel & Moskowitz (2013), Journal of Financial Economics, 108(2), 275-301
- The Informed Momentum Company, "Momentum Works Everywhere" research and Q2 2026 institutional materials

### Important Disclosures:

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