INTELLIGENCE SERIES · PORTFOLIO CONCENTRATION

The AI Trade Hidden in Your Portfolio

A holding-by-holding audit of how much of one bet Western portfolios actually own. You do not have to believe AI is a bubble to have a problem. You only have to look at what you already hold, and it is measurable.

Date: July 2026 · **Audience:** Professional investors & allocators · **Basis:** 3HC proprietary holdings, pricing & credit data, verified live · **Prepared by:** 3HC Intelligence

37%	0.70	−40%
of the S&P 500 is its ten largest positions, and every one is the AI trade	average return correlation across 17 "different" global equity ETFs	EM debt spread vs its 5-year norm, near its lowest in five years

EXECUTIVE SUMMARY

- **The market has become one trade.** The ten largest positions in the S&P 500 are 37% of the index, and every one is the AI complex, the chipmakers, hyperscalers and platforms. NVIDIA alone is nearly 8%. The same names top the "total market" and "global" funds. This audit does not argue whether AI is a bubble; it measures how much of it you hold.
- **Western books are concentrated in exactly those assets.** The median US wealth manager holds around 15% of its equity in technology and communication services; roughly one in five holds more than 30%. The concentration is intensifying through a shift out of diversified growth funds and into concentrated technology ETFs.
- **The diversification across funds is an illusion.** Ten "different" global equity funds hold the same ten stocks. An all-country world fund of 2,000-plus names across 60+ countries holds over a fifth in those ten. The average pair correlates at 0.70; several pairs are statistically identical.
- **The "safe" fixed-income sleeve is priced for the same world.** Credit spreads sit near multi-year tights, EM debt about 40% below its norm, while the default core-bond allocation carries six years of uncompensated duration. It will not cushion a repricing of the equity concentration.
- **There is no hedge and no buffer.** At the median, US wealth managers hold under 1% of equity in energy and almost nothing in materials, and the cash position behaves as a transit account rather than a reserve. No layer of the portfolio insulates it from the one thing it is most exposed to.

A note on scope. Where we measure a portfolio position by position, we use US wealth-manager filings, because the US is the only market where allocators disclose their holdings. The fund-level findings, the holdings overlap and the correlations, hold for any allocator, US or European, who owns these products. The European picture is inferred from fund flows, which point in the same direction; read it as indicative.

PART I

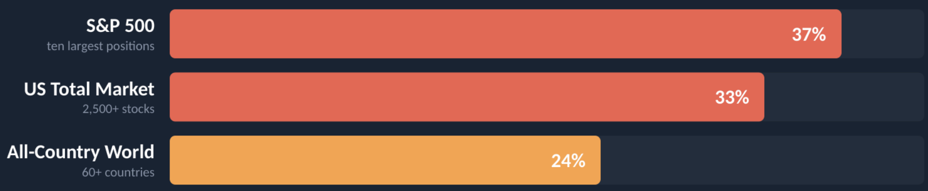
The market has become one trade, and you did not choose it.

The ten largest positions in the S&P 500 are 37% of the index, and every one of them is the AI trade. NVIDIA alone is nearly 8%.

This is not a sector tilt an investor opted into. It is the structure of the index itself. A market-cap fund holds companies in proportion to their size, and a handful of AI-era names have grown so large that owning the market now means owning them. Add Apple, Microsoft, Amazon, Alphabet, Broadcom, Meta and Tesla to NVIDIA and roughly 37 cents of every dollar in the index sits in one theme.

The ten largest positions in the S&P 500 are 37% of the index, and every one is the AI trade.

Combined weight of the ten largest holdings, by fund. The same names, the chipmakers and the hyperscalers, sit at the top of every "diversified" wrapper.



✓ NVIDIA alone is nearly 8% of the S&P 500. Whichever diversified fund you own, the top of the book is the same handful of AI names.

3HC holdings data, constituent-level, as of 14 Jul 2026. Verified live. THREE HORIZONS CAPITAL

The concentration does not stay inside the S&P 500. The same names top a total US market fund of more than 2,500 stocks, where they are still a third of the money, and an all-country world fund spanning more than 60 countries, where they are close to a quarter, joined only by Taiwan Semiconductor, the same trade in a different domicile. The geography on the label changes; the top of the book does not. The exposure most investors would describe as a deliberate, sized position has arrived by default, through vehicles chosen for diversification. That is a measurement question before it is an investment one, and it is the first thing our analytics answer.

PART II

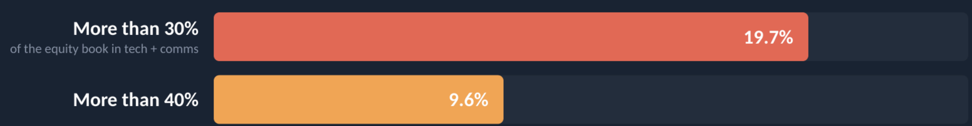
Western portfolios have crowded into the exact assets at the centre of the trade.

The median US wealth manager holds roughly 15% of its equity book in technology and communication services, and under 1% in energy.

Across 3,872 US RIA equity books at the end of 2025, technology and communication services average close to 18% of the book, with a median near 15%. That is the centre of the distribution, not the tail. Roughly one in five advisers runs more than 30% of their equity in that single cluster; roughly one in ten runs more than 40%. These are the sectors where the AI complex lives.

One in five US wealth managers runs more than 30% of its equity in one theme.

Share of 3,872 US RIA equity books above each technology + communication-services threshold (Q4 2025). Median book: 15%.



✓ These are the sectors where the AI complex sits. The centre of the distribution is overweight them.

3HC aggregated RIA equity holdings (Form 13-F), 3,872 RIA-classified filers, Q4 2025. Verified live. THREE HORIZONS CAPITAL

The concentration is intensifying, and it hides in plain sight. Allocators are not rotating away from technology; they are changing the wrapper. Over the year to June 2026, US large- and mid-cap growth mutual funds recorded roughly $245 billion of net outflows, while technology-sector ETFs took in close to $75 billion. That is not a rotation out of the trade; it is a rotation deeper into it, from diversified active funds into concentrated sector vehicles. This is not a US-only pattern: European-domiciled funds are flowing into the same technology ETFs. A factor screen misses this: as the AI names have become the dominant weight in the index itself, holding them no longer registers as a tilt. Only a holding-level view makes the concentration visible again.

PART III

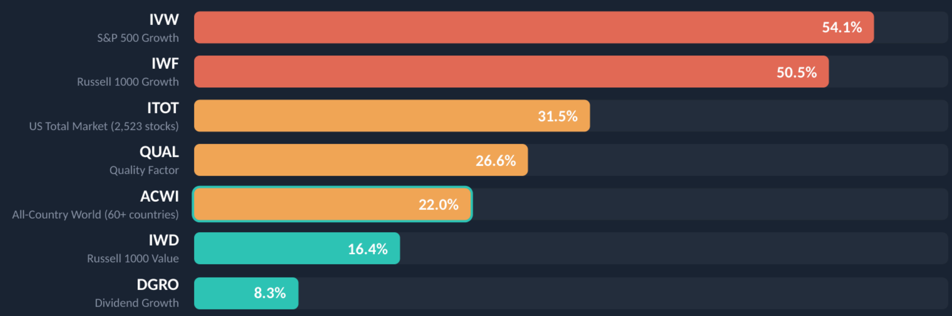
Ten "different" funds, one portfolio: the diversification is an illusion.

A global fund holding more than 2,000 companies across 60-plus countries has over a fifth of its value in the same ten US technology stocks.

The premise of multi-fund diversification is that different labels deliver different economic exposures. Unpack the actual holdings and that premise collapses. Screen the leading global equity funds for a single list of ten names and the same cluster dominates all of them. The label does not change the contents.

Ten "different" funds. The same ten AI stocks.

Weight in the top-10 mega-cap AI names (Nvidia, Apple, Microsoft, Amazon, Alphabet, Meta, Broadcom, Tesla, Taiwan Semi), by fund.



✓ ACWI holds 2,359 stocks across 60+ countries. 22% of it sits in the same ten US names.

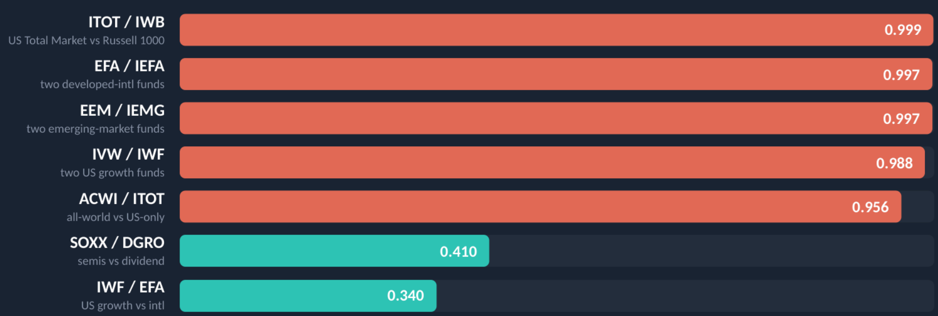
3HC holdings data, constituent-level, as of 14 Jul 2026. Verified live.

THREE HORIZONS CAPITAL

An allocator holding a US total-market fund, a global fund, and a growth fund believes they are diversified across geography and style. They have in fact tripled down on one list of ten stocks. These are the funds a European wealth manager buys too, in their UCITS form; the overlap does not respect a border. The return data confirms the clone structure: across seventeen leading global equity ETFs over twenty-four months, the average correlation between any two is 0.70, and several pairs are statistically identical.

Run ten of these funds and you own the risk of two or three.

24-month return correlation between leading global equity ETFs. Average pair: 0.70. Red = the same trade; teal = genuine diversification.



✓ The near-clones are the "global" and "growth" funds. The genuine diversifiers, value and dividend, are what allocators are selling.

3HC equity pricing, monthly returns, Jul 2024 to Jul 2026, 17 ETFs / 136 pairs. Verified live.

THREE HORIZONS CAPITAL

There is a tell that sharpens the point. The funds people reach for to feel diversified, the "global" and "growth" and "quality" labels, are the near-clones. The funds that are genuinely different, deep value and dividend, sit at much lower correlations, and they are precisely the funds allocators have been selling. When the market last sold off in earnest, the audit resolved into a single fact: nominally different products fell together, and none of them hedged.

We recently ran a holding-level attribution on a contrarian emerging-markets manager who did the opposite: a manager who deliberately stepped out of the crowded AI-and-technology complex, holding the dominant chipmaker directly but excluding the second-tier names and the consensus heavyweights. For a period into early 2026 the fund lagged its peers, and the attribution was unambiguous about why: it was the price of not owning the crowded trade. Selection then recovered and the fund pulled back ahead. When a genuinely differentiated manager is penalised for stepping outside one cluster of stocks, that cluster is no longer a position in the market. It *is* the market.

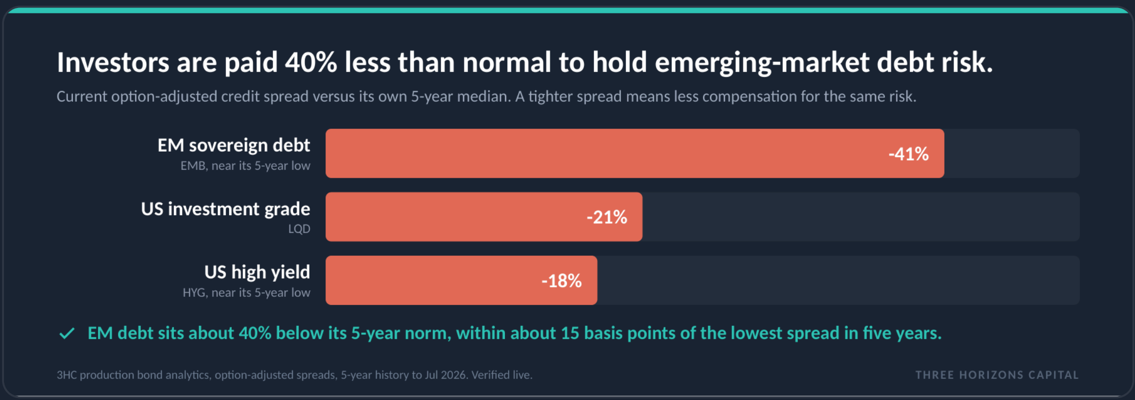
> **THE CONSTRUCTION PROBLEM**
>
> Diversification by fund count is not diversification by risk. A portfolio of ten highly correlated funds delivers the risk reduction of a small handful of genuinely independent positions; the remaining holdings are cost without benefit. Measuring the true number of independent bets inside a fund-of-funds is the first step, and it is a calculation our holdings data is built to run.

PART IV

The "safe" fixed-income sleeve is priced for the same world.

US high-yield and emerging-market debt are trading near their tightest spreads in five years. EM debt sits about 40% below its own historical norm, within about 15 basis points of its five-year low.

The exposure did not stop at equities. The same conditions that support high AI multiples, abundant liquidity and low volatility, have compressed credit spreads to their tightest levels in five years. Investment-grade, high-yield and emerging-market debt are all priced for that same benign world. An allocator holding these instruments is paid less to take the risk than at almost any point in the cycle.



Fund-selection screens make this worse, not better, because they are backward-looking. A high-yield or EM debt fund shows an attractive risk-adjusted return, and that number is exactly what draws capital in. But it measures the carry already collected while spreads tightened, not the compensation available from here. The spread is the forward-looking number, and it says the payment for the risk has rarely been thinner. Reading the two together reverses the conclusion the screen hands you.

The duration risk is hidden in the same way. It is not in the obvious long-bond funds but in the default "core" bond allocation most portfolios treat as ballast, and it is exactly where the money is going: the intermediate core bond category drew the largest fixed-income inflows of the year, roughly $200 billion. A standard aggregate bond position carries close to six years of effective duration. A 75 basis-point move, smaller than moves seen repeatedly in recent years, takes roughly 4% off that "conservative" holding, more than a year of its coupon.

NOT A HEDGE

The point is not that bonds are secretly technology stocks; they are not. It is that the sleeve most investors hold precisely to behave differently is priced for the same conditions as the equity sleeve, and offers little cushion in the one scenario the whole portfolio is most exposed to: a repricing of risk that hits crowded equities and compressed credit together. In a classic flight to safety, high-grade duration can still help. In a broad repricing of a liquidity-rich regime, it does not.

PART V

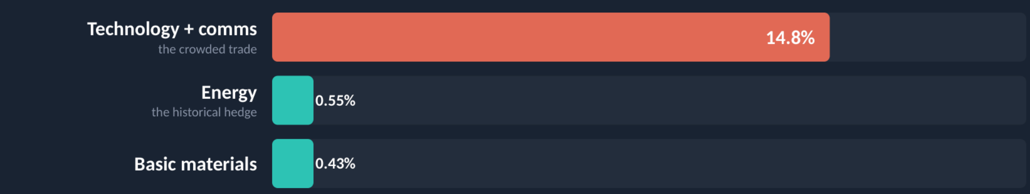
There is no hedge, and there is no buffer.

At the median, a US wealth manager holds under 1% of its equity book in energy, and its exposure to materials is statistical noise.

If the first four parts describe a portfolio pointed almost entirely in one direction, this one describes the absence of anything pointing the other way. The asset classes that have historically absorbed a liquidity or valuation shock are close to absent from the US books we can measure. At the median US RIA, energy is 0.55% of the equity book and materials 0.43%. Nearly half of all advisers run less than 2% combined across energy, materials, and utilities. This is not a modest underweight; it is a structural absence of the one exposure designed to behave differently when the crowded trade sells off.

15% in the trade. Under 1% in the hedge.

Median US wealth manager equity weight, by sector (Q4 2025). The one asset class that behaves differently in a liquidity shock is close to absent.



✓ Nearly half of US wealth managers hold less than 2% across energy, materials and utilities combined.

3HC aggregated RIA equity holdings (Form 13-F), 3,872 RIA-classified filers, Q4 2025. Verified live. THREE HORIZONS CAPITAL

The cash position offers no more protection. On the surface there is a meaningful allocation to cash and ultra-short instruments; in behaviour it is not a reserve. Every risk-off event draws a brief defensive inflow into cash, and within weeks that cash is redeployed back into risk assets. The buffer functions as a transit account between risk-on positions, not as dry powder held to absorb a shock. When the event that requires the buffer arrives, the buffer has already been spent.

THE COMPLETE PICTURE

The equity sleeve is concentrated in the AI complex. The diversification across funds is an illusion. The fixed-income sleeve is spread-compressed and duration-long. The hedge is absent and the buffer is spent. **No layer of the portfolio provides structural insulation from the single thing it is most exposed to.**

PART VI

You do not need to forecast the correction.

The natural objection is that this only matters if AI actually de-rates, and nobody knows whether it will. That is exactly the point, and it cuts the other way.

Consider the three things that can happen. The level of protection is the same in all of them, which is why the odds do not change the answer.

THREE PATHS, ONE LEVEL OF PROTECTION

WHAT HAPPENS	IS THE AVERAGE BOOK PREPARED?
Multiples hold and the concentration compounds	**Yes; nothing here requires action.**
Multiples partially reprice, in a volatile, drawn-out way	Only partly; the "safe" sleeves cushion some of it, not all.
The trade de-rates sharply	**No; roughly 1% in hard assets and a cash sleeve that behaves like a transit account.**

An investor does not need to assign probabilities to those paths to see the problem, because the level of protection does not improve because the benign case is the most likely one. Roughly 1% of the book sits in genuine hard-asset diversifiers and a few per cent in a cash reserve that is not really held in reserve. Whatever your view on AI, that is the floor you are holding. The discipline is not to predict the path; it is to size the exposure honestly and decide whether the floor is one you would consciously choose. Most allocators, shown the holding-level number, find that it is not.

PART VII

What actually behaves differently.

None of this argues for abandoning the portfolio. It argues for building the other side of it, while that side is cheap.

The useful question is narrow: what has historically behaved differently when a crowded equity trade reprices? Four categories do, and the striking thing is that they are, almost exactly, the exposures allocators have been selling to fund more of the same trade. They are illustrative categories, not recommendations; the appropriate mix, if any, depends entirely on the individual portfolio and its objectives.

Genuine diversifiers within equities (deep value, dividend, true contrarian strategies)
These sit at the low-correlation end of the data, not the 0.70 cluster. The manager who stepped outside the crowded names is the live example: a different return stream, available precisely because it does not own what everyone else owns.

Real assets and energy (the structural void in Western books)
The classic behave-differently exposure when a liquidity-rich regime reprices, and the one closest to absent from the portfolios we measured. The underweight is the opportunity.

Managed-futures and trend strategies (for example DBMF; Man AHL, Winton, Millburn in UCITS form)
A return stream that follows dislocations across rates, currencies and commodities rather than depending on the equity trade continuing, with a long record of positive performance in exactly the drawdowns that hurt crowded books.

Short-duration cash held as a reserve (for example SGOV, SHV, BIL)
Not the transit account, but dry powder deliberately kept: no spread or duration risk, and the ability to buy the repricing rather than be forced to sell into it. The gap between a 3% cash weight and the 10% to 15% a conservative framework would hold is the opportunity.

PART VIII

You cannot manage what you have not measured.

Markets have concentrated into a single dominant theme before. Each time, the same reasoning held: the leaders were genuinely the best businesses, the valuations were justified by the technology, and to be underweight was to be wrong. Each time, the concentration was real right up until the point it reversed, and the portfolios that had quietly become one trade discovered it at the worst possible moment. This is not a prediction that AI repeats that pattern; it is a refusal to depend on it not doing so. When a crowded trade reprices, the labels stop mattering. "Global equity," "strategic income," and "core bond" describe wrappers, not risk. If the assets inside them share a single dependency, they move together, and on the data this portfolio does.

The correct response is not to forecast the correction but to measure your own floor, and then to rebuild genuine diversification into the portfolio: exposures that are actually uncorrelated, ballast that actually behaves differently under stress, and a reserve that is actually held rather than deployed.

WHAT THIS DATA DOES

See the concentration a factor model misses. Count the real number of independent bets inside a fund-of-funds. Stress the portfolio against a liquidity-withdrawal scenario rather than a generic drawdown. And construct the allocation the fund list only claims to be. You cannot manage what you have not measured, and the place to start is a holding-level audit of where your floor actually sits, before the market runs the test for you.

Data sources. Index and fund constituent holdings, mega-cap concentration and correlation: 3HC equity holdings and pricing analytics, constituent-level as of 14 July 2026, monthly return correlations July 2024 to July 2026 (17 ETFs, 136 pairs). US wealth-manager sector concentration and hard-asset weights: 3HC aggregated RIA equity holdings from SEC Form 13-F filings, 3,872 RIA-classified filers, Q4 2025 (US-listed equity and ETF positions only). Sector weights classify ETF positions by the fund's primary Morningstar category; holdings not classifiable to a GICS sector are excluded from the sector denominator. The RIA cohort is every 13-F filer classified as a registered investment adviser for the Q4 2025 reporting period; an earlier 2,970-firm cohort used a narrower AUM threshold, so figures built on it are not directly comparable. The 0.70 average pairwise correlation is computed on a fixed basket of 17 global, total-market, growth and dividend equity ETFs (136 unique pairs) using monthly total returns from July 2024 to July 2026; a differently constituted 17-fund basket will produce a different average. Fund flows: 3HC deduped, FX-converted fund-flow analytics, US and European domiciles, July 2025 to June 2026. Credit spreads: 3HC production bond analytics, option-adjusted spreads with five-year daily history to July 2026. The contrarian emerging-markets manager referenced is an anonymised example from a 3HC holding-level attribution; no fund, share class or return figure is disclosed. All load-bearing figures independently verified against live proprietary data. European wealth-manager exposure is inferred from fund-flow direction; position-level European model-portfolio data is not available. Third-party index and fund names are the marks of their respective owners.

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