



# Don't Call the Top. Build for How It Ends.

This bull broke the rulebook at the start, narrowed as it ran, and now runs under a late-cycle dashboard. Nobody can date the end. What ends it decides the damage, and a portfolio can be built for both endings today.

## 41%

Share of S&P 500 market value held by its ten largest companies, up from 29% at the October 2022 trough

## 51%

Share of a standard 60/40 portfolio's risk that comes from those ten companies, on 25% of its capital

## 58 to 74 months

Time the index took to recover after a credit or valuation ending, against 6 to 23 months after a policy shock

### THE FINDING IN ONE LINE

The ending matters more than the date: a book built for both a valuation ending and a rate shock lost less in each of the last four endings, at a cost of about 0.3 points a year in this bull, and the protection can be dialled up or down.

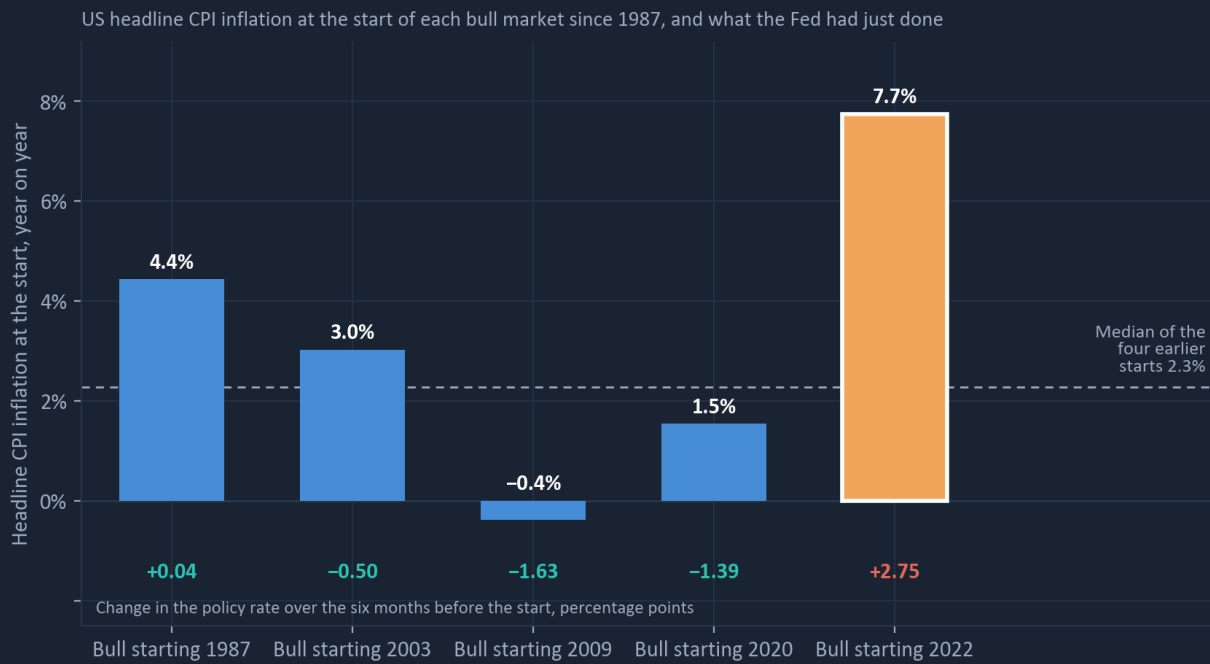
Three Horizons Capital, Portfolio Analytics. Market data to 6 October 2026; unemployment to September 2026; headline CPI to August 2026. US dollars.

01 This bull broke the rulebook on day one, so the historical average is a weak guide to its end

The four earlier bull markets since 1987 began on familiar ground. In the six months before each start, the policy rate was flat or falling. The median start saw headline CPI inflation at 2.3% and the 3HC financial conditions index (higher = tighter) at -3.16, about three standard deviations looser than normal.

The bull that began on 12 October 2022 started with headline CPI inflation at 7.7%, the highest at the start of any bull since 1987. The Fed had raised rates 2.75 points in the six months before the trough and kept going, to a 5.33% peak in August 2023. The 3HC financial conditions index sat at -0.79, barely loose at all.

This bull started with the highest inflation and the Fed still hiking



Source: Three Horizons Capital analysis of US headline CPI (not seasonally adjusted) and monthly average effective fed funds rate. Starts are troughs under the 20% rule.

| BULL STARTING | HEADLINE CPI AT THE START | FED MOVE IN THE PRIOR SIX MONTHS, POINTS |
|---------------|---------------------------|------------------------------------------|
| 1987          | 4.4%                      | +0.04                                    |
| 2003          | 3.0%                      | -0.50                                    |
| 2009          | -0.4%                     | -1.63                                    |
| 2020          | 1.5%                      | -1.39                                    |
| 2022          | 7.7%                      | +2.75                                    |

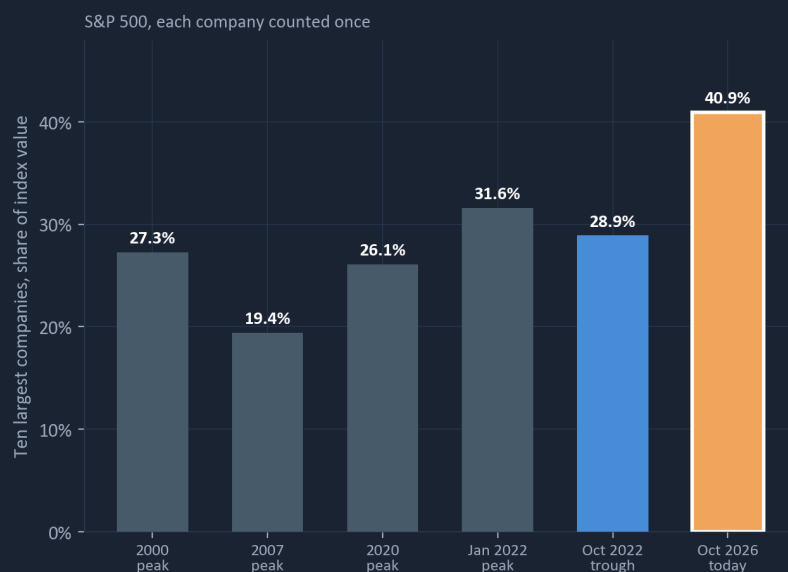
That matters for anyone using history to time the end. The four earlier bulls lasted a median 7.7 years and gained 186% on a price basis. This one is 4.0 years and 118.6% old on the same basis. A bull that began under different conditions has no reason to end on the average schedule, early or late.

## 02 The index is no longer the market: ten companies now hold 41% of its value and more than half of its risk

At the October 2022 trough the ten largest companies in the S&P 500 held 28.9% of its market value. On 6 October 2026 they held 40.9%, or \$29.0 trillion of \$70.9 trillion. That is a higher share than at any of the last four bull-market peaks: 27.3% in 2000, 19.4% in 2007, 26.1% in 2020 and 31.6% in January 2022.

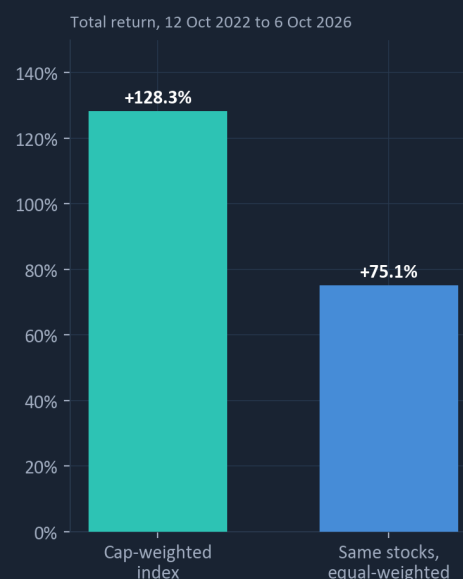
The ten are dominated by AI and semiconductor mega-caps. Seven are either chipmakers or the cloud and AI platform companies.

**The ten largest now hold more of the index than at any recent peak**



Source: Three Horizons Capital analysis of index membership, company values and fund total returns.

**Return since the trough**



This is a narrow story, not a broad large-cap one. Since the trough the cap-weighted index has returned 128.3% including dividends. The same five hundred stocks held in equal weights returned 75.1%. The average stock has done well. The index has done far better because a handful of its biggest constituents did.

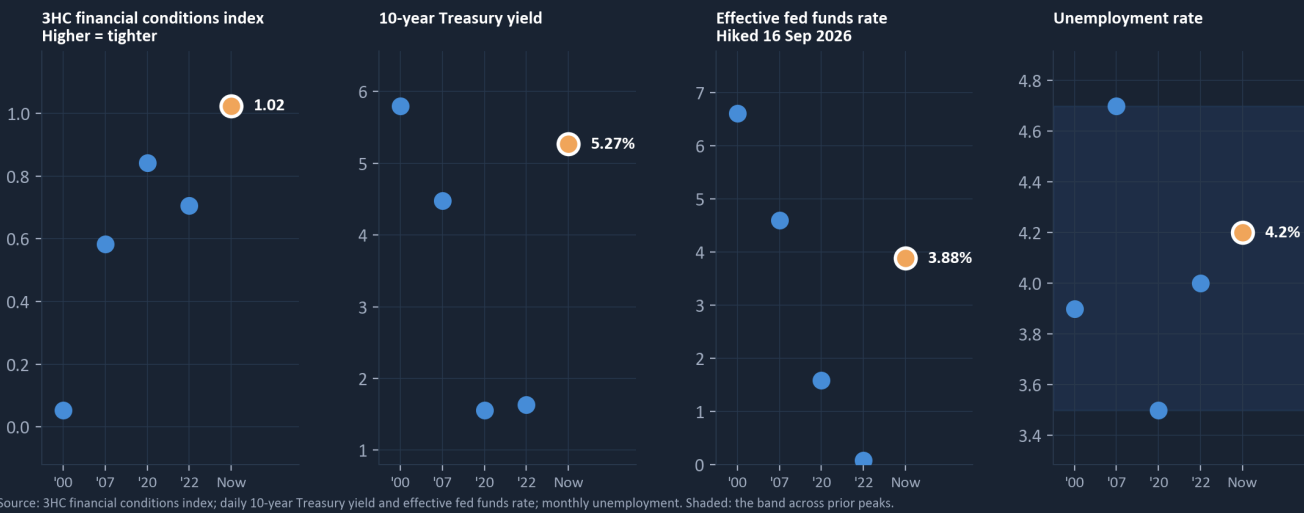
Concentration in value understates concentration in risk. Over the past two years of daily returns, the ten largest companies carried 41% of the index's weight and 54% of its risk. They move together, and they move more.

## 03 The dashboard is flashing late-cycle: three readings at prior-peak levels, and the Fed hiking again

We compare four readings today with their levels at the last four bull-market peaks.

Three readings already sit at prior-peak levels, and the Fed is hiking again

Today against the four previous bull-market peaks. Blue: prior peaks. Orange, outlined: 6 October 2026



| READING                                           | 2000 PEAK | 2007 PEAK | 2020 PEAK | 2022 PEAK | TODAY |
|---------------------------------------------------|-----------|-----------|-----------|-----------|-------|
| 3HC financial conditions index (higher = tighter) | 0.05      | 0.58      | 0.84      | 0.71      | 1.02  |
| 10-year Treasury yield                            | 5.80%     | 4.48%     | 1.56%     | 1.63%     | 5.27% |
| Effective fed funds rate                          | 6.60%     | 4.60%     | 1.59%     | 0.08%     | 3.88% |
| Unemployment rate                                 | 3.9%      | 4.7%      | 3.5%      | 4.0%      | 4.2%  |

Financial conditions are tighter today than at any of the four peaks. The ten-year yield is the second highest of the five readings, and has risen from 4.19% at the start of 2026. Unemployment, at 4.2%, sits inside the 3.5% to 4.7% band seen at every prior peak.

The policy rate is the exception on level, below its 2000 and 2007 peaks, but not on direction. On 16 September the Fed raised rates by a quarter point, to a range of 3.75% to 4.00%, its first hike since 2023. The effective rate has been 3.88% since. The statement cited elevated inflation: headline CPI was 3.4% in August, driven by energy prices up 16.3% over the year, with gasoline up 27.4%. Core inflation, excluding food and energy, was 2.4%.

None of this dates a top. What it does is remove the comfort of waiting: several of the conditions that preceded the last four endings are already in place.

## 04 How it ends matters more than when: valuation endings took five to six years to recover, policy shocks months

The last four bull markets ended in two different ways, and the cost of each was very different.

### Valuation and credit endings took five to six years; policy shocks took months



Source: Three Horizons Capital analysis of daily S&P 500 index fund total returns.

| ENDING                   | PEAK           | LARGEST FALL | MONTHS TO REGAIN THE PEAK |
|--------------------------|----------------|--------------|---------------------------|
| Dot-com, valuation       | September 2000 | -47.4%       | 73.8                      |
| Financial crisis, credit | October 2007   | -55.3%       | 58.3                      |
| COVID, exogenous shock   | February 2020  | -33.8%       | 5.7                       |
| 2022, rate shock         | January 2022   | -24.6%       | 23.3                      |

Credit and valuation endings cut the index roughly in half and took five to six years to recover, with losses still deepening a year after the peak. Policy-answerable shocks were shallower and recovered in six to twenty-three months, because the policy response was the cure.

This cycle could end either way. It is concentrated like 2000 and runs on rates like 2022. That is the case for building a portfolio that holds up under both, rather than betting on one.

05 What we would do with the book: cap the cluster, split the hedge, and test both endings

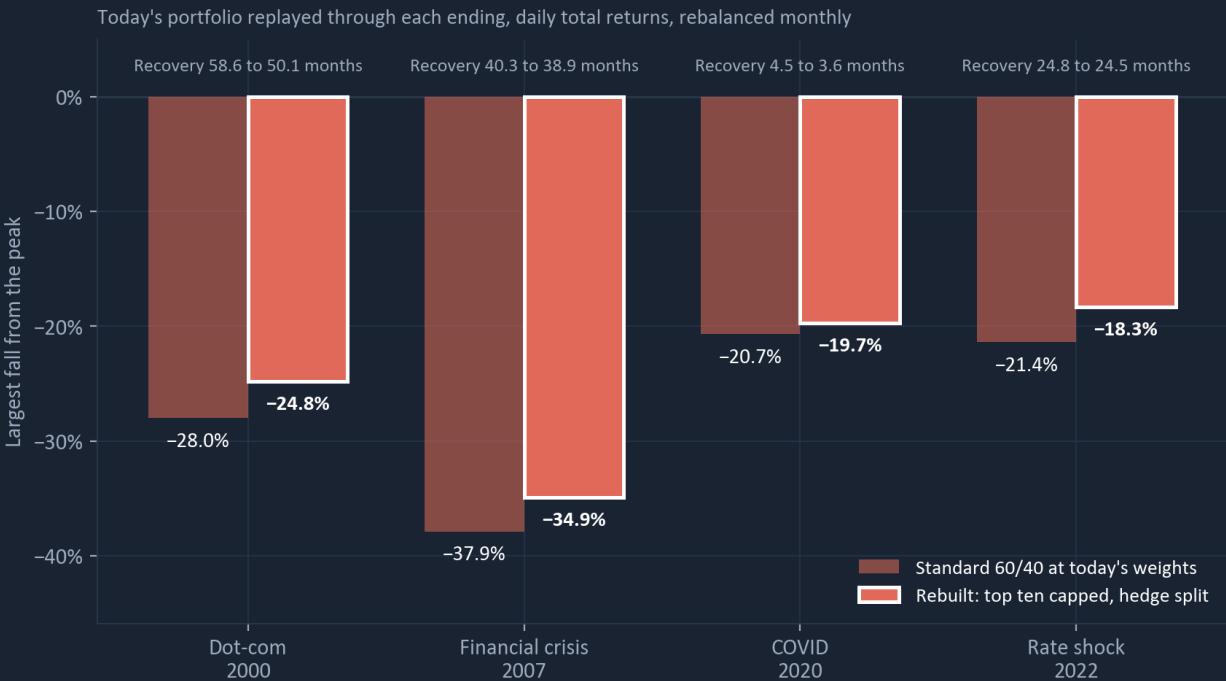
We took a standard allocator portfolio, 60% US large-cap equity and 40% aggregate US bonds, at today's index weights. Then we looked through it and replayed it through each of the last four endings.

**The look-through.** The ten largest companies are 24.7% of the portfolio's capital and 50.6% of its total risk. Equity as a whole carries 94.9% of the risk. The bond sleeve is not where the portfolio's risk sits.

**The rebuild.** We change two things. The ten largest companies are capped at a quarter of the equity sleeve, with the remainder spread across the rest of the index. The bond sleeve is split between intermediate Treasuries, the hedge that worked when credit broke, and short Treasuries, the hedge that held when rates rose: 25% and 15% of the portfolio.

**The replay.** In each ending, the top-ten sleeve earns what that era's ten largest companies earned and the rest earns what the rest of the index earned. Measured the same way in all four, as the deepest fall within two years of the peak, the leaders fell harder than the rest in three of the four endings: 64.4% against 42.6% after 2000, 69.6% against 53.9% after 2007, and 41.4% against 22.2% after January 2022. After 2020 they fell slightly less, 34.1% against 35.5%, and led the recovery.

The rebuilt book fell less in all four endings



| ENDING           | STANDARD: LARGEST FALL | REBUILT: LARGEST FALL | STANDARD: MONTHS TO RECOVER | REBUILT: MONTHS TO RECOVER |
|------------------|------------------------|-----------------------|-----------------------------|----------------------------|
| Dot-com          | -28.0%                 | -24.8%                | 58.6                        | 50.1                       |
| Financial crisis | -37.9%                 | -34.9%                | 40.3                        | 38.9                       |
| COVID            | -20.7%                 | -19.7%                | 4.5                         | 3.6                        |
| 2022 rate shock  | -21.4%                 | -18.3%                | 24.8                        | 24.5                       |

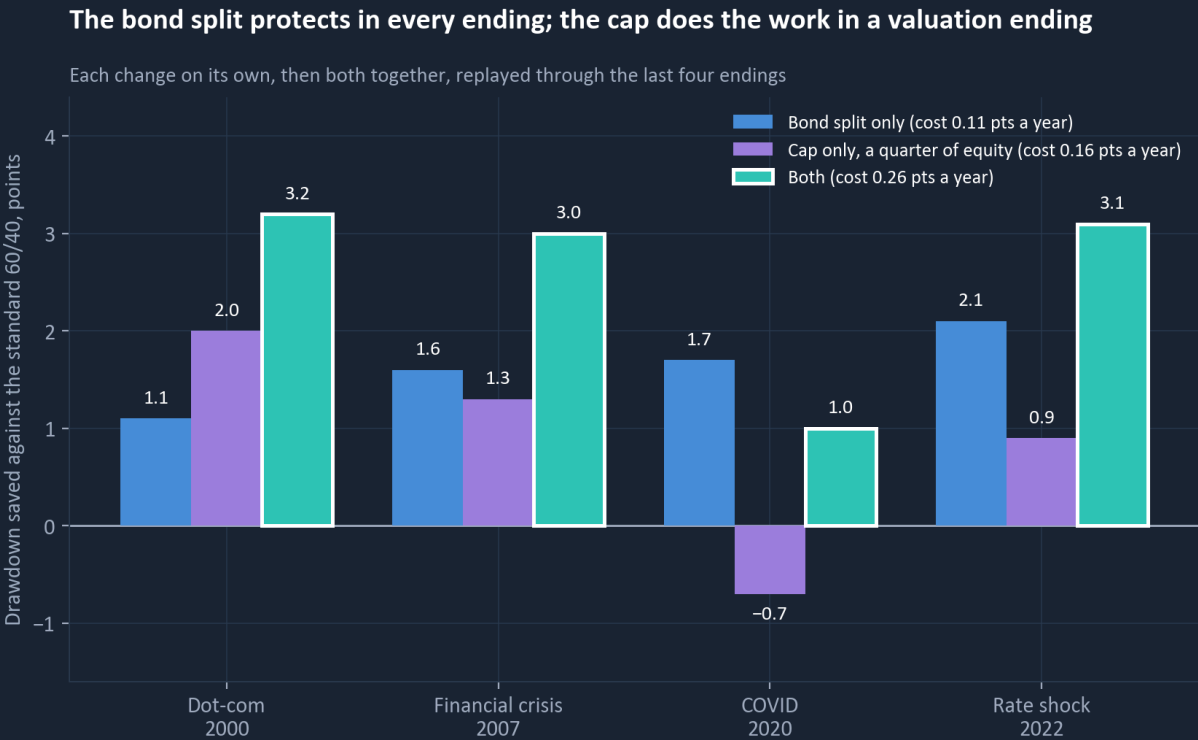
The rebuilt book fell less in all four endings, by about 3 points in the valuation, credit and rate endings and 1.0 point in COVID. Recovery improved most after 2000, by 8.5 months; after 2022 it improved by under a month. We would

not sell this as a shield. It is a tilt in the right direction at a known price.

Through this bull, from the October 2022 trough to 6 October 2026, the standard book returned 73.6% and the rebuilt book 72.0%, or 14.85% against 14.58% a year. Insurance against both endings cost about 0.3 points a year through a strong bull.

06 Which lever does the work: the bond split protects in every ending, the cap in three

We ran each change on its own. Drawdown saved is in points against the standard 60/40; cost is return given up a year through this bull.



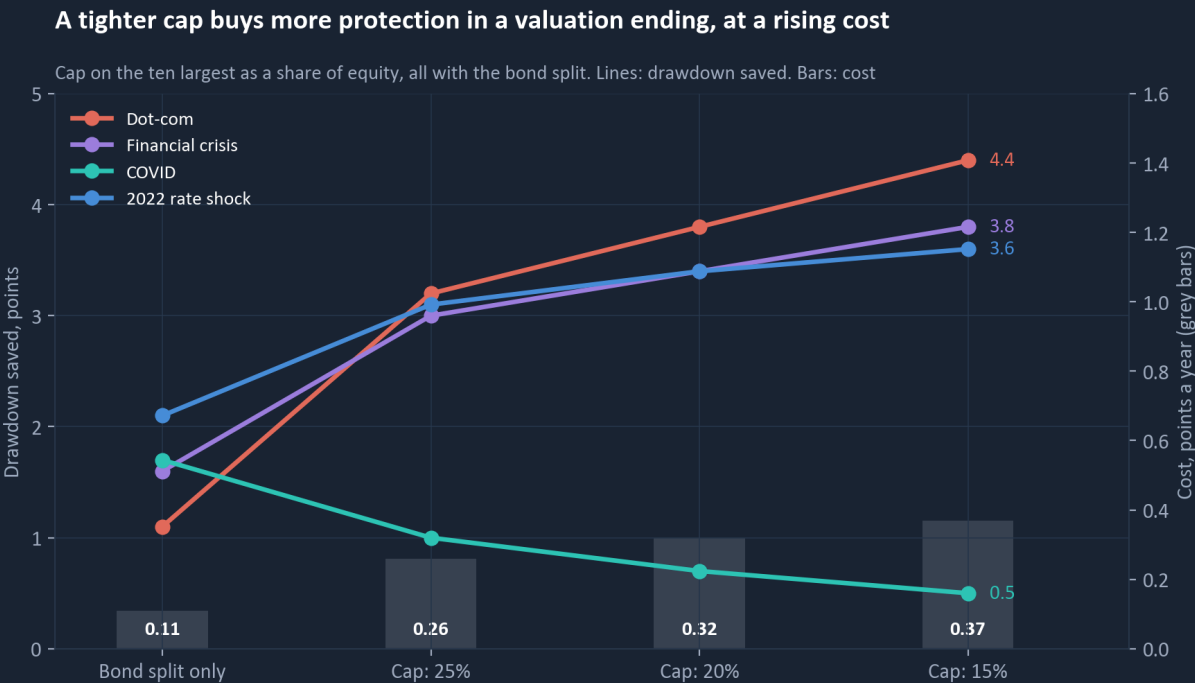
Source: Three Horizons Capital replay. Cost: return given up a year from the October 2022 trough to 6 October 2026.

| CHANGE                        | DOT-COM | FINANCIAL CRISIS | COVID | 2022 RATE SHOCK | COST A YEAR |
|-------------------------------|---------|------------------|-------|-----------------|-------------|
| Bond split only               | 1.1     | 1.6              | 1.7   | 2.1             | 0.11        |
| Cap only, a quarter of equity | 2.0     | 1.3              | -0.7  | 0.9             | 0.16        |
| Both                          | 3.2     | 3.0              | 1.0   | 3.1             | 0.26        |

The bond split helps in all four endings and is the cheaper lever. The cap does most of the work in the valuation ending, where the leaders fell hardest, and costs protection in a leader-led rebound like 2020. The two together beat either alone in three of the four endings.

## 07 Construction is a dial: tighter caps buy more protection in a valuation ending and cost more

The cap is a setting, not a single answer. We ran it at 25%, 20% and 15% of the equity sleeve, each with the bond split.



Source: Three Horizons Capital replay through the last four endings; cost measured from the October 2022 trough to 6 October 2026.

| CAP ON THE TEN LARGEST | DOT-COM | FINANCIAL CRISIS | COVID | 2022 RATE SHOCK | MONTHS TO RECOVER AFTER 2000 | COST A YEAR |
|------------------------|---------|------------------|-------|-----------------|------------------------------|-------------|
| None (bond split only) | 1.1     | 1.6              | 1.7   | 2.1             | 58.4                         | 0.11        |
| 25%                    | 3.2     | 3.0              | 1.0   | 3.1             | 50.1                         | 0.26        |
| 20%                    | 3.8     | 3.4              | 0.7   | 3.4             | 42.1                         | 0.32        |
| 15%                    | 4.4     | 3.8              | 0.5   | 3.6             | 41.3                         | 0.37        |

Each step tighter saves more in the valuation, credit and rate endings and costs a little more in a rebound led by the largest names. At 20% and 15% the COVID recovery took 5.0 and 5.1 months against 4.5 for the standard book. The right setting depends on which ending a client fears most and what they will pay to be ready for it. That is a conversation, and this is the table to have it with.

### SO WHAT FOR ALLOCATORS

Stop asking when the bull ends. Ask which ending your portfolio is built for. Today's standard 60/40 carries half its risk in ten names that fell hardest in three of the last four endings, and a bond sleeve built for only one kind of ending. Both can be adjusted now, to a setting you choose, at a known and modest cost.

08 What this changes for a portfolio team

- Look through the index before the allocation. A 60% equity weight says nothing about where the risk sits.
- Set a concentration budget and hold it. A cap is a rule, not a forecast.
- Build the bond sleeve for two endings. Intermediate Treasuries for a credit ending, short Treasuries for a rate shock.
- Plan in scenarios, not dates. Replay the book through both endings and decide in advance what changes.

09 What we measured, and what we did not

Bull and bear markets follow the 20% rule on closing levels, applied mechanically. The chronology below uses a US equity price series that is monthly before June 2016 and daily after; monthly data understates the 2000 and 2008 falls, so every drawdown, recovery and replay in the body uses daily total returns.

Concentration counts each company once, by full market value, so a company with two share classes is counted a single time. A second data source gives 29.0% and 40.5%, against our 28.9% and 40.9%; the index provider's own figure weights by free float and counts share classes separately, so it reads lower. Risk shares come from two years of daily return covariance for 487 index companies, 99.3% of index value.

Inflation is headline CPI, not seasonally adjusted, as published. Policy-rate levels are the daily effective rate, the six-month change before each start uses monthly averages, and the 10-year yield is the daily constant-maturity yield.

The replay applies today's weights to the past, assumes the top-ten sleeve behaves as each era's leaders did, rebalances monthly and charges no trading costs. It is a test of structure, not a forecast.

10 Appendix: bull and bear markets since 1987

| BULL | START (TROUGH) | END (PEAK)     | YEARS | PRICE GAIN | PER YEAR |
|------|----------------|----------------|-------|------------|----------|
| 1    | December 1987  | September 2000 | 12.8  | 394.9%     | 13.4%    |
| 2    | March 2003     | October 2007   | 4.6   | 115.0%     | 18.2%    |
| 3    | March 2009     | February 2020  | 10.9  | 256.6%     | 12.4%    |
| 4    | March 2020     | January 2022   | 1.8   | 114.4%     | 53.4%    |
| 5    | October 2022   | Ongoing        | 4.0   | 118.6%     | 21.7%    |

Medians of bulls 1 to 4: 7.7 years and 185.8%. The bear markets between them, on the same monthly price series: 2000 to 2003, -33.1%; 2007 to 2009, -53.3%; 2020, -33.9%; 2022, -25.4%. On daily total returns the first two were deeper, -47.4% and -55.3%.

Prepared by Three Horizons Capital. This is research, not investment advice, and no security or fund is recommended. Figures are as at the dates stated and will move.

If this is useful

We build this kind of look-through and replay for portfolio teams who need to know which ending their book is built for, and at what setting. If that is the question in front of you, it is the work we do.