

When a rising tide lifts some boats more than others

Kelly Bogdanova – San Francisco

Not only has the U.S. equity rally been uneven in 2025, the segment of the market that has dominated during this bull market cycle has been narrow and concentrated mainly in the largest of large-cap stocks. Key charts illustrate what has occurred and why, and we provide guidance on how to factor this phenomenon into investment portfolio strategies in 2026.

Following a 38 percent surge from the April low through the all-time high in late October, the S&P 500 has been consolidating its gains, and leadership within the index has been rotating.

It's useful to step back from the market's recent movements and evaluate the unique contours that have sparked this year's rally and the longer bull market run that began in October 2022.

- The largest stocks—often referred to as “mega caps”—have outperformed significantly.
- Earnings growth for technology-related stocks has far outpaced the rest of the market.
- In fact, the second phenomenon has impacted the first.

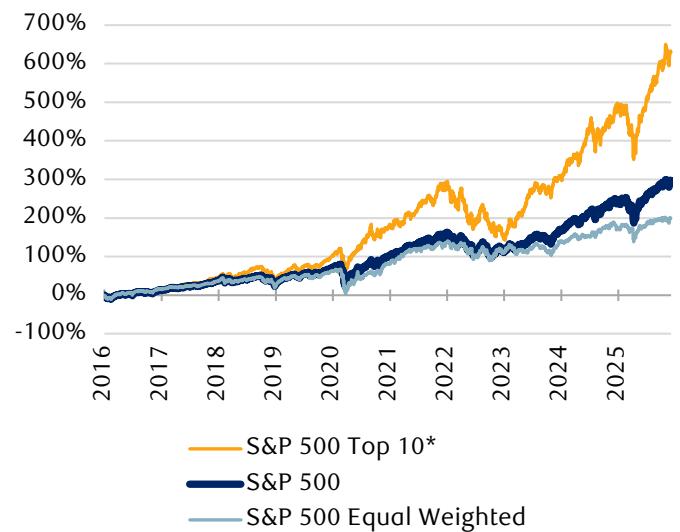
10 biggest stocks far in the lead

As the chart shows, in early 2023, soon after the bull market began, an interesting pattern reasserted itself. The performance gap widened notably between the 10 largest U.S. stocks and S&P 500 Index, along with its equal-weighted counterpart.

Except for the brief period during the tariff scare last April when the S&P 500 pulled back by almost 19 percent and the largest 10 stocks declined even more, the pattern of a

The largest stocks have dominated returns lately

Total return indexes in U.S. dollars (includes dividends)



* S&P 500 Top 10 Index represents the 10 largest companies within the S&P 500 weighted by float-adjusted market capitalization, rebalanced quarterly.

Source - RBC Wealth Management, Bloomberg, S&P Dow Jones Indexes; data through 12/2/25

For perspectives on the week from our regional analysts, please see [pages 3-4](#).

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Priced (in USD) as of 12/3/25 market close (unless otherwise stated). Produced: 12/4/25, 15:21 ET; Disseminated: 12/4/25, 15:45 ET

rising tide lifting the largest stocks more than others has defined this bull market cycle.

Since the bull run began on Oct. 12, 2022, on a total-return basis:

- S&P 500 Top 10 has surged 175 percent
- S&P 500 has rallied 100 percent
- S&P 500 Equal Weighted has risen 58 percent

It's about fundamentals, not just AI hype

The AI boom has contributed to the big rally in the biggest stocks.

Among the 10 stocks that currently represent the largest S&P 500 stocks by market capitalization—NVIDIA, Apple, Microsoft, Alphabet, Amazon.com, Broadcom, Meta Platforms, Tesla, Berkshire Hathaway, and JPMorgan Chase—the first eight are heavily involved with developing the emerging AI technology, and even the last two have AI exposure.

While the largest stocks within the S&P 500 Top 10 Index are rebalanced each quarter—the list can and often does change at least somewhat—AI-related stocks have dominated this group in the past two years.

During this period, these stocks have grown earnings much faster than the rest of the market and have generated free cash flow at a pace that's well above the "average" S&P 500 stock. In other words, their stock moves have not been driven solely by AI hype; there has also been meat on the bones in terms of company fundamentals.

The Information Technology sector's ability to outgrow earnings of the broader market is an illustration of meat on the bones.

Just as the bull market was starting to gain steam, Tech sector profit growth rapidly flipped from deeply negative territory in Q1 2023 to lofty levels, reaching almost 26 percent in Q1 2024 and hasn't really looked back since. In the past two years, the Tech sector's profits have risen much faster than the broader market quarter after quarter, as the chart in the upper righthand column shows.

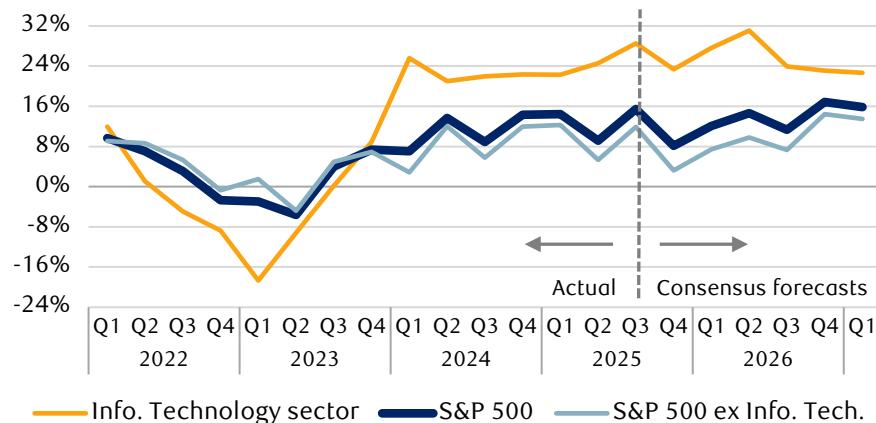
Adages exist for a reason

The old investment adage "past performance is not necessarily indicative of future results" applies in this case.

Just because the largest 10 stocks within the S&P 500 have outperformed significantly so far during this bull market cycle doesn't mean this pattern will automatically continue for the duration of the bull run.

Tech earnings growth expected to keep outpacing the rest of the market

S&P 500 actual net income growth and consensus forecasts



Source - RBC Wealth Management, Bloomberg; data as of 12/2/25

We think much will depend on whether earnings growth of technology-related stocks continues to exceed other areas of the market to a meaningful degree—and whether the prospects for this will extend beyond 2026. This is a high hurdle, but at least for now, the consensus forecast of industry analysts anticipates this will persist through at least Q1 2027.

Another factor that could influence the performance of the largest stocks versus the rest could be the AI development cycle itself.

Thus far, the phenomenon has been dominated by "AI 1.0," which has been mostly a capital-spending story to build infrastructure and train and run AI models. The bulk of stocks within the S&P 500 Top 10 Index have benefitted from this over the past two years.

We think the focus of the AI development cycle probably needs to start shifting to "AI 2.0," where signs of productivity and financial benefits start accruing to companies not just inside, but also outside of the technology industry. This could ultimately boost financials of certain industries and companies that aren't necessarily in the center of the AI radar right now.

Given the very strong run that the largest S&P 500 stocks have had, we think now is a good time to check portfolio allocations.

When single stock positions drift well above their normal bounds—as often happens following strong rallies—we think it's prudent to double check their fundamental prospects and valuations, and if warranted, bring them back closer into balance. This is one of the key investment recommendations in our recently published [2026 U.S. equity outlook](#).

For more information about RBC's thoughts for 2026 and multi-year themes, please see the articles posted [here](#).

UNITED STATES

Alan Robinson – Seattle

■ **U.S. stock indexes traded in narrow ranges during the week**, a welcome change for investors that had coped with November's dramatic daily swings. Seasonal factors came into play as traders squared up their books for the end of the year and waited for direction from the Dec. 10 Federal Reserve meeting.

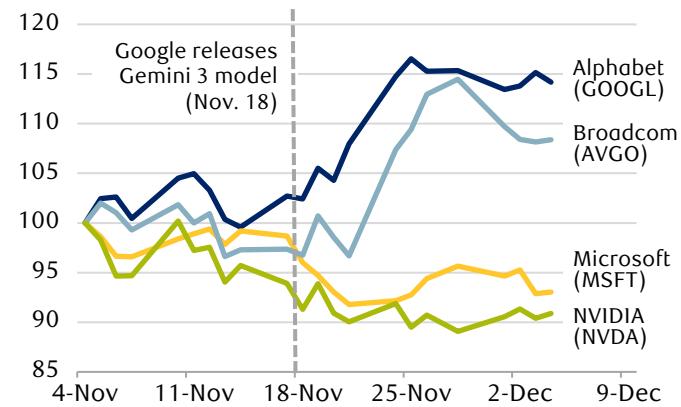
■ **The Fed's upcoming interest rate decision has been clouded by the scarcity of economic data releases** due to the 43-day government shutdown that ended Nov. 12. Economists have relied instead on private data surveys that have painted a mixed picture of the economy. Data released during the week centered on the employment picture, with a decline of 32,000 jobs reported in the ADP payrolls survey for November standing in contrast to a three-year low in initial claims for unemployment benefits reported by the Bureau of Labor Statistics. The mixed data suggests to us that labor conditions are relatively stable, but the path of least resistance for the Fed is likely to lead to a 25 basis point interest rate cut next week, with market-based estimates of the potential for a cut having risen to almost 90% ahead of the meeting from 25% in November.

■ **The prospect of interest cuts and excitement surrounding the AI theme have been the two main drivers of the rally in stocks over the past six months, in our opinion.** But we believe the AI narrative appears to be shifting from a "rising tide lifts all boats" theme to a "pick your winners" theme in tandem with the shift in investment cycles from "AI 1.0" to "AI 2.0" (see [page 1](#)).

■ **This shift was accentuated by the November release of Google's Gemini 3 AI platform** which uses cheaper Tensor Processing Unit chips. This prompted OpenAI

The AI horse race heats up

Relative performance of AI ecosystem stocks:
Team Google versus Team OpenAI



"Team Google" stocks include Alphabet & Broadcom; "Team OpenAI" stocks include Microsoft & NVIDIA.

Source - RBC Wealth Management, FactSet; daily closing data, normalized with 11/4/25=100 as of 10:00 a.m. EST 12/4/25.

CEO Sam Altman to declare a "Code Red" warning to his team during the week over the intensifying competition he expects. The market appears to be paying attention, as stocks exposed to the Gemini ecosystem are starting to significantly outperform those exposed to the OpenAI platform as investors position for a "winner takes most" AI landscape (see chart).

CANADA

Nguyen Dang, CFA – Toronto

■ **Prime Minister Mark Carney and Alberta Premier Danielle Smith have reached an agreement under which Ottawa will drop its planned emissions cap for the oil and gas sector and roll back selected clean-electricity rules.** In return, Alberta will strengthen its industrial carbon-pricing system and support a major carbon-capture initiative—touted as one of the largest globally—as part of efforts to advance long-term climate neutrality goals. The framework also opens the door to renewed consideration of a crude-oil pipeline to the British Columbia coast, a move that could expand access to Asian markets and reduce Canada's reliance on U.S. buyers at a time of heightened trade uncertainty. Ottawa additionally plans to back Alberta's efforts to develop nuclear power capabilities, modernize its electrical grid, and expand transmission lines. Overall, we think the agreement represents a notable recalibration of federal-provincial climate and energy policy, easing some regulatory pressures to encourage investment while emphasizing carbon pricing and capture technologies as the primary decarbonization tools. A key risk to monitor is potential opposition from British Columbia and Indigenous groups, which could introduce legal or permitting challenges that delay the anticipated gains in investment and export capacity.

■ **Canada's economy posted a stronger-than-expected rebound in Q3**, with real GDP rising at a 2.6% annualized pace following a revised 1.8% contraction in Q2. However, most of the upside came from a sharp drop in imports and a modest recovery in exports rather than broad-based domestic strength. Final domestic demand was essentially flat, reinforcing the view that the economy remains fragile amid U.S. tariff pressures, slower population growth, and trade policy uncertainty. Government spending, particularly on the military, and a pickup in residential construction provided pockets of support, but business investment was stagnant and consumer spending dipped following a surprisingly large increase in Q2. A flash estimate from Statistics Canada showing GDP declined by 0.3% in October suggests momentum softened in early Q4 despite expectations for a temporary rebound resulting from the end of strike-related distortions. Still, the positive Q3 figure means Canada has avoided a technical recession. Combined with the forthcoming jobs report—which is expected to show little change in employment,

according to Bloomberg consensus estimates—there is little reason, in our view, for the Bank of Canada to deviate from its well-telegraphed plan to keep interest rates on hold for the foreseeable future.

EUROPE

Frédérique Carrier – London

- **In the UK, the long-awaited November budget delivered a broadly neutral fiscal stance.** As befits a left-leaning government, Chancellor of the Exchequer Rachel Reeves announced **more generous child-welfare payments and energy subsidies**. More surprising to most observers was that **tax increases were mostly deferred until late in the government's term**—2028 and beyond. Amid dwindling business and consumer confidence, the government abandoned widely expected new taxes on wealth, inheritance, and capital gains, and significantly watered down a proposed levy on high-value housing.
- **This budget brings the UK more in line with global peers that have also opted for expansionary or neutral fiscal policy now, with tax increases deferred to a later stage for the government.** Moreover, with UK general elections due in 2028 or, at the latest, in 2029, another tax-raising budget appears unlikely in our view, particularly if support for other political parties such as Reform continues to grow. As a result, short-term economic growth prospects for the UK have improved somewhat.
- For investors, the macro backdrop has thus marginally improved. RBC Capital Markets notes that several UK-specific factors—such as strong wage growth and the pass-through of the 2024 rise in employers' National Insurance contributions—will keep inflation somewhat elevated. **In our opinion, however, the budget's extension of energy-bill subsidies, and the freeze on fuel duties and rail fares, should help partly offset price pressures.** This budget should give the Bank of England room to continue cutting interest rates. Together with a significant slowdown in Gilt issuance in 2026—the first on a calendar-year basis since 2021—this lays a foundation for Gilts to remain stable and potentially outperform.
- **As for equities, prospects for domestic cyclical stocks are also compelling, in our view.** Valuations remain low, and these stocks should benefit as economic growth edges higher, the labour market stabilises, and real incomes improve with easing inflation.

ASIA-PACIFIC

Nicholas Gwee, CFA – Singapore

- **Japanese Prime Minister Sanae Takaichi appears to be starting to walk back her recent comments about Taiwan.** In parliament on Wednesday, she said, "The fundamental position of the Japanese government

regarding Taiwan remains unchanged from that stated in the 1972 Japan-China joint communique." Since Takaichi's comments last month warning of potential Japanese military intervention if China were to use military force in Taiwan—comments that upended decades of formal agreements between the two countries—Japan and China have been embroiled in a diplomatic crisis and trade dispute. This has included China issuing a travel advisory which resulted in its citizens cancelling 491,000 airline tickets to Japan, and various other economic and diplomatic measures. While the prime minister's latest comment may suggest an attempt at de-escalation, she has yet to disavow her original comments. Should the diplomatic dispute between the two countries linger for a prolonged period, we think trade frictions will intensify, potentially exerting downward pressure on the Japanese economy.

- **The probability of a Bank of Japan (BoJ) rate hike this month has risen to 91% as of this writing from 58% last Friday.** Market expectations for a BoJ interest rate hike on Dec. 19 increased following comments from BoJ Governor Kazuo Ueda on Monday that the bank would consider whether to raise interest rates at its upcoming meeting, a phrase which has historically been followed by a rate hike. Reuters also reported that several senior government officials suggest the administration will tolerate the rate hike. The report helped to reverse recent yen weakness, bringing the USD/JPY rate to a five-day low. RBC Capital Markets expects the yen to strengthen against the dollar toward 130 by the end of next year.
- **Many market observers believe a Federal Reserve rate cut later this month would be timely for several Asian currencies.** A lower federal funds rate would likely reduce the pressure on the falling rupee and provide some reprieve for the faltering rupiah, won, and peso. On the other hand, the yuan has performed well against the U.S. dollar, although there are signs from the recent daily reference rate that the government is trying to slow the yuan's gain.

Yen gains as BoJ rate hike looks increasingly likely

USD/JPY daily price



Source - RBC Wealth Management, Bloomberg; data through 12/4/25

MARKET Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,849.72	0.0%	16.5%	13.2%	49.1%
Dow Industrials (DJIA)	47,882.90	0.3%	12.5%	7.1%	32.1%
Nasdaq	23,454.09	0.4%	21.5%	20.4%	64.0%
Russell 2000	2,512.14	0.5%	12.6%	4.0%	34.9%
S&P/TSX Comp	31,160.54	-0.7%	26.0%	21.6%	52.4%
FTSE All-Share	5,223.52	-0.3%	16.9%	14.5%	27.6%
STOXX Europe 600	576.22	0.0%	13.5%	11.8%	23.6%
EURO STOXX 50	5,694.56	0.5%	16.3%	16.7%	28.9%
Hang Seng	25,760.73	-0.4%	28.4%	30.5%	53.1%
Shanghai Comp	3,878.00	-0.3%	15.7%	14.8%	27.9%
Nikkei 225	49,864.68	-0.8%	25.0%	27.0%	49.2%
India Sensex	85,106.81	-0.7%	8.9%	5.3%	26.1%
Singapore Straits Times	4,554.52	0.7%	20.2%	20.3%	47.4%
Brazil Ibovespa	161,755.18	1.7%	34.5%	28.2%	26.2%
Mexican Bolsa IPC	63,648.76	0.1%	28.5%	25.2%	18.1%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.059%	4.6	-51.0	-16.5	-13.6
Canada 10-Yr	3.222%	7.4	-0.3	10.3	-19.8
UK 10-Yr	4.447%	0.7	-12.1	20.4	30.7
Germany 10-Yr	2.747%	5.8	38.0	69.3	38.5
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.31%	-0.3%	7.2%	5.6%	11.7%
U.S. Investment-Grade Corp	4.81%	-0.3%	7.6%	5.6%	13.7%
U.S. High-Yield Corp	6.63%	-0.1%	7.9%	7.3%	20.8%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	4,208.33	-0.7%	60.3%	59.2%	103.1%
Silver (spot \$/oz)	58.54	3.6%	102.5%	88.6%	129.7%
Copper (\$/metric ton)	11,214.18	-0.2%	29.6%	24.5%	31.3%
Oil (WTI spot \$/bbl)	59.12	1.0%	-17.6%	-15.5%	-20.2%
Oil (Brent spot \$/bbl)	62.82	-0.6%	-15.8%	-14.7%	-20.4%
Natural Gas (\$/mmBtu)	5.01	3.3%	37.9%	64.7%	78.0%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	98.9040	-0.6%	-8.8%	-7.0%	-4.2%
CAD/USD	0.7168	0.2%	3.1%	0.8%	-3.3%
USD/CAD	1.3951	-0.2%	-3.0%	-0.8%	3.4%
EUR/USD	1.1668	0.6%	12.7%	11.0%	7.2%
GBP/USD	1.3353	0.9%	6.7%	5.4%	5.1%
AUD/USD	0.6602	0.8%	6.7%	1.8%	-1.1%
USD/JPY	155.2700	-0.6%	-1.2%	3.8%	5.8%
EUR/JPY	181.1700	0.0%	11.3%	15.2%	13.4%
EUR/GBP	0.8738	-0.3%	5.6%	5.4%	2.0%
EUR/CHF	0.9332	0.1%	-0.7%	0.2%	-1.3%
USD/SGD	1.2941	-0.2%	-5.2%	-3.8%	-3.0%
USD/CNY	7.0640	-0.1%	-3.2%	-3.1%	-0.9%
USD/MXN	18.2851	-0.1%	-12.2%	-10.0%	6.4%
USD/BRL	5.3109	-0.5%	-14.0%	-12.2%	8.8%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.71 means 1 Canadian dollar will buy 0.71 U.S. dollar. CAD/USD 3.1% return means the Canadian dollar has risen 3.1% vs. the U.S. dollar year to date. USD/JPY 155.27 means 1 U.S. dollar will buy 155.27 yen. USD/JPY -1.2% return means the U.S. dollar has fallen 1.2% vs. the yen year to date.

Source - Bloomberg; data as of 12/3/25

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	Count	Percent
Buy [Outperform]	862	59.24
Hold [Sector Perform]	552	37.94
Sell [Underperform]	41	2.82
	277	32.13
	140	25.36
	5	12.20

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