Morningstar Market Indexes: Comprehensive, Accurate Representation. Investable Design.

Morningstar
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Introduction

The purpose of an index is not simply to represent the market. It is to provide a realistic foundation for investment decisions, portfolio construction, and performance evaluation. Achieving that objective requires balancing accurate market representation with practical investability.

The Morningstar Market Indexes are designed to provide a comprehensive and accurate view of the entire universe of investable US equities across size, style, and sector segments. The methodology is built to reflect how professional managers actually invest while supporting investability at scale through design choices that help reduce unnecessary turnover and transaction costs.

Key Takeaways

- **Designed for Practical Implementation:** Built to reflect how professional managers actually invest, the Morningstar Market Indexes combine academic rigor with the demands of managing capital at scale, bridging the gap between theory and practice.
- **Defining the Total Market:** The parent index for this series, the Morningstar US Total Market Index, is designed to represent 100% of the investable US equity market and provides the foundation for more targeted size, style, and sector indexes.
- **Reflecting Dynamic Markets:** Transparent, rules-based methodology and maintenance protocols like quarterly reconstitution and rebalancing, same-day corporate action treatment, and fast-track IPO inclusion ensure the indexes adapt to accurately represent the market as it evolves.
- **Flexible Size Segmentation Framework:** The indexes expand and contract with the market, using market cap percentages rather than fixed constituent counts. This produces more meaningful comparison across time, even as the composition and concentration of the market evolves.
- **Holistic Measurement of Style:** A multifactor approach provides a more robust estimate of a company's underlying value or growth profile, reflecting both academic thinking and real-world investment practice.
- **Managing Turnover and Reducing Market Impact:** Transitional reconstitution, banding and packeting help ensure the indexes reflect meaningful shifts in economic reality while reducing trading costs and market impact.

Designed for Practical Implementation

The Morningstar Market Indexes combine academic rigor with the demands of managing capital at scale, bridging the gap between theory and practice. Originally developed through a collaboration between Vanguard and the University of Chicago's Center for Research in Security Prices, the methodology now underpins some of the industry's largest index funds and exchange-traded funds.

Unlike many benchmarks that were originally designed as market barometers and only later adopted for investment products, the Morningstar Market Indexes were designed with passive implementation in mind from the outset. The methodology balances broad market representation with the realities of portfolio management.

Morningstar's guiding philosophy is that an index should measure the market investors can actually own, not merely describe the market in theory. Each element of the methodology reflects a deliberate effort to align **what is measured** with **what can be owned**. The result is a benchmark that accurately reflects the experience of investors while supporting cost-efficient replication.

The scale of assets linked to the Morningstar Market Indexes, now exceeding $3 trillion, demonstrates that broad market representation and tracking efficiency are not competing objectives. The methodology has proved capable of underpinning investment products operating at some of the largest asset levels in the industry.

Exhibit 1 Creating the Morningstar Market Indexes

Capture entire US investable market

- Cumulative Capitalization is used instead of arbitrary counts to capture entire market
- Quarterly Reconstitution to reflect latest market
- IPOs included in 5 days to capture latest opportunities

Size segmentation

- Market coverage target is used instead of arbitrary counts to capture size segment consistently through market changes

Style segmentation

- Multiple factors are used to reflect real-world complexity of value and growth managers' decisions
- Value and growth are treated as independent, reflecting the way real decisions are made in the market, instead of ad hoc definitions

Manage transaction costs

- Banding and Packeting are used to mitigate turnover and transaction costs
- 5-day transitional reconstitution to mitigate market impact cost of trading

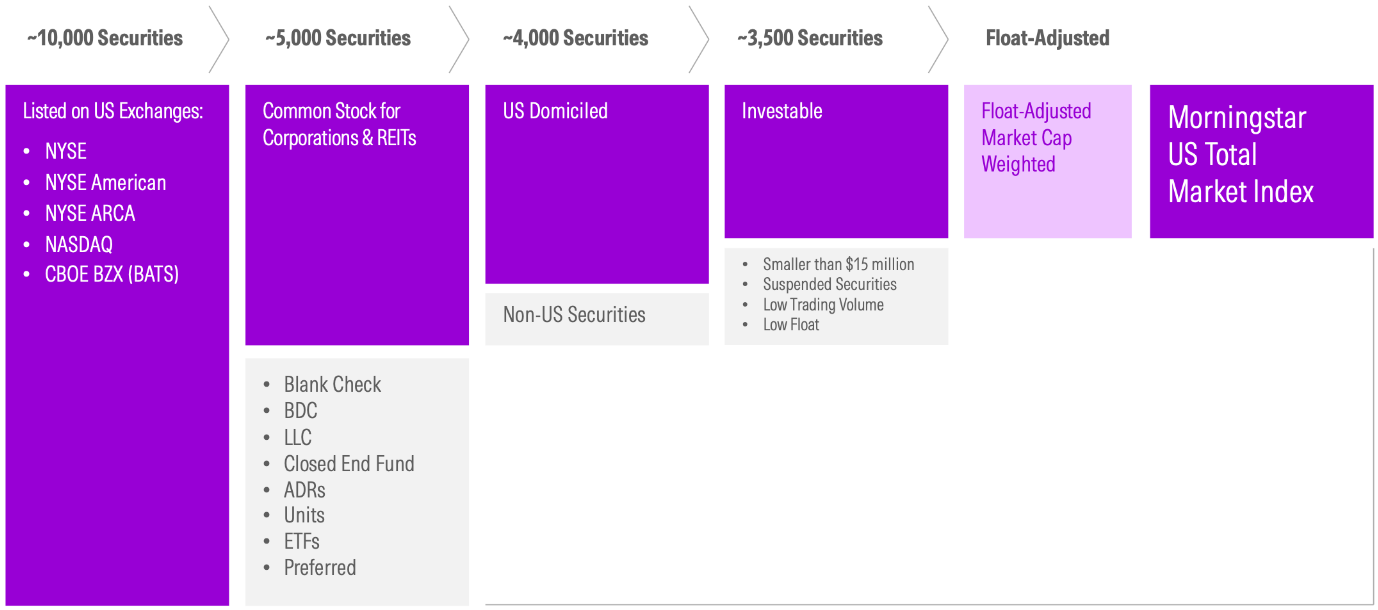
Morningstar Market Indexes

Source: Morningstar. For additional information, please refer to the Morningstar Market Indexes Methodology Guide.

Defining the Total Market

The Morningstar US Total Market Index serves as the parent index for the Morningstar Market Indexes. It is designed to represent 100% of the investable US equity market and provide the foundation for more targeted size, style, and sector indexes.

Exhibit 2 Creating the Morningstar US Total Market Index



Note: Chart shown for illustrative purposes only. For the full list of exclusions and precise criteria, refer to the Morningstar Market Indexes Methodology Guide.

The construction process begins by identifying the eligible universe of US equities. Securities are screened by listing exchange, company type, share type, and domicile. These filters focus the index on US-domiciled common stocks and REITs—the opportunity set most relevant to US equity investors—while also supporting tax-efficient implementation for managers.

Investability and Liquidity Screens

Securities from the eligible universe are evaluated against investability and liquidity criteria. This step is essential because the index is intended to represent securities that investors can reasonably buy and sell. Illiquid securities may be part of the broader market, but they are often difficult to own efficiently, can introduce high transaction costs, and may have prices that do not fully reflect underlying value because of limited trading activity.

Excluding securities that fail these screens helps the index more accurately and cost-effectively reflect the performance of the investable US equity market.

Comprehensive Market Representation

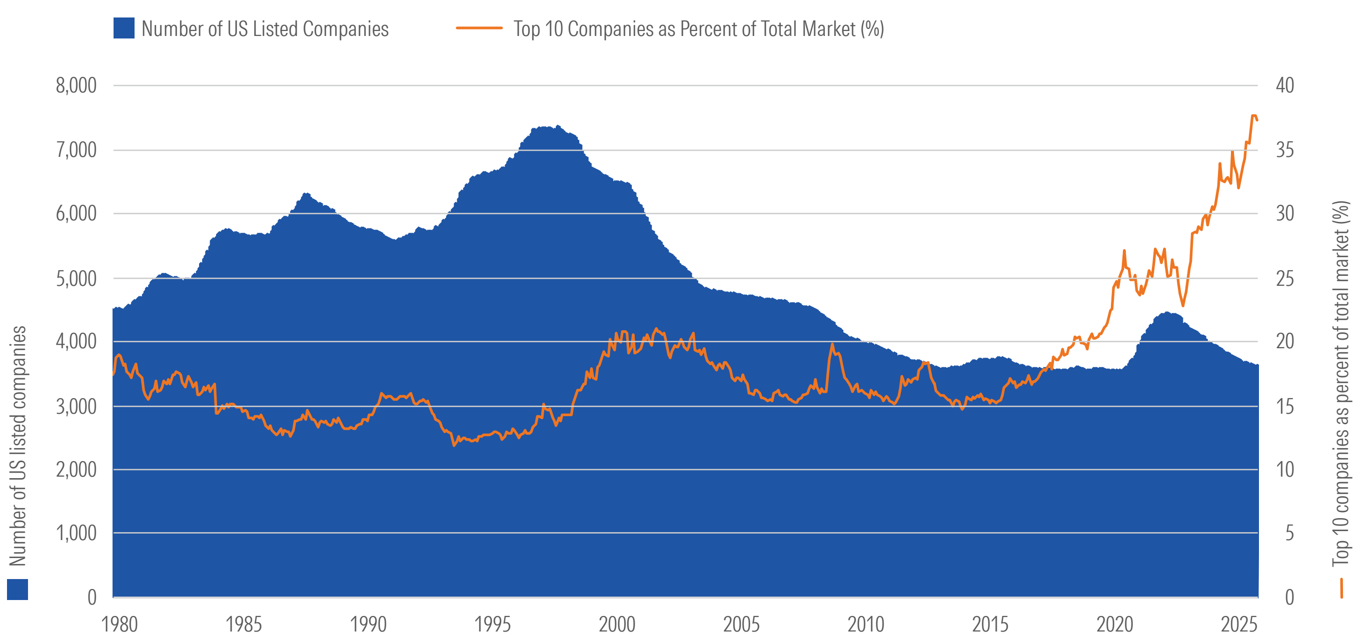
The methodology does not rely on arbitrary constituent counts or committee deliberations that could exclude otherwise eligible securities from the Morningstar US Total Market Index. Instead, eligible securities span the full market-cap spectrum, including companies with market caps as small as approximately $15 million.

This broad approach is critical to the index's objective: to accurately and cost-effectively reflect the entire investable US equity market, not to select winners or avoid losers. A relatively small subset of companies has historically driven most of the market's long-term wealth creation. Because those companies are difficult to identify in advance, a comprehensive market index benefits from broad inclusion rather than subjective exclusion. Maintaining exposure across the entire investable opportunity set helps ensure the index continues to represent the evolving US equity market.

Reflecting Dynamic Markets

Representing the market requires a methodology that can adapt as the market evolves. Private companies list on exchanges to access capital. Existing public companies may spin off businesses to unlock value or better align managerial incentives. Other companies leave the market through bankruptcy, mergers, or acquisitions. Companies also issue new shares, repurchase stock, and undergo a wide range of corporate actions.

Exhibit 3 Markets Are Dynamic: Number of US-Listed Companies and Market Concentration Always Change



Source: CRSP RDP data from Morningstar. Data as of Dec. 31, 2025. US-listed companies are equity securities excluding ADRs, REITs, and Units in the CRSP US Stock Database. Counts are company-level and exclude companies without market capitalization on the measurement date. Percentages equal the market cap of companies ranked from 1 to 10 divided by the total universe market cap, calculated from companies with available daily data.

The Morningstar Market Indexes are designed to capture these changes through a transparent and rules-based process:

- **Quarterly reconstitution and rebalancing** (resetting membership and weightings) to incorporate changes in companies and market structure on a regular schedule.
- **Same-day corporate action treatment** to reflect events such as delistings, mergers, and acquisitions in a timely manner.
- **Fast-track IPO inclusion** captures small-cap and larger US companies within five days of listing, allowing the index to reflect new opportunities without introducing unmanageable transaction costs.

For benchmarking use cases, these rules assure the index is a **current reflection of the market**. For index replicators, they maintain alignment in a gradual and manageable way, limiting disruption and helping contain trading costs.

Weighting

Once the universe is established, index constituents are weighted by float-adjusted market cap, which reflects the relative value of each company available to public investors. Shares held by insiders or subject to restrictions are excluded from the calculation because they are not part of the investable public float.

This seemingly technical adjustment has important implications. Total market cap reflects a company's overall size, while float-adjusted market cap reflects **ownership opportunity**—how much of that company public investors can realistically own.

As a benchmark, float adjustment produces a more accurate market measure by aligning index weightings with the capital investors can realistically deploy. As the basis for index funds, it makes portfolios more implementable by avoiding exposure to shares that are not available, reducing trading friction.

Size Segmentation

Once the Morningstar US Total Market Index is defined, the methodology divides the market into size segments to provide a clear view of capitalization trends and the relative performance of large-, mid-, small-, and micro-cap companies.

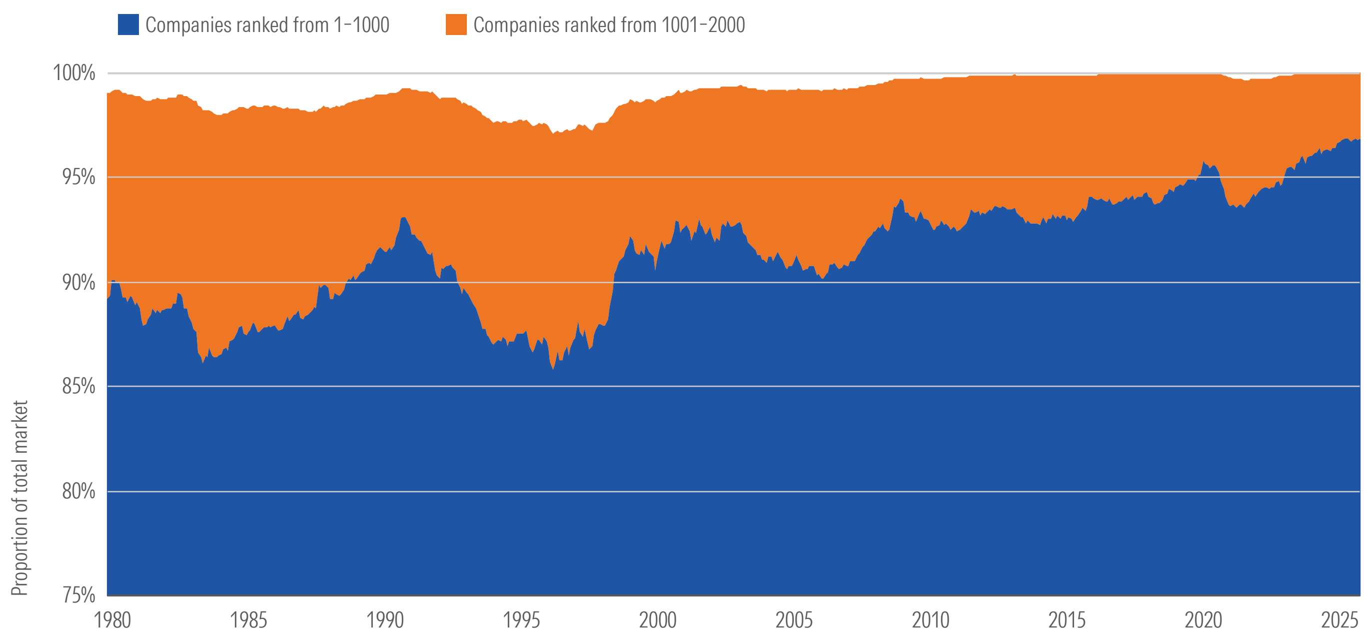
Because stock size has historically been associated with differences in risk, return, and market behavior, segmenting the Morningstar US Total Market Index by market cap gives investors a useful framework for understanding current market dynamics and informing allocation decisions.

Market Coverage Targets

The size indexes are built using market coverage targets rather than predetermined constituent counts. This flexible design allows the indexes to expand and contract with the market, allowing each segment to maintain consistent and accurate representation as the number of listed securities and the level of market concentration change over time.

This differs from many widely used size benchmarks that define market segments using a fixed number of securities. As market concentration and the number of public companies fluctuate, fixed-count approaches can represent materially different portions of the market, as illustrated in Exhibit 4. Morningstar's cumulative-cap segmentation framework maintains **consistency**, ensuring that each segment represents a stable portion of the overall market regardless of how many companies are listed or how concentrated the market becomes. This produces more meaningful comparisons across time, even as the composition and concentration of the US equity market evolves.

Exhibit 4 A Fixed-Count Index Would Represent a Different Proportion of the Market Because of the Changes in Number of Listed Securities and Market Concentration

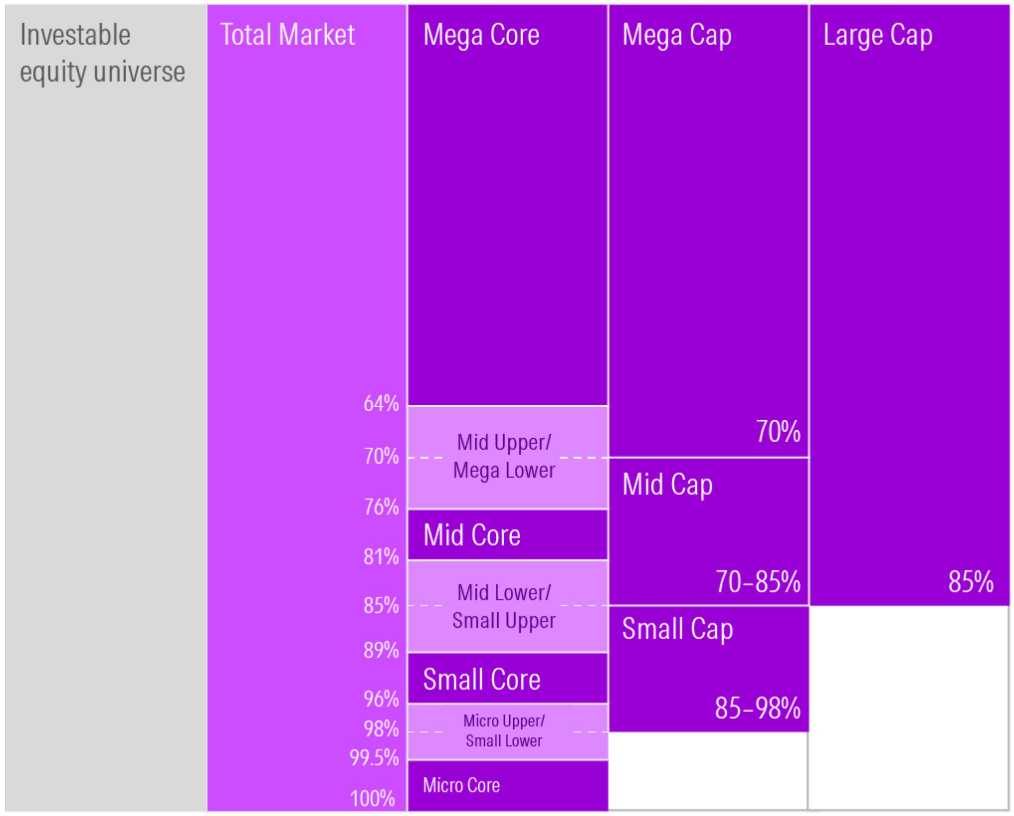


Source: CRSP RDP data from Morningstar. Data as of Dec. 31, 2025. US-listed companies are equity securities excluding ADRs, REITs, and Units in the CRSP US Stock Database. Analysis excludes companies without market capitalization on the measurement date. Percentages equal the market cap of companies ranked from 1 to 1000 or 1001 to 2000 divided by the total universe market cap, calculated from companies with available daily data.

Quarterly Review

Each quarter, the entire US equity market is reevaluated. The methodology assigns a capitalization value corresponding to each breakpoint size target, reflecting the latest market composition and concentration. Those breakpoints determine how many companies fall into each size segment.
The number of constituents in each segment may change from one reconstitution to the next, but the market-coverage target remains constant. This keeps the size indexes aligned with the same portion of the market over time, even as the market itself grows, contracts, or becomes more concentrated.

Exhibit 5 Market Cap Definition



View the latest values here: Morningstar Market Indexes Breakpoints Chart.

Style Segmentation

Like size segmentation, style segmentation provides a framework for identifying value- and growth-oriented stocks and for evaluating managers that follow these investment styles.

Recognizing Value and Growth as Separate Dimensions

Long before academics formalized the concepts, investors distinguished between “value” and “growth” approaches. Value managers typically seek companies that appear underpriced relative to fundamental measures such as book value, earnings, or cash flow. Growth managers, by contrast, focus on companies expected to grow more quickly in sales, earnings, or other business metrics.

Many benchmarks have treated value and growth as opposite ends of a single spectrum. Morningstar’s approach recognizes that they are better understood as **separate dimensions**. In practice, value and growth managers make independent investment decisions, and a company can exhibit characteristics of both. As a result, the Morningstar Market Indexes do not force equal allocation of capitalization between Value and Growth. Instead, they rely on multiple factors to drive the assignment.

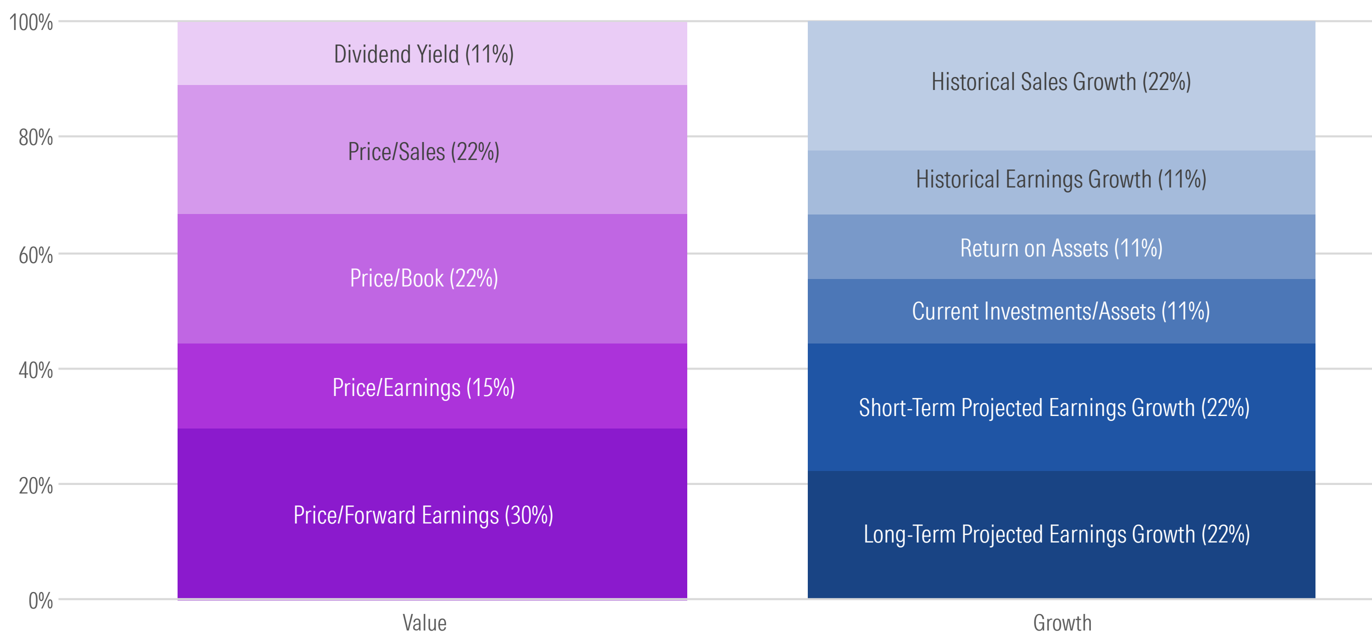
By treating value and growth as independent characteristics rather than forcing securities into mutually exclusive categories, the Morningstar Market Indexes thoughtfully reflect how professional investors evaluate opportunities and construct portfolios.

Holistic Measurement of Style

Morningstar defines value and growth using multiple factors for each security, reflecting both current academic thinking and real-world manager behavior. Managers rarely rely on a single metric; instead, they evaluate several data points together when forming investment views.

A multifactor approach provides a more robust estimate of a company's underlying value or growth profile.

Exhibit 6 Factors Used to Determine Style



Note: Factor weightings assume sufficient data to calculate all factors; when data is missing, weightings are adjusted according to the Morningstar Market Indexes Methodology Guide.

Evaluating Style Within the Relevant Opportunity Set

The Morningstar Market Indexes assess a stock's style relative to its parent index. Evaluating securities within the appropriate opportunity set makes the resulting style classification more relevant for performance benchmarking and aligns more closely with how capital is allocated in practice.

Managing Market Change

Markets are constantly changing, and the Morningstar Market Indexes are reconstituted and rebalanced quarterly to reflect that evolution. At each reconstitution, the entire US equity market is reviewed. Company-level data—including shares outstanding, float, incorporation, and headquarters—is updated to ensure that the indexes continue to include eligible US companies and accurately reflect the investable market.

Size and style assignments are also reassessed at each quarterly reconstitution so that each company's classification reflects current market conditions. Changes in shares, float, size, or style can trigger index adjustments. These adjustments create turnover, which is sometimes necessary for accuracy but can also increase transaction costs for index funds.

Managing Turnover

Index design must strike a balance between keeping the benchmark current and minimizing unnecessary turnover. This challenge mirrors the decisions faced by investors and portfolio managers. Buy and sell decisions are rarely driven by a single factor; rather, they reflect multiple considerations: conviction, implementation costs, liquidity, and portfolio objectives. Index methodology should apply the same practical lens when determining when constituent changes are warranted.

The Morningstar Market Indexes address this through a combination of **banding** and **packeting**:

- **Banding** introduces buffers around size and style breakpoints to prevent small or temporary shifts from automatically triggering reclassification.
- **Packeting** smooths transitions by moving only 50% of a company's float-adjusted market cap at a time.

Together, these tools help ensure that index changes reflect **meaningful shifts in economic reality**, not short-term market noise. They also improve representation near size and style breakpoints, where classifications are often less clear-cut. A security near a breakpoint may reasonably be viewed as small cap by one manager and mid-cap by another. By using bands and splitting companies near breakpoints between adjacent categories, the methodology better reflects this market complexity.

Reducing Market Impact

When index changes are required, the Morningstar Market Indexes use transitional reconstitution to implement those changes over five trading days. This phased approach, paired with banding and packeting, helps reduce trading costs and market impact. The result is a more accurate benchmark that reflects real investors' constraints and can be replicated efficiently.

Lower turnover is not simply an operational benefit. Reduced trading activity can minimize transaction costs and improve tax efficiency, helping investors retain more of the returns generated by the market. For index strategies measured in basis points, these implementation advantages can compound meaningfully over time.

Flexible, Investable, Thoughtful

The Morningstar Market Indexes are built around a simple but powerful idea: Investors need benchmarks that not only provide accurate market representation but that can also be implemented efficiently in real portfolios. From delivering the most comprehensive, accurate view of the entire investable US equity market and its size and style segments to turnover-aware design, every element of the methodology is intended to support investability without compromising representation.

The result is a benchmark family that is **flexible** enough to evolve with changing markets, **investable** at institutional scale, and **thoughtful** in its application of transparent, research-driven best practices. Together, these principles help ensure the indexes reflect the market as investors can actually own it, not merely as it exists in theory.

About Morningstar Indexes

Morningstar Indexes was built to meet the evolving needs of investors—and to be a leading-edge advocate for them. Our rich heritage as a transparent, investor-focused leader in data and research uniquely equips us to support individuals, institutions, wealth managers and advisors in navigating investment opportunities across major asset classes, styles and strategies. In February 2026, the acquisition of CRSP brought the CRSP Market Indexes—benchmarks for over $3 trillion in AUM—into the Morningstar Indexes family. Rebranded to the Morningstar Market Indexes in July 2026, these indexes are recognized globally for their high-quality methodology and focus on investability. Additionally, CRSP's Research Data Products, renowned for their academic rigor, historical depth and accuracy, will further enhance Morningstar's equity research and data capabilities. This integration unites two trusted sources of market insight, reinforcing a shared commitment to transparency, quality, and investor-focused solutions.

Please visit indexes.morningstar.com for more information.

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