

MARKETS INSIGHTS /

Valentin Bissat, *Senior Economist / Strategist*

LOOKING BEYOND THE FAANG

For the past few weeks, we have been hearing the same story: The US stock market rebound is entirely due to the FAANG, namely Facebook, Amazon, Apple, Netflix and Google (Alphabet).

It is a widely known and commented fact that these technology giants represent a growing share of the total US equity market capitalization. This year, reports have shown that the FAANG + Microsoft represent more than 20% of the total market capitalisation of the S&P 500, above the total market capitalisation of each country except the U.S. and Japan. Since 2009, the net performance of the MSCI USA index reached 140% against more than 700% for the big-six tech companies. Above all, the same stocks have contributed more than 22% to the rebound since the market trough on March 23, 2020.

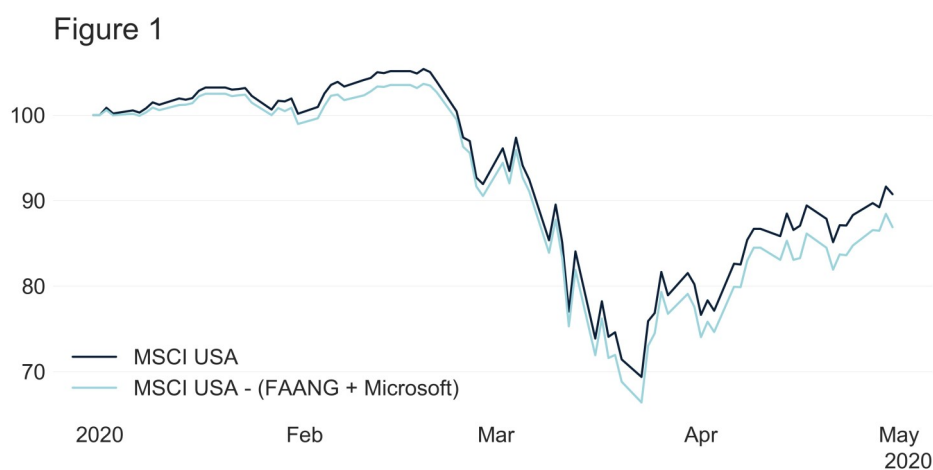
While the numbers don't lie, they don't tell the whole story either. If you calculate a stocks' contribution to its index when some stocks of the same index perform negatively (strongly)—think of the energy and financial sectors down respectively 40% and 30% year-to-date—the total contribution of all rising stocks does not add up to 100, but to much more. Hence, such a contribution, though impressive, does not mean that value creation is limited to these companies. Concluding that the rise in equity markets is only explained by the performance of the technology giants is there-





fore a bit of a stretch.

Removing the FAANG + Microsoft stocks from the index (Figure 1) shows that the year-to-date performance differential is less than 4 percentage points and that the index still experienced a comfortable rebound of more than 30% since March 23. We think that the technology sector is likely to emerge as one of the main winners from the crisis and we continue to be heavily exposed to it in our allocation. However, we believe there are also a lot of opportunities outside of the big technology companies that active managers will be able to seize in the current environment.



Sources: FactSet, Mirabaud Asset Management

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