

HOW SIX U.S. MEGA-CAP TECH STOCKS BUOY MARKETS

By Matt Schmitt, CFA[®]

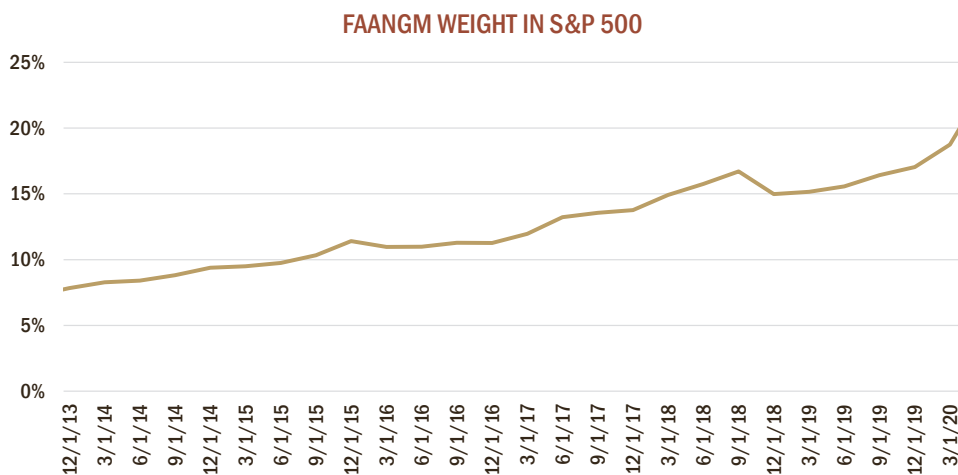
Many people have heard reference to the “FANG” stocks leading the U.S. equity markets, but it’s truly hard to appreciate the supernatural gravity this group of tech industry behemoths exert on the market exchanges.

FANG was an acronym that originally referred to Facebook, Apple, Netflix and Google and the leadership that these four stocks had provided to market indexes.

At Commerce Trust, we expanded the group to six companies, adding Amazon and Microsoft for an even longer acronym, FAANGM. The collective weight of this powerhouse group of six stocks has risen from 7% of the S&P 500 market capitalization in 2013 to 17% in 2019. As of April 30th, these six stocks account for more than 20% of the S&P index value. As you can see from these numbers, the FAANGM group increased its dominant position further during the first four months of 2020 as the world battles through the current pandemic. A fiction writer would have been hard-pressed to pen a scenario that would have so easily crippled the global economy while further enhancing the leadership position of these six companies.

Additionally, these six companies represent market capitalization of over \$4 trillion and are now bigger than all but two world markets: United States, excluding these six companies, and Japan. This means the combined market capitalization of Facebook, Apple, Amazon, Netflix, Google and Microsoft is greater than that of the respective individual market capitalizations of China, United Kingdom, France, Canada or Germany, as a few examples.

During the first four months of 2020 the performance of this FAANGM basket was a return of 5.5%, which compares very favorably to a return of -9.3% for the S&P 500 during this same time period. Interestingly, the S&P 500 return without these six stocks would have been an even worse -12.4%. This is not a new phenomenon as this FAANGM basket has outperformed the broader S&P 500 market return by 15.8% per year for the past five years ending April 30, 2020. You can see the details of this in the included charts.



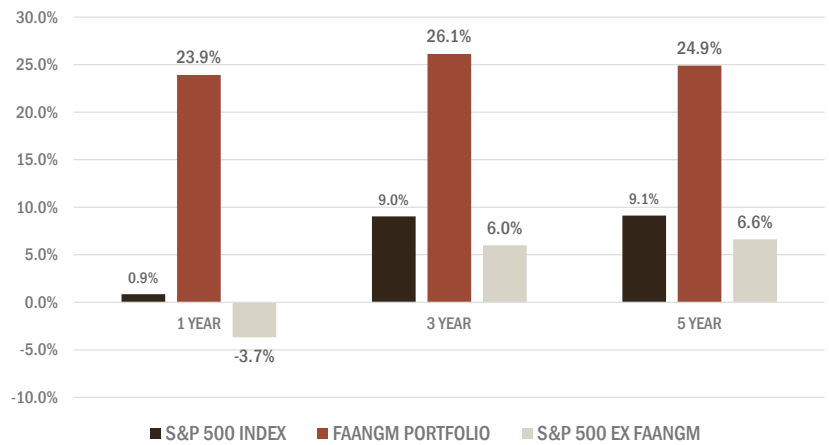
Factset, S&P Global, FTSE Russell Data, Commerce Trust Company Quantitative Research.

WEIGHTING OF THESE SIX COMPANIES HAS GROWN SUBSTANTIALLY OVER THE PAST SEVEN YEARS, GROWING FROM 7.8% OF THE S&P 500 TO NOW REPRESENTING 20.3%. THIS IS UP FROM 17.0% AT THE END OF 2019.

Can FAANGM continue its seeming immunity to the coronavirus pandemic? To be sure these companies are uniquely positioned with the digital infrastructure to help the world cope with “shelter in place” restrictions. Many also have strong cash reserves to buy back their own stock. To add some extra context, Jeff Bezos, founder and CEO at Amazon, is on track to become the world’s first trillionaire by the time he is 62, despite the pandemic.

The obvious question is, “What do I do with this information,” and we would tell you, “Nothing.” It is simply important to be aware of the make-up of the broader market. Moreover, one key to understanding the market is to be aware of the impact any one stock or a broader group of stocks can have on market returns. Finally, it is vital to focus on the long-term goals and objectives of your overall portfolio. Commerce Trust has routinely maintained some exposure to many of these large companies in equity portfolios, so it is likely your portfolio has benefited from their strong performance.

ANNUALIZED RETURN, ENDING ON 4/30/2020



Factset, S&P Global, FTSE Russell Data, Commerce Trust Company Quantitative Research.

IMPACT OF THESE 6 COMPANIES ON BENCHMARK RETURNS HAS BEEN MEANINGFUL. ADDING 4.6% ON A 1 YEAR BASIS, 3.0% PER YEAR OVER THE PAST 3 YEARS, AND 2.5% PER YEAR OVER THE PAST 5 YEARS.

IN THE FIRST 4 MONTHS OF 2020, THESE 6 COMPANIES RETURNED 5.5% WHILE THE S&P 500 DECLINED BY -9.3%.

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Matt is the director of equity strategy as well as a portfolio manager for Commerce Trust Company. In addition to his other responsibilities, Matt chairs the equity strategy team, is a member of the investment policy team, and serves as co-manager for the Commerce value, growth, and mid-cap growth strategies. Prior to joining Commerce in 2002, Matt worked as a portfolio manager, an investment specialist, and a financial analyst. Matt received a bachelor of science degree in business administration and business management with an emphasis in finance from Drake University. Matt holds the Chartered Financial Analyst® designation and is a member of both the CFA Society of Kansas City and the CFA Institute.



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