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# FANG’s Big Bite on U.S. Equity Returns

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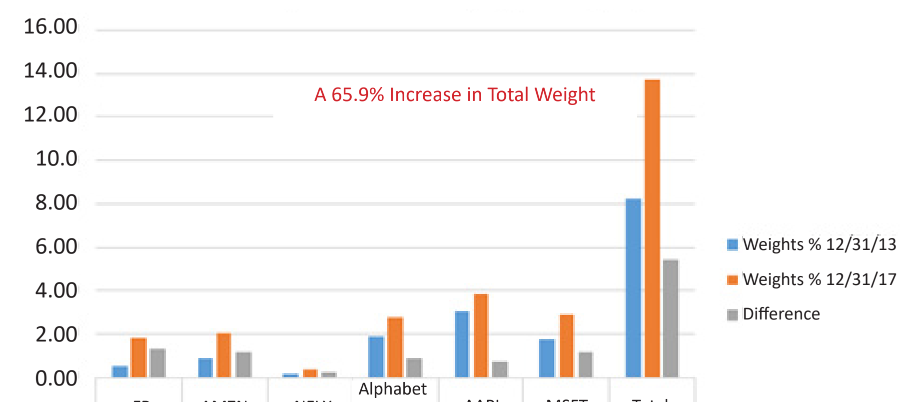
Those following the domestic equity markets in recent years have undoubtedly heard the term “FANG” stocks on multiple occasions. This acronym represents four technology-oriented stocks that have dominated market returns over this most recent market expansion: Facebook, Amazon, Netflix, and Google. Recently, FANG has been expanded to FANGAM which also includes Apple and Microsoft. While not quite as catchy as FANG, for purposes of the subsequent discussion, we will use FANGAM to illustrate the significant impact these stocks have had on the returns of the U.S. equity market over the last four years.

In order to better understand the impact of these specific holdings, some background information on how market indexes are constructed is necessary. The vast majority of commonly used stock indexes are weighted according to the underlying constituents’ market capitalization – meaning the larger the total market value of the company, the greater its weight in the index. Thus, a company like Apple, with a market capitalization approaching $900 billion, represents the largest stake in most large cap, U.S.-focused equity indexes, such as the S&P 500 (as of 12/31/17, it was the index’s largest holding). A company’s market capitalization is calculated by multiplying the number of shares outstanding with the company’s share price. If the company’s share price increases faster than the index overall, so does its weight in the Index. Let’s look at this in the context of FANGAM stocks in the S&P 500 Index, a commonly used gauge for the broad performance of U.S. equity markets.

FANGAM: Weight Increase 12/31/13 - 12/31/17




| | FB | AMZN | NFLX | Alphabet (A&C Shares) | AAPL | MSFT | Total |
|---|---|---|---|---|---|---|---|
| Weights % 12/31/13 | 0.55 | 0.90 | 0.13 | 1.91 | 3.06 | 1.72 | 8.26 |
| Weights % 12/31/17 | 1.84 | 2.05 | 0.36 | 2.75 | 3.81 | 2.89 | 13.71 |
| Difference | 1.30 | 1.15 | 0.23 | 0.84 | 0.75 | 1.17 | 5.44 |

Source: Morningstar Direct

Each of the FANGAM stocks' weight has exhibited a sharp upward trajectory over the last four years, driven largely by their strong returns. (Data goes back to December 2013, Facebook's entry into the index.) Over this short time period, the total weight of these stocks has risen from 8.3% of the index to 13.7%, a nearly 66% increase. Despite accounting for slightly less 14% of the benchmark, approximately 26% of the index's returns have been attributable to these six stocks. Results were particularly glaring during the narrow market of 2015, when the S&P 500 returned 1.4%, with the FANGAM names contributing 2.4%. In other words, this small group of stocks made the difference between a 1.4% market gain versus a 1.0% market loss. More recently, the U.S. equity market concluded 2017 at near record highs, with the S&P 500 delivering its highest returns since 2013. Again, returns were driven largely by the robust results of the FANGAM names, which contributed 5.2% of the 21.8% return of the Index, accounting for 24% of the gains.

### FANGAM Performance (December 2013 – December 2017)

| Name | Weights % 12/31/17 | Return % (Annualized) | Contribution to Return % |
|---|---:|---:|---:|
| Facebook Inc A | 1.84 | 34.05 | 0.43 |
| Amazon.com Inc | 2.05 | 30.86 | 0.50 |
| Netflix Inc | 0.36 | 38.22 | 0.10 |
| Alphabet Inc A | 1.38 | 16.89 | 0.22 |
| Alphabet Inc C | 1.38 | 20.65 | 0.25 |
| Apple Inc | 3.81 | 22.85 | 0.88 |
| Microsoft Corp | 2.89 | 26.17 | 0.68 |
| | | | |
| **Total Weight** | 13.72 | | |
| | | FANGAM Total Contribution | 3.05 |
| | | SP500 Total Return | 11.95 |
| | | | |
| | | **% of Total Return** | **26%** |

Source: Morningstar Direct

FANGAM's impressive stock returns have been driven by a number of different factors. Positive fundamentals, scarcity of growth in the economy, and increasing market sentiment are among the reasons that these names have shown such strength. While these drivers may appear obvious in hindsight, the decision to own these stocks has varied across active investment managers. An overweight or underweight position in any one of these stocks likely had a significant impact on the relative results of active strategies and may have contributed to the challenging environment for active management in recent years.

As with any topic in capital markets, investors have varying views on the path forward for the FANGAM stocks. While valuations for these companies have increased, many would claim that the move has been warranted given their growing importance in our economy. Whichever direction they do move going forward, we will continue to monitor their impact on the markets.

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