

Any Sustained Market Downturn Should Mean Significant FANG Underperformance.

TPA and other strategists have written about the narrowing of the market. TPA has focused on the outperformance of XLK versus the S&P500, but this report will focus on FANG stocks. The first chart below shows the relative performance of XLK and the S&P500 over the past 4 years. It shows that the performance gap began about 18 months ago at the start of 2023. Chart 2 shows that XLK has outperformed the S&P500 by 46% net in the past 18 months (88.97% - 42.93%), which is more than twice the performance of the benchmark.

Relative performance of XLK and S&P500 – 4 years



Relative performance of XLK and S&P500 – 18 months



XLK is comprised of mostly MSFT and NVDA, so another TECH index may be more helpful for our analysis. NYSE FANG includes GOOGL, AVGO, TSLA, AMZN, MSFT, AAPL, NFLX, SNOW, NVDA, and META.

XLK

| Index Top Holdings as of Jul 03 2024 | |
|--------------------------------------|--------|
| Name | Weight |
| Microsoft Corporation | 22.30% |
| NVIDIA Corporation | 20.55% |
| Apple Inc. | 4.60% |
| Broadcom Inc. | 4.39% |
| Advanced Micro Devices Inc. | 2.63% |
| Adobe Inc. | 2.54% |
| Salesforce Inc. | 2.52% |
| Oracle Corporation | 2.29% |
| QUALCOMM Incorporated | 2.26% |
| Applied Materials Inc. | 2.01% |

NYSE FANG+ Index

| Index Top Ten Holdings % | |
|--------------------------|-------|
| Alphabet Inc Class A | 10.61 |
| Broadcom Limited | 10.36 |
| Tesla | 10.19 |
| Amazon.Com Inc | 10.04 |
| Microsoft | 9.96 |
| Apple | 9.85 |
| Netflix | 9.79 |
| Snowflake Inc | 9.79 |
| Nvidia | 9.77 |
| Meta Platforms | 9.63 |

If we compare NYSE FANG and XLK, we see that in the past year, FANG has pulled ahead. The second chart below shows that FANG has outperformed XLK by 86.52% net (175.49% - 88.97%) in the past 18 months. FANG's performance was 97% greater than XLK in the past 18 months.

Relative performance of NYSE FANG and XLK – 4 years



Relative performance of NYSE FANG and XLK – 18 months



Finally, let's look at FANG compared to the market benchmark S&P500 in the past 18 months. **FANG's performance in the past 18 months is more than 4 times greater than the S&P500 (175.49% versus 42.93%). This is a historical aberration.**

Relative performance of NYSE FANG and S&P500 – 18 months



So, what does all this mean? Does it make the market more vulnerable? Does it mean that there are probably undiscovered gems away from FANG and XLK? The answer to both of these questions is probably “yes”, but there is a more important question for investors. In a downturn, what will happen to FANG stocks versus the S&P500?

One can assume that FANG’s huge outperformance in the past 18 months means that many portfolios are full of or overweighted to a large extent with FANG stocks. In a downturn, this will mean that investors will be forced to sell more FANG stocks than other stocks. That will mean that FANG’s huge outperformance in the past 18 months will most likely turn into a large underperformance in a downturn.