

MARKET INSIGHTS

from Ziegler Capital Management



Too much Tech?

Well, that was a surprise! Tech, which has long been the darling of our current bull market, has had a series of *unexpected* misses in recent months. Some of this is entirely understandable. Market saturation is a real concern and ability to scale appears to be both a blessing and a curse. Companies with “subscription” based participation models are running face (no pun intended) first into this headwind and are obviously grappling with this issue right now.

The charts below should bring some clarity as to why underperformance with this particular group could be potentially problematic.

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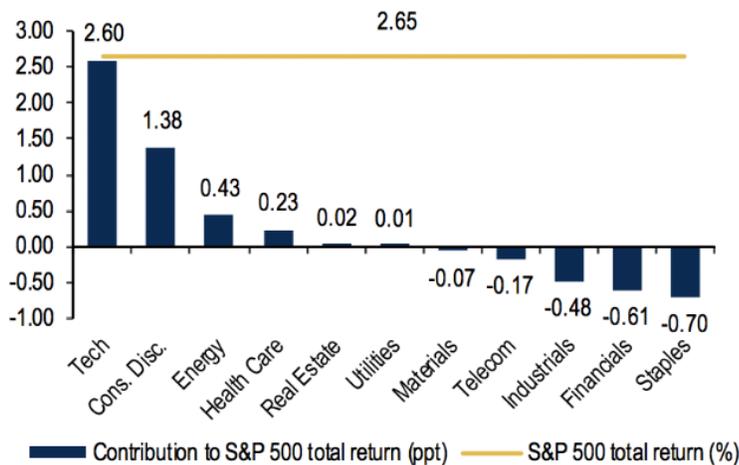
ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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Chart 4: Tech contributed 98% of the S&P 500 total return in the 1H

Contribution of sectors to the S&P 500's 1H18 total return



Source: S&P, BofA Merrill Lynch US Equity & US Quant Strategy

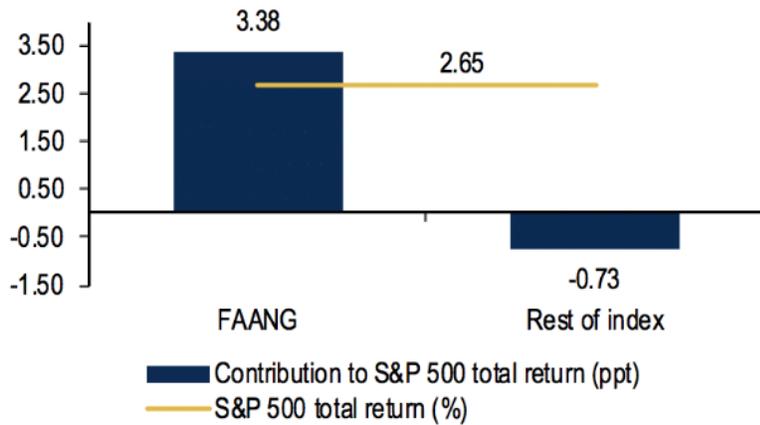


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Chart 5: Excluding FAANG stocks, index returns would have been negative

FAANG stocks' contribution to the S&P 500 1H18 total return



Note: FAANG = FB, AAPL, AMZN, NFLX, GOOG/GOOGL
 Source: S&P, BofA Merrill Lynch US Equity & US Quant Strategy

What these charts illustrate is just how dependent the broader market has been on the over performance from Tech. What happens when these giants run out of room to grow? This is rarified territory for investors, and some are getting nervous. While Tech has been responsible for virtually all of the S&P 500's total return this year, there are still other sectors that do outperform. Actively managing this potential risk is essential and offers the opportunity to minimize unnecessary exposure to Tech, i.e. beta in this market, while still retaining meaningful allocation to other sectors with the greatest potential for alpha.

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The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.