CHARTWELL VIEWS

(The F A N M A G Effect)

In the 1st quarter US equity markets experienced their **worst** quarter of performance since the Global Financial Crisis of 2008, dropping -19.6%. In the 2nd quarter, they experienced their **best** quarter since 1998, rising 21% despite a spike in COVID-19 cases late in the quarter. The market rebound has not been broad-based; it has been led by technology and communications companies benefitting from the imposed virus-induced lockdowns in many countries. E-commerce, cloud-computing, networking, and streaming stocks are not just holding up better in the current environment; they are flourishing.

During the past two years, the large-cap growth "**FAANG**" stocks (**F**acebook, **A**mazon, **A**pple, **N**etFlix, **G**oogle) have dominated index performance. With the addition of **M**icrosoft to that cadre, "**FANMAG**" stocks have dominated the performance of the R1000 Growth index year to date. In turn, these stocks dominate large cap growth portfolio returns. **In the second quarter, the six FANMAG names accounted for 33% of the Russell 1000 Growth index market cap and contributed 42% of the index return.** On a 2020 year to date basis (through 6/30/20), these six stocks contributed *80% of the R1000 Growth index return, which was +9.81%. In comparison, the S&P 500 index declined -3.08%.*

Name	Index Weight	2Q20 Return	Index Contribution
Facebook	3.1%	36.1%	1.1%
Amazon	6.3%	41.5%	**2.6%**
Netflix	1.2%	21.2%	0.3%
Microsoft	9.2%	29.4%	**2.7%**
Apple	8.1%	43.8%	**3.5%**
Google	5.4%	21.6%	1.2%
TOTAL	**33.3%**		**11.4%**

Active Contribution to Russell 1000 Growth: 42%

The magnitude of outperformance by this concentrated group of stocks has created a challenge for active, diversified large growth managers. It was difficult to keep pace with the index if a manager/fund:

- owned stocks in addition to these six;
- did not own all six stocks;
- owned less than the index weighting in these six stocks.