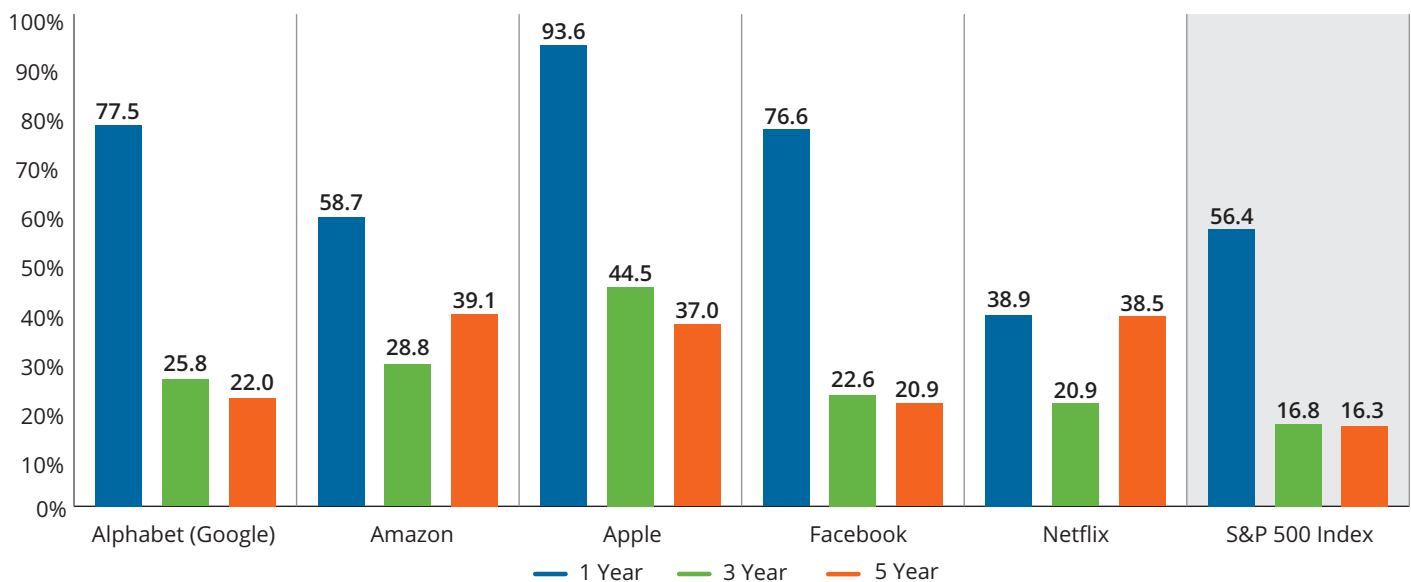


## FAANG: Taking a Bite Out of the Equity Market

You've heard a lot about it. But what exactly is FAANG? Could it eventually bite you?

FAANG is not a romantic vampire novel, nor some fancy Florida snake farm. It's an acronym for a quintet of US tech companies driving markets: Facebook, Apple, Amazon, Netflix, and Google's parent company, Alphabet. They have contributed heavily to market performance recently (FIGURE 1). However, some question the long-term sustainability of these returns. They point to concentration risk in cap-weighted indices, such as the S&P 500 Index,<sup>1</sup> and a potential FAANG bubble thanks to possibly overinflated valuations (FIGURE 2). While FAANG could continue driving strong returns, make sure your exposure is intentional.

**FIGURE 1: FAANG Stocks Dominate** (% returns as of 3/31/21)



Data Source: S&P Capital IQ; Calculations: Hartford Funds, 4/21. Past performance does not guarantee future results.

## FIGURE 2: Too Much of a Good Thing?

FAANGs are becoming a bigger part of the S&P 500 Index. Their valuations, as measured by their price/earnings (PE) ratios,<sup>2</sup> have generally been higher than the Index's.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*
% FAANG Weighting in S&P 500 Index	6.2	6.5	6.9	8.9	8.8	10.8	11.4	12.8	17.2	16.1
FAANG P/E Ratio	15.7	22.6	22.0	22.9	23.9	32.3	22.0	31.5	39.9	39.9
Average S&P 500 Index P/E Ratio	16.5	18.3	20.2	23.2	23.4	24.5	19.0	23.4	40.8	42.8

Data Source: Factset, 3/21. FAANG P/E Ratio is calculated using a weighted average.

\*2021 data is through 3/31/21

**Talk to your financial professional today to make sure your portfolio isn't overly concentrated in a handful of stocks.**

<sup>1</sup> S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks. Indices are unmanaged and not available for direct investment.

<sup>2</sup> Price/earnings (P/E) is the ratio of a stock's price to its earnings per share.

Investing involves risk, including the possible loss of principal.

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