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U.S. Equities Look Different Without Big Tech

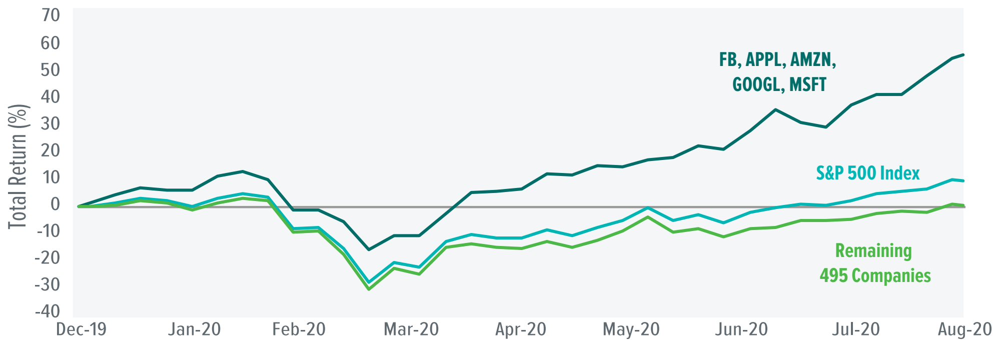
SEPTEMBER 2020

Snapshot

- Investing anywhere but the U.S. has been a tough sell over the past several years as mega-cap technology stocks have driven the market higher.
- History has shown that global equity leadership changes over time.
- We see an opportunity for diversification in non-U.S. markets to benefit investors.

The bull market that began at the end of the global financial crisis started with broad gains and little differentiation among individual securities; it eventually morphed into a market driven by a narrow concentration of the largest technology stocks. On a cap-weighted basis, Apple, Microsoft, Amazon, Google and Facebook surged over 50% for the year-to-date as of August 31, 2020. By comparison, the remaining stocks in the S&P 500 Index were about flat during the same period. And despite the broad benchmark index finishing the first eight months up near 10% for the year-to-date, the majority of stocks in the index were down over the same time.

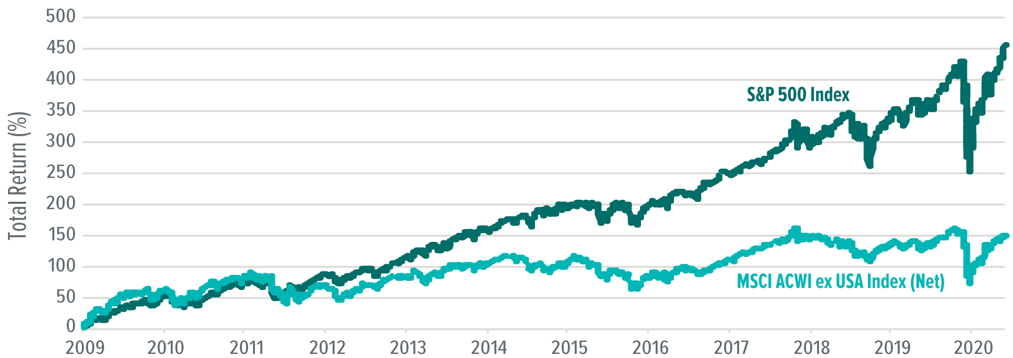
Five Have Led the 500



Source: SEI, FactSet. Data as of 8/31/2020. Index returns are for illustrative purposes only and do not represent actual investment performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

For U.S. investors who have watched the meteoric rise of these stocks carry the broader equity indexes higher, investing anywhere but domestically has been a tough sell over the past several years. A possible question to ask might be: “Why diversify my investments outside the U.S.?” One could even reason that over the last 11 years—since the end of the global financial crisis in March 2009—investors have been served much better by allocating their entire equity exposure to the U.S. rather than diversifying between U.S. and non-U.S. equity markets. Should abandoning non-U.S. equity investments be given any consideration?

Global Equities Have Lagged



Source: Bloomberg. Data spans 3/31/2009-8/31/2020. Index returns are for illustrative purposes only and do not represent actual investment performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Leaders can become laggards

It's easy to see historical parallels when comparing the leaders of today's U.S. equity market with the global winners from previous decades. The outperformers at any given time have often later underperformed; what looked like a sure investment in one decade turns into a losing one over the next 10 years. In fact, following the "prominent belief" in a given moment has rarely been a successful strategy over longer periods.

In the 1980s, six of the top 10 companies in the world by market capitalization were in the energy sector, which later became an asset class to avoid as reduced demand and increased production drove a glut on the world market. Years later, U.S. NASDAQ returns looked too good to be true as the tech bubble grew bigger—with many investors caught off guard when the bubble eventually burst.

Top 10 market caps: How often do winners stay on top?

World's top 10 companies by market cap (ex Berkshire Hathaway and Aramco)				
1980: Peak oil	**1990:** Japan will take over the world	**2000:** TMT bubble	**2010:** China will take over the world	**2020:** Only tech delivers growth
IBM	NTT	Microsoft	Exxon Mobil	Microsoft
AT&T	Bank of Tokyo-Mitsubishi	General Electric	PetroChina	Apple
Exxon	Industrial Bank of Japan	NTT DoCoMo	Apple	Amazon
Standard Oil	Sumitomo Mitsui Banking	Cisco Systems	BHP Billiton	Google
Schlumberger	Toyota Motors	Wal-Mart	Microsoft	Facebook
Shell	Fuji Bank	Intel	ICBC	AliBaba Group
Mobil	Dai-Ichi Kangyo Bank	NTT	Petrobras	Tencent Holdings
Atlantic Richfield	IBM	Exxon Mobil	China Construction Bank	Johnson & Johnson
General Electric	UFJ Bank	Lucent Technologies	Royal Dutch Shell	JP Morgan Chase
Eastman Kodak	Exxon	Deutsche Telekom	Nestle	Exxon Mobil
Prominent beliefs: peak oil, U.S. businesses are just better run	**Prominent beliefs:** Japan will take over the world	**Prominent beliefs:** it's different this time; U.S. is big TMT boom winner	**Prominent beliefs:** peak oil, China taking over the world	**Prominent beliefs:** U.S. is the cleanest dirty shirt, and tech will deliver growth thanks to monopolies
Underweight the U.S., energy	**Underweight Japan, banks**	**Underweight the U.S., TMT**	**Underweight China, commodities**	**Fifth time is the charm?**

Source: GaveKal, SEI. Data as of 12/31/2019.

It is almost inevitable that the U.S. mega-cap technology stock leadership we have seen over the past several years will eventually cede fortune to something else. Some perspective is gained by comparing the value of the tech group against greater parts of the global economy.

As of September 16, 2020, the top five U.S. companies by market capitalization—Apple, Microsoft, Amazon, Google and Facebook—were valued more as a group than the combined stock markets of Canada, South Korea, Brazil and Russia. You could also buy every company on the German, U.K. Italy, South African and Israeli exchanges for less than the combined value of these tech names. The dependency on this group to continue to drive U.S. market returns could become a greater concern if lingering scrutiny by antitrust agencies eventually threatens their dominance.

Would You Rather?

Market Capitalization (USD Billions)					
Canada	2,304	U.K.	2,812	Apple	1,936
South Korea	1,646	Germany	2,345	Microsoft	1,572
Brazil	748	Italy	610	Amazon	1,566
Russia	565	South Africa	340	Google	1,042
		Israel	163	Facebook	757
Total	5,263	**Total**	6,270	**Total**	6,873

Source: SEI, Bloomberg. Data as of 9/16/2020.

SEI's view

Companies with more reasonable valuations and sustainable fundamentals should offer a comparatively appealing long-term proposition to investors when richly valued U.S. technology stocks lose their luster. History has shown that global equity leadership changes over time. Because of the disproportionate impact of a few fundamentally expensive tech stocks in the broad U.S. indexes, we see an opportunity for diversification in non-U.S. markets to benefit investors.

Index Definitions

S&P 500 Index: The S&P 500 Index is an unmanaged, market-weighted index that consists of 500 of the largest publicly-traded U.S. companies and is considered representative of the broad U.S. stock market. Information provided by SEI Investments Management Corporation, a wholly owned subsidiary of SEI Investments Company. Neither SEI nor its subsidiaries is affiliated with your financial advisor.

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