

# ANTI-QUALITY BUBBLE

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Nearly \$2.8 trillion of market capitalization has been wiped out from just six companies –Apple, Microsoft, Alphabet, Amazon, Meta Platforms and Netflix–in recent months.

Of this group, which we have dubbed [FANAMA](#), four out of the six names are down 20% or more from all-time highs.

## FANAMA Market Cap

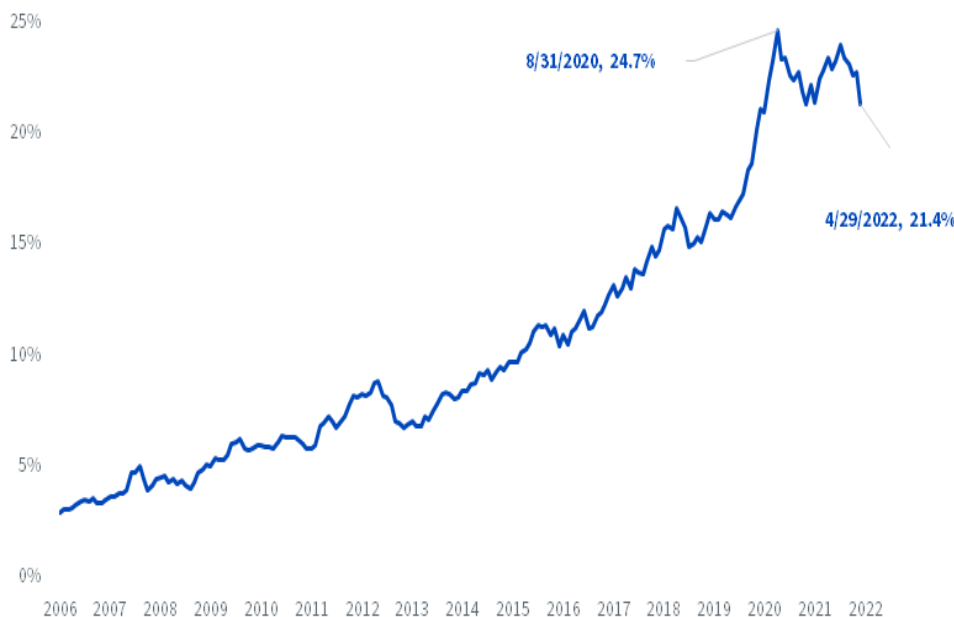
	Peak Market Cap Date	Peak Market Cap (\$Bn)	Current Market Cap (\$Bn)	\$ Difference (\$Bn)	% Difference
Apple	1/3/2022	\$2,986	\$2,552	-\$435	-14.6%
Microsoft	11/19/2021	\$2,576	\$2,076	-\$500	-19.4%
Alphabet	11/18/2021	\$1,995	\$1,509	-\$487	-24.4%
Amazon	7/8/2021	\$1,882	\$1,264	-\$617	-32.8%
Meta Platforms	9/7/2021	\$1,078	\$543	-\$535	-49.7%
Netflix	11/17/2021	\$306	\$85	-\$222	-72.4%

Sources: WisdomTree, FactSet. Data as of 4/29/22.

For current fund holdings please click [here](#).

As a byproduct of this underperformance, the aggregate weight of these companies in the [S&P 500 Index](#) has slumped from nearly one-quarter of the Index at its peak to 21.4% currently.

**S&P 500 Index weights: Apple, Amazon, Meta, Alphabet, Microsoft, Netflix**



Sources: WisdomTree, S&P, FactSet, 6/30/06–4/29/22. You cannot invest directly in an index.

This performance has been a remarkable turnaround from 2020, where all six names handily outperformed the 18.4% return on the S&P 500.

Meta and Netflix—both major stay-at-home beneficiaries—now have [market capitalizations](#) that are well below pre-COVID-19 levels. Amazon, after plunging 14% on Friday, is nearly lagging the S&P 500 since 2019—an almost unimaginable scenario back in 2020.

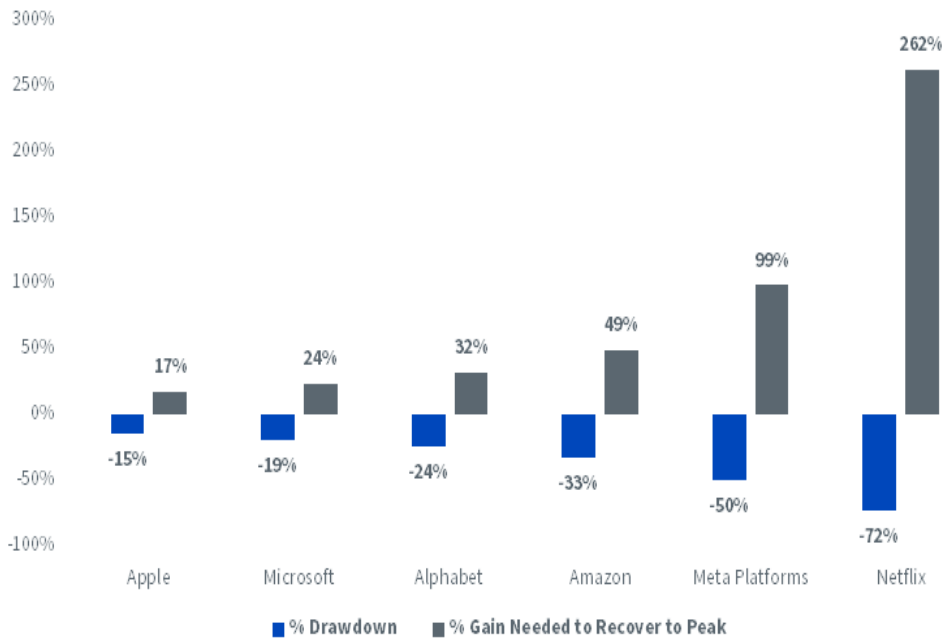
**Total Returns since 12/31/19**

	12/31/19-4/29/22	2022 YTD	2021	2020
Apple Inc.	118.2%	-11.1%	34.6%	82.3%
Microsoft Corporation	79.7%	-17.3%	52.5%	42.5%
Alphabet Inc. Class A	70.4%	-21.2%	65.3%	30.9%
Amazon.com, Inc.	34.5%	-25.5%	2.4%	76.3%
Meta Platforms Inc. Class A	-2.3%	-40.4%	23.1%	33.1%
Netflix, Inc.	-41.2%	-68.4%	11.4%	67.1%
S&P 500 Index	32.7%	-12.9%	28.7%	18.4%

Sources: WisdomTree, FactSet.

After [drawdowns](#) of more than 50% for both Meta and Netflix, those companies would have to have returns of 99% and 262%, respectively, simply to recover back to their peak market caps.

**% Drawdown and % Gain Needed to Recover**



Sources: WisdomTree, FactSet, 4/29/22.

The [WisdomTree U.S. Quality Dividend Growth Index](#) has been under-weight in this group since 2014 due to the lack of [dividend](#) payments from Alphabet, Amazon, Meta and Netflix. The Index was constructed with a weighting approach aligned with [wisdomTree’s original idea](#) that weighting indexes by dividends, instead of market cap, can improve [valuations](#) and mitigate exposure to market bubbles.

While a [quality](#) company [can be defined in many ways](#), WisdomTree has included a cash dividend screen on its quality Index as a consistent dividend payment is a signal of corporate health and cash management discipline.

From this perspective, this Index screens non-dividend payers like Amazon, Meta, Alphabet and Netflix as “anti-quality.”

**Index weights: Apple, Amazon, Meta, Alphabet, Microsoft, Netflix**



Sources: WisdomTree, S&P, FactSet, 6/30/06–4/29/22. Inception date for the WisdomTree U.S. Quality Dividend Growth Index was 4/11/13. You cannot

The under-weight weighed heavily on relative performance in 2020 and most of 2021 until a sharp turnaround last November.

Since November 19, the WisdomTree U.S. Quality Dividend Growth Index has outperformed the S&P 500 by 900 [basis points \(bps\)](#).

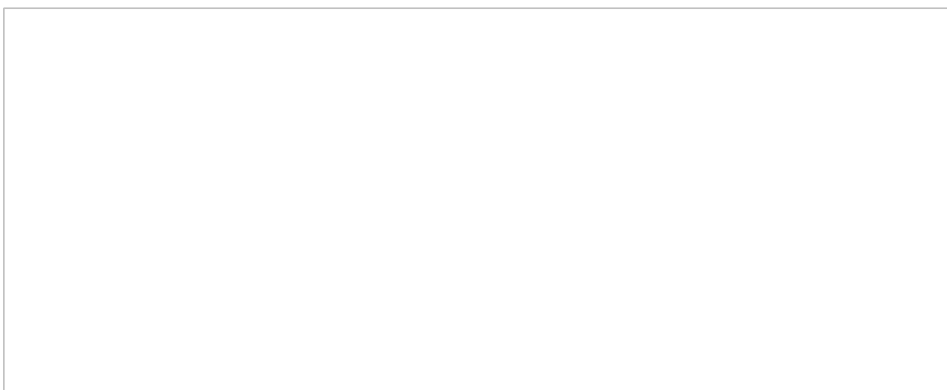
Cumulative Returns: WisdomTree U.S. Quality Dividend Growth/S&P 500



Sources: WisdomTree, S&P, as of 4/29/22. Inception date for the WisdomTree U.S. Quality Dividend Growth Index was 4/11/13. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs, brokerage commissions on transactions. Such fees, expense and commissions would reduce returns.

Going forward, with equities challenged by the combined forces of rising rates, elevated valuations, and profit margins being squeezed by [inflation](#), a basket of dividend payers that is over-weight in high-quality companies may be best positioned to maintain margins, control for valuations, and provide a cushion to returns with stable and growing dividend payouts.

Index Fundamentals



For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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## DEFINITIONS

**S&P 500 Index**: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**Market Capitalization**: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

**Drawdowns**: Periods of sustained negative trends of return.

**Dividend**: A portion of corporate profits paid out to shareholders.

**Valuation**: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**Quality**: Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

**Basis point**: 1/100th of 1 percent.

**Inflation**: Characterized by rising price levels.