

## A “wonderful” earnings season on Nasdaq100

As of June 1<sup>st</sup> Nasdaq100TR (Total Return) is back on its highest level (+11.3% YTD), thanks to a “wonderful” earnings season. Focusing only on the period between March 29<sup>th</sup>, 2018 and June 1<sup>st</sup>, 2018 (included), Nasdaq100TR is up: +7.9%.

The average performance per stock over the same time period is +3.2% (which is the performance of a random stock-picking among the 103 stocks belonging to Nasdaq100).

But if we try to read between the lines, here is what we notice....

### → A weak market participation

The 6 biggest weights of the Index (>3% weight: Intel Corp, Alphabet Inc. Class A & C, Facebook Inc, Microsoft Corp, Amazon.com Inc, Apple Inc – we call them “GAFAMI”) post average gain of +12.5% on the period. It is worth to notice that it does not take Netflix Inc into account whose performance over the period is +21.9%.

	Perf.	Capi. (as of Jun 1st)
Facebook Inc	21.4%	561.7
Apple Inc	13.8%	935.1
Amazon.com Inc	13.4%	796.5
Microsoft Inc	10.9%	774.4
Intel Inc	10.2%	266
Alphabet Inc Class-A	9.4%	782.5
Alphabet Inc Class-C	8.5%	782.5

Table 1: Performance of the GAFAMI and market capitalizations

They are all (except Intel Inc) at their highest historical levels in terms of prices and capitalizations.

In the period, those 6 stocks created 339.2 BlnUSD as market capitalization, which equals the sum of Sanofi, Total SA, Axa SA and BNP Paribas SA current market capitalizations.

### → A capitalization bias: GAFAMI vs others

If we take the stocks belonging to the lowest 40 percentile (by market capitalization) and we compare to the highest 20 percentile, we get:

	<40%	>80%
<b>Mean</b>	1.6%	8.5%
<b>1st Quartile</b>	-5.3%	4.4%
<b>Median</b>	3.1%	9.6%
<b>3rd Quartile</b>	9.0%	11.8%

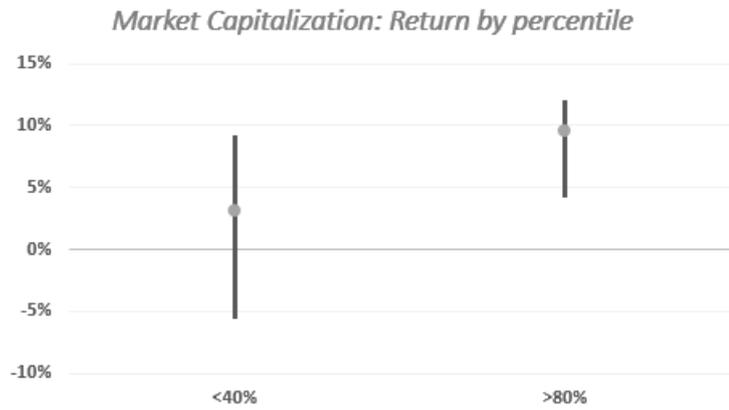


Table 2/Figure 1: Performance per market capitalizations percentiles

On March 29<sup>th</sup>, GAFAMI's weights count for 46.9% of Nasdaq100. Their average performance over the period is +12.5%.

The average performance of the 96 other components (whose aggregated weight is 53.1%) is +2.5% on the same period. The GAFAMI rally stands for **82%** of the Nasdaq100TR rally.

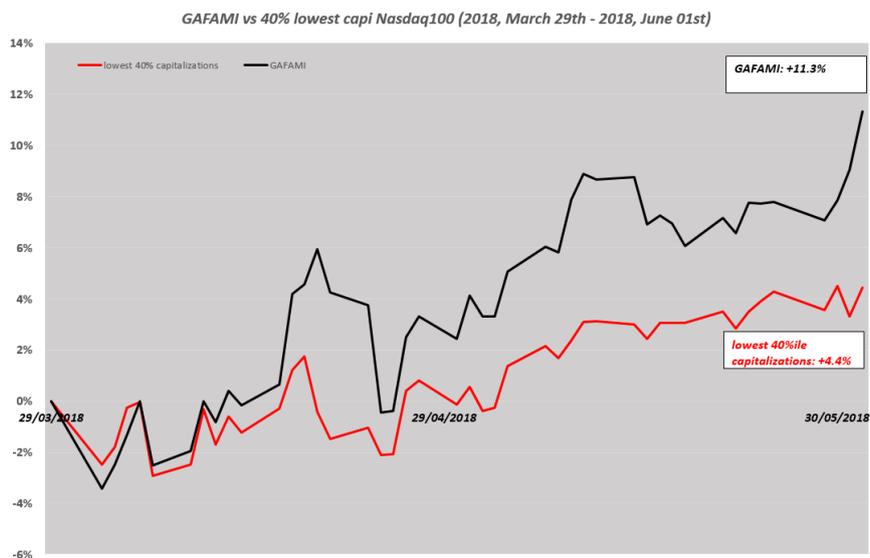


Figure 2: Basket of the least 40% percentile (42 stocks) vs GAFAMI. Equally weighted.

→ **A sector bias: Information Technology vs others**

We only keep sectors with at least 20 names.

	Info. Tech.	Cons. Disc.	Health.
<b>Mean</b>	5.7%	3.3%	0.7%
<b>Median</b>	8.0%	5.1%	2.9%

Table 3: Performance per sectors

Information Technology - 45 stocks, main are: Apple Inc, Alphabet Inc. Class A & C, Microsoft Corp

Consumer Discretionary - 20 stocks, main are: Amazon Inc, Netflix Inc, Comcast Inc

Healthcare - 24 stocks, main are: Amgen Inc, Gilead Sciences Inc, Biogen Inc

Note that this factor (“Sector”) is a bit redundant with capitalization as Information Technology stocks are the biggest in terms of capitalization.

→ *Differences in earnings reactions*

	Earnings Perf	Date
Alphabet Inc Class-A	-1.4%	23/04/2018
Alphabet Inc Class-C	-1.5%	23/04/2018
Facebook Inc	8.5%	25/04/2018
Amazon.com Inc	7.6%	26/04/2018
Microsoft Inc	3.5%	26/04/2018
Intel Inc	4.5%	26/04/2018
Apple Inc	3.6%	01/05/2018
GAFAMI Mean	3.5%	
Least 40% Capi	-1.8%	

Table 4: Stock prices reaction to earnings announcements

The GAFAMI post very good performances (+3.5%) over earnings releases whereas the smallest capitalizations dip on average 1.8% on announcements.

**CONCLUSION**

On Nasdaq 100, this earnings season can be characterized by a huge capitalization bias, with the GAFAMI (7 stocks) counting for 82% of the rally of a 103 components’ index. This very weak market participation phenomenon is strengthened by the huge (more than 5 percentage points) difference on earnings price reaction between the GAFAMI and the 40% smallest stocks of the Nasdaq100.

Let’s hope that after this short reading, less trees are hiding the forest.

**Data available upon request.**