



Daily Macro Insights: Not all tech is equal

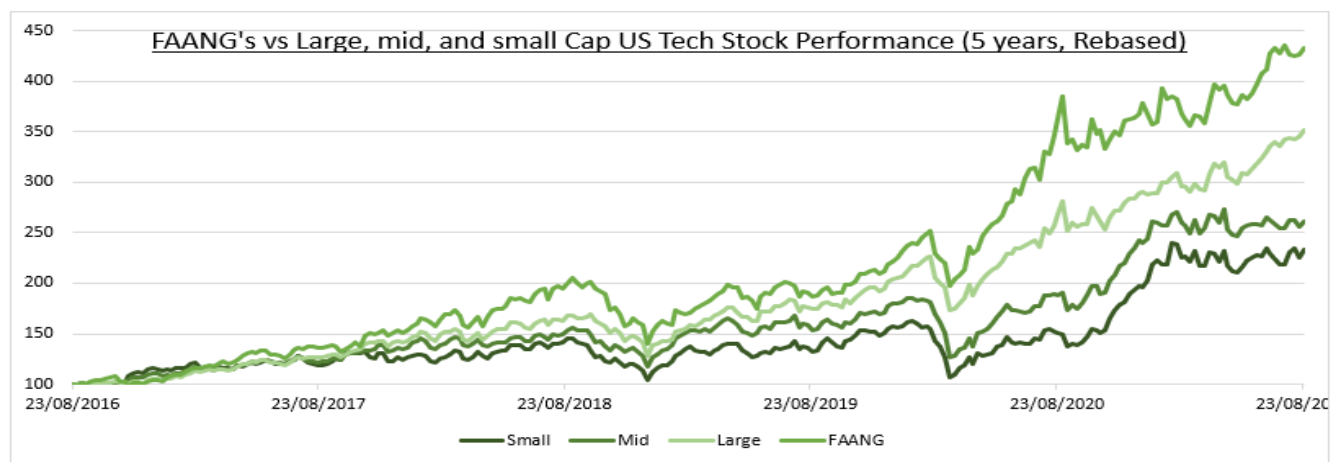
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BIG TECH PERFORMANCE: Large cap US tech has dramatically outperformed smaller peers (see chart), by 200% in five years, despite many the same positive trends, from faster tech adoption to software [‘eating the world’](#). More recently the disruptive innovators proxied by ARK Innovation (ARKK) have underperformed FAANGS near 20%, as Tesla (TSLA) to Palantir (PLTR) have lagged. As business cycle ages and the Fed hikes interest rates, we see an even greater premium on big tech and FAANG growth visibility, cash flows and valuations, and increasing caution paying the innovators growth premium without earnings. Big tech are the new defensives and deserve more equal portfolio footing vs up-and-comer innovators.

WINNER TAKES ALL: The wide mega cap versus small cap performance gap also highlights the winner-takes-all economics of the tech sector. Powerful network effects and platform economics boost revenue growth and profitability, help build big defensive ‘moats’ to new competition, and fund generous capex, share buybacks and dividends. They may ultimately be eclipsed by developments in adjacent markets, but will not be displaced from their own.

EARNINGS TO MATTER: As the business cycle starts to age, pandemic recovery slows, and we near a rise in interest rates and lower valuations, we see markets increasingly favouring those with proven growth, earnings and the balance sheets to keep investing. Big tech trades on 30x P/E valuation, above market but well supported by an attractive combo of strong growth, high margins, and clean balance sheets. Many smaller and innovative growth stocks have valuations of over 100x P/E and a dependence on market for financing.

TODAY: Fed’ Powell Jackson Hole speech is at [10am ET](#). Markets are sensitive to any policy path guidance given uncharted territory of a \$8 trillion balance sheet and 0% funds rate.



Source: Refinitiv, S&P Indices

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