Investment Strategy Update

For inquiries related to this article, please contact:

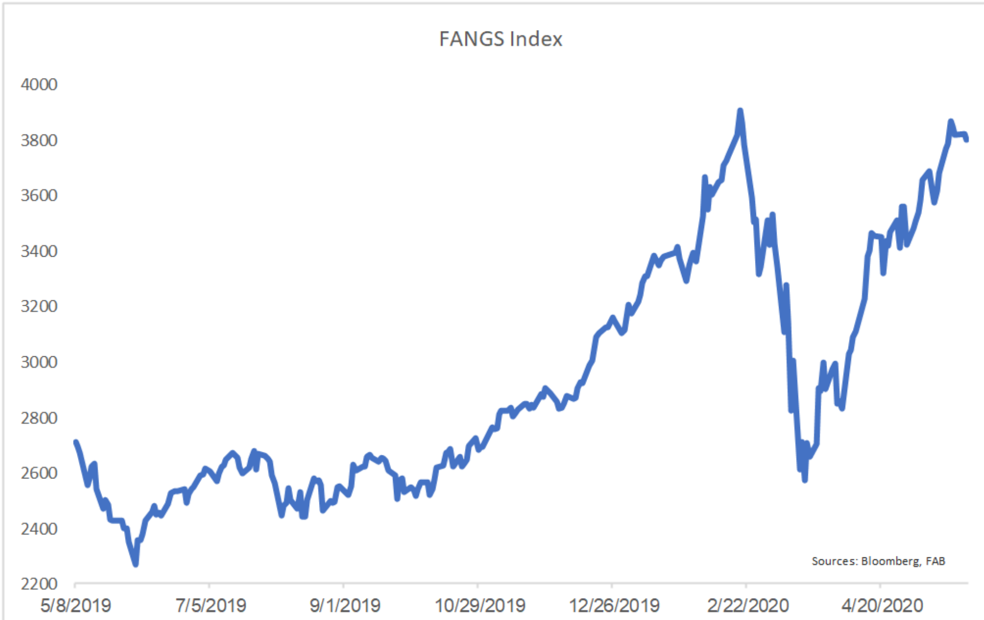
Alain.Marcus@bankfab.com
Christofer.Langner@bankfab.com

بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

28 May, 2020

Trump Twitter spat may offer risk to stock heavyweights

- **Social media platform draws the ire of President Trump by adding "fact-checking" comments.**
- **Tech giants have been under scrutiny over the past few years as their political clout increases.**
- **Five technology companies have accounted for 22% of the rally in the S&P 500 and now represent a fifth of the index by weight.**
- **Any doubts around these companies could trigger broader stock moves.**
- **FAB AAC remains underweight in equities and overweight in gold.**



Indices are a good way to get broad exposure to the economy but they have their own pitfalls. Often, because of the way they are calculated, certain companies begin to have excessive weight within them. In that sense, the S&P 500 has always been seen as a good, well diversified index, but at many points in history it got a bit concentrated.

That is happening right now, as the stocks of five companies, Microsoft, Apple, Amazon, Facebook and Google, account for more than a fifth of the entire index. These five stocks have also overwhelmingly driven the 35.7% rally the S&P 500 staged since its recent low on 23 March — they accounted for 22.3% of the index gains in the period.

This is great news for stockpickers who bought them at the lows but it could spell trouble for the broader market if these companies are threatened for any reason. A sudden sell-off of these stocks could easily drag the S&P 500 down.

A recent spat between President Donald Trump and his favorite social media platform, Twitter, could very well trigger such an event. Earlier this week the microblog platform began to attach 'fact-checking' comments to some of President Trump's tweets. This prompted a furious response from the White House, which claimed that Twitter was hampering free speech. The rage in the Oval Office could soon spill over to other platforms.

Reports today suggested President Trump had sent a draft executive order that would start legal proceedings against several social media giants, including Facebook and Twitter. The draft would also convene a working group in the Justice Department to look into deceptive practices by these platforms and curb government ad spending on them.

The move is reminiscent of the political backlash against railroad and oil monopolies in the late 1800 which led to the passage of the Sherman Antitrust Act of 1890. The law led to the breakup of Standard Oil and in a major restructuring of the transportation industry in the US.

Some of the cyclical stocks, such as financials, are yet to fully participate in the rally

While it may be harder to apply the same law to the modern day tech giants, President Trump has been trying to corner them for a while and this may give him extra stamina to do so. He could be particularly forceful in an election year given the importance that social media has acquired in creating and destroying rulers.

Markets have continued to rally as these giants, which benefit from the new work-from-home world, gain. If they come under the gun, the rally could fizzle.

بنـك أبـوظبـي الأول

FAB

First Abu Dhabi Bank

Investment Strategy Update