



[TOBAM: risk concentration levels on US equities hitting 2008 levels](#)

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A new analysis of US equities from French asset manager TOBAM suggests that risk concentrations are hitting levels not seen since 2008.

Driven by a small number of actors the so-called "FAANG stocks" - a group of mega tech stocks that have delivered significant relative outperformance amongst the MSCI US index, TOBAM says this growth is dangerous for investors as excessive sector concentrations in equity markets result in crashes in the price of equity.

"Fundamentally, market cap weighted portfolios are not diverse portfolios," says Christophe Roehri, global head of business development at TOBAM in an interview. "The influence of FAANG stocks in the index is outsized and investors may not be aware of just how concentrated their portfolios have become."

The potential risks are most prevalent in passive portfolios which are now extremely vulnerable to market corrections, Roehri says. But, the trend is similar in actively managed portfolios if managers have been riding the rally in the FAANGs.

"We are seeing a unique trend in the market," Roehri explains. "While equity market correlations have started to go down broadly over the past 18 months, they are actually going up for the FAANG stocks. So, while it may have been good to be exposed to these names it's time to start looking elsewhere or at least increase diversification."

Warning signs are starting to crop up elsewhere as well. Sectors that are typically low volatility are starting to underperform. Financials, another group of companies that have outperformed recently, are starting to show weakness as well. According to Roehri, some of that can be explained by the potential for interest rate risk but adds that diversification will be important for investors that are focused on capital preservation.

"The next year isn't going to be like the last year," Roehri says. "The return of volatility, along with the growing risk in some of these names are going to put pressure on portfolios. Now is the time to start thinking critically about positioning. Diversity is the defense."