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Why does it look like a carnage in global markets when the S&P 500 is down only 17% from peak?

Synopsis
Many 'hot' themes that were enthusiastically pursued in the last year or two, with many thrilled at their trading prowess in the US markets, have come crashing to the ground.

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Devina Mehra, Chairperson and Managing Director of First Global, is a gold medalist from IIMA as well as from Lucknow University where she broke several records. She had a seven-year-long stint at Citibank in Investment Banking & Corporate Credit/ Risk before becoming a member of the Bombay Stock Exchange in 1993 - her proprietorship which later corporatised and became India's leading institutional brokerage firm, First Global. She spearheaded First Global's globalisation over two decades ago, making First Global the first Asian (ex-Japan) firm to become a member of the London Stock Exchange and then the NASD.

First Global has since become a leading quantitative global asset management firm managing both PMS schemes in India as well as global funds.

She has been quoted widely on Global as well as Indian markets by global financial media like Wall Street Journal, Barron's, Business Week, Fortune, Forbes, CNBC, Financial Times etc.

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The major US index, the S&P 500, is down only about 16.8% from peak. Why then does it look that there has been a carnage in the US market? Why do all those who bought US or global funds/ ETFs and enthusiastically opened Robinhood trading accounts looking morose these days? Why does the pain look so much worse than what's captured in the headline index?

One, the average S&P stock is down 24% - not evident from the index which is calculated on a market cap weighted basis.

More than two-thirds of the stocks in the S&P 500 index have fallen more than the index.

Two, the stocks that everyone invested in so enthusiastically in 2021 through Robinhood accounts, tech funds and what have you are down even more.

The NASDAQ index itself just had its worst month since the 2008-09 crisis and is in a 26% drawdown.

The leading FANMAG/ FAANGM (Facebook/Meta, Apple, Netflix, Microsoft, Amazon, Google/Alphabet) stocks that appeared 'forever' bets to many last year are down 17-75%, with 3 of them: Amazon, Meta and Netflix down over 40%.

That's what makes the pain and losses so real to many!

Others in the tech space, including erstwhile favorites like DocuSign and Peleton, are down 70-90%. The Robinhood stock is itself down a full 88%.

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The Work From Home ETF (WFH) which was launched at the onset of the COVID-19 pandemic has lost 37% from its peak.

The Renaissance IPO ETF, which tracks the largest, most liquid, newly-listed U.S. IPOs has tanked 63% from its peak in Feb 2021 and 50% YTD. This includes the likes of Uber, AirbnB, Zoom, Doordash and Lyft.

Cathie Woods of ARK has been the high priestess of pushing high tech, innovation et al as the ultimate investing theme. Her flagship fund is down 74%, in spite of Tesla providing a big cushion.

Online Retail ETFs such as ONLN and IBUY are down more than 65% while Online Payment & Fintech ETFs such as IPAY and FINX are down 40 to 50% from their 52-week highs.

Cloud computing is down 56%, Blockchain equities lost 60% while Social Media stocks (SOCL ETF) have lost 56% from their peak.

The other much marketed theme? It was China/ Greater China. Those ETFs are down 43-47%, with the China tech themed ones down ~ 65%.

The largest Greater China Equity Off-shore Fund in India is down 43% from its Feb peak. Plus it charges you 2.38% expense ratio and 1% exit load if exited within 12 months.

In short, many of the much hyped and 'storified' themes that were pushed as perennial ones have crashed much more than the headline indexes.

These were also themes that attracted the newbies who were excited about the easy money.

Remember the many NASDAQ funds & ETF launches in India last year, not to mention those on the China/ Greater China theme? The enthusiastic launches even in the Indian market?

No theme works forever!

Data shows that thematic funds usually come towards the end of the bull run for that particular theme because that is when the retail investors are enthused about it and when it's an easy sell.

Thematic fund schemes are great for gathering assets for the fund house but have generally poor outcomes for the investors. More on that another time.