

FORGET FAANG. IT'S TIME TO SCALE MT SAAS

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Technology experts at Bessemer Venture Partners have released a new report detailing why the FAANG stocks (Facebook, Amazon, Apple, Netflix and Google), that so aptly portrayed technology market leadership over the last decade, are facing a potential trend change.

The FAANGs benefited from the dual macro trends of the last two decades relating to the Internet and mobile adoption. FAANG stocks outperformed major market indexes, like the [S&P 500](#) and [Nasdaq 100 Indexes](#), by a significant margin, of at least 14% annualized since 2010.¹

Byron Deeter and Mary D'Onofrio believe the FAANG stocks' best growth years are behind them, raising serious questions about the future of the group's premier status.

Nearly constant evolution in the technology industry presents new opportunities for potential outperformance if you are looking in the right spots.

Cloud computing is the mega-trend of the next decade.

Deeter and D'Onofrio write²:

Technology is increasingly driving global [GDP](#) and software is the fastest growing segment of technology. Within software, the growth of cloud is moving at an impressive clip; it's becoming abundantly clear that cloud computing will become a majority of enterprise software by 2025, and the vast majority of all software by 2030. Simply put, cloud computing is increasingly consuming software, hardware, and services and is therefore the most exciting mega-trend in technology, making it one of the most compelling themes impacting global GDP over the coming years.

The [Bessemer-Nasdaq Emerging Cloud Index \(EMCLOUD\)](#) serves as a benchmark for the public cloud software market...

Even within this high performing basket of market disruptors, the companies leading the pack in this race of market performance are starting to emerge. We believe that more than a dozen companies within this elite public basket will become long term market leaders; however, four are top contenders—Salesforce, Adobe, Shopify, and Twilio.

Microsoft and Amazon are the two additional companies to follow within the broader tech industry considering both how quickly they've embraced cloud computing and how fundamental cloud is to their growth strategy.

Bessemer thinks it is time to supplement FAANG as the default tech leaders with a new group of technology stocks that is well positioned to outperform in the cloud-first world: MT SAAS, which is Microsoft, Twilio, Salesforce, Amazon, Adobe and Shopify.

Bessemer writes, "MT SAAS is a mix of application (CRM, ADBE, SHOP) and infrastructure (MSFT, TWLO, AMZN) companies, incumbent giants (MSFT, AMZN) and hypergrowth challengers (CRM, ADBE, SHOP, TWLO), all sharing the same characteristics of cloud delivery models, cloud business models, high growth, and compelling long-term margin potential."

The pandemic of 2020 accelerated adoption of cloud computing, and Bessemer believes we are amid a major technology dislocation. WisdomTree agrees with this conclusion: the most promising technology stocks are defined by the MT SAAS basket: Microsoft, Twilio, Salesforce, Adobe, Amazon, and Shopify.

¹Sources: WisdomTree, Bloomberg. For the period 12/31/09–11/30/20 the equally weighted FAANG Index returned

34.3% annually, compared to 20.2% and 13.7% for the Nasdaq 100 Index and S&P 500 Index, respectively.

²Deeter, Byron, and Mary D'Onofrio. "Forget FAANG-It's Time to Scale MT SAAS." Bessemer Venture Partners, 20 Nov. 2020.

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You cannot invest directly in an index.

DEFINITIONS

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Nasdaq 100 Index : Includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies, including investment companies.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

BVP Nasdaq Emerging Cloud Index : designed to track the performance of emerging public companies primarily involved in providing cloud software to their customers.