

Market Update

February 2024

Seven tech stocks are driving the valuation gains for the U.S. market. In fact, the so called Magnificent Seven (ALPHABET (Google), AAPLE, AMAZON, MICROSOFT, NVIDIA, TESLA, META (Facebook)) recently accounted for **half the valuation of the Nasdaq index**.

Many are trading above rising analyst targets as momentum takes over.

My mind can't help but think back to 2000 when Nortel alone represented 35% of the weight of the TSX here in Canada. Back then, BCE owned part of Nortel so the combined weight of those two stocks was more than 55% of the TSX! It didn't last.

I fully believe that AI can be bigger than the internet. However, at this juncture, one of two things will happen. These companies will report incredible earnings this week – or miss expectations. This happened with Tesla last week when it warned of weaker growth this year and the entire Nasdaq pulled back 5% on that news.

Of course, while the hopes for change via technology are one thing, the other is direction interest rates. Technology stocks perform better with the hope of lower interest rates. The Federal Reserve meets on Wednesday and while there has been plenty talk about lowering rates, that hasn't happened – yet.

The U.S. economy seems to be doing rather well despite public sentiment. The measure by which the Federal Reserve measures core inflation is indicating that inflation has dropped significantly. Unemployment in the U.S. is still quite low and the jobs report comes out Friday. Maybe, the Fed might be less inclined to lower rates soon – if they don't feel the need.

In terms of the next few years, I don't think it will matter much for technology stocks. Near-term, I have less conviction.

### **TRYING TO BE RIGHT**

**Invest into smaller positions in this sector as earnings play out over the next few quarters to see if earnings are catching up with prices.** That way, you are not overweight if they pull back on an earnings miss. On the other hand, if earnings are fantastic, you still have exposure.

Here is an example of a potential trade on TESLA, which traded off on weaker earnings forecast late last week....

TESLA \$190

< \$38.30> Recent premium available on the Tesla January 2025 \$190 Call.

\$38.30 represents 20% of the value of the stock. If assigned, the profit would be 25.2%

The stock could drop \$38.30 before it lost money.

\*The volatility of this stock makes it good for illustrative purposes. I am not recommending everyone owns TESLA.



## SIX COMPANIES EXPECTED TO LEAD S&P 500 EARNINGS



SOURCE: FACTSET RESEARCH SYSTEMS

**yahoo!finance**

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Best,

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Sources: Stockcharts.com, BNN, Bloomberg, Globe & Mail, Yahoo Finance

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