What's Hot: What’s driving NASDAQ 100 to record highs and beyond?

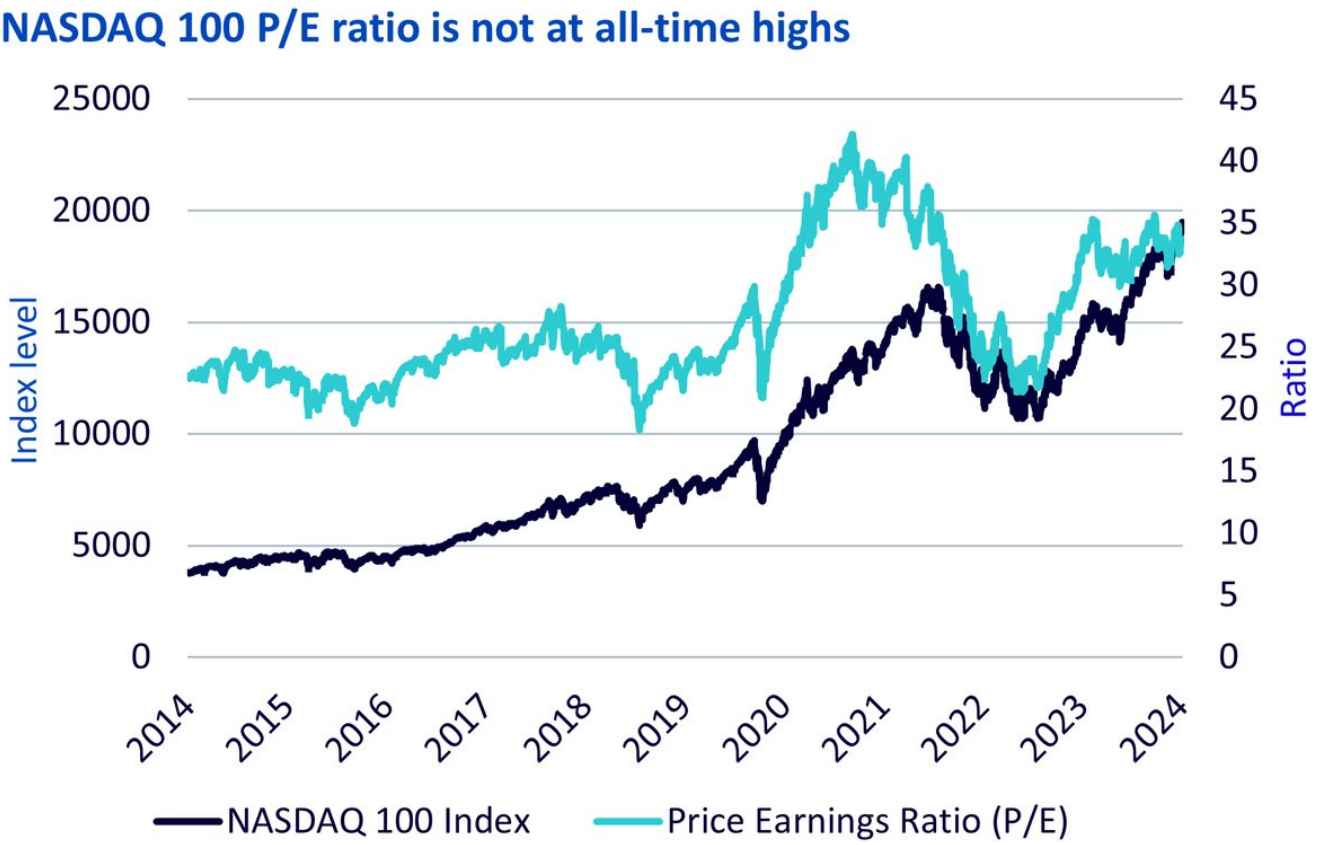
Veröffentlicht am 13. Juni 2024

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Wichtige Erkenntnisse

- A favourable macroeconomic backdrop has helped US stocks.
- Q1 2024 earnings were strong led by the tech sector.
- Nvidia continues to live up to its hype driving the NASDAQ 100.

On 12th June, the NASDAQ 100 Index hit a new all-time high going past 19,500. This represents a year-to-date gain of 16% for the tech-heavy index. It is, however, noteworthy that despite such a strong ascent, valuations are still below previous highs of 2021. Price-to-earnings ratio (P/E), albeit elevated compared to historic averages, has been largely steady this year highlighting how earnings have delivered on expectations built into market prices[1].



Source: WisdomTree, Bloomberg, data as of 12 June 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

What have been the key driving forces behind the rise of the index this year and what lies ahead?

Goldilocks conditions in the economy

On 12th June, the annual inflation rate for the US economy in May was released which came out at 3.3%, below the April reading of 3.4% and below forecasts of 3.4% for May[2]. The price action immediately after the announcement was positive which indicates that markets are encouraged to see inflation cooling.

On the other hand, the US economy added 272,000 jobs in May, the highest in 5 months, and well above forecasts of 185,000[3]. This combination of inflation cooling while the labour market is still resilient is a good macro backdrop for growth stocks.

Having said that, the economy being neither too hot nor too cold also means that the US Federal Reserve (Fed) need not be too hasty with its interest rate cuts. On 12th June, Fed officials indicated that there might be one quarter-point rate cut before the end of the year. At this point, although markets were pricing in two rate cuts, most investors have been prudent enough to recognise that the path of interest rates for the rest of the year is anything but certain.

Earnings

According to FactSet, as of 7th June, with 99% of S&P500 companies having reported their Q1 2024 earnings, 79% had reported a positive earnings per share surprise and 61% had reported a positive revenue surprise. The year-over-year earnings growth rate for S&P 500 was reported to be 5.9% as of this date. If this remains the final number once all companies have reported, it will mark the highest year-over-year earnings growth rate for the index since Q1 2022.

Among all sectors, information technology was the one with the highest percentage of companies reporting earnings above estimates in Q1 2024.

Strong fundamentals for companies reassure investors that the rally is not merely driven by expectations of rate cuts.

The Nvidia factor

Any mention of Nvidia warrants its own section when talking about the NASDAQ 100 this year given the gains the stock continues to make. As of 12th June, the stock was up over 152% year-to-date, and has achieved a market capitalisation of 3.08 trillion. The company, on account of its size, is now rubbing shoulders with Apple and Microsoft[4].

Nvidia has backed its hype with strong earnings as well. In Q1 2024, Nvidia's revenue was up 262% from a year ago, and earnings up 629% from a year ago[5].

In June, Nvidia unveiled the latest generation of artificial intelligence (AI) chips, named Rubin, just months after releasing the Blackwell chip. Nvidia is continuing to innovate and at a faster pace than market expects.

Closing word

There is clearly a lot of momentum behind US stocks driven by a favourable macroeconomic backdrop, strong corporate earnings, and forceful gains by top tech names like Nvidia. Nonetheless, two key things can create volatility for the index over the rest of the year:

1. Markets will continue to react to inflation numbers and rate cuts, or lack thereof from the Fed. The path that US interest rates will take for the rest of the year remains highly uncertain and stocks remain highly fixated on it.

2. Markets will continue to react to announcements from Nvidia and other major tech giants leading the AI revolution. Inevitably, there will be swings in sentiment as the hype cycle for AI progresses.

Both these things could create tactical opportunities for investors.

[1] Source: Bloomberg.
[2] Trading Economics.
[3] Trading Economics.
[4] Source: Bloomberg.
[5] GAAP earnings per diluted share, source Nvidia, May 2024.

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