

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

Veröffentlicht am 13. Juni 2024

Mobeen Tahir

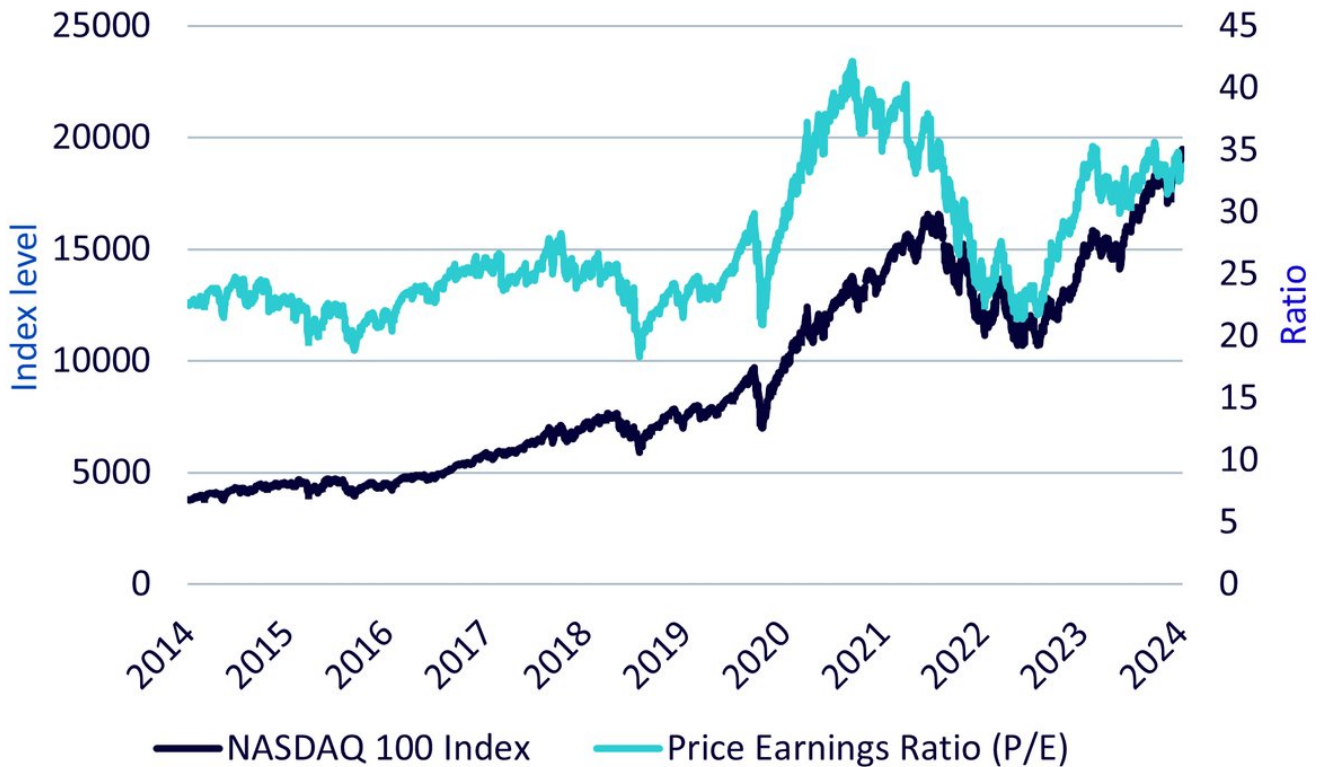
Director, Research

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.
- Related Products WisdomTree NASDAQ 100® 3x Daily Leveraged, WisdomTree NASDAQ 100® 3x Daily Short, WisdomTree NASDAQ 100 5x Daily Leveraged, WisdomTree NASDAQ 100 5x Daily Short
Find out more

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 prices¹.

NASDAQ 100 P/E ratio is not at all-time highs



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 May². 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 185,000³. 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 Microsoft⁴.

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 ago⁵.

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.

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.