

‘Big Tech’ Won the First Half of 2023...What about the Second?

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A small subset of mega-cap companies—many of them associated with generative artificial intelligence (AI)—have driven most of the U.S. equity market’s positive returns in 2023.

So what?

Now, investors are trying to decide if the growth setback in 2022 is indicative of a longer-term shift toward value investing over the coming years—or even decade—or was just a temporary speed bump for the large tech giants.

One interesting signal that we have seen is a large variation in returns between the Nasdaq 100 Index and the S&P 500 Index. The Nasdaq conforms largely to what people think of as ‘tech,’ and it still includes companies like Amazon.com, Tesla, Alphabet and Meta—companies that technically now find themselves in the Consumer Discretionary and Communication Services sectors.

Tech, Growth or Quality Growth?

Frequently, investors don’t simply stop after looking at the S&P 500 and Nasdaq 100 indexes—they might also consider growth indexes, like the Russell 1000 or S&P 500 Growth. Intuitively, before looking under the hood, many assume that the results should be similar to those of the Nasdaq 100.

At WisdomTree, we denote a special approach that we term ‘Quality Growth,’ where many tech companies do in fact gain inclusion if they are able to demonstrate significant return on equity and return on asset statistics. For WisdomTree—it’s not about ‘tech’ or ‘not tech’ or ‘growth’ or ‘value’—it is a simple question of whether or not the companies prove they are the highest quality through their fundamentals. As we see in figure 1, where we start the analysis roughly at the release of ChatGPT in November 2022:

- The [WisdomTree U.S. Quality Growth Index](#) was strong over the period, delivering returns very similar to those of the Nasdaq 100 Index.
- The Russell 1000 Growth Index was significantly behind both the WisdomTree U.S. Quality Growth Index and the Nasdaq 100.
- It was also clear that there was a huge difference between choosing the Russell variety of growth and the S&P variety of growth, shown through the significant lag in cumulative returns for the S&P 500 Growth Index relative to those of the Russell 1000 Growth Index.

Figure 1: H1 2023 was all about quality growth companies, yet returns were quite different

Sources: WisdomTree, FactSet. Data from 11/30/22–7/24/23. Past performance is not indicative of future returns. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs, brokerage commissions on transactions. Such fees, expense and commissions would reduce returns.

Who Are the Quality Growth Companies?

In figure 2, we wanted to make crystal clear what we mean by the quintessential quality growth companies by looking at the WisdomTree U.S. Quality Growth Index's top 10 exposures. You learn a lot by looking at this compared to those of the other benchmarks.

- Having Apple and Microsoft in the top two positions was not unusual, and we see that is the case across all three indexes. However, the S&P 500 Growth Index was the outlier with a figure closer to 7% allocated to Microsoft, whereas the allocations of both the WisdomTree U.S. Quality Growth Index and Russell 1000 Growth were closer to the 11% range. Out of the gate, less weight to Microsoft for the first half of 2023 was not the route to the strongest possible performance, but we know that this can ebb and flow over time.
- Within the S&P 500 Growth, we see the Exxon Mobil position. A big energy company, at least historically, tends to be more of a value type of position rather than a growth position, but after a strong 2022, Exxon Mobil exhibited strong share price momentum and ended up being included in the S&P 500 Growth. The position stands out, not because we know how Exxon Mobil will perform, but because it's clearly not in the top 10 for the other two indexes.

- Meta Platforms was a strong performer during the first half of 2022. It was not in the top 10 of the S&P 500 Growth, as it had lower momentum from 2022. It was included in both the WisdomTree U.S. Quality Growth Index and the Russell 1000 Growth. Intuitively, people do think of Meta as more a 'growth' type of company, even if, like Exxon Mobil, you can never know ahead of time when Meta will be poised for outperformance.

Figure 2: Top 10 positions in select benchmark indexes

WisdomTree U.S. Quality Growth Index		S&P 500 Growth Index		Russell 1000 Growth Index	
Name	Weight	Name	Weight	Name	Weight
Apple	12.75%	Apple	13.88%	Apple	13.05%
Microsoft	11.15%	Microsoft	7.25%	Microsoft	11.65%
Alphabet	5.74%	Alphabet	6.55%	Alphabet	6.12%
NVIDIA	5.61%	NVIDIA	5.37%	Amazon com	5.26%
Amazon com	4.90%	Tesla	3.53%	NVIDIA	4.81%
Tesla	4.58%	Amazon com	2.58%	Tesla	3.37%
Meta Platforms	3.52%	UnitedHealth Group	2.31%	Meta Platforms	2.93%
Visa	3.39%	ExxonMobil	2.08%	UnitedHealth Group	1.80%
UnitedHealth Group	3.22%	Visa	1.90%	Visa	1.77%
Mastercard	2.66%	Eli Lilly & Co	1.76%	Eli Lilly & Co	1.76%

Sources: WisdomTree, FactSet. Data as of 7/24/23. The Nasdaq 100 Index is not included due to data licensing. Holdings are subject to change.

Conclusion: Will AI Continue to Fuel this Big Company Rally?

As we go through the final days of July and coming into early August 2023, Microsoft pre-empted this so-called earnings week by making a big announcement in the prior week, letting the world know that they would be pricing their generative AI Copilot software at \$30 per month, per user, for commercial customers.¹ This was an important announcement, because while we know that generative AI is important and that it was central to the rally in equities in the first half of 2023, we don't know for sure if or how it will allow companies to drive revenues and ultimately generate earnings. Of all the largest firms, at least so far, Microsoft is doing the best job of tying generative AI's narrative and potential to concrete, revenue-driving initiatives. Later in the reporting cycle, it will be notable to see if Nvidia can make good on or possibly even beat the \$11 billion expected figure that they put on the board back in May 2023.

After all of the Big Tech companies report their quarterly results, we believe we might get a sense as to whether the strong share price performance of these companies is more or less likely to continue.

For those seeking exposure to the growth companies that have proven they belong at the top of the quality spectrum, we believe the [WisdomTree U.S. Quality Growth Fund \(QGRW\)](#) is well positioned to keep the focus directly on these firms.

1 Source: Richard Waters, "Microsoft to Charge \$30 per Month for Generative AI Features," Financial Times 7/18/23.

Important Risks Related to this Article

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