

Wall Street's Big Tech enthusiasm getting stronger

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Big tech CEOs (L-R) Mark Zuckerberg of Facebook, Sundar Pichai of Google, Tim Cook of Apple and Jeff Bezos of Amazon are scheduled to testify in Congress later this month

Tech stocks were going strong even before COVID-19, but behavioral shifts during the pandemic have lifted the sector further into the stratosphere, leaving the broader stock market far behind.

The tech-dominated Nasdaq Composite Index has closed at records in six of the last seven sessions, reflecting investors' confidence that tech companies benefit from the so-called "stay-at-home" trade even as the market has pummeled airlines, hotels and brick-and-mortar retailers.

"There's clear winners and losers right now in the market," said Dan Ives, an analyst at Wedbush Securities, who thinks the biggest tech giants could still gain another 30 percent this year.

"From a winner perspective, the clear spotlight [is on] tech names."

Technology companies are a "pocket of certainty" in a time of economic weakness, said Quincy Krosby, chief market strategist at Prudential Financial.

The latest surge means that just five companies, the so-called "FAANG" group— Facebook, Apple, Amazon, Netflix and Google—now account for more than 20 percent of the value of the S&P 500.

With spiking coronavirus cases in the US expected to bolster the dynamics behind the recent surge, the industry's biggest worry is probably politics, analysts said.

The CEOs of Apple, Google, Facebook and Amazon are scheduled to appear on July 27 at a Capitol Hill hearing on antitrust issues, possibly raising concerns that the government's interest will move beyond political noise.

"July 27th is an important day to see if it's more of a political grandstanding event or the beginning of something much broader in terms of going after the breakup of these companies," Ives said.

Krosby agreed that politics remains a wildcard, and if former Vice President Joe Biden wins the battle for the White House in November that could make aggressive action by Washington more likely.

Bigger biotech

Large tech companies are expected to be a bright spot in the upcoming earnings period, which kicks off this week.

While airlines and cruise companies saw revenue drops of 90 percent or more during parts of the second quarter, tech giants such as Amazon and Netflix are projected to see gains of more than 20 percent, according to Wall Street analysts.



Elon Musk's Tesla has outperformed other tech giants since March, but some analysts now think the company is overvalued

The Nasdaq surge also reflects gains by biotech companies working on vaccines and drugs to treat COVID-19, said David Kotok, co-founder of

Cumberland Advisors.

The sector "is a bargain today," he said. "Healthcare companies are spending today and the revenue will come tomorrow."

"I don't think it's a bubble," Kotok added.

While the success of the Nasdaq is the most obvious sign of the tech surge, the broad-based S&P 500 also shows the increased weight of the sector.

As the COVID-19 crisis spread, the index removed motorcycle company Harley-Davidson and department stores Nordstrom and Macy's, replacing them with less familiar names like Tyler Technologies and Bio-Rad Laboratories.

Howard Silverblatt, senior index analyst at S&P Dow Jones Indices, said the pace of change could accelerate as fallout from the coronavirus crisis continues to mount.

"In turbulent times, you get higher turnover," Silverblatt said. "The index at some point needs to react to the market and to the economy."

Tesla bubble?

The information technology group currently accounts for around 28 percent of the S&P 500, up from 16 percent in 2010.

Silverblatt declined to comment on speculation that Tesla will soon be added to the S&P 500, but one of the criteria is to post profits over four consecutive quarters, a requirement Tesla could meet when it reports results on July 22.

Shares of the electric car maker have enjoyed a meteoric rise of late, eclipsing even other tech companies, and they now trade at more than four times their level in mid-March.

Though Tesla initially struggled to attain profitability, the surge has made it the world's biggest car [company](#) in terms of market value, well above Toyota, General Motors and other traditional auto giants that sell many times the number of vehicles.

But some think Tesla's surge has gotten out of hand, including analysts at JPMorgan Chase, who see "lofty valuation coupled with high investor expectations and high execution risk."

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