Tech's Perfect Profit Record Fails to Impress Spoiled Bulls (1)

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By Sarah Ponczek

(Bloomberg) -- For a view of just how high the bar is set for technology stocks, consider this: Every single one of their earnings reports this season has topped forecasts. Yet the sector has recently gone from being 2020's best performer to one of its biggest laggards.

Not that beloved tech companies have crumbled. Since the reporting season began July 14, the S&P 500 technology sector is up 0.7% while the Nasdaq 100 is virtually unchanged. But both have trailed the broader S&P 500 over the period, and tech's performance is the second-worst of S&P's 11 main sector groups.

That's a change from earlier in 2020 -- a year in which megacaps and tech firms have been viewed as coronavirus havens because of their strong balance sheets, healthy profit pictures and the fact that some have actually benefited from the stay-at-home economy. Still, with the tech-heavy Nasdaq 100 up 22% this year, investors want proof that those stocks are worth the high prices they're fetching.

"On the positive side, there are so many reasons why tech should beokay," said Gene Goldman, chief investment officer at Cetera Financial Group. "But on the negative side, it's just valuations and earnings. It's a high bar that companies are going to have to beat."

Roughly 15% of the S&P 500 technology sector has reported results so far, and all 11 companies have posted a positive earnings surprise. (Twitter Inc. and Netflix Inc. missed estimates, but aren't formally part of S&P's tech category.)

Despite the robust results, in the 24 hours after releasing earnings, tech stocks have gained just 0.6% on average, the third-worst post-earnings sector performance and less than the 1% gain seen for the average S&P 500 stock.

Take Texas Instruments Inc., for example, which reported earnings Tuesday. The chip-maker beat on the top and bottom line, and also gave a strong outlook, yet shares fell more than 2% the next day. Or Microsoft Corp., which reported earnings Wednesday and also beat analyst expectations. However, shares declined amid slowing growth in the tech giant's Azure cloud-computing business.

About 25 S&P 500 technology companies are set to report earnings through the end of next week, including Apple Inc. and Intel Corp.

Analysts estimate S&P 500 technology stocks' revenue increased from a year prior in the second quarter, the only sector forecast to do so, data compiled by Bloomberg Intelligence show. Per-share profits are projected to decline less than 10%, the second-best performance of any S&P 500 sector, and well above the more than 40% contraction expected for the entire S&P 500.

"The technology sector's impressive run to new highs could be in jeopardy, in our view, if company outlooks fail to substantiate a robust top-line recovery," wrote Bloomberg Intelligence strategists led by Gina Martin Adams. "The S&P 500 technology sector may need to prove it deserves safe-haven status, with confirmation that relatively steady growth prospects remain."

That rings true to Victoria Fernandez, chief market strategist for Crossmark Global Investments. Last week, she trimmed holdings of Apple and Microsoft, while adding shares of JPMorgan Chase & Co. and consumer staples companies including McCormick & Co. The tech behemoths are still core parts of the portfolio she oversees, but after a stellar run, it made sense to take some profits.

"What you can do is be advantageous, take a little bit off the table if you have a good game there, and use that to find some other names that have potential going forward," Fernandez said by phone.

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