To Our Valued Clients,

It's no secret that technology stocks outperformed the broad market last year, and by a wide margin. After its struggles in 2022, the tech-heavy Nasdaq Composite was up over 40% in 2023 and closed the year just 6.50% below its all-time high set in November of 2021. This resurgence, coupled with prevailing excitement surrounding artificial intelligence, has placed a distinct emphasis on the mega-tech earnings that commenced this week.

The ever-popular tech giants Microsoft and Alphabet (Google) got the ball rolling on Tuesday afternoon as they reported their most recent quarterly results. For the most part, the market reaction had a clear theme, good, but not good enough. Investors were quick to find weak spots in what, at face value, were very healthy earnings reports. Despite reporting quarterly earnings per share of $2.93 and revenue of $62B, both beating forecasts, shares of Microsoft shed 2% in after-hours trading as investors were disappointed with the progress of the company's Copilot AI software. Alphabet fared worse despite also beating both top and bottom-line expectations. The stock fell as much as 7% as its advertising business missed revenue projections by a small margin. Looking at the broader market, about a third of S&P companies have reported thus far, with about 65% beating earnings expectations, falling short of the 5-year average beat rate of 77%. Unlike the tech sector, however, the broad index has grinded higher in recent weeks.

The recent cool-off in the tech sector shouldn't come as any major surprise given last year's rally. The downward price moves despite really healthy earnings reports underscores an increase in investor expectations, likely from the recent euphoria around AI. In short, tech companies are now expected to clear a much higher bar, and beating earnings expectations alone isn't enough. Apple, Amazon, and Meta are up next, reporting today after the market close. They will undoubtedly face these same hurdles as traders weigh not only how much they made, but where they made it. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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