Harding and Company – US Markets - What to Watch in the Week Ahead

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Earnings Season is Drawing to an End

MANHATTEN, NEW YORK, UNITED STATES, August 20, 2018 /EINPresswire.com/ -- Harding and Company looks at the week ahead as Alibaba, one of the biggest China listed stocks in the US markets reports mid-week.

A steep downturn in heavyweight Chinese internet stocks and recent weakness in half of the so-called FANG group have some investors worried that a key component of Wall Street's near-decade long rally may be low on fuel.

Outstanding gains in Facebook, Amazon, Netflix and Alphabet have underpinned much of the U.S. stock market's rally in recent years, along with the broader tech sector, but the group is widely viewed as overbought and valuations remain expensive.

Backed up by strong earnings growth and investor confidence in Silicon Valley's innovation track record, the S&P 500 technology index is up 16 percent in 2018, making tech Wall Street's top performer.

But a recent slump in China's own superstar technology stocks, brought into sharper focus after Tencent Holdings reported its first profit drop in almost 13 years on Wednesday last week, has increased worries about Wall Street dependence on a handful top-shelf growth companies.

Shares of Tencent, China's largest social media and gaming company, have fallen over 6 percent in the past two days and are down by nearly a third from their record high close in January.

"Tencent is a good proxy for global growth and risk. Nowadays, with everything being so momentum driven in the market, if one thing goes, everything can go," said John Preston, senior advisor with Harding and Company.

Also, unnerving tech investors: Netflix and Facebook, which along with Amazon and Google-parent Alphabet make up the FANG stocks, have fallen sharply since their June-quarter reports.

With Netflix down 22 percent from its record high close in early July, and Facebook down 19 percent since July 25 due to fallout from privacy scandals, some investors are questioning whether "FANG" may be turning into "AG". Even with those worries, investors continue to make the group a centerpiece of their portfolios.
Amazon has surged over 60 percent in 2018 and on Tuesday closed at a record high. Alphabet is

up 17 percent year to date.

"FANG stocks will continue to play a huge role over the next two to three years," said John Preston. "They're expensive, but you have to hold your nose and buy them."

The S&P 500 in recent days has struggled just short of its January record high and is up 6 percent year to date.

Even after recovering from a steep sell-off in February, the S&P 500 is trading at a relatively inexpensive 16.5 times expected earnings, compared to 18.6 times earnings in January, according to Thomson Reuters data.

The S&P 500 technology index is trading at 18.7 times earnings, compared to its high-point of 19.6 in late January.

The FANG stocks, plus Apple and Chinese stocks Baidu, Alibaba and Tencent, in August were the most crowded trade on Wall Street for the seventh straight month, according to survey of fund managers. In crowded trades, most investors share the same opinion, increasing the potential for a volatile sell-off if sentiment changes.

“We have seen a significant draw towards the China heavyweights this year and despite the geopolitical issues between China and the US over the recent months, we still believe that there is value in these companies.” “Alibaba releases its earnings this week and we expect the stock to react very positively.” - John Preston.
Shares of U.S.-listed Chinese technology companies in recent years have been caught up Wall Street's tech rally, but changes in their prices can also reflect the outlook for China's economy and government regulation.

Facing possible losses on China tech trades, global investment funds that own those stocks may be tempted to sell some of their U.S. tech stocks to lock in profits.

Amazon recently traded at 87 times expected earnings, its lowest in over a year. But many investors focus on the Internet retailer and cloud infrastructure company's explosive revenue growth. By that measure, Amazon appears expensive, at 3.5 times expected revenue, its highest level ever.

To find out how you can get involved in opportunities in the markets, contact an advisor today at info@handcadvisors.com or visit www.handcadvisors.com to see how you can benefit from an independent advisory service that is 100% committed to your financial security, strategy and wealth management.

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