

Red-hot Nasdaq 100 is threatening to double inside of two years

Synopsis

Few dare bet against further gains. Short interest as a percentage of shares outstanding on the exchange-traded fund that tracks the Nasdaq 100, QQQ, stands at 1.5 per cent. That's the lowest since March 2019, according to data from IHS Markit Ltd.

By Sarah Ponczek

Last year, when the economy and earnings were booming, the Nasdaq 100 Index put together its best rally in a decade, rising 38 per cent. In 2020, amid a raging recession and plunge in profits, it's doing a little less well. It's up 37 per cent.

Which is to say the tech-heavy gauge is on the brink of doubling in 20 months, its most powerful run this century. The gains enlarged on Wednesday, with the index climbing 2.1 per cent -- the second jump of at least that much during a streak in which it has risen in nine of 11 sessions.

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Megacap tech firms have emerged as unshakable market leaders. Adored for their sturdy balance sheets and business models that not only hold up in a lock-downs but excel, the Nasdaq 100's performance is making history by the day.

Plus, up more than 50 per cent in five months, the rally has been the most forceful since the dot-com years of at the turn of the millennium.

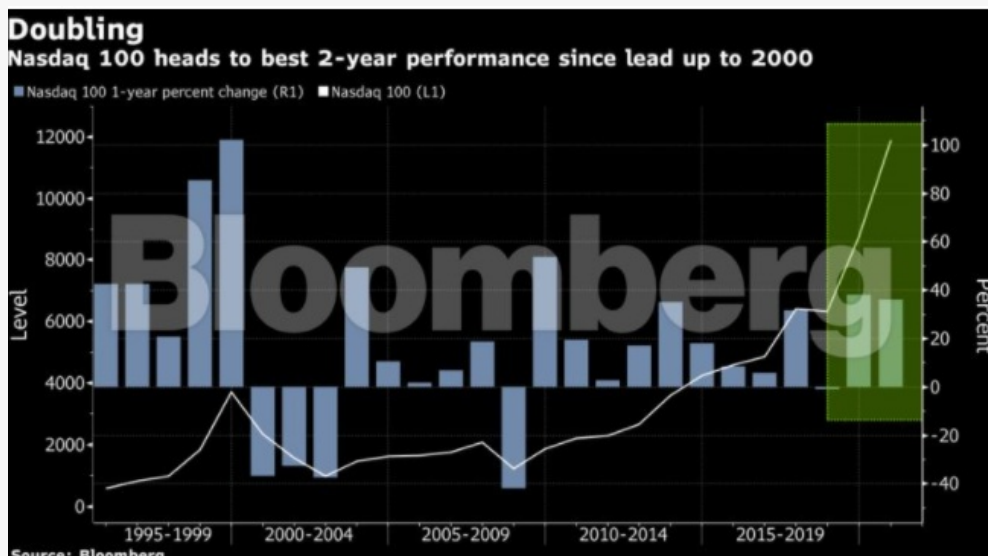
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"If you could have created a crisis for big tech, this is what you would have created," said Seema Shah, chief strategist at Principal Global Investors. "It is working from home, keeping in touch with people, ordering online -- it is the best crisis for big tech."



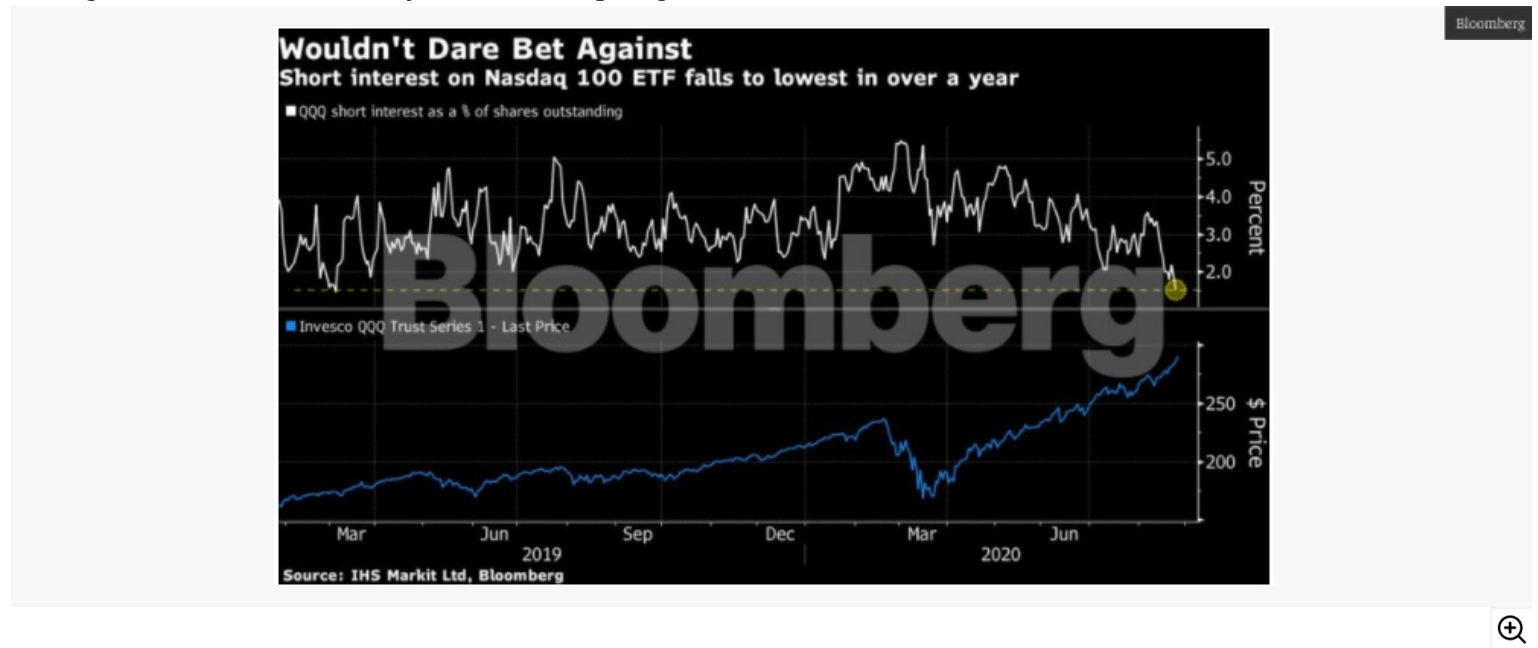
The Nasdaq 100 climbed to another record led by gains in media and software stocks. A Goldman Sachs basket of high-priced software stocks rose 5.3 per cent, the best day since July 20, while media and entertainment stocks in the S&P 500 jumped 4.4 per cent.

Software-maker Salesforce.com Inc. rose 26 per cent to an all-time high after reporting earnings that beat expectations and raising its full year revenue forecast. The company isn't a member of the Nasdaq 100, but the rosy results lifted other cloud stocks in the index including Adobe Inc., Workday Inc. and Splunk Inc. -- each up at least 6 per cent. The industry has benefited as people around the world work from home.

The group of megacap tech and internet stocks known as the Faangs also continued their advance Wednesday. Facebook Inc., Amazon.com Inc., Microsoft Corp., Apple Inc. and Alphabet Inc. each rose to an all-time high. Shares of streaming service Netflix Inc. jumped 12 per cent, its best day in three years.

Up almost 10 per cent in August, the Nasdaq 100 is on track for its fifth straight monthly gain, the longest winning streak for the tech-heavy benchmark since the one that ended in January. Plus, up more than 50 per cent in five months, the rally has been the most forceful since the dot-com years of at the turn of the millennium.

One popular technical indicator is starting to signal a pause is due. The Nasdaq 100's 14-day relative strength index surpassed 70 this week -- the level that classifies an index or stock as overbought -- and rose above 75 Wednesday. That's the highest since Feb. 19, the day before stocks plunged into the fastest bear market on record.



“These tech companies that are driving the market forward show this is not an everything rally,” said Nela Richardson, senior investment strategist at Edward Jones. “The market rally has really been structural because of the concentration in tech, and those tech firms having really strong balance sheets, and because of the Fed and very low interest rates.”

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