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## RESEARCH

# Is Microsoft Stock A Buy As Software Giant Touts Artificial Intelligence?



PATRICK SEITZ | 08:15 AM ET 05/08/2023

**S**oftware giant **Microsoft (MSFT)** has earned plaudits for its successful pivot from desktop computing to cloud computing. And MSFT stock has risen as a result. But after a recent surge, many investors may be wondering: Is Microsoft stock a buy right now?



Bill Gates and Paul Allen started Microsoft in 1975 at the dawn of the personal computer era to make PC operating system software. The company's Windows operating system came to dominate the PC landscape. Microsoft expanded over the years into productivity software, server software, internet services, video games, and PC hardware and accessories.

Current Chief Executive Satya Nadella took the reins of the Redmond, Wash.-based company in 2014 and led Microsoft full steam into cloud computing. Recently, he has been promoting the company's advances in artificial intelligence.

The company's cloud offerings today include Azure infrastructure services, Office 365 productivity software and Dynamics enterprise software. Also, Microsoft owns LinkedIn, Skype and GitHub.

## **Microsoft Trails Amazon In Cloud Computing**

Microsoft is gaining on **Amazon.com's (AMZN)** Amazon Web Services in the market for cloud infrastructure services.

In the first quarter, Amazon Web Services had 32% market share, according to research firm Canalys. Microsoft was in second place with 23% market share. And **Alphabet (GOOGL)** unit Google Cloud Platform was a distant third with 9% market share.

Overall enterprise spending on cloud infrastructure services reached \$66.4 billion in the first quarter, up 19% year over year, Canalys said.

## **MSFT Stock News: OpenAI Partnership**

Microsoft lately has been promoting its efforts to infuse artificial intelligence into its software and services.

On Jan. 23, Microsoft announced a new investment, reportedly worth \$10 billion, in **artificial intelligence startup OpenAI**. OpenAI is the organization behind text generator ChatGPT and image generator Dall-E. Microsoft previously had invested in OpenAI in 2019 and 2021.

Microsoft is providing its Azure cloud computing infrastructure for OpenAI. It also is adding OpenAI models to its consumer and enterprise software products.

On Feb. 7, Microsoft showed off its **new Bing search engine and Edge web browser** that use AI technology. Microsoft hopes the OpenAI-based technology can help Bing chip away at Google's dominance in the internet search market. MSFT stock jumped 4.2% on the news.

On March 16, Microsoft announced that it is adding artificial intelligence tools to its popular Office productivity applications. It introduced a feature called **Microsoft 365 Copilot**. The Copilot feature uses next-generation AI to automate and simplify tasks and provide suggestions. Microsoft stock surged on the news.

On March 28, Microsoft added AI to its cybersecurity offerings. It launched **Microsoft Security Copilot**, a new tool for enterprises to quickly detect and respond to threats and better understand the threat landscape.

## **Activision Blizzard Acquisition Stalled**

Meanwhile, Microsoft's proposed acquisition of video game publisher **Activision Blizzard (ATVI)** is facing challenges from antitrust regulators.

Microsoft announced a deal to buy Activision in January 2022 for \$68.7 billion in cash. Microsoft said the **Activision purchase** will accelerate the growth of its gaming business and provide building blocks for the coming metaverse. But Microsoft stock fell 2.4% on the news.

On Dec. 8, the Federal Trade Commission filed an **antitrust lawsuit** to block Microsoft's purchase of Activision. Microsoft is fighting the lawsuit.

And on April 26, the U.K.'s Competition and Markets Authority blocked the deal over concerns that it would harm competition in the cloud gaming market. Microsoft vowed to appeal the ruling.

## Microsoft Stock Fundamental Analysis

Late on April 25, Microsoft reported **better-than-expected results for the March quarter** and guided higher for the current period. MSFT stock jumped 7.2% in the next trading session after the report.

Microsoft earned \$2.45 a share on sales of \$52.9 billion in its fiscal third quarter ended March 31. Analysts polled by FactSet had expected earnings of \$2.24 a share on sales of \$51 billion. On a year-over-year basis, Microsoft earnings rose 10% while sales advanced 7%.

For the current quarter, Microsoft forecast revenue of \$54.85 billion to \$55.85 billion. The midpoint of \$55.35 billion was above Wall Street's consensus target of \$54.7 billion for the June quarter.

The next major catalyst for Microsoft stock could be the company's June-quarter earnings report, due in late July.

## MSFT Stock Technical Analysis

After hitting a record high of 349.67 in November 2021, Microsoft stock had a steady decline through 2022. But it has perked up this year.

Microsoft stock has a good **IBD Relative Strength Rating** of 92 out of 99. The best growth stocks typically have RS Ratings of at least 80. The Relative Strength rating shows how a stock's price performance stacks up against all other stocks over the last 52 weeks.

The **IBD Stock Checkup** tool gives MSFT stock an **IBD Composite Rating** of 97 out of 99. IBD's Composite Rating combines five separate proprietary rankings into one easy-to-use number. The best growth stocks have a Composite Rating of 90 or better.

Also, Microsoft ranks first out of six stocks in IBD's Computer Software-Desktop industry group. The desktop software group ranks No. 20 out of 197 industry groups that IBD tracks. Choosing highly rated stocks from leading industry groups in a confirmed stock market uptrend generally increases your chances of making profits in growth stocks.

Microsoft stock is in the **IBD Long-Term Leaders Portfolio**.

Plus, Microsoft ranked first on **IBD's 2021 list of ESG stocks** for investors investors focused on environmental, social and governance issues.

## Is Microsoft Stock A Buy Right Now?

Microsoft stock is not a buy right now. It is extended from its recent **breakout**.

On March 17, MSFT stock broke out of a **flat base** at a **buy point** of 276.86, according to **IBD MarketSmith** charts. The **5% buy zone** from Microsoft's breakout runs from 276.86 to 290.70, based on **IBD trading principles**.

MSFT stock ended the regular session May 5 at 310.65.

Microsoft needs to form a **new base** in the **right market conditions** before setting a potential buy point. Check out **IBD's Big Picture column** for the current market direction.

Microsoft stock has an **IBD Accumulation/Distribution Rating** of B+. That rating indicates institutional buying of MSFT stock.

Keep an eye on the **overall stock market**. If the market turns south, **don't try to fight the general stock market direction**.

To find the **best stocks to buy or watch**, check out **IBD Stock Lists**. Also consult IBD's **Leaderboard**, **MarketSmith** and **SwingTrader** platforms.

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