

First to Market

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TECH STOCKS ARE BACK BY POPULAR DEMAND



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Chart of the Day

ETH: Breakout after a long consolidation



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Good morning!

Borrowing costs are increasing across the economy, but tech stocks couldn't care less.

The Nasdaq composite has added 4.9% and reached fresh records since the Federal Reserve hiked interest rates by a quarter-percentage point last Wednesday and signaled toward at least one more increase by the year-end. The recent advance puts the year-to-date Nasdaq composite gains at 17%, outperforming the S&P 500's 13% rally. The tech-heavy index has rebounded to records faster in recent days than the broader S&P 500 index, which closed Tuesday barely below its record. The latter is being weighed down by declines in financials and telecom stocks.

Advanced Micro Devices \$AMD is among the star performers. Its shares have added 24% since last Wednesday, and it recently joined the exclusive \$1 trillion club. The Lag Seven have reverted back to being the Magnificent Seven \$MAGS, increasing 4.3% through the same period. Memory and storage stocks like Micron \$MU and Sandisk \$SNDK are up 18% and 23%, respectively, and even optical-networking companies like Lumentum Holdings \$LITE and Coherent \$COHR have ticked higher.

There's at least one factor backing up the tech sector's push back up to the market leaderboard, and that's Meta. The social-media giant launched a personal AI agent, Muse, on Sept. 8, and since then the app has climbed to No. 1 in Apple's App store. The stock has been rewarded by shareholders for the strong launch, up 19%.

J.P. Morgan argues that Muse could become the most-used consumer AI app since ChatGPT was launched. I'm not yet convinced on that, but one thing is clear: Tech leaders, especially Meta, have spent on AI like there's no tomorrow. All they've seen in return so far is technology that allows them to better target ads to consumers. So Muse's continued success becomes all the more important to see because it could be the first non-ad revenue segment (via paid tiers) that Meta has. How it fares also has implications for the broader tech universe.

Other than the Meta news, not all that much has changed for tech stocks, leading some to question whether they can trust these nascent gains. Both Fundstrat Head of

Research Tom Lee and Mark Newton have said that tech stocks have bottomed, but that remains a hot take in the investing circle.

Tech stocks have posted dramatic comebacks in the past only for the rally to sputter out weeks later. Plus, with the backdrop of higher gas and diesel prices, conflict in the Middle East, and a potential rate-hiking campaign, being wary doesn't sound crazy to me.

Here's the thing, though: Tech's declines earlier this summer were also just as much of a head scratcher as the recent gains. There weren't concrete reasons for why stocks like Micron, SK Hynix, and AMD sold off after posting gangbuster earnings.

I believe there's at least four reasons why tech stocks could continue this upswing.

#1 Higher rates don't necessarily mark the end of a tech bull run. Yes, they can reduce the value of future earnings, which is more common to see in tech stocks than other sectors, but at the same time, historical data show that investors will keep buying as long as the sector keeps innovating. In fact, this might surprise you but the tech sector outperforms the S&P 500 by more when the 10-year Treasury yield goes up, rather than down, according to data analysis by Fundstrat Macro Data Scientist Alex Wang.

#2 It's quite normal to see a stumble in tech stocks, such as the one we saw this summer, before they resume a run back to all-time highs. Both the VanEck Semiconductor ETF \$SMH and Roundhill Memory ETF \$DRAM entered bear-market territory this summer, which hurt. But at the end of the day, this is quite akin to what happened to Cisco's stock during its bull run from 1994 to early 2000s. In 1997, the stock basically halved but soon posted a strong rebound. A year later, the stock halved again, but it rose significantly more than that at its peak in 2000.

#3 Valuations have come back down, making the stocks look attractive. \$SMH is trading at roughly 19.3 times projected earnings over the next 12 months. That's much cheaper than the average of 24.06 noted since the end of 2024.

#4 Traders are positioning for the gains to continue. Hedge funds and other speculators have turned bullish, with the net futures contracts as a percent of open

interest tied to the Nasdaq 100 increasing to 9.4% for the week ended Sept. 15, the highest level since January of this year. On Aug. 11, net positioning was negative 14.2%, the lowest level since Covid-19 in 2020, indicating that speculators were much more bearish. For all we know, that could have marked the bottom.

Investors with a long-term investing horizon and risky appetite might regret sitting out this tech rally.

Share your thoughts

Do you think tech's back for real? Click [here](#) to send us your response.

Here's what a reader commented

Q: Do you think these higher diesel prices mean we're about to see another wave of inflation?

A: Having run a family garden center which is now 83 years old, high diesel prices will absolutely add to inflation. Everything single thing we consume is affected by the cost freight. To think this will not have a long-term effect on inflation is impossible. Manufacturers, distributors, and retailers cannot afford to eat these costs. Prices will continue to rise and once prices go up, they rarely come down. No one will be in a race to lower prices.

Catch up with Fundstrat

Here's a link to the September Macro Update and Top Ideas webinar.

Technical

Under the surface, this remains the narrowest advance in some time. Technology is the lone sector higher over the past month on an equal-weighted basis, and the

average stock has been falling while the index rises.

Crypto

Yesterday, we discussed the significance of BTC breaking above its 50-week MA and how prior confirmed breaks have generally been followed by upside acceleration. In the near term, I still think that is the right framework. There is likely some overhead supply in the \$90K-\$95K range, which also maps reasonably well to the historical 50-week breakout precedents.

News We're Following

Breaking News

- Iran's President to Address World Leaders After Trump Threat NYT

Markets and economy

- The bond market is flashing a warning for stocks. These sectors are already wobbling. MW
- Fed's Collins warns inflation could be 'notably' higher after backing rate hike CNBC
- Trump discloses more than 1,100 July trades, including up to \$25 million each in sales of Microsoft, Amazon CNBC

Business

- Meta's New AI Agent Is an Instant Hit—and the Backlash Has Already Begun WSJ
- Softbank's mega junk-bond deal shows capital for the AI race is getting more expensive MW
- Peloton is releasing its cheapest treadmill yet as it bets on running for a turnaround CNN

Politics/U.S.

- Trump Puts Legacy Ahead of Midterm Politics in Speech at U.N. WSJ
- Mamdani Aides Give City Council Little Insight Into Influencer Effort NYT

- Trump-Xi summit puts AI safety talks on the table but neither side wants to slow down CNBC
- Supreme Court Order Gives Parents Custody of Baby in Surrogacy Fight NYT

Overseas

- Iran says Trump's threats a sign of 'strategic desperation,' floats conditions for Hormuz reopening CNBC
- How China's Leader Plans to Win the Future With A.I. NYT
- The Sprawling Banco Master Probe Is Roiling Brazil's Presidential Election BBG

Of Interest

- \$5 Billion Flurry of Nearly Identical Kalshi Trades Draws Scrutiny WSJ

Overnight

S&P Futures	+4 ▲ point(s) (+0.05% ▲)
overnight range:	-4 ▼ to +12 ▲ point(s)

APAC

Nikkei	+1.38% ▲
Topix	-0.07% ▼
China SHCOMP	-0.39% ▼
Hang Seng	-1.01% ▼
Korea	+0.90% ▲
Singapore	-0.24% ▼
Australia	+0.09% ▲
India	+0.38% ▲
Taiwan	+0.75% ▲

Europe

Stoxx	50 -0.09% ▼
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Stoxx	600 -0.08% ▼
FTSE	100 +0.17% ▲
DAX	-0.34% ▼
CAC	40 -0.02% ▼
Italy	+0.09% ▲
IBEX	-0.11% ▼

FX

Dollar Index (DXY)	+0.26% ▲ to 100.86
EUR/USD	-0.34% ▼ to 1.1410
GBP/USD	-0.48% ▼ to 1.3282
USD/JPY	-0.30% ▼ to 157.87
USD/CNY	-0.09% ▼ to 6.7061
USD/CNH	-0.12% ▼ to 6.7067
USD/CHF	-0.32% ▼ to 0.8231
USD/CAD	-0.12% ▼ to 1.4081
AUD/USD	-0.46% ▼ to 0.7082

UST Term Structure

2Y-3M Spread widened	1.2bps to 65.9bps
10Y-2Y Spread narrowed	-1.3bps ▼ to 19.1bps
30Y-10Y Spread widened	0.1bps to 33.5bps

USD HY OaS

All Sectors	-0.3bps ▼ to 299bps
All Sectors ex-Energy	+0.6bps ▲ 282bps

Cons Disc	+3.6bps ▲ to 498bps
Indu	+2.0bps ▲ to 241bps
Tech	+2.6bps ▲ to 191bps
Comm Svcs	+6.5bps ▲ to 287bps
Materials	-2.4bps ▼ to 241bps
Energy	-0.4bps ▼ to 248bps
Fin Snr	-0.3bps ▼ to 184bps
Fin Sub	-0.9bps ▼ to 251bps
Cons Staples	-5.0bps ▼ to 399bps
Healthcare	+1.2bps ▲ to 301bps
Utes	-0.7bps ▼ to 206bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
9/23	9:45 AM	Sep P S&P Svcs PMI	55.8	56.5
9/23	9:45 AM	Sep P S&P Manu PMI	53.7	53.9
9/24	10:00 AM	Aug New Home Sales	615.55	607
9/24	10:00 AM	Aug New Home Sales m/m	1.3	-10.5
9/25	8:30 AM	Aug P Durable Gds Orders	-0.3	1.1
9/25	10:00 AM	Sep F UMich 1yr Inf Exp	n/a	4.6
9/25	10:00 AM	Sep F UMich Sentiment	47.5	47.8
9/29	9:00 AM	Jul S&P Cotality CS 20-City m/m	n/a	0.24
9/29	10:00 AM	Sep Conf Board Sentiment	91	89.4
9/29	10:00 AM	Aug JOLTS	7225	7271

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