https://www.wsj.com/articles/tech-rally-puts-nasdaq-on-cusp-of-exiting-bear-market-11549458001

MARKETS

Tech Rally Puts Nasdaq on Cusp of Exiting Bear Market

Optimism about U.S.-China trade deal and U.S. monetary policy has pushed shares of large technology firms higher

Many of the technology stocks leading the Nasdaq's rebound were among the hardest hit on its slide down last year. Above, an Amazon fulfillment center in Italy. **PHOTO:** GIULIO NAPOLITANO/BLOOMBERG NEWS

By Akane Otani

Updated Feb. 6, 2019 5:04 p.m. ET

The Nasdaq Composite is on the cusp of exiting a bear market, rebounding nearly 20% from its Christmas Eve low and highlighting the resilience of the technology shares that have long powered the market higher.

The index heavily weights shares of technology firms like Apple Inc., Amazon.com Inc., Google parent Alphabet Inc. and Facebook Inc., which cumulatively lost hundreds of billions of dollars in market value in the final months of 2018.

The rout, many said, was fueled by dimming confidence in the domestic and global economies, then likely exacerbated by machine-run trading that accelerated the declines.

But in recent weeks, rising optimism about U.S.-China trade negotiations and U.S. monetary policy has helped propel stocks across the board higher. And earnings reports from technology behemoths, while mixed, have proved to be better than many investors had feared.

Apple's revenue and profit slipped as its China sales disappointed, although shares jumped after Chief Executive Tim Cook reassured investors that the company wasn't taking its "foot off the gas."

Facebook delivered record profit for the latest quarter, proving its business continued to grow even as it faced backlash from users and regulators. Alphabet posted a jump in quarterly revenue, along with rising costs outside its core online-advertising business.

Those developments have pushed the Nasdaq up more than 19% from its December low—and within 1 percentage point of exiting bear-market territory and kicking off a new bull run.

If the index achieves the feat in the next five days—closing at or above 7431.504—it would mark its second fastest such rebound since its inception in the 1970s, according to Dow Jones Market Data. Despite the recent surge, the index is still down 9.1% from its Aug. 29 high.

Meanwhile, the S&P 500 and Dow Jones Industrial Average, which narrowly avoided entering a bear market, have also surged since Christmas. The indexes are both up more than 16% from their lows.

"To say companies like Amazon, Google or Facebook are now in some way finished or at the end of their growth cycle—I don't see that. We're just at the beginning," said Christopher Rossbach, chief investment officer at private investment office J. Stern & Co., which holds shares of the three companies.

Many of the technology shares leading the Nasdaq's rebound were among the hardest hit on its slide down last year.

Semiconductor companies, many of which took a hit as they warned about faltering demand from China, have raced past the Nasdaq's 11% gain for the year. Advanced Micro Devices Inc. is up 26%, while Micron Technology Inc. has risen 31%.

Social-media firms whose online platforms were hurt by backlash among regulators and users last year have also charged higher, with Facebook notching a 30% advance and Twitter Inc. TWTR **-0.61%** ▼ rising 19%.

Yet some of the companies exerting the biggest pull on the stock market have enjoyed a more subdued recovery, suggesting the recent uptick in technology shares is far from the indiscriminate rally that many investors worried about last year.

Apple and Amazon have performed roughly in line with the S&P 500 this year, while Microsoft Corp. has trailed the broad index. The three companies have jostled for the title of the world's largest publicly traded company in the past few months, with Apple reclaiming the title on Wednesday after its post-earnings climb.

What has become apparent in the recent flurry of mixed earnings reports is that company results "aren't great, but they're better than the worst" investors were expecting, said Nicholas Colas, co-founder of DataTrek Research.

One factor that may be reeling in investors' enthusiasm for technology this year: Many companies in the industry are grappling with slowing sales and user growth following years of reliably blockbuster numbers.

More than 80% of technology companies in the S&P 500 have reported stronger-than-expected earnings, the highest share of earnings beats among the index's 11 sectors, according to RBC Capital Markets. But less than half of technology companies have topped analysts' sales estimates, making the sector among the worst in the S&P 500 on that metric.

Technology stocks slid in early January after Apple slashed its quarterly revenue forecast for the first time in more than 15 years, citing an unexpectedly severe drop in iPhone sales in China.

Still, many of the sector's stocks managed to end the month higher—a sign that investors haven't wholly abandoned bets on growth.

Amazon accounted for 5.4% of the S&P 500's gain in January, making it the biggest contributor to the index's rise that month, according to Howard Silverblatt, senior index analyst at S&P Dow Jones Indices. Facebook came in second, accounting for 5% of the S&P 500's January rise, while Netflix, in fourth, was responsible for 2% of the index's gain.

Apple appears to have effectively reset the expectations for many investors, Mr. Colas said.

For investors like Mr. Rossbach, whose firm has held Amazon shares for more than a decade, short-term developments like a rise in costs aren't necessarily a reason to shy away from technology bets altogether.

"These companies are still growing extremely strongly," Mr. Rossbach said.

Write to Akane Otani at akane.otani@wsj.com