

## Sell Off in Tech Creates Opportunity Heading into Earnings Season

Dan Ives | ETFMG Cloud Technology Expert | October 27, 2020

Stocks and tech names remain weak as second wave fears and jitters heading into the US Elections are creating a bit of a risk-off trade heading into a big week for tech earnings. To this point, while there is general nervousness given the backdrop we believe tech stocks **could rally another 10%-15% into year-end led by FAANG names (Apple our favorite), cloud software (Microsoft and Salesforce our favorites), and cyber security (Zscaler our favorite name)**. Will these results/guidance be enough to keep the tech rally going or cause a red light for investors? The reality is that the strong are getting stronger with FAANG names such as Amazon, Facebook, Google, and Apple beneficiaries of the current environment and a dynamic that will be front and center Thursday night, which we believe will put further fuel into the tech rally moving forward into year-end with the elections and a potential Blue Wave creating more volatility over the next month for tech stocks. The irony is that the robust results expected from FAANG names and software cloud stalwarts such as Microsoft this week will on one hand highlight the outsized strength these tech behemoths are seeing in the field, which has been accelerated in this COVID environment by 1-2 years in some cases. On the other hand this will further put into the bright spotlight from a regulatory and antitrust perspective just how well these tech giants are doing and ultimately add fuel to the fire in the Beltway around breakup momentum, which at least for now is viewed as a contained risk in the eyes of the Street.

**Tech stocks should move higher; all about secular growth stories.** These tech behemoths are both defensive and offensive names for investors, as the re-rating for these secular growth stories continues to play out in the market with no signs of slowing down in our opinion, although the upcoming US elections could create an even more nervous time for investors over the coming weeks. Apple is on the cusp of an iPhone 12 5G super cycle with a services business that is thriving in this environment, its FAANG brethren Amazon (massive e-commerce strength and AWS secular trend), Facebook (higher engagement with social media), and Alphabet (advertising/search, GCP cloud strength) all saw relative tailwinds in the September quarter. For Microsoft we expect the massive acceleration to cloud continued over the past few months with Azure/Office 365 a major beneficiary of these secular trends which is still in the third inning of playing out among enterprises.

**Green light remains to own tech stocks into year-end.** While the rally over the last seven months has been eye popping, we believe the transformational growth drivers across the tech sector and a further re-rating of tech stocks continue to make us bullish heading into year-end. While the political landscape remains in flux, regardless of a Biden or Trump Presidency, we continue to see the path higher for tech stocks given the underlying fundamental drivers that should be front and center during 3Q earnings. In a nutshell, we are still in the middle innings of a paradigm change for tech stocks with WFH, cloud, e-commerce, and cyber security trends leading the way as these transformational growth trends play out in the field over the coming 12 to 18 months.

## Meet the Expert



### Dan Ives

Managing Director & Equity Analyst,  
Wedbush Securities

World renowned software and technology analyst with 20+ years experience educating on cloud computing, cyber security, big data and the mobile landscape. His vision behind the ETF stems from an investor demand for global exposure to the "cloud enabler" companies he has been covering for decades.

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