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Apple Inc.

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Will tech stock dominance last forever?

Whatever you may think of 2020's losers, and there have been a lot (the travel, and leisure sectors spring to mind), a winner during a year wracked by the coronavirus (COVID-19) pandemic and stock market turmoil is the tech industry, which has seen its value soar as its constituents found their services in massive demand.

Shares in the industry's largest firms have been on a tear, with Apple Inc (NASDAQ:AAPL) rising 76% since January while Amazon.com Inc (NASDAQ:AMZN) has climbed 69%, Facebook Inc (NASDAQ:FB) is up 30% and Google parent Alphabet Inc (NASDAQ:GOOG) has jumped 27% as of December 22.

The pandemic and ensuing lockdown have also proven to be a boon for streaming giant Netflix Inc (NASDAQ:NFLX), which is up 60% this year, while company's supplying remote working solutions have also been cashing in. One example is Zoom Video Communications Inc (NASDAQ:ZM), which has soared 504% in value since January as demand for its services skyrocketed.

However, perhaps the biggest beneficiary of the boom is electric car maker Tesla Inc (NASDAQ:TSLA), which has seen its shares rocket a whopping 662% this year and landed it with a spot in the S&P 500 as the index's sixth-biggest constituent.

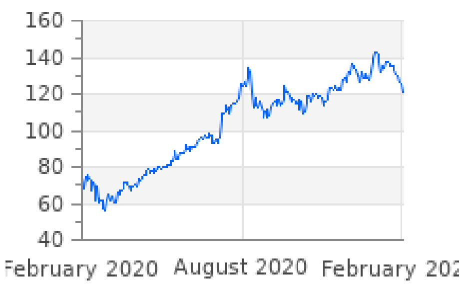
This explosive growth has also been good news for the Nasdaq index itself, which has ballooned 40% in value over 2020 and as of Monday's close was near a record high at 12,742, equivalent to a market value of just over US$16 trillion.

However, such a rapid rise has left the index massively overvalued by the standards of traditional metrics, with the latest price/earnings (P/E) ratio for the Nasdaq 100 standing at 31.48, more than double the equivalent figure of 14.39 for the FTSE 100. Given that several firms in the Nasdaq 100 also have low earnings (Netflix, for example, reported net income of just US$790mln in its third quarter despite a market cap of almost US$230bn), any downturn in the space could cause significant pain for investors if the market focus shifts from growth towards value.

Price: 120.99

Market Cap: $2.03 trillion

1 Year Share Price Graph



Share Information

Code:		AAPL
Listing:		NASDAQ
52 week	**High**	**Low**
	145.08	**53.1575**
Sector:		**Hardware & electrical equipment**
Website:		**www.apple.com**

Company Synopsis:
Apple Inc. designs, manufactures, and markets personal computers, mobile communication devices, and portable digital music and video players, and sells a variety of related software, services, peripherals, and networking solutions.

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But can it last?

While the growth of tech is one of the biggest market success stories in 2020, many are wondering if the bull run can be maintained as signs emerge that the outlook for the sector may be darker into 2021.

A major concern for the big players is increasing pressure from regulators on both sides of the Atlantic which could see their operations at risk of breakup or at the very least hefty fines for breaking the rules.

Earlier in December, the European Commission published two pieces of legislation, the Digital Services Act and the Digital Markets Act, both of which are reported to include provisions that could see companies fined as much as 10% of their turnover for serious breaches of the bloc's competition rules, penalties can also be imposed for firms that fail to police their platforms for illegal content.

The UK is also working on its own batch of rules, with the government recently publishing plans for online safety laws that could see firms facing billions of pounds in fines if they fail to remove illegal and harmful content from their platforms.

Meanwhile, Facebook is facing a major battle in the US after the Federal Trade Commission (FTC) and a coalition of 48 US states filed lawsuits against the social media giant alleging that it has engaged in anticompetitive behaviour and abused its market position to crush potential rivals.

The FTC has included requests for the courts to consider breaking up the group, a move that could see Facebook lose control of messaging platform WhatsApp and photos-focused social media app Instagram.

Another 'dotcom' bubble?

The acceleration of tech has also raised concerns that the sector could be experiencing something akin to the 'dotcom' bubble of the early 2000s, which saw a raft of internet-related companies achieve sky-high market valuations before the bubble burst and prices came crashing down in 2003.

With this in mind, AJ Bell's Russ Mould said that a shift in the focus of investors from growth to value "could have big implications" for portfolios and asset allocation strategies.

"Even if the [tech stock growth] trend does continue - and it remains an 'if' - it would not necessarily mean that tech is going to collapse, as it did in 2000-2003, But it could put a big lid on it", Mould said.

He added that should the 'FAAANM' sextet of major tech stocks, comprising Facebook, Alphabet, Amazon, Apple, Netflix and Microsoft Corp (NASDAQ:MSFT) "run out steam, weighed down by their own valuations, regulatory pressure or even earnings disappointment then investors may face a tricky choice in terms of country, sector and stock selection".

"Conversely, should inflation stay in its box and disinflation or deflation still rule, then we could easily see the trends of the last ten year keep on running", Mould concluded.

However, some institutions are keen on some of the larger tech stocks into the new year despite the potential risks, with analysts at UBS tapping Amazon as one of their 'top picks' for 2021.

The Swiss bank, which rates Amazon at 'buy' with a US$4,000 target price, said they expect the company's Amazon Web Services (AWS) business to maintain "the dominant position in the infrastructure-as-a-service market" and that the wider business is "positioned to benefit from key shifts in consumer/enterprise behaviour" towards eCommerce, cloud computing, media consumption and the use of artificial intelligence voice assistants.

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