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It Was a Year to Forget for Tech Stocks—and 2023 Might Not Be Better

By Eric J. Savitz Following Dec. 16, 2022 4:55 pm ET

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A few predictions for next year: Apple wins the NFL Sunday Ticket TV package, but doesn't launch an augmented reality headset. Meanwhile, Meta Platform's core business gets worse, and Mark Zuckerberg slashes metaverse spending.
Nic Coury/Bloomberg

For tech investors, 2022 has been a terrible, horrible, no good, very bad year. And 2023 might not be much better.

With just two weeks to go, the Nasdaq Composite is off 32%, the worst year for tech since a 40% drop in 2008. Dozens of former highfliers are down 50%, 70%, even 90%. The IPO market is closed—new issue proceeds are down 97% in 2022. Crypto is in tatters. The ad market is soft, cloud computing is decelerating, enterprise tech spending is slowing, and the PC market has come unglued. Meanwhile, what sales there are have been hurt by the strong dollar.

And yet, the biggest problem of all is that the Federal Reserve keeps ratcheting up rates to fight inflation. Higher rates are poison to tech stocks, because earnings far into the future are less valuable as rates rise. And this year, the yield on the two-year Treasury note has climbed from 0.7% to 4.2%. Not good for tech. Not good at all.

David Readerman, a tech investing vet who runs a Bay Area tech hedge fund called Endurance Capital Partners, puts it this way: "I've spent more time hitting the F2 key on my Bloomberg terminal than at any other time in my career." The F2 key brings up—you guessed it—Treasury pricing.

Like every other tech investor, Readerman is spending more time focused on rates than stock-picking. But almost nothing has worked on the long side. The Nasdaq's 2022 peak came on Jan. 3, the year's first trading day.

I spent the past week talking to analysts and portfolio managers about the 2023 tech outlook and heard consistent messaging about what to expect. Here's what tech investors need to consider while crafting a strategy for 2023:

It's still all about rates: As Fed Chairman Jerome Powell made clear this past week, the central bank isn't done raising rates. "We have more work to do," Powell said in his press conference on Wednesday. "Restoring price stability will likely require maintaining a restrictive policy stance for some time." As long as the Fed keeps ratcheting up rates, the headwinds for tech will continue.

Expect a recession: The sharp selloff this past week reflected the market's new conviction that the Fed won't be finished until GDP growth goes negative. And there isn't anywhere to hide when the economy softens. In the latest batch of tech earnings, there were even signs of slowing in supposedly recession-resistant sectors like cloud computing and security software. Things are likely to get worse before they get better.

Beware earnings season: Almost certainly, Wall Street consensus estimates for next year are too high. Most companies have yet to provide 2023 guidance, but that will change when fourth-quarter earnings season begins in late January. Brace for bad news. While the consensus calls for S&P 500 aggregate earnings of $230 a share, Morgan Stanley's forecast is for $195, which would be down almost 11% from an estimated $218 this year. If that view is accurate, stocks will struggle.

Last year in this column, I quoted Dan Niles, who runs the tech-focused long-short Satori hedge fund, saying that tech shares were headed for trouble. His top pick was cash. That was a smart call, and in fact, Niles says he has positive returns this year, thanks also to some smart shorts. But he remains a bear: Niles continues to think the S&P 500 will bottom at 3,000, down another 20%-plus from recent levels.

"In 2023, we will enter a classic recession," he predicts. "Unemployment will be higher, and growth will slow. Earnings guidance will be horrific."

Bring on the summer: Paul Meeks, portfolio manager with Independent Solutions Wealth Management, thinks we'll have a recession, too, but a shorter and shallower version than previous downturns. "The coast will be clear for investors by next summer, if not sooner," he says.

Back to China: Niles has been dabbling in Asian emerging markets, looking for tech stocks in Korea and Singapore, and playing the iShares MSCI Emerging Markets EEM +0.29% exchange-traded fund (ticker: EEM). But he's also intrigued by China. "It's all about monetary policy," he says, noting that if the U.S. is tightening and China is loosening, and if China continues to move away from both draconian regulation of technology stocks and its zero-Covid policy, Chinese tech stocks could thrive.

Tech Trader's 2023 predictions: The Nasdaq hits new lows in the spring, rebounds from there, but still finishes lower in 2023 for its first back-to-back losing years in two decades.

Consolidation hits the streaming space. Apple (AAPL) wins NFL Sunday Ticket, but doesn't launch an augmented-reality/virtual-reality headset. Meta Platform 's (META META +2.82%) core business gets worse, and Mark Zuckerberg slashes metaverse spending. Microsoft (MSFT) beats the FTC and gets to buy Activision Blizzard (ATVI). Fanatics has 2023's biggest IPO. Chip stocks lead a second-half rally. The Philadelphia Eagles win the Super Bowl. (Yay!) And, finally, Elon Musk continues to get more attention than he deserves—because some things never change.

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