Amazon

Tech stock woes threaten Wall Street bull market

Fears of Trump vendetta against Amazon and data leak at Facebook unsettle investors

President Donald Trump has made no secret of his disdain for Jeff Bezos, Amazon's chief executive © AFP

Richard Waters in San Francisco, Gregory Meyer in New York and Barney Jopson in Washington
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The whiplash that has spread through leading tech stocks has left investors facing an uncomfortable reality: Wall Street can no longer take the invincibility of Big Tech for granted.

Rising political anger, a worry that the Big Tech boom will soon have run its course and the sense that an economic turning point may have been reached in the US have combined this week to threaten one of the underpinnings of the stock market boom.

The wild two-week swing in tech stocks, which included a bloodbath on Tuesday, began with reports of a massive leak of personal data from Facebook, and was extended by fears of a White House vendetta against Amazon.

Since then, the social networking company's shares have dropped 14 per cent, losing about $75bn in stock market value and wiping $10bn from the personal fortune of co-founder Mark Zuckerberg. Amazon, which found itself on the receiving end of another tweet from President Donald Trump on Thursday, has shed $61bn, Apple $54bn, Alphabet, parent of Google, $62bn, and Microsoft $26bn.

Despite the volatility that crept into a group of stocks that have led the market higher, Big Tech's loyal army of fans among Wall Street analysts remained bullish.

After years in which it has paid to have a "buy" recommendation on Big Tech, stock market analysts have largely reiterated their confidence in the sector's fundamentals, despite the ructions. For Facebook, 44 of 48 analysts recommend buying the stock, according to Bloomberg data. Forty-eight of the 51 analysts covering Amazon rate it a buy.

Investors have been nervous for months that the growing political backlash against Big Tech would lead to a new wave of regulations or taxes, though they did not have anything specific to attach their fears to.

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Now they do. The news that the personal information of some 50m Facebook users had been leaked to a data analysis firm that helped the Trump presidential campaign added to a wave of anger against the social media company on both sides of the Atlantic.

"The social media privacy concern which has hit Facebook's shares now adds to wider worries over US and European regulation in the IT sector," Steven Wieting, global chief investment strategist at Citi Private Bank, wrote in a note to clients. "Consumer data has become a highly valued commodity and a few IT firms are coming to dominate industries. This raises fear over market competition in certain countries."

Concerns that political risk for the big tech companies is reaching a new peak were underlined this week when Mr Trump took aim on Twitter against Amazon. The president has made no secret of his dislike of Amazon, whose founder, Jeff Bezos, is the owner of the Washington Post, which has led much of the reporting about recent chaos in the White House.

Some analysts also pointed out that Amazon's surging stock price, unlike that of other big tech companies, has not been underpinned by solid profit growth, though Wall Street long ago came to terms with judging the ecommerce company differently from its main rivals.

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Tech company lobbyist

In another sign that investors in some tech high-flyers may have set themselves up for a fall, shares in electric carmaker Tesla slumped after news of that one of its vehicles had been involved in a fatal crash and new worries spread about its finances.

The reversals this week highlighted the market rally's reliance on a small number of big tech stocks, making it highly vulnerable to shocks in the sector.

The S&P 500's overall move during the first quarter was heavily dependent on tech. Facebook alone contributed 11 per cent of the index's loss during the period — though Amazon's rise, despite the March wobbles, more than offset this, contributing more than 18 per cent of the upside to the index during the same period.

Microsoft, Intel and Cisco — tech companies that led the stock market higher during the tech boom at the end of the 1990s — were also among the top 10 contributors in the first quarter. That has added to the echo of the late 1990s, when over-confidence in economic growth and the huge growth prospects of a handful of big tech companies would inevitably carry the market higher.

Like then, worries that these factors have been overplayed has led to a growing defensiveness in the stock market, with some investors turning away from growth to more defensive companies.

The wave of bad news in tech has also reinvigorated Wall Street's short sellers — investors who sell shares they do not own in the hopes that the price will fall. Ihor Dusaniwsky, head of predictive analytics at S3 Partners, a financial analytics company, said Facebook, Amazon, Apple, Netflix and Google are now among the top 10 most-shorted US stocks, as measured by market value. The total short position in the five stocks is worth $34.9bn.

Shorting red-hot tech stocks such as Tesla was a recipe for losing money when they were moving steadily higher. A year ago to the week, Elon Musk, Tesla's chief executive, celebrated his company's soaring share price by taking a shot at his company's short sellers, tweeting: "Stormy Weather in Shortville."

$75bn

Amount Facebook lost in stock market value since news came out of a massive leak of personal data

With the March declines, however, the Tesla shorts have finally had a month to celebrate. With stocks in some of the most shorted names falling, people betting against Tesla pocketed $2.3bn during the month of March on a mark-to-market basis, S3 said.

But it has been the rising — and unpredictable — political pressures on the leading tech companies that have most rattled investors. They have also brought signs of a growing rift among the tech companies themselves.

As the backlash against Silicon Valley gained momentum in the past year, big tech companies largely sought to maintain a united front against what they regarded as misconceptions about their work and bad policy ideas.

The Facebook data leak, however, is fracturing that unity. As it turns into an existential crisis for the social network, other Silicon Valley executives have sought to distance themselves from Mr Zuckerberg's brand.

Tim Cook, Apple's chief executive, was scathing about Facebook's "monetisation" of its customers and their data in an MSNBC interview this week.

“You are not our product . . . You are our customer. You are a jewel . . . And we’re not going to traffic in your personal life. I think it’s an invasion of privacy,” Mr Cook said.

The head of one tech trade association in Washington said it has always been easier for Apple to criticise Facebook because its business model is so different. Google, by contrast, seeks to profit from personal information much like Facebook.

Still, one Google artificial intelligence expert, François Chollet, tweeted this week: “The problem with Facebook is not *just* the loss of your privacy and the fact that it can be used as a totalitarian panopticon. The more worrying issue, in my opinion, is its use of digital information consumption as a psychological control vector.”

The chief Washington lobbyist of another tech company said there was a difference between the ways tech executives talked in public and behind closed doors. “In discussions around tables, everyone says, ‘We have to stick together,’” he said. “But then everyone goes out there and says, ‘It’s Facebook’s problem, not ours.’”

Additional reporting by John Authers in New York