What the NASDAQ 100's special rebalance means for investors

- *Mobeen Tahir, Director, Macroeconomic Research and Tactical Solutions, WisdomTree*

On 24 July, the NASDAQ 100 Index conducted a special rebalance to reduce the concentration of the so-called 'magnificent seven' in the index. The seven stocks whose strong performance this year has driven the index are Apple, Amazon, Microsoft, Alphabet, Tesla, Nvidia, and Meta (see figure below).

Figure 1: Year to date returns for NASDAQ 100 and the magnificent seven
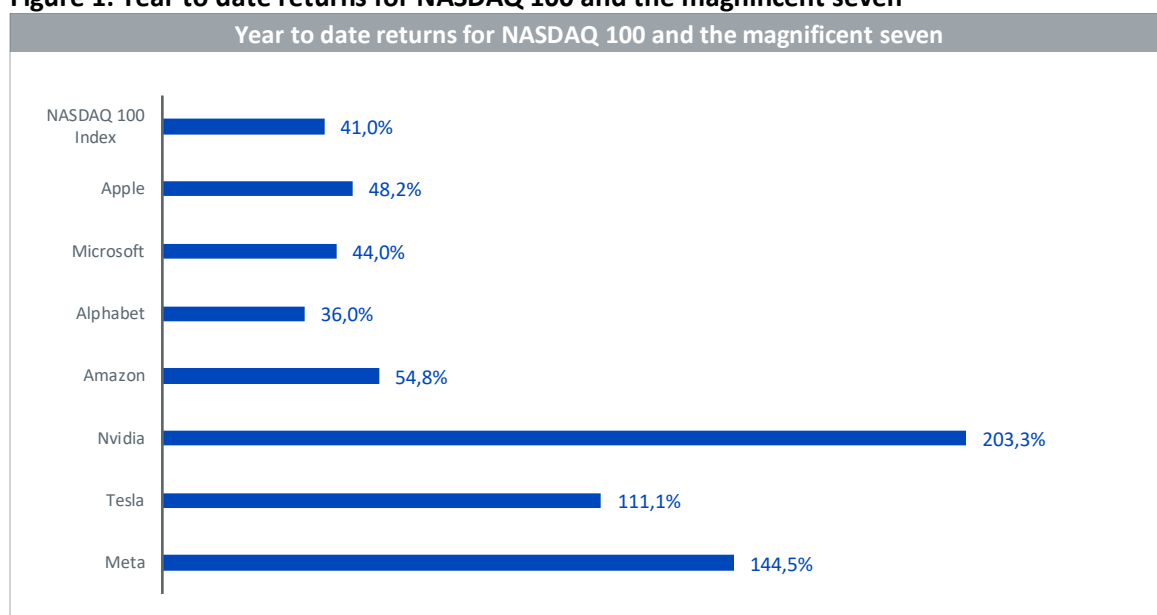
Source: Bloomberg, data as of close Friday 21 July 2023. **Historical performance is not an indication of future performance and any investments may go down in value.**

The index is typically reconstituted annually in December, with additional rebalancing opportunities each quarter. A special rebalance outside the usual schedule is only happening for the third time in the index's history, with the first two having been in December 1998 and May 2011. According to NASDAQ, a special rebalance may be triggered if the aggregate weight of companies individually accounting for more than 4.5% of the index tops 48%. Based on this, NASDAQ announced its plan to rebalance the index on 7 July.

The new weights were applied before the start of trading on 24 July. The following table shows the stocks with the biggest reductions and gains in their positions compared to the close of trading on 21 July.

Figure 2: Biggest cuts and Biggest gains on rebalancing date

Biggest Cuts	Weight Change (%)	Biggest Gains	Weight Change (%)
Microsoft	-3.02	Broadcom	0.64
Nvidia	-2.96	Pepsi	0.45
Alphabet	-1.78	Costco	0.42

Amazon	-1.61	Adobe	0.41
Tesla	-0.99	Cisco	0.36
Meta	-0.85	Netflix	0.32
Apple	-0.76	AMD	0.30

Source: NASDAQ, data as of 24 July 2023. Weight change is calculated between the closing weights on 21 July and opening weights on 24 July. Alphabet's two share classes have been combined.

What happened in the past?

Strong rallies in tech stocks were behind the special rebalances both in May 2011 and December 1998. In 2011, Apple was among the stocks that saw its weight being reduced notably following a period of strong performance. And in 1998, it was Microsoft[1]. Performance of the index following the two rebalances does not give much to go by. Following the rebalance in December 1998, the NASDAQ 100 continued on its upward trend while the index was weighed down following the rebalance in May 2011.

What it means for investors

For investors looking to position themselves tactically to benefit from this development, arguments can be made to support both bullish and bearish cases. Passive money tracking the NASDAQ 100 Index will be forced to sell the biggest names on Wall Street which have made a significant contribution to the index's performance this year. This could create some volatility in the short-term especially given the special rebalance has happened in the middle of the earnings season and market sensitivity to announcements may be heightened. Already in the week of 17 July, when Tesla and Netflix announced their earnings, markets reacted adversely to their cautious outlook for the third quarter. This also means that it would be hard to completely isolate the impact of the rebalance on stock prices. A dip in prices may, however, may be seen by some investors as an entry point.

But while the move from NASDAQ is aimed at reducing the concentration of the biggest tech names in the index, the special rebalance does not mean that the NASDAQ 100's risk profile has changed materially. The index follows a modified market capitalisation methodology which means that, subject to some limits of influence, the biggest companies will still occupy the largest weight. The index, therefore, continues to give investors a way to capture the sentiment in growth stocks, bullish or bearish.

In some of our [recent blogs](#), we have also emphasised how the NASDAQ 100 is not a way to capture specific tech megatrends such as artificial intelligence (AI), despite investor sentiment towards AI driving the fortunes of some of the top names in the index. Dedicated AI strategies, such as the NASDAQ CTA Artificial Intelligence Index, tend to have [relatively low overlap with the NASDAQ 100](#). Again, the rebalance does not fundamentally change this.

Closing word

The NASDAQ 100 Index was launched in 1985. This is only its third special rebalance in almost four decades. For an index which is focused on growth stocks, it signifies how contributors to performance have been concentrated right at the top this year. For tactical investors, there may be opportunities in the short-term resulting from this. For others, it may be a reminder of the need for diversification.

---

[1] Source: CNBC report from 05 April 2011 https://www.cnbc.com/2011/04/05/nasdaq-100-rebalancing-what-to-expect.html