

# VAKIFBANK GLOBAL ECONOMY WEEKLY

## Is a New Tech Bubble Around The Corner?



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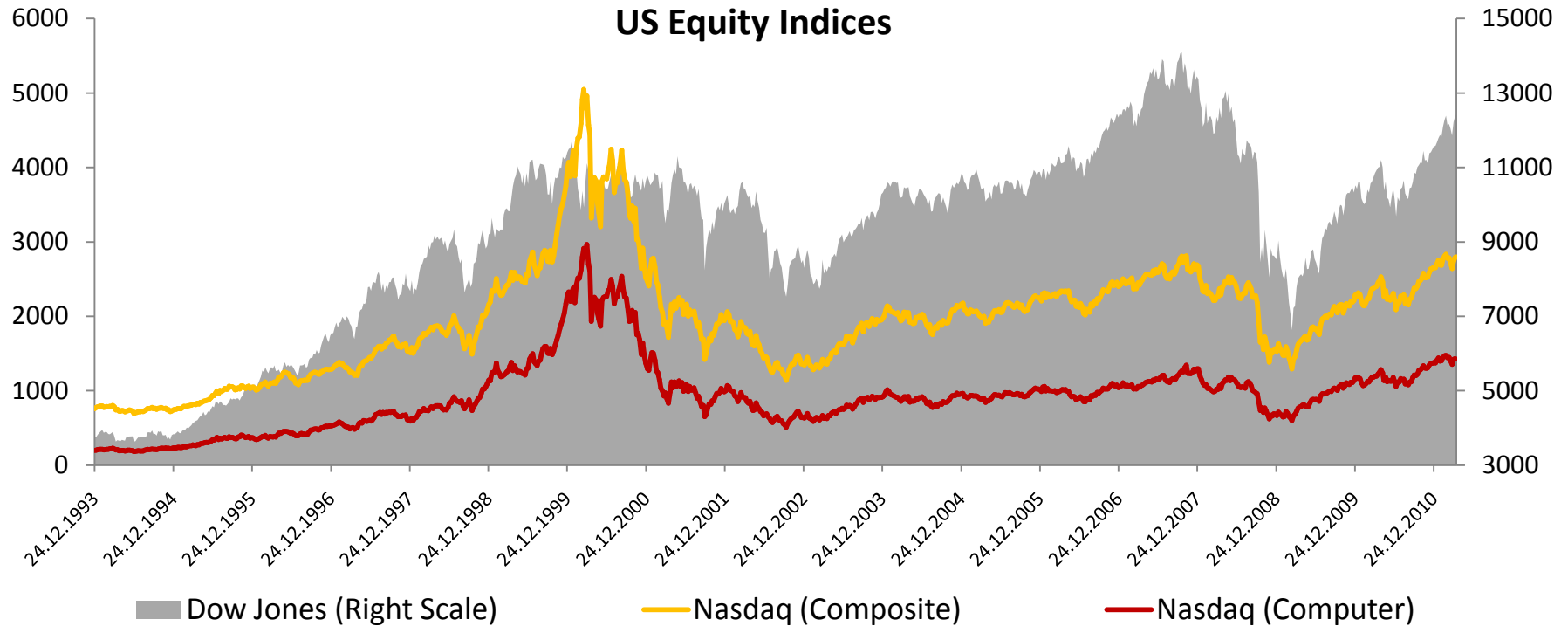
## Dot-com bubble and now...

- Equity markets faced the burst of the bubble which asserted itself in the US technology stocks through the end of 1990's.
- Low levels of US interest rates was on the backstage of the crisis, preparing a suitable ground for the bubble which burst out in the 1998-1999 period.
- High speculation in the market caused the technology stocks to overvalue.
- FED hiked rates for 6 times to avoid the negative effects of the crisis between 1999-2000 period, but it could not prevent overheating in the market.
- With the break out of Web 2.0 technologies in the current decade, internet companies begun a rapid growth trend despite the global financial crisis. This brings out the discussion of a new tech bubble in stock markets.

### DOT-COM CRISIS VERSUS CURRENT SITUATION

	dot-com	Now
<i>Internet companies' market value</i>	\$71 billion (24 companies)	\$71.3 billion (5 companies)
<i>IPO</i>	308 tech companies	20 tech companies
<i>The amount of venture capital investments</i>	\$200 billion	\$90 billion
<i>The number of internet users</i>	50 million	2 billion

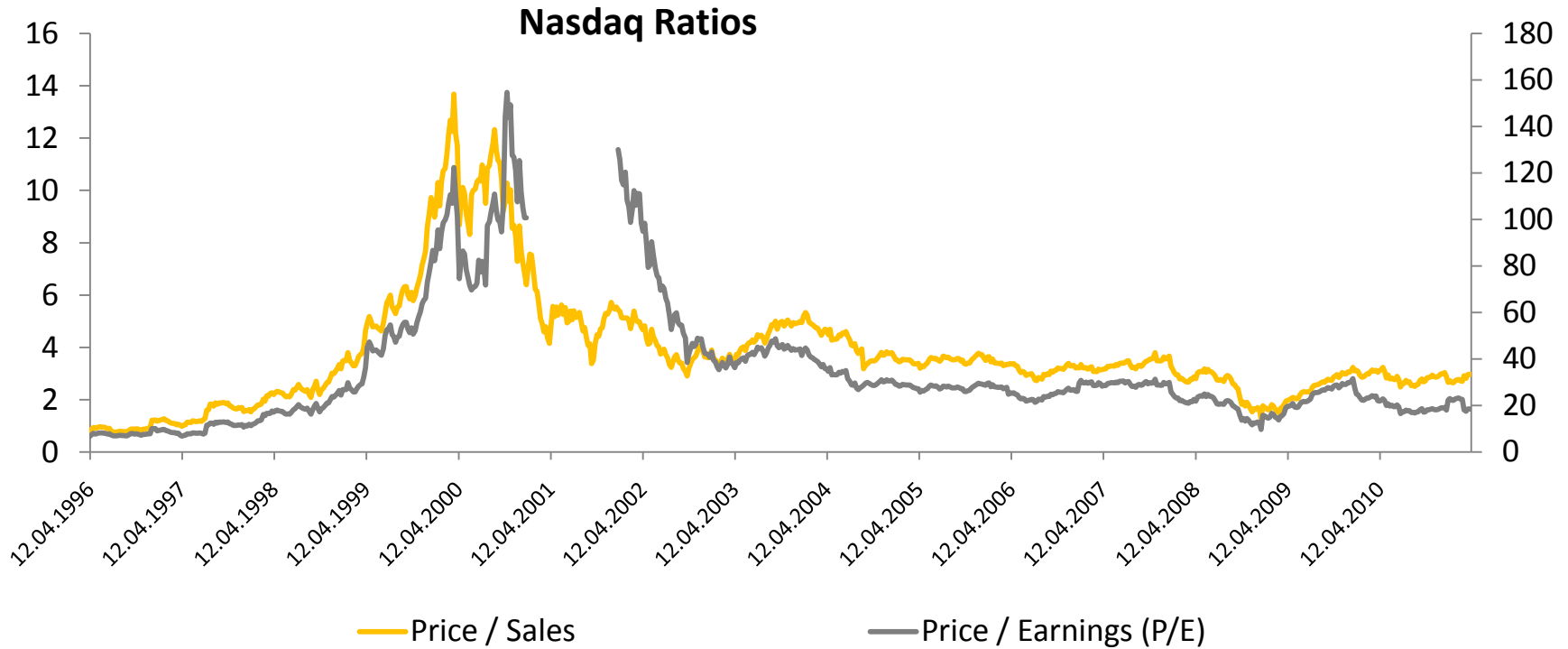
# There isn't an irrational movement in stock prices...






Source Bloomberg

- 📌 The upward trend of the US equity indices caused some fears of a new bubble in the US stock market especially in the technology stocks, such as the dot-com boom and bust in the late 90's.
- 📌 The increase seen in technology shares in 1998 – 1999 period is bigger than the rise of the Dow Jones Index, but in the recent case Dow Jones is seen to rise more.
- 📌 A bubble driven intensity of activity in tech stocks is not observed currently.

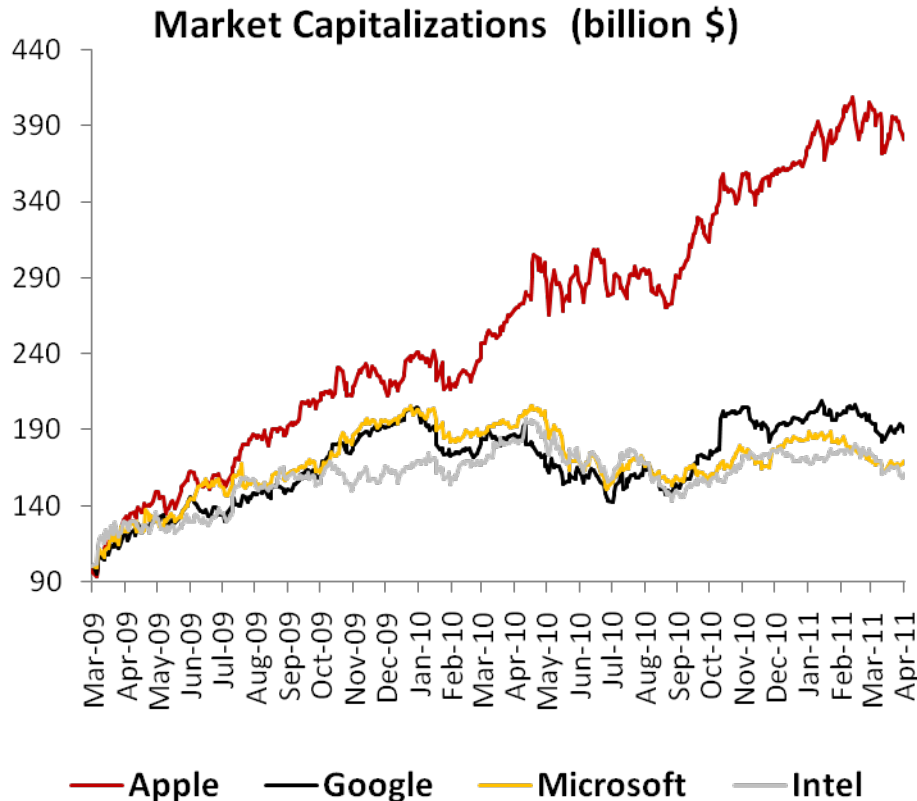
# Equity ratios don't indicate a bubble ...



Source: Bloomberg

-  It would be useful to compare some stock market ratios during the dot-com bubble and now.
-  Bubble era ratios and valuation multiples were higher than the current comparable ones.
-  Meanwhile, the valuations in the broader tech market are far from being in bubble territory.

**According to our analysis whether there is an asset bubble in technology stocks or not, don't indicate an unusual situation in tech-market...**



- Our analysis strengthened our expectations about the rise in market capitalization of technology stocks has been originated from the company-based developments.
- In this context, we have analyzed the trend of some technology stocks which have major share in the tech-market.
- As shown in the graph, market capitalization of Apple has been increasing since it's origination with it's product variety and quality. However, market capitalization of other companies have been increasing more moderately.

## To conclude...

- ✔ Stock valuation ratios of today's technology companies look nothing like the bubble era ratios.
- ✔ Investment by venture capital firms on technology sector from 2008-2010 is less than 1998-2000 level. It can be considered that capital flow to sector don't create bubble.
- ✔ The upward risks on technology sector are originated from company-based developments.

### *Because;*

- The trends of the technology companies are parallel to Nasdaq computer index. However the Nasdaq computer index is below the Nasdaq index.
  - Apple's upward movement is reflecting its strong appearance and is different from other companies.
  - Total market capitalization of twenty companies in 2011 is below total market capitalization of eighteen companies in 1999 when the dot-com crisis burst.
- ✔ Hence, high value appreciation in 'tech bubble' period was higher than now. This shows that the discussed current performance of technology stocks is company-based.
  - ✔ For example, value appreciation of Thomson Reuters and Apple companies is related with product variety. And, market capitalization of Apple which is \$312 billion is 30 times higher than its 1999 value.

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