Is This Bull Market Crazier Than The Dotcom Bubble?

Description

While stock markets across the globe have experienced a correction in recent weeks, they are still in the midst of a major bull market. This has been a relatively long period of gradual share price growth which started in the aftermath of the financial crisis.

During the current bull run, indices across the globe have reached record highs. They have easily surpassed the highs from the dot.com bubble in the late 1990s. As such, could this be a case of history repeating itself, with a bear market set to occur in the near future?

Growth policies

Much of the growth in share prices in the current bull market has been due to the stimulus programmes put in place by policymakers across the globe. Interest rates have reached rock-bottom in various developed economies, while the addition of quantitative easing has caused a boom in asset prices.

Furthermore, a loose monetary policy has greatly improved the performance of the world economy. It has supported borrowing and provided consumers and businesses with greater financial flexibility during a period of uncertainty. As such, it is understandable why there has been a bull market, with policy action being a key catalyst.

New technology

In contrast, the dot.com bubble of the late 1990s was built on the idea that the world economy was about to experience a major change. The internet was set to revolutionise the way that business was done. It was set to drastically change consumer behaviour and have an impact on most parts of everyday life.

While it could be argued that the internet has done exactly that, the reality is that it has been an evolution rather than a revolution. Investors in the late 1990s were expecting the world to change within a short space of time. Therefore, when it became clear that the internet may take time to be adopted and have its full impact, the sky-high valuations of technology stocks suddenly seemed rather unappealing.

Different this time?

While most investors do not currently believe that the world is about to experience a sudden change, there is a risk that expectations regarding the global economy are overly optimistic. For example, in the US investors appear to have priced in significant economic growth resulting from President Trump's lower taxation and higher spending policies. This could lead to disappointment if those policies are unable to have their desired effect and also cause challenges such as higher inflation.

Similarly, a number of technology stocks now trade on exceptionally high valuations. While they are generally dominant in their fields, regulatory change or a change in consumer tastes could easily make their current valuations seem excessive.

Takeaway

While the current bull market does not appear to be as indulgent as that of the dot.com bubble, there is no guarantee that it will continue. In the late 1990s, it felt as though growth was a given. After a number of years of rising share prices, the same feeling may begin to creep into investor attitudes today. As such, keeping some cash on hand to take advantage of potential opportunities could be a shrewd move.

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Date
2025/08/27
Date Created
2018/03/17
Author
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