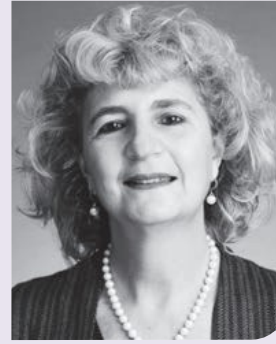


Hiding in plain sight



Global markets were down at the end of October, the worst month since the low point in March, because of renewed fears of a second wave and its economic impact on jobs and growth, aside from the unquantifiable human cost.

Why were the markets surprised? The World Health Organization (WHO) had already warned, once it declared Covid-19 a global pandemic on 11 March, that it would probably last about 18 months. This forecast was extrapolated from the experience of the Spanish flu, which lasted two years (1918-20), but also took into consideration the advance of technology and human development in the ensuing century.

Similarly, the Federal Reserve warned in early summer that the path of the economy would follow the path of the pandemic, which was uncertain and unpredictable. So, no surprise there either. Yet the markets were spooked and startled. Go figure, as they say Stateside.

At the top of every cycle, investors talk of a new ‘paradigm shift’, which tries to explain why ‘it’s different this time’ – the four most expensive words in the investment lexicon. But is it ever different? In 1987, the land on which the Imperial Palace in Tokyo stands was valued at more than the real estate of the whole of California, then the world’s sixth-largest economy. That is, until the bubble burst and, more than 30 years later, Japan is still playing catch up.

Similarly, in 2000, Microsoft and the dotcoms were valued at more than the gross domestic product of the whole of the Indian subcontinent. In 2020, Microsoft is still up there with the best of the FAANGs (Facebook, Amazon, Apple, Netflix, and Google owner Alphabet), but India has far outstripped and overtaken all the bust dotcoms. No surprise there, really.

In 2020, Apple was worth more than the whole of the FTSE 100 index. How can that be? Well, Footsie’s biggest constituents – the banks and oil and resource companies – have been hit hard by a perfect storm. The market is concerned about the level of the banks’ bad-debt provisions, the impact of low

interest rates on their business models, and the regulator withholding their dividend payments. The latter point makes them ‘uninvestable’, effectively.

Meanwhile, the oil majors have been hit by the impact on demand of the pandemic, low oil prices, and the move to low-carbon fuels. What’s the bet that these stocks stay low and Apple high over the long term? Place your bets, or as they say in Monte Carlo – the home of shady characters in sunny climes – *faites vos jeux!*

Our lives are heavily influenced by a handful of technology companies and their monopoly is no secret. The FAANGs, along with Microsoft, now dominate the US stock market, and account for 25% of its capitalisation and the vast majority of its performance. But how influential, exactly, are these companies that we all know are influential to everyday life? Very, according

to a report from the US subcommittee on antitrust law.

What is the remedy? Probably breaking them up, I would wager, and – counterintuitively – probably creating even greater shareholder value. If, say, Google was to spin-off YouTube, it would attract fresh capital that would be allocated exclusively to growing and expanding

YouTube’s footprint, with all the attendant benefits and profits accruing to YouTube alone, to be redeployed to fuel further growth. A virtuous circle.

Don’t believe it? Look at Ant Group – formerly known as Ant Financial and the owner of Alipay – which was spun out of Alibaba Group in 2014 and valued at ‘only’ \$45bn in 2015. Ant Group was due to undertake an initial public offering (IPO) in Shanghai and Hong Kong in early November, before the listing was dramatically suspended and delayed because of changes in “the financial technology regulatory environment”. It had been oversubscribed by 870 times by retail investors, and raised \$37bn, valuing it at about \$316bn. This would have made it the biggest IPO in history and left the holder of that title, Saudi Aramco, in the shade. Now, that is a surprise. As they say, data is the new oil.

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