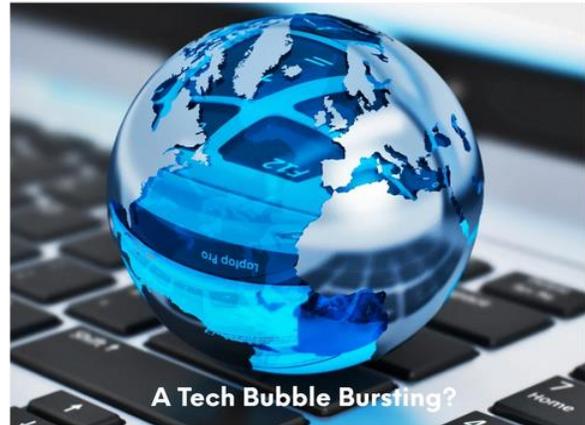




R&R Weekly Column
By Brunello Rosa



Was There A Tech Bubble That Is Now Bursting? It's Not That Simple...

The news of the last few days seems to suggest that a bubble is bursting in the tech sector. After completing a USD 44bn acquisition of Twitter, the new owner and boss [Elon Musk fired half of the company's workforce](#) in an attempt to increase efficiency and restore profitability. A few days later, Mark Zuckerberg, the head of Meta, [fired 11,000 Facebook employees](#) with a simple email. During the same few days [FTX, one of the major crypto exchanges, collapsed](#), after its arch-rival Binance pulled out of a possible attempt to rescue its competitor. All this happens as Nasdaq (the equity index specialised in tech) [has been severely underperforming its more general counterparts](#) since the beginning of the year: Nasdaq is down 28% y-t-d, while the S&P is down 16% and the Dow Jones 7%.

Given this background, it has been quite obvious to ask [whether a bubble has burst in the tech sector](#). Our view is that the reports of the tech sector's death are being greatly exaggerated, for a series of reasons.

First of all, the recent fall in tech valuations has followed a period of massive out-performance, coinciding with the pandemic, when widespread lockdowns implied a massive use of technologies to satisfy even the most basic needs, such as the purchase of groceries. So a post-pandemic adjustment seemed inevitable. Clearly this adjustment is adding to the re-evaluation of general indices, leading to the above-mentioned underperformance.

Secondly, this is not the first time the sector has undergone a major re-alignment of market valuations with economic fundamentals. [The dot-com bubble burst in 2000](#) wiped out a large chunk of the value of the tech companies at that time, but also represented the opportunity to identify those companies that really deserved to survive. Some of them, such as Amazon, and the like, are the champions of today's tech scene and are among the largest companies in the world by market capitalisation. As we are moving toward the so-called [Web 3](#), it is only healthy that the [champions of Web 2](#) undergo a reality check.

Thirdly, a new wave of technological innovation is about to come online, from fin-tech, to med-tech, bio-tech, and so on. For example in the financial domain, central banks are about to enter cyber-space [with central bank digital currencies](#) (CBDCs), and [cyberwarfare is now a standard companion of traditional war methodologies](#). This will require plenty of investment in "digital infrastructure" (servers, cables, mainframes, etc.), which will likely boost tech valuations as soon as this bear market ends.

So, if the current episode does not represent the bursting of a tech bubble, how can we explain it? We believe that the current episode can be explained by two theories. First of all, as [Hyman Minsky's financial instability hypothesis suggests](#), when central banks increase interest rates, the most fragile, speculative positions tend to fail, thus determining the equity market re-pricing that we are observing in this period. Additionally, the sector is undergoing [the process of creative destruction described by Joseph Schumpeter](#) as one of the key drivers of capitalism. After this clean-up, the tech sector will be ready to re-start even stronger than before.

Our Recent Publications

- ✳ [Destined To Choose Between US and China: India's Military Reform and its Geopolitical Consequences](#), by London Politica, 11 November 2022
- ✳ [U.S. - Saudi Relations At A Low Point Following OPEC+ Decisions On Oil Production](#), by Gulf State Analytics, 10 November 2022

- ✳ [The Revenge Of The "Old Economy"](#), by Filippo Ramigni, 8 November 2022
- ✳ [Russian Economy: An Economic Shock From Which It Will Be Hard to Recover](#), by London Politica, 4 November 2022

Looking Ahead

The Week Ahead: EZ QoQ GDP To Decelerate; EZ Inflation To Surge; UK Core Inflation To Slow Down; UK Retail Sales To Recover

In the US, in October, PPI is expected to slow down to 8.3% y-o-y (*p*: 8.5%).

In the EZ, in Q3, according to 3rd estimate, GDP is seen decelerating 0.2% q-o-q (*p*: 0.8%) and 2.1% y-o-y (*p*: 4.3%). In October, headline and core inflation are likely to increase to 10.7% y-o-y (*p*: 9.9%) and 5.0% y-o-y (*p*: 4.8%) respectively. Monthly inflation is also expected to accelerate to 1.5% (*p*: 1.2%). In September, IP is expected to accelerate 2.8% y-o-y (*p*: 2.5%).

In the UK, in October, headline inflation rate is expected to surge to 10.6% y-o-y (*p*: 10.1%), whereas core inflation rate is likely to decrease slightly to 6.4% y-o-y (*p*: 6.5%). Monthly inflation is also expected to accelerate to 1.7% (*p*: 0.5%). In September, the unemployment rate is likely to stay unchanged at 3.5%. In October, retail sales are expected to recover slightly to -6.5% y-o-y (*p*: -6.9%) and 0.0% m-o-m (*p*: -1.4%).

The Quarter Ahead: 2022 US Elections; Russia Withdraws Forces From Kherson; Meta Laying Off Employees; FTX Went Bankrupt

The 2022 United States elections were held on November 8, 2022. During this midterm election all 435 seats in the U.S. House of Representatives and 35 of the 100 seats in the U.S. Senate were contested. Democrats retained control of Senate, winning the key number of 50 seats. The Republicans appear to be closer to the 218 seats in the House to achieve a majority. Biden already celebrated democrats' win in the Senate, and said that the party is now focusing on the upcoming Georgia run-off election.

Russia is withdrawing from Ukraine's Kherson, following eight-month occupation. Ukrainian forces carried out 'stabilization measures' and warned 'the war is not over'. Kherson lacks water, food and medicine supplies and the population is drastically reduced.

Facebook parent company Meta will lay off 11,000 employees. This marks the most significant job cuts in the company's history. In October Meta reported a large drop in earnings and shares decreased 20% in the Q3. Elon Musk also began layoffs at Twitter.

Crypto giant FTX collapses into bankruptcy, after a liquidity crisis. Earlier last week, FTX's larger rival, Binance, might have bought FTX, but walked away. Former boss Sam Bankman-Fried stepped down as chief executive, the company said. New CEO announced that FTX is in the process of removing trading and withdrawal functionality.

Last Week's Review

Real Economy: US Inflation Cooled Off; YoY Retail Sales Recovered Slightly In EZ; UK QoQ GDP Contracted

In the US, in October, headline and core inflation eased off to 7.7% y-o-y (*c*: 8.2%; *p*: 8.0%) and 6.3% y-o-y (*c*: 6.5%; *p*: 6.6%) respectively.

In the EZ, in September, retail sales recovered slightly to -0.6% y-o-y (*c*: -1.3%; *p*: -1.4%) and 0.4% m-o-m (*c*: 0.4%; *p*: 0.0%).

In the UK, in Q3, GDP shrank by 0.2% q-o-q (*c*: -0.5%; *p*: 0.2%), whereas the economy slowed down to 2.4% y-o-y (*c*: 2.1%; *p*: 4.4%). September's IP recovered slightly to -3.1% y-o-y (*c*: -4.3%; *p*: -4.3%).

Financial Markets: Stocks Were Up; Yields Were Down; Dollar Is Down; Oil Price Is Down, While Gold Price Is Up

Market Drivers: Investors celebrated inflation reports that brought some relief and the major equity indexes surged. New inflation data also supported the view that the Fed might slow down its tightening path and as a result yields were lower. There was a huge turmoil in the cryptocurrency market as FTX went bankrupt due to a liquidity shortfall.

Global Equities: Increased w-o-w (MSCI ACWI, +1.4%, to 607.66). The US S&P 500 index increased (+5.9% w-o-w, to 3,992.93). In the EZ, share prices were up (Eurostoxx 50, +4.7% w-o-w, to 3,868.50). In EMs, equity prices increased (MSCI EMs, +0.5%, to 889.6). Volatility decreased to 24.1 (VIX S&P 500, 52w avg.: 25.5; 10y avg.: 18.2).

Fixed Income: w-o-w, the 10-year US treasury yields fell (-35 bps to 3.81%). The 2-year US Treasury yields decreased too (-33 bps to 4.33%). The German 10-year bund yield also decreased (-14 bps to 2.15%).

FX: w-o-w, the US Dollar Index was down (DXY, -4.1%, to 106.26; EUR/USD +4.0%, to 1.036). In EMs, currencies rose (MSCI EM Currency Index, +2.4% w-o-w, to 1,627.42).

Commodities: w-o-w, oil prices decreased (Brent, -2.8% to 95.78 USD/b). Gold prices increased w-o-w (+5.8% to 1,774.2 USD/Oz).



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year