

## **DEBATE: Should we be worried about a tech bubble?**

Opinion

**Tatjana Puhan**

Tatjana Puhan is managing director and deputy chief investment officer at TOBAM.

and **Guido Giammattei**

Guido Giammattei is portfolio manager for the emerging markets equity team at RBC Global Asset Management.



**Should we be worried about a tech bubble, particularly in emerging markets?**

**Tatjana Puhan, managing director and deputy chief investment officer at TOBAM, says YES.**

Over recent years, we see a clear trend of investors becoming exposed to higher concentration risk in specific sectors like technology.

Having represented already a considerable risk exposure in major equity indices, IT companies proved much less sensitive to the selloffs of March and April, which has exacerbated the risk concentration. IT now accounts

for over one fifth of the MSCI World Index (as of 31 July 2020), sizeably bigger (7.5 per cent) than the second largest sector.

This trend can be seen even more prominently in emerging markets, with returns coming from just five per cent of the 1,400 comprising the MSCI EM Index, and IT again forming the largest sector contributor. Even worse, the biggest stocks in emerging markets also tend to be highly related with the business of the big tech stocks in developed markets.

Even if it is difficult to say whether we face an IT bubble or not, it is obvious to any long-term investor that such a high-risk concentration might backfire at some point very badly.

**Guido Giammattei, portfolio manager for the emerging markets equity team at RBC Global Asset Management, says NO.**

[Apple is now valued at \\$2 trillion](#) — just two years after being named the world's first trillion-dollar company. The strong performance of tech stocks globally so far this year (Apple's shares are up around 50 per cent) have prompted some to ask whether we are on the verge of another asset bubble.

It is true that technology has had a number of strong structural tailwinds for some time, with the effects of Covid-19 simply accelerating this trend. However, in the emerging markets space at least, we do not see compelling evidence of a tech bubble. In fact, developed market tech stocks have seen much bigger gains than those in emerging markets, and while the latter has performed well, the gains are far from extreme and valuations are in line with historical averages.

We don't see this trend changing anytime soon. Data has become the new must-have strategic resource for a country's competitiveness, replacing oil and mining products in the 1990s and 2000s, with the potential for an emerging "tech war" to become the new geopolitical battleground and produce a steep acceleration in technology investments.