Anxiety Over Asset Bubbles From Homes to Internet Rising in Poll

By Simon Kennedy and Rich Miller - Nov 20, 2013

Asset bubbles are forming in Internet and social media stocks as well as in the housing markets of London and China, according to the latest Bloomberg Global Poll.

Eighty-two percent of the responding investors, analysts and traders who are Bloomberg subscribers said Internet and social media shares are either at or near unsustainable levels. Seventy-three percent said the same of Chinese house prices and 69 percent identified London homes as already or almost frothy. They were less concerned about U.S. housing, with 31 percent seeing prices approaching or at excessive levels.

“Liquidity is still plentiful and central banks are reflating,” said Kenneth Broux, a strategist at Societe Generale SA in London and a poll participant. “Property is the obvious bubble candidate.”

The survey sounds the alert that five years since a credit-driven financial crisis, investors are spotting speculative excesses in a potential challenge to their portfolios and policy makers. Exuberance is more muted elsewhere as those surveyed tempered their optimism about the outlook for the world economy, equities and U.S. assets since the last survey in September.

In the same month that Twitter Inc.’s stock almost doubled from its market debut, 49 percent of those responding said Internet and social networking stocks are already in a bubble and 33 percent said they are on the verge of one. The Solactive Social Media Index has soared 57 percent in the last year.

Property Prices

As for property prices, those in China are viewed as unsustainable by 46 percent and another 27 percent said they are close to being so. In London’s housing market, bubble conditions are seen by 41 percent and approaching them by 28 percent.

New home prices in China’s four major cities rose in October by the most since January 2011, while housing sales jumped 33 percent in the first 10 months of this year. In the U.K. capital, luxury homes will rise 23.1 percent through 2018, according to a report this month by broker Savills Plc.

Almost a third of those contacted said U.S. Treasuries are in a bubble and 27 percent said credit markets are at unsustainable levels. Record-low interest rates and asset-buying by the Federal Reserve have helped restrain the 10-year U.S. Treasury bond yield, with its high of the year barely at 3 percent and at 2.80 percent yesterday.
While only 20 percent said global stocks are in bubble territory, another 45 percent said they are close to being there. The MSCI World Index is up 26 percent from a year ago and this week reached its highest since 2007.

**Emerging Markets**

There is less concern shown toward emerging markets, where only 11 percent see stretched valuations and 58 percent said no bubble is forming.

Commentary about possible bubbles is mounting after monetary-policy makers injected a wave of liquidity into the world economy to battle its 2009 recession and then drive the recovery. A sluggish rebound in economic growth has led to suggestions the easy money is instead finding its way into asset prices. McKinsey & Co.’s research division calculated in a report published last week that major central banks have injected almost $5 trillion to fight the financial crisis and its after-effects.

Aside from their fears that speculation is getting out of hand in some places, poll participants pulled back their confidence in the performance of the major economies and equity markets for the coming year.

**World Economy**

Seventeen percent said the world economy is deteriorating, the most since May, although about half maintain it is stable. U.S. investors were the most pessimistic: more than one in five said the world economy is getting worse, compared with 15 percent of Europeans and 13 percent of Asians.

Thirteen percent of investors said the U.S. economy is weakening, the most since January, while about a third called it stable and 54 percent said it's improving. U.S. investors were again more downbeat.

The Organization for Economic Cooperation and Development this week cut its global growth forecasts for this year and next as emerging-market economies cool. The world economy will probably expand 2.7 percent this year and 3.6 percent in 2014, instead of the 3.1 percent and 4 percent predicted in May, the Paris-based OECD said.

“Globally we are in for very much of the same with a slight pickup in global growth driven by a slightly better U.S. as it continues to recover and a stabilization in emerging market growth rates,” said Jake Robbins, senior investment manager at Premier Asset Management Plc in Guildford, near London.

**More Optimistic**

Twenty-seven percent said the euro area economy is slowing, which is less pessimistic than the 61 percent in the May poll, when it was only beginning to escape recession. By contrast, the 44 percent who said Japan’s economy is improving is down from 59 percent two months ago in a sign that Prime Minister Shinzo Abe’s recovery effort may be running out of steam.
Confidence in China’s economy edged up with 35 percent saying it’s deteriorating, an improvement from 39 percent last time, and 44 percent saying it’s stable. Underlining this year's concern toward developing nations, 43 percent said Brazil’s economy is deteriorating.

While the U.S. is still among the markets seen as delivering the best returns next year, its support is at 40 percent, down from 51 percent in September. Nineteen percent said the world’s biggest economy is one of the markets offering the worst potential for making money in 2014, up from 9 percent.

**Big Opportunity**

Almost a third see a big opportunity for profit in the European Union, about the same in September. Brazil is regarded by 27 percent as one of the markets to avoid next year.

As for individual asset classes, half of those surveyed again said stocks would provide the highest return next year, while 17 percent said real estate would. Forty-one percent anticipate bonds will perform the worst.

When declaring where they plan to put their money in the next six months, 41 percent said they will be increasing exposure to equities. That’s the lowest share since September 2012 and is down from 52 percent in the last poll.

Thirty-five percent like the U.S. dollar and 30 percent favor real estate, according to the latest survey.

At the same time, 56 percent are cutting their holdings of U.S. Treasury bonds and around 40 percent are reducing their investments in Japan’s yen and government bonds. About a third are fleeing the European sovereign debt, the lowest since the poll began asking that question in December 2011.

**Cash Caution**

In a sign of investor caution, more than a quarter of those surveyed said they are increasing their holdings of cash, the most following that strategy since September of last year.

Investors also reined in their forecasts for several equity indexes. Half said the Standard & Poor’s 500 Index will be higher by May, 48 percent expect the Euro Stoxx 50 Index to be up and 49 percent predict gains in the Nikkei 225 Stock Average. In September, majorities predicted each to rise over the next six months. Gold is still forecast by 44 percent to lose value.

Political gridlock in Washington over fiscal policy is the biggest risk to the global economy, according to 35 percent of those asked, an increase from 26 percent in September. Twenty-six percent said a slowing Chinese economy is the chief threat and 19 percent cited Europe’s debt crisis.

The poll of 750 Bloomberg subscribers was conducted on Nov. 19 by Selzer & Co., a Des Moines, Iowa-based firm. It has a margin of error of plus or minus 3.6 percentage points.