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## The Echoes Haunting Big Tech

In the 2010s easy money inflated assets from stocks to bonds and property, creating a worldwide “everything bubble,” but the real mania was concentrated in corners of tech. Even now, as easy money gives way to rising rates, and with tech well past its peak, many investors have yet to give up the faith. The result are classic echo bubbles, of the kind that have punctuated major busts since the crash of 1929. The lesson: if the past is a guide, tech faces a long, bumpy road to recovery.

### 1. The Past as Guide

This list below shows the top ten bubbles of the last century. Ranging from US tech stocks in 1929 to Chinese shares in 2015, bubbles typically see prices double within a year on the way to their peak, then fell 70 percent over the next three years.

#### The Top Ten Bubbles of the Last Century

| Bubble, peak       | Gain, year to peak | Decline | Decline, years |
|--------------------|--------------------|---------|----------------|
| Hong Kong (1973)   | 416%               | -92%    | 1.8            |
| A-Shares (2015)    | 155%               | -49%    | 0.6            |
| SE Asia (1994)     | 118%               | -73%    | 4.7            |
| Nasdaq (2000)      | 117%               | -78%    | 2.6            |
| BRICs (2007)       | 92%                | -71%    | 1.0            |
| Commodities (1980) | 75%                | -54%    | 5.6            |
| US (1929)          | 61%                | -89%    | 2.8            |
| Commodities (2011) | 44%                | -66%    | 8.9            |
| Japan (1989)       | 27%                | -62%    | 2.7            |
| US Nifty 50 (1973) | 17%                | -48%    | 1.7            |
| Mean               | 112%               | -68%    | 3.2            |
| Median             | 84%                | -69%    | 2.6            |

Source: Bloomberg, Breakout Capital calculations

### 2. Bubbles Don't Rise and Fall Smoothly

The historic record shows that major bubbles suffer mid-rise corrections on the way up, averaging declines of around 25 percent, and echo bubbles on the way down. The psychology of echo bubbles is that of false hopes, as investors unwilling to give up on the last big idea that made them rich keep piling back in, until serial disappointments finally empty their faith. The deflation of these 10 historic

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bubbles was interrupted by an average of 2 echoes larger than 20 percent, with the rise from start to peak typically lasting around 3 months. See table below.

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### Echoes Within historical Bubbles

| Bubble, peak       | Echo bubbles    |                  |                    |
|--------------------|-----------------|------------------|--------------------|
|                    | Number,<br>>20% | Gain,<br>largest | Months,<br>largest |
| US (1929)          | 2               | 48%              | 5                  |
| Hong Kong (1973)   | 2               | 62%              | 2                  |
| US Nifty 50 (1973) | 0               | 10%              | 2                  |
| Commodities (1980) | 2               | 25%              | 7                  |
| Japan (1989)       | 1               | 33%              | 6                  |
| SE Asia (1994)     | 4               | 48%              | 1                  |
| Nasdaq (2000)      | 3               | 35%              | 2                  |
| BRICs (2007)       | 1               | 28%              | 2                  |
| Commodities (2011) | 2               | 20%              | 3                  |
| A-Shares (2015)    | 2               | 25%              | 4                  |
| Average            | 1.9             | 33%              | 3                  |
| Median             | 2.0             | 31%              | 3                  |

Source: Bloomberg, Breakout Capital calculations

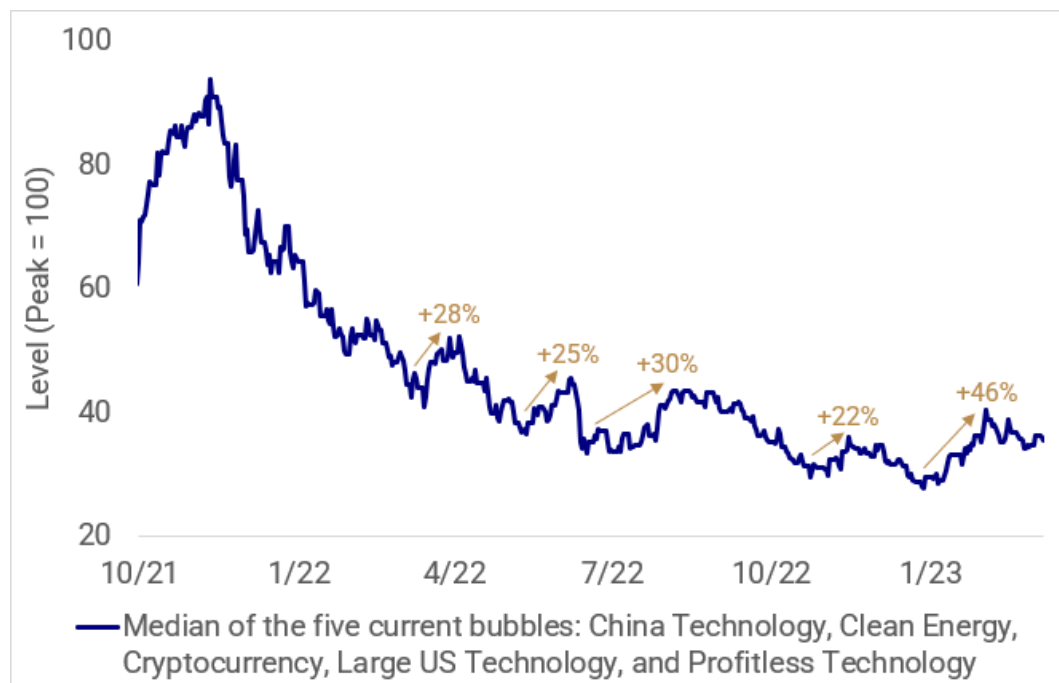
### 3. The Echoing Bubbles of 2023

Echo bubbles are particularly relevant now, because there are so many percolating in the tech sectors. We've been tracking a set of five tech assets that saw particularly spectacular price increases before peaking in 2021, and are now showing classic echo bubble symptoms, as investors refuse to give up on them. They range from crypto (including Bitcoin), clean energy (which includes Tesla), and tech stocks with no earnings (which includes famous names like Lyft) to mega cap tech in the US (the FANGs) and China (including Alibaba, Tencent). Driven each time by hints that interest rate hikes may come to end, they have attempted mini comebacks in recent months. The chart below, the median trend line for these five assets, shows the echoes clearly:

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## Five Tech Sector Bubbles, Bouncing Now



Source: Bloomberg, Breakout Capital calculations

### 4. Following the Historical Pattern

The scale of the five echoing bubbles also falls well within the historic pattern, which showed that the 10 major bubbles were followed by up to four echoes, defined as an upward bounce of at least 20 percent. Honing on the largest echo in each historic case, the average price gain was around 30 percent. Many of the current echoes are in that range, as the right-hand column in the table below shows.

#### Returns of Current Echo Bubbles

| Group                 | Gain  | Decline | Echo |
|-----------------------|-------|---------|------|
| Cryptocurrency        | 1281% | -77%    | 42%  |
| China Technology      | 494%  | -72%    | 43%  |
| Profitless Technology | 344%  | -74%    | 37%  |
| Large US Technology   | 250%  | -43%    | 20%  |
| Clean Energy          | 211%  | -73%    | 16%  |

Data is as of March 7, 2023. Gain measures change the two years prior to 2021 peak; decline measures change from 2021 peak to late-2022 low; echo measures gain from late-2022 low to current levels.

Source: Bloomberg, Breakout Capital calculations

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### 5. After the Last Echo, A Long Path to Recovery

This was a bit shocking even to us, but four of the 10 historic bubbles have yet to recover their peaks. The other six took as much as 25 and an average of 15 years; the one that offers the clearest parallel to the present day—the bubble in big US tech stocks before 2000—took exactly 15 years (see table below). Even a tech stock as famously steady as Microsoft did not return to its peak at the height of the Dotcom for another 14 years.

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Recovery Times of Historical Bubbles

| Bubble (peak)      | Year Peak Recovered | Years to Recovery |
|--------------------|---------------------|-------------------|
| US (1929)          | 1954                | 25                |
| Commodities (1980) | 2005                | 25                |
| Nasdaq (2000)      | 2015                | 15                |
| SE Asia (1994)     | 2006                | 12                |
| Hong Kong (1973)   | 1981                | 8                 |
| US Nifty 50 (1973) | 1980                | 7                 |
| Japan (1989)       | Not yet             | > 34              |
| BRICs (2007)       | Not yet             | > 16              |
| Commodities (2011) | Not yet             | > 12              |
| A-Shares (2015)    | Not yet             | > 8               |

Source: Bloomberg, Breakout Capital calculations

The diehards still holding out for a revival of big tech, in some combination if not quite the FANGs, may be waiting a long time indeed. Our belief continues to be that the next big thing will emerge not from the same countries and sectors that did well in the last decade but from a new set entirely, and we believe that could include the most overlooked and fundamentally sound emerging markets.

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