Sujet traité : Que penser du regain d'intérêt pour les actions « memes » / What to make of renewed interest in "meme" stocks

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CAPITAL DAILY

What to make of renewed interest in 'meme' stocks

Even if interest in 'meme' stocks rebounds following a renewed surge in GameStop's share price, some of the telltale signs that a bubble in the broader stock market may be entering its final stages – such as excessive leverage – are absent. This suggests to us that the current one remains a long way off bursting.

Three years or so ago, we weighed up the evidence for a systemic bubble in the stock market during meme-stock mania. To re-cap, that episode featured an army of retail investors, influenced by discussions on social media, ploughing money they had got from the government during the pandemic into unfashionable and heavily shorted equities.

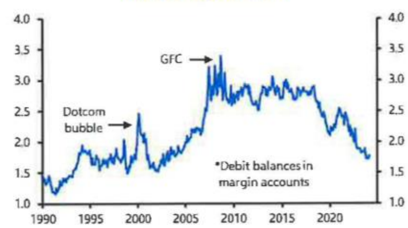
We remarked at the time that systemic bubbles in stock markets were typically accompanied by high and rising leverage (whereas meme-stock mania was mainly about the channelling of money from stimulus checks). High and rising leverage had been a feature before the Great Crash of 1929; the bursting of the dot com bubble; and the Global Financial Crisis (GFC), but it wasn't such a big deal then, at least relative to the size of the broader stock market. Accordingly, we weren't convinced that it was in another bubble that would burst soon.

Chart 1: NYSE Margin Debt* & S&P 500

Sources: Refinitiv, FINRA, Capital Economics

The latest trends in margin debt also seem to be reassuring. After all, it hasn't risen in recent years by as much on net as the stock market. (See Chart 1.) And so it has declined again relative to the market capitalisation of, e.g., the S&P 500. (See Chart 2.)

Chart 2: NYSE Margin Debt* As A % Of S&P 500 Market Capitalisation



Sources: Refinitiv, FINRA, Capital Economics

Of course, there may be increased leverage taking place today that is hard to spot (e.g., option trading among retail investors, or within hedge funds). But the bubble that finally appears to be inflating now amid hype around AI doesn't seem to us to be one that is clearly being inflated by leverage.

Excess risk taking at banks can be another sign of a systemic bubble in the stock market that is entering its final stages. Nonetheless, we also noted in 2021 how leverage at US banks had declined since the GFC. And common equity Tier 1 ratios there have generally remained higher than before that event, something which probably helped to contain last year's regional mini-banking crisis.

Meanwhile, leverage *outside* the financial system also still seems to be less concerning in general than during some prior systemic bubbles. For example, whereas the US household sector had become a net borrower before the dot com bubble burst and the GFC, it had become a net *lender* during the pandemic owing to a big reduction in spending and fiscal support. Although this sector's financial surplus has since plunged from a very high level, it is positive again after briefly turning negative.

Perhaps a bigger risk lies in the growing footprint of "passive" investing. Indeed, the relentless increase in the share of funds that is invested in passive products is now much higher than in prior bubbles, and we suspect this may be playing some role in pushing up equity markets.