The sharemarket crunch has begun, warns Grantham

Richard Henderson *Markets reporter*

Jun 2, 2021 – 3.26pm

A fall in the most speculative corners of the US sharemarket threatens to presage a broad drop in stock prices as investors begin to question lofty market valuations, veteran investor Jeremy Grantham has warned.

The famed value investor has pointed to a decline in US tech stocks and a painful fall for special purpose acquisition companies (or SPACs) over the past few months as evidence that equity investors are beginning to sour on record high share prices.

Jeremy Grantham says the US equity market is “heroically” overpriced. **Domino Postiglione**

The comments come as US stocks trade at record highs, fuelled by easy central bank policy that has pushed sharemarkets from New York to Sydney and Mumbai to new highs this year.

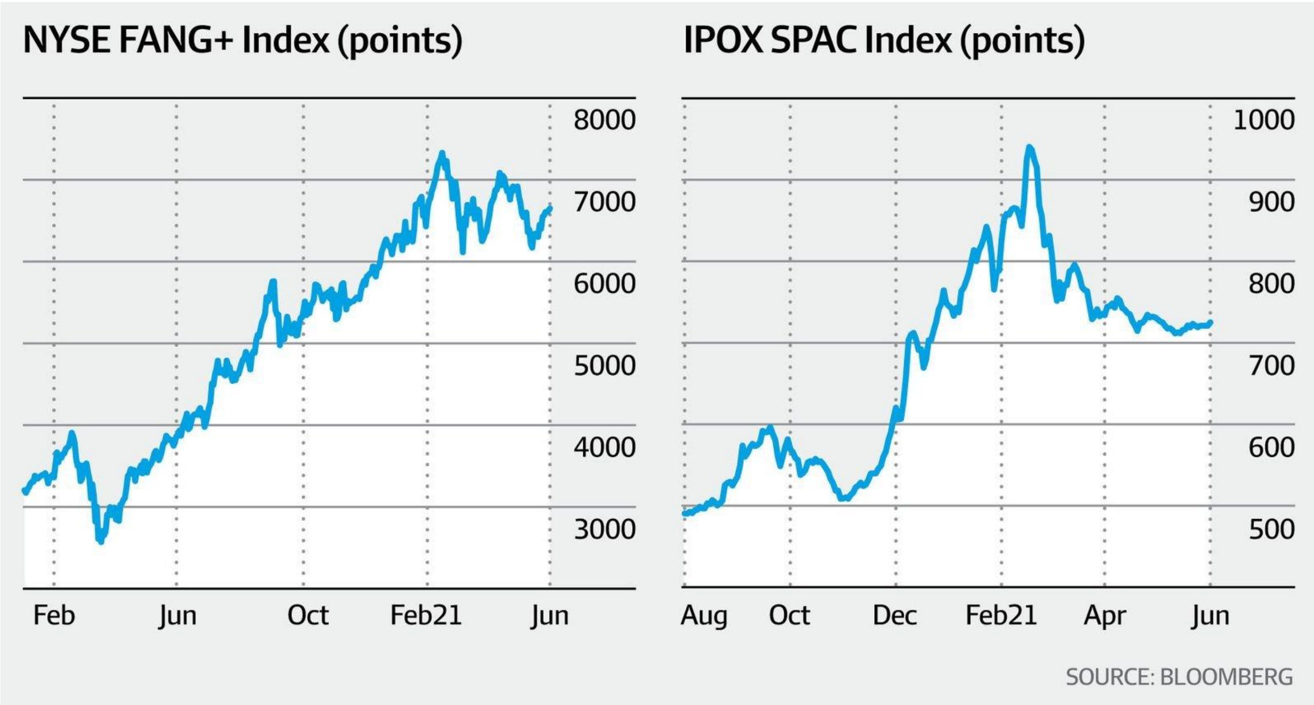
“The Nasdaq peaked quite a long time ago,” Mr Grantham said, speaking at the Morningstar Australia conference on Wednesday. “My guess is ... maybe in a few months the termites might get to the rest of the market,” he said.

“The developed world [equity market] is merely overpriced, no big deal, but the US is heroically overpriced,” he said.

The Nasdaq composite index, which is laden with the types of highly prized technology stocks that soared last year, has fallen 3 per cent from a peak in April. The benchmark is up 7 per cent this year, lagging the 12 per cent gain for the S&P 500, a broader measure of the US equity market.

The tech-heavy index faces the spectre of rising bond yields, which hurts the value of profits tech companies promise in the future, weighing on share prices.

A more concentrated index, the NYSE FANG-plus benchmark, which includes the likes of Apple and Tesla, has fallen nearly 10 per cent from a peak in February.



The craze in SPACs, which sucked up record amounts of investor capital last year in a trend that began to worry many investors, has also begun to wane.

SPACs list on the sharemarket for a nominal price of $10 and use the capital they raise to hunt an acquisition, offering a side door to the capital markets for a private company and big remuneration for SPAC sponsors, who enjoy eye-watering windfalls when the deal is sealed.

The boom in SPAC deals accelerated in the first quarter of 2021, but has since faded following the poor performance of many of the blank-cheque vehicles after completing their M&A deals.

An index of SPACs compiled by IPOX, a research group, has fallen more than a fifth from a high in February.

"The last 10 SPACs, having announced a deal, are now less than the $10 they do these deals at," Mr Grantham said. "The intersection of SPACs and [electric vehicles] or batteries or so on, was perhaps the most outstanding degree of exaggerated enthusiasm."

The declines for tech shares and SPACs partly mirror the months before the US stockmarket tumbled from its peak in the dotcom bust, and the 1929 Wall Street crash, Mr Grantham said.

The grapes of froth

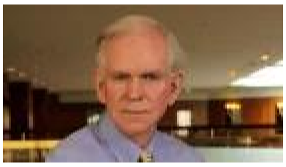
In both instances, the frothier corners of the market began to fall sharply far before the broader market turned.

"They're still arguing about what caused the 1929 crash. We have not been good at identifying [the drivers] and it may be because there is no traditional pin to burst the bubble," he said.

Mr Grantham is among the perma-bears that for years have pointed to hidden threats perennially poised to knock share prices, and on a few important occasions, his warnings have proven prescient.

He was among the fund managers to publicly decry the frothy behaviour during the dotcom boom and bust two decades ago, and again in the lead-up to the 2008 financial crisis.

Mr Grantham, who co-founded GMO, a Boston-based fund manager, four decades ago, has warned about the level of US share prices since the start of the year.



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His klaxons have been mirrored by other notable investors, including Andrew Clifford, chief executive of Platinum Asset Management in Sydney, who has cautioned about a "speculative mania" gripping the sharemarket.

GMO funds, which skew towards the value investing approach, have largely lagged the roaring boom in growth investing styles over the past decade in a "brutal" stretch, which is finally beginning to turn.

The S&P 500 value index is up 17 per cent this year, compared with 7 per cent for its growth counterpart, a rare stretch of outperformance that has offered a salve for hard-hit value fund managers.

Value investors suffered "the worst decade in history for value versus growth and then last year it was by far the worst single year", Mr Grantham said. "You had the worst decade followed by the worst single year. Value is certainly as cheap as it has ever been against growth."

Richard Henderson is a markets reporter based in our Melbourne newsroom. *Connect with Richard on Twitter. Email Richard at richard.henderson@afr.com.au*

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