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Tech Stock Mania: 1990s vs. Today

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The stock market rally of the last few years has been reminiscent of the market of the late 1990s: a bull market led by technology stocks. Some of the current high-flying stocks include Nvidia, Apple, and Google, while those in the 1990s included Cisco, Oracle, and America Online, to name a few. There are many parallels between the two eras, including low interest rates, innovative technologies that led to wild speculation, and an environment where growth investing left value investing in the dust. Despite these similarities, however, there are in fact areas in which today's environment differs, including market concentration, valuation, and America's fiscal situation. This paper looks at each of the similarities and differences in detail and discusses how the ending of the current market cycle could be different from the last.

SIMILARITIES

Interest rates

The decades preceding the 1990s were characterized by an increase in interest rates which peaked in the early '80s with the federal funds rate reaching 19%. After that, the inflation of the 1970s and '80s burned off and the federal funds rate dropped to 3% in the early 1990s. This transition to cheap money was a key catalyst of the stock market run culminating in the dot-com bubble that eventually burst in March of 2000.

In the present day, the U.S. largely operated at an effective zero interest rate policy starting from the Global Financial Crisis (GFC) through the COVID pandemic, aside from a 225 basis-point increase in the Fed Funds rate from 2015-2018. Ultra-low interest rates led money to be invested in stocks, giving birth to the TINA acronym standing for 'There Is No Alternative' other than stocks to earn any kind of return.

New Technology

The 1990s saw the potential of the internet to disrupt personal lives and businesses, fueled by the adoption and affordability of personal computers. New businesses developed that were devoted to selling goods and services online without the need for brick-and-mortar locations. Also, industries such as print media and music were significantly altered with their products being delivered digitally. Investors flocked to anything that had to do with the new online world that was emerging.

Today, artificial intelligence (or "AI") and crypto currencies have the potential to change the landscape of business. AI may automate tasks in various industries, potentially changing the ways in which people are employed, while crypto currencies may change the way we interact with the global financial system.

Speculation

As the bull market of the late-1990s proceeded, wild speculation began to brew. Stocks with no earnings and unproven business models went public and commanded high valuations due to their association with the internet. At the height of the bubble in 1999 there were 370 tech IPOs, of which only 14% were profitable[1]. In recent years there

[1] Initial Public Offerings: Updated Statistics, September 9, 2024. Jay R. Ritter, University of Florida

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has been speculation in so-called "meme stocks" and crypto currencies, which in some cases saw tremendous gains in value due to hype on social media rather than fundamentals. (Incidentally, the meme stock and crypto currency hysteria were made possible by online trading platforms that became possible due to the internet that rose in popularity during the dot-com bubble.)

Growth Stock Dominance

At the peak of the dot-com bubble, the growth style of investing significantly outperformed value, leading investors to wonder if value investing was dead[2]. As of March 31, 2000, the Russell 1000 Growth had outperformed the Russell 1000 Value by 5.6 percentage points per year over the prior 10-year period, the largest difference by either index relative to the other since their inception in 1979. This record stayed intact until Q3 of 2020, when the Russell 1000 Growth outperformed its value counterpart by 6.8 percentage points annualized over the prior decade. As of Q3 2024 the ten-year difference is even greater at 7.3 percentage points per year.

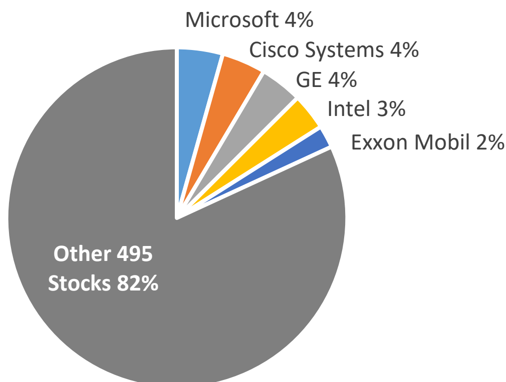
DIFFERENCES

Despite these parallels there are several differences between the two bull markets: today's market is more concentrated in technology stocks, the 1990s saw greater increases in stock prices (so far) and higher valuations, and one could argue that financial conditions were more favorable in the '90s.

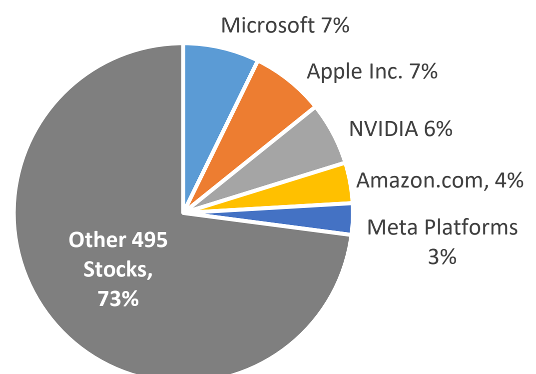
Market Concentration

Today's market is more concentrated in the largest names as compared to the dot-com era. At the peak of the dot-com bubble, the top five stocks constituted 18% of the S&P 500 Index's weight and the top ten made up 27%. Today, the top five stocks make up 27% of the S&P 500 and top ten represent 37%[3]. (Interestingly, Microsoft was the largest stock at each point in time.) Also, technology related companies have become more dominant in recent years: In March 2000 "old economy" stocks such as General Electric and Exxon Mobil were the third- and fifth-largest companies in the S&P 500, respectively, whereas today the top five are all technology-related companies:

S&P 500: March 31, 2000



S&P 500: September 30, 2024



Source: Factset

[2] Growth investing seeks companies growing their earnings at a certain rate while value investing seeks out of favor stocks priced at a discount to their intrinsic value

[3] Factset as of September 30, 2024

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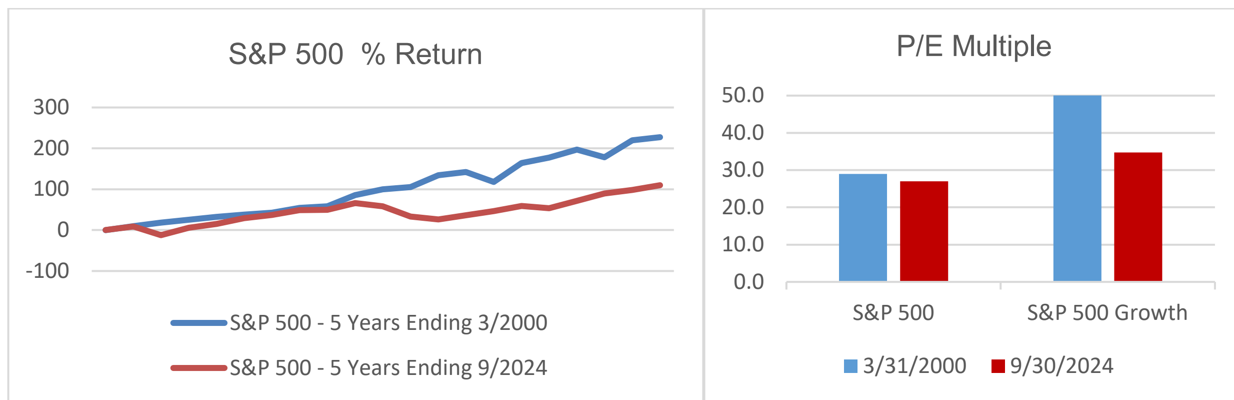
Performance and Valuation

Looking at market performance and valuation metrics, the dot-com market was more speculative and seemingly riper for a correction. **Over the last five years, the S&P 500 index has doubled, returning 100%**. However, the five years leading up to March 2000 saw **the S&P 500 increase by 225%.** While the valuation of the S&P 500 wasn't significantly higher in 2000 than it is now (probably due to stocks like GE and Exxon Mobil), large cap growth stocks were significantly more expensive in 2000:



Source: Factset, eVestment

Zooming in a little deeper at technology stocks, specifically the largest ones, valuations during the dot-com era were significantly more stretched than today. Today's technology leaders are much more profitable than they were in the 1990s. In fact, the average P/E ratio of the largest five technology stocks in 1999 by market-cap was over twice as high as it currently is. While many new companies with unproven business models developed during the internet boom, today's market is dominated by established companies that have the potential to benefit from AI:

1999	P/E	2024	P/E
Microsoft	63.6	Microsoft	35.5
Cisco	232.5	NVIDIA	57.0
Intel	57.1	Apple	38.4
Oracle	122.5	Amazon	39.9
Lucent	52.8	Meta Platforms	27.0
Average	**105.7**	**Average**	**39.6**

Source: Factset

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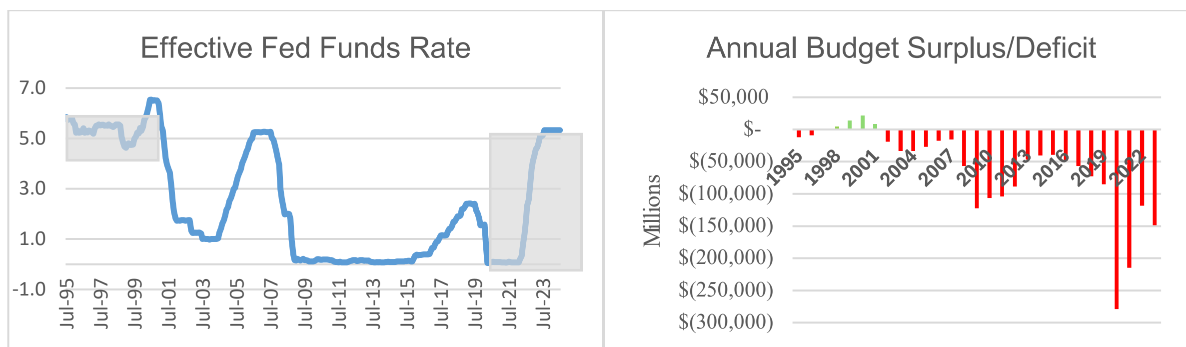
Macroeconomic Conditions

Macroeconomic conditions were more favorable at the height of the dot-com bubble than they currently are. For one, it was a much more stable interest rate environment without the extreme levels of inflation that we have recently seen. In the five years leading up to the peak of the bubble in March 2000, the Federal Funds rate remained in a tight range of 4.6% - 6.0%. This contrasts with the current range of 0.0% – 5.25% over the last five years, a period that has included the sharpest interest rate hiking path in history.

Secondly, America was much more fiscally responsible during the late 1990s and early 2000s. Since the GFC, the U.S. has been running large federal budget deficits, which exploded even further after the COVID Pandemic in 2020. Prior to the GFC, government spending was much more under control, even running a surplus between 1998-2001, right in the heart of the bull market.



Source: Federal Reserve Band of St. Louis, Factset

HOW WILL IT END?

The dot-com bubble finally burst in 2000 at the end of a rate hiking cycle brought on by the Alan Greenspan-led Federal Reserve's efforts to slow the red-hot economy. When the economy slowed it became evident that many of the companies with rich stock valuations would not be able to meet their lofty earnings growth projections. Of the top five technology stocks listed on the prior page, only Microsoft and Oracle are worth more today than they were in 2000. After the market peaked in mid-2000, the S&P went on to lose 44% of its value over the next two and a half years. Losses were even more severe in the NASDAQ index, which declined by 74%. Value investing came back into favor, outperforming growth by over 7% per year over the next ten years.

Will the end of low rates this time around finally derail the economy and send technology stocks sharply lower once again? On one hand valuations today are lower than in the dot-com era, with the market grounded in more established and profitable companies, leading one to believe that a downturn could be less severe. On the other hand, the market is more concentrated in technology stocks today, so a decline in these market leaders could have a larger impact on the overall market. So far, the market has shrugged off the 2023 Fed rate hikes and an easing cycle and budget deficits haven't seemed to matter. Only time will tell if and when this technology-led run will end.

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