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The best bet for the 2020s is short tech, long commodities

Silicon Valley manias tend to lose steam when investors realise they have been pouring money into unprofitable ideas

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In a telling sign, tech is the worst performing group in the stock markets this year; the best is old fashioned physical commodities such as metals and energy. Many commentators attribute these moves to rising interest rates, which tend to hurt growth stocks such as tech and help value stocks such as commodities, now magnified by fear that war in Ukraine will disrupt supplies.

But something more fundamental, long predating the Russian march on Kyiv, is going on. Historically, tech and commodities follow opposite cycles. When one booms for a decade, the other languishes. The previous big turn came in 2001 and now we are probably in the midst of another.

Data going back to the 1920s show commodity stocks rose to a dominant market position in the 1950s and 1970s, peaking at about 60 per cent of total US market capitalisation in 1980, when tech was at about 20 per cent. The share of tech and related sectors then surged to 50 per cent of the market cap by 2000, when commodities plunged to just 10 per cent.

Leap forward to today: after collapsing in the dotcom bust, the tech share rose back to 40 per cent but now appears poised for another shakeout of the overhyped and overvalued. **Commodities, including energy and materials, are just coming off a record low of barely 5 per cent of US market cap and appear poised for another strong run**.

Before the pandemic turbocharged investor interest in all things digital and virtual, businesses still invested more in the old economy of physical structures and equipment than in the new economy of software and research and development. But the gap had started to narrow. Finally last year, investments in the new economy surpassed those in the old economy for the first time, and now account for about 52 per cent of total capital expenditures.

Tech manias tend to lose steam when investors realise that they have been pouring money into increasingly improbable and unprofitable ideas. In the US, the market cap of unprofitable companies is now $2.6tn and 85 per cent of that total is accounted for by tech companies.

Signs that the latest surge had gone too far emerged last year when a vision of the future internet as a three dimensional “metaverse” sprang out of the realm of science fiction and into the headlines. By mid-2021, corporations dropped the word “metaverse” 100 times in earnings calls in a single quarter, up from just once a year before. In October, hoping to ride the wave, Facebook changed its name to Meta.

Even before the headline-grabbing decline in Meta's stock price last month, many other tech stocks were falling as investors began to scrutinize their prospects more closely. At the other end of the spectrum, prices for all things physical were rising, including houses, cars, cargo and the materials and energy required to build and power them.

The once fashionable idea that younger "digital natives" would live for experiences rather than stuff is evaporating. Worldwide, prices for housing rose last year at the fastest pace since 1980, driven by younger buyers. It turns out that digital natives need physical shelter too - and they need wheels once they move to the suburbs. Millennials drove new demand for cars.

Requiems for the tangible were particularly premature in the case of commodities. Though upward pressure on prices has been aggravated by pandemic-induced shortages and supply chain breakdowns, which are likely to be temporary, the virus is not the only factor limiting supplies.

Green politics has made it unfashionable, even unsavoury, to invest in new oilfields, mines or smelters. **Last year, capping a decade of weak investment in commodity production, energy companies for the first time since 1988 spent less on new supply than they wrote off to depreciation. At the same time, building a greener economy is raising demand for fossil fuels and metals such as copper and aluminium**. An electric car requires more than three times as much copper as a gas car. A wind power plant requires three to 10 times more copper than its fossil fuel precursor, depending on whether it is on land or at sea.

There was a brief and anomalous period last year when commodity and tech stocks were rising together. But last November, tech stocks broke while commodity stocks did not.

The world is underinvested in commodities, over-invested in technology, and the pattern of alternating decade-long cycles between the two is reasserting itself. In the 2010s, a popular tagline was that data is the new oil. Now we are beginning to hear about how "oil is the new data".