

Intricate mix is driving renewed bubble in the US

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From Mr Will Hopper.

Sir, [Desmond Lachman](#) raises an interesting point (Letters, November 9). He acknowledges that the rise in non-US asset prices can be explained in large part in terms of the so-called “carry trade”. This means that non-US investors borrow at negative interest rates in a weakening US currency and invest the proceeds in Brazil and elsewhere. However, he is wrong to argue that one cannot explain the rise in US domestic asset prices at least in part in terms of the weakness of the dollar.

In London, we have recently seen a sharp rise in house prices occasioned by foreign buying induced in large part by the weakness of sterling. Indeed, some London dwellings are today actually more highly priced in sterling terms than they were two years ago, although of course much cheaper when valued in euros or dollars. Inward investment of this kind tends to strengthen sterling, but not enough to offset general market sentiment.

Foreign investment in US shares could be similarly motivated by weakness in the dollar. Throw in higher reported US corporate earnings due to crude cost-cutting and the rebuilding of inventories; add a strong dose of “momentum buying” by group-thinking US investors; multiply the outcome by five due to leverage arising from artificially low interest rates subsidised by the ever-suffering US taxpayer – and you have a Bubble Renascent in which foreign buying has played a significant role.

The truth is that the global economy is not a broad river flowing evenly in one direction but rather a mass of flows and eddies, like the delta of the Mississippi. They interact in an intricate and surprising manner. The one good thing that can be said about it all is that it is intellectually fascinating.

Will Hopper,
Claremont College, CA, US

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