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Ex-World Bank official urges market diversity

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A coordinated push towards global market diversification is urgently needed to shield savers from a potentially dangerous valuation correction in highly concentrated US equities, a former World Bank official warns.

Speaking at an event in Hong Kong yesterday, Ian Goldin, the former World Bank vicepresident, now a professor of globalisation and development at Oxford University, said the growing concentration of capital in a handful of highly valued US technology companies had left investors worldwide vulnerable to a market correction.

“The very inflated valuations of companies increasingly biasing the New York Stock Exchange towards a very small group of companies, which under no possible circumstances could be generating revenues commensurate with their valuations, is a worrying trend,” Goldin said at the Sina Finance Global Capital Summit.

He said it was unsurprising to see a recent correction in SpaceX’s valuation, describing it as a predictable consequence of stretched market pricing.

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IAN GOLDIN ON A MARKET CORRECTION

cent of global gross domestic product, more than 70 per cent of globally listed equities and bonds remained concentrated in US markets, Goldin said, leaving investors with limited opportunities to diversify from US assets.

If a broad-market correction were to take place, the fallout could not be contained, Goldin warned, adding that the impact would become increasingly global.

“This affects pensioners, poor people ... because it’s very difficult to diversify from the US,” he said. “People around the world will suffer.”

Expanding alternative investment opportunities in Europe, China and other markets had therefore become critical to strengthening the resilience of the global financial system, he added.

Goldin’s call echoes Beijing’s broader efforts to position Chinese financial markets as a diversification destination for global investors.

Amid global rate volatility, Pan Gongsheng, governor of the People’s Bank of China, recently highlighted Chinese assets as a “unique diversification configuration” for international investors seeking shelter from geopolitical tension.

Speaking at the Hong Kong FIC & Bond Connect Summit earlier this month, Pan unveiled major measures to deepen cross-border market integration, including expanding the annual Southbound Bond Connect investment quota from 500 billion yuan (HK$579 billion) to 800 billion yuan, allowing mainland institutional investors greater access to overseas bond markets.

Goldin said the shift in global capital flows reflected a broader transfer of the world’s economic centre of gravity towards Asia, where he expected growth to outpace Europe and North America by two to three times over the coming decade.

Rejecting what he described as overly pessimistic assessments of China’s economy, Goldin argued that many Western commentators had overlooked the significance of economic scale.

“I wish we had that crisis in the West,” he said, referring to China’s 4.7 per cent economic growth in the first half of the year.

Goldin said China's GDP growth, on what is now a US$20.7 trillion economy, was generating more economic value each day than 10 per cent growth did 15 years ago when the economy was worth about US$8 trillion.

"Size matters," he added, explaining that an increase in GDP of "around 4.5 per cent, aspiring to 5 per cent" was appropriate.

"I'm very confident that this is a good growth rate for China."