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NASDAQ 10'000, We may have reached the top ...

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Finally last night the NASDAQ reached the 10'000 level, much faster in fact than most people thought in a frenzied market and a last batch of strength in the tech mega-caps.

10'000 is clearly an important psychological milestone, but as the chart above shows, it is a much more important technical level that marked all the important tops since 2018.

Our regular readers know that, way before COVID, in our various articles on the anatomy of the coming bear markets we published these charts of the loudspeaker patterns that have been amazingly prescient in marking the tops and bottoms.

As our readers also know, we have been predicting a turning point between the 20th and the 25th of June with a least a 15 to 20 % correction in July, like most technical analysts who conclude that we have started a new cyclical bull market.

Obviously, the NASDAQ could go a little bit higher from here as the Logarithmic charts point to 10'300 by late June, another 3 % above current levels, and to complete the full pattern the SP500 would have to peak at around 3'600 sometimes over the summer.

But if the NASDAQ really stops here and turns as the first chart seems to indicate, then the coincident turn on the SP500 would mark a lower high, and definitely signal that the secular bear market has started.



Is this time different?

What is truly unusual in the current environment is the EXCEPTIONAL SPEED and BREADTH of both the fall and the rebound since COVID.

Never have we seen such a fast melt-down in history and the current rebound has been the fastest and largest since 1952. Maybe this is due to the extreme damage caused by COVID and by the extreme reactions caused by Central Banks and Government stimuli.

But frankly, neither one nor the other is actually good news as the economic damage will be lasting and the liquidity injections may have saved the credit markets but will create neither jobs nor investments.

If anything, the fundamental background is not rosy, even if we expect the economies to recover initially, but reach a plateau afterward, while States, Governments, corporations, and households will be left with additional debt and their deflationary pressure for long.

What is also truly unusual is the speed at which sentiment has changed.

Back in January of this year, way before COVID, we highlighted that sentiment had reached extremes that were making the markets dangerous. Within four weeks of that call, the stock markets peaked, and one of the swiftest bear market declines in history followed.

Today, market sentiment is looking extreme once again, and at this crucial technical juncture on top. If anything, the new levels of euphoria make the January action look sleepy. We are seeing bizarre market patterns, investor behavior that makes no sense, and even snooty dismissals of top and reputed asset managers such as Warren Buffett.

We can begin by noting the euphoria is global.

Jason Goepfert of SentimenTrader observes that, in March 2020, every major world

index his team follows was in a bear market. Now, three months later, fewer than 15% are still in bear territory, meaning that 85% or more have bounced back. The entire world, more or less, has gone from bearish to bullish.

That level of global-scale reversal has happened only twice before, in 1988 and 2009. In one case the 1987 stock market crash came prior; in the other case, it was the 2008 financial crisis.

But there are TWO major differences between these two previous occurrences and today's situation :

1. In neither case was there an ongoing pandemic causing the worst recession in living memory as highlighted again yesterday by the World Bank
2. These sharp rebounds took place from cheap valuations at the bottom, while at the March 23rd bottom, global equities were still much more expensive than their long term averages.

Moving up the chain of unusual, from the time of the March bottom, every single stock in the S&P 500 has generated a positive return. Not most of them, not the vast majority, **but every single one.**

What kind of recovery makes every single large-cap stock go up, and more than 85% of the major world indexes go up, all together, all simultaneously?

What type of logical rationale is there for seeing the fortunes of every single company improve? There are actually none. Quite the opposite in fact if one is to judge from the latest news out of Starbucks, Hertz, Airlines or else.

One could imagine that a breakthrough vaccine for the novel coronavirus might produce that kind of result — a kind of medical deus ex machina that removed the pandemic threat entirely.

But in reality, we have the opposite of that situation: COVID-19 cases are accelerating in some countries, and in America, it seems that ongoing protests have given the virus

a new lease of life across all 50 states.

As we are reaching 10'000, Citigroup warns that its “panic/euphoria model” is flashing its most extreme levels since 2002.

Citi’s panic/euphoria model “tracks metrics from margin debt to options trading and newsletter bullishness,” and now shows “sentiment at the most extreme level since 2002, when the tech bubble was dissipating.”

“We are concerned that thoughtful approaches are being overwhelmed by the need to at least keep pace with price moves,” Citi’s strategists write. “People are ignoring joblessness, trade friction, social unrest, and risks that loom including possible COVID-19 reinfections, the end of bonus supplemental unemployment checks and the upcoming elections.”

A new category of investors have been feeding the latest rise

As evidenced by their “top 100” holdings list, millennial traders on the Robinhood stock trading app are bidding up shares in names that have just gone bankrupt.

Hertz, the car rental company that filed for Chapter 11 bankruptcy on May 21 finding itself crushed under \$19 billion worth of debt. The legendary Carl Icahn, one of the greatest investors ever, threw in the towel and booked a \$1.6 billion loss on his Hertz position.

And yet Robinhood investors, apparently smarter than Icahn, decided to bid up Hertz shares anyway, creating a 500%-plus return in five trading days.

Nor is it just Hertz. There are others like J.C. Penney Co., who filed a \$7.2 billion bankruptcy case on May 15 — and whose shares nearly tripled in value a short time after.

There are more of these, too — like Whiting Petroleum, wholly bankrupt and up more than 300% in the course of a week or two.

When trading busted stocks, the operating theme seems to be: “Find stocks that are trading below five dollars — or better yet below 50 cents — and buy them on the theory they might go up.” Never mind if the company’s equity has already been pledged to creditors, with a 99.9% chance that all those buying and trading the common stock will get wiped out. If you can sell to the next guy before the gavel falls, it’s easy money.

As further evidence, this rally has nothing to do with actual economic recovery whatsoever, and is just pure liquidity-fueled wackiness at this point, consider that, along with the FAANGS, companies with garbage balance sheets are rising as if their prospects were bright.

This makes little sense at all because, were the recovery real, a further steepening of the yield curve and withdrawal of emergency stimulus, two things that will inevitably come in recovery, would crush the companies with heavy debt loads and weak balance sheets, or at least dampen their prospects.

Small traders options have accumulated net long call positions to levels NEVER seen in the past. At some point, someone will have to buy those stocks for them to make profits but they have done almost all the buying already recently.

Last but not least, in a sign, this rally is unusual, bulls that cannot find any valid reasons for stocks to go up apart from the fact that stocks are going up are mocking the likes of Warren Buffett and Stan Druckenmiller.

For all the critics he gets sometimes, Warren Buffett has undoubtedly earned his stripes as the greatest value investor of all time and the warning message of his latest annual address where he said he could find nothing to buy at the bottom is being mocked.

Buffett was clearly a contrarian indicator in the late 90s dot-com bubble, not just due to his own skepticism, but also to the ease with which perma-bull analysts claimed that Buffett didn’t “get it.” When it came to dot-coms, Buffett “got it” just fine, of course, and those who dismissed him as out of touch circa 1999–2000 soon discovered the worst bear market of their lifetimes.

What all the above says is that when stock market euphoria is breaching dot-com levels, in the middle of a pandemic that is not over, when nearly all large-cap stocks and world indexes are going vertical in mass levitation, when even bankrupt names are exploding via a zero-commission smartphone app, and when time-tested investors' opinions are bashed, normal investors should really start to worry.

You play it as you want, but common sense and cold blood commands that you are better off out of these markets at current levels than piling in like the new generation.

There are a few other things that worry us today besides the upcoming earnings reporting season :

Is the US stock market rigged ?

As our readers know, we do not satisfy ourselves with things that have no rational explanations and are prepared to explore every hypothesis, even if they are politically incorrect.

All over this rebound, a strange phenomenon took place that left many commentators scratching their heads and without a satisfactory answer. Almost every day of the rally has seen an "invisible hand" intervening in the future markets every night, forcing it to gap higher in a consistent way while the official trading sessions were rather flat overall.

In fact, studies made by Sentiment Trader and others showed that 90 % of the performance of the markets was due to these off-market gaps driven by the futures market as if someone was truly manipulating the market higher to take the shorts out by gapping the daily trade up every day.

It is clearly much easier to push prices higher in thin overnight futures markets than trying to force it up with the volumes of the normal sessions, but the technical effect is actually exactly the same.

Who has been acting so forcefully and so consistently in the overnight market, gradually reversing the sentiment from bearish to bullish and forcing major short covering in the process?

This remains an open question.

More worryingly, as the market was rolling over, Last Friday's job report from the US Labor Department announced that the US economy had gained 2.5 million jobs in May and that the unemployment rate came down from 14.5 % to 13.7 % that month, despite economists projecting 9 million job losses for the month and unemployment rate at 19 %.

The markets shot up on Friday reversing the rolling over of stocks, to end the week with the best positive performances in weeks.

The very same week, 1.88 million Americans filed for unemployment benefits and the independent ADP job report counted 2.4 million job LOSSES for May, instead of the US labor department 2.5 Million job gains.

Very strangely, the market reacted positively on the US Labor Dept report despite footnotes that could not be more explicit, whereby the department revealed that its accounting was wrong and had not accounted for 3.4 million job losses in the previous month and **THAT THEY DECIDED NOT TO TO CORRECT THEM because THEY DID NOT WANT TO INTERFERE WITH THE US PRESIDENTIAL CAMPAIGN**. All these elements have been clearly highlighted in a FORBES article this week.

The US BLS is writing in its footnotes that if people had reported correctly, the unemployment rate would have been 16.3% instead of 13.3%. To be fair, the BLS also notes that this same misclassification happened for April and would have pushed up the previous unemployment rate from 14.7% to 19.7%. In this scenario, unemployment for May would have dipped by an even larger 3.4% than the reported 1.4% drop. But the effect is the same, officially, we have never reached 19.7 % unemployment!

That does have a major political impact....

What this really says is that the US Administration is willingly cooking the numbers to give the impression that the recovery is underway and stronger than analysts expect, but that the hard facts are saying the opposite.

Even more worryingly, Jeremy POWELL, the Chairman of the FED nominated by Donald Trump and who already saved him in December 2018, when stock markets were collapsing following his trade war with China by reversing the course of US monetary policy and re-starting quantitative buying, used this factually fake report from the US Labor Department to tout the US job recovery in the FED communiqué after yesterday's monthly meeting.

How can a supposedly independent FED Chairman use a report that he knows and is publicly admitted to being wrong to send a positive message that is blatantly erroneous ?

The most commonly shared view in America's financial circles is that the stock market will not peak before the election and will then fall into a bear market.

Is there a situation where various tools are being used to prop up the market until the elections to ensure that a "socialist" wave does not win the US Presidential elections in November ?

What if the extra-ordinary behavior of equities did in fact truly reflect the extraordinary macro-economic situation created by COVID ?

One of the strangest thing in the market today is that there are actually very very few analysts and commentators predicting a full-fledged bear market in equities while all the lessons for history are that there cannot be a recession without a sharp decline in earnings and without a significant bear market.

Our view is, and has been so way before COVID, that the US economy has actually started its secular bear market in 2018, but that has been prevented to unfold by the actions of the FED injecting liquidity recklessly, sending all asset classes higher in 2019

and again massively with the occurrence of COVID.

But even unlimited money creation and public debt creation cannot prevent the earnings recession to take place and these measures are temporary in nature, and capped by the risks of seeing a major loss of confidence in the currency, something that may have actually started with the fall in the value of the US dollar in the past few weeks.

What we are saying in essence, is that if we are truly in a bear market, the extreme speed and volatility of the first two phases could indicate that the next move down could be as fast, sharp and even more devastating than the first ones, as sentiment and flows turn sharply in reverse with massive losses and liquidations for all these new-comer investors.

This sharp reversal could come from anything such as a resurgence of COVID and lockdowns, a heightening of tensions between China and the US, or even simply from sharply negative guidance by CEOs for the remainder of the year and next year, or a major financial institution going belly up as was the case with Lehman in 2008.

In such a scenario, the charts reproduced below give an indication of how bad the next downdraft could be with targets at 2000 for the SP500 and 7'000 or 5'000 on the NASDAQ



Ultimately, it is the unfolding of the coming correction that will call the shots with equity markets either falling by 20 % or more, back into the bear market territory or holding those levels and rebounding, signaling that the bear market will only unfold after the US elections.

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AT 10 000 ON THE NASDAQ, THE TRUSTEWARD OF
staying invested in US equities, and even foreign
markets, is the poorest we have ever seen.

Not taking this massive rebound as an opportunity to lighten up considerably on equities amounts to making an irrational decision.

We may probably look back at this crazy period and wonder how we were blinded enough not to take this unique opportunity to bail-out of equities...

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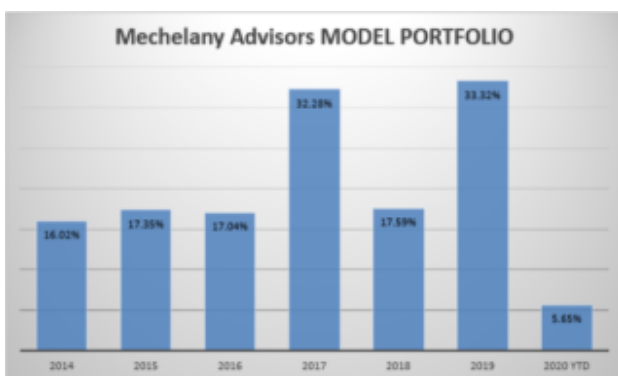
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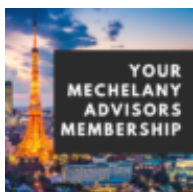
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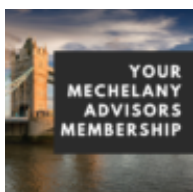
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