Harry's Take

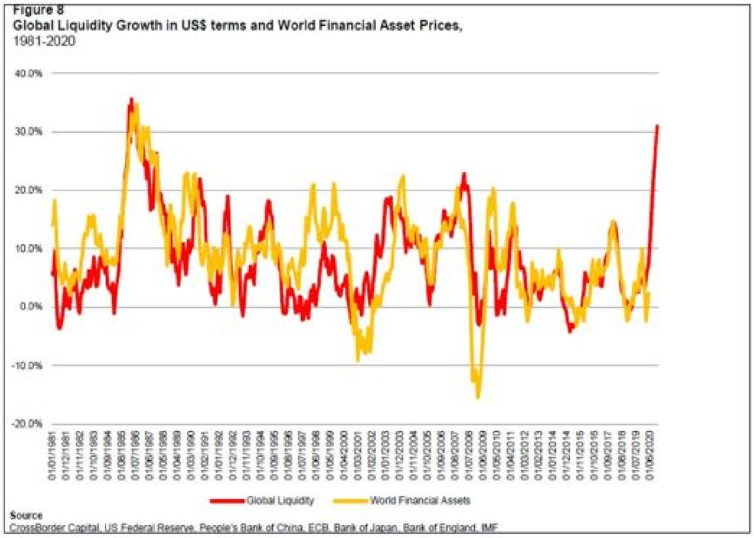
June 16, 2020

Massive Liquidity Says Big Upside, Disconnect With Profits Says Not!

I recently got two charts from Simon Ree at taooftrading.com, a trader and trading teacher in Australia that I toured with a few years ago.

The first chart shows the obvious, that global liquidity is at 31%+ thanks to central banks, the highest it's been in the entire fall bubble boom rally that started in 1983, back to only 1986, when it was up 36% during the first mini bubble from late 1984 into late 1987. Global financial assets have always rallied pretty closely with such liquidity, as that money has to go somewhere and stocks are almost always the greatest beneficiaries.

Global Liquidity Off the Charts: Do Financial Assets Follow This Time?



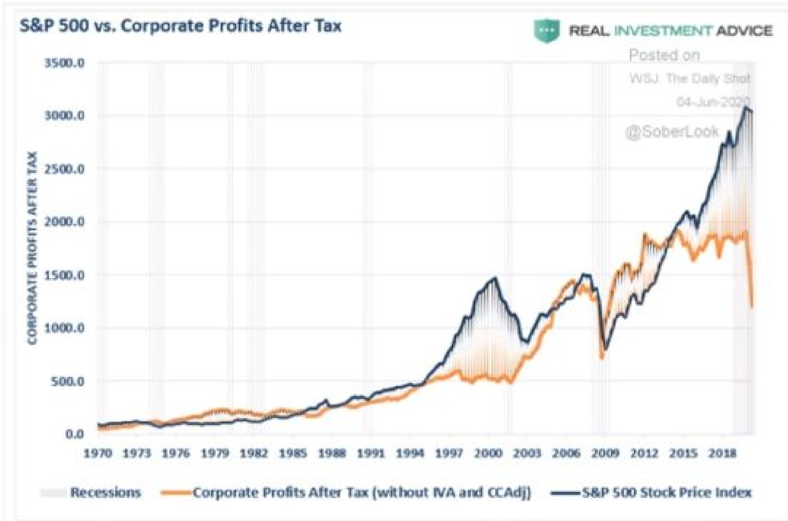
Source: Tao of Trading

www.HSDent.com

This time, the U.S. market is the strongest, because the Fed and U.S. government clearly have led this round of both QE and fiscal stimulus big time. Note the drop-off in liquidity in 2018: the U.S. was alone in tapering, as they actually sold off about 20% of their bond stash. That did not last long, as the repo crisis showed quickly how much the supposedly now-sound banking system needed its “crack.” The chart suggests that this rally is likely far from over.

But the next chart backs up my comparison in recent years of how totally artificial the stock rally has been since 2009. It is 90%+ dominated by corporations buying back their own stocks to goose earnings per share; actual total corporate profits were largely flat after the first strong advance from 2009 into 2011.

Stocks Exceeding Corporate Profits Twice the 1995-2000 Tech Bubble



Source: Tao of Trading

www.HSDent.com

This chart shows that the gap between total corporate profits and stock prices is nearly twice as great as it was at the top of the first great tech bubble in early 2000, and that bubble saw a 78% crash in the Nasdaq with only a very minor recession. This is the chart that tells me this time will be different.

In the U.S., I continue to see what I call a truncated V-shaped recovery, while China is actually having more of a U-shaped one, with less of the massive stimulus this time around. Yes, many industries will bounce back quickly once the economy reopens, but many, especially travel-related, WILL NOT! We WON'T get back to where we were in employment or GDP.

I was supposed to do two 5-city live tours this year in Australia. I won't be able to do either. I may not fly anywhere this year, for the first time ever! As happened after the epic hurricane Maria in Puerto Rico (where I have resided since 2016), many businesses, especially the smaller ones, won't come back and, therefore, many jobs won't either.

I simply do not see the economy getting back to normal by year end, and I see the business and loan failures—despite massive stimulus—resulting in a deeper downturn into 2021 that will bottom on four of my most critical cycles together (90-, 80-, 40- and 20-year), in late 2022 for stocks and 2023 for the economy. This has been my bottom target for the worst of the winter season since 1988, when I first discovered The Spending Wave and the 80-Year Four Season Cycle.

My best forecast is: after the current correction plays out into as late as early July, we get one more rally that goes a bit higher on the Nasdaq into either late August or October—and may even retest the highs on the S&P 500. Then we get a second longer, deeper crash like in 1930–1932 that takes the Dow to somewhere near 5,000!

Harry

Got a question or comment? You can reach us at info@hsdent.com.