



Harry's Take

July 7, 2020

Approaching Major Topping Targets: First Wave Up or Overall Top in Process?

I'm mostly going to let the charts do the talking today. The market has continued to rise in the face of bad news over the coronavirus soaring in states that weren't hit hard originally the way that New York, New Jersey and Louisiana were. Those later-hit states learned nothing from the earlier accelerations. However, deaths are much lower thus far, which is in line with what some Italian doctors have stated, that as time goes on, the virus seems to be getting less lethal.

The market is still "on crack." I thought the 40% global crash in 5 weeks would have sobered it up more. However, it is taking exponentially more crack to keep the markets going. With the repo crisis, it's taken \$765B in quantitative easing (QE) over 5 months (an average of over \$150B per month) to get a 19% rally on the broader S&P 500. That's 2.4 times the \$60B a month we got with the normal 5 months of \$300B in QE.

When the virus hit, the Fed added \$3.44T in QE in 4 months, almost as much as the \$3.7T in the 6+ years between 2009 and 2014, plus \$3T in fiscal stimulus in addition to the \$1T already in place, or about 3 times... All of this for a 45% rally from a near-40% crash bottom. If the market does

correct substantially soon, how much will it take to get the next rally? Another \$5T of QE? Or \$4–\$5T in fiscal stimulus? That’s as much as 70%–80% of GDP in one year!

These fundamentals in no way support this rally, as some industries simply cannot get back to normal no matter how much stimulus is shoveled in... So why are we hitting new or near-new highs?

The Nasdaq 100 channel that has been key since early April hit the top trend line for the third time with a sharp rise to its high of 10,625 yesterday. It hit slightly higher at 10,682 this morning. This could be a top.

NDX 100 Final Channel Near Top? Breaks to Downside Below 9,950



Source: Yahoo! Finance

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The next chart steps back to 2016 and shows a top trend line from the major September 2018 top on the Nasdaq, which is a broader tech index and is trading slightly lower. It hit a high of 10,490 today, which broke

above the trend line around 10,300. That could be a sign of a throw-over top, which is typical of a final high and test of the trend line.

Nasdaq Top Trendline From 1/18 Exceeded at 10,300: Throw-over Top

Linear Scale



Source: Yahoo! Finance

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But... here's the bigger picture that I have been tracking for years. The Nasdaq on an exponential, or log, chart—which is most appropriate for longer-term trends, especially in a bubble—came close to its top trend line at 10,565 yesterday. That top trend line was not hit at the September 2018 top and was missed by about 100 points yesterday.

Nasdaq Top Trendline at 10,565 Now: Top Here Or 11,000 by Election?

Log Scale



Source: Yahoo! Finance

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This broader chart back to 2009 suggests markets could continue to edge up into July and hit or throw over this trend line, as it is still 75 points shy of this target. The channel above has been moving up about 550 points a month on the Nasdaq 100, or closer to 500 on the Nasdaq. So, it will hit that target soon or in the next week or two if it corrects a little first. [Andy Pancholi's](#) next turn point for stocks is July 21–23, and I think that is about as far as this trend can go without getting totally overbought and finally go fully over all 3 of these 3 major top trend lines.

Here's the real question, given such a strong rally without fundamental support: Is this the final top in process, or do we get a more-typical substantial correction in the next month or so followed by one more rally into the election?

I still say the upside is limited (11,000+ by the election on the third, broader chart) and the downside is getting larger and larger. Look back at the

second chart to see where the first wave after the next correction from a final top could go: down 40%+.

Harry

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