



# ***Harry's Take***

September 1, 2020

## **New Highs Only in U.S. and Indices With High FAANG Stock Weightings**

The recent market would shock anyone: Stocks crashed to the extreme and then ran up to near or new highs, fast. This would never happen in another time! The stock market does not like uncertainty; *that* lowers P/E (price to earnings) ratios.

The COVID-19 shock has created massive uncertainty about present and future impacts on the economy. Anyone who thinks we will be back to 3.5% unemployment and higher real GDP by early next year is insane.... There are too many zombie loans and zombie companies teetering and even falling, despite massive stimulus—which will not reach them all, nor will it be enough to raise most of these zombies from the dead.

Yes, the Nasdaq has made major new highs: At 20.2% above its February highs, it has the lead bubble, driven mostly by that handful of FAANG stocks, which have benefited so much in the near term from much higher online activity and which will shift at least a bit higher for the longer term as well.

## Only Two FAANG-Heavy US Stock Indices Making New Highs Thus Far

Stock Index	% at Peak vs. Jan/Feb Peak	Date
Nasdaq	+20.2%	8/31
S&P 500	+3.6%	8/31
Dow Jones Transportation	+0.2%	8/31
EEM-Emerging Markets	-1.6%	8/28
Nikkei-Japan	-3.1%	8/28
Dax-Germany	-3.5%	7/21
TSX-Canada	-6.3%	8/27
Russell 2000	-6.5%	8/11
NYSE	-7.1%	8/28
Dow Jones Utilities	-11.9%	6/8
ASX 200-Australia	-13.9%	8/19
CAC 40-France	-14.7%	6/8
FTSE-United Kingdom	-15.3%	6/8

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The S&P 500 has a surprising 40% weighting in the FAANG stocks and has followed to new highs recently; the index now is 3.6% above its previous all-time highs. The rally open on Tuesday morning moved the Nasdaq to new highs but again, only slightly on the S&P 500.

The Dow Transports barely made a new high, up a mere 0.2% on Monday, as it has benefited from higher levels of direct shipping to consumers from online companies. So far, its rally counts only as a retest. The Dow Transports dropped heavily yesterday, and the index was 1.5% below its February peak at yesterday's lows.

Emerging markets, which have had less exposure to the effects of COVID-19 thus far, are still 1.6% below their highs. These markets do have a decent shot at a retest and may reach new highs. But yesterday, they fell the strongest. They ended up 3.8% off the peak yesterday.

China is not included in this group, as it did not have the rally into a dramatic peak in February that other countries did.

None of the other U.S. and global indices appear likely to make new highs, even if the markets correct near term and rally one more time into the election—as most of the gains in this final rally are going even more into the Nasdaq, particularly the FAANG stocks, as usual.

Note the dates of the rebound peaks; they are not Monday's highs. The earlier ones are now a bit (or more) lower than their previous peaks, and are even less likely to make new highs. The strongest in Europe, the DAX, was 3.5% below its peak at its rebound high on July 21. Now it's 6.2% lower and very unlikely to make a new high.

This very narrow, very steep final rally in such uncertain times is a clear sign of a long-term bubble peak and has created a huge divergence to signal that. Since April, I've predicted that this rebound would peak in August or October. That still looks a bit more likely now, given this blow-off rally....

But if we can hold that Nasdaq 100 channel's bottom trend line around 11,200 in the weeks ahead, during the historically worst month for stocks, September, we could still see a final rally into the election. I project continued falling COVID-19 cases and deaths... and Trump could still make a comeback against a weak democratic candidate if stocks are up.

As I say, there's a lot of uncertainty here. The "markets on crack" don't see any! Surprise, surprise.

Harry

*Got a question or comment? You can reach us at [info@hsdent.com](mailto:info@hsdent.com).*