Harry's Take

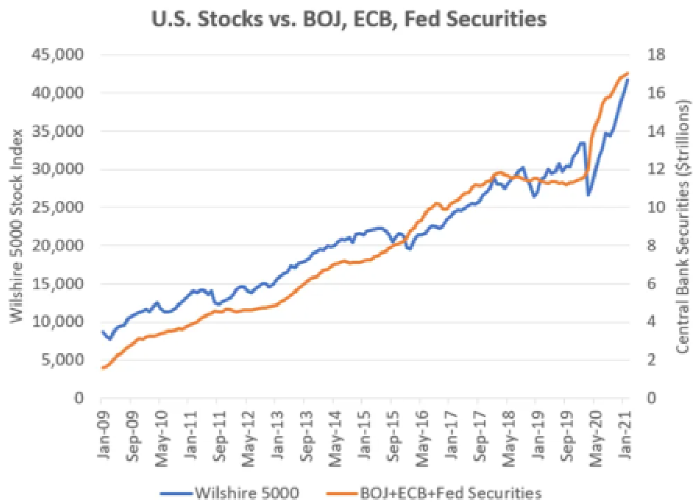
March 9, 2021

Stock Valuations and Lag on Unprecedented Stimulus Say Stock Top Is Close

In my October issue of the *HS Dent Forecast,* I showed conclusively why unprecedented monetary stimulus (QE) has only resulted in a massive financial asset bubble (especially in stocks) and not in the consumer inflation and gold explosion that the gold bugs have expected. I found that stock prices in the U.S. correlated closely with Fed QE but were even a bit closer with total global QE from the major central banks, as the U.S. has the most attractive global stock market by far.

This chart summarizes that correlation, updated to account for the massive QE of the big three central banks.

Post-COVID Extreme Stock Spike Right in Line With Global QE: Peak?



Source: https://www.nationalreview.com/2021/03/the-mother-of-all-stock-market-bubbles/

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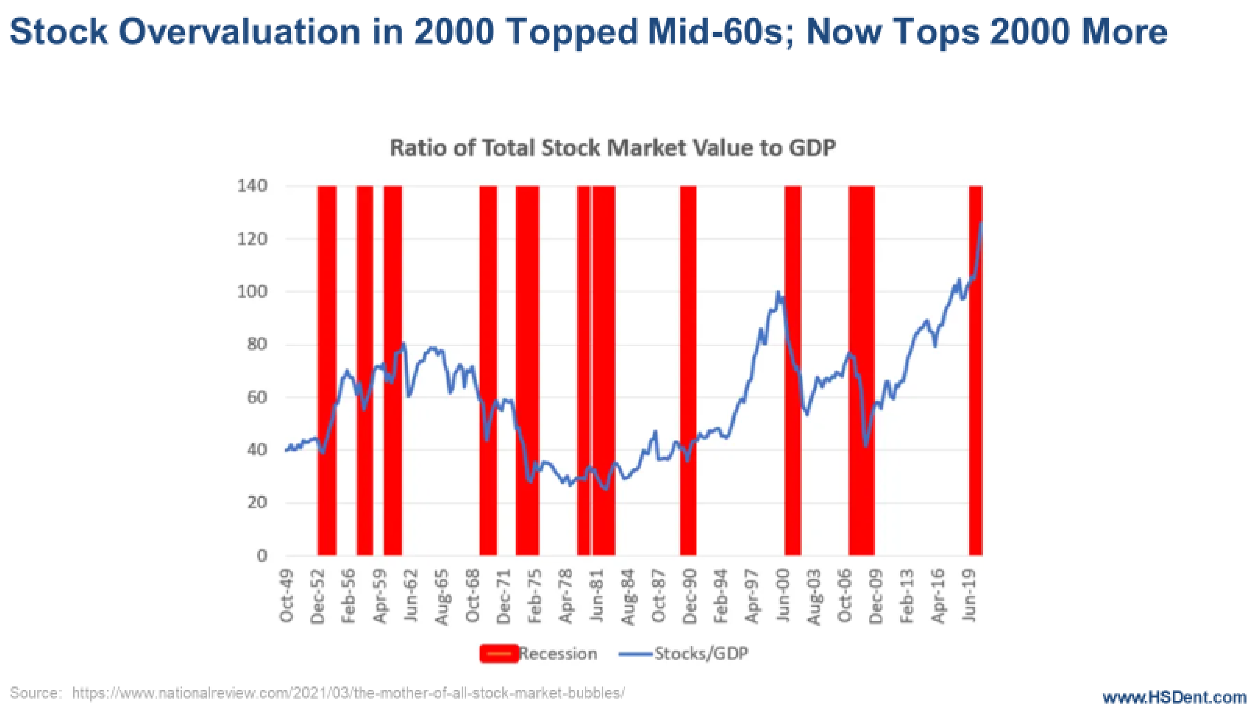
The biggest surge in QE in response to the COVID-19 crisis was as large as the cumulative QE program from late 2008 into late 2017. The biggest part of that happened right away, from April through June 2020. That is largely factored in now, although the Fed continues to pump out $120 billion a month, twice what they did at the peaks of the QE programs of the past.

Minor, late-stage inflation has come more as a result of the post-COVID fiscal stimulus, which actually goes more into the economy than toward merely buying financial assets with money that is created out of thin air. Such fiscal stimulus also more favors small-cap stocks through higher growth than the monetary stimulus, which just pours into the largest cap and tech stocks. That's why those stocks are now underperforming.

In the recent March issue, I showed six stock valuation indicators, ranging from call options of small traders (dumb money) to insider trading and large money managers. The percentage of IPOs unprofitable at 80% was as high as in the last tech bubble peak in 2000—and that was way higher than at any time in history. All five other indicators were far higher than in 2000 or at any time in the past. The only valuation indicator below the 2000 peak is

Shiller's cyclically adjusted P/E ratio, and I show that adjusted for average 1.65% growth rates, vs. 4.1% back in the 1990s bubble. That indicator is far higher than in 2000.

Here is the other well-known and widely watched stock valuation indicator, now commonly called the "Buffett Indicator." It is far higher than in 2000 or at any other peak as well. And it is rising into a recession, which is not typical.



While most of Wall Street keeps coming up with more reasons for why "this is not a bubble," I continue to warn with no reservations that this is the greatest, longest, and most global bubble in all of modern history!

This bubble will burst, and these indicators say it's coming much sooner rather than later. Jeremy Grantham in January said that this level of euphoria in stock sentiment indicates that we are within months, not years, of a top. He now says stocks will be crashing by May.

They could start to crash just ahead, in the second half of March. Don’t look a gift horse in the mouth. The next crash is projected to be down 47% in a few months. Wait and you’ll likely be sorry.

Harry

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