Harry’s Take

March 22, 2022

High Valuations Suggest Near-Zero Stock Returns for Next Decade

After seeing normal bull markets with occasional 10% corrections and 20% or so corrections at worst, it’s easy for investors to forget what happens when markets move into longer-term bear markets, which can last a decade or a bit longer—you know, like 1885–1896, 1930–1942, or 1968–1982.

My fundamental research and cycles say that we should have had a bear market from 2008 to 2022 or so. But when the next Great Depression hit in 2008, central banks went ballistic, and they have been printing exponentially more money ever since…

Now, we have the largest bubble in history—and for the first time, it’s an “everything” bubble—during what would normally be a weak demographic period, from 2008 into 2023. We thus should expect a larger, sharper crash in the next few years, just to catch up. But with a relatively smaller generation, the Millennials, driving the next short-term boom into 2036–2037, we could have another “lost decade” of near-zero average returns as well.

This first chart shows how strong peak periods of rolling 10-year average gains tend to be, and they are often followed by a decade of near zero returns… And now, the markets look to be peaking again for the first time since 2000.

High 10-Year Rolling Returns Suggest Zero Returns for Next Decade

Stifel

Source: https://markets.businessinsider.com/news/stocks/stock-market-outlook-lost-decade-through-2031-zero-returns-stifel-2022-3

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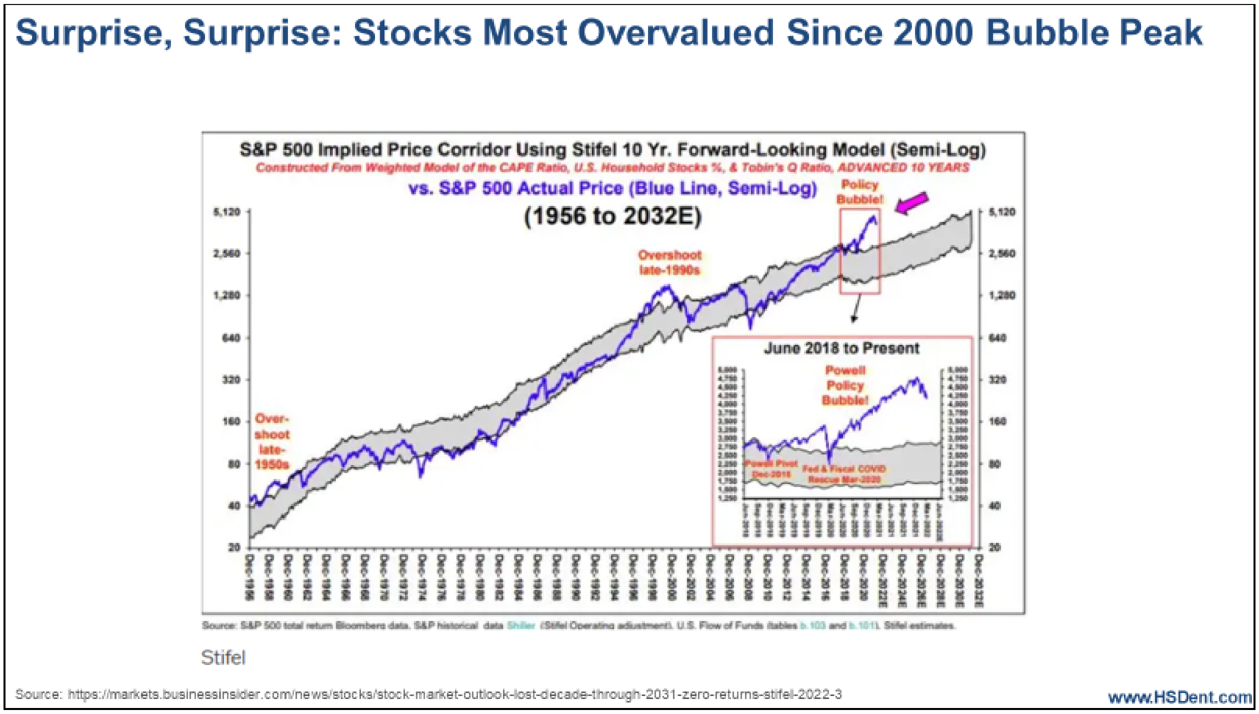
The second chart shows a Bollinger Band–like range developed from the Shiller Cyclically Adjusted Price-to Earning (CAPE) Ratio, U.S. household equity as a percentage of stock ownership, and Tobin's Q Ratio from Stifel Financial. Since a slight throw-over valuation in 1872 before the 1873–1877 crash, the only other stronger throw-over before now was into 2000–2001, and that resulted in the first tech crash of 2000–2002. The present throw-over is even stronger.



The bottom of the band just ahead is around 2,560, which is 64% below the recent 4,819 top in the S&P 500. A throw-over on the bottom side commensurate with that on the top side would suggest a bottom around 1,100, or a crash of 77%. My projections are that it could go to as low as 670, or down 86%, because this is likely the final crash and it's way overdue.

A cross back into the normal band range would confirm a top here and would indicate that the crash will continue, as I have been expecting. If the markets do hold here and one more slight new high happens on the S&P 500, then this first crash simply should start in late April or so and the markets would bottom around July…

This is just another long-term indicator suggesting that the crash of a lifetime is just ahead!

Harry

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