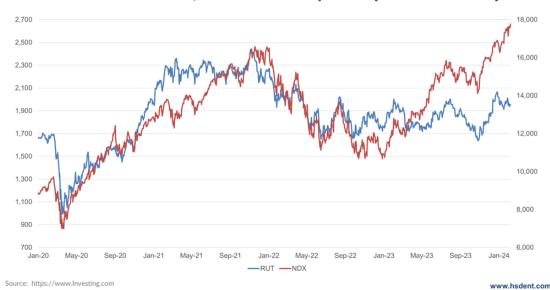


The Ultimate Divergence

The stock markets continue to look like they are making a major long-term top between December and now. The iShares Biotechnology ETF (IBB) peaked first way back on September 6, 2021, and then the Russell 2000 small cap peaked on November 8, 2021. Now, 2.25 years later, the S&P 500, Dow, and Nasdaq 100 largest cap indices may have peaked together for the finale on February 12, as stocks continued their decline into Friday, February 16. Stocks look like they will continue to decline this morning as well. This chart continues the Great Divergence between the Nasdaq 100 and the Russell 2000, as I have been telling our paid subscribers for months. It doesn't get clearer or more persistent than this!

Russell 2000 Crashes Less, and Then Greatly Underperforms Nasdag 100



After the Russell 2000 peaked first back on November 8, 2021, it bottomed earlier than the Nasdaq 100 into late June 2022 and then recovered sideways for 11 months, greatly underperforming the Nasdaq 100, especially from April 2023 forward. The odds of this divergence being canceled by a new high on the Russell 2000 are very remote now. The index would have to rally 21% to make a new high, which is extremely unlikely after that 525-bp hike into July of last year, as such hikes hit the small caps even harder.

Stocks continue to be reluctant to enter their second crash after the steep one-year crash in 2022 and the larger-than-expected bounce into early 2024, as investors are confident, given the extreme stimulus since COVID, that the Fed will always step in and bail out the markets and the economy. However, I keep stressing that we don't know how hard the highest tightening in 40 years will hit until late 2024 to early 2025, when we will more fully see its effects on the economy. And with the one- to 1.5-year monetary lags, it will be too late by the time the Fed "may" cut rates again from June forward.

We are now in totally unprecedented territory, but I say it's only prudent to assume that this massive tightening will hit hard, given that this stimulus program has stretched the economy so far for so long, going on 15 years now since early 2009. It's best to be out or short, depending on your risk tolerance, and wait to see if this next wave starts to show itself in the next few months. It should do so by June or so. If not, we can always reposition.

Harry

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