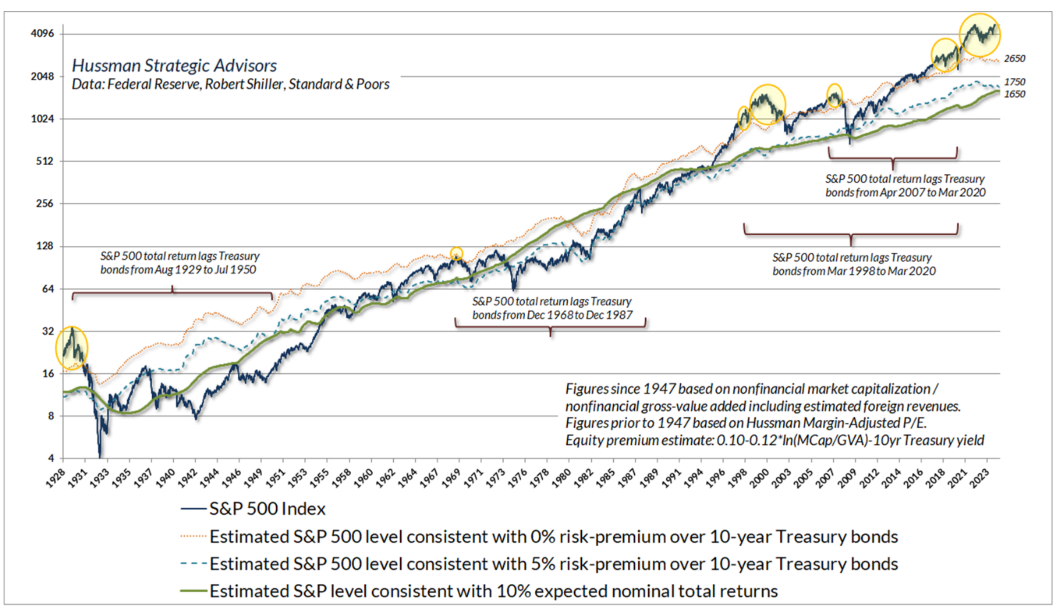
Harry's Take

July 23, 2024

Another Simple Indicator Shows We Are Way Overdue for a Stock Crash

All types of indicators of excessive valuation for stocks have been flashing for a good while now, especially since 2021: P/E ratios, market capitalization to GDP, sales to GDP, and many others. Here's another one that I like, as it fits basic investor expectations. People generally think that 10% total returns with dividends is fair for stocks over time, as that's about what's occurred over most of our adult lifetimes; that level is stronger than what it's been in the generations before ours. Returns typically average 7% long-term without dividends.

S&P 500 Most Outperforms 10% Expected Return: 1929, 2000, 2021-2024



Source: https://www.hussmanfunds.com/comment/mc240623/

This indicator shows how far above the expected 10% total return in stocks that the S&P 500 is now… It's among the top bubble peaks in history: 1929, 2000, and now, 2021-2024. Late 2021 definitely looked like a major long-term top, given its trajectory and multiple overvaluation indicators, but the $11T overreaction to COVID between 2020 and 2022 has put us yet another notch higher. Of the unprecedented $27T in total stimulus we've gotten since 2008, this $11T was not only huge, it came out over just two years. And stocks are now ignoring the aggressive, 525-bp rate hike from March 2022 into July 2023, the effects of which will hit the most about six months from now, around January 2025. That 1.5-year lag may stretch out even further, given the magnitude of this stimulus.

The key insight here is this: If you look closely, the distance between the green 10% return expectation line and the S&P 500 is now slightly greater than at the peak in 1929, and it is a good bit higher than at the first tech bubble peak in early 2000…

It's just another brick in the wall of setting off the alarm for the crash of our lifetimes. Be patient; it is coming ahead to some major degree and it's likely to be as bad, or close to as bad, as the 1929-1932 crash of 89% on the Dow. What is in question is how much more the central banks still can do to fight the crash and recession. Even just signs of another crash after $11T in stimulus so recently would really show how weak this overstimulated underlying economy actually is! I say they blew their wad on the $11T overreaction to COVID. What, are they going to go for $20T+ next time?

Harry

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