Harry's Take

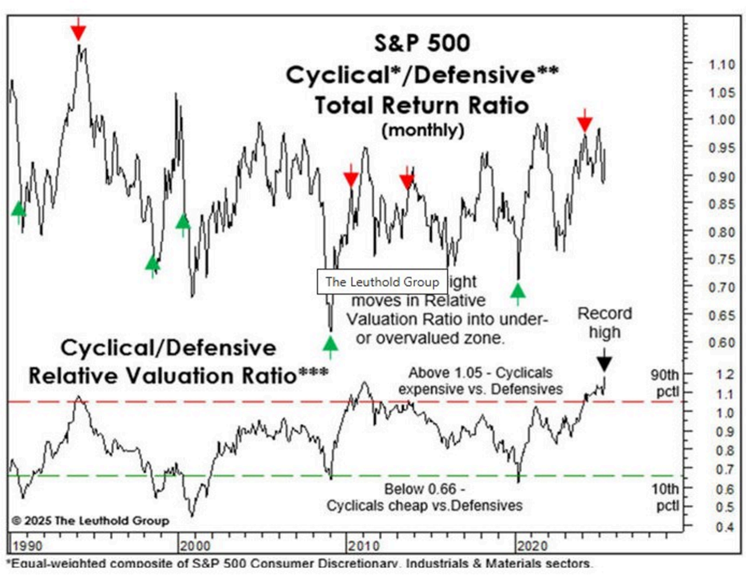
June 10, 2025

Investors Are Surprisingly Complacent Given Rising Uncertainties

The biggest difference I see with the “dumb money” or most everyday investors, vs. the smart money… the longer a market goes up, the more confidence they have in it. The smart money sees a longer bull run as simply likely to be more overvalued! According to Polymarket, the odds of a recession have recently fallen from 66% down to 28%. This is even more surprising to me as Trump has clearly created headwinds and more uncertainty with his tariffs, and his back-and-forth assertions about them.

Here's a chart from Business Insider (one of my favorite analysts) that is concerning from an article called “No Recession Risk Whatsoever” by Christine Ji on June 8.

Investors See No Chance of Recession Despite Rising Cyclicals’ Risk



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Source: [Recession Prediction: Metric Shows the Stock Market Doesn't See a Downturn - Business Insider]

This indicator on the top line simply compares the more cyclical sectors like consumer discretionary, industrials and materials to the more defensive sectors like consumer staples, healthcare and utilities in the top line. They combine valuation measures like trailing P/Es, normalized P/Es, Price to Cash Flow, Price to Sales and Price-to-Book for comparison. You can see the red arrows where there have been sell signals as occurred recently.

But the bottom indicator is the more revealing one where there is the ratio of the cyclical to defensive in relative valuations. That ratio recently hit an all-time high of 1.19. The last time it got close to that we saw a 16% correction in the S&P 500 in early 2011 after a strong thrust from the massive stimulus back then. Of course, you know I am predicting a much larger crash likely ahead after the unprecedented $27T in combined fiscal and monetary stimulus since the early 2009 recession bottom, with $11T of that just in the 2 years after COVID.

This is just another warning that investors have fallen asleep, feeling like "they've died and gone to heaven" with all of the government support of the economy and markets, especially since COVID hit…

To me, this is exactly when the odds are likely rising fast that we see the unexpected… the beginning of "the crash of our lifetime!"

Harry

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