Real Money

Market at All-Time Highs but It's Literally Boiling Down to Just One Stock!

Is that a sign of a healthy market?

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As traders log in every day on their summer vacations, they notice the S&P 500 index ticking higher every day and feel a sense of FOMO for not knowing nor understanding why the market keeps moving higher when there is literally no new news. Today it touched the old all-time high of 3375 and then made a move towards 3425. It is easy to be fooled by the strength of the overall index when one looks just on the surface. If one looks under the hood, one will realize the **leadership is getting narrower and narrower.**

In March, all stocks and sectors rallied as central banks pumped enormous amount of money to boost asset prices and jump start the economy. Then as the months progressed, leadership was down to just the Technology sector, Nasdaq. After it too made new all-time highs, even today this index is seeing its leadership fall and being pushed higher by a handful of stocks. Friday was the ultimate day when just one stock, Apple (**AAPL**) , contributed 105% of the total return of the Nasdaq 100 and S&P 500, and 88% of the total return of the Dow Jones Industrial Average. Is that a sign of a healthy market?

We all know that given the sheer market cap increase in stocks like Amazon (**AMZN**) , Apple, Microsoft (**MSFT**) , Alphabet (**GOOGL**) , and others, there is a stark difference between the equal weighted S&P 500 index and the generic market cap weighted index.

The **equal weighted index is down 8% from its all-time highs** back in February. On June 8th, the percentage of stocks making new 52-week highs peaked and the cumulative advance/decline line for the S&P 500 peaked on 12th August, failing to confirm new all-time highs.

These stats are important as fund managers get calls from disgruntled investors asking why they are in cash or underweight. **Ignoring just the top five stocks, the underlying fundamentals** of the economy and signals from broader asset classes **are so bearish** with stocks making lower lows and highs, that **they can't justify being invested** in at these levels. Despite its recent highs, Technology is perhaps the only sector one can invest in and see potential upside over the medium term as their earnings of 30%+ over the next few years can justify P/E's of 30+ in some cases. Growth over value will still be preferred as value is seeing no signs of broader pick up in the economy.

After the initial bounce, back in economies after lockdown, recent data like the PMI especially in Germany, France, and Eurozone is showing signs of moderating as the initial bounce is wearing off. Central bank balance sheets can only go so far to boost asset prices but **unless companies start spending, hiring, the economy is not going to go back to pre-covid levels**.

One of the most worrying features is that Congress is still deadlocked and the longer we wait for a bill to be passed, the more worried the markets can and will get. The unemployment benefits of $600/week have expired and commentary from retailers like Walmart (**WMT**) , TJX (**TJX**) , Kohl's (**KSS**) , and Foot Locker (**FL**) suggest that they are seeing a slowdown in spending after the initial surge.

A lot of the consumer demand was front end loaded in Q2 but still as these free money benefits wean off, the average U.S. consumer is not feeling comfortable. More and more companies are laying off workers, permanently, not just furloughed. Other than central banks throwing more money at the problem into the pockets of U.S. consumers, or doing more QE, how else are consumers to spend and travel more? Maybe the Fed cannot print more unless the market falls a good 8%-10%? Just a thought.

Nothing like a good growth or rates scare to see the markets drop and compel Congress to pass a much higher $2-$2.5 trillion bill. The Fed minutes from July disappointed investors a bit as it showed that the Fed has not yet committed or believes that yield curve control is needed. If for whatever reason the back-end rates spike as inflation is becoming a problem, this can spook the markets and something can snap. Meanwhile if the economic data starts to get weaker, that "growth" scare can also knock cyclical assets down further... stagflation!

QE has become a game and mockery of sorts. Any intellectual person can tell you that this is going to end in tears one day, but let's not worry about it, as it will be our children's problem, not ours. Let's just get rich in the meantime and inflate away the problem. The Fed is literally just hoping they can throw enough money at the problem to kick start the economy, hoping it picks up. Then they can hopefully raise rates in time to stop inflation from getting out of control. Wishful thinking? Only time will tell.

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