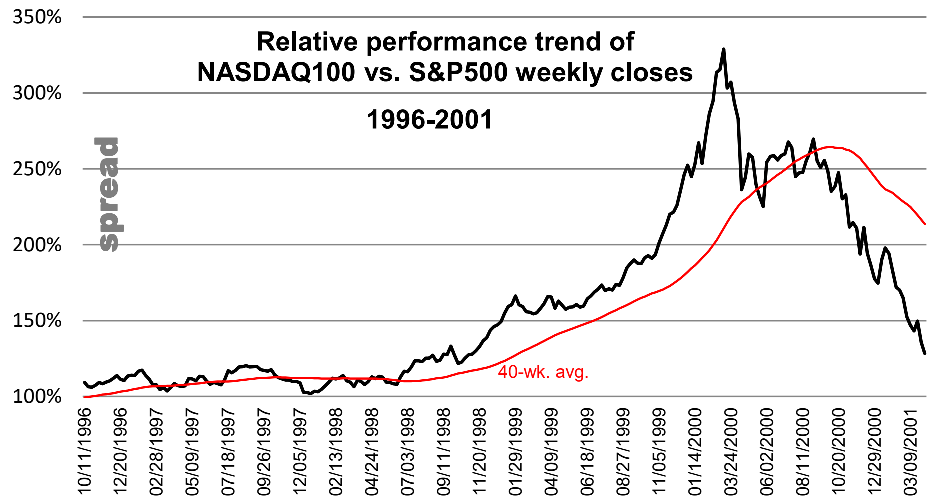
MSA

April 28, 2021

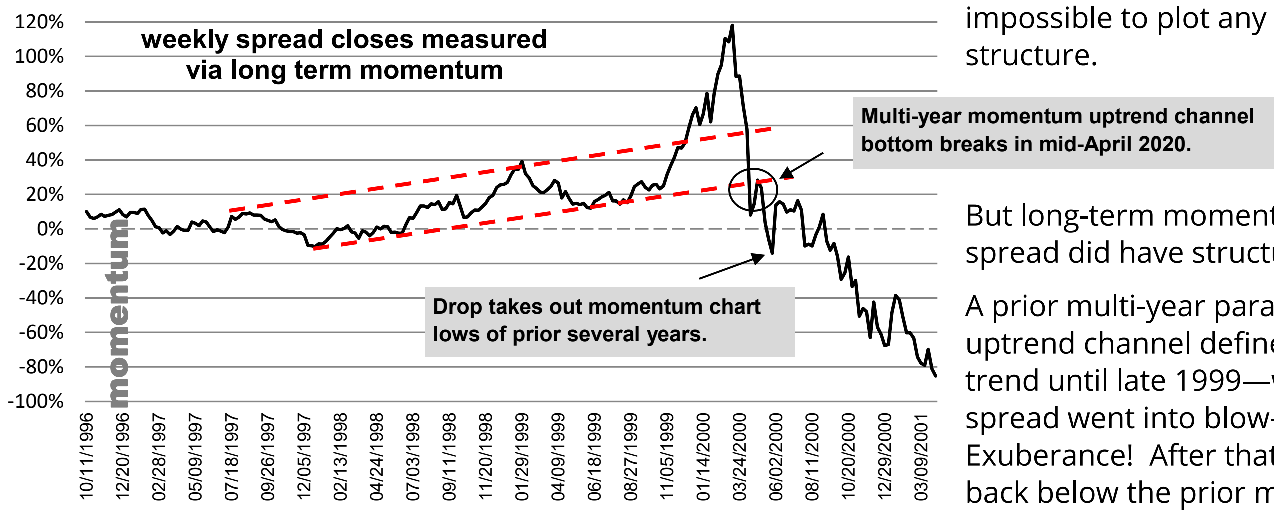
Leaders peak: markets peak!



The leadership in the grand bull market that peaked in 2000 was the NASDAQ 100, being where most of the dotcom stocks were found.

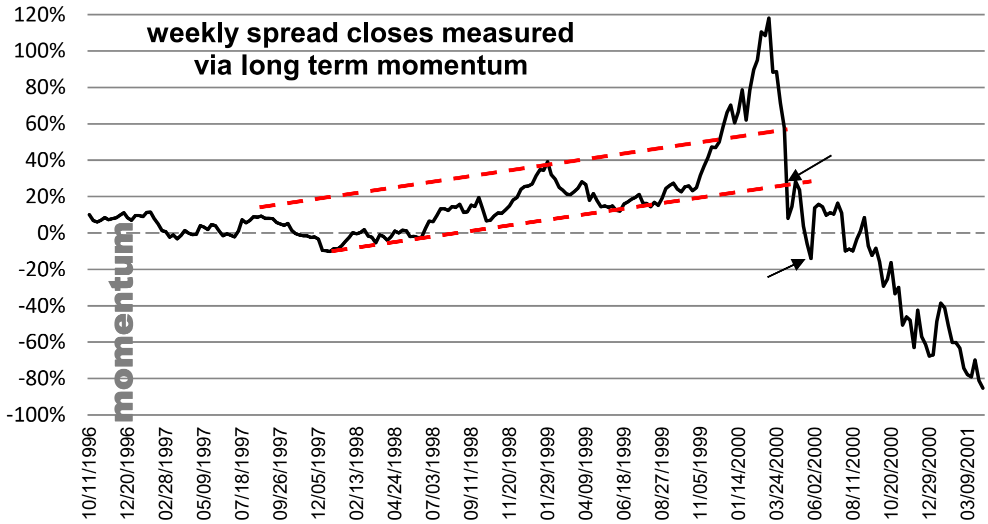
And as the top chart (spread) shows, NDX went from 100% in 1997 (meaning its price was virtually the same as the S&P 500's) to a peak of 328% in March 2000.

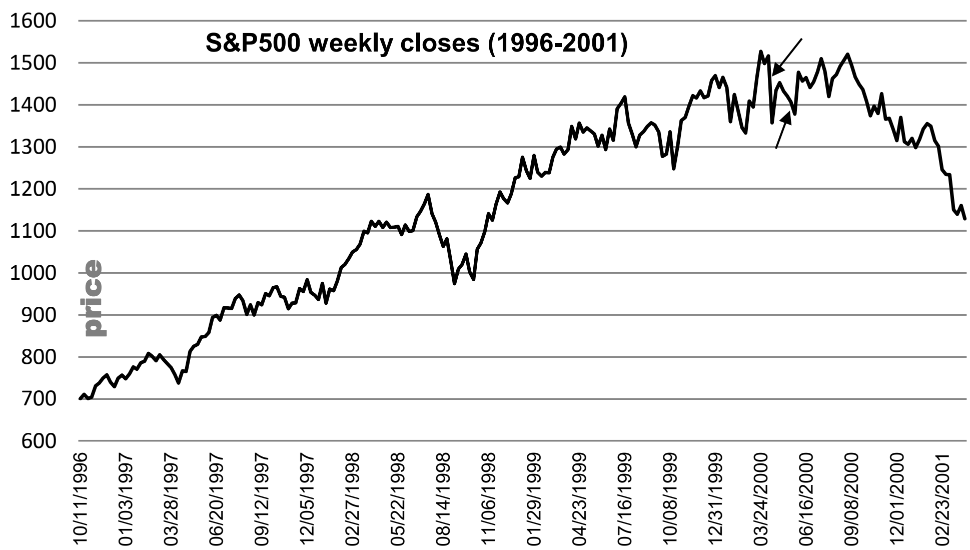
The spread began to turn down then, but due to the upward curve on the spread it was next to impossible to plot any valid trend structure.



But long-term momentum of the spread did have structural clarity.

A prior multi-year parallel uptrend channel defined the trend until late 1999—when the spread went into blow-off mode. Exuberance! After that it aborted back below the prior multi-year uptrend channel and rapidly took out the channel bottom (major negative signal at that point). And soon it dropped below all low readings of the prior years on momentum. Breakage upon breakage.





Leadership failure at the 2000 top

Here we view the action of **long-term momentum of the spread between NASDAQ100 and the S&P 500** (top chart) and **weekly price closes of the broad market as represented by the S&P 500**.

Let's see when and where the broad market was when the leadership index (NDX) began to fail on a relative performance basis. Not just when the spread readings began to drop, but more importantly **when momentum of the spread broke structure**.

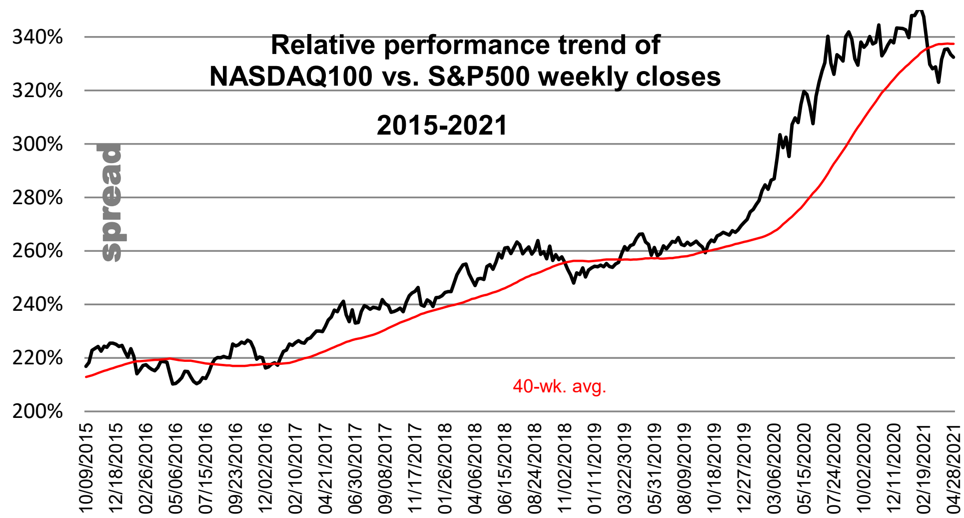
The down arrow on the momentum chart occurred in mid-April 2000. We've plotted a down arrow on the S&P 500's price chart at that same point.

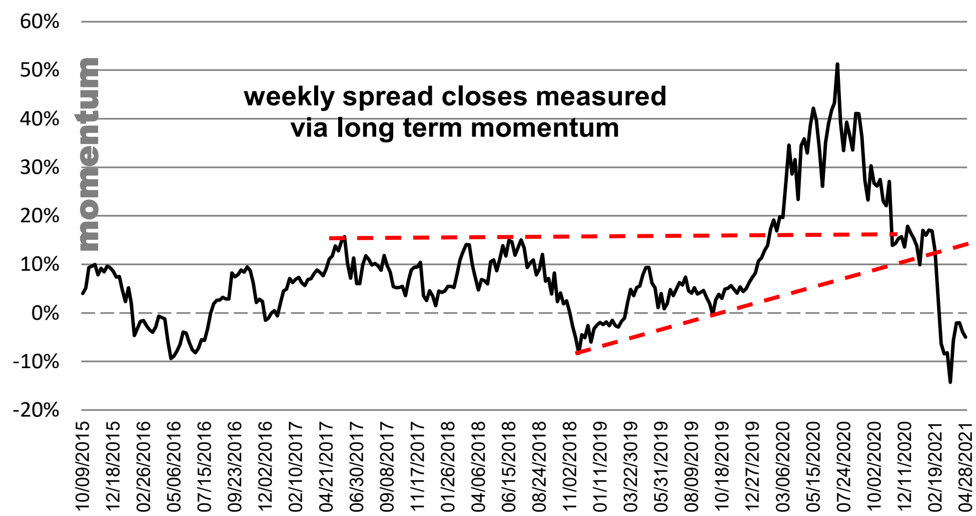
And the low reading noted via the **up arrow**—a momentum low that took out all prior momentum lows going back years—is also noted on the price chart.

In sum, paying attention to the **technical underpinnings of the market leader—**back then the dotcom stocks in NDX—provided an investor with clear warning, despite the S&P 500 continuing to beat its chest until August 2000. After that final upside that summer, the underlying realities took over.

Oh, yes, and the S&P 500's final bear low was at 768 in October 2002, not shown in this price chart. A 50% bear market.

The NASDAQ's bear trend, in contrast, was an 83% wipeout measured from its 2000 price highs to its 2002 lows. In other words, the former upside leader reversed roles and became the downside leader.





Current relative performance: the "leader" NASADAQ100 vs. the broad market as measured by the S&P 500

The spread chart dropped sharply recently, taking out lows of the past ten months. A sudden jolt following a blow-off upside move in performance.

Much like the spread action in 2000, there was little on the spread chart itself in terms of multi-point uptrends, etc. Hard to define its topping. Momentum then was clear.

The same now. The only seeming violation by the spread has been taking out the past clump of readings going back ten months.

For momentum the clarity is there.

Even before the recent sharp spread chart drop, momentum had dropped down to a horizontal prior ceiling and tried to use it as support for a couple months. There was also a definable three-point uptrend just below the horizontal. Both came out two months ago, which explains why the spread (top chart) dropped so sharply at that point. Momentum has not only broken those red-line structures, but it has also shown no respect for the prior momentum lows of the past five years. Very similar to momentum behavior of the spread back in 2000.

And like then, it's possible the broad market might think it can shrug off the leadership relative performance trend failure of the NDX (and its narrow and heavily weighted symbols such as AMZN, AAPL and MSFT), but we don't think the broad market will survive the failure of leadership.

Also, we suspect that the broad market won't enjoy as many months of loitering around this time as it did between April and August 2000.

Positions in markets mentioned: none