

# Bitcoin Crashes & The S&P 500 Could Snapback To Its Trend

Ready for the S&P 500 to snapback to its trend? The S&P 500 has gone 213 days without touching its 200-day ema. The last stretch of time above its ema was in the 1950s.

[dmc]

## What To Watch Today

### Economy

- 7:00 a.m. ET: **MBA Mortgage Applications**, week ended September 3 (-2.4% during prior week)
- 10:00 a.m. ET: **JOLTS Job Openings**, July (10.049 million expected, 10.073 million in June)
- 2:00 p.m. ET: **Federal Reserve's Beige Book**
- 3:00 p.m. ET **Consumer Credit**, July (\$25.000 billion in July, \$37.690 billion in June)

### Earnings

#### Post-market

- **GameStop** ([GME](#)) is expected to report an adjusted loss of 67 cents on revenue of \$1.123 billion
- **Lululemon** ([LULU](#)) is expected to report adjusted earnings of \$1.19 per share on revenue of \$1.334 billion
- **RH** ([RH](#)) is expected to report adjusted earnings of \$6.49 per share on revenue of \$974.8 million

### Politics

- **President Biden**, alongside **U.S. Secretary of Labor Martin Walsh**, will give a speech in honor of labor unions at the White House at 11:20 a.m. ET today. The president is also set to receive a briefing from his COVID-19 response team ahead of [what's being billed as an address to the nation](#) on the pandemic tomorrow.
- **Congress** remains in recess but **the Speaker of the House of Representatives Nancy Pelosi** could make some headlines today with her weekly press conference at 9:45 a.m. ET in Washington. She will then travel to Massachusetts to [receive an honorary degree from Smith College](#) in the evening.

*Courtesy Of Yahoo*

## Price To Sales Rocketship

[Kailash Capital](#) had a great chart out recently showing the massive increase in the market capitalization of stocks with price-to-sales ratios greater than 20x.

"While we've seen an increase in the number of companies coming public via IPO's / SPAC's the number of investable companies hasn't kept pace with the degree of inflows, resulting in re-ratings. Looking at the total market cap of stocks with P/S in excess of 20x we've surpassed the tech bubble high by nearly ~\$1.0T." - Kailash



Source: Kailash Capital; Data from 4/30/1989-6/30/2021

If you don't understand why a Price-To-Sales ratio greater than 20x is essential, [let me remind you](#) what Scott McNealy, then CEO of Sun Microsystems, told investors **paying 10x Price-to-Sales** for his company in a 1999 [Bloomberg](#) interview.

*?At 10-times revenues, to give you a 10-year payback, **I must pay you 100% of revenues for 10-straight years in dividends.** That assumes I can get that by my shareholders. It also assumes I have zero cost of goods sold, which is very hard for a computer company.*

***That assumes zero expenses, which is hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that expects you pay no taxes on your dividends, which is kind of illegal.** And that assumes with zero R&D for the next 10-years, I can maintain the current revenue run rate.*

***Now, having done that, would any of you like to buy my stock at \$64? Do you realize how ridiculous those underlying assumptions are? You don't need any transparency. You don't need any footnotes.***

*What were you thinking??*

## Ready for the S&P 500 to Snapback?

Michael Queenan ([@mjqueenan](#)) provides yet another reminder of the extreme deviation of the S&P 500 from its trend. Per his tweet:

*"For anyone tracking, this is now the second-longest the \$SPX has gone without touching the daily 200 EMA. April 1958 to June 1959 (289 bars) is the longest. We are*

currently up to 213 bars."

## Markets Continuous Climb



### **Bond Yields Opening Higher**

This morning, bond yields are about 4-5 bps higher despite little market news or movement in S&P 500 futures. Some of the sell-off may be attributable to dealers setting up for the upcoming 10- and 30-year Treasury auctions. Tomorrow the U.S. Treasury will auction \$38 billion 10-year notes. They will follow it up on Thursday with \$24 billion in 30-year bonds. Since Wall Street banks and brokers are the prime distributors of the auctions, they tend to sell or short bonds in the day(s) preceding auctions and repurchase them at auction. Such can work to their advantage as bond prices often weaken before auctions allowing them to purchase bonds at lower prices than they sold them. While the pattern doesn't always play out as described, some investors seeking to make some trading profits will mimic dealer behaviors.

### **Bitcoin Had A Rough Day**

After El Salvador announced they would accept Bitcoin as legal tender. Immediately after the announcement, Bitcoin plunged below \$50,000 as large positions got liquidated.

While Cathy Wood, of ARK Investments, was bullish on the move, many others weren't. As noted by Javier David:

*"If you're an investor that embraces digital currency based on its decentralized appeal, **is it really constructive to have a central government (especially one with the checkered past of El Salvador?) act as a major market player?**"*

*Bitcoin's inexplicable reversal also underscored an element that Barry Bannister, Stifel's chief equity strategist, emphasized on Tuesday. [Speaking to Yahoo Finance, he called the digital currency](#) a 'speculative asset' that's light years from being a safe-haven like gold ([GC=F](#)), the U.S. dollar or the Japanese yen ([JPY](#)).*

*?Bitcoin is an asset that moves with global liquidity,? and waxes and wanes with global money supply growth, which has been declining since March, Bannister explained. He*

*enumerated reasons like a Federal Reserve that may start tapering stimulus, a tightening of monetary policy by China, and a surge in COVID-19 infections that will feed flight-to-safety bids for safe-havens."*

The volatile swings in Bitcoin highlight one of the biggest problems with Bitcoin becoming legal tender for larger nations. In order to conduct trade, the underlying currency used for those transactions can't swing 10-15% in hours.

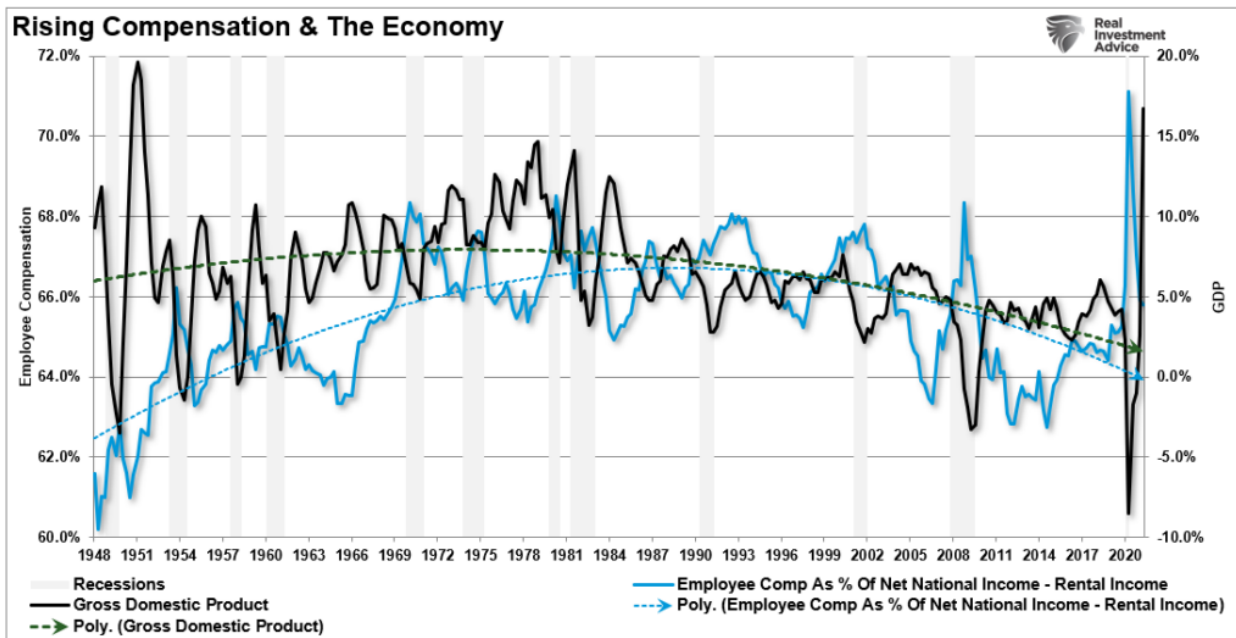


Coinbase had a rough day also.

<https://twitter.com/CoinbaseSupport/status/1435288246066368519?s=20>

## Rising Compensation Vs. GDP

The following chart looks at compensation a little differently than just wages. It is **Employee Compensation as a percentage of Net National Income LESS Rental Incomes**. What is interesting is the near inverse relationship between this measure and GDP. Not surprisingly, the inflation of compensation must eventually get passed along to consumers which ultimately weakens economic growth.



The recent spike in wages and compensation has yet to show up in the Fed's measures, but as shown above, wage growth is confirming the weakness in economic growth as of late. Therefore, if the Fed proceeds with their "taper plans," they could find themselves on the wrong side of monetary policy very quickly.

## Unloved Bonds

According to Bank of America, with \$3.2 trillion of assets held by private clients, allocations to bonds are at an all-time low of 17.7%. At the same time, stock holdings are at an all-time high of 65.2%. Thus, assuming the data represents most individual accounts throughout the banking /brokerage system, which seems plausible, there is a lot of fodder for a bond rally at the expense of stock prices.

## Week Ahead

This holiday-shortened week will be light on economic data. On the heels of the employment report, the BLS JOLTs report on Wednesday will tell us if the record number of job openings continues to increase to new records or they are starting to get filled. With over 7 million people losing benefits, we suspect the demand for jobs will rise. Of importance, on Friday the BLS will release Producer Prices (PPI). We believe the market and many Fed members are increasingly worried inflationary pressures are overstaying their "transitory" welcome. PPI will also shed light on rising input costs for manufacturers. CPI will be released a week from today.