

# WSJ Print Edition

*Stocks are winning the cage match, but bonds may have the last laugh.*



## INSIDE VIEW

### The Market's Mixed Signals

Who wins, stocks or bonds? The stock market is booming, with the S& P 500 up almost 25% so far in 2024. The 10 largest U. S. stocks make up 20% of the entire world stock market value. Wow. Meanwhile, bonds are saying, "No, no, we're in charge here!" Since the Federal Reserve cut short-term rates on Sept. 19, yields on 10-year bonds have risen—from 3.7% to 4.4%. Are they headed to 5%? The old tug-of-war between stocks and bonds, long dormant in the days of zero interest rates, has finally returned. Stocks are winning, but bonds may have the last laugh. \*

There are so many mixed signals. Stocks are up, signaling an economic boom. Oil is down as if we're headed toward a recession. Home prices are up as if rate cuts will continue. Gold is up, suggesting inflation is back. The dollar is strong as if Europe, Canada and China are ailing (spoiler alert: They are.) Still, something's got to give.

Core inflation is rising and has been over 3% since April of 2021. Long bonds are signaling that the Fed needs to stop cutting rates. \*

Retail sales, adjusted for inflation, are in a three-year downtrend. Target missed its earnings target. Consumers are stretched. Record household debt has reached nearly \$18 trillion. There are also record mortgages, car loans, credit card debt and near-record student loans. Auto-loan delinquency rates are the highest since 2010. It's no wonder that U.S. bankruptcies are also the highest since then. Be skeptical of those saying Donald Trump is inheriting a strong Biden economy. Meanwhile, stockmarket investors need the Fed to keep cutting rates. \*

The S& P 500 risk premium, which is the earnings yield of stocks minus the 10year Treasury rate, is basically negative. In effect, investors are paying for the risk of owning stocks instead of bonds. Weird. The last time this happened was in 2002.

The crypto market is crazy, with Bitcoin hitting new highs. One reason is that the company MicroStrategy (nicknamed MicroTragedy during the dot-com bust) is the bellows of the crypto hot air machine. MicroStrategy continually sells its overvalued stock, valued at three times the Bitcoin it owns, to buy more Bitcoin. Heck, I would too. Yes, meme stonks are back. This won't end well. It never does.

More signs of bubblicious buffoonery? Palantir stock is up more than 250% for the year on artificial intelligence hype and is now worth roughly \$145 billion. It's a great company but is ahead of itself. The stock is selling at 483 times after tax operating earnings. And 55 times sales. Buyer beware.

How can this happen? I'm worried that our market plumbing is broken. There used to be human traders at exchanges, and then at Nasdaq terminals. Now trading is dominated by opaque highfrequency trading outfits. And quant funds. And it seems that institutional investors are taking a back seat to retail trading at brokers such as Robinhood. Hypesters can breathe on a stock and it goes up. That's not healthy.

The GameStop mess of early 2021, when retail investors squeezed short sellers, has never really been fixed. In a true buyer and seller market, this never could have happened. But our market's structure is broken, and stocks don't trade at their true clearing price, which eventually kills momentum investors who are always late to the party. In "Dumb Money," the 2023 movie about GameStop, the retail investor who calls himself Roaring Kitty is having dinner with his

family, and his father remarks, "You're up 23 million? And you're not selling?" He then asked what every investor should ask: What "is wrong with you?"

The bond market is much deeper and easier to value based on yields. With the latest rise of long bond rates, I wonder: Are bond vigilantes back? Right now, the Federal deficit stands at 6.4% of GDP. The few times it has exceeded this level were the pandemic, after the financial crisis and during World War II. Fine company. Perhaps bond yields are up as a warning to the incoming Trump administration officials that they don't get a blank check to spend like drunken sailors. That bondholders won't stand for inflation. And don't you dare let Treasury Secretary Scott Bessent weaken the dollar. If Mr. Trump doesn't trim deficits, watch out below. His legacy will be destroyed by the bond market.

And don't fall for the New Era talk. This is often investors hyping what they own to entice new investors in so they can sell. Insider selling is rampant. Did I mention Palantir's CEO sold nearly \$400 million worth of stock in two days this month? As far as stocks, value always returns to normal. The current AI and now Trump trades are exciting. Invigorating. Mind-blowing, actually. But bonds may pop the bubble. The cage match between stocks and bonds will shape the next four years.

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