

# Small-Cap Stocks Are On Thin Ice

While the large-cap indexes trended higher throughout 2021, small-cap stocks (IWM) spent most of the year in a trading range. The recent market downdraft is pushing the Russell 2000 small-cap stocks index to the bottom end of the 2021 range. Given how long the index has consolidated and how many times technical support has held, a close below the range would be troubling for small-cap stocks and potentially the broader larger-cap indexes. Our proprietary cash flow model is close to signaling a buy for IWM, so small-cap stocks may not break through the thin ice this time.



[dmc]

## What To Watch Today

### Economy

- 6:00 a.m. ET: **NFIB Small Business Optimism**, December (98.7 expected, 98.4 in November)

### Earnings

- *No notable reports scheduled for release*

## Time To Buy The Dip?

While it may not be time to buy small-cap stocks, it could be time for the Nasdaq names that have come under selling pressure since the beginning of the year.

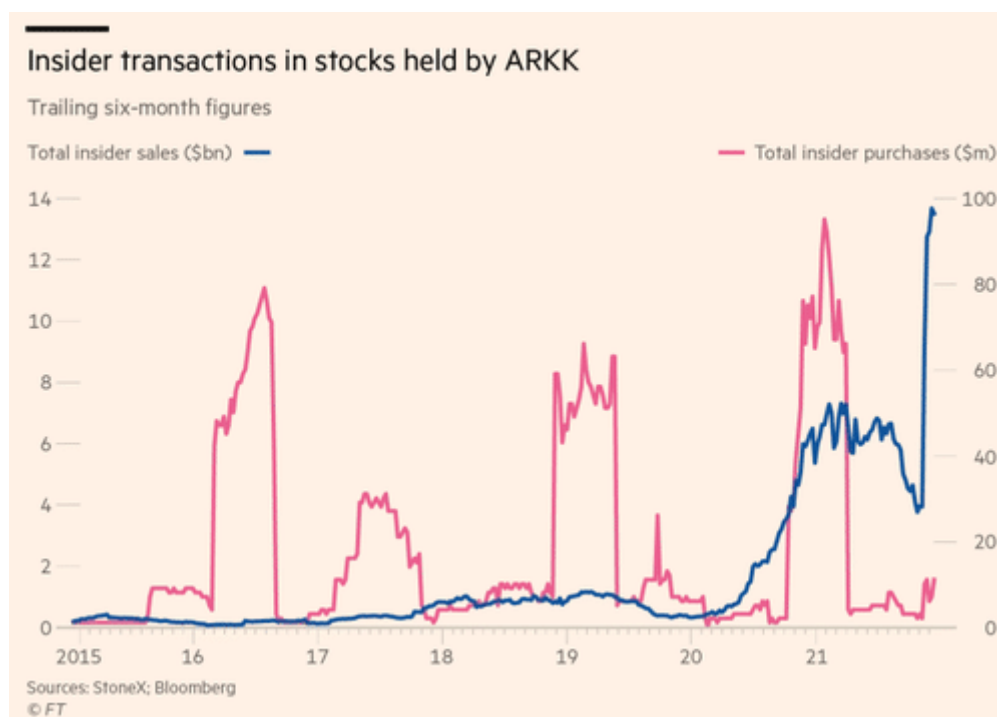
*"Nobody has missed the latest squeeze higher in NASDAQ volatility, absolutely, as well as relatively speaking. Note that the VXN vs VIX ratio is actually reversing lower today. Last time the ratio rose and then suddenly reversed, NASDAQ decided putting in a local low and ripped higher. Imagine that pain, especially given the fact we are in deep short gamma territory." - @themarketear*



## More On ARKK

In last week's [Commentary](#), we discussed the recent downfall of ARKK. The [Financial Times](#) piles on with bearish information on ARKK's holdings. To wit:

*Company insiders sold \$13.5bn of stock ? and bought just \$11m ? in the six months to December*



Such insider selling is surprising given the underlying companies have such a high return potential. With the most knowledge of their companies' operations, it appears insiders realize valuations are too extreme. Per the article- ***?If the smart people are not buying, why should anyone else?***

*"Company insiders tend to be quite contrarian in their actions. They buy after a big drop. We have had a big drop and we have seen a lot of selling and not much buying. If the smart people are not buying, why should anyone else? Bubbles are always and everywhere a transfer of wealth from the public to insiders.?"*



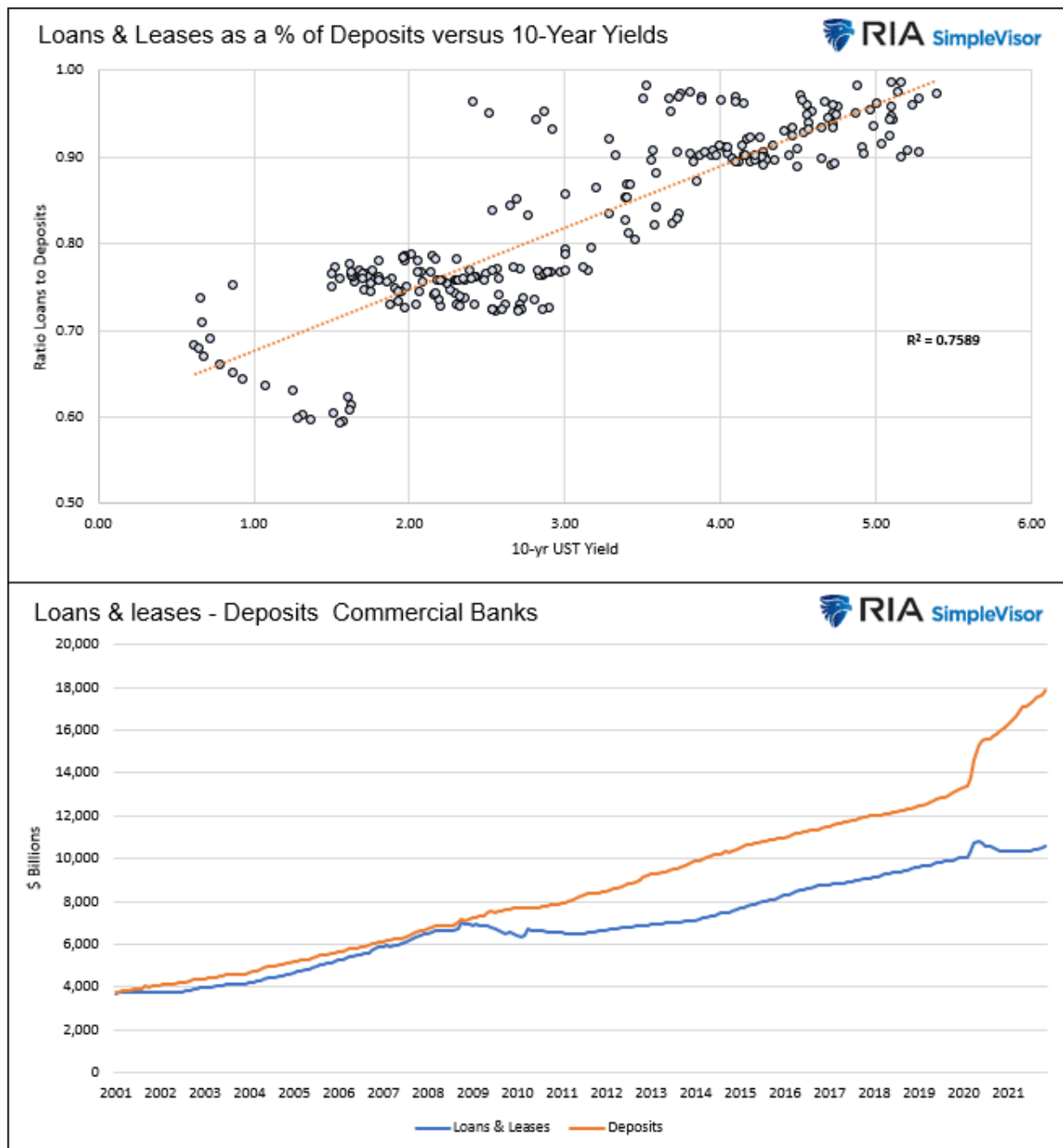
## Why Foreign Stocks Have Been Weak

Since January 2006, the S&P 500 is up 275%, while the global equity MSCI World (excluding the USA) is up 40%. The graph below, courtesy of @Mrblonde\_macro, shows that S&P earnings are up approximately 185% over the same period while the MSCI earnings are relatively flat. While the S&P 500 index has risen in part due to increasing valuations, with P/E ratios in the upper 20s, the graph also makes it clear that investors are willing to pay up for earnings growth.



## With The Fed Ending QE, Who Will Buy Bonds?

The two graphs below provide one reason for low bond yields. The bottom graph shows that deposits at commercial banks are growing while bank lending is relatively flat. The banks need to invest the deposits, and since they are not lending them out, they frequently invest in U.S. Treasury securities. The upper graph shows the statistically strong correlation (R-squared .76) between the ratio of loans and leases to deposits versus ten-year Treasury yields. Unless the banks significantly ramp up lending, we should continue to expect current trends to continue, thus supporting low yields.

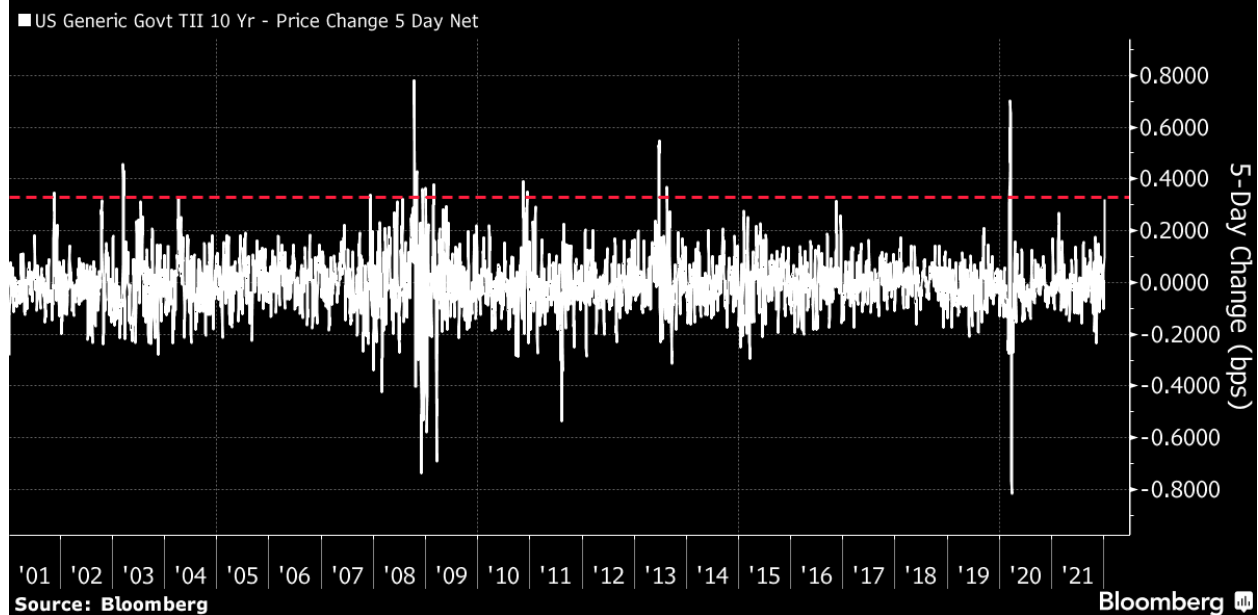


## Taper Tantrum

The Bloomberg chart below shows five-day changes in the 10-year real yield, going back 20 years. Excluding March 2020, when the bond market was illiquid due to the onset of Covid, the rise in yields over the last week was the greatest since the original taper tantrum in 2013. TLT, the long bond ETF, is now trading nearly 3-standard deviations below its 20-day moving average.

## Real 10-Year Yields Have Had a Jolt

Exlcuding Mar. 2020, this is the sharpest weekly rise since the Taper Tantrum



Please [subscribe to the daily commentary](#) to receive these updates every morning before the opening bell.