



# The Nasdaq Outperformance Is Not a Warning Sign.

The doomsday pundits are back claiming that the outperformance of the NASDAQ is a harbinger of stocks about to fall off a cliff. In the Marketwatch/WSJ article yesterday entitled, [Nasdaq is leading the Dow by the widest margin since 1991 as blue-chip gauge erases 2023 gain. Is that a good sign?](#), Gene Goldman of Cetera Financial Group says, "The market isn't very healthy right now." The article goes on to say, "It has been extremely rare in the past 50 years for the tech-heavy index to exceed the Dow by such a wide margin." Investors have piled into a handful of mega-cap technology stocks, including Apple Inc., Microsoft Corp., Nvidia Corp., and shares associated with the "FANG+" group of stocks, Goldman said. These stocks have accounted for nearly all of the market's gains in 2023, overshadowing weakness in other corners of the stock market.

Clients should ask themselves several questions:

1. Is this outperformance really a cause for concern?
2. Has outperformance like this led to market declines in the past?
3. Is there a good explanation for why this is happening?

TPA will answer all of these questions in this report.

The answer to the first question is "no".

The answer to the second question is "no".

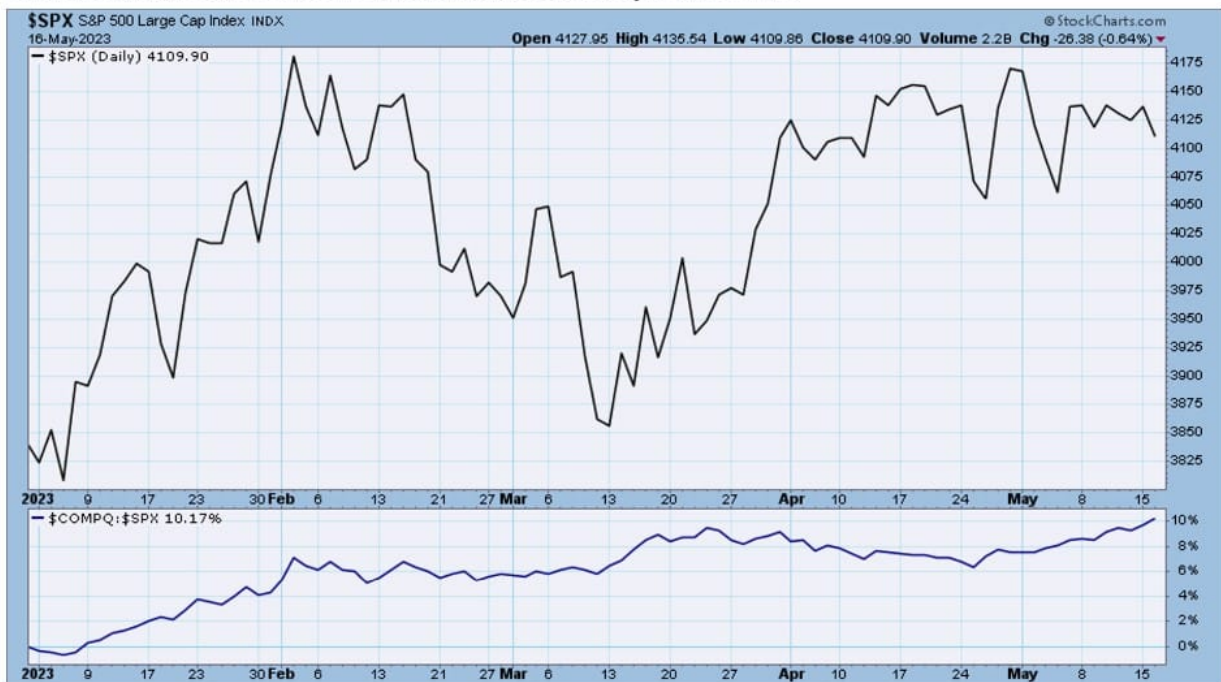
The chart below shows the outperformance of the NASDAQ year to date. The NASDAQ is up 17%, while the S&P500 is up only 7%.

## RELATIVE PERFORMANCE NASDAQ. S&P500 – 2023 YTD



This can also be viewed in the chart below. The top panel is the benchmark S&P500 and the bottom panel is the ratio NASDAQ/S&P500 ? the NASDAQ is outperforming YTD by over 10%.

### UPPER PANEL: S&P500 YTD. LOWER PANEL: NASDAQ/S&P500 YTD.



Now, let's go back in time to 1991; the year mentioned in the article. Highlighted in the lower panel is the huge outperformance of the NASDAQ in 1991. Looking at the upper panel, clients can see that the outperformance in 1991 did not lead to a decline for the benchmark S&P500. In fact, the NASDAQ's outperformance in 1991 led to continued gains for the S&P500 for the next 2 years.

**UPPER PANEL: S&P500. LOWER PANEL: NASDAQ/S&P500. 1985-1995**



We can also look at more recent examples of the NASDAQ outperformance phenomenon. The chart below shows that the NASDAQ outperformed to a large extent from the lows of March 2020 to the end of 2021. This was also not a negative harbinger in this period as the S&P500 not only rallied from March 2020 to December 2021, but kept marching higher for over 12 months.

**UPPER PANEL: S&P500. LOWER PANEL: NASDAQ/S&P500. 2019-2023**



The answer to question 3, ?Is there a good explanation for why this is happening?? is ?YES?. There are many logical reasons why the NASDAQ is outperforming and none of them are warning signs.

1. Possibly, investors are piling into stocks that they feel have the best growth potential. These stocks probably constitute the NASDAQ.
2. If large managers need to put money to work quickly, the obvious place is the largest most liquid stocks in the market. The top stocks in the NASDAQ are now the largest most liquid stocks in the U.S. market. Also, just because managers have made this early move, does not mean that when they have more time, they will not diversify those holdings.
3. Finally, the market as a whole is holding up very well in the face of a potential U.S. default. Investors should ask themselves this question: How explosive will the rally be if politicians

finally acquiesce to raise the debt ceiling? This question is expressed in the current [Ascending Triangle pattern](#) for the S&P500, which TPA explained in a recent World Snapshot Report.

### S&P500 – Ascending Triangle Pattern



The outperformance of the NASDAQ has not been a harbinger of death for the overall market historically. In fact, the outperformance makes a lot of sense.