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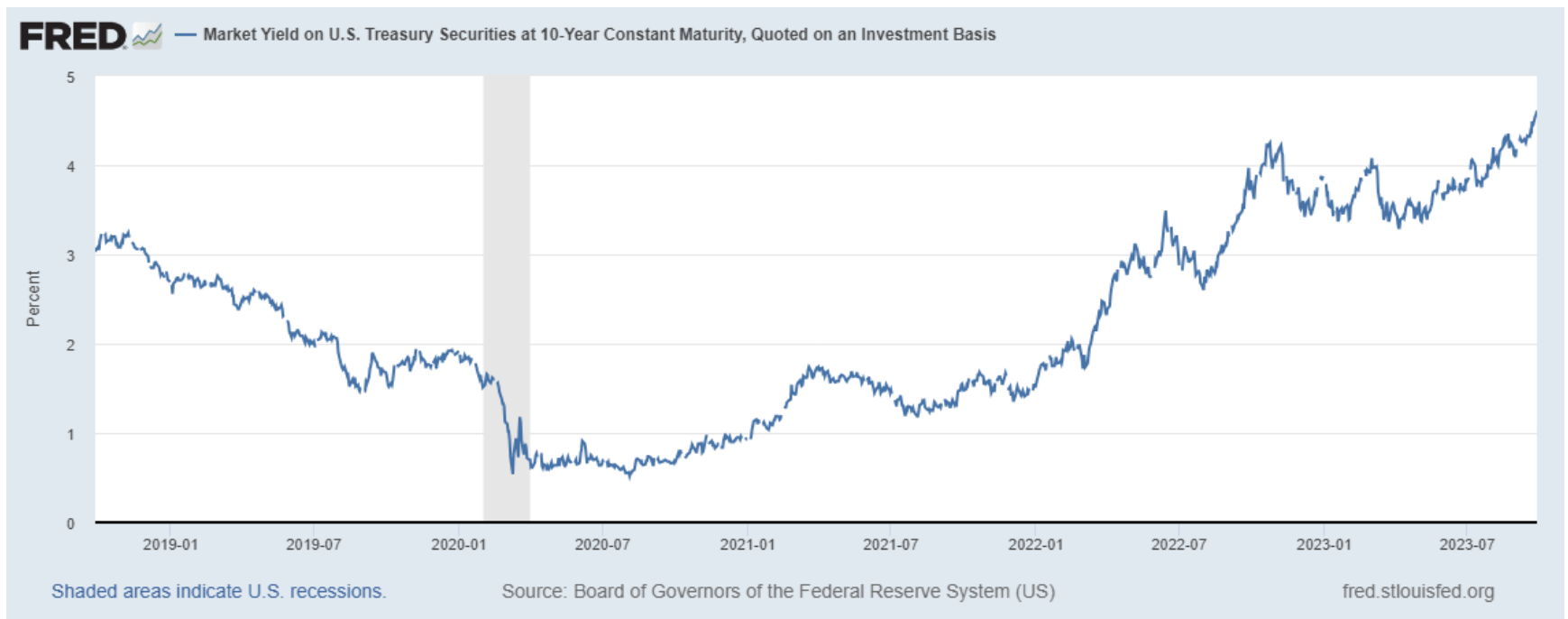
A Stark Warning for QQQ

As we approach the end of September, the Invesco QQQ ETF, dominated by tech stocks, has experienced a notable 8% decline in value since mid-July. This drop can be attributed to the sharp rise in long-term treasury yields, highlighting a well-known relationship between interest rates and asset prices.

Warren Buffett once compared interest rates to the force of gravity on Earth, underscoring their substantial influence on asset valuations. Despite this relationship, many investors seemed to overlook or dismiss it during the summer months when major tech giants managed to lift market indices even as interest rates climbed.

“
Interest rates are to the prices of all assets like
gravity is to the function of the earth.
”

- Warren Buffett, CEO of Berkshire Hathaway (BRK.B)



However, during the September FOMC meeting, the Federal Reserve reiterated its commitment to combating inflation by pursuing a "higher interest rates for longer" policy. This policy shift, coupled with the recent re-pricing of equities, has led the market to acknowledge and adjust to this new reality.

Back in early July 2023, we provided advice on trimming oversized equity positions and hedging allocations, anticipating a potential stock market reversal if treasury yields continued to rise.

Comparative Analysis: Invesco QQQ Trust (QQQ) Price, 10 Year Treasury Rate(1:10YTR) & S&P500 Price



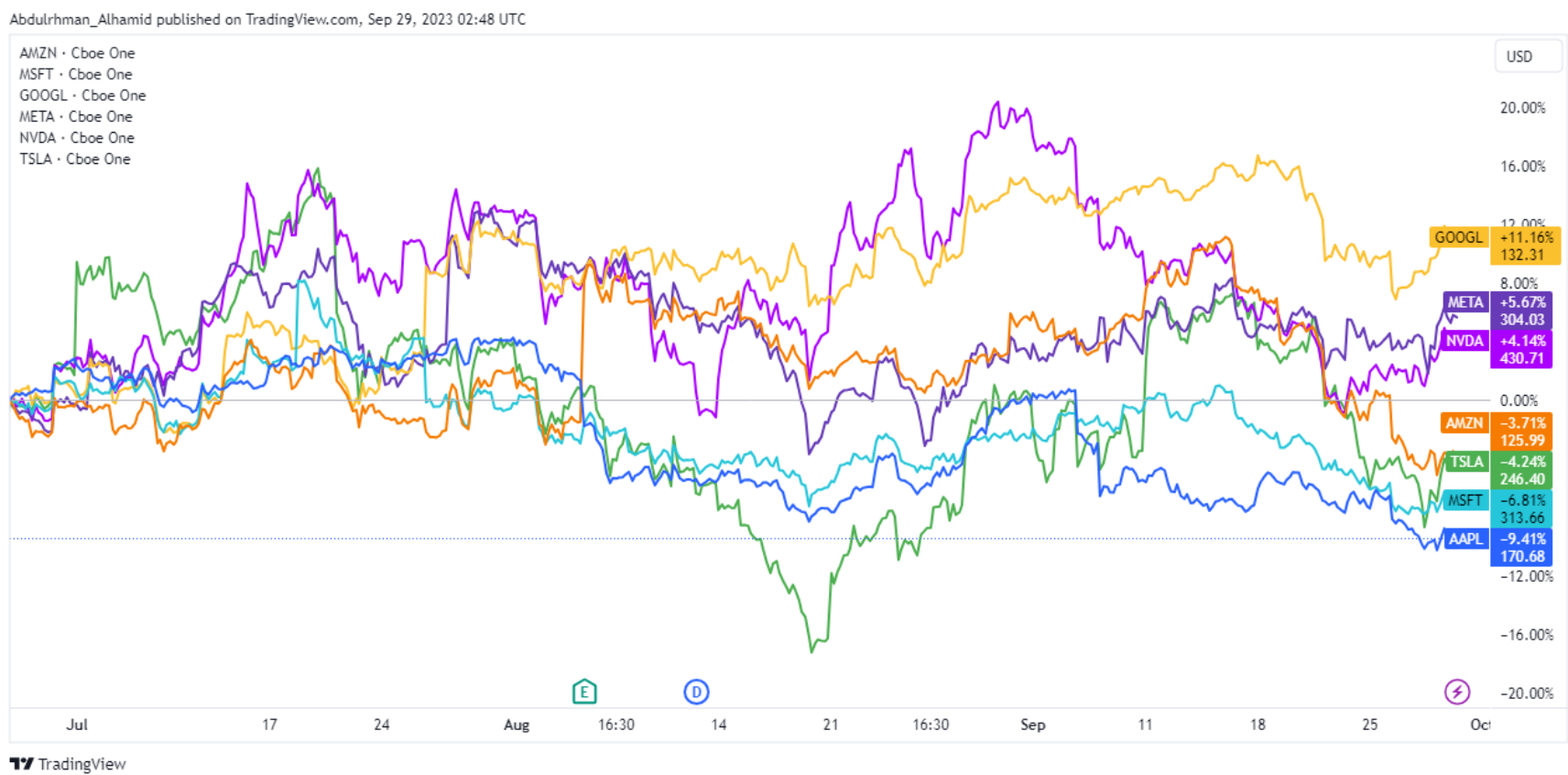
Since mid-May, QQQ had surged by approximately 19% in a straight line, even amidst rising treasury yields. However, as treasury yields spiked past the 4% mark, it became evident that the positive correlation between treasury yields and tech stocks was unsustainable. We perceived a turning point in this rally, foreseeing an inevitable pullback.

Six-Month Comparative Performance of Tech Giants: Apple, Amazon, Microsoft, Alphabet, Meta, and Nvidia



The chart presents the six-month performance of major tech giants. Nvidia (NVDA) stands out with an impressive 64.19% increase, followed closely by Meta Platforms Inc. (META) at 51.95%. Google's parent company, Alphabet (GOOGL), also demonstrated significant growth at 31.61%. These gains underscore the resilience and growth potential of these tech giants over a relatively extended period.

Three-Month Stock Performance Analysis: Apple, Amazon, Microsoft, Alphabet, Meta, and Nvidia



The three-month performance chart showcases the recent trends among tech giants. Google (GOOGL) exhibits a notable positive trend with an 11.16% increase, while Meta Platforms Inc. (META) also maintains growth at 5.67%. However, Apple (AAPL) experienced a significant decline of 9.41%, indicating a challenging period for the company. These short-term fluctuations provide insights into the dynamic nature of the tech industry.

Disclaimer:

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I, as the author, do not assume any liability for potential financial losses that may result from executing trades or investment decisions based on the content of this article. All readers are urged to exercise due diligence and caution in their financial endeavors.

Performance Comparison since Mid-July: Apple, Amazon, Microsoft, Alphabet, Meta, and Nvidia



Analyzing performance since mid-July, Google (GOOGL) and Meta Platforms Inc. (META) have managed to maintain positive momentum with increases of 6.41% and 5.67%, respectively. However, Tesla (TSLA) saw a considerable decline of 13.98%, signaling a challenging period for the electric vehicle giant. These insights into the mid-July to present trends shed light on the recent trajectory of these tech giants.

COMPANY	6 Months	3 Months	Mid of July
GOOGL	31.61%	11.16%	6.41%
META	51.95%	5.67%	-1.59%
NVDA	64.19%	4.14%	-5.66%
AMZN	29.02%	-3.71%	-5.48%
TSLA	30.25%	-4.24%	-13.98%
MSFT	14.71%	-6.81%	-9.30%
APPL	9.00%	-9.41%	-11.60%

The table encapsulates the percentage change in stock prices for leading tech companies over three critical time spans, offering insights into their performance trends. Comparing the percentage change from the last six months to mid-July, a noticeable shift towards a downward trend is evident. Nvidia (NVDA), despite its exceptional 64.19% surge over six months, experienced a decline of -5.66% from mid-July. Meta Platforms Inc. (META), after a remarkable 51.95% increase over six months, showed a slight dip of -1.59% from mid-July. Similarly, other tech giants like Google (GOOGL), Amazon (AMZN), Tesla (TSLA), Microsoft (MSFT), and Apple (AAPL) also witnessed a decline in their percentage change, underscoring a downward trajectory in their stock prices over this period. These insights are crucial for investors to navigate the ever-changing landscape of the tech industry.

Fast forward to today, where the 10-year treasury yield has reached new cycle highs at 4.59%. Factors such as a surge in oil prices contributing to headline inflation and massive treasury issuance post-debt ceiling resolution have driven up long-duration treasury yields. This situation prompted Jamie Dimon, CEO of JP Morgan, to issue a stark warning about the US economy, foreseeing potential stagflation and interest rates reaching as high as 7%.

'Good Feeling About US Eco May Be Sugar High'

On inflation | When there is so much spending taking place, I do not know how you can avoid inflation. Governments cannot spend all that money, and it cannot not be inflationary

On US economy | I would be cautious. I think we are feeling pretty good because of all the monetary and fiscal stimulus. But it may be a little more of a sugar high... So rates may go up more. But I hope and pray there is a soft landing

On high interest rates | Going from zero to 5% caught some people off guard, but no one would have taken 5% out of the realm of possibility. I am not sure the world's prepared for 7%. **The worst case is 7% with stagflation...** These 200 basis points will be more painful than 3% to 5%

On SVB crisis | It exposed problems that regulators and banks should be aware of - that concentrated deposits move in a flock, and we should have plans to deal with that... I do not think we want a system where no bank ever fails... But if it causes havoc in the system, **we have to modify regulations**

On return-to-office | If you are a young person, how do you learn? It (work-from-home) hurts spontaneity and creativity. It slows down management decision-making

JAMIE DIMON | CEO, JP MORGAN

Here's the full quote:

“ What are the risks of a hard landing for the US economy?

No one knows. There is a range of outcomes. It will be affected by everything else - Ukraine, oil, gas, war, Europe. I would be cautious. I think we are feeling pretty good because of all the monetary and fiscal stimulus. But it may be a little more of a sugar high. We have to deal with all these serious issues over time, and your deficits can't continue forever. So rates may go up more. But I hope and pray there is a soft landing. When rates go up sharply, there is stress in debt repayments. How are businesses living with such high rates?

First of all, interest rates went to zero. Going from zero to 2% was almost no increase. Going from zero to 5% caught some people off guard, but no one would have taken 5% out of the realm of possibility. I am not sure if the world is prepared for 7%. I ask people in business, 'are you prepared for something like 7%?' The worst case is 7% with stagflation. If they are going to have lower volumes and higher rates, there will be stress in the system. We urge our clients to be prepared for that kind of stress. Warren Buffett says you find out who is swimming naked when the tide goes out. That will be the tide going out. These

200bps will be more painful than the 3% to 5%.”

Source: Times of India

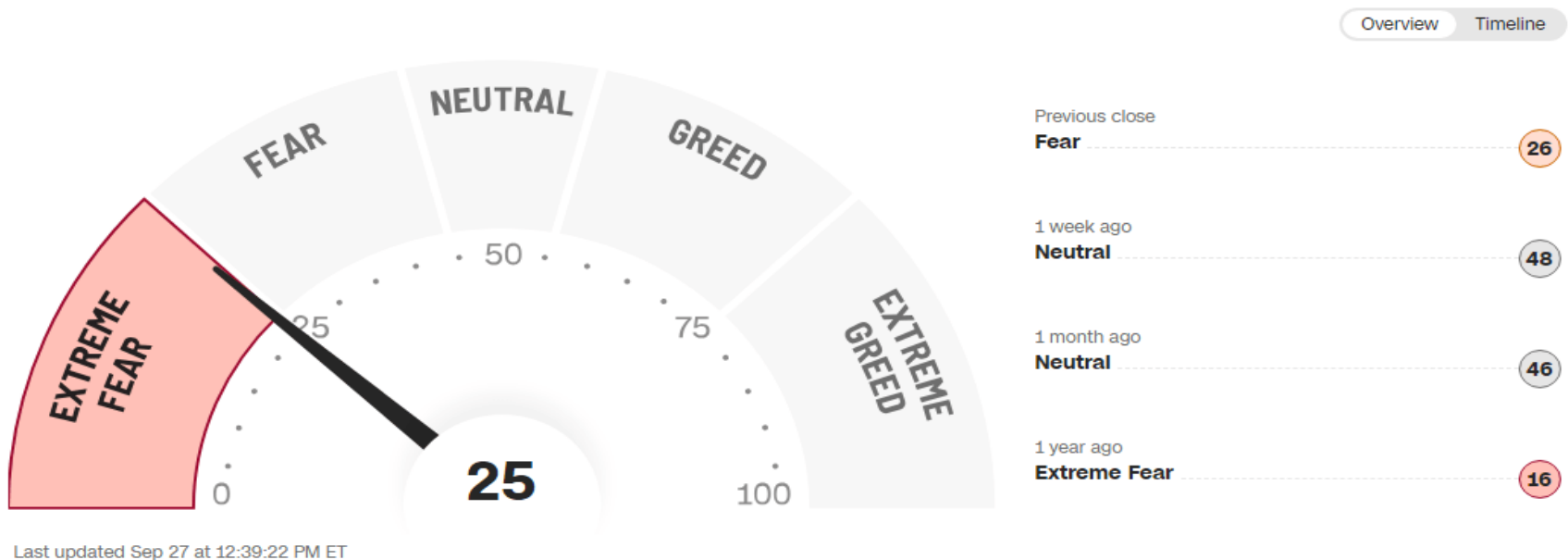
If Dimon's warnings materialize and we find ourselves in a stagflationary environment, technology stocks, given their elevated trading multiples, would face significant downside pressure. This scenario is something I've been cautioning my clients about for some time.

Analyzing QQQ's technical chart, we observe a bearish "head and shoulders" pattern, further indicating potential declines in the near future. Negative catalysts, including the resumption of student loan payments and a looming government shutdown, could trigger further selling of high-flying mega-cap tech stocks.



Fear & Greed Index

What emotion is driving the market now?
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7 FEAR & GREED INDICATORS



Anticipating a prolonged period of elevated interest rates, my projection entails a minor rebound to around 364 (to fill the gap) or potentially 370 (to re-test the triangle breakdown level) before the QQQ ETF resumes its current downward trajectory. For those familiar with my analytical approach, it's evident that my bearish stance stems from the exceedingly high valuations seen in mega-cap tech giants such as Apple (AAPL) and Microsoft (MSFT). I will delve deeper into this assessment shortly, but for now, let's adopt a more extended perspective by examining the chart.

In my analysis, I envision a crucial juncture once we approach the 310-330 zone on the QQQ chart. This range is where a significant battle between bullish and bearish forces is likely to unfold. Should we successfully maintain support within this zone, it may fuel a vigorous upward surge, potentially propelling the QQQ to new all-time highs in the year 2024. Conversely, a failure to hold within the 310-330 range could instigate a substantial downturn, potentially plunging below the lows observed in October 2022 within the next 6 to 12 months.



Analyzing the QQQ on a weekly chart, I've been closely monitoring momentum indicators such as RSI and MACD. Their current trend, showing a downturn, bolsters my confidence in the anticipated bearish "head and shoulders" pattern that is likely to manifest, eventually driving the QQQ down to the approximate 310-330 zone in the ensuing weeks. Around the 320 mark, QQQ will intersect with the upper trendline of the bear market channel dating back to 2022. This juncture holds significant weight, serving as a critical level for assessing whether the current uptrend in 2023 signifies a bear market rally or the inception of a new bull market.

With QQQ's recent 9% decline, the market sentiment, as indicated by CNN's Fear & Greed Index, has shifted to "Extreme Fear" territory. While a short-term bounce is possible, the prospect of sustained higher interest rates suggests a continued sell-off after a minor recovery.

Elevated valuations of tech giants like Apple and Microsoft, constituting a significant portion of QQQ, appear unsustainable in this "higher interest rates for longer" scenario. The risk/reward ratio tilts toward the downside, emphasizing the need for investors to prepare for potential negative outcomes.

In conclusion, considering the present risk/reward scenario, I recommend a tactical "Sell" rating on the Invesco QQQ ETF at current levels. Prudent risk management and a keen eye on unfolding economic conditions are paramount for navigating these uncertain times in the stock market.

