

US Stocks' 'Dead Cat Bounce' and Second 1,000 Point Drop

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Region: [USA](#)

Theme: [Global Economy](#)

Today the US stock market plummeted another 1,000 points. As this writer forewarned after last Monday's 1175 pt. fall, the recovery would be a classic 'dead cat bounce'. Well, the cat bounced the past two days—just not very high or for very long. And now it's flopped again. The Question: will it roll over on its back, legs up? Or get up and run around a little more, before flopping again? Make no mistake, the cat is tired and can no longer jump. It may not even be able to get back up on its feet.

Investors' psychology will now have changed. Now it's clear, the financial markets' last weekend collapse was not a 'one off' event. This realization will have a big effect going forward. It's all a different level now. And all the talk by pundits this week trying to pump the market back up, i.e. go 'buy on the dip', now look quite stupid and self-serving. Should investors now 'buy on every dip' as each dip goes down further and further? It's a 10% correction in less than a week, well on the way to 20% (and who knows how much more).

In the intervening days since last weekend, reports also began to emerge (somewhat) that the markets were responding to problems with the new derivatives—i.e. Exchange Traded Funds/Products (ETF-Ps)—that were being dumped automatically by what are called 'quant sellers' (aka professional investors) in big volumes. This automated selling was responsible for the big movements in price. But all this was quickly hushed up in the mainstream business media.

Last Monday's collapse was also followed by China currency (Yuan) beginning to fall precipitously. Clearly, China investors are dumping Yuan, buying foreign currencies, and trying to get out in anticipation of more financial instability in China. Capital flight from China is 'on again'. This could lead to competitive currency devaluations throughout Asia economies. (Shades of 1998's Currency Crisis!).

And what about other Emerging Market economies? They are extremely fragile and capital flight will almost certain emerge there again, once the US Fed raises rates in March, as it has promised to do. (The Fed also promised to raise rates three more times this year. As I have predicted, however, if the stock markets keep falling, that will not happen, as it will almost certain result in a global credit crunch.) For eight years the Fed has propped up the stock markets with free money; it won't abandon that fundamental policy at this point. It only backed off temporarily because of fiscal-tax cuts in the trillions taking up its (Fed's) prior role of subsidizing capital incomes.

And what about Europe (and the even weaker UK) with its \$2 trillion in non-performing bank loans? Watch out Italy.

And then there's the junk bond markets in the US, where some estimates are that nearly a fifth of junk bond borrowing companies are 'zombies'. They've been put on life support by borrowing to repay interest and principal on past debt, laying ever more debt on debt. At some point defaults will appear as the free money from the Fed lowers the liquidity level and the rocks appear in the junk bond market.

The downward momentum in US stock prices will also be fueled in the next stage by the massive buildup in margin buying of US stocks that has been occurring since 2014, and the even more rapid rise in margin buying since Trump took office. Debt balances on margin accounts has risen from an annual average of less than \$10 billion a year from 2009 to 2013, to \$200 to \$300 billion a year the last four years. That's the greatest margin buying bubble since 1980. Margin buyers will prove desperate stock sellers, driving stock prices even lower in coming weeks, entering yet another new phase.

Listen to my weekly radio show tomorrow, Friday, February 9, 2pm eastern time, on the Progressive Radio Network in NY, when I'll be discussing these events (and tomorrow's) further. Go online [here](#) or listen to the podcast posted at the same location after).

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This article was originally published by [Jack Rasmus](#).

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