ChartsandMarkets.com
Timely technical analysis
Insightful market commentary

BOB HOYE

OCTOBER, 2023

Stock Markets
Hindenburg Omen Precedes Hemmingway Bankruptcy

Of course, the Hemmingway quote on bankruptcy is more widely known than the technical signal in the stock market called the Hindenburg Omen.

Both convey the inevitability of doom.

The novelist wrote it in *The Sun Also Rises*. Published in 1926 it was a best-selling and important novel in American literature.

> ***"How did you go bankrupt?"***
>
> ***"Two ways. Gradually, then suddenly."***

Indeed, a practical observation, as is the description of a stock market technical tool that can occur near important tops.

> ***"Not every Hindenburg Omen has been followed by a severe hit. But every such hit has been preceded by a Hindenburg Omen."***

Omens do not register during a liquidity crisis and recession. Fortunately, there is an indicator that reliably anticipates the latter.

The Yield Curve is the plot from short interest rates to long-dated rates. And during a financial and economic boom interest rates increase with short rates rising faster than long rates. Most of the time shorts are lower than longs but speculative furies will reverse the usual and the condition is called an Inverted Yield Curve.

That without exception Inversion has always been followed by a recession. This is indelibly documented in my charts going back to 1860. Covering many business, as well as credit cycles the record includes the Great Bubbles that completed in 1873 and in 1929. Both in their fateful Septembers and both were followed by lengthy depressions, featuring weak recoveries and severe recessions.

Our late Great Bubble completed with the S&P setting its record peak in January 2022. And the Curve reached maximum Inversion in May-June of this year stating that a recession was inevitable.

Another point worth noting is that the more dynamic the rush to Inversion, the more severe the recession. And the action was more dynamic than with the 2007 example.

Also important is that this review covers when the US did not have a central bank.

And through the 1920s the Fed was too accommodating during a bubble and on our example reckless without precedent.

Financial history is rich in irony.

At the height of the 1873 Bubble, London was the senior financial exchange while New York was a "junior" market. But leading commentators in each had a strong reason why the bull market and the good times would continue.

Walter Bagehot was the esteemed editor of The Economist who wrote in 1873 that a recession was some kind of a "neuralgia". That could, by judicial ease of credit by the Bank of England, could prevent a recession.

The notion is now labeled as "Modern Monetary Theory".

In 1873, a global bubble in financial assets became ecstatic, climaxed and crashed.

At the same time, the Herald in New York, editorialized that without a central bank and on a fiat currency the Treasury System would be even better at preventing a recession.

> ***"True, some great event may prick the commercial bubble…suddenly, and create convulsions; but while the Secretary of the Treasury plays the role of banker for the entire United States it is difficult to conceive of any condition of circumstances which he cannot control. Power has been centralized in him to an extent not enjoyed by the Governor of the Bank of England. He can issue the paper representatives of gold to [any] amount."***
>
> – *New York Herald,* 1873.

Policymakers in America were convinced that their banking system was superior to central banking.

In recognizing the enduringly weak economy, senior economists in England in 1884 began calling it the "Great Depression". And it completed in 1895, when the next lengthy expansion led to the 1929 Bubble and consequent "Great Depression".

And in looking back to the wonderful glow of January 2022 nothing could go wrong. But the decade-long era of inflation in financial assets peaked with the senior stock indexes and another Post Bubble Contraction is well under way.

The first Financial Bubble brewed up and climaxed in 1720. Ours has been the sixth. Each has been celebrated as the greatest in history and typically each was followed a Great Depression. Indeed, the bigger the boom the bigger the bust.

And as with a Hemingway transition – it started "Gradually", then first half recorded the worst hit to the 60/40 Portfolio since the 1930s. And now market forces are suffering another hit that for some could be described as "Suddenly", with the Hindenburg Omen providing a warning.