There's a strange 'disconnect' in the market, warns strategist Tom Lee

- Five sectors are leading the market's earnings growth, but all fell during April except FANG.
- Lee says the earnings growth should be driving share-price gains.
- Known as the most optimistic strategist on the Street, Lee has turned cautious this year.

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A strange divergence is emerging in the market between the companies that are making money and those that are making their investors money, according to Tom Lee.

Lee, a longtime equity strategist now with Fundstrat Global Advisors, pointed out in a recent note that five sectors are leading the market's earnings growth: energy, FANG (that is, Facebook, Amazon, Netflix and Google parent Alphabet, which Lee considers a sector unto themselves), financials, materials, and technology other than FANG.

Of those sectors, however, all fell during the month of April save for FANG. "In other words, there is a disconnect between sectors/cos driving EPS recovery and stock price gains," Lee wrote.

This could indicate that the smart bet "is for the laggards, like energy and the banks, to catch up to the broader market," Lee said in an interview on CNBC's "Trading Nation" Monday.

In other words, the earnings growth should be driving share-price gains, in Lee's view.

That said, Lee is no macro bull. Long known as the most optimistic strategist on the Street, he has turned cautious this year, with a 2275 year-end target on the S&P 500 (which implies a 5 percent drop from current levels).

"I don't think earnings is the reason to be bearish," but "we're pretty cautious on the market overall" due to another divergence — that between the fixed-income and equity markets.

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Alex Rosenberg
Producer

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