EQUITIES PERSPECTIVE

November 15, 2019
DJIA: 27,782

Little things mean a lot … even divergences. A year ago last October, it took only three days of higher highs in the Dow and negative advance/declines to unleash the havoc that was last year's fourth quarter. The backdrop here, however, seems much different. The Advance/Decline Index now is coming off a new high just two weeks ago, and we don't have the divergences in the FANG stocks, which then were the leaders. You will recall, too, monetary policy then was pretty much the opposite of now. Still, the reality is that against the backdrop of higher highs in the market averages, the A/D numbers have been negative 6 of the last 8 days through Thursday. Any negative consequences here would seem short term in nature, given the overall backdrop. And, a couple of good days—2-to-1 up days—would resolve the problem. This somewhat sudden change in the A/D numbers seems a function of the weakness in rate-sensitive shares like the Utilities and REITs, and the shift to Cyclicals versus Staples. That said, we've learned not to make excuses for the numbers.

It's out of habit and a history of some success that we measure divergences in the A/D Index against the Dow Industrials. Over time, Dow or S&P, it doesn't much matter. It is, however, a little more interesting these days given Boeing's (367) weight in the Dow and its volatility. With the Dow down 100 points the other day, Boeing news left the Dow unchanged in a heartbeat. Much the same happened Wednesday when Disney (147) news took it from down a point to up ten points. While the Dow gained some 90 points on the day, the A/Ds were down all day, by about 300 issues at the close. The distortion was such that DIS accounted for almost 75% of the Dow's gain, while only 14 of the 30 Dow stocks were positive. Divergences are never good, but we would rather see them come about because of some specific stock or two, versus the entire market average, in this case the Dow. And we weren't complaining when Boeing was having its problems, helping the A/Ds outperform most days.

The NASDAQ, as it happens, has some problems unique to itself. To get the laughter out of the way, the problems would be what are affectionately called the Hindenburg Omen and the Titanic Syndrome. These occurred in mid-July, preceding a pullback then. At the time, they happened both on the NYSE and NASDAQ, so for this time it's only the NASDAQ. As you might imagine, there are guidelines more than rules for these indicators and beauty, or in this case ugly, can be in the eye of the beholder. The basic tenet, as we see it, is a market at or near its high, showing a large number of both 12-month New Highs and 12-month New Lows. The concept is that of a market showing strength in the Averages, while underlying that strength is a far less supportive picture in terms of the average stock. Instead of A/Ds, this is another way of looking at divergences. Because of noteworthy failures, these warnings rarely are taken seriously, but there have been some noteworthy successes.

Utilities in part are the reason for lagging A/D numbers. They peaked at the end of September and there are a lot of them. The stocks, of course, had had a big run and seemed vulnerable both in terms of valuations and technically. At the end of September, 60% of the Utilities made a new high, typically as good as it gets. At the other end of the spectrum has been Technology, as measured by the SPDR ETF (XLK-87). Outside of some lagging Software shares, Tech has performed well. When it comes to XLK, there's little mystery—Apple (263) and Microsoft (148) are its two largest positions. Looking at those charts, it's a wonder the ETF hasn't done better. Then, too, we all have our problems. When it comes to the XLK, it's Cisco (45). Despite a "golden cross," the Russell 2000 remains in its overall trading range. What is a bit surprising there, the Russell is somewhat a proxy for Regional Banks, and they still act well.

Sometimes a cigar is just a cigar, and sometimes lagging A/Ds is just rotation. The S&P is making new highs, but what's getting it there keeps changing. Remarkably, there have not been back-to-back down days in the S&P since early October, but making money hasn't been easy. If the U.S. and China can't agree on farm purchases, what can they agree on? Maybe it's trade war fatigue, but the market seems focused on other things, most likely what Industrial stocks say is a better business backdrop. It's certainly not focused on the public impeachment, leaving that as a possible negative surprise. That Walmart gave up its breakout and a 4-point gain Thursday makes the market look that much more tired. For the big deal we're making out of the lagging A/Ds, you have to remember the Index made a new high just two weeks ago. The worst day during this period saw 1500 stocks advance, not exactly big-time selling. Market corrections come in two varieties, price and/or time. All this could be just the latter.

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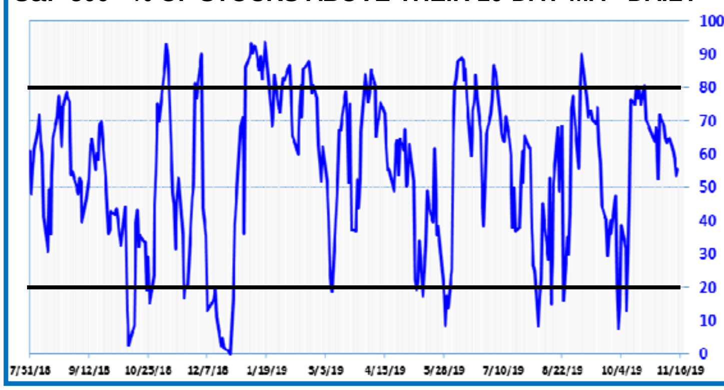
S&P 500 (SPX – 3097) – DAILY

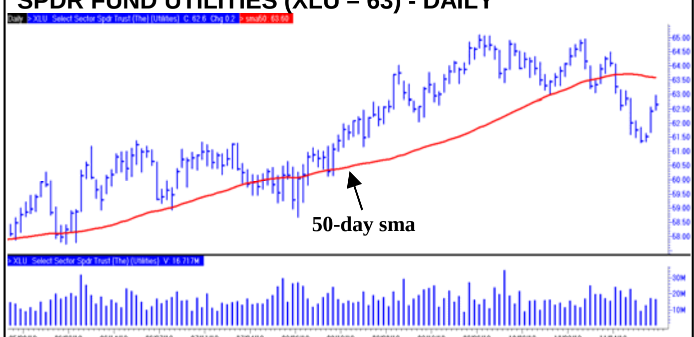
NASDAQ 100 (NDX – 8258) – DAILY

S&P 500 - % OF STOCKS ABOVE THEIR 10-DAY MA - DAILY



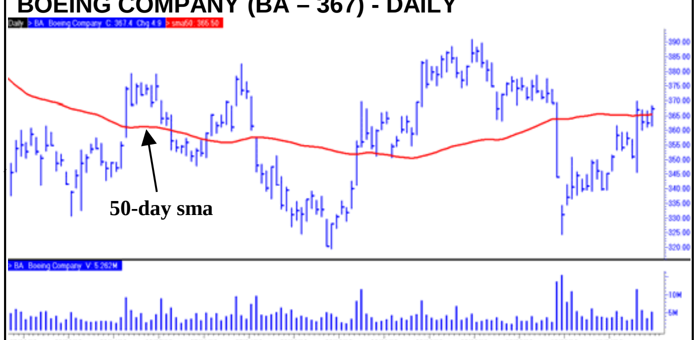
ISHARES RUSSELL 2000 ETF (IWM – 158) - DAILY

SPDR FUND UTILITIES (XLU – 63) - DAILY

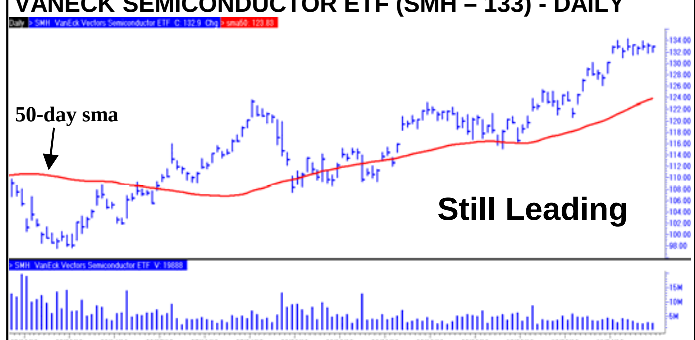


WALMART INC. (WMT – 121) - DAILY

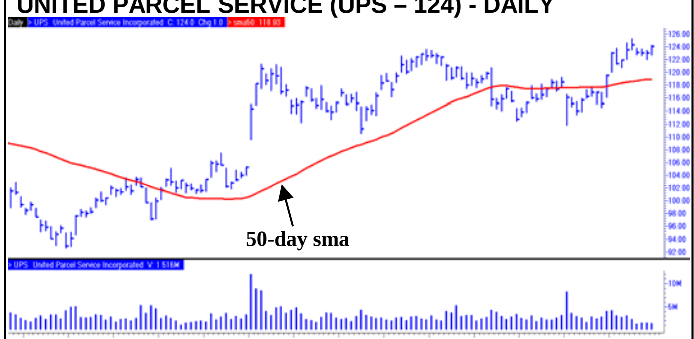
BOEING COMPANY (BA – 367) - DAILY



VANECK SEMICONDUCTOR ETF (SMH – 133) - DAILY



UNITED PARCEL SERVICE (UPS – 124) - DAILY



INDUSTRIAL SELECT SECTOR SPDR (XLI – 82) - DAILY