

EQUITIES PERSPECTIVE

June 26, 2020

DJIA: 25,745

Live and let live... said the market to the virus. At least that had seemed the case when the market's negative reaction to the Apple store closings lasted all of two hours. Wednesday's reaction to the virus surge was a little less muted - a 7 to 1 down day. As usual, these declines don't come out of the blue, technically speaking. A poor close when the market is testing previous highs, that's something else. That was the case Tuesday, both for the S&P and the NASDAQ. If they can push through those highs it would clear the air. We don't typically pay so much attention to the price movement in the averages, but we do when there is the risk of leaving double tops, as now seems the case. And there's the sentiment backdrop. We look back and smile at the dot.com bubble. Will we look back and smile at companies trying to sell stock when they're already bankrupt?

Growth stocks in the Russell 1000 Index of large US companies hit a new all-time high Tuesday. Meanwhile, value stocks, those thought to be cheap relative to earnings, again are underperforming. To put this into even greater perspective, growth is doing better relative to value than it did even in 2000, arguably the greatest ever growth bull market, according to Bloomberg's John Authers. Investor's preference for tech has pushed those shares to a near record high weight of the S&P relative to other sectors, exceeded only by 1999-2000. It could always go higher, as no doubt they said back then. Rather than just in terms of supply and demand, you have to think of this, too, in terms of investor psychology - over loved and over owned? Tech of today, of course, isn't the bubble tech of 2000. Most dot-com companies, for example, never achieved inclusion in the S&P. The FANGs these days are genuinely profitable and have every prospect of remaining so. Still, with financials barely 10% of the S&P, the lowest since 1992, and Industrials only 8%, the smallest in 30 years, there's quite a divergence. Most divergences simply don't end well.

Another divergence is that in terms of time frames. We mentioned last time virtually everything has rallied above its 50 day average, but for all New York Stock Exchange stocks barely more than 40% have been able to rally above their 200 day. You might say all stocks have lifted, but the majority haven't lifted enough to be in medium-term uptrends, even three months off the low. The S&P 500 has rallied more than 3% above its own 200 day average. The NASDAQ had rallied 7 days in a row to its own new high. Yet, fewer than 45% of stocks in the S&P are above their own 200 day, a pattern that has not happened since the year 2000. It's curious this should be happening against the backdrop of the recent all-time high in the Advance Decline index, what we consider another measure of the average stock. The rationale, again, seems to lie in the distinction between stocks bouncing and stocks in uptrends. The laggards could always catch up, but the recent reading is actually down to 21%. Again, there are no good divergences.

Back on November 1, 2016, there were two things we all knew. We knew Hillary would win the election, and we knew if Trump won the market would collapse. With that in mind, any comment about the upcoming election requires more than a little humility. That said, Trump is faltering. And, we do know when an incumbent Republican is at risk, the market is uncomfortable. We also know the market reaction doesn't wait for September-October but, rather, starts in July-August. There's no prediction here or political opinion, it's just the history. Meanwhile, we are winding down what has been among the market's best quarters in history. Since 1928, it ranks in the top 10 of all quarters according to SentimenTrader.com. Rather than the window dressing often thought to occur at a quarter's end, there is a negative correlation in the last week when it comes to good quarters. Especially in June, this could be a function of rebalancing.

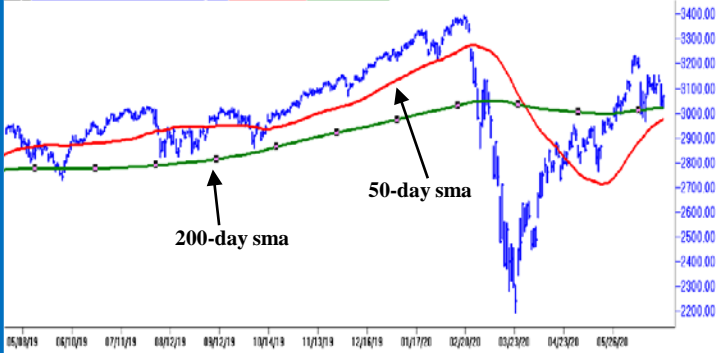
The momentum surge off the 3/23 low says higher prices 3 to 6 months out. Some of the issues we've alluded to above, however, argue for a flat to down summer. The advance decline numbers have flattened recently but there is no divergence - a higher high in the averages and a lower high in the advance declines. That comes about in a weak rally. It's not the bad down days that cause trouble, it's the bad up days - averages up, Advance Declines flat or down.

Sadly, for me personally, and for all of us at Wellington Shields, Linda Pietronigro passed away last week. Believe me when I tell you, the world's cumulative IQ has taken a big hit. More than that, Linda was a friend and colleague to us all, always willing to share her seemingly endless expertise. With a dry sense of humor, her only unkind words were directed at me - I miss that.

Frank D. Gretz

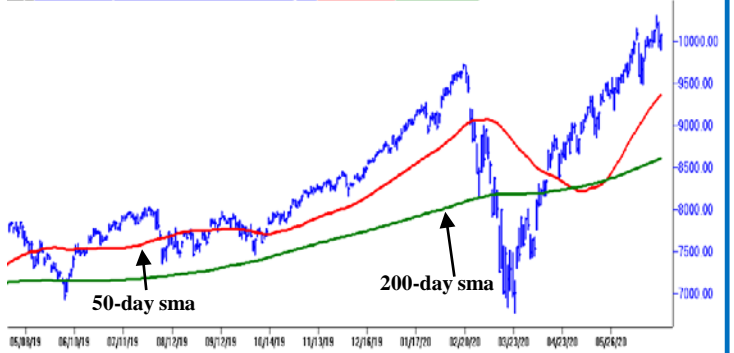
S&P 500 (SPX - 3067) - DAILY

Daily > SPX-UT S&P 500 Index C: 3067 Chg 16 > sma50: 2975.5 > sma200: 3020.8



NASDAQ 100 (NDX - 10081) - DAILY

Daily > NDX-O Nasdaq 100 Index New Calculation C: 10081 Chg 79 > sma50: 9055.1 > sma200: 8514.6

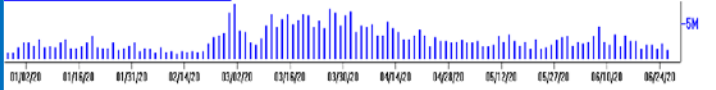


ISHARES RUSSELL 1000 VALUE ETF (IWD - 111) - DAILY

Daily > IWD iShares Russell 1000 Value ETF C: 111.8 Chg 1.0 > sma50: 111.40 > sma200: 122.84



> IWD iShares Russell 1000 Value ETF V: 1.329M

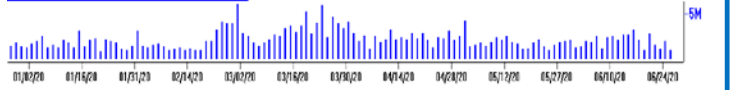


ISHARES RUSSELL 1000 GROWTH ETF (IWF - 190) - DAILY

Daily > IWF iShares Russell 1000 Growth ETF C: 180.8 Chg 1.6 > sma50: 179.60 > sma200: 170.84

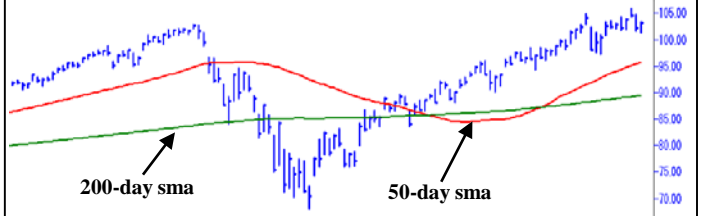


> IWF iShares Russell 1000 Growth ETF V: 933.529K

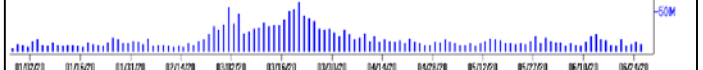


SELECT SECTOR SPDR TRUST-TECHNOLOGY (XLK - 103) - DAILY

Daily > XLK Select Sector Spdr Trust (The) (Technology) C: 103.2 Chg 0.9 > sma50: 93.14 > sma200: 89.43

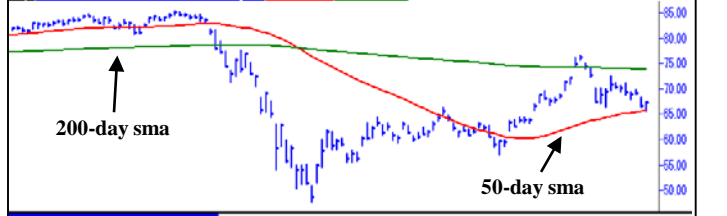


> XLK Select Sector Spdr Trust (The) (Technology) V: 8.837M

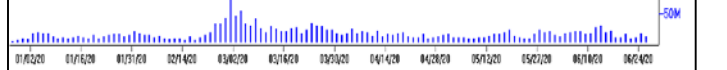


INDUSTRIAL SELECT SECTOR SPDR (XLI - 67) - DAILY

Daily > XLI Industrial Select Sector SPDR C: 67.2 Chg 0.6 > sma50: 66.64 > sma200: 73.80

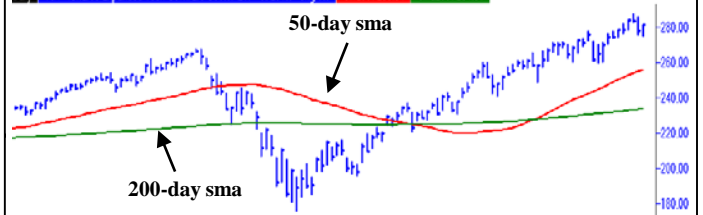


> XLI Industrial Select Sector SPDR V: 10.382M

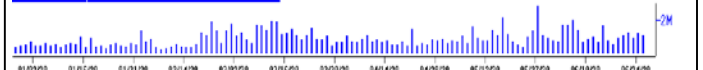


ISHARES EXP TECH-SOFTWARE SECTOR ETF (IGV - 281) - DAILY

Daily > IGV iShares Expanded Tech-Software Sector ETF C: 281.6 Chg 3.5 > sma50: 268.34 > sma200: 234.01

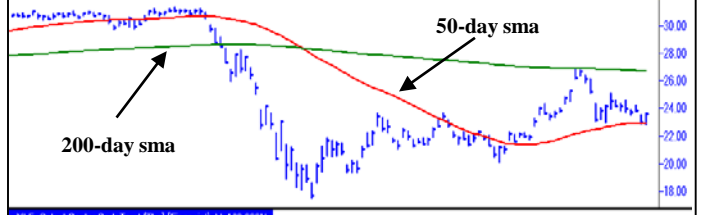


> IGV iShares Expanded Tech-Software Sector ETF V: 1.1127M

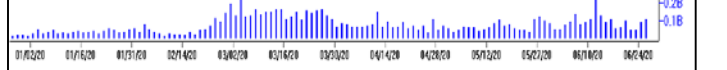


SELECT SECTOR SPDR TRUST-FINANCIAL (XLF - 23) - DAILY

Daily > XLF Select Sector Spdr Trust (The) (Financial) C: 23.5 Chg 0.6 > sma50: 22.86 > sma200: 26.71



> XLF Select Sector Spdr Trust (The) (Financial) V: 103.893M

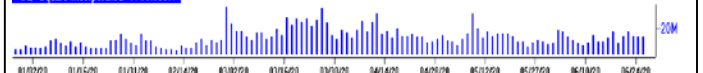


SQUARE INCORPORATED (SQ - 104) - DAILY

Daily > SQ Square Incorporated C: 104.7 Chg 3.9 > sma50: 78.47 > sma200: 68.34

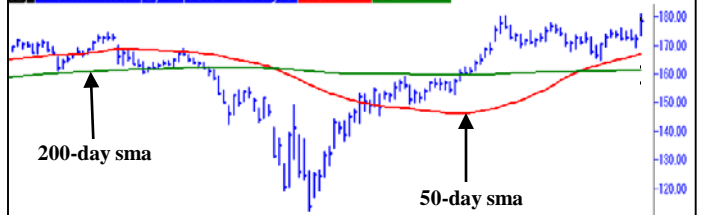


> SQ Square Incorporated V: 13.139M



MCCORMICK & CO INC. (MKC - 178) - DAILY

Daily > MKC McCormick & Company Incorporated C: 178.5 Chg 6.2 > sma50: 167.04 > sma200: 161.40



> MKC McCormick & Company Incorporated V: 1.466M

