Wellington Shields

EQUITIES PERSPECTIVE

June 18, 2021
DJIA: 33,823

There go those bonds again … trying to tell stocks what to do. The economy is recovering, rates should go higher, bond prices lower. Recently, it hasn't quite worked that way. The 10-year treasury yield had fallen to 1.5% from the 2021 peak around 1.75% in March, this amidst what seemed an inflation scare. Investors it seems had come to believe the Fed, of all people. As they say, the market isn't always right, but when you go against it we've noticed they don't give you your money back. The consequence of this rate perception had been twofold for equities. It means banks are between a rock and a hard place – the gap had narrowed between what they can charge for loans and what they pay on deposits or other short-term borrowings. Another consequence of the changed rate structure was a recent better performance by Tech. Tech is growth but who needs growth stocks when growth is everywhere. When growth is not there, then go to the companies that grow.

This is not to say the rally in cyclicals or commodities is over. They have performed well and are entitled to a little respite. While energy had lagged relative to spikes in copper and steel, it has performed well recently, suggesting the issue is not with the economic recovery. This just seems about more rotation and rotation seems the year's defining characteristic. The market hasn't had a 5% correction since last fall and, as we like to say, most days most stocks go up. It seems the often annoying rotation has in its own way kept the market technically healthy. Meanwhile, the option speculators of February are back, and "rumor" has it – to translate MEME to the Latin. The VIX has dwindled to a pandemic era low of 15.7, suggesting complacency more than speculation may be the worry. Then, too, the A/D index reached a new high just a few days ago, and momentum trumps sentiment.

To listen to the homebuilders, things could not be better. The only reason they can't sell more homes is shortages. Somehow that doesn't seem to fit with the recent collapse in lumber, but what do we know? Then, too, back in 2007 their story over and over was they didn't see a bubble, so what do they know? Speaking of 2007, a ratio of home prices to rental prices is higher now than it was back then. This could reflect the pandemic induced city exodus but still, stretched prices don't usually stay stretched. Meanwhile, the charts are looking a little the worse for wear, even including associated stocks as disparate as Home Depot (303) and Masco (59). Getting back to lumber, the price of lumber is crashing relative to gold. Lumber is considered a proxy for economic growth, while gold is considered a safe haven. Previous extremes did tend to precede further declines in lumber prices as well as home building stocks, according to SentimenTrader.com. Those homebuilding charts have begun to suggest the same could happen this time.

It wasn't that long ago that $100 oil seemed almost laughable. After all, the world was in lockdown, the roads empty, and flights virtually nonexistent. Even now, $100 oil seems a stretch. Yet Brent already has moved to $73, its highest level in two years. It's not that demand is that great, though it is growing, it's more that new supplies have been slow in coming. We've gone from 15 years of reserves to 10, and capital expenditures have gone to $100 billion a year from $400 billion 5 years ago, according to FT. Jeremy Weir, executive chair of Trafigura, one of the world's largest independent oil traders, told the FT Commodities Global Summit that the lack of spending on new supply was concerning, because the world is not ready to make the leap to clean energy and complete electrification. Oil stocks, of course, have been on to this for some time. Despite their performance this year they still seem underloved and, therefore, underowned. Since opinions typically follow price, this seems likely to change.

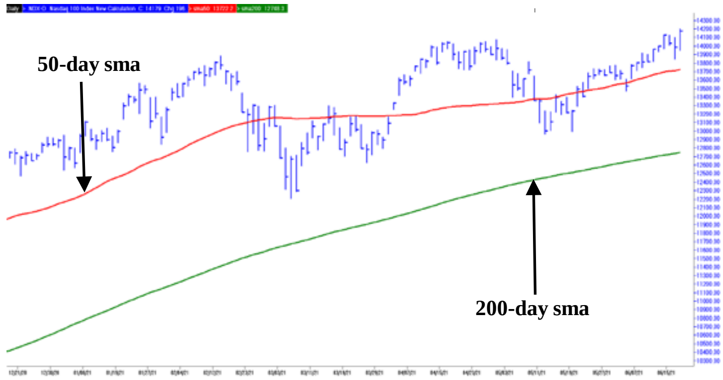
So they're talking about talking about. Wednesday's Fed meeting has resulted in a change in expectations, like everyone expected rates to stay low forever. What it didn't do was signal any real retreat from pandemic crisis measures, for now and for some time. As seems his intention, Powell has plenty of justification to stay the course – employment is yet to improve that much and much of the inflation does seem about bottlenecks that should prove transitory. That yields had fallen in the last three months, and did so again even on Thursday indicates what seems a prevailing belief the Fed won't be panicked into tightening. Similar market reactions – 0.5% declines in stocks, bonds and gold – followed other FOMC announcements in the past. After some short term consolidation, what followed was higher prices. Keep in mind, too, we came into this with a better than good pattern in the A/D's, a pattern of higher lows versus the pattern of lower lows in the averages. If you want to see a market with real credit restrictions, take a look at China.

Frank D. Gretz

140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

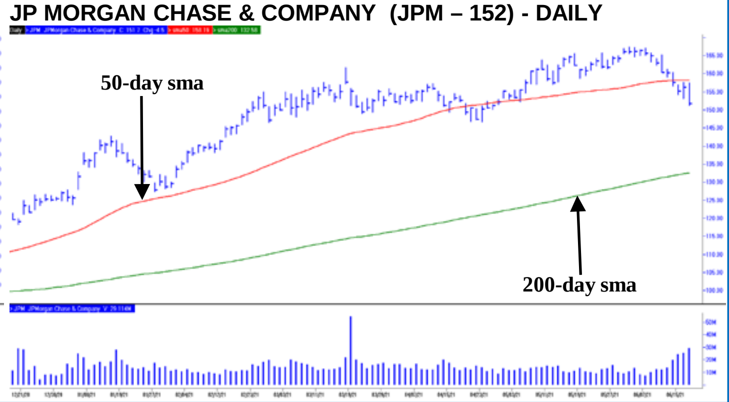
S&P 500 (SPX – 4222) – DAILY

NASDAQ 100 (NDX – 14164) – DAILY



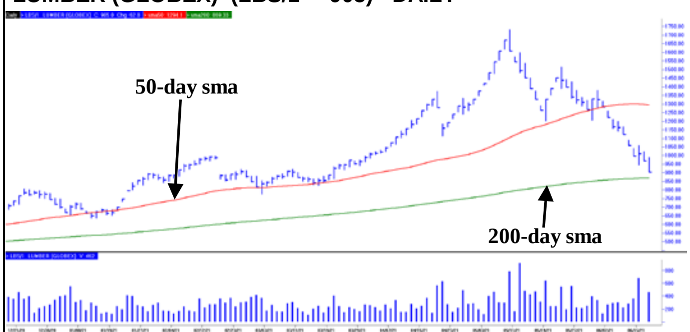
ISHARES 7-10 YEAR TREASURY BOND ETF (IEF 115) - DAILY

JP MORGAN CHASE & COMPANY (JPM – 152) - DAILY



DR HORTON INCORPORATED (DHI – 89) - DAILY

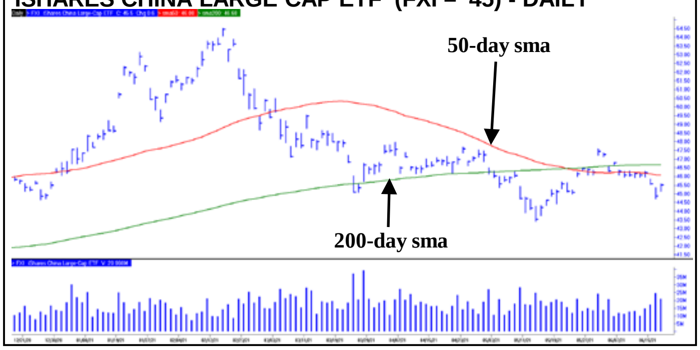
LUMBER (GLOBEX) (LBS/1 – 905) - DAILY



EXXON MOBIL CORPORATION (XOM – 62) - DAILY

HEALTH CARE SELECT SECTOR SPDR FD (XLV – 125) - DAILY

ISHARES CHINA LARGE CAP ETF (FXI – 45) - DAILY



SPDR S&P AEROSPACE & DEFENSE ETF (XAR – 132) - DAILY