July 16, 2021
DJIA: 34,987

All good things must end … the odds are. The good thing in this case is the pattern in the S&P. The index has spent the entire first half above its 200 day, by an average of some 13%. This has happened only 34 times since 1929, according to Bank of America's Steven Suttmeier. The problem is only 13 times did the pattern continue through the second half. The odds, of course, are often to be defied. It is a concern, though, that only about 60% of S&P stocks are above their 50 day average, indicating weakness short-term versus the longer-term strength. This becomes even more worrisome against the backdrop of new highs in the index itself. Another little divergence comes in the form of the Equal Weight S&P, which has gone nowhere since early to mid-May. None of this is reason to sell everything, but together it's beginning to add up to an increased likelihood of a correction.

The divergence that most concerns us is one which has developed between the Dow and the Advance-Decline index. What's going on in the "average stock" as measured by the A/D index, we consider of greater importance than what's going on in the stock averages. The A/D index recently failed to match the highs in the averages. Granted this is very short term stuff, and last Friday's 3-to-1 up day wasn't exactly the feel of a divergence. Still, the divergence is there, and what seems important is the change. The A/D's had been outperforming the averages, now they're lagging. It is relatively minor – a strong, broad rally would resolve the problem. Then, too, back in October 2000 it took only three days of this kind of action to lead to a 20% correction. There also are concerns about the NASDAQ, despite growth's clear revival. Last week's new high saw only 31% of stocks advance, and more twelve-month new lows than new highs. That's a pretty thin new high, and worrisome.

Whatever happened to the rebounding post pandemic recovery? Since the beginning of last month bonds have rallied and the yield curve flattened, suggesting little inflation and a less robust economy. For stocks, value has outperformed growth for the year to date, but concerns about that trade have come to the fore. Clear examples are the airlines, hotels, resorts and cruise lines. All were hit by the pandemic and sold off sharply last year, but rebounded strongly in February. Since then they have seriously lagged the S&P. Meanwhile, growth stocks, bought when growth is thought to be scarce, have performed well compared to value. Whether correctly or not, concerns about the economy and, therefore, about the reopening trade now seem to dominate the thinking. Time will tell, to coin a phrase, but there's reason not to give up on the value/reflation trade. Over the last month or so the ratio of value to growth stocks has plunged. The drop, however, is in the context of a long-term trend. Previous drops have tended to resolve in the direction of that trend.

The background worries seem obvious – the economy, inflation, cyber and Covid. These we all know. What always seems to cause the problems, we've noticed, are the worries we don't know or we know but don't consider worries. We're thinking here of China. Recent headlines have been full of China's latest clampdowns on companies and their listings, its growing attempt to eradicate bitcoin and the hassles for Tesla (651). The impact on stocks like BABA (215) and the others has been noticeable, not to mention the recently listed DiDi (12). To look at both manufacturing and services data, one could conclude China's rebound is over. As the country that led the US, Europe and the rest of the world into the Covid-related slow down and out of it, and as the driver of much of the world's growth, this is not good news. Technical patterns there, of course, have turned very weak.

It has been a good market, but not always good when it comes to making money. Many hedge funds, for example, have had a tough start to the year. From the Wall Street Journal, "Morgan Stanley and Goldman Sachs showed that fundamental stock- picking hedge funds posted negative alpha – trader talk for poor performance – in the first half of the year. Part of the challenge for professional stock-pickers is that markets have been heavily rotational, several hedge funds said. Markets this year have whipped back and forth between growth stocks and value stocks, making it difficult for managers to find winning trades." For now growth seems to hold the upper hand – see, for example, the SPDR ETF (XLK - 152) where Apple (148) and Microsoft (281) dominate. And the recent breakouts in Amazon (3631) and Google (2540) are impressive. In market corrections, however, it's rare they don't get to everything. Meanwhile, bubbles are coming undone – the SPACS, Bitcoin, AMC (36).

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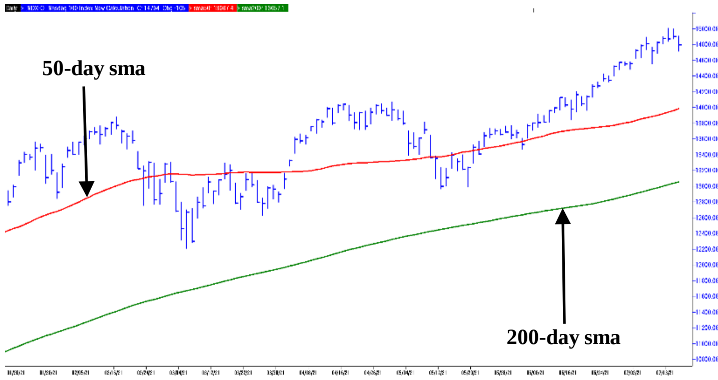
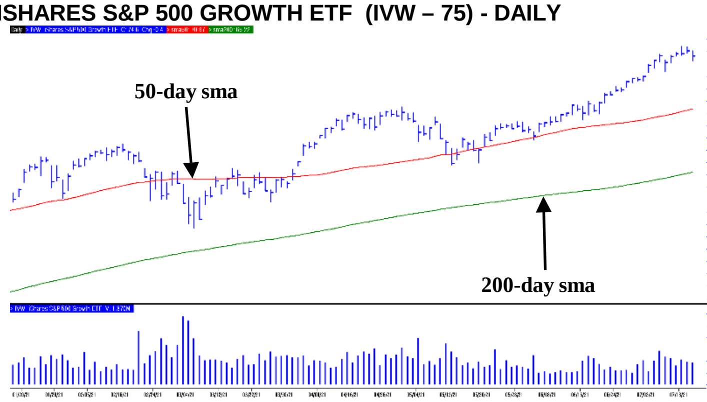
S&P 500 (SPX – 4360) – DAILY

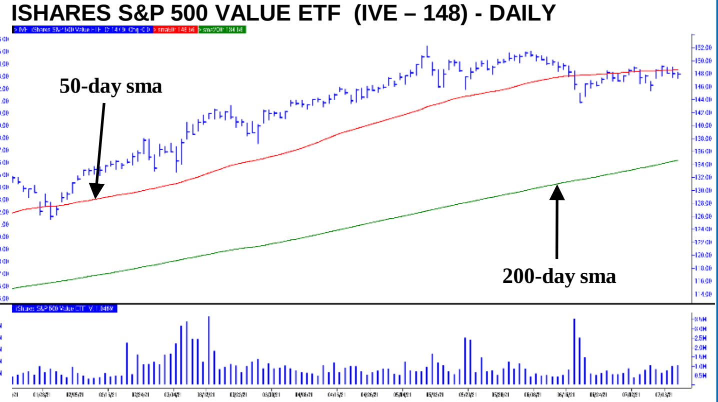
NASDAQ 100 (NDX – 14794) – DAILY



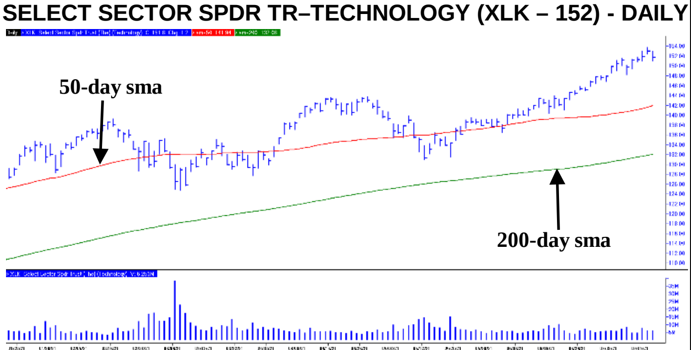
ISHARES S&P 500 GROWTH ETF (IVW – 75) - DAILY



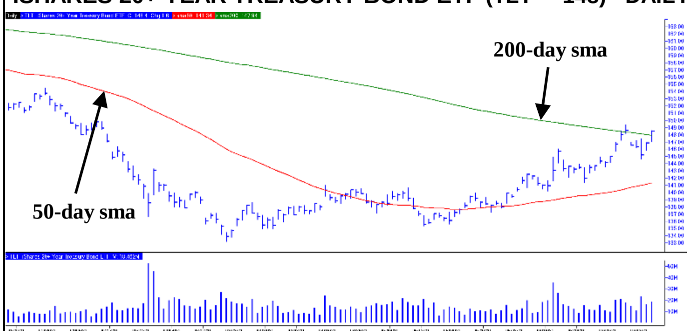
ISHARES S&P 500 VALUE ETF (IVE – 148) - DAILY



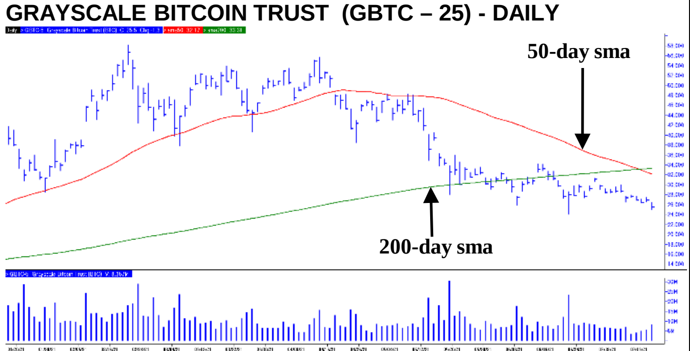
SELECT SECTOR SPDR TR–TECHNOLOGY (XLK – 152) - DAILY



ISHARES 20+ YEAR TREASURY BOND ETF (TLT – 148) - DAILY

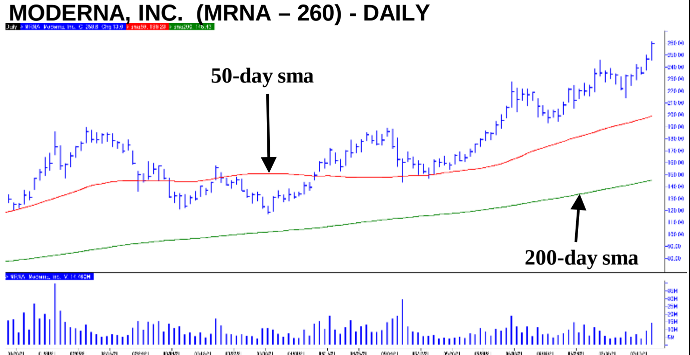


GRAYSCALE BITCOIN TRUST (GBTC – 25) - DAILY



AMC ENTERTAINMENT HOLDINGS INC. (AMC – 36) - DAILY

MODERNA, INC. (MRNA – 260) - DAILY



DOMINO'S PIZZA INC. (DPZ – 485) - DAILY