Wellington Shields

EQUITIES PERSPECTIVE

July 2, 2021
DJIA: 34,633

Either ... or. That pretty much is what the market has become. The correlation between growth and value stocks has plunged to the lowest level since 1928, according to SentimenTrader.com. It is in fact reminiscent of the "old economy" versus "new economy" divergence of 1999 – 2000. Fortunately, not all divergences or non-correlations have had the same dire consequences as back then. An important distinction between now and then is the A/D index. We consider divergences there to be most important, and were present then but not now. Historically these low correlations have not meant much for the market as a whole. If anything, these non-correlations have been a warning sign for growth – the idea of too much of a good thing. Small-cap and large-cap stocks also are at their lowest correlation in 20 years. This hasn't been a difficult year for the market, but it has been a difficult market because of the non-correlation and rotation.

There's plenty of speculation in this market, but while speculation may tell you something about potential risk, it alone doesn't kill uptrends. In terms of sentiment, what can kill uptrends is complacency, which usually comes when most are fully invested. It just seems a bit ironic that complacency should be so prevalent when there's plenty out there to worry about. Inflation has been much discussed and for now the market is siding with Powell, it's transitory. Some of the reopening bottlenecks may be transitory, but these labor shortages mean rising wages and inflation is always about wage inflation. Then, too, were inflation at hand we would expect precious metals to be acting well, and they're not. Then there's the problem of the Covid variants, a problem which seems very much here and now. The vac maker Moderna (235) has gotten renewed attention and has broken out. Another problem very much in the here and now is the potential for a cyber 9/11. ETFs like HACK (61) and CIBR (47) could help.

When it comes to seasonal patterns best known is "sell in May," though it's not particularly accurate. The inverse, ironically, is less emphasized and much more accurate – November–April – is up 80% of the time. Even without the distortions of the pandemic, seasonal patterns always seem of dubious usefulness. With this in mind, the period from July 10 to the end of August has produced some noteworthy weakness. Also of some concern is the recent pattern within the S&P itself. The index has reached new highs several times recently with less than half of its components above their 50 day average. Components above the 200 day remain close to 90%, so it's a divergence between short term and medium term trends. In the past this also has produced some short term problems. It's difficult to place too much emphasis here, however, when the A/D index is bumping up against new highs. That said, those numbers have flattened a bit as well.

In this past week's Barron's there was an article about Chart Industries (147). A colleague is very positive on the stock, so we are familiar with the story despite it being that funnymental stuff. Chart specializes in taking volatile gases and processing them so they can be contained and exported. The interesting part is this profitable business is combined with the opportunity to bet on hydrogen and carbon capture as well. The bad news, of all things, is the technical pattern. It's not that the chart is bad, it's that it is in a trading range, and has been since early this year – not the worst thing, but still. As we like to buy strength and sell weakness, this is the kind of pattern whose purpose is to take our money. You might have made a fortune trading the stock from 130 to 160, but that kind of mean reversion trading eventually doesn't work. Those trades can be right 80% of the time, but eventually you lose 80% of your money, when finally there's a big move up or down and you are on the wrong side. Patience doesn't happen to be one of our virtues, but we are waiting for a move above 160 – 165. To see the potential here, look at a monthly chart, that is, a long term chart.

Kicking and screaming, the S&P managed another new high on the last day of June. It was lethargic and uneven, and again with more component stocks below their 50 day. Stocks haven't exactly surged following their breakout/new high. Then, too, it's summer. What has surged is the buying of speculative call options by the smallest option traders. Meanwhile, the SKEW (161) has surged, meaning hedge funds or someone is hedging against a decline. The SKEW tries to measure the price of far out of the money puts versus calls, with high readings suggesting a higher probability of a big decline within the next 30 days. You'll be glad to know the SKEW isn't taken too seriously by most, but like the upcoming seasonal pattern, we mention it so you are aware. More than the S&P, be aware the A/D index also made a new high, perhaps not so dynamically as in the past, but most days most stocks at least still go up. Not how markets get into important trouble.

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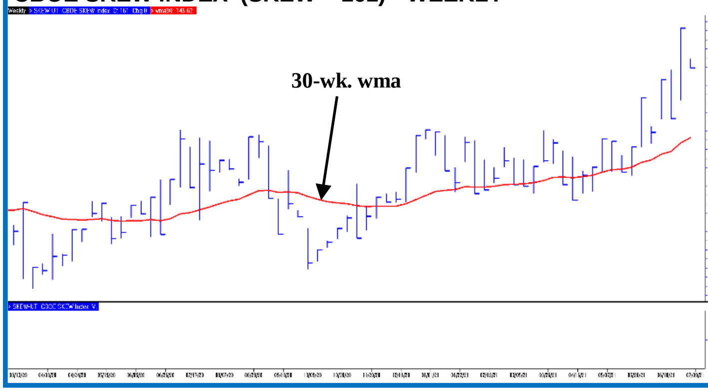
S&P 500 (SPX – 4320) – DAILY

NASDAQ 100 (NDX – 14560) – DAILY

CBOE SKEW INDEX (SKEW – 161) - WEEKLY



CBOE MARKET VOLATILITY (VIX – 15) - WEEKLY

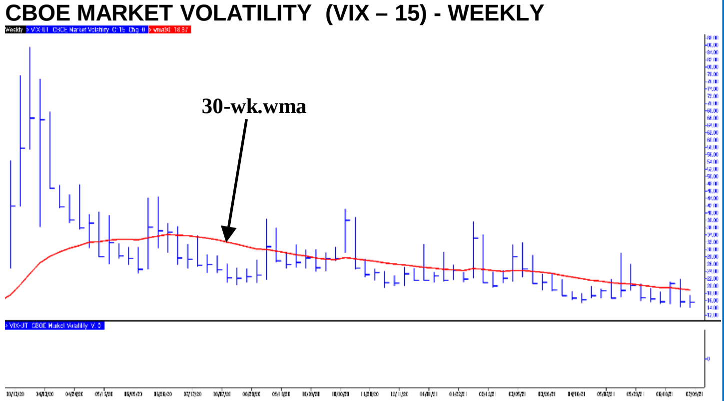
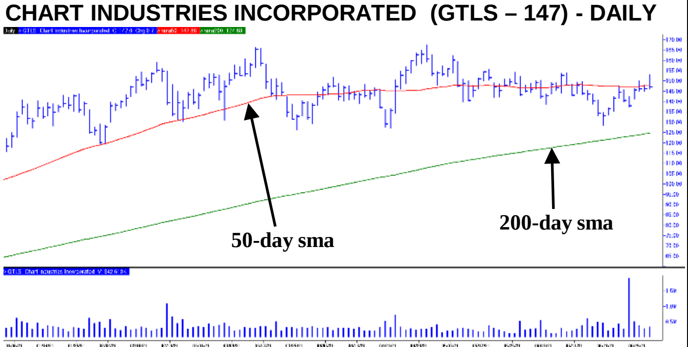
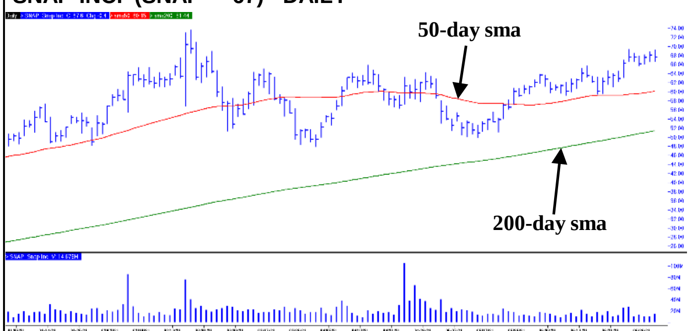


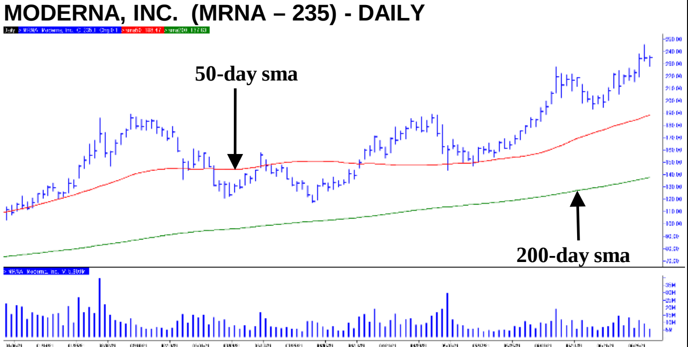
CHART INDUSTRIES INCORPORATED (GTLS – 147) - DAILY



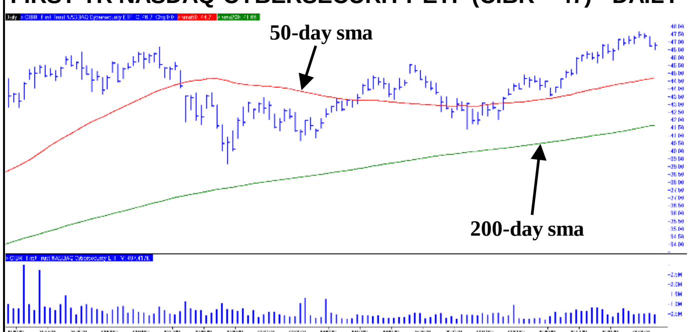
SNAP INC. (SNAP – 67) - DAILY



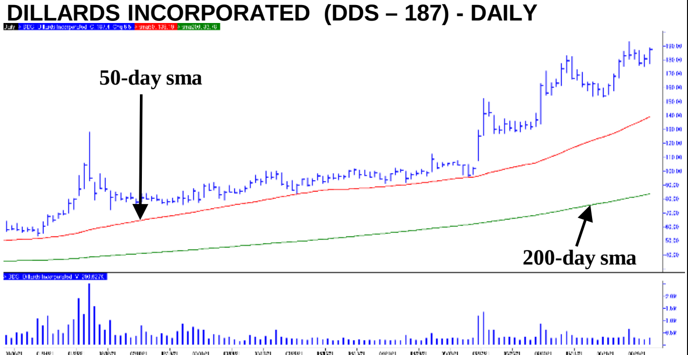
MODERNA, INC. (MRNA – 235) - DAILY



FIRST TR NASDAQ CYBERSECURITY ETF (CIBR – 47) - DAILY



DILLARDS INCORPORATED (DDS – 187) - DAILY



ELI LILLY & COMPANY (LLY – 231) - DAILY