EQUITIES PERSPECTIVE

July 30, 2021
DJIA: 35,085

It's tough to beat the S&P 500 … even S&P stocks can't do it. We're thinking here of the S&P 500 Index as we know it, versus the 500 or so stocks which comprise it – the S&P Equal Weight Index (RSP-153) where market cap is not a factor. The S&P makes new highs seemingly most days, the equal weight version has gone nowhere since early May. The Russell 2000 (IWM-223), that measure of secondary stocks that everyone loves to love, has gone nowhere since February. So where is the big bull market? Arguably it's in five stocks, Apple (146), Amazon (3592), Alphabet (2733), Facebook (359) and Microsoft (287). As of last Friday these five account for 22.9% of the S&P's market cap, the highest combined market cap of any five ever. Given all five are pushing twelve-month highs, and given their market cap weight, you kind of have to join 'em to beat 'em, or to even keep up.

There are stocks and groups which have outperformed from time to time, but the frequent rotation has made it difficult to keep up. And, realistically, it's not what most do. Is piling into five stocks healthy? In the early 70's at least there were 50 of these little darlings. And the dot.com's obviously saw many more. The answer, of course, is it's not healthy – extremes rarely are. Divergences, in this case within the S&P itself, are never healthy. And they're not without risk. If you don't care about valuations, how about simple supply and demand – after a while, who is left to buy? Certainly these all are great companies, but so too were GE (13) and Cisco (55) back in 1999 when they were among the S&P's top-five by market cap. The saving grace now, what makes this time different, dare we say, is the overall background, specifically the Advance-Decline index. Unlike those other periods, this market still has decent, though deteriorating, participation.

Facebook beats! The most advertised or anticipated "beat" in the history of markets? Who is to say, but if the stock can survive this kind of anticipation and the temptation to "sell on the news," indeed, we will be impressed. We pointed out many times, stocks that outperform are those where analyst estimates are too low and, of course, vice versa. So is a match as good as a beat? As it is one of the chosen, could be. If instead it is priced in/discounted, that tells us something as well. It's the market that makes the news, even for the chosen few. When good news isn't good news, it's time to think about it. By definition, in divergent markets the strongest are the last to give it up – therefore, the market averages versus the AD's. If Facebook and Apple can't right themselves after these little reporting setbacks, it's something to think about. Then, too, a little rest for these will not hurt.

Investor sentiment or psychology is always difficult to measure. Even indicators like the VIX (18) which seems objective, over the years has ranged from 30 to 80 at market lows. And when it comes to the investment surveys, they are notoriously early. By the time it's time to worry, most have stopped doing so. We're also thinking here of those intangibles which escape measure altogether and, hence, no pretense of objectivity. How, for example, would you have measured the bubble that was the "nifty 50" or the dot.com's? Being there you couldn't help but know it, but with no objective measure it was easy to ignore. This seems the case now, one could argue we've seen several bubbles – the SPACs, the MEME stocks and even bitcoin. Easy to think Robin Hood will be some seminal event, but we suspect it's more the big picture – the top five of the S&P reach 30% plus?

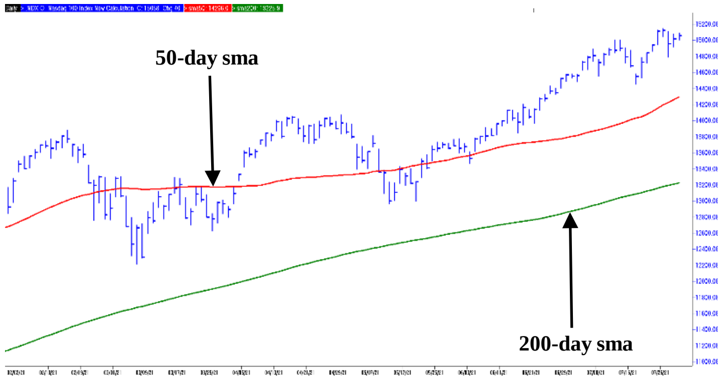
A final thought on bubbles. From the King Report, banks are giving families with wealth of 100 million or more the ability to borrow at less than 1%. We remember, or think we do, back in the days of "Japan Inc.," a business woman being denied a loan. The same bank a couple years later approached her with double the amount if she wanted to join a golf club. There are plenty excesses in the market and the economy. Problems in the technical background are increasing, including the recent lag in financial stocks. The ratio of financials to the S&P is at a 90 day low, a condition that typically has bled into the overall market over the next 2 to 4 weeks. Despite the strength in Tech, there were more twelve-month new lows than new highs on the NASDAQ last week, and despite the S&P strength, only about half the stocks there are above their 50 day. Most important seems the lagging A/D's. It would be nice to get back to those days when most stocks went up.

Frank D. Gretz

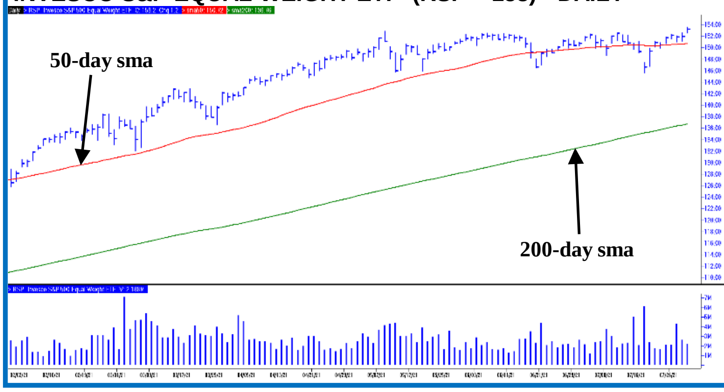
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 4422) – DAILY

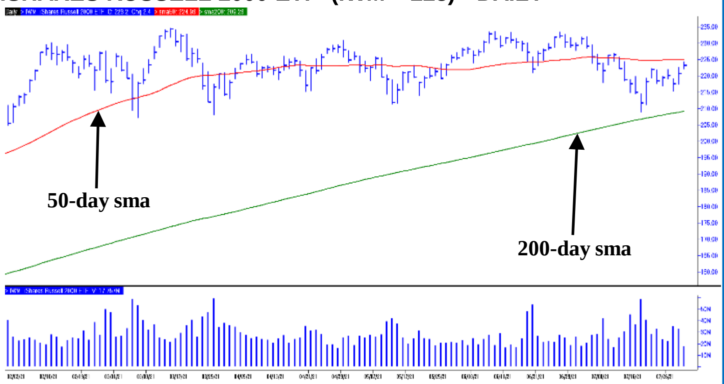
NASDAQ 100 (NDX – 15045) – DAILY



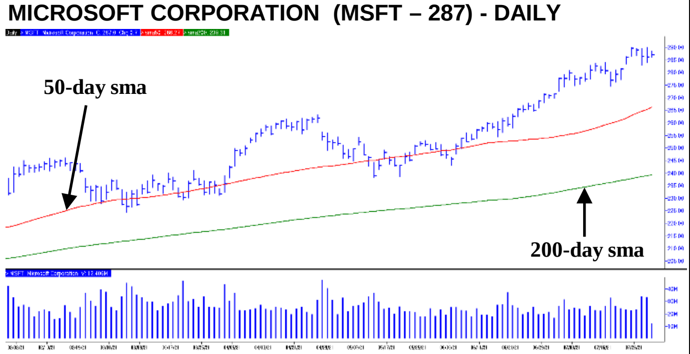
INVESCO S&P EQUAL WEIGHT ETF (RSP – 153) - DAILY



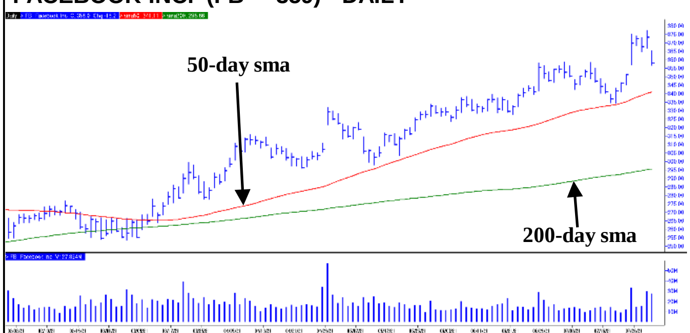
ISHARES RUSSELL 2000 ETF (IWM – 223) - DAILY



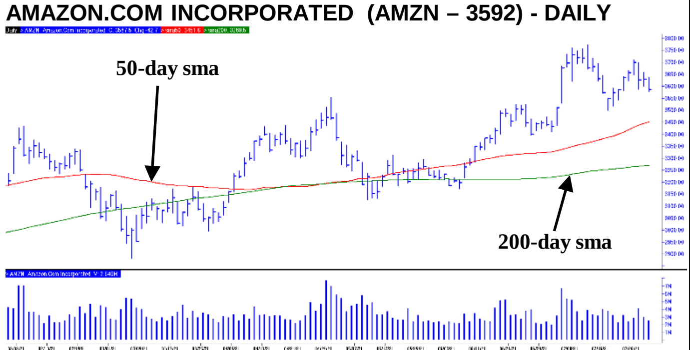
MICROSOFT CORPORATION (MSFT – 287) - DAILY



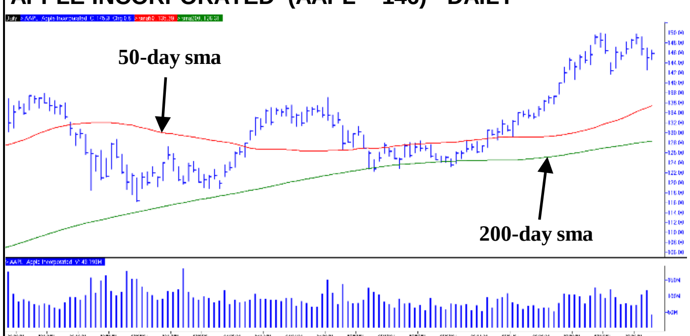
FACEBOOK INC. (FB – 359) - DAILY



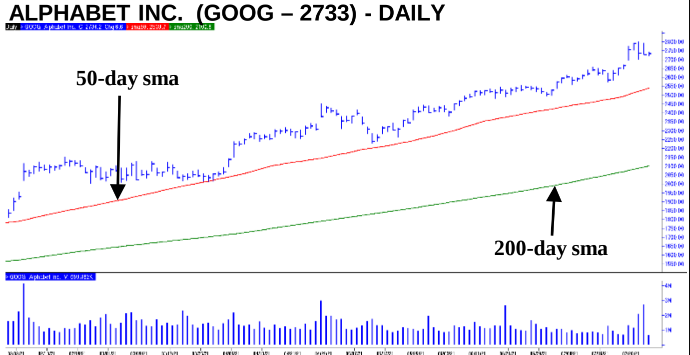
AMAZON.COM INCORPORATED (AMZN – 3592) - DAILY



APPLE INCORPORATED (AAPL – 146) - DAILY



ALPHABET INC. (GOOG – 2733) - DAILY



TESLA INC. (TSLA – 678) - DAILY