Wellington Shields

EQUITIES PERSPECTIVE

September 24, 2021
DJIA: 34,764

They blame China for Monday's selloff … why not blame Mother Teresa. Sure China has a problem, in fact, a few problems. The Evergrande problem has been in front of everyone for a month now, why on Monday did it become a problem worthy of a 3% selloff? This isn't the worst technical backdrop but it has worsened. If you look at stocks above their 200 day moving average, that is, stocks in uptrends, it varies from 64% for the S&P stocks, 59% for NYSE stocks and only 42% for some broader databases. On average, then, only a little more than half of the universe of stocks are in uptrends. The market, not the averages but the average stock, already is in a correction. Against this kind of backdrop days like Monday are just looking for an excuse to happen. Blame China, whatever, in poor markets there's always something.

As you know, we place a great deal of emphasis on the number of advancing versus declining issues, what we think of as the behavior of the average stock , versus the stock averages. Everyone watches the averages, but it's the average stock that tells the real story when it comes to the market's health. The cumulative total of the net number of advancing versus declining issues gives you the Advance/Decline index. While the A/D index offers an insight into the behavior of the average stock, its analytical value comes when it is compared to the stock averages like the Dow. In a healthy market the two should be in sync, so to speak, and problems arise when the A/D index lags the big cap averages. The A/D index reached a new high on September 2 or, depending on your data source, it's close. That's an important positive.

We are concerned, however, that the A/D index doesn't seem to be telling the whole story when it comes to the average stock. This index of advancing and declining issues is a measure of direction only, with no accounting for price change. If you look at the number of stocks above their 200 day average, then you take account of price change and the direction of that change. As suggested above, the numbers will depend on the database, NYSE stocks, S&P stocks and so on. If we go with the NYSE stocks, the number at the end of last week was 59%. While "rules" and the stock market are things that don't usually go together, the rule is that when this 200 day number drops from above 80% to below 60%, it usually goes below 30%. Forgetting that, the real point is that while most stocks may be advancing, barely more than half are advancing enough to be in uptrends. With the market just a few percent below its highs, this is a concern.

Evergrande – now there's a misnomer. Monday's decline was laid at the feet of this company, though Wednesday's rally made that seem almost silly. We wonder now if the pendulum may not have swung too far, in this case toward insouciance. Most of the research suggests Evergrande won't be China's "Lehman moment" – investors are confident that a default or bankruptcy can't trigger a crisis on the scale of the disaster that followed the Lehman Brothers collapse in 2008. That said, BCA Research shows non-financial corporate debt in China is now on an even bigger scale than Japanese corporate debt before its economy lapsed into crisis in the 1990s. According to Bloomberg's John Authers, you can also draw a comparison with the peak in debt for South Korea and Taiwan in the late 1990s, on the eve of the Asian crisis. Certainly most believe the Chinese authorities are determined to ensure some form of orderly workout, and they have the ability to do so. Then, too, that just could be what most complacently want to believe.

Over the last week or so we've argued the market had its chance to go up but did not – the benign jobs and CPI numbers. Now it's almost the opposite. Whatever horrors may come out of Evergrande, the market seems good with it. And it's not just the market averages. On a day like Tuesday when the averages gave up their big gain, the A/D's stayed positive. And Wednesdays 4-to-1 up day was anything but the weak rally about which we always worry. The overall backdrop is far from perfect and it is still September, but as it has all year the market seems able to ignore the bad, including what's bad technically. Meanwhile, we find ourselves owning the strange combination of oil, lithium and uranium. Sounds a bit like an inflation trade, but without precious metals. The vac stocks like BioNtech (353) and Moderna (455) still look higher, if you can take the volatility.

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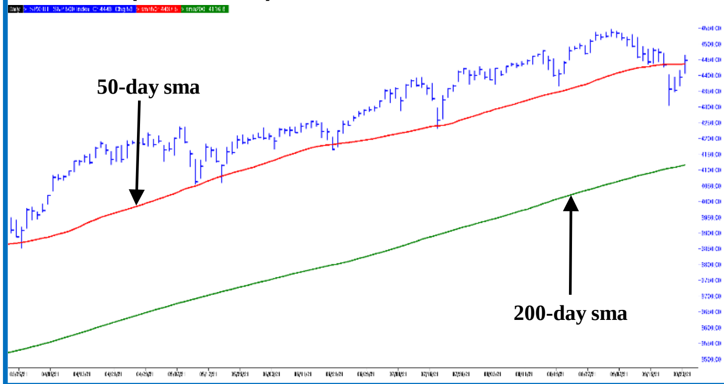
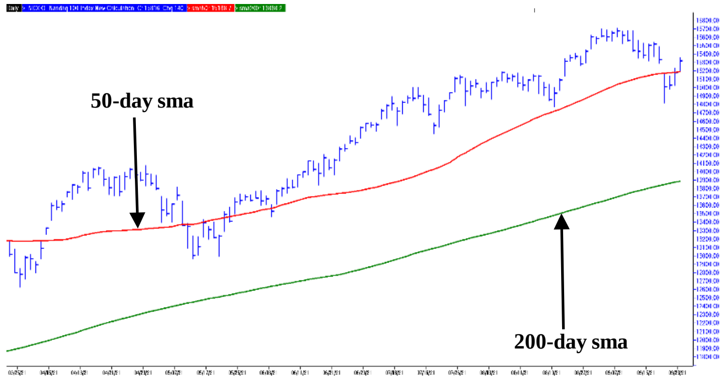
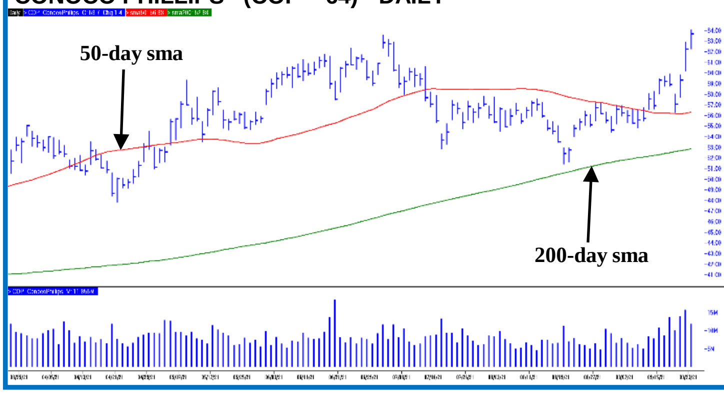
S&P 500 (SPX – 4448) – DAILY



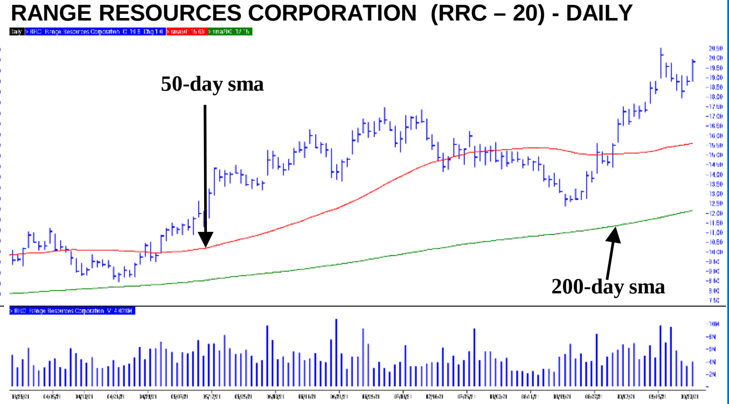
NASDAQ 100 (NDX – 15316) – DAILY



CONOCO PHILLIPS (COP – 64) - DAILY



RANGE RESOURCES CORPORATION (RRC – 20) - DAILY



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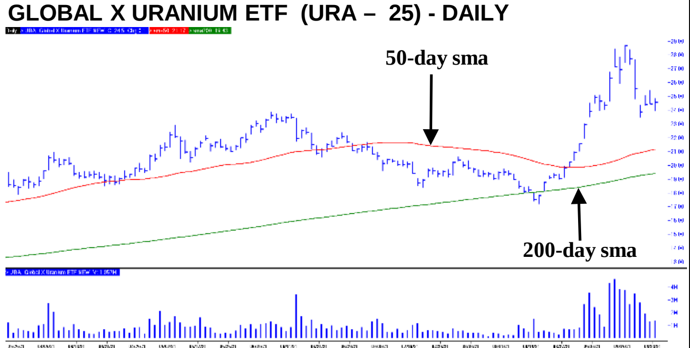
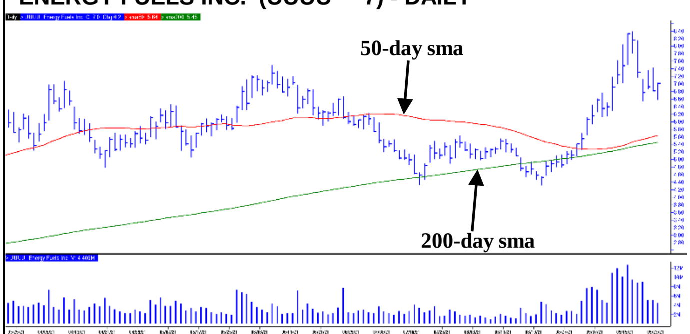


ENERGY FUELS INC. (UUUU – 7) - DAILY



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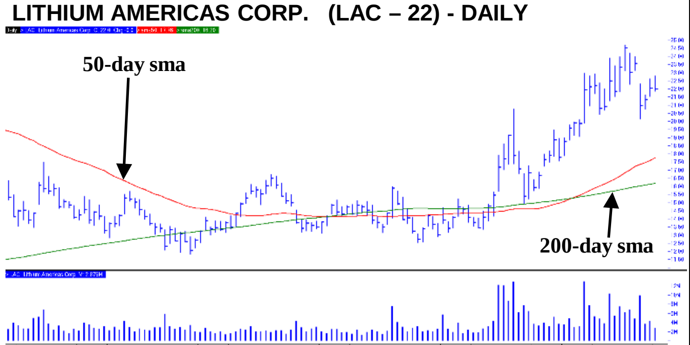
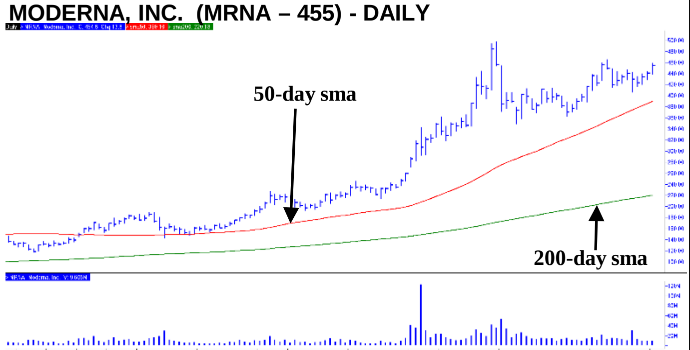


STANDARD LITHIUM LTD (SLI – 8) - DAILY

MODERNA, INC. (MRNA – 455) - DAILY



CROCS INCORPORATED (CROX – 163) - DAILY