Wellington Shields

EQUITIES PERSPECTIVE

December 31, 2021
DJIA: 36,398

It has been a great year … it's hard to expect another? The market hasn't had more than a 5% correction in the last two years, can you expect another? With inflation a serious practical problem for the first time in a generation, can you assume that still, "there is no alternative" for stocks? Then there's the taper. In 2011, just hints from the Fed that it wouldn't expand its asset purchase program preceded a 19% drop in the S&P. In 2015 talk of a balance sheet shrinkage came before a 12% decline. In 2018, a comment about balance sheet unwind on "auto pilot" coincided with the near death of the bull market. On the technical front, while the averages are at or near highs, the average stock has lagged. Less than half of NYSE stocks are above their 200-day moving average, that is, in medium term uptrends. All these things leave us cautious. It's ironic that everyone likes to make predictions this time of year when this time of year itself often offers important insights. It's a good time of year to be observing rather than predicting. Besides, the best prophet, Thomas Hobbes once wrote, is the best guesser.

The idea that we could see three rate hikes next year so far has left the market surprisingly undaunted. Then, too, we're more concerned about the taper than the hikes. Monetary policy may only shift to merely easy versus extremely easy, but what counts is the change at the margin, rather than the absolute level of stimulus. Mike Wilson points out the Fed will go from a $1.4 trillion annualized pace of asset purchases to zero in four months. This reversal of the extraordinary fiscal and monetary stimulus applied to fight the pandemic almost certainly will have an impact on multiples. Beyond the Fed's massive securities purchases since March 2020, Felix Zulauf points to the largely unrecognized impact of the Treasury's sharp drawdown in its balance at the Fed. The reduction, which has injected liquidity into the economy, is about to reverse. At the same time, China isn't recycling its US dollar holdings as it used to, further reducing global dollar liquidity. Seems a bit esoteric, but not really. It's at the core of technical analysis, that is, supply and demand.

When someone says they're bearish, we always ask does that mean you own few or no stocks? Invariably the answer is – well, we do own stocks, but … If you are really bearish you own few stocks. Investor sentiment peaked earlier in the year amidst the speculative binge around meme stocks. Many of these stocks peaked back then as well, of course the averages did not. As the averages have moved higher, speculative buying as measured by Call buying has surged a couple of times. One sentiment measure that has remained unimpressed is the AAII Bull Ratio, a survey of, shall we say, more sedate investors. The AAII Bull Ratio has held below 50% for five straight weeks. When below 45% while the S&P is above a rising 50 week moving average, the S&P has gained 91% of the time over the next three months, according to SentimenTrader.com. And this is only the second time since the inception of the survey the ratio was negative for the first four weeks of December. A possible caveat, their talking the talk – survey shows respondents cautious, but with a high allocation to stocks.

The S&P healthcare sector has pretty much kept up with the S&P Index itself. Biotech ETFs, however, are not even in the black this year. The XBI, an Equal Weight Index which focuses on small and mid-caps, is down more than 20%, and more than 28% from its 2021 high. And the median stock in the group is down 50%. Recently, fewer than 10% of the stocks were above the ten-day average, fewer than 15% were above their 50-day average, and fewer than 20% were above the 200-day average. All these are within a few percent of all readings historically. This says washed out. Then, too, washed out is one thing, new uptrends can be another. If washed out, the IBB (154) and XBI (113) should do something right, as we like to say. For both, that would be a move above their respective 50-day averages. For IBB, that would be above 156 which also would break the downtrend in place since September. The XBI has broken the downtrend, but remains below the 50-day around 120. A new wave of M&A could serve as a catalyst here.

Historically, it has been difficult to bring inflation under control unless interest rates rise to the point they're above the rate of inflation. That's should mean lower bond prices. The money out of bonds could flow to gold, not crypto, as an inflation hedge. Bond prices have turned down, gold prices seem undecided. In an inflationary environment oil should have another good year. The spread between Staples and NASDAQ stocks in terms of their 50-day averages, 90% and 25%, respectively, is the most in 30 years. We believe in Staples but leadership in the New Year is often unclear – back to observing versus predicting. Insiders stand selling – assuming they know value, it's not a good sign. Tesla (1070) may be the greatest new economy stock but when the founder starts selling, for whatever reason, it doesn't seem a good thing. Like this year, where you're in likely will be more important than whether you're in. Generally speaking, we like stocks in long-term uptrends regardless of their group or industry. An example we haven't mentioned before is Prologis (168). Meanwhile, with a divergence already in place, the Advance-Decline numbers will remain important.

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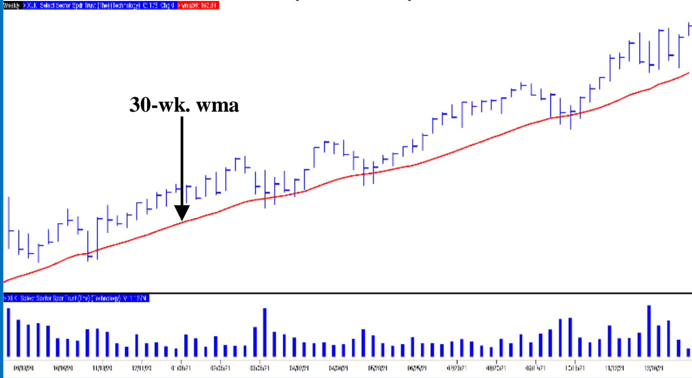
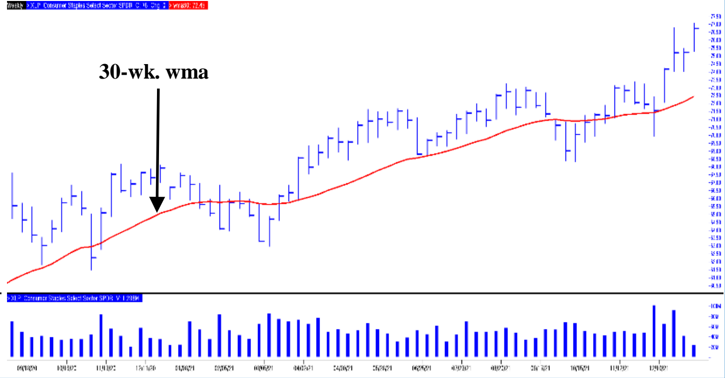
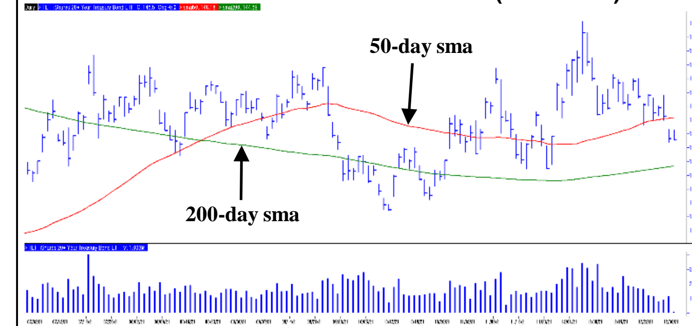
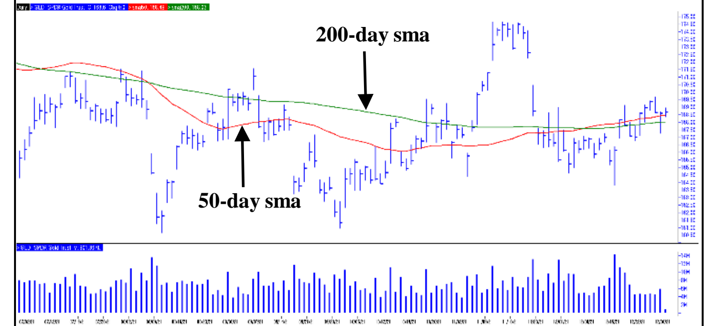
S&P 500 (SPX – 4778) – DAILY
50-day sma
200-day sma

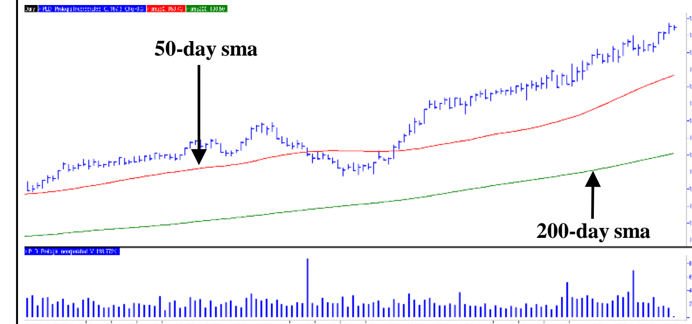
NASDAQ 100 (NDX – 16429) – DAILY
50-day sma
200-day sma

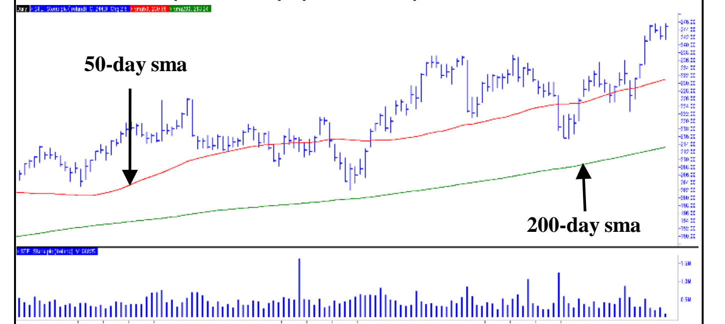

SPDR FD TECHNOLOGY (XLK – 175) - WEEKLY
30-wk. wma

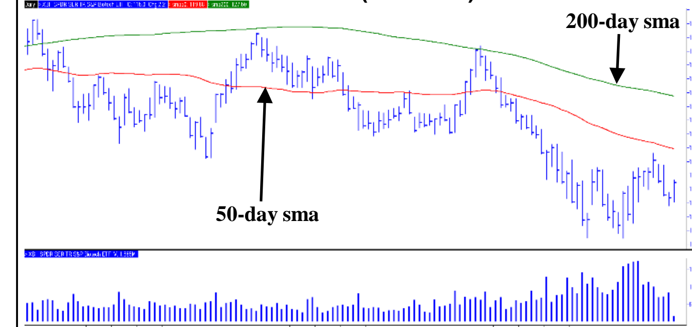

CONSUMER STAPLES (XLP – 77) - WEEKLY
30-wk. wma

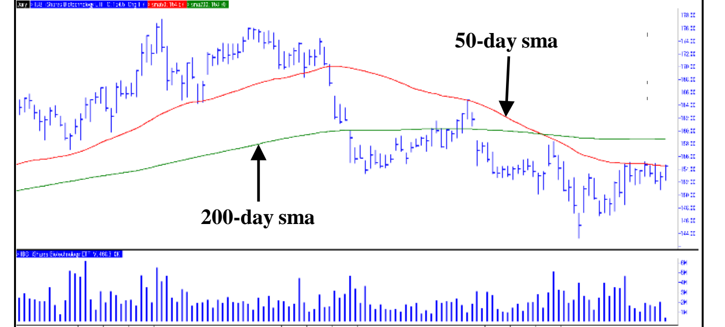

ISHARES 20+ YEAR TREASURY BOND ETF (TLT – 148) - DAILY
50-day sma
200-day sma


SPDR GOLD TRUST (GLD – 170) - DAILY
200-day sma
50-day sma


PROLOGIS INCORPORATED (PLD – 168) - DAILY
50-day sma
200-day sma


STERIS PLC (IRELAND) (STE – 245) - DAILY
50-day sma
200-day sma


SPDR SER TR S&P BIOTECH (XBI – 113) - DAILY
200-day sma
50-day sma


ISHARES BIOTECHNOLOGY ETF (IBB – 154) - DAILY
50-day sma
200-day sma