Wellington Shields

EQUITIES PERSPECTIVE

April 1, 2022
DJIA: 34,678

The greatest trick bear markets ever play… is making you think they don't exist. The original line from the "Usual Suspects" was about the devil rather than a bear market, but you can see a certain commonality. Bear market rallies usually go far enough to make you wonder. And while the war looks on going, inflation looks on going and rising rates look on going, who are you going to believe? You are going to believe prices and prices are going up. Opinions follow price. We know of no rules as to how far these things can go. Already through the 50 and 200-day moving averages, it is enough to make you wonder. And while too good to die here, the rally will die as all do, with technical problems like divergences – when the average stock begins to underperform the stock averages. So far so good, but look for a change to up in the averages and flat, let alone down in the A/D's.

It's that time of the year, or the cycle, when talk of the yield curve fills the air. The yield curve is almost inverted, and parts of it are already. We don't pretend more than a superficial knowledge here and, therefore, have no strong opinions. We will say, however, when it comes to the stock market anything so talked about rarely comes to much consequence. It is also a bit ironic that an inverted yield curve and a recession should come to the fore in the midst of this rather spectacular recovery. Isn't it the market that's supposed to be the predictor of such things? Our two cents, and here you really do get what you pay for, is there will be a recession and the market will get around to predicting it. In other words, this is a bear market rally. Rather than the curve, we worry that the start of QT is the bigger concern. In 2011, 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 balance sheet shrinkage came before a 12% decline and a similar result followed in late 2018.

And then there were two – FANG stocks, that is, that you might want to own. Amazon (3264) is the only one up on the year, though by the time you read this who knows? And, who knows, by that time, Google (2781) could be. We like to look at stocks like this on a monthly rather than daily chart which obviously dispenses with much of the volatility, and unimportant moves. Amazon is a good example, having looked pretty poor a few weeks ago based on the daily chart. A monthly chart, however, basically was that of a consolidation in the overall uptrend. Granted there was a bit of a break in January, but these false moves or breaks often happen in these patterns and, indeed, you can see a lesser but similar break in March 2020. The key is the stock didn't linger there, it snapped right back. What's needed now is a move through the upper end of the pattern around 3600+.

So when you split a stock does that make it more valuable? They say no but don't tell that to Tesla (1078). Tesla is another stock that always seems to tell a more accurate story on a monthly rather than a daily chart. In this case, the pullback came to rest right on top of last year's eight month consolidation. The daily chart would have worried you, the monthly not so much. It is an example, too, that extended stocks do have their corrections – in this case some 500 points. Meanwhile, is Tesla dragging those utilities with it? The textbook says rising rates are bad for utilities as they are big borrowers. While not a "Tesla" chart, XLU (74) has turned into one of the better charts around. As measured by the SPDR Real Estate ETF (XLRE-49), many REITs also are looking better and like XLU, there's a respectable dividend yield.

Tuesday saw NYSE Advance-Decline numbers of better than 4-to-1. This followed back to back 4-to-1 numbers a week or so ago. These are impressive and an example of what we mean when we say the rally is too good to die here. And it's not just the strong up days, it's also the lack of weak up days, those days up in the averages with flat or negative A/D's. Down days don't kill markets, it's the weak up days that do. When it comes to that, it's time to be careful. Meanwhile, if you've been in the market for only the past decade or so this is frustrating. This period has proven repeatedly that it's right to be fully invested, and to buy the dips. We would point out, however, that during the 2007-09 bear market there were 11 10% rallies. Meanwhile, some time ago we published a list of stocks in consistent long-term uptrends. One such stock which is now also above its 50-day moving average is Prologis (164).

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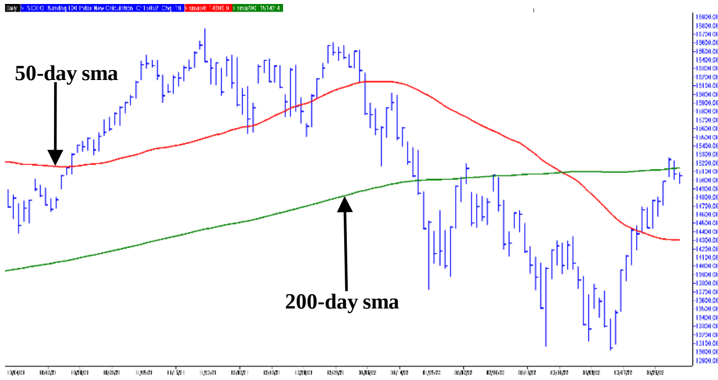
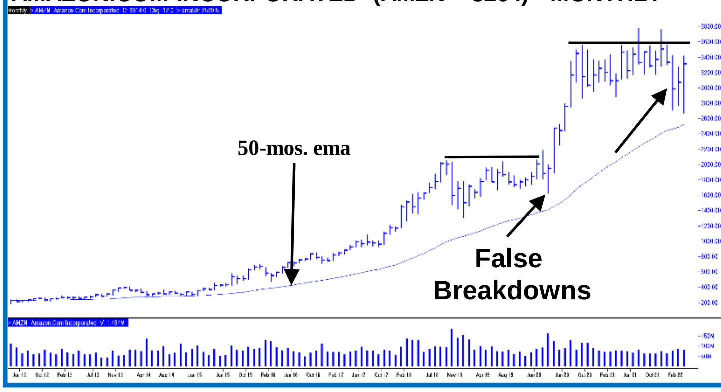
S&P 500 (SPX – 4530) – DAILY

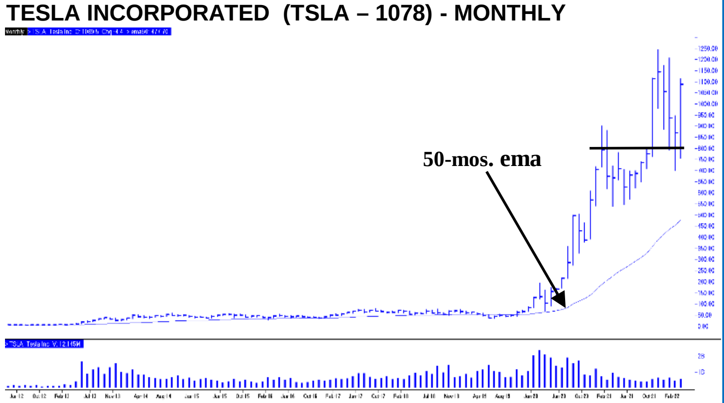
NASDAQ 100 (NDX – 14838) – DAILY



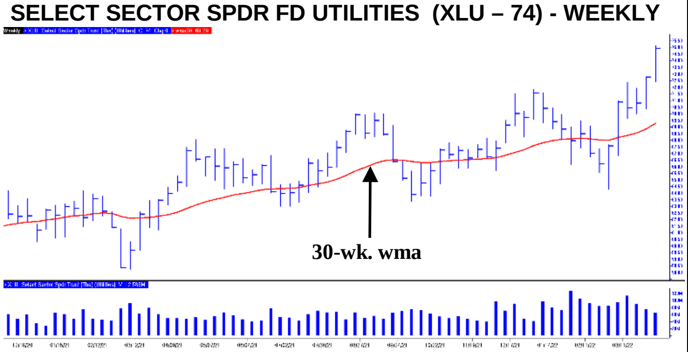
AMAZON.COM INCORPORATED (AMZN – 3264) - MONTHLY



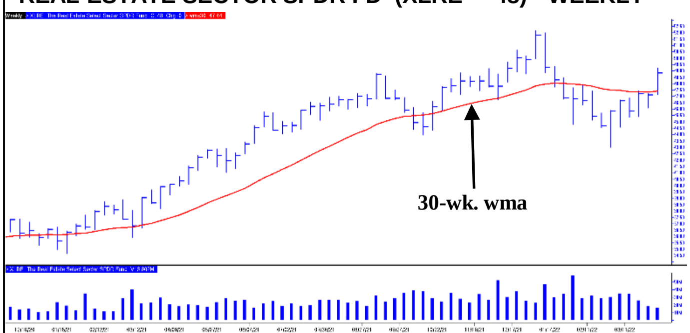
TESLA INCORPORATED (TSLA – 1078) - MONTHLY



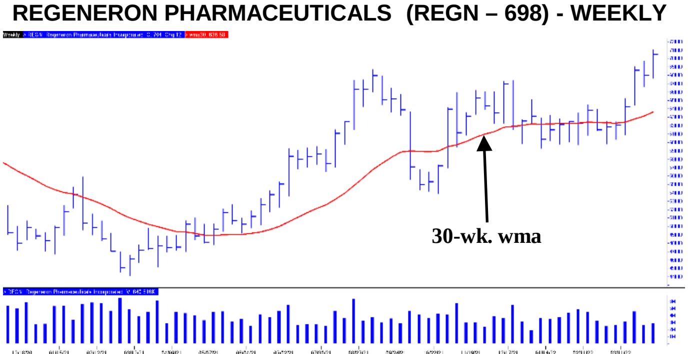
SELECT SECTOR SPDR FD UTILITIES (XLU – 74) - WEEKLY



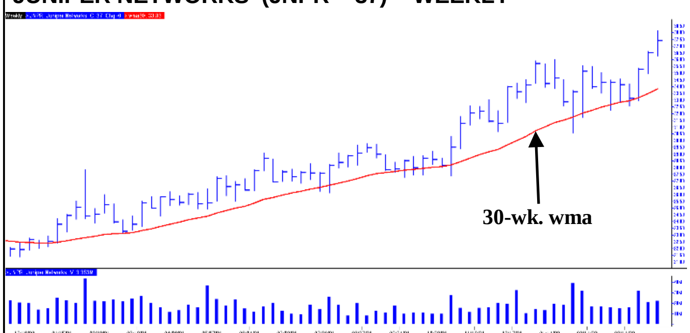
REAL ESTATE SECTOR SPDR FD (XLRE – 48) - WEEKLY



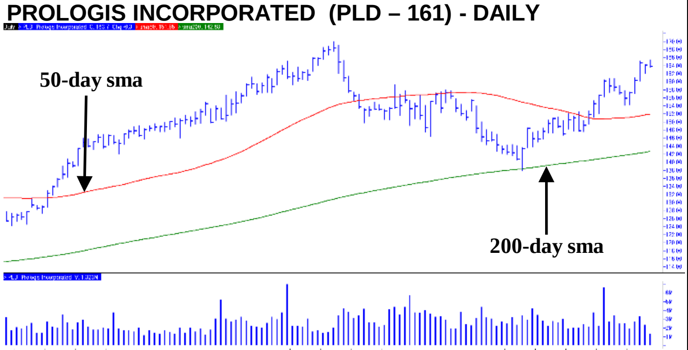
REGENERON PHARMACEUTICALS (REGN – 698) - WEEKLY



JUNIPER NETWORKS (JNPR – 37) – WEEKLY



PROLOGIS INCORPORATED (PLD – 161) - DAILY



PROLOGIS INCORPORATED (PLD – 161) - MONTHLY