Wellington Shields

EQUITIES PERSPECTIVE

April 22, 2022
DJIA: 34,792

It was the best of times… really? Things are so good the market rallied 500 points on Tuesday and another 250 on Wednesday? Let's see, there's been a record surge in credit as consumers resort to almost desperate measures against an inflationary backdrop. And there were those healthy looking retail sales numbers which actually would have been down without gasoline sales. Scarier still, however, might be the 50% drop in trucking activity in a recent week owing to flat retail sales and already excessive inventories. Some would say all this says recession, as has the thoughtful though often gloomy David Rosenberg. The Consumer Sentiment Surveys say we're there and have been for some time. Then, too, is the market looking beyond all this? Or, is it that some of the best one day rallies happen in bear markets? Time will tell, to coin a phrase. We are still pretending to be open-minded.

It's a market with more than a few cross currents in terms of what's working and what's not. At the start of the year we sort of divided the world into Tech and Staples, and Staples morphed into Commodities. After a March fade Staples have come back on again, and then some. Meanwhile, after their March relief rally, Tech has turned weak again, especially anything to do with stay-at-home. The other broad area that can't find its way is Financials. Not surprisingly, all this has left the overall market background a bit mixed but with a clear negative leaning. Anytime you have the S&P down only a few percent but only about 40% of stocks above their own 200-day moving average, you know the averages are masking a lot of weakness in the average stock. This doesn't end well.

Utilities have been on a tear, something the textbooks used to say was not supposed to happen when rates were rising. Right now, however, higher yields are the result of the Fed trying to slow economic growth, and that's making investors think of defensive areas like Utilities. A slow down would hinder profits in most cyclical sectors, while Utilities earnings should be stable as they can keep raising prices. Analysts actually expect earnings here to grow almost as fast as the S&P's 10% rate. So the fundamentals seem fine and so far so too do the charts. The problem might simply be too much of a good thing. The XLU (76) has enjoyed its second largest 30 day rate of change in 20 years, and half the stocks recently reached new highs in a 10 day period. That's a 23 year record according to SentimenTrader.com. Momentum extremes like these, in the past have caused problems - just saying.

If any question remained about stay-at-home stocks, Netflix (217) answered that. To look at Disney's (122) hit, the problem doesn't seem one of competition. And to look at Etsy (102) and Peloton (20) before it, it's the concept and not the companies. Worried about competition, maybe we should be worried about Tesla (1009), Tesla at least is the only major car company that doesn't have to spend time transitioning to EVs. Another big difference, the stay-at-home stocks all have had terrible charts, Tesla does not. If there's a silver lining to the Netflix news and the reaction of the stay-at-homes, it does seem tangible evidence of reopening post-Covid. It also seems a reflection on human nature as it relates to the stock market – investors were pricing stocks that did well in the pandemic on the assumption that lockdown behavior was forever. Who knew – things change.

Nice to see the market is doing its job if, as they say, the market's job is to confuse the most number of people. It was certainly easy to be impressed by Tuesday's 500-point Dow rally, backed up by Wednesday's 250-point gain. And both saw advancing issues near 2-to-1 versus those declining, not blowout numbers but decent. It wasn't quite clear why the strength just as it wasn't quite clear why Thursday's weakness. Perhaps most disturbing about Thursday's weakness is it met our criteria for a bear market – they sold our stocks, the commodity stocks. One day is just that, but this could mean we've entered a new phase of the bear market. The better than 4-to-1 declining issues also suggests a seeming new urgency to sell. This is the way markets go. Bonds have been weak for a while now. It's not as though we don't know rates are going higher. Sometimes things just don't matter until they do.

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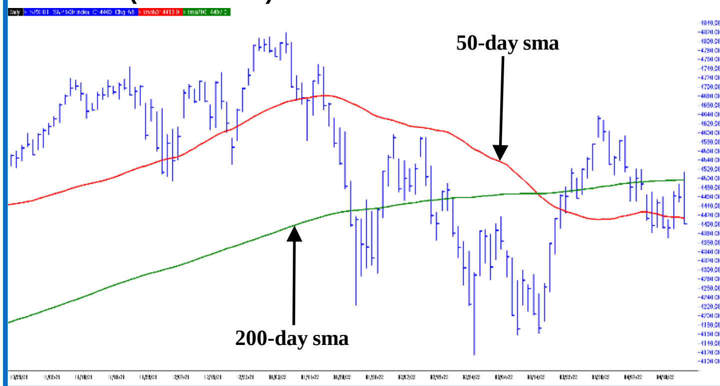
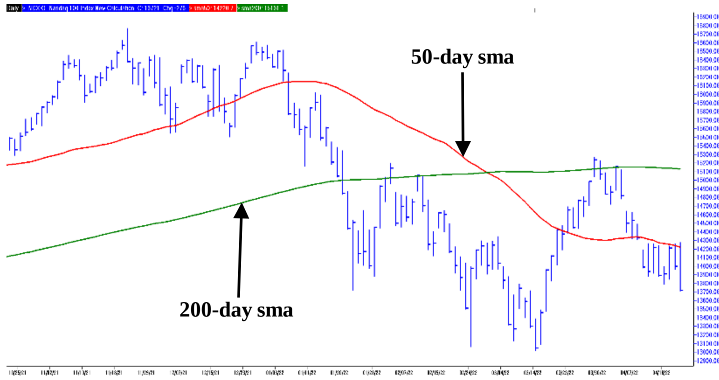
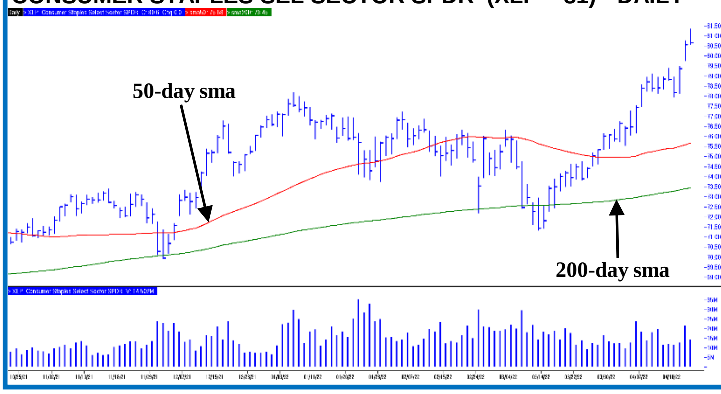
S&P 500 (SPX – 4390) – DAILY



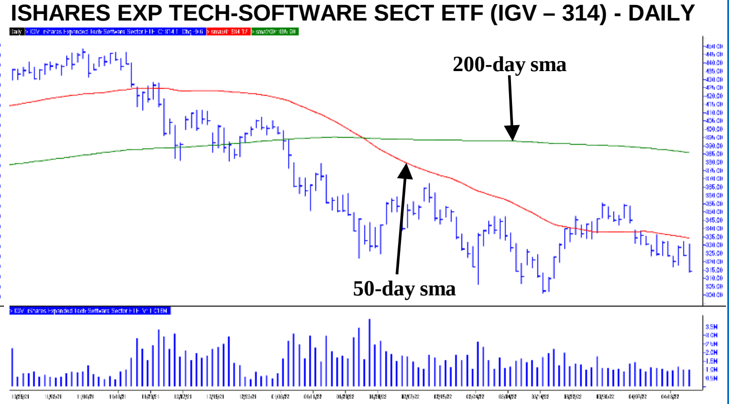
NASDAQ 100 (NDX – 13720) – DAILY



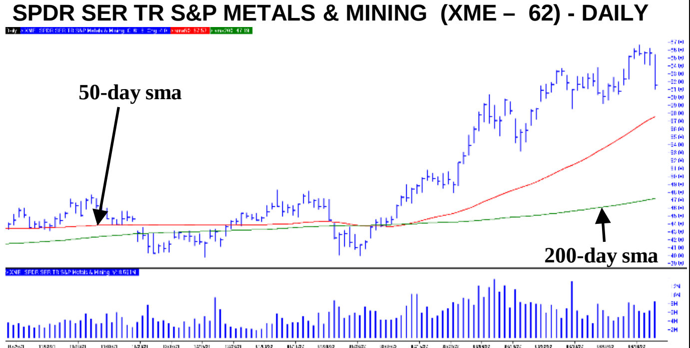
CONSUMER STAPLES SEL SECTOR SPDR (XLP – 81) - DAILY



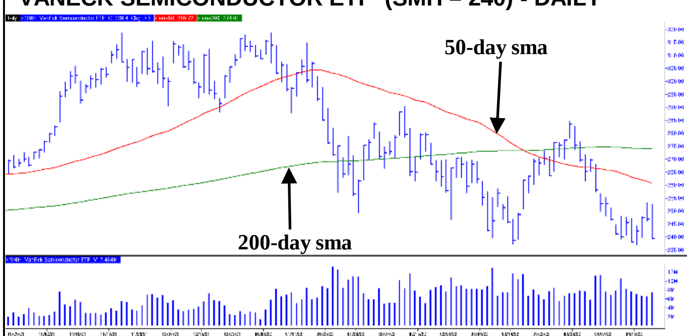
ISHARES EXP TECH-SOFTWARE SECT ETF (IGV – 314) - DAILY



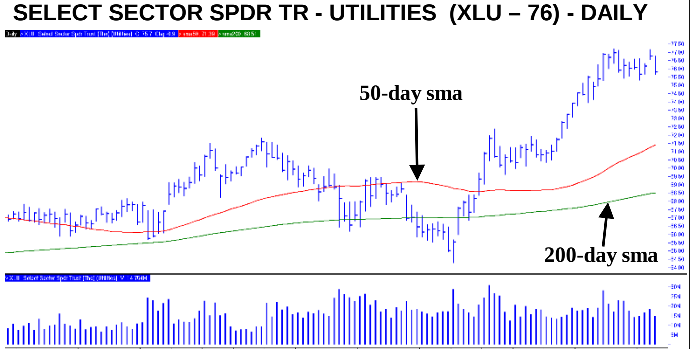
SPDR SER TR S&P METALS & MINING (XME – 62) - DAILY



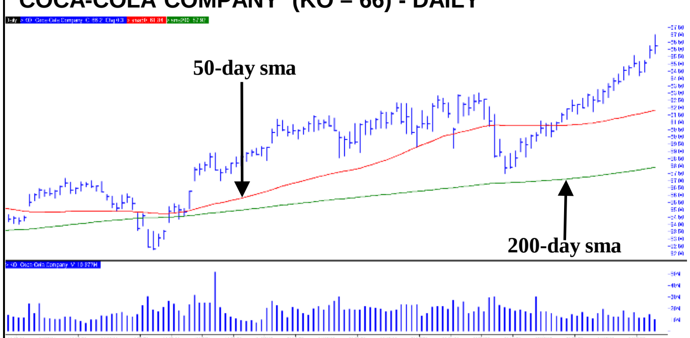
VANECK SEMICONDUCTOR ETF (SMH – 240) - DAILY



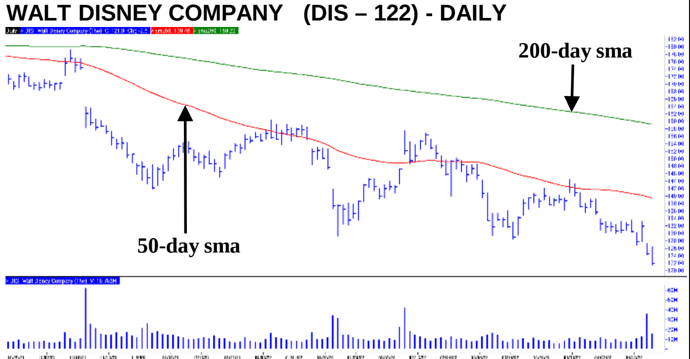
SELECT SECTOR SPDR TR - UTILITIES (XLU – 76) - DAILY



COCA-COLA COMPANY (KO – 66) - DAILY



WALT DISNEY COMPANY (DIS – 122) - DAILY



ETSY INC (ETSY – 102) - DAILY