Wellington Shields

EQUITIES PERSPECTIVE

May 6, 2022
DJIA: 32,997

Bad news is good news … in bear markets. Bad news induces selling, and getting the selling out of the way is how lows happen. When it comes to the overall market, it seems opinions follow price. When markets go up, so does the bullishness, and that's probably true for individual stocks. As for weakness, that seems different. Investor tolerance for weakness is surprising but let the news change, give them a reason to sell, and they often do. Likely it's the built-up frustration that's behind the sale, new bad news being just the excuse. The market already has discounted bad news and with the last spate of selling, like that on the invasion news, then moves higher. Market lows literally are a give-up event. Bad news is just a cover to do what sellers have been wanting to do. Investors would rather be wrong in a crowd than right on their own. How else would you explain Cramer?

Given the focus on the Fed, China doesn't seem in the forefront of anyone's attention. Yet the country's rapidly depreciating currency and COVID lockdown present the possibility of a Chinese shock to global growth. The currency recently dropped an amount equal to that which sparked months of near crisis conditions in the world markets. Aside from the negative implications of the currency depreciation there's also the issue of COVID. COVID in China is now widespread but what most don't know is the numbers from Bank of America show cases rising in 20 different provinces that account for three-quarters of China's GDP. These issues haven't been completely ignored as the CSI-300, covering the biggest companies in Shanghai and Shenzhen recently hit a two year low. As we suggested when it comes to our own market, lows are about bad news and the selling that comes with it. For the Shanghai only 4% of stocks are above their 10-day average, 6% are above the 50-day average and 12% are above the 200-day average. Some 82% of stocks are at one-month lows and 70% or at three-month lows, according to SentimenTrader.com.

We don't know that we'll see those Shanghai numbers. These sort of numbers are not carved in stone and, in any case, it's not always about perfection. Still, we doubt when it comes to stocks above the 200-day that the recent 36% is going to get it done. For our market something south of 20% is more of the historical norm. Another sign of downside washout involves volume, what they call 90% down days – days when 90% of the day's volume is in declining stocks. Lows most often involve a few of these, and they need a 90% up volume day to confirm. If stocks are truly washed out, they should move up with relative ease. We arguably have seen a couple of these or at least a couple of close days. So no compression in stocks relative to their respective moving averages, and no volume washout, there still seems more bear ahead. Then too, bears don't move in a straight line, as we're seeing this week.

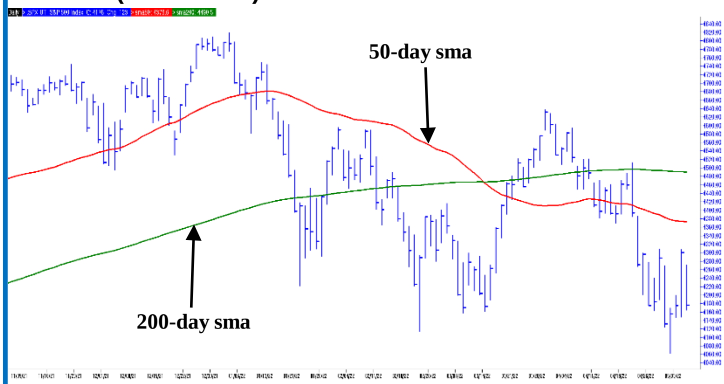
Typical of bear markets is they get to everything. So getting to even the sacred like Amazon (2328) and Apple (157) is perversely a good sign – another inducement to sell. Rallies in bear markets produce their own perversity. Down the most turns to up the most, relative strength turns to weakness – Microsoft (277) outperforms while Hershey (224) turns weak. Weakness resumes, that pattern again reverses. Hershey, by the way, is the far better chart here and that could persist. Commodities stocks across a broad spectrum took a hit a week or so ago, worrisome since they have been the market's leaders. Oil shares have regrouped and look higher, Nat Gas already is at new highs. Want to hedge up gassing up, buy a little Valero (126). Energy started the year in a leadership position and history suggests it will end the year that way.

Wednesday's rate hike rally reminded us of the invasion rally. Both were a little perverse – rally on war and rally on higher rates. In both cases, the bad news had seemed pretty much anticipated and, therefore, discounted. And, indeed, Wednesday's was a better than good rally. It was the most positive reaction to any Fed move in 40 years, and more importantly A/Ds were better than 4-to-1up, and up volume near the Holy Grail of 90%. Then, too, we have pointed out many of the best one day rallies happen in bear markets. And other big rallies following Fed moves have had their problems. The key in all of this is follow through. And Thursday's weakness made painfully clear a lack of follow through. So it's back to looking for more washout numbers, more compression in stocks above their relevant moving averages, and better follow through. Hardly a silver lining, but the last two days may help get there faster.

Frank D. Gretz

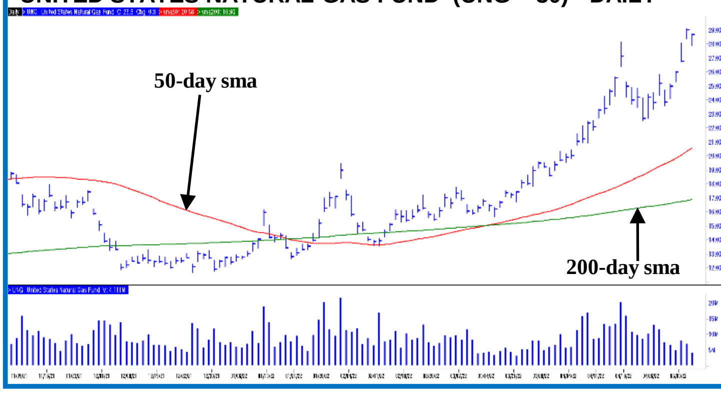
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 4147) – DAILY

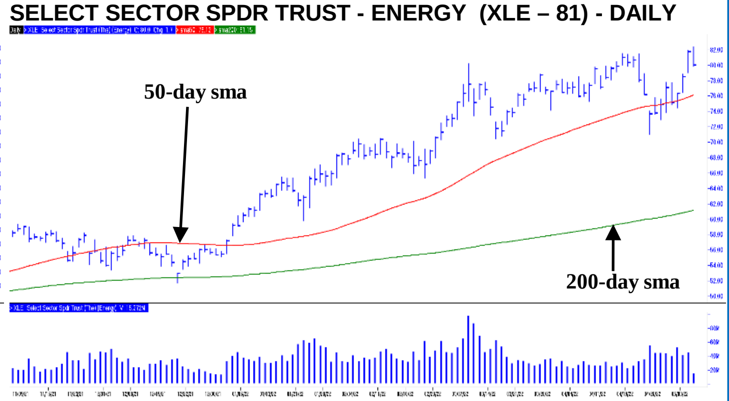


NASDAQ 100 (NDX – 12850) – DAILY

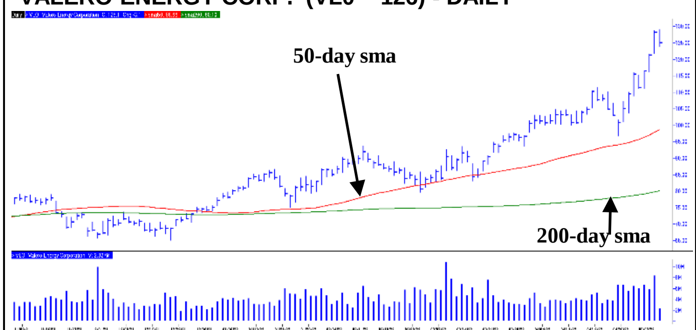
UNITED STATES NATURAL GAS FUND (UNG – 30) - DAILY



SELECT SECTOR SPDR TRUST - ENERGY (XLE – 81) - DAILY

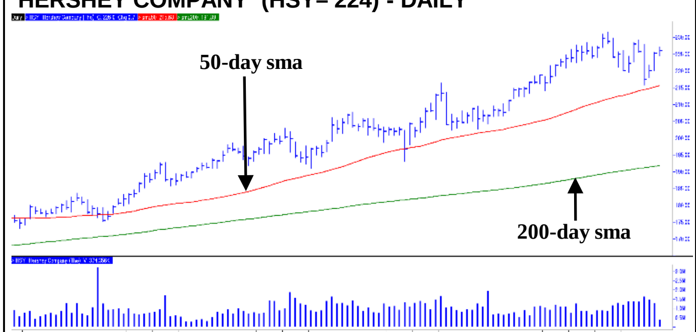


VALERO ENERGY CORP. (VL0 – 126) - DAILY

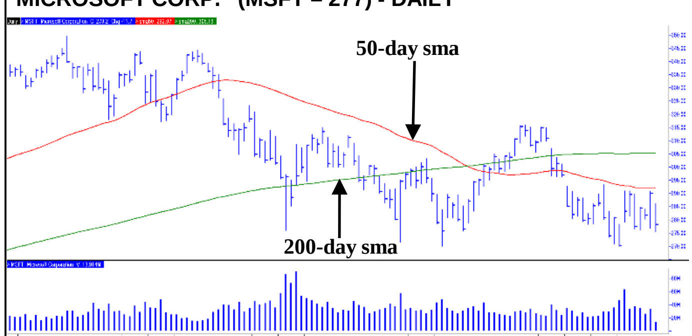


CHENIERE ENERGY INC. (LNG – 143) - DAILY

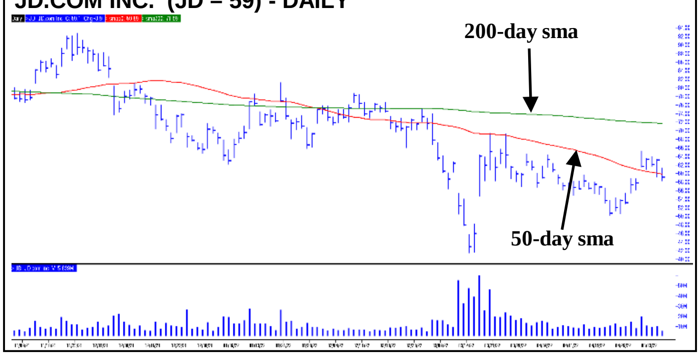
HERSHEY COMPANY (HSY– 224) - DAILY



MICROSOFT CORP. (MSFT – 277) - DAILY



JD.COM INC. (JD – 59) - DAILY



KELLOGG COMPANY (K – 70) - DAILY