Wellington Shields

EQUITIES PERSPECTIVE

June 10, 2022
DJIA: 32,272

A bear market rally… isn't that how every bull market starts? We agree any strength in coming weeks is likely a bear market rally, but we are struck by the seeming universality of the call. As such it seems one based on the crummy fundamentals – record inflation, rising rates, a war, the pandemic, the China rivalry and so on. What's to like? Then, too, that's why the S&P has had a 20% decline and the average stock even more. The news is never good at a low, and that's how stocks become washed out/sold out. And it's selling that makes a low. We're just not sure stocks are bear market sold out. Stocks above their 200-day only got down to 24% versus a more typical 18%. And the bear market is unwinding five or more bubbles, something that seems unlikely complete in just a five month decline in the S&P. Then, too, they do seem washed out enough for more rally, maybe even enough to question, it's a bear market rally.

Remember global investing? How's that going? Yet here we are with an office full of globes, looking more vintage all the time. Or how is diversification working for you? It has been a tough year, even for those diversified. As an example, Ruffer LLP looks at returns from a range of 11 different global indexes of stocks and bonds, including the S&P, the Russell, the 30 Year Treasury, the MSCI World Index, and so on. The first quarter of this year was the first in more than three decades none of them gained. Duncan MacInnis of Ruffer has called this the illusion of diversification – the balanced portfolios were not balanced. The diversification turned out to have higher cross asset correlations than thought. They were all subject to the same problem, the problem being inflation and the pressure it put on rates. That has had a negative effect on everything except inflationary beneficiaries like oil and commodities generally.

Bloomberg's John Authers argues this pattern of rising rates and rising commodities can't keep going on. Were commodity prices to continue higher it would become that much more difficult to contain inflation. And higher prices would stifle demand, as would higher rates. All too true though, again, it's about the timing. Argue as you might what a peak in oil prices might look like, so-called fair value is likely a poor guide. Sentiment or psychology likely will play a bigger role. In the summer of 2008, in the midst of that bear market, it wasn't until you started to hear of $150-200 that oil peaked. We don't think we're quite there yet. And back then there was plenty of speculation. You can't exactly call oil stocks undiscovered, but unlike back then they're not exactly parabolic either. And there's a bit of an exogenous factor this time around, oil this time around is still only about 4% of the S&P by market cap.

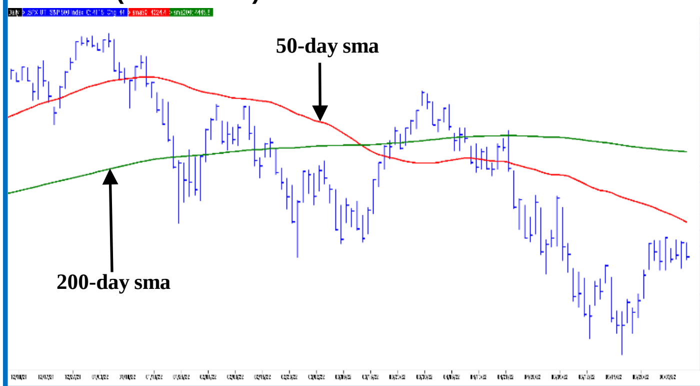
The market for now is both good and bad. The good is stocks have stopped going down. By that we don't mean the averages, we mean literally most stocks. A few weeks ago nearly half of NYSE and NAZ stocks reached 12-month New Lows. This past week the number was a fraction of that. Surprisingly, there were actually more NYSE new highs versus New Lows last week, unusual in a bear market. The Advance-Decline Index, another proxy for the average stock, reached a low May 12 and held against lower lows in the Dow and the S&P. These positive divergences, even those relatively minor, often can be significant. It's opposite the pattern back in December and January when the averages moved to new highs against weakness in the A/D's. The bad news is that holding up isn't going up. Other than the few good days before Memorial Day, and they were good days, the market has been unable to put much together on the upside.

So missing is the MO – not Altria, upside momentum. Tuesday's rally was unimpressive, except for its reversal aspect. And no follow-through. To borrow from the movie line, it's time to show me the upside. Meanwhile, you would be applauding rather than crying at the pump if you owned a little Valero (143) or one of the other refiners. Then, too, any food stock would leave you crying all around, despite higher prices. Go figure. In early January we published a list of stocks in long-term uptrends. The idea of the list being these are stocks you want to own when they give you a chance. In the subsequent five months of bear market they've given you a chance, and then some. We prefer to buy stocks when they're above their 50-day moving average and there are a few from the list that fall into that category – Adobe (426) and Estee Lauder (259) have had big declines and are above the 50-day. Accenture (295) and Intuit (401) also have had significant declines, and are just below their respective 50-day averages.

Frank D. Gretz

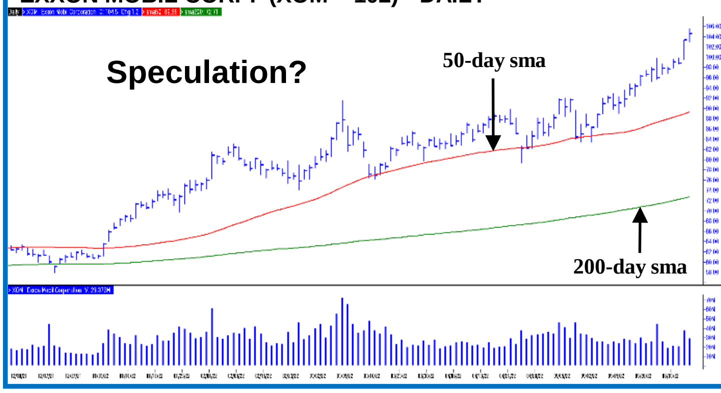
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 4017) – DAILY



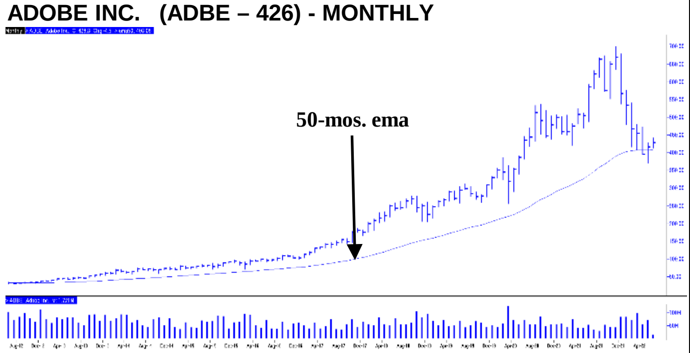
NASDAQ 100 (NDX – 12269) – DAILY

EXXON MOBIL CORP. (XOM – 102) - DAILY



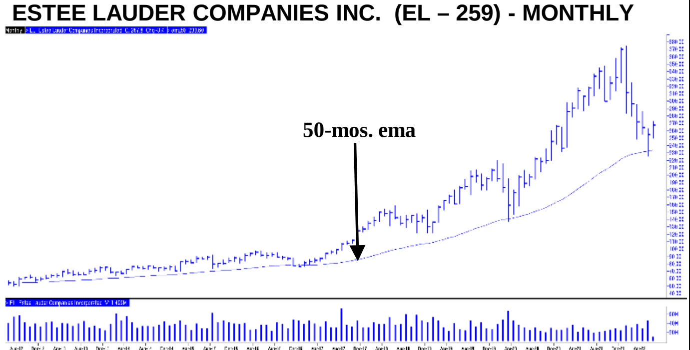
PHX MINERALS INC. (PHX – 5) - DAILY

ADOBE INC. (ADBE – 426) - MONTHLY



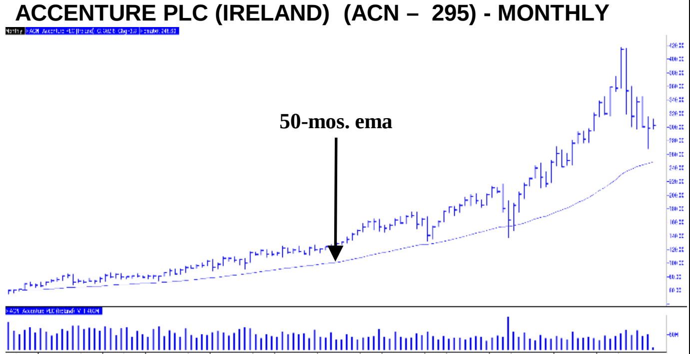
ADOBE INC. (ADBE – 426) - DAILY

ESTEE LAUDER COMPANIES INC. (EL – 259) - MONTHLY



ESTEE LAUDER COMPANIES INC. (EL – 259) - DAILY

ACCENTURE PLC (IRELAND) (ACN – 295) - MONTHLY



ACCENTURE PLC (IRELAND) (ACN – 295) - DAILY