Wellington Shields

EQUITIES PERSPECTIVE

July 15, 2022
DJIA: 30,630

You can summon the witches of the deep… but will they respond. Shakespeare wondered, and we have begun to do so as well. For a time now the market has seemed set up to rally, but no response. The weakness this year has been about the contraction in P/Es, which some time ago we suggested would be temporary. The contraction has been about the decline in prices, while earnings seemed sure to follow. Wall Street analysts' lowered price targets and earnings downgrades for stocks in the S&P jumped to over 500 in the past week, according to SentimenTrader.com. Of course downgrades have been going on for months, but not to this degree. Perhaps there's a more acute fear of this earnings season. There's a limited sample size here, but similar period of analyst panic have coincided with market lows. Yet another reason to expect the market to rally, but will it respond?

They say the market runs on greed and fear. Actually the market runs on trends, greed and fear are important in recognizing when trends may change, and sometimes to what degree they might do so. The end to downtrends has nothing to do with buying, it's all about getting the sellers out of the way. And when do sellers really sell, they sell when they're scared, even panicked. There is a relatively obscure measure for this called the Citi Panic Euphoria Index, and can be found in Barron's. While the calculation is not known, the composition includes the usual suspects, options trading, short selling, fund flows and the like. In the early part of this year this measure reached a new high, even taking out the high of 20 years ago during the dot-com bubble. The higher the model the more investors are euphoric, and lower returns can be expected. Low values, particularly below zero, suggest panic and higher returns can be expected. The recent reading was -0.07, a level which historically has resulted in higher prices over the next 3 to 12 months.

Evidence of fear and panic is important. That translates into selling, and we've seen evidence of that in the many 90% down volume days. We've yet to see evidence that the selling is completed – a 90% up volume day. Most of us think that's important, and historically it has been. However, we have begun to wonder just a bit. There could be too many of us on the same side of that boat, and mechanically it's simply difficult with the commodity stocks under the pressure they're under. Meanwhile, most stocks have stopped going down and areas like drugs and biotechs have performed quite well. On the NYSE, Advance-Decline numbers have been lackluster, no doubt due to the commodity stock weakness. Meanwhile, on the NASDAQ the A/D numbers have outperformed – commodities are lacking there while biotechs are plentiful. This switch in the Advance-Decline numbers is relatively rare. Whatever the reason, the poor NYSE A/D numbers are always a concern.

While even the good days haven't been that good, a couple of areas have been. Standing out there has been Pharma, a term typically preceded by BIG. However, it cuts a pretty broad swath these days, as evidenced by the Small Cap Healthcare ETF (PSCH-142). And the Healthcare Provider ETF (IHF-258) also has moved above its 50-day. Humana (473) more than the obvious United Healthcare (502) stands out there. Many food stocks also have improved, thank you General Mills (75), though that can be taken as just defensive and not such a good sign. Still, we'll take any improving charts, especially in a market which seems unable to get out of its own way. We often mention the 50-day moving average which seems particularly important since so few ETFs are above that measure. However, it's certainly no guarantee of success. Microsoft (254) recently nudged above the 50-day and took a particularly hard hit on Tuesday to fall back again. The same was true of Thermo Fisher (526). Both are among those stocks in long-term trends, making the action disappointing.

This market has been about correcting the excesses of the bull market. When it comes to excesses/bubbles there have been several, but our favorite remains giving money to someone to do whatever - the SPACS. The real poster child for excess, however, might be Cathie Wood and her ARK ETF (ARKK-43), which is about growth/innovation at any price. And it may be the poster child for the market now. ARKK put in a low in mid-May, tested that low in mid-June and in recent days even has managed to move back above its own 50-day. A look at the chart, however, says at all – it has stopped going down, but it's not going up. We believe in two types of "stops," price and time. Even when the price doesn't go against you, given enough time it probably will. This market may need another washout phase of sorts and a break in ARKK should be predictive. Or did the CPI selloff serve that purpose?

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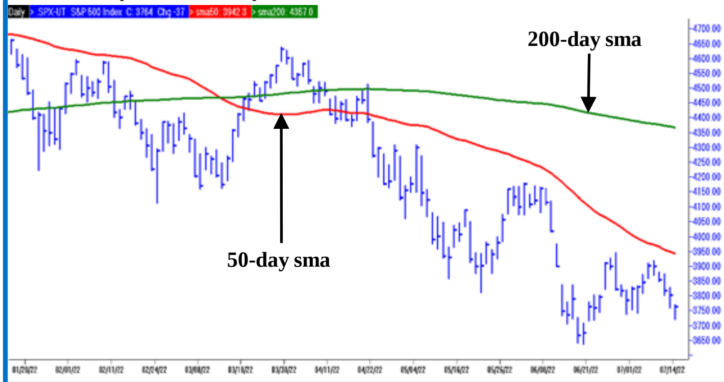
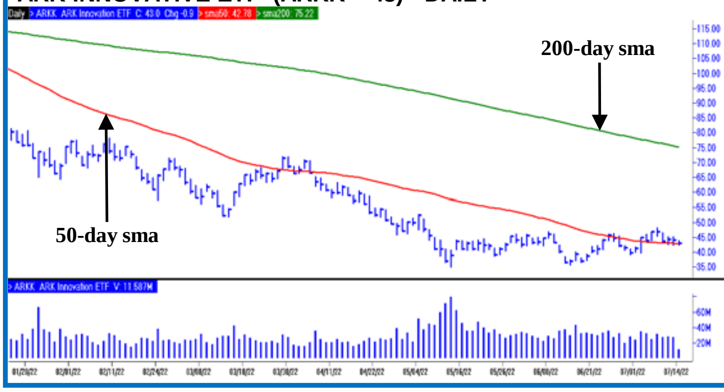
S&P 500 (SPX – 3790) – DAILY

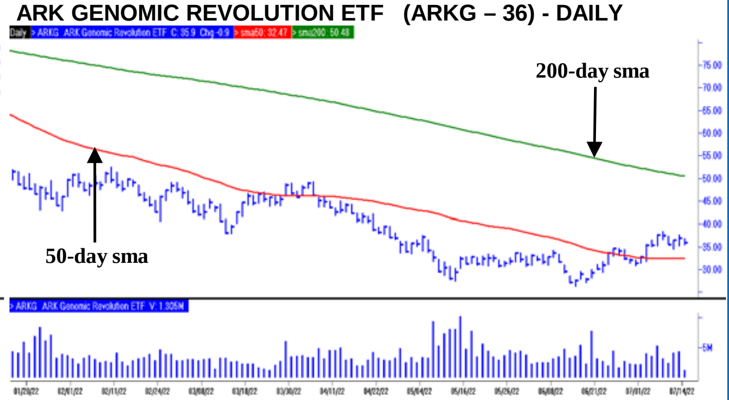


NASDAQ 100 (NDX – 11768) – DAILY

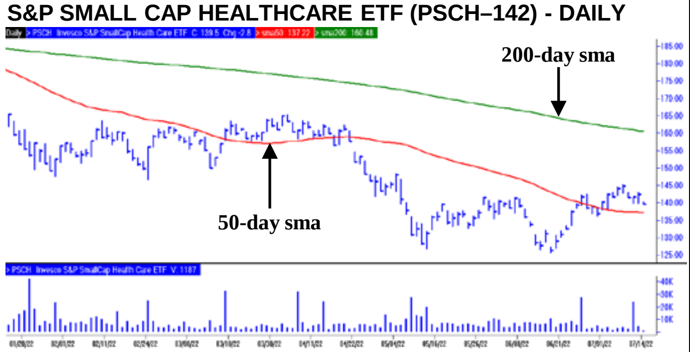
ARK INNOVATIVE ETF (ARKK – 43) - DAILY



ARK GENOMIC REVOLUTION ETF (ARKG – 36) - DAILY

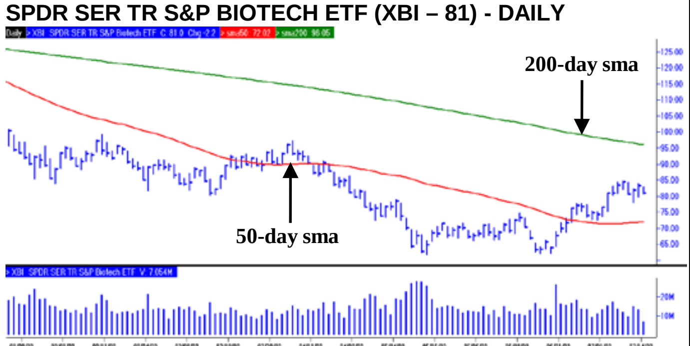


S&P SMALL CAP HEALTHCARE ETF (PSCH–142) - DAILY

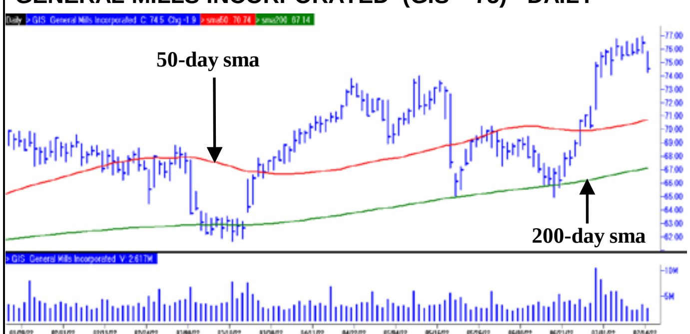


ISHARES US HEALTHCARE PROVIDERS ETF (IHF–258)-DAILY

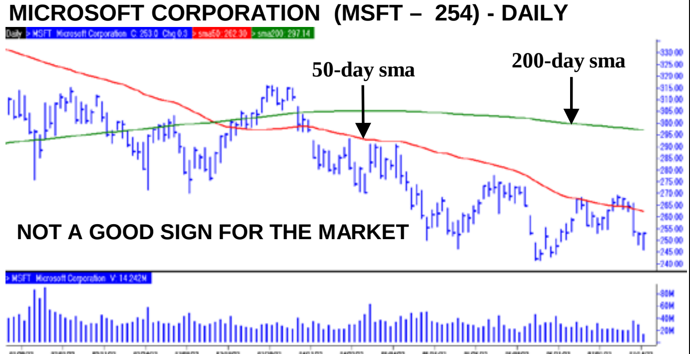
SPDR SER TR S&P BIOTECH ETF (XBI – 81) - DAILY



GENERAL MILLS INCORPORATED (GIS – 75) - DAILY



MICROSOFT CORPORATION (MSFT – 254) - DAILY



SELECT SECTOR SPDR TR - ENERGY (XLE – 67) - DAILY