Wellington Shields

EQUITIES PERSPECTIVE

August 26, 2022
DJIA: 33,294

Four-to-one and six-to-one down ... sounds like a shot across the bow. Those were Advance-Decline numbers last Wednesday and Friday, followed by another five-to-one down day on Monday. We know we said the bad down days aren't the problem, but these kind of numbers get our attention. A week earlier we had seen a couple of five-to-one up days. It's rare to see things change so quickly. Through Monday the Dow had lost over 1000 points in four days, while the Advance-Decline Index lost 5000 net advancing issues. That's a lot to make up and it's important that it be made up. A weak rally, a few bad up days, and we will be left with a divergence – higher highs in the averages and lower highs in the A/D index. Sufficient unto the day, but divergences rarely end well. It's no time for bad up days.

It's not exactly raging, but the debate goes on – new bull market or bear market rally? If you believe it the latter, you're not too happy having missed the 17% rally in the S&P, and more in the Naz. But to answer the question – who cares. Back in June there was ample evidence stocks were washed out. And the rally has turned out to be quite credible, call it what you like. The S&P 500 is yet to reach a new high but an Advance-Decline Index of the 500 component stocks has made a new high. This configuration has been followed by a new high in the S&P Index itself every time – more of the average stock leading the stock averages. Yet, this time doesn't have to be different for things to go wrong. What could go wrong is simply a change in the pattern, not just for the S&P and its stocks, but for the market as a whole. Bad up days mean a narrowing market, and narrowing markets lead to corrections. Would you call down 10% a test of the low or a correction in a bull market, and does it matter.

Energy shares have had a good year, though not exactly one that could be called linear. As measured by the SPDR ETF (XLE-84), the shares are up some 45% this year, including a little 26% setback from their June peak. Having tested the 200-day a few times, earlier this month most recently, the move above 80 seems to have reestablished the overall uptrend. At still only about 4% of the S&P by market cap, the stocks aren't exactly over owned, despite their 9% share of S&P earnings. It also seems worth noting the stocks are outperforming crude, which, based on the US Oil Fund (77) is in a trading range below its 50-day. In our experience, when it comes to commodity versus stock disparities, the commodities more often than not follow the equities. A similar pattern to that of XLE may be unfolding in the SPDR Metals and Mining ETF (XME-53) as it consolidates just above the 200-day. A move above 53 would suggest a resumption of the overall uptrend there.

Peloton (11) could be the poster child for stay at home, and for its subsequent unwind. The stock rallied 20% Wednesday on news of its hook up with Amazon (137). We get the benefits but if you don't want a Peloton, does it really matter who's selling it? We don't mean to pick on Peloton, or for that matter, Zoom Video (86) which missed earlier in the week. And we won't even pick on ARKK (46) which is loaded with this stuff. ARKK, however, has become interesting analytically. The ETF itself was the poster child for the excesses of stay at home. When it put in its low on May 11, well ahead of the S&P low June 16, that seemed encouraging – the excesses had been wrung out. The near 50% bounce off the low also seemed impressive, though that retraced only a few percent of the stock's decline. More importantly, the ETF now is back below its 50-day, not a good sign for it and perhaps the market as well.

Finally it's showtime! Of course by the time you read this, it will be showtime dissecting time. We find it hard to believe anything said will differ greatly from what the rest of the crew have been saying for a while now. And historically these get-togethers have not been market movers, though most have not had the hype of this one. The real point, however, is it doesn't matter what Powell had to say, what matters always is how the market reacts to what he said. The news doesn't make the market, the market makes the news. The market is entitled to the recent spate of weakness we've seen, it's just that we didn't like the character of the weakness. Thursday's 3-to-1 up day was a shift again, and more of what we would like to see.

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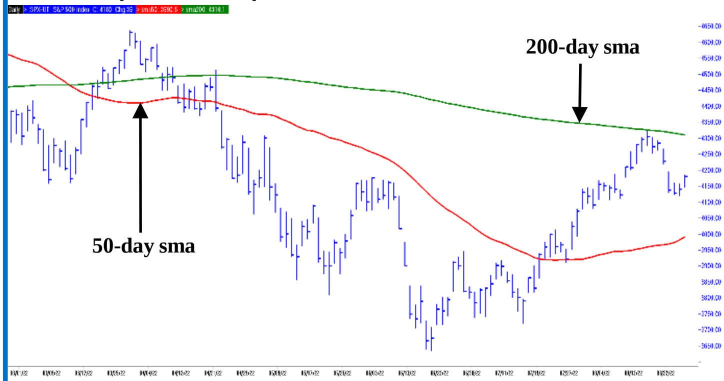
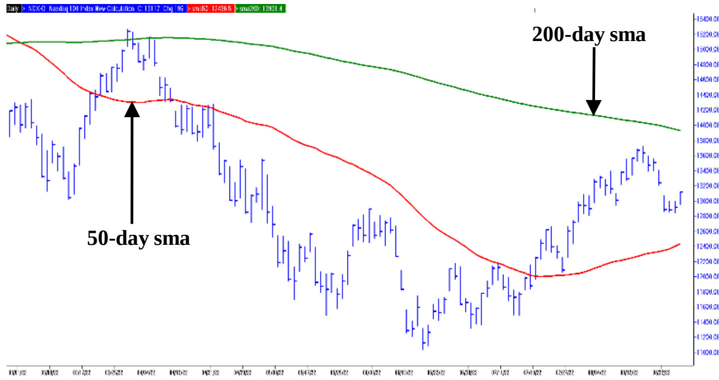
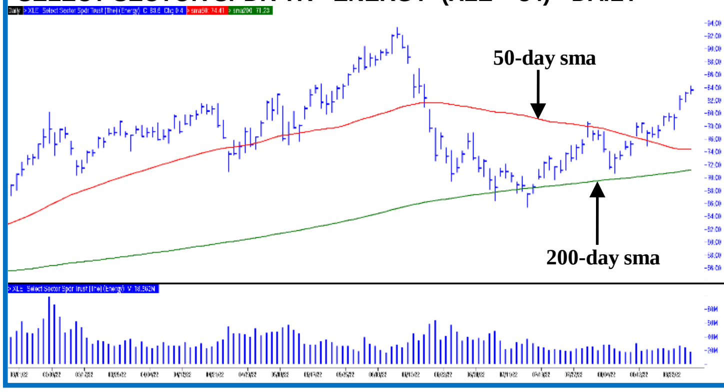
S&P 500 (SPX – 4190) – DAILY



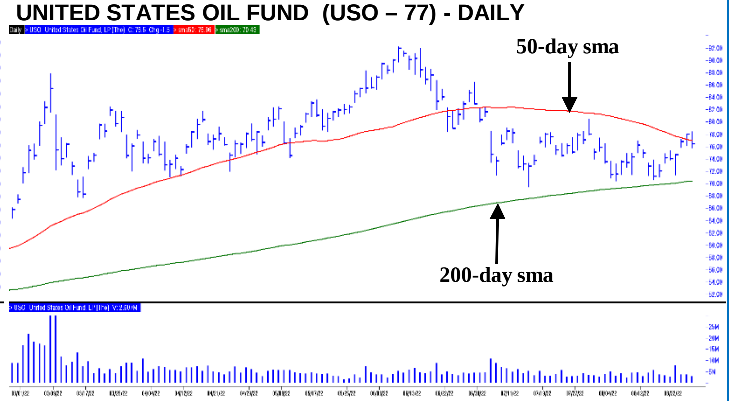
NASDAQ 100 (NDX – 13144) – DAILY



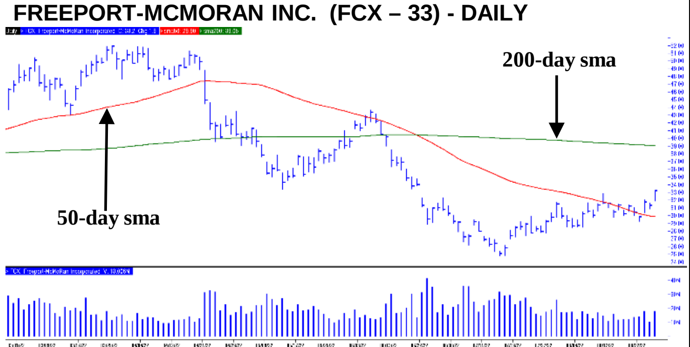
SELECT SECTOR SPDR TR - ENERGY (XLE – 84) - DAILY



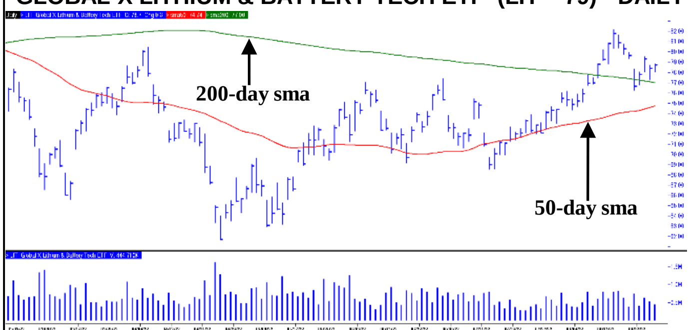
UNITED STATES OIL FUND (USO – 77) - DAILY



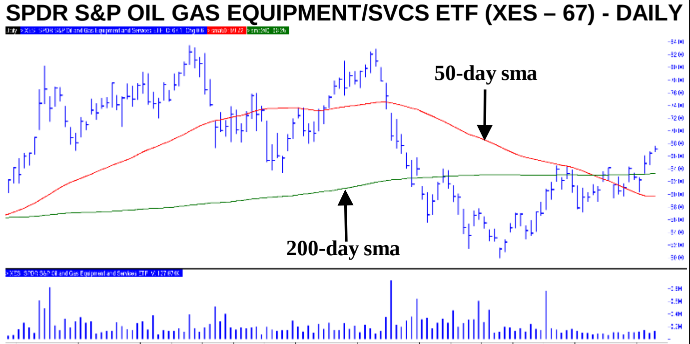
FREEPORT-MCMORAN INC. (FCX – 33) - DAILY



GLOBAL X LITHIUM & BATTERY TECH ETF (LIT – 79) - DAILY

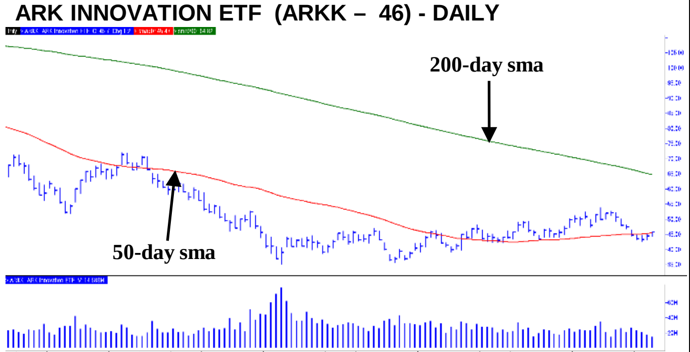


SPDR S&P OIL GAS EQUIPMENT/SVCS ETF (XES – 67) - DAILY



VALERO ENERGY CORPORATION (VLO – 123) - DAILY

ARK INNOVATION ETF (ARKK – 46) - DAILY



PELOTON INTERACTIVE, INC. (PTON – 11) - DAILY