Wellington Shields

EQUITIES PERSPECTIVE

September 16, 2022
DJIA: 30,961

So who are you going to believe … the numbers or your eyes? The numbers were almost compelling. Three consecutive days with 87% of stocks advancing last week. That's rare, having last happened after the low in March 2020. Then there's the percent of stocks above their 10-day average. That number cycled from fewer than 10% to more than 90% in a week. Another pretty much sure thing in terms of higher prices. So was Tuesday just our imagination? Did our eyes deceive us – wish our P&L had. It's one thing had the numbers been weak going into the CPI, a couple of "bad up days" or something. We like to think it's not the news that makes the market, it's the market that makes the news. Good markets can almost ignore bad news, this market certainly did not.

It has been a tough year including a tough year for the technical indicators. Going into Tuesday we had seen a multi-day buying spree – buyers were clearly in control. Tuesday's reaction to the CPI, however, was over the top. Selling pressure within the S&P was so severe that fewer than 1% of stocks in the index advanced. That ranks among the worst days in history. Still, all may not be lost. Markets have become more volatile and as we say about good up days, they're just one day. And there is some history to negative reactions to economic reports, including the CPI. Stocks tend to stay weak for a few days, which seems expectable. Over the next month or so they tend to rebound, so the history goes.

So this year has been riddled with technical false starts. Few times in history have the A/Ds been so positive leading into a day with such overwhelming selling pressure. There's always a risk in reading too much into one day, knee-jerk sort of reactions. Then too, the numbers say the report may have shifted investors' mindset. They now suddenly believe what the Fed has been screaming. And technically speaking, it's discouraging when markets have their chance to rally, their chance to ignore bad news, and fail to do so. That's what you get in bear markets. The good numbers did work in June, and though disappointing in the short term, the buying spurts have had a good record over a year's time. You just have to put up with the hassle in between.

Cramer likes to say there's always a bull market somewhere, an observation with which we tend to agree. In this market, however, that's a stretch. The closest thing we see is oil, and that at best is still in the correction from its June peak. Oil led out of the gate in January and for oil that typically implies a good close to the year as well. And oil still is only something like 4% of the S&P, not exactly over owned. The fact is, however, even the best of them like DVN (69) or the XLE ETF (80), are consolidating beneath those June highs. Recently turned best chart in energy is Cheniere (172), where the symbol LNG says it all. Green energy works as well, see for example, ENPH (312) or the Global Clean Energy ETF (ICLN-22) or the Invesco Solar ETF (TAN-85).

Despite what Tuesday's market would have you believe, the peak for US headline inflation remains intact – the highest level to date was still June. Meanwhile, the low in the S&P set that month also remains intact. Yet, everyone seems in a panic. Just imagine if inflation has peaked, stocks should rally. Research by Larson of Sanford Bernstein shows since the end of World War II, the S&P has averaged a decline of 5% in the 12 months before inflation peaked, and a 17% gain in the 12 months after the peak. The problem here, of course, these are averages. Meanwhile, this time around inflation is one thing, the Fed another. Powell's speech at Jackson Hole made clear the Fed's resolve to fight inflation. The recent strength had been based on the hope for some policy moderation.

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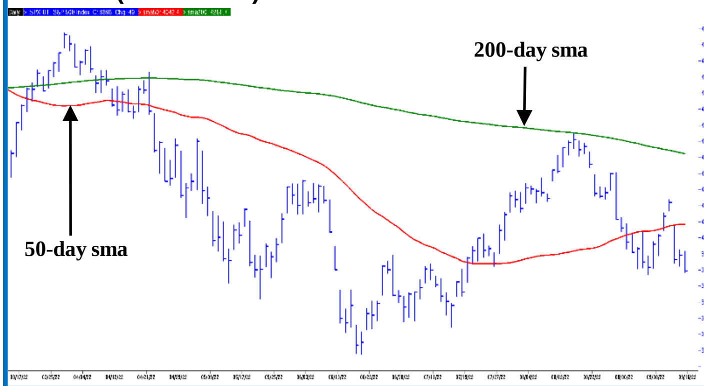
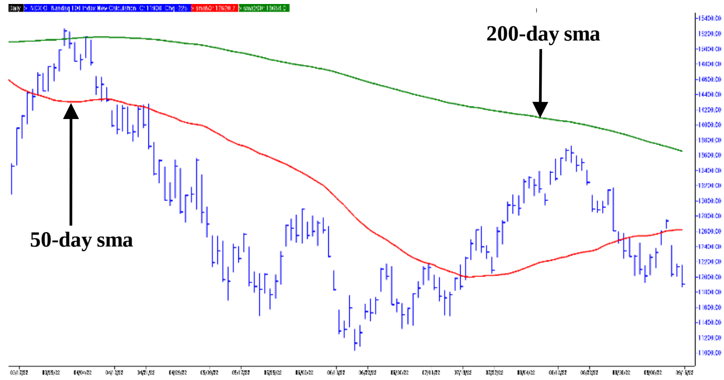
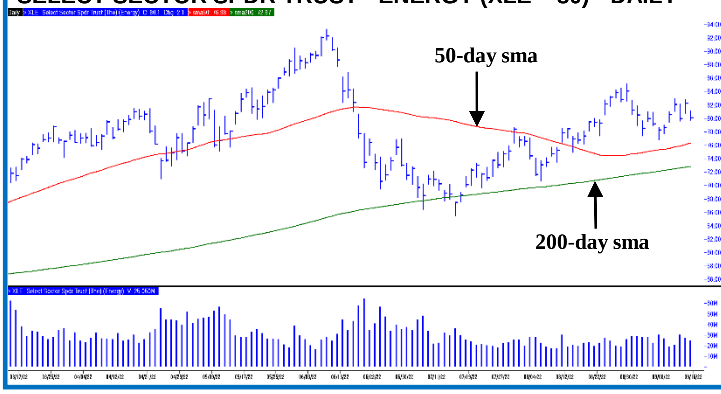
S&P 500 (SPX – 3902) – DAILY



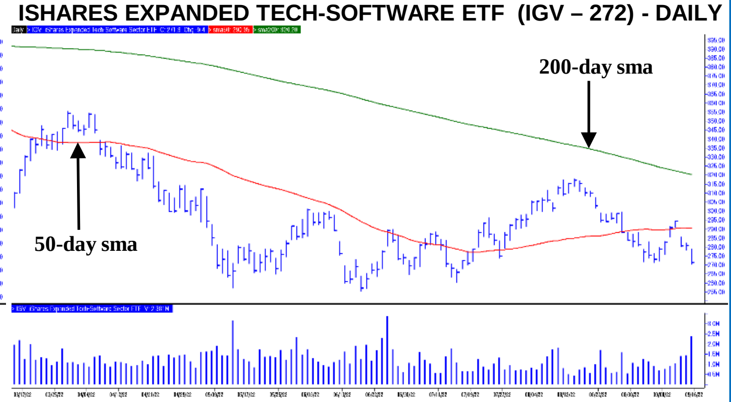
NASDAQ 100 (NDX – 11927) – DAILY



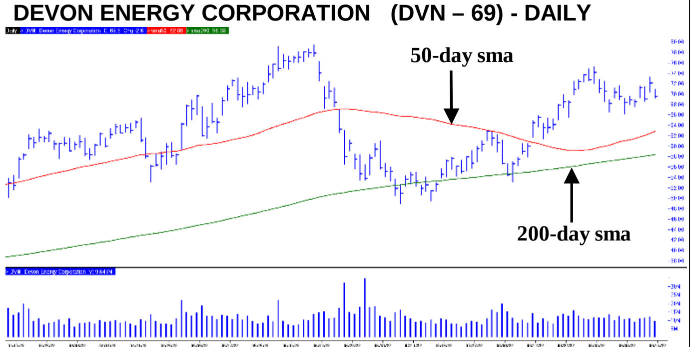
SELECT SECTOR SPDR TRUST - ENERGY (XLE – 80) - DAILY



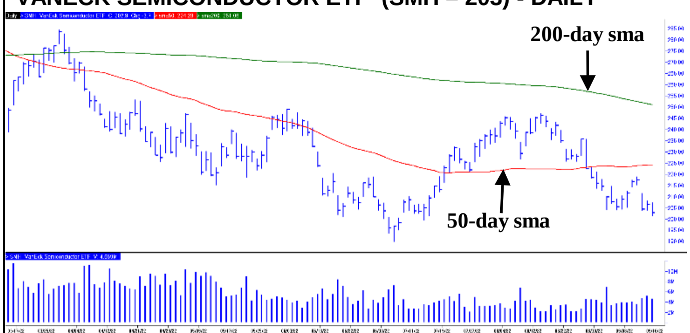
ISHARES EXPANDED TECH-SOFTWARE ETF (IGV – 272) - DAILY



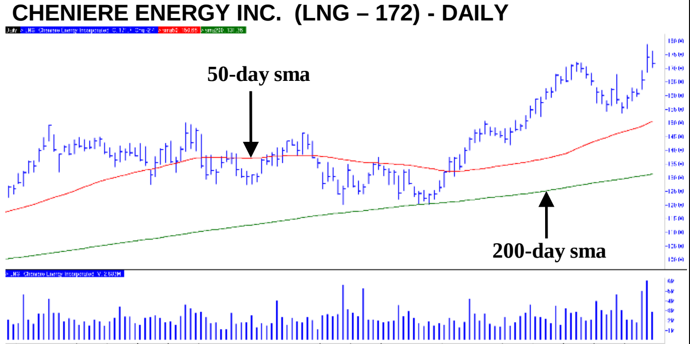
DEVON ENERGY CORPORATION (DVN – 69) - DAILY



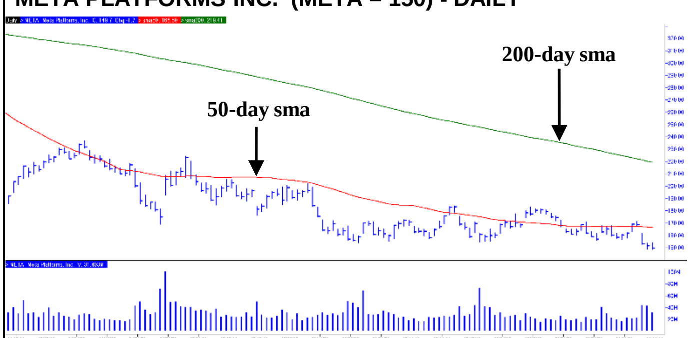
VANECK SEMICONDUCTOR ETF (SMH – 203) - DAILY



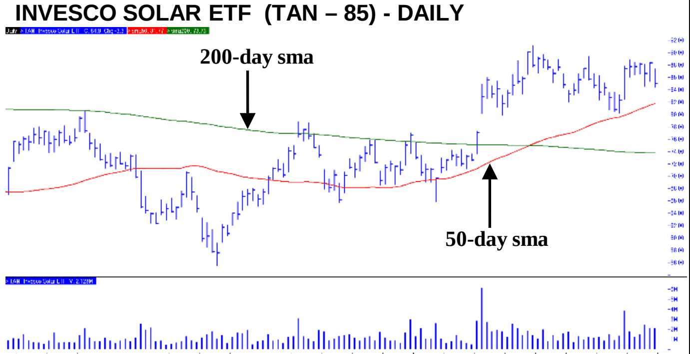
CHENIERE ENERGY INC. (LNG – 172) - DAILY



META PLATFORMS INC. (META – 150) - DAILY



INVESCO SOLAR ETF (TAN – 85) - DAILY



ADOBE INC. (ADBE – 309) - DAILY