Wellington Shields

EQUITIES PERSPECTIVE

October 21, 2022
DJIA: 30,333

If rainy days and Mondays get you down … how about those Fridays? As the week began, eight of the last nine Fridays saw lower closes. We consulted Freud for any insight into weekend phobias, but found only his usual quip about cigars. The consistent Friday weakness is one thing, more striking is the extent of the weakness. From August 18 through this past Friday the Dow had lost a total of almost 4400 points. Of that some 3500 points or almost 80% came on Fridays. So much for TGIF. If, indeed, this is about fear of the weekend and the news it might hold, it didn't seem well-founded – Mondays proved not all that bad. Over the years we have noticed the market sometimes gets into some hard to explain patterns. We remember when Fridays and Mondays were positively correlated, or when most of the gains came on Mondays and Tuesdays. We don't expect weak Fridays to persist, especially now that we've made the observation. Rather than fear Fridays, we would look to an up Friday as another overall positive sign for the market.

The calendar overall seems to favor the upside. October is not known as a wonderful month – we have just passed the October 87 crash anniversary. That said, many lows are made in October as early weakness is followed by rebounds. Since 1952 there have been five times the market has been 20% lower YTD in mid-October. Three of these times the market never went lower. In 1962, a year similar in pattern including a June low, the market fell a few percent in a few days and that was it. The outlier was 2008 which didn't bottom until March 2009. However, we do recall the semis put in the low in November, obviously well ahead of the low in the S&P. Perhaps most important, in each of these cases the market was higher one year later, according to SentimenTrader.com. While this study comes at it from a different perspective, many of the recent momentum surges suggest a similar one-year outcome.

In mid-June the market put in an interim low which carried some 15%, and most bear markets are interrupted by similar countertrend rallies. In the dot-com bubble bear market in 2000 and the financial crisis of 2008, you had five rallies in the S&P of 18% to 21% on the way to the bottom. In the great depression there were five rallies of more than 25% between the crash in September 1929 and the bottom in June 1932, all on the way to losing 86%. Even bear markets become temporarily sold out, even bear markets have their interim rallies. A couple of times in recent weeks the market had seemed set up for such a rally. Back on October 3 and October 4 we saw back-to-back days of 5-to-1 up, but no follow through. Six consecutive days of declines followed and the backdrop again seemed washed out, this time with another important positive – sentiment.

Last week's CPI number was disappointing. You can argue there is a distortion in the way housing is calculated, but the market found the number disappointing and that's what matters. While everyone tried to explain how the market was able to reverse and close 800 points higher, the only real explanation was on the news and down opening, the market had become sold out. Granted there was no follow through Friday, but there was on Monday. As much as the positive price action, however, the CPI may have pushed sentiment over the edge. The dollar volume of Put buying to open was triple that of Call buying, by far the most ever. The sentiment surveys can be helpful, but we prefer transactional data. Investors may say they're bearish while they are in fact fully invested. If you're buying puts, chances are you've done a lot of selling, and it's selling that makes lows.

It's important to keep in mind a market low doesn't mean an instant big new uptrend. There can be a process of backing and filling, testing as they say. The June low is a good example in that regard, the low was June 16 and the real start of the uptrend more like July 20. When markets make a low, most often the stocks down the most turn to up the most – there's that reflex or coil reaction. For the most part these are not where you want to be after that initial move. Leadership, the best charts seem to lie in healthcare, though they didn't do much for you this week. Energy is the real standout. It's not just that the stocks are up, stocks like Chevron (169) and Schlumberger (46) have nudged above their recent trading ranges. Meanwhile, the defense stocks had dramatic moves this week, hopefully on the numbers from Lockheed (444) and not worry of another conflict.

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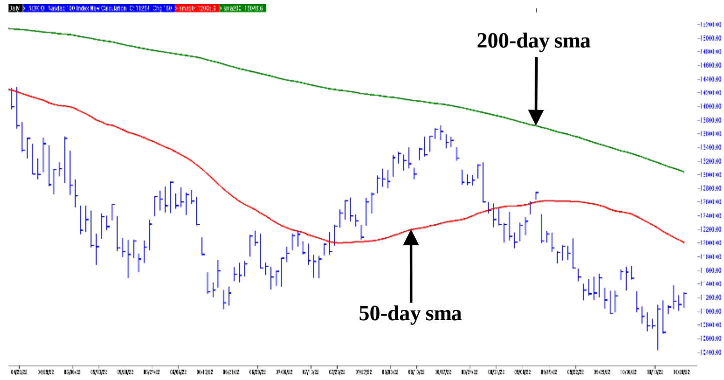
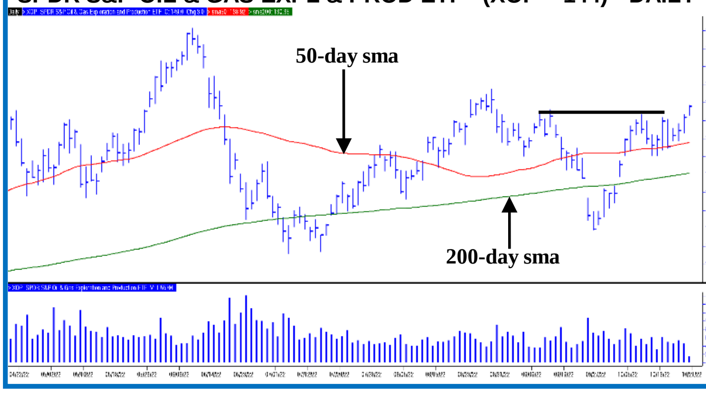
S&P 500 (SPX – 3663) – DAILY

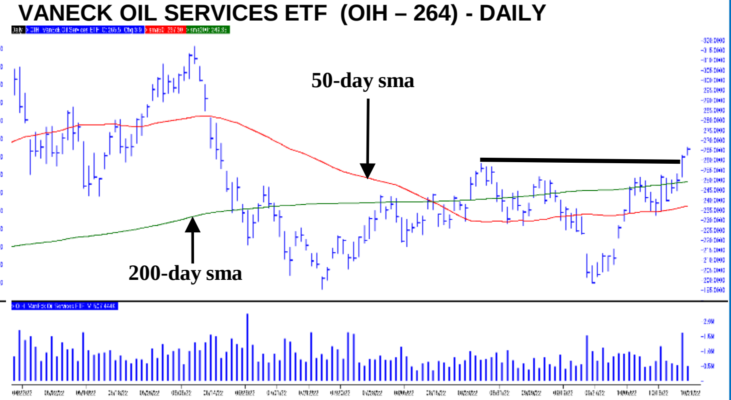
NASDAQ 100 (NDX – 11047) – DAILY



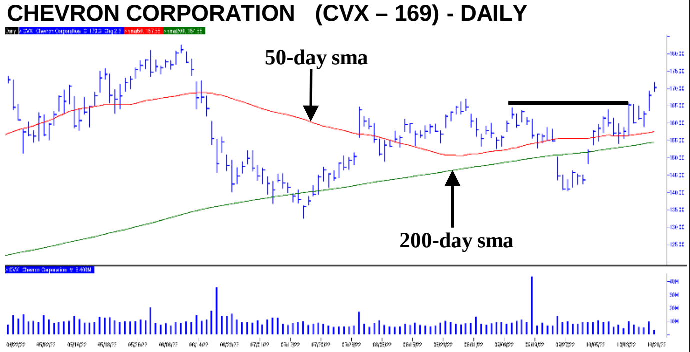
SPDR S&P OIL & GAS EXPL & PROD ETF (XOP – 144) - DAILY



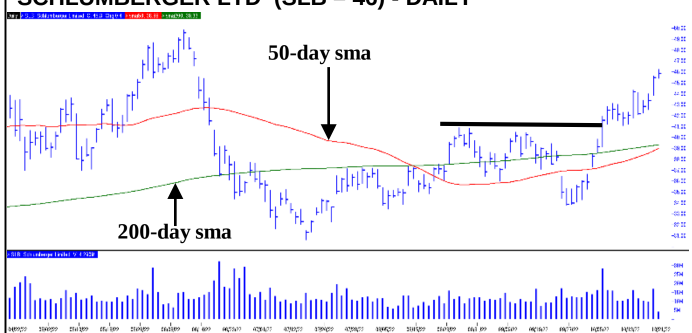
VANECK OIL SERVICES ETF (OIH – 264) - DAILY



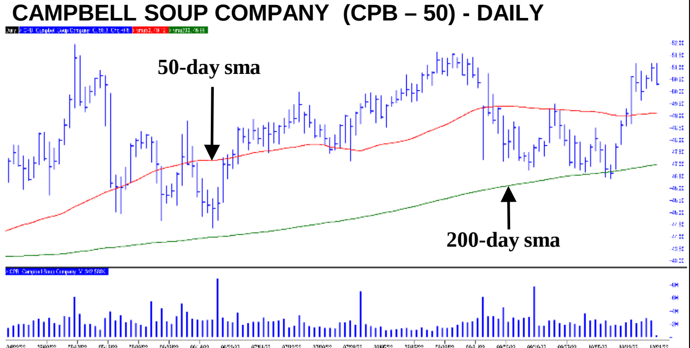
CHEVRON CORPORATION (CVX – 169) - DAILY



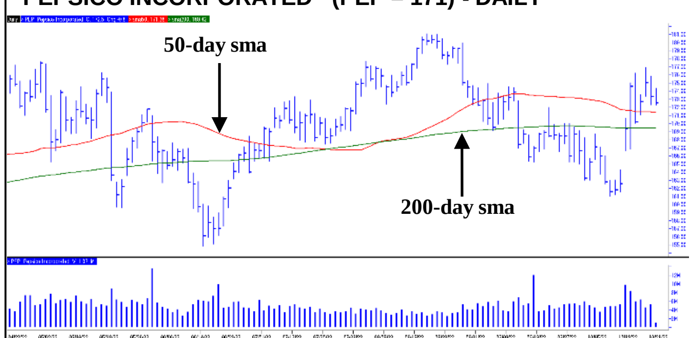
SCHLUMBERGER LTD (SLB – 46) - DAILY



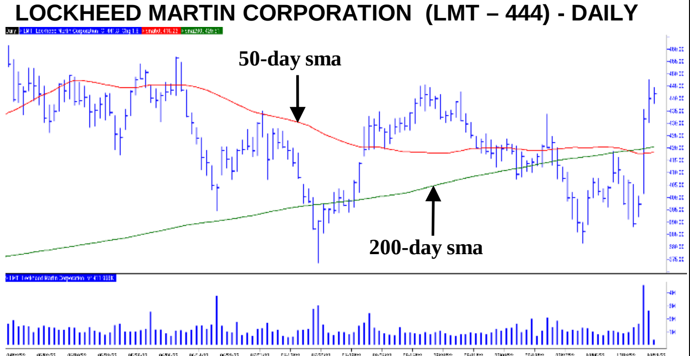
CAMPBELL SOUP COMPANY (CPB – 50) - DAILY



PEPSICO INCORPORATED (PEP – 171) - DAILY



LOCKHEED MARTIN CORPORATION (LMT – 444) - DAILY



CURTISS WRIGHT CORPORATION (CW – 161) - DAILY