Wellington Shields

EQUITIES PERSPECTIVE

October 28, 2022
DJIA: 32,033

Bad news …it doesn't have to be bad. After all, the market makes lows on bad news, not good news. It's bad news that induces selling, and it's selling that makes lows. Take that bad CPI number back on October 13, the S&P is up 10% since then. Then there was the day of the Russian invasion back in February when the market opened down big only to recover that afternoon and pretty much never look back. Many reasons were offered for the remarkable turnaround on the CPI number, but there's only one that really makes sense – stocks had become sold out. To put the day in context, the market had fallen the prior six consecutive days. And for a little more color, consider the dollar volume of option Put buying was triple that of Call buying, by far a record. If you were buying that many Puts, you've likely done a lot of selling. It's selling that makes a low, and leaves a vacuum of sorts for prices.

Is gold the new bitcoin? The much hyped Bitcoin Strategy ETF (BITO-13) is down some 60% this year. It hasn't exactly proven a store of value, and this with inflation everywhere you look. The best inflation hedge has been oil, and the stocks more than the commodity. Gold has had its moments but despite the long held view to the contrary, hasn't seemed moved by inflation. Then, too, it's hard to fit gold into a convenient theme. During the great depression a 10% position in Homestake Mining would have hedged the rest of your portfolio, and that period was all about deflation. Gold shares have stabilized and without question are improved. Of the 40 or so gold shares we follow most are above their 50-day average, and all of the silver miners are above their 50-day. The dollar meanwhile is below its 50-day, which should prove a tailwind for the precious metals.

Is China uninvestable? That's certainly the thought we had when those stocks opened on Monday, but we've been doing this long enough to know when even we have that thought, the worst is likely over. That's hard to imagine given what's going on, but for China this isn't the first time things have looked more than a little bleak. Chinese stocks endured a similar bout of selling in March, after which they rallied some 60% over the next few months. The stocks peaked in June, however, and most stocks traded to new lows. On Monday nearly 60% of Chinese Internet stocks traded at new lows, the fourth highest in 15 years according to SentimenTrader.com. There have been six other days when more than 55% of the stocks fell to a new low. Some big losses follow but all showed gains over the next six months.

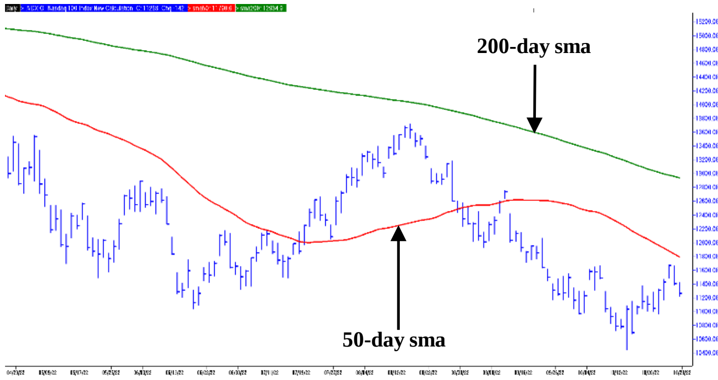
Three things to keep in mind here – oil, oil and oil. Then, too, late last week much of healthcare came to life, and there is much of healthcare. There are the big pharmaceuticals like Eli Lilly (356), the insurance guys like Humana (545), and the wholesalers like Cardinal Health (75). Finally, there's aerospace/defense. When you think about McDonalds (265) and Pepsico (179) punching near all-time highs, you can't exactly say strength is all that selective – different, but not selective. Similarly, Deere (395) and Caterpillar (212) were among the leaders Thursday. While no one was looking they had turned into more than respectable charts. Meanwhile, the go-to-stocks we all new and used to love, FANG, the Semis and Tech generally, are underperforming, to be kind. That the market has been able to ignore the action in these stocks seems an important intangible.

So how long can this keep going on? We are always tempted to say, until you stop asking. Sounds pretty rude, but they will stop asking when they're back close to being fully invested. These end of the year rallies, especially when good ones, can feed on themselves a bit in the form of job security. If you think you're not going to buy until the Fed pivots, you look pretty safe. Suppose, however, the market changes the definition of pivot. Let's say rather than easing the pivot just becomes no more tightening. A drop in inflation to 2% becomes just a peak in inflation. When markets want go higher they have a way of creating their own reality. A less esoteric answer to how far this can go is that it will go higher until it does something wrong. Wrong typically is about those Advance-Decline numbers. Strength in the Dow without strong participation is how markets get into trouble.

Frank D. Gretz

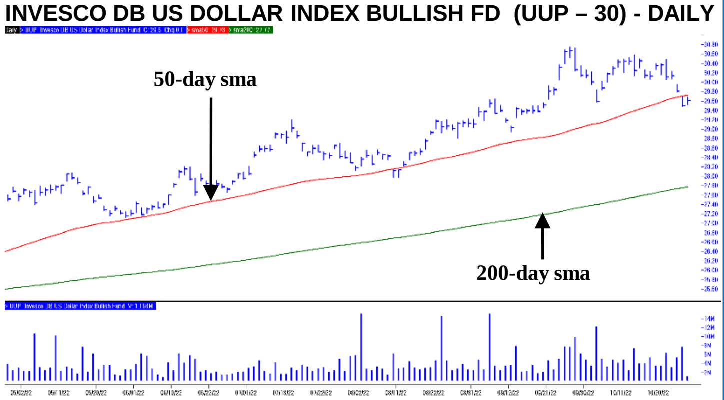
S&P 500 (SPX – 3815) – DAILY

NASDAQ 100 (NDX – 11191) – DAILY

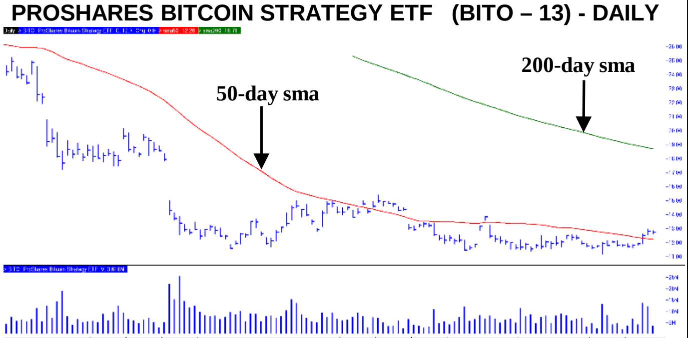


VANECK GOLD MINERS ETF (GDX – 25) - DAILY

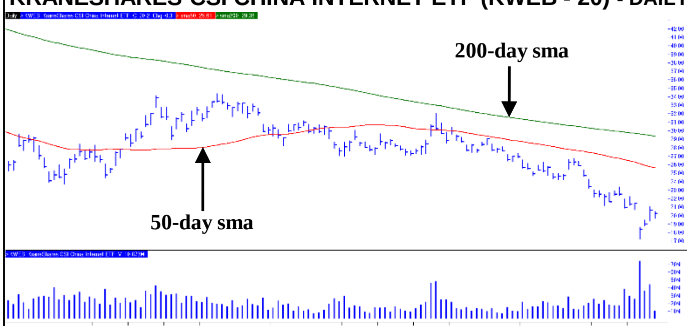
INVESCO DB US DOLLAR INDEX BULLISH FD (UUP – 30) - DAILY



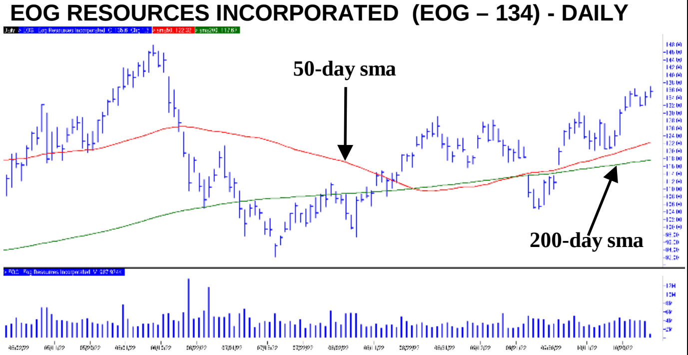
PROSHARES BITCOIN STRATEGY ETF (BITO – 13) - DAILY



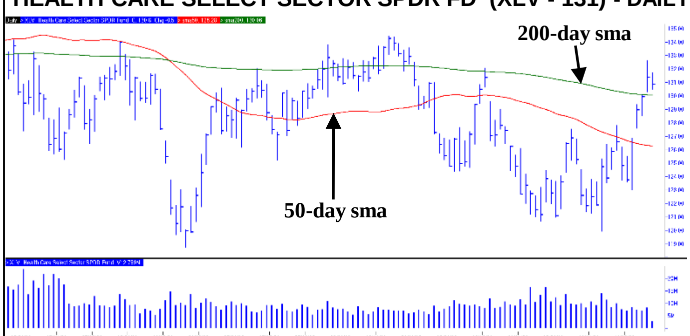
KRANESHARES CSI CHINA INTERNET ETF (KWEB - 20) - DAILY



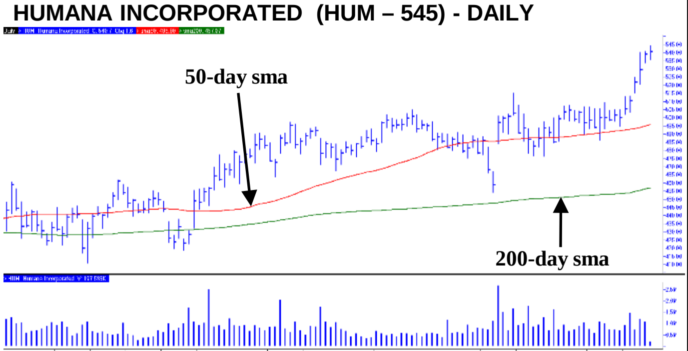
EOG RESOURCES INCORPORATED (EOG – 134) - DAILY



HEALTH CARE SELECT SECTOR SPDR FD (XLV - 131) - DAILY



HUMANA INCORPORATED (HUM – 545) - DAILY



RAYTHEON TECHNOLOGIES CORP. (RTX – 92) - DAILY