Wellington Shields

EQUITIES PERSPECTIVE

October 7, 2022
DJIA: 29,926

Even convicted criminals can be paroled … why not a bull market. The bull market has done its share of hard time, including a stint in solitary of sorts – recently only one percent of Nasdaq issues were above their 10-day average. And that's what these reprieves are all about – getting the sellers out of the way. In markets like this oversold doesn't matter, what matters is getting to the point they're sold out. Part of that process seemed evident a week ago when energy took a hit, along with Apple (145). Bear markets get to everything in the end, but when they do that typically is the end, that last push to the give up phase. We don't mean to say the bear market is over, we don't think it is. Then, too, we like to remind ourselves every new bull market began with a bear market rally. Sufficient onto the day, but parole ends when these rallies do something wrong.

As usual something wrong, so to speak, involves lagging participation. It's not the bad down days, it's the bad up days that cause problems. The numbers so far have been exceptional, but that's to be expected from a low like this. It's pretty much what they look like from here, the all-important follow through. We have our list of favorite charts, but off of even an important low, down the most often turns to up the most, at least temporarily. The ARKK ETF (40) is loaded with poor charts, but could do well if Tesla (238) behaves. The ETF's performance overall actually has some positive implications for the market. When the major averages went to new lows last week, weekly 12-month new lows did not – a positive divergence. As it happens, ARKK held its July low which, in turn, was above its May low. This means that despite the weakness in the averages, the market's weakest stocks have been holding.

Slum-Burger – how many on Wall Street learned to speak French. It seems a telling commentary on oil's strength they finally got around to Schlumberger. There was a time when if you wanted to play oil, SLB (43) was the go to stock. Now it's stocks like Devon (72) and EOG (128). Oil has led right out of the gate, perhaps not surprising in that the last to get hit are the first to come back. Oil started the year leading which historically has led to happy endings. OPEC has helped recently, but this again seems a case of the market making the news. Had the stocks not wanted to go up, OPEC can be pretty easy to ignore. Few believe oil is going away anytime soon, but somewhat surprising are recent numbers showing fossil fuel at 81% of total fuel consumption, down a whopping 1% in ten years. And to further pique your fundamental interest, we are told Exxon's pre-cash flow last quarter was the same as that of Microsoft (247). The ongoing technical appeal, of course, the stocks remain under-owned.

We have displayed a number of positive charts, names like Aspen Technology (254), Cheniere Energy (173), Digi International (38), Humana (499), Eli Lilly (333), Snowflake (189), Sarepta Therapeutics (115), Shockwave Medical (280) and Vertex Pharmaceuticals (299), though there are others. Remember, too, stocks like Humana and United Health Group (519) with their long term uptrends should be stocks for all seasons. If this rally proves another false dawn, those uptrends should provide a backstop of sorts. Meanwhile, with back to back days of more than 5-to-1 stocks advancing, most stocks are finding relief. It will take time to see how much might have really changed in terms of leadership. There is a change in gold, though an insipid one. And as we pointed out last time, one that seems dependent on the likely peak in the dollar. We looked at defense stocks as a bit of a nuclear hedge, but charts there are unremarkable, except perhaps for Northrop (485). Though not a particularly good chart, we are intrigued by Palantir Technologies (8) in light of their contribution to Ukraine's success. It's one of those companies that if you know what they do, they have to kill you.

Hope springs eternal. And once again the hope is the Fed can't go as far as they say they will. The market became sold out, yields came in and we have a rally. For many the worry now is earnings. If you don't think earnings will be bad, you should be falling all over yourself to buy. The market by most standards would be considered cheap. If like most you believe earnings will be bad, isn't that why the S&P had that little 28% pull back? Disappointing earnings won't be a surprise, the question is whether those earnings will disappoint investors. How much bad is priced in? The rally is off to a more than decent start, but it's follow through that's important. The backdrop here is similar to June. The low back then was June 16, the real uptrend began July 20. Some volatility for now would be more the norm than the exception.

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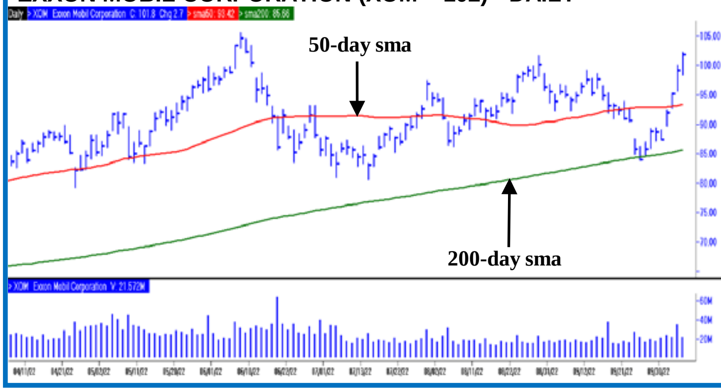
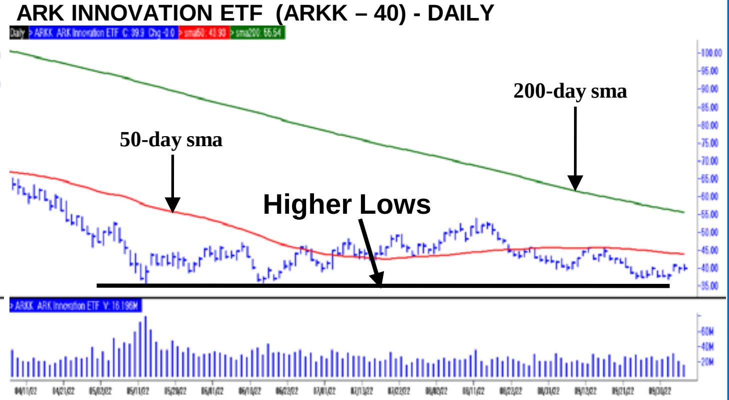
S&P 500 (SPX – 3744) – DAILY

NASDAQ 100 (NDX – 11485) – DAILY

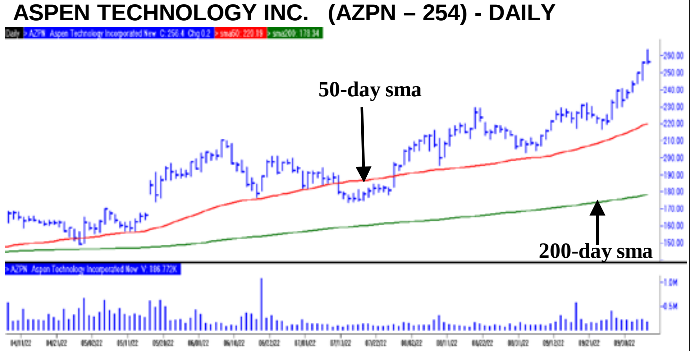
EXXON MOBIL CORPORATION (XOM – 102) - DAILY



ARK INNOVATION ETF (ARKK – 40) - DAILY

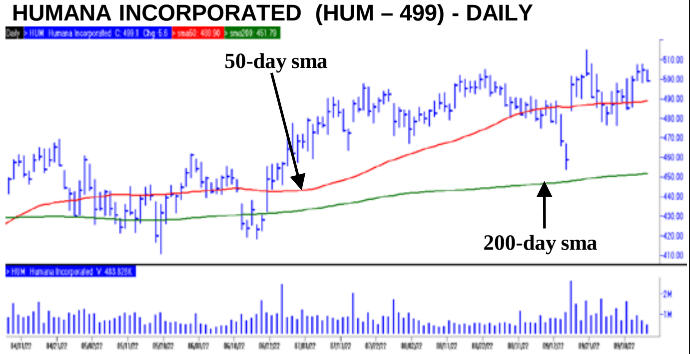


ASPEN TECHNOLOGY INC. (AZPN – 254) - DAILY



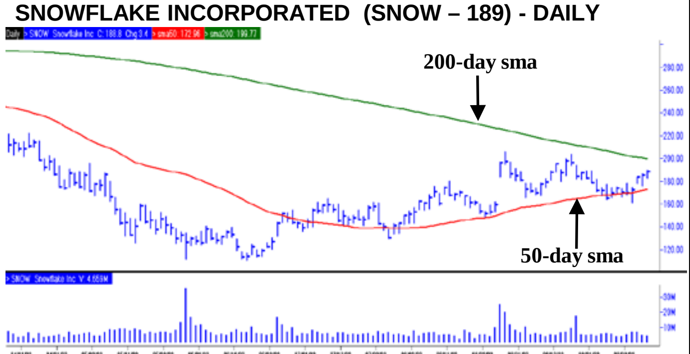
DIGI INTERNATIONAL INC. (DGII – 38) - DAILY

HUMANA INCORPORATED (HUM – 499) - DAILY



ELI LILLY & COMPANY (LLY – 333) - DAILY

SNOWFLAKE INCORPORATED (SNOW – 189) - DAILY



SAREPTA PHARMACEUTICALS INC. (SRPT – 115) - DAILY