Wellington Shields

EQUITIES PERSPECTIVE

December 23, 2022
DJIA: 33,027

Here comes Santa … with his Santa Claus rally? Santa Claus rally, oversold rally, for now it's all the same. Since there usually isn't much weakness in December, markets usually don't get oversold in December. A reflection of the recent weakness, at least by our measure, this market was more oversold than any time since September. This may well have prompted the recent rally, but it is itself not a wonderful sign – good markets don't become too oversold. And just last week, the market did become a not so good market as the Advance-Decline numbers and new Highs /Lows turned negative. Last week also saw outside down weeks in the averages – a higher high and lower low than the prior week. And the S&P and NAZ slipped below their 50-day averages. Not an auspicious start to any rally, but sufficient until the day.

If it's unusual to see a deeply oversold market in December, it is similarly unusual to see investor bearishness in this historically positive month. Yet option traders have placed record bets against stocks. A couple of months ago there was a surge in option bets against stocks greater than anything since the financial crisis. This preceded an S&P rally of some 13%. According to SentimenTrader.com, large traders have bought to open the fewest equity Call options relative to Put options since 2009. Some $1.1 billion Call options were bought while $19 billion Put options were bought. It is among the largest net bet against stocks, and this in December. Put-Call ratios among stocks in the NASDAQ 100, S&P Technology sector and Financials all hit records last week.

Suddenly everyone is a monetary expert. Investors dislike the current monetary policy thinking it's a mistake. The consensus of fund managers and certainly commentators, is fixed on lower inflation and a recession next year. Higher rates in the short term will only make things worse, or so the view goes. As the mistake grows clear, central banks will be forced to pivot. A monthly Bank of America Fund Manager Survey found that investors expect government bonds to be next year's best performing asset. Meanwhile, equity bearishness is no mystery. It's understood by most that a profits recession is at hand. According to the survey, bearishness among fund managers when it comes to earnings is the highest on record, even higher than 2009. Hence the Fund Manager Survey showing them the most overweight bonds compared to stocks since 2009. What followed back then, of course, was the great rally in equities.

It's that time of year when it's nice to have your Deere (436) ones around you – even the Caterpillars (238). These would be among our choices for next year as well, together with names like Home Depot (316), McDonald's (266) and General Mills (85). A bit less familiar would be names like AXON Enterprise (168), the former Taser, ETSY (127), and Sarepta (132). We're trying to be bullish on Oil, but most are still correcting. As it happens, some of the equipment names like Halliburton (38) and Transocean (4) seem to be acting better than the rest. Pharma is more than holding its own, particularly those middlemen like McKesson (382), Amerisource (169), and Cardinal Health (81). Finally, there's Gold, where hope springs eternal. All the miners were below their 200-day in October. Half are now above that level, an important momentum shift. If they're able to hold together into the New Year, it may finally be a good one.

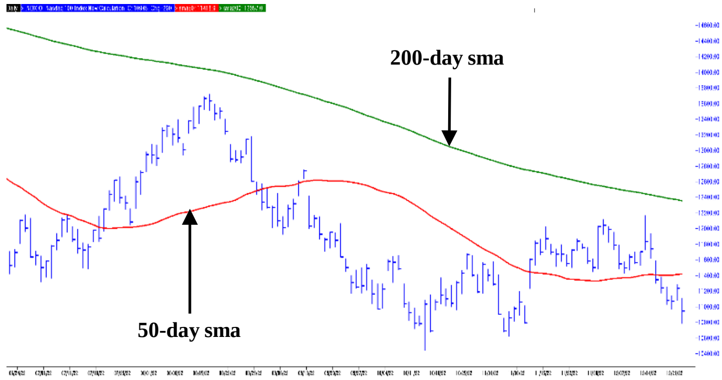
The average investor is said to be wrong at the extremes, but right in between. Contrary opinion is always useful, provided you pick the right time and place to be contrary. Certainly poor earnings and/or the looming recession are among the things to consider here. They might already be discounted by this year's bear market. With a recession looming it's surprising the number of industrial stocks that have been acting better than you might have expected. As always, it's best to let the market tell the story. It is after all, the market where we are investing, not the economy. And the market should not be confused with the market averages. Rather, the market is the average stock, where the averages eventually follow. Strength in the averages needs participation, that is, comparable strength in the Advance-Decline numbers.

Frank D. Gretz

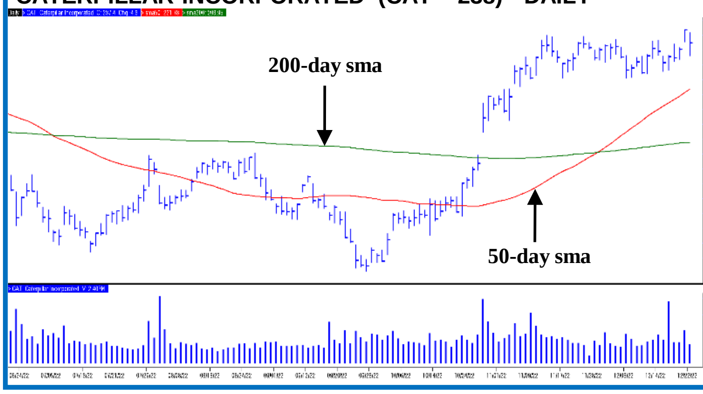
140 BROADWAY NEW YORK, NY 10005 TELEPHONE: (212) 320-3000

S&P 500 (SPX – 3814) – DAILY

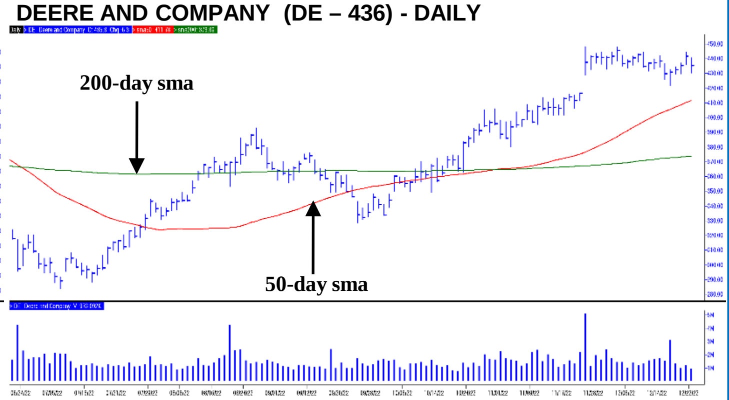
NASDAQ 100 (NDX – 10945) – DAILY



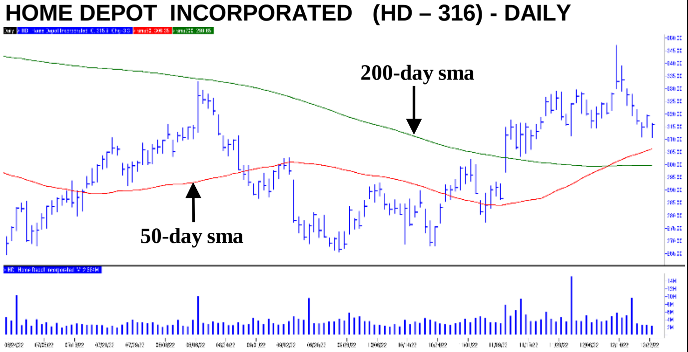
CATERPILLAR INCORPORATED (CAT – 238) - DAILY



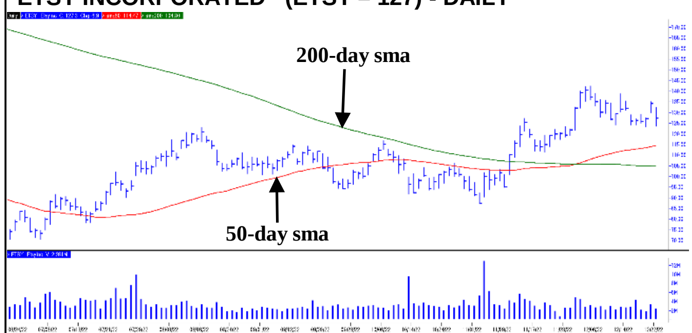
DEERE AND COMPANY (DE – 436) - DAILY



HOME DEPOT INCORPORATED (HD – 316) - DAILY



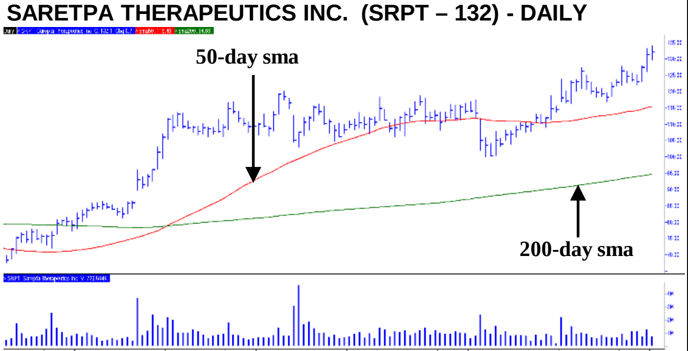
ETSY INCORPORATED (ETSY – 127) - DAILY



AXON ENTERPRISE INCORPORATED (AXON – 168) - DAILY

GENERAL MILLS INCORPORATED (GIS – 85) - DAILY

SARETPA THERAPEUTICS INC. (SRPT – 132) - DAILY



CATALYST PHARMACEUTICALS INC. (CPRX – 19) - DAILY