Wellington Shields

EQUITIES PERSPECTIVE

January 13, 2023
DJIA: 34,189

They didn't see it coming … and they won't see it going. The Fed isn't very good at forecasting inflation, or recessions for that matter. It's joked the stock market has predicted nine of the last five recessions, yet that's still better than the Fed. Naturally, we'll take our chances with the market. The idea, "don't fight the Fed" is real enough, but so too is "the trend is your friend." With some 50% of stocks now above their 200-day moving average, the trend is moving higher. So how is it the market keeps ignoring the Fed's jawboning and serial rate hikes? Could it be the market is doing its own forecasting?

The market's other big worry is the likely downturn in earnings this year. Yet if everyone shares that fear, the chances are good it's already discounted. And, after all, there's a reason the market was down 20% or more last year. Earnings always are a bit tricky. They matter in the long run, but that run can indeed be long. Market trend and group rotation often play a bigger role. And there's the matter of timing. In market downtrends like this one, prices typically bottom some 10 months ahead of a bottom in earnings. In other words, wait for the trough in earnings, and you're some 10 months late to a new bull market. An emphasis on earnings at the late stages of a bear market seems a misdirected exercise. Earnings and the rest of the news will always be bad at market lows.

If you look at Freeport McMoran (45), the Fed isn't going to change that chart, and it's not about earnings. It's about China. China bottomed back in October and pretty much has not looked back. The Hang Seng (HSCI-HK 3224) has rallied some 30% from its low back then, a move that has taken it above its 200-day average. More importantly, some 70% of the component stocks are above their own 200-day. The rule, so to speak, is 60% is a good market, 70% a bull market. The previous two bear market rallies here ended with fewer than half the stocks above the 200-day. The EEM Fund of Emerging Market stocks has rallied more than 20% off of the latest two year low, also suggesting a new bull market. You can't help but think this will be a positive for our markets.

In the last 12 months the market has closely tracked the pattern of 1962. Most striking in the resemblance is the relentless decline into a June low. In both cases a subsequent rally was followed by an October test, a lower low last year but not in 1962. A recovery followed into December and a new uptrend in 1963. This, of course, seems more than a little intriguing, but we don't believe market patterns necessarily repeat. What does repeat, however, is patterns within markets. Markets peak a few stocks at a time, which is why the Advance-Decline Index is an important guide to market deterioration. In this case the peak was late 2021. Stocks eventually washed out in May-June when on a weekly basis close to half the issues trading on the New York and NAZ reached 12-month lows. While the average stock peaks before the stock averages, market downtrends eventually get to everything, including shares of former holdouts like Apple (133), Microsoft (239) and Tesla (124), as happened recently. When it comes to stock behavior, we've seen play out a typical bear market pattern.

Bull market, bear market rally, for now what matters is it's a credible rally. Most stocks made their lows last May, for the averages it's all about the momentum from here. If like the Hang Seng S&P stocks above their 200-day make it to 70%, that would argue bull market. Tech of course will rebound, but for most these seem the stocks of the last rodeo. We favor Oil, despite last year's success. Obviously it had some news at its back but it also had the advantage of being under owned. That's always something to consider and why we recently singled out under owned names like Boeing (214) and GE (79). Looking at a stock like Caterpillar (255), it's hard to see a recession, and much the same for Deere (436). Those Advance-Decline numbers offered an important clue to this rally, being sometimes positive against losses in the averages. They are likely to offer a similar clue to the rally's end.

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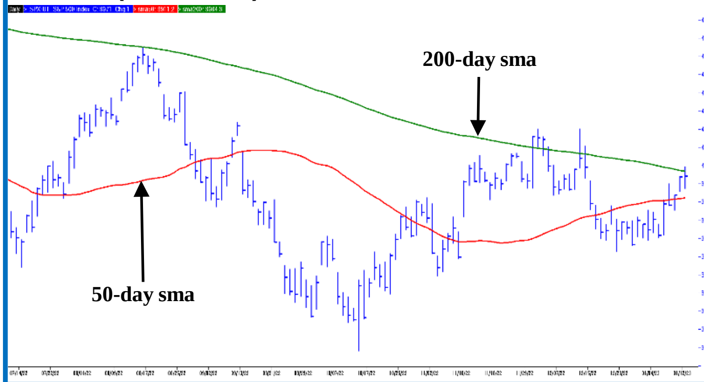
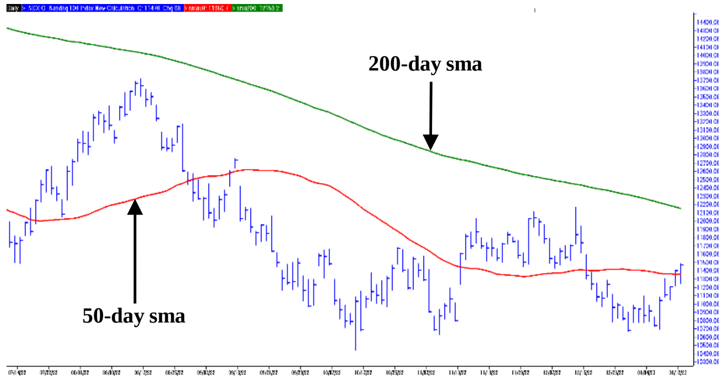
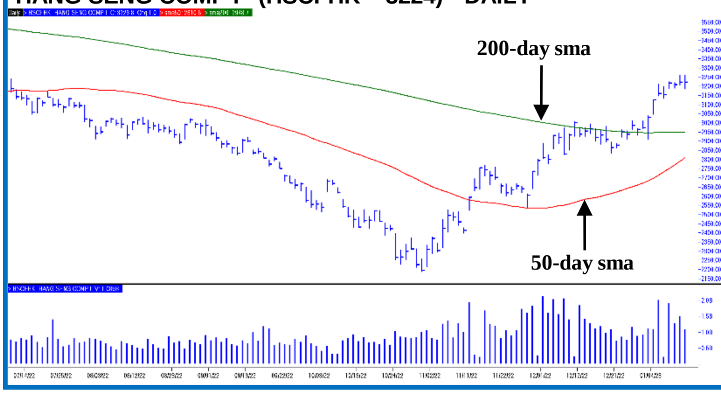
S&P 500 (SPX – 3980) – DAILY



NASDAQ 100 (NDX – 11460) – DAILY



HANG SENG COMP I (HSCI-HK – 3224) - DAILY



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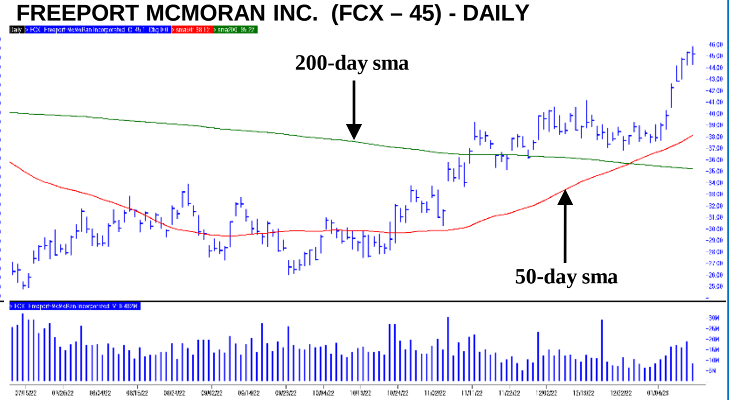
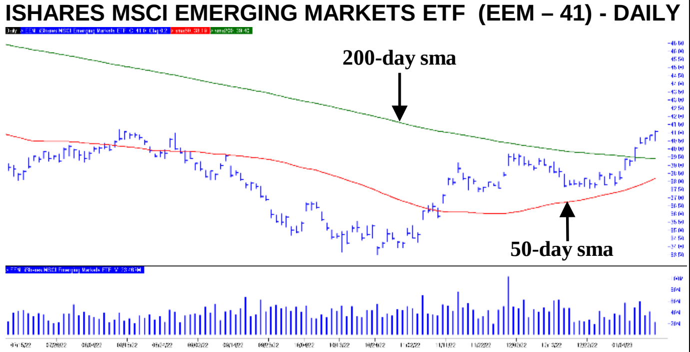
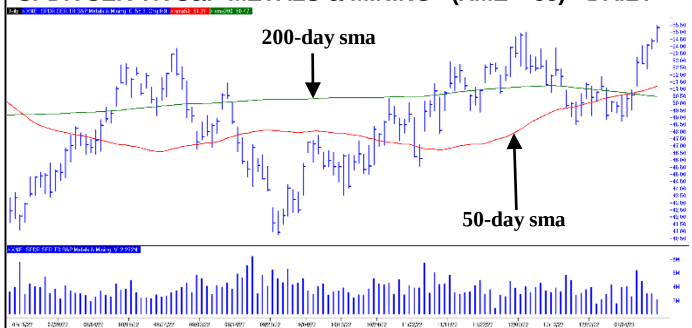


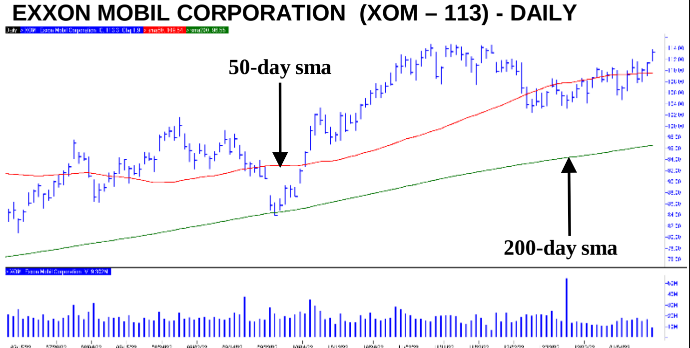
ISHARES MSCI EMERGING MARKETS ETF (EEM – 41) - DAILY



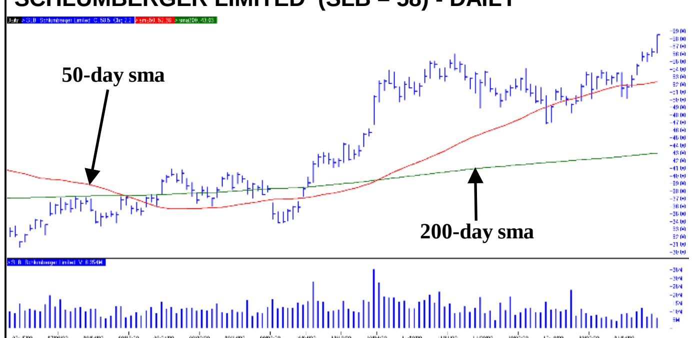
SPDR SER TR S&P METALS & MINING (XME – 55) - DAILY



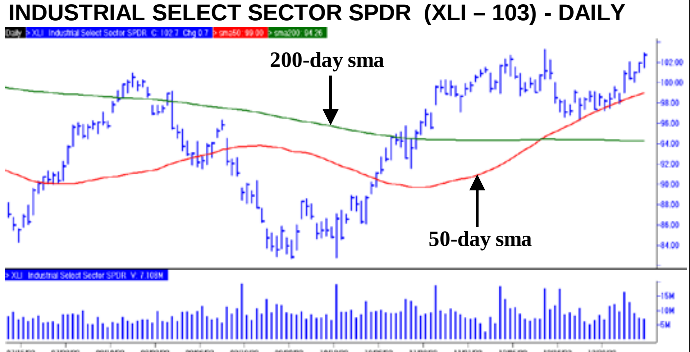
EXXON MOBIL CORPORATION (XOM – 113) - DAILY



SCHLUMBERGER LIMITED (SLB – 58) - DAILY



INDUSTRIAL SELECT SECTOR SPDR (XLI – 103) - DAILY



CATERPILLAR INCORPORATED (CAT – 255) - DAILY