Wellington Shields

EQUITIES PERSPECTIVE

February 10, 2023
DJIA: 33,699

Stock charts tell a story… and for now that story is a good one. Clearly not all charts tell a story, and when they do it's not always a good one. We've come across a couple where the story not only seems a good one, it also seems an important one – with important implications for the economy and by extension the stock market. Take for example WW Grainger (661), where one of their segments is called "endless assortment." In other words, they sell "stuff," and they sell it to everyone. Then there's Parker Hannifin (352), whose engineered solutions go to a range of businesses. The company was used by Alan Greenspan as an economic indicator. Both of these stocks are in long-term uptrends, and came through the bear market reasonably well. The real point is their recent significant breakouts. The stocks of these companies, who seem to have their finger on the pulse of the economy, are telling a very positive story.

Investor psychology has shifted from pessimism to skepticism. It's apparent the market is acting better, but this better action isn't really trusted. The distrust, of course, relates to earnings which seem likely to disappoint. And therein lies the point of the matter. How disappointing can earnings be when even we technical analysts know earnings will be disappointing? One of our long held tenets is that when it comes to the stock market, what we all know isn't worth knowing. What we all know already is priced in. And if you insist earnings are your big worry, how is it last year's earnings were good and the market went down? Why can't earnings this year be bad and the market go up? Amidst the media's onslaught of warnings, it's easy to forget that these forecasts likely will prove old news. Market averages make their lows some eight months ahead of the news.

The anecdotal positives aside, the numbers also have turned positive. The percent of NYSE stocks above their 200-day reached 74% last week. Historically readings above 60% have been followed by above-average forward returns in the S&P, and spikes toward 70% marked new bull markets in 1995, 2003, 2009, 2013 and so on. Last week also saw more than 10% of NYSE issues traded reach a 12-month New High. And more than 8% did so on the NASDAQ. It's difficult to argue numbers like this fit with an ongoing bear market. Because this was in its way a different kind of bear market, with a washout in the middle rather than at the end, a bull market likely will be different as well. Rather than eleven months like January, we expect more of a trudge higher. We have likened last year to 1962, and would liken this year to 1963 – up some 18%.

February can be a difficult month, especially when January is a good one. The numbers go something like up only 46% of the time, with losses far outweighing gains. SentimenTrader.com points out, however, those and other numbers change rather significantly in pre-election years, with February up some 68% of the time. Even more impressive is what follows in these years. The period from February to July has a success rate of close to 85%. The top performers in this pre-election period are Materials, Consumer Discretionary and Tech. We favor the Materials ETF (XLB-82) and there is a Consumer Discretionary ETF (XLY-150). The good news/bad news there is that Amazon (98) is 23% of the holdings. As for Tech generally, our feeling is stay away from last cycle's names, including the FANGs.

Winston Churchill once remarked Americans always do the right thing, once they've tried everything else. We were reminded of that watching Tuesday's market following Powell's remarks. The market had a great day, after doing all that it could to have a bad one. We always find it impressive when the market has its chances to go down, but does not. Still, after January's run it seems reasonable to expect some flattening out. While Tuesday's reversal in price was impressive, the reversal in the A/Ds was at best adequate. And Monday was the first bad day of the year – 3-to-1 down against a loss of only 35 Dow points. Bad down days, however, are not the worry. It's the bad up days that get markets in trouble – up in the averages against lagging A/Ds. The elephant in the room for now is leadership – always difficult this time of year and during changing market cycles. A rising tide lifts all ships, but some of these were sunken ships – Carvana (12) from 5 to 20? These "January Effect" bounces are nice, but keep in mind they're not called February Effect. We expect Commodity leadership to return, but they have lagged so far.

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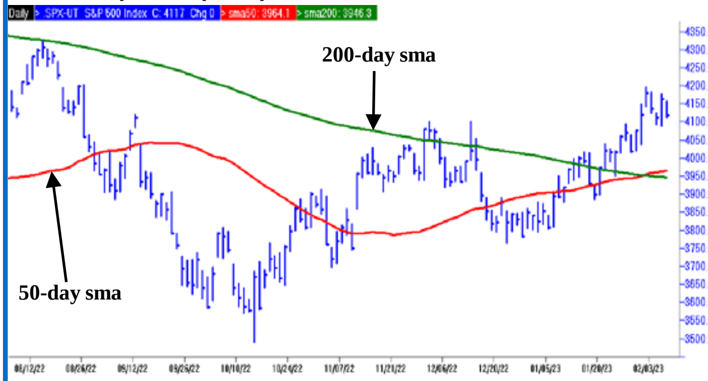
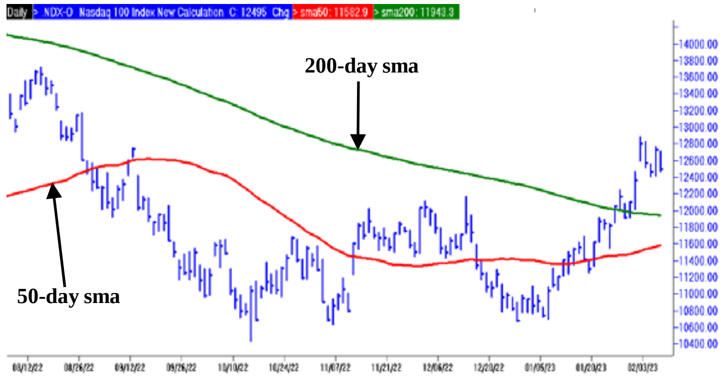
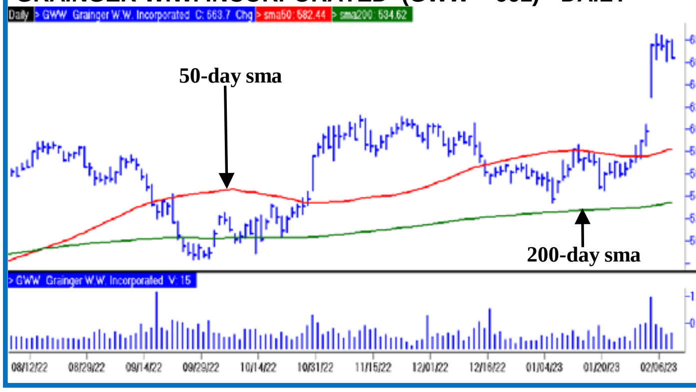
S&P 500 (SPX – (4083) – DAILY



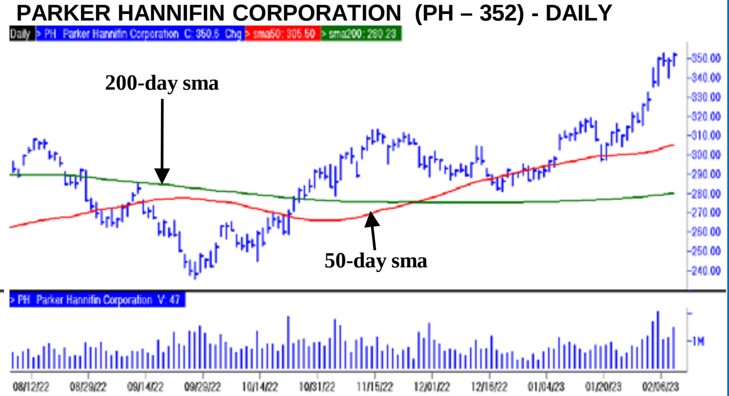
NASDAQ 100 (NDX – 12381) – DAILY



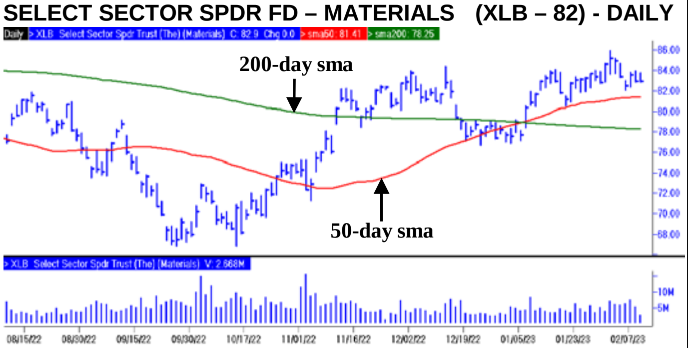
GRAINGER W.W. INCORPORATED (GWW – 661) - DAILY



PARKER HANNIFIN CORPORATION (PH – 352) - DAILY

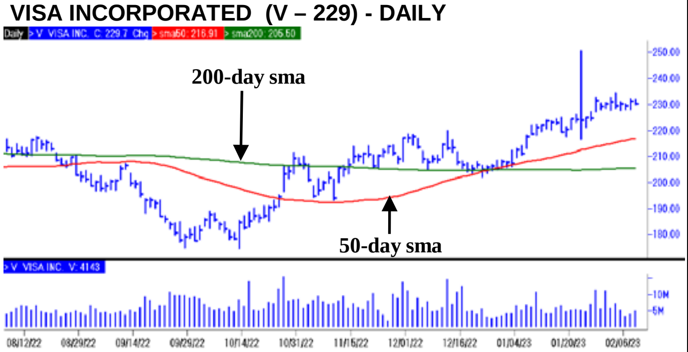


SELECT SECTOR SPDR FD – MATERIALS (XLB – 82) - DAILY



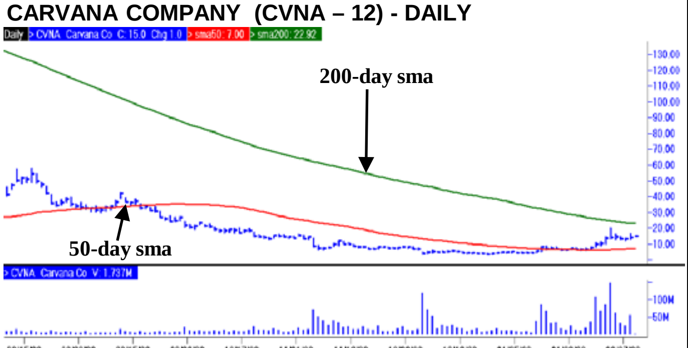
SELECT SECTOR SPDR FD CONS DISCR (XLY – 150) - DAILY

VISA INCORPORATED (V – 229) - DAILY



JABIL INCORPORATED (JBL – 82) - DAILY

CARVANA COMPANY (CVNA – 12) - DAILY



AFFIRM HOLDINGS, INC. (AFRM – 13) - DAILY