Wellington Shields

EQUITIES PERSPECTIVE

February 3, 2023
DJIA: 34,053

Do you trust your thinking … or do you trust your eyes? Logic suggests there's unfinished business on the downside. After all, as the Fed just made clear, it seems hell-bent in its serial tightening, unlikely to stop until the market drops. Then there's the matter of earnings which, to the surprise of no one, likely will be less than stellar. Yet despite what might seem a logical expectation of lower prices, the market action has been quite impressive to the upside. As of last Friday 67% of NYSE stocks were above their 200-day average – 70% says bull market. Weekly 12-month new highs were 269 on the NYSE versus 31 new lows, on the NAZ 382 versus 128. We just don't see these numbers fitting in with the ongoing bear market thesis. Without meaning to be too convoluted semantically, a big new leg down here would almost seem a new bear market, rather than a continuation of the old one. Meanwhile, the possibility of a new bull market is certainly there, though it may not look as most might expect.

A few weeks ago we compared last year to 1962. We don't believe any two years completely match, but last year and 1962 are pretty close. Moreover, it's the pattern of buying and selling that seems of particular interest. Both years saw declines pretty much from the start, and both saw those declines end in June, down 20%+ in both cases. We don't have numbers from 1962, but last year the number of weekly new lows totaled almost half the issues traded that week, or what you have to think were washout numbers. In other words, that was the low for most stocks with later numbers not coming close. In both years there was what seems a period of base building, a selloff in October both years, and a rally in December. What followed in 1963 was an orderly but not dramatic sort of uptrend, leading to a year-end gain of about 18%. No washout drama after the June low, and no upside drama in '63.

If you're bearish, you're thinking the Fed/earnings eventually will get to the market, stocks will leg down and then wash out. It seems to us we've been there, done that – that being last June. Without the downside drama, however, there likely will be less drama on the upside. Why are the banks not rallying, how can a leader like CAT sell off, there always will be something to make you wonder. Then, too, price leads and news follows – markets bottom some eight months before good news. We have no dog in this hunt. We are more trading than investing oriented. We do understand that most are just the opposite, and we are simply trying to lay out here what we see in terms of bull versus bear, a longer term perspective. From a short-term perspective, indicators like the A/Ds and new highs turned negative mid-October, positive again mid-December. They remain positive.

When they say hope springs eternal, they might well be referring to spending on infrastructure. To look at some of the relevant stocks, rather than the rhetoric, the reality just could be at hand. We are thinking here of names like Granite Construction (43) and Sterling Infrastructure (36) where the names pretty much say it all. There's an ETF here, Global X US Development, PAVE (30). This includes one of the market's stronger stocks of late, United Rentals, URI (456). The largest position is Nucor (177), where if you haven't looked lately will surprise in a positive way. The same can be said of Steel Dynamics (126), like Nucor almost tech-like. There is also a Steel ETF, SLX (68), and, in this general area, you might also look to XME (58).

The bull/bear debate aside, a new year often presents challenges in terms of leadership. In other words, it's often confused. Last year's leaders have lagged, and laggards like Tech have led. The ratio of Consumer Discretionary Stocks to Consumer Staples has risen by more than 20% over the last four weeks. This is quite a change and can be construed positively as it suggests investor confidence has risen. In the past this has led to gains in the S&P, though we tend to think of this more benignly – down the most becomes up the most temporarily. We have been a bit negative on Tech but by no means all Tech. There's plenty of good if somewhat obscure names acting quite well, and the Semis are acting well. It's the winners from last cycle, the FANGs despite META (189), and the stay-at-homes that seem unlikely to repeat. Think of the "Dot-coms" and the "Nifty Fifty" before them.

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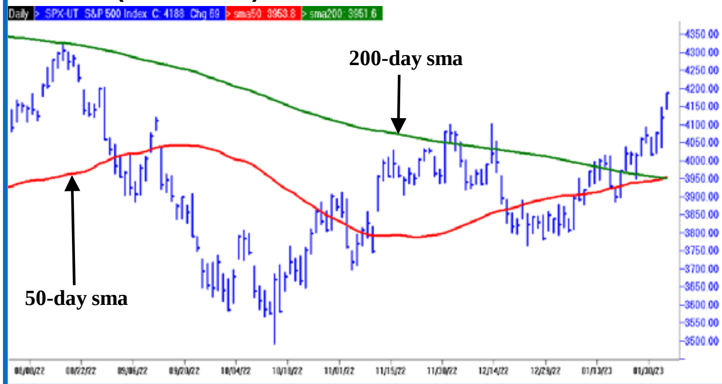
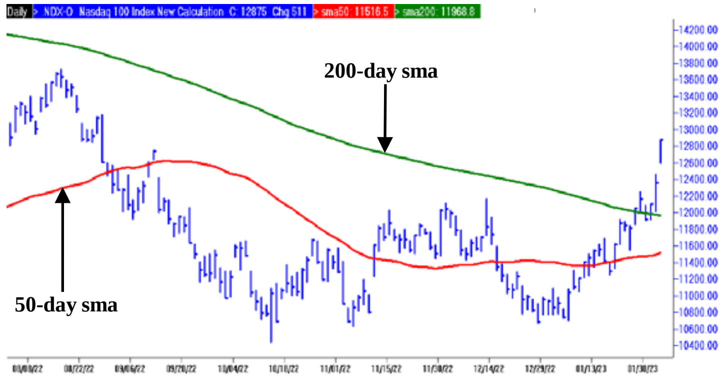
S&P 500 (SPX – 4164) – DAILY

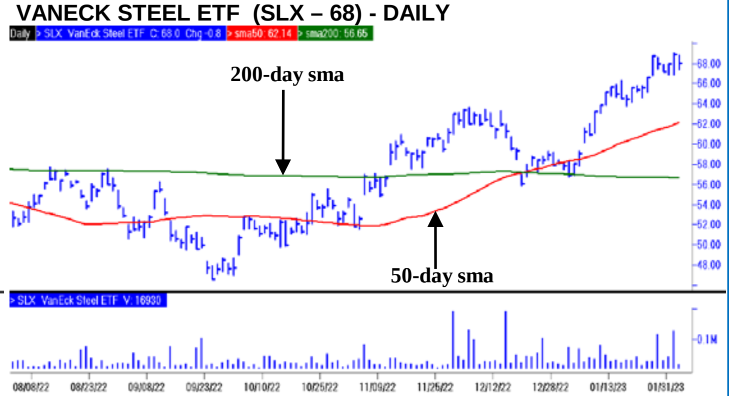


NASDAQ 100 (NDX – 12803) – DAILY

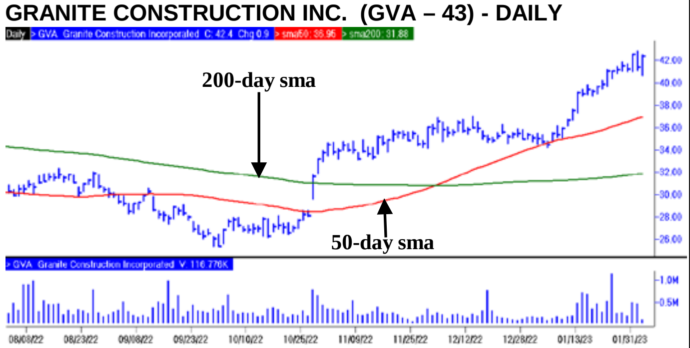


GLOBAL X US INFRASTRUCTURE DEV (PAVE – 30) - DAILY

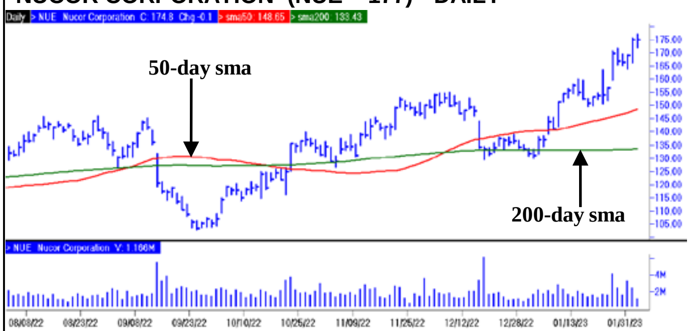
VANECK STEEL ETF (SLX – 68) - DAILY



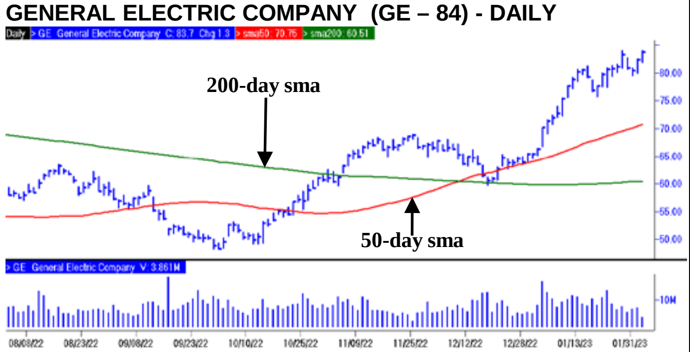
GRANITE CONSTRUCTION INC. (GVA – 43) - DAILY



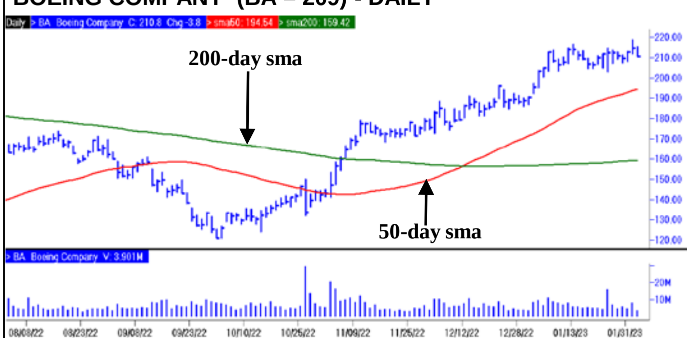
NUCOR CORPORATION (NUE – 177) - DAILY



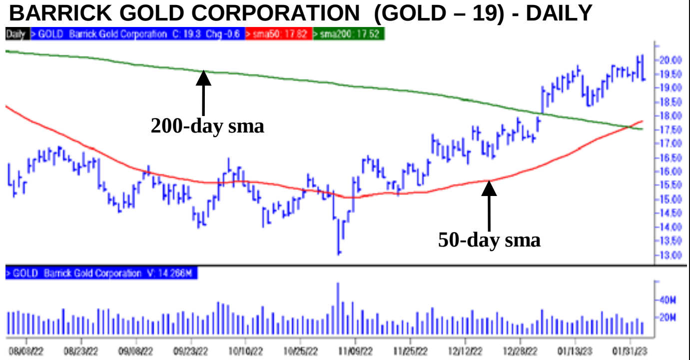
GENERAL ELECTRIC COMPANY (GE – 84) - DAILY



BOEING COMPANY (BA – 209) - DAILY



BARRICK GOLD CORPORATION (GOLD – 19) - DAILY



OCEANEERING INTL INC (OII – 20) - DAILY