Wellington Shields

EQUITIES PERSPECTIVE

March 24, 2023
DJIA: 32105

Funny, we were all good traders back in January… but not so much now. It's hard to overstate the importance of the market's overall trend. Academic studies long have held as much as three quarters of a stock's movement is a function of market trend. With the growing importance of ETFs we suspect it's even more – buy one thing, move 10. Back in January 74% of stocks were above their 200-day, that is, in uptrends. Now it's only 47%. Your odds of having the market at your back are less than 50-50. When we hear it's a stock picker's market we cringe. Stock picking is hard. Give us January when most stocks went up, when "stock picking" was easy. We are still in this correction that began in early February, though considering the news it could be worse. At least 3840 on the S&P has held, and that seems important.

Going through the bank charts – what's March Madness for – it comes as little surprise how poor they are. The surprise, and there are almost 400 of them, is how uniform those charts have become. And by the way, that includes the money center banks who would seem had something to gain here. The stocks for now have stabilized and that's important for the market's sake. We don't see them storming back but that's fine, stable will do. What is of concern is the ancillary fallout. In terms of markets. Regional Banks are a big part of the Russell so that wouldn't seem to bode well for that Index. And Regional Banks are behind some 80% of lending to commercial real estate, another place you might want to avoid. Seems it's a tangled web they weave.

The banking mess and its attendant implications for growth, has put a dent in most of those stocks we have termed economically sensitive. While Grainger (665) and Cintas (433) didn't seem to notice, on the whole some dust needs to settle here. A quick rebound would be the ideal, but that seems unlikely without some new leg up in the overall market. Certainly it seems important the recent lows hold, both for the sake of the stocks and for implications for the economy. GE (92), by the way, is another name that didn't seem to notice. Meanwhile, there continues to be a shift to Big Tech on the perception they are somehow immune, and perhaps they are. This includes most of the Semis, Microsoft (278), Apple (159), Meta (204), and now Amazon (99) looks better. Tesla (192) also appears to have turned up again.

If we had to choose a word for the Fed meeting – yawn comes to mind. After the most aggressive tightening in years, does a quarter point really matter? We can see a half a point might have mattered, though a rally on that news would've been really bullish. And had they paused, would it have signaled a lack of confidence in the financial system? Back in 1984 when Continental Illinois failed, tough guy Volcker did pause. That was May and by July- August the market rallied sharply. Events like the Fed meeting always seem not so much about the event but the market's reaction to the event. We know these meetings usually come with their share of volatility, but Wednesday we found a little over the top. Reaction, dare we say seems more about manipulation.

A theoretical trade might be, long the NAZ and short the Russell. By the NAZ we mean the NASDAQ 100 where the large-cap growth stocks live, and are for now the market's best acting stocks. The Russell, in turn, is 17% home to Regional Banks. It's not just Regional Banks that are the problem. Over the last few weeks a ratio of small-cap to large-cap stocks has cycled from a 200-day high to a 200-day low, a change that seems more than just about the recent weakness in Regionals. In theory this is a warning sign for the economy. For stocks, it tended to precede some additional small-cap weakness, while the S&P tended to hold together reasonably well. We don't really believe in these so-called "pair trades," being right once is hard enough. The concept, however, does seem valid. The Regionals will take time to dig themselves out while large-cap growth, of all things, seems a safe haven.

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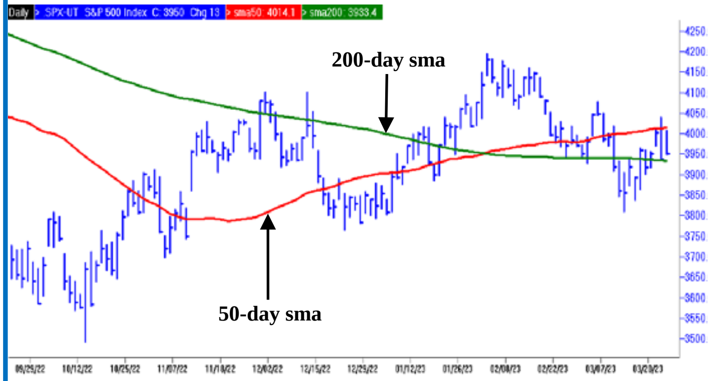
S&P 500 (SPX – (3956) – DAILY

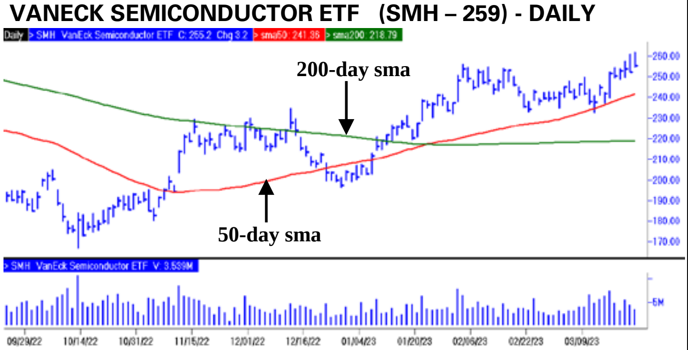


NASDAQ 100 (NDX – 12729) – DAILY

ISHARES RUSSELL 2000 ETF (IWM – 170) - DAILY

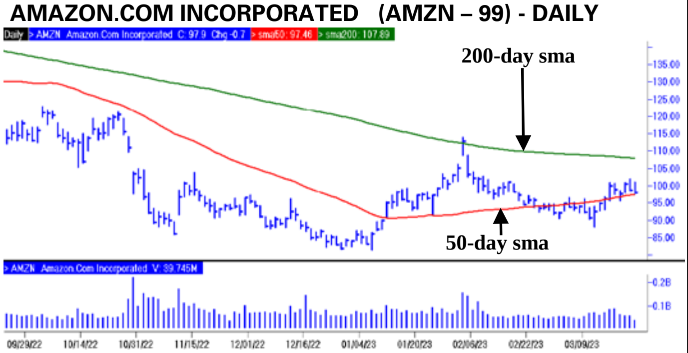
SPDR FUND TECHNOLOGY (XLK – 146) - DAILY

VANECK SEMICONDUCTOR ETF (SMH – 259) - DAILY



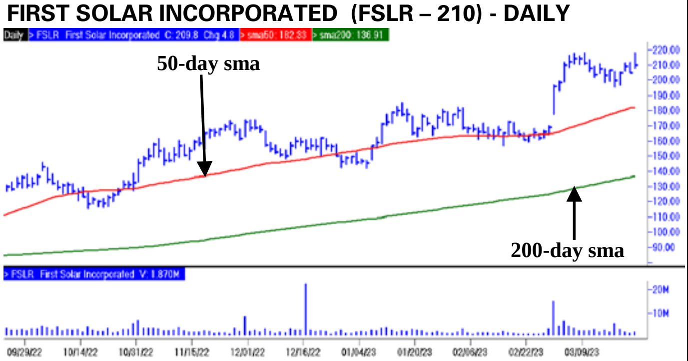
NVIDIA CORPORATION (NVDA – 272) - DAILY

AMAZON.COM INCORPORATED (AMZN – 99) - DAILY



TESLA INCORPORATED (TSLA – 192) - DAILY

FIRST SOLAR INCORPORATED (FSLR – 210) - DAILY



AEHR TEST SYSTEMS (AEHR – 40) - DAILY